MALLING & CO MARKETS

MARKET REPORT SUMMER / FALL 2018

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CONTENTS

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Eiendomshuset Malling & Co is among Norway's leading advisors and service providers 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 around 185 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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THE BULL'S FLAVOUR OF THE YEAR: OFFICE RENTAL GROWTH

Our regular readers may think that we're not particularly fond of wild animals – but we simply haven't seen any bears in the bullpen for a long time. What we can see, however, is a charging bull – one with its horns locked on rental growth.

The Norwegian economy is doing better than we anticipated six months ago, and activity seems to be particularly good in Oslo. Strong employment growth should increase the demand for office space, and the limited availability of attractive vacant space is paving the way for significant rental growth.

Despite our general caution in applying cycle analysis to the CRE market, we must admit that our sense is that we are facing a late cycle rental uplift. While interest rates and yields seem to have risk on the upside, we are now very optimistic with regard to office rental growth. Previous potentially weakening factors, such as the housing market and oil price, have become potential drivers, and positive drivers such as employment growth and economic activity in the industry and service sector are now having an even more positive effect.

Let's start with the residential market. From December up until the time of writing this report, housing prices have turned positive and are now 8 % higher than in December. Most analysts expected a weaker development for Oslo, having focused on the weakened population growth over the past couple of years. But perhaps we have all been guilty of ignoring the employment figures for Oslo, which have been very strong – much stronger than for any other city in Norway. The growth in housing prices may therefore be down to the simple fact that people want to live close to where they work. Despite weak sales on new developments at drawings stage, these may change the market momentum for new developments and placed increased pressure on the conversion of outdated office stock.

Strong employment growth in Oslo is accompanied by low office vacancy, especially in the city centre. Our leasing agents are crying out for more lettable space in the city centre, as demand is high in the short term. We are certain that rents will be forced to increase significantly throughout 2018, and possibly push tenants out to the fringe and reduce vacancy there. A much higher than anticipated oil price is yet another driver for increased employment in this sector, which has been a negative driver over the past four years. If things continue to boom as anticipated, the stage is set for a significant rental increase.

Our balanced approach to rental growth in the previous report has now been replaced by a highly bullish view of office rents. We now believe rental growth will also find its way out to the fringe by the end of the year. The period of continuous yield compression and consequent lower break-even rents on new developments is over, and pressure on vacant space combined with yield effects should speak to a broad increase in office rents in Oslo.

The transaction market is being tamed by a lack of product in the market, and interest rate increases are starting to push yield expectations on the upside. However, we still see activity bubbling below the surface, and we still expect to see a strong investment market this year.

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

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

MACRO – NORWAY

Growth is back on track

Norway has returned to growth: the GDP for mainland Norway was 0.6 % in Q1 2018, and this is now the fifth quarter in a row with growth between 0.6 % and 0.7 %. The latest full year estimate from Statistics Norway (SSB) is at 2.4 % for mainland Norway, higher than the long-term trend growth of 2.0 %, but if this strong quarterly growth continues we will see an upwards revision of the GDP for 2018 at the next update. The latest projection available is 2.3 % for 2019 and 2020, with a reduction to 2.1 % in 2021.

GDP growth

SSB estimates from March 2018 forecast that mainland GDP growth will be 2.4 % in 2018, 2.3 % in 2019 and 2020, and 2.1 % in 2021. DNB Markets' forecast from April is slightly lower – 10 bps lower than SSB for 2018, but 10 bps higher for 2019, before again dropping to 10 bps lower in 2020. But after the surprisingly strong figures published in May, DNB have also signalled an upwards revision of their projections. The Norwegian Central Bank regional network survey 1/2018 revealed that the slightly stronger output growth is expected to continue over the next six months. There are also indications of increased demand from the oil sector, which is especially positive for the regions that have struggled most since the 2014 drop in the oil price. On a national level, growth in manufacturing enterprises, oil services and household service enterprises in particular is expected to pick up going forward, while construction is expected to experience slower growth.

The national budget

The revised national budget for 2018 was presented on 15 May. The revision that will have the greatest impact is that made to the projections for net cash flow from the Oil & Gas sector, from NOK 183 billion to NOK 224 billion. The net cash flow will be higher due to greater revenues from the Government Pension Fund Global due to foreign exchange effects, but also due to higher revenues in NOK stemming from the higher oil taxes paid by oil companies. On the cost side, the non-oil budget deficit has been reduced due to greater income from the mainland economy and lower expenses.

Oil price

Since our last report in November 2017, the Brent Crude Oil price has continued to increase and is currently close to USD 80 per barrel – an all-time high for the year, and a level not seen since the end of 2014. The forward market is now pricing Brent Crude Oil for delivery in 12 months' time at just above USD 75 per barrel.

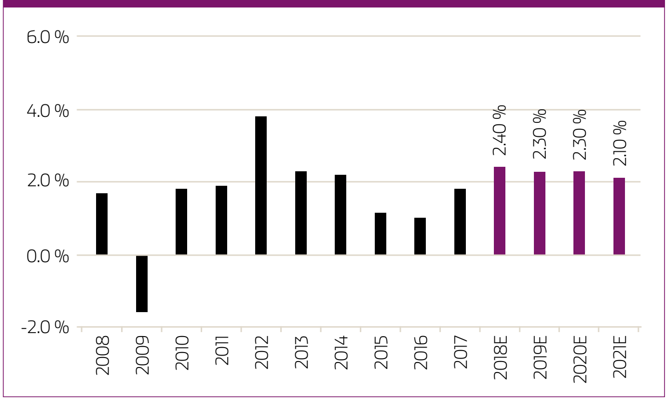
Oil investments

Oil-related investments peaked in 2013 and have declined continuously since the fourth quarter of 2013. The full year investment volume for 2017 ended at NOK 122.4 billion, and forecasts for 2018 show a marginal increase again to NOK 124.1 billion before increasing further by 12.8 % to NOK 140.1 billion in 2019.

Key policy rate

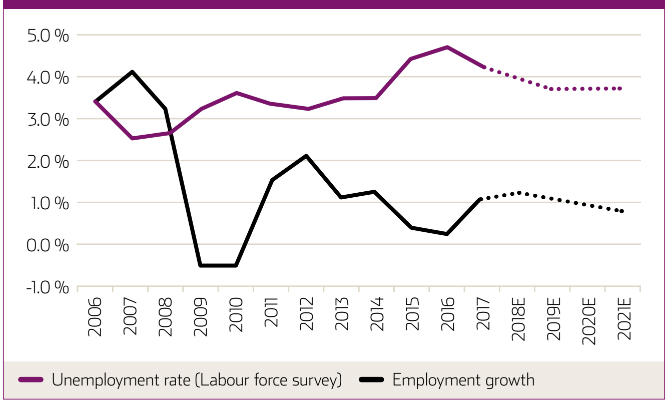
The Norwegian Central Bank has maintained the key policy rate at 0.50 % since March 2016, and the latest estimates from the Monetary Policy

MAINLAND GDP GROWTH NORWAY



Source: Statistics Norway (March 2018)

THE LABOUR MARKET 2006 – 2017 WITH FORECASTS UNTIL 2021

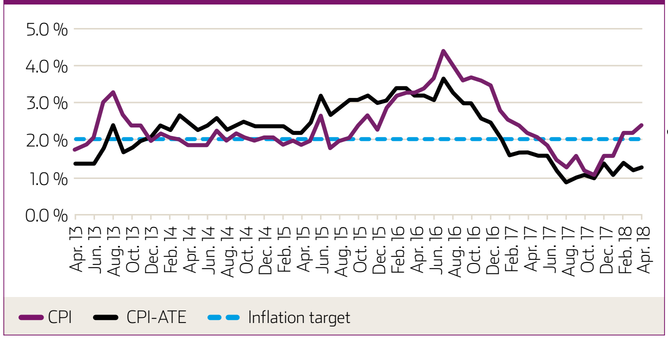


Source: Statistics Norway (March 2018)

MAIN FIGURES (ANNUAL PERCENTAGE GROWTH UNLESS OTHERWISE NOTED)	2017	2018E	2019E	2020E	2021E
Consumption in households etc.	2.3	2.5	2.7	2.5	2.8
General government consumption	2.0	1.5	1.7	1.7	1.7
Gross fixed investment	3.5	2.5	2.1	1.9	0.4
– Extraction and transport via pipelines	-4.0	8.4	6.6	3.0	-2.2
– Gross investments mainland Norway	5.9	0.5	0.8	1.6	1.2
Exports	0.8	2.0	2.0	4.5	3.7
– Traditional goods	2.2	4.7	4.1	4.5	3.6
– Crude oil and natural gas	1.9	-0.5	-0.7	5.6	4.7
Imports	2.2	2.2	2.8	2.5	2.5
GDP	1.8	2.0	1.9	2.7	2.4
Unemployment rate (level)	4.2	3.9	3.7	3.7	3.7
Employed persons	1.1	1.2	1.1	0.9	0.8
CPI - yearly growth	1.8	2.0	1.6	1.8	2.0
Core inflation (CPI-ATE)	1.4	1.7	1.7	1.7	1.8
Wages per standard man-year	2.3	3.0	3.5	3.7	4.0
Real after-tax lending rate, banks (level)	0.1	0.1	0.7	0.8	0.8
NOK per euro (level)	9.33	9.56	9.27	9.09	9.00
Current balance (Bn. NOK.)	168.3	231	227.5	271.2	310.5
Current balance (in % of GDP)	5.1	6.6	6.3	7.2	7.8

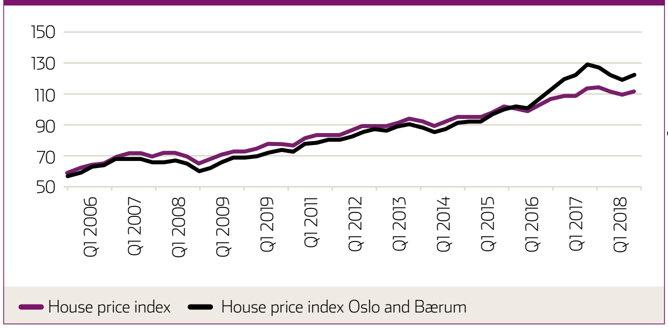
Source: Statistics Norway (March 2018)

INFLATION (12-MONTH CHANGE)



Source: Statistics Norway

HOUSE PRICE INDEX (2015 = 100)



Source: Statistics Norway

Report suggest an increase some time over the summer. Both DNB and the Norwegian Central Bank expect gradual rate increases over the next three years, with a forecasted peak of 1.75 % some time in late 2020 or early 2021. DNB points to muted price pressure and a gradual hiking cycle internationally, resulting in expected gradual rate hikes. Norwegian households are highly leveraged, and rate hikes may therefore hit interest expenses – and potentially consumption – hard.

CPI
The CPI increased by 2.4 % from April 2017 to April 2018, while CPI-ATE growth was 1.3 %. From March to April 2018 the CPI rose 40 bps, while CPI-ATE increased 50 bps. More important for future CPI expectations is the government directive to adjust the long-term inflation target to 2.0 %, down from 2.5 %, in order to achieve increased alignment with Norway's most influential international trading partners.

Currency
Statistics Norway expects the NOK to appreciate in value over the coming three years, with NOK/EUR at 9.6 in 2018, 9.3 in 2019 and 9.1 in 2020. DNB expects the NOK to appreciate against the EUR much earlier, predicting 9.1 as early as May 2019. As at COB on 14 May, the EUR traded at NOK 9.54, USD at NOK 7.98, and GBP at NOK 10.82.

Unemployment
According to the Labour Force Survey (LFS), unemployment decreased by 4 000 persons from November (average of October-December) to February (average of January-March), bringing unemployment down from 4.0 % to 3.9 %. In April, register-based unemployment recorded by NAV (the Norwegian Labour and Welfare Administration) was 2.4 %, down from 2.8 % one year ago.

Employment
According to the Labour Force Survey (LFS), the seasonally adjusted number of employed persons increased by 21 000 persons from November (average of October–December) to February (average of January–March). This corresponds to an increase of 40 bps in the employment rate.

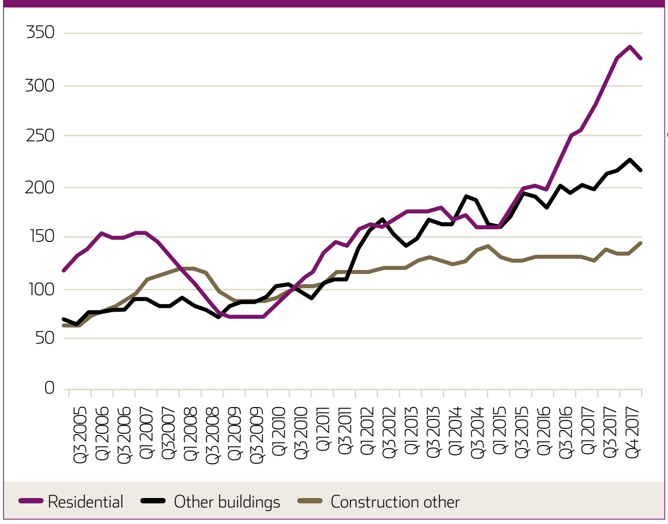
Wages
Wage growth was 2.3 % in 2017. Wage settlement negotiations were concluded on 8 April, and a 2.8 % wage growth was agreed for 2018. Due to the cyclical recovery, DNB expects the actual wage growth to end slightly higher, and therefore forecasts a wage growth of 2.9 % – an increase of 20 bps. DNB also expects wage growth to increase by up to 3.2 % in 2020 due to higher capacity utilisation, but predicts that moderate wage growth among Norway's most important trading partners will also keep wage growth moderate in Norway.

The stock market
The Oslo Stock Exchange broad index (OSEBX) started the year at above 815 points, and reached an all-time high of 878 on 11 May (as at 14 May). The OSEBX index is currently up almost 7.5 % since the beginning of January.

Residential prices
Residential prices in Norway rose by 1.8 % in April – adjusted for seasonal effects this is equivalent to an increase of 0.9 %. These are the strongest April figures in 10 years, and all major cities have seen a strong increase in prices. This puts prices at 1 % lower than a year ago, but if the trend continues we will see positive 12-month growth by the end of H1 2018. Lower unemployment, higher incomes and continued low interest rates will support house price growth. DNB expects that rate hikes and an increase in the supply of new homes should dampen price growth from late 2018, and lead to a fall in prices from mid-2020. They also assume that the mortgage market regulation will be renewed in July, in addition to the Oslo-specific regulation.

Consumption growth
Private consumption remained unchanged from Q4 2017 to Q1 2018. Goods consumption fell by 1.1 %, pulled down by a tax-related fall in auto sales, while service consumption increased by 0.6 %. The tax-related fall is expected to be reversed by a normalisation of the volume later in the year, and should therefore be neutral for the year as a whole. According to Statistics Norway, private consumption growth is expected to increase by 20 bps from 2017 to 2.7 % in 2018, falling slightly to 2.5 % in 2019 before increasing to 2.8 % in 2020.

CONSTRUCTION NEW ORDERS (2010 = 100)



Source: Statistics Norway

MACRO – GLOBAL

Global growth is picking up

The improvements in global investment and trade continued throughout 2017, and at 3.8 % global growth in 2017 was at its highest since 2011. With financial conditions still supportive, the IMF expects global growth to increase further, to a 3.9 % growth rate in both 2018 and 2019. Advanced economies are forecasted to grow higher than the long-term potential in both 2018 and 2019. The euro area economies are positioned to narrow excess capacity with backing from accommodative monetary policies, and expansionary fiscal policy will drive the US economy above full employment. The aggregate growth in emerging markets and developing economies is forecasted to tighten further, with continued strong growth in emerging Asia and Europe. Global growth is forecasted to soften a little beyond the next two years, as most advanced economies are set to return to potential growth rates well below pre-financial crisis averages. An aging population and fading productivity are the two main drivers of the slowing growth rates. US growth will slow below long-term potential as the expansionary impact of recent fiscal policy changes goes into reverse. While upside and downside risks to the short-term outlook are broadly balanced, risks beyond the next several quarters are skewed to the downside. Downside concerns include a possibly sharp tightening of financial conditions, weakening popular support for global economic integration, increased trade tensions, risks of a shift toward protectionist policies and geopolitical strains.

Sweden

The Swedish economy slowed to a moderate 2.4 % GDP growth in 2017, which is still above the long-term average from 2000 until today (2.3 %), but well below the average from 2010 until today (2.8 %) and the past two years at 4.5 % and 3.2 % respectively (IMF). For the next two years, the IMF expects 2.6 % growth in 2018 before a drop to 2.2 % in 2019. In the longer term, the IMF projects the Swedish GDP growth to be 1.9 % in 2023. The Swedish Central Bank (SCB) continues to keep the key policy rate low, holding it stable at -0.50 %, despite seeing inflation close to the target level of 2.00 % and a good level of activity in the economy. Expectations from the market and signals from the SCB both indicate an increase in the key policy rate of up to 25 bps towards the end of the year.

The Eurozone

According to the IMF, recovery in the Euro zone is expected to strengthen from 2.3 % in 2017 to 2.4 % in 2018, before decreasing to 2.0 % in 2019. The growth forecast is a marked increase over the IMF's previous forecast – an increase of 50 bps and 30 bps for 2018 and 2019 respectively. This is due to stronger than expected domestic demand across the countries, the supportive monetary policies and improved external demand prospects. Medium-term growth in the Euro zone is projected at 1.4 %, held back by low productivity amid weak reform efforts and unfavourable demographics. In the longer term, GDP growth is expected to be 2.1 % in 2023. The European Central Bank (ECB) has kept the interest rates on the main refinancing operations, marginal lending facility and deposit facility unchanged at 0.00 %, 0.25 % and -0.40 % respectively. The ECB is signalling that interest rates will remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases. These currently have a monthly pace of EUR 30 billion and are intended to run until the end of September 2018, or beyond if necessary, and in any case until the ECB sees a sustained adjustment in the path of inflation consistent with its inflation aim.

The UK

The IMF projects GDP growth will slow from 1.8 % in 2017 to 1.6 % in 2018 and 1.5 % in 2019, with business investments expected to remain weak in the light of heightened uncertainty about post-Brexit arrangements. The medium-term growth forecast is at 1.6 %, stemming from the anticipated higher barriers to trade and lower foreign direct investment following Brexit. The same GDP growth is also expected in the longer term, at 1.6 % in 2023. There are currently signs that wage growth is picking up after a long period with a tight labour market. Real wage growth is positive once again, which is likely to support consumer demand. However, with slower growth and falling inflation, there is no imminent need for the Bank of England (BoE) to hike the key policy rate, which is currently held at 0.50 %. The BoE has signalled an increase in the key policy rate, but many analysts believe the BoE to be too optimistic in their growth projections, and see an increase as unnecessary in a climate with a very high potential for cooling off of the economy. However, analysts still believe that the BoE will introduce an increase in the key policy rate towards the end of the year.

