

# Investment Market



## Strong start of the new year

After several years of recovery, with high GDP growth and rapidly falling unemployment, the global economy has entered a phase of more subdued GDP growth. Weaker global growth than in recent years is to be expected as the business cycle comes into a more mature phase. The Swedish economy remains healthy despite a GDP slowdown in the second half of 2018. Activity in the domestic economy remains high and the labour market remains strong, despite a weaker GDP growth and inflation than expected. The GDP growth 2019 is forecast to be in the range of 1.0-1.8% according to consensus figures published by NIER (The National Institute of Economic Research). The sharp decline in home construction is an important factor underlying the GDP slowdown. However, central government finances remain strong.

2018 ended with a strong recovery of the investment market and the full year 2018 investment volume amounted to approximately SEK 161bn (€16bn), which is the fourth highest volume ever observed. The first quarter of 2019 opened with an impressive start, the investment volume amounted to SEK 42bn (€4bn), which is the highest volume ever observed for a first quarter and an increase of 54% compared to the same period in 2018.

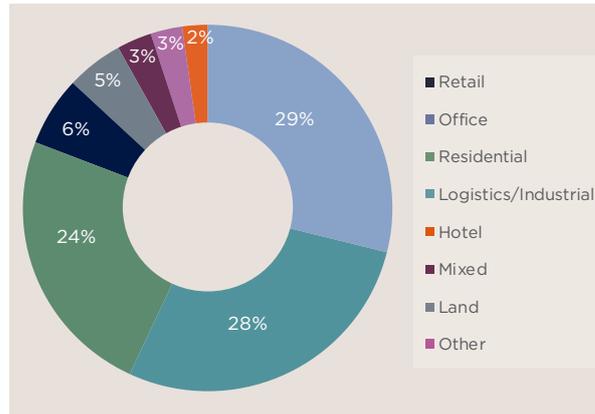
Offices were the preferred asset class accounting for 29% of all investments, equalling SEK 12bn (€1.2bn). The property fundamentals of the sector are bright. Thanks to a strong

labour market and solid business expansion, office vacancy rates have hit record lows in the three major Swedish cities, hence pushing rents up during the past years. Due to the tight supply situation in CBD markets, secondary locations are becoming increasingly popular as long as they are well-connected to public transport.

Logistics and industrial properties produced by far its strongest quarter ever with a turnover of SEK 11.5bn (€1.1bn). As a result of growing online sales, investor interest in logistics and retail warehousing is increasing thus putting downward pressure on yields. Prime logistics and prime retail warehouse yields experienced the highest compression of all sectors during the past year. However, the volumes have been restrained by lack of supply until now, when investors who entered the sector early and logistic developers seize last years' yield compression.

Residential properties also had a strong first quarter with an investment volume of SEK 10bn (€960m) and a market share of 24%. Noteworthy, forward funding deals represented 64% of the residential investment volume. From 2010, a gradually growing share of forward funding deals have been observed in the segment. Investor interest is strong for all types of residential assets, both new builds and old stock, hence Savills expects volumes in the sector to remain high throughout 2019.

**Graph 1: Investment Volume Distribution**



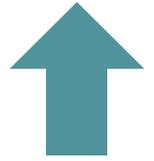
**Graph 2: Quarterly Investment Volume**



**Graph 3: Investment Volume Sweden (past 12 months rolling)**

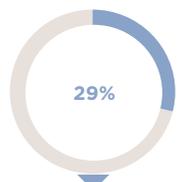


**Q1 2019 Stats**



**SEK 42bn (+54%)**

Q1 volume and yoy change



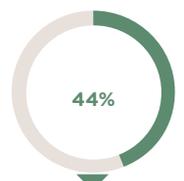
**29%**

Share of office investments



**28%**

Share of logistics and industrial investments. Strongest quarter ever, will this be a record year for logistics?



**44%**

Share of cross-border investments



**SEK 175bn**

12 months rolling investment volume

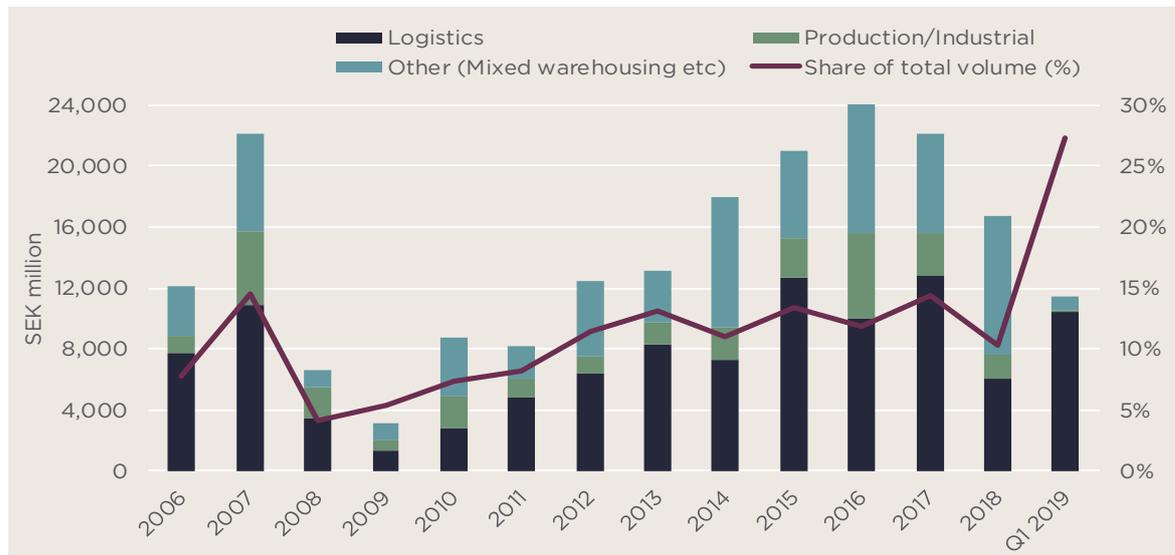
# Outlook for the remainder of 2019

The outlook for the remainder of 2019 is positive, based on the current fundamentals and continued demand for real estate investments. The conditions for investing in properties in Sweden are favourable at the moment, all real estate fundamentals point towards a beneficial investment climate, with continued low interest rates. The risks that could change the fundamentals are dominated by two elements, domestic uncertainty surrounding the decline in residential construction on the one hand and the development of the global financial markets on the other. Consensus forecasts indicate a GDP growth of 1.4% in 2019 and an upsurge to 1.7% in 2020.

While average all-property prime yields in Sweden have fallen in step with the euro-zone aggregate, the economic outlook for Sweden is brighter than the euro-zone average. As a result, we expect high levels of activity from foreign investors.

It is likely that the logistics and industrial sector will experience a record year after an impressive start where strong investor appetite has been fueled by an increasing supply. The strong development pipeline indicates supply will continue throughout the year and the year-end volume will achieve record levels.

**Graph 4: Transaction Volume & Transaction Pace (past 12 months rolling)**



Source Savills Research

**Graph 5: Transaction Volume Foreign Investors**



Source Savills Research

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