MALLING & CO MARKETS

MARKET REPORT WINTER 2016 / 2017

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TIME TO ROLL UP OUR SLEEVES

The overall picture of 2016 so far suggests a good, healthy year for commercial real estate. Despite sluggish GDP growth and increased unemployment in parts of Norway, office rents in Oslo have remained stable. The CRE transaction market has ended up just around where we anticipated it would one year ago, with further yield compression giving investors considerable capital gains.

The office letting market is more active than it has been for many years, largely because the Oslo "pond" has now reopened for fishing, since it is once again filling up with large tenants on the move. We must travel back to 2010 to observe a similar high demand side. However, there are two interesting features about the current demand side. Firstly, most of the large tenants are prospects for new builds, and secondly, 9 out of 10 are considering the city centre as their prospective office destination. Focused not only on the quality of the building and proximity to public transport, tenants are looking for offices close to shopping areas, restaurants, and everything else that makes for quality of life and convenience. In this respect we believe the city centre will continue to attract tenants, and that competition among all the new projects in developing areas will continue to be fierce. As historical data from areas like Nydalen and Skøyen shows, it takes time to establish new urban centres. Like Rome, Oslo will not be built in a day, and landlords must offer urban working environments – not just office blocks.

Once again, office space is king of the hill in the transaction market. In addition to demand for long-term solid cash flows for value preservation, there is also very strong demand for value-adding opportunities. The time for building value through yield compression seems to be over, as interest rates are now pulling slightly upwards. In the midst of this, there is a segment driven by the ever-increasing Oslo residential prices. Residential projects are in higher demand than ever, and demand far exceeds the supply side. As a lucky consequence of this, outdated office buildings have been saved by the hunger for projects suitable for residential conversion. On the financing side, the banks are nearing, or have already reached, their regulatory capital requirements, and we expect lending practices to remain flat going forward. Meanwhile, the bond market is taking strides in its share of the financing market, and this will help to keep the transaction market liquid in 2017.

So, viewed through the eyes of someone who has now been living within the CRE market for half a century, we have returned to the times where value creation does not come easy. The time has come to create value through hard work. Tenants are demanding and yields are likely to remain stable, or may even rise. This is why our advice is that investors need to roll up their sleeves and create high-quality products in order to create value – for themselves, their tenants, and the city.

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

PETER T. MALLING SR.
CHAIRMAN — EIENDOMSHUSET MALLING & CO

MACRO – NORWAY

Is the trough behind us?

After the gradual slowdown and weak increase in GDP growth starting in mid-2014, positive signs are now appearing in the Norwegian economy. After zero growth in the second half of 2015, the first two quarters of 2016 have shown a quarter on quarter growth of 0.3 % and 0.4 %, respectively. Despite a further decrease in investments within the Oil & Gas sector this year, as well as in 2017, other sectors seem to be counteracting the negative impact on a national level. Strong growth in construction and building, as well as governmental consumption, contribute on the positive side. Statistics Norway (SSB) expects the GDP growth to pick up next year, mainly driven by further growth in the construction of residential properties and increased exports due to improved competitiveness and the delayed effects of a weaker Norwegian krone.

GDP growth

SSB estimates that mainland GDP growth will be 0.9 % in 2016, 2.1 % in 2017 and 2.2 % in 2018 and 2019, slightly above trend estimated at approximately 2 %. The central bank forecasting model predicts a four quarter growth of 1.5 % for mainland GDP in Q4 2016. The regional network report released in September by the Norwegian Central Bank shows an improved outlook for the coming six months. Effects of a weak krone, strong construction activity and a reduced negative impact from the Oil & Gas sector are some of the factors expected to trigger higher growth in the coming years.

The national budget

The national budget proposition for 2017 implies a budget deficit of NOK 225.6 billion before adjustments for the stimulus taken from the Government Pension Fund Global. This level is approximately 3 % of the current fund value. One particular action in the budget is a package of NOK 4 billion to stimulate employment in southern and western parts of Norway, where unemployment has increased significantly following the slump in the Oil & Gas industry. The use of oil money is high, and it seems clear that the budget impulse from the fund cannot continue to grow in the way that it has over recent years.

Oil price

Since our last report issued in June, the Brent crude oil price has remained at around or just below 50 USD/barrel, up from a YTD low of around 42 USD/barrel at the start of August. As at COB on 7 November, the market traded Brent crude delivery in June 2017 and 2018 at around 50 and 53 USD/barrel, respectively.

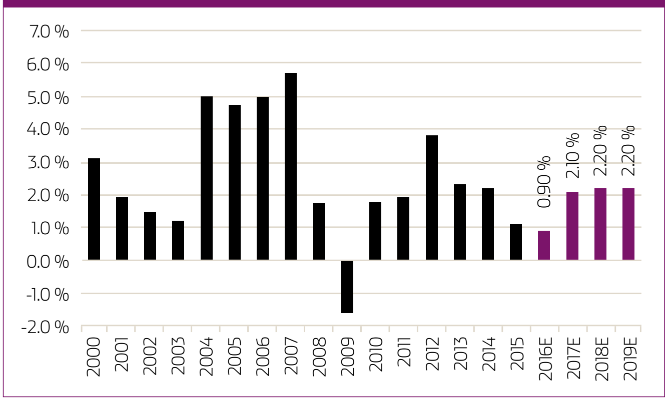
Oil investments

Oil-related investments peaked in 2013 and have continuously declined since the fourth quarter of 2013. The latest figures issued by SSB show a further decrease in estimates for both 2016 and 2017, with a reduction of 12.3 % in 2016 vs. 2015, and an expected further decrease of 14.5 % from 2016 to 2017. SSB will publish new estimates on 23 November.

Key policy rate

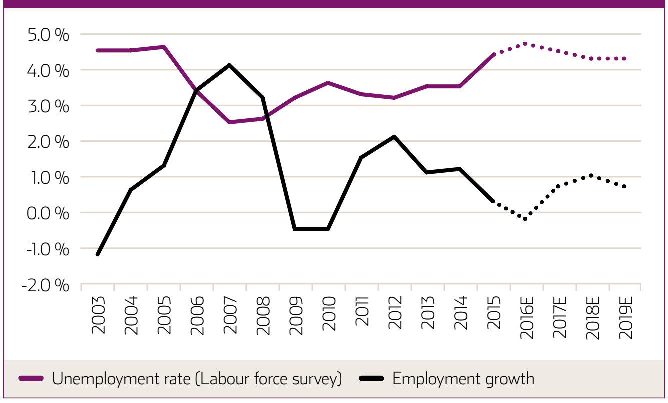
The Norwegian Central Bank kept the key policy rate at 0.50 % in June, September and October. The bank also signalised that the main scenario is an unchanged key policy rate for the coming year, and a slight increase up to 1 % at the end of 2018. Accelerating housing prices fuelled by record-low interest rates may threaten financial stability in the longer term. Although

MAINLAND GDP GROWTH NORWAY



Source: Statistics Norway (September 2016)

THE LABOUR MARKET 2003 – 2015 WITH FORECASTS UNTIL 2019

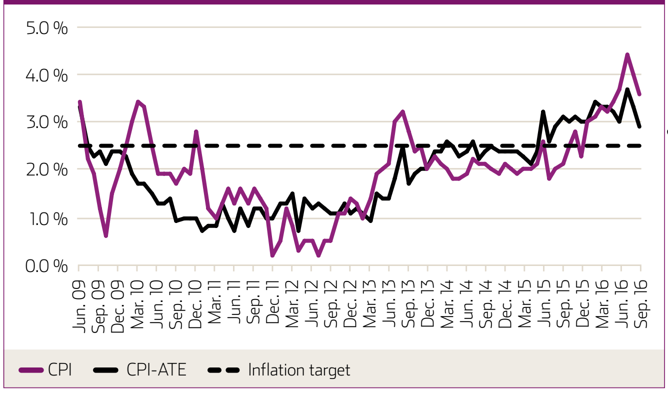


Source: Statistics Norway (September 2016)

MAIN FIGURES (ANNUAL PERCENTAGE GROWTH UNLESS OTHERWISE NOTED)	2015	2016E	2017E	2018E	2019E
Consumption in households etc.	2.1	1.9	2.0	2.4	2.6
General government consumption	2.1	2.6	1.9	1.8	1.8
Gross fixed investment	-3.8	-1.7	2.4	3.1	2.4
– Extraction and transport via pipelines	-15.0	-19.1	-8.0	1.0	1.8
– Gross investments mainland Norway	0.6	4.3	5.1	3.2	2.2
Exports	3.7	-0.1	1.2	1.7	1.9
– Crude oil and natural gas	3.2	0.6	-1.0	-1.0	-0.8
– Traditional goods	5.8	-1.4	3.3	4.4	4.3
Imports	1.6	0.8	2.3	3.5	3.6
GDP (Total)	1.6	0.8	1.6	1.7	1.7
Unemployment rate (level), LFS	4.4	4.7	4.5	4.3	4.3
Employed persons	0.3	-0.2	0.7	1.0	0.7
CPI - yearly growth	2.1	3.4	2.0	2.1	2.0
Core inflation (CPI-ATE)	2.7	3.0	1.9	2.0	1.8
Yearly salary incl. pension cost - yearly growth	2.8	2.3	2.7	3.1	3.4
Real after-tax lending rate. banks (level)	0.1	-1.4	0.0	-0.2	0.1
NOK per Euro (level)	9.0	9.4	9.2	9.2	9.2
Current balance (Bn. NOK.)	270.0	190.3	220.5	253.5	284.9
Current balance (in % of GDP)	8.7	6.1	6.7	7.3	7.9

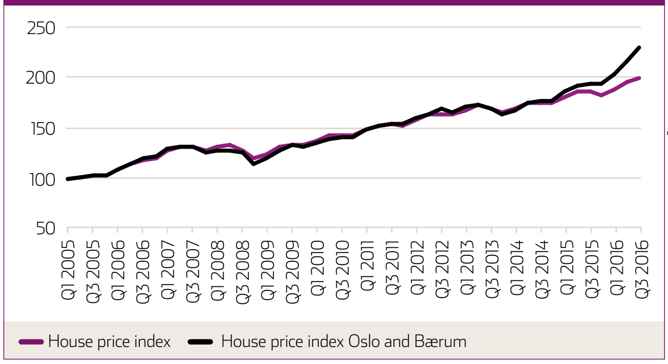
Source: Statistics Norway (September 2016)

INFLATION (12-MONTH CHANGE)



Source: Statistics Norway

HOUSE PRICE INDEX (2005 = 100)



Source: Statistics Norway

housing price development does not affect key policy rate setting directly, the concern is addressed in the Monetary Policy Report. The report also emphasises the need to act cautiously when setting the rate, as interest rates are approaching the unknown territory of zero.

CPI
September 12 month CPI and CPI-ATE was 3.6 % and 2.9 % respectively, higher than the inflation target of 2.5 % for the CPI-ATE. However, the Norwegian Central Bank is more concerned about the inflation expectation, which is on a decreasing trend along with a reduced effect from imported inflation caused by previous depreciation of the Norwegian krone. However, the strengthening of the krone since August may be an isolated argument for further cuts to the key policy rate. A weak krone is important to keep Norwegian exporters competitive.

Currency
While Statistics Norway expects a relatively flat development of exchange rates in the coming period, others are expecting the Norwegian krone to appreciate against major currencies over the coming year. As at COB on 7 November, the EUR traded at NOK 9.09, USD at NOK 8.24 and GBP at NOK 10.21.

Employment market
According to the Labour Force Survey (LFS), the unemployment rate increased from 4.7 % in May (average of April-June) to 4.9 % in August (average of July-September). The increase is 1.7 percentage points since May 2014. However, the figure for register-based unemployment from the Norwegian Labour and Welfare administration (NAV) was quite stable at 2.8 % in October, down from 2.9 % in September 2015. Several factors may explain the increased difference between the LFS figures and NAV figures, currently at 2.1 percentage points (LFS August vs. NAV October), in contrast to a historical difference of around 0.7 percentage points. Job seekers who are having trouble entering the labour market explain much of the difference, since they may not satisfy requirements for unemployment benefit, and therefore lack motivation to register with NAV. However, the Norwegian Central Bank seems to rely more on the NAV figures than the LFS figures when analysing the labour market situation. The LFS standard deviation has been increasing over the years due to an increasing population relative to the fixed sample size, and a lower hit-ratio among the interviews. On the other hand, there is a risk that increasing LFS unemployment figures warn of a coming increase in register-based unemployment.

National accounts show a slightly decreasing employment rate with a -0.1 % change in both Q1 and Q2 of 2016. The LFS study from Statistics Norway showed increased employment of 12,000 persons at national level from Q2 to Q3, but the increase only reversed the reduction seen in the first half of 2016, and the uncertainty inherent in survey-based measurement should be kept in mind. The Q4 Manpower Net Employment Outlook (share of companies increasing employment minus share of companies downsizing) stands at 5 % after seasonal adjustments, indicating a slightly more positive trend among employers.

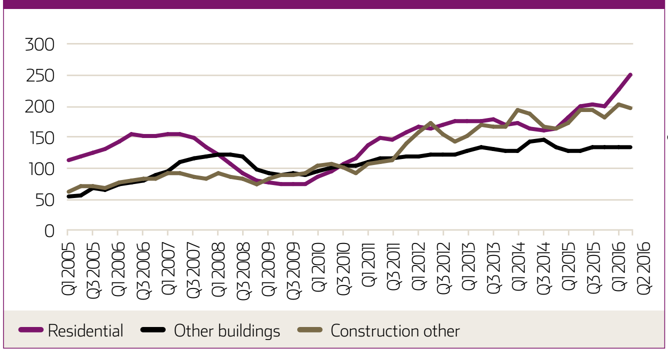
The stock market
The Oslo Stock Exchange Broad Index (OSEBX) opened the year 15 % down in January 2016. As at 7 November, the OSEBX index is back at just above 633.10 points, up more than 5 % since the beginning of January.

Residential prices
While residential prices are still declining in Stavanger, Oslo prices are continuing to spiral upwards. Several explanations for this have been proposed, including the lack of sufficient construction, low interest rates and a relatively strong employment market in Oslo fuelling prices. The October report from Eiendomsverdi showed a 12 month increase of 21.7 % in Oslo and 3.9 % decrease in Stavanger, while prices rose 12.0 % on average for Norway as a whole. As the Norwegian Central Bank recently pointed out in its report on financial stability, the strong housing market accompanied by increasing household debt is a risk factor for financial instability.

Wages
SSB is expecting wage growth to end at 2.3 % in 2016, below the CPI forecast of 3.4 %, resulting in negative real wage growth this year. The wage growth is expected to increase from 2.7 % in 2017 to 3.1 % and 3.4 % in 2018 and 2019, respectively.

Consumption growth
According to SSB, reduced employment and a drop in real wages will contribute to a modest growth in household consumption, estimated at 1.9 % for 2016. Positive changes in income will gradually lead to higher consumption over the coming years. As income growth improves, growth in consumption will increase, reaching 2.6 % in 2019.

CONSTRUCTION NEW ORDERS (2010 = 100)



Source: Statistics Norway

MACRO – GLOBAL

Sub-zero rates – it's still chilly out there

According to the International Monetary Fund (IMF), global growth is projected to slow to 3.1 % in 2016 before recovering to 3.4 % in 2017. This is down by 0.1 percentage points for 2016 and 2017 compared to the last update in April 2016. But prospects differ sharply across countries and regions, with emerging Asia in general and India in particular showing robust growth. Advanced economies are a different story, following the Brexit decision and weaker than expected growth in the US. These events have put further downward pressure on global interest rates, as monetary policy is now expected to remain stimulating for longer. Although the market reaction to the Brexit shock was reassuringly orderly, the ultimate impact remains highly unclear, as the fate of institutional and trade arrangements between the United Kingdom and the European Union are uncertain. Financial market sentiment towards emerging market economies has improved, with expectations of lower interest rates in advanced economies, reduced concern about China's near-term prospects following policy support to growth, and some firming of commodity prices.

Sweden

The Swedish Central Bank has held the key policy rate at -0.50 %, while maintaining its quantitative easing program, which will total SEK 245 billion by the end of the year. The key policy rate projection was reduced significantly however, with a trough of -0.56 %, and the 2018 and 2019 key policy rate projection also reduced by 34 bps. The new projection posits that an increase in the key policy rate will only occur in the second quarter of 2018, and will remain negative until the second quarter of 2019. The Swedish Central Bank continues to argue that inflation is in need of powerful stimulus to reach the 2 % target, even in the midst of the current boom in the Swedish economy. Analysts now believe that the stimulus of the quantitative easing program will also continue further into 2017.

The Eurozone

Over the past few years, the European Central Bank (ECB) has adopted a series of new, unconventional measures in order to continue to provide uplift to the economy, even when policy rates approach the lower bound. The credit easing package put forth in June 2014 has seen the Eurozone benefitting from a more broad-based and domestic demand-driven recovery compared to the 2009-2011 recovery, which relied heavily on net exports. As the economy has strengthened from the implemented measures, the unemployment rate has dropped significantly. The ECB continues to state that it remains committed to preserving the very substantial degree of monetary accommodation necessary to secure a sustained convergence of inflation towards levels below, but close to, 2 % over the medium term. Continuation of the measures currently in place is expected until at least some time in H1 2017, as the struggle to get the economy moving again is ever-pressing. The Euro area GDP growth projections from the IMF are now at 1.7 % for 2016, and 1.5 % for 2017. This is 0.1 percentage points up for the 2016 projection, and -0.1 percentage points down for the 2017 projection, compared to the previous report in April.

