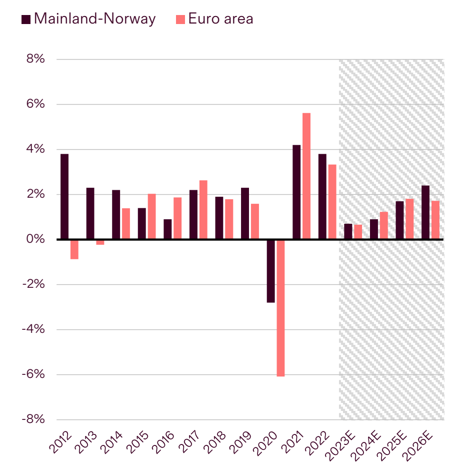
Malling

MARKET UPDATE
Jan 2024

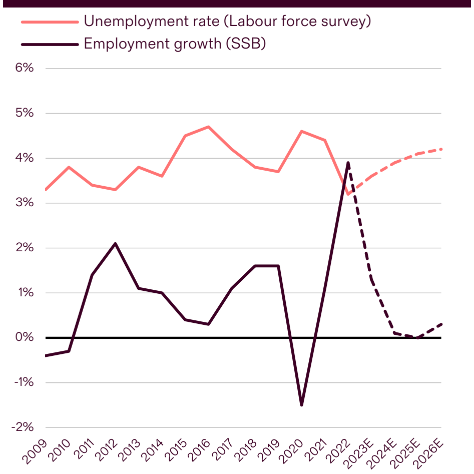
Malling served as the advisor for the sale of Marine Trading AS, which encompasses a portfolio of nine logistics properties spanning 78 000 m² in Moss, in addition to a considerable land reserve in Våler Næringspark.

GDP: Mainland Norway vs. Euro area



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

Labour market Norway



Source: Statistics Norway (December 2023)

Economic Outlook

- On December 14, the Central Bank of Norway (NB) increased the policy rate from 4.25 % to 4.50 %. The interest rate path was adjusted slightly upward for the short term in MPR 4/23. The new path indicates that the rate hiking cycle is likely to have reached its peak.
- The interest rate market is pricing in 4-5 cuts (of 25 bps each) by the NB by the end of 2024. The expected path for the key policy rate indicated in the 4/23 MPR is however to remain at 4.50 % until the first anticipated cut in Q3 or Q4 2024. We believe the first cut will come in September at the earliest. This differs markedly from market expectations.
- In December, the 12-month CPI growth came in at 4.8 %. The CPI-ATE increased by 5.5 % on a 12-month basis. NB predicts a decline in inflation, with the annual growth rate for the CPI and CPI-ATE projected at 3.9 % and 4.3 %, respectively, in Q4 2024.
- The labour market remains robust, with the unemployment rate, as measured by the Labour Force Survey (LFS), holding steady at 3.7 % in November. While NB has revised its estimates, a modest uptick in unemployment is expected over the next few years.
- The NOK experienced volatility at the end of 2023. NB adjusted its projections for the Import Weighted Exchange Rate Index (I-44) in the Monetary Policy Report 4/23 to reflect the depreciation of the NOK. However, following the rate decision, the NOK is presently around 3 % stronger than the forecast for Q1 2024.
- Seasonally adjusted GDP growth for Mainland-Norway was minus 0.2 % in November, according to Statistics Norway (SSB). NB anticipates the GDP growth for Mainland Norway to be 0.1 % in 2024 and 1.2 % in 2025.

Office vacancy per Dec 2023 (Dec 22) and Indicative Office Rents (Jan 24) in Greater Oslo

Cluster	Vacancy	Normal rent**	Prime rent*
Asker	12 % (8 %)	1 700 – 1 900	2 200
Sandvika	13 % (9 %)	1 900 – 2 400	2 600
Fornebu	9 % (7 %)	2 000 – 2 300	2 500
Lysaker	4 % (4 %)	2 300 – 2 700	2 900
Skøyen	7 % (6 %)	3 000 – 3 700	4 200
Forskningsparken/Ullevål	2 % (1 %)	2 200 – 2 800	3 200
Majorstuen	1 % (1 %)	2 900 – 3 500	4 200
Vika/Aker Br./Tjuvholmen	6 % (5 %)	4 500 – 5 500	6 500
Kvadraturen	5 % (5 %)	3 200 – 4 000	4 750
Inner City	6 % (5 %)	3 200 – 4 000	4 900
Inner City East	8 % (5 %)	3 000 – 3 600	4 000
Bjørvika	0 % (0 %)	3 800 – 4 600	5 400
Nydalen	8 % (7 %)	2 300 – 2 800	3 100
Økern	7 % (7 %)	2 000 – 2 300	2 600
Helsfyr/Ensjø	9 % (4 %)	2 100 – 2 500	2 750
Bryn	17 % (18 %)	2 000 – 2 300	2 500

