CUSHMAN & WAKEFIELD

PROPERTY INVESTOR CONFIDENCE INDEX

Sweden

Q3 2023

Photo by Sebastian Pichler

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A HUSHED INVESTMENT MARKET AMIDST CHALLENGING PROSPECTS IN THE LATTER PART OF 2023

After experiencing the slowest first half-year in over a decade, with the investment volume falling short of SEK 50 billion, the Swedish investment market remains remarkably quiet in Q3, with the transaction volume expected to amount to less than SEK 20 billion. So far this year, the residential and industrial segments have contributed the most, comprising 27% and 23% of the total volume, respectively, followed by the office segment with an 18% share. One significant trend in 2023 is the subdued purchasing activity from listed property companies, as their share of the total volume has decreased from 23% last year to just around 11% in the first half of the year.

This report, compiled with insights gathered from September 6th to 13th, paints a rather bleak outlook for the upcoming six months. Survey results reveal a mixed perspective on occupier demand across major segments. While demand is expected to remain stable within the logistics/industrial sector, it is projected to deteriorate in the retail sector, with opinions on office demand split. Furthermore, despite ongoing yield decompression since Q3 2022, the majority of investors anticipate this trend to persist across all major segments. Despite these challenges on the horizon, a slight majority of investors plans to expand their portfolios further. However, it's noteworthy that the share of respondents aiming to maintain their portfolio size has increased.

This edition of the survey delves into investors' expectations regarding vacancy development. As demand for decentralized offices weakens, we aim to understand investors' outlook on how Stockholm's office vacancy will evolve outside of the Inner City. Additionally, we explore their expectations for the overall vacancy rate within the logistics segment, especially in light of the unprecedented volume of speculative developments expected to enter the market this year.

You are always welcome to reach out with any inquiries.

Have a strong second half of 2023!

Best regards,

Michal Toporowski
Senior Research Analyst, Sweden

Photo by Vasily Kleymenov

"RESPONDENTS TO OUR INVESTOR CONFIDENCE SURVEY EXPECT MORE CHALLENGES TO COME IN THE LATTER PART OF THE YEAR"

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 6-13 of September 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:

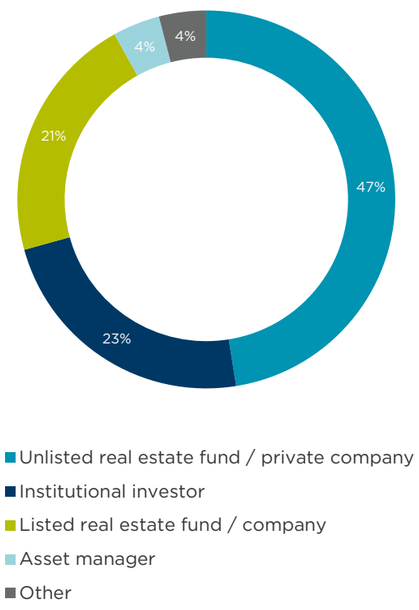
1. The results from the latest survey (pie chart)

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

The outlook for office occupier demand continues to be split, with majority of responding investors expecting worsening demand. This represents a slightly more negative sentiment when compared to the previous survey.

Figure 2

Demand Expectations for Office Space

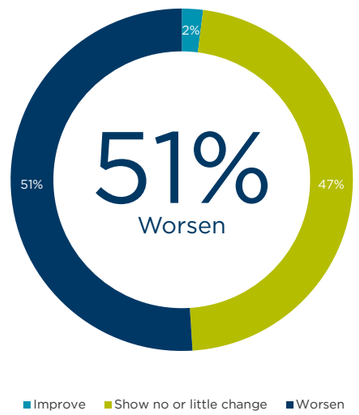
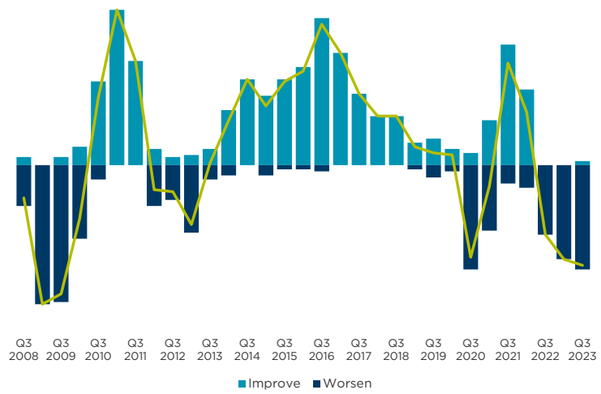


