MALLING & CO MARKETS

MARKET REPORT WINTER 2018 / 2019

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OPPORTUNITIES AHEAD

Six months or so have now passed since our previous report in which we focused on the continued bullish view of commercial real estate, mainly due to increasing rental income from office real estate in central Oslo. However, we also discussed how this was a typically late rental cycle event. Since then, several risks have appeared on the horizon, and, consequently, our aim in this report is to prepare our readers for these potential risks that could hit the Norwegian CRE market, although they could turn into attractive opportunities further on down the road.

Growth in employment appears to be maintaining its very positive trend for typical office-based businesses. The upside potential for office rents have become clearer as strong numbers have been revealed through the year, and the discussions now are concerned about how long the upturn in the office market will last. The new trend of co-working is starting to affect Oslo, with a noticeable share of the take up over the past years. Their addition to the market liquidity and pricing will be interesting to follow further. We are however confident that the office upturn will last for another year, before the office letting market stabilises.

However, there are a few factors to be mindful of. We cannot overlook a reduction in retail activity as a contributor to a reduction in retail rents. Over the year, it has become very clear that Norwegian retail faces the challenge of the increase in online retail and shifts in consumer preferences for consumption. Physical retail is struggling, and we have therefore chosen to research this topic specifically at the end of this report. As physical retail is challenged on revenues and margins, costs need to be reduced to generate profits and survive in a period of structural changes. The indirect effects of a retail downturn on other parts of the real estate market is difficult to estimate at this point.

The flip side of the physical retail downturn is online retail growing at a double figure percentage rate year on year. We can already see that this boost creates opportunities for real estate investors, since space will be needed to handle the volumes of goods to (and from) the final consumer. Real estate investors are already positioning themselves to take part in this change, and last mile logistics will be interesting to follow. However, at this point it is not easy to distinguish what will be the exact winning attributes of this last mile real estate.

While the residential market almost returned to all time high levels towards the summer, the sentiment in the residential market has again changed and prices have already fallen slightly. Other analysts are pointing towards more construction nearing completion, as well as other factors such as lower population growth and increasing interest rates. The effects of increasing interest rates and negative housing prices are additional factors which may constitute challenges to retail going ahead.

All of the above mentioned factors, combined with increasing interest rates, may challenge capital value growth for several CRE sectors. However, this may also be the long-awaited opportunity to obtain the right exposure for the next cyclical upturn.

We hope you enjoy our latest market report. Remember that Malling & Co is here to support you in all your commercial real estate needs, including transaction support, tenant representation, development, energy and environment services, research services, rental services, valuations, and property and asset management.

ANDERS BERGGREN
CEO — EIENDOMSHUSET MALLING & CO

MACRO – NORWAY

Closer ties to the global development

GDP for mainland Norway has expanded by an average quarterly growth of 0.6 % over the past 7 quarters. The latest full-year estimate for 2018 from Statistics Norway (SSB), given as 2.3 % for mainland Norway, is higher than the long-term growth trend of 2.0 %. The latest available projection has been revised up to 2.4 % for 2019 and 2020, with a reduction to 2.2 % in 2021. These figures represent an increase of 10 bps per year since our last report in early June. Such growth has been fuelled by an expansive monetary policy, weak NOK, low wage growth and low interest rates. Going forward, the effects from these factors are expected to neutralise or even slightly contract, with global growth and increases in Oil & Gas investments as the main drivers behind growth in GDP.

GDP growth

SSB estimates from September 2018 project that mainland GDP growth will be 2.3 % in 2018, 2.4 % in 2019 and 2020 and 2.2 % in 2021. DNB Markets' forecast from August is however quite a bit lower going forward. Both SSB and DNB agree on a 2.3 % mainland GDP growth for 2018, but DNB are 40 bps lower than SSB for 2019, 30 bps lower for 2020 and a full 80 bps lower in 2021. The reasoning behind the pessimistic outlook from DNB is a decrease in the residential market, lower exports due to global trade barriers and higher inflation. The Norwegian Central Bank regional network survey 3/2018 is reporting abroad-based growth, and stronger national output since our last report. The previously observed indications of increased demand from the oil sector have been realised, along with higher activity related to infrastructure investments and digitalisation of the private and public sector. On a national level, there is little change from our previous report, in which future projections suggest that growth is inspected to increase among manufacturing enterprises, oil services and household-service enterprises, while construction is expected to experience slower growth.

The national budget

The national budget for 2019 was presented on 8 October. Real growth in underlying fiscal budget expenditure is estimated at 1.3 %, which is well below estimated growth in the mainland economy. The non-oil deficit is expected to decrease by -0.9 % to NOK 232.5 billion, of a total budget of NOK 2 798.1 billion for mainland Norway. A key message for this coming year's budget is maintaining business competitiveness by reining in petroleum revenue spending, and the government is proposing a budget with a neutral fiscal policy stance for 2019.

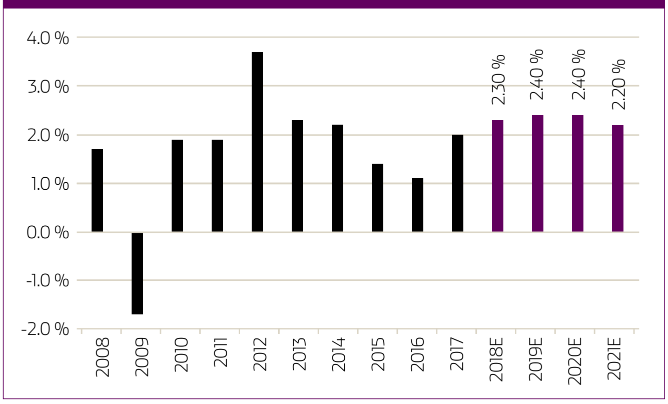
Oil price

Following our last report from June 2018, the Brent Crude Oil price is almost the same, currently close to USD 80 per barrel – an all-time high for the year of USD 86 per barrel was set on 3 October, a level not seen since November 2014. Yet the tide has shifted, what was a increasing oil price over the past 6 months shifted to a rapid drop in the oil price since the peak on 3 October until the time of writing, down roughly 10 %. The forward market is now pricing Brent Crude Oil for 2019 at USD 77 per barrel, while DNB has an oil price estimate for 2019 at USD 83 per barrel.

Oil investments

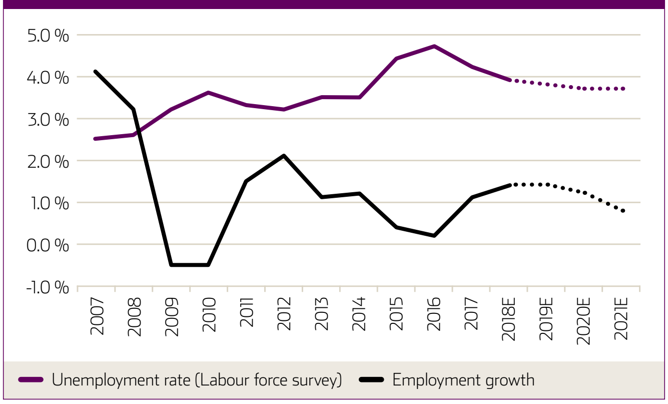
Oil-related investments peaked in 2013, and have declined continuously since the fourth quarter of 2013 until the first quarter of 2018. The latest counting issued by SSB shows an estimated increase of 2.5 % in 2018 over 2017 figures to NOK 156 billion in oil investments, primarily driven by oil drilling and platforms, modules and drilling rigs. SSB projects further increases in the oil investments in the years to come as several large projects

MAINLAND GDP GROWTH NORWAY



Source: Statistics Norway (September 2018)

THE LABOUR MARKET 2007 – 2017 WITH FORECASTS UNTIL 2021

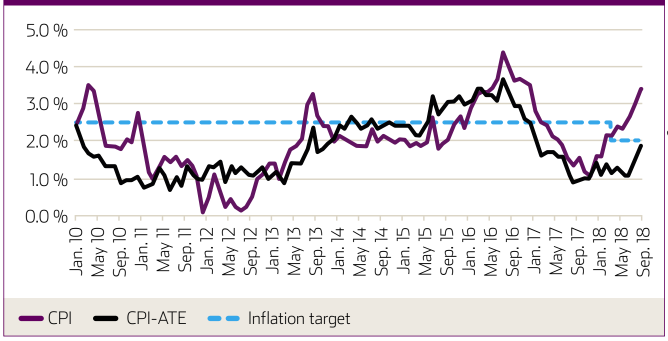


Source: Statistics Norway (September 2018)

MAIN FIGURES (ANNUAL PERCENTAGE GROWTH UNLESS OTHERWISE NOTED)	2017	2018E	2019E	2020E	2021E
Consumption in households etc.	2.2	2.5	2.6	2.5	2.6
General government consumption	2.5	1.8	1.7	1.8	1.7
Gross fixed investment	3.6	0.6	4.0	3.1	1.6
– Extraction and transport via pipelines	-3.8	4.3	10.1	3.9	-0.4
– Gross investments mainland Norway	7.0	-0.1	2.3	2.9	2.2
Exports	-0.2	0.6	2.2	3.6	3.8
– Traditional goods	1.7	3.4	3.2	3.5	3.4
– Crude oil and natural gas	1.5	-3.1	0.0	5.2	5.3
Imports	1.6	2.7	3.7	2.9	2.6
GDP	2.0	1.8	2.1	2.6	2.5
Unemployment rate (level)	4.2	3.9	3.8	3.7	3.7
Employed persons	1.1	1.4	1.4	1.2	0.8
CPI - yearly growth	1.8	2.8	1.7	1.5	2.0
Core inflation (CPI-ATE)	1.4	1.5	1.7	1.8	2.0
Wages per standard man-year	2.3	2.8	3.3	3.6	4.0
Real after-tax lending rate, banks (level)	0.1	-0.7	0.7	1.2	0.9
NOK per euro (level)	9.33	9.59	9.34	9.17	9.12
Current balance (Bn. NOK.)	186.0	309.0	337.0	347.0	362.0
Current balance (in % of GDP)	5.7	8.7	9.1	9.0	9.0

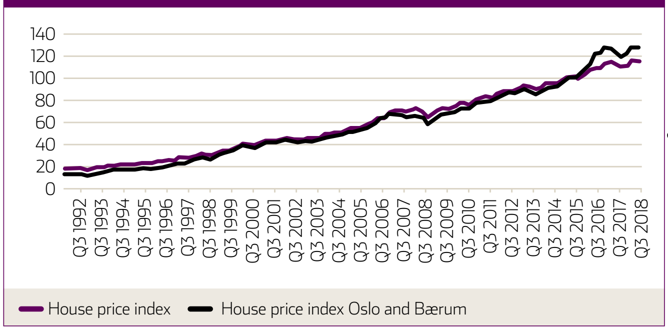
Source: Statistics Norway (September 2018)

INFLATION (12-MONTH CHANGE)



Source: Statistics Norway

HOUSE PRICE INDEX (2015 = 100)



Source: Statistics Norway

are being developed, including the massive Johan Sverdrup field. 2019 is projected to see investments of around NOK 175 billion, before increasing to closer to NOK 190 billion in 2020 and 2021.

Key policy rate

The Norwegian Central Bank raised the key policy rate by 25 bps to 0.75 % at the Executives board meeting in September, having held it firm at the historic low level since March 2016. The Executive Board's assessment was that the economic upturn was continuing, and that capacity utilisation was close to a normal level while the underlying inflation was close to the 2 % target. The guiding for the key policy rate going forward is that most likely we see the next increase in the first quarter of 2019, followed by gradual increase to around 2 % at the end of 2021. However, Norwegian households are highly leveraged, and rate hikes could hit interest expenses and thus potentially consumption hard, and the ever pressing issue of interest rate gaps to international counterparts is becoming more important as Norway is aligning its economy to similarities with more non-natural resource driven economies.

CPI

The CPI has risen markedly in 2018. In September, the 12 month rise in the CPI was 3.4 %, about 2 percentage points higher than in autumn 2017. The increase reflects both higher electricity prices and a rise in underlying inflation. The 12 month rise in the CPI-ATE was 1.9 % in September. Inflation has been higher than projected by SSB when we launched our previous report, mainly driven by wage growth that picked up in 2017 and is expected to rise further in 2018, albeit at a slightly slower pace than projected in June.

Currency

Statistics Norway expects the NOK to appreciate in value over the coming three years with NOK/EUR at 9.6 in 2018, 9.3 in 2019 and 9.2 in 2020. DNB has since our last report revised their projections for the NOK/EUR to be more in line with SSB's expectation. As at COB on 30 October, the EUR traded at NOK 9.54, USD at NOK 8.37, and GBP at NOK 10.72.

Unemployment

According to the Labour Force Survey (LFS), unemployment increased by 2 000 persons from January (average of December - February) to August (average of July - September), holding the unemployment flat at 4.0 % since the workforce also has increased. The register based unemployment from NAV (the Norwegian Labour and Welfare Administration) was 2.3 % in September, down from 2.5 % one year ago.

Employment

According to the Labour Force Survey (LFS), the seasonally adjusted number of employed persons increased by 41 000 persons from January (average of December - February) to August (average of July - September). This corresponds to an increase of 80 bps in the employment rate.

Wages

Wage growth was 2.3 % in 2017 and is estimated at 2.8 % for 2018. Statistics Norway is expecting wage growth above 3 % in 2019, with a peak of 4 % in 2020.

The stock market

The Oslo Stock Exchange broad index (OSEBX) started the year at above 815 points, and reached an all-time high of 946 on 25 September (As at 30 October). However, The OSEBX index is currently down almost 8.9 % since the all-time high, and is now only up around 5.8 % from the beginning of the year compared to being up almost 16 % when at the all time high.

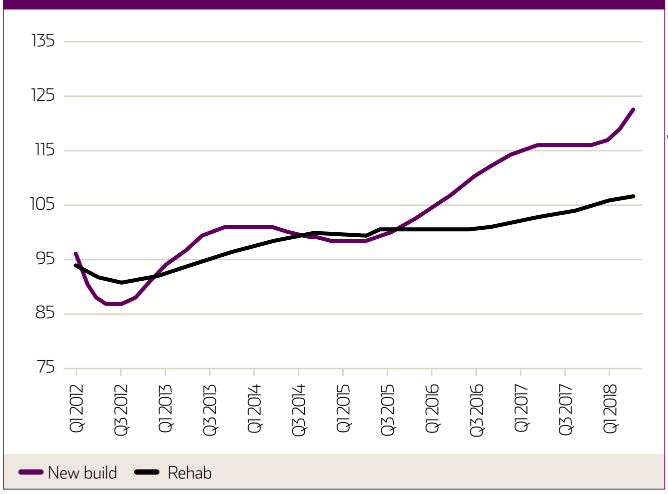
Residential prices

Residential prices for Norway declined by 1.1 % in September, but adjusted for seasonal effects this equals an increase of 0.1 %. This puts the prices 2.7 % higher than a year ago. Despite the key policy rate having been increased in September, Real Estate Norway is expecting the demand to be high enough to meet the what is expected to be a stabile high supply side for the foreseeable future. Low unemployment and an increasing labour force is what will maintain the current price level. DNB expects that the growth rate will come down due to a lower population growth coupled with increasing interest rates as the key policy rate is coming up. Yet they still believe in a moderate price increase for the coming year and part of 2020 before the effect of higher interest rates and increasing unemployment becomes strong enough to trigger a small decrease in the residential prices.

Consumption growth

Private consumption increased by 50 bps to 0.8 % from Q1 2018 to Q2 2018. According to Statistics Norway, private consumption growth is expected to increase 10 bps from 2018 to 2.6 % in 2019, falling slightly to 2.5 % in 2020 before increasing to 2.6 % again in 2021.

NEW BUILD AND REHAB INDEX FROM PAYROLL



Source: Statistics Norway

MACRO – GLOBAL

The future of global policies at a crossroads

With the IMF projecting global growth for 2018 and 2019 at 3.7 %, development remains roughly on par with 2017 growth levels. The global economic expansion seen since 2016 has continued, albeit less balanced and it may have already peaked in some major economies. The downside risks to global growth have risen in the six months since our last report, while the potential for upside surprises has receded. The IMF is thus reporting GDP growth for both 2018 and 2019 at 20 bps lower than its forecast six months ago. The momentum in the US economy is still strong as fiscal stimulus continues to increase, although the forecast for coming years has been revised down off the back of announced trade measures. Growth projections have been revised down for the Euro Area and the UK following events which stifled activity at the start of 2018. Among emerging market and developing economies, growth prospects are influenced by tighter financial conditions, geopolitical tensions and higher oil import bills for all but the oil exporting countries. China and a number of other Asian economies are also projected to experience somewhat weaker growth in 2019 in the aftermath of the recently announced trade measures. Risks to global growth skew to the downside in a context of elevated policy uncertainty, such as rising trade barriers and higher political risk, and could tighten rapidly if trade tensions and policy uncertainty intensify.

Sweden

The Swedish economy is projected to stay on course with a moderate 2.4 % GDP growth in 2018, which is on par with last year, but well below the average from 2010 until today (2.8 %, taken from 2010 to present-day, and as high as 4.5 % just three years ago according to IMF). For the next two years, the IMF is expecting growth rate of 2.2 % in 2019, before dropping to 2.0 % in 2020. In the longer term, the IMF projects Swedish GDP growth to be even lower at 1.9 % in 2023. The Swedish Central Bank (SCB) continues to keep the key policy rate low, holding it stable at -0.50 %, despite inflation being reported at above the target level of 2.0 %. The forecasts for 2018 and 2019 are 2.2 % and 2.1 % respectively. The SCB is signalling a 25 bps hike in December 2018 or February 2019. The majority of the board of the SCB are on the cautious side, given uncertainty arising from global trade tensions, episodes of volatility in the financial markets and the ECB's warning that rate hikes are still a long way off.

The Eurozone

Growth in the Eurozone is projected to grow by 2.0 % in 2018 according to the IMF, but is expected to moderate by roughly 10 bps per year until 2022, when it is expected to have dropped back to 1.5 %. The key drivers behind this reduction in growth is that growth in the working-age population is continuing to slow, and productivity growth continues to remain on a moderate level. Growth projections have been revised down for the Euro Area following events that stifled activity at the start of 2018. Brexit continues to be a troubling issue, while troubles are looming in the Mediterranean region, with Italy taking a front seat role in upsetting the markets with policy reforms which are believed to hinder economic progress. These events have significantly dampened growth prospects that just six months ago looked brighter than they have for a long time. In our previous report the IMF had forecast a 50 bps increase in GDP growth as momentum gathered pace across Europe, and now, just six months later, it has seen it necessary to revise its growth projection by -40 bps. The European Central Bank (ECB) has kept interest rates on its main refinancing operations, marginal lending facility and deposit facility unchanged at 0.00 %, 0.25 % and -0.40 % respectively, and is reiterating that, with risks balanced, interest rates will remain at their present levels for an extended term.

