

Higher for longer: Renewed pressure on Swedish real estate issuers

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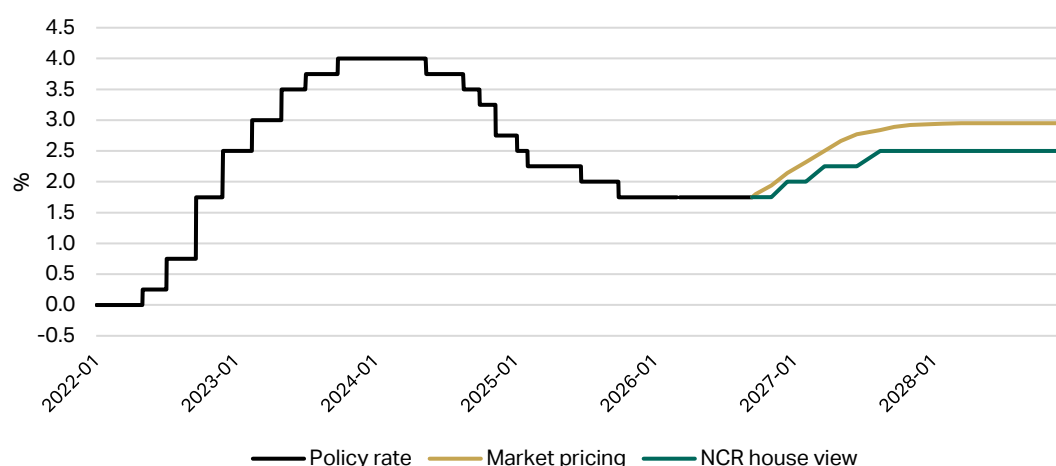
Interest rates across the globe have risen sharply amid geopolitical uncertainty and renewed inflationary pressures. Market pricing indicates approximately 125bps of Swedish rate increases through 2027, compared with 75bps incorporated into NCR's base case forecasts. In either scenario, we expect issuers with stronger cash flow, longer hedges and ample liquidity to be better positioned for higher rates than peers whose financial strength relies mainly on low net loan-to-value (LTV). Higher rates would first affect the sector through weaker net interest coverage (EBITDA/net interest) as debt and hedges reprice, followed by lower asset values as assumed property yields widen. We do not expect any issuer in our coverage to fully offset the impact of current rate projections through EBITDA improvement over the coming years. If rates follow current market pricing, NCR-rated issuers would require EBITDA growth of more than 10% in the first year to offset the impact on net interest coverage, rising to almost 40% once debt and derivatives are fully repriced.

Core takeaways

- **Credit metrics set to weaken as earnings do not fully compensate:** Expected rental growth is unlikely to offset rising financing costs, making cash flow, hedging and refinancing profiles decisive for rating headroom.
- **Asset-value pressure could erode financial headroom:** Wider yields and subdued rental growth could increase net LTV, while less liquid transaction markets may limit deleveraging through disposals.
- **Financial flexibility will differentiate resilient issuers from vulnerable ones:** Strong cash flow, long hedges and ample liquidity provide time to adjust, while thin cash flows, shorter hedges and concentrated refinancing needs limit rating headroom.