Figure 3

Demand Expectations for Office Space - Index



Investors paint a continued bleak outlook for the occupier demand for retail, matching the sentiment seen in the previous survey. Once again, no investor has indicated expectations of improving demand.

Figure 4

Demand Expectations for Retail Space

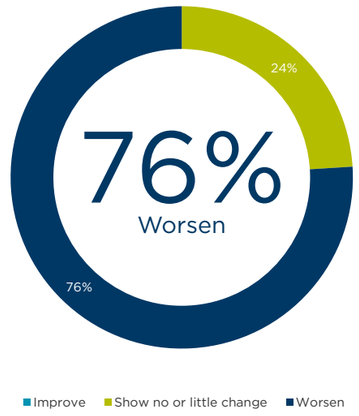
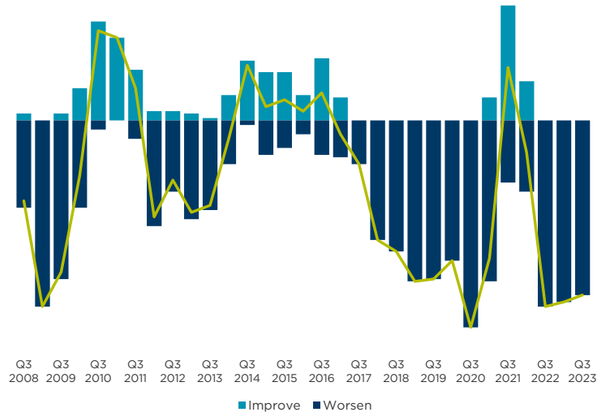


Figure 5

Demand Expectations for Retail Space - Index



OCCUPIER DEMAND - LOGISTICS/INDUSTRIAL

Responding investors widely anticipate stable occupier demand for logistics, consistent with the sentiment expressed in the previous survey. This reflects their confidence in the segment's resilience.

Figure 6

Demand Expectations for Logistics/ Industrial Space

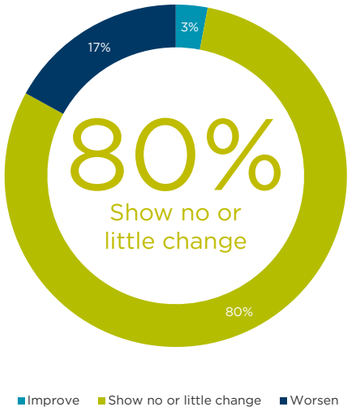
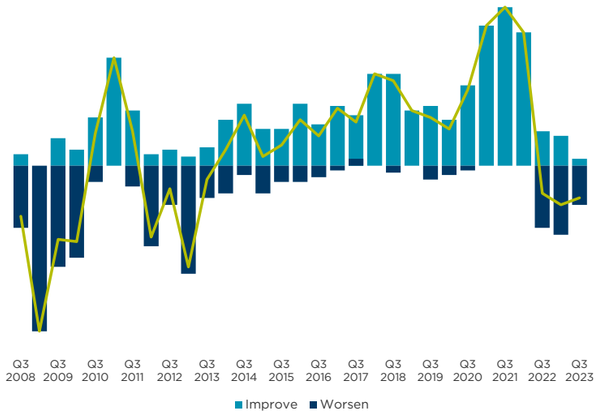


Figure 7

Demand Expectations for Logistics/Industrial Space - Index



WHILE DEMAND IS EXPECTED TO REMAIN STABLE WITHIN THE LOGISTICS/INDUSTRIAL SECTOR, IT IS PROJECTED TO DETERIORATE IN THE RETAIL SECTOR, WITH OPINIONS ON OFFICE DEMAND SPLIT.

