



JLL Nordic Outlook

Focus: Re-industrialisation

February 2024



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Hello

We are leaving a volatile 2023 in which sentiment improved from low levels gradually in the year. The significant decrease in long-term interest rates at the end of 2023 created some optimism for future transactions. As these rates are expected to stabilise and policy rates to decline, we anticipate a rebound in the transactions market, potentially enforced by a slight reduction in yield requirements towards the end of 2024, creating a first mover advantage opportunity for investors in 2024.

Major central banks, such as the US Federal Reserve (FED), the European Central Bank (ECB), and the Swedish Riksbank (Riksbank), are expected to slash rates in 2024, due to easing inflation. Despite uncertainties on the magnitude and speed of these changes, lowered short rates expectations have supported the downtrend of long-term rates, bolstering the listed sector, which has seen a rebound of approximately 40 percent since October 2023.

However, caution regarding available liquidity in capital markets and growth outlook potential from Nordic banks may delay the decrease in funding costs. Despite this, Nordic banks displayed strong profitability, hiking their exposure to the commercial real estate (CRE) sector by SEK 130 billion in Sweden in the last 24 months. However, positive signals from the financing market in the first quarter of 2024 are supported by improved activity in the bond market.

The listed real estate sector rebounded strongly towards the end of 2023 and trades at a 30 percent discount to NAV, a decrease from the 40 percent recorded in our Autumn 2023 report. The sector has issued more than SEK 34 billion of equity since February 2022 of which more than SEK 25 billion was issued in 2023. The majority of rights issues in 2023 related to preferential rights issues, despite implying a significant dilution to NAV per share for those shareholders that could not participate. The outlook for opportunistic rights issues and buy-out cases should improve in 2024-2025, owing to the turn in interest rates.

In the coming years, the real estate sector will prioritise operational strength and resilience. We foresee the need for more equity which could delay the rebound, but the capital raised by funds waiting to be injected, combined with increased risk appetite from institutional investors, should create a robust rebound in the transaction market.

In this 50th edition of JLL Nordic Outlook, we celebrate our 25th anniversary with a broad review of the Nordics' office, logistics, retail and residential markets. We analyse the theme of the Nordics' 're-industrialisation', focusing on the structural growth outlook that electrification and reshoring/nearshoring investments bring.

Expectations in the bond market forward curve* indicates short-term interest rates will decrease by 114 basis points in Europe and by 110 basis points in the US during 2024. Sweden anticipates a 133 base-point drop, with Norway expecting a more modest 66 base-point drop. These movements, along with the stabilisation of long-term rates and the strength of Nordic banks, should provide solid foundations for stabilisation and a rebound of economic growth throughout 2024.

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Lower funding costs should selectively boost total return outlook for real estate, and investors should focus on not missing out – assuming they are well-capitalised.

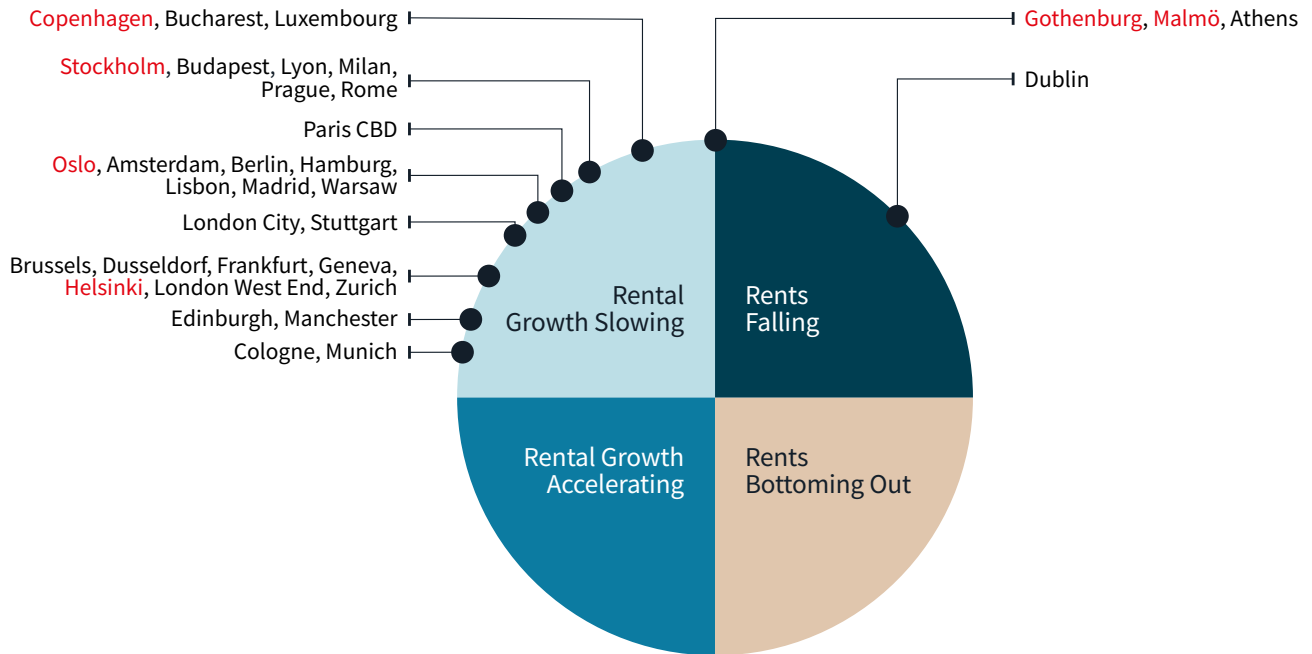
Niclas Höglund

*Head of Research,
JLL Sweden*

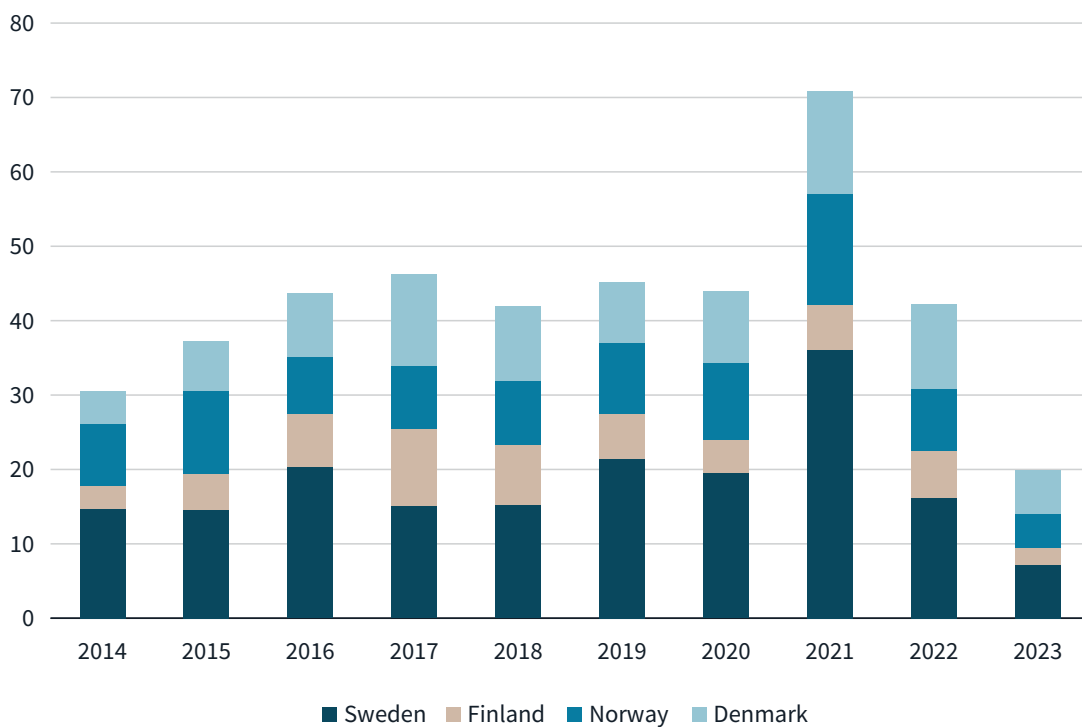


*date February 5 2024

JLL Property Clock Q4 2023



Nordic Investment Volumes (€bn)



Source: Akershus Eiendom, EDC and JLL

Macroeconomic conditions and the listed property market

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Real GDP growth is expected to improve sharply in 2025.

Macroeconomic conditions

The general economic environment remained mixed across the Nordics and Europe, owing to rising cost inflation and rising interest rates in 2022 and 2023. The outlook for GDP growth in 2024 remains muted in Sweden, while all other regions should be back in positive territory in 2024, albeit on lower levels than were expected by Oxford Economics in our Autumn 2023 report.

Inflation tendencies have fallen sharply year-over-year, and expectations are gradually declining towards the 2 percent target by the FED, by the ECB and by the Riksbank. Bond market expect short term rates to decline in 2024 owing to ease in inflation and following comments from the central banks. Inflation expectations declined to 2.2 percent in 2024 from 6.0 percent in 2023 across the Nordics, with further pressure below 2 percent for the Eurozone. Foreign Exchange Market (FX) changes are balancing on the negative and the weak SEK and NOK still risk to further elevate imported inflationary pressure.

The sharp increase in interest rates was, in part, compensated by inflation, through index-linked changes to rents. Growth in indexed rents also balance on the positive for 2024. However, the combination of weak outlook for real GDP growth and high interest rates could prove negative, since they add further risk for higher vacancies and might limit market rental growth across cyclical sectors in 2024 and in 2025.

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The sharp decline of longer interest rates towards the end of 2023 boosted performance in the listed sector.

Listed property sector in the Nordics

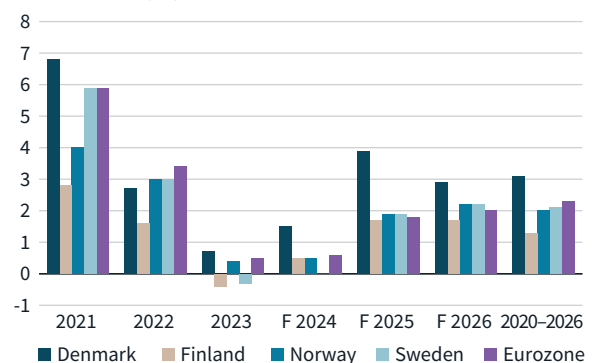
The listed property sector in the Nordics consists of more than 40 companies listed on Nasdaq OMX and Nasdaq First North, with a total property value of €151 billion and a market capitalisation of €58 billion. The sector is currently valued at 30 (40) percent discount to NAV* (median) which implies an 15 (18) percent discount to total asset value.

The sector performance rebounded by 20 percent in 2023 and was up by more than 40 percent from October 2023, fuelled by the sharp decline in long-term interest rates. Despite the rebound, today's valuations stand in sharp contrast to our Spring 2022 report which recorded a 15 percent premium to 'net asset value' (NAV) and an 8 percent premium to total asset value.

When we compare companies with different types of assets, industry/logistics-related companies are still trading at premium to assets while all of the other segments are trading at historically high discount to assets and NAV. Performance so far in 2024 has been volatile and the sector is down by 6 percent*.

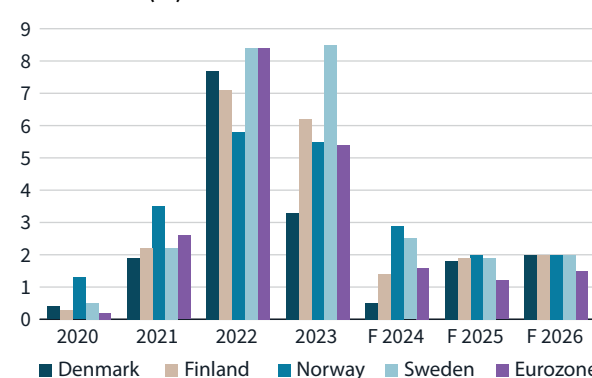
Despite trading on substantial discount to NAV and asset values, the sector has raised more than SEK 34 billion since the outbreak of war in Ukraine in 2022, of which SEK 25bn in equity was raised during 2023. Preference in the listed market relates to industry/logistics, in which several companies already trade at a premium, while all the other segments are being incentivised to reduce exposure, due to the discount levels. Short-term pressure to reduce exposure is still limited by low liquidity in the transactions market, which is expected to ease from a low level. We see potential for companies to raise equity to reduce debt and use the opportunity to make acquisitions in a weak market. This creates potential for further growth in 2024.

GDP Growth (%)



Source: Oxford Economics and JLL

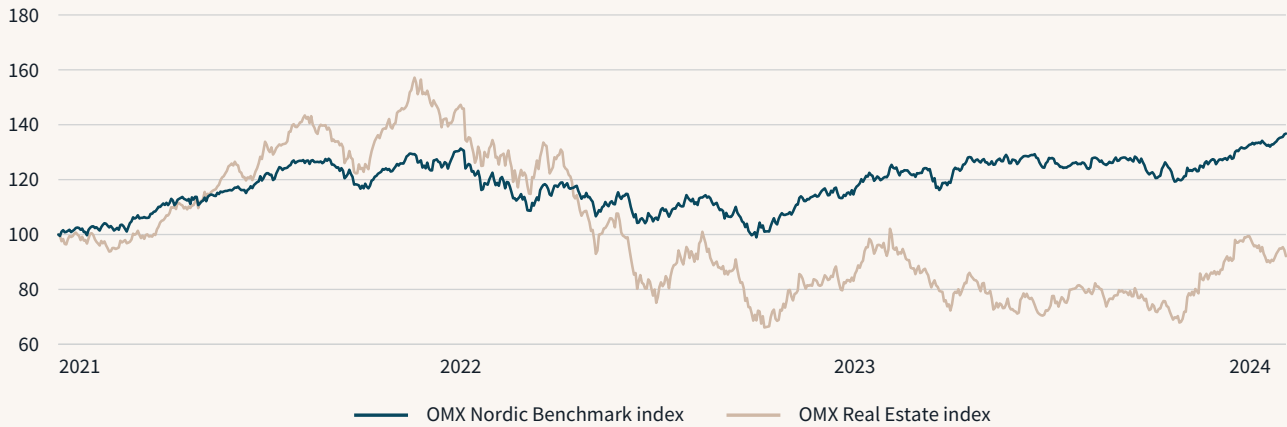
CPI Inflation (%)



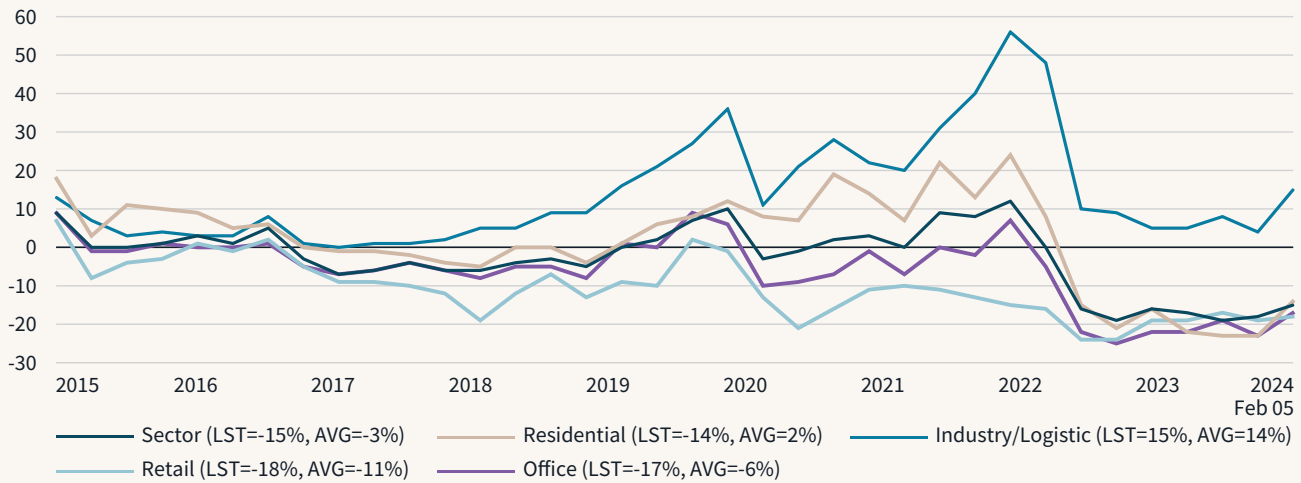
Source: Oxford Economics and JLL

*as per February 5 2024

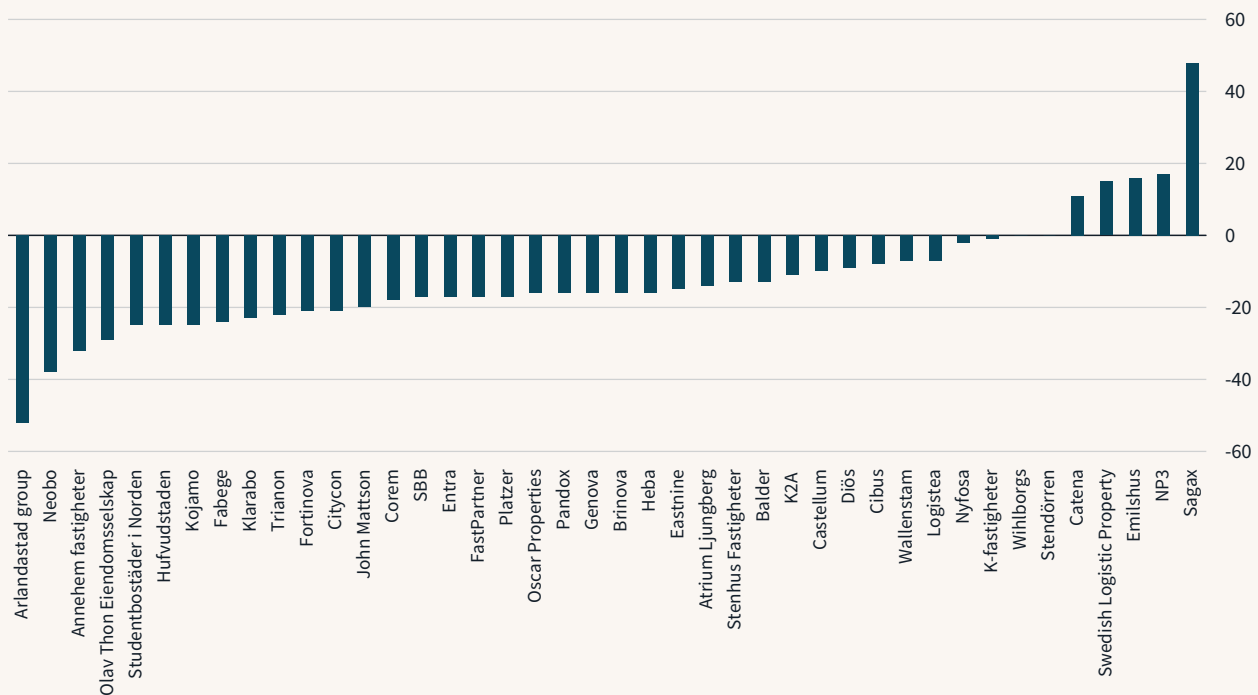
Performance Listed Market



Premium (+) / discount (-) to assets (%)



Premium/Discount to Assets (%)



Interest and Credit markets

Interest market

After a period of high interest rates, we can now see that the peak is behind us as short-term rates are expected to be lowered. Throughout 2023 we observed a slowdown in inflation in Sweden, Europe and the United States, compared to the peak at the end of 2022 and the beginning of 2023.

