

PATRIZIA INVESTMENT COMPASS

NORDICS

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The importance of demographic trends for real estate investments: The Nordic experience

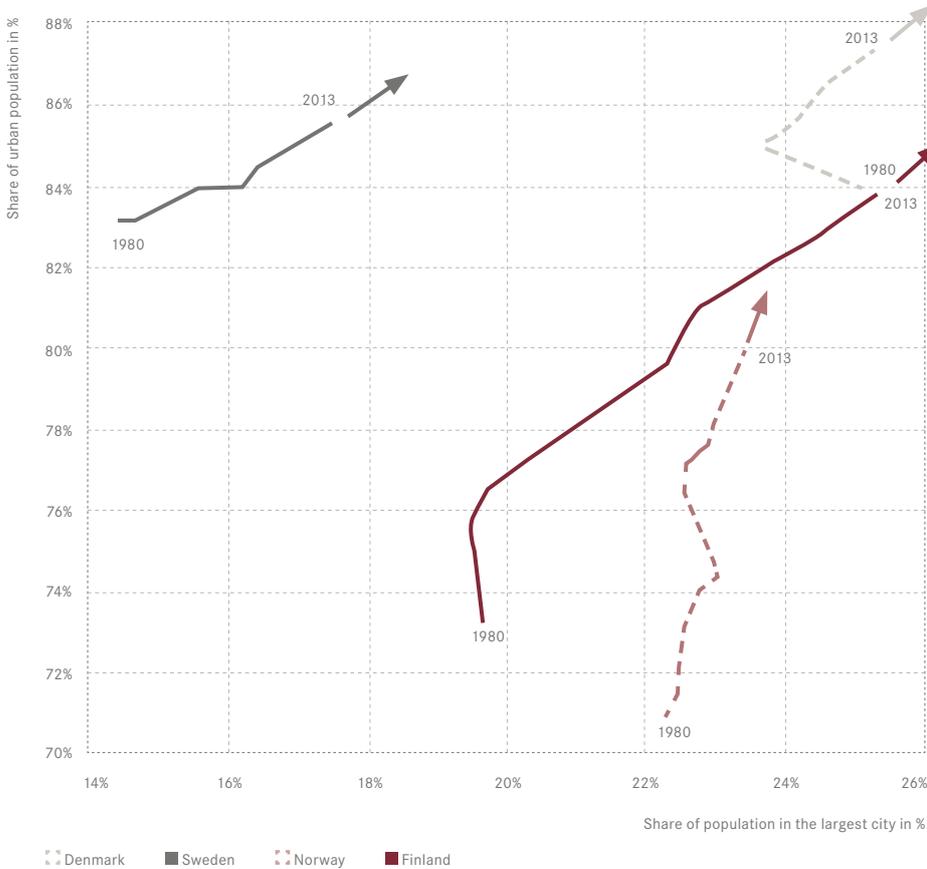
The Nordics constitute a group of countries characterized by a unique territorial structure and a heavily polarised population in spatial terms. In contrast to many European countries, they present a remarkable monocentricity with regard to the distribution of their residents, which emphasises the importance of main urban centres for the development of labour markets, the conception of innovation centres and last but not least for sustainable economic growth. During the last four decades the Nordics faced both a significant fall in fertility rates and a remarkable increase in life expectancy, due to internal and external migration, leading overall to a negative biased demographic structure. Nevertheless, in a European context they are in a special position as their population will increase on average by 7% until 2030 or 0.5% p.a.; a development not seen everywhere else in Europe. This situation constitutes a promising starting point for the coming decades and has important consequences on aspects such as future regional planning, labour markets and especially on long-term investment strategies, such as real estate assets.

Urbanization and labour mobility play nowadays a much more important role as four decades ago. The ongoing technological pro-

gress and the concentration of financial activities have both led to a continuous narrowing of the peripheries and to a concentration of individuals in the main city centres. This phenomenon is especially noticeable across the Nordics cities as young people often settle in a central city after finishing their studies rather than returning to their home town. Also immigration from Germany, Russia, the UK and Poland and especially cross border migration is influencing the urban landscape. From a long-term perspective, the positive and negative consequences of urbanization are therefore the crucial success factors. Cities benefit on the one hand from the positive effects of the large labour workforce supply driving economic growth, but on the other hand the infrastructure and public amenities required to accommodate the strong demand (water supply, roads, education, hospitals, etc.) are crucial for a sustainable economic growth. Evidence of this development can be seen in the strong increase of the relationship between the relative population in capital cities and in urban areas over the last three decades. Thus, the most important urbanization movement took place in Finland as the share of inhabitants living in the Helsinki region increased within three decades from 20% to ca. 25%. In other words, today one of

