



Sweden – October 2020

Residential market overview



REPORT

Savills Research



Multifamily a refuge in uncertain times

As the Covid-19 virus spread across the globe during the spring, global trade froze up and most economies quickly headed towards recession, investors started increasing their focus on low-risk assets. Swedish residential assets have a long history of being perceived as a low-risk asset class, as the demand for housing is driven by non-cyclical factors and the supply in terms of both existing stock and coming developments is transparent. Key trends such as continued urbanisation, shrinking household size and a strong growth in housing prices for owned apartments and houses have been driving demand for rental apartments. The trend may intensify further during a period of uncertainty. The demand and supply imbalance within the rental stock that is observed in many parts of Sweden (such as Stockholm, Gothenburg and Malmö) will persist as construction activity slows down, maintaining the long-term fundamental strengths of the sector.

From a historical perspective, investors tend to seek defensive options in uncertain times. The stable cash flows and the very low vacancy risk in the multifamily sector offers an attractive risk-adjusted return for investors. As a result, the multifamily sector will most likely show a strong performance as an investment alternative in the current environment.



Peter Wiman
Head of Research
+46 73 358 64 22
peter.wiman@savills.se



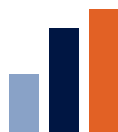
55%

of the Swedish housing stock is apartments

SEK 36bn 212

(€3.4bn) residential investment volume, reflecting 27% of the total market 2020 Q1-Q3

of Sweden's 290 municipalities report a housing deficit



Forward funding deals reflect half of the investment volume 2020 Q1-Q3



Deal activity continues at a high level – 132 transactions 2020 Q1-Q3



The Stockholm region has an estimated housing deficit of 288,000 homes by 2027

Investment market

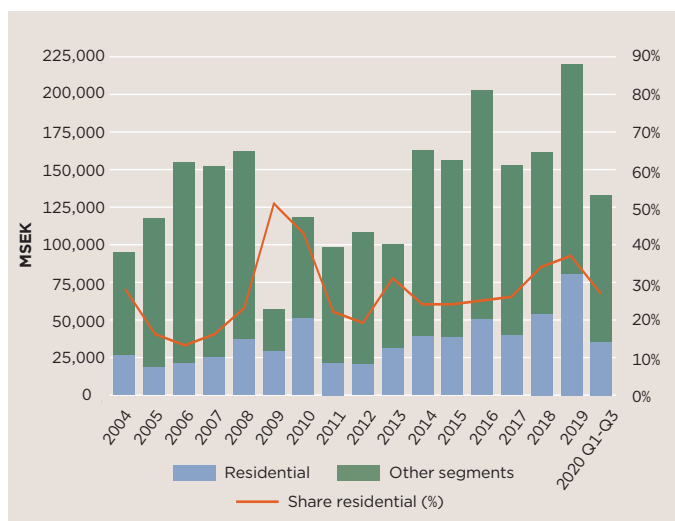
The residential sector has been a well-established asset class for decades and prime assets have always been highly sought after on the Swedish property market. The investment volume for residential assets amounted to SEK 80bn (€7.8bn) in 2019, which was the highest turnover on record with a share of 37% of the total investment volume. The ongoing pandemic has had little effect on the demand for residential assets, but rather the opposite as in turbulent times institutional investors focus on low-risk sectors such as residential. The sector is on track to be the preferred asset class for investors for the fourth year in a row. In the first three quarters of 2020 (Q1-Q3), residential assets were the largest sector with an

investment volume of SEK 35.5bn (€3.4bn), reflecting 27% of the total market.

Investor interest is strong for all types of residential assets, both new developments and existing stock. Foreign investors have increased their activity within the residential sector over the past years. In 2019, foreign investors accounted for almost 60% of the investment into residential assets. The high share was partly driven by Vonovia's acquisition of Blackstone's majority share in the listed Swedish residential company Hembla and the following buy-out from the stock exchange. The acquisition corresponded to a value of SEK 20.2bn (€1.9bn). In the last few years an increasing investment

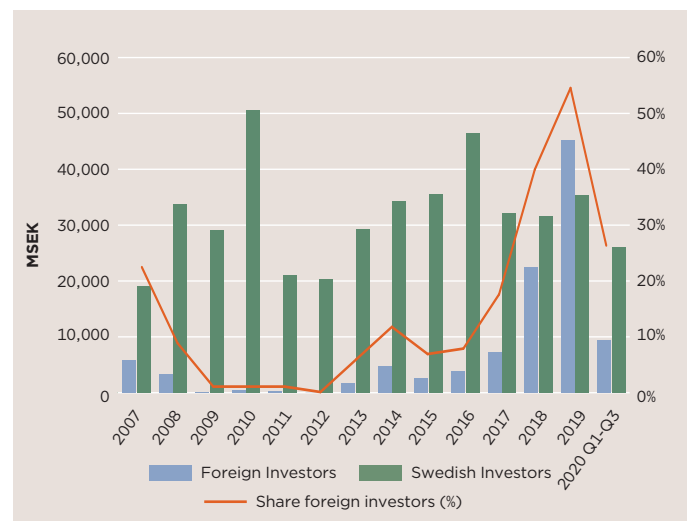


Strong demand for residential assets



Source Savills Research

Foreign investors are targeting Sweden



Source Savills Research

appetite has been noted from foreign institutional investors, especially for new developments.

In terms of the structure of deals, the number of portfolio transactions corresponded to 35% of the total number of residential transactions, while the residential portfolio investment volume reflected almost 60% of the sector's volume in 2020.

Forward funding deals have steadily increased over the last years. By the end of the third quarter, forward deals amounted to SEK 17bn (€1.6bn), reflecting almost 50% of the residential sector's total investment volume. This is a new record level and well above the yearly average of SEK 11.3bn (€1.1bn) from the previous five years. The increasing forward volumes depend on a number of factors; an increasing developer interest for building rental units, increasing interest from institutional core capital and developers seeking to reduce risk

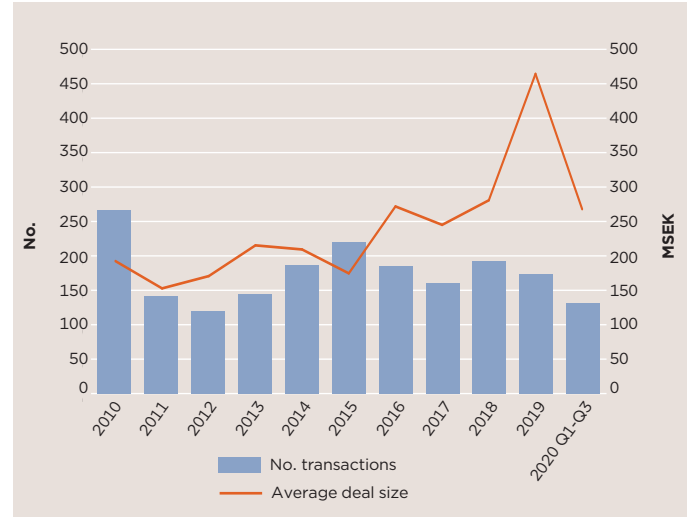
and strengthening their balance sheets by selling projects in early stages.

New buildings vs existing stock

Residential assets are perceived to generate an attractive risk adjusted return, due to the low vacancy risk and the Swedish rental system (see page 18). The residential rents are more or less inflation hedged, which generates a long-term positive real rate of return. This return on investment is far more attractive than the yields offered by fixed income products (the Swedish 10-year bond offers -0.3%) and is also higher than the yields found in the prime office and high street markets.

