PROPERTY INVESTOR CONFIDENCE INDEX

Sweden

Q1 2022

Photo by Alberto Grosescu

THE NEW YEAR BEGINS WITH CAUTIOUS OPTIMISM

Following a record-shuttering year on the Swedish real estate market, the latest edition of our Investor Confidence Survey shows a slight cooling down of the high optimism seen in the previous edition. The beginning of the year has brought to light many potential challenges rising in the property markets around the world. Even so the investors in Sweden seem to be entering the new year with cautious optimism and belief that this year will again result in an increased value of their portfolios.

Results of the report, with insight collected 19-28 of January, show a slightly more conservative but still an optimistic outlook for the coming six months. Survey results show a strong belief in stable occupier demand across all the major segments, with further improvement expected in logistic/industrial and offices segments. Despite the looming challenges, investors seem to be willing to capitalise on the positive market sentiments of last year and plan to expand their portfolios further. A continued yield compression is still expected by some investors, although the majority believes that they will stabilise.

This edition of the survey aims to explore how concerned the investors are about inflation and a potential resulting interest rate increase. In addition, the sustainability aspect is once again examined.

The transaction volume of 2021 was the strongest one yet (SEK 389 billion), a nearly 70% increase compared to the last record in 2019 (SEK 232 billion). Residential (38%), office (18%) and industrial/logistics (13%) have been the most attractive segments to invest in. The share of divested retail and public properties has decreased slightly during the past six months, resulting in a record-breaking activity in other segments. Domestic buyers continue to dominate the Swedish property market with 75% of the transactions. International capital comprised mostly of Norwegian (11%) or German (5%) investors. Amongst the sellers by far the most pronounced group (88%) was Swedish, followed by Norwegian (8%) and British (1%).

Thank you everyone for investing your precious time in answering the questions. You are always welcome to reach out with any inquiries.

Have a great and exciting new year!

Best regards,

Michal Toporowski
Research Analyst, Sweden

“ Despite the looming challenges the investors seem to be willing to capitalise on the positive market sentiments of last year and plan to expand their portfolios further”

Introduction

The Property Investor Confidence Index has been issued since 2008, with the purpose to gather indicators of market sentiment rather than to produce scientifically proven data. The former quarterly, and since 2018 bi-annual survey, covers different aspects of the commercial property market in Sweden. In this report you find the results of the latest survey, conducted 19-28 of January 2022.

General sentiment of the market

This report contains compiled figures, results and conclusions from the latest survey. The results give

a good understanding of the general mood amongst property investors in Sweden and their view of the market going forward.

The results are presented in two separate diagrams:

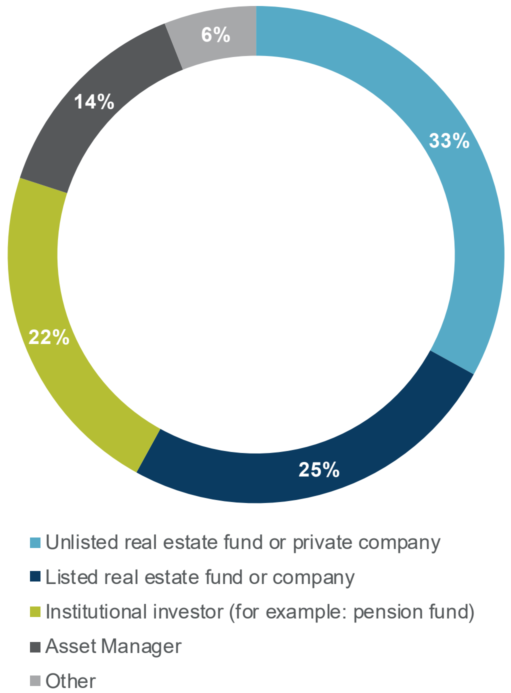
1. The results from the latest survey (pie chart)

2. The historical index (bar chart)

The index is constructed by calculating the difference between the share of positive (increase) and negative (decrease) answers to each question.

Figure 1

Respondent distribution



Occupier Demand - Office & Retail

Stable demand for office space expected in the beginning of 2022

Little over a half (52%) of respondents expect stable short-term demand for office space. The optimism noted in the end of 2021 seems to have slightly cooled down, with about a third of respondents expecting the demand to improve (59% in Q3 2021).

