MALLING & CO

Market report

Summer 2020

The grey rhino suddenly appeared

About six months have passed since our previous report where we recognised the obvious trade war, Brexit and geopolitical tension as a risk for global growth. In the meantime, the world has been taken by surprise by the invisible enemy well known as Covid-19. The virus is already categorised as a grey rhino, defined in the book carrying the same name by Michelle Wucker, as a highly probable, high impact, yet neglected threat. This is something we all should have been better prepared for and put into our risk models. Alas, we (and the rest of the market) did not!

Anders Berggren
CEO, Eiendomshuset Malling & Co

The complete effects on the Norwegian CRE market are still not fully visible, but we already know that 2020 will be a different year. A sharp decline in the price of high quality CRE companies on the stock exchange has seen them trading with a significant discount. Many investors have thus been expecting similar discounts on direct asset transactions. The increased risk premium from investors has been followed by more expensive credit and risk premiums being demanded by banks. Despite sharp interest rate cuts from Norway's central bank, it was not enough to brake the transaction market to an almost complete halt in March and April. The market is now gradually picking up speed, as risk seems more lucid and society is reopening more, however mostly in the off-market arena.

Our transaction survey sent out to institutional investors, closing Friday before Easter, indicated that Prime yield estimates for offices in Oslo increased marginally by around 5 bps from Q4 2019 to Q1 2020 (end of quarter). Office projects with a riskier real estate profile increased by 15-25 bps on estimated yields, reflecting the increased risk premium demanded by the market at that time. Since then, interest rates have fallen, credit premiums have been reduced, and the stock exchange has partly recovered. If we gradually get back to normal without new bursts of virus spread, further yield compression for prime assets cannot be excluded as a likely scenario.

Rents and cash flows will also be affected by Covid-19, and the immediate effects will be increased vacancy and lower rents. The office sector seems to have very few symptoms of Covid-19, and most businesses have remained in production working from home. The Central Oslo office market remains solid compared to previous periods of rental decrease. New supply pipeline is limited in Central Oslo, and the weak economic outlook may scare off new developments under planning. We believe the rental downturn will be relatively short and mild this time for office in Oslo.

For retail, and high street retail in particular, Covid-19 increases the wind from 9 to 11 on the Beaufort scale. Several key retail chains, such as H&M, report on weak sales, and the prospects of an increase later this year seem unlikely as purchasing power will decrease in line with the sudden increased unemployment. The savings rate is expected to increase, the main wage settlement normally held in May has been postponed until the autumn and prices have started to increase sharply due to the dramatic depreciation of the NOK. We are all significantly less wealthy than last year. On top of that, the virus has accelerated online shopping to new highs, and many believe this will accelerate the shift towards online retailing.

We hope you enjoy our latest market report, which has undergone a design brush-up as we enter a new decade. We have also expanded its contents by adding two new segments, namely Hospitality and Residential, as well as including one new city, namely Bergen. The latter is supplied by our regional contact WPS Næringsmegling. Remember that Malling & Co is here to support you in all your commercial real estate needs, including transaction support, tenant representation, development, energy and environment services, research services, leasing services, valuations, and property and asset management.

Editing completed: 19 May 2020
Design & layout: Julian Alberti

Macro — Global

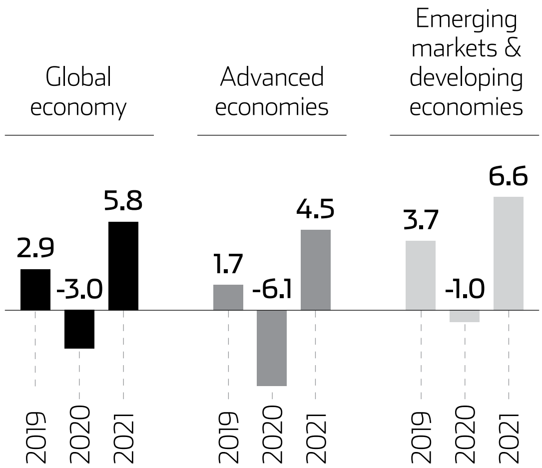
U, V or W?

The COVID-19 pandemic has inflicted high and rising social and economic costs worldwide through widespread closures to slow the spread of the virus. The severe impact on economic activity will as a result lead to the global economy contracting sharply by a projected -3.0 % GDP growth in 2020, according to the IMF World Economic Outlook April 2020 (IMF). That is much worse than during the 2008 financial crisis. In the IMF's baseline scenario, which assumes that the pandemic fades in the second half of 2020, the global economy is projected to grow by 5.8 % in 2021 as economic activity normalises, helped by policy support. There is however according to the IMF extreme uncertainty around the global growth forecast. The economic fallout depends on factors that interact in ways that are hard to predict. Many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, capital flow reversals, and a collapse in commodity prices.

GDP growth projections

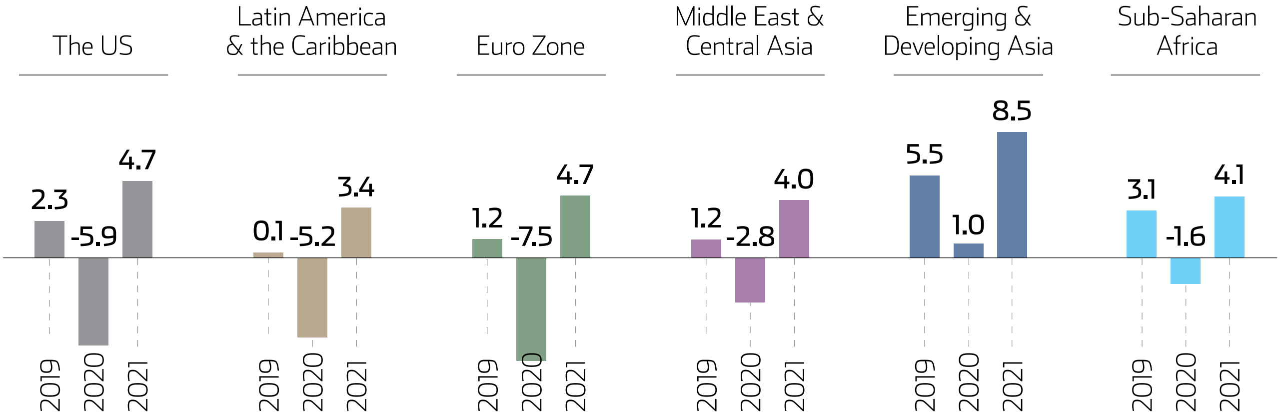
Risks of a worse outcome predominate, and effective policies are essential to forestall worse outcomes because the economic fallout reflects particularly acute shocks in specific sectors. The fiscal response in affected countries has been swift and sizable in many advanced economies as well as many emerging market and developing economies, where they have begun providing substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses. The significant actions of large central banks include monetary stimulus and liquidity facilities to reduce systemic stress. These actions have supported confidence and contribute to limiting the amplification of the shock, thus ensuring that the economy is better placed to recover. The synchronised actions can magnify their impact on individual economies and will also help generate the space for emerging market and developing economies to use monetary policy to respond to domestic cyclical conditions.

GDP growth projections, % change



Source: IMF World Economic Outlook (April 2020)

GDP growth projections, % change

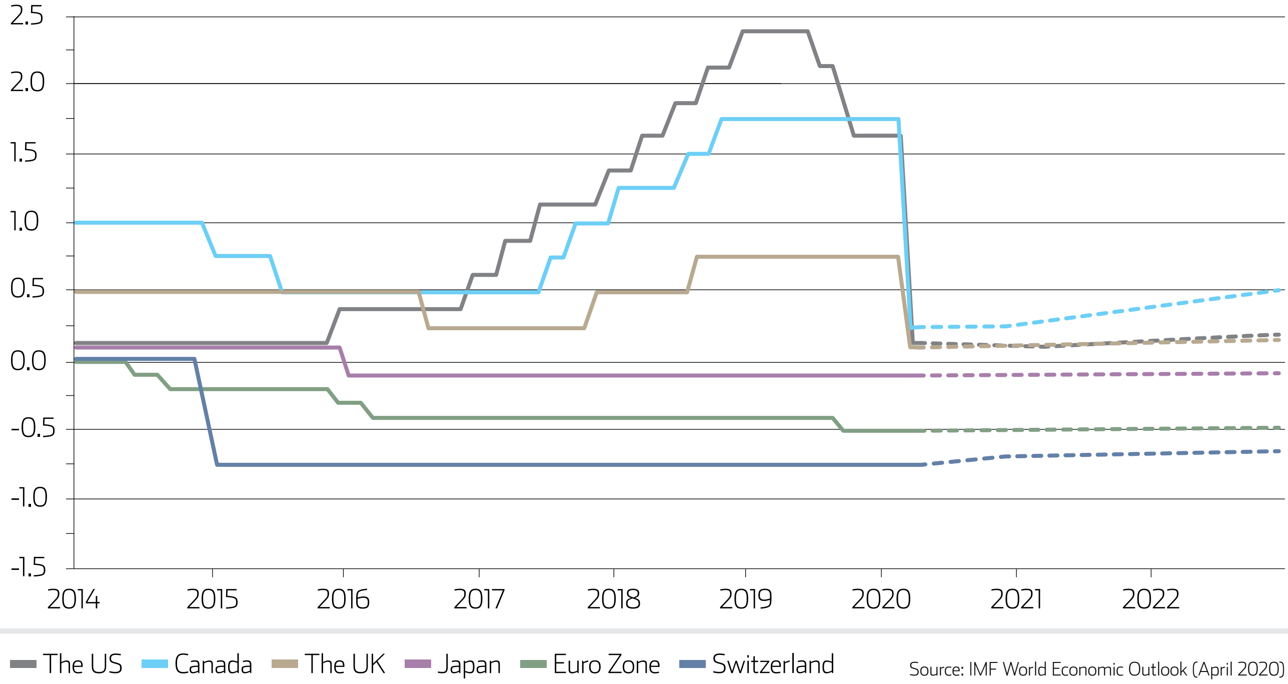


Source: IMF World Economic Outlook (April 2020)

Fiscal policy

The rapidly worsening risk sentiment has prompted a series of central bank rate cuts, liquidity support actions, and, in a number of cases, large asset purchase programmes, including from the US Federal Reserve, European Central Bank, Bank of England, Bank of Japan, Bank of Canada, and Reserve Bank of Australia, as well as from emerging market central banks in Brazil, China, India, Malaysia, Mexico, the Philippines, Saudi Arabia, South Africa, Thailand, and Turkey—which will help partially offset the tightening in financial conditions. Moreover, several central banks have activated bilateral swap lines to improve access to international liquidity across jurisdictions. Nonetheless, the significant tightening of financial conditions will further dampen economic activity in the near term, adding to the direct macroeconomic repercussions of the pandemic.

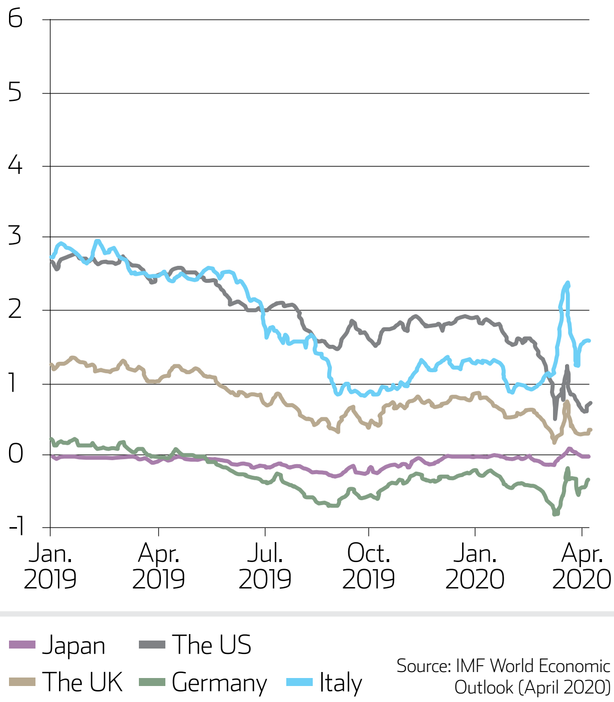
Key policy rates — Actual and expected policy rates (percent)



Source: IMF World Economic Outlook (April 2020)

"The significant tightening of financial conditions will further dampen economic activity in the near term."

Ten-Year Government Bond Yields (percent)



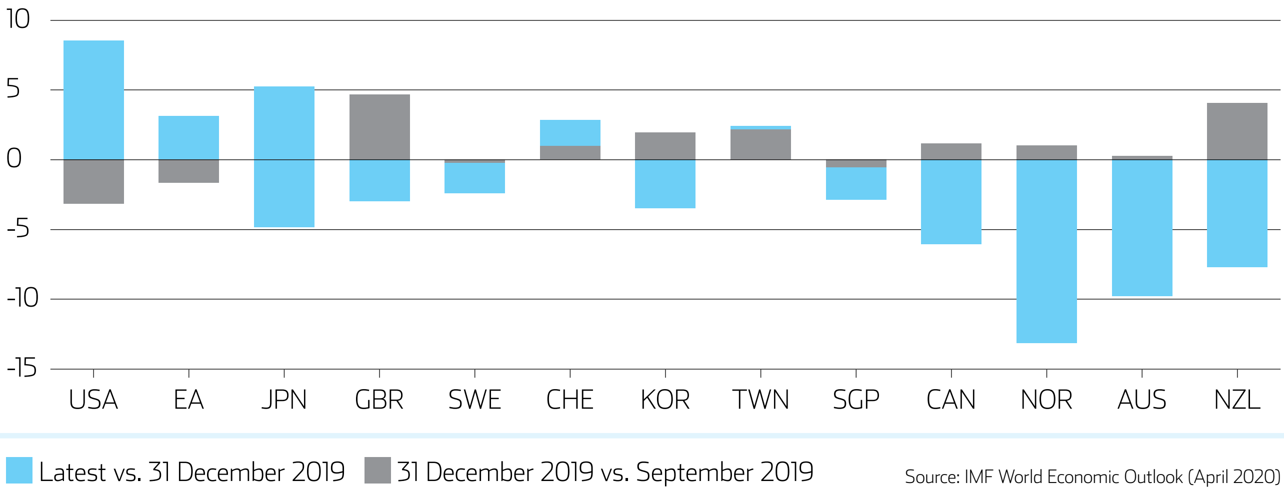
Source: IMF World Economic Outlook (April 2020)

Financial conditions

Financial conditions in advanced as well as emerging market economies are significantly tighter than our last report in November 2019. Equity markets have seen dramatic falls; high-yield corporate spreads have widened significantly. Signs of dollar funding shortages have emerged amid the general rebalancing of portfolios toward cash and safe assets. Currency movements have generally reflected these shifts in risk sentiment. The currencies of commodity exporters with flexible exchange rates among emerging market and advanced economies have depreciated sharply since the beginning of the year, while the US dollar has appreciated by some 8.5 % in real effective terms as of April 3, the yen by about 5 %, and the Euro by some 3 %.

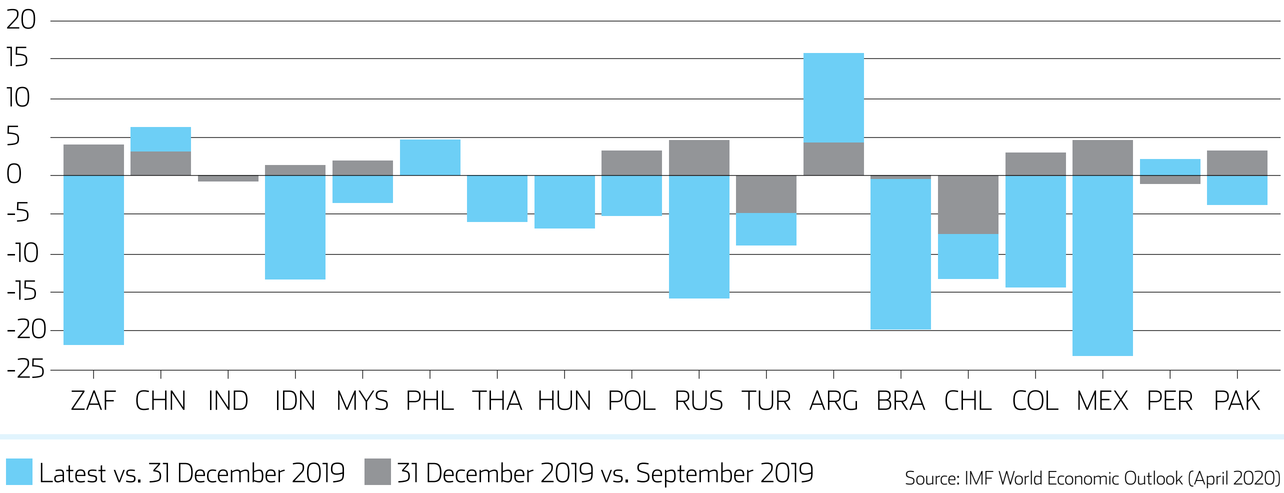
"Financial conditions in advanced as well as emerging market economies are significantly tighter."

Real effective exchange rate changes – Advanced economies



Source: IMF World Economic Outlook (April 2020)

Real effective exchange rate changes – Emerging Market economies

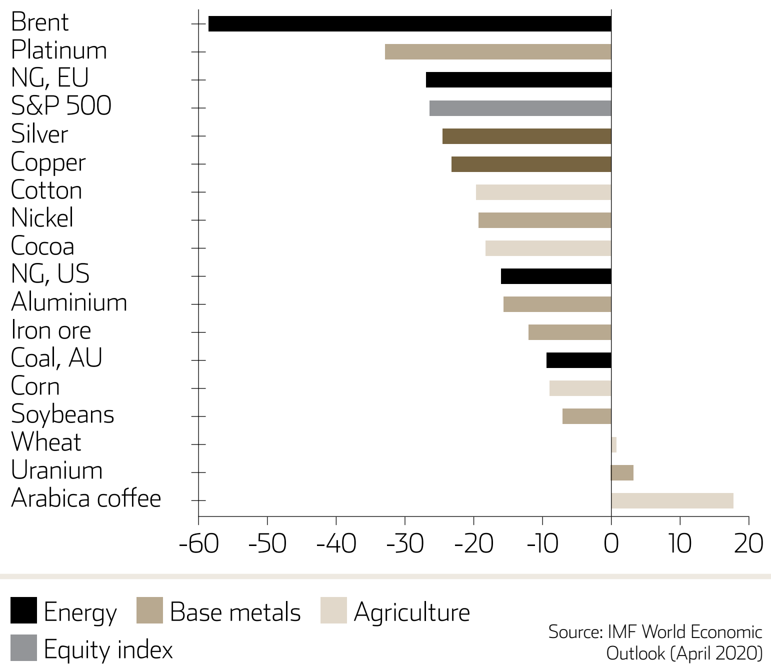


Source: IMF World Economic Outlook (April 2020)

Commodity markets

Commodity prices have decreased sharply since the release of our last report in November 2019. Since the outbreak, energy and metal prices have fallen sharply as measures to contain the pandemic worldwide halted global industrial activity to a grind. Oil prices collapsed further in March as the OPEC+ coalition broke down, unable to reach agreement on how to react to the weak oil demand outlook. The price impact has varied significantly across commodities, depending on the specific end-use sectors and regions affected by the outbreak and on the storability and supply elasticity of the commodity.

Impact on Commodity prices in %



Source: IMF World Economic Outlook (April 2020)

Estimated drop in aggregate working hours, globally, by region and by income group

1st quarter 2020		2nd quarter 2020	
World	4.5	World	10.5
Africa	1.6	Africa	9.6
America	1.3	America	12.4
Arab States	1.8	Arab States	10.3
Asia and the Pacific	6.5	Asia and the Pacific	10.0
Europe and Central Asia	1.9	Europe and Central Asia	11.8

Estimated percentage drop in aggregate working hours compared to the pre-crisis baseline (4th quarter 2019, seasonally adjusted)

Source: International Labour Organization – ILO Monitor: COVID-19 and the world of work

Labour markets

Global working hours in the Q2 2020 are expected to be 10.5 % lower than in the last pre-crisis quarter, Q4 2019. This is equivalent to 305 million full-time jobs, which represents a significant deterioration on International Labour Organization’s (ILO) previous estimate of 195 million for Q2 2020. This has been driven mainly by prolongation and extension of containment measures. While the situation has worsened for all major regional groups, estimates indicate that the Americas (12.4 %) and Europe and Central Asia (11.8%) will experience the greatest loss in working hours. Summing up employers and freelancers, around 436 million enterprises in the hardest-hit sectors worldwide are currently facing high risks of serious disruption. More than half of these – some 232 million – are in wholesale and retail trade, currently one of the most impacted sectors globally. As the pandemic evolves, so do measures taken by governments to tackle it. The ILO reports that at the time of writing, around 68 % of the world’s total workforce are currently living in countries with recommended or required workplace closures. The eventual increase in global unemployment over 2020 will depend substantially on how the world economy fares in the second half of the year and how effectively policy measures will preserve existing jobs and boost labour demand once the recovery phase begins.

Macro — Nordics

The Great Lockdown

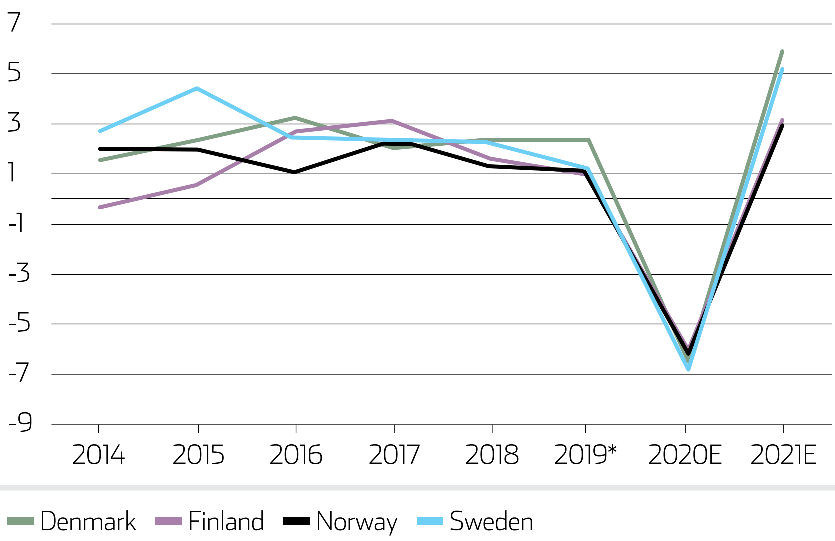
In April, the International Monetary Fund (IMF) published its semiannual report World Economic Outlook, this time called "The Great Lockdown". In this report, the IMF presented an analysis of global economic development during 2020 and 2021 for key indicators such as GDP growth, unemployment, CPI etc. In this section, we present their predictions for the Nordics, including Sweden, Denmark, Finland and Norway.

Real GDP

The IMF expects real GDP to decline by between -6.0 % to -6.8 % for all the Nordic countries in 2020, followed by a GDP increase of 3 % - 6 % in 2021.

*Estimated growth in 2019 for Finland and Norway, actual growth for Sweden and Denmark.

Real GDP, % annual change

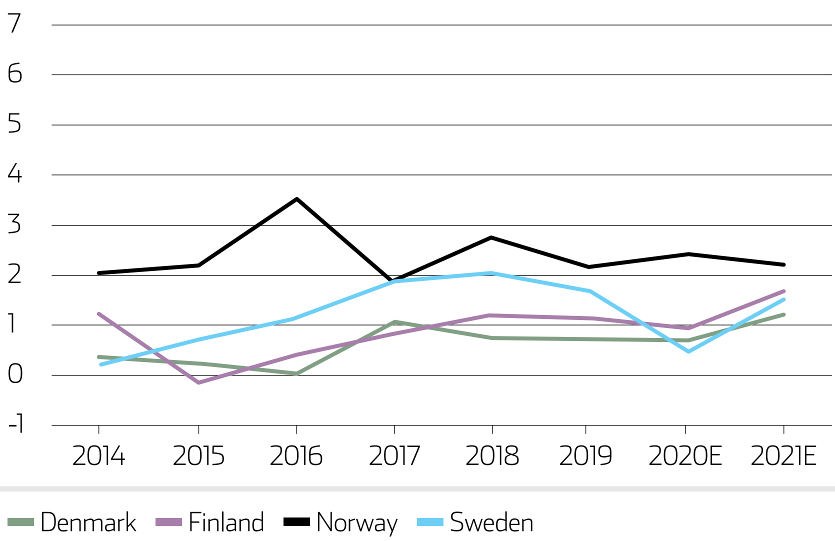


Source: IMF World Economic Outlook (April 2020)

CPI

The IMF expects significantly higher CPI growth in Norway than in the other Nordic countries, which is in line with the historical development in the years 2014 – 2019. While the IMF expects a CPI growth of 2.4 % in Norway in 2020, the expectations for the remaining three countries are between 0.5 % - 0.9 %.

CPI, % annual change



Source: IMF World Economic Outlook (April 2020)

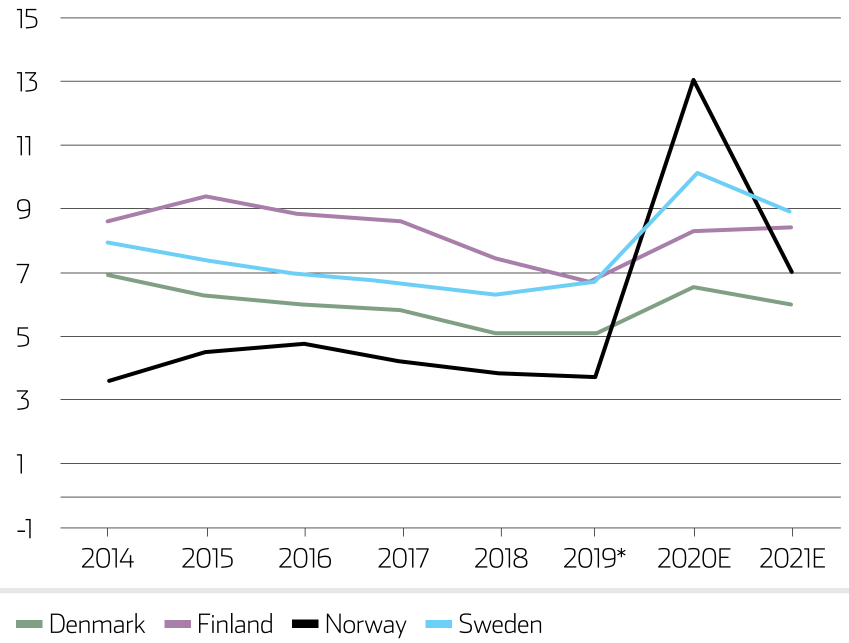
> "For the first time since the Great Depression both advanced economies and emerging markets & developing economies are in a recession. Income per capita is projected to shrink for over 170 countries."
>
> IMF World Economic Outlook April 2020

Unemployment

Coming from the lowest unemployment rate of the four countries, Norwegian unemployment is expected to be the highest in 2020 with approximately 13 % according to the IMF. However, the IMF has admitted to being too conservative in their estimates, indicating that 9 % – 10 % unemployment will be a more likely prediction based on their analysis. In 2021, the IMF expects unemployment to decline in Norway, Sweden, and Denmark, while unemployment in Finland is expected to increase slightly compared to 2020.

*Estimated growth in 2019 for Finland and Norway, actual growth for Sweden and Denmark

Unemployment rate, %



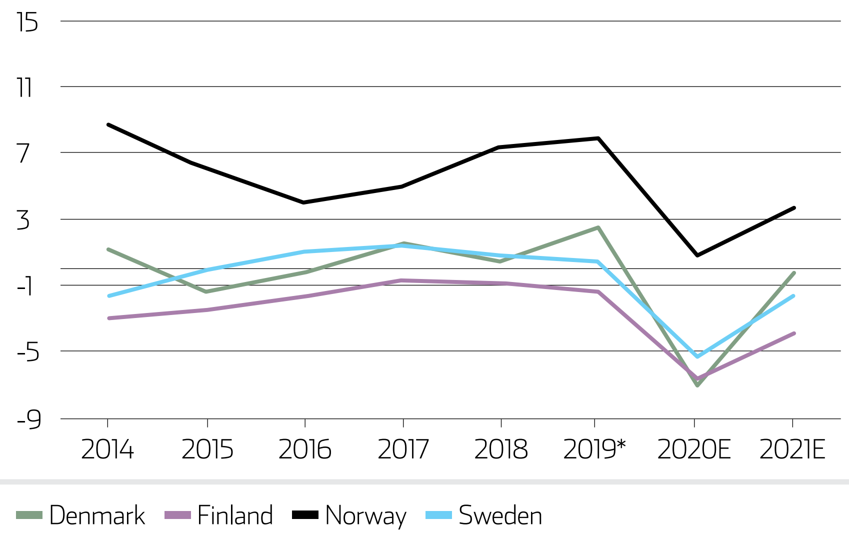
Source: IMF World Economic Outlook (April 2020)

General Government Net lending/borrowing

Not surprisingly, Norway is in a different position than the three other countries, even though the trend in 2020 – 2021 is the same across the countries. While the IMF expects Norway to be a net lender of an amount equal to 0.8 % of GDP in 2020, the other three countries are expected to be net borrowers of amounts equal to 5 % - 7 % of GDP. In 2021, all four countries are expected to be in better positions.

*Estimated growth in 2019 for Finland.

General Government Net lending/borrowing, % of GDP



Source: IMF World Economic Outlook (April 2020)

Macro — Norway

Abrupt standstill in the Norwegian economy

Covid-19 has shifted the Norwegian economy from a relatively cyclical neutral position into an unprecedented slump. In March, GDP for Mainland Norway decreased 6.9 % compared to February, resulting in a GDP decline of 2.1 % for Q1 in total. Additionally, the economy has suffered from large drops in the oil price, as well as a significant weakening of the NOK. Although society has gradually been re-opening in May, improving the economic situation compared to end of March, the slump we are experiencing is likely to persist for several years.

There is great uncertainty about the further development of the Norwegian economy. Statistics Norway assumes that the most extreme restrictions to prevent the spread of infection will gradually be eased during the second quarter, but that some of the restrictions will continue for longer. Even though the restrictions are gradually being lifted, their repercussions and the downturn in the global economy are likely to keep the Norwegian economy in an economic downturn for at least 2-3 years. This is also in line with assumptions and projections from other institutions, including both the Norwegian Central Bank and the government in their Revised National Budget 2020, even though the exact estimates are slightly different.

Labour market and Mainland GDP

After three years with Mainland GDP growing between 2.0 – 2.3 % p.a., 2020 is expected to end at -5.5 % relative to Mainland GDP in 2019 according to Statistics Norway. This is in sharp contrast to Statistic Norway's estimates from December 2019, where Mainland GDP was projected to increase by 2.4 % in 2020. In the latest projections from April 2020, Mainland GDP is expected to increase by 4.7 % in 2021, 3.0 % in 2022 and 2.7 % in 2023. The strong growth in 2021-2023 will not be enough to offset the extreme drop in 2020, and at the end of the projected period, GDP is expected to be lower than the trend prior to Covid-19. The unemployment rate, based on Statistic Norway's Labour Force Survey* (AKU), is expected to reach a peak at 6.3 % in 2020, and then gradually decline to 5.0 % in 2023.

