Newsec property outlook

Spring 2025

Before vs After the pandemic

Five years later: A time of reflection and reinvention

Five years ago, I stood at Arlanda Airport with my daughter, preparing to board a flight to Milan. It was early 2020, and uncertainty hung in the air. My son was on his way to join us, flying in from another city. As we stood in the check-in line, the airline staff hesitated – was it safe to travel? At that moment, I looked at my daughter and saw her concern. She wasn't comfortable with the trip, worried about the unknowns unfolding before us. That instant defined the beginning of a journey none of us could have anticipated – a journey that reshaped the world, our industry, and the way we live and work.

The pandemic accelerated change in ways we could never have imagined. As businesses and communities, we had to rethink our habits, embrace new ways of working, and challenge long-standing norms. Remote work, once a privilege for the few, became the global standard overnight. Digitalization advanced at an unprecedented pace, forcing industries, including real estate, to adapt or be left behind. Collaboration, innovation, and resilience became our most valuable assets.

But amidst the forced reinvention, something remained constant: our fundamental need for connection. Despite the efficiency of virtual meetings and digital transactions, we were reminded of the irreplaceable value of being together. The isolation we experienced underscored the importance of personal interaction – in business and in life. We missed the energy of face-to-face discussions, the trust built over a handshake, and the spontaneous creativity sparked in a shared space.

Yet, beyond the professional and societal transformations, we must acknowledge the profound human cost of the pandemic. The losses we endured were unimaginable – loved ones taken too soon, communities devastated, and an overwhelming sense of grief that still lingers. We were forced to confront our own vulnerability, to find resilience in the face of despair, and to support one another through hardship. The emotional toll continues for many, as mental health struggles, economic difficulties, and personal losses remain a reality. As we move forward, it is crucial that we not only embrace progress but also cultivate empathy, recognizing the struggles that persist and ensuring that no one is left behind.

Today, as we reflect on the past five years, we see an industry transformed. Hybrid work has redefined office spaces, logistics have evolved to meet changing consumer habits, and sustainability is now a necessity rather than an option. We have learned to be more agile, to question old ways, and to find new efficiencies. And yet, one truth remains: we do business with people, not screens. The future of real estate is not about choosing between physical and digital but about striking the right balance – creating spaces that enable both productivity and human connection.

The challenges of the pandemic were immense, but they also accelerated innovation, adaptability, and progress. As we move forward, let's take the best of what we've learned and apply it to a future where we work smarter, collaborate better, and build stronger, more resilient communities. Because no matter how advanced technology becomes, one thing will never change – we thrive when we are together.

Max Barclay
CEO, Newsec

Contents

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Geopolitical Threats to Recovery

The years 2024–2025 were supposed to be a period of recovery and new stability after several shocks: pandemic, war, inflation and interest rate peaks. Inflation has come down in most countries, but not in all. Bond yields are still higher and more volatile than before the pandemic. But more worrying is that geopolitical tensions and risks have increased markedly. The world is a much more dangerous place. The macro foundations of Nordic property markets are slowly improving – but not as much as hoped for, and geopolitical risks are a dangerous threat to recovery, both in the Nordic and Baltic states.

Klas Eklund, Chief Strategist på Dahlgren Capital

A Dangerous New World Order

Since the fall of the Soviet Union more than 30 years ago, the world order has been based on sovereign states (more or less) respecting each other, while globalisation and free trade have contributed to increasing prosperity. The pandemic made a deep dent in life expectancy and living standards in poor regions, and now a new threat is emerging.

The new American administration seems intent to re-create an old world order where great powers are allowed to dominate their respective spheres of influence, in which smaller nations have few rights. China has for some time been more assertive in Southeast Asia, and Russia wants in essence to return to the borders of the tsarist empire. And now, the Trump administration is more or less accepting Russia's claims on Ukraine, denouncing the legitimacy of Ukraine's government and even demanding a huge chunk of Ukraine's natural resources. At the same time, the US is making claims on territory within its own "sphere", like Greenland and Panama.

These are dangerous times, and the great geopolitical uncertainty makes almost a mockery of traditional economic forecasting. Nonetheless, we must try to set some kind of baseline economic scenario, while understanding that it may turn obsolete any time ...

Tariff Wars

The new American president has unleashed the barrage of threats and orders that he promised during his election campaign. The result is heightened economic uncertainty – and financial volatility.

Mr Trump sees tariffs as a Swiss army knife – a tool that can be used for multiple purposes: Stop illegal migration and smuggling of fentanyl, improve US trade, protect the status of USD, increase federal revenue etc. He is willing to use threats of tariffs as a weapon also against allies and friendly nations. He has also said the US will impose "reciprocal" tariffs on any country which does not live up to the American demands.

Such negotiations and dealmaking mean we might soon have a zillion differing trade agreements. Tariffs can be issued one day and withdrawn the next. The bigger picture is that the global economy is transitioning to a new world order, where protectionism, security and industrial policy will be more prominent – creating both political, economic and financial volatility.

Many analysts hope that the bite will be less dangerous than the bark. So far, markets seem to be willing to give the new president the benefit of doubt. And yes, there is indeed the possibility that things will calm down and US growth roars on, as deregulation and corporate tax cuts will elevate profits and investments. Developments during Trump's first term indicate that this could be a plausible scenario.

However, in Trump 2.0 the president seems to be better prepared to implement his agenda. Also, the world is in a more vulnerable state now, after pandemic and wars, with higher interest rates, higher debts and a more fractured geopolitical picture. Thus, a more likely scenario is that uncertainty about the global future will hurt long-term decision making and investments. Supply chains will be disrupted, and production costs will increase. Short-term, hopes of deregulation and tax cuts may strengthen the American economy, but eventually global economic growth will slow.

A Higher New Normal for Bond Yields

During the past half year, bond yields have generally trended upwards, both in the US and in Europe, despite policy rate cuts. Higher costs due to labour shortages and tariffs will keep inflation on a level above the Fed's comfort zone. Recent inflation numbers in the

Photo: Shutterstock

US have come in higher than projected. Still, the uptick of yields is not primarily caused by higher inflation expectations; real yields have moved sharply upwards.

The main explanation is that the "term premium" has increased. In an uncertain world bond buyers simply demand higher compensation for holding bonds a longer time. Several factors contribute. Firstly, quantitative tightening (central banks unloading the extra stock of securities they took on during the pandemic and pre-pandemic days) has increased the supply of bonds and lowered their price. Secondly, heightened geopolitical uncertainty raises concerns about supply chains, costs and trade diversion.

Thirdly, worries about the American budget deficit and government debt are on the rise. As large portions of debt need to be rolled over at higher rates, the costs of the debt will increasingly crowd out other necessary expenditures. I doubt that Elon Musk and DOGE will be able to deliver the huge expenditure cuts hoped for. The budget deficit will remain large, and government debt will continue to rise. As a result, it will be difficult to bring down long market rates in the US the way the Treasury wishes.

There are debt worries also in Europe, but inflation is lower, and the ECB may be able to cut policy rate further. Recently, however, increasing worries over tariffs and protectionism have caused the ECB to issue warnings that markets may be too optimistic. Still, the spread between US and European bonds remains large. Higher American interest rates should keep the USD strong – while the currencies of several other countries will fall, because of tariffs and protectionism. The trade war may thus lead to a currency war as well.

Photo: Shutterstock

Stock And Property Markets

Capital markets have started 2025 on a positive note. Still, the macroeconomic environment in the US and Western Europe is in general detrimental to stocks. Market cap will rise much more slowly this year than previously envisaged; it might even fall. Volatility will be high, and we might see some steep setbacks. The same goes for crypto assets. The flip side is that stock market scares may prevent the American administration from some of the proposed big tax cuts.

Even so, uncertainty and threats will be the dominant factors in financial markets. Some of the Magnificent 7 will also take a pounding as Chinese competitors rev up. It is difficult to see returns in the US stay as elevated as in recent years. Many investors will rotate out of the large American tech companies into small cap, both in the US and Europe.

Property markets will meet diverging underlying factors. Gradually, the disruptions during the pandemic are healing – the exception being offices in particular in some big US cities. The high interest rates of 2023 have come down, but not to the levels seen before the pandemic and the Russian invasion of Ukraine. The acute yield crisis is over, but the market will not be propelled by extreme-low interest rates anymore.

As regards residential market demographic headwinds and lower immigration will hold back new construction in several regions. And even if inflation has come down, the price level is sharply up, which means that affordability is low and will remain so. On the other hand, logistics, infrastructure and defence investments are sectors which will see increasing demand.

Europe: New Leaders, Old Laggards

Europe as a whole is stuck in low gear. The three previous big leaders – Germany, France and the UK – are all in dire straits. Germany is hit by an energy crisis as well as fierce Chinese competition hurting the automotive industry. However, a new CDU government may loosen fiscal policy, which could give some stimulus. France is in chronic political strife with increasing budget problems and no solution in sight. And the UK is suffering both slow growth, high inflation and budget ailments; Brexit has been costly, and the bond vigilantes are out.

But while the old leaders have become laggards, new leaders step up. In particular, Poland and Spain impress. The former because of strong productivity growth, the latter because of population growth and recovery after deep and prolonged structural problems.

The overriding challenge for Europe is slow productivity growth. The continent lags the US in innovation, depth of capital market and technological development. The region's economy is still too fragmented and regulated. New, ambitious reports from Mario Draghi and the European Commission have come up with scores of proposals to speed up development. But several of them are politically controversial.

One such proposal is joint borrowing and European bond issuance. Several countries have said No to this. But here, the rapidly deteriorating world order may cause a re-think. A joint European defence bond to finance rearmament has become increasingly likely.

In this troubled continent, the Nordic and Baltic region performs relatively well. Consensus says the Nordic and Baltic countries will grow faster than the European average this year and the next. Inflation is a bit too high in Estonia and Lithuania, but since interest rates are set in Frankfurt this will not push up yields. Inflation is also too high in Norway, which will lead Norges Bank to keep its policy rate higher than in her Nordic neighbours. Finland is gradually climbing out of its structural problems, and no other country in the region shows the severe ailments dominating the UK, France or Germany. But here, of course, the increasing Russian threat may be is troubling for Finland and the Baltics.

Denmark

In the Nordic region, Denmark – like last year – is the best performer. GDP growth is more rapid than in her neighbours, budget and trade balances are strong, and inflation is below target. Nominal wage increases are around 4 per cent, which means real wages are growing and will be feeding strong private consumption. The stock market has been booming, courtesy of Novo Nordisk.

But Denmark also faces geopolitical threats, which are hard to project or quantify. The trade surplus versus the US is big, and then there is the issue of Greenland. We cannot exclude some sort of American threat to gain more influence over Greenland's natural resources. Denmark has already announced a massive increase in defence spending.

The property market was slow in 2024, but expectations are for a pick-up in 2025, with increasing property investments and an increase in transaction volume. International investors have shown an increasing interest in the Danish market.

Norway

Massive investments in oil and gas propel a large part of the Norwegian economy – but several other sectors remain anaemic. Construction is weak; it fell in 2024 and will continue to fall this year. But private consumption is healthy, courtesy of lower interest rates and rising real wages.

Norway's most obvious problem has been high inflation. Increasing rents and food prices have held prices high, clearly above the inflation target. As a result, Norges Bank

> **"Europe as a whole is stuck in low gear"**

"The Swedish property market has had some rough years, suffering from weak demand and high interest rates."

has kept its policy rate higher than the other Nordic countries. As inflation gradually cools, however, the Bank may start to cut rates in the spring – but only carefully.

Property markets have been dominated by rising house prices, partly due to low construction and lack of supply. As households' consumption increases and rates come down, house prices will accelerate further this year. Market sentiment is strong, and transaction volumes will increase markedly.

Sweden

Analysts have been frustrated by too optimistic economic forecasts in Sweden for a long time now. Exports have continued to grow, partly thanks to the weak krona. But despite real wages rising and interest rates coming down, households have remained cautious. Consumption has remained low; savings have stayed high. Recent numbers, however, have been encouraging.

The Riksbank seems intent to keep its policy rate at the present level, which it considers neutral, not wanting to move to a stimulative stance. Partly this is because of recent inflation setbacks, partly because its forecasts show the economy recovering. On the other hand, high unemployment is an argument for cutting rates. This uncertainty about rates may dent market optimism. Should the economy surprise on the downside yet again, fiscal policy has ample ammunition to stimulate.

The Swedish property market has had some rough years, suffering from weak demand and high interest rates. But there is light at the horizon as rates have come down and purchasing power increases. During the course of 2024, transactions bottomed out and are seen to be rising in 2025. Excessive supply still constitutes a headwind, though

Finland

Finland's economic performance has been weak in recent years. Structural problems in industry dampen manufacturing. Unemployment and tight fiscal policy hold back private consumption. Households' expectations are weak, and retail sales have declined. But during 2025, an improvement should be discernible, and GDP growth will resume.

Inflation has been rather high, because of a rapid increase of wage costs – despite high unemployment. Recently, however, wage increases are slowing, and inflation will come down. Nonetheless, continued tight fiscal policy will weigh on total demand also in 2025.

Construction has been falling sharply, partly because of weak demand, partly because of a fall in prices. It will take time before a turnaround is possible. The property market has been weaker than in the other Nordic countries, due to the generally depressed state of the economy. Nonetheless, this means that there is an opportunity for a bounce-back, in particular if international investors will show more interest.

The Baltics

The Baltic region is divided. Lithuania is experiencing rapid growth, while Estonia and Latvia are gradually recovering after recessions in 2024. All three countries are heavily affected by the proximity to Russia and the war in Ukraine, which depresses household confidence but necessitates infrastructure and military defence investments.

Estonia

The Estonian economy has gone through a wringer, with a period of negative growth. But this year, GDP is set to start growing again, pulled by exports of forest products and IT components, as well as gradually rising private consumption. A rapid increase of wage costs has held up inflation far above the ECB's target and will continue to do so also this year. However, since interest rates are set by the ECB, Estonia will benefit from low rates despite high inflation. But while monetary policy is stimulative, fiscal policy remains tight, and tax hikes will cut into disposable income.

The property market is on the mend after a deep freeze in 2023. As interest rates come down and borrowing conditions improve, investor confidence will strengthen, and market activity will rise.

Latvia

Latvian GDP shrank last year but will rebound this year, driven by consumption and exports. Sentiment is rising after being depressed by fear of Russian aggression. Inflation is above ECB's target, not least because of high wage increases, but as rates are coming down, credit is growing. Investments will gradually pick up, albeit from a low level.

