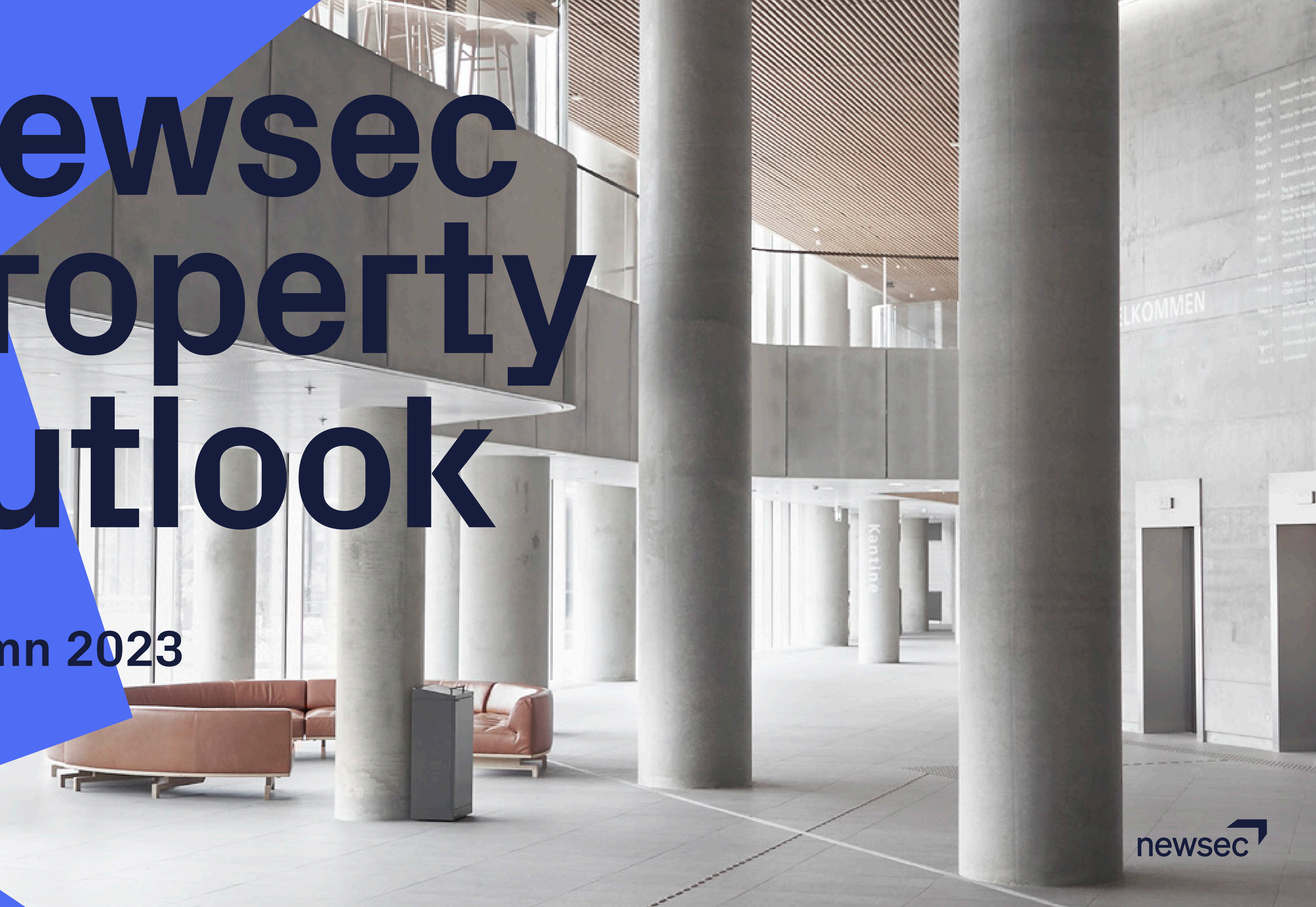
Newsec property outlook

Autumn 2023



Embracing a new chapter of collaboration

We have all experienced the challenges associated with remote work. Less-than-optimal communication between people, barriers to mentoring and motivation, and not least difficulties in building and maintaining the all-important company culture.

Reports suggest that remote work has increased five-fold in the last four years. How productive it is seems to depend a lot on how you do it. Some indicate that fully remote work leads to lower productivity compared to when employees come to the office every day. You could say that this basically concerns how we as humans change, and along with that, our needs for housing, work, trade, and the combination of these. That there are opportunities to capture.

Employers seem to accept hybrid working and it shows some indications of improving recruitment and retention (at least in the short to medium term). Looking ahead, some predict that working from home is a trend that will continue growing. The tendency Newsec has observed, of using fewer square meters per person in offices, is also likely to keep, and be further accentuated when the office becomes as much of an interaction space as a workplace. The math is simple – we have too many offices.

A tiered office market is clearly visible in the figures. A significant share of demand for new leases are for the very best office spaces. The general trend across Europe is that, in the premium segment, vacancies are decreasing while rents are rising. The opposite is the case for secondary locations.

Office spaces that are great continue to be in high demand, while those that are subpar are doing worse than before. The situation is evident in several troubled neighborhoods. The combination of shrinking office needs, a focus on quality, and the influx of modern properties means that the situation is expected to deteriorate further for offices that don't check the right boxes. We will keep seeing older, outdated office buildings in unfavorable locations being phased out. That description can be applied to a significant portion of existing offices.

That said, Newsec still sees opportunities in investing in and upgrading older office buildings. There are considerable funds available for investment, and many buyers are waiting for prices to stabilise. Newsec believes that those daring enough to take on more challenging office properties in prime locations and then transform them to better suit today's needs can be very successful.

This approach will lead to a positive development in terms of net operating income, and particularly lower yields in a few years when the interest rate trend stabilizes. However, this strategy may not be sufficient everywhere in all situations. On the whole, there is an excess of office space in Europe. Despite temporary slowdowns in new construction, we must remember that every year, new attractive offices are built. We are just at the beginning of a 20-year period during which we need to repurpose a significant portion of the office stock to other property forms.

During my trips across Europe and USA I see many creative examples of how to develop and find opportunities in the post pandemic reality.

It's essential that we think broadly about what demands we need to meet. While more housing is doubtlessly needed, it is not the only course of action. Other possibilities include schools, grocery stores, dentists, or training facilities. On top of this, there are demands and needs for new technology that enables new ways of living, working, and operating. And however hopeless a property may seem, demolition is still the least favored option, as it is expensive and does not generate future income.

The modern cities are awake at all hours, dense and vibrant. This is where we'll find future opportunities simply by start adapting properties to the conditions that apply now. This is also where you must interact if you want to stay relevant going forward.

Max Barclay,
Head of Advisory and
Deputy CEO of Newsec

Contents

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Cover photo: Johnér

Resilience – and threats

The developed economies are slowing, but in most cases only gradually. The deep recessions we feared only half a year ago have not materialized. Inflation is falling and central banks are close to the key rate peaks. However, even though the chances of a soft landing have improved, downside risks remain in Europe; monetary policy may prove to be too tight for the real economy. Real estate markets are still sluggish but closer to the trough and ensuing upturn. However, there are threats in commercial real estate, in Sweden particularly.

Klas Eklund, Senior Economist, Mannheimer Swartling

Not an ordinary cycle

This is not an ordinary economic cycle, where downturn follows upturn, and a new upturn marks the beginning of a new cycle. Since 2020, the global economy has been hit by a series of shocks: the Covid pandemic, a big war in Europe and several supply ruptures. As these shocks unfold – and eventually are dissolved – different countries and sectors react differently, and governments respond with different policy measures. The emerging economic pattern looks more haphazard, not like anything we have seen before, and economic policy faces new challenges.

Central banks were late in waking up to the inflation challenge, and consequently were forced to hike rapidly in order to catch up. They followed the traditional textbook where high inflation is best fought with tightening monetary policy. However, this time much of the inflation was caused by supply shock and bottlenecks, which are not helped by higher rates. As the supply problems are gradually being resolved, inflation is coming down, while the tightening of monetary policy simultaneously hits demand. The result is a slowdown of economic activity

At the beginning of 2023, most economists predicted recessions would follow as a result of monetary tightening. The US economy, however, has so far been resilient, courtesy of a strong labour market and household consumption which has been held up by fiscal support. Europe has experienced more severe problems with both the UK and Germany in recession. But even so, the downturn so far has not been as bad as expected.

However, uncertainties abound. Monetary policy works with long and variable lags. If inflation remains sticky, spreads to more sectors, or kicks off wage compensation demands, this may force central banks to undertake further austerity measures. Together with the tightening already taken place, this in turn could lead to deeper recessions with dire consequences for real estate and the financial sector. Here, Europe is more vulnerable than the US.

Photo: Noukka Signe

For now, however, soft landing seems to be the base scenario in the US and most of Europe. The important exceptions are Germany and the UK, where GDP growth will be negative or zero this year. Among the Nordic and Baltic countries, Sweden. Finland and Estonia are the weakest

Financial markets dominated by central banks

However, there are risks to this fairly benevolent case. They emanate from monetary policy and bond yields. During spring and early summer, as inflation started to come down, stock markets rallied in the belief that central banks were done hiking. That optimism was premature. Central

banks continued their tightening and issued signals that rates were going to stay high for longer. Even if this may prove to be untrue, bond yields rose sharply – which stopped the stock market rally.

The US economy is walking a tightrope. The soft landing indicated above may actually be too strong for the Fed and the bond markets. Growth and wage costs may hold up inflation yet some time. Lax fiscal policy, a growing federal debt and rising rates will definitely push up government borrowing costs. US credit was downgraded during summer, which is a sign of warning. Consequently, there is a real risk of financial stress later this year and in 2024.

Real estate markets deteriorated in most countries last year, and expectations were that they would continue to fall also this year. However, house prices have stabilized, and in some countries, they have actually started to rise again – in nominal terms. The main reason is the expected soft landing and hopes for an easing of monetary policy next year.

Obviously, these are uncertain expectations. Should rates stay high for longer, there is an imminent risk that house prices have further to fall.

Commercial real estate is normally more resilient, since high inflation not only brings higher interest rates but also higher revenue, in the form of higher rents (which are indexed in several countries). However, borrowing was strong during the years of easy money. Several property developers thus now meet strong headwinds as the cost of servicing debt have risen sharply. There is a lot of troubled commercial property debt in the US. China is reeling under the debt burden. Among the Nordics, this is a severe problem in Sweden and to some extent also in Norway.

Strength and weakness in Europe

The European economy, as usual, grows more slowly than the US. Economic sentiment is weak, pointing to a further slowdown. Inflation is coming down, courtesy of base effects and lower energy prices, though the ECB is worried about core inflation. As in the US, the central bank warns that rates will have to stay high for longer. But markets see the peak as close.

Different countries perform in very different ways. The UK is experiencing both slow growth and high inflation. Some of the stagflation problems are due to Brexit effects, but sluggish productivity has been there for a long time, and there is no quick fix to these structural ailments. The Bank of England will need to raise rates above the ECB and keep them there for long – with negative effects on the UK property market.

On the European continent, Germany is lagging. The previous engine has become a laggard, partly because of energy and electricity supply problems, partly because the automotive industry has been slow to transform and thus is meeting stiffer competition from China.

The rest of the Euro zone is a mixed bag, with Spain as the strongest performer among the big economies (one reason may be that

Spain has been surprisingly successful in taming inflation through price controls). On average, the Euro area as a whole will see weak growth this year but avoid an outright recession. Consumption is squeezed, and energy intensive sectors are hurt by supply problems and high prices. Also, this coming winter, risks from energy shortages can create problems. So, Europe is not out of the woods yet.

The strong Nordics

The Nordic region is currently split into two camps: the strong (Norway and Denmark) and the weak (Sweden and Finland). The former will grow, albeit slowly, while the latter are in recession.

Denmark is the most resilient economy among the Nordics. Inflation is falling sharply and real wages are starting to recover. Employment is strong. The public sector shows a surplus, and the balance of payments is massively strong, courtesy of the traditional sectors shipping and agriculture – as well as the rapid expansion of the new dominant bigpharma (anti-obesity drugs). Consequently, Denmark will be able to avoid a recession year and stage a slow recovery next year as real wages will increase.

The Danish currency is tied to the euro, meaning that the Danish central bank normally shadows the ECB, with very small degrees of freedom. The strong financial position has from time to time put upward pressure on the krone, but the risks of some kind of realignment are small. The krone will stay glued to the euro, meaning that the national key rate will mirror ECB's. Property investments have been squeezed because of rising interest rtes. Activity is in a "wait-and-see" mode, with low transactions volumes.

Norway is usually the best performing economy in the region, but also Norway is going through a slowdown, partly because oil and gas prices have been falling. GDP growth will slip below Denmark's in 2023. Big infrastructure investments are contributing to demand, while household consumption is falling. The real estate market has not suffered too badly, although housing investments are falling. House prices have been rising this year. Commercial real estate sees noticeably lower liquidity.

Inflation is higher than in the other Nordic countries, and Norges Bank has hiked quicker and more decisively than both the ECB and the Swedish Riksbank. The peak is near, and will be higher than in neighboring countries.

Despite this, the krone has weakened, together with the Swedish krona, partly because the international turbulence has caused investors to shy away from many small national currencies and stick to bigger and safer havens. When recession fears recede and the flow of oil revenues pick up, the currency should strengthen again.

The weak Nordics

Finland is being hard hit by declining domestic demand. Household consumption is falling and so is construction. House prices have also declined. Exports and manufacturing – albeit not the old stalwarts pulp and paper – are doing better but cannot prevent a shallow recession this year. In 2024, a slow upturn will follow.

Inflation is coming down, and next year real wages will probably start to increase again and alleviate the situation. Fiscal policy constitutes a question mark, however, as the new conservative government plans to slash public debt. The real estate market slowed in the beginning of this year but picked up during summer. On average, 2023 will be weaker than previous years, but the second half should see an improvement, not least courtesy of foreign investors.

> **"The real estate market slowed in the beginning of this year but picked up during summer"**

> **“Inflation is coming down, but the bank fears that core inflation will be sticky in the service sector”**

Sweden is the laggard in the Nordic region. The economy is in recession and will see only a weak recovery next year. The main culprit is weak demand. Household consumption is falling, and sentiment indicators reflect continued pessimism. One reason is that interest rates hikes hit harder in Sweden than in most other countries since the vast majority of Swedes have floating rate mortgage loans.

This interest rate sensitivity is also one reason why the construction sector is plummeting. From a strong driving force for growth, construction has turned into a drag on growth. Nominal house prices have stabilized but are still sensitive to further shock. In real terms, house prices are back to the 2016 level. Commercial real estate suffers from high indebtedness, and a reconstruction of ownership in the sector is under way as some investors are in trouble while others thrive. There is noticeable foreign interest in the Swedish market, as investors seek to snap up distressed debt at a discount, and while the currency is weak. M&A activity will increase. Despite strong public finances and well-performing exports, the krona has weakened. This is partly for the same reasons as the Norwegian krone, but also because of the clouds surrounding the commercial real estate sector – and worries that the banks may incur credit losses and financial instability will result. These worries are exaggerated, but the krona weakness is nonetheless a headache for the Riksbank.

Inflation is coming down, courtesy of lower energy prices, but the bank fears that core inflation will be sticky in the service sector. The Riksbank has signaled that it may hike the key rate a couple of notches, which would keep it above the ECB refi rate and hopefully help the krona. For my part, I don’t see this as necessary, since inflation is coming down anyway because of base effects. But it seems the Bank regards risk as asymmetrical: better to err on the tight side than on the loose side.