Only 11% of respondents expect the demand to deteriorate (9% in Q3 2021).

The index has shifted from -10 (Q1 2021) via 50 (Q3 2021) to 26.

Figure 3

Demand for office space

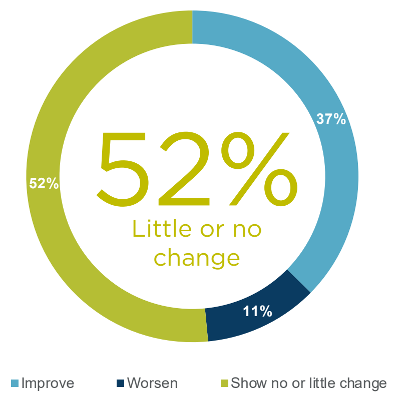
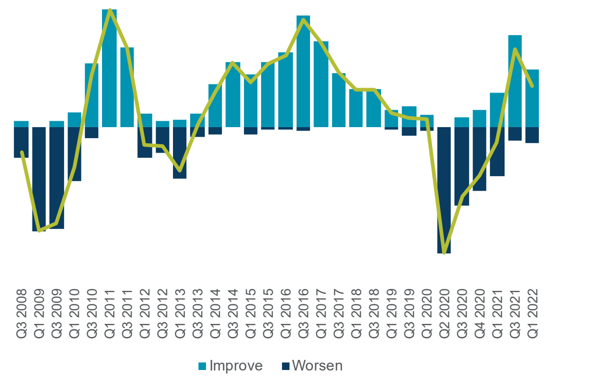


Figure 3

Demand for office space



Less optimism towards retail occupier demand

The optimistic sentiment towards retail seen in the last survey seems to have been curtailed by the global supply chain issue and rising inflation. Only 17% of respondents (down from 50% in Q3 2021) now believe in an improved occupier demand in the sector. The majority of respondents believe that the demand will remain unchanged, while almost a third (31%, up from 27% in Q3 2021) expect the demand to worsen.

The index has returned to negative territory, from 23 (Q3 2021) to -14.

Figure 4

Demand for retail space

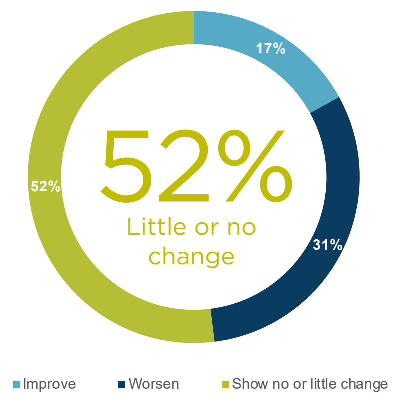
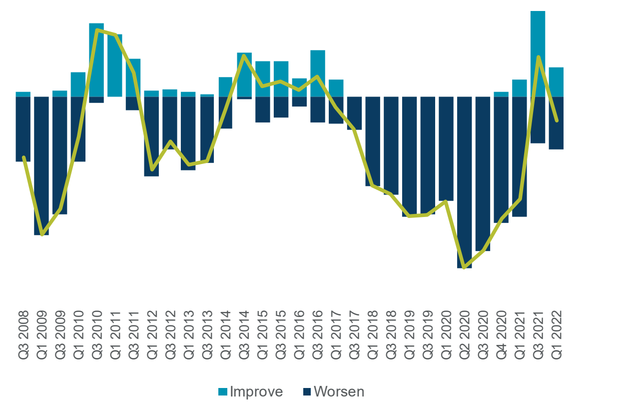


Figure 5

Demand for retail space



Occupier Demand - Logistics/Industrial

Industrial/logistics market expected to continue positive momentum

Occupier demand for industrial/logistics space is expected to continue its positive momentum in the beginning of 2022. More than a half of respondents believe in further improvement in market demand, while remaining 42% expects it to stabilise.

For the third straight survey, no respondent expects the demand to worsen.

Index has decreased slightly by 11 points, from 69 (Q3 2021) and is currently at 58.