four inhabitants of Finland lives in or around Helsinki. But at the same time, small rural areas and tertiary conurbations not classified as urban centres narrowed their share of inhabitants by almost ten percentage points within the same time window. In other words, the share of urban population in and around large conurbations increased significantly and reached almost 84% in 2013. This development is also observable across the rest of the Nordic countries with, however, a very different intensity. For example, Sweden's urbanization took place to a great extent in Stockholm region (not solely in Stockholm) with a less negative impact on small rural areas and tertiary conurbations than in the rest of the countries. In contrast, relative population growth in Oslo in a national context is with an increase of 1 percent points rather modest. Instead, the urbanization in Norway took place in secondary cities such as Bergen, Stavanger or Trondheim – fuelled to a large extent by the oil industry – as the share of inhabitants increased by ca. 8 percentage points within the same period.

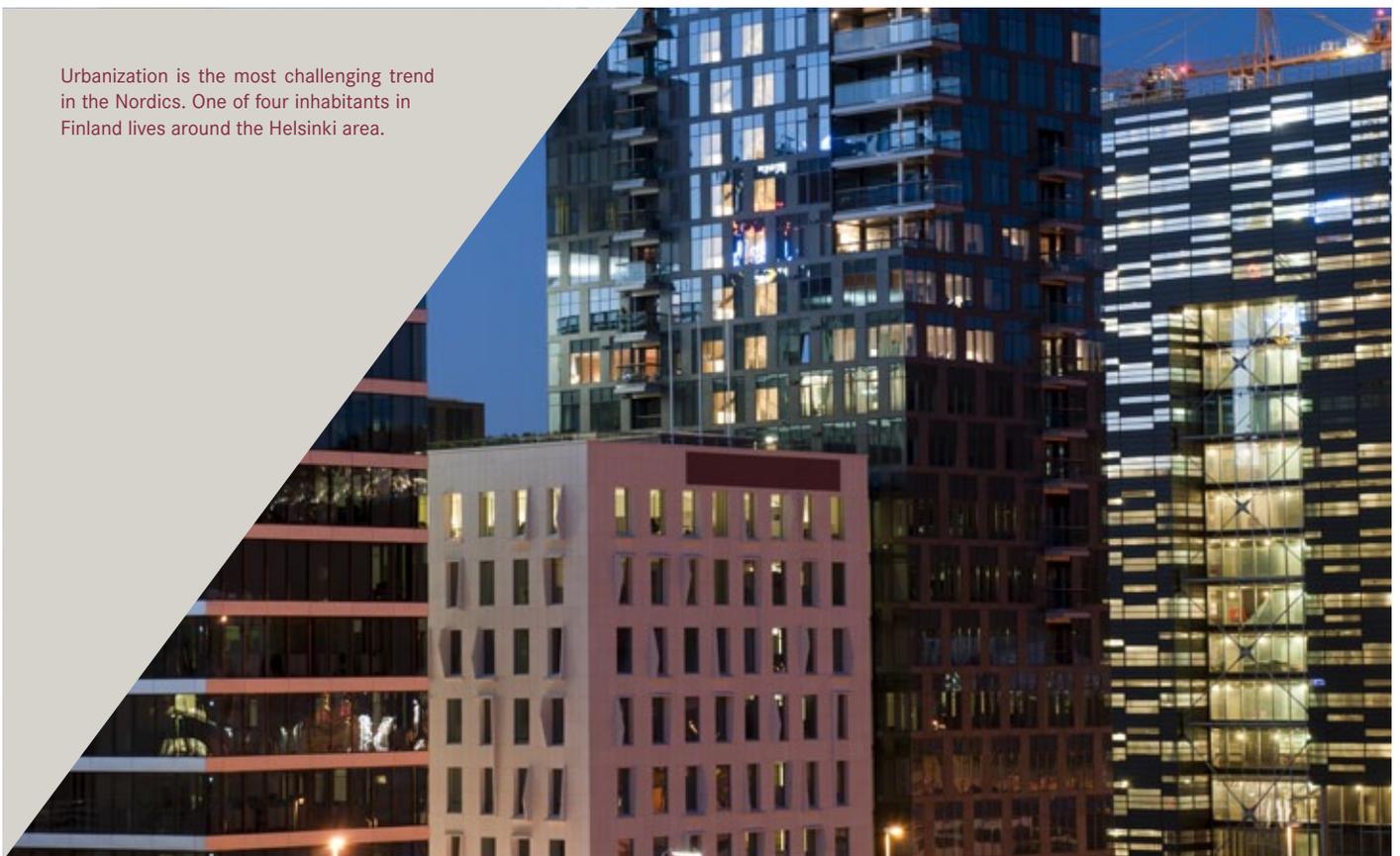
URBANIZATION IN THE NORDICS 1980–2013



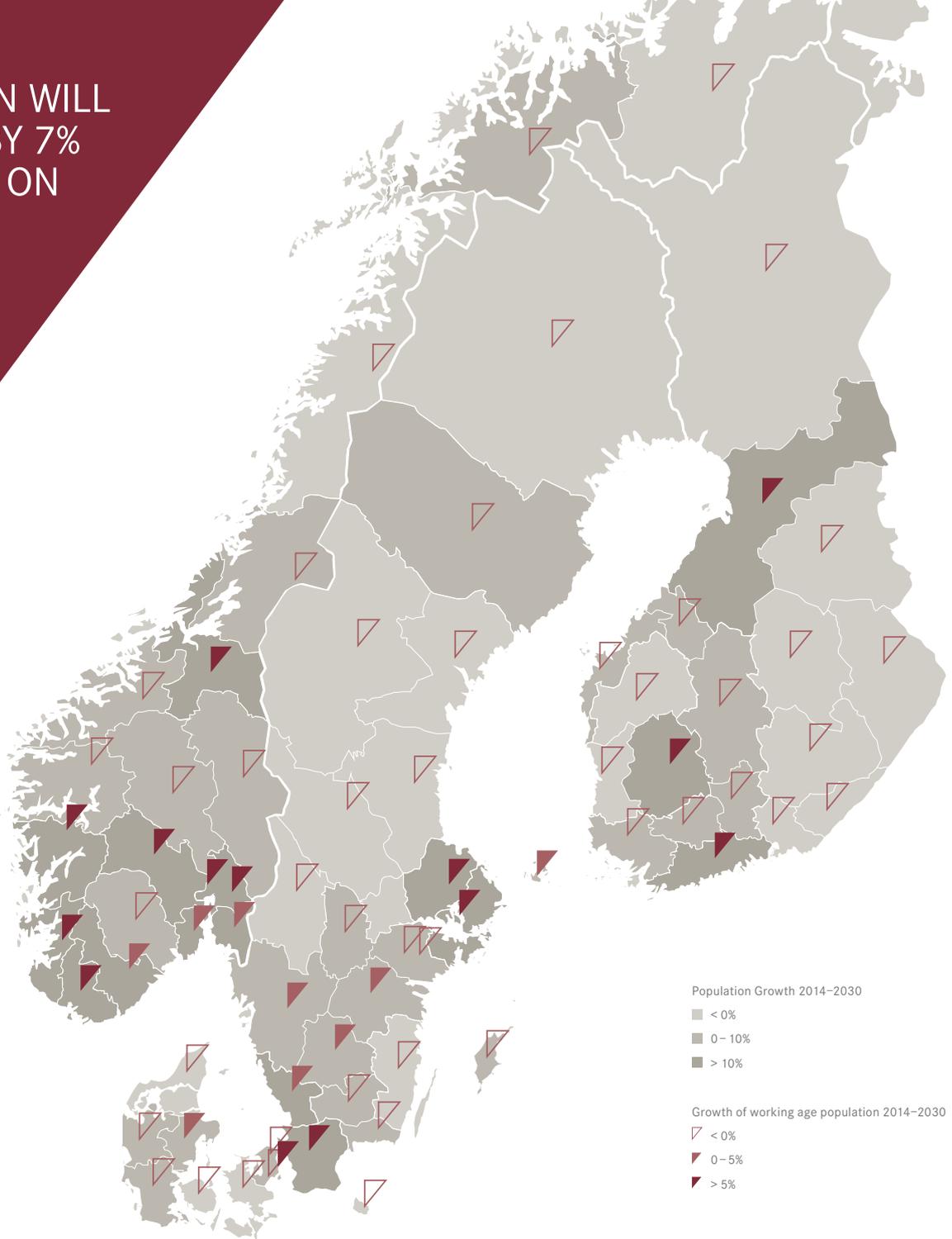
Source: PATRIZIA, Reuters, UN

As already observed, the ongoing urbanization in the Nordics is going to lead to a significant mismatch between demand and supply as a consequence of the strong demographic migration to the main metropolitan areas and the significant contraction of small rural areas and tertiary conurbations. This mismatch is going to affect undoubtedly the supply of employees in labour markets and most importantly consumption and expenditure levels, both crucial for economic growth. Investments in long-term assets, such as real estate, must therefore – today more than ever – evaluate the (macro-) location of assets as one of the key drivers for success in the long-term. Based on demographic estimations for the coming 15 years, a simple choice of (sub-) regions is possible when looking at the overall population increase and the labour composition in the respective areas. A first look reveals that several regions in Denmark, Finland and especially in Sweden show a strong population decline, but most remarkable a massive decline in the labour force of more than 10 percent. Beyond the obvious negative consequences on real estate investments in these regions, it is essential to understand that this development leads to a strong economic deterioration accompanied by strong aging. In contrast, some of the Nordic regions will experience a population growth of more than 10 percent within 15 years, accompanied by a stable growth of the labour force of more than 5 percent. One of the main factors affecting this development is the strong foreign migration of mostly high-qualified workers as a result of the active policies and mitigation programs across the Nordics.

