



REPORT

Savills Research

SWEDISH OFFICE MARKET OVERVIEW

AUTUMN 2024

savills

Swedish investors lead the way in a new office market era

Few sectors have sparked as much debate in recent years as the office market, and Sweden's office sector is no exception. The pandemic and rise of remote working led to questions about the future of office spaces, but it is now clear that offices will continue to play a key role, albeit needing to evolve.

From an investment perspective, offices remain attractive. By Q3 2024, office investment volumes reached SEK 15 billion, on par with 2023 but below the five-year average of SEK 28 billion. Domestic investors dominated, accounting for 100% of the total volume, far exceeding the five-year average of 62%. This dominance is primarily driven by Swedish institutions and pension funds, which have notably increased their presence in the Swedish office market, now representing 60% of the total office transaction volume. As a result, Sweden currently has the lowest prime yield in Europe, standing at 4.0%, reflecting the influence of these long-term investors.

Coworking spaces, particularly in Stockholm, grew rapidly, expanding by 400% between 2017 and 2024, to reach 152,000 sqm – but this trend is now slowing. Economic challenges and greater lease flexibility from traditional landlords are driving this shift. It could be argued that the supply of coworking spaces has now surpassed demand.

Given these rapidly changing market conditions, understanding occupiers' perspectives on the future is vital. For this reason, Savills Research has focused this report on capturing the views and sentiments of occupiers' current approaches to office space, expansion plans, preferences for building types and leases, as well as ESG expectations.

Enjoy the read!



Maryrose David
Head of Research,
Savills Sweden

“Stockholm’s office market remains strong, with one of the lowest prime yields in Europe, and Stockholm’s CBD vacancy rate 110 bps below the European average. With the fourth-highest prime office rents and a limited supply, Sweden is an attractive destination for office investments.”

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What's up with the Swedish office market?

Remote work reduces office demand (for a selection of companies)

People increasingly value working from home, with the possibility to work uninterrupted in a comfortable environment and without the burden of travel. Many companies have observed a decline in productivity and engagement as office attendance has decreased. As a result, demand for office space among larger companies has fallen, with some planning to downsize. At the same time, some companies are beginning to raise expectations for in-person attendance to enhance collaboration and engagement. To attract tenants and reduce vacancy, focusing on the employee through quality spaces and prime locations is more important than ever.

Variation in rental levels

The Stockholm CBD office market has seen significant rental growth, nearly doubling over the last decade. However, this momentum has stalled for 14 consecutive quarters following the pandemic's onset. Between 2021 and 2023, high inflation has led to an 18% rise in rental costs, as most commercial leases in Sweden are fully CPI-indexed. By Q3 2024, prime market rents for newly signed leases in Stockholm's CBD have been assessed at around SEK 9,250 per sqm, though variations have existed across sub-markets. In contrast, Gothenburg and Malmö have seen more modest growth, with slight increases having been observed since mid-2022. Some Stockholm sub-markets still report market rental levels that are lower than those in existing lease agreements.

Office investments further concentrate in Stockholm

Stockholm is by far the most active submarket in Sweden, and its share of office transaction has continued to increase and constitutes almost the entire volume, at 96%. Swedish institutions and pension funds acquired 60% of the office transaction volume. Although the office sector has lost part of its share of the investment volume to the storage and industrial sectors, it remains the third largest sector in the Swedish investment market as of Q3 2024.

A polarised office market

The office market is driven by polarisation as premium spaces in strong locations thrive, while lower-quality offices in sub-markets are facing challenges. Investors are more cautious, and more work is put into analysing the tenants, as the gap in vacancy risk has increased between properties. Location is growing ever more important, as there is a 'flight to quality'. Properties with the correct ESG-profile, a flexible structure and potential for favourable financing terms are taking leaps ahead of the competition in terms of investor demand.

Unique ownership structure of prime properties results in one of the lowest yield levels in Europe

The Stockholm office market has an ownership structure based on a large share of institutional and long-term investors. The prime yield in the city is therefore low from an international perspective, with low turnover of prime assets driven by high demand and low supply. The office prime yield in Stockholm currently stands at 4.0%, the joint lowest in Europe, alongside London West End.

The peak of vacancy growth?

Vacancy rates have continued to rise across Sweden's major cities throughout 2024. In Stockholm's CBD, open vacancy rates have increased for seven consecutive quarters since their low in Q4 2022, with a rise of 220 basis points having occurred in the first three quarters of 2024. Despite this, Stockholm's CBD vacancy rate of 7.6% has remained 110 basis points below the European CBD average of 8.7%, underscoring its relative strength. Gothenburg has experienced a similar increase, while Malmö CBD has seen a larger jump of 300 basis points. However, Q3 2024 has revealed a decrease in upcoming vacancies across all three cities, suggesting that the rising vacancy rates might be at a turning point.

Stockholm coworking market slows as landlords compete and costs rise

After years of rapid expansion, having grown by 400% since 2017, the Stockholm coworking market has now slowed. Traditional landlords have offered more flexible leases and have absorbed some of the demand, while rising rental costs have put further pressure on coworking operators, reducing profitability. As of 2024 year-to-date, coworking stock across Sweden's three largest cities has decreased by 2.7%. While there are preliminary plans to add new coworking spaces in 2024 and 2025, we have already seen some coworking operators file for bankruptcy or shut down their operations.

A resilient European office market

Higher interest rates have continued to restrict investment transactions across Europe, although preliminary Q3 2024 European investment transactions reached €37 billion, up 15% YoY, lifting the Q1-Q3 total by 5% YoY. The UK continues to dominate activity, driven by the faster initial price adjustment and attractive yields for cash buyers.

European average prime office yields remained stable QoQ at 4.9% during Q3 2024, and since Q1 2022, prime office yields have moved out by an average of 160 bps. This is comparably low to major US cities, where the prime yield averages 7.0%. However, interest rate cuts from the ECB have improved buyer sentiment, and Capital Economics anticipate that rates will fall to 3.00% by end 2024 and 2.50% by March 2025, and we expect this to trigger an increase in transactional activity. Low prime yield in Stockholm is heavily driven by its unique ownership structure, where the institutional- and pension capital is active on the prime office market, driving up prices.

In light of recent changes in occupier demand, many countries are struggling with vacant office spaces. The national average vacancy rate in the US was 25% during Q3 2024, and some regions have vacancy rates surpassing 35%, comparably high to the European average of 8.7%.

Where are we in the cycle?

The lack of distress in European markets is hampering transactional activity. There remains a gap in buyer-seller expectations, although this appears to be gradually closing, with both buyers and sellers adjusting their pricing ambitions, amid expectations on interest rate cuts. MSCI has reported a record number of pulled/ terminated deals in Europe, as vendors become more willing to test

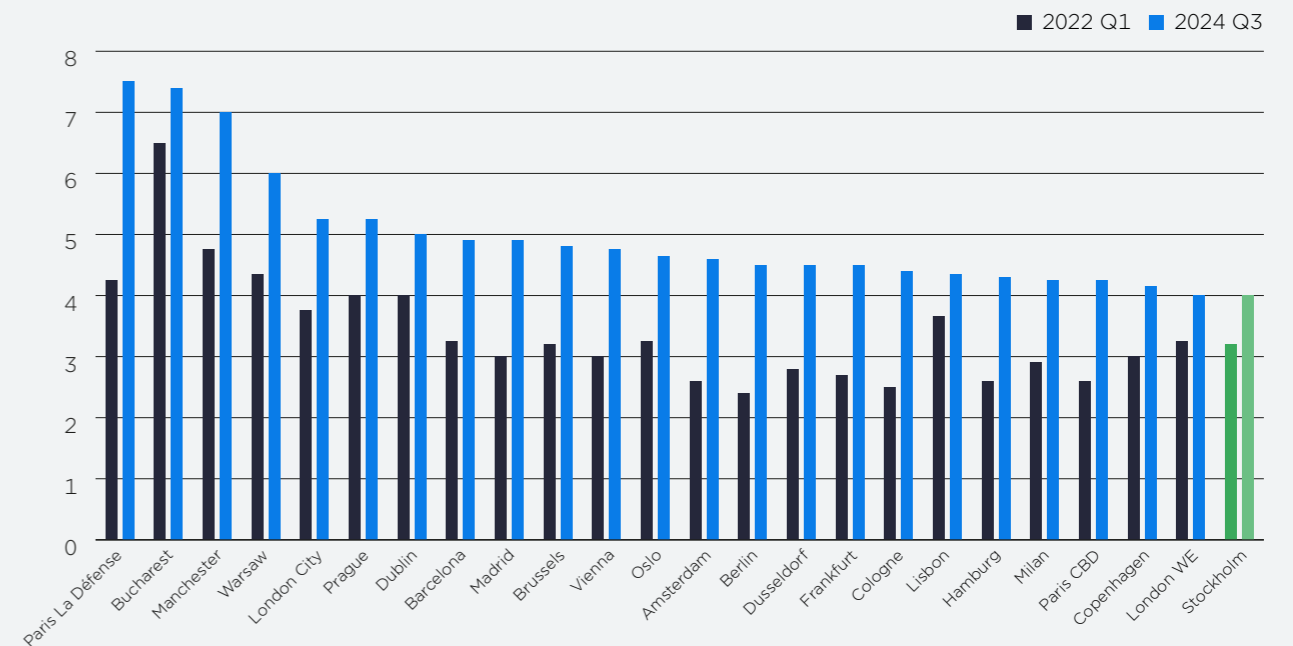
the depth of buyer demand, and buyers equally test vendors' resolve. This reflects an improved position over the course of the year, as more stock returns to the market, and buyers and sellers become closer to agreeing a price point.

So where is the distress?