The US

The IMF growth forecast for the US has been revised since our previous report on the basis of stronger activity than projected in 2017. Higher external demand and the expected macroeconomic impact of the recent changes in fiscal policy will drive this growth. After weakness in the

ANNUAL GDP GROWTH (PERCENT)	2017	2018E	2019E	2020E	2021E	2021E
Global	3.8	3.9	3.9	3.8	3.8	3.7
The US	2.3	2.9	2.7	1.9	1.7	1.5
EU 28	2.7	2.5	2.1	1.8	1.7	1.7
The Eurozone	2.3	2.4	2.0	1.7	1.5	1.5
Advanced economies	2.3	2.5	2.2	1.7	1.7	1.5
Emerging and developing Europe	5.8	4.3	3.7	3.3	3.2	3.2
Germany	2.5	2.5	2.0	1.5	1.4	1.3
France	1.8	2.1	2.0	1.8	1.7	1.6
The UK	1.8	1.6	1.5	1.5	1.6	1.6
Sweden	2.4	2.6	2.2	2.1	2.0	1.9
Denmark	2.1	2.0	1.9	1.8	1.8	1.7
Italy	1.5	1.5	1.1	0.9	0.8	0.8
Japan	1.7	1.2	0.9	0.3	0.7	0.5
China	6.9	6.6	6.4	6.3	6.0	5.7
Russia	1.5	1.7	1.5	1.5	1.5	1.5
Middle East and North Africa	2.2	3.2	3.6	3.5	3.4	3.5

Source: IMF World Economic Outlook

HELSFYR ATRIUM

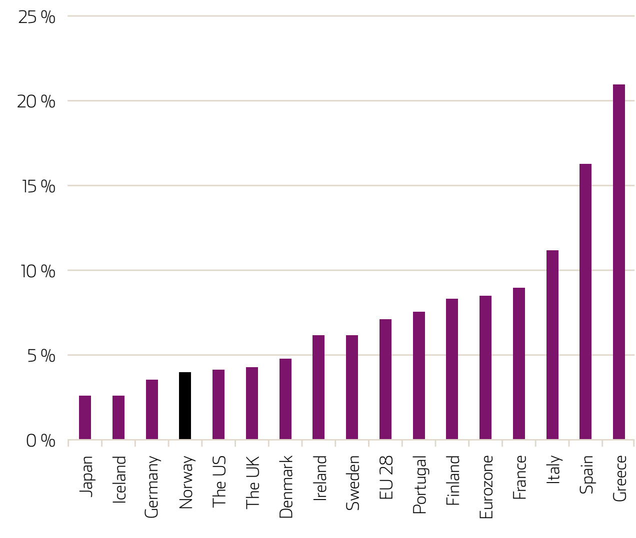
Malling & Co Næringsmegling has been commissioned by Anvil to lease office space in the approx. 30 000 m^2 office building named "Helsfyr Atrium".

beginning of the year, consumer demand picked up speed in March and April, and growth in the second quarter should therefore be stronger than in the first. Consumption should be boosted by the labour market, tax cuts and high consumer confidence. As a by-product of these drivers, we expect stronger domestic demand to increase imports and widen the current account deficit. The US GDP growth forecast is 2.9 % for 2018 and 2.7 % for 2019. Growth is expected to be lower in the longer term, at 1.5 % in 2023, given the temporary nature of some of the aforementioned tax provisions.

Emerging markets

According to the IMF, growth in emerging markets and developing economies is expected to increase from 4.8 % in 2017 to 4.9 % in 2018 and 5.1 % in 2019. Beyond 2019, growth in emerging markets and developing economies is projected to stabilise at around 5 % over the medium term, as well as in the longer term in 2023. The outlook across emerging markets and developing economies is mixed. Prospects remain favourable in emerging Asia and Europe, but are challenging in Latin America, the Middle East and Sub-Saharan Africa. More than a quarter of emerging market and developing economies are projected to grow by less than advanced economies in per capita terms over the next five years.

UNEMPLOYMENT RATE IN SELECTED COUNTRIES/AREAS (LFS)



Source: Eurostat

THE OFFICE MARKET

Employment and demand for office space

Strong employment growth in Oslo

The headline for this section has changed from moderate to strong since our previous report. Economic growth is picking up speed and Oslo seems to be doing particularly well. The Q4 2016/Q4 2017 employment figures showed an increase in employment of 11 198 persons, corresponding to a 2.4 % increase over 12 months. In early May, Statistics Norway released data showing a 3.1 % increase in the number of jobs in Oslo from Q1 2017 to Q1 2018. Considering the fact that employment boomed in 2007, with a growth above 4 % p.a., there are strong indicators on the demand side for the coming year. Fear of increased automation and redundancy of human labour seem to have had little effect on job creation in Oslo in the short term. Forward-looking indicators are also pointing towards strong employment growth.

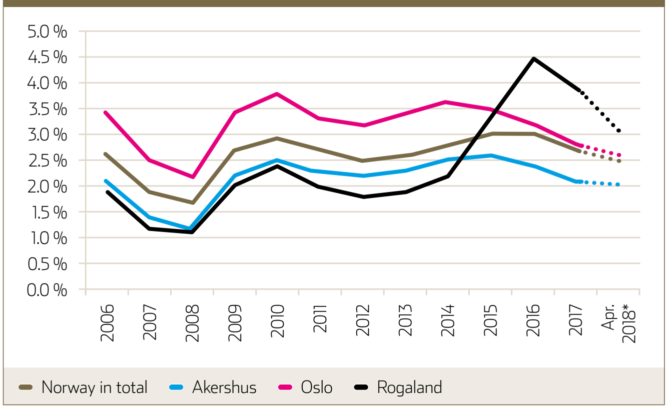
Unemployment almost back at 2014 level

As discussed in our previous reports, unemployment figures from both NAV (register-based) and Statistics Norway (survey-based) are showing a downward trend. The previously discussed effects of the reduction in the workforce, which caused employment rates to fall, now seem to have diminished. The seasonally-adjusted unemployment rate in Norway is 3.9 % for February, and the register-based unemployment rate (persons registered by NAV) is down at 2.4 %. As the oil price has reached higher levels than many expected one year ago, the positive effects of this are also likely to affect the labour market in this sector, which is especially interesting for the Stavanger region, also covered in this report.

Oslo has the strongest employment growth in the country

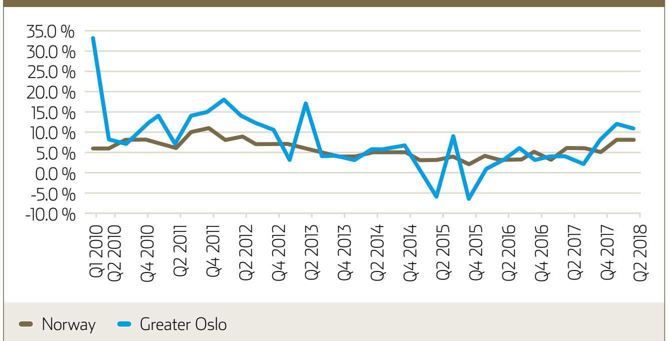
As Statistics Norway changed the register-based employment measurement from 2015, it was difficult to estimate exactly the exact effects of the oil price drop on employment. Thanks to SSB's new dataset, however, we were able to follow the trend in the number of jobs in the various counties and thereby monitor the employment market and activity on a local level. Employment currently seems positive, and typical office jobs are scoring high on employment growth outlooks. In addition, the Manpower Employment Outlook Survey (MEOS), which identifies net expected staffing for the next quarter (see definition at the bottom of the page), ended at +11 % seasonally-adjusted for Q2 2018 in Greater Oslo, compared to + 9 % for the whole country. Other leading surveys and indicators, such as the Norwegian Central Bank Regional Network Survey 01/2018, also point to increased employment. The newly published Company survey from NAV shows that the deficit in

REGISTER BASED UNEMPLOYMENT



Source: Norwegian labour and welfare administration

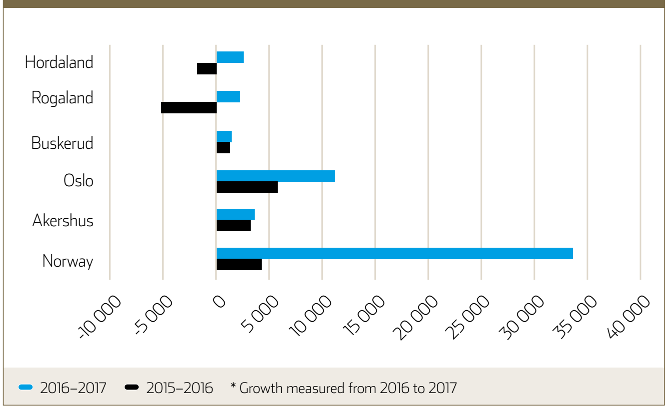
NET EMPLOYMENT OUTLOOK* – DEVELOPMENT OVER TIME (SEASONALLY ADJ.)



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

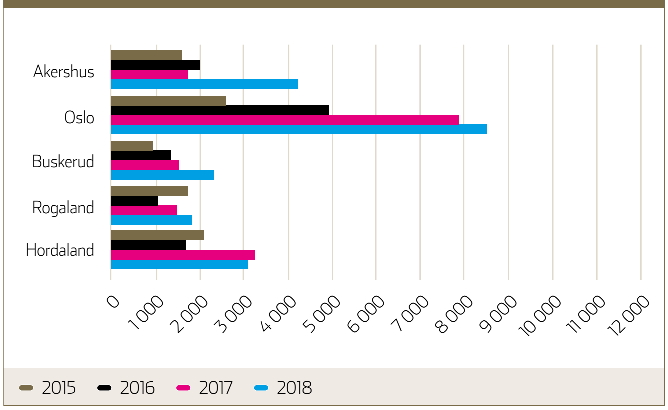
Source: Manpower Employment Outlook Survey (Q2 2018)

EMPLOYMENT GROWTH*, WORKPLACE BASED



Source: Statistics Norway

ESTIMATED LACK OF LABOR PER COUNTY



Source: Norwegian labour and welfare administration qualified labour is greatest in absolute terms in Oslo, with more than 8 000 positions lacking employees. As the figure on the previous page shows, this deficit has increased over the past three years.

Demand for office space is increasing

The demand for office space is not necessarily directly linked to overall increased employment, as the demand for office space varies greatly between sectors and industries. For Oslo and Akershus, the sector lacking the most employees by far is the business service sector, followed by health and social services, with less than 30 % of the deficit reported within the business service sector. We interpret this high demand for office space as being the likely result of the current increase in employment in Greater Oslo. However, despite the increase in employment, we do not have a full overview of the current space surplus among tenants in existing leases, and in general we would emphasise that large office contracts (above 3 000 m^2) remain far from plentiful in the Oslo office market. We also know that there are few large contracts set to expire in 2021 and 2022, meaning that landlords are risking having to wait for extended periods if negotiations with a potential tenant fail to end in a final lease contract.

MUNKEDAMSVEIEN 35

Malling & Co Leietakerrådgivning advised Helly Hansen with their renegotiation of 4 400 m^2 office space in Munkedamsveien 35 in CBD and continues to provide project management services related to the planned space refurbishment and fit-out.

HENRIK IBSENS GATE 100

Malling & Co Leietakerrådgivning advised Mnemonic in the search for new office space and the signing of the lease contract for 6 000 m² in the Indeksbuilding.

Photo: Dmitry Tkachenko

Tenant representation mapping

Lack of new build initiators

In terms of total space, activity in the market for these searches so far this year (as at 7 May 2018) is at around the same level as last year, and the number of searches is also about the same. However, the pace of new searches in the market is highly variable, and the year-end volume is difficult to estimate with precision.

Around one third public tenants

In 2016, public tenants constituted more than half the volume of office searches, while this share came down to below 20 % last year. In 2018, we are again seeing an increase in public tenants, who comprise around one third of the space so far. Other than public sector tenants, the remaining share is spread across different sectors. We are again seeing some activity from Oil & Gas related sectors, especially when taking into account processes outside official searches. In general, we have observed higher demand from medium-sized private tenants searching for new space. Many of these are not undertaking official searches, but remain on our brokers' lists as they are on the move.

Search volumes expected to remain moderate

Search volumes are generally affected by the structure of expiring lease agreements for large tenants, and as expiry volumes are set to be lower than average in 2021 and 2022, the search volumes are expected to be moderate all else being equal. However, we have observed that some tenants are already planning, and we therefore expect some large office searches aiming at 2023-2024 to enter the market in the coming year.

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

The search market is of special interest for developers as it is the main source of the large lease contracts needed to initiate new projects requiring an anchor tenant. For a developer, both the timing and size need to match the project to be attractive. Around 80 % of the searches from 2017 and YTD are aiming at takeover in the same or the following year, which means that most of the market is available for existing space, or remaining space in already initiated new builds that will complete before the desired date. Looking ahead, low expiry volumes for large lease contracts suggest that the search volume for large contracts will reduce somewhat from 2019. This is valuable information for developers in assessing future market sentiment. Despite many competing projects, the hurdles involved in attracting and winning large anchor contracts will probably reduce the number of new builds coming to market. So far this year (as at 7 May), we have only seen one search larger than 5 000 m² that aims to move later than in 2020. However, just before publication of this report, another office search on behalf of the County Governor administration in Oslo and Akershus came onto the market, with 7 000 m² desired by December 2019. With such short deadlines, new builds will find it difficult to offer appropriate space due to the necessary construction time.

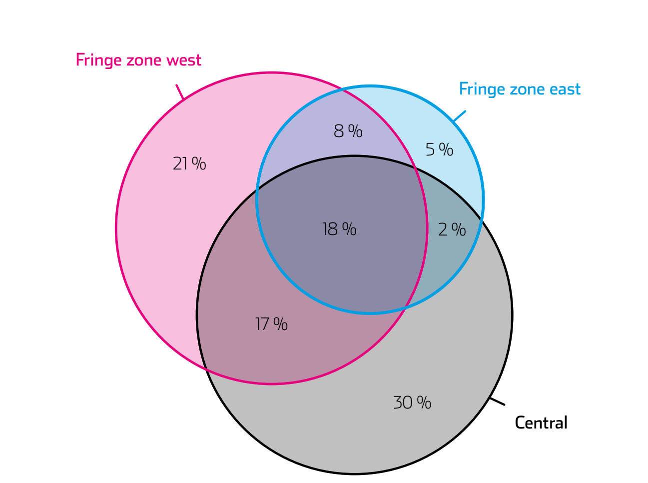
Increased demand towards eastern and western fringes

One major change since last year is that an increased number of office searches are focusing on the eastern fringe, while the western fringe and central Oslo remain reasonably stable. Our agents report that the city centre remains the most attractive area for most tenants, but we also see increased demand at Lysaker, and especially in Skøyen. Despite the increase in fringe popularity, proximity to public transport continues to be one of the most important factors in attracting tenants, and many are specific with regard to the number of minutes it takes to walk from the nearest station to the main entrance of the premises.

Several large searches have been resolved in the past 6 months

In our previous report, we expected several active searches to be resolved during Q4 2017. During the past 6 months, large searches such as the National Road Administration, Bane NOR SF, Mnemonic and Atea have been resolved. We also expect some of the current active searches to be resolved before the summer, and that leads from sources other than office searches will lead to high take up in the second quarter.

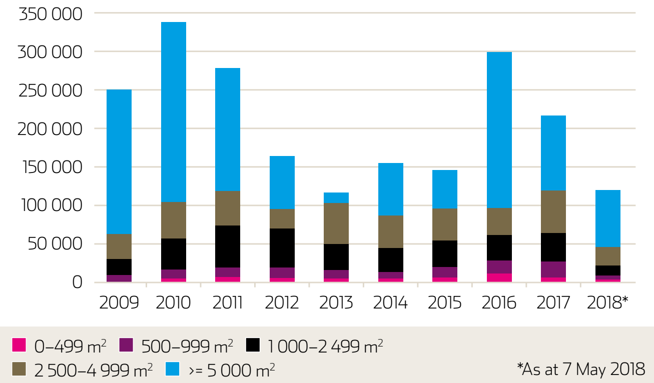
OFFICE SEARCHES GREATER OSLO 2017–2018*, SIZE AND OVERLAP



**As at 7 May 2018
Due to rounding, percentages stated does not add up to exactly 100 %

Source: Malling & Co

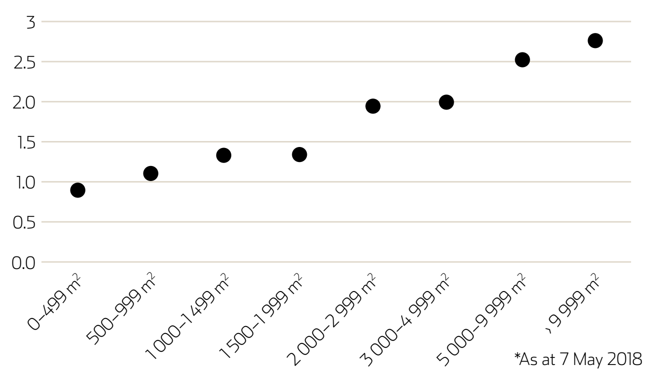
OFFICE SEARCHES GREATER OSLO 2009–2018* (M²)



*As at 7 May 2018

Source: Malling & Co

AVERAGE YEARS BETWEEN PUBLICATION OF MARKET SEARCH AND DESIRED LEASE STARTUP, DIVIDED INTO SIZE SEGMENTS (2016 – 2018*)



*As at 7 May 2018

Source: Malling & Co

Construction activity in Greater Oslo

Higher construction estimates for 2019

Since our October report, we have observed various changes in the status of certain projects, and more projects have been added. For example, plans for the new AF gruppen and OBOS headquarters, "Construction city" at Ulven (Økern, Løren, Risløkka), were recently announced, increasing expectations for future office space supply by 85 000–100 000 m² in this area. Moreover, Atea have decided to move their HQ to Karvesvingen 5 (Hasle linje stage 2), thereby determining the realisation of the project, which is now set to be completed in 2020. In CBD, demolition work has started at Ruseløkkveien 26 (VIA), and the new building is expected to be completed in 2021.