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

Rents are quoted as NOK/m²/yr. Source: Malling

Key Facts: Real Estate (Office, Oslo)

	Jan. 2024	Jan. 2023
Prime Yield	4.70 %	3.90 %
Normal Yield***	6.05 %	5.20 %
5Y SWAP (COB 18.01)	3.72 %	2.86 %
10Y SWAP (COB 18.01)	3.60 %	2.83 %
EUR/NOK (COB 18.01)	11.4	10.7
CPI 12-month change (December)	4.8 %	5.9 %
Average Rent Top 15 % (Q4 23/22)	4 790	4 510

Rents are quoted as NOK/m²/yr. Source: Malling/Eikon/Arealstatistikk/SSB

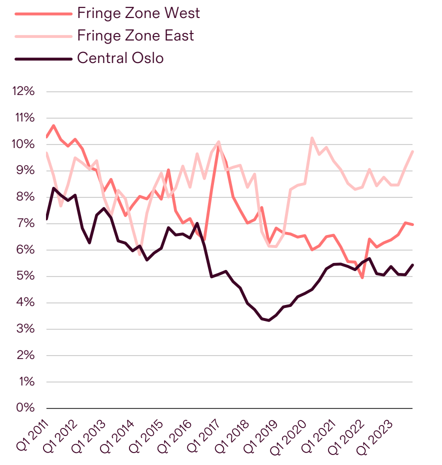
Number formatting: SI Style (English version)

Latest Lease Contracts

Tenant	Address/cluster	Size (m^2)
DNB (extension)	Dronning Eufermias gate 30 / Bjørvika	~ 49 200
Norwegian environment agency (extension)	Grensesvingen 7/ Helsfyr	~ 11 350
City of Oslo agency for urban environment (extension)	Karvesvingen 3 / Økern	~ 11 200
Posten (extension)	Biskop Gunnerus gate 14 / Inner city	~ 8 400

Source: Malling

Office vacancy, Greater Oslo



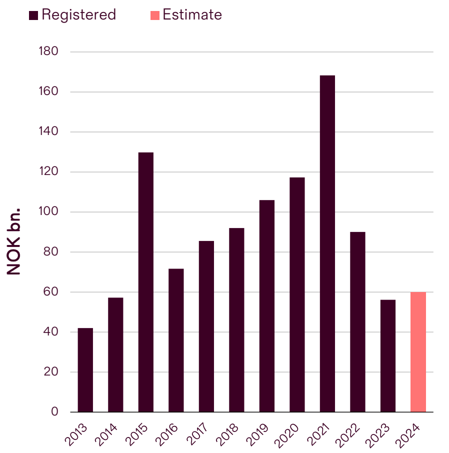
Source: Malling/FINN.no

Latest Transactions

Address	Buyer	Size [1] (MNOK)
Scala Eiendom	Various Investors	N/A
Telegrafen	NPRO	~ 1 600
Marine Trading	NREP	Conf.
Cort Adelers gate 30	Njord Securities	~ 1 000

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

Transaction Volume (>50 MNOK)



