

Intelligent Investment

# Market Outlook 2022

REPORT

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Sweden  
REAL ESTATE  
CBRE RESEARCH



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Swedish real estate sector proved to be resilient during pandemic time, taking market shares from other EMEA countries and attracting record investments volume

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10 Further increase in domestic and overseas capital investment is expected during 2022. Healthcare properties, care & elderly homes, education properties have strong investor sentiment.

# Introduction



## Patrik Kallenvret

Managing Director CBRE Sweden,  
Head of Capital Markets Nordics

For much of the year 2021 it has felt like Covid-19 is still here, in the centre stage. Looking back over 2021, it's clear that we have moved forward and we go into the year 2022 with a renewed sense of optimism. The new Covid-19 omicron variant can lead in the short term to uncertainties and new risks, in terms of increase of infection case numbers and new restrictions. Despite this uncertainty over potential impacts of the Covid-19 omicron variant, CBRE is maintaining a positive outlook for the economy and commercial real estate in 2022.

We foresee growing Swedish economy, solid household consumption and improving labour market throughout 2022. Inflation as a result of growing fuel and electricity prices is likely to be transitory and not to be established.

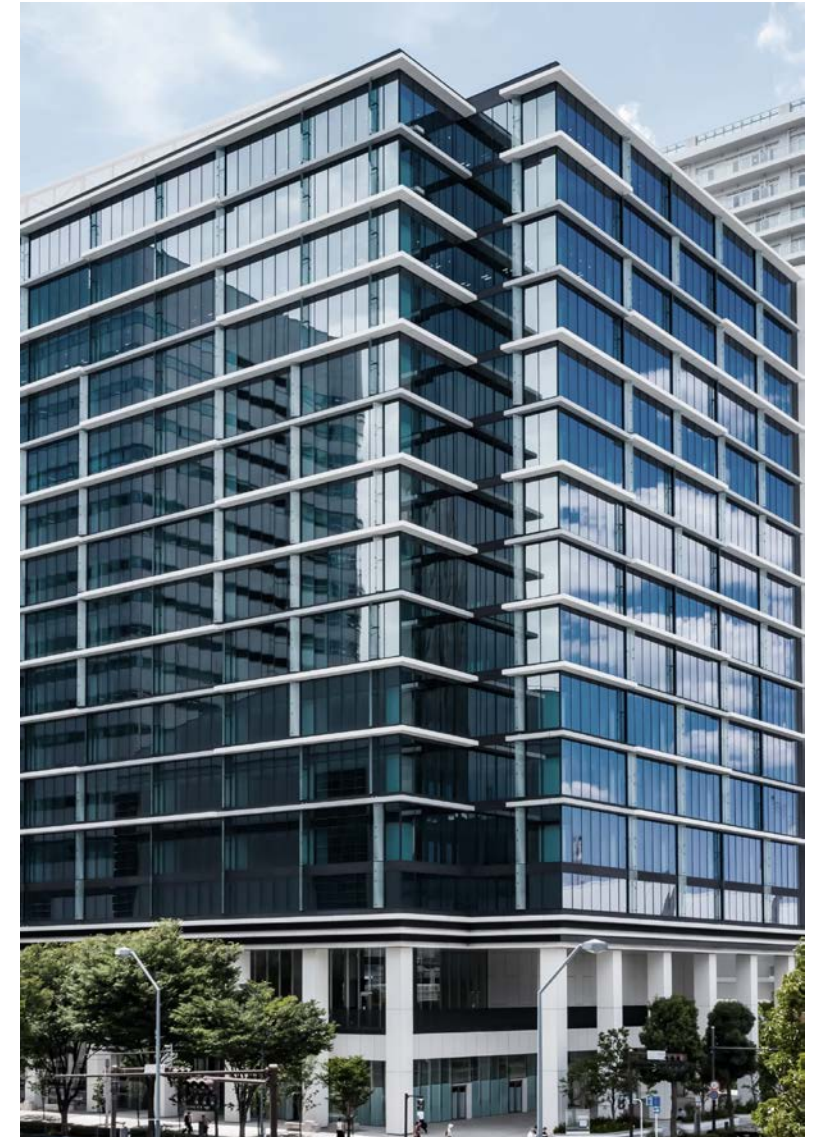
Year 2021 has been a phenomenal record year for real estate investments in Sweden and we expect investment market during 2022 to remain at least as strong as during 2021 with potential for growth.

Positive leasing momentum is expected to strengthen through 2022. Growing adoption of working patterns will drive shift to quality and make flex space market continue to expand.


As international business travel and international tourism will pick up during 2022, we will see revival in the hotel sector in Sweden.

We expect 2022 to mark a step change in the role of ESG across the full range of real estate decisions. Sustainability will remain a top priority this year.

We have produced this outlook to help you navigate the macro environment we expect in 2022 and we look forward to working with you during 2022. Read on to find out more.







The outlook for economy and real estate in 2022 is very positive with many real estate segments on the upside

# 2

# ESG

The role of ESG is expected to increase dramatically during the year 2022. Both landlords and occupiers will focus on refining their strategies to prepare for a carbon-constrained world. Pressure from investors and customers will force real estate firms to deliver more on sustainability.

## Trends to watch

### 01

S in ESG becomes more dominant as social aspects becomes more significant. The awareness and focus on health and wellbeing continues and the EU Taxonomy have linked human rights to environmental factors. A separate social taxonomy is being investigated.

### 02

Public commitments to meet zero-carbon targets are increasingly common. More than 30% of global Fortune 500 companies now say they have either achieved a climate goal or are publicly committed to doing so by 2030. A global consensus on carbon emission pricing would accelerate the pace.

### 03

The price on electricity during the winter continues to shed light on energy issue and the need for supply, especially due to the current broaden electrification. Access to renewable sources is in greater demand. At the same time, the European Commission has presented its proposal to include nuclear power and natural gas as sustainable investments.

### 04

The EU Taxonomy and forthcoming SFDR increases transparency in financial reporting. Larger companies should map their products and services related to the taxonomy during 2022. Thenceforward meet the requirement. Proposal for mandatory ESG Due Diligence is also expected from the EU Commission.

### 05

Increased material prices increase the demand for recycling and circular business models. This reaches beyond the interior design and layout to the building and portfolio level and relates to higher efficiency within the existing building stock.





“  
The “S” in ESG will  
become more  
prominent as our  
health and wellbeing  
is top priority and  
human rights  
incorporated in the  
EU Taxonomy

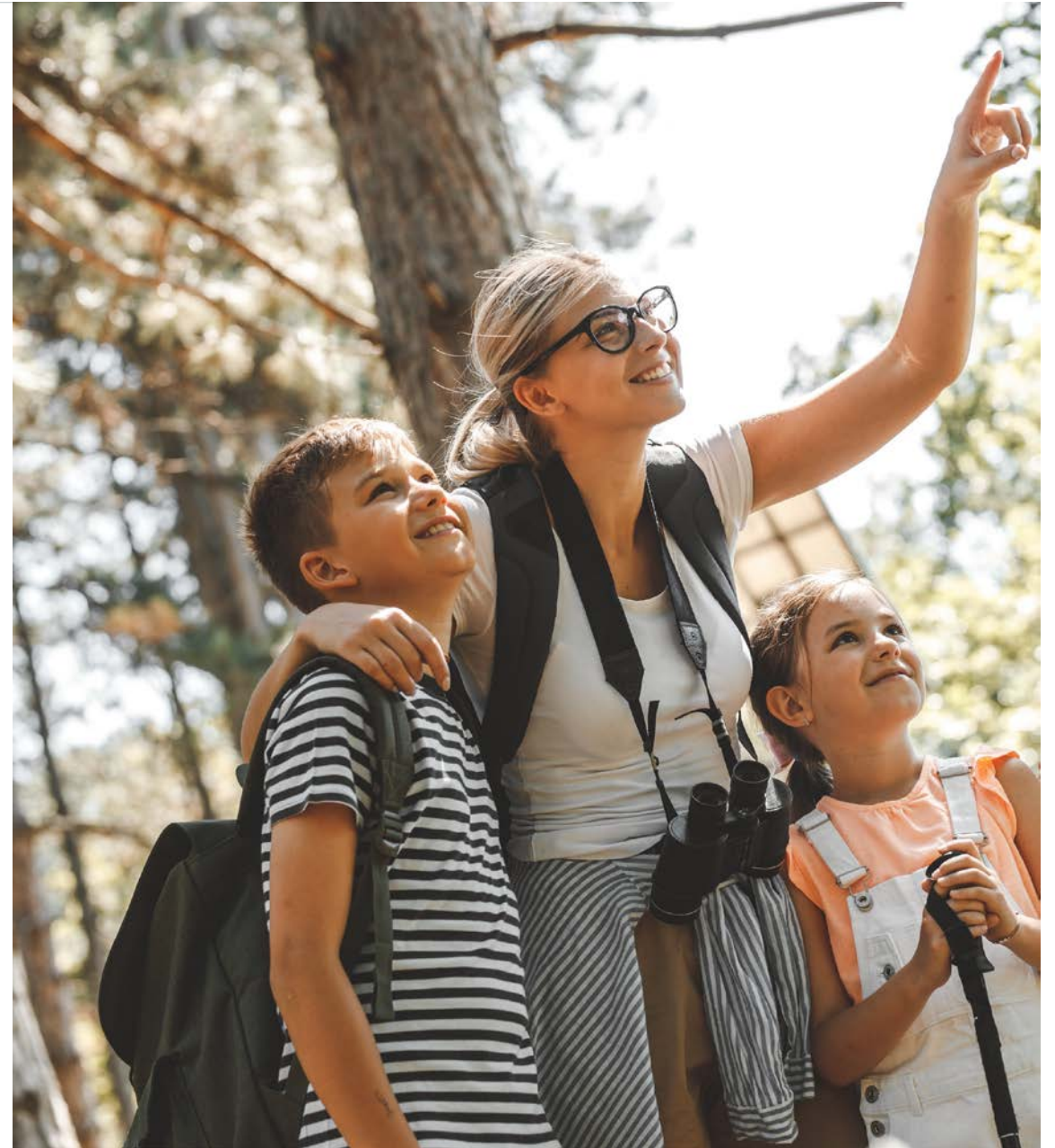
Linda Kjällén  
Sustainability Manager  
Sweden, CBRE

”

As we enter 2022, the holistic concept of ESG becomes an increasingly natural approach to sustainability. ESG are revolving around the core business and starts to get its required focus.

As this outlook mention, there's greater interest on ESG amongst investors, occupiers and landlords. This contributes to an increased demand for quality properties, which drives improvements among the existing properties and portfolios. This is for example reflected in an increased interest in certifying existing properties and entire portfolios. Something that is expected to simplify upcoming reporting requirements and financial transparency.

This election year Sweden and are hosting the UN Environment Program's 50th anniversary (UNEP @ 50). The event, Stockholm+50, will highlight man's relationship to nature, sustainable consumption and production and green recovery. Additionally, we need a neutral strategy for how Sweden should achieve national and global climate goals.



“  
Increasingly,  
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Dragana Marina  
Sustainability Research Lead  
Continental Europe, CBRE

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A combination of events has sharply raised the profile of the ESG agenda in real estate –namely the Covid-19 pandemic, severe weather events and the COP26 conference, and businesses need to become accountable in new and different ways.

ESG is evolving from a peripheral balance sheet issue to a key component of investment decision-making. The availability and quality of ESG-data remains a challenge for strengthening links between strategy and action.

Europe is at the forefront of regulatory efforts to channel capital towards sustainable assets. The growth in European sustainable mutual funds was bolstered by the introduction of the Sustainable Finance Disclosure Regulation (SFDR) in March 2021. A continued increase in assets and capital flows into sustainable funds is expected in 2022.

## De-risking capital allocations

Reducing and optimizing risk is one of the main considerations for investors. There is a real threat of value erosion on carbon-intensive assets, due to increasingly stringent regulations but also pressure from financial institutions, stakeholders, and occupiers. As occupiers and investors are drawn to properties that are more sustainable, these will generate positive value benefits.

European real estate markets will face changes, both physical and through the transition to a green economy. For investors, the goal is to be resilient to these changes, and the question is how this can be achieved. Increasingly, investment strategies will start to revolve around diversification across various sources of risk rather than across different asset classes.

Going into 2022, markets with a proactive approach and a continuous focus on sustainability and climate risk mitigation strategies will be frontrunners as investment destinations. Assets and locations that are considered less affected by climate change, or more resilient to it, will start to benefit from a pricing premium.

88%

is the share of European sustainable mutual funds in the combined global volume<sup>1</sup>

\$3.5tn

is the combined value of assets in global sustainable mutual funds<sup>1</sup>

2/3

of European investors have already adopted ESG criteria into their investment practices and processes<sup>2</sup>





In 2022, ESG will increasingly be seen as part of risk management rather than an add-on to normal business operations.

03

# Economy

Growing economy, solid household consumption and improving labour market are expected throughout 2022. Inflation as a result of growing fuel and electricity prices is likely to be transitory and not to be established.

## Key Takeaways

### 01

The development of the pandemics will be crucial to determine the direction of progression of the economic recovery

### 02

Consumer spending will contribute to economic recovery. As a result, 2022 will see a return to more normal economic conditions after the recovery period during year 2021.

### 03

Job vacancies in Sweden remain at a very high level having unemployment rate high too. The mismatch in skills between job vacancies and unemployed labour risk to delay development in some companies and organizations.

### 04

Global Supply chain constraints still will be present in 2022 and might affect Swedish export. Growing consumer demand might also be affected by unsolved global supply chain issues.

### 05

Rising Energy prices in Sweden put pressure on prices in other sectors and drive inflation upwards.





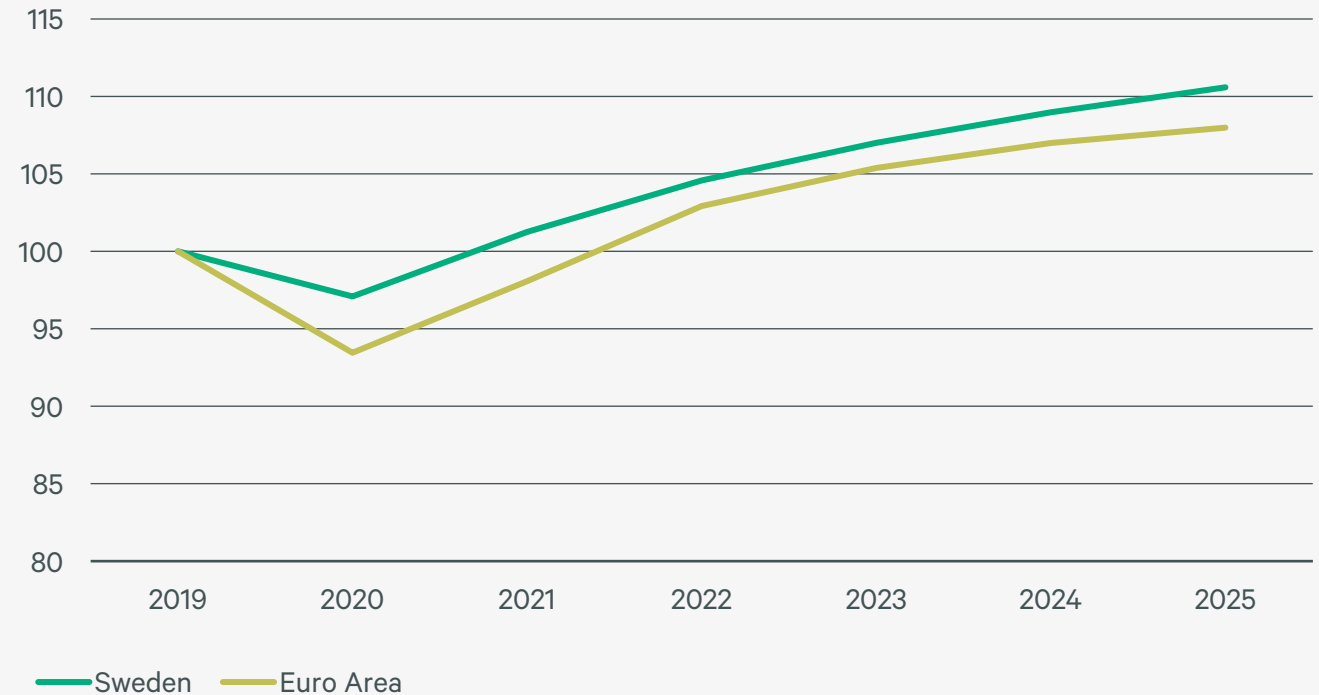
## Growing economy to fuel the recovery of commercial real estate in 2022

Swedish economy has been recovering faster than expected during 2021 after a deep fall during 2020 (by 2.8%). As a result, the Swedish Ministry of Finance have revised their GDP growth forecast for 2021 to 4.9%, which is higher than before pandemics. Many economic indicators show that the Swedish GDP growth is going to be continued strong during 2022. Swedish Ministry of Finance expects GDP to grow by 3.4% during 2022.

