MALLING & CO

Market report

Summer 2022

www.malling.no

At a turning point

While the pandemic gradually eased off its restrictive hand on European countries over the first half of the year, a new tragic event picked up the baton as Russia invaded Ukraine on 24 February. The geopolitical tension with the heavy sanctions placed on Russia has intensified the drivers of inflation through surging prices for energy and raw materials. This is adding additional pressure to the world's stretched supply chains and rising commodity prices. China's unrelenting zero-Covid regime is still taking its toll on the economy and the global flow of goods.

Anders Berggren
CEO, Eiendomshuset Malling & Co

The result is inflation figures not seen for decades, and the period of low inflation and record low interest rates seems to have come to an end. The idea of transitory inflation seems to be fading further away as new high inflation figures are released every month. High inflation is inevitably turning dovish central banks into hawks. YTD long-term interest rates have increased around 100 bps, and the risk of even higher rates is on the horizon as the war continues and inflation remains high. While the economy is recuperating quickly from the pandemic, the threat of a recession is lurking in the background, as central banks are likely to stagnate inflation at the cost of a recession. For our industry, this means a higher cost of capital going forward. In our view this will inevitably push yields upwards. How far central banks will go vs. how the red-hot economy is pushing rental growth is the nature of the bet right now. In the event of the feared stagflation, we should remember that Norway once again is likely to come out a winner due to the high prices for oil, gas and electricity.

While the high investment market activity seen at the end of 2021 spilled over into the start of 2022, we are now experiencing a more balanced market, even though the investment market remains active as buyers and sellers with different views on the market meet. While listed CRE companies are being punished by increased interest rates, the direct CRE-investment market is more pragmatic, as they have acknowledged that income growth is at least partially offsetting interest rate increases. However, we are also seeing signs of changes in the flow of funds as the bond market becomes more attractive with higher yields and the stock markets are punished by higher interest rates. This will further affect demand from CRE among investors and is the reason that we believe the investment market activity will calm down somewhat in 2022 and return to 2019-2020 levels, which, in a historic context, is still very active.

While the pandemic caused slower activity in the leasing market, the cap on the bottle has now come loose with businesses returning to offices and revealing a need to amend workplace strategies and increase the space for growth. The employment market is strong, creating a need for more space. Our workplace strategy team is seeing huge demand for their advisory services, and the leasing team is experiencing high demand for new office space, especially in the city centre. Booming construction costs, higher interest rates and post-poned zoning processes are limiting the supply side in the office leasing market. Increased upward pressure on yields is another factor which is pushing breakeven rents in new supply. Low vacancy and high demand in the industrial and logistics segment is pushing up rent also in logistics, especially for existing stock. High street retail is once again in focus, and the segment seems to have passed the turning point of lockdowns and increased online shopping, as demand for space has shifted to other concepts. So, everything is set for rental growth in CRE in 2022 and investors are therefore positioning accordingly.

We hope you enjoy our latest market report. As introduced in our previous report, we have the pleasure of including a market update on Bergen and Trondheim, in addition to Stavanger and Drammen, supplied by our regional contacts WPS and Norion. Remember that Malling & Co is here to support you in all your commercial real estate needs, including transaction support, tenant representation, development, energy and environment services, research services, leasing services, valuations, technology advisory, as well as property- and asset management.

Editing completed: 13 May 2022

Macro — Global

War slows the recovery

From what was shaping up to be a year of recovery, global economic prospects have worsened significantly. Global growth is expected to slow in 2022, largely as a result of the war and global supply chain restraints. Russia's invasion of Ukraine has caused a tragic humanitarian crisis in Eastern Europe and sanctions on Russia to end hostilities. The economic effects are spreading far and wide, mainly through commodity markets, trade and financial linkages. The war also adds to the series of supply shocks that have struck the global economy over the course of the pandemic, contributing to more shortages beyond the energy and agricultural sectors. Inflation had already begun to surge in many economies prior to the war because of rising commodity prices and pandemic-induced supply/demand unbalances. War-related supply shortages further amplify those pressures, most notably through increases in energy, metals and food prices.

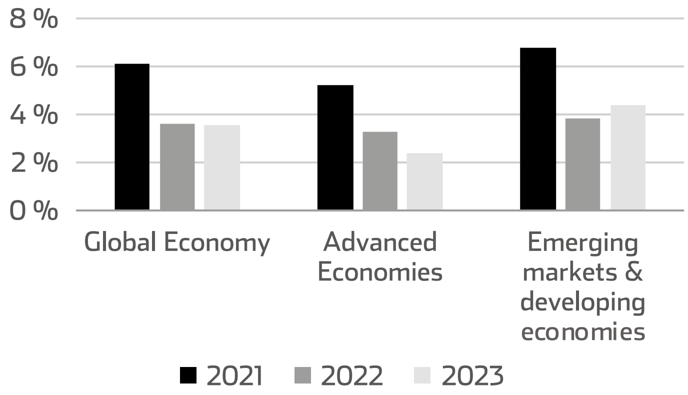
Although bottlenecks are eventually expected to ease as production responds to higher prices and new capacity becomes operational, supply shortages in some sectors are expected to last into 2023. Resultingly, inflation in advanced economies, emerging markets and developing economies is now projected to remain elevated for much longer than central banks initially assumed. In the US and some European countries, it has already reached its highest level in more than 40 years, while labour markets remain tight. Moreover, the pandemic is still with us in certain parts of the world and the risk of more lethal variants could prompt new lockdowns and production disruptions.

GDP growth projections

After what ended as a strong recovery in 2021, short-term indicators suggest that global activity has slowed. Global growth is projected to decline from 6.1 % in 2021 to 3.6 % in 2022, 1.3 % lower than the estimate in the September World Economic Forum (WEO). The effects of the war in Ukraine and sanctions on Russia and Belarus will not only hit the countries directly, but also lead to international spill-overs via global commodity prices, trade and financial linkages, and labour supply. Growth projections are notably low in the Euro Area, where GDP for 2022 has been revised down to 2.8 % (1.1 % lower than in January). The conflict came just as the threat from the Omicron variant appeared to be fading, with many parts of the world moving past the acute phase of the pandemic. Some emerging markets and developing economies are still, however, affected by pandemic restrictions and estimated GDP in 2022 has been revised down to 3.8 %, 1.3 % lower than the September WEO estimate.

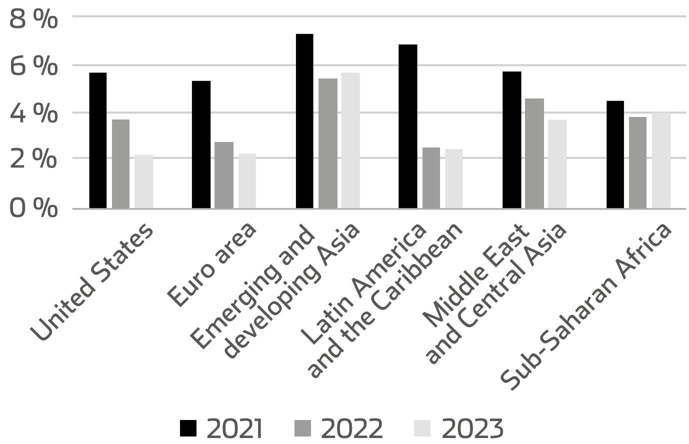
Global growth for 2023 has also been revised downwards to 3.6 % from previous estimates. The contraction is less significant than in 2022, but the uncertainty surrounding global supply restraints, commodity prices and increasing interest rates is persisting. Beyond 2023, global growth is forecast to decline to about 3.3 % over the medium term. Worth noting is that the forecast assumes that the conflict will remain confined to Ukraine, that further sanctions on Russia will exempt the energy sector and that the pandemic will abate over the course of 2022.

