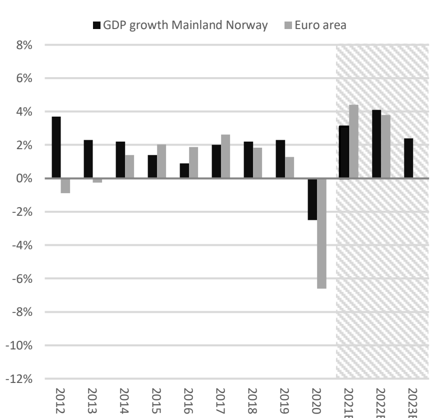
MALLING & CO

MARKET UPDATE

July 2021

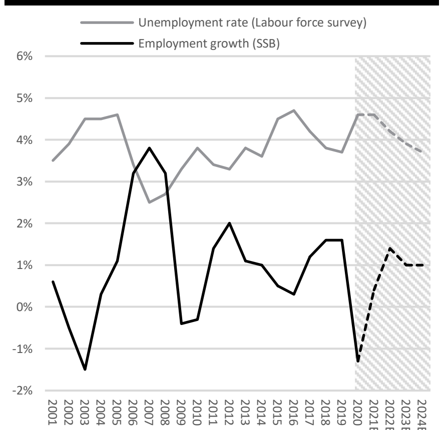
Malling & Co Corporate Real Estate was advisor for Victoria Eiendom in the sales process of Drammensveien 88b, consisting of 2 400 m² in office space at Skarpsno, to a NRP syndicate.

GDP: Mainland Norway vs. Eurozone



Source: Statistics Norway Outlook (June 2021) IMF WEO (April 2021)

Labour market Norway



Source: Statistics Norway (June 2021)

Economic Outlook

- GDP Mainland growth for first quarter ended down 1.0 % seasonally adjusted, while the change in April and May came in at 0.4 % and 1.8 %, respectively. Economic activity has increased over the spring due to easing pandemic restrictions. SSB's March forecast of 3.3 % Mainland GDP-growth in 2021 was reduced to 3.1 % in June, while growth in the following years is expected to be 4.1 % and 2.4 % for 2022 and 2023, respectively.
- While the increase in economic activity has been dependent on the race between new mutations and vaccination speed, Norway has been able to reach step three in the re-opening plan at the time of writing. The final stage 4 has been postponed due to the risk from the Delta-variant of the virus and remaining share of the adult population awaiting vaccination.
- Registered unemployment rate (completely unemployed, NAV) was 3.0 % seasonally adjusted in June 2021, down 1 percentage point from April. The corresponding figure in June last year was 5.0 %.
- The housing market has cooled off over the past months, especially in Oslo, where nominal prices fell 0.6 % and 0.4 % in May and June respectively, according to Eiendom Norge. Nationally, prices have increased by 7.7 % nominal and 4.4 % seasonally adjusted from December to June.
- CPI is up by 2.7 % in the last twelve months, despite a 0.1 % decrease from April to May. CPI-ATE fell by 0.4 % in the same period. SSB expects a yearly CPI-ATE growth of 2.1 %, and 2.0 % in 2021 and 2022 respectively, in line with the target inflation rate of 2.0 %.

Office vacancy (June 2021)* and Indicative Office Rents (Q2 2021) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	8 %	1 600 – 1 800	2 150
Sandvika	1 %	1 500 – 1 800	2 200
Fornebu	8 %	1 500 – 1 800	2 000
Lysaker	6 %	1 800 – 2 200	2 400
Skøyen	10 %	2 400 – 2 800	3 500
Forskningsparken/Ullevål	0 %	1 700 – 2 100	2 500
Majorstuen	4 %	2 000 – 2 600	3 200
Vika/Aker Br./Tjuvholmen	8 %	3 600 – 4 300	5 600
Kvadraturen	7 %	2 600 – 3 300	4 000
Inner City	7 %	2 800 – 3 400	4 100
Bjørvika	1 %	3 600 – 4 100	4 700
Nydalen/Sandaker	7 %	1 700 – 2 200	2 500
Økern/Løren/Risløkka	6 %	1 200 – 1 700	2 100
Bryn/Helsfyr	10 %	1 700 – 2 100	2 350