Even the Swedish export, which has grown by 8,9% during 2021 has contributed to positive GDP growth and to faster recovery of the economy. Such positive dynamics is expected to continue during 2022.

The successful vaccination campaign, decreased infection rate and the abolishment of the Covid-19 restrictions have stimulated consumption during 2021. Household consumption increased even more during 3<sup>rd</sup> and 4<sup>th</sup> quarters. This positive trend is expected to continue during 2022. For the first time since 2019 companies and organizations across Sweden were allowed and were able to organize Christmas celebration for their employees. This is a huge step forward and a good stimulation for Swedish restaurants. As a result of higher consumption during 2021 lower number of restaurants than during 2020 might apply for governments financial help. This contributes positively to the recovery of Swedish economy and sets stable base for GDP growth during 2022.

Figure 1: Real GDP, 2019 Q4 = 100



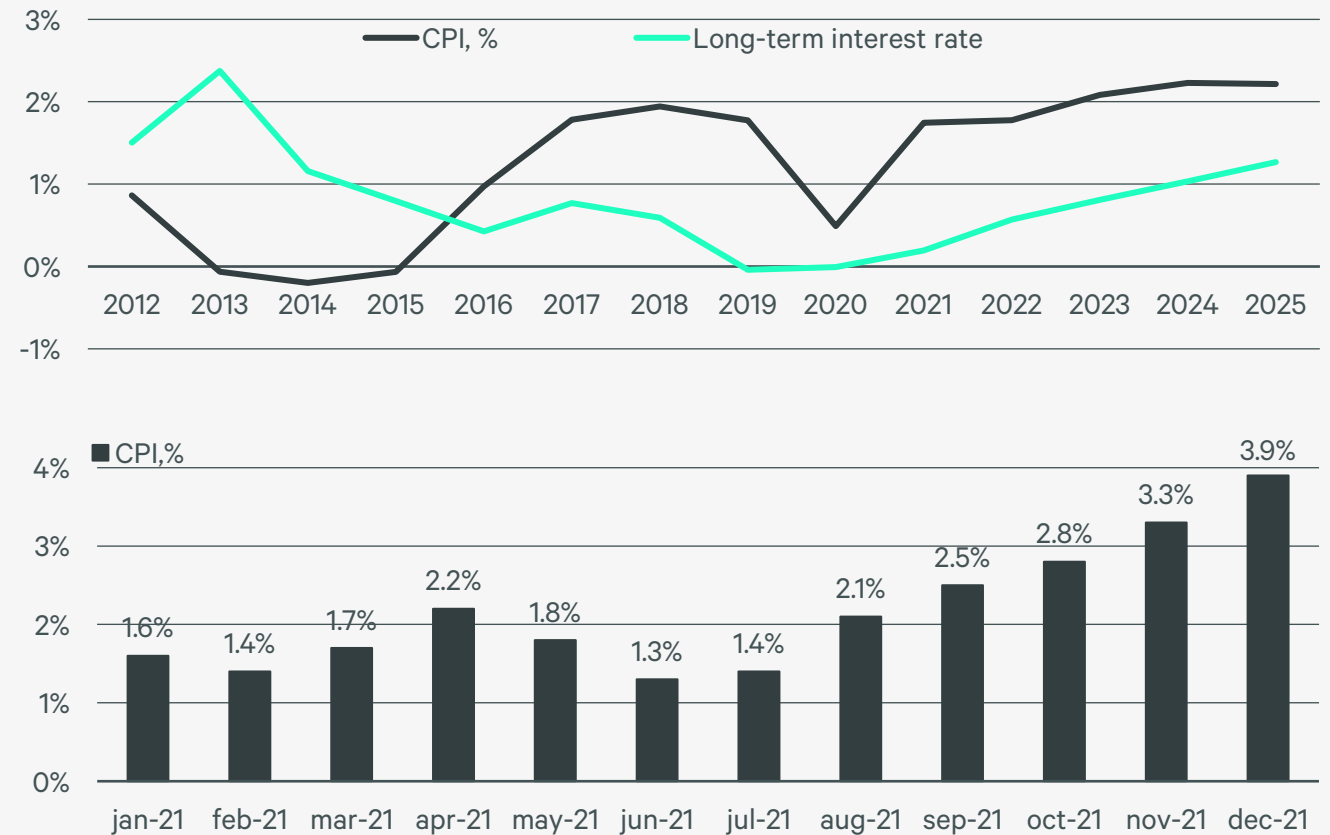
Source: Oxford Economics, CBRE Research

## Inflation and Interest Rates

Swedish authority Riksbanken (central bank) has yearly inflation rate target of 2%. Sweden managed to maintain inflation rate under 2% level during last couple of years. After extremely low levels of inflation during pandemic year 2020, the inflation rate has stabilized at normal levels during first half of 2021. During 4<sup>th</sup> quarter 2021 the inflation rate increased dramatically. That increase was driven by rising fuel prices in September-October and by dramatically increased electricity prices in November-December.

In November the inflation rate, measured as consumer price index, has reached 3,3%. CPIF, Inflation rate measured as consumer price index with fast interest, the same way Riksbanken measures it since 2017 (which subtracts the effects from changes to mortgage rates from the standard CPI), has reached the level of 3.6% in November. This is the highest monthly level measured as CPIF since 1993 and the highest level of CPI since July 2011. Increased fuel and electricity prices have led to rising transport prices. CPIF has reached 4.1% in December (3.9% CPI), which is the new highest record level during the last 28 years. Inflation is likely to prove to be transitory and stabilize during Q1 2022.

Figure 2: Inflation and Interest Rates



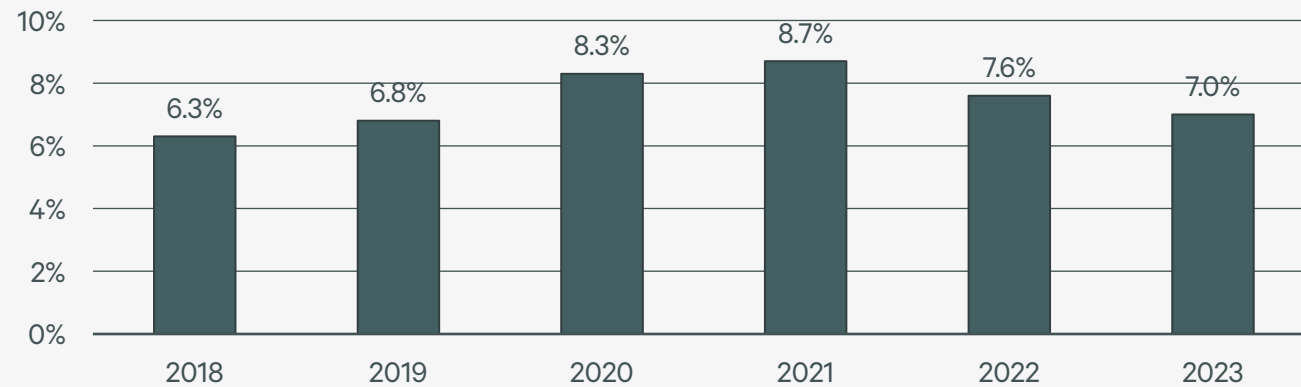
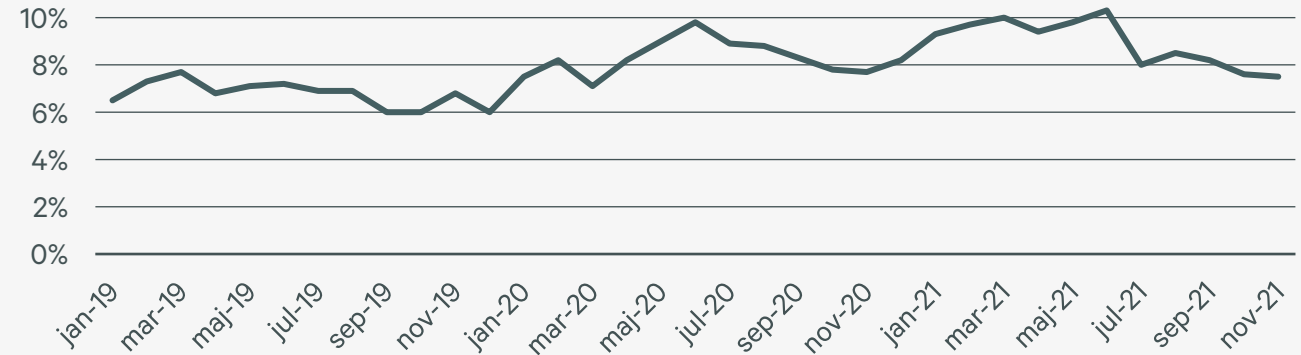
Source: Oxford Economics, CBRE Research

# Labour Market

The recovery of the employment market in Sweden has accelerated during second half of 2021. On monthly basis the unemployment rate continued to decrease since July 2021 and has gone down to 7.5% in November 2021. Full recovery of employment market will take some time. The employment is normally lagging behind the economic growth. Unemployment rate has reached 8.7% during 2021 on yearly basis, but is expected to decrease to 7% already by the year 2023.

Swedish employment is expected to increase from the level of 66.8% year 2021 to 68.5% year 2024. The number of job vacancies in Sweden during 2021 has reached the pre-pandemic level and have nearly reached the historic high level of job vacancies measured during 2018. Approximately 42% of all Swedish job vacancies were located in Greater Stockholm area. There is the situation on the Labour market in Sweden when the number of job vacancies is very high while the unemployment rate is also high. The mismatch in skills between job vacancies and unemployed labour is creating wage pressure in some sectors. This mismatch risk to delay development in some companies and organizations.

Figure 3: Unemployment Rate, %



Source: SCB (AKU) via Macrobond, CBRE Research



04

# Investment

Year 2021 has been a record year in the Swedish history for Real estate Investment. Capital remains easily accessible, and for many investors bigger is better. This trend is expected to continue in 2022.

## Trends to watch

# 01

We expect investment volumes in 2022 to reach the 2021 level. With that said 2022 is expected to be another record year when investment is expected to be 50% higher of pre-pandemic record year

# 02

Stronger occupational demand and limited stock of modern logistics and prime office assets are expected further stimulate investor demand. Continued rental growth and lower yields across these sectors is expected in 2022

# 03

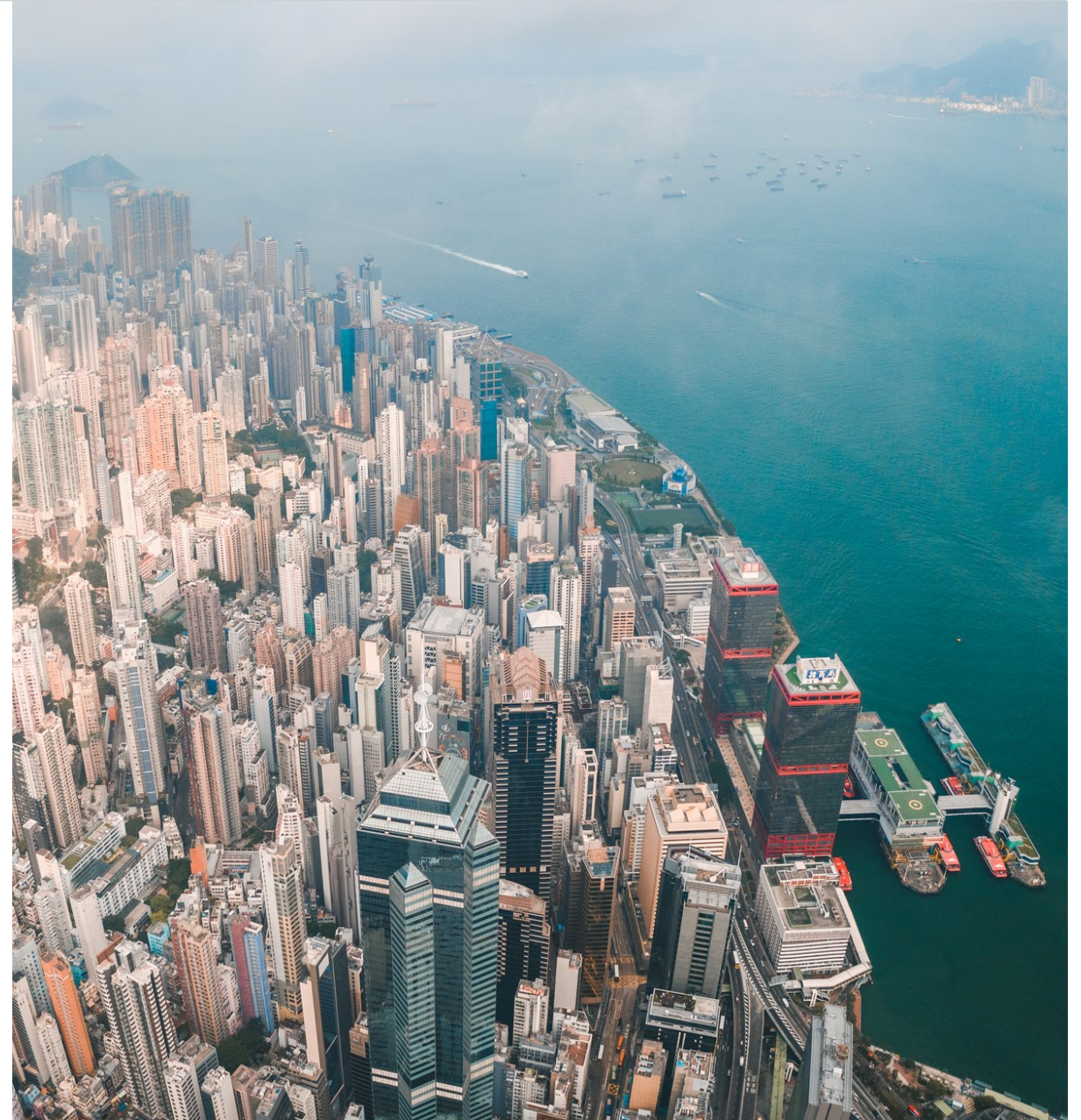
Increasing number of long-term investors focusing on ESG and willing to invest in sustainable real estates

# 04

Improving economic conditions will support both asset value appreciation and NOI growth, boosting returns.

# 05

International investment market is impacted by Covid-19 caused disruption. Swedish Investment market though proved to be resilient to pandemics and therefore at this point Covid-19 does not appear to be a major threat to this outlook.