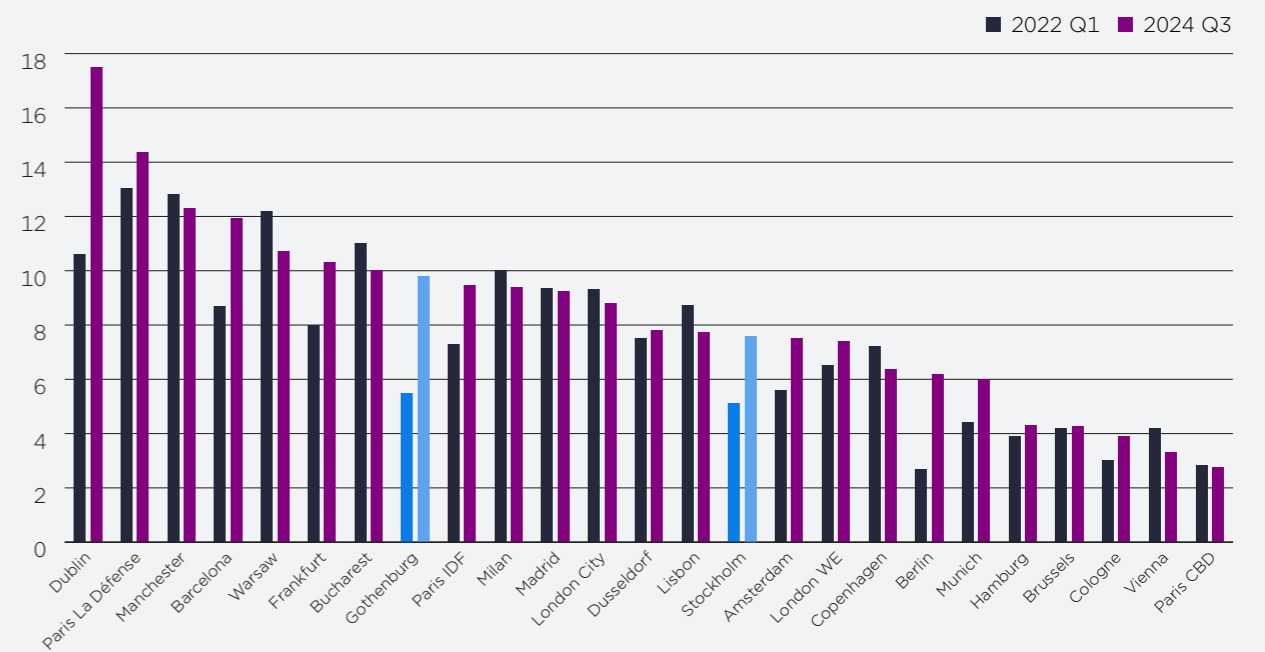
Distress remains limited and banks stabilised their lending standards on new loans for the first time in two years during Q3 2024. We are seeing more alternative lenders bridge the funding gap on secondary stock as they are willing to take on higher risk.

From an occupational market perspective, tenants continue to pay their rent, so landlords continue to meet loan repayment schedules. Office take up has increased by 9% YoY during H1 2024 as Southern Europe continues to outperform from a leasing perspective. Average European occupancy rates have risen to the 60% mark, above the comparable levels in the US of 30-40%, as occupiers compete for well-connected, newbuild office stock in CBD locations to attract and retain employees. European office vacancy rates are stabilising at below 9%, and increases have been accounted for by secondary stock being returned to the market. Occupiers are prioritising higher quality space in well-connected locations with established amenities and good sustainability credentials, and Stockholm and Gothenburg's low vacancy rates compare favourably on the European stage.

European office prime yields, %

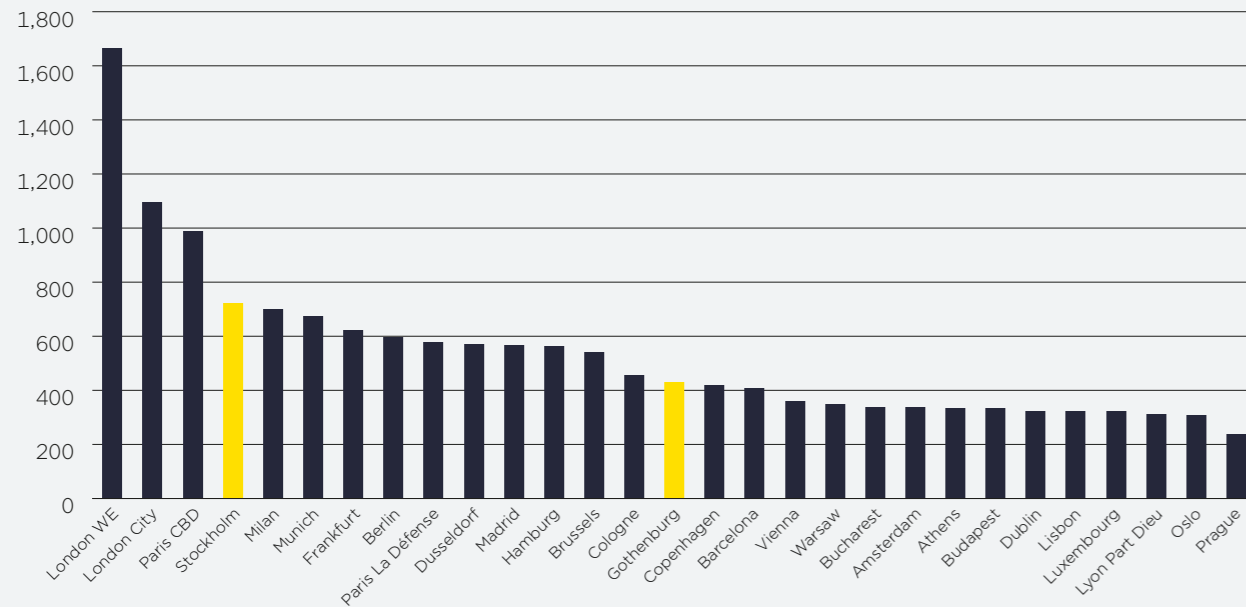


European office vacancy rates, %



Source: Savills Research

European rental levels Q3 2023, € per sq m



Source: Savills Research

Who are the buyers of European offices?

We are seeing a gradual increase in the depth and breadth of buyer demand for European office product:

1

Insurance companies

German, French and Spanish insurance companies continue to engage on core office opportunities in key gateway markets.

2

Private investors

Private German, Israeli and Spanish investors are active cash buyers for office investments across western Europe.

3

Private equity

US private equity is gradually returning to European offices with a view to harnessing potential rental growth and yield decompression in the sector. For the time being, this interest has been most concentrated in the London market, with initial investigations for product in Dublin as well. We expect that this capital will further expand in the near term to the continental European markets as pricing adjustments feed through.

4

SCPIs

It is anticipated that markets will see continued activity from certain French SCPIs, albeit for smaller and higher yielding stock.

Outlook

The office sector has faced challenges around higher interest rates, capex requirements for older stock and hybrid working trends, but we anticipate that well-located offices with good ESG credentials will provide both rental and capital value growth.

We are witnessing a rise in the number of inspections and, gradually, underbidders in investment sales and this is being supported by Eurozone interest rate cuts. Debt has become accretive to returns in many European markets and we expect this will support the core market, particularly the €100 million+ lot sizes, which have been largely inactive so far this year. The office investment market remains divided, and secondary stock, which is off-pitch or not meeting ESG criteria, will remain less competitive.

We do not expect European office transaction volumes to return to pre-pandemic levels in the near future, but 2025 will present a turning point for investors as we see the return of accretive debt to support core transactions as investment volumes increase. For well positioned, good quality stock, we expect to see the return of yield compression in early 2025.

The Swedish investment market

After a decade-low transaction volume in 2023, the market has experienced higher activity so far in 2024. As of Q3 2024, the investment volume amounted to SEK 86 billion, which is an increase of 10% compared to the same period in 2023, but a decrease of 55% compared to the five-year average.

During 2024, the market has experienced a decreased divergence in price expectations between buyers and sellers, which has led to higher activity in the investment market. Transaction volumes totalled SEK 86 billion as of Q3 2024, 55% lower than the five-year average for the period but 10% higher than Q3 2023. The decline in the market is also evident in the number of completed transactions in Q3 2024, which reached 71, compared to the five-year average of 113.

Cross-border investment in H1 2024 amounted to 14% of the total transaction volume, which was the lowest figure since 2013 and lower than the five-year average of 27%. Savills assess the reason for this being that Swedish investors have been able to price risk and uncertainty more competitively compared to many international investors. Per Q3 2024, the share of foreign investors had increased to account for 19% of the total investment volume. Examples of international and Nordic investors in the Swedish investment market are Aermont Capital, Citycon, NREP and CapMan.

In line with previous years, the Stockholm market has remained competitive in Q1-Q3 2024, as 46% of the volume is derived from the region. When including M&A-deals, the residential sector has been the most liquid sector so far, followed by the industrial- and logistics sector, claiming approximately 24% and 21% of the market respectively. Office investments have accounted for 17% of

the total volume. When excluding M&A deals, the industrial and logistics sector has stood out as the largest, accounting for 23% of the volume, while the residential sector has accounted for 18%.

Institutions, pension funds, and municipalities have been predominantly on the buying side. Notably, institutions and pension funds have mainly acquired office spaces, which have accounted for 47% of their total acquisition volume during Q1-Q3 2024. At the same time, they have also been active sellers, representing 58% of the total office divestment volume during the same period. Municipalities have emerged as net buyers, focusing their acquisitions on both public sector properties and residential buildings. Additionally, some listed companies have been active purchasers, such as Catena, Emilshus, Balder, and Logitea.

Savills has observed increased activity in the investment market, though yield requirements have not yet adjusted. Typically, these have tended to decrease when low-yield capital has been accessible, which is not currently the case, despite market interest rates having declined since their peak in September 2023. Sectors like logistics, which have previously undergone rapid price adjustments, are expected to adapt the quickest when the market shifts. Savills also anticipated more deals within low-yield sectors; however, yield adjustments in these subsectors might take longer due to narrower margins.

“As tenant demands evolve, the property market is experiencing a shift. The divergence between high-quality assets in prime locations and secondary properties is growing, highlighting the importance of strategic investment in the right spaces.”

