

ODIN Eiendom 31/03/2025

The fund features the unit classes in SEK, NOK and EUR: A, B, C, D

FUND COMMENTARY

The real estate sector experienced a significant decline in March, and ODIN Fastighet was down about 10 percent. The global stock market is characterized by increasing uncertainty, driven by President Trump's threats and already implemented sanctions against key trading partners. The fear of an economic recession, combined with the destabilization of global trade policy and value chains, creates a clear "risk-off" sentiment in the market. Investors are thus seeking refuge in safer sectors. In the short term, uncertainty is the biggest enemy of capital allocation. This is clearly seen now, where both corporate investment willingness and household discretionary consumption are being postponed. The consequence is falling stock markets globally, as liquidity is withdrawn from the market and expectations of weaker growth materialize. Although ODIN Fastighet has had a significant decline this month, the development is in line with world indices adjusted for currency.

Real estate has properties that are preferable in uncertain times

During periods of increased uncertainty, the market places a premium on companies with high visibility on the top line and stable, recurring revenue streams. Commercial real estate has unique properties in this regard, as the sector is supported by long-term leases that are adjusted for inflation over time. These underlying properties contribute to stability. At the same time, it is often difficult for tenants to break the contracts – bankruptcy is in many cases the only real possibility for termination (unless other clauses are in place).

The "cheapest" properties are on the stock market

In the first months of the year, transaction volume in the direct market for commercial real estate increased by 21 percent compared to the same period last year. This is a positive development, as the transaction market serves as a thermometer for investor sentiment towards the sector. Yet the question remains: why don't more investors look to listed real estate for exposure to commercial properties? Currently, this is, after all, the cheapest entry into the sector. Prime yield rates peaked in the fall of 2023, when prime yield for office properties in Oslo and Stockholm reached 4.75 and 4.0 percent, respectively. Since then, levels have fallen to 4.50 and 3.95 percent. For residential properties, yields are lower and for logistics slightly higher. At the same time, solid, listed real estate companies – with strong capital structures and growth potential – are trading at net yield levels that are 1 to 2 percentage points higher than prime properties.

In Norway, Entra is currently priced at a net yield of 5.5 percent, with 88 percent of the portfolio located in Oslo and 52 percent of the leases with public entities. Entra's own net yield is 4.99 percent. In Sweden, Castellum is trading at a net yield of 6.2 percent, with 40 percent of the portfolio in the Stockholm region and 25 percent of the leases with public tenants. Castellum's internal net yield is 5.6 percent. For ODIN Fastighet, the value-weighted net yield for the fund is 5.8 percent, with a median expected earnings growth per share of 16 percent for 2025. It is worth noting that not the entire portfolio of these companies consists of prime properties, but a significant portion does. Additionally, a broadly diversified real estate portfolio reduces risk associated with individual tenants and geography, while providing lower financing costs and higher growth potential. All this at a lower price than what the direct market pays.

The sector's discount to net asset value is now the largest since the real estate crisis of 2022–2023 and the financial crisis of 2008. Companies with stock market history back to 2005 are currently trading at 0.65 times book values – a 30 percent discount compared to the historical average. The counterargument for the sector returning to historical valuations is that underlying property values can still fall. However, we believe that the write-down cycle has bottomed out, and that we can see upward adjustments from today's levels. There is little to suggest that yields in the direct market will rise further – rather, we see signs that they are falling.

Portfolio Manager:



Nils Hast

Why invest in the fund?

By investing in ODIN Fastighet, you can take part of the value creation in the listed Nordic real estate market. The goal is to achieve a competitive return in relation to the risk in the companies we invest in. General fluctuations on the stock market affect the pricing of the portfolio. As we perceive it, these fluctuations are often significantly greater than the fluctuations in property values. In such situations, we try to take advantage of the fluctuations to create balance in the portfolio.

How is the fund positioned?

The fund primarily invests in commercial properties on the Nordic market. All investments are made in listed companies that own various types of real estate such as offices, hotels, shopping centers and warehouses. The fund has the most square meters in offices. Warehouse and logistics form a significant part and together these segments make up over half of the portfolio. Trade, housing, hotels, etc. are also represented in the fund.

Geographically, around 80 percent are invested in Sweden and around 20 percent in Norway and Finland. We are looking for companies that have shown good growth and return on capital over time in combination with low financial risk, good prospects and also preferably a low share price in relation to earnings and cash flow.