## Record year for real estate investments in Sweden

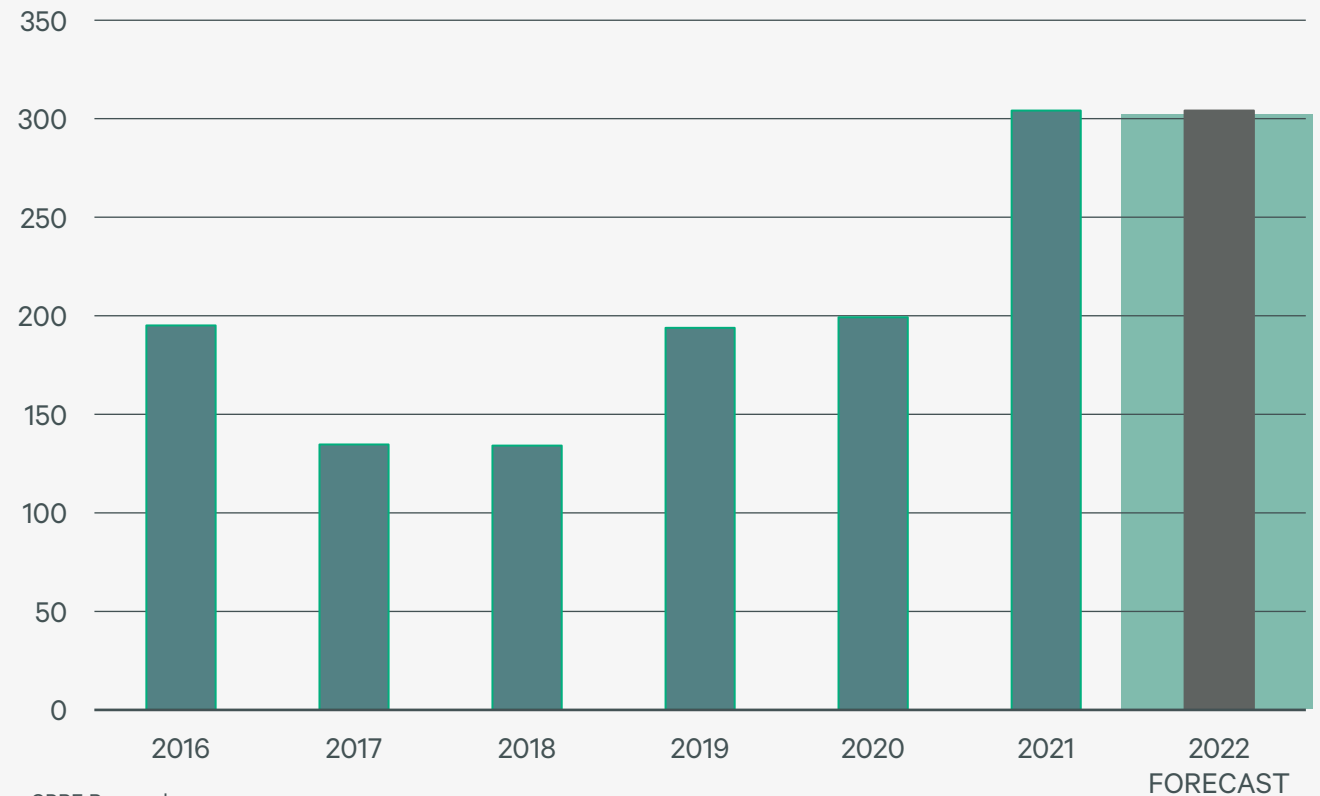
Year 2021 has been a record year in Swedish history for commercial real estate investments both in terms of the number of transactions and transaction volume. Transaction volume in Sweden has increased during 2021 by over 53% to the level of SEK 304.1 bn. All Nordic countries have followed a similar trend of increasing investment volumes during 2021. Total transaction volume for all Nordic countries has reached the record figure of SEK 650 bn (ca. EUR 65 bn). Sweden stands for approximately 50% of all transactions in the Nordic market

Total investment volumes during 2021 have increased mainly due to dramatic increase in Residential and Office segments. Residential segment outperformed all other segments and has reached record high share of 38% and record high volume of SEK 116.2 bn. The share of office segment corresponds to 34% of total investments. Residential and Office segments stand for 72% of all transactions followed by Industrial & Logistics (10.52%), Healthcare (6.85%), Retail (5.97%).

### A good year ahead for Capital Markets

While other countries worldwide are forecasting recovery of their investment market during 2022 and return to pre-pandemic level, Swedish investment market has shown resilience during pandemics with very strong year 2020 and phenomenal record year 2021 outperforming all pre-pandemic years. Summing up current economic situation and the investment activity during 2021, makes us believe that year 2022 is set for another record level of investment activity supported by improving economic conditions. Risk to this outlook coming from Covid-19 does not appear at this point to be a major threat to the outlook. Investment volumes during 2022 are expected to reach 2021 level with further upside potential.

Figure 4: Investment volumes, BSEK



Source: CBRE Research



## Set for another phenomenal year

Despite some challenges in Hotel and Retail segments the real estate fundamentals are expected to strengthen during 2022. Continuing economic growth and decreasing unemployment rate during 2022 will lead to filled vacancies and increased rents across real estate segments, driving Net Operative Income higher. The size of increase in NOI can vary across real estate segments, asset type and location.

### OFFICE

Number of transactions increased almost by 18% on yearly basis, while transaction volume tripled during same period of time. Gothenburg was the city where number of transactions doubled and the transaction volume tripled during 2021. The share of foreign investors decreased from over 26% year 2020 to 4.5% year 2021. Office transaction market was dominated largely by domestic investors. Yield compression accelerated during Q2 2021 compressing office prime yield by 15 bps on yearly basis.

### MULTIFAMILY

By decreased number of transactions year 2021 compared to previous year, the transaction volume has doubled during the same period of time. Share of foreign investment volume has returned back to pre-pandemic level and surpassed 50%. Residential prime yield has experienced dramatic compression by 75 bps on yearly basis, reaching lowest historic lowest level, as well as lowest level out of all real estate segments.

Figure 5: Prime Yields per Real Estate segment

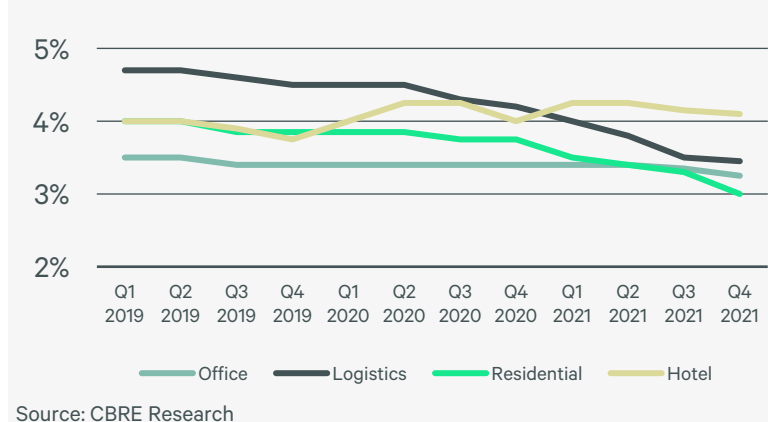
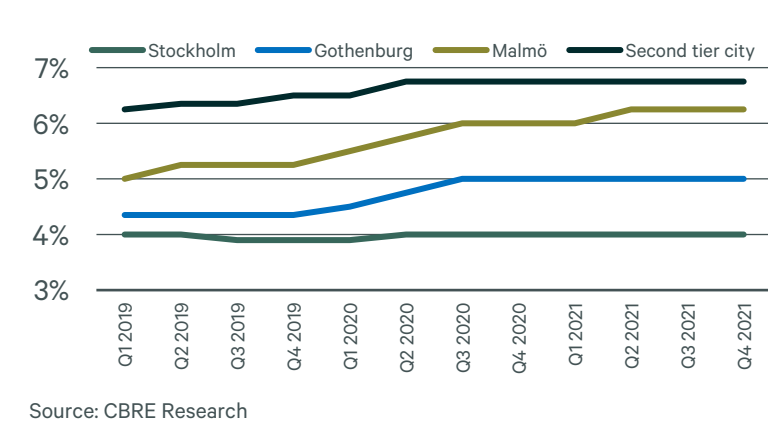


Figure 6: Prime Yields, High Street Retail, major cities



## Increasing investor interest for prime assets in certain segments put downward pressure on yields and upward pressure on rents

### LOGISTICS

Increasing demand and limited supply of modern logistic real estates in Sweden have led to further yield compression during 2021 and have put upward pressure on rents. We expect this trend to continue even during 2022.

### HOTEL

After a very difficult pandemic year 2020, the occupancy in the hotel market has increased by approximately 30%, which is a good start on the way to full recovery to pre-pandemic levels. Hotel prime yield increased by 25 bps during Q1 2021 but went down during Q3-Q4, reaching level of 4.1%. Hotel transactions share during 2021 was slightly under 1.5% level of total transactions on the market. We expect hotel market continue recovering throughout 2022.

### RETAIL

While yields for high street retail rose until Q3 2020, they remained stable during 2021. Exception was prime high street retail yield in Malmö which rose by 25 bp during Q2 2021. Shopping centre prime yields have increased during 2021 in Malmö (50 bps), Gothenburg (25 bps) and Stockholm (25 bps), while it remained stable in Stockholm at 5.75% level during Q2-Q4.

05

# Office/Occupier

Positive leasing momentum is expected to strengthen through 2022 supported by growing office based employment. Growing adoption of working patterns will drive shift to quality and make flex space market continue to expand.

## Key Takeaways

### 01

Occupier favourable market conditions to persist in 2022. Nevertheless, office market take up is expected to increase and vacancy to return to more healthy levels.

### 02

The rise of hybrid work to continue. Companies will test out new occupational strategies. But the future of the office market in terms of hybrid working is not expected to be settled within 12 months of 2022.

### 03

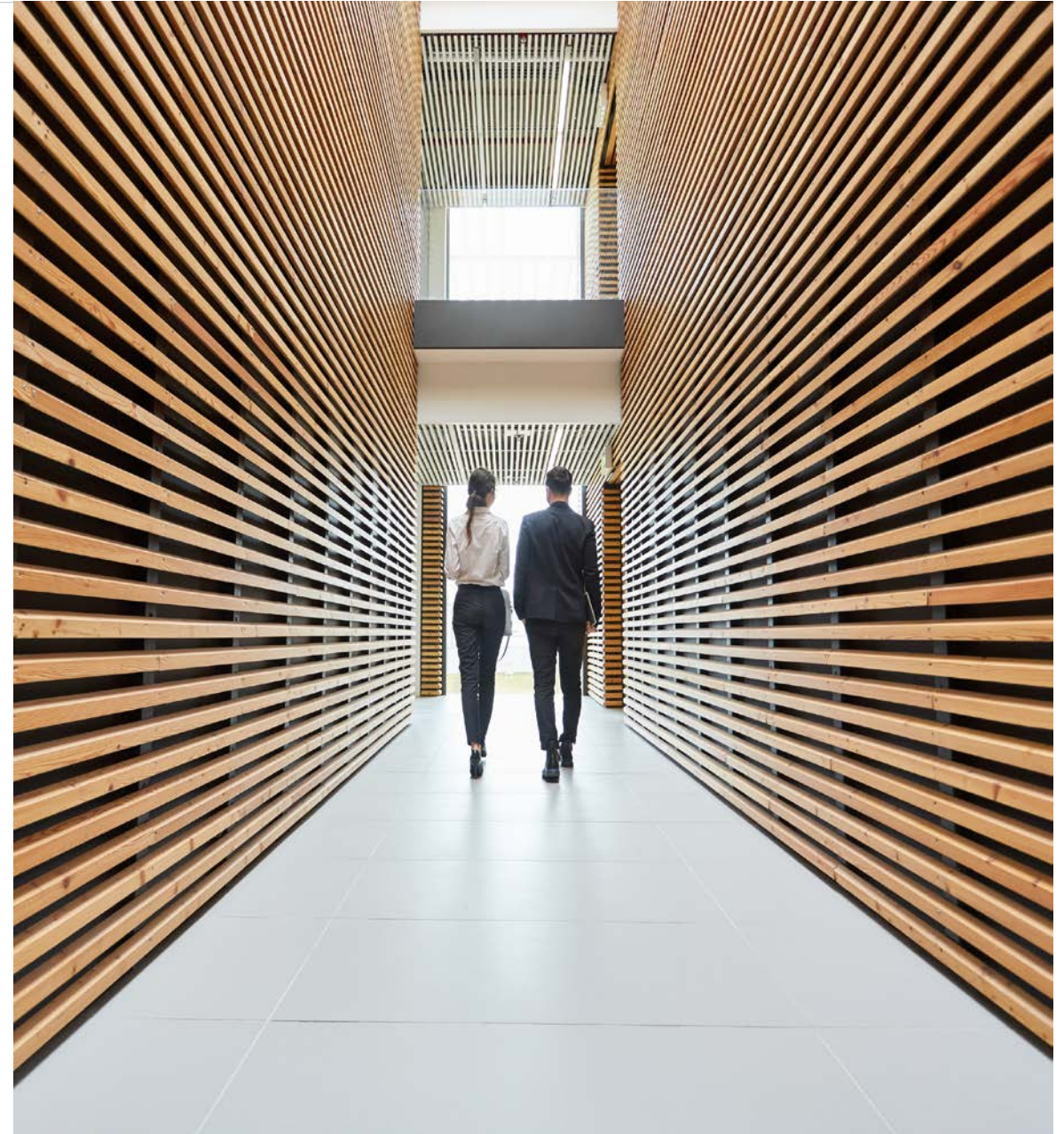
ESG is expected to receive a growing role. More and more occupiers set their own ESG goals. As part of ESG strategy companies are expected to focus on highest, greenest buildings available.

### 04

Hybrid work stimulates demand for flex space. Co-working sector has expanded rapidly during 2021 and expected continue expansion, especially in central Stockholm, taking up space located in attractive locations.

### 05

Swedish office market activity strengthened during 2021. The momentum is expected to continue during 2022 and is dependent on how Covid-19 variants impact society.



