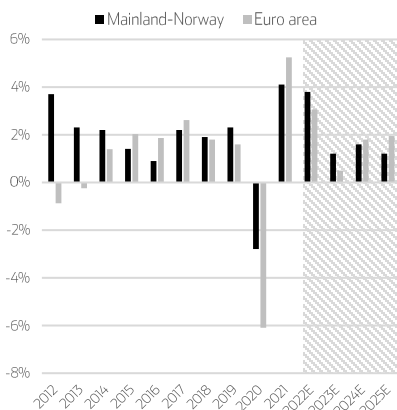


**Malling & Co Næringsmegling acted as the leasing advisor when Holship leased a 19 500 m<sup>2</sup> warehouse in Dyrskueveien 44, just North of Oslo.**

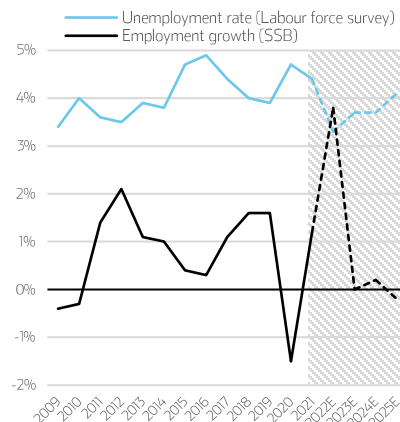


**GDP: Mainland Norway vs. Euro area**



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

**Labour market Norway**



Source: Statistics Norway (December 2022)

## Economic Outlook

- Year-end is approaching and Statistics Norway (SSB) December estimates projects average mainland GDP-growth to be 3.80 % in 2022. Weaker economic growth is expected going forward at 1.20 % and 1.60 % in 2023 and 2024, respectively.
- Norges Bank (NB) further lifted the key policy rate on 15. December from 2.50 % to 2.75 %. In Monetary Policy Report (MPR) 4/22, NB signalled additional increases at the start of 2023 with a top at 3.10 % close to the summer. See also special topic regarding the MPR 4/22 on the next page.
- The high inflation figures, being the key driver of the increasing key policy rate, ended at 6.5 % in November y/y. The November CPI is important for commercial real estate investors as this is used as contract indexation for next year's lease in the majority of commercial lease contracts.
- The unemployment rate, measured by SSB's Labour Force Survey (LFS), has been marginally increasing since spring. The LFS was measured at 3.3 % in September, October and November. Lower demand as the economy weakens is expected to ease the employment market and increase the unemployment rate to 3.7 % in 2023 and gradually above 4 % in 2025 according to SSB's latest estimates. Numbers of jobs decreased slightly from September to October according to SSB.
- Since the pandemic outbreak, house prices have increased by roughly 20 % nationally, while from August to November, prices fell by around 3 %, according to Eiendom Norge. SSB expects another 8 % drop in prices from Q3 2022 to Q3 2023.

## Office vacancy (December 2022) and Indicative Office Rents (Q4 2022) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	6 %	1 700 – 1 900	2 200
Sandvika	7 %	1 600 – 1 900	2 400
Fornebu	8 %	1 500 – 1 900	2 300
Lysaker	4 %	2 200 – 2 500	2 700
Skøyen	6 %	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	4 %	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
Björvika	0 %	3 700 – 4 500	5 400
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	18 %	1 800 – 2 050	2 300

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

Rents are quoted as NOK/m<sup>2</sup>/yr. Source: Malling & Co

## Key Facts: Real Estate (Office, Oslo)

	Dec. 2022	Dec. 2021
Prime Yield	3.80 %	3.25 %
Normal Yield***	5.50 %	4.55 %
5Y SWAP (COB 21.12)	3.11 %	1.73 %
10Y SWAP (COB 21.12)	3.13 %	1.76 %
EUR/NOK (COB 21.12)	10.5	10.1
CPI 12-month change (November)	6.5 %	5.1 %
Average Rent Top 15 % (Q3 22/21)	4 530	4 020

Rents are quoted as NOK/m<sup>2</sup>/yr. Source: Malling & Co/Eikon/Arealstatistikk/SSB

## Latest Lease Contracts

Tenant	Address/Cluster	Size (m <sup>2</sup> )
Kreditor	Sjølyst plass 1-3 / Skøyen	~ 7 200
Orange Business Services	Økern Portal / Økern	~ 5 000
1881 Group	Lysaker Park / Lysaker	~ 2 500
Studieforbundet	Storgata 51 / Indre by	~ 2 250

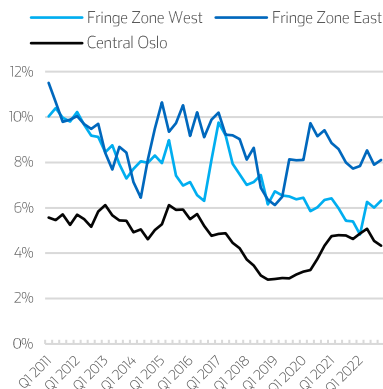
Source: Malling & Co

## Latest Transactions

Address	Buyer	Size <sup>1</sup> (MNOK)
Sørkedalsveien 6	CapMan Real Estate	Conf.
Kulltangveien 70	Scala Eiendom	1 250
Porsnesbakken 12	Viken Fylkeskommune	730
Hamangskogen 1	Bærum kommune	405

