MARKET UPDATE

March 2023

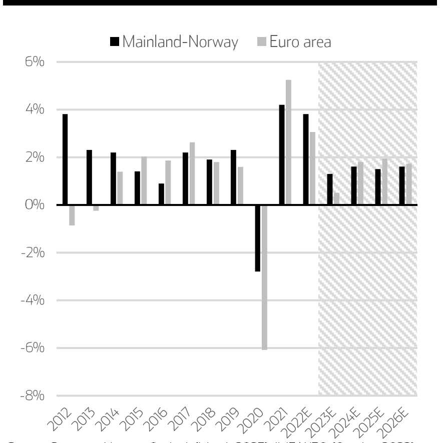
MALLING & CO

Malling & Co advised Spabo Eiendom with leasing of Hagegata 32, where Oslo municipality district Gamle Oslo is establishing a new 4 260 m² family centre (Illustration: Puls Arkitekter)

Economic Outlook

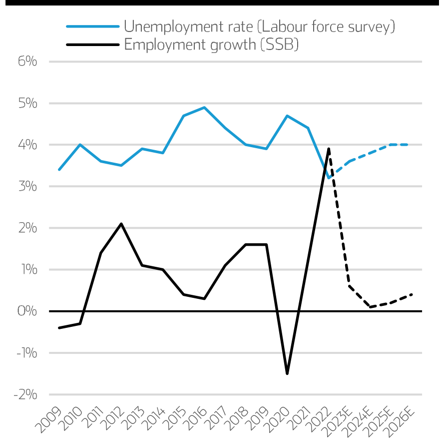
- Seasonally adjusted GDP-growth for Mainland Norway in January was measured at – 0.2 %, mainly driven by a drop in new car sales, due to changes in VAT on BEVs from the start of 2023. The underlying trend in the GDP is slightly positive, and above the estimates from Norges Bank (NB).
- Statistics Norway (SSB) forecast from March estimates the annual mainland GDP-growth to be 1.3 % in 2023, down from 3.8 % in 2022.
- The measured unemployment rate from SSB's Labour Force Survey (LFS) was 3.4 % for January. Preliminary January seasonally adjusted job numbers, show a moderate increase of 0.3 % from December. Both figures imply a stronger employment market than NB expected in the MPR 4/22.
- The volatility in the interest rate market has been record high over the past months. Uncertainty regarding how central banks will react to the latest development in inflation and turmoil in the banking sector on both sides of the Atlantic, are key explanatory factors to the large movements in rates.
- The 12-month February CPI-change ended at 6.3 %., 0.5 p.p. below the estimate from NB. We still see upside risk for the CPI over the coming months as price adjustments will continue to affect several subcategories in the CPI.
- NB decided to maintain the key policy rate at 2.75 % in January, but pressure is building up to their first Policy Report in 2023 that will be released on 23 March. ECB increased the policy rate by 50 bps to 3.00 % on deposits, with high inflation as the main reason, regardless of the bank collapse reaching Europe (i.e., CS).

GDP: Mainland Norway vs. Euro area



Source: Statistics Norway Outlook (March 2023), IMF WEO (October 2022)

Labour market Norway



Source: Statistics Norway (March 2023)

Office vacancy per Feb. 2023 (Feb. 2022) and Indicative Office Rents (Q1 2023) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	7 % (13 %)	1 700 – 1 900	2 200
Sandvika	8 % (1 %)	1 600 – 1 900	2 400
Fornebu	7 % (5 %)	1 500 – 1 900	2 300
Lysaker	6 % (4 %)	2 200 – 2 500	2 700
Skøyen	8 % (6 %)	2 900 – 3 300	4 000
Forskningsparken/Ullevål	0 % (1 %)	2 100 – 2 500	2 700
Majorstuen	2 % (2 %)	2 600 – 3 000	3 800
Vika/Aker Br./Tjuvholmen	4 % (5 %)	4 000 – 4 800	6 100
Kvadraturen	4 % (5 %)	3 000 – 3 800	4 200
Inner City	6 % (5 %)	3 000 – 3 800	4 400
Inner City East	6 % (5 %)	2 500 – 3 000	3 600
Bjørvika	0 % (1 %)	3 700 – 4 500	5 400
Nydalen/Sandaker	8 % (9 %)	2 100 – 2 400	2 700
Økern	5 % (8 %)	1 700 – 2 250	2 500
Helsfyr/Ensjø	4 % (5 %)	2 100 – 2 200	2 500
Bryn	16 % (11 %)	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)

	Mar. 2023	Mar. 2022
Prime Yield	4.00 %	3.20 %
Normal Yield***	5.40 %	4.50 %
5Y SWAP (COB 16.03)	3.00 %	2.61 %
10Y SWAP (COB 16.03)	3.00 %	2.60 %
EUR/NOK (COB 16.03)	11.4	9.7
CPI 12-month change (February)	6.3 %	3.2 %
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 (m^2)
Deloitte (extension)	Dronning Eufemias gate 14 / Bjørvika	~ 15 000
NHST Media Group (extension)	Christian Krohgs gate 16 / Inner city east	~ 7 000
Accenture	Rådhusgata 27 / Kvadraturen	~ 5 300
Municipality of Oslo (extension)	Storgata 51 / Inner city	~ 3 750

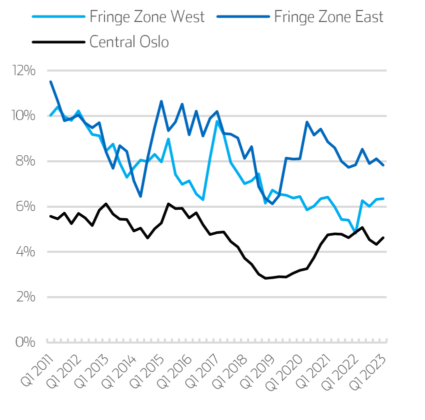
Source: Malling & Co

Latest Transactions

Address	Buyer	Size [1] (MNOK)
Sinsenveien 56-74	The Norwegian State	1 500
Jogstadveien 9-11, 19-21, 25-39	Njord Securities	600
Hoffsveien 9	Oslo Municipality	350
Grønland 32	Bane NOR	335