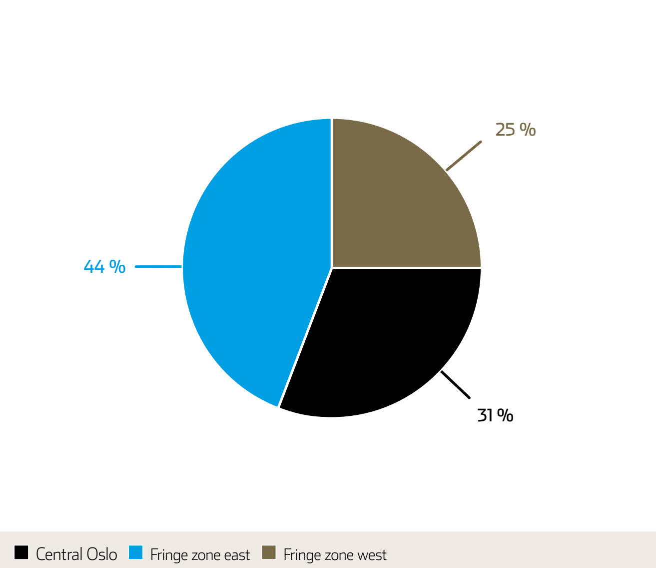
Around 97 000 m² of office space was completed in 2017, and our estimate for 2018 is around the same. This is slightly less than previously predicted, as many projects were pushed forward into 2019 and 2020. The total space confirmed to be completed in 2019 is at 140 000 m², while we have confirmed approximately 96 000 m² to be completed in 2020. There are also many uncertain projects in the construction pipeline for 2020 and 2021 – most of these projects are currently awaiting approval from the regulatory authorities before they can continue.

In addition to low construction volumes, a substantial amount of office space is in the process of being taken off the market. Several buildings are expected to be demolished or converted for alternative purposes in 2018. The planning authorities are continuing to prioritise housing development in areas such as Billingstad and Bryn/Helsfyr. Consequently, we expect that the net added supply will remain negative in 2018, but increase somewhat from the 2017 levels. This is expected to continue into 2019, before conversion and demolishment activities eventually slow down in 2020.

We continue to observe that the majority of new builds being initiated are located in the eastern fringe zone. These make up 44 % of all estimated projects, while those in Central Oslo and the western fringe zone represent 31 % and 25 % respectively. Økern/Løren/Risløkka has an especially high estimate for future construction of office space (both known and uncertain).

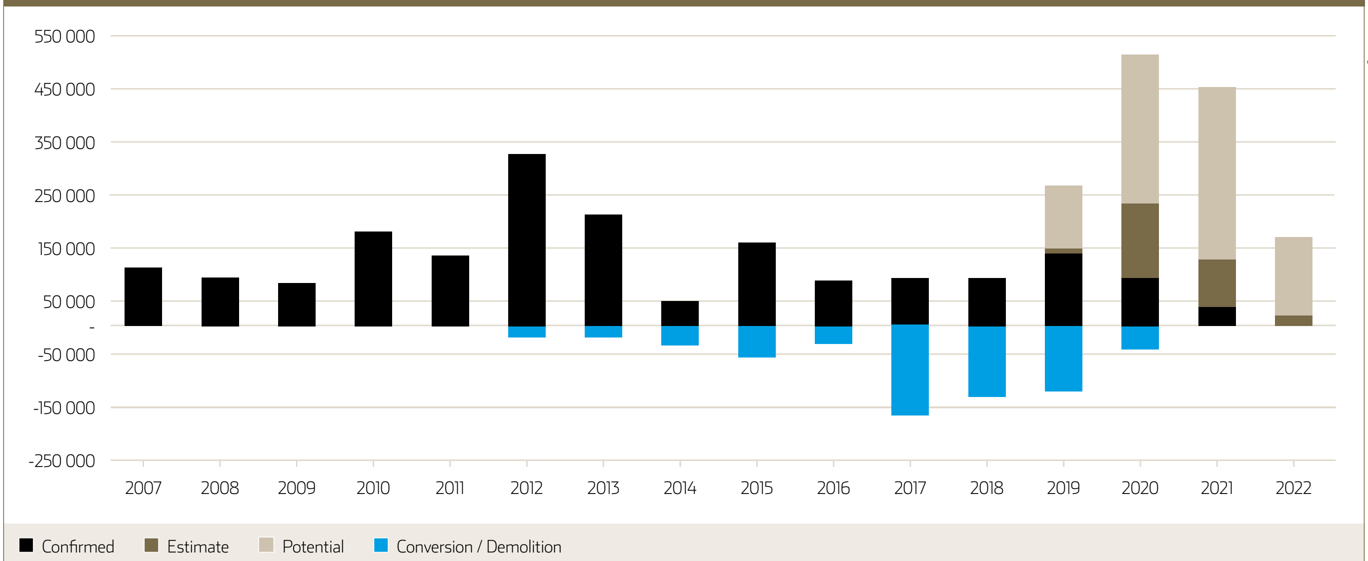
The decision to realise a project usually depends on having a certain percentage of the project already let, typically at least 50 %. The favourable vacancy rate of 6.5 % is likely to encourage the initiation of new projects as competition for available space increases. However, we observe that few large tenants are looking for new office space between 2020-2022 as volumes of expiring large contracts are low in these years. Until now, the lack of such anchor tenants has been largely responsible for the relatively low construction levels. Even lower expiry of large office lease contracts from 2020 – 2022 may curb future construction of new space, unless more developers are willing and able to take the associated risk of speculative construction.

CONFIRMED AND ESTIMATED COMPLETION OF NEW OFFICE DEVELOPMENTS SPLIT INTO CITY AREAS



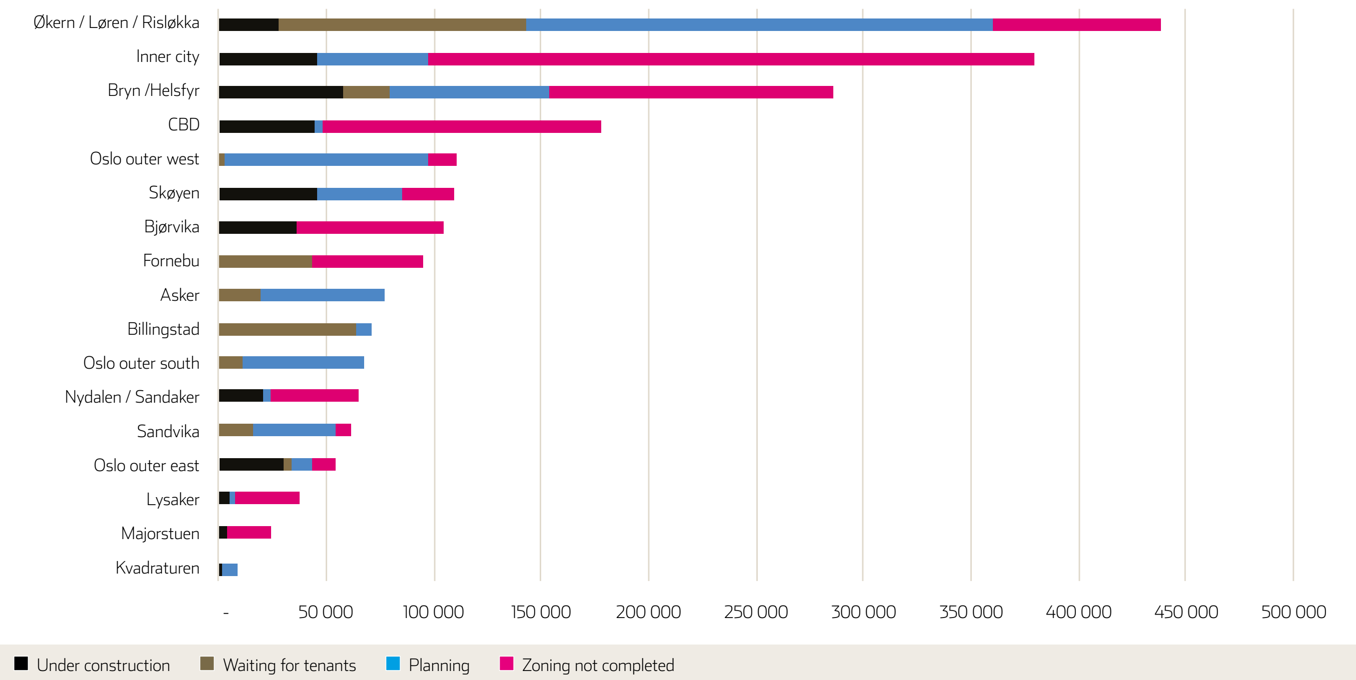
Source: Malling & Co

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



Source: Malling & Co

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

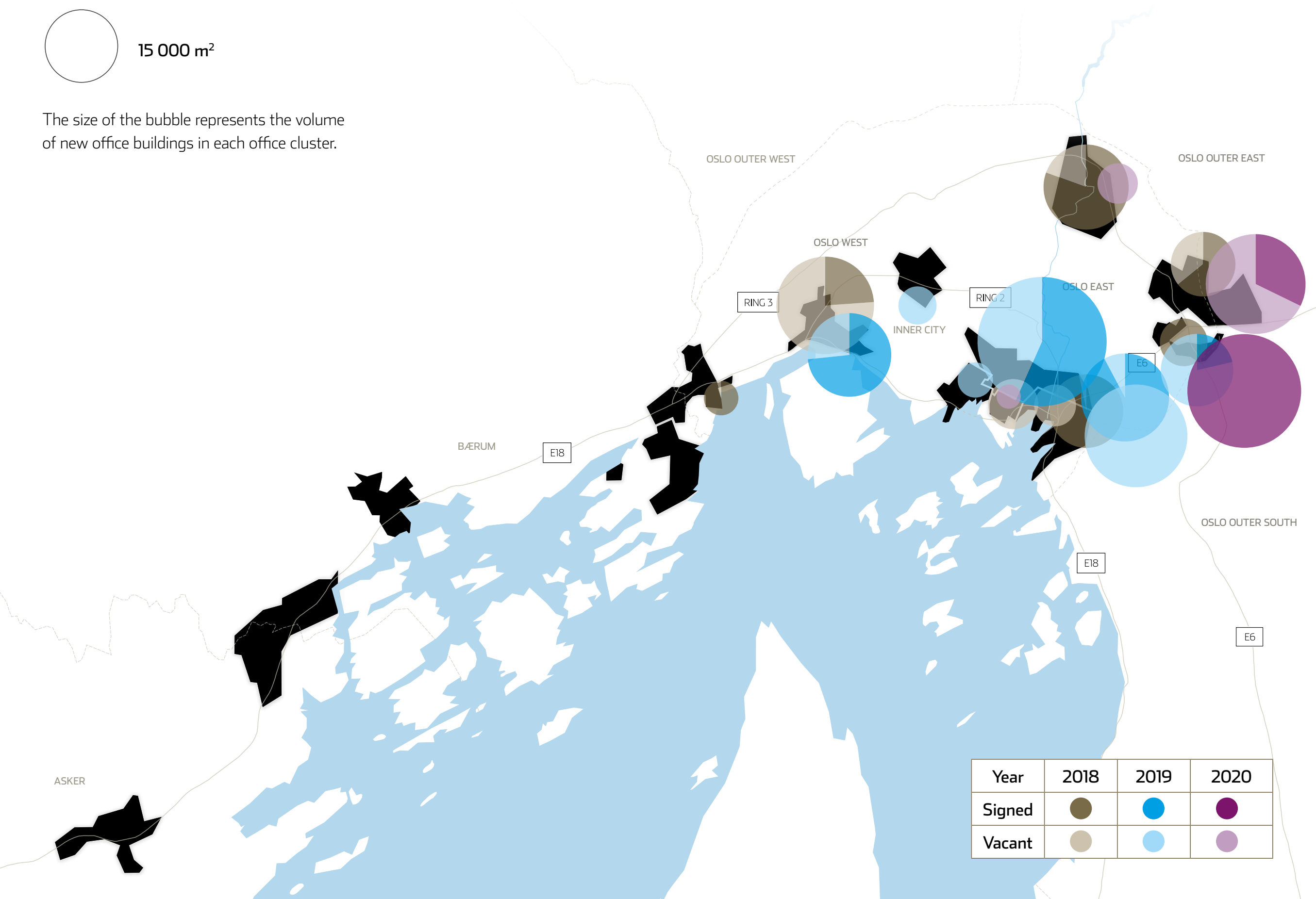


Source: Malling & Co

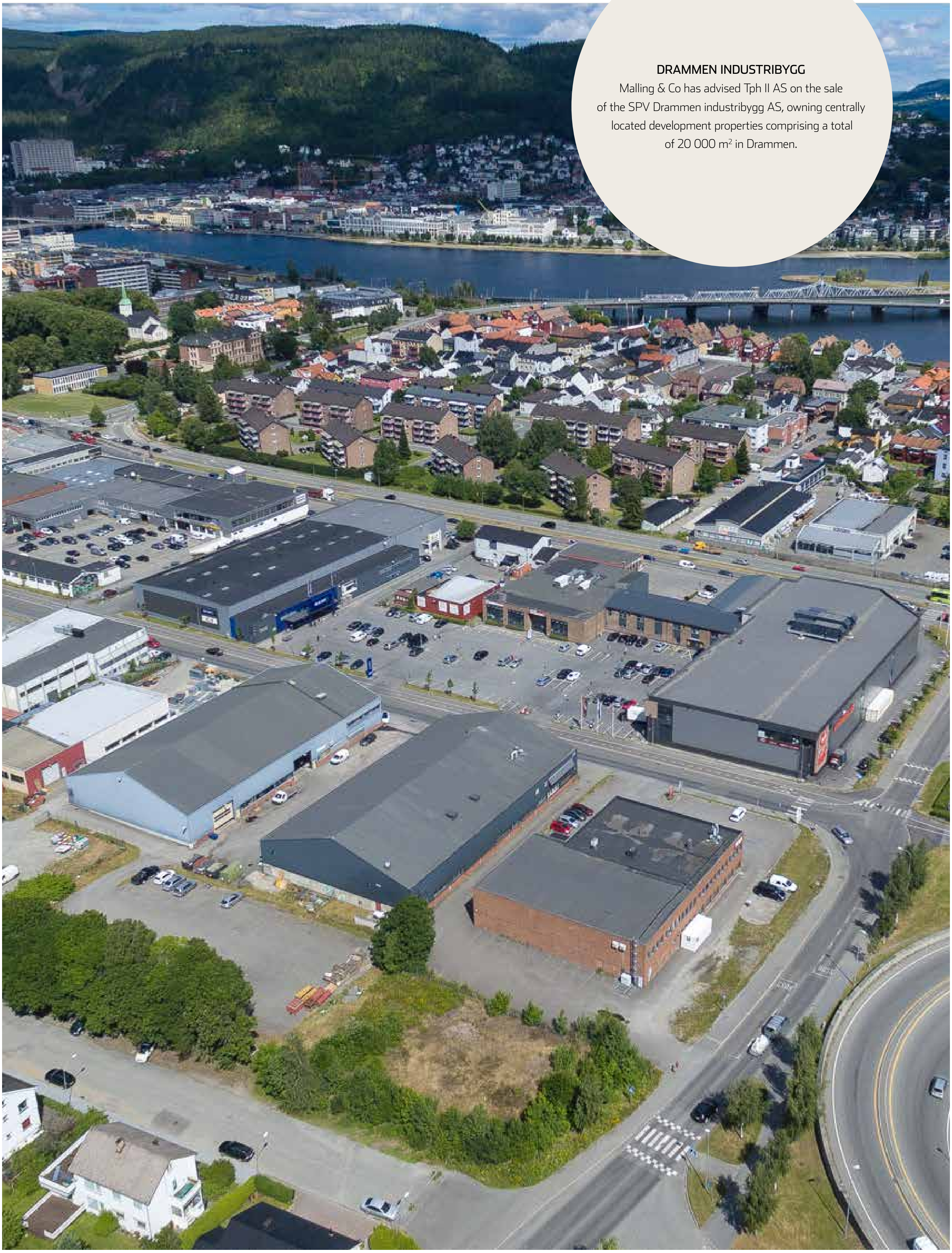
COMPLETION OF NEW OFFICE BUILDINGS THAT WILL BE FINALIZED 2018-2020

15 000 m²

The size of the bubble represents the volume of new office buildings in each office cluster.



Source: Malling & Co



DRAMMEN INDUSTRIBYGG

Malling & Co has advised Tph II AS on the sale of the SPV Drammen industribygg AS, owning centrally located development properties comprising a total of 20 000 m^2 in Drammen.

FURUSET SENTER

Malling & Co Corporate Real Estate advised Work In Holding AS on the divestment of the 21 000 m² office section of Fururset Senter.

VITAMINVEIEN 1, STORO

Malling & Co Eiendomsfond has acquired an office building of 21 375 m² at Storo in Oslo.

Supply and Vacancy

Low supply and vacancy rates creating competition for office space

As at April 2018, the office supply in Oslo is measured at 10.9 %, a decrease from October estimates when supply was approximately 12.7 %. This reflects the vacancy rate, which is down 40 bps since October and is currently 6.5 %. Net added office space supply has also been low in the last few years, but overall supply is expected to increase somewhat with the many new builds that are expected to enter the figures in the autumn and early in 2019.

The area with the highest supply is Økern/Løren/Risløkka, closely followed by Bryn/Helsfyr. However, most of the supply at Økern/Løren/Risløkka consists of office space offered after 12 months or more, and the area has several potential new builds in the pipeline for the next 2-3 years. Examples include Lørenfaret 1 and the various projects along Østre Aker vei. Development in the area is expected to continue even further into the future, with plans for the OBOS/AF Gruppen "Construction city" project recently being announced.

We have observed a downward trending vacancy rate in Greater Oslo since our last report. In October 2017, vacancy was approximately 6.9 % – a decrease from the May 2017 estimates (7.6 %). During the first quarter of 2018 the vacancy rate decreased even further, and in April advertised space makes up approximately 6.5 % of the total space. These are favourable conditions for developers and landlords, and have resulted in rent increases in certain areas. Vacancy is especially low in the city centre, Kvadraturen and Bjørvika, reflecting that more and more tenants are seeking central locations with easily accessible transportation hubs and urban facilities nearby.

