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# Market update

# Q3 2019

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30 October 2019

Kristoffer Eide Hoen and Anders Wettre

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# Agenda

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- 01 Introduction
- 02 Market drivers
- 03 The contracting markets
- 04 Summary

# Veidekke's market data

- Quarterly update on [veidekke.com](https://veidekke.com)
  - Can be filtered by geographical region and sector in Scandinavia
  - Forecasts for 2019 and 2020 available; 2021 to be added in Q4
- Preparation of historical market data for the contracting markets
  - Automated data collection and quality assurance by Statistics Norway, Statistics Sweden, Statistics Denmark, Macrobond, Veidekke and others.
- Forecasts for the contracting markets for 2019 and 2020
  - Macroeconomic variables from the IMF, the National Institute of Economic Research, Statistics Norway, the Danish Economic Councils, central banks, Almi, etc.
  - Forecasts for the construction sector are based on machine-learning tools (RNN)
  - Forecasts for the civil engineering sector are based on data from different sources and analyses of investment activity, financial capacity and project databases

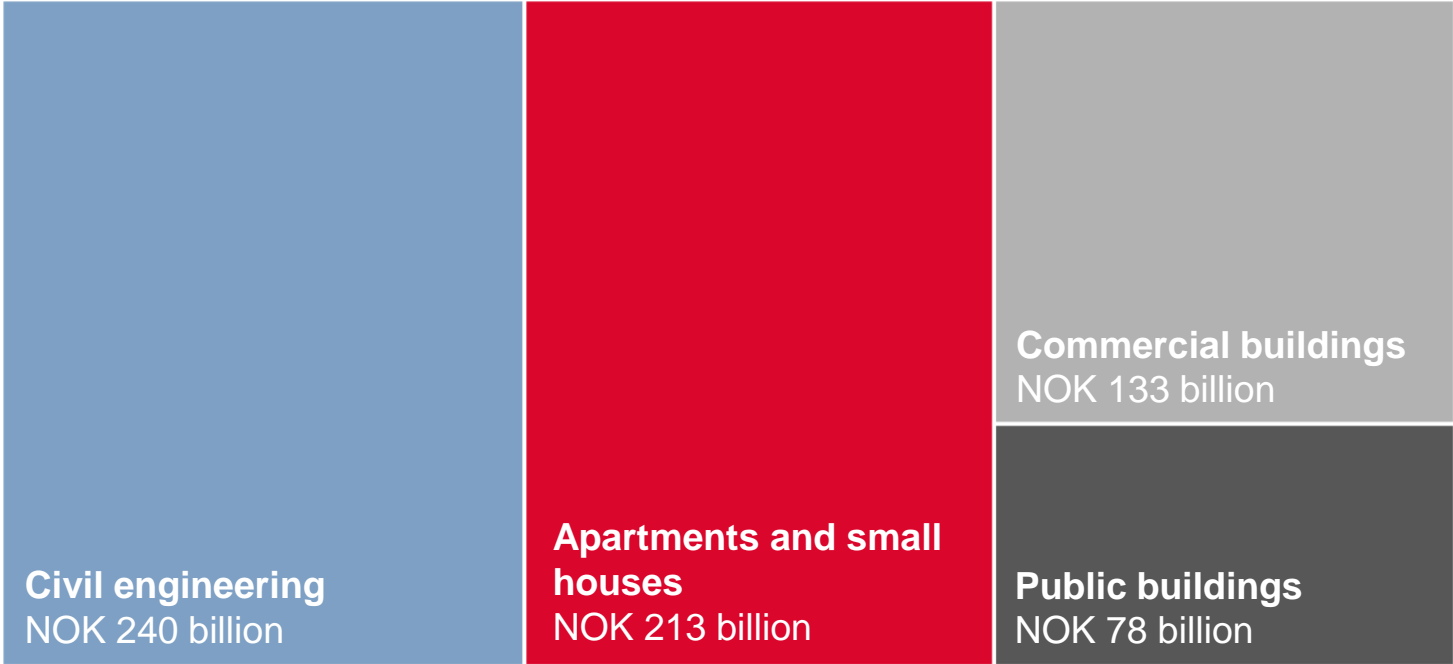
*The report describes anticipated developments in the Scandinavian contracting markets in the period to 2020, but does not reflect Veidekke's own expectations for the Group's development during the period.*

# Scandinavian contracting markets

## Dominated by civil engineering and apartment blocks

### The contracting markets 2018

Building construction\* and infrastructure in NOK billion



**Not included:**

- + Detached houses and holiday homes: NOK 140 billion
- + Primary industry: NOK 20–30 billion
- + Residential refurbishment, “off the books work” and household DIY



Source: Veidekke's market data

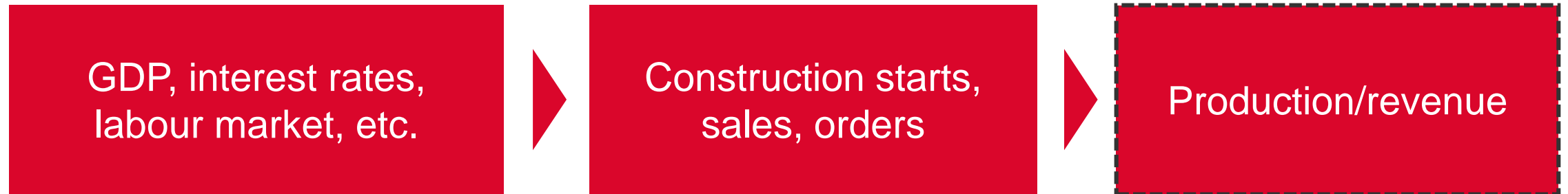
\*Residential units: All new-builds, rebuilds and additions, excluding detached houses and holiday homes.  
Non-residential buildings includes an estimate of the transparent ROT market for project sizes >NOK 20 million.  
The civil engineering market only encompasses new-builds.

# Forecasts for the contracting markets 2019–2020



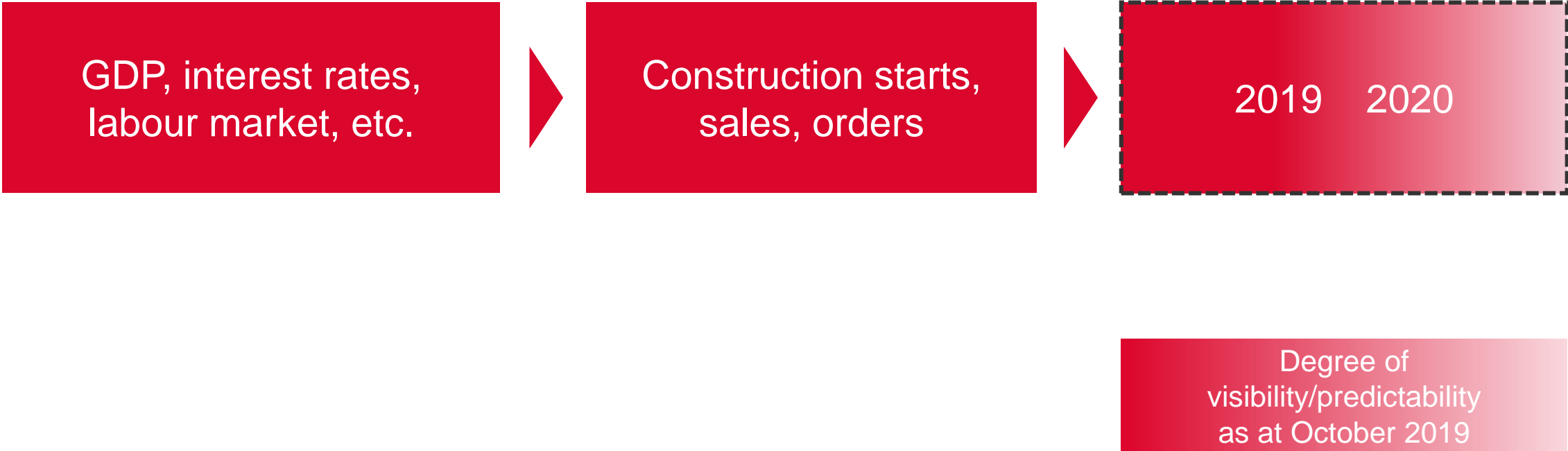
# Forecasts for the contracting markets 2019–2020

*Indicators:*



# Forecasts for the contracting markets 2019–2020

*Indicators:*



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# Market drivers

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# Macroeconomic overview

## International growth and construction and civil engineering

### GDP growth

Percentages

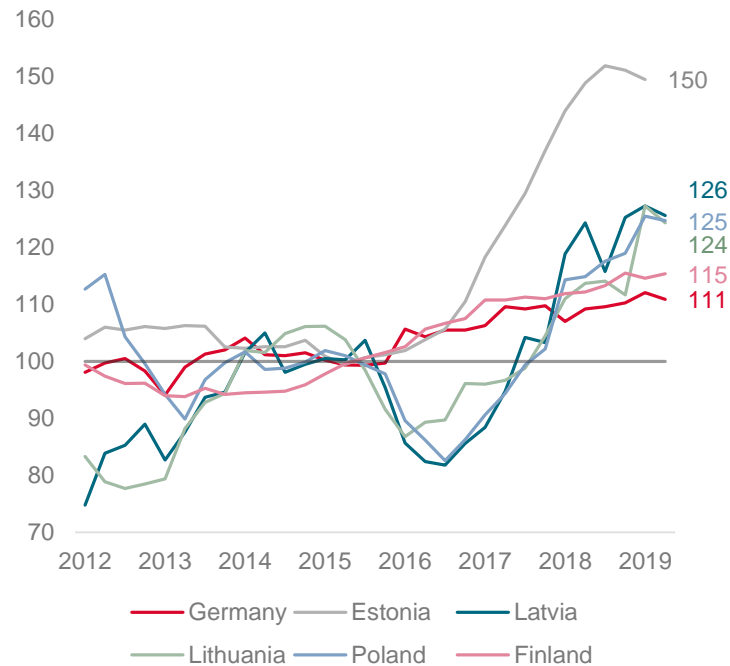
Percentages	2016	2017	2018	2019	2020
Eurozone	1.9	2.5	1.9	1.2 (1.6)	1.4 (1.7)
Germany	2.2	2.5	1.5	0.5 (1.3)	1.2 (1.6)
UK	1.8	1.8	1.4	1.2 (1.5)	1.4 (1.6)
USA	1.6	2.4	2.9	2.4 (2.5)	2.1 (1.8)
China	6.7	6.8	6.6	6.1 (6.2)	5.8 (6.2)
Global	3.4	3.8	3.6	3.0 (3.5)	3.4 (3.6)

Brackets indicate estimates in March 2019.

Sources: IMF and Eurostat

### Production index, construction and civil engineering

Seasonally adjusted index, 2015=100



### Comments

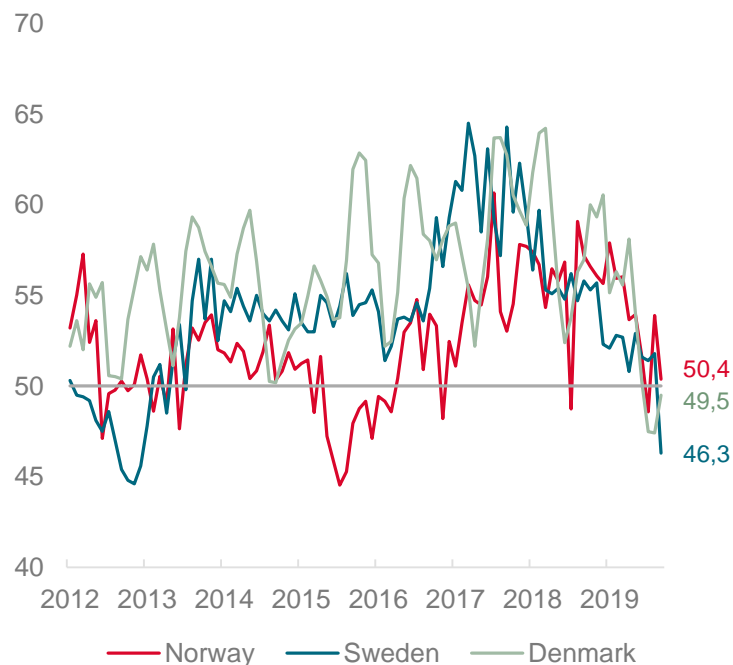
- Lower trade growth and reduced investment are dampening international economic cycles
- Improved growth forecasts for 2020–2021, not least due to aggressive monetary policy
- The northern European contracting markets have tapered off in 2019 – growth over for now?

