Not all property shares are created equal

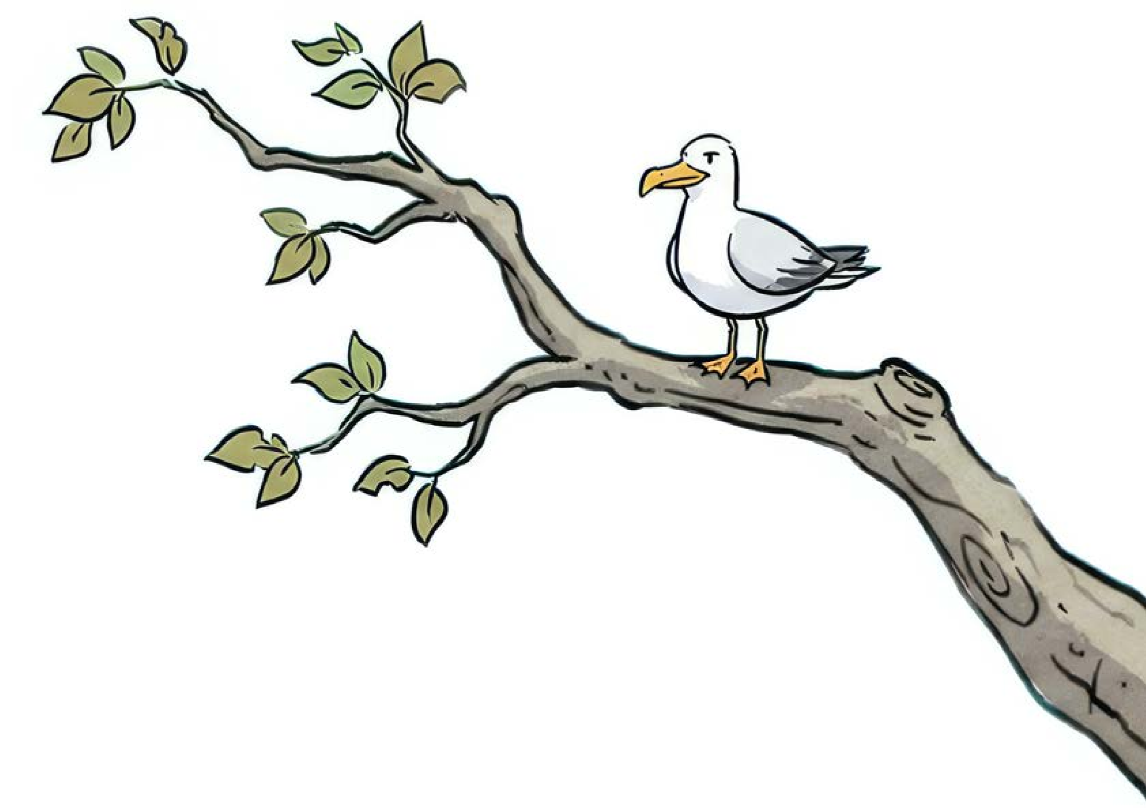
How have different property sectors fared on the stock market?

Nordanö

This report breaks down the Nordic listed property market by sector. We show that sector choice is the first-order driver of returns, valuation premia and implicit yields. Daily correlations between sectors are high, but long-run performance diverges sharply, leaving sector mix as the dominant portfolio decision.

Do investors see all property shares as marginally different flavours of the same dish, or are there fundamental differences in how different types of property shares are priced?

Beyond returns and valuations, we surface a less obvious finding: the stock market and the direct property market price the same property cash flows differently, and the gap is systematic by sector. The stock market values a krona of Office NOI similarly to a krona of Logistics NOI; the direct market does not.

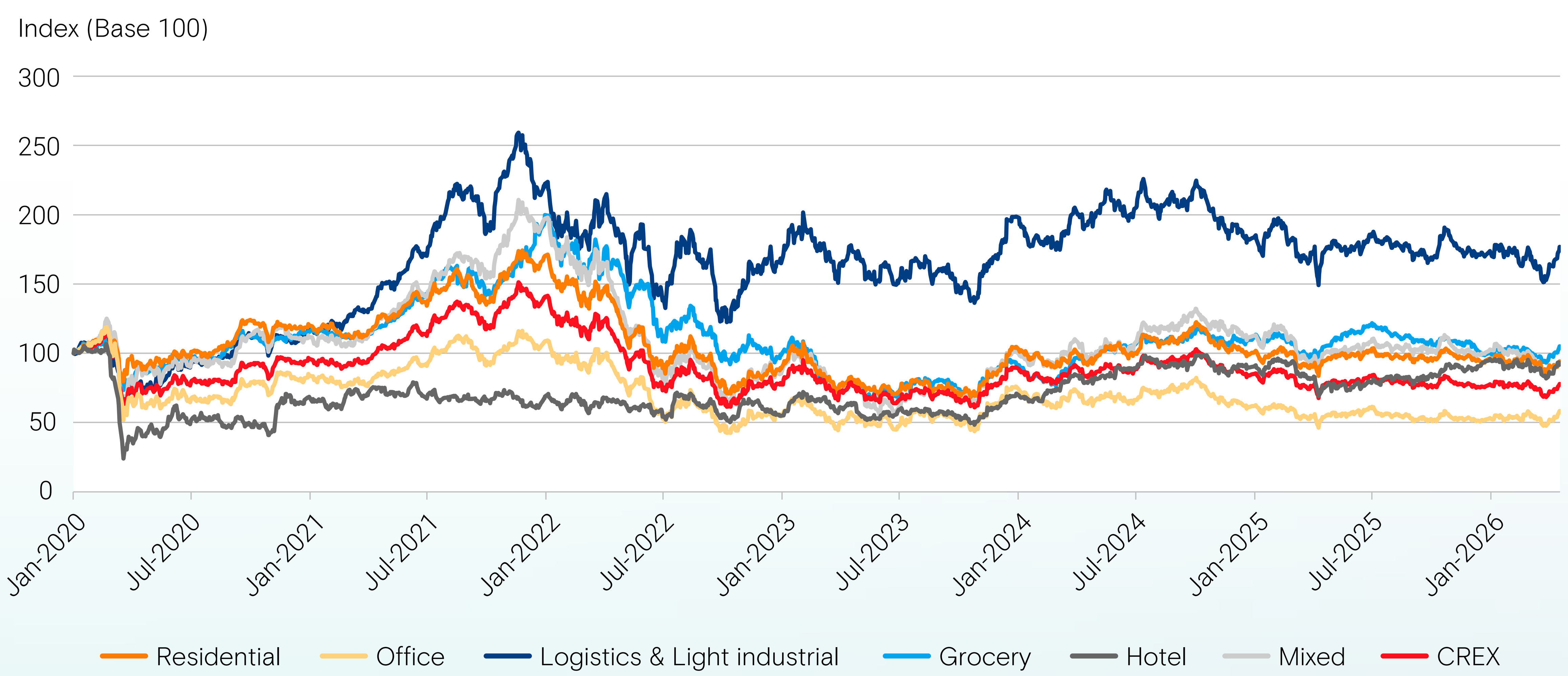


Very different sector outcomes

To analyse how different property types have performed in the stock market, we have created indices comprising property companies whose portfolios are predominantly exposed to a specific property type, such as Residential. Each company is assigned to a single category and included in one index.

Logistics & Light industrial is the clear winner during the period from 2020 to 2026 and returned roughly +77% in cumulative total return, followed by Grocery and Residential. Office returned roughly -42%.

Sub-Sector Indices



Logistics & Light industrial have out-performed the other sectors, by far!

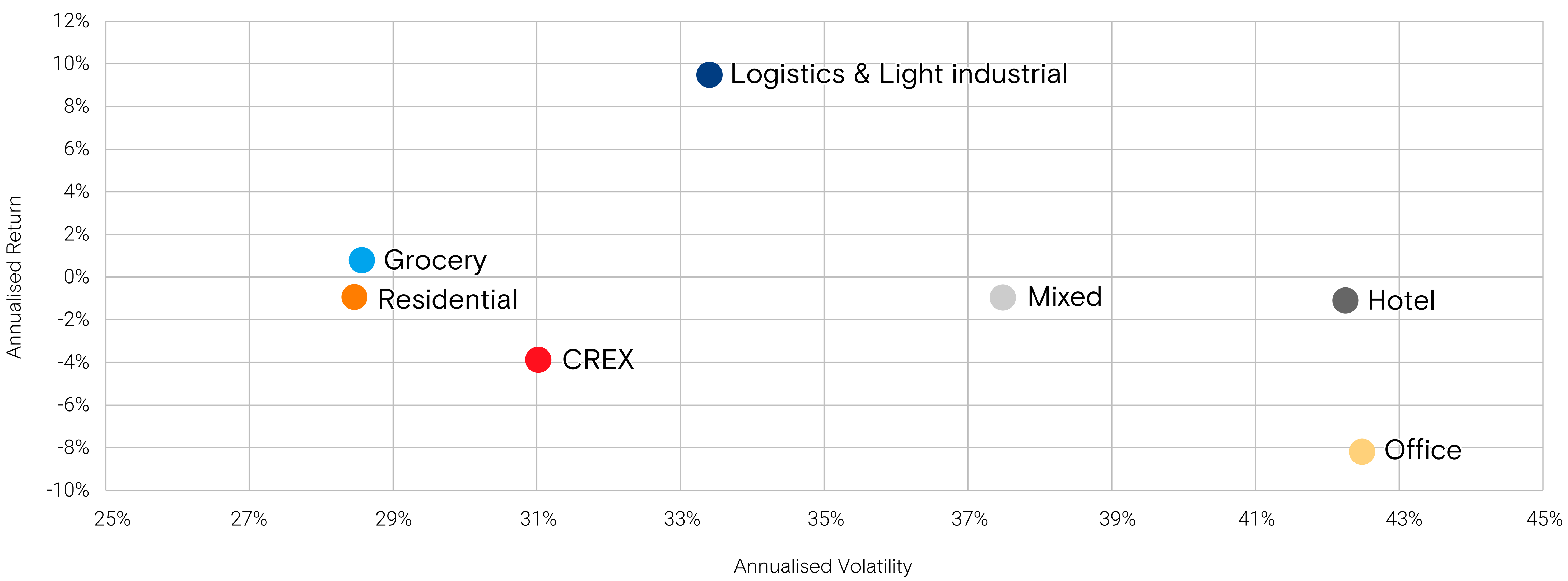
Property shares, on average, are below pre-COVID-19 levels