The UK

The IMF is projecting GDP growth at 1.4 % in 2018, a reduction of 20 bps since our last report six months ago, while maintaining a growth of 1.5 % in 2019 and 2020 and a further increase of 10 bps to 1.6 % in 2020 through to 2023. Brexit arrangements are still being negotiated between the EU and UK representatives, with the latest statement from the UK reporting that they are 95 % completed. There is concern, however, that the remaining 5 % revolves around the same disagreements that have been plaguing the process since day one. The uncertainty over the future of the relationship between the UK and the countries regulated under current EU treaties is prompting significantly lower growth forecasts on both sides of the English Channel. The labour market has continued to tighten, numbers of vacancies are rising further and regular pay growth has risen. However, the Bank of England (BoE) is signalling that the economic outlook is heavily influenced by the greater uncertainty about future developments and any future increases in the key policy rate is likely to be at a gradual pace and to a limited extent.

The US

The GDP growth forecast for the US has been held firm at 2.9 % for 2018, but, since our previous report, has been revised back down for the coming years. The US economy is above full employment, yet the path of interest rate increases that markets have been anticipating is less steep than that projected by the Federal Reserve (Fed). The statements issued by the Fed on increasing the key policy rate regardless of market sentiments has by many analysts been seen as one of the key reasons for the turmoil in the financial markets currently being witnessed, in which investors have been reported to be abruptly reassessing their risks. This, in combination with a US foreign policy that has taken the global trade agreements to the negotiating table, has thus led to downward revisions for GDP to 2.5 % in 2019, 1.8 % in 2020 and 1.7 %, 1.5 % and 1.4 % in 2021, 2022 and 2023, respectively.

ANNUAL GDP GROWTH (PERCENT)	2017	2018E	2019E	2020E	2021E	2022E
Global	3.7	3.7	3.7	3.7	3.6	3.6
The US	2.2	2.9	2.5	1.8	1.7	1.5
EU 28	2.7	2.2	2.0	1.8	1.7	1.7
The Eurozone	2.4	2.0	1.9	1.7	1.6	1.5
Advanced economies	2.3	2.4	2.1	1.7	1.7	1.5
Emerging and developing Europe	6.0	3.8	2.0	2.8	2.5	2.6
Germany	2.5	1.9	1.9	1.6	1.5	1.3
France	2.3	1.6	1.6	1.6	1.6	1.6
The UK	1.7	1.4	1.5	1.5	1.6	1.6
Sweden	2.1	2.4	2.2	2.0	2.0	1.9
Denmark	2.3	2.0	1.9	1.8	1.8	1.7
Italy	1.5	1.2	1.0	0.9	0.8	0.7
Japan	1.7	1.1	0.9	0.3	0.7	0.5
China	6.9	6.6	6.2	6.2	6.0	5.8
Russia	1.5	1.7	1.8	1.8	1.6	1.3
Middle East and North Africa	1.8	2.0	2.5	2.9	3.0	3.0

Source: IMF World Economic Outlook October 2018

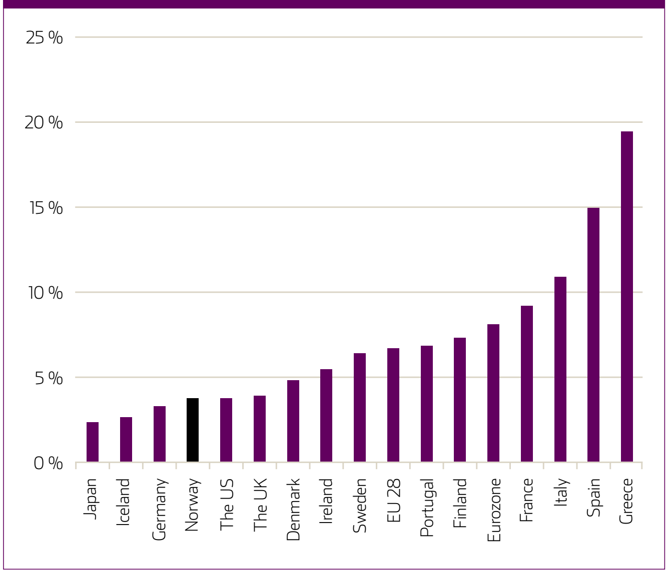
VINTERPARKEN
Malling & Co Investments has raised equity for Malling & Co Vinterparken AS, a company owning ca. 10% of the shares in Vinterparken Holding, a 150 000 m² city development project by Selvaag Gruppen at Lørenskog, outside Oslo City centre.

Illustration: Reiulf Ramstad Architects

Emerging markets

According to the IMF, growth in emerging markets and developing economies is sensitive to shifts in monetary policy. Tighter financial conditions in advanced economies could cause disruptive portfolio adjustments, sharp exchange rate movements and further reductions in capital inflows to emerging markets, particularly those with greater vulnerabilities. Another potential trigger is the aforementioned shifts in global trade agreements being driven by the current US administration. These effects have led to GDP growth being revised downwards to 4.7 % in both 2018 and 2019, a reduction of 20 and 40 bps, respectively.

UNEMPLOYMENT RATE IN SELECTED COUNTRIES/AREAS (LFS)



Source: Eurostat

OSLO OFFICE MARKET

Employment and demand for office space

Growing demand still anticipated

In our previous report, we pointed out that employment was accelerating in Oslo, and that the outlook for further increase was strong. Oslo has, over the past year, seen stronger growth than the rest of the country; office vacancy measures for Oslo have been decreasing, supporting the positive effects of the increasing take-up of employment on the office market. The outlook is still positive, and this positivity is also seen in the government's budget proposal released at the beginning of October. Increased employment and higher salaries are expected to tighten the employment market in the coming year. That being said, we are seeing some risks on the horizon that may curb increased employment growth and hence demand for office space in 2019.

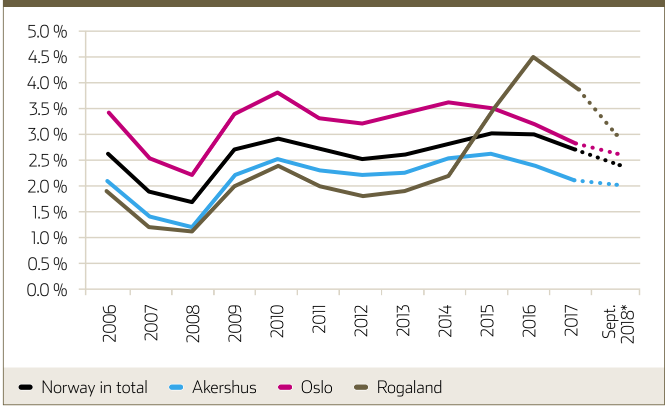
Strong employment growth so far in 2018

After a relatively steady decrease in unemployment measures from both The Norwegian Labour and Welfare Administration (register-based) and Statistics Norway (SSB) Labour Force Survey (LFS) from 2016 until this summer, we are now seeing unemployment rates flatten, or even increase marginally. This trend is, however, mainly explained by a stronger effect from the increasing workforce rather than positive and increasing employment. According to seasonally adjusted employment figures from LFS, employment has on a national basis risen by 37 000 since December 2017. As at September 2018, registered unemployment for Oslo and Akershus stands at 2.6 % and 2.0 % respectively. The corresponding figure for the whole country is 2.3 %. Worth mentioning is Rogaland (Stavanger region), which has seen the strongest employment growth from Q2 2017 to Q2 2018. This is related to the cyclical upturn within Oil and Gas, which again has triggered increased activity in the region. However it should be noted that the change is also related to a change in method for counting employees registered on the Norwegian continental shelf (oil rigs). These employees are from Q2 2018 registered in Rogaland.

Will the strong employment growth in Oslo last?

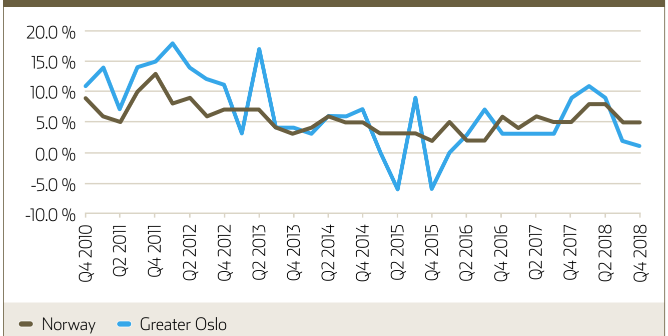
Looking forward, we need to rely on different surveys performed after the summer asking businesses about their plans for employment changes in the coming quarter/months. If we look at the Manpower Employment Outlook Survey (MEOS) for Q4, which identifies net expected staffing for the next quarter (see definition at the bottom of the page), the report is a national net outlook at + 5 % for Q4, down from + 8 % seasonally-adjusted for Q2 2018. In Greater Oslo, the accuracy of the survey becomes much lower, but in Greater Oslo, we see that net results are down from + 11 % and + 9 % in Q1 and Q2, to + 2 % and +1 % in Q3 and Q4 respectively. If we look at the regional network survey by Norwegian Central Bank, the report is a positive outlook for employment, slightly down on May's results. This could indicate that employment growth could be decelerating in Oslo. There may be several reasons for this and may not be particularly negative for office demand directly. One possible explanation is the challenges within retail, which is probably the reason why this sector is one of the strongest contributors to negative change in payroll in Oslo, according to Statistics Norway (Q2 2017 vs. Q2 2018). With retail making up more than 10 % of total employment in Oslo, we might expect negative employment

REGISTER BASED UNEMPLOYMENT



Source: Norwegian labour and welfare administration

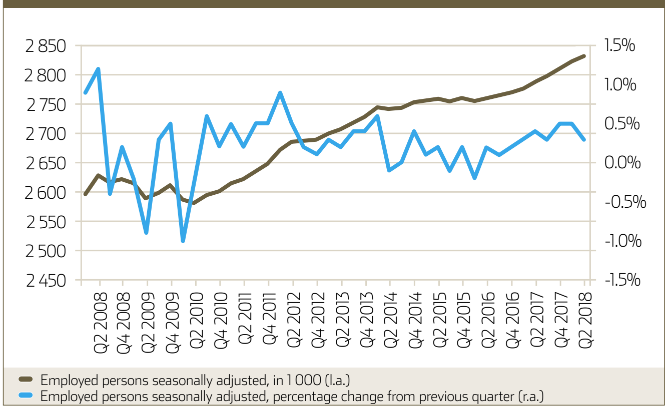
NET EMPLOYMENT OUTLOOK* – DEVELOPMENT OVER TIME (SEASONALLY ADJ.)



*Net employment outlook is derived by taking the percentage of employers anticipating an increase in hiring activity and subtracting from this the percentage of employers expecting to see a decrease in employment at their location in the next quarter.

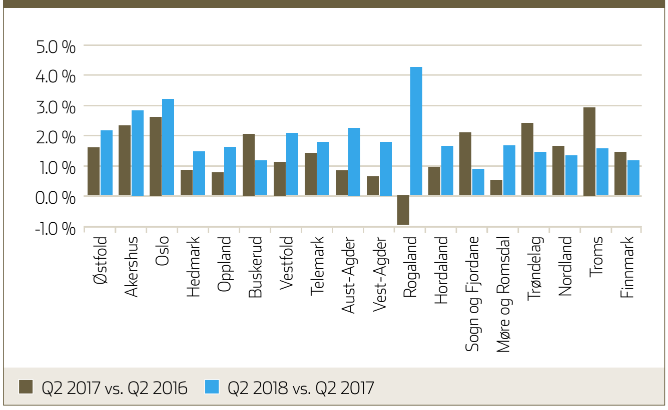
Source: Manpower Employment Outlook Survey (Q4 2018)

NATIONAL ACCOUNTS, QUARTERLY EMPLOYMENT



Source: Statistics Norway

CHANGE IN PAYROLL PER COUNTY



Source: Statistics Norway

figures within retail to continue to impact overall employment figures in the coming year. However, the direct and indirect effects on office use should be limited in the short term, as typical office sectors are among the strongest contributors to employment growth. The latest retail trends are also discussed in our special topic at the end of this report.

Demand for office space is expected to continue growing

The demand for office space is not necessarily directly linked to overall increased employment, as the demand varies greatly between sectors and industries, and significant effects of lag as running lease contracts affect the options to expand or reduce space. It is also difficult to estimate slack in existing premises. Looking at the latest employment growth over sectors, ICT services, business service sector, technical services and property management are strong growing sectors. These are all typical office users, while health and social services also see good growth, they typically create demand for other types of real estate. There is also a chance that many fast-growing businesses see limited possibility to cover their real estate needs within a traditional lease structure. Knowing that a lot of space has been absorbed by flexible office space providers, the market may have absorbed space that will create the needed slack boosted by employment. Despite the risk factors discussed, e.g. a struggling retail sector, we are confident that the positive momentum in the office market will continue over the coming months.

DRAMMENSVEIEN 211-213
Malling & Co Corporate Real Estate is advisor to the owners of Realkapital 1 AS in the sales process of a 23 500 m^2 office and car dealership complex at Skøyen/Vækerø in Oslo.

KONGENS GATE 21

Malling & Co Næringsmegling has leased 3 500 m^2 office space to Aller in Kongens gate 21 in Oslo city center on behalf of K21 Holding AS.

Office search mapping

Continued strong office demand

The activity in the market for office searches in terms of total space is, at the timing of writing above year end 2017 level. That will probably push the total office search volume for the whole year to somewhere between the 2017 and 2016 level. Demand is strong, and slightly stronger than anticipated at the start of the year.

Search volumes affected by lease expiries and market sentiment

Search volumes are generally affected by the structure of expiring lease agreements for large tenants, and as expiry volumes are set to be lower than average in 2021 and 2022, the search volumes are expected to stay moderate in the coming 12 months, all else being equal. However, we have seen that some tenants are already planning for their lease expiry, and we are therefore expecting some large office searches targeted towards 2023-2024 in the market by the end of 2019. The growth within office tenants may also create additional demand from smaller tenants in general.

Less than 1/5th public tenants

In 2016, public tenants constituted more than half the volume of office searches, while this share fell to below 20 % last year. In 2018, we are seeing a similar share of public tenants among office searches. Other than the public sector, the remaining share is spread across different sectors. We are again seeing some activity from Oil & Gas related sector, especially if we take into account processes outside an official search. In general, we have been seeing higher demand from tenants above 5 000 m² compared to last year, with the number of searches staying about the same. We can also track companies looking for new premises without launching an official search, and many of these are still considering moving if alternatives are attractive enough.

Limited number of searches suitable to initiate new builds on pre-lease

The search market is of special interest for developers as it is the main source of the large lease contracts needed to initialise new projects requiring an anchor tenant. For a developer, both the timing and size need to match the project to be attractive. Almost 80 % (measured in total space) of the searches from 2017 and YTD are aiming at takeover in the same year or the year after, which means that most of this demand will need to find room within existing space, or remaining space in already initiated new builds or refurbishments that will complete before the desired date. Looking ahead, low expiry volumes for large lease contracts suggest that the search volume for large contracts will reduce somewhat from 2019. Despite that, we have so far this year, still seen six searches larger than 5 000 m² aiming at occupation later than 2020. These are e.g. KPMG, currently located at Majorstuen, and Handelsbanken and Swedbank currently located at Aker Brygge. Based on our view of their options and requirements, these tenants are likely to take up refurbished or already initiated new builds (not trigger new projects).

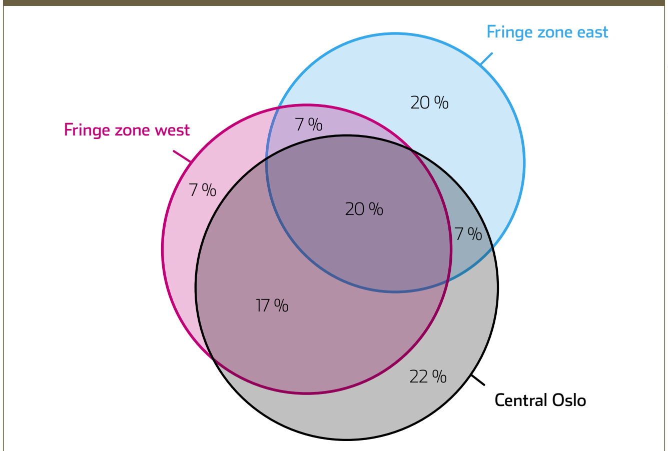
More demand towards fringe

One very interesting change in trend is that more office searches are aimed at the fringe. That may also be a consequence of less vacancy in the city centre and a more open and realistic approach to actual geographical availability. However, the city centre remains the most sought after area, representing 7/10 office searches. We should also emphasise that proximity to public transport continues to be one of the most important factors in attracting tenants, and many are very specific with regard to the number of minutes it takes to walk from the nearest station to the main entrance of the premises.

About the analysis and database

Tenant representation agents map tenants' requirements regarding location and facilities, and manage the actual search for new commercial space. This applies to office space, combined premises, and retail and warehousing/logistics premises. Larger tenants are more likely to use tenant representation agents, but many small and medium-sized enterprises also obtain assistance during their relocation processes. We register and systematise all property searches covering the Greater Oslo area. This makes it possible to analyse one of the main sources of demand in the market. Our figures show that rental searches account for between 15 % and 50 % of the total annual volume (measured in square meters) of signed office lease agreements. Our analysis of market searches goes back to 2009 and includes more than 1 400 searches to date – two thirds of which are pure office market searches. This enables us to study the demand side trends in detail, and to help our clients to offer and invest in the right project for the end user.

