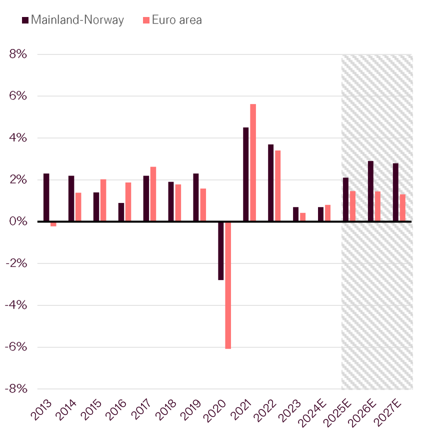
Malling

MARKET UPDATE

September 2024

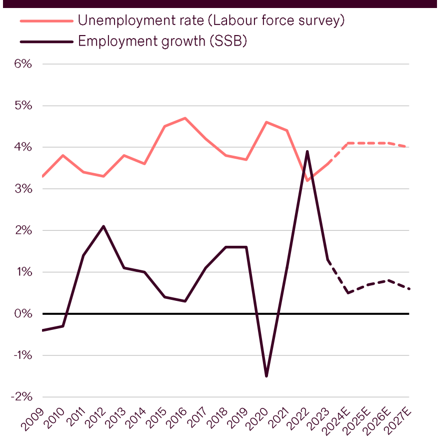
Malling acted as sell-side advisor on behalf of Citycon in the sales process of Trekanten, Asker, a 32 000 m^2 shopping centre in greater Oslo with development potential.

GDP: Mainland Norway vs. Euro area



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

Labour market Norway



Source: Statistics Norway (September 2024)

Economic Outlook

- The Federal Reserve implemented a "double cut" on September 18. Interestingly, long-term rates have since increased, exemplified by the NOK 5Y SWAP rate rising by approximately 30 basis points as of September 24.
- At its September meeting, The Central Bank of Norway (NB) maintained the policy rate at 4.5 %. However, the interest rate path was slightly adjusted downwards starting mid-2025.
- The expectation remains that the first rate cut will occur in Q1 of next year. Contributing factors include a weaker NOK than previously anticipated and increased investments in the oil and gas sector, which positively influenced the rate curve. Conversely, declining consumer prices, lower international inflation, and weak growth in the Norwegian economy exerted downward pressure.
- Since the rate decision on September 19, the Norwegian krone has appreciated somewhat over the past weeks (as of September 24). NB forecasts the krone to remain around current levels, though approximately 3% weaker than projected in the previous Monetary Policy Report from June.
- Seasonally adjusted Q2 GDP growth for Mainland Norway was measured at 0.1 %. NB expects a modest increase in mainland GDP for Q3 and Q4, at 0.3 % and 0.2 %, respectively.
- According to the Labour Force Survey (LFS) by Statistics Norway (SSB), the unemployment rate was 4.0 % in July, up from 3.6 % during the same period last year.
- NB anticipates employment growth to increase slightly, from 0.5 % in 2025 to 0.8 % in 2027.
- The 12-month CPI change for August was 2.6 % and 3.2 % for CPI-ATE, both below NB's estimates. It is noteworthy that reductions in parental payments from August 1 were likely not considered by NB in their June projections.

Office vacancy per Sept. 2024 (Sept. 23) and Indicative Office Rents (Sept. 24) in Greater Oslo

Cluster	Vacancy	Normal rent*	Prime rent**	Typical project asking rent***
Asker	9 % (12 %)	1 800 – 2 000	2 400	3 000
Sandvika	7 % (12 %)	1 900 – 2 400	2 800	3 000
Fornebu	11 % (11 %)	2 000 – 2 500	2 700	3 200
Lysaker	5 % (4 %)	2 400 – 2 800	3 200	3 500
Skøyen	7 % (6 %)	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 % (6 %)	4 500 – 5 500	6 500	7 000
Kvadraturen	7 % (4 %)	3 200 – 4 000	4 900	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	2 % (0 %)	4 000 – 4 800	5 500	5 600
Nydalen	8 % (8 %)	2 300 – 2 800	3 200	3 400
Økern	11 % (6 %)	2 000 – 2 500	2 600	3 200
Helsfyr/Ensjø	13 % (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/m^2/yr. Source: Malling