The FED showed the way and aggressively raised the central bank rate by 4.25 percentage points during 2022 and by another percentage point in 2023. However, since July, the central bank rate has remained unchanged. European central banks followed and both the ECB and the Riksbank raised their central bank rates by 2.50 percentage points in 2022. They also followed up in 2023, with rises of 2.00 and 1.50 percentage points respectively, but since July the central bank rates have remained unchanged in the EU and Sweden as well.

The end of 2023 was marked by a downturn in interest rates and expectations of future interest rate cuts from both the ECB, the FED and the Riksbank. The lower expectations are reflected in long-term interest rates. For example, the Swedish 5-year swap decreased by approximately 80 basis points in 2023, and the 5-year Euro swap decreased by 70 basis points. These movements strengthen the evidence that the market believes that the peak is behind us.

The market may have overestimated the central banks' speed at lowering their rates, with market estimating a decrease of around 75 basis points below the Riksbank's lowest projected scenario.

Another interesting observation suggests that short-term rates in the Euro area and the Nordics are set to converge to just around 2.5 percent in 2025, in a world where inflation is back at central bank target levels.

Credit market

Real estate companies issued approximately SEK 40 billion in the SEK bond market during 2023, compared with around SEK 70 billion in matured volume during the same period. A-rated companies (or higher) accounted for around 60 percent of the issued bonds. In the EUR bond market, liquidity was almost non-existent for real estate issuers. This situation emerged as investors sought more secure placements towards other industries with less exposure to interest rates at the same time as central banks ended their corporate bond purchase programs.

Throughout the second half of 2023, the capital markets continued to be challenging for real estate companies with a BBB+ rating or lower as outstanding volume continued to decrease and spreads were higher, compared with bank loans for the same term. This situation will, in the long run, cause headaches for some of the rated companies as increased amounts of bank financing will decrease the level of unencumbered assets, which is one of the criteria for an investment grade rating. However,

at the end of 2023 and the start of 2024, the EUR market saw several Central European real estate companies entering the market after a long break, which might indicate a better issuing market for the Nordic issuers later in 2024. The SEK real estate bond market is also experiencing a positive trend, with SEK 7.3 billion in volume issued during the first month of 2024 and SEK 1 billion issued the first week of February. The credit spread for a three-year BBB real estate bond has almost decreased by 75 bps since December and is now trading just above 200 bps. A-rated real estate companies, such as Vasakronan and Willhem, have, during January, issued three-year bonds around 75–80 bps.

The Nordic banks are showing appetite for lending but are still primarily focusing on existing relationships. Some of the Nordic banks have even been able to offer unsecured loans to support their clients' ratings. Even though their appetite is good, they are now more cautious about offering higher levels of leverage, particularly for low yielding segments. During 2023, the six major banks increased their outstanding volume towards Swedish real estate with SEK 30 billion of lending, a decrease in yearly growth of SEK 70 billion compared with SEK 100 billion during 2022.

Despite the market structure differences in Sweden and Finland, we see the same pattern in financing conditions in both countries. Banks are mainly focusing on existing clients and are very selective in new financings, although there are discrepancies between lenders. Those banks with relatively lower real estate exposure have been more open to indicating loans for new financing cases. Cash flow of assets remains in the focus, but encouragingly, towards the end of 2023 we observed banks slightly lowering their interest coverage ratio (ICR) requirements. However, LTV is still the result of the cash flow metrics rather than the starting point.

Outlook

The real estate sector continues to focus on liquidity, and refinancing remains the major theme. This will lead, in some cases, to divestments or to a combination of other arrangements including possible new equity injection and possible mezzanine financing. However, the transaction market is expected to recover from the lows of 2023, which should bring relief to these situations. New loan liquidity also continues to be provided by the international lenders filling the gap of the bond market and the more constrained Nordic banks.

The increase in yields that we have seen, combined with decreasing interest rates, should improve credit metrics and ease the financing conditions over the year. However, we may continue to see more covenant breaches in the sector. Real estate developers are particularly under pressure. Last year, most of the problems arose from the cash flow metrics but, with appraisal values continuing to come down with a lag to the transaction market, there is also further pressure on LTV covenants. This will lead to banks being obligated by regulation to reserve more capital for the real estate sector. Consequently, we do not expect the loan margins to come down any time soon.

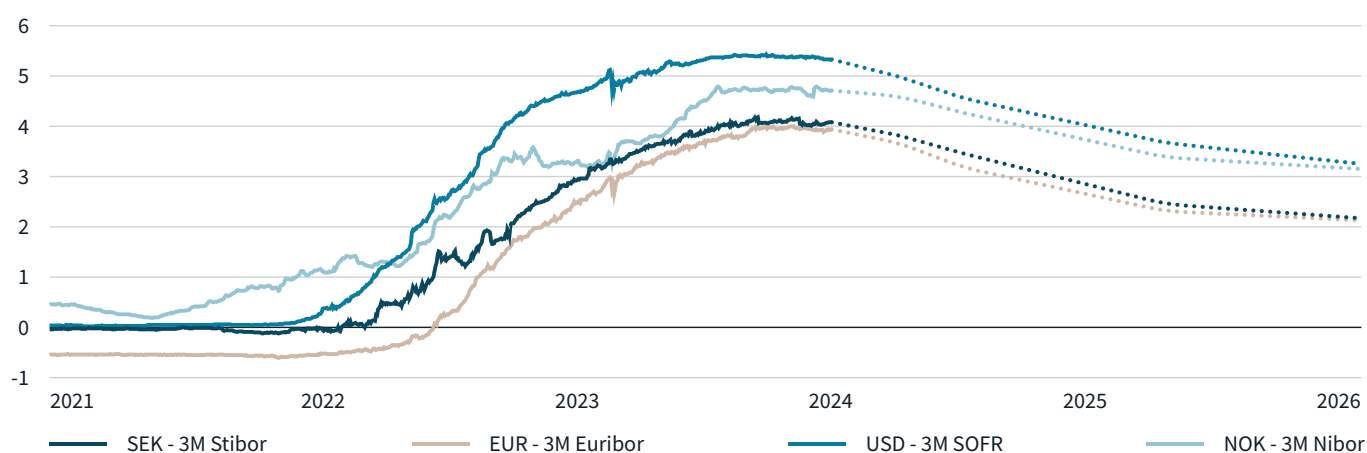
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The issued volume in the real estate bond market in January 2024 was SEK 7.3 billion.

Mattias Baggfelt

*Head of Debt & Financial Advisory
Stockholm, Sweden*

5-year swap and forward rates in SEK, USD and € (%)



Source: Bloomberg and JLL



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Environmental, Social and Governance (ESG)

The ESG parameters to look out for

Anyone who has been involved with real estate deals recently - transactions, finance, leasing or executive decisions on strategy - has seen the impact of new sustainability criteria. Here is our guide to the most influential drivers and our predictions of what to expect.

Understanding current ESG value drivers

While ESG due diligence (DD) checklists are endless, only a few things are universal across countries and sectors: The Carbon Real Estate Risk Monitor (CRREM), Energy Performance Certificates (EPCs) and certifications. While fairly straightforward, they are often misunderstood.

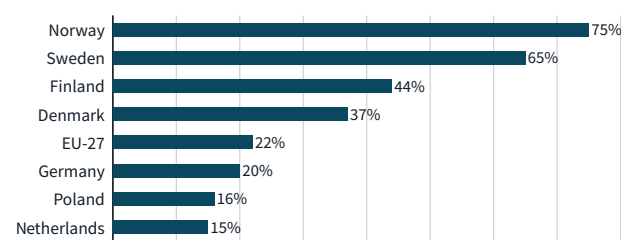
CRREM–Operational Carbon emissions

We now have science-based targets for how much carbon properties should emit annually, tailored for each country and sector. If there is one ESG metric we recommend, it's this one. It's critical for the planet, it's standardised, transparent and relatively easy to carry out. It is widely used and treated as absolute. This is where the market also makes mistakes, as it forgets to use common sense when interpreting CRREM and the philosophy behind it.

The tool has two parts: one that defines limits for emitted carbon, another that defines limits for Energy Use Intensity (EUI). In most countries in Europe, energy and carbon are two sides of the same coin. Reduce one percent energy use and on average one percent emissions are cut. Energy use is a good proxy for carbon, and indeed in most European markets it is the only way towards a decarbonised building sector.

In the Nordics, the case is often different. Energy efficiency can have very little to do with the asset's carbon emissions. The electricity grid is already largely based on zero-emission sources, as are district heating networks (figure 1). Where they are not, there are typically ambitious decarbonisation targets in place. Cutting 20 percent of a building's energy use makes a small impact if your utility company is targeting 95 percent emissions reductions in the next seven years. This causes situations where there are Net Zero-aligned assets, that are hopelessly 'stranded' from CRREM EUI perspective. These assets include many brand-new, EPC A properties.

Figure 1: Share of renewables in all consumer energy Nordics and key peers–2022



This is not to say that Energy efficiency is not important. There are many inefficient buildings that should be improved regardless of their carbon profile, but the CRREM/ EUI targets in countries with a decarbonised energy grid are not always sensible targets. Consider the case in figure 2A and 2B. It is an EPC B asset with BREEAM Excellent Certification, with mismatching carbon and energy-use pathways.

Figure 2A: CRREM 2.02–Carbon

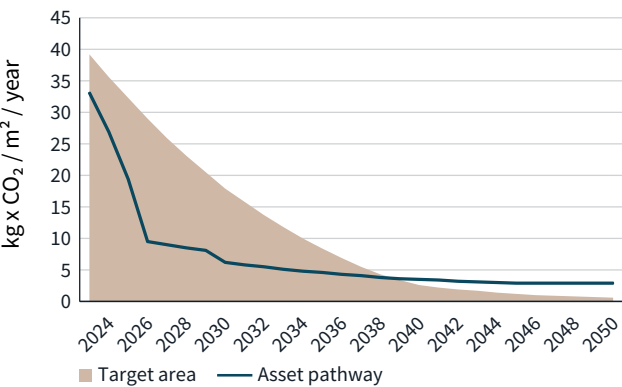
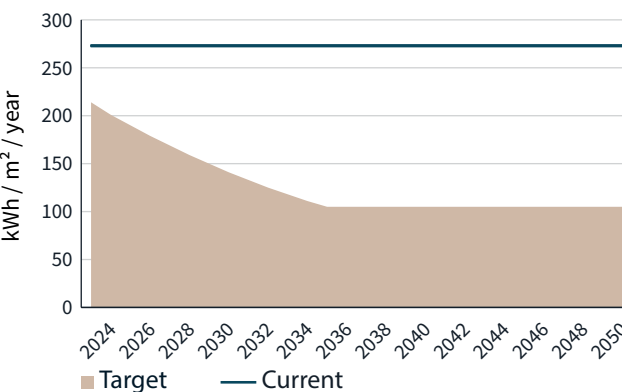
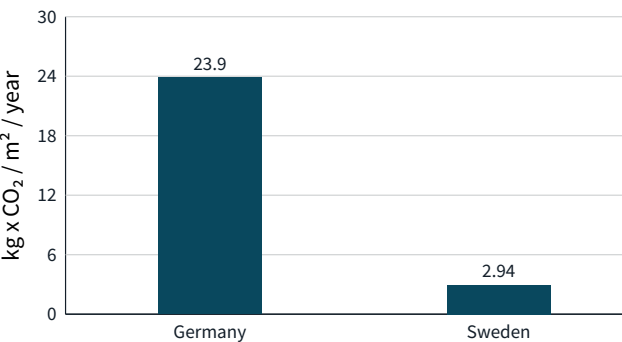


Figure 2B: CRREM 2.02 EUI (Energy Use Intensity)



A final consideration of CRREM is to also look at absolute emissions. CRREM targets between countries are set according to meet requirements of building stock on average, which is a reasonable starting point. See figure 3, which shows how much carbon per square metre a residential building block is allowed to emit annually to be compliant. In Germany, you can emit 8.2 times as much as in Sweden. From carbon perspective, would you rather own an asset in Sweden that overshoots CRREM target by 10 percent, or a just-aligned asset in Germany?

Figure 3: CRREM target for Multi-family Residential in 2024



EPC–Energy Performance Certifications

EPCs are another key sustainability driver, largely because EU Taxonomy defines sustainable buildings as those with high-enough EPC. Basically, the top 15 percent of rated assets in each country are considered sustainable and the bottom 70 percent are considered as doing significant harm to the environment. The bottom 25 percent or so are at imminent risk of forced renovations.

Given that in most countries, EPCs were not created as performance measurement tools and are often not linked with the actual energy performance, they still have high impact when used as a measurement tool. EPCs are national schemes, prone to local curiosities in how primary energy use is interpreted, which affects ratings tremendously.

The key lesson is that whatever the EPCs are today, they might not be that in future as the EU is driving harmonisation across the continent. An EPC A building is more likely to be EPC B in a few years, with A-rating reserved for Net Zero assets. Moreover, the EU wants EPCs to reflect both energy and carbon, in order to consider renewable energy grid positively. This should improve EPCs in the Nordics.

In effect, consider the potentially changing nature of EPCs before making strong decisions based on them.

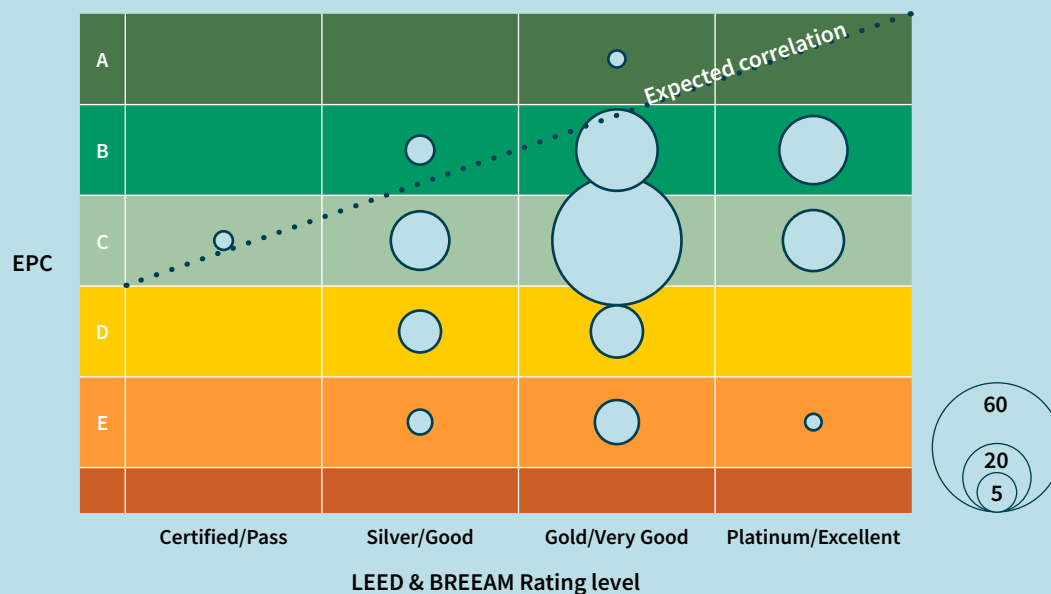
Certifications

For 30 years, BREEAM and LEED were the closest thing to a sustainable building standard in real estate. EU Taxonomy and the publication of science-based targets have changed that. Now the certifications have a tough time keeping up. We have seen countless situations, where the highest certification is no guarantee of a good CRREM profile, or a guarantee of a high EPC. See *figure 4* for an analysis of the Helsinki region office market, where there are many weak EPCs in highly certified stock. This is not surprising, considering that certifications put a maximum 30 percent focus on energy.

Certifications remain important for marketing purposes, especially in prime assets, and as an indicator that an asset is of high design quality overall. This is valuable and useful, but in their current form should not be taken as a universal benchmark for sustainability.

Figure 4: Certifications and energy efficiency in Helsinki office stock

Snapshot July 2023 (N=163)



Sources: BREEAM, LEED, JLL Research

Outlook for 2024

We know what is important to the market now, and we believe it's going to change before summer. These are our ESG predictions for 2024.

Challenges with embodied carbon

Operational emissions are key overall, but when building new the carbon emissions driven by construction, refits and ultimately demolition can account for half of lifecycle emissions. The influential Science-Based Targets initiative (SBTi) has published target pathways for embodied carbon, similar to CRREM, for real estate.

However, cutting embodied carbon is a completely different challenge to reducing energy use emissions. Hundreds of materials go into a building, all of which have dozens of suppliers in their supply chains. Furthermore, these products are different in each country. Just between Finland and Sweden, emissions from concrete can be completely different. Understanding emissions from different materials, let alone finding better mainstream alternatives is currently not realistic for most.