After the COVID-19 dip, Hotel shares (Pandox) have been most stable

Office shares hit hard and still struggling

Different sectors have wildly different performance

Annualised Return vs Volatility by Sector



Plotting annualised return against annualised volatility for the period 2020–2026 shows a dispersion that would be difficult to justify if property shares were “all the same dish”. Logistics & Light industrial stands out with around +10% annualised return and moderate volatility (~33%), while Office combines the lowest return (around −8% annualised) with one of the highest volatility levels (~42%).

Logistics has the highest return, by far, with a moderate volatility.

Office has the lowest return combined with high volatility; the worst of both worlds.

Grocery and Residential strike a middle ground, with returns slightly higher than the average and low volatility.

The chart makes the case: risk and return are not properties of “property shares”; they are properties of sectors. A portfolio’s 2020–2026 outcome was determined almost entirely by sector mix (Logistics, Office, Residential or Grocery).

Four distinct periods

The last six years have been unusually volatile for Nordic property shares: COVID-19, an interest-rate shock, and a partial normalisation. That makes 2020–2026 a useful window in which to test how different sectors behave.

1. COVID-19 shock (Feb–Mar 2020). Sector indices fell sharply in a matter of weeks as the pandemic hit demand expectations across every property type.
2. Low-rate rally (mid-2020 to late 2021). The sector rallied sharply on the back of zero rates and strong capital flows, peaking in late 2021.
3. Inflation and rates shock (2022). Rising interest rates and inflation hit valuations; the sector fell back sharply and reached its trough.
4. Partial recovery (late 2023 onwards). Indices have only partly retraced the 2022 drawdown; on average, property shares still trade below their pre-COVID-19 levels.

High correlation between different sectors…

…with Hotel and Grocery being the exceptions

However, daily returns across the sector indices are highly correlated. Excluding Hotel and Grocery, all pairwise correlations are in the 0.83–0.94 range, meaning that on any given day the sector indices tend to move together. That limits the diversification benefit of simply holding “a basket of property shares” when picked across sectors.

How can wide differences in long-run returns co-exist with such high daily correlations? These two findings operate on different time scales. Day to day, the sectors move in parallel as they re-price the same macro inputs (interest rates, geopolitics, risk-on/risk-off). Over multi-year horizons (6 years in the example above), the underlying fundamentals diverge, and the return gap widens.

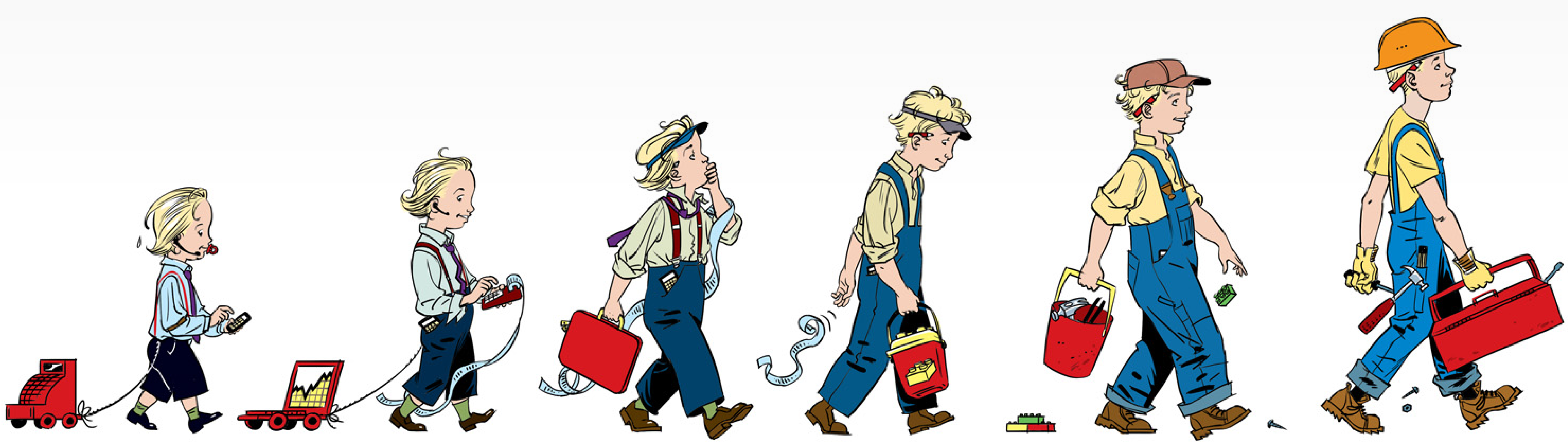
- Office–CREX is the highest-correlation pair, since Office dominates the CREX index.
- Grocery (Cibus & Prisma) is the second-most independent sector and provides useful diversification.
- Hotel (Pandox) is the most independent sector and offers the strongest diversification value.
- Office–Residential is, somewhat counterintuitively, a high-correlation pair (0.88).

Correlation matrix – sector indices

	Residential	Office	Logistics	Grocery	Hotel	Mixed	CREX
Residential	1.00	0.88	0.83	0.71	0.57	0.85	0.88
Office	0.88	1.00	0.88	0.73	0.66	0.90	0.94
Logistics	0.83	0.88	1.00	0.71	0.62	0.86	0.91
Grocery	0.71	0.73	0.71	1.00	0.50	0.71	0.72
Hotel	0.57	0.66	0.62	0.50	1.00	0.61	0.69
Mixed	0.85	0.90	0.86	0.71	0.61	1.00	0.92
CREX	0.88	0.94	0.91	0.72	0.69	0.92	1.00

1.0 0.9 0.8 0.7 0.6 0.5

In an earlier research report “Property shares – property or shares?” (June 2011) we showed that property shares correlate with the stock market in the short run and with the property market in the long run.



