

European Cross-Border Investment



Are Swedish investors wielding Thor's hammer?



US investments in Europe close to pre-pandemic level

In a context of economy recovery and improved travelling conditions, the amount of cross-border capital invested in Europe totalled €160bn last year, according to RCA data. This is 20% up on 2020 and only 2% below the previous five-year average. Hence, we estimate that approximately half of total investment originated from cross-border capital last year, which is in line with the long-term average. Gradually over the past year, long-haul cross-border investment activity picked up, notably led by US investors and at a lesser extent, by Canadian and Singaporean funds. In 2021, overseas capital invested in European real estate reached €76bn, which is an annual increase of 36%. Yet, this remains 6% below the past five-year average, with the amount of capital coming from North America 11% up on its long-term average (AsiaPac -30% and Middle East and Africa -36%). On the other end, intra-European

cross-border volume totalled €81bn last year, which is 8% up on 2020 and on 1% above the past five-year average. European investors remains the dominant source of cross-border capital in Europe.

Beds and sheds continued to drive European cross-border investor interest. In both sectors, investment volumes increased significantly compared to 2020 (+63% for logistics and +38% for multifamily), notably fuelled portfolio deals. Last year, industrial investments accounted for 27% of total investment volumes, compared with 16% on average during the past five years. At the same time, the share of multifamily cross-border investments rose from 15% to 22%. Offices remained the largest investment sector for cross-border capital with €43bn of transactions recorded last year, accounting for 29% of the total (40% during the past five-year average), although

this marks a decrease of 5% YoY. Investors are paying closer attention to corporate signals regarding the return to the office.

Last year, activity was particularly focused on core countries, accounting for 62% of the total cross-border investment. The UK attracted the most cross-border capital in 2021, reaching €42bn (+51% YoY), followed by Germany, which attracted €30 (+25% YoY), whilst cross-border investment in France kept on decreasing (-1% YoY to nearly €13bn). Besides, cross-border volume in Denmark surged by 179% YoY to €9.6bn, notably thanks to massive Swedish investments.