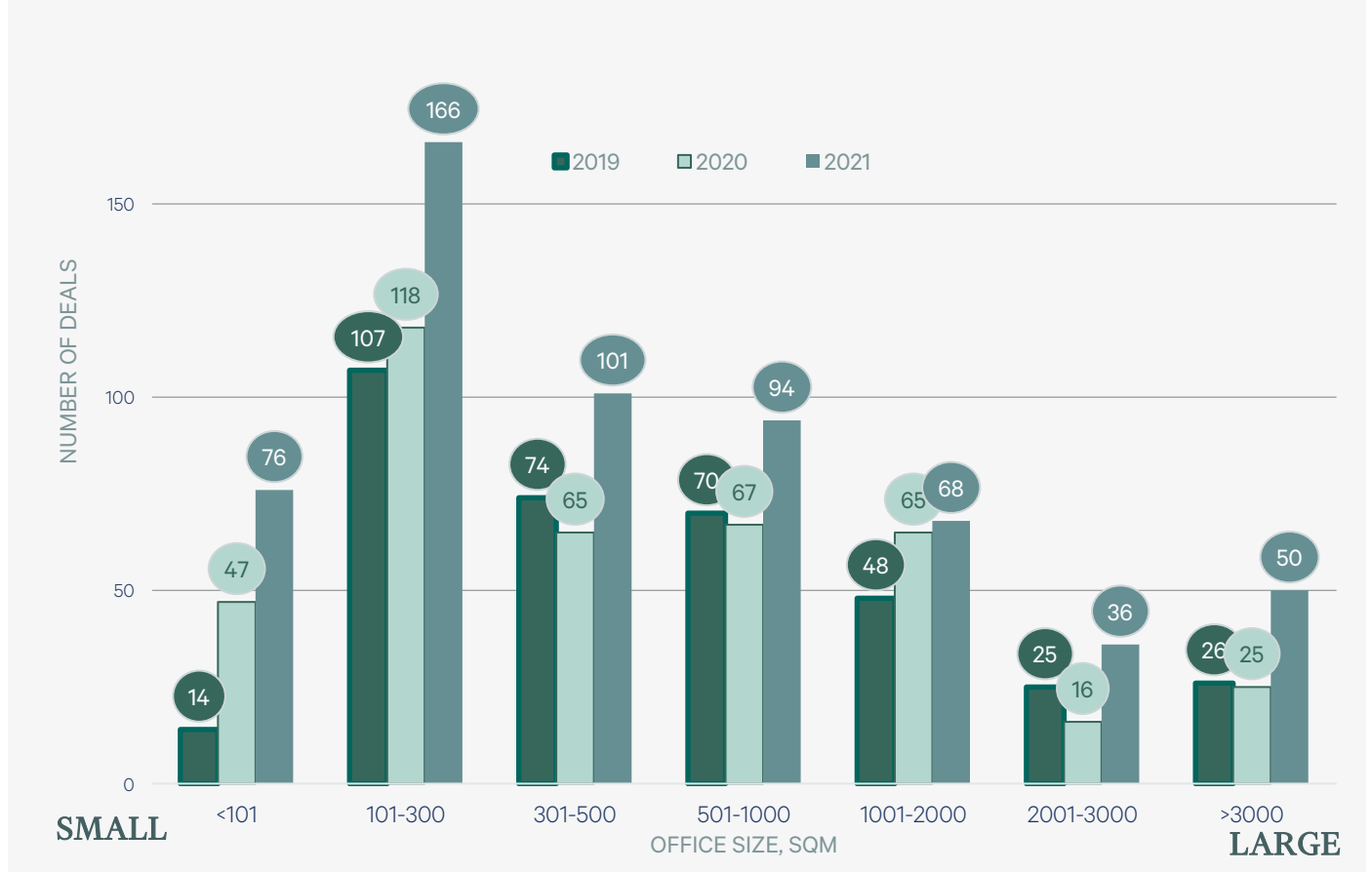


## Leasing recovery

During the pandemic year 2020 we observed decrease in leasing activity across almost all office space size groups. Throughout 2021, new lease transactions increased from pandemic lows. Moreover, office leasing activity has increased across all office space sizes. There are two office size groups which stand out especially: offices smaller than 100 sqm and offices between 100-300 sqm. Number of leasing office deals of size 101-300 sqm has increased by 55%. Surprisingly, the number of leasing deals with offices larger than 2,000 sqm has doubled compared to both year 2019 and year 2020. Offices of size 1,001-2,000 sqm is the only group which experienced a slight increase in leasing deals.

Dramatic increase in office leasing activity during 2021 can be explained by the companies reviewing their office needs, optimizing their office space size as a result of the distance working during pandemics and as a result of new requirements set by the employees. Some companies choose to optimize their office space to a smaller size. Some other companies on the other hand choose to upgrade office space to a larger size. As workplace flexibility becomes more and more embedded in corporate business models, activity-based workplaces with amenities essential for employees are becoming the new office standard.

**Figure 7: Number of leasing transactions per office space by size that has been taken up in the Stockholm Office Market before pandemics, during pandemic year and during vaccination year**



## Continuing recovery of office market

### Polarising Vacancy

Office vacancy rate had been rising during the last two years and now looks to have peaked in Stockholm at the end of the year 2021. Vacancy rate in such submarkets like Gothenburg and Malmö has started to decrease during 2021.

### Upwards prime rents

Prime office rents in Sweden have showed resilience during 2021. Stockholm office prime rent has grown by 11% during 2021. This is one of the highest office prime rents growths in the EMEA region. During 2022 Stockholm office prime rent is expected to be the fastest growing in the EMEA, reaching yearly growth of 5%.

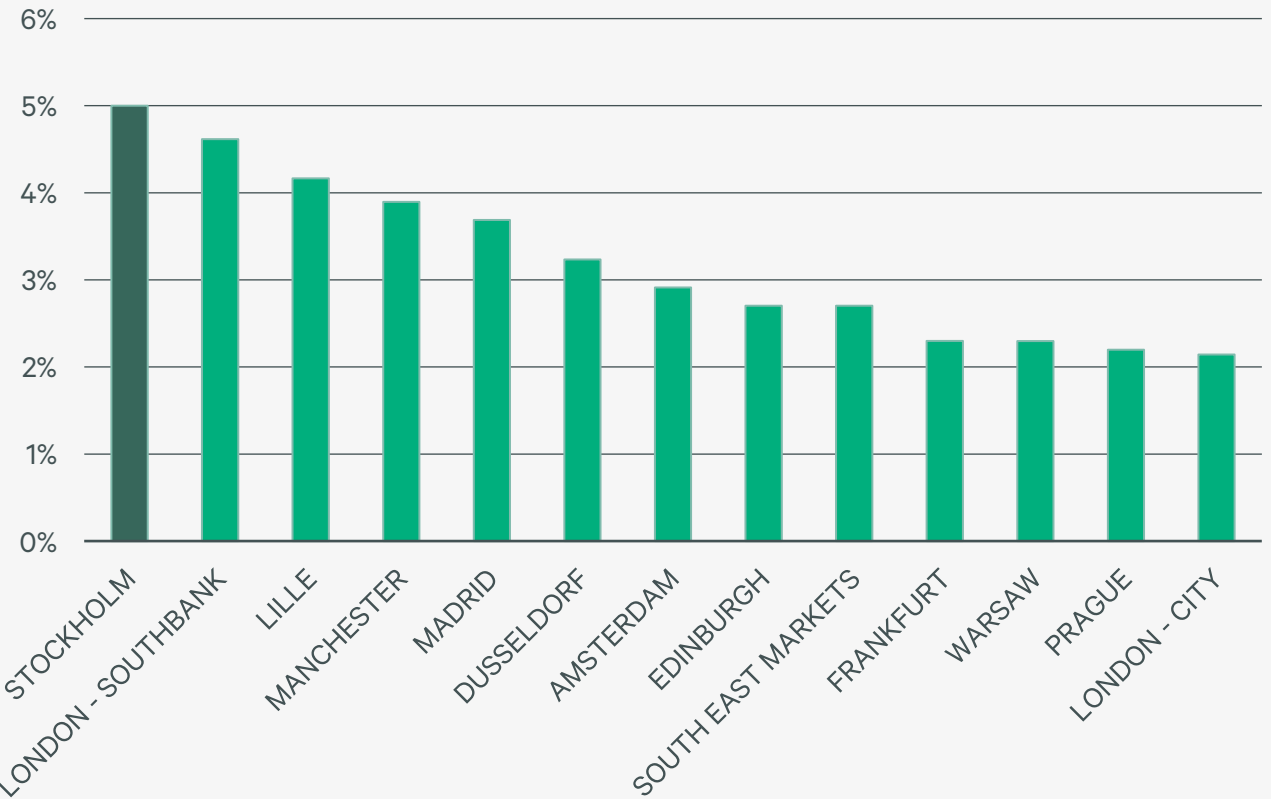
### GOTHENBURG AND MALMÖ

Office prime rents in Gothenburg and Malmö like office prime rent in Stockholm belong to highest growing office rents in the EMEA region. Office prime rent has grown by 8,8% in Gothenburg and by 6,6% respectively in Malmö during 2021.

### Co-working on the rise

During the year 2021 we observed exploding number of deals in the co-working sector, compared both to pre-pandemic year 2019 and pandemic year 2020. Flexible offices became important during pandemics, as response to demand uncertainty, but also as response to employee choice and occupier's needs. The expansion of co-working continued especially actively in Stockholm CBD and Central Stockholm. Co-working share in Stockholm CBD has grown rapidly and has potential to reach 10% of total office stock in Stockholm CBD during 2022-2023.

Figure 8: Forecast of prime office rental growth (%), 2022



Source: CBRE Research, EMEA Prime Office Forecast Q3 2021

## New ways of working in 2022

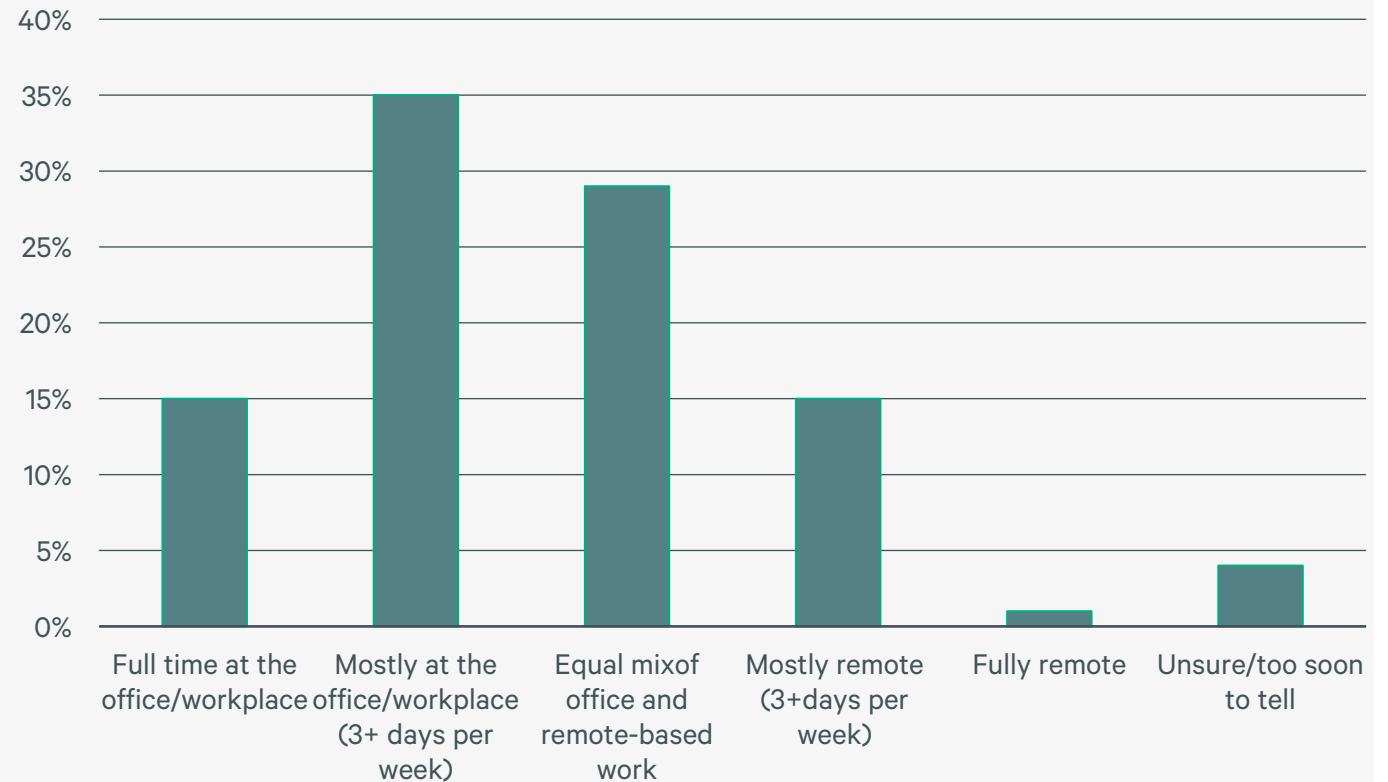
Remote work during pandemics has led to a reconsideration of the purpose of the office. Adapting new working models and new working patterns is not a one year process for companies. Opinions on hybrid working vary across similar companies. Our most recent indicators (EMEA Occupier Survey) show occupiers focusing on the physical office in the way that seemed unlikely before pandemics.

In 2022 we expect:

- Occupiers favouring high-quality buildings, satisfying their needs for wellness, amenity and sustainability.
- Hybrid working policies will be implemented more widely with workplace flexibility taking key role in corporate business models
- More and more companies are expected to launch an asset audit evaluating sustainability of buildings in their portfolios
- Most companies will monitor the return to the office in the early part of 2022

As a result, the employers will increasingly view the office as a place of collaboration and a meaningful point for connection of employees. Employers are expected to focus on activity-based workplaces offering amenities and wellness which enhance employee productivity. Another focus area for companies to become more important during 2022 are the amenities which meet the daily needs of employees, help them establish and maintain relationships

Figure 9: Future workplace policy intentions



Source: CBRE Research, EMEA Occupier Sentiment Survey, 2021



06

# Retail

Retail recovery will continue throughout 2022. Improving footfall, retail and leisure spend will strengthen the occupier market. Challenges still remain in the supply chain disruptions and consumer price inflation.

## Trends to watch

# 01

Swedish retail investment market has been one of the few fastest growing markets in the EMEA during 2021. Retail investments have grown in Sweden by 27% during 2021 and are expected to accelerate their growth during 2022.

# 02

Dramatically increased freight and raw material costs are expected to continue bringing inflationary pressure for retailers and consumers in 2022, driving purchasing costs upwards.

# 03

Supply Chain is expected to be affected by shipping container imbalance and some raw materials shortage even in 2022. Like in 2021 some orders risk to be cancelled or delayed in 2022. This might dampen both online and offline sales.

# 04

Return to the office and resumption of tourism and business travel during 2022 will improve Retail footfall, even in City locations, driving retail sales upwards improving retail metrics.

# 05

Following regained confidence both by landlords and occupiers as a result of increased footfall and improving retail metrics, the rental levels are expected to stabilize and vacancy decrease.



## Recovery set to continue with remaining downside risks

The recovery of Retail sector during 2021 was going relatively well. Retail segments which suffered much from pandemics, such as optics, toys, clothes and shoes have shown the strongest retail growth during 2021 both online and in physical stores. Sport & Leisure sales declined during 2021 even compared to 2020 sales, while the Grocery Retail growth returned to normal level around 3.1%. The recovery will continue during 2022. As the build up of personal savings during the pandemic will be released, consumer spending is expected to continue to rise during 2022.

### Retail Parks continued favoured by investors

Investment in the high street retail segment has continued to decline all across EMEA region even during 2021. Segments which proved to be resilient during pandemics are retail warehouse and supermarket segment. Trend which was seen during 2021 both in Sweden and across EMEA countries is that investors favored Retail Parks and Retail Warehouse segments. Sweden did not follow EMEA negative trend where investments in the Shopping Centre segment dropped dramatically during 2021. Investment in the Shopping Centre segment in Sweden on the opposite increased during 2021 by 20% against 2020 and by 354% against year 2019. Big Box and Shopping Centre are two retail types in Sweden with equal investment volumes during 2021, outperforming both 2020 and 2019 investment volumes.

### Swedish Retail Investment market – one of the fastest growing

Investors are taking a new look at retail’s attractive yields compared with other asset classes. High street prime yields have been stable during 2021 in Sweden. Shopping centre prime yields in Stockholm, Gothenburg and Malmö have increased during 2021. At the same time prime yields for Retail Warehouse Parks and Big Box have gone down by 25 bps during 2021. Total retail investment volume during 2021 has surpassed by far pre-pandemic level of 2019 and has become one of the top 4 fastest growing in the EMEA during 2021. It has also been one of the top 5 largest in the EMEA during 2021.

