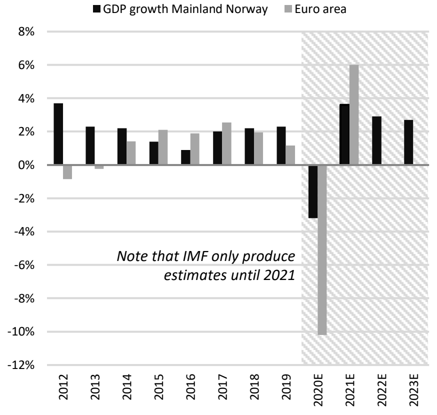
MALLING & CO

MARKET UPDATE

SEPTEMBER 2020

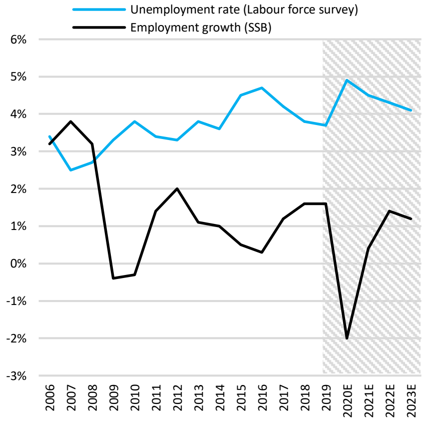
Malling & Co has assisted OPF in leasing 10 800 m² in Økern Portal to the Norwegian Digitalisation Agency (Digdir). Digdir will move to Økern Portal in Q4 2021.

GDP: Mainland Norway vs. Eurozone



Source: Statistics Norway/IMF World Economic Outlook (June 2020)

Labour market Norway



Source: Statistics Norway (June 2020)

Economic Outlook

- GDP growth for Mainland Norway is expected to decrease by 3.2 % in 2020 according to SSBs latest forecast. Thereafter SSB expects an increase of 3.6 % and 2.9 % in 2021 and 2022, respectively. In other words SSB expects the activity to be back at the pre-Covid-19 level by end of 2021. They emphasize however that it will take longer than expected to get back to a normal situation where economic activity and unemployment levels are no longer heavily affected by the Covid-19 crisis.
- Expected unemployment for 2020 overall is now 4.9 %, down 20 bps from SSB's June estimates. Unemployment figures have taken a positive turn since the spring and in September approx. 117 000 people were registered as unemployed, compared to approx. 300 000 in March, according to SSB. It is however expected that the recovery will be slow going forward, and that unemployment will stay above 4 % over the next three years.
- The key policy rate, which is currently 0 %, is now expected to be adjusted upwards much earlier than previously thought. The main reason is the record low interest rates effect on residential real estate prices, which has increased by 3.3 % from March to August. SSB now predicts that the key policy rate will be adjusted upwards mid 2021.
- The 12-month change in CPI ended at 1.7 % for August (3.7 % CPI-ATE). CPI fell by 0.4 % from July to August, largely due to a 9.8 % decrease in transportation services, which includes foreign travel. SSB expects CPI to be 1.5 % in 2020 y/y, while CPI-ATE is predicted at 3.1 %.

Vacancy (August 2020) and Indicative Office Rents (Q3 2020) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	8.6 %	1 600 – 1 800	2 150
Sandvika	1.8 %	1 600 – 1 800	2 150
Fornebu	5.3 %	1 400 – 1 600	1 900
Lysaker	9.6 %	1 800 – 2 100	2 300
Skøyen	7.4 %	2 300 – 2 700	3 300
Forskningsparken/Ullevål	0.5 %	1 700 – 2 000	2 300
Majorstuen	1.9 %	2 200 – 2 600	3 300
Vika/Aker Br./Tjuvholmen	6.4 %	3 200 – 3 800	5 600
Kvadraturen	4.1 %	2 500 – 3 200	3 700
Inner City	4.6 %	2 800 – 3 400	4 000
Bjørvika	1.0 %	3 200 – 3 500	4 400
Nydalen/Sandaker	2.9 %	1 800 – 2 100	2 500
Økern/Løren/Risløkka	12.3 %	1 200 – 1 700	2 100
Bryn/Helsfyr	8.3 %	1 700 – 2 100	2 400