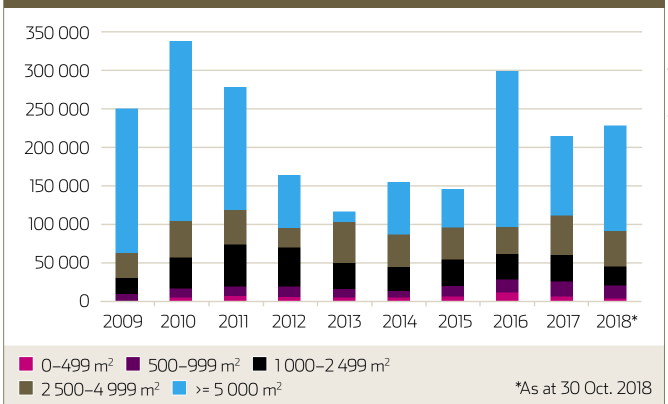
OFFICE SEARCHES GREATER OSLO 2017-2018*, SIZES AND OVERLAP



*As at 30 Oct. 2018

Source: Malling & Co / NEmeet

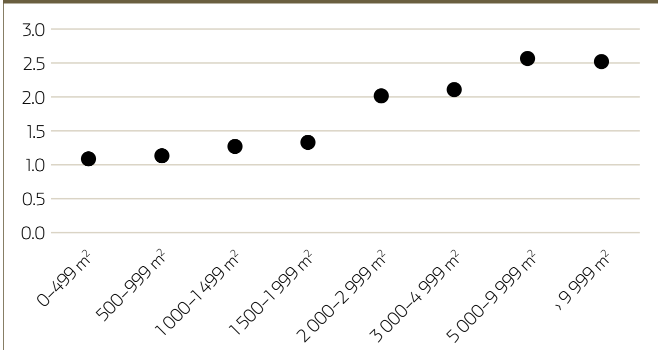
OFFICE SPACE SEARCHES GREATER OSLO 2009–2018* (M²)



*As at 30 Oct. 2018

Source: Malling & Co / NEmeet

AVERAGE YEARS BETWEEN PUBLICATION OF MARKET SEARCH AND DESIRED LEASE STARTUP, DIVIDED INTO SIZE SEGMENTS (2017 – 2018*)



Same year = 0.5. *As at 30 Oct. 2018

Source: Malling & Co / NEmeet

Construction activity in Greater Oslo

Favourable market conditions incentivise developers to build

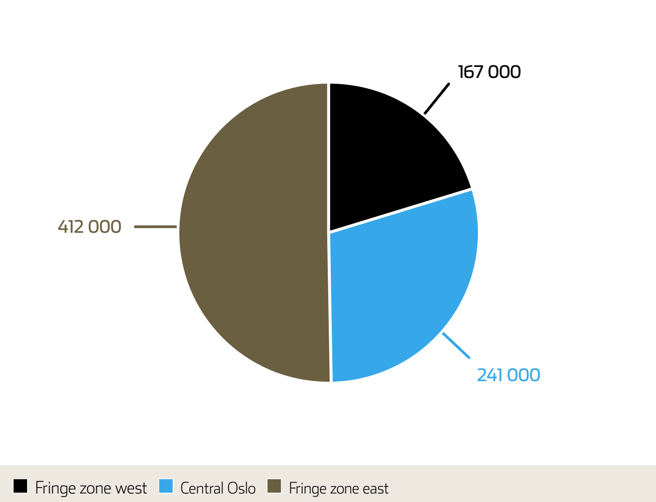
In May, we reported a low net construction volume for 2018, with higher expectations from 2019. We can now report lower volumes than expected for 2019, as the majority of potential projects have been pushed back to 2020. Instead, net added office space in Greater Oslo is expected to reflect a slightly negative figure in 2018 (approx. -1 500 m²) and a low figure in 2019 (approx. 9 200 m²). We expect net office space to increase again from 2020 onwards, with the current estimate for gross completions in 2020 at approx. 117 000 m² for confirmed projects only.

In 2018, the gross volume for new construction is expected to reach approx. 107 000 m². This is slightly higher than in 2017, although, due to high demolition and conversion levels, the net construction volume will come in at a slightly negative figure of approx. -1 500 m². Examples of large office projects that have been or will be completed in 2018 include Vitaminveien 4 (21 000 m²), Diagonale (15 000 m²) and Bøkkerveien 5 (11 500 m²). Net construction will increase in 2019, although this will be mainly due to decreases in conversion and demolition volumes, while gross construction volume is expected to stay relatively low.

Net construction volumes are expected to increase substantially from 2020 onwards. Several large projects have already been confirmed and are expected to be added to stock in 2020 and 2021. Examples include Fyrstikkalléen 1 and Harbitz Torg in 2020, and Økern Portal as well as VIA in 2021. Moreover, the conversion of office space is slowing down. Many developers have focused on the housing market in the past, but this type of conversion is now visibly receding after a period of unfavourable market conditions. Hotel conversions have also been popular amongst investors, examples of which include the old Alcatel HQ at Økern, Karl Johans gate 33 and Jernbanetorget 2. Lastly, demolition is also dropping off, as most projects involving the demolition of old structures, are already underway.

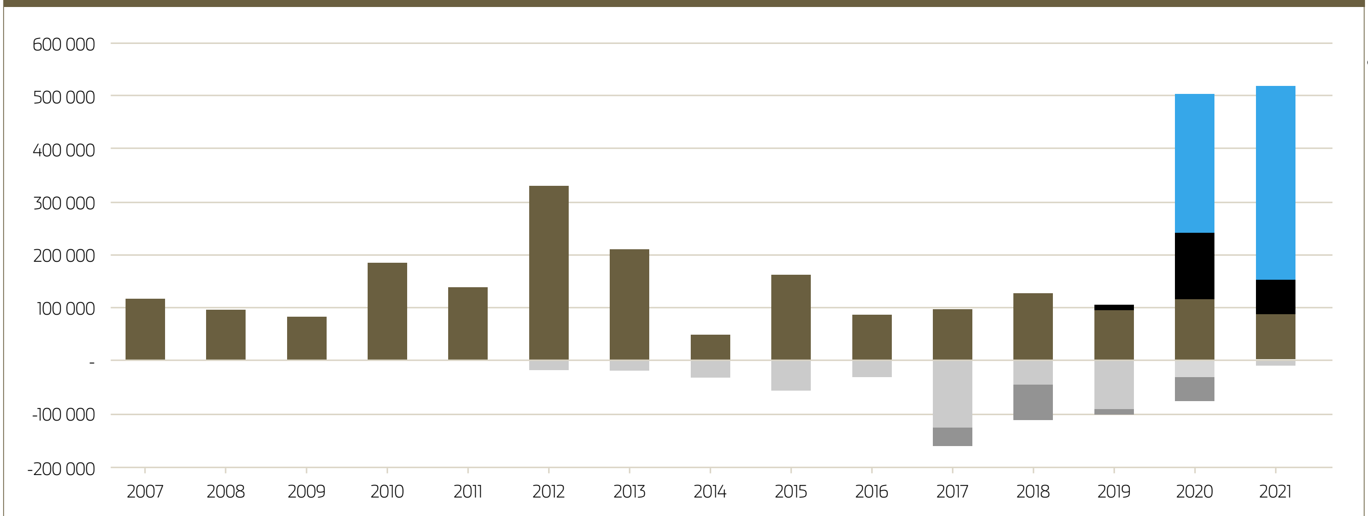
In addition to many confirmed projects, we can report a large number of potential new construction projects in the pipeline for 2020. Although it is unknown just how many of these projects will be initiated, taking the current favourable office rent conditions and low level of vacancies in central areas of Oslo into consideration, we expect developers to be highly incentivised to build. There is a high volume of lease contracts expiring in 2019 and 2020. Larger tenants are, however, likely to have signed elsewhere by now, implying that developers may have to rely on pooling smaller tenants. With increasing rent levels, we believe that tenants will be looking at fringe areas in order to cut costs. This means that we may see additional project initiation in the fringes for a shorter period. However, as the expiration of large office lease contracts will fall in number between 2021-2022, competition for anchor tenants is likely to increase in the long run.

CONFIRMED AND ESTIMATED COMPLETIONS OF NEW OFFICE SPACE THE NEXT FIVE YEARS, SPLIT BY CITY AREA (M²)



Source: Malling & Co

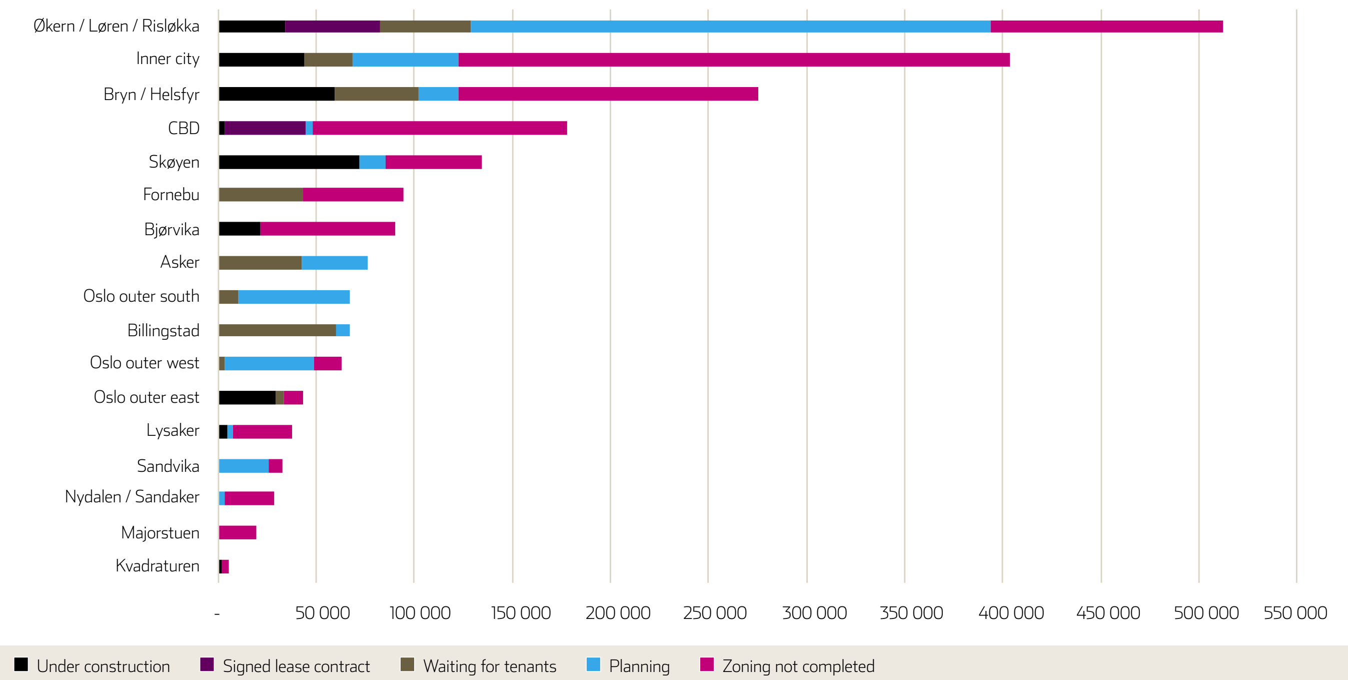
COMPLETION OF NEW OFFICE BUILDINGS IN GREATER OSLO AND EARLIEST POSSIBLE COMPLETION OF PROJECTED NEW OFFICE BUILDINGS (IN M²)



Confirmed: Projects that will be built/are being built either with or without anchor tenants (spec)
Estimate: Projects that have been zoned, fully planned and are currently waiting for anchor tenants, that we deem likely to be realized
Potential: Projects that have not been zoned or fully planned

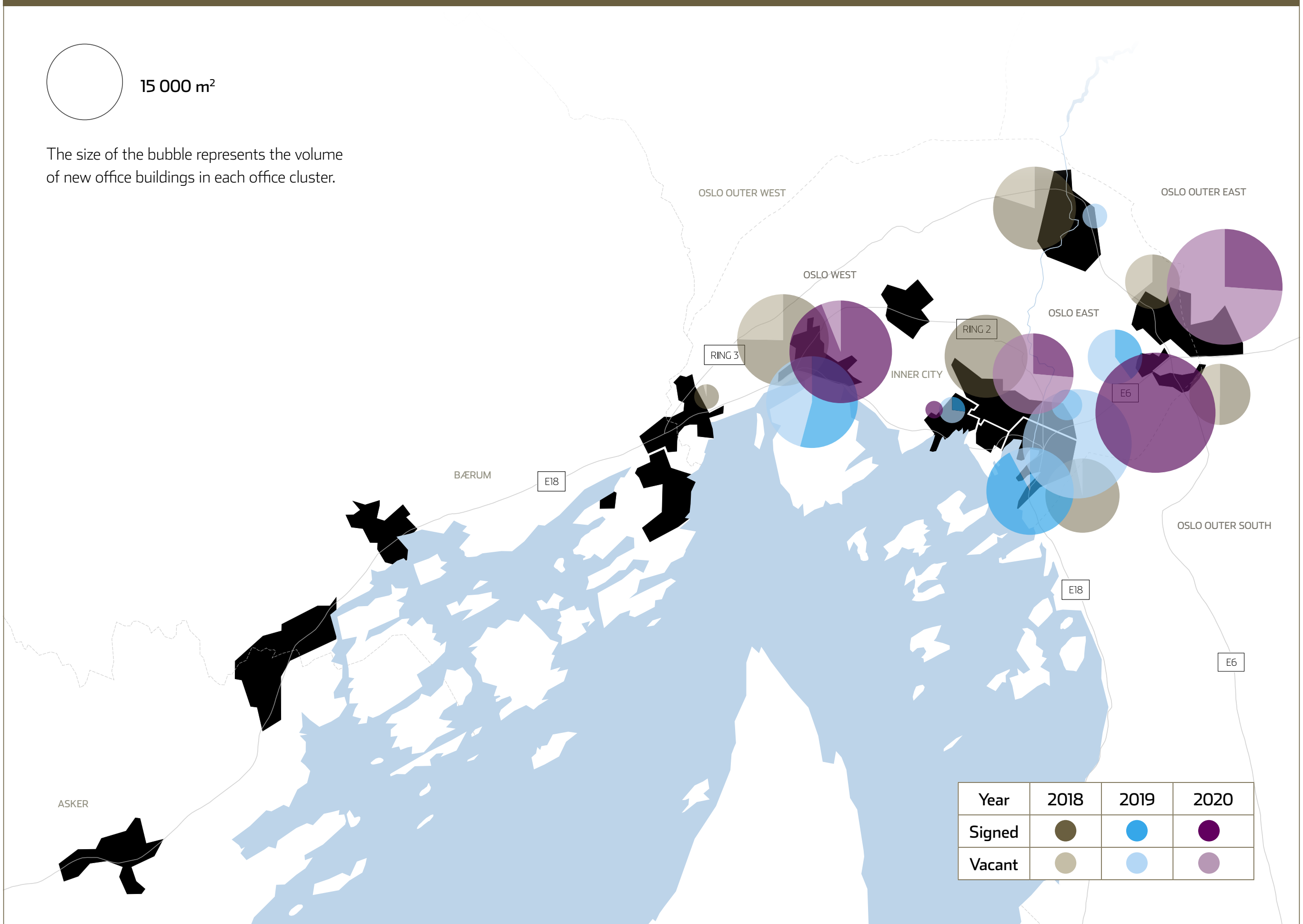
Source: Malling & Co

OFFICE CONSTRUCTION VOLUMES SPLIT BY STATUS AND CLUSTER (M²)



Source: Malling & Co

COMPLETION OF NEW OFFICE BUILDINGS THAT WILL BE FINALIZED 2018-2020



Year	2018	2019	2020
Signed	●	●	●
Vacant	●	●	●

Source: Malling & Co

ØKERN PORTAL
Malling & Co Næringsmegling has leased 13 000 m² office space to Telia in Lørenfaret 1 at Økern in Oslo on behalf of Oslo Pensjonsforsikring.

Illustration: Dark Arkitekter

FYRSTIKKALLÉEN 1

Malling & Co Corporate Real Estate advised J.B. Ugland Eiendomsutvikling AS, Otterlei Group AS and Vedal Investor AS on the divestment of a 39 000 m^2 office complex under construction at Helsfyr in Oslo.

Illustration: 3D Estate

Supply and vacancy in Greater Oslo

In September, we measured a record low vacancy rate of 5.2 % and predicted a continued decrease through 2018. We can confirm that vacancy decreased further by 10 bps in October, and that, in Greater Oslo, average office cluster vacancy now stands at 5.1 %. This indicates a fall of approx. 190 bps since October 2017 (7.0 %), while supply has fallen by approx. 300 bps, currently standing at 9.5 %. Vacancies are not only down in central Oslo, but also in most of our defined fringe clusters. The areas with the highest vacancies are Asker and Lysaker with 13 % and 12 % respectively, while Bjørvika, at 2 %, is still the area with the lowest vacancy.

The particularly low vacancy rate that we are now seeing is a result of multiple factors, including rising employment figures over the past 12 months and high urbanisation in Oslo's suburbs pushing up demand for office space. However, the perhaps greatest contributor is the low net construction in recent years. Since 2017, net construction of office space has been either mostly nil or even negative due to a combination of high conversion/demolition levels and low construction activity. This, taken together with the rising demand described above, has put considerable pressure on the office market in terms of available space and, consequently, office rental levels.

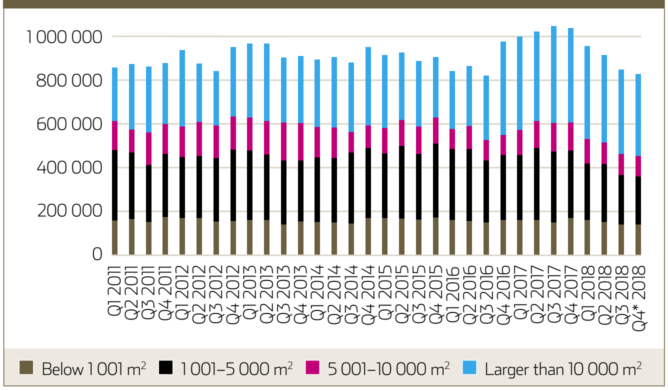
Higher vacancy levels may well be observed from the end of 2019 onwards due to the many confirmed and potential new construction projects planned for that period. How many will be initiated, however, is uncertain. The determining factor is usually whether a project will secure anchor tenants, but since the low vacancy rate is driving rent levels upwards, developers are likely to be particularly eager to initiate building, even on speculation. In addition, estimates suggest that there will be a high number of contracts expiring in 2019-2020 and with the current economic expansion, we believe these tenants will, on average, absorb more space than they vacate. Consequently, we expect the vacancy rate to continue its downward trend through 2018 and into 2019, before picking up again late 2019 or early 2020 due to greater availability of space within 12 months as the net construction rises.

Alongside the low vacancy rate in central Oslo, there has also been a marked decrease in the majority of the fringe office clusters. One probable cause is that as squeezed vacancy levels pushes up market rents in the city's central areas, price-sensitive tenants are forced to look to the fringes in search of cheaper office space. Skøyen, for example, with a vacancy rate of approx. 6 % is becoming increasingly popular. Vacancy at Bryn/Helsfyr is also lower than it was last year (now at 8 %), despite a number of locations appearing on the market in the past month. The proportion of vacancies due to subletting has also shrunk since last year (now at 4 % of vacancy), most likely due to the upturn in the Oil & Gas sector, which has created new activity and a need to occupy previously excess space. As an example, Aker has withdrawn Oksenøyveien 8 from Finn.no as they themselves need the space.