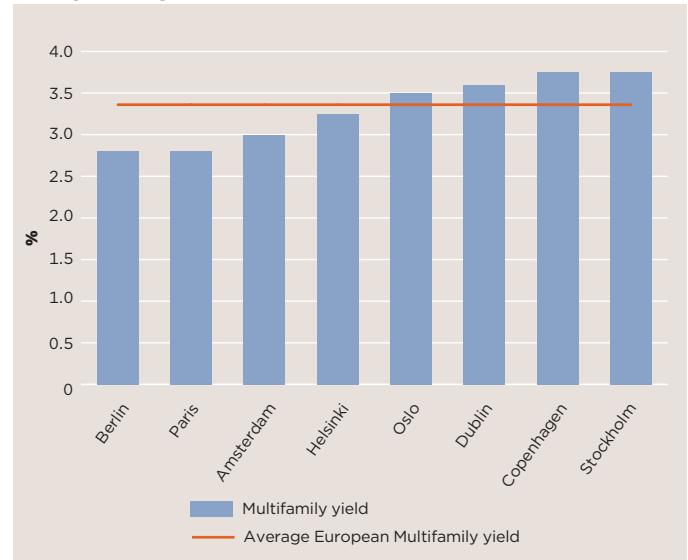
The rental system gives investors clear conditions regarding an asset's future net operating income. From an investment perspective, residential assets in Sweden are in general divided into two categories, mainly based on the asset's rental potential.

Number of residential transactions & average deal size

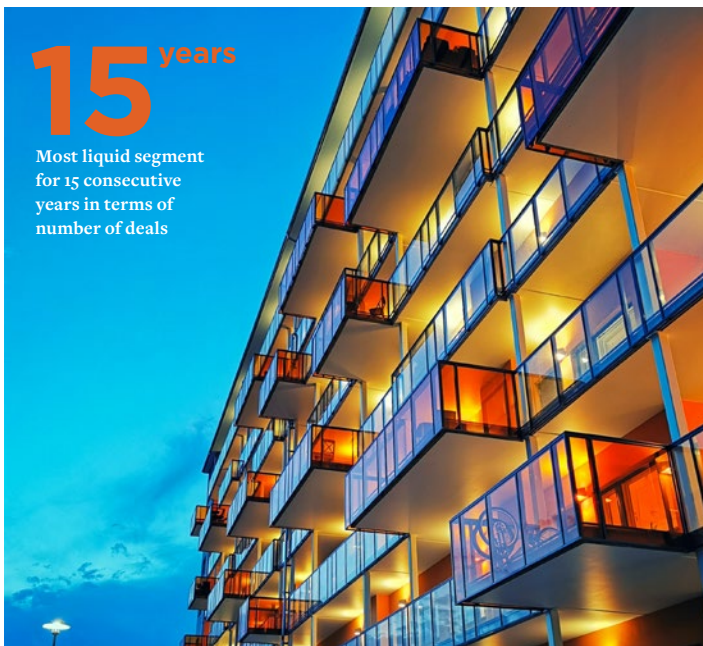


Source Savills Research

Sweden is traded at a discount compared to many European markets



Source Savills Research



15 years

Most liquid segment for 15 consecutive years in terms of number of deals



Residential has been the largest segment 6/10 years during the past decade

The first one, is new buildings with limited rental potential and a foreseeable cash-flow. The second one, is existing buildings with a need of refurbishment and improvement, which generates a significant rental potential. Hence, assets in the second category, are typically traded at a much lower yield than new developments.

Institutions and forward-funding

Institutional investors (pension funds, etc.) are very active in the residential sector. From 2010-2020, the institutional investment volume amounted to SEK 130bn (€12.4bn), reflecting a market share of almost 30%. Many institutional investors aim to build large rental property portfolios so that they can drive significant economies of scale and achieve higher yields as a result.

Some of the major operators have found a suitable way to achieve scale, by acquiring new residential projects from residential developers. This approach is drawing interest from institutional investors who are looking to diversify their risk with long-term investments that offer better returns than those available in other secondary markets. These deals are often structured using a forward purchase contract, with developers selling an entire residential project to an investor for rental purposes.

In 2020, 56% of the institutional investment volume was derived from forward funding deals, reflecting an investment volume of SEK 9.6bn (€0.9bn). This was the highest figure ever observed and confirmed the trend of consistent growth of institutional investments in forward funding deals.

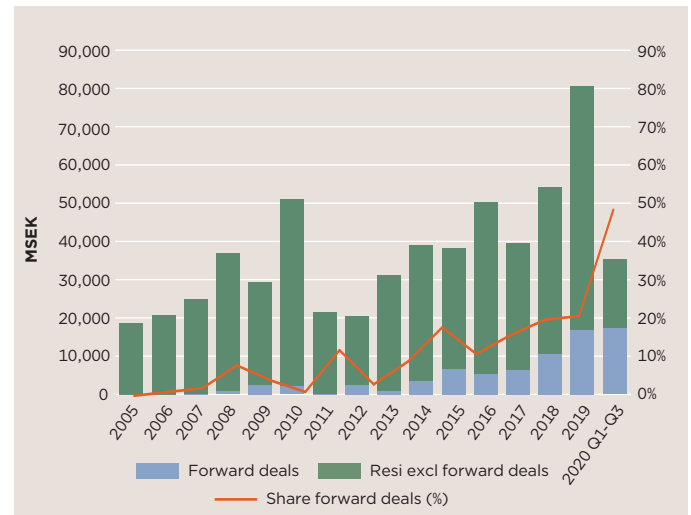
Outlook

Competition will intensify in the multifamily sector driven by the launches of new residential funds across Europe. We expect investor interest in the multifamily sector to remain solid due to the segment's defensive characteristics. The mismatch between the volume of capital that will be targeting the residential segment and the available product, should lead to more forward funding deals and development initiatives. Rising construction costs can restrict returns but residential will still offer secure, long term, inflation hedged income streams.

Rising allocations to real estate and the search for stable long-term income in a zero-interest rate environment will further fuel demand for residential.

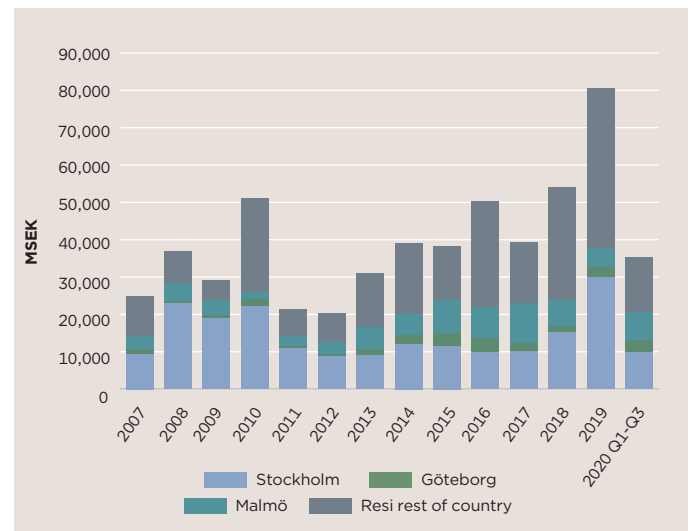
Record high prices in office and logistics sectors and uncertainty in the retail sector have forced investors to search for higher returns elsewhere and to diversify. In a lower economic growth environment, the somewhat defensive character of residential will be seen as an advantage. The focus will remain on best in class assets and competition could bring further yield compression in 2020.