Key Facts: Real Estate (Office, Oslo)

	Sept. 2024	Sept. 2023
Prime Yield	4.75 %	4.25 %
Normal Yield****	6.15 %	5.60 %
5Y SWAP (COB 24.09)	3.66 %	4.47 %
10Y SWAP (COB 24.09)	3.62 %	4.21 %
EUR/NOK (COB 24.09)	11.63	11.44
CPI 12-month change (August)	2.6 %	4.8 %
Average Rent Top 15 % (Q2 24/23)	4 660	4 710

Rents are quoted as NOK/m^2/yr. Source: Malling/Eikon/Arealstatistikk/SSB

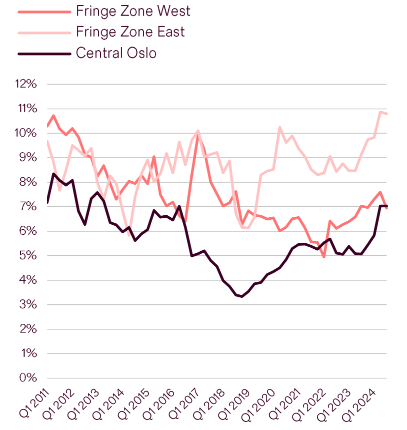
Number formatting: SI Style (English version)

Latest Lease Contracts

Tenant	Address Cluster	Size (m²)
Vann- og avløpsetaten	Brynsengfaret 6 Bryn	~ 10 000
Protector Forsikring	Filipstad Brygge CBD	~ 4 200
Eidra	Kongens gate 2 Inner city	~ 4 000
Cicero	Campus Ullevål Forskningsparken	~ 2 800

Source: Malling

Office Vacancy, Greater Oslo



Source: FINN.no, Malling

Latest Transactions

Address	Buyer	Size[1] (MNOK)
Oslo-portefølje	Union Residential Development	~1 500
Trekanten Senter	Scala Eiendom	1 325
Høn, Asker (H7, H8 og H10)	JM Norge	464
Kirkegata 20	Hõegh Eiendom	Conf.

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

Transaction Volume (>50 MNOK)

Source: Malling

Special Topic: Will yields compress as Norges Bank begins cutting rates?

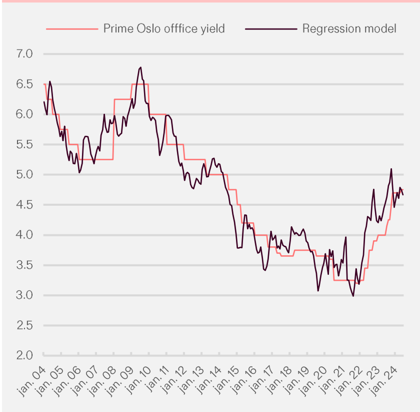
With the Federal Reserve starting to cut interest rates and Norges Bank expected to do the same in Q1 2025, many investors expect the market to improve and yields to decline. However, current property yields seem quite low compared to short-term rates right now, suggesting that the anticipated rate cuts may already be factored into these yields. It's important to note that property yields aren't just about interest rates; they also depend heavily on the outlook for income growth. This income growth could come from the demand for specific commercial spaces or adjustments based on the Consumer Price Index (CPI) in current contracts. If rates are cut because CPI is nearing inflation targets, it could lead to slower income growth. On the other hand, rates are often cut during times of economic slowdown as well. To understand why yields are at their current levels (like the prime office yield), we've run different regression models. We looked at data from the past 20 years and found a well fitted model with three main factors: the short-term interest rate (3M NIBOR), the long-term interest rate (5Y5Y SWAP rate), and GDP growth (the quarterly change compared to the same time last year). The GDP growth factor is included to reflect potential income growth and overall economic activity. The model gives us specific intercept and coefficient values to work with.

