

Swedish Real Estate Outlook 2025

From financial risk management to
renewed growth

23 Jan. 2025

Gustav Nilsson

Credit Rating Analyst

Yun Zhou

Credit Rating Analyst



Executive summary

Operations in focus

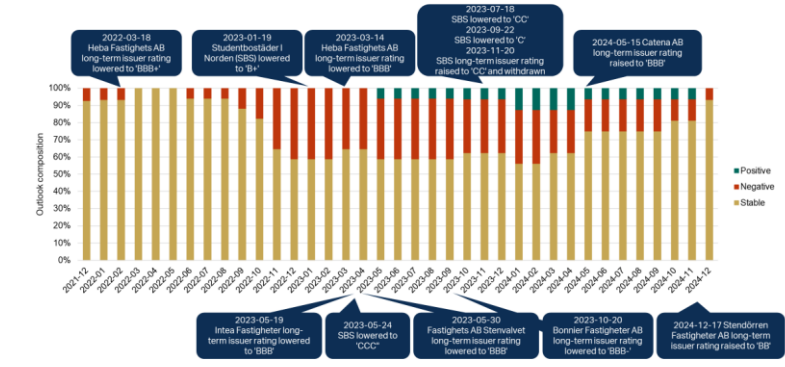
From financial risk management to renewed growth

- After two years of high inflation, reduced interest coverage and tougher financing environment, conditions are now improving for Swedish real estate managers.
- Overall minor weakening of companies' business risk profiles, better access to capital, and lower market interest rates have stabilised credit quality.
- Sector is more sensitive to potential negative shifts in business and financing conditions than it was before 2022, resulting in higher overall credit risk.
- Real estate companies will shift focus from managing financial risk to operations and growth in 2025.
- Operational challenges likely in cyclical segments, such as offices, more so in secondary locations.
- We expect higher transaction volumes and a return to project development in 2025.

Overview of NCR's real estate portfolio

Seven issuers with changed ratings since end-2021

Since end-2021, NCR has downgraded 5 issuers, 1 of which defaulted, and upgraded 2 issuers

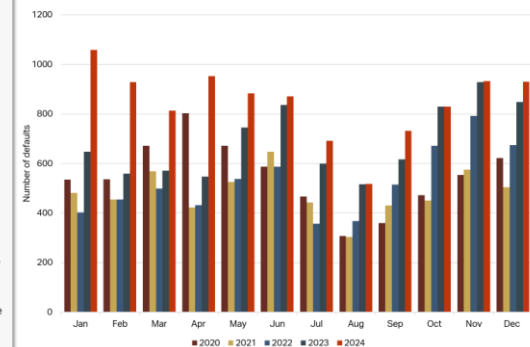


Operations

Operational headwind in cyclical segments as financial risks recede















Cyclical segments likely to see lower rental growth and higher vacancies

- Operational tailwinds for commercial property managers throughout 2023 allowed them to pass on inflation-indexed rents to tenants without affecting vacancy rates or net letting.
- Decline in net letting and increase in vacancies, particularly in offices, in recent quarters.
- Some property managers offering rental rebates to keep facilities occupied without changing market rents.
- Rental growth to slow and vacancies to increase before improving towards end-2025. Risk of rental level correction where markets rents are not aligned with current rents.
- We expect stronger rental growth in the residential sector compared with other segments, with average rents increasing by 5% for 2025.
- Residential rental adjustments did not increase with inflation in 2023 and 2024. We believe this segment will catch up in the next couple of years.



