MALLING & CO

Market report

Winter 2020/2021

Virus measures fuelling CRE-appetite

While the Covid-19 pandemic was turning everything around in our previous report, the situation has now become a more "natural" part of our lives. Central banks and governments across the world are doing their best to maintain activity with monetary, fiscal and regulatory measures at an unprecedented scale. Despite new lockdowns and an increasing risk of a second economic slump across many European countries, the real estate market remains strong. Inflation hedged cash flows and extremely low interest rates are just too attractive to overlook for both institutional and financially driven investors. The prospects of a vaccine that is now likely available in the spring of 2021 could stimulate the insatiable CRE-appetite further.

Anders Berggren
CEO, Eiendomshuset Malling & Co

Over the past months, the real estate sector has taken a new course. While the investment market almost came to a complete halt during the first lockdown in March and April, it gradually picked up speed before the summer. From the end of summer and into autumn, investors' risk appetite started to pick up once again. With the Norwegian Central Bank cutting the key policy rate right down to 0 % in May, the temperature in the investment market is reaching boiling point. Activity is now even set to challenge the investment volumes seen last year. Who would have dared to guess that back in March!

Office and logistics are sectors surfing the investment wave. Record-low interest rates have pushed yields down with incredible speed compared to the rest of Europe. The yield difference with other key European cities' prime office yields has finally come down. Our Q3 investor survey and evidence in recent deals have pushed our prime office yield estimate down to 3.25 %, from 3.65 % in our previous report. The appetite for prime logistics is also gaining even more momentum. Tenant demand driven by supply chains shifting towards increased e-commerce, together with the general interest rate decline, is also compressing yields in this segment. Our survey respondents are also signalling further compressing forces on yields ahead.

On the leasing side, the office sector is now facing more challenging times with a turn in the employment cycle from rise to fall. Typical office-using sectors have been hit relatively mildly so far, although tenants in the process of large leases have been reluctant over the past two quarters due to the risk of a wider downturn. However, many of the delayed processes have been signed recently or are set to be signed during Q4, saving the overall activity for the year.

While some fear possible structural changes in the office sector due to more employees working from home, we see a weak employment market as the main risk. Research shows that home offices may not be beneficial for organisations at a scale strong enough to make a structural shift in office demand. With the office construction pipeline relatively low and an employment market that is expected to bounce back as the pandemic is gradually kept under control, we believe there will be a relatively short period of decreasing office rents. It should be noted, though, that the significant yield compression seen over the past quarters is an additional factor in reducing breakeven rents in new office developments, which may retain rental growth in office clusters with a large development pipeline.

We hope you enjoy our latest market report. As introduced in our previous report, we have the pleasure of including a market update on Bergen, in addition to Stavanger and Drammen, supplied by our regional contact WPS Næringsmegling. 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, leasing services, valuations, technology advisory and property - and asset management.

Editing completed: 18 November 2020

Macro — Global

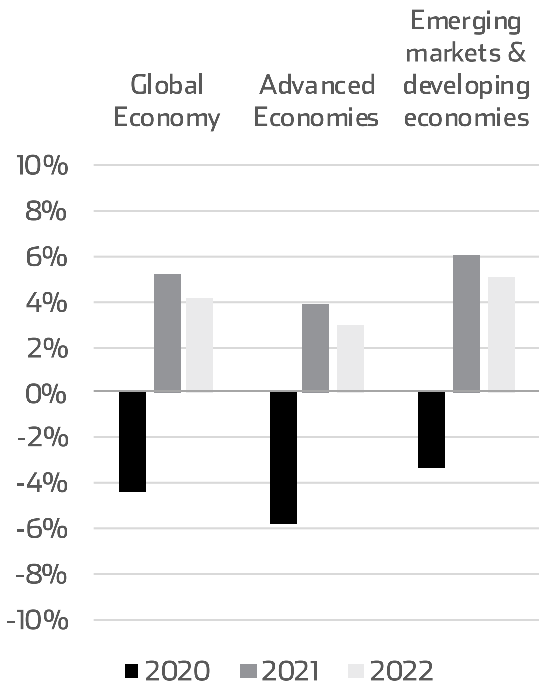
Economies steadily climbing out out of depths, but prone to setbacks

After a few months of trying to climb out from the depths to which the global economy plummeted under the Great Lockdown, many economies are now reinstating full or partial lockdowns in response to the resurge in Covid-19 cases. Although newly imposed measures are in most cases less severe than in the spring and companies are better prepared, many fear that the current situation will pull the global economy back into negative growth territory.

GDP growth projections

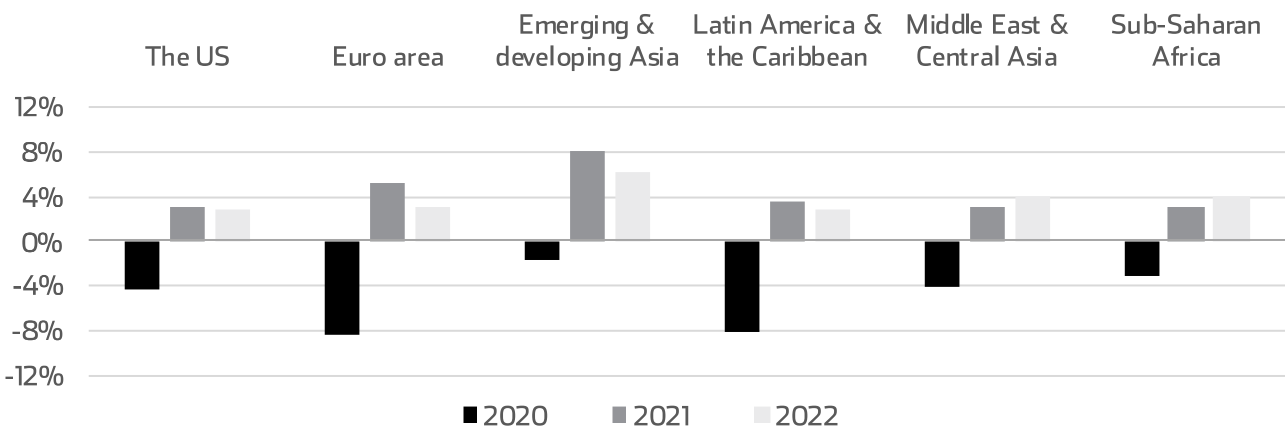
While the recovery in China has been quicker than expected, the global economy's ascent back to normal activity levels is highly vulnerable and prone to setbacks. With the Covid-19 pandemic continuing its resurgence, many countries have reinstated partial or full lockdowns. In their latest WEO from October, the IMF projected global growth to be -4.4 % in 2020, which is a much less severe fall in economic activity than what the organisation predicted in June. The upwards revision was prompted by higher than expected GDP outturns in Q2, mostly in advanced economies. The IMF further predicted global growth to be 5.2 % in 2021, resulting in a total GDP level only a modest 0.6 % above that of 2019. After the rebound in 2021, the IMF forecasts global growth to slow towards 3.5 % in 2025. However, there is unusually high uncertainty tied to the projections of global growth. The latest IMF WEO projection assumes a continuation of social distancing well into 2021. However, with economies such as the United Kingdom, Germany, and France currently going back into lockdown, markets have become increasingly pessimistic. Thus, the October projections may already be out-of-date. Although the new measures are considered less severe than in the spring and companies are better equipped to cope with the disruption, many expect the downturn, especially in the service part of the economy, to pull the Euro area back into negative growth in the fourth quarter.

GDP Growth projections, by world and economy type, % change



Source: IMF WEO (October 2020)

GDP Growth projections, by region, % change



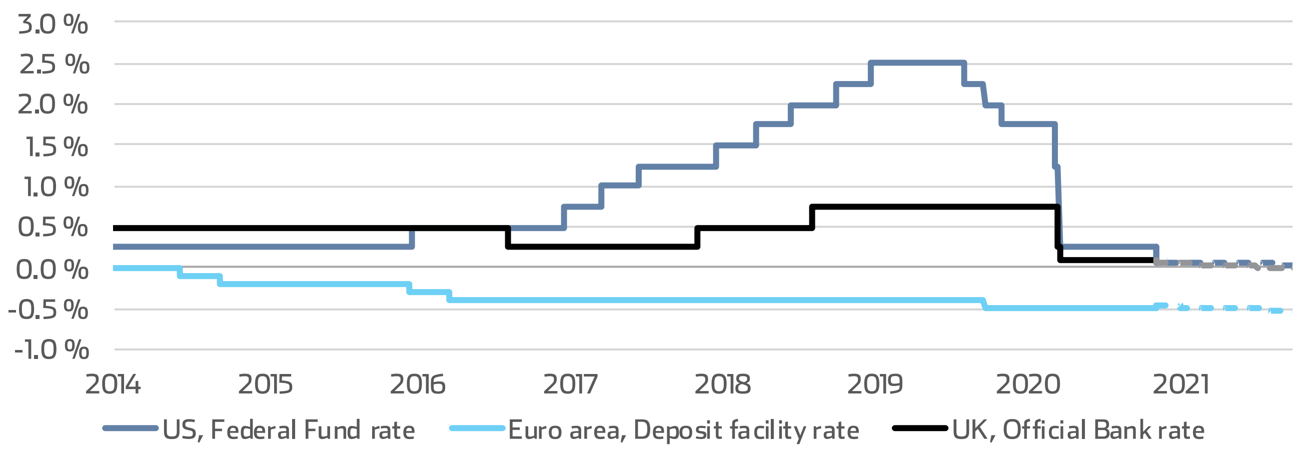
Source: IMF WEO (October 2020)

Monetary and fiscal policy

Despite an economic downturn of historic proportions, outturns would have been much weaker if it were not for sizable and unprecedented fiscal, monetary, and regulatory responses from governments and central banks across the world. These responsive measures have to a large extent managed to support credit provisions, maintain households' disposable income and protect company cashflows. However, with a second wave of lockdowns, further responses will likely be necessary. There is currently much uncertainty related to the second fiscal stimulus package in the US, due to Republicans and Democrats disagreeing on its size. Fiscal stimuli in the US is thus dependent on the winning candidate and on which party dominates the Senate following the presidential election on 3 November. The US Federal Reserve implemented its new average inflation target (AIT) strategy in September and adjusted its forward guidance accordingly. Further monetary stimuli from the Fed is expected to await the outcome of the election and consequently the fiscal stimuli package. Having already reduced the targeted federal funds rate range to 0-0.25 % and ruled out negative rates, any potential further stimuli is expected to include higher asset purchases.

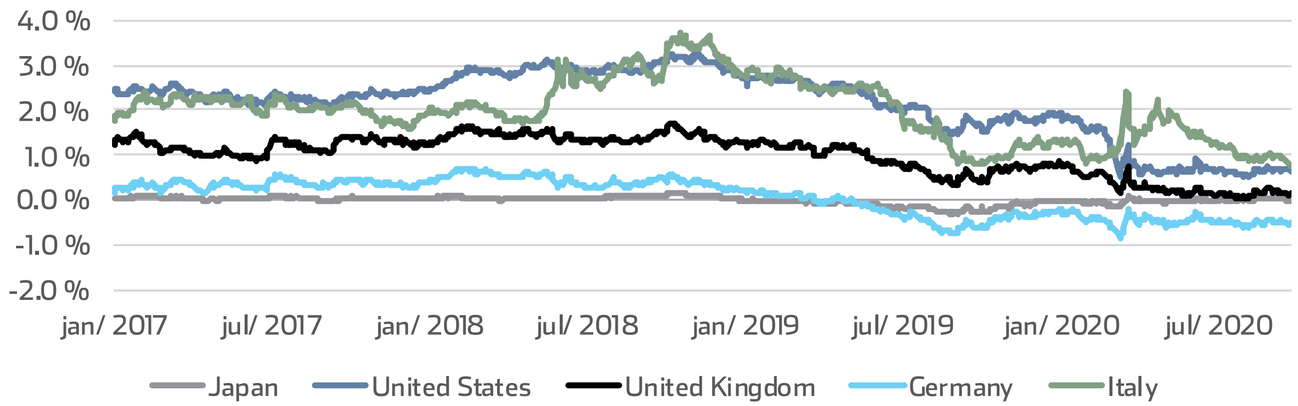
In Europe, the ECB left rates unchanged at 0.00 % (main refinancing operations), 0.25 % (marginal lending facility) and -0.50 % (deposit facility) in October and stated that it would keep its asset purchase programme at EUR 1.35 tn for now. The ECB signalled that additional stimulus may be introduced in December as the pandemic resurges and new lockdowns rip into the economy. However, growing deflationary concerns in the Euro area indicate that the ECB may need governments to provide additional fiscal stimulus before boosting its monetary stance further. As for the UK, many expect the Bank of England (BoE) to increase its asset purchases following the recent announcement of a second lockdown. In addition to a record-high number of Covid-19 cases, the economy is also suffering from continued Brexit uncertainty weighing on activity. Although the BoE has not entirely ruled out negative rates, most expect the official bank rate to remain at 0.10 % for the foreseeable future.

Monetary policy rates and IMFs policy rate expectations, %



Source: IMF WEO, Refinitiv

10-year Government Bond Yields, %



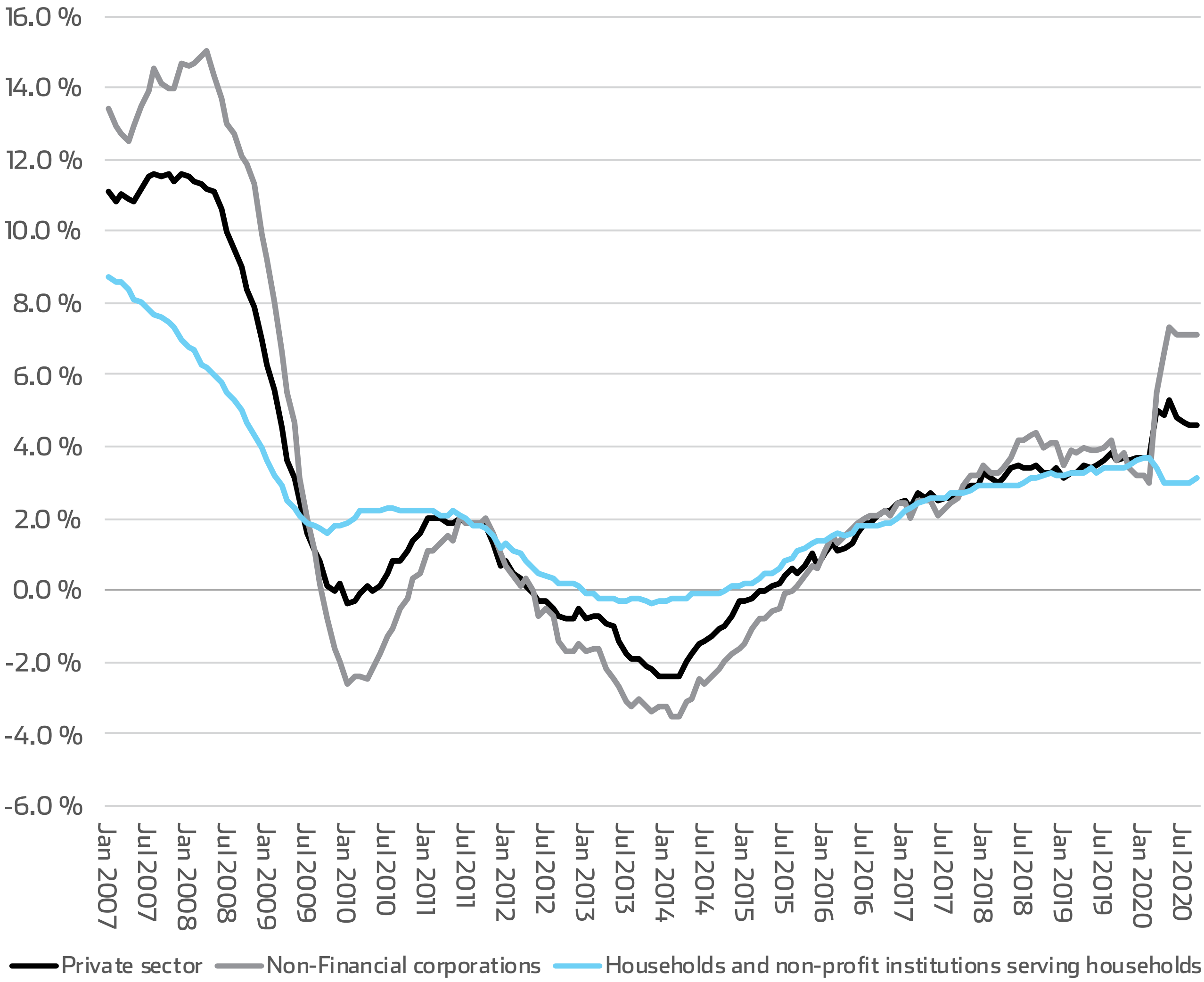
Source: IMF WEO

Financing

One of the larger risks currently associated with economic activity going forward comprises the financial market sentiment and its implications on global capital flows. A recent survey conducted by the European Central Bank (ECB) indicates that banks are pulling back from lending to European businesses and households. The survey found a tightening of credit standards on loans to firms in the third quarter, indicating credit risk considerations related to the pandemic and its resurgence. Moreover, the survey uncovered lender concerns tied to the prolongation of fiscal support measures, as certain sectors are expected to struggle for years to come. Separate ECB data shows that the overall money supply in the Euro area increased to 10.4 % in September, from 9.5 % in August, which is the highest annual growth rate since the 2008 financial crisis. Household deposits have risen rapidly, growing by 10.5 % in September, which may indicate nervousness among consumers. As for lending, the annual growth rate of loans to the private sector grew by 4.6 % in September. The annual growth rate of loans to non-financial corporations was 7.1 %, while the growth in household loans was 3.1 %.

"One of the larger risks currently associated with economic activity going forward comprises the financial market sentiment and its implications on global capital flows."

Adjusted loans to the private sector, annual growth rates, %



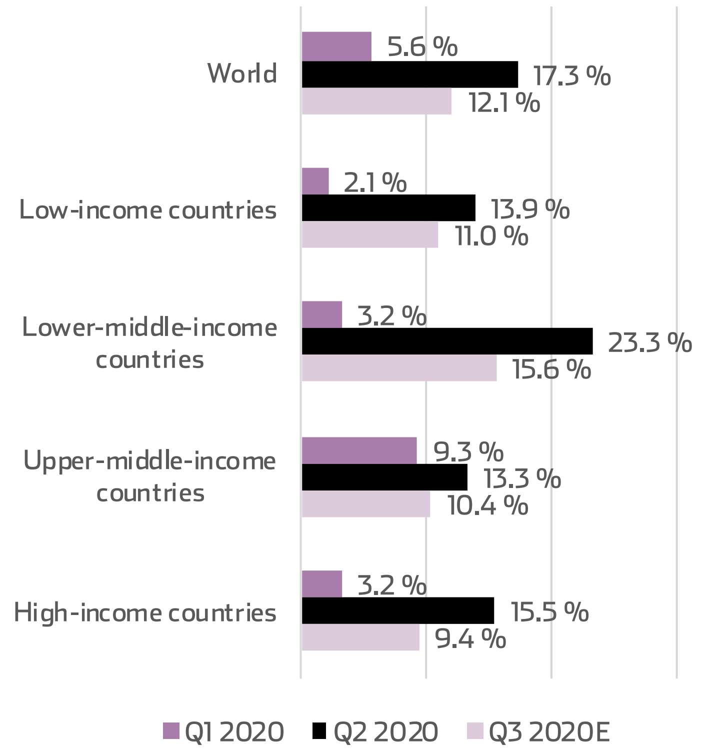
Source: Eurpean Central Bank

Labour markets

Workplace closures continue to disrupt labour markets around the world, leading to working-hour losses that are even higher than previously feared. The most recent ILO Monitor report (September) estimates that loss in total working-hours in Q2 relative to Q4 2019 is now at -17.3 %, down from -14.0 % as estimated in the preceding report, equalling 496 million full-time equivalent (FTE) jobs. The ILO Monitor expects working-hour losses to remain high at an estimated -12.1 % in Q3 relative to Q4 2019, while Q4 losses currently is estimated to amount to -8.6 %, or 245 million FTE jobs. Working-hour losses are found to be reflected in both higher unemployment and inactivity. The Americas are expected to remain the most affected region in Q3, with a decline in working-hours of 19.8 %. Arab States as well as Europe and Central Asia comes in second and third with an estimated loss of 12.4 % and 11.6 % respectively.

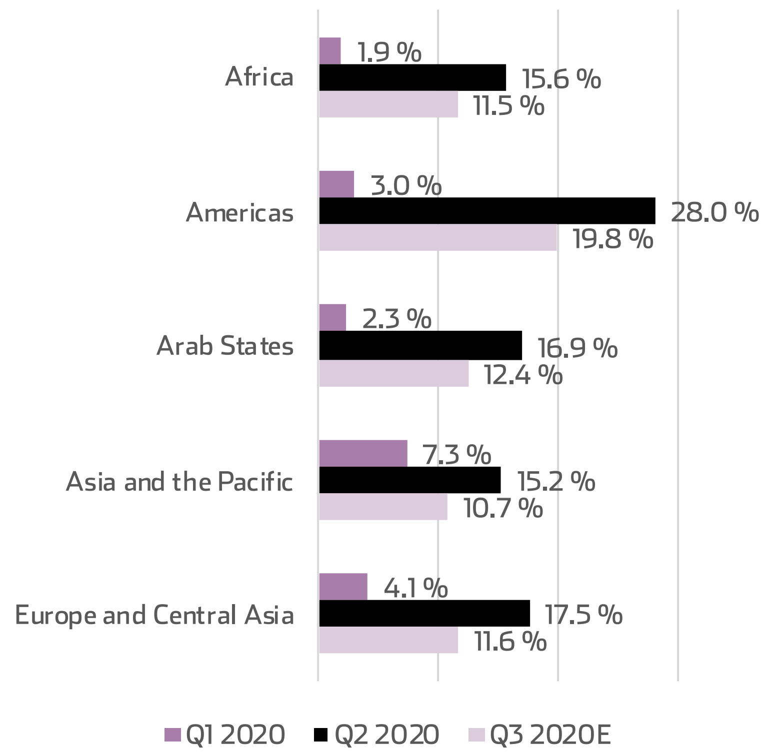
Working-hour losses translates into substantial losses in income for workers globally. To put these losses into perspective, the ILO Monitor estimates that global losses in labour income in the first three quarters of 2020 amount to USD 3.5 trillions, which is equivalent to 5.5 % of global GDP for the first three quarters in 2019. If losses are not mitigated either by new income or responsive measures, households being pushed into poverty may increase, consequently decreasing consumer demand. With the current resurge resulting in a second round of lockdowns all over the world, risk is on the downside and working-hour losses may become more severe than last estimated.

Working-hour losses, world and income group, Q1-Q3 2020, relative to Q4 2019, %



Source: International Labour Organization / ILO Monitor: Covid-19 and the world of work

Working-hour losses, by region, Q1-Q3 2020, relative to Q4 2019, %



Source: International Labour Organization / ILO Monitor: Covid-19 and the world of work

Macro — Nordics

"A Long and Difficult Ascent"

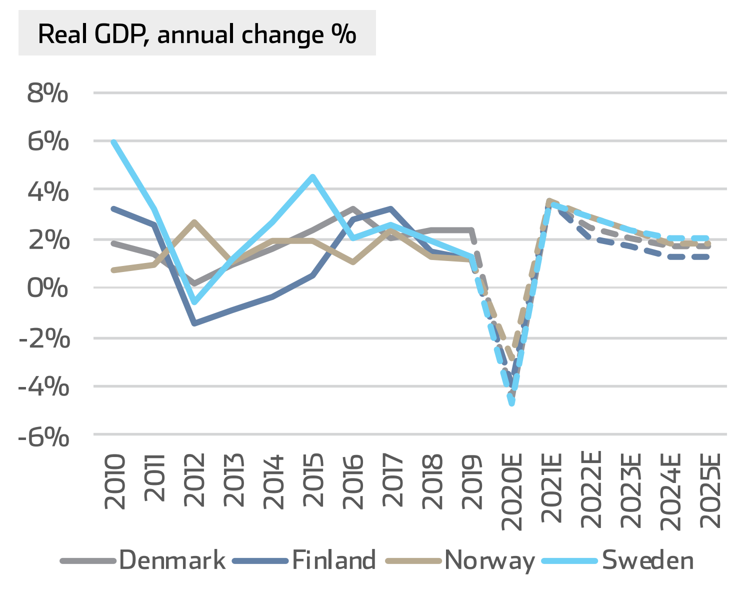
In October, the International Monetary Fund (IMF) published its seminannual report World Economic Outlook (WEO), with the title "A Long and Difficult Ascent". This is its second edition of WEO in 2020, following on from its April edition, "The Great Lockdown", presented in our last market report in May.

In its October report, IMF presented its projections for global economic development over the next five years, including key indicators such as GDP, unemployment, CPI etc. Global growth is projected to decline by 4.4 % in 2020 and the Nordic economies are expected to decline between 2.8 % to 4.7 %. IMF's projections for the Nordic countries are presented in this section.

Expected "V-shaped" bounceback in GDP growth

IMF expects real GDP to decline in all Nordic countries in 2020, with the largest fall projected in Sweden. In 2021, GDP growth is expected to peak at around 3.5 % in all Nordic countries, before gradually declining to 1.3-2.0 % at the end of the projected period in 2024-2025.

Compared to IMF's projections in April, when economic activity in all four countries was projected to decline between 6.0-6.8 % in 2020, the updated projections show a slightly more optimistic, or less pessimistic, view of the expected depth of the economic downturn.

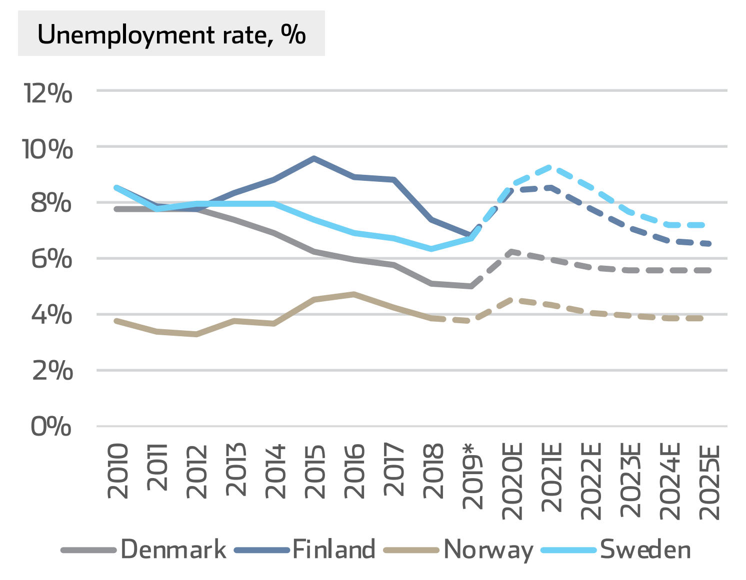


Source: IMF World Economic Outlook, October 2020

Significant spread in expected unemployment

Expected unemployment rates largely differ across the Nordics, especially this year. IMF expects unemployment to be lowest in Norway, at 4.5 %, and highest in Sweden at 8.7 %. From 2021 and onwards, unemployment rates are expected to decline in all four countries.

Compared to earlier projections, the unemployment rate in Norway has been completely revised and reduced from an extreme 13.0 % in April to 4.5 % in the October report. It should be noted that IMF also earlier stated that its analysis of the Norwegian unemployment rate was too conservative in April due to the oil price drop and assumed implications, among other factors.



Source: IMF World Economic Outlook, October 2020
* Estimated unemployment in Norway starts after 2018 (2019-)

> "The baseline projection assumes that social distancing will continue into 2021 but will subsequently fade over time as vaccine coverage expands and therapies improve. Local transmission is assumed to be brought to low levels everywhere by the end of 2022."

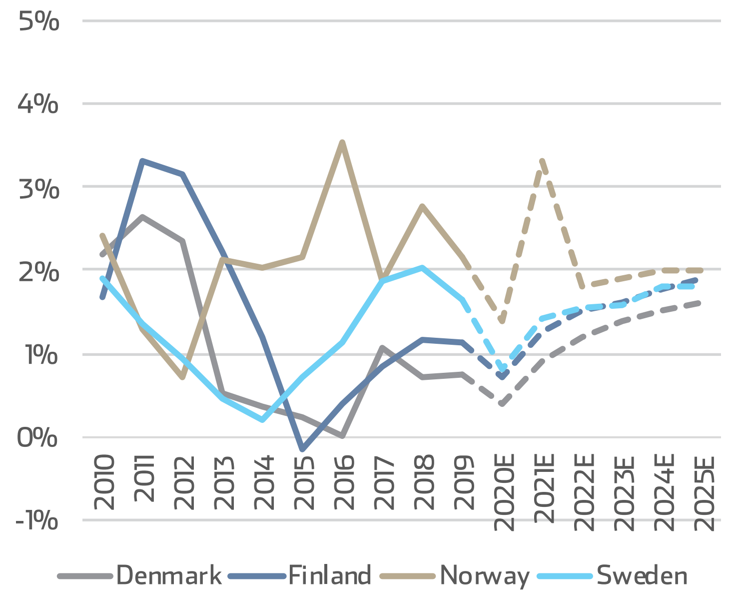
World Economic Outlook, October 2020

Norwegian inflation projected to peak in 2021

As in April's projections, IMF expects higher inflation in Norway than in the other countries in the coming years, especially in 2021, with inflation in Norway estimated at 1.4 % and inflation in the other countries estimated at between 0.4-0.8 %. This is most likely due to significantly higher imported inflation resulting from the weakening of the Norwegian krone in 2020, among other factors. From 2022 and onwards, IMF expects inflation in Norway to stabilise around the Norwegian central bank's inflation target of 2 %.

Inflation in the other three countries is expected to dip in 2020, before gradually increasing to 1.5–2.0 % at the end of the projection period.

Consumer Price Index, annual change %

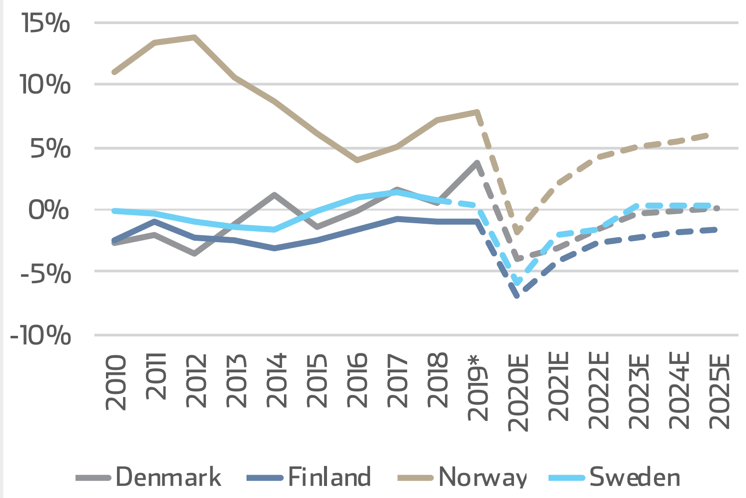


Source: IMF World Economic Outlook, October 2020

Four Nordic net borrowers in 2020

All the Nordic countries are expected to be net borrowers in 2020, albeit to a varying extent. General government net borrowing in Norway is expected to be 1.8 % of GDP, while the corresponding figures are 4.0 % in Denmark, 6.8 % in Finland, and 5.9 % in Sweden. In the following years, all four countries are expected to decrease their net borrowing and Sweden, Denmark and Norway will gradually move from net borrowers to net lenders from 2021 to 2025.

General government net lending / borrowing, % of GDP



Source: IMF World Economic Outlook, October 2020
* Estimated net lending/borowing in Sweden starts after 2018 (2019-)

Macro — Norway

Better times in sight, but current downturn still expected to persist for several years

The Corona pandemic has affected the world dramatically over the past nine months and the long-term effects on the economy are not yet fully known. Over the summer, infection rates decreased in most European countries, but in the subsequent months, the virus showed that the world must be prepared for several infection waves in the time to come, at least until a global vaccine is available. Due to high uncertainty, economic projections must still be handled with caution.

In 2020, the Norwegian economy has experienced an economic setback without precedence since the Second World War. Activity has been on the rebound in the last few months, but the road ahead remains fraught with uncertainty. Despite the recovery picking up faster than first expected, we must expect lower activity levels than usual for some time to come. Many employees are still temporarily laid off or have lost their jobs, and uncertainty and lower demand in several sectors are reducing investment levels. Activity is expected to be lower than usual in several sectors, especially the service sector, for as long as infection control measures are maintained.

On the positive side, the economic outlook for the Norwegian economy is brighter than at the time of our last report in May 2020. Estimates for main indicators such as GDP, consumption, investments, and unemployment have all improved for 2020 and the years ahead, according to Statistics Norway's projections. This development is also supported by other institutions, e.g. DNB, the central bank and the government.