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

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

Key Facts: Real Estate (Office, Oslo)

	SEP 2020	SEP 2019
Prime Yield	3.60 %	3.75 %
Normal Yield***	5.05 %	5.10 %
5Y SWAP (COB 14.09)	0.69 %	1.75 %
10Y SWAP (COB 14.09)	0.98 %	1.77 %
EUR/NOK (COB 14.09)	10.71	9.95
CPI 12-mos. change (Aug)	1.7 %	1.6 %
Ave. Rent* Top 15 % (Q2)	3 810	4 200

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

Number formatting: SI Style (English version)

Commercial Real Estate

Oslo office market

- Average office vacancy is currently 6.1 % in Greater Oslo, which is 40 bps higher than in august 2019. Most of the increase is caused by an increase in vacancy at Økern, while vacancy in central Oslo and the western fringe remain relatively stable. There has however been several large contract signings at Økern recently, which could contribute to reduce vacancy somewhat.
- After a relatively high volume in 2020, new construction is expected to be low in 2021 and 2022. The pipeline for 2023 is however steadily increasing. At the time of writing, three projects have been confirmed, totaling 30 000 m². Construction activity can potentially be high in 2023 as the expiry of large contracts is expected to be high, and several readily zoned projects, initially expected in 2022, have been pushed out in time.
- After surprisingly strong take-up in Q2 2020, it is expected that activity in 2020 overall will be fairly normal, despite the Covid-19 lockdown. Activity in Q3 and Q4 is expected to be strong, with multiple deals currently in process, in addition to the several large contracts that was announced in the late summer.

Transaction market

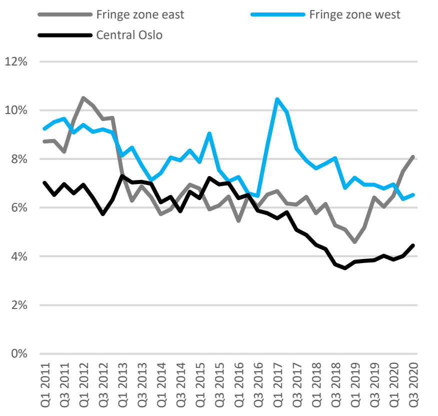
- As we are well into the second half of the year things are looking very good. We have counted 157 transactions totaling NOK 45.7 bn. Several larger transactions have been confirmed, and there are several larger processes that have been announced for sale. As risk associated with Covid-19 has been assessed as the world has gained a deeper understanding of the threat, so has the demand for CRE come back. The forces that will be applied to further compress yields can be better understood in our special topic this month, but the simple effect is that we expect volumes to normalize towards the higher total seen in recent years, and CRE value will increase. We are eager to see the result of our quarterly investment survey on yields and demand that will be sent out to participants at the end of September, expecting to see results supporting an expected yield compression and continued high demand. Our main scenario for the total transaction volume for 2020 is revised up to NOK 80-85 bn. for 2020.
- As the risk seems to be under control, and demand is back, so are the foreign investors. We have seen several investors come in to look at potential investments, and several foreign investors have been behind the wheel of confirmed transactions. The total foreign share of the total volume is now at a little over 20 %, and we expect this share to remain at the same level when we close the year 2020.
- Our estimate for prime yield CBD office is currently at 3.60 %. But a downwards revision is imminent, and probably more than 10 bps according to our preliminary findings.