Consequently, perhaps the most fundamental challenge here currently is the lack of business case. In operational emissions, the energy bill goes down with emissions cuts. In embodied emissions, making significant cuts nearly always leads to increased costs with no explicit cashflow upside. Without clear incentives from the regulator or the market, fixing our embodied carbon problem faces headwinds in mainstream implementation.

We expect significantly more investors, banks and tenants to make demands about embodied carbon, but they may be asked to put their money where their mouth is.

Tenants get active

In the Nordics, tenants have been the least strict counterparty with ESG. They do have requirements and sustainability checklists, but most of the time it is an information gathering exercise rather than demanding ambitious targets. This is changing.

Based on *NetZeroTracker* (November 11, 2023), 66 percent of the annual revenue of the world's largest companies is covered by a Net Zero target (Forbes Global 2000). At the same time, the EU's Corporate Sustainability Reporting Directive (CSRD) reporting begins in 2025 (i.e., *FY2024 report*). Key metrics include reporting on greenhouse gas emissions and climate risks. Year-by-year the requirements will start applying to smaller companies. By 2027, most businesses in the EU will have to report on these.

Moving forward, tenants will play a much larger role in defining assets sustainability targets.

Focus on stable targets

The climate clock is ticking. By 2030 the EU should have cut emissions by 55 percent compared to 1990 levels. This is seven years away and the consensus is that good work is being done, but not fast enough. According to *The Economist* (November 23, 2023), current policies put global warming estimates at 2.5–2.9°C by the end of the century.

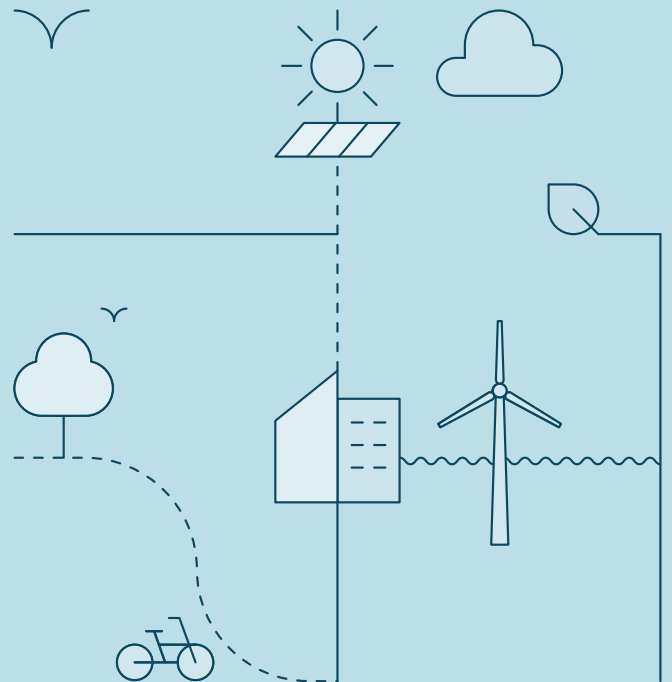
Governments face a decision to increase speed or choose easier targets. More speed would require painful decisions for people and businesses in the short term. This dynamic and public opinion is unpredictable. Focus on long-term targets that are likely to survive changes in governments and popular opinion. Trusting science-based targets and getting prepared for other targets to change is a good start.

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Keep an eye out for changes related to Embodied Carbon, active tenants and action to meet stable targets.

Tuomas Vuorinen

Head of Sustainability Services Nordics



Tuomas Vuorinen
*Head of Sustainability
Services Nordics*



Investment Market Sweden

Investment volumes for 2023 were down by 54 percent, compared to 2022, and the volume ended at approximately SEK 82 billion. Entity transactions, which includes organisation and not only the properties, contributed with SEK 13.4 billion in 2023, which is down from 29.6 billion in 2022. Pricing has continued to be poor since the second half of 2022, with gradually lower prices recorded for transactions and lower transparency in both ongoing and finalised transactions. Sentiment continues to be somewhat cautious, despite the sharp reduction of long-term interest rates by approximately 100 basis points at the end of 2023. This is, in part, due to continued difficulties around availability of financing, the relatively high supply of properties for sale and the need for more equity on most transactions.

Many transactions continue to be on hold and await stability in long-term rates and rate cuts from the banks. All sectors are impacted, although segments with high visibility to rental growth linked to consumer price index (CPI) adjustments can partly compensate for high funding costs and mitigating the negative value impact. Some positives can be seen by value-add capital funds starting to invest across asset classes. The residential market continues to be under pressure. The outlook for the sector as a whole should improve during the year as short term interest rates start to fall and the bond market continues its rebound. Industrial / 'last mile' high yielding properties have been doing better, since

investors can capture higher rental growth and have margin to manage financial costs, which support cash-on-cash returns. Office properties show resilience, due to reasonably strong demand from pension funds for core properties, as well as a still well performing rental market, although international investor sentiment remains under pressure. This is due to uncertainty regarding future demand, linked to work away from the office, and capital expenditure needs for future proofing B/C location properties.

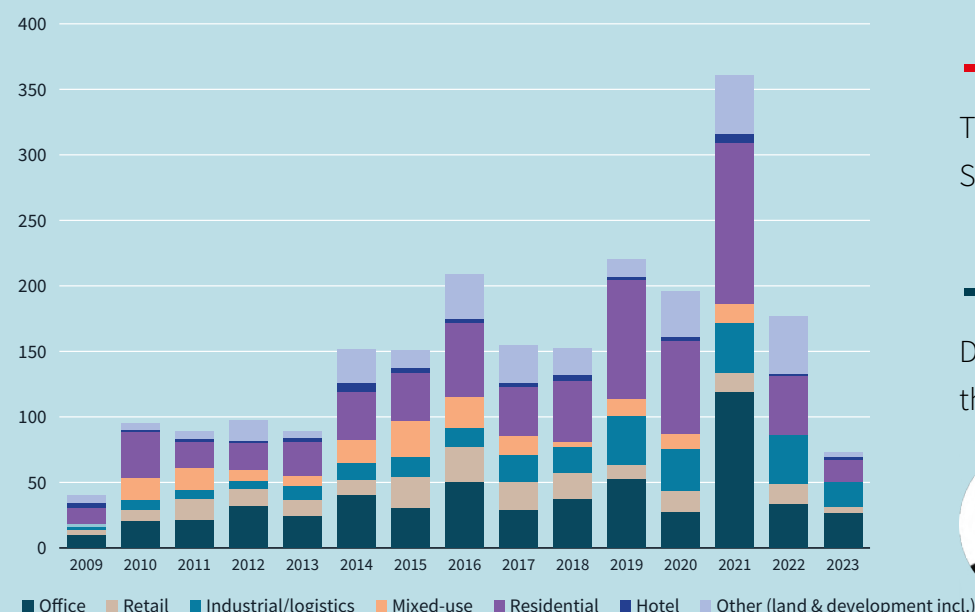
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Lower long- term interest rates at the end of 2023, together with expectations of lower short- term rates, bodes well for the market to stabilise and turn in 2024.

Daniel Anderbring

Head of Capital Markets, Sweden

Investment Volumes Sweden (SEKbn)



Source: JLL

Financial highlights

-54%

Transaction volumes of SEK 82bn in 2023

-15%

Discount-to-Asset values in the listed sector



Daniel Anderbring
Head of Capital Markets, Sweden

Investment Market

Financing costs have risen sharply in Sweden, linked to inflation-induced policy changes among the central banks pushing short-term interest rates up sharply by 400 basis points in less than two years. Lower interest rates are expected towards the end of 2024 and the market also expects short-term interest rates to come down by 100–150 basis points this year. Funding costs are also up, due to deteriorated liquidity in the capital markets for real estate companies. Signs improved at the end of 2023 and in early 2024 but it is still a challenging market. Nordic banks continue to show some appetite for lending but they are still primarily focusing on existing relationships.

The high funding costs have continued to put pressure on the yield requirement to compensate for the higher costs and lower availability of funding. Our prime yield estimates are up for all segments from the second quarter of 2022, related to sentiment-based evidence linked to ongoing transactions and discussions. We expect yield requirements to stabilise in 2024 and potentially support some minor yield compression in selected asset classes again towards the end of 2024, assuming that short-term rates decline and long-term interest rates stabilise after recent decline. The surprisingly strong rental

market in 2022 and 2023 will continue to be tested in 2024, and the 10.9 percent index in 2023 will be followed by a 6.5 percent increase in 2024. This will mitigate higher funding costs but will further increase the risk on short term vacancies and renegotiations, due to a softer economic outlook and affordability concerns across commercial real estate tenants.

Weaker demand from both international and domestic investors, in combination with a weak sentiment in the listed sector, has limited transaction volumes, with a decrease of 54 percent in 2023 compared to the same period in 2022. Transaction volume reached only SEK 82 billion—the second lowest level over the last 20 years, only surpassed by the financial crisis year of 2009. The weak end of 2023 should create the basis for pent up demand in the transactions market and we still expect investment activity in 2024 and 2025 to stabilise at around SEK 120–150 billion on average, which is the same level we saw in 2015.



Investment market Finland

After a difficult market environment in 2023, the real estate investment market closed with the lowest transaction volumes since 2013. Following minimal transactions in the first quarter, there was a slight improvement in transaction levels as the year progressed, cumulating in a total investment volume of €2.3 billion for the year. Despite the slight improvement, it was a significant decline from the €6.1 billion recorded in 2022. The logistics sector took the largest share of the transaction market, with €560 million (24 percent of the total) in 2023, closely followed by residential (€500 million, 22 percent) and office (€470 million, 20 percent).

The ongoing economic and geopolitical environments have had noticeable impacts on all economic sectors, but impacts have been particularly evident in real estate transaction activities. Issues such as escalated interest rates, declined loan to value (LTV) levels and more complex financing processes have resulted in decreased transaction activities. Investors have raised risk premiums on all segments, due to the uncertainty in market sentiment. Higher financing costs are consequently driving yield requirements up. Prime yield estimates are escalating across all sectors and are more pronounced in those that were priced tightest. The office market has experienced the most significant pricing changes. This is due to the COVID-19 pandemic forcing companies to reassess their workspace needs, which has led to lower occupancy rates and an increase in subleasing. Only the highest-quality office properties are finding buyers in this current market environment.

The discrepancy between the price expectations of sellers and buyers has narrowed and activity picked up as 2024 began. Now that interest rate hikes are expected to be over and declining rates are forecasted, the investment volumes are expected to benefit.

In all sectors, Environmental, Social and Governance (ESG) aspects feature in almost every due diligence process. While there has been a clear increase in investors' ESG maturity, the adopted practices and weighting of different aspects among investors vary greatly. Overall, this translates to more detailed and strict sustainability standards for target assets, especially in prime segments. This has decreased liquidity among assets not meeting these standards. However, many non-Nordic investors seem to miss or fail to take into consideration the region's high levels of renewable energy and its high presence of district heating.

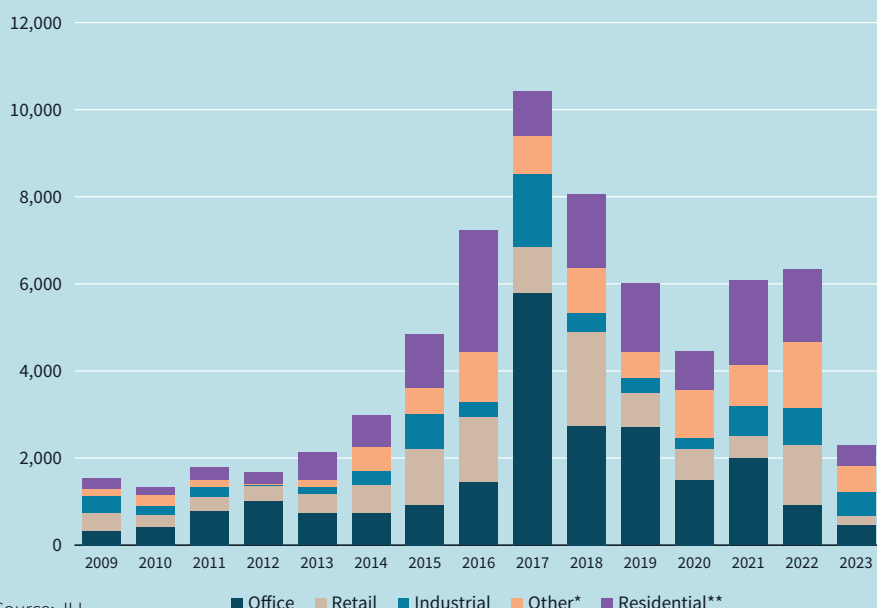
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The transaction volume for 2023 hit the lowest point in 10 years.

Tero Uusitalo

Head of Capital Markets, Finland

Investment Volumes Finland (€m)



Source: JLL

*Includes JLL categories: Mixed-use, Hotel, Alternatives, Healthcare and Student Housing

**Source of residential transactions: KTI 2008-2019

Financial highlights

-61%

The total transaction volume in 2023, down from 10-year average.

+100 bps Y/Y

Prime office yield up in Helsinki in Q4 2023



Tero Uusitalo

Head of Capital Markets, Finland



Focus:

Nordic re-industrialisation fuels demand and growth potential in real estate

The re-industrialisation in the Nordics intertwines increasingly with sustainable electrification and green energy production initiatives. This transformative trend is positioned to greatly impact the region's real estate market, potentially boosting demand for commercial and industrial buildings and improving landlords' returns. This is particularly crucial in Northern Sweden and the industrial hubs of Västerås and Gothenburg, but is also expected to influence Norway and Finland. In Denmark, the success of pharmaceutical companies offsets a general downturn in the industrial sector, thereby boosting the economy. However, factors that constrain expansion, such as a pronounced lack of available residential apartments, may limit the growth rate.

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A solid growth outlook underpins sale-leaseback opportunities with industrial companies, in conjunction with the development of new facilities and existing standing assets.

Daniel Anderbring

Head of Capital Markets, Sweden

To facilitate the energy transition, investments in fossil-free energy must surge. Based on the International Energy Agency's (IEA) assertions, such investments must escalate from 2 percent of the global gross national product to 4 percent by 2030. This represents an annual investment level of \$1300 billion, equal to the fossil energy investment in 2014.

Northern Sweden has established a pivotal role in climate transformation, prompted by significant concurrent investments in heavy industry—with an estimated investment of over EUR 100 billion, expected in the upcoming years in the counties of Norrbotten and Västerbotten. Convenient access to renewable energy has played a key role in transitioning existing industries and establishing new operations.

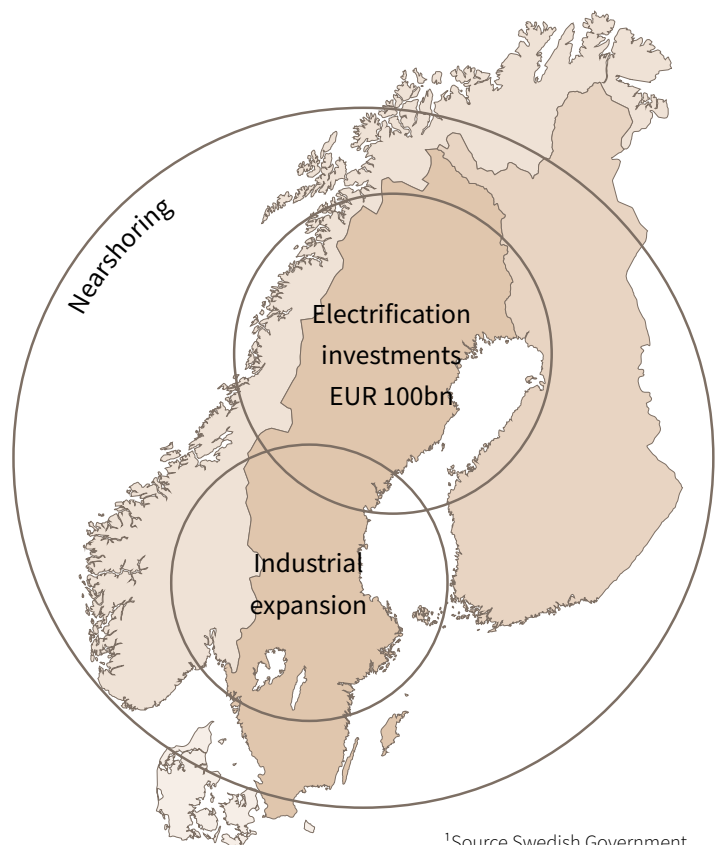
Despite the anticipated obstacles for the swift realisation of these investments, progress has been notable in 2023, supported by the investment decisions of companies like Northvolt, Northvolt/Volvo, H2 Green Steel and SSAB's - Hybrit.

High demand for industrial buildings and residential structures should create a solid base for expansion, across the region. Factors such as construction costs, financing cost and a recent yield requirements surge will be considered when determining rents, which will most likely support values.

JLL anticipates rental growth potential for prime new commercial assets (Industrial/Office/Community service/Retail) with a potential spillover effect on standing assets. Sale-leaseback opportunities for industrial companies, coupled with the development of new facilities and existing standing assets, are also predicted.

Key sectors contributing to the Nordic's re-industrialisation, according to JLL, include electrification, industrial expansion and reshoring/nearshoring (bringing operations back to a home country or relocating them to a nearby country), driven by companies including Northvolt, SSAB - Hybrit, H2 Green Steel, and Northvolt/Volvo.

Electrification investments and industrial expansion activities announced and planned.



¹Source Swedish Government report as of November 30, 2022.

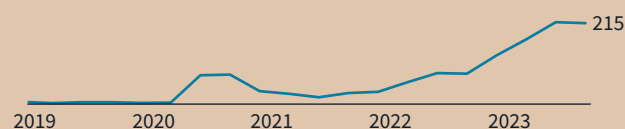
Investment activities and outlook statements indicate a strong outlook for investments relating to electrification, industrial expansion and near/reshoring.

With the construction giant, NCC, launching a new business segment called Green Industry Transformation (GIT), the segment is being touted as the 'industrial development of a generation'. Despite a generic decline in Danish manufacturing companies, the pharmaceutical industry drives positive figures due to its high growth trend.

