

Real Estate Strategic Outlook: Nordics

Mixed fortunes across the Nordic economies

Sweden suffering, while other Nordic countries resilient

Nordic economies have proved resilient so far in 2023, supported by robust labour markets. The exception is Sweden, where a high reliance on leverage has exposed the economy to rising interest rates. Short-term headwinds persist and Sweden's GDP is expected to contract over 2023. However, over a medium to longer-term horizon, Sweden's growth fundamentals look solid and economic outperformance is expected over both a five and ten-year horizon. Denmark also looks well-placed. In particular, Stockholm and Copenhagen are supported by urbanisation and positive employment growth fundamentals. Finland is expected to slightly underperform the European average over the 10-year forecast period, with unfavorable demographics dragging on growth.¹

Prime real estate price correction is almost over

Robust occupier fundamentals support medium-term returns

Overseas capital has increasingly targeted Nordic real estate, attracted by higher entry yields, market transparency and robust fundamentals. At present, however, investment activity remains subdued, as price dislocations between buyer and seller persist. We expect ongoing price correction in the short term, albeit prime yields should be near their peak. On the whole, real estate fundamentals look healthy and rent growth and medium-term yield compression should support healthy returns over the forecast period.¹

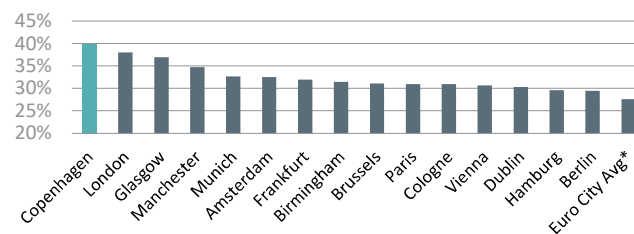
Logistics: Tight supply and strict planning support rent growth

The correction in logistics values offers an attractive entry point, with prime yields now back at 2018 levels. Solid demand has driven down available supply and strict planning laws prevent development on greenfield land, keeping a lid on vacancy. We believe a value-add approach provides a more sustainable opportunity for market entrance and the redevelopment of ageing logistics assets in urban locations around the Nordic's key cities should offer return potential through healthy rent growth.

Residential: Copenhagen remains a European outperformer

Copenhagen's living sectors look well-placed for solid returns. While we continue to have a positive outlook on affordable multi-family residential, the growing co-living sector also presents an interesting opportunity. Demand for co-living in Copenhagen is supported by strong urbanisation, a relatively young population and growing single-person households. The tight housing market highlights a growing need for flexible solutions.

Young Population 20-40 years (selected cities)



*Largest 100 European cities ranked on population of 20-40 years
Source: Oxford Economics, July 2023

The Swedish residential sector is supported by strong occupier fundamentals and having suffered a significant price correction over the last 18 months, pricing looks well set for a rebound from 2024 onwards. However, due to rent regulation, old stock is assessed preferable to newly built and pricing in this part of the market remains aggressive in a European context.

Office: Stockholm's fast-growing sectors support redevelopment

Stockholm is expected to be one of the better-performing office markets over the coming years, supported by high-productivity industries and some of the strongest employment growth prospects in Europe. Limited prime supply supports the refurbishment of older, well-located CBD stock into Next Generation offices. As price corrections are realized in Grade B stock, attractive entry pricing and healthy rental uplift should lead to greater risk-adjusted returns.

¹ DWS, July 2023

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