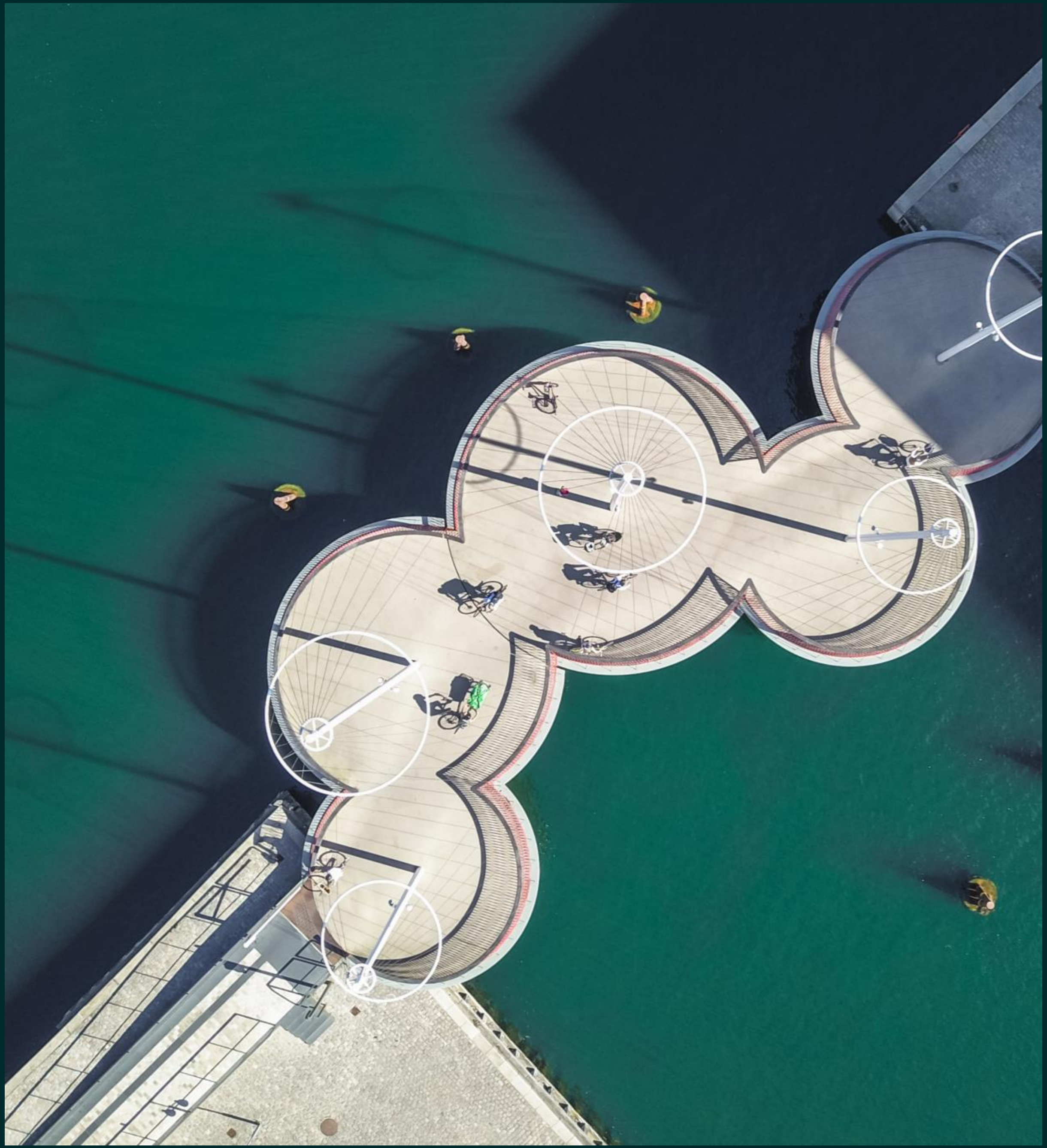
Intelligent Investment

Denmark Real Estate Market Outlook 2025

REPORT

REAL ESTATE

CBRE RESEARCH



Contents

Introduction

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Welcome to the 2025 edition of CBRE Denmark's Outlook report, detailing our perspective on likely trends in each sector of the commercial real estate market in 2025 and the opportunities we foresee emerging for our clients in the year ahead.

The Danish real estate investment landscape has shown signs of improvement throughout 2024, establishing a more robust foundation for 2025. Easing pressures from elevated interest rates have prompted a resurgence in investor interest, with a notable increase in capital deployment plans within the real estate sector.

Nonetheless, while some well-known challenges persist, new ones can appear. We continue to evaluate alternative economic scenarios and their implications for Danish real estate market. On a positive trajectory, a transient surge in economic growth—fueled by heightened private sector confidence or augmented public expenditure—would enhance occupier demand and facilitate upward pressure on rental rates. Conversely, a recession within the business cycle, potentially attributable to stringent trade policies or an intensification of geopolitical tensions, would likely exert a negative influence on the market.

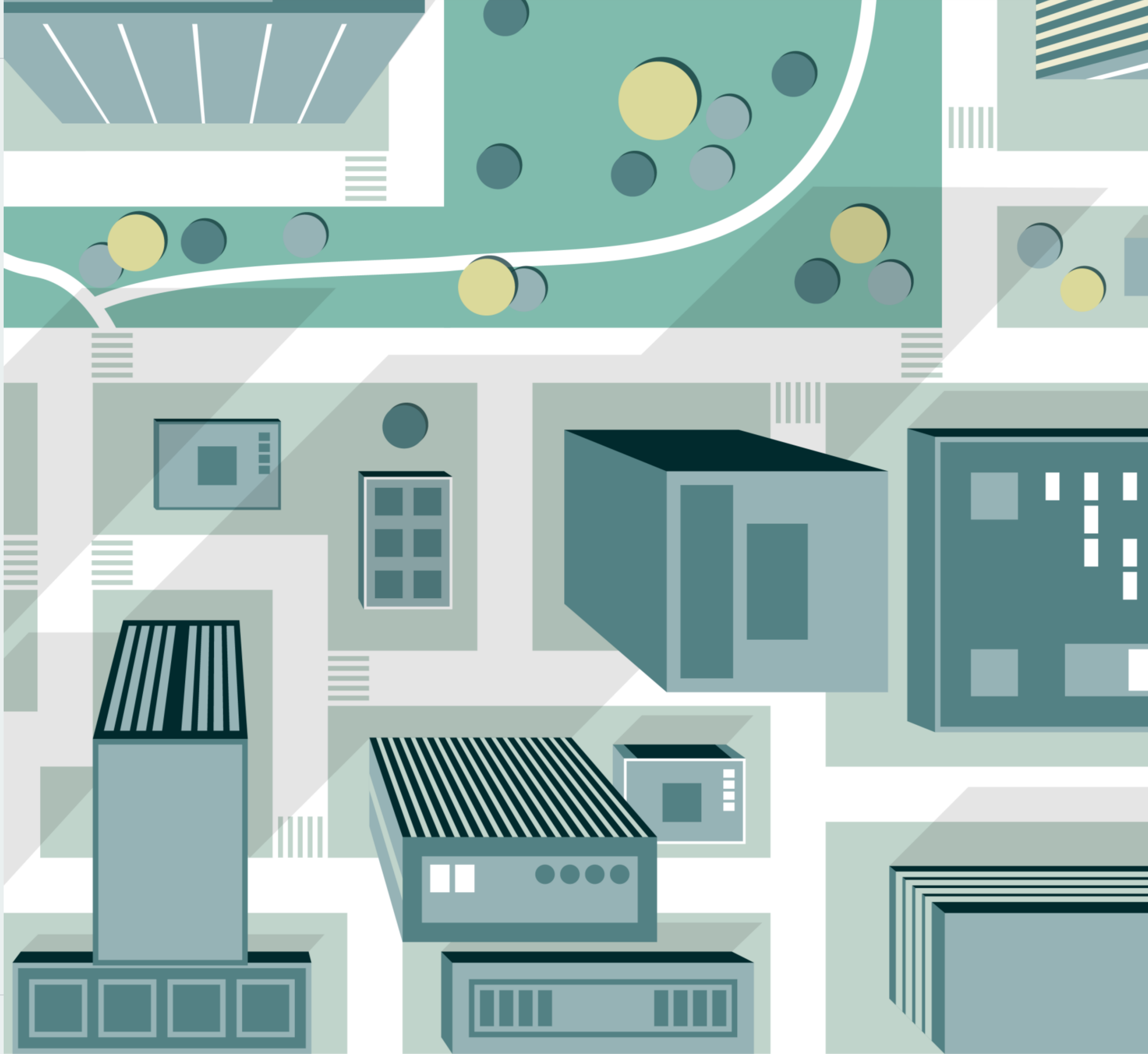
We remain optimistic and expect investment activity to further increase in 2025. A more favorable outlook is anticipated for the majority of real estate sectors following the repricing experienced over the past two years. However, challenges remain for older, lower-quality assets across all sectors, where the financial outlay required for repositioning will likely hinder overall investment performance.

We have produced this report to help you navigate the macro environment we expect in 2025, and we look forward to working with you.

01

Economic Outlook

Growth will be supported by the pharmaceutical sector and consumption as real incomes rise, resulting from falling inflation. Political uncertainty and global economic risks continue to affect the outlook.



01
Economic Outlook

Key takeaways

01

The pharmaceutical industry has been a key driver of growth, making substantial contributions to GDP, particularly during the periods of high inflation. This resilience sets Denmark apart from many other European countries, which are facing weaker economic conditions. However, uncertainties persist, particularly regarding potential declines in demand from key export markets.

02

Inflation has fallen below the 2% target, enabling economic growth. Although overall growth is anticipated to moderate slightly in 2025, advancements in the pharmaceutical sector and strengthened domestic demand are expected to support steady economic growth.

03

In 2024, the Danish central bank has lowered policy rates several times, positively influencing consumer and business confidence in the real estate market. This reduction in interest rates, combined with increasing purchasing power, is expected to support investment activity.

01
Economic
Outlook

Lower inflation and interest rates enable economic growth

INFLATION AROUND TARGET WILL ENABLE GROWTH

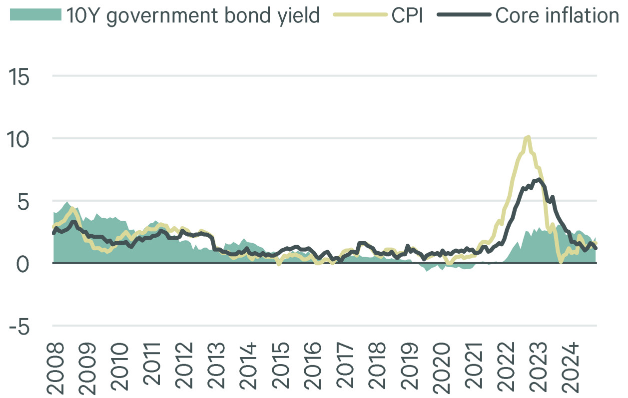
Despite experiencing a period of high inflation and significant interest rate hikes, the global economy has managed to avoid a recession. Declining energy costs and muted increases in goods prices have led to a rapid decrease in headline inflation throughout 2023 and 2024, bringing both headline and core inflation below central banks' 2% target. Although core inflation, which excludes food and energy, has decreased more slowly than headline inflation, it has also fallen below the 2% threshold and is now slightly lower than the headline rate.