Figure 10: Investments per retail segment during Q1-Q3 in EMEA, MEUR

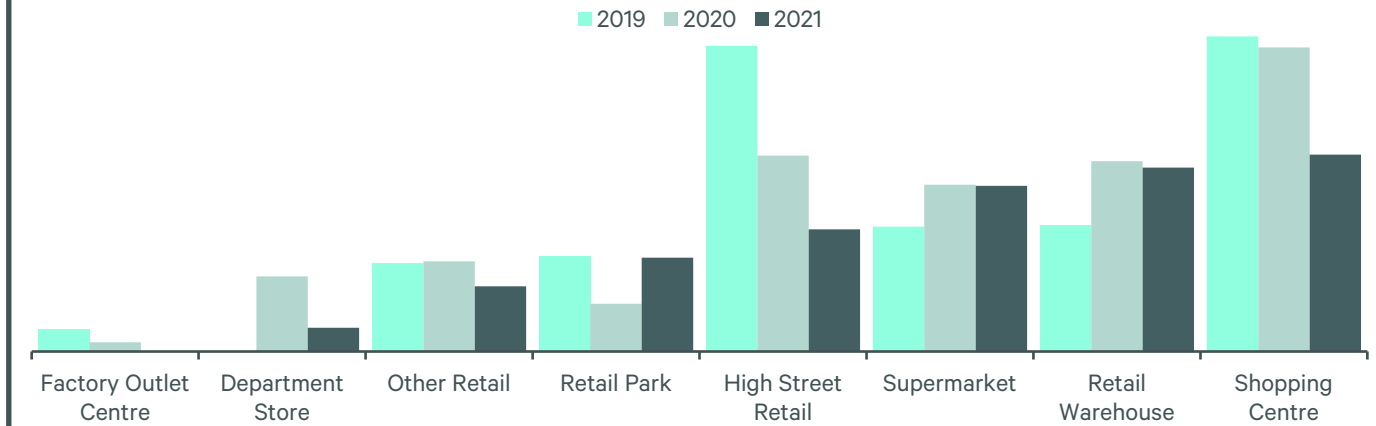
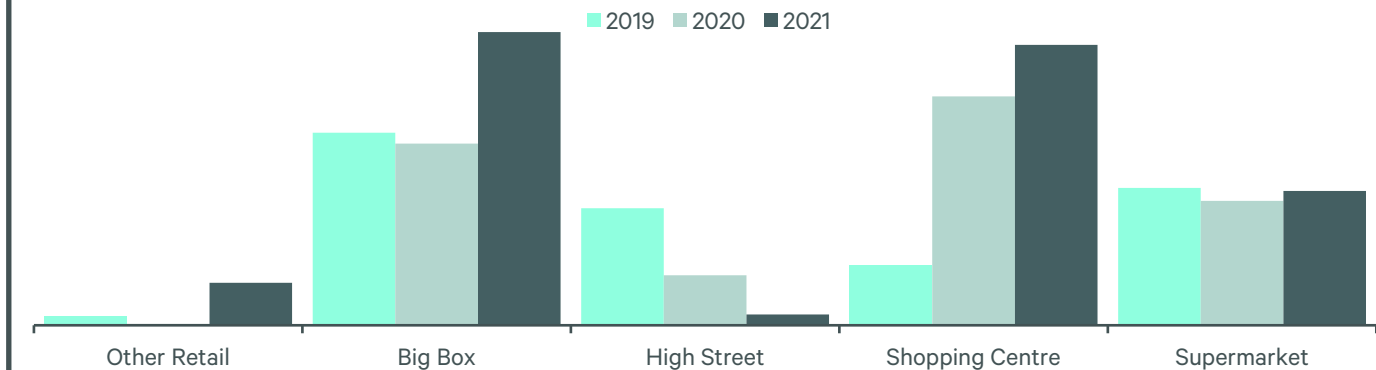


Figure 11: Investments per retail segment during Q1-Q4 in Sweden, MSEK



Source: CBRE Research, SCB



# Predicting the future of E-commerce

E-commerce penetration is expected to grow during the next 5 years in both the countries with low presence of e-commerce, countries with strong presence of e-commerce and in established markets. There are some established markets worldwide like South Korea, UK, USA, Netherlands, where E-commerce penetration is expected to reach levels ranging between 26% in USA and 43% in South Korea respectively. Sweden belongs to countries with strong e-commerce penetration. E-commerce share is expected to grow in Sweden from 14% year 2020 to 18% year 2025.

## Potential for growth

The e-commerce share grew from 11% year 2019 to 14% year 2020 during pandemics, showing 40% growth. Throughout the year 2021 e-commerce sales have grown by 6.5% reaching level of 130 BSEK. E-commerce growth have bounced back to more normal level during 2021. Shopping online across different retail segments is our new normal and is here to stay growing slower than during pandemics year 2020 but faster than before pandemics.

## E-commerce Challenges

Some retail companies in Sweden reported during 2021 experiencing global supply chain challenges and raw materials shortage, which dampened their sales growth both in physical stores and online. Dramatically increased freight and raw materials costs impact purchasing prices negatively. Some retail companies name delayed and cancelled delivery from abroad to Sweden as the main constrain for sales growth. Uncertainty and instability of delivery of goods create risks future sales and thus for e-commerce growth. These risks might impact e-commerce growth during 2022.

Figure 12: E-commerce penetration per country

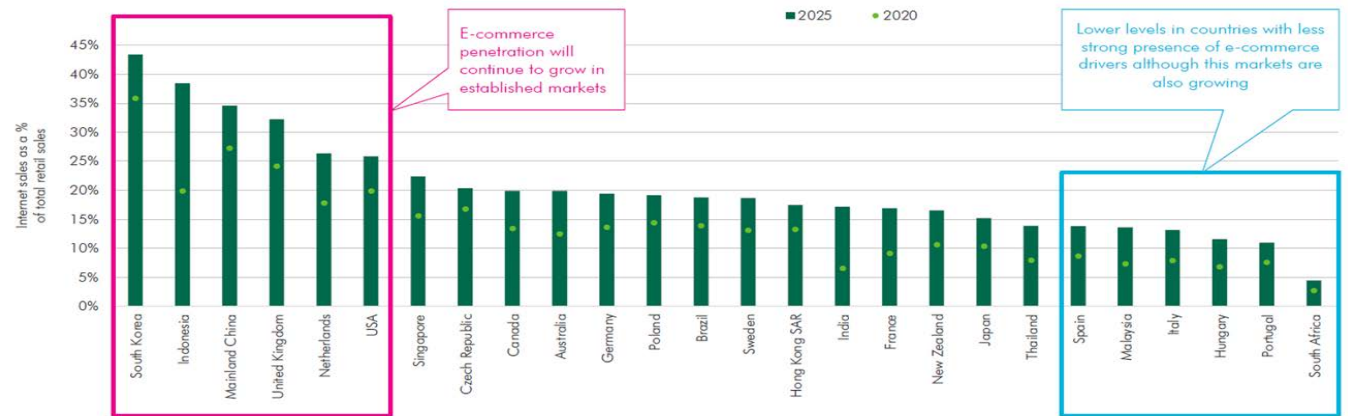
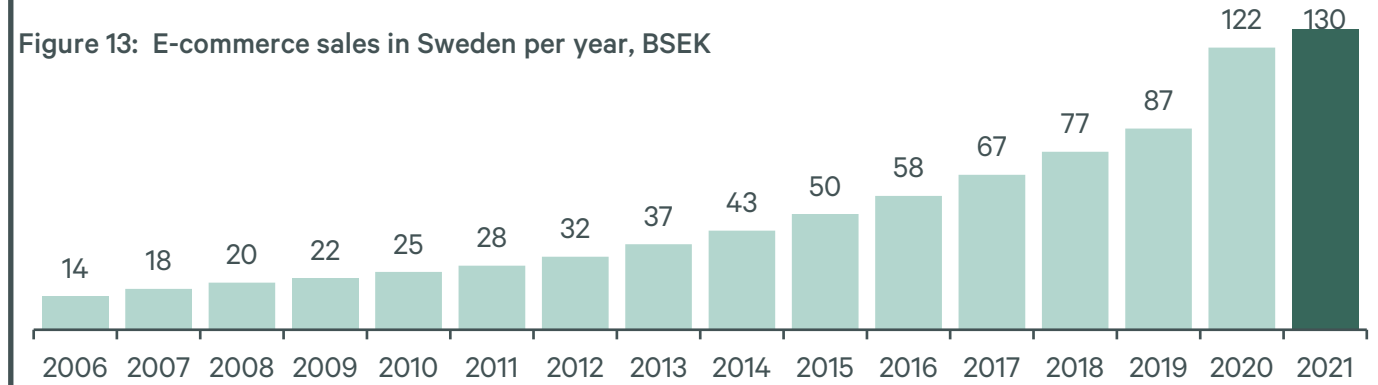


Figure 13: E-commerce sales in Sweden per year, BSEK



Source: CBRE Research, SCB

07

# Industrial & Logistics

Sweden is expected to continue experiencing logistics boom even during 2022. Due to significant demand and supply imbalance, which will not be addressed in the short run, the rental growth is likely to continue throughout 2022.

## Trends to watch

# 01

The logistics real estate market is booming in Sweden. The demand for logistics space in Sweden will remain strong during 2022 even despite 1.35 million sqm of new modern stock coming to the market.

# 02

Automated technology and robotics are on the rise in Sweden. Automation will require building amenities found mostly in newly constructed facilities, which will increase the demand for first-generation facilities in 2022 and beyond.

# 03

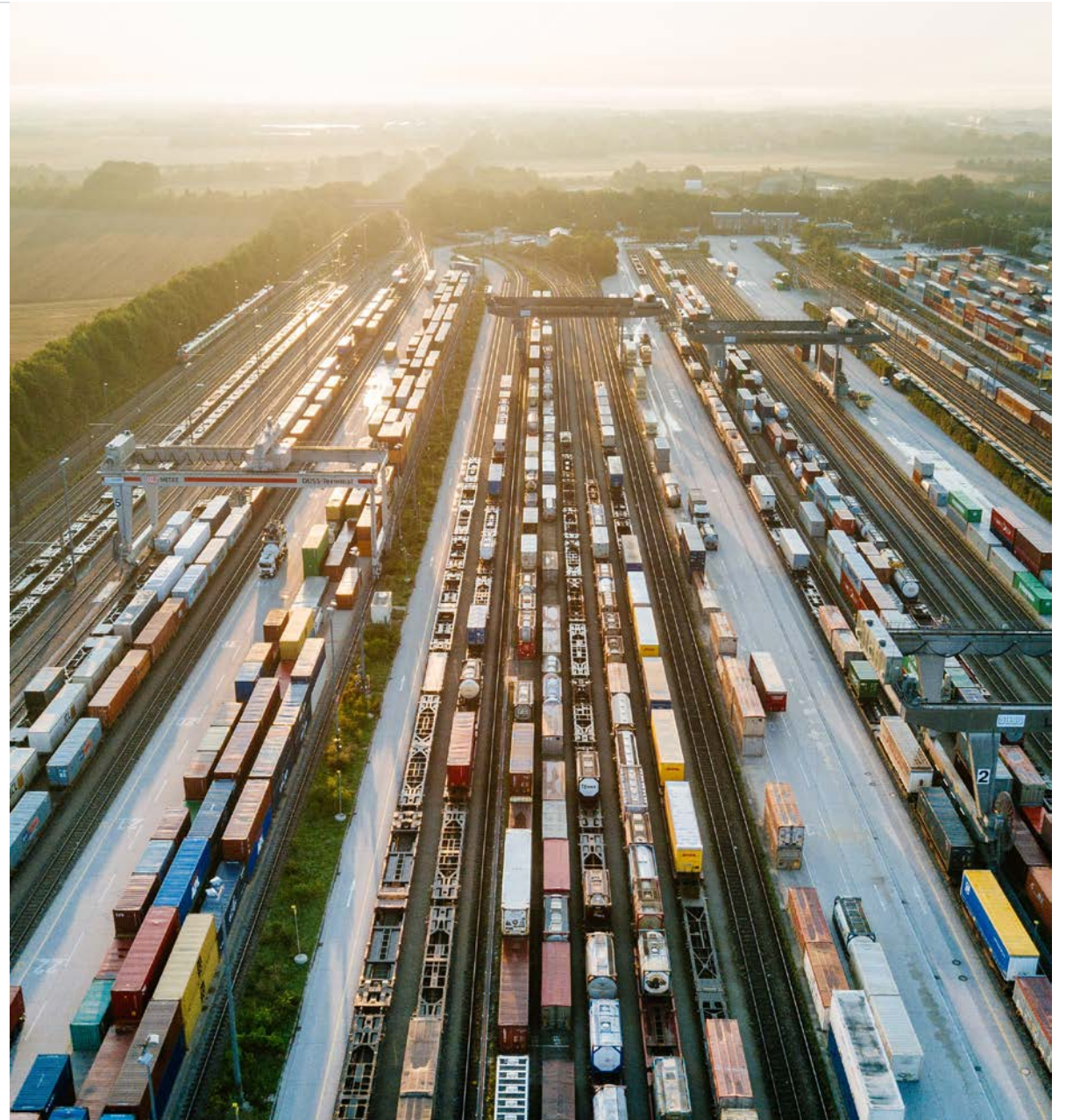
Speculative development, unusual for Sweden before, is on the rise now during 2022. Speculative supply will not be enough to meet the demand and new space will be quickly absorbed by the market.

# 04

ESG now sits high during 2022 and beyond. Sustainability is starting to become a priority for both logistics occupiers and landlords, given the need to reduce carbon emissions. Automation and robotics will also lead to higher demand for green power on site.

# 05

Logistic investment volumes are expected to continue at high levels, leading to further compression of prime yield.





## Logistics boom in Sweden

Swedish logistics market has changed dramatically during the last two years. The dramatic change occurred year 2019 when investments in the logistic market in Sweden doubled. The demand for modern logistics increased so much, that even Covid-19 was not able to impact it negatively. Logistic Investments during pandemic year 2020 had reached even higher levels than year 2019. The new built stock of modern logistics in Sweden during pandemic year 2020 almost tripled compared to year 2019. This trend accelerated during 2021.

### New record year for newly built modern logistics in Sweden

Almost one million sqm logistics stock – 909,400 sqm of new modern logistics have come to the market in Sweden during 2021. Approximately 762,400 sqm of this new stock is located in logistic triangle around major logistic hubs. Year 2022 logistic market is expected to receive another 1,354,000 sqm of modern logistic, 50% more than year 2021. We already know that at least 450,000 sqm are already planned to be built and come to the market year 2023. Even with such stock volumes newly built and planned to be built, the demand for modern logistics in Sweden is still higher than the supply.

### Speculative logistics is getting trending

It has not been popular in Sweden to build logistics real estates on speculation. At least until the year 2021. But this trend looks to be changing now. Approximately 25% of all logistics real estates coming to the market during 2021-2023 are speculation projects. That is a dramatic change.

### Automation and ESG on the rise

The share of the logistics real estates in Sweden built for E-commerce purpose during 2021-2023 is 12% calculated as share of e-commerce logistics sqm (318,000 sqm) out of total logistics stock in sqm (2,700,000 sqm) build during 2021-2023. It's trending now to built larger logistics properties than before. There is much focus on automation of logistics properties and ESG today. These factors combined with increasing share of e-commerce are expected to drive demand for logistics real estates both during 2022 and in future.

