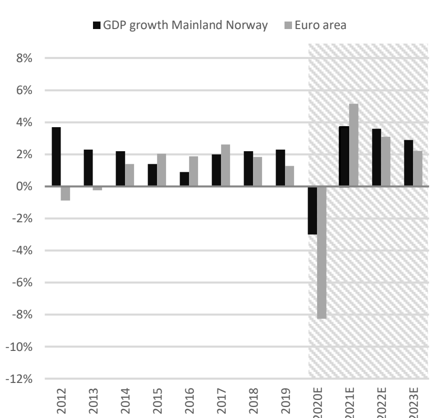
MALLING & CO

MARKET UPDATE
JANUARY 2021

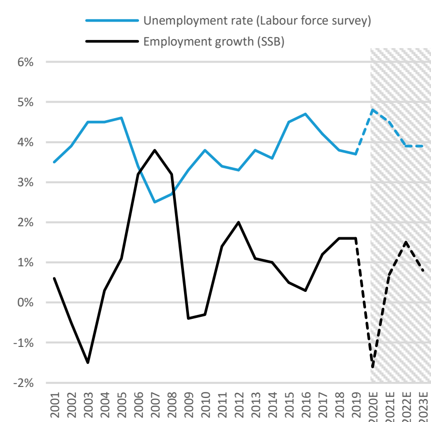
Malling & Co Eiendomsfond has acquired Karl Johans gate 12j From Victoria Eiendom. The asset is centrally located in Oslo's major shopping street and consist of approximately 4 100 m² of office and retail space. With this acquisition, the fund has a market value of approximately NOK 4.5 bn.

GDP: Mainland Norway vs. Eurozone



Source: Statistics Norway Outlook (December 2020) IMF WEO (Oct. 2020)

Labour market Norway



Source: Statistics Norway (Sept. 2020)

Economic Outlook

- The GDP-Mainland estimates for 2020 from the forecasts released in December is now at -3.0 %, which is 100 bps better than the April estimates, according to Statistics Norway (SSB). Mainland GDP is expected to increase by 3.7 % in 2021 and 3.6 % in 2022.
- In the December forecast, SSB expected Covid-19 restrictions to intensify into the new year, and then to be eased into spring as vaccines are distributed. It remains to be seen if the restrictions will be eased that soon, depending on virus spread and vaccine distribution speed. It also remains to be seen how challenged the economy really is when we are getting back to normal.
- Unemployment, measured by the LFS, showed 5.2 % in October (avg. of Sep.-Nov.). Norway's total employment is down by 40 000 from February to October according to the LFS. It is expected that unemployment will reduce to around 4 % over the coming two years.
- The key policy rate has been kept at 0 % as expected since the last cut in May. The Central Bank signalled that the rate is likely to stay unchanged until first half of 2022 at the meeting 16 December. The next meeting is 21 January.
- The 12-month change in CPI ended at 1.4 % for December, after a meagre 0.7 % for November, meaning a very sluggish growth for leases using the November index as basis for adjustment to 2021 rent. This is likely to result in a high CPI above 3.0 % for next year's adjustment. CPI for 2020 ended at 1.3 % in 2020 y/y, while CPI-ATE ended at 3.0 % y/y. Forecast for 2021 y/y is 2.5 % according to SSB.

Vacancy (Q4 2020) and Indicative Office Rents (Q1 2021) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	11 %	1 600 – 1 800	2 150
Sandvika	2 %	1 600 – 1 800	2 150
Fornebu	5 %	1 400 – 1 600	1 900
Lysaker	10 %	1 800 – 2 100	2 350
Skøyen	7 %	2 300 – 2 700	3 200
Forskningsparken/Ullevål	0 %	1 700 – 2 000	2 300
Majorstuen	5 %	2 000 – 2 600	3 200
Vika/Aker Br./Tjuvholmen	7 %	3 600 – 4 200	5 600
Kvadraturen	5 %	2 500 – 3 200	3 800
Inner City	6 %	2 800 – 3 400	4 100
Bjørvika	1 %	3 200 – 3 500	4 200
Nydalen/Sandaker	5 %	1 800 – 2 100	2 400
Økern/Løren/Risløkka	6 %	1 200 – 1 700	2 100
Bryn/Helsfyr	10 %	1 700 – 2 100	2 350

