MARKET UPDATE

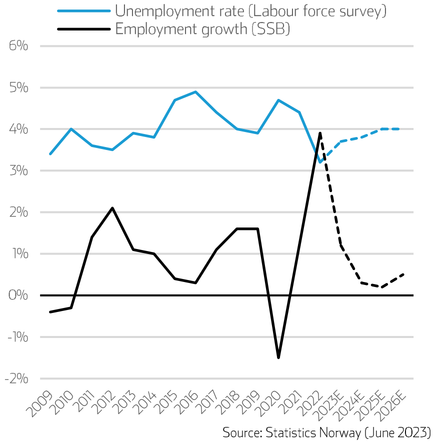
July 2023

Malling & Co Næringsmegling was the advisor for O Breivik Eiendom AS for the leasing of Kveldroveien 3 at Vinterbro. Servi AS will lease 5 000 m² newly renovated mixed use / combi premises

GDP: Mainland Norway vs. Euro area

Source: Statistics Norway Outlook (June 2023), IMF WEO (April 2023)

Labour market Norway



Source: Statistics Norway (June 2023)

Economic Outlook

- Seasonally adjusted GDP-growth for Mainland Norway in April was measured at – 0.4 %. The decline in April was broad-based. Goods consumption experienced an unusually significant drop, but there was also a slight decline in services consumption.
- The Central Bank of Norway (NB) expects modest increase in mainland GDP for May and June, followed by nearly flat growth for the subsequent three months.
- The measured unemployment rate from SSB's Labour Force Survey (LFS) was 3.5 % in May.
- The 12-month May CPI-change ended at 6.7 % for both CPI and CPI ATE. This was 1.3 pp. above the estimate from NB for the CPI and 0.7 pp. above the CPI-ATE estimate. Despite adjusting estimates upwards in the MPR 2/23, we still see upside risk for the CPI over the coming months relative to NB's estimates.
- NB decided to increase the key policy rate up 50 bps. to 3.75 % in June, shifting from "single" to "double" rate hikes due to higher-than-expected inflation and a weak NOK also increasing future inflation impulses. The interest rate guiding was also lifted to a rate of 4.25 % by the end of 2023.
- Several factors contribute to the upward revision of the interest rate path. Factors related to international developments, such as higher policy rates than anticipated and an expected decline in economic growth, push the interest rate path higher. The exchange rate of the currency is expected to be weaker than previously assumed, which also raises the interest rate path. Both inflation and wage growth estimates have also been revised upward.

Office vacancy per May 2023 (May 2022) and Indicative Office Rents (Q2 2023) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	16 % (21 %)	1 700 – 1 900	2 200
Sandvika	9 % (1 %)	1 700 – 2 000	2 500
Fornebu	6 % (8 %)	1 800 – 2 100	2 500
Lysaker	4 % (3 %)	2 200 – 2 500	2 800
Skøyen	7 % (7 %)	3 000 – 3 500	4 200
Forskningsparken/Ullevål	0 % (2 %)	2 100 – 2 500	2 800
Majorstuen	3 % (2 %)	2 800 – 3 200	4 000
Vika/Aker Br./Tjuvholmen	4 % (6 %)	4 200 – 5 200	6 300
Kvadraturen	5 % (6 %)	3 200 – 4 000	4 750
Inner City	7 % (7 %)	3 000 – 3 800	4 600
Inner City East	6 % (6 %)	2 700 – 3 200	3 700
Bjørvika	0 % (1 %)	3 800 – 4 600	5 400
Nydalen	8 % (10 %)	2 100 – 2 400	2 700
Økern	6 % (6 %)	1 700 – 2 250	2 500
Helsfyr/Ensjø	5 % (4 %)	2 000 – 2 250	2 650
Bryn	14 % (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)

	Jul. 2023	Jul. 2022
Prime Yield	4.15 %	3.50 %
Normal Yield***	5.50 %	4.60 %
5Y SWAP (COB 03.07)	4.23 %	3.09 %
10Y SWAP (COB 03.07)	3.86 %	3.13 %
EUR/NOK (COB 03.07)	11.7	10.3
CPI 12-month change (February)	6.7 %	5.7 %
Average Rent Top 15 % (Q1 23/22)	4 620	4 470

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

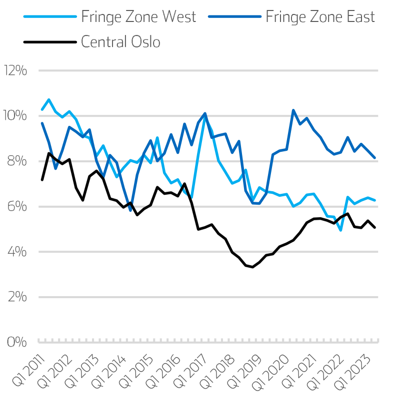
Number formatting: SI Style (English version)

Latest Lease Contracts

Tenant	Address/Cluster	Size (m²)
Sykehuspartner (extension)	Hoffsveien 1D / Skøyen	~ 15 000
Wiersholm (extension)	Dokkveien 1 / Vika/Aker Br./Tjuvholmen	~ 12 000
Oslobygg KF	Grenseveien 82 / Helsfyr	~10 400
NAV (extension)	Hagegata 23 / Inner city East	~ 5 500

