

## Real Estate Strategic Outlook: Nordics

### A brighter outlook over the medium-term

#### Rate cuts beginning to bite, early signs of stability

The significant hikes in interest rates are weighing on the Nordic economies. GDP growth has slowed significantly, with Sweden's economy expected to contract over 2023.<sup>1</sup> Other economic indicators highlight a softening in labour markets, house price corrections and weakening consumer demand.<sup>1</sup>

However, inflation continues to trend down and central banks are expected to start cutting interest rates in the second half of 2024. Over the medium to longer term, the economic outlook is brighter. Sweden is expected to outperform the Eurozone, with Denmark also well-placed for above-average growth. The major Nordic cities, such as Stockholm and Copenhagen, are expected to drive growth, supported by solid employment growth prospects, urbanisation and strong population growth.<sup>2</sup>

#### Significant price correction now largely complete

Nordic real estate underwent a sharp value correction over 2023, with prime yields moving out by between 150-200 basis points. Going forward, we believe prices have now adequately corrected in most cases and a recovery in yields will be evident from 2025 onwards. Healthy real estate fundamentals should encourage healthy rent growth over the medium term, supporting solid returns over the forecast period.<sup>1</sup>

#### Logistics: Focus on urban and last-hour in major cities

Despite a slight softening in the occupier market, logistics fundamentals remain solid. Given the constrained supply and an increased backlash against greenfield development, brownfield could offer an attractive opportunity for sustainable market entrance. The redevelopment of ageing assets around the Nordic's key cities should offer healthy rent growth.

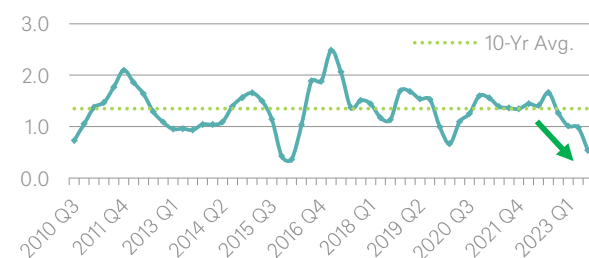
### Residential: Operational residential attractively priced

The residential sector has undergone a significant price correction, with prime capital values falling by close to 30%. As such, pricing looks well set for a rebound in the medium term. Copenhagen remains a target city, supported by solid demand fundamentals and low vacancy. Operational residential is expected to outperform multi-family with a higher entry yield offering stronger risk-adjusted return potential. In addition, the fundamentals are supportive. Demand for co-living, for example, is supported by urbanisation, a young population, and the rise of single-person households.

### Office: Stockholm's supply pipeline support redevelopment

Stockholm has been identified as a target European city for a brown-to-green office redevelopment strategy. Sweden's capital is supported by some of the strongest employment growth prospects in Europe, driven by high-productivity industries.<sup>3</sup> With building starts falling to the lowest level since early 2016, the amount of speculative space delivered over the medium-term is expected to be modest.<sup>4</sup> As such, we continue to see an opportunity in the refurbishment of older, but well-located CBD offices into Next Generation office stock.

Stockholm: Rolling Annual Office Starts (% of stock)



Source: Property Market Analysis, December 2023

<sup>1</sup> Oxford Economics, December 2023

<sup>2</sup> DWS, December 2023

<sup>3</sup> Oxford Economics, December 2023

<sup>4</sup> Property Market Analysis, December 2023.

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