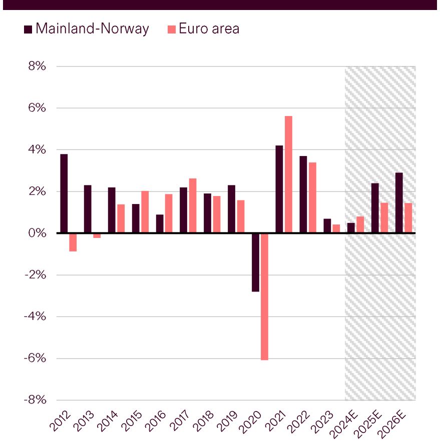
Malling

MARKET UPDATE
July 2024

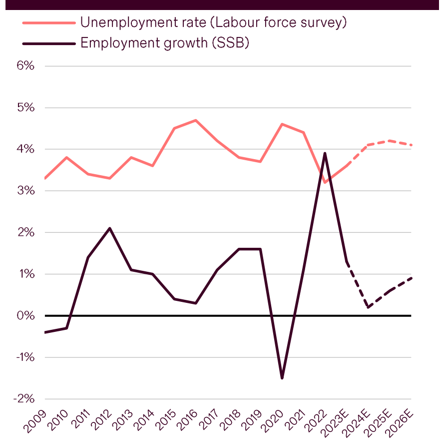
Malling was the advisor to Eiendomsspar on the lease of Drivhuset, one of three properties in Urtekvartalet, to Norwegian Refugee Council (NRC). NRC will be moving in from January 2027.

GDP: Mainland Norway vs. Euro area



Source: Statistics Norway Outlook (June 2024), IMF WEO (April 2024)

Labour market Norway



Source: Statistics Norway (December 2023)

Economic Outlook

- Seasonally adjusted GDP growth for Mainland Norway in Q1 was measured at 0.2 %. The Central Bank of Norway (NB) expects a modest increase in mainland GDP for Q2 and Q3, at 0.2 % and 0.3 %, respectively.
- The measured unemployment rate from SSB's Labour Force Survey (LFS) was 4.1 % in May. In the same period last year, the unemployment rate was 3.5 %, corresponding to a 60 bps increase.
- The 12-month CPI change for June ended at 2.6 % for CPI and 3.4 % for CPI-ATE, below estimates from NB. They expect the CPI to increase slightly in the coming months before easing off later this year. However, we still see upside risk for the CPI over the coming months relative to the Norwegian Central Bank's estimates.
- NB kept the policy rate unchanged during the June meeting. The peak of the interest rate path was also maintained, but the duration of the peak was extended by a few quarters. The peak has likely been reached, but how long the peak will last is still uncertain. NB expects the first cut to come towards the end of Q1 2025.
- Several factors contribute to keep the interest rate path elevated and extend the peak. Petroleum prices and investments, international factors, prices and wages, and domestic demand, are pushing the rate up, while the exchange rate has a somewhat dampening effect.
- The Norwegian krone has been very volatile so far this year and was significantly weaker (I-44) than what NB expected throughout Q2. However, towards the end of Q2, the krone strengthened. NB expects the krone to be somewhat stronger than its current level going forward and to remain stable in the coming years.

Office vacancy per June 2024 (June 23) and Indicative Office Rents (May 24) in Greater Oslo