Figure 6

Demand for logistics/industrial space

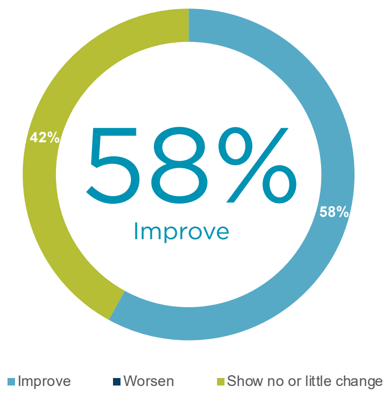
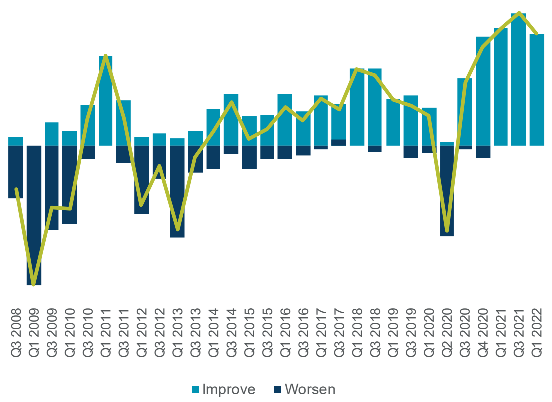


Figure 7

Demand for logistics/industrial space



“Occupier demand for industrial/logistics space is expected to continue its positive momentum in the beginning of 2022”

Yield Development - Office

Compression of office yields continued in the last six months...

61% of respondents have experienced compressing office yields in Q1 2022, a number similar to the one seen in the last survey (57% in Q3 2021). Around a third (36%) of respondents believe the yields have remained unchanged, while only 3% believe that the yields have decompressed (down from 9% in Q3 2021).

The index has taken a positive downturn at -58 compared to Q3 2021 (-49), and Q1 2021 (-3).

Figure 8

Office yield, last six months

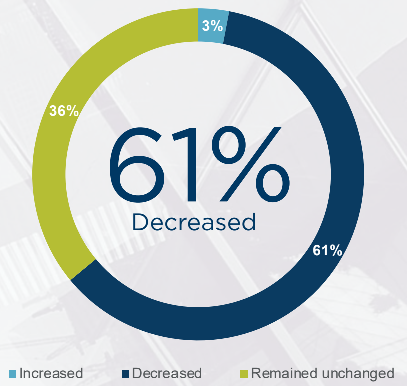
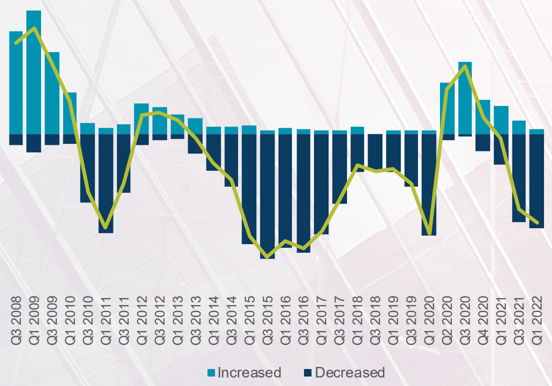


Figure 9

Office yield, last six months



...with the majority of the responding investors expecting yields to stabilise

A clear majority (82%) of respondents believe in stable office yields over the coming 6 months. 15% of respondents believe in further compression, while only 3% expect the office yields to decompress (down from 9% in Q3 2021).

The index value remained unchanged from Q3 2021 at -12.

Figure 10

Office yield, coming six months

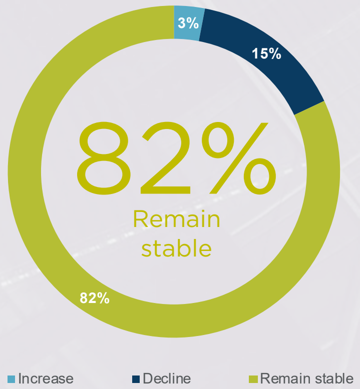
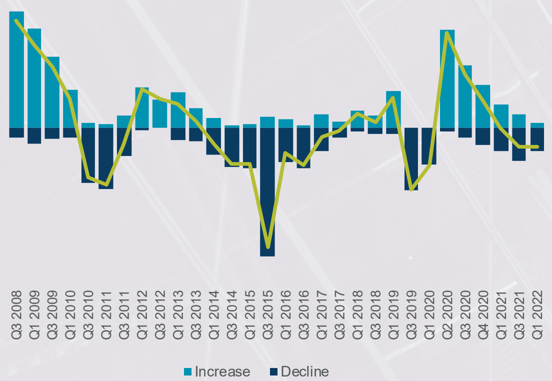


Figure 11

Office yield, coming six months



Yield Development - Retail

Positive views on the development of retail yields...

