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We are now entering a period of lower transaction activity – but it will not last for long

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The transaction volume was rather high in March with a deal volume of around SEK 12 billion (compared to SEK 10 and SEK 11.8 billion during the same month in 2018 and 2019 respectively). Almost all deals, however, took place during the beginning of the month, before the economic impact of the Covid-19 became fully clear for the market actors.

The rolling 12 months volume ended up at SEK 155 billion, which is just below the full-year volume of SEK 158 billion in 2019. The volume is reduced by the fact that the portfolio deal between SBB and Nyfosa (a SEK 8 billion deal that was announced in January) has been canceled. The market is currently dominated by extreme uncertainty and sellers as well as buyers are generally biding their time.

The number of transactions on the Swedish property market (deals over SEK 100 million) tend to correlate strongly with the CPI-inflation rate. The Swedish economy is now entering a deep recession and inflation is expected to slide down into negative territory during the coming 3–6 months. This, in turn, is implying a significant decline in the rolling twelve months number of property transactions, from the current level of around 330 deals to around 240–260 deals.

There has been a rather powerful bounce back on the equity markets during the week from March 23 to March 31. The equity prices of ten selected listed property companies* fell by just below 44 per cent during the period February 21 to March 23, while recovering by 18 per cent during the period March 23 to March 31. OMX Stockholm 30 fell by 31 per cent during February 21 to March 23, while recovering by almost 15 per cent during the week to March 31.

Long-term interest rates have also started to decline, after a few weeks of increases during the initial period of the crises. Swedish 10-year government bond yields have declined from just below 0.10 on March 19 to -0.15 per cent on April 1.

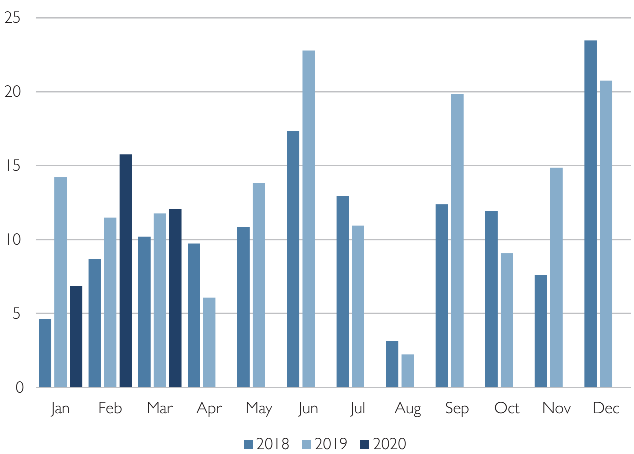
One important reason behind the recovering equity markets and declining interest rates is that the financial markets are starting to respond positively to the previous weeks' massive interventions by central banks and governments (governments have announced record-large stimulus packages while central banks are now supporting the market with more or less unlimited liquidity). More and more investors are, however, starting to be concerned by the long-term trajectory of inflation (higher inflation going forward). This is due to the massive monetarization of government debt that currently takes place and expectations that companies' all over the world will re-nationalize their supply chains during coming years (which will result in higher consumer prices). It is becoming quite obvious for investors, though, that it is foolish to bet against the central banks. All major central banks are currently extremely motivated in keeping rates low and interest rates will therefore likely decline to new lows during coming weeks.

However, the sheer magnitude of the economic damages by the Covid-19 is also gradually starting to become clear to the financial markets. Although the Chinese PMI recovered to 52 in March (well above the 50 mark), the number of infections will, according to expertise, likely rise again when restrictions are being lifted in China and the other Asian economies. The economic recovery will therefore likely be slow and gradual here. Although some experts believe that the virus has already reached its peak in Europe, the virus is now spreading fast in the USA and the economic damages are expected to be larger there than previously assumed. The economic damage of Covid-19 in Europe is also astonishing. In France for instance, economic activity is expected to have dropped by 35 per cent during recent weeks. There is also a risk that there will be a second virus peak during the late autumn in both Europe and the USA which will keep on hampering economic activity. In other words, it seems like a V-shaped recovery is more or less out of the picture. As a result, it is not unlikely that equity market will decline again during the coming weeks while credit spreads on the bond markets will continue upwards. If this scenario plays out, the authorities will have to respond with even more stimuli to support the economies. Governments and central banks will also remain supportive when the virus finally subsides and the pressure downwards ▶

