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Prices may keep on increasing for well-located residential rental and public properties as investors partly switch their focus from the commercial sectors

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The transaction activity fell back in May, and there were around 20 transactions exceeding SEK 80 million during the month. The transaction volume declined significantly due to a lack of large deals. In total, transactions amounting to SEK 5.4 billion took place in May, compared to SEK 10.8 billion and approximately SEK 13.8 billion during the same month 2018 and 2019.

The largest transaction during the months was the municipal company Skebo's acquisition of 500 rental apartments under construction from Lindbäcks Fastigheter for SEK 900 million. The second largest transaction was Niam's purchase of 880 rental apartments in Östersund from Rikshem for SEK 750 million. The third largest transaction was Fabege's purchase of the office property Påsen 1 located in Hammarby Sjöstad from CapMan for SEK 440 million. Apart from that Svenska Handelsfastigheter acquired a Big Box retail property in Linköping and Atrium Ljungberg acquired an office property in Sundbyberg. In addition, SBB divested five properties during the month, involving commercial properties in regional and smaller cities.

The global economy probably hit rock bottom sometime in late April/early May and leading indicators have now started to improve as the US and European economies are gradually re-starting. The Eurozone PMI Manufacturing Index improved to 39.4 in May, compared to 33.4 in April and in the USA consumer confidence showed signs at bottoming out at historically low levels in May. Also, the US unemployment figures came out stronger than expected in May (still really bad though). In China, PMI for the manufacturing sector has been above the 50-mark both in April and May. In Sweden, Konjunkturinstitutet's Economic Tendency Survey showed a slight improvement to 64.1 in May from the all-time-low level of 60 in April (however, it is still on record-low levels), while the Manufacturing PMI Index improved to 39.2 in May, compared to 36.4 in April. Although leading indicators are improving, the major negative effects on GDP growth figures, unemployment, office rents, vacancies and property yield levels are still ahead of us.

The unfolding global recession seems to be deeper than previously anticipated. IMF has announced that it will likely make a further downward revision in its June forecast (from its April forecast of a 3-per-cent contraction in global GDP in 2020). Also, the ECB has announced that the recession will be deeper than earlier expected and they anticipate the Euro area GDP to contract by 8–12 per cent in 2020 (their updated economic forecast will be published on Thursday this week). They also expect the average budget deficit of the 19-country bloc to end up at 8 per cent of GDP this year and public debt to increase from 86 per cent of GDP to 100 per cent. The ECB warns that the increasing public debt could trigger a reassessment of sovereign risk on the financial markets and reignite pressure on the more vulnerable countries (like Greece, Italy, Spain and Portugal). As a response to the crisis the European Commission last week announced a plan of a EUR 750 billion recovery scheme (EUR 500 billion in grants and EUR 250 billion in loans, in total around 5.3 per cent of the EU's GDP). This fund could (if implemented) be a step in the right direction to back up the single currency with a fiscal backstop. In Sweden, however, the economic slump has so far been mild as we never entered a full lock-down like most other countries in Europe. The Swedish GDP actually grew by 0.1 per cent quarter-on-quarter during Q1 2020, and quite surprisingly the export sector was the main growth engine (probably because we do not see the corona effect yet due to the time lag in the national account). The stability of the Swedish economy is also clearly visible in retail turnover statistics. Retail trade turnover fell by 11 and 16 per cent month-on-month in April in the Euro zone and the US respectively, while the corresponding figure in Sweden was flat (grocery sales increased while durable goods sales declined). However, while the other European countries are now opening up their economies quickly, Sweden may be forced to remain in the current position for a relatively long period of time as the virus is broadly spread in the community (and we are yet nowhere close to heard immunity according to the experts). Sweden is also an export depending economy, with a focus on industrial goods and vehicles. Although the exports sector performed strongly during Q1, it is likely that the industrial sector will take a real beating during the autumn as export orders have dropped off a cliff since the corona crises erupted.