Top 5 cross-border investors

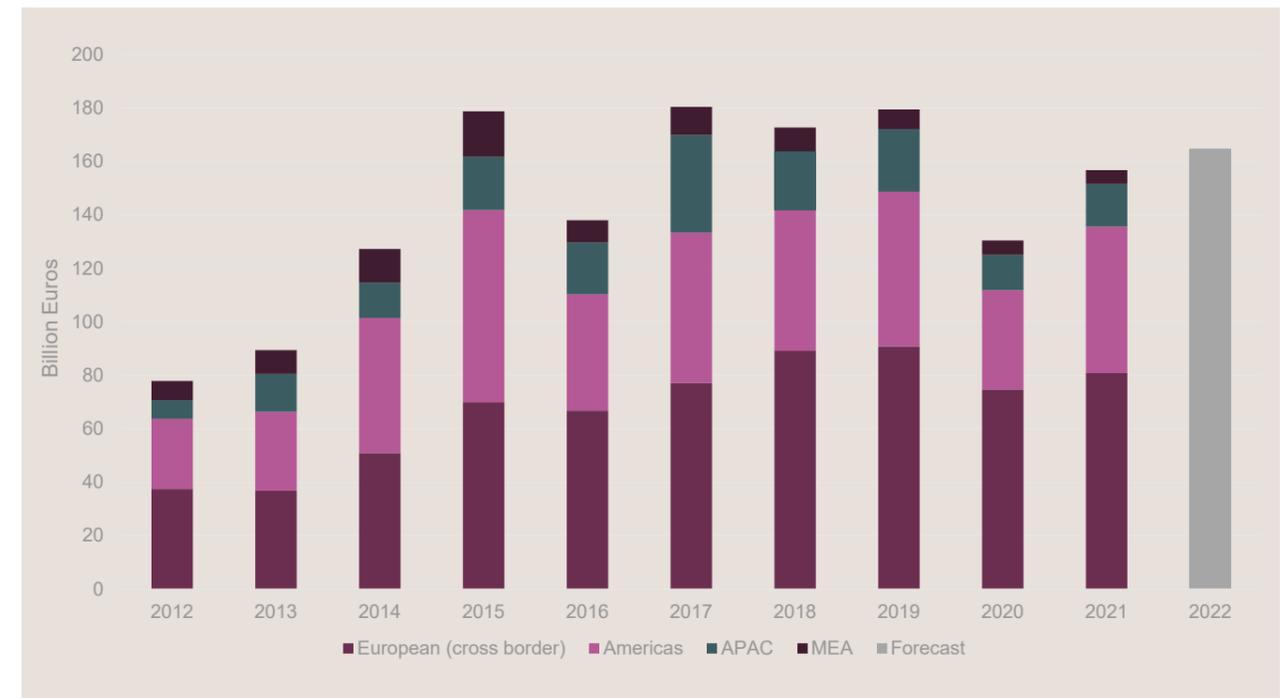
IN 2021



PAST 5-YEAR AVERAGE

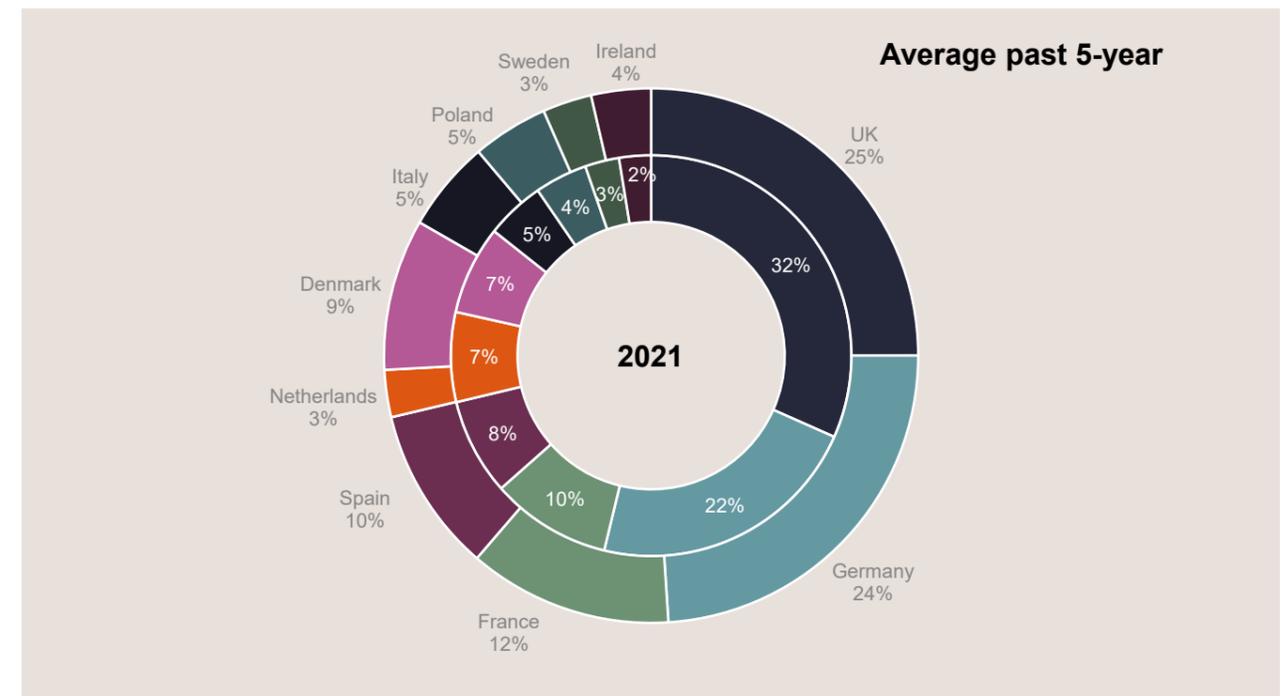


European cross-border investment by region



Source: Savills Research, RCA

Destinations of cross-border investments



Source: Savills Research, RCA

Swedish investors: the second largest cross-border investor¹

Last year, Swedish cross-border investments into continental Europe totalled €18.9bn according to RCA data. This is 157% up on 2020 and makes Sweden the second largest country of capital origin, following the US (€43.3bn).

