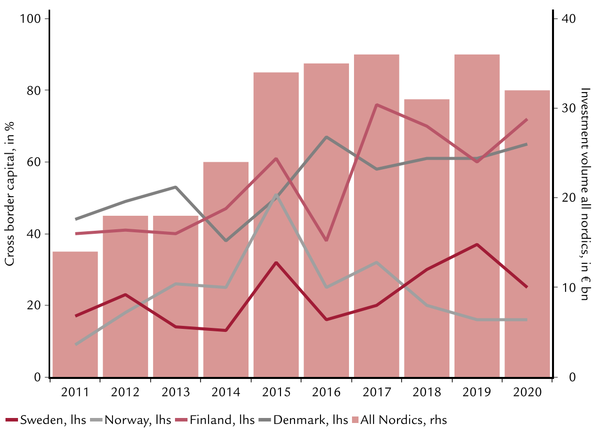
Real Estate House View
Norway, Sweden, Finland, Denmark

First half of 2021

Key takeaways

- **A cushioned option:** the Nordics remain a solid investment market opportunity thanks to intact overall fundamentals and strong economic resilience towards the COVID-19 crisis continuing into 2021. Investor sentiment towards the Nordics accordingly remains positive.
- **Residential and logistics top:** residential has been least affected by the crisis and is consequently attracting significant interest from investors wishing to utilise the benefits of stable cash flows and capital increases, while logistics is benefiting from increased online trading and a higher demand for urban logistics.
- **Office not flop:** despite the new home office movement and temporary pressure on the market, office investments continue to account for a large share of investors' portfolios and are therefore generating stable overall returns. Once the uncertainties concerning the new home office movement have been resolved, we expect a slight increase in rents again.
- **Retail on the edge of flop:** traditional retail is struggling throughout Europe – and the Nordics are no exception. In the long term, new concepts are set to shape the segment, while in the short term the only positive outliers in this segment are grocery and convenience retail.

Chart in focus



Source: RCA

With around EUR 32 bn of attracted capital, the Nordic investment market proved generally crisis-resilient in 2020. More than a third of its investment volume comes from abroad, with the share of cross-border capital particularly pronounced in Finland (2020: 72%, +20% YOY) and Denmark (2020: 65%, +7% YOY). However, a fair portion (2020: 15%) of the foreign capital originates from Swedish investors, who are the main capital providers in Finland, Denmark and Norway and account for 15% of the overall investment volume; German investors rank third (5% share) following investors from the United States (10%).

The economic damage caused by COVID-19 in 2020 was generally less dramatic than elsewhere in Europe. A favourable sector mix and high fiscal flexibility helped to curb the shock for the domestic economies during the first wave of the pandemic. With their highly integrated technology sectors, manufacturers in Finland and Sweden are benefiting from the economic recovery outside Europe as global supply chains remain intact, although new containment measures have been implemented within Europe. Sweden's manufacturing PMI reached a ten-year peak at the end of 2020. Denmark saw a swift start to its vaccination campaign. If continued, this will provide its domestic sectors with a competitive advantage by enabling them to reopen more quickly than in other European countries.

Office is still key

The new home office trend is affecting the letting market. Coupled with economic uncertainty, tenants wish to reduce office floor space, a factor already reflected in vacancy rate increases. Rents accordingly declined modestly in all Nordic countries in 2020. We expect uncertainty about future office demand to continue into 2021 before a subsequent slight recovery in rents. In Finland we see a trend towards shorter contract terms and flexible lease agreements. In Oslo, an increase in vacancies and competition between landlords is weighing down on rents. Tenants in Copenhagen have started migrating out of the CBD. Office investments in the Nordics remain sought-after and prime yields in 2020 largely remained stable despite reduced volumes. However, in Finland the temporary absence of foreign investors pushed prime yields up slightly. An expected return of foreign money in 2021 ought to compress them again. In Copenhagen, pronounced investor demand coupled with low pipeline levels of office space is stabilizing prime yields. Moreover, domestic investors remain active in Stockholm and Copenhagen, thereby supporting the relatively stable prime yield developments there.