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

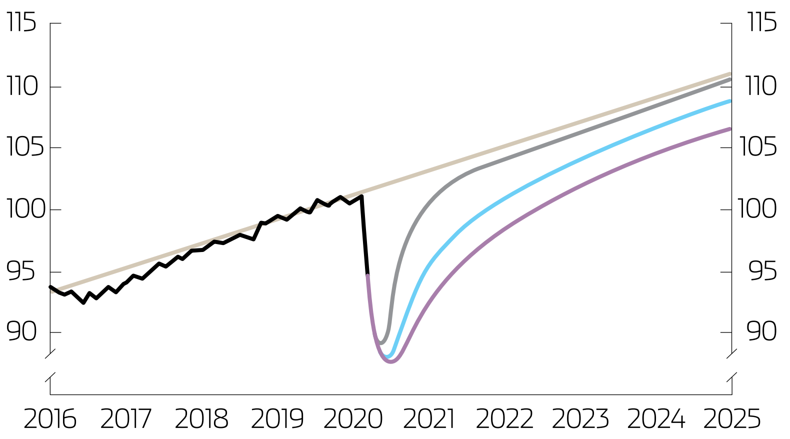
GDP and Unemployment (LFS), %

Source: Statistics Norway

Scenarios for Mainland GDP

The government has a more optimistic view on Mainland GDP than Statistics Norway and most other institutions, assuming a decline of 4.0 % in 2020 in the proposed Revised National Budget published in mid-May. This is in line with the Fast Recovery scenario in the figure to the right, showing Mainland GDP development for three different scenarios. At the end of the projected period (01.12.2024), Mainland GDP is expected to be 1 % lower than the trend prior to Covid-19 according to the Fast Recovery scenario, 1.8 % lower in Medium Recovery scenario and 4.5 % lower in the Slow recovery scenario.

Mainland GDP for three different scenarios (2019 = Index 100)

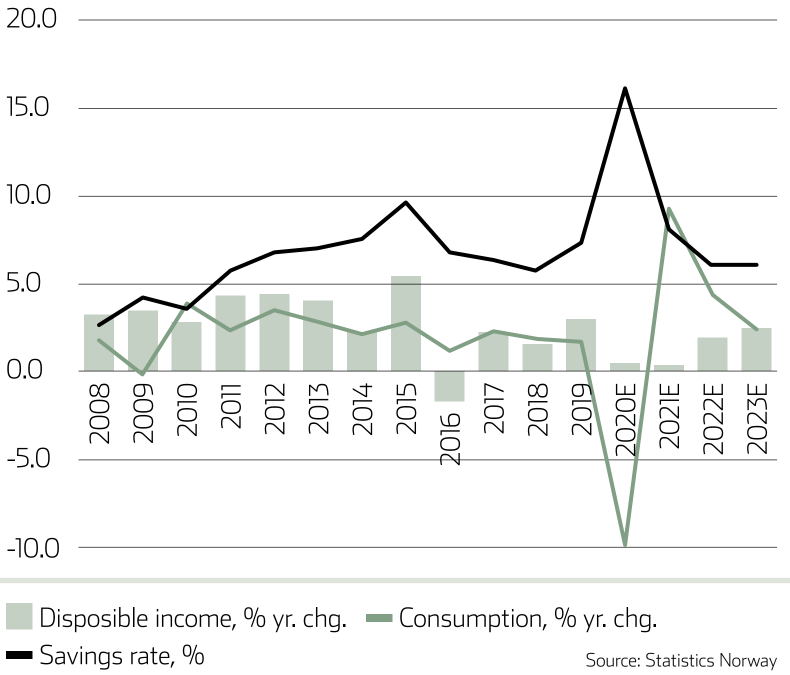


Source: Ministry of Finance/ Revised National Budget 2020

Household financials

Statistics Norway expects real disposable income to increase marginally in the next period, by 0.4 % in 2020 and 0.3 % in 2021. This is significantly weaker than what was expected prior to Covid-19, when projections were 1.6 % and 2.4 %, respectively. High economic uncertainty is expected to affect the households' savings rate and consumption to a great extent. The savings rate is estimated to increase from 7.4 % in 2019 to 16.0 % in 2020 and 8.1 % in 2021. Consumption is estimated to drop by -9.8 % from 2019 to 2020, and then increase by 9.4 % in 2021. These predictions are in line with the estimates from the Ministry of Finance, which expect a savings rate of 15.6 % in 2020 and a drop in private consumption of approximately 8.5 %.

Housholds' income, consumption and savings rate



Source: Statistics Norway

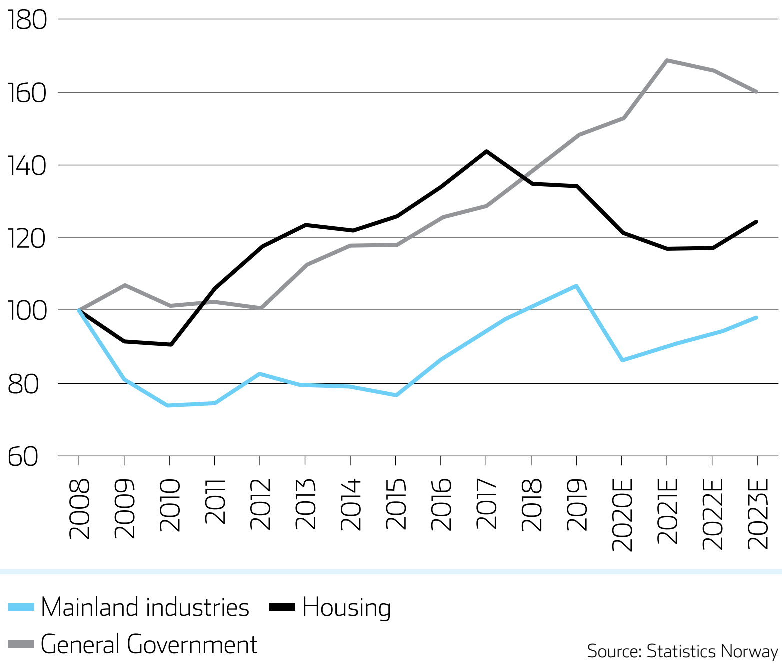
"Many people have experienced a large loss of income due to the economic crisis. This in turn will lead to weaker consumption development in 2020, even if the authorities' effort to fight the virus proves to be successful."

Statistics Norway (Economic trends for Norway and abroad, 24 April 2020)

Mainland Investments

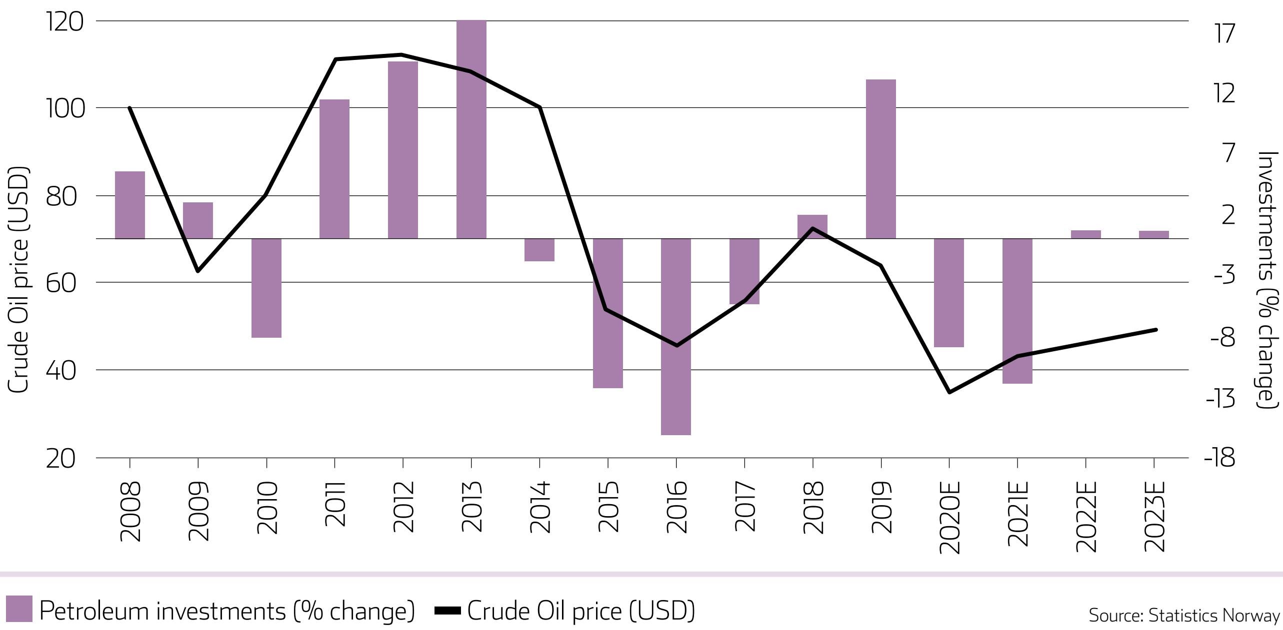
Investment trends are sensitive to demand and tend to be volatile. According to Statistics Norway, gross fixed investments in Mainland Norway is expected to fall by 10.2 % overall in 2020, mainly driven by an expected decline of 19.0 % for Mainland industries and 9.4 % for Housing. In 2021-2023, investment in Mainland industries is projected to increase by 3.4 % - 5.0 % p.a., while investments in Housing is expected to decline also in 2021, be relatively flat in 2022 and then spike upward by 5.9 % in 2023. General government investment is projected to increase by 3.1 % in 2020 and 10.5 % in 2021, then gradually decline by 1.7 % in 2022 and 3.4 % in 2023. In 2020, this is 0.4 p.p. above the Ministry of Finance's projection for general government investment of 2.7 %.

Mainland Investments, 2008 = Index 100



Source: Statistics Norway

Petroleum



Source: Statistics Norway

Oil Market

Coming from high growth of 13.0 % in 2019, Petroleum investments are projected to decline by 9 % in 2020 and further by 12 % in 2021. Due to high petroleum investments in 2019, Statistics Norway originally predicted a growth of 2 % in 2020 and a decline of 7.6 % in 2021 in their projections from Q4 2019. However, the significant decline in demand and oil price the last months have reduced these estimates. The Crude Oil price is expected to moderately increase from around USD 35 per barrel in 2020 onwards, and Petroleum investments are projected to marginally pick up again in 2022-2023, by 0.6 % per year. For 2020, the Ministry of Finance expects a slightly lower average Crude Oil price than Statistics Norway, of USD 33.2 per barrel.

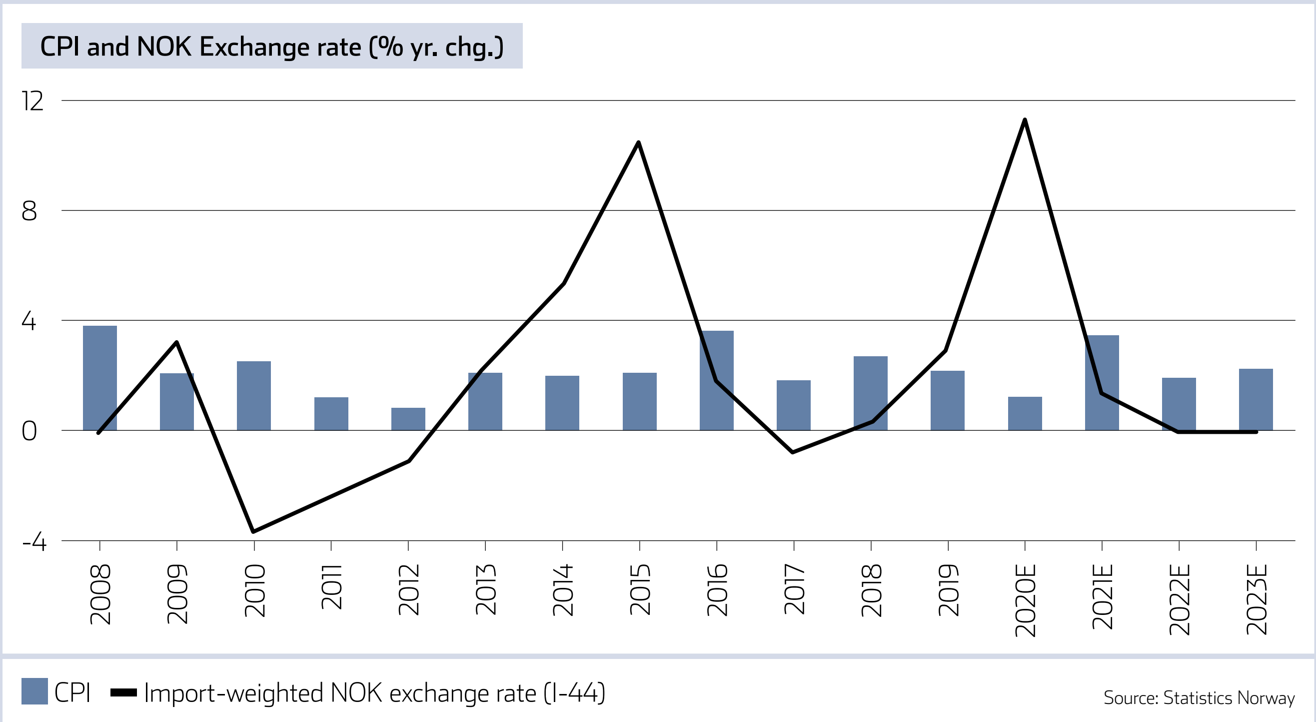
"Lower oil prices and uncertainty about the economic fallout of the outbreak have weakened the krone exchange rate. On 19 March, the krone hit record-weak levels against a number of currencies. At that time, uncertainty in the NOK market was particularly high and limited liquidity contributed to amplifying NOK movements. In order to support a well-functioning NOK market, Norges Bank has made extraordinary NOK purchases totalling NOK 3.5bn. in the foreign exchange market."

The Norwegian Central Bank's Monetary Policy update, May 2020

CPI and NOK Exchange rate

The import-weighted NOK exchange rate (I-44) is a nominal effective exchange rate index based on NOK exchange rates as measured against the currencies of Norway's most important trading partners. In March, the exchange rate was weakened considerably, from already weak levels. Albeit a moderate strengthening of the NOK after March, it is still at historically weak levels, and according to Statistics Norway the current level is expected to remain until 2023.

A weaker NOK will increase imported inflation, as seen in 2015-2016. In 2020 and 2021, Statistics Norway expects CPI to increase by 1.2 % and 3.4 %, before lowering closer to the inflation target of 2.0 % in 2022-2023. The Ministry of Finance assumes a CPI of 1.0 % in 2020, 0.2 p.p. lower than Statistics Norway.



Dronning Mauds gate 10 — Oslo

Malling & Co Næringsmegling was the broker when Ferd AS leased 3 100 m² in Dronning Mauds gate 10.

Construction City — Oslo

Malling & Co Næringsmegling has been engaged as advisor for Construction City. The campus in its entirety will consist of 85 000 m^2 premium workspace.

The office market

Office Rental outlook — Rental growth in reverse

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

› The expected change in employment is negative for 2020, hence creating a negative expected change in office demand. Employment is, however, expected to increase again from 2021 and onwards.
› The expected new construction is relatively limited over the coming years, as very few newbuilds were confirmed prior to Covid-19. Despite high construction volumes for 2020, the remaining available space in these projects is already included in vacancy. Most unconfirmed projects are expected to be postponed, adding little new supply to tilt vacancy levels dramatically.
› Despite low new construction volumes, negative demand is expected to increase vacancy somewhat in 2020 and 2021. Although changed employment is not necessarily immediately reflected in vacant or occupied space, increases in subletting are likely and potential bankruptcies will certainly affect vacancy. We are, however, coming from record low vacancy levels, which allows for increase before affecting rents drastically in a negative direction.

We expect average office rents in Greater Oslo to decrease by 5 % to 10 % in 2020 before increasing again in 2021. However, we do not expect office rents to be back at pre-Covid-19 levels until 2022. Below we have specified our rental expectations for the different office clusters. We expect clusters to be affected differently depending on their current vacancies, new construction volume, tenant base and general popularity.

Office rent forecast

Highly uncertain | Uncertain | Fairly certain

Office cluster	Prime Rent (Pre-Covid-19)	Normal Rent (Pre-Covid-19)	Forecast rental change in 12 months	Forecast rental change in 36 months
Asker	2 150	1 600 – 1 800	-10 %	-6 %
Sandvika	2 250	1 600 – 1 850	-5 %	0 %
Fornebu	1 950	1 450 – 1 650	-10 %	-6 %
Lysaker	2 400	1 800 – 2 100	-5 %	0 %
Skøyen	3 300	2 300 – 2 700	-5 %	0 %
Forskningsparken/Ullevål	2 300	1 700 – 2 000	-5 %	0 %
Majorstuen	3 300	2 200 – 2 600	-5 %	5 %
CBD	5 600	3 200 – 3 800	-5 %	5 %
Kvadraturen	3 800	2 500 – 3 200	-5 %	5 %
Inner city	4 000	2 800 – 3 400	-5 %	0 %
Bjørvika	4 400	3 200 – 3 500	-5 %	5 %
Nydalen/Sandaker	2 600	1 800 – 2 100	-10 %	-6 %
Økern/Løren/Risløkka	2 100	1 200 – 1 700	-10 %	-6 %
Bryn/Helsfyr	2 400	1 700 – 2 100	-10 %	-6 %
Greater Oslo			**-6 %**	**0 %**

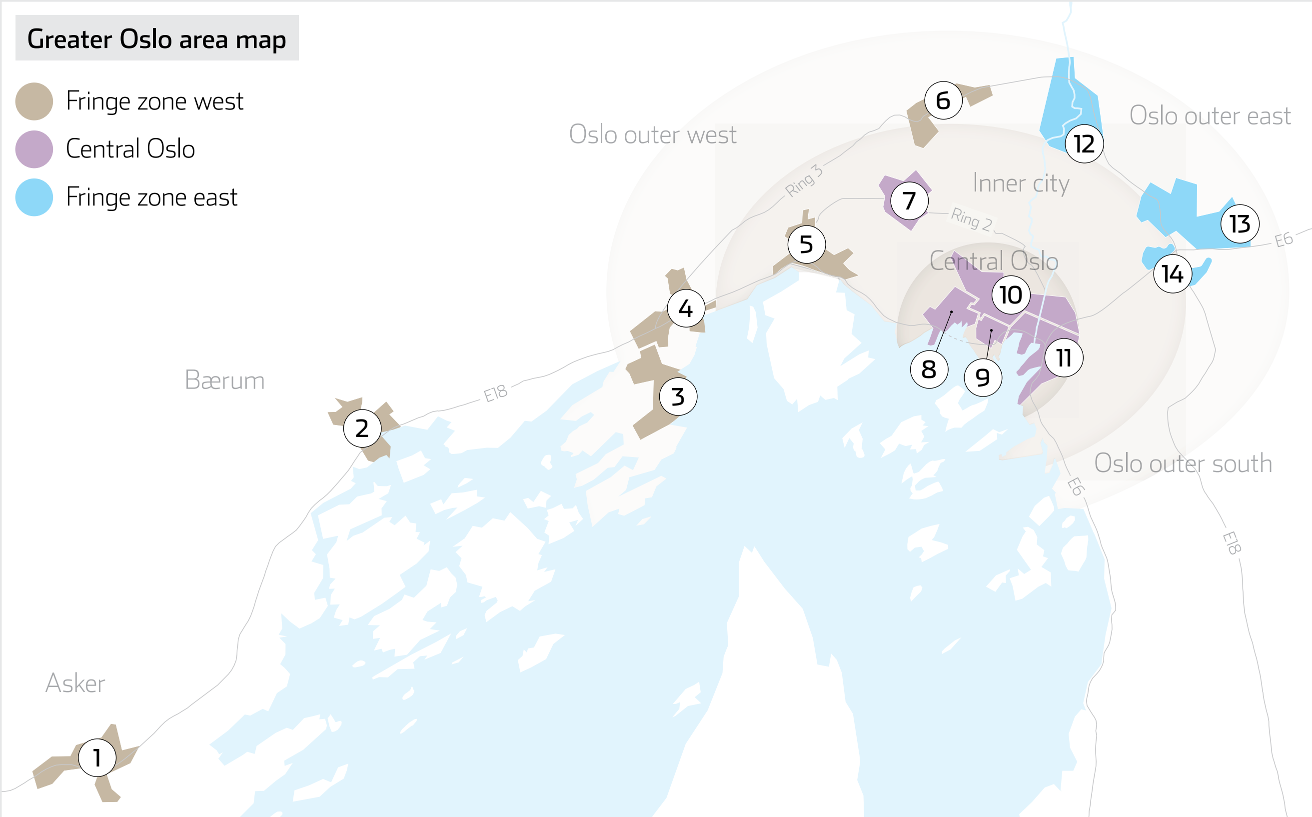
A selection of the latest lease contracts

Tenant	Moving to address/ office cluster	Moving from address/ office cluster	Space m² (rounded)
IF Forsikring	Drammensveien 264 Lysaker	Drammensveien 264 Lysaker	~ 18 000
ABB	Snarøyveien 30 Fornebu	Multiple addresses	~ 14 000
BMI Group	Per Kroghs vei 1 Oslo Outer East	Fjellhamarveien 52 Other	~ 13 000
Nexans	Freserveien 1 Other	Innspurten 9 Bryn-Helsfyr	~ 7 000
Astrup Fearnley	Dronning Eufemias gate 8 Bjørvika	Grev Wedels plass 9 Kvadraturen	~ 5 300
Codan Insurance	Verkstedveien 3 Skøyen	Verkstedveien 3 Skøyen	~ 3 400
Oslo Origo	Stortorvet 10 Inner city	Lilletorget 1 Inner city	~ 3 300
Ferd	Dronning Mauds gate 10 CBD	Strandveien 50 Lysaker	~ 3 100

"Although changed employment is not necessarily immediately reflected in vacant or occupied space, increases in subletting are likely and potential bankruptcies will certainly affect vacancy."

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

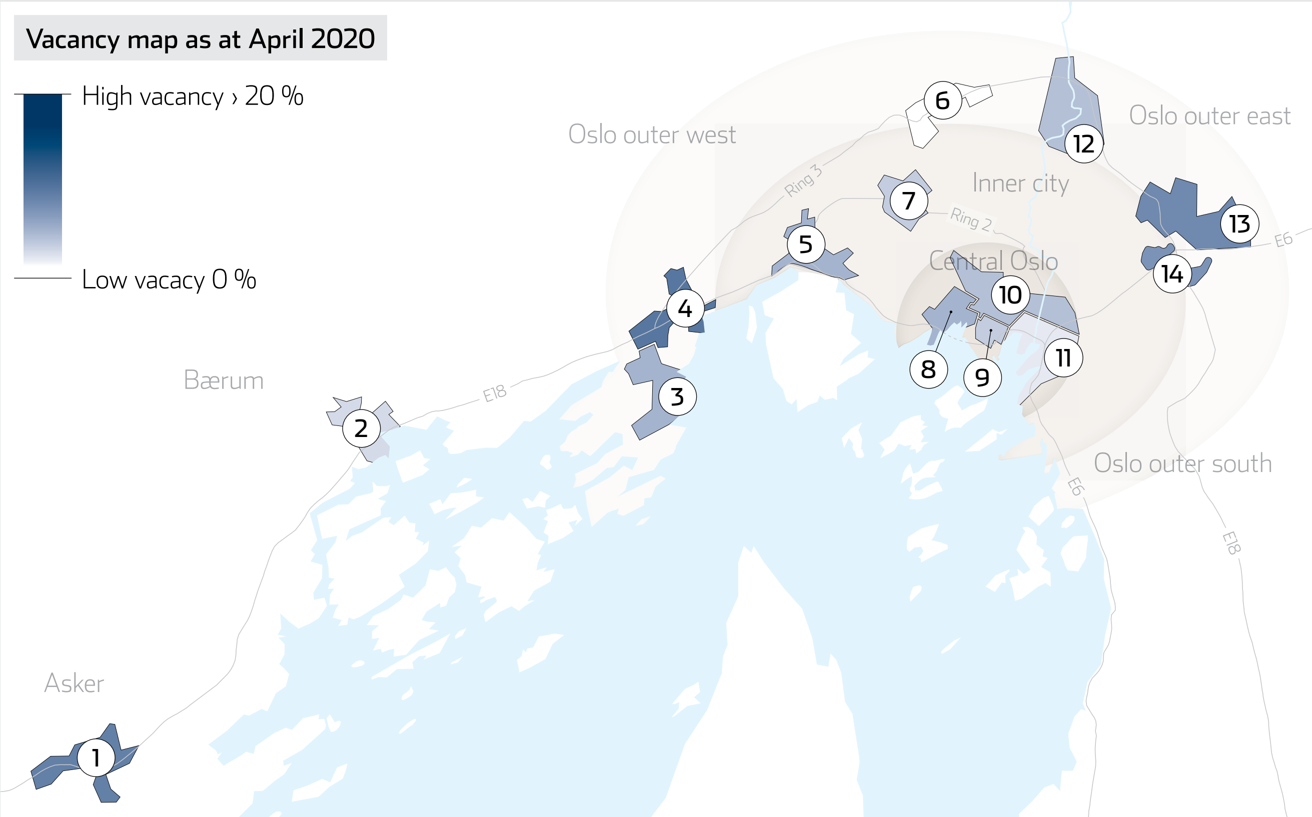
** Prime rent is the consistently achievable headline rental figure that relates to a new, well located, high specification unit of a standard size within the area. The prime rent reflects the tone of the market at the top end, even if no leases have been signed within the reporting period. One-off deals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



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

	Office cluster	Prime rent	12-month change (Prime rent)	Normal rent	12-month change (Normal rent)
1	Asker	2 150	0 %	1 600–1 800	0 %
2	Sandvika	2 150	-4 %	1 600–1 800	0 %
3	Fornebu	1 900	-3 %	1 400–1 600	-3 %
4	Lysaker	2 300	-4 %	1 800–2 100	5 %
5	Skøyen	3 300	3 %	2 300–2 700	4 %
6	Forskningsparken / Ullevål	2 300	0 %	1 700–2 000	6 %
7	Majorstuen	3 300	6 %	2 200–2 600	4 %
8	CBD	5 600	0 %	3 200–3 800	6 %
9	Kvadraturen	3 700	9 %	2 500–3 200	10 %
10	Inner city	4 000	3 %	2 800–3 400	11 %
11	Bjørvika	4 400	5 %	3 200–3 500	2 %
12	Nydalen / Sandaker	2 500	4 %	1 800–2 100	5 %
13	Økern / Løren / Risløkka	2 100	-5 %	1 200–1 700	0 %
14	Bryn / Helsfyr	2 400	2 %	1 700–2 100	7 %

Source: Malling & Co



Vacancy — Malling & Co Estate agent consensus (NOK/m²/yr)

	Office cluster	Vacancy	12-month change (Vacancy)	New construction: 3-year pipeline (Confirmed)
1	Asker	10 %	-4 %	-
2	Sandvika	2 %	1 %	-
3	Fornebu	5 %	2 %	-
4	Lysaker	11 %	0 %	-
5	Skøyen	5 %	-4 %	26 000
6	Forskningsparken / Ullevål	0 %	-1 %	-
7	Majorstuen	3 %	-1 %	-
8	CBD	5 %	-1 %	45 500
9	Kvadraturen	3 %	-1 %	1 623
10	Inner city	4 %	0 %	27 273
11	Bjørvika	1 %	-1 %	3 900
12	Nydalen / Sandaker	4 %	0 %	-
13	Økern / Løren / Risløkka	9 %	5 %	88 801
14	Bryn / Helsfyr	8 %	2 %	70 000

Source: Finn.no/Malling & Co

Indicators for office demand
Shift from softening the employment accelerator to hard brake in weeks

Over the past four years, employment growth has been good, especially in the Greater Oslo area. Office demand has been driven by this increase in employment, and the strong fundamentals have been supported by a strong growth among office related tenants. The current situation with Covid-19 has changed the employment market totally across the globe, and Norway is no exception. Despite strong measures from the government to soften the economic consequences, the effects of the national and global economic downturn are expected to have significant impacts on the employment market for years to come. Supporting economic measures have been quick and include easing of temporary layoff rules and direct business support for fixed costs, among others. While we observe high numbers for temporary layoffs, the actual unemployment visible when the society gets back to something like normal, is still unknown. We are, however, seeing that numbers are already declining as society gradually reopens.

At the time of writing, Norway is about to gradually open towards the summer, and the long-term effects on unemployment remain to be seen. The question now is how bad it will get before the market stabilises. While temporary layoffs will reduce over the coming quarters with lockdown measures reversed, we expect the underlying long-term employment outlook to decline over the coming quarters leading to less demand for office space relative to a situation without Covid-19.

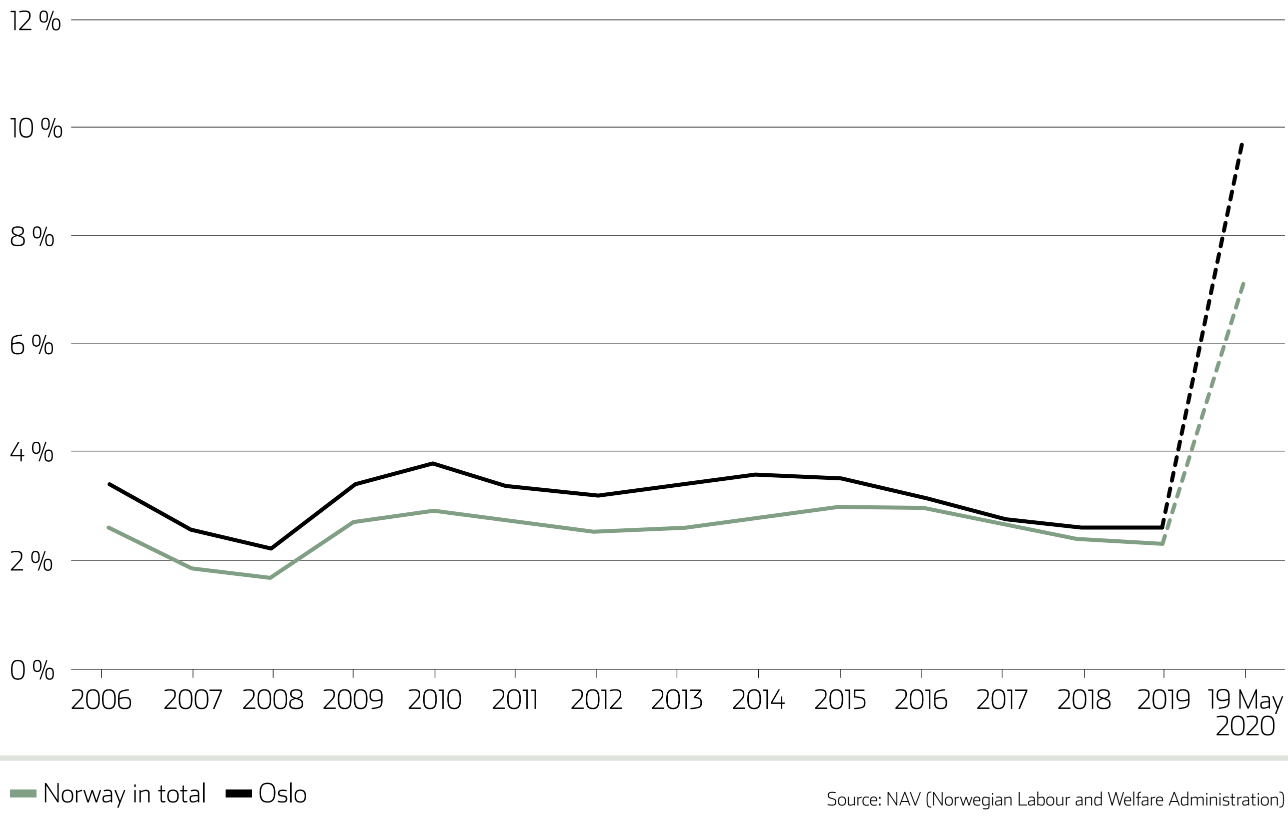
Looking at earlier crises in the office market, the key factor for a persistent rental decline is not only a lack of demand from new leases, but also existing leases being defaulted in combination with a significant increase in subletting. For this to happen, we would need typical office-using sectors to have significant layoffs for a longer period. The severe drop in oil price is one example of effects that could increase unemployment in this sector and return already leased office space back into the market. On the other hand, the global effort to maintain economic growth with massive financial and monetary initiatives may create a foundation for stronger growth also in the office sector when the situation improves.