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YIELD DEVELOPMENT - OFFICE

Once again, investors overwhelmingly believe that office yields have increased in the past six months, aligning with the sentiment expressed in the previous two surveys and highlighting strong correction in the office segment...

Figure 8

Office Yield Development, Last Six Months

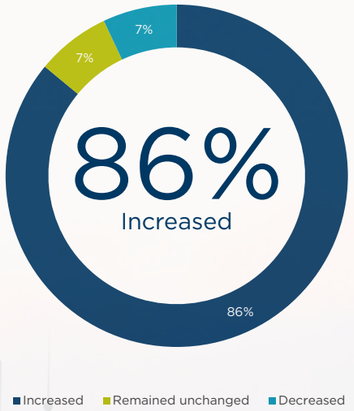
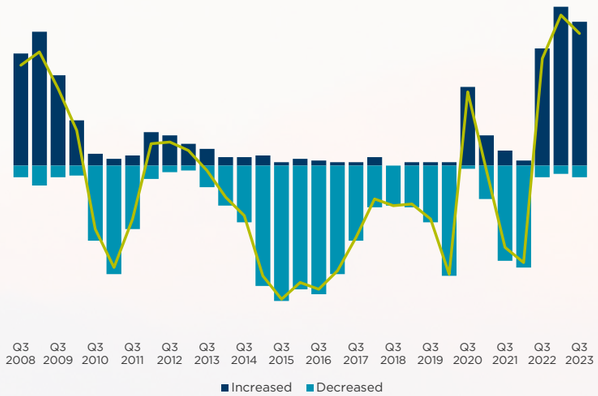


Figure 9

Office Yield Development, Last Six Months - Index



... with further correction expected in the coming six months, as a wide majority of investors indicate expectations of continued increase in the office yields.

Figure 10

Office Yield Expectations, Coming Six Months

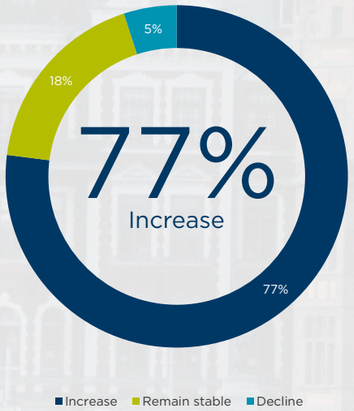
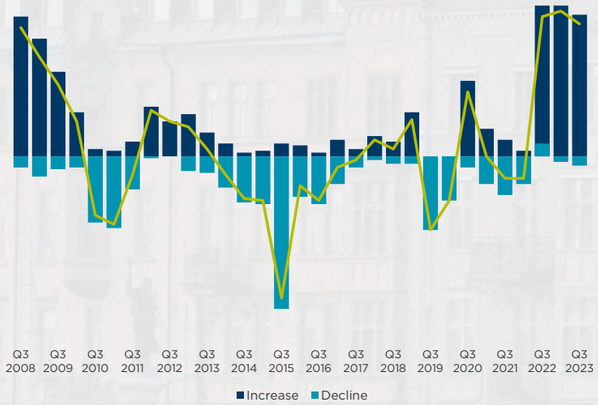


Figure 11

Office Yield Expectations, Coming Six Months - Index



YIELD DEVELOPMENT - RETAIL

Once more, investors widely hold the view that retail yields have risen over the past six months, consistent with the sentiment observed in the previous two surveys, signaling a continued market correction in the retail segment...

Figure 12

Retail Yield Development, Last Six Months

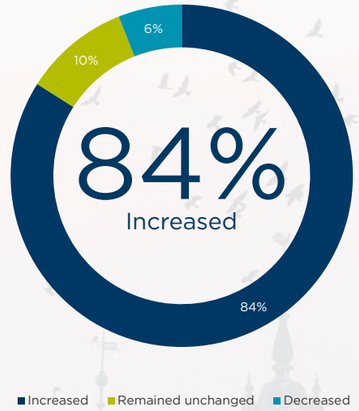


Figure 13

Retail Yield Development, Last Six Months - Index

... with a significant majority of respondents indicating expectations of further retail yields increase in the coming six months.