The property market was stagnant last year but will improve as rates fall and growth picks up speed. A couple of very big infrastructure projects have the potential to radically reshape Latvia's economy, but they are meeting regulatory and financial challenges.

Lithuania

GDP is growing strongly, as the Lithuanian economy is firing on all cylinders. Defence spending is accelerating. Private consumption is rising very rapidly, courtesy of very high wage increases. The minimum wage has been hiked due to indexation. But here, as in the Baltic neighbours, ECB sets the policy rate from the situation in the entire euro area. This dilemma creates obvious risks, such as domestic overheating and loss of competitiveness. Ther government will try to cool off the economy and reduce the budget deficit through tight fiscal policy and higher taxes.

The property market was sluggish in 2024, but there is upside potential this year, as GDP grows, rates come down and unemployment falls. Defence infrastructure is growing, as the country aims to brings its capacity up to NATO standards in the face of Russian threats.

Conclusion: Guarded Optimism

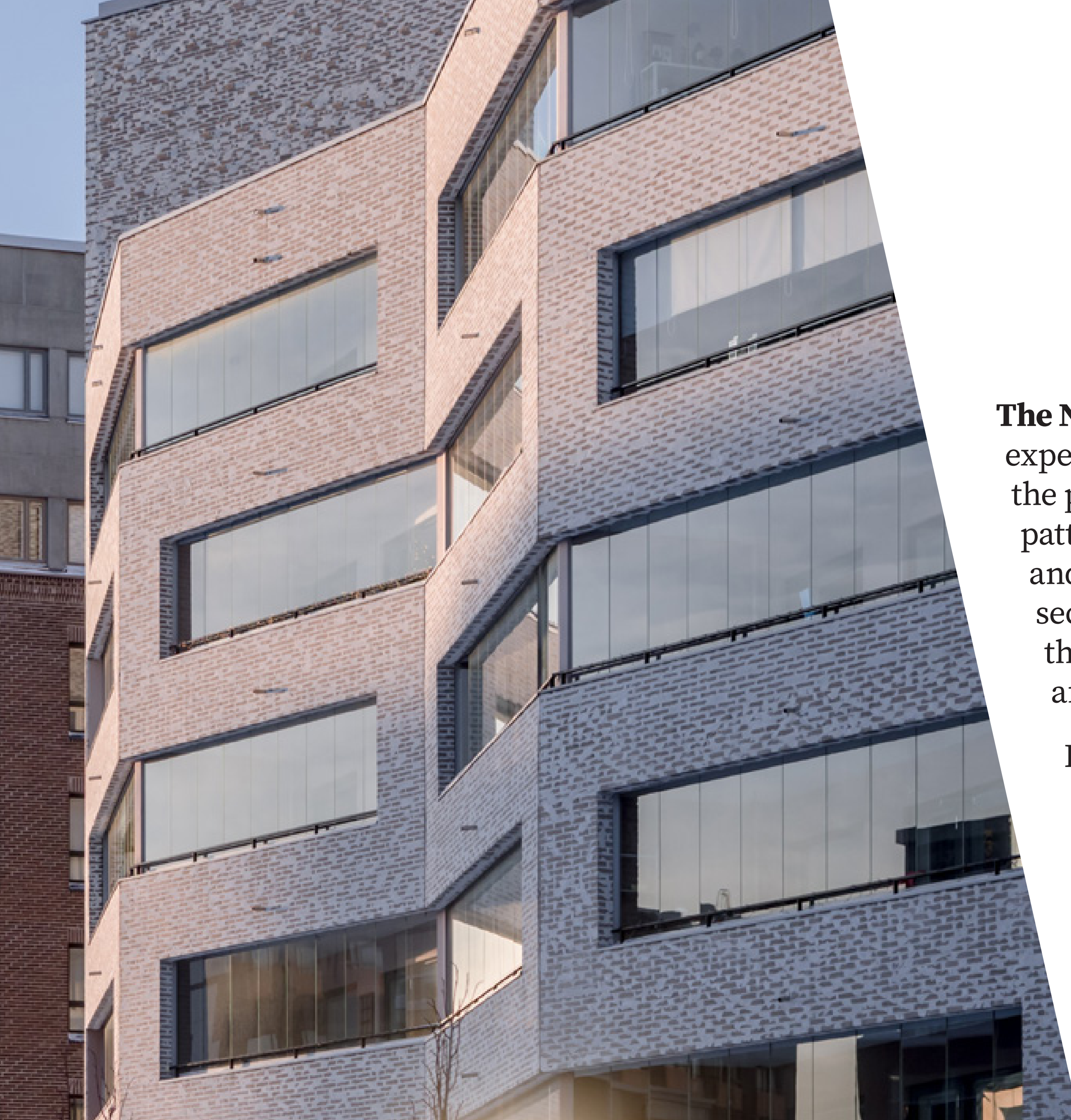
Forecasting is impossibly difficult these days, due to geopolitical uncertainties. Fundamental economic factors are in favour of a pick-up of economic growth in all the Nordic and Baltic countries. Falling interest rates and increasing consumption should support the property sector across the region.

However, two dark clouds threaten the recovery. Firstly, the risk of increasing protectionism and a trade war with the US and China. Secondly, developments on the military front. Should Russia continue to advance – or even be able to occupy parts of Ukraine after a cease-fire – geopolitical risks will increase, in particular for the Baltic states.

Guarded – very guarded – optimism is the conclusion. Fingers crossed and hope to die ...

Five Years Later:

Navigating the Transformed Real Estate Market



The Nordic and Baltic real estate markets have experienced profound changes in the wake of the pandemic, with new trends in investment patterns and property usage. From COVID-19 and the rise of hybrid work models in the office sector, to the Russian invasion of Ukraine, the past five years have been turbulent and affected the market in several ways.

In this edition of the Newsec Property Outlook, Newsec explores the post-pandemic trends and their impact on the market. Newsec also assesses whether they are likely to shape the sector over the upcoming five years, presenting both opportunities and challenges for investors and stakeholders.

Varied recovery for Nordic and Baltic Capitals

"Stockholm's economy has faced challenges, with its share of GDP gradually declining since 2019"

The economic recovery of Nordic and Baltic capitals since the pandemic reveals varied trends in their share of Gross Regional Product (GRP) of total GDP, as well as unemployment rates. Exhibits 1 and 2 show the different outcomes between the capitals.

Stockholm's economy has faced challenges, with its share of GDP gradually declining since 2019. While unemployment figures have been stronger than the national average the last five years, they are now closer to parity – reflecting a shift from its previous position as a standout performer. This shows Stockholm's difficulties in fully rebounding post-pandemic and adapting to recent global challenges.

Oslo exhibits limited economic progress, with unemployment closely mirroring national figures and the share of GRP below 2019 levels. In contrast, Copenhagen and Helsinki has seen a strong GRP growth, but this comes at a cost: unemployment levels in the capitals remains notably above the national averages, reflecting labor market strain. Similarly, Vilnius has achieved growth in its share of GRP, but it also faces the highest unemployment rate gap compared to the national average among all countries, underscoring deep labor market disparities.

EXHIBIT 1: **Capital Cities' GRP as a Share of Total GDP (Indexed to 2019 = 100)**

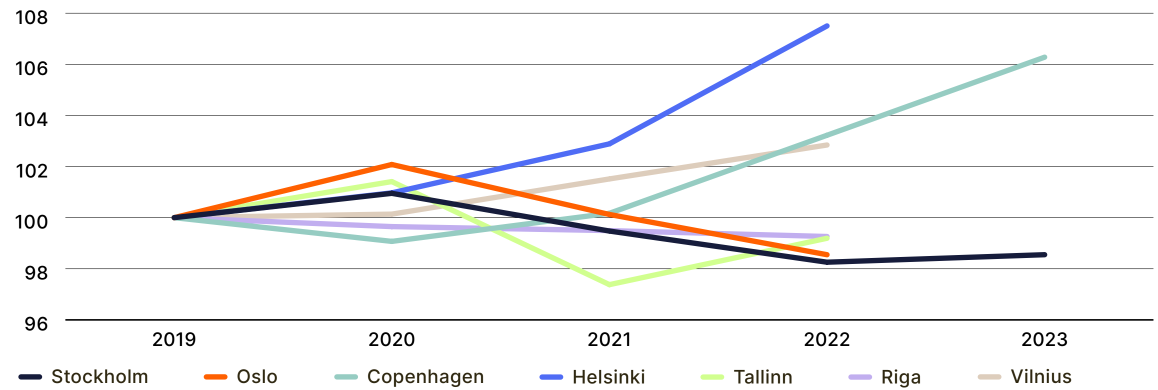
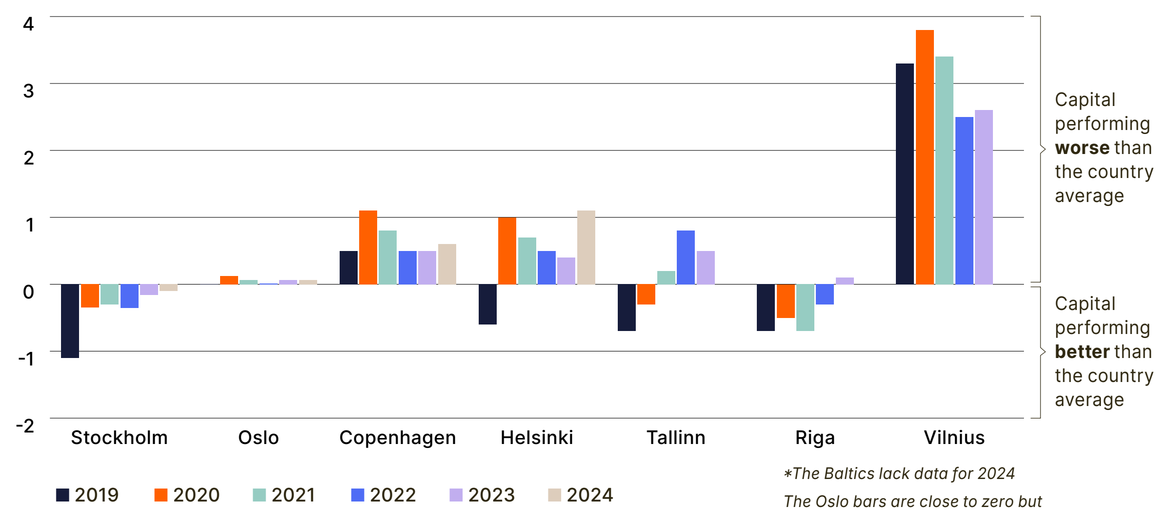


EXHIBIT 2: **Unemployment Gap Between Capitals and National Average* (pp)**

(Negative values indicate lower unemployment rate in the capital compared to the national average)



**The Baltics lack data for 2024*

The Oslo bars are close to zero but are visually exaggerated for clarity

Meanwhile, Tallinn's modest GRP recovery is accompanied by an unemployment rate higher than the national average, while Riga has generally seen an unemployment rate below the national average but continues to struggle with slow growth.

These disparities highlight the varied trajectories of the region's capitals. The uneven performance also impacts key sectors, such as office properties, where shifting workplace trends reflect not just economic realities but a larger transformation in how and where work is conducted.

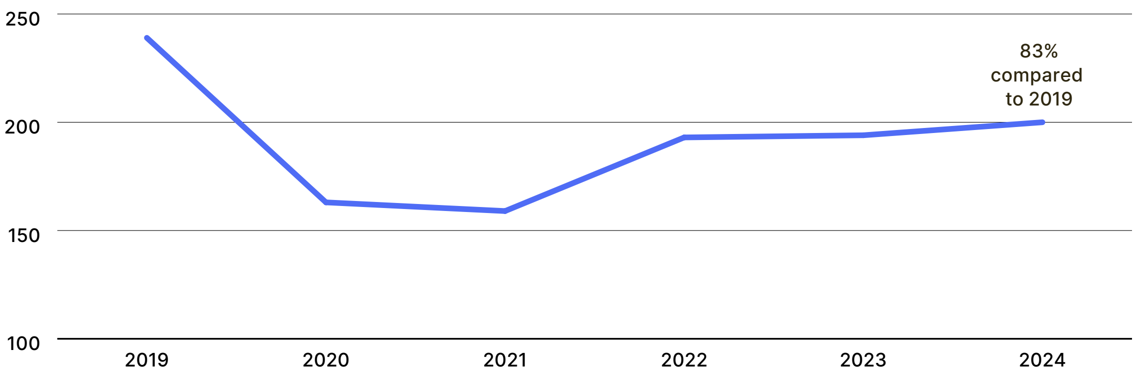
Rising Office Vacancies, Demand for Prime Locations and Flexible Spaces

The Nordic and Baltic office property markets have undergone significant shifts over the past five years, driven by changes in working habits during the pandemic. In 2020, remote work became the norm, with Sweden being a partial exception due to its less restrictive approach. As restrictions eased, hybrid work models became widespread, though varying by sector and industry.

Exhibit 3 highlights Stockholm's steady recovery, reaching 83% of pre-pandemic commuting levels by 2024. Additionally, weekday cycling traffic in central Stockholm has surpassed pre-pandemic levels, further emphasizing this trend. While not all trips are office-related, the trend indicates a notable comeback in commuting habits. However, hybrid work has significantly reduced the demand for office spaces, driven by advancements in digitalization and the widespread use of tools like Microsoft Teams, Zoom, and Slack. This shift has led to rising office vacancy rates, particularly in older and peripheral properties, as businesses reevaluate and optimize their space requirements per employee.

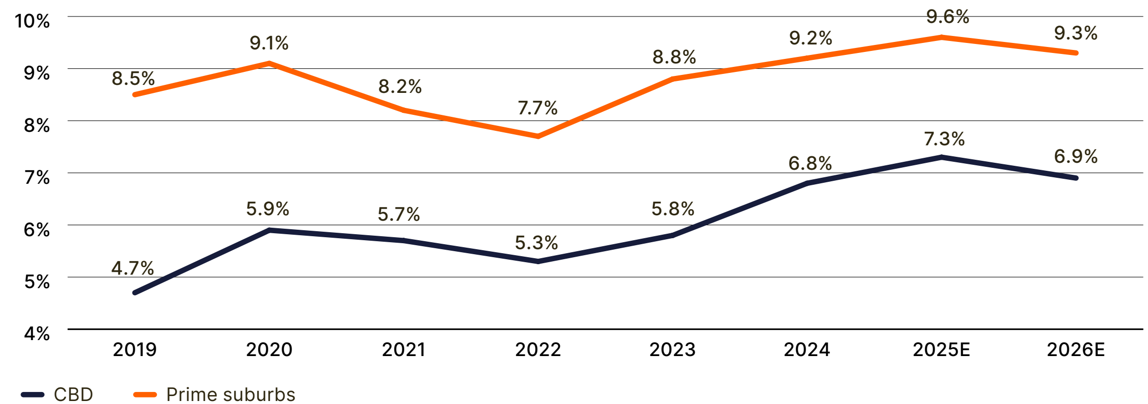
Photo: iStock

EXHIBIT 3: **Annual Weekday Trips by Public Transport* and Car** per Working-Age Individual in Stockholm County**



*Trips with the public transport company in Stockholm (SL) **Road toll passages into central Stockholm

EXHIBIT 4: **Office Vacancy Rate in Nordic and Baltic Capital CBDs and Prime Suburbs*,****



*The figures are weighted by each capital's office stock **The Baltics lack data for prime suburbs

Exhibit 4 shows the increasing vacancy rates in both CBDs and prime suburban areas across the Nordic and Baltic countries. Newsec forecasts that the vacancy rate will continue to rise throughout 2025 but will start to decline thereafter as the gap between demand and supply narrows.

