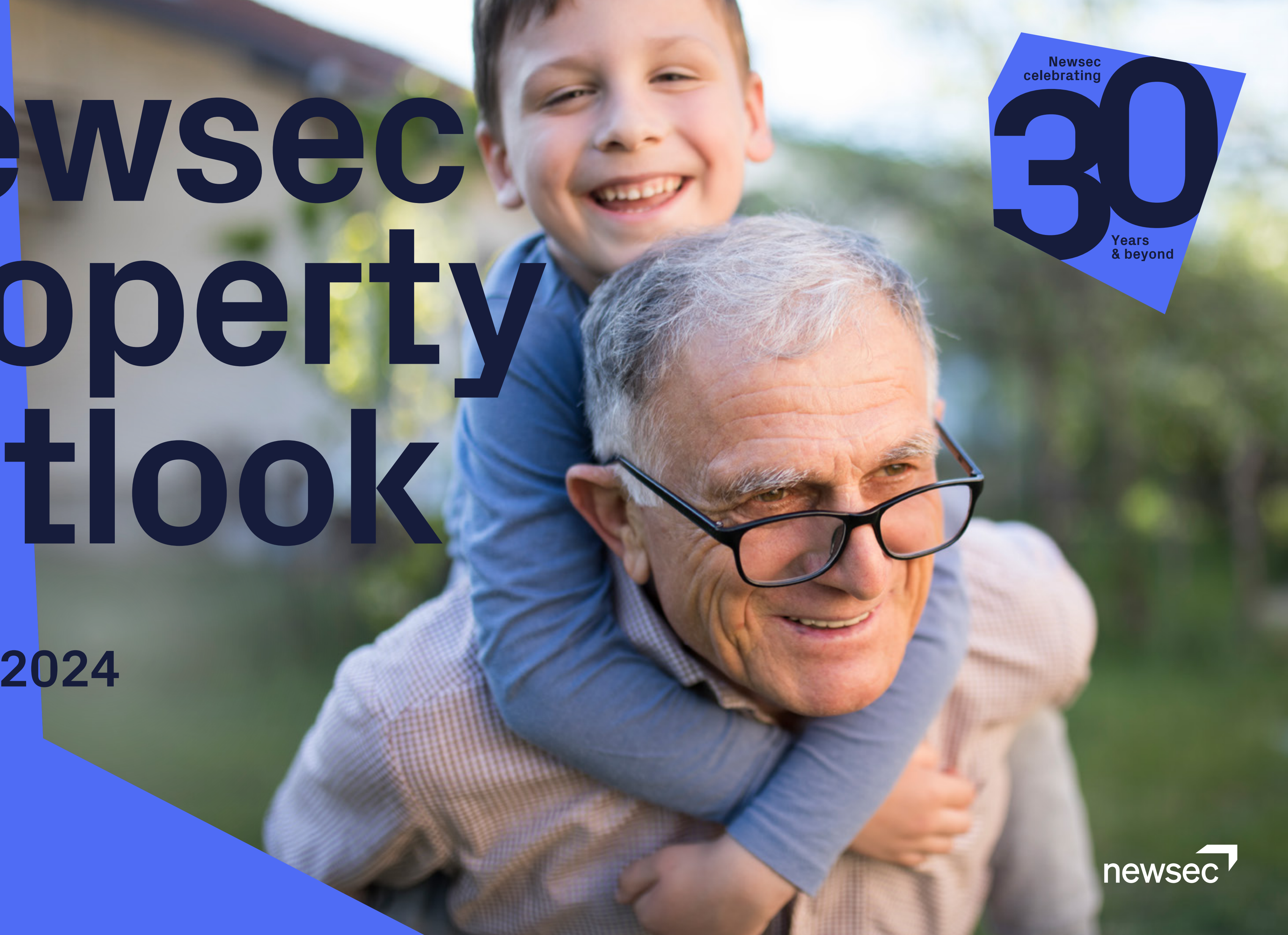
Newsec property outlook

Autumn 2024



Newsec celebrating 30 Years & beyond

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Unlocking opportunities in real estate

As we enter the autumn season, it's a moment to reflect on and anticipate the future course of the real estate market. I am pleased to present this edition of the Newsec Property Outlook, where we explore the demographic trends reshaping the Nordic and Baltic regions. These shifts, while challenging, offer significant opportunities for those who are prepared to adapt and innovate.

The real estate industry is undergoing a profound transformation, driven by demographic changes that challenge long-standing assumptions. From declining birth rates and aging populations to evolving migration patterns, the industry must navigate these new realities with agility and foresight. The demographic contrast between the Nordic and Baltic countries is particularly striking. While Norway and Sweden have historically seen steady population growth, the Baltic states have experienced significant declines. However, 2023 has brought unexpected developments that signal potential shifts in the market.

Globally, many regions, including Latin America and Asia, are also facing decreasing population growth, which adds another layer of complexity. Hans Rosling, a renowned Swedish physician, statistician, and global health expert, highlighted these trends in his book Factfulness. Rosling, known for his ability to make complex data accessible and engaging, emphasized that while population growth is slowing, the implications for economic development and societal structure are profound. As lower fertility rates and changing immigration policies create both challenges and opportunities, those who can anticipate and respond to these changes will be at an advantage.

Immigration remains a central driver of demographic change. The Nordic countries have seen substantial immigration, boosting population growth and diversifying the workforce. Conversely, the Baltic countries, traditionally known for high emigration rates, are now experiencing positive net immigration, suggesting a potential reversal of past trends and new avenues for growth.

Challenges associated with immigration are multifaceted, involving social integration, housing affordability, and infrastructure development. Addressing these issues directly is essential, as effective solutions can unlock the immense potential that immigration can bring. By fostering inclusive communities and investing in sustainable development, we can transform these challenges into opportunities.

The trend of internal migration within countries reveals new patterns. Smaller cities and regional areas are emerging as attractive alternatives to capital cities, driven by factors like remote work and lifestyle preferences. This shift opens new investment possibilities in areas previously overlooked, underscoring the need for a broader perspective when considering property investments.

It is clear that flexibility and adaptability are key to navigating these demographic challenges. The real estate market must embrace change, finding innovative ways to meet the evolving needs of populations. At Newsec, we are committed to providing the insights and guidance necessary to capitalize on these opportunities. By understanding the nuances of demographic trends, we can better position ourselves in this industry.

Max Barclay
CEO, Newsec

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Newsec, Box 7795, SE-103 96 Stockholm, Sweden.
Phone + 46 8 454 40 00, www.newsec.se.

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Nervous Normalisation

The global economy has been reeling from different economic shocks: Pandemic, war, inflation, interest rates. Now, a process of normalisation is here. This should support the revival of the real economies of the Nordics and the Baltics, as well as their property markets. However, the "new" normal will not be the same as the old, and geopolitical risks are all around.

Klas Eklund, Chief Strategist at Dahlgren Capital

Inflation back to target

Last year was dominated by high inflation and high interest rates – and a tug of war between markets and central banks. This year, inflation has come down and is now close to the inflation targets in most Western regions. As a result, central banks have started cutting key rates and market rates will follow.

The process has not been without strains. In particular, inflation has been sticky in the US, and markets – as well as the Fed – have fluctuated for a long time. Uncertainty about the future made both policy and markets extremely data dependent, totally focused on recent inflation numbers. As a result, the Fed has see-sawed and bond markets have been volatile.

Now, however, inflation seems to be stabilising close to inflation targets, both in the US and the Euro Zone. Thus, central banks can be more comfortable as regards inflation and redirect their attention to unemployment and the real economy. This means rates will come down. This holds both for the US, the Euro Zone and the Nordic/Baltic region. The speed of rate cuts will differ; the consensus view is that the Fed Funds rate will fall by around 2 percentage points until next year, while ECB's key rate will be lowered by around 1½ percentage points. Sweden will move a little bit faster than the ECB while Norway will wait.

The big question mark is the US. Historically, a large drop of the inflation rate has been followed by recessions. A number of other indicators – labour market, yield curve etc – also indicate heightened recession risks. However, since the inflation spike this time to a large extent was caused by supply side problems, the fall in inflation was mainly caused by those base effects disappearing, not by monetary tightening. This makes it possible to avoid a hard landing. The consensus view is thus a soft landing for the US. Europe does not face the same risks; here the task is rather to accomplish a low upturn from several weak years.

Political risks

Rates will not fall back all the way to where they were before the pandemic hit. The new normal is an environment with more protectionism, supply-side disturbances, green transition costs and dangerous political risks. Thus, cost pressures will be higher.

In the Mid-East, escalation could mean higher oil prices. So far, this has not happened, but the risks remain. The region remains a powder-keg. Also, the Russian war in Ukraine continues to exert strains on European energy, food prices and defence costs.

The American presidential election is as of now a toss-up. A Trump presidency may imply an increasing Russian threat against Europe. The economic risk of a Trump victory is a new round of tariffs and other protectionist measures, hurting the small open economies in North-East Europe. Furthermore, his election promises of deporting illegal immigrants could lead to labour shortages and wage inflation. A Trump victory could consequently imply higher rates and a stronger dollar – but the candidate himself has stated he prefers a weaker USD. Here looms a great uncertainty with possible conflict between the Fed and the White House.

A Harris presidency would probably entail less such risks. However, none of the candidates seems willing to tackle the increasing American government debt. Thus, we cannot exclude that debtors some time in the future will demand a higher price to fund America.

Financial markets

The underlying trend of low inflation and falling interest rates should give support to both property markets and stocks. However, valuations are high and the strong equity performance has been largely driven by a few big tech companies. This makes equity markets sensitive – which was driven home early August when the combination of weak

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American data and a Japanese key rate hike which – at least temporarily – killed off the yen carry trade.

This may look like an aberration. But I think it is best to be a bit careful. The yen trade was a product of the period of ultra-low rates. There may be other strategies which will fail in the new normal. Nervousness surrounding future tech profits can also unleash volatility and market corrections.

Bond markets should be better behaved, but also here we have seen uncommon volatility. Even the biggest and supposedly best-functioning financial market of all – the American treasury market – has gyrated wildly, driven by focus on new data and herd behaviour.

All in all, financial markets are still searching for new equilibria after the shocks of recent years.

The same goes for property markets, where different segments have been hammered in different directions by pandemic, technology and of course the inflation and rate shocks. In the US, housing is setting new price records, while the development in Europe has been more subdued. Offices have been hit by new work from home-patterns after the pandemic, and retail is hurt by e-commerce. The general trend of lower rates and economic recovery should give general support to the property sector in the Nordic and Baltic region, albeit with some differences between countries.

The Nordics

Growth in Europe has been sluggish. The two biggest economies – Germany and the UK – suffer from numerous structural ailments and no clear improvement is visible. Both will grow much slower than the Nordic and Baltics in 2025. The Euro zone, albeit dragged down by Germany, will gradually improve in 2025, courtesy of healthier growth in Southern Europe. The Nordics have fared differently, to a large extend because of differing export performance. During the coming year, Finland will grow on par with the Euro Zone average, while its three Nordic neighbours all are set to outpace the continent.

Denmark

Denmark is the best-performing economy in the Nordic region, with GDP growth between 2 and 2½ per cent 2023–24 (albeit some volatility between quarters) and accelerating to 3% in 2025–26. The upturn is broad-based. Growth in recent years has been largely export-driven (in particular by pharma success); export volume has increased by more than 40 per cent since the trough during the pandemic! Private consumption is now picking up speed as inflation has fallen and real wages grow again. Unemployment has peaked and will fall. At the same time, trade is showing a hefty surplus as is the public sector.

Since Denmark runs a credible fixed exchange rate regime, the National bank will continue its strategy to shadow the ECB. The key rate will consequently fall, which will support housing. Demand for commercial real estate has held up well and transaction volumes have increased in the first half of 2024. Construction has bottomed out and a slow increase will follow. All these positive factors should attract foreign interest.

Norway

Investments in oil and gas have grown impressively, but the rest of the economy has been anaemic for the past two years. Mainland GDP has been more or less stagnant, held back by pessimistic consumers and weak construction. As in the other Nordic countries, real wages and consumption have been hurt by inflation. Now, as inflation comes down, real wages will gradually recover, which will help GDP growth.

However, inflation is still higher than in the other Nordic countries. Norway remains a country with relatively high inflation. The krone has weakened, which causes imported inflation and is a headache for monetary policy. The labour market is tight, which is pushing up nominal wages. Cost pressure is high. Norges Bank is therefore a laggard when it comes to rate cuts, but it will make up some lost time during 2025. The property market has been uncharacteristically weak, but should consequently improve.

Sweden

The Swedish economy has been stagnant for more than two years. Construction has collapsed. Swedish households are more sensitive to interest rates than their neighbours, since they rely more on floating rates. Thus, the tightening of monetary policy the past two years was a heavy blow to private consumption. Fiscal policy has not helped either, as the government has stuck to the old budget norms, aiming to reduce public debt. As a result, households have been pessimistic, cut down consumption and increased precautionary savings.

This is now about to change. The Riksbank was early out of the starting blocks and will continue to cut rates both this year and next. Thus, the interest rate sensitivity of households will turn into an accelerator for growth. Tax cuts and infrastructure investment will make fiscal policy more expansionary as the old norms loosen. Real wages are turning up and private consumption will follow with a strong recovery in 2025. Housing prices will gradually turn up, but the shrunken construction sector will take time to recover. As interest rates fall, optimism will return to the property markets. Transaction volume should increase sharply.

“All in all, financial markets are still searching for new equilibria after the shocks of recent years”

"The inflation spike is over, and interest rates will come down."

Finland
The Finnish economy has been struggling, recording negative GDP growth both in 2023 and in 2024. The reasons are both structural and cyclical. Fiscal policy is tight, aiming to improve the weak state budget. Compared to the other Nordic countries private consumption has been less hampered by inflation. Instead, the main obstacle to growth has been a fall in exports. In particular, trade with Russia has shrunk by more than two thirds after the Russian invasion. However, improving export orders indicate that exports will grow again next year.

The worst hit part of the economy has been construction. However, lower interest rates should contribute to a gradual turnaround next year. Since Finland is part of the Euro zone, the key rate is set by the ECB and will fall more slowly than in Sweden, but faster than in Norway. Rate cuts will give support to real estate. Transactions volumes will grow.

The Baltics

The Baltic economies were hit hard by the Russian invasion of Ukraine, which pushed all of them into recession in 2023. However, wage increases were high in all countries, meaning that real wages never took the deep dive they did in their Nordic neighbours. The turnaround to better times is fastest in Lithuania, slowest in Estonia. In 2025, all three should be growing by some 2½–3 percent.

Lithuania
Manufacturing and trade contracted in 2023, in the wake of the Russian aggression. But this year both have recovered. Private consumption is increasing rapidly, courtesy of high wage increases and falling inflation. Household optimism is strong – much more than in the neighbouring countries. Since the key rate is set by the ECB and reflects the economy for the Euro Zone as a whole, it will be lowered despite the strong upswing of the Lithuanian economy. In this environment, property markets should pick up, with higher prices and more deals.

Latvia
Just like in Lithuania, GDP contracted in 2023. Exports are weak, but just like in Lithuania, real wages were bolstered by nominal wage increases. Private consumption has nonetheless been held back by rising savings. Energy costs have also been a dampener. GDP has been volatile during 2024. Inflation is falling, but is sticky in the service sector. As interest rates come down, courtesy of the ECB, optimism should recover, however. Geopolitical uncertainty restrains investments, but military spending is rising. Construction is humming along. In total, the economy should pick up speed despite some remaining export problems.

Estonia
Estonia follows a similar pattern as its neighbours, but at a lower level; the recession has been the deepest in EU. Weak exports and manufacturing have been weighing on growth while high wage increases have kept up real wages. Labour market costs are high, which is detrimental to competitiveness. Estonia's weak performance in recent years has also been affected by tight fiscal policy, needed to sanitize the budget deficits. Both consumption taxes and income taxes are to be hiked, not least to pay for defence spending. Inflation is stickier than in the other Baltic states, partly because of the rise in VAT. But the key rate cuts from ECB will take effect also here. GDP will finally pick up in 2025, but real strength will not return until 2026.

All in all

The economic pattern is similar in most countries. The inflation spike is over, and interest rates will come down. Real wages are increasing again. This will help private consumption, which has suffered in most countries. It will also support real estate; housing as well as commercial real estate.

This is some kind of return to normalcy after several years tainted by severe economic and political shocks.

This is the general picture also in the Nordic and Baltic countries, albeit with some differences.