Compared to the last survey, the respondents seem to have a more optimistic view of the retail yields. A large group of respondents (38%) believe the yields to have decreased in the second half of 2021, while only 12% believe the yields to have increased. The majority of respondents say that they have experienced no yield shift at the end of 2021.

The index value is visibly more positive, from 11 (Q1 2021) to -27.

Figure 12

Retail yield, last six months

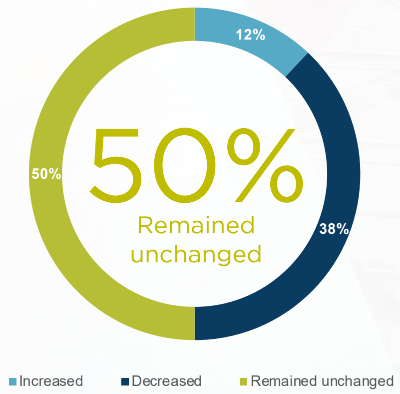
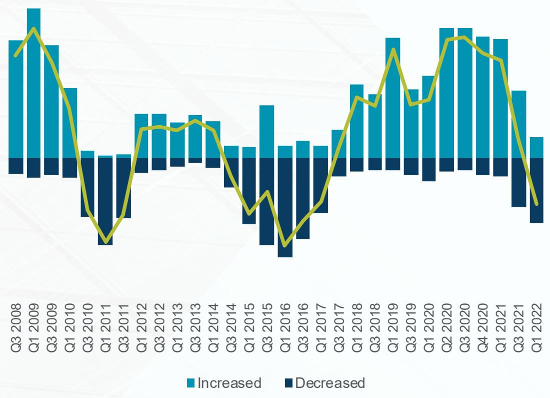


Figure 13

Retail yield, last six months



... and a stable outlook ahead

Responding investors predict a stable outlook (55%) for retail yields over the coming six months, with only 15% predicting a decompression. 30% of respondents now believe that yields will decline.

The outlook for the coming six months mirrors the one from the last survey.

Figure 14

Retail yield, coming six months

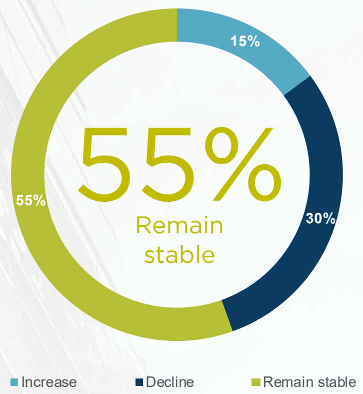


Figure 15

Retail yield, coming six months

Yield Development - Logistics & Residential

"The optimistic mood towards logistics and industrial is persistent"

Logistics/industrial yields expected to continue compressing

The optimistic mood towards logistics/industrial segment is persistent. 38% of the responding investors bet on declining industrial/logistic yields, an even larger share (58%) of responders predict the yields to stabilise over the coming six months. Only 4% of respondents are more pessimistic about the future, which represents a slight improvement over the last survey (8%).

The index value remains low at -33, a slight increase when compared to Q3 2021 (-39).

Figure 16

Yields Logistics/industrial, coming six moths

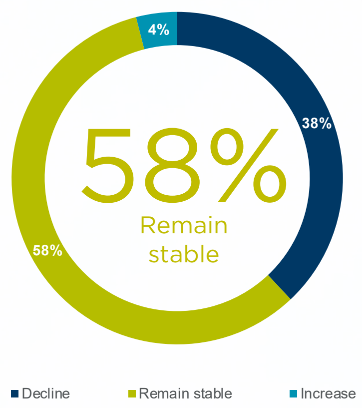


Figure 17

Yields Logistics/industrial, coming six moths

Stable outlook for residential yields

When asked about residential yields, a clear majority (70%) of respondents expect stable yields, while 22% expect the yields to further decrease. Only 7% believe in yield decompression, a slight increase from the previous survey (3%).

The index value for Q1 2022 is -15 compared to -39 in Q3 2021.