# Macroeconomic overview

## Scandinavia

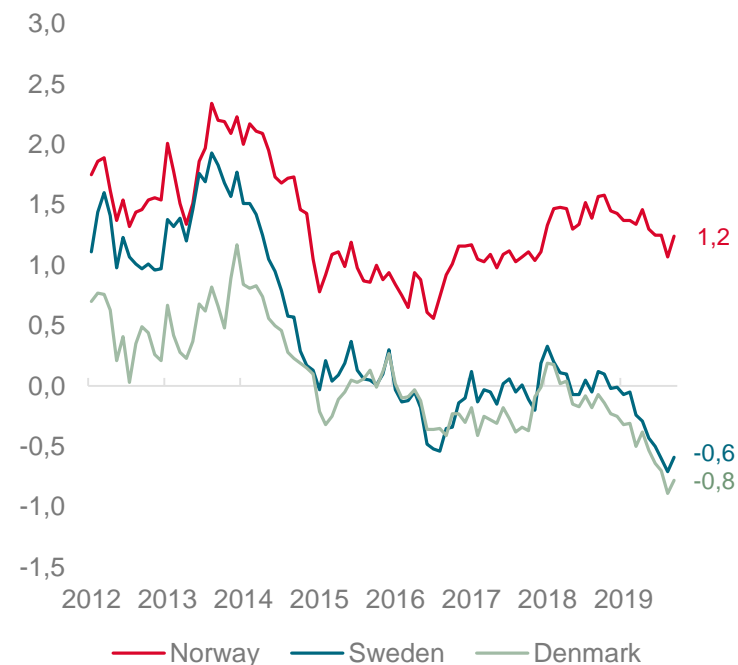
### Economic activity

Purchasing Managers' Index (PMI)\*



### Interest rates

Five-year government bonds, percentages



### Comments

- Downturns among international trade partners have a knock-on effect
- Interest rate rises are no longer expected, with long interest rates falling in the past half-year
- The impact of a downturn on the construction and civil engineering market is not obvious. Lower interest rates/rate forecasts have previously had positive effects on e.g. the residential sector

*\*Measures changes in industry activity levels based on monthly surveys of purchasing managers. Figures above 50 indicate growth, index figures below 50 indicate a slowdown.*

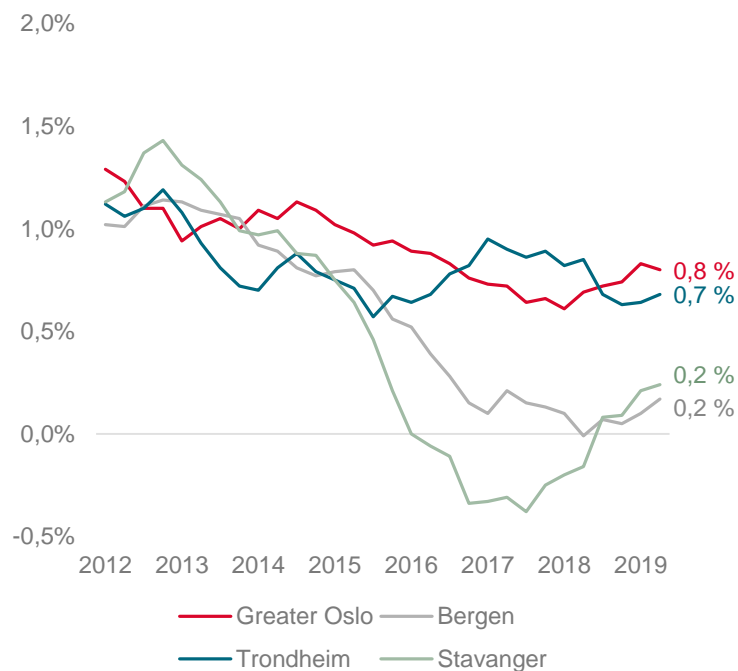
Sources: Norwegian Association of Purchasing and Logistics, Swedbank, Danish Purchasing and Logistics Forum, Norges Bank and Macrobond

# Demographics

## Net immigration

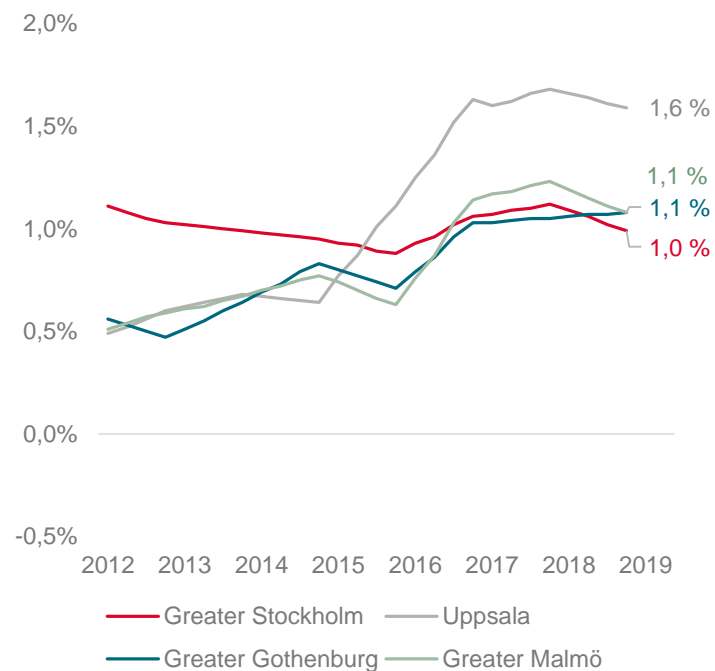
### Net immigration Norway

Percentage of population



### Net immigration Sweden

Percentage of population



### Comments:

- Immigration is generally high in most metropolitan regions
- New development: Improvement in several Norwegian metropolitan regions following a weak period
- Immigration is both an important driver and a consequence of residential construction

Source: Statistics Norway, Statistics Sweden and Veidekke

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# The contracting markets

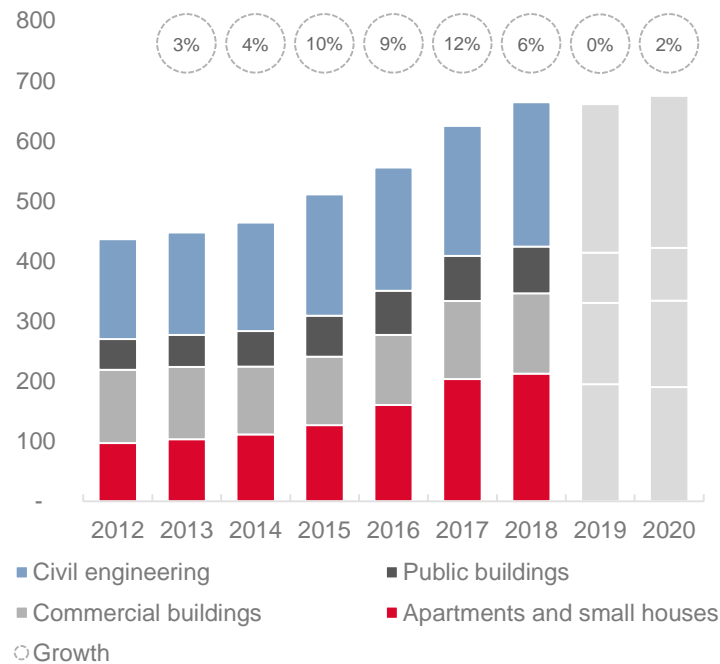
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# Scandinavian contracting markets

## Stable, high activity levels until the end of 2020

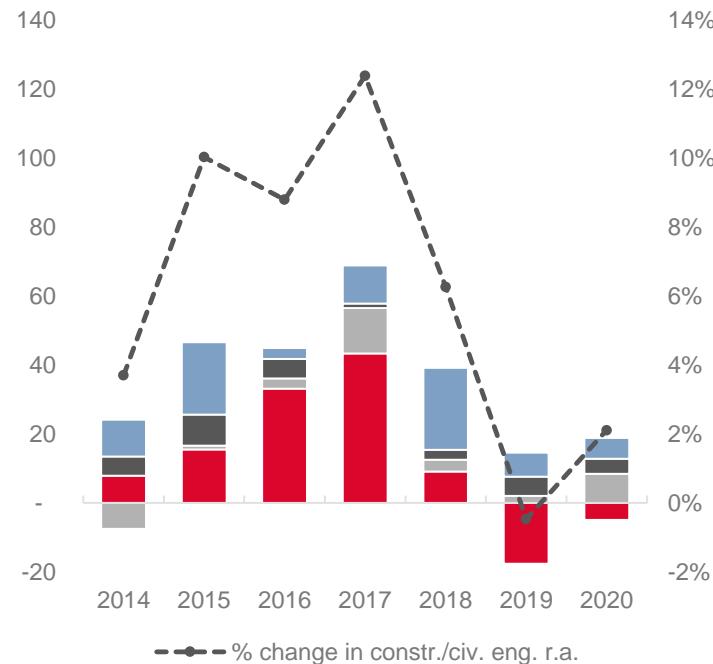
### Market level

Annual production, NOK billion



### Market change

Contribution to change, NOK billion



### Comments

- Activity levels remain high, but the period of strong growth has ended
- Non-residential buildings and civil engineering are positive contributors, at least until the end of 2020
- Marked differences between metropolitan regions in the past year, but more stable going forward?

### Forecasts contracting markets

Report	2018	2019	2020
October 2019	6%	0%	2%
March 2019	5%	-3%	0%

Source: Statistics Norway, Statistics Sweden, Statistics Denmark and Veidekke

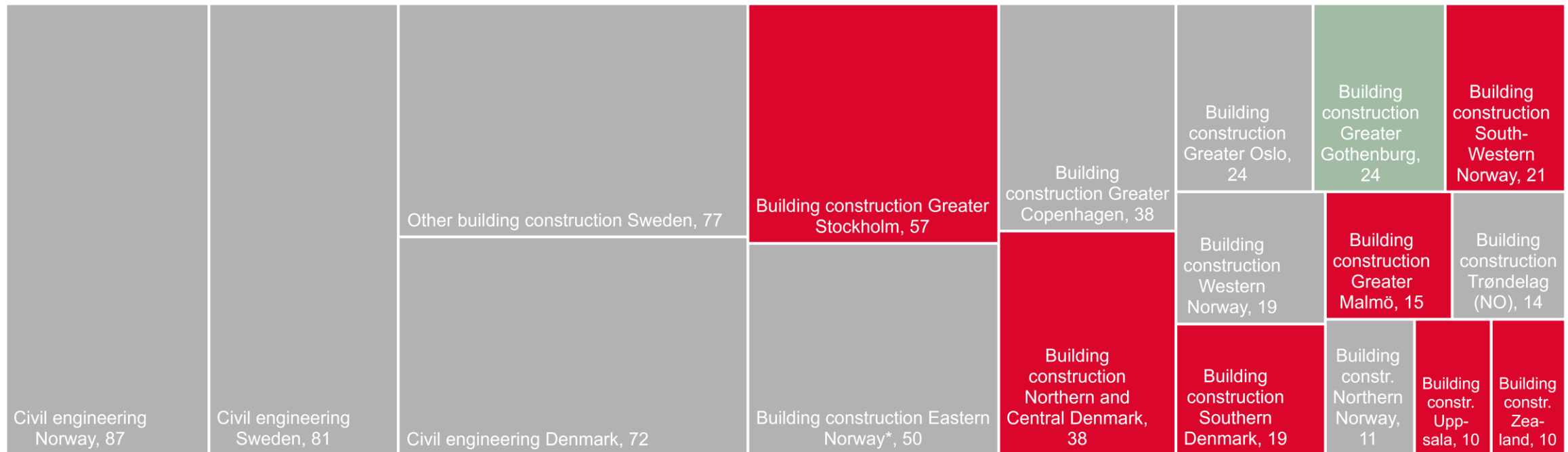
# Scandinavian contracting markets

## Overview of relevant markets and growth

### Production in the building construction sector in 2018 and growth rate 2019 and 2020 (CAGR)

Market by region, NOK billion

- Positive CAGR 2018-2020
- Neutral CAGR 2018-2020 (-5% to +5%)
- Negative CAGR 2018-2020



Source: Veidekke's market data

\*Excl. Greater Oslo

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# Building construction

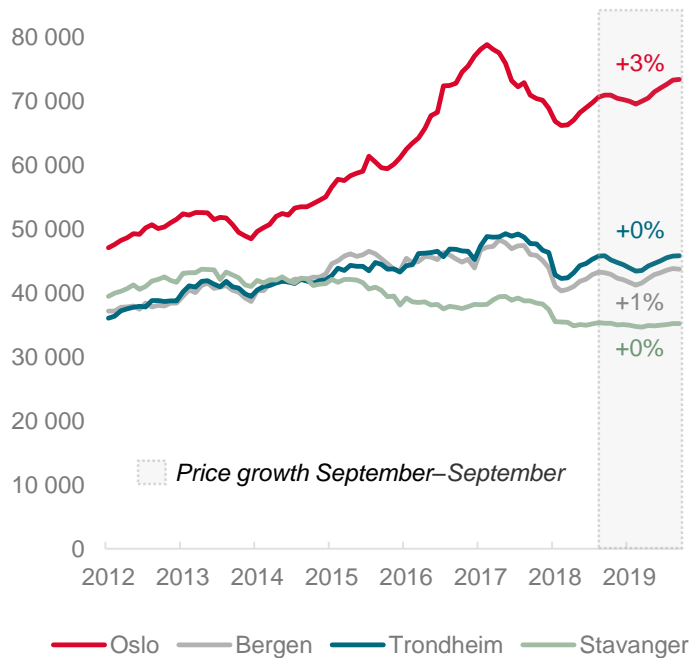
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# Norwegian residential market

## Prices and building starts

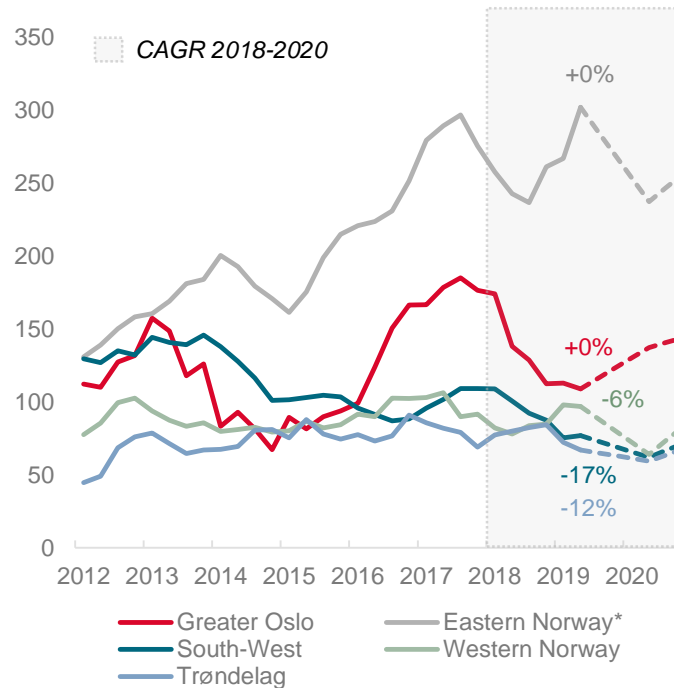
### Residential property prices in the largest markets

Price per m<sup>2</sup>, NOK



### Building starts, apartments and small houses

'000 m<sup>2</sup>, quarterly



### Comments

- Stable, positive trends in the secondhand housing market are expected to continue
- Apartment and small house building starts will remain at a high level in eastern Norway, but will be more moderate in other regions
- The Financial Supervisory Authority's proposed residential mortgage regulations: Elimination of special requirements for Oslo\*\* most efficient measure?