The UK

Following the somewhat surprising Brexit vote, the Bank of England announced a suite of accommodative measures in August. This included a 25 bps cut in the key policy rate to 0.25 %, a new "term funding scheme" to transmit the lower policy rate to retail borrowing costs, and resumption of quantitative easing. The Bank of England is taking steps to limit post-Brexit downside risks. The measures taken to support the UK economy as it begins to adjust to the new institutional arrangements to come could just be the first of many, as uncertainty is still high. The UK economy has fared surprisingly well so far, but it is also far too early to predict the final outcome.

The US

Despite the steady decline in the unemployment rate to less than 5 %, and the pace of job creation over the past year exceeding the average of the pre-crisis boom years, wage growth and inflation have remained subdued. The Federal Reserve's pause after the December 2015 increase in the federal funds rate in response to domestic development, as well as risks stemming from the global environment, is grounded in an argument that further increases should be gradual and tied to clear signs that wages and prices are firming durably. Most analysts now believe that an increase of 25 bps is due at the December meeting of the Federal Reserve Board. The four quarter GDP growth in Q3 came in strong at 2.9 %, where consensus was 2.5 %. Private consumption, commercial investments and foreign trade all contributed positively to the growth. Real GDP growth is predicted to be 1.6 % in 2016 and 2.2 % in 2017, a reduction compared to the previous IMF report issued in April of -0.6 percentage points and -0.3 percentage points for 2016 and 2017, respectively.

ANNUAL GDP GROWTH (PERCENT)	2015	2016E	2017E	2018E	2019E	2020E
Global	3.2	3.1	3.4	3.6	3.7	3.7
The US	2.6	1.6	2.2	2.1	1.9	1.7
EU 28	2.3	1.9	1.7	1.8	1.8	1.8
The Eurozone	2.0	1.7	1.5	1.6	1.5	1.5
Advanced economies	2.1	1.6	1.8	1.8	1.8	1.7
Emerging and developing Europe	3.6	3.3	3.1	3.2	3.1	3.2
Germany	1.5	1.7	1.4	1.4	1.3	1.3
France	1.3	1.3	1.3	1.6	1.7	1.8
The UK	2.2	1.8	1.1	1.7	1.8	1.9
Sweden	4.2	3.6	2.6	2.2	2.2	2.0
Denmark	1.0	1.0	1.4	1.7	1.8	1.9
Italy	0.8	0.8	0.9	1.1	0.9	0.9
Japan	0.5	0.5	0.6	0.5	0.7	0.1
China	6.9	6.6	6.2	6.0	6.0	5.9
Russia	-3.7	-0.8	1.1	1.2	1.5	1.5
Middle East and North Africa	2.1	3.2	3.2	3.4	3.6	3.7

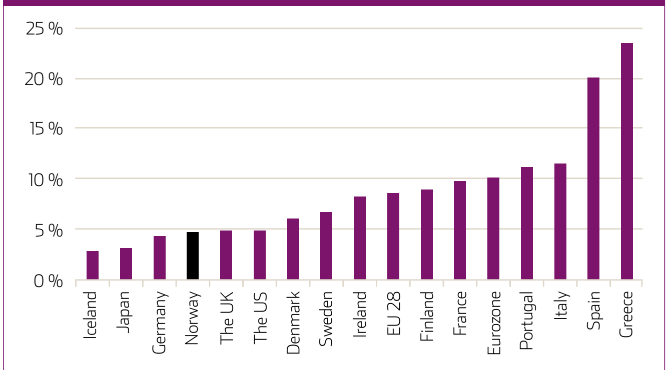
Source: IMF World Economic Outlook

KONGENS GATE 21 / KVADRATUREN
Malling & Co acted as buy-side advisor in the acquisition of the 25 000 m² office and retail building in central Oslo. Lead investor was Tristan Capital Partners.

China

In the first half of the year, growth in China stabilised close to the middle of the authorities' target range of 6.5 % to 7.0 % for 2016. Big drivers of reaching the target included policy support and strong credit growth. Robust consumption and a further rotation in activity from industry to services indicate that rebalancing is progressing along the dimensions of internal demand and the supply-side structure. The IMF's forecast for GDP growth in 2016 is set at 6.5 %, and is in line with the forecast of the Chinese government. The IMF further predicts 6.2 % growth for 2017. Both yearly predictions remain unchanged since the IMF's last report in April. The credit build-up is however still a growing cause for concern, and both consumers and businesses are more vulnerable than both the Chinese government and the global community as a whole are comfortable with.

UNEMPLOYMENT RATE IN SELECTED COUNTRIES/AREAS



Source: Eurostat

OSLO OFFICE MARKET

Employment and demand for office space

Limited employment growth in office-related sectors

As pointed out in the macro section, economic growth in Norway has been sluggish since mid-2014. This has affected the labour market as a whole, although differently across the country's various regions. While Oil & Gas related activity is struggling, regions like Oslo seem to have been affected much less than many initially anticipated. However, we are unable to say that Oslo remains completely unaffected, as we are aware that several companies within the Oil & Gas sector have downsized their business, or even closed down. According to several figures, unemployment seems to have stabilised, but a sudden growth in employment still seems farfetched.

Unemployment seems to be stabilising

Comparing the development of unemployment in the different regions reveals that southern and western Norway have taken most of the hit, since they have been heavily exposed to the Oil & Gas boom up to 2014. According to Norwegian Welfare Administration (NAV), the registered unemployment rate in Oslo was 3.0 % in October 2016, down from 3.3 % 12 months earlier.

Positive employment outlook

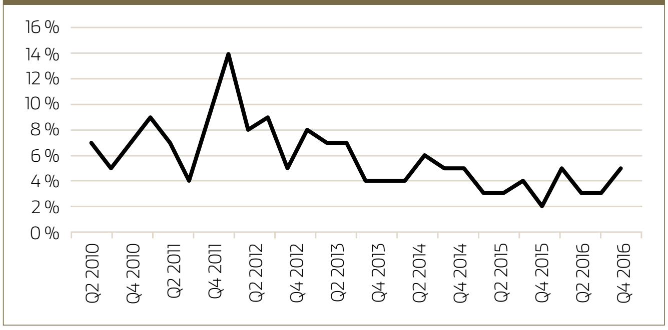
When analysing the latest developments and forecasts for employment in the different regions, it is difficult to obtain highly accurate figures and estimate underlying trends. According to the Labour Force Survey (LFS), the number of employed persons in Oslo and Akershus combined seems to be subject to a growing trend. However, the standard deviation in the LFS for employed persons at regional level is high, and it is necessary to observe the developments over time before concluding whether the growth is significant. Several companies are choosing to keep their staff rather than downsizing, meaning that there is probably still some slack to absorb increased demand in the current workforce, and this may explain the relatively mild impact seen on the labour market following the oil price drop in 2014.

In terms of short-term outlook, the Q4 2016 Manpower Employment Outlook Survey (MEOS), which identifies net expected staffing for the next quarter (see definition at the bottom of the page), shows a Net Employment Outlook (NEO) at 5 % following seasonal adjustment. This is slightly up from previous quarters, and may indicate a slightly more positive outlook for employment at a national level. Other indicators like the Regional Network Survey from the Norwegian Central Bank indicate a relatively flat development in employment over the next three months for the eastern region of the country. This result corresponds with the MEOS study at regional level, which yields an NEO of +2 % for Greater Oslo. As mentioned in the macro section, the LFS figures indicate relatively flat employment throughout 2016, taking uncertainty in the figures into account.

Demand for office space in Greater Oslo and Stavanger

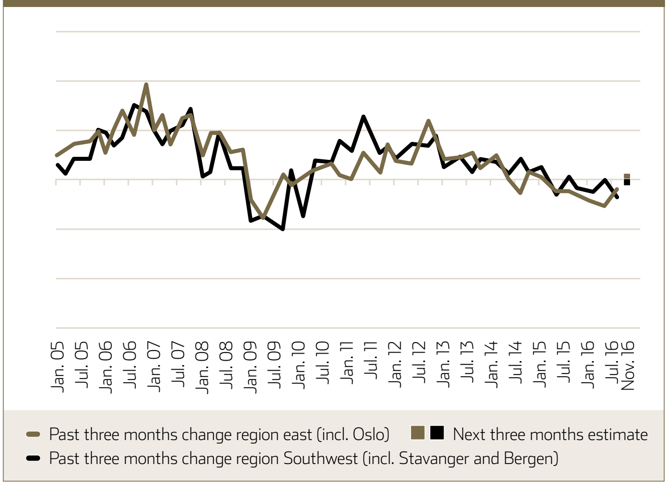
The underlying employment market suggests weak employment growth in Oslo. Analysis of the various sectors and their plans for employment reveals that the strongest growth is expected in the public and healthcare sectors and construction – sectors with limited use of office space. In this respect, the outlook for short-term absorption of new office space in Oslo seems limited. On the other hand, the MEOS study reveals high expected growth in businesses with over 250 employees. Our interpretation of the various indicators is a relatively flat or weakly growing demand for office space over the coming six months.

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



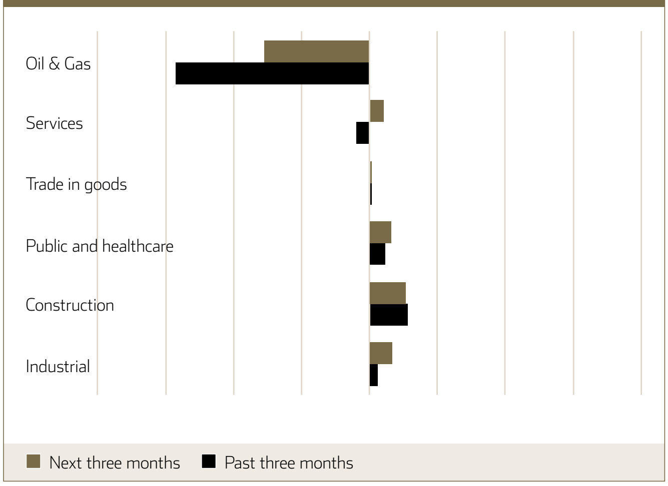
Source: Manpower Employment Outlook Survey (Q4 2016)

GROWTH IN EMPLOYMENT PAST THREE MONTHS, REGIONS (INDEX*)



Source: Norges Bank Regional Network (survey 3/2016)

GROWTH IN EMPLOYMENT PAST THREE MONTHS AND NEXT THREE MONTHS (INDEX*)

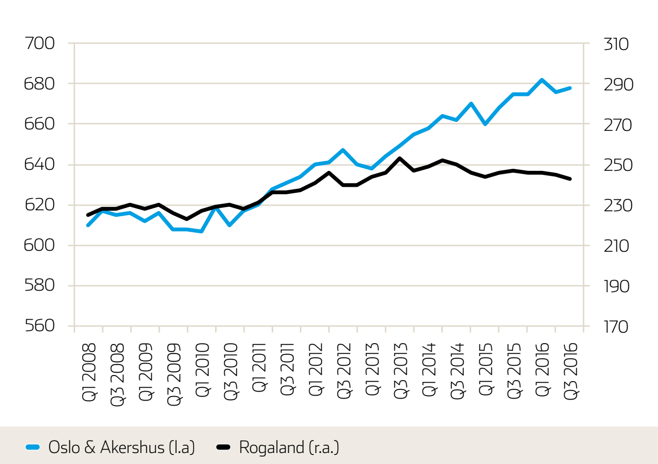


Source: Norges Bank Regional Network (survey 3/2016)

*Index from -5 til +5: -5 indicate strong reduction, +5 indicate strong growth

As indicated by the unemployment and employment figures, demand for office space in the Stavanger region has been weak. However, the MEOS study reports an NEO of +11 % for the fourth quarter, while the Regional Network Survey reports a slightly positive trend for employment, although lower than the Manpower survey suggests. We interpret the figures as positive, considering the negative trend seen in this region since workforce cuts within the Oil & Gas sector started a few years ago. The targeted actions in the proposed national budget are also expected to have some positive effects on employment in the region.

EMPLOYMENT IN OSLO & AKERSHUS AND ROGALAND, LABOUR FORCE SURVEY (IN THOUSANDS)



Source: Statistics Norway Labour force survey

ØKERN TORGVEI 13 / ØKERN
Malling & Co Eiendomsfond has acquired an office building of 19 700 m² at Økern in Oslo.

COLOSSEUM PARK / MAJORSTUEN
Malling & Co Eiendomsutvikling AS has been appointed to refurbish approximately 2 200 m² of retail space. Illustration: DARK Arkitekter

Tenant representation

Searches for office space with estate agents

As we reported in our summer report six months ago, activity in the market for office searches is increasing and the average search size is up. This trend has continued, and we do not expect it to decline in the near future. Several large tenants will move, or at least probe the market, as their lease contracts are due to expire in the coming years.

Aggregated search volume drawn up by major searches

We have registered 98 searches for office space from the start of the year to 7 November 2016, comprising a total of 273 000 m². This volume has almost doubled compared to the total for 2015. If this high activity level continues, we expect to see another 50 000 m² of search volume by the end of the year. This would give us a total volume of approximately 320 000 m² – the highest since 2010. The average office search volume each year in the period 2009-2015 has been around 200 000 m². The main driver of search volumes is more large tenants looking for new office locations. So far in 2016 we have noted 14 searches for more than 5 000 m² of office space, compared to a total of 7 in 2015. Another reason for the increase in volume is the increase in the number of tenants in the market.

Public tenants account for over half of the search volume

For the year to date, public tenants account for half of the searches for over 5 000 m² and more than half of the total volume. Bane NOR and the Directorate for Labour and Social Affairs (Arbeids- og velferdsdirektoratet) are among the largest tenants, responsible for searches of 25 000 to 35 000 m². Common to all public tenants is that they are looking for office space in central Oslo which is close to public transport. Roughly half of the searches also mention the eastern fringe zone, while few mention the western fringe zone.

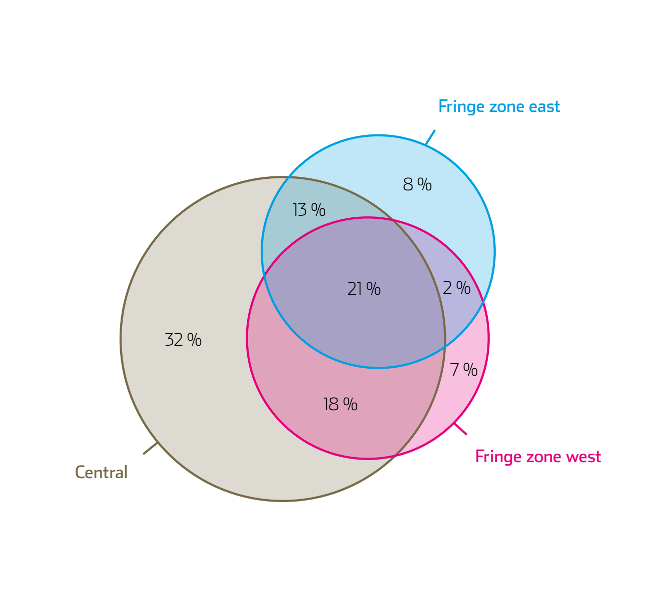
Higher interest in central locations and eastern fringe zone

Overall, we are registering a higher level of interest in office space in central Oslo and the eastern fringe zone so far this year. The trend towards the city centre is continuing, and so far in 2016 almost 90 % of searches have mentioned the city centre as a relevant location, compared to less than 70 % in 2015. In the period 2009-2015, around 4 out of 10 tenants looking for new office space mentioned the eastern fringe zone as a desired location, on average. So far this year, almost 7 out of 10 tenants have mentioned the eastern fringe zone. This is probably due to cheaper rental rates, competitive office buildings and a constantly improving public transport system.

About the analysis and database

Tenant representation agents map tenants' requirements regarding location and facilities, and manage the actual search for new commercial space. This applies to office space, mixed use premises, and retail and warehousing/logistics premises. Larger tenants are more likely to use tenant representation agents, but many small and medium-sized enterprises also obtain assistance during their relocation processes. We register and systematise all market searches covering the Greater Oslo area. This makes it possible to analyse one of the main sources of demand in the market. Our figures show that rental searches account for between 15 % and 50 % of the total annual volume (measured in square meters) of signed office lease agreements. Our analysis of market searches goes back to 2009 and includes more than 1 000 searches to date, two thirds of which are pure office market searches. This enables us to study the demand side trends in detail and to help our clients to offer and invest in the right projects for end users.

