We have likely entered a period of turbulence on the equity market as the economy is entering the second phase of a double-dip recession

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The transaction activity in October was quite in line with the same month previous years and in total, transactions amounting to SEK 11.3 billion took place during the month. This can be compared to SEK 11.9 billion and approximately SEK 9.1 billion during October in 2018 and 2019.

There were 24 transactions exceeding SEK 80 million during the month, which can be compared to 24 and 25 transactions during the same month in 2018 and 2019. The rolling 12-months transaction volume was around SEK 134.3 billion and the rolling 12-month number of deals remains just below 300 deals. This is well below the interval of 330–400 deals that the market has normally fluctuated within during the last 15 years up until mid-2019. The largest deal during the month was Nyfosa's acquisition of a SEK 2.5 billion mix commercial portfolio located in the Stockholm region, Eskilstuna and Karlstad, from Estea (where tax financed tenants represent around 55 per cent of the rental value). The second largest deal was Oscar Properties' purchase (conditional on financing) of a SEK 1.4 billion mix commercial portfolio from SBB. The portfolio includes 39 properties located in small and medium sized Swedish municipals mainly concentrated in Helsingborg, Karlskrona, Oskarshamn, Höganäs and Motala. The deal also includes a 50 per cent share in the joint-venture-company Valerum. The third largest deal during October was Patrizia's acquisition of a residential property including 426 rental apartments under construction in Malmö from Slättö for SEK 1.1 billion.

There are a number of important ongoing macro events that will affect the Swedish property market going forward. The major event is of course yesterday's US election. The race for the White House is currently a close call (Wednesday at noon). An important short-term impact of the election outcome is the timing and size of the upcoming US fiscal stimulus package, something that is crucial both for the US and the global economy. The Democrats and Republicans have very different views of how to stimulate the economy and they need to find a compromise going forward. The Democrats has proposed a USD 2,300 billion (11 per cent of GDP) package, while an important group of the Republicans thinks that USD 800 billion is the absolute maximum (4 per cent of GDP). The Republicans traditionally want to limit the size of the government and are generally sceptical to high debt levels (at least when the Democrats are in charge). The current election outlook is that the House of Representatives end up Democrats (as anticipated). Democrats' hope of gaining the Senate has faded (as the Republicans have taken four sets in South Carolina and Iowa) and may come down to a special Georgia run-off in January. Finally, the race for the White House is an extremely close call, where the postal ballots will be decisive. The most positive result from a stimulus perspective is a blue wave election outcome where the Democrats are taking the White House and both houses of the Congress. This (relatively improbable scenario) would likely result in the largest possible size of the coming US stimulus package. It is likely that the final package will be smaller, however. If Trump is elected, the size could be rather big, while it will likely be smaller with Biden and a Republican Senate. Any transfer of power will, however, not occur until January, and the Republicans can block any measures until then regardless of the election outcome. In addition, there is the Senate filibuster, where a 60 per cent majority is needed for the Senate to pass bills in many cases (and no party will achieve this supermajority). It is possible that the stimulus package will not materialize until in January or February. In the long term, the Biden administration has announced a plan called "Building Back Better" that includes higher taxes for the wealthy and corporations to finance investments in infrastructure, energy transition/climate policies and education to improve the productivity in the economy. Whether this is good or bad for the economy remains to be seen (if a potential Biden administration can get the plan through the Senate at all). Investments in productivity enhancing projects are always good, while higher taxes and more red tape for corporations could hamper economic growth and temper the stock market development.

Covid-19 has really taken a turn to the worse lately and new cases are soaring in both the US and Europe. The epicentre of new infections now seems to be the EU and the UK, where average daily new cases per million inhabitants have increased from below 10 in July to 337 and 409 respectively on October 31st. Also, the number of deaths related to Covid-19 is increasing fast in the EU and the UK, from almost none during the summer to 3.5–4 per million inhabitants in late October. In the US the number of new cases has remained high since the spring and has followed a gradually increasing trend (it now stands at 243 cases per million inhabitants). The number of deaths has also been rather high and stable (but the trend has been declining rather than increasing). In Sweden, the number of new cases has increased from just below 16 per million inhabitants in early September to around 185 cases per million inhabitants now. In contrast to the development in both the EU, the UK and the US, however, the number of Covid-19 related deaths in Sweden remains at the same low levels as during the summer (0.2 per million inhabitants), even if these numbers are now increasing according to the authorities.

