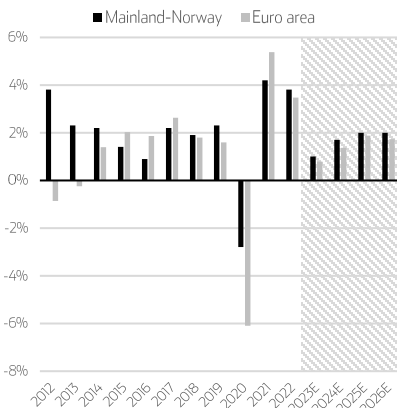




**Malling advised AS Stortingsgaten 28 (Odd Fellow) and Cappelen Damm in signing a lease in fully refurbished Stortingsgaten 28 from 2025, comprising a total of 11 000 m<sup>2</sup> office and a café.**

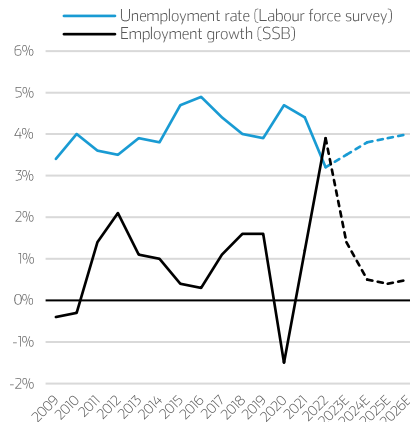


**GDP: Mainland Norway vs. Euro area**



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

**Labour market Norway**



Source: Statistics Norway (June 2023)

## Economic Outlook

- Seasonally adjusted GDP-growth for Mainland Norway shows a growth of 0.2 % in July. Household consumption increased in line with higher activity in the tourism industry. On the other hand, there was a decline in housing investments and in the construction sector, which is alarming for the real estate sector.
- The companies in Norges Bank Regional Network 3/2023 expect that the growth in activity will decrease towards the winter due to weaker demand from households.
- The central bank in Norway raised the key policy rate today (21.09) from 4.00 % to 4.25 % in its Monetary Policy Report 3/23, in line with market expectations. The interest rate path was slightly raised from the MPR 2/23 from June and is expected to remain at 4.50 % throughout 2024.
- In August, the 12-month CPI growth was measured at 4.8 %, down 0.8 % from July. The CPI-ATE or core inflation, which is the one the Norwegian central bank is more concerned with, rose 6.3 % on a 12-month basis, a continuation of the decline seen in June at 7.0 %. This indicates that the interest rate hikes have influenced household consumption.
- The labour market remains tight and remained unchanged at 3.4 % in July, according to figures from Statistics Norway's Labor Force Survey (LFS). We expect a somewhat looser labour market ahead, although not to the extent envisioned by the Central Bank of Norway with its interest rate hikes.
- The Norwegian krone is still weak against major currencies, which is a cause for concern for the Central Bank of Norway and for Norwegian businesses dependent on imports from abroad.

## Office vacancy per Sep 2023 (Sep 22) and Indicative Office Rents (Sep 23) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	12 % (5 %)	1 700 – 1 900	2 200
Sandvika	12 % (9 %)	1 700 – 2 200	2 500
Fornebu	10 % (8 %)	2 100 – 2 300	2 600
Lysaker	4 % (3 %)	2 200 – 2 500	2 850
Skøyen	6 % (8 %)	3 000 – 3 700	4 200
Forskningsparken/Ullevål	0 % (1 %)	2 200 – 2 800	3 200
Majorstuen	3 % (1 %)	2 900 – 3 200	4 200
Vika/Aker Br./Tjuvholmen	6 % (5 %)	4 500 – 5 500	6 500
Kvadraturen	4 % (5 %)	3 200 – 4 000	4 750
Inner City	6 % (6 %)	3 200 – 4 000	4 900
Inner City East	6 % (5 %)	3 000 – 3 600	4 000
Bjørsvika	0 % (1 %)	3 800 – 4 600	5 400
Nydalen	9 % (7 %)	2 300 – 2 800	3 200
Økern	6 % (6 %)	2 100 – 2 300	2 800
Helsfyr/Ensø	8 % (4 %)	2 100 – 2 500	2 950
Bryn	14 % (17 %)	2 000 – 2 300	2 500

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

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

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

	Sep. 2023	Sep. 2022
Prime Yield	4.25 %	3.45 %
Normal Yield***	5.60 %	4.55 %
5Y SWAP (COB 20.09)	4.32 %	3.62 %
10Y SWAP (COB 20.09)	4.07 %	3.54 %
EUR/NOK (COB 20.09)	11.5	10.3
CPI 12-month change (August)	4.8 %	6.5 %
Average Rent Top 15 % (Q2 23/22)	4 710	4 310

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> )
Aibel (extension)	Hagaløkkveien 28 / Asker	~ 30 000
Cappelen Damm	Stortingsgata 28 / Vika/Aker Br./Tjuvholmen	~ 10 000
Mestergruppen	Brynsengfaret 6 / Bryn	~ 5 000
ABK-Qviller	Brynsengfaret 6 / Bryn	~ 3 300

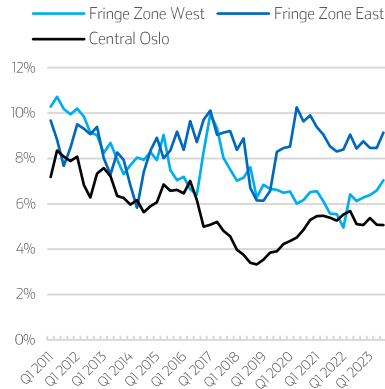
Source: Malling & Co

## Latest Transactions

Address	Buyer	Size <sup>1</sup> (MNOK)
Bonava Norge	UNION	1500
Sandvika Torg	Bane NOR Eiendom	~ 580
Henrik Ibsens gate 53	Fram Realinvest	425
Kjøita 18	Fearnley Finans	N/A