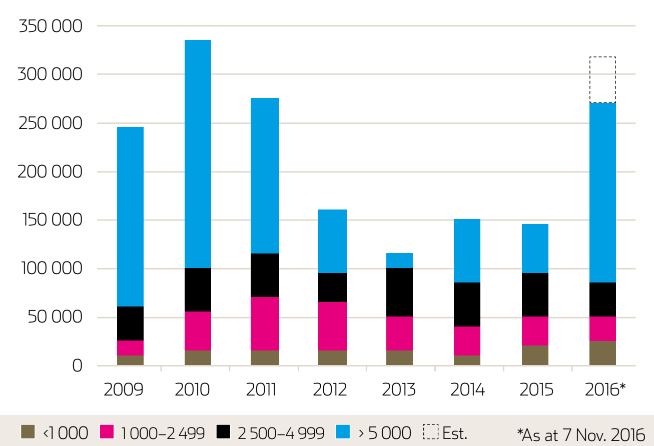
OFFICE MARKET SEARCH DATA GREATER OSLO 2009–2016* (M²)



*As at 7 Nov. 2016

Source: Malling & Co – Due to rounding, percentages may not add up to exactly 100 %

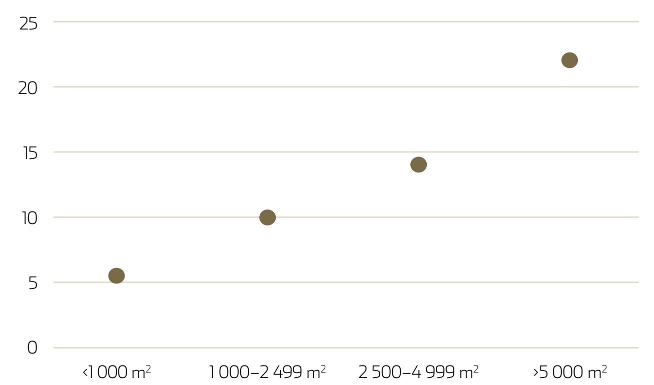
OFFICE MARKET SEARCH DATA GREATER OSLO 2009–2016* (M²)



*As at 7 Nov. 2016

Source: Malling & Co

AVERAGE MONTHS BETWEEN PUBLICATION OF MARKET SEARCH AND DESIRED LEASE STARTUP DIVIDED INTO SIZE SEGMENTS (2009 – 2016*)



*As at 7 Nov. 2016

Source: Malling & Co

Construction activity in greater Oslo

Construction activity low but increasing

The construction volumes for new office space in 2016 and 2017 are well below the average for the past 10 years. The most important reason for this has been a lack of the large anchor tenants needed to initiate new builds over the past couple of years.

Past experience dictates that the pipeline of construction activity may soon increase. The demand from large anchor tenants aiming to relocate in 2-4 years' time is strong in the current market. However, the offered supply (meaning all new projects and vacant space offered) is also great, especially in the eastern fringe clusters where new projects are plentiful. More than 50 % of planned but idling projects are in development areas in the eastern fringe zone, particularly in the Økern/Løren/Risløkka and Bryn/Helsfyr clusters. In these markets, current vacancy is of less importance in explaining the rent levels in newly-signed lease agreements. The chart below shows historical and confirmed new office projects (brown bars), as well as possible new projects, where the grey shading indicates the uncertainty. The uncertainty is divided into three levels; high if the project is in its early stages, medium if zoning is initiated, and moderate if the project is awaiting tenants to sign a contract.

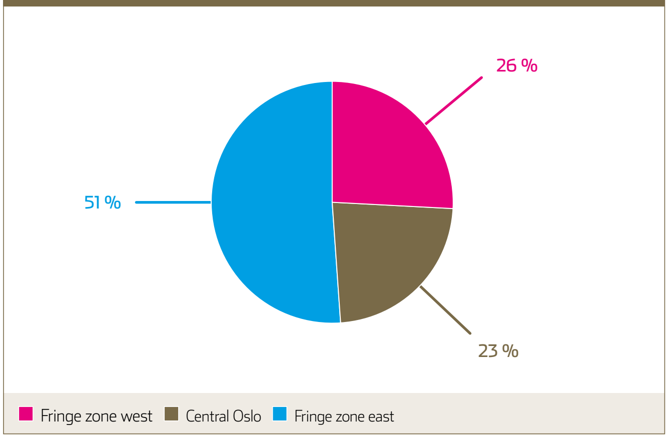
The annual volumes that will complete in 2016 and 2017 are well under the average of just below 150 000 m² per year, but we expect the volumes to increase to historical average levels for 2018 and 2019. As mentioned in the tenant representation section, the activity level in searches for office space has more than doubled so far this year, compared to the total for 2015. Several large tenants are looking for potential new office space, and with an increased number of anchor tenants in the market, it is more likely that more new builds will be initiated.

Almost without exception, the projects currently in pipeline are all within our defined office clusters in Greater Oslo. As mentioned above, most of the projects are situated within the eastern fringe clusters. The office clusters with the highest development potential in the west are Fornebu and Skøyen. At Fornebu, Aker Solutions has recently moved 1 400 employees from Snarøyveien 36 into the new build Fornebuporten (Oksenøyveien 8-10). Vacancies are increasing in office clusters in the western fringe, especially at Lysaker and Fornebu. Some of the vacancy is due to tenants sub-letting parts of their space due to workforce reductions in the Oil & Gas sector. This additional vacancy makes it more difficult to find anchor tenants to initiate new projects.

In central Oslo, the inner city and Bjørvika are the largest developing areas. In Bjørvika, PwC will move from Dronning Eufemias gate 8 to the new build "Eufemia" in 2019. TV2 will move from Karl Johans 14 into "Diagonale" in 2018. HAV Eiendom, engaged in property development in Bjørvika, is developing several plots in the area, and there is still great potential to develop the remaining plots. However, these developments will depend on the market and the natural sequence of construction, which is expected to continue over the next decade.

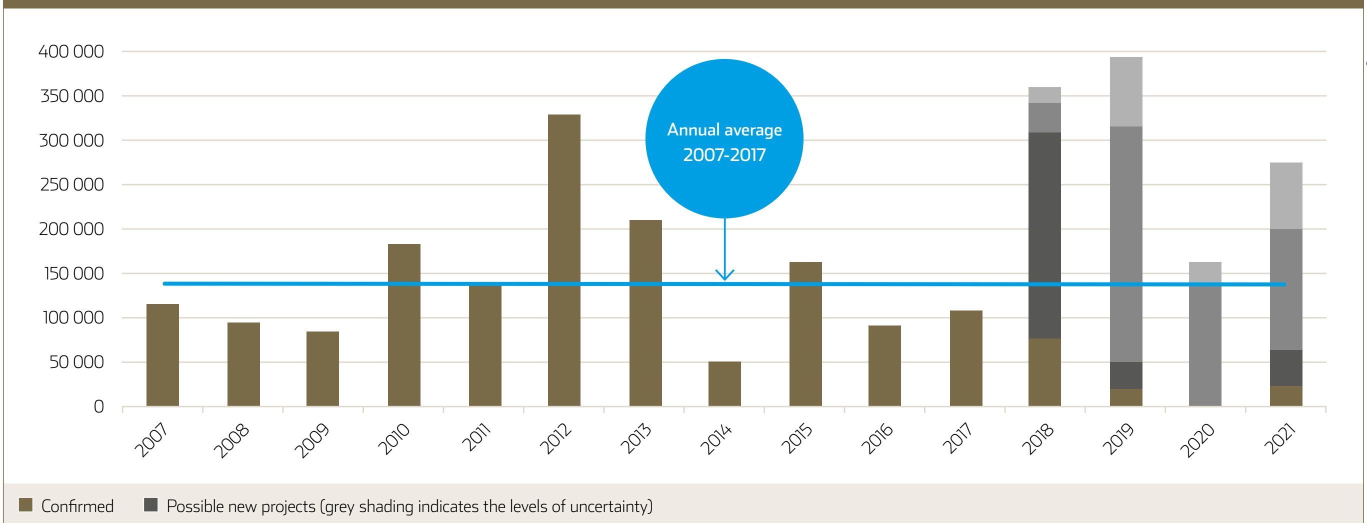
Only a very few of the office projects currently in pipeline are built on speculation. Although this is not particularly common, these projects are located in the city centre where available tenants are more numerable. However, financing for projects is difficult to obtain without a certain level of underlying cash flow from lease contracts. The pipeline of projects being built on speculation typically contains smaller projects, with lower, more manageable vacancy risk compared to larger projects. Currently, two projects are being built on speculation. One is Dronning Eufemias gate 6b, in Bjørvika (without any signed lease agreements as at the time of writing). "Youngskvartalet" is the other, and both are expansions on existing schemes to utilise available allowances.

CONFIRMED AND ESTIMATED COMPLETION OF NEW OFFICE DEVELOPMENTS SPLIT INTO CITY AREAS (2016-2021):



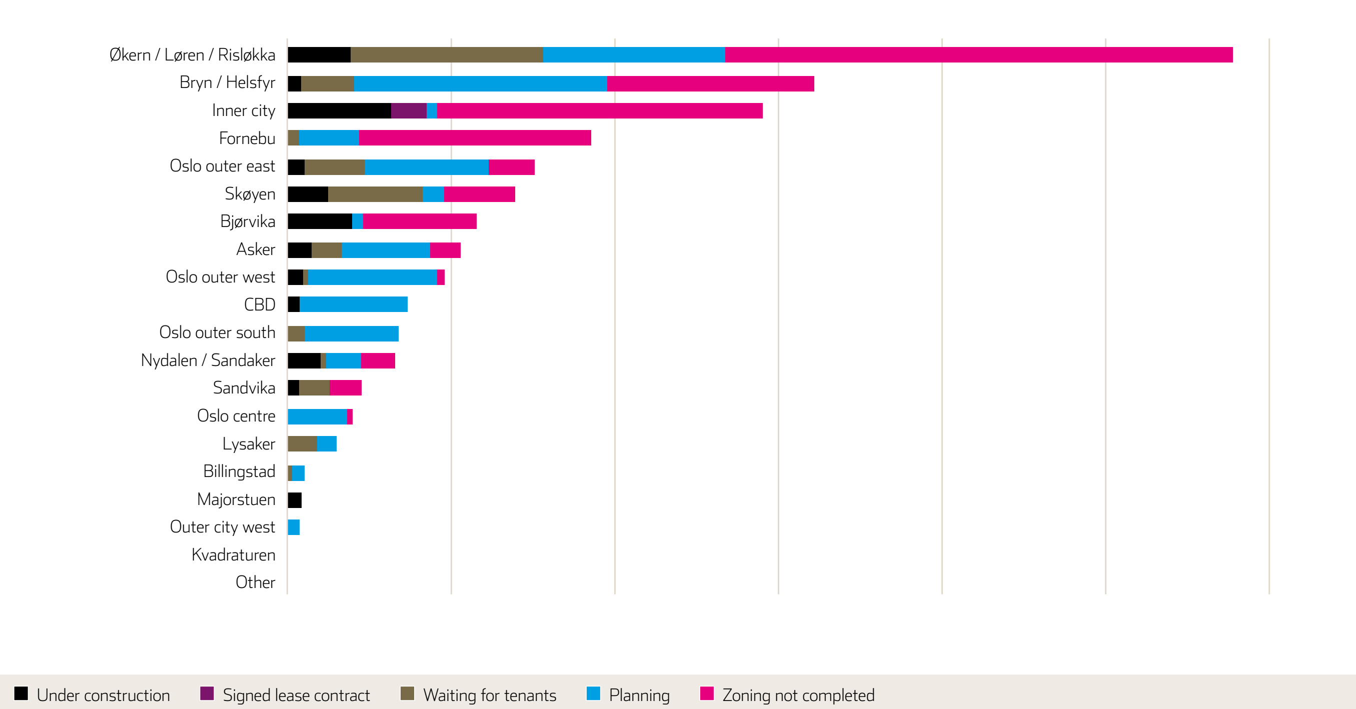
Source: Malling & Co

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



Source: Malling & Co

NEW OFFICE CONSTRUCTION VOLUME AND PROJECT STATUS IN DIFFERENT CLUSTERS (M²)



Source: Malling & Co

COMPLETION OF NEW OFFICE BUILDINGS THAT WILL BE FINALIZED 2016-2019

Source: Malling & Co

BARCODE / BJØRVIKA
Malling & Co Forvaltning assists Oslo S Utvikling, DNB Næringseiendom and the condominiums with the management of 10 properties in Barcode.

SCHWEIGAARDS GATE 33
INNER CITY / BJØRVIKA
Malling & Co Næringsmegling has been commissioned to lease approximately 22 000 m² of office space in the new development project. Illustration: 3D Estate

Supply in the rental market

More projects, decreasing vacancy

The aggregated supply (see definition) in Greater Oslo has recently increased. Despite an overall decrease in vacancy in the office clusters, several new construction projects in the eastern fringe have been launched in the market. Supply in central Oslo remains at low levels.

In October, the aggregated supply of office space in Greater Oslo comprised 1.2 million m², an increase of 2 % since October 2015. The average offered space per advertisement is 1 550 m², an increase of 11 % since last year. The number of ads for premises larger than 5 000 m² was 44, while 22 premises were larger than 10 000 m². The main reason behind the increase is the increased number of new projects that have transitioned to the marketing stage of the development phase during 2016.

40 % of all advertised premises larger than 2 000 m² in Greater Oslo are currently vacant or will become vacant by the end of this year, and 13 % will become vacant during 2017. 47 % of the premises will not be available until 2018 or later, and are therefore not part of the current vacancy, which is defined as space available within 12 months.

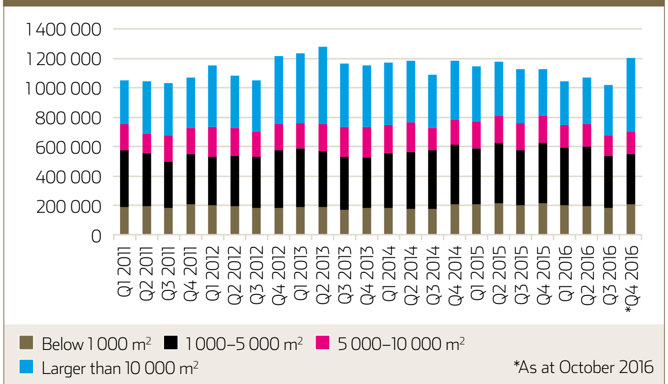
The total supply of office space within our 14 defined office clusters in Greater Oslo was 960 000 m² as at October 2016 – an increase of 8 % since October 2015. Within a 12 month perspective, the vacant office space was just under 600 000 m², a decrease of 5 % since October 2015. The aggregated supply has increased, since planned new builds offered in the market have increased by 39 % in the past year. The aggregated supply rate for office clusters in Greater Oslo is 12.2 %, and the vacancy rate is 7.5 %.

As at mid-October 2016, sub-letting constituted 11 % of the total vacancy within the office clusters. More than 80 % of the sub-letting is in the western fringe. Our mapping of tenants in the western fringe of Greater Oslo shows that one in five tenants are in the Oil & Gas sector, and therefore directly affected by decreasing activity within the sector. Sub-letting poses a small threat to achievable rents, since limited flexibility in lease terms and fit-outs makes sub-letting more difficult and not necessarily of interest to all tenants.

How we measure supply

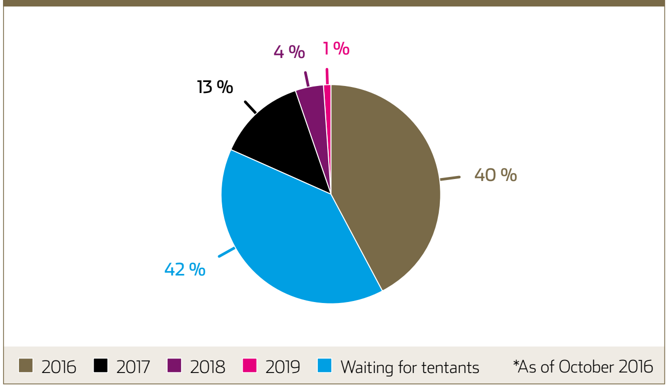
When analysing the supply side of the rental market, we wish to describe what is available for prospective tenants, not just vacant space. We therefore split the total amount of offered office space into two definitions: supply and vacancy. Supply includes all projects and vacancies regardless of delivery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

OFFICE SPACE FOR RENT IN GREATER OSLO (M²) PER SIZE INTERVAL PER OCT. 2016



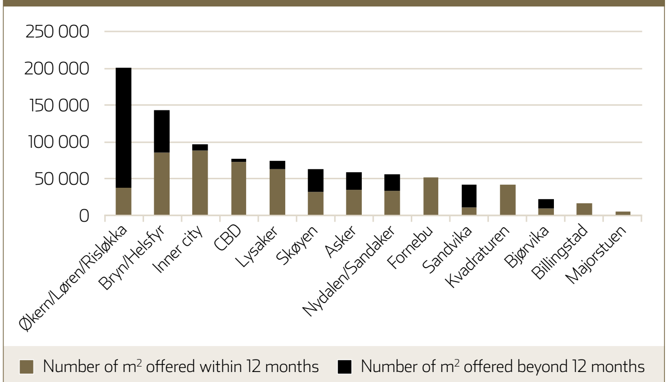
Source: Malling & Co/FINN.no

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



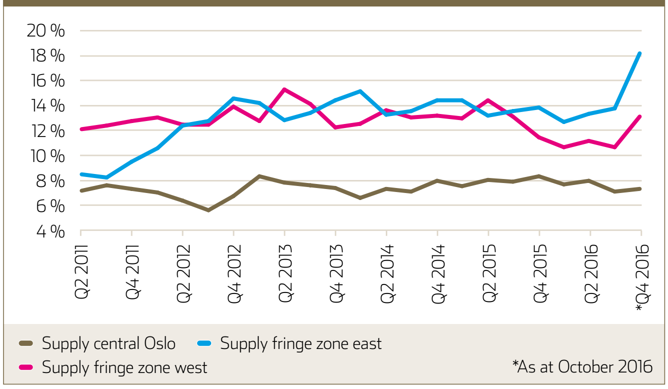
Source: Malling & Co/FINN.no

OFFICE SPACE FOR RENT DIVIDED INTO OFFICE CLUSTERS PER OCT. 2016 (M²)