- The Baltics have not suffered as strong a private consumption setback as the Nordics, courtesy of high nominal wage increases. However, their industrial sectors were harder hit by the Russian aggression.
- Among the Nordics, Denmark has been the most resilient and stable economy. Finland has been the laggard. Sweden has performed badly, yet has the chance to experience a strong upswing. Norway's inflation is stubborn and Norges Bank will be the slowest of the central banks to cut rates.

But this "return to normalcy" is not assured. Uncertainty, nervousness and herd behaviour can cause sharp volatility in financial markets. Central bank plans may be confused by markets running ahead of themselves. But above all, the global geopolitical risks can once again cause havoc. A major war in the Mid-East, a continued war of attrition in Ukraine, Chinese threats against Taiwan, a French-German rupture or a new wave of American protectionism – there are so many threats that may upset the longed-for normalcy. And personally, I fear that many market actors have become so used to threats that they underestimate the damage that can be done in a really dangerous development.

So, the general picture painted here is prone to accidents. Even so, the Nordic-Baltic region seems better placed than many other in this uncertain environment.

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From Big Short(age) to Big Shift:

Redefining Real Estate Through Demographics

Photo: Johnér

The real estate market in the Nordic and Baltic countries is on the verge of significant transformation. Demographic shifts are challenging long-held assumptions and redefining the property landscape. With a more uncertain population growth, low fertility rates, and changing migration and immigration patterns, the industry must adapt to new realities which will bring both challenges and opportunities.

In this edition of the Newsec Property Outlook, Newsec delves deeper into these demographic trends and explores their implications for the future of the real estate market.

> "Norway and Sweden, in particular, have seen the most significant growth in total, with both populations increasing consistently"

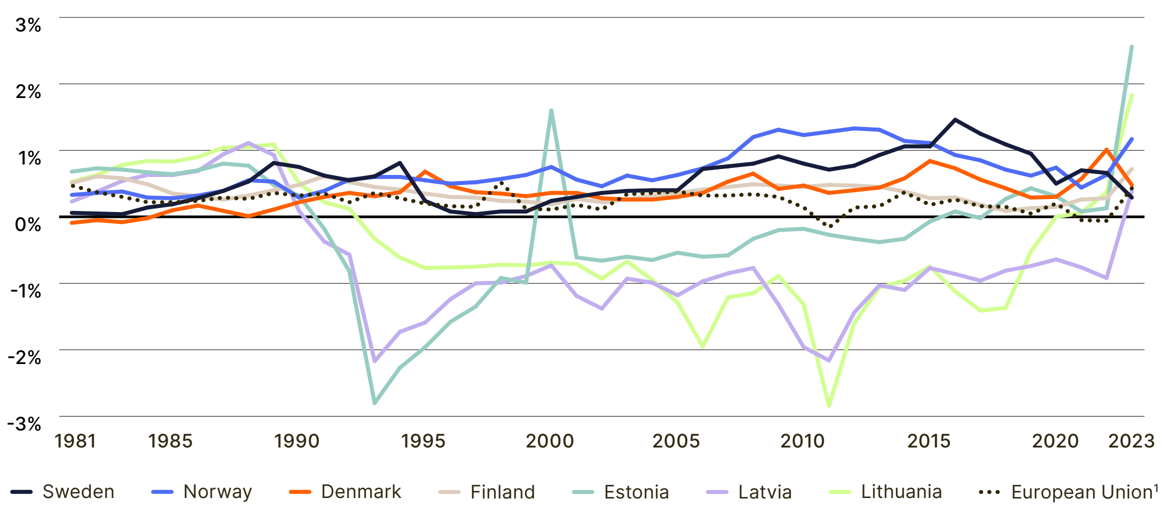
Divergent demographics: from Nordic growth to Nordic decline?

The population growth trends from 1980 to 2023 reveal a notable divergence between the Nordic and Baltic countries, as seen in Exhibit 1 and 2. Over this period, the Nordic countries have generally experienced steady and positive population growth, with annual growth rates in line with or stronger than the European Union[1]. Norway and Sweden, in particular, have seen the most significant growth in total, with both populations increasing consistently, especially from the early 2000s. Denmark has shown substantial growth, while Finland has had some fluctuations over the years, but with relatively strong growth overall.

In contrast, the Baltic countries have faced more challenging demographic trends. Latvia and Lithuania have seen significant population declines, particularly from the 1990s onwards, primarily due to high emigration rates and lower birth rates. Estonia, on the other hand, has managed to maintain a more stable population compared to its Baltic neighbors, though it still faces issues of population decline. Compared to the European Union[1], the Baltics have generally shown weaker annual growth rates from the 1990s onward.

Focusing on the more recent years from 2019 to 2022, characterized by the pandemic, geopolitical conflicts and economical challenges, the regional disparities are further highlighted. The Nordic countries continued to experience robust population growth, with Sweden and Norway leading the way. Conversely, the Baltic states, particularly

EXHIBIT 1:
Annual population growth 1980–2023



Note:
The noticeable population increase in the year 2000 in Estonia is attributed to a retrospective recalculation carried out in 2014 for data from 2000–2013. According to Statistics Estonia, some individuals were not counted in the 2000 census. At that time, the data could not be revised due to the absence of reliable registers.

EXHIBIT 2:
Total population growth 1980–2023

Country	Total population growth 1980–2023
Norway	+34.57%
Sweden	+26.85%
Finland	+17.04%
Denmark	+16.38%
European Union[1]	+10.70%
Estonia	-7.22%
Lithuania	-16.07%
Latvia	-24.94%

Latvia and Lithuania, continue to struggle with declining populations.

However, 2023 was a year marked by significant contrasts from the historical trends, as illustrated in Exhibit 3. It was a particularly positive year for Finland, which recorded its highest population growth in 70 years. This is in complete contrast to Sweden, which had its weakest population growth in more than 20 years. Norway also experienced strong growth, while Denmark saw stable yet declining growth.

EXHIBIT 3:
Population growth in 2023

Country	Population growth in 2023
Estonia	2.56%
Lithuania	1.83%
Norway	1.17%
Finland	0.72%
Denmark	0.48%
European Union[1]	0.43%
Latvia	0.39%
Sweden	0.29%

For the Baltic countries, 2023 shows a clear improvement compared the historical trends, and Latvia saw a positive growth for the first time in 30 years. Both Estonia and Lithuania displayed significantly higher growth rates than usual in 2023. Although these countries are still facing demographic challenges, the improved growth rates this year provide a glimmer of hope that a more positive demographic trend could be established.

Many population forecasts have been revised downwards due to recent developments such as lower fertility rates and stricter immigration policies. However, it remains uncertain whether 2023 represents a new trend or simply a temporary anomaly. Despite slower growth in some Nordic countries in 2023, the region remains strong compared to the rest of Europe and globally, where many countries are experiencing population decline or only marginal growth. Early indications for 2024, however, indicate that population growth in Sweden may be very weak – though there are also administrative/ statistical reasons for this weaker growth.

Photo: Folio

Low fertility rates signal potential challenges

The historical differences in population growth are partly due to fertility rates within the Nordic countries generally being higher than in the Baltics and the European Union[1]. However, there has been a gradual and clear decline in all Nordic countries between 2003 and 2023, shown in Exhibit 4 and 5. Finland has been the worst performer, where the fertility rate has dropped by almost 30%, making it the country with the lowest fertility rate in the region. Contrastingly, the Baltic countries display an upward trend in fertility rates over the same period. Estonia has shown a positive shift, alongside Latvia. Lithuania stands out with a notable 14% increase in fertility rates. Despite this rise, the fertility rate in 2022 remained nearly as low as it was in 2003, indicating that the 2023 figure could be a temporary snapshot.

As of 2023, all the Nordic and Baltic countries as well as the European Union[1], are at a fertility rate below or at 1.5 with Denmark in the top and Finland in the bottom at 1.26. In comparison to the rest of Western Europe, these fertility rates are somewhat surprisingly lower than those in countries like France (1.68). The considered replacement level, i.e. the level necessary for a population to replace itself in the long run, is 2.1. This shows that the Nordics, the Baltics and the European Union[1] overall have challenges ahead. The global trend is however generally declining fertility rates, where even many Asian and African countries have experienced significant drops.

EXHIBIT 4:
Fertility rates 2003–2023*

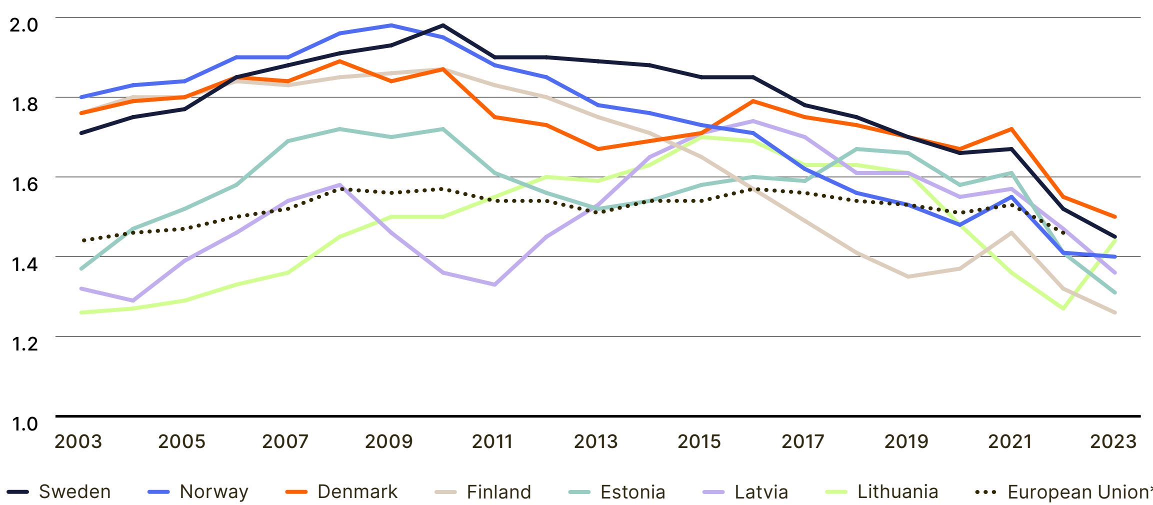


EXHIBIT 5:
Percentage change in fertility 2003–2023

Country	Total population growth 2003–2023
Sweden	-15.20%
Norway	-22.22%
Denmark	-15.00%
Finland	-28.41%
Estonia	-4.14%
Latvia	+3.03%
Lithuania	+13.97%
European Union (2003–2022)*	+1.39%

*Fertility rate for the European Union has not yet been released for 2023

Immigration – a driving force behind Nordic and Baltic demographic changes

Another factor that has affected population growth is immigration. From 2003 to 2023, the Nordic countries, particularly Sweden, experienced substantial increases, peaking in 2015 during the European migrant crisis (see Exhibit 6).

This influx has been driven largely by asylum seekers and labor migrants. Though Sweden has accepted most asylum seekers, overall immigration rates per capita have been similar to Norway and Denmark over time. Finland, while experiencing lower immigration rates compared to its Nordic counterparts, has shown a steady increase over the years.

The Baltic countries have generally seen lower immigration rates, with Estonia leading among them. Historically, these countries have been known more for emigration rather than immigration since the fall of the Berlin wall, as seen in exhibit 6. However, recent years have seen a reversal of this trend with all Baltic countries experiencing positive net immigration, potentially supporting continued population growth.

The differences in immigration between the Nordic and Baltic countries are partly due to political and societal changes both within these regions and globally. The countries of origin for immigrants reflect these changes to some extent. As shown in Exhibit 7 on the following page, the Nordic countries saw a significant influx of immigrants due to geopolitical conflicts in 2013, with Poland as an exception. Poland was a major origin of immigrants across the Nordics, primarily because of economic opportunities and close geographical location. The Baltic countries in 2013 primarily attracted immigrants from neighboring countries like Russia, Ukraine, and Belarus, reflecting historical ties and regional proximity.

"Though Sweden has accepted most asylum seekers, overall immigration rates per capita have been similar to Norway and Denmark over time"

EXHIBIT 6:
Annual net immigration 2003-2023

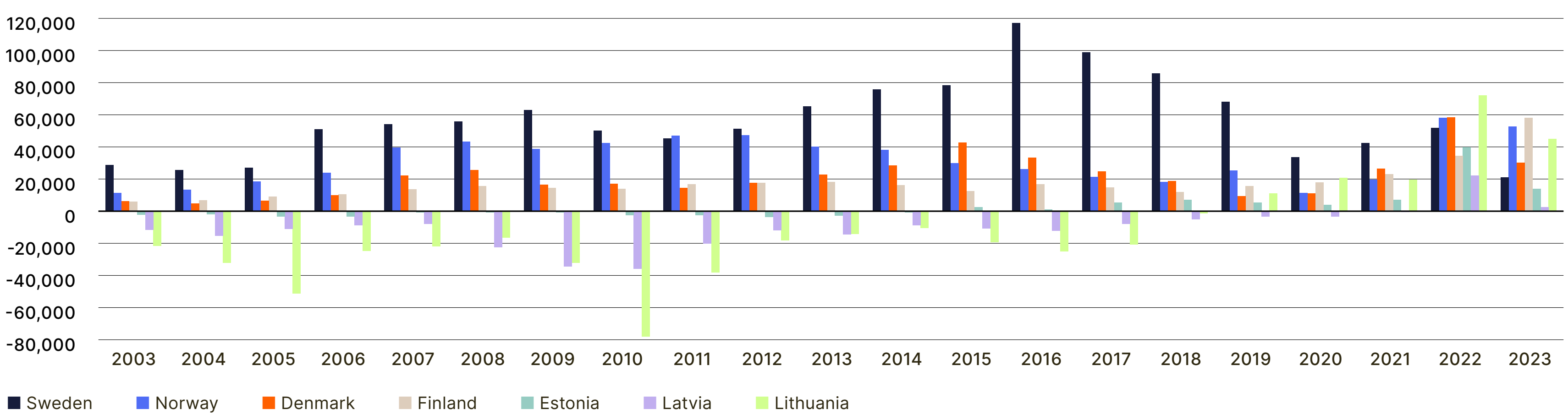


EXHIBIT 7:
Most common countries of origin for immigrants (number of immigrants).*,**

	Top five immigration origin countries 2013	Number of immigrants 2013	Top five immigration origin countries 2023	Number of immigrants 2023
Sweden	Syria	14,397	India	7,480
	Somalia	10,869	Poland	4,438
	Poland	4,677	Germany	3,795
	Afghanistan	3,801	Syria	3,063
	Iraq	3,205	China	2,787
Norway	Poland	10,502	Ukraine	32,935
	Lithuania	5,573	Poland	6,444
	Sweden	5,271	Syria	3,116
	Philippines	2,815	Lithuania	2,341
	Somalia	2,765	Sweden	2,242
Denmark	Poland	2,219	Germany	2,327
	Syria	1,616	Ukraine	2,061
	Bulgaria	1,048	Poland	1,841
	Iran	889	Iran	1,839
	Lithuania	752	Nepal	1,830
Finland	Estonia	6,285	Ukraine	19,604
	Russia	2,901	Russia	4,307
	Sweden	2,681	Sri Lanka	3,158
	Spain	1,151	India	2,831
	United Kingdom	1,061	Philippines	2,564

EXHIBIT 7 CONT.

	Top five immigration origin countries 2013	Number of immigrants 2013	Top five immigration origin countries 2023	Number of immigrants 2023
Estonia	Russia	872	Ukraine	12,563
	Ukraine	340	Russia	2,168
	USA	94	Finland	587
	Finland	70	Latvia	440
	Latvia	56	Germany	436
Latvia	Russia	1,031	Ukraine	4,782
	Ukraine	260	India	1,241
	Germany	241	Uzbekistan	750
	Belarus	172	Russia	686
	Lithuania	131	Belarus	374
Lithuania	Russia	1,292	Belarus	14,821
	Belarus	867	Ukraine	9,918
	Ukraine	848	Russia	2,824
	United Kingdom	693	Kazakhstan	1,695
	Ireland	193	United Kingdom	1,023

*Some discrepancies in the numbers can occur following administrative errors or differences in data collection methodologies.