Figure 14

Retail Yield Expectations, Coming Six Months

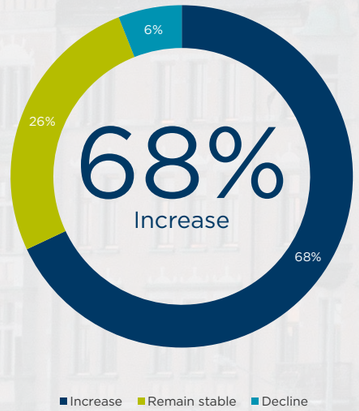


Figure 15

Retail Yield Expectations, Coming Six Months - Index

YIELD DEVELOPMENT - LOGISTICS & RESIDENTIAL

Investor sentiment regarding the development of logistics/industrial yields is divided, with a slight majority anticipating an increase, while the remaining portion anticipates stability in yields over the forthcoming six months.

Figure 16

Logistics/Industrial Yield Expectations, Coming Six Months

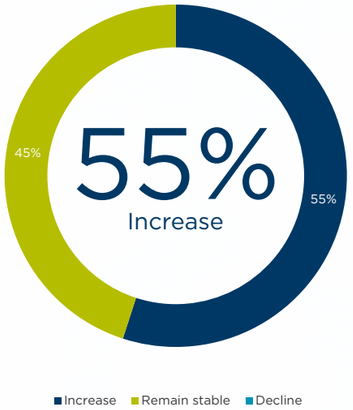
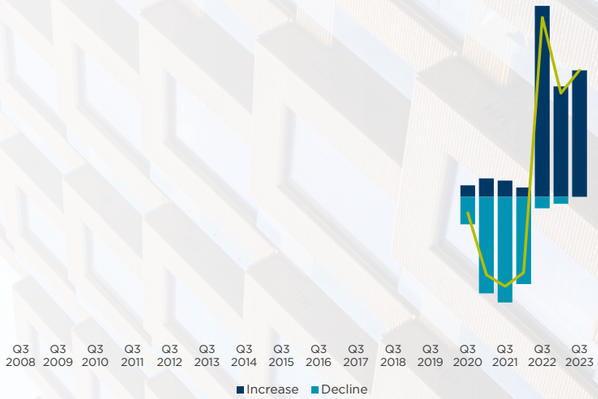


Figure 17

Logistics/Industrial Yield Expectations, Coming Six Months - Index



Responding investors paint a slightly less negative picture of the residential yield development, as share expecting the yield to remain stable has increased. However, a strong majority still expects the yield to increase.