Source: Malling & Co/FINN.no

SUPPLY IN CENTRAL OSLO, EASTERN AND WESTERN FRINGE ZONE PER OCT. 2016



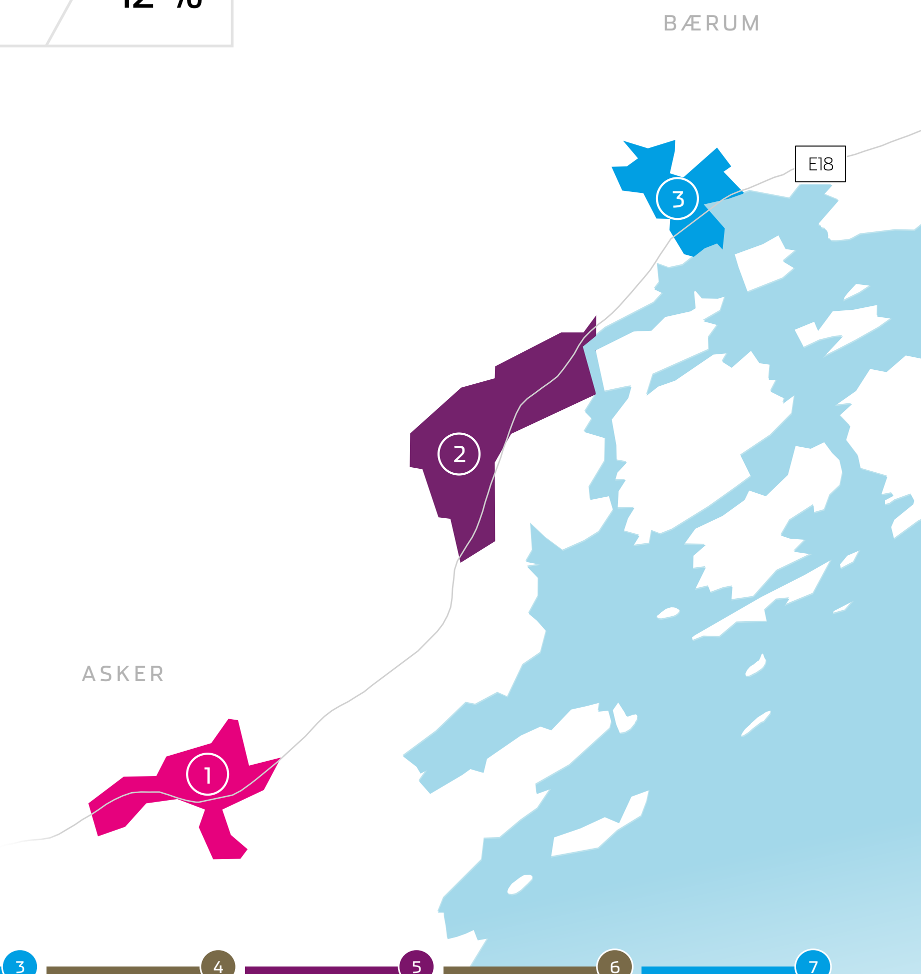
Source: Malling & Co/FINN.no

Vacancy* and supply**

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

VACANCY* IN DEFINED OFFICE CLUSTERS – Down approx. 0.5 percentage points past 12 months	7 %

SUPPLY** IN DEFINED OFFICE CLUSTERS – Up approx. 0.7 percentage points past 12 months.	12 %

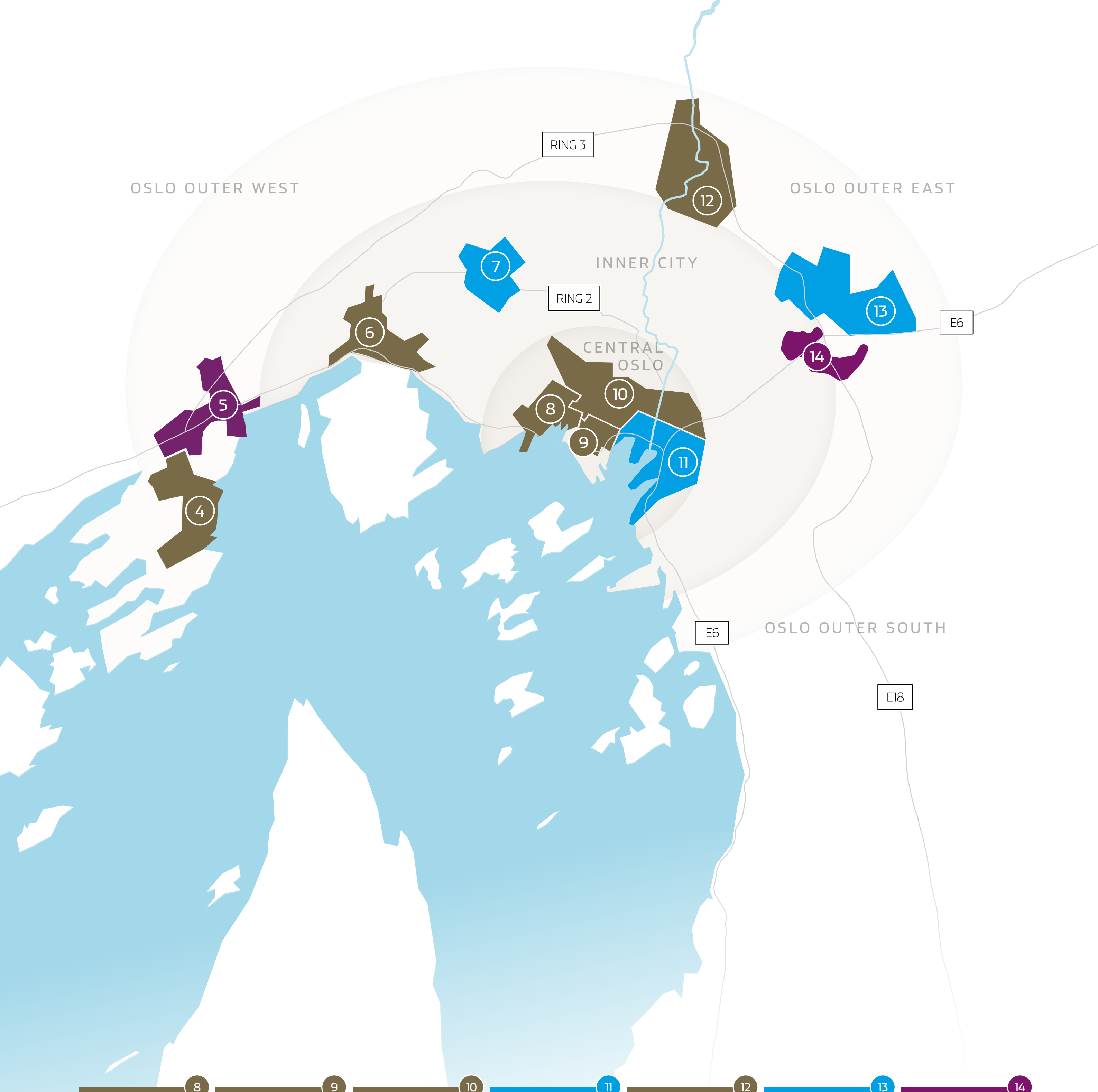


Map colour indicates vacancy rates per October 2016

0–5 % · 5–10 % · 10–15 % · Above 15 %

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

	1 ASKER	2 BILLINGSTAD	3 SANDVIKA	4 FORNEBU	5 LYSAKER	6 SKØYEN	7 MAJORSTUEN
VACANCY RATE PER OCT. 2016	18 %	12 %	4 %	9 %	11 %	6 %	4 %
SUPPLY RATE PER OCT. 2016	29 %	12 %	14 %	9 %	13 %	12 %	4 %



	8 CBD	9 KVADRATUREN	10 INNER CITY	11 BJØRVIKA	12 NYDALEN / SANDAKER	13 ØKERN / LØREN / RISLØKKA	14 BRYN / HELSFYR
VACANCY RATE PER OCT. 2016	10 %	7 %	6 %	3 %	7 %	5 %	11 %
SUPPLY RATE PER OCT. 2016	10 %	7 %	7 %	6 %	11 %	23 %	18 %

Source: Malling & Co/FINN.no

Further development of the rental market

Rental growth postponed

Still waiting for economic growth to pick up

Leading indicators show that we have just passed the trough, but are still waiting for expectations of increased growth to materialise into a clear upswing.

Moderate employment growth

Oslo and Akershus have the strongest population growth of Norway's 19 counties. Employment in Oslo and Akershus has been increasing in recent years, but indicators suggest that employment growth will be moderate in the coming year. We still see some companies within Oil & Gas consolidating or terminating their businesses, even impacting the Greater Oslo area. However, Oslo remains far less affected than Stavanger.

Rents are flattening out

After peaking in 2014, average rents for signed lease agreements have moved sideways or slightly down over the past two years.

Vacancy is down

Compared to our report one year ago, vacancy in office clusters is down about 0.5 percentage point. Low office construction is expected to keep vacancy low over the next couple of years. However, there is a risk to increased vacancy in 2-3 years if construction increases and tenants continue to focus on reducing their space per headcount.

Low new construction and high conversion rates

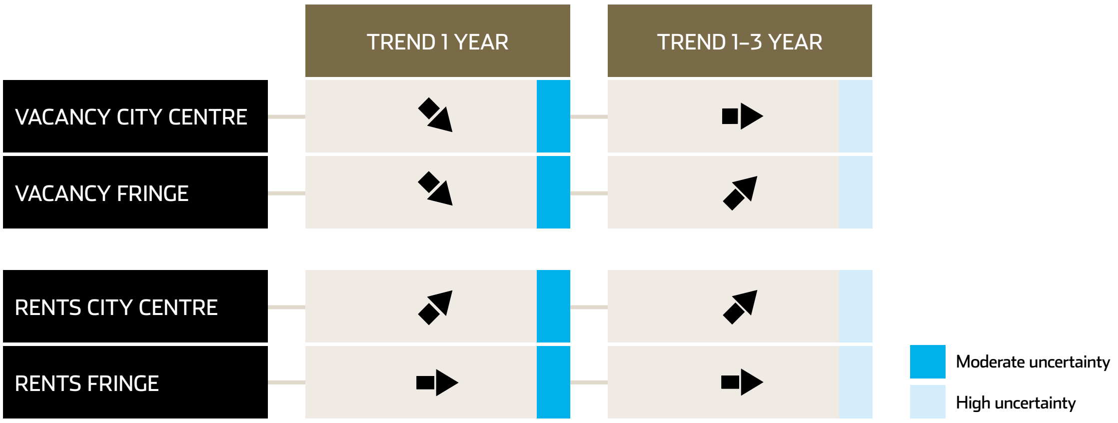
Construction is expected to be low over the next two years, compared to the historical average and the number of conversions, demolitions and refurbishments. However, the new projects offered in the market are numerous in the eastern fringe clusters, creating fierce competition to attract tenants prospecting for new constructions.

Sub-letting is limited

Sub-letting is limited and is in general a product with lower quality than space offered by property owners directly. We see several tenants cashing out their lease agreements, rather than choosing to sub-let the space on their own.

City centre proves its attractiveness

Nine of 10 tenants are looking for offices in or near the city centre. Vacancy is low and new builds are limited. A sudden increase in demand will push rents upwards.



Short-term trend for rents (1 year): STABLE

- Our main scenario is a flat rent development over the coming 6-12 months, with a higher probability of increased rents rather than reduced rents in the city centre.
- Vacancy is expected to continue on a downward trend towards mid-2017.

Long-term trend for rents (1-3 years): UP

- We expect rents in the city centre to increase as new projects are filled up and vacancy reduces.
- We expect office clusters in the fringe areas to experience a flat development.
- A slower economic recovery than expected may extend the period of a flat rent development.
- The downside risk is limited as speculative construction is rare in the Oslo market. However, the attractiveness of new, flexible office space may initiate more construction than needed, leaving the vacancy problem to owners of old and inefficient space.

MARKVEIEN 35 / GRÜNERLØKKA
Malling & Co Corporate Real Estate is handling the sale of 7 700 m² retail and office space.

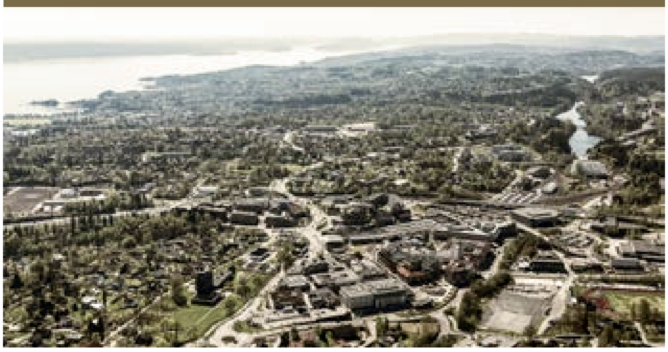
The rental market
Greater Oslo

In the following section, we have summarized the status within the 14 defined office clusters in Greater Oslo. We have provided a table with estimated normal* and prime* rent levels as well as supply** and vacancy** for every office cluster. We have also included a short section with the latest news for each cluster. The main source for estimating monthly vacancy and supply is a list from Norway's dominant online market place FINN.no, which we have further processed. Utilizing these numbers, we find that the total supply for all our defined office clusters has increased from 11.5 % to 12.2 % over the past 12 months.
The vacancy, space available for delivery within 12 months, has decreased from 8.0 % to 7.5 % in the same period.

A SELECTION OF THE LATEST MAJOR LEASE CONTRACTS

Tenant	Moving to address / Office cluster	Moving from address / Office cluster	Space
Skatt Øst	Schweigaards gate 17-19 / Inner city	Renegotiation	~ 22 000 m²
Universitetet i Oslo	Tullinkvartalet / Inner city	Several / Inner city	~ 20 000 m²
Bydel Frogner / NAV	Drammensveien 60 / Western Oslo	Sommerrogata 1 / CBD	~ 11 000 m²
PwC	«Eufemia» / Bjørvika	Dronning Eufemias gate 8 / Bjørvika	~ 9 500 m²
Elkjøp HQ	Nydalsveien 18 / Nydalen	Solheimveien 10 / Lørenskog	~ 7 000 m²
Oslo Kemnerkontor	Nydalsveien 24 / Nydalen	Pilestredet 33 / Inner city	~ 6 700 m²
Mesh	Tordenskiolds gate 2 / Kvadraturen	Tordenskiolds gate 3 / Kvadraturen	~ 5 800 m²
Hjort	Tullinkvartalet / Inner city	Akersgata 51 / Inner city	~ 5 100 m²
Knowit	Sundtkvartalet / Inner city	Universitetsgata 7 / Inner city	~ 4 400 m²
Ida Arkitekter	Drammensveien 126 / Skøyen	Renegotiation	~ 2 000 m²
Gothia	Kongens gate 6 / Kvadraturen	Tevlingveien 23 / Oslo outer east	~ 1 900 m²
Evolve	Karvesvingen 2 / Økern/Løren / Risløkka	Vibes gate 17 / Central Oslo	~ 1 800 m²
Tidal	Sundtkvartalet / Inner city	Grensen 5 / Inner city	~ 1 700 m²
Mattilsynet	Sundtkvartalet / Inner city	Ullevålsveien 76 / Central Oslo	~ 1 700 m²

ASKER



	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	1 600 – 1 800	1 600 – 1 800
Prime rent (NOK/m²)*	2 200	2 100
Supply**	29 %	14 %
Vacancy**	18 %	9 %

Comment:
Drengsrudbekken 5-11, or "Asker Genera", is back in the market. Oxer Eiendom is planning to start construction in 2017. Ferd Eiendom secured Indra Navia for their new build "Asker Tek", due to be completed in Q1 2018. Almost 60 % is still available. FMC is sub-leasing more than 11 200 m² in Lensmannslia 4, after the company decided to consolidate in Kongsberg. FMC is one of the many companies within the Oil & Gas sector currently undergoing a downsizing period.

BILLINGSTAD

	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	1 250 – 1 500	1 250 – 1 500
Prime rent (NOK/m²)*	1 800	1 700
Supply**	12 %	16 %
Vacancy**	12 %	13 %

Comment:
Olav Brunborgsvei 4-6 (9 000 m²) accounts for more than half of the vacancy at Billingstad, and has been vacant for more than two years. Several office buildings are planned to be converted into residential projects. JM and Ferd are planning a new residential project in Bergerveien 12, and Asker Eiendom / Eiffel Eiendom acquired Bergerveien 5 (the former Varner headquarters), partly with the same purpose. This will decrease the available office stock at Billingstad.