Intercept:	2.21
3M NIBOR	-0.07
NOK 5Y5Y SWAP	0.79
4Q GDP Growth	-0.08

The model demonstrates a strong fit with an R^2 of 89%, and all coefficients are statistically significant. Notably, the short-term interest rate has a negative coefficient, suggesting that when the policy rate is cut, it often reflects a weaker outlook in the leasing market, which can lead to higher yields. In contrast, the 5Y5Y SWAP rate emerges as a more critical variable. If rate cuts result in lower rates at the longer end of the interest rate curve, property yields are likely to compress. Additionally, an improved GDP growth outlook can offset the adverse effects of lower short-term rates and higher 5Y5Y SWAP rates in the model.

By Q4, this indicates a modelled prime office yield of approximately 4.60% to 4.65%, depending on how these variables evolve and the duration of any shifts from the model.

Prime Office yield (%) vs. yield regression model



Source: Malling

Commercial Real Estate

The Leasing Market

- Signed rents in Greater Oslo are on the rise, with the 4-quarter rolling average increasing by 1.6 % from Q1 to Q2 2024, according to Arealstatistikk. The western fringe zone is driving this momentum with a 4.3 % increase, while Central Oslo and the eastern fringe are experiencing steadier growth at 1.1 % and 0.7 %, respectively.
- Vacancy rates in Greater Oslo have remained steady at 8.0 % from June to September 2024. Although unchanged from June, this marks a 1.7 % increase compared to September last year.
- The City Center is witnessing the largest spike in vacancies, primarily due to an influx of coworking spaces still on the market, coupled with increased subletting activity.
- A current market challenge is the abundance of smaller office spaces in the city center struggling to find the right tenants. Over the past year, the vacant space under 1 000 m² in the city center clusters has increased from a monthly average around 60 000 m² in Q3 2023 to approximately 85 000 m² in Q3 2024.
- As of mid-September, the search volume for office space in Greater Oslo is approximately 170 000 m². If this pace continues, 2024 could surpass the already strong years of 2022 and 2023, which each saw volumes around 220 000 m².
- Major searches in Q3 include Visma (20 000 m²), Ruter (15 000 m²), and Asker Kommune (13 500 m²).
- Several key development projects have been completed in Greater Oslo this year. New builds such as Valle Vision, Veksthuset, and Helsfyr have been finalized, while significant refurbishments have been undertaken at Tollgaarden and Oslo City Part 1.

The Investment Market

- For Q2, the global transaction volume stands at approximately USD 175 billion, an increase of approximately USD 25 billion from Q1 2024. However, compared to Q2 2023, the volume in Q2 2024 has decreased slightly.
- The domestic transaction volume so far this year has reached approximately NOK 50 billion, a significant increase from NOK 28 billion at the same time in 2023. The transaction volume has surpassed our expectations, primarily due to several large transactions. Consequently, we have revised our estimates for this year's transaction volume to NOK 75 billion.
- Office and logistics remain the largest segments, representing 41% and 25% of the total transaction volume, respectively. Logistics and residential properties have notably gained in segment shares compared to previous years.
- Long-term interest rates have dropped significantly since the summer. Although the 5-year NOK SWAP rate has increased by more than 30 basis points over the past two weeks to the current level of 3.66%, it remains over 40 basis points lower than the levels observed in the first half of July.
- Since the beginning of the year, we have assessed the proportion of transaction volume that can be characterized as "necessity sales," defined as transactions where sellers must or should sell property to strengthen their balance sheets. Our estimate indicates that just below 70% of all transactions in 2024 fall into this category.

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