Figure 18

Residential Yield Expectations, Coming Six Months

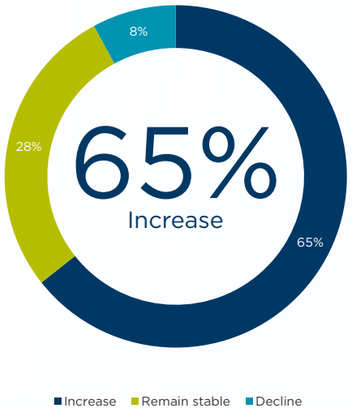
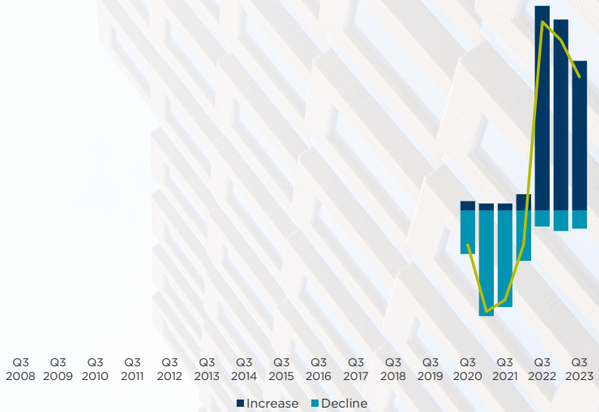
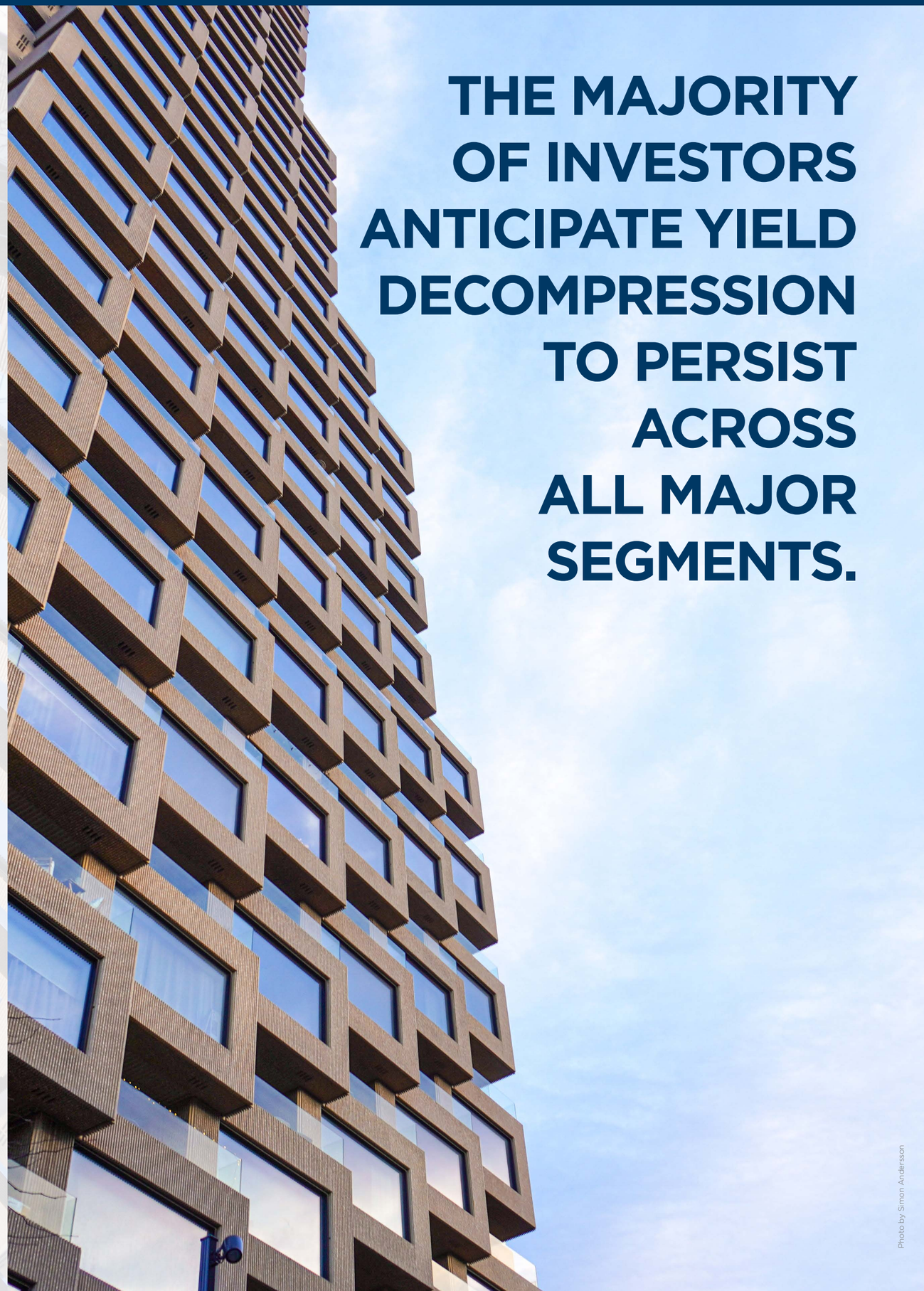


Figure 19

Residential Yield Expectations, Coming Six Months - Index





THE MAJORITY OF INVESTORS ANTICIPATE YIELD DECOMPRESSION TO PERSIST ACROSS ALL MAJOR SEGMENTS.