MARKET PRICING IMPLIES 125BPS OF RATE INCREASES BY 2027

Figure 1. The Swedish central bank policy rate, 2022–2028e



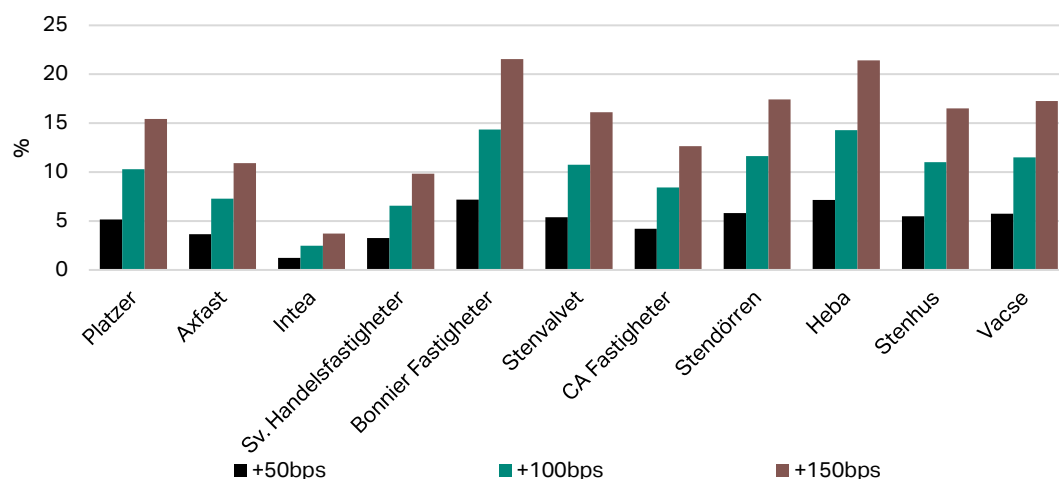
Source: the Swedish central bank, SEB and NCR. e-estimate.

NCR's forecasts for rated Swedish property companies assume 75bps of cumulative rate increases from late 2026 through 2027, compared with approximately 125bps implied by market pricing. We view market expectations as aggressive, as underlying inflation remains moderate and weaker sentiment could limit consumption and investment, although a weaker SEK may result in imported inflation. To assess risks from a higher-for-longer environment, we have stressed issuers against current market pricing. The analysis considers how quickly higher rates would affect net interest coverage, refinancing capacity and asset values when financing costs rise faster than earnings and balance sheets can adjust.

EARNINGS GROWTH OFFERS LIMITED PROTECTION FROM HIGHER RATES

Unlike industrial companies, which may have pricing power and can effectively pass higher costs to customers, property companies have limited ability to quickly transfer increased costs to tenants. Rental indexation in ongoing contracts supports income with a lag, while weaker demand, vacancies, tenant incentives and affordability constraints may limit rental increases upon lease renewal. To offset the repricing of debt and hedges, earnings would need to increase well beyond realistic near-term expectations.

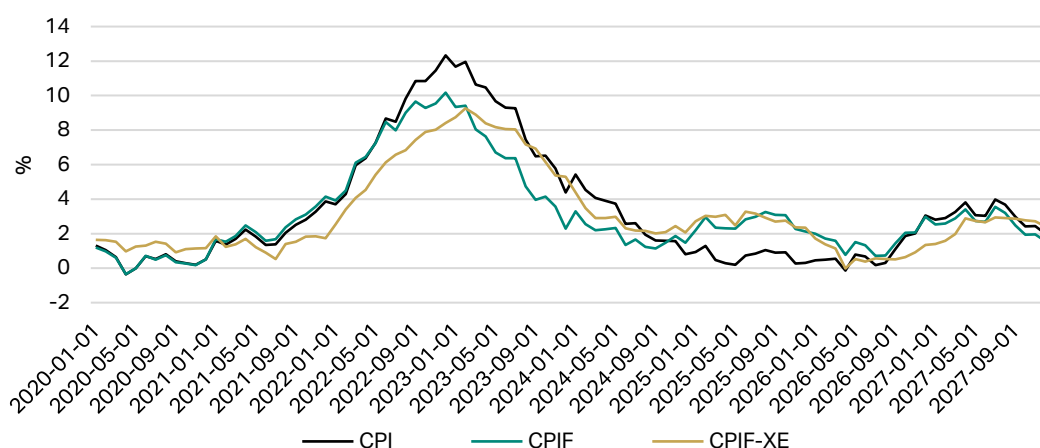
Figure 2. NCR-rated issuers' one year EBITDA growth required to offset increased rates, Q2 2026



Source: companies and NCR. Based on latest available report all-else equal.