\* Excl. Greater Oslo

\*\* 40% equity share requirement applicable to purchases of second homes

Sources: Real Estate Norway, Statistics Norway and Veidekke

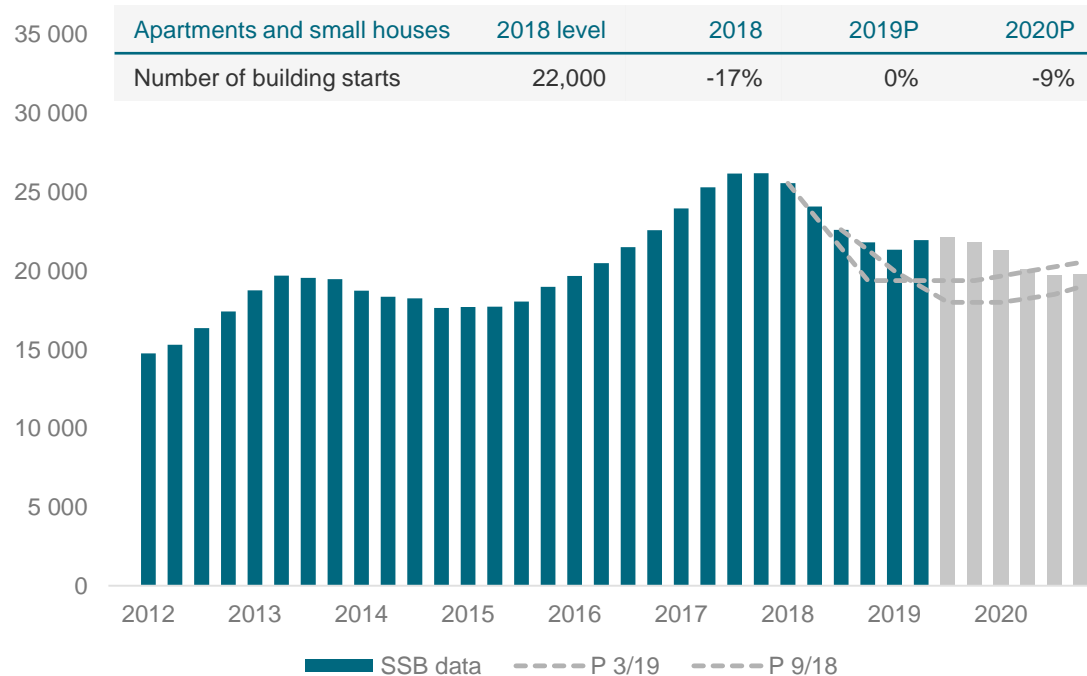


# Norwegian residential market

## Number of units

### Building starts, apartments and small houses

12-month rolling quarterly total, number of units



### Comments

- Apartment and small house building starts have remained higher than anticipated, particularly in areas around Oslo
- A moderate correction is expected in 2020, measured as the number of started apartment and small house units
- Historically, 20,000 started apartment and small house units in 2020 is still high

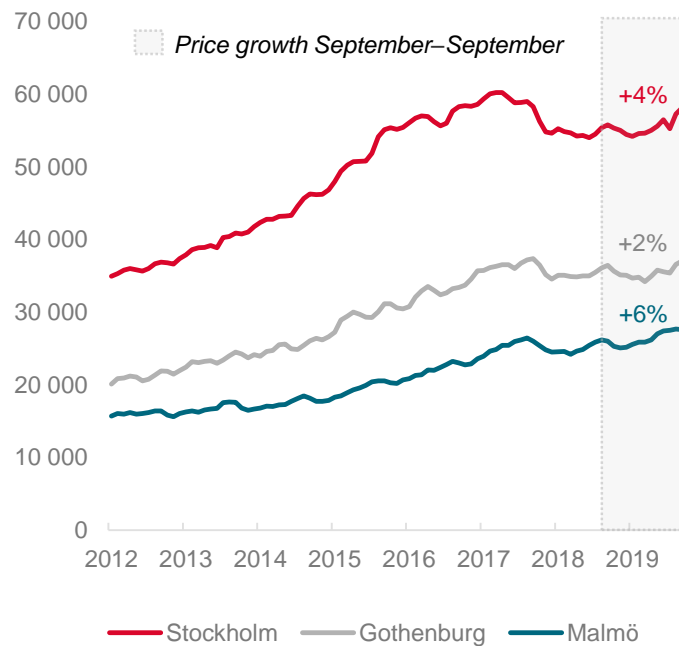
Sources: Statistics Norway and Veidekke

# Swedish residential market

## Prices and building starts

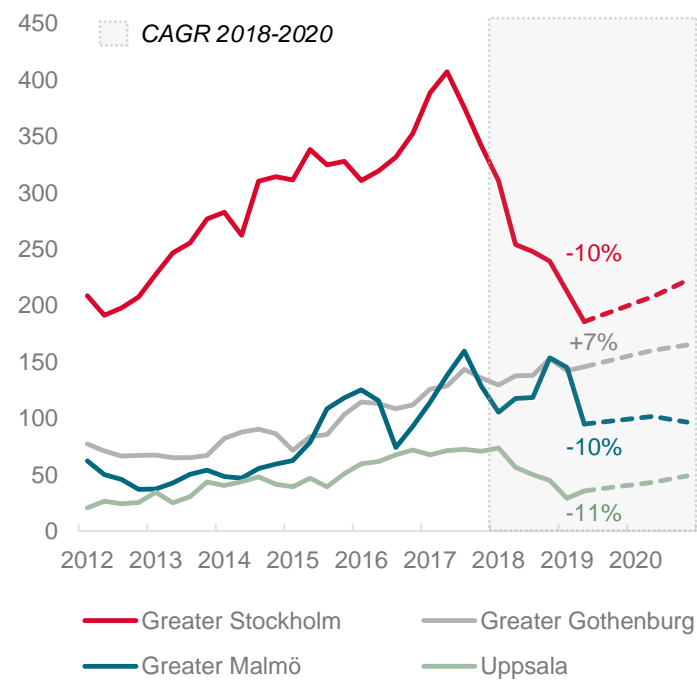
### Residential property prices in the largest markets

Price per m<sup>2</sup>, SEK



### Building starts, apartments and small houses

'000 m<sup>2</sup>, quarterly



### Comments

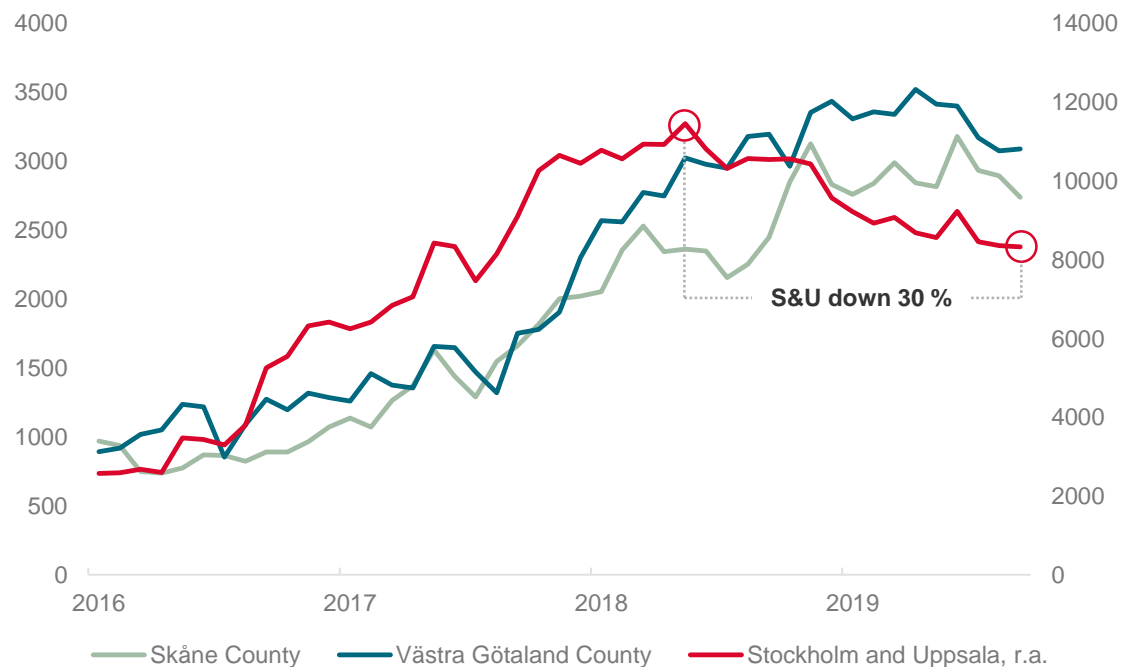
- Large drop in building starts in Stockholm; considered to have bottomed out
- Mixed construction activity in the other two major metropolitan areas
- Stable secondhand housing market, and the supply of new residential units has stabilised

Sources: Mäklarstatistik, Statistics Sweden and Veidekke

# Swedish residential market

## Supply of unsold new apartment blocks

Number of units. All phases\*



Source: Booli

## Comments

- Symptom of «supply shock» in 2016 and 2017
- Stabilisation and some decline in unsold units in 2019

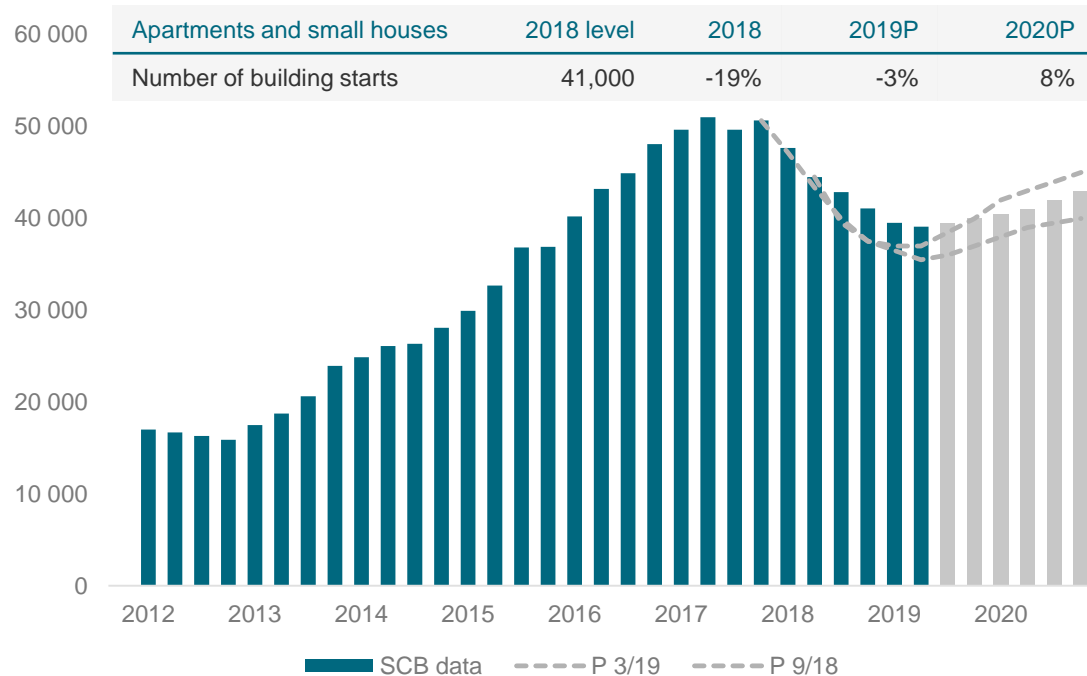
\* Not yet started, in production and completed. The latter category only accounts for a modest proportion.

