CATELLA

The listed property companies may turn from net buyers to net sellers

The decline in rolling 12-month transaction volume, which had been ongoing since August 2015, was halted in February. The volume increased to SEK 130 billion, from SEK 125 billion in January – compared with almost SEK 160 billion last summer.

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The listed companies, along with institutional investors, have been highly dominant net buyers (properties bought minus properties sold) in the Swedish real estate market since early 2015. Kungsleden and Castellum have been the most active listed companies, while Rikshem, Alecta, Skandia Fastigheter and AMF have been the largest institutional investors. However, there has been a shift in the trend since November 2015 as listed property companies began to reduce their investment activities while institutional investors continued to expand.

Viewed over a ten-year period, the average market premium for listed property companies has been a leading indicator for these companies net investing in the property market – a relationship in which the stock-market premium has been around twelve months ahead of the property investments. This relationship is understandable since a high market premium is a sign of a well-functioning financial market and good access to capital, which in turn stimulate the companies to expand their balance sheets. At the same time, market premiums generate pressure from owners to build up volume since the premiums indicate arbitrage opportunities between the property market and the stock market (the properties have a higher value on the stock market than on the real estate market). In the past quarter, however, the average market premium for listed companies has decreased, from around 25 per cent at the year-end 2015 to around 15 per cent at the end of February. Despite this, the stock-market index for real estate companies has resisted well in the overall declining equity market. Instead, the lower premiums are attributable to property values having risen sharply, and these are now expected to stabilise.

There is plenty to suggest that the global economy will grow slowly in the coming years. Even if the sharply slowing GDP growth of recent years in emerging economies were to stabilise in 2016, we are now seeing signs that GDP growth will weaken in the euro area and Japan – and eventually probably also in Sweden. In this scenario, stock markets are likely to be volatile and weak, while property values will stabilise and eventually fall back somewhat. As a consequence, the stock-market premiums on listed property companies will decrease, and perhaps even turn into discounts, and in this scenario these companies could turn from net buyers to net sellers in the property market.

The changing situation for the listed companies may create good investment opportunities for other players. Swedish institutions have already taken a step forward in the market, and will continue to be major net buyers of properties in prime locations in major and growing cities, even if the market weakens. International investors have also significantly increased their activity since early 2015 – from an annual investment volume of SEK 10–20 billion in 2010–2014, to an annualised SEK 30–40 billion in 2015–2016 – a trend that seems resilient given the significant interest in Swedish real estate, particularly among Nordic, German and Anglo-Saxon investors.

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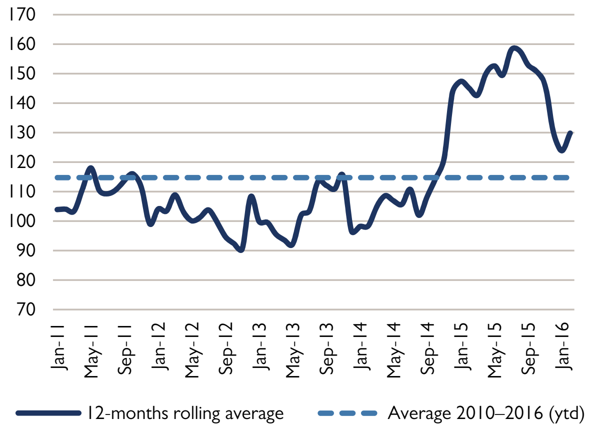
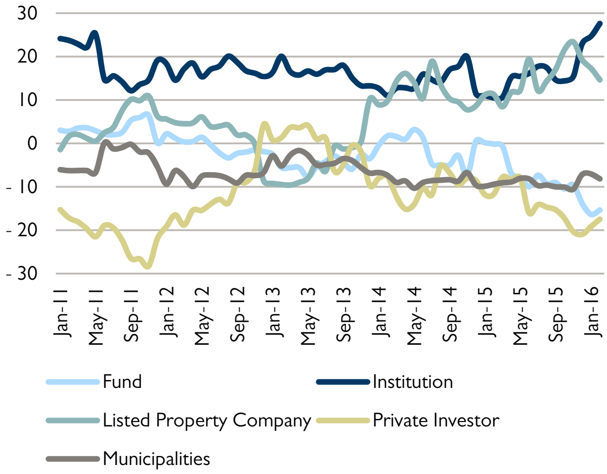
Transaction volume, 12-month rolling average

BSEK



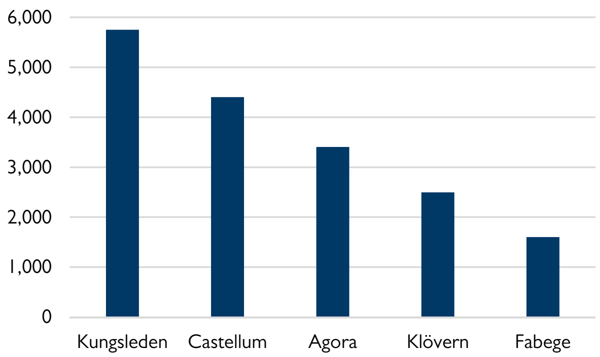
Net investments per investor type, 12-month rolling average

BSEK



Top 5 listed property companies

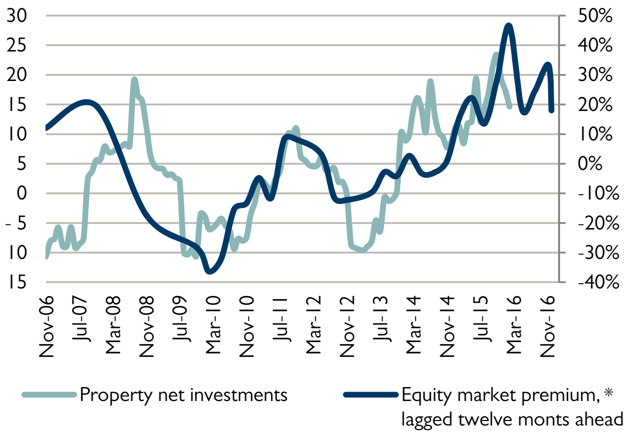
Total investments, 2015–2016 (ytd, MSEK)



Listed property companies, Property net investments/Equity market premium

Net investments (BSEK)

Equity market premium



* Note: Property companies on Nasdaq OMX Nordic Main Market. EPRA NAV includes 5.5 per cent deferred tax.
Source: Catella and Sedis

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