The Baltics

The Baltic economies – Estonia, Latvia and Lithuania – showed strong economic performance in the pre-pandemic years, partly because of reform, partly because of catch-up effects. However, the Russian invasion of Ukraine hurt the Baltics more than other countries in Europa, because of trade links and geographical proximity. A rebound should be possible next year, though. All three countries have higher inflation than the Nordics, partly because of supply disturbances during the war, partly because big wage increases.

In **Estonia**, real and nominal activity are diverging. In nominal terms, the Estonian economy has been rising fast, but in real terms GDP is falling. Inflation has bitten into real consumption and exports. Some of the downturn can be attributed to the fall of construction in the Nordic neighbors, as Estonia exports components – such as furniture and modular houses – to this sector. The housing market, however, has been stable. Transactions are more or less frozen, but the market is expected to rebound during the latter part of 2023.

Latvia stands a better chance of soft landing, courtesy of stronger domestic demand than in Estonia. Also, inflation is coming down. The labour market has remained resilient – in a sense too resilient, since wage increases have pushed higher. Next year, real wages can start to rise as inflation continues down. In the real estate market, both the volume and number of transactions remain low, but confidence is slowly recovering.

Lithuania will show weak GDP in 2023 after a poor H1. Sentiment has deteriorated,


Photo: Shutterstock

not least because the geographical proximity to the war. However, construction has stood up reasonably well. Inflation is falling, while wage growth is expected to remain rather high. The labour market is strong, which has helped real estate. So, if wage costs do not propel another round of inflation, real wages will increase sharply next year, also helped by tax cuts.

A soft landing with risks

The Western economies have fared better than feared. Given the enormous shocks of recent years, a soft landing or even a mild recession is clearly a benign outcome. Sure, the Nordic and Baltic region as a whole will see weak growth in 2023. But given the ruptures and tensions experienced in neighboring Russia, Belarus and Ukraine – and the rapid interest rate hikes – this is not bad at all.

However, we are in a precarious situation. There are a number of risks, both global and regional. For one, China's sharp slowdown hurts European exporters. Of course, there is also the incalculable risk that the Russian invasion of Ukraine will drag on and escalate further. Russia's use of the oil and gas weapon may cause yet another winter of discontent in Europe, to say nothing of the reverberations of the possible use of weapons of mass destruction.

Paradoxically, the better the real economies in the West fare, the financial risks increase. Should a growth uptick and good wage increases lead to sticky inflation, this will force central banks to keep the rates higher for longer. Households and construction would then be squeezed even further – and real estate would suffer more.

The Nordic and Baltic countries used to be relatively stable in bad times. However, the Baltics, which were growing rapidly and catching up, are reeling under the Russian threat. Some of the Nordics are hit by rising rates and debt problems. Small currencies, like the Swedish and Norwegian krona, are hurting.

However, this could actually make their real estate markets more appealing to foreign investors. Markets are going through structural adjustments, consolidation will take place, M&A will pick up – and tempting targets are cheap ...

Newsec – Agents of Yield

Photo: Jason Goodman

Following an exceptionally volatile year, turbulence has not diminished in 2023. Persistently high inflation, increasing interest rates, and yield expansion have all contributed to a slower property market in the Nordic and Baltic countries, with relatively low transaction volumes in the first half of the year. Nonetheless, it is in times like these that we must remind ourselves that in the midst of difficulty, we can often find opportunity. Despite the new challenging environment, Newsec anticipates a slow but steady return to more promising times. In this Newsec Property Outlook, Newsec has dived into what we believe to be some of the upcoming opportunities.

Redefining Workspace: The Potential of Suburban Office Hubs

Offices Stand Strong in the Nordics

The global COVID-19 pandemic has significantly altered the landscape of office occupancy. This trend was particularly pronounced in the Western hemisphere, prompting several analysts to speculate about the end of traditional office-centric work models. However, an alternative pattern has unfolded in the Nordic region, where office occupancy rates have rebounded, nearing their pre-pandemic levels.

Among the Nordic countries, Stockholm provides a compelling example of this shift, with office occupation rates currently standing at roughly 85% of the figures recorded before the onset of the pandemic. Corresponding data from other Nordic capitals – Copenhagen, Oslo, and Helsinki – also substantiates this recovery trend. This Nordic situation offers a stark contrast to the scene in larger international cities like New York and San Francisco, where office occupancy rates linger at around 40% or lower.

When compared to many American cities in particular, it is important to remember how very different the nature of the office market is in Europe, and in the Nordics in particular. In many ways, offices in the Nordics and the US are hardly comparable and could almost be said to constitute different asset classes. Almost all office space in the Nordics is located in mixed use areas, with substantial amounts of residential, retail, restaurants, parks and other use classes intermixed with office space. From the outside, you often cannot tell what comprises an office building and what is residential, with development of pure office skyscrapers having been heavily restricted. The Nordics is home to very few non-mixed office

"Newsec forecasts that the office will continue to function well in the Nordic context"

areas and generally offices are located in very attractive areas – where people want to not only work, but also live and be. Nordic downtown areas are alive and bustling both late into the evening and early in the morning. Limited incidence of homelessness and social exclusion contributes to these areas being characterized as safe, pleasant and highly attractive, meaning that the return to the office has not been a particularly hard sell to office employees.

The situation in the US is in many ways an incredibly strong contrast to this. Many downtowns comprise in large part of oversized glass office skyscrapers, with relatively limited retail and restaurants, and often times no residential at all. Sidewalks serve not only office workers, but also the countless homeless who have made these their home. Attractive areas to live and be are generally not downtown, but in the suburbs, and the office's primary function is as a workspace, leaving downtowns deserted after ~5PM. Meanwhile, in Europe and the Nordics in particular, the attractiveness of the office comprises of so much more than this. As a result, Newsec forecasts that the office will continue to function well in the Nordic context. Workers are, of course, still increasingly seeking office environments that offer flexibility and accommodate personal preferences – but this can to a much larger degree be provided by office hubs as they are today.

Exploring the Suburban Potential

Given these evolving dynamics, Newsec has recognized the potential in developing office hubs located outside central business districts. Perhaps the most overlooked asset class at the moment, Newsec sees substantial potential in suburban office space. These peripheral office locations align well with the changing work behaviors that favor localized workplaces. Additionally, these areas often come with more attractive rental levels, making them economically viable for tenants, a factor of significant relevance given the prevailing macroeconomic conditions. This analysis specifically focuses on potential office locations within Nordic capitals, driven by the size and distinct characteristics of their commercial real estate markets. The markets in the Baltic capitals have been intentionally excluded from this analysis because of the smaller scale and their differing structural dynamics within the office market. In the relatively smaller Baltic capitals and cities, the CBD continues to often comprise the only alternative with modern office space.

To further explore this potential, Newsec has made an analytical study of various densely populated suburban areas around the Nordic capitals, which are not currently seen as major office hubs. The goal of this study is to identify the areas that possess the highest potential to develop into attractive office hubs, catering to residents living outside the city center.

The methodology used involves determining the catchment area for each potential office hub. Subsequently, the current office stock in these areas has been determined and then divided by the number of people of working age living in the catchment area, yielding a 'stock per capita' metric. This metric serves as a quantitative indicator of the potential of each area to host an office hub – the lower the stock per capita, the generally higher the potential of the office area.

The results of Newsec's analysis, as represented in the accompanying exhibits 1–4 on the following page, show what areas have the lowest office stock per capita. In addition, Newsec has investigated other factors regarding the area, such as planned office development, commuting and available public transportation option, as well as upcoming housing projects, to crown a winner in each of the Nordic countries.

EXHIBIT 1:
Stockholm's potential office submarkets

AREA	STOCK PER CAPITA
Farsta	**0.21**
Barkarby	**0.25**
Täby	0.31
Bredden/Väsby	0.32
Alvik	0.37
Tyresö	0.42
Huddinge C	0.44
Sollentuna	0.57
Flemingsberg	0.58
Vällingby	0.60
Skärholmen	0.83
Värtan	0.88
Nacka	1.23
Haninge	1.29
Danderyd	1.31

EXHIBIT 2:
Oslo's potential office submarkets

AREA	STOCK PER CAPITA
Jessheim	0.54
Vestby	0.67
Fredrikstad	0.83
Lillestrøm	**0.90**
Ski	1.03
Sarpsborg	1.48
Sandvika	1.57
Kongsvinger	1.71
Drammen	2.21
Moss	2.34
Hønefoss	2.63
Østensjø/Skullertud	5.61

EXHIBIT 3:
Copenhagen's potential office submarkets

AREA	STOCK PER CAPITA
Dragør	1.2
Ishøj	1.7
Rødovre	2.6
Vallensbæk	3.1
Frederiksberg	3.2
Tårnby	3.6
Hvidovre	4.6
Gentofte	5.3
Lyngby-Taarbæk	**6.4**
Brøndby	6.8
Gladsaxe	8.0
København	8.0
Høje-Taastrup	8.8
Glostrup	9.6
Herlev	9.8
Albertslund	9.8
Ballerup	13.1

EXHIBIT 4:
Helsinki's potential office submarkets

AREA	STOCK PER CAPITA
Töölönlahti	2.6
Sörnäinen	**3.9**
Hakaniemi	5.3
Ruskeasuo	5.4
Malmi	9.6
Kalasatama	9.8
Perkkaa	10.5
Haaga/Lassila	12.7
Vallila	13.0
Käpylä	13.4
Eteläinen kantakaupunki	13.8
Herttoniemi	14.1
Tikkurila	16.5
Tapiola	17.4
Leppävaara	17.7
Ruoholahti	20.5
Pasila	26.3
Ilmala	29.4
Niittykumpu	30.3
Otaniemi	53.0
Veromies	64.4
Pitäjänmäki	75.0
Keilaniemi	137.6
Kilo	196.2
Aviapolis	200.5

NB: Methodology differs slightly between the Nordic countries, meaning the figures are not comparable between countries.

Crowning the winners of the Nordic Capitals' Most Promising Suburban Office Hubs

In the Swedish market, two areas have been identified as the ones with strongest potential: Farsta and Barkarby. Not only do they have the lowest "office stock per capita" ratio and therefore possess significant development potential; these areas are also currently undergoing strategic infrastructural expansion, with numerous residential projects and various services in the pipeline, contributing to their overall growth prospects.

However, Barkarby emerges as the most favorable due to several compelling factors. The community in Barkarby is experiencing rapid expansion, underlining its potential to host an increasingly vibrant office hub, while also providing a large amount of residential and retail space. Contributing to Barkarby's appeal is the extension of the blue subway line, set to significantly enhance the area's connectivity. The combination of these factors positions Barkarby as a highly prospective location for office real estate development in Sweden. Nevertheless, Newsec also views Farsta as a very attractive area for potential office development, primarily owing to its location and large population. This argument holds both in Farsta's immediate vicinity, but also in southern Stockholm in general, which has a higher population than northern Stockholm, but much less available office space.

The Oslo market has various areas of substantial potential. However, regions with the sparsest office space per capita are not necessarily the ones Newsec projects as most promising for this market. Instead, the winner in Norway is characterized by a composite of factors such as relatively new office stock, seamless access to central Oslo, and relatively low rental costs that cater to both public and private tenants. These determinants, paired with the forecast population upswing in the years ahead, have weighed in when crowning Lillestrøm as the winning area or in Oslo. This area represents the optimal intersection of current opportunity and future potential, placing it as number one in the Oslo market potential office hubs.

Regarding our most southern Nordic capital, several suburban areas encircle Copenhagen, each showcasing varying degrees of developmental potential. While many remain in evolving stages with limited office stock and a modest working-age populace, one area stands out according to Newsec. Lyngby-Taarbæk has been identified as the optimal location within the Copenhagen's perimeter due to a strong forecast for growth and significant influx of office workforce migration. This district presents a unique blend of anticipated expansion and a burgeoning workforce, factors that significantly underpin its potential. Hence, Lyngby-Taarbæk emerges as the top contender among Copenhagen's suburbs.

The Helsinki metropolitan district also offers several potential office areas, with Sörnäinen emerging as the most promising one and therefore the Finnish winner. Notwithstanding its positioning within the evolving "Kallio block", the Brooklyn of Helsinki, this area houses an office stock lower than Helsinki's average, presenting considerable development opportunities. Sörnäinen, part of the progressive Pasila-Vallila-Kalasatama axis, is acclaimed for its great connectivity and comprehensive amenities. Despite the absence of ongoing construction projects, the office stock, varying from modern structures to older buildings, is anticipated to undergo strategic refurbishments, attracted by more contemporary companies such as Miltton. The

area, home to a youthful, well-off population, is suited for businesses that could benefit from its demographic makeup. The forthcoming public transport bridge to Laajasalo may further support Sörnäinen's prospects. It is reasonable to expect increased tenant and investor interest as the area adjusts to current office space standards.

The Return of the Middle Yield Segment: Macro Factors have Reshaped the Nordic-Baltic Property Market

Properties in office areas such as those described above would likely fall into what Newsec has termed the "middle yield" segment, typically represented by properties with yields in the 5.5% to 7.5% range. Up until the beginning of 2022, all Nordic and Baltic countries had experienced considerable yield compression across all segments, essentially since the GFC of 2008 (with a small amount of yield expansion during the early onset of covid, and some other incidents of localized yield expansion). This outcome emerged as a result of several factors, including a beneficial macroeconomic environment characterized by negative policy rates, affordable financial costs, and generous lending conditions from banks. Properties located within prime areas were frequently acquired at yields below 4%, an indicator of soaring property values and a robust real estate market. Due to these market trends, the middle yield segment did not receive particularly much attention.

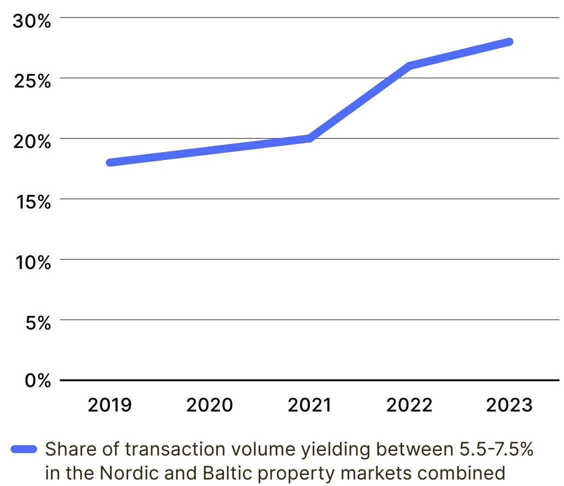
The "middle yield segment" typically includes industrial properties, office spaces outside prime areas, as well as big box retail properties and grocery stores. While many of these segments were adversely impacted during the pandemic by short-term lockdown measures, they have generally demonstrated resilient performance ever since.

In spite of the societal disruptions caused by the pandemic, it was not until Russia's invasion of Ukraine that we saw a more profound global macroeconomic change, which subsequently had noticeable impacts on the property market dynamics. The invasion ushered in an era of high inflation across the globe, catalyzed sharp increases in interest rates, and initiated significantly more stringent monetary policies. These developments resulted in yield expansion across all property segments. Investors, particularly those who are not equity buyers, are now unable to continue making

> **"The recent shifts in the investment landscape comprises of more than just yield fluctuations"**

investments where the yield is below the prevailing interest rates. This shift in dynamics could partially explain why the proportion of transaction volumes yielding between 5.5% and 7.5% has observed an upward trajectory since 2019, with a notably sharp difference between 2021 and 2022/2023 displayed in Exhibit 5 on the following page.