Figure 14: Split between modern and aged logistics stock by location

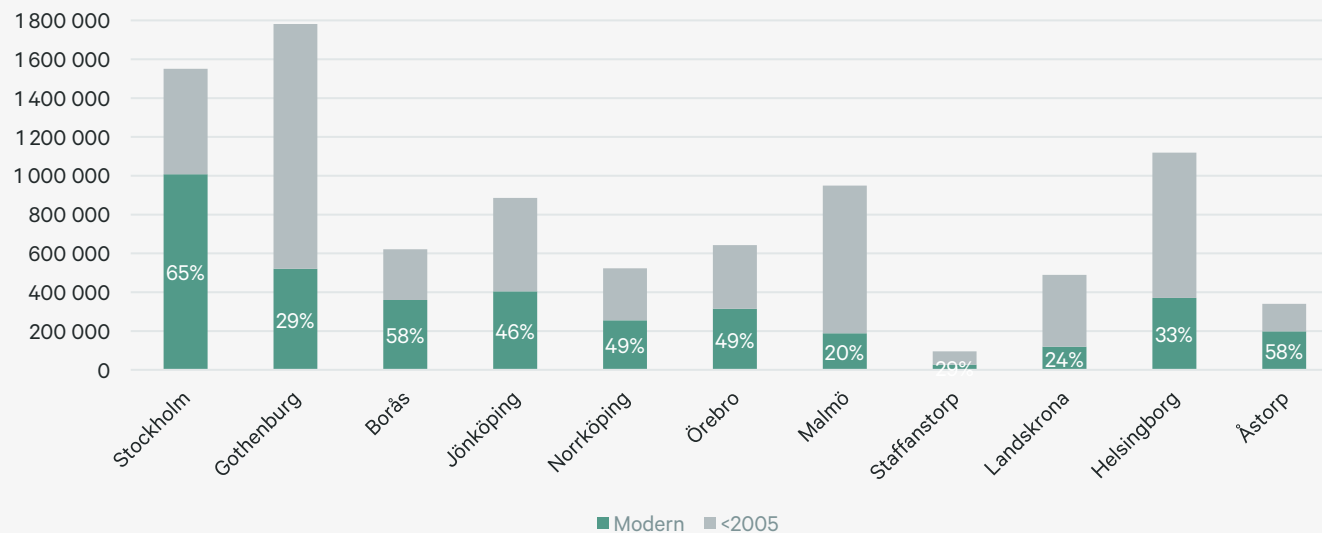
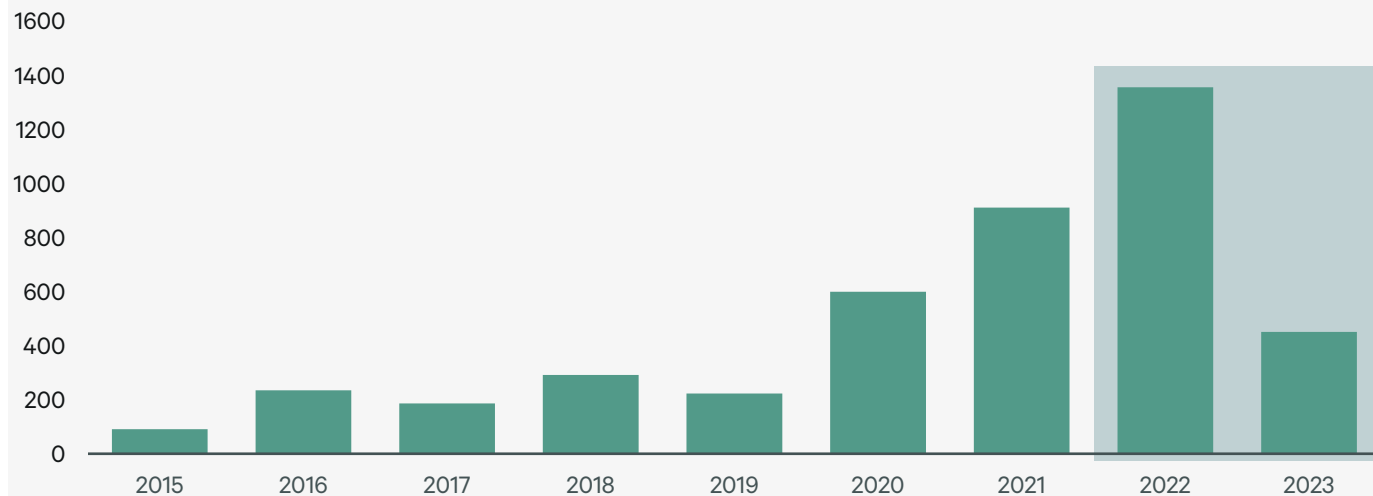


Figure 15: New modern Industrial & Logistics stock (thousands sqm) completed by year



Source: CBRE Research

## Logistics investment is projected to remain high throughout 2022

Swedish transaction market has been resilient to pandemics with transaction volume increasing during year 2020, attracting larger volumes of international capital and outperforming pre-pandemic volumes. Transaction volumes during 2021 increased by 53% in number of transactions compared to year 2020 but decreased slightly in transaction volume.

### Stable 5<sup>th</sup> logistics investment market in the EMEA

The share of foreign investments in the logistic market has traditionally been larger than the share of domestic investments: 56% during 2019 and 64% during 2020. The share of foreign investments decreased during 2021 to 43%. Nevertheless, Swedish logistic investment market continues to remain very attractive for foreign investment capital. Swedish logistic investment market has become stable 5<sup>th</sup> market in the EMEA in terms of transaction volume and has potential to attract larger investment volumes during 2022, continuing expanding its market share and becoming 3<sup>rd</sup> logistics investment market in the EMEA region.

### Continuing outperformance expected

Compression of Logistics Prime Yield has continued during each quarter of 2021. Prime logistics yield has decreased by 70 bps on yearly basis, reaching the new historical low level of 3.45% in December 2021. Lack of investible logistics assets and extremely high demand makes us believe that current low level of prime yield will be challenged during 2022 again leading to further logistics yield compression will continue during 2022.

Figure 16: Prime Rental Forecast Growth per year from 2021 to 2025

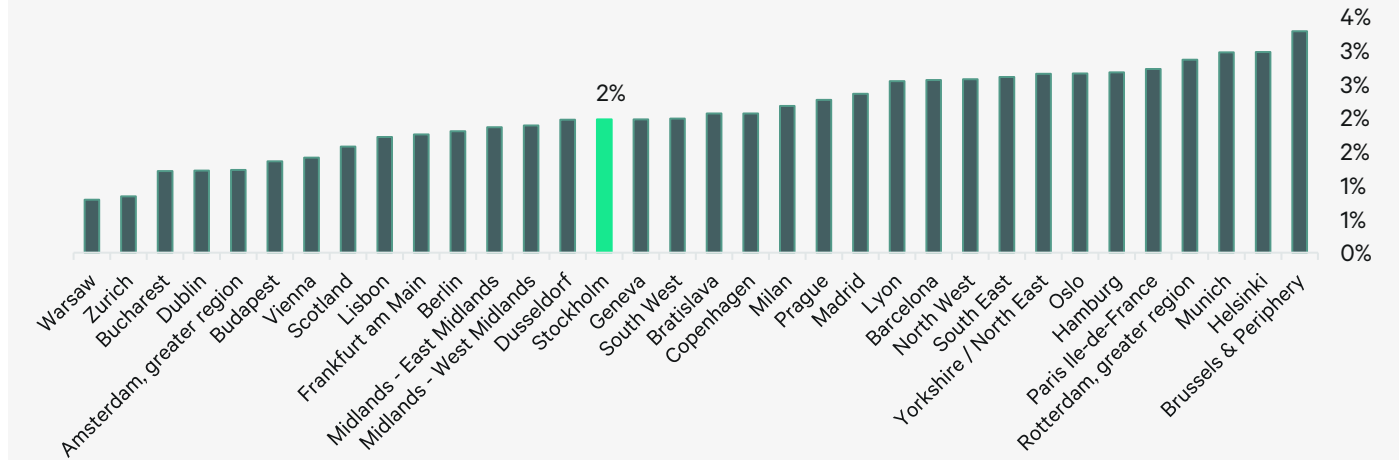
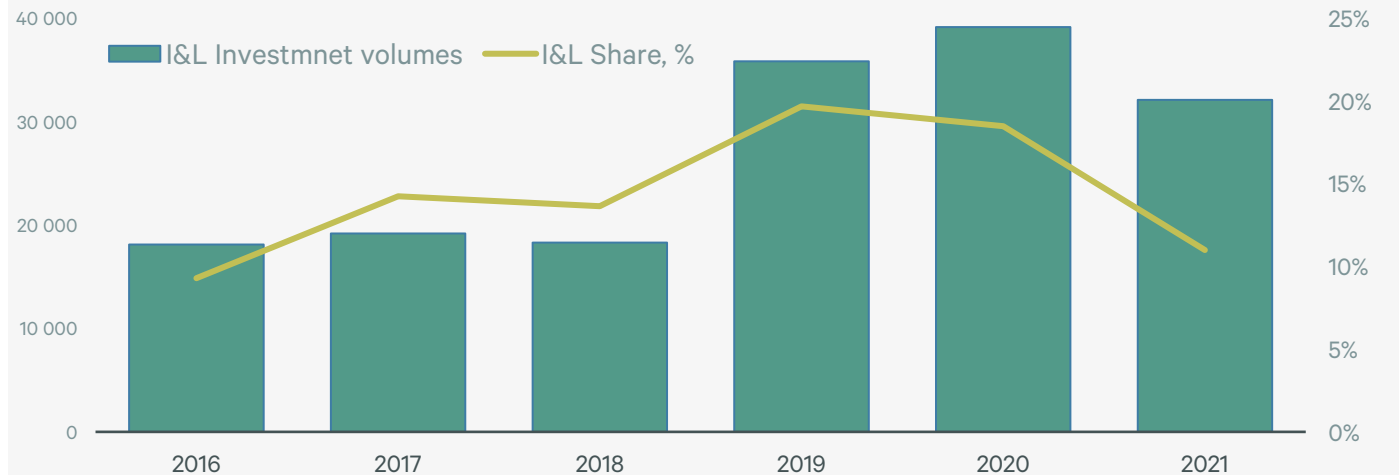


Figure 17: Industrial & Logistics investment volumes (MSEK) and its share



Source: CBRE Research



“

We expect the positive momentum to continue in 2022 after a record year for both take-up and investment volumes. The emphasis is also switching from yield compression to income growth.

”

Mark Cartlich  
Head of EMEA Logistics Capital Markets Strategy,  
CBRE

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# Residential

Swedish residential market has remained resilient during the pandemic time. Year 2021 has been a record year for investments in the residential market. We expect residential investment market in 2022 to be as strong as during 2021, likely reaching new record of investments volumes.



## Trends to watch

# 01

Demand for residential housing continue to be high during 2022. Residential market is experiencing continuing shortage of housing.

# 02

Supply of rental housing, student apartments, care homes are expected to be affected negatively by the abolishment of government investment support for these residential types. The effect can be seen at the end of 2022 – beginning of 2023.

# 03

Uncertain situation with cement production in Slite (Gotland) and shortage of certain construction materials on the market both locally and globally can impact supply of residential housing in Sweden

# 04

Sweden is 2<sup>nd</sup> largest residential investment market in the EMEA region. Investments in the residential sector during 2022 are expected to be at the same high level as 2021. Both foreign and domestic investors are expected to be more active during 2022.

# 05

From urban to suburban trend is expected to continue also during 2022 as companies will implement hybrid working model, working part of the week from home, the demand for single family houses and larger apartments is expected to continue



## Record year for Investments in the residential real estates

In the Swedish rent regulated market the demand for residential housing is continuing high. Shortage of residential housing in Sweden and insufficient supply keep up demand at high level for many years ahead. Residential Market continued to show resilience against Covid-19 during 2021. High tenant demand in Sweden is ensuring stable occupancy and rent collection rates, which is favoured by investors.

### Residential investments at highest level ever

Investments in the residential market in Sweden are evolving and have reached the new record level of SEK 116.2 bn year 2021. Acquiring of Akelius multifamily portfolio by Heimstaden has definitely contributed to this record. But even without Akelius - Heimstaden deal worth SEK 36 bn (Swedish portfolio), residential transactions have reached record level of the previous year 2020. Residential Prime Yield has experienced a dramatic compression by 75 bps on yearly basis, reaching historic low level of 3% in December 2021.

### Increasing share of foreign investments

The share of foreign residential investments during 2021 has grown to 51%, mainly thanks to Akelius - Heimstaden and Allianz - Heimstaden deals. Otherwise, it were domestic investors who became more active during 2021 and stand for SEK 56.6 bn of transactions outperforming any of the pre-pandemic years. We expect the share of foreign investments to grow during 2022 considering increasing business travel during 2022 as a result of dramatically improving situation with Covid-19.

Investment in the residential market has expanded its market share from 31.5% last year and 31% year 2019 to 38% during 2021.

Sweden has become 2<sup>nd</sup> largest residential investment market in the EMEA

Figure 18: Residential investment volumes per year and origin, BSEK

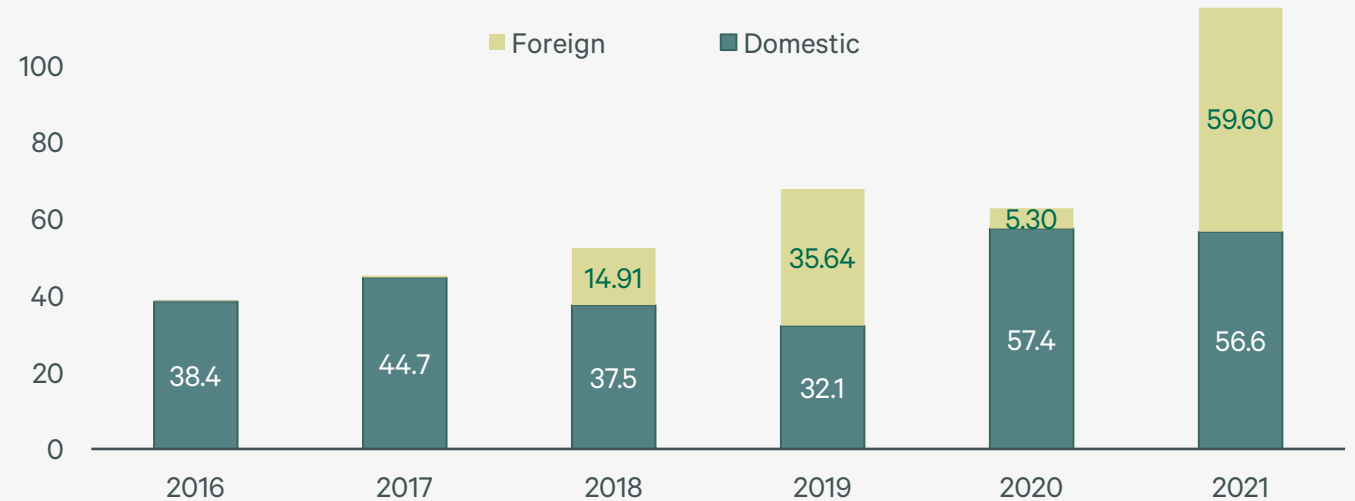
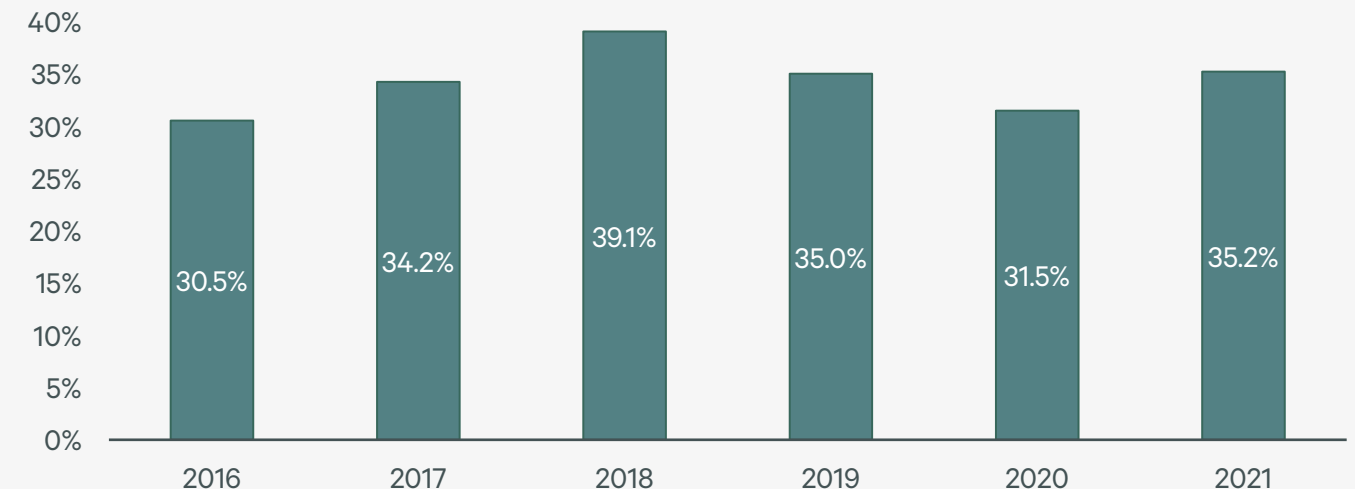


Figure 19: Residential investment volumes share, %



Source: CBRE Research

# Record high demand for residential housing

## Demand

Swedish population has grown by one million people between 2006 and 2017 putting extreme pressure on demand for residential housing. Population is expected to reach 11 million people by the year 2030 continuing putting pressure on demand. Swedish residential housing is experiencing shortage which is expected to continue both during 2022 and beyond. Pandemics has changed the demand preferences in the way that demand for larger apartments and single-family houses increased dramatically as a result of working from home. Higher demand has led to increased prices for these real estate types.