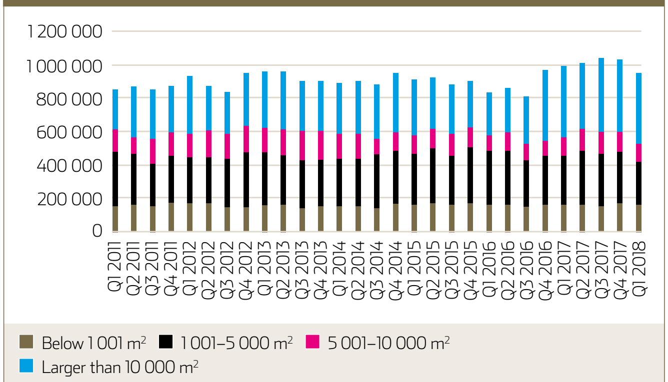
Bjørvika has the lowest vacancy of 1.3 %, which is a decrease of 160 bps since October. The area has had an increase in restaurants and other cultural experiences, which has likely contributed to its attractiveness. The CBD, however, has had a relatively high vacancy rate lately, despite being the traditionally more popular area. This has mostly been down to the refurbishment of several buildings, but now appears to have passed, and during the past six months we have observed a decrease in vacancy in the area. The vacancy at Økern/Løren/Risløkka has increased by an insignificant 20 bps. However, vacancy in the area is expected to remain low while we wait for several projects to enter the vacancy-count in 2019-2020.

The areas with the highest vacancy rates continue to be Asker, Billingstad and Lysaker. In Asker, the space remaining following the consolidation of FMC is still vacant, while at Billingstad, Lars Brunborgsvei 6 and Billingstadsletta 83 constitute most of the available space. Lysaker differs from the other two areas in that it is a major transportation hub, but nonetheless, some of the properties farthest away from the station have experienced difficulties in finding tenants.

How we measure supply

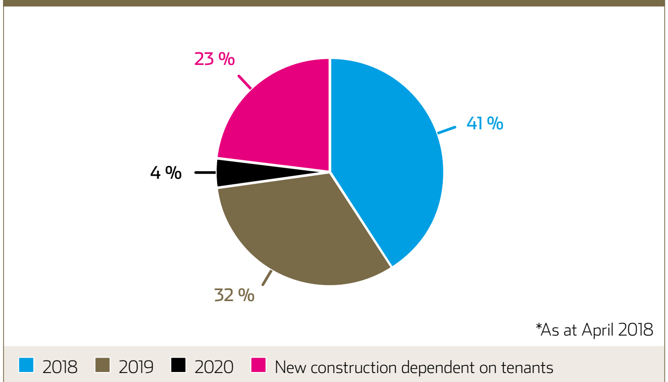
When analysing the supply side of the rental market, we wish to be able to describe what is available for prospective tenants, not only vacant space. We therefore split the total offered office space into two definitions: supply and vacancy. Supply includes all projects and vacancies, regardless of delivery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

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



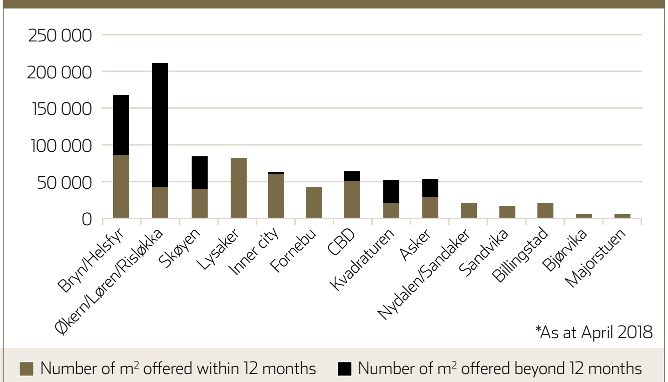
Source: Malling & Co/FINN.no

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



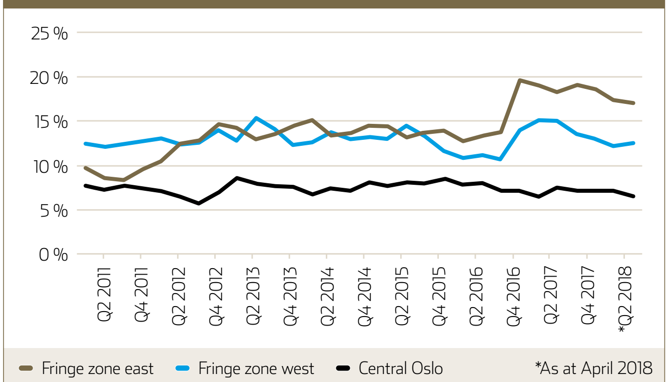
Source: Malling & Co/FINN.no

OFFICE SPACE FOR RENT DIVIDED INTO OFFICE CLUSTERS (M²)



Source: Malling & Co/FINN.no

SUPPLY IN CENTRAL OSLO, EASTERN AND WESTERN FRINGE ZONE



Source: Malling & Co/FINN.no

Vacancy* and supply**

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

VACANCY* IN DEFINED OFFICE CLUSTERS – Down approx. 0.4 percentage points past 12 months	6.5 %

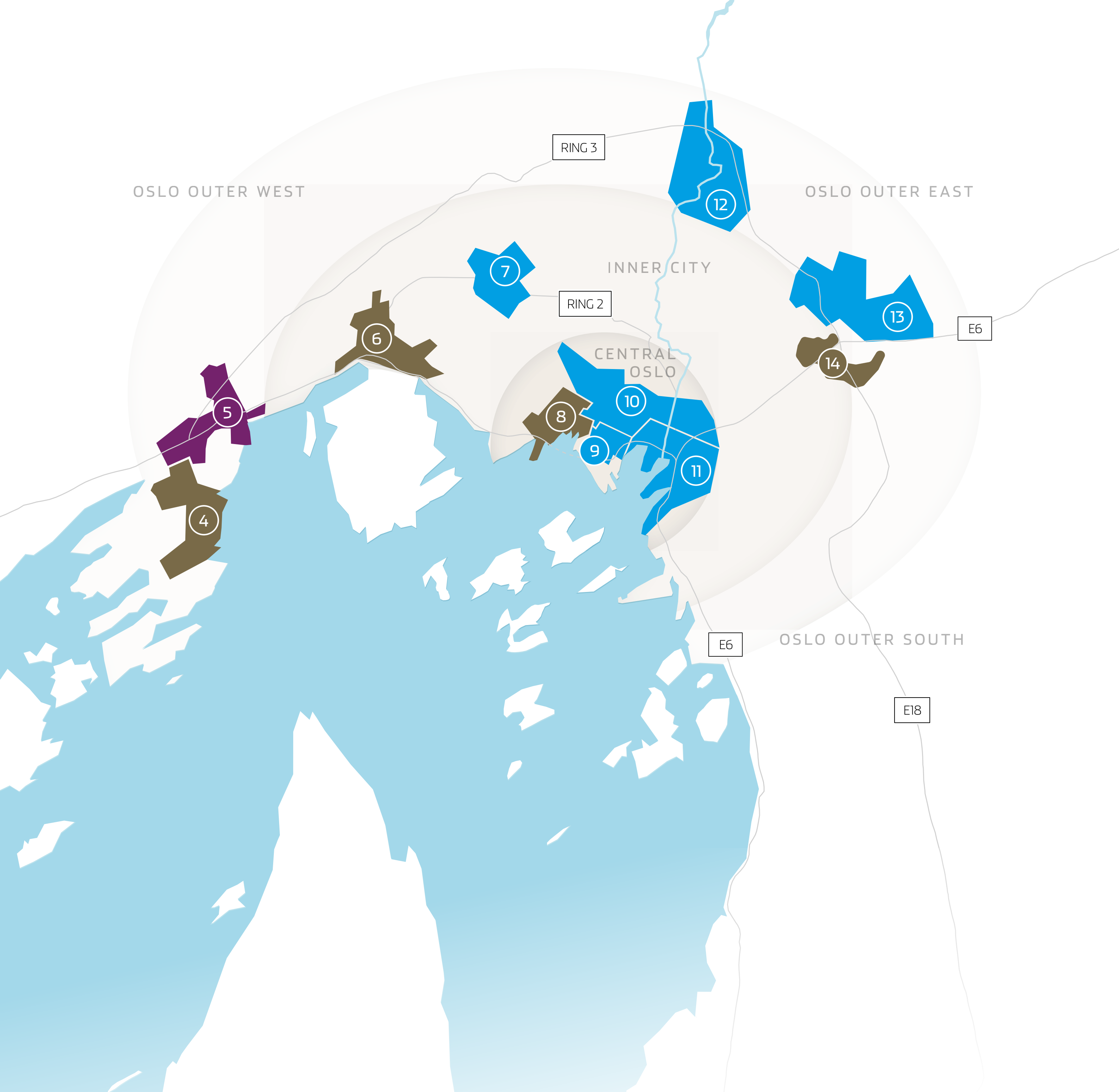
SUPPLY** IN DEFINED OFFICE CLUSTERS – Up approx. 0.5 percentage points past 12 months	10.9 %

Map colour indicates vacancy rates per April 2018

0–5 % · 5–10 % · 10–15 % · Above 15 %

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

	1 ASKER	2 BILLINGSTAD	3 SANDVIKA	4 FORNEBU	5 LYSAKER	6 SKØYEN	7 MAJORSTUEN
VACANCY RATE PER APRIL 2018	14 %	15 %	5 %	7 %	14 %	7 %	4 %
SUPPLY RATE PER APRIL 2018	25 %	15 %	5 %	7 %	14 %	15 %	4 %



8	9	10	11	12	13	14
CBD	KVADRATUREN	INNER CITY	BJØRVIKA	NYDALEN / SANDAKER	ØKERN / LØREN / RISLØKKA	BRYN / HELSFYR
8 % VACANCY RATE PER APRIL 2018	3 % VACANCY RATE PER APRIL 2018	4 % VACANCY RATE PER APRIL 2018	1 % VACANCY RATE PER APRIL 2018	4 % VACANCY RATE PER APRIL 2018	4 % VACANCY RATE PER APRIL 2018	10 % VACANCY RATE PER APRIL 2018
10 % SUPPLY RATE PER APRIL 2018	8 % SUPPLY RATE PER APRIL 2018	4 % SUPPLY RATE PER APRIL 2018	1 % SUPPLY RATE PER APRIL 2018	4 % SUPPLY RATE PER APRIL 2018	23 % SUPPLY RATE PER APRIL 2018	19 % SUPPLY RATE PER APRIL 2018

Source: Malling & Co/FINN.no

Further development of the rental market

Rental growth accelerates

Economic growth is picking up speed
Leading indicators show increased optimism, and economic growth is expected to stay strong in the coming years.

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

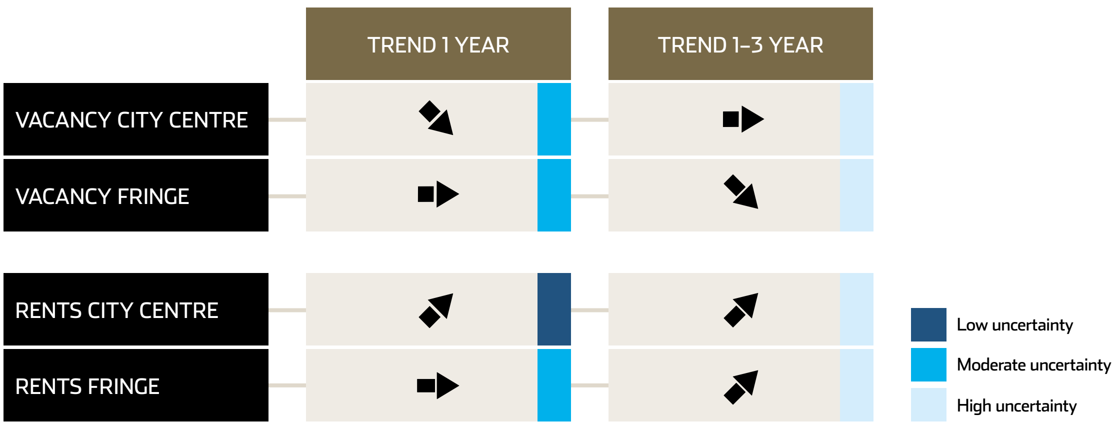
Vacancy is down
Vacancy in office clusters is trending downwards, and while landlords are reporting empty shelves and lack of flexibility in the city centre, we believe increased demand will push vacancy down in the fringe areas over the next 12 months.

Limited new construction and high conversion rates in the short term
Continued low net office construction over the next two years is expected to keep the vacancy low. The risk of a higher vacancy level has been pushed out to 2020.

The urbanised tenant
The city centre is especially attractive among tenants, with many unwilling to consider a fringe location. An urban location has become the key to attracting talented workers.

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

Strong residential market
Last year's observed downturn in the residential market suddenly became a boom in the first four months of the year. The Oslo market is especially strong and will probably kick off new projects suitable for conversion to residential premises. We therefore estimate that the net supply of new space will remain low.



Short-term trend for rents (1 year): Increasing rents
- City centre rents will continue to increase by 10 % on a four-quarter rolling average.
- We expect rental increases to reach the fringe by the end of 2018, especially for the best locations.
- Vacancy is expected to reduce, especially in the fringe areas.

Long-term forecast (1-3 years): Increasing rents, then flattening
- City centre rents will continue to grow another 10 %, especially for areas in the inner city that have previously seen moderate rents.
- Observed rents in the city centre may be lower than underlying rental growth as vacancy pushes location-fixed tenants to secondary products.
- The rental increase is dependent on continued growth in employment.
- Increased construction, the probability of an economic cooldown and a weaker housing market will dampen rental growth in 2-3 years' time.
- The downside risk on rents is regarded as limited, while upside potential is significant.

MARKVEIEN 35

Malling & Co Eiendomsutvikling is developing Markveien 35 in cooperation with Malling & Co Project Finance

Illustration: Grape

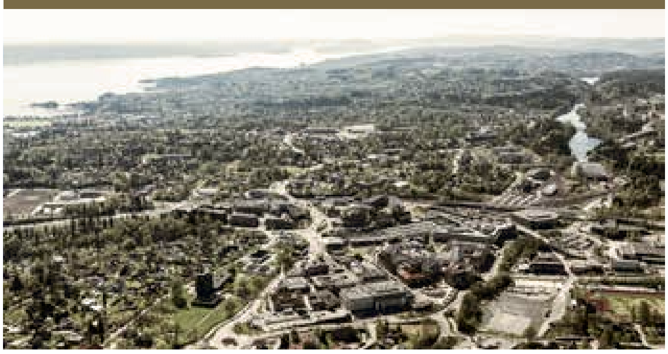
The rental market
Greater Oslo

In the following section, we have summarised the status within our defined office clusters in Greater Oslo. We have provided a table with estimated normal* and prime* rent levels, as well as supply** and vacancy** for every office cluster. We have also included a short section with the latest news for each cluster. The main source for estimating monthly vacancy and supply is a list from Norway's dominant online marketplace, FINN.no, which we have then processed further. Based on these figures, we find that the total supply for all our defined office clusters has decreased from 12.5 % to 10.9 % over the past 12 months. The vacancy, i.e. space available within 12 months, has decreased from 7.4 % to 6.5 % in the same period.

A SELECTION OF THE LATEST MAJOR LEASE CONTRACTS

Tenant	Moving to address / Office cluster	Moving from address / Office cluster	Space m² (rounded)
Bane Nor SF	Schweigaards gate 33 / Inner city	Biskop Gunnerus gate 14 and Stortorvet 7 / Inner city	22 600
Statens Vegvesen region øst	Fyrstikkalleen 1-3 / Bryn-Helsfyr	Østensjøveien 34 / Bryn – Helsfyr	12 500
Atea	Karvesvingen 5 / Hasle - Økern	Brynsalleen 2 / Bryn – Helsfyr	9 000
Fortum	Drammensveien 147 / Skøyen	Multiple locations	6 400
Mnemonic	Henrik Ibsens gate 100 / CBD	Wergelandsveien 25 / Inner city	6 000
Arntzen de Besche	Ruseløkkveien 26 / CBD	Bygdøy Alle 2 /CBD	5 400
Spaces	Calmeyers gate 1 / Inner City	New Lease	5 200
BUFDIR	Grenseveien 88 / Bryn-Helsfyr	Stensberggata 27 / Inner city	5 000
The Boston Consulting Group Nordic AB	Henrik Ibsens Gate 4 / CBD	Parkveien 53A / Inner City	4 450
Helly Hansen	Munkedamsveien 35 / CBD	Renegotiation and extension	4 450

ASKER



	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	1 500 – 1 700	1 600 – 1 800
Prime rent (NOK/m²)*	2 150	2 150
Supply**	25 %	22 %
Vacancy**	14 %	16 %

Comment: Lensmannslia 4 is still the largest single vacant asset in Asker after FMC decided to consolidate in Kongsberg. "Asker Tek" has just been completed and the remaining space in the building of 4 000 m² is available for tenants. 4Subsea, Indra Navia, Evolve and Mylan are among the tenants in this project. The Asker market remains challenging with relatively high vacancy, and newer buildings featuring high-standard space with proximity to public transport are the winners. Holtefjell Eiendom acquired Hagaløkkveien 13 last year, and has plans to refurbish and re-let the property. The letting market is dominated by small and medium-sized tenants.

BILLINGSTAD

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	1250 – 1500	1 250 – 1 500
Prime rent (NOK/m²)*	1 800	1 800
Supply**	15 %	12 %
Vacancy**	15 %	12 %

Comment: Vacancy at Billingstad remains around 15 % of the total stock, and activity in the office rental market in this cluster is low. Olav Brunborgsvei 4-6 and Billingstadsletta 83 account for almost 80 % of the vacant space. As an office cluster, Billingstad is losing out to competition from Asker and Sandvika, and the conversion of office space to big box retail and residential developments is the main focus for many property owners.

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

SANDVIKA

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	1 500 – 1 700	1 500 – 1 700
Prime rent (NOK/m²)*	2 150	2 150
Supply**	5 %	6 %
Vacancy**	5 %	3 %

Comment: The office market in Sandvika is not the most active, but we expect the central area plan for Sandvika East to boost future activity for new developments at the most central properties. The plan permits the utilisation of three times the current floor space in the area. Oslo Areal recently acquired Vestfjordgate 4, which is let to Norconsult. SPG and Backe recently announced the acquisition of Franzefossbyen, a project comprised of around 1 200 housing units. The plan opens for high utilisation around the train station.

FORNEBU

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	1 400 – 1 600	1 500 – 1 700
Prime rent (NOK/m²)*	1 950	2 000
Supply**	7 %	13 %
Vacancy**	7 %	13 %

Comment: Norwegian Property still has 10 000 m² vacant in Snarøyveien 36, which will increase when the current short-term lease to the airline Norwegian expires in late 2019. We observe very little activity in the office letting market at Fornebu, and annual take up has been around 10 000–25 000 m² since 2014. In addition, we see very few larger tenants signing lease agreements at Fornebu. Oslo City Council approved the Fornebu Metro zoning plan in January this year, and construction will start in 2019 at the earliest. With an estimated 5–6 years of construction, the Metro will not be in operation before 2025 at the earliest, but is expected to significantly increase the area's attractiveness.