EXHIBIT 5:
Share of transaction volume yielding between 5.5–7.5%

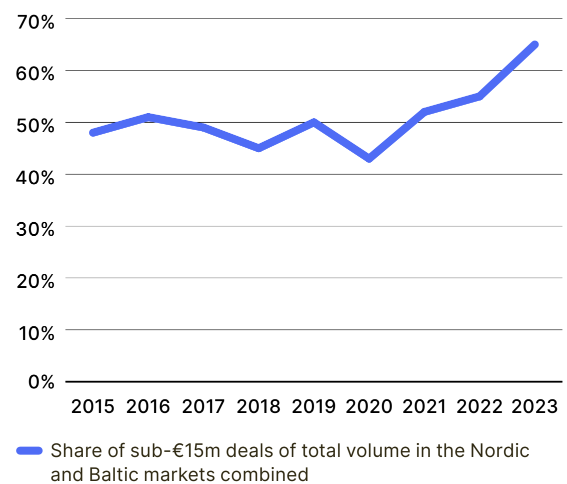


When Bigger Is Not Better: Economic Conditions Drive Smaller Transactions

The recent shifts in the investment landscape comprises of more than just yield fluctuations. There is a noticeable trend relating to transaction sizes that has become evident over the past few years. Looking at the Nordic and Baltic transaction markets from 2019, they reveal an upturn in the proportion of transactions with volumes less than 15 million Euros – see Exhibit 6 below.

This trend could potentially be attributed to an increasingly challenging macroeconomic environment. With rising financial costs and more conservative loan-to-value ratios being enforced, investors may find themselves limited in their capacity to engage in larger-scale deals. The evolution of these economic conditions is likely to be a driving force behind the notable increase in smaller transactions. Consequently, this highlights the inherent adaptability of market dynamics and underscores the significance of maintaining a flexible approach in investment strategies.

EXHIBIT 6:
Share of sub-€15m deals of total volume



Light at the End of the Tunnell

Exhibit 7, on the the following page, shows a clear picture of the policy rate and the common lending rate having consistently remained beneath prime yields since 2007. However, in a significant shift, 2022 marked the first year where borrowing costs exceeded prime yields. This change has had a profound effect on the real estate market, creating an environment of uncertainty that has made many investors hesitant, particularly when considering investment in low-yielding properties.

This shift in the financial landscape in 2022 has affected investor behavior in 2023. The first half of the year was defined by reduced activity and a sense of caution among market players. This hesitant attitude was a response to the new financial landscape where borrowing had become more expensive, causing investors to reevaluate their strategies. However, despite this period of hesitation and relative inactivity, a subtle sign of recovery was evident by June. Transaction volumes increased significantly compared to the preceding months of April and May. This modest uptick in activity has contributed to Newsec's optimism about the future, specifically the upcoming autumn and winter.

The diagram further illuminates the financial forecast. The consensus among market analysts suggests a decrease in both policy rates and the common lending rate. While it is also anticipated that yields may experience a slight compression, Newsec projects that prime yields will surpass the lending rate in the period of 2024–2025.

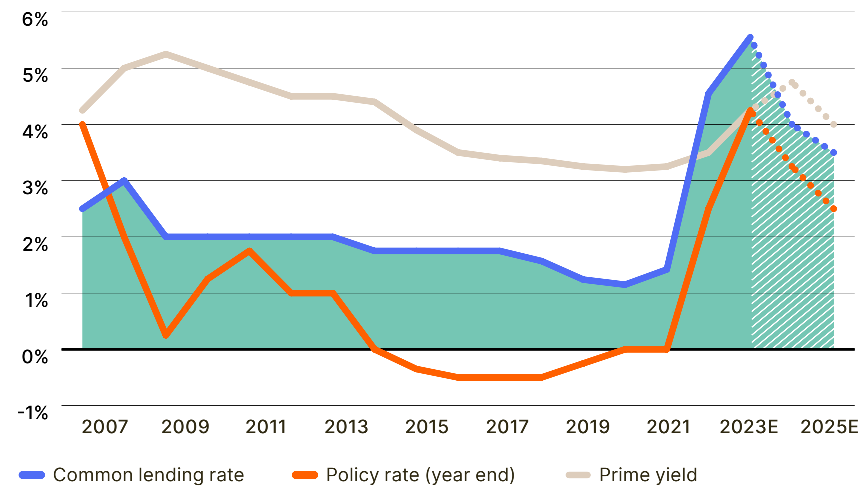
This outlook, if realized, could have a positive impact on the real estate market. With prime yields once again outperforming lending rates, the conditions for investment could improve. This in turn might stimulate increased activity, fostering renewed growth and dynamism in the real estate sector, potentially reversing the caution that has characterized the first half of 2023.

Investing in the Future: From Disruption to Opportunity

The profound shifts in the global workspace and investment landscape, catalyzed by the COVID-19 pandemic, the war and other significant geopolitical events, have given rise to dynamic changes in market trends. Notably, the Nordic region has seen a robust recovery with a resurgent demand for office spaces. This has led Newsec to believe that there is promising potential for growing office hubs outside central business districts in the Nordic capitals.

The property market in the Nordics and Baltics has seen significant changes since 2022, with a trend towards smaller transaction sizes and a greater interest in the "middle yield segment", likely attributed to a more challenging macroeconomic environment. Despite a period of hesitancy and stagnation, subtle signs of recovery towards the end of Q2 2023 have sparked optimism and Newsec has a positive outlook towards the future. The optimism extends to future investment opportunities, not just for equity buyers, but for a broader range of different investors, and for all kinds of segments. Newsec is optimistic about a more active transaction market and increased transaction volumes in the autumn and winter.

EXHIBIT 7:
Relation between lending rate, policy rate and prime yields



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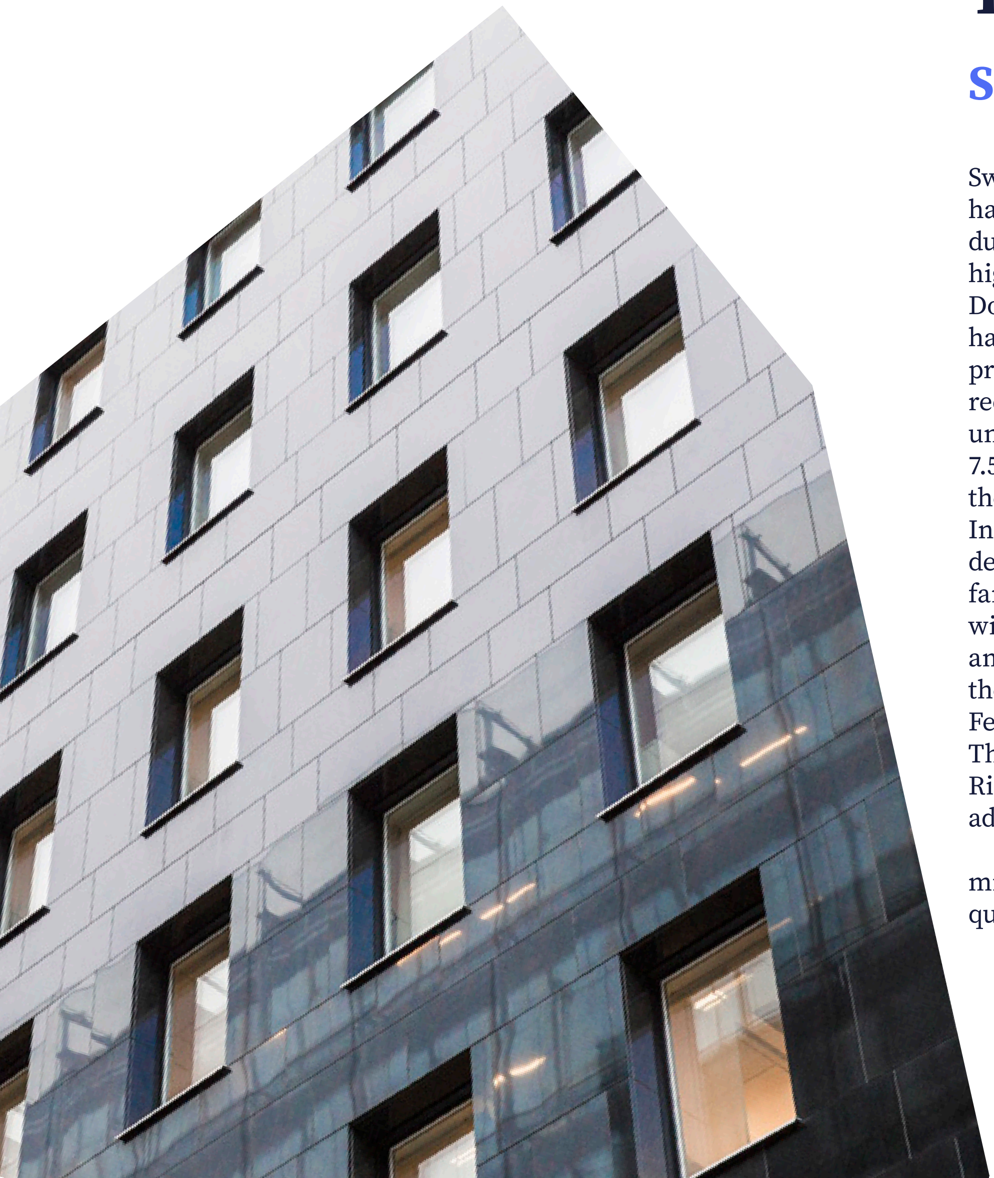
Property Markets

Photo: iStock



The Swedish property market

Some investors in difficulty – others thriving

Sweden's macroeconomic situation in 2023 has been marked by decelerated growth due to factors such as rising energy prices, higher interest rates, and falling real wages. Domestic demand and the housing market have been particularly affected. GDP is projected to contract by 0.9% in 2023 before recovering to a growth rate of 1.2% in 2024, and unemployment is expected to increase from 7.5% in 2022 to 7.7% in 2024, primarily affecting the construction and real estate sectors. Inflation, which peaked in 2022, started to decrease in March, but remained unexpectedly far above Riksbanken's target in the summer, with the latest inflation number in July amounting to 6.4% (KPIF). Riksbanken raised the policy rate to 3.75% in June, with both the Fed and ECB raising interest rates since then. Therefore, a 0.25% raise is also expected from Riksbanken in September, and potentially an additional one in November.

The Swedish real estate market has mirrored the macroeconomic development quite well so far in 2023. High interest rates and tough financing conditions had a dampening effect on the real estate market in the beginning of the year, and transaction volumes were historically low until April. In May and June, the market showed some signs of recovery and witnessed greater liquidity, where the transaction volume for H1 amounted to BSEK 62.4, almost 50% lower than in 2022 and in line with the early 2010's. However, despite some deals being made, the bid-ask spread between sellers and buyers remains wide, and sales processes are significantly longer than usual. Both yields and rents have continued to increase, but rental growth has begun to falter, and is expected to reach a plateau after significant rent hikes during the past winter and spring. Newsec assesses that the total transaction volume for the full year of 2023 will amount to around 150 BSEK.

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Interesting trends on the Swedish property market

International investors notably present on the Swedish market

Despite experiencing a decrease in transaction volume, the Swedish market continues to attract a significant amount of international investors, including both established players and newcomers. The share of foreign investors has so far in 2023 has amounted to 33%, which is higher than the historical average. However, a noteworthy aspect is that many prospective foreign investors lack a comprehensive understanding of the Swedish market dynamics, which can lead to challenges when it comes to actually completing a transaction. Some investors perceive the sellers to be under more pressure and distressed than what might be the actual case, and expect larger discounts than sellers are willing to give.

M&A Landscape slower than expected

M&A activity has been surprisingly subdued this year, with the exception of three standout deals— Areim's acquisition of HAM Nordic AB (owner of Magnolia Bostad), NREP's acquisition of Klövern, and Doxa's bid on Serneke. This indicates a slower pace of corporate consolidation than what many had forecast, given the financial challenges that many property companies have been facing. An explanation could be a lag of the effect of the increased policy rate or financial instability for potential buyers. Newsec assesses a potential upswing in M&A activity in the coming autumn and winter is likely, since a number of listed real estate companies will keep suffering from high financial costs.

Residential rebound in 2023

The residential segment was the talk of the town at the end of 2022/beginning of 2023 and many investors were cautious, with building costs that skyrocketed and development projects that came to a complete halt. Although the projections for the residential segment were dark going into this year, the segment has held up better than anyone had foreseen. Accounting for 20% of the total transaction and a greater number of deals than almost every other segment (the industrial/logistics segment had only seven more), residential could be considered the overperforming underdog of the first half of 2023.

Equity buyers drive market momentum

With the new economic climate, there are few who have not been very affected by it. The one exception is equity buyers, who were very active in the beginning of the year. An example is Folksam's acquisition of the office building Rotundan 1 in central Stockholm from Zürich Insurance. Given the protection that equity buyers have against high financial costs and stricter loan conditions, they can still invest at rather attractive levels, keeping the property market from stagnating even more. Newsec is confident that there will be more all-equity acquisitions, coming from a wide range of pension funds and other institutional capital, in the second half of 2023.

SEK 219.5 billion
Total investment volume in 2022

SEK 150 billion
Total investment volume expected in 2023

-0.9%
GDP growth expected in 2023

The Norwegian property market

Higher for longer

2022 was a year for the history books, with inflation reaching its highest point in over 30 years, followed by several key policy rate hikes. 2023 began just as 2022 ended with high economic activity, record-low unemployment, and inflation figures far surpassing the expectations of the Norwegian Central Bank. Since the beginning of the year SWAP rates and NIBOR have increased rapidly. As of mid-August, the NIBOR, NOK 5- and 10-year swap rates are well above 4%, which are the highest levels observed in the past decade.


Photo: Shutterstock

Slightly beyond the halfway mark of 2023, and nearly two years following the initial policy rate hike, we are starting to observe indications of a slowdown in the economy. GDP growth is at a flat trend, housing investments continues to fall, and we observe indications of a moderation in consumption. However, the labor market remains tight and this year's wage settlement was exceptionally strong. Thus, inflation looks a bit sticky and well above the central bank target. A return to normal is unlikely in the near term and the monetary policy will have a contractionary effect on the economy at least throughout 2025. The key policy rate is forecast to peak at 4.25% during the autumn and stay higher for longer.

The challenging backdrop continues to cause issues for the commercial real estate market, where we observe noticeably lower liquidity in the transaction market. By the end of the second quarter, we have recorded a total of 101 transactions, totaling NOK 28 billion, making the first half of the year the weakest since 2014. Transaction volume is down by 57% compared to the first half of the previous year, primarily due to a significant disparity in price expectations between buyers and sellers.

Since the peak activity in the second quarter of last year, the office, logistics, hotel, and retail segments have witnessed a decline in value due to a general rise in yields. High CPI and rental price growth have partially offset the increase in yields, but not sufficiently enough to counteract the negative value development across all segments. At the same time, we observe higher interest for development projects with cash flow coming in a few years. Hotels are again attractive with record high RevPAR figures due to a weak NOK and lower inflation compared to other European countries, making Norway an attractive destination for foreign tourists.

The activity in the market is expected to pick up during autumn when hopefully the interest rate peak has been reached and the backdrop looks more stable. Newsec forecasts a transaction volume around NOK 60 bn for 2023, the lowest volume since 2013.

