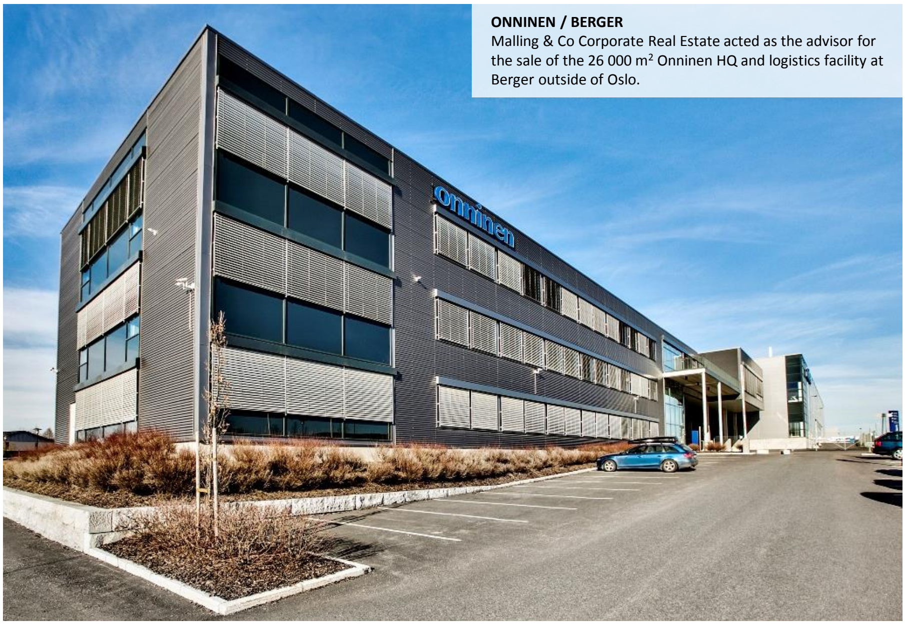
# MARKET UPDATE

July 2017

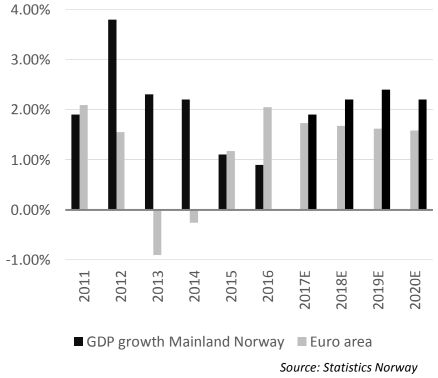


**ONNINEN / BERGER**
Malling & Co Corporate Real Estate acted as the advisor for the sale of the 26 000 m² Onninen HQ and logistics facility at Berger outside of Oslo.

## Latest figures Norway

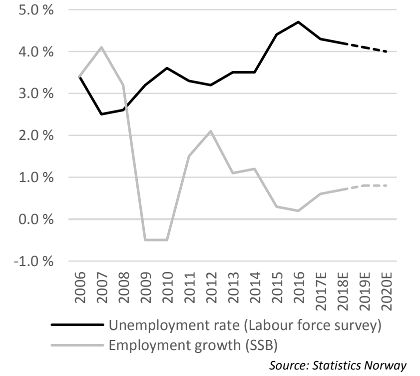
- The latest yearly estimate for Mainland Norway GDP-growth 2017 is 1.9 %, according to Statistics Norway (SSB). Economic growth is expected to stay at around 2 % for the coming three years.
- The unemployment rate has been trending downwards and ended at 4.6 % (LFS) in April (avg. Mar.-May). Employment has been slightly increasing in the past three months and is expected to increase by just below 1 % in the coming three years.
- The key policy rate was held at the record low level of 0.50 % at the last meeting in June. The Norwegian Central Banks' expected interest rate path was revised slightly up, and remains flat at 0.50 % until 2019.
- Money market rates have been trending downwards since the start of January and the 3-month NIBOR rate is now just above 0.8 %.
- The NOK has depreciated nearly 5 % against the EUR since January, while it YTD has appreciated about 4 % against the USD.
- According to Statistics Norway, inflation is likely to be substantially lower in 2017 than in 2016. The CPI was 3.6 % in 2016, while the projection for 2017 is 2.1 %.
- After staying above 50 USD per barrel until the start of May, the oil price has dropped and is currently just below 48 USD per barrel. OPEC may extend its cuts in production as a result of competition from US shale oil production.