**Ukrainian refugees are not included in Sweden's official statistics but amounted to approximately 12,000 people in 2023

> **"Over the past 5–6 years, all Nordic and Baltic capital cities experienced negative net internal migration"**

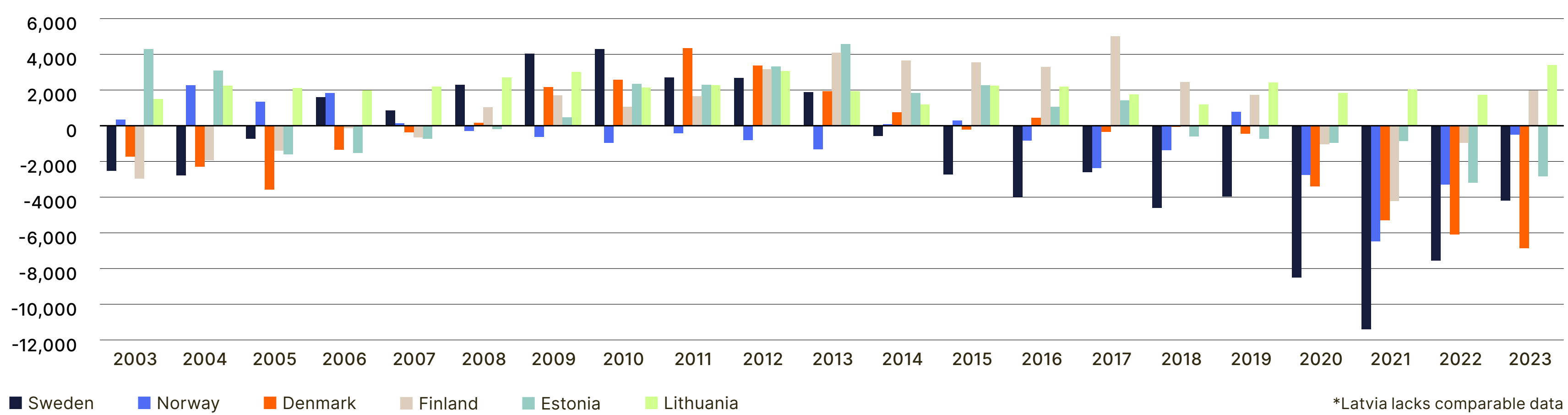
As of 2023, the Nordics have shifted towards more economically motivated labour migration, with increased diversification. The Nordic region has become more attractive for skilled workers, with a noticeable increase in immigrants from countries with higher education levels and income. The impact of the war in Ukraine is also evident across multiple Nordic countries, showing a shared support from the region. Ukrainian refugees are not included in Sweden's official statistics but reached approximately 12,000 people in 2023. The Baltic region maintained stable and regionally concentrated immigration patterns between 2013 and 2023, with the Ukrainian crisis also having a big influence in the last year. Overall, the Nordic countries exhibit a dynamic and evolving immigration driven by global and economic factors, while the Baltic states show a more stable and regionally focused pattern.

To the capitals and beyond

Shifting focus to the domestic dynamics of each country, clear differences emerge. In most countries, the capital cities experienced the largest population growth in absolute numbers in 2023, with the exceptions of Sweden and Latvia. In Sweden, Stockholm ranked third behind Gothenburg and Malmö, while Riga in Latvia actually saw a decrease of over 4,000 people.

As shown in Exhibit 8, the reasons for population changes in the capital cities vary. Over the past 5–6 years, all Nordic and Baltic capital cities except Vilnius have experienced negative net internal migration, indicating that people are generally moving out of the capitals to other parts of the country. While the pandemic likely influenced this trend by enabling remote work, it had been evident for many years prior in Nordic countries, except for Finland, where it only emerged during the pandemic. This trend of natives moving out of

EXHIBIT 8:
Annual net internal migration to the capital*



*Latvia lacks comparable data

the capital is also observed in larger cities like London and Paris.

In this context, Finland and Lithuania stand out with positive net internal migration to Helsinki and Vilnius during most years. Since all capital cities, except Riga, are experiencing population growth, this highlights that immigration is the primary driver of growth in the largest Nordic cities. Relying predominantly on immigration for growth, amidst generally falling immigration rates, obviously highlights that capital cities could struggle to maintain their positions as drivers of growth nationally in years to come.

With a negative net internal migration for the capitals, smaller cities are benefiting from this trend. Exhibit 9 on the following page shows the Nordic municipalities with the highest and lowest net internal migration numbers as well as the average internal net migration 2020–2022. The Baltic countries lack comparable data and is therefore not included in the table. This reveals a clear pattern of growth in regional cities and suburbs across all Nordic countries. For some municipalities, the 2023 figures further emphasize an ongoing trend observed in the average numbers from 2020 to 2022. In other cases, the 2023 data stands out from previous years, indicating either a temporary change or the beginning of a new pattern. Since internal migrants generally have higher employment rates than immigrants, these figures can significantly impact the municipality's economic conditions.

To give an overall picture of each country, Exhibit 10 on page 24 displays the Nordic and Baltic cities with the fastest growth in absolute numbers and in growth rate (%), as well as the cities losing the highest absolute number of people in 2023.


Photo: Folio

EXHIBIT 9:

Top five municipalities with highest and lowest net internal migration in absolute numbers in the Nordic countries. (The Baltic countries lack comparable data).*

	Municipality with the highest net internal migration in absolute numbers 2023	Net internal increase in population 2023	Average internal net migration 2020–2022	Description	Municipality with the largest net internal migration loss in absolute numbers 2023	Net internal decrease in population 2023	Average internal net migration 2020–2022	Description
Sweden	Gothenburg	2,126	-1,981	Sweden second-largest city	Stockholm	-4,201	-9,146	The capital of Sweden
	Uppsala	1,716	1,227	Sweden's fifth-largest city	Huddinge	-1,262	-863	Stockholm suburb
	Täby	1,377	793	Stockholm suburb	Solna	-1,243	-909	Stockholm suburb
	Haninge	1,263	756	Stockholm suburb	Södertälje	-1,066	-142	Stockholm suburb
	Lund	1,245	-225	Medium-sized city in southern Sweden	Botkyrka	-641	-1,130	Stockholm suburb
Norway	Lillestrøm	1,778	1,159	Oslo suburb	Råde	-1,523	-368	Very small town in southeastern Norway
	Stavanger	1,051	-794	Norway's third-largest city	Kongsberg	-1,454	-323	Small town in southeastern Norway
	Nordre Follo	797	630	Oslo suburb	Bodø	-1,292	-419	Medium-sized city in Northern Norway
	Sarpsborg	517	613	Medium-sized city in southeastern Norway	Farsund	-905	-78	Very small town in southern Norway
	Sandefjord	490	352	Medium-sized city in southern Norway	Porsgrunn	-861	-109	Small town in southeastern Norway

*Some discrepancies in the numbers can occur following administrative errors or differences in data collection methodologies.

EXHIBIT 9 CONT.

	Municipality with the highest net internal migration in absolute numbers 2023	Net internal increase in population 2023	Average internal net migration 2020-–2022	Description	Municipality with the largest net internal migration loss in absolute numbers 2023	Net internal decrease in population 2023	Average internal net migration 2020-–2022	Description
Denmark	Aarhus	2,197	325	Denmark's second-largest city	Copenhagen	-6,868	-4,932	The capital of Denmark
	Rødovre	964	253	Copenhagen suburb	Frederiksberg	-893	-872	Copenhagen suburb
	Ballerup	924	241	Copenhagen suburb	Sønderborg	-656	-374	Small town in southern Denmark
	Silkeborg	890	1,052	Medium-sized city in central Denmark	Lyngby-Taarbæk	-604	-101	Copenhagen suburb
	Brøndby	888	414	Copenhagen suburb	Aabenraa	-503	-445	Small town in southern Denmark
Finland	Tampere	3,145	2,193	Finland's third-largest city	Vantaa	-897	-289	Helsinki Metropolitan Area
	Espoo	2,396	597	Helsinki Metropolitan Area	Kajaani	-391	-262	Small town in central Finland
	Helsinki	1,992	-2,076	The capital of Finland	Kouvola	-335	-374	Medium-sized city in south-eastern Finland
	Turku	1,424	637	Finland's sixth-largest city	Raahe	-321	-194	Small town in western Finland
	Kuopio	751	837	Medium-large city in eastern Finland	Lappeenranta	-315	-200	Medium-large city southeast-ern Finland

EXHIBIT 10:

The fastest growing and decreasing municipalities in 2023 in each country.*

	Fastest growing municipality in absolute numbers 2023	Population growth 2023	Description	Municipalities with the highest growth rate 2023	Growth rate 2023	Description	Fastest decreasing municipalities in absolute numbers 2023	Population loss 2023	Description
Sweden	Gothenburg	7,775	Sweden's second-largest city	Nykvarn	4%	Stockholm suburb	Huddinge	-584	Stockholm suburb
	Malmö	4,756	Sweden's third-largest city	Sundbyberg	3%	Stockholm suburb	Sandviken	-470	Small town in central Sweden
	Stockholm	4,195	The capital of Sweden	Knivsta	3%	Stockholm/Uppsala suburb	Gislaved	-467	Very small town in central Sweden
	Uppsala	3,189	Sweden's fourth-largest city	Skellefteå	3%	Small town in northern Sweden	Eskilstuna	-450	Medium sized town in central Sweden
	Skellefteå	2,140	Small town in northern Sweden	Partille	2%	Gothenburg suburb	Borlänge	-443	Small town in central Sweden
Norway	Oslo	8,673	The capital of Norway	Etnedal	11%	Very small town in central Norway	Råde	-434	Very small town in southeastern Norway
	Stavanger	3,037	Norway's third-largest city	Vegårshei	9%	Very small town in central Norway	Ullensvang	-131	Very small town in western Norway
	Lillestrøm	2,686	Oslo suburb	Vevelstad	7%	Very small town in northern Norway	Sør-Fron	-121	Very small town in central Norway
	Bergen	2,610	Norway's second-largest city	Saltdal	6%	Very small town in northern Norway	Bremanger	-90	Very small town in western Norway
	Trondheim	1,905	Norway's fourth-largest city	Snåase - Snåsa	6%	Very small town in central Norway	Stranda	-73	Very small town in western Norway

*Some discrepancies in the numbers can occur following administrative errors or differences in data collection methodologies.

EXHIBIT 10 CONT.

	Fastest growing municipality in absolute numbers 2023	Population growth 2023	Description	Municipalities with the highest growth rate 2023	Growth rate 2023	Description	Fastest decreasing municipalities in absolute numbers 2023	Population loss 2023	Description
Denmark	Copenhagen	5,686	The capital of Denmark	Høje-Taastrup	4%	Copenhagen suburb	Frederikshavn	-488	Small town in northern Denmark
	Aarhus	5,551	Denmark's second-largest city	Brøndby	4%	Copenhagen suburb	Guldborgsund	-472	Medium sized city in southeastern Denmark
	Høje-Taastrup	2,282	Copenhagen suburb	Vallensbæk	3%	Copenhagen suburb	Hjørring	-454	Medium sized city in northern Denmark
	Brøndby	1,939	Copenhagen suburb	Rødovre	3%	Copenhagen suburb	Vesthimmerlands	-419	Small town in northern Denmark
	Rødovre	1,765	Copenhagen suburb	Ringsted	2%	Small town in Sjaelland	Thisted	-394	Small town in northern Denmark
Finland	Helsinki	10,472	Finland's capital and largest city	Vårdö	4%	Small town on Åland islands	Kouvola	-549	Medium/large city in southeastern Finland
	Espoo	8,750	Helsinki Metropolitan Area	Sottunga	4%	Smallest municipality in Finland by population, located on Åland islands	Imatra	-289	Small town in southeastern Finland
	Tampere	6,041	Finland's third-largest city	Espoo	3%	Helsinki Metropolitan Area	Raahe	-276	Small town in northern Finland
	Vantaa	4,624	Helsinki Metropolitan Area	Kittilä	3%	Small town in northern Finland	Savonlinna	-242	Small town in southeastern Finland
	Turku	3,963	Finland's sixth-largest city	Tampere	2%	Finland's third-largest city	Sastamala	-219	Small town in southeastern Finland

EXHIBIT 10 CONT.

	Fastest growing municipality in absolute numbers 2023	Population growth 2023	Description	Municipalities with the highest growth rate 2023	Growth rate 2023	Description	Fastest decreasing municipalities in absolute numbers 2023	Population loss 2023	Description
Estonia	Tallinn city	16,053	Capital city of Estonia	Harku	5%	Village near Tallinn	Narva city	-78	Estonia's third-largest city
	Tartu city	2,412	Estonia's second-largest city	Kiili	5%	Village near Tallinn	Tõrva town	-74	Very small town in southern Estonia
	Rae parish	1,375	Rural Tallinn suburb	Kastre	5%	Village near Tartu	Räpina parish	-66	Rural area in south-eastern Estonia
	Saue parish	1,260	Rural Tallinn suburb	Kambja	4%	Village near Tartu	Jõgeva parish	-63	Rural area in eastern Estonia
	Pärnu city	1,153	Estonia's fourth-largest city	Tartu city	4%	Estonia's second-largest city	Peipsiääre parish	-49	Rural area in eastern Estonia
Latvia	Jūrmala city	996	Latvia's fifth-largest city	Mārupe district	3%	District surrounding Mārupe town	Rīga city	-4,216	Capital city of Latvia
	Mārupe district	959	District surrounding Mārupe town	Ropaži district	3%	District surrounding Ropaži town	Daugavpils city	-1,051	Latvia's second-largest city
	Ropaži district	911	District surrounding Ropaži town	Ādaži district	2%	District surrounding Ādaži town	Jēkabpils district	-641	District surrounding the city of Jēkabpils
	Ādaži district	522	District surrounding Ādaži town	Jūrmala city	2%	Latvia's fifth-largest city	Ludza district	-512	District surrounding Ludza town
	Salaspils district	243	District surrounding Salaspils town	Salaspils district	1%	District surrounding Salaspils town	Rēzekne district	-500	District surrounding the city of Rēzekne

EXHIBIT 10 CONT.

	Fastest growing municipality in absolute numbers 2023	Population growth 2023	Description	Municipalities with the highest growth rate 2023	Growth rate 2023	Description	Fastest decreasing municipalities in absolute numbers 2023	Population loss 2023	Description
Lithuania	Vilnius city	15,572	Capital city of Lithuania	Kaunas district	6%	District surrounding the city of Kaunas	Panevezys city	-800	Lithuania's fifth-largest city
	Kaunas district	5,761	District surrounding the city of Kaunas	Klaipeda district	5%	District surrounding the city of Klaipeda	Kaisiadorys district	-762	Small town and district in central Lithuania
	Siauliai city	4,244	Lithuania's fourth-largest city	Utena district	5%	The city and district of Utena	Alytus city	-608	Largest city in southern Lithuania
	Klaipeda district	3,269	District surrounding the city of Klaipeda	Neringa city	4%	Seaside resort in western Lithuania	Kelme district	-524	Small town and district in western Lithuania
	Vilnius district	3,037	District surrounding the city of Vilnius	Siauliai city	4%	Lithuania's fourth-largest city	Vilkaviskis district	-522	Small town in south-western Lithuania

The table highlights several variations across different countries, indicating the need to reconsider the assumption that capitals and larger cities with their suburbs are always the fastest-growing areas while only smaller, more rural cities are declining. In Sweden, Stockholm is not the fastest-growing city even in absolute numbers, and suburban growth varies significantly. Nykvarn and Sundbyberg are experiencing substantial growth, while other suburbs like Huddinge are seeing population declines. Notably, Skellefteå, a small northern town, stands out due to the establishment of the Northvolt battery factory, which is attracting many workers and demonstrating the impact of industrialization investments.

In other countries, the changes vary. While capital cities and their suburbs continue to experience growth, other cities, both larger and smaller, are witnessing a mix of growth and decline. Riga is the only capital decreasing in population, contrasting with the trends in other countries. Other larger cities in Latvia are also declining, while the suburbs of Riga are experiencing the most growth.

These variations show that not all suburbs or same size cities are performing equally; some are experiencing rapid growth, while others face population declines. The impact on the municipality could differ based on whether the migration is internal or external. Although this represents just a snapshot of one specific year, it underscores shifting demographics and highlights the need to focus beyond capital cities and consider a broader range of urban areas for property investments.

> **"With an aging population, the demand for elderly care facilities remains high"**

The impact on property

Though it is clear that shifting demographics can impact the real estate market, it is likely that different property segments will be impacted in different ways. Below, Newsec analyzes the likely impacts of shifting demographics on different types of property.

Public properties: continued needs despite demographic changes

The latest demographic data indicates a relatively strong population base, but with significant changes in growth patterns. With an aging population (see exhibit 11 and 12), the demand for elderly care facilities remains high. However, there is a somewhat decreasing tendency for the elderly to wish to reside in such facilities. Factors contributing to this include increased preference for aging at home (due in part to reputational risk suffered during the covid-19 pandemic), advancements in home care services, and potential policy shifts by municipalities towards supporting these alternatives. Despite these trends, the need for elderly care infrastructure cannot be overlooked, especially in regions experiencing higher elderly populations due to migration patterns or local demographic changes.