If rates follow current market pricing, NCR-rated issuers would require EBITDA growth of more than 10% in the first year to offset the impact on net interest coverage. Once debt and derivatives are fully repriced, the necessary increase would approach 40%. Repricing occurs gradually as hedges mature, but achieving growth of this scale without additional investment, adaptation costs or new debt is unlikely. We therefore do not expect any rated issuer to fully offset the impact of higher rates through EBITDA growth over the coming years.

Figure 3. Swedish inflation statistics 2022–2027e



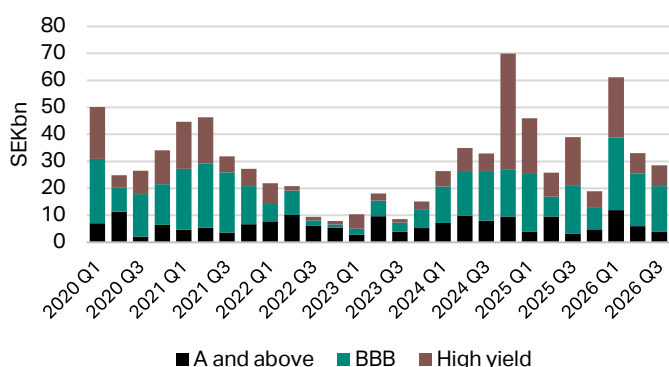
Source: SCB and Konjunkturinstitutet. CPI–Consumer price index. CPIF–Consumer price index with fixed interest rates. CPIF-XE–Consumer price index excluding energy with fixed interest rates. e–estimate.

Inflation and indexation are unlikely to close the gap. Unlike in 2022–2023, we expect inflation to remain only slightly above the central bank's 2% target for CPIF, and limited inflation in Oct. 2026 should constrain 2027 indexation in existing rental contracts. Due to previous agreements, residential rent growth is expected to outpace that of commercial properties as rents continue to recover after lagging inflation in 2022–2023. However, the negotiated increases are also insufficient to offset higher financing costs. As a result, net interest coverage would weaken for all NCR-rated issuers if rates follow market pricing.

RATE INCREASES TRANSMIT UNEVENLY ACROSS ISSUERS

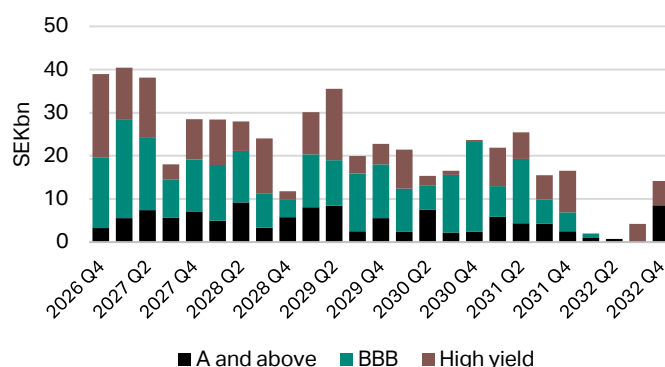
The scale and timing of higher-rate pressure vary significantly across NCR-rated issuers. We place greater emphasis on cash flow metrics, as they reflect organic debt-servicing capacity and direct interest rate sensitivity without depending on uncertain asset valuations, timing, or willingness to realise asset values. In our view, higher cash flow generation offers more financial flexibility than a low net LTV. In addition, we anticipate that transaction activity to slow if market rates rise as expected, further reducing the effectiveness of asset sales as a timely defence. Nevertheless, a low net LTV provides better access to capital and improves the effectiveness of deleveraging measures.

Figure 4. Issued amount by credit quality, 2020–2026 Q3



Source: Stamdata and NCR. Based on NCR's assessment of real estate companies.