How we measure supply

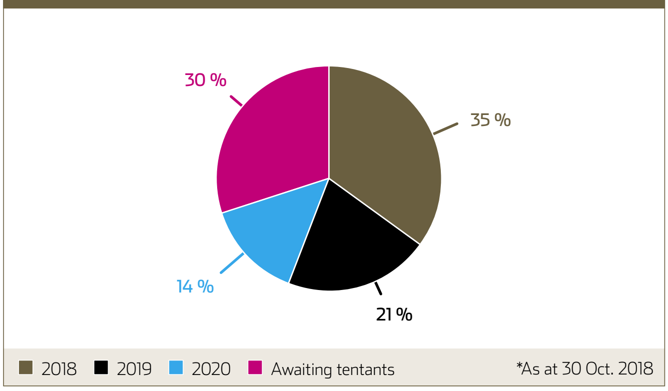
When analysing the supply side of the rental market, we wish to be able to describe what is available for prospective tenants, not only vacant space. We therefore split the total offered office space into two definitions: supply and vacancy. Supply includes all projects and vacancies, regardless of delivery date, while vacancy comprises only existing or new projects available for delivery within 12 months from the date of measurement. In more detail, we define supply as all office space that is available in the market, including existing buildings and new constructions. Projects offered to tenants looking for space via specific processes, but which are not listed as available on the online marketplace FINN.no, are not included in the figures. However, these projects usually end up listed on FINN.no eventually, which means that the potential supply may be higher than that reported in these figures, but vacancy is a more exact measure. Including a measure of available new office projects explains possible discrepancies in a simple supply/demand relation looking only at rents and vacancy.

OFFICE SPACE FOR RENT IN GREATER OSLO (M²) PER SIZE INTERVAL



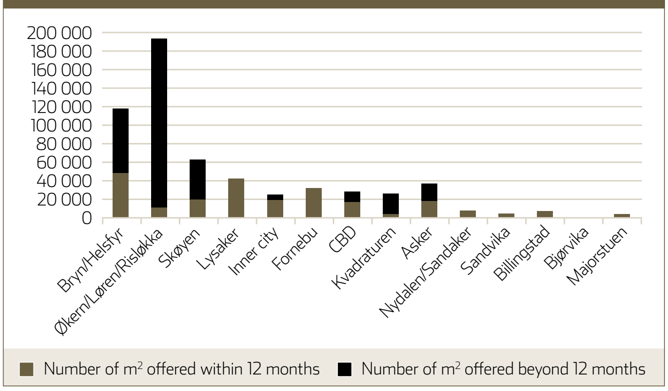
Source: Malling & Co/FINN.no

AVAILABILITY OF OFFICE SPACE ABOVE 2 000 M² OFFERED AT FINN.NO*



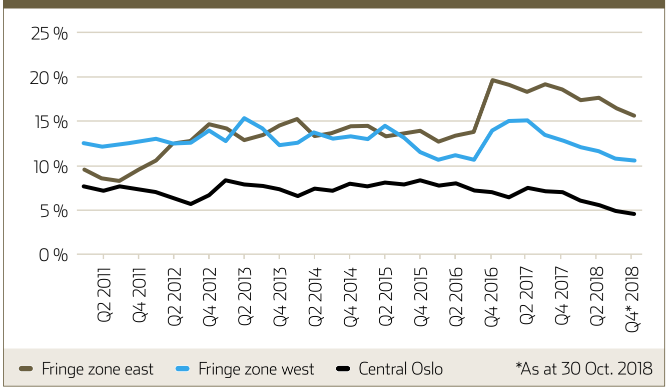
Source: Malling & Co/FINN.no

OFFICE SPACE FOR RENT DIVIDED INTO OFFICE CLUSTERS PER OCTOBER 2018 (M²)



Source: Malling & Co/FINN.no

SUPPLY IN CENTRAL OSLO, EASTERN AND WESTERN FRINGE ZONE

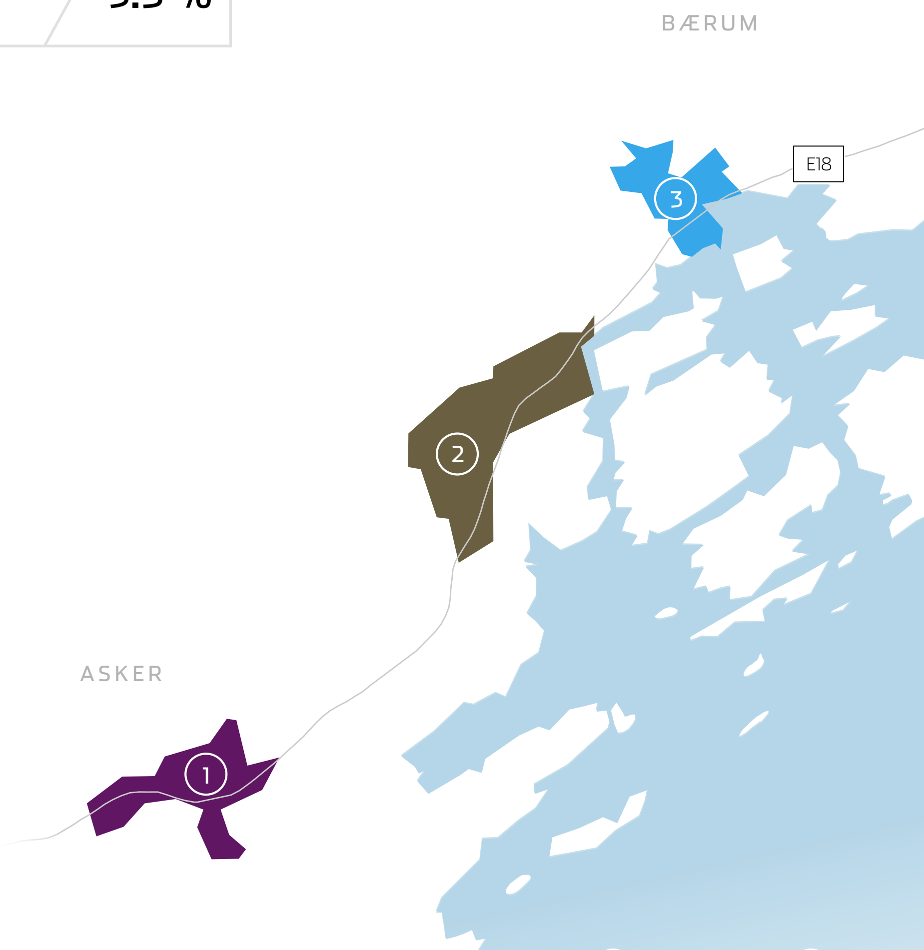


Source: Malling & Co/FINN.no

Vacancy* and supply**

* Advertised office space within 12 months at FINN.no of the total office stock in Greater Oslo.
** Advertised office space at FINN.no of the total office stock in Greater Oslo. This includes potential advertised new projects.

VACANCY* IN DEFINED OFFICE CLUSTERS – Down approx. 1.3 percentage points past 12 months	5.1 %
SUPPLY** IN DEFINED OFFICE CLUSTERS – Down approx. 1.4 percentage points past 12 months	9.5 %



Map colour indicates vacancy rates per October 2018

0–5 % · 5–10 % · 10–15 % · Above 15 %

➡ Indicates trend past 6 months (> 1 percentage points change)

	1 ASKER	2 BILLINGSTAD	3 SANDVIKA	4 FORNEBU	5 LYSAKER	6 SKØYEN	7 MAJORSTUEN
VACANCY RATE PER OCTOBER 2018	13 %	8 %	5 %	6 %	12 %	6 %	4 %
Trend	➡	↘	➡	↘	↘	↘	➡
SUPPLY RATE PER OCTOBER 2018	21 %	8 %	5 %	6 %	12 %	14 %	4 %
Trend	↘	↘	➡	↘	↘	↘	➡

8 CBD	9 KVADRATUREN	10 INNER CITY	11 BJØRVIKA	12 NYDALEN / SANDAKER	13 ØKERN / LØREN / RISLØKKA	14 BRYN / HELSFYR
5 % VACANCY RATE PER OCTOBER 2018	3 % VACANCY RATE PER OCTOBER 2018	3 % VACANCY RATE PER OCTOBER 2018	2 % VACANCY RATE PER OCTOBER 2018	3 % VACANCY RATE PER OCTOBER 2018	3 % VACANCY RATE PER OCTOBER 2018	8 % VACANCY RATE PER OCTOBER 2018
7 % SUPPLY RATE PER OCTOBER 2018	7 % SUPPLY RATE PER OCTOBER 2018	3 % SUPPLY RATE PER OCTOBER 2018	2 % SUPPLY RATE PER OCTOBER 2018	3 % SUPPLY RATE PER OCTOBER 2018	23 % SUPPLY RATE PER OCTOBER 2018	16 % SUPPLY RATE PER OCTOBER 2018

Source: Malling & Co/FINN.no

Further development of the rental market
Rental growth continues for another year

The drivers
Positive for rental growth.

Economic growth is picking up speed
Leading indicators show continued optimism, and economic growth is expected to peak next year.

Strong employment growth in Oslo
Employment figures show significant growth in employment, in Oslo, with indicators pointing towards continued growth. Typical office professions stand out as the growth sectors.

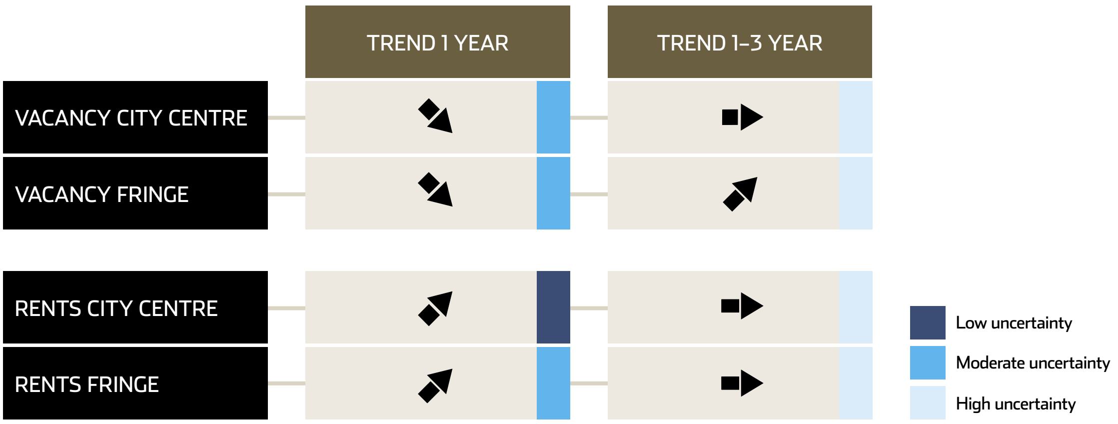
Vacancy is down
Vacancy in office clusters has accelerated downwards in the past six months, and supply will remain low for another 12-18 months.

Limited new construction and high conversion rates in the short term
Continued low net office construction over the next 12-18 months is expected to keep vacancy low. The risk of higher vacancy will come towards the end of 2019 as new construction is expected to be finalised by the end of 2020 (affects vacancy, i.e. space available within 12 months).

Public transport as key driver
The city centre is especially attractive among tenants, but we can see a growing interest in fringe office clusters with proximity to public transport. An urban environment is still important for tenants.

Upward yield risk
Large key tenants who have been riding on steady yield reductions may now face a yield upswing as interest rates increase. This will increase break-even rents for new developments.

Weakening residential market
The downturn in the residential market we saw last year made a sudden about-turn in the first six months of the year, enjoying a new boom, although the cycle has now reverted to a slightly downward trend. The Oslo market is feeling the impact of new finalised supply, which helps keep prices low. However, we believe the conversion trend will continue as office stock outside the typical clusters struggles in the face of competition from new developments closer to public transportation.



Short-term forecast (1 year): Increasing rents
- City centre rents continues to increase by 10 % on a four-quarter rolling average
- We expect rental increases to spread to the fringe areas in the coming 12 months, especially for the best locations
- Vacancy is expected to reduce further, however at a slightly lower pace

Long-term forecast (1-3 years): Rents flattening
- City centre rents will stabilise as new developments near finalisation stage
- Increased construction, the likelihood of an economic cooldown and a weaker housing market, along with structural changes in retail, will also have an eventual effect on office rents
- The downside risk on rents still seems limited, although the risks are related to a more general weakening of the economy

SCHWEIGAARDS GATE 33
Malling & Co Corporate Real Estate is advisor to Bane NOR Eiendom AS in the sales process of a 22 600 m^2 office building in central Oslo.

Illustration: LPO

The rental market
Greater Oslo

In the following section, we have summarised the status within our defined office clusters in Greater Oslo. We have provided a table with estimated normal* and prime* rent levels as well as supply** and vacancy** for every office cluster. We have also included a short section with the latest news for each cluster. The main source for estimating monthly vacancy and supply is a list from Norway's dominant online marketplace FINN.no, which we have then processed further using algorithms. Based on these figures, we find that the total supply for all our defined office clusters has decreased from 12.5 % to 9.5 % over the past 12 months. The vacancy, i.e. space available within 12 months, has decreased from 6.9 % to 5.1 % in the same period.

A SELECTION OF THE LATEST MAJOR LEASE CONTRACTS

Tenant	Moving to address / Office cluster	Moving from address / Office cluster	Space m² (rounded)
OsloMet	Kunnskapsveien 55 / Oslo East other	Kunnskapsveien 55 / Oslo East other	~ 27 000
Telia	Lørenfaret 1 (Økern Portal) / Økern/Løren/Risløkka	Sandakerveien 140 / Nydalen/Sandaker	~ 13 000
Forsvaret	Drammensveien 165 (Sjølystparken) / Skøyen		~ 4 000
Aller	Kongens gate 21 / Kvadraturen	Karvesvingen 1 / Økern/Løren/Risløkka	~ 3 500
EnTur	Rådhusgata 5 (Transperia) / Kvadraturen	Schweigaards gate 23 / Inner City	~ 2 670
Mattilsynet	Stensberggata 25-27 / Inner City	Ullevålsveien 76 / Inner City	~ 2 500
Visma	Karenslyst Allé 55-57 / Skøyen	Dronning Eufemias gate 6 / Barcode	~ 2 250
VWR International AS	Brynsalléen 4 / Bryn/Helsfyr	Haavard Martinsens vei 30 / Oslo East other	~ 1 700
IFS	Hagaløkkveien 26 (Asker Tek) / Asker	Skysstasjonen 11 /Asker	~ 1 300
Spacemaker	Pilestredet 33 (Epicenter) / Inner City	Støperigata 2 / CBD	~ 1 000

ASKER

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	1 500 – 1 700	1 500 – 1 700
Prime rent (NOK/m²)*	2 150	2 150
Supply**	21 %	28 %
Vacancy**	13 %	20 %

Comment: Asker is currently the area with the highest relative vacancy (12.8%), and Lensmannslia 4 is still the largest single vacant asset in Asker. The new build, Hagaløkkveien 26, known as "Asker Tek" was completed this summer, and still has 4 000 m² available for tenants. With the new build, Asker Genera, is still being offered in the market, and high vacancy in this cluster and other adjacent clusters, we believe the probability of initiating this new build in the short term is fairly low.

BILLINGSTAD

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	1 250 – 1 500	1 250 – 1 500
Prime rent (NOK/m²)*	1 800	1 800
Supply**	8 %	16 %
Vacancy**	8 %	16 %

Comment: There is very little activity at Billingstad, other than a few conversion projects. Most of the conversion is to residential and big box. One example is Olav Brunborgsvei 4-6, which is being converted to residential uses after a long vacancy period. Vacancy in the area has, in historic terms, been high although it did decrease slightly in October. The new construction project at Billingstadsletta 30 has been waiting for an anchor tenant for a considerable time now, and it is currently unclear what will happen to the project.

**See definition of «normal» rent and prime rent on page 26.*
***See definition of supply and vacancy on page 18.*

SANDVIKA

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	1 500 – 1 700	1 500 – 1 700
Prime rent (NOK/m²)*	2 200	2 150
Supply**	5 %	5 %
Vacancy**	5 %	4 %

Comment: Vacancy in Sandvika is currently 4.7 % and is expected to stay stable. For a while, there were several potential office projects planned in the area, however, the plans for some of these were revised as residential developments. One example is Elias Smiths vei 10 phase 2, which was originally earmarked as an office building, but is now a residential project. Sandvika East is a major new construction project compromising four blocks that will be completed in two stages, the first estimated to start no earlier than 2020. However, a maximum of 26 000 m² of the total area of 102 000 m² will be office space.

FORNEBU

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	1 400 – 1 600	1 400 – 1 600
Prime rent (NOK/m²)*	1 950	2 000
Supply**	6 %	10 %
Vacancy**	6 %	10 %

Comment: Vacancy has decreased at Fornebu, driven mainly by Aker's withdrawal of Oksenøyveien 8 from the market in September, as they needed the space themselves. Other than this, there is very little activity, with most of projects on hold. The currently high rents in central Oslo is, however, pushing more and more tenants to the fringes. Moreover, the Fornebu Metro is likely to attract more interest and accelerate project initiation in the future. The metro has a planned completion date of 2025 at the earliest. In a recent announcement from FP Eiendom, plans to build what would become the tallest skyscraper in Scandinavia at Fornebu was revealed. This project, however, is at a very early stage and has been met by resistance, particularly amongst its future neighbours.

LYSAKER

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	1 700 – 1 900	1 700 – 1 900
Prime rent (NOK/m²)*	2 350	2 350
Supply**	12 %	16 %
Vacancy**	12 %	14 %

Comment: With 11.8 % vacancy, Lysaker has the second highest rate after Asker. However, there is a wide variation in the rate between subareas with the primary dependent factor being distance from the train station. The various developments in Philip Pedersens vei are close to completion. Moreover, Mustad has great plans for the area with its city development project 'Lilleakerbyen'. At present, it is still at the planning stage, but the main outline comprises retail and residential areas. It is likely that a number of office buildings will be demolished in the process, but it is as yet unclear what the net result will be in relation to office space.

SKØYEN

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	2 100 – 2 500	1 800 – 2 300
Prime rent (NOK/m²)*	3 100	3 000
Supply**	14 %	15 %
Vacancy**	6 %	6 %

Comment: Vacancy is down at Skøyen, as it is in most of the other clusters in Greater Oslo. Sjølystparken, which had approx. 6 000 m² available space, is now partly let out with approx. 2 000 m² remaining. There are several projects currently under construction, including the new Orkla HQ and Drammensveien 145-147, which are due for completion in late 2018 and 2019 respectively. Another high profile project is Hafslund's new offices at Harbitz Torg, planned for completion in 2020. There is some speculation that KLP is considering demolishing Hafslund's current offices in Drammensveien 144 and erecting a new, higher office building in their place. To summarise, the area is becoming increasingly popular, and it is likely that many more projects will be initiated.

**See definition of «normal» rent and prime rent on page 26.*
***See definition of supply and vacancy on page 18.*

MAJORSTUEN

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	2 000 – 2 400	1 800 – 2 200
Prime rent (NOK/m²)*	3 000	2 800
Supply**	4 %	3 %
Vacancy**	4 %	3 %

Comment: There is very little activity at Majorstuen. Vacancy remains low like it has for the past couple of years and construction activity is moderate. The owner of Fridtjof Nansens vei 12 is planning to demolish and erect a new office building of 16 500 m^2, which is currently under zoning. There are some major projects planned further into the future although these are at a very early stage. For example, Ruter recently handed in a proposal for the area above and around Majorstuen metro station, outlining a construction volume of between 72 900 - 103 700 m^2 (gross). It is unsure what will happen to NRK's HQ at Marienlyst, although residential is the most likely scenario. Valkyrien Shopping centre is currently under construction and is due to be completed in 2019.