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Interesting trends on the Norwegian property market

Distance Between Buyer And Seller

The liquidity in the transaction market has been significantly reduced with several pending investors. The market is undergoing repricing, and discussions are arising about a significant gap between buyers and sellers. This spring, Newsec conducted a survey among our clients, asking them to evaluate an office building in the CBD under the scenario of being fully leased at market terms. Divided into two groups, half of them received the question “At what yield would you be willing to buy this building?” and the other half “At what yield would you be willing to sell this building?”, and a clear gap emerged. The average yield among sellers came in at 4.16%, while the average yield among buyers was 4.57%, a gap of 41 basis points. Given that CBD is characterized by high value-properties, such a bid-ask spread is too large for any further discussions. The question is whether the buyer or the seller should make a move. Newsec’s standpoint is that both parties have responsibility.

Alternative settlements and price growth expectation boost housing appetite

Despite investors’ high selectivity, substantial transaction market activity endures. In spring, we noted a marked shift toward residential projects and plots. The continued interest among property developers stems from the potential to mitigate purchase risks by modifying transaction settlement structures. Elevated construction costs, mounting financing expenditures, and strict banking. Concurrently, the Norwegian economy’s robust growth, with a tight job market, relaxed lending regulations, and low urban housing construction, collectively contribute to consistent housing price surprises. Demonstrating resilience, the housing market saw a price growth of 5.2% as of July.

Thriving office market, but clouds on the horizon

Despite limited market activity, the rental market pressure remains intense in Norway’s major cities. Office vacancy rates have plummeted over the past year, hitting unprecedented lows. Likely factors include robust employment and business investment appetite, alongside fewer completed office projects. This scarcity has significantly elevated rental levels. Prime locations are at the forefront, witnessing the most substantial rental hikes. The question now is the duration of this resilient growth. Shifting trends suggest rising unemployment but limited new building supply, especially evident in Oslo, could counterbalance this.

Logistics – a shift from large distribution hubs toward last mile

The logistics segment has benefitted from global supply chain pressure, increased e-commerce, and longer delivery times in recent years. However, National surveys indicate warehouse companies anticipate less growth than in 2022. Supply chain challenges and pandemic-driven consumption growth likely led key players to proactively position themselves for early growth, but decreased expectations for e-commerce growth rates could possibly contribute to lower warehouse expansion outlooks and more cautiousness among players. Still, “last-mile delivery” providers near major cities have potential due to rising demand and decreased supply from housing conversions. This continues to place substantial price pressure on central hubs.

NOK 95 billion
Total investment volume in 2022

NOK 60 billion
Total investment volume expected in 2023

+ 1.1%
GDP growth expected in 2023

The Danish property market

The risk of a hard landing is diminishing

Macroeconomic developments in Denmark are relatively positive despite many negative external factors. The economy, growing by 6.8% in 2021 and 2.7% in 2022, has maintained momentum in 2023 with GDP expanding in both Q1 and Q2 by 0.6% and 0.2% respectively. Employment increased rapidly in 2021 and 2022 and has continued to move up in 2023 reaching an all-time high. Economic growth is expected to be moderate 2023–2024, but the risk of a "hard landing" appears to be diminishing. Annual GDP growth is expected to end at 1.5% in 2023.

Inflation, peaking in October 2022 at 10.1%, has dropped sharply to 3.1% as of July 2023. The decrease is mainly driven by lower energy prices, while "core inflation" remains high at around 5%. Inflation is expected to drop further, but a return to "normal" inflation is not expected before 2025.

The Danish Central Bank has raised its leading interest rate from 1.75% to 3.10% so far in 2023 and more hikes are expected in H2. Peaking at 3.60% in H2, rates are expected to be lowered in 2024. Market interest rates have shifted less in 2023 and yields on long-term bonds have flattened. Most forecasts expect a modest drop in market rates in the coming 12 months.

Rising interest rates and tighter access to credit have squeezed property investments since mid-2022. Property yields have decompressed, but not as fast as interest rates, which has driven the yield-gap significantly down below the long-term average. Uncertainty about the extent of future repricing has led to a "wait-and-see" approach among both potential buyers and sellers. Investment activity dropped by 40% in H2 2022 (year-on-year) and remains low in 2023. In H1, the transaction volume is down 60% compared to last year. For many years, residential properties have been the most sought-after asset type by investors representing almost 50% of the total transaction volume. Investments in this segment fell by 20% in 2022, which was the main reason for the decline in overall transaction volume. Residential remains the most severely affected segment in 2023 dropping by 70% in H1. All types of property are suffering as transaction volume has fallen by 35–75% – with industrial performing relatively best. Currently, there is no noticeable amount of distressed property on the market. Nordic property owners have gone from being considerable net buyers to becoming net sellers in H1 2023.

The rental market is still benefitting from the overall positive macro-economic development. Vacancy rates remain below long-term levels and rents have continued to rise in 2023 stimulated by a combination of positive demand and considerable indexation of rents due to higher inflation. It is Newsec's assessment that property owners will have to look for income growth to generate value in the time to come. In addition to benefiting from generally favourable market conditions, optimization of properties will, of course, play an important role in creating value. The stable, long-term potential of commercial real estate means that investors with access to financing or with an investment requirement will continue to look for property. Recent years have shown that there are many willing buyers – asset managers and institutional investors in particular – who want to place funds in assets that can provide a stable long-term cash flow.

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Interesting trends on the Danish property market

Will the yield gap start to widen?

The rise in property yields has been much less dramatic than the rise in interest rates. The yield on a "risk-free" 10Y Danish government bond has risen by approx. 290 bps since the beginning of 2022 and short-term financing costs have risen even more. Property yields have "only" shifted by some 60–80 bps. This has led to a sharp drop in the yield gap, which is currently clearly below its long-term level. The question now is whether this deviation is sustainable, or if a widening of the gap may cause yields to soften more. One cause of the recent shift in the yield gap may be found in the surge in inflation, which is also way above its long-term trend. In this new inflationary environment, investing in property can be an attractive alternative to other asset types due to the possibility of rent indexation. In a long-term perspective, the yield gap tends to be below the long-term average in periods with high inflation. One reason might be that investors will accept lower yields for rental growth. However, inflation is not expected to have shifted up permanently to a higher level but is seen to fall back gradually, so some convergence toward long-term "normality" is likely. Although market interest rates may be peaking in these months and are expected to fall in H2, it is likely that property yields remain stable bringing the yield gap closer to its long-term level for the rest of 2023.

Will office occupier demand be redirected from periphery to centre?

Strong employment growth has boosted the need for offices since 2021 and office vacancy rates have fallen substantially especially in Copenhagen, Odense and Aalborg. However, the demand has seen a slow-down in 2023 with H1 take-up in the Greater Copenhagen area falling for the first time since 2020. The decline is not general, however, as central Copenhagen continues to see strong demand, while other Copenhagen sub-markets do not. Interestingly, a number of suburban office sub-markets, such as Ballerup, Gladsaxe and Lyngby-Taarbæk, also perform fairly well. They are relatively large office destinations with a good historical track-record of attracting office jobs. These areas have traditionally catered to occupiers who require large, flexible premises and at rents that are lower than in central Copenhagen. As demand may slow down further in 2023 and 2024 at a time when much new office space is expected in Copenhagen city, the question is, whether this will redirect the demand to suburban offices as an alternative to Copenhagen city.

Will residential property regain its leading position?

High sensitivity to interest rates affected the market for owner-occupied homes and rental homes alike in 2022. Transaction activity dropped sharply and put prices under pressure. The short-term outlook for the housing market depends, to a large degree, on the financial supply side aspects such as how interest rates will move and how access to credit will be in 2023. In the long-term, demographic growth will boost demand for housing in most large Danish cities. It is Newsec's assessment that the rental housing market will recover faster than the owner-occupier market as renting will continue to be a more affordable form of housing compared to buying/owning for many households.
In addition, uncertainty in relation to the development of house prices as well as tight credit requirements in banks and mortgage institutes could contribute to dampen the demand for owner-occupied homes in 2023. The prospect of positive, stable rental growth will be attractive to many investors with a focus on the long-term cash-flow.

DKK 77 billion
Total investment volume in 2022

DKK 45 billion
Total investment volume expected in 2023

+ 1.5%
GDP growth expected in 2023


Photo: Shutterstock

The Finnish property market

Market visibility improving

The current economic outlook has dimmed from the strong start of the year, reflecting the impact of monetary policy. The Euro Area continues to experience a moderate disinflation, and in July 2023, the headline inflation within the Euro Area retreated from 5.5% to 5.3%, reaching its lowest point since January 2022. In Finland, the headline inflation stood at 4.2% in July.

July 2023 witnessed the European Central Bank (ECB) responding to inflationary pressures by instituting a 25 basis points increase in the interest rate, placing it at 3.75%. Market sentiment generally projects the benchmark interest rate to reach 4.00% by September. This is projected to be the last of the hikes ending the interest rate hiking cycle.

The rapid increase in interest rates has been evident in the real estate market throughout the first half of 2023. However, activity in the real estate market has picked up in the second quarter. The volume of real estate transactions in June was approximately 450 million euros, surpassing the 320 million euros of June during the pandemic year 2020, but falling below the average of around 1 billion euros over the last five years.

The transaction volume for the second quarter of the year was around 920 million euros, and the volume for the first half of 2023 was approximately 1.5 billion euros. The average for the previous five years in the second quarter is 1.7 billion euros, and 3.5 billion euros for the first half of the year.

Investors have continued to be selective when directing capital into real estate investments but predictability in the market is improving as we approach the end of the year, which will activate investors. Additionally, the bid-ask spread between sellers and buyers is narrowing. Newsec anticipates a more active second half of the year compared to the first.

The number of real estate transactions likely will not reach the averages of previous years during this period of high financing costs. Nevertheless, Finland remains an attractive country for investors, and domestic investors' activity is expected to increase further as financing costs begin to decrease.

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Interesting trends on the Finnish property market

The residential sector still driving the market

The housing demand has clearly not recovered, and uncertainty remains very high. The average interest rate on new mortgages in June 2023 was 4.39% and this has affected the volume of new mortgage disbursements, which at €1.3 billion was 32% lower than a year earlier. Furthermore, professional residential investors are hesitant due to the high financing cost or availability of financing. As demand has weakened, residential construction has contracted with exceptionally few new starts in the first half of 2023. The annual change in new residential construction in May 2023 was -22.3%. The annual housing production need in Finland is around 35 000 dwellings which will not be met in the coming years, but the need for new energy-efficient housing is not dead. The demand for new non-subsidized and subsidized rental apartments remains as around 50 % of all households live in rented dwellings in larger cities. The volume of residential investments in the second quarter was EUR 495 million, 39% lower than the same quarter in 2022, and 59% of the total volume was foreign investors. Professional domestic and international investors have increased residential investments in recent years, and they are sophisticated about the long-term demand issues for new housing. Additionally, the residential transactions in 2023 amount to more than 60 % compared to the next biggest sector, the residential sector is clearly still driving the market.

Yield decompression continues

In the first half of 2023, transaction activity remained slow due to differing price expectations and yield rises lagging. As we now are experiencing a slightly more active transaction market, the current and year-end prime yield views have expanded. Decompression has affected all the sectors of real estate, and prime yields have expanded across sectors from 50 to 150 bps between end-2021 to mid-2023. The decompression within the logistics and retail sectors is expected to be the lowest in 2023 as a whole, as these sectors already suffered the most during the pandemic, and the current demand fundamentals benefit them. Newsec expects yields to continue to decompress towards the end of 2023. For 2024, as monetary normalization progresses and the market activity increases, a slight prime yield compression is anticipated by year-end.

Demand in the logistics segment remains relatively steady

For a long time, logistics has remained in high demand. Yet, rising financing costs have affected market sentiment and valuations. This has led to lower capital allocation and transaction volumes. Despite this, investor engagement continues to relatively thrive within the industrial and logistics sector, with a particular emphasis on the Helsinki Metropolitan Area. The decline in transaction volumes from last year is the second smallest after the residential sector for the first half of the year. Also, the number of logistics transactions has been the highest, with emphasis on the warehouse subcategory. In addition, there seems to be activity and interest on the operator side to find new premises. Availability of spaces has indeed posed a challenge on both the investor and tenant fronts. Also, the vacancy rates are at an average of 4.0 percent in the second quarter in the HMA. Because new land plots and zoning are scarce, construction outside the HMA is surpassing that within the HMA.

EUR 6.8 billion
Total investment volume in 2022

EUR 4 billion
Total investment volume expected in 2023

-0.3%
GDP growth expected in 2023

The Estonian property market

Investment market has remained frozen

While in nominal prices Estonian economy has grown by 30% within the last two years, in terms of real prices quite the opposite has taken place. The economy has been shrinking for more than a year in real price terms. Usually, economic contraction brings higher unemployment and slower salary growth, but the labour market has remained quite robust so far. Although, the situation varies between different sectors. The manufacturing sector has been under more pressure than any other. Since late 2022, it has been heavily affected by lower demand from the Nordic market and by higher growth of input costs than in other countries, which has reduced Estonia's global competitiveness. So far, the modular house construction and furniture sectors have felt the negative effects the most, and some of them have already faced bankruptcy.

Another recently emerged sector that's been seeing an uptick in layoffs is construction due to lower demand for new buildings. This, however, may only be temporary, as the economy has now become more stable, inflation has gone down from its previous heights, and there may be opportunities to secure government contracts in the near future. For instance, the Rail Baltic project could provide opportunities for the construction sector.

In July 2023 inflation was 6.4%, as compared to 22.8% at the same time last year. Meanwhile comparing July 2023 to June 2023, the prices have started to show some decline (resulting in -0.6% CPI), indicating that inflation has decelerated. However, the interest rates most likely remain elevated until the average inflation in the Eurozone drops to 2% (in July 2023, it was 5.3%).

The Estonian real estate investment market saw a decline in 2022, which has continued in 2023. Considering that the market is relatively thin even under normal conditions, it could be said that, in 2023, the market has been frozen so far. During H1 2023, only two significant transactions over 5 million EUR have taken place, and the total volume of transactions was 29 million EUR compared to 129 million EUR in H1 2022. This is likely due to the differing price expectations between buyers and sellers. On the positive side, the market is believed to rebound in H2 2023, as the investment environment becomes more stable, and sellers begin to see higher yields as the new reality.

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Interesting trends on the Estonian property market

Tallinn's tallest building is almost fully leased out

Despite the economic downturn, the Arter quarter, with investments totaling around 155 million EUR, will soon be fully leased out. The quarter's anchor tenant is Swedbank, set to move into the building in 2025. Arter includes co-working areas provided by Spaces, healthcare services, a gym with a swimming pool, and several restaurants on the first floor. Tenant of the third tower of the project is Bob W, offering short-stay apartments. The project itself should be finished in 2024.

Old manufacturing companies are in decline, but new ones are emerging

Estonia's manufacturing sector has been hit hard by the economic downturn, leading to numerous layoffs and bankruptcies. Not all is bad news, however, as the three big companies that have closed in Ida-Viru County are set to be replaced by 12 new ventures in the coming years. One of these is Neo Performance Materials, which produces magnets from rare earth materials that have a wide variety of uses, including in the manufacturing of generators for wind turbines and electric vehicles. The factory, scheduled to be completed in 2025, will be important not only to Estonia, but to the EU as a whole, contributing to the onshoring of key element production inside the union.

Building new factories will both create jobs and provide opportunities for real estate developers. The area of Ida-Virumaa has seen very few new residential building projects since the time of the country's independence – a trend likely to be reversed by the growing demand for modern residential and commercial real estate.

