PRESS RELEASE

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Catella: Increasing demand from international investors for the Nordics

The Northern European property market is increasingly featuring in the pan-European real estate portfolios of institutional investors. Compared with other European countries, the economic transparency and prosperity of the markets in the Nordic countries makes them a popular option. Also, the availability of capital opens up new investment opportunities. Catella foresees these opportunities, especially for investments in the office and retail markets.

In general, some 90% of invested capital in the Nordic countries is based on domestic markets (Sweden, Denmark, Norway and Finland), with a high share of Swedish capital – but this will change. Demand from German, French and UK investors rose in the past three quarters, not least through pressure from capital markets to look for a stable income stream. This is the main conclusion from Catella's analysts in its recent Market Tracker.

Nonetheless, there is a price for this attractiveness: Due to increased demand from international investors, and favourable financing costs, 2016 again witnessed downward pressure on office prime yields across the region.

- In Sweden, prime yields in the key office cities are at all-time lows (year-end forecast 2016: 3.4%). Competition will remain fierce in the core office sector, and the subsequently narrowing prime yields have pushed investors towards the 2nd and 3rd tier markets.
- Prime yields in Copenhagen (4.11%) and Oslo (4.05%) are contracting almost identically. Office properties in Copenhagen, especially in the prime segment, offer appealing risk-adjusted returns compared to the more liquid asset classes.
- In the short to medium term, prime yields in Helsinki (4.70%) are expected to come under downward pressure, falling by another 20 bps in 2016. There could be some interesting opportunities arising in the secondary Helsinki markets for those investors seeking active asset management opportunities.

"Many markets offer clear potential for portfolio diversification. Copenhagen and Helsinki display a correlation that is slightly negative, as does Berlin. Stockholm's correlation is below the level identified, for example, for the German cities of Cologne and Dusseldorf, and also from the perspective of Lisbon, Warsaw and London investors. Against this backdrop, combining a Nordic segment with a German, Spanish or Belgium office property segment could be a successful strategy for anyone interested in risk diversification," explained Dr. Thomas Beyerle, Head of Group Research at Catella, talking about the investment strategy from an international perspective.

The Catella Market Tracker – "The Nordics – increasing demand from international investors" is now available at www.catella.com/research.

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