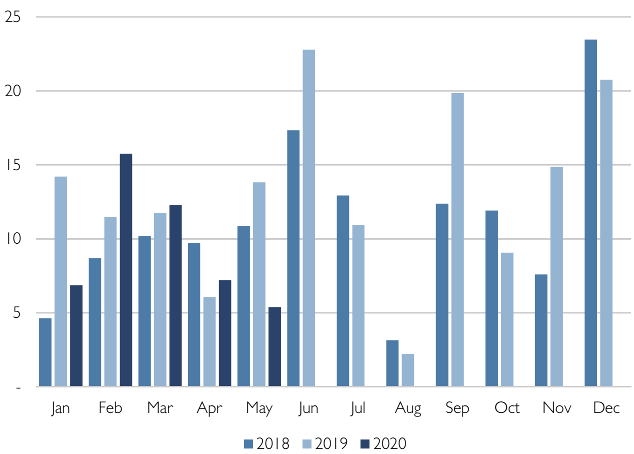
Several analysts believe that the global economy cannot go back to 100 per cent capacity until a vaccine, or at least an effective treatment for the Covid-19, has been developed (because people remain scared and careful and will not resume their old habits). There has been some positive news lately regarding reports of new vaccines, for example from the biotech company Moderna. However, last week the chief executive at the pharmaceutical company Merck described the time frame of 12–18 months for developing a vaccine as "very aggressive". According to ECR Research, a working vaccine has never been developed against any of the other coronaviruses known to infect people. Even worse is that the fastest developed vaccine ever took scientists four years to complete, and on average it takes ten years to develop a vaccine for a new disease. In other words, it is hard to assess whether or not we will have a functioning and widely distributed vaccine for Covid-19 during 2021. There is also a major risk that we will have a second wave of infections in Europe/the USA during the autumn this year (and perhaps new lockdowns). In other words, the global economy will likely bounce back quite substantially during the second half of 2020, but the major economies may well be stuck at around 90–95 per cent of their capacity for a long time to come.

Although the outlook for the global economy looks quite bleak, the financial markets have mainly been focusing on ▶

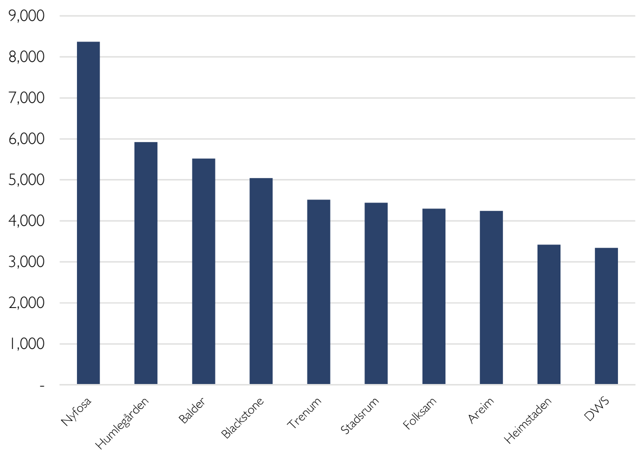
the good news lately. The policy response to the corona crisis has been impressive. The fiscal stimulus has been massive in all large economies and central banks have flushed the market with liquidity, buying a wide range of assets (including high-yield corporate bonds in the Euro area and the USA). The Swedish 10-year government bond yields have remained stable around the zero-mark since early April, while credit spreads on the corporate bond markets have declined significantly. OMX Stockholm 30 is up around 25 per cent since the nadir in March 23, and has been in bull territory during the last week. The recovery in the global equity markets have, however, been very narrow – especially in the USA. Apart from companies that benefit directly from the corona crisis (like pharma and the major tech companies), the recovery has not been all that impressive. In Sweden, equity investors are also generally sceptical to the real estate sector (despite the low interest rates and declining credit spreads). The average equity price for ten large Swedish listed property companies* has been flat over the last month (and is only up 15 per cent since the nadir in late March). There are major equity market discounts to NAV for the all property companies with a focus on hotel, retail and/or office properties (especially regarding offices in prime location in Stockholm). However, there are still premiums on companies with mix industrial properties, well located logistics and residential rental properties in their portfolios. The equity market is a good leading indicator of the listed property companies' transaction activity, and companies with large portfolios of commercial properties in the major cities will likely be major net-seller on the transaction market during the coming 12–18 months. An addition, the 21 largest listed property companies in Sweden have around SEK 140 billion in debt that need to be refinanced in 2020–2021 (of which SEK 40 billion is bonds). This is on a total debt load of just below SEK 440 billion. If interest rate spreads on the bond market start to increase again during the autumn, this could very well result in some of these companies becoming motivated or even forced sellers.