Record levels of forward funding deals



Source Savills Research

Residential investment volume in major cities



Source Savills Research

SEK
34bn

(€3.3bn) Long-term investment volume (15yr)

Ownership forms

Residential housing in Sweden can be divided into five different forms of tenure:

Form of Tenure	Ownership/Right of tenure	Sale	Rent/monthly fee
Detached or semi-detached house	The owner holds the title to the property and is responsible for all upkeep and maintenance.	A house can be sold or bought on the open housing market. Market supply and demand impact the price.	No fees. The house owner covers all costs. In addition, many house owners have bank loans to pay.
Rental Apartment	The apartment is let to a tenant on a long-term basis by a landlord that owns the property. The tenant has a one-sided 3-month rolling termination period. The landlord is responsible for all upkeep and maintenance, including the apartment's equipment such as appliances and fixtures. Utilities are covered by the landlord, apart from household electricity consumption and in some case water consumption.	A tenant can not sell the apartment. The property owner can sell the property, whether it is freehold or leasehold, but individual apartments cannot be traded.	The tenant pays a monthly rent to the landlord. The rent is usually negotiated with the tenant's association and is set using the utility value system (see page 18). For newly built apartments, a presumption rent can be negotiated, where the rent is set based on the property construction costs.
Co-op/Tenant owned associations	The property is owned by a housing cooperative, of which the tenant is a member and owns a share in the co-op. The share grants the owner the right of use to a specific apartment in the property owned by the housing co-op. The members/owners are responsible for the interior maintenance of the apartment while the housing co-op is responsible for essentially all other property maintenance.	A co-op apartment can be sold or bought on the open housing market. Market supply and demand impact the price.	The owner of the co-op apartment pays a monthly fee to the housing co-op. The fee is set yearly by the board of the housing co-op and must be approved through majority decision. The fee covers items such as the interest for the loans in the housing co-op and operating & maintenance costs. In addition to the fee many apartment owners have bank loans on the apartment.
Cooperative rental right	A cooperative rental apartment is something in-between a rental apartment and a tenant-owner right. An association owns or rents the property and the association members rent their apartments from the association.	A tenant may not sell the apartment to another tenant. Upon moving in, a form of deposit is paid to the association, which is refunded when moving out.	The tenant pays a monthly rent to the association. The association decides the rent without the need to negotiate with the tenant's association.
Ownership right	The regulation for ownership apartments in multi-family houses was passed in 2009. Each apartment is a separate property to which the owner holds the title. Unlike ownership of a detached or semi-detached house, an apartment has a share in a joint-property unit, including facades, roofs, stairs and other common facilities.	An apartment with ownership right can be sold or bought on the open housing market. Market supply and demand impact the price.	The owner pays a fee to the joint-property management association, which manages the common areas. In addition to the fee many apartments owners have bank loans on the apartment.

Apartments dominate the housing stock

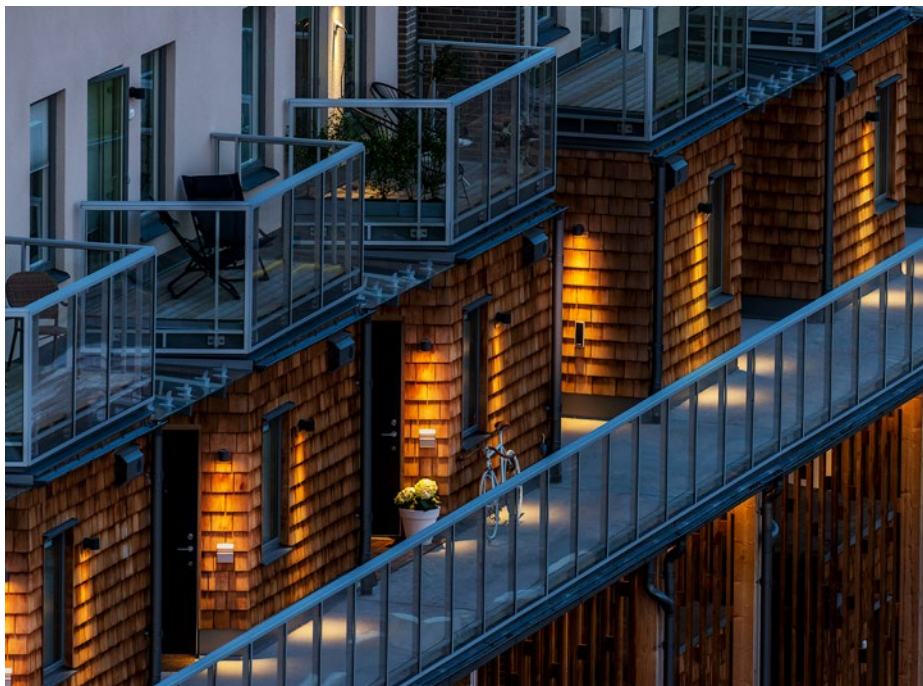
According to data from Statistics Sweden, the Swedish residential market is broadly dominated by home ownership. In 2019, 68% of households were homeowner occupied, while the rental market accounted for 32% of the total housing stock. Germany has the lowest percentage of home ownership in Europe (51%), followed by Austria (55%), while Romania and Croatia have the highest percentages (97% and 91% respectively). Home ownership outweighs renting in all EU member states.

However, in the Swedish apartment stock, rental apartments dominate comprising almost 60% of the stock. Municipal housing companies own almost half of the stock of rental apartments. 37% of the stock is owned by Swedish corporations & institutions and 9% is owned directly by private individuals. The remaining 9% are distributed

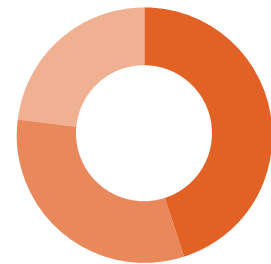
among other investors. From 2013 to 2019, Swedish corporations & institutions increased their market share from 31% to 37%, an increase of 112,000 apartments.

Construction is slowing down

Since the financial crisis in the early 1990s, the number of new construction projects has grown steadily. The yearly construction rate corresponds to an average of roughly 20,000 apartments over the period 1991 to 2019. The construction pipeline has been particularly focused on the three large metropolitan regions and on larger regional cities. In the last ten years, from 2010 to 2019, the Stockholm region accounted for 34% of all new construction projects, making it the largest development area. The Gothenburg region was the second largest development market with 12%, closely followed by the Malmö region with 10%.

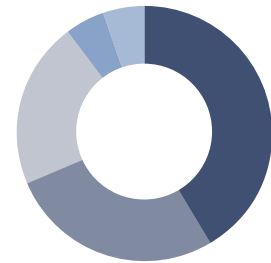


Housing stock - Sweden 2019



- Detached or Semi-detached house **45%**
- Rental apartments **32%**
- Apartments in tenant owned associations **23%**

Apartment stock - Ownership



- Tenant owned associations **42%**
- Municipal housing companies **27%**
- Swedish corporations & institutions **21%**
- Private individuals **5%**
- Other **4%**

Source Statistics Sweden

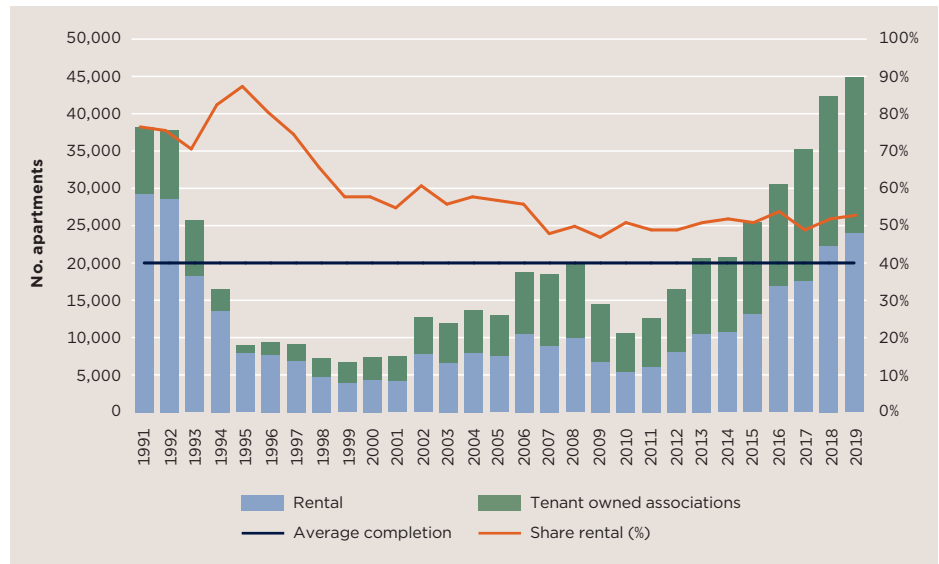
In 2017, construction was started on about 50,000 apartments, which is the highest figure since the million-programme era (1965-1975). Between 2018-2019, the number of new construction projects fell, after the housing market dipped in Q3 2017 due to the regulatory changes made by the financial supervisory authority. The changes were imposed to put a cap on household lending related to a multiplier to gross income and a forced amortisation on all LTVs above 50%. However, the housing market quickly stabilised in 2019/2020 but new construction is still behind, and the number of new construction projects is estimated to decrease by 15% (yoy) to 32,300 apartments during 2020, according to The Swedish National Board of Housing, Building and Planning.

