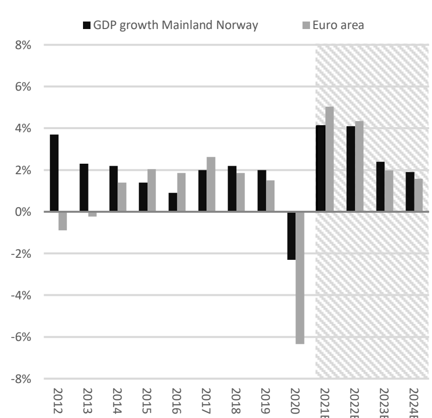
MALLING & CO

MARKET UPDATE

March 2022

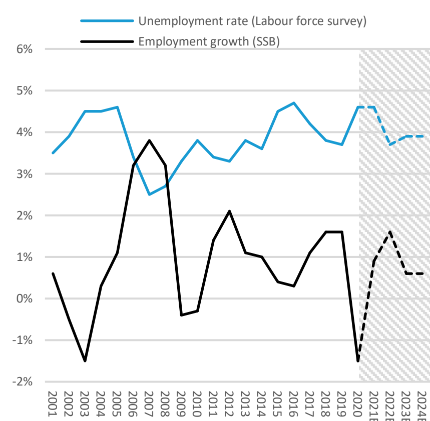
Malling & Co Leietakerrådgivning advised Sweco in defining their new workplace strategy for their new HQ in Urtekvartalet, comprising approx. 10 500 m² GLA of office space.

GDP: Mainland Norway vs. Eurozone



Source: Statistics Norway Outlook (December 2021), IMF WEO (October 2021)

Labour market Norway



Source: Statistics Norway (December 2021)

Economic Outlook

- On 24th of February, the Russian president Vladimir Putin opted to invade neighboring country Ukraine. The ramification of the ongoing war is still very uncertain, but we provide some thoughts and observations in our special topic below.
- Preliminary January 2022 figures from the National Accounts is not affected by the war, although GDP for mainland-Norway fell by 0.9 % from December 2021, seasonal adjusted figures from Statistics Norway (SSB) shows. The January decline was relatively subdued compared with previous periods of restrictions all the while parts of the service industries were still affected by the measures introduced in December.
- The 12-month CPI change in February was 3.7 %, up from 3.2 % in January, before the war started, according to SSB. With major economies now implementing sanctions towards Russia, commodity prices are likely to increase severely, driving inflation up.
- The market is repricing increased inflation and central banks are facing uncertain territory for monetary policy. The likeliness of four interest rate hikes in 2022 as announced from the Norwegian central bank in January remains.
- The 3-month rolling average unemployment figures from the Labour Force Survey was down 0.3 pp. in September-December 2021, seasonally adjusted. Unemployment was at 3.3 % in December. SSB's 2022 estimate is 3.7 %.
- Residential housing prices continued to rise with 1.5 % (0.7 % seasonally adjusted) nationally in February 2022. New regulation from the Alienation Act at the start of the year have created a bottleneck effect on the supply side.

Office vacancy (January 2022) and Indicative Office Rents (Q4 2021) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	10 %	1 600 – 1 800	2 150
Sandvika	1 %	1 500 – 1 800	2 300
Fornebu	9 %	1 500 – 1 800	2 150
Lysaker	3 %	1 900 – 2 250	2 500
Skøyen	6 %	2 500 – 2 900	3 900
Forskningsparken/Ullevål	1 %	1 800 – 2 500	2 700
Majorstuen	1 %	2 400 – 2 700	3 500
Vika/Aker Br./Tjuvholmen	5 %	3 600 – 4 500	5 800
Kvadraturen	5 %	2 700 – 3 400	4 000
Inner City	5 %	2 800 – 3 600	4 250
Inner City East	4 %	2 300 – 2 800	3 400
Bjørvika	0 %	3 500 – 4 200	4 900
Nydalen/Sandaker	7 %	1 800 – 2 400	2 600
Økern	10 %	1 500 – 1 900	2 250
Helsfyr/Ensjø	5 %	1 900 – 2 200	2 450
Bryn	12 %	1 700 – 1 950	2 100

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

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

Key Facts: Real Estate (Office, Oslo)

	MAR 2022	MAR 2021
Prime Yield	3.20 %	3.25 %
Normal Yield***	4.50 %	4.85 %
5Y SWAP (COB 11.03)	2.44 %	1.40 %
10Y SWAP (COB 11.03)	2.43 %	1.76 %
EUR/NOK (COB 11.03)	9.8	10.1
CPI 12-month change (February)	3.7 %	3.3 %
Average Rent Top 15 % (Q4 21/20)	4 110	4 110

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

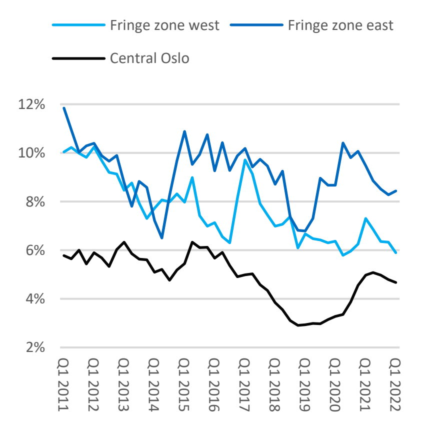
Number formatting: SI Style (English version)

Latest Lease Contracts

Tenant	Address/Cluster	Size (m²)
KPMG	Dronning Eufemias gate 6A / Bjørvika	~ 13 200
Sweco	Urtekvartalet / Inner city east	~ 10 500
Selmer	Ruseløkkveien 14 / Vika/Aker Br./Tjuvholmen	~ 4 800
OBOS	Turbinveien 2 / N/A	~ 3 900

