MALLING & CO

MARKET UPDATE

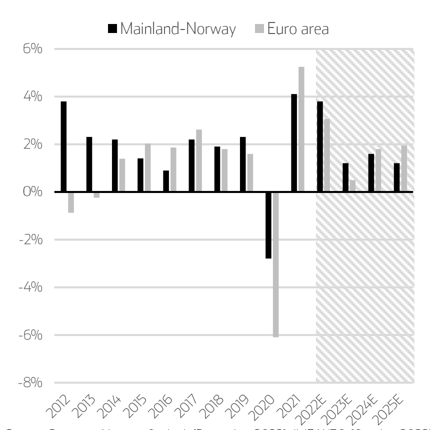
January 2023

Malling & Co Corporate Real Estate advised Neaco Holding in the sale of the 7 300 m² office building. The property has an estimated development potential of 36 000 – 41 000 m² new office space.

Economic Outlook

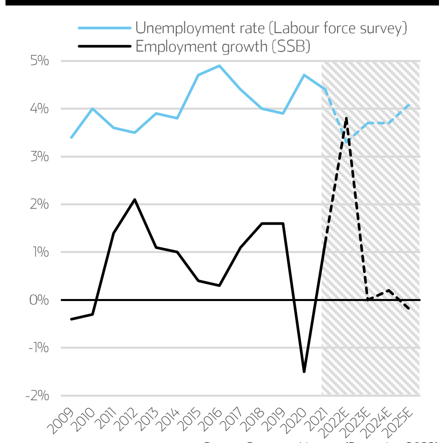
- GDP for Mainland Norway was higher in November than estimated in the Monetary Policy Report (MPR) 4/22, with an increase of 0.2 p.p. from October to November (-0.2 p.p. expected).
- Statistics Norway (SSB) Economic Trends in December estimates average mainland GDP-growth to be 1.2 % in 2023, down from 3.8 % in 2022. Increased consumption has been an important driver in the GDP-growth, especially driven by delivery of new cars. Norges Bank expects a decline in mainland GDP of 0.2 % in 2023, mainly because of lower consumption.
- Norges Bank (NB) decided to maintain the key policy rate at 2.75 % in January. Although there was no new interest rate hike in January, NB guided that they expect the interest rate decision in March to be a further interest rate hike, likely to 3.00 %. In MPR 4/22 NB reported an expectation of a peak in the key policy rate closer to the summer, at either 3.00 % or 3.25 %.
- The 12-month December CPI-change ended at 5.9 %., 0.1 p.p. below the estimate from NB. We believe that the y/y CPI change will be higher in both January and February as landlords tend to adjust housing rents at the start of the new year. House rents constitute around 18 % of the total CPI figure.
- The measured unemployment rate from SSB's Labour Force Survey (LFS) was 3.4 % for December, trending slightly upwards. Preliminary December figures from SSB show a moderate increase of 0.2 % in number of jobs.
- After a period of significant increases in international consumer prices, there are now signs of easing as reduced energy prices and tightening of monetary policy is taking effect.

GDP: Mainland Norway vs. Euro area



Source: Statistics Norway Outlook (December 2022), IMF WEO (October 2022)

Labour market Norway



Source: Statistics Norway (December 2022)

Office vacancy (December 2022) and Indicative Office Rents (Q1 2023) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	6 %	1 700 – 1 900	2 200
Sandvika	7 %	1 600 – 1 900	2 400
Fornebu	8 %	1 500 – 1 900	2 300
Lysaker	4 %	2 200 – 2 500	2 700
Skøyen	6 %	2 900 – 3 300	4 000
Forskningsparken/Ullevål	1 %	2 100 – 2 500	2 700
Majorstuen	1 %	2 600 – 3 000	3 800
Vika/Aker Br./Tjuvholmen	4 %	4 000 – 4 800	6 100
Kvadraturen	5 %	3 000 – 3 800	4 200
Inner City	5 %	3 000 – 3 800	4 400
Inner City East	5 %	2 500 – 3 000	3 600
Bjørvika	0 %	3 700 – 4 500	5 400
Nydalen/Sandaker	7 %	2 100 – 2 400	2 700
Økern	5 %	1 700 – 2 250	2 500
Helsfyr/Ensjø	4 %	2 100 – 2 200	2 500
Bryn	18 %	1 800 – 2 050	2 300