Despite the changes in market outlook, much of the office letting market is decided by the expiration of lease contracts that would need to be renewed. Because of Covid-19, many leasing processes have been put on hold or cancelled. Tenants that still have years remaining on their existing lease may postpone the decision of moving or renewing for a longer period. Some of these tenants may renew contracts on shorter terms to buy some time before committing to a longer lease later. Some tenants, especially the public ones, are, however, maintaining the progress in their processes for new leases as planned.

Registered unemployment (NAV)

The register-based unemployment numbers from the Norwegian Labour and Welfare Administration (NAV) showed a slightly decreasing trend for the country from 2016 to 2019 and have been at low levels (below 4 %) for the past 15 years. Due to the Covid-19 lock down, unemployment soared in March and as of 19 May the numbers were at 7.1 % for the country, and 9.7 % for Oslo. This must be seen in relation to the fact that Oslo has a high degree of service-related businesses more directly hit by the lockdown than the country overall. Sectors typically leasing offices are not affected that hard, and many of these companies have remained in production with employees working from home. Unemployment is, therefore, the highest among travel and hospitality, as well as retail and personal services. According to Statistics Norway, temporary layoffs need to stay unemployed for three months or more to become classified as unemployed. As NAV's unemployment numbers are on a decline week by week now in April and May, it remains to be seen where it will stabilise as we go back to normal economic activity. It is quite certain, however, that the real level of unemployment will end significantly higher than seen before the Covid-19 measures.

Unemployment in Oslo and Norway (register-based)



Source: NAV (Norwegian Labour and Welfare Administration)

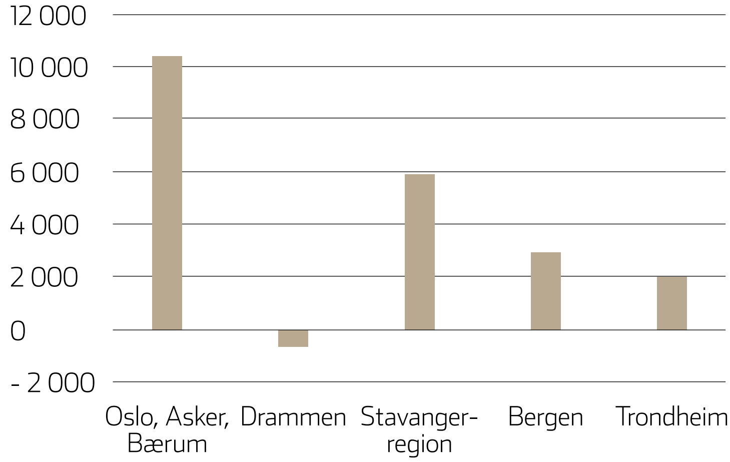
"Sectors typically leasing offices are not affected that hard, and many of these companies have remained in production with employees working from home."

Employment growth

While we know that Covid-19 has had significant effects on the employment market, it is interesting to see how employment growth was developing pre-Covid 19. The Q1 numbers for wage earners measured mid-February (before Covid-19 lockdown in Norway) are available on municipality level, enabling local analysis of the employment market based on the employment register (full count). The Greater Oslo area still had decent growth of just over 10 000 wage earners (corresponding to 1.8 %) from Q1 19 to Q1 20. Bergen and Trondheim saw similar growth corresponding to 1.8 % and 1.7 % respectively. Drammen, however, did not experience any growth from Q1 2019 to Q1 2020. Stavanger had the best relative growth at 4 %.

Despite growth in the number of wage earners and compressing unemployment prior to Covid-19, employment growth, both in Oslo and Norway in general, was slowing down. In this period, Oslo performed significantly better than the rest of the country, contributing to 1/3 of the total growth in wage earners in Norway.

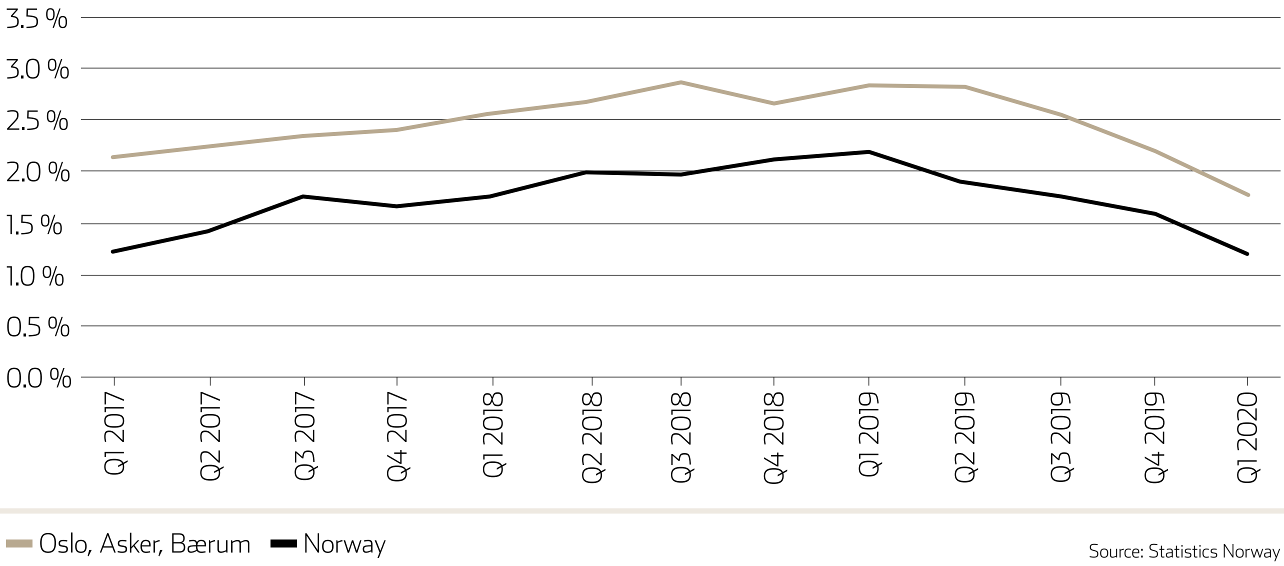
Change in wage earners per city-area Q1 2019 vs. Q1 2020



Source: Statistics Norway

"Despite growth in the number of wage earners and compressing unemployment prior to Covid-19, employment growth, both in Oslo and Norway in general, was slowing down."

Four quarter growth in wage earners Oslo, Asker, Bærum and Norway



Source: Statistics Norway

Employment going forward

Although a large share of the current reported unemployment is likely to go back to work, some will not, and we expect a negative change in employment in 2020. SSB predicts national employment to decrease by -2.3 % in 2020, staying flat in 2021 and thereafter increasing by 1.2 % and 1.3 % in 2022 and 2023 respectively. A tendency is observable historically, with employment in Oslo having a stronger reaction than in Norway overall. We have estimated the relative change in employment in Oslo, Asker and Bærum given a change in employment nationally. Thus, we can estimate the expected change in employment in Greater Oslo, using SSB's national forecast. As can be seen in chart below, the pattern is similar to national changes, albeit employment in Oslo is expected to have a slightly higher decrease in 2020, and a higher increase in 2021-2023.

The chart below shows the national accounts' yearly change in employment (Q4/Q4 base) for Norway, including the latest estimates from Statistics Norway, which we have adjusted for Q4/Q4 change. As seen in the chart, the setback is stronger than seen after the Financial Crisis, which hit Norway relatively mildly.

Employment growth (Q4/Q4, Quarterly National accounts) with forecasts and register based employment growth for Greater Oslo)

Source: Statistics Norway, Malling & Co

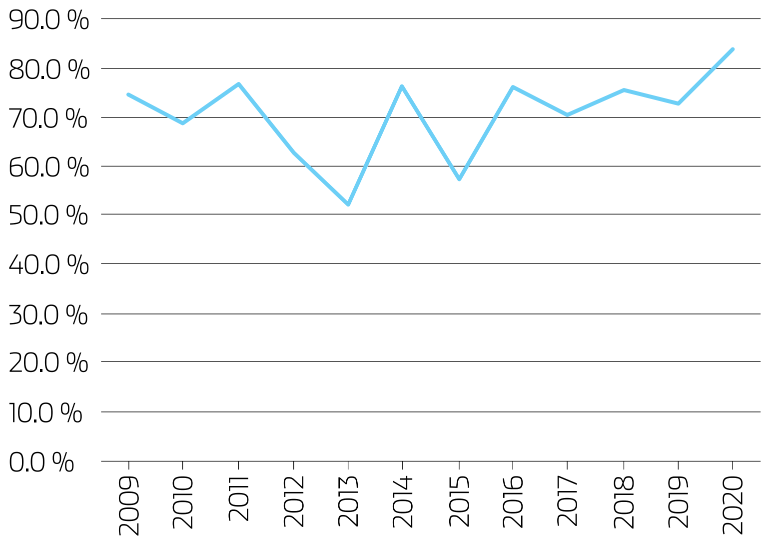
So far unknown effects on office demand from increased use of home-office

Office-related business sectors were among the leading growth sectors before Covid-19, and office workers have also been coping relatively well during the measures, according to unemployment numbers split down on business sectors from NAV. Most office workers have had the chance to continue working from home, and home office is proving to be more efficient than many leaders probably feared. Many seem to argue that the Covid-19 situation may have opened their eyes to the opportunity of using employees' home office as a part of the total workplace strategy. While workplace strategy experts have been focusing on space efficiency over the past years for obvious economic reasons, the trend of less space and free seating may be challenged in the future from increased focus on infection control. Also, the gains of direct human interaction may be important factors when assessing workplace strategies. The net effects on all these changes for future office demand is to be analysed further.

Office searches

Our usual counting of office searches is showing higher levels by end April 2020 than end April 2019, with approximately 80 000 m² by April 2020 compared to approximately 48 000 m² by April 2019. Despite the situation, 2020 is still expected to end higher than 2019. However, the number of office searches has reduced from 31 to 26 in the respective periods in 2019 and 2020. The lockdown period is, therefore, not visible in the search numbers, but we do know that some ongoing search processes have been put on hold or have ended in temporary extensions of existing leases. We have seen several searches among public tenants so far this year, and they are continuing the leasing processes despite the current situation. Increased focus on short extensions may change the expiry profiles ahead, as many of these lease expiries will return to market in a year or two when the extension period has passed and the economic situation is more prosperous. This can create a sudden “double” demand later. The share of office searches towards the city centre remains strong and stable and is above 80 % as of April. The strong position of central Oslo on the demand side, compared to its low vacancy levels, will stand out as a key factor for resilience against a potential office rental decrease over the coming year.

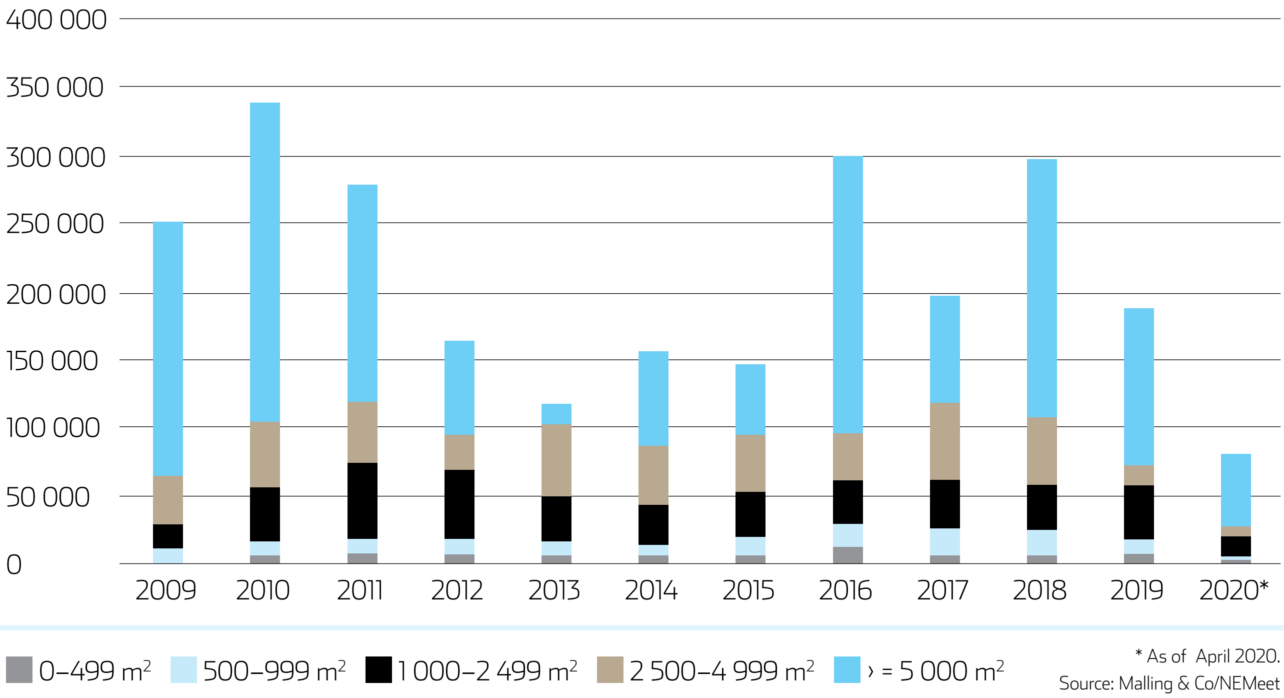
Share of demand for central Oslo office clusters



Source: Malling & Co/NEMeet

"Increased focus on short extensions may change the expiry profile ahead, as many of these lease expiries will return to market in a year or two when the extension period has passed and the economic situation is more prosperous."

Office searches registered in Greater Oslo (2009–2020)



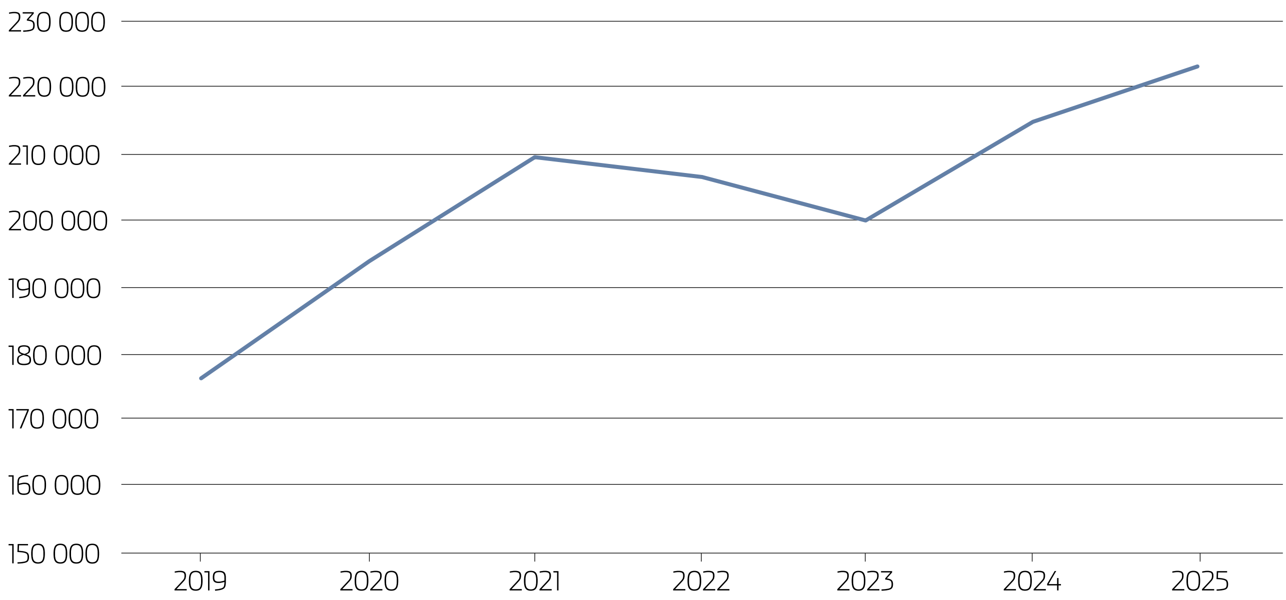
* As of April 2020.
Source: Malling & Co/NEMeet

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

Demand for searched space is expected to increase towards 2021, as expiry of large leases in 2023 is particularly high. Based on historic data, we can create a statistical distribution of time between lease expiry and market search and use this to estimate future demand from expiring large leases. The chart below shows this expected trend in demand for leases above 5 000 m^2.

These tenants are interesting for developers with large newbuild or refurbished space for rent in the coming years. However, due to Covid-19 we may see changes in expiry profiles and expected demand going forward, possibly shifting the graph to the right as contracts are temporarily renegotiated and expiries postponed.

Estimated aggregated demand from › 5 000 m^2 tenants*, m^2



*Estimate based on historic data and known lease expiries.

Source: Arealstatistikk/Malling & Co

"Due to Covid-19 we may see changes in expiry profiles and expected demand going forward, possibly shifting the graph to the right as contracts are temporarily renegotiated and expiries postponed."

Construction activity in Greater-Oslo

Covid-19 has curbed new construction volumes

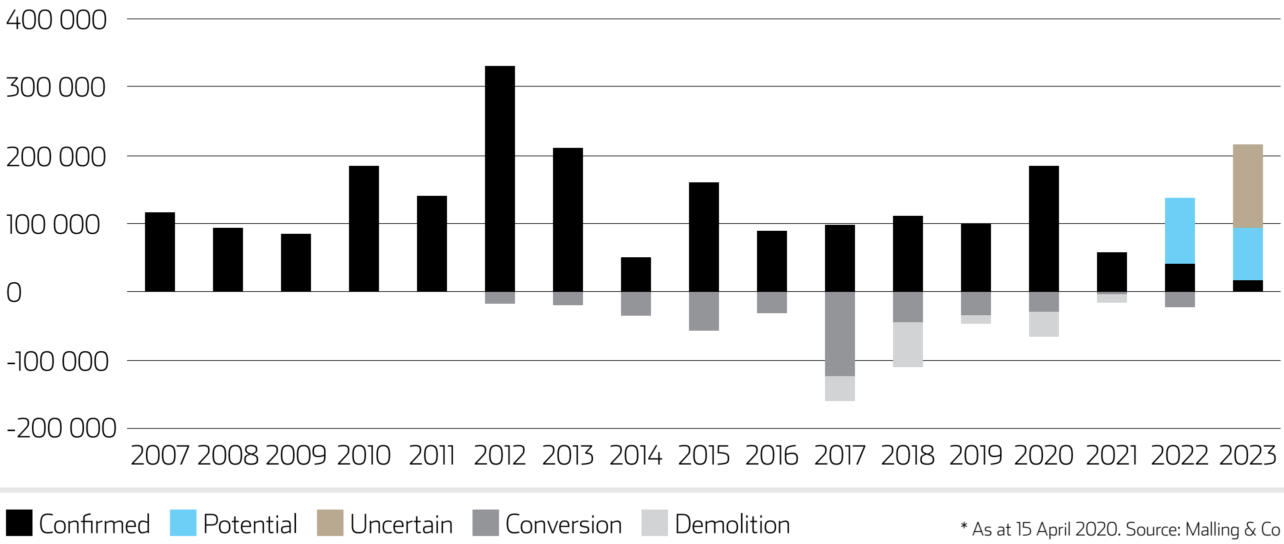
In our previous market report, we reported that although the potential new construction volume in 2021-2022 was high, few projects where actually confirmed. Due to moderate expiry volumes in 2021 and 2022 and because very few developers choose to build on speculation, few projects have changed status since then and the confirmed volume is still low. At the time of writing the market has been turned upside down by Covid-19, and there is still a lot of uncertainty with regards to the general economic outlook. Thus, we expect almost all projects that are still unconfirmed in 2021-2022 to be postponed. This means that expected new construction over the next couple of years should be relatively low, which will dampen a vacancy increase considering the expected reduction in employment.

New construction: Overview

Gross new construction in 2020 will be approx. 185 000 m^2. More than half of this volume was completed during the first quarter, while the remaining 40 % is still under construction. The net effect will be approx. 120 000 m^2, making 2020 the first year since 2015 with a net construction volume of more than 100 000 m^2. Around 44 % of the volume completed in 2020 is still vacant at the time of writing and has been added to current vacancy, as for example Økern Portal, Freserveien 1 and Parallell. In 2021, gross new construction is expected to be approx. 60 000 m^2, or approx. 38 000 m^2 in net construction. Originally, the expected gross volume in 2021 was closer to 100 000 m^2, however Covid-19 has caused delays in the construction of VIA, which now has an estimated completion in Q1 2022.

In our winter report we reported that confirmed construction volume in 2022 was low, which is still the case. At the time of writing, only VIA is confirmed for 2022. There is around 95 000 m^2 in potential projects, however we expect many of these projects to be moved out in time, as expected expiry of large contracts is low in 2022, and as vacancy is expected to increase due to Covid-19. In 2023, around 17 000 m^2 is currently confirmed and there is 77 000 m^2 in potential projects. There are also many uncertain projects set for 2023 that may change status over the next year. We expected net construction to increase in 2023, as projects being postponed now will likely be completed then. It is, however, difficult to predict these volumes with certainty, as we do not yet know the full extent of Covid-19's effect on the market. Moreover, many more projects may experience delays either in the zoning process or in construction.

Historical and estimated new construction, conversion and demolition in Greater Oslo



* As at 15 April 2020. Source: Malling & Co

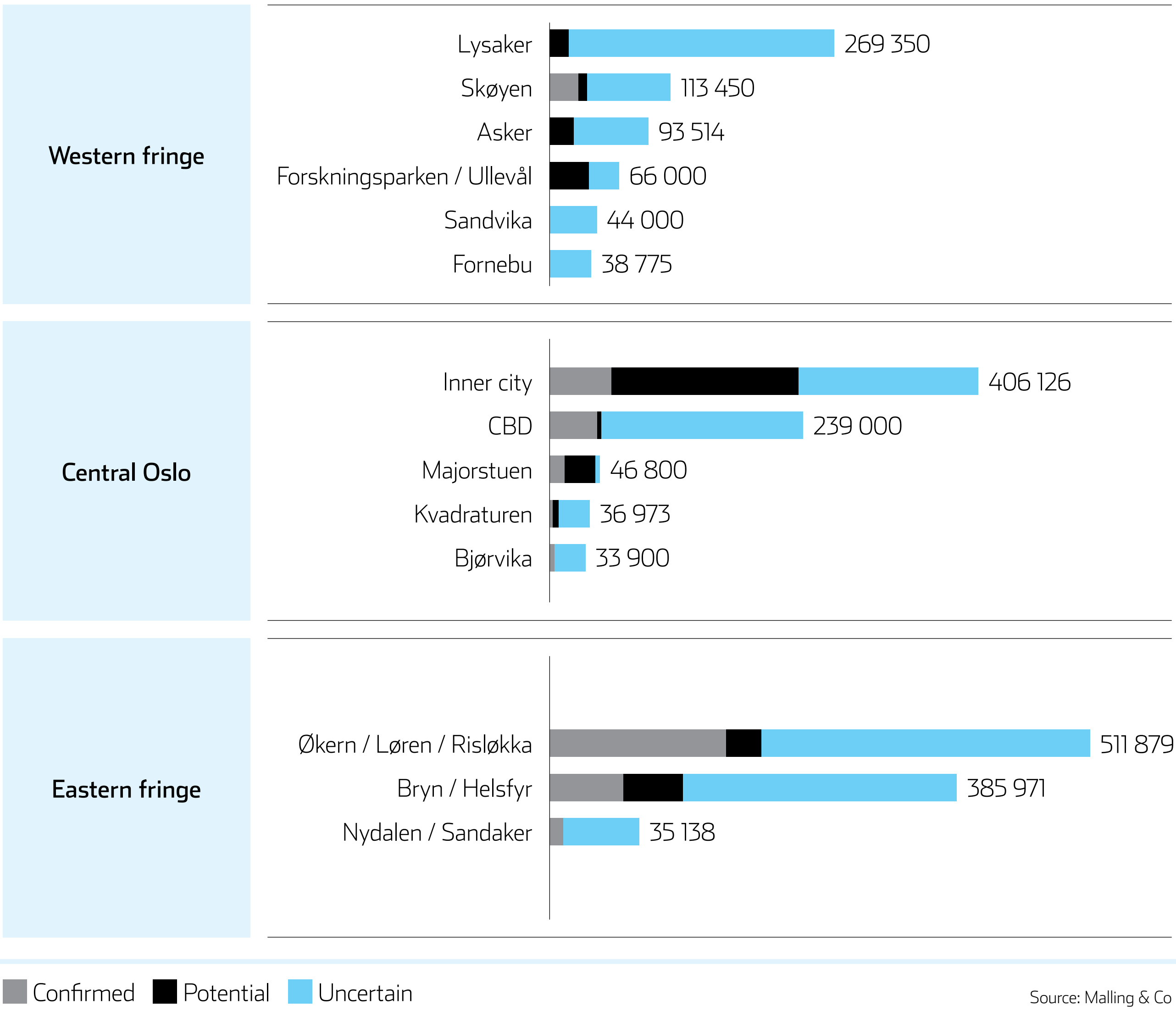
Project definitions — Confirmed volume includes all new constructions that are zoned and will be initiated either because they have secured a sufficient tenant base or because they will build on speculation. The potential volume includes all projects that are zoned, and which we deem likely to be able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

New construction: Detailed

The largest share of confirmed new construction is expected in the Eastern fringe, or more specifically at Økern/Løren/Risløkka, where the gross confirmed pipeline is approx. 166 000 m², equalling 19 % of total existing stock. Note that this figure does not consider any future demolishment of office space involved in the building processes. A large share of the confirmed volume at Økern is related to Construction City, which is not expected until 2024. No other projects, except parts of the new governmental quarter, are confirmed as late as in 2024. If we exclude Construction City, the remaining confirmed projects at Økern are all expected before 2022 and equals approx. 10 % of existing stock. Other examples of new constructions at Økern/Løren/Risløkka include Økern Portal (2020/2021) and Parallell (2020).

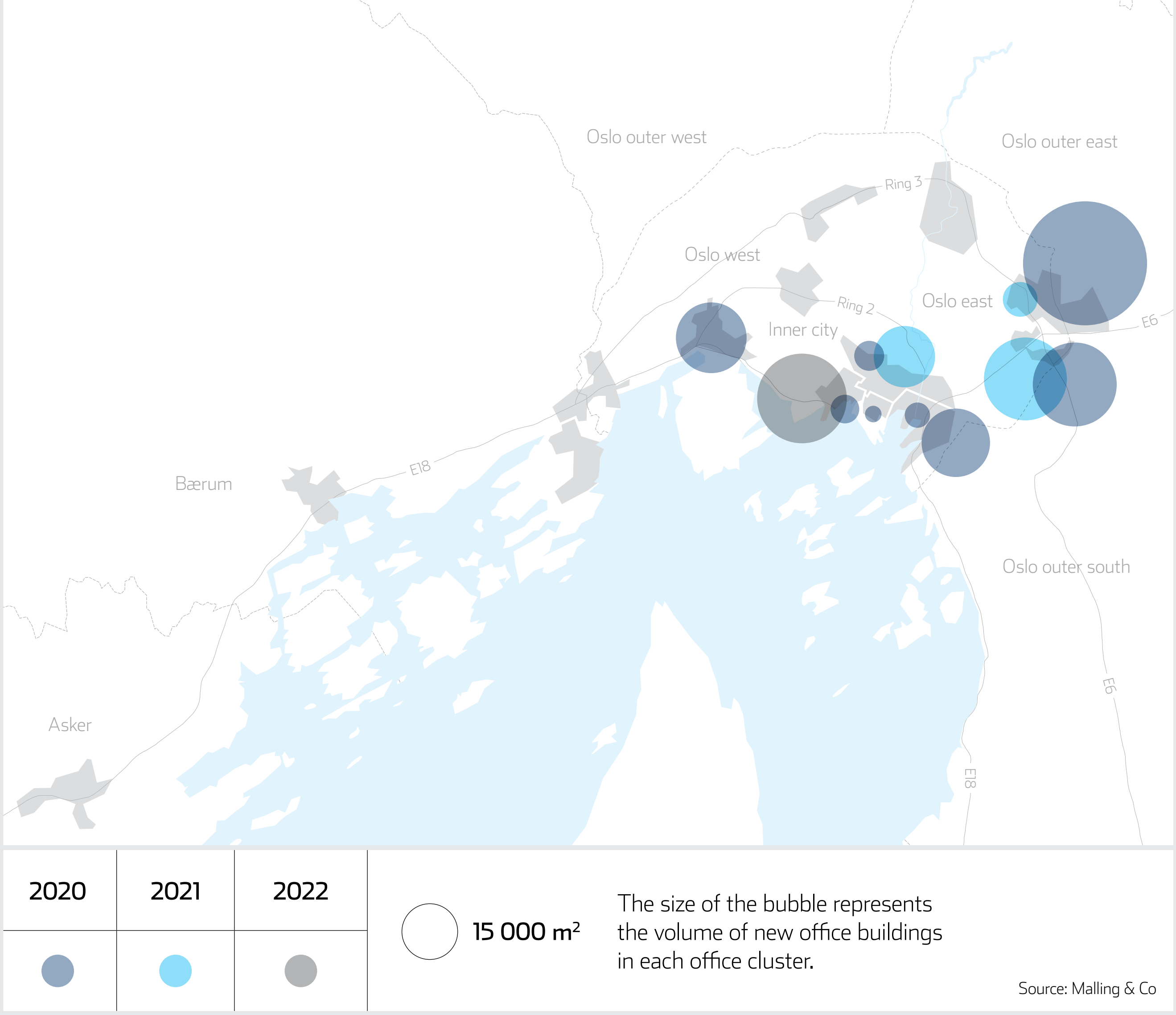
Bryn/Helsfyr and the Inner city have the second and third highest confirmed new construction pipelines. Bryn/Helsfyr has an expected gross volume of 70 000 m², or 8 % of existing stock, in confirmed projects only, and 56 000 m² in potential pipeline. Central Oslo also has an expected, large new construction volume, with around 60 000 m² in confirmed projects and 177 000 m² in potential projects, the vast majority being in the Inner City. However, many of the newbuilds projected in Central Oslo involve the demolition of existing buildings, thus the net effect is much lower. Examples of confirmed and potential projects in the Inner city include Urtekvartalet (2020/2022) and Tullinkvartalet (2021).

New construction in Greater Oslo split by cluster and status



Source: Malling & Co

Confirmed new office buildings that will be finalized 2020–2022



Source: Malling & Co

"There are also many uncertain projects set for 2023 that may change status over the next year. We expected net construction to increase in 2023, as projects being postponed now will likely be completed then."

