CUSHMAN & WAKEFIELD NORDIC INVESTOR CONFIDENCE INDEX, Q3 2018





57 PERCENT OF ALL INVESTORS HAVE AN OBJECTIVE TO BE NET BUYERS IN THE COMING PERIOD



THE CUSHMAN & WAKEFIELD NORDIC INVESTOR CONFIDENCE INDEX INCLUDES SURVEY RESPONSES FROM NEARLY 150 INVESTMENT PROFESSIONALS ACROSS THE NORDIC REGION. THE INDEX MONITORS EXPECTATIONS FOR THE NEXT THREE TO SIX MONTHS.

The survey's broad coverage reflects the interest for non-biased analysis and increased transparency. Furthermore, the degree of coverage ensures the findings are representative reflections of current investor confidence in the Nordic commercial real estate market.

We will continue to conduct the survey biannually, allowing us to track changes in confidence, to interpret what they mean for the market and to determine how best to respond when making investment decisions.

To reflect the difference in investment market size a heavier weighting has been given to Sweden (40 percent) compared to Denmark, Finland and Norway (20 percent respectively) when presenting the combined Nordic results. For more details of the methodology or details on individual markets, please contact your Cushman & Wakefield contact or consult <u>www.cushmanwakefield.se</u>

STILL STRONG INVESTOR DEMAND...

...BUT SOMEWHAT DOWN FROM Q1 RESULTS

INVESTOR DEMAND

This cycle continues to see an extraordinary level of capital targeting real estate. 57%, down from 63% in the Q1 index, of all investors within and into the Nordics have an objective to be net buyers during H2 2018, partly driven by expectations of a further increase in occupier demand and a consequent rise in asset values. However, there are huge differences between countries. In Sweden, where the rental cycle is expected to have matured further than the rest of the region, we have also seen a fall in net buyers with a corresponding increase in profit takers. In Norway and Finland roughly 70%, which is slightly weaker than in the Q1 index, are net buyers but, even if still a minority, net sellers have started to emerge.

While core real estate strategies remain attractive, demand outstrips supply. Yet, prime yields appear to have bottomed out. However, beyond prime, many investors in and into Denmark, Finland and Norway are increasingly contributing to converging yields by accepting additional risk, whether this be in terms of secondary locations or assets, letting risk, development risk and/or redevelopment projects that potentially create core assets in top markets. Sweden appears to be ahead of the rest of the Nordics, and most of Europe, in the cycle, and yields are bottoming out across the office sector while we are starting to see increased yield spreads for retail.

WHAT IS YOUR OBJECTIVE WITH REGARDS TO THE SIZE OF YOUR PORTFOLIO:

Increase: more acquisition than disposal Stable: as much disposal as acquisition Decrease: more disposal than acquisition





5

OFFICE MARKET



About half of all Nordic investors expect improved demand from office occupiers in the coming six months, particularly driven by an optimistic view of strengthening demand in the Copenhagen, Helsinki and Oslo rental markets. For Sweden, who has experienced a long and strong rental cycle, most investors now believe rent will move sideways. This is in line with the Q1 2018 survey and represents a persistent positive view on the economic outlook for the Nordic countries. Economic growth, increased occupier demand, limited development and the conversion of buildings to residential use all support the positive short to medium-term outlook. However, forecasters have a more mixed view beyond 2020 given a combination of development catch-up, greater adoption of agile- and co-working, the switch from manpower to technology and increased utilisation of office space.

Look up our report <u>Nordic Office</u> <u>- a preview of the future</u> to get an overview of expected trends impacting the sector.



CONTINUED BOOST FOR THE OFFICE OCCUPIERS' MARKET IN DENMARK, FINLAND AND NORWAY...

... BUT SWEDEN SHOW SIGNS OF A MATURED CYCLE

RETAIL MARKET

RISING SCEPTICISM AROUND RETAIL RENTS AS E-COMMERCE CHALLENGES BRICKS-AND-MORTAR RETAIL

WITH REGARDS TO THE RETAIL OCCUPIER MARKET, DEMAND WILL:



In Finland, Denmark and Norway, we still see a healthy majority expecting sustained retail occupier demand, but a growing minority are concerned by the prospect of weakening demand. In Sweden in particular, e-commerce has started to spook investors, resulting in nearly 60% foreseeing a decline in retail occupier demand. Looking behind and beyond the numbers, investors' views on the sector are split in terms of geography, micro locations and assets, although there is a general view that the sector will require deep specialist attention going forward, resulting in a likely further concentration of assets among sector specialists.

Changing behaviour, most prominently by the younger generation, and new technologies vastly transforming consumers' shopping experience are the two most important factors that will shake up retailing. For the Nordic region, it is important to recognize these changes as the region has one of Europe's highest shopping centre densities.