# Swedish residential market

## Number of units

### Building starts, apartments and small houses

12-month rolling quarterly total, number of units



Sources: Statistics Sweden and Veidekke

### Comments

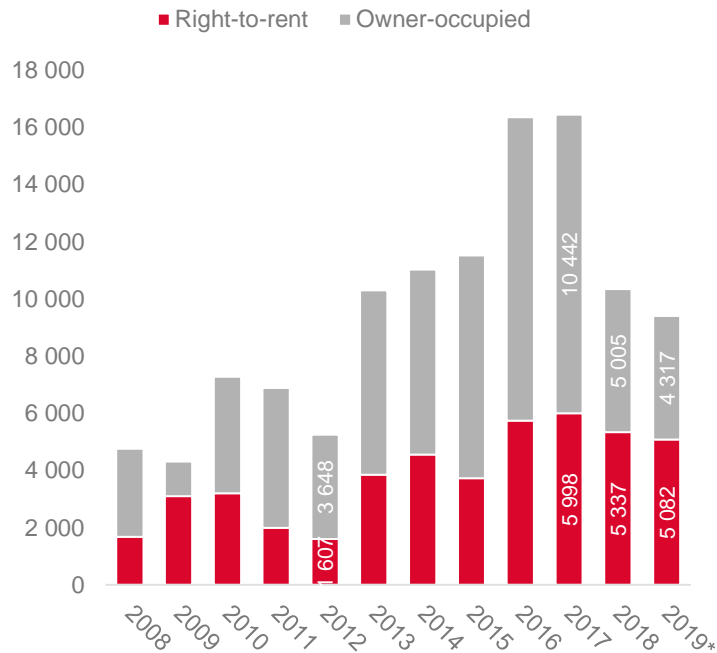
- The number of new apartment and small house building starts has tapered off approximately as expected
- 40,000 started units is still high historically, and better matches available capacity and expertise
- Construction cost growth was very high in the period 2014–2017, but is falling now

# Right-to-rent vs. owner occupancy

## Form of ownership, started apartment blocks

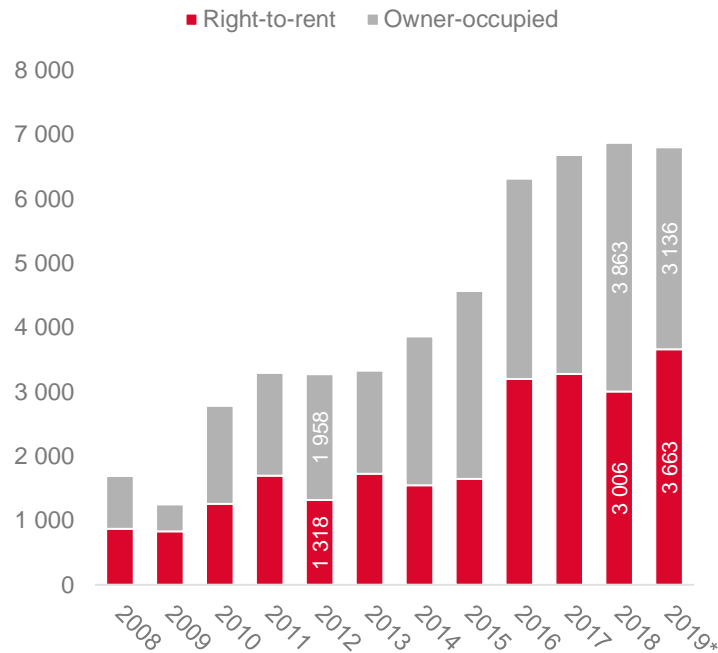
### Greater Stockholm

Number of units



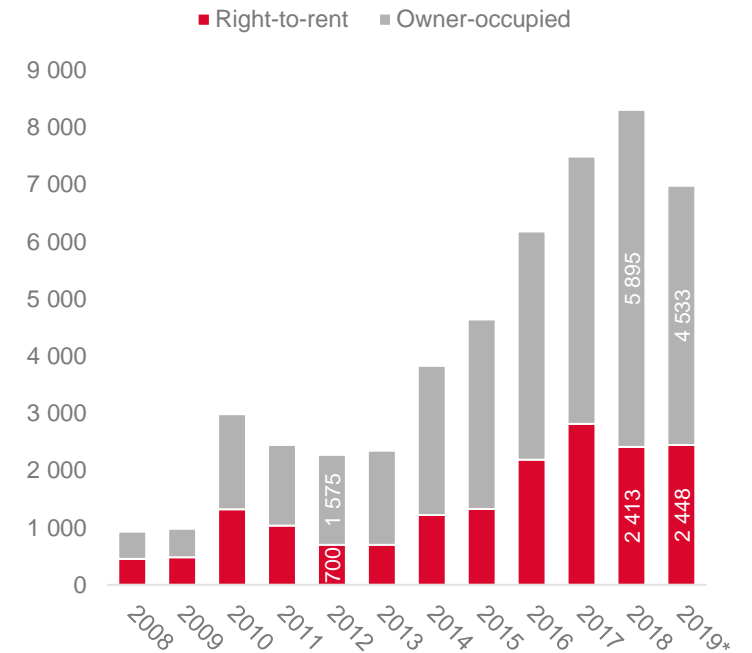
### Västra Götaland

Number of units



### Skåne

Number of units



Source: Veidekke's market data

\* 12-month rolling quarterly total, as at Q2 2019

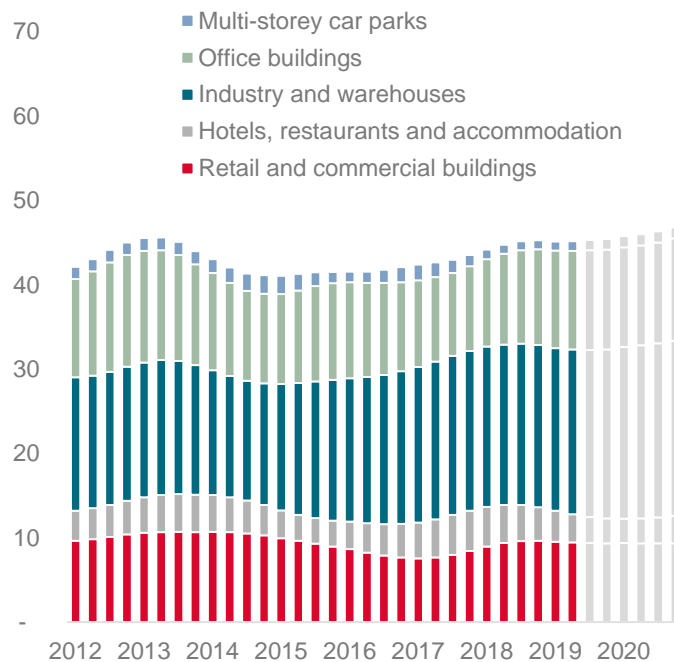
NB: This overview does not include outright ownership, which only accounts for a marginal proportion (approximately 450 units in 2018).

# Commercial buildings in Norway and Sweden

## Production

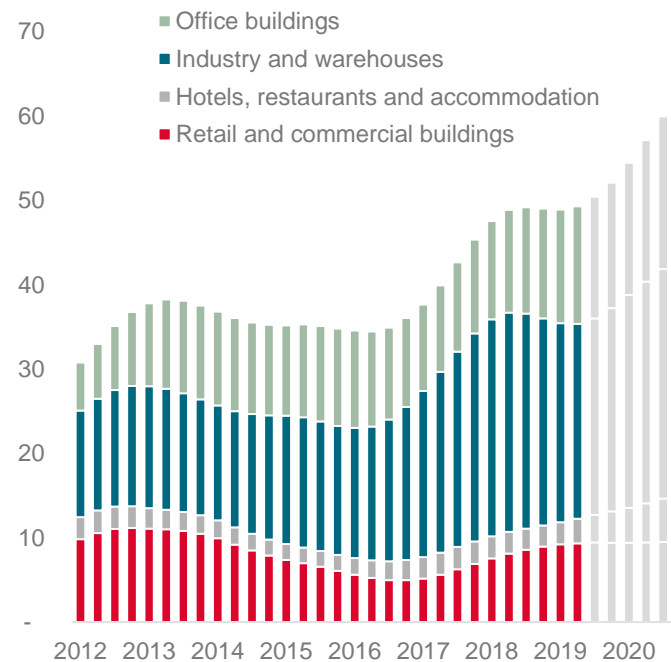
### Building construction sector production, Norway

12-month rolling quarterly total, NOK billion



### Building construction sector production, Sweden

12-month rolling quarterly total, NOK billion



### Comments

- Stable outlook for commercial building production in Norway, bullish forecasts for 2020 in Sweden\*
- Improved competitiveness (foreign exchange) and structural conditions are boosting the industrial and logistics segment
- The growth forecast for Sweden is vulnerable in the event of a stronger-than-anticipated economic downturn

\*The production forecast for 2020 is based, among other things, on data showing the estimated number of building starts as at Q2 2019. Experience indicates that this figure may be subject to subsequent adjustment. The current forecast deviates from our view of the prevailing investment climate in Sweden, and we therefore regard this forecast as particularly uncertain.

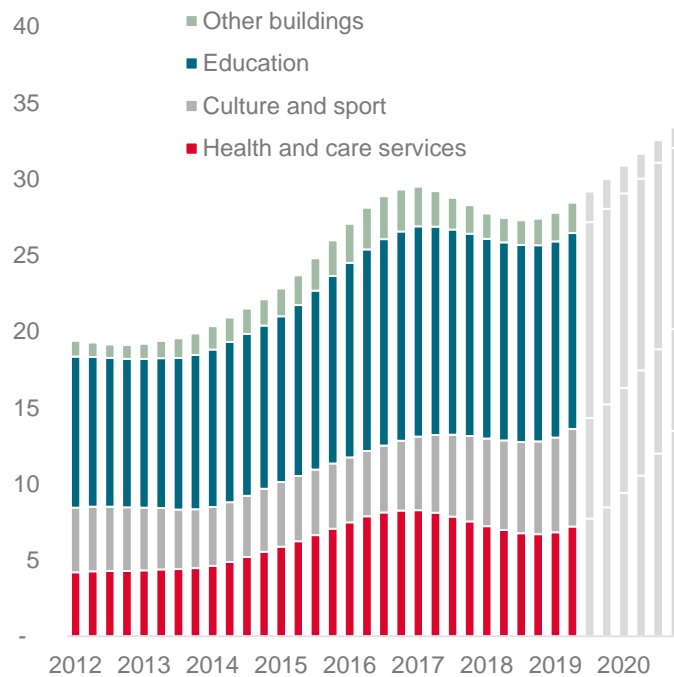
Source: Veidekke's market data

# Public buildings in Norway and Sweden

## Production

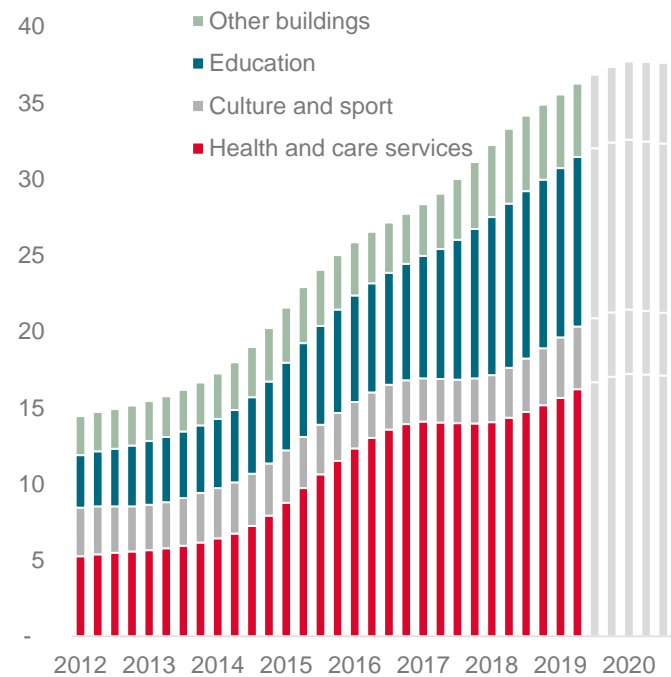
### Building construction sector production, Norway

12-month rolling quarterly total, NOK billion



### Building construction sector production, Sweden

12-month rolling quarterly total, NOK billion



### Comments

- Activity in both countries will remain high in 2020, primarily driven by central government health investment

### Norway

- Tougher priority-setting by municipalities is set to continue. Income growth is declining and indebtedness is high