"Trekanttomten" — Oslo

Malling & Co Corporate Real Estate is advisor for Statsbygg on the upcoming sales process of the centrally located plot for development near Aker Brygge, Oslo

Supply and vacancy in Greater Oslo

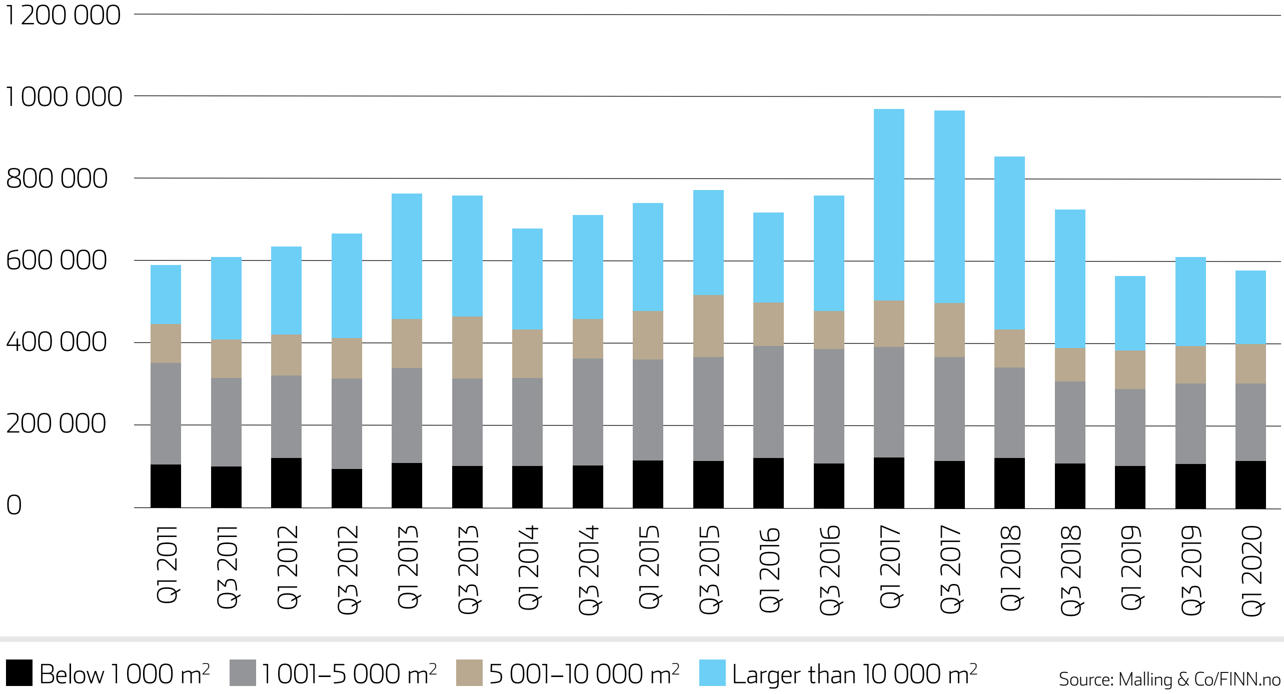
Increased vacancy expected

In our previous report we predicted slightly increasing vacancy in 2020, continuing into 2021. After nearly two years of record-low vacancy levels, increased construction and lower employment growth were expected to relieve some of the pressure off vacancy. As at April 2020, vacancy in our Greater Oslo office clusters was measured at 5.4 %. This is up 20 bps since October and 30 bps since April 2019, which is in line with our original forecast for 2020. There is, however, no need to point out that Covid-19 has completely changed market conditions, and that vacancy is likely to increase much more in 2020 compared to what was initially expected. Our current view is that vacancy should top out at around 7-8 % in 2021. However, the virus' development and the resulting economic uncertainty makes the estimation of office vacancy much like shooting a moving target.

An update on vacancy in Greater Oslo

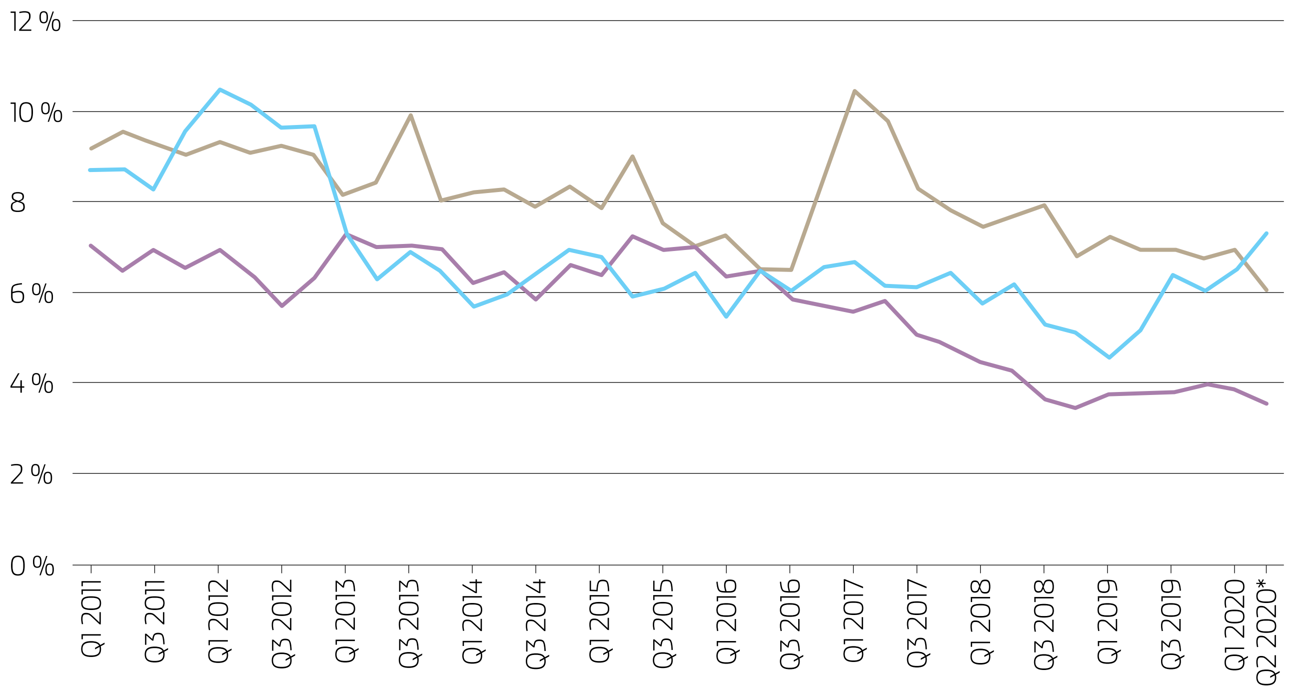
Vacancy in Greater Oslo was measured at 5.4 % in April 2020, which is an increase of around 20 bps since our last market report and in line with our pre-crisis forecast. Central Oslo has the lowest vacancy of 3.6 %, while the Western and Eastern fringe have vacancies of 6.1 % and 7.3 %, respectively. The Western and Eastern fringe zones have switched places vacancy-wise. Vacancy in the Eastern fringe has increased, mostly due to new constructions at Økern/Løren/Risløkka that are approaching completion. Many of the newbuilds are only partly let out which is now gradually being reflected in vacancy. As for the Western fringe, vacancy has come considerably down. This is mostly due to decreases in vacancy at Skøyen, where for example Drammensveien 144 has been taken off the market.

Advertised office space split by size interval



Source: Malling & Co/FINN.no

Historical vacancy in Central Oslo, Eastern and Western fringe zone



Fringe zone west | Central Oslo | Fringe zone east

* As at 30 April 2020. Source: Malling & Co/FINN.no

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

Expected development in the Greater Oslo subareas

Although we expect all clusters to be affected eventually, some clusters will likely see higher increases in vacancy than others. Central Oslo has the advantage of coming from very low vacancy levels with an average of 3.6 % in April. The area is also generally more sought-after by tenants. The Inner City and Kvadraturen, however, have higher shares of exposed sectors within their tenant-base compared to other central clusters, which may result in higher vacancy-increases there. It is also worth noting that the Inner City's supply is measured at 8.5 %, which is more than the double of its vacancy of 3.9 %. In addition, there are several refurbishments in Central Oslo, which increases supply of high-quality space, even if it does not involve new space. Some of this space will most likely eventually become a part of the vacancy, depending on whether the space is let out or not before approaching the 12-month limit, and on whether the projects will actually be built.

The Eastern fringe has the highest share of expected new construction, however many of these newbuilds have already been added to vacancy, which is currently measured at 7.3 %. Moreover, the tenant-base in the east is not necessarily weighted towards sectors at risk of bankruptcy. A large share of public tenants at Bryn/Helsfyr and Nydalen/Sandaker may work as a partial cap on vacancy in the Eastern fringe. Vacancy in the Western fringe is currently measured at 6.1 %. After the oil price drop in 2014, subletting increased particularly in the Western fringe, where the oil sector in Oslo is located. Although the Western clusters' tenant base is more dispersed now compared to then, we consider the Western fringe of being at higher risk and that some western clusters might see an increase in lease defaults and subletting over the coming months and years.

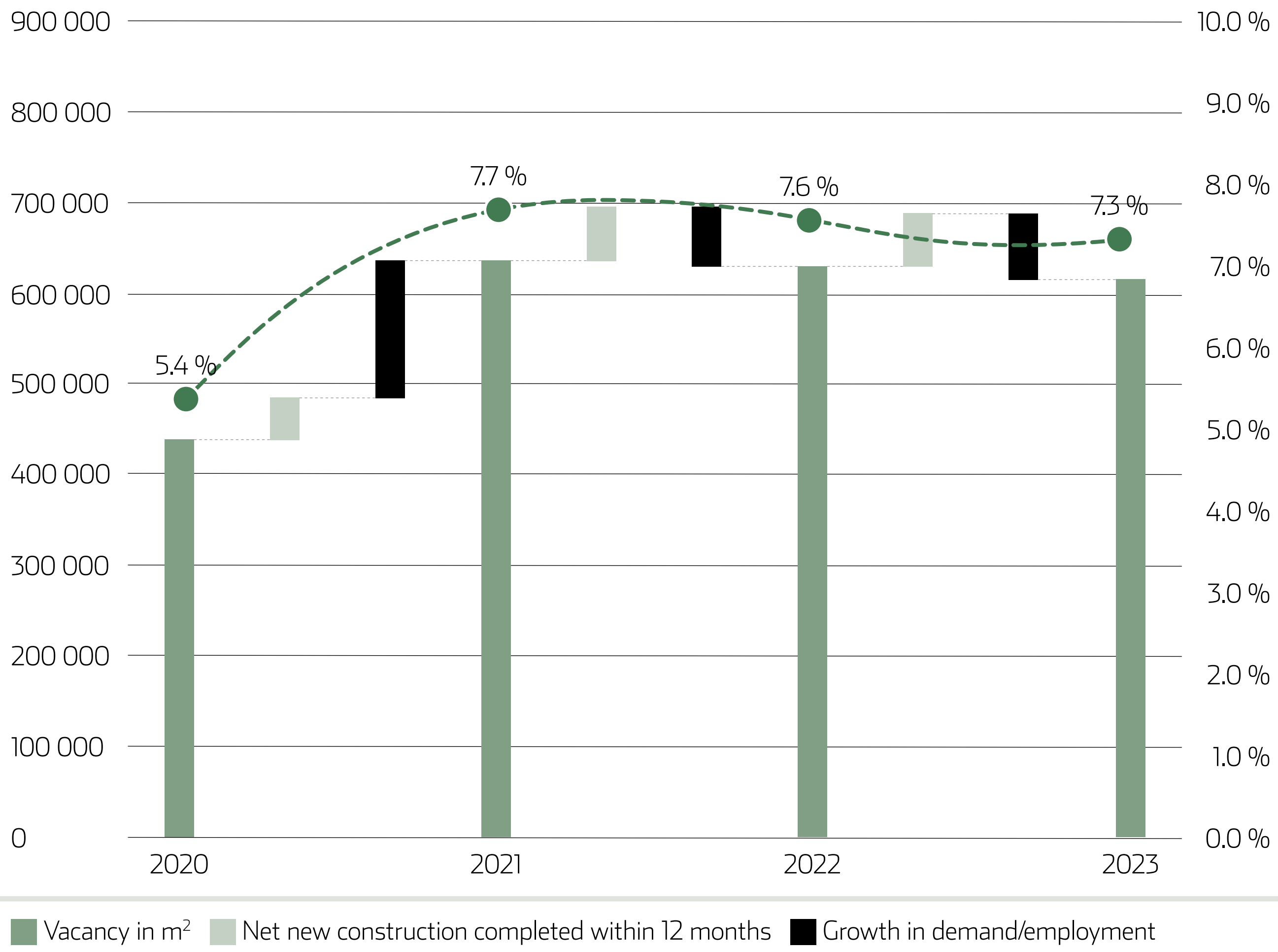
Vacancy in Greater Oslo going forward

As our expectations for new construction have been adjusted downwards considerably, the main determinant for vacancy going forward is the shut-down's effect on demand through employment, as well as potential bankruptcies leading to an increase in contract defaults. Currently, office-related businesses are not directly affected, but over time an economic recession will affect these sectors as well. In short, we used historical employment figures to estimate the relative change in employment in Oslo given a change nationally. Multiplying this figure by the average size (m^2) per employee, we estimate the expected change in underlying demand over the next three years. We then adjust this figure downwards in our vacancy-model, as we do not expect change in employment to have an immediate effect on available space, except in potential bankruptcy cases. This also applies the other way around, as increased employment does not result in an immediate increase in absorbed space, but rather in less space per employee.

Although net new construction is expected to be modest, the negative change in demand is expected to create an explosive growth in vacancy in the second half of 2020 and into 2021. We expect average office vacancy in Greater Oslo to increase by around 200-300 bps in 2020 and 2021, before stabilising in 2022.

"We expect average office vacancy in Greater Oslo to increase by around 200-300 bps."

Estimated vacancy trend in Greater Oslo



Dronning Mauds gate 15 — Oslo

Malling & Co Eiendomsutvikling is managing the new façade project on behalf of Nordea Liv Eiendom.

Stavanger

From slow recovery to challenging times

Relative employment growth in the Stavanger-region was actually the strongest in Norway pre Covid-19, observed through slightly decreasing office vacancy and declining unemployment rates. However, Covid-19 is set to potentially drive the Stavanger market back to difficult times, like seen after the oil price drop in summer 2014, as oil prices have dropped significantly due to the demand. This will affect Norway's economy hard, and most likely the Oil & Gas dependent business life in Stavanger region particularly hard. Significant declines in investments within the Oil & Gas sector are expected to be seen, after growth of 13 % in 2019. The latest estimates from Statistics Norway assume investments down by 9 % this year and almost 12 % next year. This will also have significant indirect effects on the Mainland economy. The Covid-19 situation will most likely increase office vacancy in Stavanger, although increased infection control measures could justify more space per headcount in a market with a large surplus of newer office buildings with low asking rents.

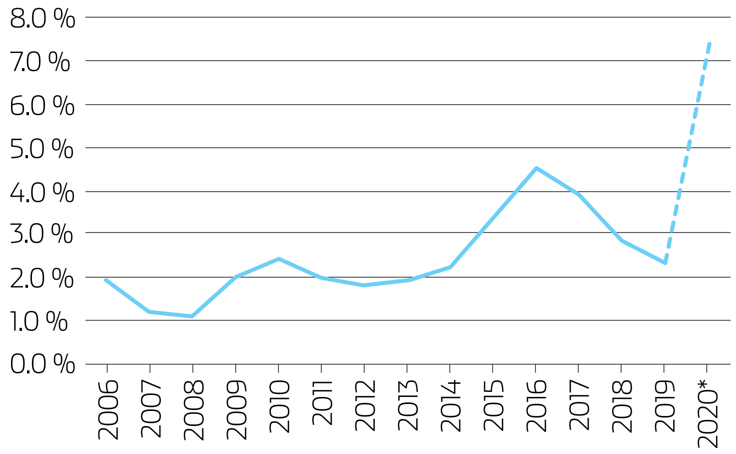
Employment market

› The registered unemployment rate measured by the Norwegian Welfare Administration (NAV) showed an unemployment rate at 2.3 % for Rogaland county and 2.5 % for Stavanger municipality in February 2020. The corresponding figures in April were 8.9 %, and 9.9 % respectively, but, again, including temporary layoffs due to the lockdown. The weekly numbers on county level showed a decline to 7.4 % for Rogaland as at 12 May. The indirect and long-term effects for unemployment are unknown, but numbers are obviously gradually improving week by week as Covid-19 measures are eased.

› Statistics Norway's (SSB) quarterly numbers for changes in wage earners (see page 22), confirms the strong increase in employment over the past year in the region with an increase of 5 900 wage earners from Q1 19 to Q1 20 (Q1 measured mid-February), corresponding to a 4.0 % growth. This reflects the fact that Stavanger was doing well in recovery from the previous oil price drop before being hit by Covid-19.

› Several key employers within Oil & Gas, e.g. Aker BP, have announced cuts in staffing due to Covid-19 and the oil price drop. The total effect on the Stavanger market is difficult to estimate before we are back to a more normal situation. Forward rates on oil prices indicate prices between USD 35-45 in 1-3 years.

Registered unemployment Rogaland (incl. temporary layoffs)



* 12 May. Source: NAV (Norwegian Labour and Welfare Administration)

"Stavanger was doing well in recovering from the oil price drop before being hit by Covid-19."

Office letting market

› Compared with the figures from our last report from November (vacancy measured in October), the overall vacancy in Stavanger has decreased somewhat from 16 % to 15 %. Forus is still the vacancy leader (in absolute numbers) with an estimated 158 000 m² vacancy in April 2020. Forus is an area with many large and relatively high standard buildings, which are cheap compared to breakeven newbuild-cost. The focus on increased distance between office workers could possibly help leasing processes with a new value proposition to lease extra space to ensure good infection control. However, this is so far pure speculation from our side, and the more certain effect is higher vacancy as layoffs come into effect in the office leasing market over the year.

› Market rents at Forus are still low and trades as low as around NOK 800 per m² per year for existing premises and re-negotiations. The high vacancy in relatively modern buildings is believed to have a significant impact on achievable rents.

› EY decided to remain in Vassbotnen 11, a lease contract of approximately 5 000 m² in the building from 2011. Accenture and Tecnip-FMC have been two other key searches in the Stavanger market lately, searching for up to 600 and 4 500 m² in 2021 respectively

› Our rental estimates (broker consensus) have been adjusted down in many of the office clusters compared to our previous report. We believe the sudden spike in unemployment and the economic cooldown caused by Covid-19 has made landlords and brokers less optimistic regarding achievable rents.

› There are still very few tenants in the search 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 2020.

› Like the market in Oslo, brokers report that leasing processes have been put on hold due to the Covid-19 situation and the uncertainty of the situation.

New developments

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

› The zoning, allowing for a high-rise office building in Olav Vs gate 11/St. Svithuns gate 1, was rejected by the municipality in January 2020

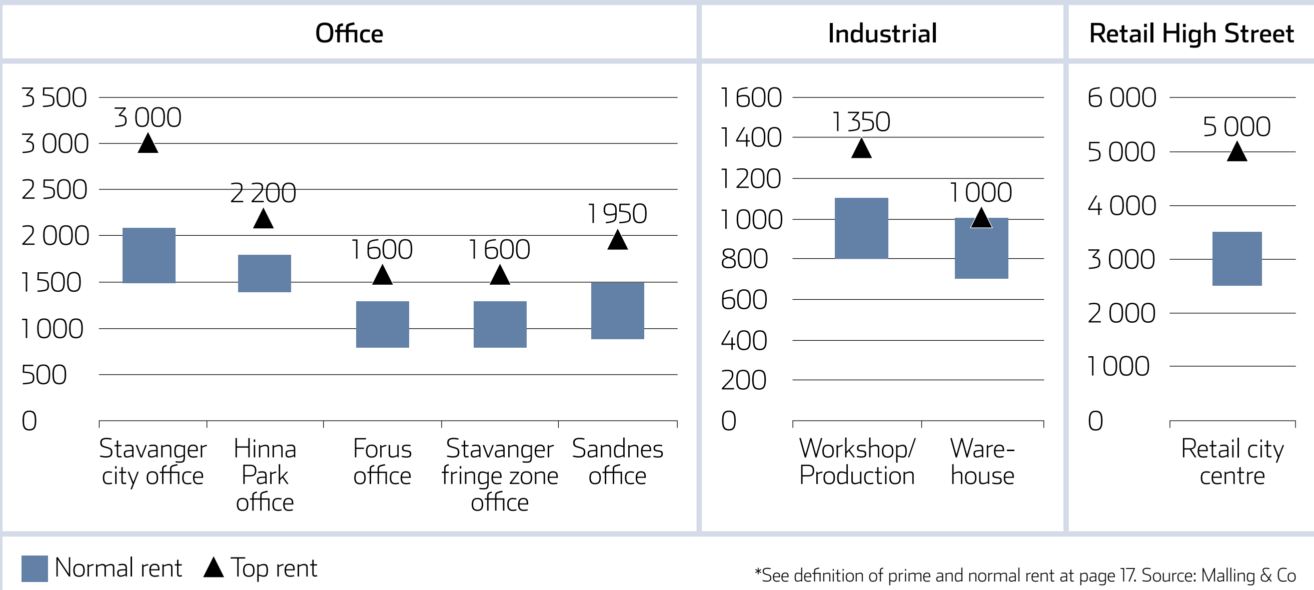
› Herbarium, a combined retail and office building in the heart for the city centre offering 7 500 m² office and 10 000 m² retail space, opened in November 2019.

› Kopholen 14, a 9 500 m² building leased to NAV Rogaland, was recently finalised.

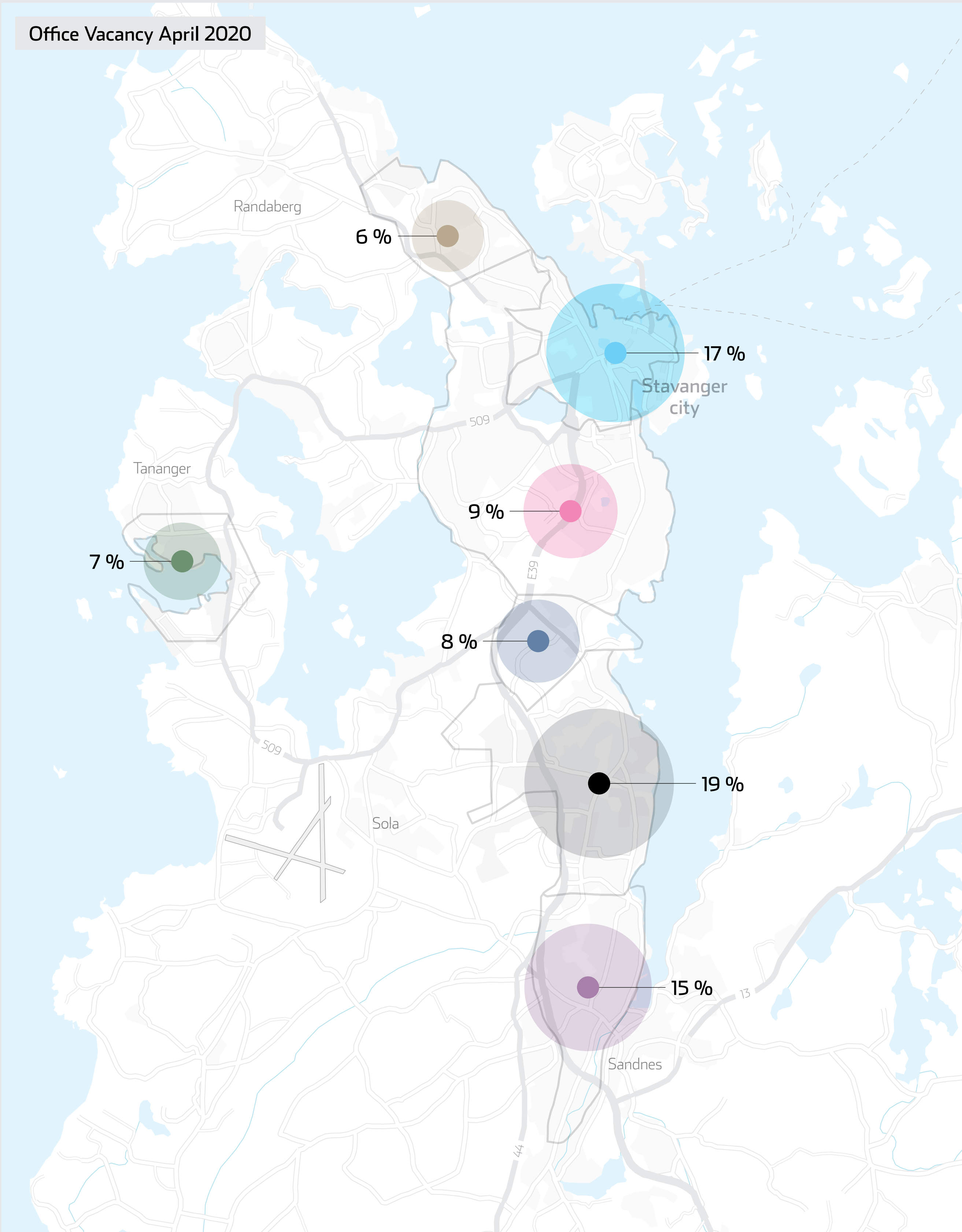
› There are several projects in the planning phase in the region awaiting tenants, in total almost 500 000 m² that can be realised if leases are signed. However, given the current market situation with low rents and high vacancy, we believe this new supply will be postponed or cancelled.

› The historic graph (page 37) of office construction in Stavanger shows periods of high construction rate over the past 15 years.

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



*See definition of prime and normal rent at page 17. Source: Malling & Co



Total office Vacancy* = 15 %	Total office Supply* = 16 %

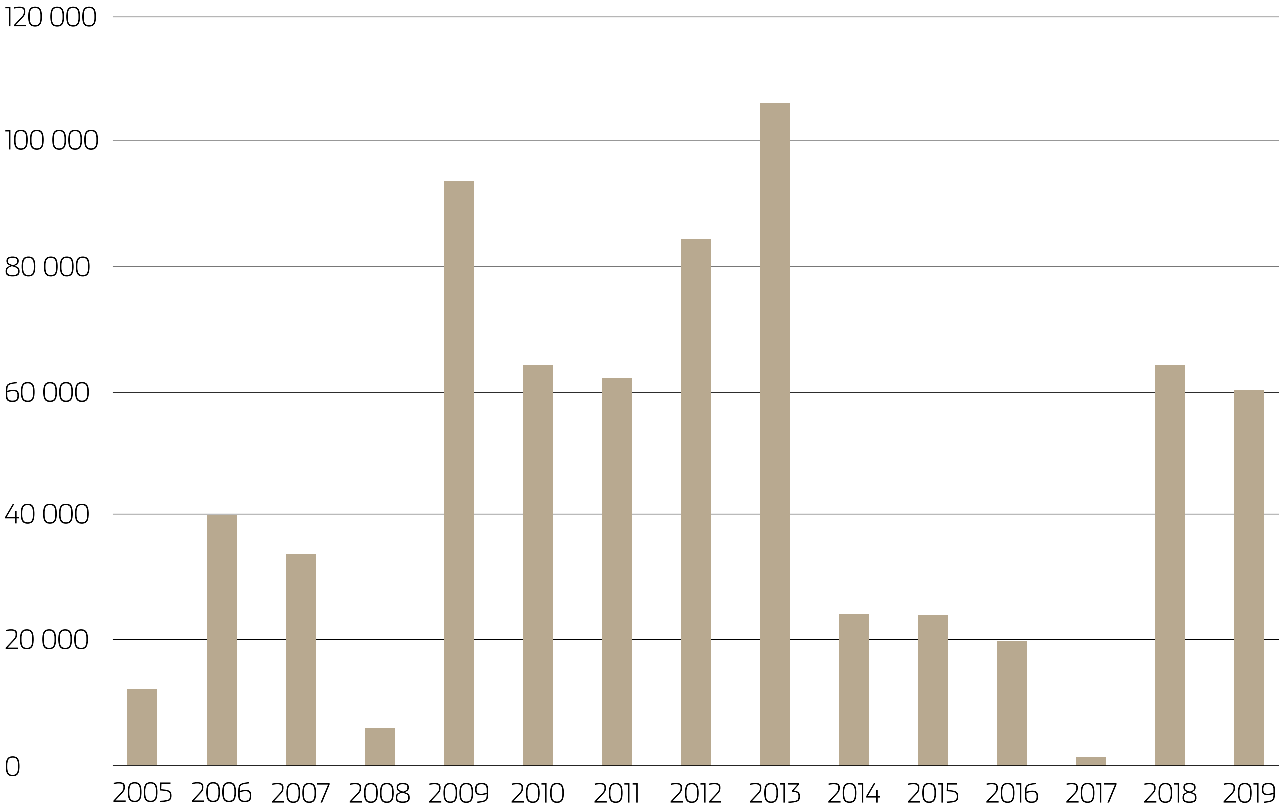
Forus · Dusavika · Stavanger city · Risavika · Sandnes · Hinna · Stavanger fringe zone

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

* See page 31. Source: Malling & Co/FINN.no

Historical office construction m²



Source: Matrikkeldata

Investment market

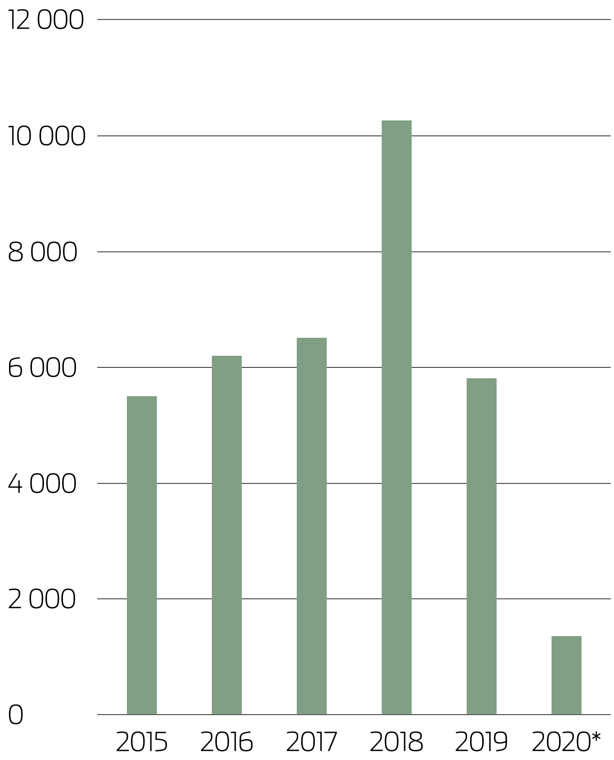
Stavanger has been caught in a perfect storm, after the combination of a global oil price war was initiated by Saudi Arabia right around the same time as the Covid-19 pandemic hit Norway. Not surprisingly, the investment market in Stavanger has cooled off after a solid end to 2019. We have registered just over NOK 1.3 billion in transaction volumes for the region year to date, spread across five transactions (over NOK 50 million). But as most of the transactions are now taking place off-market, we cannot rule out that there have been other transactions that have gone under our radar. But the general perception is that the market is quieter than other comparable regions in Norway at the moment. Going forward we believe that any activity in the investment market will be either focused on central long-term leases or strategic development or value-add opportunities.

Recent transactions in the region:

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

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

Transaction volume Stavanger (MNOK)



* As of 19 May. Source: Malling & Co

Badehusgata 33–39, Stavanger

Malling & Co Project Finance has acquired Badehusgata 33-39 in Stavanger which consists of 21 166 m² of office facilities – and arranged a "club deal" on behalf of its investors.

Nordea Liv Eiendom portfolio

Malling & Co Forvaltning AS is from 1 May responsible for property management for 27 properties based in greater Oslo, Bergen, Stavanger and Sandnes consisting of offices and stores. Approx. 200 000 m^2.