CBD

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	2 900 – 3 500	2 800 – 3 500
Prime rent (NOK/m²)*	5 400	5 200
Supply**	7 %	10 %
Vacancy**	5 %	9 %

Comment: Office rents have increased substantially in this area in the past year, and the top rent is currently assumed at approx. 5 400 NOK/m^2. Area vacancy has decreased in the past couple of months, mostly because several small areas have been let out at Aker Brygge and Tjuvholmen. VIA is still in the demolishment phase and due to be completed in 2021. The project has secured several tenants including Arntzen de Besche and Thommesen. The refurbishment of Dronning Mauds gate 10 will be completed in Q3 2019.

KVADRATUREN

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	2 200 – 2 800	2 100 – 2 600
Prime rent (NOK/m²)*	3 400	3 200
Supply**	7 %	9 %
Vacancy**	3 %	4 %

Comment: There are a lot of ongoing refurbishments in Kvadraturen. Examples include Kongens gate 21, which will be completed in 2020, and Rådhusgata 5 due to be completed in the spring of 2019. Kongens gate 21 has secured Aller as an anchor tenant and more tenants are under way. HAV is still working on the zoning for Fiskebrygga, however the process has been troublesome due to various considerations in relation to the residential part. Kvadraturen has also been largely affected by the creation of car-free city centre, with possible problems with transportation and parking.

INNER CITY

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	2 400 – 2 800	2 400 – 2 800
Prime rent (NOK/m²)*	3 900	3 500
Supply**	3 %	7 %
Vacancy**	3 %	5 %

Comment: There are several new and exciting construction projects in the Inner City. Schweigaards gate and the areas surrounding Oslo Central Station particularly have many projects in the pipeline. Examples are Schweigaards gate 33 which will be completed in Q4 2018, Schweigaards gate 34 (16 500 m^2) which is currently under zoning and Schweigaards gate 35-51 which is also under zoning (20 000 m^2). Grünerløkka/Tøyen is also an area under development with Urtegata 9 (2020) and Sundtkvartalet, which was recently completed. In addition to these projects there is the new government quarter, however this is a long-term project.

**See definition of «normal» rent and prime rent on page 26.*
***See definition of supply and vacancy on page 18.*

BJØRVIKA

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	2 800 – 3 200	2 700 – 3 000
Prime rent (NOK/m²)*	4 200	3 800
Supply**	2 %	3 %
Vacancy**	2 %	3 %

Comment: With just 2 % vacant space, as most of the space under construction is pre-let, this area is the cluster with the lowest vacancy level. The area is home to large developments including the new construction project Eufemia, due to be completed in a few months. There are also several new projects currently at the planning stage comprising both office, residential and retail space. The area has also undergone a large cultural development with several new restaurant and bar concepts opening. Moreover, Deichmanske was completed earlier this year and the Munch museum will finalise in 2019.

NYDALEN / SANDAKER

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	1 700 – 1 900	1 500 – 1 700
Prime rent (NOK/m²)*	2 400	2 350
Supply**	3 %	6 %
Vacancy**	3 %	4 %

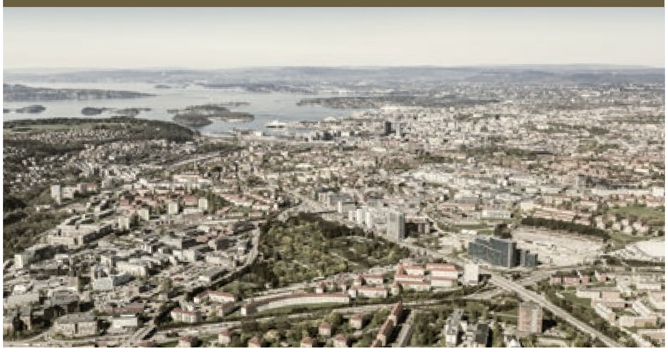
Comment: Nydalen is becoming an increasingly popular area, and we recently adjusted prime rent upwards to approx. 3 400 NOK/m². Vacancy has been low for a while now, and currently stands at 3.3 %. There are a lot of conversions and residential developments in Nydalen, especially in Sandakerveien. New construction projects include Vitaminveien 11 (2019) and Vitaminveien 4, which was completed earlier this year. A new cinema with 14 auditoriums opened in the spring of 2018 in Vitaminveien 27, occupying the whole of the basement in the new residential project at this site. There are also several new construction projects currently under zoning, for example at Gullhaug Torg 2A (4 500 m²) and in Sandakerveien 113-119 (17 000 m²).

ØKERN / LØREN / RISLØKKA

	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	1 000 – 1 500	1 000 – 1 500
Prime rent (NOK/m²)*	2 200	2 200
Supply**	23 %	23 %
Vacancy**	3 %	4 %

Comment: The area holds the largest volume of potential office construction, and supply is high due to multiple projects awaiting tenants in the pipeline. Lørenfaret 1 secured the anchor tenant Telia earlier this year and is estimated to be completed in Q1 2021. Lørenfaret 3 will be converted into a hotel, and hence diversify the development. Lørenveien 65 which was initiated on speculation, is still without a tenant and due to be completed in 2020. Earlier this year OBOS and AF Gruppen announced their plans regarding Construction City (2023), and recently it was announced that Betonmast would be joining them. Lastly, there are four stages remaining of Hasle Linje, compromising approx. 79 400 m2 in office space, the first one being the new Atea HQ in 2020.

BRYN / HELSFYR



	Per October 2018	Per October 2017
Normal rent (NOK/m²)*	1 600 – 1 800	1 500 – 1 700
Prime rent (NOK/m²)*	2 300	2 200
Supply**	16 %	24 %
Vacancy**	8 %	10 %

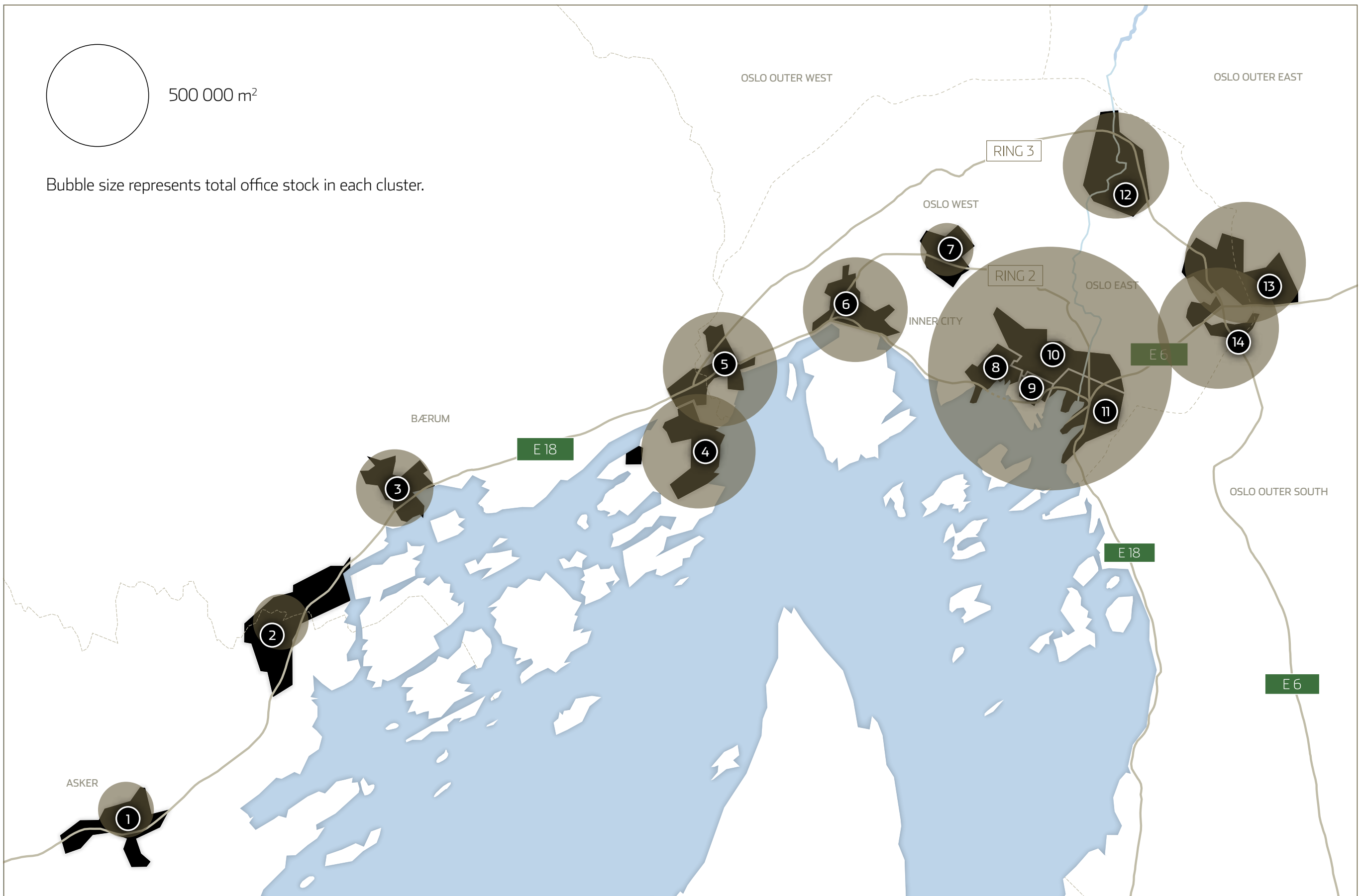
Comment: Vacancy at Bryn/Helsfyr decreased substantially in September after several small- to medium sized contracts were signed. Vacancy is however slightly up again in October (7.6 %) as several large spaces were introduced to the market, including Østensjøveien 14 (divested by NAF earlier this year) and Fredrik Selmers vei 5. Valle Wood, which will be completed in 2018, is still vacant although it is rumoured that the developer NCC may occupy the wood complex themselves. Eskalator (Østensjøveien 44) is still awaiting anchor tenants. Bryn/Helsfyr has the third highest volume of all the clusters, and there are many potential projects in the pipeline including the rest of the Valle project.

**See definition of «normal» rent and prime rent on page 26.*
***See definition of supply and vacancy on page 18.*

#	Office cluster	«Normal» rent*	△ Normal rent past 12 months	Prime rent**	△ Prime rent past 12 months
1	Asker	1 500 – 1 700	0 %	2 150	0 %
2	Billingstad	1 250 – 1 500	0 %	1 800	0 %
3	Sandvika	1 500 – 1 700	0 %	2 200	2 %
4	Fornebu	1 400 – 1 600	0 %	1 950	-3 %
5	Lysaker	1 700 – 1 900	0 %	2 350	0 %
6	Skøyen	2 100 – 2 500	12 %	3 100	3 %
7	Majorstuen	2 000 – 2 400	10 %	3 000	7 %
8	CBD	2 900 – 3 500	2 %	5 400	4 %
9	Kvadraturen	2 200 – 2 800	6 %	3 400	6 %
10	Inner city	2 400 – 2 800	0 %	3 900	11 %
11	Bjørvika	2 800 – 3 200	5 %	4 200	11 %
12	Nydalen / Sandaker	1 700 – 1 900	13 %	2 400	2 %
13	Økern / Løren / Risløkka	1 000 – 1 500	0 %	2 200	0 %
14	Bryn / Helsfyr	1 600 – 1 800	6 %	2 300	5 %

OFFICE RENTS: MALLING & CO ESTATE AGENT CONSENSUS (NOK/M²/YEAR)

Source: Malling & Co



* Normal rents reflect the interval where most contracts are signed in the specified market area.
**Prime rents is the consistently achievable headline rental figure that relates 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.

VITAMINVEIEN 4

Malling & Co Property Management has been commissioned the operational management of Workplace Oo, a 24 000 m² office building located at Storo, Oslo.

Illustration: Rift/Jostein Rønsen Architects

STAVANGER

Employment market back on track

With a strong oil price at between USD 70-80 per barrel, the Stavanger market is now finally turning in terms of employment. The market has been well known for alarmingly high office vacancy rates, especially at the office cluster Forus, and the positive momentum in the employment market will create a foundation for decreasing vacancy if the market remains on a growing trend. Despite the positive momentum, the market still has challenges with changed location preferences and hence a running discrepancy between the modern assets in the existing stock and the demand for office space in the city centre. This discrepancy is likely to be the reason behind increasing top rents in Stavanger CBD, while office rents at Forus remain at low levels.

The employment market

- The registered unemployment rate measured by the Norwegian Welfare Administration (NAV) showed unemployment at 2.6 % for Rogaland county in September 2018. The corresponding figure in September 2017 was 3.4 %, and in January 2017, 5.0 %. This massive and rapid reduction in unemployment is a much stronger decrease than we have seen in other regions and is a measure of increased activity in the region.
- Statistics Norway's (SSB) report on changes in employment (see page 8), confirms this trend in the region with the highest employment growth in the country, at 4.3 % from Q2 2017 to Q2 2018. The corresponding figure is 3.2 % for Oslo, which is second highest.
- The quarterly LFS survey from SSB is the third measure to confirm a rapid change in employment in Rogaland. Despite the measurement error in LFS-survey, it should be clear that the 6 % growth in employment since Q1 2017 should leave little doubt that the Stavanger market is changing.
- With the rapid increase in local employment and corresponding decrease in unemployment, the potential for further growth is still there, as the region's high concentration of Oil & Gas related business attracts workers from other parts of the country, as well as the rest of the world. This creates a potential above the residents of the region. We also see that the proportion of those employed aged 15-74 could increase compared to historic figures.

Office letting market

- Compared with the figures from our last report, vacancy in Stavanger has decreased somewhat from just below 15 % in April to just above 13 % in October for the whole region. Forus is standing out as the vacancy leader with an estimated 20 % vacancy in October 2018 compared to a 24 % vacancy measured in April 2018. There are still a few buildings that are not active in the market, and most of these are located at Forus where high vacancy rates create less motivation for landlords to actually compete with the already flooded office market. Other areas like city centre and Hinna are seeing normal vacancy rates of between 8 % - 10 %.
- We are still focusing on the fact that much of the vacancy at Forus is concentrated around a few very large assets. 15 buildings at Forus have 3 000 m² or more vacant space, and the total vacant space in these building amounts to approx. 140 000 m², or 80 % of the vacancy in this cluster. Leaving these assets out of the vacancy-equation would send the overall Stavanger vacancy down from just above 13 % to just below 6 %.
- Market rents at Forus are difficult to estimate with accuracy, as both tenants and landlords are creative in terms of tenant incentives. However, we are seeing some of the vacant space starting to be used by tenants with excess space, illustrating the increased demand from increased activity in the region.
- Compared to our previous report, we have adjusted rents in the inner city further upwards, as both availability and demand for newer high-quality space is increasing. Our top rent estimate in the prestige-segment now stands at NOK 3 100 per m², in line with top rents also seen in Bergen. Normal rents in the city centre have also been adjusted at the higher end to NOK 2 000 per m², as demand for the city centre is increasing.
- We are still seeing only a few large searches for office space, but we expect activity to increase as lease contracts expire over the coming 24 months. Since May, we have seen two office searches above 3 000 m², by Santander Consumer Bank and Evry. It is also likely that tenants will wait to increase lease liability until they know that the market will remain at a high activity level. Continued high oil prices may support decisions to increase staffing and lease more space.
- Assuming existing office stock is stable, and strong growth continues, we may see office vacancy rates reaching normal levels in 2020. However, future demand in the highly cyclical and volatile Oil & Gas sector will create uncertainty. There is also a risk that a booming market will kick off new office projects in the market as developers scramble to ride the upswing, just like we have seen in this market before.

New Developments

- SR-Bank's new HQ is currently ongoing, due to be finalised in 2019.
- Sola Airport Arena (3 000 m²) was finalised early October and Atea has moved in.
- Construction of Byfjordparken (Tenants BI Business School and Stavanger municipality) is under way. Completion of the first step is scheduled late 2018, and the second step in 2019.

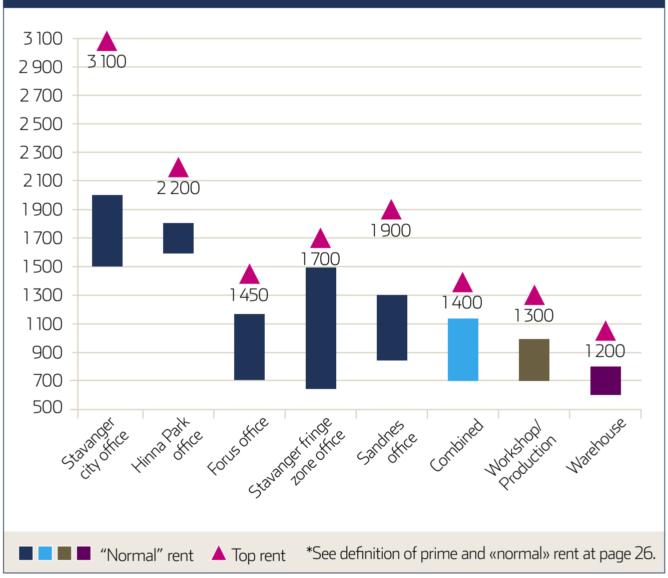
Investment market

We have registered just above NOK 4.1 billion in transaction volume for the year to date, divided across 13 transactions (above NOK 50 million). This is lower than the same period in the past four years, but the number of transactions is the same as last year. The increased activity within the Oil & Gas sector has prompted investors to return to the region, and sellers have responded by putting several properties on the market over the past quarter. The interest from the investors is especially focused around the city centre, or long lease properties.