Finland leads Europe in remote work adoption, with rates 2.5 times higher than the EU average. Significantly reduced footfall in Helsinki's office-dense areas highlights the profound impact of the growing demand for flexibility in the workplace.

Hybrid work is reshaping the office market across the Nordics and Baltics, with businesses prioritizing flexibility, sustainability, and technology in modern, central locations. Meanwhile, the retail segment reflects similar shifts as e-commerce and changing consumer habits redefine the balance between online and physical stores.

From Online Retail Growth to Store Revival

Shifting consumer habits and economic pressures have significantly shaped the retail property market in the Nordics and Baltics over the past five years. E-commerce growth peaked at 33% in 2020 due to pandemic restrictions (Exhibit 5 on the following page), with grocery stores thriving while logistical hubs and big-box retailers adapted to new demands. In contrast, physical retail stores faced significant challenges. However, this rapid e-commerce growth shifted into a decline in 2022 and 2023.

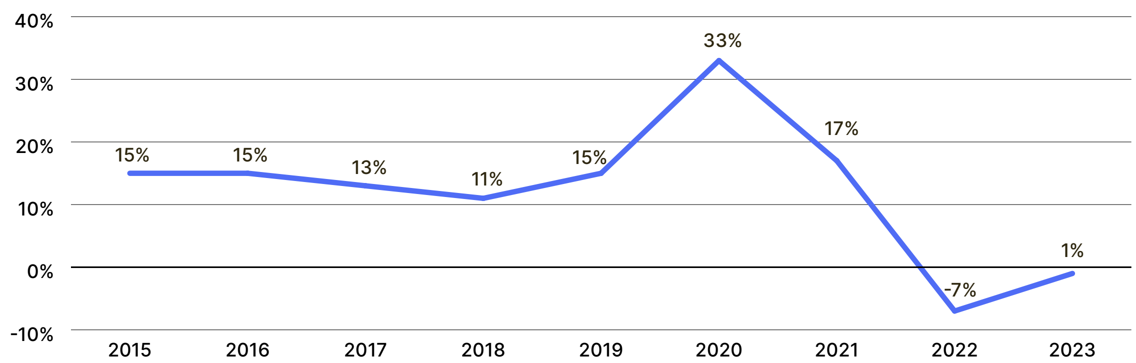
The decline in e-commerce has not necessarily mirrored the overall retail growth trend.

While Swedish e-commerce experienced a sharp downturn in 2022 and 2023 (Exhibit 6), total retail growth remained positive, suggesting significant growth in physical retail. This indicates a renewed demand for retail properties with the right features.

Regional trends within the retail segment have varied in the past five years, with grocery stores and liquor stores like Vinmonopolet and Systembolaget benefiting in Norway and Sweden during the pandemic. Denmark saw strong e-commerce growth before stabilizing as stores embraced omnichannel strategies and Finland experienced a strong recovery in physical retail post-pandemic, also driven by integrated approaches. Same trends are seen in the Baltic countries, with different local challenges for retail.

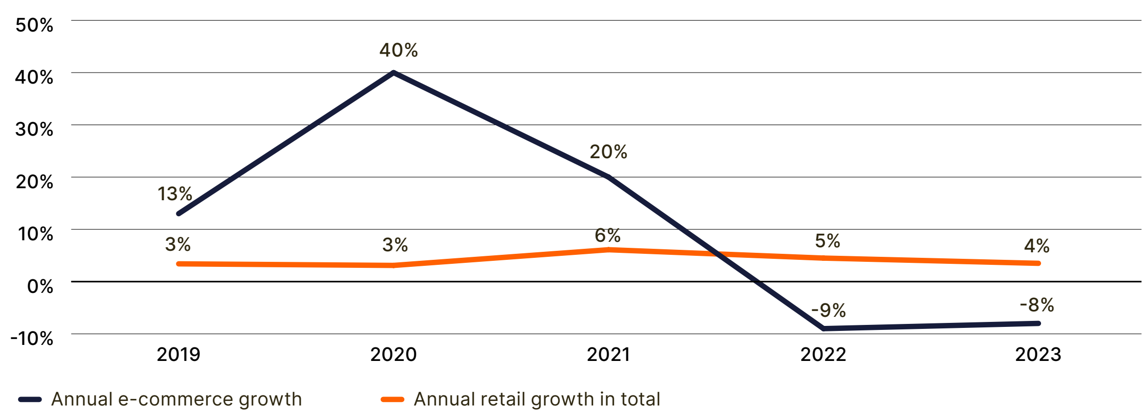
The retail market now reflects a more stabilized e-commerce growth alongside renewed strength in physical stores. Businesses and landlords are prioritizing hybrid models, prime locations, and flexibility, with logistics properties playing a critical role in supporting efficient delivery systems.

EXHIBIT 5: **Average Annual E-commerce Growth (Nordics And Baltics* Combined**)**



*Estonia and Latvia lack comparable data **The figures are weighted by each country's GDP

EXHIBIT 6: **Swedish E-commerce Growth vs Retail Growth In Total**



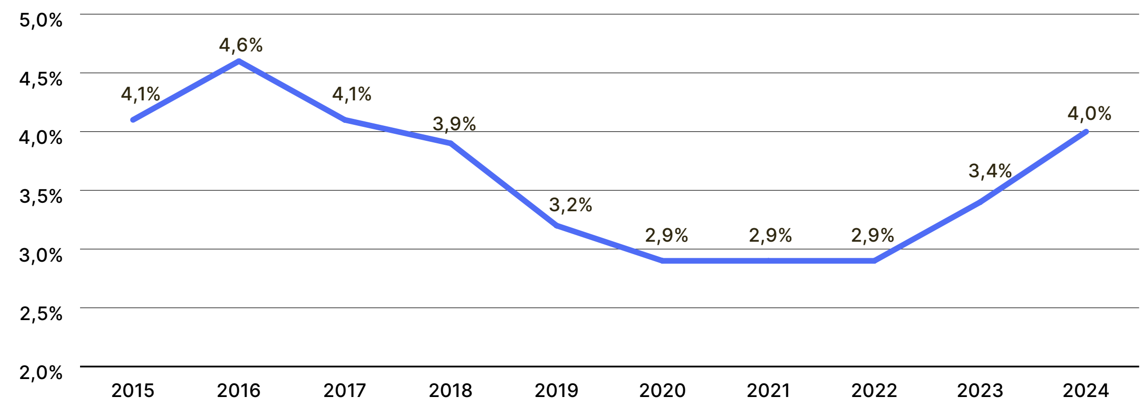
"The retail market now reflects a more stabilized e-commerce growth alongside renewed strength in physical stores"

"While logistics properties remain resilient, the current environment highlights the importance of aligning supply with demand"

Speculative Logistics Development Meets a More Stable Demand

During the pandemic, the logistics sector emerged as one of the strongest-performing property segments, fueled by the accelerated expansion of e-commerce and a heightened focus on supply chain efficiency. This momentum attracted significant interest from international investors, with logistics consistently accounting for an increasing share of total transaction volumes, reaching an all-time high in 2023.

EXHIBIT 7: **Average Logistics Vacancy In The Nordics And Baltics**



This strong performance was mirrored in the low vacancy rates across the Nordics and Baltics during the post-pandemic years, as seen in Exhibit 7. The tight supply conditions prompted a wave of new developments, with construction volumes surging between 2022 and 2024. A large proportion of these projects were speculative, relying on sustained high demand.

As e-commerce growth declined and household consumption weakened due to inflation and rising interest rates, the logistics sector has faced new challenges. Increased speculative developments have driven up vacancy rates, and prime areas like Rosersberg in Stockholm have experienced temporarily high vacancy at around 15%. This marks a shift from the tight conditions of the pandemic to a more balanced market. While logistics properties remain resilient, the current environment highlights the importance of aligning supply with demand.

As a key driver of foreign investment during the pandemic, logistics attracted significant international capital. However, the sector's current development reflects a broader shift in global investment patterns.

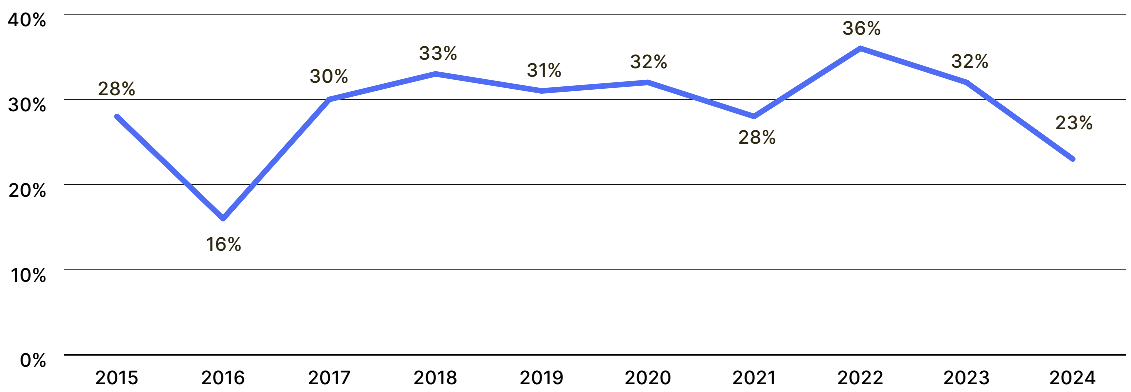
Declining International Presence

Before and during the pandemic, the Nordic and Baltic property markets drew significant interest from international investors due to favorable financing conditions, strong demand for logistics and residential assets, and the region's stability. At its peak in 2022, international investors accounted for 36% of total transaction volumes, as shown in Exhibit 8 (see the following page), although this remains significantly lower than levels seen before the financial crisis, when the share surpassed 50%.

Since then, this trend has reversed, with the share of international investors dropping to 23% in 2024.

Countries like Finland, Denmark, and the Baltics, reliant on foreign investors, have been disproportionately impacted by higher costs and geopolitical risks. In contrast, Sweden and Norway, with stronger local investor bases, have been less affected, signaling a shift toward regionally focused investment.

EXHIBIT 8: **Share Of International Investors (%) In The Nordic And Baltic Countries Combined***



*All Non-Domestic investors for each country

Rising interest rates, geopolitical tensions, and currency volatility have driven investors toward familiar, lower-risk markets, reducing cross-border acquisitions. The logistics sector, a pandemic favorite due to e-commerce growth, now faces reduced appeal due to rising vacancy rates, slower e-commerce growth, and speculative developments.

While international investment has significantly influenced logistics and residential sectors, public properties remain largely unaffected. Predominantly funded by domestic investors and public financing, these assets retain a localized focus.

Photo: iStock

"A unified focus on bolstering security continues to integrate defense priorities with regional property development"

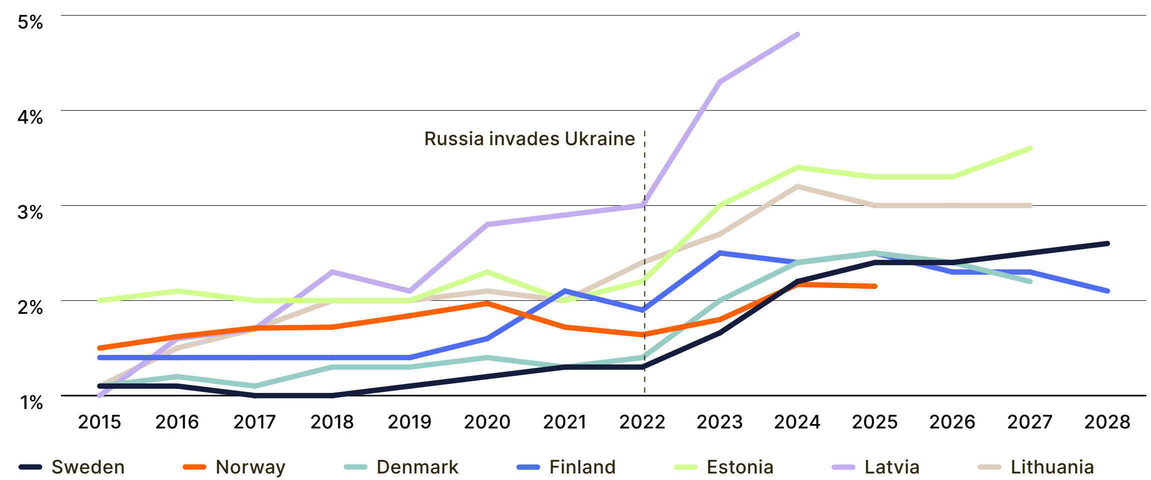
Increased Defense Budgets Drive Property Demand

During the pandemic, defense budgets remained stable as domestic priorities like healthcare and economic recovery took precedence. However, Russia's invasion of Ukraine in 2022, triggered a significant rise in defense spending across the region, as highlighted in Exhibit 9.

Sweden's defense budget is projected to increase from 2.2% of GDP in 2024 to 2.6% by 2028, while Finland's spending has reached 3% of GDP following its NATO membership in 2023. Denmark's and Norway's defense budgets are steadily rising toward NATO's 2% benchmark by 2024 and forward. The Baltic countries continue to meet or exceed NATO's 2% benchmark, with Latvia spending almost 5% of its GDP. These numbers are not expected to decline for many years; instead, they are likely to increase.

This surge in defense spending is driving demand for properties near military hubs and secondary cities. Governments are partnering with private developers to modernize infrastructure, and adaptive reuse of existing facilities has become a key strategy to meet updated defense needs efficiently. A unified focus on bolstering security continues to integrate defense priorities with regional property development.