Near and reshoring activities show promising progress. According to the Swedish business and industry association *Svenskt Näringsliv*, about 50 percent of larger firms plan more production and procurement closer to Sweden—a main contributor to nearshoring, which bodes well for Nordic investments (Source: *Företagspanelen June 2023*).

Reshoring sentiment

Occupier demand heavily influenced by Reshoring, ESG, and Urban logistics



Increase in mentions of reshoring on public companies' quarterly earnings calls in first nine months of 2023 compared to full year 2020.

+217%

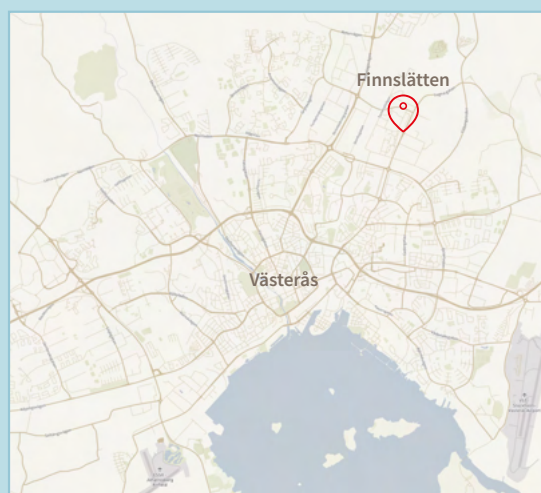
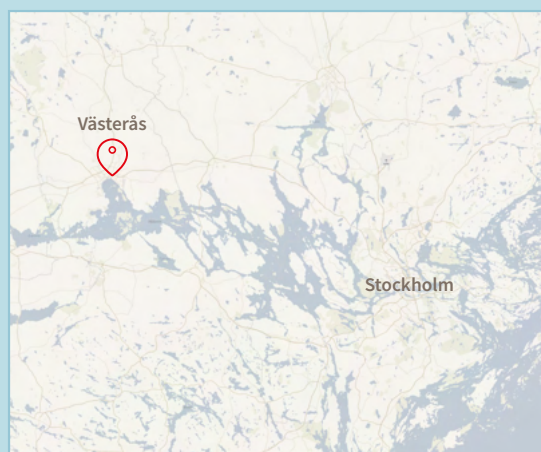
Source: Bloomberg and JLL Research

Case Study: Västerås

Västerås is a city in central Sweden on the shore of Lake Mälaren in the province of Västmanland, 100 kilometres (62 miles) west of Stockholm. The city has a population of approximately 128,000. Västerås is predominantly known as an industrial city, but also a retailing and logistics city. The city wants to distinguish itself as Västerås-Mälardalen, meaning 'Västerås—the city by Lake Mälaren', in order to attract tourists and new inhabitants, as well as students to the local Mälardalen University (which has approximately 16,000 enrolled students in Västerås and in nearby Eskilstuna).

Västerås witnessed significant investment in 2023, with Swedish-Swiss multinational corporation ABB Ltd investing \$280 million in a new robotics hub, designed to enhance automation and product expectations with flexible automation. Another world leading industrial company, Hitachi Energy, have further announced investments for its production in Dalarna near Västerås and expect to hire 2,000 people in the coming years.

The investment announcement in 'Finnslätten vision' by municipality of Västerås and Real Estate company Kungsleden (today owned by Castellum) in 2018 synced with Northvolt's local investments, consolidating the city's importance in the broader re-industrialisation initiative. The municipality together with Castellum expected Finnslätten to grow by 15,000–40,000 employees when the vision was created in 2018. Today already today the investments have supported 12,000 new employees according to Castellum with annual growth of 1,500–2,000 employees per annum despite current slowdown of the general economy. These investments by global firms support further related investments and bolstering logistics, retail and hotels.



Factors like electrification, industrial expansion and near/reshoring initiatives underline a promising growth trajectory for industrial buildings in the Nordics. Strong tenants, both private and government-owned, provide a firm foundation for sale-leaseback transactions. High yield requirements, due to recent normalisation of interest rates, underscore solid investment fundamentals for landlords and institutions.

Office rents in Europe 2023–2027

The European Office Rental Index continued to increase in Q4 2023 (+1.0% Q/Q). At 4.4%, annual European office rental growth also remains well above the 10-year average of 3.8%. Prime rents will likely continue to rise, supporting the case for an exceptionally tight top-end of the market. However, the pace of rental growth is expected to slow down, falling below 3% in 2024.

Rental increases were witnessed in nine of 23 Index markets including London (+3.7% Q/Q), Stockholm (+3.4% Q/Q), Berlin (+2.3% Q/Q), Munich (+2.0% Q/Q), Luxembourg (+1.9% Q/Q), Rotterdam (+1.8% Q/Q), Utrecht (+1.6% Q/Q) and Madrid (+0.7% Q/Q). The remaining 14 markets saw no rental growth in Q4 2023.

Q4 2023 data points to a slight upward movement in leasing volumes on a quarterly basis. At 2.5 million sq. m., Q4 leasing volumes were 20% up from last quarter. However, Q4 was still down on a yearly basis, at -6% on the same quarter last year. In total, 8.7 million sq. m. of take-up was recorded in 2023, down by 18% on 2022 leasing volumes.

The trend of downsizing for better quality space in central locations continued through the end of the year. The tight market conditions in some CBDs are pushing out demand into other well-connected core fringe locations.

On a yearly comparison, nine markets saw an increase in office demand. These include Luxembourg (+143% Y/Y), London (+59% Y/Y), Dusseldorf (+28% Y/Y), Frankfurt (+24% Y/Y), Barcelona (+11% Y/Y), Milan (+10% Y/Y), Budapest (+10% Y/Y), Hamburg (+5% Y/Y) and Prague (+5% Y/Y). On a full year comparison, most markets recorded losses in their take-up volumes between 2023 and 2022, apart from Budapest (+17%), Amsterdam (+6%) and Brussels (+5%).

European office vacancy increased to 8.0% during Q4 2023, from 7.7% in the previous quarter and the highest rate since Q1 2016.

17 of the 23 index markets recorded an increase in vacancy during Q4 2023, including Stockholm (+100 bps to 12.5%), Madrid (+70 bps to 10.5%), Amsterdam (+60 bps to 7.5%), Barcelona (+50 bps to 9.8%), Dublin (+50 bps to 14.9%) and Frankfurt (+50 bps to 8.8%). Five markets saw a decrease in available supply, including Rotterdam (-70 bps to 5.2%), London (-50 bps to 9.2%), Amsterdam (-20 bps to 6.8%), Prague (-20 bps to 7.2%), Warsaw (-20 bps to 10.4%) and Edinburgh (-10 bps to 6.7%). Brussels remained stable.

Completions totalled 1 million sq. m. in Q4 2023. Milan (125,000 sq. m.), London (113,000 sq. m.), Paris (98,000 sq. m.) and Hamburg (94,000 sq. m.) accounted for almost half of the office space being delivered in Q4 2023. There are currently more than 6.9 million sq. m. in the pipeline for 2024, the highest volume in the last 20 years. However, further postponements and construction delays are expected due to still high financing costs and subdued pre-letting activity.

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The tight market conditions in some CBDs are pushing out demand into other well-connected core fringe locations.

Alex Colpaert

Head of Property Sectors Research EMEA

8.0%

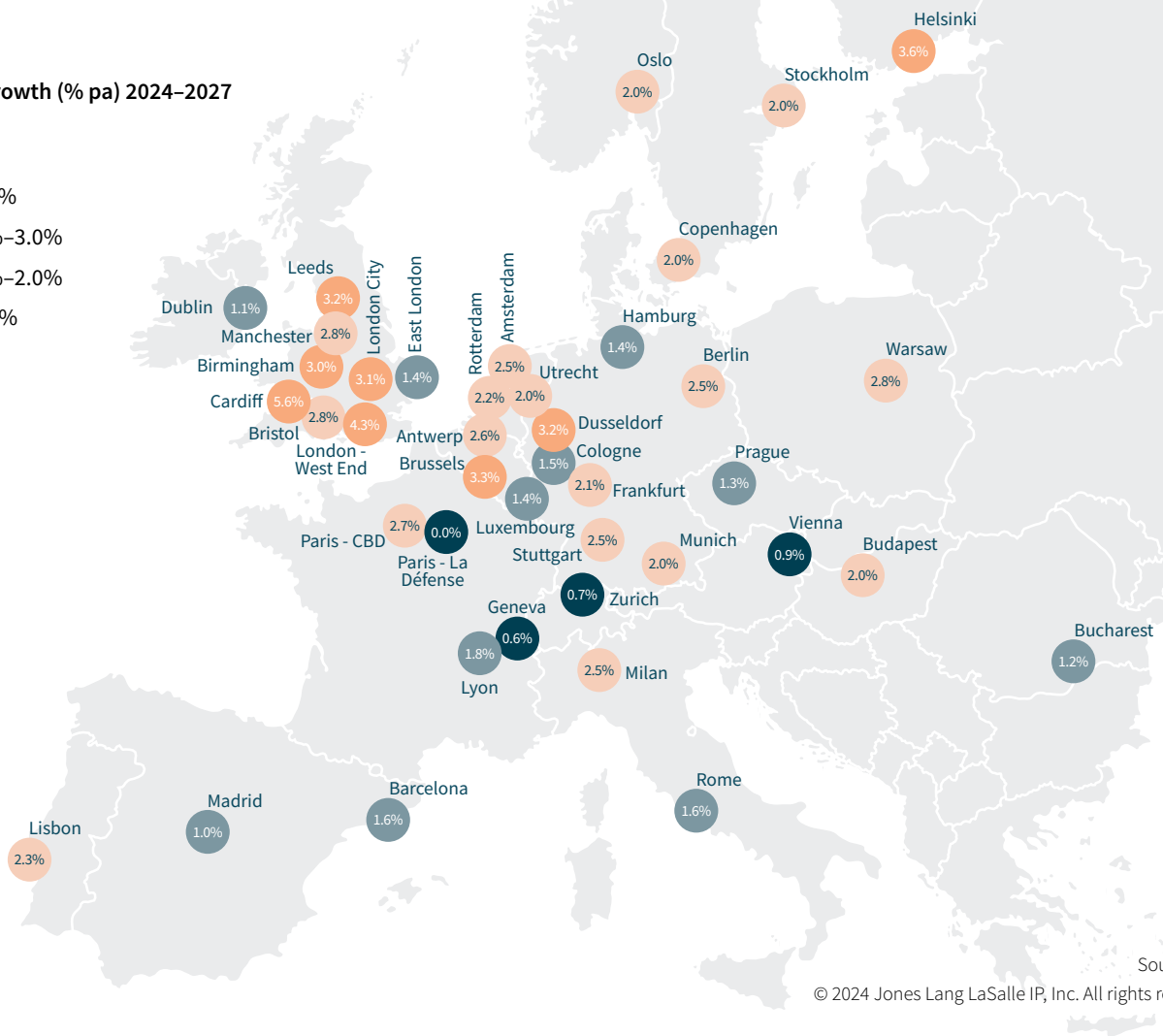
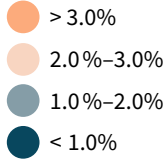
European office vacancy Q4 2023

+4.4%

European prime office
rental growth Y/Y

Rental Growth (% pa) 2024–2027

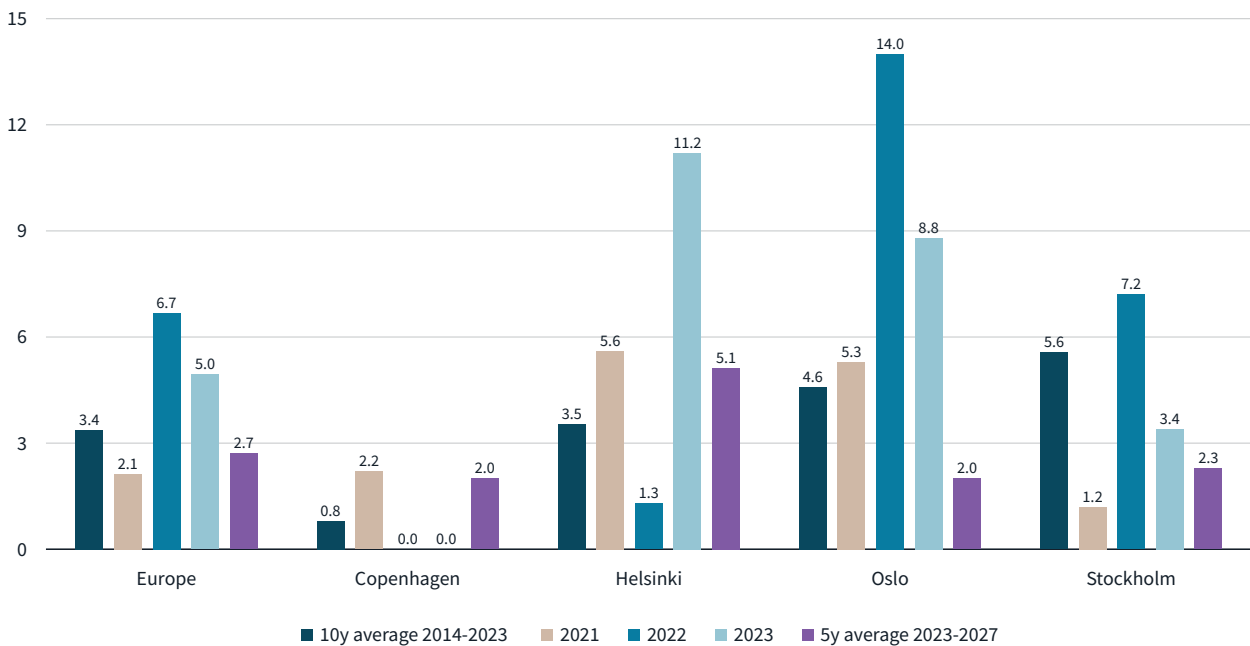
Offices



Source: JLL

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Yearly Percentage Rental Growth on the Office Market (%)



Source: EDC, Akershus and JLL Research February 2024



Office Nordic

In the tenant market, JLL has seen further confirmation of the trend for polarisation where the tenants showing high interest in new, centrally located office spaces with high ESG standards, while older spaces risk becoming obsolete without capital investment from landlords. Decision processes from tenants have slowed again and it is clear that, as tenants adopt cost-saving measures and hybrid work models, downsizing office spaces during renegotiations is now a prevalent trend.

A slowdown in employment in 2024 risks accelerating this trend, which could increase vacancy and put pressure on renegotiation of rents. Landlords must increase activity to optimise space utilisation and align with evolving tenant demands to remain competitive.

Over the past year, there has been a degree of reticence amongst investors within the Nordic commercial property market, just as it has been on a European and global level. Such circumspection has yielded a notable downturn in investment volume, characterised by a measured 40 percent contraction in 2023 for the office segment.

In conclusion, while the Nordic office market continues to endure some stress, investors are currently demonstrating a growing inclination towards the acquisition of prime assets, due to their reputed stability and superior quality. There is increased caution exhibited towards future potential vacancies, especially those concerning secondary assets, as market conditions continue to be affected by uncertainty. Prime assets, distinguished by coveted locations, up-to-date facilities and robust tenant profiles, provide greater assurance in terms of prolonged occupancy and consistent income.



Thomas Persson
*Head of Capital Markets,
Nordics*

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International investor sentiment remains under pressure, which can create opportunities for domestic investors.

Thomas Persson
*Head of Capital Markets,
Nordics*

Financial highlights

-40%

Investment volumes for the office segment in the Nordics in 2023 vs 2022

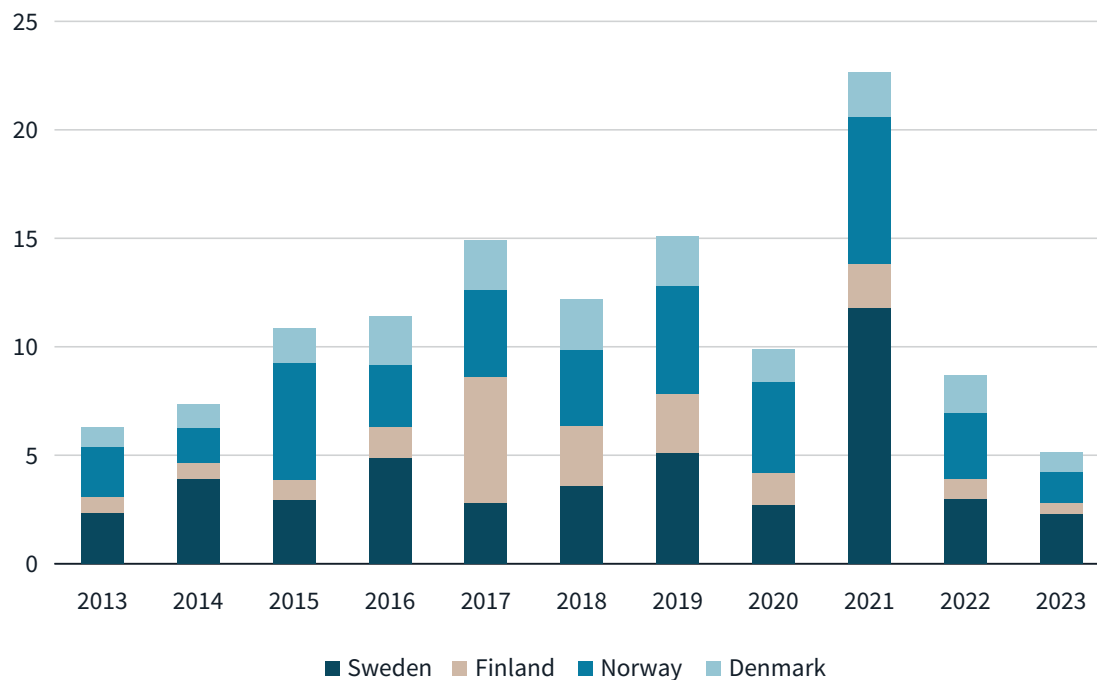
5.2€bn

Investment volumes for the office segment in the Nordics in 2023

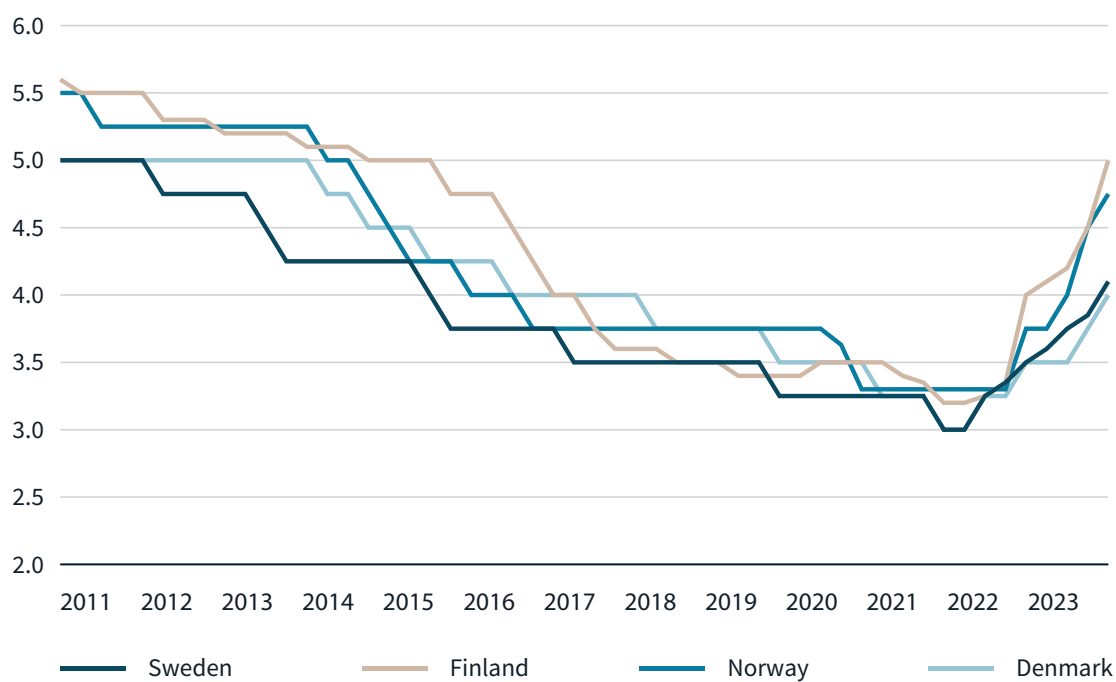
4.46%

Average Nordic prime office yield, up 78 bps Y/Y

Investment Volumes for Office Segment (€bn)