The need for new school buildings may be slightly reduced due to declining fertility rates and smaller cohorts of school-age children. However, existing school infrastructure faces a substantial maintenance and renovation backlog. Many school buildings require significant investments to meet modern educational standards and safety requirements. This is particularly relevant in regions where population shifts are causing fluctuations in school enrollment, necessitating flexible and adaptable educational infrastructure. Since immigration will continue to play a crucial role in maintaining population growth, public

EXHIBIT 11:

Historical and forecast population growth by age group 1980–2070E in the Nordic countries combined.

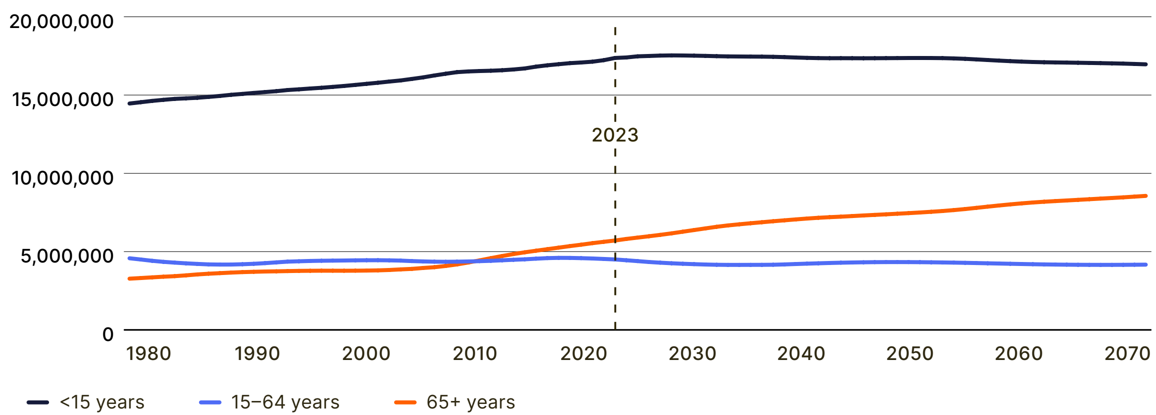


EXHIBIT 12:

Projected percentage change in population growth by age group 2023–2070 in the Nordic countries combined.

Age groups	Projected percentage change
<15 years	-7.4%
15–64 years	-2.3%
65+ years	+50.0%

properties must adapt to the changing needs of a diverse and dynamic population. This includes not only bilingual and multicultural elderly care and educational facilities but also community centers that offer language classes, job training, and legal assistance for newcomers. Healthcare facilities will also need to accommodate new languages, while recreational spaces, such as parks and sports complexes, should consider the diverse cultural practices of the population.

Offices: varied future demands in different demographic contexts

With a relatively strong demographic foundation in the Nordics and Baltics, characterized by robust population growth in some regions and population decline in others, the future demand for office space will vary. In growth regions, driven by urbanization and economic opportunities, the demand for office space could remain stable or even increase. Demand may particularly grow in regions with high net internal migration, as a larger share of internal migrants than immigrants tend to work in office environments. As noted in Exhibit 8, this is generally not in capital cities, but rather in some suburbs and regional cities. Conversely, in areas facing population decline, demand may decrease somewhat.

There is also a strong correlation between GDP growth and the performance of the office market. Regions with strong economic growth (like capital cities) are likely to maintain a healthy demand for office spaces. Economic resilience and diversification support continued business activities and investments, which in turn drive office space demand. However, it is important to note that population growth, crucial for sustaining economic growth, may become increasingly challenging as more countries in Europe experience slower or negative growth in their working populations. Nordic and Baltic cities may face tougher competition to attract talent from abroad, potentially impacting their ability to maintain robust office market dynamics.

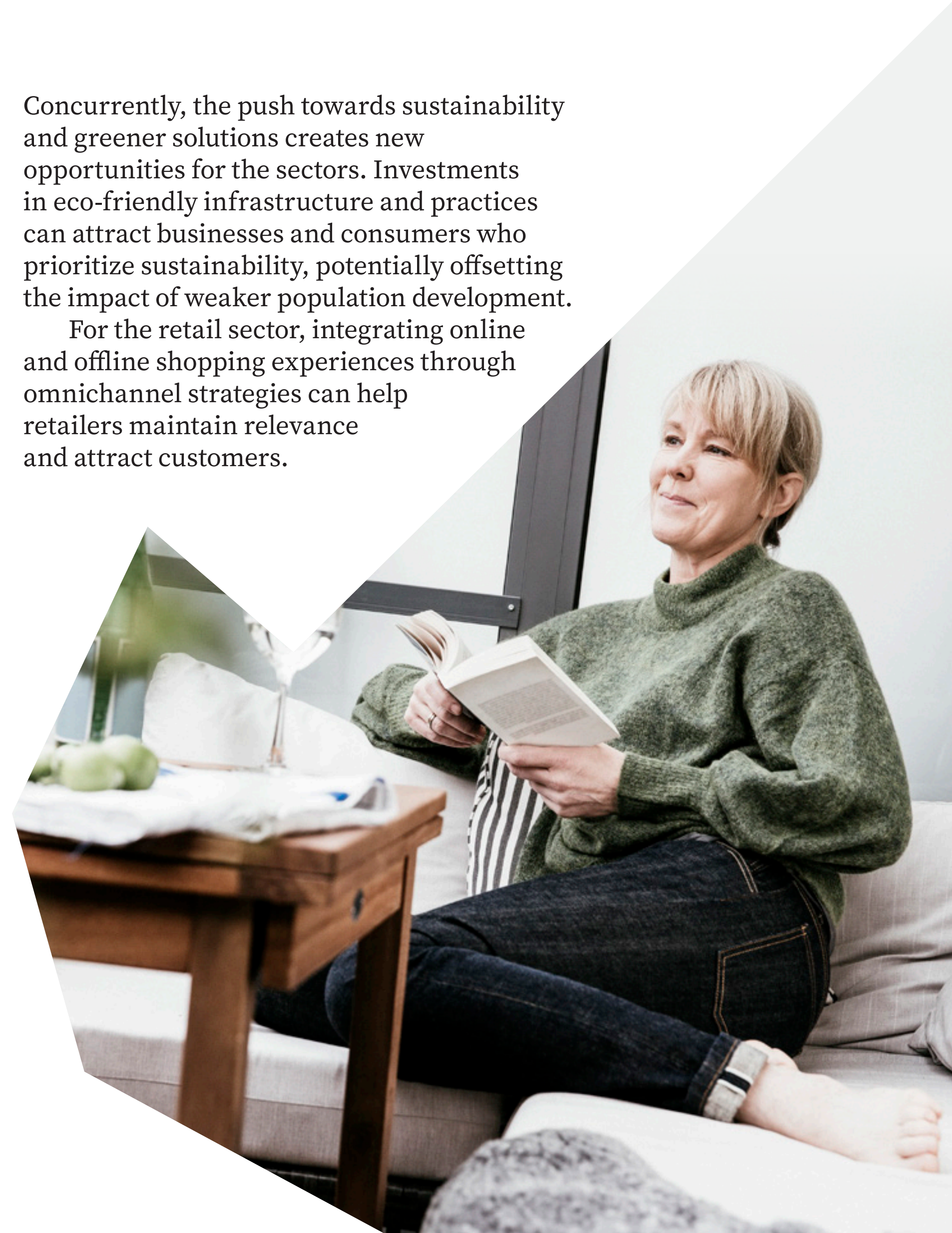
Logistics/industrial/retail: reduced consumption can pose a threat

Both the retail and the logistics/industrial sectors are closely tied to consumption patterns. A population with not as strong growth may reduce the consumption and therefore the need for retail, warehouse, and production spaces in areas with shrinking consumer bases.

However, the adoption of automation, smart warehousing, and other technological advancements on older buildings can enhance the efficiency of logistics and industrial operations. These innovations help optimize space usage and meet changing demands, even in areas with declining populations.

Concurrently, the push towards sustainability and greener solutions creates new opportunities for the sectors. Investments in eco-friendly infrastructure and practices can attract businesses and consumers who prioritize sustainability, potentially offsetting the impact of weaker population development.

For the retail sector, integrating online and offline shopping experiences through omnichannel strategies can help retailers maintain relevance and attract customers.



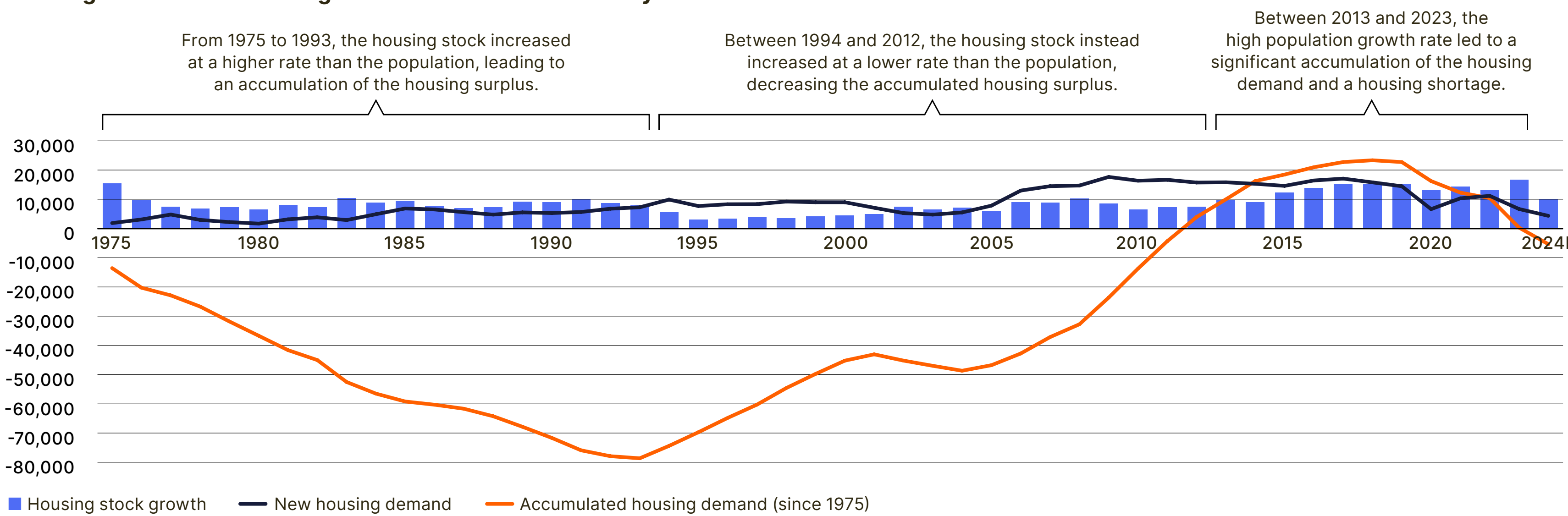
"Demographic shifts will impact the property market, necessitating flexible strategies"

Flexible retail spaces that can adapt to different functions, such as showrooms or fulfillment centers, can also address changing consumer behaviors.

Residential: adapting to a new demographic reality
The demographic shifts imply several key impacts on residential housing. With a more balanced population growth, the immediate need for new residential housing construction diminishes. Using Stockholm County as an example in Exhibit 13, Newsec has analyzed the housing market from 1975 to the present day. Newsec has assumed a slight housing surplus following the completion of "Miljonprogrammet", where over a million new homes were built in suburban areas in larger cities in Sweden, between 1965 and 1975. This surplus gradually transformed into an aggregated housing shortage by the 2010s due to high population growth and a slower construction pace.

This housing shortage has influenced numerous political decisions and shaped the general perception of our society. In recent years, high inflation and construction costs have abruptly slowed the pace of housing construction, which has been widely regarded as problematic. However, recent population

EXHIBIT 13:
Housing stock versus housing demand in Stockholm County 1975–2024E.



• Housing demand = population growth divided by average household size in the Stockholm region
• The above diagram shows accumulated demand for housing since 1975, assuming a slight housing surplus after "Miljonprogrammet" was finished. The accumulated housing demand should be seen as an indication of the long-term housing demand and is not to be seen as direct numbers on the shortage or surplus of housing.

development and forecasts suggest that the urgency to build new residential housing may no longer be as critical. While this situation varies across the Nordic and Baltic countries, the main takeaway is that what was once considered obvious may no longer be as certain. There is a need for new housing, but it requires careful consideration of the right location, size and price range. It is essential to ensure that new residential projects are planned in areas with appropriate demand and that the sizes and the price meet the needs of the population. Addressing the safety question is increasingly important today and can affect the choice of location as well as the design and amenities of new developments. Factors such as proximity to public transportation, availability of community services, crime rates, and overall neighborhood stability play significant roles in determining the suitability of a location for new housing projects.

Overall conclusion

Looking ahead, the demographics of the Nordic and Baltic countries are evolving with varied growth patterns across regions and municipalities, influenced by factors such as the pandemic, geopolitical tensions, and economic challenges. Declining fertility rates in the Nordic nations present challenges, contrasting with positive shifts seen in the Baltic countries. The political and public stance on immigration is a concern, as it is crucial for ensuring continued population growth. Therefore, integration needs to become a more prominent issue in societal debates.

Demographic shifts will impact the property market, necessitating flexible strategies for players on the property market. For investors, understanding these changes with Newsec as a trusted advisor is key to gaining insights and capitalizing on opportunities in the evolving real estate market.

Contact:
Adam Tyrcha, PhD, adam.tyrcha@newsec.se
Josefin Jangälv, josefin.jangalv@newsec.se

Definitions:
[1]European Union (EU27): Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

Sources:
Statistics Sweden (SCB)
Statistics Norway (SSB)
Statistics Denmark (DST)
Statistics Finland (StatFin)
Statistics Lithuania
Official Statistics of Latvia
Statistics Estonia
Eurostat
Newsec

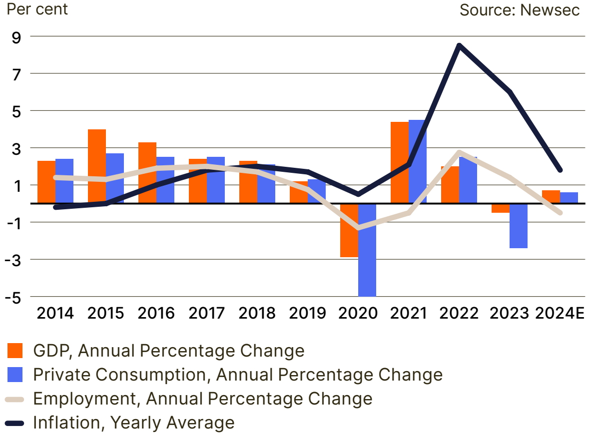
Property markets

Photo: iStock

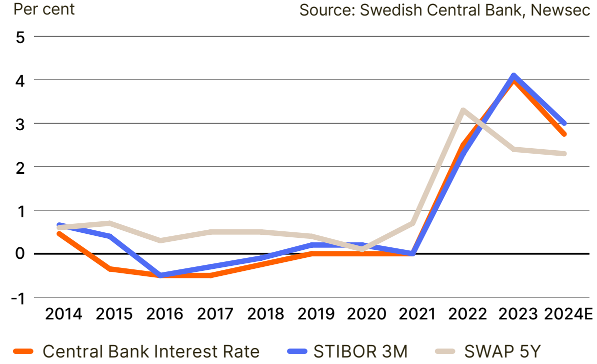
The Swedish property market
Optimism grows with more rate cuts on the horizon

After a strong first quarter of GDP growth, the second quarter saw a decline, leading to a slight reduction in the 2024 GDP forecast to 0.7%. Inflation steadily declined throughout 2024, prompting Riksbanken to make its first rate cut in eight years and the interest rate is now at 3.50%. Despite ongoing global geopolitical tensions, the economic outlook has improved, supported by easing inflation, rising real wages, and increased consumer confidence. The real estate market has been relatively slow in 2024, with Q1 turnover slightly above that of Q1 2023. However, a weaker Q2 dampened hopes for a stronger market, reflecting continued financing challenges and the gap between sellers and buyers. H1 2024 saw a total transaction volume of 58.6 billion SEK across approximately 179 deals, slightly down from H1 2023. Yields have risen, with rents slightly declining and vacancies increasing. The outlook for the real estate market in 2024 remains uncertain. With inflation below Riksbanken's target, the expectation of more rate cuts could boost investor appetite. Yields are likely to stay relatively high throughout the year, with some beginning to plateau or compress slightly. Despite uncertainties, the outlook is more positive than it has been since before Russia's invasion of Ukraine.