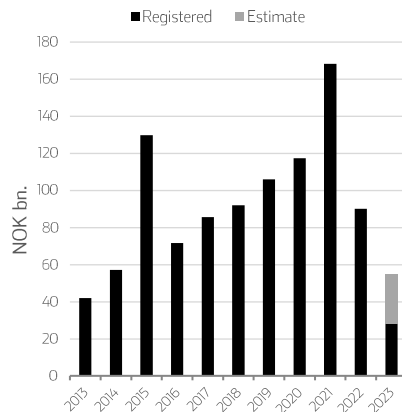
<sup>1</sup>Deal size may be rounded due to confidentiality. Source: Malling & Co

## Office vacancy, Greater Oslo



Source: Malling & Co/FIN.no

## Transaction Volume (>50 MNOK)



Source: Malling & Co

## Special Topic: Are we close to the yield top for prime assets?

The real estate sector has been impacted by higher interest rates over the past two years. The increase in interest rates has presented challenges for many and raising questions about the appropriate yield in the current interest rate environment. The real estate market, being less liquid, responds slowly to sudden price changes and is sensitive to interest rates due to its capital-intensive nature. The numerous interest rate hikes seen over the past years have reduced the value of each unit of future nominal rental income, making alternative investments like fixed-income securities more attractive all else equal. However, inflation and interest rates, closely linked by monetary policy, often coincide with high Consumer Price Index (CPI) growth and corresponding economic growth. The income growth of commercial real estate is directly influenced by high CPI growth. Standard lease agreements are adjusted annually based on the CPI, ensuring a real return for the owner. Unless in a stagflation scenario, high inflation coincides with high economic growth typically leading to increasing demand for commercial space and rental growth. In Oslo, office market rents have been rising for some time. Price increases have made new construction more expensive, limiting competition. For the average office property in Oslo, rents on expiring leases are now about 15 % lower than market rents, indicating good prospects for income growth, even with a slowdown in the real economy. There's still however, a debate that yields should increase more when interest rates have risen significantly. But when assessing interest rates and yields, one should keep in mind that:

1. Real estate yield is not a return requirement but a pricing measure, (simple E/P-ratio).
2. The actual return that buyers receive or calculate at the time of purchase of the property depends on their expectations for income growth/decline potential in the future.
3. The spread between nominal interest rates and yields is not necessarily fixed at various absolute levels and when inflation varies. Being a real asset with relatively high transaction costs, real estate yields should at least be considered relative to long term real interest rates. Assuming insignificant duration risk premium, the five-year rate in five years minus the inflation target (2 %) could be a relevant measure for comparison.

In a regression model using past 20 years short term and long-term interest rate data, we get a model where the future interest rate curve can be used to set future expected yields, given future interest rates priced in the more liquid interest rate market today. In this model, prime office yields should soon level out at around 4.3 %, though with a at least +/-50 bps of uncertainty. However, factors like sudden shifts in flow of funds or level of distress among real estate investors is not accounted for in this model.

## Commercial Real Estate

### Greater Oslo leasing market

- The Oslo office market remains strong with close to 950 000 m<sup>2</sup> signed leases over the past four quarters making it the second highest ever recorded according to Arealstatistikk.
- The office vacancy in Greater Oslo is currently at 6.5 % and has increased by 4 pp over the last 12 months. The biggest losers are Fornebu and Asker with an increase in vacancy by 3.8 pp and 6.1 pp to a current level of 11.4 % and 12.5 %, respectively. Conversely, Bryn has the greatest decrease in vacancy by 8.2 pp. However, Bryn's vacancy is still relatively high at 13.2 %.
- Volume of newly built office space for the remainder of 2023 and 2024 is estimated to approximately 165 000 m<sup>2</sup>.
- According to Savills, the European office take-up fell 15 % below the five-year H1 average in H1 2023 and is 21 % down year-over-year. Oslo is the second-best performing city with a 22 % increase in take-up in H1 against the previous five-year average only beaten by Luxembourg with a 137 % increase.
- Our leasing agents report that some tenants are exploring options of subleasing excessive office space, however, we do not have data as of now to see a changing trend in the space to be subleased.
- We expect that the slowdown in employment growth ahead will affect rental growth negatively, despite strong fundamentals in overall supply demand balance for office space. Our view is flat rental development over the next year or so.
- The logistics vacancy is approaching the levels we saw in two years ago and is currently at 4.5 % which is an increase by 1.3 pp from last years level.

### Investment Market

- The transaction volume YTD is approximately NOK 28 billion, which is significantly less compared to the transaction volume YTD in 2022, which was NOK 63 billion.
- Our estimate for 2023 remains at 55 billion NOK, as we anticipate a similar transactional market as we have experienced so far this year. We anticipate that the Q4 volume will be higher than the Q3 volume, which now is approximately 4 NOK billion.
- The prevailing property category subject to the most frequent turnover continues to be 'value-add.' This persists due to ongoing disparities in price perceptions between prospective buyers and sellers of typical yield properties. Concurrently, many investors maintain a degree of caution regarding capital deployment in the face of somewhat uncertain future outlooks. However, we do note that there are investors standing by if the right opportunities present themselves.
- It is expected that yield levels will increase further, when the results of our Investor, yield and sentiment survey are released in two weeks. We anticipate an increase in prime office yield of 20 to 30 bps, and a growth of between 25 and 35 bps for the prime logistics yield.