## Supply

To keep up with increasing demand the minimum of 60,000 residential units of all types should be built in Sweden yearly according to Swedish authority Boverket. The volumes of residential units delivered to the market during 2019 and 2020 were 3,000-5,000 residential units lower than required yearly minimum. The number of residential housings delivered during 2021 is expected to be 5,000 shorter when required minimum 60,000 units. Nevertheless, the construction starts of rental apartments during 2021 were at record level since 1990. But this level might be affected negatively by some challenges on the market during 2022 and coming years.

## Constraints on supply side

Swedish Parliament has stopped as of 1<sup>st</sup> of January 2022 investment support used for construction of rental apartments, student accommodation, care homes and energy-optimising of housing. This change is expected to impact supply of rental apartments and student accommodation starting from 2022 downwards. The supply of rental apartments using Swedish government investment support was growing each year and accounted for 25% of total supply of rental apartments during 2020. There is a significant difference in average construction prices for rental apartments with investment support (SEK 28,000/sqm) and without investment support (SEK 39,700/sqm). Another constraint is not completely resolved situation with cement production in Slite (Gotland). Continuing shortage of some construction materials, increased prices for construction materials (such as tree and steel) will impact supply of residential housing during 2022 negatively.

Figure 20: residential housing volumes started per year

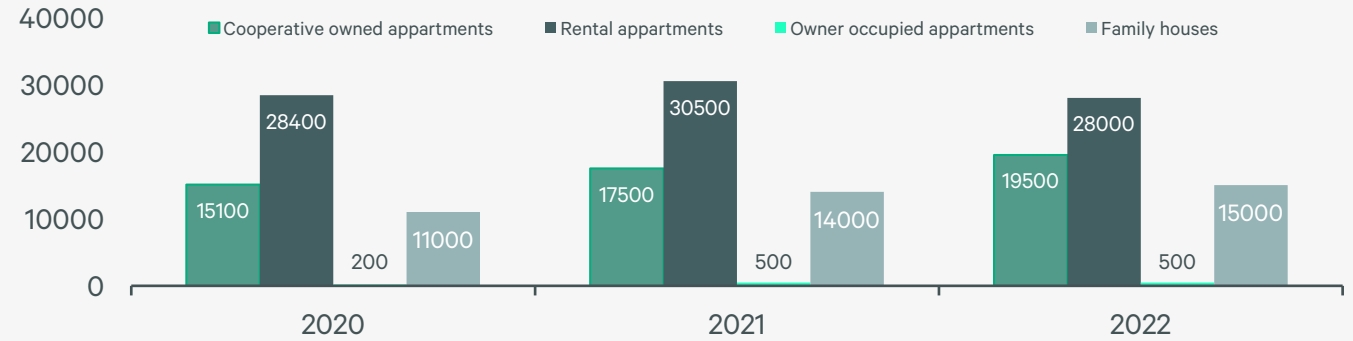


Figure 21: residential housing volumes completed per year

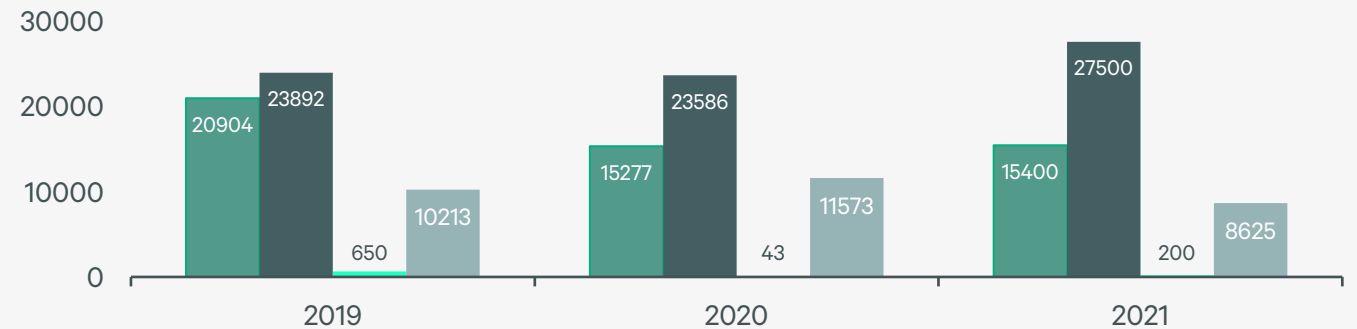
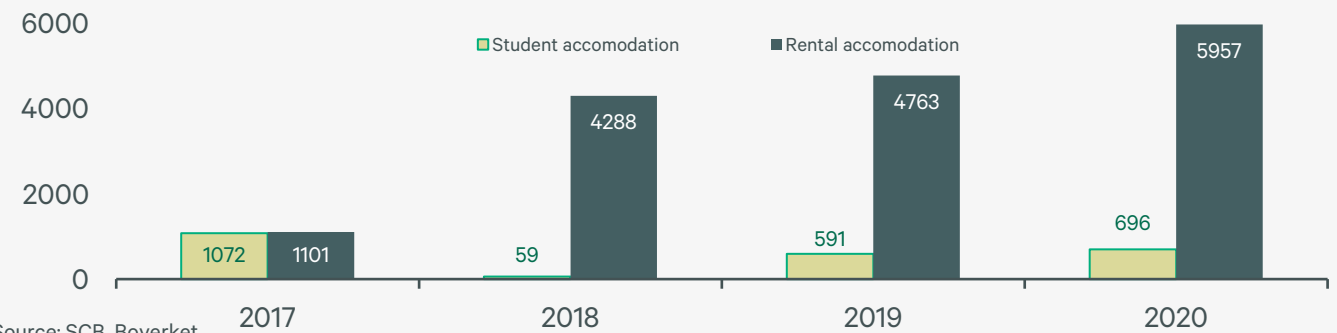


Figure 22: residential housing completed with investment support



Source: SCB, Boverket

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# Hotels

Hotel occupancy has improved dramatically during 2021 and almost reached pre-pandemic levels during 4<sup>th</sup> quarter 2021. Increasing international business visits on business and international tourism will finalize recovery of hotel occupancy and revenues.



## Trends to watch

### 01

Domestic tourism still remains the main source of demand. This is expected to change when all Covid-19 restrictions are abolished both in Sweden and across Europe and both business travel and international tourism start to return to pre-pandemic levels.

### 02

Business and Tourism travel are expected to rebound. The resumption of international travel will provide a lift to hotel fundamentals in 2022.

### 03

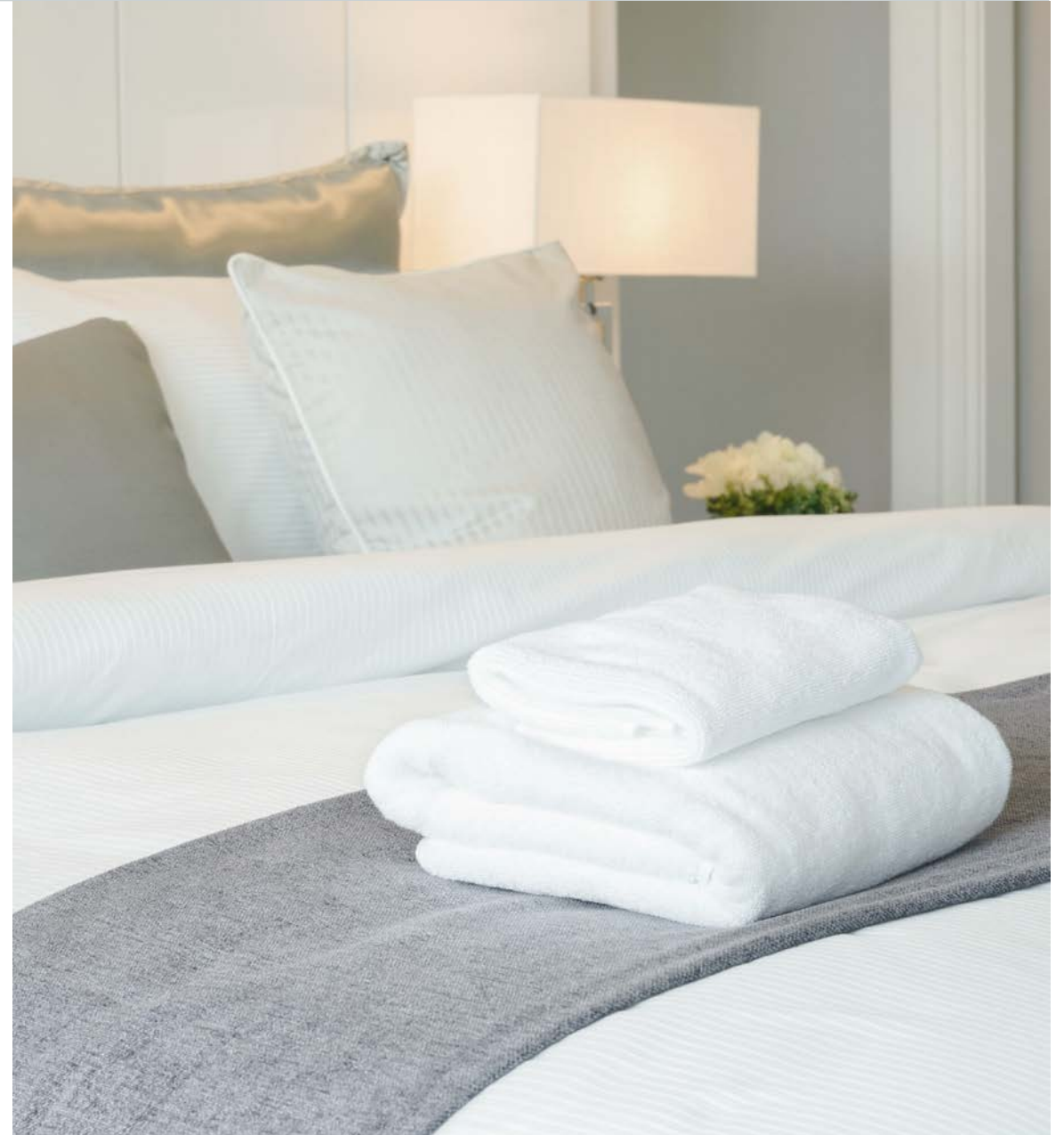
Greek alphabet soup: whatever variant comes next, hotel operators have tightened their belts and are able to operate with leaner staffing and at lower costs per sold unit than before the pandemic.

### 04

Strong investor appetite for hotels is expected to continue even in 2022, leading to increasing deal flow.

### 05

ESG will be a key area of focus for hotel operators, owners and investors as they look to develop sustainability initiatives through operational and development changes.



## 2<sup>nd</sup> highest transaction volume in Swedish history

### Local perspective

Swedish hotel investment market has doubled in volume from previous year, reaching SEK 4.73 bn, 2<sup>nd</sup> highest hotel transaction volume in Swedish history. Approximately 97% of all hotel transaction volume during the year comes from transactions with hotel properties located in Stockholm.

### European perspective

In the European perspective Swedish hotel transaction market has managed to expand its market share during 2021, outperforming many hotel markets both in central and south Europe, becoming 6<sup>th</sup> hotel investment market in the EMEA region. Only winter and summer resort markets like Italy, France, Spain, Germany, which traditionally attract higher hotel investments, did so during 2021.

### Nordic perspective

In the Nordic perspective Swedish hotel investment market stands for approximately 45% of all hotel investment deals. Sweden together with Norway and Denmark have also been among top 10 countries with highest hotel transaction volume during 2021.

### Hotel Prime Yield

After a continuing increase during year 2020, hotel prime yield has stabilised in Q1-Q2 and made first steps on returning back to pre-pandemic levels, decreasing by 15 bps, reaching level of 4.10%.

Figure 23: Hotel investment volumes per year in Sweden, MSEK

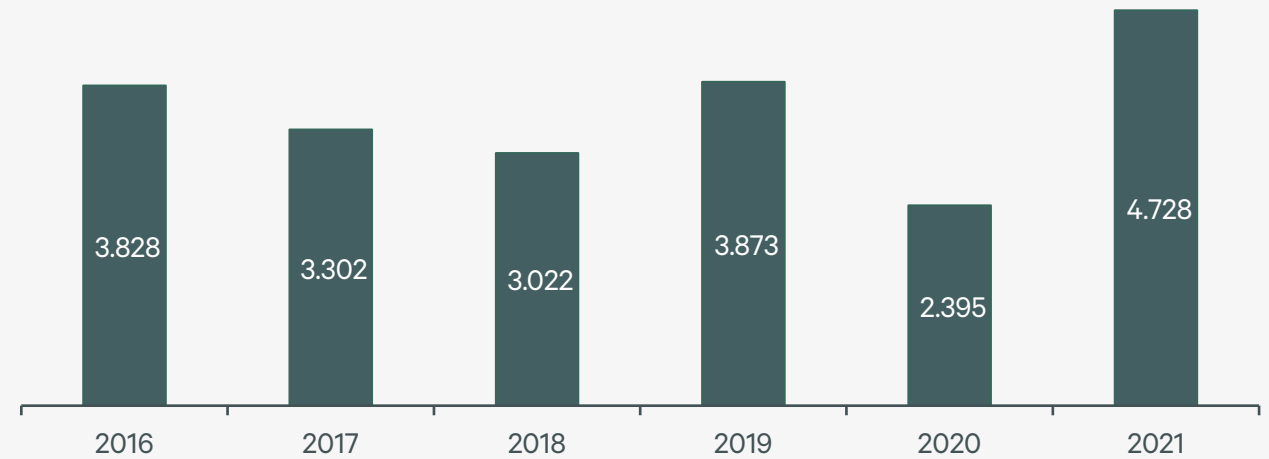
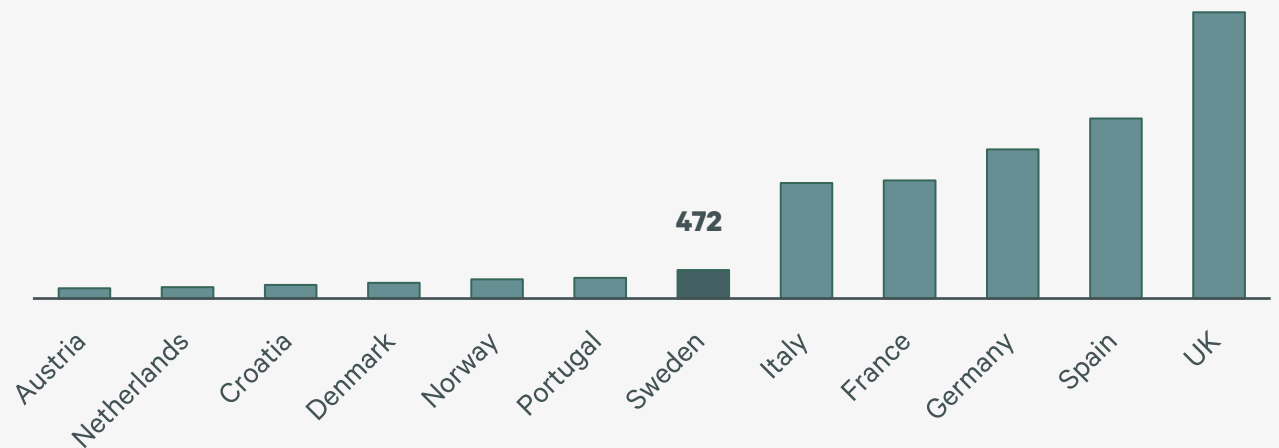


Figure 24: Hotel investment volumes per country during 2021, MEUR



Source: CBRE Research

# Back to future

## Hotel Occupancy on the way to pre-pandemic levels

Year 2021 has been another pandemic year dominated by both local and international restrictions, but not in the same extent as year 2020. Successful Covid-19 vaccination in Sweden and other European countries, total abolishment of Covid-19 restrictions in Q3 2021 in Sweden and other European countries has led to improving hotel vacancy in the Q2-Q4, especially during October-December as business travel returned back and Hotels were able to host conferences and Christmas celebration events in the way they did before pandemics. Summer resort Gotland was fully booked during summer and winter resort Åre (and even smaller across Sweden) were fully booked during December.