NCR public real estate ratings

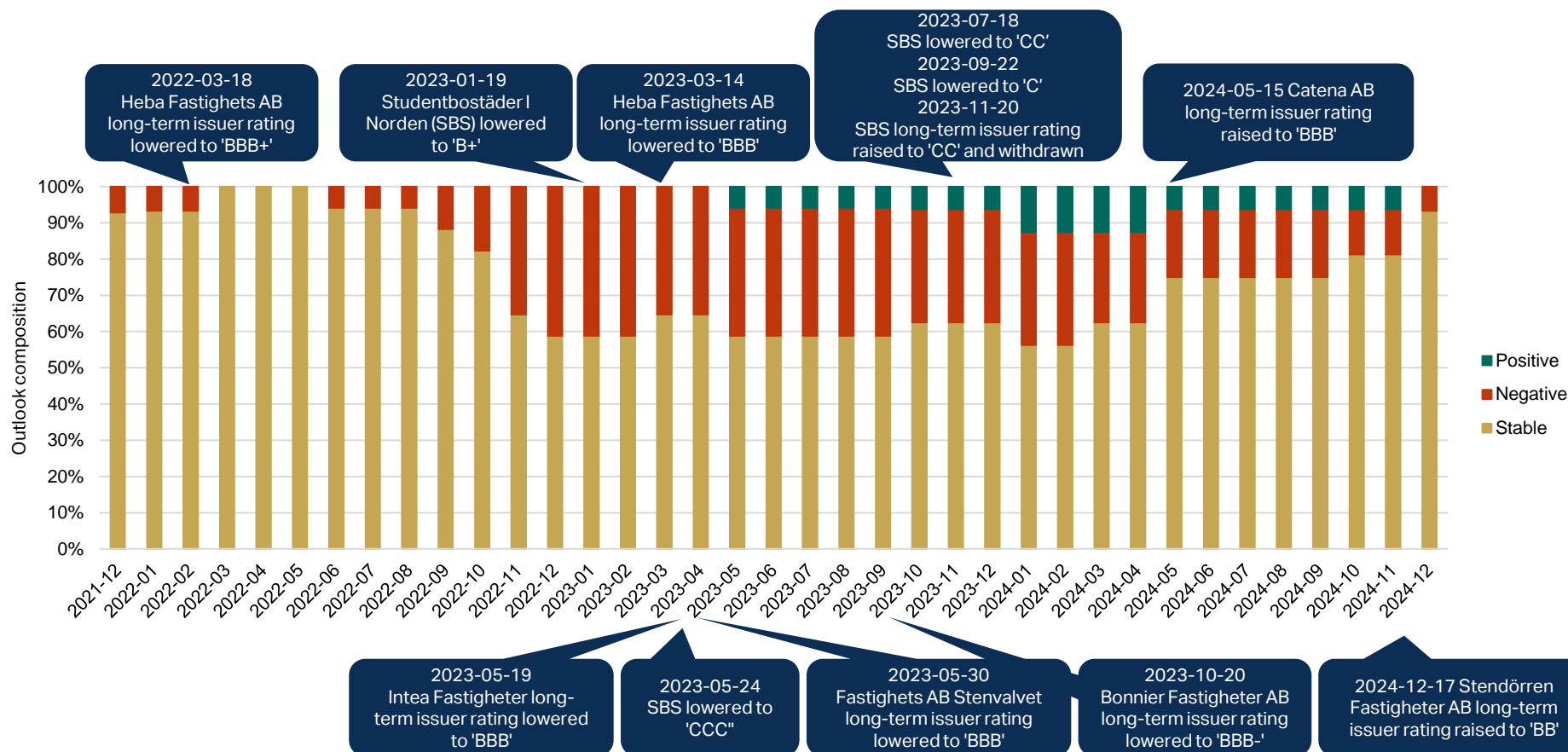
Detailed public real estate ratings¹⁾

Issuer	 BANE NOR Eiendom	 VACSE	 Axfast	 CATENA	 Heba	 INTEA	 STENVALVET	 Bonnier Fastigheter	 SA CA FASTIGHETER AB	 Svenska Handelsfastigheter	 OBOS Eiendom	 platzet FASTIGHETER	 STENHUS	 STENDÖRREN
Long-term rating	A	A-	BBB	BBB	BBB	BBB	BBB	BBB-	BBB-	BBB-	BBB-	BBB-	BB	BB
Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Negative	Stable	Stable
Business risk assessment	bbb+	a-	bbb-	bbb	bbb+	bbb+	bbb+	bbb-	bbb-	bbb-	bb+	bbb-	bb+	bb+
Primary property type(s)	Public	Public	Office	Logistics	Residential	Public	Public	Office	Residential	Retail	Retail	Office	Retail & Industrial	Logistics
Portfolio size (SEKbn)	25.6*	9.9	23.9	41.1	13.4	22.9	15.9	17.4	15.1	18.3	16.9*	28.6	13.4	13.3
Avg. remaining lease term (yrs)	5.6	9.1	5.4	6.7	-	7.4	4.9	3.5	2.8	4.8	5.1	4.3	6.4	4
Financial risk assessment	bbb	bbb+	bbb+	bbb	bb+	bb+	bbb-	bbb-	bb+	bbb	bb+	bb+	b+	b+
EBITDA/net interest (x)	10.5	4.7	2.5	4.1	3.2	1.9	3.0	2.1	3.0	3.2	2.1	2.4	1.7	1.7
Net debt/EBITDA(x)	10.5	7.8	10.0	9.9	14.8	15.0	11.3	13.3	12.5	11.3	13.3	10.3	10.0	12.3
Net LTV (%)	37.9	35.1	30.5	38.0	43.7	58.0	50.4	44.1	43.7	56.7	42.1	49.1	54.4	56.9

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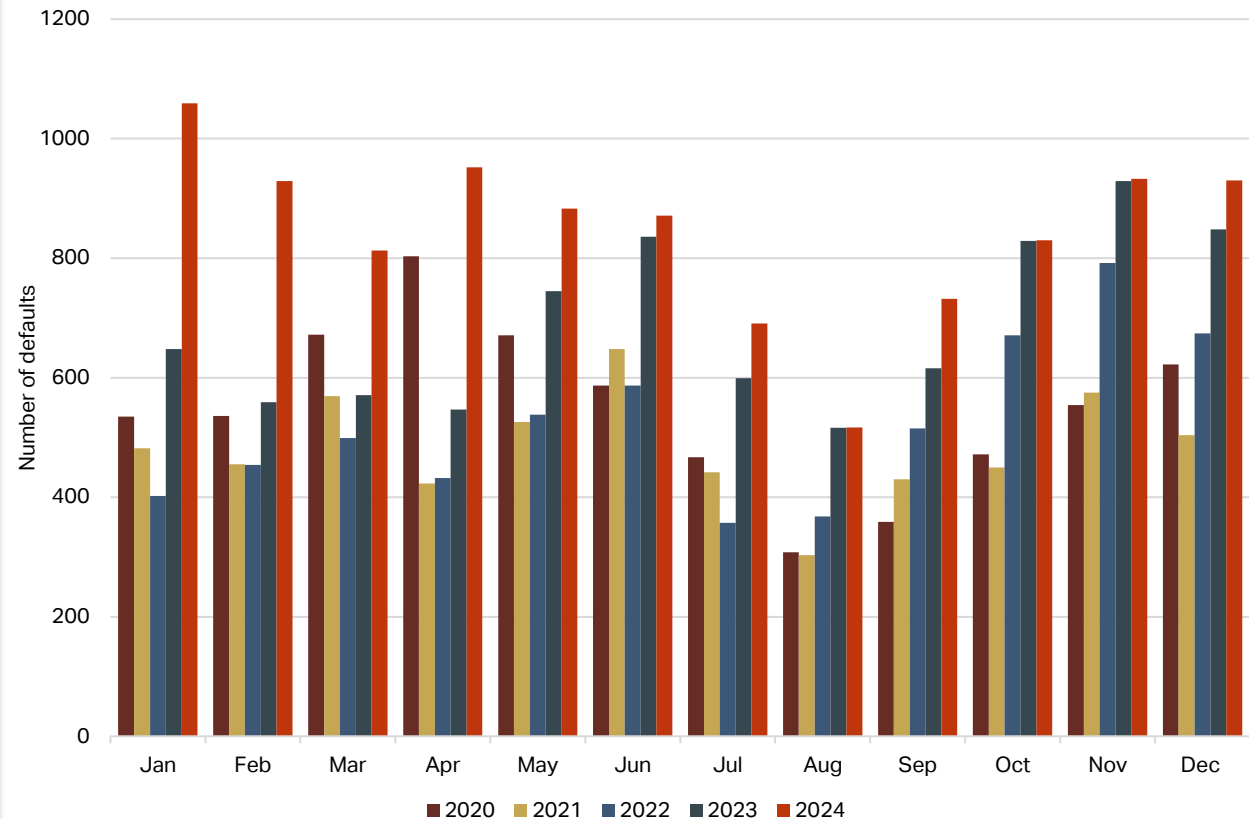


Operations

Operational headwind in cyclical segments as financial risks recede

Cyclical segments likely to see lower rental growth and higher vacancies

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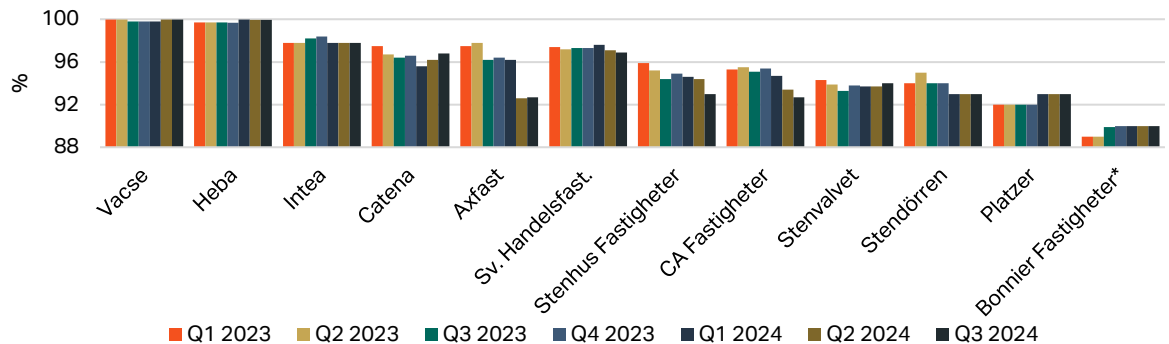
Operations