Major recent transactions in the region

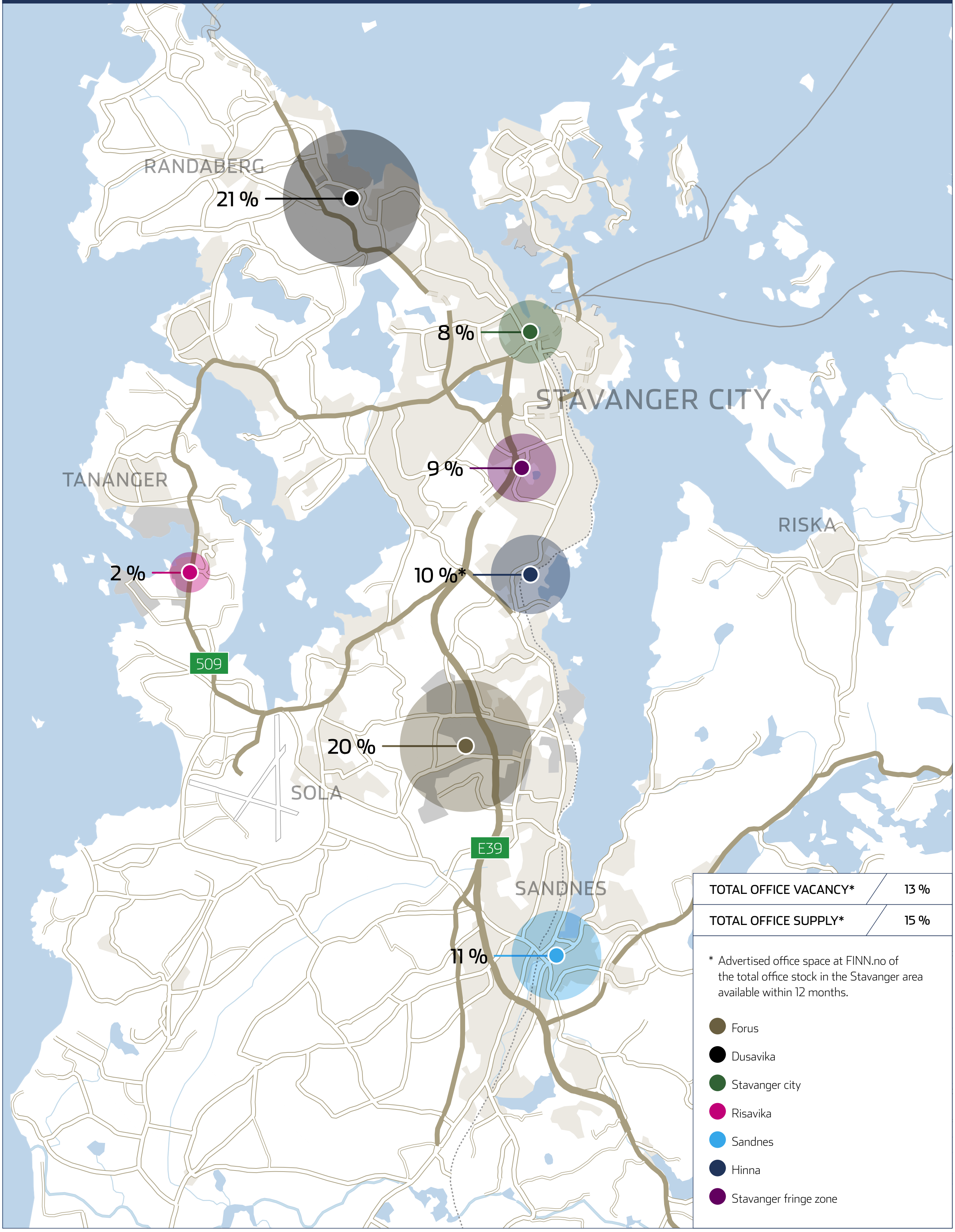
- The retail and office building Hospitalsgata 6 in the city centre has been sold for an estimated MNOK 90 to Stavanger Retail. The property is about to be vacated, and the new owners will have to find new tenants.
- Smedvig Eiendom has acquired the NAV office in Sverdrupsgate 27 from Partners Group. NAV vacated the property at the beginning of October, and the new owner will have to renovate the 3 200 m² building.

INDICATIVE RENTS IN THE STAVANGER REGION DIVIDED INTO AREAS AND SECTORS (NOK/M²/YEAR)



Source: Malling & Co

OFFICE VACANCY*



Source: Malling & Co/FINN.no

DRAMMEN

Our Drammen office continues to experience a high level of activity in the region, although at a slightly slower pace than experienced over the past two years. The city is located less than 40 km west of Oslo, and can be categorised as something between a city and a suburb of Oslo. The city capitalises on its seaside location and role as a hub for both railways and the main road systems connecting all major cities and densely-populated areas on the west side of Oslo. The total stock of 1 300 commercial properties in the Drammen area (including Nedre Eiker and Lier) comprises around 750 000 m² of office space, 600 000 m² of retail premises and 800 000 m² of industrial/logistics/mixed-use premises. Vacancy in Drammen is around 6 % for both office space and for industrial/logistics premises.

The rental market

Leading indicators show a varying market attractiveness across the Greater Drammen region, but the ongoing city development and the large public infrastructure investments are driving a good activity level in several of the market segments.

Office

The past six months since our previous report has seen increased demand from larger tenants. There are three main drivers for this increased demand; Several large leases expiring at the same time in the near future, restructuring of public offices and a higher interest from tenants currently located outside the region. These tenants are typically looking for office space close to public transport hubs, efficient floor plans, a diverse and rich common area and properties with high environmental standards. Attributes that have been rare to find in a single property in Drammen until now. We also register that that smaller office tenants tend to look for co-working concepts. These tenants are looking for the higher flexibility than the traditional leases have been able to offer, as well as the generally higher quality common areas and functions that come with the co-working concepts compared to traditional office properties. In the longer term we expect the available square meters to come up as well, as several of the larger office development projects at Strømsø are completed, leaving older inefficient space vacant.

Logistics

There are several relocation projects in business in the region due to transformation processes from typically space demanding activities to a higher and better utilisation of properties in the more central areas. Examples of this transformation is the relocation and development of the new regional hospital at Brakerøya and the future development of the "Fjord city" concept at Brakerøya and Lierstranda. The region has historically been characterised by low vacancy in this segment, and the demand has been good. However, several of the regions current tenants are struggling with the new projects being constructed to replace the current stock being costlier than the premises they are currently residing at. There is however still a steady demand from tenants in the Oslo region seeking mixed use properties with a strategic location along the Western corridor with immediate access to the main throughways creating beneficial distribution channels for the flow of goods.

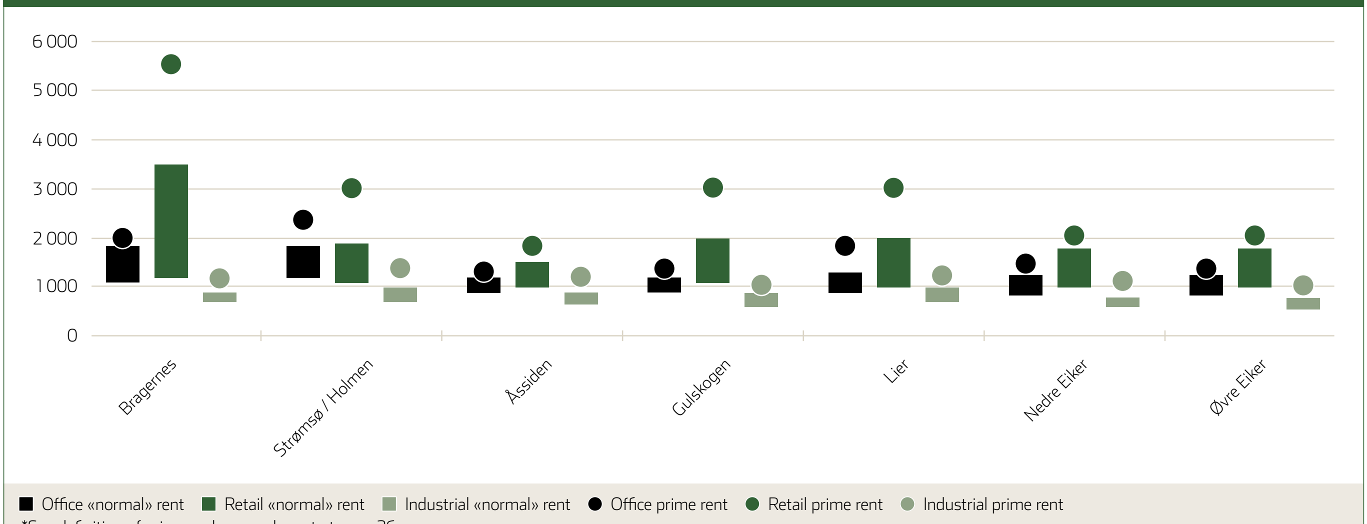
Retail

There are several larger development projects in the Greater Drammen region. The degree of tenancies filled for commencement of construction has been reached for Sølvparken at Kongsberg, a project with a total GLA of 10 000 m² of retail space. For space intensive retail there are several good plots of land available in the region, but the margins for developing these sites are in many cases too marginal for the sites to be realised at this time.

The transaction market

Although the year was off to a bit of a slow start, the activity level in the transaction market has picked up. The vacancy for mixed use properties is still relatively low in the region, making them very attractive for investors. Especially those with a high degree of storage combined with a little office space, has been very sought after. These properties are mostly located in the fringe areas and along the main throughways. Another segment that has caught the attention of investors seeking exposure in the region is development and value add properties. The potential upside and possibility to affect the value drivers for properties has become more and more important for the investors as the opportunities for creating value through yield compression has passed. But the investor universe is broadening in Drammen, and the competencies and investment strategies are following suit. The local investors have become larger and are able to lift projects that would previously be preferred by larger national investors. As the number of large investors has increased, we have thus seen fewer available projects as the demand has risen. This has led to more local investors now seeking exposure outside of the city, taking the demand to larger areas within the greater Drammen region. The financial- and national investors are also involved in this, although they will tend to only seek out these opportunities if they have a critical mass of economic

INDICATIVE RENTS IN THE DRAMMEN REGION – OFFICE, RETAIL AND INDUSTRIAL (NOK/M²/YEAR)



*See definition of prime and «normal» rent at page 26.

Source: Malling & Co

size. As these investors do not have any local property management in place, they tend to acquire these services from external providers. And this has led to more properties being professionally handled, increasing the stock of investment grade properties as the standard of the properties are maintained at a high level.

Land

The demand for land is very high. Over the past few years there has been a large-scale sale of available plots Røyken Eiendom in the 400 000 m² logistics and industrial property project at Follestad. The site is now complete and all the plots have been sold. Plans for a new 130 000 m² development at the new site E has been prepared, and there are already reservations for 106 000 m².

Demand for land remains stable, but due to limited supply close to the city we are observing new builds on plots for mixed-use premises being pushed out of Drammen to neighbouring municipalities in the direction of both Eiker and Røyken.

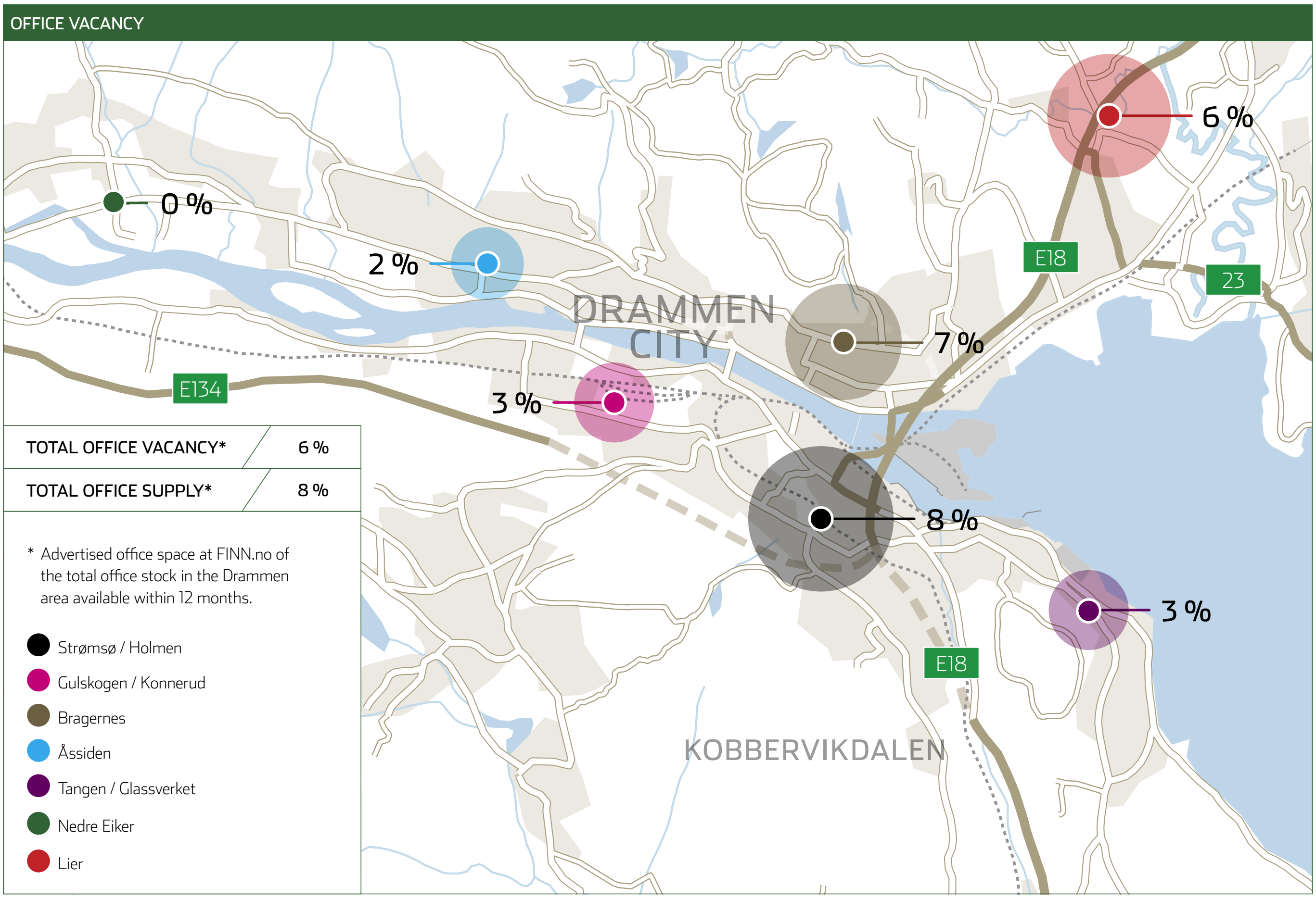
As we have mentioned in previous reports, a number of large private and public projects previously in the planning phase have now been firmed up and construction is under way. The projects cover a wide variety of segments, and the development of new rail links and stations, the new hospital at Brakerøya, the new hotel – Quality Hotel River Station – and the adjoining Drammen Station Business Centre around the train station are now taking shape. Adjacent to the hotel there is also a new project coming up, the 13 500 m² Drammen Business Center (DBC), a 13-story office building available for rent. In the context of Drammen, these are very large projects, and the positive impact on the boroughs of Drammen City that they are a part of will be significant. In addition there is a plan to construct a new city bridge which will connect Bragernes and Strømsø further. Multiple projects are al scheduled to be completed in 2025, and the development towards this milestone year will be substantial.

Latest transactions

- Dråpen 6 og 9 in Kobbervikdalen, a 40 000 m² development property located along E18 has been sold from Peri Norge AS to a group of local investors.
- A new build of 3 600 m² in Kobbervik Næringspark with a 10 year lease with ABB has been sold from Drammen Kommune Eiendomsutvikling to Fevang Eiendom.
- A new build of 4 800 m² in Gjellebekkstubben 3 at Liertoppen with a 13 year lease with Optimera, that will house Monter and Flisekompaniet, has been sold from Bergø Eiendom AS to a local investor.
- A 4 000 m² mixed use property in Dansrudveien 75 in Kobbervikdalen with long leases with Holtefjellgruppen and Utleiesenteret has been sold form Holtefjell Management AS to a Clarkson Platou syndicate.

Latest lease agreements

- Røyken Næringspark, a mixed use building, will see Scandia Maskin move into a total space of roughly 6 000 m²
- Sølvparken at Kongsberg has leased out 2 200 m² to a national grocery store chain
- Old Irish Pub has signed a lease agreement for 600 m² in Amtmand Blomsgate 2
- Relacom AS has signed a lease agreement for 700 m² of mixed use space in Industriveien 14



Source: Malling & Co/FINN.no

PRINSENSGATE 25

Malling & Co Leietakerrådgivning has advised Swims on their new flagship store in Prinsensgate 25, a deal which also includes offices and showroom facilities.

Photo: Mona Ødegård


SWIMS

OSLO RETAIL

This summer we reported on a flattening retail volume index and a steep online shopping index, which is still the case in October. The online shopping index has increased with approx. 6.6 % since 2017, while traditional retail has increased by 1.3 %. In certain areas retail vacancy is increasing as many stores have shut down without being replaced by new tenants, and there has been an increase in store bankruptcies. Many are talking about the apocalypse of the retail industry, and it is certainly undergoing some very large structural changes, retail in Oslo being no exception. These structural changes are also discussed further in our special topic section at the end of this report.

E-commerce puts pressure on high street shopping

The structure of retail is changing. Shopping by going to a physical store is becoming redundant for many products due to the ease of ordering goods online. Problems earlier associated with e-commerce has been mitigated by flexible and cheap (for the customer) options for package returns. Looking at the sales index below it is clear that online shopping is becoming more dominant and is absorbing most of the growth. This trend is also affecting the high streets of Oslo, and vacancies are rising. Bogstadveien/Hegdehaugsveien for example, has seen many store closures over the past year, and landlords are having trouble finding tenants for their largest retail units.

Stable growth in the F&B segment

The interest and priorities of the average consumer is changing, as millennials are increasingly dominating the working population. For example, while traditional retail is experiencing difficulties, sales in food and beverages (F&B) grew by 9.6 % from 2016 to 2017 in Oslo (Oslo Handelstandsforening, 2017). Food court concepts are especially trending, with several new concepts already open in Oslo and more coming. For example, Oslo Street Food is opening at Torggata Bad early next year. Moreover, specific locations in Oslo are becoming synonymous as restaurant/bar areas, and experimental concepts such as Foodtech at Youngstorget is very popular. There are also plans to reorganise the retail section at Aker Brygge, by for example introducing refined fast food and take out. These events reflect a change in how consumers are prioritising how they allocate their disposable income.

Politics affecting traditional retail

The earlier mentioned influences are extremely important "push factors" in the changes we are seeing now. There are however other influences affecting store profitability too. Political factors such as creating a car-free city centre, high tolls and less parking might affect the footfall in popular high street areas. The full effect on retail profitability is however difficult to estimate. The implementation of the car-free city centre has already begun and will continue in 2019. Another political factor is the impact of tax-exemptions on goods ordered on foreign websites for less than 350 NOK, which is incentivising consumers to shop online. It is for example important to note that foreign websites are dominating domestic websites in e-commerce (Virke, 2018).

