MALLING & CO MARKETS

MARKET REPORT WINTER 2019 / 2020

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DESIGN OG LAYOUT Semway

RISK-ANXIETY BACK IN THE COCKPIT

Ongoing tensions from trade war, Brexit and other geopolitical tensions have put pressure on global growth expectations. Despite the tension seeming to have eased somewhat towards the beginning of November, the underlying uncertainty of new events is pushing investors towards safe cash flows. The total effects for the Norwegian CRE markets are outlooks of slower rental growth combined with a recurring compressive force on yields.

The latest perceived ease in the US-Chinese trade tension is simply an adjustment of the underlying uncertainty that is affecting markets and revised global growth expectations over the past six months. While interest rates have seen significant reductions and anticipation of future hikes has turned to future cuts, investors' attention has again turned to quality real estate in order to preserve wealth.

All these events happening around our playing field are affecting the game, and we are seeing very instant effects: Prime yield estimates for offices in Oslo fell 10 bps from Q2 to Q3 in our investor survey, an unsurprising change, since expectations of future interest rates have plummeted over the year. Quality real estate with solid cash flows is even more in favour as the safe alternative, like the German 10Y bond, which has dropped below the 0 % boundary. Lower interest rates in Europe and the US, affecting expectations of future interest rates, may push yields even lower if the trend continues.

The Norwegian krone is weaker than ever, but foreign investors do not seem to be affected by this. The weak NOK may have two positive effects on real estate investments in Norway: it may maintain the relative competitiveness in favour of the Norwegian economy and also be a good time to increase exposure to Norwegian CRE.

But it is not just about yields, which are just sudden price adjustments. Cash flows are also very important, and the rise in office rents over recent years has created expectations among investors. We have seen several years of strong growth in employment in Oslo, way stronger than in the rest of the country. Together with limited supply this has pushed vacancy down and rents up, especially for centrally located offices. We are now anticipating slower growth in demand and higher supply to hit the market next year. This is likely to slow down rental growth and we are expecting a relatively flat development from mid-next year. Strong take-up growth from flexible office providers is also expected to moderate significantly and move into a period of consolidation. Our special topic in this report looks further into this segment. A decrease in office rents is however quite unlikely in the coming years.

Retail continues to face trouble. Several retail chains are experiencing falling sales. The "Thunberg-effect" is not only creating fear among airlines, but also among key retailers such as H&M. Turmoil in the retail leasing market continues as a number of negative changes hit the market at the same time, both cyclical and structural. On top of that, three interest rate hikes by the Norwegian Central bank over the year has been highly effective in limiting purchasing power among consumers, as most have significant mortgage debt on floating rates. This not only affects running cash flows, it also affects the potential growth in value of their homes for financing larger consumption. Despite retail landlords adjusting their rental quotes, we are seeing few retailers, if any, with growth strategies in terms of physical retail space. We expect retail rents to continue their downward trend and for landlords to start considering alternative uses for their retail space to a greater extent, such as offices, restaurants and showrooms, as rents continue downwards.

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

ANDERS BERGGREN
CEO — EIENDOMSHUSET MALLING & CO

MACRO – NORWAY

Good activity, but still at a slower pace going forward

The full-year GDP growth estimate for Mainland Norway from Statistics Norway (SSB) is still set at 2.4 % for 2019, which is considerably higher than the long-term growth trend of 2.0 %. The latest available estimate for GDP growth in 2020 and 2021 is 2.2 % and 1.6 % respectively, while growth in 2022 is currently projected to be 1.4 %. Hence, the estimate for 2019 is kept at the same level as in our latest report, while GDP growth has been adjusted downwards by 10, 40, and 50 bps from 2020 to 2022. The uncertainties tied to the trade war and the outcome of Brexit are the main reasons quoted by most analysts for the more negative outlook given in the most recent updates. Although increased petroleum investments have boosted the Norwegian economy thus far in 2019, SSB expects a slight decrease in investments for field development in 2020 and 2021, which investments in other industrial categories will not be able to compensate for. This, in combination with other factors such as a neutral fiscal policy, weaker employment growth and a weak NOK, will affect GDP growth expectations for the time being.

GDP growth

In our previous market report we reported that SSB's March estimate projected mainland GDP growth to be 2.4 % in 2019, 2.3 % in 2020, 2.0% in 2021, and 1.9 % in 2022. This was however adjusted downwards in their September update. Although their estimate for 2019 was maintained at 2.4 %, the 2020 estimate was reduced by 10 bps to 2.2 %, while the 2021 estimate was adjusted down by 40 bps to 1.6 % and lastly the estimate for 2022 was reduced by 50 bps to 1.4 %. Among the many reasons they cite are international economic and political unrest, a neutral fiscal policy and a Norwegian economy that is approximately at a normal level capacity-wise with increased oil- and industrial investments, but expected to fall due to declining international demand. DNB Markets' GDP projections from August are even lower for the period 2019-2021, with 2.3 % for 2019, 1.7 % in 2020 and 1.5 % in 2021 while their estimate of 1.6 % for 2022 is slightly higher than SSB's estimate of 1.4 %. These figures have been adjusted downwards across the board, based on arguments of weaker international growth, increasing trade barriers and a potentially hard Brexit. The Norwegian Central Bank regional network survey 3/2019 reports an annual output growth of 3.0 % which is similar to that reported in May (2.9 %), with the oil sector experiencing a substantial increase over recent months and the service sector showing high activity. On the other hand, growth in construction and domestic-oriented manufacturing has slowed with growth in employment falling slightly overall.

Oil prices

The Brent Crude oil price is down from our latest report and, at the time of writing, is close to USD 60 per barrel. After falling substantially in August, the oil price increased drastically in September due to the drone attack on a Saudi oil production site, which created a lot of uncertainty about future estimated production capacity. Nevertheless, the facility was up and running again faster than at first anticipated, since when the oil price has fluctuated between USD 57–62 per barrel. The forward market is now pricing Brent crude oil for the end of 2019 at USD 60 per barrel, while the current pricing for year-end 2020 is USD 57 per barrel.

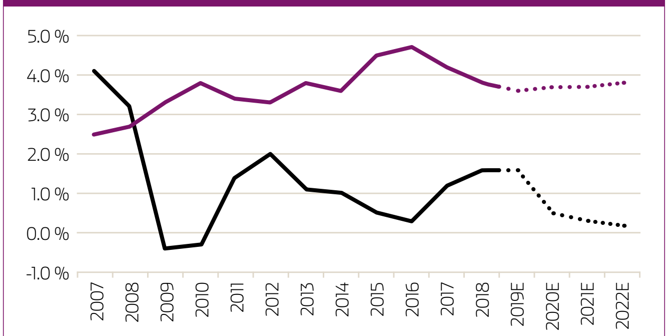
Oil investments

SSB forecast NOK bn 182 in oil investments for 2019, an increase of 15.4 % over 2018. The expectation for 2020 is a slight decrease to NOK bn 174, although this is still a positive revision for 2020 compared to SSB's projection from

MAINLAND GDP GROWTH NORWAY

Source: Statistics Norway (October 2019)

THE LABOUR MARKET 2006 – 2018 WITH FORECASTS UNTIL 2022 (LABOUR FORCE SURVEY. SEASONALLY ADJUSTED NUMBERS)

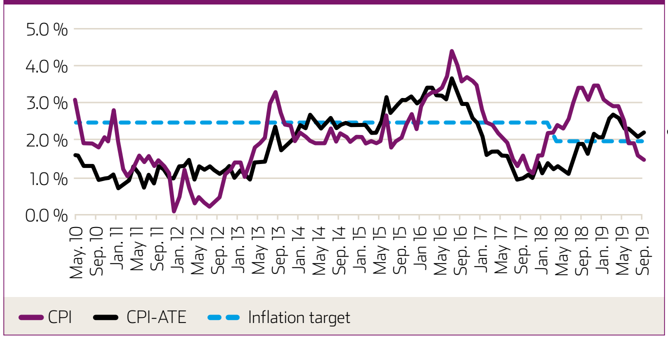


Source: Statistics Norway (October 2019)

MAIN FIGURES (ANNUAL PERCENTAGE GROWTH UNLESS OTHERWISE NOTED)	2018	2019E	2020E	2021E	2022E
Consumption in households etc.	1.9	1.9	2.4	2.2	2.0
General government consumption	1.4	2.2	1.8	1.9	1.7
Gross fixed investment	2.8	6.2	0.9	-1.3	-0.2
– Extraction and transport via pipelines	1.9	15.4	-1.6	-3.1	4.2
– Gross investments mainland Norway	3.0	3.9	0.9	-0.8	-1.3
Exports	-0.2	1.9	6.0	2.3	1.1
– Traditional goods	2.0	4.9	3.8	2.2	1.6
– Crude oil and natural gas	-4.8	-2.3	12.3	4.4	1.6
Imports	1.9	5.5	1.8	0.2	0.8
GDP	1.3	1.6	3.3	1.9	1.4
Unemployment rate (level)	3.8	3.6	3.7	3.7	3.8
Employed persons	1.6	1.6	0.5	0.3	0.2
CPI – yearly growth	2.7	2.2	1.8	1.9	2.0
Core inflation (CPI-ATE)	1.6	2.3	2.0	2.0	2.0
Wages per standard man-year	2.4	3.0	2.4	2.0	1.6
Real after-tax lending rate. banks (level)	-0.7	0.1	0.7	0.6	0.5
NOK per euro (level)	9.60	9.85	10.04	10.04	10.04
Current balance (NOK bn)	285	232	284	319	324
Current balance (in % of GDP)	8.1	6.5	7.6	8.2	8.0

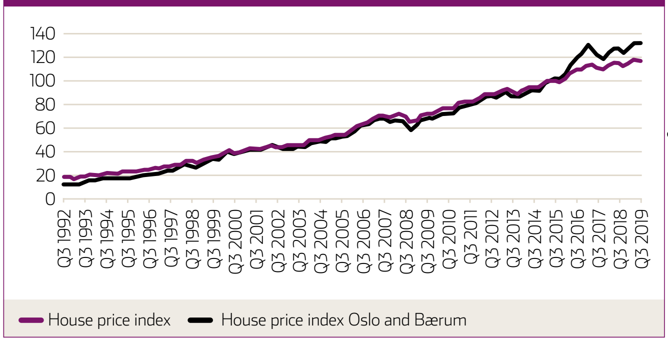
Source: Statistics Norway (October 2019)

INFLATION (12-MONTH CHANGE)



Source: Statistics Norway

HOUSE PRICE INDEX (2015 = 100)



Source: Statistics Norway

May of this year. In summary, investments for 2020 are expected to decrease by 1.6 % and by a further 3.1 % in 2021, before increasing by 4.2 % again in 2022.

Key policy rate

After adjusting the key policy rate upwards to 1.50 % in September 2019, the Norwegian Central Bank (NCB) marked the fourth time they have raised the key policy by 25 bps in the span of a year, marking the end to the historical low of 0.50 % observed since March 2016. The NCB's assessment is that capacity utilisation is somewhat above normal, and that underlying inflation is close to the targeted inflation of 2.0 %. However, the weak NOK may result in higher inflation ahead. The outlook and balance of risks suggests that the policy rate will most likely remain at the present level in the coming period, according to the NCB. Many analysts are however arguing that the rate increase is too much when compared to the development in the domestic economy, and especially when compared to what is happening in the global context. Further, an increasing number of analysts are arguing against the inflation target as the guiding factor for the key policy rate altogether.

CPI

The 12-month CPI increase was 1.5 % in September 2019, while CPI ATE (adjusted for tax changes and excluding energy products) rose 2.2 %, slightly above the target of 2.0 %. Inflation has shown a decreasing trend since December 2018.

Currency

Statistics Norway expects the NOK to devalue over the coming three years compared with previous years, with NOK/EUR at 10.04 in 2020–2022. This is not surprising with the rather large movements we have seen for the NOK over the summer, currently at a very weak level in a historical context. As at COB on 30 October, the EUR traded at NOK 10.26, USD at NOK 9.24, and GBP at NOK 11.88.

Unemployment

According to the Labour Force Survey (LFS), the number of unemployed remained unchanged from February (average of January-March) to August (average of July-September). Since the workforce has increased over the period by 32 000 persons, the unemployment rate is down from 3.8 % to 3.7 % respectively. Register-based unemployment issued by NAV (the Norwegian Labour and Welfare Administration) was 2.2 % in September, down from 2.5 % in September one year ago (seasonally adjusted).

Employment and wages

The latest employment numbers released quarterly, shows a 2.0 % y/y growth rate for employment in Norway. The corresponding growth in Oslo was 2.8 % (based on workplace). The average monthly basic earnings was up 3.4 % over the same period. Wage growth is expected to peak in 2020 with a y/y growth of 3.6 %.

National budget

The budget stimulus is projected to be slightly contractionary next year. The government is projecting a good economic environment and a very optimistic prognosis for next year's NBIM fund use, at 2.6 %. This is still a considerable amount at NOK bn 244, but nonetheless a signal of a tougher stance and tighter budgets in the years to come for a cost budget which, in 2020, will total NOK bn 1 442.6.

The stock market

The Oslo Stock Exchange broad index (OSEBX) started the year at over 803 points, reached almost 900 in April and July, bottomed out at 818 in mid-August, before reaching a year high of 911 on 28 October. As at COB 30 October, the index closed at 906, a growth of over 12 % since the start of the year.

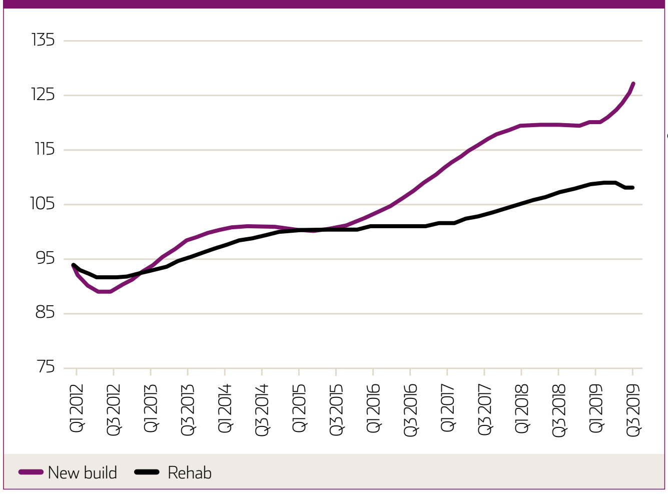
Residential prices

The September release of the Norwegian residential real estate index showed that prices increased by 2.6 % nominally from September last year. CPI rose by 1.5 % over the same period, indicating a 1.1 % real price growth. Market activity is high, although the three interest rate hikes seen so far this year are expected to take effect during the second half of 2019.

Consumption growth

According to Statistics Norway, private consumption is forecasted to end up at 2.0 % for 2019, a reduction of 20 bps from the forecast 6 months ago. However, forecasts expect an increase of 50 bps back to 2.5 % in 2020, before decreasing 50 bps again to 2.0 % in 2021 and 2022.

PRODUCTION INDEX FOR CONSTRUCTION (2015 = 100)



Source: Statistics Norway

MACRO – GLOBAL

Macroeconomic strain as global growth slows

The pace of global economic activity remains weak after what was a positive growth outlook came to a grinding halt in the last three quarters of 2018. Since this shift in momentum, manufacturing activity in particular has weakened substantially. We are now back down to levels not seen since the global financial crisis. Increasing trade and geopolitical tensions have increased the uncertainty over the stability of the global trading system and international cooperation. This is taking its toll on business confidence, investment decisions and global trade. Increased monetary policy accommodation has cushioned the impact of these tensions on the financial market sentiment and activity, while a generally resilient service sector has supported growth of employment. Yet the outlook remains precarious as the October IMF World Economic Outlook (WEO) forecast global growth at 3.0 % for 2019, its lowest level since 2008/2009, and 30 bps lower than the WEO from April. Growth is projected to pick up to 3.4 % in 2020, although this is still a downwards revision of 20 bps compared with April's report. With uncertainty over the prospects for several regions, largely due to the projected slowdown in China and the United States, prominent downside risks entail that a much more subdued pace of global activity could very well materialise. Most analysts are pointing towards policies aimed at defusing trade tensions and reinvigorating multilateral cooperation as a decisive factor in avoiding a low growth scenario. Support for economic activity where needed and addressing financial vulnerabilities that pose risks to growth in the medium term will be the second key driver to keeping the vulnerable global growth momentum in check.

Sweden

According to WEO projections, the Swedish economy is falling further into a low growth scenario in 2019. The projected GDP growth for 2019 has been revised down yet again and is now expected to come in at 0.9 % for the year, a full 140 bps below 2018. It is expected to increase back up to 1.5 % in 2020, although this is still a good 30 bps below expected growth in 2020, according to their last report in April 2019. In the longer term, the IMF projects Swedish GDP growth to remain at the lower end, seen from a ten-year historical perspective, at 2.1 % in 2021 and at 2.0 % for 2022 and 2023. The Swedish Central Bank (SCB) has become more hawkish and an expected increase to 0.0 % at the upcoming December meeting would be the second increase this year and a return from the negative territory for the key policy rate that has been slumping since March 2015. Thereon, the prospects for any further increases looks bleak for the foreseeable future. A statement by the SCB has pointed to highly uncertain economic cycles and inflation expectations in the global economy in the coming years, and it is difficult to foresee any favourable time at which to further increase the key policy rate.

The Eurozone

According to the WEO, the economy in the Eurozone is projected to show a growth in GDP for 2019 of 1.2 %. This is a further weakening since our last report in June, and a decrease of 70 bps on 2018. From 2020 onwards, GDP growth will inch its way back up by 20 bps to 1.4 % for the next couple of years before dropping 10 bps again to 1.3 % in 2023. Based on a further slowdown in the Eurozone economy and subsequent downward pressure on inflation and other data with a negative outlook, analysts have forecasted a renewed need for policy easing and expectations are that they will be kept ultra-expansive for a prolonged period. The Eurozone PMI in September came in at 50.4, weighed down heavily by the manufacturing PMI at 45.6. The service sector PMI is still positive at 52, but is in a falling trend. Risk remains high and is skewed to the downside.

The never ending saga that is Brexit is still not resolved, and the US bout with China lingers on. To make matters worse, the US has also imposed 25 % tariffs on EU goods worth a total of USD bn 7.5. There are however bright spots on the horizon as well. Unemployment edged down further to its lowest since May 2008, at 7.4 % in August. Solid consumer spending and a positive sentiment among enterprises in construction and retail sales has remained more positive than the historical average.

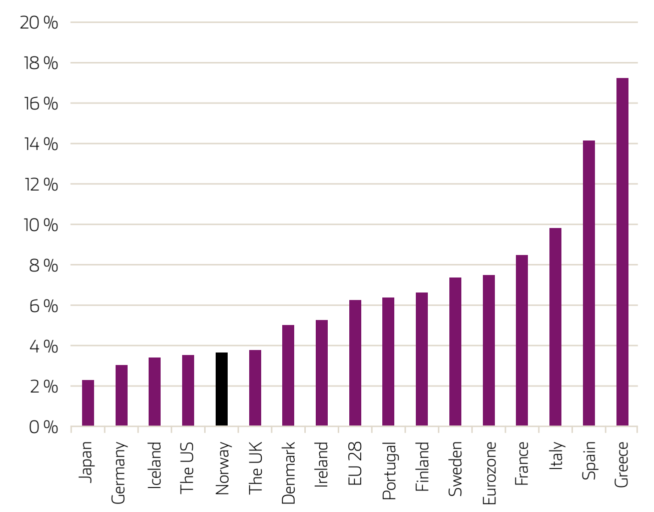
The UK

The UK economy came in at the IMF projection for 2018 at 1.4 % growth, while the projected growth for 2019 has been revised down by 30 bps to 1.2 % for the full year 2019, before inching back up to 1.4 % in 2020 and 2021. In the longer term, the IMF projects GDP growth to remain sluggish at 1.4 % in 2022 and 2023. A hard Brexit was once again avoided, this time extending the deadline for another 3 months from 31 October. Although the deal presented by Boris Johnson now seems to garner support in Parliament, the process is still muddy, and the focus has for now shifted to a new government election and the future of the whole Brexit process. There is now a much higher certainty that a hard Brexit will be avoided, and markets have responded positively to the perceived reduced risk. Inflation is expected to remain slightly below the 2 % target in the near term, while the labour market appears to remain tight, with the unemployment rate having stayed at just under 4 % since the beginning of this year. The Bank of England's (BoE) key policy rate of 0.75 % is to remain firm for the foreseeable future, citing in its latest statement on the minutes that "In all circumstances, the Committee will set monetary policy appropriately to achieve the 2 % inflation target".

