Stockholm Environment Institute

A typology of real estate assets

An overview of the portfolios of the MAVERIC consortium partners

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Introduction

Investing in real estate assets is an opportunity to diversify portfolios, allowing investors to reduce exposure to non-systematic risks (Nasdaq, 2023). Non-systematic risks include those that are specific to a certain market, as opposed to those that are common to the whole economy, which are classified as systematic risks. Key investors in real estate include investment banks, commercial banks, insurance companies, pension funds and real estate management companies.

In Sweden, the real estate market has highly attractive characteristics and features for investors. In fact, Sweden is at the top of the European per-capita investments in the sector: it recorded EUR 24.6 billion in commercial real estate investments in 2021, positioned only after Germany (EUR 64.1 billion) and France (EUR 26.7 billion), and with a population that is, respectively, one eighth and one sixth of these two countries. In total, Sweden's investment in real estate is about 10% of the total real estate investments in Europe (BNP Paribas Real Estate, 2022). The presence of 36% of Swedish real estate companies on the Stockholm stock market helps to provide investment opportunities for other institutional and private investors that may not be able to make these investments independently (EPRA, 2022).

In this factsheet, we present an overview of the portfolios of the partners in the MAVERIC project. Some of these partners represent the largest investors in the Swedish real estate market and provide good examples of investments in real estate assets.

The definition of real estate assets

While there is no standardized way to classify real estate assets, most often they are grouped into three main sectors:

- residential assets such as houses, apartments, villas, or other buildings that mainly serve for housing and non-professional purposes
- commercial real estate, including venues such as offices, hotels, shopping malls and, more generally, any space that is used for business and professional purposes and retail activities, and
- industrial real estate, that comprehend venues that are used to host one or more phases of production activities or to provide services, such as warehouses and factories and assets leased to the public sector.

IMAGE (ABOVE): Malmö Live neighborhood, Sweden © KENTAROO TRYMAN / GETTY

The International Accounting Standards (IAS), first defined in 1986 with a latest update in 2016, classify assets according to the strategy the investor is pursuing (IFRS, 2022c). Assets can, for instance, be purchased for own occupation or to exploit potential value appreciation. By requiring companies to report on their purposes for investing in these assets, the reporting standards are meant to let the reader understand the kind of risks the assets may be exposed to over the long or short term.

IAS 40 outlines the reporting standards and defines investment properties as (IFRS, 2022c) land or a building (including part of a building) or both that is:

- held to earn rentals or for capital appreciation or both
- not owner-occupied
- not used in production or supply of goods and services, or for administration
- not held for sale in the ordinary course of business.

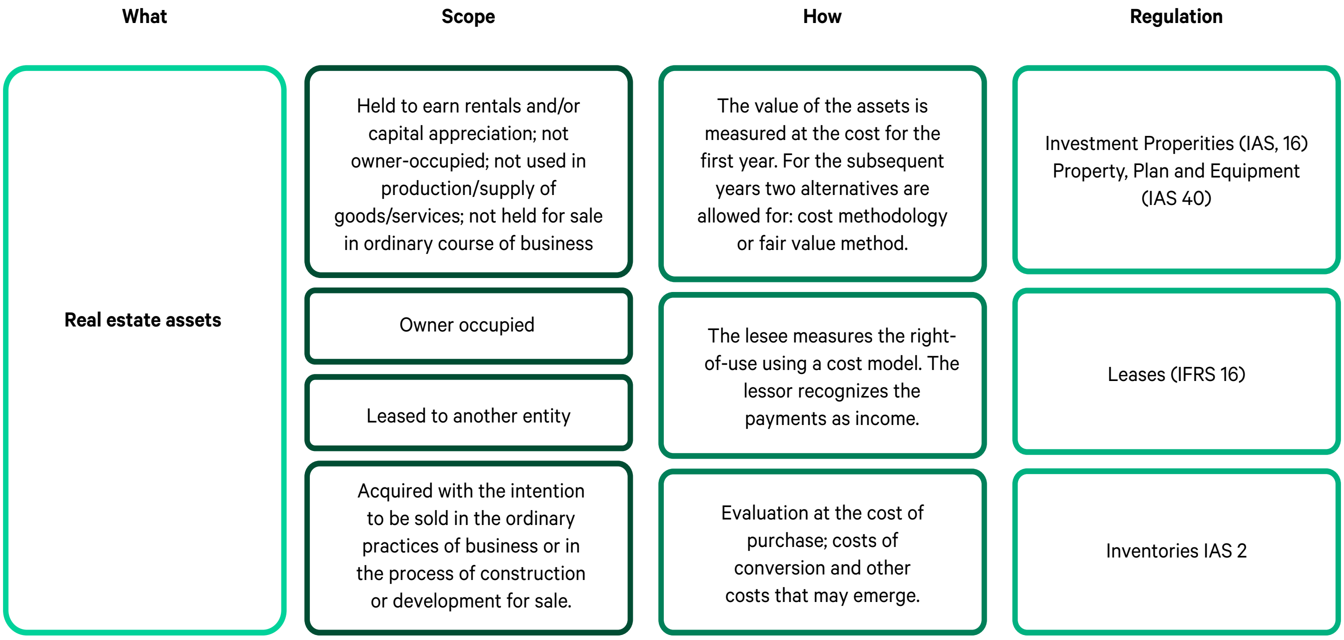
Excluded are other real estate assets that the company may still own in a different form:

- leased assets to another entity
- owner-occupied properties, which fall under the regulation of IAS 16 (*Properties, Plant and Equipment*) (IFRS, 2022b) and IFRS 16 (*Leases*) (IFRS, 2022d)
- properties that are acquired with the intention to be sold in the ordinary practices of business or in the process of construction or development for sale, which fall under the regulation of IAS 2 (*Inventories*) [1] (IFRS, 2022a).

