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A trajectory towards fewer but larger transactions on the property market may indicate a forthcoming re-pricing

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The Swedish transaction market has continued to perform strongly during the autumn and the transaction volume in September amounted to approximately SEK 14.8 billion, which can be compared to SEK 8 and 12.4 billion respectively for the equivalent periods in 2017 and 2018.

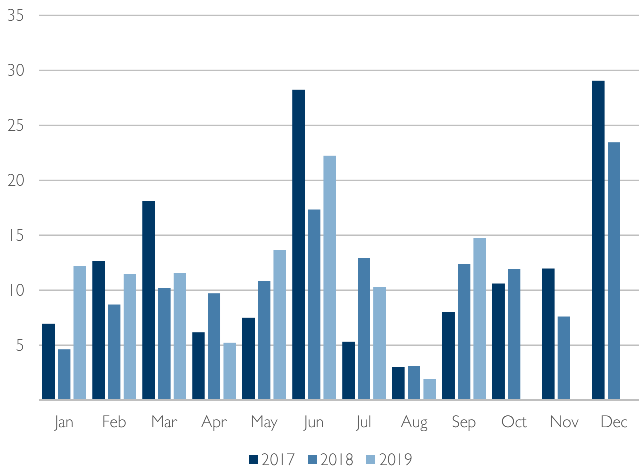
The 12 months rolling volume amounts to about SEK 147 billion in September. Transaction volumes have been historically high and stable on the Swedish property market during recent years. However, there has been a clear shift towards fewer but larger deals during the recent 6–12 months. The number of transactions closed from early August until mid-September 2019 was lower than during the same periods in 2017 and 2018 (18 transactions in 2019 compared to 24 and 36 respectively for 2017 and 2018). In a longer-term perspective, the number of transactions on the Swedish market has been relatively stable. For example, during almost all months since the mid-2000s, the number of transactions has been in the interval 330 and 420 deals per year. In fact, this interval has only been breached three times during the last 15 years (in all cases, the numbers deviated on the lower side). The first time was in connection to the financial crisis between June 2008 and July 2010, when the figure fell to 190 transactions per year, the second time was between April 2013 and December 2014 when the number fell just below 280 transactions per year, and the third time is currently ongoing and started this summer. Over the last 12 months the number of transactions has dropped from 410 (in September 2018) and to about 300 deals per year in September 2019.

In addition, the average transaction volume per deal has also been stable during the last 15 years (Vasakronan's acquisition of AP Fastigheter in 2008 and Castellum's acquisition of Norrporten in 2016 are excluded from the data set because of the hefty size of these transactions). The average volume per transaction has only deviated from its stable long-term trend on three occasions since the mid-2000s. In every circumstance, the number of transactions fell below the lower interval of 330 deals per year a few months to a year prior. The first divergence occurred during the financial crisis (as liquidity on the Swedish transaction market slumped). In June 2009, the average volume per deal fell from a previously stable level of around SEK 350 million, to a nadir of around SEK 160 million in December 2009. The transaction market recovered in 2011 and the average transaction volume resumed its stability at levels around SEK 300 million until mid-2014. Between June 2014 and January 2015 the average transaction volume increased from SEK 300 million to SEK 450 million. Prior to this increase, the number of transactions fell below the 330-level in April 2013. After that, the average volume fluctuated in the interval SEK 350–450 million until August 2019 when it soared to SEK 450 million and then increased further to around SEK 500 million in September. Notably, also this time the increase followed a previous drop in the number of transactions below 330 deals per year in June.

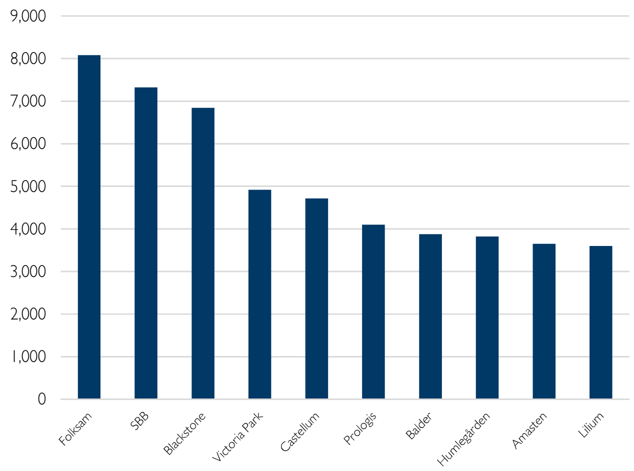
What do the current drop in number of deals and increase in average volume per deal indicate going forward? It seems like one of the first signs of a trend-shift on the property market is that the number of transactions drops below 330 deals per year before a noticeable effect on the average transaction volume is registered. This applies to both a bull-market scenario with improving liquidity (like in 2014), as well as in a bear-market scenario when liquidity slumps (as in 2008). The global long-term interest rates have declined substantially over the last six months due to a growing uncertainty regarding a looming global recession, which in turn leads to expectations of further interest rate cuts and quantitative easing from the major central banks going forward. The interest rate is one of the key drivers of the property market and the correlation between the property companies' average cost of financing and the yields on their properties is almost perfect. During the last ten-year period, each percentage point drop in financing costs has led to a lowered yield of around 60 basis points on average. Consequently, the spread between the property companies' financing costs and the yield levels for prime properties in larger cities has increased in conjunction with falling interest rates. As it looks now, most property investors assume that the economy will be in a Japan-like scenario during the coming decade/decades, with extremely low interest rates, low economic growth and non-existent inflation. Although this ▶

scenario is negative for rental growth (as economic growth and inflation remain low), vacancies may remain low too as economic growth remains low but stable. In this scenario, prime properties in the major cities become attractive in relation to other asset classes. It could be that the decline in number of transactions during the last 6–12 months in combination with the increase in the average volume per deal is a sign that we are about to see a re-pricing on the property market going forward as lower interest rates are becoming anchored in the investors' spread sheets. As a result, this can lead to a rotation of investors as some traditional buyers are seeing the market as too expensive while new investors with lower yield requirements are entering the market. In this process, the number of deals are declining while the average size of the deals increase as many investors are focusing on building volume fast. The big question is what happens with the pricing on the property market when and if investors change their view of the long-term development for interest rates and inflation.

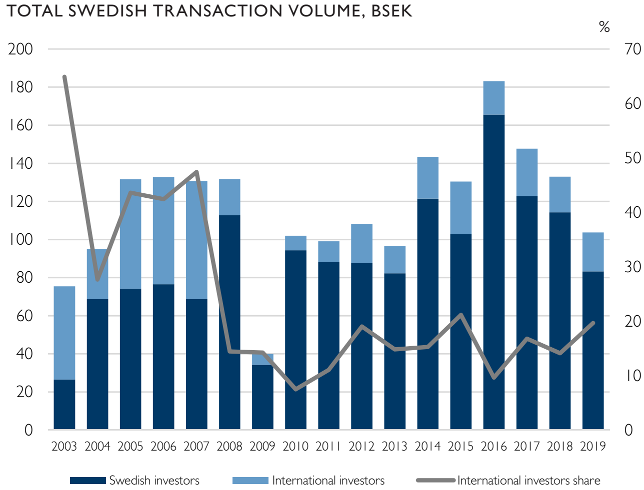
TRANSACTION VOLUME PER MONTH, BSEK



TOP 10 INVESTORS ROLLING 12-MONTHS VOLUMES, MSEK



TOTAL SWEDISH TRANSACTION VOLUME, BSEK



INVESTOR TYPE AND REGION