EXHIBIT 9: **Government spending on defence (as a percentage of GDP)**



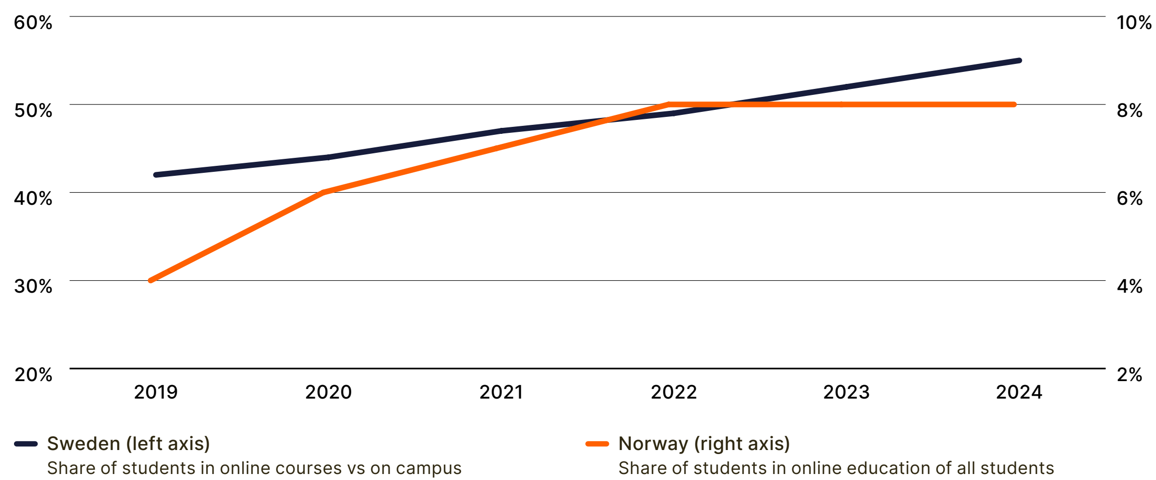
A New Era For Elderly Care

Over the past five years, an aging population and lessons from the pandemic have driven significant changes in elderly care across the Nordics and Baltics. COVID-19 exposed critical weaknesses in care facilities, including staffing shortages and hygiene challenges, while accelerating a shift toward age-friendly housing and decentralized care models that support aging at home. Although trust in elderly care remains somewhat mixed after the pandemic, its reputation has started to improve.

In Sweden, nursing homes saw a decline of over 10% in elderly residents aged 85 and older between 2019 and 2023 due to COVID-19 outbreaks. However, numbers are now beginning to rise again, increasing demand for higher care quality, modernized facilities, and trained personnel. At the same time, more people are seeking alternative living options, such as home care services and senior housing, which prioritize safety and independence.

Across the region, the sector is adapting to demographic shifts, rising expectations, and sustainability requirements. Private developers are increasingly stepping into a role previously dominated by municipal actors, focusing on improving care quality, operational standards, and building modern facilities. There is also a growing emphasis on creating residential zones that allow elderly individuals to age in place, reducing reliance on centralized nursing homes and fostering innovative hybrid care models. These efforts aim to provide high-quality, flexible, and sustainable solutions, striking a balance between care, community, and independence for the growing elderly population.

EXHIBIT 10: **Remote learning in Sweden and Norway**



Hybrid Learning Transforms Education

With the pandemic acting as a catalyst for widespread adoption of remote and hybrid learning models, education systems in the Nordics and Baltics have been transformed in recent years. In 2020, schools transitioned to fully online teaching, which has since shifted to hybrid models blending digital and in-person methods. This transformation has influenced real estate needs, particularly for school facilities.

Exhibit 10 highlights the steady rise in remote learning, with Sweden showcasing 55% of students in online courses by 2024. Norway also saw growth, doubling its share of online learners between 2019 and 2023, despite challenges such as declining math skills and an increasing share of low-performing pupils. Declining school-age populations and strained municipal budgets have further impacted infrastructure, prompting school closures and opportunities to consolidate or repurpose underutilized properties.

Trends are similar across the entire Nordic & Baltic region. Across the region, hybrid learning continues to influence educational infrastructure, creating opportunities to adapt or repurpose school properties to meet changing needs. These adjustments highlight the focus on flexibility in education delivery, ensuring systems remain resilient against future challenges.

Future Trends Across Property Segments

The economic recovery in the Nordic and Baltic capitals will continue to diverge, with export-dependent cities facing potential

“While many trends initiated by the pandemic have now become firmly established, new shifts are emerging”

external challenges, such as the potential imposition of tariffs under policies like those proposed by Trump. Service-based economies must adjust to long-term changes in office demand. Labor market flexibility and adaptation to new work models will be key in determining which cities recover faster. International investors are likely to start to return to the Nordic and Baltic countries as interest rates stabilize at lower levels and financing conditions improve. These external factors will affect the property segments in different ways.

Looking ahead, the real estate markets in the Nordic and Baltic regions continue to navigate a complex and fast-changing environment. While many trends initiated by the pandemic have now become firmly established, new shifts are emerging, highlighting the need for agility and foresight. As these challenges and opportunities unfold, staying ahead of the curve becomes critical. With Newsec as a trusted partner, investors and stakeholders can navigate this ever-shifting market and capitalize on valuable insights.

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Property Segment
Offices

Future trends

- Hybrid work continues reducing demand for larger office spaces, especially in secondary locations.
- Prime locations remain in demand; weaker areas face challenges with possible conversions to residential or mixed-use.
- Office vacancy rates in the capitals are generally expected to peak in 2025 and gradually decline in the following years.
- Flexibility is key, with shorter leases and adaptable layouts preferred.
- Sustainability (e.g., ESG compliance) and technological advancements (e.g., huddle spaces, security improvements) are critical.
- Modern, energy-efficient offices will outperform older offices, requiring upgrades to remain competitive.

Property Segment
Retail

Future trends

- A moderate recovery is expected for e-commerce, driven by global retail platforms like Temu and improved supply chains.
- The shift back to brick-and-mortar stores will continue, with prime locations and hybrid retail models gaining traction.
- The segment will continue to be shaped by sustainability and technology.
- Flagship stores are gaining popularity in capital cities, while suburban and secondary areas prioritize redevelopment and revitalization efforts.
- Supply chain stability and geopolitical risks (e.g., potential Trump-era tariffs or trade wars) will influence import-heavy retail sectors.
- Green marketplaces and reuse centers are expected to gain traction.
- Seamless integration of e-commerce and physical stores will be essential for meeting high customer expectations.

Property Segment

Industrial/logistics

Future trends

- Rising vacancies in the logistics sector are expected to decline as new construction slows and e-commerce regains some momentum, creating a better balance between supply and demand.
- Strong demand for industrial facilities but reduced reliance on large centralized warehouses.
- Supply chains focus on near-sourcing, localized production, and sustainability.
- Future facilities prioritize solar panels, EV charging stations, and energy-efficient designs.
- Automation, robotics, and AI-driven inventory systems enhance efficiency and reduce costs.
- ESG-certified properties are becoming standard, with older facilities requiring upgrades to stay competitive.

Property Segment

Public Properties

Future trends

- Defense budgets will continue to increase, driving the need for expanded military infrastructure, training facilities, and strategic properties to support modernization and operational readiness.
- Defense infrastructure prioritizes advanced technology, cybersecurity, and sustainability, often supported by public-private partnerships, with an increasing demand for additional space and upgraded facilities.
- Elderly care demand will rise as the aging population grows, increasing the need for both traditional nursing homes and alternative senior living solutions.
- Existing nursing homes need modernization to meet updated standards, with healthcare and senior housing requiring significant expansion to accommodate future needs.
- Schools will continue to see reduced demand for new buildings due to declining student populations, but renovation needs will grow
- Hybrid learning increases the need for tech-equipped spaces and ongoing curriculum development to ensure high-quality distance education.

Property Segment

Residential

Future trends

- Declining construction costs are alleviating some pressure on the production of newly built residential properties, potentially improving affordability and feasibility.
- Uncertainty in demographic trends may impact long-term housing demand, requiring flexibility in planning and development strategies.
- Urban living remains strong, while suburban areas attract families seeking affordability and green spaces.
- Improved infrastructure enhances the appeal of areas near cities, balancing urban access with lower costs.
- Demand for larger homes with remote workspaces continues to some extent.
- Rising living costs keep affordable housing a priority.
- Vacation home demand has normalized, except in unique locations which maintain modest growth.
- Developers emphasize sustainability, safety, and community amenities in high-demand areas.

Property markets

The Swedish property market

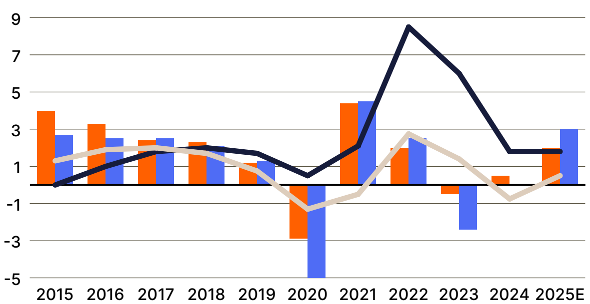
2024: A Tough Year with a Silver Lining

Economic recovery in Sweden remained sluggish in 2024, with GDP growth estimated at just 0.9%. Despite Riksbanken's significant rate cuts—from 4.0% in January to 2.50% by December—consumer spending remained subdued. However, there were signs of improvement toward the year's end. Inflation steadily declined to 1.5% by year-end, falling below the central bank's 2% target, signaling potential for further rate reductions in early 2025. Labor market conditions deteriorated, with unemployment rising to 7.1% in December, reflecting cautious corporate hiring and elevated bankruptcy rates. Bankruptcy filings increased by 38% compared to 2023, highlighting challenges for companies. Sweden's real estate market began to stabilize in 2024, with total transaction volumes reaching 140 billion SEK across 342 deals, a 35% increase from 2023. While the recovery is notable, volumes remain roughly 30% below the historical average for 2015–2023. The market still faces headwinds, including financing constraints and mismatches in buyer-seller expectations. However, with inflation below target and the prospect of further rate cuts, investor sentiment may improve in 2025, potentially driving gradual recovery in the sector. Rising interest in core assets could further support recovery.

Economic Indicators

Per cent

Source: Newsec

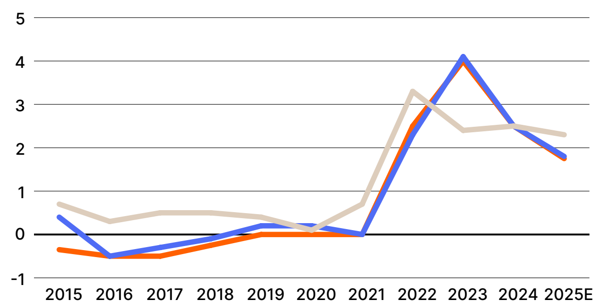


GDP, Annual Percentage Change
Private Consumption, Annual Percentage Change
Employment, Annual Percentage Change
Inflation, Yearly Average

Interest Rates

Per cent

Source: Swedish Central Bank, Newsec



Central Bank Interest Rate
STIBOR 3M
SWAP 5Y

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Photo: Shutterstock

Interesting trends

Fewer M&A Deals Signal Market Hesitancy

Despite expectations that financial pressure on property companies would drive more M&A activity, such transactions have remained below the five-year average (2018–2022). In 2023, M&A deals accounted for just 10% of total transaction volumes, recovering slightly to 17% in 2024. This decline signals reduced appetite or capacity for major consolidations, despite ongoing financial strain. Instead, the market has favored smaller, tactical transactions. Whether this trend reverses in 2025 will depend on economic conditions, particularly if further rate cuts create a more favorable environment for larger deals.

Real Estate Valuation Gaps Show Widespread Discounts and a Few Premiums

Swedish real estate companies face a broad valuation gap, with 74% of 38 companies trading at significant discounts to NAV, especially in office and retail. Logistics and residential-focused companies have shown greater resilience due to stronger demand and stability. Some, like Sagax and NP3, continue to trade at premiums, reflecting investor confidence. Expected interest rate cuts in 2025 could narrow valuation gaps and boost sector-wide confidence.

Office and Residential Segments Made a Strong Comeback in 2024

Office and residential properties rebounded in 2024, rising to 26% and 31% of total transaction volumes, respectively. The office sector's recovery reflects stabilizing demand as hybrid work models normalize, with investors focusing on well-located urban assets. Residential properties, initially pressured by rising loan rates, have benefited from recent rate cuts. Toward the end of 2024, yields on newly built residential properties declined, further driving demand.

SEK 139.9 billion
Total investment volume in 2024

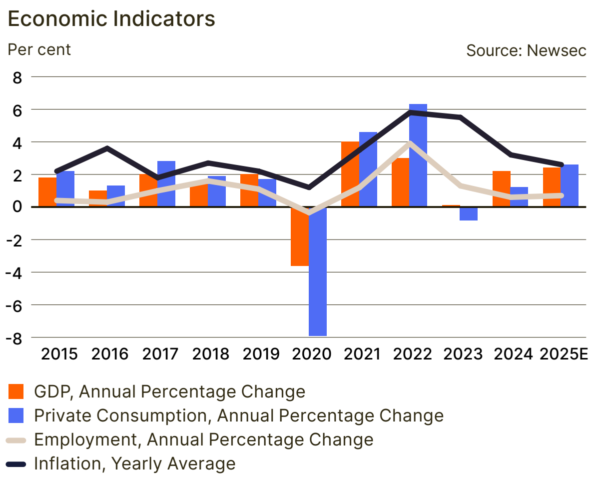
SEK 170 billion
Total investment volume expected in 2025

3.5%
Office prime yield expected in 2025

The Norwegian property market
Continuous improvement

Norges Bank maintained its restrictive stance during 2024, holding the policy rate steady at its peak. This slowed economic activity and reduced inflation. However, low unemployment, combined with rising corporate costs and a persistently weak NOK, underscores the need for still tight monetary policy. The policy rate is expected to slowly decline from March this year.

Global uncertainty led to significant volatility in long-term interest rates. Nevertheless, banks willing to lend and improved bond market boosted transaction activity. The first half of 2024 was marked by several large transactions driven by financial challenges. Since summer, the market has shifted towards voluntary activity, with sellers increasingly driven by strategic decisions. Transaction volume has been positively influenced by life insurance companies increasing their real estate allocations due to strong stock market performance and higher activity from syndicates. The market has not yet returned to its previous highs, with total volume in 2024 at NOK 86 billion across 259 transactions. For 2025, Newsec expects continuous improvement and a transaction volume of NOK 100 billion, with strategic decision-making remaining a key driver.