Office Prime Yield Nordic Capitals (%)



Source: Akershus Eiendom, EDC and JLL

Office Stockholm

Last year, even Stockholm's central micro-markets experienced an increase in vacancy levels - an occurrence that was mirrored throughout the city. This has escalated the average vacancy rate to levels unseen since 2012. However, the leasing market remained quite robust, in particular in the CBD and the Inner City submarkets. This data prompted JLL to adjust upwards the prime rent estimates in 2023, although the growth is significantly tempered compared to the overall Consumer Price Index (CPI) of 10.9 percent in the same year. We do, however, anticipate that hurdles may present themselves in the market, particularly in relation to renegotiations, extending beyond the central business district (CBD) and into some areas of the inner city.

Investment market

The office market continued to face challenges in 2023, with investment volumes down 20 percent on a yearly basis for the entire Swedish market and down four percent for the Stockholm market during the same period. The biggest transaction in 2023 was in this segment when the Seventh AP Fund bought 33 percent of the city block Urban Escape from AMF Fastigheter for SEK 7.4 billion, with an option to increase further. In defiance of dwindling long-term interest rates towards the end of 2023, prime yields perpetuated their upward trend. The prime yield for Stockholm's prime CBD reached a level of 4.10 percent by the end of the fourth quarter of 2023.

Tenant market

Premium offices continue to perform better than lower quality offices in submarkets located further out from the city centre. JLL is still waiting to see evidence for continued rental growth and new prime rent estimates, with our most recent analysis showing that Net Zero Carbon schemes will pave the way, going forward, for prime rent estimates. Co-working and hybrid strategies are gaining market share and these normally come with higher demand and quality focus from tenants. The focus for corporates remains either on downsizing for best-in-class, sustainable and centrally located accommodation or renegotiating current leases to reduce costs.

Funding status

Real estate companies have been facing difficulties in obtaining new financing from domestic banks. Many of these banks have made it clear that their current focus is on prioritising existing relationships and financing upcoming bond maturities for these companies, rather than financing new investments. This could limit the transaction market in 2024 as well as more equity is needed with less access to funding in general. However, falling interest rates and the re-opening of the bond market, implies that the financing situation should improve in 2024.

Sustainability

Sustainability and ESG continue to be increasingly important, both for tenants and investors. The scarcity of top-quality office space in the CBD might force tenants to seek space in non-traditional submarkets as demand continues to grow.

Outlook for 2024

Leasing activity is likely to remain subdued as economic growth slows in 2024. Accelerating return-to-office mandates, upcoming lease expiries and lower renewal rates will provide additional impetus to demand for new, high-quality space, while risks for higher vacancy will be in focus for the rest of the year.

Office Properties Q4 2023

	CBD	Rest of Inner City	Haga-staden	Adjacent Suburbs	Kista	Solna / Sundbyberg
Vacancy rate	5.7%	10.2%	13.5%	11.9%	27.4%	12.6%
	→	→	↘	↗	↗	→
Prime rent (SEK/m ² /y)	9,200	5,700	5,200	3,600	2,400	3,400
	→	→	→	→	→	→
Prime yield	4.10%	4.90%	4.60%	5.50%	7.00%	5.75%
	→	→	→	→	→	→

Source: Citymark (vacancy) and JLL

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Liquidity remains high for prime office assets, driven by a reasonably strong institutional demand.

Thomas Persson

Head of Capital Markets, Nordics

Financial highlights

-4%

Transaction volumes office
Stockholm 2023 vs 2022

+5.7%

Vacancy CBD Q4 2023



Thomas Persson
Head of Capital Markets,
Nordics



David Nilsson
Head of Leasing,
Sweden

Office Gothenburg

Vacancies continued to rise during 2023, mainly due to the large amount of newly produced office space added to the market in 2022. The volume of newly produced office space is further increasing the polarisation between A and B/C-class properties, which will increase the incentive for landlords with older stock to ensure their assets don't turn obsolete. Reasonably newly built office properties are also facing higher competition from more recent new-build projects as tenants in these assets want to move to the newest office spaces available, which could add polarisation and challenges within the A class properties.

Investment market

The investment market continued to face challenges in 2023. Gothenburg in total stood for 2 percent of the total investment volume in Sweden in 2023, with no office properties being sold in the year. The low activity is creating uncertainty, prolonging the time needed to preserve sufficient evidence of stabilised yield levels. The prime yield for Gothenburg CBD was estimated at 4.55 percent at the end of the fourth quarter of 2023.

Tenant market

The take-up volume in Gothenburg during 2023 was down by 27 percent compared with 2022. This strengthens JLL's earlier predictions that tenants are now more hesitant to sign new leases. The few deals that were signed in 2023 continued to be on high rental levels, indicating that tenants now prioritise new built space with high standards and ESG certifications. JLL has kept rents unchanged in the CBD, although mix effects have supported rental increases in the inner city and in fringe areas, owing to new constructions and investments.

Funding status

Real estate companies are facing increased difficulty in obtaining new financing from domestic banks, which is also relevant for Gothenburg. Low liquidity in the transaction market in Gothenburg could imply further pressure on LTV, which could also limit the transaction market in 2024, as more equity is needed with less access to funding in general. Lower interest rates and improving risk appetite in the bond market could, however, mitigate these risks and support the availability of funding in the coming years.

Sustainability

In recent years, there has been a significant increase in the importance placed on sustainability as a prerequisite for investors. It is now one of the most crucial factors for them, as both investors and tenants actively strive to mitigate their carbon emission and adopt more environmentally friendly practices. Consequently, investments aimed at enhancing sustainability should future proof buildings and are expected to yield favourable returns, moving forward.

Outlook for 2024

JLL anticipates a stable rental environment for 2024, primarily due to the completion of newly built office spaces that entice tenants to sign new leases. This phenomenon will accentuate the divergence between grade A properties and B/C properties, with the latter facing

challenges associated with escalating vacancies and difficulties in attracting tenants without significant investments to stay attractive. Renegotiation of rents is expected to be challenging, given the stable prime rents and due to the Consumer Price Index supporting rental growth by approximately 20 percent over the last three years.

Office Properties Q4 2023

→ ↗ ↘
Short-term forecast

	CBD	Rest of Inner City	Norra Älvstranden	Möln-dal	R. of Hisingen ¹	E. Goth-enburg ²	W. Goth-enburg ³
Vacancy rate	12.6%	9.5%	9.1%	11.2%	5.5%	16.8%	18.0%
	↘	↗	→	↗	↗	→	→
Prime rent (SEK/m²/y)	4,200	3,700	3,000	2,700	2,000	2,500	1,500
	→	→	→	→	→	↗	↗
Prime yield	4.55%	5.20%	5.80%	6.50%	6.50%	6.50%	7.00%
	→	→	→	→	→	→	→

¹ Rest of Hisingen, ² Eastern Gothenburg, ³ Western Gothenburg

Source: Citymark (vacancy) and JLL

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Investments aimed at enhancing sustainability are needed to future proof buildings and are expected to yield favourable returns.

Sara Vesterlund

Senior Director Capital Markets, Sweden



Sara Vesterlund
Senior Director
Capital Markets,
Sweden

Financial highlights

4,200 SEK

Per sq. m. Prime rent Gothenburg CBD is unchanged Y/Y

12.6%

Vacancy level Gothenburg Q4 2023, up 1.4% Y/Y

Office Malmö/Lund

Investment volumes fell slightly less than the total market in 2023 for the Malmö/Lund region. Compared with last year, the investment volume for offices fell by 31 percent compared with total volumes in Sweden, which were down by 54 percent. Vacancies and rental levels have remained stable, showing that the market is still attractive for corporates. The weak performance of the Swedish krona can also potentially strengthen the rental market as it may attract more companies from neighbouring foreign markets such as Denmark, with investment in infrastructure reducing commuting and transport times in the region.

Investment market

The investor market for properties in Malmö experienced subdued activity throughout 2023. However, higher yield requirements acted as a stabilising factor, potentially making the market more appealing to investors. This suggests a possibility of increased attractiveness and activity in the market in 2024. JLL's estimates for Malmö/Lund yield requirement increased towards the end of 2023, which resulted in a 5.0 percent yield requirement for the Malmö CBD in the fourth quarter of the year. This indicated the need for adjustment and was confirmed by better investment activity.

Tenant market

The tenant market declined by 33 percent in 2023, although it remains the second strongest rental market over the last five years. The market is still struggling with low visibility and transparency, compared to Stockholm, which is partly due to strong local actors, but a shift has started to be seen. Hyllie continues to be the strongest submarket, with the biggest take-up volume in 2023 and rising rents, further indicating that new built is what attracts corporates, rather than centrally located spaces.

Funding status

Real estate companies are facing increased difficulty in obtaining new financing from domestic banks, also in Malmö/Lund. However, Malmö/Lund could be supported by Danish banks and the Danish mortgage lending model, which increases access to capital, all else being equal. Nordic banks are relationship-driven and hence very selective. An improved bond market might mitigate risks in 2024, although low liquidity in the transaction market will likely mean further pressure for lower LTV in general.

Sustainability

Investors are placing significant emphasis on property certification and making investments aimed at reducing carbon footprint. This focus stems from the recognition that such initiatives not only contribute to sustainability but also yield favourable returns by reducing operational costs. Additionally, certifications add a quality aspect to properties, which can enhance their attractiveness and potentially support increased rental levels.

Outlook for 2024

A significant decline of newly built office space is visible for 2024. With less supply added in the market and already lower rents than in Gothenburg and Stockholm, renegotiations should be smoother, with a lower outlook for vacancies. Malmö project's high pre-let volume is indicative of the strong demand for high-quality office spaces. In 2024, JLL anticipates rental levels to remain stable or slightly positive, with particular attention to new developments in attractive locations.

Office Properties Q4 2023

→ ↗ ↘
Short-term forecast

	CBD	Rest of Inner City	Västra Hamnen	Adjacent Suburbs	Hyllie	Lund
Vacancy rate	9.5%	11.7%	6.1%	18.5%	8.5%	7.6%
	→	→	↗	→	→	↗
Prime rent (SEK/m ² /y)	3,200	2,700	2,500	2,800	3,000	2,300
	→	→	↗	→	↗	↗
Prime yield	5.00%	6.00%	5.65%	5.75%	5.60%	6.00%
	↗	→	↗	↗	→	→

Source: Citymark (vacancy) and JLL

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Malmö's office market offers high-quality space for less rents, which adds resilience and maintains stability.

Daniel Anderbring

Head of Capital Markets, Sweden

Financial highlights

3,200 SEK
Per sq. m. Prime rent Malmö
CBD is unchanged Y/Y

11.0%
Vacancy level
Malmö/Lund Q4 2023



Daniel Anderbring
Head of Capital Markets,
Sweden

Office Helsinki

The leasing market continued performing at par with the previous year in 2023. The best performing sub-markets continued to benefit from desirable locations, transport links, services and amenities. The polarization in the rental trends in CBD and most sub-markets can be characterized by an increase in prime rents, while secondary rents have declined or stabilized. The expected impacts of remote work-driven downsizing of premises has gradually been reflected in vacancies, especially in secondary sub-markets. However, the overall market vacancy growth has slowed down during the second half of 2023.

Investment Market

Last year was quiet for office investment, due to rising interest rates and uncertainty around the future of offices. Office was the third most traded segment after logistics and residential, with total investment volume reaching €470 million in 2023. The volatile market conditions have caused an increase in yields across all office submarkets in Helsinki, with prime yield in Helsinki CBD currently at 5.00 percent, up by 100 basis points year-on-year.

Tenant market

The tenant market remained stable for the second half of 2023 with a glimpse of further activation of the demand for office premises towards the end of the year. Positive signs could be observed as the need for downsizing was no longer the main driver for future office requirements. However, there was still a significant number of subleased premises vacant in the Helsinki office market, which indicates a further need for downsizing.

Funding status

Generally, the office sector has seen the largest shift in lenders' appetite. The negative view towards the sector has increased significantly and, as the lenders already have sizeable exposure to the sector, this underlines the caution for new office financings. Financing is available from bank lenders for assets in core locations with a quality anchor tenant or diversified tenant mix. For single asset loan transactions, the LTVs usually start from below 50 percent levels as bank lenders want to see enough cash flow buffer for loan servicing and amortisations. Lenders have also started to focus on potential recession impacts on new leasing and, hence, the lease-up situations are not well received. Non-core locations, shorter WAULT or some vacancies / value-add cases require sourcing financing from alternative sources with higher margins.

Sustainability

All new office developments have Energy Performance Class A ranking, together with high levels in BREEAM, LEED or other certificates. There are often limited opportunities for improving the energy performance in old stock to best-in-class. If the CRREM carbon emissions pathway is not aligned beyond 2040 or the asset is not taxonomy-aligned, core investors typically pass up on the opportunity.

Tenant evidence for ESG-preference remains mixed. However, major tenants do not consider new premises in assets without environment certification or other strong ESG status. Based on JLL research, around half of Finland's largest corporations are residing in an environmentally certified building or have a requirement towards one.

Outlook for 2024

The Finnish GDP forecasts predict slow growth in 2024, which casts a shadow over the outlook for the office tenant market. However, the strong demand for offices in prime locations and assets is expected to continue.

Office Properties Q4 2023

	CBD	Ruoholahti, Helsinki	Keilaniemi, Espoo	Aviapolis, Vantaa
Vacancy rate	13.8%	14.3%	8.2%	19.1%
	→	→	→	→
Prime rent (€/m²/y)	507	315	324	228
	→	→	→	→
Prime yield	5.00%	6.25%	6.00%	7.00%
	↗	↗	↗	↗

Source: JLL

“

The polarisation in the rental trends in CBD and most sub-markets can be characterised by an increase in prime rents, while secondary rents have declined or stabilised.

Julia Aarni

Head of Leasing and Asset Management, Finland



Julia Aarni
Head of Leasing and Asset Management, Finland

Financial highlights

470€m

The office transaction volume in H2 2023

+11.2%

Helsinki CBD prime rental growth in Q4 2023 Y/Y

Office Oslo

Activity in the transaction market is improving after 18 slow months, due to higher financing costs and uncertainty related to future interest rates. Declining long rates at the end of 2023 have shifted the market sentiment to cautious optimism. We are still experiencing high leasing activity in the office market in Oslo.

Investment market

The Office transaction market experienced a downturn, due to uncertainties surrounding interest rate prospects in 2023. Many investors have remained cautious into the new year, but there is a growing number of active investors keenly observing good opportunities within a challenging market. Office assets was the most traded segment in 2023, accounting for 33 percent of the total transaction market.

Noticeable transactions in the second half of 2023 included Tjuvholmen Allé 19, a core office asset in Oslo CBD, from North Murray to K11 Investor. SBB also sold a 2.8 billion private hospital outside Oslo to the tenant Stiftelsen Diakonissehuset Lovisenberg.

Tenant market

Office vacancy rates remain at low levels and are staying below historical averages. Despite weaker GDP growth throughout last year, the favourable leasing market conditions resulted in a rental growth of 11 percent in Oslo's CBD during 2023. In other central areas, prices increased by an average of around 6 percent in the same period. After an extended period of strong rental price growth in Oslo, we expect that the rental price peak has now been reached, and market rent will remain stable at high levels going forward. With a continued strained supply side in the short term, we foresee that rental prices may significantly increase again, once the economic downturn has passed.

Funding status

Since the second half of 2022, and almost throughout 2023, financial markets were turbulent, with rising interest rates and credit spreads. There is consensus, both in the market and from the central banks, that the policy rates have likely peaked in the United States, the eurozone and Norway. However, there is a significant discrepancy between the speed and extent of rate cuts expected by central banks and market participants this year. In the United States, the FED has signalled up to three rate cuts in 2024, while the market anticipates five to six rate cuts. In Norway, the central bank, Norges Bank, has indicated that the policy rate could be lowered "in the fall," but envisions only one rate cut this year. Since October last year, market sentiment has significantly improved. This has manifested, among other things, in lower risk premiums in the bond markets.