### Sweden

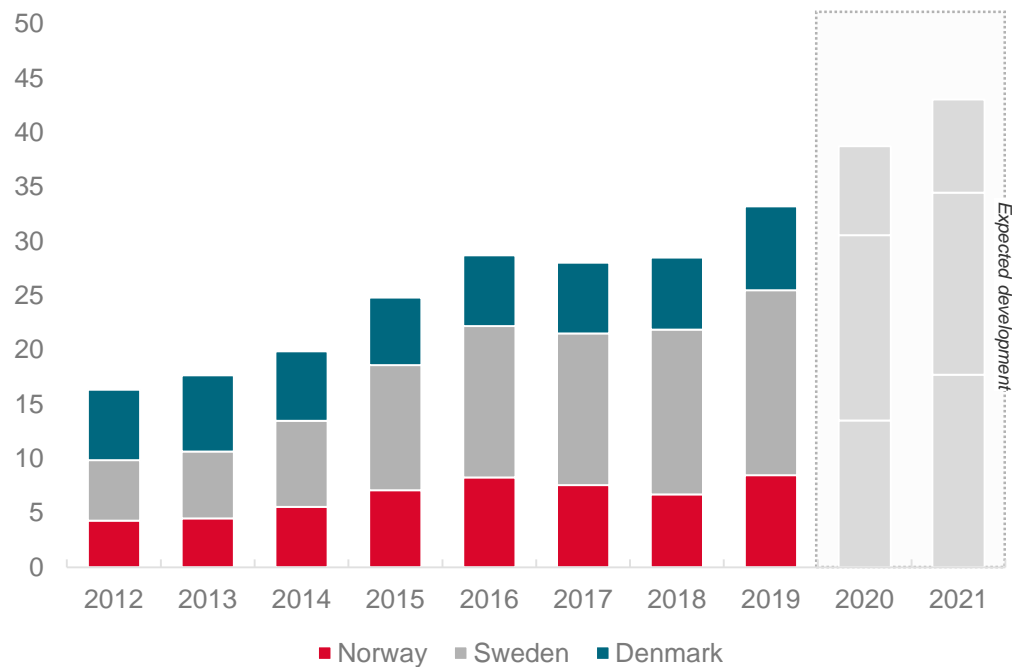
- Formidable past growth, now tapering off at a high level

Source: Veidekke's market data

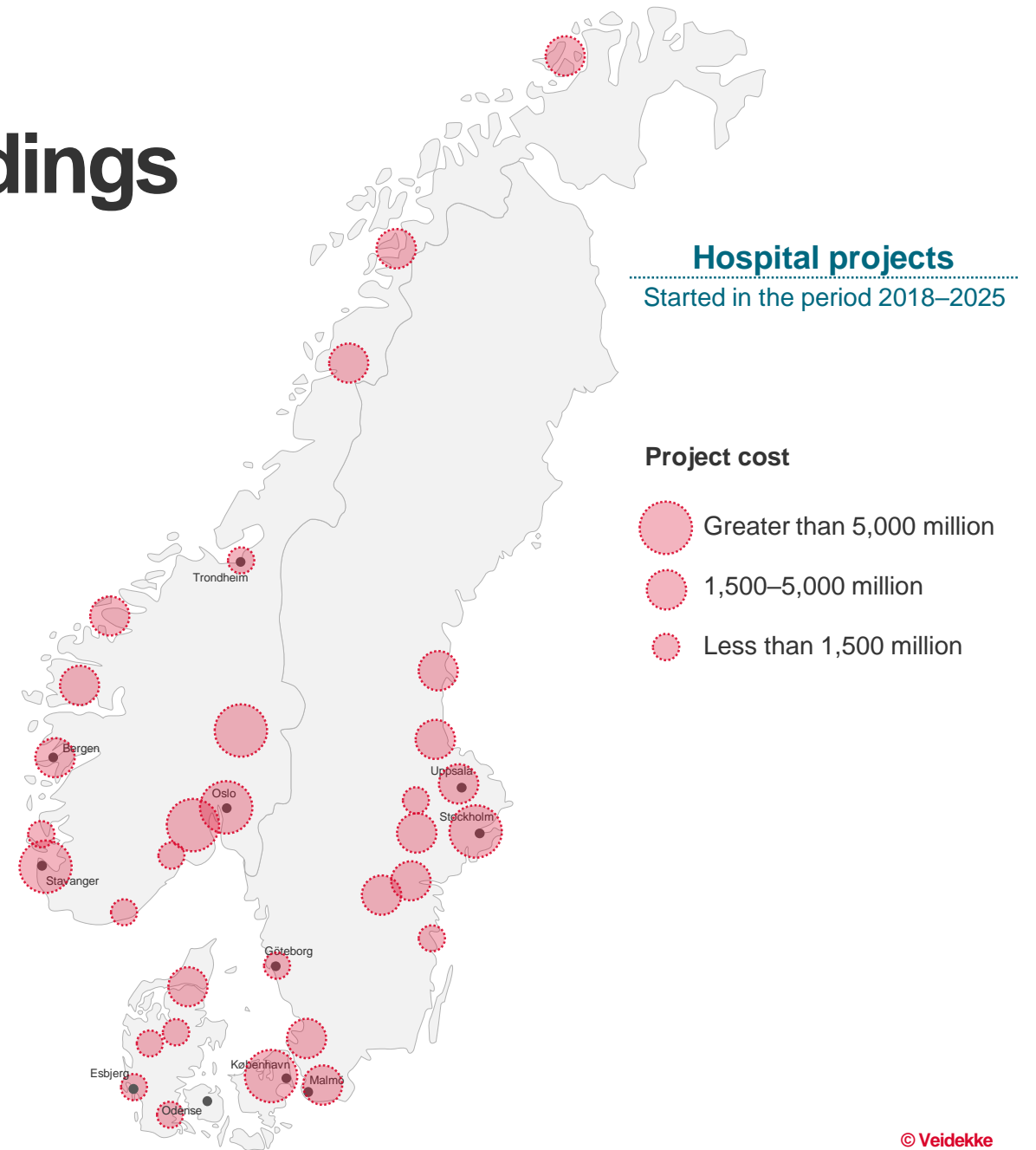
# Health and care service buildings Scandinavia

Building construction sector production health and care services (including hospitals)

NOK billion



Source: Veidekke's market data

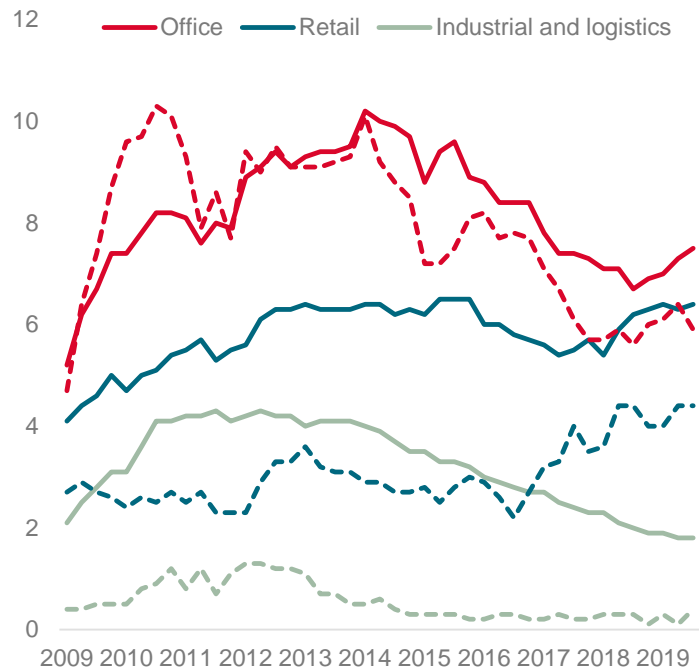




# Commercial buildings in Denmark Production

## Vacancy rate in Denmark

Percentage of total number of buildings

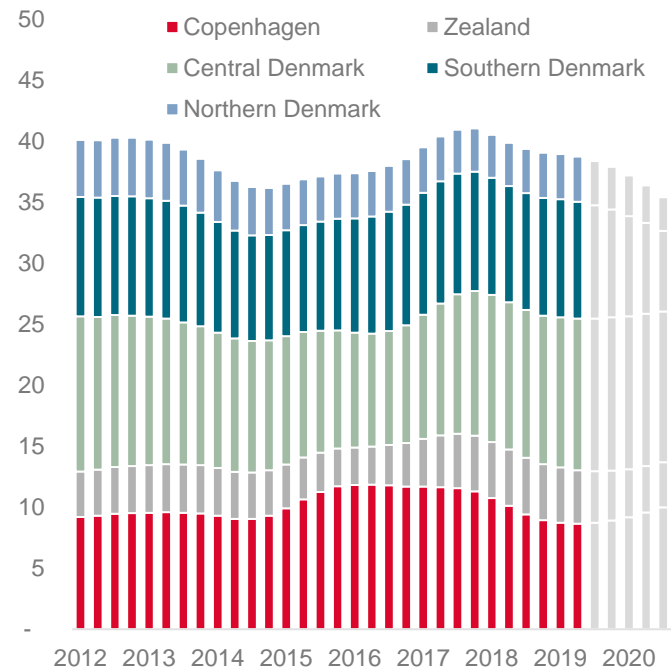


The stippled line shows the vacancy rate for the region around Copenhagen.

Source: Ejendomstorvet and Veidekke's market data

## Building construction sector production, Denmark

12-month rolling quarterly total, NOK billion



## Comments

- The decline in the vacancy rate of existing buildings has slowed, except in the industrial and logistics segment
- Preliminary data\* on building starts in 2018 and 2019 indicate an overall decline in production which is strongest in southern and northernmost parts of Jutland
- The outlook for the region around Copenhagen and central Denmark (around Århus) is positive and stable for 2020

\*Statistics Denmark has revised its reporting system, and the figures for 2018 and 2019 thus remain uncertain.

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# Civil engineering

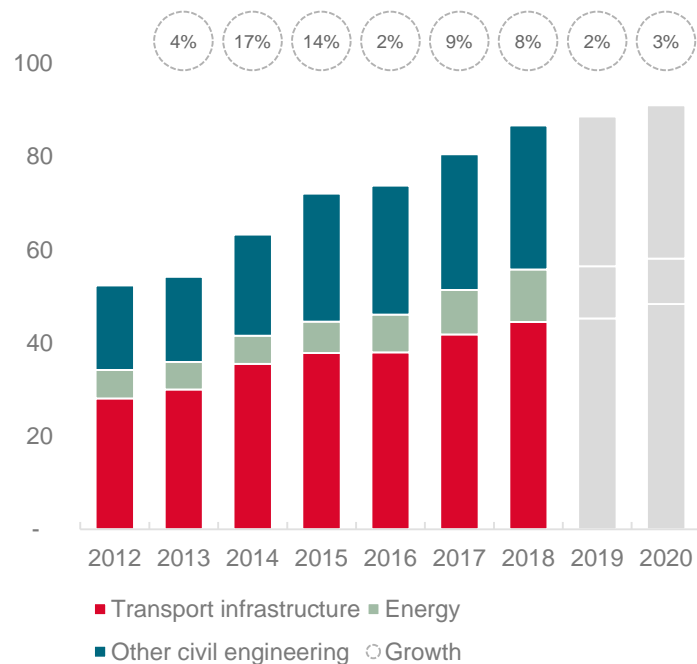
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# The civil engineering market in Norway and Sweden

## Activity tapering off at a high level

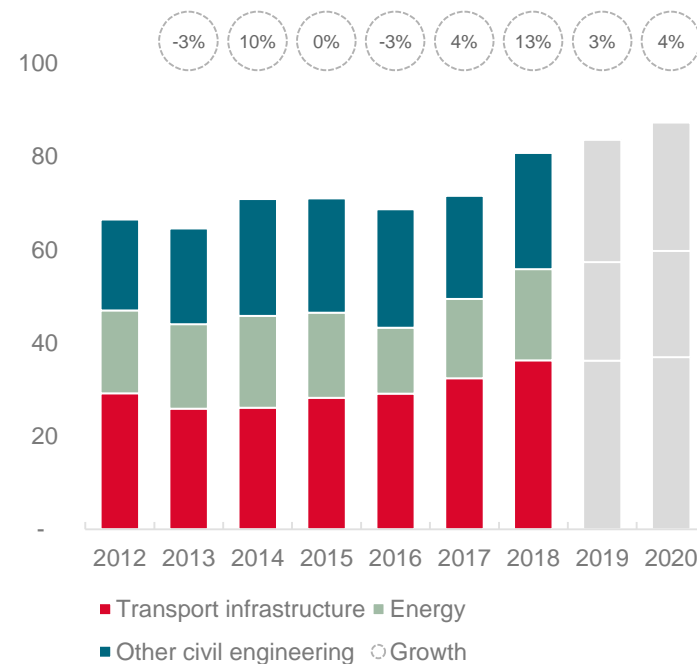
### Production in different civ. eng. segments

Norway, NOK billion



### Production in different civ. eng. segments

Sverige, NOK billion



### Comments

- The forecasts have been adjusted somewhat since March 2018
- High public demand will continue to be central in future also
- Broad range of project scope and type

### Forecasts civil engineering market:

Country	2018	2019	2020
Norway	8% (6%)	2% (4%)	3% (0%)
Sweden	13% (7%)	3% (6%)	4% (7%)