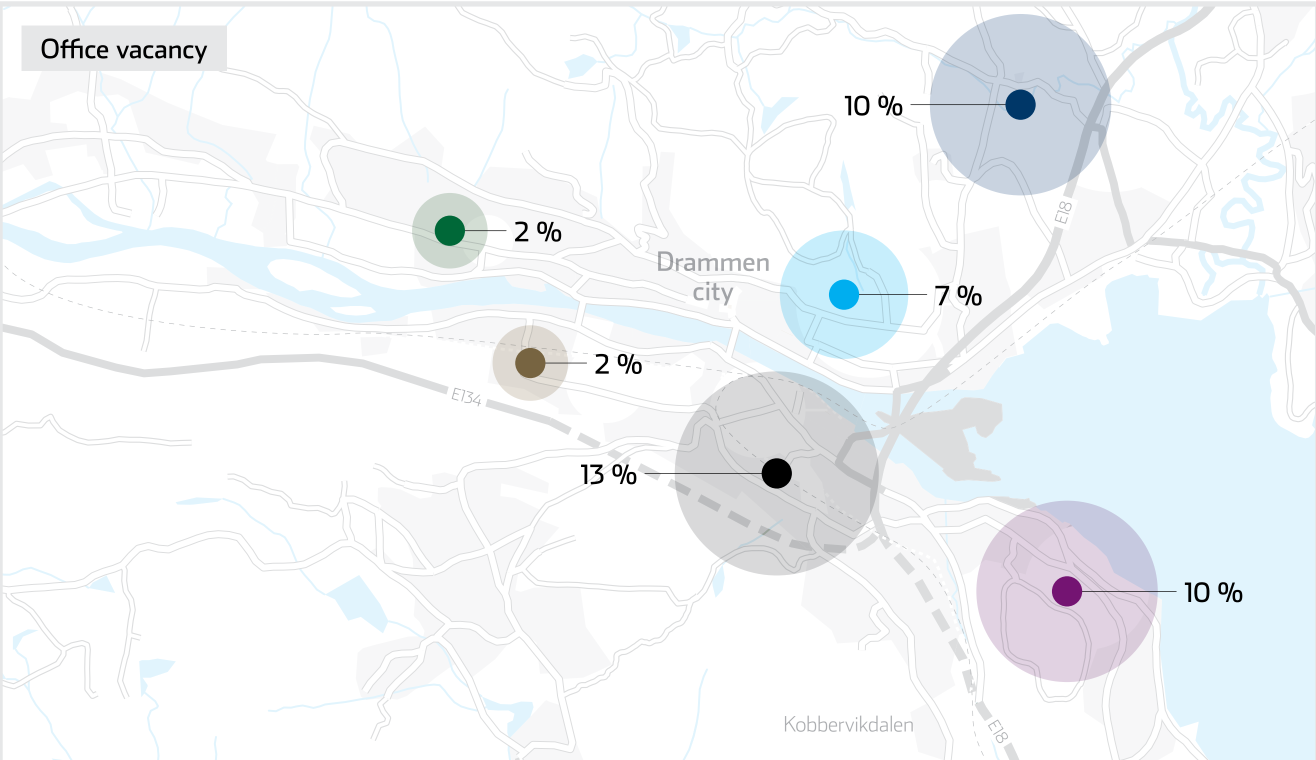
Drammen

The transformation continues

Our Drammen office is reporting a good activity level in the region considering the effects of Covid-19. The city is located less than 40 km west of Oslo and can be categorised as something between a city and a suburb of Oslo. The city capitalises on its seaside location and role as a hub for both railways and the main road systems connecting all major cities and densely populated areas on the west side of Oslo. There is a lot of development towards 2025 in the Drammen region. Both rail, road and public buildings have large scale construction projects in the pipeline. The total stock of 1 300 commercial properties in the Drammen area (including Nedre Eiker and Lier) comprises around 750 000 m² of office space, 600 000 m² of retail premises and 800 000 m² of industrial/logistics/mixed-use premises. Vacancy in Drammen is around 8 % for office space and 2 % for industrial/logistics premises.

The rental market

The activity level has been good overall, but there are naturally repercussions from the pandemic that have spilled over to the rental market. Selected segments and industries are putting the process of new premises on hold, while other segments and industries are experiencing both increased revenue and a need for extra space.



Total office Vacancy* = 8 %	Total office Supply* = 12 %

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

* See page 31.
Source: Malling & Co/FINN.no

Office

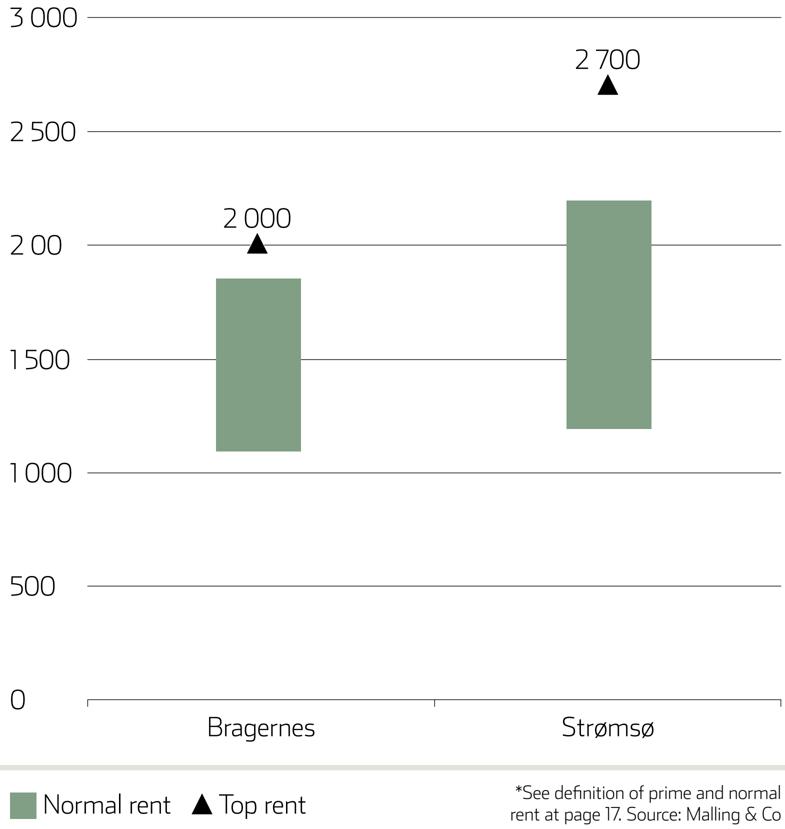
Several large office projects are being launched in the market now. Amongst others are Portalen by Union Eiendomsutvikling, T-2 by Holtefjell Eiendom and Dr. Hansteinsgate 13 by Vestaksen Eiendom. A common feature is the location on the Strømsø side of the river, with close proximity to a public transport hub. The combined size of these three projects is roughly 22 700 m², making up a significant addition to the supply side of the office market.

High quality office products are still in demand in the region. Worth mentioning is the DBC – Drammen Stasjon Business Center consisting of 13 000 m² that opened its doors in February 2020 and is now fully let. The market clearly shows that the high-quality offerings of new projects are attractive in the competition against existing older and inefficient alternatives. Our data shows that 72 % of the total office space in Drammen was completed before 1980, and the tendency is for the older offices to remain vacant for a longer time than newer offerings. The tenants keep pushing the bar of what qualities they want to rent, hence the new supply is a welcome and sought-after product to fill their requirements. It is clearly observable that tenants with approaching maturity on their leases and a changed office space need to continue their search for alternatives to their existing premises before they are likely to move.

Selected latest lease agreements

› Admincontrol has signed a lease agreement for roughly 650 m² office space at Drammen stasjon Business Center
› Statens Vegvesen has signed a lease agreement for roughly 3 050 m² office space at Drammen stasjon Business Center
› Castor has signed a lease agreement for 1 800 m² mixed-use space at Herstrøm Næringspark

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



*See definition of prime and normal rent at page 17. Source: Malling & Co

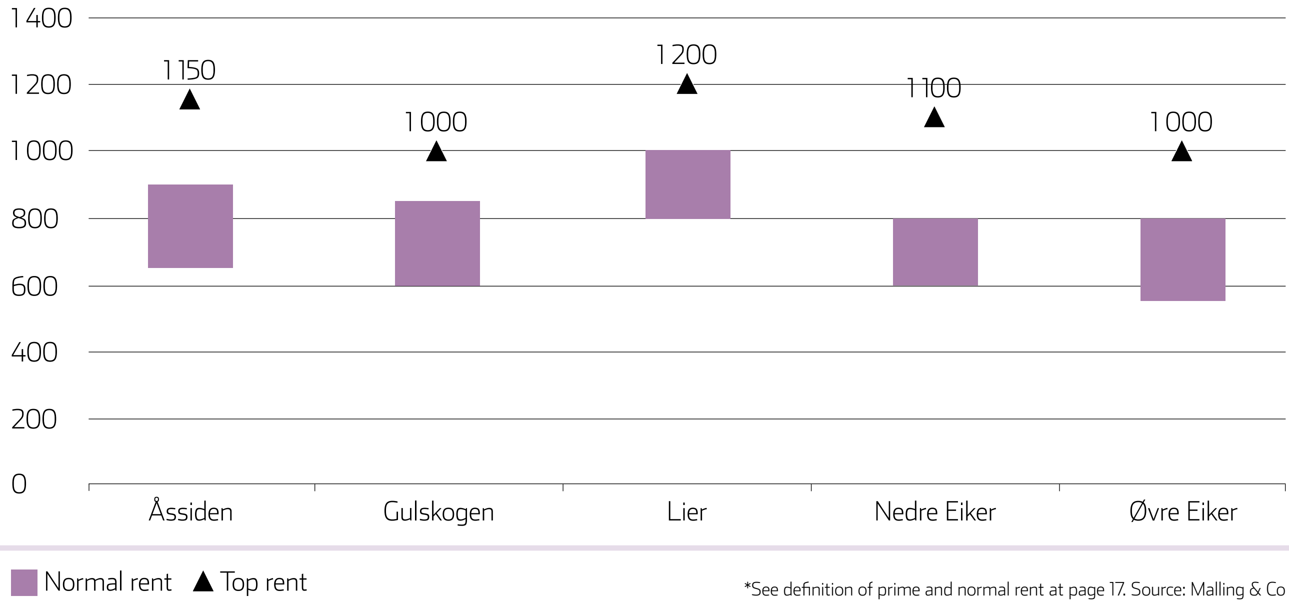
"High quality office products are still in demand in the region."

Logistics and mixed-use

The Logistics segment is characterised by low vacancy on the existing stock of properties. This is especially true for properties with a high warehouse ratio with close proximity to the main throughways. At the same time, several of the newbuild projects in the pipeline have been put on hold due to the Covid-19 outbreak and the uncertainty that looms in the wake of the pandemic. Both tenants and developers point to uncertainty regarding future revenue and profitability in the future.

While some businesses are experiencing a boost in revenue and would like more space to cater for this right now, they also see that a challenge in determining if this is a short-term effect or a lasting trend in their revenue increase. Considering the low vacancy at 1.9 % for existing properties, we foresee that supply from new projects with the right qualities would easily be absorbed by the market. 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. This is also coupled with a minimum size of the anchor tenant to make a project financially viable.

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

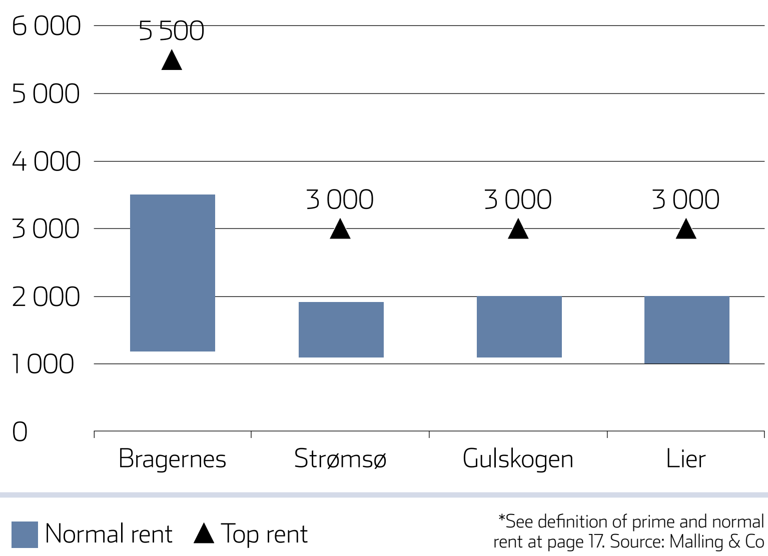


*See definition of prime and normal rent at page 17. Source: Malling & Co

Retail

We are currently observing great variations in this segment. The operators of space-demanding retail like home improvements and construction are seeing high revenue growth, while typical retailers of fashion and shoes are in a very challenging situation. In our last report we pointed out the trend that tenants are demanding that landlords absorb the increased risk through more turnover-based rents and shorter leases, and this trend has intensified. Several retailers have seized the momentum in the supply side increase and reduced demand from new retailers to bargain for better lease terms.

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



*See definition of prime and normal rent at page 17. Source: Malling & Co

The investment market

2020 started out well with good activity, and a few processes were active in the pipeline from 2019. Investors were also actively searching off-market deals, where sourcing proved to be the bottle neck. The pandemic immediately halted a lot of ongoing processes, coupled with a lot of scepticism. Several of the ongoing processes were put on hold, and at time of writing (May 20) are still on hold for an unforeseeable time.

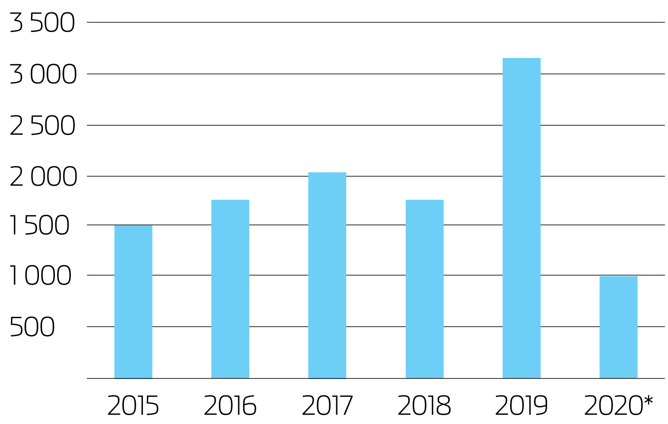
After Easter, several investors came back to search for opportunities off-market, citing both available capital and a desire to invest. The object has primarily been to find stable cashflow and long-term income, but properties with an upside and value-add opportunities have not been ruled out. The trend of logistics and mixed-use properties being in favour has not stopped, but there is a definitive shift towards a higher interest in modern office properties close to public transport hubs. Investors comprise a good mix of both local and domestic players.

Selected latest transactions

- Bragernes Torg 2 /Øvre Storggate 4-6, central property in Drammen approx. 17 800 m^2 sold from Fortin AS.

- Werringgården, Nedre Storgate 3, central office and retail building approx. 3 350 m^2 sold from Ticon Eiendom.

Annual transaction volume Drammen (MNOK)



* As of 19 May. Source: Malling & Co

"The object has primarily been to find stable cashflow and long-term income."

Development

Brakerøya is among the most prominent development projects in the city, where the new regional hospital covering 120 000 m^2 and a new health park covering 75 000 m^2 will be erected. A number of projects have followed in the wake of this development, with Fjordpark along Lierstranda currently being zoned. A mandated project in the market is the sale of a 58 000 m^2 residential land plot, which will be the closest neighbour to the hospital and health park. As the development gets underway, we will also see more and more current businesses having to move and vacate the land for new uses, and this will also create pressure and opportunities in the fringe zones of Drammen.

Despite the ongoing pandemic, there is still a lot of interest in land and development projects, with investors finding opportunities that are close to the city centre and along the south corridor of E18 particularly attractive.

Fiskumparken is located along the E134 between Hokksund and Kongsberg. Vestaksen Eiendom is developing more than 500 000 m^2 commercial and retail space. The sale is now underway, and development of the plots has begun.

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 m^2 logistics facility in the park for the distribution of groceries. PERI Norge AS and Ramberg Logistikk are also due to establish themselves in the park, although the park still has more room for development.

Bergen

From Confidence to Caution

2019 was a record-breaking year for the transaction market in Bergen, with a volume of NOK 10 bn and a historically low prime yield of 4,00 %. After a booming transaction market in 2019, Norway's second-largest city has exhibited signs of moderation in 2020. January 2020 had a slow start, with many transaction processes being finalised in the latter part of 2019. The Covid-19 pandemic suppressed the market development in March and April. In early May, we are finally seeing signs of improving circumstances and believe we are heading for a dynamic transaction market in the second half of 2020.

Office rental market

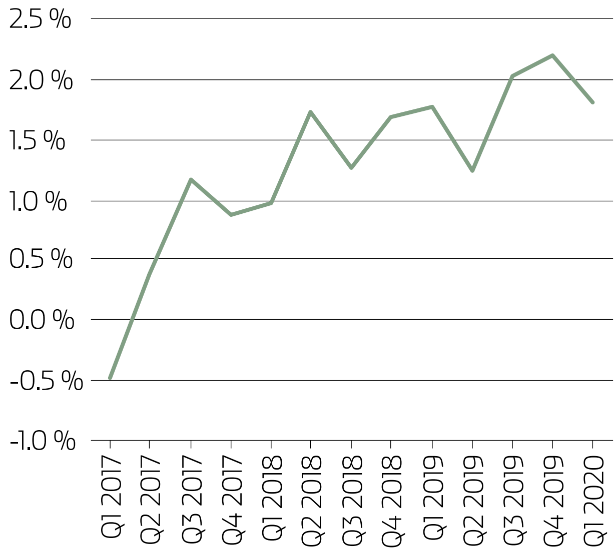
The market started slowly in 2020 before activity picked up in February/March. After reaching the activity levels we saw at the end of 2019, the Covid-19 pandemic introduced high levels of uncertainty to the market. Unemployment in Bergen municipality, including temporary layoffs, increased from 2.5 % end of February to 11.8 % end of March. One month later, at the end of April, unemployment was down to 11.0 %. Based on the recent development for Vestland County (unemployment rate published more frequently than municipality numbers), unemployment in Bergen is expected to decline significantly in May and onwards as Covid-19 measures are eased.

The uncertainty in the market has caused many ongoing processes to be postponed as businesses have focused on risk mitigation strategies as opposed to relocating plans. Leasing processes initiated by governmental institutions have been less disturbed by the virus outbreak, and several institutions are in the process of moving offices. Similarly, we observe processes involving large businesses unaffected by the virus and sticking to long-term agendas. The 2020 Q2 rents have mostly been paid, nevertheless, there are continuous negotiations between the owners, tenants and the government to come up with solutions benefitting all parties.

Demand

Growth in employment has increased over recent years, and as the figure shows, growth in wage earners was 1.8 % from Q1 2019 to Q1 2020. This growth is now likely to reverse. The office segment is, however, among the least impacted by Covid-19. We have registered an elevated level of activity from the public sector in this period. Domstolsadministrasjonen and Bufetat are among the municipal entities in the market for new office premises. As seen in other markets, the private sector has assumed a cautious approach in the letting market. Nevertheless, we are registering activity from large corporations who are sticking to long-term plans. Although the private sector remains relatively static, businesses may be forced to renew leases or find new premises as a total of 101 465 m^2 spread across 83 contracts expire in 2020, according to Arealstatistikk. Considering the number of expirations, we predict a high level of renegotiated contracts this year.

Growth in number of wage earners in Bergen*



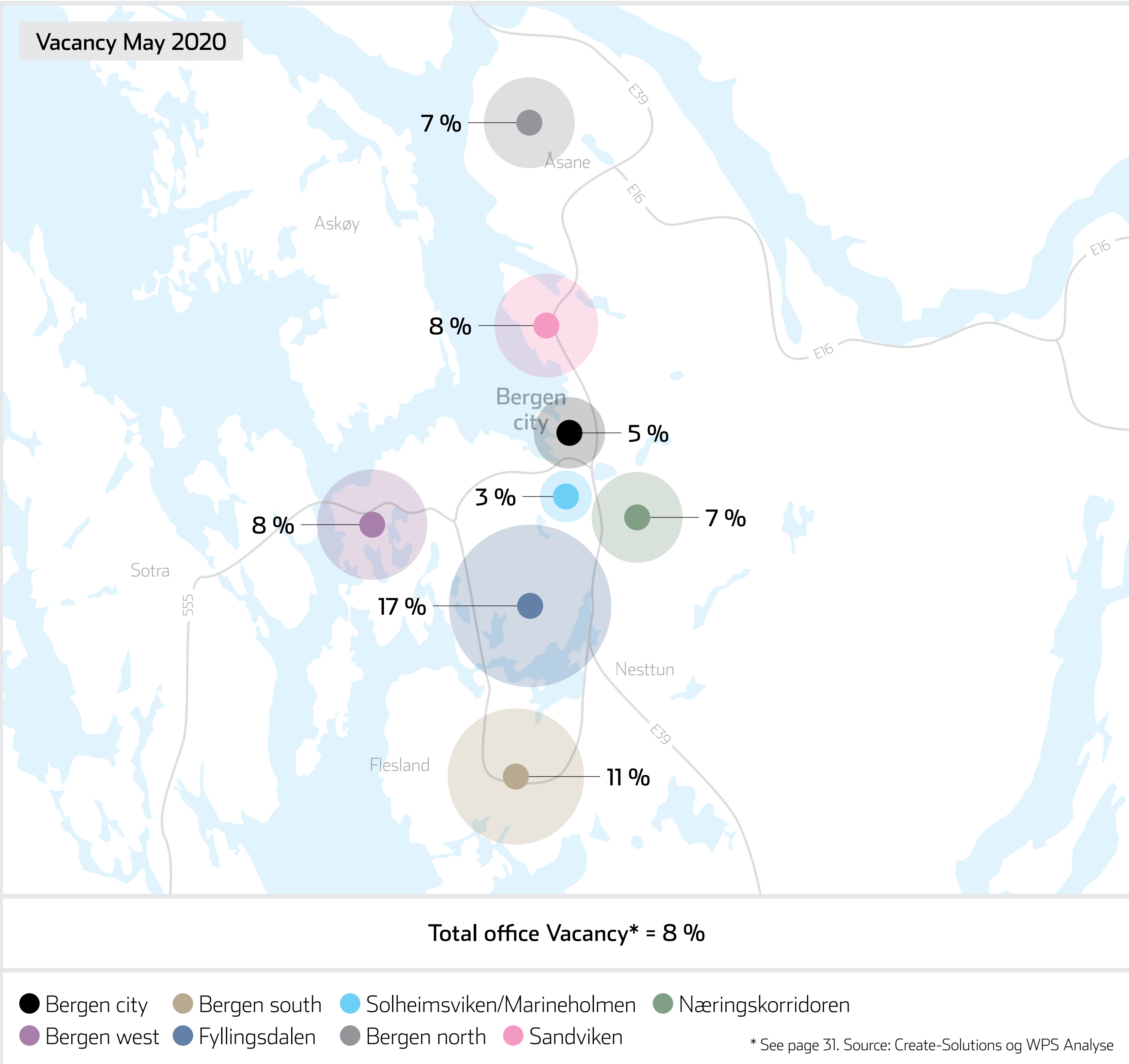
* Change from same quarter previous year. Source: Statistics Norway

New office developments

- Midtbygget: 6 000 m² developed by Linstow at Lønningsvegen 57 (completion Q4 2020)
- Fantoftparken: 6 500 m² developed by Veidekke at Storetveitvegen 100 (completion Q1 2021)
- Kilen: 4 000 m² developed by Frydenbø Eiendom at Tverrveien 7 (completion Q2 2021)
- Buebygget: 14 000 m² developed by BARA Eiendom at Fjøsangerveien 48 (completion Q1 2022)
- Fylkesbygget: 27 000 m² developed by Vestland County at Agnes Mowinckels gate 5 (completion Q1 2023)

Vacancy

Our estimations indicate an office vacancy of 8 %. Our forecast suggests increasing office vacancy, as over 50 000 m² of new developments are due to enter the market. The development of demand-side macroeconomic fundamentals is projected to experience negative growth and will be unable to sustain the vacancy level going forward. The office vacancy is unevenly distributed between the different submarkets. There are low vacancy rates in the city centre and Solheimsviken/Marineholmen with 5 % and 3 % respectively. In contrast, Fyllingsdalen and Bergen South contain the highest vacancy rates with 17 % and 12 %.

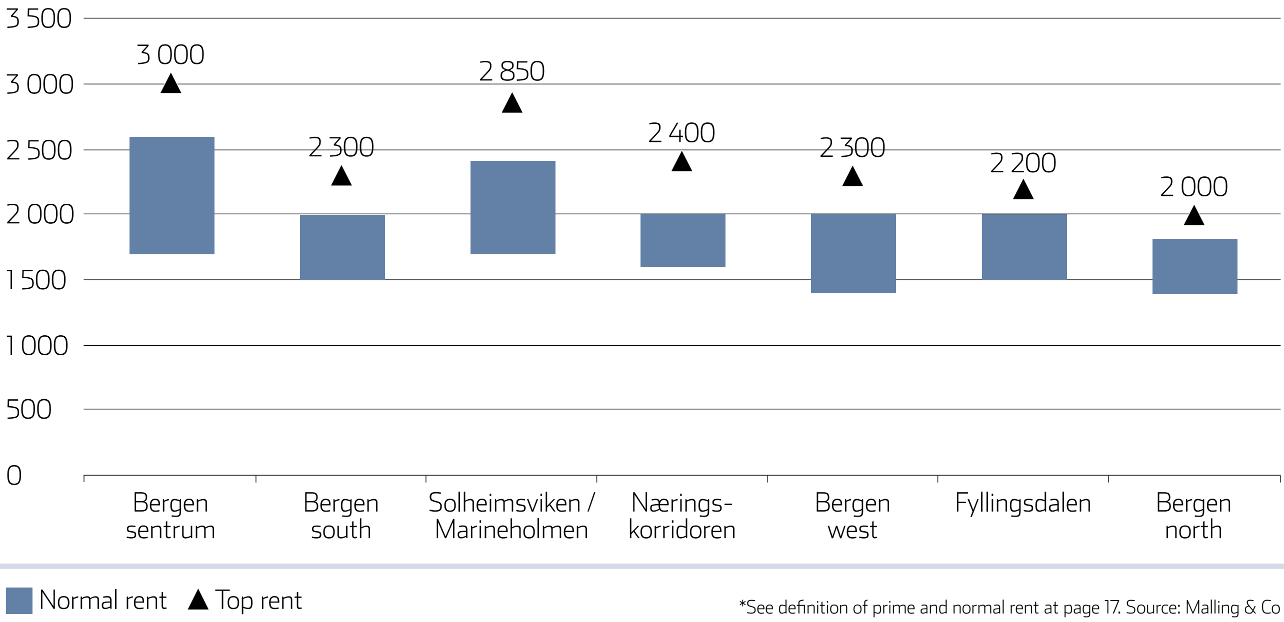


* See page 31. Source: Create-Solutions og WPS Analyse

Rental prices

Office rental price levels have had a stable development since the surge of 2013-2014. For 2020, we expect average prices to experience a moderate decline due to the pandemic outbreak and weakening demand from negative employment outlook. However, price development will vary across the submarkets. In the city centre, we project stable price development due to low vacancy and high demand for offices. Similarly, we expect stable price developments in Solheimsviken/Marineholmen. Bergen South is an area containing 12 % office vacancy and is particularly exposed to the oil and gas industry. For this area, there are possibilities of price pressure in contracts finalised in 2020. Our estimates for the overall market suggest that prime properties will maintain price levels at NOK 3 000 per m^2, while there is a greater possibility of diminishing price levels in category B and C.

Office rents in Bergen



*See definition of prime and normal rent at page 17. Source: Malling & Co

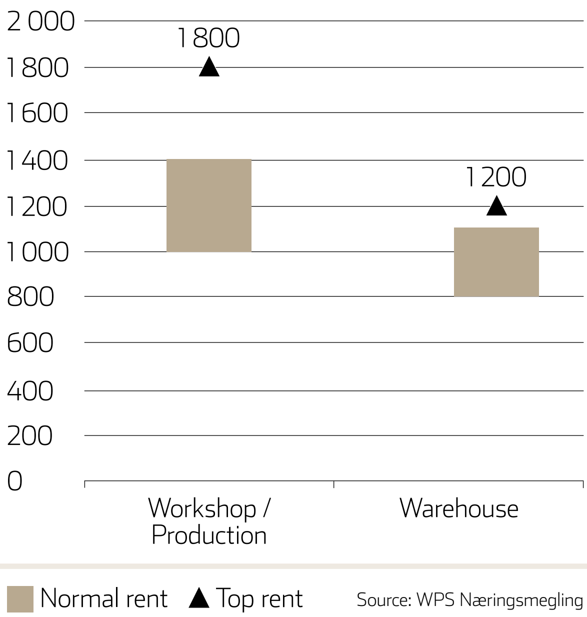
Logistics/Industrial

The Logistics segment has displayed a good level of activity during the last months. E-commerce volume in Norway has increased by 45 % in April 2020 compared with April 2019 and caused a greater need for storage facilities across the country.

We have seen larger logistics companies, such as DB Schenker, looking to move out of the city centre. Many logistics companies are looking for plots to build modern facilities. There is a focus on automation, efficiency and strategic locations to position themselves in the best possible way for the rapid development of the logistics industry.

Bergen's characteristic topography causes higher construction costs for logistics, which in turn causes higher comparative rents. The most attractive areas are Bergen South and Bergen North where modern logistics facilities obtain NOK 1 300 per m^2.

Logistics/Industrial rents in Bergen area



Source: WPS Næringsmegling

Transaction market

Demand and volume — In 2019, 57 % of the volume was derived from deals finalised in the fourth quarter and very few transaction processes carried over to 2020. As a result, the transaction activity has been low this year. Furthermore, due to the pandemic outbreak and the resulting economic downturn, many sale initiatives have been postponed. The risk premium on real estate investments have increased in this period, and investors are cautious. The uncertainty in the market has created a vacuum where buyers are looking for "corona discounts" and sellers are willing to wait because of low-interest rates. As a result, the YTD volume is only NOK 500 million compared to NOK 2 800 million YTD 2019.

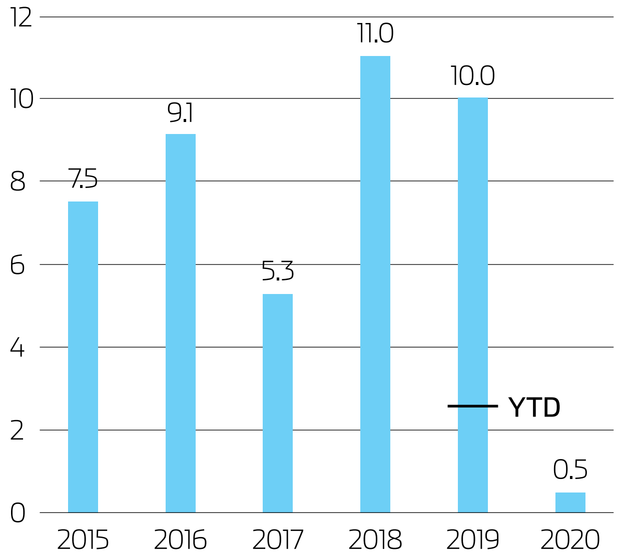
Yields — We have moderate expectations of price adjustments in the normal range, as the increasing risk premiums may cause secondary and tertiary yield expansion. For prime properties, on the other hand, our estimations suggest no significant development and that they will sustain a 4.0 % prime yield. Commercial real estate in the city centre is still the most sought-after property, while office and logistics are the most attractive segments in the Bergen region.

Recent Transactions

› A Njord Securities syndicate has purchased Krokatjønnveien 15 in Fyllingsdalen, a 10 000 m^2 office property, from a local investor group from Bergen.

› JOF Eiendom has purchased Strandgaten 68 and 71 in Bergen city centre, a 2 100 m^2 retail and residential property, from HP Moe.

Annual transaction volumes in Bergen



Source: WPS Næringsmegling

"We are heading for a dynamic transaction market in the second half of 2020."

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

Mariboes gate 13 — Oslo

Malling & Co Eiendomsfond has acquired Mariboes gate 13 in Oslo City centre which consist of 13 900 m² of office facilities.

Photo: Gitte Paulsbo

Urbanium/Payco — Oslo

Malling & Co Forvaltning AS is from 1 March responsible for property management for 9 companies in the Urbanium/Payco portfolio. The properties are based in greater Oslo.