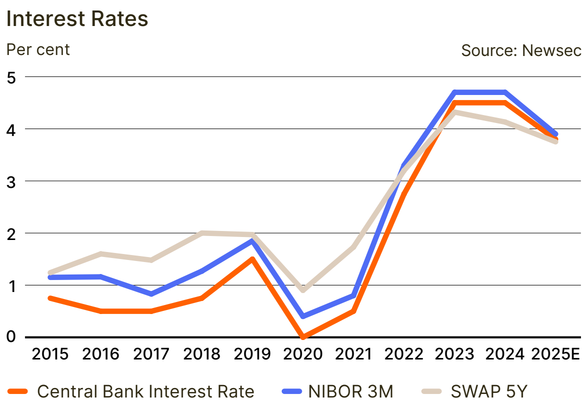


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Photo: Shutterstock

Interesting trends

Lower perceived risk despite volatile interest rates

Despite persistent macroeconomic uncertainty and volatile swap rates, the perceived risk on commercial real estate has eased during 2024. A clear indication of this is the risk premium in the bond market, which for Norwegian listed bonds fell by approximately 80 bps during 2024. This reduction reflects the greater-than-expected resilience of real estate companies. Liquidity concerns have eased, and bankruptcy risk is lowered as most companies manage to service their debt despite higher funding costs. Furthermore, balance sheets have proven stronger than anticipated as properties are rarely sold below book value.

Improved market sentiment and increased activity from syndicates

Syndicates have historically been important for the liquidity in the transaction market, accounting for around 35% of purchased volume from 2018 to 2022, dropping to 15% during 2023 and early 2024. High funding cost made it challenging to buy properties with decent return for their investors. Syndicates work closely with high-net-worth individuals and family-owned companies, which were hesitant to increase their exposure to commercial real estate. As the perceived risk associated with real estate companies eased and interest rates fell in late summer, interest returned. Additionally, strong performance in other asset classes, such as shipping, has provided these players with significant surplus liquidity to allocate to alternative investments.

Yield gap widening in the big box segment.

Investors in the big box segment are selective seen from the widening of the yieldgap between prime and secondary properties. During the yield compression phase, prices for peripheral big-box assets rose more than prime locations, likely due to a “flight to risk” sentiment among investors. The current has shifted towards a “flight to safety” with fewer active buyers focusing on urban assets near Oslo and in established retail clusters. Such big box properties offer prospects of rental growth, more tenant options and alternative uses, yielding lower residual risk. Here, sharp yields sustain, whereas secondary location faces larger corrections.

NOK 86 billion
Total investment volume in 2024

NOK 100 billion
Total investment volume expected in 2025

4.5%
Office prime yield expected in 2025

The Danish property market

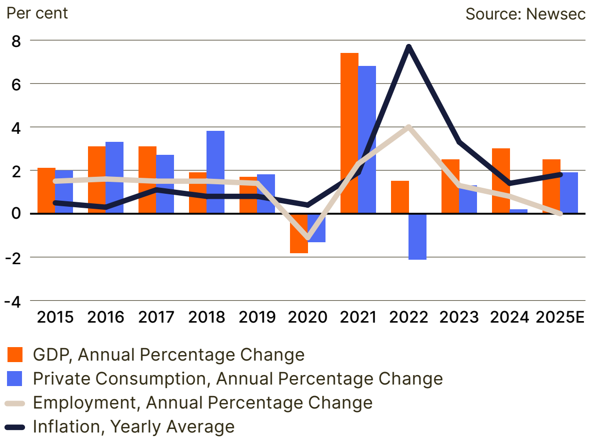
2024 was a quiet turning point

The year 2024 will go down in history as a very unremarkable property year. While investment activity increased compared to 2023, the level was well below the average of the last 5 years – or 10 years for that matter. The year marked a modest turning point for the recession that hit the commercial property market in 2022. The expectations for 2025 are a continued increase in appetite for property investments and an increase in transaction volume compared to 2024.

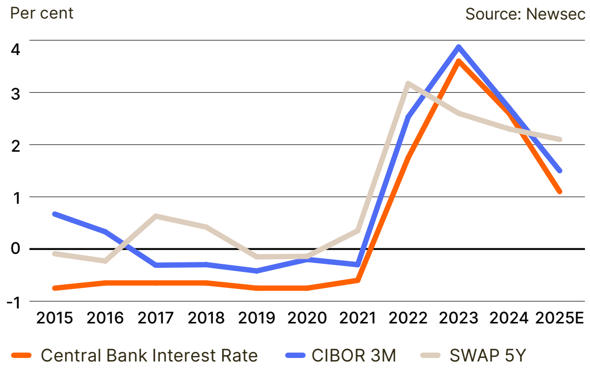
The increase in 2024 was mainly driven by growing interest in large logistics properties and portfolios from international investors. Residential transactions also increased, propelled by a final sprint in December with more than ten large residential deals worth over DKK 100 million. There were not more transactions in 2024 in general, but the number of large deals increased.

Since mid-2024, there has been an increasing number of signs that the pressure on property values began to ease – at least for the most attractive properties – due to the fact that the rise in property yields ceased while rents kept climbing. Positive signals of this reversal were first seen in the logistics and residential segments and were also most evident for those segments at the beginning of 2025.

Economic Indicators



Interest Rates



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Interesting trends

Will 2025 be a more interesting year for property?

The preconditions for a more remarkable 2025 are clearly in place. The economic forecasts predict growth in key indicators such as GDP, private consumption and exports. Inflation will remain under control and lower interest rates will make way for yield compression. Lower financing costs will benefit small and medium-sized investors and help the appetite for property to spread from large prime assets to a wider range of products. Yields may not necessarily fall at the same rate as interest rates because the yield gap is still significantly below the 'long-term' level. It is therefore likely that there may be some convergence towards a more 'normal' yield gap, which may dampen, but not stop, a drop in yields. How much yields could drop will depend, among other things, on whether confidence in the recovery of the property market continues. Rising property prices based on lower interest rates and real economic growth also create better conditions for buyers and sellers. With more market players closer to one another, there is a strong case for growth in property investment this year.

How will geopolitical events affect the property market?

Although the outlook for 2025 is positive, it comes with downside risks that are bigger than usual. The main reason being that this year promises to be an exceptionally unpredictable one due to external geopolitical factors. Protectionism and pressure on international trade could cancel the current positive outlook for Danish economy. The direct risk is most obvious for the industrial and logistics sector, which derive a large share of its production, export and profit from the US market. Due to the importance of the export sector, a setback in production, employment, income, etc. would spread to other property segments, notably office and retail.

Will the public sector be more active on the real estate market in 2025?

The market for public properties is small compared to other Nordic countries. The public sector could be more active in 2025 with spending forecasted to be unusually high. Investment in buildings alone is expected to grow by more than 13%. Much will be dedicated to the military, but there is also a pent-up and growing need for addressing the need for senior housing and other public buildings.

DKK 45 billion
Total investment volume in 2024

DKK 55 billion
Total investment volume expected in 2025

3.85%
Office prime yield expected in 2025

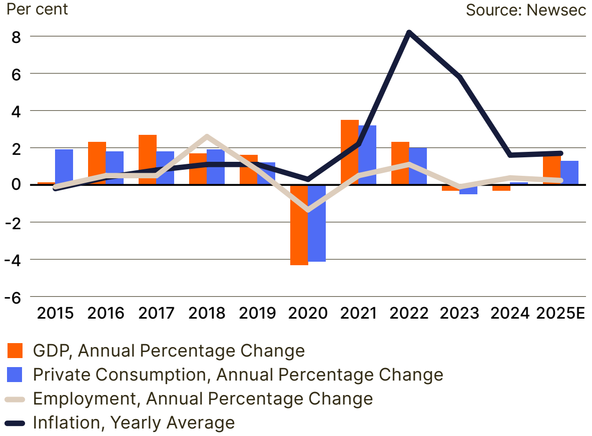
The Finnish property market
A cautious path to recovery

Finland's GDP has declined for two years, with a 1.0% drop in 2023 and a further expected decrease of 0.3% in 2024. Contributing factors include the war in Ukraine, high inflation, rising ECB rates, and weakening demand. A slight recovery is anticipated in 2025, with GDP growth forecasted at 1.6%. However, Germany's economic slowdown may affect Finland's export-driven growth in the coming years.

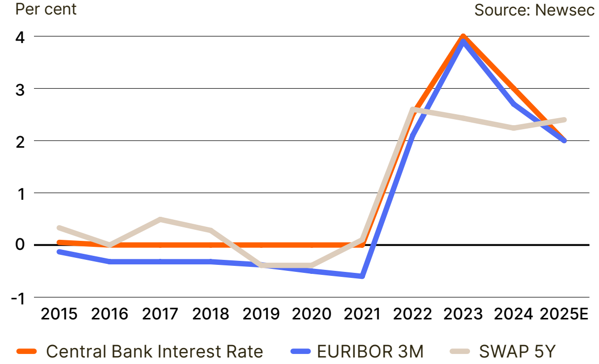
Finland's labor market, resilient post-pandemic, has softened slightly. Unemployment rose to 8.2% in 2024 but is projected to descend below 7.5% by 2026. Consumer spending is expected to recover gradually as purchasing power improves.

Central banks are reducing interest rates, with the ECB signaling cuts to 2% by the end of the year. However, rates will remain above past lows, leading to cautious long-term bond yield expectations. Lower market rates may enhance real estate financing, but the economic slowdown could dampen investor sentiment in high-risk areas.

Euro area growth remains fragile, threatened by lingering economic risks, including geopolitical uncertainties and US protectionist policies. Nevertheless, structural improvements and easing monetary conditions anticipate a cautious recovery path.



Economic Indicators



Interest Rates

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Interesting trends

Liquidity increases with international investors' comeback

In 2024, Finland was the sole Nordic country not experiencing a recovery in real estate transaction volumes. A significant challenge has been the reduced pool of active buyers. Open-ended funds have remained inactive, institutional investors have adopted a more cautious stance, and Nordic and international players have been relatively passive. In 2024, the share of international investors was only 36%, compared to the previous ten-year average of 53%. The participation of Nordic and international investors is essential for enhancing market liquidity and stabilizing pricing in Finland. Should geopolitical uncertainties or a weak economic outlook lead to further slowing real estate capital flows into Finland, the transaction market may face challenges in gaining momentum. Nevertheless, there is a sense of optimism. Investors' appetite for Finnish real estate remains strong. New and existing investors are entering the market with various strategies, and Newsec has noted a marked increase in interest from international investors. Finland presents compelling opportunities, supported by robust urbanization trends and increasingly attractive prospects across various submarkets.

Significant opportunities for office investors

The office market continues to deal with the post-pandemic structural shift of hybrid work. Therefore, investor and debt markets are cautious of offices, and a wide bid-ask spread limits transactions. Also, redemptions in open-ended funds and recalibrated investor allocations affect liquidity. As a result, office transactions are presently experiencing a notable decline. Nevertheless, as demonstrated in the previous year, there is potential for sellers to become increasingly motivated to sell, which may lead to a reduction in their asking prices. This creates excellent momentum for investors looking for buy-side opportunities. Even if hybrid work is still a significant factor in Finland now and in the years to come, there is a persistent demand for modern office spaces in prime locations. The low availability of prime offices in prime locations has increased rents and is expected to continue. With a narrowed pool of buyers for office properties, the current market dynamics are increasingly advantageous for investors looking to capitalize on opportunities.

EUR 2.2 billion
Total investment volume in 2024

EUR 3.0 billion
Total investment volume expected in 2025

5.4%
Office prime yield expected in 2025

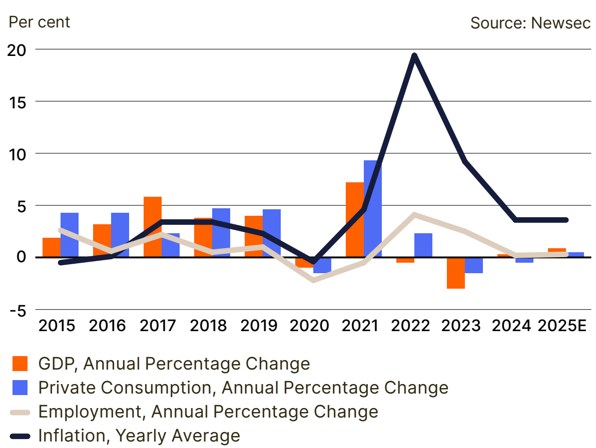
The Estonian property market
Adapting to Challenges and Building on Resilience

The economic outlook for Estonia in 2025-2026 shows promising signs of recovery. GDP is projected to grow by 1.6% in 2025 and 3.0% in 2026. Export volumes, a key factor in recent downturns, began recovering in late 2024, marking a positive trend. Estonian exporters have adapted by diversifying markets, supporting more sustainable trade growth. Finland remains Estonia's largest export partner, followed by the Baltic states and Sweden. Exports to the U.S. grew by 65% but still account for just 4% of total export volumes, indicating potential for further growth.

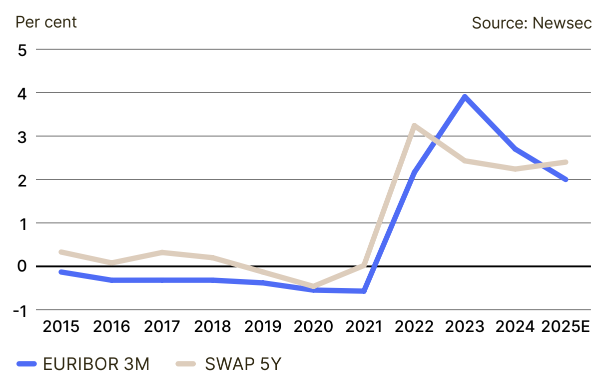
After a freeze in Estonia's real estate market in 2023 due to sharp interest rate hikes, 2024 saw significant improvement. Investment volumes rose by 42%, reaching 270 million EUR, up from 190 million EUR in 2023. The Kristiine Shopping Centre sale accounted for nearly half of 2024's investments, with other notable deals including the sale of Technopolis to a minority shareholder and a Tänassilma logistics park.

With eased interest rates and improved borrowing conditions, further growth in real estate market activity is expected in 2025, alongside renewed investor confidence.

Economic Indicators



Interest Rates



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Interesting trends

I&L Segment Reaches a Turning Point

The I&L segment, previously defined by low vacancy rates and strong demand, particularly in the stock office subsegment, is now undergoing a significant shift. Demand has dropped due to a contracting economy and unsustainable price increases, making it harder to attract tenants. Vacancy rates have risen sharply, forcing developers to adjust pricing strategies. In 2025, the total supply of new or vacated space is expected to reach 130,000 sqm, but this surplus is unlikely to be absorbed quickly, suggesting further vacancy rate increases.