Source: Malling

Commercial Real Estate

The leasing market

- The average signed office rent recorded by Arealstatistikk for Q4 2023 was 2 850 NOK/m^2/yr., marking a 3.7 % increase from the Q4 2022 rate of 2 770 NOK/m^2/yr.
- The top 15 % of signed leases, experienced a substantial 7.5 % rise from the 2022 to 2023 annual average.
- In Greater Oslo, the 2023 office gross take-up totalled approximately 870 000 m^2, slightly lower than the 2022 record of 920 000 m^2.
- Bergen and Trondheim observed a 5 % growth in signed office rents from 2022 to 2023, while Stavanger led with a remarkable 13 % increase, (source: Arealstatistikk). Market growth in Stavanger is driven by a booming energy sector and the lowest rent levels in absolute terms.
- Average rents for signed leases on logistics space in Greater Oslo recorded a notable 10 % growth in 2023 compared to 2022.
- Despite a weaker economic forecast, the leasing market remained strong in 2023, albeit with a slight deceleration in rental growth.
- Looking forward, there is an expectation of a significant slowdown in employment, which will dampen additional demand. However, lingering effects of a strong labour market may provide some offsetting impact.
- Our rental forecasts indicate a relatively stable trend for nominal office rents. Due to increased costs for refurbishments and new constructions, we expect more tenants to renegotiate existing leases or consider relocating to vacant spaces in the fringe to reduce rental costs.
- The anticipated completion of office projects in 2024 is projected to be around 66 000 m^2, which is considerably below the 20-year average of 126 000 m^2.

The investment Market

- The transaction volume for 2023 is expected to close at around NOK 56 billion from slightly more than 200 transactions. This is nearly 150 transactions less than in 2022.
- For 2024, the market is projected to start slowly, but activity should increase as the year progresses and investors become more confident about prospects. The forecast for transaction volume for 2024 is approximately NOK 60 billion, as motivated sellers and favourable pricing are likely to propel deal-making.
- Our investor yield and sentiment survey for Q4 2023 shows a marked increase in buyer interest compared to the previous quarter. 75 % of respondents now identify as net buyers, up from 50 % in Q3 2023.
- Interest in the logistics sector is the strongest, with 75 % of respondents being net buyers. The office sector also shows strong activity, with 59 % in the net buyer category.
- Net yields have risen by 20-30 basis points across all segments and risk classifications since the Q3 survey. Prime office yield is now estimated to 4.70 %.
- There is a consensus among the survey respondents that yields are likely to decrease over the next year. The expectation is of a 5-10 bps drop from the current levels across all segments and risk classifications.

Special Topic: Mismatch Between Vacancy Rates and Employment Growth

The measured office vacancy rate in our 16 defined office clusters in Greater Oslo has increased by 1.2 percentage points to 6.8 % from December 2022 to December 2023. Our model predicted a decrease in the vacancy rate to around 5.0 %, a significant discrepancy.

Our vacancy forecasting model is straightforward: You start the year with a certain balance, which is adjusted over the year by the difference between increased demand (net take-up) and increased stock available within 12 months. Demand is estimated from employment growth, adjusted for lag, and an assumption of how much additional office space an additional employee requires. The take-up from one additional employee is estimated by dividing the added space to the market plus the change in vacancy by the increase in employment over time. The figure used in last year's calculations, estimated from 2011 to 2021, was 13.2 m^2 per employee. However, examining the period since just before the pandemic (Dec. 2019-Dec. 2023), we observe relatively limited construction and strong employment growth. Vacancy rates should have decreased, but why have we observed the opposite?

- The pandemic has likely caused a decrease in office space demand in proportion to employment growth, falling from approximately 13 to 4 m^2 per employee. Telecom data indicate that employees continue returning to the office, and normality has not yet been established.
- Our statistical analysis suggests that WFH should not impact the demand for space, provided that recurring instances of space shortages are avoided during a typical week. Nevertheless, the implementation of free seating and ABW concepts can obscure the perception of space scarcity among decision-makers unless it is meticulously monitored.
- Subdued economic outlook may have also led to a more cautious view on office space demand compared to previous periods of employment growth.
- Interest rate increases induce landlords to prioritize cash flow over new projects, which results in more advertised space without an actual increase in inventory.

	Vacancy forecasting model: Change 2019-2023	Adjusted calculation: Forecasting error = 0
Increased employed persons *	45 565	45 565
Share of office space within office clusters	72 %	72 %
Assumed demand for office per additional employee m^2	13.2	3.9
Estimated increased demand for office space in office clusters m^2	431 409	127 521
Increased office stock in office clusters 2019-2023	262 004	262 004
Expected change in vacancy in office clusters	- 169 406	134 483
Actual change in vacancy	134 483	134 483
Vacancy forecasting error m^2	303 889	-

*In this calculation we use the change in number of wage earners from the latest available numbers (Q3 2019-Q3 2023) in Oslo, Asker, Bærum.
WFH: Work From Home. ABW: Activity Based Working

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