Economic activity picking up faster than first expected, but uncertainty is still high

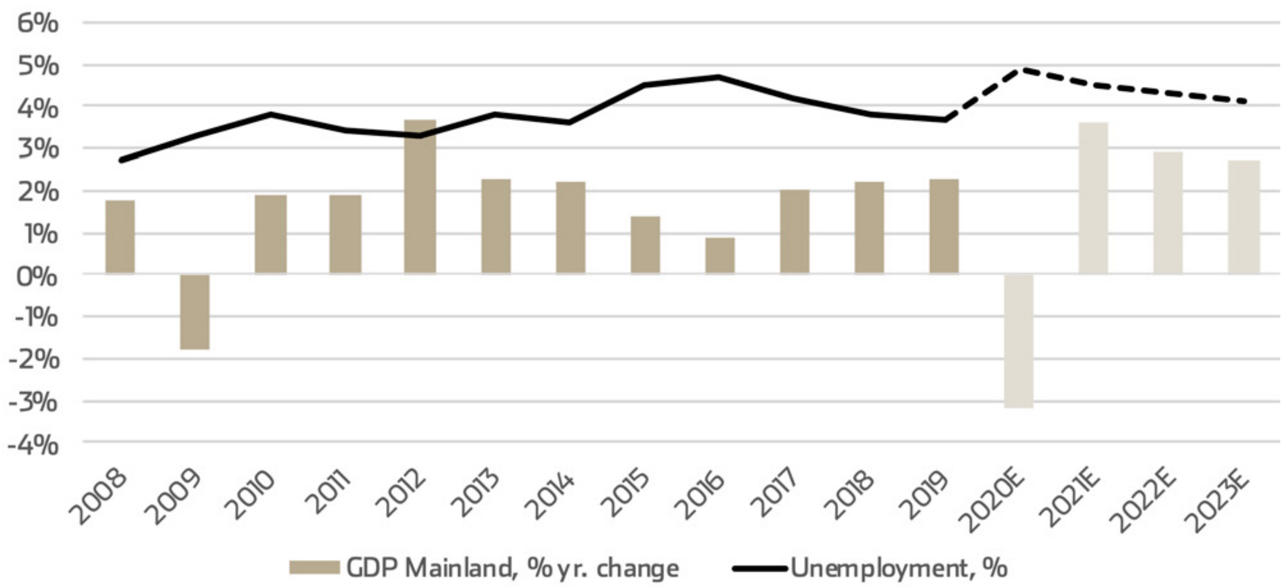
Mainland GDP is expected to decrease by 3.2 % in 2020, according to Statistics Norway's (SSB) latest estimates from September 2020. Compared to SSB's estimates from April, of -5.5 %, this estimate is a significant improvement and the expected drop in mainland GDP for 2020 is now 2.3 p.p. less than expected in spring.

The economic recovery we have seen since the summer is expected to continue and mainland GDP is projected to increase by 3.6 % in 2021, 2.9 % in 2022 and 2.7 % in 2023. Based on these numbers, mainland GDP will be back at pre-Covid-19 levels in about a year (autumn 2021), although it will take much longer to overtake the underlying trend growth. It is expected to take several more years before activity is back to a normal situation, where growth and employment are no longer affected by the crisis.

The improvement in the labour market is also expected to continue as economic activity picks up. According to SSB's estimates, unemployment measured by the Labour Force Survey (LFS) will reach 4.9 % in 2020 (for the year as a whole), which is 1.4 p.p. less than their projections from April. After 2020, unemployment is expected to gradually decline to around 4 % in 2023, which is around 0.3 p.p. higher than expected pre-Covid-19.

* While NAV's unemployment figures only include people registered as unemployed in NAV's registers, the Labour Force Survey also seeks to include those who seek employment without being registered at NAV. This can be the case for e.g. students and young people who are employment seeking but are not entitled to unemployment benefit. The Labour Force Survey therefore provides a more comprehensive measure of unemployment than NAV's statistics.

Mainland GDP and Unemployment (LFS), %



Source: Statistics Norway

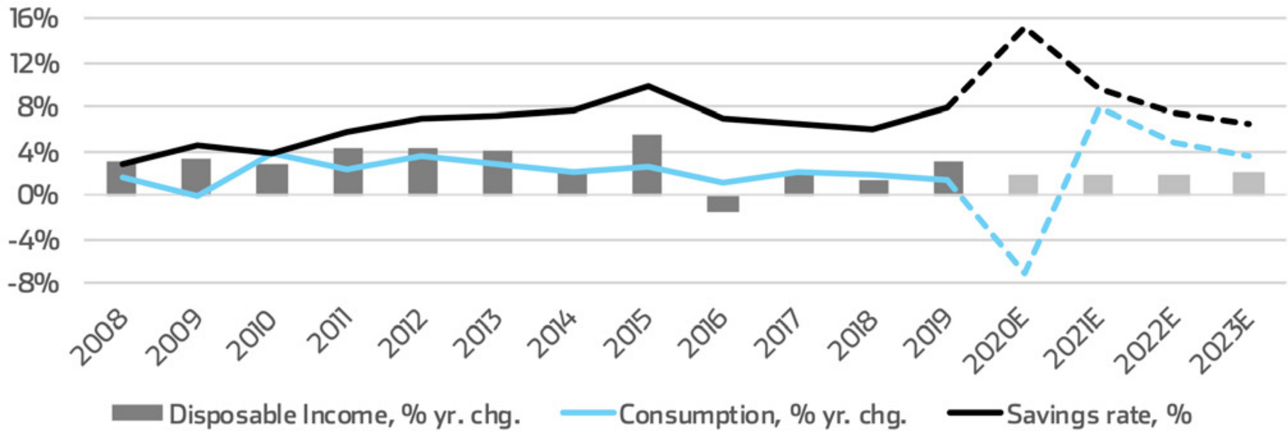
Households' financial position improved since spring, but dependent on employment and (temporary) lay-offs

SSB expects households' real disposable income to increase by 2.0 % in 2020, 1.8 % in 2021 and 2022, and 2.2 % in 2023. These estimates are significantly better than expected in April, when the corresponding estimates were 0.4 % in 2020, 0.3 % in 2021, 1.9 % in 2022 and 2.4 % in 2023.

The infection prevention and control measures introduced in March led to an immediate fall in household consumption of both goods and services, the latter being especially hard hit. Consumption of goods picked up in April, but recovery in the consumption of services has been slower. For 2020, SSB expects household consumption to drop 7.2 %, which is 2.6 p.p. less than expected in April. For the coming years, SSB expects consumption to grow by 7.9 % in 2021, 4.7 % in 2022 and 3.5 % in 2023.

The households' savings rate is expected to be 15.1 % in 2020, which is 0.9 p.p. less than expected in the projections from April. For the following years, the savings rate is expected to be 9.7 % in 2021, 7.4 % in 2022 and 6.6 % in 2023.

Households' financials, annual change %



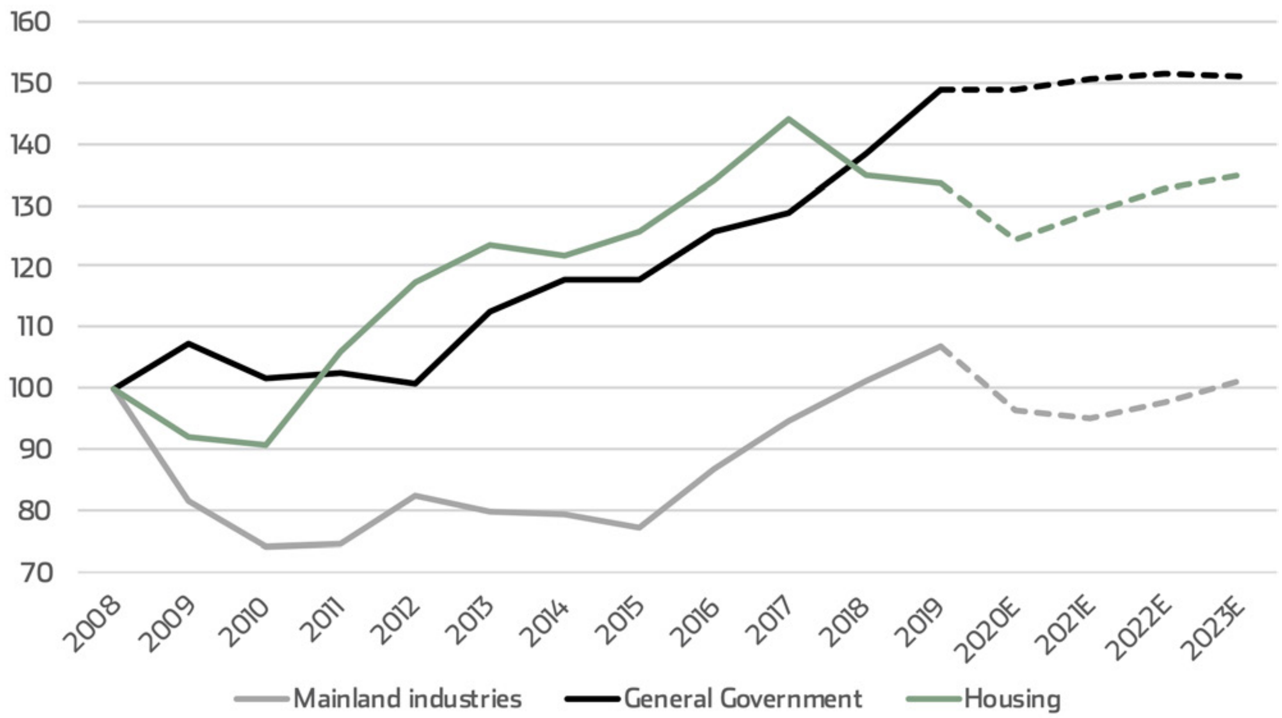
Source: Statistics Norway

Expected drop in gross fixed investments significantly lower than spring estimates

Overall, gross fixed investments are expected to decline by 6.2 % in 2020, driven by an expected drop of 9.8 % for mainland industries and 6.9 % for housing. General government investments are expected to stay at the same level as in 2019, i.e. neither increase nor decline. In April, SSB projected a drop of 19.0 % for mainland industries investment, 9.4 % for housing, and an increase of 3.1 % for General Government, and consequently, the projections for mainland industries and housing are significantly improved since spring.

Going forward, mainland industries investments are expected to drop by 1.3 % in 2021, before picking up again, and increasing by 2.4 % in 2022 and 3.6 % in 2023. Housing investments are projected to increase by 3.4 % in 2021, 3.1 % in 2022 and 1.7 % in 2023, while general government investments are expected to increase by 1.3 % in 2021 and 0.4 % in 2022 before declining by 0.1 % in 2023. In the graph, historical and projected development are illustrated as indexes.

Mainland Investments, 2008 = Index 100



Source: Statistics Norway

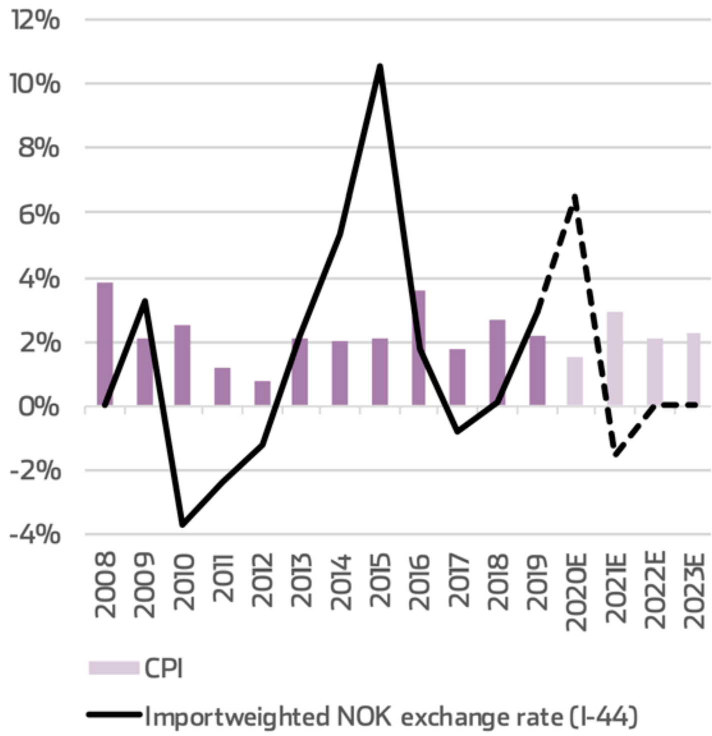
Overall, gross fixed investments are expected to decline by 6.2 % in 2020, driven by an expected drop of 9.8 % for mainland industries and 6.9 % for housing. General Government investments are expected to stay at the same level as in 2019, i.e. neither increase nor decline.

A weaker NOK will increase imported inflation

The import-weighted NOK exchange rate (I-44) is a nominal effective exchange rate index based on NOK exchange rates as measured against the currencies of Norway's most important trading partners. In March, the exchange rate was weakened considerably, from already weak levels. From May to August, the NOK strengthened and the index improved, but in September and October the NOK depreciated significantly again. In 2021, the NOK is expected to appreciate slightly compared to 2020 levels, and then stay relatively stable for 2022 and 2023.

A weaker NOK will increase imported inflation, as seen in 2015-2016. In 2020, SSB expects inflation to be 1.5 %, followed by 2.9 % in 2021, 2.1 % in 2022 and 2.3 % in 2023. Compared to April's estimates, the updated projections are slightly higher in 2020 and slightly lower in 2021, while the projections for 2022 and 2023 are almost unchanged.

CPI and NOK exchange rate, annual change



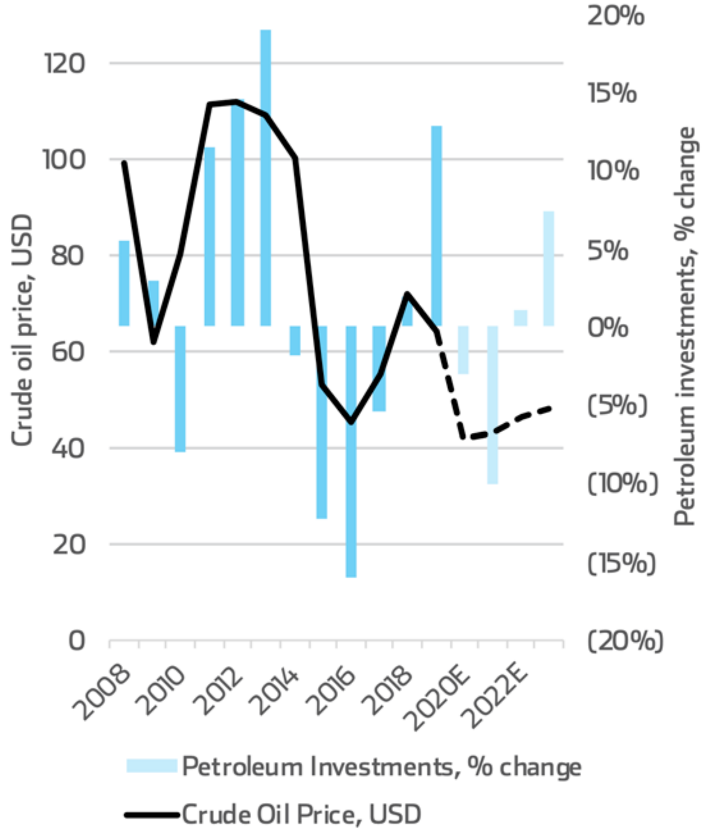
Source: Statistics Norway

Crude oil price picking up, also affecting petroleum investments

Coming from high growth of 12.8 % in 2019, petroleum investments are expected to decline by 3.1 % in 2020 and 10.1 % in 2021, before increasing by 1.1 % in 2022 and 7.3 % in 2023. Compared to SSB's estimates from April, where petroleum investments were projected to decline by 9.0 % in 2020 and 11.9 % in 2021 before increasing by 0.6 % in both 2022 and 2023, the updated projections are much brighter. An increased crude oil price and the package of measures aimed at the oil industry, have contributed to this. It is worth noticing that SSB, pre-Covid-19 (in Q4 2019), expected petroleum investments to decline from the high 2019 levels and increase by around 2 % in 2020 before declining by 7.6 % in 2021, due to high investment activity in 2019.

The crude oil price has increased from its low point of below USD 20 per barrel in April to around USD 40 per barrel at the beginning of November. Over the next few years, SSB expects the crude oil price to gradually increase from USD 42 per barrel in 2020, to USD 43 in 2021, USD 46 in 2022 and USD 48 in 2023.

Petroleum Market



Source: Statistics Norway

Hagaløkkveien 26 — Asker

Malling & Co Corporate Real Estate is advisor for
Ferd Eiendom in the sales process of Asker TEK,
a state-of-the-art office building next to Asker station.

Stortorvet 7 — Oslo

Malling & Co Næringsmegling acted as broker when EY and Spaces leased 16 000 m^2 in Stortovet 7.

The office market

Office Rental outlook

Rents likely to bottom out in the first half of 2021

Key takeaways on the office market — In the following section, we investigate key market indicators and their expected effect on future office rental growth in Greater Oslo. Key takeaways are specified below.

› The expected negative change in employment for 2020 caused by the pandemic is about to play out just as expected. Given that the stable development is maintained, the pandemic should end up as a bump in the rental chart, rather than a prolonged downturn. Typical office-using sectors are still less affected by lay-offs and the expected employment growth from 2021 and onwards will create growth in demand.

› The expected pipeline of new construction in Greater Oslo is relatively limited over the coming years, as very few newbuilds are confirmed for 2021-2022. Despite the high construction volume in 2020, the remaining available space in these projects is already included in vacancy. Unconfirmed projects are expected to be either cancelled or postponed, adding little new supply to tilt vacancy levels dramatically.

› The generous yield compression seen over the past quarter for offices is likely to shift breakeven rents on newbuilds to lower levels. Reduced breakeven rents may contribute to an overall rental decrease in certain areas or perhaps even trigger more new projects despite increasing vacancy.

› Negative demand and the limited new supply pipeline is expected to increase vacancy by 100-150 bps to approx. 7.5 % in 2021, a relatively nondramatic vacancy level equalling that of 2017. A low volume of expiring contracts in 2021 should limit the increase in marketed vacant space. However, increasing subletting and defaults by flexible office providers are unknown variables in the projection of vacant space coming to market.

We expect average office rents in Greater Oslo to decrease by another 2 % in total from current levels, with a risk of additional rental decreases in the eastern fringe due to higher vacancy. Below we have specified our rental expectations for our defined office clusters. We expect the clusters to be affected differently depending on their current vacancies, new construction volume, tenant base and general popularity.

Normal rents reflect the interval where most contracts are signed in the specific area.

Prime rent is the consistently achievable headline rental figure that relates to a new, well located, high specification unit of a standard size within the area. The prime rent reflects the tone of the market at the top end, even if no leases have been signed within the reporting period. One-off deals that does not represent the market are discarded.

Office rent forecast

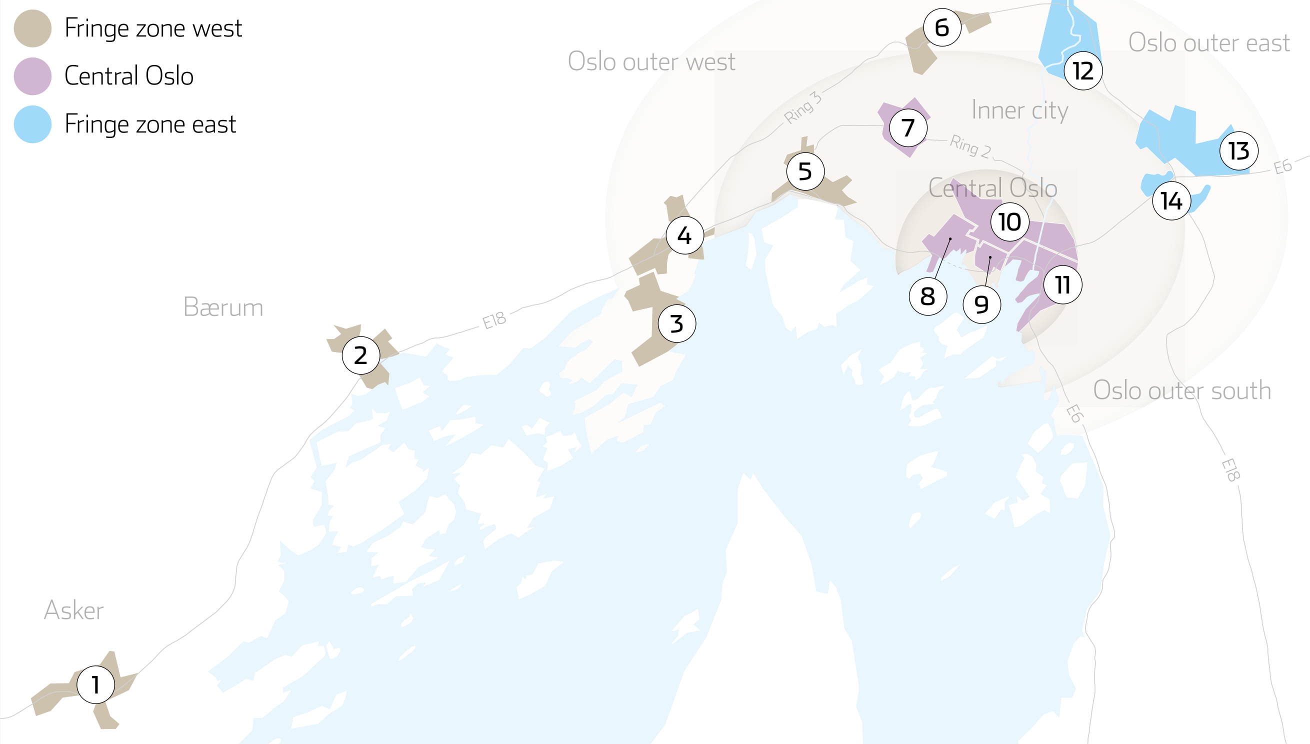
Highly uncertain | Uncertain | Fairly certain

Office cluster	Forcast rental change per Q3 2021 vs. Q3 2020	Forcast rental change per Q3 2023 vs. Q3 2020
Asker	-5 %	2 %
Sandvika	-3 %	4 %
Fornebu	-5 %	2 %
Lysaker	-3 %	4 %
Skøyen	-3 %	4 %
Forskningsparken/Ullevål	-3 %	4 %
Majorstuen	0 %	9 %
CBD	0 %	9 %
Kvadraturen	0 %	9 %
Inner city	0 %	9 %
Bjørvika	0 %	9 %
Nydalen/Sandaker	-5 %	2 %
Økern/Løren/Risløkka	-5 %	2 %
Bryn/Helsfyr	-5 %	2 %
Greater Oslo	**-2 %**	**6 %**

A selection of the latest lease contracts

Tenant	Moving to address/ office cluster	Moving from address/ office cluster	Space m² (rounded)
EY + Spaces	Stortorvet 7 — Inner City	Dronning Eufemias gate 6 — Bjørvika	~ 16 000
Schjødt	Tordenskiolds gate 12 — CBD	Ruseløkkeveien 14 — CBD	~ 11 250
Digdir	Lørenfaret 1 — Økern/Løren/Risløkka	Grev Wedels plass 9 — Kvadraturen	~ 11 000
Knowit	Universitetsgata 7-9 — Inner City	Lakkegata 53 — Inner City	~ 7 200
Nexans	Freserveien 1 — Oslo Outer East	Innspurten 9 — Bryn/Helsfyr	~ 7 000
NENT Group	Karvesvingen 7 — Økern/Løren/Risløkka	Akersgata 73 — Inner City	~ 5 000
WSP Norge	St Olavs plass 5 — Inner City	Fred Olsens gate 1 — Kvadraturen	~ 3 800
OPF	St. Olavs plass 5 — Inner City	Rosenkrantz' gate 22 — Kvadraturen	~ 3 450
Söderberg & Partners	Ruseløkkveien 26 — CBD	Olav Vs gate 6 — CBD	~ 2 100
Publicis	Pilestredet 12 — Inner City	Multiple addresses	~ 2 000

Greater Oslo area map

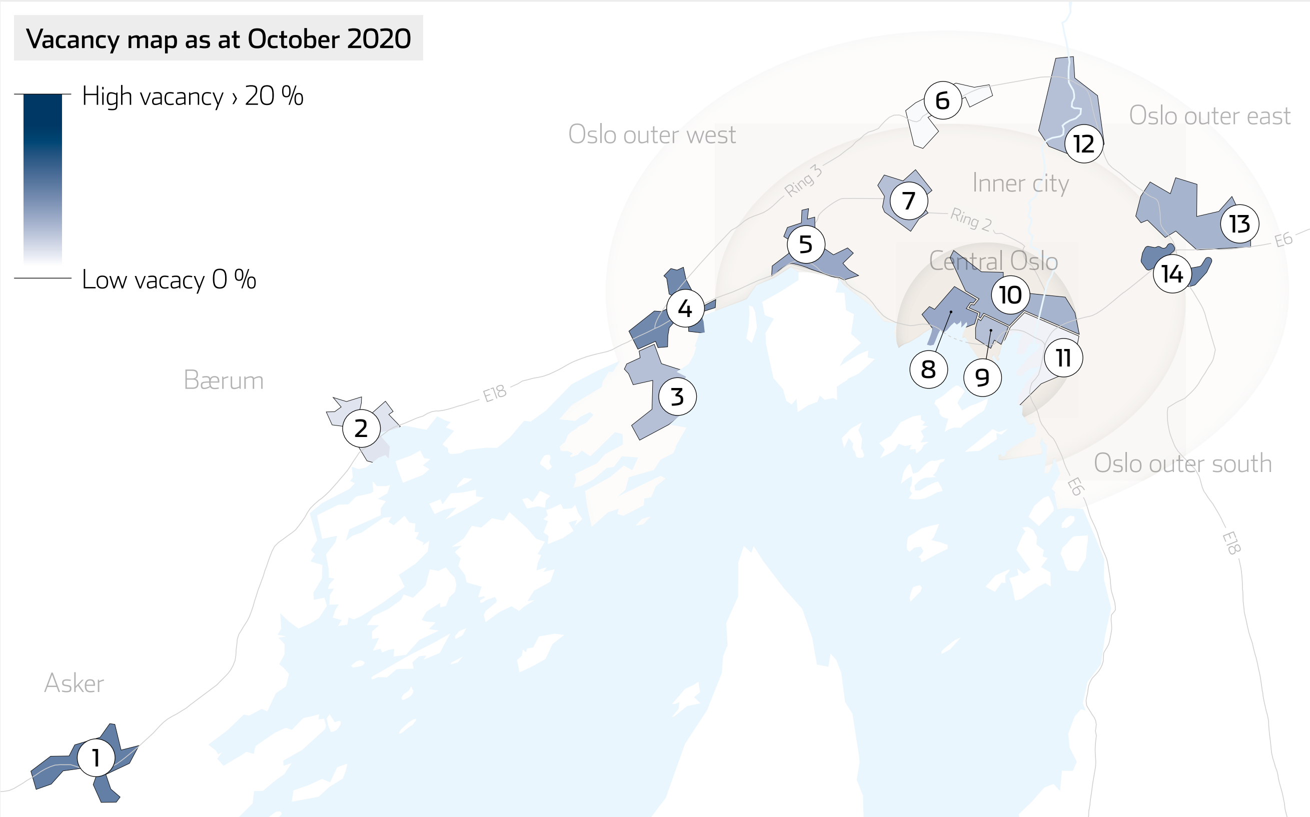


Office rents — Malling & Co consensus (NOK/m²/yr)

	Office cluster	Prime rent*	12-month change (Prime rent)*	Normal rent*	12-month change (Normal rent)*
1	Asker	2 150	0 %	1 700	0 %
2	Sandvika	2 150	-4 %	1 700	-1 %
3	Fornebu	1 900	-3 %	1 500	-3 %
4	Lysaker	2 350	-2 %	1 950	0 %
5	Skøyen	3 200	-3 %	2 500	0 %
6	Forskningsparken / Ullevål	2 300	0 %	1 850	0 %
7	Majorstuen	3 200	3 %	2 300	-4 %
8	CBD	5 600	0 %	3 900	11 %
9	Kvadraturen	3 800	0 %	2 850	0 %
10	Inner city	4 100	2 %	3 100	0 %
11	Bjørvika	4 200	-5 %	3 350	0 %
12	Nydalen / Sandaker	2 400	-8 %	1 950	0 %
13	Økern / Løren / Risløkka	2 100	-5 %	1 450	0 %
14	Bryn / Helsfyr	2 350	-2 %	1 900	0 %

* See definition of prime and normal rent at page 16. Source: Malling & Co

Vacancy map as at October 2020



Vacancy and new construction

	Office cluster	Vacancy	12-month change (Vacancy)	New construction: 3-year pipeline (Confirmed)
1	Asker	11 %	0 %	-
2	Sandvika	2 %	0 %	-
3	Fornebu	5 %	0 %	-
4	Lysaker	10 %	-1 %	-
5	Skøyen	7 %	-2 %	9 450
6	Forskningsparken / Ullevål	0.5 %	0 %	-
7	Majorstuen	5 %	-5 %	17 000
8	CBD	7 %	2 %	41 500
9	Kvadraturen	5 %	1 %	-
10	Inner city	6 %	2 %	22 500
11	Bjørvika	1 %	-1 %	-
12	Nydalen / Sandaker	5 %	2 %	12 800
13	Økern / Løren / Risløkka	6 %	0 %	56 500
14	Bryn / Helsfyr	10 %	2 %	34 000

Source: Finn.no/Malling & Co

Indicators for office demand

Employment market still fragile

In our previous report, we only had a few months of data to cover how the employment market was affected by the pandemic. There is no doubt that the employment market faced a dramatic hit caused by the direct and indirect effects of the pandemic, but the consequences have been quite different across the different sectors. We now have more data for our analysis, but the situation is still uncertain as infection rates are rising at the time of writing and cities in Norway and Europe are introducing new, strong measures to prevent the virus from spreading further.

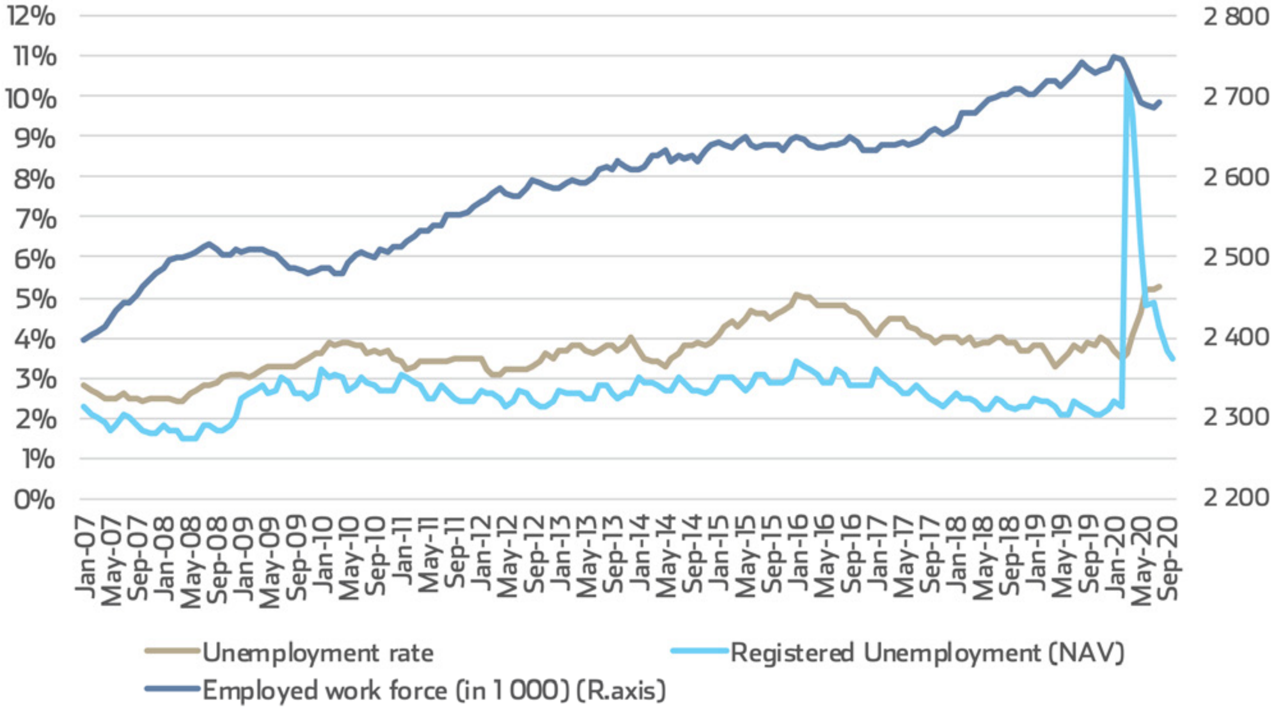
The current and newest data on the employment market at the time of writing this report was collected from August to October and, hence, from a period when restrictions were limited. Despite the fact that new and stronger measures are being introduced at the time of writing, we are slightly better prepared and we know that certain sectors, like hospitality, transport and travel, are those being hit the hardest. Over the past four years, employment growth in Norway (here: number of wage earners) has been well above 1.5 % on a rolling four quarter change, even reaching above 2.0 % in Q4 2018 and Q1 2019 (Norway). Growth has been even stronger in the Greater Oslo area with four quarter growth well above 2 % since Q1 2017. Growth is now decreasing and overall employment is back to 2018 levels in absolute numbers.

This is likely to have a significant negative impact on office demand. However, we believe that most of the negative impact has already been reflected, at least in the office-using business sectors, meaning that we are expecting growth from now on and into 2021. As of mid Q4 2020, we have been experiencing high demand for office leases, also driven by a few quarters of postponed leasing processes due to the uncertainty following the pandemic.

Unemployment significantly higher than in February, but stabilising

The register-based unemployment numbers from the Norwegian Labour and Welfare Administration (NAV) showed a slightly decreasing trend for the country from 2016 to 2019 and have been at low levels (below 4 %) for the past 15 years. Due to the Covid-19 lockdown, unemployment soared in March to above 10 % for the country, but this included all the temporary lay-offs that exploded over night due to the lockdown. Since March, the numbers have decreased and registered unemployment is now at 3.5 % for the country and 4.7 % for Oslo (October). Oslo has a high degree of service-related businesses more directly hit by the measures than the country overall. Sectors typically leasing offices have not been that strongly affected and many of these companies have remained in production with employees working from home. Tourism/travel and transport are by far the professions with the largest increase in unemployment, followed by other service-oriented professions. As temporary lay-offs are included in the unemployment numbers in the Labour force survey from Statistics Norway only after a 90 days' lay-off period, this measure has seen a more gradual increase since March and is now at 5.3 % for the country.

