CUSHMAN & WAKEFIELD

PROPERTY INVESTOR CONFIDENCE INDEX

Sweden

Q1 2023

Photo by Ali Arakan

CONTINUED UNCERTAINTY IN THE SWEDISH REAL ESTATE MARKET AT THE BEGINNING OF 2023

Thanks to a record-breaking first half of the year, the total investment volume has amounted to nearly SEK 200 billion in 2022, making it the fourth largest annual volume on record. Transactions representing a quarter of the investment volume were conducted within the industrial sector. Residential was the second largest sector capturing 23% of the total volume, followed by office with the 17% share. 2022 has seen less activity from the international investors, compared to the last five years, with a little over 80% of the volume comprised of transactions conducted by Swedish purchasers.

Following a tumultuous second half of 2022, the latest edition of our Investor Confidence Survey manifests continued uncertainty on the Swedish real estate market. The last year has seen many challenges rising in the property markets around the world, a situation which is expected to continue throughout 2023. Survey results show a negative view on the occupier demand across the major segments, with stable/deteriorating demand expected in the logistic/industrial and office segments, and a deteriorating demand for retail. Despite the looming challenges, investors seem to be undeterred by the negative market sentiment and plan to expand their portfolios further. A yield decompression has been recorded in the past quarter and is expected to continue in the coming six months across all the sectors. However a large share of investors believe the yields for logistics/industrial and retail segments will begin to stabilise in the coming six months.

This edition of the survey aims to explore which real estate segment is considered to be the most impacted by the changing market conditions, which segment is set to face the highest vacancy risk, and which segment is considered to have the best potential for rental growth.

You are always welcome to reach out with any inquiries.

Have a wonderful spring!

Best regards,

Michal Toporowski
Senior Research Analyst, Sweden

"THE LATEST EDITION OF OUR INVESTOR CONFIDENCE SURVEY SHOWS CONTINUED UNCERTAINTY ON THE SWEDISH REAL ESTATE MARKET."

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 can find the results of the latest survey, conducted 15-21 of February 2023.

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:

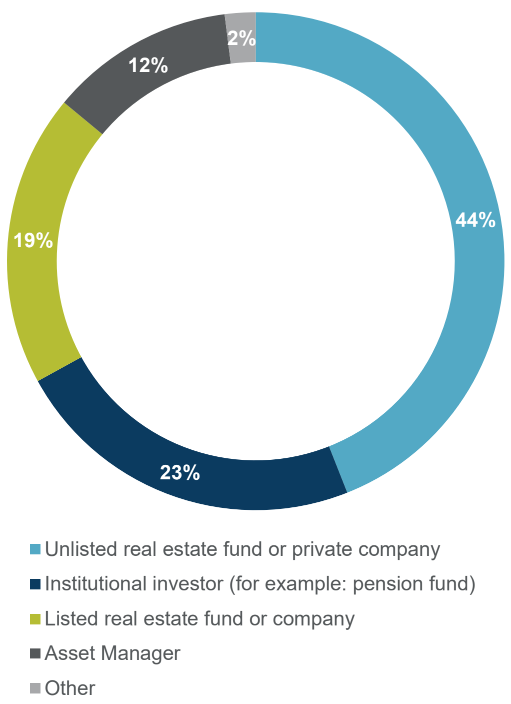
1. The results from the latest survey (pie chart)

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

Distribution of respondents



Occupier Demand - Office & Retail

Split expectations on the demand for office space in the coming six months

A slight majority (54%) of respondents expect stable short-term demand for office space, while the remaining 46% expect the demand to worsen. For the second survey in the row no respondent has indicated expectations of improved demand.

The index has shifted from 26 (Q1 2022) via -40 (Q3 2022) to -46.