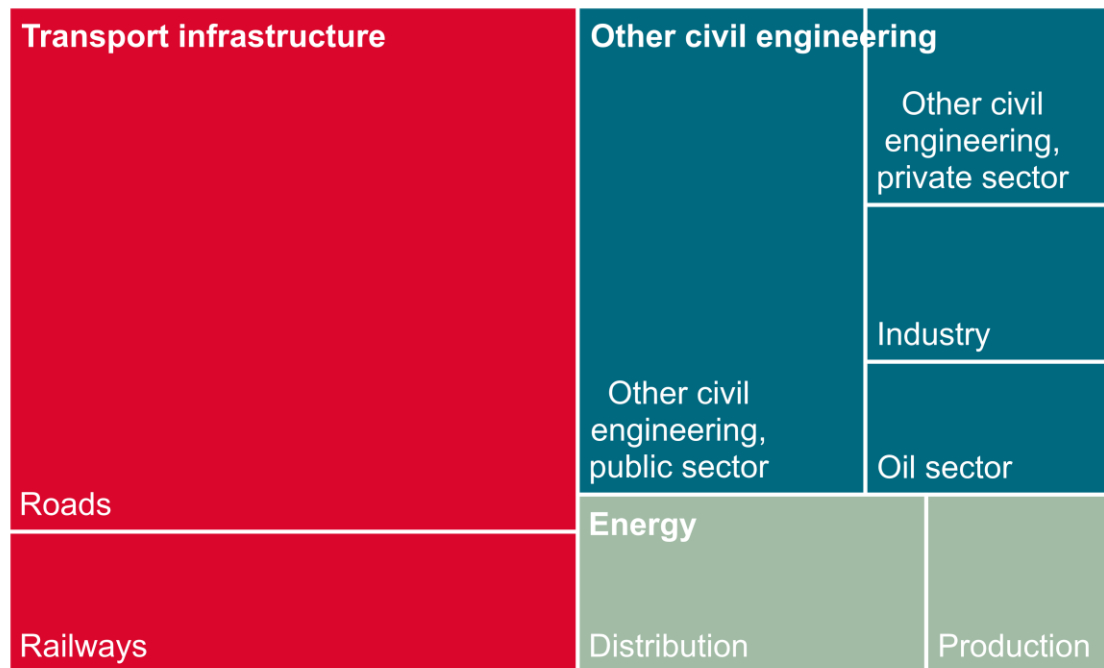
Sources: Statistics Norway, Statistics Sweden and Veidekke

# The civil engineering market in Norway

## Broad range of project scope and type

### Civil engineering production 2018

By segment, NOK billion



### Comments

#### Transport infrastructure

- Major public clients
- Trend towards larger contracts

#### Energy

- National and regional stakeholders
- Great variation in contract size

#### Other civil engineering

- Large but less transparent market
- Market players with regional and local ties

Sources: Statistics Norway and Veidekke

# A crowded mid-range

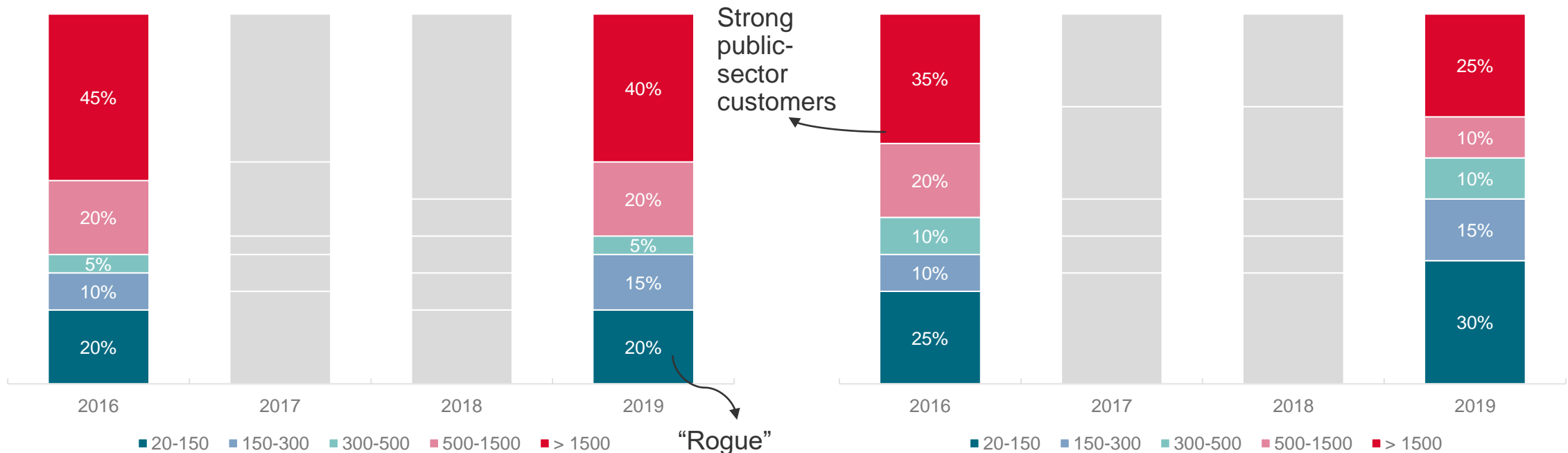
## Distribution of projects by size

Norway, by contract value (NOK million)

Percentage shares

Sweden, by contract value (NOK million)

Percentage shares



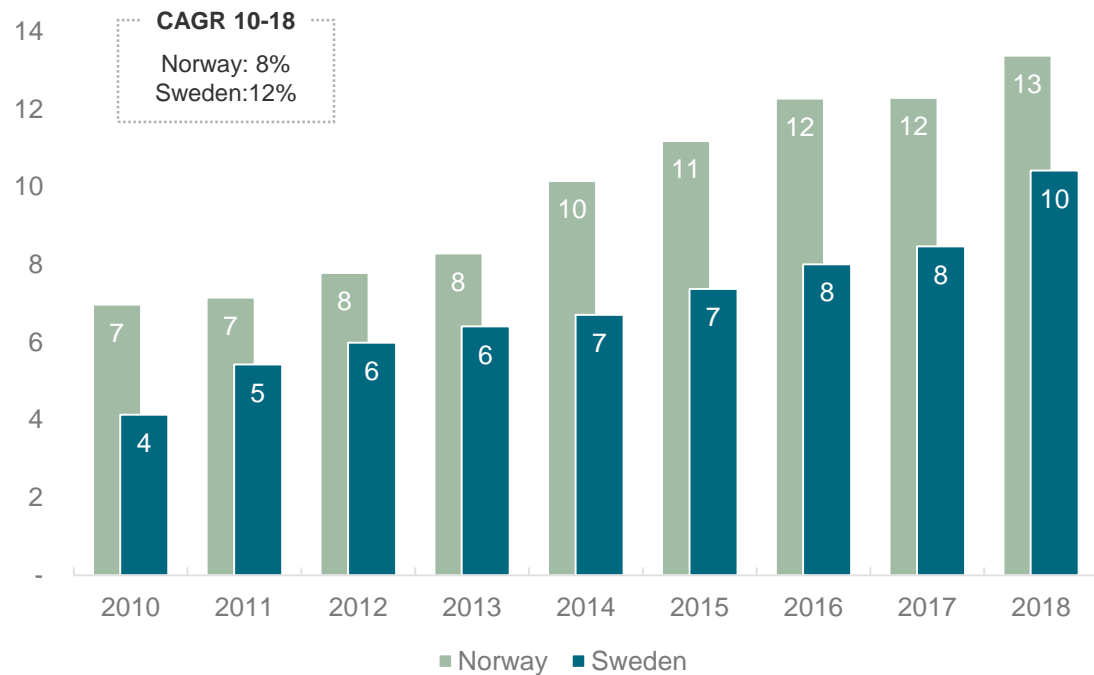
Sources: Norge Bygges, Sverige Bygger and Veidekke

# Water, sanitation and waste management

## High demand and strong growth

### Investment in water and sanitation facilities

NOK billion



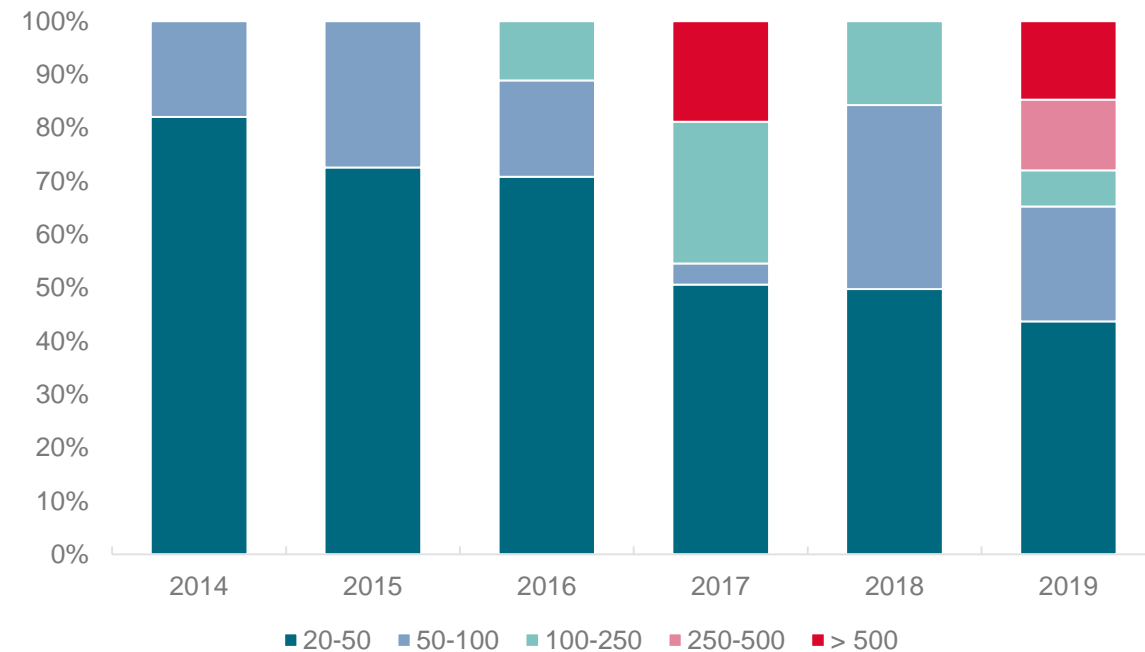
Sources: Statistics Norway, Statistics Sweden and Veidekke

# Water, sanitation and waste management

## Trend towards more and larger contracts

### Reported projects, Norwegian water and sanitation segment

Distribution by size



Sources: Norge Bygges and Veidekke



Veidekke has secured a new tunnelling contract with Stockholm Vatten och Avfall



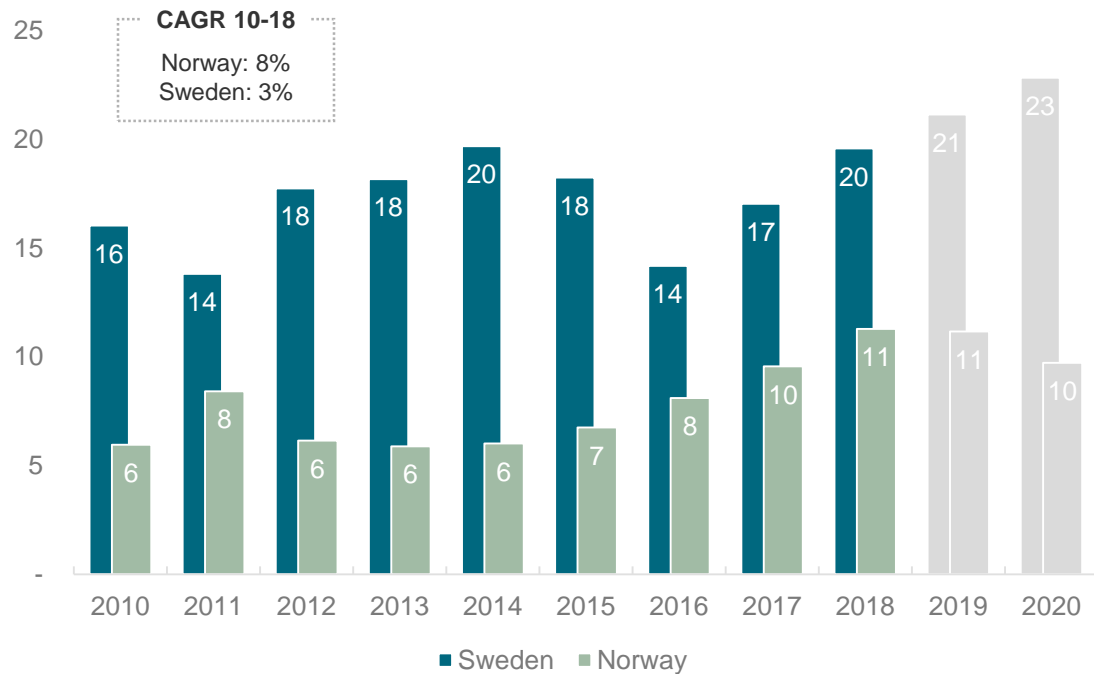
Veidekke will refurbish the Himmerfjärdsverket treatment plan for Syvab