Unemployment rate – registered (NAV) and Labour Force Survey (LFS), and employed workforce (LFS), 2007-2020



Source: Statistics Norway, NAV (Norwegian Labour and Welfare Administration)

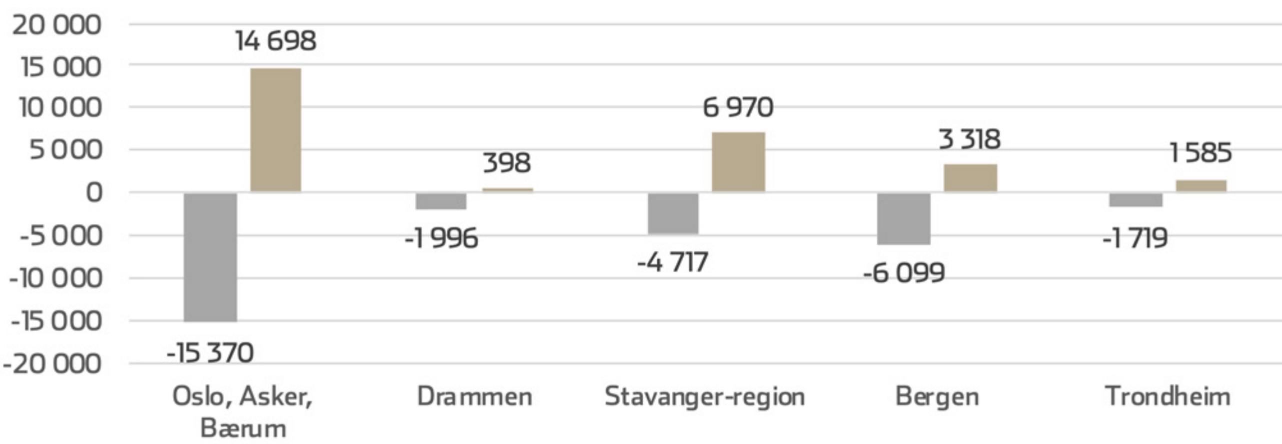
"Growth is now decreasing and overall employment is back to 2018 levels in absolute numbers. This is likely to have a significant negative impact on office demand."

Number of wage earners back to 2018 levels

As we now have two quarters of data on the post-Covid-19 employment market available, we can see how the market has evolved over the pandemic period since March. We can also compare this with the growth seen in the previous comparable period, namely Q3 2018 vs. Q3 2019. As the chart shows, Oslo, Asker and Bærum combined experienced a decent growth of almost 15 000 wage earners (corresponding to 2.6 %) from Q3 2018 to Q3 2019 (geographical allocation based on workplace). Comparing the number of wage earners in Q3 2020 relative to Q3 2019, Oslo is performing about the same as the rest of the country with a 2.7 % decline, with a slightly less negative than countrywide if we look at Oslo, Asker and Bærum combined. The decline is significant, but could have been worse given the situation. Reductions are particularly sharp within hospitality and F&B, as well as transport and travel, but not so severe in typical office-using business sectors.

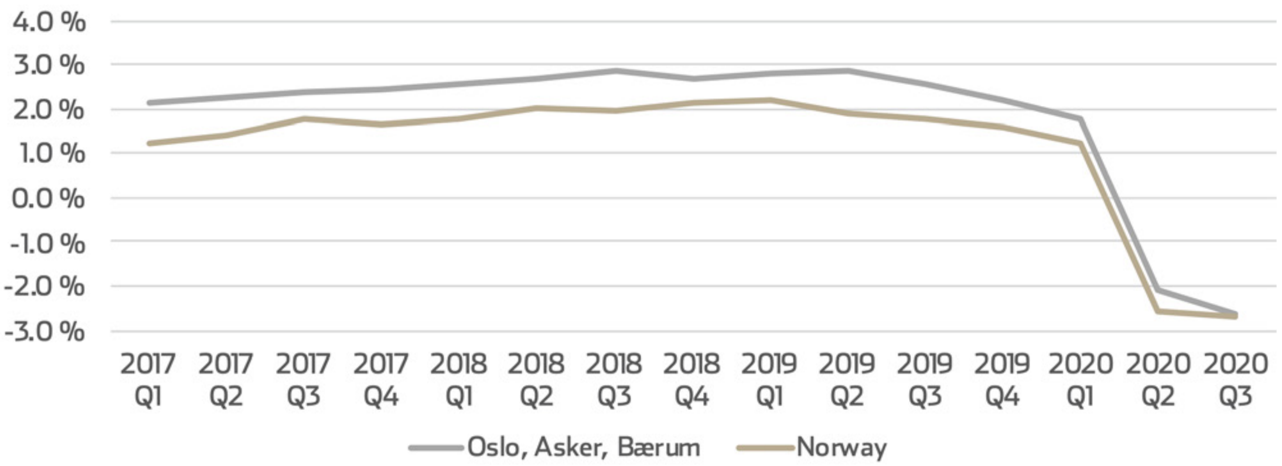
Looking at other main cities, wage earners are falling in Bergen, Trondheim and Stavanger as well, with declines from Q3 2019 to Q3 2020 corresponding to 3.7 %, 3.0 % and 1.5 % respectively (absolute numbers shown in the chart). The Stavanger region, however, comes from high growth, with a change of 4.7 % over the previous period of Q3/Q3 growth. The previous growth in Stavanger must also be seen in relation to the downturn in 2015 and 2016 due to the cuts made in the Oil & Gas sector after the sudden oil price drop in the summer of 2014. This could serve as a reminder that employment growth typically recovers a couple of years after the effects of a sudden external shock. This leaves room for significant employment growth once the pandemic restrictions can finally be relaxed. Over the past four to five years, employment growth has been stronger in Oslo compared to the rest of the country and we believe this will continue when the pandemic is well under control.

Change in wage earners per city-area Q3-2019/Q3-2020 vs. Q3-2018/Q3-2019



Source: Statistics Norway

Four-Quarter growth in wage earners Greater Oslo and Norway, %



Source: Statistics Norway

Employment market expected to reach bottom of trough around end of year

As the employment market remains uncertain due to the pandemic restrictions, the outlook for the next year is gradual improvement. According to Statistics Norway, the y/y growth for 2021 is expected to be at 0.4 %, but since we have seen a decline through 2020 and will see an increase throughout 2021, Q4 2020 / Q4 2021 growth is estimated to be around 1.3 % for Norway, and about 1.8 % for Oslo. In other words, if the employment market is developing as the latest estimates from Statistics Norway in September predict, the worst seems to be behind us. It is worth noticing that the risk of new stringent measures to cope with the spread of Covid-19 may postpone the upturn or even make things worse before the markets start an upward trend. The chart shows the expected Q4/Q4 changes in the employment market based on the latest forecasts from Statistics Norway. Note that both series forecasts have been adjusted to fit a Q4/Q4 change, assuming linear growth or decline over one year.

Growth in registered employment, Q4/Q4, national accounts and forecast, %

Source: Statistics Norway, Malling & Co

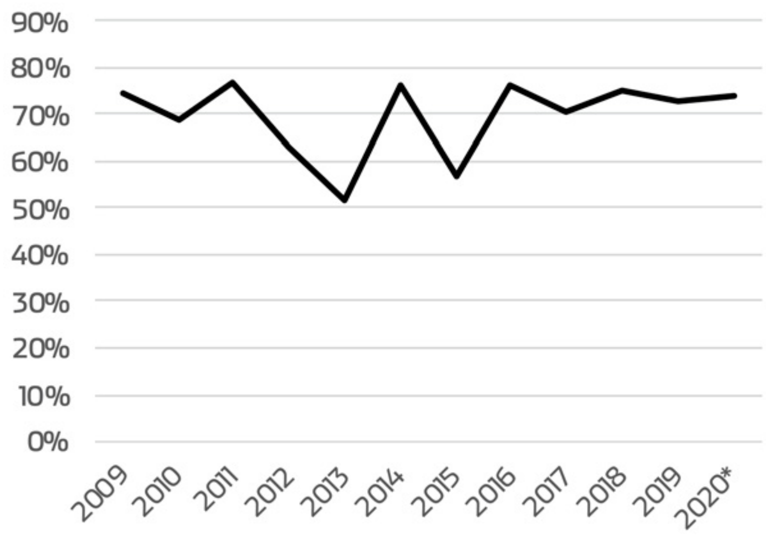
Structural shifts in how we use the office are more likely than a shift in overall demand

Office workers have, in general, been coping relatively well during the pandemic preventive measures and most office workers have had the chance to continue working despite measures that limit their daily work life and commuting. Many large companies have typically continued through the period with employees working from their homes, while many also happily returned to their offices during the summer months as infection rates came down to a very low level. With more than six months of excessive use of home offices, the initial enthusiasm towards a more permanent shift to excessive home office use seems to have diminished. Our special webinar in September covering home office use in particular shed light on the psychological and legal challenges of a drastic increase in employees working from home rather than from suitable offices. We also produced some calculations of the market implications of increased home office, showing that we would need a vast share (>30%) of average work time replaced by home office to be able to harvest any gains in office demand. In addition, our tenant survey from among 145 key office tenants showed that only 25 % would change their space requirements due to the pandemic, although about 50 % of them said they would make changes to the office layout due to the pandemic. However, 80 % said they would increase the amount of home working, while 92 % said they would decrease travel due to increased use of digital meetings. These facts point towards a slight change in how tenants will use their offices in the future and does not support any significant reductions in required space in our view. It should be noted, however, that we believe demand from flexible office space providers will diminish or even head into the negative as we have already seen with WeWork's termination of its lease contract at Aker Brygge.

Office searches put on hold, but public tenants remain active

Our usual count of office searches showed slightly lower volumes by the end of October 2020 compared to the end of October 2019, with approximately 146 000 m^2 in 2020 compared to approximately 164 500 m^2 in 2019. 2020 was initially expected to comprise a higher volume than 2019 due to the expiry profile of leases, but the uncertainty among many tenants due to the pandemic is likely to have postponed processes or ended in direct lease extensions, something our tenant representation team has also experienced. Among the sectors active year to date, public tenants make up about 1/5 of the searched space, while banking/finance and IT/telecom have also been active sectors. As seen over recent years, the share of office searches towards the city centre remains stable at 74 % as of October. The strong persistent position of central Oslo on the demand side, compared to its low vacancy levels, stands out as a key factor for resilience against a potential office rental decrease over the coming year.

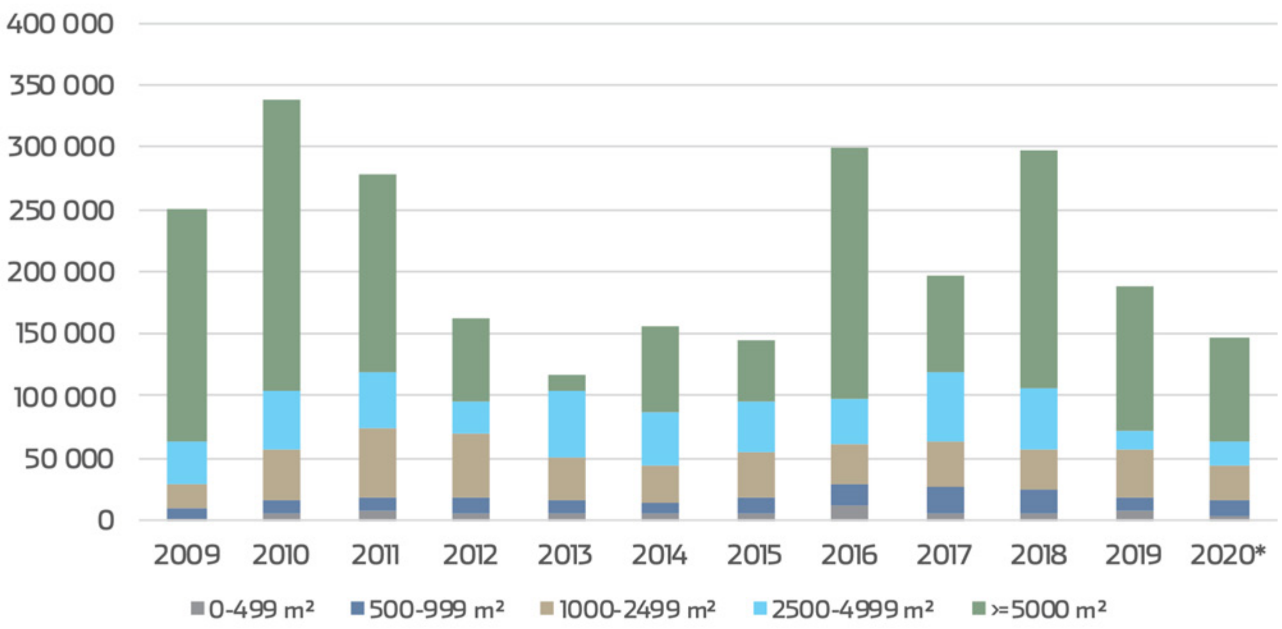
Share of demand for central Oslo office clusters



* As of end October 2020. Source: Malling & Co/NEMeet

"The strong persistent position of central Oslo on the demand side, compared to its low vacancy levels, stands out as a key factor for resilience against a potential office rental decrease over the coming year."

Office searches registered in Greater Oslo (2009-2020), m^2/year

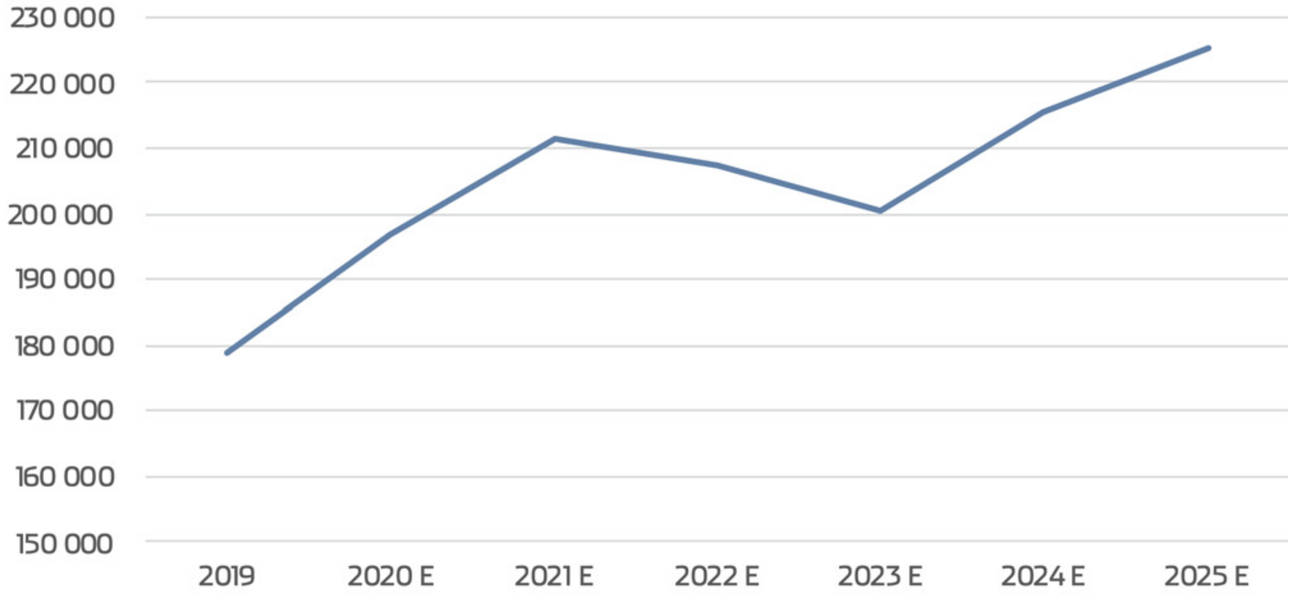


* As of end October 2020. Source: Malling & Co/NEMeet

Demand from larger tenants was expected to increase before Covid-19

Search volumes are expected to increase towards 2021, as the volume of large leases due to expire in 2023 is much higher than in preceding or consecutive years. Based on historical data, we can create a statistical distribution of time between lease expiry and market search, and use this to estimate future demand from expiring large leases. The chart shows this expected trend in demand for leases above 5 000 m^2. These tenants are interesting for developers with large newbuilds or refurbished space for rent in the coming years. However, due to the pandemic and the lower search volumes for large premises, we may, when the fog clears, end up seeing more tenants coming to market who are closer to their lease expiry and consequently with less time to sign a lease. These contracts could be of interest to landlords with vacant space. At the time of writing (start November 2020), we are experiencing high activity in the leasing market among tenants of significant size. This is also a result of delayed processes from previous office searches. Most of these will be close to being resolved by year-end.

Estimated aggregated demand from >5 000 m^2 tenants*



* As of end October 2020. Source: Arealstatistikk/Malling & Co

"We are experiencing high activity in the leasing market among tenants of significant size."

Construction activity in Greater Oslo

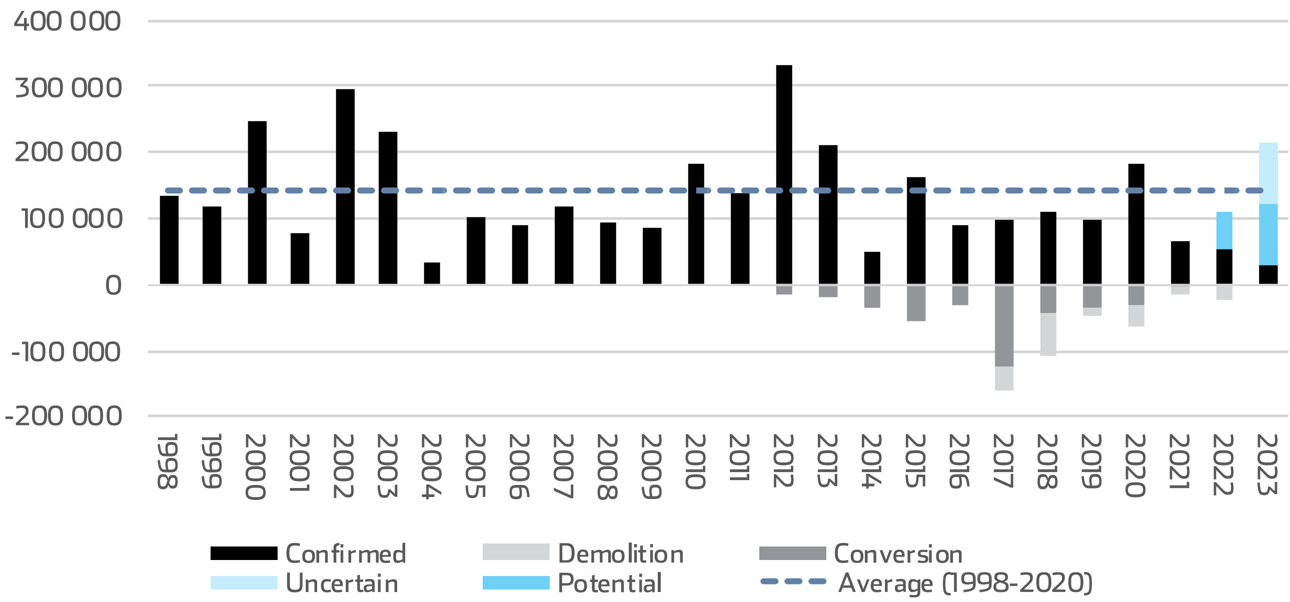
Low new construction expected in 2021 and 2022

After a year of increased new construction in 2020, new construction will be low in 2021 and 2022. Low expected expiry volumes of large contracts have contributed to keeping short-term volumes at a low level. 2023, however, has the potential to become a very active year, as there are both multiple potential projects in the pipeline, and a high expected expiry volume of large contracts.

New construction in a historical perspective

New construction in 2020 will conclude at approx. 185 000 m^2, with most newbuilds already completed. The new construction volume experienced in 2020 is the largest in Greater Oslo for seven years and has taken some of the pressure off vacancy. However, the confirmed new construction volumes for 2021-2022 are currently relatively modest. We consider it unlikely that these volumes will increase much more, as the projects must either immediately secure anchor tenants or choose to build on speculation. Looking at new construction as an average of the current year (y1), year 2 and year 3, relative to existing office stock in the respective year historically, it becomes clear that we are currently building very little compared to earlier peaks. According to this measure, we can expect office stock in Greater Oslo to increase by approx. 1 % on average per year over the next three years. In comparison, the corresponding average growth in office stock in 1986 and 2000 was 6 % and 4 %, respectively.

Historical and estimated new construction, conversion and demolition in Greater Oslo, sum m^2



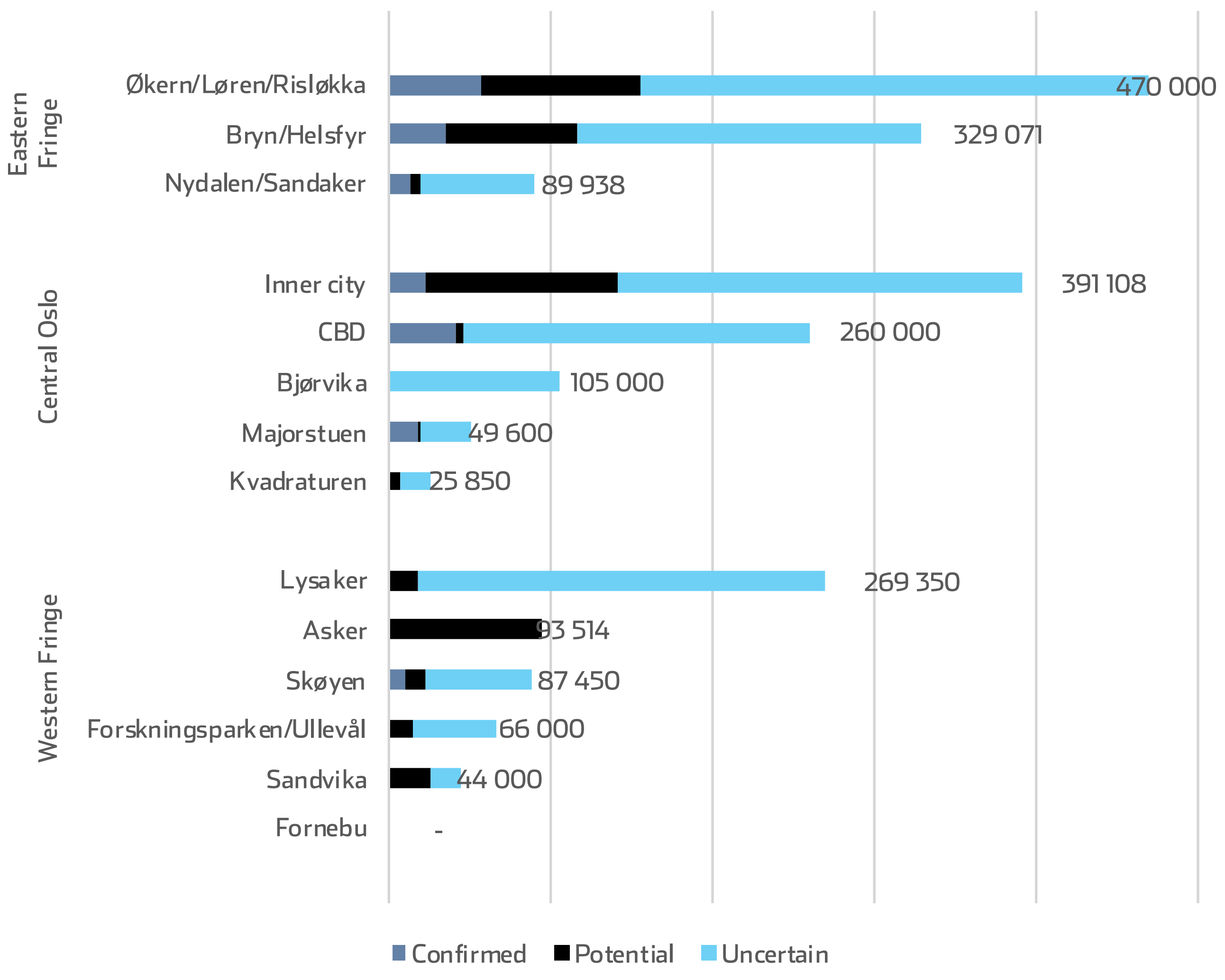
* As at 9 November 2020. Source: Malling & Co

Project definitions — Confirmed volume include all new constructions that are zoned and will be initiated either because they have secured a sufficient tenant-base or because they will build on speculation. The potential volume includes all projects that are zoned, and which we deem likely to be able to secure tenants. The uncertain volume includes all remaining projects in the pipeline, including projects that are currently in zoning or at planning/idea stage. These projects are therefore highly uncertain and subject to large changes.

New construction in detail

Økern still has the largest new construction volume expected over the long term. Currently, around 57 000 m² new office space is under construction at Økern, while around 99 000 m² is in planning or in the market awaiting tenants. However, about 67 % (315 000 m²) of all possible new construction at Økern has not been zoned and the projects are therefore highly uncertain. After Økern, the Inner City has the second largest construction volume. In the Inner City, about 141 000 m² of office space is currently under construction, awaiting tenants or in planning, while approx. 250 000 m² is in zoning. Other office clusters with large possible construction volumes are Bryn/Helsfyr, Lysaker and the CBD. Bryn/Helsfyr has approx. 116 000 m² in the confirmed (under construction) and potential pipeline combined. The volumes at Lysaker and the CBD, on the other hand, largely consist of uncertain volumes, currently in zoning, which are likely to be completed much further into the future.

Estimated new construction in Greater Oslo split by cluster and status, sum m²

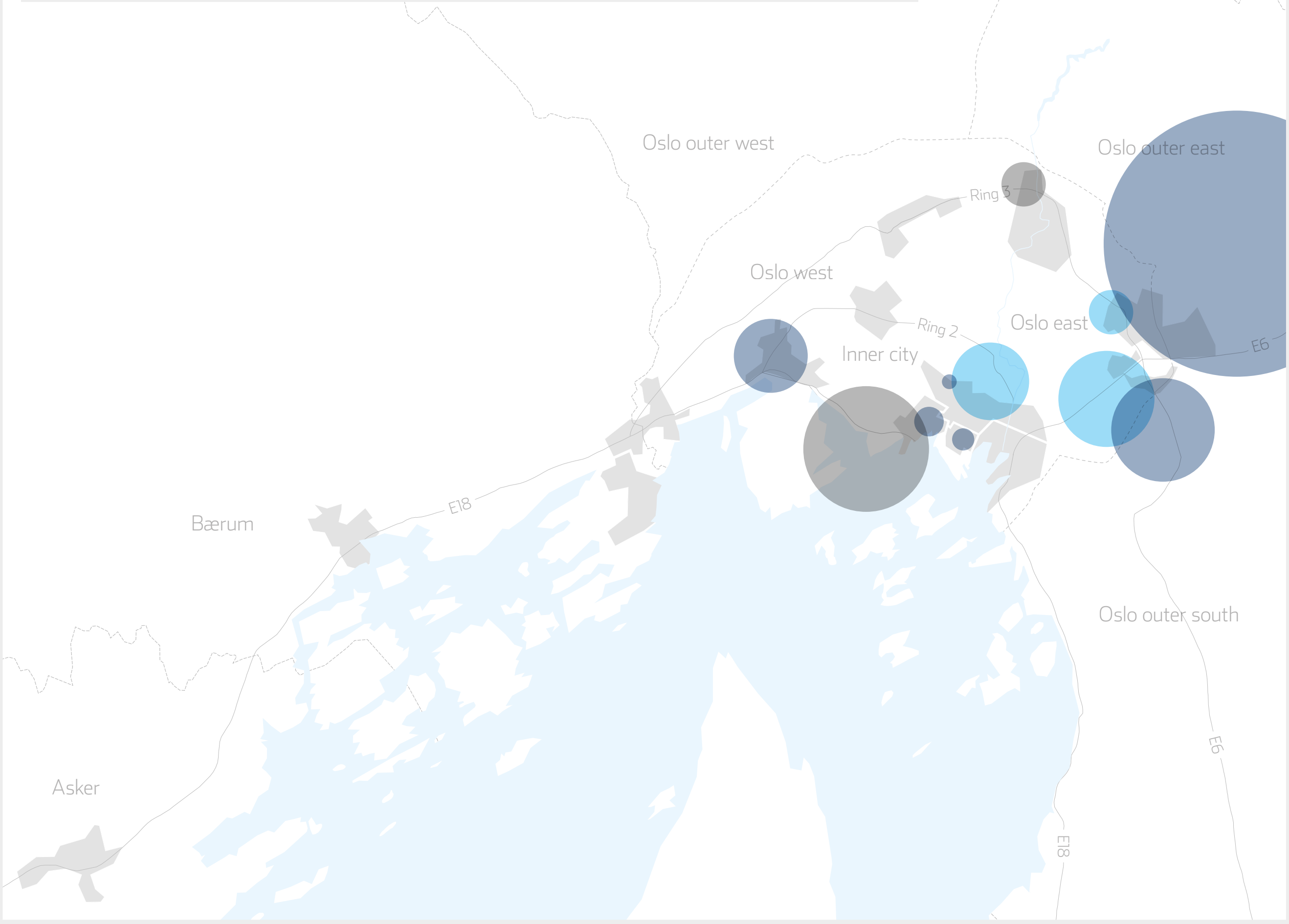


Source: Malling & Co

Overview of new construction activity in Greater Oslo

As already described, there is very little new office space in the pipeline for the next couple of years. In 2021 and 2022, a total of 121 000 m^2 has currently been confirmed. Another 58 000 m^2 in potential projects is currently in the pipeline for 2022. However, as they are yet to secure a large tenant, we expect that most of these projects, if not all, will be pushed back into 2023 or later. For various reasons, very few developers in Norway choose to build on speculation, hence new construction activity is strongly related to the expiry profile of large contracts. Looking at the expected expiry of leases larger than 5 000 m^2, provided by Arealstatistikk, the reason why confirmed volumes in 2021 and 2022 are so low becomes clear. In 2023, however, the expected expiry of leases larger than 5 000 m^2 is more than double what is expected in 2022 and higher than both 2021 and 2022 combined. We believe that new construction has the potential to increase substantially in 2023. At the time of writing, approx. 30 500 m^2 new office space is confirmed for 2023, while another 93 000 m^2 is either in planning or awaiting tenants.
In addition, some of the 58 000 m^2 in potential projects mentioned above, currently aiming for the end of 2022, is likely to slide over into the potential supply side in 2023. However, construction is currently being threatened by newly imposed preventative infection measures on imported labour, which may cause serious delays in both ongoing and future projects, and potentially increase the cost of building.
It is, therefore, important to note these additional factors are causing the uncertainty tied to new construction forecasts to be higher than usual.

Confirmed new office buildings that will be finalised in 2020-2022, sum m^2



2020	2021	2022
32 % Vacancy	45 % Vacancy	38 % Vacancy

15 000 m^2 — The size of the bubble represents the volume of new office buildings in each office cluster.

Source: Malling & Co

Brynsalléen 2 — Oslo

CapMan has engaged Malling & Co Næringsmegling to assist with the letting of approx. 17 500 m^2 in Brynsalleen 2.

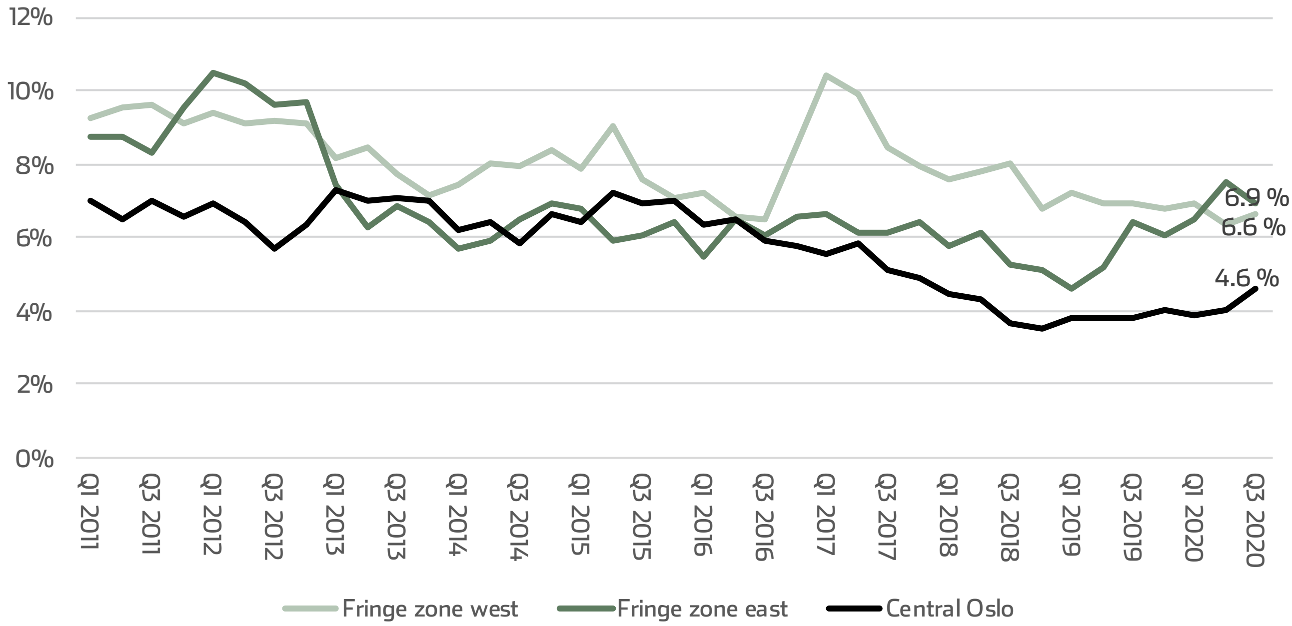
Supply and vacancy in Greater Oslo
Moderate increase in vacancy expected

In our previous market report, we reported on continued low vacancy levels in Greater Oslo and expectations of rising vacancy from Q2 2020 and onwards. In October, vacancy in Greater Oslo has increased by approx. 90 bps since May and is measured at 6.3 %. We expect vacancy to increase by another 100-150 bps over the next 12 months before reversing and slowly falling towards 7 % at the end of 2022/early 2023.

Greater Oslo vacancy update

Vacancy in Greater Oslo was measured at 6.3 % in October, up from 5.4 % in May, which is an increase in line with our vacancy forecast from this spring. Central Oslo still has the lowest average vacancy measured at 4.6 % in Q3 2020, however jumping to 5.7 % in October. The increase is mostly caused by changes in the CBD and in the Inner City, where internal relocations related to the completion of newbuilds in Central Oslo have impacted vacancy. Several large lettings have, however, been announced following the reporting of the October figures, thus vacancy in Central Oslo is likely to reduce somewhat again in November. Vacancy in the eastern fringe was measured at an average of 6.9 % in Q3 2020, increasing to 7.2 % in October. The increase in the eastern fringe has long been expected, as multiple new constructions have been completed there either this year or are due next year. It is mostly Økern and Bryn that have seen increases in vacancy, while vacancy in Nydalen/Sandaker is relatively stable. Lastly, vacancy in the western fringe is up approx. 50 bps since May, measuring at 6.5 % in October.