Latest Lease Contracts

Tenant	Address/ Cluster	Size (m²)
Digdir	Lørenfaret 1/ Økern	~ 10 800
NorgesGruppen	Karenslyst allé 12-14/ Skøyen	~ 15 900
NENT Group	Karvesvingen 7/ Økern	~ 5 000
MAD Arkitekter	Pilestredet 27/ Inner city	~ 1 300

Source: Malling & Co

Historical Office Vacancy, Greater Oslo



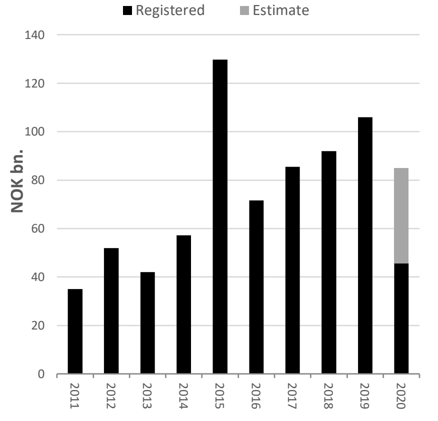
Source: Malling & Co

Latest Transactions

Address	Buyer	Size [1] (MNOK)
50 % of Anthon B. Nilsen Eiendom	Fastighets AB Balder	1 500
Hieronymus Heyerdahls Gate 1	Ferd Eiendom	Est. 1 050
Tungasletta/ Trondheim Areal	Trondheim Areal/ Clarkson Platou	950
Toveien 35-39 / DSV Vestby	NRP	Est. 800

[1]Deal size may be rounded due to confidentiality

Transaction Volume (>50 MNOK)



Source: Malling & Co

Special Topic: Compressing forces on yields

From March to May, The Norwegian Central Bank made cuts in the key interest rate from 1.5 % to 0 % as an immediate reaction to the effects of Covid-19. Long-term NOK interest rates have also fallen significantly since the beginning of March, and monetary policy is back in strong stimulus mode. Interest at zero means that safe returns increase in value. Real estate yields are hence under compressing forces.

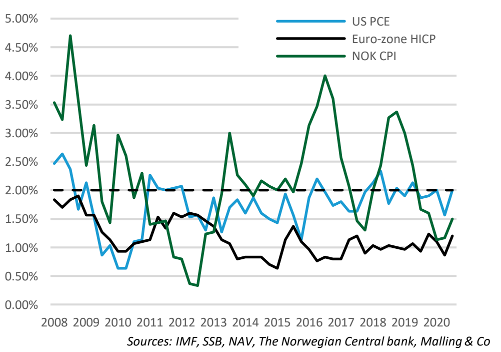
While real estate yields quoted in our quarterly investor survey just before Easter came out 5-25 bps. higher than early January, yields compressed almost back to pre-Covid-19 levels in the Q2 survey performed in late June/early July, at least for office and logistics. Investors are still hungry for quality real estate, and the hunger is likely to persist and compress yields further.

Reason number one: Property yields in other markets are lower. NOK interest rates have yields closing on other comparable countries and capitals. The spread on NOK interest rates compared to EUR rates are now lower, and the remaining spread could be explained by expectations of higher average inflation in Norway.

Reason number two: Other assets have seen yields compressing. Let's start with the Oslo Stock Exchange. The stock market (OSEBX) is almost back at pre corona highs, while company earnings expectations are lower. This makes the stock market relatively less attractive. Bonds are more or less the same story. Yields for Investment Grade have also fallen significantly. According to the S&P Norway Investment Grade Corporate Bond Index, average yields have fallen by almost 100 bps from the start of the year, and 5-year-old Norwegian state has seen a similar fall.

Reason three: FED's announcement to alter their inflation targeting to a more dovish approach looking at average inflation over time. Though the argument could be made that recent years have already seen this behavior, and the period for which the average inflation is measured is undefined, it is now the official policy. And it is not unlikely to spread into Europe's central banks, and thus create additional arguments to invest in real estate. Lower interest rates and higher inflation leave commercial real estate even more attractive relative to e.g. bonds. In addition, one could also argue for reduced risk spreads due to lower expected interest rate volatility. The effects of this, however, remain to be observed.

Inflation US, Euro-zone and Norway, 2008-2020



Sources: IMF, SSB, NAV, The Norwegian Central bank, Malling & Co

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

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