The US

According to WEO, the US economy has a projected GDP growth of 2.4 % for the full year 2019, a decrease of 50 bps from 2018. GDP is expected to drop another 20 bps to 2.1 % in 2020, a further 40 bps to 1.7 % in 2021 before flattening out at 1.6 % in 2022 and 2023. The Fed announced today (30 October) that the Federal Funds Rate would be lowered by 25 bps to 1.50-1.75 %. This marks the third decrease in the federal funds rate since our last report. But the target range for the federal funds rate going forward is flat, citing that it will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 % inflation objective. Further assessment will take into account a wide range of information, including measures of labor market conditions, indicators

UNEMPLOYMENT RATE IN SELECTED COUNTRIES/AREAS (LFS)



Source: Eurostat (Q3 2019)

RETAIL PORTFOLIO
Malling & Co Corporate Real Estate advised H2 Eiendom on the divestment of the 36 000 m² retail portfolio comprising 20 retail properties.

of inflation pressures and inflation expectations, and readings on financial and international developments. The Fed will also continue buying government bonds at least until the second quarter of next year, but referred to these as technical adaptations rather than continued quantitative easing. Analysts are however having a hard time separating this as something other than a quantitative easing when compared to previous programs that the Fed has called quantitative easing. Regardless of what name is given, the overarching goal is to bring liquidity into the market to maintain a stable credit market in an increasingly uncertain time.

Emerging markets

The challenges in global GDP growth is tough enough on advanced economies, but it is really taking its toll on emerging economies to an even higher degree, although growth figures are still higher in percentage terms. As advanced economies have a higher degree of service-related activity, emerging economies have a much larger manufacturing and goods-based platform. In the current climate, goods and manufacturing across the globe are feeling the repercussions of the ongoing trade war between the US and China to an even higher degree than more service-based advanced economies. On a more positive note, a slightly higher growth rate is projected for 2021–2024 for emerging markets. This global growth pattern reflects the current major downturn, and the subsequent projected recovery in emerging market economies. By contrast, growth is expected to moderate into 2020 and beyond for a group of systemic economies comprising the United States, the Eurozone, China, and Japan which together account for close to half of global GDP.

ANNUAL GDP GROWTH (PERCENT)	2018	2019E	2020E	2021E	2022E	2023E
Global	3.6	3.0	3.4	3.6	3.6	3.6
The US	2.9	2.4	2.1	1.7	1.6	1.6
EU 28	2.2	1.5	1.6	1.7	1.6	1.6
The Eurozone	1.9	1.2	1.4	1.4	1.4	1.3
Advanced economies	2.3	1.7	1.7	1.6	1.6	1.5
Emerging and developing Europe	3.1	1.8	2.5	2.5	2.5	2.6
Germany	1.5	0.5	1.2	1.4	1.3	1.2
France	1.7	1.2	1.3	1.3	1.4	1.4
The UK	1.4	1.2	1.4	1.5	1.5	1.5
Sweden	2.3	0.9	1.5	2.1	2.0	2.0
Denmark	1.5	1.7	1.9	1.7	1.6	1.5
Italy	0.9	0.0	0.5	0.8	0.7	0.6
Japan	0.8	0.9	0.5	0.5	0.5	0.5
China	6.6	6.1	5.8	5.9	5.7	5.6
Russia	2.3	1.1	1.9	2.0	2.0	1.9
Middle East and Central Asia	1.9	0.9	2.9	3.2	3.2	3.3

Source: IMF World Economic Outlook (October 2019)

OSLO OFFICE MARKET

Employment and demand for office space

Growth in employment expected to slow down

Employment has accelerated over the years in Greater Oslo. The growth has been much stronger than expected, and much stronger compared with the employment growth for the country. So far, the outlook for further growth in employment is strong, but we are seeing some key parameters that most likely will put a brake on growth. Despite being slower, growth is still continuing and this will create further demand for office space.

Strong growth in employment so far in 2019

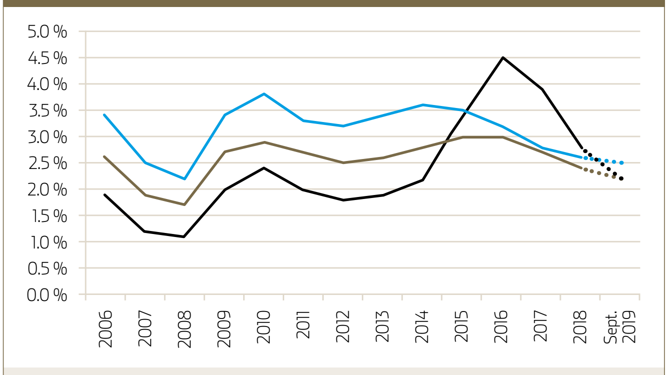
The register-based unemployment numbers from The Norwegian Labour and Welfare Administration (NAV) have been showing a decreasing trend for the country since 2016. In the same period, employment has been strong and figures have steadily increased by more than 130 000 since Q1 2006, according to the quarterly national accounts. This increase has come from a combined increase in the workforce and reduced job vacancy. The growth in employment is strong and seems to be continuing into 2019 with a 2.0 % growth in registered wage earners for the country, and 2.8 % for Oslo, measuring Q2 2018 vs. Q2 2019. In Oslo, the increase amounts to almost 16 000 new wage earners (workplace in Oslo), over the same period. The latest available Q3 LFS survey from Statistics Norway also supports a continued increase in employment in Oslo and Akershus with a 3.9 % growth from Q3 2018, although the underlying uncertainty in the LFS survey must also be taken into account. The Stavanger region is also doing well with almost 5 500 additional registered wage earners from Q2 2018 to Q2 2019. This corresponds to an impressive 3.9 % growth, clearly supported by the underlying potential in the employment market in the region that was heavily affected by the oil price drop in 2014 and the following reductions in workforce.

Growth in employment will probably slow down in 2020

At the time of writing this report, there are few signs of a slowdown in the growth in employment. The growth seems to have remained strong into the first half of 2019, also in Oslo where growth has stayed way above the national level. However, the relative difference in growth between the country as a whole and Greater Oslo is shrinking. According to SSB's wage earner numbers, the growth from Q2 18 to Q2 19 was 2.0 % for the country and 2.8 % for Oslo, Asker and Bærum (Greater Oslo) combined. This is higher than last year with 1.7 % and 2.7 % respectively.

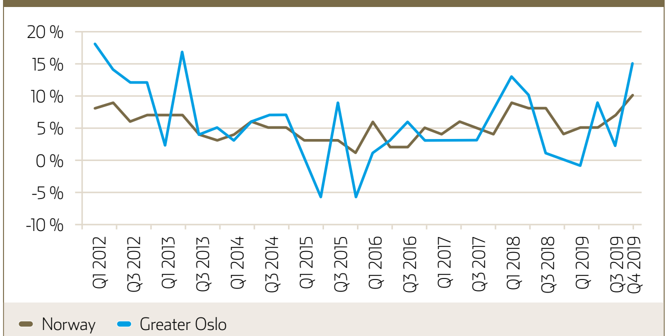
However, we are lacking up-to-date figures for the employment market over the summer as Q3 numbers for registered employment will not be available until mid-November (only LFS available at the time of writing). If we look at the Manpower Employment Outlook Survey (MEOS) for Q4, which identifies net expected staffing for the next quarter (see definition *), they report a national net outlook at + 10 % for Q4, up from + 4 % seasonally-adjusted for Q4 2018. In Greater Oslo, the accuracy of the survey becomes significantly lower, but we know that net results are on a rising trend, ending at + 15 % in Q4 2019 against a neutral level in Q4 2018. The MEOS Q4 study was performed just after the summer. Other indicators pointing towards slower growth may not be apparent in the MEOS study until the Q1 report is released in December 2019. Other employment indicators, like the

REGISTER BASED UNEMPLOYMENT



Source: Norwegian labour and welfare administration

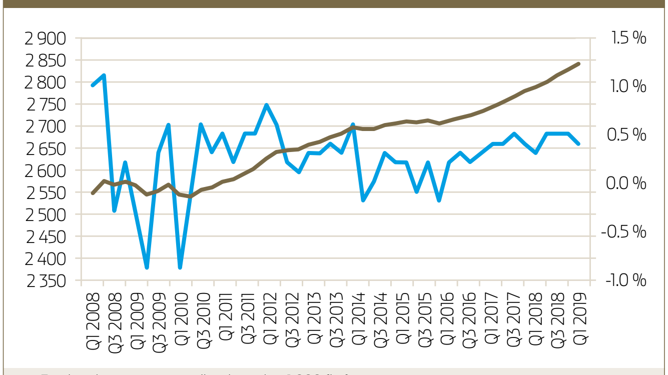
NET EMPLOYMENT OUTLOOK* – DEVELOPMENT OVER TIME (SEASONALLY ADJ.)



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

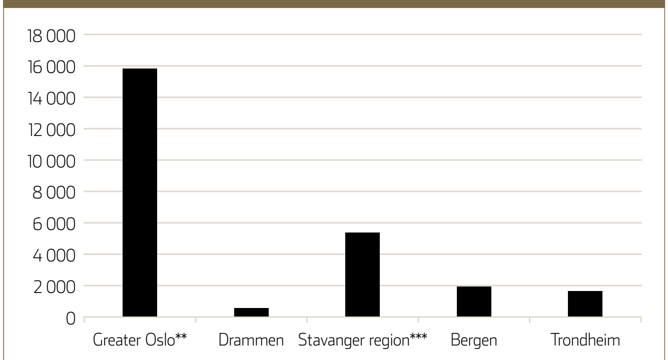
Source: Manpower Employment Outlook Survey (Q4 2019)

NATIONAL ACCOUNTS, QUARTERLY EMPLOYMENT



Source: Statistics Norway

CHANGE IN WAGE-EARNERS PER COUNTY Q2 2019 VS. Q2 2018



**Oslo, Asker and Bærum ***Randaberg, Stavanger, Sola, Sandnes

Source: Statistics Norway

Regional network survey from the Central Bank and the business tendency survey for the third quarter of 2019, show a somewhat weaker outlook for employment in the eastern region, as well on a national basis.

All figures for the actual development in November will be available after the editorial date of this report, although we have seen a few signs that the growth in employment will decrease over the coming year. The first argument is the overall macroeconomic environment, which changed to a slightly more negative outlook over the summer. Secondly, historical employment figures indicate that growth will diminish after a period of strong growth. For Oslo's part, we can look at the rate of employment among the Oslo population and compare it to previous highs from 2007/2008. In the age group 25–66 we are seeing employment rates at almost 2007/2008-levels, combined with almost 9 % increased net commuting into Oslo from 2015–2018. If the growth in employment continues at the same pace, we need to see additional increases in net commuting and/or further increased net mobility into Oslo. The capacity limits therefore seem closer to maximum levels, and hence we believe that the growth in employment will be curbed for Oslo into 2020. The latest outlook among industrial leaders, showing weaker optimism for Q4 2019, supports somewhat slower growth. We also believe that the ongoing trouble within the retail sector will have an effect on employment numbers in the coming year, although this will not have a negative effect on office demand. It may also create additional capacity to increase office employment, as the retail workforce declines.

Demand for office space will continue growing

When analysing office demand we need to look at the lagging effect of recent years' strong and rising employment growth, as well as the noticeable effects on demand so far. According to our calculations, we should see lower vacancies in the market compared to what we have observed. That is probably explained by the lagging effect of increased employment at current contract structures. We have observed that tenants are now keener to increase office space, probably caused by the lack of space within current contracts, which has absorbed much of the employment growth until now. This lagging effect will continue to push demand despite the somewhat lower anticipated growth in employment. Not only will the growth in employment remain at a decent level, we are also seeing strong growth in typical office-intensive occupations. ICT services, business service sector, technical services and property management are strong growing sectors.

Demand for office space will continue growing

Demand from flexible office providers has been strong in Oslo like other markets with a yearly take-up of almost 30 000 m², last year, and almost 25 000 m² registered so far this year. Flexible office providers now constitute around 1.5 % of the total Oslo Office market, so the market has not matured as fast as in e.g. London, Amsterdam and Paris. Since we are now seeing companies like WeWork reducing growth expectations, and relatively low occupancy rates among current flexible office providers, we believe that this demand side will be curbed somewhat over the coming years, however we still expect a more moderate continued growth.

URTEKVARTALET, OSLO
On behalf of Eiendomsspar AS, Malling & Co Næringsmegling has leased 15 800 m² to Høyskolen Kristiania.

Office search mapping

Decline in search volumes as expected

The activity in the market for office searches in terms of total space is at the time of writing 35 % below the 2018 level YTD measured in m². Office search volumes have been particularly weak among larger tenants (› 2 500 m²), which is expected due to the fact that contract expiry profiles in 2–3 years are small for larger tenants. Based on the outlook, the total office search volume for the year will end at the lowest level seen since 2015, or close to the 2017 level.

Search volumes down while employment is up

Search volumes are in general affected by the structure of expiring lease agreements for large tenants, and expiry volumes will be low in 2021 and 2022, 30–40 % lower than expected in 2024. The search volumes are therefore expected to stay moderate for 2019 and not increase until tenants with lease expiry in 2023 start searching (will probably stay low for the rest of the year, and increase somewhat late next year). Landlords and tenants are already planning for 2023 so the activity in the leasing market may remain at a good level. We are also seeing that the effects of higher growth in employment are gradually affecting take-up, although the effect is difficult to measure as it is mostly spread among a slightly higher demand for space among several tenants.

Public tenants around 20 % share

In 2016, public tenants constituted more than half the volume of office searches, while this share is now at around 20 %. In 2018, we were seeing a similar share of public tenants among office searchers. Other than public sector, the remaining share is spread across different sectors, none of them taking a very large share. IT/Telecom and Media have been active searchers in 2019.

Supply of new construction curbed by a few large tenants

The search market is of special interest for developers as it is the main source for large lease contracts that are needed to initialise new projects requiring an anchor tenant. For a developer, both timing and size need to match the project to be attractive. The low expiry of larger leases means less likelihood of newbuild initiators. We are seeing only a few developers initiating on speculation. This means that we expect new construction to be more or less set for 2021 and 2022, and that developers will focus on new supply to finalise in 2023–2024. Low vacancy in the city centre also increases the likelihood of tenants currently on search to renew their leases in a total cost/alternative analysis of the market opportunities.

City centre remains strong in demand

While some office clusters in the fringe like Helsfyr are seeing increased demand, the general trend is still that 8/10 tenants are searching in the city centre, and almost 50 % only consider the city centre. This reflects the leasing risk difference for assets in the fringe and in the city centre. That being said, we still see that proximity to public transport continues to be the main driver for demand in both the city centre and fringe. Proximity means in general less than 5 minutes' walking distance.

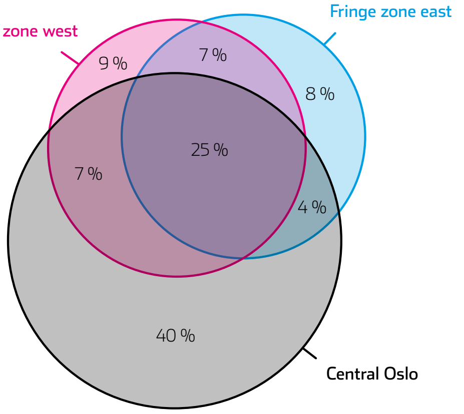
Many searches to be resolved by the end of the year

As usual, many search processes tend to be resolved before year end, and this will most likely happen this year as well. Of the 40 searches for over 1 000 m², only a handful have been resolved at this point, but many of the larger searches are in final discussions and are anticipated to have reached a lease agreement by the end of the year. We are also seeing a few of the larger ones probably being pushed into the next year.

About the analysis and database

Tenant representation agents map tenants' requirements regarding location and facilities, and manage the actual search for new commercial space. This applies to office space, combined premises, and retail and warehousing/logistics premises. Larger tenants are more likely to use tenant representation agents, but many small and medium-sized enterprises also obtain assistance during their relocation processes. We register and systematise all active property searches covering the Greater Oslo area. This makes it possible to analyse one of the main sources for take-up in the market. Our figures show that rental searches account for between 15 % and 50 % of the total annual volume (measured in square metres) of signed office lease agreements. Our analysis of market searches goes back to 2009 and includes more than 1 600 searches to date – two thirds of which are pure office market searches. This enables us to study the demand side trends in detail, and to help our clients to offer and invest in the right project for the end user.

OFFICE SEARCHES GREATER OSLO 2019*, SIZES (M²) AND OVERLAP

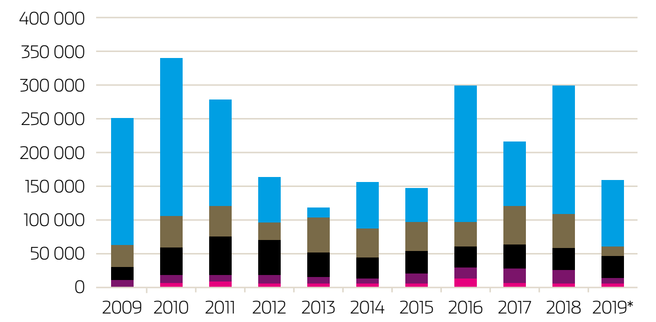


*As at 18 October 2019

Source: Malling & Co / NEmeet

BRYNSVEIEN 14, OSLO
Malling & Co Leietakerrådgivning has advised Lowell Norge AS in signing their new office (2 356 m²) overlooking Bryn and the city from the top floor. Landlord is Ferd Eiendom

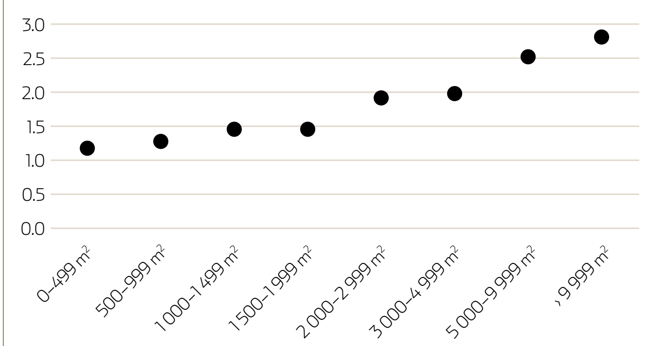
OFFICE SPACE SEARCHES GREATER OSLO 2009–2019* (M²)



*As at 18 October 2019

Source: Malling & Co / NEmeet

AVERAGE YEARS* BETWEEN PUBLICATION OF MARKET SEARCH AND DESIRED LEASE STARTUP, DIVIDED INTO SIZE SEGMENTS (2018–2019**)



*Same year = 0.5. **As at 18 October 2019

Source: Malling & Co / NEmeet

Construction activity in Greater Oslo

Greater Oslo is entering a period of increased construction levels

After several years of high conversion levels and few new constructions, 2019 appears to be the last year in which we will have gross construction levels below the historical average (135 000 m² a year). We are now entering a period of increased construction, brought about by the scarce office vacancy and growth in employment that Oslo has experienced during the last three years, as well as by large tenants that have been attracted to sign leases in some of the new projects. Nevertheless, it is not a given that all projects on the radar will be initiated. As usual, it has taken the industry some time to manoeuvre itself in order to meet the increase in demand. Whether the volumes currently in the pipeline for 2021–2022 will materialise depends to a large extent on the attainability of large lease contracts in coming years.

