

Nordic property values skewed by COVID-19

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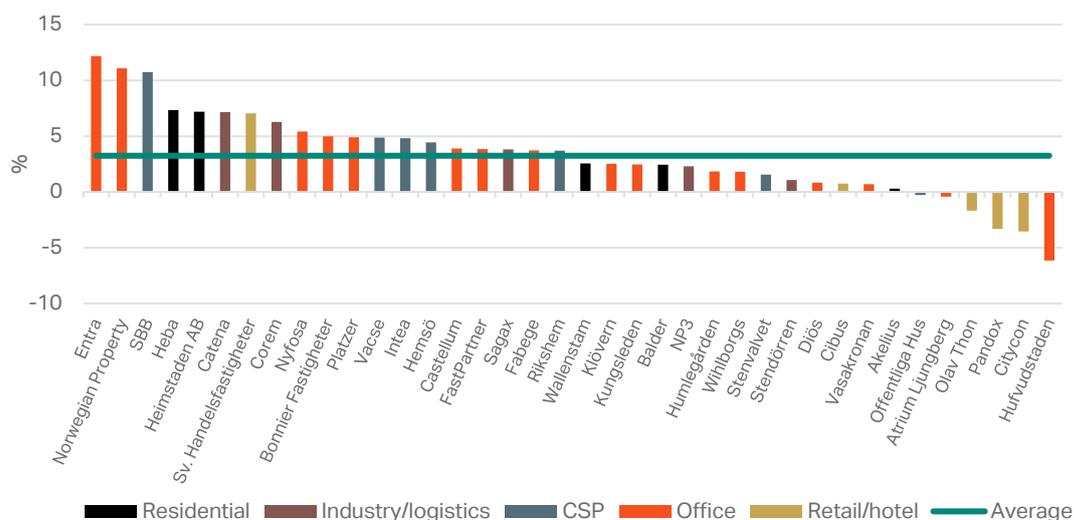
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Nordic retail and hotel property managers saw the most marked value declines in the regional property sector in 2020 as COVID-19 kept shoppers and travellers at home. Conversely, managers with a focus on residential, community service and industry/logistics assets saw the values of their portfolios increase in a year when property values were sharply skewed by the pandemic.

We have previously noted that COVID-19 has accentuated the differences between regional property subsegments, with retail and hotels increasingly shunned by investors, while logistics, residential and community service assets increased in popularity (see [Sweden's property sector faces mixed outlook for 2021](#), 16 Dec. 2020). We have also suggested that the future of the office segment might be in question, making it less attractive to investors (see [Swedish property managers face shift in customer demand](#), 6 Nov. 2020).

Here we look at the impact of a turbulent year on the asset values of a selection of property managers based in the Nordic region with exposures to all major property types (see Figure 1), taking into account both realised and unrealised value changes. The percentage changes were calculated by NCR on the basis of the value of individual companies' investment property holdings at the start of 2020.

Figure 1. Market value changes for select Nordic property managers by primary asset type, 2020



Source: company reports. CSP—Community service properties.

The biggest single value decline was recorded by Hufvudstaden, which mostly manages office premises. The decline, however, was mainly due to the company's retail exposure. Hufvudstaden said the fall was a result of lower rents from retail properties and somewhat higher yield requirements, especially among properties with meaningful exposures to retail and restaurants.

Atrium Ljungberg also saw value declines due to increasing yield requirements and lower cash flows from retail properties, while Vasakronan estimates that value declines among its retail properties averaged 5% over the year. The company said that were it not for strong positive contributions from its project portfolio, it would have recorded slight overall declines instead of the reported rise of 0.8%.

Evidence from the retail exposures of office managers points to the possibility that more focused retail managers, such as Citycon and Olav Thon, could be facing value declines. However, we note that Citycon, which recorded a 3.5% decline in value in 2020, made a 3.0% downward value adjustment in 2019, indicating that the company has already taken substantial value declines in its books. Conversely, Olav Thon recorded a downward adjustment of only 1.7% in 2020 following marginally positive adjustments in 2019, possibly leaving room for further negative value changes in 2021. Both Cibus and

Svenska Handelsfastigheter operate retail properties, but have significant exposures to tenants in the grocery business, a sector that has been boosted by the pandemic which explains the positive value changes recorded by both companies.

Apart from Hufvudstaden and Atrium Ljungberg, all office managers in the sample recorded positive value changes averaging 3.4%. The biggest value increase was recorded by Entra, due to the revaluation of its properties following SBB's and Castellum's attempts to acquire the company. The continued strength of the office segment might appear surprising in view of the challenges of COVID-19. In general, yield requirements decreased slightly in 2020, driving property values upward despite increased uncertainty in the subsector. Some market participants testify to lower rent levels, especially in prime locations where rents have previously been at very high levels. Conversely, others say there is still strong demand for the "right" office properties. Broadly, the outlook for the subsegment is difficult to ascertain.

For several companies in the sample, project development had a positive effect on valuations in 2020. For example, some 45% of the increase recorded by Vacse was due to the completion of its landmark Färgskrapan project. Platzer said that about 75% of its recorded rise was a result of rises in the value of project properties, while Wallenstam attributed two-thirds of its annual value appreciation to project development.

In general, community service property managers recorded substantial increases in value in 2020. However, Offentliga Hus saw marginally negative value changes as substantial unrealised gains at some properties (SEK 454m) were virtually cancelled out by declines of SEK 440m elsewhere. Realised value declines of SEK 31m left the company in negative territory for the year.

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