

Sweden Investment



New investment high in 2019?

The global economy is at a crossroads. After several years of recovery, with high GDP growth and rapidly falling unemployment, the global economy has entered a phase of more moderate GDP growth. Weaker global growth than in recent years is to be expected as the business cycle comes into a more mature phase.

The Swedish economy, in line with the global economy, has entered a calmer phase. Sweden's growth is starting to slow despite fiscal and monetary stimulus. Export decreases in pace with declining international growth, however manufacturing is resilient, supported by a weak krona.

Despite a relatively strong labour market and housing prices having stabilised, the GDP growth has slowed and is forecast to be around 1.5% according to consensus figures published by NIER (National Institute of Economic Research). As a result, many forecasting institutes believe the Riksbank is turning more cautious and will most likely leave the repo rate unchanged in 2019-2020. However, central government finances remain strong and central government debt continues to decrease, which is positive as the government can increase spending to support the economy.

Investment activity is close to historical highs and the transaction volume for the first three quarters totalled an impressive SEK 152bn (€14bn), which is an increase by 37% from the same period last year. The increase in investment volume is

a clear indicator of a continuous strong investment appetite.

Foreign investors keep increasing their activity in Sweden. With an investment volume of SEK 57bn (€5.3bn), reflecting a market share of 38%, foreign investment is at its highest level since the 2007. Noteworthy, foreign investors are net buyers for the third year in a row.

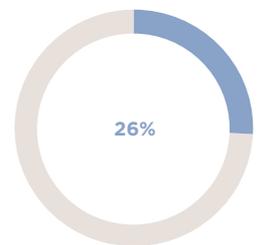
The first three quarters have been dominated by major transactions, with a total of 35 transactions with an underlying property value of at least one billion SEK. This is ten more compared to the full year 2018 and three more than the full year 2016, which was the year when the highest volume was recorded. The average deal size in 2019 amounts to SEK 400 million, which is the highest listing ever. Two-thirds of the investment volume are portfolio transactions.

Office properties were the second largest property sector with a total investment volume of SEK 39bn (€3.6bn), reflecting a market share of 26%. Stockholm accounted for 60% of the investment volume. The property fundamentals of the sector remain strong. Thanks to a healthy labour market and solid business expansion, office vacancy rates have hit record lows in the three major Swedish cities of Stockholm, Gothenburg and Malmö, hence pushing rents up during the past years. Due to a tight supply situation in CBD markets, secondary locations are becoming increasingly popular as long as they are well-connected to public transportation.

