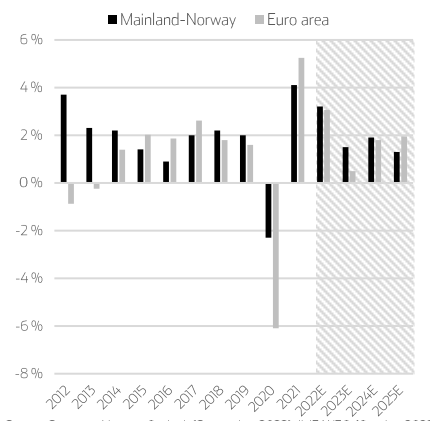
MALLING & CO

MARKET UPDATE

October 2022

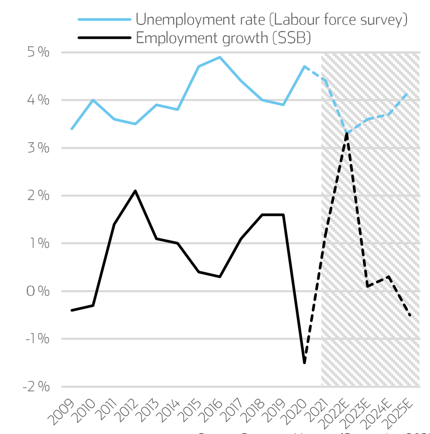
Malling & Co Corporate Real Estate was advisor when Furuholmen Eiendom AS established a joint venture with Reitan Eiendom AS regarding two office properties, approx. 29 000 m², in Majorstuen, Oslo.

GDP: Mainland Norway vs. Euro area



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

Labour market Norway



Source: Statistics Norway (September 2022)

Economic Outlook

- Projections for mainland GDP in the Monetary Policy report (MPR) 3/22 from Norges Bank (NB) shows a growth of -0.3 % and 0.4 % in 2023 and 2024, significantly weaker than SSBs September estimates at 1.5 % and 1.9 % for the same years. NB also assumes a higher key policy rate than anticipated by SSB in early September.
- MPR projections for the employment market shows employment decrease of 0.4 % and 0.1 % in 2024 measured y/y. SSB is more positive in 2023 and 2024, as seen in the chart to the left.
- The 12-month CPI change in September was 6.9 %, and the CPI-ATE was 5.3 %. This is higher than the CPI forecasts in the MPR 3/22 at 6.0 % and 5.0 %, respectively. Higher than expected inflation and far above the target of 2.0 % along with a strong labour market point towards a further increase of the Key Policy rate in NB's meeting 3 November. Most likely, they will adjust again with 50 bps, leaving the policy rate at 2.75 %.
- If inflation continues above expectations and the labour market remains strong, we expect Norges Bank to continue the increase in the key policy rate and the key policy rate projections in the next MPR in December.
- The 3-month rolling average seasonally adjusted figures from SSB's Labour Force Survey shows unemployment rate at 3.1 % for July 2022, same level as in March.
- Nationally, residential housing prices decreased by 2.2 % nominally in September (down 0.6 % seasonally adjusted). Sharp increases in interest rates is now slowing the residential market significantly.

Office vacancy (September 2022) and Indicative Office Rents (Q3 2022) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	4 %	1 700 – 1 900	2 200
Sandvika	7 %	1 600 – 1 900	2 400
Fornebu	9 %	1 500 – 1 900	2 300
Lysaker	4 %	2 200 – 2 500	2 700
Skøyen	8 %	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	5 %	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	1 %	3 700 – 4 500	5 200
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	17 %	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)

	Oct. 2022	Oct. 2021
Prime Yield	3.75 %	3.25 %
Normal Yield***	5.00 %	4.55 %
5Y SWAP (COB 24.10)	3.93 %	1.84 %
10Y SWAP (COB 24.10)	3.91 %	1.97 %
EUR/NOK (COB 24.10)	10.4	9.7
CPI 12-month change (September)	6.9 %	4.1 %
Average Rent Top 15 % (Q3 22/21)	4 530	4 020

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)
Confidential	Dyrskueveien 44 / Kløfta	~ 22 000
NAV	Oslo K / Kværnerbyen	~ 4 400
Econa	Kongens Gate 6 / Kvadraturen	~ 1 400
Bravida	Parallell / Økern	~ 1 150

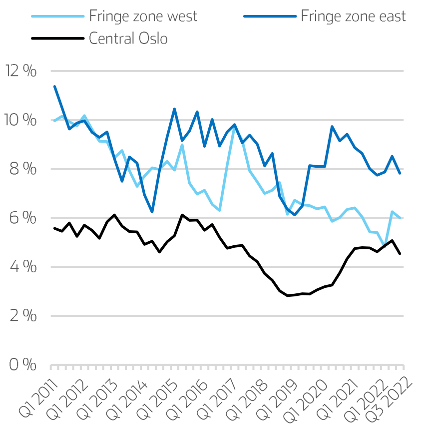
Source: Malling & Co

Latest Transactions

Address	Buyer	Size [1] (MNOK)
Meråker Brug	Statskog	2 650
30 % of Carucel Living	Madison	735
Polarkanten i Tromsø	Offentlig Eiendomsinvest	436
Roseveien 1	REQ Capital	328