### GDP: Mainland Norway vs. Eurozone




*Source: Statistics Norway*

### Labour market Norway




*Source: Statistics Norway*

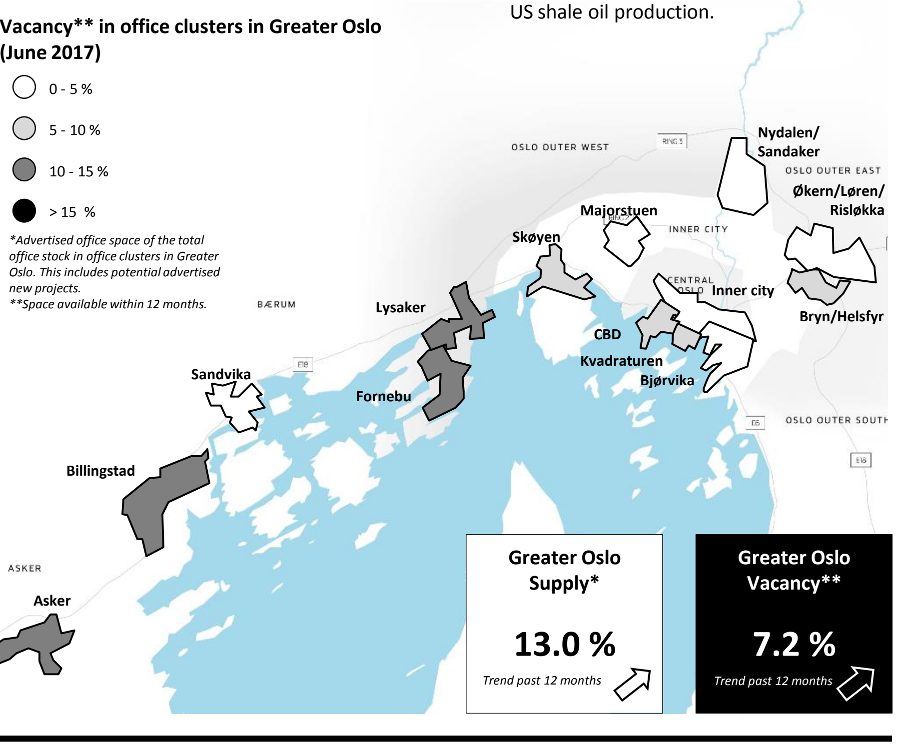
### Latest lease contracts

| Tenant | Address /Cluster | Size (m²) |
|---|---|---|
| Verisure | Drammensveien 211 / Skøyen | ~ 5 000 |
| Visma (Renegotiation) | Karenslyst Allé 56 / Skøyen | ~ 18 000 |
| Sophies Minde | Østensjøveien 16 / Bryn-Helsfyr | ~ 4 400 |
| NHST Media Group (Renegotiation) | Christian Krohgs gate / Central Oslo | ~ 10 000 |
| Microsoft | «Eufemia» / Bjørvika | ~ 9 600 |

### Latest transactions

| Buyer | Address | Size (MNOK) |
|---|---|---|
| KLP | Dronning Eufemias Gt. 40 | 1 740 |
| Mustad Eiendom | Lilleakerveien 2 | 1 245 |
| Aspelin Ramm | 50 % Ruseløkkveien 26 | N/A |
| Arctic Syndicate | Nils Hansens Vei 25 | 960 |
| Entra | 50 % Lakkegata 53 | 795 |

### Vacancy** in office clusters in Greater Oslo (June 2017)

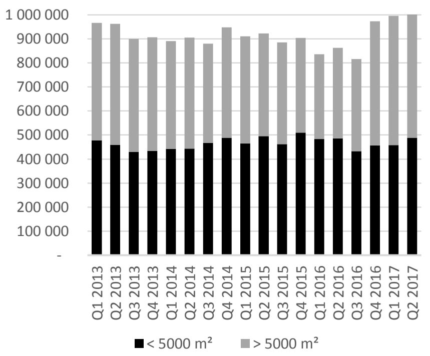



**Advertised office space of the total office stock in office clusters in Greater Oslo. This includes potential advertised new projects.*
***Space available within 12 months.*

**Greater Oslo Supply***
**13.0 %**
*Trend past 12 months*

**Greater Oslo Vacancy****
**7.2 %**
*Trend past 12 months*

## Advertised office space in Oslo (m²)




*Source: FINN.no/Malling & Co*

## Key facts real estate

| | PER JUL. 2017 | PER JUL. 2016 |
|---|---|---|
| Prime yield | 3.70 % | 4.00 % |
| Normal yield*** | 5.15 % | 6.00 % |
| 5 yr. swap rate (at 12 July) | 1.54 % | 0.94 % |
| Average of 15 % highest rents in Oslo, NOK/m²/yr. (Q2) | 3 330 | 3 190 |
| Office contracts signed, m² (Oslo) (Q2) | 191 570 | 193 370 |
| Largest office contract, m² (Oslo) (Q2) | 37 060 | 22 275 |
| Avg. contract length, yrs. (Oslo) (Q2) | 4.9 | 5.0 |