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

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

Key Facts: Real Estate (Office, Oslo)

	Jan. 2023	Jan. 2022
Prime Yield	3.90 %	3.20 %
Normal Yield***	5.20 %	4.50 %
5Y SWAP (COB 25.01)	2.87 %	1.98 %
10Y SWAP (COB 25.01)	2.87 %	2.02 %
EUR/NOK (COB 25.01)	10.8	10.1
CPI 12-month change (December)	5.9 %	5.3 %
Average Rent Top 15 % (Q4 22/21)	4 510	4 110

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

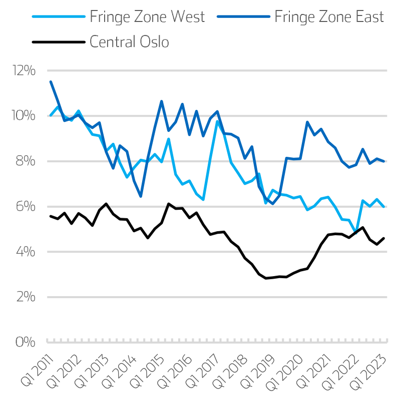
Number formatting: SI Style (English version)

Latest Lease Contracts

Tenant	Address/Cluster	Size (m²)
OsloMet (extension)	Pilestredet 40-52 / Indre by / Kontor	~90 000
Equinor (extension)	Martin Linges vei 33 / Fornebu / Kontor	~ 44 700
Promon	Cort Adelers gate 30/ Vika	~ 1 300
Sopra Steria (expansion)	Biskop Gunnerus gate 14/ Indre by	~ 970

Source: Malling & Co

Office vacancy, Greater Oslo



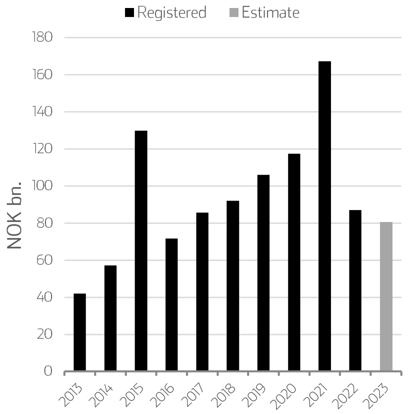
Source: Malling & Co/FINN.no

Some of the largest transactions of 2022

Address	Buyer	Size[1] (MNOK)
Meraker Brug	The Norwegian State	2 650
Gullhaug Torg 4	NIAM	1 400
Kulltangveien 70	Scala Eiendom	1 250
Karvesvingen 7	Reitan Eiendom	1 100

[1]Deal size may be rounded due to confidentiality. Source: Malling & Co

Transaction Volume (>50 MNOK)



Source: Malling & Co

Special Topic: **Malling & Co Investor Yield and Sentiment Survey Q4 2022**

We left what turned out to be a dry second half of the investment market and entered 2023 with an investor survey in search of answers to where the investment market is headed. Survey period for the Q4 2022 survey was 3-13 January 2023. The results show a further increase in average yields for commercial real estate (CRE) in Greater Oslo across all segments. Investors expect yields to continue up in the coming 12 months, albeit at a somewhat slower pace in the 12-month outlook compared to the results from Q3. While office and retail sees lower standard deviation in responses, uncertainty in logistics is increasing. Here are some of our main views on the market for 2023 given the latest survey results and our current market perception:

1. **Falling long-term interest rates could improve the market in 2023.** The 5-year interest rate swap has fallen by almost 100 bps since October 2022. Much of the decline probably stems from falling CPI expectations in Norway and elsewhere in the world, affecting expected interest rates needed to curb inflation. Yet, we cannot write off the risk that inflation will surprise on the upside at the start of the year. If it does, the current dawning in the market could be short lived.
2. **Logistics with the largest setback among CRE segments.** According to the Q4 survey results, logistics yields increased by 30 bps for prime- and 40 bps for normal properties compared to Q3. This is significantly more than Retail (5-10 bps) and Office (15-25 bps), and it is worth noting that Prime logistics is yet again priced at a higher yield than prime retail, and the difference is expected to remain in the coming 12 months, according to the investors. The share looking to increase their weight in logistics over the coming 12 months has fallen from 68 % to 49 %, the lowest level since Q1 2020. The standard deviation in responses is slightly higher than normal, which in turn suggests that investors are split in their view of the segment going forward. The greater focus on quality and energy efficiency may be among several reasons why the answers differ to such a large extent.
3. **More investors on the fence.** The results for desired exposure to CRE in general over the next 12 months for Q4 2022 show continued desire to buy with 58 % wanting to be a net buyer (down from 80 % in Q3). The share of investors seeking neutral exposure over the coming 12 months is markedly higher, up from 18 % to 33 % in Q4. Our experience from the advisor side is that buyers often expect a price reduction or a price that can be justified with the current financing cost. Prices may have to fall to reach the required rate of return, and we believe that more buyers have just realized that they must wait a little longer than they thought in Q3. If interest rates continue at current levels, which are significantly down over the past couple of months, and yields continue to increase, more buyers and sellers are likely to agree on terms.

Commercial Real Estate

Greater Oslo leasing market

- The average of signed office rents in Greater Oslo was 2 770 NOK/m²/yr. in Q4 2022, 11 % higher than Q4 2021.
- The Oslo office market seem to have outperformed other main cities with a 12 % growth from 2H 2021 to 2H 2022, significantly better than Trondheim with 9 % and Stavanger and Bergen below 2 %.
- Nearly 920 000 m² office space was signed and registered in 2022 by Arealstatistikk in the Oslo market. This is the highest volume ever recorded, and 150 000 m² more than the previous record in 2019.
- The overall search volume for office space in greater Oslo we registered in 2022 amounts to 223 000 m², 47 000 m² lower than last year, but the number of searches was slightly up.
- The activity in the office leasing market remains strong as we enter 2023, and very large office searches have been published in the market (e.g. Yara and Storebrand, 12 500 – 17 000 and 18 000 - 25 000 m², respectively).
- Volume of new added office space for 2023 is estimated to only 82 000 m² gross and around 30 000 m² net. Low supply of new space supports further rental growth in the Oslo office market.
- The new strategy plan for high-rise buildings was sent to political hearing 2. January. The plan opens for buildings up to 70m in a 250m radius of public transportation hubs, close to specific office clusters; Lysaker, Skøyen, Majorstuen, Nydalen, Økern, Bryn, Helsfyr and Ensjø. Up to 125m is set as limit for the area around Oslo central station.

Investment Market

- The 2022 volume registered is at approximately NOK 87 billion spread across roughly 290 transactions. The figure is far below the volume we registered for 2021 (-48 %), mainly as the bid/ask spread has brought the market to a standstill after a relatively strong H1, as the volume in Q4 2022 is down 76 % compared to Q4 2021.
- Among transactions completed in 2022, professional property companies were the dominant type of buyer, accounting for 42 % of all purchases. Syndicates were the second largest type of buyer, with 22 %. On the sell side, professional property companies were also the largest type of seller, accounting for 32 % of all sales. Private property companies were the second largest type of seller, with 30 % of transactions completed.
- Transaction tracking for the new year is underway, and very few new transactions have been logged (at bid acceptance) in 2023. Not an unexpected beginning to a new year, especially as market conditions are still fragile.
- We remain firm on our estimate for 2023 of 70-90 billion NOK. We expect a slow first half, but activity is in our view likely to increase after the summer, given yield increase and lower cost of capital than seen by the end of last year.

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