Limited weakening of business profiles for NCR-rated issuers thus far

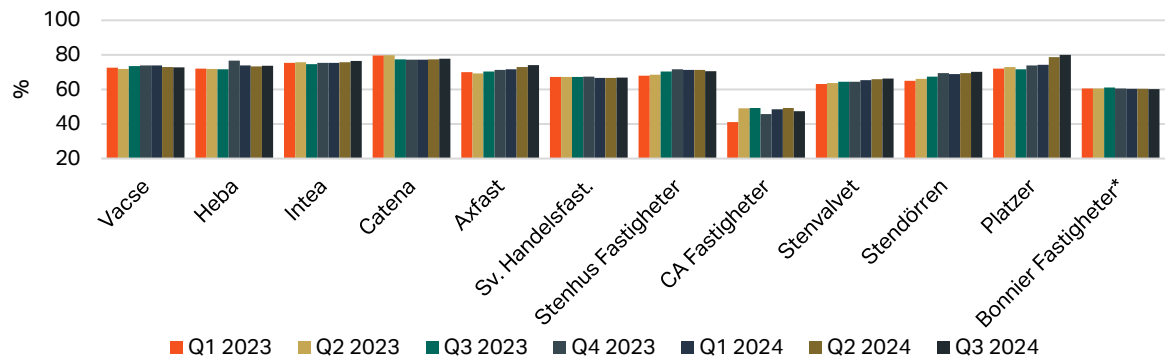
Business profiles likely to remain strong despite increased vacancies

- Tougher economic conditions have had limited effects on rental levels and occupancy rates for NCR-rated issuers.
- Occupancy rates declined in recent quarters, but with limited effects on rental levels and cash flow.
- While some issuers might offer larger rental rebates to boost demand, we do not expect a broad correction in market rental levels due to strong fundamentals in the regions where our issuers operate.
- Rental growth likely low for most issuers due to limited contribution from rental indexation.
- No significant changes in contract structures among our issuers, despite discussions about alternative indexation clauses over the past two years.
- Occupancy rates in cyclical segments to keep declining over the next few quarters, before showing signs of recovery by end-2025.

NCR-rated issuers' occupancy rates, 2023Q1–2024Q3



NCR-rated issuers' EBITDA margins, 2023Q1–2024Q3

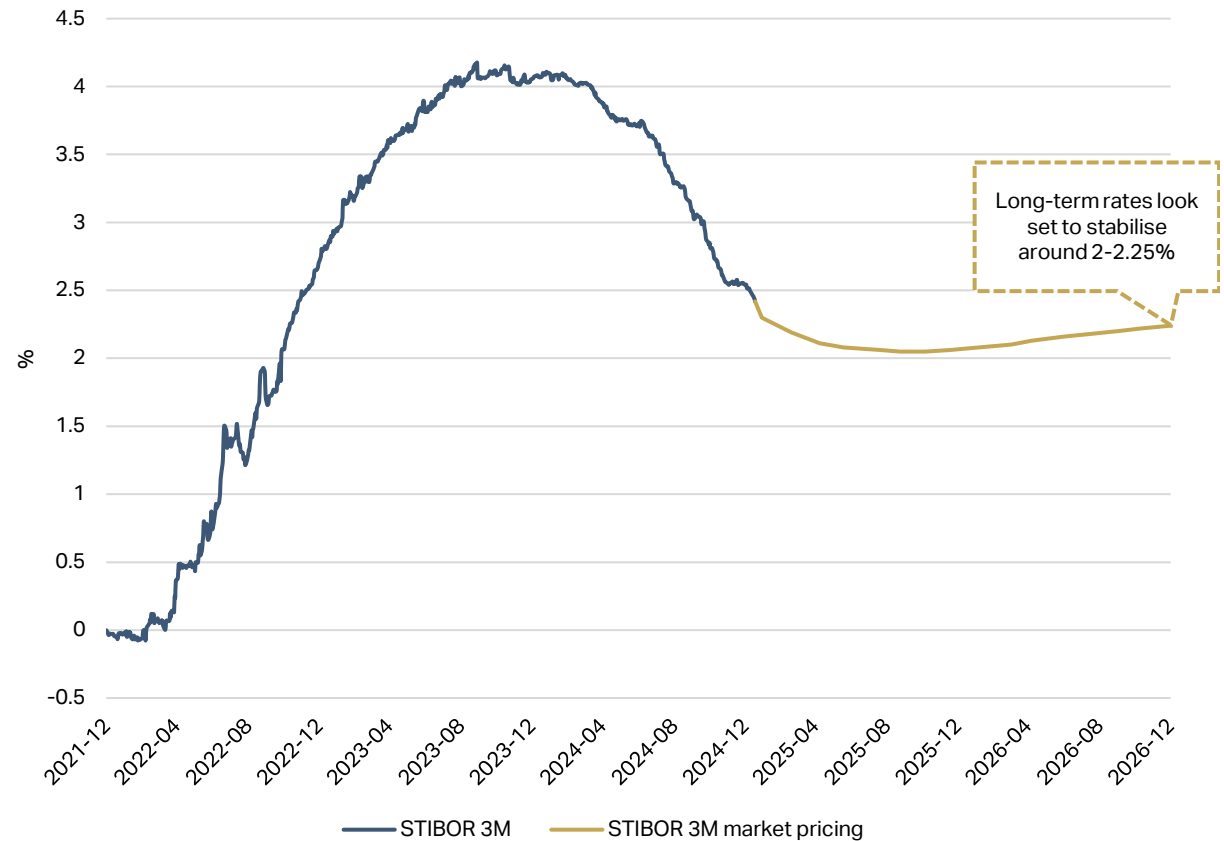


Interest rates

Average interest rates reducing from peak

Variable interest rates likely to stabilise at about 2-2.25%, providing relief to interest coverage ratios

- The Swedish central bank will likely continue to cut interest rates through 2025, leading to long-term rates stabilising at about 2-2.25%.
- Issuers with short interest-fixing profiles will benefit most from prospective cuts. However, most interest rate cuts have already occurred and are reflected in issuers' forward looking interest coverage.
- Variable interest rate aligned with five-year swap prices, with limited direct benefits to financing costs from fixing interest rates.
- Hedging increases financial flexibility and resilience against unexpected events, lowering overall financial risk.
- Many issuers already experienced their peak average interest rates, influenced by the degree of interest rate hedging.
- Despite significant income growth in some segments in the last two years, we expect sector-wide interest coverage to stabilise at levels lower than before 2022.