Premia and discounts vary widely by sector

The sorting order is defined by sector

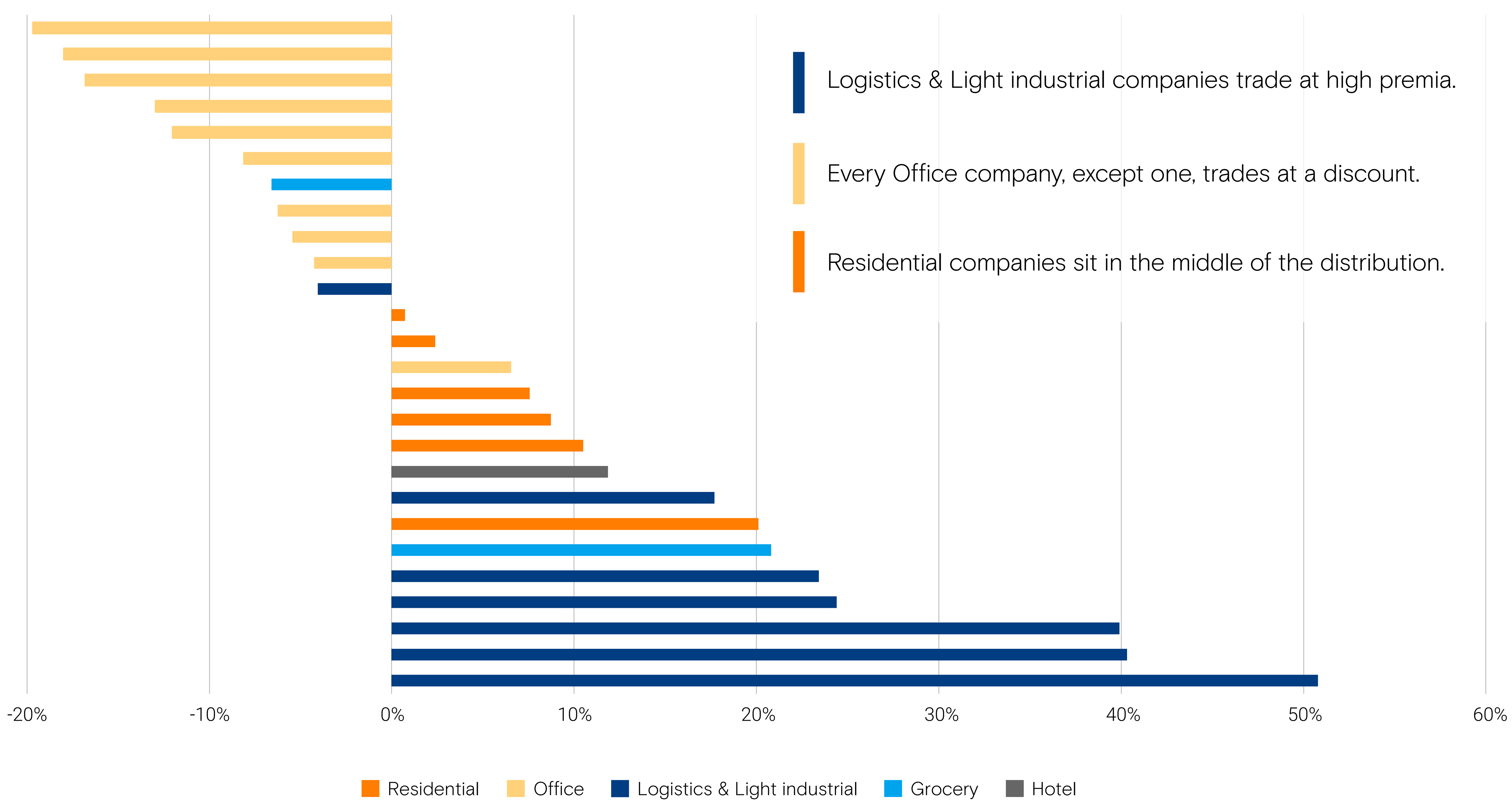
What makes listed property companies unusual is that the underlying property is traded in two markets at once: the assets themselves change hands in the direct property market, while ownership of the portfolios is traded on the stock exchange. This two-market structure is what makes premia, discounts, and implicit-yield gaps possible in the first place: the two markets can disagree on the value of the same assets, and often do.

A different way of assessing how different property sectors fare in the stock market is by looking, sector-wise, at premia and discounts on the stock market vs the direct property market.

When the current market cap of each listed property company is compared with its Nordanö property-level valuation, the result is a premium or a discount at the property level. Sorting the companies from largest discount to largest premium reveals a striking pattern: the order is almost entirely defined by sector rather than by company.

The Nordanö Company Overview compares listed property companies on a like-for-like basis. To do so, Nordanö uses a standardised valuation framework that has been in continuous development since 1996. The implicit stock market valuation of each property portfolio can be set against an independent valuation that is consistent between companies and over time.

Premium / discount at property level 2026



The Office segment’s paradigm shift

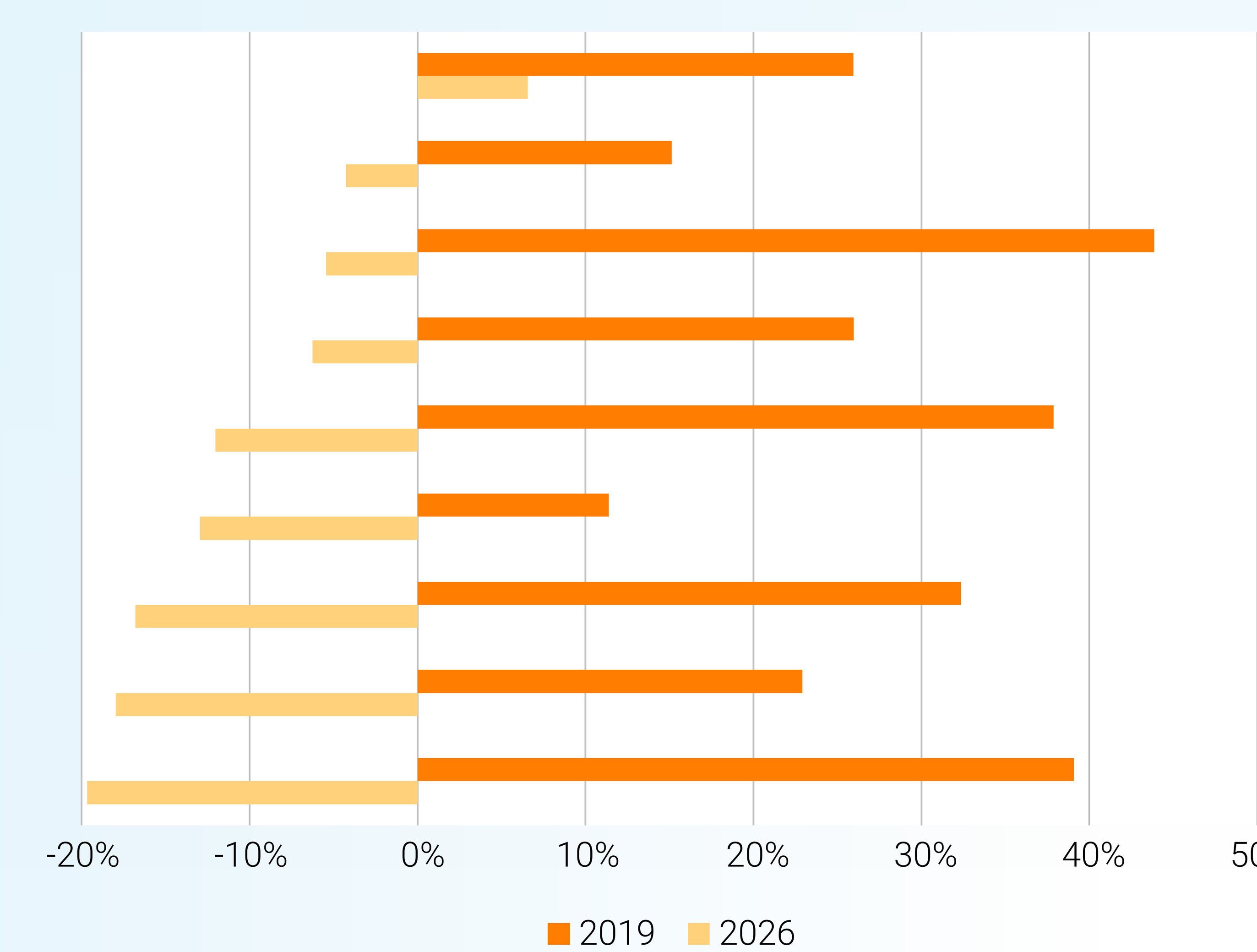
From premium to discount

Among the clearest regime changes in the dataset is the Office segment. In 2019, every listed Office company traded at a premium to property-level NAV; for several of them, a premium of 30–40%. By 2026, almost every Office company trades at a discount, with the median well below zero.

- In 2019 all Office property companies traded at large premia.
- In 2026 all but one trade at a discount.

Despite many office workers returning to the office, the discounts have persisted. Whether they are the new normal or the set-up for a recovery is the open question; on the numbers, office companies now look cheap relative to the underlying assets.

Office companies: from premium to discount (2019 vs 2026)