Economic Indicators



Interest Rates



Contact:
Adam Tyrcha,
adam.tyrcha@newsec.se

Interesting trends

International investors stay cautious

After a period of significant international presence in the transaction market, with a share of 22% in 2022 and 29% in 2023, it fell to 18% in Q1 2024 and further to 10% in Q2. The overall share dropped to a low 14% in H1 2024. This suggests increased competition from domestic investors, likely driven by the initial rate cut and expectations of more in the fall. The reduced foreign presence may have contributed to the 2024 market slowdown, highlighting the importance of international capital in Sweden. As anticipated rate cuts by the ECB, Fed, and neighboring countries are realized, the market could see further recovery, potentially attracting interest from both domestic and international investors.

Office market regains momentum in 2024

Since Q4 2021, the office sector's share of total transaction volume in Sweden has remained below 20%, except for a brief spike in Q3 2023. This reflects ongoing uncertainty in the office market, driven by COVID-19's impact and the rise of remote work, which have cast doubt on future office demand. However, in Q1 and Q2 2024, the office segment saw a resurgence, with the share rising to 22% and 23%, respectively. In 2024, 15 out of 24 office deals >40 MSEK took place in Stockholm, mostly in central areas, with the rest in regional cities. This focus on prime locations suggests that such offices remain in high demand. Despite challenges from shifting work patterns, demand for quality office spaces is still strong, particularly in central urban areas with abundant amenities and connectivity.

Upward pressure on light industrial rents

While other segments are seeing a plateau or slight decline in rents, the light industrial sector stands out as the only one facing ongoing upward pressure. This is driven by a significant shortage of newly constructed industrial spaces in recent years, as the focus has predominantly been on building logistics facilities. With the anticipated reindustrialization wave, where numerous production sites will require space, there is now an accumulated demand for light industrial properties. This growing need for suitable spaces to accommodate manufacturing and production is fueling the rise in rents within the light industrial market, a development that Newsec expects to persist into the fall.

SEK 103.9 billion
Total investment volume in 2023

SEK 135 billion
Total investment volume expected in 2024

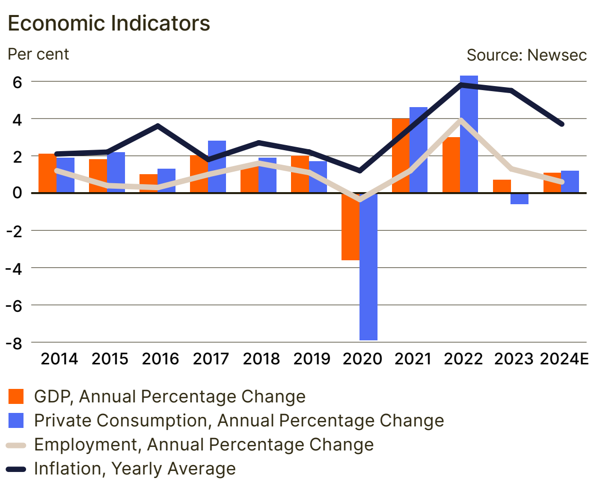
3.9%
Office prime yield expected in 2024

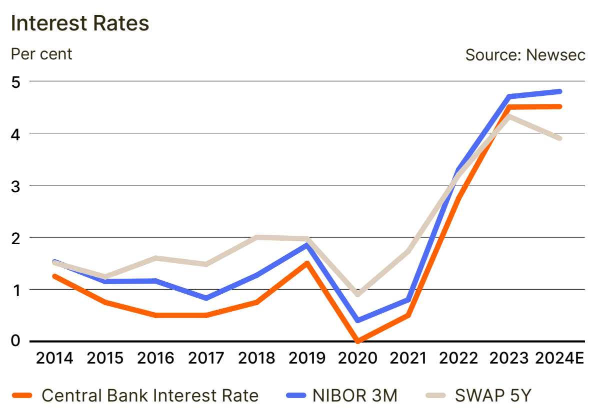
The Norwegian property market

A market in recovery, but not entirely out of the woods

As we progress into autumn, we see the outlines of an economic slowdown. Inflation has declined and economic growth has slowed to a flat trajectory. However, the labor market still appears tight. Enterprises report better prospects, with persistent job openings showing rising labor demand and higher wages. Together with a continuous weak NOK, Norges Bank, it its June meeting, postponed first rate cut to Q1 2025, causing NOK 5-year and 10-year SWAP rates to increase. However, early signs of recession internationally have made the leading CRE interest rate volatile, expected to continue for some time ahead.

Throughout the spring, the commercial property market has shown signs of improvement. Liquidity has significantly increased, and segment allocation has returned to normal. Newsec recorded 103 transactions totaling 47 bnNOK in the first half of the year, about 80% of the 2023 volume and close to the nine-year average of 50 billion NOK for this period – highly influenced by “distressed" sellers. With debt capital markets becoming more open we are optimistic for the remaining of 2024. Total transaction volume expected at 85 bnNOK, with transactions resulting from voluntary buyers and sellers on fair terms.





Contact:
Karen Cecilie Thunes,
karen.cecilie.thunes@newsec.no

Interesting trends

Distressed sales drives liquidity

Liquidity in the transaction market is returning towards normal levels, and at first glance, the market seems healthy. However, about 70% of the volume consists of "distressed" sales, where a tight balance sheet forces sellers to unload properties. Entra's sale of its Trondheim portfolio stands as a good example. The office segment has the highest share of distressed liquidity, while the share of distressed sales is lowest in the hotel segment. Around 90% of the sales from syndicates and international capital involves distressed assets, in contrast to property companies, where approximately 70% of the volume is due to a distressed seller. Along with the high proportion of distressed sales, we also see a high proportion of portfolio sales and mega deals.

International capital crucial in the logistics segment

The logistics and industrial segment benefits from strong fundamental drivers, such as increased e-commerce and a growing desire to relocate both manufacturing and warehouse facilities closer to domestic markets. It appears that international capital has opened their eyes towards Norwegian logistics, as foreign investment has significantly contributed to buyer-side liquidity throughout 2024. International buyers have been involved in the five largest logistics transactions this year, accounting for about 75% of the total logistics volume, well above the historical average of around 30%. NREP's acquisition of 49% of the Wilog warehouse portfolio underscores the strong interest international investors have in Norwegian logistics properties.

"Coolcation" drives record numbers for Norwegian hotels

In recent years, the desire to escape the sweltering heat has given rise to "coolcation," where tourists seek cooler northern regions, less affected by the extreme temperatures now common in southern Europe. This trend positively impacts the commercial real estate market, with Norway experiencing record hotel stays this summer. A total of 2.8 million hotel nights were registered, a 4.6% increase from June 2023. The rise is driven by increased interest from both domestic and international travelers. We expect figures to be strong during winter months as well, as Norway can offer stable snow conditions for keen skiers.

NOK 57 billion
Total investment volume in 2023

NOK 85 billion
Total investment volume expected in 2024

4.5%
Office prime yield expected in 2024

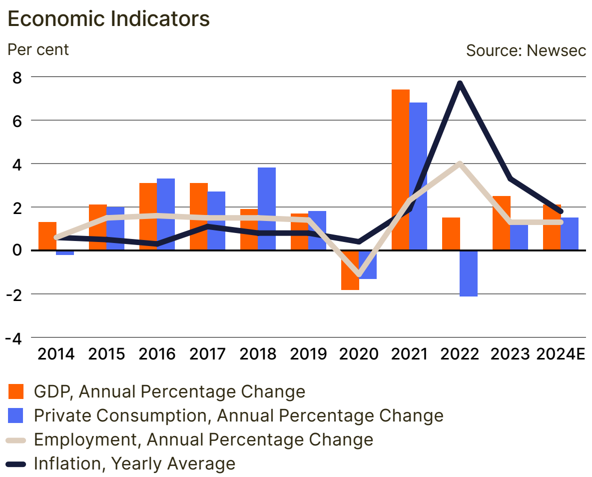
The Danish property market
Increasingly difficult to stay pessimistic

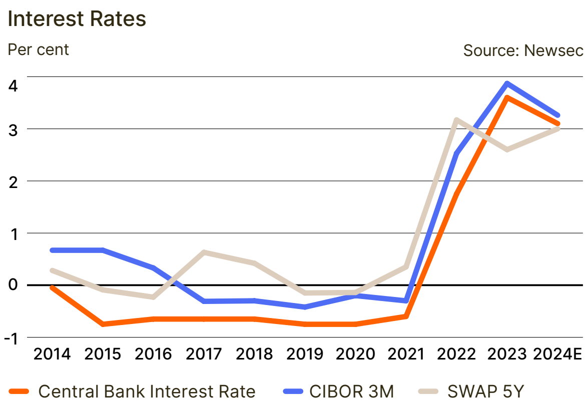
Denmark is doing surprisingly well on the macro-economic front with high economic activity, record-high employment, solid surpluses on public finances and on foreign trade. Most macro indicators are healthy. Most notably, GDP grew by 2.5% in 2023 and is expected to expand by 2% this year.

It has been crucial for the property market that the economy has maintained steam. Occupier demand for commercial property has held up well and been a stabilizing factor in a time when property values and investment projects came under pressure from high financing costs. Fortunately, inflation has come under control and interest rates have stabilized, which in turn has taken some pressure off property yields.

The investment market got off to a weak start in 2024 with transaction activity continuing to decline and property yields rising. By mid-2024, however, there are signs that the investment market is bottoming out.

In June, the Danish Central Bank cut interest rates by 0.25 percentage points to 3.35%. Further rate cuts of 0.50 percentage points are expected in the next 12 months and market expectations indicate lower short-term interest rates, while long-term interest rates are expected to remain stable. In the absence of unanticipated negative surprises from the financial markets, property yields could now be stabilizing and may begin to harden for prime assets.





Contact:
Robin Rich,
robin.rich@newsec.dk

Interesting trends

Is the property market bottoming out?

After seven consecutive quarters of decline, transaction volume grew by 14% in Q2 (y/y) boosted by a rebound in office and residential property transactions. With just one quarter of growth, it is still too early to declare the recession in the property market over, but it is clearly a noteworthy signal. Since early 2022, the market has gone through a period of adjusting price levels. Now the prospect of lower interest rates and a stable macroeconomic environment give hope that the positive signs will materialize into tangible growth in the second half of 2024 and beyond.

The source of international investment is changing

International investors have reduced their activity in Denmark from a market share of over 50% in 2021-2022 to 35% in 2023 and H1 2024. This particularly impacted the residential segment where massive international investment dwindled from mid-2022. There are indications that interest is returning. Foreign investment grew by 1% in H1 with focus mainly on industrial and residential property. The source of foreign investment has changed from primarily Nordic towards extra-Nordic with particularly the US standing out as a significant newcomer to the Danish market.

Future demographic needs for housing should be addressed now

Denmark's population will soon reach 6 million and will most likely continue to grow for decades to come. This has a very direct impact on the need for housing in the future. More interestingly is the future fact that the distribution of people by age and location will change radically, which will pose huge challenges and possibilities to the real estate market. Newsec's forecast for Denmark shows that in 2030 there will be a need for 60,000 more homes compared to 2024. The demand will increase in 71 of the country's 98 municipalities and decrease in 27. The ten fastest growing municipalities – in terms of housing need – account for 58% of the total growth towards 2030. At the same time, construction is now on the decline which may hamper supply-side adjustment. These trends need to be addressed now to meet future needs.

DKK 39 billion
Total investment volume in 2023

DKK 45 billion
Total investment volume expected in 2024

4.05%
Office prime yield expected in 2024

The Finnish property market

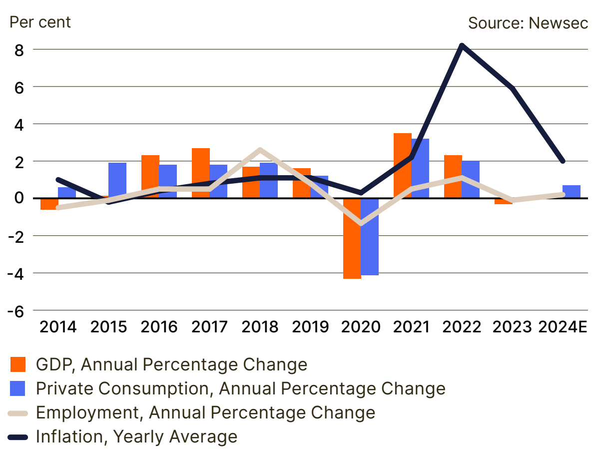
The Finnish real estate market turnaround is within reach

Finland's economy recovered from a technical recession at the start of the year. Falling inflation, private consumption, and a gradual pick-up in export demand are expected to support the economy's growth path in 2024. The labor market remains relatively stable, although some sectors are reducing their workforce. Also, there are signs of the housing market gradually picking up as interest rates fall.

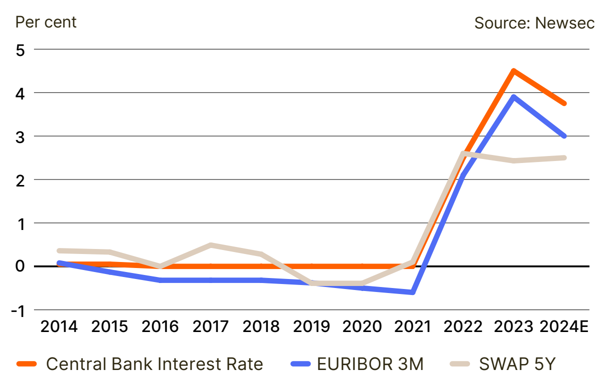
In June, the European Central Bank gave way to its first interest rate cuts, as the base rate was lowered to 3.75%. Economists expect the base rate to be lowered twice in 2024 and four times in 2025, putting it at 2.25% by the end of 2025. The anticipated interest rate cuts are set to bolster the real estate market, painting a brighter picture for Finland's real estate landscape.

Signs indicate that Finnish real estate transactions are nearing the bottom line. H1 2024 saw €1.3 billion in activity, significantly below the €3.0 billion 10-year average. However, this is "only" a 12% decrease from the same period last year, and in terms of trailing 12-month volume, the transaction activity is plateauing. Newsec expects transaction volumes to continue growing throughout the year, with interest rates set to decrease further. In 2024, we anticipate a moderate rise in investment volumes compared to last year.

Economic Indicators



Interest Rates



Contact:
Valtteri Vuorio,
valtteri.vuorio@newsec.fi

Interesting trends

Beds and sheds lead the way out from the slump

Liquidity and significant deals are gradually increasing in the residential and logistics sectors, driven partly by international investors. Continuous activity is expected as investor confidence grows amidst the interest rates ticking lower. The annual transaction volume bottomed out in 2023 in the sectors since, already in the first half of 2024, the volumes are only 30% less than in the full year of 2023. With fundamentals favoring these segments, we anticipate more noteworthy transactions to continue.

Changing sentiment in residential letting

Unlike many European markets, Finland has experienced an oversupply of housing, especially in the Helsinki Metropolitan Area. Together with high interest rates, this has restrained demand for residential investments. There is, however, now a more positive momentum in the residential market, as the oversupply is expected to diminish by 2026–2027. Occupancy rates have already started to improve, while applications have also increased. Even previously challenging new developments and areas are doing slightly better in the rental market. Challenges still remain, especially in the capital region, but a turnaround has begun. This is also reflected in the investor demand, as domestic and international investors are more active in the residential transaction market. Stronger-than-expected urbanization and reduced new construction are contributing to long-term rental growth prospects.

Open-ended funds continue motivated selling

Last year, motivated deals were in the market in the public properties segment. This year, motivated selling has continued in the residential and retail sectors. The motivated sell-side activity concerns open-ended real estate funds, which have seen redemptions push the funds to offload assets. The open-ended real estate funds have recorded outflows of €227 million this year. Finland's public open-ended funds manage more than €7.5bn, so the leakage in fund outflows is still manageable, considering the funds have a liquidity cushion. However, some funds have restricted redemptions, as funds protect their liquidity against a background of redemptions. The redemptions could be expected to stabilize in the near term, together with falling inflation and interest rates and increasing consumer purchasing power.