Even though new projects continue at relatively high levels, 212 of Sweden's 290 municipalities report a housing deficit in their respective markets. However, the number of municipalities reporting a deficit has decreased by 43 since 2017, according to The Swedish National Board of Housing, Building and Planning. A mere 66 municipalities, all with a population below 75,000 inhabitants, consider the market to be in balance.

The regions of Stockholm, Gothenburg and Malmö constitute about 76% of the total deficit. The housing shortage affects different population groups to different degrees and the current situation is particularly challenging for groups of people that are new to the housing market. Some of the more affected groups are: young people, recent immigrants and elderly people who want to move to a more accessible home.

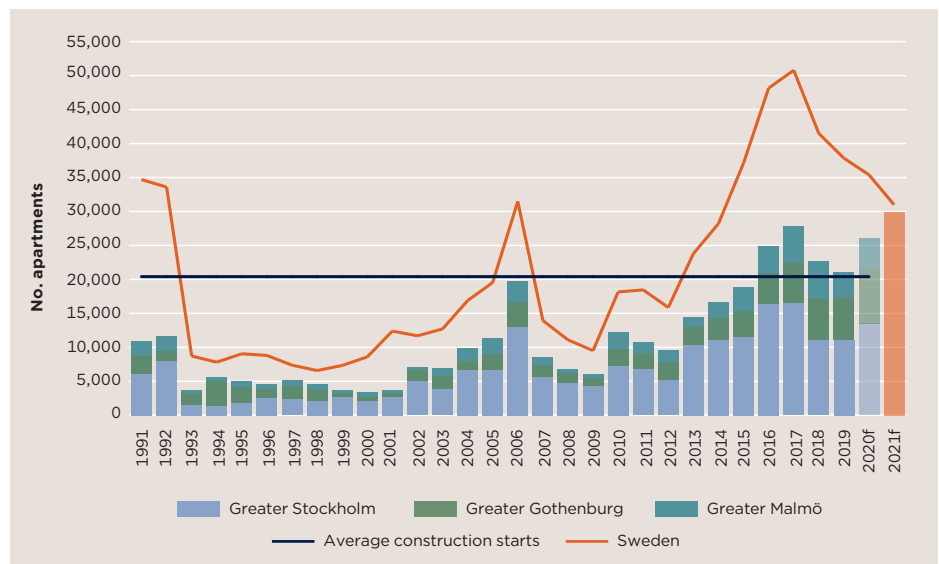
In a recent report by The Swedish National Board of Housing, Building and Planning it is estimated that almost half a million, corresponding to 10%, of the households in Sweden are defined as overcrowded, and the number has increased in recent years. For the Stockholm region the figure is estimated at 15% and lower in smaller municipalities with few than 75,000 inhabitants where the figure stands at 7%.

Completed apartments



Source Statistics Sweden

New constructions



Source Statistics Sweden & The National Board of Housing, Building and Planning

76% of the housing deficit from the larger cities

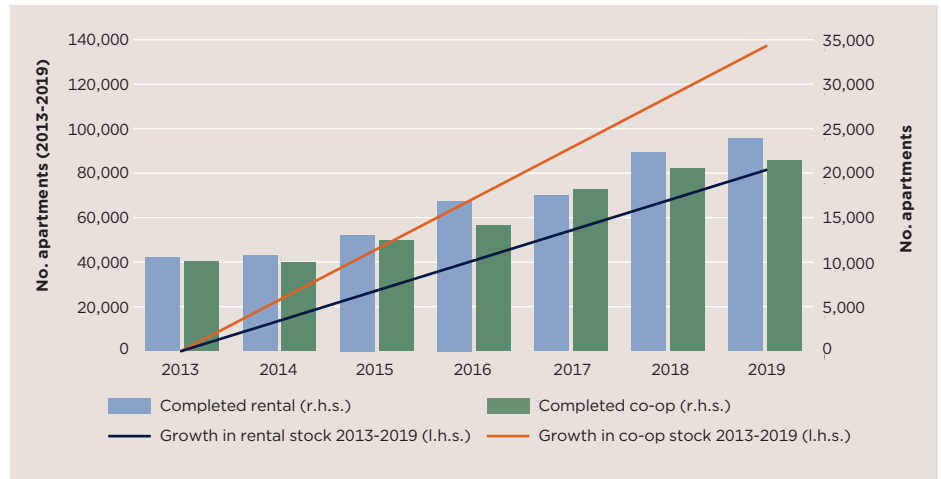
The co-op stock increases faster due to conversion of rental apartments

The two main segments of the residential stock are apartments and detached or semi-detached houses, where apartments reflect 55% of the total stock.

Within the apartment stock, rental apartments are the largest segment with a market share of 58%, followed by tenant owned co-op's, which constitutes the remaining 42%. Apartments held by ownership right is still uncommon and only represents 0.04% of the apartment stock. From 2013 to 2019, 115,000 rental apartments were completed, but the actual rental stock only grew by 81,000 apartments due to the large number of conversions from rental apartments to tenant owned co-op's.

During the same period, the tenant owned co-op stock grew by 136,000 apartments, of which 107,000 apartments were attributable to new development completions and the remainder were conversions of rental properties. Even though the construction rate is higher for rental apartments the number of co-op's grow faster on an aggregate level due to conversion of rental apartments.

Conversion of rental apartments is boosting the co-op stock



Source Statistics Sweden



Deficit of housing in metropolitan regions

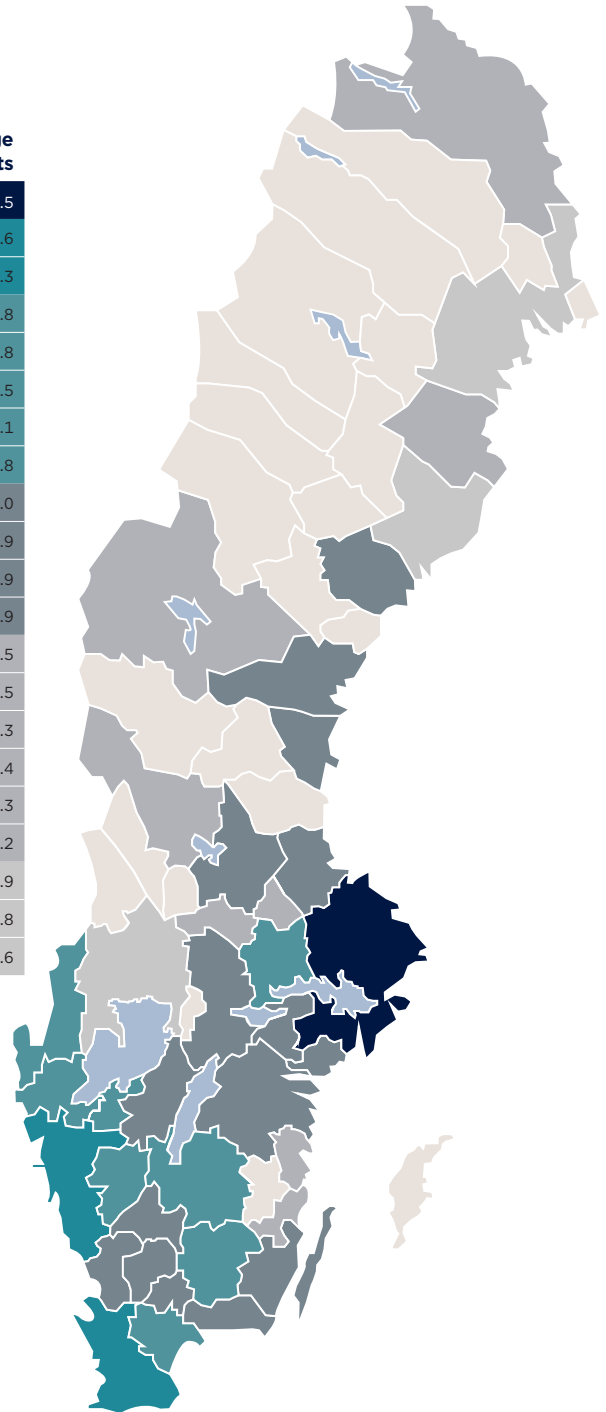
On a country basis, the estimated housing need amounts to 640,000 homes for the period 2018-2027, equalling 64,000 new homes per year, which means that the current development pipeline is insufficient to satisfy the demand. The need for new housing is estimated to be highest in the three large metropolitan regions, both in absolute and relative numbers. In Stockholm the yearly need corresponds to 10.5 homes per 1,000 residents, in Malmö and Gothenburg the same figure corresponds to 8.6 and 8.3 respectively. In absolute numbers, the need in Stockholm, Gothenburg and Malmö equals to 288,000, 101,000 and 100,000 homes.