The value of the real estate investments

Investors adhere to the principles defined by the reporting standards, depending on the purpose of the investment (see Figure 1).

Figure 1. Summary of key reporting standards pertaining to real estate assets (Olante & Lassini, 2022)



1 Both IFRS (International Financial Reporting Standards) and IAS (International Accounting Standards) describe the standards for financial reporting, with the difference that IAS preceded IFRS and still represents the reference points for those aspects that have not been subsequently reformed by the IFRS.

If assets fall under the description of IAS 40 or IAS 16, they must be reported at the cost at which they have been purchased during the first financial year of the investment. After that, the principles grant the possibility to adopt one of the following methodologies:

- Cost methodology: the investment property is measured at the cost at which it was purchased minus the depreciation and any other accumulated losses.
- Fair value method: the price at which the property could be reasonably expected to be exchanged between fully informed parties, given the current market conditions.

If assets are objects to lease and fall into the definition of IFRS 16, the valuation takes account of the obligations and the rights of the company. If assets fall into the definition of IAS 2, they are evaluated at the cost of purchase, cost of conversion and other eventual costs that may emerge while the asset is under the company's property.

Table 1. Overview of project partners' portfolios in 2022

Partner	Portfolio value (SEK)	Portfolio breakdown
Afa Fastigheter	38 billion	• Offices 65% • Residential 19% • Hotel 16%
Alecta Fastigheter	56 billion	• Offices 21% • Retail 25% • Other (hotels, healthcare venues, schools) 54%[1]
Castellum	176 billion (140.8 billion in Sweden)	• Offices 58% • Public sector 14% • Logistics 9% • Other 19%[1]
JLL	107 billion	• Offices 25% • Residential 30% • Logistics 25% • Other 20%[2]
Skandia Fastigheter	65 billion	• Offices 44% • Retail 27% • Residential 22% • Other 7%[2]
Swedbank	1281 billion[2] (through Swedbank Mortgage AB, fully controlled by Swedbank)	• Residential: 1094 billion SEK • Commercial: 187 billion SEK
Vasakronan	182 billion	• Offices 75% • Retail 18% • Other 7%[3]

Notes:

[1] Breakdown by property value

[2] Group's maximum credit exposure across entire geographic distribution (not only Sweden)

[3] Breakdown by property count

Disclosure of valuation assumptions

Methods of reporting investments in real estate assets are driven by two main factors: 1) the regulatory frameworks of the countries where the headquarters of the companies making the investments are located; and 2) the legal form of those companies. For our MAVERIC consortium partners, companies that operate in Sweden but are based in the US adhere to the US GAAP, the Generally Accepted Accounting Principles every company based in the US must adhere to by default, while those based in Sweden follow the IFRS and the IAS practices for valuation of assets.

In Sweden, specific standards regarding the valuation of assets are defined for insurance companies that operate in the country. While, nominally, these different accounting principles allow evaluation of investment properties "at the fair value" and owner-occupied buildings at "purchase costs", there are some differences in the approaches, although these are minimal.[2]

Our consortium partners manage real estate asset portfolios with a total market value of around SEK 590 billion (this excludes the mortgage exposure of Swedbank, which is not the legal owner of those assets on which mortgage contracts have been signed; see Table 1). This figure can be set against an estimated value of all taxable real estate in Sweden of SEK 12 099 billion (SCB, 2022), with the caveat that not all real estate assets are taxable in Sweden: premises used for the purposes of diplomatic missions, for instance, are exempt ((Regeringskansliet, 2015).

Not surprisingly, Stockholm is the main focus of the investments in Sweden, followed by Gothenburg and Malmö. Most of the consortium partners are present in all three of these cities, and some have also entered the market in smaller cities.

Offices and retail space represent the major share of assets owned by consortium partners, followed by residential units, mainly in the form of blocks of flats. Some of the buildings have been rented out to public authorities and now serve social purposes: healthcare centres and schools are the most common, as well as care homes for the elderly. Hotels and other forms of tourist accommodation, such as hostels, are also found in the portfolios of our partners, together with pieces of land held for future development.

Interestingly enough, while investment in forests is a tool in the strategies of some Swedish pension funds (AP3 Tredje AP-fonden, 2023), this is not the case among our project partners. While city centres have always represented the preferred option for real estate investors, thanks to the presence of offices, retail space and valuable residential assets, the decision by our partners to invest in assets such as shopping malls and logistics assets (e.g. warehouses) has affected the geography of the portfolios: we observe substantial investments now taking place in the outskirts of cities where these activities are located.

2 https://assets.ey.com/content/dam/ey-sites/ey-com/en_us/topics/assurance/accountinglink/ey-ifrs11560-211us-01-14-2021.pdf

Learn more

- About the International Financial Reporting Standards and its Foundation.
- About the recent developments in the Swedish real estate market through the data and the reports of the Statistics Sweden, the body that is responsible for official statistics in the country.
- About the portfolios of the MAVERIC consortium partners
  - Vasakronan Annual Report 2021
  - Castellum Annual Report 2021
  - Alecta Fastigheter's website
  - Afa Fastigheter's website
  - Skandia Fastigheter's website
  - JLL Sweden Nordic Outlooks
  - Swedbank Annual and Sustainability reports

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