A recent investor survey made by Catella among the major domestic actors on the Swedish property market indicates that the consensus macro view for the coming years among property investors is economic stagnation. Around 50 per cent of the respondents expect low inflation/deflation and extremely low interest rates for years or perhaps a decade to come (which is well in line with the last survey from September 2019). This speaks in favour of property in relation to other asset classes. In addition, investors believe that the best performing property segments in 2020 will be public properties (like care homes, schools and public buildings) and residential rental properties. The more volatile office segments have fallen far down on investors' priority list since the crises erupted. So far, pricing on the transaction market for well-located rental homes and public properties in the major cities has not been impacted at all by the corona crises. In fact, there is a good chance that we will see an upward pressure on prices here going forward as large amounts of institutional money now more or less entirely are focusing on these segments.

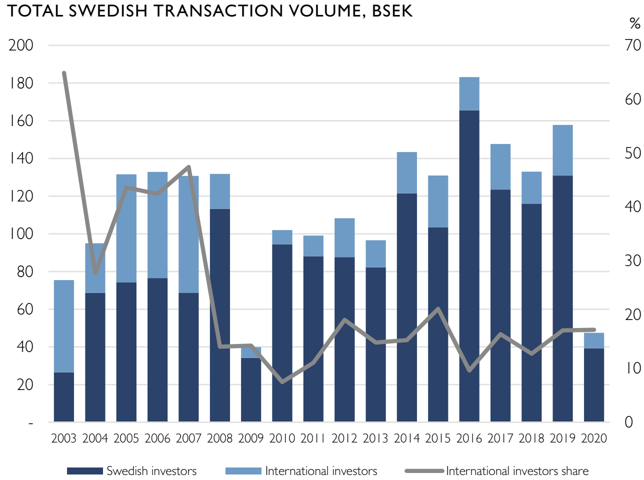
TRANSACTION VOLUME PER MONTH, BSEK



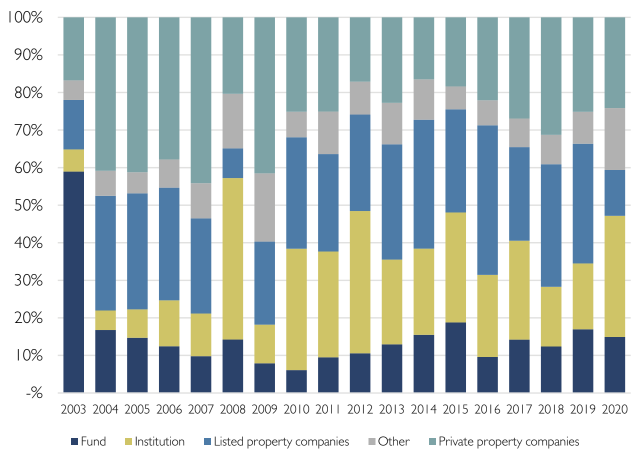
TOP 10 INVESTORS ROLLING 12-MONTHS VOLUMES, MSEK



TOTAL SWEDISH TRANSACTION VOLUME, BSEK



INVESTOR TYPE AND REGION



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