Gross new construction in Greater Oslo will be approx. 100 000 m² in 2019. Since our last report Dronning Mauds gate 10 (refurbishment and new space) and Skøyen Atrium III have been completed. The last remaining construction for 2019 is Brynsveien 14, which is partly let out to Sophie Minde and Lowell Norge and will be completed during the fourth quarter. The gross estimate for 2020 currently stands at approx. 160 000 m². The volume includes two fully available buildings, namely Freserveien 1 (~ 30 000 m²) and Lørenveien 65 (~ 19 000 m²). They are both being built on speculation. A few examples of other prominent projects which will be completed in 2020 are Fyrstikkalléen 1, Harbitz Torg and Valle View.

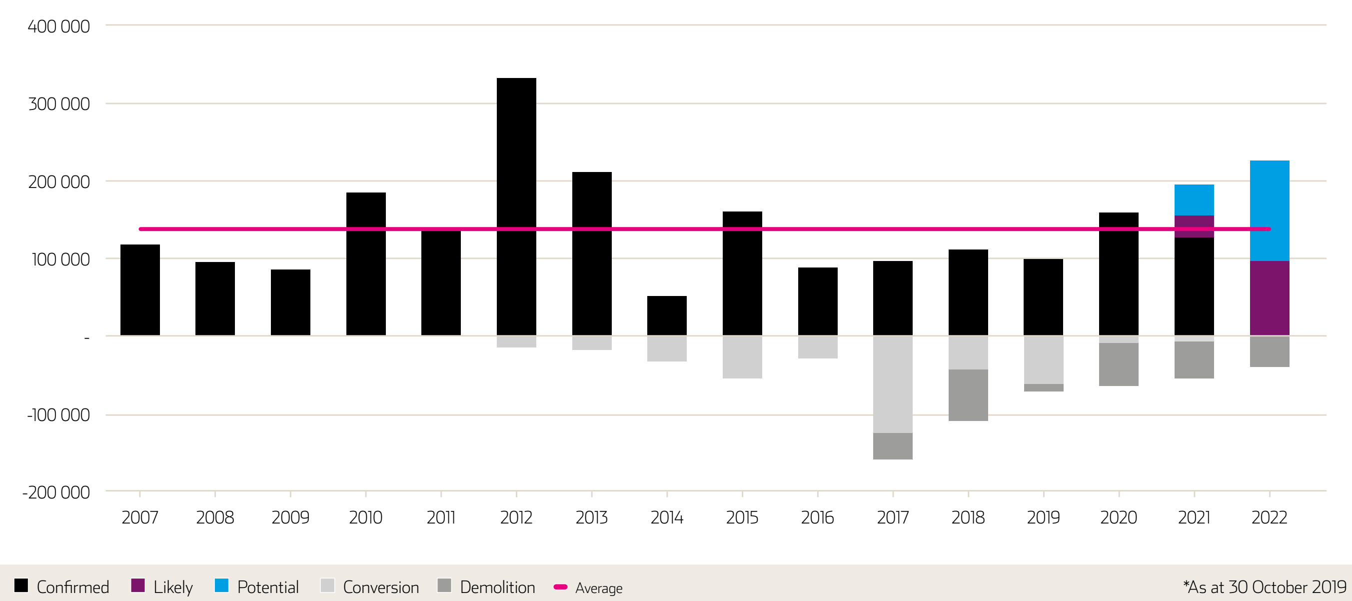
There are now five new constructions that are confirmed to be completed in 2021, making up a total gross space of approx. 126 500 m² in office. Examples include Tullinkvartalet, VIA and Økern Portal. Another 54 000 m² of readily zoned office space is also currently in the pipeline for 2021 and are either in the market awaiting tenants or in planning. As for 2022, the volume is still mostly made up of unsecured projects. The volume currently in the pipeline for 2022 sums up to approx. 210 000 m², of which 80 000 m² is readily zoned. However, as the expected expiry of large contracts will be markedly down in 2021–2022, it is likely that many of the projects currently expected in this period will be postponed, unless speculative construction increases.

Overall, the largest new potential construction volume is still expected at Økern/Løren/Risløkka, with a total volume of approx. 500 000 m² recorded in our database. However, around 61 % of this volume is currently not zoned and will therefore most likely materialise gradually over a longer term as this office cluster becomes established. This is also the case for the Inner City where 73 % of the total volume (400 000 m²) is still in zoning. Most of the volume in the Inner City is expected in the areas surrounding the central station and in Schweigaards gate. Zoning is often particularly time-consuming for projects in the dense Inner City. These areas will undergo a massive transformation during the next 10 years, however it involves a significant portion of demolition, meaning that the net effect will be smaller than what might initially be expected. Over the short term however, it is mostly Økern/Løren/Risløkka and Bryn/Helsfyr that that will have the largest volume of new office space.

Project definitions

The confirmed volume includes all new constructions that are zoned and will be initialised either because they have secured a sufficient tenant base or because they will build on speculation. The likely volume includes all projects that are zoned, and which we deem as likely to be able to secure tenants. The potential volume includes all remaining projects in the pipeline, including projects that are currently in zoning or at planning/idea stage. This group is therefore highly uncertain and subject to large changes.

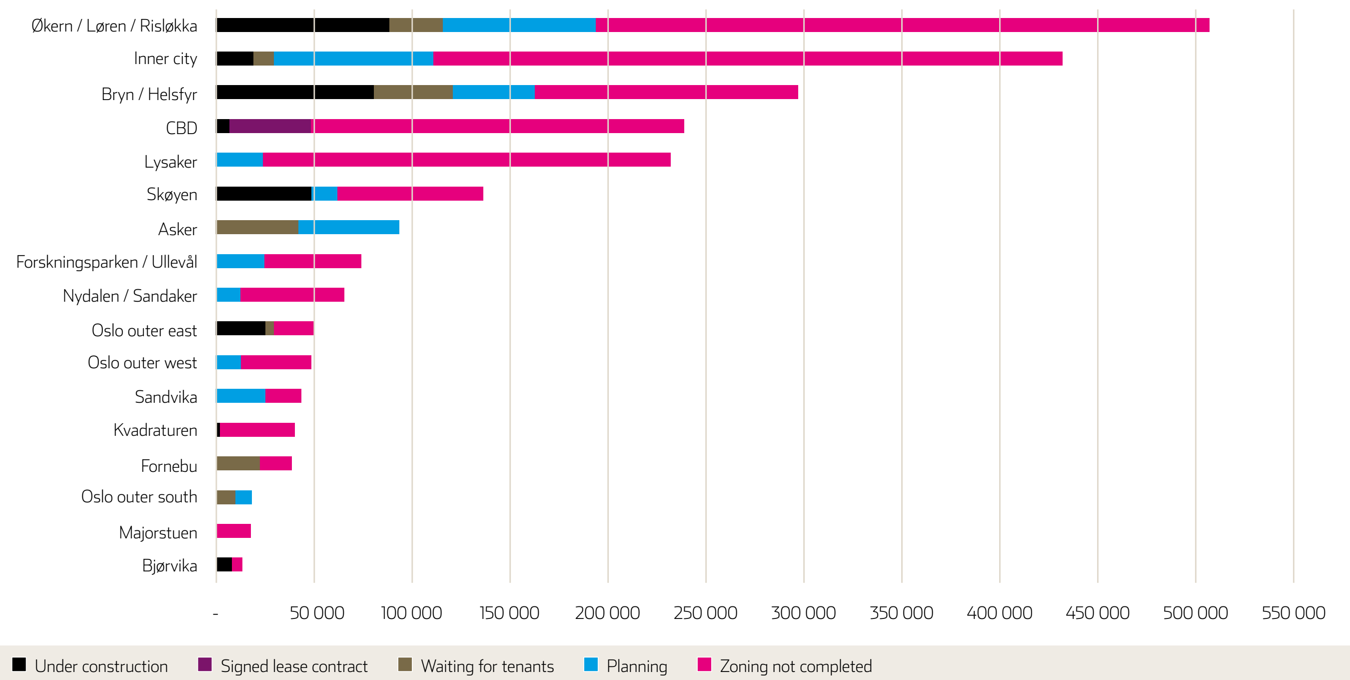
COMPLETION OF NEW OFFICE BUILDINGS IN GREATER OSLO AND EARLIEST POSSIBLE COMPLETION OF PROJECTED NEW OFFICE BUILDINGS (IN M²)*



*As at 30 October 2019

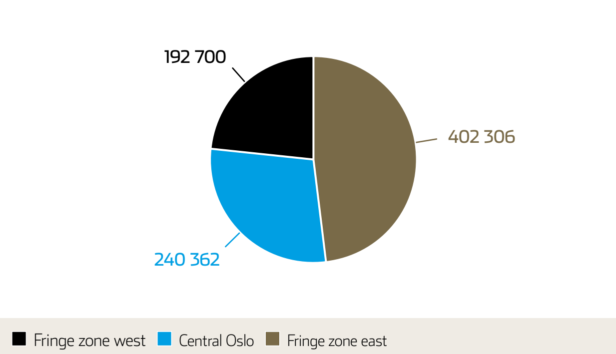
Source: Malling & Co

OFFICE CONSTRUCTION VOLUMES SPLIT BY STATUS AND CLUSTER (M²)



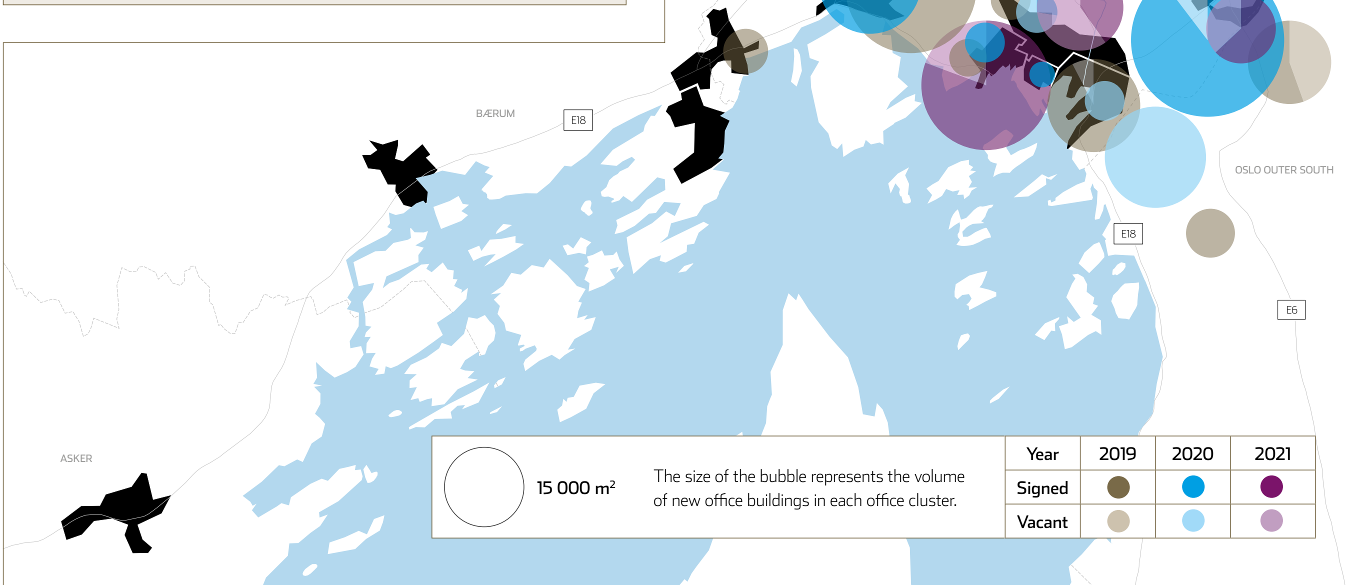
Source: Malling & Co

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



Source: Malling & Co

CONFIRMED NEW OFFICE BUILDINGS THAT WILL BE FINALIZED 2019–2021



Source: Malling & Co

PROJECT VALLE, HELSFYR
Malling & Co Corporate Real Estate was the advisor for NCC Property Development in the sales process of the 60 000 m² office project under development at Helsfyr.


scandic

Supply and vacancy in Greater Oslo

Continued low vacancy but increases expected due to higher construction activity

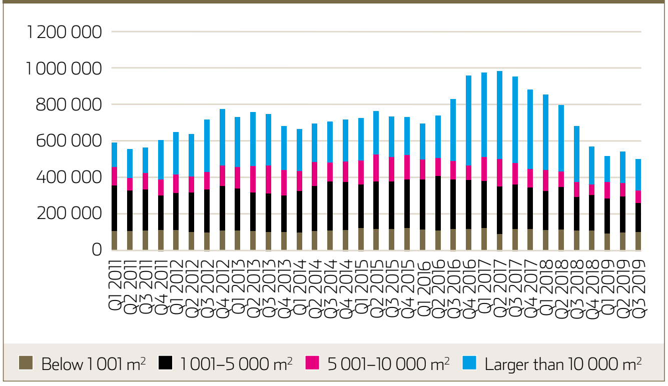
Vacancy in Greater Oslo remains at a low level, although it has increased slightly since our previous market report and is currently measured at 5.2 %. This is in line with our prediction that vacancy will remain at a low level throughout 2019 before increasing in 2020. Vacancy is still at its lowest in central Oslo with barely 4 % vacant office space, while the eastern fringe and the western fringe is at 6 % and 7 % respectively. Total offered supply remains neutral at 6.6 % and has not changed much since our previous report. We maintain our forecast from May that vacancy will increase gradually in 2020, as more new constructions are approaching completion and added to the market.

While vacancy in both central Oslo and the western fringe remains at the same levels as in May, the vacancy in the eastern fringe has increased from 5 % to 6 %. Amongst the reasons for this increase is the inclusion of Lørenveien 65 and Østre Aker vei 20 to the vacancy count. While Lørenveien 65 is a newbuild and has up until Q2 2019 been counted as a part of supply, Østre Aker vei 20 has been treated as supply rather than vacant space as it is not available for tenants until Q2 2020. The increase in vacancy in the eastern fringe is in line with our prediction that vacancy will increase, starting with the clusters that have the highest potential new construction volume. Around 50 % of the confirmed new construction volume in our database between 2019–2022 is expected in the eastern fringe.

The availability of office space over 10 000 m² has decreased greatly over the last 3–4 years. Comparing Q3 2019 to Q3 2017, the supply of space greater than 10 000 m² has fallen by 64 %. Not surprisingly, this segment is particularly scarce in central Oslo with only two spaces currently on the market, while it is highest in the eastern fringe with five spaces. Traditionally this segment has consisted of larger newbuilds or refurbishments that are fully vacated, hence this decrease is consistent with the low new construction level we have had over the last years. As new construction is expected to increase from 2020 onwards, we expect the availability of larger office space to increase likewise.

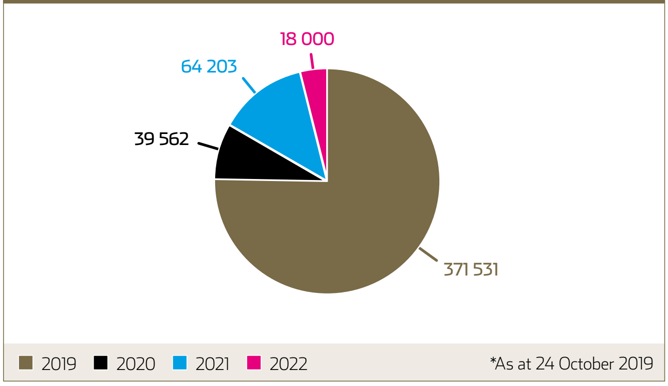
Total supply in Greater Oslo is currently at 6.6 %. It has increased slightly since its lowest point in Q1 2019, however it is nowhere near its peak of 12.6 % in Q2 2017. We expect supply to increase gradually going forward as new construction is expected to increase from 2020–2022. Currently around 7 % of the total advertised space (total supply) is available from 2020, 10 % is available from 2021 and 14 % is available from 2022. While the space that is available from 2020 is already included in vacancy, the remaining 82 000 m² will be added to vacancy in 2020 and 2021 as the newbuilds approach completion. Moreover, there are many more newbuilds in the pipeline that are not yet on the market, but are likely to enter it over the next few years. We expect to see the effect of increased construction on both supply and vacancy from mid-2020.

OFFICE SPACE FOR RENT IN DEFINED OFFICE CLUSTERS (M²) PER SIZE INTERVAL



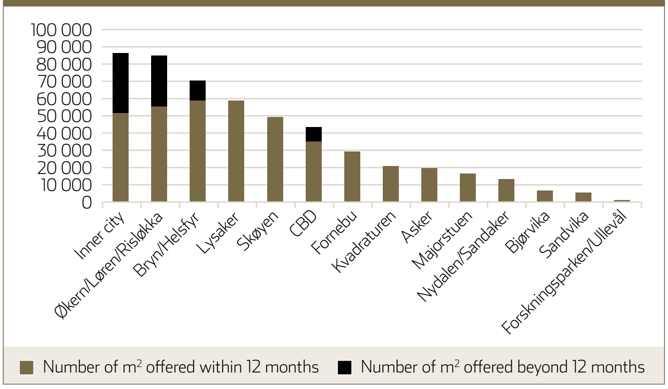
Source: Malling & Co/FINN.no

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



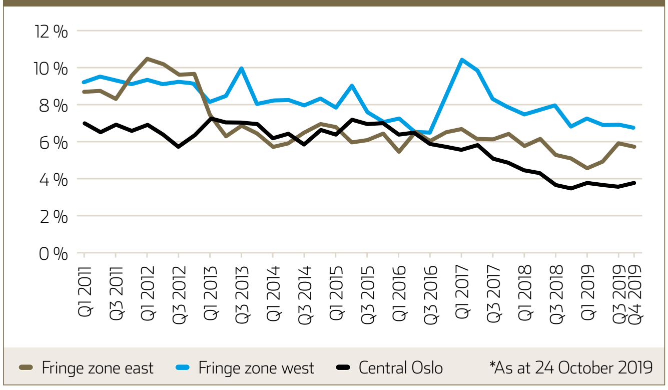
Source: Malling & Co/FINN.no

OFFICE SPACE FOR RENT DIVIDED INTO OFFICE CLUSTERS PER OCT 2019 (M²)



Source: Malling & Co/FINN.no

VACANCY IN CENTRAL OSLO, EASTERN AND WESTERN FRINGE ZONE



Source: Malling & Co/FINN.no

BYPORTEN, JESSHEIM
Malling & Co Næringsmegling AS has been responsible for the letting of approx. 7 000 m^2 big box retail space to well-known tenants.

How we measure supply

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

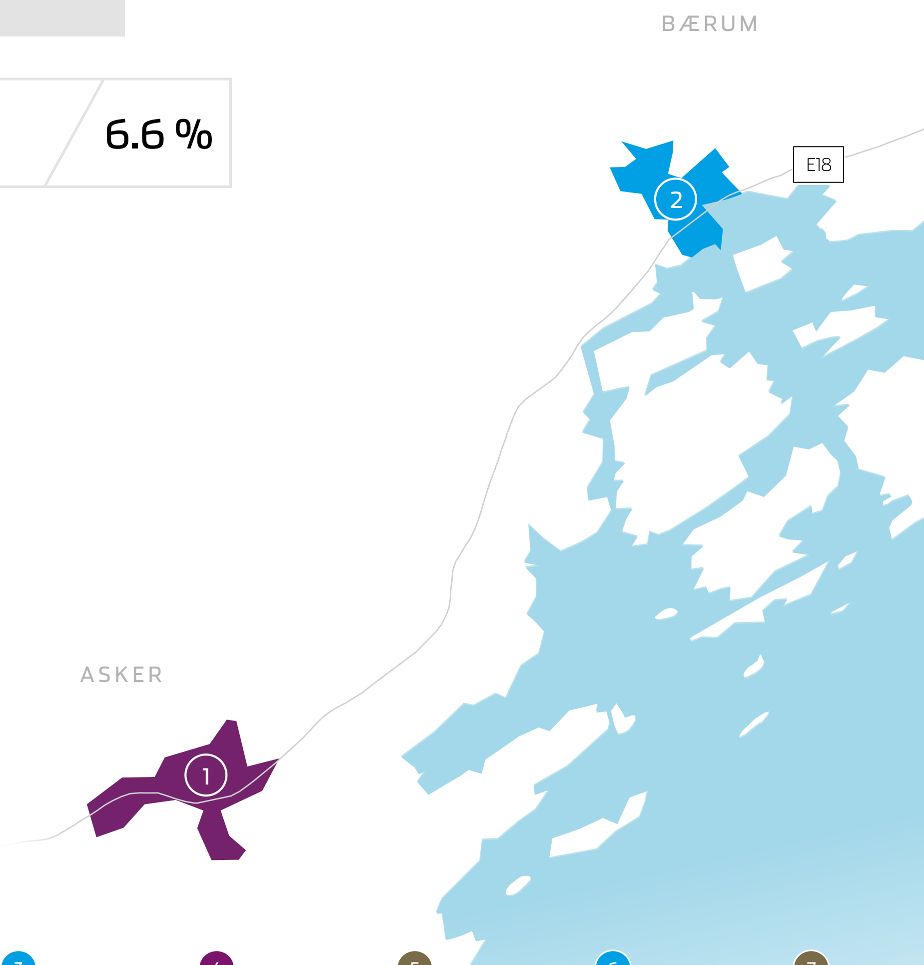
Vacancy* and supply**

* 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.