Figure 3

Demand for office space

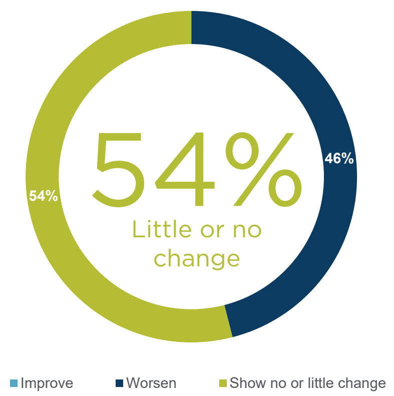
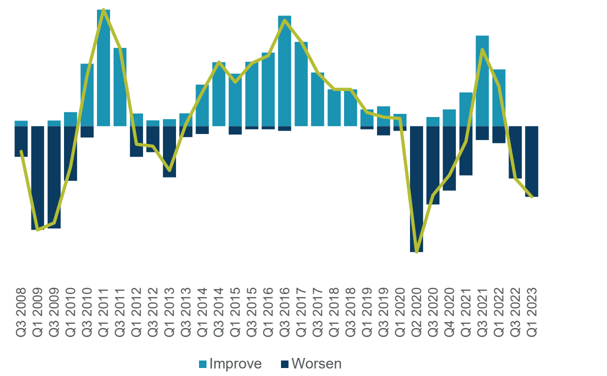


Figure 3

Demand for office space



Negative outlook on the retail occupier demand continues

Retail sector is expected to be heavily impacted by the worsening macroeconomic outlook. A clear majority (79%) of respondents indicated expectations of worsening occupier demand, while only 21% of respondents believe it to remain stable. No respondent has indicated expectations of improving demand in the sector.

The index has shifted slightly, from -81 (Q3 2022) to -79.

Figure 4

Demand for retail space

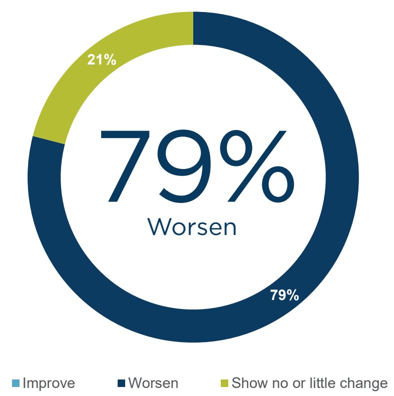
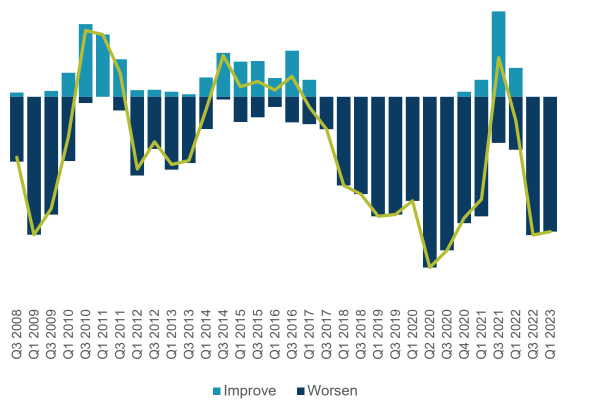


Figure 5

Demand for retail space



Occupier Demand - Logistics/Industrial

THE MAJORITY OF RESPONDENTS BELIEVES THAT THE DEMAND WILL REMAIN UNCHANGED IN THE COMING SIX MONTHS.

Mixed outlook on industrial/logistics demand

The majority (57%) of respondents believes that the demand will remain unchanged in the coming six months. Nearly a third of respondents (30%) indicated expectations of worsening demand, while a hopeful minority (13%) expects the demand to improve.

Index has declined from -12 (Q3 2022) to -17.

Figure 6

Demand for logistics/industrial space

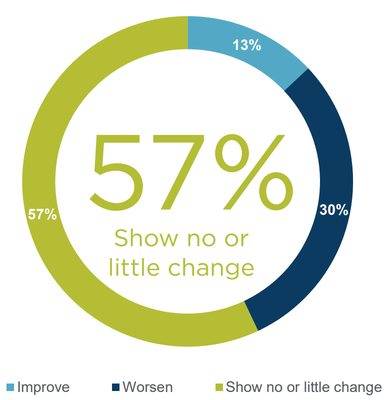
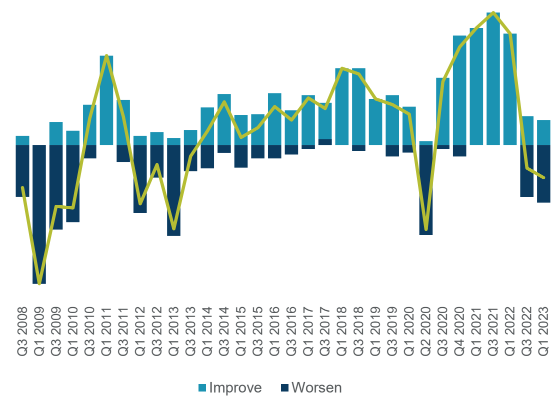


Figure 7

Demand for logistics/industrial space



Yield Development - Office

Office yields continued to increase in the latter half of 2022...