LYSAKER

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	1 700 – 1 900	1 700 – 1 900
Prime rent (NOK/m²)*	2 350	2 300
Supply**	14 %	17 %
Vacancy**	14 %	15 %

Comment: Lysaker continues to face high vacancy, but the area is largely differentiated in terms of micro location and distance to the train station and central bus stop. Mustad Eiendom has launched new long-term plans for a major rescheduling of Lilleaker, with a more residential and urban structure, including the re-establishment of the CC-Vest shopping centre and a few new office buildings. Microsoft is moving to Bjørvika in May 2019, and will increase vacancy at Lysakerlokket, the most attractive part of Lysaker. Pareto Eiendomsinvest Nordic has sold Lysaker Nova to Continuum Property, and tenants will vacate the building during the year. There are several projects under development, but most of these are a greater distance from the main train station.

SKØYEN

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	2 000 – 2 400	2 000 – 2 300
Prime rent (NOK/m²)*	3 000	3 000
Supply**	15 %	18 %
Vacancy**	7 %	9 %

Comment: Skøyen is enjoying relatively low vacancy and our agents report increased demand and higher rents in the area. The area is currently subject to significant development, including a Metro stop on the new Fornebu line. Hafslund will move to Harbitz Torg and KLP is planning to demolish Dramensveien 144 to erect a new development. Construction of the high-rise Orkla HQ is ongoing and will be completed at the end of 2018. Entra is investigating a new construction at Verkstedveien 3, and Drammensveien 147, owned by Schage, will be finalised late in 2019, offering approx. 22 000 m² of office space. There are numerous plans for developing Skøyen further on under-utilised plots in the area.

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

MAJORSTUEN

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	1 850 – 2 200	1 800 – 2 200
Prime rent (NOK/m²)*	2 800	2 800
Supply**	4 %	4 %
Vacancy**	4 %	4 %

Comment: Majorstuen continues to enjoy low vacancy and good rents, but the market isn't the most active as the area is small and occupied by several large tenants who have been in the area for decades. Entra sold Middelthuns gate 29 to an NRP syndicate late in 2017. The owner of Fridtjof Nansens vei 12 is planning to demolish the current property and erect a new office building of 16 500 m², and a zoning process is currently in progress. Worth mentioning is the upcoming project to move the current metro station under Valkyrien square, and thereby create opportunities to develop new space above the current open-air rails.

CBD (VIKA/TJUVHOLMEN/AKER BRYGGE)

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	2 900 – 3 500	2 800 – 3 500
Prime rent (NOK/m²)*	5 400	4 800
Supply**	10 %	11 %
Vacancy**	8 %	10 %

Comment: This area is often referred to as CBD, or the prestige office area in Oslo. The area is currently experiencing its highest rents in decades, and rents have increased since our last report in November 2017. Vacancy is somewhat higher than in the rest of the city, mainly because of previous and new refurbishment projects that have pushed tenants around, but has decreased over the past 6 months. In Vika, several refurbishments and re-developments are currently under construction. The demolition of Ruseløkkveien 26 (VIA) has already started, along with the demolition of Ruseløkka school across Ruseløkkveien. The total refurbishment of Dronning Mauds gate 10 is on schedule.

KVADRATUREN

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	2 100 – 2 800	2 000 – 2 500
Prime rent (NOK/m²)*	3 400	3 200
Supply**	8 %	11 %
Vacancy**	3 %	6 %

Comment: Kvadraturen has become a very attractive office location as it is located between the traditional CBD and the new development in Bjørvika. Rents have increased significantly, and vacancy is currently at a record low of just above 3 %. Rents above 3 000 NOK/m² have been observed for several contracts in newly refurbished or redeveloped buildings. The Kongens gate 21 project is well under way, and although tenants are still not in place for various reasons, the project has seen massive interest from tenants. Fram will finalise Rådhusgata 5 in the spring of next year, Clemens are planning to redevelop Rådhusgata 1-3, and HAV is still working on Fiskebrygga between Havnelageret and Grev Wedels plass 9.

INNER CITY

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	2 400 – 2 800	2 300 – 2 700
Prime rent (NOK/m²)*	3 900	3 500
Supply**	4 %	6 %
Vacancy**	4 %	5 %

Comment: Rents and vacancy in the inner city are following the general trend for central Oslo, with low vacancy below 4 % and increasing rents. There are also numerous developments that will offer highly modern offices to tenants at central locations. However, most of these projects are on a pre-lease basis, and for tenants with less than 1.5 years' horizon the available space is very limited as vacancy is low. Projects are planned all over the cluster: Universitetsgata 7-9, Stortinggata 28, Urtegata 7-9, Stortorvet 7, Lilletorget 1 and Landbrukskvartalet, along with the new Government quarter, are just some of the more interesting projects that will modernise the inner city over the coming decade.

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

***See definition of supply and vacancy on page 18.*

BJØRVIKA

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	2 800 – 3 200	2 700 – 3 000
Prime rent (NOK/m²)*	4 000	3 500
Supply**	1 %	4 %
Vacancy**	1 %	4 %

Comment: With just 1 % vacant space and most of the space under construction already pre-let, Bjørvika is one of the office clusters with the lowest vacancy. Rents are also increasing as tenants can finally see an end to the continuous construction that has been under way in the area for many years, and restaurants, cafes and cultural activities create a feeling of urbaneness experienced in other parts of the city. The Munch Museum will be finalised in 2019 and open to the public in 2020. The first Barcode building in Bjørvika, currently occupied by PwC, will be refurbished and a few floors possibly added after PwC move to their new building, Eufemia, 300 m further east, next year.

NYDALEN / SANDAKER

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	1 600 – 1 800	1 500 – 1 700
Prime rent (NOK/m²)*	2 350	2 300
Supply**	4 %	5 %
Vacancy**	4 %	4 %

Comment: Nydalen stands out as a very attractive office cluster in the fringe, with low vacancy and steadily increasing rents. Despite fierce competition with Økern/Løren and Bryn/Helsfyr, the area benefits from being much more developed, with a mix of use that creates a dynamic environment for office tenants. Elkjøp's HQ and Oslo Kemnerkontor recently moved to new office buildings in Nydalsveien 18 and Nydalsveien 24, developed by Avantor. The construction of 22 000 m² office in Vitaminveien 4 by Skanska is well under way, with approx. 4 500 m^2 of vacant space ready for tenants from Q1 2019. Realkapital Corporate Finance recently sold Vitaminveien 1 to Malling & Co Eiendomsfond after a light refurbishment.

ØKERN / LØREN / RISLØKKA

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	1 000 – 1 500	1 000 – 1 500
Prime rent (NOK/m²)*	2 200	2 200
Supply**	23 %	21 %
Vacancy**	4 %	3 %

Comment: This is the largest transformation area in Oslo, with many new office and residential projects. Atea has leased 9 000 m^2 of the next phase in the Hasle Linje project, comprising 16 000 m^2 in total. The building will be finalised Q1 2020, along with Skanska's Lørenveien 65, a 19 500 m^2 office tower on the other side of the railway that has been initiated on speculation. Nordea Liv has just acquired a development project with existing cash flow at Økernveien 119-121 and Eikenga 31-33. OBOS will kick-start office developments along Ulvensplitten, as they have decided to move from Hammersborg to Økern together with AF Gruppen through the "Construction city" project in 2023.

BRYN / HELSFYR

	Per May 2018	Per May 2017
Normal rent (NOK/m²)*	1 600 – 1 800	1 500 – 1 700
Prime rent (NOK/m²)*	2 350	2 200
Supply**	19 %	23 %
Vacancy**	10 %	10 %

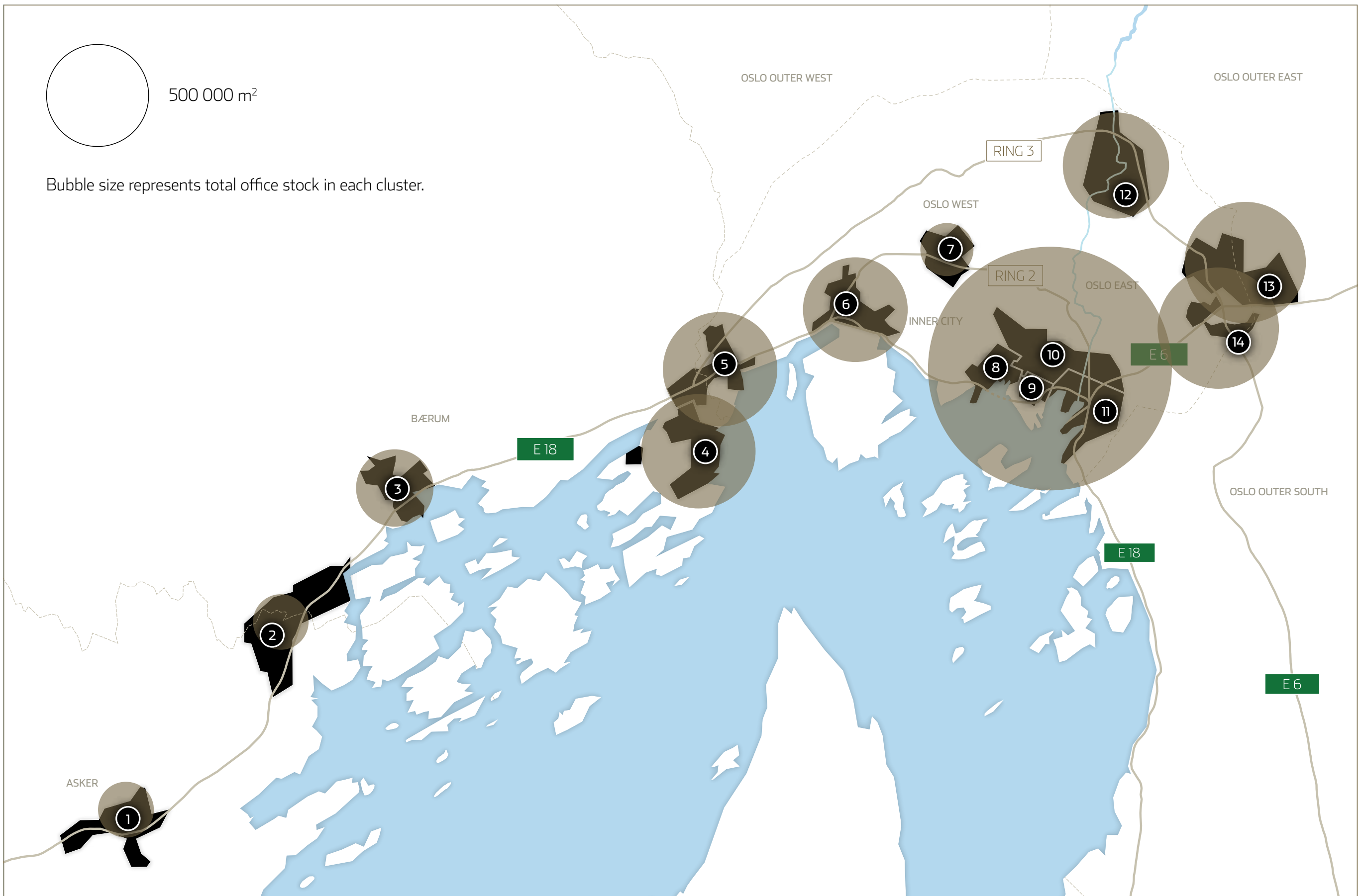
Comment: Vacancy is decreasing, and several new projects are under construction. Fyrstikkalléen 1-3 is now fully let as Statens Vegvesen signed the new lease agreement in the first days of May, and the project is now for sale as a forward deal. Valle Wood and Østensjøveien 16 have also been initiated. At Bryn, both Eskalator and the new project Østensjøveien 44 are awaiting anchor tenants to initiate construction. NAF recently divested Østensjøveien 14 and will move to the city centre by the end of this year. The planning authorities have taken a very positive view of increased housing around Bryn Metro station. Entra is also positioning at Bryn, as they recently acquired Nils Hansens vei 20 for future development

**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**	TREND	△ PRIME RENT PAST 12 MONTHS
1	Asker	1 500 – 1 700	2 150	→	0 %
2	Billingstad	1 250 – 1 500	1 800	→	0 %
3	Sandvika	1 500 – 1 700	2 150	→	0 %
4	Fornebu	1 400 – 1 600	1 950	↘	-3 %
5	Lysaker	1 700 – 1 900	2 350	→	2 %
6	Skøyen	2 000 – 2 400	3 000	→	0 %
7	Majorstuen	1 850 – 2 200	2 800	→	0 %
8	CBD	2 900 – 3 500	5 400	↗	13 %
9	Kvadraturen	2 100 – 2 800	3 400	↗	6 %
10	Inner city	2 400 – 2 800	3 900	↗	11 %
11	Bjørvika	2 800 – 3 200	4 000	↗	14 %
12	Nydalen / Sandaker	1 600 – 1 800	2 350	↗	2 %
13	Økern / Løren / Risløkka	1 000 – 1 500	2 200	→	0 %
14	Bryn / Helsfyr	1 600 – 1 800	2 350	→	7 %

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.

OSLO CITY

Malling & Co Næringsmegling has been commissioned by Entra to lease approx. 30 000 m² office space in Oslo City.

STAVANGER

Optimism becomes realistic with a booming oil price

At the time of writing this report the crude oil price is just below USD 78 per barrel, and analysts are seeing that prices will continue to rise. As oil investments have been expected to increase this year after several years with reductions, an even higher oil price could also trigger further investments. This increase should be warmly welcomed in Stavanger as according to our latest estimates almost a quarter of the office space at Forus is currently vacant. That being said, a rental increase in office clusters with high vacancy is believed to be less likely in the short term, as competition to fill existing stock with tenants and secure a good cash flow will be fierce. Residential prices have increased around 3 % since December 2017. According to NAV, unemployment in Stavanger was at 3.2 % in April, down 33 % since last year. In terms of office demand and development, Stavanger city centre is still the main area of focus for both developers and tenants.

Office letting market

› Compared with the figures from our previous report, vacancy in Stavanger has increased somewhat to 14.5 % for the region as a whole. Vacancy at Hinna has significantly reduced and is down to 10 %, while Forus stands out as the area with the greatest vacancy issues with a vacancy of 24 % measured in April 2018. The significant increase since the last report is due to Statoil vacating almost 60 000 m² in Vestre Svanholmen 1 and Vassbotnen 23, and a few other office buildings being vacated.

› Despite the fact that Forus is heavily affected by high vacancy, the vacancy is focused around the largest assets. Twelve buildings at Forus have more than 3 000 m² vacant, and the total vacant space is in these building amounts to 165 000 m², or 75 % of the vacancy in this cluster. Leaving these assets out of the vacancy-equation reduces the overall vacancy for Stavanger from 14.5 % to 8.5 %.

› Market rents at Forus are difficult to estimate with accuracy, as both tenants and landlords are being highly creative in terms of tenant initiatives. In general, shorter contracts are cheaper, as landlords expect rents to increase as activity within Oil & Gas sector accelerates.

› Compared to our previous report, we have adjusted rents at Forus down somewhat to reflect market sentiment in this high vacancy area, and likewise adjusted rents in the inner city upwards, as both availability and demand for newer, high quality space is increasing. Our top rent estimate in the prestige segment is NOK 3 000 per m².

› Greater activity and the expiration of lease contracts in the next 24 months will create interesting market activity and hopefully create a better understanding of the rental market.

› Assuming existing office stock remains stable and we observe moderate growth, our analysis suggests that vacancy will have returned to normal levels in 2022. However, the highly cyclical and volatile Oil & Gas sector creates uncertainty regarding future demand.

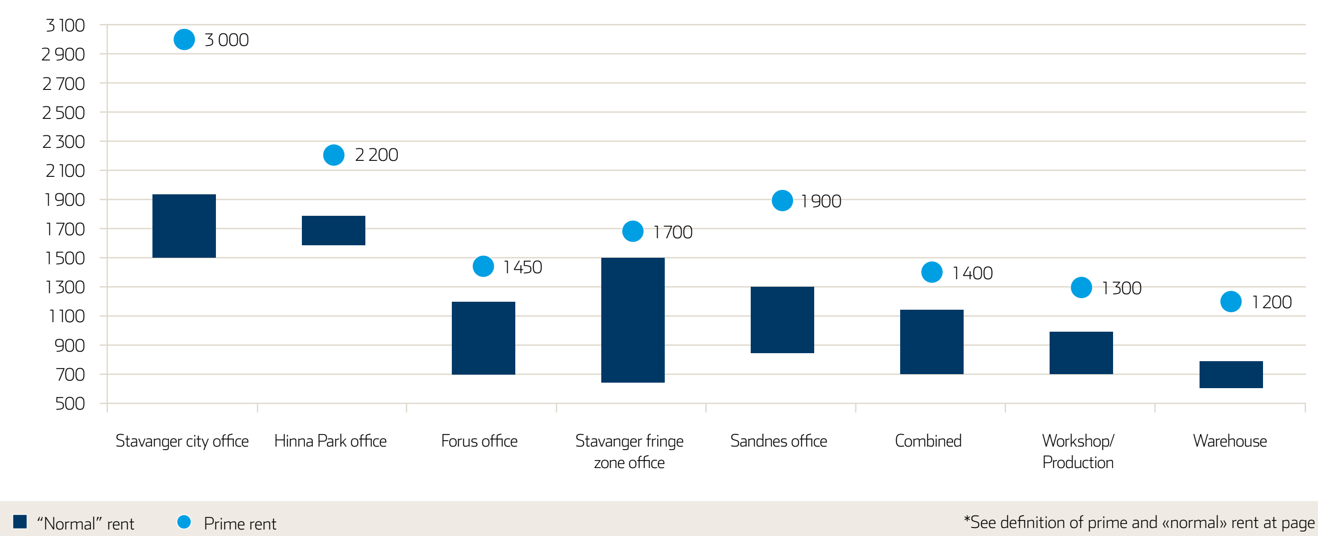
Some new lease contracts

- Law firm Kluge has signed a lease agreement in Herbarium in the city centre together with Stavanger municipality, and will leave Laberget 28 in favour of Stavanger city centre.
- Bouvet has leased 5 000 m² in Kanalpiren (Laberget 24-28) at Hinna Park.
- National Oilwell Varco has signed a lease agreement for 3 000 m² in Vestre Svanholmen 14.
- NAV and BI Business School have signed lease agreements in Byfjordparken.