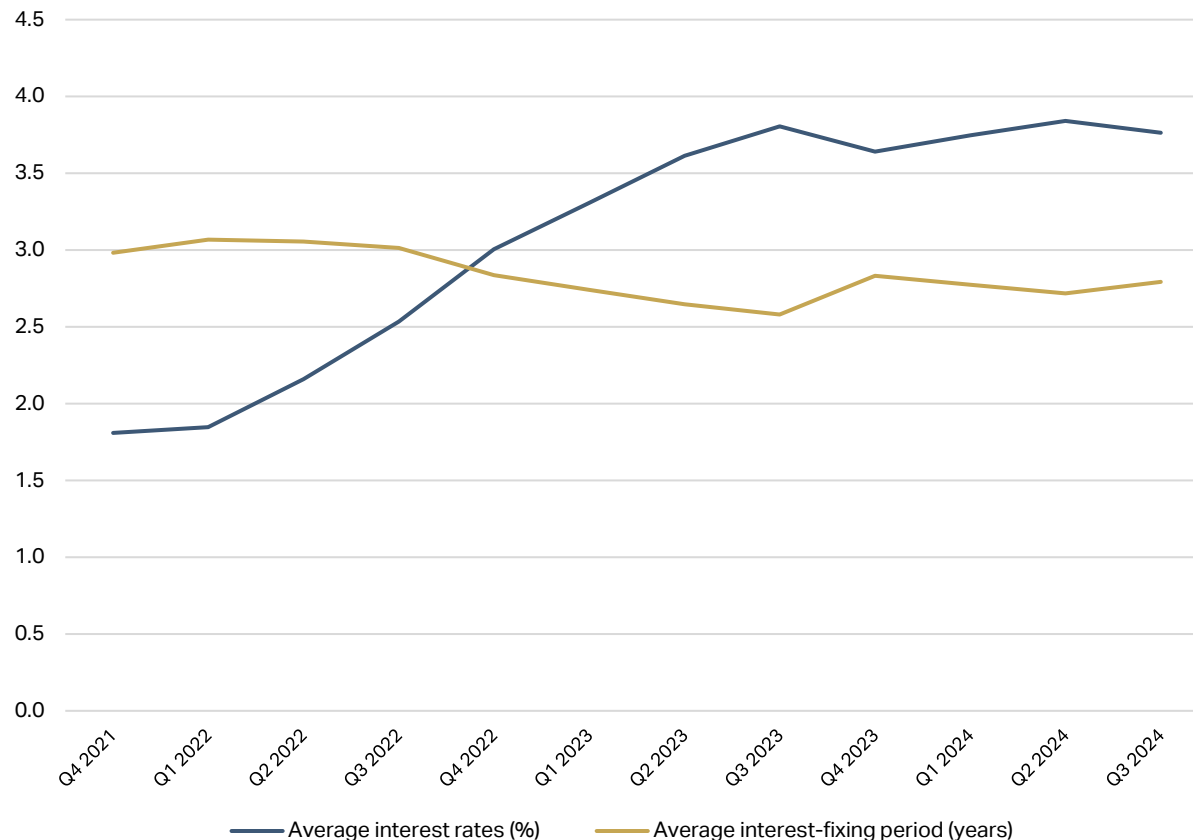


Interest rates

Unchanged approach to interest rate hedging

A large proportion of NCR-rated real estate issuers' average interest rates have peaked and are reducing

- No significant change in our issuers' hedging strategies throughout this interest rate cycle. Average interest-fixing period decreased from about 3 years to 2.8 years as of Q3 2024.
- Many issuers restructured their existing swaps, using the surplus value from lower interest-rates to ease the decrease in their interest coverage ratios.
- The use of non-standard swaps and caps rose during 2022–2024 (performance swaps, prepaid derivatives at non-market rates, and swaps with put and call options).
- As pressure on interest coverage eases, we expect traditional hedging derivatives to become more common.
- We do not expect major changes in issuers' hedging strategies. Combined with lower interest coverage, issuers are worse positioned in a future hiking cycle.