Strong demand from young adults

27% of young adults aged between 20 and 27 live in their guardians' home, according to a survey from 2019, conducted by the Tenants' association. In absolute numbers, this reflects 280,000 people. In this group, 85% responded that they would prefer an individual accommodation, which indicate an unmet housing demand of almost 240,000 people. The majority of respondents stated that they would prefer to own their home and 28% would rather rent their home. However, the current market conditions restrict people from entering the housing market, due to high prices and long queues for rental apartments.

Region	Yearly housing shortage per 1,000 residents
Greater Stockholm	10.5
Greater Malmö	8.6
Greater Gothenburg	8.3
Kristianstad	5.8
Jönköping	5.8
Borås	5.5
Växjö	5.1
Västerås	4.8
Skövde	4.0
Eskilstuna	3.9
Strängnäs	3.9
Halmstad	3.9
Linköping	3.5
Norrköping	3.5
Kalmar	3.3
Sundsvall	2.4
Örebro	2.3
Gävle	2.2
Luleå	0.9
Karlstad	0.8
Umeå	0.6

Source The National Board of Housing, Building and Planning



Strong interest in investment subsidies

The investment support was implemented as an attempt to increase the stock of affordable housing for low- to mid-income households and to pressure real estate developers to minimize building costs by putting a cap on rent levels. The subsidy can be granted for both student housing and normal rental apartments.

The allocated funds have increased from SEK 2.1bn (€0.2bn) to SEK 3bn (€0.3bn) per year from 2021. 75% of the funds are allocated to the regions of Stockholm, Gothenburg, Malmö, and 25% are allocated to the rest of the country.

Support levels

- 7,100 SEK/sqm lettable area in greater Stockholm.
- 5,800 SEK/sqm lettable area in municipalities close to the Stockholm region, Greater Gothenburg and Malmö, municipalities with a strong and persistent population growth.
- 4,800 SEK/sqm lettable area in the rest of the country.

Apartments with a lettable area up to 35 sqm receive the highest amount of support. Apartments between 36-70 sqm, receive 50% of the highest support level. For a size larger than 70 sqm, no support is provided.

The norm rent per sqm lettable area and year can not exceed the following levels:

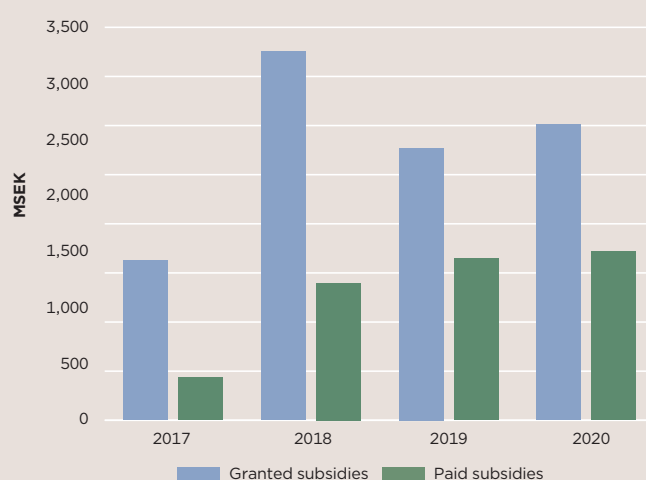
- 1,550 SEK in greater Stockholm.
- 1,450 SEK in municipalities close to the Stockholm region, Greater Gothenburg and Malmö, municipalities with a strong and persistent population growth.
- 1,350 SEK in the rest of the country.

Requirement regarding low energy use:

To receive support, the building must be more energy efficient than what applies to other new buildings according to BBR*. On the one hand, the basic requirement for low energy use corresponds to a maximum of 88% of BBR. On the other hand, an energy bonus can be obtained if the energy use corresponds to a maximum of 56% of BBR. If the bonus requirement is fulfilled, the investment subsidy may be increased by 75%.

*BBR- Boverket's building regulations

Granted and paid subsidies



Source The National Board of Housing, Building and Planning



Residential market overview

2013-2019

	Population growth per 1,000 residents	Change in rental stock per 1,000 residents	Change in co-op stock per 1,000 residents	Apartment stock growth per 1,000 residents	Stock growth* average household -Population growth	Completed apartments per year and 1,000 residents
<i>Greater Stockholm</i>	80	4	28	32	-10	5
<i>Greater Gothenburg</i>	70	6	16	22	-21	4
<i>Greater Malmö</i>	73	14	12	26	-16	4
Stockholm	69	3	30	33	4	4.6
Huddinge	85	-1	22	21	-38	4.1
Nacka	92	-5	38	34	-18	4.4
Södertälje	67	7	8	16	-32	2.3
Botkyrka	61	6	17	23	-10	4.3
Haninge	105	14	14	28	-43	3.5
Solna	106	-1	46	45	-7	8.7
Järfälla	125	10	44	54	-6	7.9
Sollentuna	62	-4	26	22	-14	4.7
Täby	74	1	33	34	1	5.1
Norrrtälje	82	5	24	28	-20	3.0
Lidingö	56	11	16	28	4	2.7
Tyresö	80	16	21	37	1	5.5
Sigtuna	103	12	13	25	-48	3.6
Upplands Väsby	93	2	33	35	-16	5.5
Österåker	101	0	19	19	-58	3.7
Sundbyberg	168	-11	98	87	24	15.6
Värmdö	108	10	34	44	-11	4.3
Danderyd	29	-9	24	15	4	1.3
Vallentuna	56	8	7	15	-22	1.5
Nynäshamn	54	6	7	13	-25	1.7
Ekerö	71	0	5	6	-59	1.7
Upplands-Bro	149	21	20	41	-59	6.2
Salem	48	0	0	0	-48	1.2
Vaxholm	71	-2	37	34	4	3.0
Nykvarn	135	12	17	29	-72	4.3
Greater Stockholm	80	4	28	32	-10	4.7
Göteborg	69	6	18	25	-15	4.0
Kungälv	68	10	9	20	-24	4.7
Stenungsund	61	6	7	13	-33	2.1
Tjörn	56	4	8	12	-29	2.9
Öckerö	29	4	11	15	3	1.6
Mölnådal	94	14	27	41	-4	5.7
Partille	61	8	22	30	6	4.9
Härryda	56	7	3	10	-35	2.4
Lerum	69	7	10	17	-32	1.5
Ale	96	10	14	24	-44	3.0
Alingsås	61	3	9	12	-34	2.3
Lilla Edet	89	0	-8	-7	-105	1.2
Kungsbacka	74	1	14	15	-41	2.7
Greater Gothenburg	70	6	16	22	-21	3.7
Malmö	80	18	16	34	-4	5.5
Lund	72	12	17	28	-10	5.9
Trelleborg	47	15	3	18	-7	1.0
Vellinge	76	3	3	6	-62	0.9
Eslöv	50	16	1	17	-13	2.6
Kävlinge	62	7	3	10	-39	1.4
Staffanstorps	86	2	8	10	-63	2.4
Lomma	95	6	21	26	-37	4.3
Svedala	72	7	12	19	-29	1.9
Burlöv	70	22	2	24	-17	2.7
Höör	62	6	0	6	-48	0.7
Skurup	47	9	0	9	-26	1.0
Greater Malmö	73	14	12	26	-16	4.2
Uppsala	92	18	33	52	21	6.5
Västerås	67	16	17	32	3	4.1
Örebro	86	19	17	36	-7	6.9
Linköping	69	17	23	40	19	5.2
Helsingborg	89	25	9	34	-14	5.4
Jönköping	62	10	12	22	-13	3.9
Norrköping	57	11	11	22	-9	3.5
Umeå	71	19	25	44	25	6.8
Gävle	42	6	8	14	-11	3.5
Borås	56	8	7	15	-24	2.6
Eskilstuna	60	7	9	16	-24	1.7
Halmstad	73	14	0	14	-42	3.7
Växjö	75	11	23	34	0	5.3
Karlstad	52	19	18	37	30	4.7
Luleå	32	2	13	15	0	3.7
Sundsvall	19	7	5	12	8	1.1
Strängnäs	68	5	7	12	-42	3.1
Kalmar	69	18	15	34	5	4.6
Kristianstad	47	13	3	16	-12	1.6
Skövde	53	20	5	25	3	3.6

