# Nordics Real Estate Strategic Outlook
## September 2020

The Nordic region is expected to be a relative winner in 2020 and is well set for the coming years of recovery. Supported by strong population and employment growth, cities like Stockholm, Copenhagen and Helsinki are all expected to see the return of capital value growth from next year onwards. Like other parts of Europe, residential and logistics stand out as the top performing sectors across the region, and are likely to become increasingly important parts of the investable universe as the decade proceeds. We foresee deep declines in shopping centre values over the coming years, but while structural changes are also likely to weigh on the office market, we still see a sustainable future for high quality, flexible office space both at the heart of, and in emerging locations within, major cities.

### Economic outperformance now and in the future

The Nordic region is likely to stand out as a relative success story in 2020. While no country has been immune to the impact of the current global crisis, in all four of the Nordic countries that we cover, GDP growth this year is expected to be well in advance of the European average.[1]

Perhaps even more important for real estate investors is the strong long-term outlook – particularly across the major cities. For example, of all the European cities we track, Stockholm is projected to see some of the fastest population and employment growth over the coming five years.[2]

### So far so good but risks remain for 2020

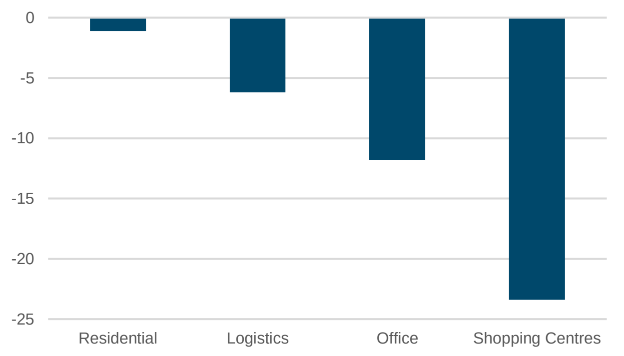
Much of the currently available data has shown little change in prime Nordic values when compared to the start of the year.

However, there are clear reasons to question the sustainability of these values. Despite the resilience of the region, all countries have seen a severe contraction in economic output and real estate vacancy rates are tracking higher. According to JLL, Stockholm office vacancy was 6.7% at the end of July, up 80 basis points from the start of the year.[3]

We forecast prime office values in the region to fall by more than 10% this year, before returning to growth in 2021.

Logistics and residential look to be more resilient. For residential we expect almost no value decline this year, and while we forecast some corridor and trade-linked logistics locations will see values fall by around 6%, we think it likely that urban and e-commerce focused facilities will see little change.

PRIME NORDIC CAPITAL VALUE FORECAST (2020)




Source: DWS, July 2020. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

In contrast, we continue to see retail as the most vulnerable part of the market. With some high streets and shopping

[1] DWS, Oxford Economics, July 2020
[2] Oxford Economics, July 2020
[3] JLL, July 2020

centres already experiencing rising vacancy and falling rents going into this year, current conditions are worsening a bad situation. With yields also rising sharply, we forecast prime shopping centre values will fall by an average of 23% this year and will continue to decline through 2021 and 2022.

## Recovery in sight

This continuation of falling prices is expected to be unique to the retail sector. Our forecasts for office, logistics and residential all show capital values starting to recover from next year onwards.

While we're not in a position to claim any certainty in the outlook for the pandemic, we do believe that societies are better prepared, and that any future lockdowns will be more targeted, with less of an impact on the wider economy.

Led by yield compression and sustained by the return and acceleration of rental growth, we see returns nearing double-digit levels by 2022.

## Top performing residential markets

Returns across the Nordics are expected to be broadly in line with the European average over the coming five years. In all four of the markets we cover, we see attractive opportunities, particularly in the logistics and residential space.

In Stockholm, Copenhagen and Helsinki, both of these sectors are projected to outperform the European market average on a risk-adjusted basis. This is less the case for Oslo, with Euro-denominated investors facing a substantial drag due to hedging.

Stockholm and Copenhagen in particular stand out as some of the top residential markets in Europe. Not only is there a strong outlook for population and disposable income growth, both cities are tending to offer a yield premium of around 60 basis points above the European average.

The outperformance of logistics is commonplace across almost all of Europe. The Nordics certainly benefits from a higher than average level of online spend, which we expect to continue to grow strongly. In addition, prime yields across the region are around 50 basis points above other Core European markets, supporting income and total returns.

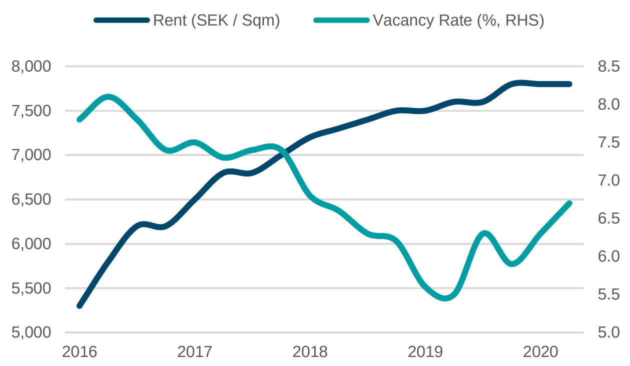
## Next generation offices

In the office sector we are concerned that the pandemic will permanently increase the propensity to work from home, reducing overall net absorption across European cities. The Nordics is no exception, with digital-savvy populations and tech clusters in places like Stockholm and Helsinki.

However, this is not the death of the office. We believe companies and employees will continue to demand high quality, flexible office space, facilitating everything from brand building to collaboration.

In Stockholm, we are still concerned about rental affordability for the most prime space, particularly as vacancy is now rising. However, given the strength of projected jobs growth, more affordable, emerging submarkets still look attractive.

**PRIME STOCKHOLM OFFICES**




Source: DWS, JLL, July 2020.

Finally, we do not expect a quick improvement in the retail sector. From peak to trough we forecast prime shopping centre values will fall by around a third by the end of 2022. While there will almost certainly be a wide divergence between different assets, the sector is expected to underperform and shrink as a share of the real estate market. Centres that survive this period may provide long-term opportunities, but as of today we see few reasons to increase exposure to retail.

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- Changes in the relative popularity of property types and locations;
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- Changes in the relative popularity of property types and locations;

- Risks and operating problems arising out of the presence of certain construction materials; and
- Currency / exchange rate risks where the investments are denominated in a currency other than the investor's home currency.

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