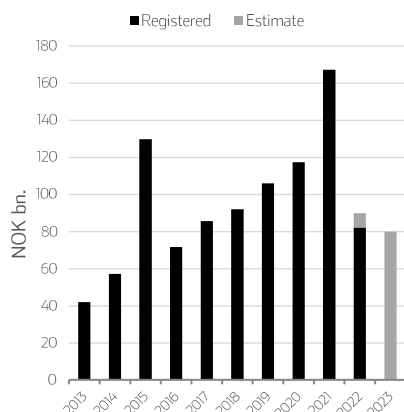
<sup>1</sup>Deal size may be rounded due to confidentiality. Source: Malling & Co

## Office vacancy, Greater Oslo



Source: Malling & Co/FINN.no

## Transaction Volume (>50 MNOK)



Source: Malling & Co

## Commercial Real Estate

### Greater Oslo leasing market

- As of Q3 2022, the average of signed office rents in Greater Oslo stood at 2 840 NOK/m<sup>2</sup>/yr. This was a 14 % increase from Q3 2021, reflecting the strong leasing market seen over the last year.
- The 12-month November CPI ended at 6.5 %. The November index is the most common basis for lease adjustment for the next year.
- Going forward, we expect that the growth in both signed leases and running leases will ease off, as forecasts for employment growth is weakening into 2023, according to SSB and NB. We forecast a rental increase of around 5 % - 7 % in Oslo from Q3 2022 to Q3 2023.
- The volume of signed leases in 2022 per Q3 stood at approx. 580 000 m<sup>2</sup>. Given that Q4 is usually an active quarter in terms of signing, we are on a good trajectory to beat the record year of 2019 at 770 930 m<sup>2</sup>.
- According to Arealstatistikk, more than 800 000 m<sup>2</sup> leased office space will expire in 2023, which is record high. This is likely an important driver behind the strong activity seen in the leasing market in 2022 as new or extended contracts are usually secured earlier. However, high lease expiry next year combined with an economic downturn might increase vacancy risk in the market for the remaining leases not already extended or secured in a new space.
- Construction volume of new added office space for 2022 will end at only 16 400 m<sup>2</sup>. This is low compared to the 20-year annual average of approx. 140 000 m<sup>2</sup>. In 2023 and 2024 new construction is expected to remain below average, at around 80 000 m<sup>2</sup> each year.

### Investment Market

- The year-to-date transaction volume registered is at approximately NOK 82 billion spread across roughly 290 transactions. The figure is far below the volume we registered for 2021 (-51 %), mainly as the bid/ask spread have brought the market to a standstill after a relatively strong H1, as the volume in Q4 2022 is down 81 % compared to Q4 2021.
- The cost of capital has increased, but on top of increased interest rate swaps and margins, comes the effect of drastically decreased availability of funding as well. The bond market has all but vanished, and banks are stricter both towards what types of projects they will finance, but also what clients they will entertain. Although we expect banks to ease up lending slightly in Q1 compared to Q4, it will remain a detracting factor for liquidity.
- Yields across all segments and risk classifications are up further from Q3, more so in normal yields than prime segments due to increased risk premiums. Our current estimate for prime CBD office yield is 3.80 %, while the normal fringe office yield is 5.50 %, an increase of 5 bps and 55 bps respectively since Q3.
- Our volume estimate for 2023, subdued due to an expectation of a slow market in H1 before we see activity pick-up over the summer, at NOK 70 - 90 billion.

## Special Topic: 4 takeaways from the Monetary Policy Report 4/22

Norges Bank (NB) adjusted the key policy to 2.75 % 15 December and released their latest Monetary policy report (MPR 4/22) simultaneously. The report outlines the fundamental drivers for the interest rate decision, as well as estimates for the next years. We have outlined the four most important drivers (in our view) for real estate with our comments:

- Inflation estimates:** The MPR includes estimates for the 12-month rolling CPI change for the coming months. The estimates seem way too low, especially for January and February, as they seem to underestimate contributions from rents and food, and probably also energy prices (direct and indirect). This means that there is a significant risk that CPI-numbers will continue to overshoot NBs estimates into 2023, and hence affect interest rate decision in the March-meeting.
- Special topic on inflation and spread effects:** On page 40 – 41 NB discuss the fact that we have limited recent data on how prices on some categories spread to others when prices shocks are large and remain over a longer period. They highlight that large and remaining changes in input factors are more likely to end in significant changes in other prices, as changes are too large to be absorbed by reduced margins. A study from BIS on American price data that reveals higher spreading effects when inflation is high than in periods with lower inflation. NB present similar studies on Norwegian inflation figures from 1980 – 1992 and 1993- 2019 (high and low inflation period). The model indicates that high inflation periods will increase spreading effects, and hence inflation will be underestimated in their empirical models.
- The interest rate decision and forward curve:** The Key policy rate decision in this meeting with a 25 bps raise to 2.75 % was just in line what they had indicated in the MPR 3/22 from September. However, the indicated interest rate curve was slightly lowered (18 bps) towards the end of their projections in (year end 2025). Weaker domestic demand and weaker growth among Norway's trading partners are key drivers behind a lower interest rate towards the end of the projection.
- Economic forecasts and outlook:** While the MPR 3/22 revealed major changes to the economic outlook relative to the MPR 2/22, MPR 4/22 is more in line with the previous with mostly minor changes. However, estimates for residential prices and investments have been adjusted significantly down. They also present an estimate for commercial real estate prices for prime offices in Oslo indicating a value decrease of 20-25 % from peak. In our view this is based on wrong assumptions, and this stands in sharp contrast to the much lower expected 6 % decrease in residential prices from august 2022 to august 2023.