Residential market overview

Housing shortage per 1,000 residents 2018-2027	Housing queue (years)	Tenant turnover (%)	Population forecast 2020-2027, 000'	Co-op prices SEK/sq.m.	Price growth for co-ops 2013-2019	Detached or semi-detached house prices MSEK	Price growth for detached or semi-detached houses 2013-2019
10	8	9.0%	239	56,675	54%	5.7	48%
8	5	9.3%	83	35,901	73%	4.1	55%
9	2	9.7%	65	26,804	61%	3.7	54%
10.5	11.2	9.4%	101	66,500	41%	6.3	38%
10.5	8.9	7.9%	13	35,900	69%	4.9	42%
10.5	8.0	9.0%	14	48,500	38%	7.8	26%
10.5	6.0	8.0%	8	27,200	71%	3.5	50%
10.5	8.8	6.0%	8	30,500	63%	4.0	40%
10.5	8.5	8.6%	8	30,000	84%	4.3	37%
10.5	9.1	10.3%	10	52,900	44%	7.1	37%
10.5	8.4	4.7%	6	34,900	47%	4.6	35%
10.5	6.8	18.1%	7	38,900	49%	6.2	42%
10.5	5.7	9.0%	5	42,200	51%	6.8	40%
10.5	8.3	8.5%	6	27,100	52%	3.6	41%
10.5	8.8	9.0%	4	54,900	50%	11.7	37%
10.5	8.7	8.6%	5	33,400	51%	5.5	31%
10.5	7.3	12.0%	5	29,000	79%	4.4	35%
10.5	8.2	10.6%	3	32,400	56%	4.3	39%
10.5	4.0	7.0%	4	34,000	75%	5.0	39%
10.5	7.7	6.0%	7	52,000	44%	6.4	37%
10.5	6.9	8.6%	7	43,000	61%	6.0	32%
10.5	10.0	9.0%	2	57,700	38%	13.5	36%
10.5	7.1	8.3%	4	30,900	63%	4.5	43%
10.5	6.7	14.5%	2	25,000	82%	3.6	41%
10.5	7.0	10.3%	3	39,800	75%	5.6	50%
10.5	7.0	7.0%	2	29,600	60%	4.1	43%
10.5	7.0	9.0%	1	30,800	66%	4.0	40%
10.5	7.0	9.0%	2	40,000	36%	7.4	25%
10.5	2.0	14.4%	1	31,700	70%	3.7	58%
10.5	8.1	9.0%	239	56,675	54%	5.7	48%
8.3	6.9	9.5%	45	45,500	55%	5.4	48%
8.3	6.0	9.3%	4	32,200	84%	3.8	47%
8.3	3.5	9.6%	3	28,900	64%	3.9	49%
8.3	5.0	9.3%	1	30,100	73%	3.7	53%
8.3	5.0	9.1%	1	40,000	73%	4.8	31%
8.3	3.0	10.0%	5	39,000	58%	4.7	49%
8.3	2.0	11.0%	3	33,800	56%	5.0	47%
8.3	7.0	6.0%	4	35,500	57%	4.0	39%
8.3	7.0	6.0%	3	29,400	60%	3.8	47%
8.3	3.2	8.8%	2	28,800	93%	3.3	56%
8.3	4.0	12.2%	3	28,400	78%	3.6	51%
8.3	3.0	14.0%	0	15,400	73%	2.1	79%
8.3	6.5	6.0%	10	39,300	65%	5.0	47%
8.3	5.0	9.3%	83	35,901	73%	4.1	55%
8.6	3.6	11.7%	34	28,600	55%	4.5	44%
8.6	3.6	9.5%	10	36,800	60%	4.4	47%
8.6	2.3	12.9%	3	15,900	93%	2.9	41%
8.6	1.7	8.8%	3	36,900	53%	6.3	43%
8.6	1.4	8.6%	2	14,300	87%	2.6	50%
8.6	2.5	9.0%	3	19,600	103%	3.4	49%
8.6	2.3	7.0%	2	19,100	61%	3.4	44%
8.6	3.7	9.8%	3	35,000	78%	5.5	54%
8.6	1.8	9.8%	1	16,600	61%	3.0	35%
8.6	1.9	9.7%	1	17,400	92%	3.4	52%
8.6	1.5	11.0%	1	14,400	61%	2.1	42%
8.6	0.8	9.0%	1	14,200	108%	2.6	51%
8.6	2.3	9.7%	65	26,804	61%	3.7	54%
10.5	8.0	13.0%	19	37,900	24%	5.2	34%
4.8	5.0	3.0%	11	21,700	74%	3.4	53%
2.3	3.6	12.8%	9	26,400	50%	3.3	45%
3.5	1.5	13.9%	13	31,400	54%	3.7	46%
8.6	1.3	12.2%	12	24,200	66%	4.6	39%
5.8	3.5	7.0%	9	29,900	75%	3.7	50%
3.5	3.8	12.6%	7	24,700	87%	3.3	49%
0.6	5.6	11.0%	12	28,300	55%	3.9	50%
2.2	1.3	14.9%	6	22,700	72%	2.6	44%
5.5	5.0	13.1%	6	19,400	90%	3.1	50%
3.9	4.0	15.0%	7	21,800	99%	2.8	55%
3.9	10.2	8.6%	6	26,800	81%	3.4	43%
5.1	8.1	29.2%	8	25,800	60%	3.5	44%
0.8	5.0	10.0%	5	22,800	59%	3.1	49%
0.9	6	16.2%	5	23,100	42%	2.7	32%
2.4	3	12.1%	4	15,300	74%	3.0	48%
3.9	3	12.0%	3	24,800	65%	3.8	44%
3.3	2.5	20.0%	4	20,900	57%	3.8	50%
5.8	2	13.4%	4	15,600	97%	2.4	46%
4.0	5	14.0%	3	17,600	85%	2.7	50%

Selected statistics and rankings

Steep price growth for most ownership forms

The low interest rates have fuelled prices on the housing market for both detached and semi-detached houses along with the prices for co-ops and many municipalities have seen a very strong price development. The strong price development has led to a higher interest for developing owned housing.