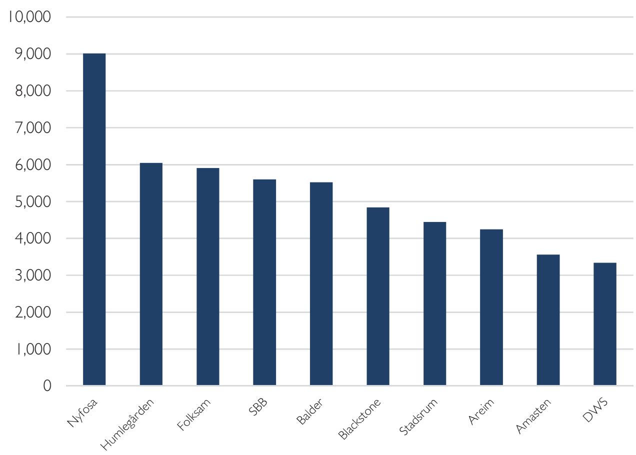
* Atrium Ljungberg, Castellum, Diös, Fastpartner, Fabege, Hufvudstaden, Klövern, Kungsleden, Wallenstam and Wihlborgs

in economic growth starts to abate. When the economic recovery finally starts it is also expected to be slow. It takes time to resume all production chains that have been disturbed during the recent weeks/months. In addition, the developments over the last month have severely damaged sentiments among households and companies, and unemployment is soaring all over the world – it takes time to turn that tide around. When the recovery finally takes hold, however, investors will likely start to be concerned about the historically high debt levels (both governmental, household and corporate throughout the world) and this will force central banks to accept higher inflation going forward – as a result long-term interest rates will likely start a long-term trend upwards. As long as the risk-off mood persists on the financial markets, investors will be less able/willing to do deals on the Swedish property market – which will result in low transaction activity. The longer the recession lasts and credit margins remain elevated, more and more property owners will go from very reluctant sellers to more motivated sellers. The first category of potentially motivated sellers could be property owners that lose major parts of their rental incomes through tenant bankruptcies (this process has started within the hotel, restaurant and retail segments, but is gradually moving on to other commercial segments as time goes). At some point after that, property owners with high risk in their business models and large exposure to the bond market will start to be pressured (if credit spreads do not come down during the coming months). Finally, it is also a possibility that life pension companies will exceed their allocation target for property at some point going forward (because equity prices generally drop more that property values). It is also possible that, at some point, they will need to improve their liquidity position as several listed companies now are postponing their dividend payments (which is having a direct negative impact on the institutions' cash flows). We are not there yet, however, and over the coming weeks/months both buyers and sellers will likely remain reluctant and transaction volumes low.

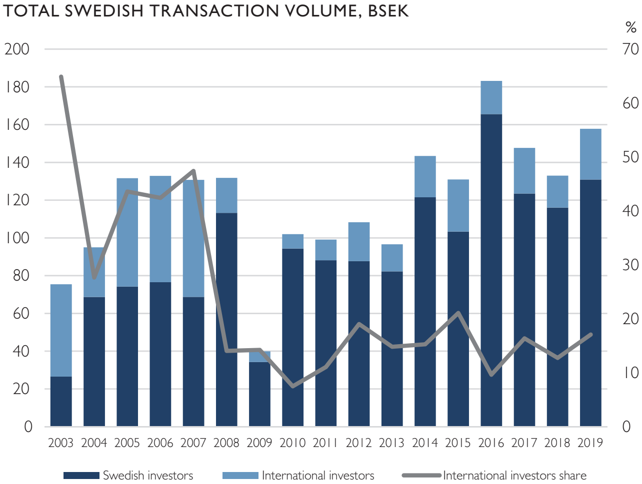
TRANSACTION VOLUME PER MONTH, BSEK



TOP 10 INVESTORS ROLLING 12-MONTHS VOLUMES, MSEK



TOTAL SWEDISH TRANSACTION VOLUME, BSEK



INVESTOR TYPE AND REGION