Note: Vacancy and supply is measured as an average of the vacancy and supply in the defined office clusters. From H2 2019 we have made changes to our office clusters. Billingstad has been removed as this area has gradually developed into being mostly residential and big-box retail. However, we have added Forskningsparken/Ullevål as an office cluster as this is a growing area that has reached our definition of cluster.

VACANCY* IN DEFINED OFFICE CLUSTERS – Up approx. 30 bps in the past 12 months: **5.2 %**

SUPPLY IN DEFINED OFFICE CLUSTERS** – Down approx. 50 bps in the past 12 months: **6.6 %**



Map colour indicates vacancy rates per October 2019

0–5 % | 5–10 % | 10–15 % | Above 15 %

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

#	Cluster	Vacancy rate per October 2019	Supply rate per October 2019
1	ASKER	11 %	11 %
2	SANDVIKA	2 %	2 %
3	FORNEBU	5 %	5 %
4	LYSAKER	11 %	11 %
5	SKØYEN	9 %	9 %
6	FORSKNINGSPARKEN / ULLEVÅL	1 %	1 %
7	MAJORSTUEN	10 %	10 %

	8 CBD	9 KVADRATUREN	10 INNER CITY	11 BJØRVIKA	12 NYDALEN / SANDAKER	13 ØKERN / LØREN / RISLØKKA	14 BRYN / HELSFYR
VACANCY RATE PER OCTOBER 2019	5 %	3 %	3 %	2 %	3 %	6 %	7 %
SUPPLY RATE PER OCTOBER 2019	6 %	3 %	5 %	2 %	3 %	10 %	8 %

Source: Malling & Co/FINN.no

Further development of the rental market
Rental growth to slow down

The drivers

› *Economic growth is likely close to the peak:* Leading indicators show continued strong economic growth in Norway, but a slightly more negative outlook in the coming year.

› *Growth in employment is strong but expected to slow down:* Employment numbers show continued strong growth in employment in Oslo so far into 2019, with typical office-using sectors as growth winners. However, we expect growth to diminish, as employment rates in Oslo is reaching previous tops, in combination with an expected slowdown in overall economic growth.

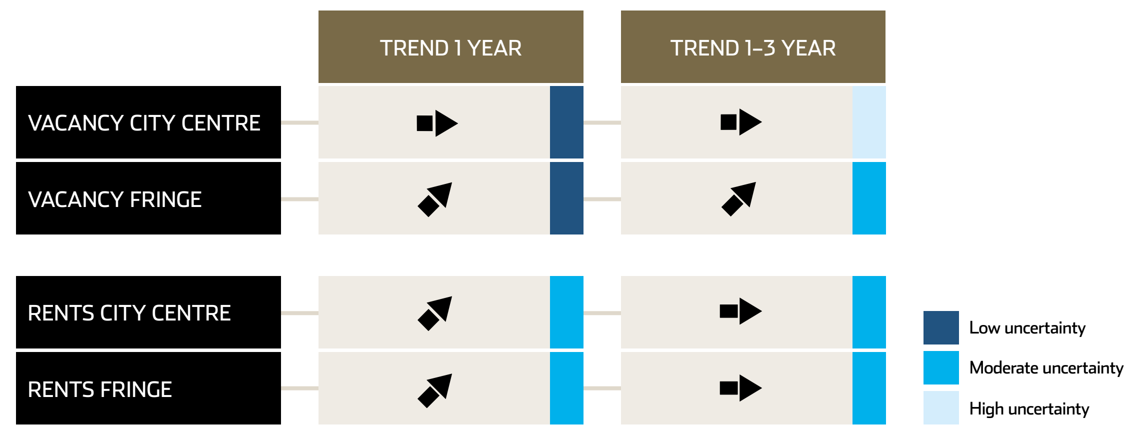
› *Vacancy is flattening:* Vacancy in office clusters has stabilised in the past six months, but supply of new projects will increase moderately over the coming year, including newbuilds and refurbishments in the most attractive office clusters.

› *New construction will increase and the conversion rate will slow down:* Continued moderate net office construction over the next 12–18 months is expected to keep the vacancy low, but rising slightly. The higher vacancy will probably slowly rise as net construction increases and net take-up slows down. Conversion from office to other use is expected to slow down as the difference in value per m² office vs. residential and retail has been reduced.

› *Retail conversion poses a risk:* The struggling retail sector has started to increase retail vacancy and we are seeing examples of landlords considering conversion to office, or to program new developments with more office and less retail. In the case of converting from retail to office, the supply side may suddenly increase within the existing stock of real estate.

› *Public transport as key driver:* Immediate proximity to public transport will continue to be the key driver for office rental growth, as the new city council will continue to limit car traffic in the city, cut public transport tariffs and limit parking opportunities. Increased commuting is also a key driver for public transport.

› *Yields to remain low or compress even further:* Further yield compression or even lack of yield increase will again put pressure on breakeven rents for new developments. The recent years' increase in construction costs may counteract some of the yield compression effects.



Source: Malling & Co Fall 2019

Short-term forecast (1 year): Increasing rents

› City centre rents continues to increase by 10 % annually on a four-quarter rolling average into 2020, but is expected to fall back to a 5 % growth by Q3 2020.

› We expect rental increase to continue to spread into the fringe office clusters causing the 4-quarter rolling average to increase to a maximum of 5 % in Q1 and Q2 before falling back to 2–3 % annual growth.

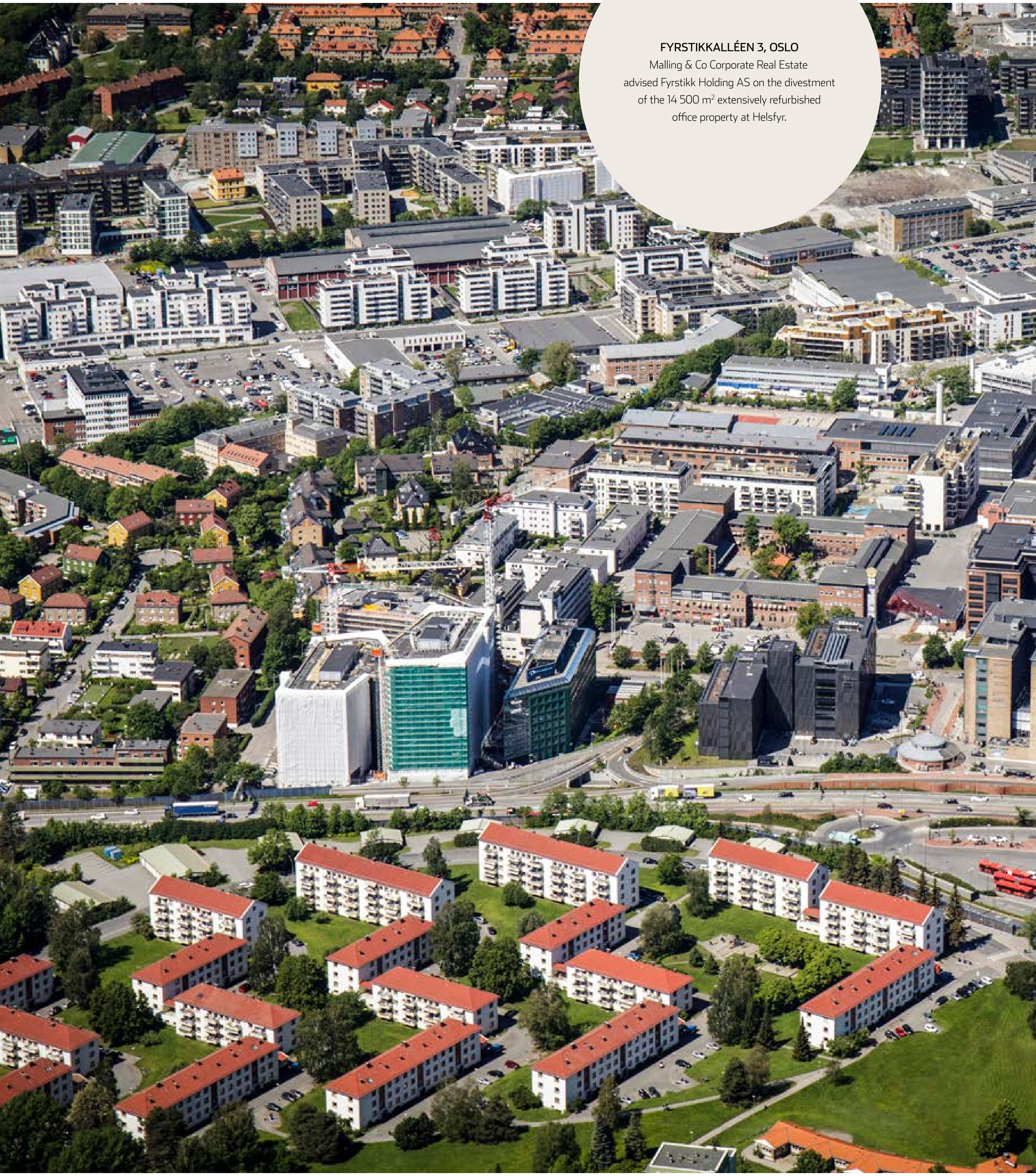
› Vacancy is expected to increase slightly, but may be limited by the further overhang effects of the past growth in employment.

Long-term forecast (1–3 years): Rents flattening

› City centre rents will stabilise as new developments are within reach of finalising

› Increased net construction and less favourable conditions for net negative conversion from office, along with slower economic growth, is expected to slow down rental growth.

› We are seeing little downside risk on rents at the moment. By studying previous downturns, we could expect a rental decrease from an economic shock at a maximum of 10–15 % a year. This is however considered unlikely.



FYRSTIKKALLÉEN 3, OSLO

Malling & Co Corporate Real Estate advised Fyrstikk Holding AS on the divestment of the 14 500 m² extensively refurbished office property at Helsfyr.

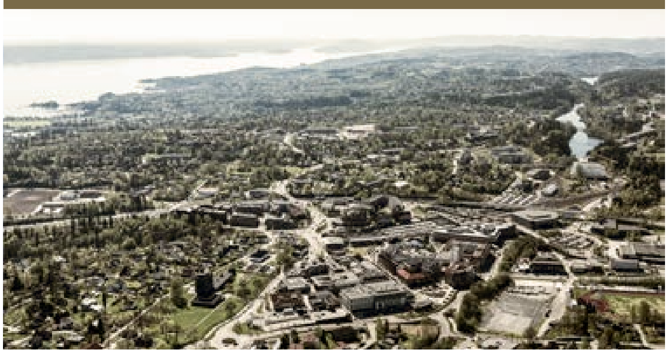
The rental market
Greater Oslo

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 of advertised vacant space from Norway's dominant marketplace FINN.no, which we have further processed through algorithms. Utilising these numbers, we find that the total supply for all our defined office clusters decreased from 7.1 % to 6.6 % over the past 12 months. Moreover, vacancy has increased slightly from 4.9 % to 5.2 % 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)
Schibsted	Akersgata 55 / Inner City	Akersgtaa 55 / Inner City	~ 32 000
Høgskolen Kristiania	Urtegata 9 / Inner City	New establishment	~ 15 800
Finn.no	Grensen 5-7 / Inner City	Extension / Inner City	~ 10 500
Haavind	Haakon VIIs gate 10 / CBD	Bygdøy Allé 2 / CBD	~ 6 000
The We Company (WeWork)	Fjordalléen 15 / CBD	New establishment	~ 4 200
Den Norske Legeforeningen	Kirkegata 23-25 / Kvadraturen	Temporary location	~ 4 100
The We Company (WeWork)	Haakon VIIs gate 5 / CBD	New establishment	~ 4 000
Cognizant Technology Solutions	Professor Kohts vei 15-17 / Lysaker	Snarøyveien 36 / Fornebu	~ 3 500
Advokatfirmaet Føyen Torkildsen	Dronning Eufemias gate 8 / Bjørvika	C.J. Hambros plass 2D / Inner City	~ 3 000
Norconsult	Kongens gate 21 / Kvadraturen	New establishment	~ 2 800
The We Company (WeWork)	Tjuvholmen allé 1-5 / CBD	New establishment	~ 2 700

ASKER



	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	1 600–1 800	1 500–1 700
Prime rent (NOK/m²)*	2 150	2 150
Supply**	11 %	21 %
Vacancy**	11 %	13 %

Comment: Asker has one of the highest office vacancies in Greater Oslo. Both vacancy and supply currently stand at 11 %. Lensmannslia 4 is still the largest in the market with approx. 6 000 m². This, however, has considerably reduced since last spring, and in October it was announced that Asker Kommune had signed on to a 5 000 m² lease agreement. As for new constructions, examples include Asker Genera, Lensmannslia 22 and the major developments planned at Elvely. This spring we reported that Fredensborg acquired a property zoned for residential development within the Føyka-Elvely area-zone. Recently they acquired another property, which is also situated within the Føyka-Elvely area and has a development potential of about 8 000 m² office space.

SANDVIKA

	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	1 600–1 850	1 500–1 700
Prime rent (NOK/m²)*	2 250	2 200
Supply**	2 %	5 %
Vacancy**	2 %	5 %

Comment: The vacancy in Sandvika has not changed since our previous market report. It is still amongst the lowest vacancies in Greater-Oslo and consists mostly of very small-sized spaces. The activity in Sandvika is scarce expect for the developments at Sandvika East which is still at the planning stage. The project includes approx. 100 000 m² in total, out of which 26 000 m² is expected to be office. As reported in our previous market report, Viken county chose Sandvika as their main seat and acquired Leif Trondstad plass 7 for the construction of their new HQ. However, Viken county itself recently announced its intension to stop the merging of the counties, which puts a damper on hopes that the new HQ would help increase activity in Sandvika.

Note: Vacancy and supply is measured as an average of the vacancy and supply in the defined office clusters. From H2 2019 we have made changes to our office clusters. Billingstad has been removed as this area has gradually developed into being mostly residential and big-box retail. However, we have added Forskningsparken/Ullevål as an office cluster as this is a growing area that has reached our definition of cluster.

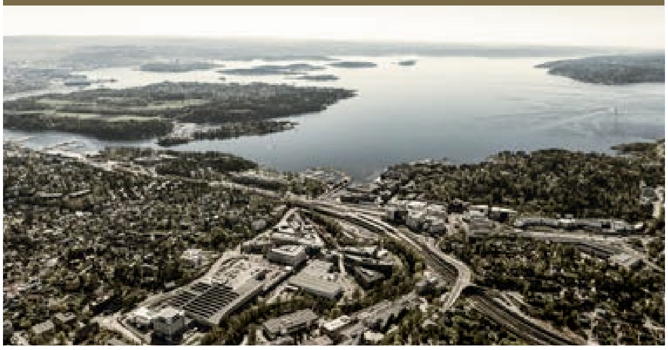
*See definition of «normal» rent and prime rent on page 26.
**See definition of supply and vacancy on page 18.

FORNEBU

	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	1 450–1 650	1 400–1 600
Prime rent (NOK/m²)*	1 950	1 950
Supply**	5 %	6 %
Vacancy**	5 %	6 %

Comment: Vacancy at Fornebu has decreased since last spring. Snarøyveien 36 is the largest space currently in the market with 25 000 m^2. As described in our previous report, Fornebu suffers from a lot of hidden vacancy (unoccupied space that is not offered in the market for various reasons). There are no newbuilds offered in the supply. New construction at Fornebu has been on hold for several years now and there is no reason to suspect that they will start up again any time soon. The Fornebu metro line is expected to be finalised in 2027 and will most likely contribute to the area's attractiveness as an office cluster.

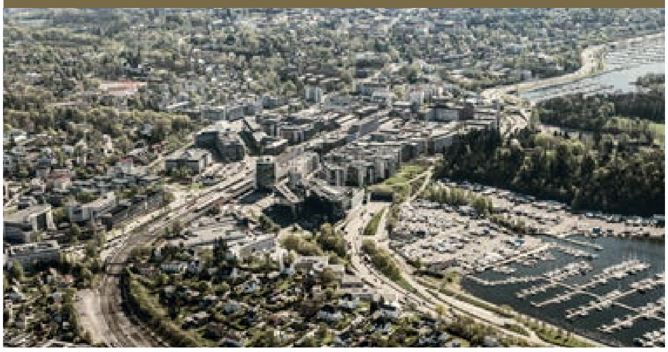
LYSAKER



	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	1 800–2 100	1 700–1 900
Prime rent (NOK/m²)*	2 400	2 350
Supply**	11 %	12 %
Vacancy**	11 %	12 %

Comment: The vacancy at Lysaker is still amongst the highest vacancies in Greater Oslo, currently standing at 11 %. The average size of vacant space at Lysaker is quite high as the majority is in the 1 000–5 000 m^2 range. There are currently no new constructions being offered as a part of supply, as most of the construction activity at Lysaker is at an early stage. The main project is Lilleakerbyen, which includes almost 500 000 m^2 in total, out of which 196 000 m^2 is expected to be office space. The construction of Lilleakerbyen is expected to be realised in stages, and it has been made clear that a new retail area will be completed before demolishing the shopping centre CC Vest. Lilleakerbyen is currently under zoning, which is expected to be finalised in 2021.

SKØYEN



	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	2 300–2 700	2 100–2 500
Prime rent (NOK/m²)*	3 300	3 100
Supply**	9 %	14 %
Vacancy**	9 %	6 %

Comment: The vacancy at Skøyen has remained neutral since May and is currently 9 %. Vacancy at Skøyen increased somewhat during the first half of 2019, as new constructions expected to be finalised in 2020 entered the count. Most of this increase has however already been absorbed by the market. Going forward new construction activity at Skøyen has mostly been put on hold pending the long-expected area zoning at Skøyen.
The proposal that was put forward in 2018 was criticised by both landowners and residents. There are however multiple potential new constructions in the pipeline which is likely to enter the market in the long run.

FORSKNINGSPARKEN / ULLEVÅL

	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	1 700–2 000	1 550–1 850
Prime rent (NOK/m²)*	2 300	2 300
Supply**	1 %	1 %
Vacancy**	1 %	1 %

Comment: This year we have added Forskningsparken/Ullevål to our group of defined office clusters in Greater Oslo. In our experience activity in this area has increased during the past couple of years and it has become a popular location especially for businesses with ties to research and medicine. The cluster is also expected to undergo further development. One new constructions expected at Forskningsparken/Ullevål is Sognsveien 72, where NGI is planning to build a new research campus. The project, which includes around 40 000 m^2 BRA, is still in zoning. There are also multiple new construction processes at Forskningsparken and UiO, currently in zoning. Moreover, the infrastructure in the cluster will receive an upgrade with new roads for pedestrians and cyclists along Sognsveien.