# The energy sector

## Higher activity for several years

### Investment in energy facilities

NOK billion



Sources: Statistics Norway, Statistics Sweden and Veidekke

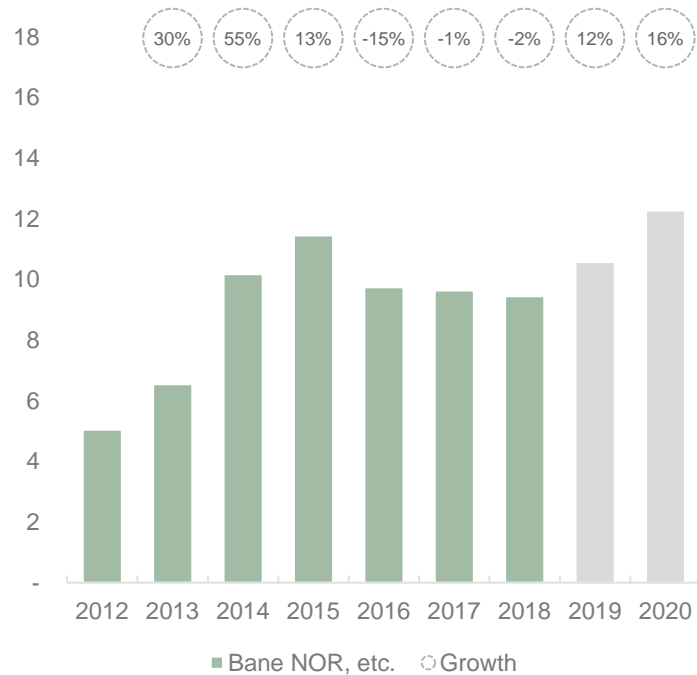


# The railways market in Norway and Sweden

## Major projects being executed

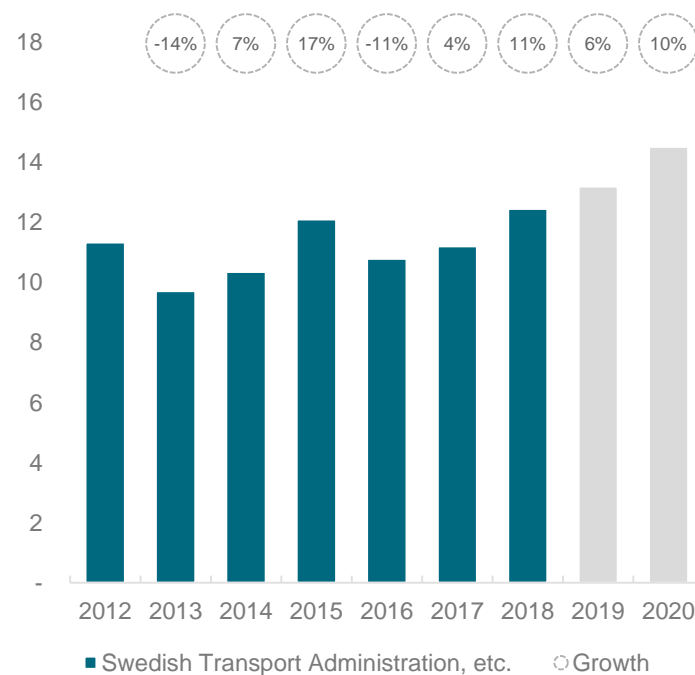
### Norway, production

NOK billion



### Sweden, production

NOK billion



### Comments

#### Norway

- Higher investment
- Escalation in accordance with the National Transport Plan

#### Sweden

- Modest central government budget proposal for 2020, but the start of work on the Region Stockholm\* underground line has had a positive effect
- Activity will increase after the forecast period

\* Formerly Stockholm County Council

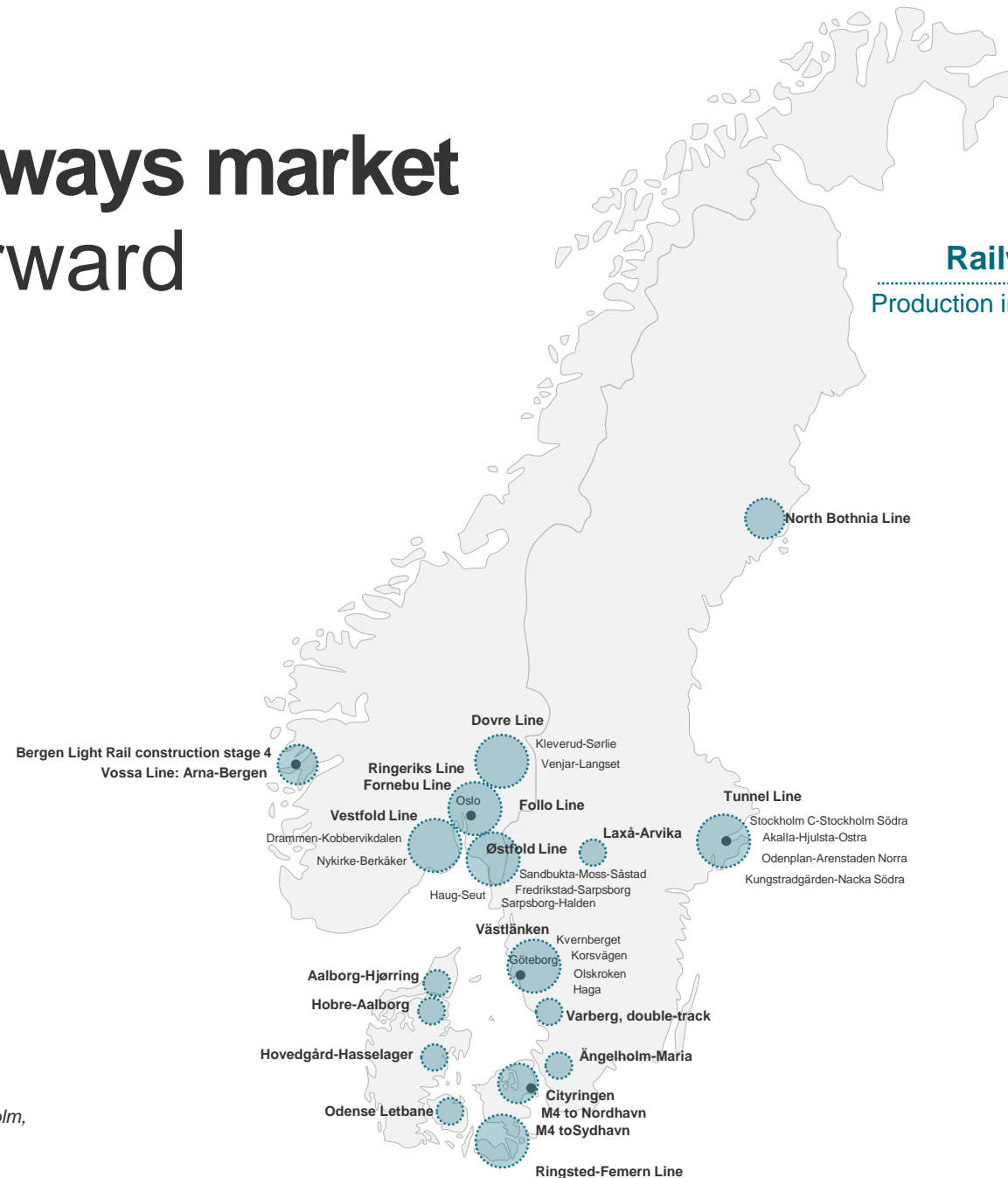
Sources: Statistics Norway, Norwegian Government, National Transport Plan, Bane NOR, Statistics Sweden, Swedish Transport Administration and Veidekke

# The Scandinavian railways market

## Priority area going forward

- High ambitions for railway development in the years ahead
- Large public-sector clients
- Trend towards contracts with early involvement
- Facilitation of international competition

**Railway projects**  
Production in the period 2018–2025



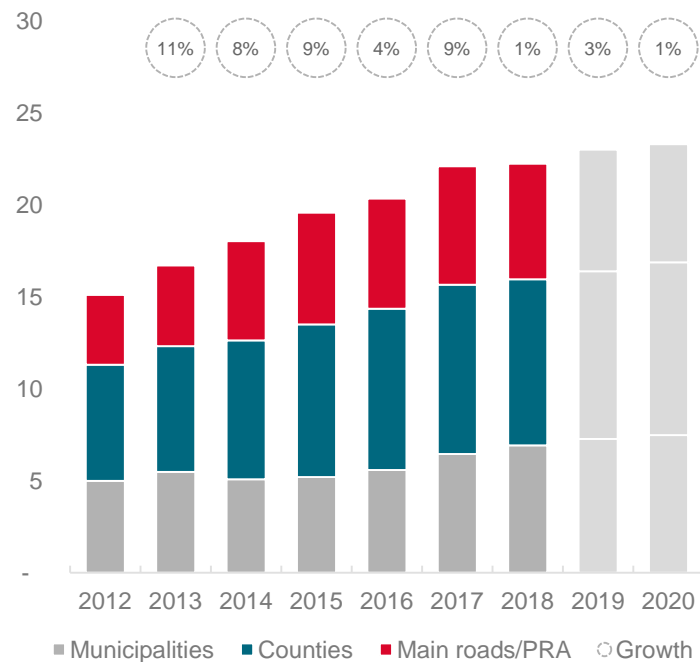
Sources: Bane NOR, Bergen Light Rail, Swedish Transport Administration, Region Stockholm, BaneDanmark and Copenhagen Metro

# Operation and maintenance in Norway

## Lower activity than forecast

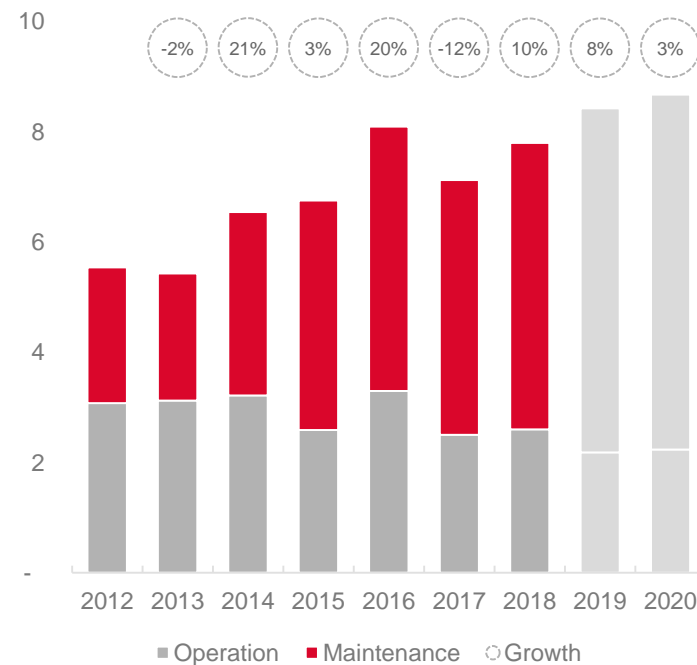
### Road operation and maintenance

NOK billion



### Railways operation and maintenance

NOK billion



### Comments

- Not keeping pace with the ambitions set out in the National Transport Plan 2018–2029
- The Government's budget proposal for 2020 indicates that the national main roads network is given lower priority
- Increasing activity linked to maintenance of existing railways

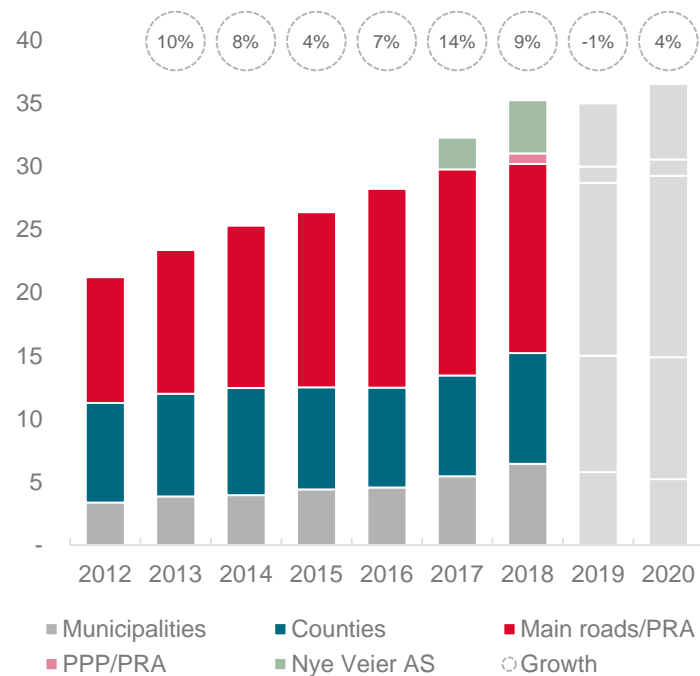
Sources: Statistics Norway, Norwegian Government, National Transport Plan, Norwegian Public Roads Administration, Bane NOR and Veidekke

# The roads market in Norway and Sweden

## Growth has peaked

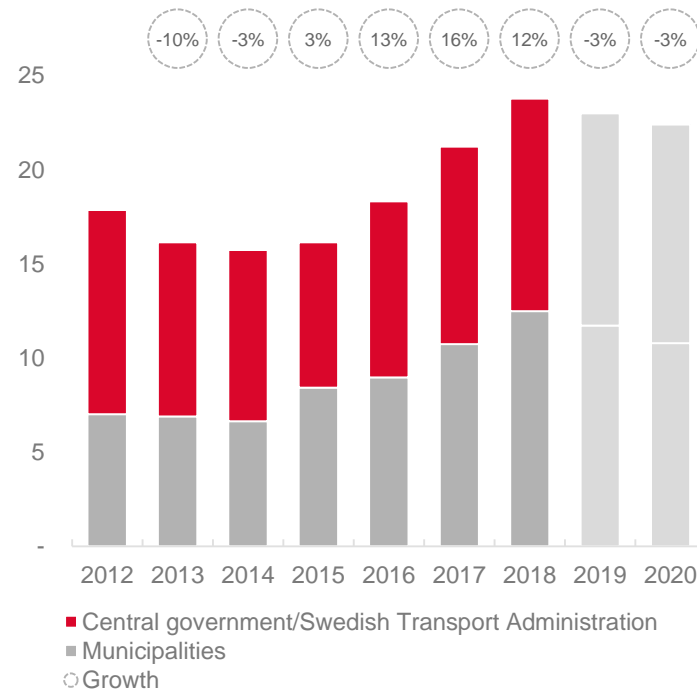
### Norway, production

NOK billion



### Sweden, production

NOK billion



### Comments

- Municipal roads investment has increased substantially in recent years
  - Linked to residential construction
- Going forward, central government investment will make the strongest contribution
- Delays to major projects