Carolina Herling
Head of Investment
Savills Sweden

19%

Share of foreign investors, Q1-Q3 2024 (5YA 27%)

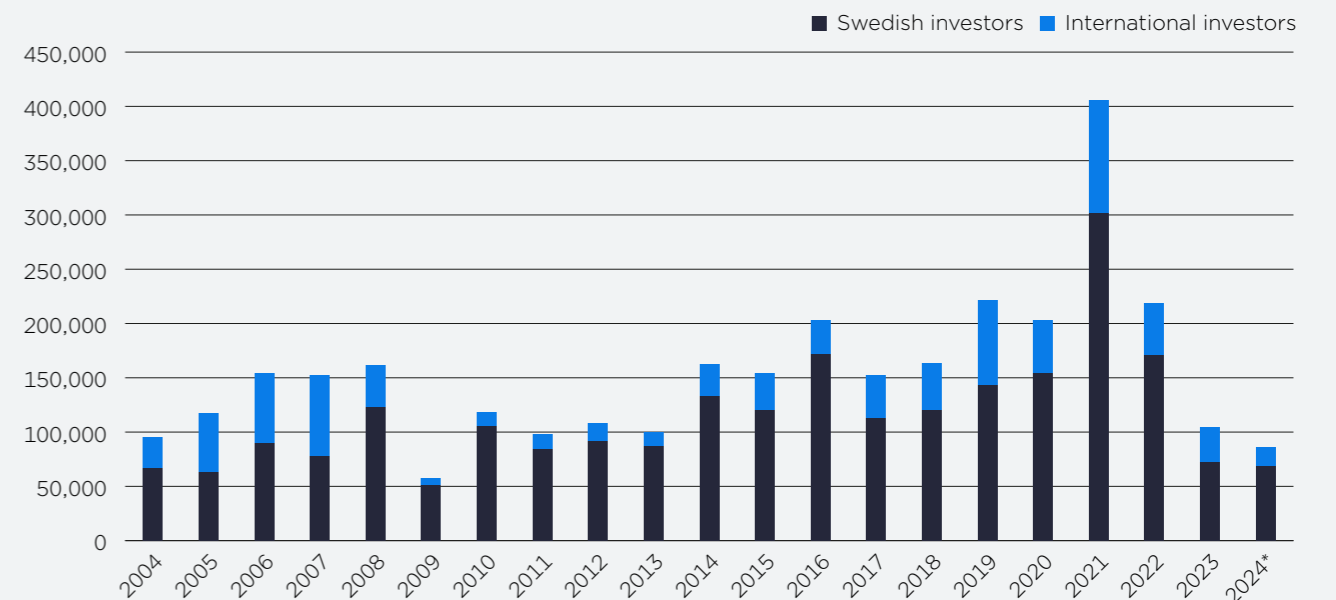
+10%

Transaction volume, Q1-Q3 2024 (Q1-Q3 2023)

SEK 86 billion

Preliminary transaction volume, Q1-Q3 2024

Transaction volume Sweden, SEK million



*As of Q3 2024
Source: Savills Research

Domestic investors dominate the office market

The Swedish office market has been completely driven by domestic investors during 2024, and with the joint lowest prime yield in Europe, the Stockholm office market has dominated the transaction volume. Pension funds and institutions have been highly competitive and foreign investors have not matched domestic demand, instead seeking greater turnover for their investment.

With an investment volume of SEK 15 billion, representing 17% of the total investment volume, the office sector held the third-largest share of the total investment volume during the first three quarters of 2024. The average deal size for office properties in 2024 amounted to SEK 736 million, which aligns with the five-year average for the sector. The four largest transactions in Q1-Q3 2024 accounted for SEK 9 billion, representing 61% of the total investment volume in the sector.

As of Q3 2024, domestic investors accounted for 100% of the investments in office properties, significantly exceeding the five-year average of 62%. This dominance is primarily driven by Swedish institutions and pension funds, which have notably increased their presence in the Swedish office

market, now representing 60% of the total office transaction volume. Notably, it is also these same investor types that have been actively divesting, with SEB Trygg Liv being a prominent example, particularly in Stockholm's inner city.

These domestic investors are able to remain highly competitive in their bidding strategies, knowing that certain prime properties rarely come up for sale. This allows them to adopt a more aggressive pricing approach, capitalising on opportunities that are difficult for international players to access. Furthermore, their existing portfolios in central Stockholm, particularly in the CBD, enable them to leverage synergies with their current holdings, enhancing their strategic positioning in the market.

96%

Share of the total office transaction volume attributable to Stockholm, Q1-Q3 2024 (5YA 62%)

0%

Share of foreign investors within the office sector, Q1-Q3 2024 (5YA 15%)

SEK 15 billion

Investment volume office, Q1-Q3 2024



Stockholm-focused investor market

The office investment market is being increasingly concentrated to Stockholm, with the proportion amounting to 88% during 2023. This increase was especially driven by four major office transactions which were carried out in Stockholm CBD, including AP7's investment in Urban Escape. As for Q1-Q3 in 2024, Stockholm is by far the most active sub-market in Sweden, and its share of office transaction has continued to increase and constitutes almost the entire volume, at 96%.



Swedish prime office yield – joint lowest in Europe

The prime office yield in Stockholm CBD has increased by 80 bps since Q1 2022 and is currently estimated at 4.0%, the joint lowest in Europe, alongside London West End. This low yield is primarily due to a limited turnover of prime assets, resulting in high demand and a limited supply.



Challenges for international investors

Savills assesses that international investors are struggling to remain competitive when it comes to Core and Core+ office investments. As the majority of marketed office properties have been of this type, this might explain their absence from the market. Moreover, the reluctance to invest in Sweden may be driven by the relatively low yields and more expansive market conditions compared to other European countries, making it a less appealing option for investors seeking higher returns.

Have office vacancies peaked?

Savills Research has conducted a quarterly vacancy study revealing that open vacancy rates has increased across the major cities. In Stockholm CBD, this marks a continued trend, as open vacancy increased for seven consecutive quarters, since its low in Q4 2022. In the first three quarters of 2024, Stockholm CBD saw a 220 bps increase in vacancies, comparable to Gothenburg's rise, while Malmö CBD experienced a larger jump of 300 bps. Interestingly, upcoming vacancies decreased across all three major cities during Q3, suggesting a potential shift in the rising vacancy trend.

Vacancy rates in Stockholm: Q2-Q3 2024

In Q3, Stockholm's open vacancy rate reached 10%, marking a slight increase from Q2. The largest office areas - CBD, Norrmalm, and Södermalm - saw rising vacancies. In the CBD specifically, the vacancy rate increased by 80 bps over the quarter, reaching 7.6%, driven by high upcoming vacancies reported in Q2. Norrmalm's rate increased to 8.3% (up from 7.9%), and Södermalm's to 7.8% (up from 6.2%). The vacancy rate in the inner city, including CBD, rose by 15 bps from Q2 2024 to Q3 2024.

In key sub-markets of Stockholm, vacancy rates increased by approximately 40 bps. Kista's vacancy rate rose to 23% (from 21%), however, the vacancy rate in Solna and Sundbyberg decreased to 10% (from 12%).

Upcoming vacancy rates decreased across the region, with a notable drop in Söderort from nearly 6.0% to 3.0%, and Stockholm CBD's upcoming vacancy fell by 180 bps to 0.7%. Subletting vacancy also fell from 1.1% to 0.8% over the quarter.

Vacancies in Gothenburg and Malmö

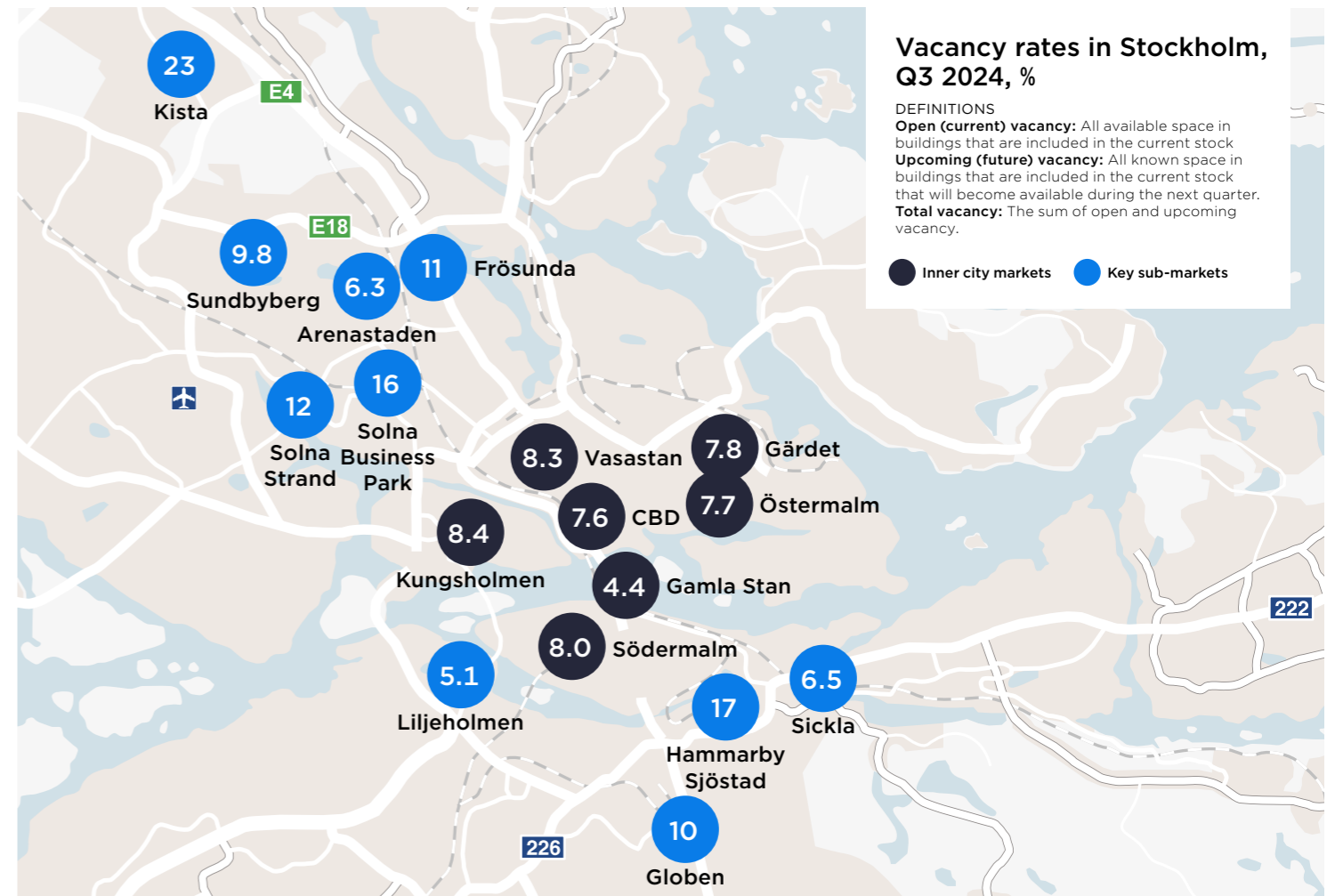
In Malmö CBD, the open vacancy rate in Q3 2024 has increased to 12% (11% in Q2 2024). Upcoming vacancy has slightly decreased in CBD and amounted at 0.3% (1.5% in Q2 2024) which corresponds to 1,700 sqm to be available during the next quarter. In Gothenburg CBD, the open

vacancy rate has increased to 11% (7.5% in Q2 2024) with an upcoming vacancy rate reduction to 1.3% (1.9% in Q2 2024), representing a total of 12,000 sqm to be available during the next quarter. The vacancy rate for subletting is at 0.3% (0.2%) in Malmö CBD and 0.2% (1.1%) in Gothenburg CBD. The trend that is seen in Stockholm is also true for Gothenburg and Malmö, where the open vacancy rates are increasing, while the upcoming vacancy rates and sublettings are decreasing, suggesting that office vacancies in the three major cities might be peaking.