Retail

Increasing gap between retail “winners” and “losers”

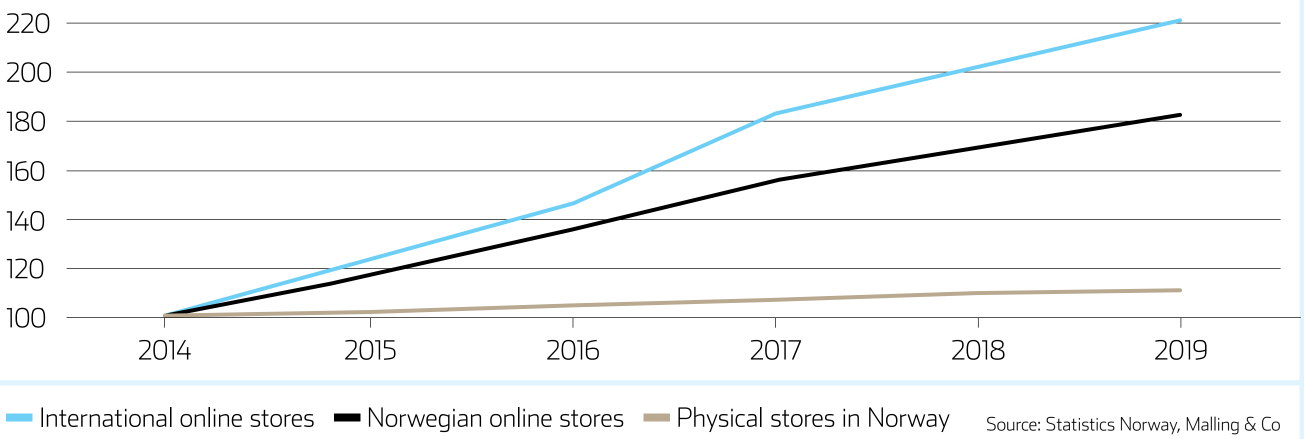
The Norwegian retail market has been facing headwinds for years, and 2019 was yet another disappointment for the industry. Nationally, annual turnover including both physical and online stores increased by 1.5 % from 2018, the lowest annual growth in more than 10 years, and 0.7 p.p. below the annual CPI growth. Unfortunately, the outlook for 2020 is not looking any better. The retail industry was hard hit by the outbreak of Covid-19 in March, and many retail stores had no choice but to temporary close or limit opening hours. This was especially the case for segments like clothes and shoes, and leisure related products, segments that have been struggling with negative turnover growth for years already. Additionally, a weakening of the NOK against other currencies has imposed even more stress on the situation.

Since many retail segments are highly affected by the state of the economy, the consequences for the industry going forward could be huge, as the economy is expected to go into a slump. As described in our Macro Norway section earlier in this report, unemployment is expected to stay at relatively high levels for several years to come, and household consumption is expected to drop by around 10 % in 2020 compared to 2019. We therefore expect 2020 to result in lower turnover within many retail segments, even higher pressure on operating margins and an increased number of retail bankruptcies. Consequences for Retail property owners will likely involve temporary “rent holidays” to keep tenants “floating”, lower future rent levels, and higher industry uncertainty, leading to higher yields and decreasing property values. As always, there are exceptions to the rule, and some property segments, for example Grocery, have proven their position and may experience the opposite development.

Online is the growth winner, but the market share is still relatively low

Norwegians embrace online shopping from both domestic and foreign online stores, and turnover growth in these sales channels has been significantly higher than in Physical stores the last five years. This was also the case from 2018 – 2019, when turnover growth in Physical stores in Norway was 1.2 % compared to 7.8 % in Norwegian online stores. Norwegian spend in foreign online stores is estimated to increase by around 10 % in 2019, but the final numbers are not yet published, so the estimate still holds uncertainty. Despite strong growth over a longer period, Norwegians’ online retail shopping as a share of total retail is still at a relatively low level, conservatively estimated at 6 % - 8 % in 2019.

Indexed turnover in different sales channels, 2014 = Index 100

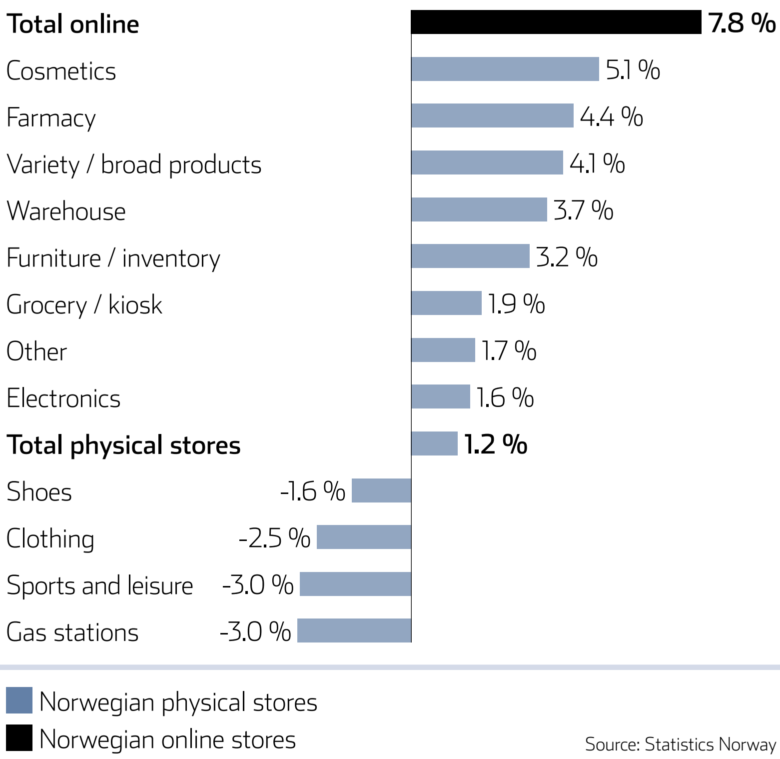


Source: Statistics Norway, Malling & Co

Online growth 5-6 times as large as growth in physical stores

Within Physical stores, some segments stand out positively in terms of turnover growth. These segments have been successful in introducing new categories in their product selection. One example is pharmacies, including more “non-prescription” products like skincare and make-up products. Another is Variety stores, introducing furniture, home decorations and electronics, to mention a few. At the other end of the scale, we find shoes, clothing, and sports/leisure. These segments have been struggling for years due to stagnation in volumes and increased competition from online stores.

Turnover development per segment, 2018–2019



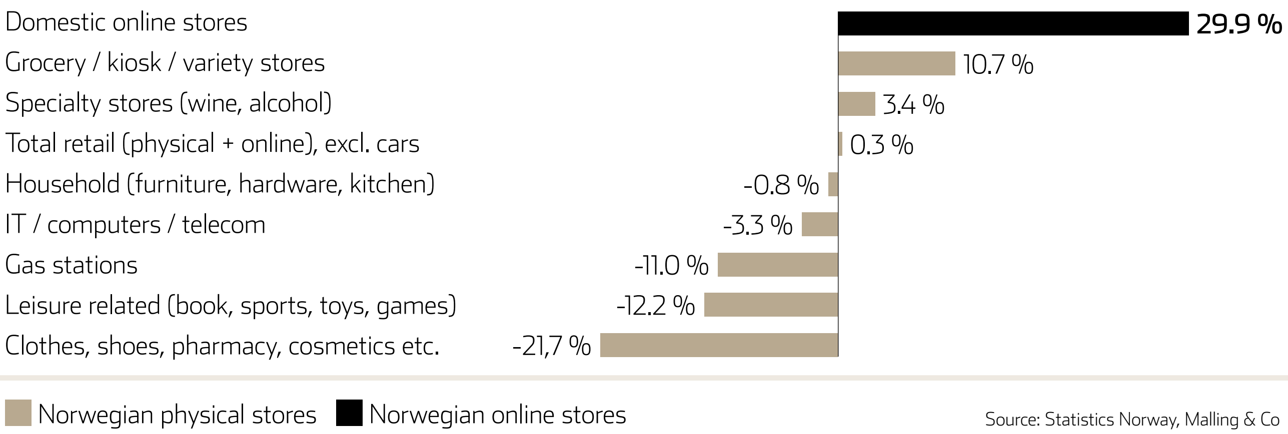
Source: Statistics Norway

Increasing gap between retail "winners" and "losers"

In March, the retail industry was hard hit by the outbreak of Covid-19 and the related restrictions. However, the temporary lock-down affected the various categories in very different ways. Online stores and physical grocery shopping experienced volume growth of 29.9 % and 10.7 % respectively, compared to March 2019, while leisure-related segments and Clothes/Shoes* etc. experienced declines of -12.2 % and -21.7 %. Total retail volume including both physical and online retail increased by 0.3 % in March. The significant increase in the Grocery segment (accounting for almost 40 % of Norwegian retail in March) and Online stores offset an expected overall decrease.

*Note that as of mid-May, numbers are only available on aggregated level, as shown in the graph, and not yet per segment. In the last category, Clothes, Shoes, Pharmacy etc., a larger decline was seen for Clothes and Shoes, but Pharmacy experienced positive growth and offset an even larger decline in this category.

Retail volume index, seasonally adjusted, March 2020 vs. March 2019

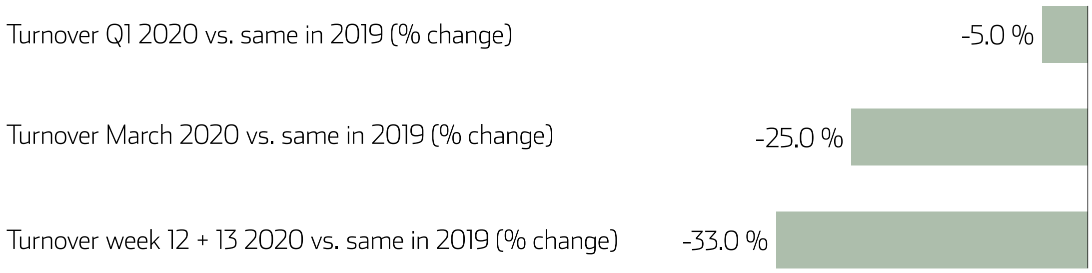


Source: Statistics Norway, Malling & Co

Dramatic turnover decline for Shopping Centres in March

Norwegian shopping centres were naturally also affected by Covid-19. Most shopping centres have a high share of tenants within the poorest performing segments, like clothes, shoes, and leisure related products. Additionally, they were affected by restrictions in the service industry, including hairdressers, beauty salons, gyms etc. According to Kvarud Analyse, the shopping centres in the city centres were affected the most, experiencing a turnover decrease of 50 % in weeks 12 and 13, compared to regional centres experiencing a decline of 25 % and local centres experiencing a decline of 19 % in the same period. Different tenant mixes across shopping centre categories were the main reason for the different development. Local shopping centres often include a high share of Grocery, while shopping centres located in city centres often have a high share of clothes and other low performing segments.

Top 60 shopping centres' turnover development, Q1 2020 vs. Q1 2019

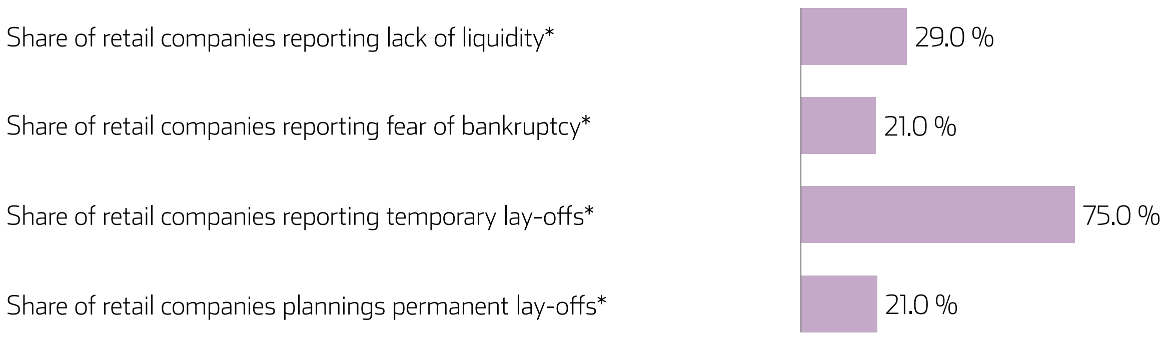


Source: Kvarud Analyse, Finansavisen

Latest status from the industry

According to NHO Service og Handel's (Service Industries and Retail trade) member survey from week 18 (27 April 27 – 3 May), 75 % of member companies have temporarily laid off employees and 21 % are planning for permanent layoffs. 21 % of member companies fear bankruptcy and 29 % do not have sufficient liquidity. Members are struggling with large inventories and low demand, in addition to the weakening of the NOK. We expect an increased number of closed stores and bankruptcies in the coming period.

Results from NHO Service Industries and Retail Trade Member survey from week 18



*Share of respondents

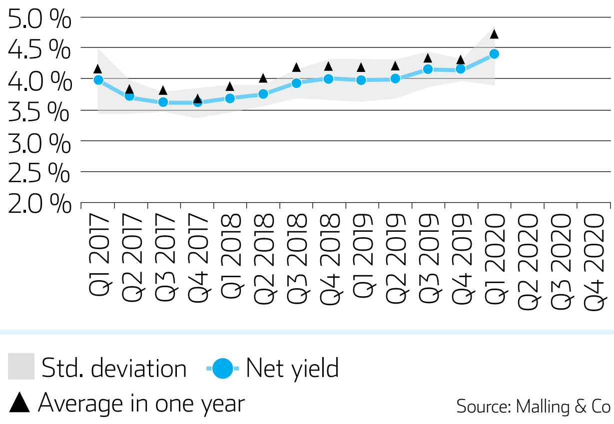
Source: NHO Service Industries and Retail trade

Retail yield expectations in Oslo

Uncertainty about future demand for Physical retail has already impacted Norwegian Retail yields for several years. According to Malling & Co's quarterly transaction survey, in which a selected group of respondents in the Norwegian CRE market answer anonymously, retail prime yield bottomed out at 3.60 % in Q3-Q4 2017 and has since then increased regularly. In the survey from Q3 2019, presented in our previous market report, prime yield was at 4.15 % according to the respondents, and has since then increased by approximately 25 bps to 4.40 % in Q1 2020. Yield for "normal" retail properties has followed the same pattern, moving from 5.00 % in Q4 2017 to 5.55 % in Q1 2020, of which 25 bps since Q3 2019.

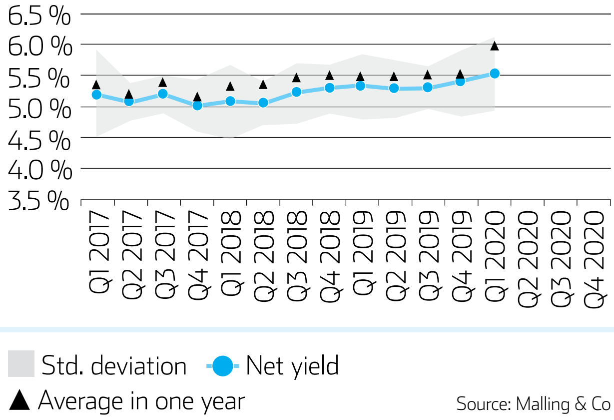
Over one year, the respondents expect continued increase in both Prime yield and Normal yield, resulting in Prime yield at 4.70 % and Normal yield at 5.95 % in Q1 2021. This corresponds to an increase of 30 bps for Prime yield and 40 bps for Normal yield in the next 12 months. We can illustrate the possible effect on property values with a simplified example. If we assume that rent will be equal in Q1 2020 and Q1 2021, the expected increase in Prime yield will cause drops in Retail property values of around -6.5 % for both Prime and Normal properties. If we additionally assume a -5 % decrease in rents over the next 12 months, the drop in Retail property values increases to around -11.5 %.

Prime yield



Source: Malling & Co

Normal yield



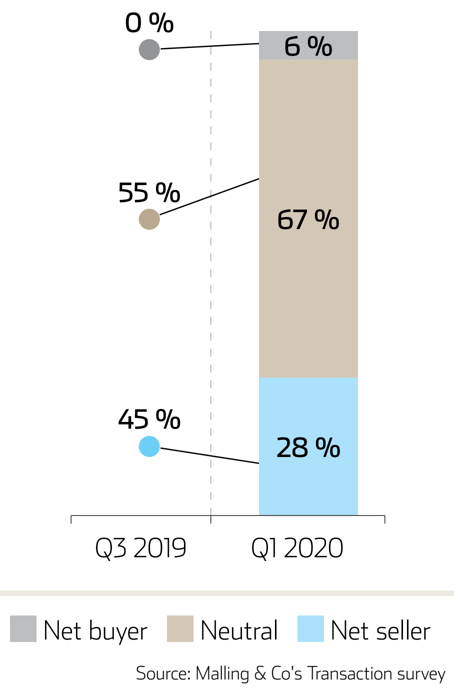
Source: Malling & Co

2020 – Overall a tough year, but several "Winners" will stand out

According to Malling & Co's transaction survey, investor appetite for Retail property is relatively small. According to the respondents, only 6 % are planning to be net buyers of Retail property over the next 12 months. However, this is actually an increase compared to Q3 2019, where the corresponding share was 0 %. In Q1 2020, 28 % are planning to be net sellers, and the majority, 68 % are planning for a neutral position during the coming year.

However, as described earlien in this section, there are large differences in how the different retail segments have been affected by Covid-19, as well as how the segments were performing prior to the virus. Most of the growth "winners" from 2018 – 2019 have managed relatively well during March 2020, and we believe the distinction between "robust" and "uncertain" segments has increased. Grocery stores have performed better than ever and proven their importance. Their attractiveness as tenants has increased, and willingness to pay for properties with high Grocery exposure will probably be very different than willingness to pay for high Clothes and Shoes exposure. Expectations of higher yield levels and less transaction activity are therefore not necessarily the case for all segments, but mainly for those struggling the most. For the "Winning" segments we may see the opposite development.

Desired exposure to Retail properties in the coming 12 months



Source: Malling & Co's Transaction survey

St. Olavs plass — Oslo

Malling & Co Næringsmegling is assisting Entra with the letting of St. Olavs plass 5.

Storgata 5–7 — Oslo

Malling & Co Eiendomsfond has acquired Storgata 5-7 in Oslo city centre which consist of 6 500 m² of office, retail and F&B facilities.

Hospitality

From a record breaking 2019 – to the lost year of 2020

2019 was yet another "record year" for the Norwegian hotel market. Total room revenue from guest nights increased by 8 %, and by more than NOK 1.2 bn, compared to 2018. In Oslo, turnover growth was even higher, at 8.5 % in the same period. Strong growth over several years resulted in high expectations of continued growth in 2020, and the first two months delivered accordingly. However, in March, the Hotel market was hit by what we probably can call the largest shock in modern times. Within days, many hotel operators were forced to temporarily shut down operations as most of their revenue vanished due to Covid-19 restrictions.

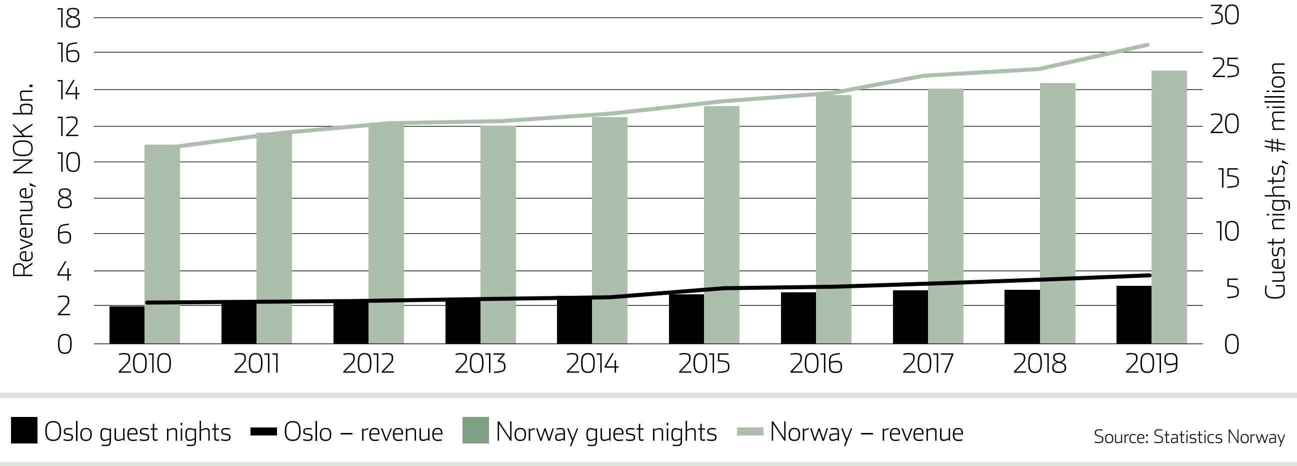
As of mid-May, most of the largest hotel operators have started to gradually re-open their hotels. However, a large part of the demand side is expected to be significantly lower than usual over the next 12-24 months, and turnover will follow this trend. A dramatic decline in hotel revenues will also affect hotel property owners. In most hotel lease contracts, rent is mainly turnover-based, and when revenues decline to a minimum, so will rent to the landlord. Reduced rent expectations and high uncertainty about future market development are expected to lower investors' appetite and willingness to pay for hotel properties the coming period.

Historical development – Oslo and Norway

Norway — In 2019, room revenue from guest nights increased by 8 % and more than NOK 1.2 bn compared to 2018. Growth was driven by both higher Average Day Rate (ADR) and increased number of stays. An increased supply side of more than 4.4 % was met by even higher demand, resulting in higher occupancy of 55.8 % in 2019 compared to 55.3 % 2018. The largest growth was seen in the segment Vacation/Leisure, with a 7.7 % increase in number of stays, compared to 4.3 % and -0.4 % for Business and Conference, respectively. The number of Norwegian and foreign guest nights increased by 5.1 % and 6.3 %.

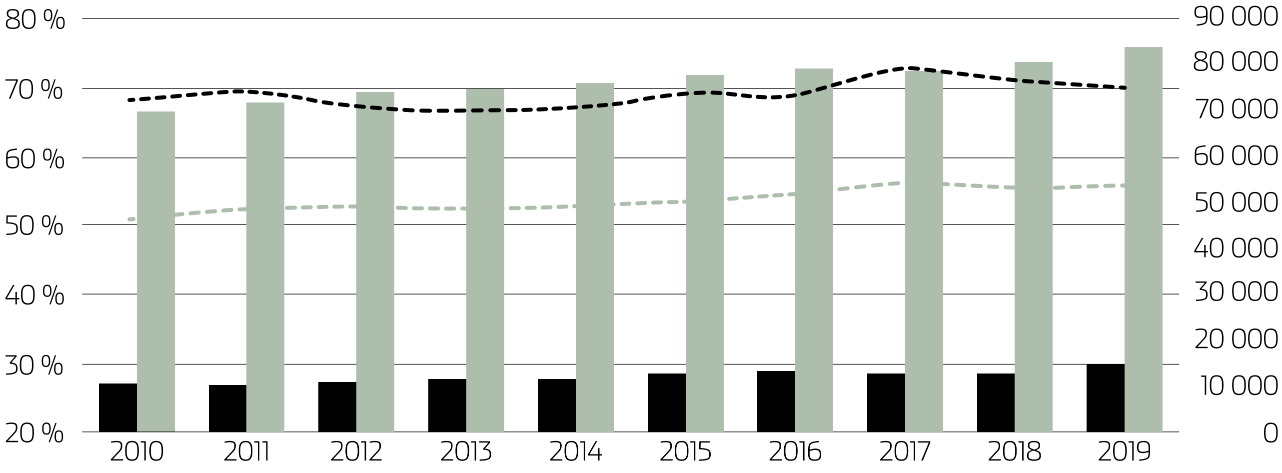
Oslo — The supply side of the Oslo market increased by 23 % from December 2018 to December 2019, mainly driven by the opening of Clarion Hotel The Hub, Amerikalinjen and Clarion Hotel Oslo. Increased supply was met by a 10 % increase in number of guest nights, much driven by a 16.2 % growth in the segment Vacation/Leisure and 5.7 % growth in Business. Guest nights related to conferences declined by -6.0 %. Growth in "domestic" guest nights was almost twice as high as growth in international guest nights, with 11.8 % and 6.8 % respectively. However, significantly higher demand overall was not enough to keep ADR and RevPar at 2018 levels, leading to a decrease of -1.3 % in ADR and -2,9 % in RevPar.

Annual revenue (NOK bn.) and guest nights (million)



Source: Statistics Norway

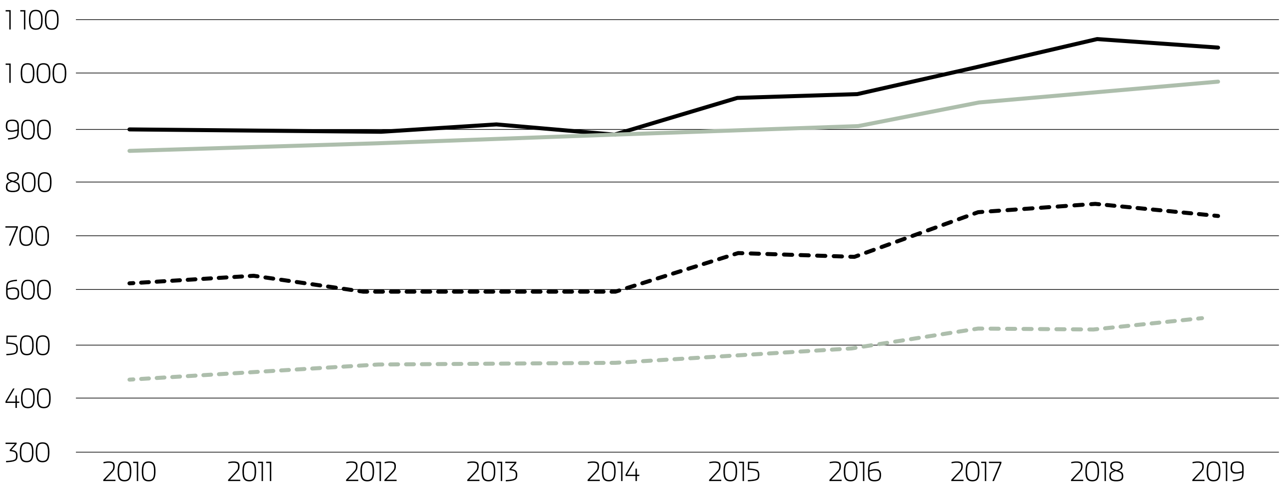
Occupancy (%) and available rooms per year



#Rooms Oslo (r.h.a) Occupancy Oslo (l.h.a)
#Rooms Norway (r.h.a) Occupancy Norway (l.h.a)

Source: Statistics Norway

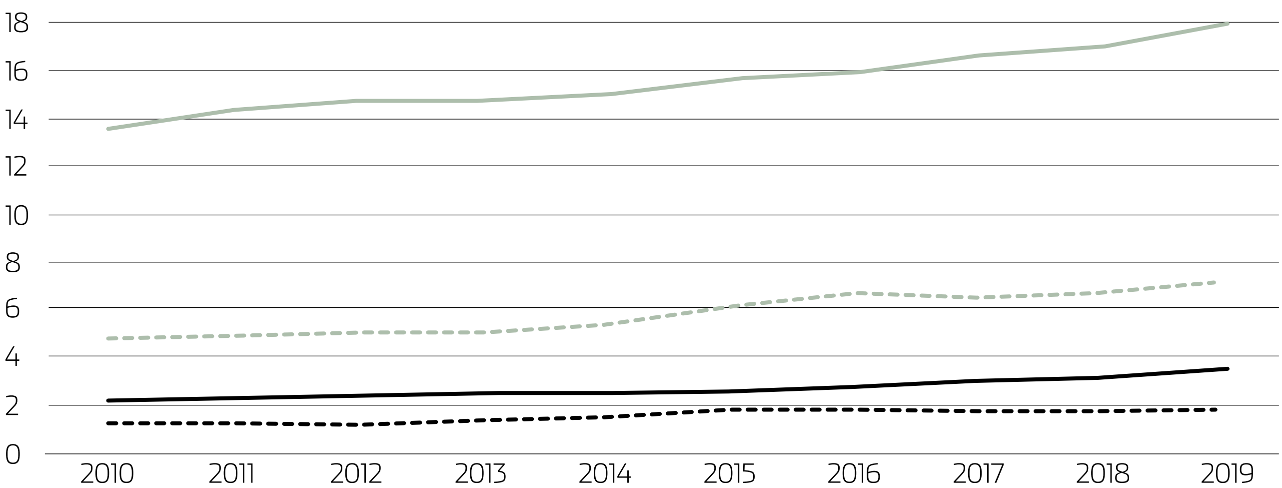
Average day rate (ADR) and Revenue per available room (RevPar) (NOK / room)



ADR Oslo RevPar Oslo ADR Norway RevPar Norway

Source: Statistics Norway

Number of guest nights (million)



Oslo Domestic Oslo International Norway Domestic Norway International

Source: Statistics Norway

Key figures – Q1 2020

2019 resulted in high expectations of strong continued growth in 2020, and the first two months delivered accordingly. The number of guest nights increased by 10 % both in Oslo and nationally, compared to the same months in 2019. However, in March, Covid-19 resulted in the lowest occupancy recorded since Statistics Norway started collecting figures in 1985, at 29 % in Oslo and 28 % nationally, and revenue from guest nights decreased by 62.4 % in Oslo and 54.0 % nationally compared to March 2019. The dramatic development in March led to poor results for Q1 overall. Room revenue decreased by 21.2 % in Oslo and 13.9 % in Norway, compared to Q1 2019.

	Oslo			Norway		
	Q1 2020	**Q1 2019**	**2020 vs. 2019**	**Q1 2020**	**Q1 2019**	**2020 vs. 2019**
Total room revenue MNOK	591	750	(21.2 %)	2 921	3 392	(13.9 %)
RevPar, NOK	476	641	(25.7 %)	417	484	(13.8 %)
ADR, NOK	948	971	(2.4 %)	979	957	(2.3 %)
Available rooms, #	14 574	13 489	(8.0 %)	83 167	79 804	(4.2 %)
Occupapancy, % of available rooms	50.0 %	66.0 %	(16.0 %)	43.0 %	50.6 %	(-7.6 %)
Total number of nights, #	871 621	1 079 083	(19.2 %)	4 229 904	4 996 021	(15.3 %)

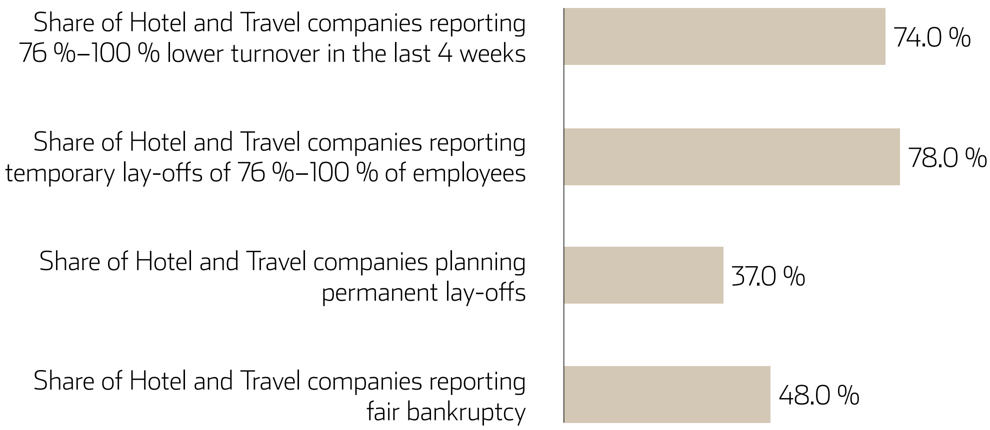
Source: Statistics Norway

"Covid-19 resulted in the lowest occupancy recorded."

Latest status from Hotel and Travel industry players

The last months have been hard on Travel-related companies. According to NHO Tourist and Travel's survey from mid-April, 74 % of members experienced a 76 % - 100 % decline in turnover in the four weeks from mid-March to mid-April, compared to the year before. 48 % of members view bankruptcy as a real threat.