Source: Malling & Co

Historical Office Vacancy, Greater Oslo



Source: Malling & Co/FINN.no

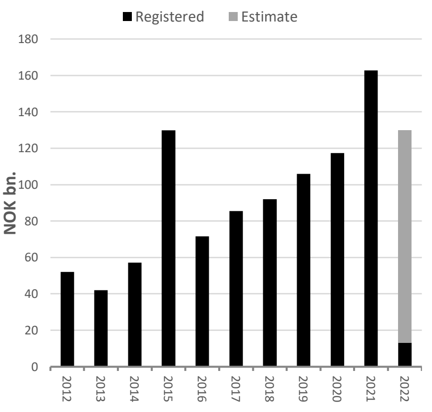
Latest Transactions

Source: Malling & Co

Address	Buyer	Size [1] (MNOK)
Gullhaug Torg 4	NIAM	Est. 1 400
Buskerud Storsenter	Aurora Eiendom	1 175
Bilittveien 6 / Lønningsflaten 22	Nuveen fund	750
Lille Grensen 5	Arctic syndicate	488

[1]Deal size may be rounded due to confidentiality

Transaction Volume (>50 MNOK)



Source: Malling & Co

Special Topic: CRE in a new geopolitical environment

While US intelligence warned about the upcoming Russian attack on Ukraine, most of the western world decided to not to believe in an upcoming war. Until the attack became a fact on February 24th, the unlikely event of a bloody war on the European continent was far from the general perception of reality. The relationship between the Western world and Russia and Belarus has become extremely cold, and comprehensive sanctions within the financial sector, energy and commodities trade with Russia have disturbed the market vigorously. Energy prices are soaring and key materials for real estate like steel, timber and aluminum is experiencing supply chain disruptions caused by the war. Both developers, landlords and tenants are now worried of the sudden changes in the market and how this will play out over the coming months. The outcome of the war may be just as surprising as the invasion, but we have gathered our view on the coming market disturbance:

- **Inflation will continue to rise** as prices for energy and key materials will stay at elevated levels or even rise more from current levels. The effects of war in Europe, combined with repercussion from the unbalances created during the pandemic creates the perfect supply side storm. Market players will have to take additional risk margins in their pricing, adding increased cost to a wide range of inputs for property development.
- **Central banks in Europe are likely to become more dovish** in the current situation, lowering interest rate projections.
- However, **risk margins are increasing** on debt issued by real estate companies, and liquidity in the bond market has dried up. Bank margins are also increasing, and SWAP rates have increased along with the yields on government debt, reflecting risk premiums increasing in the interest rate derivative market as well. This means increased financing cost for CRE that is likely to eventually play out on yield levels.
- Increased risk and uncertainty as well as increased costs will **increase the marginal cost** of new CRE supply significantly. This may delay projects and key decisions to invest. Certain sub-segments such as office will thus see this as supporting further office rental growth in the near future.
- **Increased Public spending** on defense and energy will create a stimulus to the economy in Europe. The potential offset from this is a fickle balance as consumer spending is likely reduced.
- In the event that the much-feared stagflation, seen in the 1970's, will return, **Norway is likely to be a winner** due to its exposure to the energy market.

Commercial Real Estate

Oslo Office Market

- Activity in the Oslo office market has been strong so far this year, and several large tenants have signed new contracts recently. Some have relocated to other office clusters.
- In January and February, we have registered a total search volume for office space of 33 075 m² in greater Oslo so far. None of the searches has been in the eastern fringe clusters Bryn, Helsfyr/Ensjø and Nydalen/Sandaker, while about 71 % is in the central office clusters.
- Average office vacancy was measured at 5.6 % in January, slightly down from 5.7 % in December. Vacancy in the eastern fringe fell from 8.7 % to 8.2 %, while vacancy in both Central Oslo and the western fringe increased with 0.1 % in January.
- New construction is still expected to be low in 2022 with only 18 200 m² of confirmed office space. The confirmed pipeline for 2023 is larger with 118 800 m², but far behind the 1998-2021 average volume of approximately 140 000 m². Confirmed construction volume in 2024 is in the middle of 2022 and 2023 with 55 000 m².

Investment Market

- A combination of the Covid measures imparted at the end of November/early December that pushed a fair number of transactions into 2022, along with a continued strong sentiment, has seen our early 2022 tally surpass NOK 13 billion in volume, and 30 transactions.
- While the war in Ukraine has raised uncertainty and perceived risk in international markets, the pipeline and activity is still strong in Norwegian CRE from preliminary inquiries with investors. The flip side of the turmoil and uncertainty in international markets is the certainty that the Norwegian energy sectors including oil & gas will fare well. In the short term this leads us to believe that the investor market could remain strong towards summer as the fundamentals for Norway in the short term are very positive. Yet caution is likely to prevail as risk has increased.
- The concern amongst investors due to the increasing interest rates, inflation and projected increases in key policy rates from Central banks continues. We have observed a tightening of liquidity in CRE financing. The war has added risk and uncertainty over both credit risk and spreads, as well as future interest rate curves. Yet we remain clear that our main scenario is that inflation along with expected movements in interest rates will not lead to a significant movement in yields in the short term. Our main scenario, however, involves secondary yields increasing their gap to prime, as well as a geographical gap increase between central and fringe locations. Our projection for 2022 has decreased from NOK 140 billion to NOK 120-140 billion as investors are still positive in their sentiment towards CRE, although to a lesser degree than the previous record high levels of late 2021. See our special topic for more insight on the effects of the new geo-political climate and the effects on Norwegian CRE.

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