MALLING & CO

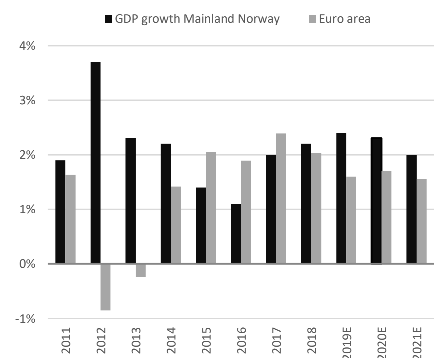
MARKET UPDATE
April 2019

Fyrstikkalleen 3
Malling & Co Næringsmegling has leased approx. 5 200 m² to Utdanningsetaten in Fyrstikkalleen 3, a 14 500m² refurbishment project at Helsfyr.

Latest figures Norway

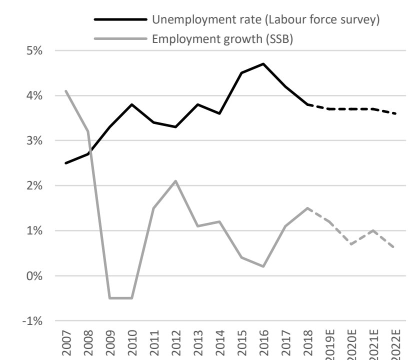
- Statistics Norway adjusted its GDP-growth forecast for Mainland Norway in March from 2.7 % to 2.4 % for 2019, and down from 2.4 % to 2.3 % in 2020. Growth is expected to fall further towards trend at 2.0 % in 2021.
- The unemployment rate (LFS) was measured at 3.9 % in January (avg. December-February), which is down 0.1 % point from the previous three month period measured in October (avg. September-November). Employment numbers from the LFS is showing a reduction of approx. 8 000 employees over the same period, on a national level.
- The key policy rate was increased further to 1.00 % on 21 March. This is the second increase since the record low level at 0.50 % that lasted from March 2016 to September 2018. The Norwegian Central Bank has signalled further rate hikes in 2019.
- Money market rates (3m NIBOR) have increased over the first quarter and is currently at 1.38 %, up from 1.25 % at the start of January.
- Measured against the EUR over the first quarter of 2019 the NOK has appreciated, and 1 EUR is now priced between 9.6-9.7 NOK. The NOK is expected to appreciate somewhat further towards the summer.
- 12 month rolling inflation for February was measured at 3.0 %. This is somewhat lower than November-November index at 3.5 %.
- The crude oil price has increased over the first quarter from around 55 USD per barrel in early January to around 70 USD per barrel at the beginning of April.

GDP: Mainland Norway vs. Eurozone



Source: Statistics Norway (March 2018)/IMF World Outlook (October 2018)

Labour market Norway



Source: Statistics Norway (March 19)

Latest lease contracts

Tenant	Address /Cluster	Size (m²)
Utlendingsdirektoratet	Innspurten 11 D (Valle View) / Bryn/Helsfyr	~ 16 000
Utdanningsetaten	Fyrstikkalleen 3 / Bryn/Helsfyr	~ 5 200
Swedbank	Ruseløkkveien 26 / Vika/Aker Brygge/Tjuvholmen	~ 5 200
Bane NOR Eiendom	Kongens gate 21/ Inner City	~ 4 400
Techstep Nordic	Brynsalléen 4 / Bryn/Helsfyr	~ 2 100