The airline industry has historically contributed significantly to growth in the Hotel market, but both domestic and international flights have decreased to a minimum. The CEOs of both SAS and Norwegian have predicted that it will take at least two years to return to "relatively normal" travel activity.



Source: NHO Tourist and Travel's member survey

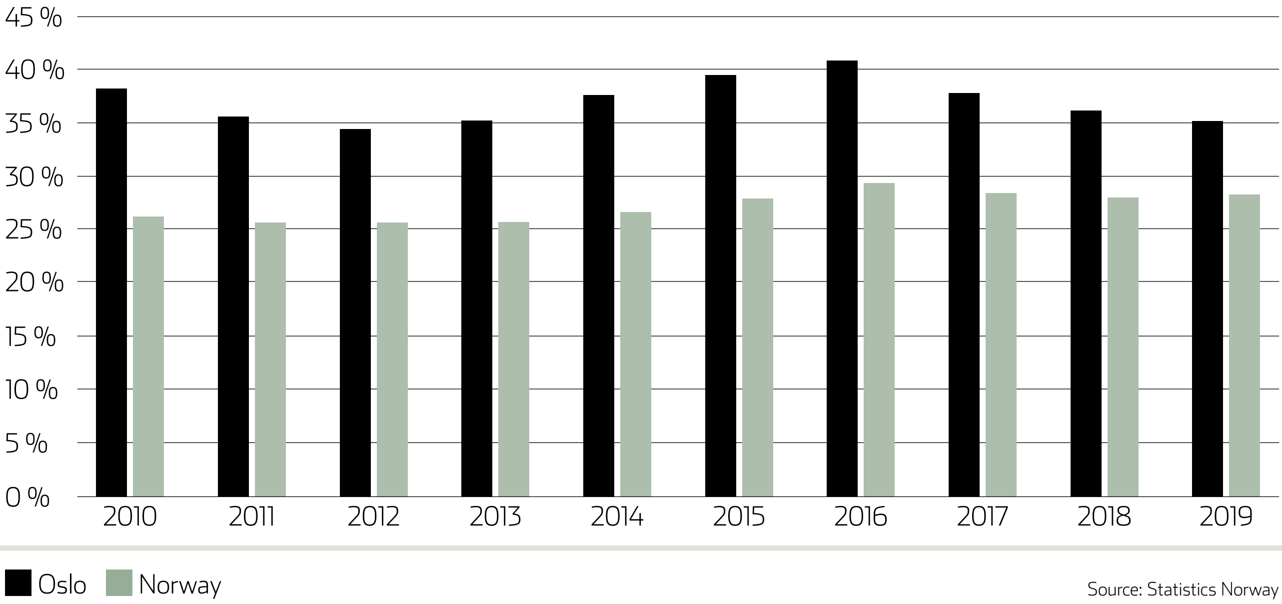
Source: SAS, Norwegian, Avinor

Importance of Foreign guests and stays related to Business and Conference

In the coming 12-24 months, we expect demand for hotel rooms to be significantly lower than prior to Covid-19. Due to travel restrictions we expect most foreign tourists to be absent and, in 2019, they accounted for 35 % of guest nights in Oslo and 28 % of guest nights nationally. Additionally, Conference- and Business-related travel is expected to decrease to a minimum. Since Norwegians have been encouraged to spend their summer within the country, we may see an increase in the number of domestic guest nights during the summer months, but this will be highly dependent on sentiment and the perception of infection risk at that time. However, we do not believe this possible increase could by any chance offset the decline from foreign tourists and the business-segment.

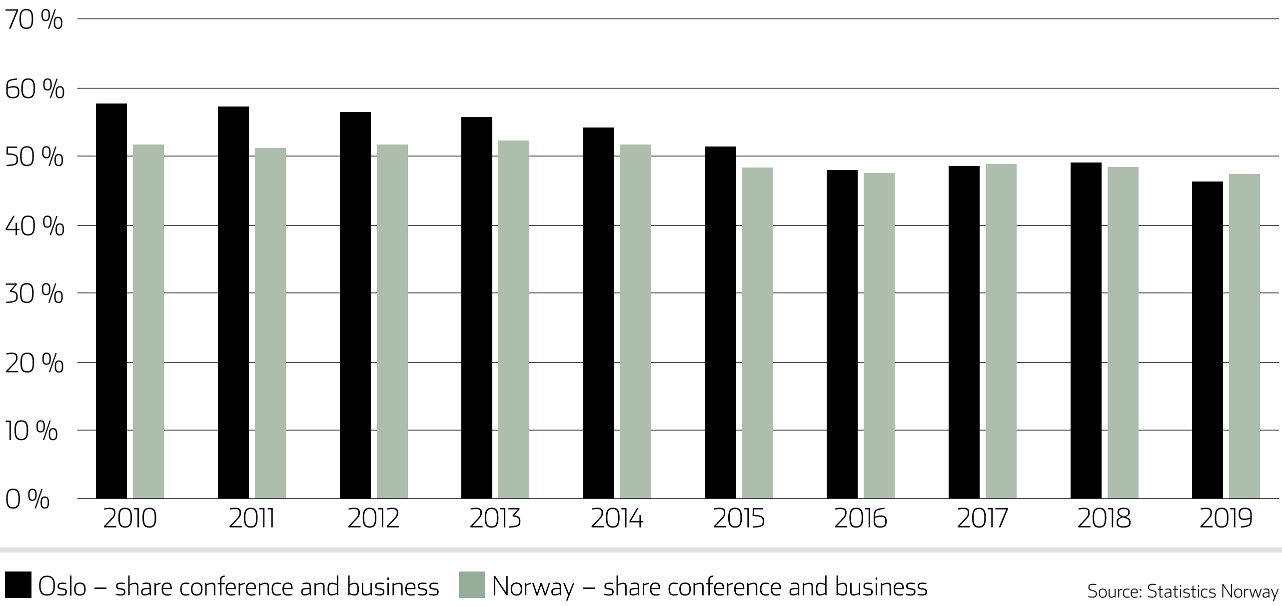
*Please note that the sum of each graph is 100 % and guests are only split into Domestic vs. Foreign and Conference and Business vs. Vacation/Leisure, without crossing nationality and purpose.

Foreign guest nights (% of total)



Source: Statistics Norway

Share of stays related to conference and business



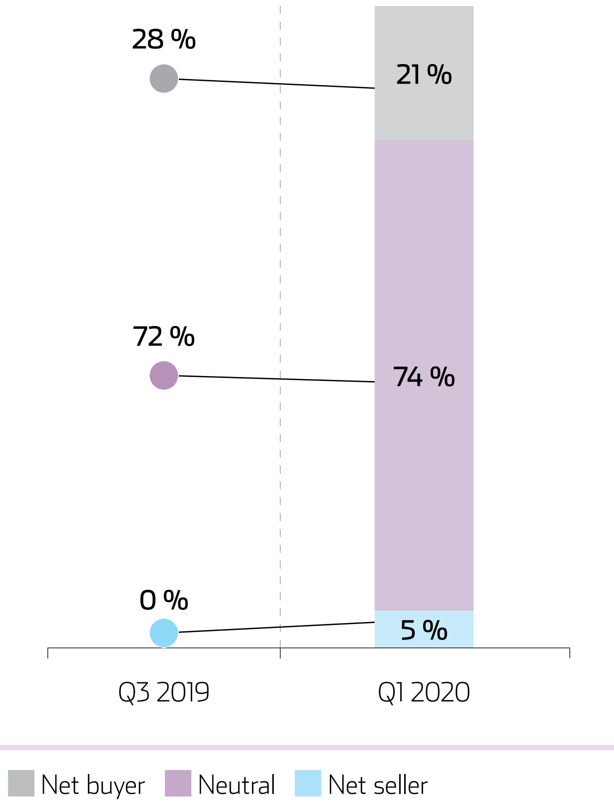
Source: Statistics Norway

Expected development in the Transaction market

The expected decline in revenues will affect hotel owners, as rent in most hotel lease contracts is mainly turnover-based. Many contracts also include a fixed rent component, but this is usually significantly lower than the sales-based rent – at least it has been historically. To some extent, hotel operators can receive public compensation for "fixed and unavoidable costs", but sales-based rents are not included in this scheme. Therefore, the omission of this rent component will result in reduced rent for hotel landlords, also leading to reduced property values.

Due to the recent development, we expect lower investor appetite for hotel properties. This is in line with the results from Malling & Co's quarterly investor survey from end of March 2020, where a diminishing share of respondents (professional investors) are planning to be net buyers of hotel properties in the next 12 months. 21 % of the surveyed investors say they are planning to be net hotel buyers, down from 28 % in Q3 2019 presented in our previous market report. We believe this will decline even more in our next survey for Q2. Also, 5 % in the Q1 survey are planning to be net sellers of hotel property, compared to 0 % in Q3 2019. The combination of more sellers and fewer buyers are expected to affect transaction prices.

Desired exposure to Hotel properties in the coming 12 months



Source: Malling & Co Transaction Survey Q1 2020

> "We do not know what "the new normal" will look like."
>
> Torgeir Silseth, CEO in Nordic Choice Hotel, to DN in May 2020

New construction and expansions

It is likely that the uncertainty in the market will also influence planned development projects. Prior to Covid-19, we expected a minimum of 1 360 new hotel rooms to be opened in Oslo from 2020 – 2022, of which 340 were expected in 2020, 320 in 2021 and 700 in 2022. Based on our knowledge, construction has already started for approximately 910 of these rooms, making it difficult to postpone or make significant changes to these projects. For the remaining 450 rooms, construction has not started, and we believe there is a high probability that these will be put on hold and possibly stopped. In addition to the projects mentioned above, there are several projects in the planning phase (not yet approved by Oslo Municipality), summarised at 1 000 – 1 500 new hotel rooms in the longer term. In the axis from Lørenskog to Gardermoen, there are also a handful of development projects, including a minimum of 500 new hotel rooms, opening in 2020, and possibly 510 in 2021 and 410 in 2022.

Prost Stabels vei 22 — Hvam/Lillestrøm

Malling & Co Corporate Real Estate advised HCA Melbye in the sales process of the 10 700 m^2 mixed-use property near Hvam.

Kleverveien 4 — Vestby

Malling & Co Corporate Real Estate was advisor for Ender Invest in the sales process of the 6 000 m² Big Box retail property in Vestby.

Industrial & Logistics

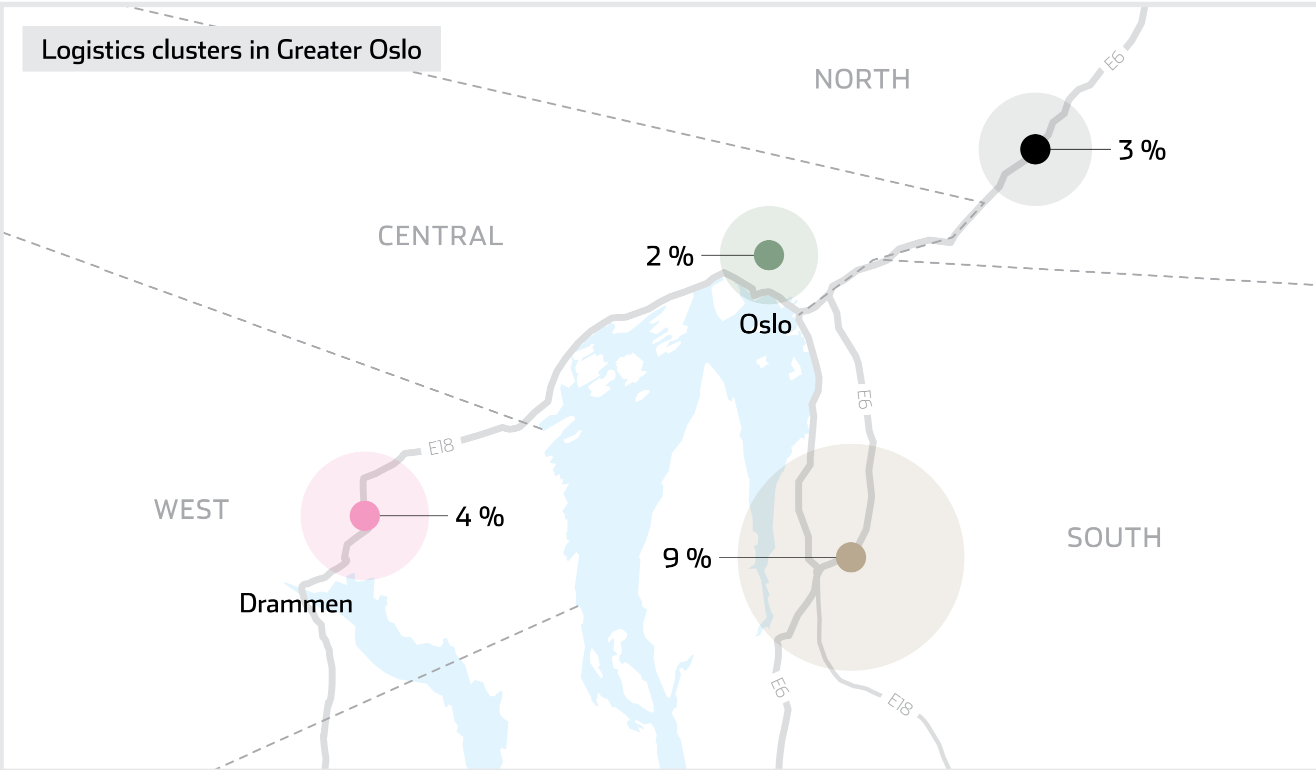
Boom and bust for tenants

It's an interesting time for everyone these days, and the logistics segment is right in the middle of things. Consumer-facing retail is seeing a boom with a roughly 30 % increase in March 2020 vs 2019 in Norwegian online shopping stores compared to an average 7.8 % growth rate in 2019. More details on Retail development can be found in our Retail section on page 50. This has naturally caused pressure on the logistics chain which is bursting at the seams. But there is a flipside here as well, many business-to-business entities are struggling as their customer base has little or no operation. Going forward, it will be more important than ever to consider that it will be the tenant segment, location and type of facility that will remain attractive in this asset class.

Vacancy

The vacancy in our defined logistics clusters and areas in Greater Oslo is 5 %, a reduction from 6 % in our last report. Diving further into our four defined sub-divisions reveals a vacancy of 3 % in the Northern region, a reduction from 5 % 6 months ago. The vacancy is 9 % in the Southern region, a reduction from 12 % 6 months ago. In the Western region the vacancy is 4 %, a small increase from the 3 % 6 months ago. The vacancy is at 2 % in the Central region, a reduction from 4 % 6 months ago.

Logistics clusters in Greater Oslo



Total Vacancy* = 5 %

● North ● Central ● South ● West

Source: Malling & Co

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 m^2 gross lettable area (GLA), with a total identified lot size of 8.5 million m^2.

Rents

Most established logistics hubs are continuing to see a flat development in rents, and overall we have so far neither seen upwards or downwards pressure. 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 m^2/year.

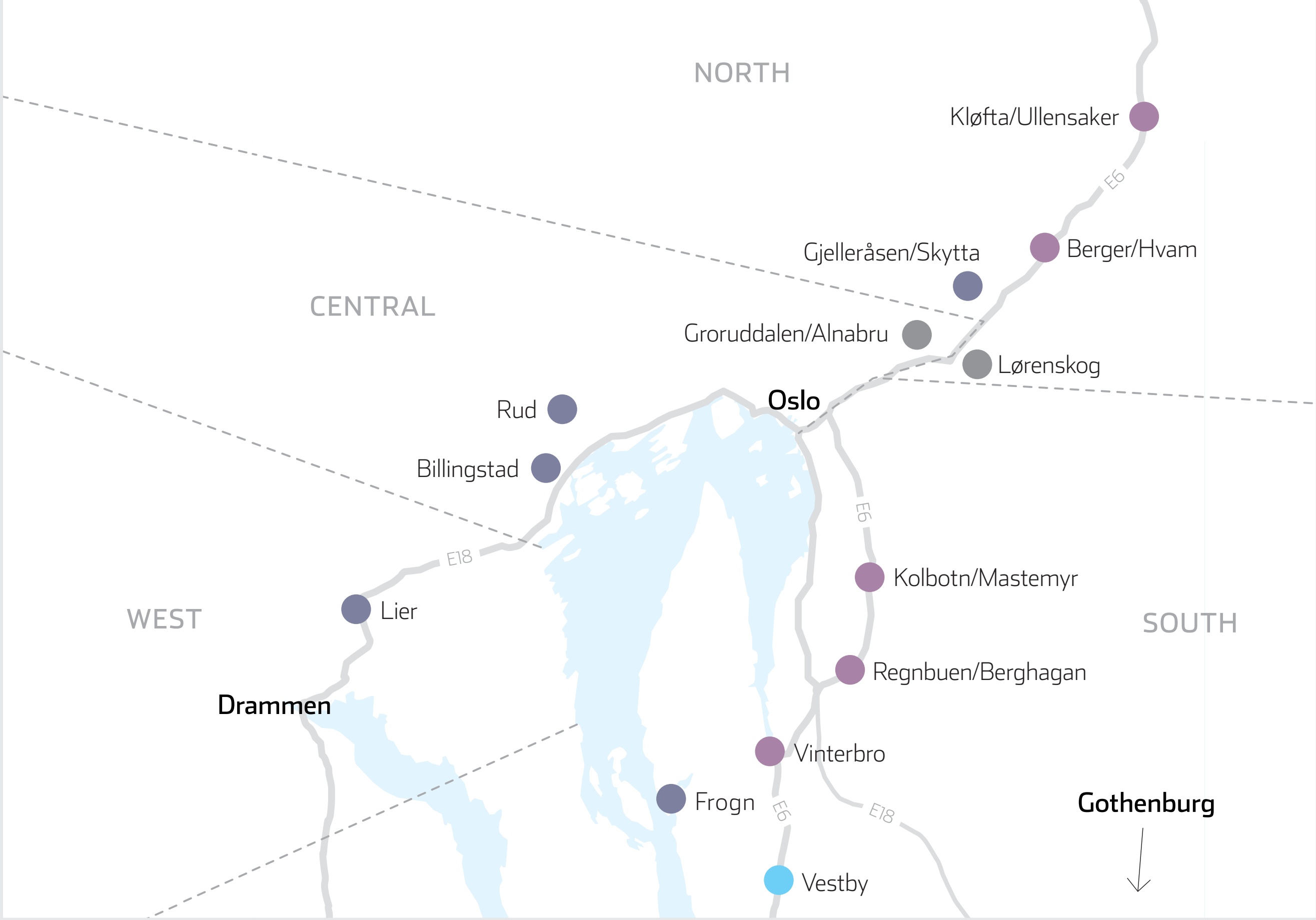
*Special fit-outs for requirements not covered in a standard building will be added to the rents above based on an annuity calculation, with an interest rate typically within 6-8 %. The rent is set based on tenant solidity and usefulness for other tenants. The annuity length is based on the lease length. 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 m^2 than a regular storage unit.

Indicative rents Industrial/logistics (NOK/m^2/yr)*

Area Category	Ceiling 4-6 metres (heated, high standard)	Ceiling > 6 metres (heated, high standard)
Grey	900 – 1 000	1 150 – 1 250
Purple	700 – 900	800 – 1 150
Dark blue	700 – 900	750 – 1 000
Light blue	500 – 700	650 – 850

Source: Malling & Co

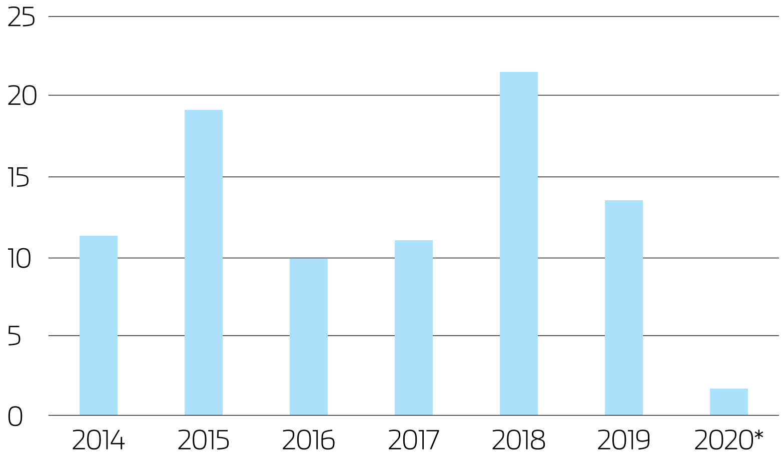
Logistics clusters in Greater Oslo



Investment activity

The number of industrial transactions registered countrywide for the year to date is 13, amounting to NOK 1.4 billion in total. That puts the industrial share at close to 10 % of the total transaction market. The pipeline of what was active projects coming to market before the pandemic was several NOK billions, and we do expect these mandates to materialise once we return to a more normalised state. The interest is, as we will cover more closely in the investor survey, still very high.

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

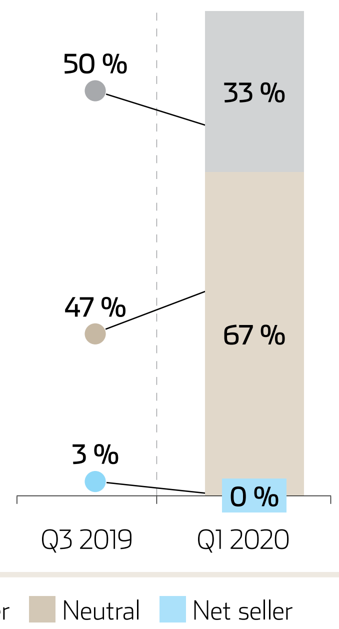


*YTD. Source: Malling & Co

Investment demand

According to our latest investor survey conducted late March/early April we see that Logistics is the second most sought-after segment after Office. A third of investors are intending to increase their exposure towards the Logistics segment. While that is a decrease from a little more than half of the investors in our last report, it is still very good all things considered and the remaining two thirds are intending to keep their exposure neutral over the next 12 months.

Desired exposure towards Logistics properties in the coming 12 months



Source: Malling & Co's Transaction survey

"Logistics is the second most sought-after segment."

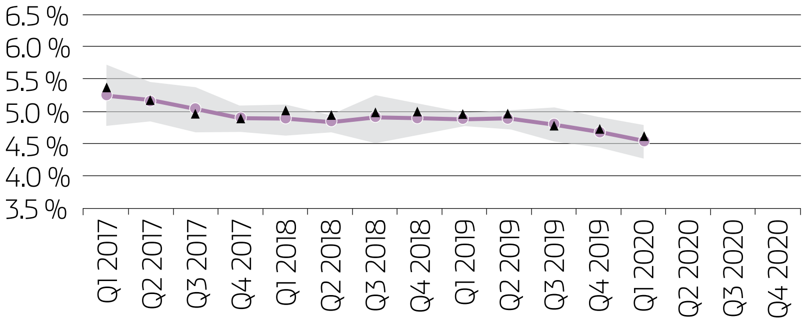
Pricing

Coupling this with the downward trend for yields in both Prime and Normal logistics, which saw compression between 25 and 40 bps from our last report in November 2019, the expectations among investors are that these levels will remain flat going forward. We believe that there is still a possibility of a pricing glitch, as we covered more in detail in our last report. But the shift in interest rates could influence the pricing level rationale, especially for prime objects.

The prime yield for logistics has seen a decrease of 25 bps since our last report and is estimated at 4.55 %. The outlook has also been reduced by 20 bps, compared to the 12-month outlook in our last report, to remain flat over the coming 12 months.

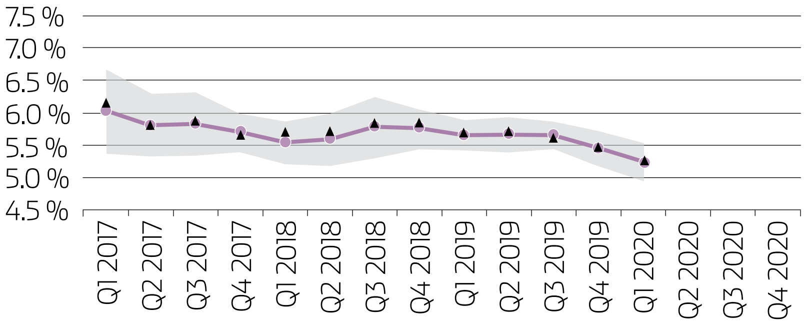
Yield levels for normal logistics have also compressed, but the trend outlook in the future shows a flat development from today's levels. At Kløfta, normal yield is now estimated at 5.25 %, down 40 bps since our last report. The future outlook for yields 12 months out is also 5.25 %. At Lier we estimate the average normal yield at 5.50 %, a reduction of 30 bps since our last report, and the future outlook for logistics yields to remain at 5.50 %. Our estimate for the average normal yield at Vestby is 5.40 %, a reduction of 35 bps since our last report, with the future outlook for logistics yields showing a marginal increase of 5 bps to 5.45 % 12 months out.

Prime yield – Berger



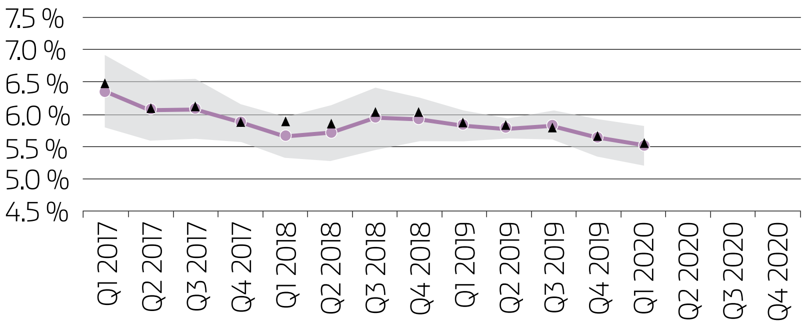
Std. deviation Net yield Average in one year Source: Malling & Co

Normal yield – Kløfta



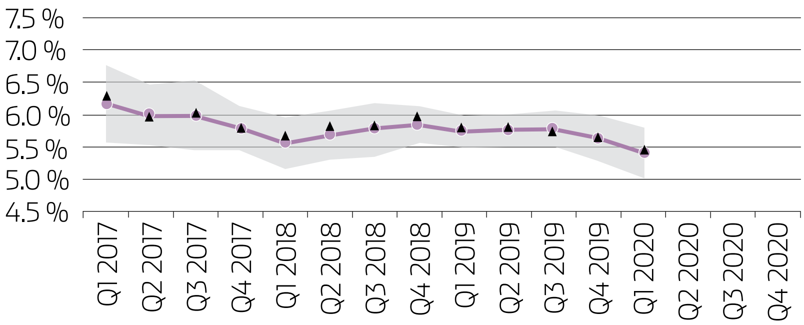
Std. deviation Net yield Average in one year Source: Malling & Co

Normal yield – Lier



Std. deviation Net yield Average in one year Source: Malling & Co

Normal yield – Vestby



Std. deviation Net yield Average in one year Source: Malling & Co

Hagaløkkveien 26 — Asker

Malling & Co Energi og Miljø has contributed to the property obtaining a BREEAM-In-Use certificate with the grade “Excellent”. The property is owned by Ferd and managed by Malling & Co Forvaltning.

Per Kroghs vei 1 — Oslo

Malling & Co Leietakerrådgivning has advised BMI in signing their new office- and warehouse building of 12 200 m^2 in Per Kroghs Vei 1.

Residential

Surprisingly flat development in Housing prices

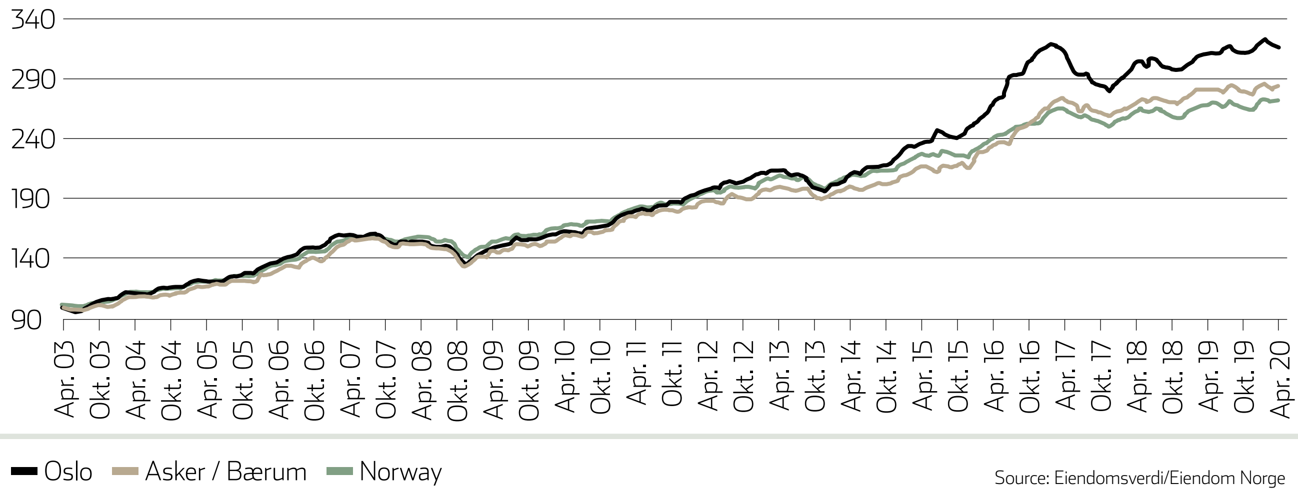
Housing prices increased by 0.5 % nominally in April nationally, while prices fell by -0.7 % in Oslo. In March, both turnover and the number of dwellings put up for sale were considerably down following the implementation of the Covid-19 lockdown. In April, the number of dwellings put up for sale was approximately the same as in April last year, however, the turnover was down, creating a momentary surplus in supply at the beginning of May. Activity was however considerably boosted both price- and sales-wise in the last two weeks of April. Assuming that current supply consists of must-sell objects, as sellers are taking into account a longer number of transaction days and that those with an option to wait are holding off selling, future supply should not outweigh demand too much. As new construction is also expected to be considerably down, most believe that a complete collapse in property prices in unlikely, although a moderate decrease is expected. Many are looking to May, as the most active month historically, for an indication of how the residential sector will develop going forward.

The residential property market in Norway

Residential property prices are 1.2 % higher in April 2020, than they were 12 months ago. After two months of increasing property prices in January and February (0.9 % and 0.5 %) seasonally adjusted prices fell by -1.4 % in March, making it the largest single month price-drop recorded since the financial crisis in 2008. Still, some argue that the decrease was less dramatic than expected, considering the situation. Activity was also considerably reduced in March, compared to last year. Turnover was down 14.6 % year-on-year, while the number put up for sale was down 14.4 %. Nevertheless, overall activity was high in the period Jan-Mar (Q1) compared to previous years, especially if we exclude the record high year of 2019 (Eiendom Norge, Eiendomsverdi).

Property figures reported in April took many by surprise. The nominal change in prices was slightly positive at 0.5 % which, due to April traditionally being a month of high growth, was seasonally adjusted down to just -0.2 %. According to Eiendomsverdi, prices in April started lower before stabilising towards the end of the month. This was also the case for turnover, which was considerably down compared to April 2019 (-10.3 %), albeit increasing over the last two weeks. The number of dwellings put up for sale in April, however, was approximately the same as last year, meaning that supply is now relatively high. Many are now looking to May, which traditionally is the most active month sales-wise, to get a better idea of how the residential market will develop in the coming months and years. (Eiendom Norge).

Price index (monthly, Jan 2003 = 100)



Source: Eiendomsverdi/Eiendom Norge

An update on Oslo

Residential property prices in Oslo fell by -0.7 % nominally from March to April, or -1.0 % seasonally adjusted. Oslo was the only city with a clearly negative change in price nominally, while the development in other large cities was either slightly positive or flat. Still, Oslo had the lowest average number of transaction days, with 21 days on average in April, as well as having a 50-100 % higher average price per sqm compared to the other major cities in Norway. The 12-month change in prices in Oslo is still positive at 1.6 % per April, which is the second highest after Tromsø with 3.3 % (Eiendom Norge).