While some price volatility, particularly in commodities and energy, is anticipated, inflation is expected to remain manageable. Central banks persistently reiterate their stance on being watchful around short-term data flows. A moderation in labor costs and improved financing conditions through 2025 are expected to contribute to stable inflation. CBRE's central view is conditioned on inflation remaining around the 2% target, which is a key factor for growth.

LOWER INTEREST RATES GOOD FOR CONSUMERS, BUSINESS AND REAL ESTATE

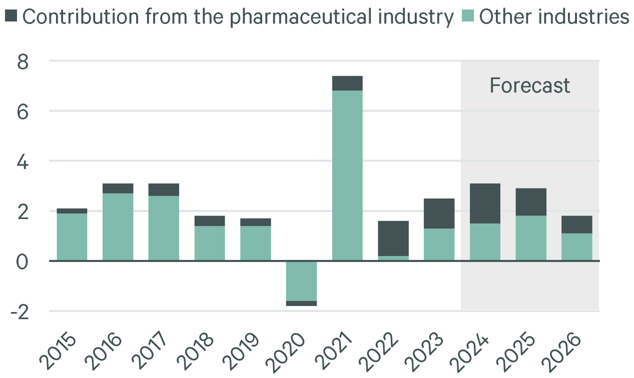
2024 saw the Danish central bank cutting the policy rate four times as inflation kept decreasing. Long-term interest rates have followed short rates down – although not as rapidly – but they will likely fall further. Although this development is positive for the sentiment towards real estate investments, interest rates are not expected to reach their pre-pandemic lows anytime soon.

Figure 1: Inflation and 10-year government bond yield (%)



Source: S&P Global, Statistics Denmark

Figure 2: Danish GDP growth (% p.a.)



Source: Ministry of Economic Affairs

THE PHARMACEUTICAL SECTOR HAS BEEN A KEY GROWTH DRIVER IN THE DANISH ECONOMY

The Danish economy has generally outperformed many other countries during the COVID-19 pandemic and the high inflation period, with GDP growing at an average annual rate of 2.7% since 2019, compared to 1.0% in the euro area.

However, this growth is primarily driven by the pharmaceutical industry, while other sectors have seen stagnation, reflecting the trend in other European countries.

NON-PHARMA ECONOMY TAKING A CORNER IN 2025

The Danish economy is projected to maintain steady growth in the coming years, although at a reduced rate compared to the levels seen in 2024. Economic growth is expected to decrease slightly to 2.9% in 2025.

This growth outlook is largely driven by advancements in pharmaceutical production and exports, similar to trends observed in recent years. Additionally, improved domestic demand, along with favorable conditions in Danish export markets, is anticipated to foster broader progress across various industries as business activity improves on lower energy and interest rate costs.

The pharmaceutical industry has long occupied a significant role in the Danish economy, but its remarkable growth in recent years has further solidified its importance. In 2022, the sector was estimated to have contributed 88% of GDP growth, followed by 48% in 2023. While it is projected to maintain a similar level of influence in 2024, its contribution is expected to decrease slightly in 2025 and 2026 as the growth in other industries emerge.

01 Economic Outlook

Expected easing of labour markets and wage growth

EXPECTATIONS OF GROWTH IN NEARBY EXPORT MARKETS

While the global economy has managed to avoid a recession, significant disparities exist in the economic conditions in different countries. The American economy has shown relatively robust growth, whereas many European nations, particularly Germany, have experienced weaker economic activity.

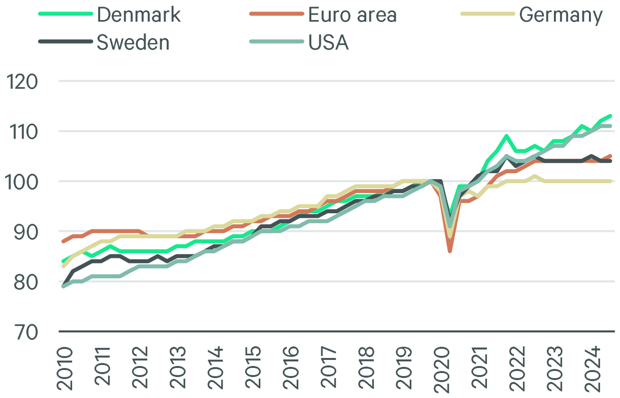
In contrast to European peers, Denmark's outlook appears more positive, largely driven by the strong performance of the pharmaceutical industry, which has significantly contributed to overall growth.

Although this highlights a degree of resilience in the Danish economy, the slower growth on export markets like Germany and Sweden through 2023 and 2024 introduced an element of uncertainty.

While an increasing growth is generally anticipated in Danish export markets, a decline in demand could potentially result in slower growth in Denmark.

Denmark's export basket consists of a significant proportion of non-cyclical goods, which is likely to mitigate the impact of softer external demand on exports. However, services exports still represent a substantial portion of the total export mix and are more vulnerable to a slowdown in regional growth, given the openness of Denmark's economy.

Figure 3: GDP growth (Index 2019 Q4=100)



Source: Ministry of Economic Affairs

Figure 4: Wage growth and unemployment rate (%)

Source: Oxford Economics, DA Konjunkturstatistik

LABOUR MARKET TIGHTNESS RESULTING IN EXPECTATIONS OF WAGE GROWTH

The pressure on the labour markets appears to have decreased over the past couple of years. The unemployment rate has been increasing since the spring of 2022 – although it remains low – and job growth has slowed down.

The low unemployment rate has paved the way for significant wage rises, peaking at over 6% in Q2 2024. However, demographic trends and the need for companies to adapt are expected to slow labour market growth in the coming years, resulting in lower, albeit still positive, wage growth.

A continued strong labour market and rising real incomes that bolster consumer spending will contribute to sustaining economic growth.

PURCHASING POWER RISING AGAIN

Rising wages, coupled with low inflation and ongoing job growth, have contributed to an increase in real disposable incomes in 2024. However, this boost has not yet translated into higher consumption levels.

This restraint may result from the period of high inflation and elevated interest rates, along with ongoing uncertainty regarding the global economic outlook. Nevertheless, private consumption is expected to experience growth in both 2025 and 2026, supported by continued wage increases and tax breaks.

01
Economic
Outlook

Interest rates are expected to remain higher for longer

LOWER INTEREST RATE TO STIMULATE INVESTMENT

As inflation approaches the long-term central bank target of 2%, most central banks implemented policy rate cuts throughout 2024. These recent interest rate reductions and expectations for further cuts are reflected in the decline of short-term market rates and improved financing conditions. With increased purchasing power, lower inflation, and reduced interest rates, private consumption and investment are expected to strengthen in the coming year.

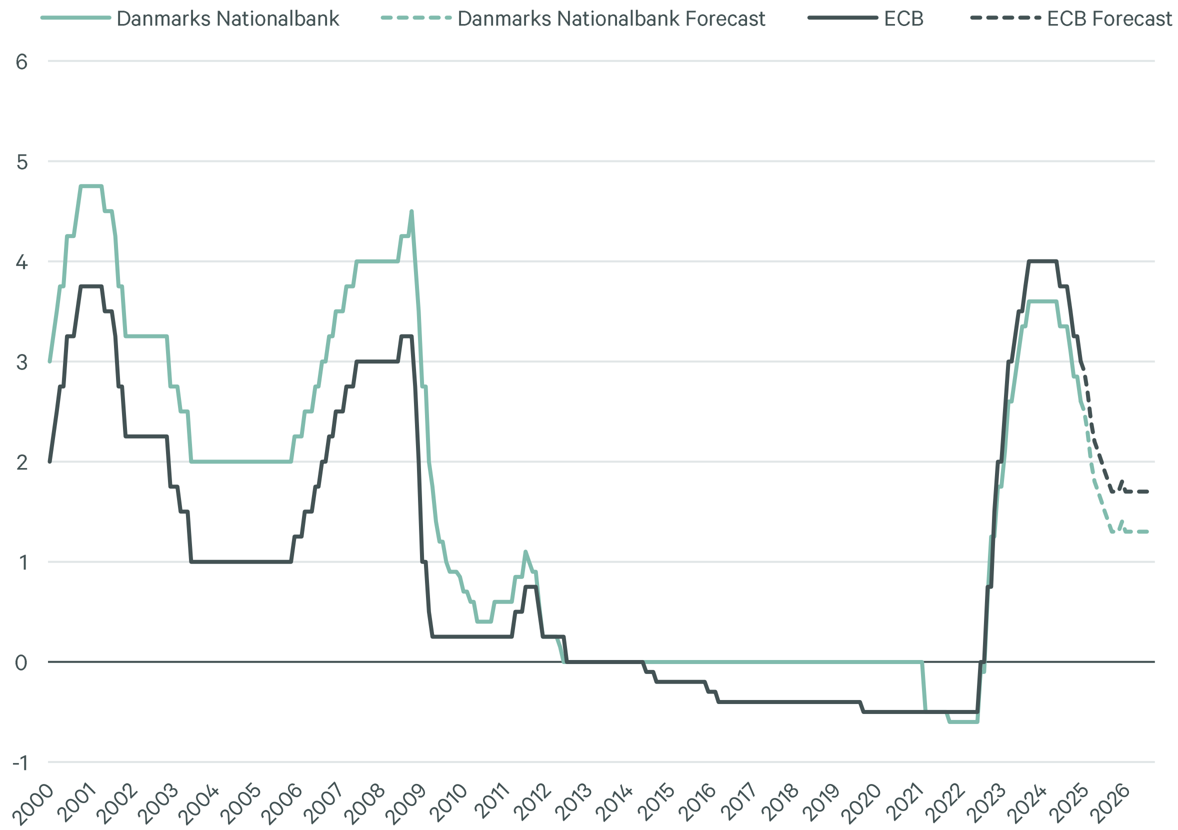
Market expectations suggest that interest rates will continue to decline through 2025, and with a stable EUR/DKK exchange rate, Danmarks Nationalbank will likely match any upcoming rate cuts from the ECB without changing the policy rate spread. Central banks do however consistently emphasise the importance of monitoring short-term data closely, and interest rates are expected to remain elevated for an extended period, making a return to the pre-pandemic interest rate environment unlikely in the near term.

RISING GLOBAL UNCERTAINTY KEEPS DOWNSIDE RISKS ELEVATED

While these developments are promising for the outlook of investments in real assets, uncertainties remain due to geopolitical tensions and potential trade disputes. Although domestic risks remain relatively low, global conditions do introduce potential downside risks.

Geopolitical uncertainty remains a risk as an escalation of the conflict in the Near East or the continuing of the conflict in Ukraine could threaten higher commodity prices or further risk unsettling business and consumer sentiment. Additionally, trade tensions among the largest economies may significantly affect global trade, while uncertainty surrounds the pace of recovery in major export markets, which may pose challenges to Denmark's growth prospects. Nevertheless, the underlying foundation of the Danish economy is expected to remain robust.

Figure 5: European and Danish policy rates (%)



Source: Danmarks Nationalbank, ECB, Ministry of Economic Affairs;

Note: Market expectations for the interest rate are derived from future contracts for €STR futures. Expectations for the Danish policy rate are based on the current spread relative to the ECB rate.

02

Capital Markets

In 2025, investment activity is expected to further increase, with more assets coming to market, supported by improved financing conditions.

02
Capital
Markets

Key takeaways

01

CBRE expects a continued recovery for investment activity in 2025; however, investors and lenders will face several headwinds. Since a return to ultra-low interest rates is unlikely, the affordability of debt will remain in focus as investors determine how to finance potential acquisitions in the year ahead. Nevertheless, strong economic growth driving positive fundamentals will support the recovery in investment activity. Investors continue to favour industrial and multifamily assets. Office properties will remain challenged, with investors still very discerning.

