

Real Estate Strategic Outlook: Nordics

Recovery should start to pick up pace

Sweden and Denmark appear well-placed to outperform

Economic growth has been modest over 2024, but there are signs of improvement. Inflation has fallen sharply and interest rates are coming down. In Sweden, the Riksbank have delivered 125 basis points of cuts since May, while the European Central Bank has implemented three 25 basis points cuts, bringing the bank rate to 3.25%. Norges Bank, on the other hand, have yet to cut, although are expected to start the easing cycle early next year.¹

We expect economic growth to accelerate over 2025 and beyond, driven by real income gains and recovering consumer spending. At a national level, Sweden and Denmark appear well placed to out-perform the Eurozone and their capital cities of Copenhagen and Stockholm are notable outperformers at a city level.²

Prices stabilised and sentiment is improving

Prime yield compression expected from 2025 onwards

The second half of 2024 has been characterised by a stabilisation in prime yields. Investment volumes appear to have bottomed out at the end of 2023 and international investors are returning to the market.³ As liquidity picks up, we expect prime real estate yields to compress from 2025 onwards, over a five-year period. Robust real estate fundamentals should encourage healthy prime rent growth over this timeframe, supporting solid returns.²

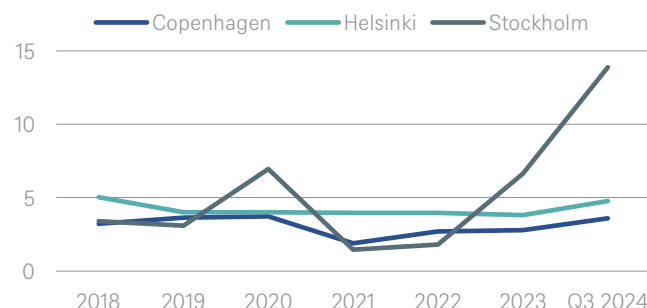
Residential: Copenhagen remains a top pick

The Danish capital is supported by a persistent demand-supply imbalance, which should continue to support robust rent growth. In central locations, we favour operational residential, such as co-living and student housing, with micro-living solutions less burdened by affordability ceilings. In commuter locations, such as Herlev and Glostrup, affordable build-to-rent offers stronger rent growth potential, while higher entry yields should encourage more attractive risk-adjusted returns.

Logistics: Stockholm downgraded in the short term

Repriced logistics remains a key strategic call, although location selection is of growing importance. In Stockholm, vacancy has increased significantly following an influx of supply, likely limiting rent growth in the short term. We have a more positive view on Helsinki, where supply remains tight and strict planning laws will limit future development. The redevelopment of ageing logistics assets in the Helsinki Metropolitan Area could offer sustainable market entrance. Over the medium-to-longer term, Copenhagen could benefit from the opening of the Fehmarnbelt tunnel in 2029, better connecting Denmark and Germany.

Logistics Vacancy Rates (%)



Source: CBRE, November 2024

Office: Stockholm looks expensive

In Stockholm's CBD, prime offices are performing reasonably well. However, values failed to correct as much as elsewhere in Europe and at just under 4.00% prime yields look expensive against the European average of over 5.00%, limiting the potential for future yield compression and thereby returns. Outside of the major Nordic CBDs, in locations such as Stockholm's Kungsholmen for example, secondary or tertiary office stock would often be better suited as much-needed residential space, including traditional build-to-rent, co-living and student housing. In certain instances, therefore, a conversion strategy could well be viable.

¹ Oxford Economics, November 2024

² DWS, November 2024

³ RCA, November 2024

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