Historical vacancy in Central Oslo, Eastern and Western fringe zone, %



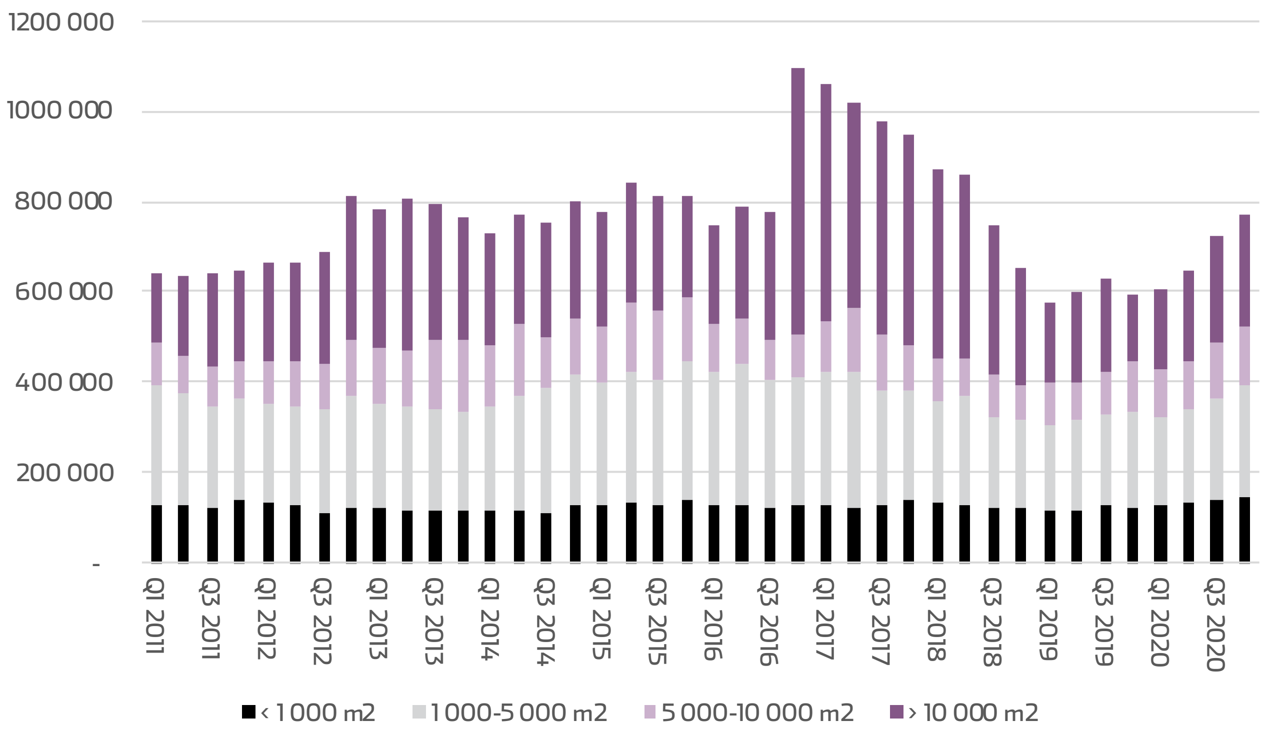
Source: Malling & Co, Finn.no

How we measure vacancy and supply — When analysing the supply side of the rental market, we want to describe what is actually available for prospective tenants, not only vacant space. Therefore, we split the total amount of offered office space into two definitions: supply and vacancy. Supply includes all vacant space, regardless of delivery date, while vacancy comprises only existing space or new constructions available within 12 months from the date of measurement. In other words, we define supply as all office space that is available in the market, including existing buildings and new constructions. Projects offered in specific processes to tenants looking for space, but which are not available on the online marketplace FINN.no, are not included in the figures. Normally, these projects end up at FINN.no in the end. This means that potential supply is even higher than what is reported in these figures. Vacancy is however a more exact measure. Including a measure of available new office projects explains possible discrepancies in a simple supply/demand relation compared to only looking at rents and vacancy.

Vacancy in detail

Approx. 44 % of the vacant space in Greater Oslo is in the 1 000-5 000 m^2 size interval, 14 % in the 5 000-10 000 m^2 interval, with about 16 % larger than 10 000 m^2. The remaining share is small space in the 0-1 000 m^2 interval. Space larger than 10 000 m^2 in particular has increased over the last year, mainly due to vacant space in newbuilds being added to the count. Currently, 32 % of space completed in 2020 and 45 % of space due to be completed in 2021 is still vacant and already accounted for in vacancy. In 2022, 38 % of the volume expected is still vacant and is likely to affect vacancy in areas where projects are scheduled for some time in 2021. Asker and Lysaker have the highest recorded vacancies for October, measuring at approx. 11 % and 10 %, respectively. Asker is a relatively small office cluster and approx. 60 % of the vacancy there comprises vacancies in the 1 000-5 000 m^2 interval. Vacancy in Lysaker, which is a much larger cluster, is made up of 53 % in the 1 000-5 000 m^2 interval, and 20 % in the 5 000-10 000 m^2 interval. Forskningsparken/Ullevål and Bjørvika have the lowest measured vacancies for October with 0.5 % and 1 %, respectively.

Advertised office space split by size interval*, sum m^2



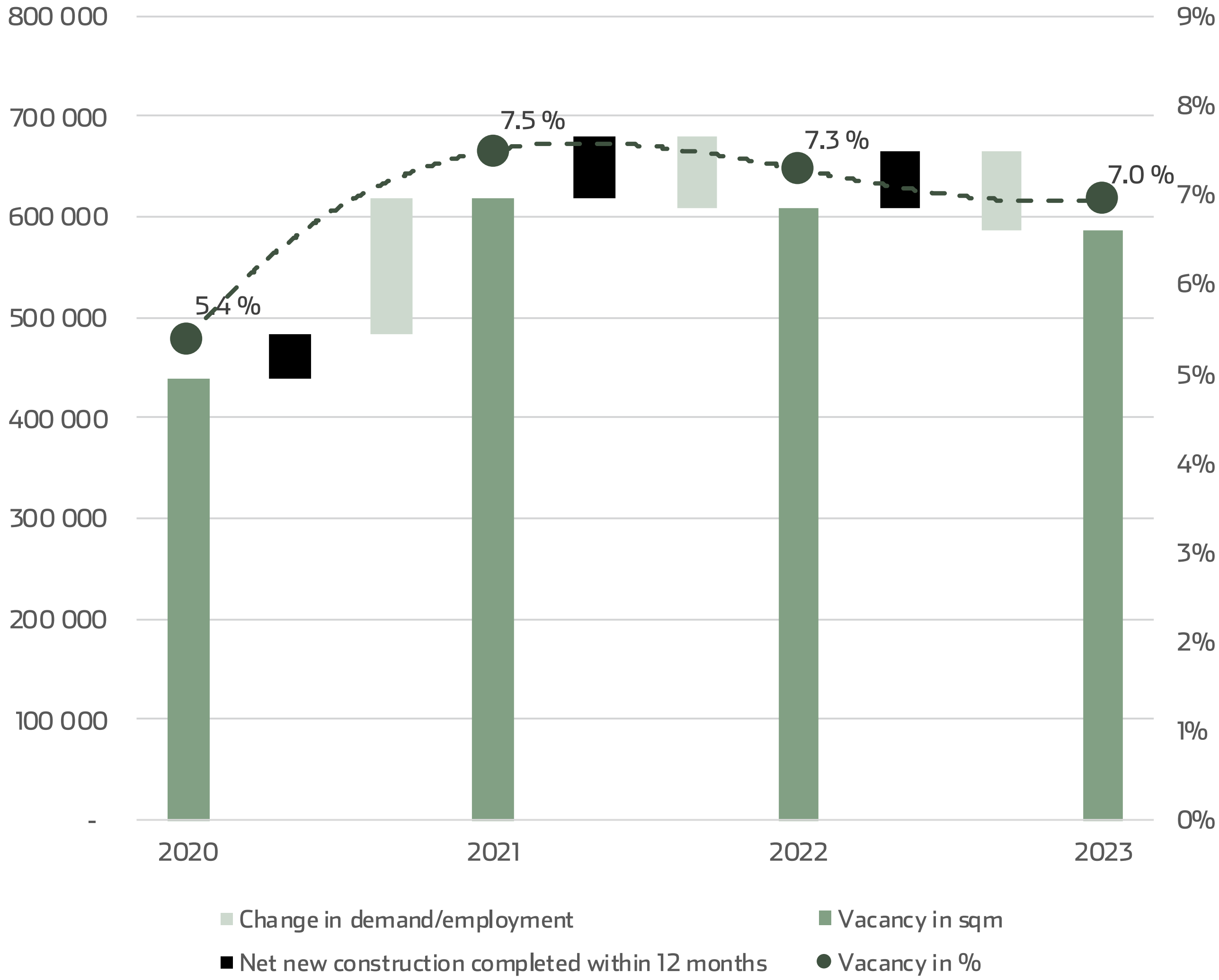
* As at 9 Nov. 2020. Source: Malling & Co/FINN.no

"Vacancy in Greater Oslo was measured at 6.3 % in October, up from 5.4 % in May, which is an increase in line with our vacancy forecast from this spring."

Vacancy going forward

In our previous market report, we predicted that Greater Oslo office vacancy would increase by around 200-300 bps from the trough experienced in Q1 2019, before peaking somewhere between 7.5-8.0 % in 2021. Our updated vacancy forecast has not changed much since spring, other than a slightly more optimistic employment market forecast. We now expect vacancy to continue increasing in 2020 and into 2021, when we expect it to peak at approx. 7.5 %. From there, we expect vacancy to sink gradually towards 7.0 % in 2023. The main reason for the expected increase is the forecasted change in demand for office space, which we expect to be negative in 2020. New construction, on the other hand, is expected to be relatively low in the next couple of years and is, therefore, not expected to have any substantial effect on vacancy. Although we expect demand to be affected by increased unemployment, we do not expect any structural changes, such as changes in preferred workplace, to affect office space demand in the near future. Our analyses, using probability to determine potential for saved space, suggest that it would take both large sized companies and a high proportion of home-office per employee before substantial reductions in space would be practical. Otherwise, employers will have to accept their employees often finding themselves without a desk when coming into work. There are also other factors affecting potential structural changes, which are further discussed under the demand section of this report. Our vacancy forecast thus only accounts for the expected cyclical changes induced by Covid-19 and not any potential structural changes.

Estimated trend in Vacancy in Greater Oslo



Source: Malling & Co, Finn.no, Statistics Norway

Rådhusgata 3 — Sandnes

Malling & Co Energi og Miljø has contributed to the property obtaining a BREEAM-In-Use certificate with both part 1 and 2 with the grade "Very Good" and "Good". The property is owned by Nordea Liv Eiendom and managed by Malling & Co Forvaltning.

Stavanger

Resilient despite multiple hits

Just as the unemployment rate in the Stavanger region finally came down in 2019 to levels seen before the oil price drop in 2014, the Covid-19 pandemic came as yet another challenge. Again, oil prices are challenged by reduced activity across the world, affecting the key industry in the region. In addition, the travel and transport sectors are also heavily affected. Significant declines in investments within the Oil & Gas sector are still expected to be seen over the next year with a 15 % reduction from the 2020 numbers estimated in Q3 2019 (SSB). There is, therefore, a high risk of continued challenges for the employment market, particularly in Stavanger. The development of the pandemic is creating an additional risk of increased office vacancy in Stavanger and is putting pressure on office rents. Rents in the city centre are not likely to see any boost, as vacant space is plentiful and alternative areas such as Forus offer high quality and ample car parks at "half the price". Our expectation is, nevertheless, a rather flat market, as vacancy rates have been high for some time and additional vacant space will have very little effect on prices, which are already low.
We believe rents are now more affected by landlords' resilience to reduce rents any further.

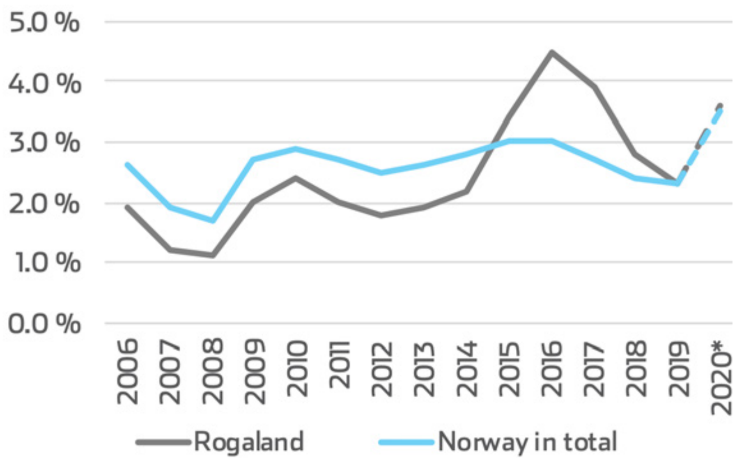
Strong employment market before Covid-19

› The registered unemployment rate measured by the Norwegian Welfare Administration (NAV) showed an unemployment rate of 2.3 % for Rogaland county and 2.5 % for Stavanger municipality in February 2020. The corresponding figures in October were 3.6 % and 4.2 % respectively. Figures have now flattened out somewhat after peaking in March due to extensive use of temporary lay-offs in the first lockdown. Temporary lay-offs are still in use and many are uncertain about their return.

› Statistics Norway's (SSB) quarterly numbers for changes in wage earners (see page 22) confirm the sudden weakening in the employment market relative to the previous four quarter period. While we saw an increase of almost 7 000 wage earners from Q3 2018 to Q3 2019 (Q3 measured mid-August), corresponding to a growth of 4.7 %, the numbers from Q3 2019 to Q3 2020 show a decrease of 3.0 %. This reflects the fact that Stavanger was doing well in its recovery from the previous oil price drop before being hit by Covid-19.

› Several key employers within Oil & Gas, e.g. Baker Hughes, National Oilwell Varco, Subsea 7 and Technip FMC, have announced staff reductions since the pandemic hit in March. Forward rates on oil prices indicate prices between USD 41-47 in 1-3 years.

Registered unemplyment Rogaland (incl. temporary lay-offs), %



* As at Oct. Source: NAV (Norwegian Labour and Welfare Administration)

"There is a significant portion of hidden vacancy that will be made available as more space is leased."

Office letting market still marked by high vacancy

› The overall vacancy in Stavanger has decreased somewhat since our last report (measured in April), from 15 % to 14 % (measured in September), but we know that there is a significant portion of hidden vacancy that will be made available as more space is leased. Forus has by far the highest vacancy in the region in absolute numbers, equalling approx. 120 000 m² in September 2020. Forus mostly consists of multiple large and relatively high standard buildings, which are cheap compared to the breakeven newbuild cost and other clusters. While we have previously discussed the city centre as the area with the best growth potential, low rents and ample car parking offered at Forus makes it an attractive alternative that limits landlords' abilities to charge higher rents in the city centre.

› Market rents in Forus are still low and trades at around NOK 700 per m² GLA per year for the cheapest existing premises and renegotiations. However, the lowest quartile average is around NOK 850 per m² GLA, while total average of all signed leases is approx. NOK 1 200 per m², GLA. High vacancy in relatively modern buildings is believed to have a significant impact on achievable rents in the whole Stavanger market.

› FOMO Works has, according to their own assessment, been successful with its new coworking concept and traditional office space, in Grenseveien 21 at Forus. The company states that it has leased approx. 10 000 m², which comprises around 1/3 of the total GLA.

› We register good activity in the city centre as OKSE AS has signed a lease for approx. 580 m² in Skagenkaien, and Rogaland Revisjon has signed a lease for approx. 800 m² at Strandkaien 36. Formuesforvaltning has recently signed a lease for 1 600 m² at Kongsgårdbakken 1.

› Our rental estimates (broker consensus) have been adjusted down somewhat in the lower bounds in some of the office clusters and segments since our previous report, although it is mainly a rather flat leasing market.

New developments

› Despite high vacancy in the market and prospects of further increases in vacancy, developers are still in the process of planning new projects, especially in the city centre or in the city fringe.

› Smedvig is in the market with Site 4016 at Auglendsmyrå, a new project in the city fringe. The project targets real estate and construction businesses, creating a cluster specifically for this sector. The project comprises more than 100 000 m² in total, but the first two steps include project WOOD with approx. 5 000 m² at Auglendmyrå 3, and project ARK with around 10 000 m², combining office, warehouse and retail.

› The high-rise building planned in Knud Holmes gate 8 in the city centre was finally approved in June and will be called "Breivatnet Lanterna". Deloitte is the first tenant in the project, which is set to be finalised early 2023.

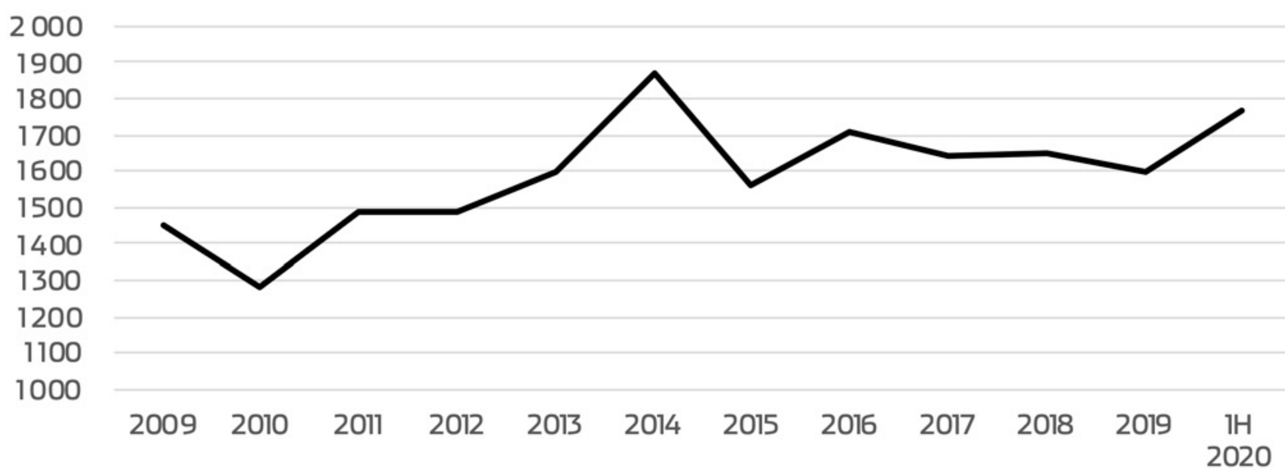
› 2020 Park is one of the other major projects at the heart of Forus, with a development potential of around 100 000 m² in zoned space.

› K2 Stavanger and Bane NOR Eiendom are planning to erect a 12 000 m² office and 2 000 m² retail building at Paradis station. The zoning has been approved and the project is currently awaiting tenants.

› Parkportalen, Ormen Lange and Oseberg are potential new office projects at Hinna, totalling more than 60 000 m² GLA, all awaiting tenants to sign leases.

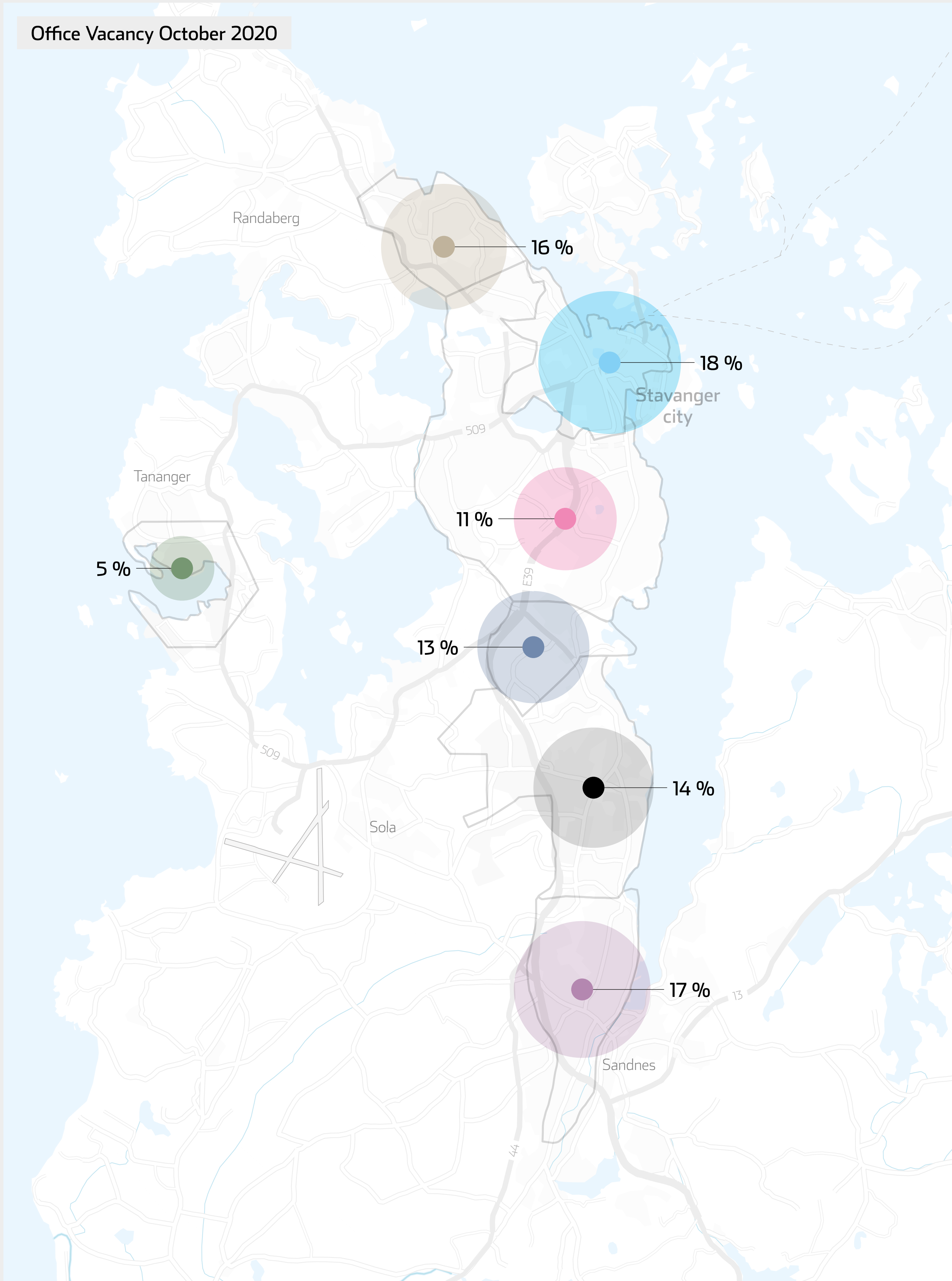
› There are several more projects in the planning phase in the region awaiting tenants; several hundred thousand square metres may be realised if leases are signed. However, the current market situation with low rents and high vacancy should limit the pipeline of new buildings.

Average of signed office rents (NOK/m2/yr.) in Stavanger region 2009-1H 2020



Source: Arealstatistikk

Office Vacancy October 2020

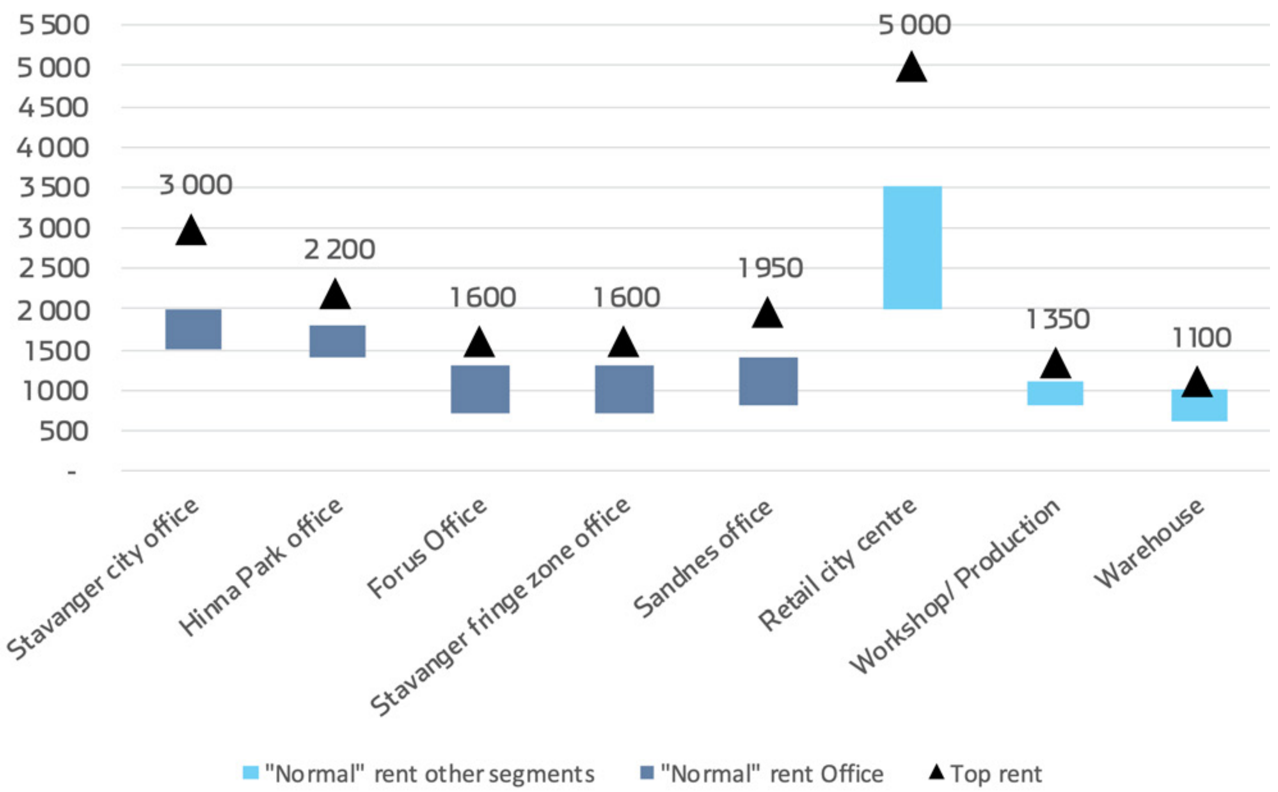


Total office Vacancy* = 14 %	Total office Supply* = 16 %

Forus · Dusavika · Stavanger city · Risavika · Sandnes · Hinna · Stavanger fringe zone

* See page 30. Source: Malling & Co/FINN.no

Indicative rents in the Stavanger region divided into areas and sectors (NOK/M²/YR)



* See definition of prime and normal rent at page 16. Source: Malling & Co

Investment market

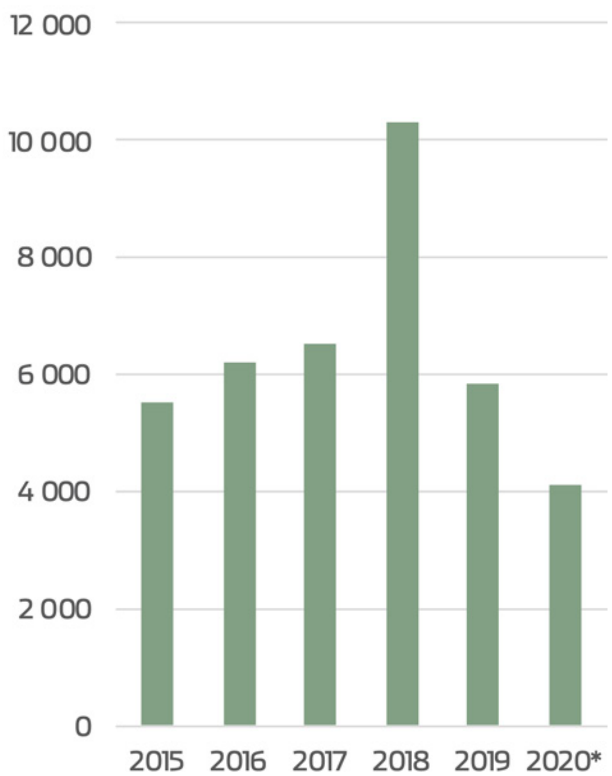
Stavanger has, as also observed in other Tier 1 cities, seen an increase in the activity level in the investment market. Several larger processes have been closed over the summer and a sense of optimism is back amongst investors, at least for more centrally located solid cashflow properties. We have registered just over NOK 4.1 billion in total transaction volume for the region year to date, spread across 19 transactions (over NOK 50 million). This pace should mean that the known pipeline of assets ready for, or already in, the market, pushes the total transaction volume and number of transactions up towards the normal level as seen in the years since 2015 until now. We still believe that activity in the investment market going forward will tend to be either focused on central long-term leases or strategic development of value-add opportunities. There are challenges in the letting market that will have investors varying both in segment and location, and the regional focus will not deviate from the national segment winners of office and logistics.

Recent transactions in the region:

› Rolfsenkvartalet, a central Stavanger 4 000 m² retail office property at Kirkegata11-13/Pedersbakken 1 was sold from the Rolfsen family to Stavanger retail.

› Stokkamyrveien 30, the former Schibsted printing press house, was sold from Schibsted to Futurum and Haakul.

Transaction volume Stavanger (MNOK)



* As of 9 November. Source: Malling & Co

Tollbugata 2 — Drammen

Malling & Co Drammen is assisting Holthefjell Eiendom with the letting of Tollbugata 2.

Dr. Hansteinsgate 13 — Drammen

Malling & Co Drammen is assisting
Vestaksen Eiendom with the letting of SporX.

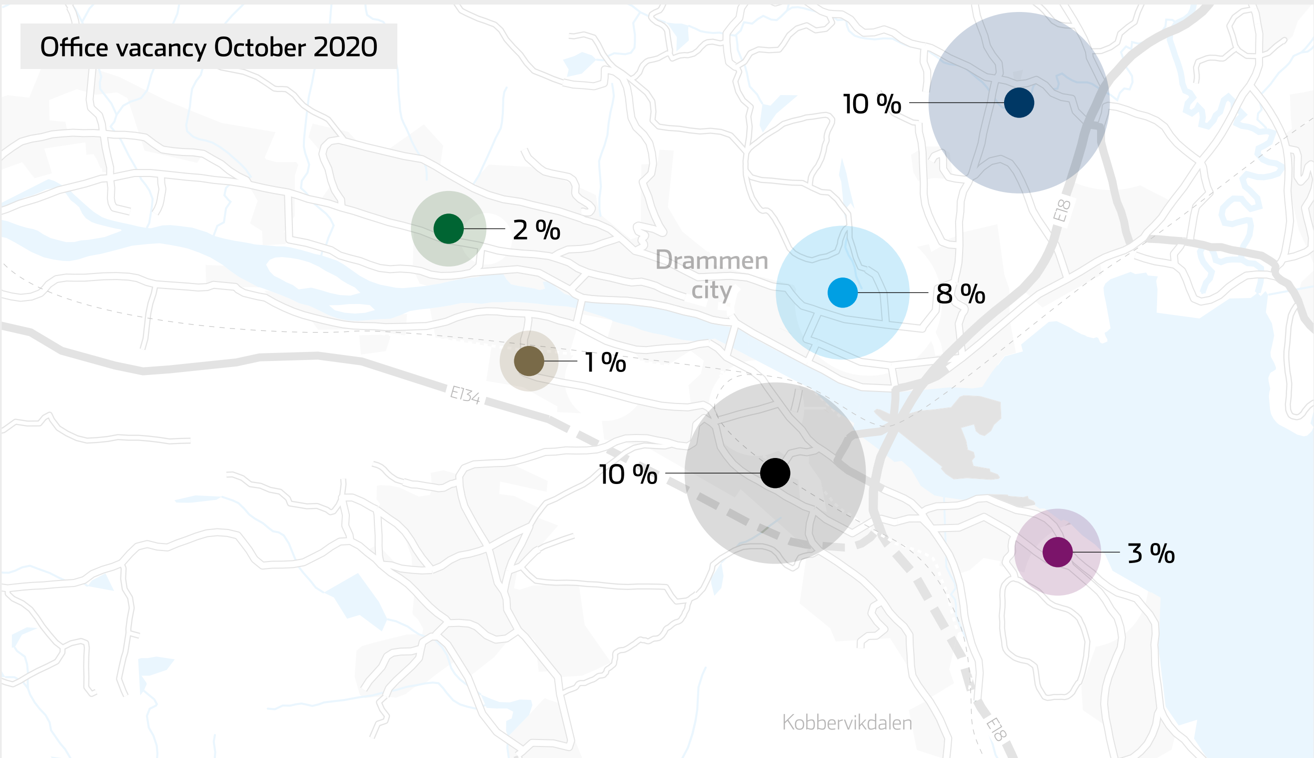
Drammen

Back on track

Our Drammen office is reporting good activity levels in the region following the summer. 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. There is a lot of development towards 2025 in the Drammen region. Both rail, road and public buildings have large scale construction projects in the pipeline. The total stock of 1 300 commercial properties in the Drammen region 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 office space and 2.7 % for industrial/logistics premises.

The rental market

There has been both increased activity on the supply and demand side of the rental market since the end of summer. Some of this activity may be a natural effect of the bottleneck situation that occurred as processes where put on ice over spring because of the pandemic. Several of these processes that were known from before are now back on track, along with other entities that have been forced to make a decision as they near expiry of existing leases or there have been changes in their space requirements.