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



Source: IMF WEO (April 2022)

GDP Growth projections, by region, % change



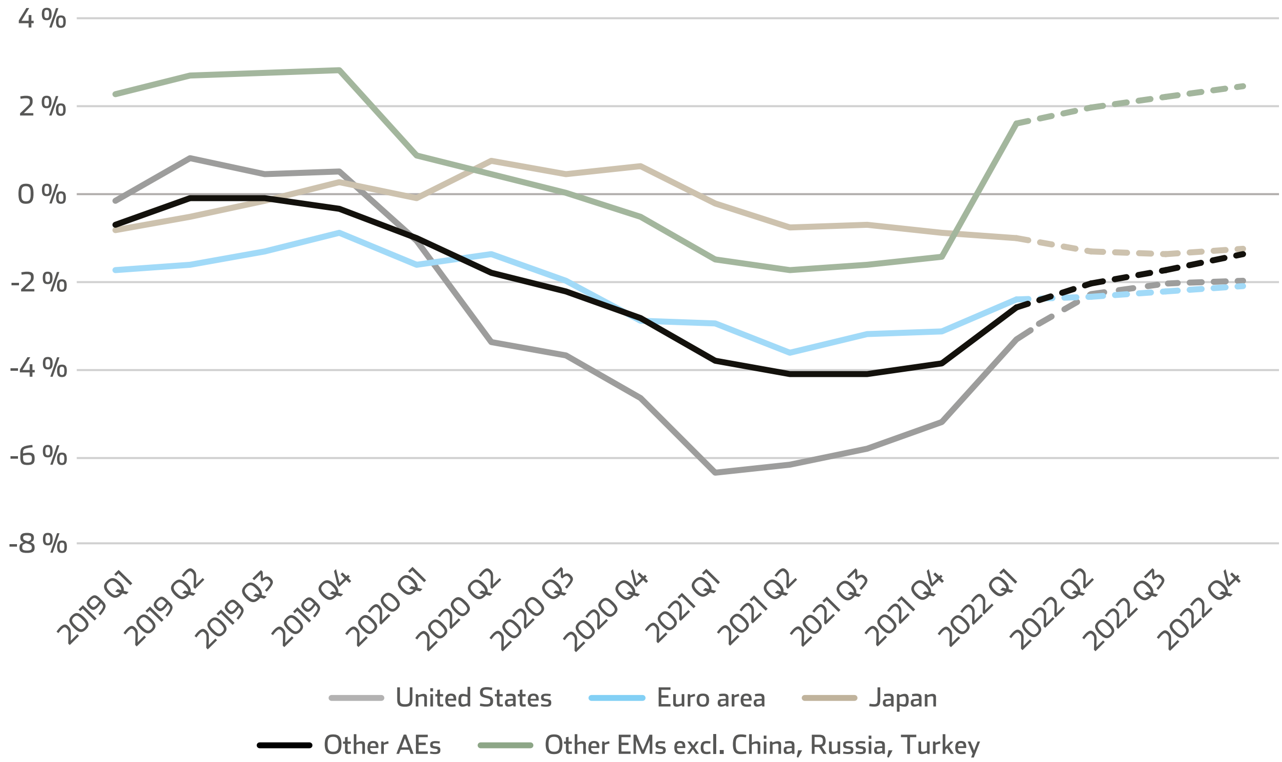
Source: IMF WEO (April 2022)

Monetary and fiscal policy

Even before the war had started, inflation had begun to rise significantly, and many central banks tightened their monetary policies. Interest rates across advanced economies have increased rapidly since, and in the months ahead, policy rates are generally expected to rise further. Large governing central banks such as the US Fed, Bank of England and European Central Bank have set the projected key policy rate way beyond previous target levels. Record-high central bank balance sheets will begin to unwind, most notably in advanced economies. In emerging markets and developing economies, those that didn't already tighten their monetary policies last year have begun doing so as well. One important exception is China, where inflation figures remain low and the central bank had to cut policy rates in January 2022 to assist the Covid-19 recovery. In April, Chinese one-year policy loans were left unchanged at 2.85 %.

Policy space in many countries has been eroded by necessary higher Covid-related spending and significantly lower tax revenue in 2020 and 2021, leading to considerable increases in debt levels. The war and the increase in global interest rates will further reduce fiscal space in many countries. This is especially the case for emerging markets and developing countries that are reliant on food imports. On top of rising borrowing costs, policy decision makers are challenged by the imperative to rebuild buffers. Thus, fiscal support is set to generally decline in 2022 and 2023, especially among advanced economies, as emergency cushions are wound down from the impact of the pandemic.

Real policy rates (key policy rate – inflation), %



AEs = advanced economies, EMs = emerging markets.

Source: IMF WEO (April 2022)

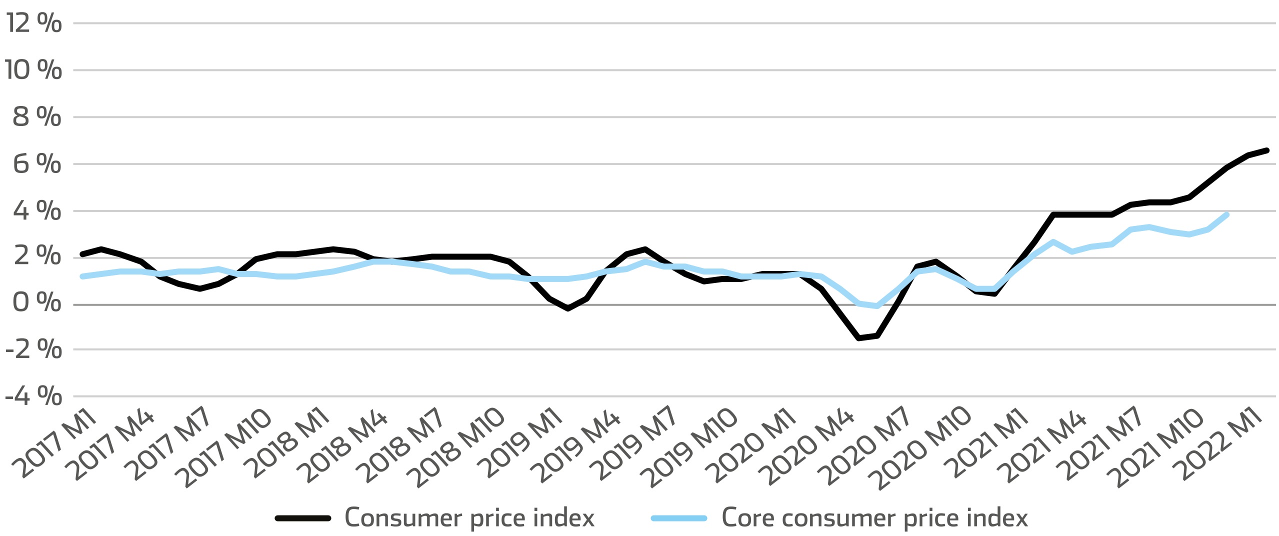
> «Large governing central banks such as the US Fed, Bank of England and European Central Bank have set the projected key policy rate way beyond previous target levels».

Financing

Expectations of tighter monetary policies have contributed to financial market volatility and risk repricing. In particular, the war and related sanctions have tightened global financial conditions, lowered risk appetite, and induced a flight-to-quality sentiment. The tightening has been particularly evident in Eastern Europe and the Middle East where ties to Russia have been strong. The timing of the war couldn't have been much worse for countries that were bringing the pandemic under control and as the global economy was recovering. With the sharp rise in commodity prices anticipated to add to the pre-existing inflation pressure, central banks are faced with trade-offs, fighting record high inflation and at the same time safeguarding the post-pandemic recovery.