New developments

- SR-Bank's new HQ project is currently ongoing, and will be finalised next year.
- Sola Airport Arena (3 000 m²) is scheduled to be finalised in October (Atea is the tenant).
- Construction of Byfjordparken (tenants BI Business School and Stavanger municipality) is currently under way. Completion of the first stage will be in late 2018, and June 2019 for the second stage.
- Domkirkeplassen 2 is currently being completely renovated to bring the property up to modern standards.

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

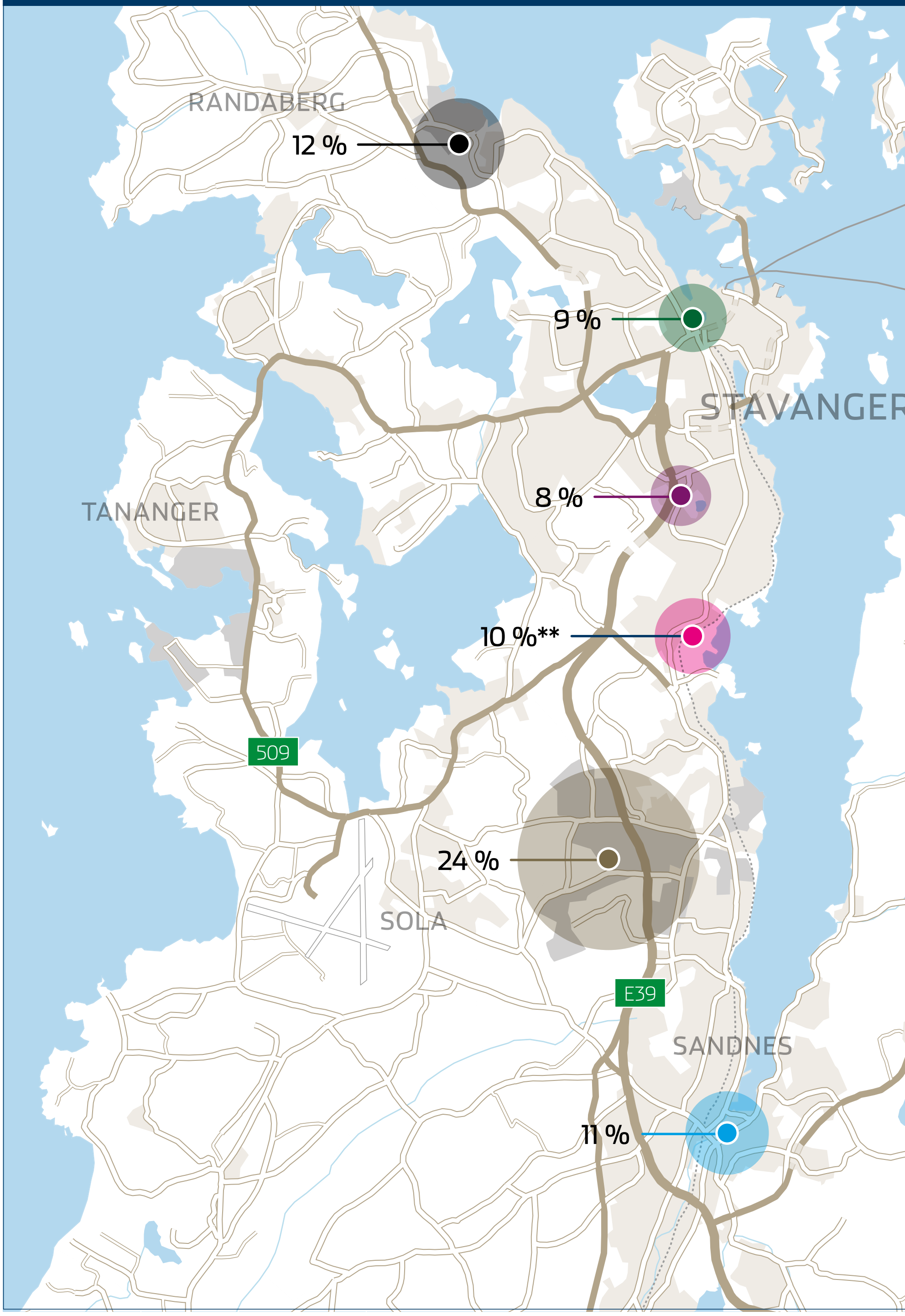
Investment market

We have registered just below NOK 1.0 billion in transaction volume for the year to date, divided across seven transactions (above NOK 50 million). This is lower than that observed in the same period for the past four years, but the number of transactions is the same as last year. The very large transaction of the Statoil HQ at Forus, which we were potentially awaiting in our previous report, has yet to materialize. The increased activity within the Oil & Gas sector has investors returning to the region, and the pipeline in the transaction market is looking better than it has for several years.

Major recent transactions in the region:

- Three mixed-use properties have been sold from a group of local investors to Smedvig Eiendom.
- The 41 % stake in Øglænd kvartalet, held by Sparebanken Vest after seizing control from Otium, has been sold to The Property Group.
- Through their development company Cartas, Rexir has acquired an 11 000 m² plot of land for the development of student housing located on the campus of Stavanger University (UiS). The 250 planned units will be situated opposite the area set aside for the new hospital.

OFFICE VACANCY



TOTAL OFFICE VACANCY*	15 %
TOTAL OFFICE SUPPLY*	16 %

* Advertised office space at FINN.no of the total office stock in the Stavanger area available within 12 months.

**Hinna is a small area in terms of total stock, resulting in very high vacancy figures in relative terms.

- Forus
- Dusavika
- Stavanger city
- Sandnes
- Hinna
- Stavanger fringe zone

Source: Malling & Co/FINN.no

DRAMMEN

–

Our Drammen office continues to experience a high level of activity in the region, although at a slightly slower pace than experienced over the past two years. The city is located less than 40 km west of Oslo, and can be categorised as something between a city and a suburb of Oslo. The city capitalises on its seaside location and role as a hub for both railways and the main road systems connecting all major cities and densely-populated areas on the west side of Oslo. The total stock of 1 300 commercial properties in the Drammen area (including Nedre Eiker and Lier) comprises around 750 000 m² of office space, 600 000 m² of retail premises and 800 000 m² of industrial/logistics/mixed-use premises. Vacancy in Drammen is around 8 % for office space and as low as 4 % for industrial/logistics premises.

The rental market

Both among private and public players there is a big desire to invest in the "best and highest" utilization properties in the Drammen region, and there are consequently a significant number of development processes impacting upon supply and demand in the market for commercial real estate.

Office

The supply side is increasing, with several large office projects planned for the coming years. Among these projects is the large-scale development around the railway station at Strømsø. New increased height limits have increased possibilities for sound economic development and denser construction around the central transport hub of the city. Many transformation processes are also taking place on the Bragernes side of the river, where old and inefficient office buildings are being converted into new apartment projects. For the office stock we have therefore observed that various market mechanisms can counteract each other, as new office projects require large anchor tenants before they can be realised. The 'Office destination Drammen 2025' project, initiated by the major Drammen developers together with the Chamber of Commerce, is continuing its efforts to create a collaborative platform for marketing Drammen as an attractive office city for large companies currently located in other regions. The new planned office projects will be large enough to compete with offerings in Greater Oslo, as well as serve the several large companies looking to establish regional offices in Drammen.

Logistics

Several relocation processes are currently under way due to the new hospital being established at Brakerøya. For example, ABB has entered into a lease agreement for a 3 600 m² new industrial building in Kobbervik Business Park. The development areas around Liertoppen, Kobbervikdalen and Herstrøm are seeing increased activity from interested parties due to the transformation processes in the city areas affecting space-demanding industrial activities. We also observe increased demand from Oslo-based companies seeking mixed-use properties strategically positioned along the western corridor with immediate access to the main transport arteries for beneficial distribution and traffic flow.

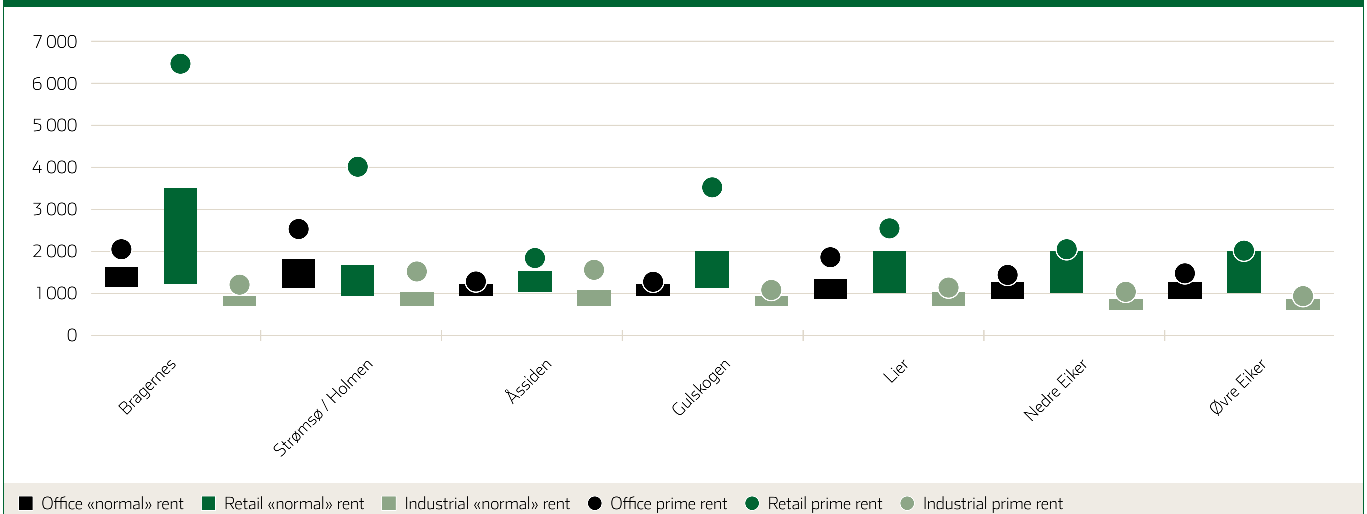
Retail

Optimera/Monter entered into a lease agreement for a 4 500 m² newbuild at Liertoppen. This was also a consequence of the new hospital being established. 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 warehousing market. Some players in the retail segment are showing interest in such sites, but willingness to pay is relatively low. Major refurbishments 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.

The transaction market

The activity level in the transaction market at the end of 2017 was very good, but the start of 2018 has been affected by the limited number of new large properties available. The interest from financial investors and private investors from other regions is great, particularly for mixed-use properties close to Drammen city centre, but also in clusters in the fringe areas of Drammen. The vacancy for mixed-use properties in the region is around 2 %, making the segment very attractive for investors. As we have mentioned in previous reports, a number of large private and public projects previously in the planning phase have now been firmed up and construction is under way. The projects cover a wide variety of segments, and the development of new rail links and stations, the new hospital at Brakerøya, the new hotel – Quality Hotel River Station – and the adjoining Drammen Station Business Centre around the train station are now taking shape. These projects have been developed by Bane Nor Eiendom. The same area also features Torgeir Vraas Plass 5, which has been approved as a 14 000 m² office project over

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



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

Source: Malling & Co

10 floors. Proximity to rail links and the airport express train is a tangible competitive advantage. These projects should prove very attractive for investors should they come to market fully let. We have also recently observed the sale of several other properties in the area. New investors are establishing themselves in the area, and positioning themselves for the future developments ahead. We are also seeing the same tendencies in the axis from Bragernes Torg to Brakerøya, in the direction of the new hospital. We estimate the prime office yield in Drammen to be 5.00 %, and the normal office yield to be 6.25 %.

Demand for residential projects close to the city centre is large, despite the fact that the high price growth has now passed – this applies to both properties with temporary cash flow, and "greenfield projects". For larger properties, we see good interest in both office space and mixed-use premises. While office properties must tick all the right boxes, mixed-use properties remain in demand even with shorter leases or fringe zone locations.

Land

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

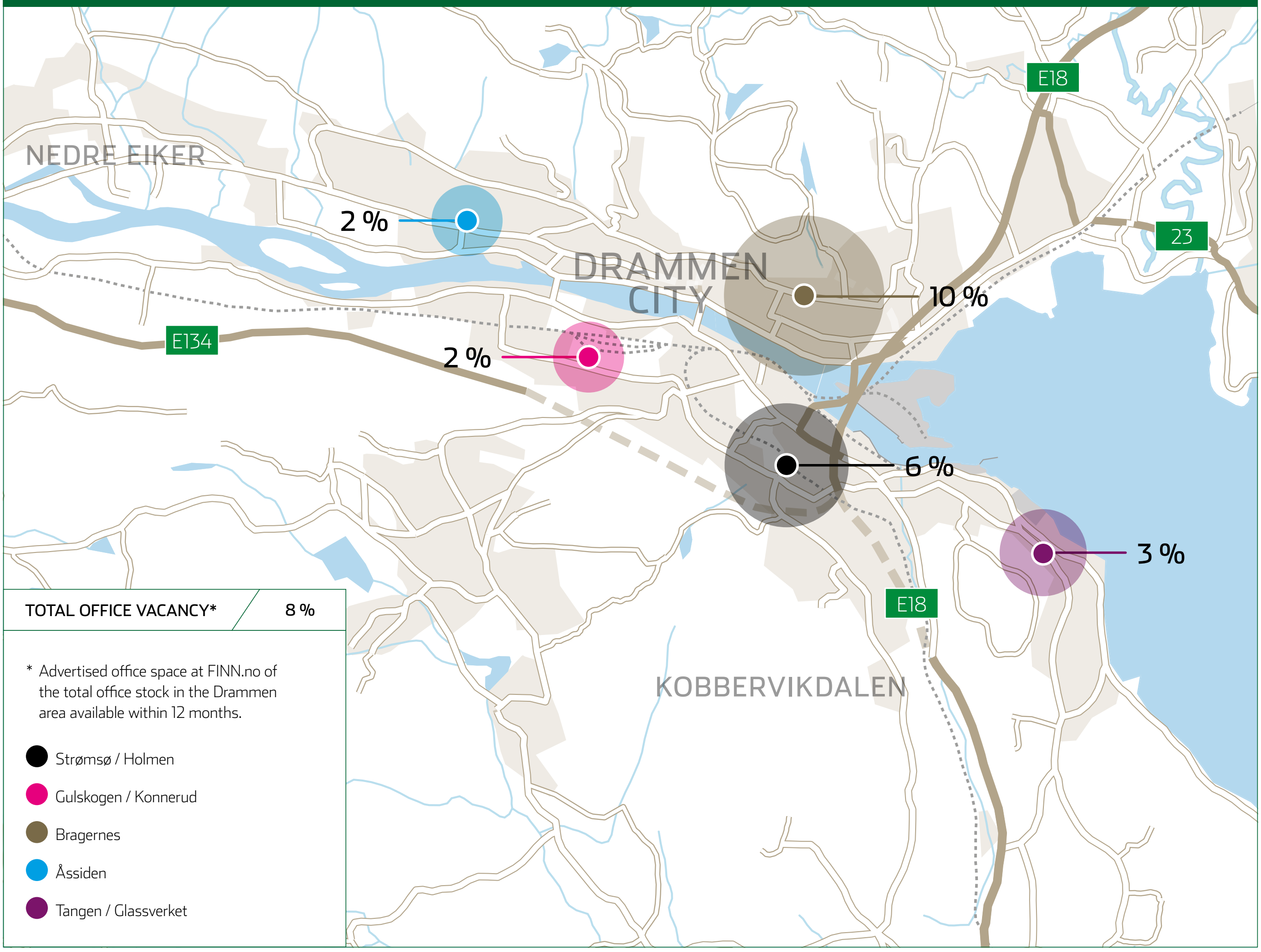
Latest transactions:

- Drammen Industribygg is a development project at Bangeløkka, a block of 20 000 m² in C.O Lunds gate, a planned 8 000 m² building sold from TPH II AS to Realkapital
- Tollbugata 5, 7, 10 and 13 is city centre building close to Strømsø Torg totalling 7 100 m² sold from a group of local investors to investors primarily based outside of the region
- Kobbervikdalen 87 is a mixed-use property of 1 221 m² sitting on a plot of land of 4 490 m² sold from Bomasa Holding AS to Brække Holding AS
- Stasjonsgata 64, 72-74 and Vestre Brugate 5 are an office and apartment building in Hokksund centre of 3 800 m² sitting on a 5 000 m² plot of land sold from Eiker Eiendomsutvikling As to a local investor group

Latest lease agreements

- Bragernes Torg 2A, an office building owned by Starwood will see BDO move into 1 600 m² in December 2018
- Drammen Kommune Eiendomsutvikling has let out a new build of 3 500 m² mixed-use premises in Holmestrandsveien 117 to ABB Norge on a 10-year contract commencing from February 2019
- Gjellebekkstubben 3 AS has let out a new build of 4 850 m² retail premises in Gjellbekkstubben 10 to Optimera/Montér on a 13-year contract commencing from February 2019

OFFICE VACANCY



Source: Malling & Co/FINN.no

KONGSBERG

Malling & Co Drammen has been commissioned by Stor Oslo Eiendom to lease 10 000 m² centrally located retail space under development in Kongsberg.