* / ** / *** For explanation please see Link

Rents are quoted as NOK/m²/Yr. Source: Malling & Co

Key Facts: Real Estate (Office, Oslo)

	JAN 2021	JAN 2020
Prime Yield	3.25 %	3.65 %
Normal Yield***	4.85 %	5.10 %
5Y SWAP (COB 18.01)	0.99 %	1.87 %
10Y SWAP (COB 18.01)	1.33 %	1.93 %
EUR/NOK (COB 18.01)	10.38	9.88
CPI 12-month change (Dec)	1.4 %	1.4 %
Average Rent Top 15 % (Q420/19)	4 110	3 940

Rents are quoted as NOK/m²/Yr. Source: Malling & Co/Eikon/Arealstatistikk/SSB

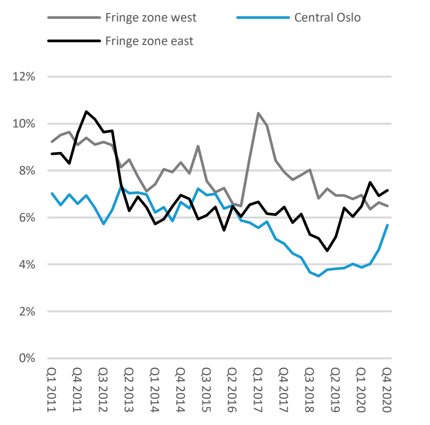
Number formatting: SI Style (English version)

Latest Lease Contracts

Tenant	Address/Cluster	Size (m^2)
Knowit	Universitetsgata 7-9/ Inner city	~ 7 200
Nortura	Schweigaards gate 15/Inner city	~ 3 900
Norsk Elektro Optikk	Østensjøveien 32-34/ Bryn-Helsfyr	~ 2 200
Arbeids-tilsynet	Østensjøveien 32-34/ Bryn-Helsfyr	~ 2 150

Source: Malling & Co

Historical Office Vacancy, Greater Oslo



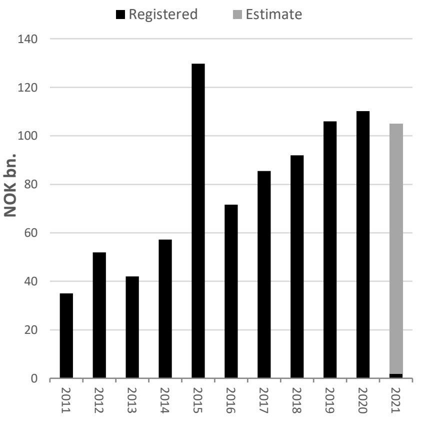
Source: Malling & Co

Latest Transactions

Address	Buyer	Size [1] (MNOK)
Kongens Gate 21	Arctic Securities	2 250
Middelthunsgate 29	DNB Markets/SKB Eiendom	Est. 1 390
Grensesvingen 2-20	Arctic Securities	1 200
Byfjordparken 13-17	Samfunnsbygg	Est. 800

[1]Deal size may be rounded due to confidentiality

Transaction Volume (>50 MNOK)



Source: Malling & Co

Commercial Real Estate

Oslo Office Market

- Average office vacancy in Greater Oslo ended at 6.3 % in Q4 2020, which is 90 bps higher than in Q4 2019. The increase is to a large extent caused by newbuilds being added to the market.
- Vacancy in Central Oslo increased by 80 bps between Q3 and Q4 2020 to 5.3 %, after having stayed low for most of 2020. In the sub cluster Inner city, several newbuilds and refurbishments are now being offered in the market. Future vacancy risk has increased as supply (incl. long-term offers) has increased over the past year and is now at almost 10 % of total stock in the Inner city.
- New construction is still expected to be low in 2021 and 2022, with 67 000 and 54 000 m^2 currently confirmed in 2021 and 2022. The confirmed pipeline for 2023 is currently at 30 000 m^2.
- Total volume of signed office leases in Greater Oslo ended at 639 000 m^2 for 2020 overall which is a relatively normal level despite the pandemic. The volume is approx. 17 % lower than in 2019, but a decline was expected due to the reduction in lease expiries in 2021-2022.
- Average office rents in Greater Oslo increased by 2.2 % in 2020 overall, after a very strong Q4 with an average growth of 12 % q/q, leaving the average at 2 380 NOK/m^2/yr. in 2020. Top 15 % average rents remained rather flat, with 3 960 and 3 940 NOK/m^2/yr. recorded in 2019 and 2020, respectively.