EUR 2.7 billion
Total investment volume in 2023

EUR 3.2 billion
Total investment volume expected in 2024

5.4%
Office prime yield expected in 2024

The Estonian property market

Hope for recovery

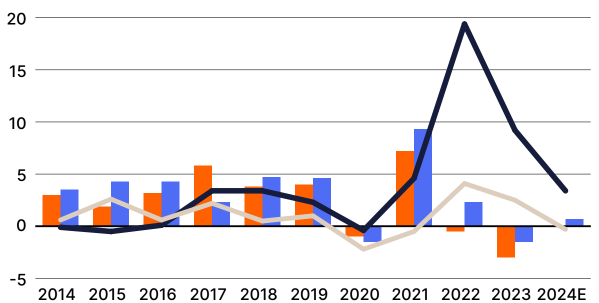
Estonia's economy ultimately saw a decline of 3.1% in 2023. But with recovery expected in H2 2024, a decline of only -0.4% is forecast for all of this year. Supporting factors are the improving economies of Estonia's trading partners and lower interest rates, which eventually stimulate economic output. On the downside, the new government is planning to increase taxes to fund EUR 1.6 billion of defence-related costs and reduce the government deficit.

The Estonian real estate investment market has been rather inactive since H2 2022. In H1 2024, only 2 transactions of over 5 million were completed. The most significant was the sale Ülemiste Technopolis. It was bought out by a smaller local co-owner, Mainor Ülemiste, which is now the largest office real estate company in Estonia. In the past 18 years, it has developed some 167,000 sqm of office space, health centres and residential buildings, while about 30 ha of land in Ülemiste city still awaits development.

The second transaction was the sale of a logistics park with a total size of 40,000 sqm located at Tänassilma, close to the Pärnu highway. It has 10 tenants including DSV Estonia and Havi Logistics. Total transactions in H1 were about EUR 123 million, compared to just 29 million a year earlier. But the market is now more positive about H2 2024 and expects higher investment activity.

Economic Indicators

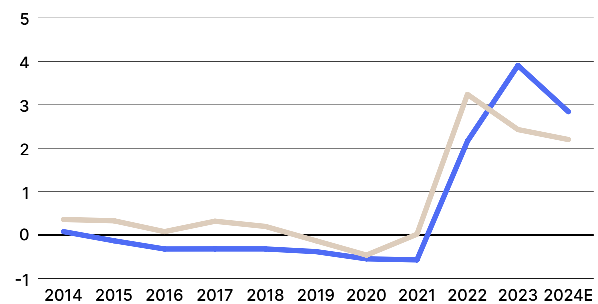
Per cent Source: Newsec



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

Interest Rates

Per cent Source: Newsec



EURIBOR 3M SWAP 5Y

Contact:
Mihkel Männik,
m.mannik@newsec.ee

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Interesting trends

Saturated office market

Over the past decade, Estonia's rapid growth, particularly in the startup and IT sectors, led to a substantial demand for office space, especially in Tallinn, which now has over 1 million square meters of modern office space. An additional 100,000 square meters is expected to be completed in the next few years. However, the demand for office space began to soften during the COVID-19 pandemic and has continued to decline since 2022. The shift towards remote work has left many companies with underutilized office spaces, leading to a rise in subleasing activities. As a result, vacancy rates have climbed to 8.25%, affecting both Class A and Class B properties.

Hope for Manufacturing

Estonia's manufacturing sector has been under pressure, with turnover declining by 20% since its peak in 2022 due to slower domestic consumption and reduced demand from Nordic countries. However, there are encouraging signs of recovery in the Nordic markets, offering some hope for improvement in the sector. Despite these challenges, the industrial and logistics real estate market has remained relatively stable, with vacancy rates for modern warehouses hovering between 3-4%. Stock offices, a key segment within this market, continue to see active development, partly because the supply of new developments is more limited compared to the oversaturated office market.

Upcoming Tax Hike

The Estonian government is planning to raise taxes to reduce its deficit and fund defense spending, which is expected to exceed EUR 1.6 billion. These proposed tax increases include higher VAT and income taxes, which could slow the economic recovery by dampening consumer spending, a primary driver of GDP growth. Additionally, a potential corporate income tax hike might further discourage business investment. While these tax changes are still in the planning stages, the government has suggested that the increases will be relatively small, which could help mitigate their overall impact. Nonetheless, the uncertainty surrounding these changes has already raised concerns about their potential effects on the broader economy.

EUR 187 million
Total investment volume in 2023

EUR 225 million
Total investment volume expected in 2024

6.4%
Office prime yield expected in 2024

The Lithuanian property market

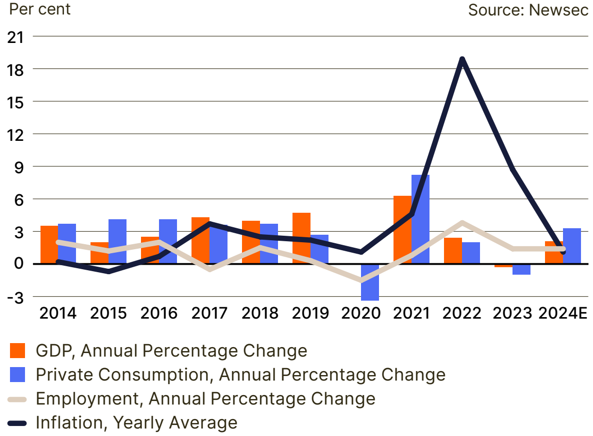
The market returns to the growth path

After a modest contraction of 0.3% in 2023, Lithuania's economy has shown signs of resilience and recovery in 2024. GDP exceeded expectations in H1 with growth of 2.4%, prompting an upward revision of forecasts. Now Lithuanian GDP is expected to increase 2.1% in 2024 as a whole and accelerate to grow 2.9% in 2025.

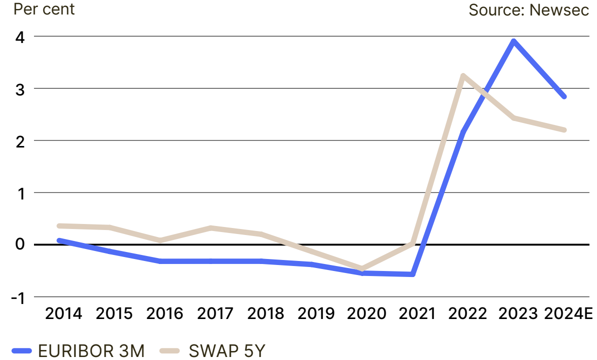
Inflation, once a pressing concern, now is effectively under control. Overall price levels remain stable. The labour market has also shown remarkable resilience, with unemployment rates on a downward trend, particularly among young people. These positive developments, alongside improving consumption and signs that exports are starting to recover, suggest a cautiously optimistic outlook for Lithuania's economy.

On the investment market, H1 was quiet, with most activity focused on redevelopment projects. In fact, it was one of the weakest periods on record, as all deals were made by local investors. Total investments for large deals remained low, at just EUR 65 million. Still, there are signs that the market may be starting to pick up. Investor confidence seems to be gradually returning, something that potential interest rate cuts by the European Central Bank could further encourage. If borrowing costs decrease, we could see more deals and renewed market activity during H2.

Economic Indicators



Interest Rates



Contact:
Kristina Živatkauskaitė,
k.zivatkauskaite@newsec.lt


Photo: Shutterstock

Interesting trends

Demand is tied to local growth

In 2024, the office segment has remained a key focus for both investors and developers. Developers have increasingly concentrated on new construction projects, particularly in the central business district. Following a year of limited new supply, 2025 is expected to offer a broader range of options for both potential tenants and investors.

The market has now surpassed the milestone of 1 million sqm of total office space, and each new project must be carefully evaluated. Longer timelines for lease negotiations and a notable slowdown in the arrival of new companies to Lithuania mean that the office market will now depend more on the growth potential of local businesses and the development of existing GBS and ICT organisations. Demand is coming from companies seeking to make a qualitative step in the space they occupy.

Residential market seen shifting towards rental

The residential market in Vilnius is undergoing notable changes as the population grows fuelled by both immigration from abroad and internal migration. The surge in inhabitants has intensified demand for apartments, though the market faces a bottleneck as people's ability to purchase residential property have been limited for some time.

Given the small number of sales transactions over the past 3 years, the number of unsold apartments has been rising. Thus the stock of available apartments is growing steadily. Looking ahead, the market likely will see a significant expansion of rental projects as investors shift their focus to meet the evolving demand.

Redevelopments are attracting investments

There is growing interest in redevelopment projects, as in converting hotels into apartments and transforming administrative or industrial spaces into lofts and other residential units. The trend of repurposing existing properties reflects a broader market shift to meet the needs of a changing population. Investors are increasingly drawn to these opportunities, attracted by the relatively low acquisition costs and profit potential. By improving and adapting such properties to current market demands, developers can tap into a lucrative and evolving segment of the real estate market.

EUR 430 million
Total investment volume in 2023

EUR 260 million
Total investment volume expected in 2024

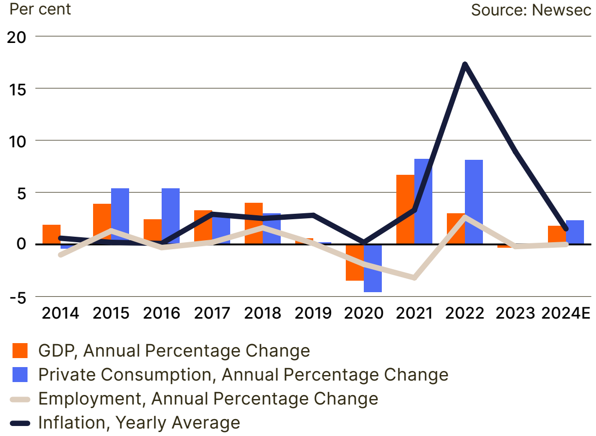
6.4%
Office prime yield expected in 2024

The Latvian property market
When the wind cannot be directed, it's time to adjust the sails

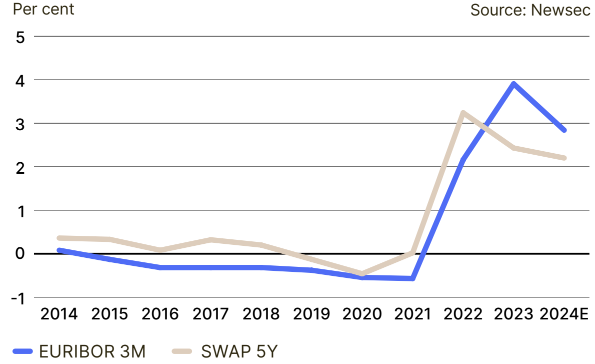
The Bank of Latvia's macroeconomic forecasts for 2024 indicate a cautious economic outlook involving moderate growth, low inflation, and fiscal challenges due to increased government spending. Latvia's GDP is forecast to grow 1.8% in 2024. The 3.3% growth projection for 2025 is weaker than previously anticipated, largely due to geopolitical risks and high lending rates affecting consumer and investor confidence. Inflation is forecast to remain low in 2024, at 1.5%. Slightly higher but still normal inflation is forecast also in 2025 and 2026. The labour market remains stable, with the unemployment rate projected to decrease slightly to 6.7% in 2024. Nominal wages are forecast to grow 7.9% this year.

As deposit rates have become more attractive and Latvians have become more cautious with their spending, prioritizing savings over consumption, a notable trend in 2024 is the return of savings habits among consumers and businesses. Thus, in H1 2024 consumer deposits increased by 22% while businesses' deposits were up by nearly 27% at the end of June compared to a year earlier. That could have long-term effects on domestic demand. Latvia continues to implement tax reforms, including gradual increases of excise taxes on alcohol and tobacco. These measures are part of broader efforts to adjust fiscal policies in response to economic challenges.

Economic Indicators



Interest Rates



Contact:
Inita Nitiša,
i.nitisa@newsec.lv

Photo: Shutterstock

Interesting trends

Construction is going enthusiastically

Looking at the construction statistics for 2024, most segments seem stable with no significant political or economic disruptions evident. Comparing H1 2024 to the same period of 2023, changes in the types of construction permits are notable. Specifically, permits for new residential buildings have increased 14%, those for retail and wholesale buildings have surged 320%, and those for industrial buildings have risen 31%. In contrast, office space covered by permits has dropped by 67%. The decline isn't surprising given the many office buildings already in development and the frequent delays in the office pipeline due to a lack of large anchor tenants.

Diversification is a key trend

Latvia's real estate market is increasingly embracing sustainable urban development, with a growing emphasis on mixed-use projects that integrate office, residential, retail, and recreational spaces. Notable examples include the Preses Nama Kvartāls by Lords LB, the Sporta 2 Kvartāls by Linstow Baltic, and the Magdelēnas Kvartāls by Vastint. These developments demonstrate a holistic approach, aiming to create liveable and resilient urban environments.

On the one hand, these developments represent investment diversification; on the other, they offer enhanced comfort for tenants and customers who can thus live, shop, work, and relax all in one location.

The higher the price, the greater the lesson

The surge in energy prices during the past year served as a practical lesson on the critical importance of cheaper energy. Significant hikes in electricity costs negatively impacted both consumers and businesses in Latvia, bringing a growing recognition of the urgent need for more cost-resilient energy sources. This real-world experience highlighted the vulnerabilities of traditional energy systems and accelerated the adoption of green solutions.

Thus, in H1 2024, solar energy production outpaced total solar energy output the previous year by 289%. Last year and this year, numerous small and large businesses across diverse sectors have installed solar panels. This transition, primarily driven by the need to mitigate soaring costs rather than environmental concerns, highlights how economic pressures can accelerate the adoption of green technologies.