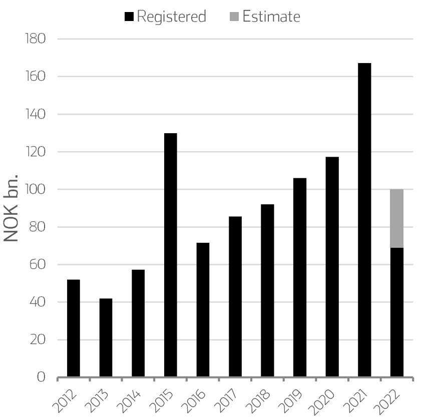
[1]Deal size may be rounded due to confidentiality. Source: Malling & Co

Office vacancy, Greater Oslo



Source: Malling & Co/FINN.no

Transaction Volume (>50 MNOK)



Source: Malling & Co

Commercial Real Estate

Greater Oslo leasing market

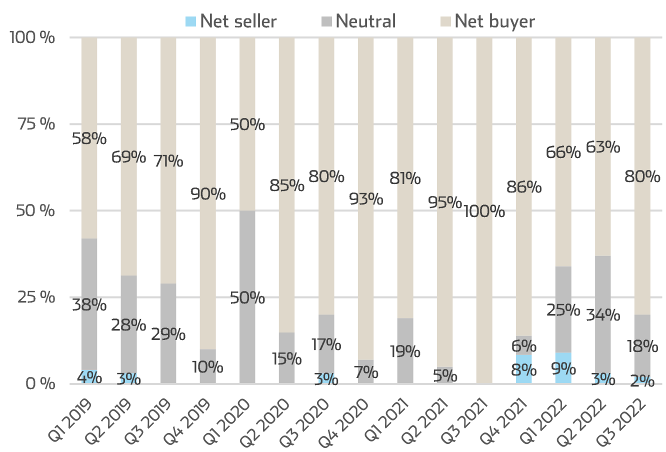
- Office rents continue to increase in Greater Oslo, and the average rents in Q2+Q3 22 combined are now 9 % higher than the average for the previous two quarters or 11 % higher compared to same two quarters in 2021, according to Arealstatistikk figures.
- Comparing average office rent in signed leases in Q3-22 with Q3 2021 shows a 12 % rental growth in central Oslo, a 8 % rental growth in western fringe areas and 3 % growth in eastern fringe areas.
- The volume of signed leases is at all time high over four quarters, just shy of 820 000 m².
- The difference between office contracts starting and contracts expiring over the past four quarters shows a net take-up of around 60 000 m² office space. This is slightly down from previous quarter.
- The number of wage earners in Norway increased by about 0.1 % m/m in July and August, according to seasonally adjusted preliminary numbers. This indicates a slowdown in employment growth. SSB will release new numbers for September and Q3 27. October.
- In the logistics segment, demand for logistics space remains strong. Vacancy rates in greater Oslo has decreased from 2.7 % in Q2 to 2.2 % in Q3. We expect vacancy rates to decrease marginally further before year end.
- We expect logistics rents to continue to grow in 2H 2022 due to strong demand, especially for space close to Oslo and in the sub segment of space suitable for "last mile" logistics.

Investment Market

- The year-to-date transaction volume registered is at approximately NOK 69 billion spread across slightly below 250 transactions. The figure is far below the volume we had registered per Q3 last year (-37 %), mainly as the bid/ask spread have brought the market to a standstill after a relatively strong H1.
- Our practice of registering transactions at bid-acceptance makes the transaction volume more uncertain than usual. We have observed deals to be withheld as the financing landscape has invoked certain terms in the acceptance offerings.
- If CPI and CPI-ATE 12-month rolling continue to surprised on the upside against the Norwegian Central Bank's forecast, like we have seen for several months, it may trigger a sharper policy rate increase than indicated in MPR 3/22 further rising the cost of debt for real estate.
- The narrowing gap between government bond and real estate yields is increasingly unfavourable to real estate. Across Europe, the spread between real estate and long-term government bond yields dropped to 44 bps in September from 279 bps on average in the past 10 years.
- Yields across all segments and risk classifications are up by 20-40 bps in Q3 from Q2. Despite a strong share of net intended buyers, investors expect a further 30-40 bps increase in twelve months. More on this in our special topic.

Special Topic: **Malling & Co Investment Yield and Sentiment Survey Q3 2022**

As the interest rates have increased significantly on the back of the Central Banks's race to curtail inflation rates across the globe, the investment market has seen a significant slow down as investors are finding their footing. Given this backdrop, the tense anticipation surrounding the results from our quarterly investor survey for Q3 2022 (conducted at the end of September) was high. In the graph below we have outlined the desired Commercial Real Estate (CRE) exposure for investors over the coming 12 months. Contrary to what many may have believed, the share of investors intending to be net buyers of commercial real estate did not decrease with the increasing yields. The survey showed an increase from around 65 % in the past two quarters to around 80 % in Q3. And the explanation for this is in our view something that resonates with the feedback we are getting from active investors. They are more than willing to keep investing in CRE, but not at yesterday's price level. The bid-ask spread has created a vacuum, and liquidity in the investment market has all but frozen as few, if any, sellers are currently willing to be the yard stick for which to establish a new equilibrium. Prime office CBD is currently estimated at 3.75 %, up 30 bps from the previous quarter, and a full 55 bps up from the all time low at 3.20 % in Q4 2021. The outlook 12 months out is also increasing quarter by quarter, and the latest estimate from the survey is also up 30 bps from the previous quarter to 4.05 %. And uncertainty surrounding the yields is at an all time high with a standard deviation of 0.25, a fair bit higher even than what we measured at the height of the uncertainty experienced in the early days of the outbreak of the pandemic. Similar increases in current yield levels, is observed in future outlooks across segments and risk classes, although firm observations are few and rare.



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