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

SANDVIKA

	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	1 600 – 1 800	1 600 – 1 800
Prime rent (NOK/m²)*	2 250	2 250
Supply**	14 %	9 %
Vacancy**	4 %	3 %

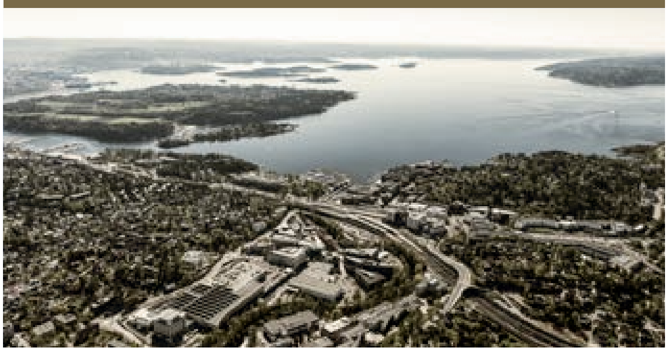
Comment:
Several office buildings in Sandvika are also planned to be converted into residential projects, e.g. Eivind Lyches vei 10 and Kjørbokollen 30. Selvaag Bolig recently bought Eivind Lyches vei 10 from Aberdeen Eiendomsfond Norge I, and is planning to build up to 300 apartments from 2019. Turning parts of projected new build Sandvika Business Center into residential space is also being considered. Entra is refurbishing phase two of Powerhouse Kjørbo (4 250 m²), and Asplan Viak will rent approximately half the space from Q3 2017.

FORNEBU

	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	1 500 – 1 700	1 500 – 1 700
Prime rent (NOK/m²)*	2 150	2 000
Supply**	9 %	12 %
Vacancy**	9 %	6 %

Comment:
Aker Solutions moved 1 400 employees to the second stage of Fornebuporten this summer, which comprised 26 000 m² of office space. 36 000 m² then became vacant in Snarøyveien 36. There is still around 150 000 m² of commercial space to be developed at Fornebuporten. Fornebu often loses the battle for new tenants to Lysaker, usually due to the lack of rail-based public transport. Discussions regarding the Fornebu Metro have been lengthy; the new realistic timeline for its opening is 2024/2025.

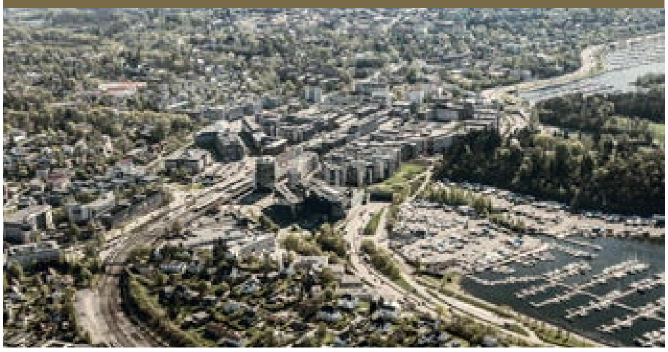
LYSAKER



	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	1 700 – 1 900	1 600 – 1 800
Prime rent (NOK/m²)*	2 300	2 250
Supply**	13 %	20 %
Vacancy**	11 %	18 %

Comment:
Vacancy at Lysaker has fallen somewhat over the past few months, but there are still vacant properties being offered to tenants that are not on the open market, i.e. Magnus Poulssons vei 7 and Philip Pedersens vei 7. Eleven premises of more than 2 000 m² are available for rent, of which one is a planned new build (Philip Pedersens vei 9) and two are sub-lets. Rents seem to have stabilised, and vacant space with proximity to the train station is still achieving good rents of up to NOK 2 250 per m². Average rents at “Lysakerlokket” are around 20 % higher than elsewhere in Lysaker.

SKØYEN



	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	2 000 – 2 300	2 000 – 2 300
Prime rent (NOK/m²)*	3 000	3 000
Supply**	12 %	10 %
Vacancy**	6 %	10 %

Comment:
There are several new office projects in Skøyen that may be completed within a couple of years if an anchor tenant signs a lease, i.e. “Harbitz Torg” (30 000 m²), Skøyen Atrium (23 300 m²) and Hoffsveien 17 (6 000 m²). Skøyen is already covered by most public transport services, which is important for tenants, and will also have a stop on the Fornebu Metro. The municipality is working to create more life at street level and additional public gathering places in Skøyen.

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

MAJORSTUEN

	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	1 800 – 2 200	1 800 – 2 200
Prime rent (NOK/m²)*	2 800	2 800
Supply**	4 %	6 %
Vacancy**	4 %	6 %

Comment:
Sørkedalsveien 8, "Rift Colosseum", is currently under construction, partly as a residential property and partly as an office building. All the apartments were sold one year before completion, but half the office space is still vacant a couple of months before completion. The small size of the area combined with the number of large tenants located here makes the letting market at Majorstuen less liquid.

CBD

	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	2 800 – 3 200	2 800 – 3 200
Prime rent (NOK/m²)*	4 800	4 800
Supply**	10 %	11 %
Vacancy**	10 %	9 %

Comment:
Vika is currently undergoing an extensive rehabilitation, in which several office buildings have been upgraded and the "Vika Terrasse" shopping area recently reopened with a new street plan and several new shops and dining options. Dronning Mauds gate 10 will most likely be the next big refurbishment project in the area, and the refurbishment will most likely start in summer 2017. NAV Bydel Frogner will move into Drammensveien 60 when Skanska moves to Sundtkvartalet at year-end. Storebrand is planning to build a new office building (and some retail space) in Ruseløkkveien 26, comprising a total of almost 60 000 m². The city planning authorities recently agreed to a larger utilisation.

KVADRATUREN

	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	1 800 – 2 300	1 800 – 2 300
Prime rent (NOK/m²)*	3 200	2 800
Supply**	7 %	8 %
Vacancy**	7 %	8 %

Comment:
Several new refurbishment projects in Kvadraturen will lift the look of the area. Co-working concept "Spaces" will lease 6 000 m² in the refurbished Tollbugata 8, and the new owners of Kongens gate 21 will refurbish the property of 25 000 m². New tram lines through Prinsens gate, to be finalised at the end of 2017, will strengthen Kvadraturen and create better connections to Bjørvika and CBD.

INNER CITY

	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	2 100 – 2 600	2 100 – 2 500
Prime rent (NOK/m²)*	3 500	3 500
Supply**	7 %	7 %
Vacancy**	6 %	7 %

Comment:
The inner city is the largest office area, with an office supply (combined vacancy and new projects) of around 100 000 m². Vacancy has been low and stable at around 6 % for several years. New builds account for a small share of the supply (9 %), but will increase as Schweigaards gate 33 (22 000 m²) is about to be launched. Entra has recently signed a lease contract with law firm Hjort and the University of Oslo for Tullinkvartalet, which will complete in 2021.

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

BJØRVIKA

	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	2 700 – 3 000	2 700 – 3 000
Prime rent (NOK/m²)*	3 500	3 500
Supply**	6 %	13 %
Vacancy**	3 %	3 %

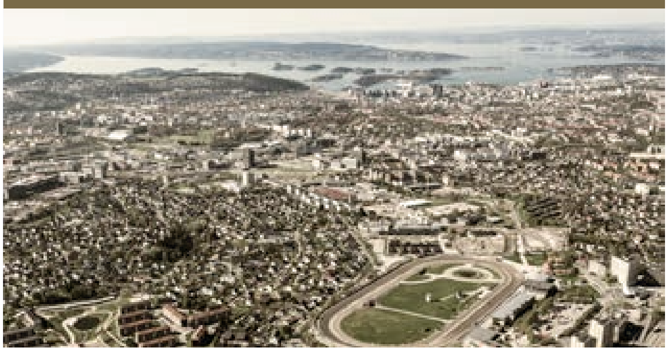
Comment:
Development in Bjørvika continues. The last building in Barcode, "DEG42", completed early in 2016 and remains vacant, thereby constituting part of the vacancy. "Diagonale" is currently under construction and around 60 % of the space remains vacant, but the building is not currently listed on the FINN.no marketplace. TV2 will move their headquarters from Karl Johans gate 14 to "Diagonale" at the beginning of 2019. New build "Eufemia" (21 500 m² of office space) is now under construction as PwC signed a lease agreement for 9 500 m², and will move all 700 employees here from Dronning Eufemias gate 8 in spring 2019.

NYDALEN / SANDAKER

	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	1 500 – 1 700	1 500 – 1 700
Prime rent (NOK/m²)*	2 300	2 150
Supply**	11 %	7 %
Vacancy**	7 %	6 %

Comment:
Nydalsveien 18 and Nydalsveien 24 ("Spikerverket") are under construction, since Elkjøp HQ (7 000 m²) and Oslo Kemnerkontor (6 700 m²) have signed lease contracts and will move here in 2017. Skanska is still waiting for an anchor tenant to initiate Vitaminveien 4 (24 000 m²). Nydalen is a popular place to live, and some older office buildings are being converted into residential buildings, i.e. Sandakerveien 56 (Orkla Eiendom) and Sandakerveien 99 (Attivo Management).

ØKERN / LØREN / RISLØKKA



	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	1 000 – 1 500	1 000 – 1 500
Prime rent (NOK/m²)*	2 200	2 150
Supply**	23 %	22 %
Vacancy**	5 %	6 %

Comment:
The Økern area is the largest development cluster in Greater Oslo, with development potential of approximately 65 % of the current office stock. One of the newest projects in pipeline is "Økern Portal", which hit the market right after the summer after zoning was finally approved by the city council. The project will comprise almost 50 000 m² of new office space.

BRYN / HELSFYR

	Per October 2016	Per October 2015
Normal rent (NOK/m²)*	1 550 – 1 750	1 550 – 1 750
Prime rent (NOK/m²)*	2 250	2 150
Supply**	18 %	10 %
Vacancy**	11 %	9 %

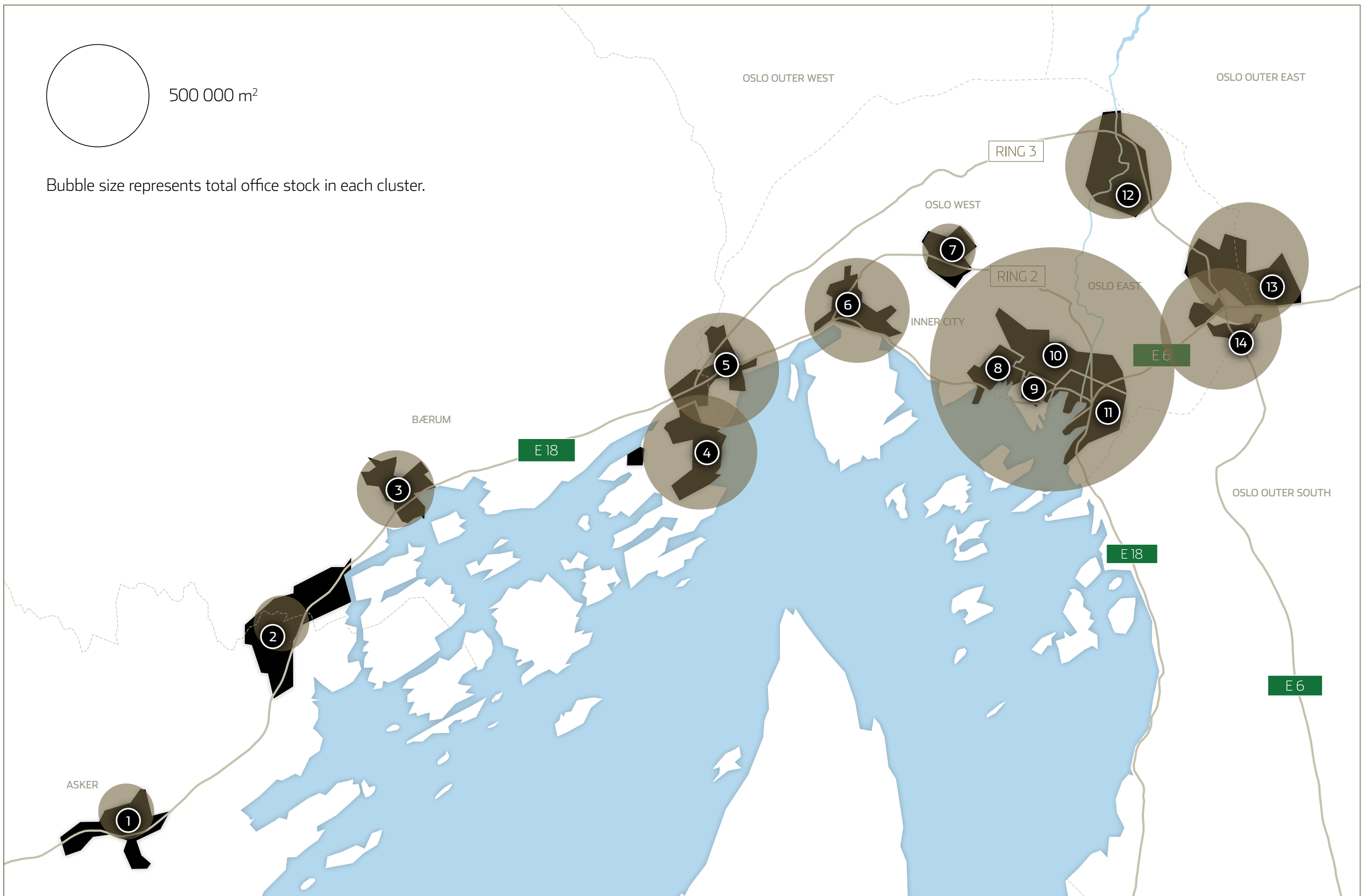
Comment:
Vacancy has increased somewhat over the past 12 months. Several other projects are currently in pipeline, with either new constructions or refurbishments. Østensjøveien 16 (11 000 m²) and Østensjøveien 44 (10 500 m²) are two of the planned office buildings currently in the market. The new build project at Fyrstikkalléen 1 recently entered the market. NCC Property Development is planning five new office buildings at Valle Hovin, totalling 60 000 m².

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

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

#	OFFICE CLUSTER	«NORMAL» RENT*	PRIME RENT**	FUTURE OUTLOOK	△ PRIME RENT PAST 12 MONTHS
1	ASKER	1 600 – 1 800	2 200	↘	5 %
2	BILLINGSTAD	1 250 – 1 500	1 800	↘	6 %
3	SANDVIKA	1 600 – 1 800	2 250	↘	0 %
4	FORNEBU	1 500 – 1 700	2 150	↘	8 %
5	LYSAKER	1 700 – 1 900	2 300	→	2 %
6	SKØYEN	2 000 – 2 300	3 000	↗	0 %
7	MAJORSTUEN	1 800 – 2 200	2 800	→	0 %
8	CBD	2 800 – 3 200	4 800	↗	0 %
9	KVADRATUREN	1 800 – 2 300	3 200	↗	14 %
10	INNER CITY	2 100 – 2 600	3 500	↗	0 %
11	BJØRVIKA	2 700 – 3 000	3 500	↗	0 %
12	NYDALEN / SANDAKER	1 500 – 1 700	2 300	→	7 %
13	ØKERN / LØREN / RISLØKKA	1 000 – 1 500	2 200	→	2 %
14	BRYN / HELSFYR	1 550 – 1 750	2 250	→	5 %

Source: Malling & Co



* Normal rents reflect the interval where most contracts are signed in the specified market area.
** Prime rents is the consistently achievable headline rental figure that relates to a new, well located, high specification unit of a standard size commensurate demand within the predefined market area. The prime rent reflects the tone of the market at the top end, even if no new leases have been signed within the reporting period. One-off deals that do not represent the market are discarded.

LILLE GRENSEN 7 / INNER CITY

Malling & Co acted as buy-side advisor in the transaction of 7 000 m² office and retail space in central Oslo, and has been appointed to reconfigure and refurbish the building. Malling & Co will also handle the leasing of both the office and the retail space

STAVANGER

Hangover after the oil-induced construction boom

The story of a struggling Stavanger market continues. The trouble within the Oil & Gas sector seems to be persisting, and the market has not yet returned to a balanced situation. Consolidation and downsizing among tenants is a general trend in the market. As discussed in the macro section, the Brent crude oil price has been between 45 and 50 USD/barrel for most of 2016. In the latest business tendency survey for manufacturing, mining and quarrying from Statistics Norway (SSB), suppliers within the Oil & Gas sector are reporting a further decrease in production and new orders, but seem more positive regarding the fourth quarter. Unemployment in Stavanger registered by Norwegian Labour and Welfare Administration (NAV) has increased from 4.0 % in October 2015 to 4.4 % in October 2016. The proposed government package of NOK 4 billion for 2017 will hopefully create new activity and eventually new jobs in the region. The changes in Stavanger are also affecting the CRE market, with continued high vacancy rates in areas like Forus and Hinna. Stavanger city centre is however doing slightly better, and the city has initiated a new programme to strengthen Stavanger city centre as a regional centre. The plan includes focus on higher utilisation around transportation hubs and city structures, with a focus on housing, offices and shopping. Office space will be focused around the railway station and the harbour.

Office letting market:

› Compared with figures from our report issued in June, Stavanger vacancy is down approx. 1 percentage point since April. The Forus cluster is still the area with most vacant space in absolute numbers, with almost 130 000 m^2 vacant. In relative terms, Hinna has as much as 21 % vacant (approx. 25 000 m^2). Rents are even more difficult to report in a downward market, as most of the activity takes the form of short-term contracts.

› The reduced vacancy since our previous report should be interpreted with caution, since we are aware that several companies have plenty of space, but limited opportunities to divide and sub-let this. Some vacant properties are also not actively advertised on the market. The market still lacks increasing employment to absorb vacancy. There is a risk that vacancy will increase further as consolidation and re-structuring among key tenants come into effect.

› Vacancy in the city centre is significantly lower than in Forus and Hinna, and especially low for the best locations around Vågen. It should be noted that we use a larger definition of the city centre than many others in order to achieve a significant population in our vacancy rates.