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

MAJORSTUEN

	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	2 200–2 600	2 000–2 400
Prime rent (NOK/m²)*	3 100	3 000
Supply**	10 %	4 %
Vacancy**	10 %	4 %

Comment: The vacancy at Majorstuen has increased substantially since our previous report, and currently stands at approx. 10 %. Majorstuen is a small office cluster, highly sensitive to changes in vacant spaces. The reason for the increase is that Fridtjof Nansens vei 12 has been added to the market with approx. 9 000 m^2. Fridtjof Nansens vei 12 is also an expected demolition and new-build. The project is currently in zoning and will include approx. 15 000 m^2 office space. The largest project at Majorstuen, however, is the new Majorstuen transportation hub. The project, which originally included approx. 100 000 m^2, was negatively received when it was introduced earlier this year and there have not been any updates since.

CBD

	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	3 200–3 800	2 900–3 500
Prime rent (NOK/m²)*	5 600	5 400
Supply**	6 %	7 %
Vacancy**	5 %	5 %

Comment: Vacancy in the CBD has not changed since the May vacancy and currently stands at 5 % while supply has increased and is currently at 6 %. The only newbuild currently being offered as a part of supply is VIA, which will be completed in 2021. The project is mostly pre-let and only 8 000 m^2 out of 42 000 m^2 office space remains available. Other projects in the cluster include the refurbishment and expansion of Dronning Mauds gate 1-3, which will be completed in 2020, and Tordenskiolds gate 12 which is at an early stage and currently in zoning. After the summer, it was announced that WeWork had signed at Haakon VIIs gate 5 (4 000 m^2), Tjuvholmen allé 1-5 and Fjordalléen 15 (7 000 m^2). The plan is to open the facilities at Tjuvholmen in Q1 2020.

KVADRATUREN

	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	2 500–3 200	2 200–2 800
Prime rent (NOK/m²)*	3 800	3 400
Supply**	3 %	7 %
Vacancy**	3 %	3 %

Comment: Vacancy in Kvadraturen remains at a similar level to the May vacancy. Most of the office space offered is small-sized, reflecting clusters' stock which is mostly made up of small buildings. Development in Kvadraturen usually takes the form of refurbishment or adding additional floors to existing buildings, rather than demolishment and new constructions. Examples of buildings that are currently undergoing refurbishment are Kongens gate 21 and Rådhusgata 9. There are, however, also a few new constructions in the pipeline. Fiskebryggafor example is currently in zoning and will include approx. 19 000 m^2 office space. Another expected newbuild is Kirkegata 23-25, which involves the demolition and new construction of a brand new office building.

INNER CITY

	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	2 800–3 400	2 400–2 800
Prime rent (NOK/m²)*	4 000	3 900
Supply**	5 %	3 %
Vacancy**	3 %	3 %

Comment: Vacancy and supply in the Inner City remain at 3 % and 5 % respectively. The supply (in excess of vacancy) is mostly made up of Tullinkvartalet and Stortorvet 7, which will be completed in 2021 and 2022 respectively. The Inner City has the second highest new construction potential in Greater-Oslo after Økern/Løren/Risløkka. The parts that will undergo the largest transformation are the areas surrounding the central station and Schweigaards gate. Most of the projects there are, however, still in zoning and we do not expect to see them for several years yet. For now, there are only four newbuilds in the Inner City that are likely to be built over the short term.

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

BJØRVIKA

	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	3 200–3 500	2 800–3 200
Prime rent (NOK/m²)*	4 400	4 200
Supply**	2 %	2 %
Vacancy**	2 %	2 %

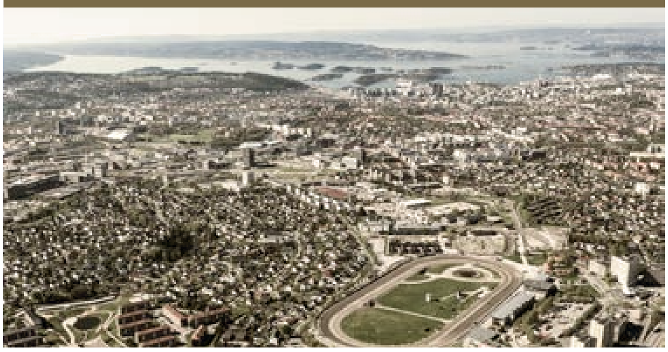
Comment: Vacancy in Bjørvika has remained at a low level ever since H1 2017. Currently, the total vacancy in Bjørvika constitutes a meagre 6 400 m^2, making up only 2 % of total stock. The office cluster is relatively new. However, the first building to be completed in Bjørvika back in 2007 is now being refurbished (Dronning Eufemias gate 8). The refurbishment is expected to be finalised in 2020 and will transform the former PWC HQ into a multi-tenant building. This summer it was announced that Føyen Torkildsen will occupy the buildings' top floors upon completion (3 000 m^2). Bjørvika has experienced high increases in rent in the past year, which is reflecting the cluster's transition into an alternative CBD area.

NYDALEN / SANDAKER

	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	1 800–2 100	1 700–1 900
Prime rent (NOK/m²)*	2 600	2 400
Supply**	3 %	3 %
Vacancy**	3 %	3 %

Comment: Vacancy in Nydalen/Sandaker remains at approx. 3 %, which is similar to the figure reported in May. 85 % of the vacancy in the cluster is made up of office space of between 1 000–5 000 m^2. There are several potential new constructions in the pipeline in Nydalen/Sandaker. One example is Avantor's Gullhaug Torg 5, which compromises 12 800 m^2 in total. The project has an estimated earliest completion in 2021. Avantor is also in the process of developing Gullhaug Torg 2A and Sandakerveien 113-116, which are both in zoning and expected to enter the market over the short and long term respectively.

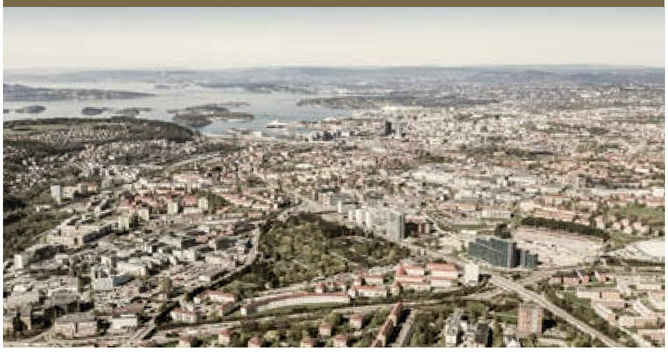
ØKERN / LØREN / RISLØKKA



	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	1 200–1 700	1 000–1 500
Prime rent (NOK/m²)*	2 200	2 200
Supply**	10 %	23 %
Vacancy**	6 %	3 %

Comment: The vacancy at Økern/Løren/Risløkka has increased since our previous market report. The main reason for this increase is that both Lørenveien 65 and Østre Aker vei 20 have been re-classified to vacancy due to timing of availability. Lørenveien 65 is a newbuild built on speculation, due to be completed mid-2020, while Østre Aker vei is an existing building which will be vacated in Q2 2020 when Statens Laanekasse moves out. Økern/Løren/Risløkka is expected to undergo the greatest transformation out of all the office clusters in Oslo. The cluster has a total development potential of almost 500 000 m^2, although 73 % of this volume is still in zoning. Among the confirmed projects are Karvesvingen 5 and 7, Haslevangen 18, Økern Portal and Construction City.

BRYN / HELSFYR



	Per October 2019	Per October 2018
Normal rent (NOK/m²)*	1 700–2 100	1 600–1 800
Prime rent (NOK/m²)*	2 400	2 300
Supply**	8 %	16 %
Vacancy**	7 %	8 %

Comment: Vacancy at Bryn/Helsfyr has not changed since May although it decreased somewhat in the intervening months. The largest space currently on offer is Østensjøveien 34 with 9 600 m^2. There are currently several properties in the market being offered for short-term letting, where the long-term plan is to develop the properties. As for short-term developments, Brynsveien 14 is currently under construction and will be finalised in Q4 2019, while Fyrstikkalléen 1 and Valle View (Step 2) are expected to complete in 2020. Although Helsfyr is still expected to undergo some development, the area is close to "finished". Going forward, much of the development is expected to take place at Bryn, while most new projects at Helsfyr will be redevelopment of old stock.

*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/YR)					
#	Office cluster	«Normal» rent*	△ Normal rent past 12 months	Prime rent**	△ Prime rent past 12 months
1	Asker	1 600 – 1 800	6 %	2 150	0 %
2	Sandvika	1 600 – 1 850	8 %	2 250	2 %
3	Fornebu	1 450 – 1 650	3 %	1 950	0 %
4	Lysaker	1 800 – 2 100	8 %	2 400	2 %
5	Skøyen	2 300 – 2 700	9 %	3 300	6 %
6	Forskningsparken / Ullevål	1 700 – 2 000	9 %	2 300	0 %
7	Majorstuen	2 200 – 2 600	9 %	3 100	3 %
8	CBD	3 200 – 3 800	9 %	5 600	4 %
9	Kvadraturen	2 500 – 3 200	14 %	3 800	12 %
10	Inner city	2 800 – 3 400	19 %	4 000	3 %
11	Bjørvika	3 200 – 3 500	12 %	4 400	5 %
12	Nydalen / Sandaker	1 800 – 2 100	8 %	2 600	8 %
13	Økern / Løren / Risløkka	1 200 – 1 700	16 %	2 200	0 %
14	Bryn / Helsfyr	1 700 – 2 100	12 %	2 400	4 %

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.

GRENSEVEIEN 95, OSLO

Malling & Co Project Finance has acquired Grenseveien 95 at Helsfyr which consists of 10 700 m² office facilities – and arranged a "club deal" on behalf of its investors.

STAVANGER

Vacancy rates stable, but increasing employment

Growth in employment in the Stavanger region is now booming in relative terms and is among the strongest of the large cities in Norway. Taking into account the difficult times after the oil price drop and massive layoffs after 2014, this shows that the employment market in the region is back at a normal level in terms of unemployment rates and capacity utilisation. The growth is however not yet seen in the vacancy levels for offices, which has been quite stable past six months. The Stavanger market is still seeing the risks from investors' general increasing concerns over Oil & Gas investments in a world with continuous increased focus on climate change and sustainable business models. The weak Norwegian krone and stock pricing of Oil & Gas companies is the key measure for investors' risk assessment of the industry. These changes are gradually affecting the Stavanger office market and we are starting to see increased differences among office cluster locations, with more focus on the city centre and public transport hubs.

The employment market still improving

- The registered unemployment rate measured by the Norwegian Welfare Administration (NAV) showed an unemployment rate at 2.2 % for Rogaland county and 2.6 % for Stavanger municipality in September 2019. The corresponding figures in September 2018 were 2.6 %, and 3.0 % respectively.
- The number of foreign employees not registered in Norway increased from 5 305 in 2015 to 7 232 in 2018 (Q4). Numbers for 2019 will be available in February. However, the 2018 number is still much lower than the peak of 10 125 in 2014, the year when the oil price dropped from above USD 110 per barrel to below USD 50 per barrel.
- Statistics Norway's (SSB) quarterly numbers for changes in wage earners (see page 8), confirms the strong increase in employment over the past year in the region with an increase of 5 446 wage earners from Q2 2018 to Q2 2019, corresponding to a 3.9 % growth.
- The quarterly LFS survey from SSB confirms the trend of increasing employment in the region.
- Based on previous employment peaks, there is still room for significant employment growth despite low unemployment rates. The trend in other markets, like Oslo, is that employment rates will gradually increase as more people come into the workforce when the employment market improves.

Office letting market

Compared with the figures from our last report in June (vacancy measured in April), the overall vacancy in Stavanger has remained at the same level. Forus is still the vacancy leader (in absolute numbers) with an estimated 178 000 m² vacancy in October 2019. Most buildings that were previously taken off of the market are now being re-offered either fully or partially. This indicates that landlords are more positive about attracting tenants with their assets. One such example is Grenseveien 21, which has been given an interior makeover as well as a pedestrian zone to help attract tenants. The pedestrian zone will be Forus' first and will facilitate multiple F&B offerings. However, it seems that although leases are signed in buildings that have been vacated for a long time, these tenants are in most cases vacating other buildings, leaving the net absorption of space low and leaving vacancy at high levels. It should be noted that we have made changes to the vacancy measure since our previous report. We are stricter on classifying assets as office buildings, only counting it as office stock if office space takes up more than 50 % of the space. We have also made changes to the numerator and only use available space in buildings matching the office definition. The business structure in Stavanger with a strong Oil & Gas sector leaves many properties as combined assets with both storage, workshops and offices combined.

Market rents at Forus are still low and trades at below NOK 1 000 m²/yr on short-term leases, led by sublet space. An increase in rent seems difficult until vacancy at Forus comes down to normal levels.

Rents appear to have remained particularly stable in the region over the past year. However, we are seeing some new projects in the city centre aiming at rents of NOK 3 500 m²/yr or above for top floors. Our top rent estimate in the prestige segment in the city centre still stands at NOK 3 100 per m² but may be adjusted upwards if some of these target prices are reached in new developments. Access to public transport and urban locations are still believed to be winning factors for office in this market.

There are still very few tenants actively searching for premises in Stavanger. In contrast to the Oslo market, which is very active in office searches, only a couple of smaller searches and one medium search, EY searching for 2 000–4 000 m², have been recorded so far in 2019.

New Developments

- Aker BP's plan to erect a new development in Paradis has seen political resistance and their plans are now officially put on hold.
- Base Property is planning a new high rise office building in the city centre which is currently under zoning.
- SR Bank's New HQ "Finansparken" will be finished in November 2019, with a gross space of 22 600 m².
- Herbarium will open in early November 2019, a combined retail and office building in the heart for the city centre offering 7 500 m² office and 10 000 m² retail.
- Kopholen 14 will be finalised in 2020, a 9 500 m² building leased to NAV Rogaland.

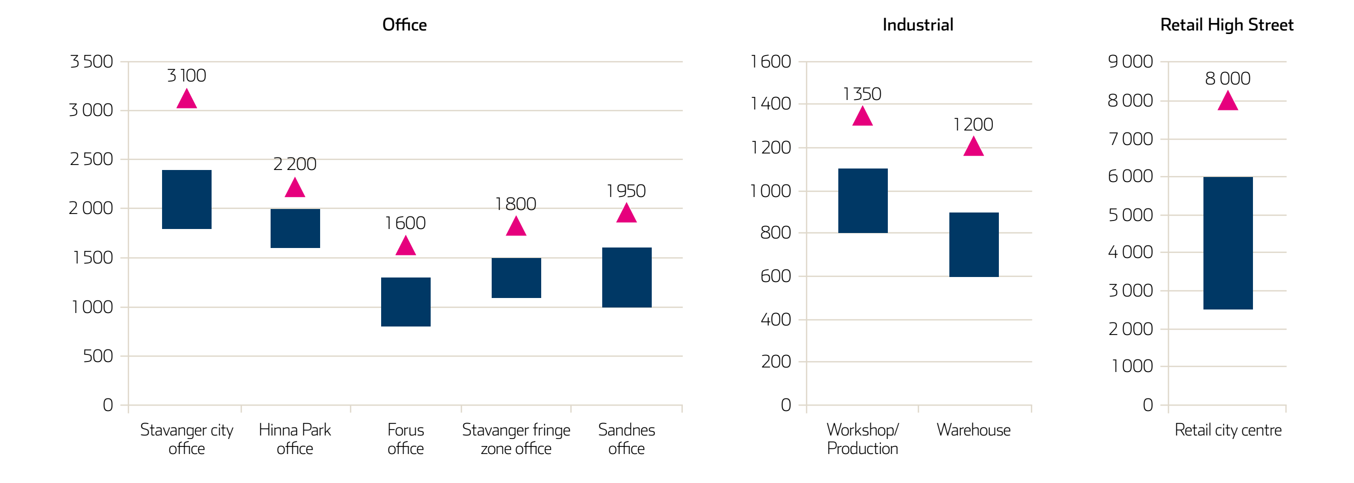
Investment market

We have registered just above NOK bn 3.9 in transaction volume for the region year to date, divided across 18 transactions (over NOK M 50). The market in Stavanger is still challenging compared to the hay days of old but it is, as we have mentioned in previous reports, getting a lot better. Nevertheless, this does not mean that interest is mirroring the likes of Oslo, Bergen and Trondheim, where yields have been compressing again due to interest rates dipping back down over the summer. The Stavanger investment market is still that of cautious risk averse investments with long solid leases and solid tenants, or that of a very good deal. Another interesting feature is that the buyers are predominantly domestic, not local. Although the market is slowly moving in the right direction, and rental contracts are being signed again, seeing that the office vacancy level is still well above 10 % does something to an investor's sentiment.

Recent major transactions in the region

- An NRP syndicate has bought Solavegen 25, a 57 000 m² shopping centre called Jærhagen, from Coop and Dolphin Eiendom for an estimated NOK M 1 000.
- Birkebeiner Eiendom has purchased Moseidsletta 114 at Forus, a 10 100 m² retail property, from a group of investors.
- Asset Buyout Partners has purchased Oil & Gas related properties in Dusavika and Risavika.

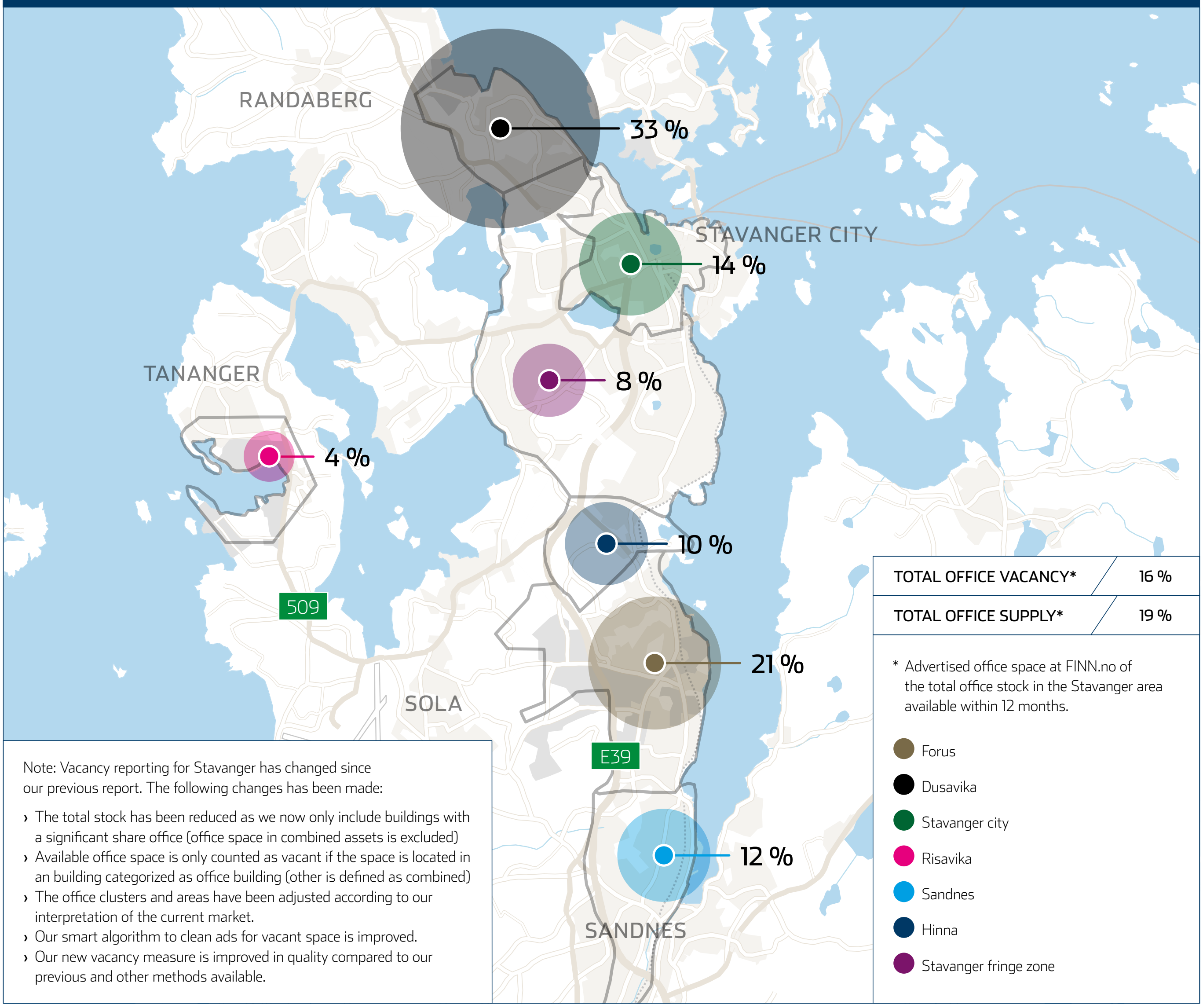
INDICATIVE RENTS IN THE STAVANGER REGION DIVIDED INTO AREAS AND SECTORS (NOK/M²/YR)



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

Source: Malling & Co

OFFICE VACANCY*



Note: Vacancy reporting for Stavanger has changed since our previous report. The following changes has been made:

- The total stock has been reduced as we now only include buildings with a significant share office (office space in combined assets is excluded)
- Available office space is only counted as vacant if the space is located in an building categorized as office building (other is defined as combined)
- The office clusters and areas have been adjusted according to our interpretation of the current market.
- Our smart algorithm to clean ads for vacant space is improved.
- Our new vacancy measure is improved in quality compared to our previous and other methods available.