7 of the 10 municipalities with the highest growth in co-op stock are also municipalities with the highest price for an apartment.

However, in the current low interest rate environment, new built rental apartments in municipalities with low housing prices have a high competition from the alternative of buying an apartment/house. The competition is particularly high in the case where the monthly cost of renting a newly built apartment is equal, or in some cases, exceeds the cost of owning. This can lead to high tenant turnover or increased vacancy risk. On the other hand, there is a threshold to enter the housing market in municipalities with high prices, which fuels demand for rental apartments as some population groups cannot afford buying their housing.

Apartments in tenant-owned associations are the main contributor to growth in most municipalities

The top 10 shows municipalities with the highest/lowest increase of apartments in tenant-owned associations per 1,000 residents between 2013-2019. There are big geographical differences in stock growth. Notable is that all of the Top 10 are municipalities in the Greater Stockholm Region and the absolute majority in the northern part of the region.

DETACHED OR SEMI-DETACHED HOUSE PRICES

Regions	Average price	Growth 2013-2019
Average Greater Stockholm	5.7	48%
Average Greater Gothenburg	4.1	55%
Average Greater Malmö	3.7	54%
Average Regional Cities	3.0	46%

CO-OP PRICES

Regions	Average price per sq.m.	Growth 2013-2019
Average Greater Stockholm	56,675	54%
Average Greater Gothenburg	35,901	73%
Average Greater Malmö	26,804	61%
Average Regional Cities	23,690	46%

CHANGE IN CO-OP STOCK PER 1,000 RESIDENTS

Regions	# 2013-2019
Average Greater Stockholm	25.2
Average Greater Gothenburg	11.1
Average Greater Malmö	7.2
Average Regional Cities	13

Municipality

Danderyd	13.5	36%
Lidingö	11.7	37%
Nacka	7.8	26%
Vaxholm	7.4	25%
Solna	7.1	37%
Täby	6.8	40%
Sundbyberg	6.4	37%
Stockholm	6.3	38%
Vellinge	6.3	43%
Sollentuna	6.2	42%

Municipality

Stockholm	66,500	41%
Danderyd	57,700	38%
Lidingö	54,900	50%
Solna	52,900	44%
Sundbyberg	52,000	44%
Nacka	48,500	38%
Göteborg	45,500	55%
Värmdö	43,000	61%
Täby	42,200	51%
Vaxholm	40,000	36%

Municipality

Sundbyberg	98
Solna	46
Järfälla	44
Nacka	38
Vaxholm	37
Värmdö	34
Uppsala	33
Upplands Väsby	33
Täby	33
Stockholm	30

Borås	3.1	50%
Karlstad	3.1	49%
Sundsvall	3.0	48%
Trelleborg	2.9	41%
Eskilstuna	2.8	55%
Skövde	2.7	50%
Luleå	2.7	32%
Eslöv	2.6	50%
Gävle	2.6	44%
Kristianstad	2.4	46%

Karlstad	22,800	59%
Gävle	22,700	72%
Eskilstuna	21,800	99%
Västerås	21,700	74%
Kalmar	20,900	57%
Skövde	17,600	85%
Burlöv	17,400	92%
Trelleborg	15,900	93%
Kristianstad	15,600	97%
Sundsvall	15,300	74%

Sundsvall	5
Skövde	5
Ekerö	5
Kristianstad	3
Härnäs	3
Trelleborg	3
Burlöv	2
Eslöv	1
Halmstad	0
Salem	0

Significant regional differences in growth of the rental stock

The top 10 shows municipalities with the highest/lowest increase of rental apartments per 1,000 residents between 2013-2019. There are significant regional differences in stock growth. Population size can be an explanation as high development rate in smaller regional cities/municipalities can affect the stock easier.

A negative growth has been noted in some of the Stockholm municipalities due to the conversion of rental apartments to tenant-owned associations. The conversions tend to be a combination of sales from private owners and also municipality owned housing associations selling assets directly to the tenants.

Rigid supply fuels long housing queues

The average waiting time (queue time) in Sweden is considerable and even more so in Stockholm and the municipalities in the greater Stockholm area. Queue times have increased dramatically in Stockholm over the past decade as coming supply have failed to meet demand. Among the regional cities Halmstad is the regional city with the longest queue, followed by Växjö and Uppsala. The long housing queues are correlated with a housing shortage, fuelled by the rental ceiling due to rent control and the rigid levels of supply. However, the queue times can vary significantly depending on factors such as size, micro-location and rent level.

From an investor perspective long housing queues can be very beneficial as it leads to a secure income stream as it can bring lower turnover and very short, if any, void periods between tenants.

Tenant turnover; Double-edged sword

Standard residential leases are based on a one-sided three-month notice period, where the tenant can terminate the lease on a relatively short term. In some cases, a high tenant turnover can be an indicator of a more riskful or dysfunctional market where tenants can more easily find competitive housing alternatives, based on e.g. ownership, rent level, size or location.

The drawback of a high turnover can work against low-risk strategies as a high turnover of tenants could possibly lead to higher maintenance costs of the apartments due to increased wear and tear on the apartments and could also lead to short void periods between tenants, thereby increasing vacancy losses.

However, for value-add or opportunistic investors a high turnover of tenants can create an investment opportunity to increase income through refurbishing apartments with measures that increases the standard of the apartments and thereby increasing rents as long as the demand for refurbished apartments is relatively good.

CHANGE IN RENTAL STOCK PER 1,000 RESIDENTS

Regions	# 2013-2019
Average Greater Stockholm	4.3
Average Greater Gothenburg	6.2
Average Greater Malmö	10.3
Average Regional Cities	13.3
Municipality	
Helsingborg	25
Burlöv	22
Upplands-Bro	21
Skövde	20
Örebro	19
Umeå	19
Karlstad	19
Kalmar	18
Uppsala	18
Malmö	18
Österåker	0
Ekerö	0
Salem	0
Huddinge	-1
Solna	-1
Vaxholm	-2
Sollentuna	-4
Nacka	-5
Danderyd	-9
Sundbyberg	-11

HOUSING QUEUE (YEARS)

Regions	Years
Average Greater Stockholm	7.5
Average Greater Gothenburg	4.8
Average Greater Malmö	2.3
Average Regional Cities	4.4
Municipality	
Stockholm	11.2
Halmstad	10.2
Danderyd	10.0
Solna	9.1
Huddinge	8.9
Lidingö	8.8
Botkyrka	8.8
Tyresö	8.7
Haninge	8.5
Järfälla	8.4
Möndal	3.0
Kalmar	2.5
Trelleborg	2.3
Nykvarn	2.0
Partille	2
Kristianstad	2
Burlöv	1.9
Linköping	1.5
Helsingborg	1.3
Gävle	1.3

TENANT TURNOVER (%)

Regions	%
Average Greater Stockholm	9.3
Average Greater Gothenburg	9.3
Average Greater Malmö	9.7
Average Regional Cities	13.1
Municipality	
Västerås	3
Järfälla	5
Botkyrka	6
Sundbyberg	6
Kungsbacka	6
Härryda	6
Lerum	6
Österåker	7
Upplands-Bro	7
Jönköping	7
Skövde	14
Lilla Edet	14
Nykvarn	14
Nynäshamn	15
Gävle	15
Eskilstuna	15
Luleå	16
Sollentuna	18
Kalmar	20
Växjö	29

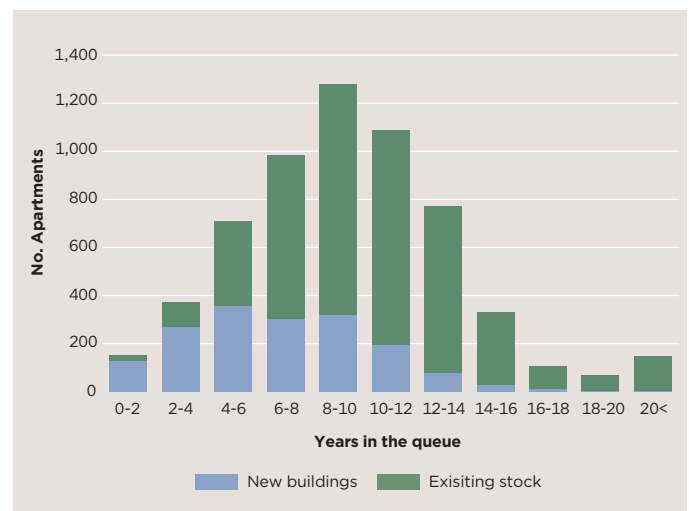
Rental queue

In order to obtain a rental apartment, most municipalities have a queue system and a service that acts as an agent, which distributes vacant rental apartments. Rental apartments in the system can be owned by either the municipality or by a commercial owner. The apartments are allocated on the basis of time spent in the housing queue. Some private landlords have their own queue system, but the fundamentals of the distribution are basically the same.