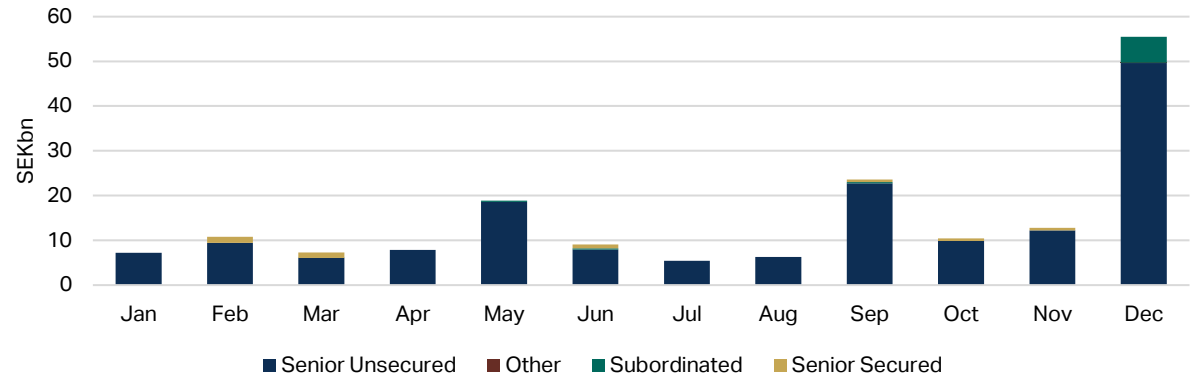
Capital market financing

Opportunistic issuance of bonds lowers refinancing risk in 2025

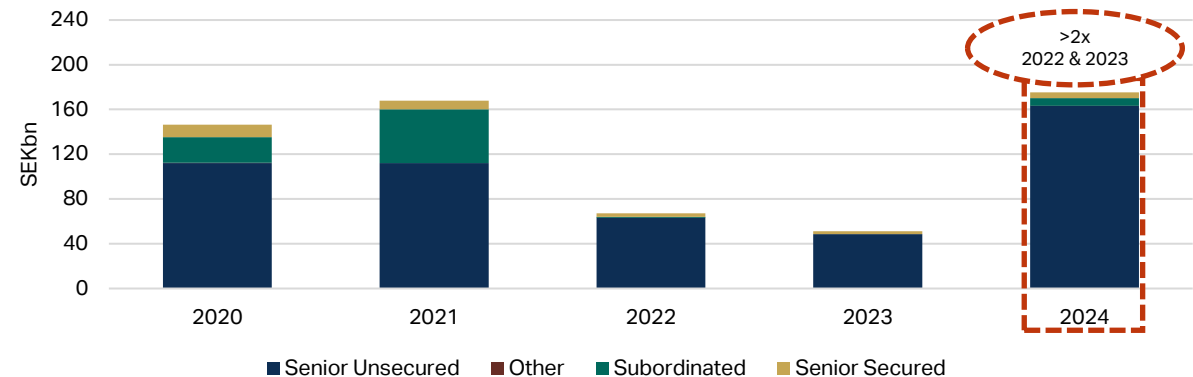
More issues at lower spreads

- Issuance in capital markets has rebounded significantly, with real estate issued volumes reaching SEK 175bn in 2024 - about SEK 57bn more than in 2022 and 2023 combined.
- Financing for real estate companies more accessible with longer terms due to improved risk sentiment.
- Many issuers have taken advantage of the strong capital markets in 2024 to proactively refinance maturing debt, reducing financing costs.
- In 2024, issuance of senior unsecured bonds with tenors of 5 years or more were low (14% of issued volumes) compared with 2020–2022 (40%).
- Refinancing in capital markets increased, with issuers opting for senior unsecured bonds over bank financing.
- Issuers will likely use capital markets to extend debt maturity profile through 2025, depending on pricing.

Issued volumes Swedish real estate 2024



Issuance volumes Swedish real estate, 2020–2024



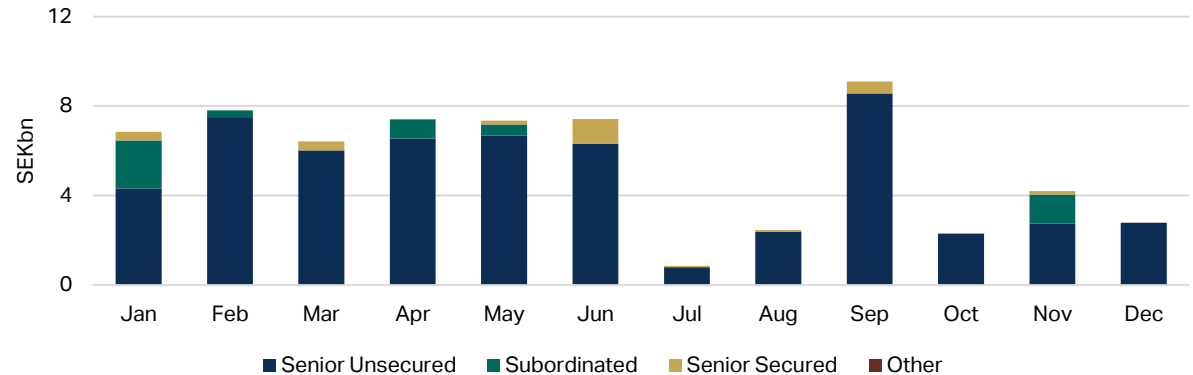
Capital market financing

Bond maturities in 2025 likely to be refinanced in capital markets

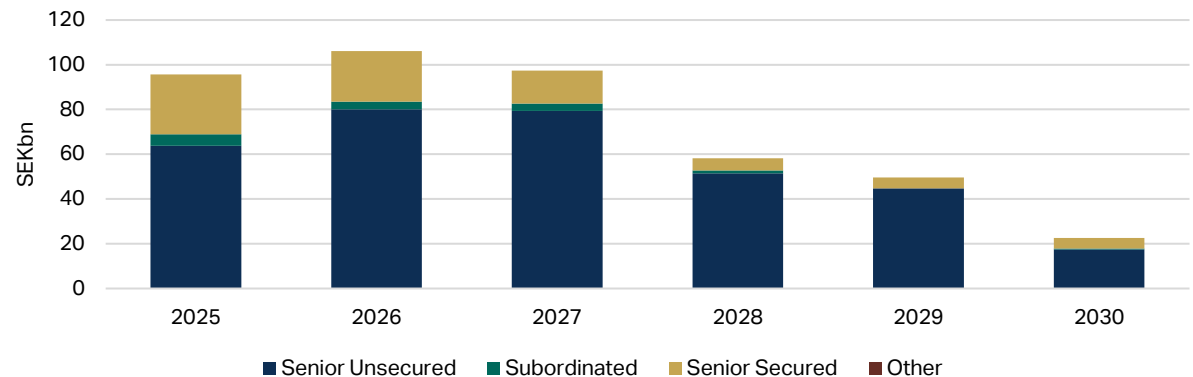
Lower refinancing risk

- Issuers facing bond maturities totalling about SEK 300bn in the next three years, with about 20% in foreign currency.
- About SEK 96bn in bonds maturing in 2025, with significant refinancing needs in the first half of the year.
- Most bonds maturing in 2025 likely refinanced in the capital markets with tenors of 3 or more years.
- An increase in capital market financing will replace bank funding, unless major geopolitical events affect market risk appetite.
- This will likely lead to more debt maturing in the capital markets in 2028–2029 but also provide more refinancing options as available unutilised credit facilities increase.