02

Financing conditions are supportive of higher deal activity. Danish real estate's return outlook is compelling, while the cost of debt has come down. This means that positive leverage is possible again, supporting investors looking to re-enter the market.

03

2025 is expected to see a further return of international capital, supported by comparatively low borrowing costs and a favourable Euro-Dollar exchange rate. There is significant capital on the sidelines, most of which is earmarked for value-add and opportunistic strategies. Investors will want to deploy their capital before values have fully recovered and the window of opportunity has closed.

02
Capital
Markets

Slow but sure investment recovery

BID-ASK SPREAD TO CONVERGE FURTHER

Danish real estate transaction market is anticipated to experience further expansion in 2025, driven by the convergence of the bid-ask spread. The forthcoming loan maturities and equity rotations will possibly lead to an increase in available sales inventory. Under prevailing discount rates and financing costs, certain commercial real estate assets have lost on attractiveness, prompting sellers to list these properties.

This process is expected to predominantly influence price determination on the sell-side. Although buyer sentiment has shown signs of improvement, interest rates are projected to remain stable and not decline significantly in the near term. Consequently, given the current hurdle rates, there is limited potential for substantial increases in bid prices. As a result, the recovery of investment volumes and capital values will likely be gradual, requiring an extended period before they regain their previous peaks.

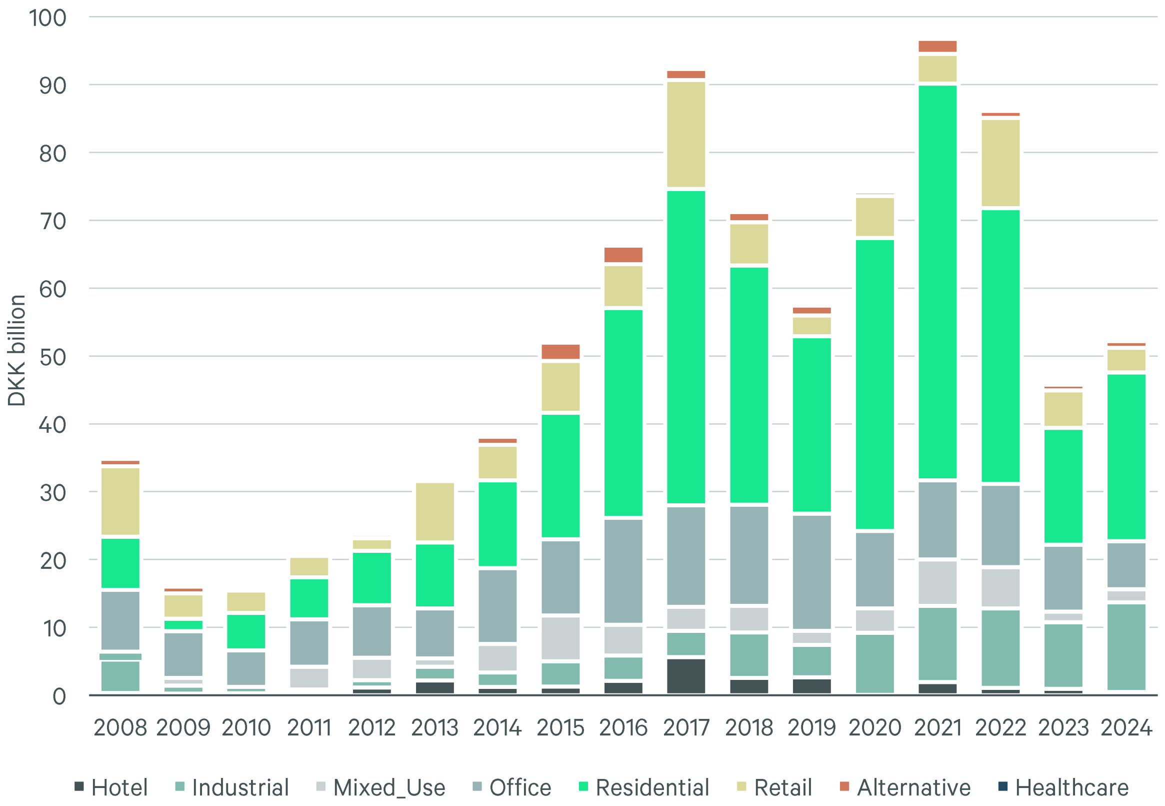
Cross-border investments experienced a pronounced decline in response to a softened transaction market; however, international capital is characterized by its agility and is poised to react promptly to an improving market outlook. This responsiveness is facilitated by the divergent monetary policy trajectories of the Federal Reserve and the European Central Bank, which have led to relatively lower Euro swap rates and a favorable Euro for USD-denominated investors.

In recently published CBRE Investor Intentions Survey 2025, Copenhagen has kept its position in the top 10 list of most attractive cities in Europe by cross-border investors.

DEBT HAS BECOME MORE AFFORDABLE

Challenges persist in the refinancing of loans established during a lower interest rate environment, with potential distress arising particularly in instances of

Figure 6: Danish commercial real estate (CRE) investment volume



Source: CBRE Research, Erhvervsmæglernes Branchedata significant declines in asset values. However, we maintain the perspective that such distress will be contained, drawing upon our observations of collaborative efforts between lenders and borrowers to address funding shortfalls. Additional reductions in interest rates are anticipated to facilitate the resolution of these challenges, thereby contributing to the sustained recovery of the real estate market over the forthcoming year. Distressed sales remain extremely limited, indicating the resilience of property owners in Denmark.

SECTOR OUTLOOK

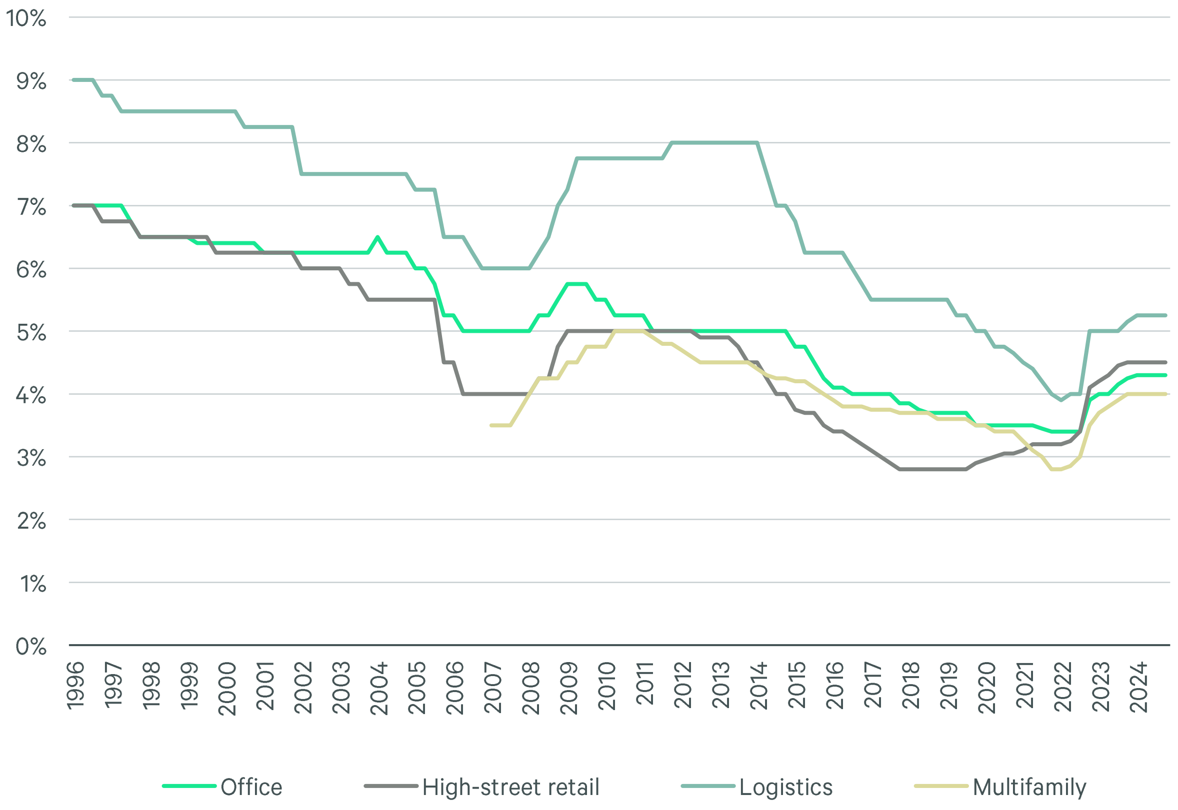
In general, all sectors are seeing positive momentum with capital values gradually improving. This is supported by deeper bidding pools and a widening range of purchasers resulting in more liquidity. Yet there are ongoing challenges for older, lower quality assets in each sector where the expenditure needed to reposition these properties will act as a drag on investment performance.

Living has been and remains the largest asset class in Denmark and should continue to attract buoyant interest. Investors are widening their scope beyond multifamily and the group of investors targeting Purpose-Built Student Accommodation (PBSA) is growing.

Logistics and light industrial assets similarly continue to see robust investor appetite. In their search for scale, investors are increasingly looking at larger ticket sizes and this demand for large transactions will support investment volumes.

For offices, sentiment is improving as debt availability has returned and lending margins have recovered. Since occupier demand for prime offices remains strong, there is growing investor appetite to refurbish value-add assets, to reposition these as core. However, the sector is dominated by domestic investors.

Figure 7: Denmark Prime Yields



Source: CBRE Research

03 Living

The housing shortage in Copenhagen continues amid falling permit levels for new construction. Despite a potential recovery in 2025, rising rental costs and increased privatisation risk exacerbating affordability issues for tenants if construction activity does not catch up.

03
Living

Key takeaways

01

While the share of housing costs relative to disposable income has decreased, affordability issues remain. These are caused by high interest rates and increasing house prices for owner-occupiers as well as tight rental markets combined with increased rents.

02

Copenhagen continues to face a housing shortage, as the issuance of new housing permits has significantly declined. Meanwhile, demographic growth is projected to generate demand for approximately 40,000 new homes over the next 12 years.

03

The combination of limited supply and strong demand is driving continued growth in rental prices. Additionally, increased privatization and private equity investments in the living market could constrain the availability of rental housing in the short term, further intensifying affordability challenges.

03
Living

High mortgage rates likely to keep supporting rental demand

HIGHER MORTGAGE RATES HIT FIRST-TIME BUYERS HARDEST

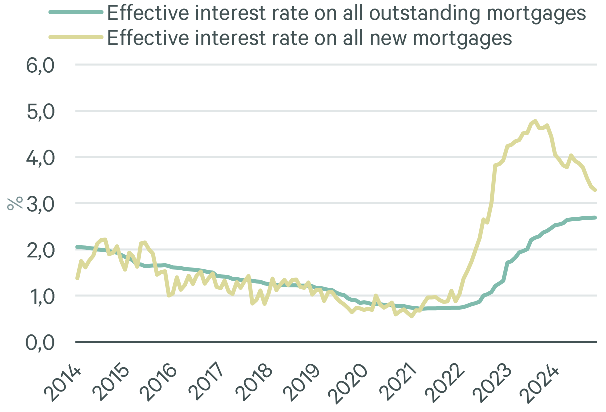
The higher interest rate environment has significantly affected financing conditions for homeownership. Less than five years ago, fixed mortgage rates were around 1.5%. Today, they have risen to approximately 3.5%. This increase makes it much more expensive and challenging for first-time buyers to secure a mortgage and purchase owner-occupied housing, particularly in high-cost markets like Copenhagen.