› Following the merger of Det Norske and BP into Aker BP, the space in the Aker Building in Hinna Park has been removed from the market and vacancy at Hinna has therefore reduced since our report in May.

› Rents in Forus are now dropping below NOK 1 000 per m^2/year. We have also observed creativity in terms of discounts being offered through rent free periods, step up rents and included fit-outs, etc.

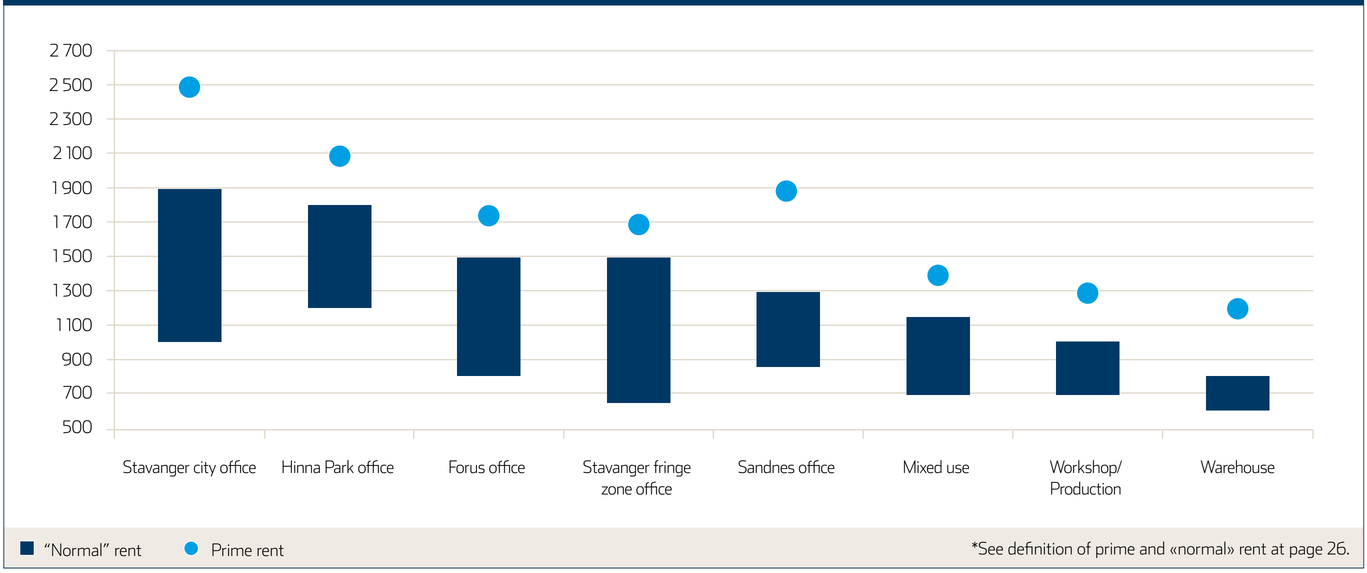
› The city centre is more stable despite the downturn within the Oil & Gas sector, with top rents estimated at around NOK 2 500 per m^2/year.

› There is still high vacancy in Forus, and short lease contracts (typically two years) may be signed at low levels in order to cover running costs. Longer lease agreements are more expensive, indicating that landlords expect the office rental market to improve within a few years.

Some new lease contracts:

- Cegal is moving from Kanalveien 11 to the Seabrokers premises in Vestre Svanholmen 4 (former Sandnes Sparebank premises).
- Øgreid Eiendom signed a lease agreement with Willis Watson Towers in Ankerkvartalet in the city centre. New restaurants and services are currently being developed on the ground floor.
- Danske Bank signed a new lease agreement in Smedvigkvartalet
- Visma and Sparebank 1 support functions are moving into Golf Tower at Forus.

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



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

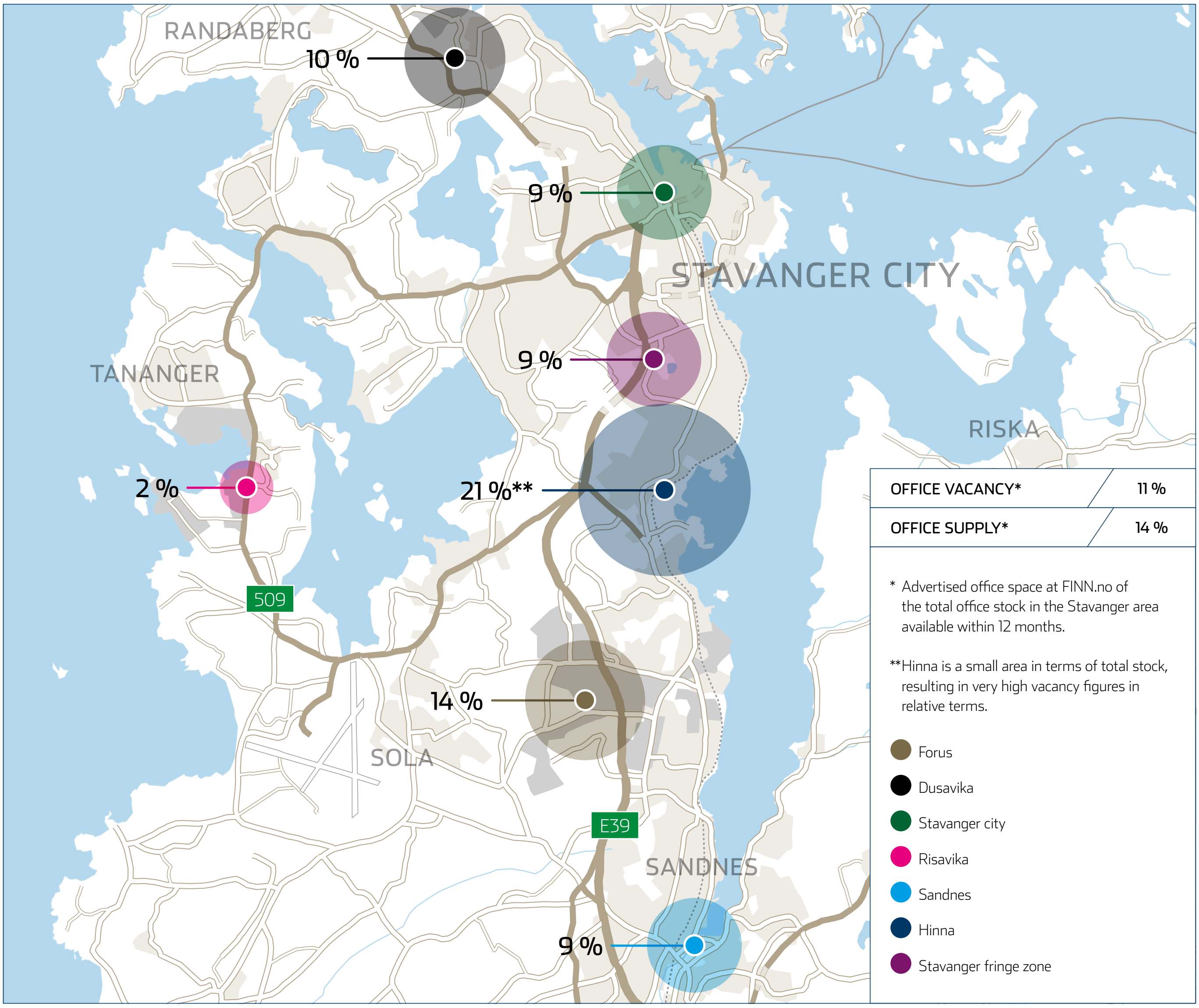
Source: Malling & Co

Development:
In terms of new development there is little new activity – a natural consequence of the high vacancy in the region. However, there are a few projects in the city centre. These will increase the supply of high-quality space in the city centre (CBD), which has been limited for many decades. Increased focus on the city centre, from both tenants and the city council, implies further focus on developments in the next few years.

- Øgreid Eiendom will start construction of Straensenteret (now called Herbarium) this autumn, which will be completed as 8 000 m² of new office space in 2018.
- SR-Bank has started the construction of a new HQ of 23 000 m² in the city centre.
- Smedvig is completing Arkivenes Hus at the Ipark in 2017.
- Surprisingly, several new projects are still being offered in the market despite the high vacancy and negative development in employment. However, construction will not be started on these projects until lease contracts are in place.

Transaction market:

- For the year to date we have noted just over NOK 2 billion in transaction volume, divided into 15 transactions (above NOK 50 million). This is lower than same period for the past 2 years.
- We estimate the current prime yield level in Stavanger to be around 5.50 % to 5.75 %, but we lack specific examples in our transaction list to confirm this. The lowest yield example from the past 12 months is “Statens Hus”, with a 19 year contract with a state tenant sold at 5.1 %. However, the length of contract and tenant risk is exceptionally low, and beyond our definition of prime yield.
- Major transactions in the region so far in 2016:
- Colombus bus depot acquired by City Finansiering (Oslo-based investor)
- AKA has acquired two KIWI stores in Stavanger
- Ferd acquired Stokkamyrveien 15-17 / Lauramyrveien 64 from Raufoss eiendom (90 %)
- An SPG syndicate sold Olav Vs gate 11 to Havnegården Holding
- Entra has sold Lervigsveien 32 / Tinngata 8 to a company controlled by Camar Eiendom AS and Runestad Investering AS
- We know of several properties below the NOK 50 million mark



Source: Malling & Co/FINN.no

DRAMMEN

Our Drammen office is continuing to experience a high level of activity following a record year in 2015. 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 is capitalising on its seaside location and role as a hub for both railways and the main road systems connecting all major cities and densely-populated areas on the west side of Oslo. The total stock of 1 300 commercial properties in the Drammen area (including Nedre Eiker and Lier) is approximately 750 000 m² of office space, 600 000 m² of retail premises and 800 000 m² of industrial/logistics/mixed use premises. The vacancy in Drammen is approximately 9 % for office space and as low as 1 % for industrial/logistics premises.

The Rental market

The rental market for commercial property in Drammen is characterised by stability, yet there are significant differences between office, retail and industrial/logistics spaces. The different segments are highly location dependent, and market mechanisms in Drammen may therefore vary greatly.

Office

There are signs of less activity than usual for the rental of both new and existing office spaces, and we note a slight increase in vacancy since our last report in June. This is simultaneous with many tenants being due to move into new builds or refurbished buildings, for which leases were signed in 2015 and the first part of 2016. In this context, the fact that a number of buildings and renovation projects are in the pipeline, and will therefore affect the figures considerably when launched on the open market, must also be taken into consideration. In the same period, some older office buildings have been converted into residential properties, and a number of office buildings are also planned for conversion in the near future. Signed lease agreements show a significant rent level increase in real terms over the past few years. We believe that the aforementioned space absorption for new projects close to public transport hubs is a driving factor for the increased rent levels.

Retail

There are few new sites and locations for space-demanding retail properties available in the market, and the supply of such space generally follows the trend of the logistics and warehouse market. Some players in the retail segment show an interest for such sites, but willingness to pay is relatively low. Major refurbishment or new constructions of such sites are therefore often marginal in terms of returns. An exception to this is boutique/shop retail, but the supply of space in this category is close to zero, especially in and around Drammen city centre.

Logistics

The segment is still characterised by very low vacancy. In terms of demand for medium and large spaces we see that the transformation of land-intensive businesses in key areas of the logistics, industrial and production sectors still affects the demand for mixed-use properties. This is especially true for space close to the E18 and other highway systems.

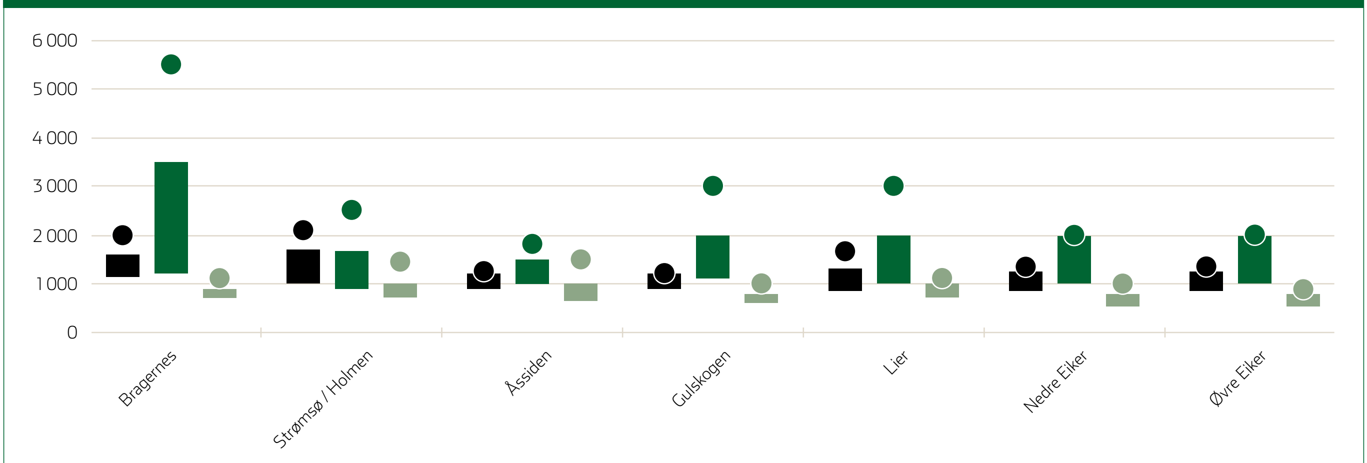
Fewer rental agreements – general tendency

We see a tendency towards fewer rental contracts being signed so far in 2016, compared with the same period of 2015. Incomplete data makes it difficult to conclude whether these variations are due to current lease expiry conditions, or if there are other underlying contributing factors. We have started a comprehensive project to map the expiration of contracts in the region, and have some strong evidence to support our views. Leading indicators suggest that the trend is mainly due to a combination of fewer expirations, lack of mixed-use space with links to the E18, and lower activity in the Oil & Gas sector. Changes in companies' operations and organisational structures are often a more causative factor than the actual expiration of the rental contracts. However, the conditional availability of land and the right locations for these structural changes in a given company are conditions that must be met in order to result in a relocation. The major difference between the office market, with its abundance of good, available new build projects, and the mixed-use market, is the lack of suitable empty space.

The transaction market

After a very good transaction market in 2015, 2016 has continued with great activity. We have continued to observe a strong interest in CRE purchases in the Drammen region throughout 2016, but due to sharp price expectations from sellers, many processes become drawn out over time. Financial investors and syndicates are seeking central properties within the office, retail and logistics segments. The properties should preferably be close to public transportation and the major throughways in and around

INDICATIVE RENTS IN THE DRAMMEN REGION – OFFICE, RETAIL AND INDUSTRIAL



Office «normal» rent · Retail «normal» rent · Industrial «normal» rent · Office prime rent · Retail prime rent · Industrial prime rent

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

Source: Malling & Co

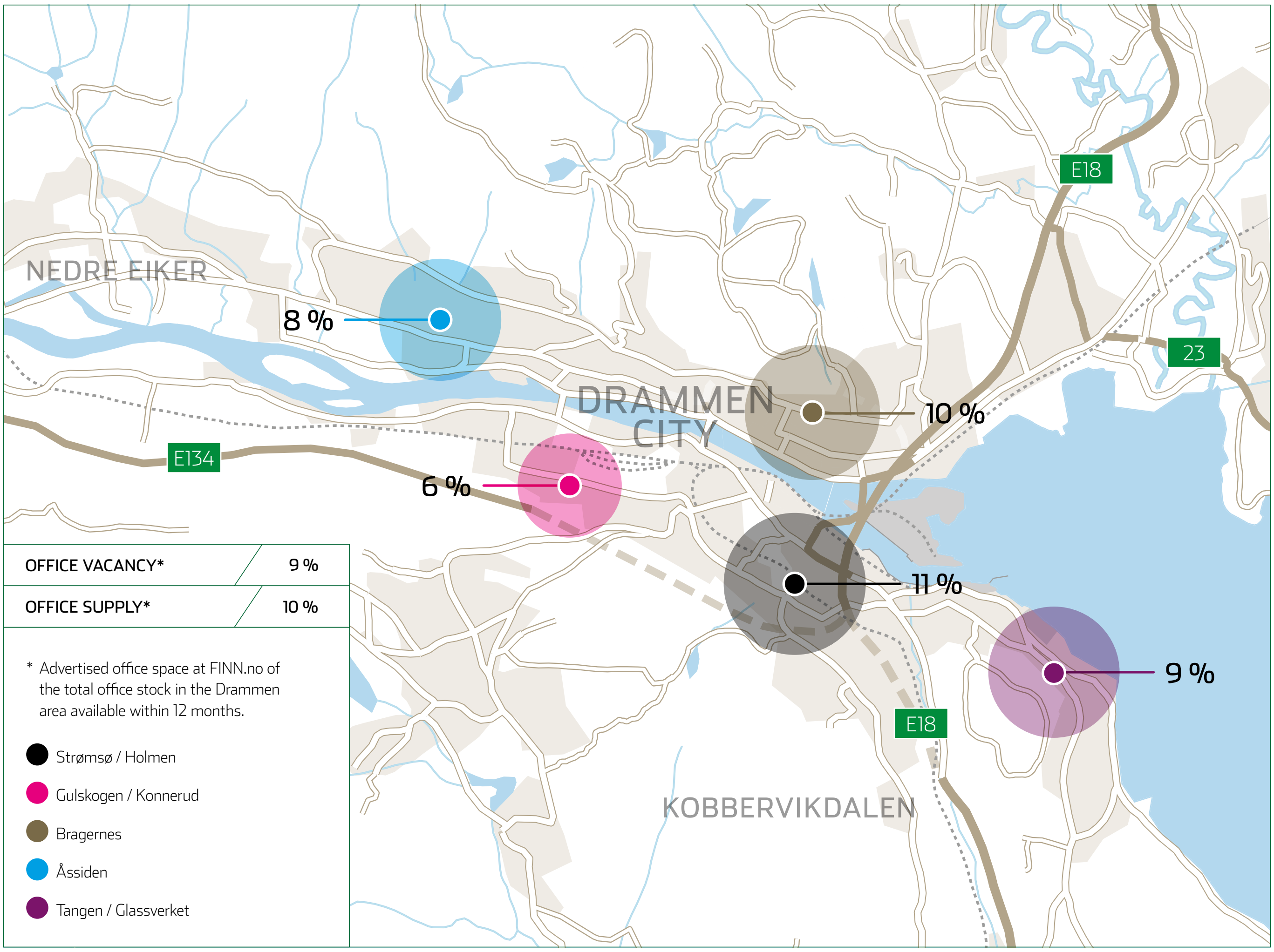
Drammen. Having solid tenants, long-term leases, an environmental focus and high-quality technical installations is becoming increasingly critical in obtaining the sharpest yield levels. To a greater extent, local investors are seeking the value-adding opportunities of mixed-use properties, where development opportunities exist in the form of utilising available land or conversion opportunities. As the city develops, we are increasingly seeing that older downtown buildings are being demolished in order to erect residential buildings. Increased activity in finding good residential projects is coming off the back of the immense pressure on Oslo's residential market. We are also seeing an overall positioning battle taking place, as the decision regarding the location of the new hospital will have a major impact on the future development of the city. This trend has only intensified after the Minister of Health approved plans for the new hospital at Brakerøya, at the northern entrance to the city.