Tallinn's office market has hit a major milestone

Over the last decade, Tallinn's office market has shown steady growth, enabled by favorable economic conditions and an environment of persistently low interest rates. This expansion has hit a significant milestone, with the total modern office supply surpassing 1 million sqm. Even in the face of economic challenges, this upward trajectory showcases the resilience and attractiveness of Tallinn's commercial landscape.

Investment market has withstood the turbulent times

So far, it seems as though landlords of commercial properties have withstood the economic turbulence and have not been forced to sell. Most of the larger landlords and developers are well capitalized, and for the past 10 years have been more conservative when it comes to financing projects with loans. This, in turn, has helped them to stay afloat in times of higher capital costs. Furthermore, absorbing the impact was made easier by high yields compared to western Europe. With all the above factors in mind, forced sales among larger landlords and developers are relatively unlikely, though less capitalized investors might be in for a challenging time.

Rail baltic project reached the next stage

The Pan-Baltic project Rail Baltic has reached the next stage in Tallinn. After years of working to acquire the needed land around Tallinn, the construction of the railway terminal is finally ready for take-off. Total investment into the terminal is around 45 million EUR and construction is set to begin in H2 2023. This will include changes to the surrounding infrastructure and commissioning of the station. A project of this scale could also provide opportunities for government contracts among different sectors, which could help them to survive in the sluggish economy.

EUR 225 million
Total investment volume in 2022

EUR 100 million
Total investment volume expected in 2023

-1.0%
GDP growth expected in 2023

The Lithuanian property market

Challenging economic landscape shapesthe investment market in 2023

Photo: Shutterstock

In 2023, Lithuania underwent several expected, yet somewhat peculiar economic changes. GDP contracted by 2.4% in Q1 but demonstrated a slight 0.7% rebound in Q2, thus resulting in an overall decline of only 0.8% in H1. A relative economic slowdown, along with lower GDP growth in Lithuania, has been expected since the autumn of the previous year. Following the release of statistical indicators for Q1 2023 and the country's entry into a "technical recession", sentiment deteriorated further. All annual forecasts mirror pessimistic growth expectations.

The causes behind the slowdown are complex, encompassing both internal and external factors, including declining exports, rising interest rates, and geopolitical uncertainty, among others.

The country's open economy is highly dependent on export demand, as goods and services produced in Lithuania are mostly sold all over the world. Changes in foreign demand and competitiveness have a strong impact on businesses, forcing them to look for solutions to preserve their growth potential.

While some economic sectors continue to decline, others have so far managed to keep growing. In H1 2023, the financial and insurance sector on the one hand, and the information and communications sector on the other both recorded further rapid growth in added value (+15% and +13%, respectively). Meanwhile the industrial sector, including the manufacturing segment, has continued to decline (7% and 6%, respectively).

Investment market growth has faced limitations in 2023, particularly in the commercial and residential rental property sectors. These limitations may be attributed to geopolitical tensions, economic instability, rising interest rates, and other risks impacting investor decisions. The first half of the year saw sluggish progress, with the Baltic region securing only 225 million EUR in large RE investment deals. Remarkably, Lithuania alone managed to maintain its long-term average, accumulating more than 70% of regions total investments. Market segmentation of investors is currently more pronounced than ever before. The prevailing environment of interest rate pressure has driven small and opportunistic investors to easily reorient from the big-ticket segment to the less risky bond market. The larger and more experienced investors remaining in the market now enjoy some extra space, reduced time constraints, and less competition pressure. They are now awaiting better investment opportunities.

While predicting the year's total investment volume is a complex undertaking, an optimistic scenario predicts a more active second half, potentially driving 500–600 million EUR across the region as the annual result, although mainly reliant on large deals. Despite the currently prevailing trend of low-ticket deals, hitting this target remains challenging yet feasible with enough dedicated effort, as past years have demonstrated.

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Interesting trends on the Lithuanian property market

The confidence of Lithuanian consumers remains high

Lithuanian consumers' confidence level remains the highest in the European Union, leaving the country's Baltic neighbours far behind. Despite the ongoing energy crisis, expectations are being successfully transformed into behaviour, due to the population's low level of indebtedness relative to other countries, as well as high employment, declining inflation, and growing wages, which translate into higher purchasing power. Deposits held by the country's residents have now reached their highest level in nominal terms, and are still growing, albeit at a slower pace. The growing outbound tourism has a slight but unfavourable effect on domestic consumption.

Most sectors stand to benefit from the robust labour market

Lithuania's labour market remains strong and relatively balanced, as the monthly number of persons employed and laid off does not suggest any imbalance. In fact– mid-2023 has seen the highest number of persons employed in ever, and the level of unemployment has remained stable. It's noteworthy that employment seems to be distributed quite evenly across most of the country's business sectors. These trends have also turned into high demand across all real estate segments, ensuring high occupancy rates in offices, stable retail and warehousing service volumes, and robust housing demand. This may shift toward shorter-term rental options and domestic tourism, reflecting the changing accommodation needs. Declining inflation and high employment bring confidence in long term demand.

While demand for financing persists, sources may undergo change

Development and project refinancing, which currently require credit sources, are already facing an altered environment. A major part of the commercial real estate market may encounter substantial challenges, including potentially tighter credit conditions, income pressure, and heightened refinancing needs, particularly in the upcoming year or two.

The retail segment supports investment in upgrades

High inflation ensured the amazing retail turnover growth last year and in Q1 2023, in nominal prices. The volumes of retail turnover, excluding price increase, have been declining slightly for almost a year, reported by the State Data Agency. Owners of retail properties continue to invest to maintain their competitiveness. In a broader context, achieving success in retail depends on its integration into a diverse range of functions that promote social interaction. Tenant expansion in new developments offers new opportunities for optimizing underperforming areas; such cases, however, are relatively uncommon.

Office segment occupiers are facing a tough decision again

The office occupiers may be regarded as having both the greatest freedom and the highest responsibility. The hybrid work, or work-from-home model, is particularly suitable to employees in this sector. 2023 appears to be the year when a significant number of companies have reached the deadlines for their long-term decisions. Deciding whether to pursue optimization, stability, or expansion can be challenging and demanding in terms of time and extra input, given the three years of pandemic experience and the prevailing economic uncertainty. Proactive behaviour during such periods is key to achieving continued success.

EUR 361 million
Total investment volume in 2022

EUR 400 million
Total investment volume expected in 2023

-1.0%
GDP growth expected in 2023


Photo: Shutterstock

The Latvian property market

Investment market has picked up after a quiet H2 2022

There were 6 investment transactions in H1 2023, with total investment volume exceeding EUR 46 million. The office, hotel, retail, and residential segments each saw a single transaction, while the industrial sector managed to secure two. The overall number and value of transactions remains small – given the volatile economic situation, investors and developers struggle to meet each other half-way in negotiations over price.

The latest Bank of Latvia forecast shows a slight GDP growth of 1.2% in 2023, contrary to the previously expected decline. In 2024, it is projected to grow by 3.1%, and by 3.5% in 2025. Inflation for 2023 is forecasted to hover around 8.5%, returning to normal within the next two years – to 2.4% in 2023, and to 3.0% in 2025. Even better news is the fact that unemployment is currently at its lowest since 2019, and is projected to be approximately 6.7% in 2023, and 6.4% in 2024–2025.

Meanwhile, run-away inflation and high demand for labour are pushing the average wage to new heights – in 2023, growth in this sense is projected at 12.0%. This, however, is still nowhere near enough to keep up with inflation. Latvia is among the hardest hit countries in the EU when it comes to the effect this dynamic has on purchasing power.
The total value of the household deposits has decreased by 15% in the last 6 months and together with a EURIBOR'S latest rate hike forced banks to increase household term deposit rates from 0.2% to 2.7% within a single year's time.
In the meantime, the consumer loan balance has decreased by 2% relative to 2022.

In response to a 10% decrease in the deposit balances of non-financial private entities, banks have increased their term deposit rates from 0.02% in June 2022 to 2.8% in June 2023. The loan balances of non-financial private entities have decreased by 23%, which is mostly a result of the caution exercised by banks, increased EURIBOR, and of reduced business activity in this period.

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Interesting trends on the Latvian property market

Co-working is gaining in popularity and reaching beyond offices

There were four office co-working lease transactions in H1 2023, accounting for almost 9,000 sqm, or 30%, of the total office lease transactions. These spaces will provide desks for more than 800 employees. Co-working operators seek prime locations and quality premises for customer satisfaction. In H1 2023, co-working firms chose locations like Zunda Towers and Business Garden, with Workland Group leasing space in Galleria Riga. Galleria Riga is centrally located, offering modern amenities, nearby parks, and a train station within 15 minutes' walk. These offices are highly prized by employees and a great example of different real estate segments working together to attract new lessees and thereby make each other's properties even more attractive.

The commercial residential market is slowly growing

Twino, a global investment platform, is expanding its product offering with an investment product in short-term rental properties that enable portfolio diversification with equity-based securities. The first offerings include short-term rentals in two Riga projects: Hoffmann Rezidence in Klīversala and Dainas in central Riga. In August 2023, EfTEN acquired a 12-story building in Ķengarags, with renovations starting next year. The project's total investment is estimated at EUR 7.2 million, including a EUR 2.75 million property acquisition. This is EfTEN's fourth residential investment project in the Baltic capitals. Balcia, meanwhile, has renovated a two–corpus building on Valdemāra Street – one for its own offices, and one containing 36 newly-built short-term rental apartments with a total area of 1,400 sqm.

Confidence is slowly recovering

Most of the confidence indicators measured by the Central Statistical Bureau of Latvia are moving in a positive direction. The consumer confidence index increased by 2.6% at the end of H1 2023, while negativity in the construction segment decreased by nearly 3% compared to 2022. Things are looking even better in the retail segment, with confidence in mid-2023 standing 5.3% higher than last year. Conversely, there's been a 2.7% confidence decrease in the production segment, reaching -7.5% in H1 2023 (as compared to -6.4% in 2020 during COVID outburst).

Despite the strong upward trend that's been going strong for a year now, most confidence indicators are still somewhat in the red, nevertheless they haven't gotten anywhere near the lows recorded in 2009.

Decent take-up during construction stage

The office space market is ready to make full use of the spacious, energy-efficient premises coming online in some of Riga's most attractive locations. Although competition in the labour market is currently high, with unemployment hovering around 6.6%, employers are striving to attract new, and retain current, employees by offering competitive wages and high-quality office space in attractive locations. Most new offices now achieve occupancy levels well above 50% even before they are completed. For instance, the office project Elemental Skanste reached 70%, and ZEISS OFFICES in Pārdaugava – 80%, occupancy several months before full delivery.

EUR 252 million
Total investment volume in 2022

EUR 100 million
Total investment volume expected in 2023

+ 1.2%
GDP growth expected in 2023

European Markets in H1 2023

Since 2012, Newsec has had a research collaboration with BNP Paribas Real Estate, which gives Newsec access to an international network of clients and relevant connections. The collaboration allows for both Newsec and BNP Paribas to expand coverage, and help to advise you and drive your real estate strategy internationally.

"It is in 2024 that we are likely to see recovery in European investment activity"

Investment volumes roll back a decade

European Investment volumes are at their lowest in a decade, standing at €182.6bn for H1 2023, down 57% on H1 2022. Of the five leading markets, the UK leads at € 21.3bn (-52% y-o-y), followed by Germany € 9.8 bn (-68%), France € 7.8bn (-42%), Spain € 3.8bn (-41%) and Italy € 2.1bn (-62%).

At the root of this is an impasse on pricing, rather than a lack of liquidity as seen in 2008. The market dynamic also differs from previous big downturns, as both sellers and buyers have pulled back from the market. Many buyers remain unwilling to commit at existing yields while cost of financing is on an upward curve. They are also acutely aware of reduced choices in most asset classes compared to 2022: the modern segment for offices, luxury and high-performance mass-market retail and logistics in its entirety. They share this sentiment with sellers, who have little incentive to sell good units at lower prices while occupancy remains healthy, albeit selective. Fewer landlords are struggling with their loans than in 2008, meaning it is simpler to adopt a wait-and-see attitude.

The pricing impasse should resolve itself over H2 2023 as central banking policy reaches its terminal point in this interest rate cycle. Yet the European investment market is unlikely to see the benefits of this over the remaining part of 2023, apart from in very select markets and certain sectors. Consequently, it is in 2024 that we are likely to see recovery in European investment activity.

Yield decompression drags on

What has proved decidedly unhelpful to European real estate this year is the prolonged and sharp nature of the interest rate cycle. It now seems likely that the tightening cycle will end in autumn for countries with ECB as their central bank. At this point, real estate investors will have the clarity about financing costs that has eluded the market so far in 2023. Real estate assets repriced extensively over late 2022 and early 2023, albeit to differing degrees depending on sectors and markets.

For retail, the average prime yield across the top 16 European markets stood at 3.9% in Q2 and for logistics 4.4%; these are 5bps and 90bps above the same period last year. The average prime office yield stood at 4.3% (+110bps). BNP Paribas Real Estate thinks further yield increases are likely in the near term, even though the environment varies considerably across Europe, with the UK furthest ahead in pricing (maybe 6 months). The differing nature of European valuation processes greatly influence how quickly country markets reprice.

Office market activity driven by the quality factor

Investment in European offices came to € 20.6bn in H1 2023, down 60% vs H1 2022. The biggest drop over the period was Germany (-76%, y/y), followed by the UK (-47%) and France (-40%). Office investment, particularly

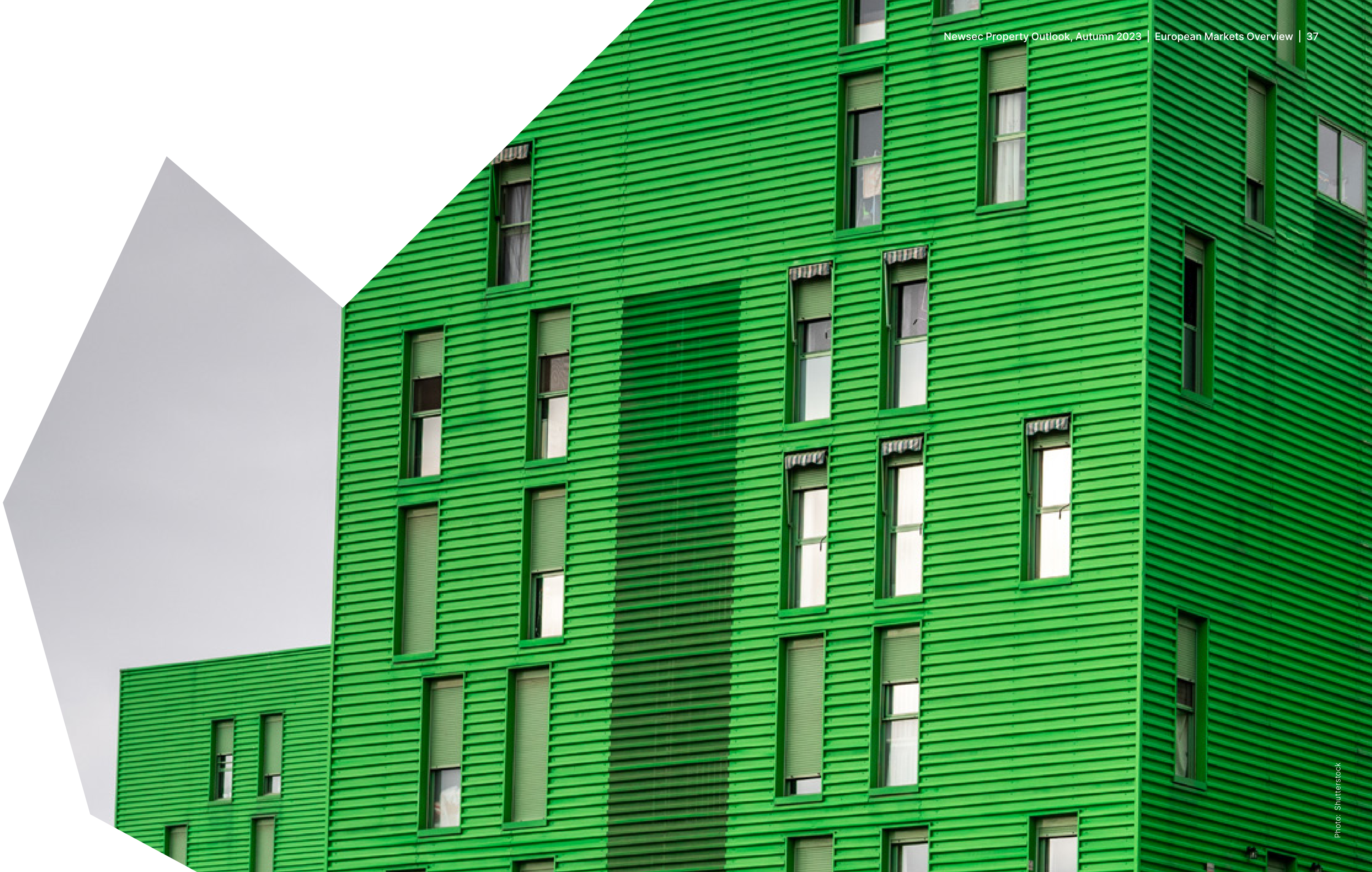


Photo: Shutterstock


Photo: Jakub Matyáš

big-ticket deals requiring a lot of debt, is effectively frozen until the interest cycle reaches its end.