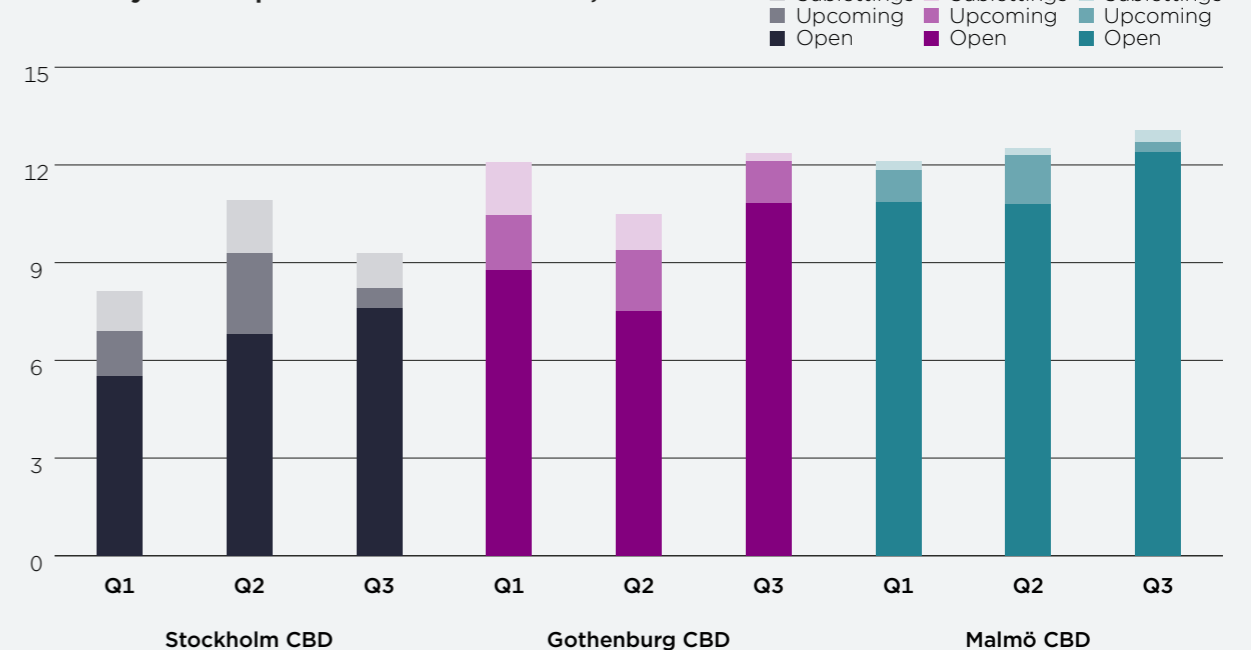
	Q4 2023	Q3 2024	Change (bps)
Stockholm CBD	5.4%	7.6%	220
Gothenburg CBD	8.6%	11%	240
Malmö CBD	9.0%	12%	300

“While open vacancies in Stockholm have risen, total vacancy levels are decreasing, which suggests we may be approaching the peak of the vacancy cycle”

Maryrose David
Head of Research
Savills Sweden



Vacancy development in Sweden 2024, %



Source: Savills Research

Office yields and rental levels

After years of stagnant rental levels, prime office rents in all three major cities began rising in 2024. Stockholm's prime office rents now rank as the fourth highest in Europe. Following a period of yield expansion that peaked in Q2 2022, Stockholm's prime yield decreased by 10 basis points so far in 2024, placing Sweden among the countries with the joint-lowest prime yield levels in Europe.

The Stockholm office market saw continues yield compressions across the majority of sub-markets since its peak in 2011. Uncertainties through cost of debt increases since Q1 2022, resulted in expanding yield levels across the office market in Stockholm. This development has stabilised during 2024. The lowest prime yields are in CBD, assessed at 4.00%, which is the joint-lowest prime office yield in Europe, along side London West End. Kista is one of the largest office regions in the Stockholm area, however with large vacancy rates and perceived uncertainty it is the region with the highest prime yield at 6.25%.

CPI-adjustments and rental growth

The Stockholm CBD office market has experienced significant rental growth, nearly doubling over a 10-year period. However, this trend stalled for 14 consecutive quarters following the onset of the pandemic. High inflation rates led to higher CPI figures, and as most commercial rental agreements in Sweden are CPI-indexed, this resulted in an 18% increase in indexed agreements between 2021 and 2023. Consequently, prime market rents

for newly signed leases in Stockholm's CBD have risen, reaching an estimated SEK 9,250 per sqm as of Q3 2024, although variations exist within the same sub-market.

Not all office sub-markets in Stockholm have followed this trend, and Savills reports that market rental levels in some sub-markets remain below those of existing lease agreements.

In contrast, Gothenburg and Malmö CBDs have historically not experienced the same level of rental growth. However, a modest increase has been observed since mid-2022.

“The same location can have a large variation in rental levels, we see the best spaces in Stockholm go for upward of SEK 12,000 per sqm.”

Lena Sylvén
Joint Head of Valuation
Savills Sweden

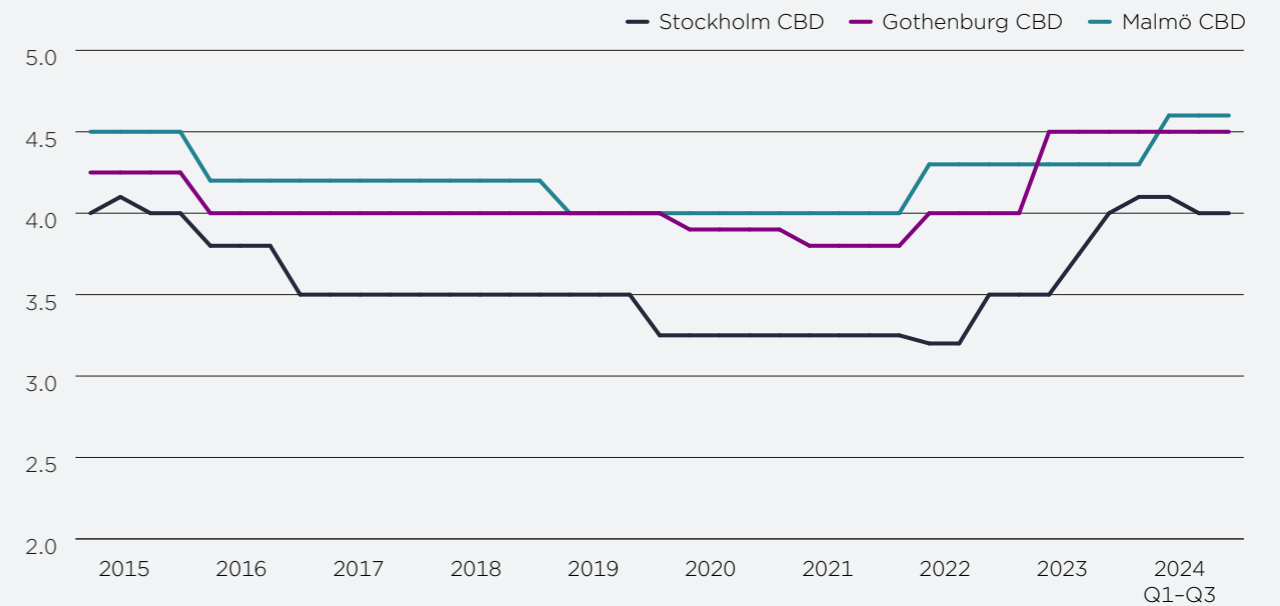
DEFINITIONS

Office base rent refers to rental levels for a unit of approximately 300-500 sqm of lettable floor area, and exclude supplement costs.

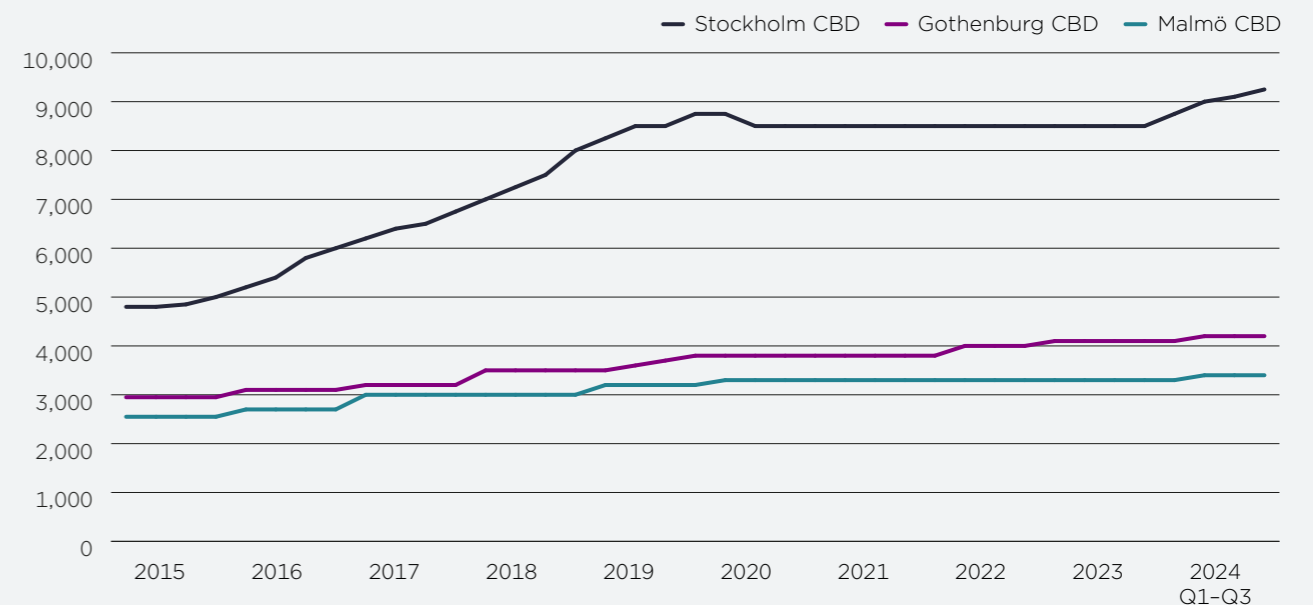
Market rent is the current rental level a new tenant would pay in the open market, reflecting supply and demand.

Rent for existing leases is the rate agreed upon when the lease was signed, including CPI-indexation. These rents can differ from market rent, especially if market conditions have changed since the lease began.

Prime yield development major Swedish cities, %



Prime rent major Swedish cities, SEK per sq m



Source: Savills Research

Overview of the flexible coworking concept in Sweden

Since 2017, coworking stock in Stockholm has expanded by 400%, but 2024 has seen a slowdown, signaling a shift in market dynamics. Rising rental costs and competition from traditional landlords are pressuring coworking operators to maintain high occupancy for profitability. Despite these challenges, there are plans for new spaces, with a moderate increase in stock expected over the next year.