Sustainability

Green ambitions among property owners in the Norwegian real estate market remain high, even though this year's sustainability survey by Akershus Eiendom indicates a somewhat more measured approach to green investments. In 2023, sustainability gained even broader appeal in the real estate market.

Outlook for 2024

Funding costs remain high but as long as there are prospects for further cuts in policy rates, we anticipate that market sentiment will remain positive. Activity in the commercial real estate market is expected to rebound more strongly throughout 2024. With reduced uncertainty and a large share of capital ready to be deployed in the market, Akershus Eiendom forecast a transaction volume of NOK 70 billion in 2024. In the office leasing market, we expect the rental price to remain stable at high levels throughout 2024.

Office Properties Q4 2023

	CBD	Rest of inner city	Outer city west	Outer city east/north/south
→ ↗ ↘ Short-term forecast				
Vacancy rate	4.9%	6.6%	6.4%	7.9%
	↗	↗	↘	↗
Prime rent (NOK/m ² /y)	6,300	4,000	3,900	2,800
	↗	↗	→	→
Prime yield	4.75%	5.50–5.75%	5.50–5.75%	5.50–5.75%
	↗	↗	↗	↗

Source: Akershus Eiendom

“

We are experiencing cautious optimism in the office transaction market, on the back of lower long interest rates and low office vacancy.

Sindre Vesje Bråtebæk

Senior Advisor,
Department: Research, Akershus Eiendom



Sindre Vesje Bråtebæk
Senior Advisor, Department:
Research, Akershus Eiendom

Financial highlights

6,300 NOK

Per sq. m. Prime rent Oslo CBD is up NOK 600 since Q1 2023

4.75%

Prime yield. Given the sharp rise in interest rates during 2023, we estimate prime yield to be 4.75%

Office Copenhagen

The resilience of the Danish labour market positions the office segment as particularly appealing, compared to other countries. A growing preference for sustainable and flexible office solutions is evident, with a substantial portion of investors and tenants willing to pay a premium for these offerings.

Investment Market

Real estate investors, both domestic and international, have homed in on the office segment due to the robust Danish labour market. The interest persists in acquiring well-located office properties featuring modern amenities and sustainable attributes. However, a significant disparity between investor and vendor yield expectations is hindering transaction volumes, contributing to a notable decrease compared to the previous year. Office space in the CBD and areas with exceptional transport connectivity are in high demand. The evolving landscape of flexible working arrangements and the rise of co-working spaces have further impacted investment decisions, prompting interest in properties adaptable to changing tenant needs.

Tenant Market

Unlike certain European economies, Denmark's growing labour force forms a solid foundation for sustained office demand. The tenant market in Copenhagen is undergoing shifts, accelerated by the adoption of remote work and flexible office solutions. While some companies reduce office space and embrace remote work, others are exploring hybrid models that blend in-office and remote options. Tenants seek offices prioritising employee wellbeing, collaboration and sustainable design to foster attractive and productive work environments.

Funding Status

A marginal decrease in interest rates in the last two quarters of 2023 has slightly improved access to capital through mortgage banks. Despite this, mortgage lenders are displaying increased reluctance to lend, introducing additional barriers to financing. Expectations of interest rates stabilising in the short to medium term bring hope for improved financing availability.

Sustainability

Sustainability has become a paramount consideration in the Danish office sector. Developers and companies are placing emphasis on green building certifications, energy-efficient technologies and eco-friendly design to diminish environmental impact. A significant proportion of both investors and tenants express readiness to pay a premium for office properties that integrate sustainability practices.

Outlook for 2024

The outlook for 2024 remains optimistic, propelled by sustained demand for office properties. This is particularly evident in prime office assets, while properties in secondary locations may face uncertainty pending economic development. The potential impact of rising unemployment on the office property market is yet to unfold. The trajectory of the Danish office segment hinges on these dynamics, with ongoing shifts in tenant preferences, sustainability considerations and the broader economic landscape shaping its future.

Office Properties Q4 2023

	Old CBD	New CBD Waterfront	Rest of Copenhagen	Ørestad	Greater Copenhagen
Short-term forecast					
Vacancy rate	4.1%	10.0%	5.0%	12.5%	5.1%
	↗	→	→	→	↗
Prime rent (DKK/m ² /y)	2,150	2,200	1,700	1,650	1,625
	↗	→	→	→	→
Prime yield	4.00%	4.00%	4.75%	4.75%	5.00%
	→	→	→	→	→

Source: EDC

“

Demand for office space remains strong as the labour force is steadily expanding.

Thomas Riis

Licensed Real Estate Agent, MRICS,
Chartered Surveyor, EDC Poul Erik Bech

Financial highlights

2,150
DKK/sq. m./year prime rent
for core office properties in
Copenhagen CBD

4.13%
Vacancy rate for office
properties in CBD, Q4 2023



Thomas Riis
Licensed Real Estate Agent,
MRICS, Chartered surveyor,
EDC Poul Erik Bech



Retail Nordic

Continued uncertainties within the retail sector underscore the importance of tenant capacity to fulfil rental obligations. This is compounded by a challenging backdrop of sinking consumer sentiment, a consequence of diminished purchasing power, married with rising rents tied to CPI indexation. These factors pose significant challenges to investors holding retail assets. Achieving the optimum balance between enabling rental growth and offering suitable rental discounts is imperative amid this intricate environment.

Within the Nordic countries, the retail segment has been privy to varying investment perspectives and market sentiments. Despite persisting challenges in the retail sector, it is still a field filled with viable opportunities that continue to captivate investor interest.

Persistent investor interest is observed in high-quality retail assets situated in prime locations, characterised by robust tenant covenants. These assets are perceived as more resilient amid the ongoing fluctuations in consumer behaviour; they offer unparalleled customer experiences and a composite of retail, entertainment and dining options. Investors persist in seeking out opportunities within robust performing sub-sectors, such as centres and retail parks anchored by grocery stores, convenience-focused retail and e-commerce fulfilment centres.

JLL believes that investors appetite for retail parks will come back in 2024 on the back of an attractive yield gap in combination with the strong performance exhibited by many retail parks.

Financial highlights

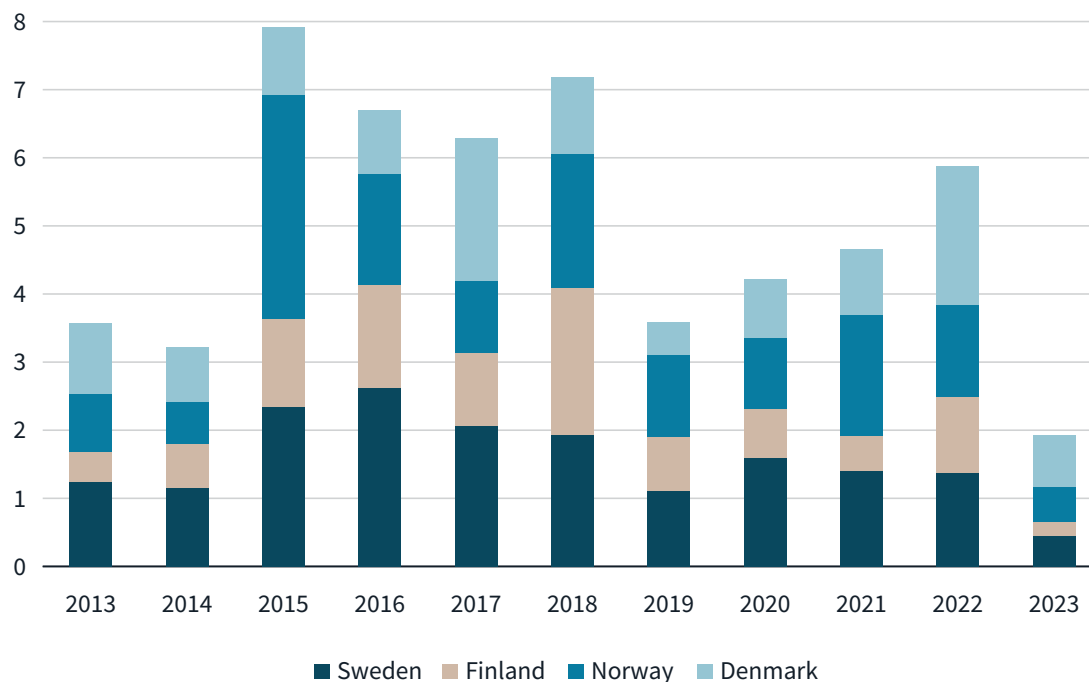
5.55%

Average prime retail yield requirement across the Nordics

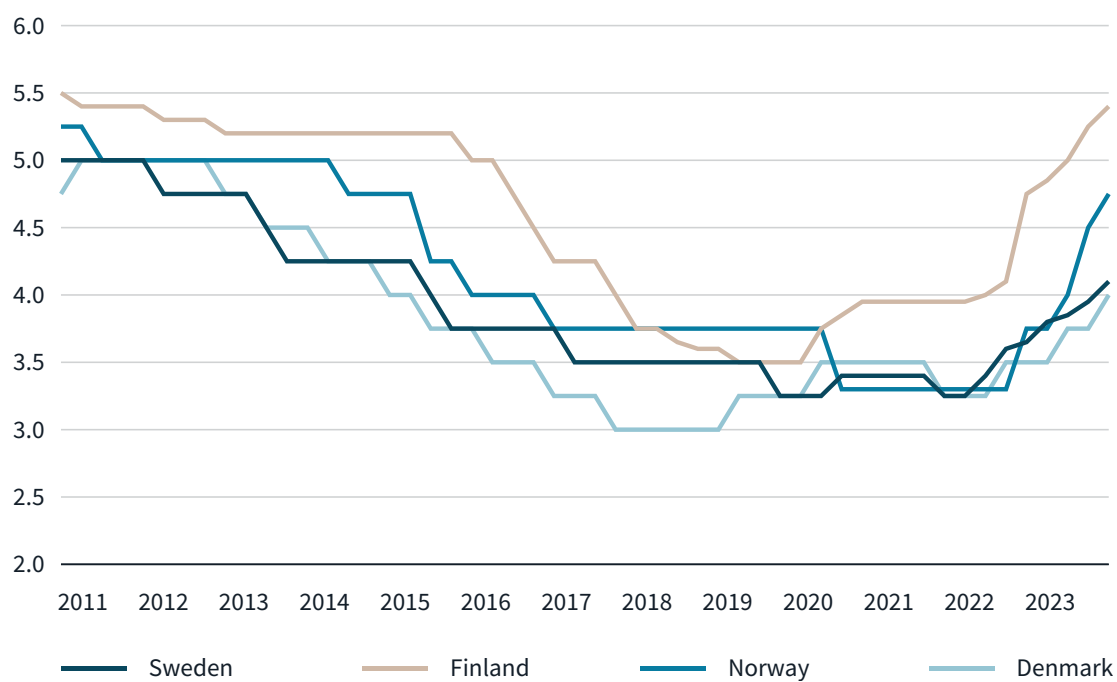
1.9€bn

Investment volume retail properties in the Nordics in 2023

Investment Volume Nordic Retail Properties (€bn)



Retail Prime Yield Nordic Capital Cities (%)



Source: Akershus Eiendom, EDC and JLL

Sweden Retail

There is resilience in occupational demand as a broad range of retailers are looking to secure space. Polarisation continues to persist in the retail segment where retail warehouses and prime high street retail demonstrate strength, while shopping centres continue to struggle.

Investment market

The Swedish retail segment confronted significant challenges in 2023, observing a considerable drop in investment volume by 68 percent compared to 2022.

Tenant market

The primary focus has been on securing spots in prime high street locations, eminent shopping centres and bustling tourist corridors, reflecting the strategic approach retailers are adhering to in order to ensure maximum consumer visibility and access.

Funding status

The banks continued to be reluctant to finance retail investment, despite a high yield gap. We expect the banks to slowly open up to finance some retail investments again based on the strong performance that certain retail properties show.

Sustainability

Despite experiencing a minor setback in 2023, where investor focus was primarily on secure funding due to the year's economic landscape, ESG considerations are anticipated to gain increased traction in future investment decisions.

Outlook for 2024

We expect some investors to start investing in retail parks again in 2024 based on the high yield gap the sector provides in combination with the resilience shown on the leasing side. Real estate companies holding shopping centres assets will most likely continue their struggle between the need for rental growth as a means to offset increasing costs and offering appropriate discounts to mitigate the potential for vacancies.

"The vacancies have remained low, or very low, in most retail parks, which underscores the strong performance of the tenants in the segment, including a number of very well performing discount retailers."

Financial highlights

450€m

Transaction volume for retail assets in 2023

+55bps Y/Y

Shopping centre yields at 5.90% in Q2 2023



Daniel Turner
Senior Director, Capital Markets

Finland Retail

Last year's weak economic outlook kept consumers cautious, which had a negative impact on retailers. Goods retailers have already experienced the hit, and there is a risk that food and beverage (F&B) and leisure will also be hit in the first half of 2024.

Investment market

The retail investment market remained subdued in 2023, totalling only €200 million - the lowest since the financial crisis. Investors are factoring in tenant risks in retail to an increasing degree and are still favouring grocery-anchored assets with solid tenants.

Tenant market

In best-performing shopping centres the status-quo has remained, with lease extensions typically made at previous rent levels. Still, competition for vacant units is limited and the candidates' rent-paying ability varies greatly. New entrants to market remain on low levels, continuing the upwards pressure on vacancies.

Funding status

Grocery-anchored portfolios and local malls still have good access to bank financing, while fashion and shopping centres face more challenges. Generally, also higher yields in the sector also help the

credit metrics. Alternative lenders could sometimes take a positive view on retail repositioning projects but, overall, the financing sources outside the bank market are limited.

Sustainability

Consumer awareness of sustainability continues to grow, and forerunner-centres utilise this trend by increased second-hand-retail-tenants. The complexity of ESG requirements is increasing across the board, from energy-management to checklists on materials, energy use and softer aspects. The focus and weight for ESG improvements are still largely on the global supply chains.

Outlook for 2024

In H1 2024 many retailers will be in survival mode and expansionary activities will be rare. Established shopping centres will continue over-performing while the near future looks gloomy for secondary stock in need of lease-up or repositioning. Investors will continue to favour easy-to-manage retail parks, retail warehouses and groceries above shopping centres.

"Challenging times lie ahead for retailers and occupancy rates are under pressure."

Financial highlights

6.25%

Shopping centre prime yield continued moving out in H2 2023 with additional 25 bps

6,000sq. m.

Helsinki metropolitan area speculative retail stock under construction



Mikko Kuusela
Director, Valuation & Strategic Consulting

Norway Retail

The retail segment has experienced good turnover, but expansion activity has been low. We estimate that the high leasing activity in major cities will happen in Norway around the summer of 2024, as we tend to be around nine months behind the bigger cities. However, the higher finance costs may slow down the forecasted expansion in 2024.

Investment market

As in other segments, the retail transaction market has experienced a significant dip in activity and transaction volume is now 63 percent lower than in 2022. We recorded a volume of NOK 6,105 million as of December 31, 2023, which makes up approximately 12 percent of the total volume.

Tenant market

The sentiment among retailers has been cautious. Despite this, there are notable exceptions in the luxury segment. Additionally, new players in the electric vehicle segment have made their entrance to the Norwegian market. Scarce contract expirations leave few options in the prime high-street retail area. While the Promenaden area is at its full occupancy, the situation may spur growth in adjacent areas as more businesses seek to establish a presence in Oslo.

Funding status

The transaction market was impacted by increasing yields and financing costs throughout 2023. However, the retail segment saw strong turnover rates but the increased finance costs took up more of the revenues.

Sustainability

Property owners and tenants are increasingly implementing sustainable initiatives in their management and operations. This shift not only aligns with the broader global trend towards responsible and sustainable business practices but also positions retailers to meet the evolving expectations of conscious consumers in the Norwegian market.

Outlook for 2024

Looking ahead, we expect the demand for prime retail spaces to remain strong, and rental prices within this segment will stay at high levels. High interest rates and economic uncertainty are likely to impact the broader rental market in the short term.

“Continued strong demand for high-street retail locations has led to tight supply side in the luxury retail segment.”

Financial highlights

12%

Retail accounts for 12% of the total transaction volume.

30,000 NOK/
sq. m.

High-street, stable over the past 12 months



Remi N. Olsen

Head of Retail, Akershus Eiendom

Denmark Retail

Increasing consumer confidence and robust purchasing power have generated heightened demand for innovative retail solutions centred around delivering outstanding consumer experiences.

Investment market

The retail sector is anticipated to maintain stability as consumer purchasing power, coupled with heightened confidence, remains relatively strong. Investors are particularly drawn to retail spaces that align with the rising consumer trend favouring innovative retail concepts that enhance the overall shopping experience.

Tenant market

Despite pressure from rent increases resulting from Consumer Price Index (CPI) adjustments, the retail market is not stagnant but rather undergoing a shift. Tenants are seeking smaller, cost-effective premises to navigate uncertain times with increased flexibility. Simultaneously, a consolidation strategy is gaining traction among retailers, with a move towards aggregating several small stores into fewer, larger establishments.

Funding status

Higher interest rates have limited funding options for retail properties in secondary locations. In contrast, financing remains readily available for prime assets boasting reliable tenants.

Sustainability

Denmark's retail market is placing a significant focus on sustainability, with investors, owners and tenants emphasising environmental responsibility. Numerous retailers have embraced sustainable initiatives, recognising the competitive advantage these concepts provide in attracting customers and enhancing brand reputation within the market.

Outlook for 2024

The Danish retail market is poised for a rebound, with sustainability and innovation continuing to be key focal points attracting both tenants and investors. Proptech integration is expected to optimise retail operations, elevating customer experiences. Overall, Denmark's retail market is positioned for sustained development in the foreseeable future.

“Tenants are finding alternative uses for existing spaces.”