Cluster	Vacancy	Normal rent*	Prime rent**	Typical project asking rent***
Asker	11 % (15 %)	1 800 – 2 000	2 400	3 000
Sandvika	15 % (9 %)	1 900 – 2 400	2 800	3 000
Fornebu	11 % (12 %)	2 000 – 2 500	2 700	3 200
Lysaker	6 % (4 %)	2 400 – 2 800	3 200	3 500
Skøyen	8 % (7 %)	3 100 – 3 800	4 300	4 500
Forskningsparken/Ullevål	0 % (0 %)	2 200 – 2 800	3 200	3 500
Majorstuen	3 % (1 %)	3 000 – 3 500	4 300	4 500
Vika/Aker Br./Tjuvholmen	8 % (4 %)	4 500 – 5 500	6 500	7 000
Kvadraturen	8 % (5 %)	3 200 – 4 000	4 800	5 000
Inner City	9 % (6 %)	3 200 – 4 000	5 000	5 000
Inner City East	8 % (6 %)	3 000 – 3 600	4 200	4 200
Bjørvika	1 % (0 %)	4 000 – 4 800	5 500	5 600
Nydalen	10 % (8 %)	2 300 – 2 800	3 200	3 400
Økern	10 % (7 %)	2 000 – 2 500	2 600	3 200
Helsfyr/Ensjø	11 % (8 %)	2 200 – 2 600	2 900	3 200
Bryn	12 % (14 %)	2 000 – 2 500	2 650	2 800

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

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

Key Facts: Real Estate (Office, Oslo)

	Jul. 2024	Jul. 2023
Prime Yield	4.75 %	4.15 %
Normal Yield****	6.15 %	5.50 %
5Y SWAP (COB 08.07)	4,06 %	4.20 %
10Y SWAP (COB 08.07)	3.89 %	3.84 %
EUR/NOK (COB 08.07)	11.46	11.18
CPI 12-month change (June)	2.6 %	6.7 %
Average Rent Top 15 % (Q2 24/23)	4 660	4 710

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

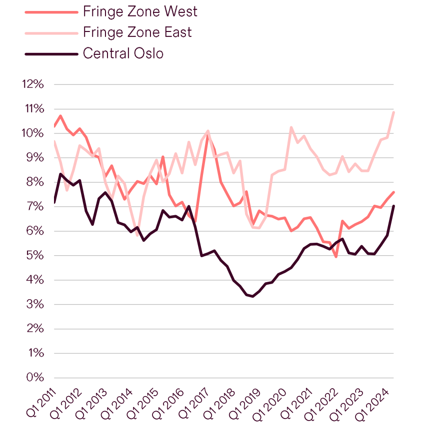
Number formatting: SI Style (English version)

Latest Lease Contracts

Tenant	Address Cluster	Size (m²)
NAV	Fredrik Selmers vei 2 Helsfyr	~ 18 000
Rystad Energy	Akersgata 51 Inner city	~ 6 300
Voice	Pontoppidans gate 7 Other	~ 5 000
Advokatfirmaet Grette	Filipstad Brygge 2 CBD	~ 4 000

Source: Malling

Office Vacancy, Greater Oslo



Source: FINN.no, Malling

Latest Transactions

Address	Buyer	Size[1] (MNOK)
Lysaker Park	Storebrand	~1 700
The World Seafood Center	Slate	1 340
K8	Storebrand Liv	~1 100
Brække-portfolio	REQ	Conf.

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

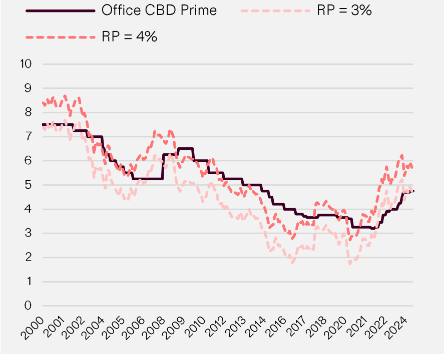
Transaction Volume (>50 MNOK)

Source: Malling

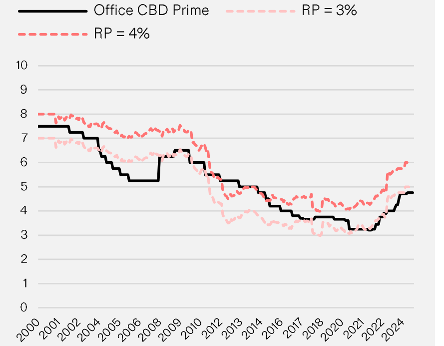
Special Topic: "Where is the equilibrium for prime yield?" by Senior Economist Jon Mjølhus

