CATELLA

The Swedish property market is entering a more demanding territory

Activity on the transaction market picked up somewhat in May, amounting to SEK 9 billion compared to SEK 10.1 billion and SEK 7.4 billion for the same month in 2016 and 2017, respectively. The rolling 12-month volume ended up at SEK 134.7 billion.

The transaction activity in May was mainly focused on residential properties, but a number of large office, public and retail transactions took place too. Investor demand is especially strong for well-located public properties with good tenants. Although foreign investors have increased their share of the transaction volume so far in 2018, the market was almost entirely dominated by domestic investors in May (mainly intuitional backed investors and stable private companies). Investors are selective and there is a clear focus on safe assets with stable cash flows in the major cities.

More and more market players are now expecting the Swedish GDP growth to slow down during the second half of 2018. The over-supply of newly built residences/lower residential prices are affecting new construction (especially in the Stockholm region), and in time this will also affect the households' consumption. As a result, the market's expectations regarding future rate hikes from the Riksbank are getting increasingly moderated and the 10-year government bond yield has decreased by half between February and late May (to 0.45 per cent). Several Swedish institutions have started to sell off well-located office assets in the major cities (mainly Stockholm) lately. This goes hand-in-hand with a late-cycle pick up in office new construction in Stockholm. The number of finalised new office projects is expected to increase from 110,000 square metres per year in 2012–2017, to 155,000 square metres per year during 2018–2020 (gross area). This in turn corresponds with a structurally/demographically driven slowdown in office-bound employment growth – and is expected to have a moderating effect on CBD/prime suburb rents.

The global political risk has also increased lately as a result of the development in Italy/Spain and the ongoing trade disputes between the US and its allies (including the EU, Canada and Mexico)/China. Despite this, the US economy is steaming ahead quite well and the US 10-year treasury yield seems to be heading back towards the important three-per-cent barrier (which it has broken a number of times over the last quarter). There is also a risk that political tensions will increase further in Europe. One breeding ground for conflict is the ECB's monetary policy that is too expansive for Germany (whose economy is at risk of becoming overheated) and Italy (that needs continuously cheap money due to its weak banks and other structural weaknesses).

All in all, it seems like the Swedish property market will enter a more demanding territory from now on. The domestic economy (and thereby rental growth) is slowing down, the economies of several of our main trading partners (the Euro countries) seem to be slowing down too, while GDP growth/interest rates in the US seem to be in an uptrend. The outcome appears to be a continuously weak Swedish currency, which may generate an inflation driven uptrend in the Swedish long-term interest rates. This is not automatically bad for property, but it might result in a more demanding environment for investors to select and manage assets.

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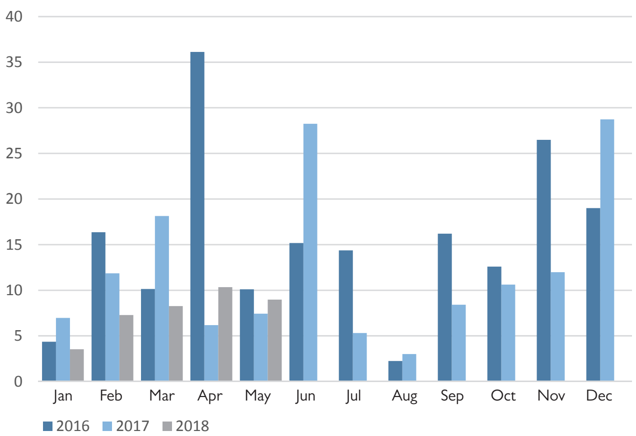
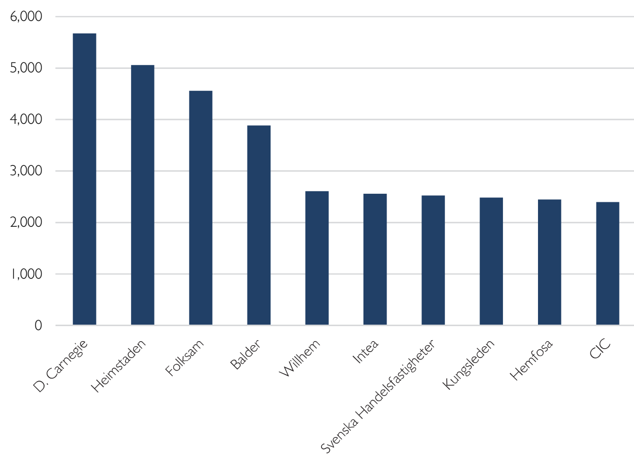
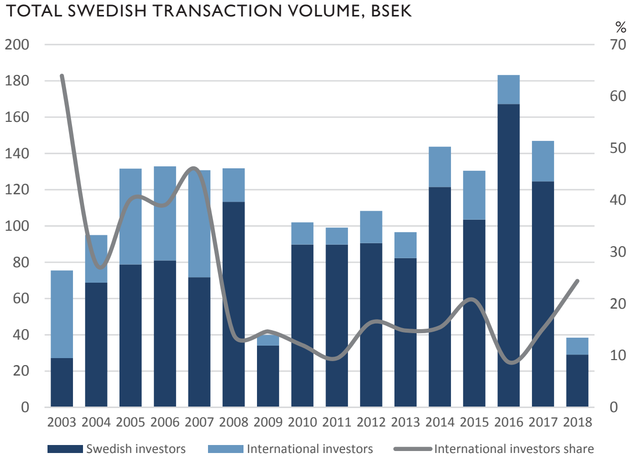
TRANSACTION VOLUME PER MONTH, BSEK



TOP 10 INVESTORS ROLLING 12-MONTHS VOLUMES, MSEK



TOTAL SWEDISH TRANSACTION VOLUME, BSEK



INVESTOR TYPE AND REGION