

## Real Estate Strategic Outlook: Nordics

### Robust economic outlook for the Nordic capital cities

#### Sweden a first mover in the rate-cutting cycle

After a challenging year, there are gradual signs of improvement in the Nordic economies. Sweden's Riksbank was one of the first central banks to cut rates, implementing a 25 basis point reduction in May, while the European Central Bank is expected to follow suit in the summer.<sup>1</sup> Household disposable incomes should then improve, supporting the economic recovery as the year progresses.<sup>1</sup>

While growth over 2024 as a whole is likely to remain subdued, over the medium-to-longer term the economic outlook is more robust. On a national level, Sweden and Denmark are well placed to outperform the Eurozone, while the major Nordic cities are expected to drive growth in their respective countries. Copenhagen and Stockholm are notable outperformers, supported by above-average employment and population growth prospects.<sup>2</sup>

### Significant repricing has paved the way for recovery

#### Prime real estate prices have largely stabilised

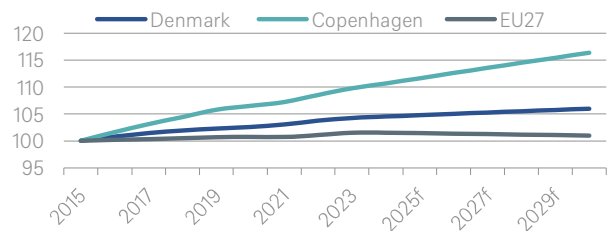
Early this year further outward yield shift was evident across some parts of the Nordic market. That said, more recent higher-frequency indicators show stabilisation in prime real estate pricing, paving the way for a recovery in liquidity.<sup>3</sup> We expect prime real estate yields to move in from 2025 onwards, compressing over a five-year period. Robust real estate fundamentals should also encourage healthy prime rent growth over this timeframe, supporting solid returns.<sup>2</sup>

#### Residential: Copenhagen well-placed for outperformance

Copenhagen remains a target city, supported by above-average population growth prospects, a persistent demand-supply imbalance and a robust rent growth outlook. For build-to-rent, we favour more affordable locations outside of the city centre. Within the city centre, operational residential, such as student housing and co-living, could offer stronger risk-adjusted returns, supported by higher entry yields and

strong demand prospects. Our view on Helsinki remains cautious for now, as elevated vacancy limits the potential for stronger rent growth in the short-to-medium term.

### Population Growth (Index, 2015 = 100)



Source: Oxford Economics, May 2024

### Logistics: fundamentals remain supportive of growth

Sentiment towards European logistics is strong, with the Nordic markets no exception. Following a price correction of around 20% in the prime segment, we think the sector looks poised for recovery. On the whole, market fundamentals remain solid, particularly in last hour and urban locations within key cities, and we expect healthy rent growth over the coming five years, with Stockholm forecast to outperform the European average. The redevelopment of ageing assets in these locations could offer attractive opportunities for sustainable investments with solid risk-adjusted returns.

### Office: location-specific conversion strategy

The office sector continues to face both structural and cyclical headwinds and we remain very selective on location. In Stockholm's CBD, for example, the fundamentals are supportive of a brown-to-green office redevelopment strategy. However, in the inner city or suburbs, a conversion play could be more appropriate. For the right assets in the right locations, secondary and obsolete buildings could be repurposed to residential or hotel use.

<sup>1</sup> Oxford Economics, May 2024

<sup>2</sup> DWS, June 2024

<sup>3</sup> CBRE, May 2024

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