In the occupier market, demand for space, although reduced, remains a bright spot in 2023. Take-up in the first half of the year was 4.28 million sqm in Europe's 17 main markets, down a quarter on H1 2022. A steeper fall in take-up occurred in Q2 (-30% y-o-y) than Q1 (-19% y-o-y) indicating businesses are continuing to reduce their commitment to new space. They remain focused on the best premises and small units, continuing the pattern established after the pandemic.

The weak economic outlook continues to influence occupiers' need to control costs, leading to weaker expansion prospects over 2023. Nevertheless, net absorption was positive at 1.368 million sqm (0.6% of the total stock) in Q2 2023, although it is clearly declining as take-up slows. Net absorption is likely to stay positive by the close of 2023, although as supply of modern buildings diminishes, the impact of space released from "grey" offices will emerge.

Empty space is gradually accumulating in Europe. At the European level, average vacancy stood at 7.6% in H2 2023, up 30bps vs H2 2022 and 160bps vs the last pre-pandemic quarter (Q4 2019). This is still way below the post GFC period when rising interest rates and completions resulted in high vacancy.

The situation for average rental growth is mixed. Prime rental growth is impervious to problems elsewhere in the office market. Rents in all the leading cities increased over H1 2023, led by London (+12%, y/y), Milan (+ 6%), Amsterdam and Berlin (+ 5%), and Paris (+ 4%)

Tenants' preference for high-end modular space is driving growth in the prime segment, commanded by an increasingly small section of vacant stock in central submarkets, sometimes referred to as the "super prime" segment. It is a quality over quantity dynamic that is unlikely to alter Europe's primary office trend unless the occupational market dries up entirely.

Pockets of hope in the retail sector

For all its operational problems, retail ended up being one of the sectors least damaged by the investment retreat. Investment stood at € 32 billion in H1 2023, down 47% over the year with only hotels performing better (-17%, y/y). Unlike other sectors, investment has not fallen everywhere. The steepest falls were in in Spain (-88%), the Netherlands (-86%) and Poland (-76%). Yet in the United Kingdom investment stabilised (-5%), while it grew in Ireland (+15%) and Belgium (+57%). The varied figures reflect the state of the retail occupational base and the extent of repricing in each country.

Prime retail yields expanded the least as this sector has spent most of the last ten years being repriced. Of the main European cities, Warsaw (+100 bps), Paris (+80 bps), Berlin (+70 bps) and Amsterdam (+60 bps) experienced the strongest expansion. London (-25 bps) is an outlier, showing compression over the last 12 months.

The inflationary environment is challenging for retail occupiers, yet fewer major companies have gone into receivership since the GFC. Growth and expansion in retail is also occurring, although it is polarized between luxury (where inflation acts as an exclusion tool to support the brand) and discounters. Europe's mass middle market is hurting. Retailers here continue to focus on cost control and integration of their on-line offering with physical stores to make selling more effective and cheaper.

European retail rents may have bottomed out at last although future growth is highly location- and subsector-specific. City centres, particularly luxury streets, may see further retail expansion with resumption of tourism (air travel is the big growth area of 2023). This is where rental growth is strongest and may already be occurring. There could also be growth in retail parks that are evolving to provide novel services such as healthcare.

Shopping centres are the subsector most likely to benefit from the retail sector's property revival, though this is unlikely to occur over 2023.

Logistics investment likely to be the first to reactivate

Logistics investment has experienced the sharpest fall among the sectors. European volumes dropped from £ 34 billion in H1 2022 to £ 12 billion in H1 2023, a decline of 65% over the year. Logistics, already perceived as expensive, was highly vulnerable to the sort of financial market volatility created by rising interest rates. Yet logistics is the sector most likely to recover quickest and that may be visible by end 2023. Part of the reason for the rapid recovery lies in yield repricing, as the sector has undergone quickest yield expansion of any sector and is now almost fully repriced. Indeed, markets such as the UK are already seeing yields compress again.

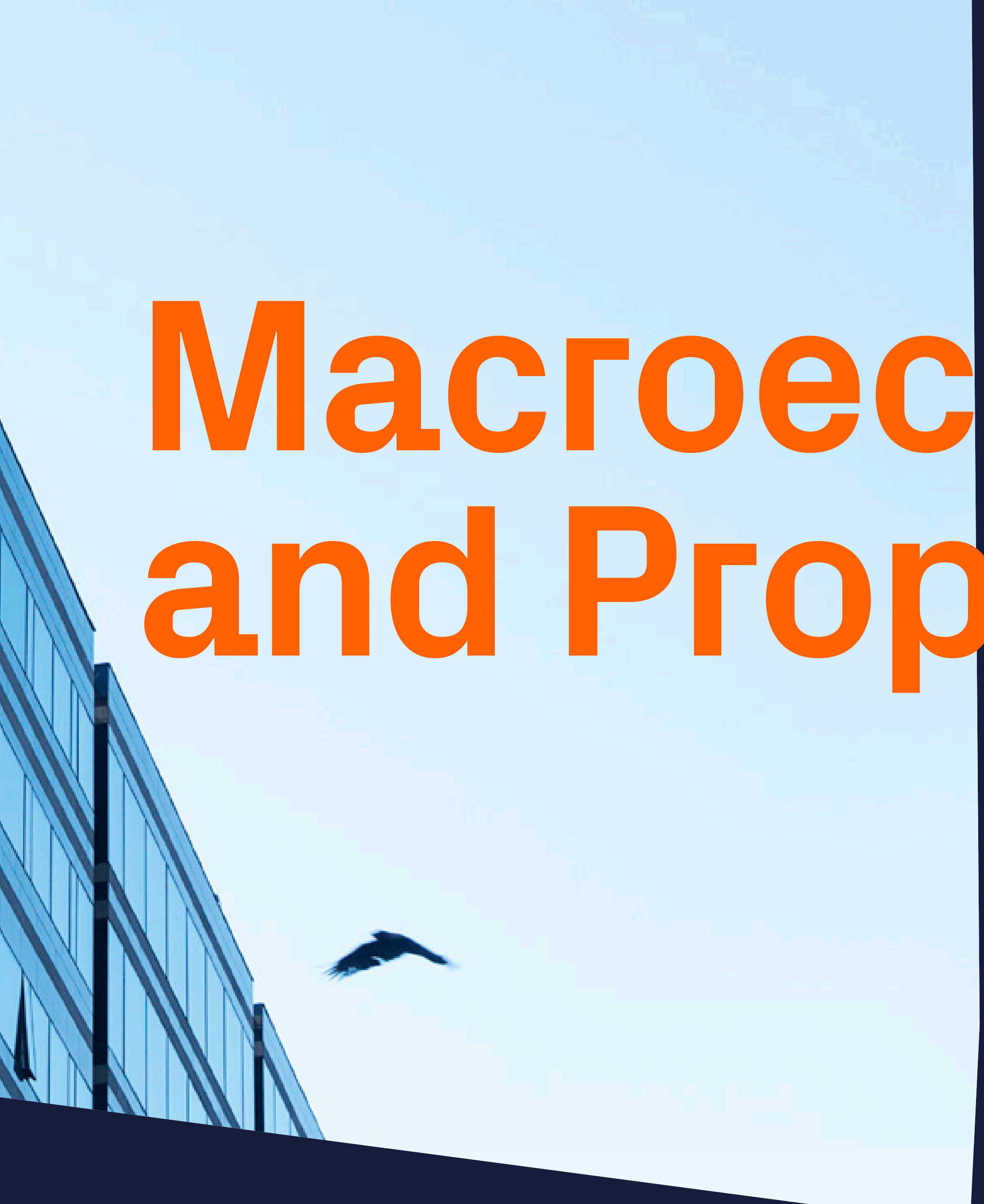
Logistics occupancy remains healthy albeit more subdued. The economic slowdown finally caught up with occupiers in 2023. Having expanded over the pandemic period, demand for space has scaled back sharply. Take-up stood at 9 million sqm in H1 2023 in the six biggest countries (France, Germany, Netherlands, Poland, Spain, and UK), 42% below H1 2022. Although below the five-year average, volumes are in line with those seen before the pandemic (2014 to 2018).

The slowdown in manufacturing, through lower future orders, has weakened demand for logistics space. Yet the main cause lies with the XXL unit segment. Many of these units are loan-funded owner/occupier developments. They require large capital outlays and the environment is less accommodating because of higher borrowing and construction costs.

In the short term, there is sufficient growth potential from e-commerce and the core businesses (grocery and manufacturing) to support expansion and carry the sector through the weakening economic cycle. With lower but steady volumes, the main inhibiting factor for take-up remains lack of land. Consequently, the vacancy rate remains safely below 4% in most European countries as it has done for the last few years.

This remains supportive of rental growth. Prime rents in the 48 European city markets covered by BNP Paribas saw a 6.2% year-on-year increase in H1 2023. There were strong increases in Oslo (27%) and Venlo (12%). Rents will continue to rise, but probably at a much slower pace than seen over 2022–2023 as the inflationary boost to rents eases.

> **"The inflationary environment is challenging for retail occupiers"**



Macroeconomic and Property data

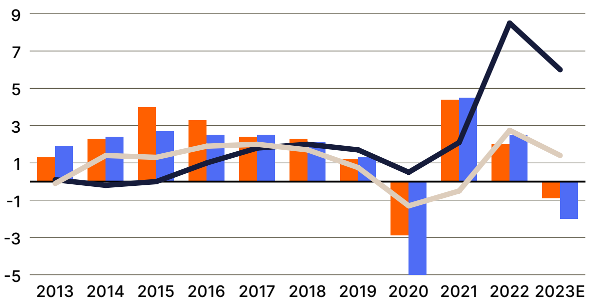
Macroeconomic Data

Sweden

Economic Indicators

Per cent

Source: Newsec

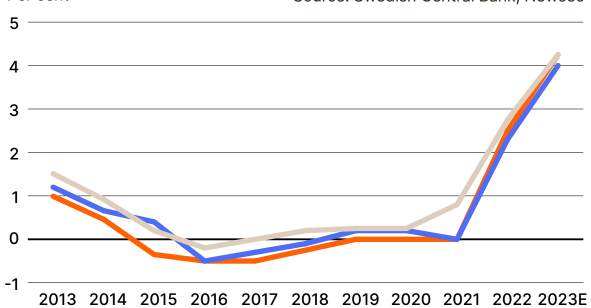


GDP, Annual Percentage Change
Private Consumption, Annual Percentage Change
Employment, Annual Percentage Change
Inflation, Yearly Average

Interest Rates

Per cent

Source: Swedish Central Bank, Newsec



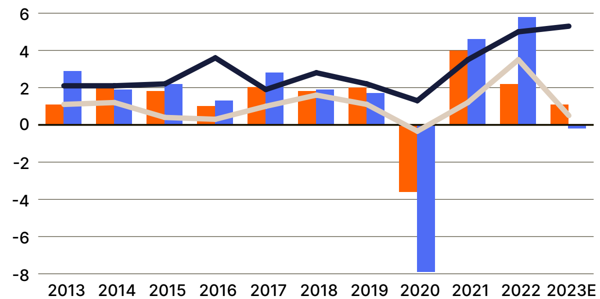
Central Bank Interest Rate
STIBOR 3M
STFIX 5Y

Norway

Economic Indicators

Per cent

Source: Newsec

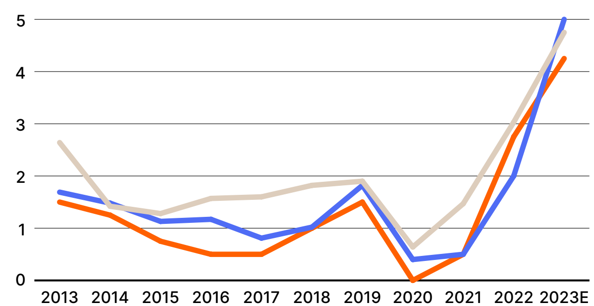


GDP, Annual Percentage Change
Private Consumption, Annual Percentage Change
Employment, Annual Percentage Change
Inflation, Yearly Average

Interest Rates

Per cent

Source: Newsec



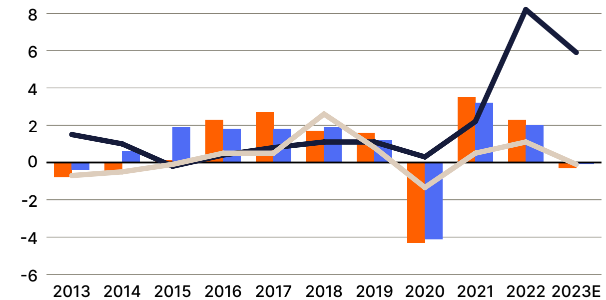
Central Bank Interest Rate
NIBOR 3M
SWAP 5Y

Finland

Economic Indicators

Per cent

Source: Newsec

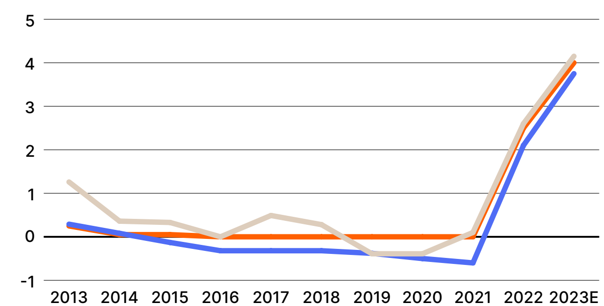


GDP, Annual Percentage Change
Private Consumption, Annual Percentage Change
Employment, Annual Percentage Change
Inflation, Yearly Average