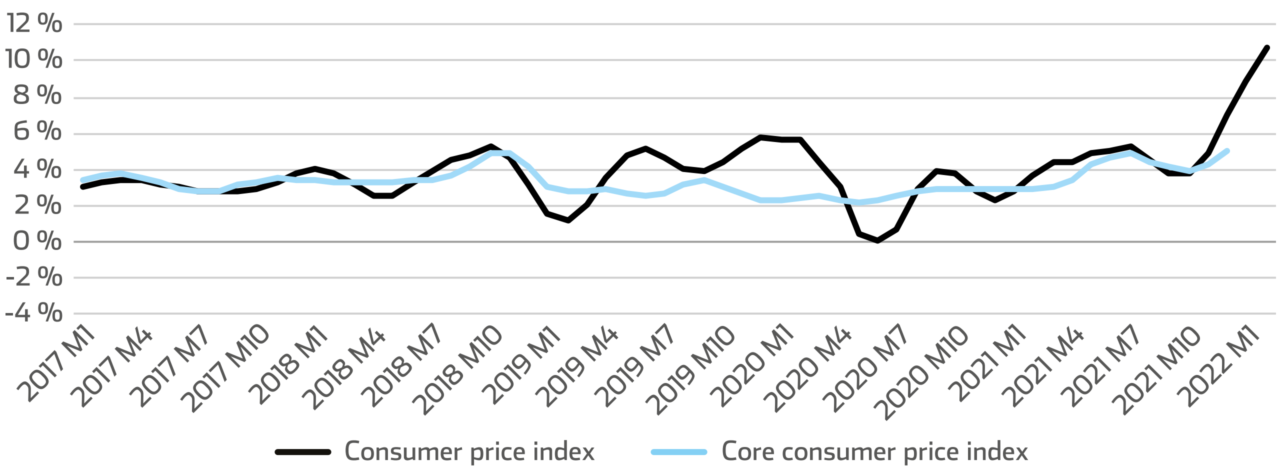
Volatility has increased sharply in both equity and interest rate markets, reflecting heightened uncertainty on the economic and policy outlook. On balance, financial conditions in advanced economies are exemplified by a decline in corporate valuations, higher government bond yields and continued expectation of monetary policy normalisation. However, relative to historical levels, financial conditions remain easy or roughly neutral. Conditions for many emerging market economies have also tightened, reflecting higher interest rates to combat inflation, lower equity valuations and higher external borrowing costs.

Inflation trends – Advanced economies, three-month moving average, annualized %-change



Source: IMF WEO (April 2022)

Inflation trends – Emerging markets and developing economies, three-month moving avg., annualized %-change



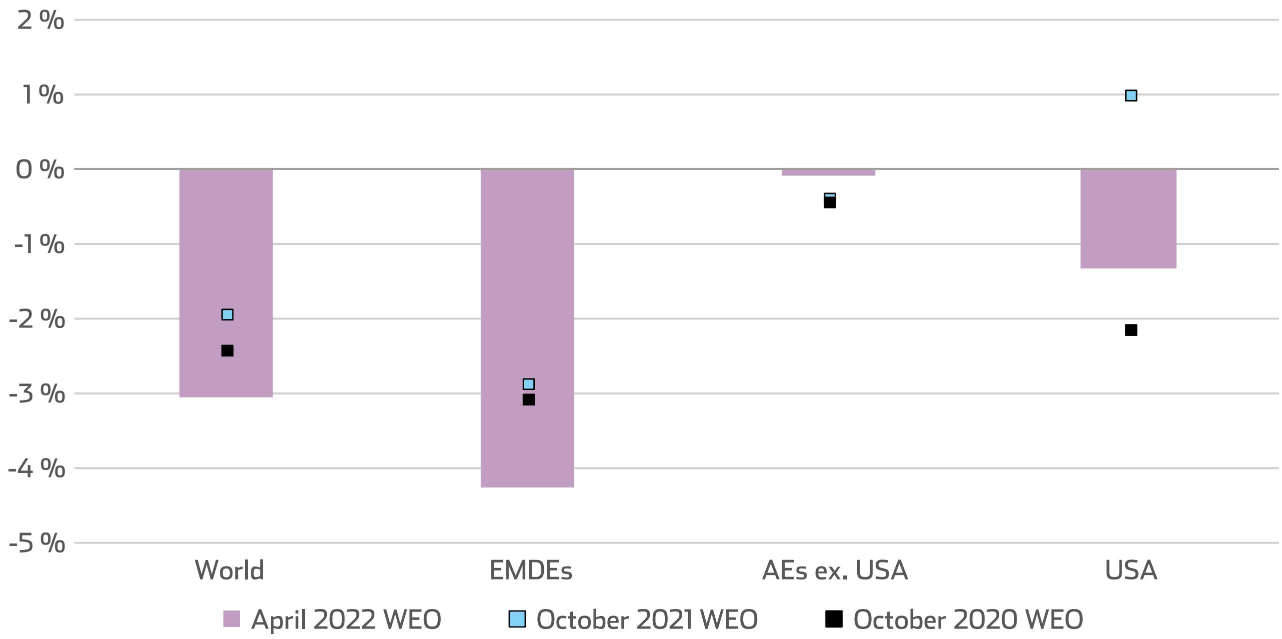
Source: IMF WEO (April 2022)

«With the sharp rise in commodity prices anticipated to add to the preexisting inflation pressure, central banks are faced with trade-offs, fighting record high inflation and at the same time safeguarding the post-pandemic recovery.».

Labour market

Labour markets are characterised by a significantly tightening in some advanced economies, particularly the US and to some extent the UK. Shortfalls among the labour supply have resulted in nominal wage growth. However, real wages have fallen in general because consumer price inflation has risen faster than nominal wages. Meanwhile, labour force participation rates in advanced economies generally remain below pre-pandemic levels. These developments can in part be ascribed to a reluctance by employees to return to work while the pandemic continues and earlier-than-planned retirements. In some cases, although workers are returning to employment, they are working fewer hours. The IMF assumes that labour supply will gradually improve over 2022 as the health crisis fades, constraints on dependent care ease and household savings run down. However, with a few exceptions, employment and output will typically remain below pre-pandemic trends through 2026.

Employment losses relative to pre-pandemic trend (Jan 2020 WEO)



AEs = advanced economies
EMDEs = emerging market and developing economies.

Source: IMF WEO (April 2022)

Macro — Nordics

Bounceback in 2022, but an inflation risk persists

The main channel through which the war in Ukraine and sanctions on Russia affect the macroeconomic development in the Nordic region is rising global energy prices and supply chain disruptions, which is hurting certain industries. Consequently, average GDP growth among the Nordic countries has been revised down from 3.4 % in September to 2.7 % as of April. Yet, the GDP figures signal a bounceback from the pandemic-induced decline in 2020.