## Adjustment will be required

Both existing and new Swedish hotels will need to make their Food & Beverage offerings more attractive and embrace the lifestyle focus that has swept through Europe. As the share of domestic guests increases, and people seek out venues in their neighborhoods, hotels must adapt and invest to attract new customers.

With hybrid work the new normal, office properties with amenities that enhance employee collaboration, connection and wellness will fare best. There is an emerging role for CBD hotel operators to fill the void so that office landlords can adjust their offering to make coming into the office more attractive

## Getting back to business as usual

Greek alphabet soup: whatever variant comes next, hotel operators have tightened their belts and are able to operate with leaner staffing and at lower costs per sold unit than before the pandemic. Swedish operators were already at the forefront of operating efficiency, and with investments in technology are now poised for profitable growth – as long as they can put heads in beds.

Figure 25: Hotel occupancy change year 2021 vs 2020, %

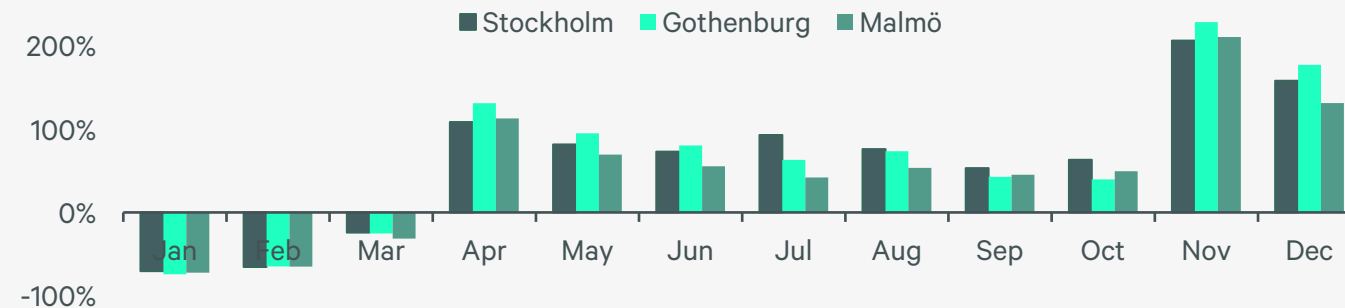


Figure 26: Hotel RevPAR change year 2021 vs 2020, %

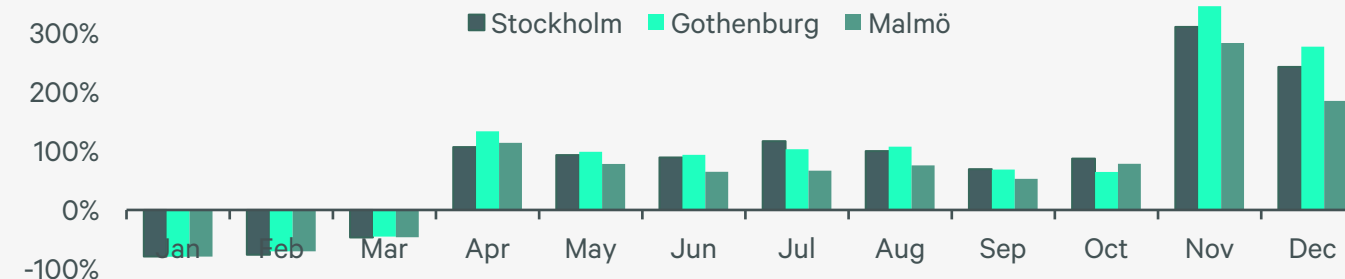
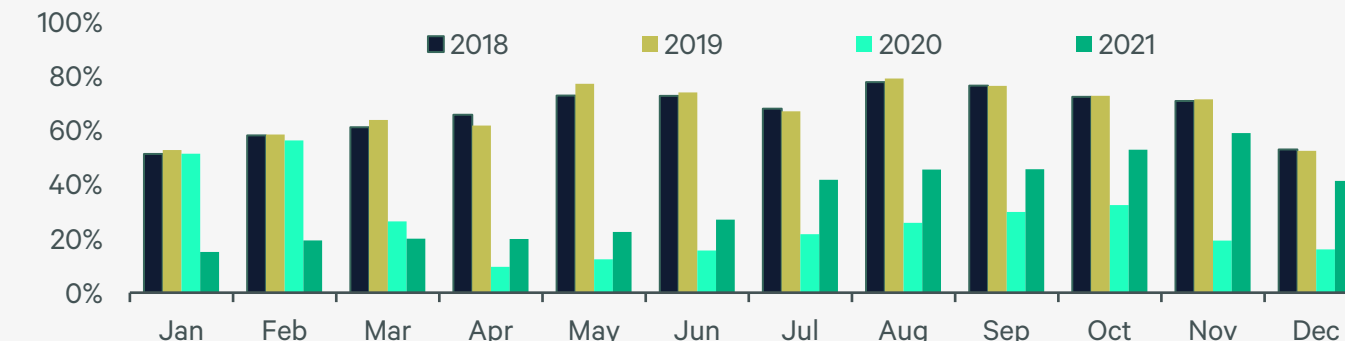


Figure 27: Hotel occupancy per year in Stockholm, %



Source: CBRE Research, Benchmarking Alliance

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# Operational Real Estate

Healthcare proved to be resilient during pandemic period. Increasing elder population in Sweden and shortage of elderly and care homes is expected to attract both domestic and international capital during 2022



## Trends to watch

# 01

Demand for some operational properties outstrips supply. Elderly homes and care homes is one of such segments, where demand is increasing rapidly due to dramatically increased elder population.

# 02

The shortage of elderly and care homes is expected to continue to increase during 2022 as a result of abolishment of government investment support, but also as a result of continuing depreciation of elderly homes and care homes built during 1960-1980's.

# 03

2022 will see an increased level of activity in operational Real Estate. Elderly homes, care homes, healthcare properties and educational properties are expected to reach higher levels of investments.

# 04

Consumers are making clearer decisions around travel and wellness habits. Operating leisure and entertainment are at varying stages of recovery, but there is optimism for strong 2022 trading outturns.

# 05

Strong operational performance in self-storage will fuel interest from investors and from operators looking to consolidate.



# Increased demand for Educational properties

## Overall picture

Over 67% of all transactions with public properties during 2021 come from all across Sweden nationwide and regional cities. Stockholm (16.1%), Gothenburg (9%) and Malmö (7.9%) account altogether for 33% of all public property volume. Over 96% of all transactions in the segment in Malmö during 2021 come from public sector properties related to sport and education, where acquiring of Malmö Arena alone stands for 80% of total transaction volume. Dramatically increased public property transaction volume is mainly explained by increased share of structural deals in this segment.

## Education properties

Transactions with school properties have increased by 13.1% on yearly basis and have reached volume of SEK 6.68 bn, which in turn corresponds to 22.2% of total public property volume during 2021. Greater Stockholm stands for over 50% of all transactions in school segment with over SEK 3.5 bn transaction volume.

## Other public properties

Transaction volume with other public properties (other than retirement home, care home, healthcare/hospital, police/courthouse/prison), has decreased from last year's record level, but still account to over 14% of total sector transaction volume and outperform pre-pandemic level of 2018 and 2019. Care home transaction volume is quite low compared to other segments, but it is on the rise and has increased by 75% on yearly basis. Similar with the retirement home segment, which increased by 33.3% on yearly basis and accounts to 10% of total healthcare volume during 2021.

Figure 28: Public sector transaction volume in MSEK and its share of total investment volume in %

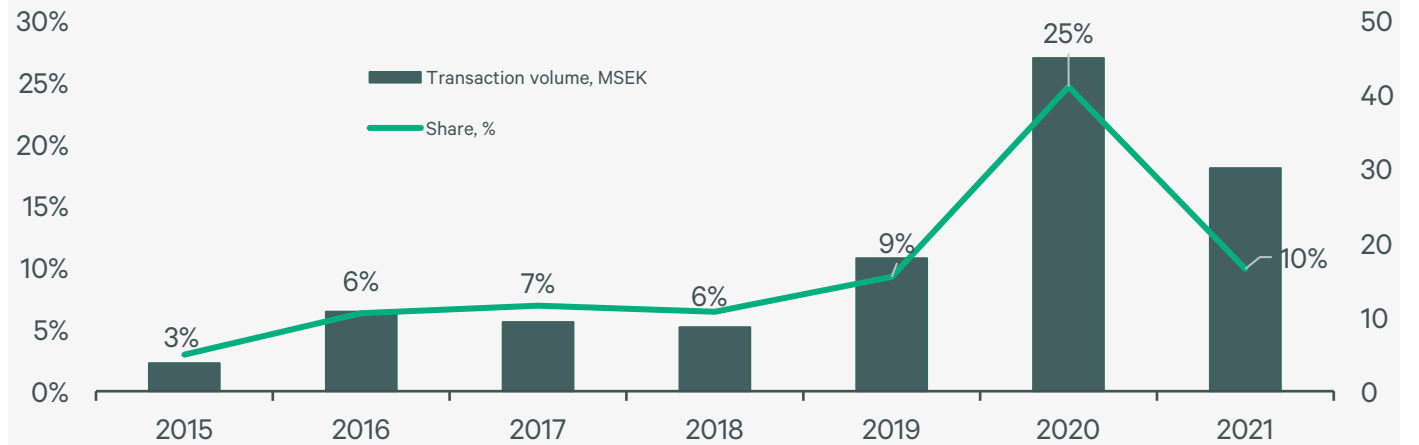
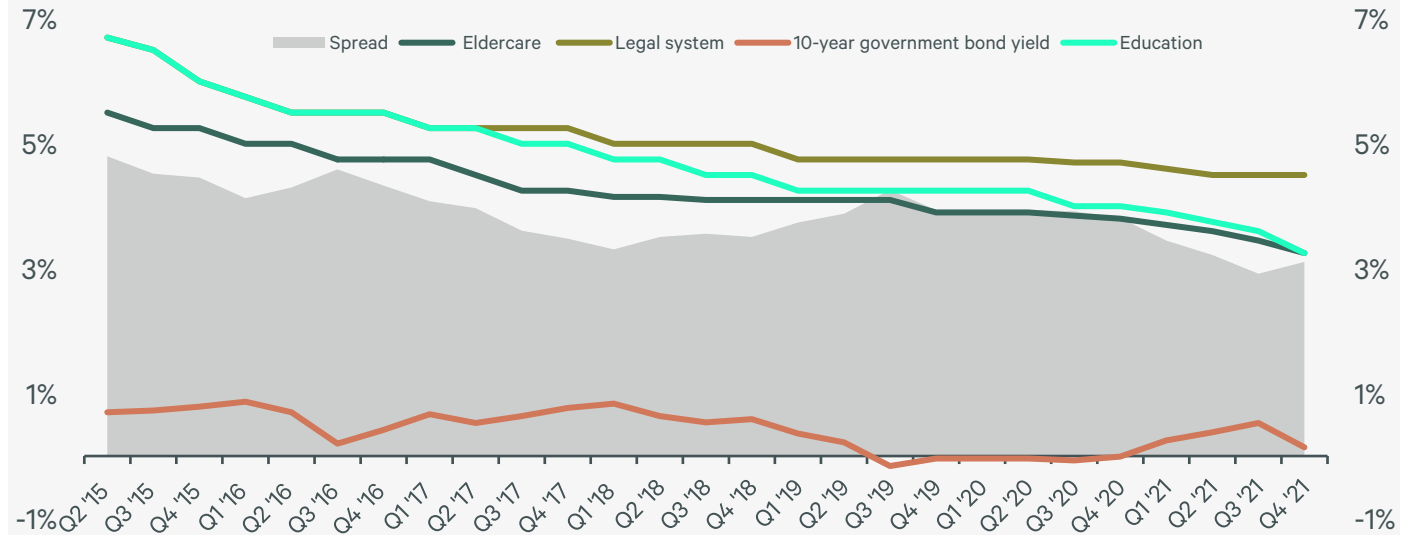


Figure 29: Prime Yield development over time, %



Source: CBRE Research

## Increasing demand for elderly & care homes

By 2040, Sweden is expected to have 1.1 million more people in population, an increase of 11% from 10.4 million people 2021. The share of the population aged 75+ will increase with more than 40% until 2040 reaching 1.4 million people. This dramatic increase in population aged 75+ puts pressure on demand side for elderly homes and care homes.

### Increasing population of people aged 75+

According to Swedish Authority Boverket the number of people aged 80+ will rise from today's 534,000 to 806,000 people by 2030. Share of people aged 80 years old and older is expected to reach 8% of the total population by 2040. That is to compare with 5% (or approximately 545,000 people) today. Such increase is forecasted by SCB and Boverket across all counties and all municipalities across Sweden. In order to meet such dramatic increase of older people population, the construction of new elderly- and care homes should increase dramatically too.

### Demand & Supply of care homes & elderly homes

According to Sweden Statistics, approximately 2,682 apartments in care homes were built during 2019 and 2,876 during 2020 respectively. According to Swedish authorities the minimum of 2 care homes per week (104 per year) should be built in Sweden in order to meet dramatically increasing elderly population. This is to compare with approximately 70 care homes or less, which Sweden receives now each year. An estimated number of 1,000 people who applied for a place at elderly home / care home during first half of 2021 in different municipalities across Sweden, have been rejected that place by local municipality. The shortage of elderly and care homes is obvious. The real need for elderly and care homes in Sweden is higher than 104 per year. A large part of current elderly and care homes in Sweden were built during 1960-1980. These properties do not meet today all new requirements set for elderly and care homes. Such properties from 1960-1980 will have to be exchanged gradually by modern elderly and care homes.



According to Swedish authorities the minimum of 104 elderly homes should be built in Sweden each year until the year 2026 in order to meet the increasing demand in the short run. But the real need is even higher

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