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

Rents are quoted as NOK/m²/Yr. Source: Malling & Co

Key Facts: Real Estate (Office, Oslo)

	JUL 2021	JUL 2020
Prime Yield	3.25 %	3.60 %
Normal Yield***	3.85 %	4.25 %
5Y SWAP (COB 06.07)	1.40 %	0.67 %
10Y SWAP (COB 06.07)	1.57 %	0.95 %
EUR/NOK (COB 06.07)	10.3	10.6
CPI 12-month change (May)	2.7 %	1.3 %
Average Rent Top 15 % (Q221/20)	4 100	3 880

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

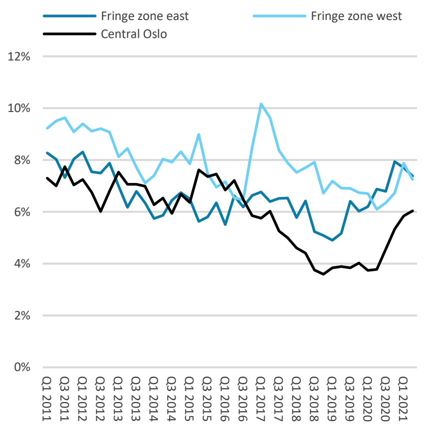
Number formatting: SI Style (English version)

Latest Lease Contracts

Tenant	Address/Cluster	Size (m²)
Landbruks-direktoratet	Valle View / Bryn/Helsfyr	~ 3 100
Redd Barna	Hasle Tre / Økern	~ 3 000
Scandic Norge	Brynsalleen 2 / Bryn/Helsfyr	~ 2 600
Marsh & Mercer	Harbitz Torg / Skøyen	~ 1 500

Source: Malling & Co

Historical Office Vacancy, Greater Oslo



Source: Malling & Co/FINN.no

Commercial Real Estate

Oslo Office Market

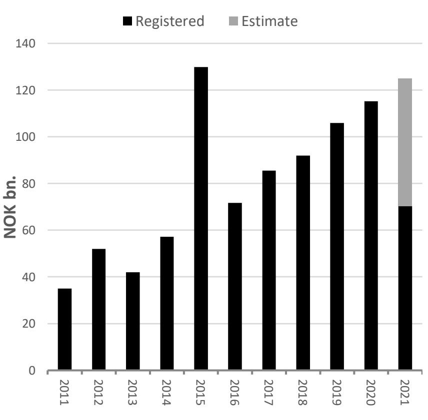
- The average of signed office rents in Greater Oslo increased by 9 % from Q1 to Q2 2021, according to latest numbers from Arealstatistikk. On a half year average, rents appear to have had a relatively flat development in the first half of 2021.
- The largest reported rental increases in Q2 were at Vika/Aker Br./Tjuvholmen (VAB), Skøyen and Oslo Outer east, with 19 %, 17 % and 18 %, respectively. Quarterly figures within single office clusters are known to be very volatile in measuring and should be used with great caution. Looking at the 3-quarter rolling average for both Skøyen and VAB, average of signed rents increased by approx. 3 % in Q2 (Q4 2020 - Q2 2021/Q3 2020 - Q1 2021).
- 180 640 m² office space were signed in Q2, which is on average with historical Q2 volumes. The Q2 volume indicates that activity is back to normal, and we suspect that tenants sitting on the fence in Q1 will enter the market over the summer if they have not already.
- Vacancy in Greater Oslo ended at an average of 6.8 % in Q2 2021, down from 7.0 % in Q1 2021.
- Confirmed new construction volume is currently at 75 000 m² in 2023. As time passes, it becomes less likely that construction in 2023 will increase much more, as projects are being pushed into 2024. Confirmed new construction in 2024 is currently at 30 000 m².