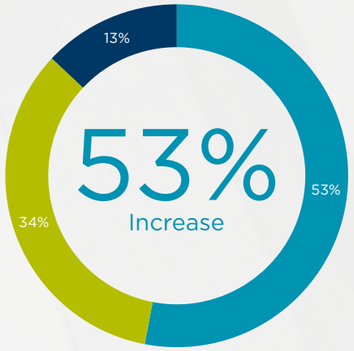
Photo by Simon Andersson

INVESTMENT PREREQUISITES

Investors appear to be exercising caution with acquisitions, as the percentage of respondents seeking to expand their portfolios has decreased. Concurrently, the proportion of investors aiming to maintain a stable portfolio size has increased.

Figure 20

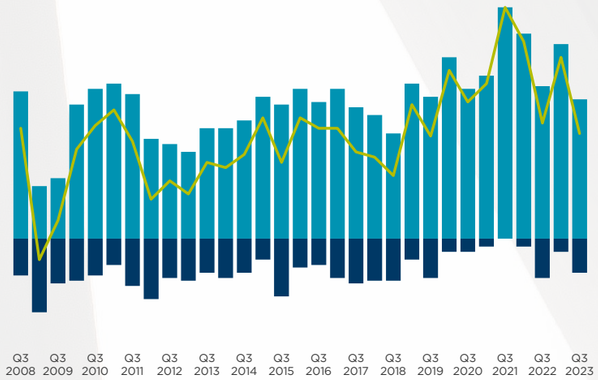
Portfolio Size Objective, Coming Six Months



- Increase: more acquisition than disposal
- Stable: as much disposal as acquisition
- Decrease: more disposal than acquisition

Figure 21

Portfolio Size Objective, Coming Six Months - Index

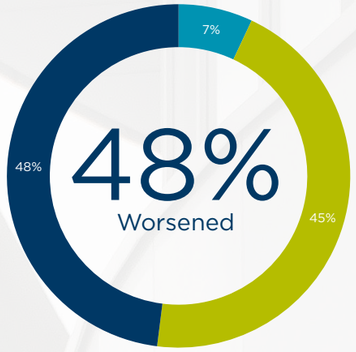


- Increase: more acquisition than disposal
- Decrease: more disposal than acquisition

The view on the future of financing conditions remains split, as similar shares of investors expects the terms to remain unchanged and worsen. At the same time the share of investors expecting improved conditions has halved, when compared to the previous survey.

Figure 22

Financing Condition Expectations, Coming Six Months



- Improved conditions
- Unchanged conditions
- Worsened conditions

Figure 23

Financing Condition Expectations, Coming Six Months - Index

- Improved conditions
- Worsened conditions

Photo by Jon Flobrant

VALUE DEVELOPMENT

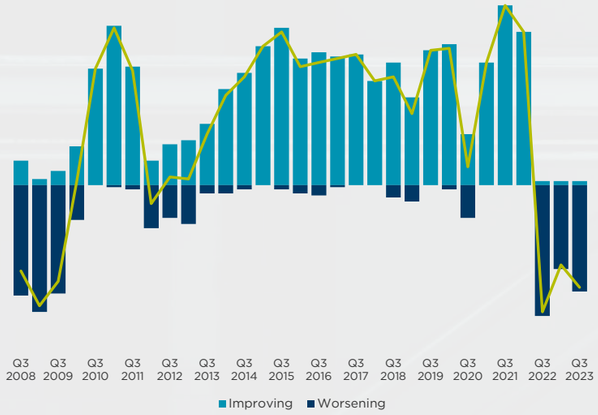
The outlook for portfolio value development continues to be negative, as over half of respondents indicate expectations of worsening portfolio values, with nearly half expecting it will remain unchanged.