Figure 18

Yields Residential (multi-family), coming six months

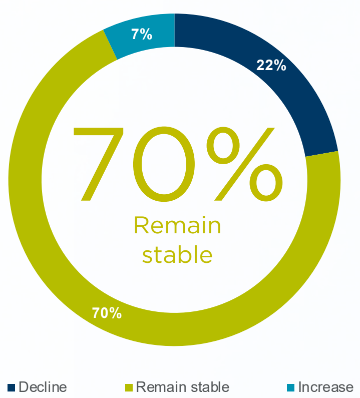
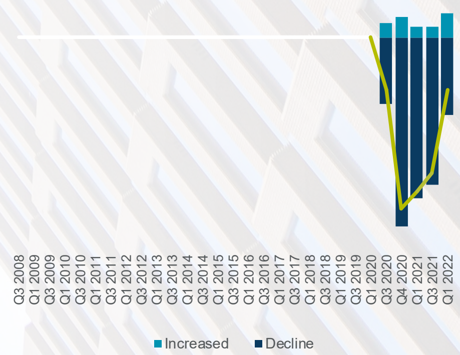


Figure 19

Yields Residential (multi-family), coming six months



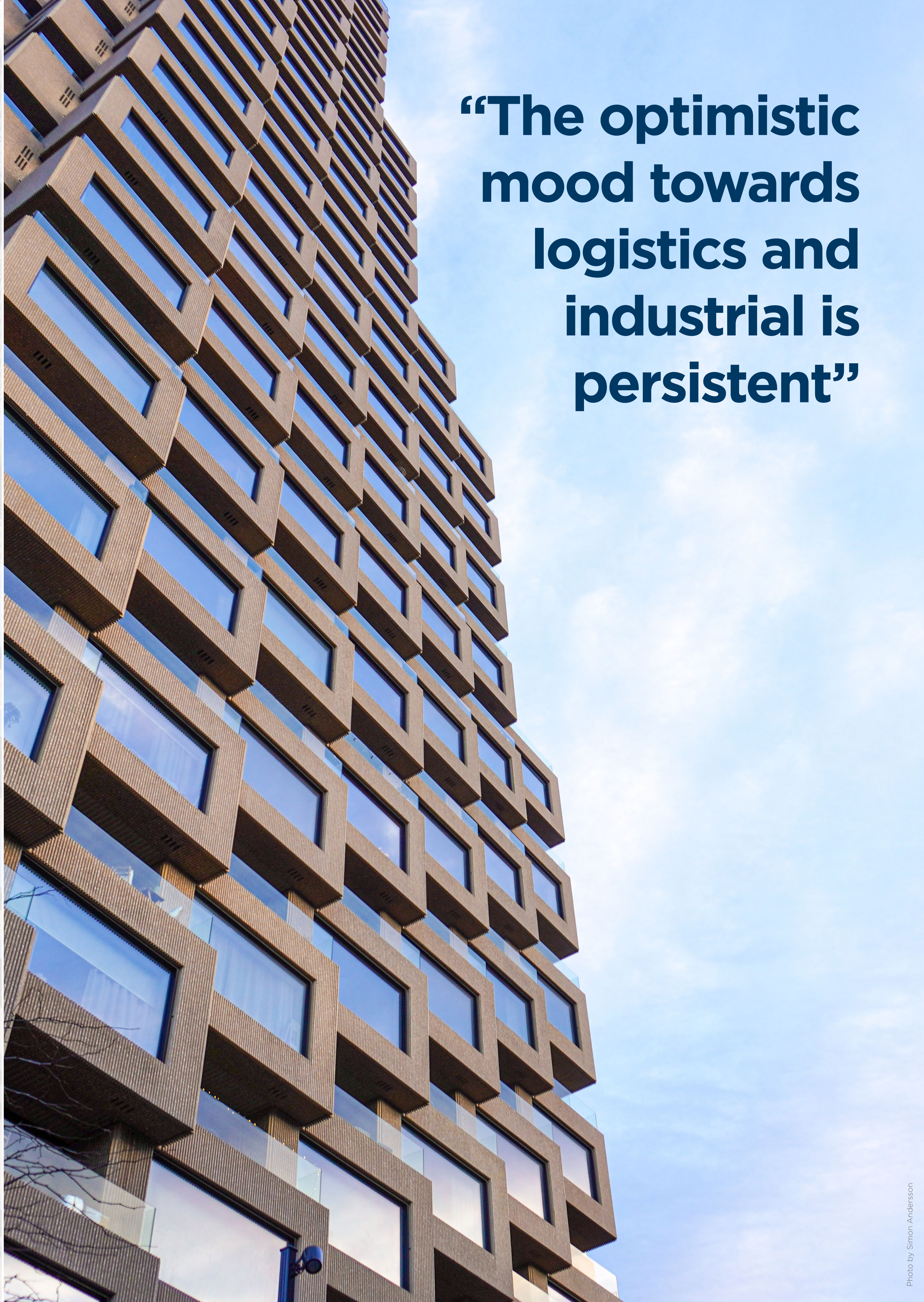


Photo by Simon Andersson

Investment Prerequisites

High investment activity expected to continue

Most of the responding investors (78%) are looking to expand their portfolio, a slight decrease from the previous survey (87%). The share of respondents looking to be active, purchasing as well as selling, has slightly increased, from 13% (Q3 2021) to 19%.

Only about 3% of investors aim at decreasing the size of their portfolio.

The index remains high at 75, a slight decrease from the last survey (87).

Figure 20

Acquisition/disposal, coming six months

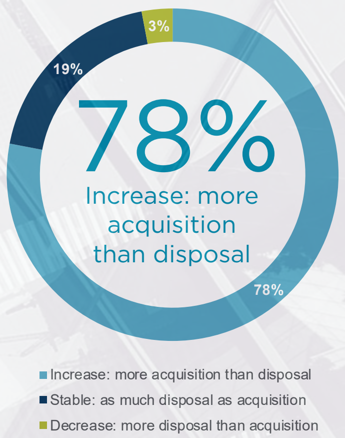
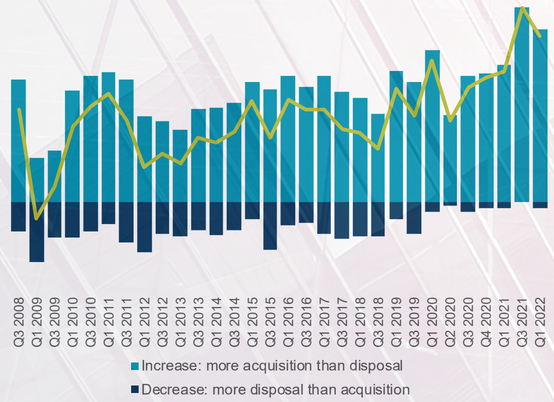


Figure 21

Acquisition/disposal, coming six months



Worsening financing conditions on the horizon