EUR 176 million
Total investment volume in 2023

EUR 100 million
Total investment volume expected in 2024

6.4%
Office prime yield expected in 2024

Macroeconomic and Property data

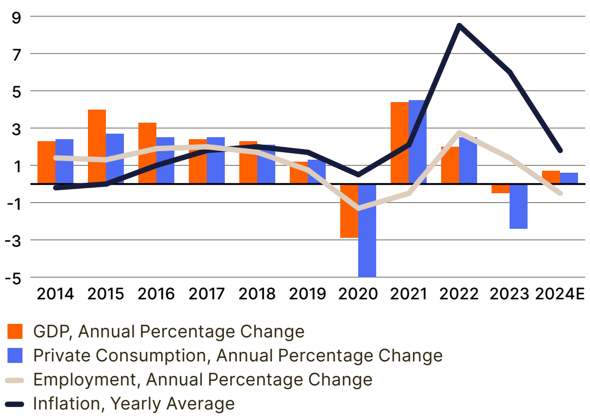
Macroeconomic Data

Sweden

Economic Indicators

Per cent

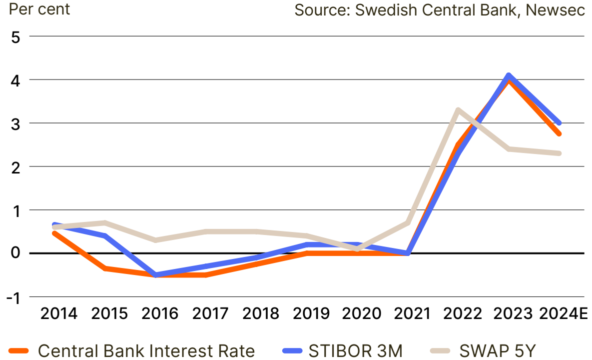
Source: Newsec



Interest Rates

Per cent

Source: Swedish Central Bank, Newsec

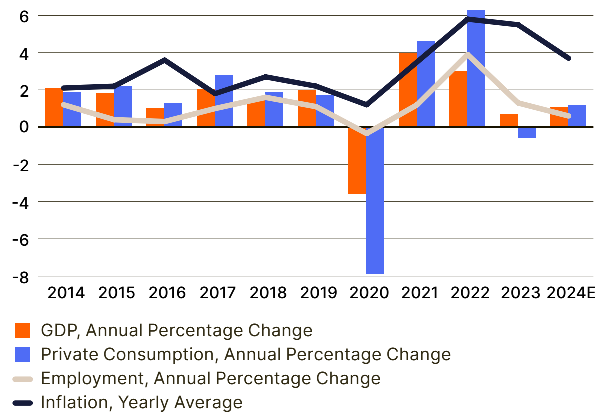


Norway

Economic Indicators

Per cent

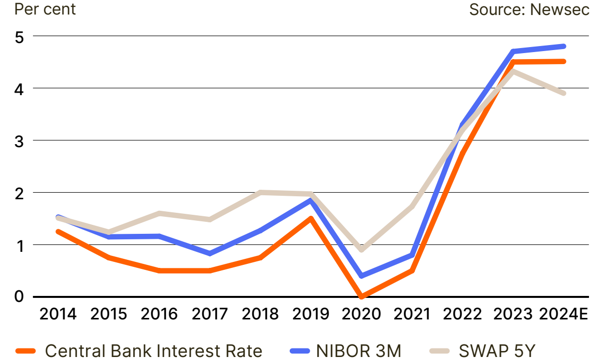
Source: Newsec



Interest Rates

Per cent

Source: Newsec

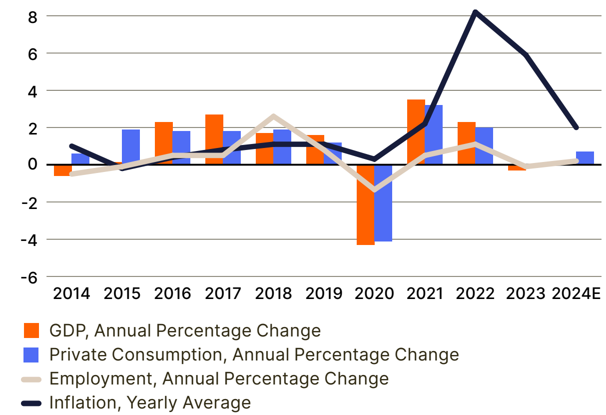


Finland

Economic Indicators

Per cent

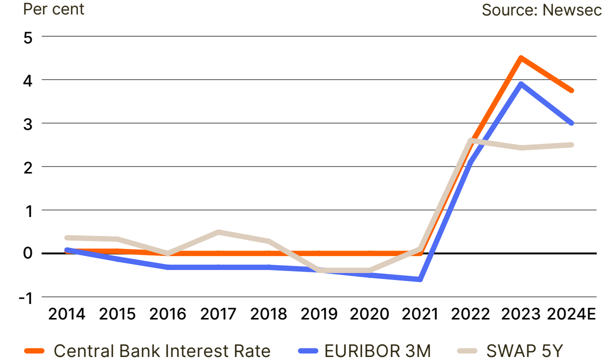
Source: Newsec



Interest Rates

Per cent

Source: Newsec



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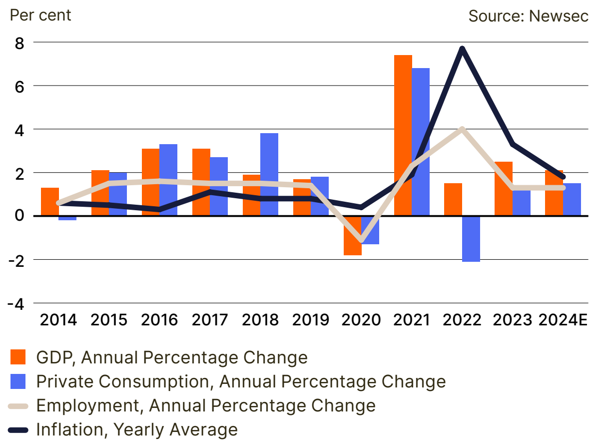
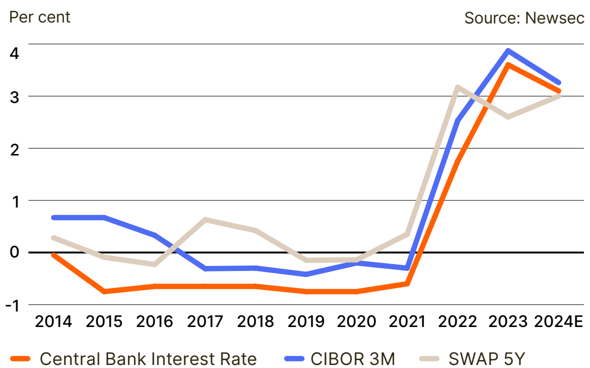
› adam.tyrcha@newsec.se

Denmark

Economic Indicators

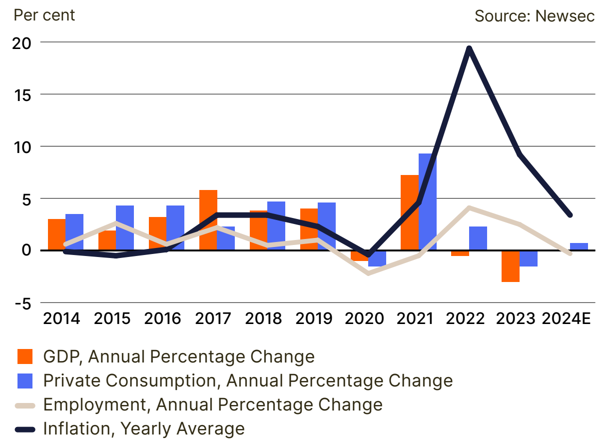


Interest Rates

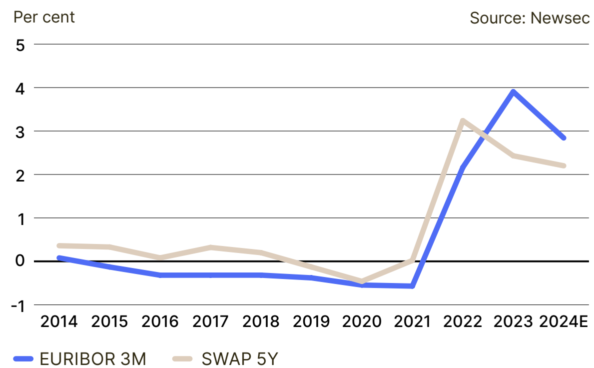


Estonia

Economic Indicators

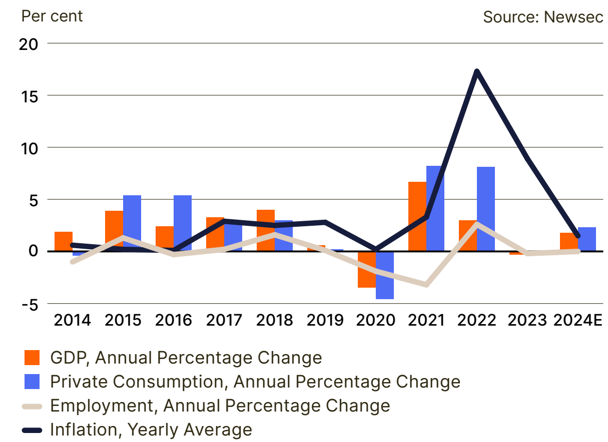


Interest Rates

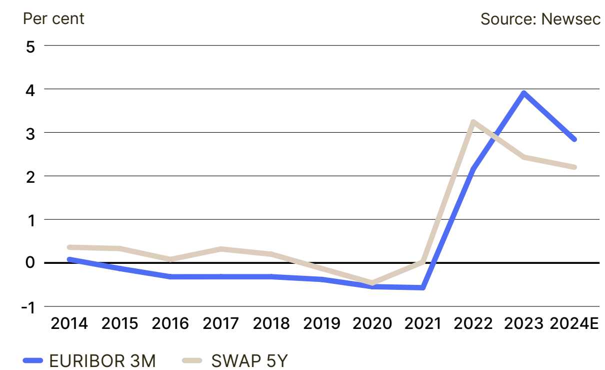


Latvia

Economic Indicators



Interest Rates



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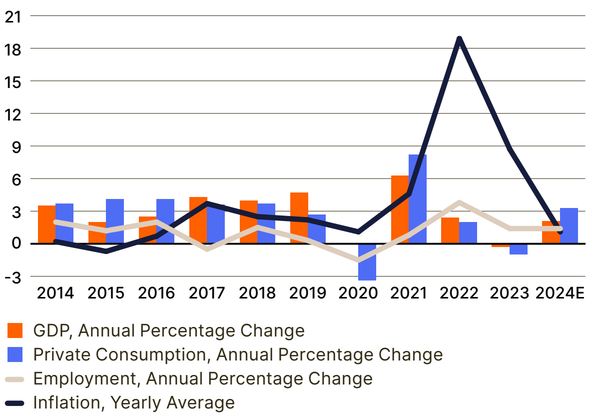
› adam.tyrcha@newsec.se

Macroeconomic Data

Lithuania

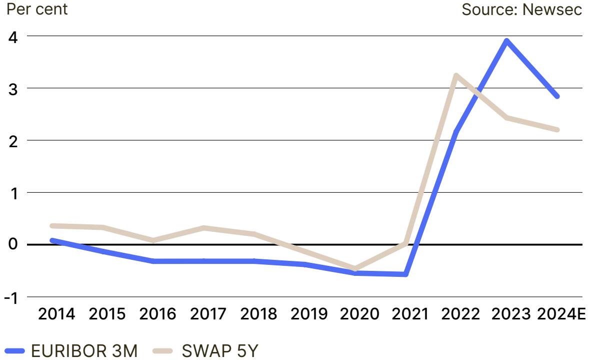
Economic Indicators

Per cent | Source: Newsec



Interest Rates

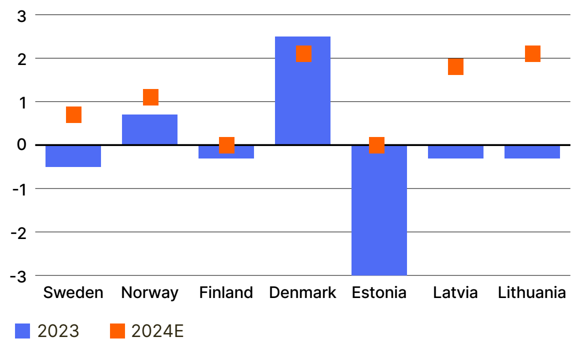
Per cent | Source: Newsec



GDP Growth

GDP Growth 2023–2024E

Per cent | Source: Newsec

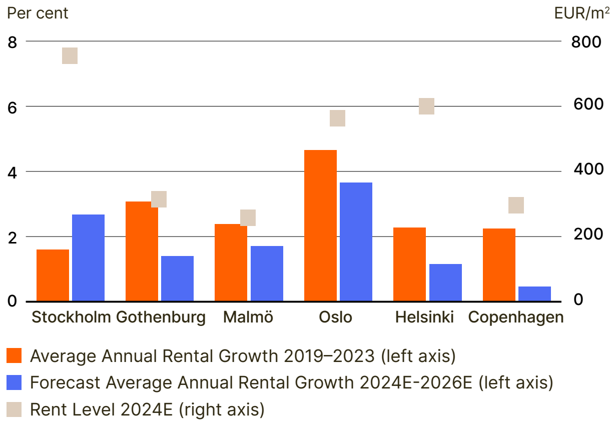


Property Data

Office rents

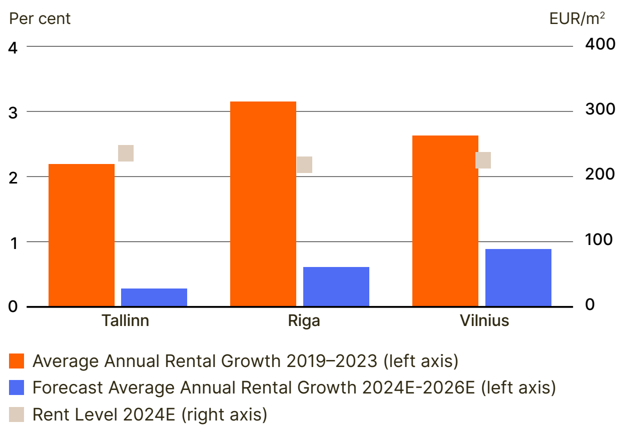
Prime Office Rents (CBD) | Nordic Region