More testing may partly explain some of the increases in new cases, but it is clear that the effect of transition to colder weather has been underestimated both in Europe and in the US. Social life has moved indoors as a result of the colder weather and the likelihood of infection indoors is approximately 20 times greater than outdoors according to ECR Research. As a result of the surging new Coronavirus cases, new lockdowns are imposed in both the UK, and several other European countries like Germany, France, Spain and Italy. There are a few differences this time, however, compared to the developments during the spring. To start with, the authorities and the health systems now have more knowledge/experience of the decease. There are also some medical treatments, and several vaccines are on their way during the first half of 2021. In addition, full lockdowns are not generally imposed, and schools/education facilities tend to remain open. Although the impact on the service sectors will be severe, the manufacturing sectors in Europe and the US may be less affected by production and supply chain problems. This is also indicated by the strong Swedish PMI figures in October (Manufacturing PMI increased to 58.2). However, the indoor season has just started on the Northern Hemisphere, so this suggests that the development will deteriorate over the coming months/quarters. As a result, both the European and the US economies are likely to take another massive hit during Q4 2020 and Q1 2021. There is a good chance that this will be partly offset by new fiscal stimulus packages. However, the political consensus that we saw during the spring is now more fragmented and there is generally a considerable resistance to further debt accumulation in several European countries.

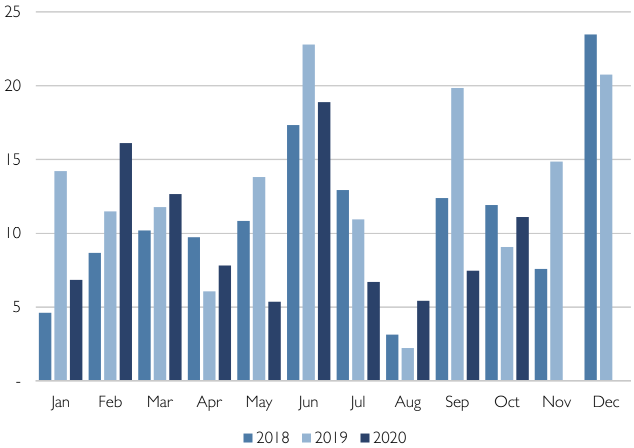
Forecasts for the European economic growth have been revised downwards recently, and the Eurozone economy is expected to shrink by 2.3 per cent quarter-on-quarter during Q4, according to economists surveyed by the Financial Times. In Sweden, however, the situation may look a little better. There is around SEK 140 billion (around 2.8 per cent of GDP) of the government's crisis package that was not used according to SEB. In addition, the Swedish government announced SEK 105 billion (around 2 per cent of GDP) in stimuli for 2021 in the autumn budget. In other words, there is good potential for some fiscal stimuli in Sweden during 2021 (even if we have a weak minority coalition government). On the other hand, lots of companies, especially within the physical retail and hospitality sectors, are financially weakened after recent downturn and may not survive another economic blow. As a result, bankruptcies and vacancies will likely increase during coming quarters. However, so far the coronavirus impact on the economic occupancy of the ten selected listed companies has been rather limited and it has only declined from 92.2 per cent in Q4 2019 to around 90.7 per cent in Q3 2020*. The Swedish GDP figures for Q3 that will be announced tomorrow (Thursday) and, as in the rest of the developed economies, the figures will likely be strong. For instance, the Eurozone announced a 12.7 per cent quarter-on-quarter GDP growth for Q3 last week (the Eurozone economy is now 4.3 per cent below its previous peak). The corresponding figures for the US was plus 7.4 per cent and the US economy is now 3.5 per cent below the pre-pandemic level. Catella's Macro Index, which is a mix of leading indicators for the Swedish GDP growth, is indicating an annual GDP growth of minus 2 per cent in 2020 (which is significantly stronger than expected during the summer), but the index is also indicating a weak recovery with year-on-year growth rates of just above zero for the first half of 2021. During the second half of 2021, however, economic growth may pick up significantly. By then vaccines and medical treatments of Covid-19 will most likely be available at a large scale and the stimulus packages mentioned above will have started to show real effect on the global economy. Growth could also be stimulated by long-term investment packages and government loan guarantees to projects that increase productivity/counter climate change. All this while the major central banks remain supportive with low policy rates and asset purchases. This positive climate could persist for a number of quarters or even years before inflation starts to pick up too much.