Figure 24

Portfolio Value Development Expectations, Coming Six Months

Figure 25

Portfolio Value Development Expectations, Coming Six Months - Index



The majority of respondents still view yield development as the primary driver influencing the overall value of the portfolio, with financing conditions retaining their position as the second most significant factor.

Over the next six months, the industrial sector is expected to demonstrate the most robust performance, while office, logistics, and hotels are also seen as potential strong performers. Notably, hotels are making a comeback, rebounding from being viewed as having the least potential in previous surveys.

Figure 26

Most Important Portfolio Value Influencing Factors

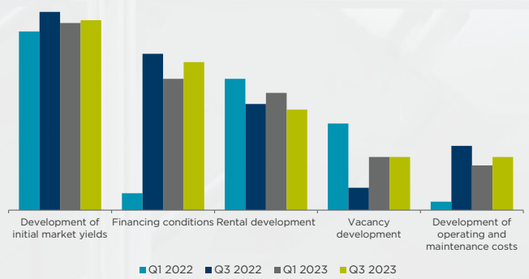


Figure 27

Segments with Potential to Perform Best, Coming Six Months

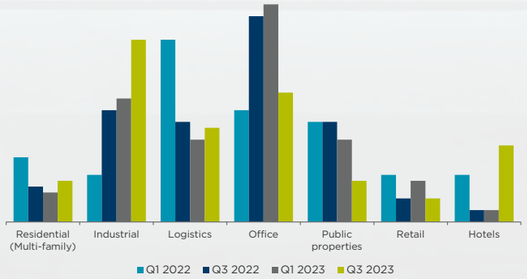


Photo by Marcin Borik

SUSTAINABILITY

Despite the challenging macroeconomic outlook, sustainability remains a significant consideration in investment decisions. Nearly every participating investor confirmed their commitment to considering sustainability in their investment strategies. Furthermore, there has been an uptick in the percentage of respondents who now have sustainability as a formalized investment requirement...

Figure 28

Do you consider sustainability classifications when investing in real estate?

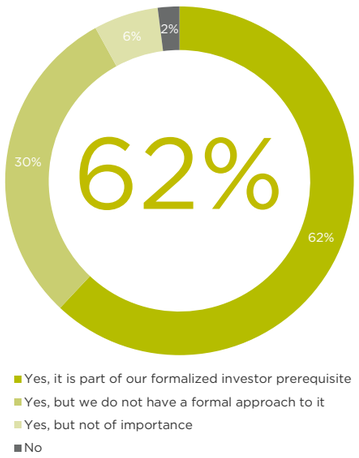
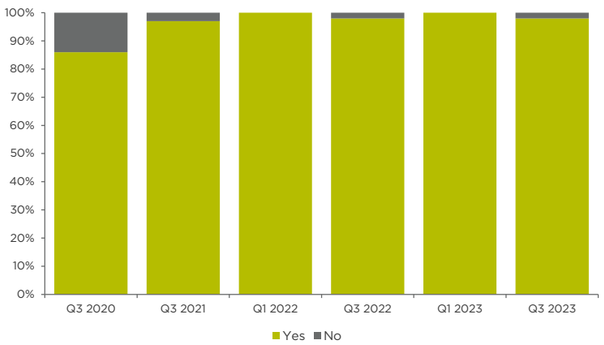


Figure 29

Do you consider sustainability classifications when investing in real estate?



...However, it's worth noting that while investors are generally willing to pay a premium for higher sustainability ratings, approximately a quarter of respondents indicated their unwillingness to do so, marking a slight increase compared to the previous surveys.

Figure 30

Are you willing to pay premium for high sustainability classification?