Retail, where are you going?

Traditional retail had its issues even before the pandemic, which merely served as a catalyst. Structural changes in consumer behaviour, the absence of tourists and tenants and the economic uncertainty led to distinctly negative rent developments in 2020. We expect rents to remain at these low levels in 2021, as letting activity is additionally characterised by incentives and pressure on retailers' margins (and hence their ability and willingness to pay high rents) due to increased competition from e-commerce and the upcoming Amazon launch in Sweden and the Nordics. Challenges in the letting market and uncertainty about the future of (traditional) retail pushed prime yields north in 2020. For 2021, we anticipate a stabilisation of yields, reflecting investors' overall reluctance to buy and sellers' hesitance to sell for too little. In contrast to traditional retail (high streets and shopping centres), positive signals have emerged from the convenience and grocery segment.

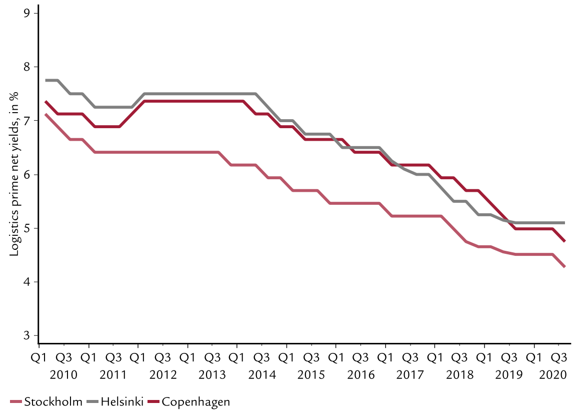
Logistics are on a swing...

Logistics is benefiting from increased online retail sales and the rise of city logistics due to the relatively high rate of urbanisation in the Nordics. Because COVID-19 has acted as an amplifier for e-commerce, the sector is facing even higher demand than before for warehouse and logistics space. Slight rental growth in 2021 and beyond, following stable rents in 2020, can thus be expected. Owing to the high demand, we anticipate stable prime yields in 2021. However, for Denmark/Copenhagen we expect a slight yield compression due to its status as a gateway to Scandinavia and its closeness to Germany and the rest of Europe.

... and residential is king

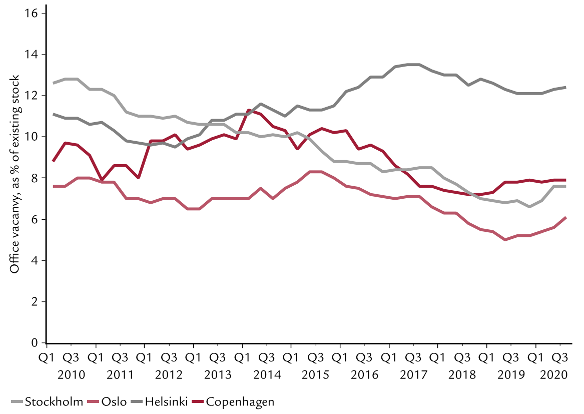
Residential is not only proving its (pandemic) crisis resilience but even seems to be benefiting from it as investors seek low-risk investments – something residential can offer thanks to its counter-cyclicality and extremely low rental default rates. The investment market in 2020 accordingly saw robust to increased demand, with Stockholm remaining the largest market. Although cross-border investments are currently down, institutional money is present, with portfolio deals the most common transaction type. The "new" players are expected to exert an impact on investments so that yields compress in the medium term. In the short term, we expect stable prime yields. On the letting market, the potential for rental growth is limited by obstacles such as regulatory requirements and social preferences.

Chart 1: Logistics prime yields in major markets



Source: PMA

Chart 2: Office vacancies



Source: PMA

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