While it is true that you would have to pay more if you were to apply for a mortgage today, this is only for new borrowers. For those already holding mortgage debt, the effective rate is around 2.7%. The difference between new and outstanding mortgages arises from people having locked in interest rates at lower levels. However, this gap is beginning to normalise as central bank rate reductions are spilling over to market rates.

The housing market has performed surprisingly well in recent years despite rising interest rates. This success is largely due to rising incomes and a robust labour market.

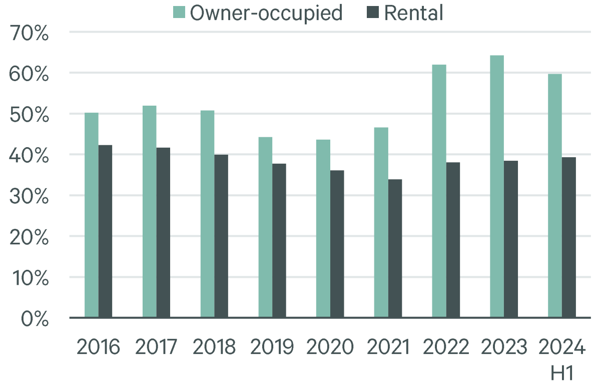
With lower interest rates and ongoing wage growth, house prices are likely to continue rising in 2025 and 2026, maintaining the elevated entry barriers. Recent projections from several prominent Danish financial institutions anticipate an increase in housing prices within the range of 4-5% over the forthcoming two-year period.

Figure 8: Outstanding and new mortgage rates



Source: Danmarks Nationalbank

Figure 9: Housing burden in Copenhagen among new home-owners (% of disposable income)



Source: CBRE Research, Statistics Denmark, Danmarks Nationalbank, Finance Denmark, BoligPortal

MARKET FUNDAMENTALS DRIVE DEMAND FOR RENTAL ACCOMMODATION

In 2023, high property prices combined with elevated interest rates meant that an average couple without children would need to allocate 64% of their disposable income to afford an 80 sqm apartment.

Although this figure decreased to around 60% in the first half of 2024, the gap compared to similarly sized rental accommodations remains significant at 39%. This gap has contributed to increasing the appeal of rental options, particularly for young singles and couples.

While interest rates are anticipated to decline further, expectations of rising house prices suggests that the relative housing burden of owner-occupied homes is likely to remain higher than that of rental properties. This is expected to support the demand for rental accommodation in the years to come.

DISCUSSIONS SURROUNDING AFFORDABILITY CONTINUE DESPITE LOWER HOUSING BURDEN

Although market conditions may continue to support a positive outlook for rental demand, affordability remains a general concern across major European cities. Continued tight rental markets and increasing rents have contributed to this development, also in Copenhagen.

Official projections from the City of Copenhagen indicate that the municipality's population will grow by 120,000 by 2060 (Boligredegørelsen 2024). Without a sufficient response to meet the increased demand, the availability of affordable housing is likely to remain a significant challenge.

03
Living

Rising demand meets declining housing permits

HOUSING SHORTAGE EXPECTED TO INCREASE IF DEVELOPMENT DOES NOT CATCH UP

The number of permits for new homes has declined since 2022, even as demand continues to rise unabated. In Q3 2024, over 40% fewer permits were issued compared to the previous peak at the end of 2022. However, the effect of the declining interest rates is becoming apparent throughout 2024, as a more stable economic outlook has refueled some interest among developers.

To address the anticipated demographic growth in the City of Copenhagen, a new municipal plan has been approved, aiming to develop 40,000 new housing units over the next 12 years. However, over the past two years, issuance of housing permits and construction activity have been trending down as rising interest rates and increased construction costs have made investing in other sectors more appealing. As a result, developers are finding it challenging to commit to multi-year projects that involve a high degree of uncertainty. Instead, developers have been focusing on passive capital projects in the suburbs of Copenhagen.

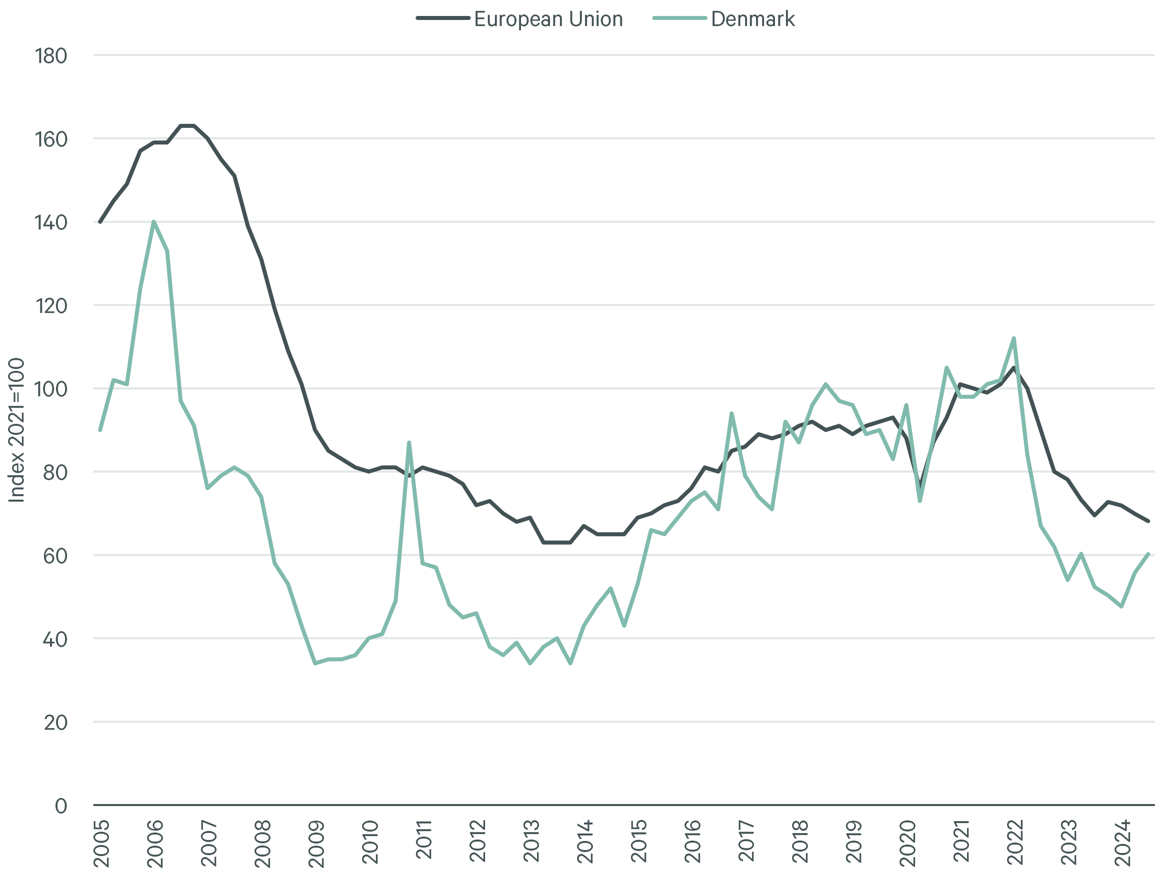
A sustained increase in the number of households, especially in urban areas, combined with supply constraints risks increasing existing supply-demand imbalances.

PERMIT LEVELS EXPECTED TO INCREASE IN 2025

We believe that there is potential for recovery in 2025, as rising home values and capital values are narrowing the gap between construction costs and exit values. This trend will boost permit levels in 2025, continuing the trend from 2024.

While this is beneficial for addressing the current supply-demand imbalance, it is also essential given the anticipated demographic growth. Most new construction—particularly in Copenhagen—is therefore also expected to be quickly absorbed by the market.

Figure 10: Residential building permits



Source: Eurostat

03
Living

Market fundamentals remain robust in the living sector

VACANCY RATES EXPECTED TO REMAIN LOW

The combination of aforementioned factors, including the increased housing burden for owner-occupied homes and reduced development levels, has resulted in a downward trend in vacancy rates for rental accommodations.

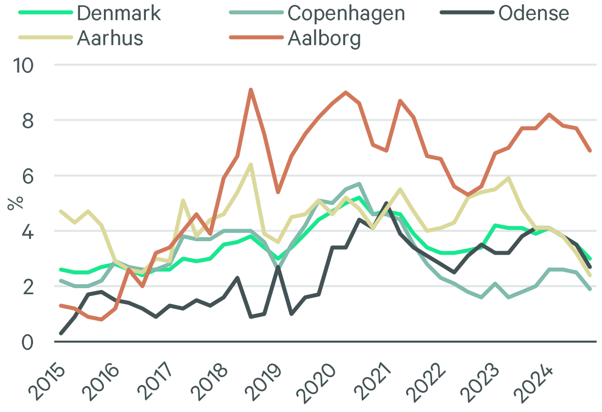
The tight rental market is evident, with vacancy rates for rental accommodations in Copenhagen (excluding the city center) falling below 2% and just 3% nationwide. Given the low levels of new development, smaller average household size, and the expectation that interest rates will remain elevated for an extended period, it is unlikely that vacancy rates will see any significant increase in the foreseeable future.

MARKET CONDITIONS SUPPORT SUSTAINED RENTAL GROWTH

The limited supply and persistent demand for rental accommodations create a good environment for sustaining the growth in rental prices that has been observed over the past few years.

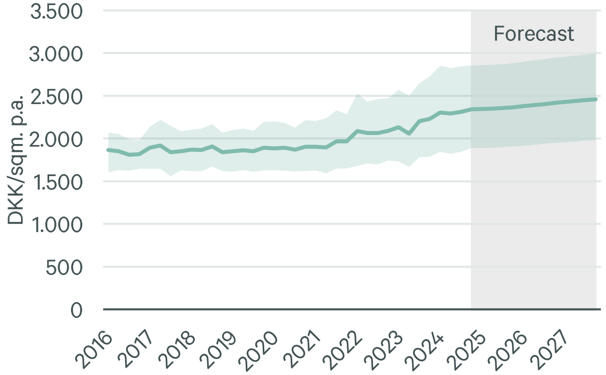
Uncertainty surrounding future housing policies has also held back construction activity. While the fundamental remain strong on the long term, investors tend to favor stable conditions. This may inadvertently drive prices higher in the unregulated segment of the market by further reducing supply.

Figure 11: Vacancy rate in rental accommodation



Source: Danish Property Federation

Figure 12: Average rent in Copenhagen and Frederiksberg



Source: BoligPortal, CBRE Forecasting

DESPITE INCREASED DEMAND, RENTAL STOCK IS UNDER PRESSURE IN SOME COUNTRIES DUE TO INCREASED PRIVATISATION

The growing gap between capital values and vacant possession values is prompting many investors to sell their properties in the owner-occupied market.

Private equity firms are also exploring opportunities in the European living market, which may restrict the short-term availability of rental housing stock in several countries. This trend counters the increasing demand and limits the availability of affordable rental options, leading to increased rental growth and putting further pressure on affordability.

This ultimately also affects the student housing market. Some students in Europe use the private rented sector (PRS), which means that they too will experience more shortages.

In addition, there is a clear trend in which Gen Z has a need for better quality purpose-built student accommodation (PBSA) complexes with more amenities, which means that this market is growing strongly. This is being addressed by investors who are also increasingly investing in the PBSA market in the continent.