Total office Vacancy* = 6 %	Total office Supply* = 7 %

● Strømsø ● Gulskogen/Konnerud ● Bragernes ● Åssiden ● Tangen/Glassverket ● Lier

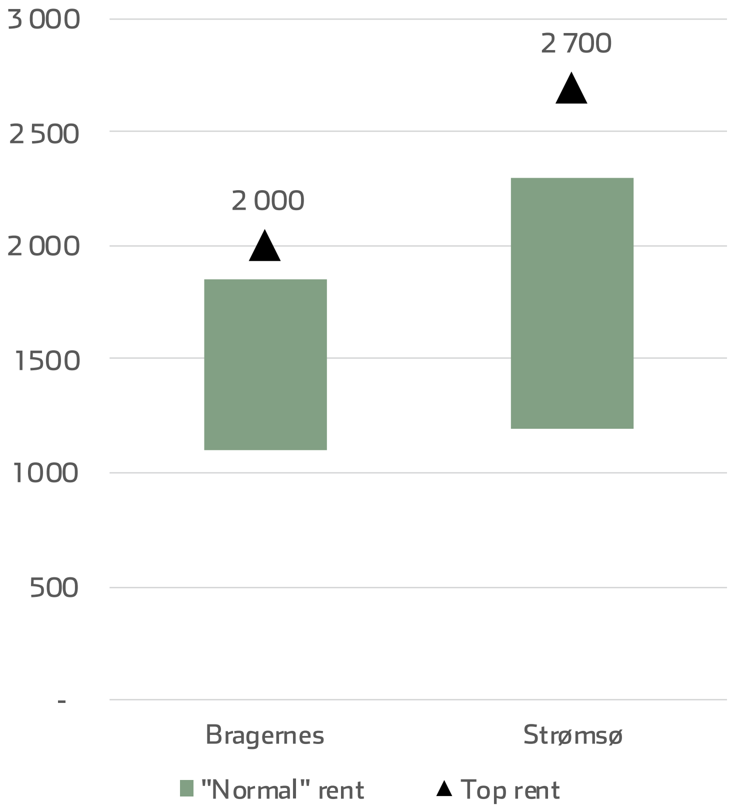
* See page 30.
Source: Malling & Co/FINN.no

Office

Supply side has increased significantly so far in 2020, as several central, high-quality newbuild and rehab projects are now surfacing at Strømsø. In connection with the launch of these projects, it is evident that new and well-designed projects with the right attributes are more attractive in the competition with existing, older and outdated alternatives. A mentionable example here is Axactor, which is moving into 2 200 m² in Union Eiendom's newbuild, Portalen, at Papirbredden. Another example is EY, which has signed a 720 m² lease agreement in the newbuild, SporX, developed by Vestaksen Eiendom next to Drammen train station.

Tenants keep pushing the bar in terms of the qualities they want to rent. Hence, the new supply is a welcome and sought-after product to fill their requirements. It will be a key driver in the continued positive development of converting older, outdated properties for residential or other common public uses to keep the supply/demand balance in the office market at an acceptable level.

Indicative rents in the Drammen region – Office (NOK/M²/YR)



* See definition of prime and normal rent at page 16. Source: Malling & Co

Selected latest lease agreements

› Kolonial.no has signed a lease agreement for roughly 18 000 m² of mixed-use space at Liertoppen Vest
› Axactor has signed a lease agreement for roughly 2 200 m² of office space at Portalen being developed by Union Eiendom
› EY has signed a lease agreement for roughly 720 m² of office space at Dr. Hansteinsgate 13 developed by Vestaksen Eiendom
› Norgips has signed a lease agreement for roughly 1 200 m² of office space at Torgeir Vraas Plass 4, owned by Obligo Eiendom

"High-quality newbuild and refurbishment projects are now surfacing at Strømsø."

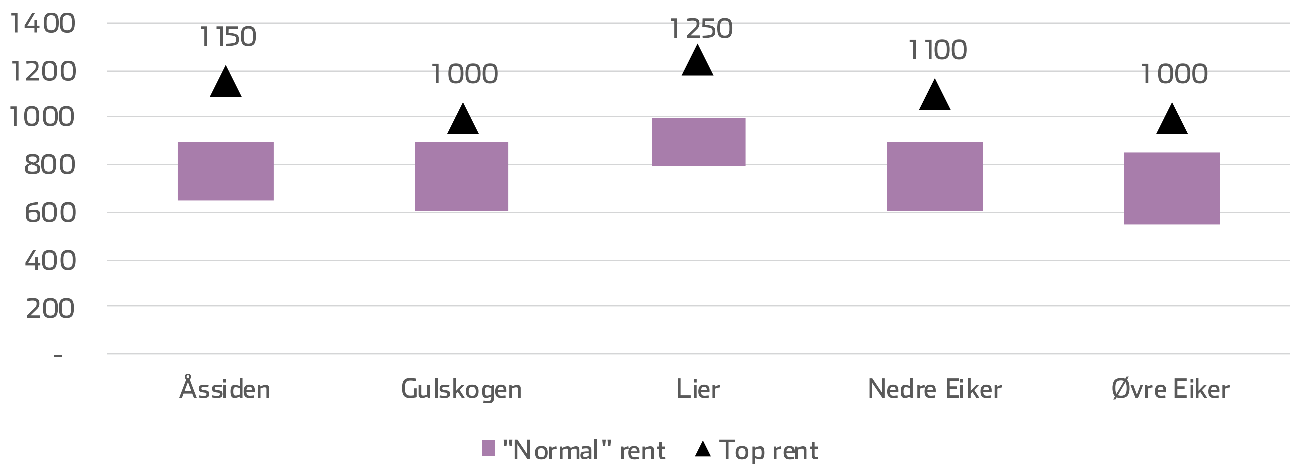
Logistics and mixed-use

The logistics segment is characterised by low vacancy on the existing stock of properties, but there is a potential supply side looming for projects that are available in the pipeline with just outside of 12 months' availability.

There is relatively good activity on the demand side for logistics properties. An example of a recent new entry into the region is online grocery retailer, Kolonial.no, with an 18 000 m² newbuild at Liertoppen West, developed by Eneo Eiendom. Kolonial.no is an example of an online retailer that has seen tremendous growth due to the pandemic and represents a type of new breed of logistics user with strict demands for the automated flow of goods, standards and energy efficiency of the building.

There are still some high quality plots of land available for development in Drammen, but it is clear that entities requiring a lot of space are tending to be pushed outwards to explore cheaper alternatives at Hanekleiva, Røyken and up towards Øvre Eiker.

Indicative rents in the Drammen region – Industrial (NOK/M²/YR)

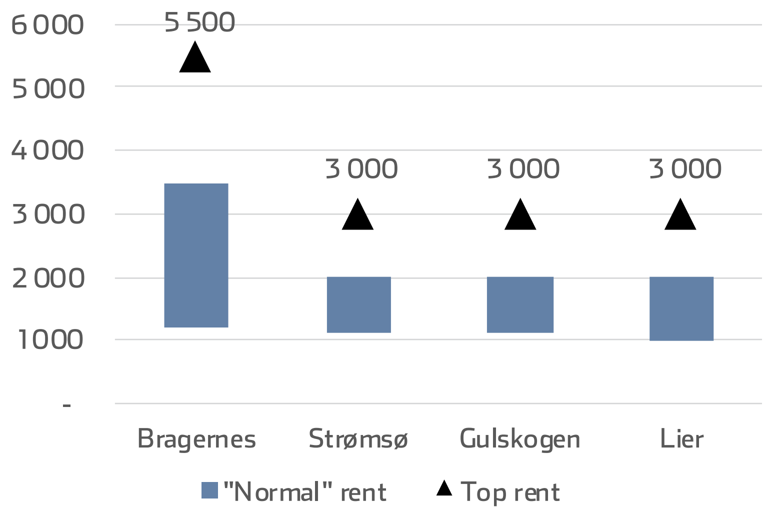


*See definition of prime and normal rent at page 16. Source: Malling & Co

Retail

There is still relatively good activity among larger retailers in the region. These entities usually value opportunities for good exposure, attractive demographics and efficient travel routes along the E 18. The challenge is the willingness to pay and slightly smaller utilisation than the breakeven targets for the land plots. Within the retail segments we are observing wide variations in activity levels. The operators of space-demanding retail, such as Europris, Rusta and Thansen, are still in the establishment phase and are still reporting increasing revenue despite the pandemic. Typical central high street locations tend, on the other hand, to remain vacant for longer periods.

Indicative rents in the Drammen region – Retail (NOK/M²/YR)



* See definition of prime and normal rent at page 16. Source: Malling & Co

The investment market

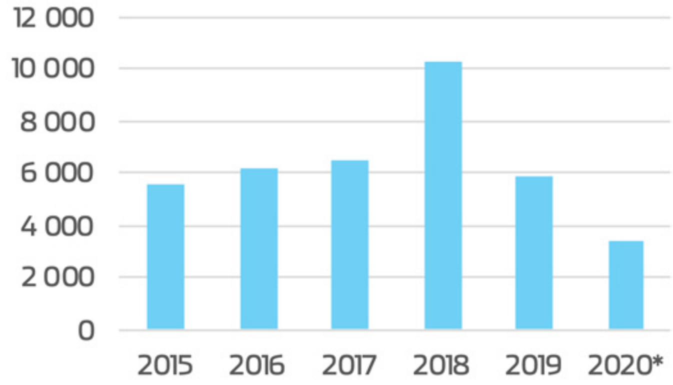
After coming to a screeching halt in March due to the pandemic lockdown, many processes were rebooted before summer. Most of these processes have now been closed with little effect on the price compared to pre-Covid-19 levels.

The general activity level was good before summer and just after, while keeping up a normal pace through August. As autumn arrived, however, we saw a rapid change of pace and demand for commercial real estate soared. Mixed-use properties and good office properties with long leases and low risk tenants are what are attracting investors. The buyers are primarily syndicates, although there are a fair number of local investors participating in these. Pure local investors are scarcer to find these days. The deals move quickly and negotiations are often exclusively off-market.

Drammen is catching the eye of more and more investors and we believe that this is mainly driven by the emergence of several public projects within rail, road, healthcare and other large public properties.

The area zoning plan for Lierstranda is well underway and multiple transactions in this belt are becoming a reality. Older industrial properties and industrial parks are being sold off for future residential developments. Several of the entities which have sold their properties have now bought new plots or signed lease agreements in the fringe zones, as well as several others who are actively searching for new premises.

Annual transaction volume Drammen (MNOK)



* As of 9 November. Source: Malling & Co

Selected latest transactions

- Bragernes Torg 12, Amtmand Bloms gate 1 A and Nedre Storgate 1, a 5 213 m^2 retail and office property ("the H&M building") in the centre of Drammen was sold from Excentra Eiendom AS
- Bjørnstjerne Bjørnsonsgate 78, Austadgata 21 and CO Lunds gate 3 and 5, a 12 771 m^2 big box close to the centre of Drammen was sold from Fevang Eiendom AS
- Kobbervikdalen 157 and 159, a 6 600 m^2 development plot close to E 18 in Drammen was sold from Vestaksen Eiendom AS
- Kjellstad Næringspark AS (14 100 m^2) in Lier and Hagaløkkveien 13 (6 090 m^2) in Asker was sold from majority owner Holtefjell Eiendom AS
- Industriveien 7 at Kongsberg, a 2 393 m^2 big box close to the centre of Kongsberg was sold sold to Kvadratera AS

Land

Searches for land are increasing and there is a growing acceptance of having to look further out in the fringes to find viable alternatives.

Fiskumparken along the E 134, between Hokksund and Kongsberg, and Hanekleiva industrial park in Sande, south of Drammen, will be important destinations as increasingly more of the industrial activity is pushed out from urban areas. These areas have zoning in place and there are partially developed plots ready for sale or further construction.

At Lierskogen, an area has been planned by the municipality to serve as a future industrial park, with plots already being sold. The area, which covers roughly 220 000 m², is close to the E 18 and 10-15 minutes' drive from Asker and Drammen. The area needs zoning and development, so the timeline has been extended, but boasts a very attractive package as the urbanisation of Drammen continues.

Bergen

Flight to quality

The first half of 2020 was a moderate six months for the transaction market in Bergen compared to the record year 2019. So far, we have recorded a strong increase in activity in 2H and expect a strong rebound in the fourth quarter. We find that investors' buying preferences have changed somewhat and that there is now significant interest in low-risk properties. In the rental market, we also see a clear increase in demand for quality, and more tenants are looking for premises in new or completely refurbished buildings.

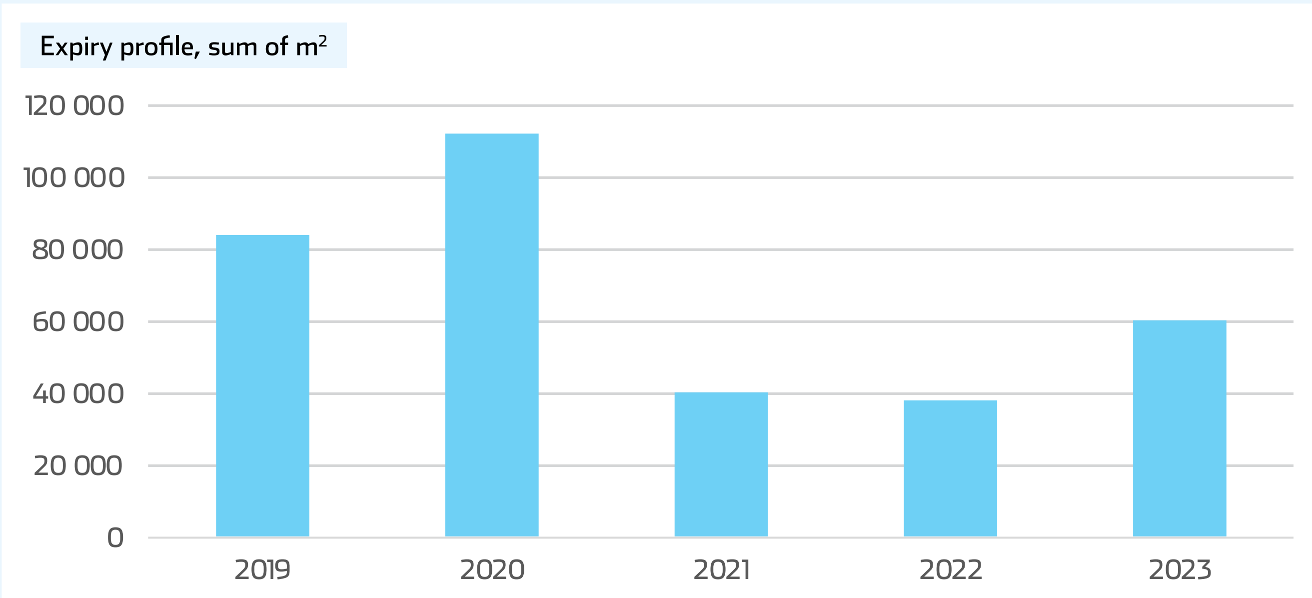
Office rental market and demand

The office rental market is perceived as stable both in terms of demand and rent levels. It is too early to see any direct Covid-19 effects. Bergen has a total office volume of approximately 2.5 million m^2 and a vacancy level of approximately 200 000 m^2, corresponding to approx. 8 %. An increase in construction activity is expected, and probably also a slight increase in office vacancy, in the coming years. At the same time there are substantial geographical differences in office vacancy, see the "Vacancy" section for further information.

In March, we experienced a slowdown in the rental market as a result of increased uncertainty associated with the Covid-19 outbreak. However, this uncertainty was less extensive and more short-term than was the case for the transaction market. We have seen relatively steady demand for office space and market activity is still good.

There has been a preponderance of large office users looking for space from 800-2 500 m^2, several of them public sector tenants. The geographical areas most in demand are still those with the lowest office vacancy in central Bergen.

We register that there are relatively few leases with expiries in the coming years compared to 2020. According to Arealstatistikk's figures, for the period 2021-2023 an average of 46 000 m^2 expires annually, while the corresponding figure for 2020 was 112 000 m^2. If we view this in the context of expected newbuilding activity, stronger competition for tenants must be expected in the future. However, it is worth noting that Arealstatistikk's sample includes approx. 30-35 % of the market in Bergen and that the lease expiry structure of the remaining market is unknown.



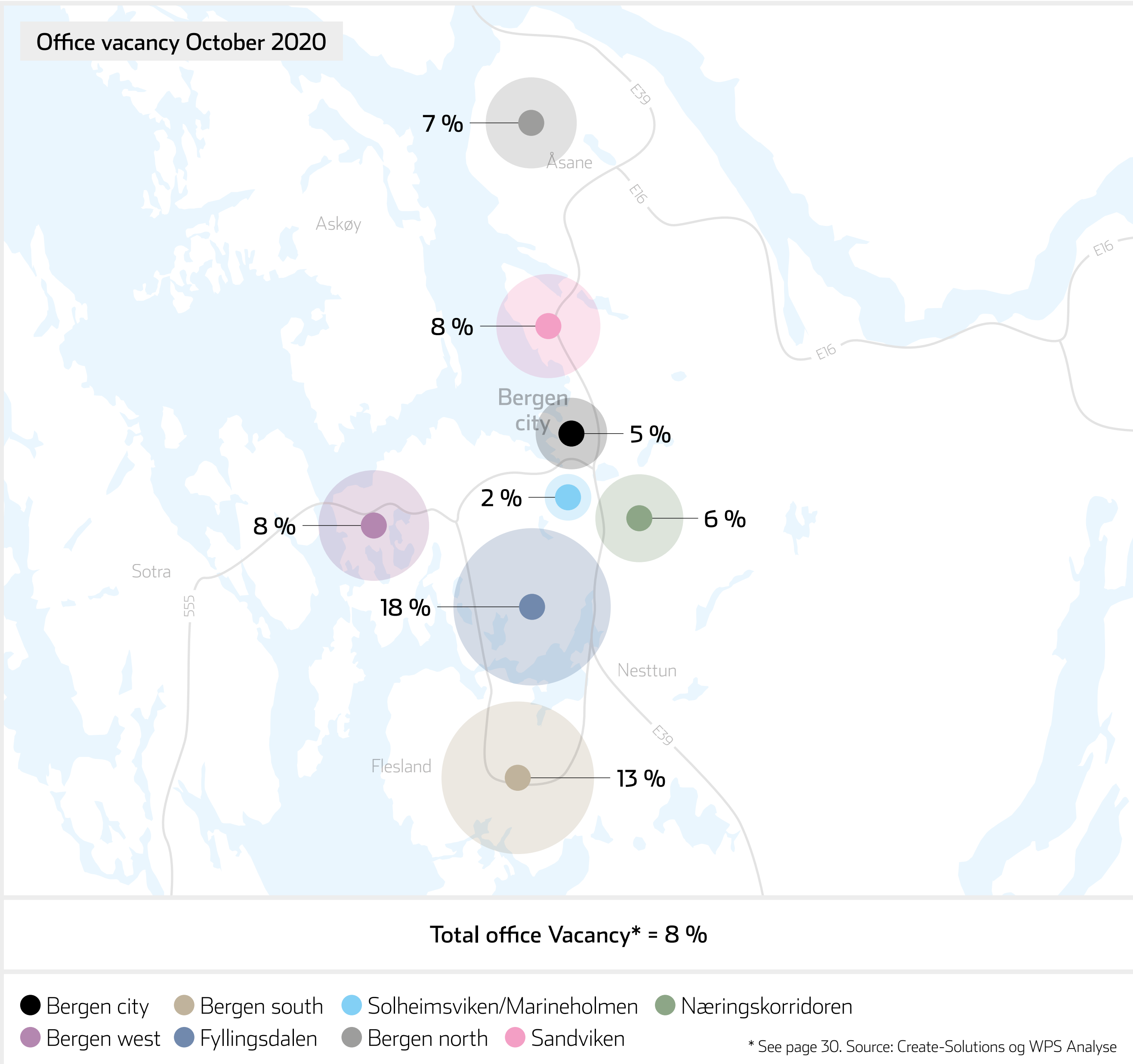
Source: Arealstatistikk

Vacancy

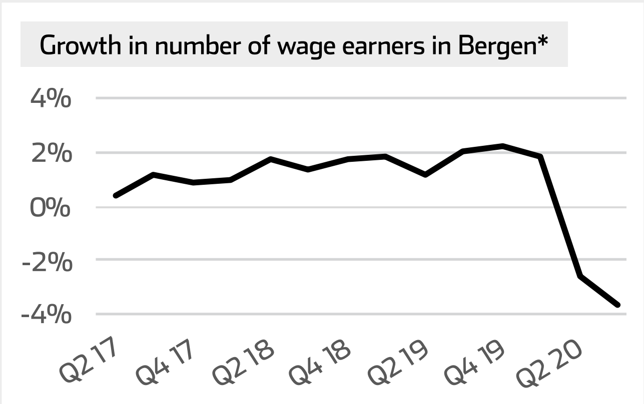
The office vacancy level is stable and at par with the first half of 2020. We do not see any immediate vacancy effects as a result of Covid-19, but it is still too early to draw firm conclusions. Regarding the different geographical areas, both "Næringskorridoren" (from Kronstad to Fjøsanger) and Solheimsviken / Marineholmen have reduced vacancy by 100 bps since the first half of the year, and vacancy in the latter area is now down to 2 %. At the opposite end of the scale, we find Bergen South and Fyllingsdalen, where vacancy has increased by 100 bps compared to the first half of the year. The remaining areas have unchanged vacancy.

Over the next three years, we expect a slight increase in office vacancy. Weak/negative employment trends have historically resulted in higher office vacancy, but Bergen has had a positive development in employment growth since 2016 and this has contributed to lowering vacancy levels. However, growth in wage earners was negative in both Q2 and Q3 2020 compared to the same quarters in 2019, at -2.6 % and -3.7 % respectively. In addition, Statistics Norway's national forecasts for 2020 show a fall in employment of -2.0 % for Norway in general and the above quarterly numbers indicate that Bergen is no exception from the forecasted reductions y/y.

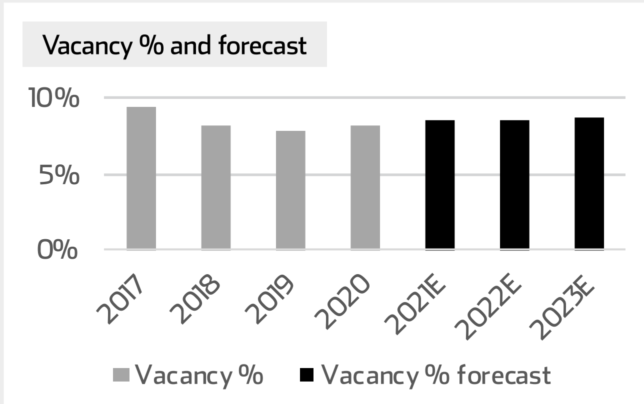
In the next few years, several new buildings will be added to the office market - on average almost 20 000 m^2 annually. According to Arealstatistikk's figures, there are far fewer leases for large premises expiring in 2021-2023 than expired in 2019-2020. There will thus be stronger competition for tenants, in addition to fewer leases expiring.



* See page 30. Source: Create-Solutions og WPS Analyse



* Change from same quarter previuos year. Source: Statistics Norway



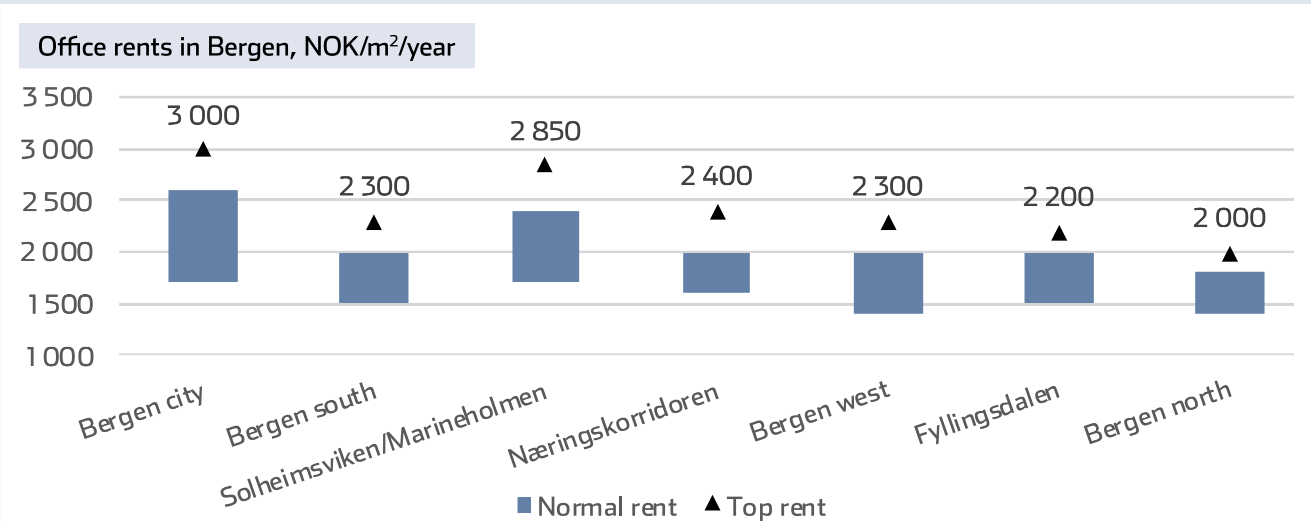
Source: Create Solutions, WPS Næringsmegling

New office developments

- Midtbygget: 6 000 m² developed by Linstow at Lønningsvegen 57 (completion Q4 2020)
- Fantoftparken: 6 500 m² developed by Nordr Eiendom at Storetveitvegen 100 (completion Q1 2021)
- Kilen: 4 000 m² developed by Frydenbø Eiendom at Tverrveien 7 (completion Q2 2021)
- Buen: 14 000 m² developed by Bara Eiendom at Fjøsangerveien 48 (completion Q1 2022)
- BIR head office: 6 000 m² developed by BIR at Lungegårdskaien 42 (completion Q4 2022)
- Fylkesbygget: 27 000 m² developed by Vestland County at Agnes Mowinckels gate 5 (completion Q1 2023)
- Kronstad X: 16 000 m² developed by Backer at Bjørnsons gate 29 (completion Q2 2023)

Rental prices

In recent years, we have seen steady positive rental growth, with a particularly strong development in the top segment. The rent level for the top segment is largely governed by the property and several new high-quality buildings are planned for the coming period, which may form the basis for an increase in rent levels for the best properties. Regarding the effect of Covid-19 on rents, we have not seen any significant impact yet. Our forecasts indicate a flat development in the normal segment, but price pressure may arise in geographical areas with high vacancy. Furthermore, we expect a slight increase for prime rent as a result of the new buildings that will be completed in the coming years.



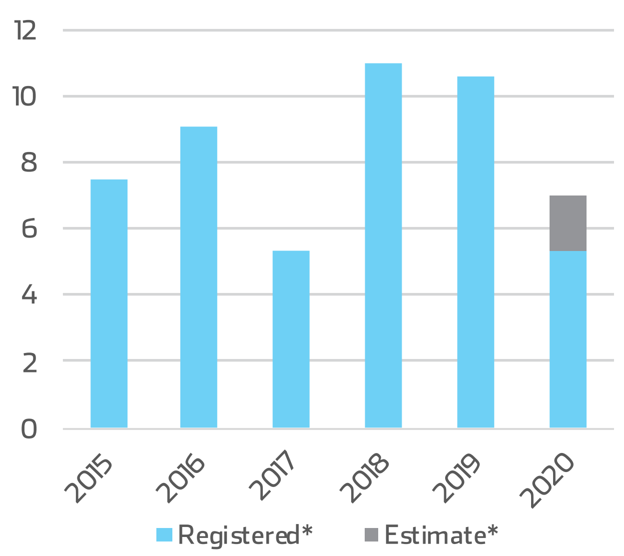
Source: WPS Næringsmegling

Investment market

Demand and volume — The YTD volume is NOK 5.3 billion, compared to NOK 6.7 billion in the same period in 2019. The uncertainty associated with the Covid-19 outbreak brought the transaction market to a sudden halt in March and, for the first half of 2020, the volume was only NOK 500 million. So far in the second half of the year, there has been a strong increase in activity in the transaction market and we expect a strong rebound in the fourth quarter with an estimated total volume for 2020 of NOK 7.0 billion. Demand for commercial real estate is still strong, but there are relatively few properties for sale in the market. In our latest investor survey, 70 % of investors stated that they are net buyers for the next 12 months and not one said they are net sellers.

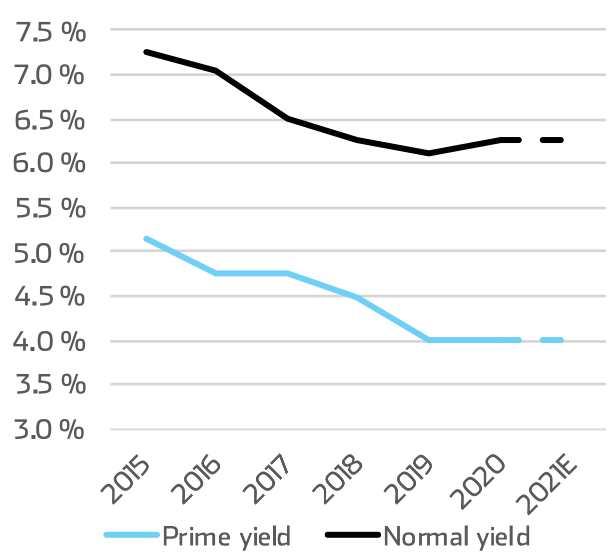
Yields — Prime yield in Bergen is estimated at 4.00 % while normal yield is estimated at 6.25 %. The difference between normal and prime yield is now 225 bps. This is historically high and we think it can be attributed to a "flight to quality" by investors. The uncertainty surrounding Covid-19 is leading investors to seek safer investments and we expect increased interest in prime property. Whether this will lead to a change in prime yield is too early to say. In the normal segment, we expect moderate value adjustments, as increasing risk premiums may lead to yield expansion. We believe that investors will place more emphasis on counterparty risk rather than future rental growth, which historically has been an important value driver in the market.

Annual transaction volumes in Bergen, NOK bn.



* Registered YTD 31. Oct. 2020, estimate for Nov-Dec. Source: WPS Næringsmegling

Yield development in Bergen, %



Source: WPS Næringsmegling

This section has been provided by WPS Næringsmegling in Bergen.
To check out more details about the CRE market in Bergen — click here

Kokstadflaten 4 — Bergen

Malling & Co Eiendomsutvikling is managing the project on behalf of Nordea Liv Eiendom. The project in its entirety will consist of 24 000 m^2 new areas as well as rehabilitation of 3 500 m^2.

Fridtjof Nansens vei 12 — Oslo

Malling & Co Næringsmegling was commissioned to act as the broker for Fridtjof Nansens vei 12, approx. 20 000 m².

Retail

From headwind to tailwind

When Norway "closed down" in March, few people expected 2020 to be a booming year for the retail industry (us included). Unemployment and temporary layoffs reached record high levels within days and many stores had to temporary close as people avoided crowds and stayed at home more. But even though the last weeks of March were quite dramatic, it did not take long before Norwegians started spending their money again and retail turnover more than recovered.

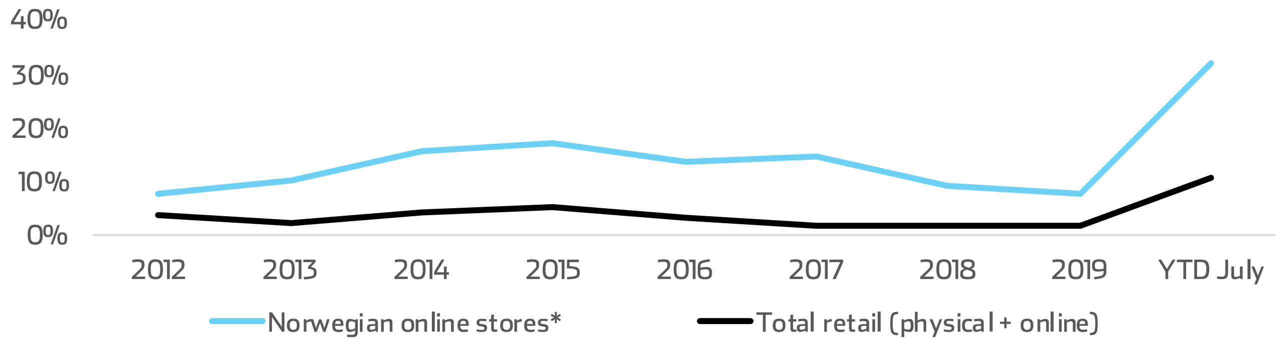
Over the past six to seven months, we have seen a boom in retail turnover, largely facilitated by significantly lower interest rates and changes in spending habits. In September, Statistics Norway's retail volume index showed that total retail (physical stores and online) was 8.6 % above the level in September 2019 and, for online sales, the corresponding increase was 20.0 %. Both numbers show a massive growth, especially compared to the annual growth in 2019 at 1.7 % for total retail and 7.8 % for online. It is especially the segments related to housing, sports, and leisure, in addition to groceries and alcohol, that have seen the largest increases. Norwegians' increased appetite for retail goods and products is expected to continue in Q4 and we may see record high levels of "Christmas shopping". In 2021, growth is expected to decline for most segments, but significantly less than the growth we have seen this year, leaving retail volume at higher levels than prior to the pandemic.

The 2020-retail boom is also affecting property investors and the yield increase, which has been fairly continuous since 2017, now seems to be flattening out. A larger proportion of investors are planning to be net buyers of retail property in the next 12 months and a smaller proportion are planning to be net sellers.

Online continues to be the growth winner

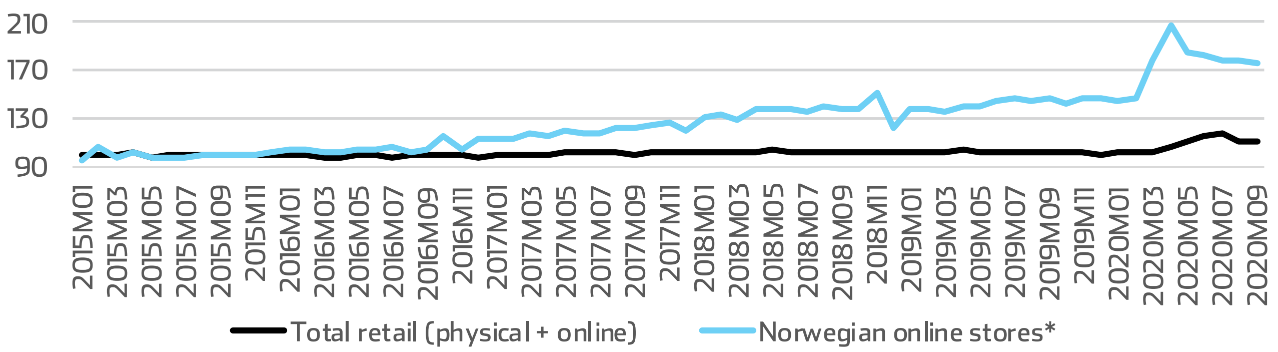
When comparing retail sales channels, online was the "growth winner" for many years prior to the pandemic. However, as online has increasing become the purchasing method used by many retail customers, annual growth in percentage terms has declined from double digits to single digit, despite total spend increasing. During the pandemic, online has experienced a "new boom" and reached record high growth numbers, especially in the first months of the pandemic. During the summer, the online growth rate decreased somewhat, but volumes are still significantly above 2019 levels. Retail in physical stores has also increased, although to a smaller extent than online. Many stores and shopping centres have struggled, especially in the larger city centres, as people avoided crowds and changed their shopping habits.