For the past seven years the coworking stock has increased yearly and since 2017 the total coworking stock in CBD in the three major cities has increased with 150,300 sqm. Stockholm CBD saw the largest increase, with a 400% rise (123,000 sqm), representing 9% of the total office stock in the CBD. This was followed by Gothenburg, with a 105% increase (18,000 sqm), accounting for 3.8% of its total stock, and Malmö, with a 170% increase (15,000 sqm), accounting for 3.5%

Has rapid expansion now caught up with demand?

Even though coworking has been a significant trend for many years, particularly in Stockholm, its expansion started to decelerate in 2024. This is due to several events such as changing work patterns, recession, rising rental costs, and increased competition from traditional landlords. Despite this, coworking spaces are expected to grow in 2025 compared to 2024, although the number of companies using these spaces has declined.

In terms of competition, this trend is quite unique for Sweden, making the country stand

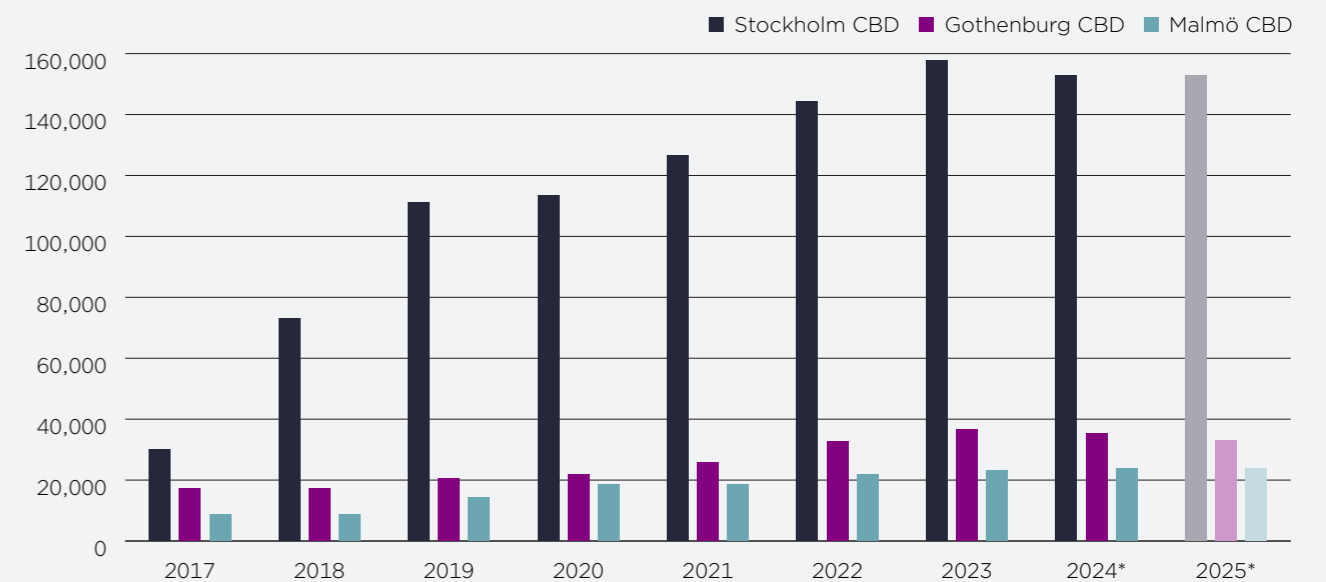
out as traditional landlords offer attractive alternatives. With their own coworking concept, traditional landlords want to meet the growing demand for flexible workplaces and maximise the use of their properties. While the number of coworking operators and spaces has been steadily increasing over the past seven years, reaching a peak in 2023, this could explain why supply has decreased by 2.7% (5,700 sqm) in the three major cities in 2024. Gothenburg CBD experienced the largest decline of 3.4% (1,250 sqm), followed by Stockholm CBD at 3.2% (5,000 sqm), while Malmö showed a slight increase of 2.5% (600 sqm). The decline is partly due to the bankruptcy or closure of several companies.

“As traditional landlords offer more flexible lease agreements, coworking operators are struggling to compete, especially with rising rental costs adding pressure.”

Marcus Kindbom
Joint Head of Valuation
Savills Sweden



Current and expected coworking spaces, sq m



Source: Savills Research

SAVILLS' DEFINITION OF COWORKING

Savills defines coworking as a serviced office where you can rent workstations in a communal or hotel looking environment with many offices. It can be in an open plan office with various coworking spaces or in private office rooms. Note that Savills measures the total space rented by coworking actors from property owners in Stockholm, Gothenburg and Malmö's with focus on CBD areas.

Where is the coworking market heading?

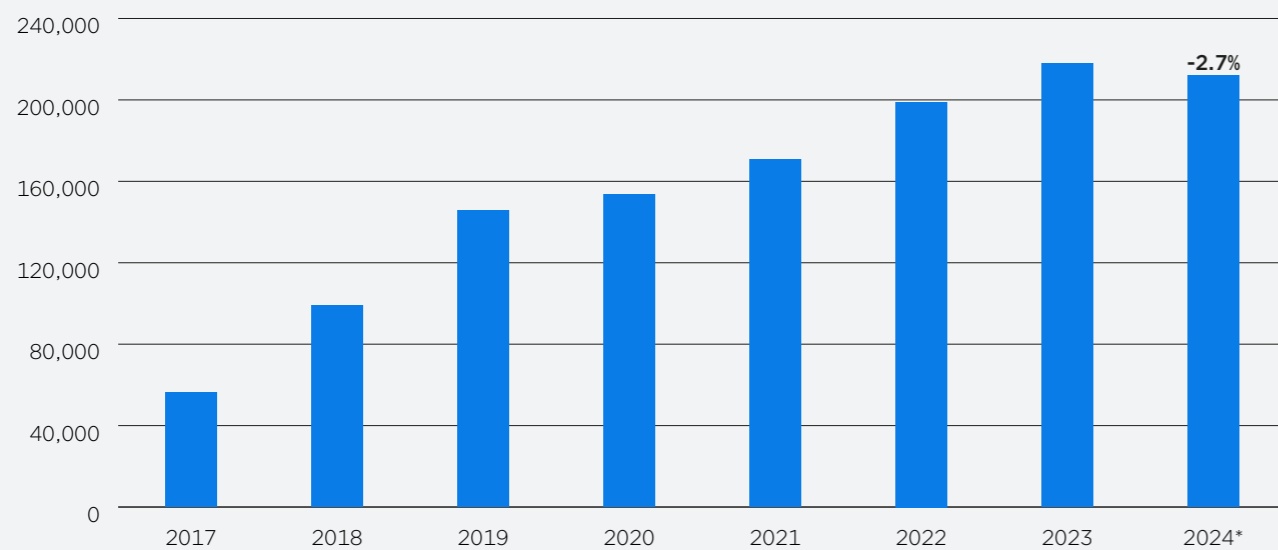
Looking ahead, the coworking sector faces challenges, partly due to the overestimation of demand for space, which has increased competition for the remaining available areas. In addition, higher rent negotiations have limited operators' ability to adjust their pricing accordingly, leading to greater financial strain on their businesses.

Coworking spaces often need around 80% occupancy to reach profitability and cover costs such as rent, operations, maintenance and staff. Units not reaching this level within a certain time after establishment, may find it difficult to make a profit or generate revenue. Due to economic challenges, in the United States, and lower occupancy rates in Sweden, the well-known operator WeWork recently closed around 10,000 sqm of

rental space in Stockholm. Conventum, one of the largest coworking actors in Sweden, is an example of another operator struggling on the market, as they applied for corporate restructuring during mid-October. The application applies to their business in Stockholm, affecting 17 of their 20 units. While the market for coworking companies remains competitive, some continue to expand. Other key coworking operators by number of spaces in Stockholm, Gothenburg, and Malmö currently include Helio, Ioffice, and Regus.

More coworking spaces are expected in the coming years, especially in Stockholm and Gothenburg. In Q4 2024, Stockholm City, are expected an addition of coworking space of 3,000 sqm, with 1,000 of them in Vasastan/Norrmalm and the rest in Södermalm. Gothenburg CBD, on the other hand, anticipates a slightly higher addition of around 3,500 sqm, but this is projected for 2025.

Coworking spaces in the CBDs of the three major cities, sq m



*Projections for 2024 also encompass the planned spaces expected to be launched in Q4. Source: Savills Research, Yta.se, various coworking actor's webpage and other external sources



Key takeaways

- The coworking stock in Stockholm's CBD has increased by approximately 400% between 2017 and 2024, now accounting for 9% of the total office stock.
- The coworking spaces in 2024 in the three major cities is estimated to decrease by 2.7% in 2024 compared to 2023
- Rising rental costs driven by high inflation, combined with recession and increased competition, particularly from traditional landlords, are negatively affecting coworking actors.
- In Q4 2024, Stockholm City expects to add 3,000 sqm of coworking space
- In Gothenburg CBD, around 3,500 sqm, is projected to be added in 2025.

Environmental sustainability in the Swedish office market

Stockholm's office market, with the oldest stock and lowest share of certified properties, shows that location outweighs sustainability certifications in determining vacancy rates. Central, older offices maintain lower vacancies, while newer, certified properties in less central areas tend to have higher vacancy levels, underscoring the dominance of prime location in attracting tenants.

Most environmentally certified office properties are situated in Stockholm, and the region has the largest share of its office space certified at 49%. Gothenburg has 43% of its office space certified, and the share amounts to 39% in Malmö. The certifications held by the most office space are BREEAM In-Use - Very Good and LEED - Gold. For the inner city of Stockholm, 34% of the space hold a high EPC label of A-C, while 55% of office space in the sub-markets hold a high EPC label.

