NORDIC PUSH FOR PROPERTY

Building wealth in property

Amid a string of announcements from Nordic pension funds on their recent property investments, Sandra Haurant **investigates whether this is a growing trend across Europe and the outlook for the asset class**

Property investment – whether direct, through credit, or through collective funds – has long played a major role in pensions, and the sector's strong points are clear – if not always constant.

"The advantages of real estate for a pension fund are potentially higher returns versus gilts, a relatively stable, long-term income and capital growth, depending on lease arrangements, and diversification within a portfolio," says JTC Group's director, fund and corporate dervices, Will Turner.

However, says Turner, the sector has been looking lacklustre in recent times for many European institutional investors, particularly when compared to other asset classes that promise similar benefits.

"We are not seeing any significant increase in interest from European or UK pension funds in real estate.… This is largely because the risk-free return is still

relatively high for government bonds," he says.

Nonetheless, it seems that Scandinavian schemes see potential in property – and, as well as stable returns and diversification, an ESG perspective is a clear element in the choices made.

Property push

As an example, PenSam announced on 8 January 2025 that it was acquiring two new properties in Greater Copenhagen, including a total of 376 apartments and nine commercial units.

Commenting on the acquisitions, PenSam head of private capital and real assets, Jeppe Starup, said at the time: "Both properties complement PenSam's property portfolio and are in line with our goal to strengthen our portfolio with high-quality properties in strategic locations with sustainable solutions, both within residential and commercial properties."

He added: "The long-term potential of the properties contributes to our goal of delivering stable and attractive returns to our 500,000 members while supporting the green transition."

Meanwhile, Denmark's Sampension also announced investment in a property company in December 2024. This, too, was billed as a sustainability-led decision. Sampension has invested in Home.Earth, a firm that specialises in the development and renting of homes with a strong emphasis on sustainability, social responsibility and a lower carbon footprint.

Commenting at the time, Sampension community head of property and infrastructure, Torbjørn Lange, said: "We look forward to contributing to and being part of Home.Earth, which, with a very strong and experienced team, demonstrates how the ESG agenda can be integrated throughout the company's DNA while generating market-consistent returns on investments."

And in December 2024, Swedish schemes AP7 and AMF strengthened an existing partnership through which they jointly own the property company, Urban Escape, a central Stockholm neighbourhood that includes the Gallerian shopping centre.

Then there is PensionDanmark, which has long been a keen investor in property-related projects, with a huge variety of projects encompassing many different forms of real estate and a portfolio worth a reported €4 billion in 2023.

Its developments have included private-public partnerships such as hospitals, courthouses, care centres, educational institutions and budget-friendly student housing.

And more recently, PensionDanmark and another Danish pension fund, AP Pension, announced a partnership with the Planetary Responsibility Foundation, which aims to integrate the consideration of biodiversity in construction projects. The initiative, announced in December 2024, is part of a wider push by the firms to create a common reference point for the construction sector, encouraging it to accelerate efforts to reduce the negative effects of building on biodiversity.

Solid foundations

It's a well-worn cliché, of course, that property as an investment is 'as safe as houses'. But these pension funds' enthusiasm for property certainly aligns with the idea that it can bring about the level of stability required to meet obligations to members.

Indeed, SKAGEN M2 portfolio manager, Michael Gobitschek, says: "As the world's largest asset class, real estate should be in all well-diversified portfolios with multiple studies recommending allocations of between 5-15 per cent. It offers capital appreciation, income, and inflation protection with a risk/return profile typically between equities and bonds."

There are, of course, some potential drawbacks to owning property directly – the most obvious being illiquidity. However, it is often argued that the longer horizons of many pension schemes allow room for such commitments. As AP7 senior portfolio manager private

"REAL ESTATE FUND MANAGERS TENDS TO CHARGE RELATIVELY HIGH FEES COMPARED TO, SAY, ETFS"

equity, Per Olofsson, said in December: "With our long-term perspective as a pension fund, illiquid investments suit us well and enable better risk spreading."

Nonetheless, accessing the property sector through indirect means can be appealing, says Gobitschek. Collective funds such as real estate investment trusts (REITs), for example, offer an entry to property that allows for more movement and more reactivity, and indeed an exit when one is required.

"Direct property investment can be illiquid and require large capital commitments, but listed real estate provides daily liquidity and easy access to different geographies, sub-sectors and economic drivers that can help diversify risk," Gobitschek says.

Up and coming

And this does not necessarily mean taking a hit on returns, argues Gobitschek: "A recent study of US DB pension funds between 1998-2022 found that REITs had the second highest average annual return of the 12 asset classes covered, relatively low correlation with equities and outperformed most styles of private real estate," he says.

According to Gobitschek, listed real estate valuations are looking attractive at the moment. "In Europe – and specifically Scandinavia – listed real estate valuations currently offer a good entry point for investors with prices 'cheap' on all metrics relative to historic averages and most sub-sectors trading at NAV discounts ranging from 20-40 per cent."

He adds: "Our portfolio is diversified globally and we are strategically overweight in high-growth segments such as digital real estate, housing and warehouses which we expect to benefit from structural demand trends and a shifting yield curve as interest rates decline."

Building a future?

In the Nordic region, then, 2025 started strong for real estate, with a wide range of different assets and developments, and a unified push for greener approaches taking centre stage.

But how will the year pan out for property? Not everyone is upbeat. Turner, speaking generally here about the market, points to access constraints for pension funds when it comes to investing in this sector.

"They have restrictions on funds they can invest into based on the level of management fees. Real estate fund managers tend to charge relatively high fees compared to, say, exchange traded funds (ETFs)," he says. However, he adds: "We are seeing a few long-term assets funds (LTAFs) in the market, which are designed to attract DC pension money, but so far there are only a couple of very large managers that have launched them."

But for Gobitschek, there is scope for more development in this area. "Performance in 2025 is likely to remain driven by macro themes," he says. "The real estate cycle has finally turned the corner and we have already seen a rebound in valuations and an increase in transactions in many places. Another strong trend is the focus of real estate companies in general shifting from refinancing to growth; another sign that we are in a positive phase of the cycle."

Finally, Gobitschek cites easing inflation and lower interest rates – the ECB lowered its three key interest rates by 25 basis points on 30 January 2025 – as factors which could further strengthen balance sheets.