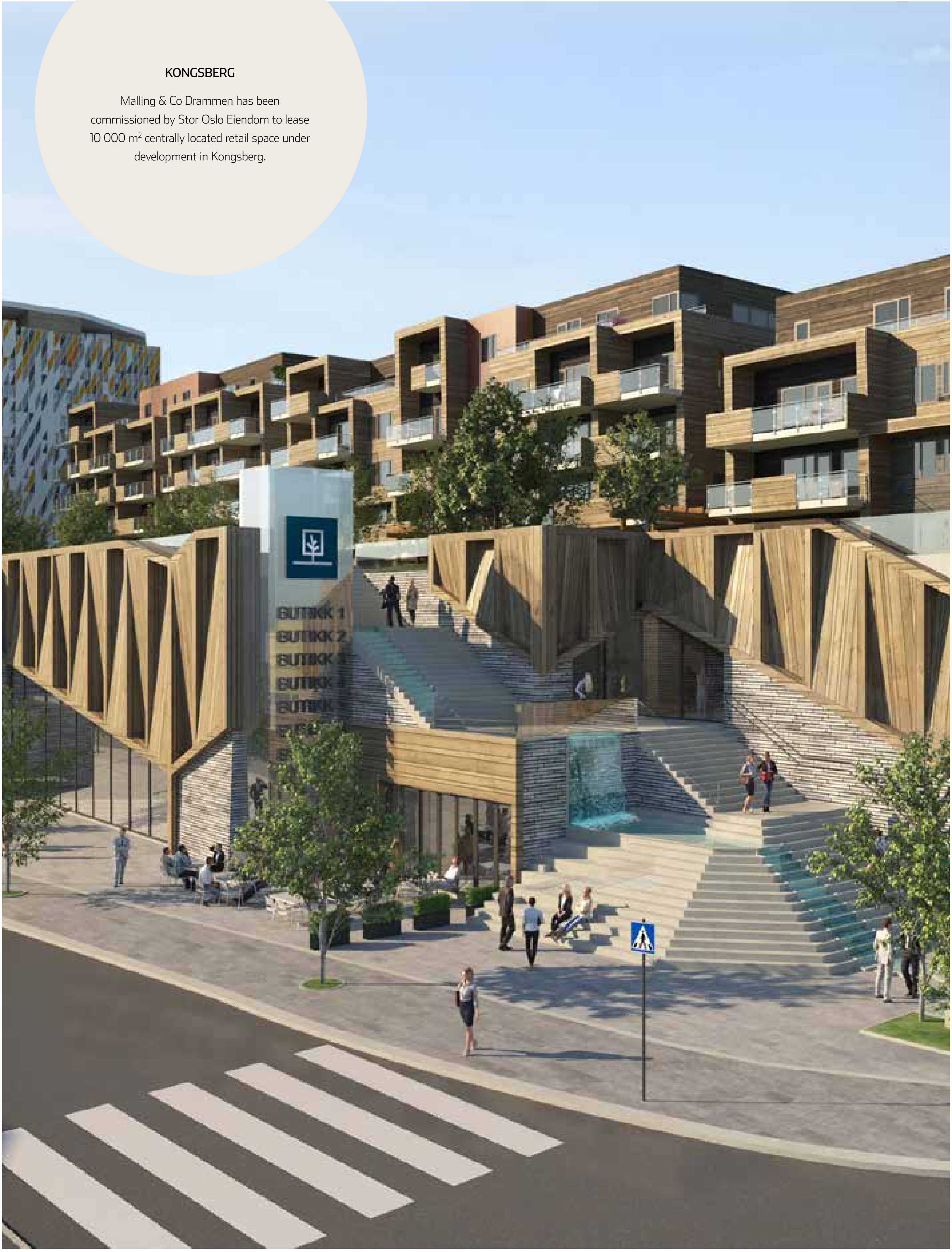


Illustration: RIFT AS

DRAMMEN CITY CENTRE

Malling & Co has been commissioned by Bane NOR Eiendom to lease 13 000 m² office space in Drammen city centre. The project will be finalized in Q1 2020.

Illustration: NSW ARKITEKTER AS and RIFT AS

OSLO RETAIL

Changes ahead

The retail volume index has exhibited a rather flat trend over the past four years. Traditional retail is under pressure from an increased share of online shopping and changing consumer trends pushing expenditure towards leisure, entertainment and food and beverages. Internet sales in Norway have been growing 15 % p.a. since 2013, and are expected to continue this strong growth. Amid all this the Norwegian economy is booming, and in Oslo in particular we are currently observing a booming employment market and the highest GDP per capita in Norway. The fear of falling residential prices discussed in our previous report has almost been extinguished as prices have increased since January. We may also expect increased consumer spending as many indicators point towards a strong economy and increased purchasing power.

Millennials are shaping retail trends

Millennials, usually defined as people born between 1980 and 2000, are shaping the retail segment and two important trends. They expect seamless integration between online and physical shopping, and are more focused on the shopping experience and access to products, rather than the physical product itself. These trends are shaping high street retail in two specific ways: first, it has become more difficult to find tenants willing to pay maximum rent for very large units; and second, traditionally successful retailers are struggling to meet customers' new requirements. Brands like Nille and Tilbords are recent examples of bankruptcies caused by reductions in sales. According to DIBS, shoppers over the age of 45 have also significantly increased their use of online shopping over the past five years. Surveys also reveal that parents are learning shopping habits from their children, pushing the increased use of online shopping onto shoppers who previously had less online shopping experience.

Food & beverages and leisure increasing

As previously reported, we are also observing increasing demand for premises for the food and beverages segment (F&B). New concepts are typically replacing traditional retailers in both secondary and prime locations, and we are seeing increased focus on incorporating F&B concepts into new retail developments among developers. According to Statistics Norway, the number of food and beverage companies in Oslo and Akershus increased by 25 % from 2007 to 2016. This increase is expected to continue as demand from tenants remains strong. Operators are searching for good bar locations in particular.

Actions to reduce city traffic

The process of transforming the streets of central Oslo into pedestrian-only streets is under way, and so far many retailers report that restrictions on parking and increased road tolls are hurdles currently limiting sales within the city centre and boosting sales in the fringe. The process of restricting the use of vehicles in the city centre is planned to continue over the next few years, and the total effect of this on future high street shopping is difficult to estimate.

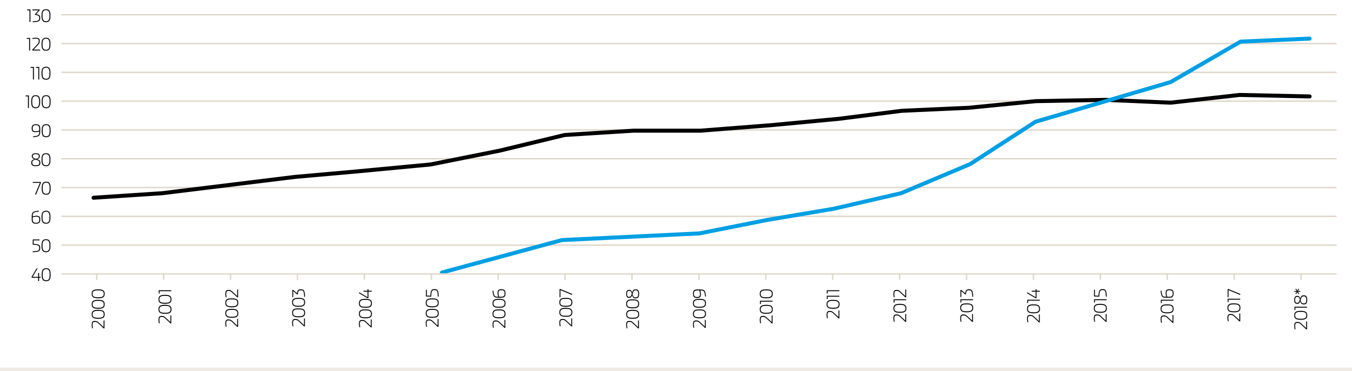
Stable rents

The challenging environment for over-the-counter shopping is generally applying downward pressure to rents. However, high street rents remain stable for attractive locations, and we see that international brands and concept stores are still searching the market for suitable locations in which to open. As retail in general is under pressure, top rents remain rather flat. But despite lower rents on larger units, top rents are still obtainable on smaller units with good exposure and footfall.

Examples of ongoing developments and openings in high street retail

- Valkyrien shopping centre, a 6 000 m² premises at Majorstuen, is under construction. & Other Stories will open a store here in 2019.
- Lille Grensen 7 will soon be finished, and WayNor recently opened a flagship store here.
- Leasing is ongoing in Kongens gate 21.
- Karl Johans gate 14 has a new H&M flagship store under construction.
- Christiania Glasmagasin has opened a flagship store where the former Moods of Norway flagship store was located in Hegdehaugsveien.
- Sport outlet will open a new store in the former Zara premises.
- Normal, a low-price chain store, has opened in Grensen 17.
- New tenants in Nedre Slottsgate: Moncler, Valentino and Jimmy Choo.
- New F&B openings:
  - A new food concept will open at Torggata Bad on 1 December 2018
  - Beijing 8 has opened branches at Tjuvholmen and Steen & Strøm Foodcourt
  - Pink Fish will open in Grensen 17

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



*As at March 2018

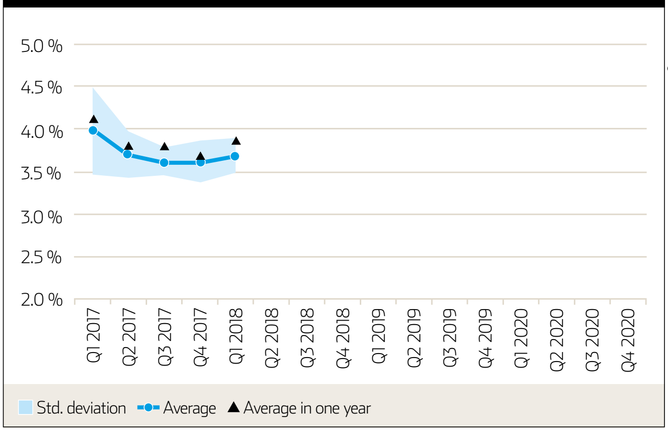
Source: Statistics Norway

JESSHEIM

Malling & Co has been commissioned by Conceptor Eiendom AS to assist with the letting process of 13 000 m² of retail space at Jessheim.

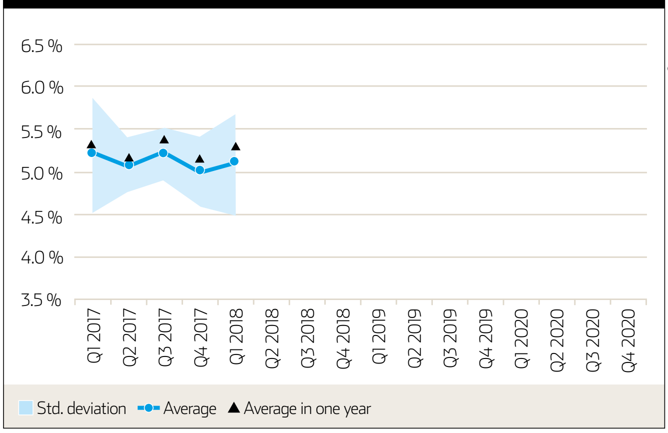
Illustration: Radius Design AS

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME RETAIL



Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL RETAIL



Source: Malling & Co

INDUSTRIAL & LOGISTICS

EVERYBODY WANTS A PIECE OF THE PIE

The last segment to find the bottom of the yield curve

The transaction market for core logistics properties continues to be a hot commodity among investors, despite the fact that we have seen the prime yield drop another 10 bps since our previous report, down to an estimated 4.90 %. However, our survey-based investigation of the yield levels indicates that this is the floor, and we will probably see an increase of 5–10 bps in a year's time. We do however find the interest in the logistics segment to be a fascinating example of herd mentality. The number of industrial transactions for the year to date is 22, comprising around NOK 11.1 billion in total, of which logistics comprises NOK 7.1 billion. "Everybody" seems to agree that logistics is the next "super profit" segment due to a shift from traditional retail to e-commerce, or the latest trend, omnichannel retailing – both of which place entirely different requirements on the supply chain. But very few are able to produce tangible evidence of which areas will constitute the most prosperous logistics hubs in the Greater Oslo region, let alone what the long-term implications are for current properties.

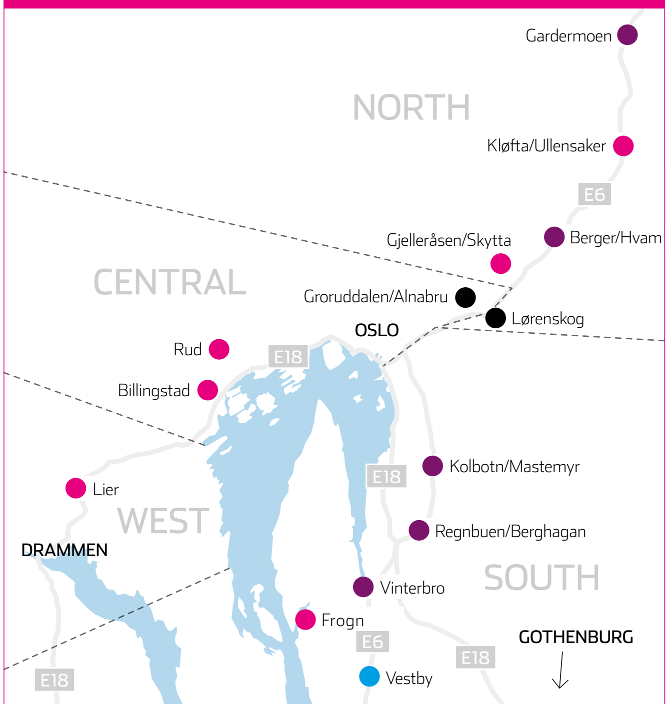
The flat rent development continues, but with low vacancy

Following up on our point that "everybody" is looking for logistics exposure, the vacancy in our defined logistics clusters and areas in Greater Oslo is 6.1 %. From all perspectives this is a vacancy level bordering on structural vacancy. Further division into our four defined sub-divisions shows a vacancy of 5.3 % in the Northern region, 8.1 % in the Southern region, 2.5 % in the Western region and 7.4 % in the Central region. Yet we are unable to find any evidence of the low vacancy levels creating upwards pressure on rent levels. On the contrary, most established logistics hubs continue to see a flat development in rents. We believe this is due to the characteristics of the logistics market, in which many properties are custom built for large tenants from the ground up, on attractive vacant plots of land where economies of scale play a significant role. This is contrary to office vacancy/rent dynamics, where the most attractive product in the most in-demand area is Oslo city centre, a place where plots of land are by and large already developed and opportunities for limitless expansion are few. So although we are seeing many companies expanding their current premises or developing new sites, supply remains ample and rent levels continue to be a factor of the price of construction and financing terms. Our rent estimate for prime logistics spaces remains firm at NOK 1 250 m²/year. If investors are to see a significant change in rent levels in the short to medium term, this will be for smaller units in very central areas where mixed-use properties see rents from the lower end of the spectrum increasing to make a new rent level floor. In the long term, new supply chain requirements should mean higher rents for most properties, as observed in other more developed logistics clusters in Europe – but determining exactly how, when and where will require more research and analysis. Our preliminary belief is that the most central areas adjacent to Oslo city centre already experiencing high demand with very little available space will continue to be the key hubs close to which logistics operators and owners will have to be located in order to gain a competitive advantage over second tier locations.

Mapping of the Greater Oslo logistics market

Our extensive mapping of the logistics market in Greater Oslo, and our creation of a database of all the logistics clusters and large stand-alone properties, continues to be refined and developed, and we plan to utilise our findings to answer the questions regarding the future of logistics raised above. The estimated total stock of warehouses and logistics properties in our defined areas comprises 2.64 million m² gross lettable area (GLA), with a total identified lot size of 7.11 million m². This property mass will develop and form the legacy upon which the future of the logistics market in the Greater Oslo region will be based and develop.

LOGISTICS CLUSTERS IN GREATER OSLO



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

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

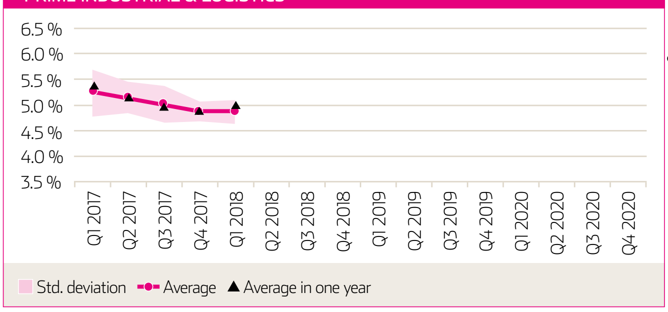
Special fit-outs for requirements not covered in a standard building will be added to the rents above based on an annuity calculation, with an interest rate typically within 6-8 %. The rent is set based on tenant solidity and usefulness for other tenants. The annuity length is based on the lease length.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

Source: Malling & Co

HYLKJELIA 10

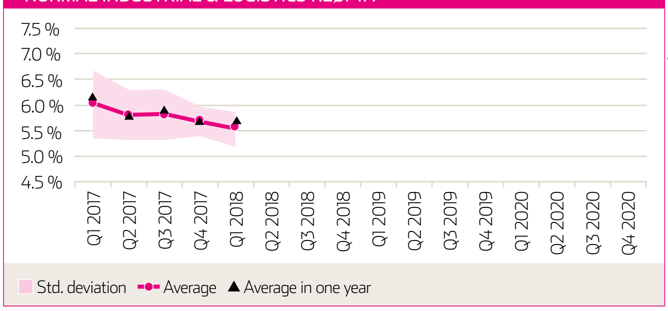
Malling & Co Corporate Real Estate has advised DnB Markets on the divestment of Hylkjelia 10 in Bergen, a 21 000 m² warehouse and distribution centre for Rema 1000.

TRANSACTION SURVEY NET YIELDS ON MARKET RENT
– PRIME INDUSTRIAL & LOGISTICS



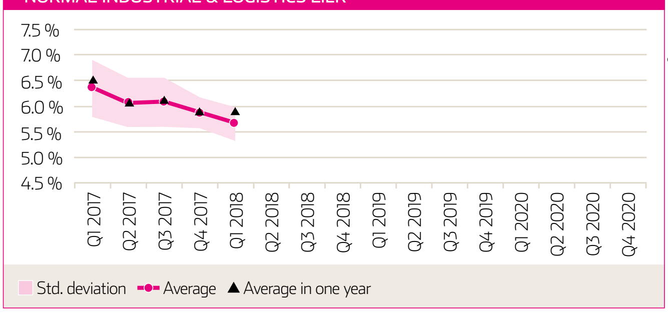
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT
– NORMAL INDUSTRIAL & LOGISTICS KLØFTA



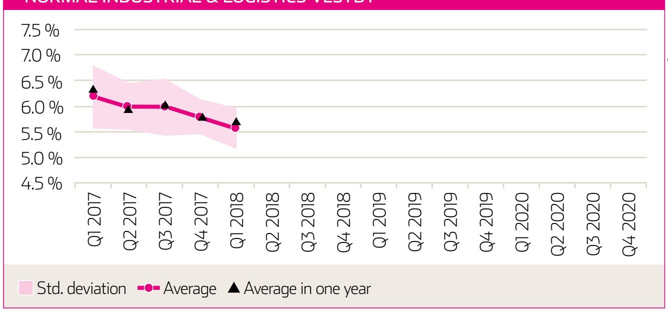
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT
– NORMAL INDUSTRIAL & LOGISTICS LIER



Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT
– NORMAL INDUSTRIAL & LOGISTICS VESTBY



Source: Malling & Co

THE TRANSACTION MARKET

FULL STEAM AHEAD OR LOSING STEAM?