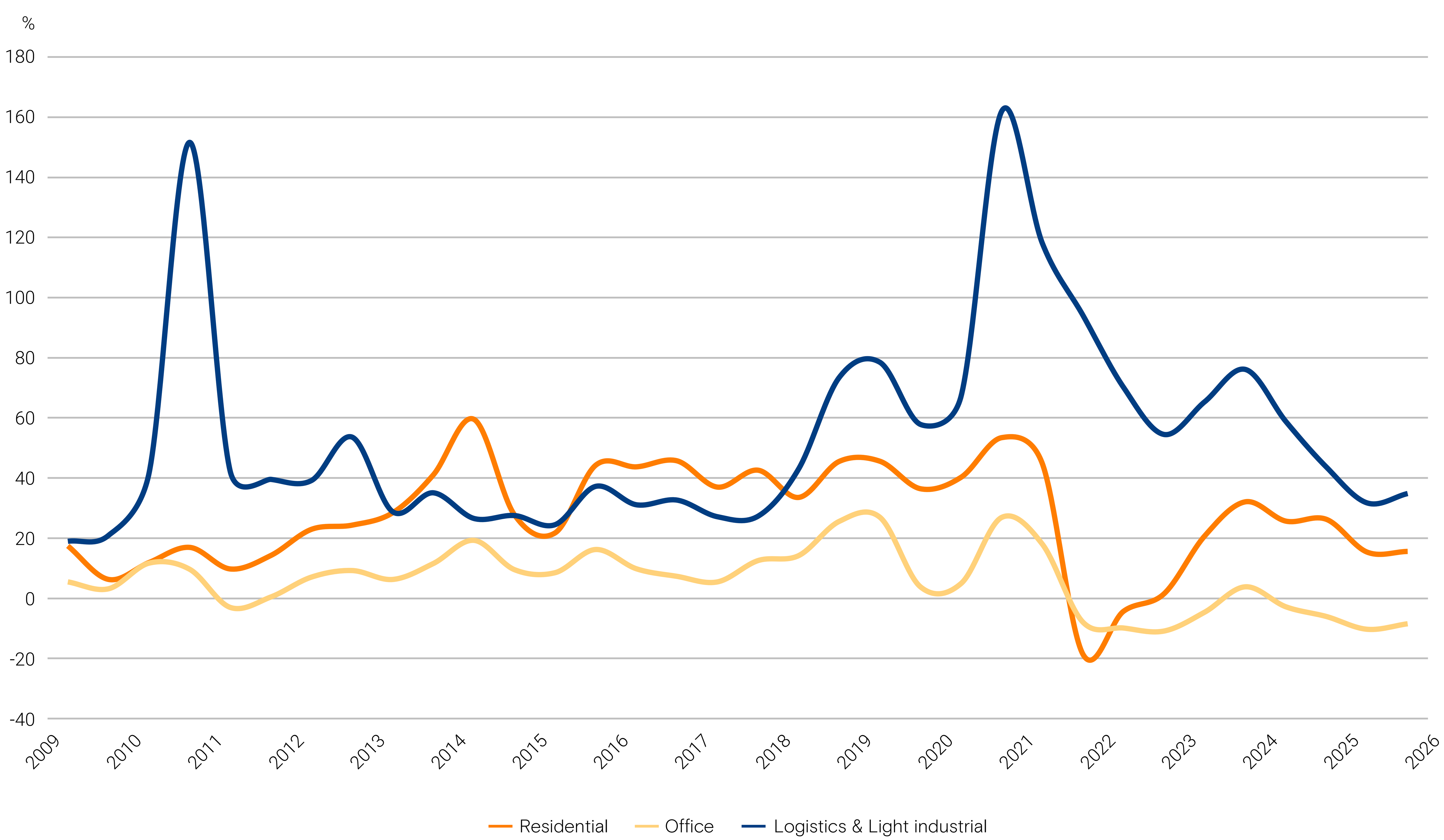
Premium and discount over time

What is normal — premium or discount?

Whether a premium or a discount counts as "normal" has shifted decade by decade. In the 1990s, discounts persisted as some companies were considered "too large to take private" – until they weren't; after which the discounts disappeared. The 2000s brought a mix of discounts and premia. In the 2010s, premia became the norm, driven by ultra-low interest rates. The 2020s have been mixed again: discounts opened up during COVID-19, and the picture has been sector-dependent since, as shown in the chart below.

Looking across the 2009–2026 window, the aggregate premium has shifted materially over the cycle, with Logistics running at very high premia in 2010 and again around 2020–2021, while Residential and Office have mostly hovered closer to neutral. Sector-wise the "normal" level has also shifted over time.

Premium / discount at property level

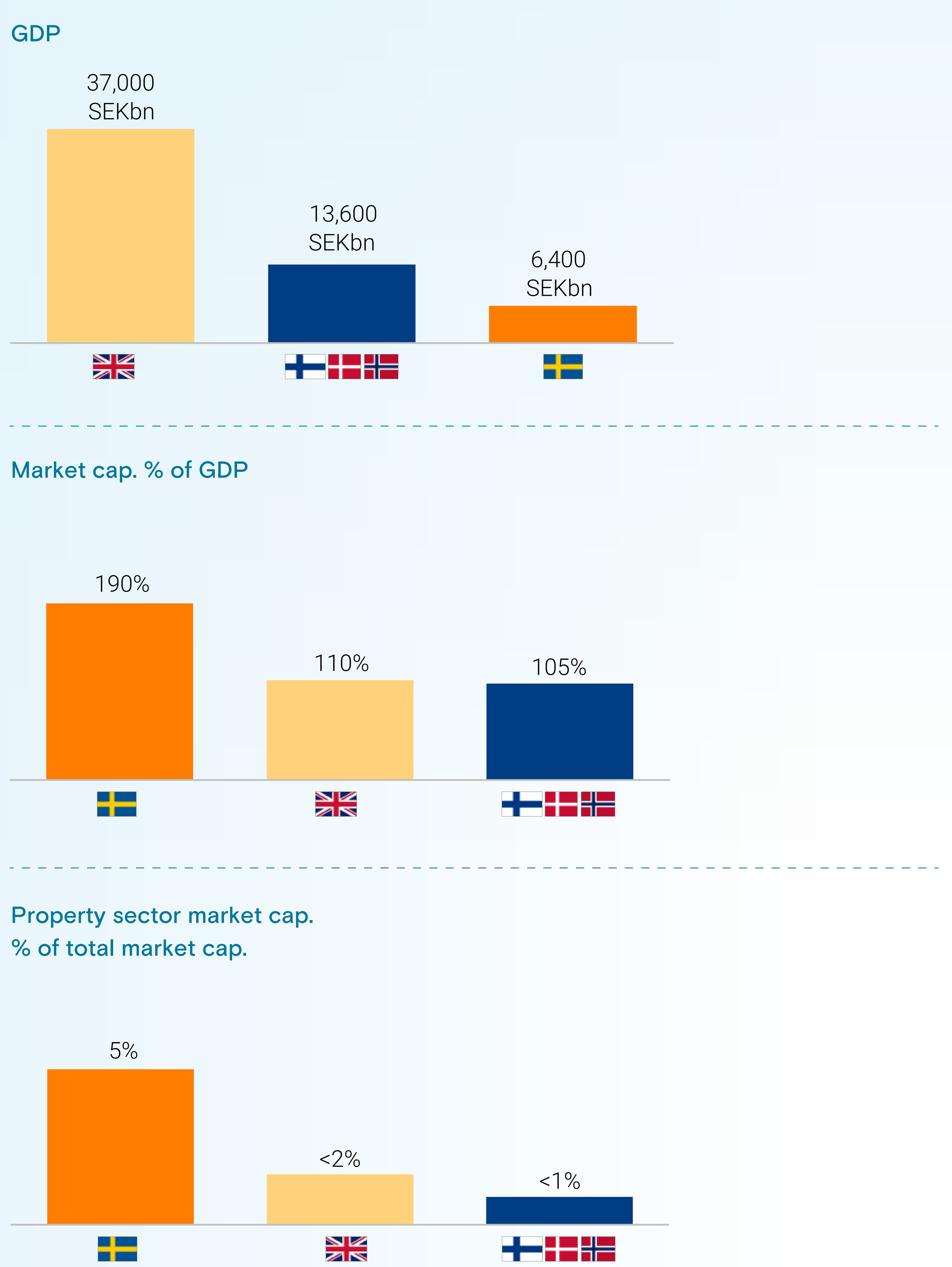


Sweden's stock market is worth nearly twice its economy...

...and listed property is an outsized slice of it

Sweden is an outlier on listed equity: the aggregate market cap of Swedish listed companies is close to 190% of GDP, against around 105% across the other Nordics (Finland, Denmark and Norway) and 110% in the UK.

The listed property sector is an especially large slice of that pie, at roughly 5% of total market cap versus less than 1% in the rest of the Nordics. In absolute terms it is one of the deepest listed property markets in Europe.



Implicit yield vs Property yield

Stock and property markets price property differently. Is there mean reversion?

Another way to look at the same question is through the lens of yield. The implicit yield, derived from the stock-market valuation of the listed property portfolios, has at times run below, and at times above, the yield observed in the direct property market. The implicit yield is also markedly more volatile than valuation yields, as the stock market reacts more quickly to external factors (macro, geopolitics, etc.). Property valuations suffer from “smoothing”, as has been discussed in prior research reports.