Bond maturities Swedish real estate, 2025



Bond maturities Swedish real estate, 2025–2030



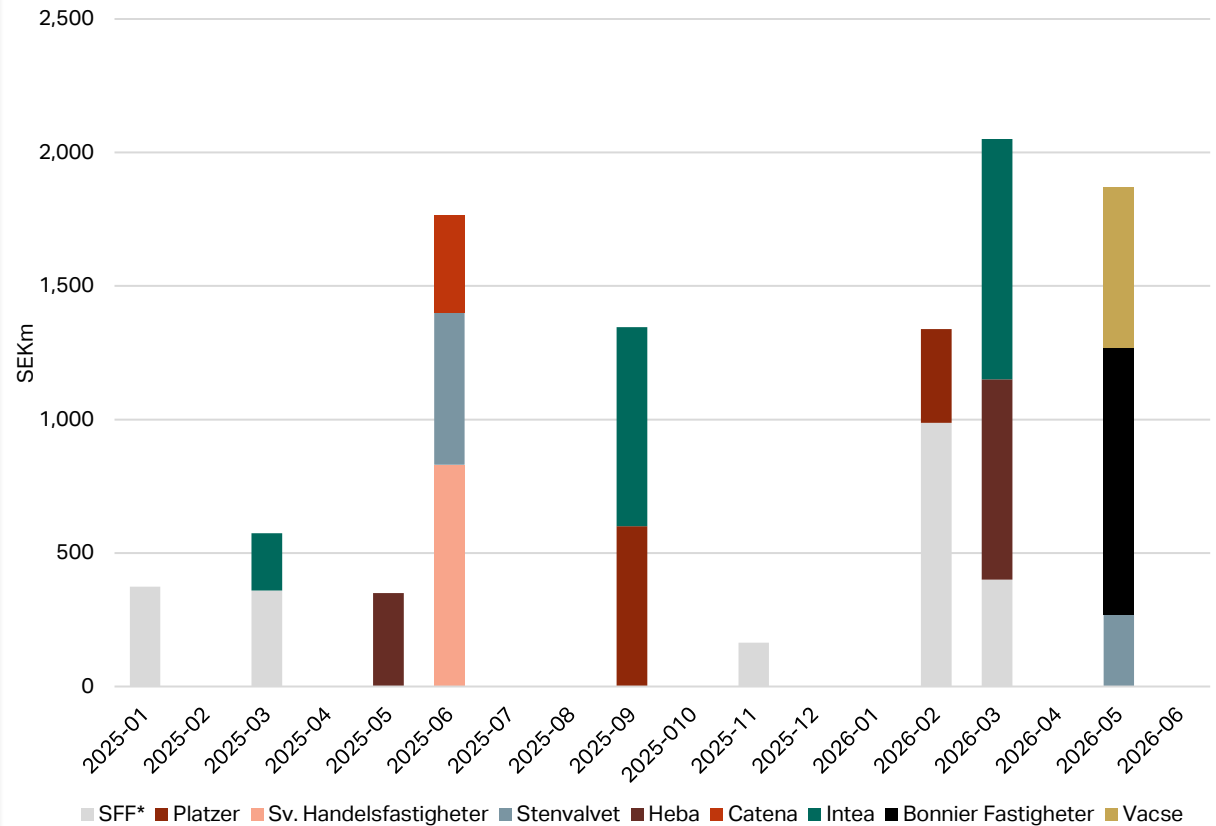
Capital market financing

NCR-rated issuers face limited bond maturities in the next 12 months

Upcoming maturity spike in 2026

- Limited bond maturities in 2025, about SEK 4.6bn.
- Many bond maturities likely to be refinanced in the capital markets. If not, many issuers have back-up facilities to manage these maturities.
- About SEK 11.6bn in debt maturing in 2026 - more than the combined amounts of 2024 and 2025.
- We believe many companies will issue bonds in 2025 to repurchase bonds maturing in 2026 and secure liquidity through new backup facilities.
- Level of proactiveness in refinancing will depend on the direct benefits to financing costs, with more expensive financing being replaced first.

Bond maturities NCR-rated issuers, 2025– H1 2026

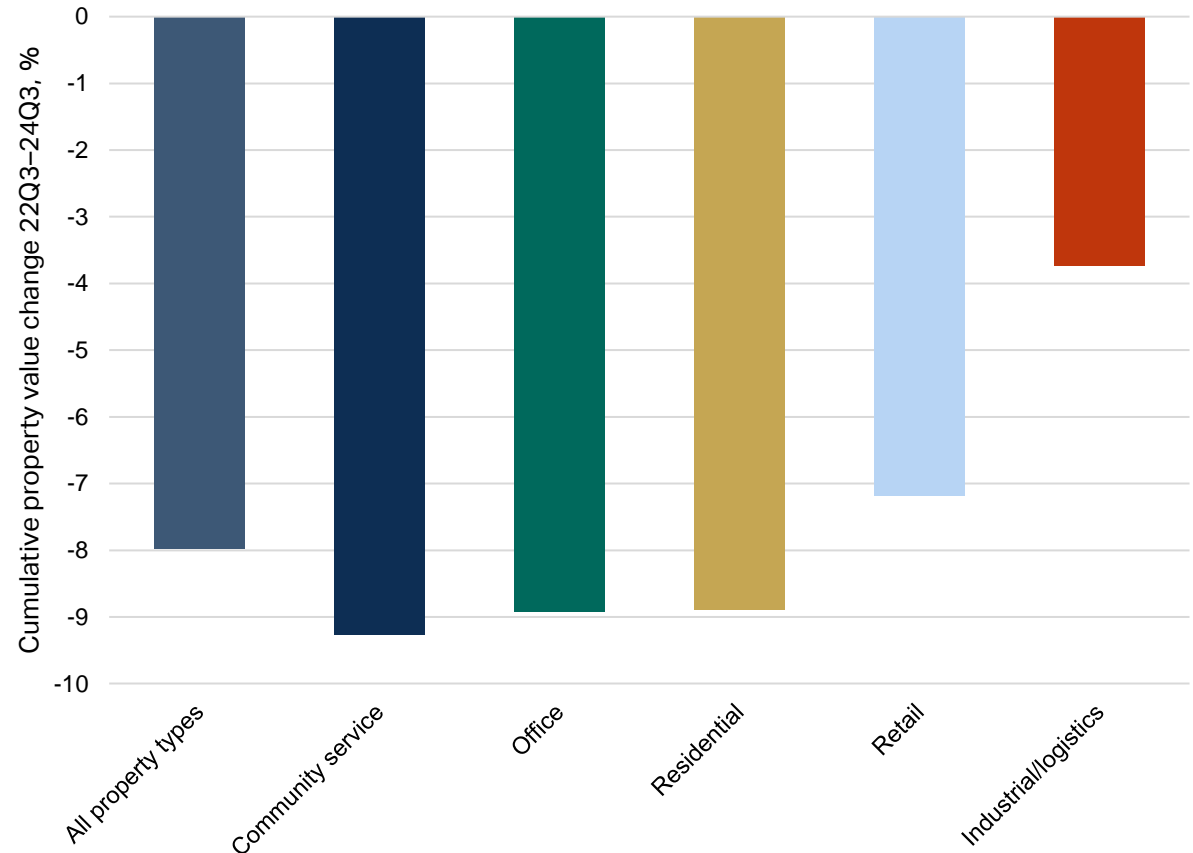


Property values

Property values have reached their lowest and look set to increase through 2025

Property values likely to rebound in 2025 with offices and residential properties strongly positioned for higher volumes

- Average property value in our sample have fallen by about 8% since the peak in Q2 2022. Community service properties experienced the most significant drop, while industrial and logistics properties had smaller declines.
- Lower yielding segments have experienced sharper value decline due to the effect of yield requirement changes on their value.
- Supportive credit conditions and improved risk sentiment led to better price alignment between buyers and sellers, increasing transaction volumes. We anticipate a higher proportion of transactions at or above book values in 2025. Average change in property value was 0.1% in Q3 2024.
- Residential sector set for recovery in transaction volumes. Rental growth, along with cheaper financing, will bridge price expectation gap between buyers and sellers.
- Improved buyer sentiment for office properties in the last quarters, which may affect transaction volumes in 2025.