Financial highlights

4.00%

Prime yield for high-street Copenhagen locations

3.23%

Vacancy rate for Copenhagen retail



Frank Heskjær

Head of International Retail,
EDC Poul Erik Bech



Logistic Nordic

The logistics sector in the Nordic region faced a challenging year in 2023, marked by a decrease in investment volume and cautious tenant behaviour. Despite this, there was sustained interest in prime, high-quality assets located in favourable areas, underlining the sector's enduring appeal and resilience. There was also a sustained interest for light industrial properties from a number of domestic and international funds.

Moving forward into 2024, given the signs of growing investor confidence and a renewed risk appetite, the logistics sector is expected to regain momentum. Demand for well-located, high-quality logistics assets is anticipated to remain robust. This, combined with stabilising economic conditions and lower interest rates, points towards a more positive environment for investment in the logistics sector.

It is, however, crucial to monitor evolving tenant needs and market trends, as these variables will play a key role in shaping the logistics sector's performance in 2024. Considering the resilience shown during 2023's challenges, the logistics sector in the Nordic region might witness a stronger year ahead if it continues to adapt and respond to these emerging trends and demands.

Financial highlights

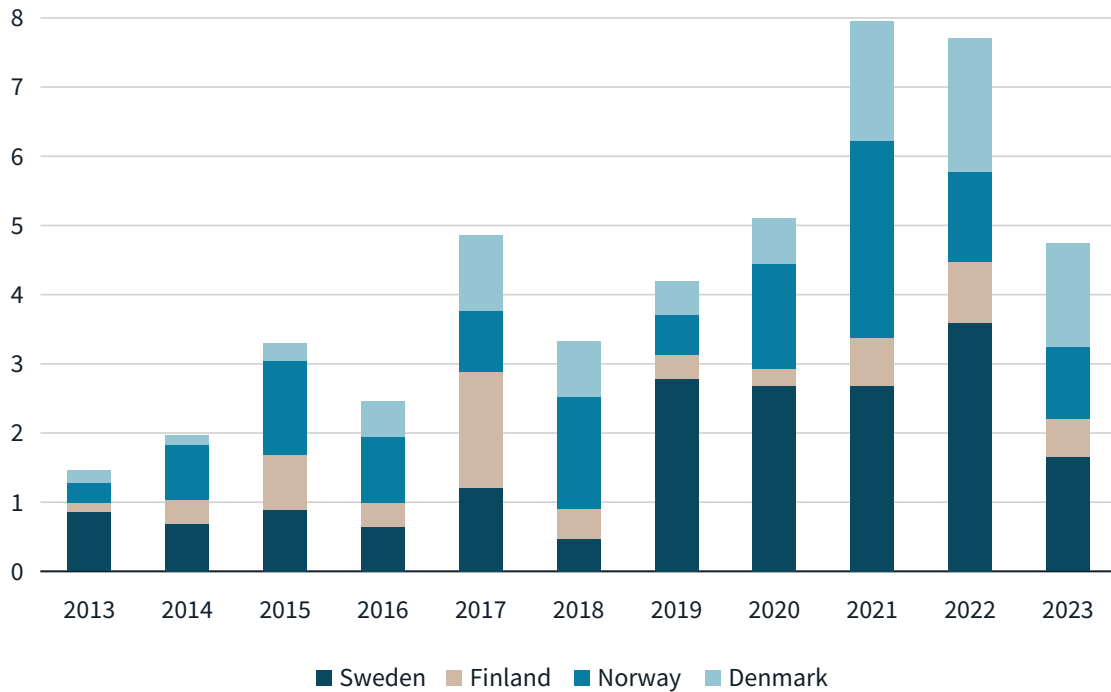
-40% Y/Y

Investment market for logistics segment in Nordics 2023, compared to 2022

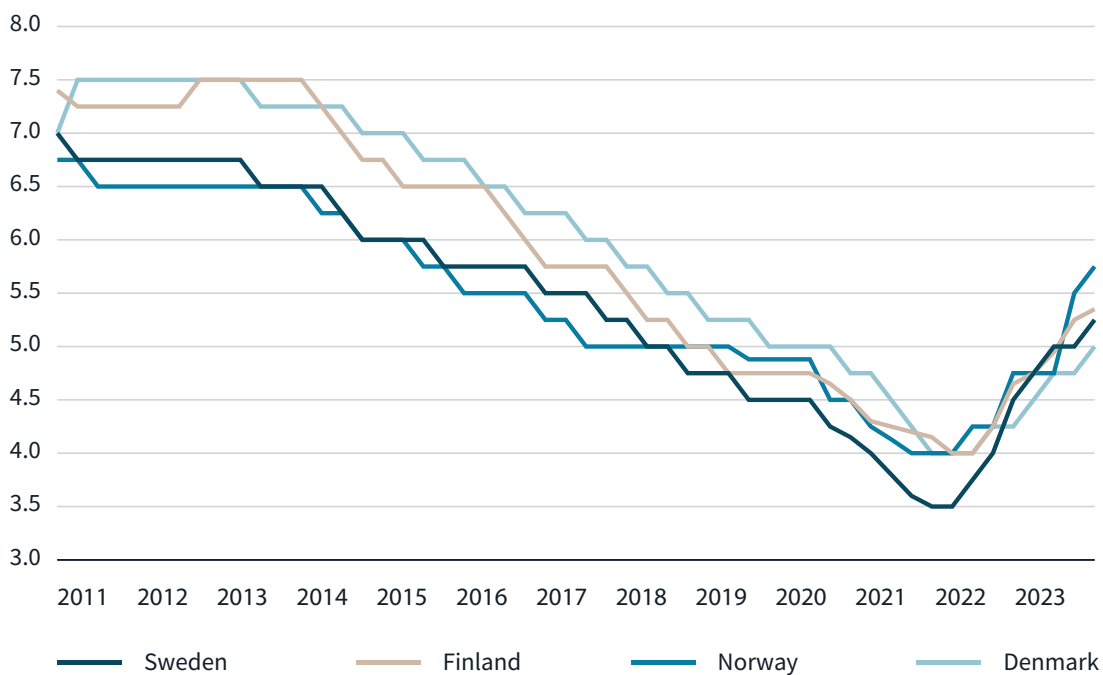
+80bps Y/Y

Average yield up to 5.35% in Q4 2023

Investment Market Nordic Logistics Segment (€bn)



Logistics Prime Yield Across Nordics (%)



Source: Akershus Eiendom, EDC and JLL

Logistics Sweden

The interest in logistic and industrial assets in Sweden remains robust, driven by high underlying demand for space, a strong rental market and good visibility for net operating income growth, given the presence of triple net leases. This segment has been fuelled by high demand from tenants, who have transferred production from other countries to Sweden.

Investment market

Numerous investors, both national and international, have sought to escalate their exposure to this sector. However, the current elevated interest cost has tempered demand within the prime segment, resulting in continued rising yield levels.

Tenant market

The rate of vacancies across all submarkets witnessed an increase in 2023, predominantly due to the culmination of substantial projects initiated without a secured tenant, and still high level of unsigned space at completion. Nonetheless, the strong demand for modern facilities situated in favourable locations persists. Consequently, this robust demand has driven up prime rents significantly, demonstrating an impressive surge of 7–19 percent in 2023.

Funding status

In terms of funding, the logistics sector stood out as one of the most favoured segment in 2023. This is indicative of the robust financial foundations supporting this industry. Notably, the majority of the listed companies that traded at a premium during 2023 in the real estate sector hailed from the logistics segment.

Sustainability

The adherence to ESG principles remains a crucial element for investors within the logistics sector. This is evident as most new logistic developments receive sustainability certifications. Also, the uptake of large solar panel systems on both existing and new assets underscores commitment to enhance their ESG footprint.

Outlook for 2024

The logistics sector is expected to maintain its appeal among investors, especially given the anticipated stabilisation of interest rates at lower levels. This forecast situates itself within the context of a strong tenant market, robust rental growth and lower cost risk inherent in triple net leases.

“2024 eyes a buoyant Swedish logistics scene.”

Financial highlights

5.25%

Yield requirement
prime logistics

18.9SEKbn

Transaction volume
for L&I in 2023



Lena Grimslätt
Senior Director Capital Markets,
Sweden

Logistics Finland

After a year of continued price discovery, the logistic and industrial (L&I) sector is showing signs of stabilising. Despite the challenging market conditions, L&I assets have shown resilience in liquidity, especially among prime assets in HMA.

Investment market

Investment activity for logistic properties witnessed a modest 36 percent decline on a year-on-year basis during 2023, which was the lowest drop compared to other segments. The total volume was €560 million. Logistics assets continue to attract investor interest, even during difficult investment market conditions, supported by strong occupier demand and attractive rental growth prospects.

Tenant market

The second half of 2023 saw a reduction in occupier demand, yet it remained at a reasonably solid level. While market rent has started to decelerate, the overall vacancy rate for logistic properties in Finland is still low, suggesting a sustained demand for such spaces and a competitive market for tenants seeking quality L&I accommodations.

Funding status

The sector remains relatively favoured by bank lenders, but tenant quality mix, WAULT, alternative use, and reletting possibilities dictate the financing possibilities. With lenders actively looking at opportunities in the sector, there are good opportunities for higher LTVs relative to other sectors.

Sustainability

ESG considerations are playing an increasingly vital role in logistics assets, while sustainability continues to have a more limited role in older secondary light industrial stock. To be considered as a prime asset, logistics properties need to demonstrate strong ESG credentials in terms of EPC and CRREM Carbon pathways, with certifications also getting more traction in this sector.

Outlook for 2024

With interest rates declining and yields stabilising, market activity is expected to increase going forward. Relatively strong investment activity, compared to other sectors, can be expected to continue in 2024.

“Price discovery seems to be coming towards the end as yields are showing signs of stabilising.”

Financial highlights

5.35%

Logistics prime yield moved out
further 40 bps in H2 2023.

560€m

The transaction volume of L&I
sector in 2023 amounted to ca.
24% of the total volume.



Kimmo Kostiaainen
Director, Valuation & Strategic
Consulting

Logistics Norway

Despite macroeconomic uncertainty, the leasing market for logistics properties remains robust, with a persistent upward trend in rental prices for strategically located areas. With strong fundamentals, logistics have remained one of the most attractive segments in the Norwegian transaction market over the last 18 months.

Investment market

As with other segments, the investor sentiment for logistics remains selective, with a cautious optimism heading into 2024. Logistics properties made up 21 percent of the total transaction volume last year, down 31 percent compared to 2022. However, its relative share of total volume was doubled.

Tenant market

We observe continued strong occupier demand for logistics space around Oslo. The rental prices have seen an increase from NOK 1,600 to NOK 1,700 per square metre, reflecting approximately 6.5 percent growth. The residential conversion has continued to limit the supply of strategically located 'last mile' locations, which has led to upward pressure on rental prices for these premises from NOK 2,000 to NOK 2,200 per square metre.

Financial highlights

5.75%

Prime yield moved out
100 bps in Q4 2023

12 NOKbn

Investment volume
in 2023



Haakon Himle Skandsen
Advisor Department: Leasing,
Akershus Eiendom

Funding status

Funding costs increased throughout 2023, but a sharp fall in long rates in the fourth quarter brought the yield gap to historic averages. Banks are more positive, but duration, tenant quality and reletting risk still dictate financing possibilities in the logistics segment.

Sustainability

The emergence of mass timber logistics and light industrial structures have yielded projects such as Bulk Wood and The Plus by Vestre. Examples of charging infrastructure for transport trucks with battery parks and large-scale, roof-top installations of solar power are examples of initiatives being planned on the back of current occupier requirements.

Outlook for 2024

The gap between buyers and sellers is decreasing. We anticipate that the broad rental market will cool down from high levels, while the demand for last mile logistics properties will continue its strong trend. In the long term, we expect investment activity to pick up as liquidity improves in the transaction market in 2024.

“Sustainability measures are becoming increasingly important to meet occupier demand.”

Logistics Denmark

While modern and sustainable logistics assets continue to attract both investors and tenants, challenges arise from the transformation of urban industrial areas and limited access to new development opportunities, thereby placing pressure on supply. Concurrently, the industrial segment is undergoing a slight decline, foretelling an anticipated increase in vacancies.

Investment market

The logistics segment has gathered momentum as investors seek stable, long-term opportunities. Demand is particularly high for investments in close proximity to essential infrastructure, major ports and cities. However, the recent surge in demand has led to a scarcity of investment opportunities, even amid macroeconomic developments. Despite these challenges, the logistics market maintains its popularity.

Tenant market

Denmark's tenant market for logistics properties remains robust, with a persistent demand for efficient and well-connected spaces. In contrast, there is a diminishing demand for industrial properties, signalling an impending increase in vacancies within this segment.

Financial highlights

5.00%

Prime yield
Copenhagen logistics

2.34%

Vacancy rate for Capital Region
Industrial & Logistics



Thomas Møller Rudlang
Partner, Head of Department,
EDC Poul Erik Bech

Funding status

While funding remains difficult for all segments, logistics properties are viewed as a better long-term investment, due to the structural shift towards e-commerce, among other things. As such, approval for funding for these properties is generally seen as more advantageous.

Sustainability

Sustainability is emerging as a vital consideration in Denmark's logistics sector, with stakeholders intensifying efforts to minimise the environmental impact of logistics operations.

Outlook for 2024

The logistics segment is poised to maintain its positive trajectory. Increased emphasis on 'last mile' delivery solutions is expected to drive interest in properties located closer to urban centres. Both investors and tenants are anticipated to prioritise properties that offer sustainable and energy-efficient features. Overall, the outlook for the logistics segment remains optimistic, with sustained high demand projected for the foreseeable future.

“Demand continues to exceed supply, despite a slight increase in vacancy rates.”



Residential Nordic

The Nordic residential sector faced headwinds in 2023, with each country exhibiting unique trends and challenges but sharing a cautious optimism for 2024.

Sweden's residential market experienced a significant downturn in new construction and investment volumes throughout 2023, attributed to discrepancies in buyer and seller price expectations, macroeconomic instability, and conservative banking practices. Nonetheless, with a stabilized economy, lower inflation and interest rates, and strong rental growth, 2024 looks promising for recovery.

Finland witnessed record completions of new apartments in 2023, but like Sweden, suffered from a historic low in transaction volumes due to elevated interest rates. With demand shifting towards rental homes and urbanization trends, rental markets show signs of resilience. The Finnish market anticipates a moderate rebound in 2024, assuming stabilization or reduction in interest rates.

Norway, conversely, observed robust housing prices even as costs soared, outperforming expectations with a slight price growth by year-end. The investment market remained strong, with the residential sector carving out a significant 21 percent share of the total investment market, spurred by confidence in long-term prospects. Surging rents and a drive towards sustainable development foreshadowed a matured tenant and development market.

Denmark too preserved strong demand within its residential market, even as high interest rates and cost inflation curtailed development activities. Investment attractiveness remained robust, particularly for properties in central locations. Despite the challenged funding environment, there is an optimistic long-term view on tenant demand, underpinned by urbanization and population growth.

Overall, while each Nordic country faced its specific set of challenges in the residential market during 2023, the general expectation for 2024 is marked by a cautious yet definitive turn towards improvement, with sustainability remaining a crucial consideration across the board.

Financial highlights

5.3 €bn

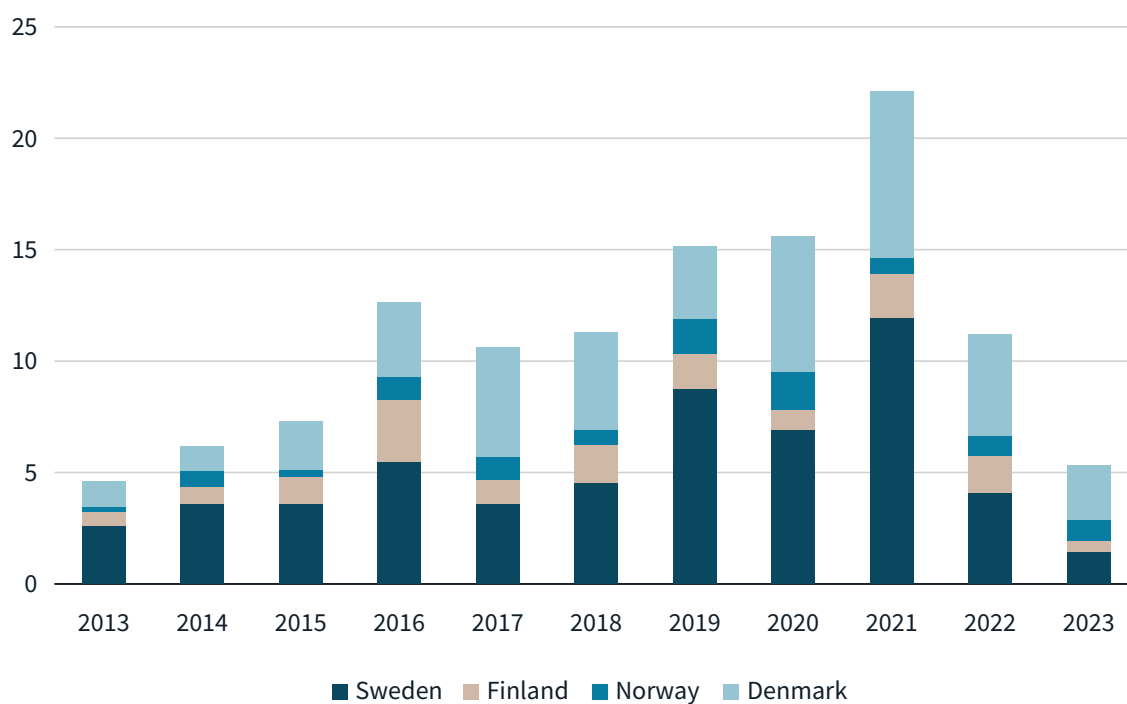
Investment volume for the residential segment in the Nordics in 2023

-53%

Investment volume for the residential segment in the Nordics 2023 vs 2022



Investment Volume Nordic Residential Properties (€bn)



Source: Akershus Eiendom, EDC and JLL

Residential Sweden

2023 has been a challenging year for the residential sector, with a significant decline in new construction starts and investment volume as a result. However, in 2024, the conditions are expected to gradually improve. Partly due to a more stable macroeconomic climate with lower inflation and interest rates, but also with a relatively strong underlying rental growth and increased investor activity.