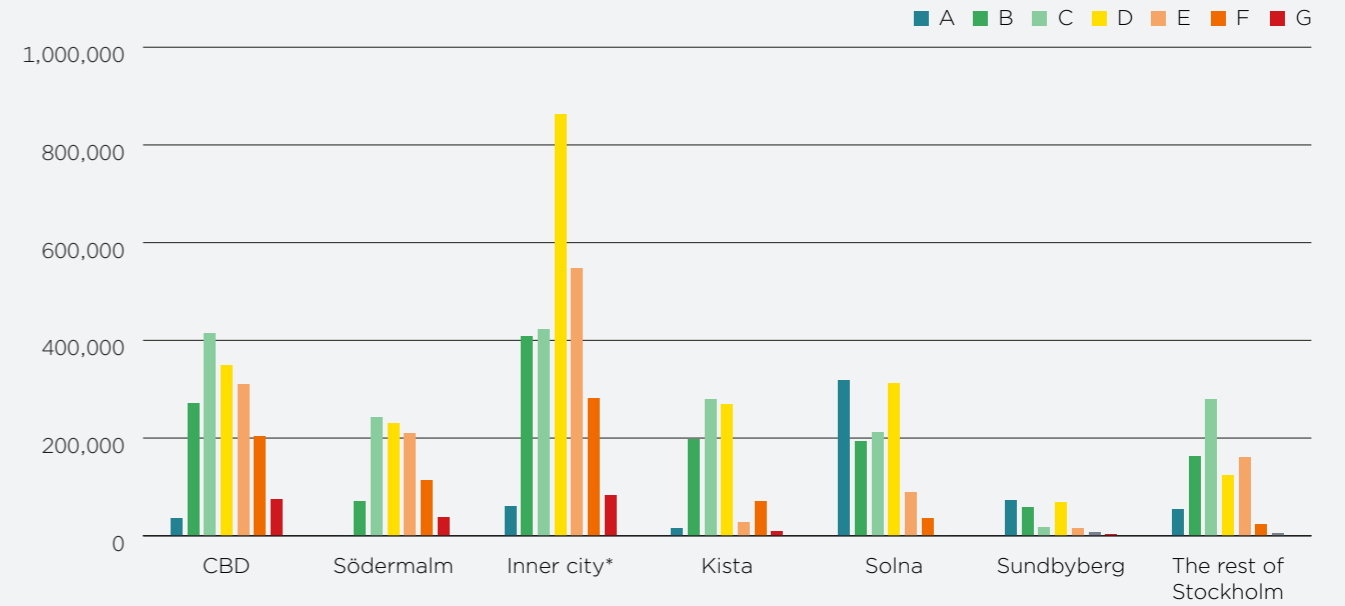
Regression analysis shows somewhat counter-intuitive results as neither EPC nor environmental certification will result in lower vacancy; in fact, the opposite is true. At 99% significance each step of improved EPC shows 130 sqm increased vacancy in a property on the Swedish office market. A

property with environmental certification will on average have 1,000 sqm more vacancy. Reasons for this could be that properties with good EPC ratings and certifications are newer and located in less central areas, while central locations have limited new construction and are more attractive for tenants. For reference, the average construction year for office properties in the inner city of Stockholm is 1928 and 1986 in sub-markets.

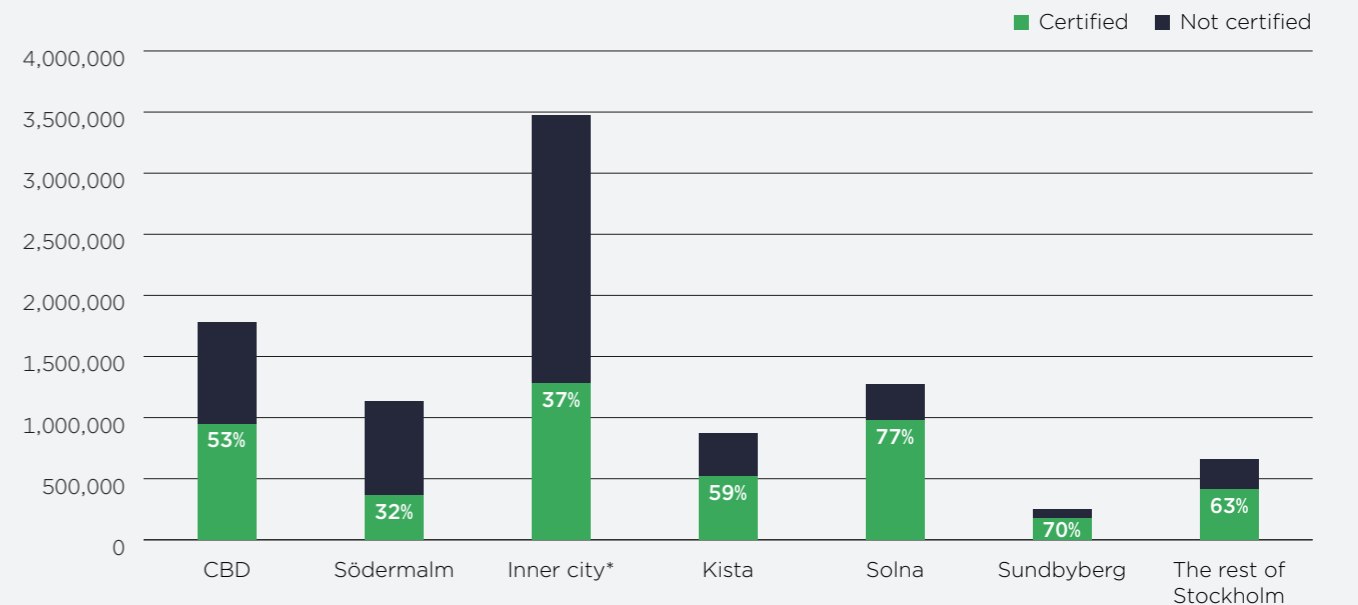
“While location remains an important factor for office occupiers, we are seeing a growing demand for environmental sustainability in their decision-making process.”

Fredrik Carlman
Head of Occupier Services
Savills Sweden

EPC of the office stock in Stockholm per sub-area and sq m



Environmental certification of the office stock in Stockholm per sub-area and sq m



*CBD and Södermalm are reported separately from the inner city, so their data is not included in the inner city figures.

Source: Savills Research

Resilience and Recovery: comparing office markets in the US, Europe, and Sweden

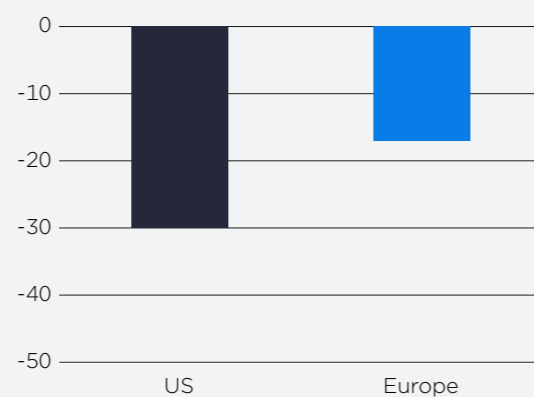
The Swedish and European office markets have been more resilient than the US post-pandemic, showing lower vacancy rates, stronger public transport recovery, and more robust cross-border investment. Sweden leads with its stable investment environment and unique ownership structure, while the US struggles with higher vacancy rates, weaker demand, and a slower recovery, highlighting regional differences in the office market's future.

Demand and take-up

Office demand in Europe has proven to be twice as resilient as in the US. Since 2019, the US has seen a 30% decline in office take-up, compared to just a 17% drop in Europe. This divergence can be attributed to several factors, including differences in economic structure, working culture, and government support. In Sweden, for instance, a strong presence of long-term institutional investors has contributed to market stability, as they continue to hold prime assets, reducing fluctuations in vacancy rates and prime yields.

Furthermore, cross-border investment levels reflect Europe's relative attractiveness. During the first half of 2024, cross-border investment accounted for 40% of European office transactions, compared to only 5% in the US. This suggests that European investors are more confident in their regional markets, which benefit from proximity, familiar regulatory environments, and positive macroeconomic conditions.

2023 Take-up for offices comp. to 2019, %



Source: Savills Research

“It is important to distinguish between the European and US office markets, as vacancy rates in the US averaged 25% in Q3 2024, with some cities reaching 35%, significantly higher than the European average of 8.7%.”

Mike Barnes

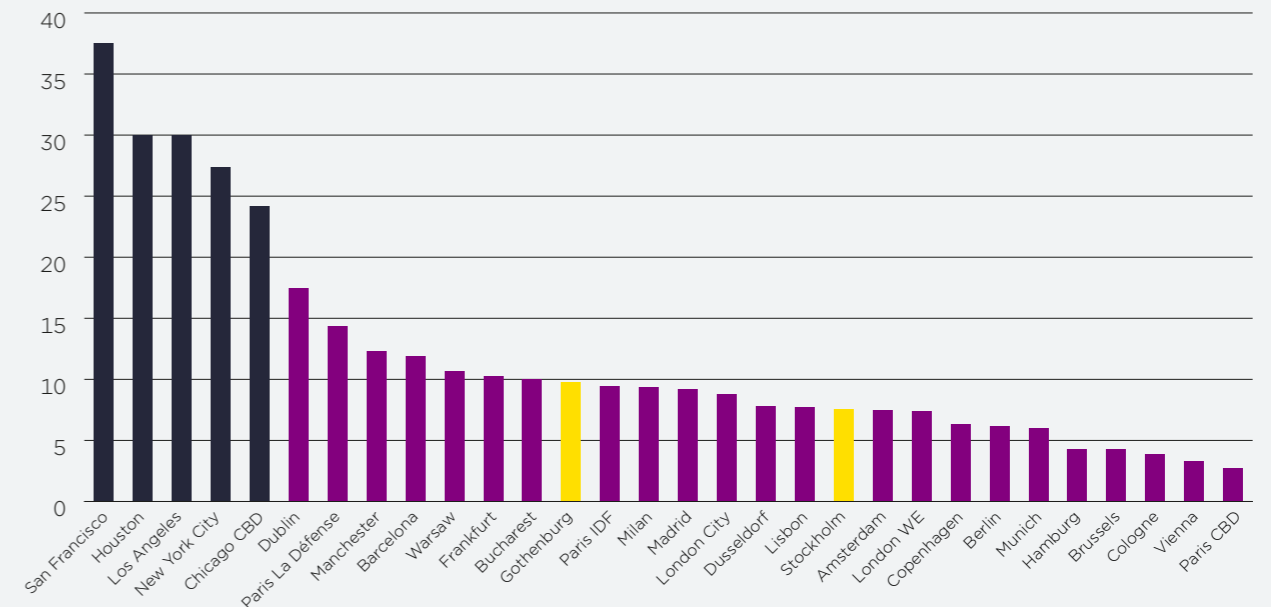
Associate Director
Savills European Research

Vacancy rates

Vacancy rates are a crucial measure of the health of the office market, and Sweden has consistently outperformed both the US and other parts of Europe. In the US, vacancy rates have surged, with some regions seeing rates as high as 37%, while the national average reached 25% in 2023. By contrast, the average vacancy rate in Europe during Q3 2024 amounted to 8.7%, and in Stockholm CBD to 7.6%.

This resilience in Sweden can be partially explained by its unique ownership structure. Long-term investors, including institutional investors and listed companies, own a significant portion of prime real estate, which helps keep vacancy rates low and yields stable. This contrasts sharply with the US, where more dynamic ownership patterns and shorter-term investments have led to greater volatility.

Office vacancy rates by region, Q3 2024, %



The graph shows US availability rates, including both vacant and sublease spaces available for lease.