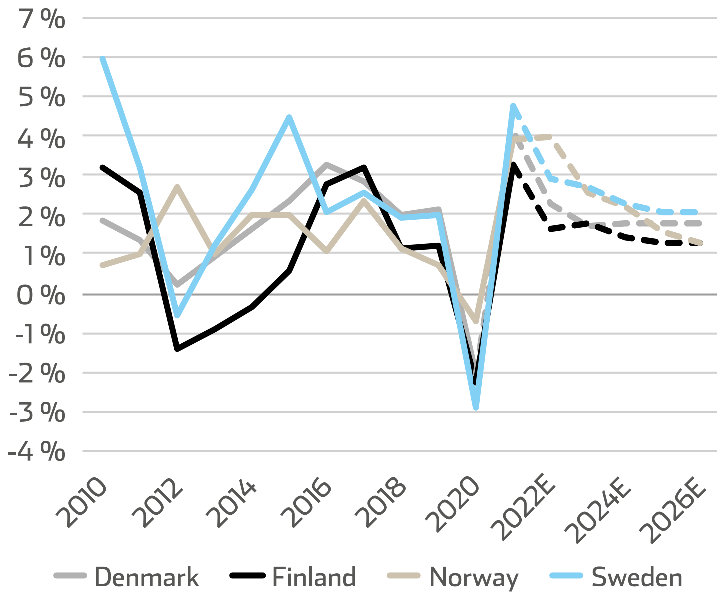
Recovery revised upwards

Since September, the IMF has revised 2021 GDP growth upwards for all the Nordic countries. Sweden experienced the largest bounceback from -2.9 % in 2020 to 4.8 % in 2021. Norwegian GDP only fell by 0.7 % in 2020, largely salvaged by offshore activity, managing to recoup a growth of 3.9 % in 2021. GDP in Denmark and Finland increased by 4.1 % and 3.3 % for the year in 2021.

Moving forward, Norway is expected to be the better performer in terms of economic growth with GDP estimated at 4.0 % and 2.6 % in 2022 and 2023, respectively. Sweden follows with 2.9 % and 2.7 % in the next couple of years, while Denmark and Finland also see GDP growth, although not to the same extent.

*Note that the IMF presents GDP, not mainland GDP, as we refer to in the next chapter Macro – Norway

Real GDP, annual change %



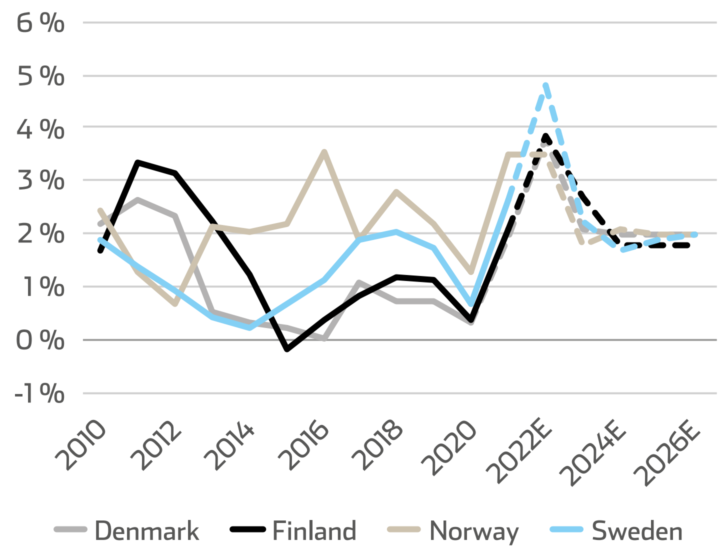
Source: IMF WEO (April 2022)

Inflation risk on the upside

An inflation risk exists in the Nordic region without exception. Thus, the expected consumer price index (CPI) has been substantially adjusted upwards since the September World Economic Outlook (WEO). The CPI in Sweden is expected to rise to 4.8 % in 2022 from an average of 2.7 % in 2021. In Denmark, the CPI was measured at 1.9 % on average in 2021 and is estimated to return to that level in 2023 onwards, with 3.8 % in 2022 as an exception. The CPI in Norway is estimated to remain at 3.5 % in 2022, largely due to energy support schemes. The IMF estimates all Nordic countries to keep control of inflation from 2023 and throughout the projection period.

*Estimation for Finland starts from 2020, meaning that the 2021 figure is just an estimate and not a confirmed CPI measure.

Consumer Price Index, annual change %

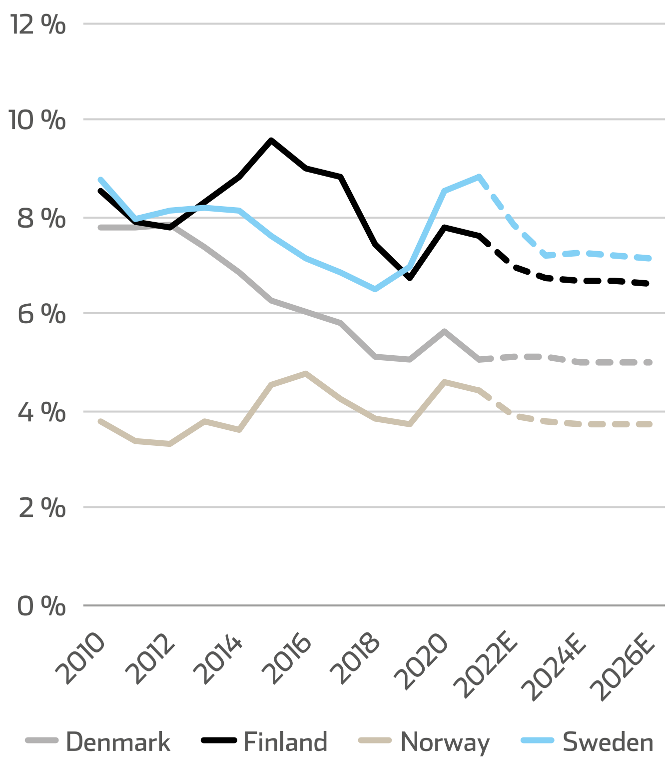


Source: IMF WEO (April 2022)

Similar development, different unemployment rate

Unemployment rates in the Nordics differ significantly, even though annual development is pretty much identical. Except for Sweden, figures show that unemployment levels decreased among the Nordics in 2021. In Denmark, unemployment fell to 5.1 % in 2021, which is the estimated level throughout the projected period (-2027), per se. Unemployment in Norway is the lowest in the region, at 4.4 % in 2021 and is expected to further decline to 3.9 % as the yearly average in 2022. The rate is expected to further decline to 3.7 % in 2024, suggesting a tight labour market. This is actually above the current unemployment level, last recorded in February at 3.1 %. Sweden, on the other hand, was struggling to increase employment levels in 2021, with an unemployment rate of 8.8 %. This level is expected to decrease by 1.0 % in 2022. Unemployment in Finland has experienced a quite severe decline from 2017 and is expected to gradually decrease even further to 6.5 % by the end of the projected period (-2027). Common to all four countries is the lower unemployment from 2021 to 2022 and either a continued decreasing or relatively flat development there onwards.

Unemployment rate, %

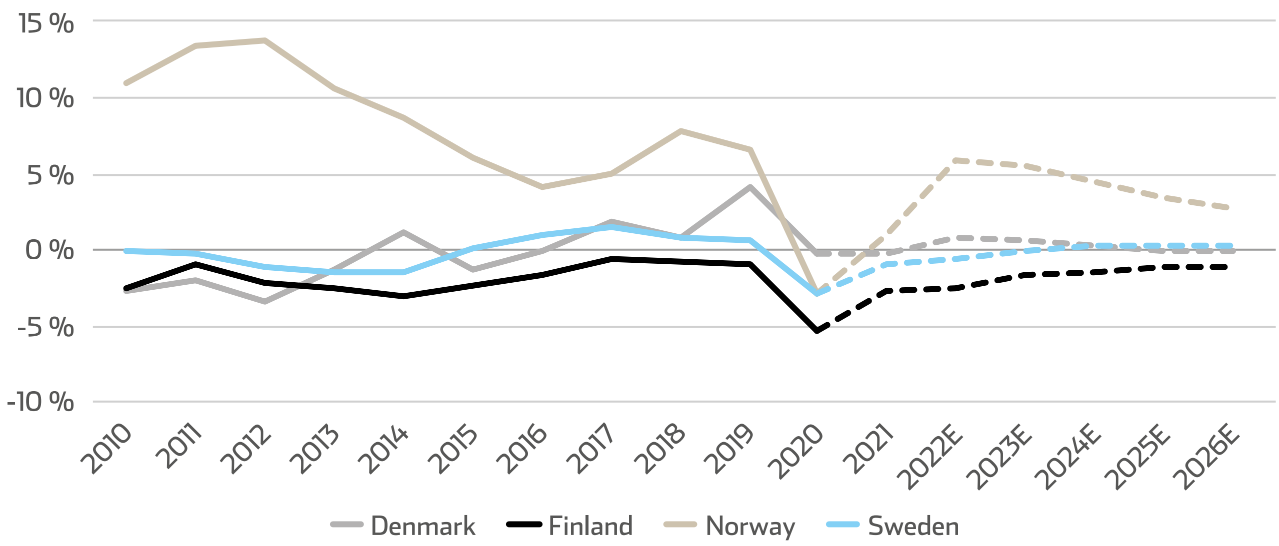


Source: Eurostat, National Statistics Office, IMF WEO (April 2022)