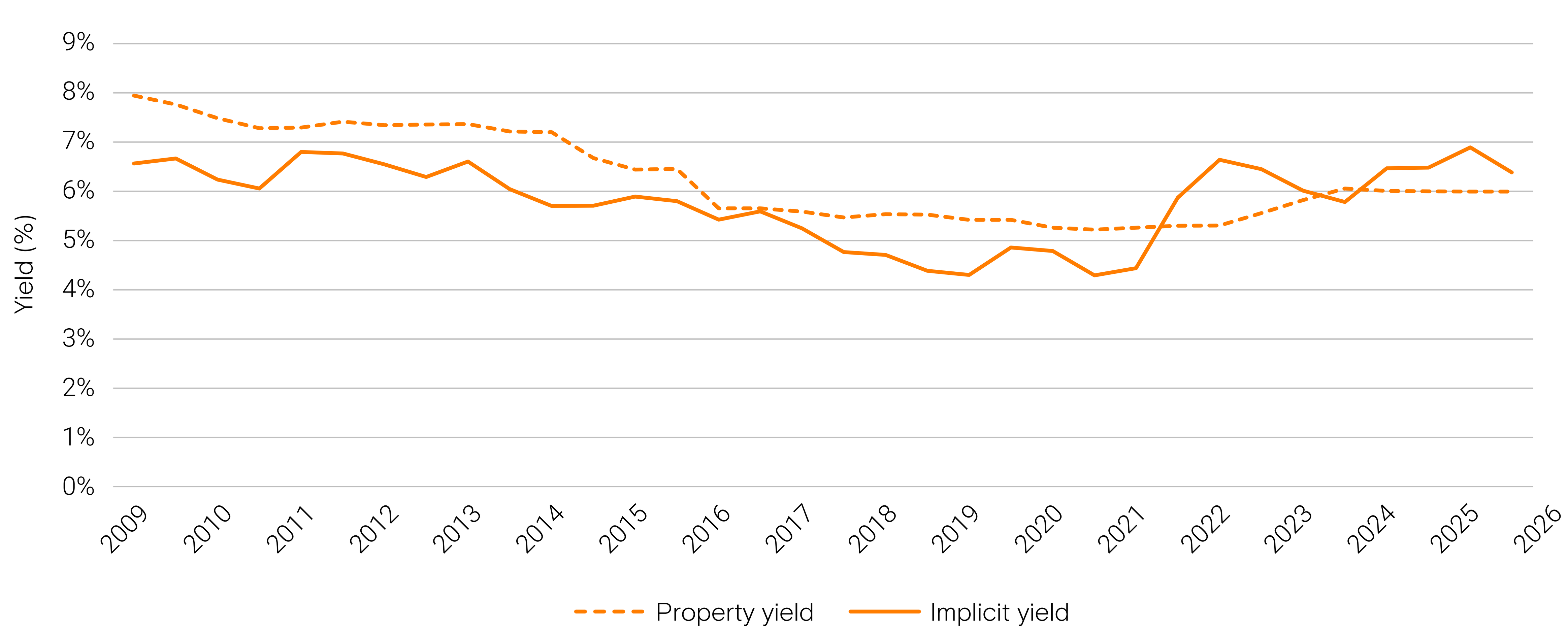
When two markets price the same assets differently, an apparent “arbitrage” opens up, not in the strict sense of a riskless profit, but sufficiently close to attract capital flows to close the gap.

The discount may, however, be justified rather than mispriced, so it is a starting point for analysis, not a buy signal in itself. There could be a specific reason for the discount, such as overstated NAV, structural headwinds, or financing, owner, or management issues.

But when the discount reflects mispricing, the mechanism runs in both directions. A company trading at a discount can be taken private to realise the underlying assets at property-market value, or it can sell assets and buy back its own shares. A company trading at a premium does the opposite: it creates value for shareholders by buying properties at direct-market prices and effectively re-pricing them at the stock-market level.

Over long horizons the gap between the stock-market and property-market valuation mean-reverts: premia and discounts both decay, and the two markets converge. However, the gap can persist for years, and where the discount is justified it may not close at all, or even widen. For a thorough discussion of premia and discounts and the mechanisms that close the gap, see our report “Property shares in turbulent times” (October 2023).

Implicit yield vs Property yield



The stock market prices Office and Logistics NOI alike — the direct market doesn’t

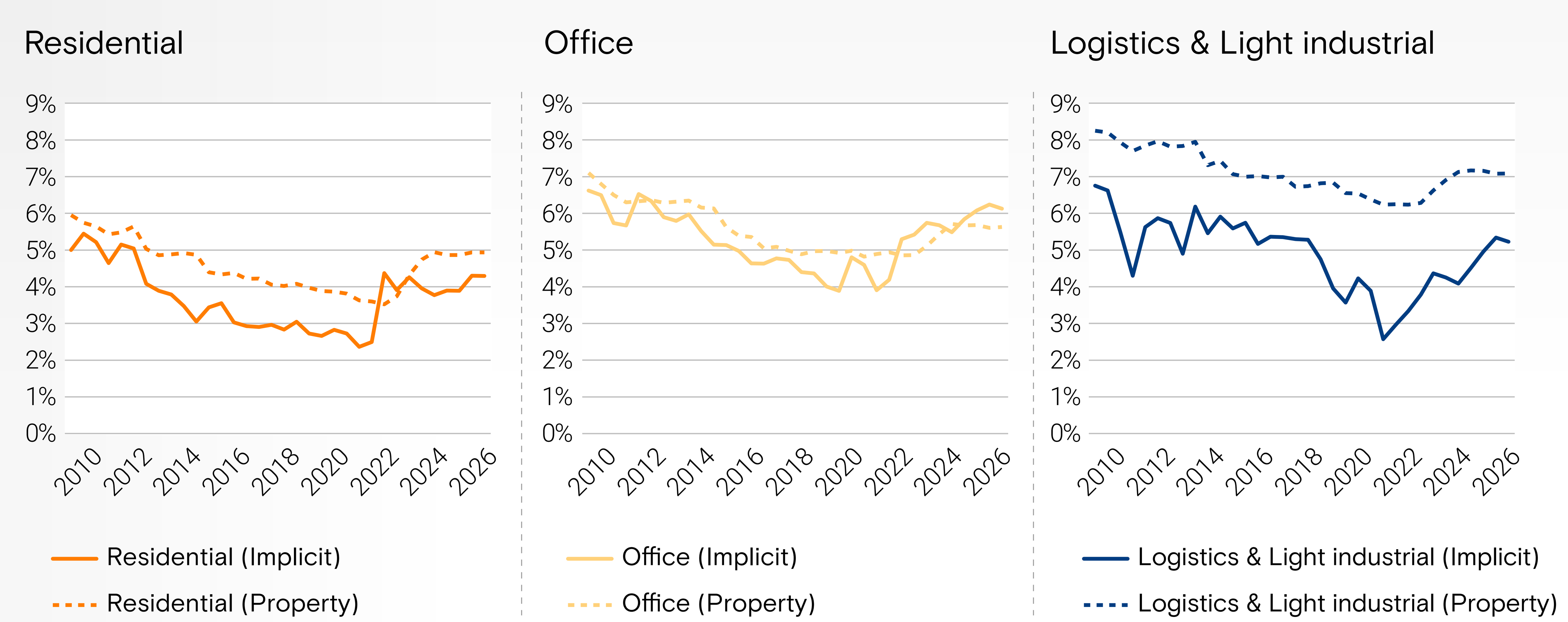
A systematic difference between sectors

Breaking the yield comparison down by sector reveals that the aggregate picture hides systematic, sector-specific differences. Residential and Logistics & Light industrial have traded with a stock market yield that is consistently below the property yield for most of the period, reflecting the premia seen earlier. Office has moved closer to a pattern in which the implicit yield is above the property yield, consistent with today’s discount.

Comparing Office with Logistics & Light industrial gives a striking observation: except for 2021, the absolute level of implicit yields is surprisingly similar. Looking at the inverse of yields, i.e. multiples (P/NOI), Office and Logistics & Light industrial trade at broadly the same level. The stock market values a krona of NOI from an Office building similarly to a krona of NOI from a warehouse. In the direct market, by contrast, the Office building would trade at a meaningfully higher multiple, i.e. a lower yield.

Put differently: the stock market values the cash flow, while the property market values the asset producing it. Neither pricing is inherently “wrong”; they reflect different buyer bases with different holding horizons, financing, and liquidity, but the persistent gap is what creates the cross-market arbitrage discussed earlier.