Retail turnover growth (excl. vehicles), annual 2012-2019, YTD July 2020, %



Source: Statistics Norway, Virke analyse (Handelsrapporten 2020-2021)
* Online also includes potential other sales not in stores

Retail sales volume index (excl. vehicles), 2015 - September 2020, Index 2015 = 100



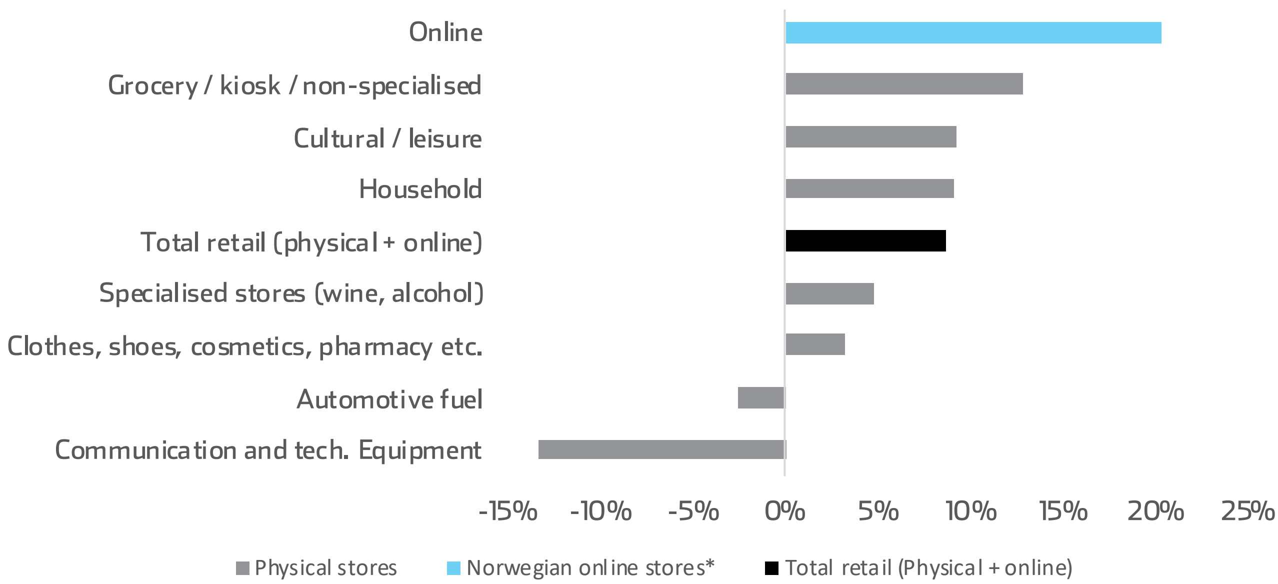
Source: Statistics Norway, Virke analyse (Handelsrapporten 2020-2021)
* Online also includes potential other sales not in stores

Groceries, leisure goods and housing-related products atop the "podium"

Even though the last six to seven months have resulted in significantly increased retail consumption in Norway, it has not been "evenly distributed" across the segments. While many categories have been performing extremely well, some are still facing headwinds. As the latest volume index from Statistics Norway shows, online stands atop the "podium", followed by grocery/kiosk, culture/leisure, and household. Fewer restaurant visits and trips to Sweden for grocery and alcohol shopping have contributed significantly to this shift. Norwegians have also been carrying out home improvements like never before, leading to increased sales of hardware, building materials, furniture and suchlike. Increased outdoor activity and "Staycation", instead of holidays abroad, have led to high growth numbers for culture/leisure-related products.

At the opposite side of the scale, we find automotive fuel and communication and technology equipment. The latter may seem surprising, but is due to the fact that most home computers and other necessary equipment for the home office are sold through stores which come under the household category.

Retail sales volume index (excl. vehicles), September 2020 vs. September 2019, %

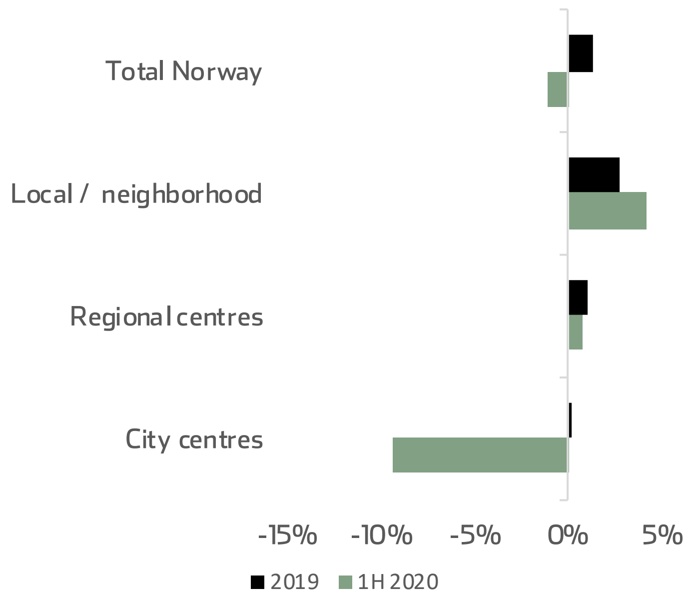


Source: Statistics Norway
* Online also includes potential other sales not in stores

Preferences for local retail

As seen in March and April, shopping centres located in city centres have been struggling the most in terms of sales, while local shopping centres have been performing significantly better. According to Kvarud Analyse, the first half of 2020 saw a decline in total turnover of 1.1 % in Norwegian shopping centres, driven by reduced sales of 9.4 % in shopping centres located in the city centres. Regional shopping centres experienced growth at 0.8 %, while local centres performed best with growth at 4.1 %. More "home office" and less travelling to the city centres is one of the reasons for this, as well as the different tenant mixes across the categories. While local shopping centres often comprise a high proportion of grocery, which has been performing very well recently, shopping centres located in city centres often comprise a high proportion of clothes and other low performing segments.

Turnover growth at shopping centres based on location, 2019 and H1 2020, Annual change, %

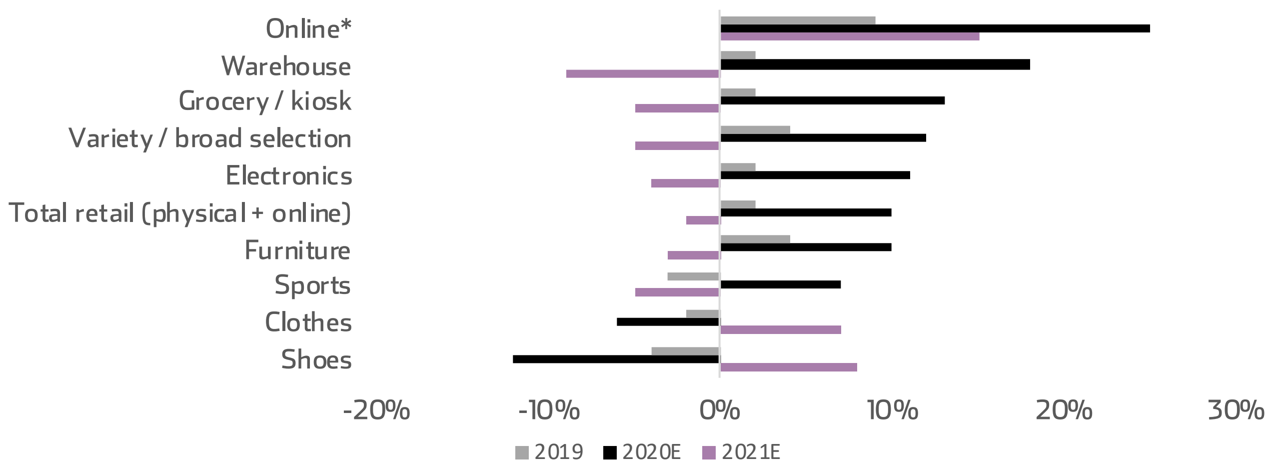


Source: Kvarud analyse, Virke analyse (Handelsrapporten 2020-2021)

Negative growth projected in 2021, but volumes still at higher levels

The further development of the pandemic is naturally difficult to predict and projections will therefore be more uncertain now than they usually are. The projections from Virke Analyse, presented in the graph, assume that infection prevention and control measures will be necessary well into 2021, but that the pandemic has been kept under control, thus avoiding a new lockdown in Norway. The projections further assume that Norwegians will continue to spend more time at home in 2021 due to the pandemic. Total retail (excluding vehicles and fuel stations) is expected to grow 10 % in 2020, compared to 2019, and online stores alone are expected to reach an annual growth of a formidable 25 %. Next year, it is expected that most segments will decline compared to 2020, although the projected drops are significantly smaller than the corresponding growth in 2020, leaving retail sales on a higher level than prior to the pandemic. Online is the only segment with projected growth in both 2020 and 2021.

Annual retail growth per category, actual 2019 and projected 2020 and 2021 (excl. vehicles and gasoline)



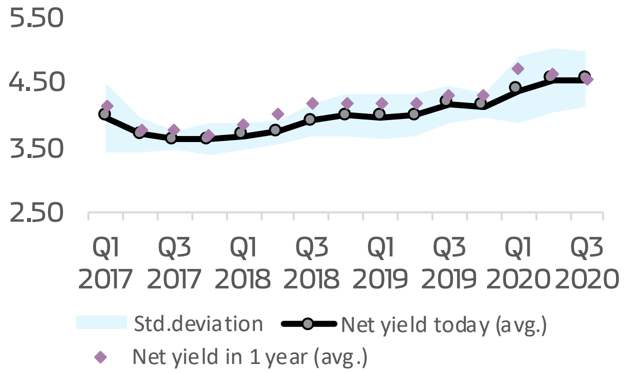
Source: Statistics Norway, Virke analyse (Handelsrapporten 2020-2021)
* Online also includes potential other sales not in stores

Flattening yield curves for both prime and normal retail property

Uncertainty about future consumer preferences and spending habits has impacted retail yields for several years. Since the second half of 2017, prime yield has increased on a fairly continuous level from around 3.60 % in Q3/Q4 2017 to 4.55 % in Q2 2020, according to Malling & Co's transaction survey. The survey is sent out to a representative group of investors in the Norwegian CRE market and respondents answer anonymously. After a gradual increase over several years, the Q3 results showed a flattening yield curve and prime yield at 4.55 %, equal to the quarter before. Compared to the estimated yield in Q1 (presented in our last market report), prime yield at 4.55 % is equal to an increase of 15 bps, up from 4.40 %. The yield development for "normal" retail properties has followed the same pattern as prime yield, but to a smaller extent, moving from 5.00 % in Q4 2017 to 5.60 % in Q3 2020. Compared to Q1 2020, normal yield has increased by 5 bps.

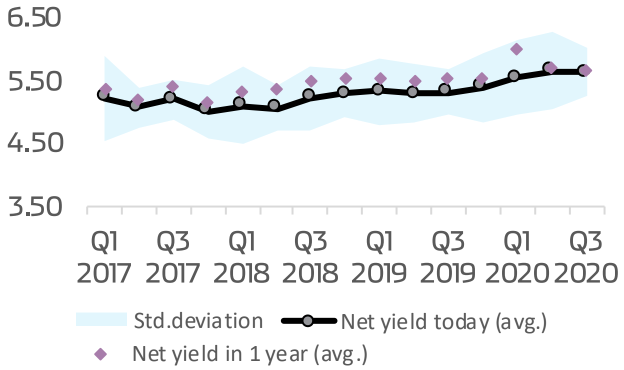
Over one year, the investors surveyed expect prime yield to stay at its current level of 4.55 %, While normal yield is expected to increase slightly, from 5.60 % to 5.65 %. This is in sharp contrast to expectations in Q1, when investors expected both yields to increase significantly. The large growth seen in many retail segments in 2020, in addition to significantly reduced interest rates, were among the factors influencing this shift.

Prime yield retail, %



Source: Malling & Co

Normal yield retail, %



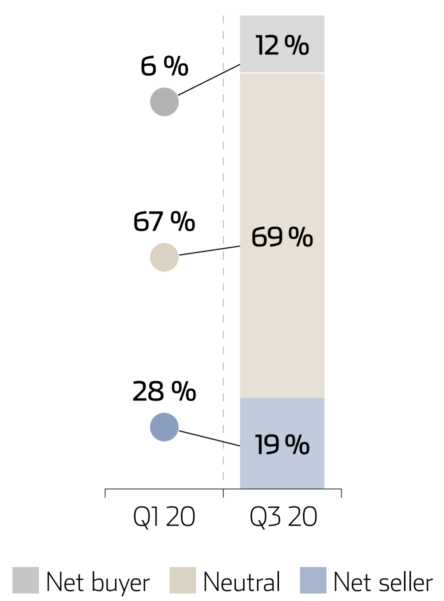
Source: Malling & Co

Slightly increasing appetite for retail properties among investors

According to Malling & Co's transaction survey, investors' appetite for retail properties is still limited, yet on a slightly increasing trend. In Q3 2020, 12 % of respondents are planning to be net buyers of retail property, 19 % are planning to be net sellers, and 69 % are planning for a neutral position in the coming year. In Q1, the corresponding numbers were 6 % planning to be net buyers, 28 % planning to be net sellers and 67 % planning to be neutral.

The retail boom we have seen in 2020 for many segments will probably lead to increased interest in retail property, at least for the high performing segments. Higher turnover is also likely to increase tenants' ability to pay potentially higher rents, which consequently could lead to higher property values. However, according to our transaction survey, there are more net sellers than net buyers in the market, possibly implying a "buyer's market".

Desired exposure to Retail properties in the coming 12 months, % of respondents



Source: Malling & Co

Mariboes gate 6-8 — Oslo

Malling & Co Property Partners has acquired Mariboes gate 6-8 in Oslo which consist of 6 750 m² of office, food and beverage facilities, arranging a "club deal" on behalf of its investors.

Thon Hotel Ullevaal Stadion — Oslo

Malling & Co Energi og Miljø has assisted OPF in obtaining a BREEAM-In-Use certificate for part 1 with the grade "Very Good". The property is managed by Malling & Co Forvaltning.

Hospitality

The lost year of 2020 continues

2020 has been a tough year for the Norwegian hotel market. Infection prevention and control measures, both domestic and internationally, have resulted in a steep fall in the demand for hotel services, including rooms, restaurants and events like conferences and weddings. The pandemic has so far resulted in total room revenues dropping 39.4 % nationally in Q1-Q3, compared to the same period in 2019. In Oslo, the corresponding drop is even worse, at 61.4 %.

The last quarters' dramatic decline in hotel revenues has not only affected hotel employees and operators to a large extent, but also hotel landlords. Scandic Group reported a drop of 39 % in rent expenses in Q2 2020, compared to Q2 2019, directly affecting its hotel landlords' rental income to the same extent. Additionally, uncertainty surrounding the recovery in the market, combined with reduced rent expectations, are affecting property values negatively.

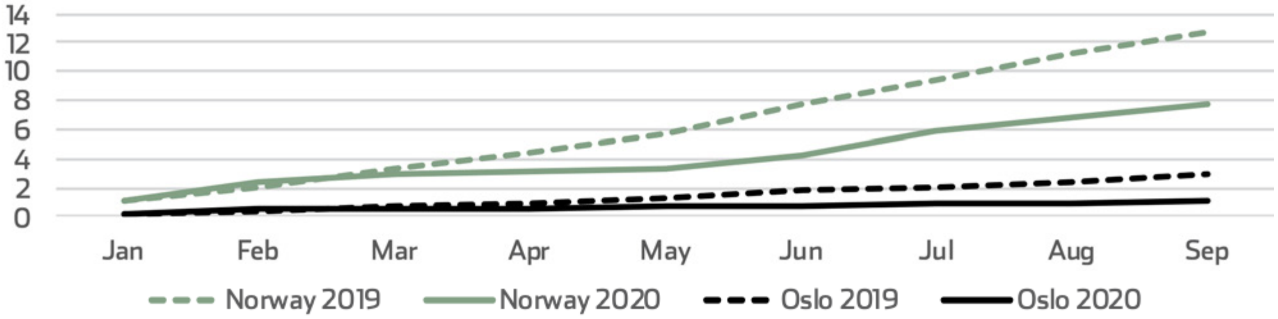
As of November, there is little light at the end of the tunnel for Norwegian hotels, at least in the short term. A second wave of the pandemic has hit many European countries and, also in Norway, we have seen an increasing number of people infected with the virus since the summer. A vaccine is needed before a recovery in the hotel market is likely, but the timing of the vaccine is still uncertain. Most likely, it will take years before the Norwegian hotel market will return to pre-Covid-19 levels.

Short-lived recovery in July

Norway — Room revenue from guest nights in Q1-Q3 2020 amounted to NOK 7.8 billion nationally. Compared to room revenue in Q1-Q3 2019, at NOK 12.8 billion, this is a decline of almost 40 %. Since March, occupancy has been significantly lower than in the corresponding months in 2019. However, the Average Day Rate (ADR) has not seen drops of the same proportion, and July even resulted in significantly higher ADR than last year, up 14.3 %. Revenue per available room (RevPar) was lower from March to September than in 2019, except for in July, when RevPar was 7.8 % higher. The improved situation in July was mainly due to many Norwegians spending their summer domestically. But this was not enough to offset the loss of foreign tourists and, overall, July resulted in poorer results for Norwegian hotels than in July 2019.

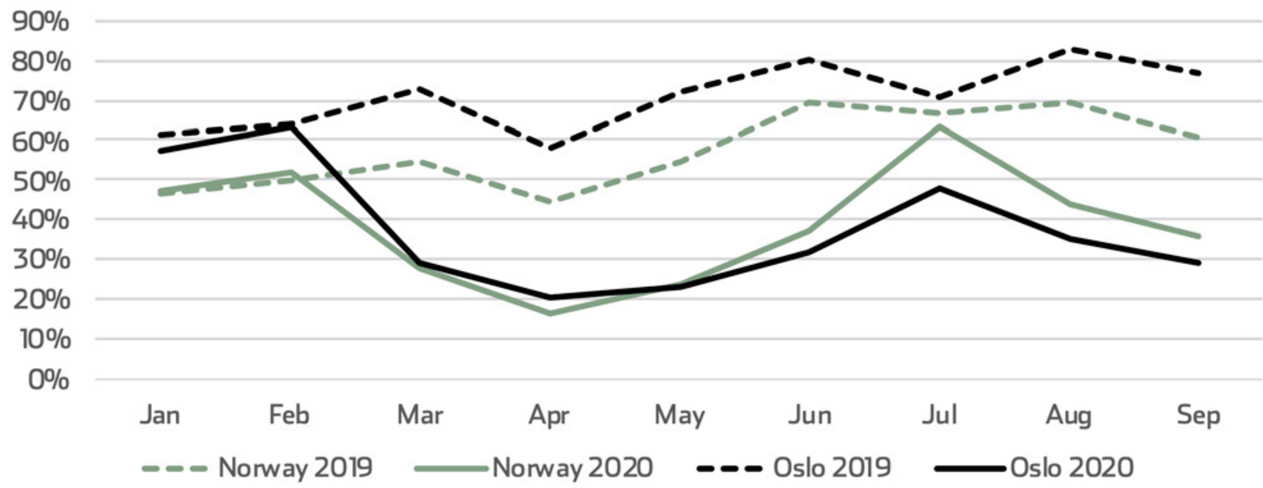
Oslo — The hotel market in Oslo has been among the hardest hit regions in Norway. Its high exposure to conferences, business travel and private events, in addition to a higher share of international guests than the national average, have made the situation especially challenging during the pandemic. Additionally, Oslo has seen the highest infection number of cases per capita and introduced stricter infection prevention and control measures than other regions, not exactly helping the situation for the hotels. Total room revenue in Q1-Q3 2020 dropped 61.4 % compared to 2019, down from NOK 2.9 billion to NOK 1.1 billion. After February, Occupancy, ADR and RevPar have all been significantly lower than in 2019. In July, Oslo experienced improvements in occupancy and RevPar, but not to the same extent as seen nationally, since most domestic tourists chose to spend their vacation outside of the largest cities.

Room revenue (NOK billion), Accumulated January-September 2020 vs. 2019



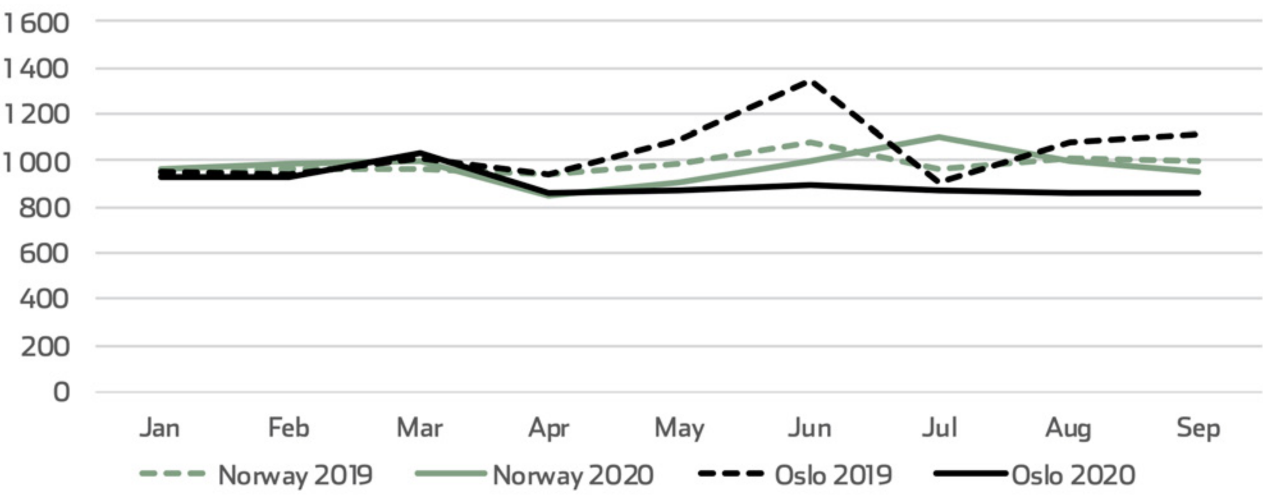
Source: Statistics Norway

Occupancy (%) per month, January-September 2020 vs. 2019



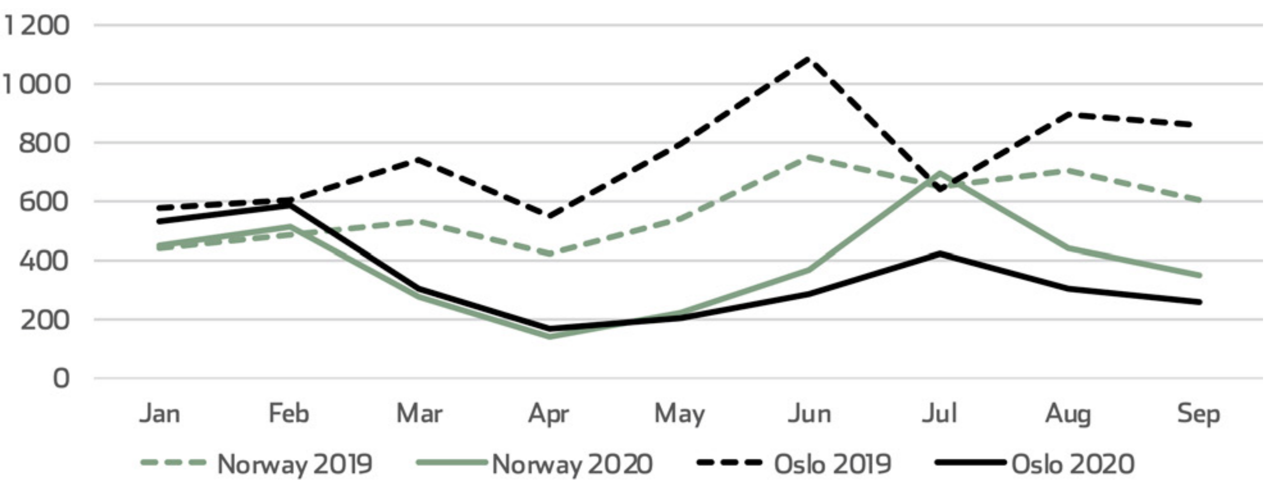
Source: Statistics Norway

Average day rate (ADR) per month, January-September 2020 vs. 2019, NOK / Room



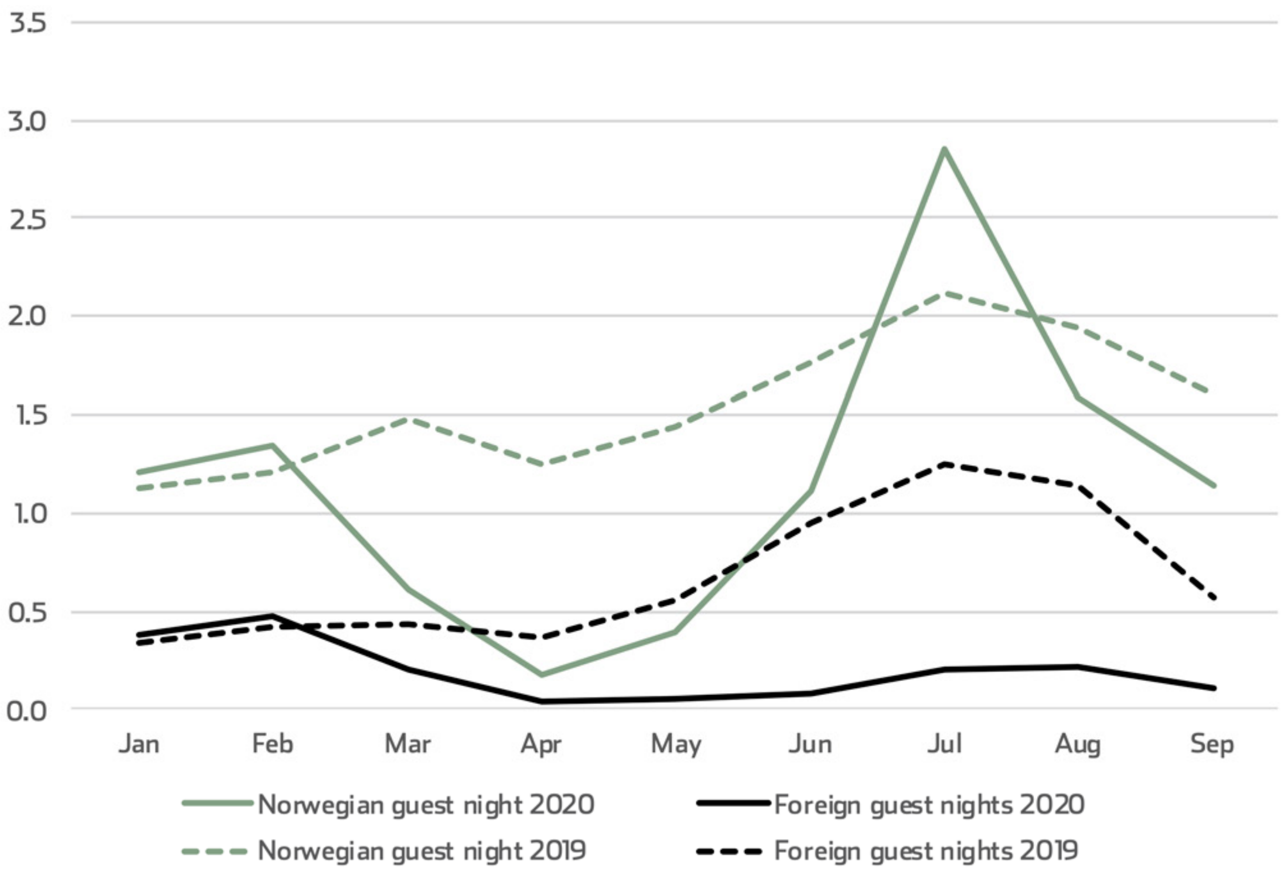
Source: Statistics Norway

Revenue per available room (RevPar) per month, January-September 2020 vs. 2019, NOK / Room



Source: Statistics Norway

Norway: Number of nights per month by Norwegian and foreign guest, Jan - Sep 2019 and 2020, million



Source: Statistics Norway

Key figures summary, Q1-Q3 2020 vs. 2019	Oslo			Norway		
	Q1-Q3 2020	Q1-Q3 2019	2020 vs. 2019	Q1-Q3 2020	Q1-Q3 2019	2020 vs. 2019
Total room revenue Q1-Q3, MNOK	1 103	2 859	(61.4 %)	7 772	12 817	(39.4 %)
RevPar YTD September, NOK	365	754	(51.6 %)	406	571	(28.9 %)
ADR YTD September, NOK	910	1 057	(13.9 %)	998	988	1.0 %
Occupancy, YTD September %	40 %	71%	(31 p.p.)	41 %	58 %	(17 p.p.)
Total # of guest nights Q1-Q3, Million	1.81	4.10	(55.9 %)	12.22	19.94	(38.7 %)
Norwegian guest nights, Million	1.42	2.58	(45.2 %)	10.46	13.92	(24.9 %)
Foreign guest nights, Million	0.39	1.52	(74.2 %)	1.76	6.02	(70.7 %)

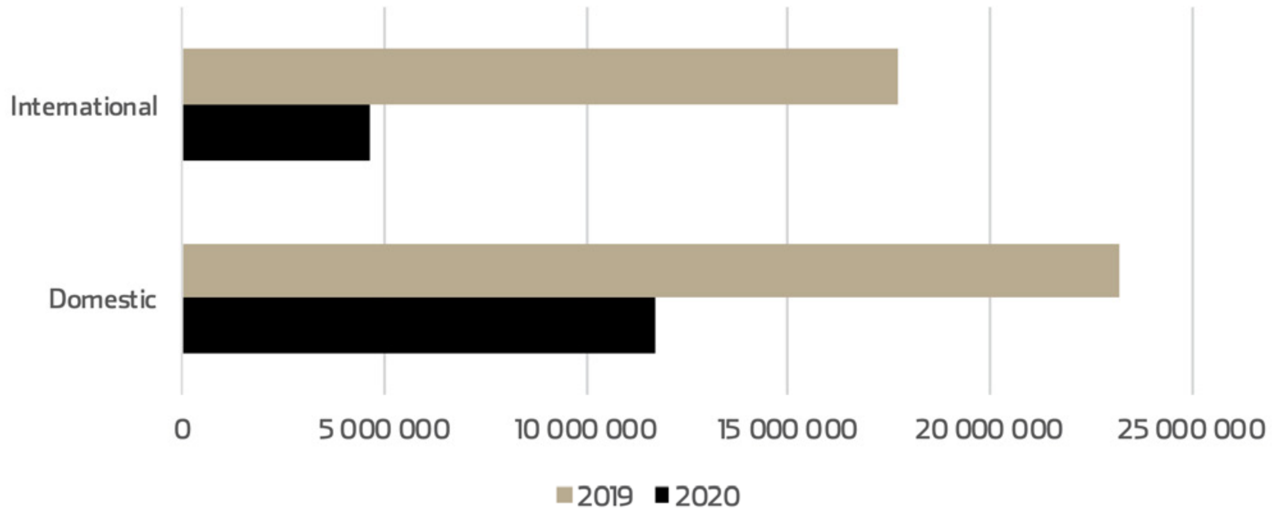
Source: Statistics Norway

Limited air traffic expected going forward

Growth in air traffic has historically contributed significantly to growth in the hotel market. In 2020, the pandemic has resulted in a huge decline in number of passengers at Norwegian airports, also affecting the hotel market. The total number of domestic passengers at Norwegian airports has dropped almost 50 % from January-September 2020 vs. January-September 2019, while the number of international passengers has dropped almost 74 %.

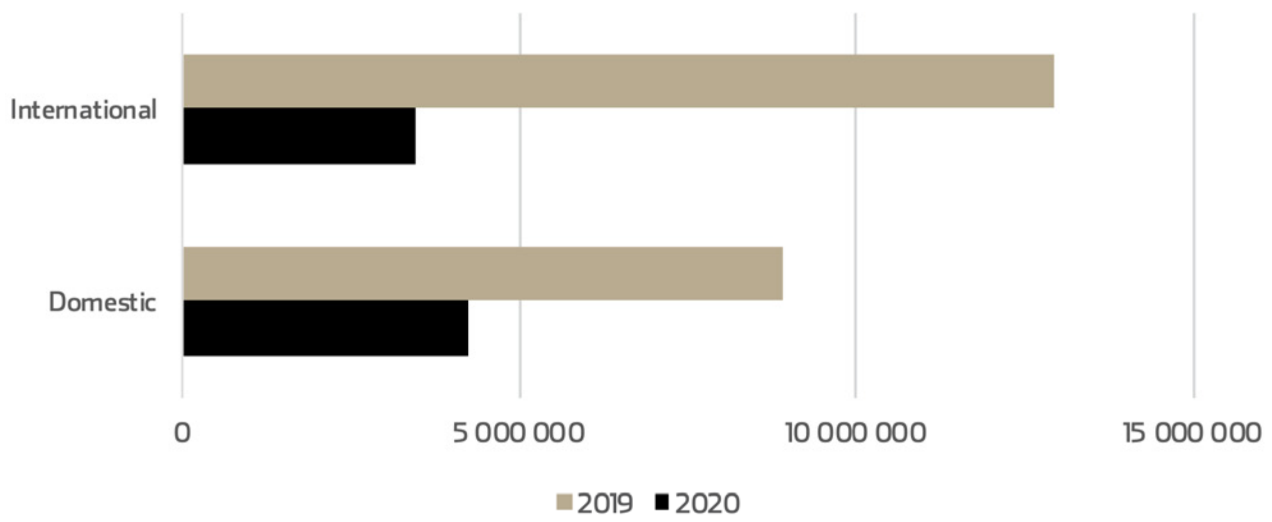
The further development of travel and air traffic will depend on how the pandemic develops during the winter season. Previous international crises, such as SARS, the global financial crisis and September 11th, reduced international travel activity for 12-42 months, according to the World Tourism Organization. The International Air Transport Association (IATA) is expecting it to take 3-4 years before global passenger traffic returns to pre-Covid-19 levels, but recovery in short haul traffic is expected one year earlier. In Norway, Avinor is expecting 25-30 million passengers at Norwegian airports next year, which is equal to the levels seen in the late 1990s and early 2000s.