Shopping Centres Defy Economic Challenges

While Eurozone inflation is projected to decline to 1.9% in 2025, Estonia faces a higher rate of 4.3%, dropping to 3.6% in 2026. This elevated inflation is driven by tax hikes on income, VAT, and excise duties, which increase living costs and reduce disposable income. However, an income tax adjustment in 2026 is expected to boost net average income by 5-6%, potentially driving stronger private consumption after a slow 2025.

Despite economic challenges, shopping centres continue to perform well. Vacancy rates in major centres remain below 4%, often due to planned restructuring rather than weak demand. Many centres maintain waiting lists of tenants, enabling swift replacements and steady performance. This resilience underscores the retail sector's strength even in adverse conditions.

Residential Market Recovery in Progress

The residential market has shown early signs of recovery, with activity increasing by 12% in the last quarter of 2024. This rise has reduced the number of available apartments, indicating growing demand. Factors such as a drop in EURIBOR rates, making borrowing more affordable, and increased competition among banks, leading to lower loan margins, have supported this uptick. However, the recovery faces potential obstacles. Tax hikes in 2025 may dampen market enthusiasm by keeping inflation elevated and consumer confidence low. Although current momentum is encouraging, the market's recovery remains fragile. Lingering economic pressures and consumer uncertainty compared to pre-pandemic levels could limit long-term growth. Whether this early recovery leads to sustained progress will depend on broader economic developments in the coming years.

EUR 270 million
Total investment volume in 2024

EUR 240 million
Total investment volume expected in 2025

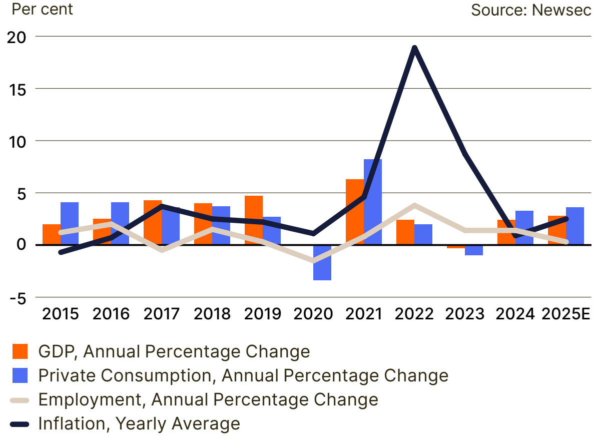
6.75%
Office prime yield expected in 2025

The Lithuanian property market
Economic Growth and Market Shifts

Lithuania's economy in 2024 showed resilience, growing at 2.4%, primarily supported by stronger performance in manufacturing industry, wholesale and retail trade, and the ICT sectors. Positive contributions from construction enterprises also bolstered economic resilience. Inflation dropped below 1%, and unemployment stabilized at 7% and started to decline faster in the last quarter of the year. Projections for 2025 suggest close to 3% GDP growth, driven by growth of industrial companies, domestic consumption, and ICT companies.

At the end of 2024, Lithuania accounted for one-third of the total Baltic real estate investment market. However, the fourth quarter proved less active than in previous years, which had an impact on the country's overall performance. The total investment volume in 2024 amounted to EUR 155 million in Lithuania and approximately EUR 500 million across the Baltics, marking a 37% year-on-year decline for the region. Despite these challenges, investors have the opportunity to capitalize on upside potential in a difficult and less active market. By leveraging market data, they can position themselves to secure higher-than-average returns.

Economic Indicators



Interest Rates

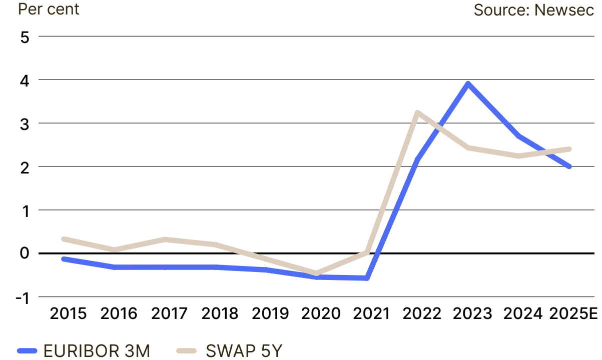


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Photo: Shutterstock

Interesting trends

Lithuania Active in Public-Private Partnership Projects in Defense Infrastructure

Lithuania is advancing its largest public-private partnership projects with the construction of two military towns, strengthening its defense infrastructure in line with NATO standards. Rūdninkai will be the country's largest military project, spanning 170 hectares with 120 buildings and a EUR 1.56 billion investment. Kairiai, at 80 hectares, requires EUR 454 million. These projects reinforce Lithuania's commitment to regional security and its role in NATO's collective defense.

The Imbalance Between Office Supply and Demand Creates Market Tension

In 2024, limited new supply provided landlords with stability. However, 2025 will see the highest supply growth in five years, heightening competition for both owners of older buildings and developers. Slow startup workforce growth and a lack of foreign tenants continue to challenge the market. Absorbing 2025's new supply may extend into 2026, while unlaunched projects face at least two-year delays.

Hotels Experience a Strong Recovery Period

Lithuania's hotel sector has rebounded, with foreign tourism reaching 80% of pre-pandemic levels. Domestic tourism has filled gaps, with local hotel stays up 25% and Vilnius seeing a 40% increase. In 2024, Vilnius hotels hit record-high occupancy, driven by higher room rates and revenues. Demand from allied personnel and foreign investors' employees has also fueled growth in hotels and co-living spaces. The co-living sector, offering fully serviced, flexible housing, has gained popularity, meeting short-term housing needs. Both markets are set for higher demand, rising occupancy, and new growth opportunities.

EUR 150 million
Total investment volume in 2024

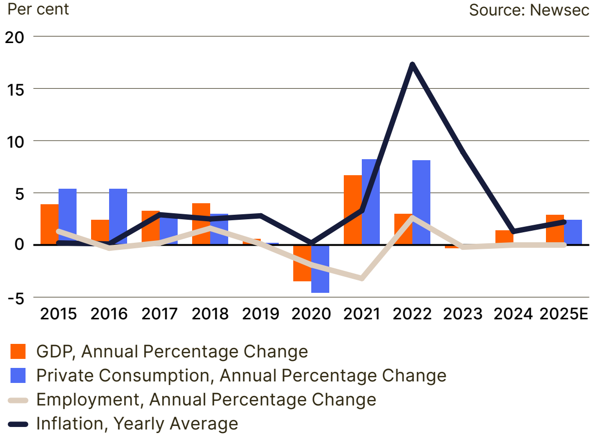
EUR 280 million
Total investment volume expected in 2025

6.5%
Office prime yield expected in 2025

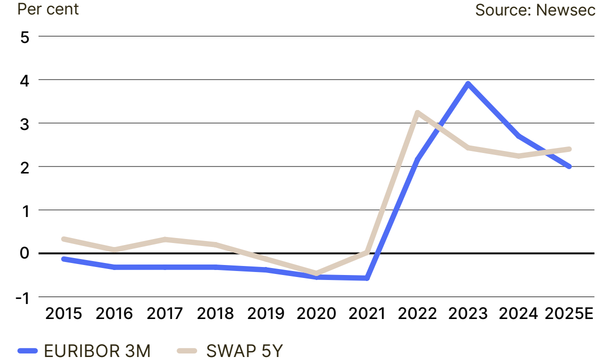
The Latvian property market
Identifying Opportunities

The Latvian economy in 2024 can be described as stable but stagnant, with GDP remaining flat compared to 2023. A rebound is forecast for 2025, with GDP growth projected at 2.6%. Increased government spending, driven by a growing budget deficit, and a moderate rise in consumer spending, supported by improving real incomes, helped the economy avoid a recession. Average annual wages are expected to grow by over 10% in 2024, aligning with a three-year average. While this growth supports consumer spending, high food and service prices continue to strain disposable incomes and slow faster economic progress. Financing needs in the economy remain acute, as Latvia's total credit portfolio accounts for just 29.5% of GDP, one of the lowest in the EU. In addition to lower interest rates, improved economic stability, greater predictability, and reduced inflation, the lending portfolio in Latvia grew by 5.4% among households and 3.7% among non-financial corporations. Net exports maintained upward momentum despite year-over-year export declines. Weak demand in major markets and unfavorable external conditions weighed heavily on manufacturing, reducing export volumes. High uncertainty, sluggish lending, and weak demand led to a 6.1% drop in private investment during the first nine months of 2024, reflecting broader economic challenges.

Economic Indicators



Interest Rates



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Interesting trends

Time for Local Capital to Play a Larger Role

In 2024, Latvia's commercial real estate market saw EUR 80 million in total investments, reflecting a continued slowdown. Key deals included Booking Group and Chemispec's acquisition of Unicentrs, Maxima's purchase of SC Dauga in Ogre, and Nuve Partners' acquisition of 11 Rimi grocery stores from Colonna. The market faces ongoing challenges, including high interest rates, a gap between buyer and seller yield expectations, and a shortage of prime assets. Institutional investors traditionally focused on the Baltics have also shifted attention to Poland. However, local investors have grown more active, particularly in suburban retail centers and smaller mixed-use developments in both Riga and secondary cities. As Latvia's economy improves, local capital is expected to drive market recovery alongside better financing conditions.

Low-Cost Rental Apartments to Boost Regional Economies

For decades, European cities have used rental apartment projects to promote development and increase affordable housing. In 2024, similar initiatives launched in Latvia, including projects in Jelgava and Valmiera supported by municipal subsidies. As migration away from Riga continues, rising housing prices and rental demand have made affordability a challenge. Secondary cities have seen little development, leaving housing stock outdated, costly to maintain, and energy inefficient. Over the next two years, Latvia plans more than 450 rental apartments, representing a EUR 43 million investment. These projects aim to attract skilled workers and support regional economic growth.

The Bigger the Projects, the Bigger the Challenges

Rail Baltica and Riga Waterfront are two of Latvia's most ambitious infrastructure projects but face major challenges. Rail Baltica, designed to connect the Baltic States with Europe, has suffered cost overruns, funding delays, and coordination issues. Despite setbacks, construction of the first track segment is expected in 2025. The Riga Waterfront project, aimed at transforming the city's port area, has faced criticism over financial feasibility, fragmented planning, and foreign investments linked to residence permits. Both projects could reshape Latvia's infrastructure and economy, but success depends on overcoming financial, regulatory, and coordination hurdles.

EUR 80 million
Total investment volume in 2024

EUR 200 million
Total investment volume expected in 2025

7.0%
Office prime yield expected in 2025

Macroeconomic and Property data

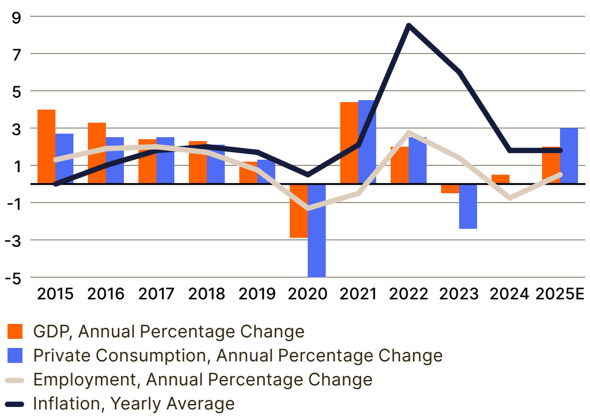
Macroeconomic Data

Sweden

Economic Indicators

Per cent

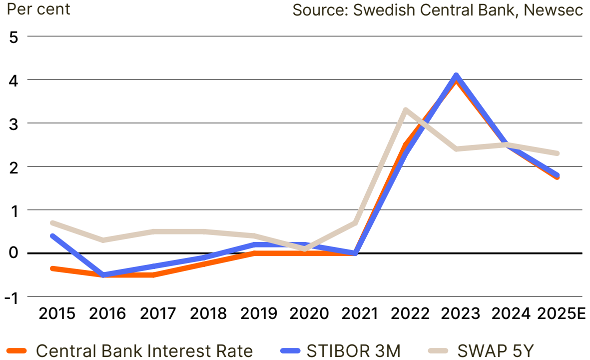
Source: Newsec



Interest Rates

Per cent

Source: Swedish Central Bank, Newsec

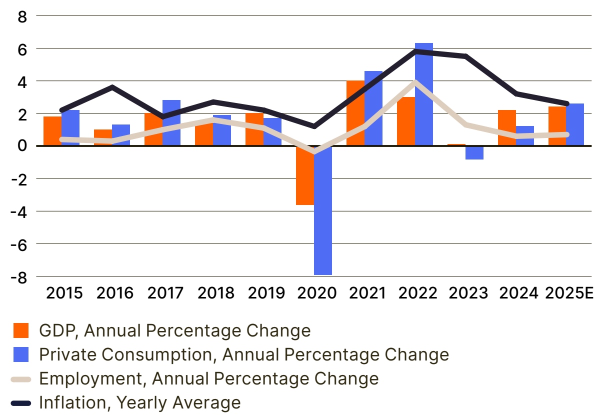


Norway

Economic Indicators

Per cent

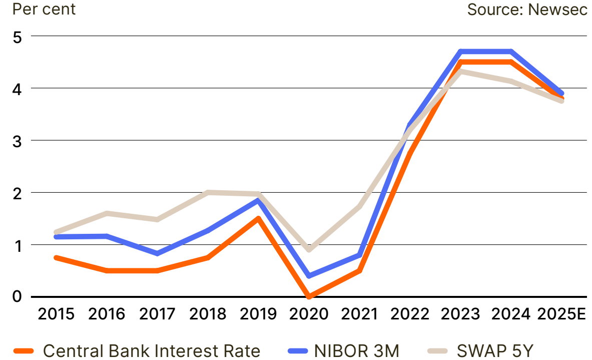
Source: Newsec



Interest Rates

Per cent

Source: Newsec

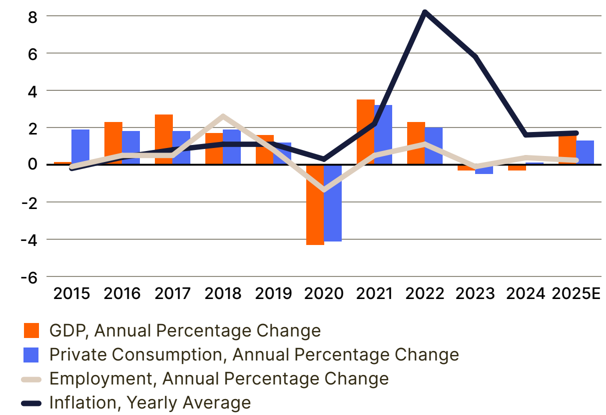


Finland

Economic Indicators

Per cent

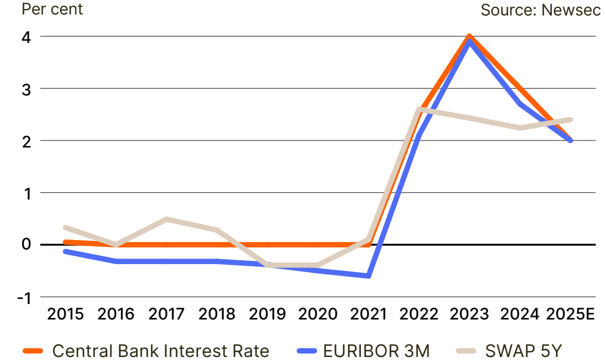
Source: Newsec



Interest Rates

Per cent

Source: Newsec



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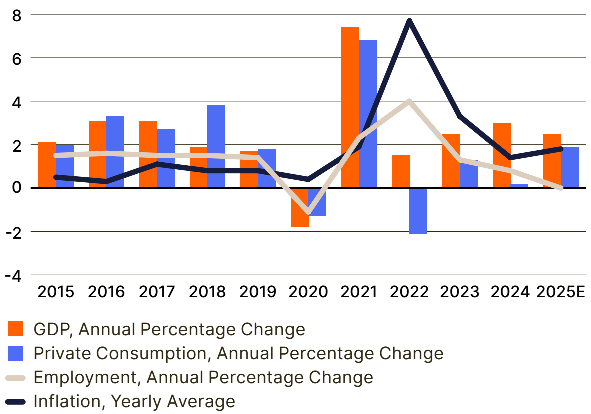
Denmark