Transactions and project development

Growth set to increase through 2025

Fundamentals for project development likely to result in more project starts in 2025

- Swedish real estate managers reduced new project development over 2022–2024, focusing on finishing current projects and refurbishments due to challenging market conditions.
- More companies have begun construction and added projects to their pipeline in recent quarters.
- Several companies have introduced new portfolio value targets, signalling a shift back to the growth seen before 2022.
- The scale back in project development was a temporary measure to manage higher interest rates, rather than a change in companies' overall strategy.
- We have observed more market transactions and expect growth to continue through acquisitions in 2025.
- Some issuer credit risk profiles could be weakened by aggressive growth through transactions.

2024-12-18 15:56 REG MAR

Cibus enters into an agreement for the acquisition of 31 grocery stores in Denmark for a purchase price and an underlying property value of MDKK 879, corresponding to ca. MEUR 118

NP3 Fastigheter förvärvar fastigheter för 219 miljoner kronor

2024-12-19 15:35

2024-12-18 09:23 REG MAR

Cibus announces its first step in continental Europe through the contemplated acquisition of Forum Estates, Benelux, with an underlying property value of approx. EUR 508 m

NP3 Fastigheter förvärvar fastigheter för 271 miljoner kronor

2024-11-15 12:52

December 18, 2024 / 09:00 Non Regulatory

Stendörren acquires two warehouse and light industrial properties in Södertälje for SEK 80 million

Publicerad: 2024-10-11, kl 17:00

Nu startar bygget av Hebas 128 hyresbostäder i Smedjan Källberga

Publicerad: 2024-11-28, kl 12:00

Heba förvärvar äldreboende i Enköping

December 12, 2024 / 09:47 Non Regulatory

Stendörren acquires two warehouse and light industrial properties in Gothenburg for SEK 127 million

November 21, 2024 / 09:00 Non Regulatory

Stendörren acquires a light industrial property in the Oslo region for SEK 245 million

2024-10-25 10:15 / Non Regulatory

Intea Acquires Prison

2024-10-25 09:40 / Non Regulatory

Intea Acquires Custody Unit Project in Västerås

2024-09-30

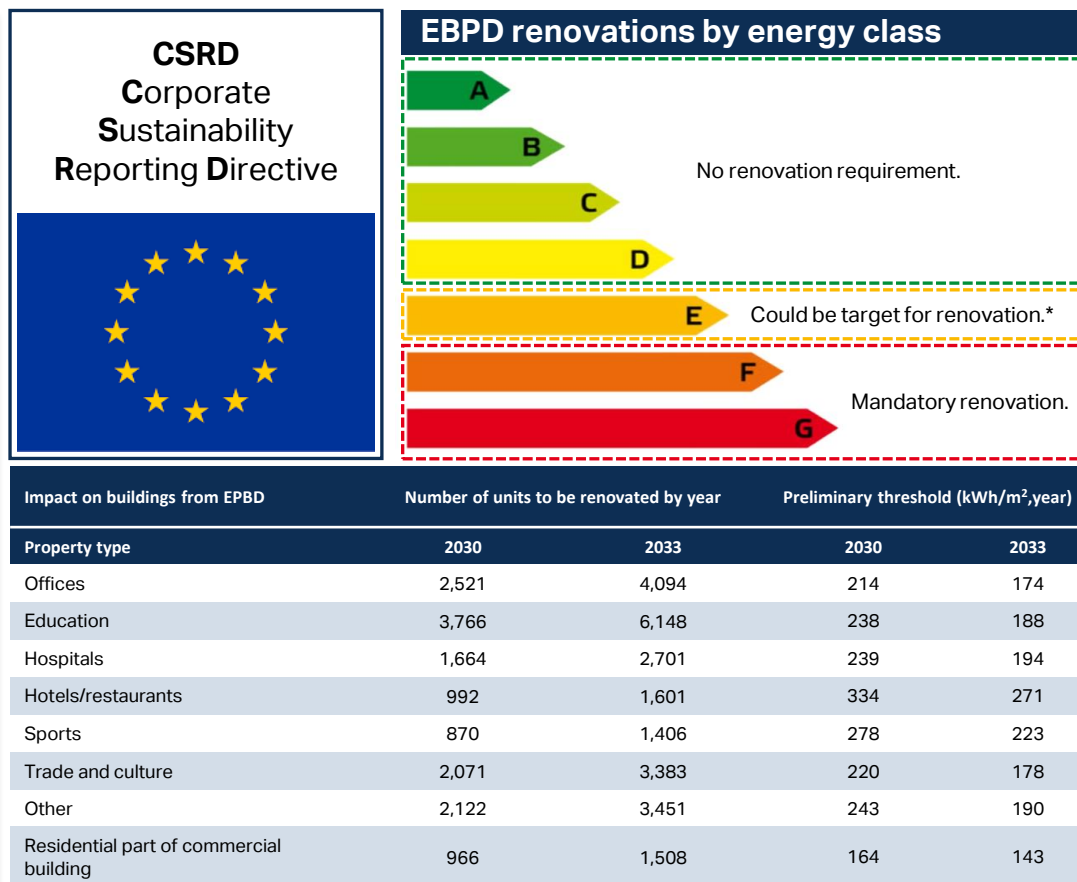
Catena acquires the largest logistics centre in Denmark from the DSV Group. Catena has signed an agreement with DSV Road Holding A/S to acquire a property in Horsens, Denmark, valued at approximately DKK 3.3 billion. The acquisition increases Catena's property portfolio by approximately 315,000 m² of newly built logistics space.

Sustainability

The Swedish property sector enters a new era of managing ESG-related risks

CSRD began, and EPBD will result in larger renovation needs to be clarified in 2025

- All listed Swedish real estate companies must provide detailed information on environmental, social, and governance (ESG) factors in the 2025 annual report.
- Sustainability reporting enhances transparency and comparability of companies' ESG efforts by standardising disclosed information. This will lead to better quality information on managing ESG-related risks and may improve ESG efforts.
- In Q4 2024, Boverket released preliminary national guidelines for energy efficiency in commercial and residential buildings to comply with EPBD, which is expected to be adopted in Swedish law by May 2026.
- Energy consumption will decrease by doubling the renovation rate of existing buildings. A national building renovation plan will be published by June 2025. Renovation needs will pressure free operating cash flows and likely increase issuer debt.
- The 16% least energy efficient commercial buildings will be upgraded by 2030 and 26% by 2033. (An estimated 14,000 buildings, with 53% owned by commercial entities).
- Average energy use in residential buildings to be reduced by 16% by 2030 and 20–22% by 2033.