There was a clear shift in investor sentiments concerning the listed property companies during the first half of September, and the real estate sector as a whole performed extremely strong. The average share price for ten of the largest companies* increased by over 20 per cent during a few weeks. Investors saw good value in the discounted companies with large office (and retail) exposure. However, the equity market development was even stronger for companies with a focus on residential and logistics/industrial properties. This winning streak persisted until October 20, and since that the listed property

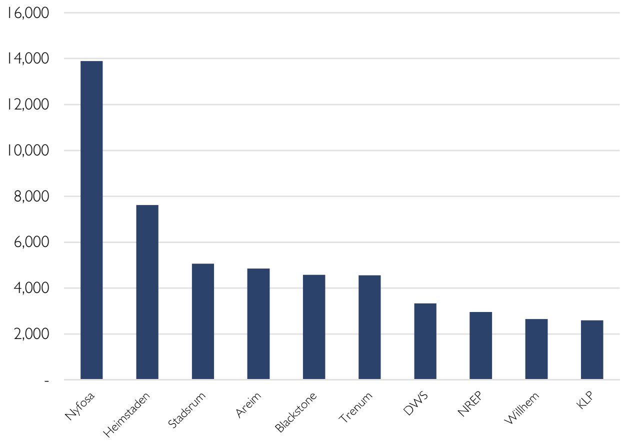
* Atrium Ljungberg, Castellum, Diös, Fabege, Fastpartner, Hufvudstaden, Klövern, Kungsleden, Wallenstam and Wihlborgs. Hufvudstaden has not yet released their Q3 report.

shares have fallen back significantly. The average share price for ten of the largest companies* dropped by almost 10 per cent between October 20 and November 2. During this period the OMX Stockholm 30 dropped by around 5 per cent. Although both the broad equity market and the listed property companies have recovered somewhat during recent days, volatility is still high on the global equity markets (the VIX index remains just below 40, which is well below the long-term average of 10–20). The share price drop has been heaviest for the companies with large shares of their portfolios within the office and retail segments in the major cities and the equity market discounts for these companies have increased markedly. It is likely that we are now entering a few months of turbulence on the equity markets as the economy is now entering the second phase of a double-dip economic recession. Negative real interest rates, lots of central bank liquidity and fiscal stimulus packages will, however, likely benefit companies with portfolios allocated to stable segments like residential properties, public properties and mix commercial properties for another 18–24 months. Property portfolios with higher yield levels also tend to sustain higher market interest rates than their low-yielding counterparts.

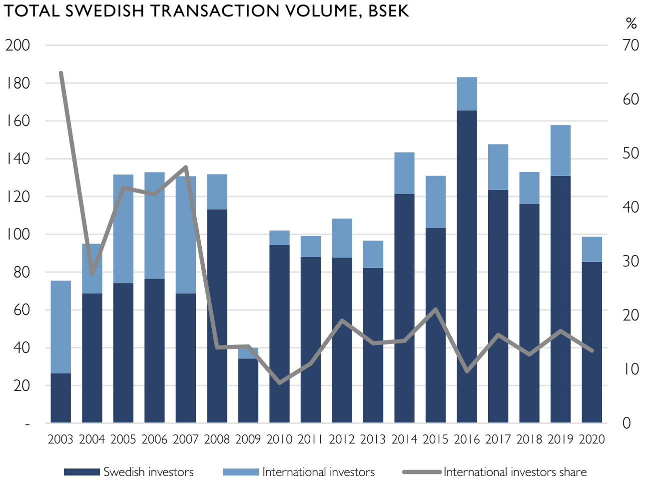
TRANSACTION VOLUME PER MONTH, BSEK



TOP 10 INVESTORS ROLLING 12-MONTHS VOLUMES, MSEK



TOTAL SWEDISH TRANSACTION VOLUME, BSEK



INVESTOR TYPE AND REGION