Source: Savills Research



Stockholm rankings

14th

Stockholm ranks 14th in Oxford Economics' Global City Index, 2024

4th

Most developed and innovative city in Europe, 2022-2023 (2ThinkNow Innovation Cities Index)

Prime yields and transaction volumes

Prime yields in the Swedish market are among the lowest globally, driven by the same long-term investor presence that supports low vacancy rates. While European cities generally see higher yields than Stockholm, with an average of 90 basis points (bps) above the Swedish capital, they are still lower than in the US, where prime yields average 300 bps higher than in Stockholm.

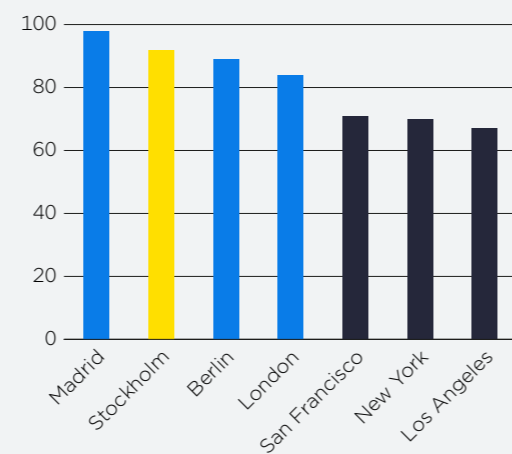
Regarding transaction volumes, while the five-year average remains negative across Europe, certain countries, including Sweden, have begun to see positive annual growth in real estate deals. This trend is in stark contrast to the US, where transaction volumes have yet to pick up meaningfully, reflecting the ongoing challenges the American office market faces.

Public transport recovery

One of the key indicators of the post-pandemic office market recovery is public transport usage, particularly in cities with a high reliance on subway systems. European cities have seen a stronger recovery in this regard compared to their US counterparts. Stockholm is second only to Paris in terms of subway ridership recovery, followed by Madrid. This increase in commuter activity has been a significant factor driving the recovery in demand for office space across Europe, as companies bring employees back to the office in greater numbers.

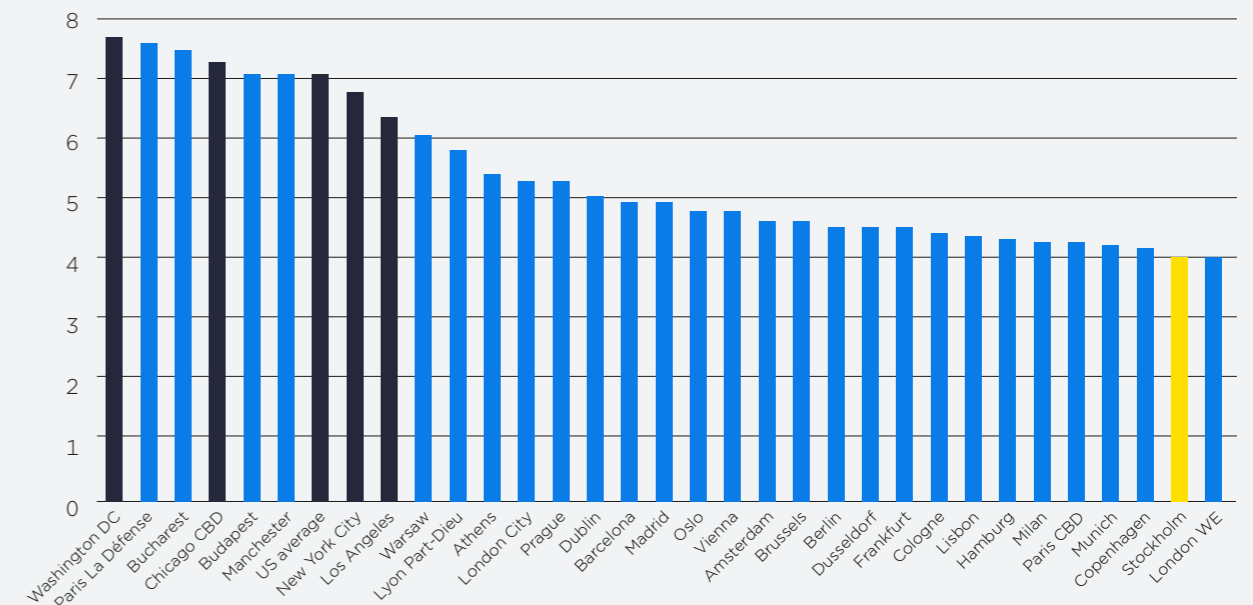
In the US, however, public transport recovery has lagged, contributing to the slower rebound in office demand. Cities like New York and San Francisco have struggled with lower commuter volumes, which has dampened the recovery of central business districts.

Share of subway commuters in 2023 compared to pre-pandemic levels, %



Source: Various

Office prime yield by region, Q2 2024, %



Source: Savills Research

SAVILLS SURVEY

Occupier insights and office trends

Savills' survey of 102 office occupiers in Sweden provides clear insights into current trends and priorities. The results show that most occupiers value proximity to public transport and modern office spaces, while many prefer a hybrid working model, balancing remote work with office presence. Despite high attendance mid-week, demand for additional office space remains low, as a significant number of occupiers are not planning to expand. There is also a strong desire for clear guidelines on remote working and improved coordination with colleagues. To increase office attendance, respondents highlighted better transport options and having more colleagues on-site as key factors.

The occupier represents the core of any property owner's business and understanding their key challenges and opportunities is central in several aspects. A landlord who understands their tenant will be able to ensure tenant retention and decrease vacancy through informed property management and lease negotiations while also enjoying a competitive advantage through adaptation to emerging market trends. Therefore, Savills Research conducted a comprehensive occupier survey of the office market which is presented in the following chapter.

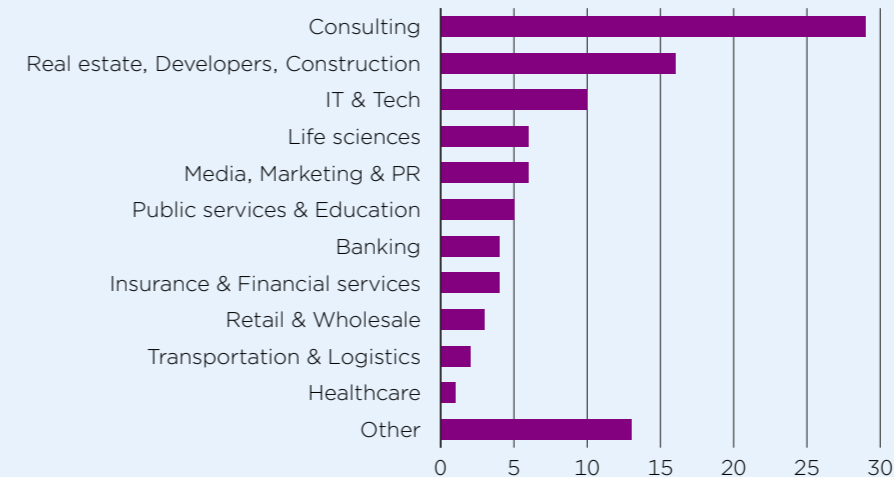
In total, 102 occupiers in the Swedish office market have participated, representing a wide

range of business fields. 79% of the respondents are headquartered in Sweden, while 21% are internationally based. The occupiers primarily have a turnover of either under SEK 100 million or above SEK 2,000 million, representing both large and small businesses. On average the respondents had between 200-500 employees, although the biggest group were companies with under 50 employees. The respondents had six offices in Sweden on average, with their headquarters mainly being in the Stockholm area. About 20% of the respondents are headquartered in Stockholm city or Solna/Sundbyberg respectively.



To which business segment does your company belong?

Share of responses, %



“Employees value private office space for concentrated work and online meetings, while employers are looking for attractive locations in terms of local environment and transport communications.”

Axel Jersenius
Research Analyst
Savills Sweden

1

Working remotely or from the office

Approximately 4% of respondents report working primarily from home, while 35% are mainly based in the office. The most common arrangement is a hybrid model, with 61% working both from home and in the office. All respondents indicated that their staff are present in the office at least once a week, with 3-4 days per week being the most frequent pattern. Additionally, 33% of respondents work in the office for either 4-5 days or the entire week. The preferred days for office attendance are clear, with Tuesday to Thursday being the most popular. This concentrated office attendance may mitigate the impact of remote working on demand for space, as a significant portion of office space is still utilised, particularly mid-week.

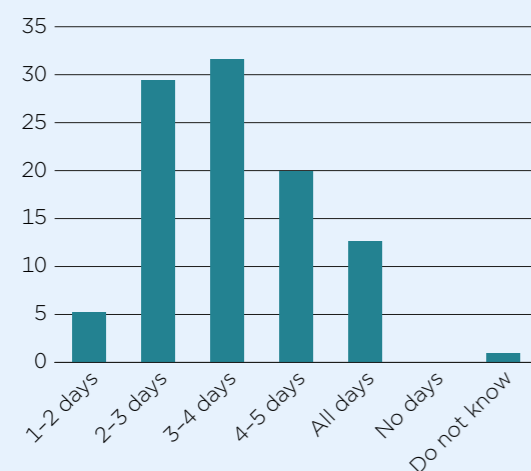
Productivity among managers and employees may be influenced by their working

conditions, with 72% of respondents noting a perceived difference between working at the office and working from home. Additionally, 61% believe that there is a discrepancy in how managers and staff view productivity, suggesting that managers perceive a drop in productivity when working from home compared to employees.

There is also a preference for clear guidelines regarding working remotely. 78% of the respondents want guidelines, with understanding of expectations and coordination with colleagues being the primary reasons why. When asked about means of achieving higher attendance at the office; respondents indicated that seeing more colleagues working on-site and improved transport options would encourage them to spend more time in the office.

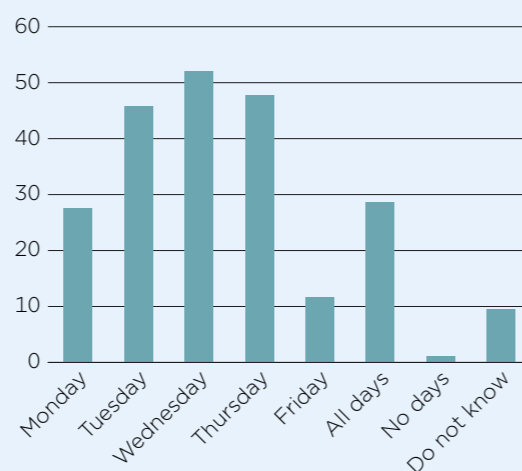
How many days per week do you work from the office?

Share of responses, %



Which days of the week do you usually work from the office?