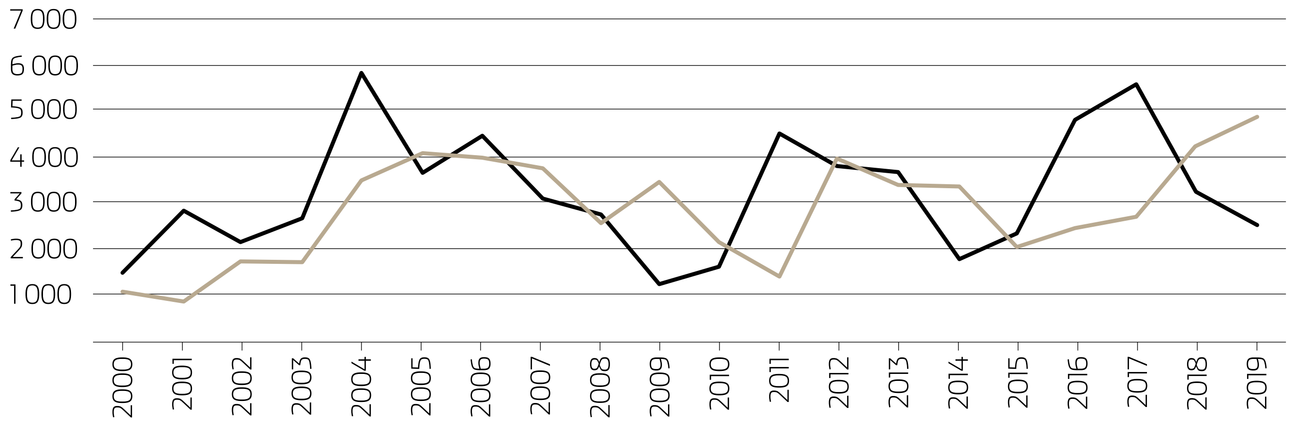
The number of sold residences in Oslo was down 23 % in April year-on-year, while the development in houses put up for sale was flat, creating a momentary surplus in supply (Eiendom Norge). Some speculate that current supply consists mainly of must-sell objects, as those with an option are holding off selling, thus limiting supply and supporting pricing (Eiendom Norge). If this theory holds, supply should not outweigh demand too much, and prices should not be too heavily affected. New construction is also expected to halt, due to decreased interest from buyers. There has also already been a decrease in building permits the last 12 months. In 2019, approx. 4 800 dwellings were completed in Oslo, while only 2 500 were initiated. It is unlikely that there will be any increase in project initiation over the short term, as newbuild turnover has come to a halt (more on this below).

"Residential property prices in Oslo fell by -0.7 % nominally from March to April, or -1.0 % seasonally adjusted."

Oslo	apr. 15	apr. 16	apr. 17	apr. 18	apr. 19	apr. 20
Change in price (Apr YY / Apr YY)	1.3 %	2.4 %	-0.7 %	2.4 %	0.6 %	-0.7 %
Put up for sale	2 351	2 290	1 805	2 041	1 719	1 705
Change in # (Apr YY / Apr YY)	70.0 %	-3.0 %	-21.0 %	13.0 %	-16.0 %	-1.0 %
# Sold	1 936	2 096	1 350	1 711	1 849	1 428
Change in # Sold (Apr YY / Apr YY)	27.0 %	8.0 %	-36.0 %	27.0 %	8.0 %	-23.0 %
Unsold	1 265	1 123	1 718	1 701	2 081	2 010

Source: Eiendomsverdi/Eiendom Norge

New building permits and completions in Oslo (# units)



Source: Statistics Norway

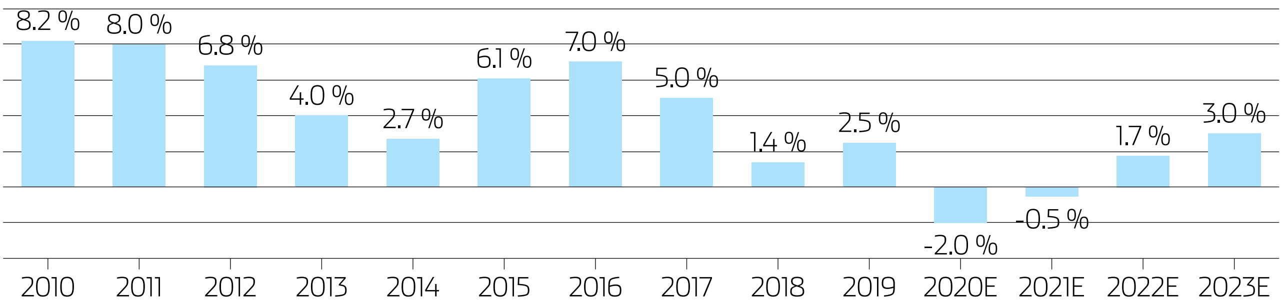
Housing prices going forward

Going forward, significantly increased unemployment, little or no increase in real disposable income, as well as uncertainty related to the general economy will certainly affect housing demand. Views on how the market will develop are widely differing, however the general consensus is that a complete collapse is unlikely. In May, the key policy rate was cut to 0.0 % in Norway for the very first time. At the time of writing, banks are yet to fully react to this, however a considerable reduction in interest rates is expected, which should support households' ability to manage debt. Despite interest rates reaching historically low levels, the restrictions implemented by the government in 2017, limiting total LTV relative to gross income, will most likely keep prices from surging.

Although demand is expected to reduce somewhat, supply is also expected to reduce as sellers hold off their sales process and new constructions are paused or cancelled. Although newbuilds have not seen any substantial price-drop yet, developers report reduced interest. In April, new building permits fell by 32 % relative to April last year, after having already been unusually low over the past 12 months, and newbuild sales fell by 45 % (Boligprodusentene). Many are now using alternative sales tactics to boost activity, as for example OBOS offering house exchanges, JM Norway opening for right to withdraw and Selvaag offering free appliances (Finansavisen). Thus, expected low new construction and hence supply, combined with record low interest rates and extensive government stimuli, will arguably go a long way to support the residential sector pricewise.

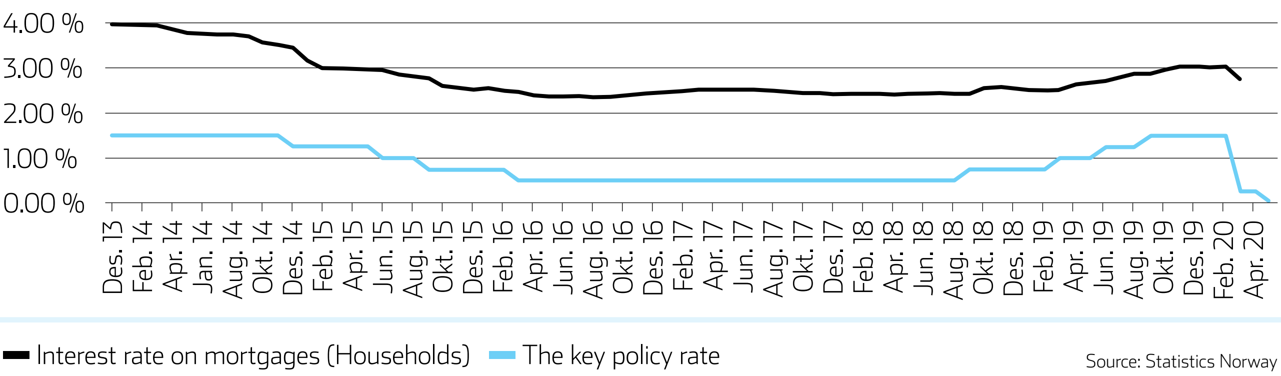
As previously mentioned, residential market forecasts are widely ranging. One of the more moderate forecasts belongs to SSB and is illustrated in the figure below. SSB expects average residential property prices to continue their decrease in 2020, ending at -2.0 % for 2020 overall. They further expect the decline to continue into 2021, before increasing again in 2022 and 2023. More specifically, they predict that it will take approximately two years before housing prices are back to pre-Covid-19 levels. By the end of 2023, prices are expected to be somewhat 5.0 % higher than what they were at the beginning of 2020 (SSB). Compared to their forecast from December 2019, growth for 2020 and 2021 has been adjusted downwards by -3.8 % and -2.7 %, respectively. Note, however, that their April forecast was prepared before the key policy rate was, most unexpectedly, reduced to 0.0 %, for the very first time in Norway. Others have adjusted their estimate upwards following this announcement, one example being Prognosesenteret. Before, they predicted a decrease of around 5.0 % on average for 2020, while now they are suggesting a decrease of around 3.0 % (Prognosesenteret).

Residential property prices Norway (historical and forecast)



Source: Statistics Norway

The key policy rate and Interest rates on new mortgages



Source: Statistics Norway

Knut Alvssons vei 6–12 / Bergstien 5 — Oslo

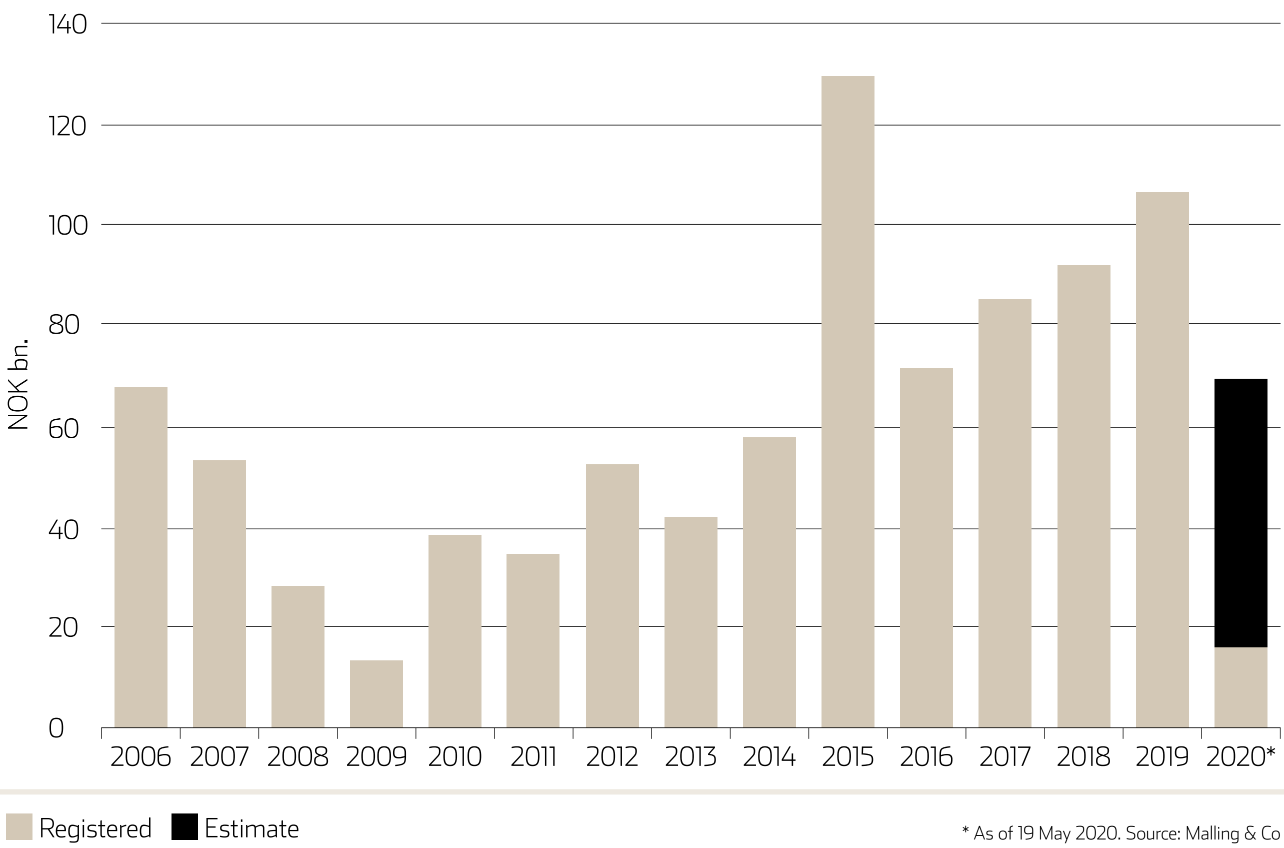
Malling & Co Corporate Real Estate was advisor for Tellus Eiendom on the divestment of residential properties of approx. 6 400 m² in Oslo.

The investment market

High interest and low interest

So far this year, we have registered a total transaction volume of NOK 17.4 billion*, split between 64 transactions*. With the Covid-19 outbreak, a very promising start to the investment market activity in 2020 came to a halt. But both from our survey and contact with investors, there is still high interest in commercial real estate as interest rates are coming down to record low levels. While most structured processes have been put on hold, there is still a steady flow of transactions done off-market. And to answer the big questions on everyone's lips, prices have not moved significantly. While some uncertainty can be attributed to future rental prices, we have not seen any sign of anything but very modest discounts between 0 % and 5 % on pre-corona levels. Yet, with the underlying risk of the economy in general, and how the pandemic evolves going forward, we predict through our main scenario that Norwegian CRE will be firing back up in the second half of the year for a full year estimate of NOK 70 billion for 2020, a decrease of roughly 35 billion from 2019.

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



* As of 19 May 2020. Source: Malling & Co

Banks are still there for their clients

After the shock effect of society basically being shut down and interest rates going through the roof, central banks came to the aid of financial markets and we have since seen record low interest levels. And the low levels are expected to last for years to come, as the forward starting swaps as far out as 5 and 10 years are more or less flat too. After a brief halt while everyone was finding their footing, banks stepped up for their customers. Solid projects are still welcomed and supported. Although margins have been adjusted upwards, there is in sum still a lower total financing cost for many, as underlying interest rates have plummeted.

Bond financing is a different story now. Margins have increased substantially and are in most cases not competitive with bank financing. The big increase can be seen in our graph of CMBS spreads. And although they have come back down a little, the spreads factor is still 2-3 times higher than pre-Covid-19. Also worth noting is how prime AAA rating has come further back down of late, while AA-rating remains flat, and A rating is on an increasing trend again. Investors demand a premium for risk, and a flight to safety seems prevalent.

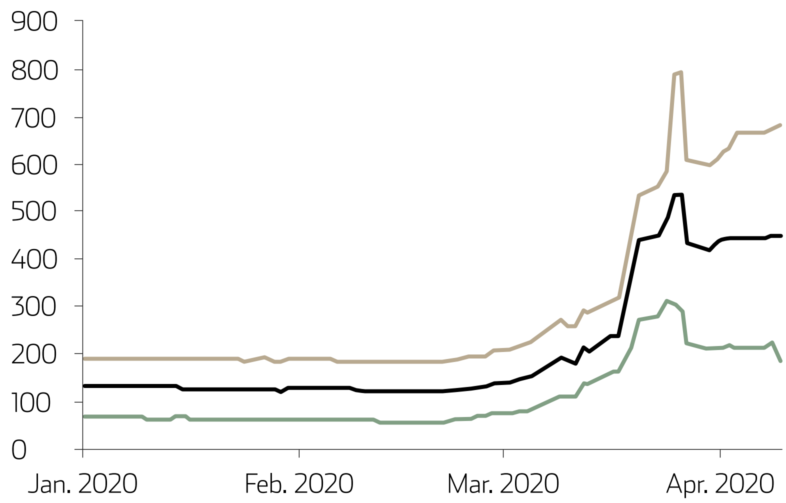
NOK 5Y and 10Y IRS and FFS

NOK 5Y IRS NOK 10Y IRS NOK 5Y FFS NOK 10Y FFS

Source: Thomson Reuters

"Solid projects are still welcomed and supported."

Commercial mortgage-Backed securities Spreads (bps)



AAA-rated AA-rated A-rated

Source: IMF

A safe harbour in turbulent times

Our regional overview for 2020 reveals that Oslo is a safe harbour in stormy weather, not only literally but also figuratively. Almost 60 % of the volume is from the Greater Oslo region. And though, admittedly, much of this volume is from pre Covid-19 lockdown, we are seeing more activity taking place in this region than that being reported from other major regions. Our main scenario is, however, still a gradual increase in activity across all regions towards summer, and a close to fully operational and functioning investment market over the summer. The second half should see the difference in volume share somewhat equalised towards a more normal share for the other regions outside of Greater Oslo. This is also supported by the Prime office yield levels across the regions, which have remained stable or decreased since our last report, and with our expectations that a shift is skewed towards a yield compression.

Prime yield (net) in Norway

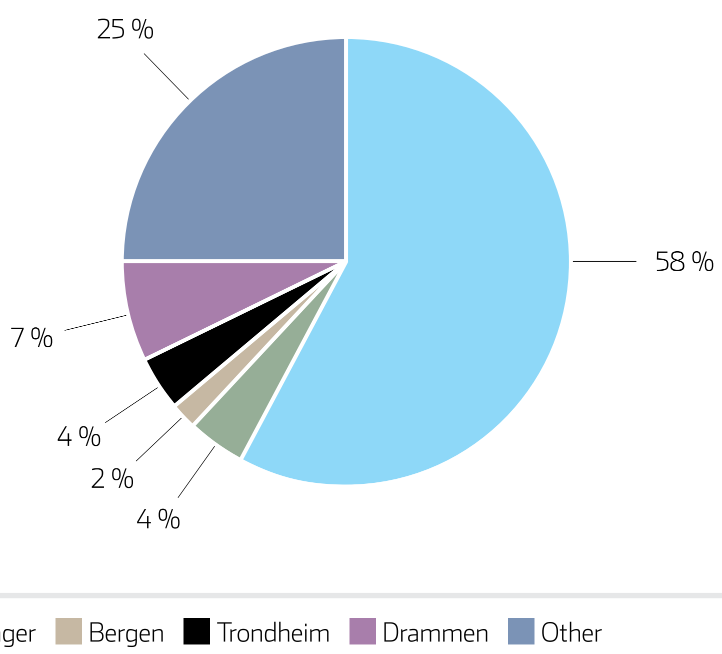
City	Prime Yield (Office)	△ from last report
Oslo	3.65 %	▲ 0 bps
Stavanger	4.75 %	▼ -25 bps
Bergen*	4.00 %	▲ 0 bps
Trondheim**	4.65 %	▲ 0 bps
Drammen	4.30 %	▲ 0 bps

*WPS Næringsmegling, **Norion Næringsmegling

Source: Malling & Co/Savills

"Almost 60 % of the volume is from the Greater Oslo region."

Regional split of the transaction market 2020* by volume



*As at 19 May (above NOKm 50)

Europe is opening up for business – much akin to the sentiment in Norway

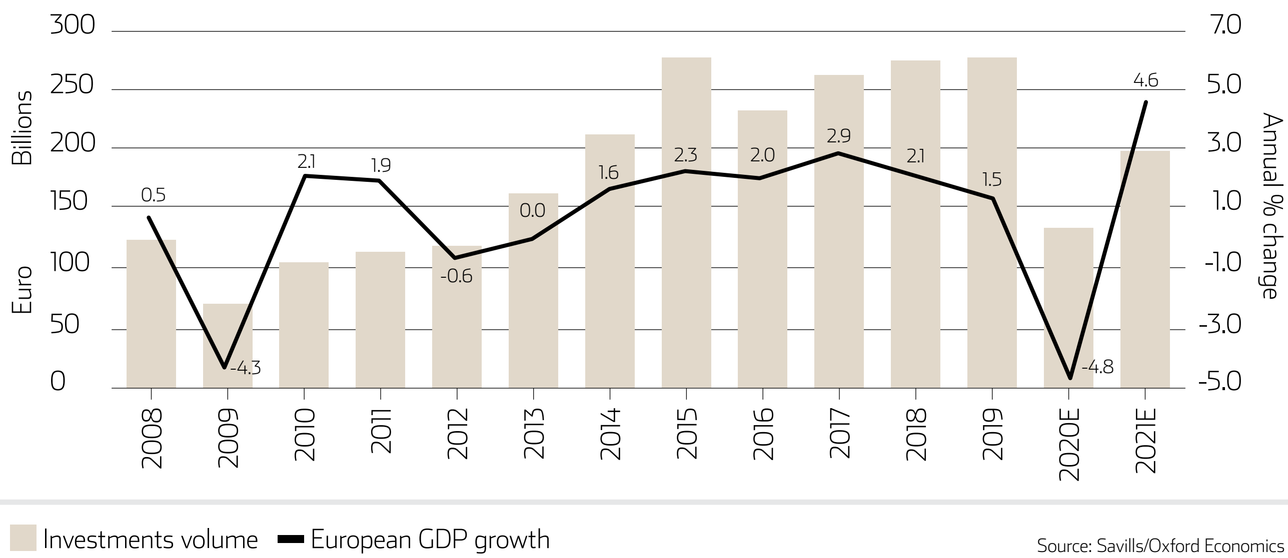
In a European context, Prime CBD office yields remained broadly stable on a quarterly basis in Q1 2020 at 3.84 % and 12 basis points below Q1 2019. Uncertainty will constrain investment volumes this year, and the expectation is that short-term headwinds will have a negative impact on deal flows over the next three to six months. Most investors will keep searching for opportunities, but transaction activity should resume along with the lift of lockdown measures. During the financial crisis in 2007/2008, investment volumes dropped by 72 % from the peak over a two-year period. This time however, high liquidity, low interest rates, constrained development pipelines and a much better capitalised banking sector should contribute to a faster recovery of investor sentiment. In most markets, indications point towards investors remaining active particularly in the Prime market segment, with several deals in progress and minimal price discounts. But volumes will be constrained by lack of prime opportunities compounded by a shortage of willing sellers. Secondary and value-add market segments are more exposed due to mismatch between buyer and seller pricing expectations. Sale & leasebacks may be more prevalent in the next quarters as a defence strategy of troubled occupiers to boost cash flows. This could lead to opportunities in the Retail, Hospitality and other operational sectors. Off-market deals and joint ventures to support development financing will also underpin deal flows in the short term. We expect Prime office yields to remain stable in the majority of our markets by the end of the year. Small price corrections are anticipated in the Logistics sector, whereas prime yields in more than half of the markets are expected to move out by 10-20 bps at the most.

Prime yield (net) in Europe

City	Prime Yield (Office)	△ from last report
Munich	2.70 %	▼ -10 bps
Paris	2.90 %	▲ 0 bps
Amsterdam	3.00 %	▲ 0 bps
Milan	3.25 %	▼ -25 bps
Stockholm	3.25 %	▼ -25 bps
Helsinki	3.35 %	▼ -15 bps
Copenhagen	3.65 %	▼ -25 bps
Oslo	**3.65 %**	**▲ 0 bps**
London	3.75 %	▼ -25 bps

Source: Malling & Co/Savills

European investment activity and GDP growth



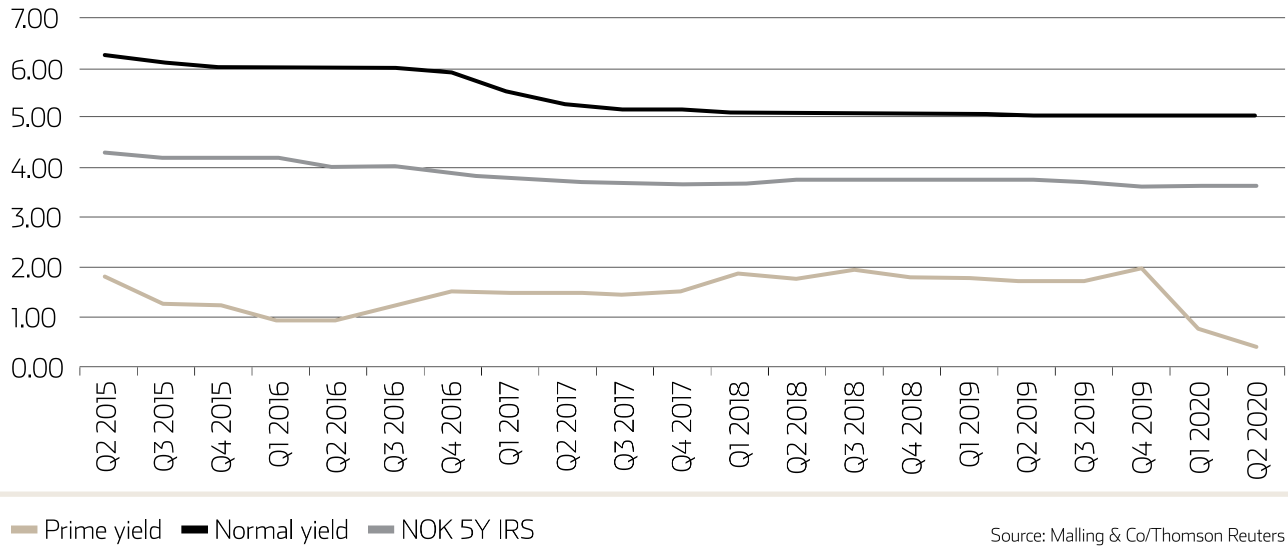
Source: Savills/Oxford Economics

Office yield spread widens between segments

With the onslaught of uncertainty and risk comes demand for a premium. Our latest investor survey shows that the investors value location even higher than duration as the difference between prime office in the CBD of Oslo and prime office in a fringe locations has widened. Future expectations are however more focused on how the normal yield will develop upwards in the short/medium term, as risk is perceived to be on the downside in the economy. We believe that the most probable scenario is that a larger gap to Prime office will be created as Prime office will compress on the back of the low interest rates. This will in the medium/long term be reduced again as the economy improves and risk is perceived to be decreased again.

"Prime office will compress on the back of the low interest rates."

Yield development past 5 years



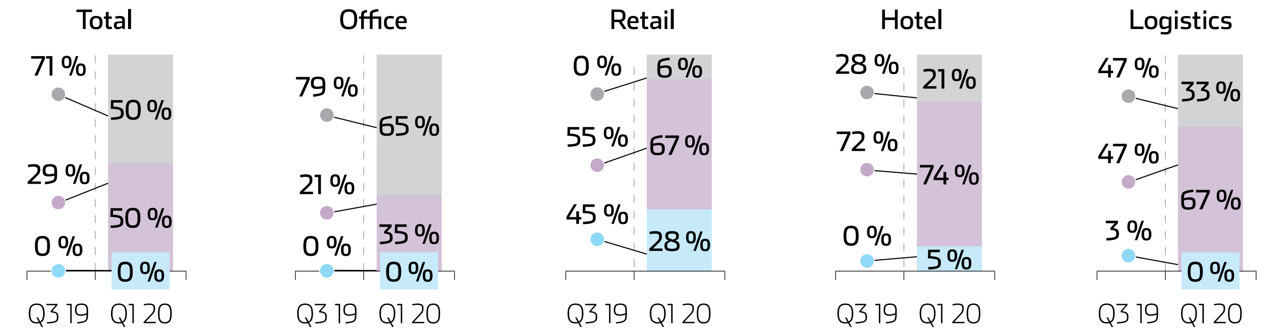
Source: Malling & Co/Thomson Reuters

Investor sentiment and yield development

Our newest survey-based investigation from Q1 2020 (survey period ended Friday, 3 April) into investor expectations for yield and investor intentions shows that the demand for commercial real estate is still at high levels, although down on the record high of 90 % intending to increase their exposure in Q1 2020. Our investor survey shows that a little more than 50 % of investors are intending to be net buyers in the coming 12 months, and close to 50 % are intending to keep their exposure neutral. That is still a very high number amidst everything, and we can see that Office is at the forefront of the demand side. 65 % 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.

For the fringe office clusters of Lysaker and Helsfyr, we estimate a Prime yield of 4.55 % and 4.40 %, respectively. This is an increase of 15 and 20 bps, respectively for Lysaker and Helsfyr. Comparing this to the Office prime yield in the CBD at 3.65 % it is clear the yield gap has widened for primary and secondary locations. For Normal office yield it is a different story, with Normal CBD yield at 4.25 %, a marginal increase of 5 bps from the previous survey, with similar results from Normal office yield being unchanged at Lysaker and Helsfyr, at 5.15 % and 4.95 %, respectively.

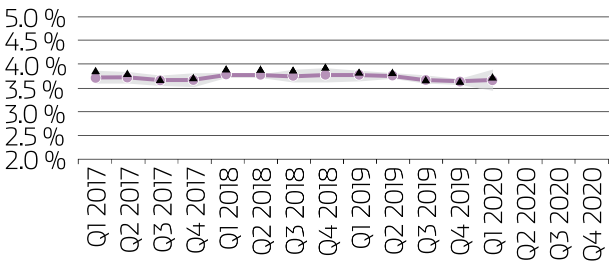
Desired exposure towards commercial real estate next 12 months



Net buyer Neutral Net seller

Source: Malling & Co's Transaction survey

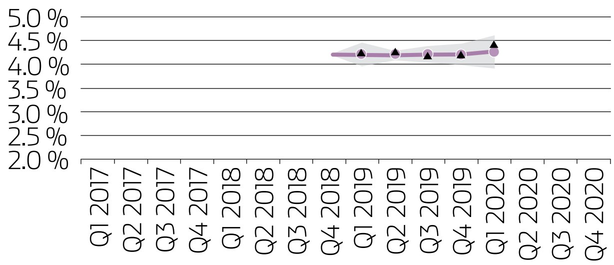
Prime office CBD



Std. deviation Net yield
▲ Average in one year

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

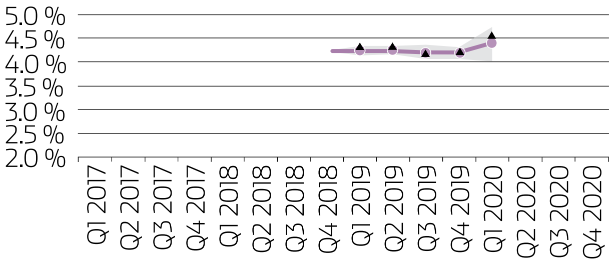
Normal office CBD



Std. deviation Net yield
▲ Average in one year

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

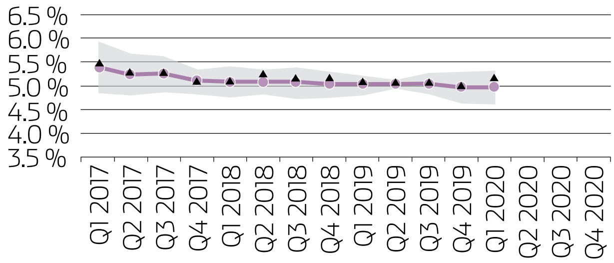
Prime office Helsfyr



Std. deviation Net yield
▲ Average in one year

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

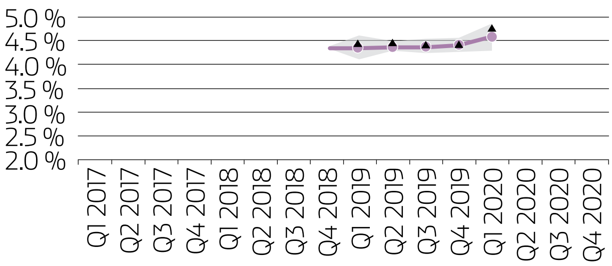
Normal office Helsfyr



Std. deviation Net yield
▲ Average in one year

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

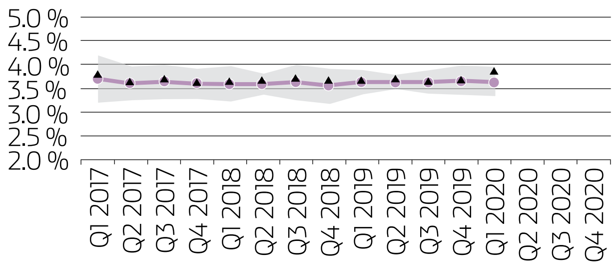
Prime office Lysaker



Std. deviation Net yield
▲ Average in one year

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

Normal office Lysaker



Std. deviation Net yield
▲ Average in one year

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

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

About Malling & Co

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

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

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

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

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