



Property market Sweden

2024-02



General

Following a challenging period for the global economy, trends indicate increased stability. Inflation continues to be slightly high globally, but the austere monetary policy of the central banks has led to a dampening of global demand. The inflation rate is slowly decreasing. GDP is decreasing as a result of higher interest rates, higher inflation and a decreasing export market. Therefore the Swedish economy is in a recession that is expected to persist in 2024. Household consumption continues to be one of the key determinants of the expected depth and duration of the recession. With lower inflation and a more positive interest rate outlook, the downside risks continue to decrease.

The recession has started to affect the labor market, where unemployment rate has increased. Forecasts from The National Institute of Economic Research and Statistics Sweden indicates that the unemployment is expected to increase as a result of the macroeconomic situation. Unemployment has tended to lag behind economic activity as companies are probably holding off on layoffs and redundancies. However, it is too early to say how increased unemployment will affect the economic upturn.

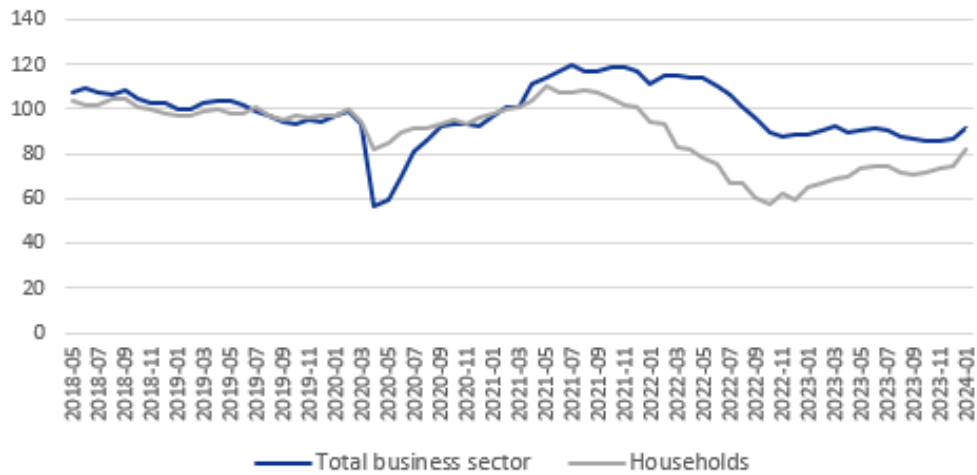
Households are suffering from falling real incomes and rising interest rates. Riksbanken (Sweden's central bank) have since April 2022 increased its policy rate from 0% to 4% in September 2023. In November 2023 and

February 2024 Riksbanken decided to hold the policy rate unchanged at 4%. The market indicates that the policy rate may be lowered earlier than forecasted in the autumn of 2023. Both European Central Bank (ECB) and The Federal Reserve (FED) also decided to hold its policy rate unchanged.

Uncertainty about the future of the economy is currently greater than normal, in part due to the geopolitical situation and concern about how the market have reacted to the sharp increases in the policy rate as well as how the housing market will develop. At the end of 2023, there were a certain change in the interest rate market as the market now prices the Central Bank's interest rate cuts earlier and to some extent more strongly. Market interest rates fell at the end of 2023, which meant that the stock market's real estate index rose. Companies with higher leverage or with more low-yielding assets have continued pressure on the interest coverage ratio.

The National Institute of Economic Research's monthly survey indicates a historically large gap between the way households and the business community view the economic situation. Households and businesses now have a greater consensus on the economic situation. After some time of a pessimistic view of the economic situation, brighter signals can now be seen from all sectors. Sentiment is thus better than it has been for a long time, but still below the normal level of index.

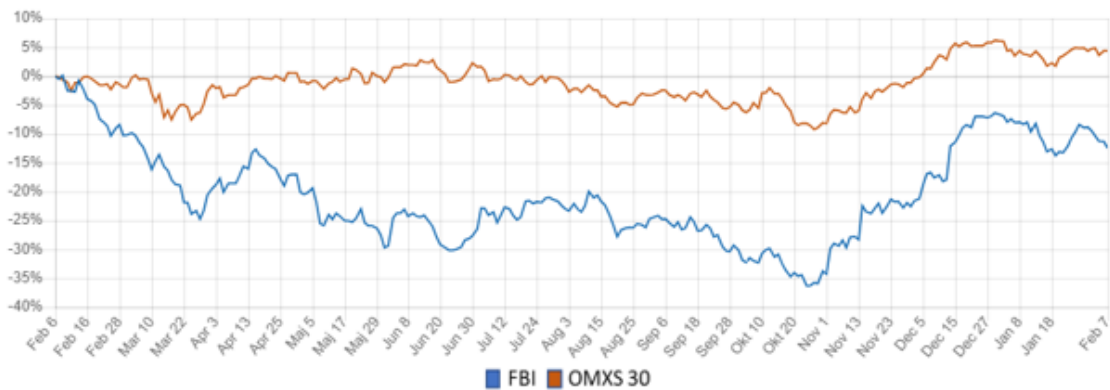
The National Institute of Economic Research



The stock prices of property companies have declined up until fall 2023. Since the end of

October the stockprices have improved, albeit temporarily.