95% of respondents indicated decompression of office yields in Q1 2023, a continued sentiment from the last survey (70% indicating a compression in Q3 2022). A small majority believes the yields to have declined, while no respondent has indicated stable yields.

The index has seen further increase in Q1 2023 from 64 (Q3 2022) to 90.

Figure 8

Office yield, last six months

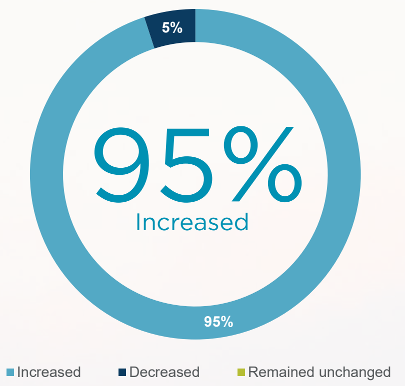
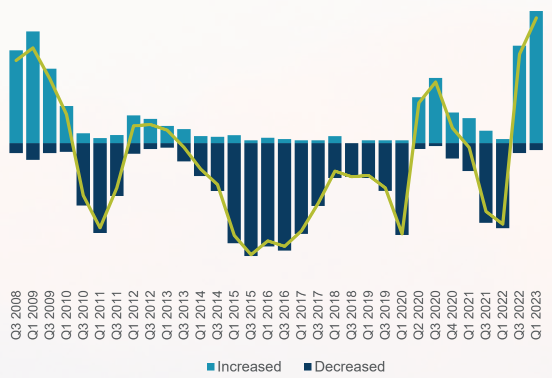


Figure 9

Office yield, last six months



...with the majority of the responding investors expecting it to continue in the coming six months

A clear majority (82%) of respondents believe in further decompression of office yields over the coming six months. 15% of respondents believe the yields will stabilise, while only 3% expect the office yields to compress.

The index has increased slightly from 76 (Q3 2022) to 79.

Figure 10

Office yield, coming six months

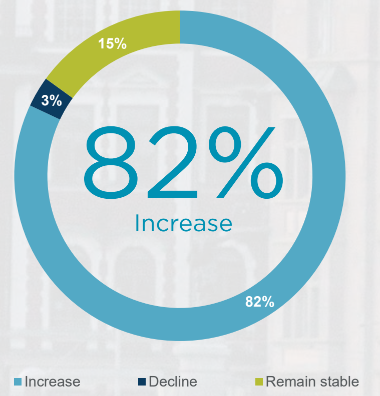
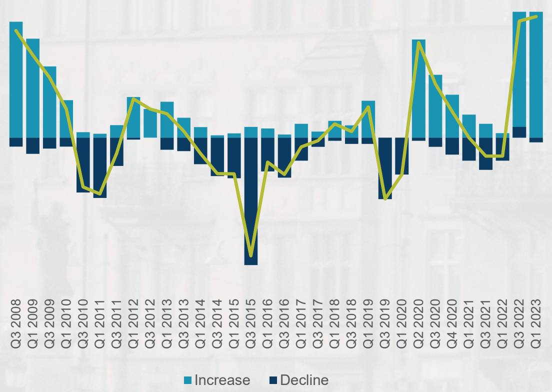


Figure 11

Office yield, coming six months



Yield Development - Retail

Retail yields on the way up...

A substantial majority of respondents (86%) believe the yields to have increased in the second half of 2022, while only 3% believe the yields to have decreased. About a tenth of respondents report stable yields.

The index value has continued its upward shift from 63 (Q3 2022) to 83.