No. of terminal passengers YTD September, Norwegian airports



Source: Avinor

No. of terminal passengers YTD September, Oslo Airport Gardermoen



Source: Avinor

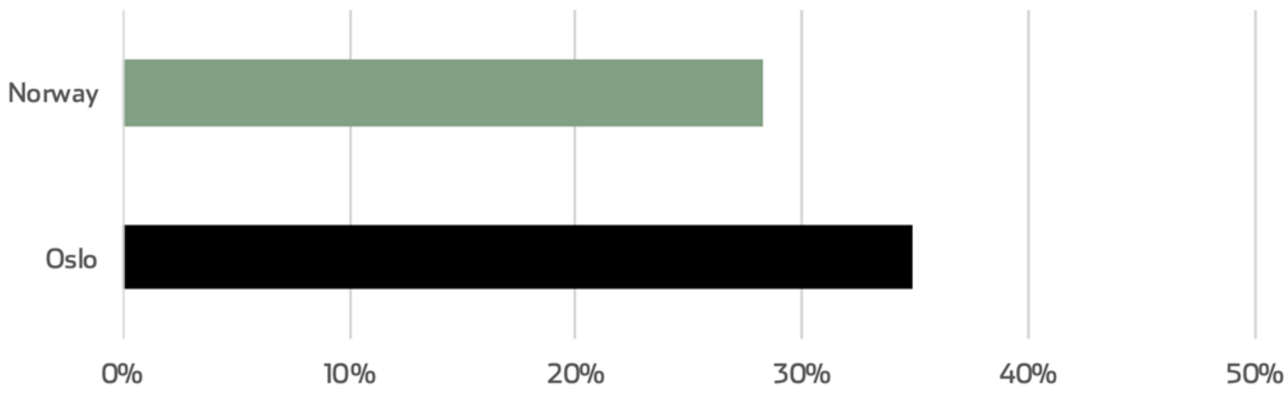
Little light on the horizon in short to medium term

In addition to travel and tourism, business and conference-related travel has also been heavily affected by the pandemic. As the graphs show, a high proportion of hotel guest nights were related to business and conferences in 2019 and a significant proportion of guests were foreign. In 2020, activity in these segments has been very poor.

The next months and years will be challenging for the industry. According to Scandic Group's Q2 report, the hotel group are expecting revenues to drop by more than 50 % in 2020 compared to 2019. In Scandic's quarterly report from Q3 2020, net sales were down 57 % in total for Q1-Q3, already exceeding the expected drop of more than 50 % with three months of the year still to come. Scandic projects that it will take several years before occupancy and demand return to the levels seen prior to the pandemic. Nordic Choice Hotels is a bit more optimistic and expects revenues to gradually increase during 2021, and possibly reach pre-Covid-19 levels in 2022. In an interview with Dagens Næringsliv, hotel and real estate investor, Christian Ringnes, stated that he expects a gradual increase in revenues from 2021, but does not expect demand to reach normal levels before 2023.

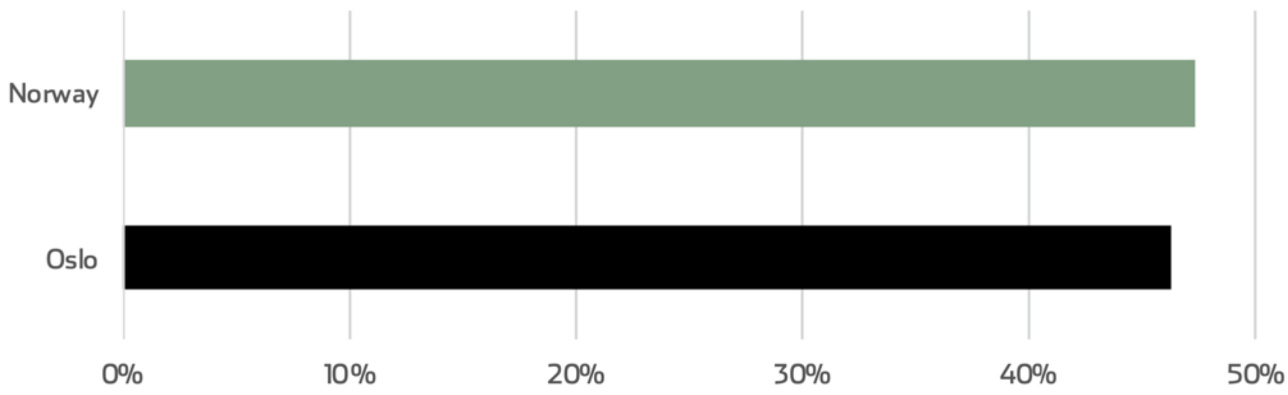
For the coming period, we are expecting demand for hotel rooms and services to stay at a low level. Since infection control measures were tightened both in Norway and across Europe during the autumn, international travel activity has been very limited, which can also be said for business travel and conference activity. Working from home instead of at the office has also made more people comfortable with video conferences and meetings, thus reducing business travel further. This is supported by Malling & Co's tenant survey from June, answered by 145 corporations, in which 94 % of respondents expect increased use of digital conferences and meetings, and 92 % expect fewer business trips, also after the pandemic.

Foreign guest nights, % of total guest nights in 2019



Source: Statistics Norway

Guest nights related to conference and business, % of total guest nights in 2019

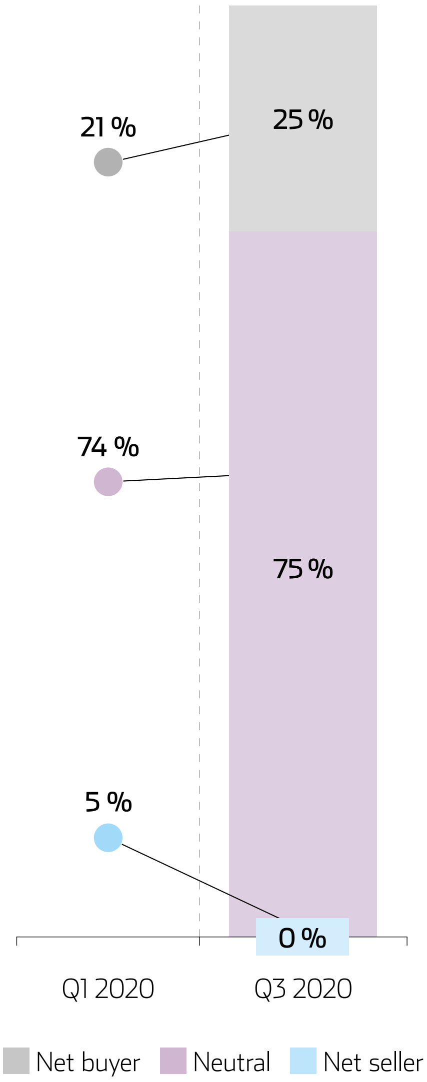


Source: Statistics Norway

Expected development in the investment market

The expected decline in revenues will affect hotel owners, as rent in most hotel lease contracts is mainly turnover-based. Hotel operators can receive public compensation for "fixed and unavoidable costs" to some extent, but sales-based rents are not included in this scheme. Therefore, omission of this rent component will result in reduced rent for hotel landlords, as well as leading to reduced property values. In Q2, Scandic Group reported reduced rent expenses of MSEK -502, which is 39 % lower than its rent expenses in Q2 2019, thus directly affecting its landlords' rental income and reducing property values. In Q3 2020, Scandic announced that it has several hotels where rent expenses exceed revenue, especially in the larger cities. The company also stated that it will intensify negotiations with landlords to reduce rent levels and share more of the risk associated with reduced demand going forward. Until new terms are reached, Scandic is reducing rent payments.
With the high uncertainty surrounding the timing of the recovery and the possible "New normal", we originally expected a low investor appetite for hotel properties in 2020. However, Malling & Co's quarterly investor survey from Q3 2020 shows that 25 % of respondents are intending to be net buyers of hotel properties in the next 12 months, up from 21 % in Q1 2020. 0 % of respondents are intending to be net sellers, while the majority, 75 % of respondents, intend to stay neutral.

Desired exposure to Hotel properties in the coming 12 months, % of respondents



Source: Malling & Co

New construction and expansions

As predicted in our last market report in May 2020, market uncertainty has affected several planned development projects. Prior to Covid-19, we expected 340 new hotel rooms in Oslo in 2020, 320 rooms in 2021 and 700 in 2022. As of the beginning of November, our expectations have been reduced to 235 rooms in 2020, 400 in 2021 and 476 in 2022. Radisson Blu Plaza Hotel is one example of a postponed development project, where construction of 222 new hotel rooms was scheduled to start in 2020, but is now on hold until the market improves.

There are also a handful of planned development projects in the axis from Lørenskog to Gardermoen, several of which have now been postponed. Pre-Covid-19, we expected 500 new hotel rooms in 2020, 515 in 2021 and 410 in 2022, but the updated timeline is now zero rooms in 2020, 500 in 2021 and 945 in 2022.

Håndverksveien 31 — Ski

Malling & Co Corporate Real Estate was advisor for the owners of Regnbuen Syd Holding in the sales process of a 21 000 m^2 logistics property located at Berghagan.

Industriveien 30 — Spikkestad

Malling & Co Property Partners has acquired Industriveien 30 in Spikkestad which consist of 11 500 m² in a combination of storage, production and office facilities – and arranged a "club deal" on behalf of its investors

Industrial & Logistics

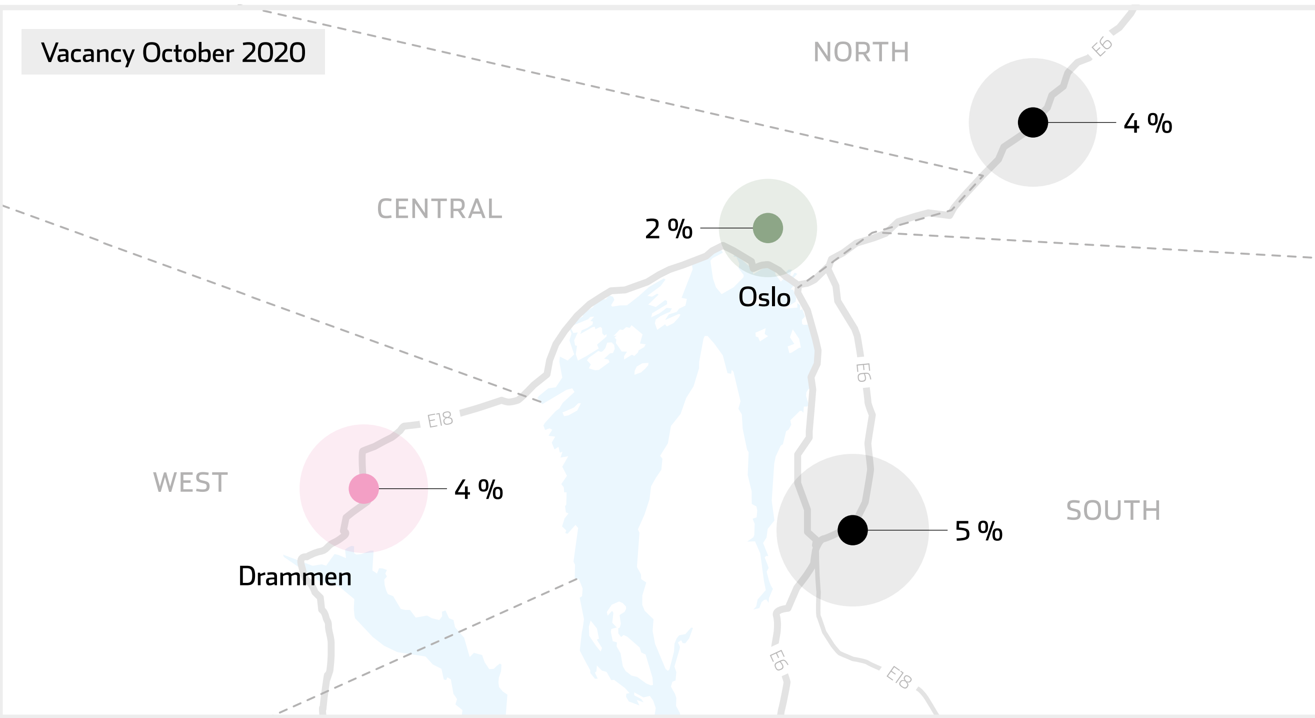
A to Z, busy as can be

The activity level in the logistics segment can only be described as something close to euphoric under the current circumstances. The underlying structural shift benefitting the segment has only been accelerated by the pandemic. Both letting and investment activity is high, and there is no sign of the hustle and bustle calming down anytime soon. But the segment is also undergoing changes in the requirements and type of traits needed in different subsegments to cater for new consumer trends such as last mile logistics in consumer goods as well as cold-chain deliveries. We have also seen examples of geographical shifts in supply chains. One of the examples is H&M moving their distribution from Norway to Sweden based on a pan-Nordic optimisation view. Amazon has also officially entered the region through the opening of its Swedish website and accompanying distribution model based in Sweden. Its behaviour could very well be a case study on how one of the world's premier logistics companies views the optimal Nordic logistics value chain. The mantra we posted in our last report is reiterated that, going forward, it will be more important than ever to consider that it will be the tenant segment, location and type of facility that will define the long-term attractiveness in this asset class.

Vacancy

The vacancy in our defined logistics clusters and areas in Greater Oslo is 3.7 %, a reduction from 4.5 % in our last report. Diving further into our four defined sub-divisions reveals a vacancy of 4.3 % in the Northern region, an increase from 3.3 % six months ago. The vacancy is 4.6 % in the Southern region, a reduction from 9.0 % six months ago. In the Western region the vacancy is 3.9 %, a marginal increase from the 3.8 % six months ago. The vacancy is at 2.2 % in the Central region, a flat development from six months ago.

Vacancy October 2020



Total Vacancy* = 4 %

North Central South West

Source: Malling & Co/FINN.no

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 are utilising our findings to provide an answer as to the future of development for logistics. The estimated total stock of warehouses and logistics properties in our defined areas comprises 3.7 million m^2 gross lettable area (GLA), with a total identified lot size of 8.9 million m^2.

Rents

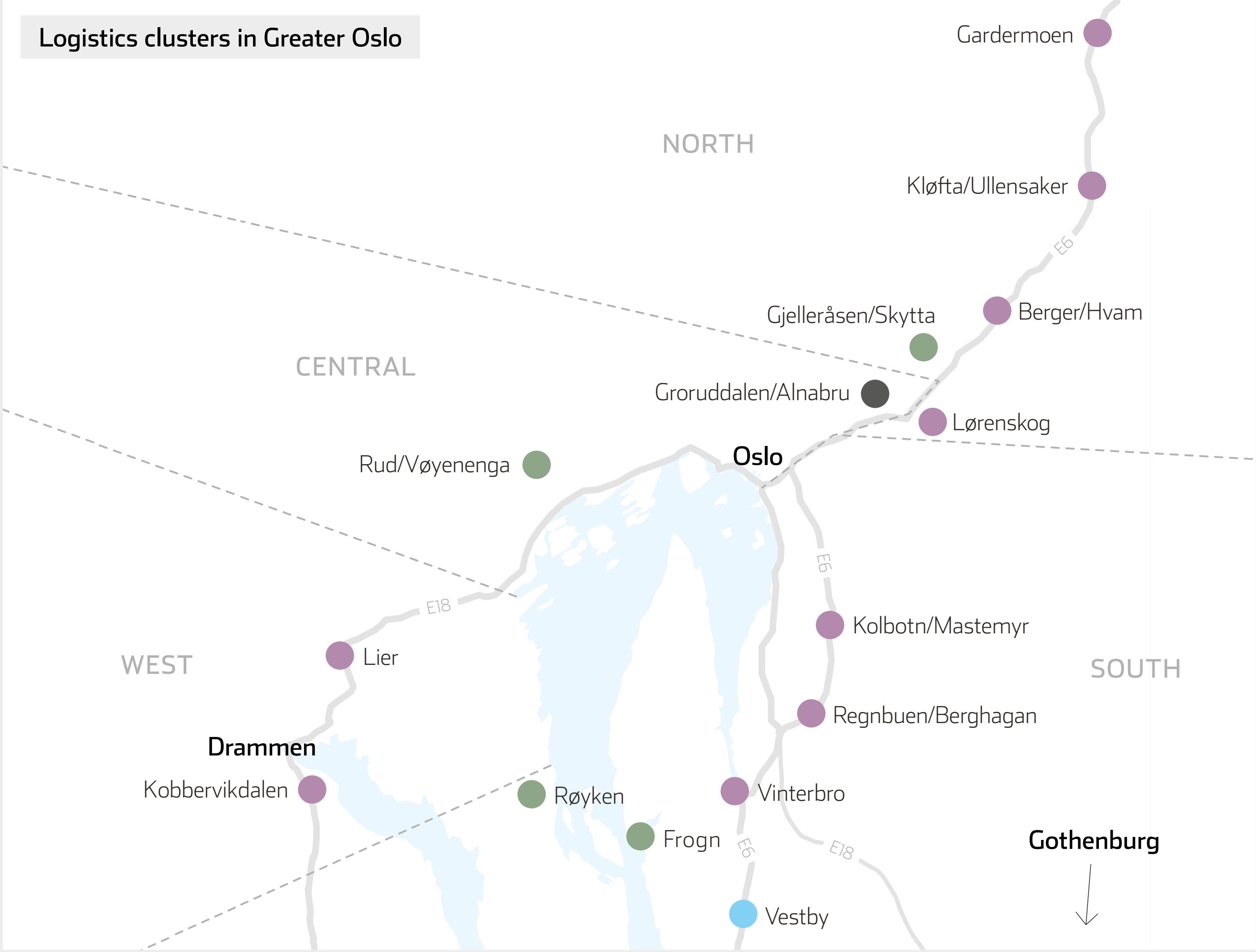
Most established logistics hubs are continuing to see a flat development in rents and, overall, we have so far neither seen upwards nor downwards pressure. Supply remains ample and rent levels continue to be a factor in the price of construction and financing terms. The pressure on construction costs has however driven the floor of rents in several areas to increase. Our rent estimate for prime logistics spaces remains firm at NOK 1 250 m²/year, *but a keen eye will observe that we do post a higher amount attainable in the special corridor at Groruddalen and Alnabru. This is, however, a function of the alternative uses for the space and not a function of true logistics prices in dedicated clusters such as Berger.

Indicative rents Industrial/logistics (NOK/m²/yr)*

Area Category	Ceiling 4-6 metres (heated, high standard)	Ceiling > 6 metres (heated, high standard)
● (dark grey)	900 – 1 000	1 200 – 1 350*
● (purple)	700 – 900	900 – 1 250
● (green)	700 – 900	750 – 1 050
● (light blue)	500 – 700	700 – 850

Source: Malling & Co

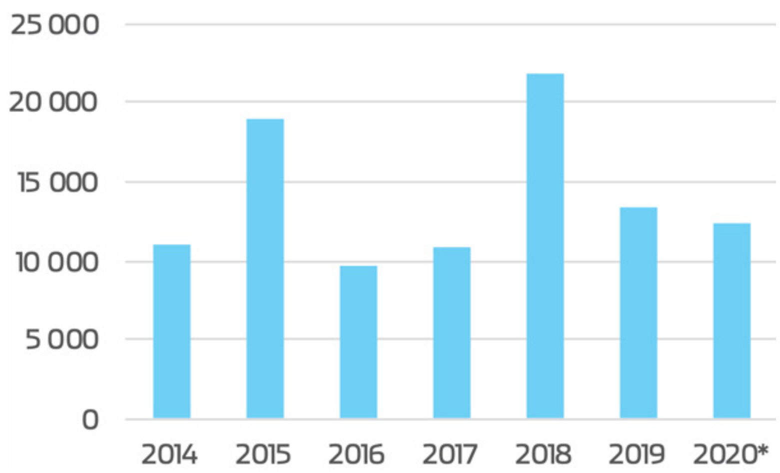
Logistics clusters in Greater Oslo



Investment activity

The number of industrial transactions registered countrywide for the year to date is 37, amounting to NOK 12.4 billion in total. That puts the industrial share at around 15 % of the total transaction market. The activity stemming from the supressed pipeline during the early stages of the pandemic has materialised along with a multitude of other projects. The interest, as we will cover more closely in the investor survey, has soared to record levels, rivalling the interest investors are showing for office.

Volume development in NOK million (transaction volume larger than NOK 50 million)



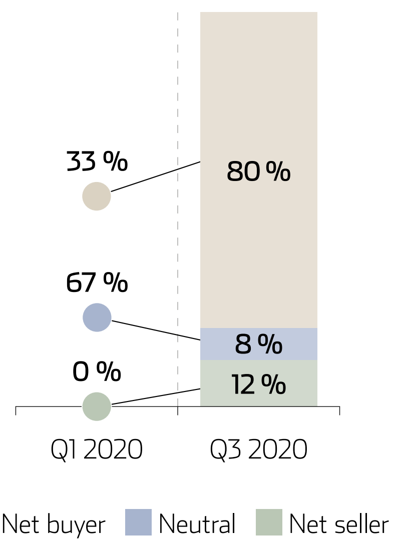
* As of 9 November. Source: Malling & Co

"Rivalling the interest investors are showing for office."

Investment demand

According to our latest investor survey, conducted late September/ early October, we see that Logistics is almost on par with the previously most sought-after segment Office, now at 80 % share of investors intending to be net buyers over the coming 12 months. This is, for logistics, up from roughly a third of investors intending to increase their exposure six months ago at the time of our last report. This massive increase in interest has of course created a ripple effect in the pricing of these assets.

Desired exposure towards Logistics properties in the coming 12 months



Source: Malling & Co's Transaction Survey

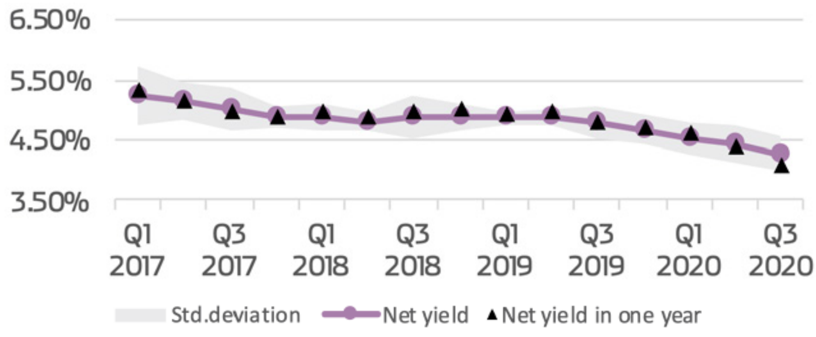
Pricing

The pricing of logistics assets continues down the path of new record levels as yields continue to compress at an astonishing pace. Prime and Normal logistics, which saw compression between 25 and 40 bps between November 2019 and our previous report, have seen yields compress another 20 to 30 bps to the time of writing this report. Expectations among investors are that these levels will experience further compression over the coming 12 months. The shift in investor demand, coupled with the sharp decreases in interest rates, has influenced the pricing level rationale, especially for prime objects.

The prime yield for logistics has seen a decrease of 30 bps since our last report and is estimated at 4.25 %. The outlook has also been reduced by 30 bps, compared to the 12-month outlook in our last report, and by 15 bps from the current level to 4.10 % over the coming 12 months.

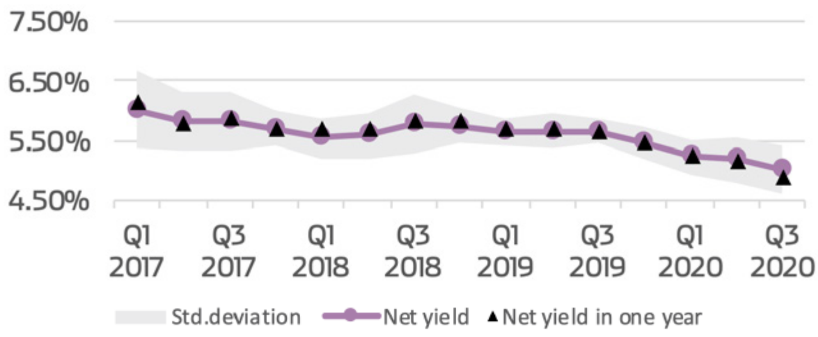
Yield levels for normal logistics have also compressed and the trend outlook in the future also shows a further compression from today's levels. At Kløfta, normal yield is now estimated at 5.05 %, down 20 bps since our last report. The outlook for yields 12 months out is 4.90 %. At Lier, we estimate the average normal yield at 5.20 %, a reduction of 30 bps since our last report, and the outlook is a further compression to 5.10 %. Our estimate for the average normal yield at Vestby is 5.10 %, a reduction of 30 bps since our last report, with the outlook for logistics yields showing a further decrease of 20 bps to 4.90 % 12 months out.

Prime yield – Berger



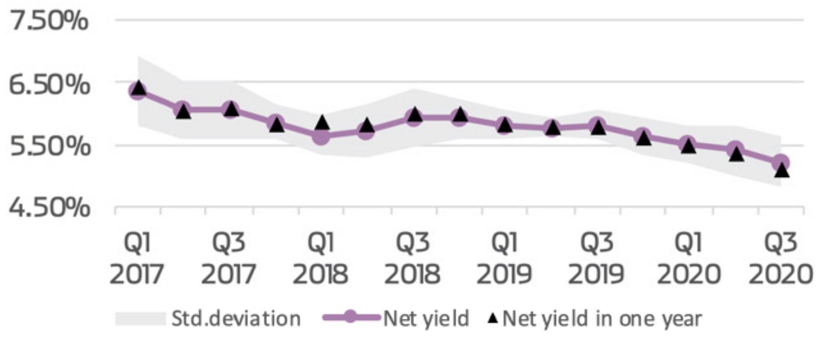
* Transaction survey Net yields on market rent. Source: Malling & Co

Normal yield – Kløfta



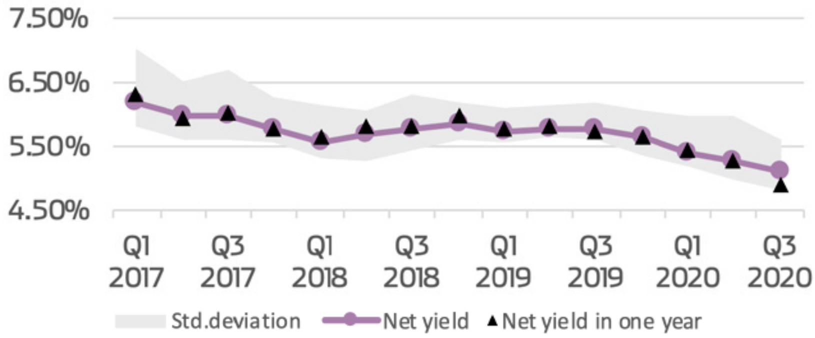
* Transaction survey Net yields on market rent. Source: Malling & Co

Normal yield – Lier



* Transaction survey Net yields on market rent. Source: Malling & Co

Normal yield – Vestby



* Transaction survey Net yields on market rent. Source: Malling & Co

Kongeveien 49 — Kolbotn

Malling & Co Eiendomsutvikling is managing a property development project on behalf of Fremtind Forsikring AS. The project includes renovating the existing building with new façade and tenant fit outs. The project also includes the development of 5 000 m^2 of new commercial space.

Grønland 61 — Drammen

Malling & Co Drammen is assisting Union Eiendomsutvikling with the letting of Portalen.

Residential

Record-low interest rates drive residential prices upwards

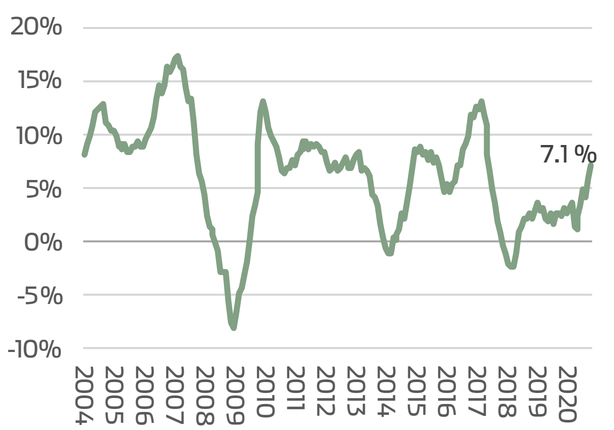
In our previous market report, we reported on slightly negative price expectations in the residential property market for 2020. Now we can report that residential property prices are at an all-time-high and are expected to increase even further, as many believe that the interest rate effect is not yet fully reflected in price levels.

Norway

Despite an economic downturn of historic proportions, residential property prices are at an all-time-high. In October, which is normally one of the weakest months of the year, prices increased by 0.5 % nominally. Seasonally adjusted property prices increased by 1.1 % and prices are now 7.1 % higher than they were 12 months ago. The most obvious reason for this increase in price and activity is the record low interest rate, as Norwegian households appear to be increasingly focusing spending on housing. Another contributing factor could be that, despite economic uncertainty and a tough labour market, the increase in unemployment is currently skewed towards people working in lower-income professions, thus not affecting residential demand as much.

Instead, households appear to be accelerating their purchase timeline to take full advantage of the current cost of borrowing. The sales volume has also considerably increased. The number of sales was up 16.8 % in September and 9.4 % in October, relative to the same months last year. Moreover, the total sales volume so far in 2020 is 5.5 % higher than in the same period in 2019. The supply of assets for sale in 2020 has, however, decreased compared to 2019 (January-October), resulting in a significant fall in the pool of unsold assets (Eiendom Norge).

12-month nominal change in price, Norway, %



Source: Eiendomsverdi, Eiendom Norge

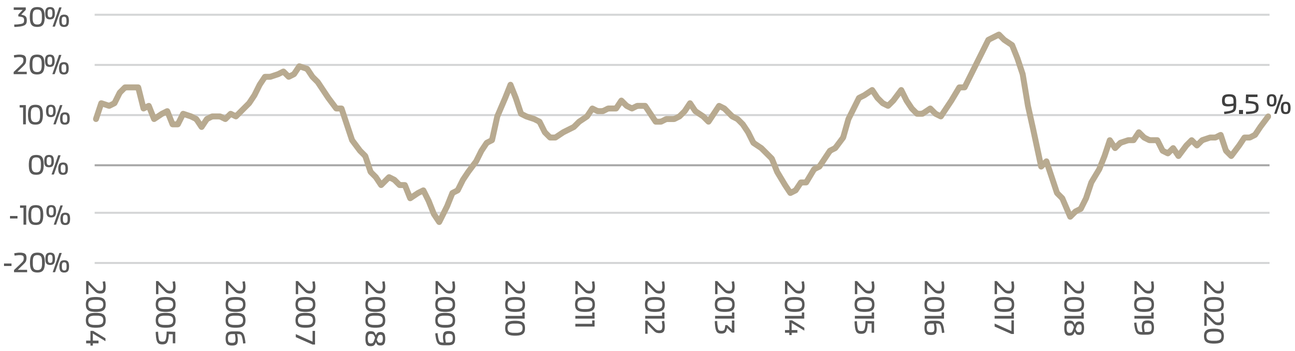
Residential property prices, nominal and seasonally adjusted, Index 100 = 2003, monthly figures

Source: Eiendomsverdi, Eiendom Norge

Oslo

Residential property prices in Oslo are now 9.5 % higher than in October last year. In October, prices in Oslo increased by 1.0 % nominally, which is the largest recorded increase in October, which has normally been a weak month since the rush in 2016. Adjusting for seasonal variations, the estimated increase in the capital is 1.3 %. Sales were also up considerably in September 2020, compared to earlier years. So far this year (January-October), the number of sales has increased by 2 % relative to the same period last year. Considering the low Q1-Q2 volumes caused by the lockdown, this indicates a very strong market recovery in the summer and autumn. Supply, which is at its lowest since 2016, decreased further in October, contributing further to the current imbalance in supply-demand. This in turn affects average time to market, which, in October, was measured at only 21 days in Oslo (Eiendom Norge).

12-month nominal change in price, Oslo, %

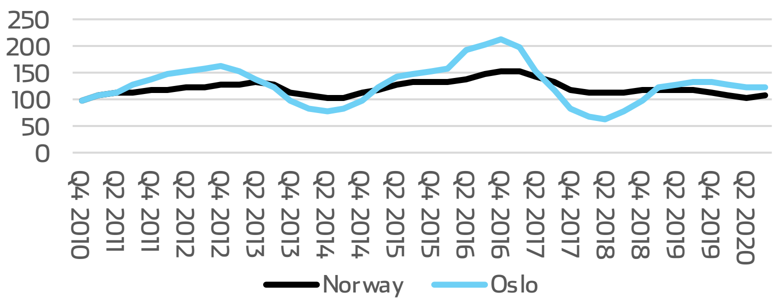


Source: Eiendomsverdi, Eiendom Norge

New construction

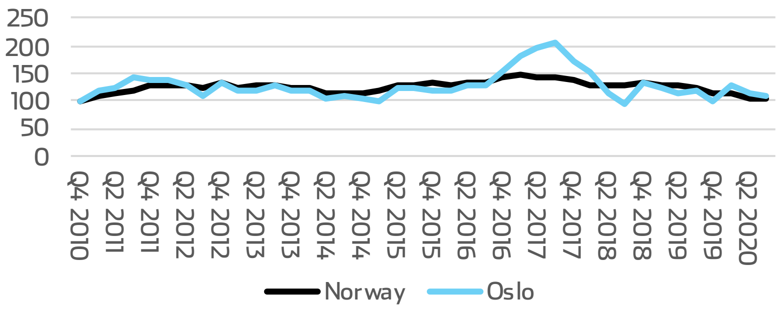
After coming to a complete halt earlier this year, activity in the national residential newbuild market was back to normal in September. Sales were up 13 % relative to September 2019, while sales in Q3 overall were 17 % higher than in Q3 2019. Nevertheless, both total sales and project initiation are still down 10 % in 2020 overall (January-September), compared to the same period in 2019. Although project initiation was much improved in Q3, concluding at the same level as in Q3 2019, it is highly unlikely that this year's volume will be able to completely recover from the extremely low Q1-Q2 volumes caused by the Covid-19 lockdown (Boligprodusentene).