Land

During the past year we have observed great demand for commercial land plots, which has generated several plot sales in Røyken Industrial Park. These have primarily been traditional commercial sites, but there is also strong demand for good retail plots. Fiskum Industrial Park is now establishing a large business park along the E134 in Øvre Eiker municipality. The total area covers around 160 acres, and will target bulky retail and ordinary office and commercial use.

Latest news

- Holtefjell Eiendom is developing two large business park projects, one in Lier and the other in Nedre Eiker. Kjellstad Business Park will be situated next to the E18, and will be ready for tenants to move into the 12 000 m² of space on the three acre plot from Q1 2018. Herstrøm Industrial Park is an ongoing development next to Interstate 238 between Drammen and Krokstadelva. The plot of almost 10 acres is suitable for typical mixed office and production/warehouse users.
- Malling & Co is acting as an advisor in the sale of an almost fully-let portfolio of approximately 10 000 m² at Bragernes Torg in the city centre (Bragernes Torg 1, Bragernes Torg 10 and Amtmand Blom gate 1 with parking).
- KPMG is expanding its presence in Norway, and has recently established a new office in Drammen. The company chose Grønland 1, and Malling & Co has assisted the owner of this property with letting services over the past year. The building is from 2005 and has a total size of around 5 000 m². The property is now fully let, and the tenants in the building are Synergy Health, Atea, RFD and KPMG.
- Entra has signed two new contracts at Papirbredden 3 with Drammen Municipality and Axactor, and the 11 400 m² office building is now at 91 % utilization.
- Oslo Areal has sold the 6 700 m² office building in Grønland 34 at Union Brygge to DTZ Realkapital Corporate Finance. The building is fully let to Sykehuspartner and Gjensidige.



Source: Malling & Co/FINN.no

OSLO RETAIL

Opportunities are still available

The development of Oslo high streets is continuing. Despite sluggish economic growth in Norway, Oslo experienced higher growth in retail sales than Norway as a whole, and the high street districts of Grünerløkka, Frogner and Central Oslo did significantly better than other areas of the city. Plans to ban cars from the inner city have been replaced by a plan to gradually convert key streets into pedestrian shopping streets. These plans, along with several new refurbishments around the city and the high streets, will continue to streamline Oslo as a national shopping destination and the place to be for international brands.

Growing sales in Oslo and high streets

According to the Statistics Norway retail sales volume index, retail sales on a national level have been relatively flat since the beginning of 2014. However, Oslo seems to be doing well, especially in the high streets. According to Oslo Handelsstands Forening (OHF, English name: Oslo Commercial Community), retail sales increased by 4.9 % in Oslo from 2014 to 2015, compared to a countrywide growth of 3.9 %. In terms of the different areas, the districts containing the high streets of Grünerløkka, Frogner and Central Oslo did best, with respective growths of 7.2 %, 6.9 % and 6.3 % from 2014 to 2015. The increase in Frogner is probably largely affected by the reopening of Bogstadveien and Hegdehaugsveien following a long period of roadworks and the installation of new tram rails. The significant growth at Grünerløkka indicates the attractiveness of the area, and that rents are about to rise as new concepts open. We believe there is still an upside potential for Grünerløkka, and that rents may increase further for the best locations.

International capital taking positions

The development of Karl Johans gate is continuing in terms of owners and refurbishments. International investors are still taking positions in the market and there are numerous examples of acquisitions in the market by international investors with a value-adding approach. AXA recently acquired Lille Grensen 7 from Nordea Liv, and has plans to develop and reconfigure the retail space of the building in order to be able to offer more attractive retail space. Meyer Bergman, who purchased the Promenaden Property portfolio from Søylen in 2015, is increasing its control of the prime retail streets with the acquisition of "Slottspassasjen" from Nordea Liv during the summer. The property comprises of 5 800 m² of retail and office space, with Burberry as one of the key retail tenants with a shop front at Nedre Slottsgate 9. Kongens gate 21, a block complex of 25 000 m², was recently sold to a group of investors with Tristan Capital as the main capital provider. Tristan is also the owner of Grensen 5-7, and is therefore taking a further position in central Oslo.

Development projects create opportunities for tenants

In addition to the above-mentioned projects, there are numerous other projects in Karl Johan and the surrounding streets. Glasmagasinet at Stortorvet is about to be upgraded, and in addition to the announced opening of Illums Bolighus, several other attractive tenants will be found here next year under the concept of "the house for all occasions". The monumental building of Kongens gate 21, the former switchboard office for Telenor, will be converted into a high-end retail and office concept. This is likely to extend the shopping area in Nedre Slottsgate further down towards Rådhusgata and the rest of Kvadraturen. New tram lines in Prinsens gate and bus routes in Tollbugata will fuel the transformation of the area. Development of Kongens gate 21 will hopefully allow for more open facades at street level, but this must be carried out in accordance with guidelines from the preservation authorities. The list of other projects is long: The former TV2 HQ in Karl Johans gate 14 (owned by AVA/Varner) will be developed to increase the retail space. Grensen 5-7 is refining its retail space, and Schage is planning on a refurbishment at Stortorvet 7. Scandinaviegaarden is developing Karl Johans gate 8, and several other plans around Karl Johan are creating opportunities for new concepts to open in the coming years. In Bogstadveien, most projects have now been finalised after completion of the roadworks, while in Grünerløkka redevelopment projects are smaller and less numerous. There is always room for new attractive concepts however, and the situation may change if key assets change hands.

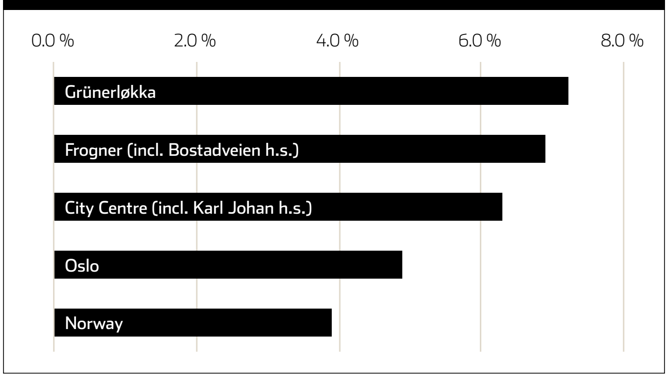
Examples of retailers opening or moving

- Holzweiler Monobrandstore recently opened a new store in Oscars gate 19 (Hegdehaugsveien).
- Lucky Bird will soon open a new restaurant at Bogstadveien 20.
- Valkyrien Sko recently moved from Valkyriegata 3 to Valkyriegata 2.
- Weekday recently opened a new store on the ground and first floors of newly-refurbished Bogstadveien 54.
- Musti, the largest pet shop in the Nordic countries, recently opened their first store in Norway in Bogstadveien 27.
- Peak Performance will soon open a new store in Karl Johans gate 18 in the former ALDO space. Zara Home will open their first store in Norway when Zara moves from Karl Johans gate 25 to the refurbished space in Øvre Slottsgate 12.
- BOSS recently opened a three-storey store in Karl Johans gate 21.
- Kate Spade is taking over The Kooples' space in Øvre Slottsgate 18.
- Varner is opening a new store in Øvre Slottsgate 14 (currently 3 Brødre).
- Vika Terrassen is filling up with new tenants, and Torshov Sport opened a new store here in October.
- Blender is opening a new store on the corner of Prinses gate 22, replacing Røst.

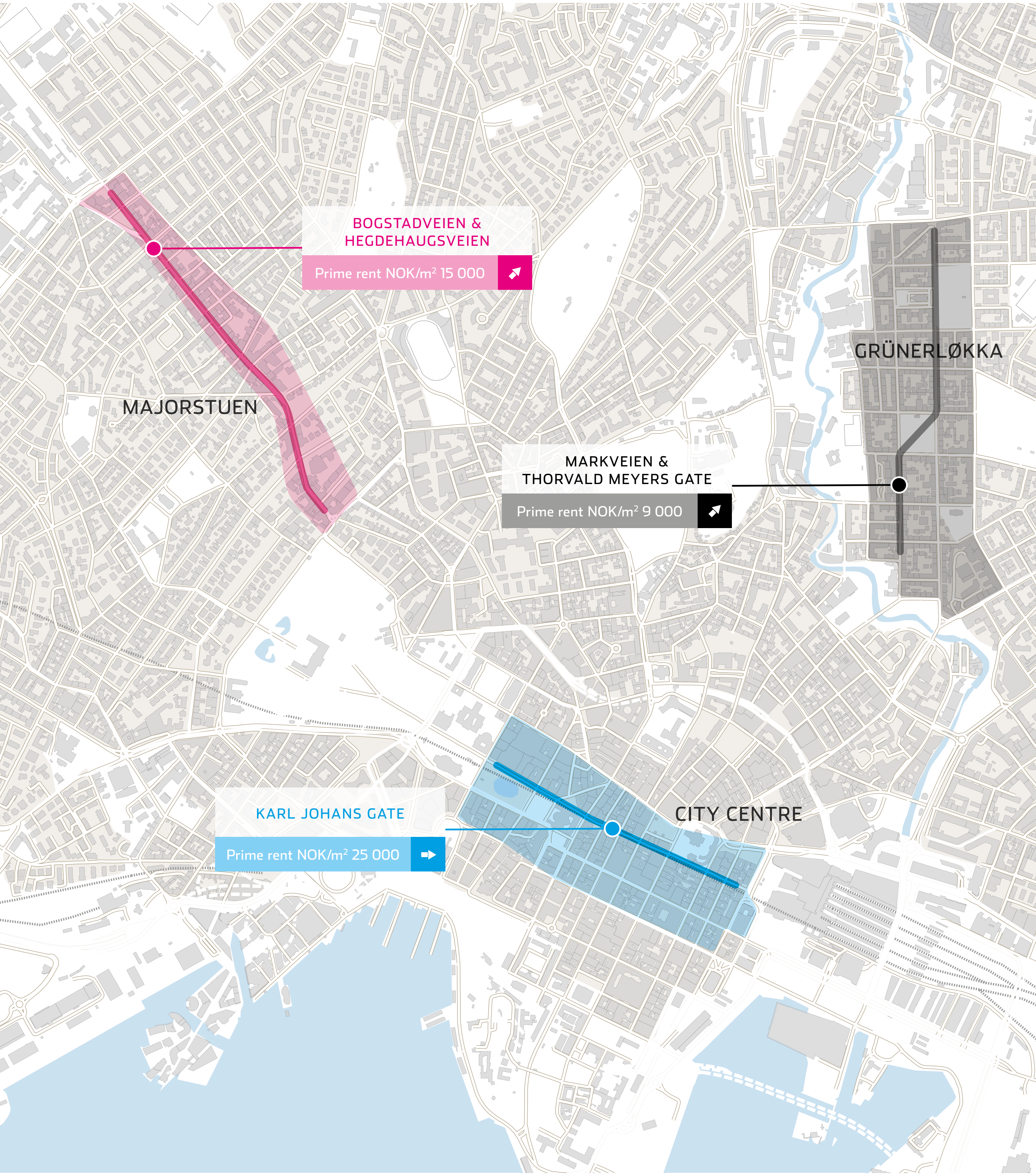
RETAIL SALES (EXCEPT CAR SALES) AND ONLINE SHOPPING INDEX, 2010 = 100

Source: Statistics Norway

REVENUE GROWTH IN DIFFERENT HIGH STREET DISTRICTS 2015 VS. 2014



Source: Oslo Handelsstands Forening «Handelen i Oslo 2015»


BOGSTADVEIEN &
HEGDEHAUGSVEIEN
Prime rent NOK/m² 15 000
MAJORSTUEN
GRÜNERLØKKA
MARKVEIEN &
THORVALD MEYERS GATE
Prime rent NOK/m² 9 000
KARL JOHANS GATE
Prime rent NOK/m² 25 000
CITY CENTRE

OSLO PENSJONSFORSIKRING / ØKERN
Malling & Co Forvaltning assists Oslo Pensjonsforsikring with the management of most of their properties, a portfolio totaling approximately 500 000 m². Illustration: Luxigon Paris / DARK Arkitekter / Zinc


NOOR

INDUSTRIAL & LOGISTICS

Demand is high – supply is low

Industrial parks and Oil & Gas sites

In our previous report we highlighted the fact that the weakening Norwegian krone had injected new vigour into an otherwise struggling export industry. This trend has continued throughout the year, with several industrial parks finding new ownership, including from foreign investors. Another driver in the segment is the increased interest in investment in Oil & Gas related infrastructure and properties. Although investments in the industry may have reduced, activity at the bases and other operations relating to oil production are still very much a key element in keeping the production rigs going. This is demonstrated by the recent increase in Oil & Gas exposed property investments from NIP, a company controlled by EQT and the Wallenberg family.

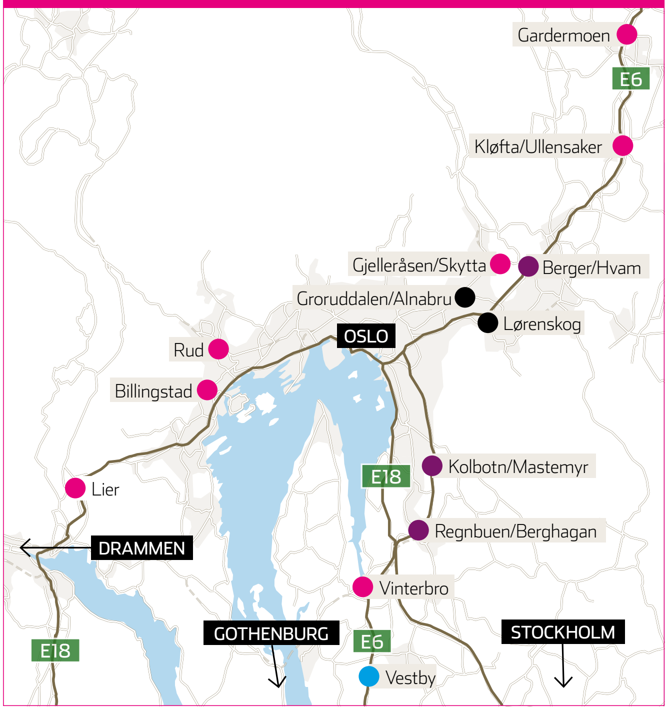
Dormant activity in the logistics market

When we say that logistics is dormant, we are referencing the rather low activity in the transaction market. The lack of logistics and warehouse transactions compared to the usual levels is in large part due to the lack of long-lease properties, which is keeping investors shy of major investments. The transaction market has remained quiet this year, with only 21 transactions comprising roughly NOK 3.2 billion in total. However, an increased activity level in the rental market could trigger some transactions of attractive logistics properties further down the road. Our estimate for the logistics prime yield is 5.5 %.

Activity in the rental market has picked up, and several companies are expanding their current premises or developing new sites. Among them is XXL, who are expanding their warehouse at Gardermoen by roughly 8 000 m², and Bertel O. Steen, who have had their real estate arm purchase a plot of land a little further south at Berger for the construction of a new distribution centre. Several larger lease agreements above 10 000 m² have also been signed, including Kolonial.no taking 13 000 m² at Lørenskog, and Cater Storkjøkken at Lierskogen. The largest contract is however of an even larger scale, with Europris signing a contract with Fabritius for the construction of a new 60 000 m² warehouse in Moss. Our estimate for the logistics prime rent is NOK 1 250/m²/year.