TOTAL OFFICE VACANCY*	16 %
TOTAL OFFICE SUPPLY*	19 %

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

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

Source: Malling & Co/FINN.no


expert
ESSO

EDGE PORTFOLIO

Malling & Co Corporate Real Estate advised H2 Eiendom on the acquisition of the big-box retail portfolio comprising a total of 100 000 m².

DRAMMEN

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Our Drammen office is again reporting a very high level of activity in the region, back at levels seen in 2016 and 2017. 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 m^2 of office space, 600 000 m^2 of retail premises and 800 000 m^2 of industrial/logistics/mixed-use premises. Vacancy in Drammen is around 7 % for office space and 2 % for industrial/logistics premises.

The rental market

The activity level has been good overall, but there are vast differences within the different segments, and the supply/demand balance varies greatly between geographical locations.

Office

The past six months have seen several large rental contracts closed, from both the public and private sector. Amongst the most prominent examples are a government entity and Evolve Business Center, taking 4 400 m^2 in DBC – Drammen Stasjon Business Center. The 13 000 m^2 building will be completed in February 2020 and has only 630 m^2 vacant space left.

In the medium term there is an increasing supply side at Strømsø with the development of centrally located newbuilds as well as a few refurbishments underway. Noteworthy projects include Portalen by Union Eiendomsutvikling, T-2 from Obligo Real Estate (refurbishment) and Doktor Hansteinsgate 17 from Vestaksen Eiendom. These projects alone make up a combined addition to the office stock of 21 500 m^2, a significant addition to the city's total office stock.

Drammen has historically seen slightly higher vacancy levels in the office segment than the Oslo market, but the vacancy has decreased over the past year. And a consequence of this has also been the amassment of a higher share of older and inefficient office space. There is now a clear tendency that tenants are demanding more of their premises, and landlords having to come to terms with putting forth significant investments to bring their properties up to today's required standard. Tenants are also willing to pay for high quality space, and new record levels are seen on new grade A-space. The city itself is brimming with potential as an office destination, but will require substantial upgrades of much of the existing office stock as well as high quality newbuilds around public transportation hubs. We therefore believe we will see an increased focus on newbuilds in Drammen in the coming years, and increased clustering of office tenants at Strømsø.

Logistics

The logistics segment is characterized by very low vacancy on the existing stock of properties, but there are still a fair amount of new development projects that are available for tenants considering newbuilds as an option. In relation to the newbuilds being available, there are already a few companies in the process of relocating to new premises as they swap space demanding activities with a leaner process, allowing for more centrally located high utilization properties.

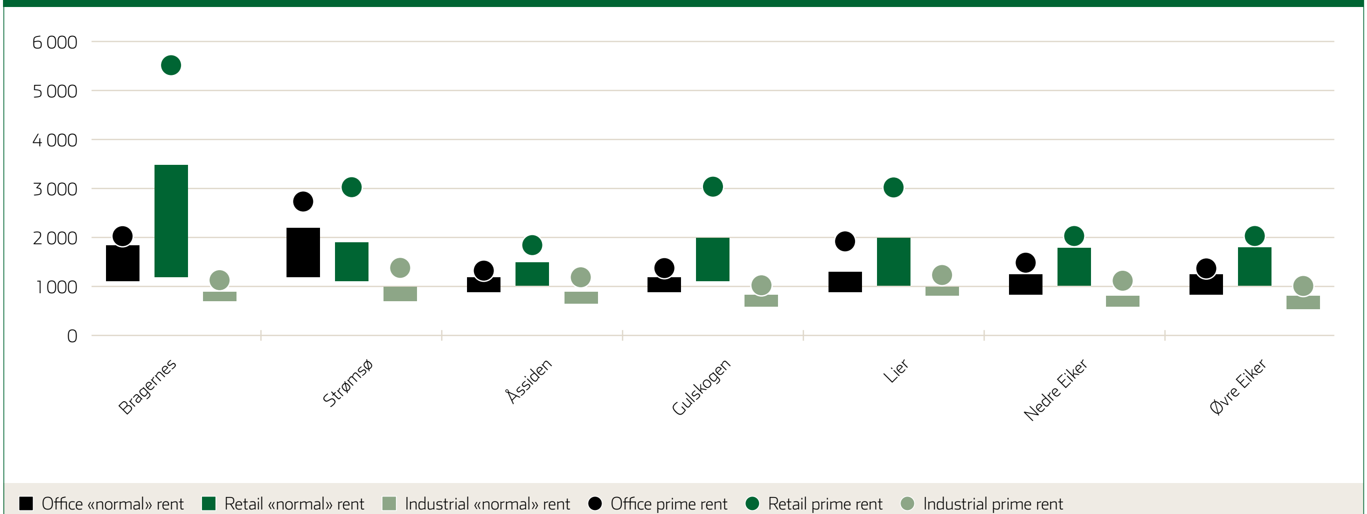
The challenge is often the tenant's willingness to pay, as the price of land and building costs require higher rents for an economically feasible development. Furthermore, there is the requirement to be close to major throughways, which is a major factor in determining the demand and corresponding vacancy of a property or an area. Examples of properties that are fulfilling these requirements are Liertoppen and Kobbervikdalen, and both are seeing a lot of interest and activity. Of late we can highlight the rental contract signed by Cenika AS for a 6 000 m^2 newbuild at Liertoppen.

Retail

We are currently observing lower demand and increasing vacancy for retail in general. Decentralising factors such as online retail and increasing parking cost downtown are leading to falling turnover and decreasing margins for tenants. Multiple retail concepts have already, or are in the planning process, of reducing their space to counter the effects of decreasing revenues. This is in turn putting downwards pressure on rents and tenants are demanding that landlords absorb the increased risk through more turnover based rents and shorter leases.

We are however still observing a relatively good rate of new establishments from typical concepts within the categories for wider general goods and different forms of space-demanding goods. The demand from these tenants for quality properties with good accessibility is high.

INDICATIVE RENTS IN THE DRAMMEN REGION – OFFICE, RETAIL AND INDUSTRIAL (NOK/M²YR)



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

Source: Malling & Co

The transaction market

The transaction market has strengthened as the year has gone by after a somewhat slower start than previous years. Gearing up over summer, we saw the launch of a few larger properties and a few portfolios for sale. The interest from investors is high, and several LOIs have already been signed. The region continues to attract both local and domestic investors, as well as international. Previous interest has been focused on the logistics and mixed-use market, but the interest in office properties has been growing stronger. This is probably due to the availability of newer and more environmentally friendly centrally located properties being filled up with quality tenants before coming to market, as well as the general flavor preferences for office among investors. Properties achieving higher rents in the office clusters around the public transport hubs are especially of interest to investors. Pure core properties are always attractive, and these are achieving good price levels. The interest in value-add properties is increasing, as the opportunity to build value through good development provides an opportunity to increase returns. Buying value-add properties in Drammen has traditionally been a flavor preferred by the local investors, but we are starting to see the domestic financially driven investors taking an interest in these assets when coming to market. There is still a shortage of good assets compared to the demand and the investor universe in the region is increasing. The wider composition of backgrounds and investment capabilities than seen before means local players have built up financial muscle over time and are as always very active, accompanied by more regional and domestic players, often in partnership models trading local know-how for increased financial muscles.

Land

The demand for land is still high in Drammen and the surrounding region. There are few large plots of land close to the city centre that remain undeveloped, and companies in need of larger plots are forced to look further out in the fringes to establish their space demanding business.

Fiskumparken is located along the E134 between Hokksund and Kongsberg. Vestaksen Eiendom is developing more than 500 000 m² commercial and retail space. The sale has now begun, and a few plots of land have already been reserved. Building on the first plots will commence sometime during the fall of 2020.

Hanekleiva commercial park in Sande in Vestfold, south of Drammen, will become an attractive alternative with its strategic location close to the E18. ASKO is now constructing a 28 000 m² logistics facility in the park for the distribution of groceries.

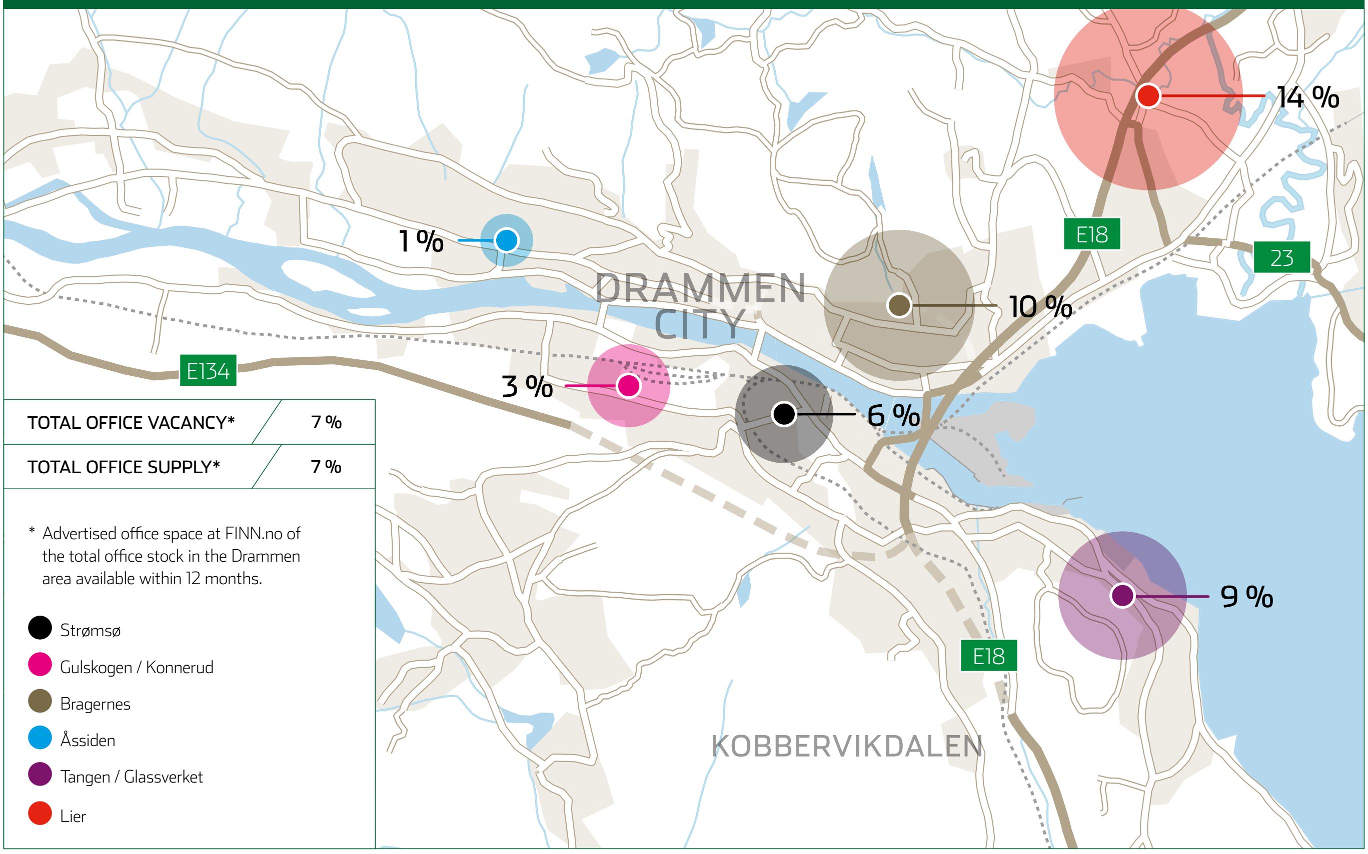
Latest lease agreements

- A government entity has signed a lease agreement for 3 050 m² office space at Drammen Stasjon Business Center
- Evolve Business Center has signed a lease agreement for 1 350 m² office space at Drammen Stasjon Business Center
- Viken Fylkeskommune has signed a lease agreement for 1 150 m² office space at Grønland 70
- Cenika AS Sør has signed a lease agreement for 6 000 m² mixed use space at Ringveien 2 at Liertoppen

Latest transactions

- Eikringen 13 in Drammen, a 5 000 m² logistics property, has been sold from VN Leker AS
- Ryghgata 6A in Mjøndalen, a 2 500 m² industrial property on a 18 500 m² plot of land, has been sold from Edel Eiendom AS and Mjøndalen Eiendom AS

OFFICE VACANCY



Source: Malling & Co/FINN.no

OSLO RETAIL

Retail is still facing strong headwinds, and there are unfortunately few signs of improvements in sight. The industry has been hit by both structural and cyclical effects, and consumer preferences are changing fast. People are buying fewer goods and products and would rather spend their time and money on activities and experiences. Even though the "retail apocalypse" became the centre of attention in 2017–2018, the trends we are seeing have been evident for many years prior to that. This is not a passing storm, but the new normal, that both landlords and retailers / tenants must adapt to and meet with renewed product offerings in order to succeed.

Consumption growth declining

Globally, it is estimated that total retail sales will reach a formidable USD tn 25.04 in 2019, which represents a 4.5 % growth from 2018 according to eMarketer. This is in line with sales growth in 2018 and might seem like a high number. However, this is a significant decline from the five preceding years, with annual growth of between 5.7 %–7.5 %, and shows that global retail sales are stagnating. If we split total retail in two sales channels, online and physical stores, we find that the growth mainly has been driven by online sales. During recent years, online retail has increased by 20–30 % each year, while retail in physical stores has increased by 2 % p.a. Even though "only" 14 % of global retail sales is made online, both relative and absolute growth are higher for online retail compared to physical stores. In 2019, eMarketer estimates that growth in online retail will amount to approximately USD bn 600 while growth in physical stores will amount to USD bn 475.

Norwegian consumers are spending more online and abroad

In Norway, we see the same retail trends as seen globally. A higher share of Norwegians' retail consumption is spent online and abroad, and less is spent in domestic physical stores. Retail sales growth in physical stores has been relatively stable at around 2 %–3 % per year from 2013–2018, while growth in online sale has increased by 10 %–20 % p.a. During the same years, Norwegians' retail consumption when travelling outside of Norway has increased by 9 % p.a. on average. For the traditional physical store, this means higher competition both on pricing and product selection.

Clothing, shoes and accessories hit the hardest

Clothes, shoes and accessories are on top of the list of retail products Norwegian consumers buy online. The same categories are the ones who are struggling the most in physical stores, with negative growth from 2013–2018. Average annual growth in this period was -0.3 % for clothes and -1.8 % for shoes. The largest declines for both categories were in 2017 and 2018. For shoes, these years resulted in a decline in sales of -4.8 % and -4.3 % respectively, while the corresponding numbers for clothes were -0.9 % and -3.0 %. In Oslo's high streets, approximately 45 % of the tenants are in these categories. Many shopping centres have an even higher share of clothes and fashion. The turnover struggle affects all retailers, large as well as small. Seven of the top ten clothing chains in Norway experienced a decline in sales from 2017 to 2018. Four out of these seven experienced a decline in sales of between 6 %–9 %. These are surprisingly large drops from one year to another, even in an industry facing headwinds.

Shopping centres also affected

Norwegian shopping centres have also taken their share of the brunt, and growth in turnover has stagnated. For the top 20 shopping centres, average growth of 3.8 % p.a. from 2013–2015 was cut to 1.2 % p.a. from 2016–2018. In the first half of 2019, 10 out of these 20 shopping centres reported lower sales compared to the first half of 2018, and average growth for the top 20 in total was 0.4 % for the first 6 months of 2019. One important element that is often overlooked is the significant expansion of shopping centres' sales areas that has been taking place for several years now. If we take the expansion into account and look at the development of sales/m², the top 20 shopping centres have seen a negative growth of -2.0 % p.a. from 2016–2018. The numbers show that the marginal growth in total turnover has been driven by area expansions and not by increased sale/m². As always, there are some exceptions to the rule and in the Oslo area we are seeing positive growth in sales/m² at Storo senter, CC Vest and Aker Brygge, among others.

Significant consequences for property owners

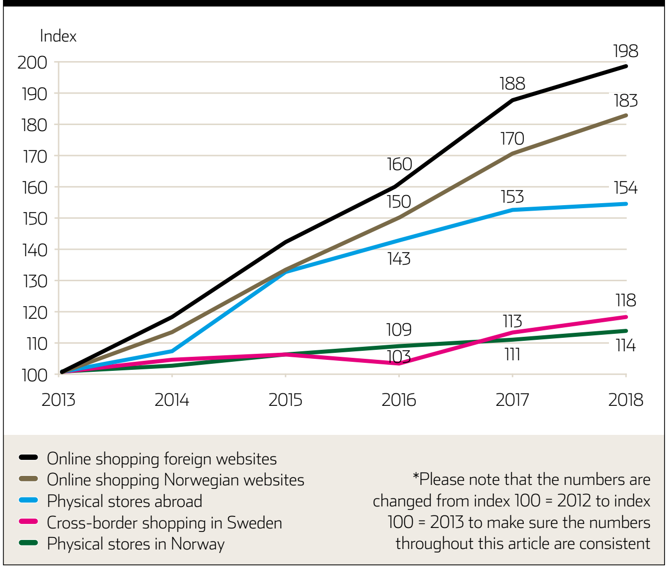
So, what are the consequences and challenges for retail property owners? Well, first and foremost, the struggle within retail forces retailers to review their store portfolio, resulting in cuts in both number of stores and size of stores. In Oslo, the demand for retail premises above 400–500 m² is almost non-existent and has been so for a long period. The market for smaller premises is now also poor. This trend is evident at prime locations, such as Karl Johans gate and Hegdehaugsveien/Bogstadveien, as well as in shopping centres and sub-prime locations.

Significantly lower demand has a huge impact on rental levels and pushes the negotiating power from the landlord over to the tenant. This is especially true for retailers within clothing/apparel and shoes, who have been experiencing a negative development in sales. This reduces their ability to pay rent and hence, if a landlord wishes to include the retailer as part of their retail offerings, the rent level must be reduced accordingly. At prime locations in Oslo, such as Karl Johan, Malling & Co's retail brokers estimate that rental levels are down 25–50 % compared to 2–3 years ago. The exact trend is difficult to estimate as there are few new contracts to use for estimating rental change. This development illustrates that no property or area is unaffected. Additionally, our brokers report that landlords must invest more in the property and the tenant's fit-out requirements to secure a deal as well as take more of the risks that tenants previously took on alone. This often means that the landlord must drop or significantly lower the minimum rent and take on more risk from the underlying retailer's business through more turnover-based rent. In addition, the landlord is having to cover services that were previously paid for by the tenant through common costs. Overall, this has huge implications for landlords with regard to their net cash flows.