Divergent net borrowing/lending in % of GDP in 2022

Prior to the pandemic outbreak, only Finland was a net borrower as a % of national GDP. This changed drastically in 2020, as all four Nordic countries needed to keep afloat during the troubling times. IMF figures suggest that Norway shifted from net borrowing back to net lending during 2021 at a modest 0.9 %. Net lending is expected to increase to 5.9 % and 5.6 % of GDP in Norway in 2022 and 2023, respectively. In Denmark and Sweden, net lending/borrowing as a % of GDP has been, and is expected, to be relatively neutral within the range of -1.0 % and 1.0 %.

General government net lending/borrowing, % of GDP



Source: IMF WEO (April 2022)

Macro — Norway

Uncertainty weighs in on Norwegian economy's outlook

As the Norwegian economy recovered from nearly two years of pandemic restrictions, attention soon shifted to geopolitical measures as Russia declared war on its neighbouring country Ukraine. Military action is still ongoing in Ukraine and creating geopolitical uncertainty. For Norway, in addition to welcoming refugees to the country, global supply chain bottlenecks and higher energy prices are other adverse outcomes from the war.

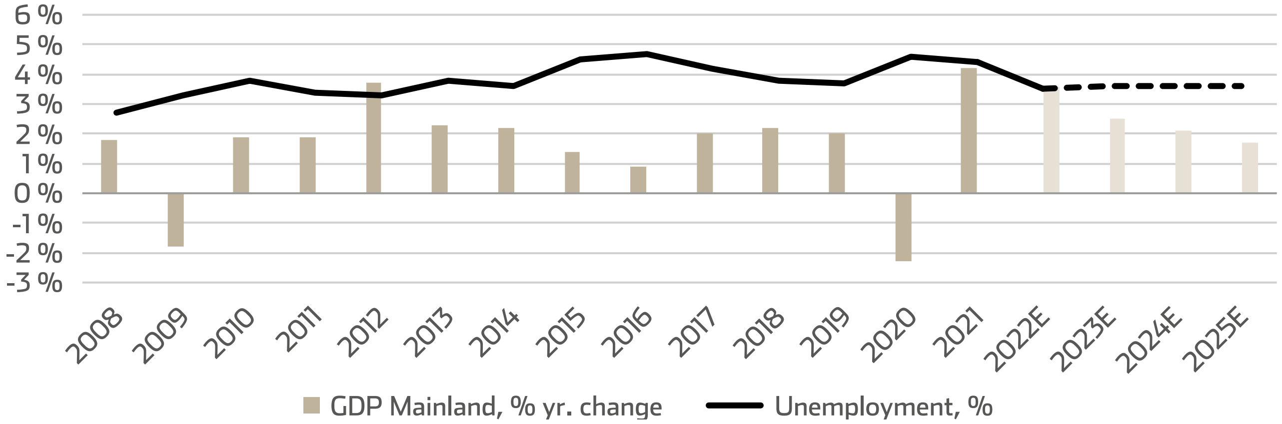
The war in Ukraine is creating uncertainty regarding economic development, although the prospects are that the upswing in the Norwegian economy will continue. Unemployment has fallen to a low level, and mainland GDP is projected exceed the trend in 2022. However, income growth and the price of imported goods is expected to keep inflation figures at a high level, along with energy prices. Stabilising inflation around the target figure in the somewhat longer term, as is being considered, is thus implying a higher key policy rate. Norges Bank's Monetary Policy and Financial Stability Committee has already raised the key policy rate up to 0.75 %. As the Committee is now assessing the outlook and balance of risks, the key policy rate will most likely be lifted gradually, up to around 2.5 % in 2024 according to the Monetary Policy Report for 1/22 from Norges Bank.

Recovery is slowing, but estimated above trend

The economic downturn from the pandemic in 2020 largely recovered in 2021. In fact, November's mainland GDP 2021 was close to what is considered the trend for the Norwegian economy. Despite a new round of restrictions introduced in December 2021, Statistics Norway estimates mainland GDP at 4.2 % for the full year. A continued path to normalisation is expected, and the 2022 estimate is for 3.6 %, still above trend. The downside risk is nevertheless high, reflecting the negative tilt on the 2022 mainland GDP outlook related to international turbulence such as the war in Ukraine and global supply chain bottlenecks. GDP growth in the coming years is expected to gradually decrease to 2.5 % in 2023 and 2.1 % in 2024, assuming sanctions on Russia persist and that the restraints in global supply chains are temporary.

The unemployment rate measured in the Labour Force Survey (LFS) is currently lower than the 2010-2019 average at 3.1 % in February (3-month rolling average). Pandemic restrictions were lifted in February, which has induced a return to normality for the service industries, which were affected the most. However, labour market immigration is expected to slowly pick up again and ease the tightening of the workforce as the risk of a new and stronger virus mutation fades. In addition, a potential negative development in demand in the global economy as a result of the war is expected to negatively affect employment levels in Norway. As such, unemployment is projected to be higher in both 2023 and 2024, at 3.6 %, measured by the LFS.

Mainland GDP and unemployment (LFS), %



Source: Statistics Norway

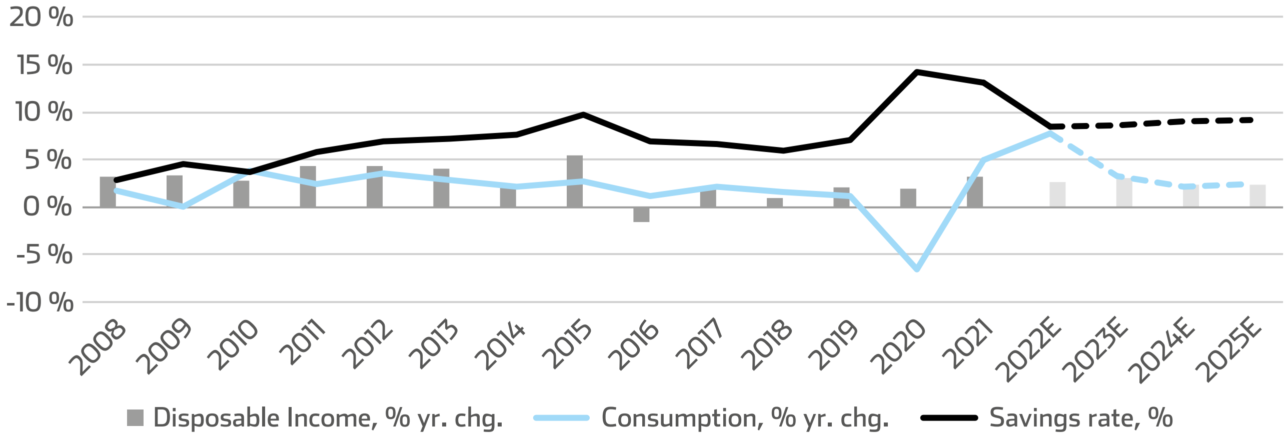
Household consumption to contribute to economic growth

Growth in Norwegian household disposable real income is set at 3.2 % in 2021, up from 2.0 % in 2020. Adjusted for dividend payments, which increased by approximately 25 % last year due to increased dividend taxes in 2022, the growth was 2.2 %, in line with an average 10-year growth. The expected weak growth in real income due to high inflation in 2022 has contributed to a slight downward adjustment from 3.0 % to 2.7 % this year. With an expected declining inflation in the years to come, SSB expects household disposable real income to increase to around 3 % in 2023-2025.