Considering global inflation and uncertainty around interest rate adjustments, responding investors expect the overall mood in the banks to deteriorate. 36% of respondents are expecting worsened financing conditions, a major increase comparing to 0% in Q3 2021.

A clear majority (60%) believe in unchanged conditions, while an optimistic minority (4%) expect improved conditions.

The index has sharply fallen, from 38 (Q3 2021) to -32.

Figure 22

Financing, coming six months

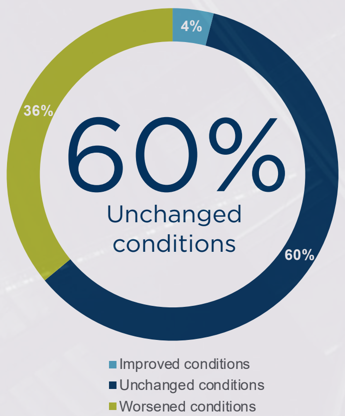
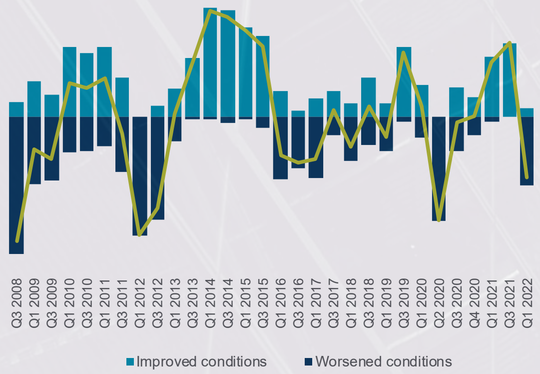


Figure 23

Financing, coming six months



Value Development

Investors continued optimism about value development

The optimism about portfolio value development continues in the beginning of 2022, with 75% of participants expecting the values of their portfolios to improve. None of the respondents indicated expectations that the value of their portfolio will deteriorate, while 25% expect it to remain unchanged.