In the long term, we maintain that the trend of the 3PL segment taking over more and more space will continue, and that the demand for space could trigger rent increases since fewer projects will be initiated than what is required, and there is a weak supply of long-term lease contracts. We also believe that the continuing conversion to other types of buildings will decrease supply, putting pressure on rents for tenants who need immediate proximity to the city.

LOGISTICS CLUSTERS IN GREATER OSLO



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

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

Special fit-outs for requirements not covered in a standard building will be added to the rents above based on annuity calculation typically within 6 % – 8 % interest rate. The rent is set based on tenant solidity and usefulness for other tenants. The annuity length is based on the lease length. Examples of special fit-outs are: Floor capable of handling heavy loads, automated storage system, air and climate specification (e.g. fruit storage and freezing), cranes and other fixed machinery etc. Cross dockings have in general higher rent, often linked to land price and current yield, but rule of thumb for these buildings are in general 30 % – 40 % higher per sq. m than a regular storage unit.

Source: Malling & Co

DHL / BERGER

Malling & Co Corporate Real Estate acted as buy-side advisor in the transaction of a 17 500 m² logistics complex at Berger, just north of Oslo.

THE TRANSACTION MARKET

Liquidity is strong

So far this year we have registered a total transaction volume of NOK 51 billion*, divided across 179 transactions*. We have another NOK 3-4 billion in pipeline, which we know are in the closing stages. When looking at the number of transactions, the pace at which the market is moving is comparable to 2015. The liquidity in the market is good, and the restrictive bank financing experienced earlier in 2016 has faded. However, interest rates and margins have increased as of late, and we believe the yield has now reached or is close to reaching the trough. The volume is naturally still lower than the record high of 2015, but well on the way to reaching a healthy NOK 60-65 billion, or as we mentioned in our last report, a new normal. The share of international buyers in terms of volume in direct investments still remains low at just over 14 % as the count stands. Although interest from foreign investors remains high, our expectations of a significant increase in their share of volume have yet to materialise. This has not become any less relevant with the Brexit decision triggering many investors with investments in the UK to consider increasing their investment share elsewhere in Europe.

Financial engineering

With the sluggish bank financing market affecting the first half of 2016, we observed the emergence of alternative means of financing like the bond market gaining favour once again. This was timely, since several life insurance companies were switching from direct ownership to financial exposure through bonds due to regulatory capital requirements. Pairing this with an interest in bond financing of smaller and smaller sizes and a growing market of investors outside of the traditional big five life insurance companies, another effect of the increased activity and liquidity in the bond financing market is the ability to financially engineer contraptions to ensure running returns in an environment with ever-lower yields. As banks are nearing, or have already reached, their regulatory capital requirements, we observe that the tightening of lending practices has subsided, and is now expected to remain flat going forward.

NET PRIME YIELD IN SELECTED EUROPEAN CITIES

CITY	PRIME YIELD (OFFICE)
Paris	3.30 %
London	3.50 %
Stockholm	3.75 %
Oslo	**3.80 %**
Berlin	3.85 %
Copenhagen	4.00 %
Milan	4.00 %
Helsinki	4.30 %
Munich	4.50 %
Vienna	5.50 %
Amsterdam	5.50 %

Source: Malling & Co

Equity in search of opportunities

While equity is plentiful, good objects to invest in are more scarce. This holds especially true for the larger investment opportunities above NOK 600 million. As previously mentioned, the foreign investors' share of the market has yet to materialise to the expected levels, and this is in part due to the lack of investment objects of a desirable size. Nevertheless, foreign investors continue to search for investment opportunities in Norway. Although the change in the macro-economic climate may have given some members of the international investor community a bit of a scare at first, they have not shied away from Norwegian investment opportunities. The strength of the market, and the liquidity, has however been due to domestic investors. The syndicates have been especially active compared to normal, buying more than double the volume share of what has been observed in recent years. Although the total volume of 2016 is expected to be roughly half of that of 2015, the number of transactions is still very good and looks to be comparable to the number of transactions in 2015.

Office, retail and residential

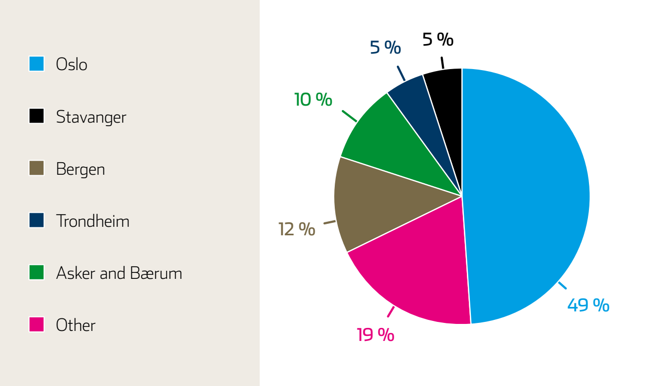
Office remains the major driver of volume, constituting slightly more than half of the total volume. Of this volume again, almost two thirds is Oslo-based transactions. Besides a demand for long-term solid cash flows across segments, there is a very strong demand for value-adding cases. Retail has shrunk somewhat in terms of share of volume, but still proves to be a highly sought-after segment with close to a 20 % share. Although few portfolios are in the pipeline, and there is nothing comparable to those available in 2015, belief in Norwegian purchasing power remains strong. Retail is also the segment with the most diverse geographical reach of all the segments. Residential, especially in the Oslo region, has returned to full vigour with just above 12 % of the market. Considering the strength in Oslo's housing prices, it is almost surprising that this segment has hardly deviated from the historical volume. However, this is also attributable to the fact that residential properties and land are not as liquid nor as available as many of the other segments, and a natural limitation to the supply of both volume and the number of transactions is therefore inevitable. In addition, the percentage share is also admittedly of a much higher total volume than in previous comparable years.

Prime yield levelling out at just below 4.0 %

We estimate the prime office yield to be somewhere between 3.8 and 4.0 %, realising our premonition that prime yield could be driven down even further as a result of high demand and very few available objects. The estimate for normal property has held firm at 6.0 %. Our forecast for yield is an expectation of a flat development for prime yield. We firmly believe this to be the bottom of the cycle, but the period in which we continue to see these low levels could be prolonged. In such a scenario, we believe that secondary yields will come up slightly, and hold firm over the same period. In addition, the interest rates post-summer have trended upwards, and are now 50-60 bps higher than summer levels. A further reduction in the yield gap is hard to argue on the basis that such a low prime yield is also a consequence of very low interest rates – not something that is in any terms a symptom of a strong and expanding economy, but rather a time of uncertainty where increased risk holds a premium.

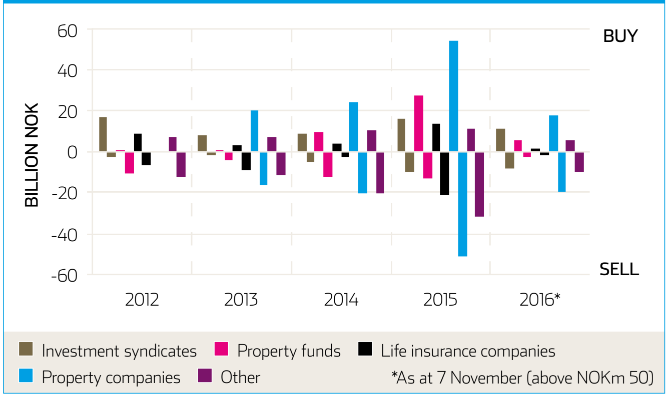
*As at 7 November (above NOKm 50)

REGIONS SHARE OF THE MARKET 2016



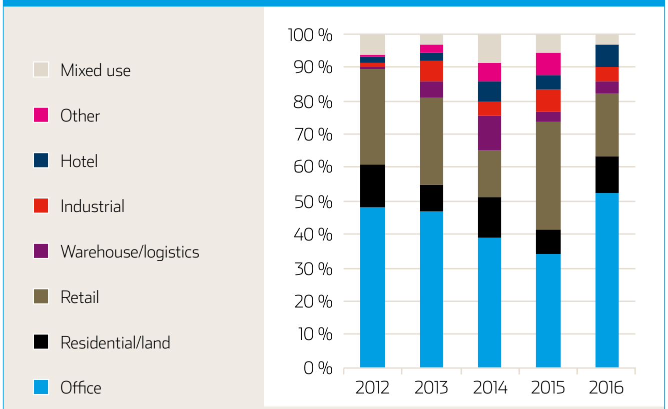
Source: Malling & Co

TRANSACTION VOLUME DIVIDED INTO BUYER/SELLER TYPE



Source: Malling & Co

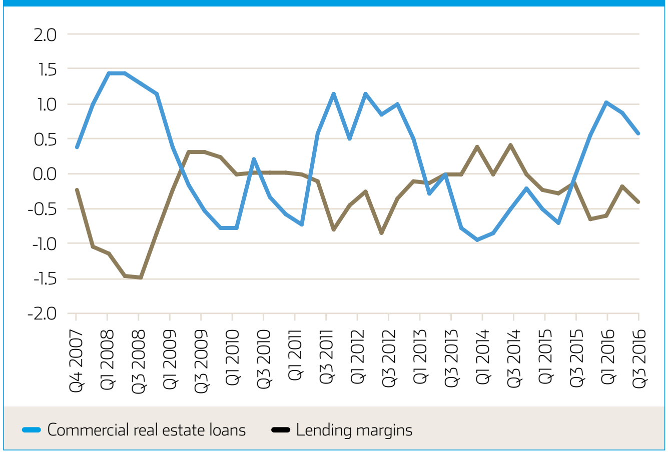
PERCENTAGE SPLIT TRANSACTION VOLUME BY SEGMENT



*As at 7 November (above NOKm 50)

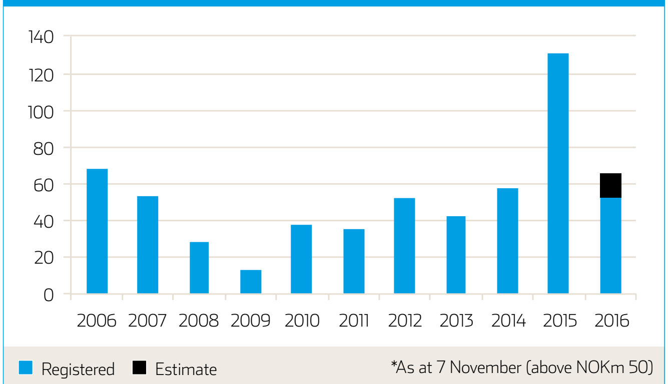
Source: Malling & Co

FINANCING CONDITIONS (NET SURVEY RESULTS 3 MONTH CHANGE)



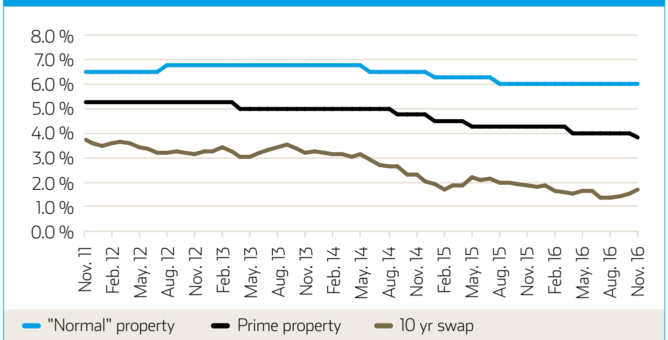
Source: Norwegian Central Bank Lending Survey

ANNUAL VOLUME IN NOK BILLION*



Source: Malling & Co

YIELD DEVELOPMENT PAST 5 YEARS



Definition: Normal yield is defined as the net yield of a well maintained building situated in the fringe zone of Oslo with strong tenants on a 5 – 8 year lease contract.

Source: Malling & Co/DNB Markets

SELECTED MAJOR TRANSACTIONS 2016

PROPERTY (ADDRESS/NAME)	TENANT	SELLER	BUYER	SIZE (NOK MILLION, PROPERTY VALUE)
Statoil HQ Fornebu	Statoil	Madison International Realty	Arctic Syndicate (Mohn)	3 900
NPRO Skøyen portfolio	Multiple	Norwegian Property	Entra	2 529
Åsane Storsenter	Multiple	Nordea Liv / Steen & Strøm	Thon	1 928
Gullhaug Torg 4	Justis- og beredskapsdepartementet	NRP Syndicate	Samhällsbyggnadsbolaget	Est. 1 100
Tjuvholmen Allé 16	Bahr	Selvaag	N/A	Est. 690
Kongens Gate 21 – Telegrafbygget	Vacant	Telenor	Tristan, Vedal, Malling	560
Stortingsgaten 6	Multiple	Norwegian Property	DEKA	507

Source: Malling & Co

GUEST COLUMN

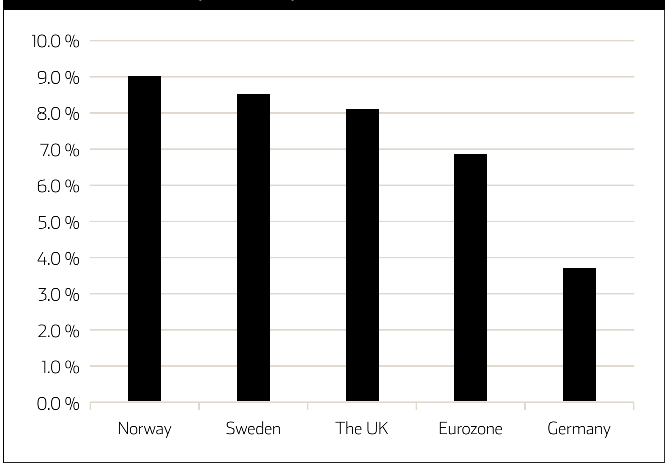
Commercial real estate – characteristics of an interesting asset class

Investments in commercial real estate (CRE) provide investors with attractive risk-adjusted returns, a steady flow of income, protection against inflation and meaningful diversification in a portfolio with traditional asset classes such as equities and bonds. Real estate should therefore be a natural part of most professional investors' portfolios, and this article will attempt to describe real estate as an asset class from an investor's perspective.

First of all, let's take a look at historic unleveraged returns. The chart below shows average annual returns from 2000-2015, and as we can see, the average total return from investments in Norwegian real estate has been around 9 % p.a., with an 11 % total return for 2015 alone. Historically (2000-2015), total returns have been generated from cash flow returns (approx. 3/4) and capital gains returns (approx. 1/4). Cash flow returns are based on net rental income, while capital returns are primarily generated from yield compression in the market.

With the ongoing – and what looks to be long-lasting – low interest rate environment, investors are facing challenges with traditional fixed-income investments that simply do not generate the required returns. The historically low interest rate levels are one of the main reasons why both private and institutional investors are increasingly looking at real estate as an alternative investment, and continue to increase their allocation to this asset class. The Norwegian real estate market generated an all-time-high transaction volume of around NOK 130 billion in 2015, where international investors represented around 35 % of the total transaction volume measured by the share of direct investments. Investments in CRE also protect the investor against inflation, since the annual rental income of a standard lease contract is adjusted with 100 % of the change in the consumer price index (CPI). This means that the cash flow improves and the value of the property increases by the annual CPI, as long as the yield is constant. This natural hedge against unanticipated inflation is an additional positive feature of investing in real estate. The current situation with negative real interest rates is fuelling CRE investments even further.

IPD AVERAGE RETURN (2000–2015)



Source: IPD (MSCI)

Diversification is a key element in building a portfolio, and the low correlation with other asset classes is definitely an important argument for investing in real estate. Diversification means that by including real estate in an existing portfolio of, for example, equities and fixed income, the investor can achieve lower risk with the same expected returns if real estate is included. From a global perspective, direct investments in office real estate correlate to approximately 0.3 with the global equity markets* (MSCI World) over the past 15 years, and have a negative correlation of -0.15 to fixed income. Real estate offers less liquidity than traditional asset classes such as equities and bonds, and this is an element investors need to consider when allocating part of their portfolio to the asset class. However, the lower liquidity also offers an advantage, since direct investments in CRE are typically less volatile compared to other asset classes traded on a listed market.

Furthermore, real estate investments are sensitive to interest rates and economic growth, but the current high yield spread represents a certain buffer against potential future increases in interest rates.

With the combination of attractive returns, protection against inflation, diversification and historically low interest rates, it is reasonable to assume that real estate will continue to remain an attractive asset class for investors in the foreseeable future.

MADS MORTENSEN
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*Source: Credit Suisse White Paper "Real Estate as an Asset Class"

DRONNING MAUDS GATE 10 & 11 / CBD

Malling & Co Næringsmegling has been commissioned to lease approximately 24 000 m² of office space in the refurbished buildings. Wikborg Rein will lease 8 600 m² from summer 2017. Illustration: Pilot Arkitekter

Malling & Co offer services throughout the entire supply chain and benefit from synergies between the units

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Eiendomshuset Malling & Co is among Norway's leading advisor and service provider within the field of commercial real estate. We have acquired our knowledge and experience over more than 50 years. Our two divisions, Markets and Management, have a total workforce of approximately 160 employees. We offer services in the fields of management, rentals, transactions, valuations, analysis, consulting, tenant representation, energy and environment and project management.

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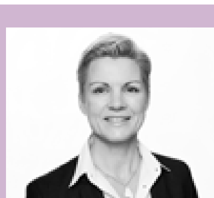

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