

# Concentration of population to largest cities continues in the Nordics

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The four Nordic countries including Denmark, Finland, Norway and Sweden (together as 'Nordics' or 'Nordic region') are renowned for their political stability, world-leading quality of life, and strong economic performance. While the large industrial and manufacturing sectors still contribute substantially to the region's GDP, new knowledge-based sectors such as healthcare, software, and biotech are gaining in importance as drivers of economic expansion and employment. Geographically, industrial production is relatively evenly spread across the region, while the new, more complex economic activities concentrate disproportionately in the largest cities. So is the case with population.

The concentration of population in the Nordics has been ongoing for several decades, and today, countries' urbanisation rates range between 84%-89%. In addition to the movement of people from countryside to urban areas, there is a steady flow of people from smaller towns and cities to the capitals and other large metropolitan areas. To illustrate the development, the four Nordic capitals represented 23% of the total Nordic population in 2000, 25% in 2020, and in 2040 the capitals' share is projected to increase to 27%.

In addition to domestic migration, the other major factor contributing to the growth of Nordic cities is immigration. Since 1990, immigration has accounted for approximately two thirds of the population growth in the region. The phenomenon is fundamentally urban with most immigrants settling down in the largest cities due to the economic and social opportunities they have to offer.

Immigration will continue to drive the population growth of Nordic countries in the foreseeable future, but its contribution is forecast to decrease

and composition to change as the local migration policies are undergoing a paradigm shift to a more restrictive stance.

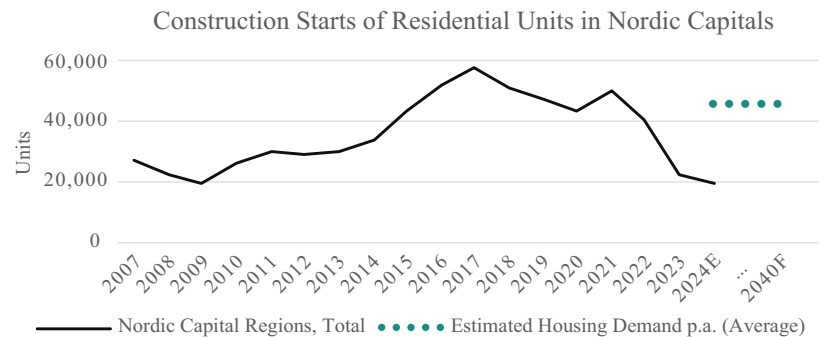
## Nordic metropolitan areas are some of the fastest growing in Europe

Despite the adaption of stricter immigration policies, the forecast population growth of major Nordic cities is remarkably strong in the European context. The latest population projections by Eurostat indicate that the ten largest Nordic cities, home for over 11 million people, will grow by 9% through 2040. Extracting the four Nordic capitals from this pack, the respective figure is almost 10%. In comparison, out of all EU capitals, only Dublin and Madrid are expected to outperform their Nordic counterparts while several major Central European capitals such as Amsterdam and Berlin fall clearly behind them.

## Structural shift towards renting out of choice is shaping housing demand

While the concentration of people to cities is set to continue, the landscape of the housing market is evolving with demand for rental properties on the rise. Most Nordic citizens still believe that owning a home is the best option, but renting out of choice is increasing in popularity year-over-year. The home-ownership rate is the highest in Norway (78%), followed by Finland (70%), Sweden (65%) and Denmark (59%), but the figures are substantially lower in large cities. For example, in Copenhagen, renting is already a more popular living arrangement than owning with 55% of city dwellers living in rental accommodation.

The evolution of the Nordic housing market in favour of renting has been driven by several reasons such as economic factors, lifestyle choices, increase in short-term employment, and changing demographics and family structures. Renting is particularly



popular in the largest cities due to higher economic barriers to homeownership and demographic characteristics such as a larger share of young people, foreign-born residents and one-person households.

While the Nordics are unlikely to turn into rental nations anytime soon, long-term renting is becoming standard for many, including a large number of middle-income households. At the same time, tenants increasingly value modern and well-maintained properties, secure tenancy, and quick service, creating more demand for professionally managed assets by institutional landlords.

## Supply-demand imbalance set to worsen

Rapidly growing Nordic cities have invested heavily in new infrastructure and expansion of public transport networks, but many of them have struggled to keep up with the increasing demand for housing. The insufficient supply of housing has created accumulated pent-up demand in many locations increasing the upward pressure on housing prices and rents. Despite some markets being regulated, between 2010-2023, annual rental growth averaged at 2.8% in Stockholm, 3.0% in Copenhagen and Helsinki, and 5.1% in Oslo. During the same time period, the average inflation rate was 2.2% in the region.

Although the supply-demand imbalance is widely acknowledged, the situation does not look set to ease anytime soon. Historically, residential supply has been constrained by a restrictive land-use and planning environment and strict local building regulations. Also, more recently, the development activity has been negatively impacted by increased financing costs for developers, escalated build costs, and decreased investor demand for new developments due to changed market conditions.

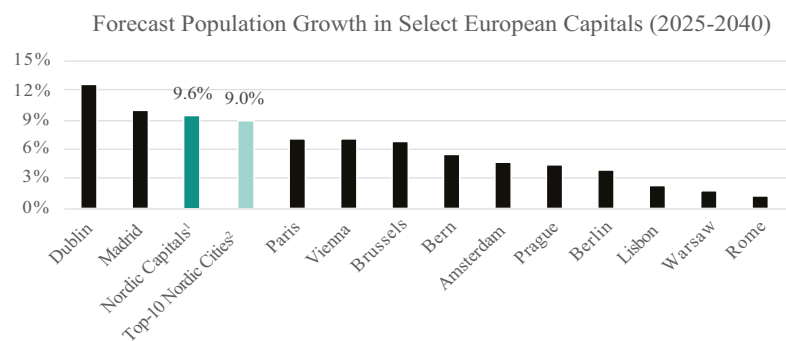
When it comes to asset values, prime

residential properties in the Nordics are currently trading in the yield range of 4.00% to 4.50% representing a yield expansion of c. 125-150 basis points since the peak in 2021. As investors require further 40 to 50 basis points in yield premium to fund developments today, new projects are rarely profitable from developers' point of view. This reality coupled with decreased consumer demand for new condominiums has resulted in residential construction starts hitting the lowest level since 2009. To put the situation in context, construction of residential units in the Nordic capitals would have to more than double just to meet the expected future demand.

## Opportunity to capitalise on structural tailwinds while supporting sustainable urban development

While the rapid urban population growth poses a range of challenges for cities in terms of infrastructure and provision of services, it presents institutional investors with a unique opportunity to support sustainable urban development while capitalising on strong market fundamentals. The largest Nordic cities are amongst the fastest growing in Europe and many of them have suffered from a chronic under-supply of housing already before the recent decline in development activity occurred. The strong structural tailwinds supporting the sector are evident, and given the improved inflation and interest rate outlook, the recent yield correction appears overstated. Residential remains as one of the most sought-after asset classes in the Nordics, and history shows that when the dust settles and sentiment starts to change, capital waiting on the sidelines will soon return to the market.

CapMan



<sup>1</sup>Stockholm, Copenhagen, Helsinki, Oslo

<sup>2</sup>Stockholm, Copenhagen, Helsinki, Oslo, Gothenburg, Malmö, Aarhus, Stavanger, Bergen, Tampere

**Sources:** Eurostat, National Statistics Offices, CapMan Real Estate

The author is a partner at CapMan Real Estate and the Fund Director of CapMan Residential Fund.

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