Figure 12

Retail yield, last six months

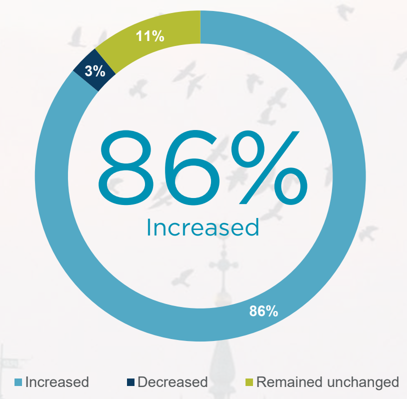
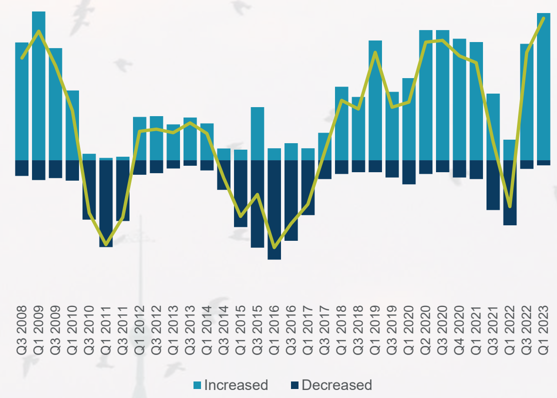


Figure 13

Retail yield, last six months



... with hopes of stabilisation on the horizon

Responding investors are split on the outlook for the retail yields. A slight majority (56%) predict a further deterioration over the coming six months, with only 6% predicting a compression. At the same time, nearly 40% of investors believe the yields will begin to stabilise.

The index value shifted from 72 (Q3 2022) to 50.

Figure 14

Retail yield, coming six months

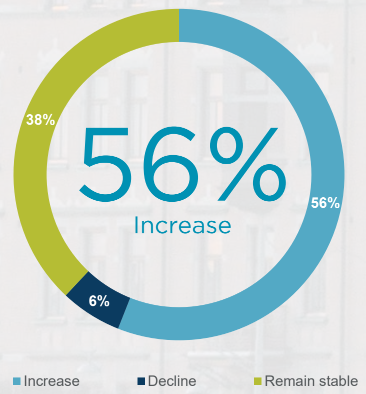
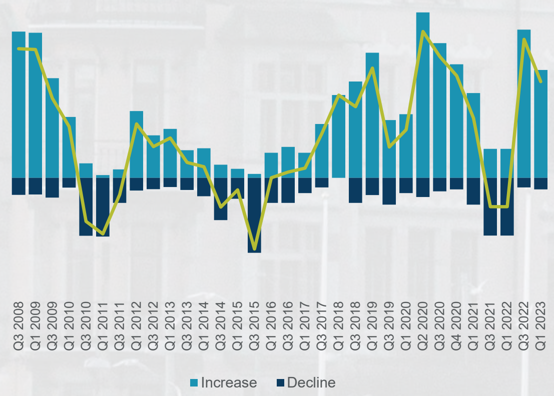


Figure 15

Retail yield, coming six months



Yield Development - Logistics & Residential

Investors slightly more optimistic on the logistics/industrial yields ...

The views on the logistics yields are split with equal share of respondents indicating stabilisation or further increase (a major shift from 83% indicating expected decompression in the last survey). Only about one in twenty investors expects the yields to decline.

The index value has declined from 78 to 45.

Figure 16

Logistics/industrial yield, coming six moths

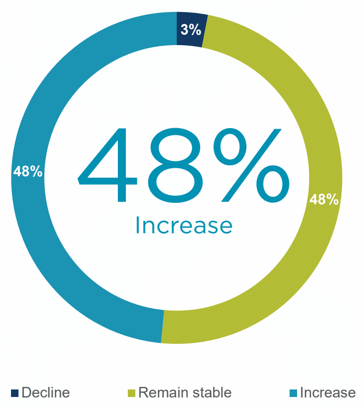
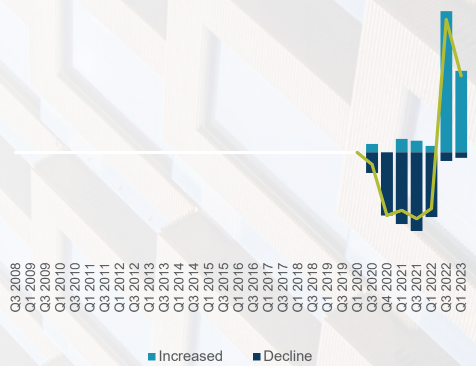


Figure 17

Logistics/industrial yield, coming six moths



...with continued pessimism on the residential yields.