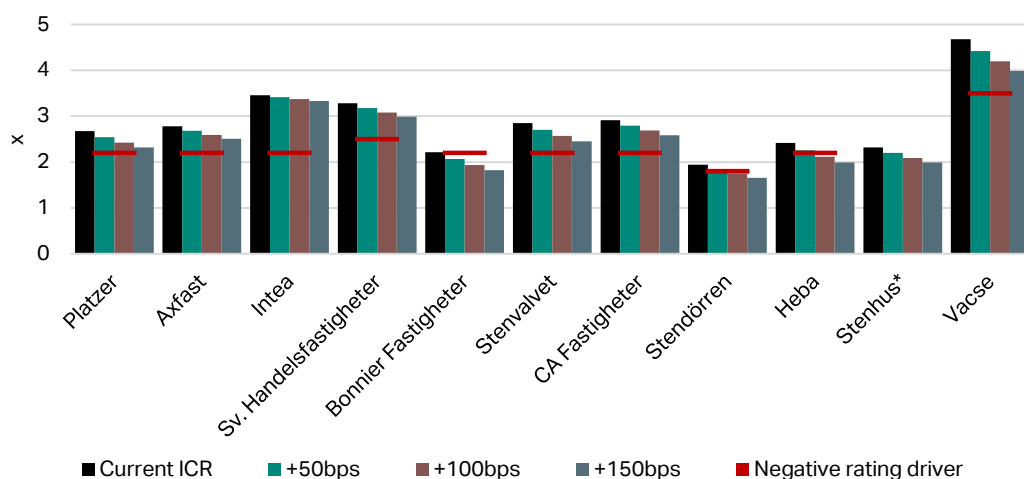
Figure 5. Maturities by credit quality, 2026 Q4–2032 Q4



Source: Stamdata and NCR. Based on NCR's assessment of real estate companies.

Extensive refinancing since 2024 has enabled most Swedish property companies to reduce interest costs, as competitive bond markets have compressed credit margins. However, this benefit is likely temporary, as maturities are now concentrated in the coming years, potentially when base rates and spreads are higher. If rates follow market pricing, potential fund outflows, weaker credit expectations and increased relative attractiveness of sovereign debt could widen spreads and compound the pressure on net interest coverage.

Figure 6. NCR-rated issuers' one year net interest coverage impact from increased rates, Q2 2026



Source: companies and NCR. Based on latest available report all-else equal if rate increases persist for a full-year and does not happen sequentially. This does not equate NCR's current rating case forecast. *Does not have a negative net interest coverage ratio (ICR) driver.

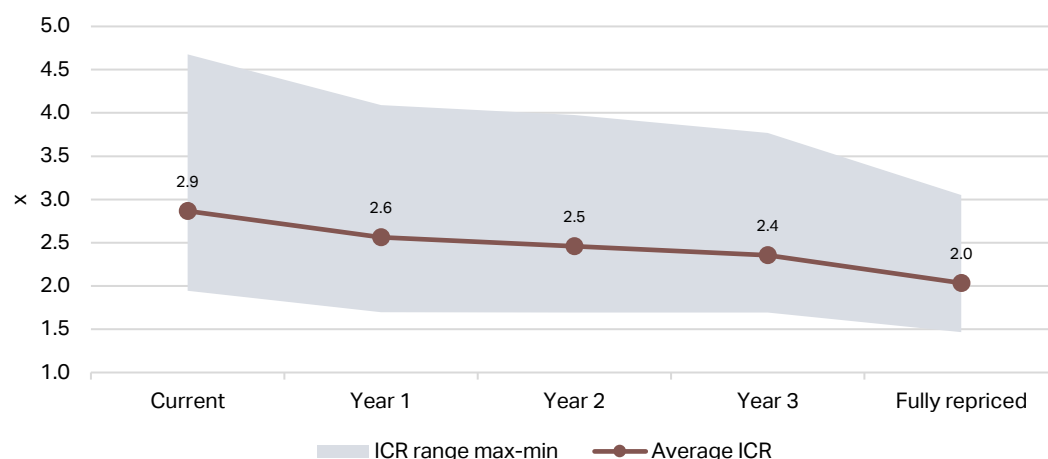
We view refinancing risk as a secondary transmission channel after net interest coverage pressure, but it may pose a more significant rating risk for issuers that are dependent on bond market access. Issuers with committed credit facilities and strong liquidity management are better positioned to address maturing bonds than those reliant on market access at the time of refinancing.