Q3 2019 Stats

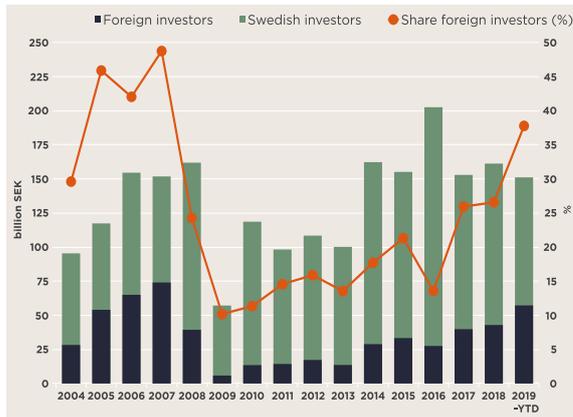


SEK 152bn +37% yoy
Q1-Q3 volume



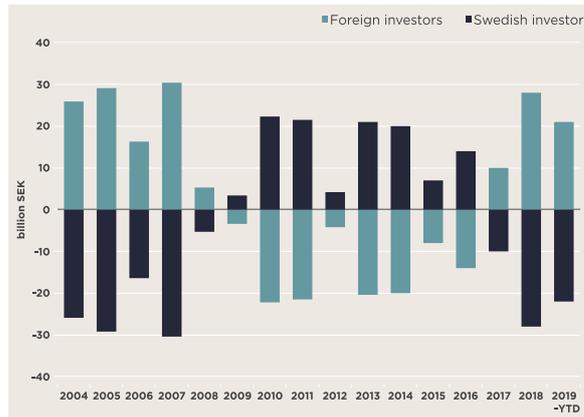
26%
Share of office investments

Graph 1: Investment volume

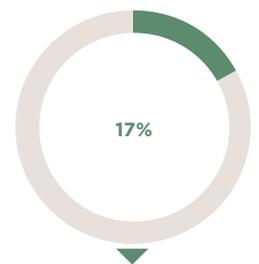


Source Savills Research

Graph 2: Net investments

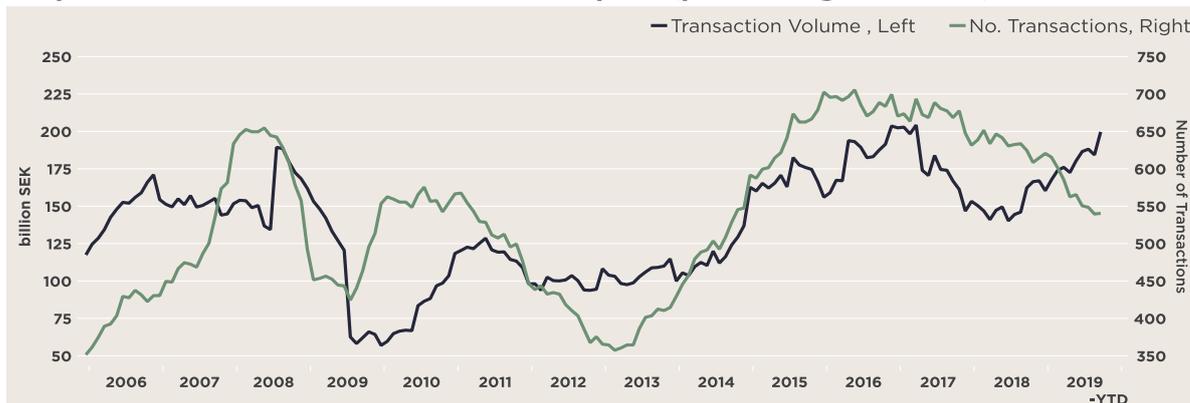


Source Savills Research



17%
Share of logistics & industrial investments

Graph 3: Transaction volume & transaction pace (past rolling 12 months)



Source Savills Research



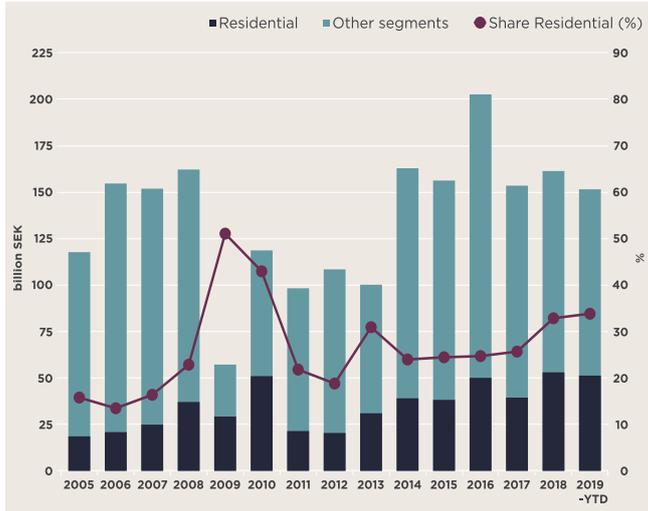
SEK 202bn
Past rolling 12 months investment volume

High demand for all types of residential assets

With a total investment volume of SEK 52bn (€4.8bn), reflecting a market share of 34%, residential properties were the preferred asset class. The large investment volume is partly driven by Vonovia's acquisition of Blackstone's stake in the listed Swedish residential company Hembla. The acquisition corresponded to a value of SEK 20.2bn (€1.9bn).

Investor interest is strong for all types of residential assets, both new buildings and existing stock, hence we expect the year-end volume to surpass last year's record volume of SEK 54bn (€5bn). An increasing interest from foreign institutional investors has been noted, especially for new developments.