Conversion is an option – but will often imply reduced rents

With a "long time low" demand for traditional retail space, an increasing number of prime retail premises are being used for other purposes. This includes more food & beverage, restaurants, activity-based services such as bowling and darts, and new retail concepts like pop-up stores and showrooms. We are also seeing conversions to other types of use, such as office. This can be a handy way to avoid vacancy but does not offer the same high rent levels as previously paid by traditional retail. It will therefore not fully compensate for the previously higher retail rent levels.

RETAIL SALES INDEX, (2013 = 100), NORWEGIANS' CONSUMPTION IN VARIOUS CHANNELS*



Source: SSB, Norges Bank, Virke analyse

ØVRE SLOTTSGATE 7
Malling & Co Næringsmegling AS has been responsible for letting of approx. 555 m² to the first Polestar showroom in Europe.

Scepticism for retail in the transaction market

The scepticism for retail properties is clearly visible in the transaction market. According to the professional investors responding to Malling & Co's quarterly transaction survey, prime yield for retail properties has increased to 4.15 % in Q3 2019, which is an increase of 15 bps from Q2 2019. In comparison, the same respondents report a decline in prime yields for office and logistics of 10 bps, increasing spread by 25 bps in total from Q2 to Q3. During the next 12 months, 45 % of respondents are planning to be "net sellers" of retail property, while none are planning to be "net buyers". Going forward, the respondents expect prime yield for retail to further increase to 4.30 % next year, while prime yield for office and logistics are expected to continue to decrease. The imbalance between buyers and sellers may continue to push yields upwards for retail properties. More details on this topic on page 36–37.

What next?

Going forward, we expect the retail trends discussed above to continue, potentially even to escalate. Environmental concerns are increasing among Norwegians, clearly visible in the results of the municipality election this autumn, e.g. in Oslo. In addition to three increases in the policy rate during 2019, we believe the high pressure on retail spend will continue throughout the year and into 2020. On the positive side, times of trouble are also a time for new ideas and reinventions, and we believe the retail industry will adapt to new consumer preferences and meet the demand with new services and product offerings. The question is not whether they will adapt, but rather how long time it will take and how. Christmas shopping is right around the corner and will give us a status update on the subject.

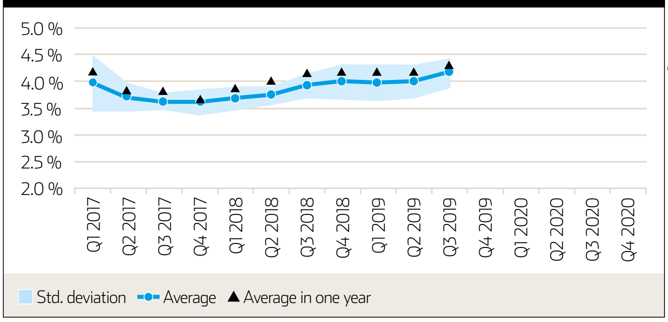
New establishments in retail:

- Skoringen opened a new flagship store at Kongens gate 24 in August
- Camilla Pihl is opening her first store, at Prinsens gate 23 in October, right next to Holzweiler and Ganni
- Øvre Slottsgate has experienced a rush of new openings this summer and autumn, including Cos, Rains' first store in Norway, and the first Polestar showroom in Europe

New F&B establishments

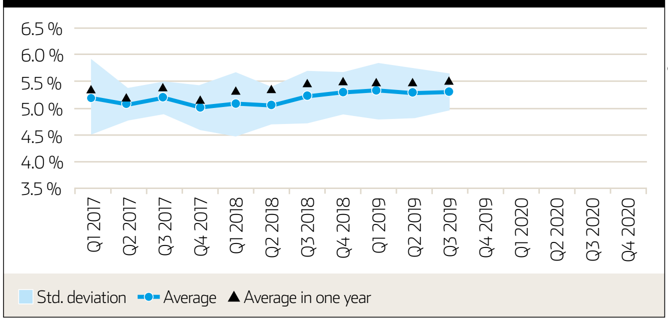
- Brasseri Rivoli opened at Munch Brygge this summer, serving French delicacies and cocktails
- Close by, Code Restaurant opened in October, at Dronning Eufemias gate 18
- Bølgen og Moi moved its flagship restaurant from Briskeby to Gimle in August
- At Vikaterrassen, several concepts have popped up this autumn, including both The Juicery and Valentes
- It is rumoured that Billies Kitchen, What's Soup, Gioia and SOT Bar & Burger will open at Valkyrien in March 2020

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



Source: Malling & Co

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



Source: Malling & Co

INDUSTRIAL & LOGISTICS

Investors want more! But why!?

Flat rents and flat vacancy levels

The vacancy in our defined logistics clusters and areas in Greater Oslo is 6.2 %, the same level as 12 months ago at the time of writing our last winter report, yet up 100 bps from 6 months ago. Diving further into our four defined sub-divisions reveals a vacancy of 5.2 % in the Northern region, 11.6 % in the Southern region, 3.2 % in the Western region and 4.2 % in the Central region. Most established logistics hubs are continuing to see a flat development in rents, although one of our clusters has moved up one price category, Kløfta/Ullensaker. Supply remains ample and rent levels continue to be a factor in the price of construction and financing terms. Our rent estimate for prime logistics spaces remains firm at NOK 1 250 m²/yr.

Although vacancy is low, tenants are still in a position to have every need catered to when selecting new premises. In our previous report we drew attention to the trend of constructing according to one's own exact needs before signing a long lease for a sale leaseback structure, and the latest example now is the new 55 700 m² facility DSV is constructing on a 111 000 m² plot of land at Vestby. The plot land was build-ready when acquired from Ferd Eiendom, and we fully expect the Danish logistics provider to turn around and sell when they have moved in.

Knowing our definition of vacant space to be anything available within 12 months, we can set this figure to 225 000 m² for our defined clusters, But the supply side brings this number even higher, with an estimated pipeline of another 150 000 m² available within 24 months. Looking further out, the pipeline grows even larger. The supply of new efficient space at relatively moderate rent levels is a constant risk factor in the reletting of existing properties and should be a tale of caution for the investor in the logistics segment. With the number of greenfield projects that are available, we do not see an end to the supply side in any foreseeable future.

The investment interest we are seeing along with the yield levels observed in the market makes us question the underlying fundamentals for a lot of the investments cases that are observed in the market.

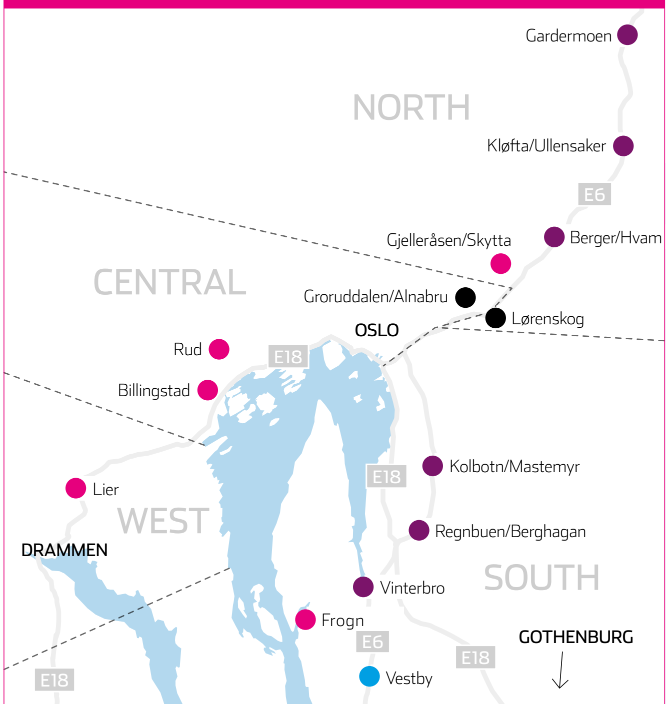
I think I'll help myself to a second serving, but why?

According to our investor survey, logistics is the second most sought-after segment after office. 50 % of investors are intending to increase their exposure towards the logistics segment, while more than 40 % are intending to maintain their current exposure over the next 12 months. The share of investors intending to reduce their exposure is now less than 10 % over the same period. Coupled with the decrease in interest rates expectations, the yield outlooks to remain stable. The prime yield for logistics has seen a decrease of 10 bps since our last report and is estimated at 4.80 %. The future outlook has also been reduced by 15 bps, compared to the 12-month outlook in our last report, to remain flat over the coming 12 months.

Yield levels for normal logistics have remained flat, but the trend of small increases in the future has been turned to marginal reduction or flat development from todays levels. At Kløfta, normal yield is now estimated at 5.65 %, while the future outlook for yields 12 months out is 5.60 %. At Lier we estimate the average normal yield at 5.80 % and the future outlook for logistics yields to remain flat at 5.80 %. Our estimate for the average normal yield at Vestby is 5.75 %, with the future outlook for logistics yields also remaining flat at 5.80 %.

The number of industrial transactions for the year to date is 34, amounting to NOK bn 10.4 in total. That puts the industrial share at close to 20 % of the total transaction market. And from the demand from investors observed in the transaction survey, the trend is looking to be strong going forward as well. The demand is simply outpacing the supply. But when looking at the fundamentals of supply and demand in the rental market, it is difficult to see this as a sustainable combination. We believe that the drivers occurring in the retail market have created a strong driver for logistics to prosper. But not to the extent that investors are pouring capital into logistics assets at the moment. In our last report we pointed out that investments into logistics were 5 times higher than the relative size of the

LOGISTICS CLUSTERS IN GREATER OSLO



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

Area Category	Ceiling 4-6 metres (heated, high standard)	Ceiling > 6 metres (heated, high standard)
●	900 – 1 000	1 150 – 1 250
●	700 – 900	800 – 1 150
●	700 – 900	750 – 1 000
●	500 – 700	650 – 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

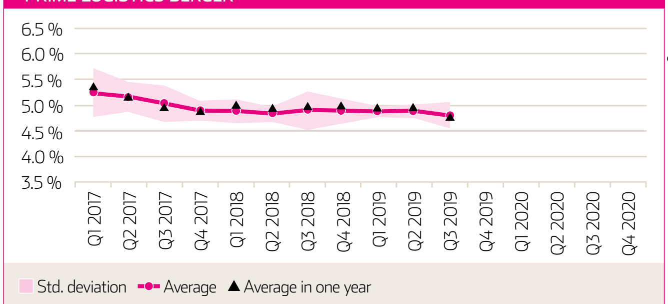
BREIVOLLVEIEN 25C, OSLO
Malling & Co Eiendomsutvikling is managing the project on behalf of City Self-Storage Group.

logistics market compared to all commercial real estate. This is simply not sustainable for a market struggling with a lack of increasing rents. Yes, the margins have been helped by decreasing building costs, largely thanks to economies of scale, and decreasing financing costs. But that should affect pricing of the best objects, not the overall demand that is, from our view, an overinvestment in the segment. As time progresses, and several of these properties come to renegotiation time, we believe that the price of empty non cash-flow generating assets will be a pain on the balance sheets for many an investor.

Mapping of the Greater Oslo logistics market

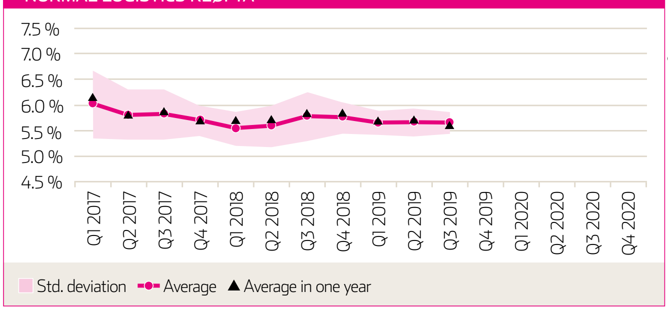
Our extensive mapping of the logistics market in Greater Oslo and our creation of a database of all the logistics clusters and large stand-alone properties continues to be refined and developed, and we are utilising our findings to provide an answer as to the future of development for logistics. The estimated total stock of warehouses and logistics properties in our defined areas comprises 3.6 million m² gross lettable area (GLA), with a total identified lot size of 8.5 million m².

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME LOGISTICS BERGER



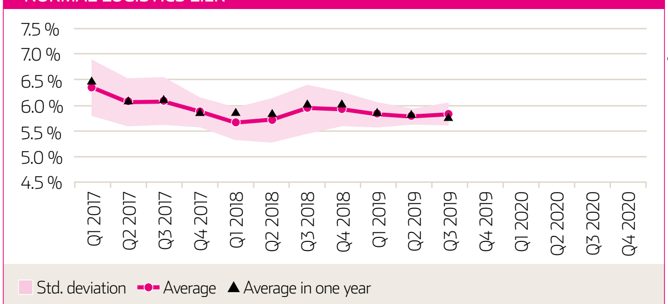
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL LOGISTICS KLØFTA



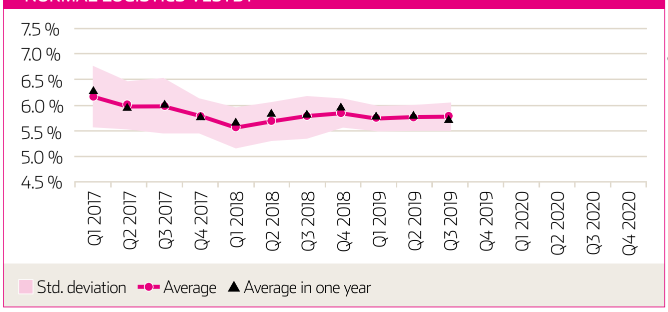
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL LOGISTICS LIER



Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL LOGISTICS VESTBY



Source: Malling & Co

THE TRANSACTION MARKET

Lower interest rates and higher rents

So far this year, we have registered a total transaction volume of NOK bn 62.3*, split between 172 transactions*. With the latest development in interest rates, and plunging expectations for future interest rates, the market has responded with a resound downwards pressure on prime office yields. The demand for prime properties is supported by the need for secure assets with a positive return spread against long-term interest rates. 2019 is expected to be just as good as the previous four years, and the fourth quarter is looking to display another strong finish for the transaction market. The demand for continued exposure towards Norwegian commercial real estate remains high, even higher than reported in our previous report six months ago. Our investor survey shows that more than 70 % of investors are intending to be net buyers in the coming 12 months, and close to 30 % are expecting to keep their position stable. Considering this, it is still important to be mindful of the differences both in segment, but also risk categories within each segment. There is a distinct difference in prime versus more risky assets, and retail is the antithesis to the sought-after office segment. Yet, with these underlying demand positive drivers, we predict that Norwegian CRE will be well on the way to achieving our full-year revised estimate of NOK bn 90 for 2019, an increase of 5-10 billion since our last report.

Bonds through banks

A new interesting development has been observed in the financing market for Norwegian commercial real estate. Several of the banks that were eagerly pursuing increased exposure to bring on to their balance sheets are now actively pushing bond financing through their brokerage divisions. Although not a negative effect to the liquidity in the transaction market, it is a development that shifts the balance of the source of the financing towards a higher degree of covenants that could tie up properties in situations in the future where bank financing would be more beneficial for a resale. Margins have been coming down over the past 14-16 months, but seem to have flattened out over the summer. Interest rates have, however, come down, although they have slightly increased again since September. The 10-year swap has been seen falling well below 2 %, to become more on par with the 3-month NIBOR at around 1.80 %. This is the same level as the 5-year swap. But even more importantly, this is the level for the 5-year swap when looking as far out as the 5-year forward pricing of the same, meaning that the market does not believe that interest rates will move from this level for the next half a decade. So, despite the Norwegian Central Bank increasing the key policy rate by 25 bps twice over since our last report, the market has responded more to the guidance and actions of major central banks around the world, with the Fed and ECB leading the field in the new wave of decreasing key policy rates. The drivers behind these reductions can be explored further in the global macro section of this report.

We continue to view the outlook for the financing market as strong going forward, and there are few signs that the current macroeconomic climate will dampen the availability of financing. If anything, the fundamentals of central office space would suggest that the capital allocations towards this segment is especially favourable compared to many other asset classes and geographies.

Office prime yield compression

Our newest survey-based investigation from Q3 2019 into investor expectations for yield and investor intentions shows, as we covered initially, that the demand for commercial real estate is increasing from already high levels. Our investor survey shows that more than 70 % of investors are intending to be net buyers in the coming 12 months, and close to 30 % are intending to keep their exposure neutral. Examining the sentiment by breaking down each segment, we can see that office is at the forefront of the demand side. Close to 80 % of investors are intending to be net buyers in the coming 12 months while none of the investors in the survey have intentions of decreasing their exposure towards the office segment. The combined force of such a strong demand coupled with the decrease in interest rates have turned the yield estimates upside down from our last report. Only 6 months ago the majority of investors believed in a slight increase in yields over the coming months, while the survey now shows that office prime yield is reduced by 10 bps to 3.65 % with no sign of increasing over the next 12 months. And we see no arguments to oppose the consensus, on the contrary, we believe we could still see a further push downwards. Quite possibly as much as 10–15 bps in the next 12–18 months, to 3.50–3.55 %, much of this riding on the macroeconomic development and the prospects coming from the Norwegian Central Bank, which we believe is too hawkish in relation to the international climate. Another sign of this outlook for prime properties and the international turmoil pushing investors towards the safe havens of this risk category is the development in normal yields. Normal office yields in the city centre are estimated at 4.20 % by investors, a flat development from the last quarter. These expectations are aligned with our fundamental research on future yield development and a skewness towards the most secure objects.

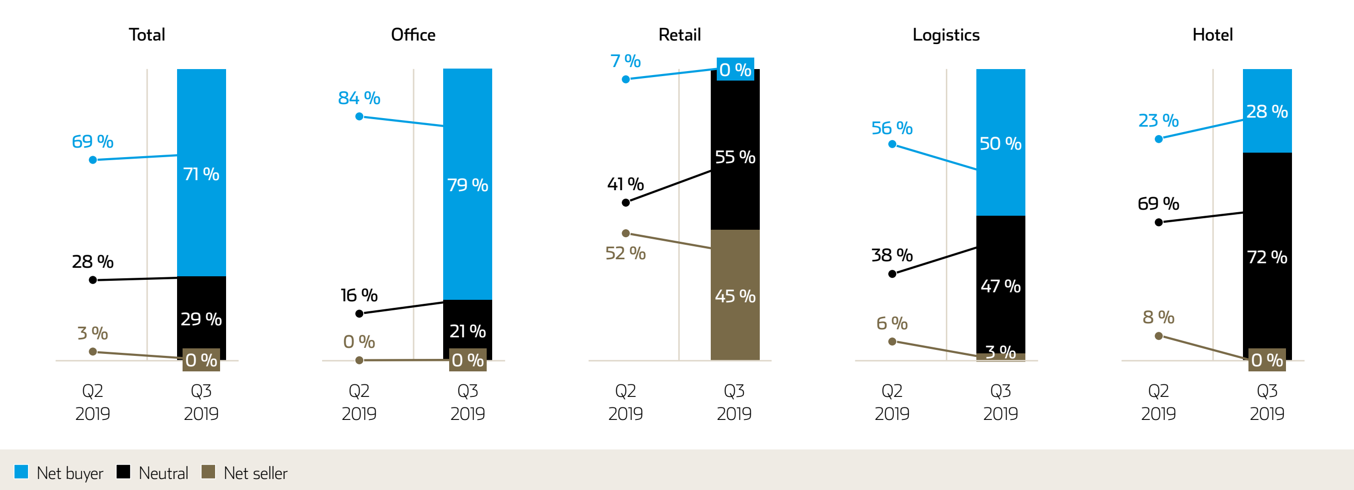
For the fringe office clusters of Lysaker and Helsfyr, we estimate a prime yield of 4.35 % and 4.20 %, respectively. Helsfyr's 5 bps decrease from our last report is solidifying itself amongst investors as a more attractive office cluster than its counterpart Lysaker in the western fringe. Prime office at Helsfyr is the only other segment along with office prime CBD that has seen a decrease in yields over the same period. The difference remains when we look 12 months out, as Helsfyr is expected to stay flat at 4.20 %, while Lysaker is expected to decrease by 5 bps to 4.45 %. For normal office yield, developments have remained fairly stable for now, with Helsfyr at 5.05 %, 5 bps lower than Lysaker at 5.10 %. The gap between the two is expected by investors to remain the same, where the outlook for both clusters is an increase of 5 bps over the coming 12 months to 5.10 % and 5.15 %, respectively. By and large, we would agree with the outlook from our investor survey. Prime property will see a tightening and remain attractive to the point of seeing a further compression, while normal property will remain stable at current levels.

