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Real Estate 2022

Denmark: Trends & Developments
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Trends and Developments

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Economic Overview

High inflation, strong growth and increasing interests

This year, inflation in Denmark has been climbing to levels not seen for decades, mainly because of the economic consequences of the Russian invasion of Ukraine and the subsequent western sanctions, combined with the continuing effects of the COVID-19 pandemic.

These tendencies led to further supply-chain disruptions followed by strong growth in the economy due to expansionary economic policies.

These economic scenarios have contributed to the large increases in the interest rates we have seen since the beginning of 2022.

High activity despite reduction of price increases

The climbing interest rates will most likely affect the price of commercial and rental property because of reduced access to financing and higher financing costs.

However, 2021 was the busiest year ever on the Danish market for real estate investments. Price increases reached double digits, mainly due to higher rental income resulting from a high level of economic growth.

These tendencies led to strong demands for commercial leases for offices as well as in logistics and the manufacturing industry.

Activity in the Danish commercial and investment property market remains high in 2022, with significant demands from foreign investors, as has been the case in recent years.

In addition, local investors are continuing to be very active in the market, primarily led by Danish pension funds and several large Nordic property investors who are still actively seeking Danish commercial and investment properties.

High volume of real estate investments is maintained

In recent years, Denmark has seen an increasing number of foreign investors establishing their own local representatives in major cities as Danish real estate is considered a commercial "safe haven".

In these times of turbulence on the financial markets and high inflation, real estate is often seen as an attractive place to invest.

Combined with continuous capital allocations to investments in the Danish commercial and investment property market by Danish pension funds and real estate investment trusts, investment activities are currently at a high level, despite several years of stable growth (apart from the exceptional years of 2019 and 2020).

Security policy risks

Market rumours suggest that investors will start to factor-in security policy risks when assessing real estate investments in Nordic countries in the future.

The consequence will be that Denmark, as a member of NATO, will appear to be a slightly safer haven for foreign investors searching for comparable commercial and investment properties in the Nordic real estate market, as competitor markets, such as Sweden and Finland, are not members of NATO.

Investment Tendencies

Residential sectors

Residential sectors are likely to remain a popular choice for investor portfolios because there has been continuous growth in large-scale portfolio deals in this sector in the last few years.

A stronger focus from investors on residential property during the COVID-19 pandemic has triggered sales figures and price increases in the residential sector that not many had expected in the early stages of the pandemic. The sales figures and price increases are, in early 2022, moving towards the levels seen just before the pandemic began; however, it is still a seller's market.

Construction activities remain high within the residential sector in major cities, in order to meet the expected future increase in the population.

Towns near to major cities are also becoming growing investment areas, as investment returns in major cities such as Copenhagen and Aarhus are lower than ever.

However, during the COVID-19 pandemic, the movement of the population from the large cities to suburban areas was seen on a larger scale than usual.

The high level of construction activity in some cities is beginning to create losses in rental income in existing and outdated building stocks, forcing the owners to consider large-scale renovations or development projects.

The market for cost-specific properties is yet again an attractive investment opportunity for both local and foreign investors. This comes after a period of less interest from investors because of the uncertainty in the market caused by the recent political attention to and involvement in the sector.

Legislative actions in 2020 were made with the purpose of scaling down speculative investments, especially from foreign investors who were seeking to make quick profits by undertaking thorough renovations, causing exaggerated rent increases on the rental market. These actions led to a temporary downgrading of property value.

Senior housing

In recent years, growing attention has been paid to housing for senior citizens.

Investors appear to have discovered an undisclosed demand in that sector for a concept which combines modern social interaction and comfortable housing.

Senior housing has so far been successfully driven by Danish investors and pension funds, but there is also a lot of room for foreign investors.

The demographic forecast for Denmark indicates that there will be a much higher demand for senior housing in the coming decades: in the year 2030, the population in Denmark above 65 years of age is expected to be higher than the population below the age of 18.

Many foreign investors may have avoided the senior housing sector because of large operational tasks. However, senior housing might be an attractive investment opportunity because of:

- a high occupancy rate;
- senior citizens being a growing and wealthy sector of the population; and

- the possibility of less risk on a concept for which the competition has not yet reached the same level as other sectors in the Danish market.

Logistics and industry

The logistics sector has been an attractive opportunity to an increasing number of investors, driven by the growth in e-commerce sales during the COVID-19 pandemic and with companies eager to avoid further supply-chain disruptions.

The intensified search for logistics properties has already increased the competition to secure land and the best assets for such spaces, which will probably contribute to a continuing rise in prices.

The heavy demand for logistics properties has led to an incredibly low risk of idle lease periods in the sector, and even outdated storage facilities are difficult to find.

Demands are especially high in the major cities, and uncertainty in the supply chain has significantly increased the demand for buffer storage facilities.

However, the substantial increase in e-commerce sales is also boosting the demand for advanced and efficient technologies, as the interior layout and fitting out of the storage facilities and the company's ability to provide rapid reloads of goods are important competitive factors in the industry.

Therefore, the industry is craving modernized storage facilities, while investors are constantly seeking attractive building spaces.

Because of a growing awareness of the fact that the logistics sector and industry are heavy polluters, environmental sustainability is a growing priority for occupiers, which has increased demand for modern green facilities. However, such facilities are currently difficult to find in the market.

Hybrid workspaces are gaining momentum

As a result of the COVID-19 pandemic, both employers and employees discovered the advantages of hybrid workspaces.

The demand for these flexible workspaces is gaining momentum in the market today. Employers are now to a greater degree seeking to combine the possibilities of working in the office and from home, which reduces the requirement for space.