Look up our report <u>Nordic Shopping Centre - a preview</u> of the future to get an overview of expected trends impacting the sector.



INDUSTRIAL AND LOGISTICS SECTOR CONTINUES A STRONG RUN

WITH REGARDS TO THE INDUSTRIAL/LOGISTICS OCCUPIER MARKET, DEMAND WILL:



INDUSTRIAL AND LOGISTICS

As e-commerce fears dog bricks-and mortar retail, industrial and logistics assets present a credible diversification alternative for institutional investors. Nordic investors in general are positive about the outlook for the industrial sector, even though one might suspect the results to be biased towards logistics rather than industrial. Even here we see significant differences between countries, with again, Denmark, Finland and Norway representing the most convincing consensus, but also for Sweden we see a positive sustained minority of around 40% of investors believing in improved occupier demand.

In terms of asset pricing Danish and Finnish investors sent a strong message to the sector in Q1 2018 with 60 percent of investors expecting further yield compression and above 80 percent expecting occupier demand to improve. A shrinking majority are still expecting occupier demand to strengthen but only a minority are now expecting further yield compression.









YIELDS



WITH REGARDS TO THE DEVELOPMENT OF OFFICE MARKET YIELDS, THEY WILL:

The majority of Nordic investors believe yields have levelled out and will stay that way in the near future.

For the largest sector **Office**, nearly no one outside Finland believes in further yield compression, which represents a shift from Q1 when 18% expected further compression. To a large extent the yield compression expected by the minority in Q1 has now materialised and there is general agreement that yields have now bottomed out and investors expect a sideways movement in the short term. Denmark and Finland represent the largest shift in expectations from Q1 and are now mainly in line with Norway and Sweden.



EXPECTATIONS FOR STABLE YIELDS IN THE NORDIC REGION...

...BUT INVESTORS RECOGNISE SIGNIFICANT SECTOR AND COUNTRY DIFFERENCES

WITH REGARDS TO THE DEVELOPMENT OF RETAIL MARKET YIELDS, THEY WILL:



For **Retail** we have seen a significant shift in the number of investors expecting an increase in retail yields. For the Nordic region combined, 37% of investors expect retail yields to rise over the next six months. This is dramatic, in particular for Sweden and Norway, where close to 50% of investors expect retail yields to rise. But again, as commented upon in the rental section, we see split views from investors concerning assets.

Denmark, with only 12% of investors expecting yield hikes, is proving more resilient than the rest of the Nordic region in retail asset pricing. This might be a result of a wellfunctioning high street and a lack of generic shopping centres compared to the rest of the region.





FINANCING

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STABLE FINANCING CONDITIONS, WITH A POSITIVE MINORITY EXPECTING IMPROVED CONDITIONS

WHAT IS THE OUTLOOK FOR YOUR FINANCING COMPARED WITH YOUR CURRENT FINANCING?



16 % 20 % NORDIC MARKET Q3 2018 64 %

Expectations for financing conditions have deteriorated in Denmark but correspondingly improved in Sweden since Q1 2018. With these changes the region as a whole is reasonably on a par when it comes to expectations for financing conditions. A 64% majority of Nordic region investors expect financing conditions to move sideways in the months to come. 20% expect improved financing conditions on new deals or when refinancing current positions, while 16% foresee worsened financing conditions.



PORTFOLIO DEVELOPMENT

HOW DO YOU SEE THE VALUE OF YOUR PORTFOLIO DEVELOPING (ASIDE FROM ANY ACQUISITIONS/DISPOSALS)?



62 percent of investors believe their portfolio will improve in value (aside from acquisitions & disposals). The key drivers for value improvements are expected to be rental growth and a drop in vacancy rates. However, 1 in 4 also believe yield compression to be a key driver of their portfolio value, even though we don't find the same significant views mirrored in the market expectations reported above.

Understandably, investors are more optimistic about their own portfolios than the market in general, otherwise a different strategy would be pursued. But an overly optimistic view on own portfolios will generate a gap between buyers and sellers and hinder liquidity. The optimistic views held by investors on their own portfolios might also partly explain the lack of net sellers in this quarter's survey. Consequently, this may lead to an extended holding period and lack of profit-taking in an undoubtedly competitive investment environment.





(OVER) OPTIMISTIC VIEW ON OWN PORTFOLIO MIGHT RESTRICT LIQUIDITY

WHICH IS THE MOST IMPORTANT INFLUENCING FACTOR FOR THE DEVELOPMENT OF VALUE IN YOUR PORTFOLIO?







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ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield is a leading global real estate services firm that delivers exceptional value by putting ideas into action for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with 48,000 employees in approximately 400 offices and 70 countries. In 2017, the firm had revenue of \$6.9 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services.

To learn more, visit <u>www.cushmanwakefield.com</u> or follow @CushWake on Twitter.

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