Transaction Market

- As the roller coaster ride of 2020 is over, we have a preliminary tally of the transaction volume of NOK 110 billion and 311 transactions. The strength of the investment market post summer was extraordinary, especially Q4, and the pipeline for 2021 is the strongest we have ever seen at the beginning of a new year. Deal flow is looking to be very positive for continuing the liquid market into 2021, and our full year estimate is NOK 105 billion.
- The overarching theme of the year has been central and solid cash flow. Office was by far the largest segment with a little more than 50 % share in 2020. The second largest segment was industrial at a little more than 20 %. The low interest rates have also pushed residential prices up, driving demand for this segment, more than doubling the share of the total volume over 2019 to a little more than 10 %. Retail is more of a mixed basket, where sub segments which have benefitted from the lock down has seen a resurgence.
- Prime yields have seen a sharp decline over the summer. The prime office yield estimate is at 3.25 % for CBD, down 40 bps from the beginning of 2020. Pressure seems to be easing off, but we do not rule out another 5-10 bps compression throughout the next 12 months. A similar trend is seen for prime logistics where the prime yield is at 4.20 %, down 45 bps from 12 months back.

Special Topic: The conclusion for office rents in 2020 – slightly better than expected

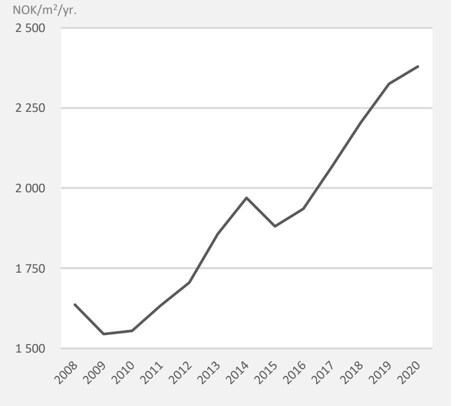
In creating our office rent forecasts, we have been challenged by many arguments on how the market will change with the pandemic, both structural and cyclical. For investors, the net effect on demand has been important to understand in order to make reliable assumptions on office rents. While we are still searching for answers on how we will use our office space post Covid-19 in detail, new lease data becomes available as quarters pass. 18 January, Arealstatistikk released their report on signed leases during Q4 2020. We now have the complete year of office rental statistics from 2020 to compare with 2019.

Despite data showing weakening rents and lower than normal activity in Q2 and Q3, the last quarter of the year was particularly interesting. We knew already after the summer that many processes had been postponed and would likely be picked up in Q3-Q4, due to the uncertainty in the market over the first quarters of the pandemic. In the final quarter, we saw high volumes of leases being signed, and average rent per square metre was recorded to increase as much as 12 % from Q3 to Q4.

However, this increase is skewed by the composition of leases in the two quarters. While both Q2 and Q3 was marked by the necessary decisions, market sentiment was more "normal" in Q4 with more new leases and less extensions and renegotiations. However, it is our belief that the complete data set for all quarters in 2020 is quite representative for the actual market. The result is an increase in rents of 2.2 % y/y. However, since rents were rising through 2019, the market has stayed rather flat during 2020. This is actually slightly better than our forecast of a 0.5 % rental decrease for 2020.

However, our main argument of a continued supply/demand balance in the market has been more or less confirmed with the newest data.

Average yearly office rents



Source: Arealstatistikk

Malling & Co Research and Valuation AS
Dronning Mauds gate 15, Postboks 1883 Vika, 1024 Oslo, Norway
T: +47 24 02 80 00 – **E:** post@malling.no – **W:** malling.no

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