When asked about residential yields, an overwhelming majority (83%) of respondents expect increasing yields, while only 9% expect the yields to decline. Only 9% of respondents believe the yields will stabilise.

The index value for Q1 2023 is 74 compared to 82 in Q3 2022.

Figure 18

Residential (multi-family) yield, coming six months

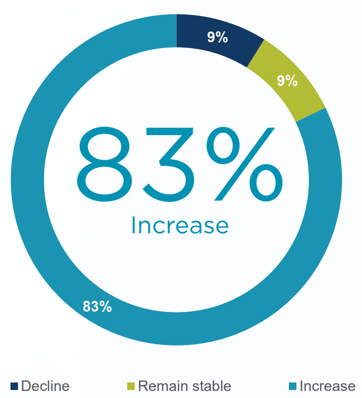
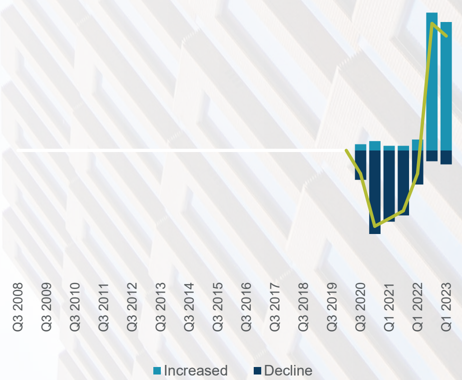
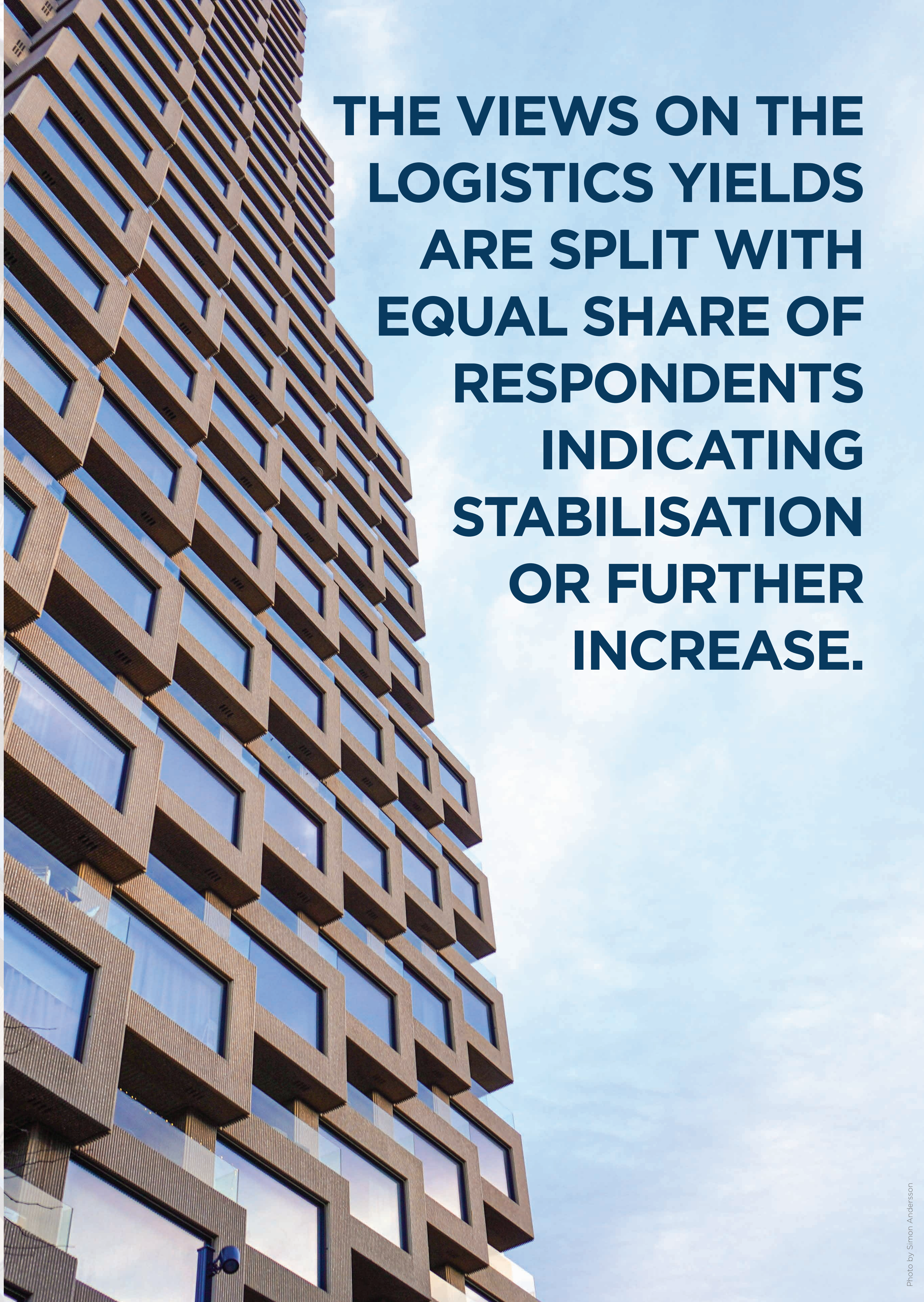