Implicit yield vs Property yield



Conclusion: property shares are not created equal

Property types are distinct asset classes, not flavours of the same dish

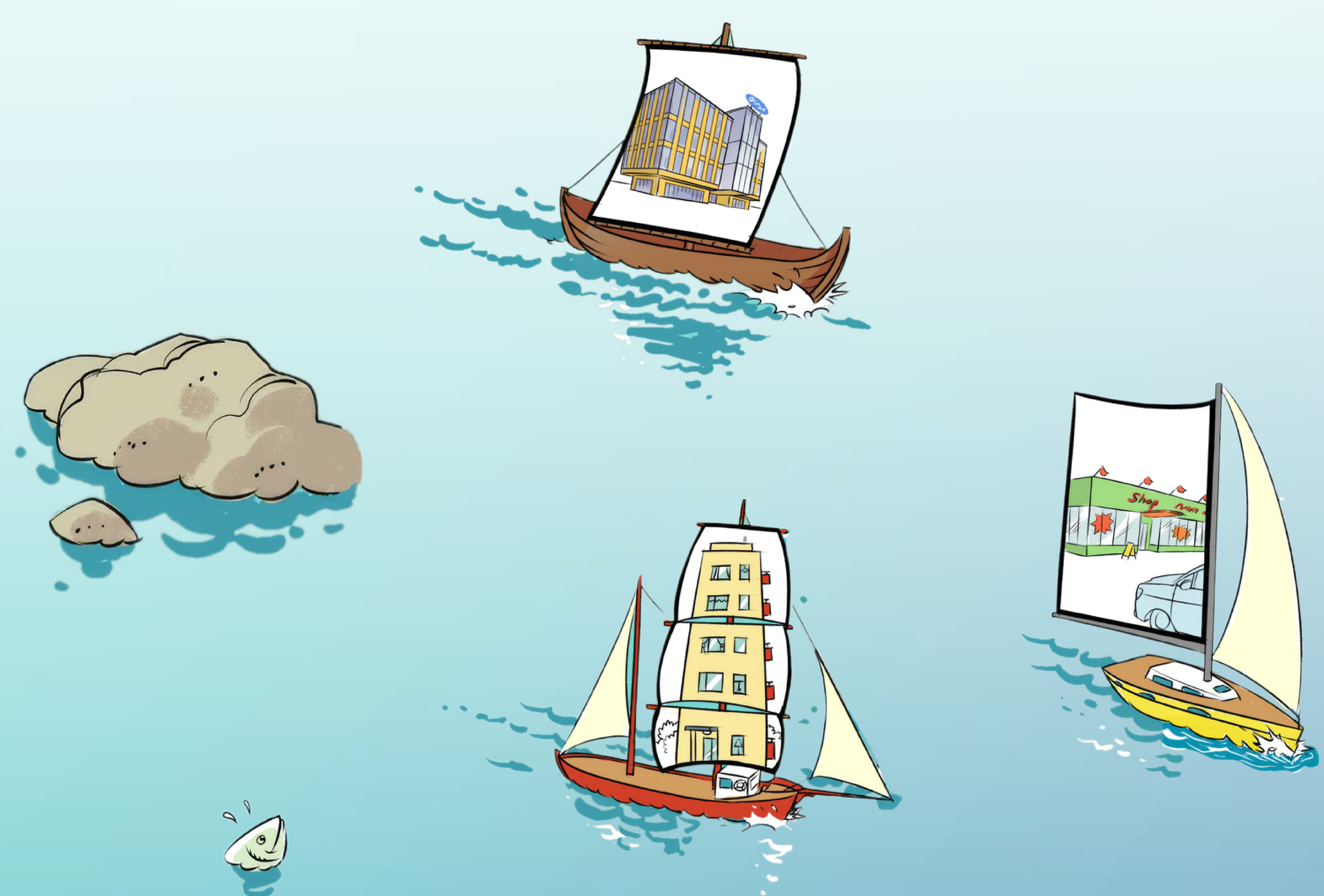
The evidence from the last six years argues strongly against treating listed property shares as a single asset class. Sector membership, not company choice, is the first-order driver of both returns and valuation.

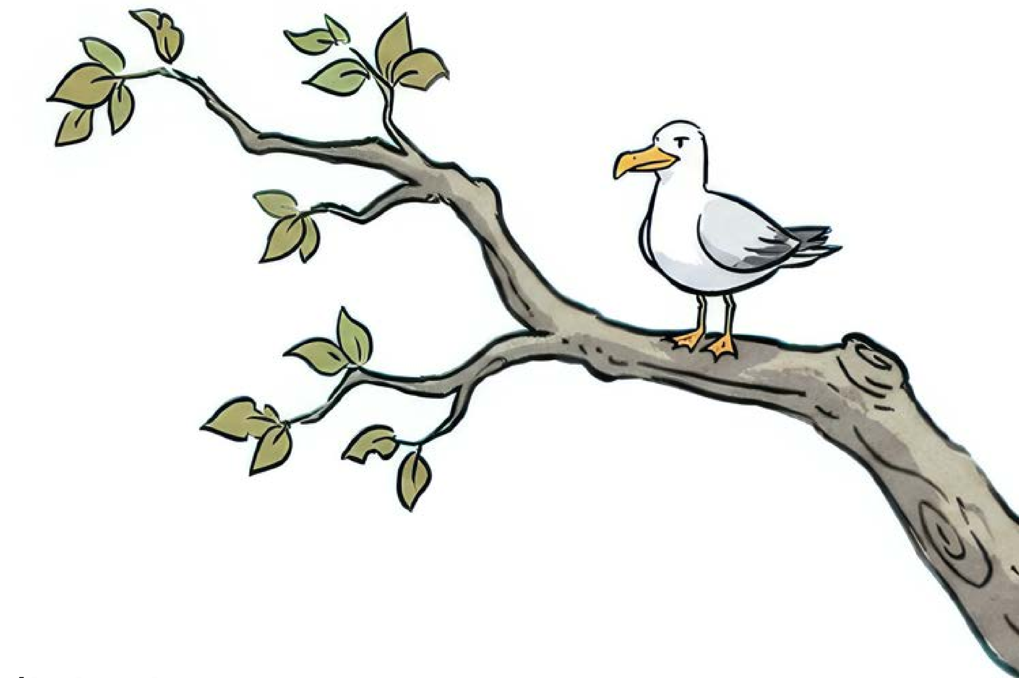
Long-term: sector drives returns. Over 2020–2026 the spread in cumulative total return is enormous: Logistics +77%, CREX −22%, Office −42%.

Short-term: sectors move together, so diversification within property shares is limited. Daily pairwise correlations cluster at 0.83–0.94, with Hotel and Grocery the only meaningful exceptions (0.50–0.73).

Right now: sector drives the premium to NAV. In 2026 the spread between Logistics (+35% premium) and Office (−8% discount) is 43 percentage points.

Cross-market: the stock market and direct property market price NOI differently, and consistently so by sector. The stock market values Office and Logistics & Light industrial NOI at similar yields (multiples); the direct market does not. That gap is the structural reason a sector-aware investor can earn excess return, either by harvesting the higher implicit yield at the discount end, or by playing the mean-reversion trade when it closes.



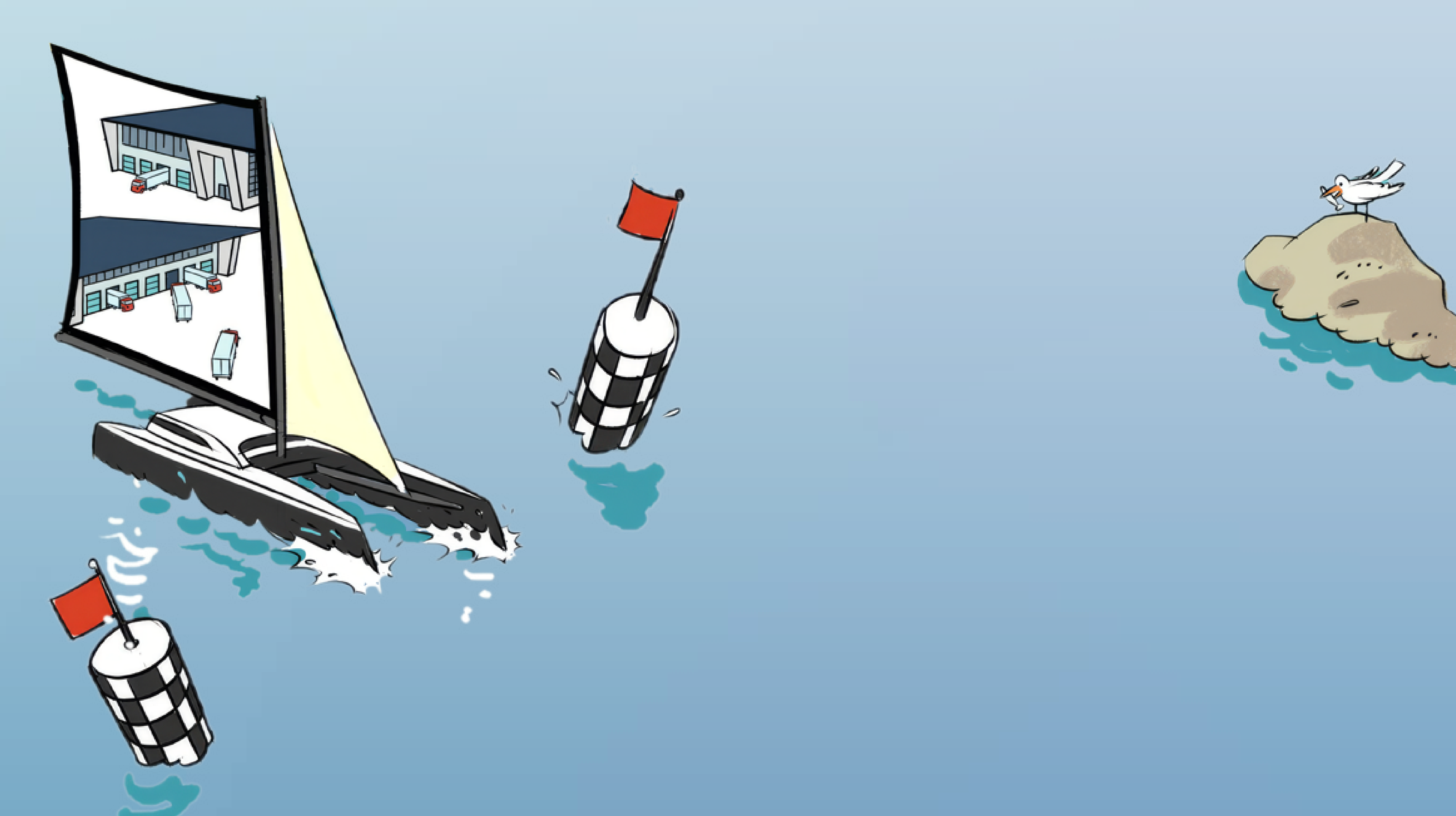


How should investors act?