Interest Rates

Per cent

Source: Newsec

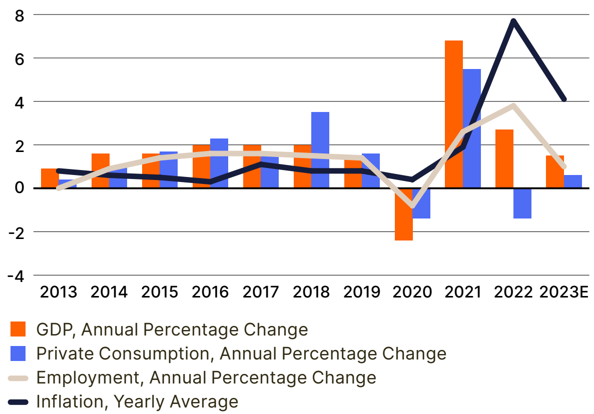


Central Bank Interest Rate
EURIBOR 3M
SWAP 5Y

Denmark

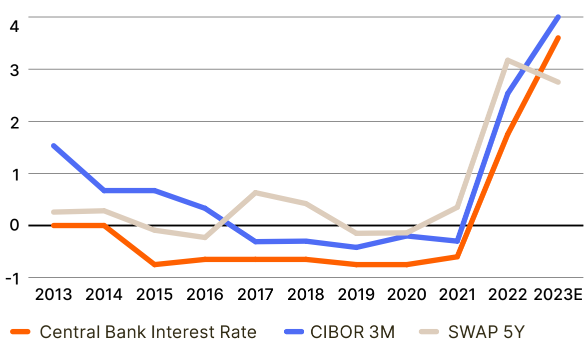
Economic Indicators

Per cent Source: Newsec



Interest Rates

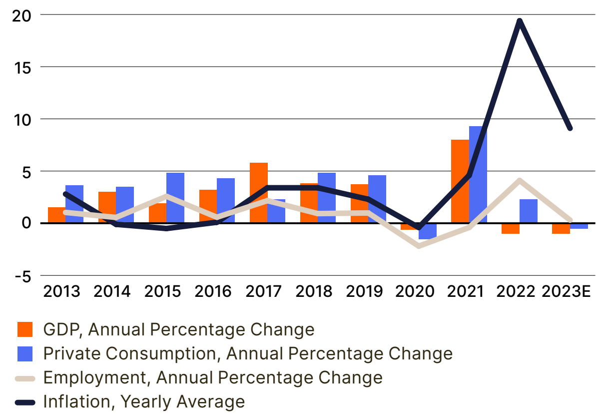
Per cent Source: Newsec



Estonia

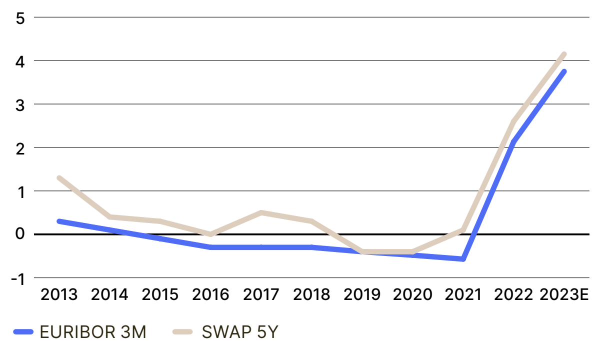
Economic Indicators

Per cent Source: Newsec



Interest Rates

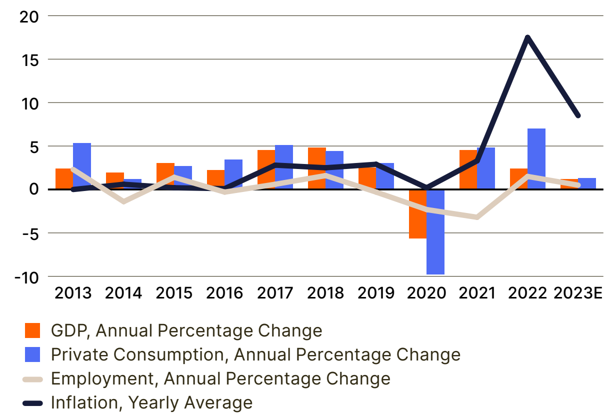
Per cent Source: Newsec



Latvia

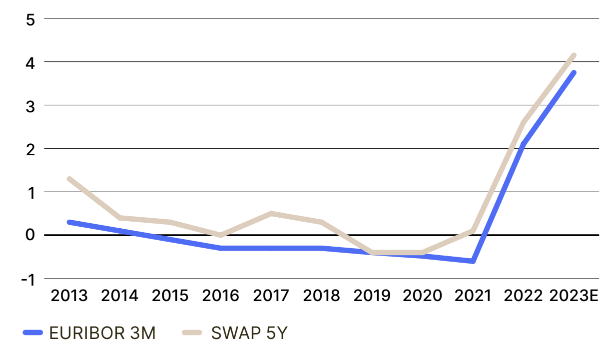
Economic Indicators

Per cent Source: Newsec



Interest Rates

Per cent Source: Newsec



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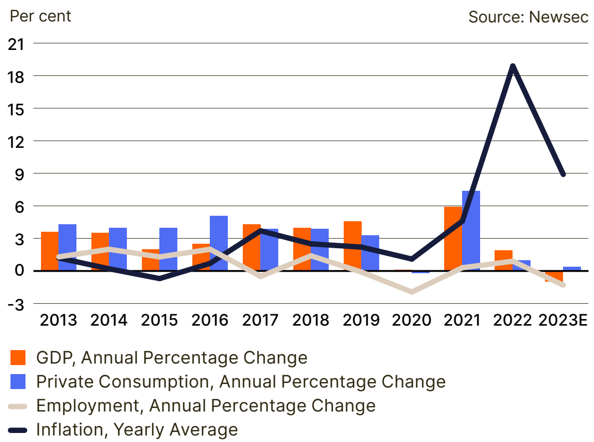
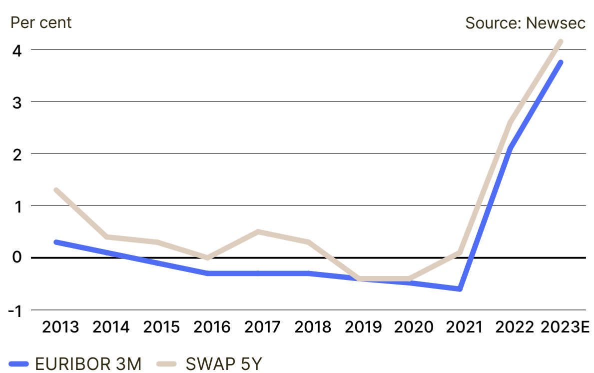
Macroeconomic Data

Lithuania

Economic Indicators

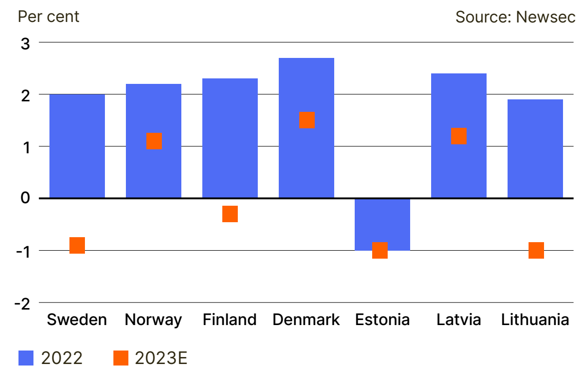


Interest Rates



GDP Growth

GDP Growth 2022–2023E

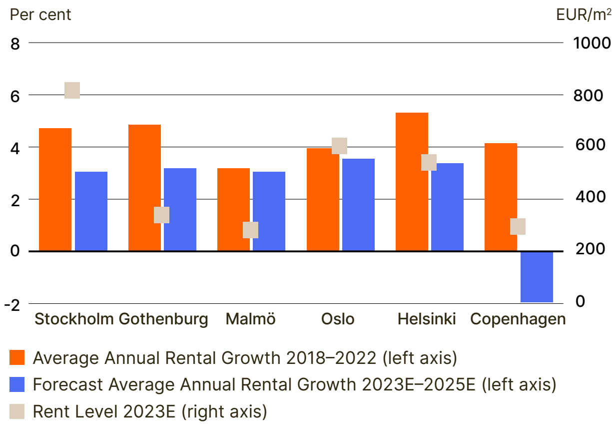


Property Data

Office rents

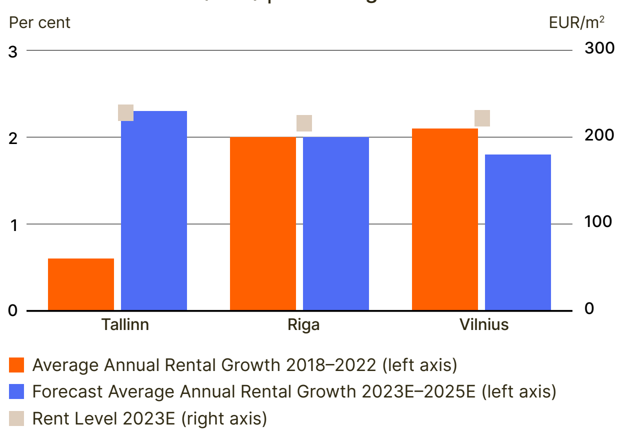
Prime Office Rents (CBD) | Nordic Region

Source: Newsec



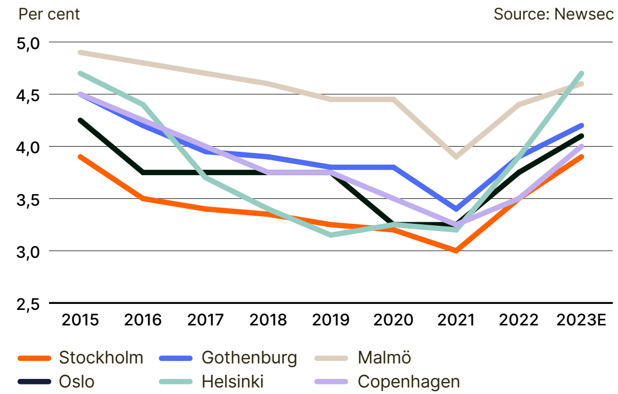
Prime Office Rents (CBD) | Baltic Region