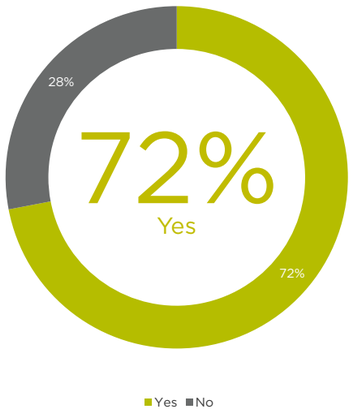
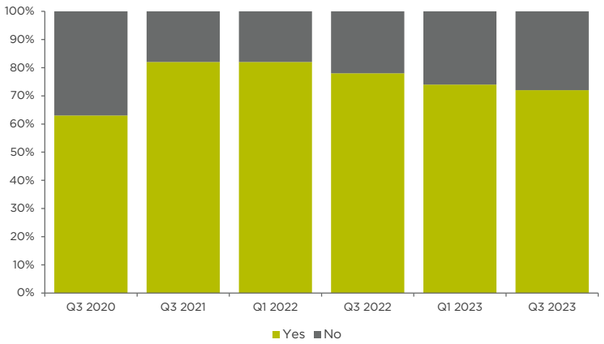


Figure 31

Are you willing to pay premium for high sustainability classification?

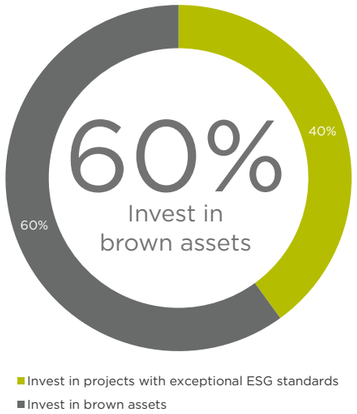


CHANGING MARKET CONDITIONS

When it comes to the investment sustainability strategy, investors seem to slightly favor investing in brown assets with the potential to transition into green investments, rather than investing in projects with exceptional ESG credentials.

Figure 32

Approach to Investment Sustainability



BONUS

In this edition, we surveyed investors regarding their expectations for rising vacancy rates. When asked about their projections for the Stockholm Office vacancy rate outside the inner city, a significant majority indicated that they expect the metric to fall within the range of 14% to 17% by Q4 2024. Only a small minority anticipates the vacancy rate dropping below 14%.

When investors were asked about their expectations for the overall logistics vacancy rate, the vast majority anticipates the metric to range between 4% and 6% by Q4 2024. Only about one-tenth of respondents expect the vacancy rate to remain below 4%.

Figure 33

Stockholm Office Vacancy Rate Expectations outside the Inner City for Q4 2024

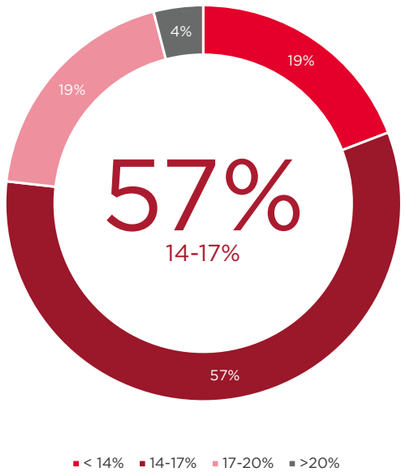
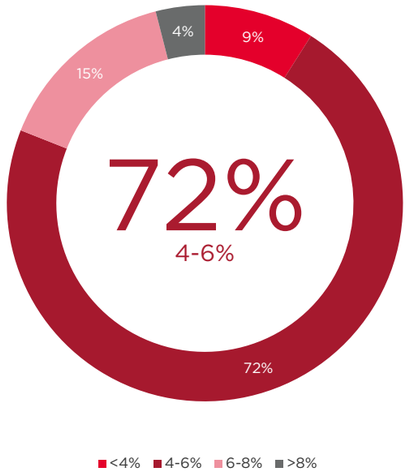


Figure 34

Overall Logistics Vacancy Rate Expectations for Q4 2024



VACANCY RATE EXPECTED TO INCREASE, ALBEIT MODESTLY, ACROSS OFFICE AND LOGISTICS SEGMENTS.

About Cushman & Wakefield

About Cushman & Wakefield

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