However, such measures increase the demand for office buildings with open-plan areas and facilities that can improve teamwork and create a good working environment. In response to these requirements, more employers will be redesigning their existing office spaces.

The overall expectation is that the demand for office spaces will improve during 2022 as employees, to a large extent, are returning to offices, and because employers will take advantage of the current favourable conditions in the office-space market.

Retail sector

The growth in the e-commerce sector during the COVID-19 pandemic was the consequence of a development that began some years earlier. The COVID-19 pandemic led to lower footfall and retail sales that resulted in more idle leases in the retail sector.

Increasing e-commerce sales have continued and are still beyond pre-pandemic levels, so retailers need a clear strategy to attract consumers back to their stores.

However, well-placed retail stores, shopping centres and warehouses are becoming an attractive business opportunity for investors as pricing in the sector has now reached more attractive levels.

2021 was a record year for venture capital investment in companies supporting the retail trade, and investors have been favouring retail parks and grocery stores. This trend will most likely continue if the sector continues to be priced attractively.

Hotel sector

A declining tourist industry and fewer business travellers made the hotel sector the worst affected sector in Denmark during the COVID-19 pandemic.

In contrast to other sectors, hotels outside the major cities were less affected because this industry is dependent on foreign business travellers and tourists.

A strong focus on reducing the carbon footprint might have reduced the activity from business travellers on a permanent level as the COVID-19 pandemic has led to behavioural changes in meeting and conference activities. Virtual meeting platforms have proven to be both cost-effective and time saving.

However, physical presence is obviously important for networking opportunities and so business travellers will probably resume their travel activities to levels close to pre-pandemic scenarios.

Even though the hotel sector around the world is still much affected by the consequences of the COVID-19 pandemic, Denmark has not seen a large number of bankruptcies, probably because of economic stimulus programmes, which is why the current numbers fairly represent the actual financial situation in the sector. The coming year or two will most likely show a more realistic picture of the current situation.

The occupancy rate has still not reached pre-pandemic levels, but major transactions and development projects within the sector, especially in the major cities, indicate that investors still have a strong belief in the sector for long-term investments.

Development Tendencies

Investments will be made with a greater focus on adjusting for more assets, that reduce energy consumption and contribute to a more carbon-constrained world.

Both occupiers and an increasing number of investors are looking for real estate that is environmentally sensitive and built with clean technology to protect the environment and, thereby, satisfy all the stakeholders who are focusing on having a green profile.

As there is a lack of available land in larger cities in Denmark, investors are searching for land outside major cities with better infrastructure possibilities, especially for long-term investment opportunities.

Newly built offices outside major cities seem to attract companies who are demanding larger, more affordable, modernized offices that are more environmentally sensitive.

Europe’s continuing dependence on Russian fossil fuels and the climbing price of consumption have served to intensify the green environment ideals during these months. European Governments are striving for energy independence and many companies are eager to avoid even higher operational costs in the future.

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Climate change

Despite repeated severe weather events during the winter period, assets and locations that are considered less affected by climate change are not yet experiencing stronger demand.

Major cities in Denmark are continuing to expand, with new development areas and large development projects in harbour areas being embarked on to meet the future demand for both housing and office spaces.

Meanwhile, climate-proofing measures have been made in most port cities to cope with expected future climate changes.

High cost of materials

Costs of materials are at the highest level ever, which will most likely affect the construction industry, especially low-budget development projects.

According to recent research by the organisation "Danmarks Almene Boliger", 73% of all planned development projects for social housing (non-profit housing) have been cancelled due to the high increase in the cost of materials.

Even though this sector is highly regulated and politically influenced, real estate developers are forced to take precautionary measures when searching for new development opportunities.

The high increase in materials costs may also affect the student housing sector, even though numerous opportunities exist in this sector because student accommodation, to a large extent, is undersupplied, especially in the largest cities.

Investors in student housing are often local developers in joint ventures with a good understanding of the market, as development opportunities make suitable sites and cost-effective projects necessary.

Timber instead of concrete and steel

Despite high materials costs – or maybe also as a consequence thereof – use of sustainable materials such as timber is gaining momentum in Denmark.

New office buildings with multiple floors and large warehouse facilities, both to be built with timber as the main material, even for the framework of the structure, have recently been announced in the media, often by Danish developers.

Timber constructions to this extent are not usual in Denmark, but several recent announcements in the Danish media of such development projects indicate a new trend in the industry. This trend will challenge local contractors, developers and public authorities to change their mindsets and set new standards for such buildings in Denmark.

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Horten is a full-service law firm with more than 65 years of experience and 350 specialists, all willing to take on new challenges, explore risks and identify opportunities with clients. Horten's real estate team consists of 30-plus lawyers and has wide experience in purchase/sale of real estate, construction and development projects, public construction projects, leases, financing of real estate projects and transactions and energy optimisation, climate adaptation and environmental issues. The team advises Danish and international property investors and pension funds in cases concerning purchase and sale of commercial properties, owner-occupied dwellings and property portfolios. In addition to its wide experience within the traditional area of the real estate sector, such as contract drafting, negotiation and leases, it also advises on tax, environmental planning, financing and regulation. Horten has offices in Copenhagen, Aarhus and Herning.

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Michael Neumann is a partner and attorney who specialises in real estate and construction law. He has many years of experience advising Danish and international companies as well as public companies and authorities within the fields of purchase/sale of real estate, development projects, construction, rent law, business leases and property financing. Michael is an experienced litigator and has conducted many important cases within his field of expertise. Other areas of expertise include environmental law, company law, contracts, and M&A. Michael is also an experienced lecturer and teacher. Michael has more than 20 years' experience and obtained his rights of audience before the Supreme Court in 2006.

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