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Five years on: How the Nordic real estate market is adapting to a new era

Newsec Property Outlook reveals key trends shaping the Nordic and Baltic markets. Five years after the COVID-19 pandemic reshaped the global economy, the Nordic and Baltic real estate markets continue to evolve. Shifts in investment patterns, office space utilization, and geopolitical influences are redefining the industry. The latest edition of the Newsec Property Outlook provides an in-depth analysis of how these changes are impacting the region's real estate sector and what lies ahead.

Economic recovery: A mixed picture

The post-pandemic rebound across Nordic and Baltic capitals has been uneven. While Copenhagen and Helsinki report strong gross regional product (GRP) growth, higher unemployment rates indicate ongoing labor market challenges. Meanwhile, Stockholm's economy has experienced a larger decline in its GRP than the Swedish average, signaling a slight shift from its previous leadership position in the region.

"The Nordic and Baltic real estate markets are undergoing a fundamental transition, shaped by shifting investment flows, changing workplace dynamics, and geopolitical developments. While challenges remain, we see strong opportunities emerging in sectors like infrastructure and defense-related real estate. As the market recalibrates, adaptability and strategic foresight will be key to unlocking long-term value." Max Barclay, CEO Newsec.

Hybrid work reshaping office demand

The rise of remote and hybrid work continues to redefine office property trends. Finland leads Europe in remote work adoption, while Stockholm has seen office commuting levels return to over 80% of pre-pandemic norms, indicating a wide divergence in trends within the region. While prime office locations in city centers remain in demand, older and peripheral office spaces are facing increased vacancy rates. The market is expected to stabilize by 2025, as supply and demand adjust to new workplace realities.

Retail sector rebounds as e-commerce stabilizes

After a 33% surge in e-commerce in 2020, online sales have leveled off, renewing demand for physical retail spaces. Sweden's retail market exemplifies this trend—e-commerce declined in 2022-2023, yet total retail sales remained positive, reflecting a resurgence in brick-and-mortar shopping. Prime retail locations are thriving, while secondary retail areas are focusing on revitalization strategies.

Logistics market adjusts to new demand patterns

Once the region's fastest-growing segment, the logistics sector is now recalibrating. As e-commerce growth slows and inflation and interest rates rise, vacancy rates have increased, particularly in high-supply areas like Rosersberg, Stockholm. However, as speculative developments decrease, vacancy rates are expected to stabilize, supporting long-term sustainability for logistics investments.

International investment declines amid market uncertainty

Foreign investment in the Nordic and Baltic real estate sector has dropped from 36% in 2022 to 23% in 2024. Geopolitical tensions, currency volatility, and rising interest rates have pushed investors toward other, more familiar, lower-risk markets. While Finland, Denmark, and the Baltic countries have been most affected in terms of impact on total transaction volumes, Sweden and Norway have remained more resilient due to stronger local investor bases.

Defense spending and infrastructure investments on the rise

Geopolitical shifts are also influencing real estate. Following Russia's invasion of Ukraine, Nordic and Baltic governments have significantly increased defense budgets. Sweden is set to allocate 2.6% of GDP to military spending by 2028, while Finland's defense budget already exceeds 3% of GDP. This has driven new demand for military-adjacent properties and infrastructure development, creating fresh opportunities in the public property segment.

Outlook: A market in transition

The coming years will continue to bring transformation across the Nordic and Baltic real estate markets. Office vacancy rates are expected to peak in 2025, retail strategies will blend digital and physical experiences, and logistics will stabilize as demand normalizes. Meanwhile, defense investments and infrastructure projects are emerging as key growth drivers.

The latest Newsec Property Outlook provides exclusive insights into these trends, equipping investors, developers, and stakeholders with the knowledge to navigate the changing scene.

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