Most issuers entered this period with interest-rate hedges, but average hedge tenors are shorter than before 2022, accelerating the pass-through to earnings. As the swap curve makes new long-term

protection expensive relative to floating-rate debt, we expect issuers to remain cautious and allow fixed-interest periods to shorten, increasing sensitivity beyond our base case. The effect will be slower for issuers that retain low-cost swaps from 2020–2021; restructuring swaps with positive market values may also smooth repricing and provide time for mitigating actions.

Several issuers have limited headroom against the net interest coverage thresholds in NCR's negative rating drivers. **Stendörren**, **Heba** and **Bonnier Fastigheter** have the least headroom and are therefore most exposed to rating pressure if rates exceed our current base case forecast and offsetting measures are not implemented. A larger or more persistent increase than currently forecast could push net interest coverage below the relevant NCR rating thresholds.

Figure 7. NCR-rated issuers' net interest coverage impact from 125bps increased rates, Q2 2026



Source: companies and NCR. Based on latest available report all-else equal if rate increases persist for a full-year and does not happen sequentially. This does not equate NCR's current rating case forecast. ICR=NCR-adjusted EBITDA/net interest.

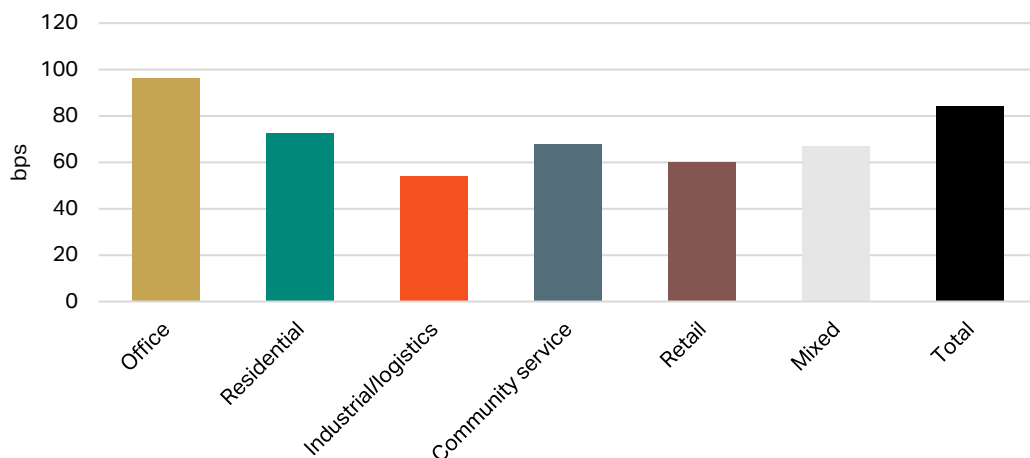
By contrast, **Vacse**, **Intea** and **Svenska Handelsfastigheter** have greater headroom, stronger cash flow generation and longer hedging, limiting the near-term impact of higher rates pass-through and providing management with more time to respond.

ASSET VALUES MAY FALL AS YIELDS WIDEN

Property yields typically widen when the opportunity cost of capital increases. Yields have already risen significantly from the zero-rate period, but the current yield gap remains low by historical standards, and reported yields have shown little compression since policy rates began to decline. In our downside scenario, a sustained market interest rate of around 3%, combined with subdued rental growth and vacancy pressure in some segments, would further pressure property values and increase net LTV.

During the previous interest rate hiking cycle, property yields widened by an average of 84bps before peaking as financing conditions improved. Current valuations appear more consistent with market interest rates and 10-year swap rates of around 2–2.5% than above 3%. Yields among NCR-rated issuers are close to fourth-quarter 2024 levels. On this basis, we estimate that required yields could widen by a further 40bps on average if market rates stabilise around 3%. Further yield expansion is likely to occur gradually and vary by segment and asset quality.