Real Estate Index & OMXS 30, 12 mon



The government bond rate has risen since the spring of 2022, and the interest rate gap between government bonds and riskier corporate bonds has also widened. A slight decrease was noted at the end of 2023 and a

slight increase is noted again at the beginning of 2024. A large portion of the Swedish corporate bond market comprises property companies, which are particularly vulnerable to rising interest rates.

10-year government bond rate



Prices for tenant owned apartments increased by 1.7% and prices for detached houses have decreased by 1% during the last twelve months. In the spring of 2022 the housing prices were at its peak. From that point prices have fallen by 10% for tenant owned apartments and 15% for detached houses. During 2023 housing prices stabilized, but the

low volum of transactions indicates that prices may continue to decline during 2024. The housing market is still apprehensiveness and the number of sales has declined. A large number of detached houses and tenant owned apartments remain unsold with longer sale time and lower bids.

The real estate market

Access to financing declined in 2023, and the listed property companies have handled a large amount of bond maturities. During 2024 the listed property companies are expected to yet again handle huge amount of bond maturities. Some of these bond maturities will be financed by bank loans and new stock issues, but some companies will also have to sell real estate to bolster their balance sheets. The number of stressed sales has increased during the year. A certain easing of financing is noted in the market, but many Swedish real estate companies still face high financing costs.

Buyers and sellers have begun to adjust to the new market situation, and recent major transactions indicate increasing yield requirements in all segments. According to a review by the European Valuers' Alliance (EVA), yield requirements are also increasing in the rest of Europe.

The number of bidders has declined, and the greatest interest is being shown in properties with stable tenants and so-called "green properties". Buyers now consist to an increasing extent of investment funds, institutions, low-leveraged property companies and foreign investors.

Among investors there has long been strong demand for residential properties, and in particular newly constructed properties. Historically the office and residential segments have been the most transaction intensive. In 2023 however industrial/logistics properties was the most traded segment. This can be attributed to the record high share of foreign buyers in the Swedish real estate market. Logistics is considered the most international segment and the share of foreign investors in Sweden accounted for about 30% of the total transaction volume. The transaction volume in



2023 decreased by a total of just over 50% compared to the previous year. In general there was a little interest in residential properties in 2023, apart from newly produced apartment buildings where a number of transactions were completed. The view of apartment buildings in

The rental market

Office tenants are generally looking for modern and space-efficient premises in established office districts with good public transport and accessibility. These premises are expected to command higher rents than solitary office buildings of an older standard. Tenants nowadays want to sign short-term leases for greater flexibility. CBD locations in Swedish cities are still considered attractive and companies are generally adapting their premises to smaller space in better locations as a result of increased remote work.

The picture for shop rents is split depending on the type of retail business in question. Shop rent levels in the city centers are still depressed and the vacancy rate is high. The picture is brighter for food retailers, low-price outlets and convenience stores. The deteriorating economic situation is expected to lead to more retail vacancies and lower market rents. In city centers and shopping centers it is common for vacant premises to be converted to alternative uses, for example healthcare centers or gyms. Consumption may increase as interest rates start to fall.

The expansion of e-commerce has increased the demand for modern logistics facilities, which has led to a strong trend in rents on industrial and logistics premises. The rising rent trend now seems to have levelled out. But with higher building costs, rents in newly



2024 is expected to be slightly more positive as an effect of the reduced new production.

In the category of retail properties, the greatest demand is for out-of-town retail properties, grocery stores and discount stores

constructed logistics facilities have risen, since these rents are normally linked to construction costs.

The CPI rose by 6.5% in October 2023, which means that rents on most commercial properties will rise to a corresponding level during 2024.

Negotiations between the Swedish Property Federation and the Swedish Tenants' Union resulted in an increase in residential rents of about 5% after just over a quarter of the rent negotiations have been completed. For 2024 the property owners demanded rent increases of around 12% due to increased costs. Most of the negotiations have been sent to an arbitrator because no agreement could be reached.

Two new precedent-setting judgments were handed down by the Court of Appeals during the summer of 2022 relating to presumption (negotiated) rents. The judgments established that presumption rents may be raised by half of the increase in utility-value (controlled) rents at a given location, up to 3%. If the increase exceeds 3%, the presumption rent may be increased by 0.75 of the portion exceeding 3%. The new precedent-setting judgments has not yet fully been applied which has lead to rent increases considerably higher than the judgments.