Household consumption was very much back to pre-pandemic patterns in 2021, before the introduction of another round of restrictions in December again contributed to a fall in service consumption. Yet, household consumption grew 5.0 % in 2021, significantly higher than in previous years. Consumption in 2022 is expected to rapidly increase throughout the year, at 7.8 % according to SSB. The estimate is fragile, however, as it assumes that demand will be strong among consumers while high energy prices could potentially slow consumer growth. With an outlook for growth in household disposable real income along with increasing real interest rates and weak housing price growth, household consumption is projected to grow by roughly 2.5-3.0 % as a yearly average from 2023 to 2025.

The record high savings rate in 2020 of 14.2 % was followed by 13.1 % in 2021. In comparison, the average yearly savings rate was 6.7 % in 2010-2019, suggesting large amounts of savings that can be turned into consumption in 2022. SSB has estimated the savings rate to be 8.5 % in 2022, considerably lower than in 2021, but higher than the pre-pandemic average. Interestingly, savings are expected to be slightly higher again in 2024 and 2025, in large part due to increasing real interest rates.

Households' financials, annual change %



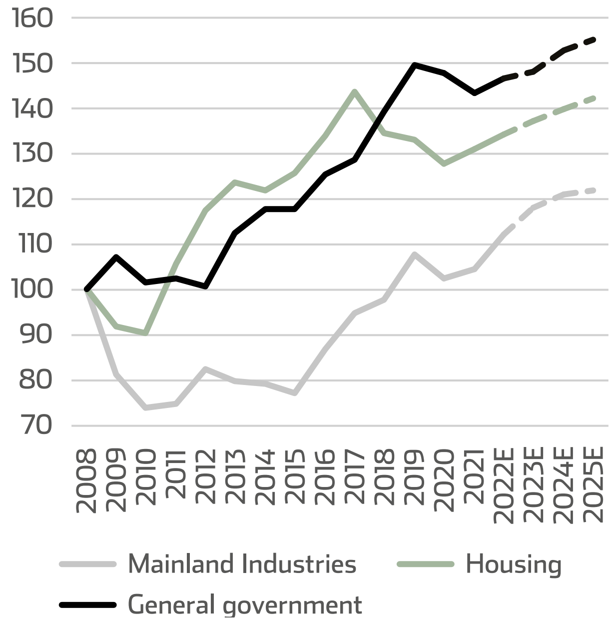
Source: Statistics Norway

> «The record high savings rate in 2020 of 14.2 % was followed by 13.1 % in 2021. In comparison, the average yearly savings rate was 6.7 % in 2010-2019, suggesting large amounts of savings that can be turned into consumption in 2022».

Industry investments expected to pick up in 2022

After a modest increase of 0.8 % in 2021, Norwegian gross fixed investments are expected to increase by 4.5 % in 2022. Industry investments increased by 2.2 % in 2021 after a strong Q4, and companies report that activity will be even higher in 2022 in Norges Bank's Regional Report 1/2022. The survey was performed prior to the Ukraine conflict, however, which may put a lid on demand going forward. Still, SSB expects industry investments to increase to 7.2 % in 2022, followed by 5.3 % in 2023 and 2.4 % in 2024. General government investment is expected to increase by 2.2 % this year, after two years of decline due to pandemic-related support schemes. Housing investments were previously expected to increase significantly in 2021 and 2022 after a 4.0 % decrease in 2020, but growth has been considerably downwardly revised due to increased building costs and geopolitical uncertainty. Mainland housing investments are expected to increase by 2.5 % in 2022, before gradually easing off to around 1.5 % in 2025 due to increasing interest rates.

Mainland investments, index 2008 = 100

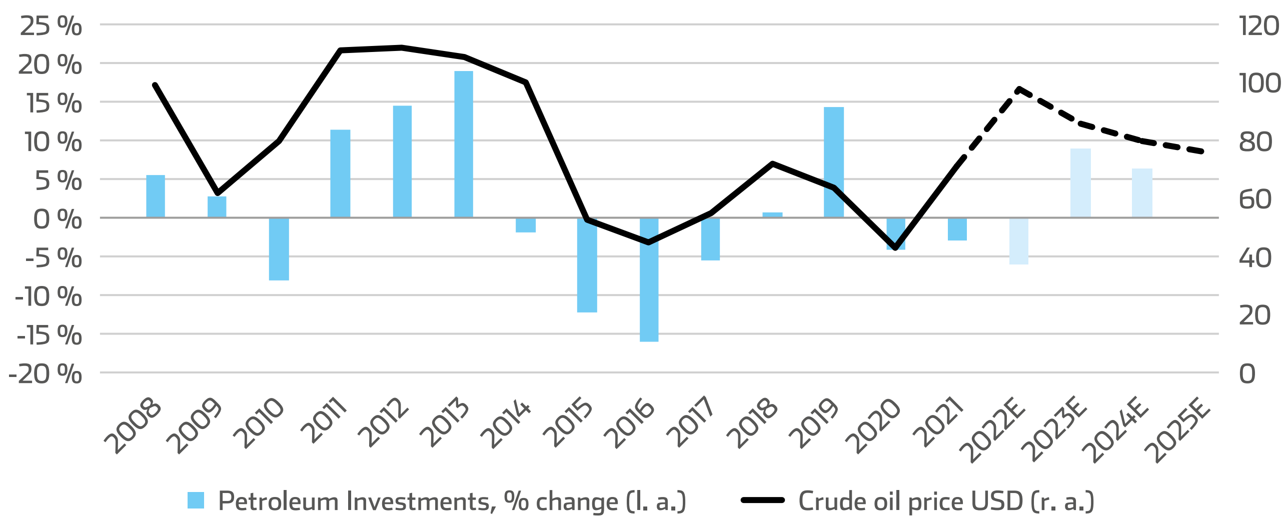


Source: Statistics Norway

Crude oil price trading above USD 100 per barrel

Petroleum investment activity has fallen over the last two years as a result of decreased field development. Oil companies are also reporting relatively low activity in 2022 in Norges Bank Regional Report 1/2022. Even so, favourable taxation on projected oil drilling planned and delivered by year-end 2022 is likely to result in high petroleum activity over the next years. Despite an oil price that has surged after sanctions on Russia were implemented, trading at USD 111.5 per barrel as of 13.05.2022, petroleum activity is estimated to decrease by 6 % in 2022 before production significantly increases by 9 % in 2023. As for the crude oil price, SSB expects the price to drop slightly below 100 at USD 98 per barrel in 2022 and gradually decline to USD 86 and USD 80 per barrel in 2023 and 2024.