Source: Newsec

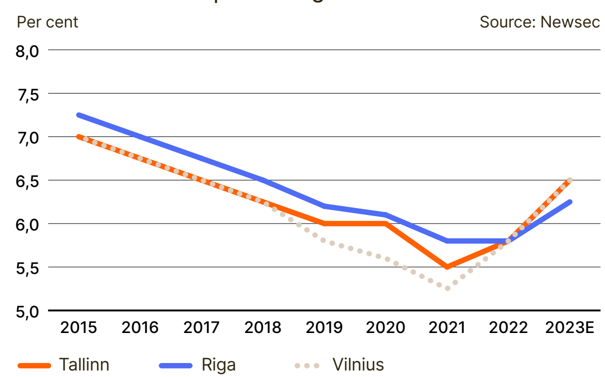


Office yields

Prime Office Yields | Nordic Region



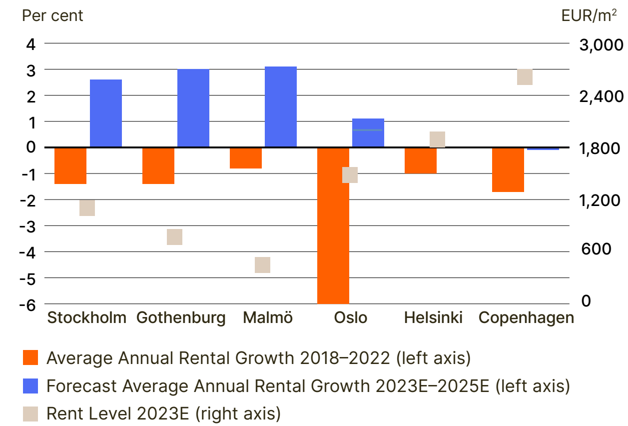
Prime Office Yields | Baltic Region



Retail rents

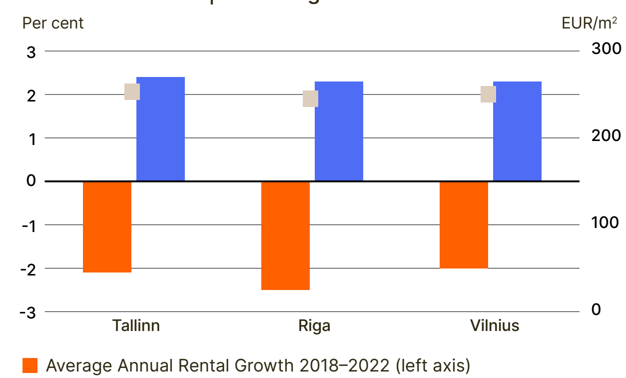
Prime Retail Rents | Nordic Region

Source: Newsec



Prime Retail Rents | Baltic Region

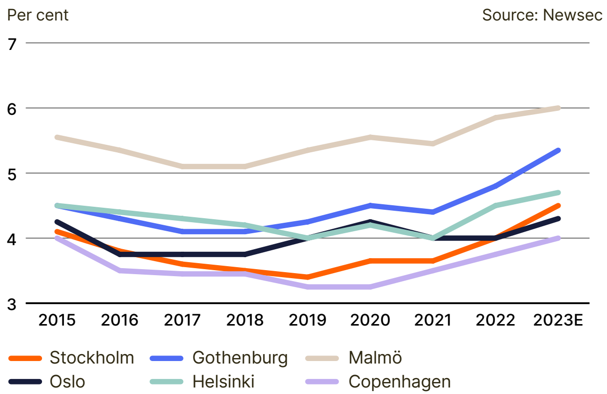
Source: Newsec



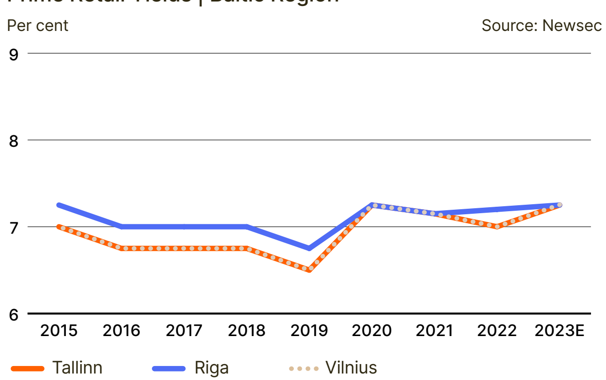
Property Data

Retail yields

Prime Retail Yields | Nordic Region

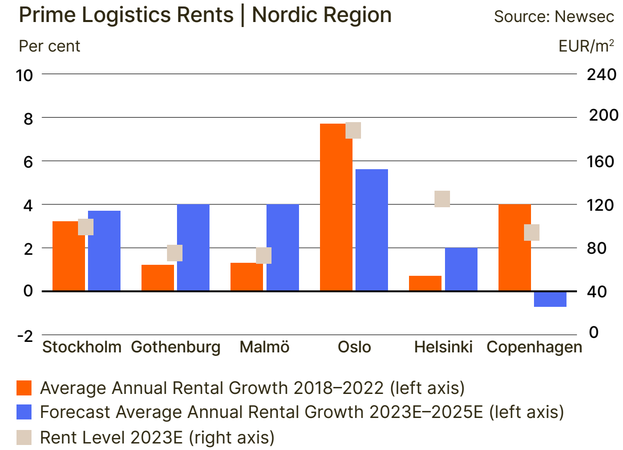


Prime Retail Yields | Baltic Region

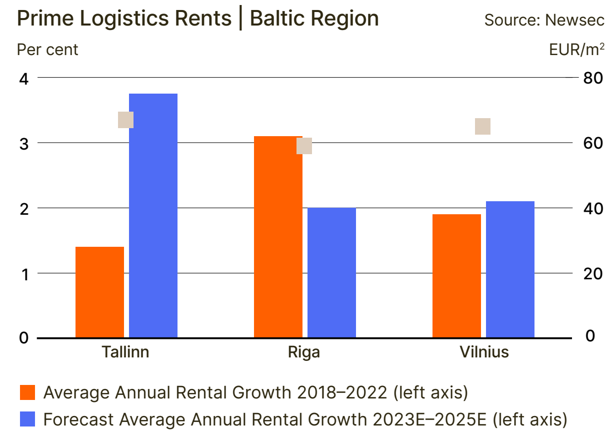


Logistics rents

Prime Logistics Rents | Nordic Region

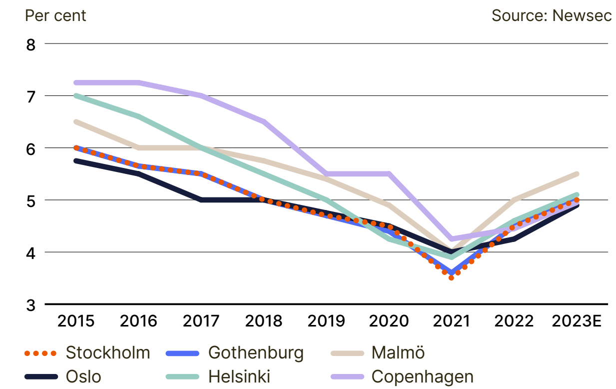


Prime Logistics Rents | Baltic Region

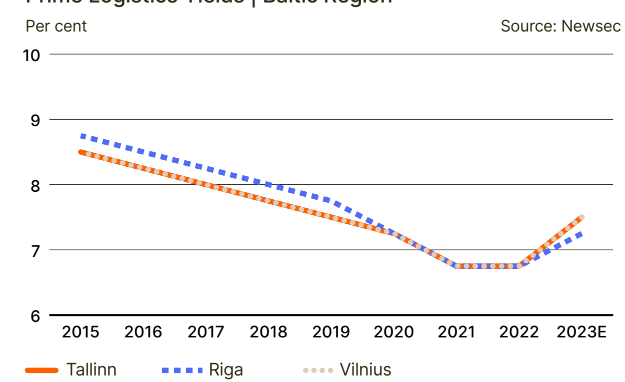


Logistics yields

Prime Logistics Yields | Nordic Region



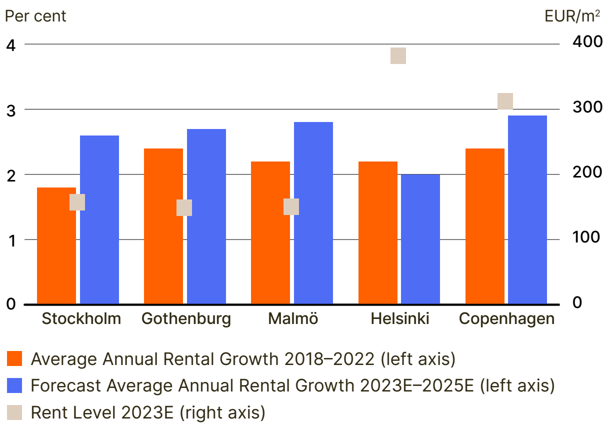
Prime Logistics Yields | Baltic Region



Residential

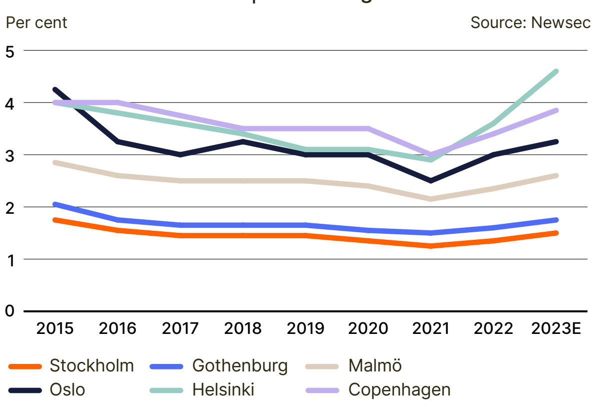
Prime Residential Rents | Nordic Region

Source: Newsec



Prime Residential Yields | Nordic Region

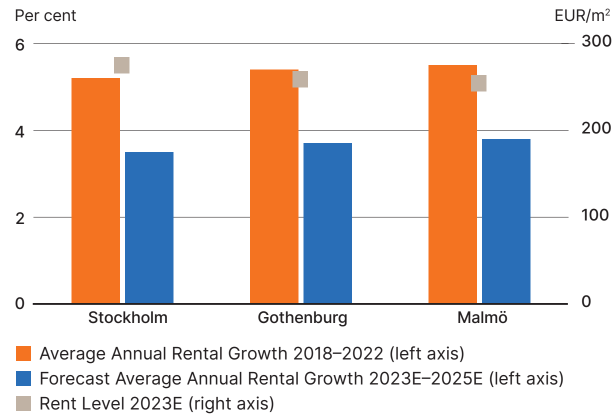
Source: Newsec



Public properties

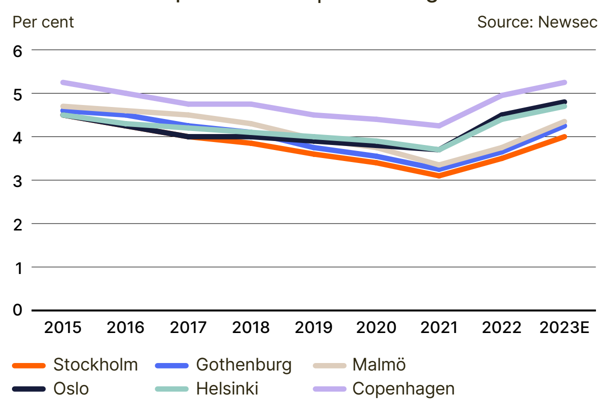
Prime Public Properties Rents | Nordic Region

Source: Newsec



Prime Public Properties Yields | Nordic Region

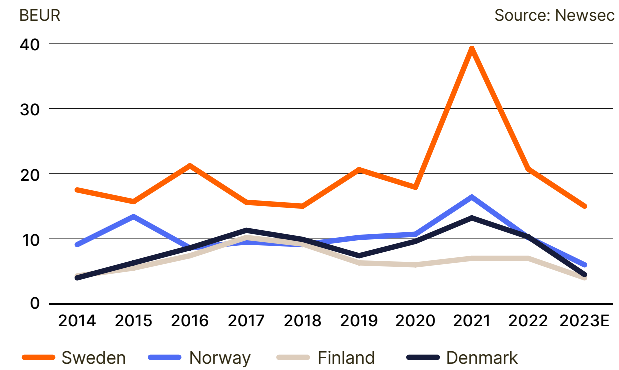
Source: Newsec



Annual transaction volumes

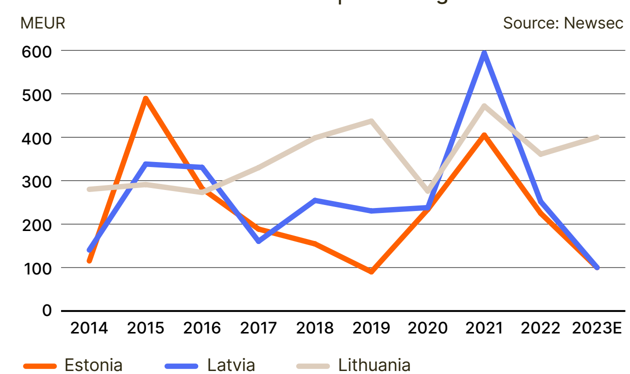
Transaction Volumes — Annual | Nordic Region

Source: Newsec



Transaction Volumes — Annual | Baltic Region

Source: Newsec



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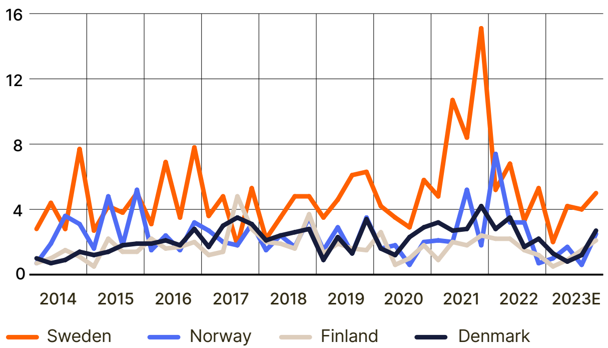
Property Data

Transaction volume

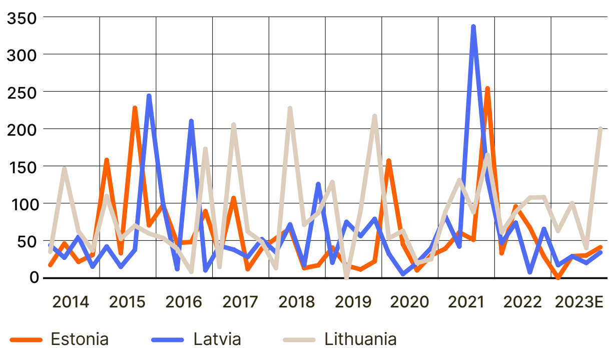
Transaction Volumes — Quarterly | Nordic Region

BEUR Source: Newsec



Transaction Volumes — Quarterly | Baltic Region

MEUR Source: Newsec

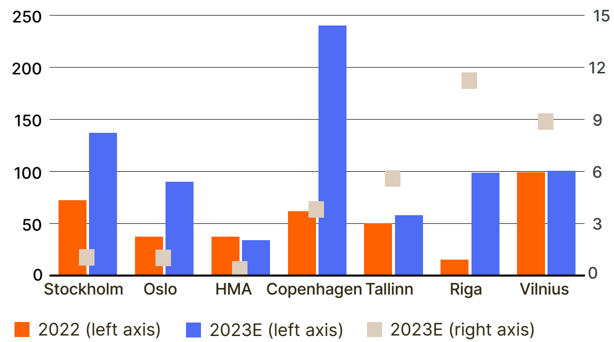


Office new construction

Office New Construction (Capital Office Market)

Source: Newsec

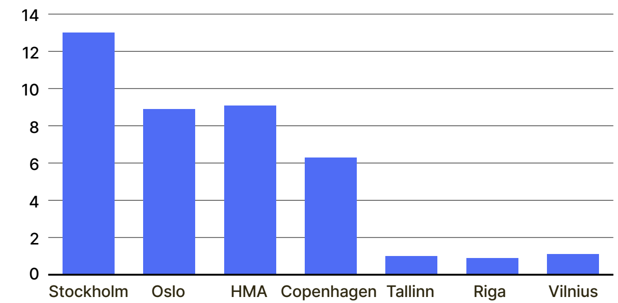
Thousand m² Per cent of stock



Office stock

Office Stock Q4 2023E (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 2022.

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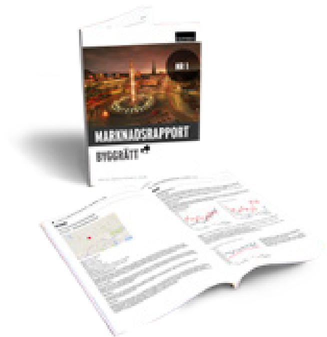
Newsec – a leading property data & insight provider in the Nordics

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.

Market Report
Logistics

Market Report
Projects

Market Report
Residential



Market Report
Construction Rights

Market Report
Future Growth Markets

Market Report
Office

Market Report
Retail

Market Report
Public Properties

Sedis Report

Newsec's
Transaction List

Valueguard

Market Report
Nordic Market

Access Newsec's market report portal: marknadsrapporter.se/store. For more information about data deliveries and analyses customized to your needs contact: adam.tyrcha@newsec.se

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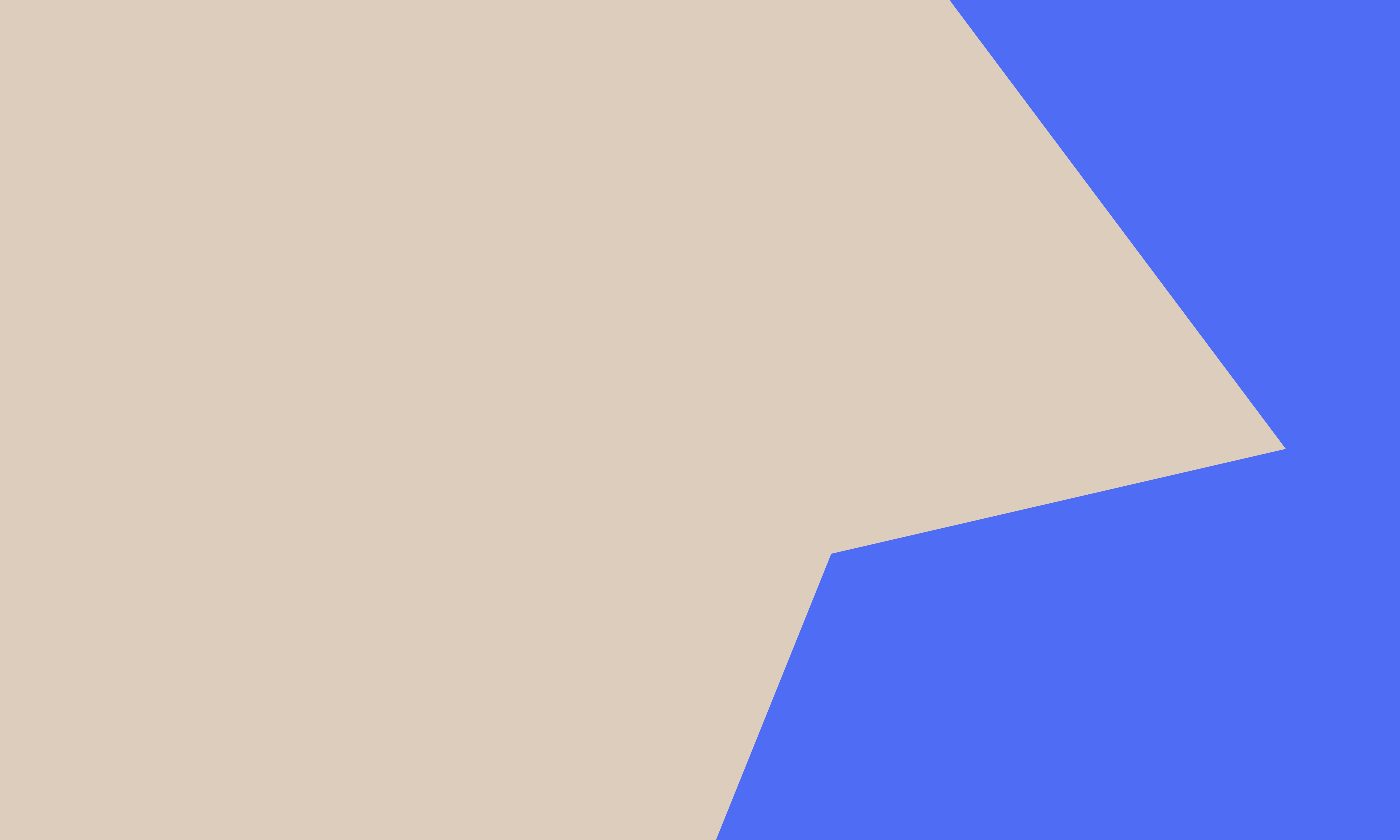

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