Figure 19

Residential (multi-family) yield, coming six months





THE VIEWS ON THE LOGISTICS YIELDS ARE SPLIT WITH EQUAL SHARE OF RESPONDENTS INDICATING STABILISATION OR FURTHER INCREASE.

Photo by Simon Andersson

Investment Prerequisites

Continued willingness to increase portfolio size

Despite a more challenging market, a clear majority of the responding investors (74%) are looking to expand their portfolio, an increase from the previous survey (58% in Q1 2022). The share of respondents looking to be active, purchasing as well as selling, has slightly decreased, from 27% (Q3 2022) to 21%. Only about 5% of investors aim at decreasing the size of their portfolio.

The index rose to 69 in Q3 2022 when compared the last survey (44).

Figure 20

Acquisition/disposal, coming six months

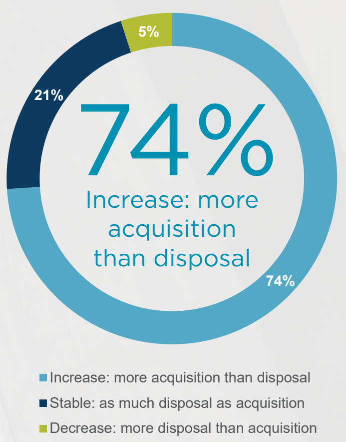
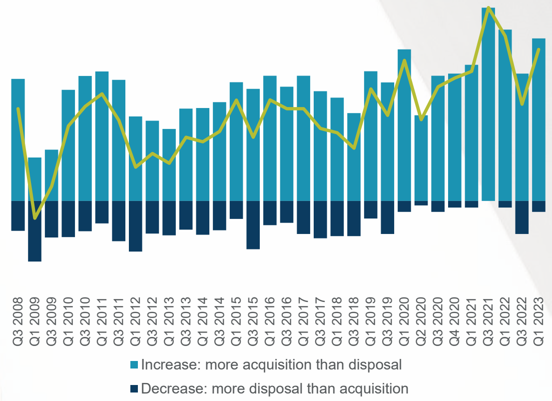


Figure 21

Acquisition/disposal, coming six months



Investors slightly less pessimistic towards financing conditions

Despite the worsening macroeconomic outlook, the share of responding investors expecting the overall mood in the banks to deteriorate has fallen from 75% (Q3 2022) to 47%. At the same time the minority expecting improving financing conditions has risen from 2% to 16%. The investors expecting unchanged conditions amounted for some 37% of the responses.

The index has increased, from -73 (Q3 2022) to -32.