On average, it takes eight years to be granted a rental apartment in Stockholm, seven years in Gothenburg and almost four years in Malmö. For apartments located in attractive locations, the queue can be significantly longer.

Rental apartments in Sweden are strongly regulated by statute and leases cannot be allotted to the tenant through payment. The tenant pays no deposit in the form of capital to secure the lease, the tenant is allotted the apartment e.g. through a queue and then only pays a monthly rent to use it. The lease applies until further notice with a period of notice of three months for the tenant. The landlord cannot terminate the lease unless there are special grounds.

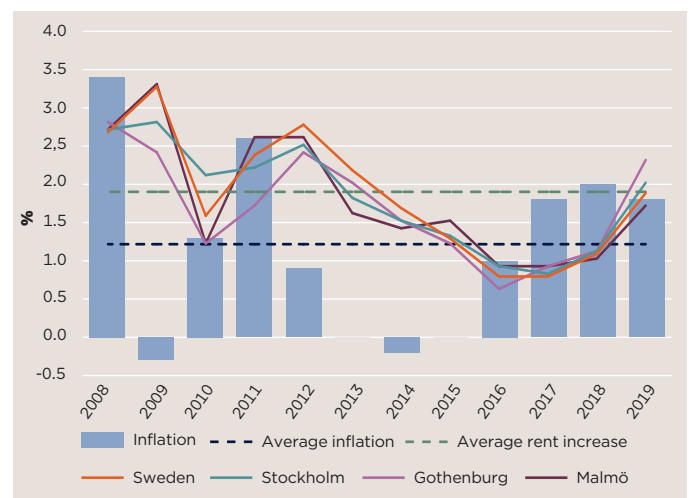
Allocated apartments through the rental queue in Stockholm 2020 Q1-Q3



Source The Stockholm housing agency



Rent Increase



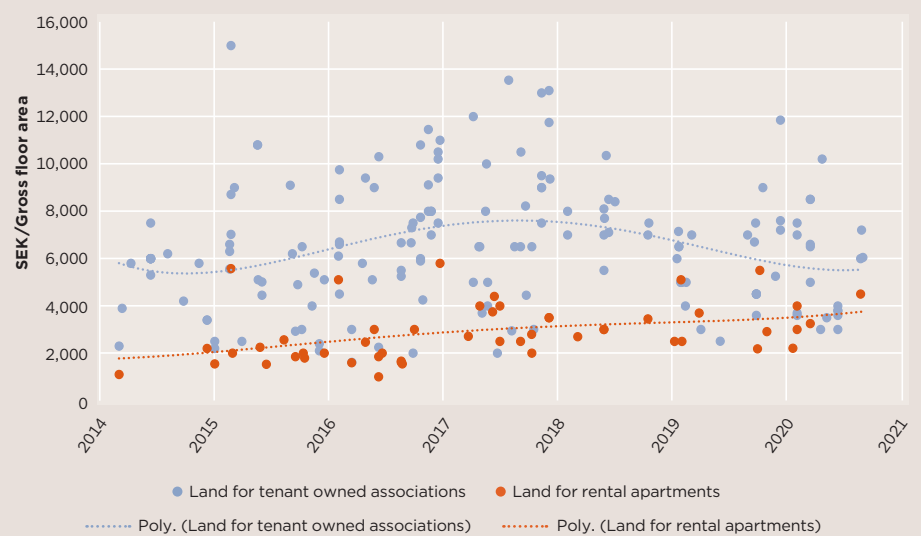
Source Statistics Sweden

High land prices have stabilised

One of the main factors that restrict the development of apartments in the metropolitan areas is the increased production costs and high land prices. For the development of rental apartments, the situation is particularly challenging. As a result, the development of rental apartments have been focused in the outskirts of areas of the three large metropolitan regions, where the land prices are considerably lower.

The price of municipal land in greater Stockholm dedicated for apartments in tenant owned associations has decreased since late 2017. This is mainly due to the regulatory changes made by the financial supervisory authority. The changes imposed to put a cap on household lending related to a multiplier to gross income and a forced amortisation on all LTVs above 50%. The land price for rental apartments have been stable and even increased in some of the Stockholm submarkets.

Land sales in Stockholm suburbs



Source Savills Research



Rent-setting in Sweden

Existing stock



Utility value system

The basis of all rent-setting is the so-called utility value system. The purpose of the utility value system is that the rent level for an apartment may not significantly exceed the rent level for an equivalent apartment. The rent is determined by a negotiation between the landlord and tenants' association, within the framework of the Tenancy Bargaining Act. All negotiated rents are comparable, regardless of whoever owns the property. The utility value system is used both in negotiations and when a rent level is tried in the rent tribunal.

A. Yearly negotiation

The property owner can request an annual negotiation with the tenants' association. The goal with the negotiation is a rent adjustment that follows the socio-economic growth. The negotiated rent is implemented from the 1st January or April 1, depending on the geographic location of the property.

B. Is the rent level correct?

In addition to the yearly negotiation, the tenant or landlord can request to negotiate at any time of the year to determine a correct utility value.

C. Rent after renovation

After a while, all buildings need modernization and renovation, such as plumbing overhaul. This is not included in the usual rent adjustment but negotiated separately. When an apartment is renovated it gets a new utility value, hence the rent level can be increased. The course of action is still the same, equal apartments should provide equal rent, but in this case the new rent is compared with other renovated apartments.

The legislation says that the highest comparable is normative, unless it is a single outlier. The rent must always be negotiated after a renovation. It can either be negotiated with the tenants' association or with the individual tenant.

New buildings



1. Negotiated rent

If an agreement is reached with the tenants' association, the rent can be determined in a negotiated agreement that presupposes a bargaining order. However, since these apartments (which probably gets a higher rent) can be used as comparables, it is unusual for the tenant's association to accept this for new apartments.

2. Presumption rent

The second option is called presumption rent. Since 2006, the presumption rent system has been an alternative for rent-settings in new apartment buildings with the intention to improve conditions for investments in rental apartments. The rents are set by the parties at levels that shall cover the production costs, including the investor's required rate of return and the presumption-rent agreement is isolated from the utility value system, meaning that the presumption rents cannot be assessed in rent tribunals.

The process of the rent-settings depends on negotiations between the landlord and a local Tenants' Union. A presumption cannot be reduced for 15 years in the rent tribunal, nor can it be a comparative object in the utility value system.

3. The property owner sets the rent

The third option is a rent that is agreed directly between the tenant without negotiation. After six months, the tenant can ask the rental committee to evaluate the rent. If the rent deviates from the utility value, it can be forced to be lowered.



Savills Research

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Peter Wiman

Head of Research
+46 73 358 65 22
peter.wiman@savills.se

Lukas Theander

Analyst Research
+46 73 981 70 42
lukas.theander@savills.se

Niklas Zuckerman

Head of Investment
+46 70 839 82 82
niklas.zuckerman@savills.se



savills.se