Latest Transactions

Address	Buyer	Size [1] (MNOK)
4 shopping Centres	Aurora Eiendom	Est. 4 800
Farmandstredet Shopping Centre	Aurora Eiendom	Est. 1 800
SBB portfolio 9 public properties	2 separate buyers	Est. 1 200
Ensjøveien 3,5,7	NRK	800

[1]Deal size may be rounded due to confidentiality

Transaction Volume (>50 MNOK)



Source: Malling & Co

Transaction Market

- The year-to-date volume is registered at NOK 70.3 billion. Although we have been very firm in our belief of a strong investment market, this is surpassing even our most optimistic volume projections for H1 2021. Moreover, there are still some unknowns to map out before we can close out H1. With the known pipeline and the positive sentiment of the investors we expect a busy H2 in line with previous years, thus we have made a substantial upwards revision of our full year projection to NOK 125 billion.
- One of our key messages in our latest market report published in early June was the return of investor confidence in the retail segment. Incidentally, the press release of the NOK 4.8 billion shopping Centre portfolio acquisition by newly founded Aurora Eiendom fell on the same day as our market report release. The reopening of society and the repricing of retail assets has spurred some investors to take a new look at retail, and several other sizeable noteworthy transactions in the segment in Q2 2021.
- Although the debate continues, possible inflation pressure, stock market bubble and a key policy rate increase already in September, investors in our latest survey remain unfazed by this and keep a steady outlook for their interest and required return on CRE. Our Prime office CBD yield estimate is at 3.25 %, a continued flat development since Q4 2020.

Special Topic: Malling & Co Investor Yield and Sentiment Survey Q2 2021

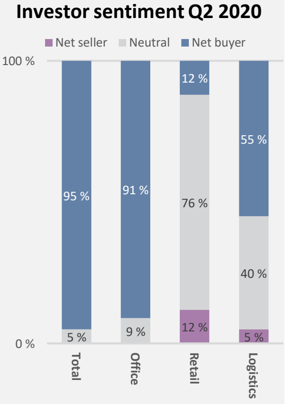
The results from our latest Investor Yield & Sentiment survey are ready. The survey was conducted in the period of 14-25 June and shows a record high demand for commercial real estate since we started the survey in 2017. 95 % of the investors respond that they want to be net buyers of commercial real estate in the next twelve months, while the rest intend to keep their exposure neutral. This marks the fifth straight quarter of above 80 % of investors claiming to be net buyers of CRE. Still, the "safe harbour" mantra persist, even though we are seeing increased risk appetite through yield compression for normal and value add opportunities. Increased risk appetite is assumed linked to easing of the pandemic restrictions and the society re-opening.

Office: The strong desire appears to be mainly driven by the office segment where 91 % of the investors categorize themselves to be net buyers. Prime office yield is stable at the all-time low 3.25 %, while normal office yield has decreased by 15 bps from 4.00 % to 3.85 % from Q1 2021, narrowing the gap between prime and normal even further. Also in the outer fringes, such as Helsfyr, both prime and normal yields are down by 10 and 15 bps since Q1 2021, respectively.

Retail: Investor appetite for retail properties is very much "on hold" with 76 % of the investors having a neutral exposure towards this segment. While tenants are welcoming customers back in the retail segment, investors in general are yet to make a comeback reflected by a marginal increase in prime high-street retail yields of 5 bps to 4.20 %. However, prime retail high-street yields quoted has fallen since Q3 2020, and investors seems to be conflicting on the actual current level with survey responses ranging from 3.20 % - 5.50 %.

Logistics: The logistics segment has fallen from a record high of 80 % in Q3 2020 to a 55 % desired exposure, however, it must be regarded as a high share of net buyers considering the low yield levels. Another factor is the rise of e-commerce affecting consumer behaviour, which is represented in the consistent decline in logistics yields over the last two years. The trend continues in Q2, with a flat or marginal yield decrease in all areas.

Investor sentiment Q2 2020



Malling & Co Research and Valuation AS
Dronning Mauds gate 15, Postboks 1883 Vika, 1024 Oslo, Norway
T: +47 24 02 80 00 – **E:** post@malling.no – **W:** malling.no