04 Logistics

Leasing activity is expected to increase, particularly in the latter half of 2025. Vacancy rates should stabilise in 2025 as expansion plans are realised. New market dynamics and a shift in the balance of power to tenants will lead to slower rental growth than in previous years.

04
Logistics

Key takeaways

01

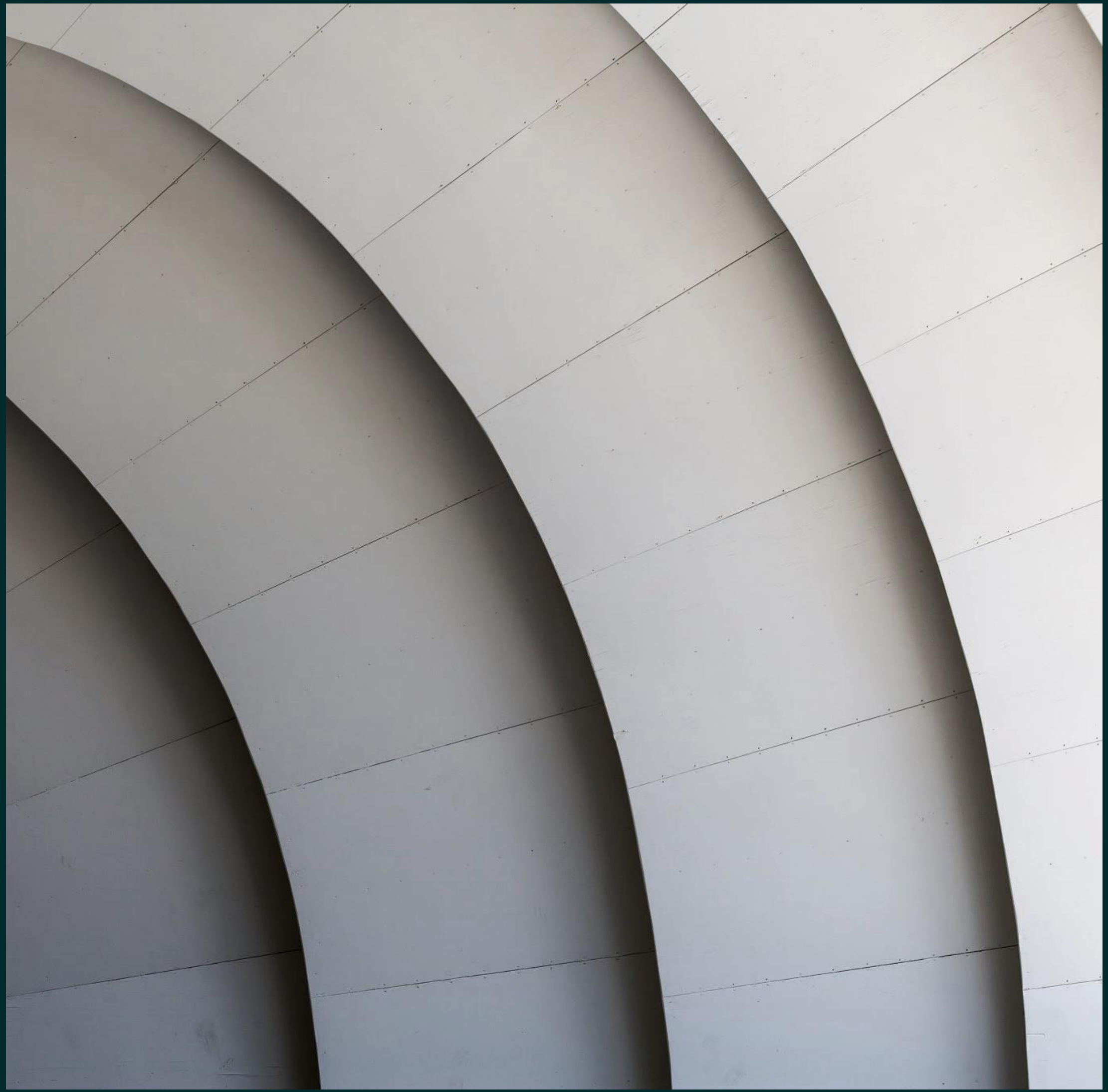
Retailers' inventory levels are normalising as companies transition from safety stocks to just-in-time strategies, driven by easing supply chain pressures and declining consumer confidence. This shift may reduce future demand for physical storage.

02

Occupier demand has remained robust in 2024. A clearer macroeconomic landscape should further unlock some postponed occupier expansion plans. Leasing activity is expected to pick up from current levels, particularly in the second half of 2025.

03

Building selection is becoming a key factor as occupiers have more options available and start to implement strategies to future-proof their supply chains. This includes ensuring that their warehouses' specifications are fit for current and future needs.



04
Logistics

New market dynamics emerging

STOCK ASSESSMENT IS NORMALISING

During the pandemic, supply chain pressures hindered retailers' inventory restocking, creating a perception of shortages by mid-2021. In response, many began carrying safety stocks, increasing demand for logistics space. However, as consumer confidence declined and supply chain issues eased in 2022, concerns about overstock emerged.

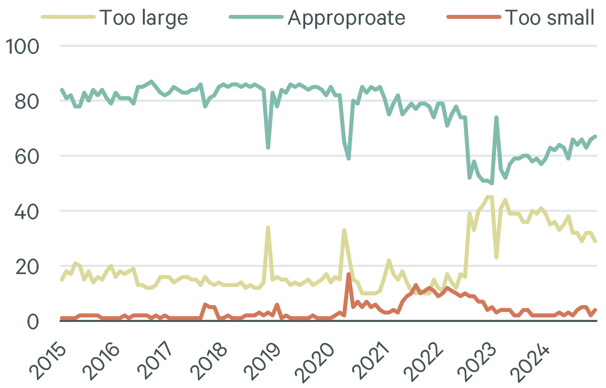
A normalisation of inventory levels through 2024 has led to a rise in just-in-time strategies, enhancing flexibility and reducing warehouse demand. As occupiers implement cost-saving measures and reassess real estate strategies, it is essential to consider the broader supply chain. Retailers are therefore expected to keep some just-in-case elements.

EXPANSION EXPECTED TO RETURN IN 2025

Demand for industrial and logistics space in 2024 remained strong despite macroeconomic challenges, and total take-up across property types exceeded figures from the previous year. While the construction pipeline was primarily comprised of built-to-suit projects, vacancy rates rose as occupiers vacated primarily older facilities.

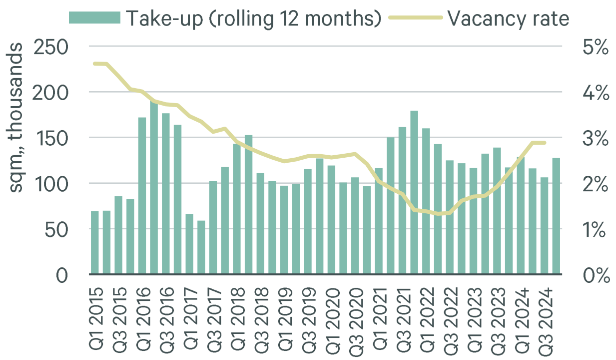
With an improved, and less uncertain macroeconomic environment, occupiers will be able to further act on their expansion plans in 2025. This is expected to generate a higher net absorption during the year as interest rate cuts and rising real incomes should support GDP growth. Increasing consumer demand will also fuel the strength of omnichannel retail.

Figure 13: Retailers' assessment of stock over time



Source: Statistics Denmark

Figure 14: Quarterly Danish industrial and logistics take-up and vacancy, all stock



Source: CBRE Research, Ejendomstorvet; Note: Sale-and-leaseback deals are not included in take-up figures

BALANCE OF POWER WILL CONTINUE TO LIE WITH TENANTS

Despite robust take-up figures in the Danish market, the average vacancy rate experienced an increase of nearly 70 basis points. While the acceleration of this increase has decelerated, further stabilisation is projected for 2025.

The elevated vacancy rates will facilitate occupiers in pursuing their expansion initiatives in 2025. Nevertheless, it will also prompt them to articulate concerns regarding potential obsolescence issues that may have been previously disregarded during periods of low vacancy.

MARKET CONDITIONS EXPECTED TO LEAD TO SLOWER RENTAL GROWTH

The new supply-demand backdrop has provided tenants with improved negotiating power in a better-supplied market. Driven by a flight to quality and the efficiencies offered, the prime segment is slightly more protected than the broader market. With that said, occupiers are still experiencing real estate availability challenges as vacancy rates remain low.

However, prime rent increases are projected to slow and remain more moderate. For the top European logistics location, prime rents are expected to increase by 1.8% on average in 2025 under our baseline scenario. On the Danish market, prime rents are expected to rise slightly more at 2.0%. It is worth noting that the prime stock in Denmark is small, which means that only a few properties are establishing the benchmark for prime rents in the market.

04
Logistics

Key trends to watch

TRADE POLICIES, LOCATION AND URBAN LIGHT INDUSTRIAL ARE KEY TRENDS TO WATCH

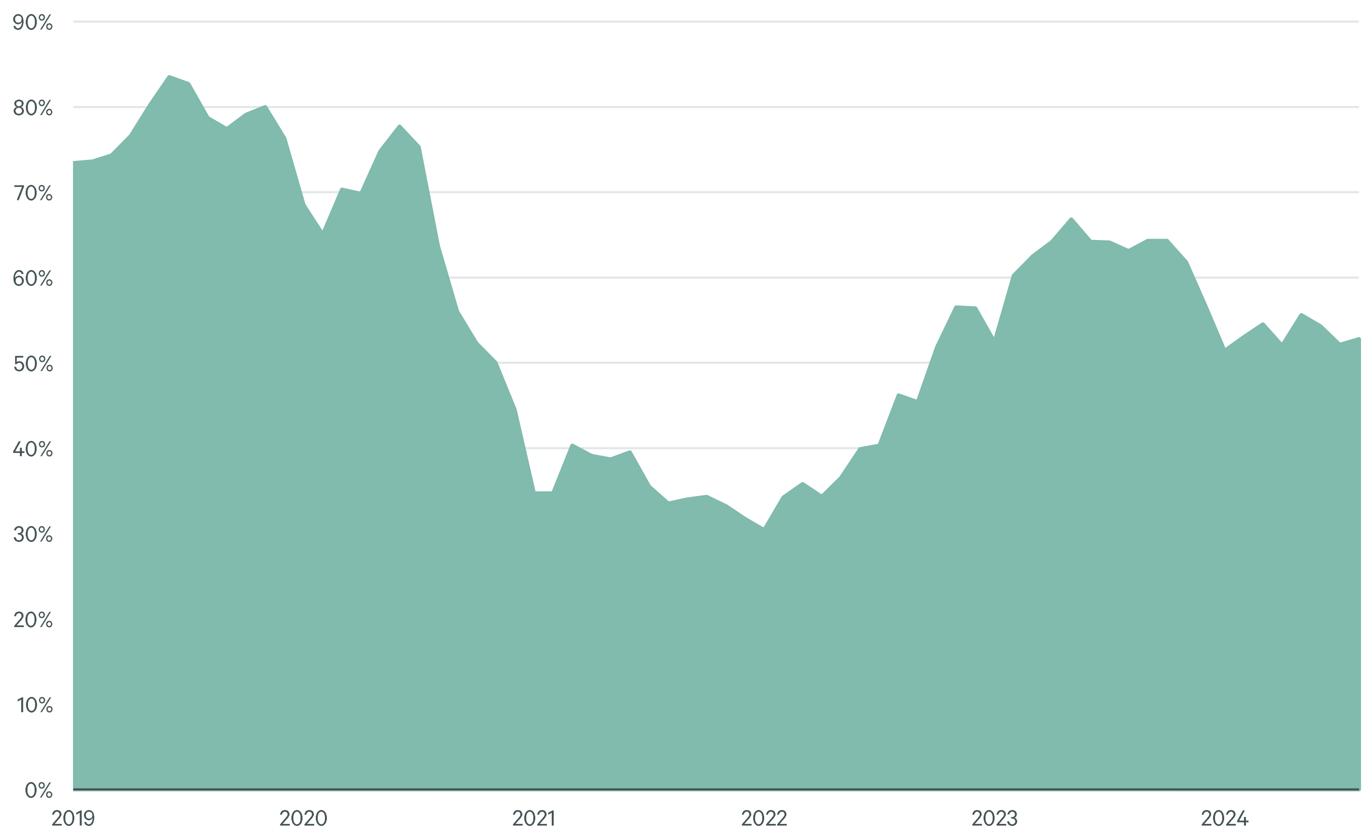
The Red Sea crisis has caused another wave of supply chain disruptions, resulting in the prioritisation of nearshoring discussions. 2025 could be a significant year for nearshoring in Europe, with a potential to increase leasing activity. The evolution will be shaped by developments in the Russo-Ukranian War. High costs associated with the Nordic market may result in a lower degree of nearshoring in the region.