Source: Newsec



Prime Office Rents (CBD) | Baltic Region

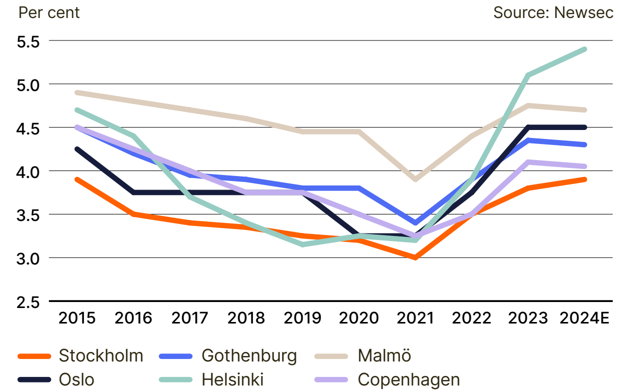
Source: Newsec



Office yields

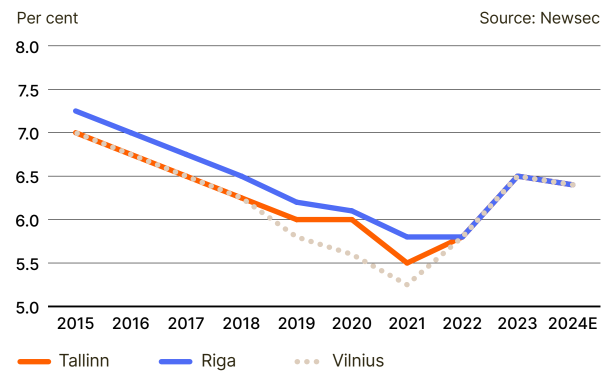
Prime Office Yields | Nordic Region

Source: Newsec



Prime Office Yields | Baltic Region

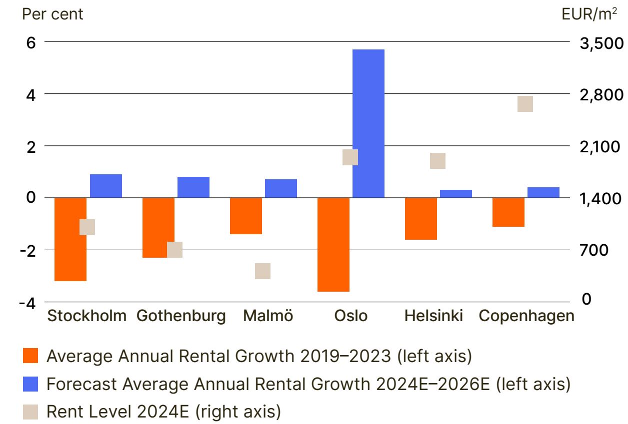
Source: Newsec



Retail rents

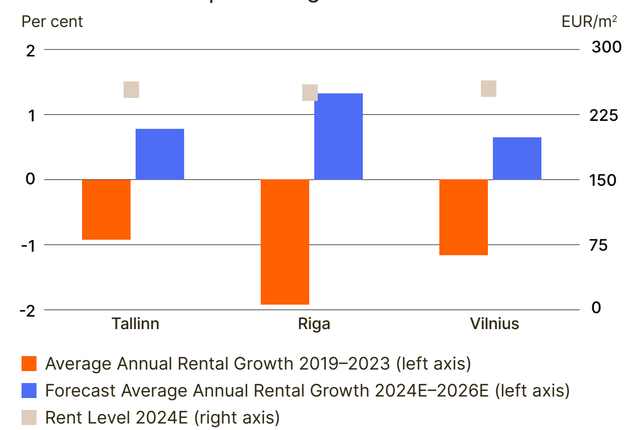
Prime Retail Rents | Nordic Region

Source: Newsec



Prime Retail Rents | Baltic Region

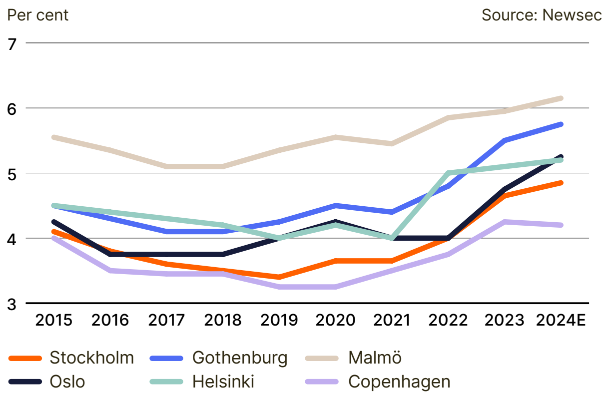
Source: Newsec



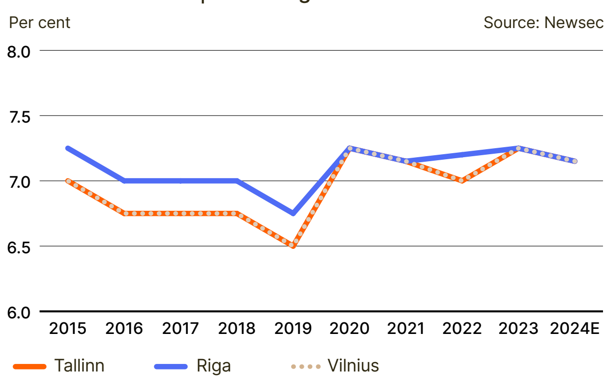
Property Data

Retail yields

Prime Retail Yields | Nordic Region



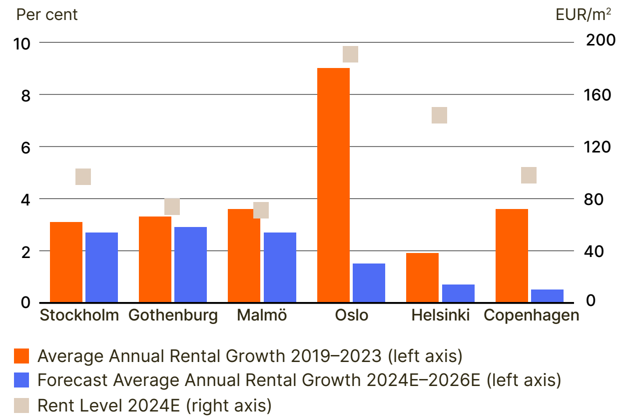
Prime Retail Yields | Baltic Region



Logistics rents

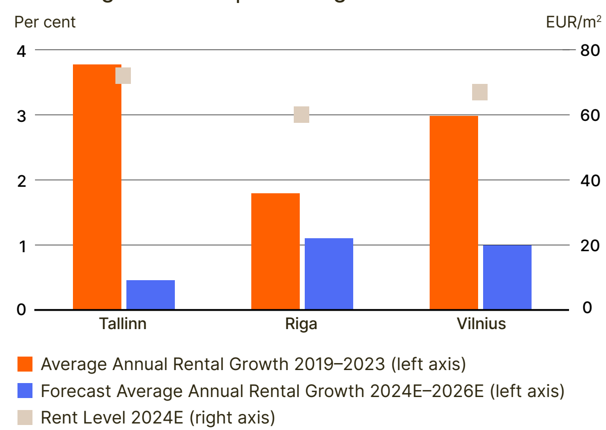
Prime Logistics Rents | Nordic Region

Source: Newsec



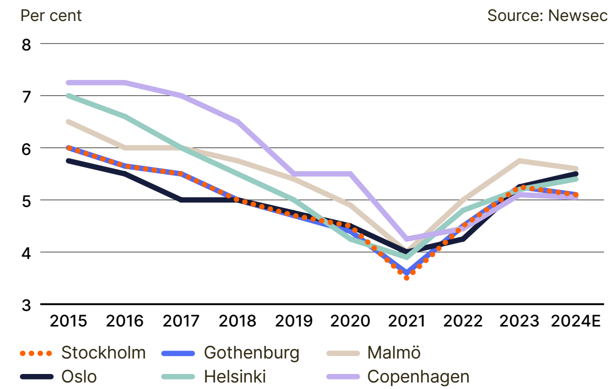
Prime Logistics Rents | Baltic Region

Source: Newsec

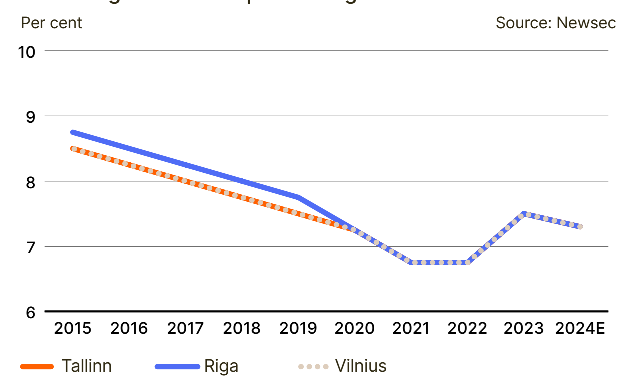


Logistics yields

Prime Logistics Yields | Nordic Region



Prime Logistics Yields | Baltic Region



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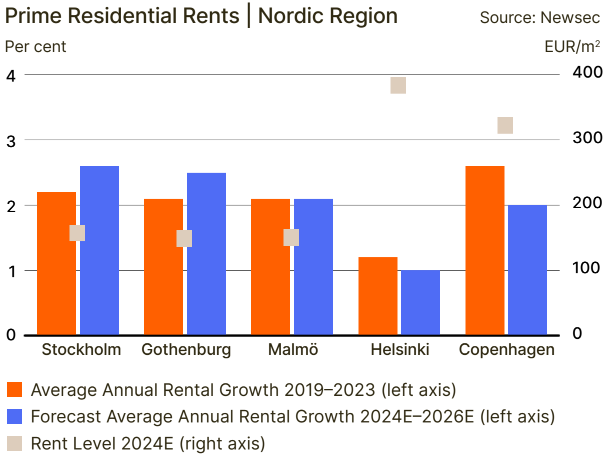
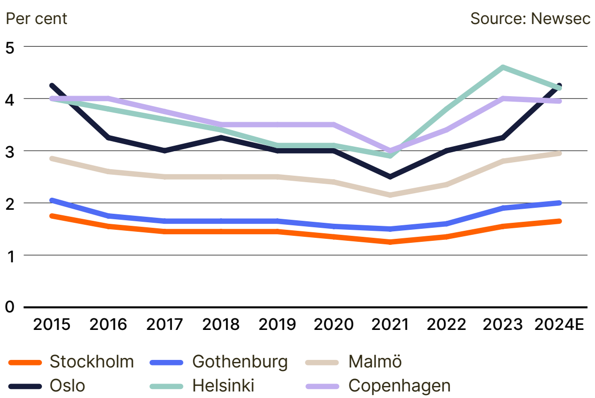
Residential

Prime Residential Rents | Nordic Region

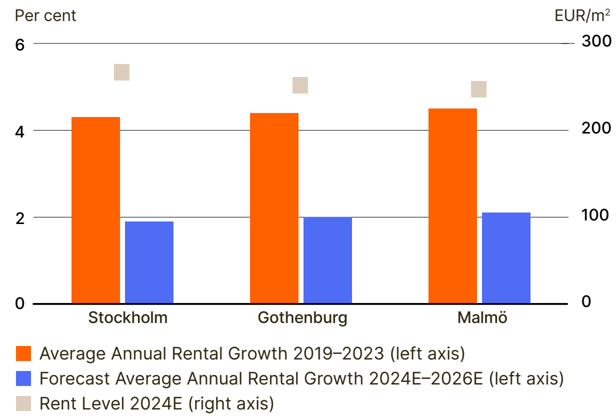


Prime Residential Yields | Nordic Region

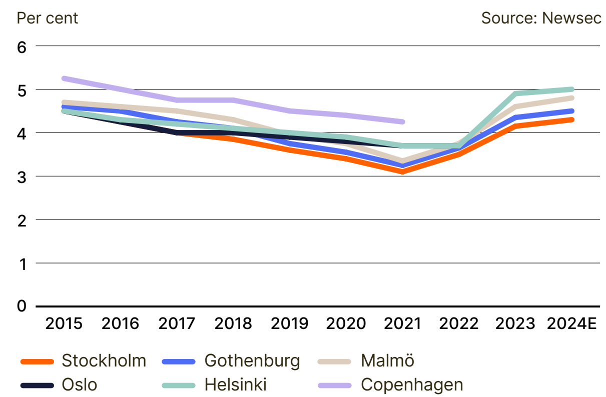


Public properties

Prime Public Properties Rents | Nordic Region

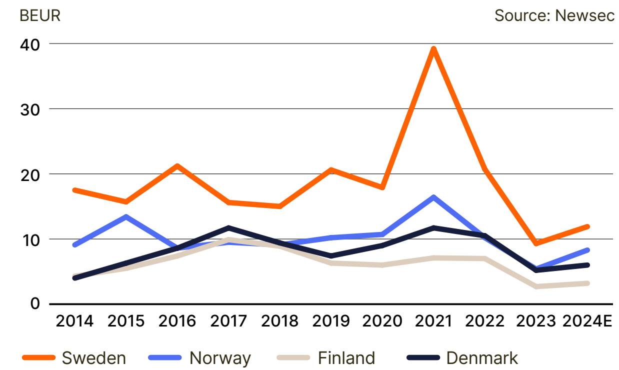


Prime Public Properties Yields | Nordic Region

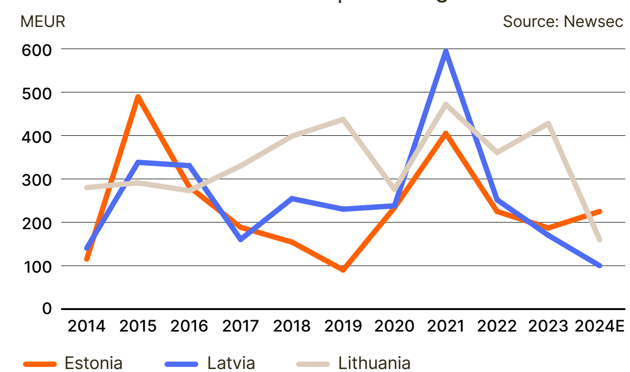


Annual transaction volumes

Transaction Volumes — Annual | Nordic Region



Transaction Volumes — Annual | Baltic Region

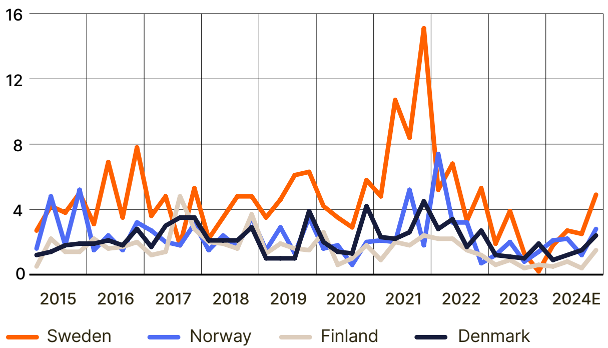


Property Data

Transaction volume

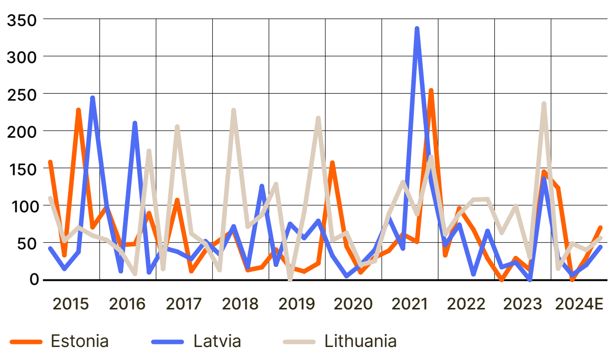
Transaction Volumes — Quarterly | Nordic Region

BEUR Source: Newsec



Transaction Volumes — Quarterly | Baltic Region

MEUR Source: Newsec

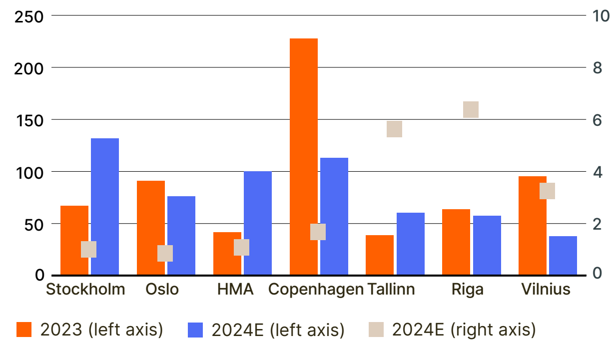


Office new construction

Office New Construction (Capital Office Market)

Source: Newsec

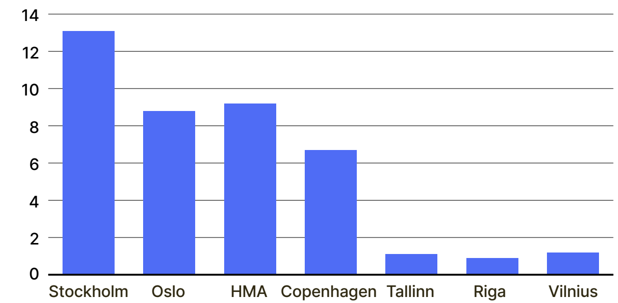
Thousand m² Per cent of stock



Office stock

Office Stock Q4 2024E (Capital Office Market)

Million m² Source: Newsec



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 2023.

The Newsec Property Outlook Team

Max Barclay
Head of Advisory and
CEO of Newsec

Sweden

Ulrika Lindmark
Head of Valuation, Research
& Strategic Analysis
ulrika.lindmark@newsec.se

Adam Tyrcha, PhD
Head of Research &
Strategic Analysis
adam.tyrcha@newsec.se

Josefin Jangälv
Senior Associate
josefin.jangalv@newsec.se

Norway

Øyvind Johan Dahl
Head of Research
ojd@newsec.no

Karen Cecilie Thunes
Senior Analyst
karen.cecilie.thunes@newsec.no

Christian Hagen
Senior Analyst
christian.hagen@newsec.no

Mari-Ann Høgheim Torgersen
Analyst
mariann.torgersen@newsec.no

Denmark

Morten Jensen
Head of Newsec Advisory Denmark
morten.jensen@newsec.dk

Robin Rich
Head of Research
robin.rich @newsec.dk

Finland

Valtteri Vuorio
Head of Research
valtteri.vuorio@newsec.fi

Baltics

Mindaugas Kulbokas
Head of Research & Analysis
m.kulbokas@newsec.lt

Kristina Živatkauskaitė
Senior Analyst
k.zivatkauskaite@newsec.lt

Inita Nitiša
Real Estate Economist
i.nitisa@newsec.lv

Mihkel Männik
Analyst
m.mannik@newsec.ee

Newsec – a leading property data & insight provider in the Nordics

Thanks to Newsec having one of the most comprehensive data bases for real estate related data in the Nordics & Baltics we are able to offer tailormade data deliveries and analyses. We also offer analyses and segment market reports which provide you with a valuable summary of the property market.

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Market Report Logistics

Market Report ESG

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For more information about data deliveries and analyses customized to your needs contact: adam.tyrcha@newsec.se

Contact and addresses

Sweden

info@newsec.se

Stockholm
Stureplan 3
P.O. Box 7795
SE-103 96 Stockholm,
Sweden
Tel: +46 8 454 40 00

Stockholm
Humlegårdsgatan 14
P.O. Box 5365
SE-102 49 Stockholm,
Sweden
Tel: +46 8 55 80 50 00

Gothenburg
Sankt Eriksgatan 5
P.O. Box 11405
SE-404 29 Göteborg,
Sweden
Tel: +46 31 721 30 00

Gothenburg
Kungsportsavenyn 33, 5 tr
SE-411 36 Göteborg,
Sweden
Tel: +46 31 733 86 00

Öresund Office
Davidshallsgatan 16
SE-211 45 Malmö,
Sweden
Tel: +46 40 631 13 00

Norway

info@newsec.no

Oslo
Haakon VIIs gate 2, Oslo
Oslo, Norway

Trondheim
Beddingen 10
NO-7042 Trondheim
Norway

Denmark

Newsec Advisory in Denmark
info@newsec.dk

Copenhagen
Vester Farimagsgade 19, 3.2
1606 København V
Tel: +45 33 14 50 70

Aarhus
Skanderborgvej 277D,
1. sal
8260 Viby J
Tel: +45 87 31 50 70

Newsec Property Asset Management in Denmark
pam@newsec.dk
+45 26 01 02

Lyngby
Lyngby Hovedgade 4
2800 Kgs. Lyngby

Aarhus
Skanderborgvej 277D,
1. Sal
8260 Viby J

Næstved
Ringstedgade 24, 1.tv
4700 Næstved

Finland

info@newsec.fi

Helsinki
Mikonkatu 7 A 3
00100 Helsinki
Finland

Porkkalankatu 3
00180 Helsinki
Finland

Tampere
Aleksanterinkatu 32 B
FI-331 00 Tampere
Finland

Turku
Yliopistonkatu 16 C
FI-20100 Turku
Finland

Estonia

info@newsec.ee

Tallinn
Viru väljak 2
Metro Plaza, 4th floor
EE-10111 Tallinn
Estonia
Tel: +372 5330 5313

Latvia

info@newsec.lv

Riga
Vesetas iela 7
LV -1013 Riga
Latvia
Tel: +371 6750 84 00

Lithuania

info@newsec.lt

Vilnius
Konstitucijos ave. 21C,
Quadrum North, 8th floor
LT-08130 Vilnius,
Lithuania
Tel: +370 5 252 6444

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