Source: Malling & Co

Office vacancy, Greater Oslo



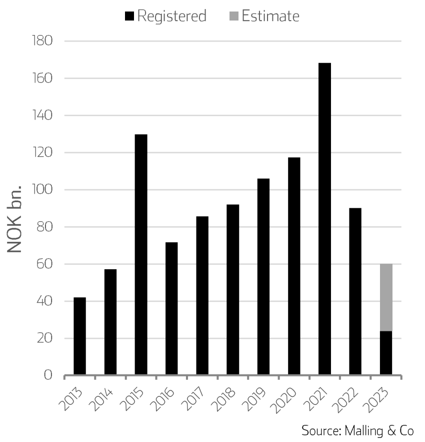
Source: Malling & Co/FINN.no

Latest Transactions

Address	Buyer	Size [1] (MNOK)
Project Falcon	AXA	~ 1 500
Two Entra properties	NREP	1 473
Arne Garborgs plass 1	The Norwegian state	1 000
Nansenløkka	Skanska	525

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

Transaction Volume (>50 MNOK)



Source: Malling & Co

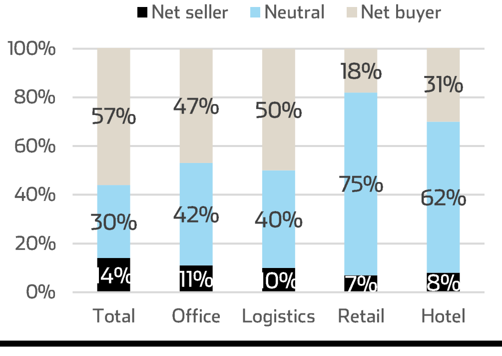
Special Topic: **Results from the Investor yield and sentiment survey Q2 2023**

In observance of July and the fact that the second quarter is behind us, it was time for a new investor survey. The survey was sent out on June 19th, and the results were available to us on July 3rd. We had an expectation of seeing increased yields, especially considering that the Central Bank of Norway chose to raise the policy rate by 50 bps during the survey (June 22nd) and signalled a higher peak rate than previously indicated. These are the key findings from the Q2 survey:

1. While the desire to increase current positions in commercial real estate generally remained at the same level as in the previous two quarters, this share was significantly lower for office properties. From an already record-low 63 % in Q1, now only 47 % of investors envision increasing their exposure to office properties, and 33 % if we exclude syndicators. Offices, which had been the strongest performer since the start of this survey, are now surpassed by logistics properties, and we interpret this as a warning sign for a transaction market that may not experience the anticipated upturn anytime soon, especially when even office properties become less attractive among surveyed investors.

2. Prime yields in the Central Business District (CBD) have increased by 15 bps from the previous quarter to 4.15 %. Normal yields in the CBD have also seen a jump of 15 bps to 4.75 %. In the fringe zones, yields have increased by 20 bps and are now measured at 4.95 % and 5.50 % for prime and normal properties in Helsfyr and Lysaker, respectively. We expected the gap between CBD-located properties and fringes to widen. However, what we did not anticipate is that investors expect a marginal increase of 5 bps to 5.55 % in normal yields in Helsfyr over the next year, while normal yields in Lysaker are expected to increase by a substantial 25 bps to 5.75 % in the same time period.

3. The yield on retail properties remains flat at 4.65 %, while logistics yields have seen a significant increase of 20-25 bps. In our previous "house view," we expressed the belief that prime retail yields were slightly lower than the average among surveyed investors. However, after it remained flat in this quarter's survey, we can now agree that we also consider prime retail yield to be at 4.65 %. We see no reason to hold a different opinion from what the surveyed investors believe about the current yield levels.



Commercial Real Estate

Greater Oslo leasing market

- The average of signed office rents in Greater Oslo was 2 730 NOK/m²/yr. in Q1 2023, 7.5 % higher than Q1 2022.
- Nearly one million m² office space was signed and registered in the Oslo market over the past four quarters in Q1 2023 according to numbers by Arealstatistikk. This is all time high surpassing the last record from the previous quarter.
- The office market in Oslo has remained strong during the first half of 2023 with office searches for around 130 000 m², about the same as 2022 as of end 1H. However, we expect activity and search activity to reduce.
- Our current forecast for confirmed newbuild volume in Greater Oslo is an addition of 79 000 m² in 2023, 83 000 m² in 2024 and 215 000 m² in 2025. New projects have become expensive relative to existing stock and several projects have been postponed and is less likely to be erected than previous estimates.
- As construction costs have risen over the past years, and yields have increased with higher interest rates, the breakeven rents in many new projects are well above top market rent. This gap will push developers to keep existing buildings and focus on refurbishments to maximize value and returns.
- The vacancy in Greater Oslo is currently at a low level of 6.0 %, 5.1 % in central Oslo. We still expect vacancy to decrease by the end of the year, but more of the old outdated stock might come back as breakeven rents for newbuilds are too high in many office clusters.

Investment Market

- The transaction volume YTD is approximately NOK 24 billion, which is significantly less compared to the transaction volume YTD in 2022, which was NOK 58 billion.
- Many investors are still holding off on investing, taking a wait and see approach to the developments in the uncertain economic climate. The investments taking place are still primarily value-add or opportunistically driven, but we are seeing signs of potentially more willing sellers as mandates are shifted and they are adapting to a new pricing level.
- We have adjusted our estimate for 2023 to NOK 55-65 billion. We expect the activity to increase over the summer, albeit at a slower pace than previously forecasted, as we expect sellers and buyers to have aligned on price levels along with increased availability of financing.
- The continued high interest rate increases and key policy rate forecasts from central banks have continued to push up yield levels and expected yield levels going forward. Yet, some level of expectations for decreasing interest rates in the not-so-distant future must be present in a substantial portion of CRE-investors, as the movements in yields are subdued and do not reflect the full upwards shift in interest rates and rental forecasts. See also our special topic on our latest investor yield and sentiment survey.

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