Urbanization is the most challenging trend in the Nordics. One of four inhabitants in Finland lives around the Helsinki area.



» POPULATION WILL INCREASE BY 7% UNTIL 2030 ON AVERAGE



POPULATION GROWTH IN THE NORDIC COUNTRIES 2014–2030

Beside the main metropolitan regions – Helsinki, Copenhagen, Oslo and Stockholm –, there exist secondary urban areas that will provide a variety of dynamic investment locations for almost all real estate sectors, whenever a long-term strategy is in focus. Real estate investments will benefit from the strong influx of workers and their demand for housing, offices and retail. Further investments in real estate in the Nordics will result when looking at a second group

of cities that offer opportunities due to their stable population growth but present a labour market contraction. In these centres, the analysis of the main growth drivers is essential as some of the traditional current production sectors will be relocated and or replaced. Therefore, investment strategies should identify key economic drivers in order to benefit from cyclical and structural movements. Finally, regions with a massive decline in population and a contraction in

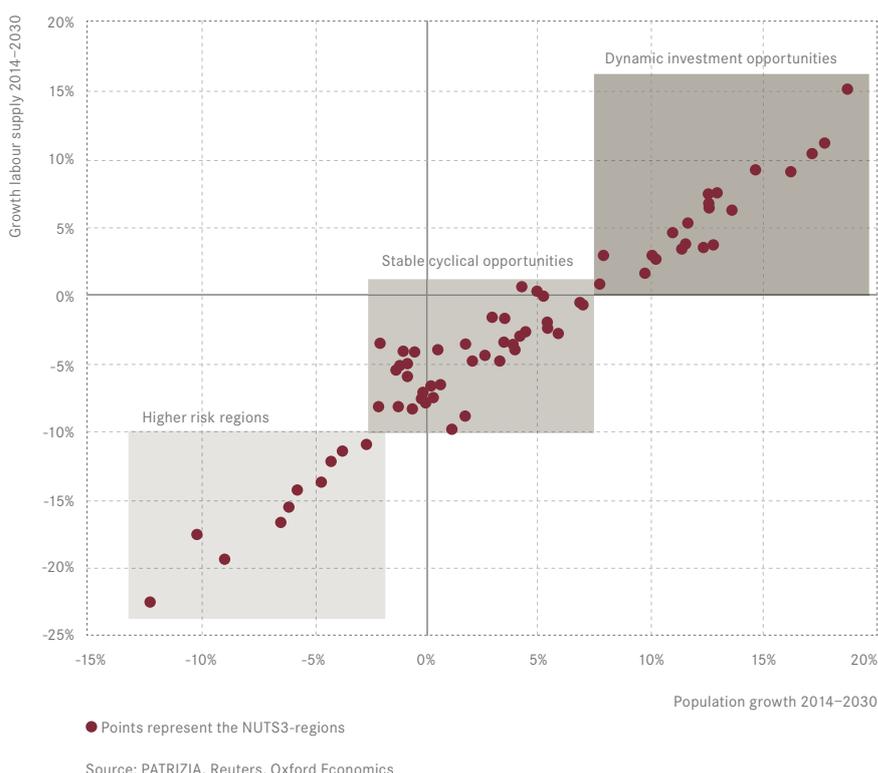
the labour base are suitable for investments in real estate whenever the main drivers of the asset are not linked to a great extent to demographic changes, such as logistics assets or to a certain extent healthcare assets. However, the ongoing risk here should be clearly rewarded by a higher return.

Strong spatial polarisation of the population will increase the demand for real estate assets giving way to new investment opportunities.



FUTURE INVESTMENT OPPORTUNITY REGIONS

The ongoing demographic changes in Europe and the Nordics are transforming now more than ever the investment landscape in the real estate industry. Key factors like aging, centrality, labour mobility and fertility are giving way to a new urban structure, in which the main metropolitan areas are the winners and will be the main focus of investments in the decades to come. Especially across the Nordics, the strong spatial polarisation of the population is increasingly pointing to a considerable increase in the demand for real estate assets across almost all sectors giving way to new investment opportunities. Perhaps because of this, location choice and future perspectives of the micro-location play nowadays a more important role than traditionally. But also the ability of cities to provide sufficient infrastructure for a sustainable and most important long-term growth perspective should be evaluated as not every city is aware of the massive consequences of an ageing population and a fall in the labour supply. Overall, the real estate markets in the Nordics offer a variety of investment opportunities that benefit from stable demand in the long-term if only the investor looks at the right fundamentals.



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