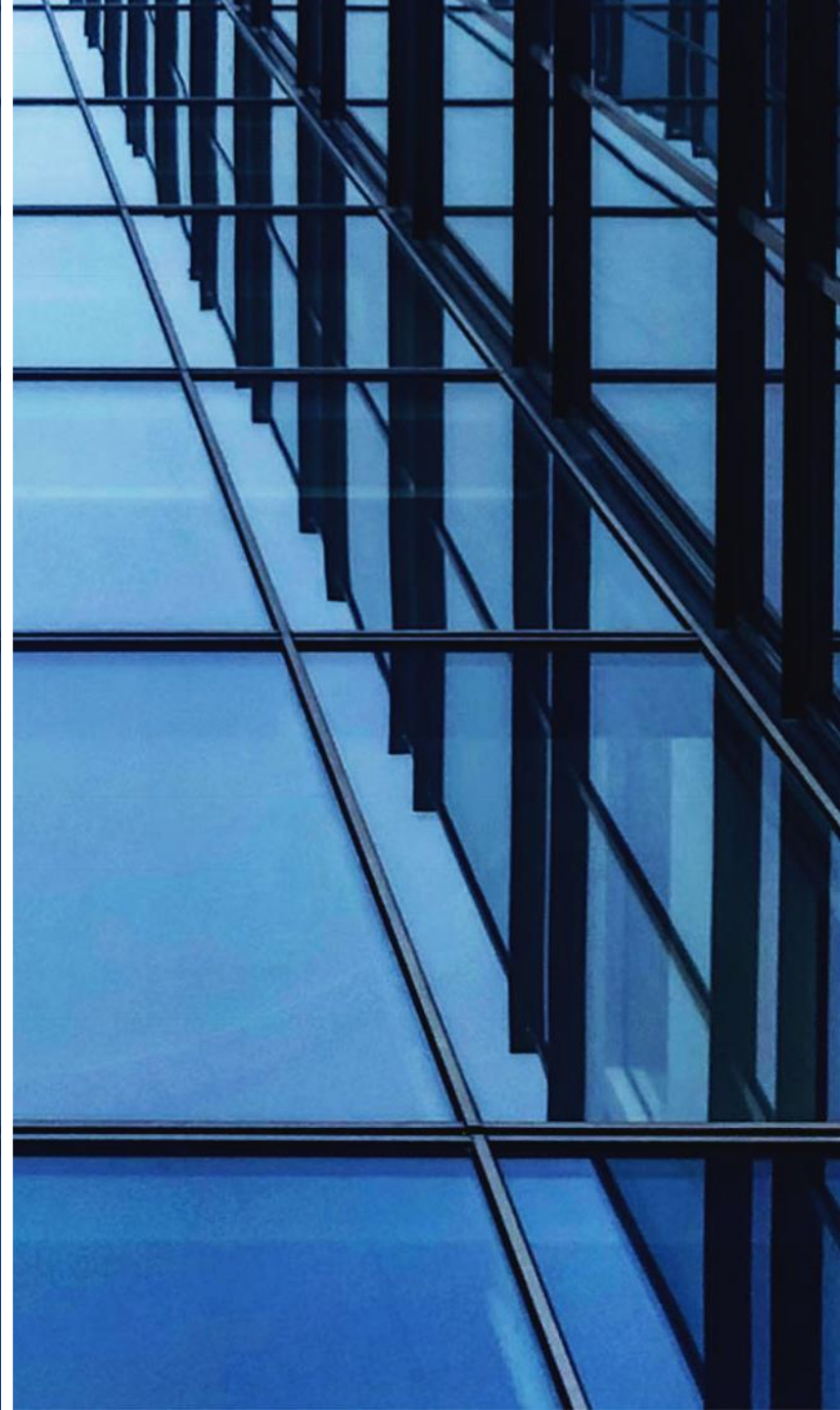


Outlook

Looking ahead...

Nordic
Credit
Rating

- Market interest rates declining and likely to stabilise around 2-2.25%. As a result, average interest rates will peak, leading to a rebound in interest coverage.
- Increased vacancies in offices and other cyclical segments over the next few quarters, with improvements expected by end-2025.
- Rental levels may need to be adjusted, or increased rental rebates offered for new contracts, particularly in secondary locations.
- Access to capital will stay robust and improved financing conditions will help bridge the gap in price expectations between buyers and sellers, leading to increased transaction volumes.
- Property values will rise due to improvements in net operating income rather than yield compression.
- More emphasis on growth through acquisitions and project development, with more new-builds in 2025.
- Adaptation to new sustainability requirements and investments in energy efficiency.



Rating actions and research

Recent rating actions and research from Nordic Credit Rating

Rating actions

- [Stendörren Fastigheter AB \(publ\) long-term issuer rating raised to 'BB'; Outlook stable, 17 Dec. 2024.](#)
- [NP3 Fastigheter AB \(publ\) 'BB' long-term issuer rating affirmed and withdrawn, 17 Dec. 2024.](#)
- [Intea Fastigheter AB \(publ\) 'BBB' long-term rating affirmed; Off watch; Outlook stable, 12 Dec. 2024.](#)
- [NP3 Fastigheter AB \(publ\) outlook revised to stable; 'BB' long-term issuer rating affirmed, 14 Nov. 2024.](#)
- [Intea Fastigheter AB \(publ\) 'BBB' long-term issuer rating placed on watch negative, 1 Nov. 2024.](#)
- [Bonnier Fastigheter AB 'BBB-' long-term issuer rating affirmed; Outlook stable, 17 Oct. 2024.](#)
- [Vacse AB \(publ\) 'A-' long-term issuer rating affirmed; Outlook stable, 16 Oct. 2024.](#)
- [Stenhus Fastigheter outlook revised to stable; 'BB' long-term issuer rating affirmed, 9 Oct. 2024.](#)

Relevant research

- [NCR Comments: Stenhus Fastigheter 'BB' rating unchanged following updates to its financial targets, 16 Jan. 2025.](#)
- [Comparison of NCR-rated community service property managers, 9 Dec. 2024.](#)
- [Swedish real estate snapshot \(Q3 2024\): continued cautious optimism in the air, 26 Nov. 2024.](#)
- [Swedish real estate: Likely interest rate cuts allow for cautious optimism, 24 Sep. 2024.](#)
- [Swedish real estate snapshot \(Q2 2024\): Interest rate cuts likely to continue, 5 Sep. 2024.](#)
- [Real-estate snapshot \(Q1 2024\): A step towards long-term normalised interest rate levels, 23 May 2024.](#)
- [Real-estate quarterly snapshot \(Q4 2023\): Strong performance despite highest Swedish corporate defaults, 11 Mar. 2024.](#)
- [Swedish real estate sector adapts to tougher financing climate, 18 Jan. 2024.](#)

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