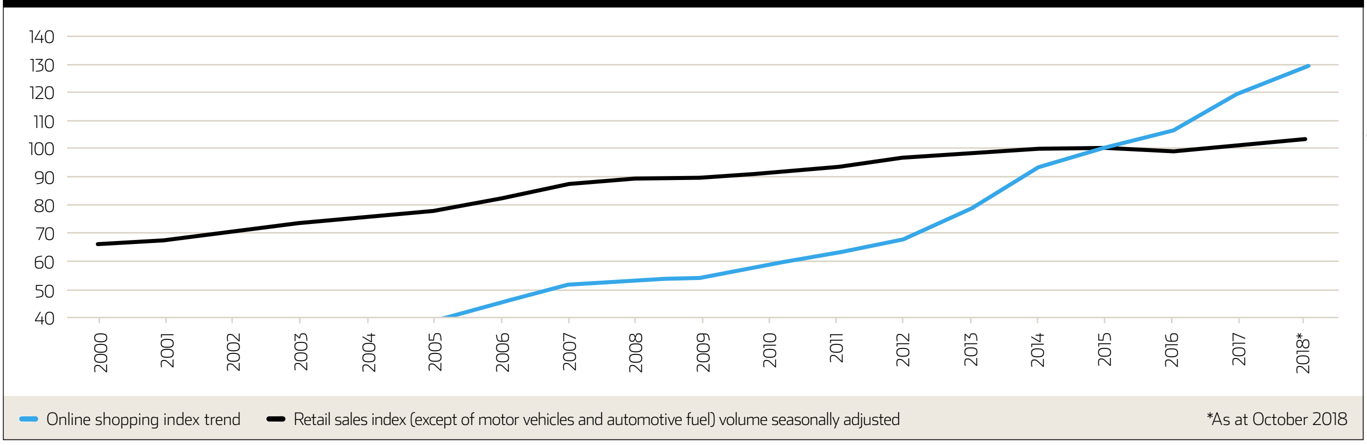
Retail rents are decreasing

Although the retail market is undergoing some large structural changes, our experience is that there is still high activity in the Oslo market. However, increased competition amongst retailers is sifting out the smaller and less flexible brands to the benefit of the stronger ones. These tenants are still there, looking for exposure through physical locations. There is however a gap between what the tenants are willing to pay and the landlords' expectations. The challenges faced by traditional retail has put downward pressure on tenants' willingness to pay, especially for larger units. This gap is creating a lag in the market, increasing vacancy temporarily, while the parties adjust to each other's demands.

Examples of ongoing developments and openings in high street retail

- & Other Stories and Arket are opening at Valkyrien in 2019
- The Danish organic brand Aiayu recently opened in Hegdehaugsveien
- Moncler and Jimmy Choo has opened in Nedre Slottsgate and Valentino is opening soon
- Follestad is opening in Akersgata 35
- Power is opening in Lille Grensen 5
- Polestar is opening a showroom in Øvre Slottsgate 7
- The Danish furniture designer Alton & Heim is opening in Stortingsgata 30
- F&B openings
  - Oslo Street Food is opening in January/February 2019 at Torggata Bad
  - Maaemo are expanding to a new and larger location at Munchmuseet
  - Døgnvill bar and restaurant recently opened in Bjørvika
  - Katla recently opened in Universitetsgata
  - The new luxury dining concept Einer has opened in Prinsens gate
  - A new social house called "Bygdøy Alle 3" has opened at Bagatelle's old location

RETAIL SALES (EXCL. AUTOMOBILE SALES) AND ONLINE SHOPPING INDEX, 2015 = 100

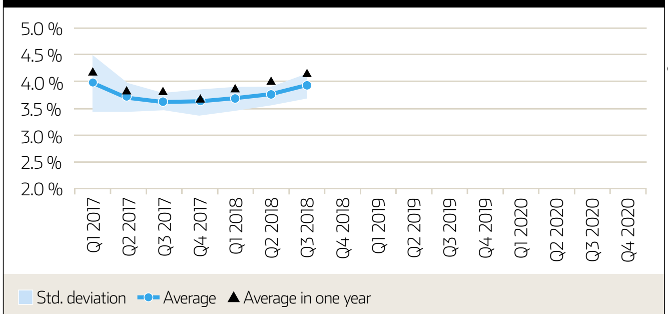


Source: Statistics Norway

AKERSGATA 35-39

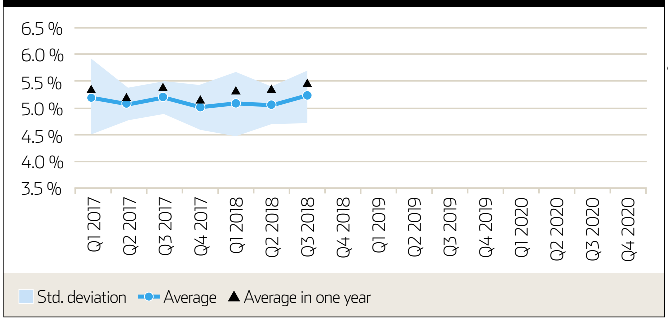
Malling & Co Næringsmegling has leased 945 m² retail space to Follestad in Akersgata 35-39 in Oslo city center on behalf of Storebrand.

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME HIGH STREET RETAIL



Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL HIGH STREET RETAIL



Source: Malling & Co

Illustration: SLA

INDUSTRIAL & LOGISTICS

The most popular kid on the (high) street

And now we found the through

The transaction market for core logistics properties continues to be a hot commodity among investors while we have seen the prime yield come up 10 bps to 4. 90 % from the historic low yield level of 4.80 % in Q2 of this year. Our survey-based investigation of the yield levels indicates that this increase in prime yield is likely to continue a little further, and we will probably see an additional increase of 5–10 bps in a year's time. The number of industrial transactions for the year to date is 39, comprising around NOK 14.7 billion in total, of which logistics alone comprises NOK 7.2 billion. And the investor appetite does not seem to faint. We expect the strong demand from investors, especially financially driven, to continue well into 2019.

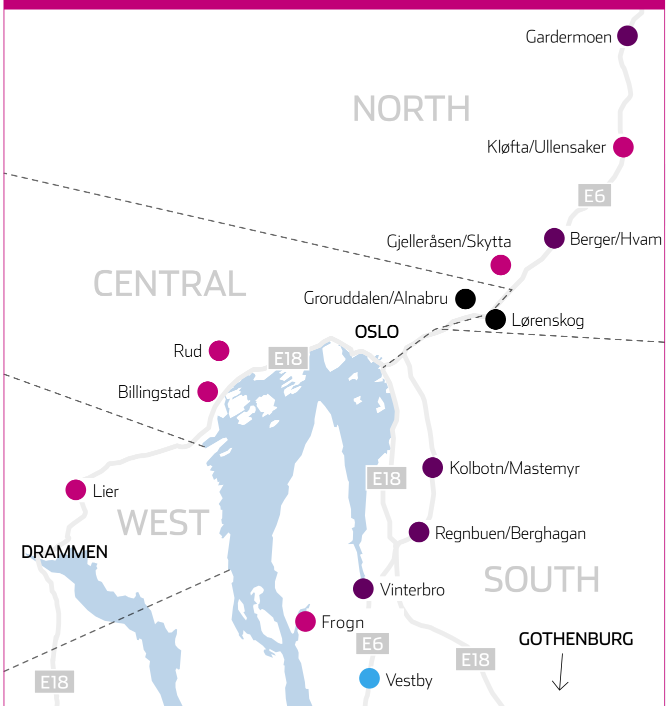
Location, location, features

The vacancy in our defined logistics clusters and areas in Greater Oslo is 6.2 %. In perspective, this is a vacancy level just above the vacancy seen in the Oslo office market. Further division into our four defined sub-divisions shows a vacancy of 4.2 % in the Northern region, 12.9 % in the Southern region, 6.3 % in the Western region and 3.8 % in the Central region. Yet we are unable to find any evidence of the low vacancy level in Oslo creating upwards pressure on rent levels like we have seen in the office market when reaching these relatively low vacancy levels. On the contrary, most established logistics hubs continue to see a flat development in rents. As we mentioned in our last report, we believe this is due to the characteristics of the logistics market. Many properties are custom built for large tenants from the ground up, on attractive vacant plots of land where economies of scale play a significant role. This is contrary to office vacancy/rent dynamics, where the most attractive product in the most in-demand area is Oslo city centre, a place where plots of land are by and large already developed and opportunities for limitless expansion are few. So although we are seeing many companies expanding their current premises or developing new sites, supply remains ample and rent levels continue to be a factor of the price of construction and financing terms. Our rent estimate for prime logistics spaces remains firm at NOK 1 250 m²/year. We are however possibly seeing movement in the normal rents on good properties with flexible space and good infrastructure, where we believe that the rent "floor" is increasing. Making the lowest rents increase is also a positive sentiment for investors, as this shift in the rent levels has a higher impact on a higher share of the overall market than the prime segment alone. The demand for logistics is the antithesis of the diminishing interest in retail, as many see the growth in e-commerce as a direct link to the structural challenge in traditional retail. We would however like to caution this development to be read as a "carte blanche" to increase investment exposure in the logistics segment. There are still drivers behind the development that we see as creating a larger divide between good and bad logistics properties in the future. Tenants have, in the greater scheme of things, opportunities to be selective when choosing their next location as the potential supply side is very large. Our belief is that the most central areas adjacent to Oslo city centre already experiencing high demand with very little available space will continue to be the key hubs close to which logistics operators and owners will have to be located in order to gain a competitive advantage over second tier locations. Other areas might be more susceptible to tenants preferring to change locations at the end of their lease, to properties that suit their needs at the point in time where they need to decide between renewing an existing lease or moving to a new location.

Mapping of the Greater Oslo logistics market

Our extensive mapping of the logistics market in Greater Oslo, and our creation of a database of all the logistics clusters and large stand-alone properties, continues to be refined and developed, and we plan to utilise our findings to answer the questions regarding the future of logistics raised above. The estimated total stock of warehouses and logistics properties in our defined areas comprises 3.2 million m² gross lettable area (GLA), with a total identified lot size of 8.11 million m². This property mass will develop and form the legacy upon which the future of the logistics market in the Greater Oslo region will be based and develop.

LOGISTICS CLUSTERS IN GREATER OSLO



INDICATIVE RENTS INDUSTRIAL/LOGISTICS (NOK/M²/YEAR)

Area Category	Ceiling 4-6 metres (heated, high standard)	Ceiling > 6 metres (heated, high standard)
●	900 – 1 000	1 150 – 1 250
●	700 – 900	800 – 1 150
●	700 – 900	750 – 1 000
●	400 – 700	550 – 850

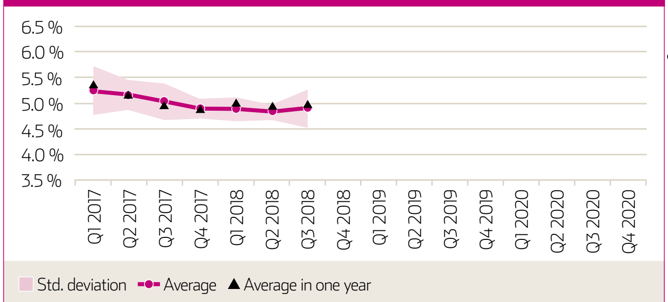
Special fit-outs for requirements not covered in a standard building will be added to the rents above based on an annuity calculation, with an interest rate typically within 6-8 %. The rent is set based on tenant solidity and usefulness for other tenants. The annuity length is based on the lease length. Examples of special fit-outs include: Floors capable of handling heavy loads, automated storage systems, air and climate specifications (e.g. fruit storage and freezing), cranes and other fixed machinery, etc. Properties with cross-docking capabilities generally command higher rents, often linked to land prices and current yields, but as a rule these buildings are generally 30-40 % more per m² than a regular storage unit.

Source: Malling & Co

TORGARDSVEIEN 16

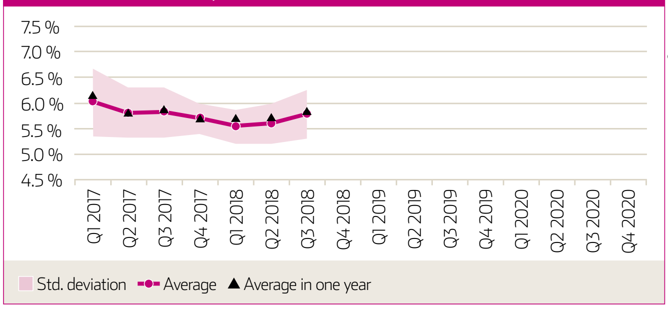
Malling & Co Eiendomsfond has acquired an industrial/logistics property of 6 195 m² with a 16 year lease to Nortekstil at Torgård in Trondheim.

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME LOGISTICS



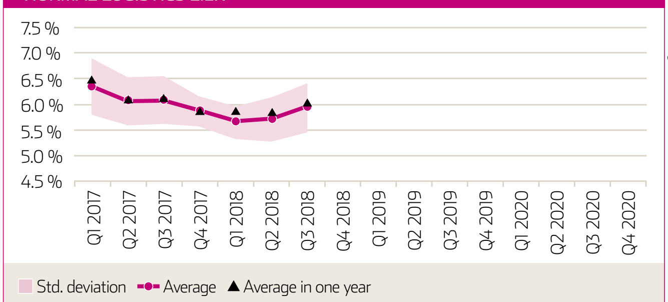
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL LOGISTICS KLØFTA



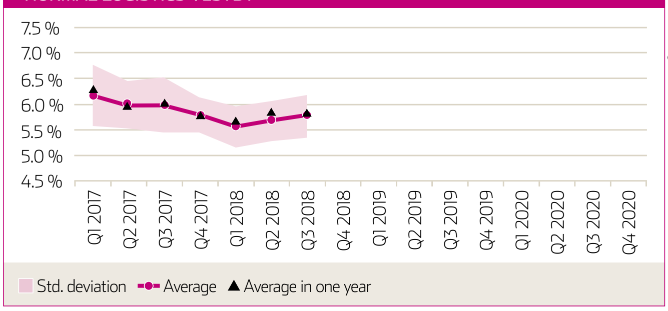
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL LOGISTICS LIER



Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL LOGISTICS VESTBY



Source: Malling & Co

THE TRANSACTION MARKET

The pipeline is filling up

So far this year we have registered a total transaction volume of NOK 56.5 billion*, divided across 179 transactions*. A very active finish to the first half of the year was followed by a very calm period over the summer, leaving some to speculate if the market was cooling off in part due to the increases seen in the interest rates. But, the strong pipeline we mentioned in our previous report has materialised and the market is now buzzing with activity in what we believe will be a very strong fourth quarter to finish the year on a high note. So far, the market's tendency has been to shrug off any notion of an interest rate increase being fully applied to yield levels. Our latest transaction survey on yield levels reveals a flat development for office, and only minor adjustments for logistics. Retail, on the other hand, has seen an upwards trend in yields, one which has increased in strength since our last report. But, in our view, this has nothing to do with increasing interest rates for investors, and everything to do with the structural challenges faced by retail in physical stores. With these underlying drivers we predict that Norwegian CRE will be well on the way to achieving our full-year estimate of NOK 80–90 billion for 2018.

Banks are very active, but bonds are at a crossroads

In our previous report we asked the question whether bank or bond financing would lose interest in exposure towards commercial real estate towards the end of the year. As we are well into the fourth quarter, we think it is safe to say that the banks are the most willing source of debt capital for commercial real estate. However, the bonds market is still in play, although some of the traditional buyers of CRE bonds have been reducing the amount of new bonds they take on as they deal with regulatory requirements governing the weight of capital that must be held on balance sheets for CRE bonds. The bond market has also seen a shift from offering durations of up to 10 years to now offering just 3-5 years. Another challenge for bond financing is that bonds typically involve a break cost and a reduced buyer universe if the property is sold before bond maturity.

The total combined cost of financing since our last report six months ago remains at a low level, as reduced margins has, to a large degree, offset the interest rate increase over the same period. The outlook for the financing market is still looking solid, although there are some indications that a marginal increase in the total combined cost of financing interest rates will be observed on the back of the key policy rate increase, the spread of which the reduction in margins will be unable to cover.

Value creation through rent increases, not yield compression

Following our survey-based investigation into yield levels for Q3 2018, we estimate prime office yield at 3.75 %. This is a flat yield development since our last report and in line with expectations from the survey. Going forward, the investor sentiment is that we will see an increase of roughly 15 bps on the prime yield towards the summer of 2019, which is also in line with our previous findings from the survey as well as our fundamental research on future yield development. For normal office yield, developments have remained stable for now, with Helsfyr, for the first time, finding the spot 5 bps lower than at Lysaker with 5.05 % and 5.10 %, respectively. However, the gap between the two looks set to widen slightly in the future, as normal office yield at Lysaker is expected to increase by 15 bps to 5.25 % over the next 12 months, while Helsfyr is only expected to increase by 10 bps to 5.15 % over the same period. The corresponding prime yields for Lysaker and Helsfyr are 4.50 % and 4.30 %, respectively. The low levels as seen in office yield in Oslo has had a trickle-down effect on long lease office properties in second and third tier cities, where we have seen yield levels drop towards 5.00 % in third tier cities.

In terms of logistics, we have seen prime yield come back up slightly by 10 bps to 4.90 % compared to the historic low of 4.80 % in Q2 2018, and we expect a further 10 bps rise over the next 12 months to 4.9 %. Yield levels for normal logistics have followed a similar trend, and is slightly up from the record low levels seen in Q2 2018, with expectations of further increases over the 12 months. Our estimate for the average normal yield is now 5.80 %, and we expect to see a further 5-10 bps increase over the next 12 months. The logistics segment has also reported the best performance in the transaction market this year, alongside office, and the strong demand from investors has been evident from the investment volumes.

Overall, both office and logistics yields have seen marginal increases in the bigger picture, and compared to increases in interest rates, the yield gap has narrowed further. We can thus safely conclude that this cycle of value creation through yield compression is over, although there is still value to be created and investors remain keen in seeking out vacancy or short lease opportunities that they believe they can quickly translate into higher rents and lower vacancies.

Retail is quite the different picture in today's market. The structural challenges in the segment is translating into higher yields and lower rents, and the yields are increasing much faster than any interest rate effect alone could explain. Our transaction survey and internal research and analysis all point to the same conclusion. Prime yield for high street retail has come up 30 bps to 3.90 % in under a year, and the outlook is suggesting another 25 bps increase over the coming 12 months. Normal retail yields are not faring much better at the moment, having come up 20 bps since the bottom to 5.20 %, and expected to increase by another 25 bps over the coming 12 months.

Office space and industrial lead the way

Office space is the primary segment with a 40 % market share, slightly below the long-term historical average of around 45 %. While Oslo is still the main market, there is still high demand for prime office properties in second and third tier cities. Industrial premises are still highly sought after, and the segment has a 27 % share of the transaction market so far this year, and logistics alone is making up around 14 % of the transaction volume this year. Retail has on the other hand continued to lose market share of the total volume every year since 2015, and is now making up only 15 %, down from a 34 % share in 2015.