Development in petroleum investments and crude oil price



Source: Statistics Norway

Key policy rate lifted due to high inflation figures and a tight labour market

The yearly average consumer price index (CPI) growth ended at 3.5 % in 2021, considerably higher than in 2020 when the CPI increased by a mere 1.3 %. The increase was largely due to record high energy prices, which, in contrast, were historically low in 2020. Energy prices have since continued to surge and measures, such as increasing the key policy rate, have been taken to cope with seemingly high inflation figures. The 12-month change in April 2022 was 5.4 %, which is way above SSB's full-year average estimate of 3.3 % and above the April 2022 12-month rolling estimate by Norges Bank of 4.5 % in the 1/22 Monetary Policy Report. However, productivity growth, along with continued energy support schemes, is expected to mitigate CPI growth moving forward. CPI-ATE (CPI adjusted for taxes and energy) is expected to increase from 1.7 % in 2021, to 2.1 % in 2022, in line with the Norwegian central bank's goal of 2.0 % annual growth. The largest contributor to the growth is increasing food prices.

The import-weighted NOK exchange rate is a nominal effective index based on NOK exchange rates as measured against the currencies of Norway's most important trading partners. The exchange rate involves 44 countries and showed a 5.3 % appreciation of the NOK in 2021. The Norwegian Krone (NOK) has since been weakened to above 10.0 per Euro for most of May. SSB does not see any significant movement in the NOK moving forward and estimates a 1.9 % strengthening from last year's relatively low level.

CPI and NOK (i-44) exchange rate, annual change

Source: Statistics Norway

Sognsveien 72 — Oslo

Malling & Co Næringsmegling has been commissioned by NGI as letting agent for Sognsveien 72.












«Project Home» — Oslo

Malling & Co Property Partners acted as buy-side advisor for Carucel Eiendom AS, acquiring "Project Home", a portfolio of 20 residential properties mainly located at Grünerløkka in Oslo.

The office market

Office rental outlook

Strong office demand from employment boom

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

- Extraordinary high employment growth creates additional demand causing downward trend on vacancy, hence increased competition in popular locations.
- High search activity throughout 2021 and into 2022 is creating activity in the leasing market.
- The employment growth is currently strongest among non-office-using sectors, but still very strong among office tenants as well.
- While office workers gradually return to office, Google data indicates more time at home and fewer people meeting at their workplace than the reference period pre-pandemic in 2020 on average.
- The long-term effects of hybrid working are still uncertain, but so far tenants' leasing decisions are little affected by these changes, and tenants are focusing more on creating an attractive and supportive office environment.
- The pandemic and the ongoing conflict in Ukraine have created supply chain challenges affecting price and availability of construction material, in turn affecting the price and availability on the supply side of the office market.
- Higher inflation is affecting interest rates, putting upwards pressure on yields. Higher construction costs along with higher yield expectations on finished developed properties is increasing the breakeven rents on new developments significantly.
- The expected net pipeline of new construction in Greater Oslo is very low for the coming two years, but there are several refurbishments that will be finalised this year and next year. Most of the later space is already leased out, but some remain in the market.
- The outlook for lower vacancy and increased costs for new space and overall inflation not seen for many years will contribute to pushing rents upwards. We expect the demand side to remain strong throughout 2022 and into 2023.
- We expect rents to increase significantly over the coming 9-12 months, especially in areas with low vacancy, then gradually easing off as employment slows and new construction in pipeline becomes more available.
- Rents in the city centre and western fringe will see the highest growth, but the eastern fringe will also eventually see significant rental growth by the end of this year.
- We still expect flexible office space to increase take-up over the year following reports of high demand.

Comparing our letting agent consensus rents with our previous report reveals that several office clusters have increased rents. As business cases across all landlords are affected by higher costs for fit-outs and new construction and higher interest rates, most landlords need to increase rents in new contracts. Looking at previous booms with similarly low vacancy rates, as we expect for the coming years, rents may increase as much as 20-25 % y/y within the most attractive areas. However, the sentiment is now slightly different, including fear of a nearby stagflation-scenario. All this is factored into our models with an increase in rents in the range of 5-15 % over the coming 12 months, and an additional 5 % over the consecutive 24-month period. The forecast 36 months out is highly uncertain. The city centre and western fringe will continue to see the strongest increase in rents, as vacancy is lowest there and demand is strong and supply limited. Clusters in the eastern fringe will also see rental growth when vacancy levels decrease well into 2022. Areas such as Nydalen and Helsfyr/Ensjø are likely to see the strongest rental growth in the eastern fringe. Below we have specified our rental expectations for our defined office clusters. We expect the clusters to be affected in different ways, depending on their current vacancies, new construction volume, tenant base and general popularity.

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

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

Office rent forecast

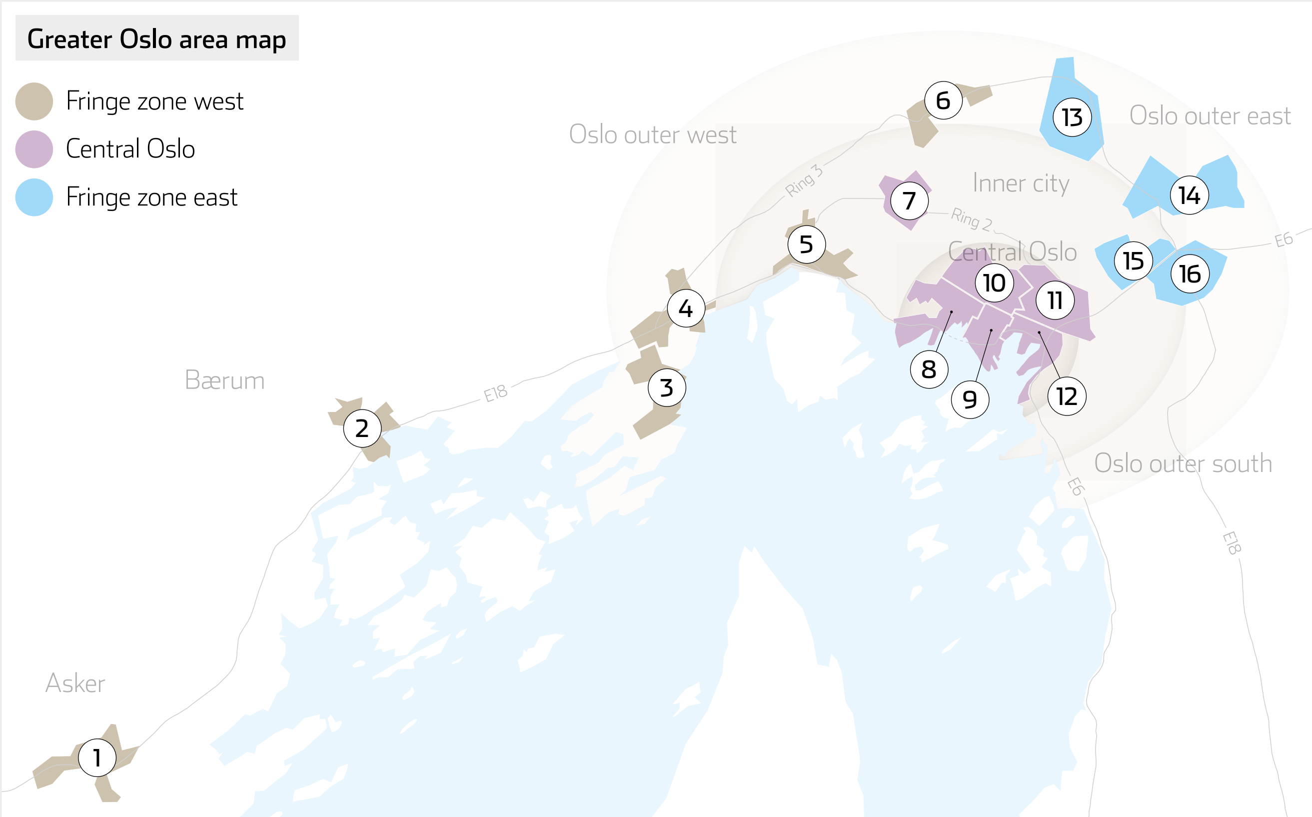
Highly uncertain · Uncertain · Fairly certain