Figure 22

Financing, coming six months

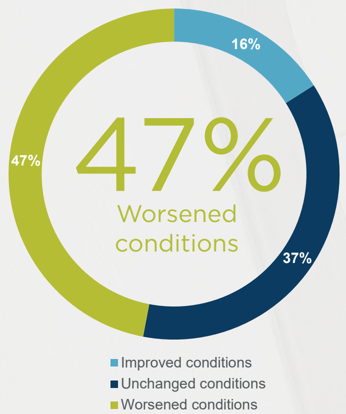
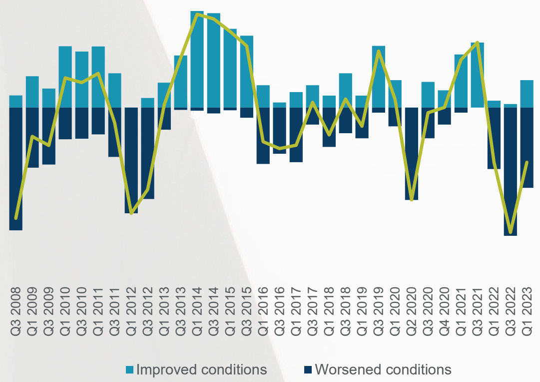


Figure 23

Financing, coming six months



Value Development

Investors less negative on portfolio values

Investors indicate a slightly less pessimistic view on their portfolio value development in the beginning of 2023, with 56% of participants expecting the values of their portfolios to remain unchanged. Only 2% believe in the improvement of the value of their portfolio, while 41% expect it to worsen.

The index has increased from -62 (Q3 2022) to -39.

Figure 24

Portfolio value development, coming six months

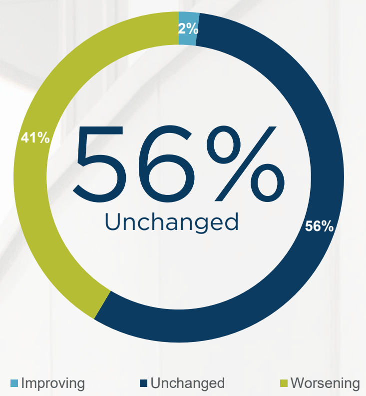
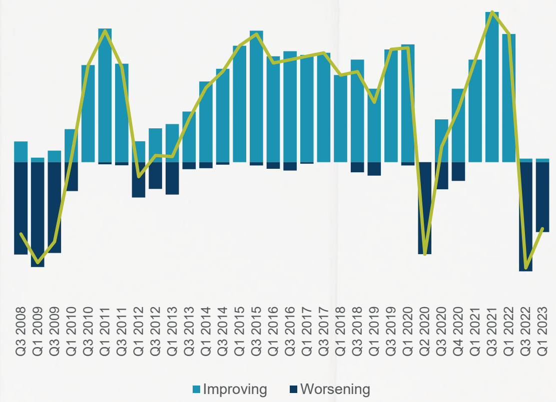


Figure 25

Portfolio value development, coming six months

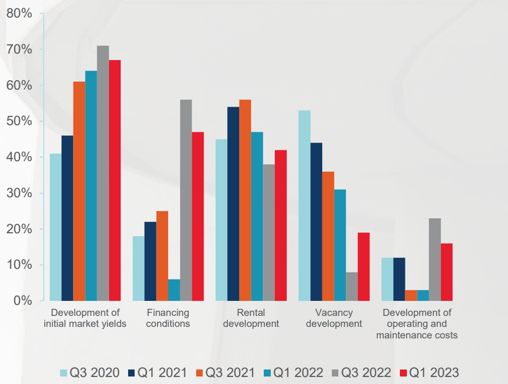


Initial market yields continues to be seen as a main driver for overall value

The development of yields continues to be seen as the main drive of the overall value growth by the majority of respondents, while the importance of financing conditions has remained the second most important factor.

Figure 26

Most important influencing factor, value development

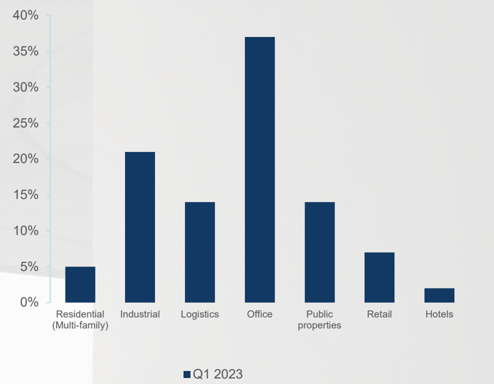


Office expected to cope best in a more challenging market

The office segment is projected to perform best in the coming six months. Limited new supply in attractive locations is expected to keep vacancies low and continue to attract investors. Industrial, logistics and public properties are also perceived as potential strong performers.