The key implication is that investors need to take an explicit view on sector mix; sector selection is first-order, company selection second-order. Three things follow from the evidence in this report:

- Don't buy "property shares"; buy a sector. A basket picked across sectors inherits high daily correlation but loses the sector-level alpha. The default of tracking CREX is implicitly an Office-heavy bet.
- The boilerplate caveat that "historical performance is not indicative of future results" is especially relevant here. Are the historically high returns on Logistics & Light industrial repeatable? Is the sector already overvalued? The same uncertainty runs the other way for Office: are today's discounts the new normal, or the set-up for a recovery?
- On the opportunity side, the cross-market pricing gap is what makes a discount worth investigating. Where it is genuine mispricing, buying at a discount locks in a higher implicit yield than the direct property market offers, and the pay-off does not depend on mean reversion; even if the gap never closes, the investor still earns the higher yield.

> *There is no single "property share return" – only sector returns. Property shares are not created equal.*



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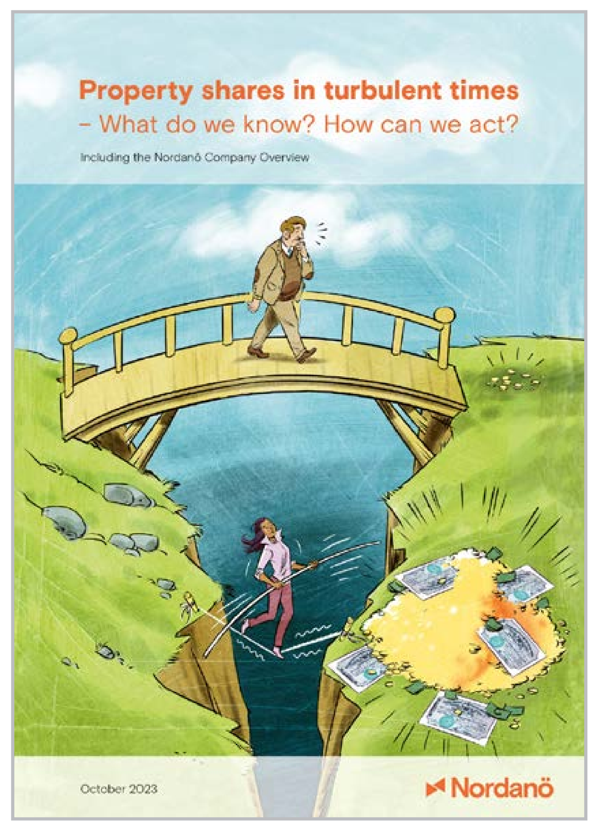

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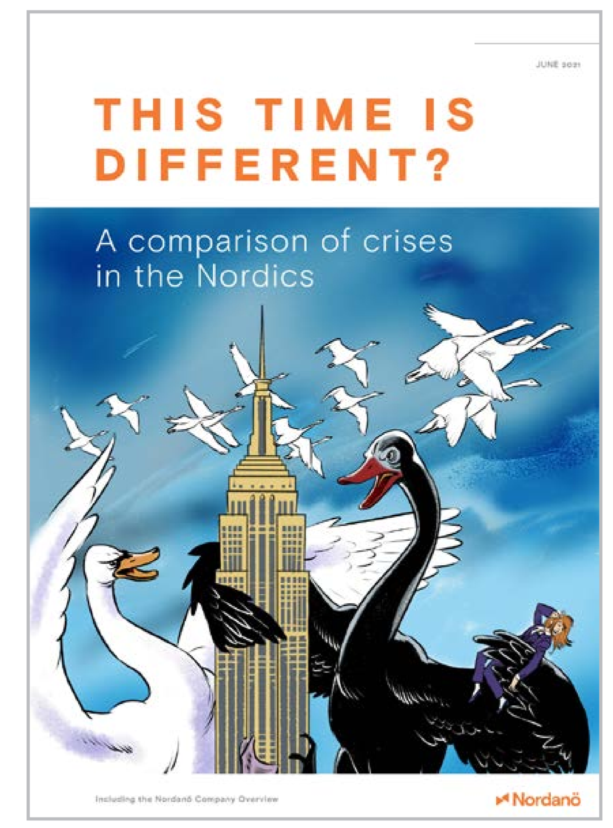

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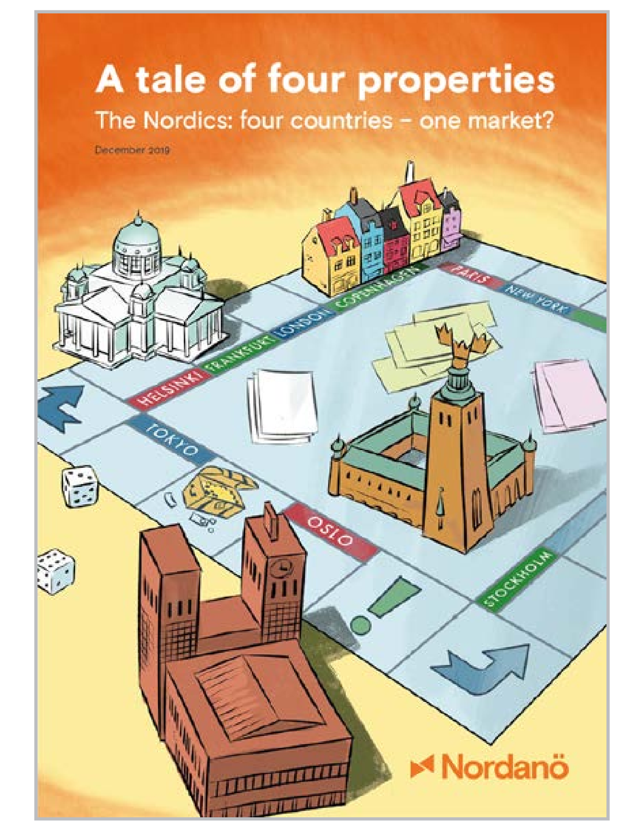

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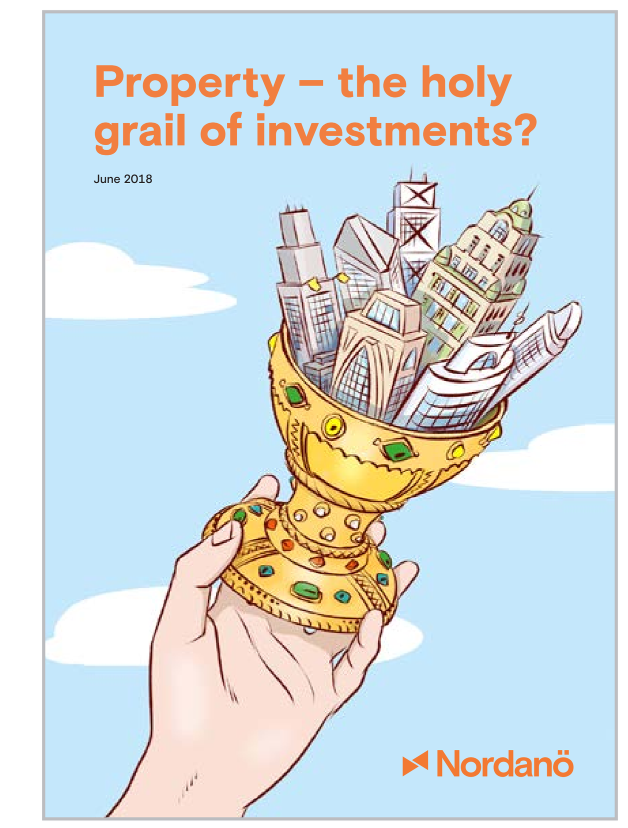

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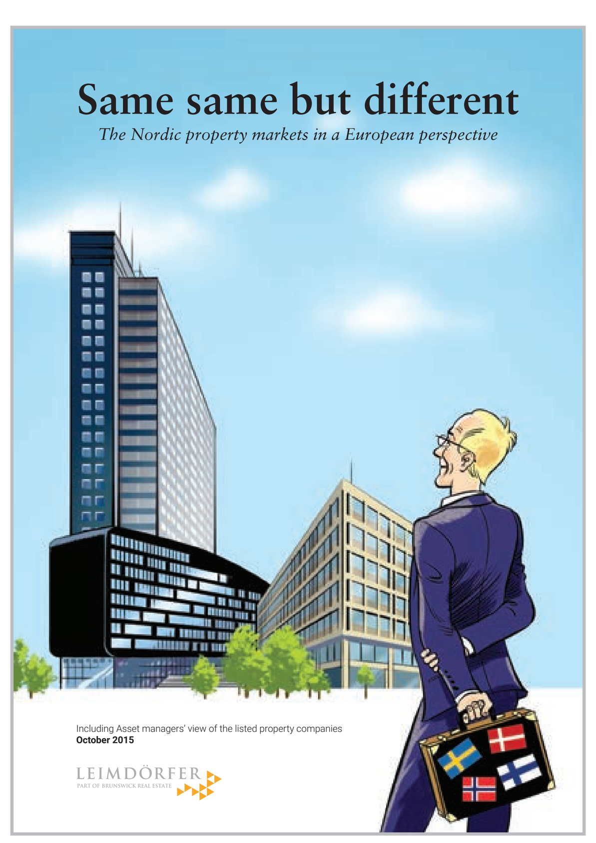