European industrial and logistics occupiers will be closely monitoring the implementation of any proposed trade policies by the incoming Trump administration in the U.S. Developments are not expected early in 2025, but discussions could already affect strategic decisions from global occupiers.

In 2024, occupiers placed a great emphasis on location, citing labor availability, capacity, and proximity to end customers as key factors, particularly among larger companies. Offering operational efficiency, this focus is expected to persist as consumers increasingly demand shorter lead times.

This trend has led to increased demand for light industrial properties in the Greater Copenhagen area among investors. With consumer trends and demographic growth expected to support rental growth, occupier demand for these properties remains strong. The diverse range of potential uses and occupiers helps mitigate negative externalities, as light industrial properties are typically more flexible and can be adapted for various users without major conversion costs.

Figure 15: Global Schedule Reliability



Source: Sea-intelligence

04
Logistics

Structural conditions remains supportive of the sector

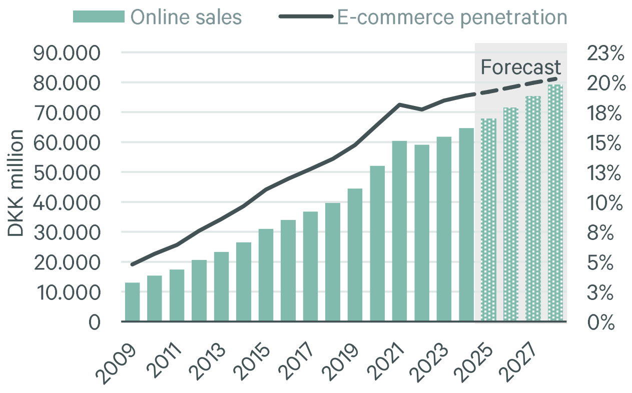
E-COMMERCE GROWTH HAS SLOWED, BUT POSITIVE TREND CONTINUES

Despite challenges from macroeconomic conditions, structural conditions remain supportive of healthy mid-term demand from logistics occupiers. E-commerce, in particular, is considered a key demand driver in the sector, as it is estimated to require three times more logistics space than traditional retail outlets.

While e-commerce growth has slowed from its pandemic-induced boost, it continues to rise steadily. Current projections indicate that the Danish consumers are expected to spend nearly DKK 80 billion on retail-related e-commerce by 2028, representing over 20% of the total retail market. This growth is likely to sustain demand for logistics space, as online retailers remain optimistic about their future logistics needs.

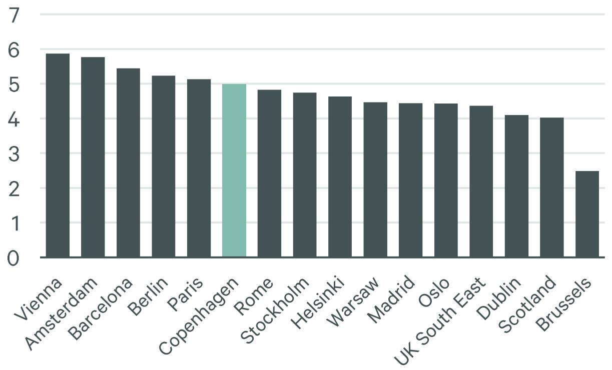
The increasing share of e-commerce, along with shifts in consumer behavior, is also driving higher requirements for reverse logistics—the process of returning goods from end users back through the supply chain. This complex task involves multiple processes and stakeholders, requiring additional space to accommodate both incoming and outgoing shipments.

Figure 16: Danish online sales and e-commerce penetration



Source: Euromonitor

Figure 17: Forecasted annualised capital value growth 2024 - 2029



Source: CBRE Forecasting

ROBUST FUNDAMENTALS WILL DRIVE INDUSTRIAL AND LOGISTICS CAPITAL VALUE GROWTH

In recent years, the industrial and logistics sector has gained popularity among investors, thanks to its strong fundamentals and higher yields compared to other sectors. Although the transaction market has started to show signs of recovery, central bank rate cuts have not yet fully restored activity levels.

Investor interest did not only fall on modern logistics properties; throughout, 2024 there was also a strong demand for light industrial properties in the Greater Copenhagen area.

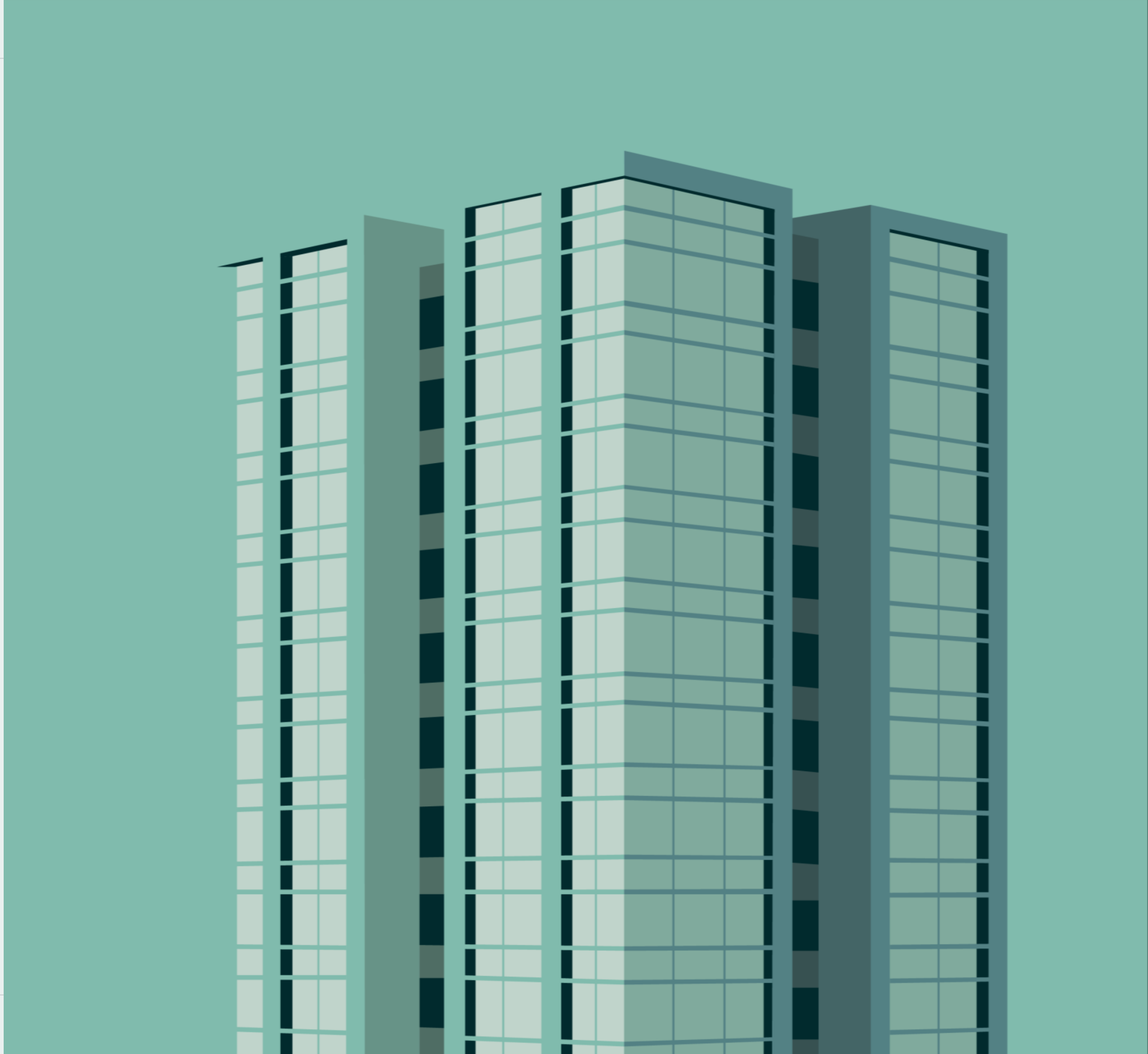
Currently, yields are relatively stable following a period of rapid expansion, but interest rate cuts are likely to stimulate higher activity levels in the capital markets and may lead to potential yield contractions in 2025.

Looking further ahead, investors are anticipated to maintain a sound interest in the industrial and logistics sector – including light industrial – due to its robust fundamentals and demand driven by structural tailwinds. This trend is expected to drive capital value growth for logistics assets in the future.

Current projections for the Danish market indicate an annual growth rate of 5.0% in capital values between 2024 and 2029, positioning the market at the higher end of the spectrum.

05
Office

Liquidity for larger lot sizes, along with greater price discovery is expected in 2025. This is likely to translate into an increase in sales of stabilised assets in major Danish cities.



05
Office

Key takeaways

01

Supported by an increase in office-using employment, and higher and more stable office attendance rates, we expect a further year of modest recovery in leasing levels. We anticipate that leasing levels will rise through 2025, edging closer towards historic averages.

02

The need for companies to provide high-quality working environments is expected to drive further polarisation. As overall availability levels move down more decisively through 2025, vacancy spreads between prime and poorer quality buildings will also widen further.

03

With office attendance reaching a steady state and good prospects for the economy, occupiers should conduct portfolio planning with increased confidence.

05
Office

Slow recovery in leasing to continue

LEASING EXPECTED TO RISE

The office leasing market in 2025 will be influenced by a confluence of competing dynamics. On the positive front, factors such as a progressively enhancing economic environment, a modest rise in employment levels within office-utilizing sectors, and elevated, more consistent office attendance rates are anticipated. Conversely, challenges include the ongoing trend of portfolio downsizing, efficiency enhancements, and tenant apprehension regarding potential overexposure to long-term lease obligations.