In logistics, the investor outlook also shows increased demand over the last report with 50 % of investors intending to be net buyers in the coming 12 months, up from 40 % in Q2 2019. Close to 50 % are intending to maintain their exposure towards the logistics segment neutral, leaving but the smallest minority intending to reduce their exposure over the same period. This has also led to investors pushing the prime logistics yield down by 10 bps from our last report to 4.80 %, and expectations of this remaining flat for the next 12 months as well. Yield levels for prime and normal logistic properties have followed a similar trend as the relationship between prime and normal office, where yields are flat. Investors' estimates, and our estimate, for the average normal yield is still 5.75 %, with an expectation of levels remaining at this level for the medium term. The logistics segment is still performing very well and demand from investors is high. Alongside the office segment that has close to a 45 % share of the transaction market, Industrial constitutes almost 20 % of the total transaction volume so far in 2019.

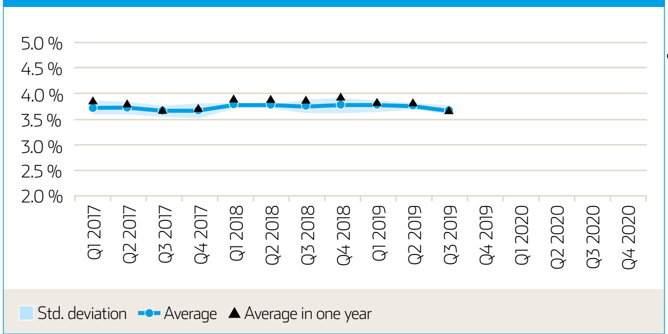
Retail has garnered a lot of attention of late for the challenges that traditional retail in physical locations such as shopping centres and high street are facing from online retailers. But there is also an equally strong force at play from the reduced consumption and shift towards fewer and higher quality items. The latest retail giant to voice such concerns was H&M, one of the most prominent anchor tenant at any given retail oriented location. A similar concern is shared by investors, as our latest survey shows that their intentions are largely skewed towards maintaining a neutral exposure towards the segment or downright reducing their exposure. According to our survey among the investors, prime yield for high street retail has risen to 4.15 % and the outlook is suggesting another 15 bps increase over the coming 12 months. This may at first glance seem like a very steep increase when looking back at prime high street retail yields at 3.60 % just two years ago, while yields in other segments have largely stayed flat over the same period. But the fundamentals of retail are vastly different than two years back. Bankruptcies are almost a weekly occurrence among the tenants universe, and achievable rents are plummeting. Risk on cash flow is very high at the moment, and investors are demanding risk reward for such exposure.

LILLE GRENSEN 7, OSLO
Malling & Co Corporate Real Estate is advisor to AXA in the sales process of the high-street retail property centrally located by Karl Johans gate.

DESIRED EXPOSURE TOWARDS COMMERCIAL REAL ESTATE NEXT 12 MONTHS

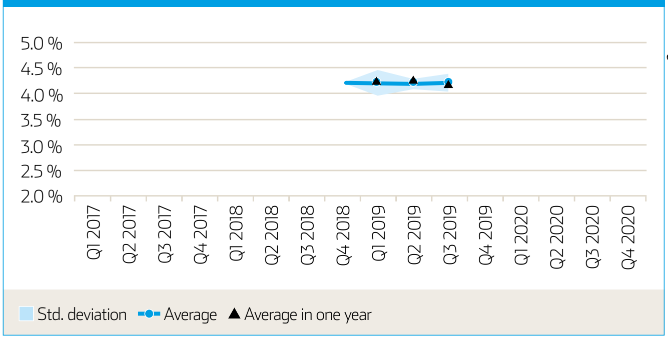


TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME OFFICE CBD



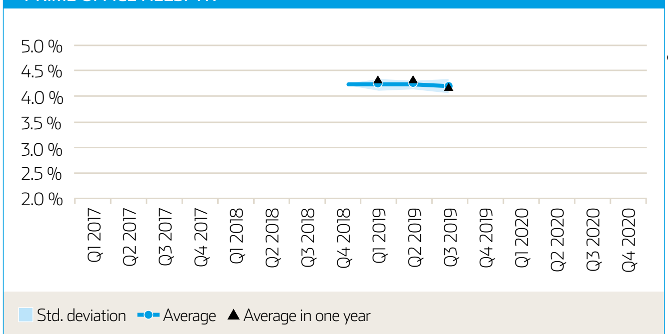
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL OFFICE CBD



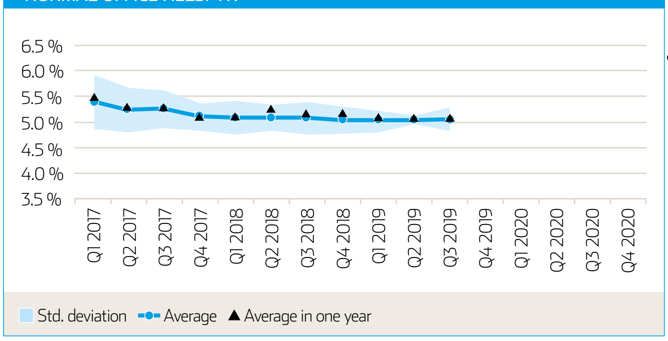
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME OFFICE HELSFYR



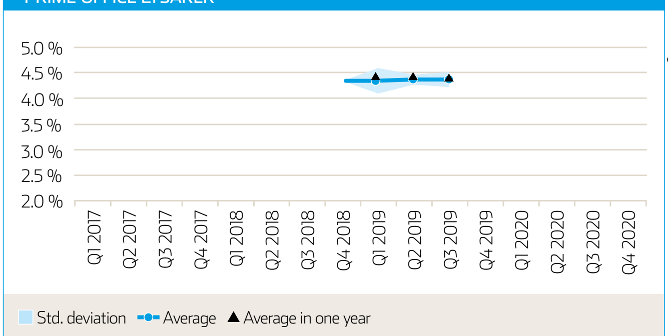
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL OFFICE HELSFYR



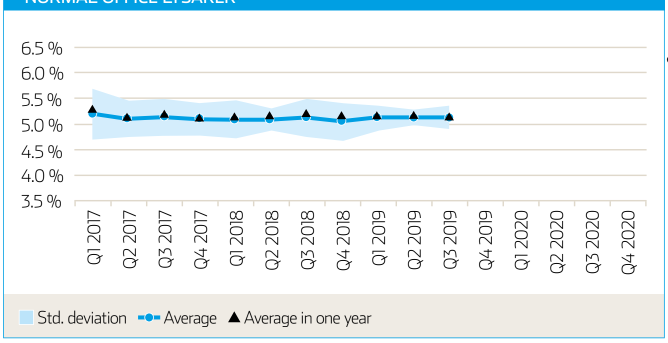
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME OFFICE LYSAKER



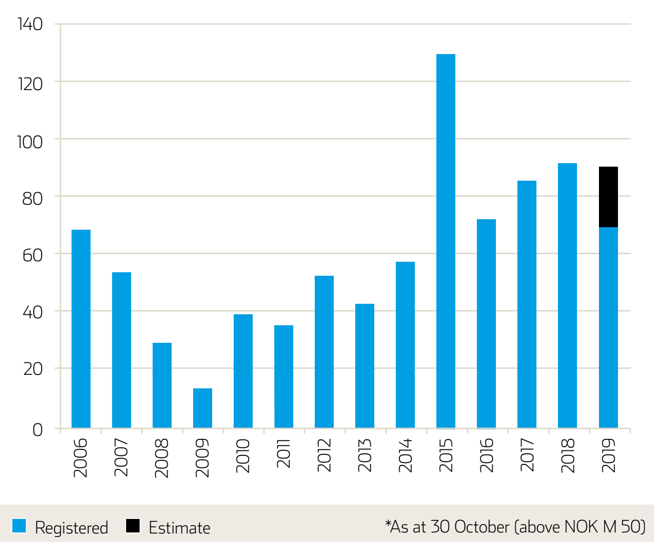
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL OFFICE LYSAKER



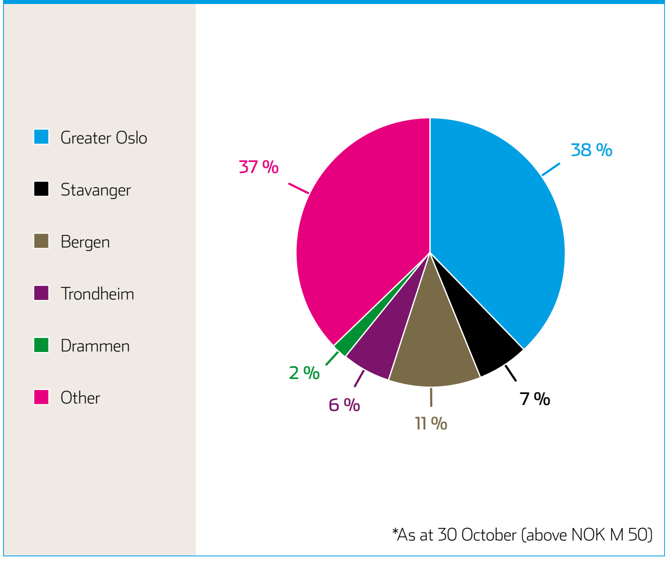
Source: Malling & Co

VOLUME DEVELOPMENT IN NOK BN* (TRANSACTION VOLUME LARGER THAN NOK M 50)



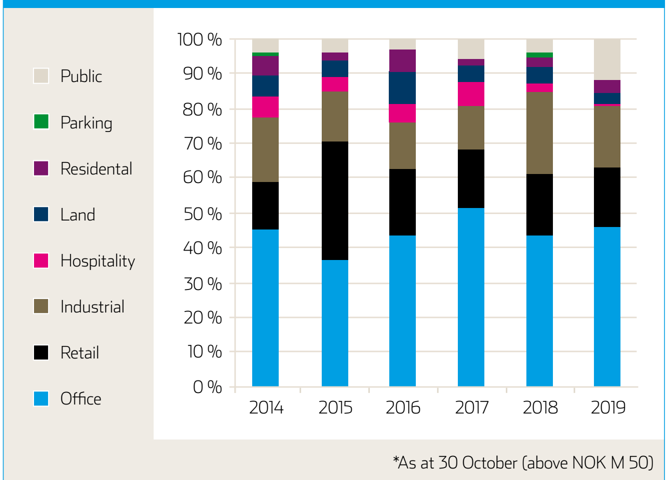
Source: Malling & Co

REGIONAL SPLIT OF THE TRANSACTION MARKET 2019* BY VOLUME



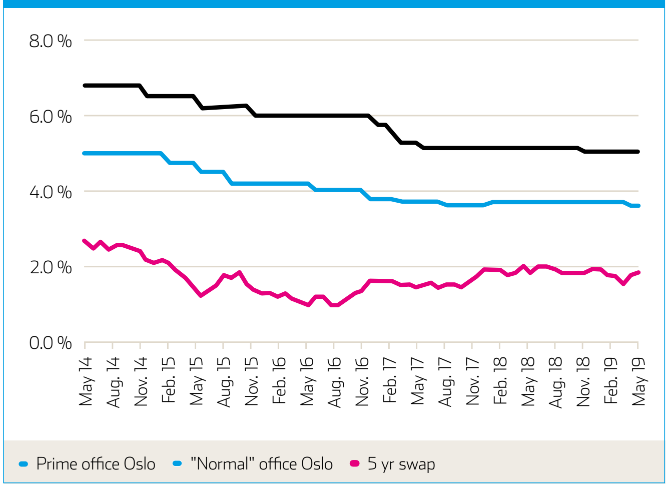
Source: Malling & Co

PERCENTAGE SPLIT TRANSACTION VOLUME BY SEGMENT 2019*



Source: Malling & Co

YIELD DEVELOPMENT PAST 5 YEARS



Source: Malling & Co/DNB Markets

PRIME YIELD (NET) IN NORWAY

CITY	PRIME YIELD (OFFICE)	Δ FROM LAST REPORT
Oslo	3.65 %	▼ -10 bps
Stavanger	5.00 %	▼ -25 bps
Bergen*	4.00 %	▼ -25 bps
Trondheim**	4.65 %	▼ -10 bps
Drammen	4.50 %	▼ -20 bps

*WPS Næringsmegling **Norion Næringsmegling

Source: Malling & Co / Savills

PRIME YIELD (NET) IN EUROPE

CITY	PRIME YIELD (OFFICE)	Δ FROM LAST REPORT
Munich	2.80 %	▼ -10 bps
Paris	2.90 %	▼ -10 bps
Amsterdam	3.00 %	▼ -50 bps
Helsinki	3.50 %	▲ 0 bps
Vienna	3.50 %	▲ 0 bps
Stockholm	3.50 %	▲ 0 bps
Milan	3.50 %	▲ 0 bps
Oslo	**3.65 %**	**▼ -10 bps**
London	3.75 %	▲ 0 bps
Copenhagen	3.75 %	▼ -25 bps

Source: Malling & Co / Savills

SPECIAL TOPIC FLEXIBLE OFFICE SPACE

Consolidation ahead

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Over the past years, we have seen strong growth within flexible office space (or Coworking as many would call it) in major cities across the globe. And the trend has also hit the Norwegian office market, with Oslo being by far the largest market. One of the main players in this market globally, WeWork, with perhaps the most aggressive growth strategy across the globe, is now consolidating and focusing on core markets in Europe, the US and Japan. WeWork has officially signed three leasing deals in Oslo in 2019. In our view, further growth for WeWork and their competitors will probably reduce over the coming year as the whole market is entering a consolidation phase. Both number of members and occupancy rates need to get higher before there is room for further growth.

Oslo is still far behind other markets

As of October 2019, we have a register of just below 140 000 m² flexible office space in Greater Oslo, spread across more than 30 different operators with different strategies and concepts. The total space they occupy represents approximately 1.5 % of the total office market. The market share of flexible offices has doubled since 2016. While Central London is seeing a market share of almost 8 %, Oslo still has a long way to go. In terms of demand for new leases, flexible office providers have had an increasing share of the gross take-up over the past years, starting at 5 % in 2016 up to around 12 % from Q3 2018 to Q3 2019. However, almost half of the take-up consists of the three new WeWork locations in Oslo announced during the summer of 2019. After all the turmoil surrounding WeWork's unsuccessful IPO and following restructuring of the company, we expect to see slower growth ahead – not only for WeWork as a key market player, but also its competitors. The underlying occupancy rates among flexible office providers has been measured at way below 70 %, which suggests that the growth will slow down.

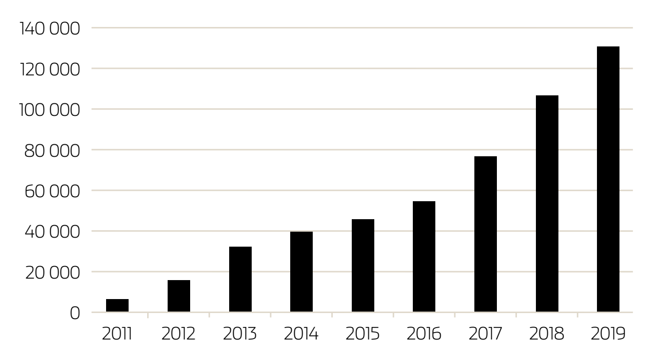
Flexible office users are mainly smaller businesses

We have done research into the flexible office providers and who their clients are. Our analysis was conducted by interviewing the key market players, as well as mapping existing businesses with a business address matching the flexible office provider. This was done through the publicly available business register and the office building register. Both analyses show that flexible office providers are mostly smaller businesses, for the most part with less than 10 employees. We know that many of them have been aiming at users with up to 25 people, but they tend not to stay very long in order to establish their own space in regular lease contacts. The average company has between 3–4 employees.

Given that smaller tenants are the main market for flexible offices, we have tried to estimate the maximum market size in Oslo. We did this by screening all 74 000 companies in Oslo with 1–9 employees and matching their business address with office buildings in the land register. By doing this match, we found 29 500 employees located in office buildings, which gives an estimate of how many working in a business are currently leasing an office. Assuming an average of 15 m² per user, that 80 % of these businesses are suitable for flexible office space, and that only 80 % of the employees in the applicable companies need office space, then the total market would be 29 500 * 0.8 * 0.8 * 15 = 283 200 m², rounded up to 300 000 m². However, the total potential could be even higher since flexible office providers would typically see higher vacancy rates on average, maybe as much as 80 %. In that case the maximum market size is 375 000 m² in Oslo.

However, not all small office users would agree that flexible office providers would give them extra value, so the numbers assumed above could end up being too optimistic. In any case, further growth must happen over time, as many of their targeted clients may have running lease obligations, which would need to expire before they could even consider moving to a flexible space. It should also be mentioned that the numbers above would be way too pessimistic if the flexible office providers managed to attract larger corporate tenants into their portfolio, but that remains to be seen in Oslo to a greater extent. New models have been set up to utilise the symbiosis between a larger corporate tenant and a flexible office provider in the same building. It should be noted, though, that the models are quite new and would need to be tested before we can conclude that there could be a new standard for corporate office leases.

CUMULATIVE FLEXIBLE OFFICE SPACE GREATER-OSLO*, M²



*Based on publicly available information and interviews. Technopolis Fornebu and Right Size is not included.

Source: Malling & Co

Flexibility is expensive

Flexibility has obvious advantages for the tenants, but to be sustainable it also comes with a cost. Based on the data we have seen in Oslo and other markets as well, the theory of higher average running vacancy when an office building is filled with many flexible contracts seems to be confirmed. The running vacancy of most operators and the average for all of them is way higher than the underlying measured vacancy in the office market. In our view, it simply comes down to statistics, but, still, the business model may prove successful if the benefits for the tenants are worth more than the extra cost for the added vacancy and cost of operating the flexible office space. Looking at current concepts and publicly available account numbers for 2018 raises a certain level of doubt in the business models per se. With the huge growth we have seen, prices have most likely been pushed too low to attract new tenants. Based on the fact that you are most likely to attract an existing tenant from somewhere else, the market needs time to absorb tenants moving from existing leases over to flexible space.

This implies slower growth and probably higher prices for the users, as current growth and competition have over time supressed prices below sustainable levels. One should also remember that the office market has been good with increasing rents over the past couple of years. This has enabled higher margins for most operators running on a standard lease contract. However, the acid test for the business model will be when the office rental cycle turns into higher vacancy and decreasing rents. We will then need to see how tenants will react to the flexible office opportunity in relation to entering into a normal lease at a decent rent level.

We also know that some tenants are reluctant to take up flexible office space. The lack of a long-term lease with stable and foreseeable costs and availability, combined with the opportunity to make fit outs and their own profile in a long-term lease with a landlord, is for many a more attractive suitable model.

Increased competition from landlords

Some of the flexible office operators that we have seen becoming established in Oslo over the past couple of years are operated by the landlords themselves. This might be an attractive opportunity for smaller tenants or tenants wanting access to flexible space requirements on short notice and with a short commitment within the existing landlord's portfolio. These models may work for many of the tenants, especially if they don't need the community and the network of centres around the country or world.

There are also other strategies among landlords for retaining or attracting tenants away from flexible operators. These can include options to reduce or expand space at certain points during the main lease (normally 10 years), or to offer more service functions in the building that are able to compete with all the extras that flexible office providers typically offer. This focus on the tenant's needs from the flexible office providers has probably increased the focus of landlords to offer tenants the extra service that they should have been offered a long time ago. In this context, competition among flexible office operators and traditional landlords has probably been beneficial for tenants overall.

SJØGATA 39/41/43, TROMSØ

Malling & Co Project Finance has acquired Sjøgata 39/41/43 located in the centre of Tromsø which consists of 7 192 m² office and retail facilities – and arranged a "club deal" on behalf of its investors.

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