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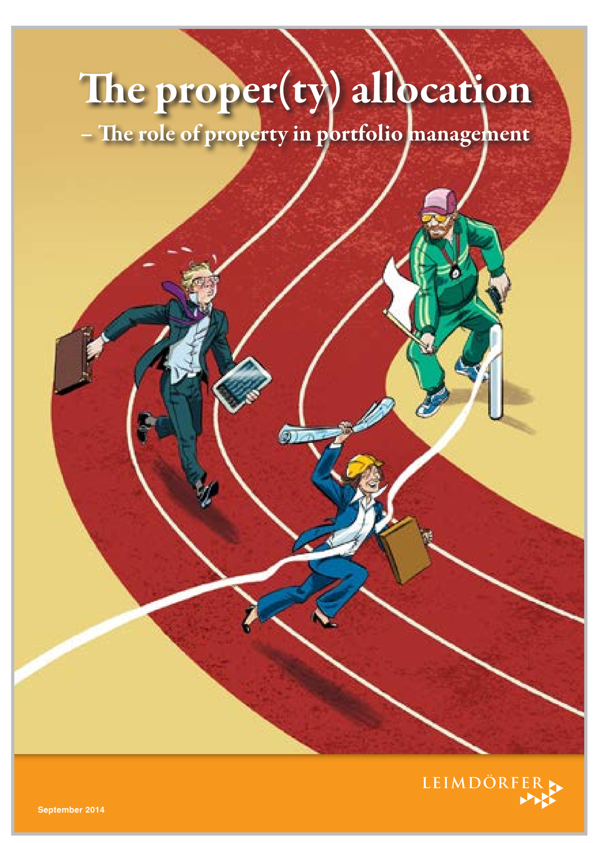

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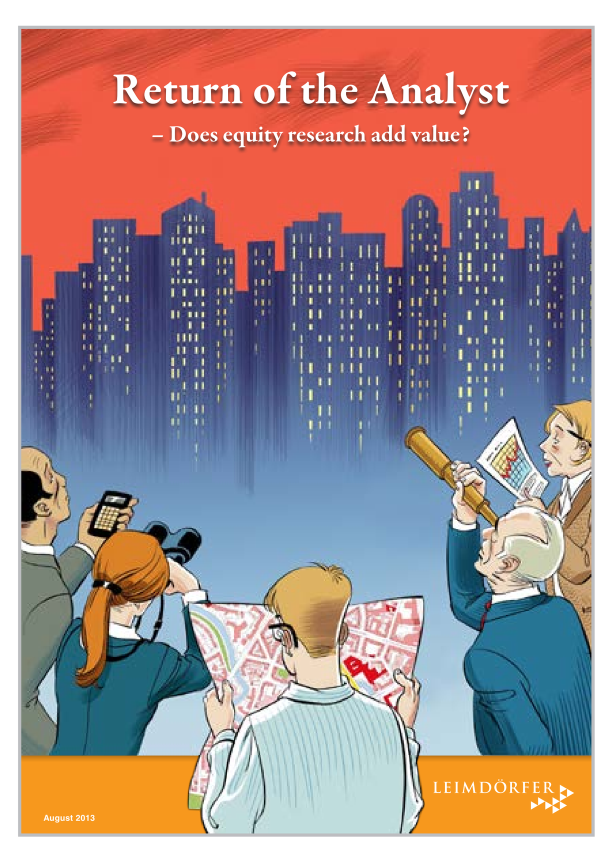

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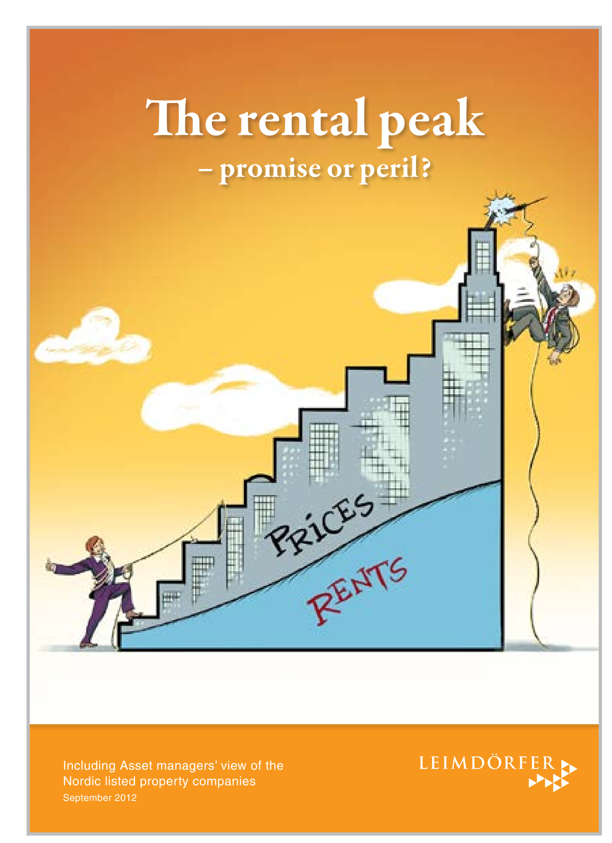

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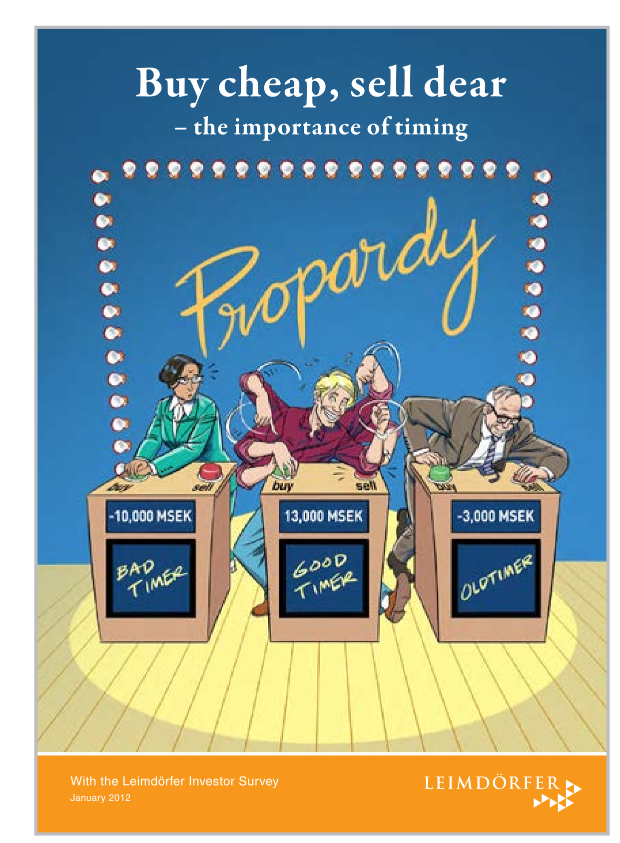

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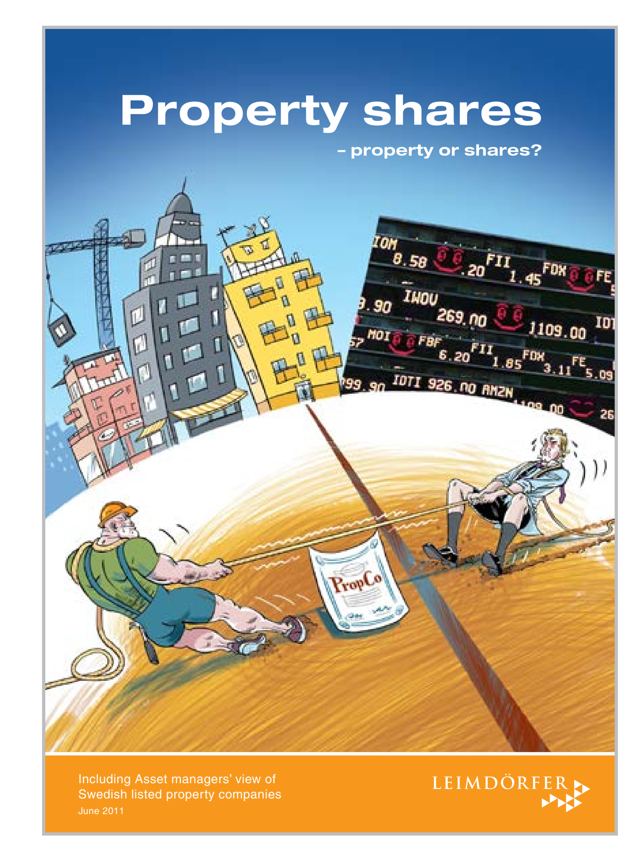

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