The index has decreased slightly from 87 (Q3 2021) to 75.

Figure 24

Portfolio value development, coming six months

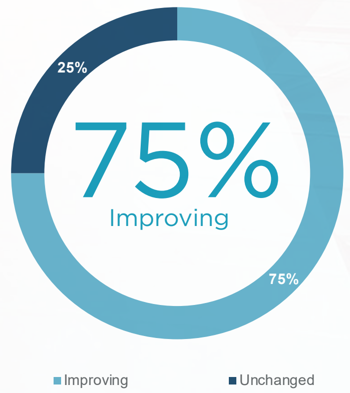
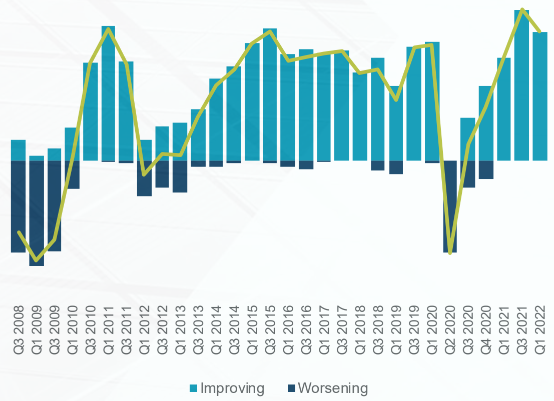


Figure 25

Portfolio value development, coming six months



Initial market yields seen as a main driver for overall value

The development of yields is now seen as a main drive of the overall value growth by the majority of respondents, while rental development remains the second most important factor. Multiple respondents have also stressed the importance of vacancy development.

Logistics regains top place in investor confidence

Logistics is once again seen as a segment set to perform best in the coming six months. With strong development pipeline and high demand driven by the booming e-commerce sector, logistics continues to attract investors. Offices and public properties are also perceived as potential strong performers.

Figure 26

Most important influencing factor, value development

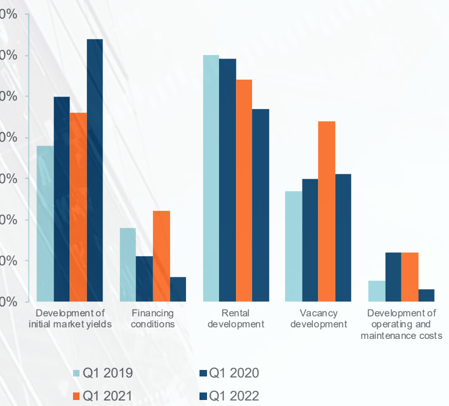
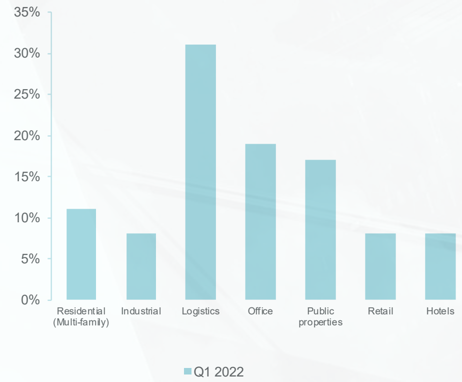


Figure 27

Which segments do you believe will perform best in the coming six months?



Sustainability

Positive attitude towards sustainability

18 months has passed since our first sustainability-focused survey. At the end of 2020, 14% of respondents were not considering sustainability when investing, this number has shrunk to 3% just one year later, and the latest survey shows that all of the respondents are now considering sustainability when investing.

The share of respondents that are not considering it to be of importance has also gone down, from 9% (Q3 2021) to just 3%. At the same time the share of responding investors willing to pay a premium for sustainability classification remained unchanged at 82%.

