



Are we in the midst of a melt-up on the prime office market?

Activity on the transaction market in January was in line with previous years and ended up at SEK 5.5 billion, compared to SEK 4.4 billion and SEK 7 billion during the same month in 2016 and 2017, respectively.

The rolling 12-month volume in January amounted to SEK 143.4 billion, which is slightly below the full-year volume for 2017 of SEK 145 billion. Two large transactions comprising development projects make up the majority of the month's transaction volume: Niam's acquisition of the old hospital building at Karolinska from the Stockholm County Council (a development project), and Starwood's joint venture with Oscar Properties for a residential development project at Lilla Essingen.

Most market players are now starting to feel that we are nearing the end of a long property bull market and that valuations in prime locations start to look quite stretched. Although the Fed has one foot on the brake, global monetary conditions are still more

expansive than when the Fed started its increasing cycle more than two years ago. At the same time, investors have a need to put their capital to work. In an environment with historically low (but slowly increasing) interest rates, extremely expensive equity and bond markets, and a historical development with constantly increasing property values, it is hard to resist a momentum strategy (i.e. buy in the segments and locations that have performed the best historically to be sure not to miss out on expected further value increases) and focus a little less on the value perspective (i.e. whether or not the asset is attractively priced in relation to property and macro fundamentals). The development over the past six months indicates that the momentum may currently be an important driver of the market.

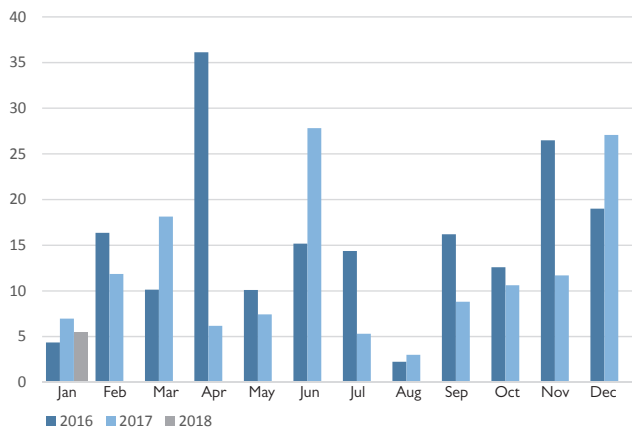
Office rents in Stockholm CBD have increased by over 45 per cent since early 2015. As the development has been so fast, different market participants currently differ in their view of the long-term sustainable rent levels and rental growth rates in different micro locations in the CBD, the inner city and

prime suburbs. At today's yield levels, even small differences in the view of the rental market can have a major impact on property values. Overall investors are quite bullish on the outlook for the rental market, and as a result, current valuations at the prime end of the market have little room for negative surprises on rent development and vacancies. The average property price increases for offices in Stockholm CBD in 1987–2017 was around 3.5 per cent per year. In the current cycle that started in 2009, the average price increase has been 12 per cent per year, while prices have increased by around 20 per cent per year on average during 2015–2017. It is quite common that a large share of the price increases comes at the very end of a cycle, both on the equity and property markets – and when the cycle ends, prices usually fall fast and unexpectedly until they reach a bottom.

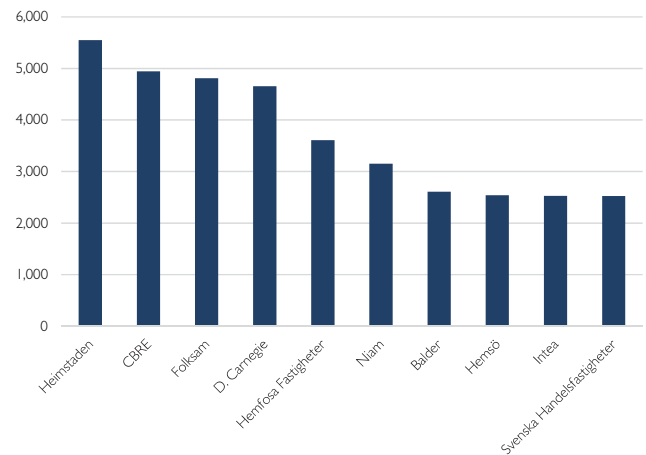


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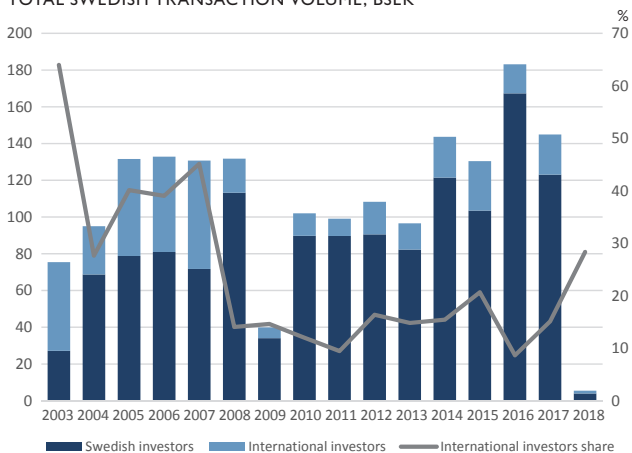
TRANSACTION VOLUME PER MONTH, BSEK



TOP 10 INVESTORS 2017 (YTD), MSEK



TOTAL SWEDISH TRANSACTION VOLUME, BSEK



INVESTOR TYPE AND REGION