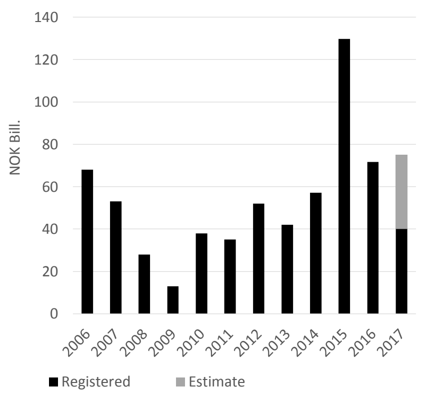
*Source: Malling & Co/DNB Markets/Six/Arealstatistikk*

## Indicative office rents in Oslo (NOK/m²/yr.)

| Office cluster | Prime rent* | Normal rent** |
|---|---|---|
| CBD | 4 800 | 2 800 – 3 500 |
| Skøyen | 3 000 | 2 000 – 2 300 |
| Inner city | 3 500 | 2 300 – 2 700 |
| Bjørvika | 3 500 | 2 700 – 3 000 |
| Lysaker | 2 300 | 1 700 – 1 900 |
| Fornebu | 2 000 | 1 500 – 1 700 |
| Nydalen/Sandaker | 2 300 | 1 500 – 1 700 |
| Økern/Løren/Risløkka | 2 200 | 1 000 – 1 500 |
| Bryn/Helsfyr | 2 200 | 1 500 – 1 700 |

*Source: Malling & Co*

## Transaction volume (>50 MNOK)




*Source: Malling & Co*

**Prime rents are consistently achievable headline rental figures that relate to a new, well located, high specification unit of a standard size commensurate demand within the predefined market area. The prime rent reflects the tone of the market at the top end, even if no new leases have been signed within the reporting period. One-off deals that do not represent the market are discarded.*
*** Normal rents reflect the interval where most contracts are signed in the specified market area.*
**** Normal yield is defined as the net yield of a well maintained building situated in the fringe zone with strong tenants on a 5 – 8 year lease contract.*

## Topic of the month: Office rental growth ahead

Reviewing the latest Q2 numbers from Arealstatistikk, there is strong evidence of increasing office rents in Oslo. The increase seems to be driven by several factors supporting higher rents. Our estimates for office rental growth is around 10 % this year for central Oslo, and another 5 % next year.

Let us just quickly run through the arguments:

1: The economy is recovering, both in Norway and in the rest of the world, especially in Europe. Most of the negative effects from the downturn within Oil & Gas now seem to have made their impact on the market, mainly concentrated to the western office clusters. An expected increase in employment will most likely create a demand for additional office space in the coming years.

2: The office construction is low and below the historical average. It takes time to initiate and erect new office buildings, hence we expect the supply to stay low for the coming two years.

3: Yields are flattening and expectations among investors are flat or slightly increasing yield levels. Breakeven rents for new projects have been pushed downwards the past years due to a continuous yield compression. This seems to be over, and due to increased construction cost, breakeven rents need to increase in order to maintain profit margins for developers.

4: Several years with increased focus on residential development has kept supply low, despite the latest decline in housing prices, several projects have already been initiated or have been re-zoned into residential. These processes are most likely a one way road, limiting supply for a few years. However, this effect is expected to fade out as the residential market in Oslo has seen decreasing prices since April (Eiendom Norge housing price index).

# Commercial Real Estate

### Office market

- The office vacancy level (office premises available within 12 months) has increased slightly towards the summer and is now measured at 7.2 % for June. Vacancy has increased mainly in western office clusters causing average vacancy to increase.
- The supply rate has increased significantly as several new office projects have entered the market. We expect construction to increase as large contracts are about to be signed in new projects.
- As expected, we have seen a positive trend in rents, especially for the city centre. Prime rents are quite stable, while average rents are up 5-10 % compared to first half of 2016.
- We expect the positive trend for office rents to continue until 2018, in line with the consensus among real estate advisors.
- Gross take up is continuing to be high, and we expect it to continue for the second half of 2017 as well. Many new office lease agreements are in the pipeline for Q3 already.

### Transaction market

- The transaction volume for the first half of 2017 stands at NOK 40.1 billion divided into 136 transactions. This is a very strong first half from a historic perspective, and puts us well on the way towards our full year projection of NOK 75 billion.
- Prime office yield in Oslo stands at 3.70 %, while the normal yield has been reduced further by 15 bps to 5.15 %. The yield outlook remains flat for the coming 12 month period. The strong demand for attractive logistics properties with long leases continues, and estimated prime yield is down another 10 bps to 5.15 %.
- For H1 2017, Oslo is the largest region by volume, with roughly 55 % of the market. Regions outside of the major cities has the second largest share with roughly 30 % of the volume. All other regions have a share below 10 %.
- The two most prominent segments have been office, making up roughly 55 % of the volume, and retail, making up roughly 20 % of the total transaction market. The residential segment makes up roughly 10 %, but this share of volume could be reduced as the Oslo residential market has experienced a cooldown.
- The interest from international investors continues, and the international share of the volume stands at around 35 % of the volume so far in 2017. We do expect this share to be maintained as the year progresses.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