Swedish cross-border activity was notably fuelled by large portfolio and entity acquisitions mainly targeting residential properties, which accounted for 70% of all their investment abroad in 2021, followed by offices (27%) and logistics (10%). Another striking figure is the amount Swedish investors allocated to Germany last year; €7.9bn, which is eight times above the level recorded in 2020. Their investment in Denmark was also increased five times between 2020 and 2021 to €5bn. Hence, Germany accounted for 42% of their European cross-border activity (compared with 14% during the past five-year average), followed by Denmark (27%), Finland (10%) and Norway (10%). We also noticed a larger amount invested in Poland (x10 YoY) and the UK (x40 YoY), although this refers to much

smaller amounts (€700m and €434m respectively).

Swedish investors have also been very active in their home country. Last year they invested €27.8bn (SEK 285bn) domestically, 82% above the volume recorded in 2020. This strong activity was notably filled by a record number of mergers and acquisitions (M&A) deals. In 2021, 20 M&A deals have been transacted, a remarkably high number compared with the average of three deals per year between 2017-2020. Most of these deals have been transacted by listed real estate companies acquiring other companies operating within the same segment, often involving the living sectors. Indeed, some residential market players are expanding their footprint to achieve economies of scale and increase their profit margin.

Despite the surging M&A trend, the number of listed Swedish real estate companies has been steadily increasing over the past five years. Due to the extremely high liquidity of the Swedish market, the favourable interest rate

environment, and the increasing capital to allocate among Swedish real estate companies and private equity funds, the size of the Swedish market has become too small. In turn, this increasingly pushes Swedish investors to look abroad, mainly in other Nordic countries, in mainland Europe and also in North America.

Over the past few years, the increasing interest from foreign investors has put downward pressure on yields. This is particularly true for the logistics sector, for which the investment volume totalled €5.8bn (SEK 59bn) last year (+94% YoY) with 40% acquired by foreign investors. Likewise, multifamily investment volume reached €13.2bn (SEK 140bn) last year (+140% YoY), of which 46% was cross-border. Hence, the high competition for long-term cash flows properties from both domestic and foreign investors, has pushed Swedish investors to seek returns beyond their borders.

Outlook

Although the Russian invasion of Ukraine has added significant uncertainties amongst investors, we expect the direct impact on the European investment market will be limited, notably to the CEE region as some risk aversions rise. In spite of negative news around inflation and interest rates, most forecasters continue to expect the economic recovery to continue this year, supported by strong household spending and a pick-up in business investment. As such, we believe the indirect impact on