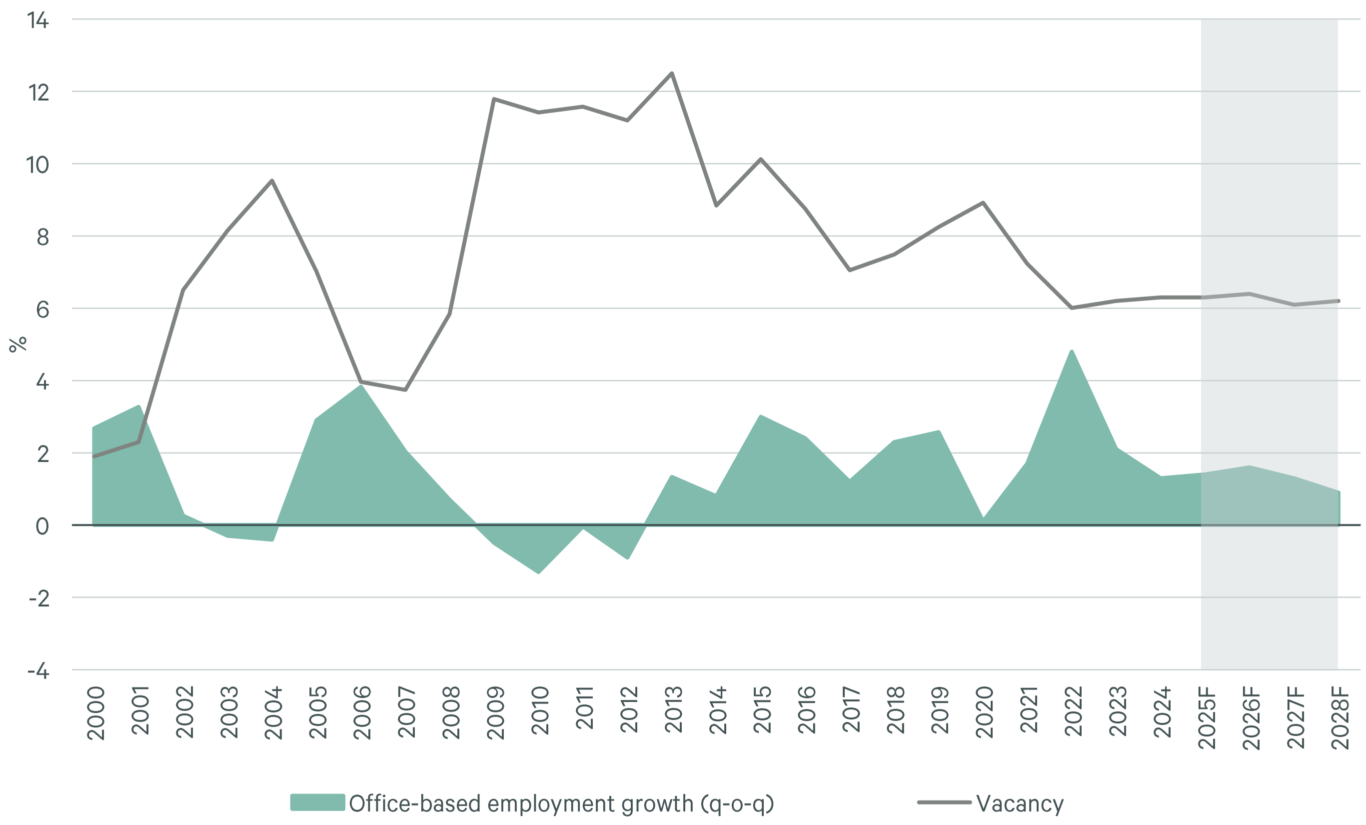
Our projections indicate that office-based employment in Copenhagen is expected to experience continued, though modest, growth in 2025 (Figure 18). This, in conjunction with an overall improvement in the macroeconomic landscape, is likely to result in increased leasing activity during the year.

PRIME RENT GROWTH WILL CONTINUE IN 2025

The supply of prime office space remains limited. Additionally, elevated construction costs, along with reduced availability and increased costs of financing, have resulted in a relatively low number of development starts in 2024. This trend is anticipated to yield a decrease in development completions in 2026 and subsequent years, thereby restricting options for occupiers seeking available development stock.

Furthermore, locational determinants, such as proximity to public transportation and essential amenities, will persist in shaping the rental growth trajectories of specific properties.

Figure 18: Copenhagen office-based employment growth (q-o-q) and vacancy



Source: CBRE Forecasting

05
Office

Investment environment to become more favourable

Investment volumes remained relatively muted throughout 2024. The continued low levels of activity throughout the year largely reflected the high-interest rate environment and the perceived risks to office market fundamentals.

Prime office yields in all markets tracked by CBRE have remained largely stable throughout 2024. The prospects of interest rate cuts during 2025 will filter through to the cost of debt, ultimately resulting in office yields remaining stable or starting to slightly compress. The combination of yield stability and falling debt costs should prove to be a stimulus to investment activity in the Danish office market in 2025.

LARGE LOT SIZES AND OVERSEAS INVESTORS RETURNING TO THE MARKET

In the second half of 2024 we started to see a return of larger lot-size deals transact. With an increase in liquidity and greater price discovery in 2025, we expect to see some investors looking to sell stabilised assets, who had been holding back sales in 2023 and 2024.

Foreign buyers usually hold a significant share of the office investment market. However, in 2024, investors on the buy-side have been prevalently domestic. We expect the share of foreign investment to increase again, returning to the long-term trend level.

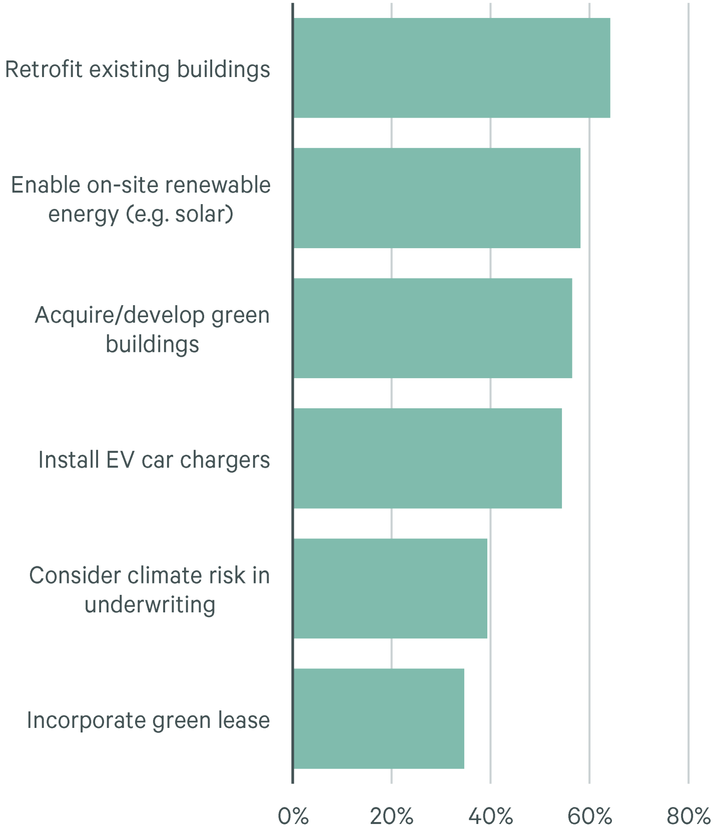
THE GROWING ROLE OF SUSTAINABILITY

Sustainability criteria have consistently informed investors' allocation strategies; however, recent shifts indicate a heightened focus on yield optimisation. Price corrections in the market have facilitated the acquisition of secondary assets at discounted rates, aimed at enhancing properties to align with existing and anticipated regulatory standards.

Nonetheless, several challenges impede investments aimed at improving the energy performance of buildings, particularly concerning financial considerations such as capital expenditure (CapEx), cost of capital, and the trade-off between costs and benefits. Additionally, the variability of energy performance certificates (EPCs) across European markets—including discrepancies in definitions, calculation methodologies, compliance standards, and data availability—poses significant hurdles for investors, property owners, and financial institutions.

The current environment presents an opportunity to expedite the transition towards sustainability; properties failing to meet established sustainability benchmarks are expected to experience valuation adjustments, reflecting the substantial investment required for compliance and refurbishment.

Figure 19: Sustainability initiatives considered by investors who implement such strategies



Source: CBRE European Investor Intentions Survey 2025

06 Retail

It is likely that convenience-focused retail assets will continue to perform strongly, with a similarly positive performance from dominant, experience-focused shopping centres that have a strong leisure and food and beverage offer.

06
Retail

Key takeaways

01

Consumer fundamentals are expected to continue to improve in 2025. A steadier increase in disposable income is forecasted, while further rate cuts are likely to aid in boosting confidence and stimulating demand.

02

Leasing activity is expected to accelerate, but elevated vacancy levels will remain a challenge, particularly in high-street locations. Retailers are focusing on experiential retail strategies to attract and retain customers. Rather than expanding into new locations, brands are focusing on optimising their existing spaces to offer unique experiences that differentiate them from their competitors and appeal to a more experience-oriented consumer base.

03

Grocery stores and retail parks are expected to remain some of the favoured retail sub-sector for many investors. Capital will be selective with regard to markets and assets amid an evolving investment landscape.

06
Retail

Recovery to continue in 2025

CONSUMER FUNDAMENTALS TO CONTINUE TO IMPROVE, BUT AT MORE MODERATE RATES

In 2024, Danish consumers saw a significant improvement in financial strength. A fall in headline inflation, combined with continued nominal wage growth, significantly increased disposable income.

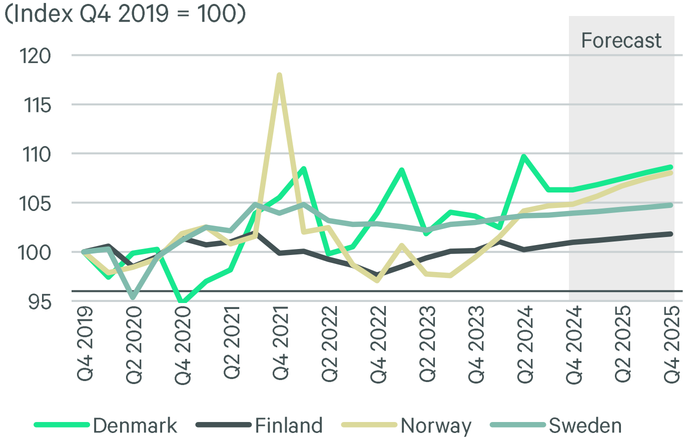
However, consumer confidence dipped towards the end of 2024 and has remained strongly in the negative territory. On the other side, sales volumes have broadly continued to improve (though modestly) throughout the course of the year. During 2025, sales are expected to see further modest growth, driven by an increase in real household income. Additional base rate cuts should also help stimulate consumer spending.

LEASING ACTIVITY EXPECTED TO ACCELERATE, BUT HIGH VACANCY WILL REMAIN A CHALLENGE

As a result of improving consumer fundamentals, leasing activity is expected to strengthen throughout 2025, as occupiers work towards realising expansion plans across all retail asset types.

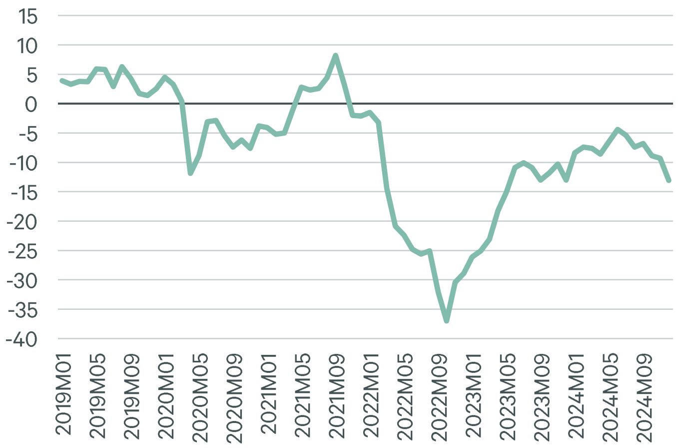
Availability will remain a challenge, however, with vacancy rates on prime high streets remaining at elevated levels. Although further portfolio expansion is anticipated, delivering cost efficiencies will remain a key focus for retailers in 2025. To achieve this, retailers will likely have to compromise on both unit size and location.