Newbuilds sold in the last 12 months, Index Q4 2010 = 100



Source: Boligprodusentene

Newbuilds initiated in the last 12 months, Index Q4 2010 = 100



Source: Boligprodusentene

Prices going forward

In our previous market report, we reported on great uncertainty within the residential property market. As the spring report was being written, lay-offs had just reached historical heights, the key policy rate had just been cut to a record low level of 0.0 %, and banks had not yet fully reacted to the news or adjusted their mortgage interest rates. Despite market uncertainty, the consensus was that a complete price collapse was unlikely, although a certain decrease was expected. Six months later, we can report all-time-high residential property prices as well as substantial increases in activity. At the time of writing, SSB estimates an increase of 3.2 % in 2020, which is far more optimistic than its estimate of -2.0 % from May. SSB further predicts an increase of 3.9 % in 2021 and 2.7 % and 3.1 % in 2022 and 2023, respectively. The Norwegian Central Bank (NCB) has also adjusted its forecast upwards, now predicting prices to increase by 3.7 % and 5.2 % this year and next year, before slowing somewhat towards 2024. The NCB states that it expects residential property prices to grow at a faster pace than growth in consumers' disposable income at the start of the forecast period.

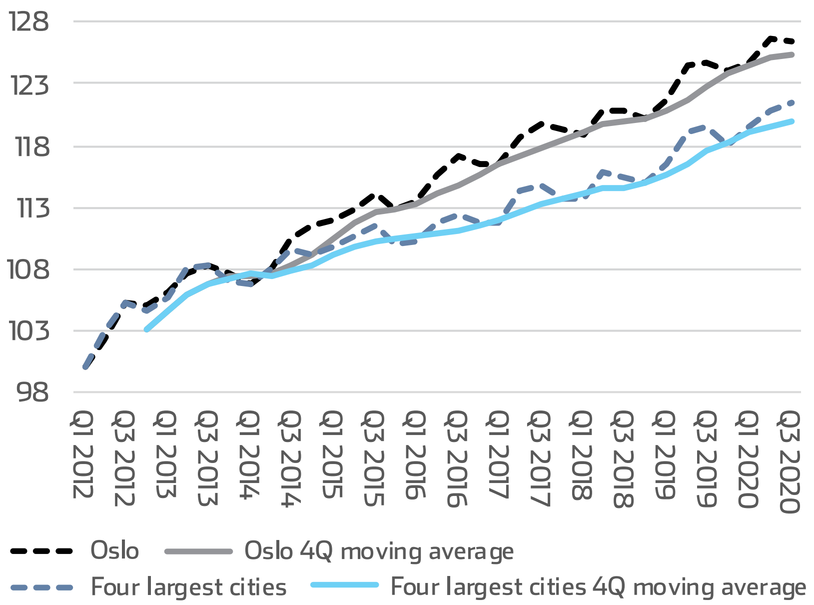
Historic and estimated development in property prices per year, Norway, %

Source: Statistics Norway

The rental market

While residential property prices are continuing to increase at a very high pace, the weighted average of Norway's four largest cities shows a relatively flat development in rents of only 0.5 % nominally in Q3. In the last four quarters, rents have increased by 1.7 % on average in these cities. The development in Oslo was also relatively flat, as rents fell marginally by -0.1 % in Q3, resulting in an increase of 1.3 % over the last four quarters. This is the worst development recorded in a Q3 in the capital since 2013. The average asking price for condominiums in Oslo was recorded at NOK 14 264 in Q3. The lack of rental increase and increasing prices also means a significant yield compression for the residential sector.

Development in rents, Oslo and Norway's four largest cities, Per quarter and 4-quarter moving average, Index 100 = Q1 2012



Source: Eiendomsverdi, Eiendom Norge

Brynsalléen 2 — Oslo

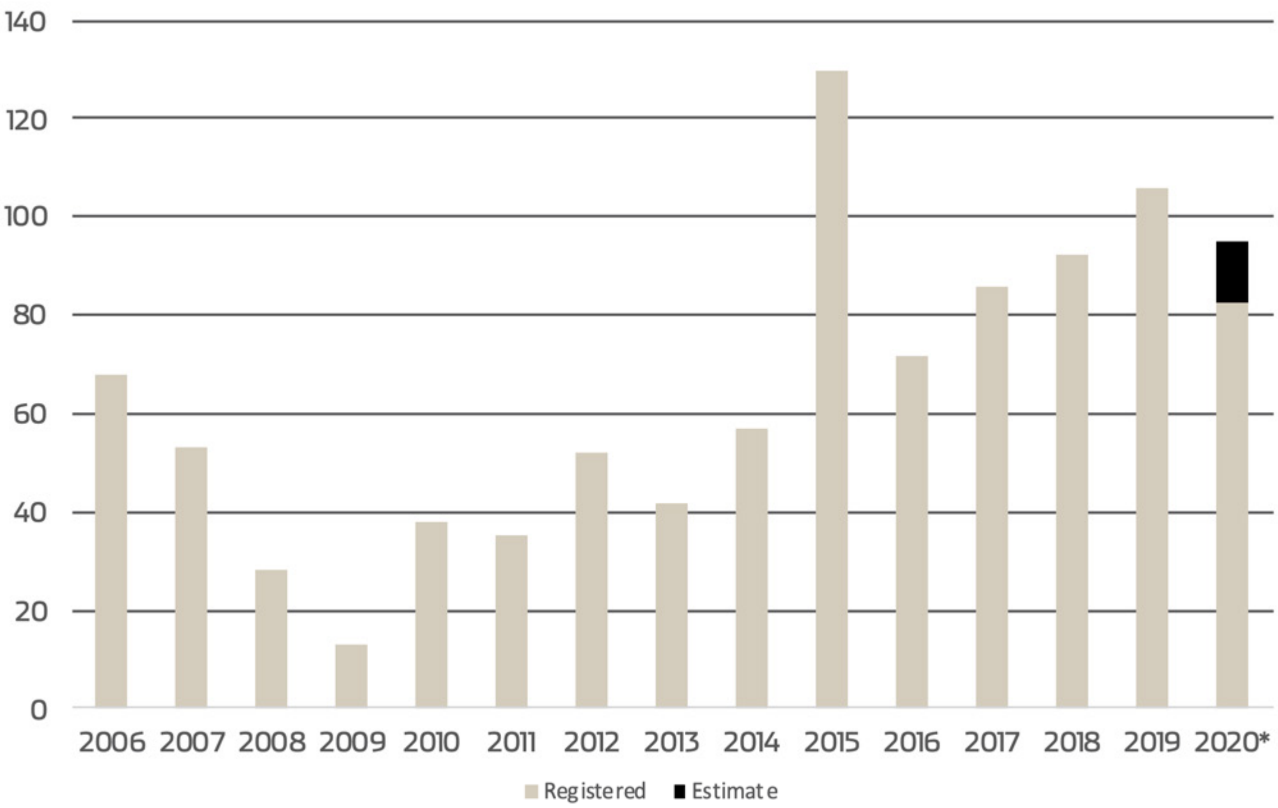
Malling & Co Eiendomsutvikling is managing the project on behalf of Capman. The project includes renovation of the existing building. Approx. 17 000 m^2 in total.

The investment market

Higher interest and lower interest

As we are halfway through the penultimate month of the year, we have registered a total transaction volume of NOK 82.3 billion*, split between 214 transactions*. With the Covid-19 outbreak, a very promising start to the investment market activity in 2020 came to a halt. But what a comeback we have witnessed. As outlined in our macro section of this report, we have seen an unprecedented array of stimulus packages and policies aimed at keeping the global economy afloat. A natural lever being pulled by central banks in this scenario is the lowering of key policy rates and other measures aimed at keeping credit and lending markets functioning. And, for the Commercial real estate market, that has translated into investor demand soaring back up from the uncertainty witnessed late in Q1 2020, since the available financing has become very cheap as interest rates and forward curves have shifted down by as much as 100 bps for the NOK 5Y Interest Rate Swap (IRS). When the returns in other asset classes remain strained, the CRE market becomes very attractive, as yield compression sees asset values increasing along with a natural CPI hedge and secure long-term cash flow, especially in the prime segments less susceptible to the pandemic, such as office and logistics. The details of the investor demand and yield pressure, which we will cover closer in the coming paragraphs, will, briefly summarised, lead to what is already the lowest yields in history, and volumes could potentially rival the historic high of 2019. We will reiterate the medium-term pressure on rental prices as covered earlier in this report. But the case, nonetheless, stands as a very exciting time for CRE investors as the new revised full-year estimate is up NOK 70 billion on our previous report to NOK 90+ billion at the time of writing, and the potential is definitely on the upside. If the last few months are not too hampered by another lockdown we could very well pass the NOK 100 billion mark for a second year running and that is after losing close to a full quarter of activity in the middle of the first half of the year.

Volume development in NOK billion (transaction size larger than NOK 50 million)



* As of 9 November 2020. Source: Malling & Co

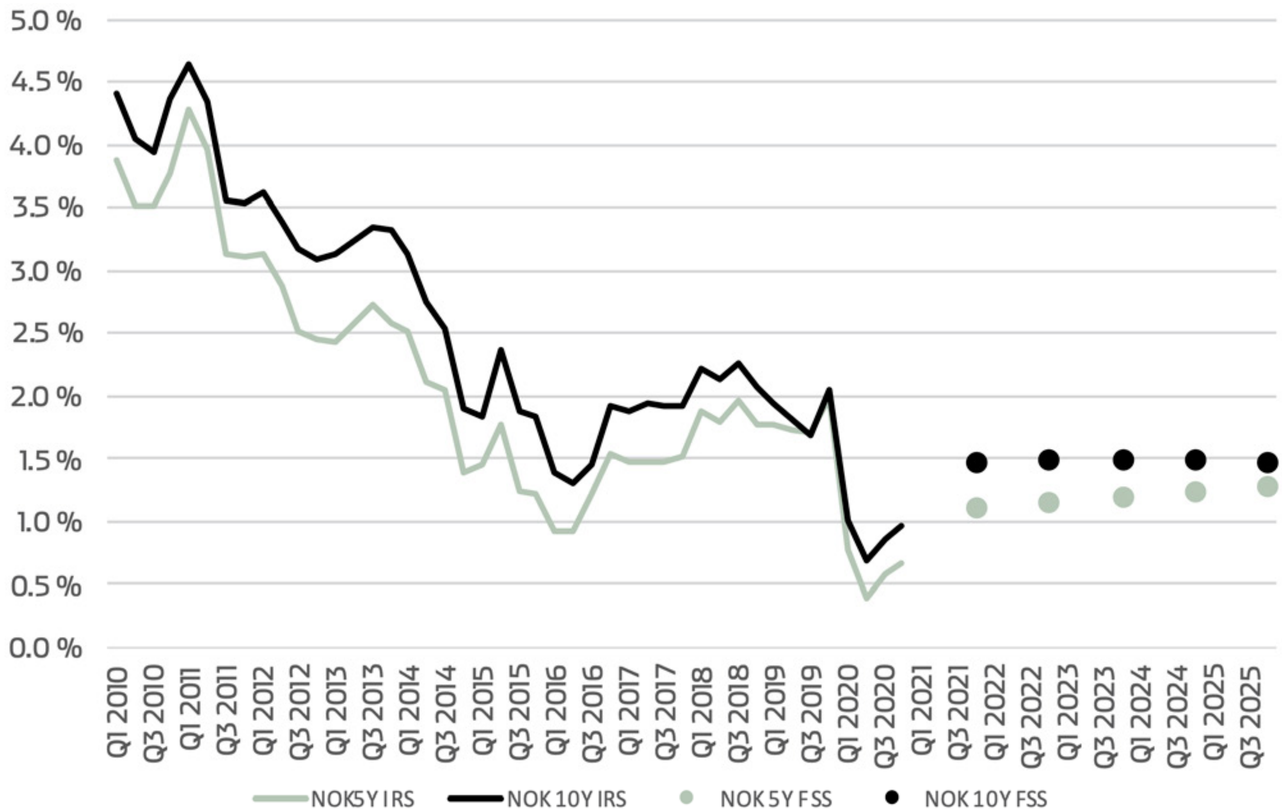
Active and well-functioning financing market

As can already be seen from the previously stated soaring activity level in investments, there are ample financing opportunities available for investors. Interest rate levels have come down significantly to historically low levels and the interest rate level in Norway is now much more aligned with comparable European markets. Margins have also decreased after the initial shock phase has subsided. The attractive interest rate levels are expected to last for years to come, as the forward starting swaps as far out as 5 and 10 years are more or less flat, too, and in line with the levels seen in our previous report. The difference from our last report is more to be seen in the short-term development, where there is an upward shift of the forward starting 5Y and 10Y IRS of 25-30 bps just 3 months out from now, before retaining the same flat curve for the foreseeable future. In sum, there is, according to the financial markets, a historically low financing cost expected for the coming 5 years and very little change going another 10 years out from that as well.

Bond financing has, by and large, fallen out of favour for direct investments, as terms are less favourable than that attainable through bank financing, and new issuances are now overserved mostly for fleet financing of the larger real estate corporations.

"Soaring activity level in investments."

NOK 5Y and 10Y Interest Rate Swap (IRS) and Forward Starting Swap (FSS)



Source: Thomson Reuters

City life over rural strive

Our regional overview for 2020 still reveals that Greater Oslo is the preferred investment location for investors, still retaining more than a 50 % share of the total investment volume. But a major shift has been observed in the interest in other Tier 1 cities across Norway, as investment activity has picked up with very positive increases in volume and number of transactions in these regions. While other regions with Tier 2 cities are also seeing a major drive in investor activity, there is a divide in what is driving investor interest. As soon as one leaves the beaten track, the majority interest of a significant size above NOK 50 million will be long-term state and government cash flow properties, leaving rural regions lagging in the greater scheme of things. The interest in value-add cases, seen in rural areas before the pandemic, has greatly reduced. The Prime office yield levels across the regions should see a compression going forward, although this will be a slower and more modest reaction than the aggressive yield decrease seen in Oslo.

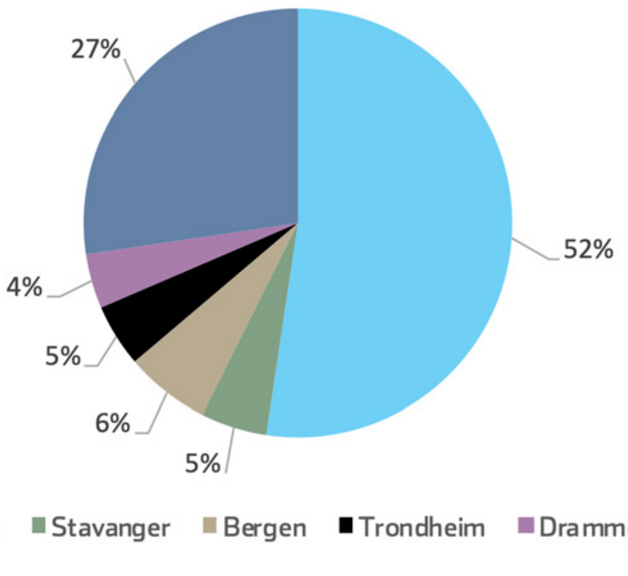
Prime yield (net) in Norway

City	Prime Yield (Office)	△ from last report
Oslo	3.25 %	▼ -40 bps
Stavanger	4.50 %	▼ -25 bps
Bergen*	4.00 %	▲ 0 bps
Trondheim**	4.25 %	▼ -40 bps
Drammen	4.00 %	▼ -30 bps

* WPS Næringsmegling, ** Norion Næringsmegling. Source: Malling & Co

"Regions with Tier 2 cities are also seeing a major drive in investor activity."

Regional split of the transaction market 2020* by volume



* As at 9 November (above NOKm 50). Source: Malling & Co

Norway aligning with major European markets

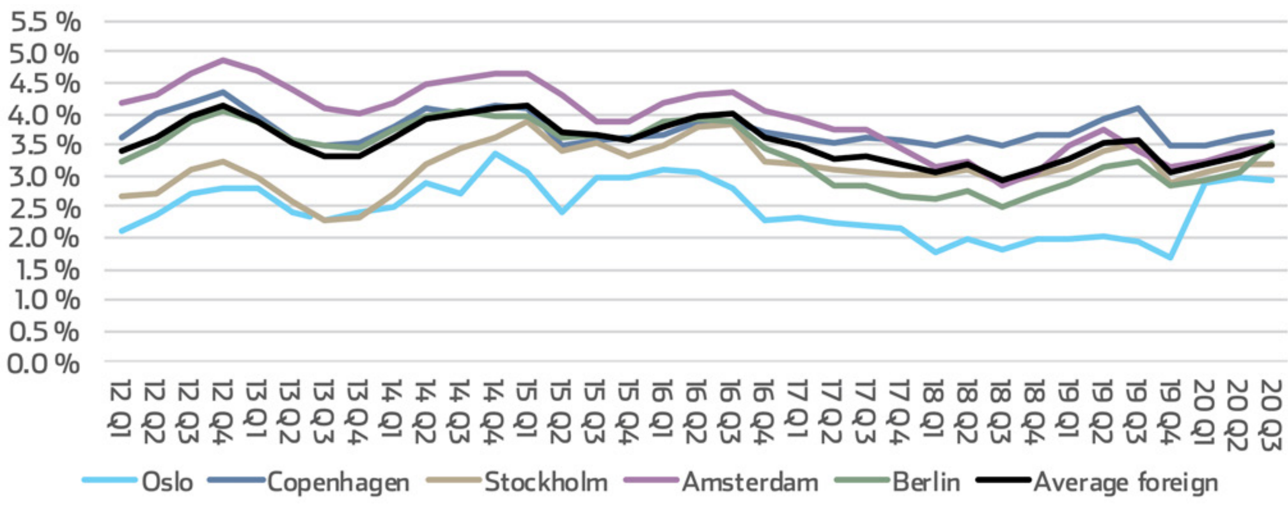
In a European context, Prime CBD office yields have, from Q2 to Q3 in 2020, compressed slightly by around 5 bps on average to 3.18 % in eight selected countries. Thus, the average comes in just below the Oslo Prime yield of 3.25 %. As markets and countries opened, a strong headwind of high liquidity, low interest rates, constrained development pipelines and a much better capitalised banking sector swept across Europe, leading to compressing yields and investment volumes increasing to levels few had thought possible at the time of our last report. In most markets, investors remain active, particularly in the Prime market segment, with several record breaking deals, such as the reports that the Adidas office in Paris sold at a 2.50 % yield. We expect Prime office yields to remain stable in most of our selected markets by the end of the year, with a slight skewness of further compression.
The yield gap difference for normal property for a select group of European countries shows that Oslo is becoming increasingly similar to other European cities when looking at pricing compared to the local currency 5Y IRS. At the end of 2012, the difference between Oslo and the average of the selected European cities was 126 bps, or 45 %, in 2020, that difference has been reduced to 36 bps or just shy of 10 %. Norway's transition from the odd one out to a more harmonised market with the rest of Europe has been expected and now it is observable through the reports from our partner Savills' comprehensive database.

Prime yield (net) in Europe

City	Prime Yield (Office)	△ from last report
Munich	2.70%	▲ 0 bps
Paris	2.75%	▼ -15 bps
Amsterdam	3.05%	▲ +5 bps
Milan	3.00%	▼ -40 bps
Stockholm	3.25%	▲ 0 bps
Helsinki	3.45%	▲ +10 bps
Copenhagen	3.50%	▼ -15 bps
Oslo	**3.25%**	▼ **-40 bps**
London	3.75%	▲ 0 bps

Source: Malling & Co/Savills

European Prime yield gap to local 5Y IRS

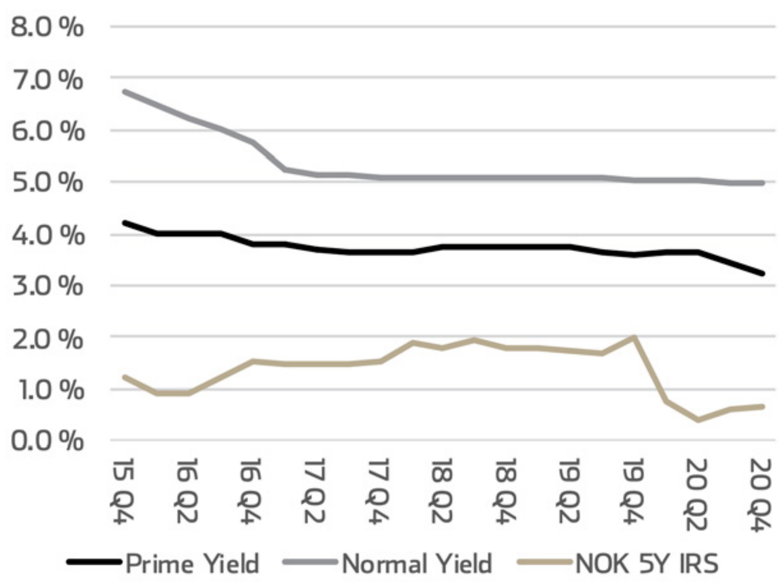


Source: Malling & Co

Historically sharp yield compression

We have witnessed very strong movement in the prime yield segments of Office and Logistics, caused by high demand for security of the underlying cashflow coupled with the low interest rate level. The Oslo CBD prime office yield has compressed to a record low 3.25 %, down 40 bps from our last report and a record 35 bps from the previous quarter. Similar pressure has been observed in the Logistics segment where prime yield has compressed to a record low 4.25 %, down 30 bps from our last report. This is also witnessed in the volumes and activity level in both segments.

Yield development past 5 years



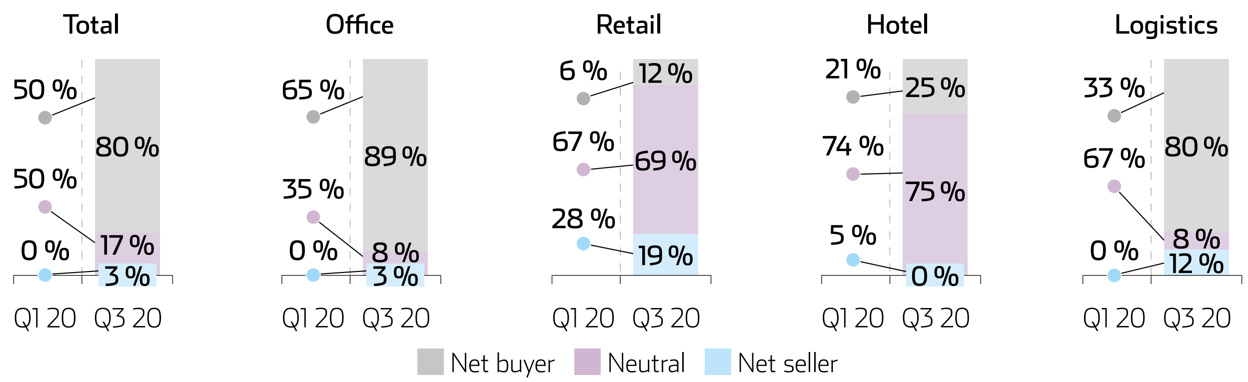
Source: Malling & Co/Thomson Reuters

Investor sentiment and yield development

Our newest survey-based investigation from Q3 2020 (survey period ended Friday, 9 October) into investor expectations for yield and investor intentions shows that the demand for commercial real estate is still at high levels, up from the record low 50 % intending to increase their exposure in our last report to 80 % in Q3 2020. Office is at the forefront of the demand side, where 89 % of investors are intending to be net buyers in the coming 12 months, with only a fraction at 3 % intending to be net sellers. The biggest shift in investor demand can be found in the logistics sector, where a record high 80 % of investors are intending to be net buyers, up from 33 % in Q1 2020.

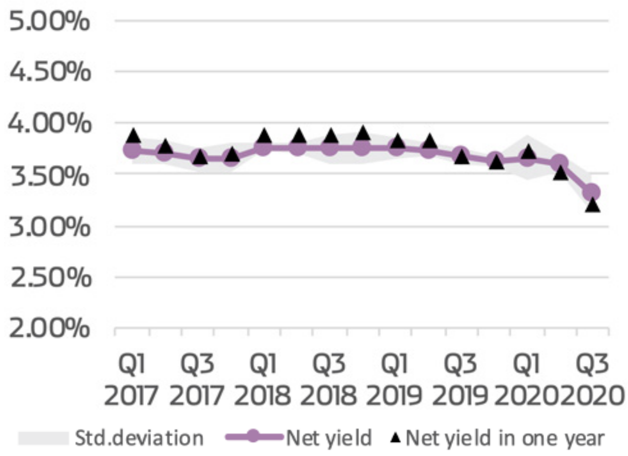
The Oslo CBD prime office yield has compressed to a record low 3.25 %, down 40 bps from our last report and a record 35 bps from the previous quarter. This is a very strong movement, caused by high demand for security of the underlying cashflow coupled with the low interest rate level. Comparing the Office prime yield in the CBD to the fringe locations, it becomes clear that the yield gap continues to widen between primary and secondary locations. For the fringe office clusters of Lysaker and Helsfyr, we estimate a Prime yield of 4.55 % and 4.25 %, respectively. This is a flat development for Lysaker and a decrease of 15 bps for Helsfyr since our last report. We also see that the yield gap is widening between Normal and Prime properties, as the Normal CBD yield is at 4.10 %, a decrease of 15 bps from our previous report, while the Normal office yield has decreased by 5 bps at Lysaker to 5.10 % and at Helsfyr by 5 bps to 4.9 %.

Desired exposure towards commercial real estate next 12 months



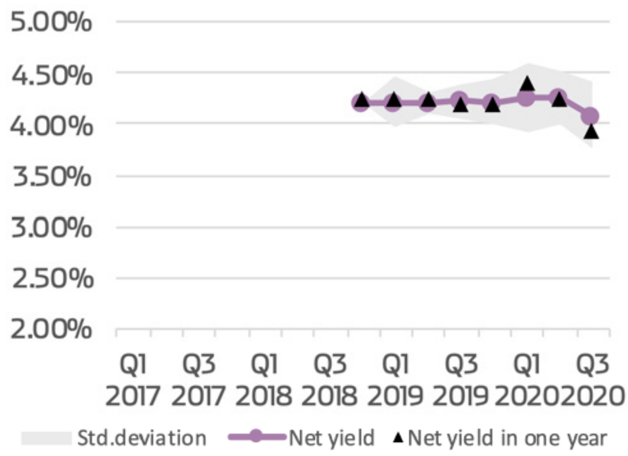
Source: Malling & Co's Transaction Survey

Prime office CBD



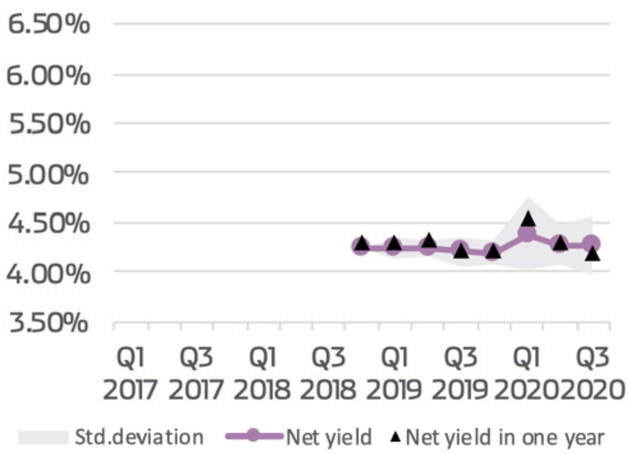
* Transaction survey Net yield on market rent. Source: Malling & Co

Normal office CBD



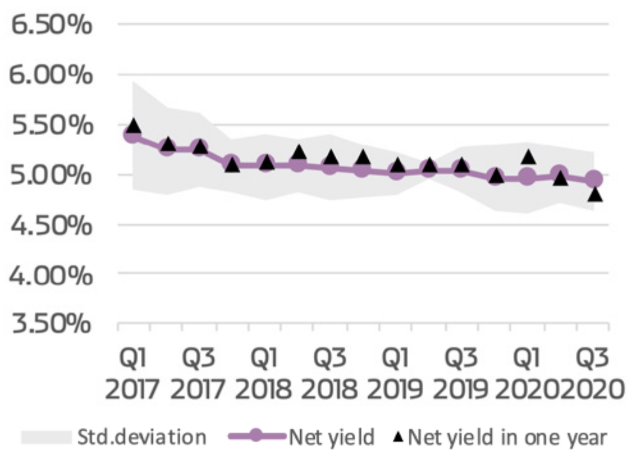
* Transaction survey Net yield on market rent. Source: Malling & Co

Prime office Helsfyr



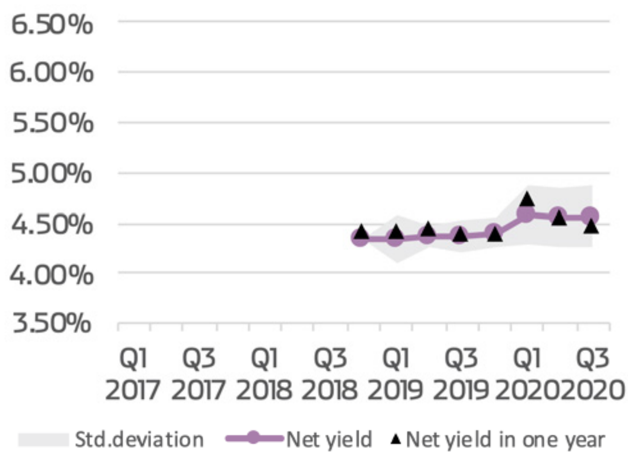
* Transaction survey Net yield on market rent. Source: Malling & Co

Normal office Helsfyr



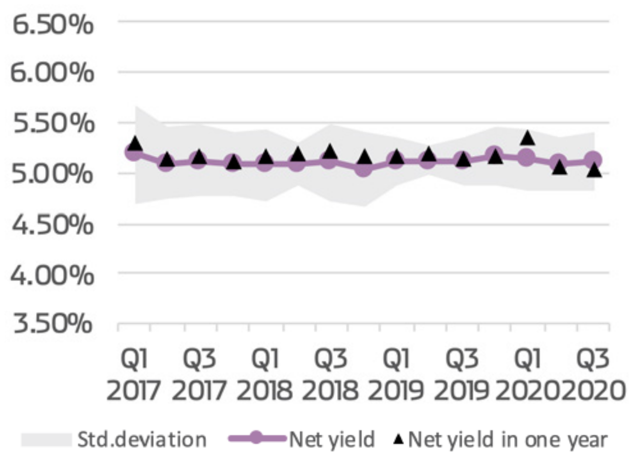
* Transaction survey Net yield on market rent. Source: Malling & Co

Prime office Lysaker



* Transaction survey Net yield on market rent. Source: Malling & Co

Normal office Lysaker



* Transaction survey Net yield on market rent. Source: Malling & Co

Disclaimer — All graphs on this page are results from the quarterly investor survey, and do not necessarily reflect the official views of Malling & Co Research and Valuation.

Brynsalléen 2 — Oslo

Capman has engaged Malling & Co Næringsmegling to assist with the letting of Brynsaleen 2, approx. 17 500 m^2.

Fridtjof Nansens vei 8 — Oslo

Malling & Co Corporate Real Estate acted as buy-side advisor for Fridtjof Eiendom in the sales process of Colosseum Cinema at Majorstua, Oslo.

About Malling & Co

Established in 1964, Malling & Co is the leading commercial real estate adviser in Norway. Our range of services covers all segments and the whole value chain of commercial properties.

Our most important task is simply to enable our clients to achieve the full value potential of their commercial properties. Our services cover everything from ensuring smooth operations for tenants, to getting the most from a leasing or sales process.

Our experience and expertise cover all the commercial real estate segments including office, retail, logistics, industrial, hotel and mixed-use properties.

We find that we provide the very best services when we can combine experience and expertise from several of our business areas in connection with the execution of assignments on behalf of our clients.

Malling & Co Research and Valuation
Employees

Research

Haakon Ødegaard
Partner/Head of Research MRICS/REV
M: + 47 938 14 645 — **E:** ho@malling.no

Herman Følling Ness
Partner/Senior Analyst
M: + 47 995 44 488 — **E:** hn@malling.no

Camilla Thunes
Senior Analyst
M: + 47 408 82 108 — **E:** cat@malling.no

Sara A. A. Bugge
Analyst
M: + 47 484 00 261 — **E:** saab@malling.no

Stian Røstgård
BI Developer
M: + 47 962 38 841 — **E:** sabr@malling.no

Valuation

Andreas Staubo Boasson
Partner/Senior Manager MRICS/REV
M: + 47 986 05 209 — **E:** asb@malling.no

Thea Fu Lin
Analyst
M: + 47 417 00 880 — **E:** tfl@malling.no

Ola Haukvik
Senior Analyst REV
M: + 47 909 85 978 — **E:** oh@malling.no

Sondre Skavern
Analyst
M: + 47 481 84 022 — **E:** sondres@malling.no

W | P | S
NÆRINGSMEGLING

Bergen in cooperation with WPS næringsmegling

MALLING & CO

Eiendomshuset Malling & Co
T: +47 24 02 80 00 — **F:** +47 24 02 80 01 — **E:** post@malling.no — **www.malling.no**

savills An International Associate of Savills