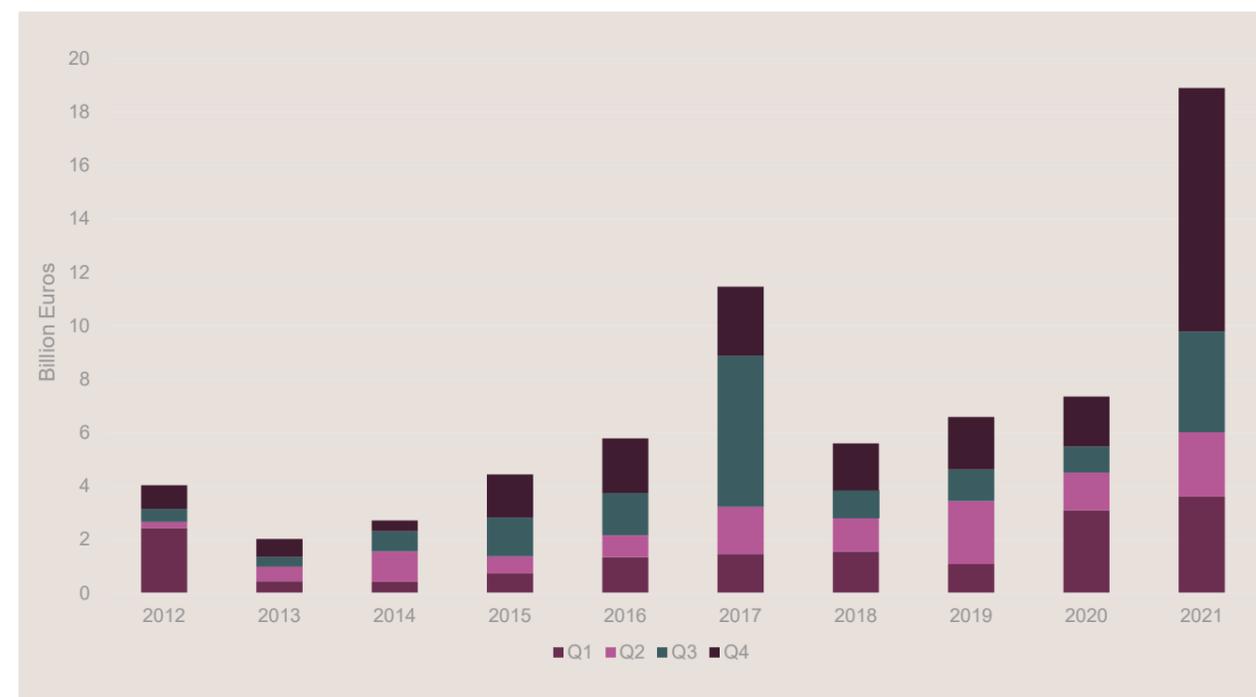
European property demand is also likely to be small.

Hence, unless the situation further deteriorate, we expect cross-border investment volumes to increase further in 2022, by 2% to 5%. This growth will be led evenly by both overseas and intraregional capital. US investors will remain the predominant cross-border market player in Europe followed by German funds and Swedish real estate companies, mainly listed ones.

As we expected prime yields to further compress in Sweden, local investors will continue seeking attractive yields in other European countries, especially as we expect the competition between domestic and international investors to intensify. We also believe more M&A will be transacted in 2022. This is a way for companies to achieve quick portfolio growth, synergies in financing, property management and project development.

¹: Heimstaden is considered to be a Swedish company based on its headquarter, according to RCA

Swedish cross-border investment in Europe



Source: Savills Research, RCA

Major deals

Date	Name	Asset types	Location	Price in m €	Buyer	Seller
Q1 2021	Ejendomme A/S portfolio	183 mixed properties (logistics and residential)	Denmark	1,500	Heimstaden	HD Ejendomme
Q2 2021	NO Asset Buyout Partners	106 logistic asstes	Norway	880	Fastighets AB Balder	Asset Buyout Partners
Q1 2021	DE residential portfolio	130 residential assets	Germany	830	Heimstaden	
Q2 2021	FI office portfolio	22 office properties	Finland	640	Castellum AB	Brunswick Real Estate
Q3 2021	DK residential portfolio	34 residential assets	Denmark	343	Heimstaden JV Alecta	Selmer A/S JV, Hokton A/S JV, Vase, Norup & Grünberger A/S
Q2 2021	PL residentoal poprtfolio	13 residential assets	Poland	307	Heimstaden	Budimex SA
Q4 2021	DK residential portfolio	11 residential assets	Denmark	260	CRIM	Formuepleje Ejendomme
Q3 2021	FI office portfolio	9 office proprtfolio	Finland	207	Castellum AB	Nyfosa
Q2 2021	DK residential portfolio	10 residential asstes	Denmark	201	Niam	Birch Ejendomme
Q2 2021	DE residential portfolio	7 residential assets	Germany	188	Heimstaden	

Source: Savills Research



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