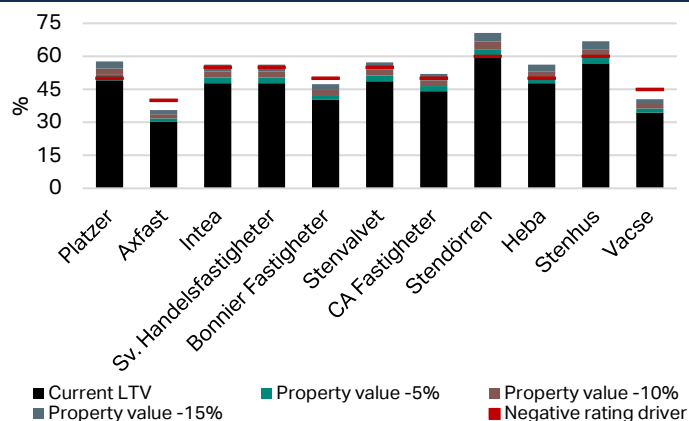
Figure 8. Total yield requirement change by segment from Q1 2022–Q4 2024



Source: 31 real estate issuers' reports.

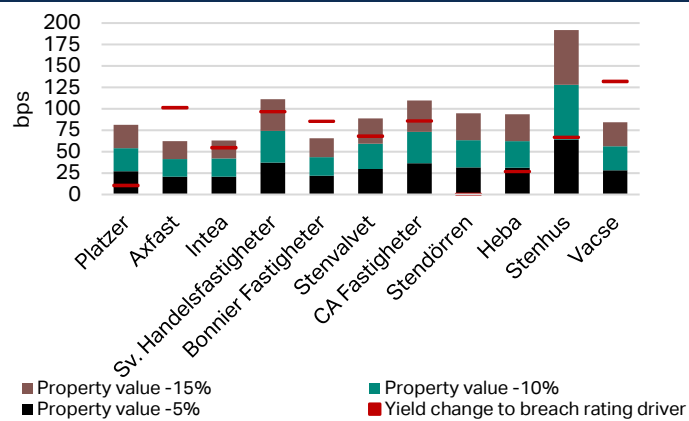
Heba, Stendörren and **Platzer** have the least headroom to NCR's net LTV negative rating drivers among NCR-rated Swedish property companies. Each would breach its driver following a 5% decline in property values. All else equal, a 27bps yield shift would cause **Heba** to breach its threshold, while **Platzer** would do so after a 10bps shift. **Stendörren** has no current cushion after acquisitions lifted net debt and caused a breach in the second quarter of 2026. We expect its net LTV to fall below 60% in the third quarter, though we view the increase as temporary due to lower acquisition activity and strong cash flow generation.

Figure 9. Net LTV impact from value declines, Q2 2026



Source: companies and NCR.

Figure 10. Yield expansion impact on values, Q2 2026



Source: companies and NCR. Estimated based on last reported sensitivity analysis.

Vacse, Axfast and **Bonnier Fastigheter** have the greatest headroom to NCR's net LTV negative rating drivers; none would breach even after a 15% decline in property values. The yield increases required to trigger a breach are approximately 132bps, 101bps and 86bps, respectively, which we consider highly unlikely even if rates reach current market-implied levels.

HOW PROPERTY COMPANIES CAN ADAPT TO HIGHER FOR LONGER RATES

Management action is increasingly important as higher rates erode rating headroom, but available measures vary in effectiveness. Broadly, equity issuance and asset sales most directly reduce debt; investment deferrals preserve liquidity but do not immediately improve leverage; and dividend reductions offer only modest support. In addition to restructuring interest rate swaps, the four main levers are ranked as follows by likely balance sheet impact:

1. raising equity;
2. selling assets;
3. postponing investments; and
4. reducing dividends.