So far this year we have registered a total transaction volume of NOK 27.3 billion*, divided across 79 transactions*. The active pipeline of pending transactions and properties waiting to be launched in the market is almost on par with what we observed last year. But the market is ailed by the lack of good available assets. In an increasing number of cases, potential sellers looking for further yield compression than what has already been observed over the past few years, are now met by investors unwilling and/or unable to entertain. This distance between seller and buyer affects the availability of properties as well as the likelihood of a transaction being completed. In our view, these two factors will be the two main show stoppers should the market pace observed after 2017 – where the Norwegian market set a new record for the number of transactions in a single year with over 300 – slow down. The pipeline of mandated properties for sale is looking very good. Should investors see eye-to-eye with willing sellers who acknowledge the end of the yield compression, which we believe will happen, Norwegian CRE will be well on the way to achieving our full-year estimate of NOK 80–90 billion for 2018.

Bonds vs banks – who is there at the end of the year?

Throughout 2017 we registered the increasing availability of financing through both banks and the bond market. The shift from 2016 to 2017 heralded the return of the banks after a period in which the bond market held a very high share of the commercial real estate financing. In our view, 2018 will be the year in which this symbiosis completes a full cycle and the bond market reduces the new exposure, while the banks retain their momentum. Regulatory requirements have been refined to encompass a heavier balance sheet weight on assets which value is directly linked to a single cash flow source. The total combined cost of financing, interest rate and margin remains at a low level, but as interest rates have increased, margins have been reduced. Margins have not been reduced enough to completely counteract the interest rate increase, but enough to make a difference and for investors to keep the yield gap under pressure.

Office space leads the way while residential plays catch up

Office space is the primary segment with a 40 % market share, slightly below the long-term historical average of around 45 %. While Oslo is still the main market, there is still high demand for prime office properties in second and third tier cities. From our analysis and discussions with investors, we regard the office segment as a high demand segment going forward, with fierce competition between buyers looking for attractive properties.

As we have covered in our section dedicated to the segment, industrial premises are still highly sought after, but we believe the segment is due for a recalibration of the exposure investors are truly looking for in logistics properties. Everybody might want it, but few seem to know what exactly to look for from a long-term perspective.

After a period of decreasing residential prices, both nationally and especially in Oslo, we are once again observing strong growth in the residential segment. A surprisingly strong price growth in Oslo has put the city well on the way back to its previous heights, and the price increase of 2.4 % observed in April was the strongest for the month to be seen in the past ten years. While prices are still 3.8 % lower than 12 months ago, we expect to see Oslo prices back on par by the end of the first half of 2018. This will in turn mean that the cool down for residential projects could turn into renewed interest and an increase in conversion opportunities. An increase in conversion will put further pressure on the available office stock at a time when rents are increasing and are expected to continue to increase as both vacancy and supply are low.

Prime office yield level is up

Based on our survey-based investigation of the yield levels, we estimate the prime office yield to be 3.75 %. Although this is an increase of 10 bps since our last report, we believe it is still in line with our expectation that we will see a yield increase less than the general interest rate increase currently priced in the interest swap forward market. Our survey results show an expectation of another 15 bps increase 12 months out, which at a total of 25 bps for the period is also still less than the general interest rate increase currently priced in the interest swap forward market.

The estimate for normal properties has remained stable since our last report – 5.10 % for both the western fringe represented by Lysaker, and eastern fringe represented by Helsfyr. However, the outlook for the two fringe areas going forward has seen increased uncertainty among investors. While taking on different developments, although in smaller increments of change, Helsfyr has attracted much more positive attention from investors over the past year, with a total decrease of 20 bps and an expectation of a flat development for the coming 12 months. We have seen a smaller decrease at Lysaker over the same period with only half the bps decrease of Helsfyr, and expect a yield increase of 5–10 bps over the coming 12 months. Our own analysis identifies the merits on which investors are basing their distinction between the two areas, and that the eastern fringe could experience a more positive trend in the short term. However, the positive drivers for the western fringe in the medium term, with an increasing oil price and the increased activity in the Oil & Gas sector coupled with the confirmation of the planned Metro line, especially in the corridor from Skøyen to Fornebu, should work to the benefit of assets with a medium to long contract duration.

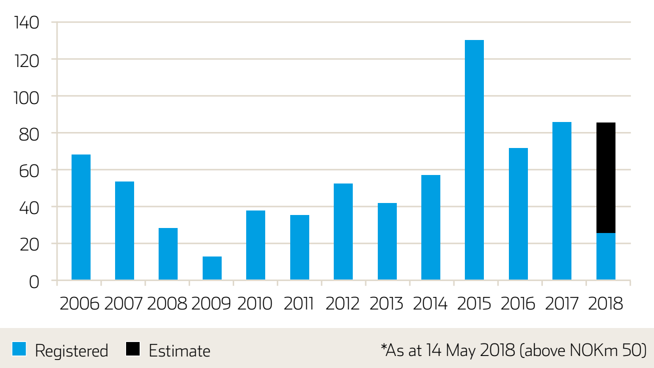
SELECTED MAJOR TRANSACTIONS 2018

PROPERTY (ADDRESS/NAME)	TENANT	SELLER	BUYER	SIZE (NOK MILLION, PROPERTY VALUE)
Destilleriveien 1	Arcus	Canica	Storebrand	1 700
Brobekkveien 80 / Alf Bjerckes vei 14	Multiple	Partners Group	Ragde Eiendom	1 170
Vestfjordgaten 4	Norconsult	Norconsult Holding	Oslo Areal	950 Est.
4 Norsk Gjenvinning plants	Norsk Gjenvinning	Norsk Gjenvinning	Ragde Eiendom	696
Dragonveien 51	Staples	NRP	Ragde Eiendom	430
Kongsgård Alle 20	Kristiansand Kommune	SBB	Aviva Investors	416

Source: Malling & Co

*As at 14 May 2018

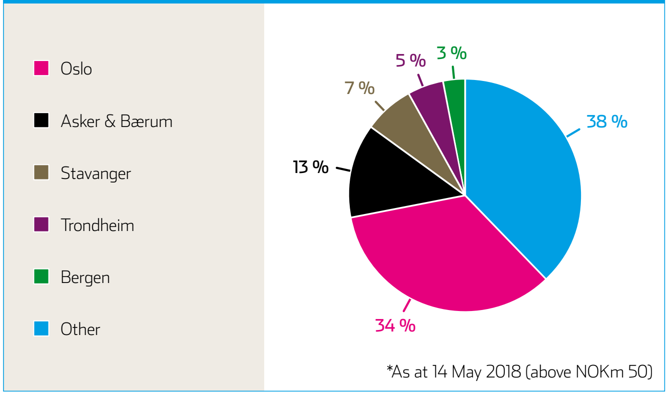
VOLUME DEVELOPMENT IN NOK BILLION* (TRANSACTION VOLUME LARGER THAN NOK 50 MILLION)



*As at 14 May 2018 (above NOKm 50)

Source: Malling & Co

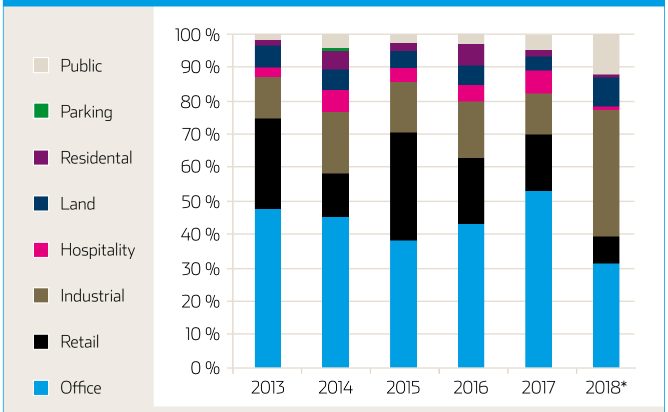
REGIONAL SPLIT OF THE TRANSACTION MARKET 2017* BY VOLUME



*As at 14 May 2018 (above NOKm 50)

Source: Malling & Co

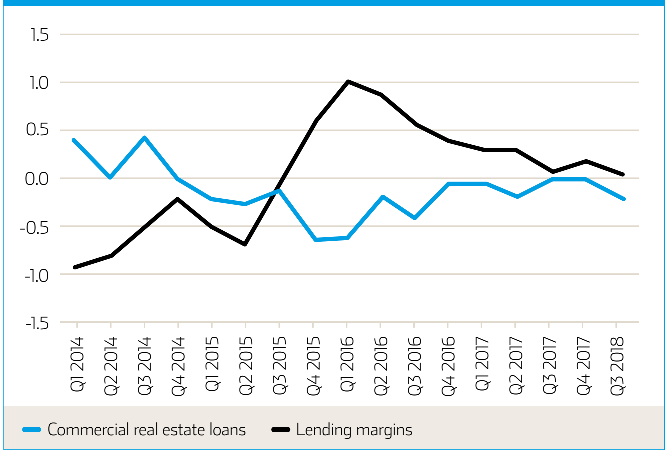
PERCENTAGE SPLIT TRANSACTION VOLUME BY SEGMENT



*As at 14 May 2018 (above NOKm 50)

Source: Malling & Co

FINANCING CONDITIONS (NET SURVEY RESULTS 3 MONTH CHANGE)



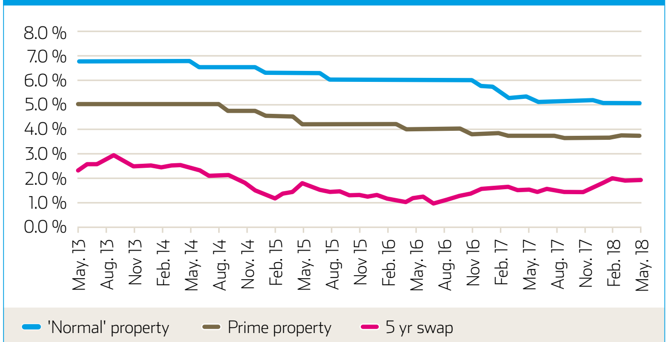
Source: Norwegian Central Bank Lending Survey

NET PRIME YIELD IN SELECTED EUROPEAN CITIES

CITY	PRIME YIELD (OFFICE)	△ FROM LAST REPORT
Munich	2.90 %	▲ 0 bps
Paris	3.00 %	▲ 0 bps
London	3.25 %	▲ 0 bps
Stockholm	3.50 %	▲ 0 bps
Milan	3.50 %	▲ 0 bps
Helsinki	3.70 %	▲ 0 bps
Amsterdam	3.75 %	▼ 25 bps
Vienna	3.75 %	▲ 0 bps
Oslo	**3.75 %**	▲ 10 bps
Copenhagen	4.00 %	▲ 0 bps

Source: Malling & Co / Savills

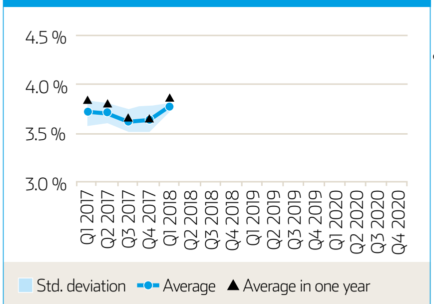
YIELD DEVELOPMENT PAST 5 YEARS



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

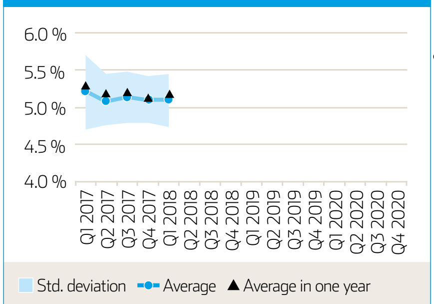
Source: Malling & Co/DNB Markets

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME OFFICE



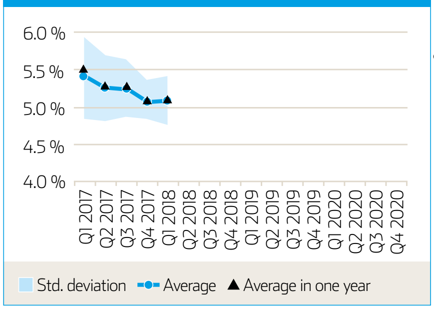
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL OFFICE LYSAKER



Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL OFFICE HELSFYR



Source: Malling & Co

GUEST COLUMN

Worst behind us, but modest upturn

ØYSTEIN DØRUM
CHIEF ECONOMIST
NHO

The upturn in the Norwegian economy is continuing at a modest pace. Mainland GDP growth picked up last year and unemployment is declining. The effects of the oil price drop four years ago are largely history – oil prices have more than doubled since bottoming out in 2014, and are expected to remain at current levels for the next three to four years. After years of substantial decline, oil investments are now expected to increase by approximately 18 % over the next three years.

Abroad, activity growth remains surprisingly healthy for Norway's main trading partners. Growth forecasts have been consistently revised upwards, and higher international activity, along with the still relatively weak Norwegian krone, is likely to stimulate non-oil exports. Along with low interest rates, this should spur business investment demand. Employment growth is expected to pick up in the years ahead, and unemployment is expected to decline further. The majority of companies responding to NHO's quarterly membership survey expect an improvement in activity going forward, and regional differences have also narrowed as oil investments have stopped declining. Companies report increasing shortages of skilled labour and are planning to increase employment.

But despite the current strong momentum of growth in the economy, the recovery is likely to remain moderate. Several of the factors that helped the economy out of the recession will matter less in the near future, or even dampen growth. The Norwegian krone has stopped depreciating, and may strengthen in the times ahead, as oil prices seem to be stabilising at levels above USD 60 per barrel. Fiscal policy has been expansionary over the last four years, with an average annual growth impulse of a good 0.5 % of mainland GDP. In the coming years, the government envisages annual increases in the use of oil money equivalent to 0.1 to 0.2 % of mainland GDP. Although oil investments are expected to increase, annual growth looks set to be much weaker than in the years preceding the drop in the oil price, and the same is true for real disposable household income.

A higher level of activity indicates that Norges Bank will begin to normalise interest rates after years at record low levels. The announced interest rate path projects a gradual rise of the key policy rate starting after summer this year, from the present 0.5 % to 2 % in 2021. Higher interest rates will have a dampening effect on household consumption, and curb incentives for additional loans.

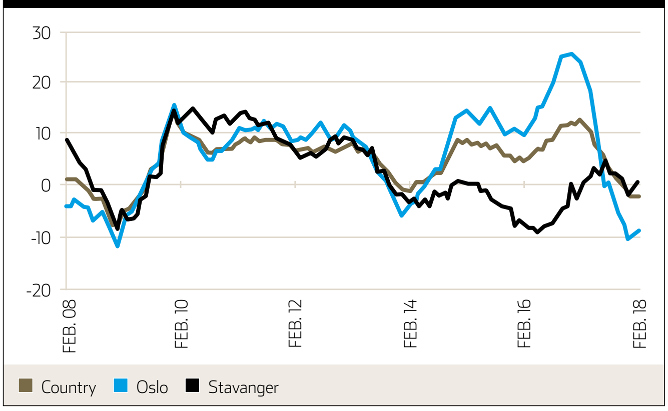
Thanks to low interest rates, the housing sector has been an important driving force in the economy during the recent years of the recession, but is currently facing a slowdown. The number of housing starts rose strongly from 2014 until last summer, reaching levels of more than 35 000 units per year – a level not seen since the 1980s. Over the last nine months, however, there has been a rather marked decline in housing starts, although the level is still relatively high. The decline in the number of housing starts points to a slowdown in housing investments.

The majority of construction companies responding to NHO's quarterly member survey remain relatively positive, but the share of positive

HOUSING CONSTRUCTION; IN THOUSAND UNITS OVER PAST 12 MONTHS

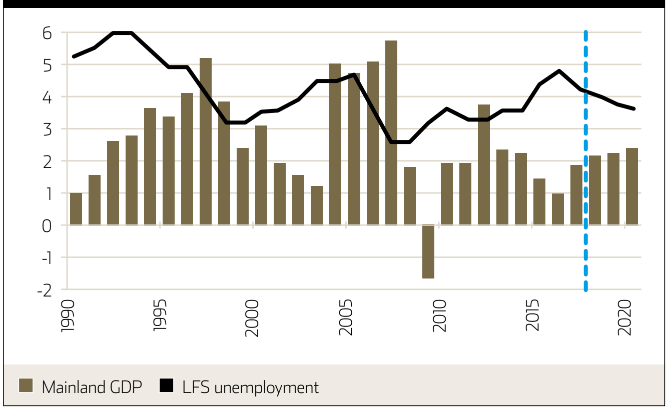
Source: Statistics Norway/Thomson Datastream/NHO

HOUSING PRICES, PERCENTAGE CHANGE YR./YR.



Source: Eiendom Norge/Thomson Datastream/NHO

MAINLAND GDP AND UNEMPLOYMENT, PERCENT



Source: Statistics Norway/Thomson Datastream/NHO, 0017-3 respondents has abated somewhat in recent months. Norges Bank's regional network report shows signs of increasing activity in private commercial building construction, and contacts expect rising growth in public infrastructure projects.

The turn in the housing market one year ago caused concern about future developments in housing prices. After a decline over several months last year, housing prices have recently hiked slightly upwards. The correction in prices last year, combined with lower numbers of housing starts, has reduced the chances of a hard landing in the housing market. Our forecasts suggest a modest increase in housing prices this year, which will pick up in 2019.

The current high level of household debt makes the economy vulnerable to a housing price drop or an increase in interest rates. In 2017, average household debt was more than two and a half times bank deposits. Younger households and households who have recently purchased homes are more vulnerable due to their high debt-to-income ratios. Recent calculations by Norges Bank show that an increase in lending rates of one percentage point would reduce household disposable income by 1 %. By comparison, ten years ago a similar increase would have reduced household disposable income by just 0.6 %. There is a risk that the announced rate hikes may constrain consumption in the coming years more than currently foreseen. However, improved labour market conditions may to some extent counteract this.

TÅRNHUSET
Malling & Co Næringsmegling has leased 2 000 m² retail space to Møbelringen in Karenslyst Allé 16 at Skøyen in Oslo, on behalf of Sparebank 1 Livsforsikring.

Illustration: Link Arkitektur AS

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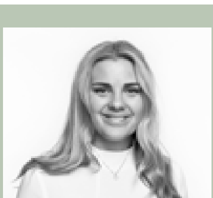

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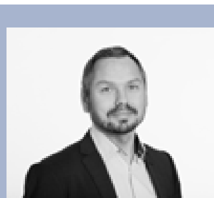

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