Latest transactions

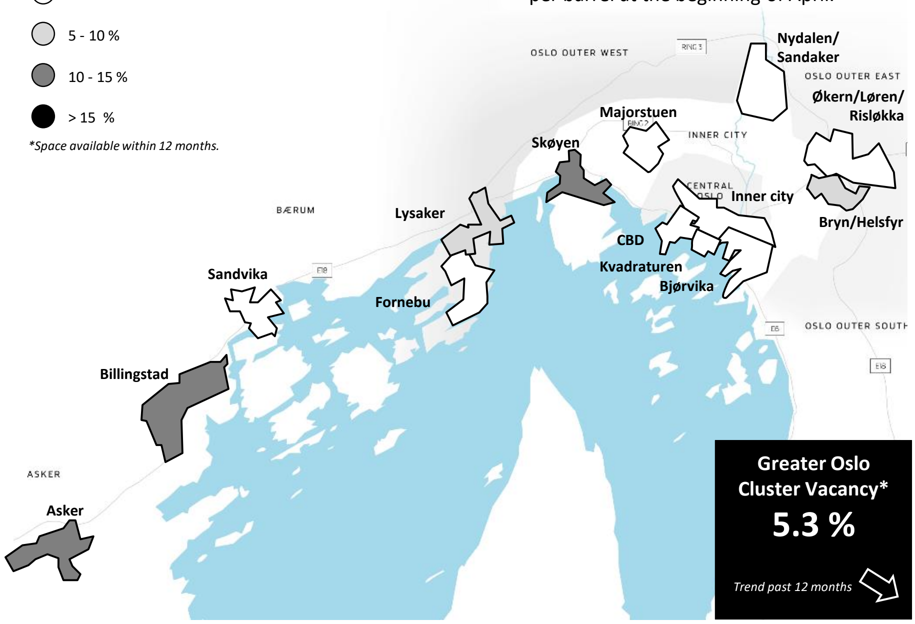
Buyer	Address	Size [1] (NOK million)
Eiendomsspar/Bane NOR	Oslo S parking	1 000
Euro Real Estate	Landkredittgården / Karl Johans Gate 45	550
Carnegie	Yttersøe Businesspark	290
DNB Markets	Koppholen 14	269
Viken Fylkeskommune	Leif Tronstads Plass 7	195

[1]Deal size may be rounded due to confidentiality

Vacancy* in office clusters in Greater Oslo (February 2019)

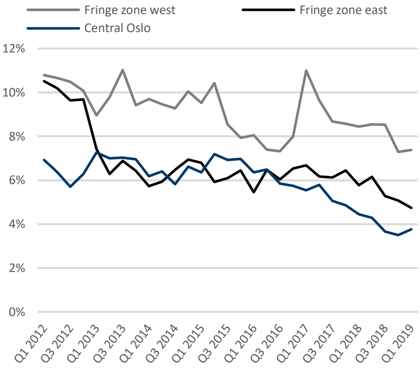
- 0 - 5 %
- 5 - 10 %
- 10 - 15 %
- > 15 %

**Space available within 12 months.*



Number formatting: SI style (English version)

Office vacancy development, Greater Oslo



Source: FINN.no/Malling & Co

Key facts real estate (office)

	PER APR. 2019	PER APR. 2018
Prime yield	3.75 %	3.75 %
Normal yield***	5.10 %	5.10 %
5 yr. swap rate (COB 5 Apr)	1.90 %	1.91 %
Average of 15 % highest rents in Oslo, NOK/m²/yr. (Q1)	3 740	3 550
Office contracts signed, m² (Oslo) (Q1)	180 830	140 590
Largest office contract, m² (Oslo) (Q1)	15 770	8 220
Avg. contract length, yrs. (Oslo) (Q1)	4.9	5.0

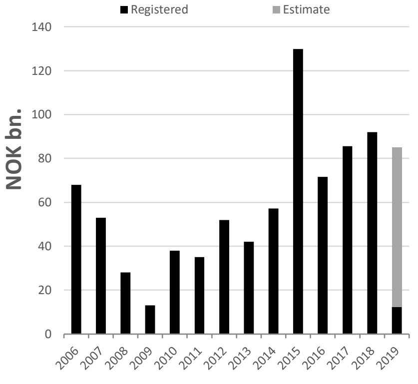
Source: Malling & Co/DNB Markets/Six/Arealstatistikk

Indicative office rents in Oslo (NOK/m²/yr.)