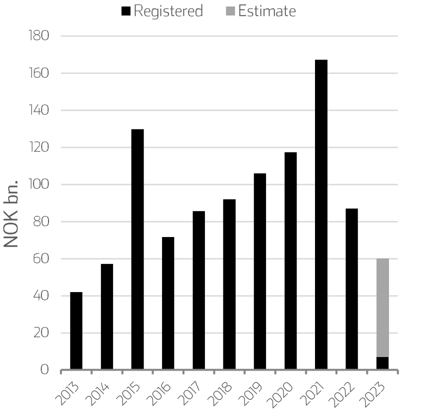
[1]Deal size may be rounded due to confidentiality. Source: Malling & Co

Office vacancy, Greater Oslo



Source: Malling & Co/FINN.no

Transaction Volume (>50 MNOK)



Source: Malling & Co

Commercial Real Estate

Greater Oslo leasing market

- 2023 started off strong in terms of office lease searches, as both Yara, Storebrand and Vest Politidistrikt published searches for premises of more than 15 000 m^2. After the winter break, however, activity has been much more modest, with an overweight of smaller searches well below 1 000 m^2.
- The slowdown in search activity might be a direct consequence of the tightening of the economy, as growth prospects are revised down and the growth in office demand is expected to slow down.
- Higher breakeven rents on newbuilds due to increased construction costs and yields, is expected to increase the share of lease extensions as companies cannot or will not face higher rents needed in new developments. This might result in reduced search activity also going forward. See also special topic below.
- Our current forecast for confirmed newbuild volume in Greater Oslo is an addition of 80 000 m^2 in 2023, 78 000 m^2 in 2024 and 167 000 m^2 in 2025. Given that new projects have become expensive relative to existing stock, several projects have been postponed. We therefore assume additional construction over the next years is unlikely to add to the above-mentioned numbers.
- The vacancy in Greater Oslo is currently at a low level of 5.8 %, 4.7 % in central Oslo. If future newbuild activity is hampered and re-negotiations become more common, vacancy levels are expected to come down even more.

Investment Market

- The transaction volume YTD is approximately NOK 7 billion, which is significantly less compared to the transaction volume YTD in 2022, which was NOK 13 billion. High interest rates, and the risk of even higher rates is the main driver behind the slowdown.
- Many investors are holding off on investing until financing becomes more available and more attractive relative to the asset return.
- There have been slightly more transactions carried out in recent weeks, and the size of the transactions has also been relatively large. Investors positioned to invest are mainly seeking value-add office and mixed-use properties.
- We have adjusted our estimate for 2023 to NOK 50-70 billion. We expect the activity to increase over the summer, albeit at a slower pace than previously forecasted, as we expect sellers and buyers to have aligned on price levels along with increased availability of financing
- A delegation from Malling & Co attended the MIPIM conference this week. The news related to issues in the banking sector sent shock waves among the attendees. Nevertheless, the prevailing sentiment was that investors remain optimistic about future opportunities.
- Due to record high interest rate increases, CRE-investors with financing maturing this year may find themselves in challenging situations, potentially resulting in undesired property sales. On the other hand, this could also create opportunities for opportunistic investors.

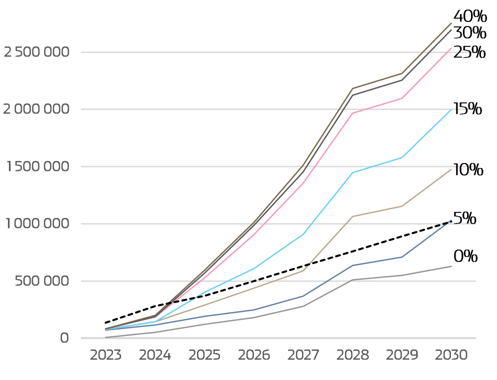
Special Topic: **Increasing costs and yields will limit new office construction**

The strong office market seen in Oslo over the past year, might create a foundation of a higher supply side in the office leasing market ahead. However, despite strong rental growth, the option to erect new supply is further "out of the money" in most office clusters with available land or ongoing projects. The increase in construction costs of around 30 % over the past two years, accompanied by an increase in yields, breakeven rents have increased somewhere around 40-50 %, depending on the assumed price of the land. In many office clusters, the development opportunities must be set almost to zero to offer new stock at current market rents, a strong contrast to historic price paid in the market for development potential seen in the market in recent years. We believe this major shift in developer's calculations will hinder new supply in most office clusters, except central locations where zoning speed is slow and rents are much higher to allow for profitable development. We have analysed all projects in our office development list, calculated the minimum required rent level to initiate the project, and the general rental increase needed on current top rents to allow for profitable development. We have also made estimates for needed new space over the coming years, due to replacement of old stock, and market growth.

<u>The key takeaways:</u>

1. Only centrally located projects will be initiated at current rent levels.
2. The available supply at current rent levels is not enough to meet the overall demand forecast.
3. The supply/demand unbalance is relatively short lived, if we assume that rents increase another 10-15 % over the next few years.
4. Landlords will focus on developing existing assets rather than erecting new buildings.
5. Tenants will be more likely to re-negotiate existing leases since the rental difference to new builds will be too high.
6. This will gradually reduce office vacancy in the coming years.

Cumulative new construction volume (m^2) for different rental uplifts in top rents (% change)



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