Raise equity: New equity is the most direct way to repay debt while retaining higher-quality assets and preserving the business-risk profile. However, it depends on shareholder appetite and is dilutive. With Swedish property shares trading at an average discount of around 39%, we expect equity raises to remain uncommon. Issuers whose shares trade at a premium could potentially issue equity to acquire assets from companies under disposal pressure while also strengthening their own financial position.

Sell assets: Disposals can reduce leverage and address upcoming maturities more directly than retained cash. Their effectiveness depends on asset liquidity, encumbrance, the cost of the repaid debt and any discount to book value. Execution risk increases when rates rise and buyer and seller pricing expectations diverge, although a broader buyer base may support selected disposals at narrower yield gaps than historical averages. Non-core holdings, including stakes in other companies that may be conservatively recognised on the balance sheet, can provide an additional source of funds.

Suspend development and discretionary investment: Postponing investment expenditure reduces reliance on external funding and preserves liquidity but does not directly lower existing debt. The impact depends on project commitments and the ability to defer works without incurring higher maintenance needs in the future.

Reduce dividends: Cutting shareholder distributions retains cash, supports liquidity and preserves balance-sheet capacity without affecting operations. However, dividends typically account for 30–50% of adjusted income from property management and are small relative to refinancing needs. Suspending dividends would generally retain funds equivalent to 1–3% of net debt and improve net interest coverage by only 3–8bps, making this the least effective of the four principal balance-sheet measures.

The most adaptable issuers are likely to implement multiple measures before pressure becomes acute. Long hedges, strong cash generation and ample liquidity provide time to respond and reduce the need for forced disposals or dilutive equity issuance.

NCR-RATED SWEDISH REAL ESTATE ISSUERS

The following table summarises NCR's ratings on the Swedish real estate sector as of 2 Oct. 2026.

Figure 11. NCR ratings on Swedish real estate companies, 2 Oct. 2026

Issuer	Subsector	Long-term issuer rating	Outlook
Vacse AB (publ)	Public	A-	Stable
Svensk FastighetsFinansiering AB (publ)	Mixed	BBB+	Stable
Axfast AB (publ)	Office	BBB	Stable
Heba Fastighets AB (publ)	Residential	BBB	Stable
Fastighets AB Stenvalvet (publ)	Community Service	BBB	Stable
Intea Fastigheter AB (publ)	Community Service	BBB	Stable
LSTH Svenska Handelsfastigheter AB (publ)	Retail	BBB	Stable
CA Fastigheter AB	Mixed	BBB-	Stable
Bonnier Fastigheter AB	Office	BBB-	Stable
Platzer Fastigheter Holding AB (publ)	Office	BBB-	Stable
Stenhus Fastigheter i Norden AB (publ)	Industrial & Retail	BB	Stable
Stendörren Fastigheter AB	Industrial & Logistics	BB	Stable

See NCR's [company reports](#) for details.

RELEVANT RESEARCH

- (i) [Nordic Credit Rating invites comments on revised Corporate Rating Methodology proposal](#), 23 Sep. 2026.
- (ii) [Swedish real estate snapshot \(Q2 2026\): Stable fundamentals, but financing conditions remain key risk](#), 3 Sep. 2026.
- (iii) [Swedish real estate snapshot \(Q1 2026\): Stable fundamentals amid rising uncertainty](#), 8 Jun. 2026.
- (iv) [NCR Comments: Platzer Fastigheter rating unchanged following share buy back announcement](#), 17 Apr. 2026.
- (v) [NCR Comments: Svensk FastighetsFinansiering AB \(publ\) 'BBB+' rating and outlook unchanged following amended loan terms](#), 26 Mar. 2026.
- (vi) [Capital allocation choices may weaken credit quality of Swedish real estate issuers in 2026](#), 10 Mar. 2026.
- (vii) [Share buybacks may weaken Swedish real estate managers' financial risk profiles in 2026](#), 17 Dec. 2025.

RECENT RATING ACTIONS

- (i) [Platzer Fastigheter Holding AB \(publ\) 'BBB-' long-term issuer rating affirmed; Outlook stable](#), 3 Feb. 2026.

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