Figure 20: Personal disposable income, inflation adjusted (Index Q4 2019 = 100)



Source: Oxford Economics, Haver Analytics, CBRE Research

Figure 21: Denmark consumer confidence



Source: CBRE Research, Denmark Statistics

PERSISTENT INVESTOR DEMAND FOR GROCERY STORES AND RETAIL PARKS

Of all the retail sub-sectors, Grocery stores and Retail Parks continue to deliver the strongest investment activity. Throughout the year, the prime Supermarkets yield has expanded by 20bps but than again compressed towards the end of the year, driven by competitive bidding. As of January 2025, the Supermarkets prime yield is at the same level as in January 2024.

In 2025, we expect Grocery stores and Retail Parks to remain some of the favoured retail sub-sector for many investors. Improved pricing is likely to act as a trigger for sales, particularly from the large portfolios that were acquired at the bottom of the market a few years ago.

High Street properties continue to account for the smallest share of retail investment, partly driven by the limited availability of larger lots.

The prospects of further pricing reductions could also act as a limiting factor for more transactional activity. According to CBRE's Investor Intentions Survey 2025, 40% of investors are expecting further pricing discounts for High Street assets.

07
Sustainability

Owners and occupiers of commercial real estate will face significant challenges when trying to navigate the complex regulatory landscape, as new directives come into effect. Assets with good sustainability credentials are likely to experience enhanced cash flow stability and greater yield compression.

07
Sustainability

Key takeaways

01

Investors will have to publicly disclose and implement their climate transition plans aimed at retrofitting assets to align with the Net Zero Carbon Pathway, as mandated by European legislation. Additionally, investors must address the financial implications associated with the adaptation to prospective climate-related risks.

02

In 2025, the first group of companies will commence reporting in accordance with the European Sustainability Reporting Standards (ESRS) for the fiscal year 2024. Additionally, the implementation of Basel IV will introduce further complexity to the real estate investment landscape.

03

The EU's Corporate Sustainability Reporting Directive (CSRD) and the recently passed Corporate Sustainability Due Diligence Directive (CS3D), will require companies in scope to publicly disclose their climate transition plans and implement them to the best of their ability. This reinforces the need for corporates to have a robust transition plan to achieve climate goals.

07
Sustainability

Navigating the uneven recovery

The Danish real estate investment market is expected to see a gradual but uneven recovery in 2025, as some sectors are expected to perform better than others. Investment decisions will be increasingly influenced by various elements of asset quality – including sustainability.

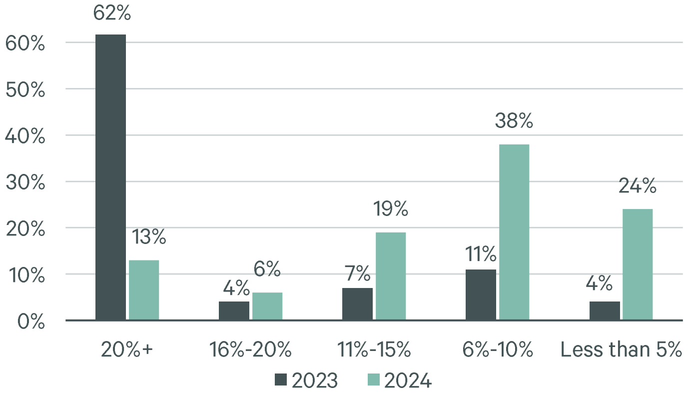
In this context, there will be more emphasis on delivering sustainability attributes to enhance asset value, and particularly in mitigating the risks associated with future obsolescence.

The current pricing landscape presents a strategic opportunity to drive transformation. Assets failing to comply with sustainability standards are likely to suffer downward repricing, due to the scale of investment required for refurbishment to meet these standards.

SHIFT IN PERCEPTION LIKELY TO AFFECT VALUES

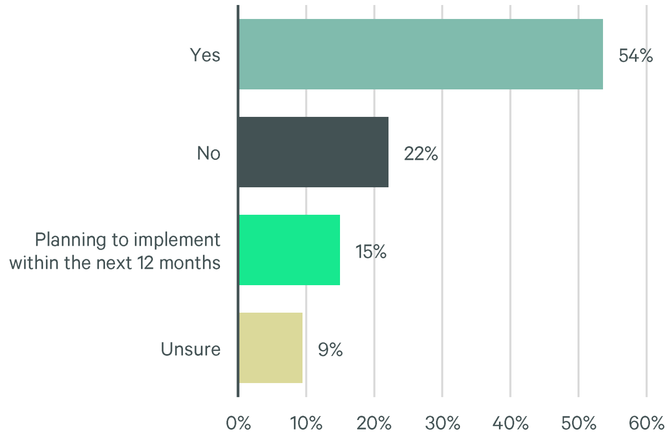
Sustainability features are increasingly viewed as industry norms rather than optional enhancements. As a result, some occupiers are willing to pay rental premiums for such assets, and to seek discounts for non-compliant properties. Investors are often willing to pay more for assets with strong sustainability features because they expect improved cash flow and returns through superior rental growth, depreciation, and yield. However, value might come from better tenant quality, faster leasing, and improved occupancy rates, rather than just rental income itself.

Figure 22: Premium certain investors are willing to pay to acquire assets that meet sustainability standards (2024 vs. 2023)



Source: CBRE European Investor Intentions Survey 2024

Figure 23: Are lenders willing to offer margin stepdowns for assets with strong ESG credentials?



Source: CBRE European Lender Intentions Survey 2024

Assets with good sustainability credentials are likely to experience better cash flow stability resulting from improved tenant retention and consequently lower vacancy rates and operational costs. We expect a sharper compression of yields for assets with high sustainability credentials.

FINANCING STRATEGIES WILL EVOLVE

Lending institutions are expected to implement incentives and strategies aimed at financing retrofitting.

There will be considerable variation in local market practices, depending on the maturity of the market and the robustness of financial institutions. Conversely, in line with their aim of reducing the carbon footprint of financed portfolios, financial institutions will be selective in approving refinancing for assets requiring upgrades.

CapEx requirements, along with strategies for securing this financing, will be on investors' and landlords' agendas. A clear valuation of transition risk is essential for investors to be able to formulate a compelling business case for sustainability initiatives. Ultimately, property owners and investors require assurance that any proposed investments will augment the value of the property.

07
Sustainability

Complex reporting landscape

CSRD REPORTING WILL BECOME MANDATORY FOR MANY

The EU's Corporate Sustainability Reporting Directive (CSRD) and the recently enacted Corporate Sustainability Due Diligence Directive (CS3D) mandate that eligible companies publicly disclose their climate transition strategies and execute them as fully as possible. The CSRD will require compliance from approximately 50,000 companies, collectively representing 75% of the total turnover of EU enterprises. This will pose significant challenges, as the processes of data collection and third-party auditing will require corporates to commit substantial time and resources.

BASEL IV COMES INTO FORCE ON 1 JANUARY

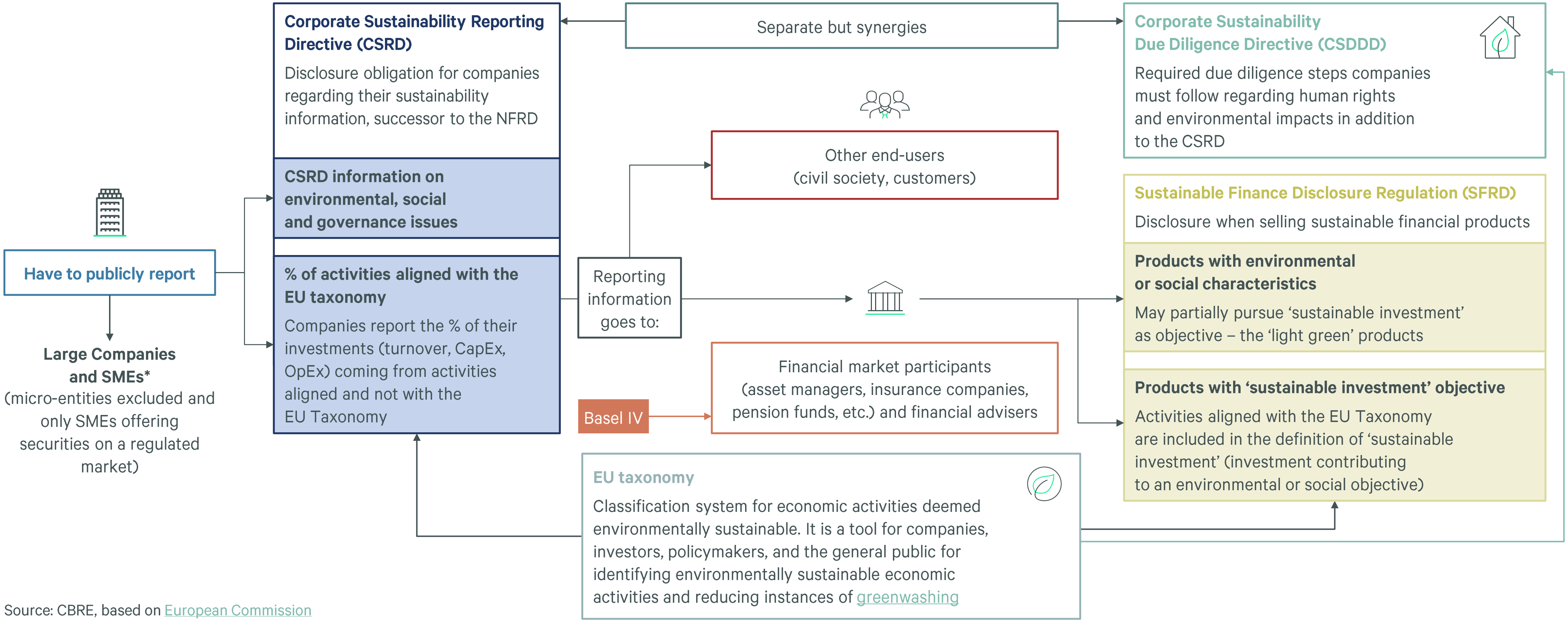
The Basel IV reforms are set to be implemented in 2025 and will introduce significant changes to credit risk management, capturing climate-related financial risks. Specifically, they will constrain the use of internal risk models and will require an increase in bank's capital.

This could restrict capital for commercial real estate, if increased capital requirements force banks to raise more equity or lend less, leading to higher costs for borrowers. The reforms will likely have a disparate impact in different regions, due to regional differences in banks' use of internal models for calculating risk. Basel IV will also establish a new framework for property valuation, recommending that national supervisory authorities develop specific evaluative criteria.

07
Sustainability

EU disclosure requirements for real estate investments

Figure 24: The regulatory landscape of corporate sustainability in the EU



Source: CBRE, based on European Commission
*Small and Medium-sized Enterprise

Contacts & Further Reading

CBRE

This report was written by CBRE's research team. If you have any questions regarding the content of the report, the contacts listed below are ready to assist you.

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