Economic Indicators

Per cent

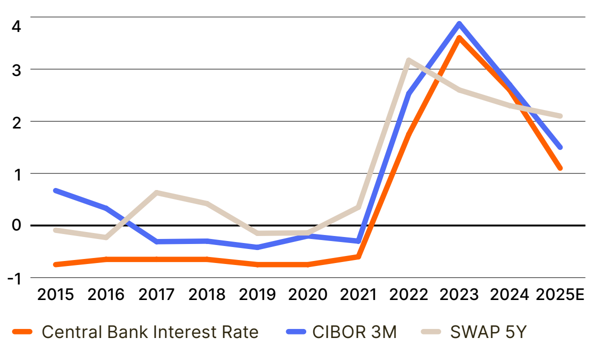
Source: Newsec



Interest Rates

Per cent

Source: Newsec

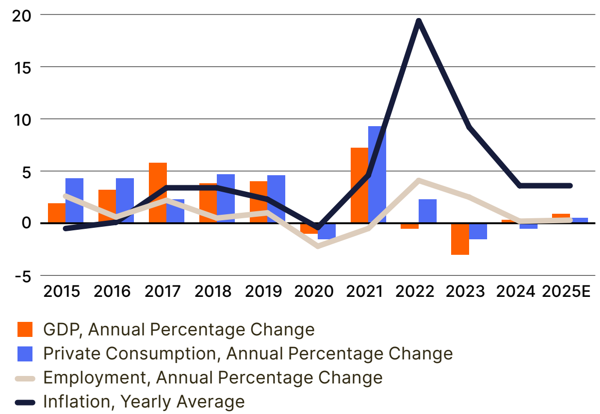


Estonia

Economic Indicators

Per cent

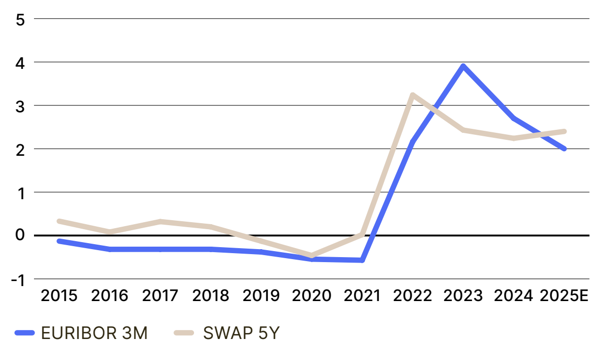
Source: Newsec



Interest Rates

Per cent

Source: Newsec

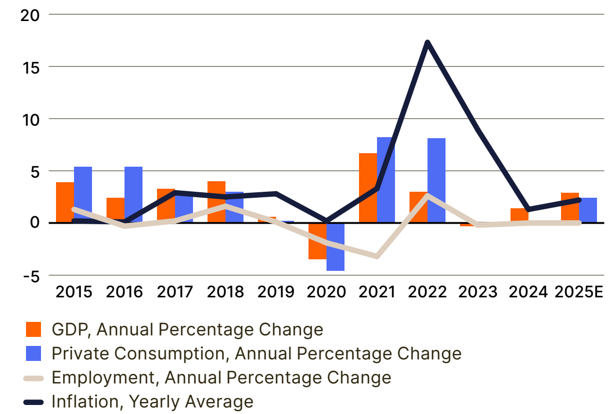


Latvia

Economic Indicators

Per cent

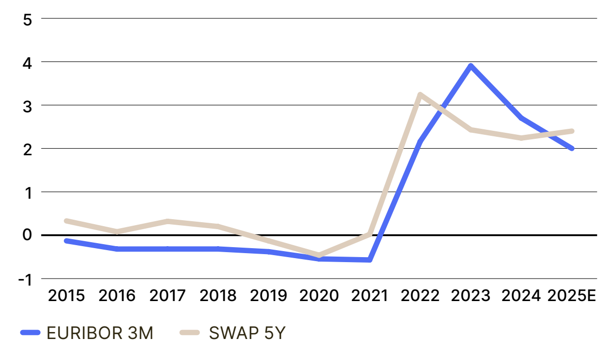
Source: Newsec



Interest Rates

Per cent

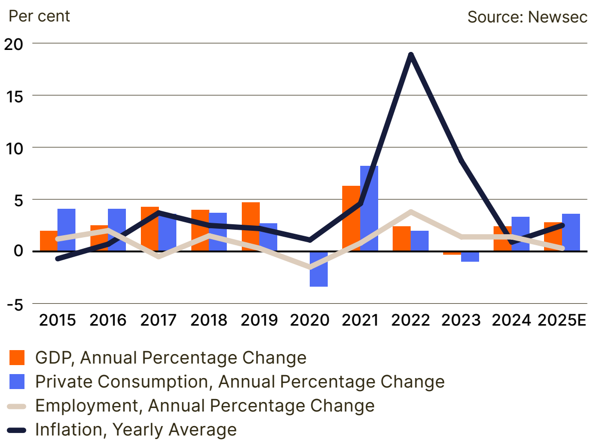
Source: Newsec



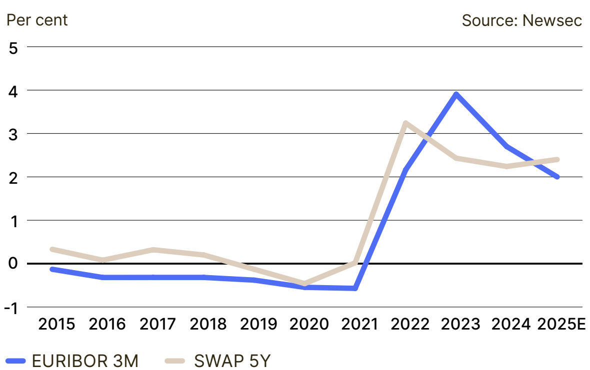
Macroeconomic Data

Lithuania

Economic Indicators

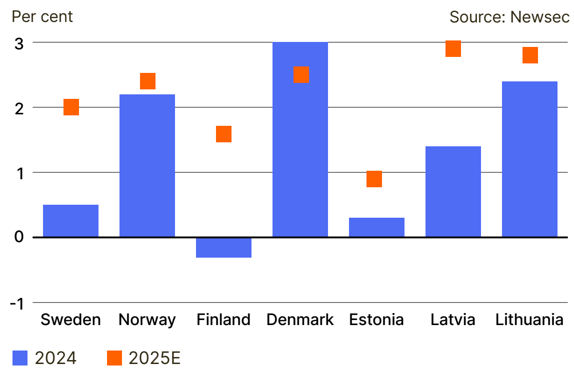


Interest Rates



GDP Growth

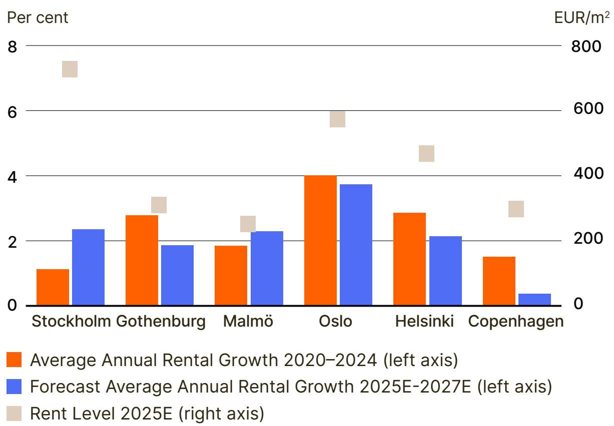
GDP Growth 2024–2025E



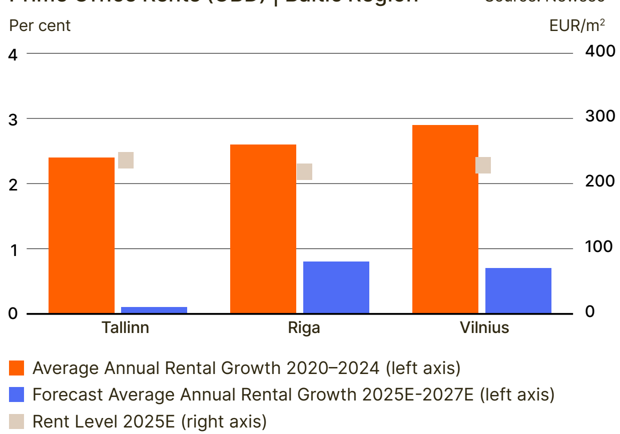
Property Data

Office rents

Prime Office Rents (CBD) | Nordic Region

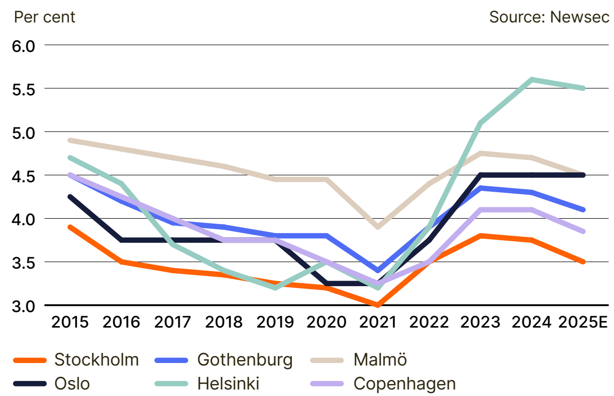


Prime Office Rents (CBD) | Baltic Region

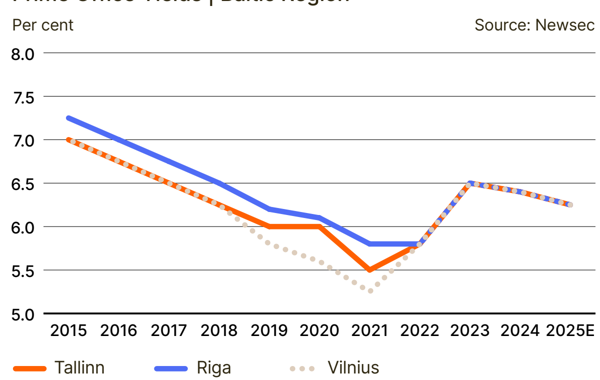


Office yields

Prime Office Yields | Nordic Region

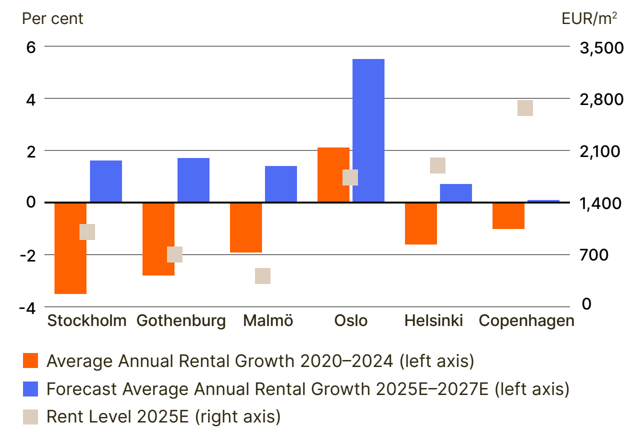


Prime Office Yields | Baltic Region

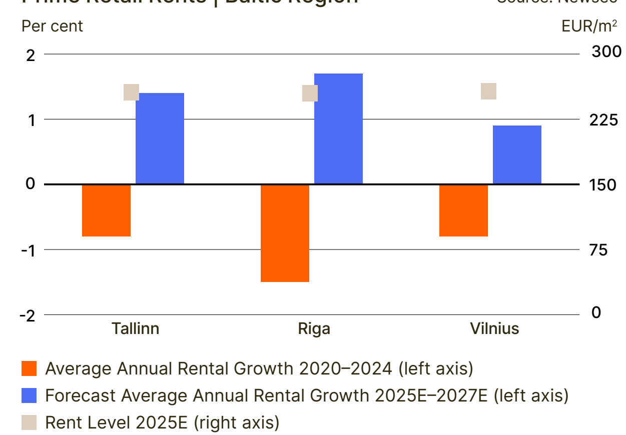


Retail rents

Prime Retail Rents | Nordic Region



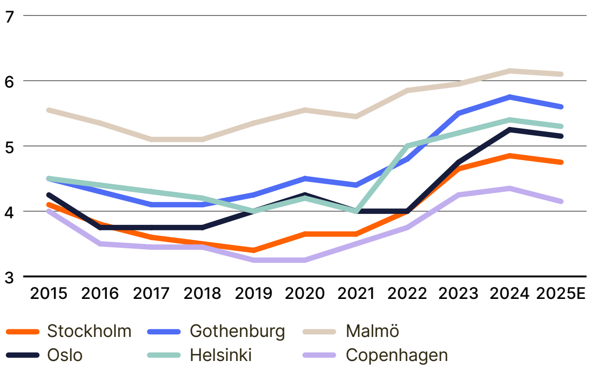
Prime Retail Rents | Baltic Region



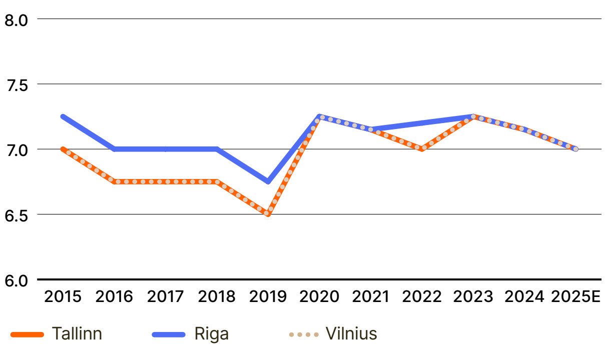
Property Data

Retail yields

Prime Retail Yields | Nordic Region

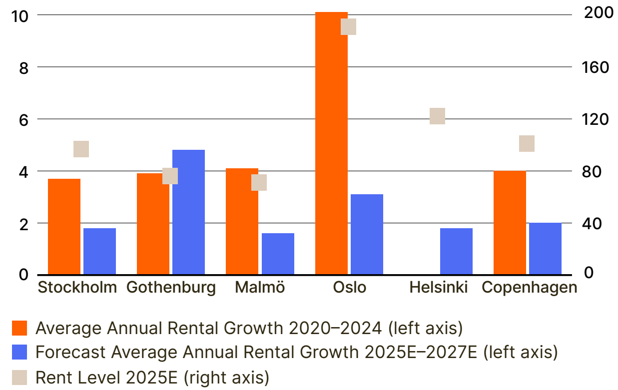


Prime Retail Yields | Baltic Region

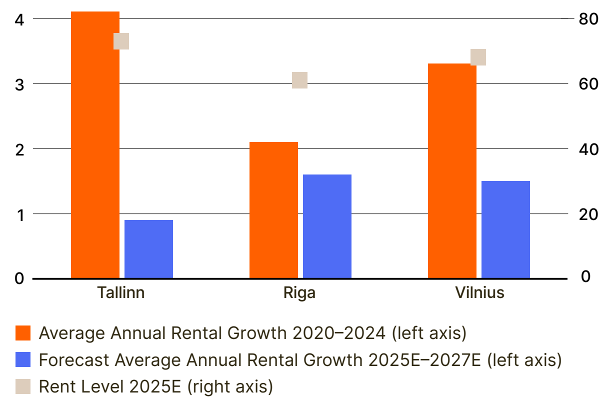


Logistics rents

Prime Logistics Rents | Nordic Region

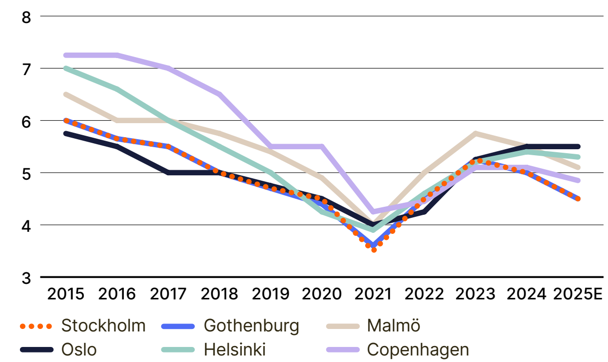


Prime Logistics Rents | Baltic Region

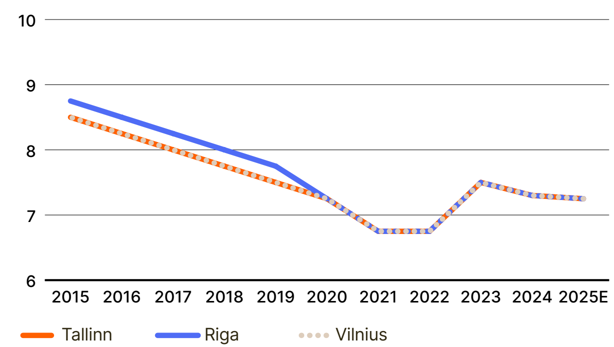


Logistics yields

Prime Logistics Yields | Nordic Region

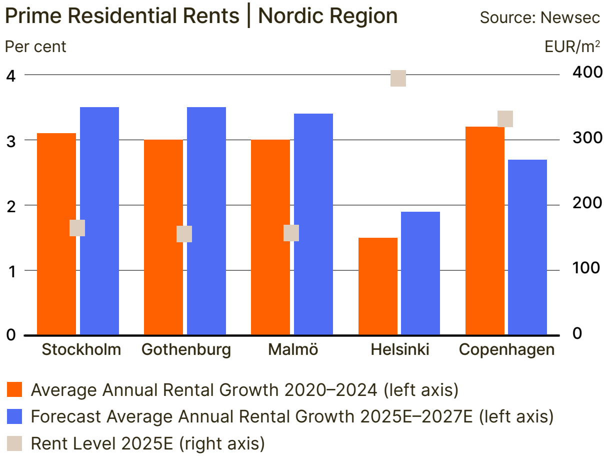


Prime Logistics Yields | Baltic Region

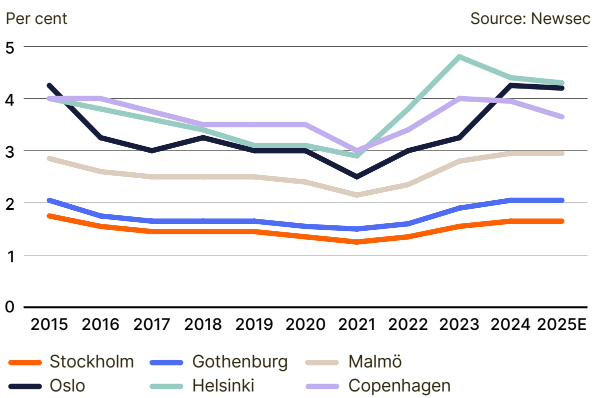


Residential

Prime Residential Rents | Nordic Region

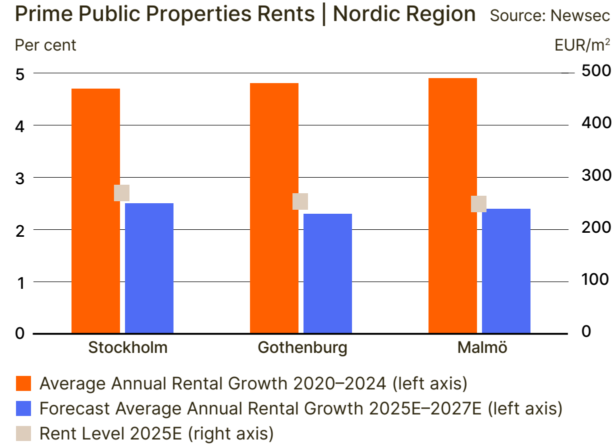


Prime Residential Yields | Nordic Region

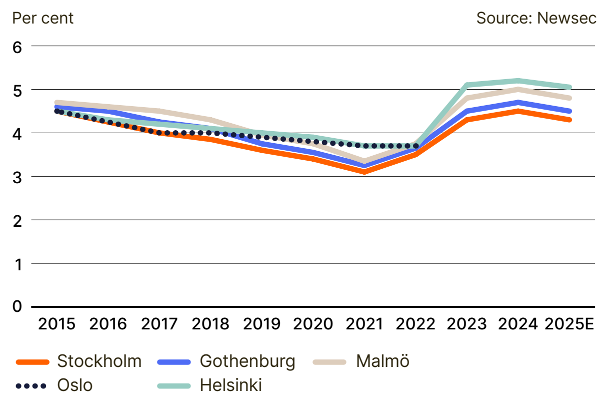


Public properties

Prime Public Properties Rents | Nordic Region

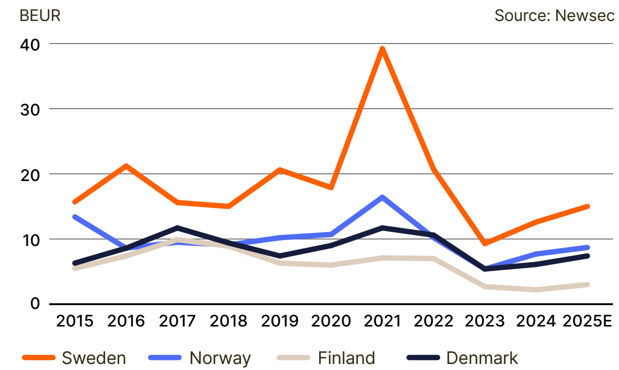


Prime Public Properties Yields | Nordic Region

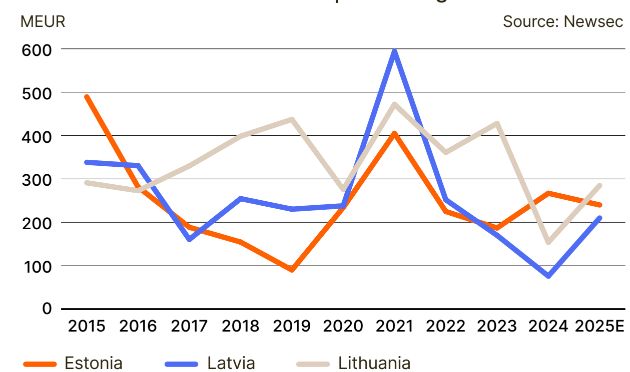


Annual transaction volumes

Transaction Volumes – Annual | Nordic Region



Transaction Volumes – Annual | Baltic Region



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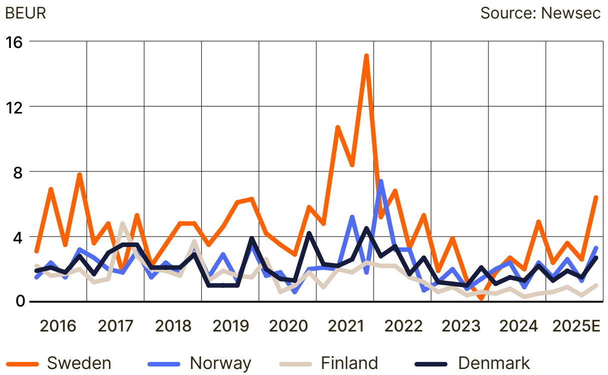
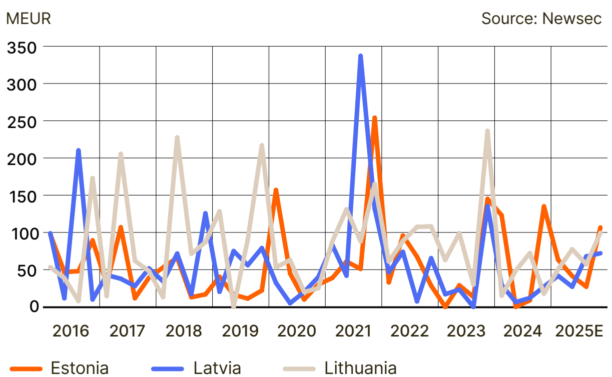
Property Data

Transaction volume