Figure 27

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



Sustainability

Positive attitude towards sustainability

Despite the deteriorating macroeconomic outlook, sustainability continues to be a major factor in investment decisions. All of the participating investors indicated that they consider sustainability when investing. The share of respondents having sustainability as a formalised investment prerequisite has also increased. On the other hand, while investors continue to show their willingness to pay a premium for high classifications, about a quarter indicated that they are unwilling to do so, which is a slight increase when compared to the last year's surveys.

Figure 28

Considering sustainability classifications investing in real estate

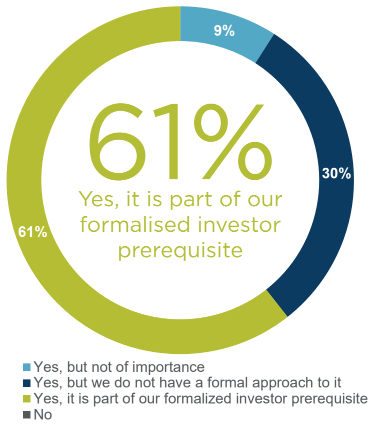


Figure 29

Considering sustainability classifications investing in real estate

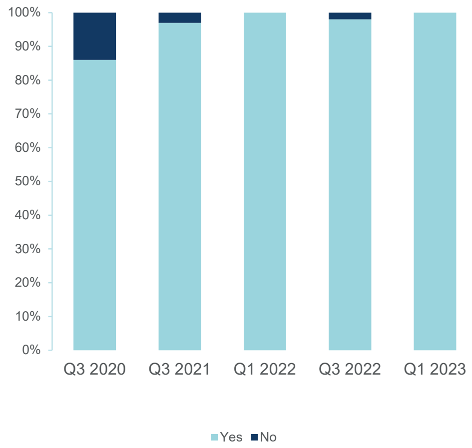


Figure 30

Are you willing to pay premium for high sustainability classification?

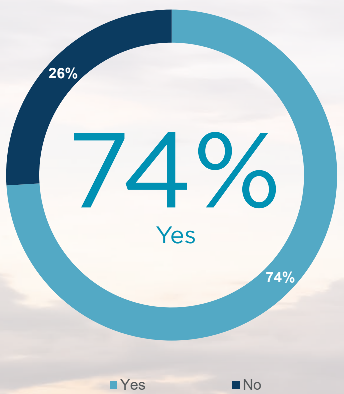


Figure 31

Are you willing to pay premium for high sustainability classification?

Changing Market Conditions

Newly-built residential assets are considered to be the most affected by the challenging market outlook

In this edition, we asked investors which sectors are expected to face the strongest headwinds, and which are positioned to weather the storm best. When asked about the sector that has seen the largest yield shift, a clear majority (68%) of investors indicated newly-built residential, followed by prime logistics (16%). When asked about the sector facing the highest vacancy risk two thirds of investor indicated shopping centres followed by high street retail (26%). Finally, when asked about the sector having the best potential for rental growth the majority of investors indicated logistics around Stockholm (42%) and offices in Stockholm CBD (35%).

Figure 32

In your opinion, which property segment has seen the highest increase in prime yield (in basis points) in the past six months?

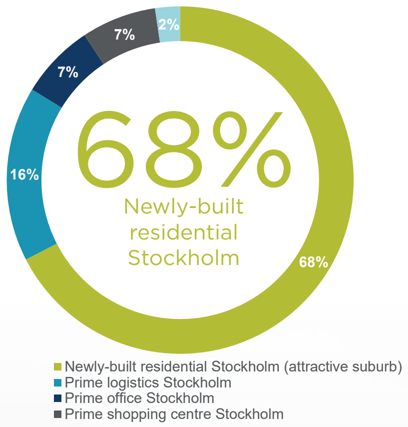


Figure 33

In your opinion, which property segment faces the highest vacancy risk resulting from the worsening macroeconomic outlook?

Figure 34

In your opinion, which property segment is likely to see the strongest rental development in the coming six months?

About Cushman & Wakefield

About Cushman & Wakefield

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 52,000 employees in over 400 offices and approximately 60 countries. In 2022, the firm had revenue of $10.1 billion across core services of property, facilities and project management, leasing, capital markets, and valuation and other services. To learn more, visit www.cushmanwakefield.com or follow Cushman & Wakefield on LinkedIn

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