Investment market

The Swedish residential investment market displayed a significant mismatch between buyer and seller expectations during 2023, making it difficult to getting deals done. Most of the volume was found within the new development sector, still showcasing a reasonably good liquidity.

Tenant market

Major cities in Sweden are experiencing virtually no vacancy rates and a considerable underlying housing shortage. Rent increases are anticipated to average 4.5–5% for 2024, with similar levels in the subsequent year, offsetting the sector's lag against CPI in 2023.

Funding status

Banks demonstrated increased prudence in their approach towards financing residential investments in 2023, but the sector still remains

a favourite given its low-risk nature. Furthermore, there have been positive signals recently, with both lower swap rates and increased activity in bond markets.

Sustainability

Although ESG considerations retain their significance, their prominent position has slightly diminished due to financing and returns taking precedence on the agenda. Nevertheless, fulfilling ESG standards is still regarded as a fundamental prerequisite.

Outlook for 2024

Q1 2024 is expected to be slightly more cautious, while activity is projected to increase gradually throughout the year, starting in Q2. However, it is primarily in H2 that transaction activity is expected to experience a more significant upswing, supported by the stabilisation of interest rates, increased liquidity, and clearer directives regarding rental growth for new builds. This will present improved prospects for developers while also contributing to higher investments volumes compared to 2023.

“Lower interest rates and increased competition among buyers are expected to gradually improve the transaction sentiment.”

Financial highlights

-59%

Investment volume for the residential sector 2023 compared to 2022

~4.50%

Prime yield for new build multifamily buildings in Stockholm in Q4'23



Filip Sköldefors
Senior Director Capital Markets,
Sweden

Residential Finland

Residential transaction volume was historically low in 2023. Despite residential transaction volume decreasing from the first to the second half of 2023, market activity now seems to be picking up. In supply terms, the amount of new construction starts were historically low during 2023.

Investment market

Starting from early 2022, rate hikes have pushed yields upwards. Interest rates are now expected to have peaked and the rise in yields is expected to slow down during the first half of 2024, relieving investor concerns and increasing activity. Several open-ended funds and core-investors struggled, due to redemptions and slow fund raising. The prime yield was 4.60 percent in the fourth quarter of 2023.

Tenant market

A record number of new apartments were completed in 2023. While building completions will likely decline during 2024, there will be plenty of rental supply in certain sub-markets. Short-term demand for rental apartments is growing, as demand towards owning an apartment has decreased, due to high financing costs. Long-term demand for rental apartments in the growth centres is supported by the urbanisation.

Funding status

Banks have increased their margins and decreased their maximum LTV levels as the valuation yields are still tight, compared to financing costs. Financing for secondary locations and new speculative developments is hard to find from the bank market, and international interest towards larger portfolios has diminished from last year. Strong interest from alternative lenders exists, especially towards development.

Sustainability

Key drivers are energy ratings and energy efficiency solutions. Pressure from tenants is expected to remain limited for the foreseeable future.

Outlook for 2024

Activity is expected invigorate moderately if compared to H2 2023, due to slightly improved expectations of stable or decreasing interest rates. Many core+ and value-add investors have dry powder available.

“Despite low transaction volume in H2 2023, market activity seems to be picking up and is expected to invigorate for the next six months.”

Financial highlights

4.60%

Prime yield, a 30 bps increase Q/Q and a +60 bps increase Y/Y

100€m

The transaction volume in H2 2023



Tero Uusitalo
Head of Capital Markets,
Finland

Residential Norway

Despite the high rise in housing costs, housing prices remained robust during 2023. The first half of 2023 was higher than expected, and in the second half of the year, prices eased slightly, and the year concluded with a 1.3 percent growth in housing prices.

Investment market

The residential sector is experiencing robust interest in the investment market, where positive prospects in the long-term drive investor appetite. In 2023, residential transactions accounted for 21 percent of the total investment market. Investment volumes in 2023 were significantly higher than the 12 percent historic average of the last five years. Some of the biggest transactions in 2023 were residential assets, with one of the biggest purchases being Bonava, where Union Residential Development purchased the company for NOK 1.6 billion.

Tenant market

In the last two years, the residential rental market has experienced historically significant growth in rental prices. In 2022 and 2023, rental prices in Norway surged by a remarkable 15.2 percent, equivalent to the growth observed from 2013 to 2021, as reported by Eiendom Norge.

Financial highlights

21.1%

Share of residential transactions in 2023

1.0%

The housing price estimate provided by the Central Bank of Norway for 2024



Kristian Småvik
Analyst Department: Research,
Akershus Eiendom

Sustainability

Sustainability is driving innovation in residential development, with a growing emphasis on incorporating eco-friendly features and practices. The rise of BREEAM-certified projects highlights the economic significance of aligning with environmental concerns. Homeowners are also increasingly focused on enhancing existing buildings with sustainable features, reflecting a broader economic shift towards environmentally conscious real estate practices.

Outlook for 2024

Norges Bank expects housing prices to increase by 1 percent next year. This is explained by their forecasts, which anticipate that mortgage interest rates will peak at 5.7 percent. Due to temporary imbalances in supply and demand in central areas, we anticipate that rental prices will remain stable at elevated levels.

“We expect a positive growth in housing prices in 2024, along with a strong investor appetite for residential projects.”

Residential Denmark

While demand for the residential segment remains robust, the prospect of high interest rates and escalating building supply costs is anticipated to dampen development activity in the immediate future.

Investment market

The residential sector continues to thrive as an attractive investment market, drawing interest from local and international investors. Its allure lies in consistent rental demand, presenting an opportunity for investors seeking a low-risk investment asset. Investors exhibit a strong preference for properties that align with the diverse and evolving preferences of the population, particularly in central and well-connected neighbourhoods.

Tenant market

A confluence of changing demographics, a restricted supply of new residential properties and challenges in securing funding underpins the enduring high demand in the tenant market. Furthermore, the trajectory of long-term tenant demand remains positive, driven by population growth and the ongoing trend of urbanisation.

Financial highlights

4.00%

Prime yield for new residential properties in Copenhagen

7,263

Person population growth in Copenhagen Municipality in the last 12 months



Jacob Lykke Bruun
Partner, Capital Markets,
EDC Poul Erik Bech

Funding status

Securing financing has become a more challenging endeavour, particularly for older standing assets. The imposition of higher interest rates has led to a decline in the number of development projects. An anticipation of renewed development activity arises with the expectation of interest rates declining in the future.

Sustainability

Sustainability takes centre stage in the residential sector, with developers integrating green building practices, energy-efficient technologies and eco-friendly materials into their projects. The pursuit of sustainable neighbourhoods, featuring green spaces and infrastructure friendly to bikes and electric vehicles, along with proximity to public transportation, resonates strongly with environmentally conscious tenants.

Outlook for 2024

The long-term outlook for the residential segment remains positive, with increased transaction volume expected as the macroeconomic environment stabilises.

“Falling interest rates and rising yield requirements ease investor-vendor agreements.”

One JLL

Services in Sweden

JLL is a world leader in real estate services, powered by an entrepreneurial spirit. We are in business to create and deliver value for our clients in a complex and constantly changing world.

JLL is a leading professional services firm that specialises in real estate and investment management. Our vision is to reimagine the world of real estate, creating rewarding opportunities and amazing spaces where people can achieve their ambitions. In doing so, we will build a better tomorrow for our clients, our people and our communities. JLL is a Fortune 500 company with operations in over 80 countries and a global workforce of nearly 92,000 employees. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated.

For further information, visit www.jll.com or www.jllsweden.se.

Linus Ericsson, CEO JLL Sweden
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Capital Markets

Through proactive and inventive advice, our Capital Markets team creates value and makes transactions happen in the Nordic real estate market. We have an experienced transaction team, all of whom are passionate about real estate. Our edge is a unique combination of competence within transaction advisory services, corporate finance and financing through our Capital Markets team, together with the Debt & Financial Advisory team. Capital Markets has a broad knowledge base with strong local representation and a global network to help you succeed with your transactions, regardless if it is local transactions, cross border transactions, mergers & acquisitions or equity raising.

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Debt & Financial Advisory

JLL Debt & Financial Advisory offers leading-edge financial advice with a primary goal to help clients find the best available financial solutions for their investments and to manage their debt portfolios efficiently. JLL Debt & Financial Advisory is authorised by the Swedish Financial Supervisory Authority to trade in securities, which allows us to provide a full range of financial advice on conventional bank loans, mezzanine financing and derivatives, as well as raising funds from financial markets in the form of commercial papers or bonds. After the acquisition of HFF, JLL is the leading debt advisor globally.

Mattias Baggfelt, Head of Debt & Financial Advisory
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Valuation & Strategic Analysis

Knowledge of a real estate's market value is a prerequisite for a successful property transaction—whether an investor is buying or selling. JLL Valuation & Strategic Analysis provides essential input during property transactions, for mortgages and financial statements, or when reporting to the MSCI Global Property Index. Our valuation team is certified in accordance with both national and international standards. We appraise all types of commercial real estate, from office and industrial/logistics facilities to retail premises and apartment buildings.

Patrik Löfvenberg, Head of Valuation & Strategic Analysis
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Agency

At Agency we offer leasing and development advisory to property owners, and strategic advisory and tenant representation to corporates. JLL Leasing helps property owners find the right tenants for vacant premises and helps them make the right investments for commercially viable leasing terms. With our specialist expertise in the office, warehousing & logistics, and retail segments, we provide accurate, detailed knowledge upon which to base strategic decisions. JLL Tenant Representation helps corporates with their strategic real estate issues during establishment or relocation. We provide advisory during the process of finding premises that best support specific business operations through an inspiring occupational environment at an efficient rental cost. Our strength lies in our extensive market knowledge due to our local and global presence, which unlocks added value for our clients.

David Nilsson, Head of Leasing
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Research

JLL Research produces accurate, relevant analysis that underpins strategic decisions and contributes to successful property transactions. We monitor and measure current market trends and collect data on, for example, vacancy rates, take-up volumes and rental levels. For the past 20 years, we have compiled unique data sets. No matter what the property type—logistics facility, office space or retail premises—you can be sure that we will add knowledge and depth to your decision making.

Niclas Höglund, Head of Research
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Project & Development Services (P&DS)

JLL P&DS offers strategic advisory and project management services during office changes or property development. Our goal is to ensure that projects are profitable for our clients and that they are implemented efficiently. Our experienced project managers possess broad knowledge of the processes involved in construction, technology (IT, security and AV), architecture/ interiors and change management. Guiding organisations through the process of either developing their property or implementing changes in their office (relocation or refurbishment) is an integral part of our core business.

Maximilian Keysberg, Head of Project & Development Services
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ESG & Sustainability Services

Our ESG & Sustainability services team brings you the most up-to-date insight regarding what investors, tenants and banks appreciate in real estate when it comes to sustainability. Our specialty is assessing the key ESG parameters driving property value, and based on that recommend prioritized action plans and strategies. Regardless of where you are in the investment lifecycle, from setting up a fund to developing assets to divesting a portfolio. We can also deliver ESG DDs, Net Zero Carbon audits or help with more technical assessments.

Tuomas Vuorinen, Head of ESG & Sustainability Services
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Services in Finland

JLL Finland offers Capital Markets, Debt and Financial Advisory, Valuations, Strategic Consulting, Leasing, Tenant Representation, Asset Management and Development & Design Services to domestic clients and international investors in, and occupiers of, real estate in Finland. Our extensive global platform and in-depth knowledge of local real estate markets enable us to serve as a single-source provider of solutions for the full spectrum of our clients' real estate needs.

Capital Markets

Our Capital Markets team is the market leader in property transaction advice, delivering tailored solutions and providing strategic advice to clients looking to acquire or sell properties or portfolios. We advise our clients in both sell and buy side transactions across all property sectors, combining first-hand knowledge and comprehensive market data with rigorous analysis to maximise value and deliver results.

Tero Uusitalo, Head of Capital Markets Finland
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Valuation & Strategic Consulting

Our expertise encompasses valuation of single assets and portfolios to complex development schemes and ranges from shopping centres to residential properties. Valuations are carried out in accordance with International Valuation Standards (IVS), RICS Valuation Standards and local AKA/KHK guidance. Our strategic consulting services include data-driven advice on high-level investment strategies, portfolio planning, market entry strategies, asset-level business plans and commercial due diligence. For occupiers, we provide network, location, and real estate strategies.

Kaisu Pienimäki, Head of Valuation & Strategic Consulting
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Debt and Financial Advisory

Our debt team is dedicated to helping clients to find the best possible financing, regardless of that being a senior term loan, a construction facility, mezzanine financing, a bond or a commercial paper program. The service encompasses procuring financing for acquisitions and developments, arranging and negotiating the terms of refinancing, assessing and optimising the portfolio capital structures as well as developing or updating financial risk management and hedging strategies. JLL is the leading real estate debt advisor in Europe, which enables us to reach to broad European debt markets and financing sources.

Eemeli Lehto, Head of Debt and Financial Advisory Finland
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Leasing

Our Leasing team is the number one leasing agent in the Helsinki Metropolitan Area and is best known for offering tailored leasing solutions for landlords and investors to maximise the profitability of their investment. We specialise in office, logistics and retail properties with services ranging from traditional leasing to facelifts, property development and property branding.

Klaus Koponen, Head of Markets
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Tenant Representation

Our Tenant Representation team provides corporates and public institutions with strategy, services and technology that enhance the performance of their workplaces, real estate, and people. Our mission is to create and shape the future of workplace and real estate for our clients. We advise our clients in all aspects of their workplace and real estate matters to secure optimal functional and financial outcomes. Due to our global reach, we can provide these advisory services to clients that have international real estate portfolios.

Klaus Koponen, Head of Markets
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Development & Design

Our Development & Design services consists of three service lines: Property Development Services, Project Management & Design Services and Workplace & Design services. With our three service lines, we help property owners in creating and executing a new revolutionary step for their properties. We design and execute minor and major renovation projects, help our customers analyse their current work environments and create a new work environment, best suited to the user's future business needs.

Tomi Tiainen, Head of Development & Design
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Asset Management

Our Asset Management service is aimed at both domestic and foreign real estate investors. We provide a holistic and result oriented approach to asset management. As part of the service, we create portfolio and property-specific strategies for leasing and property development, identifying the potential for profit and value creation. The portfolio's strategy is achieved by leading leasing, key customers, Property Management service providers and ESG development professionally.

Julia Aarni, Head of Asset Management
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ESG & Sustainability Services

Our ESG & Sustainability services team brings you the most up-to-date insight regarding what investors, tenants and banks appreciate in real estate when it comes to sustainability. Our specialty is assessing the key ESG parameters driving property value, and based on that recommend prioritized action plans and strategies. Regardless of where you are in the investment lifecycle, from setting up a fund to developing assets to divesting a portfolio. We can also deliver ESG DDs, Net Zero Carbon audits or help with more technical assessments.

Tuomas Vuorinen, Head of ESG & Sustainability Services
T: +358 503 023 037



Services in Denmark

EDC Poul Erik Bech

EDC Poul Erik Bech was founded in 1978 and currently has 140 employees located across Denmark in 19 commercial business centres. Hard work, ethics and a solid business sense are the three pillars on which the company was founded in 1978. EDC Poul Erik Bech is primarily owned by the Poul Erik Bech Foundation, which supports non-profit organisations where volunteer enthusiasts make a difference for children.

EDC International Poul Erik Bech

EDC International Poul Erik Bech is the one point of entry for international clients, which ensures efficient communication and services tailored to your business. EDC International Poul Erik Bech will ensure that the best team is assembled for the job, whether these are local estate agents or external business partners.

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Services

- Capital markets
- Buyside advisory
- Due diligence
- Corporate solutions
- Letting and tenant representation
- Project development
- Valuation
- Research
- Property management

Services in Norway

About Akershus Eiendom:

Akershus Eiendom was established in 1992, offering services within transactions and leasing advisory of Norwegian commercial real estate.

The company has taken part in many of the largest transactions in the Norwegian commercial real estate market. In 1997, the company established a separate leasing department in order to focus further on the Oslo office leasing market, and in 2001 the department for research and valuation was added to the organisation. In 2015, the tenant representation department was started.

In 2001, Akershus Eiendom entered into a cooperation agreement with JLL, one of the world's leading commercial real estate agents. The cooperation has led to considerable synergies between the companies both in tenant representation, research and large transactions advisory.

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Services

- Capital markets
- Buy- and sell-side advisory
- Due diligence
- Leasing
- Tenant representation
- Project development
- Valuation
- Research

Property Data Definitions

Prime Office Rent

Represents the top open-market rent that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date (normally at the end of each quarter period). The rent quoted normally reflects prime units of over 500 square metres of lettable floor space, which excludes rents that represent a premium level paid for a small quantity of space. The Prime Rent reflects an occupational lease that is standard for the local market. It is a fair rent that does not reflect the financial impact of tenant incentives, and excludes service charges and local taxes. It represents JLL's market view and is based on an analysis/review of actual transactions for prime office space, excluding any unrepresentative deals.

Prime Yield

Represents the best (i.e. lowest) 'rack-rented' yield estimated to be achievable for a notional office property of the highest quality and specification in the best location in a market, as at the survey date (normally at the end of each quarter period). The property should be let

at the prevailing market rent to a first class tenant with an occupational lease that is standard for the local market. The prime initial net yield is quoted, i.e., the initial net income at the date of purchase, expressed as a percentage of the total purchase price, which includes acquisition costs and transfer taxes. The Prime Yield represents Jones Lang LaSalle's 'market view', based on a combination of market evidence, where available, and a survey of expert opinion.

Vacancy

Vacancy represents completed floor space offered on the open market for leasing, vacant for immediate occupation on the survey date (normally at the end of each quarter period), within a market. It includes all vacant accommodation inclusive sub-letting space irrespective of the quality of office space, or the terms on which it is offered. Vacancy excludes 'obsolete' or 'mothballed' office property, i.e. floor space held vacant and not being offered for letting, usually pending redevelopment or major refurbishment.





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