Office cluster	Prime rent*	Normal rent**
CBD (Vika/Aker B./Tjuvh.)	5 400	2 900 – 3 500
Skøyen	3 100	2 100 – 2 500
Inner City	3 900	2 400 – 2 800
Bjørvika	4 200	2 800 – 3 200
Lysaker	2 350	1 700 – 1 900
Fornebu	1 950	1 400 – 1 600
Nydalen/Sandaker	2 400	1 700 – 1 900
Økern/Løren/Risløkka	2 200	1 000 – 1 500
Bryn/Helsfyr	2 350	1 700 – 1 900

Source: Malling & Co

Transaction volume (>50 NOK million)



Source: Malling & Co

**Prime rents are consistently achievable headline rental figures that relate to a new, top located, high specification unit of a standard size commensurate demand within the predefined market area. The prime rent reflects the tone of the market at the top end, even if no new leases have been signed within the reporting period. One-off deals that do not represent the market are discarded.*
*** Normal rents reflect the interval where most contracts are signed in the specified market area.*
**** Normal yield is defined as the net yield of a well maintained building situated in the fringe zone with strong tenants on a 5 – 8 year lease contract.*

Special topic: Increasing office rents in Oslo fringe clusters

The fact that office rents have increased over the past two years in Oslo city centre should have been old news by now. However, we continue to face arguments from market players towards our forecast of rental growth in the fringe, especially in areas with ample newbuild pipeline. The argument of several projects competing to get anchor tenants has become the guideline to keep rental growth low in the fringe office clusters. However there are a few arguments supporting the claim that this is about to change:

1. **The mass market is small and medium sized tenants (SME):** The fringe office market is not only focused on large tenants. Small and medium sized businesses are often not in focus for developers for many reasons, but we are seeing that vacant space in new projects and projects built on speculation actually succeeds with the leasing towards the finalisation date. Smaller tenants do typically not plan in advance, and is often left to the vacant space in existing projects, where vacancy is decreasing. We are seeing that SME tenants are willing to pay good rents for attractive space at for example Helsfyr.

2. **Yield compression effect disappeared:** The continuous yield compression over the past 5 years has enabled developers to keep rents flat, despite increasing cost of land and increasing construction costs. With increasing interest rates on top, the breakeven rents are slowly starting to increase.

3. **Limited attractive opportunities:** The availability of unbuilt land within central location on attractive office clusters is becoming scarce, and many new projects are based on demolition of existing stock. This means that the developer is faced with an option to keep existing space, or replace with a new project. In this case, the value of new space needs to exceed the value of the existing space adjusted for potential increased utilization, and this is increasing the value of attractive plots significantly. In some office clusters, the value of land has doubled over the past 5 years. This trend is also limiting net supply, as new stock is replacing existing space.

Our arguments above is supported by a 3 % growth in the 4-quarter rolling average of signed office rents, in both eastern and western fringe, compared to Q4 numbers (avg. Q1-Q4 vs. Q2-Q1).

Commercial Real Estate

Oslo office market

- Office rents are continuing on the positive trend, however average rents for Oslo have remained rather flat over the past 4 quarters according to Arealstatistikk. Average rents have been kept low due to a weaker development among the most expensive leases.
- The office vacancy is still at a low level, and is measured at 5.3 % on average in the office clusters we follow in February.
- Office take-up levels is historically high, and is supported by the demand side from increased employment in Greater Oslo over the past year at 3.0 % and 3.4 % in Oslo and Akershus respectively.
- Office vacancy in the city centre is still below 4.0 % on average for the city clusters, however slightly increasing as new space available in 2020 is taken into account.
- Net construction finalized is expected to increase over the coming 24 months as the construction will increase and the conversion and demolition pipeline is reduced compared to previous years.

Transaction market

- Coming from an all-time second highest total volume of 92 NOK bn. in 2018, it has been an active beginning in 2019 with preliminary first quarter figures of around NOK 12.3 bn. With a mix of structured and unstructured processes totaling up to 47 transactions, and an unconfirmed pipeline of another NOK 3.5 bn.
- The access to financing is very good as domestic banks are very keen on commercial real estate exposure and have increased their efforts to provide funding for attractive projects, while the foreign banks are still a present factor. Our forecast for transaction volume and activity for 2019 remains at NOK 80-85 bn.
- Geographically, Oslo has been dominating the activity with a 55 % share of the market. But the second-tier cities are all seeing high activity, and especially Stavanger is seeing a comeback of stronger interest and transaction flow.
- Office is still the largest segment with a 34 % share. The second largest segment is industrial at 25 %, still driven by demand for logistics assets, while retail is the third largest segment at 19 % share. Given the negative connotations associated with retail, especially over the past year, this is still an expression of the difference between good and poorer retail assets.
- The prime office yield estimate remains at 3.75 % and other yield estimates, except retail, remain flat from late 2018 levels.

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