There may be various reasons for the low transaction volume in commercial real estate, but many cite a disagreement about the "true" required yield. Buyers are looking for bargains, while sellers are reluctant to sell at the buyers' required level. Where exactly is the equilibrium for "prime yield"? Recent transactions usually tell us, but we have seen few such between "willing sellers and buyers". Lacking good market data, we can turn to models. In a capital market model, we acknowledge that real estate competes with other asset classes and must offer a higher return than risk-free government bonds. Currently, 10-year bonds offer 3.6 % and if investors demand a risk premium of 3 % in real estate, the nominal required rate should be 3.6 % + 3 % = 6.6 %. Subtracting an expected nominal growth equal to Norges Bank's inflation target of 2 %, we get a prime yield of 4.6 %, close to Malling's estimate of 4.75 %. In an alternative "fundamental" model, the yield is built from a real return with variables such as risk premium, rental growth and deprecation. Using a long-term real interest rate of 0.5 %, a risk premium of 3 %, a premium for inflation uncertainty of 0.5 %, zero real rental growth and a depreciation rate of 1 %, we get a prime yield of 5.0 %. Of course, all these variables are subject to uncertainty, and one has to pick one's own estimates for each variable. Still, any prime yield below 4.6 % must primarily assume higher rent growth and/or lower risk-free rate. Pick your number/wish! (Read more about this on our blog: «Avkastningskrav mellom himmel og hav» (Norwegian only)).

Capital market yield



Fundamental yield



Source: Norges Bank, Malling

Commercial Real Estate

The Leasing Market

- The average of signed office rents in Greater Oslo was 2 980 NOK/m²/year in Q2 2024, 6 % higher than Q2 2023.
- Just above 800 000 m² office space was signed and registered in the Oslo market over the past four quarters in Q2 2024, according to numbers by Arealstatistikk. This is approx. 200 000 below the record levels seen last year in terms of four quarter rolling signed m².
- The share of signed office leases continues to decrease in Central Oslo. Since Q2 2023, Central Oslo has seen a 12 % decrease in share of signed leases, while the fringe zones have seen a 13 % and 14 % increase for east and west, respectively.
- So far in 2024, office lease search volumes have slightly exceeded last year when comparing 1H 2024 to 1H 2023. There have been a substantial increase in lease searches within the 5 000 – 9 999 m² category, with over 62 000 m² searched so far this year, compared to 17 500 m² in total in 2023.
- The office vacancy in Greater Oslo is currently measured to 8.1 %, an uptick of 1.7 percentage points from June 2023. This increase in vacancy can partly be explained by an increased share of subletting. 58 % of the increased vacancy can be attributed to coworking companies and tenants with excessive space advertising their entire premises rather than targeting smaller tenants.
- From the H2 2023 to H2 2024, Bergen has seen an increase in office rents of 7 %, while rents in Trondheim have increased with 4 %. Stavanger has seen flat rent levels from H2 last. However, Stavanger experienced a substantial increase of 17 % from 1H to 2H in 2023.
- In the industrial and logistics segment, the average rents for signed contracts recorded a 4 % increase for both total lease contracts and top 15 % of signed lease contracts.

The Investment Market

- The transaction volume so far this year is approximately NOK 36 billion, up from NOK 24 billion at the same time in 2023.
- The market so far this year has been characterized by larger transactions. Office and logistics remain the two largest segments, accounting for 41 % and 19 % of the total transaction volume, respectively.
- Despite our belief that the market will pick up somewhat over the summer and that the volume in H1 has been more than expected, we are maintaining our estimate for 2024 at 65 billion. This is because the volume has been driven up by larger transactions.
- Over the last two months, there have been indications that the market has started to ease, as several transactions have been completed.
- In 2025, there is a substantial amount of bond maturity for CRE, and in most cases, the loans will need to be renegotiated at higher interest rates. We believe this will trigger several transactions going forward, as we have also seen so far this year.
- For Q1, the global transaction volume stands at USD 150 billion, almost 20 % lower than the volume for Q1 2023. Although the international volume has been low, we know that there is a significant amount of dry powder waiting to be deployed in the market.

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