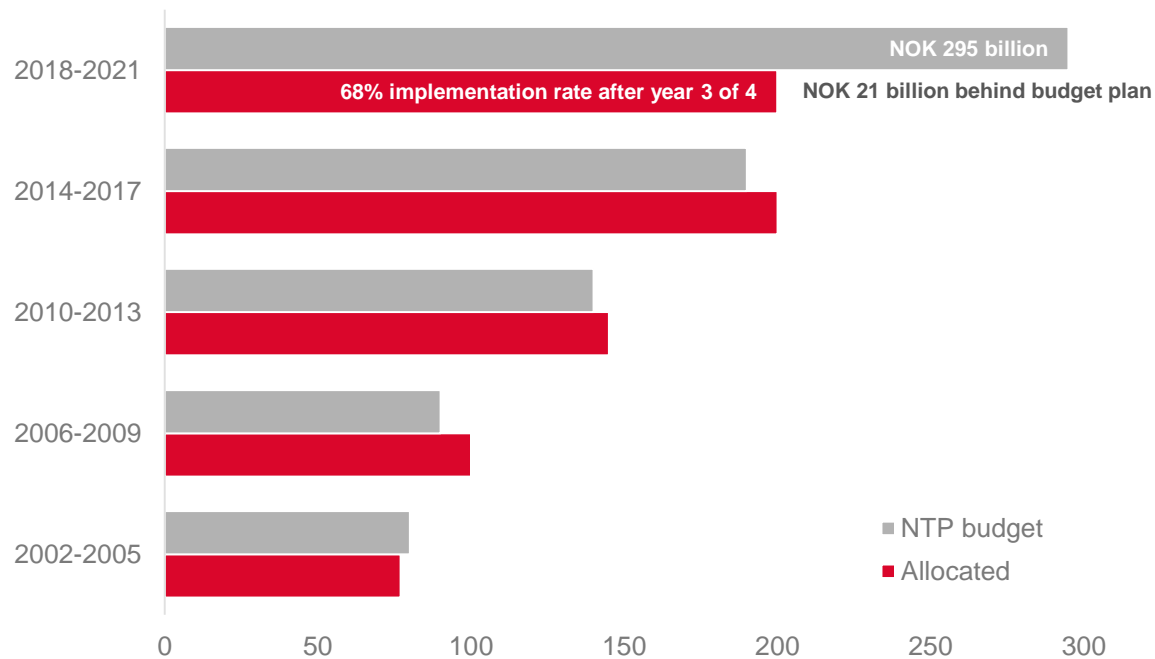
Sources: Statistics Norway, Norwegian Government, National Transport Plan, Norwegian Public Roads Administration, Statistics Sweden, Swedish Transport Administration and Veidekke

# Transport infrastructure in Norway

## National Transport Plan

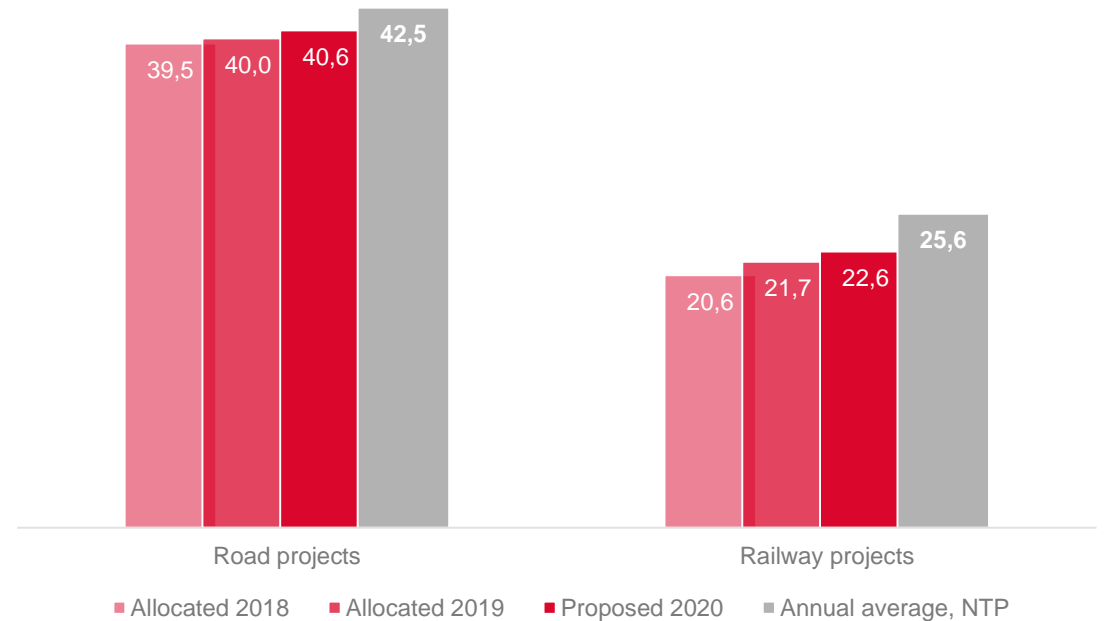
### Planning periods, National Transport Plan

NOK billion



### Implementation of National Transport Plan

NOK billion



Sources: Norwegian Government, National Transport Plan and Veidekke

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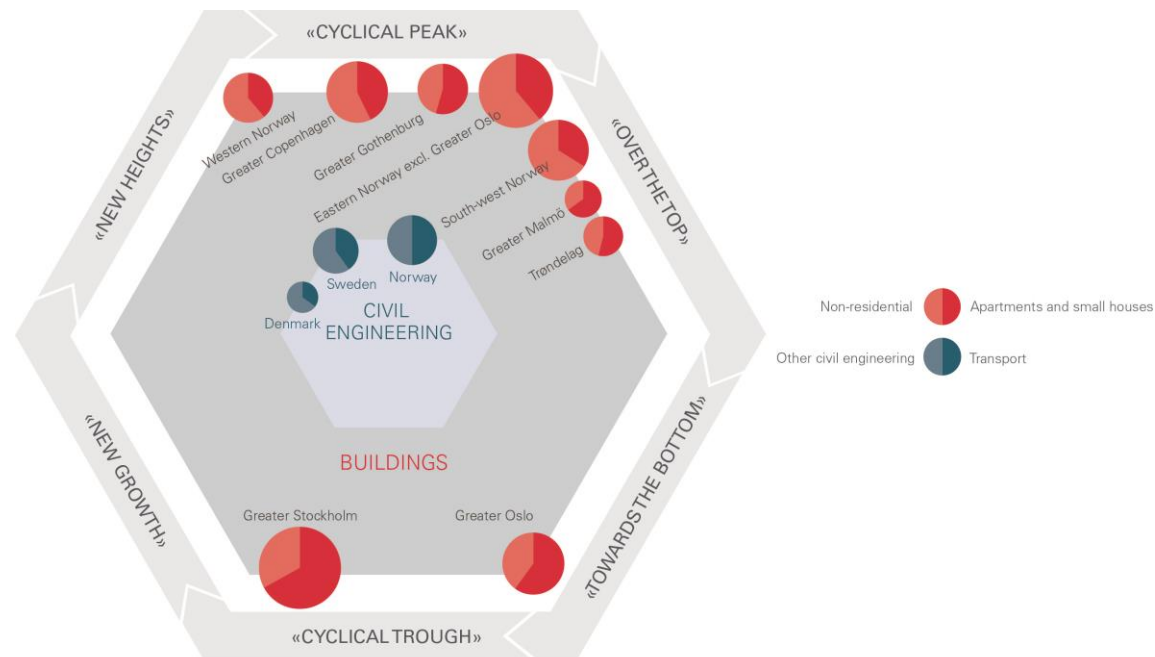
# 04 Summary

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# Summary

## Veidekke's market overview

Assessment of current market situation



Source: Veidekke's market data

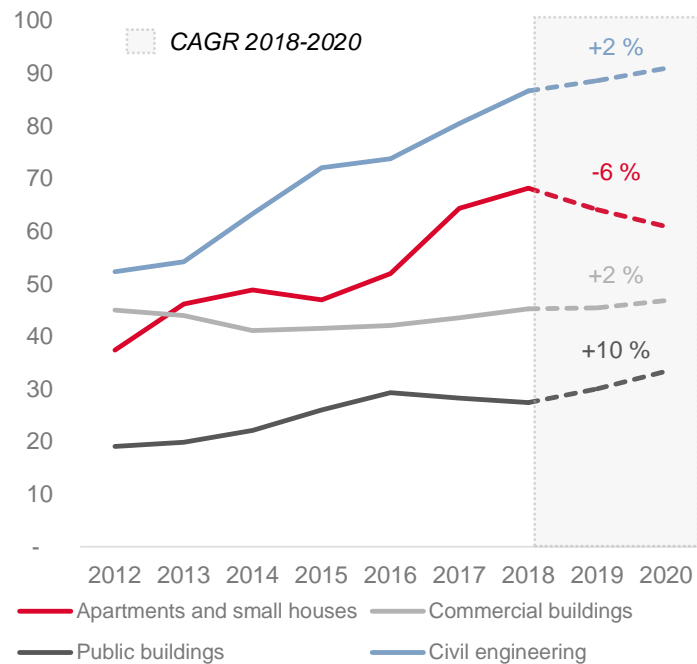
## Highlights

- Improved interest rate outlook, poorer cyclical outlook
- The contracting and residential markets appear more stable than for a long time; construction activity remains high
- New market forces will feature in the next decade – demographic shifts and increased competitiveness will be central factors

# Contracting markets Scandinavia

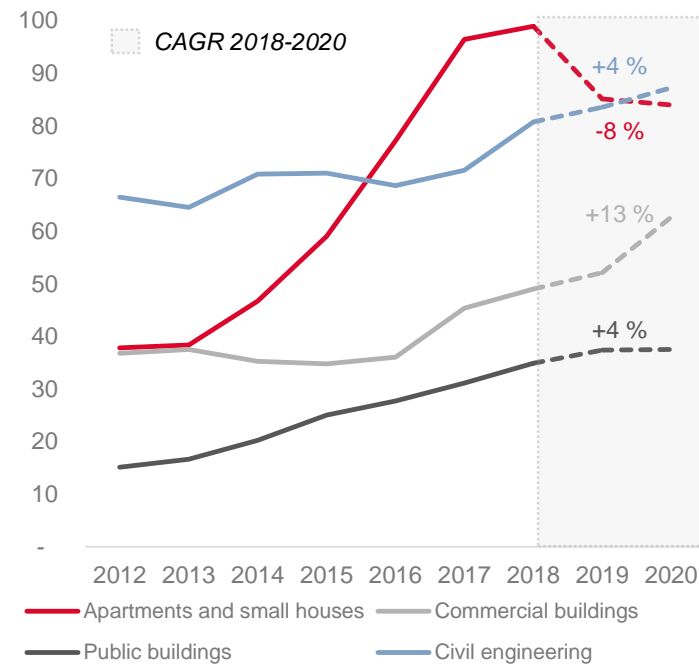
## Norway

By sector, NOK billion



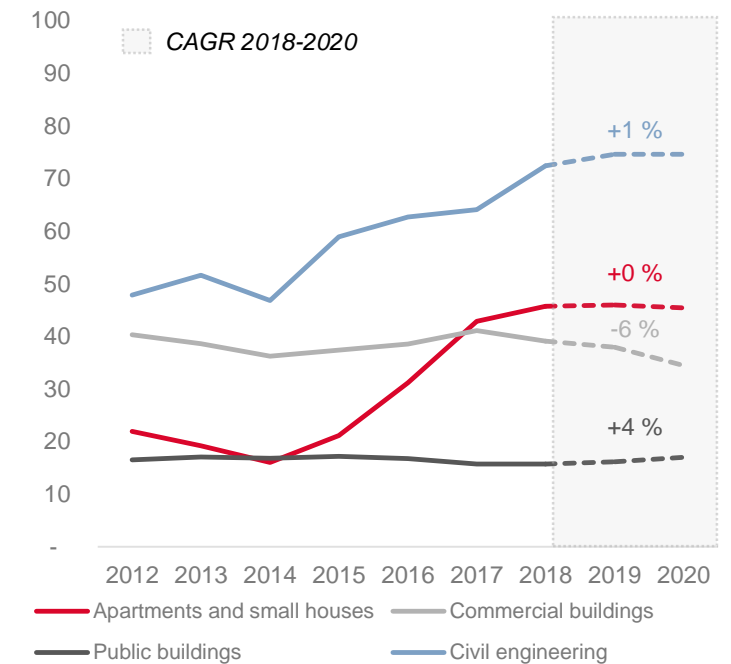
## Sweden

By sector, NOK billion



## Denmark

By sector, NOK billion



Source: Statistics Norway, Statistics Sweden, Statistics Denmark and Veidekke