Graph 4: Residential investment volume

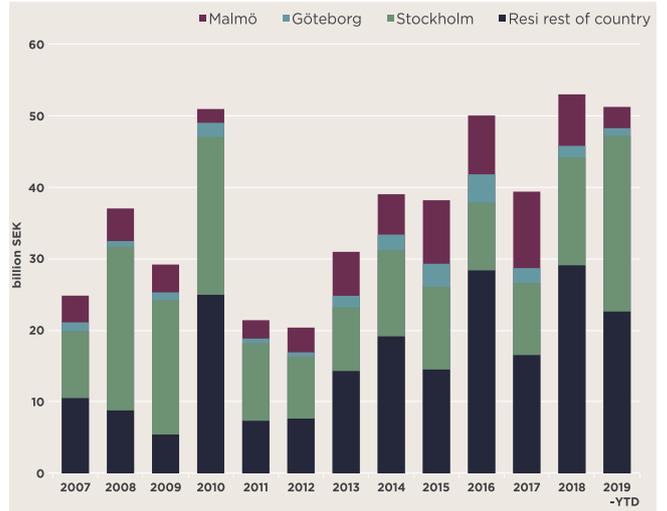


Source Savills Research

Online retail drives demand for logistics

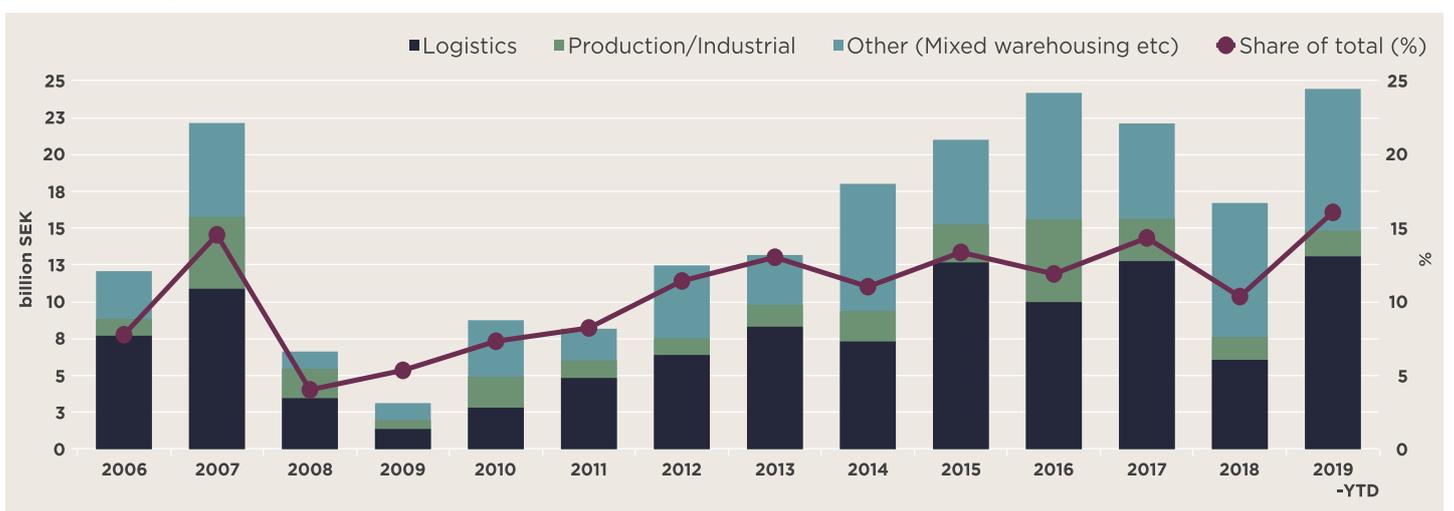
As predicted in our Q1 report, logistics and industrial properties have reached a record level. With an investment volume of SEK 25bn (€2.3bn), accounting for 17% of the total investment volume, the segment has already exceeded the full year volume recorded in 2016. The lacklustre interest for retail properties has had a positive impact for logistics as investors see a strong continued growth for online retail at the expense of physical retail. Logistics yields have continued to harden and portfolio premiums have been noted in a large number of transactions.

Graph 5: Residential investments in major cities



Source Savills Research

Graph 6: Logistics & industrial investment volume



Source Savills Research

Outlook for the remainder of 2019

The outlook for the remainder of 2019 is positive, based on the current fundamentals. Long-term borrowing costs remain low, or negative across Europe, with the Swedish 10-year bond yield at -0.27%, which will maintain an attractive yield spread for most real estate sectors going forward. With bond rates set to stay very low for another year or two, improved valuations mean that prime property yields could compress further over the next 12-24 months. It is not unlikely that this could bring further falls in office, residential, logistics and public asset yields. However, a low economic growth environment presents challenges and the effects of the lower bond yields could be offset by a rising risk premium and/or falling rental growth expectations.

In line with other euro-zone markets, we expect retail yields to move upward. Concerns about retail rents that are stagnating or declining due to an overall retail disruption

caused by increasing online sales, will likely impact retail yields in the short-term.

While average all-property prime yields in Sweden have fallen in step with the euro-zone aggregate, the economic outlook for Sweden is brighter than the euro-zone average. As a result, we expect high levels of activity from foreign investors throughout the year.

2019 end-year investment volume may reach a new record high, surpassing the former record level of SEK 203bn (€18.8bn) set in 2016. Which means the Q4 2019 volume needs to exceed SEK 51bn (€4.7bn). The fourth quarter has historically shown strong investment volumes. The past five years, Q4 has averaged SEK 58bn (€5.4bn). We expect the investment volume in Q4 to exceed SEK 51bn (€4.7bn).

Graph 7: Portfolio transactions



Source Savills Research

Graph 8: Office investment volume



Source Savills Research

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