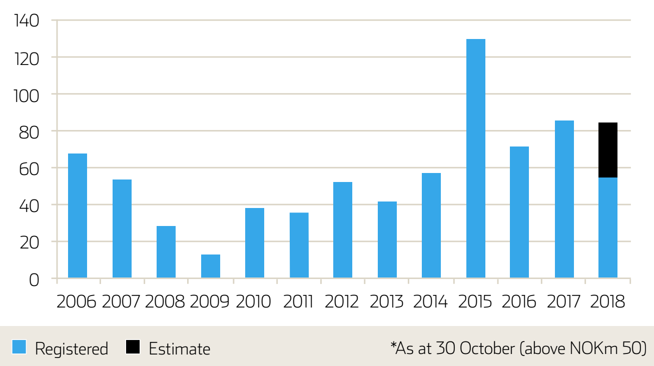
SELECTED MAJOR TRANSACTIONS 2018

PROPERTY (ADDRESS/NAME)	TENANT	SELLER	BUYER	SIZE (NOK MILLION, PROPERTY VALUE)
Alna Senter	Multiple	Aspelin Ramm	Joh. Johannson Eiendom	Est. 2 000
Fyrstikkalleen 1 - Forward	NAV, Statens Vegvesen, Lånekassen	Ugland, Otterlei, Vedal, Agner	Arctic	1 920
Helsfyr Atrium	Multiple	Starwood	Tristan	1 200
Brynsveien 1-13	Multiple	Multiple owners	Entra	1 100
Barcode basement	Multiple	OSU	KLP	829
Fredrik Selmers Vei 2	NAV, et. al.	Clarkson Platou	Pareto	336

Source: Malling & Co

*As at 30 October (above NOKm 50)

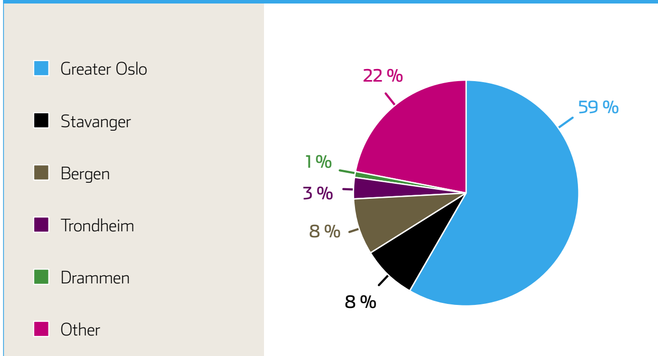
VOLUME DEVELOPMENT IN NOK BILLION* (TRANSACTION VOLUME LARGER THAN NOK 50 MILLION)



*As at 30 October (above NOKm 50)

Source: Malling & Co

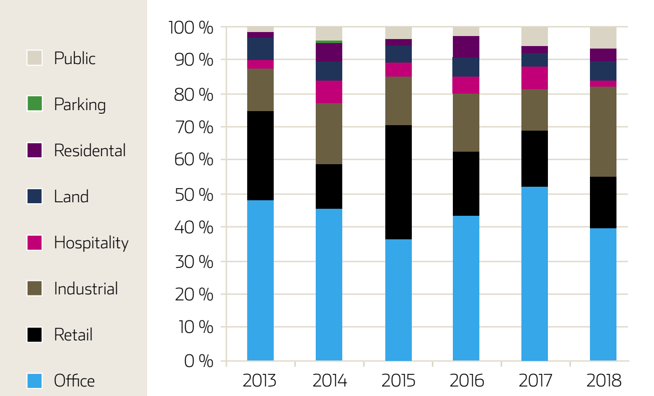
REGIONAL SPLIT OF THE TRANSACTION MARKET 2018* BY VOLUME



*As at 30 October (above NOKm 50)

Source: Malling & Co

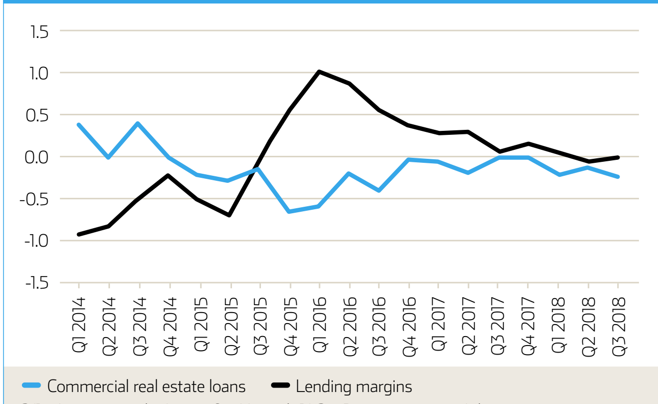
PERCENTAGE SPLIT TRANSACTION VOLUME BY SEGMENT 2018*



*As at 30 October (above NOKm 50)

Source: Malling & Co

FINANCING CONDITIONS (NET SURVEY RESULTS 3 MONTH CHANGE)



2/1 = Increasing a lot/some, 0 = Neutral -1/-2 = Decreasing some/a lot
Figures represent strength of cumulative answers from all participating banks

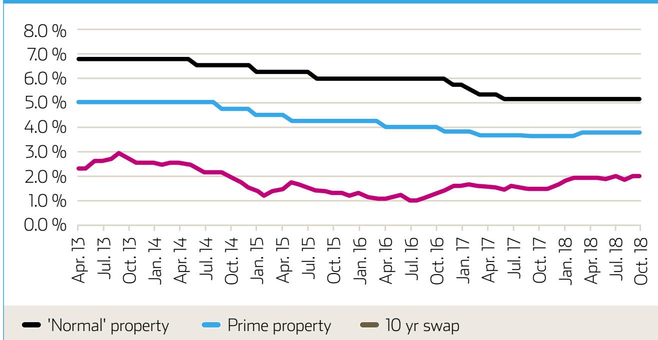
Source: Norwegian Central Bank Lending Survey

NET PRIME YIELD IN SELECTED EUROPEAN CITIES

CITY	PRIME YIELD (OFFICE)	Δ FROM LAST REPORT
Munich	2.90 %	▲ 0 bps
Paris	3.00 %	▲ 0 bps
London	3.25 %	▲ 0 bps
Amsterdam	3.25 %	▼ 50 bps
Helsinki	3.50 %	▼ 50 bps
Vienna	3.50 %	▼ 25 bps
Stockholm	3.50 %	▲ 0 bps
Milan	3.50 %	▲ 0 bps
Oslo	**3.75 %**	**▲ 0 bps**
Copenhagen	4.00 %	▲ 0 bps

Source: Malling & Co / Savills

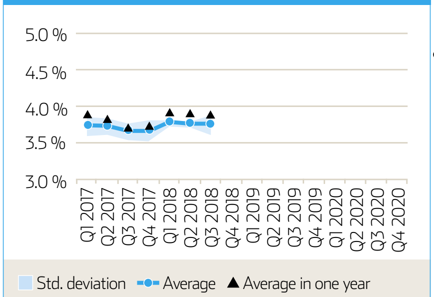
YIELD DEVELOPMENT PAST 5 YEARS



Definition: Normal yield is defined as the net yield of a well maintained building situated in the fringe zone of Oslo with strong tenants on a 8 year lease contract.

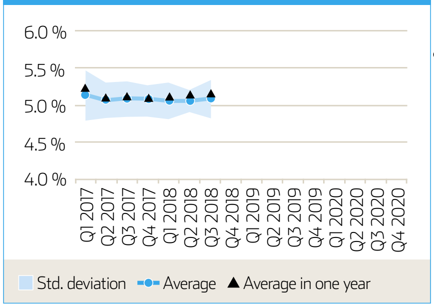
Source: Malling & Co/DNB Markets

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME OFFICE



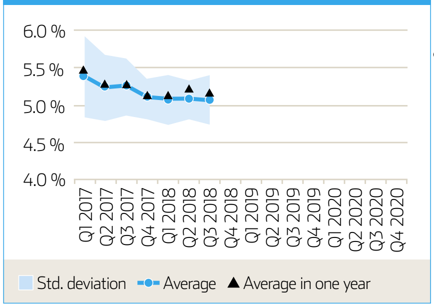
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL OFFICE LYSAKER



Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL OFFICE HELSFYR



Source: Malling & Co

SPECIAL TOPIC

The retail apocalypse

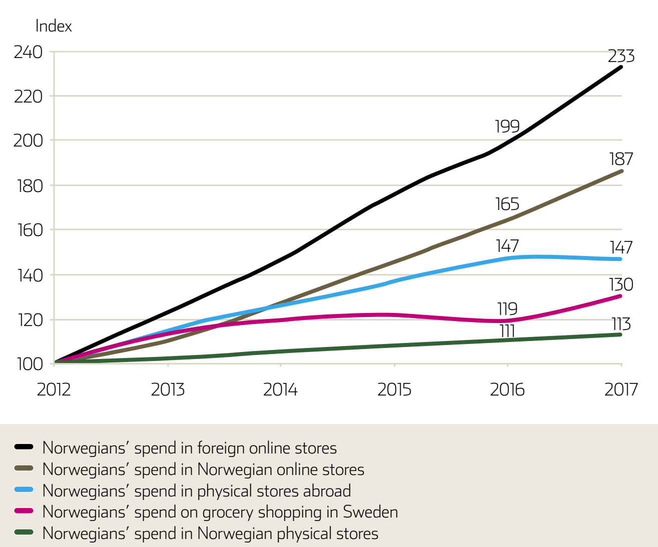
Norwegian consumers' shopping habits are changing. Bankruptcy and significantly lower turnovers among the biggest retail companies create uncertainties about the future of the industry. Consumers are embracing e-commerce on behalf of physical stores, creating structural changes in the retail industry in Norway and abroad. It is not without reason Hovedorganisasjonen Virke in its latest retail report has named the current period "The retail apocalypse". How will these changes affect the value of retail property?

CAMILLA THUNES
SENIOR ANALYST
MALLING & CO

Physical store sales have stagnated, and many segments are experiencing zero or negative growth in real terms. According to Virke, turnover in physical stores on average increased 2.4 % annually from 2012-2017, equivalent to zero growth adjusted for inflation. In 2017, annual growth was the poorest, only 1.74 % nominally, which in real terms is a marginal decline. Segments like clothing/apparel, shoes and electronics are struggling the most, and it is probably not random since these are among the most popular segments online.

There is no doubt that Norwegian consumers are changing their shopping habits and prioritize differently than before. Physical ownership to goods and products is less important and consumers will rather spend their money on experiences like travelling and fancy restaurants. Statistics from 2012-2017 clearly show this trend: In the same period that physical store sales increased 2.4 % annually, Norwegians' spend on travel and vacations increased 10 % annually (excl. business travel), and turnover at Norwegian restaurants and bars increased 6 % annually. In addition, Norwegians are to a greater extent taking advantage of the sharing economy. According to Nordea, one out of three Norwegians has leveraged services like Airbnb and Uber. Within the younger group, aged 26-39 years, this share is significantly higher at 47 %. New concepts are continuing to pop up, expanding the sharing economy's service offerings, challenging traditional retail industry. Two Norwegian examples are "Nabobil", offering members to lend out and lease cars from other members, and "Fjong" providing lending and leasing of female high-quality clothing, bags and accessories.

DEVELOPMENT PER SALE CHANNEL, INDEXED (2012 = 100)



Source: Handelsrapporten 2018/2019, Virke (Virke analyse, Statistics Norway, Norges Bank)

Alternative sales channels are also putting significant pressure on physical stores. E-commerce has grown to be an efficient and user-friendly sale channel and is by many customers perceived as a cheaper alternative than physical stores. E-commerce can also offer "24/7" opening hours, a larger product selection and still very cheap international import of products (incl. shipment) below 350 NOK. Norwegians' love for e-commerce is clearly proved by the development in turnover. According to Virke, Norwegians retail spend in domestic and foreign online stores has on average increased by 13.3 % and 18.4 % respectively each year from 2012-2017. In addition to e-commerce, Norwegians' grocery shopping in Sweden is increasing at a high pace. From 2012-2017 annual growth rate was 5.4 % on average, and in 2017 alone, the growth in spend from Norwegian customers was 9.2 %. This is more than five times as much as the increase in domestic grocery spend of 1.8 % in 2017.

Alternative sale channels are pressuring physical stores in several ways, challenging both top and bottom line. Beyond the most obvious, "stealing" turnover, they also challenge cost structures, especially fixed costs. One example is e-commerce companies, often operating with lower fixed costs than traditional retailers, due to fewer employees, cheaper premises etc. The pressure on both turnover and costs increases the level of competition in the industry, resulting in lower margins for traditional physical stores who are struggling to keep up with the alternatives.

Owners of commercial retail property should fear lower margins among physical stores. Lower margins will reduce tenants' ability to pay their rents, and consequently also reduce expected rent in the future. Many retailers pay their rents based on turnover, and when turnover declines, the same applies for rents. As margins decline, it is also expected that physical store retailers will reduce their number of stores and space, resulting in lower demand for retail premises. This will push rent levels further down, especially for properties outside prime areas. Lower rent levels will also affect yield expectations, resulting in a "double hit" on retail property value. In a simplified example where rent is reduced 5 % and yield increases from 5.00 % to 5.25 %, the property value declines 10 %, illustrating that relatively moderate changes in rent and yield have a significant effect on the property value.

Investors' uncertainties about the future of retail is clearly visible in the market. In the UK, annual retail investment volume has declined every year since 2014, with a total decline of 36 % from 2014 – 2017 according to Savills Research and MSCI. The hardest hit was in 2017, where retail investment volume decreased 25 % compared to 2016. The last years yield development substantiates the scepticism for retail. While office and logistics have seen yield compressions and relatively flat development in most countries, retail properties have seen increased yield levels several places. In Norway, prime yield for retail properties has increased significantly more than for prime office and logistics the last year, according to Malling & Co's Transaction survey Q3 2018. While prime yields for office and logistics have increased 10 bps since its bottom in Q3 2017 and Q2 2018, prime yield for retail has increased 30 bps. This trend is expected to continue, with prime yield for retail projected to increase 25 bps the next year (from Q3 2018 – Q3 2019), and prime yields for office and logistics projected to increase 15 bps and 5 bps respectively. If these expectations are realised, prime yield for retail will experience an increase of 55 bps from the yield bottom in Q3 2017 to Q3 2019, 2-4 times as much as the equivalent increase for office and logistics at 25 bps and 15 bps respectively.

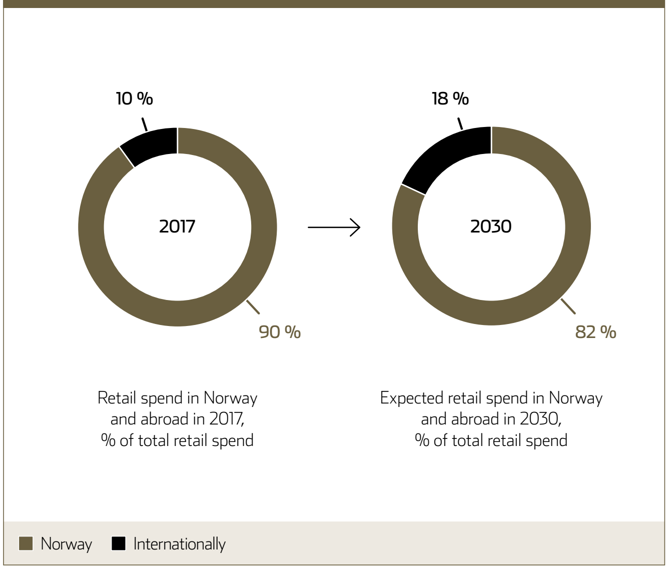
At a time where Norwegian consumers have experienced historically low interest rates, the labour market has improved, and the Norwegian economy is in a cyclical upswing, it is a structural change we see when traditional retail is struggling. Higher interest rates combined with high debt levels and expected continued growth of e-commerce of 10-15 % p.a. and shopping in Sweden and other foreign countries of 5 % p.a., leaves little room for improvements for Norwegian physical retailing in near future. Reduced retail rent levels, and hence decreasing property values must be expected.

But even though there are dark clouds in the horizon, we believe some retail properties will stand the bad weather. The best retail properties at prime locations might see higher property values as location will become increasingly important as number of stores are reduced and as retailers will seek locations to meet consumers outside of the virtual world. Secondary retail properties that are losing their tenants can, at best, try to survive as pick-up points or logistic hubs in a retail industry where e-commerce is taking the lead. But owners would have to accept significantly lower rent levels and consequently, lower property values.

EXPECTED ANNUAL GROWTH IN NORWEGIAN RETAIL SPEND 2017–2030 (%)

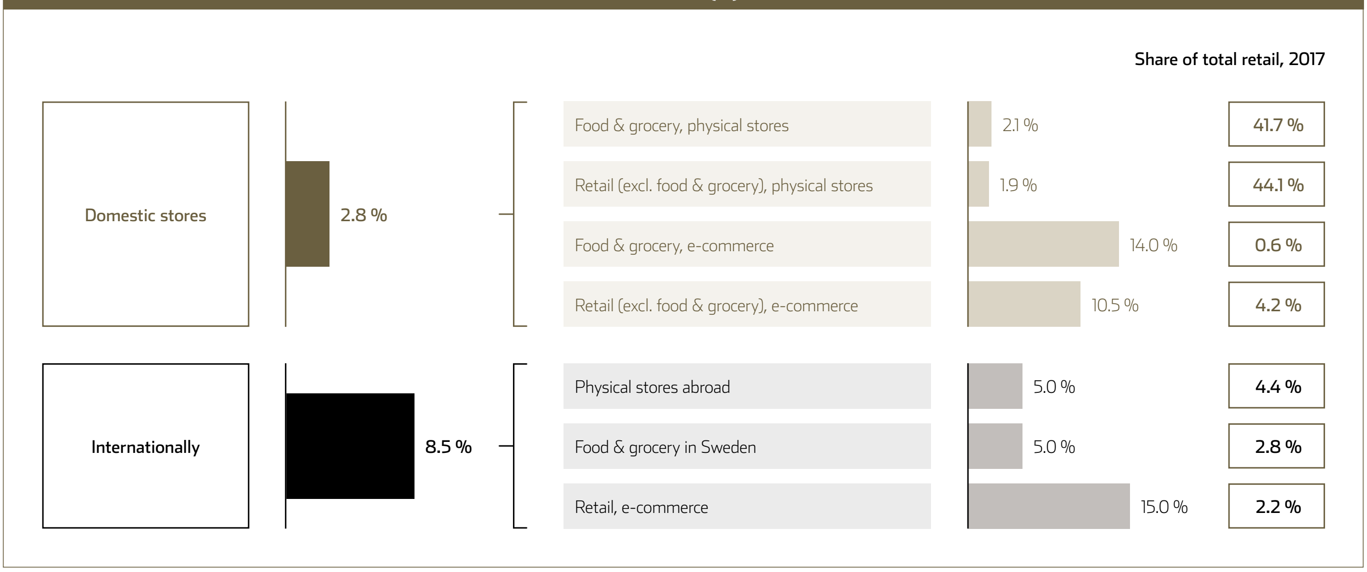
Source: Handelsrapporten 2018/2019, Virke (Virke analyse)

ALLOCATION OF NORWEGIAN RETAIL SPEND (% OF RETAIL SPEND)



Source: Handelsrapporten 2018/2019, Virke (Virke analyse)

EXPECTED ANNUAL GROWTH IN NORWEGIAN RETAIL SPEND PER SEGMENT 2017-2030 (%)



Source: Handelsrapporten 2018/2019, Virke (Virke analyse)

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