Transaction Volumes – Quarterly | Nordic Region

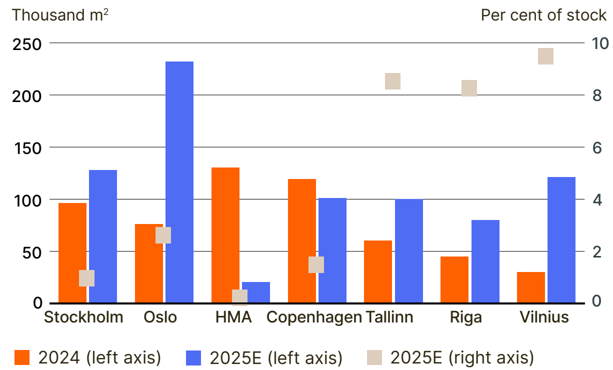


Transaction Volumes – Quarterly | Baltic Region



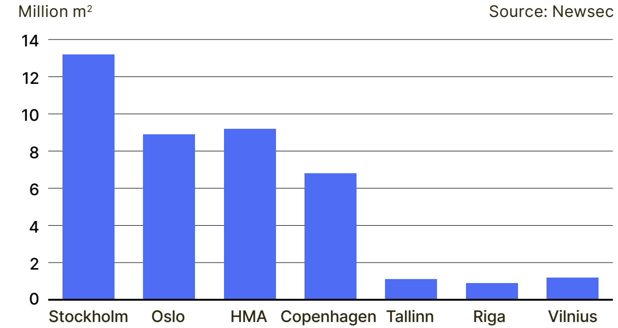
Office new construction

Office New Construction (Capital Office Market)



Office stock

Office Stock Q4 2025E (Capital Office Market)



Definitions

General

- All rents, yields and vacancies are end-of-year values.
- All forecasts are referring to nominal values.
- The rental levels are the most probable prime rent when signing a new lease agreement.
- All yield levels are referring to net initial yield.

Offices

- The forecast is referring to new/refurbished modern and flexible office premises with normal area effectiveness.
- The rents are referring to premises of at least 500 sqm.
- The rent is excluding heating and excluding property tax.

Retail

- The rents are referring to modern retail premises of 70–250 sqm.
- The rent is excluding heating and excluding property tax.
- The rents refer to prime areas with definitions by each country.

Residential

- The forecast is referring to attractive locations with an area of around 80 sqm.
- Definitions generally, as well as of new and old housing depend on the country.

Logistics

- The forecast is referring to warehouses and logistics premises.
- The rents are referring to premises of 5,000–10,000 sqm with a 10 year lease agreement.
- The rent is excluding heating and property tax.
- The rent refers to modern, newly built premises with a solid lease contract and tenant A properties.

Public Properties

- A public property is defined as a property used predominantly for tax-financed operations and specifically adapted for community service. In this document, public properties are limited to schools (pre-schools and primary schools), hospitals, and elderly care homes.
- The market data refers to public property premises of normal to modern standard with normal space efficiency.
- The market rent refers to the rent excluding supplements.

Exchange rates

All rents and transaction volumes are calculated using the average exchange rates in 2024.

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Market Report Office

Market Report Residential

Market Report Retail

Market Report Public Properties

Market Report Construction Rights

Market Report Logistics

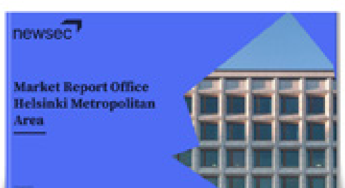
Market Report ESG

Market Report Nordic Market

Market Report Projects

Market Report Future Growth Markets

Finnish market reports



Market Report Office

Market Report Residential

Market Report Logistics

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