

March 20, 2015

Dear clients and colleagues,

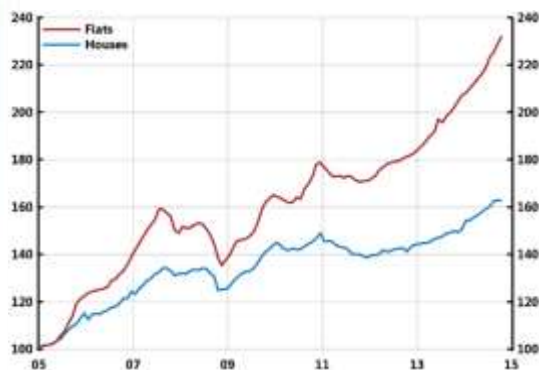
The latest economic data out of Sweden demonstrates that the country is in relatively good health in comparison to its European counterparts. Sweden's economy grew more than expected in 2014, as the GDP rose by approximately 2.1%. Although domestic demand and investment continued to be the primary drivers, exports began to pick up steam towards the end of last year.

Since coming out of the crisis in the 1990s, the Swedish government has succeeded in consistently balancing its budget. In order to boost employment and stimulate the economy, the new Government has decided to scrap its surplus target and instead, increase spending on infrastructure and education. As compared to its European neighbours, Sweden is one of the few countries that can actually manage more debt. Sweden's national debt has dropped to 40% of its GDP, which is close to half of the European average.

Real Estate

The average price for one or two dwelling buildings was more than SEK 2.5 million (CA\$ 365,000) at the end of this February. Real estates prices increased by more than 8% on an annualized basis during the fourth quarter of 2014. In Greater Stockholm, prices rose by 11%.

House and Apartment Price Index



Thanks to falling interest rates and sound macro fundamentals, the Swedish property market has shown tremendous growth since 2005.

Sweden is benefiting from robust growth in its population versus other European cities. In the past five years, the population in greater Stockholm has increased by 1.8% per annum. Employment has been very supportive as well. In the most recent fourth quarter, the number of people employed increased by 65,000 when compared to the same quarter in 2013.

Source: Valueguard

For several years now, new home construction has lagged demand, resulting in housing shortages that have been most pronounced in the metropolitan areas. In order to have a healthier market, Stockholm's Chamber of Commerce noted that more than 100,000 new homes are needed in the Stockholm metropolitan area alone.

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The Swedish population is growing at a pace of roughly 90,000 people every year. Considering that only 54,000 residence buildings have changed hands in the past twelve months, speculation is not the culprit. The Swedish tax system and a regulated rental market have made it unprofitable for households to buy and let.

With family debt soaring to record highs, the Swedish Government is tightening mortgage rules in an effort to dampen this household indebtedness. Authorities will soon adopt a new lending rule regarding the amortization of new mortgages. Mortgages with a loan to value ratio of more than 70% will have to be paid down by a minimum of 2% of the original loan each year until the loan to value ratio reaches 50%.

Until interest rates start to increase substantially or housing supply picks up rapidly, we do not expect real estate prices to collapse.

On the commercial real estate front, investors searching for predictable and stable yields are shifting to this asset class. 2014 saw the volume of transactions reach levels not seen since before 2009. Vacancy rates have been in constant decline since 2004 and office rentals have been trending positively. Office supply is likely to increase in the coming years, but demand should absorb this rather easily. We expect capital allocation into commercial properties in Sweden to continue.

Overall, things bode well for Sweden. It is diverse and has a highly-skilled workforce, making Sweden one of the most productive and competitive economies in the world. Strong income growth and higher asset prices imply that the fundamentals remain supportive for further household spending.

Have a great weekend.

The Global Alpha team

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