Multiple choice, %



2

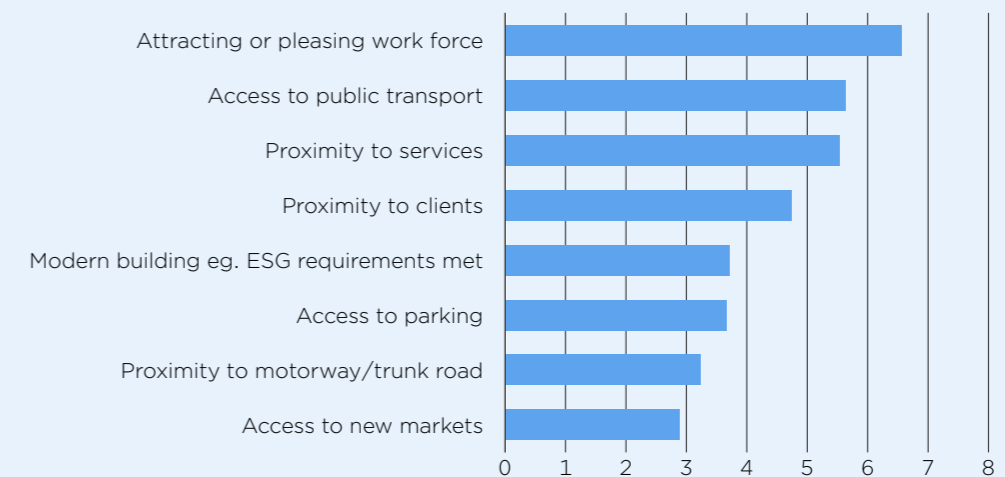
Demand for office space

Despite high attendance during the middle of the week, demand for additional office space remains low, with 76% of occupiers indicating they have no plans to expand their business. Only 11% expressed an intention to expand, and of those, 64% anticipated expanding their space by less than 30%, primarily in the Stockholm area. Among those not planning to expand, 30% are considering downsizing, with reductions most commonly ranging between 30-60% of the current office space. Coworking as an alternative to traditional office leasing is considered by 31% of the respondents, mostly partially, while 65% stated that it is not considered as a solution for them.

When choosing a location, the occupiers expressed that having access to-, attracting and retaining a skilled workforce is the most important factor, with proximity to amenities and public transport being important factors as well. In fact, 84% of the respondents preferred no more than 600 metres between the office and public transport. Overall, the respondents were satisfied with the area that they currently are located in, however if they were to move to a new space the attractiveness of the office was seen as important, such as modernity and good service, along with the rental cost. Moving to a more central location was preferred over moving out of the city.

Rank the most important factors when choosing a new office

Score 1-8



3

The occupiers' view on the property

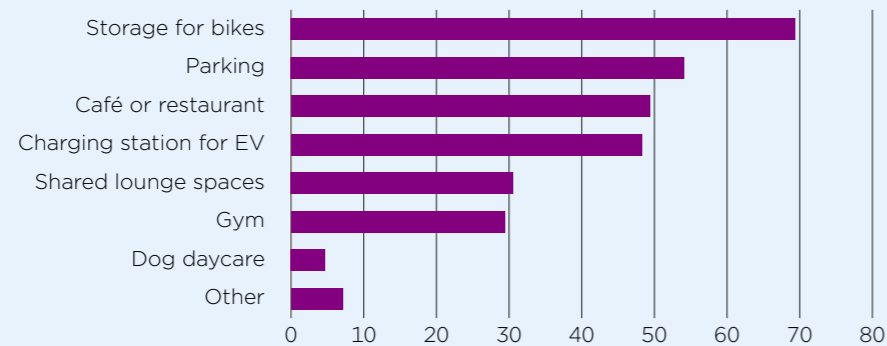
Occupiers place great importance on the public perception of their landlord, with 76% highlighting this as significant, and 78% emphasising the value of the landlord's long-term commitment. The amenities most valued by occupiers were those linked to transportation, with bike storage, parking, and charging stations for electric vehicles ranking highest.

Digital solutions that support communication were also seen as key, likely

reflecting the shift to online platforms for both internal and external interactions. In fact, 85% of respondents considered well-equipped video conference rooms important, while 66% valued booking software for conference rooms. As open-plan layouts and online communication become more common, many occupiers noted a lack of private spaces for focused work and meetings.

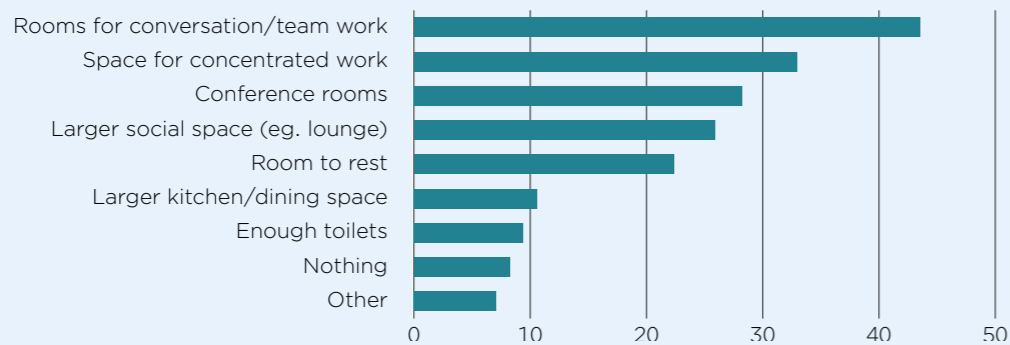
Which amenities are most important and should exist in a building?

Multiple choice, %



In your experience what is your office missing today?

Multiple choice, %



4

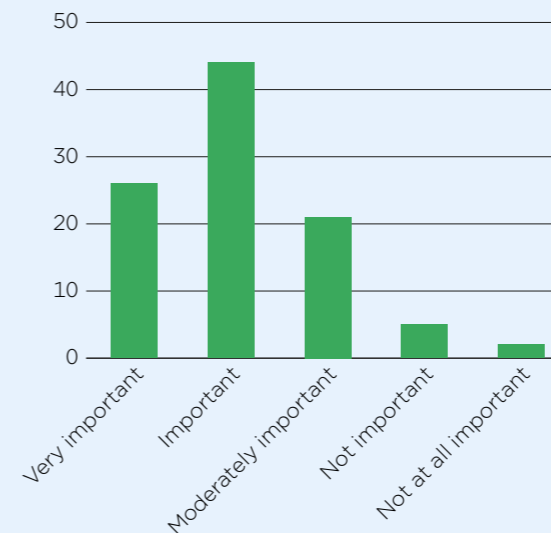
ESG from the perspective of office occupiers

Most respondents express that they are not willing to pay increased rent for an environmentally certified building, as 56% answered no. Still, the respondents claim that environmental sustainability indeed is important and 65% of respondents are willing to decrease

TI's when relocating to save on environmental costs. Given the current economic climate, many businesses are facing challenges, leading occupiers to prioritise cost savings over certain conveniences, even if it means not fully prioritising sustainability initiatives.

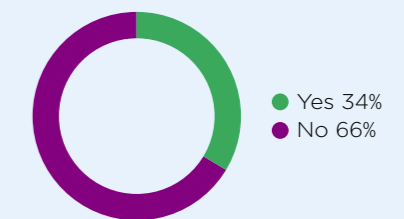
How important is sustainability when choosing a new office?

Share of responses, %



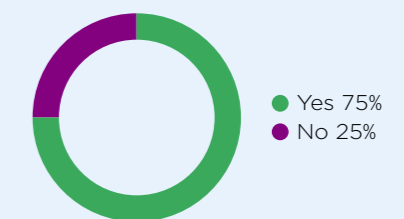
Are you willing to pay more rent for space in an environmentally certified building?

Share of responses, %



Are you willing to minimise redevelopment (TI's) in your office space to promote sustainability?

Share of responses, %



5

Rental contracts for offices

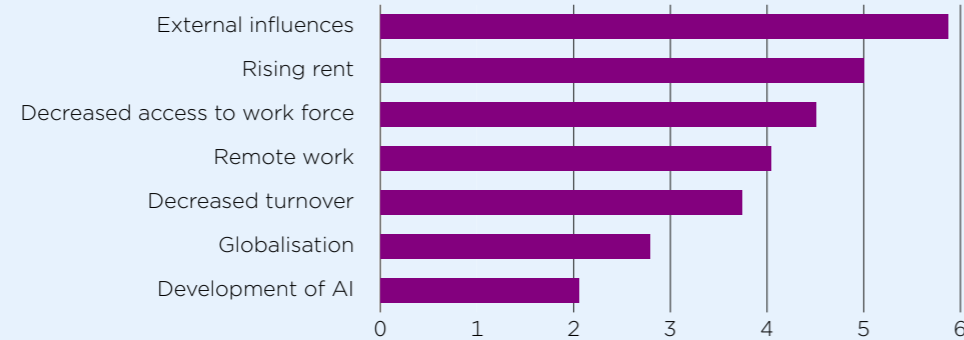
When asked whether all their lease agreements are CPI-indexed, 81% of participants confirmed that they are. Additionally, 68% indicated that all their rental contracts were fully indexed to the CPI in 2023, which led to significantly higher rental levels for the occupiers. The biggest threats to the occupiers' businesses are expressed as external influences, rising rent and reduced access to potential employees. Remote working is also a concern for the respondents.

As a response to changes in the business climate, the ability to resize office space

during relocation is seen as important for occupiers. 76% of the respondents find it either reasonably important, important or very important. For new rental contracts 51% of respondents prefer to sign 3-5 years, 35% prefer 1-3 years and 12% prefer more than five years. 40% of respondents are currently in a three-year contract and 34% in a five-year contract, the two most common forms. 55% express that the average contract length of new contracts has not decreased during the last 10 years and 27% say it has.

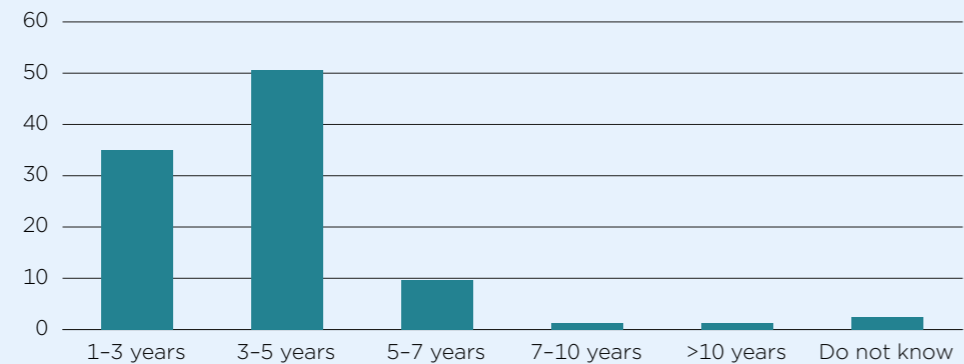
Rank the factors that constitutes a concern for your business

Score 1-8



What is your preferred length of new lease agreements?

Share of responses, %



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Savills Research

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