Figure 28

Considering sustainability classifications investing in real estate

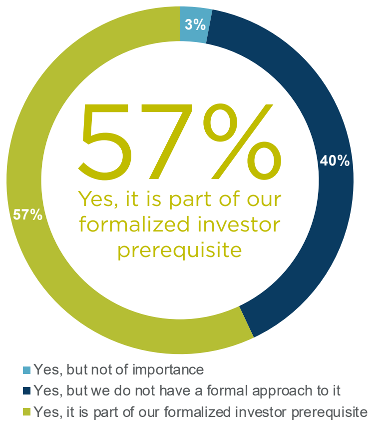


Figure 29

Considering sustainability classifications investing in real estate

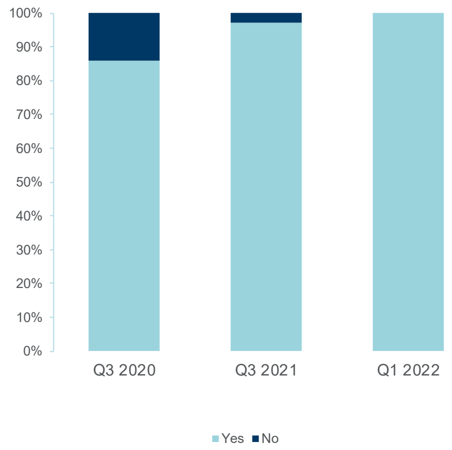


Figure 30

Are you willing to pay premium for high sustainability classification?

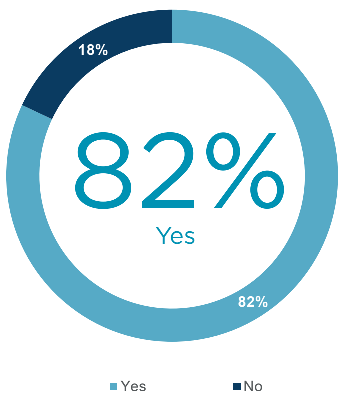
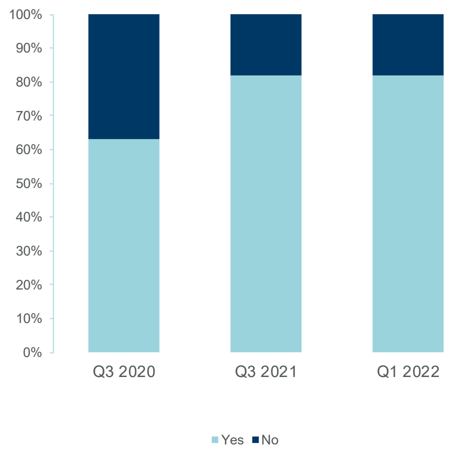


Figure 31

Are you willing to pay premium for high sustainability classification?



Alternative Investments

Bonus: Inflation expected to have a limited impact on the real estate market...

In this edition, we decided to ask investors about their views on the rising inflation. Only 17% of respondents have indicated that inflation will have little to no impact on the property market. While a clear majority of 83% expect the inflation to impact the market, only 3% of respondents believe that impact to be strong. Nonetheless, when asked about a likely potential solution to combat the rising prices – increase of the interest rates, 84% of respondents indicated they perceive it as a risk when investing.

...however, likely resulting increase of the interest rates seen as a risk

Figure 32

Do you think that an increased inflation rate will impact property prices in the following 12 months?

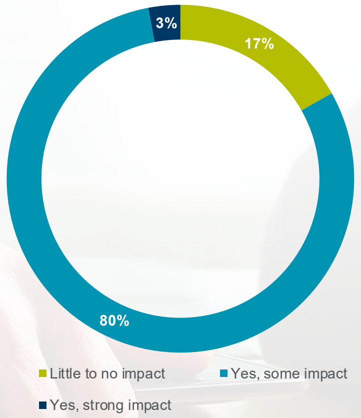
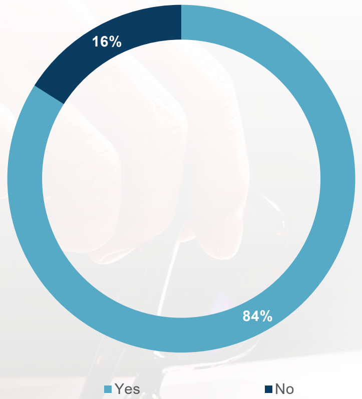


Figure 33

Considering a likely increase of the interest rates in the following 12 months as a risk when investing?



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Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in 400 offices and 60 countries. In 2020, the firm had revenue of $7.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow Cushman & Wakefield on LinkedIn

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