Office cluster	Change Q1 2022 – Q1 2023	Change Q1 2022 – Q1 2025
Asker	5 %	10 %
Sandvika	5 %	10 %
Fornebu	5 %	10 %
Lysaker	15 %	20 %
Skøyen	15 %	20 %
Forskningsparken / Ullevaal	10 %	15 %
Majorstuen	10 %	15 %
CBD	15 %	20 %
Kvadraturen	15 %	20 %
Inner city	15 %	20 %
Inner city East	15 %	20 %
Bjørvika	10 %	15 %
Nydalen / Sandaker	10 %	15 %
Økern / Løren / Risløkka	5 %	10 %
Helsfyr / Ensjø	10 %	15 %
Bryn	5 %	10 %
Oslo total	**12 %**	**17 %**

A selection of the latest lease contracts

Tenant	Moving to address/ office cluster	Moving from address/ office cluster	Space m² (rounded)
KPMG	Dronning Eufermias gate 6A / Bjørvika	Sørkedalsveien 6 / Majorstuen	13 200
Sweco	Urtekvartalet / Inner City East	Drammensveien 260 / Lysaker	10 500
Oda	Kjølberggata 31 / Inner City East	Nydalsveien 24 / Nydalen	5 600
Selmer	Ruseløkkveien 14 / VAB	Tjuvholmen Allé 1 / VAB	4 800
Fellesforbundet	Lakkegata 53 / Inner City East	Lilletorget 1 / Inner City East	4 400
Patentstyret	Valle vision / Helsfyr / Ensjø	Sandakerveien 64 / Nydalen	4 000
OBOS	Turbinveien 2 / N/A	Hammersborg Torg 1 / Oslo City	3 900
Huddly	Stortorvet 7 / Inner City	Haakong VIIs gate 5 / VAB	3 800
PWC	Dronning Eufemias gate 42 / Bjørvika	Additional space	3 800
Bundegruppen	Fyrstikktorget / Helsfyr	Grenseveien 82 / Helsfyr	3 200

Greater Oslo area map

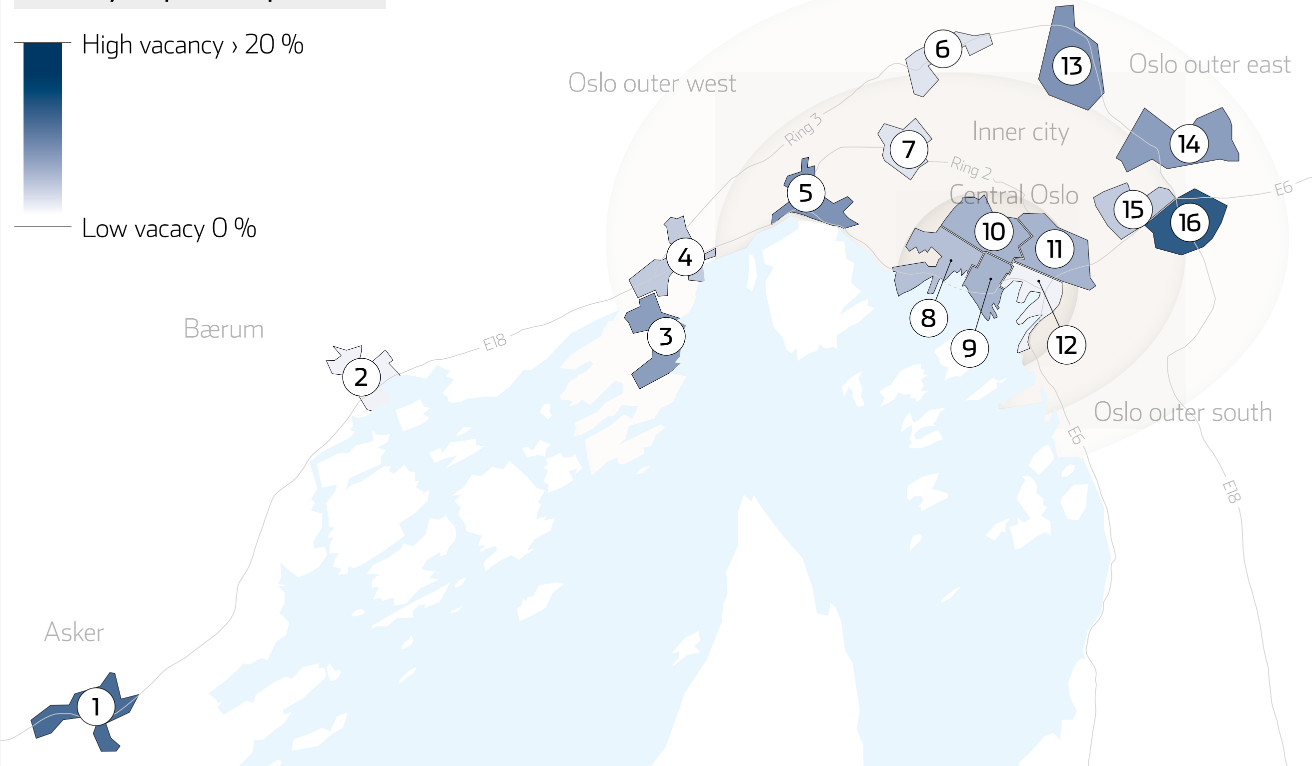


Office rents — Malling & Co consensus (NOK/m²/yr)

	Office cluster	Prime rent*	Past 12 months change (Prime rent)*	Normal rent*	Past 12 months change (Normal rent)*
1	Asker	2 150	0 %	1 600 – 1 800	0 %
2	Sandvika	2 300	5 %	1 500 – 1 800	0 %
3	Fornebu	2 300	15 %	1 500 – 1 800	0 %
4	Lysaker	2 500	4 %	1 950 – 2 300	6 %
5	Skøyen	3 900	11 %	2 700 – 3 200	13 %
6	Forskningsparken/Ullevål	2 700	8 %	1 800 – 2 500	13 %
7	Majorstuen	3 450	8 %	2 400 – 2 700	11 %
8	Vika/Aker Brygge/Tjuvholmen	6 000	7 %	3 800 – 4 600	6 %
9	Kvadraturen	4 000	0 %	2 900 – 3 600	10 %
10	Inner city	4 250	na	2 800 – 3 600	na
11	Inner city east	3 500	na	2 300 – 2 800	na
12	Bjørvika	5 200	11 %	3 500 – 4 300	1 %
13	Nydalen/Sandaker	2 700	8 %	2 000 – 2 400	13 %
14	Økern/Løren/Risløkka	2 450	17 %	1 500 – 2 000	21 %
15	Helsfyr/Ensjø	2 500	na	1 900 – 2 200	na
16	Bryn	2 100	na	1 700 – 1 950	na

*See definition of prime and normal rents on page 16. Please note that cluster definitions have been changed for some office clusters relative to the previous report. In addition, intervals have been adjusted to better reflect the gap between normal and prime rents. As change figures are presented as % change in the reported average of the intervals, they may not reflect actual increase in average obtainable rents for the specific cluster.

Vacancy map as at April 2022



Vacancy and new construction

	Office cluster	Vacancy	Past 12 months change (Vacancy)	New construction: 3-year pipeline (Confirmed)
1	Asker	13 %	0 %	
2	Sandvika	1 %	-1 %	10 000
3	Fornebu	8 %	0 %	30 000
4	Lysaker	4 %	-2 %	18 200
5	Skøyen	9 %	0 %	11 000
6	Forskningsparken/Ullevål	2 %	1 %	2 300
7	Majorstuen	2 %	0 %	20 000
8	Vika/Aker Brygge/Tjuvholmen	5 %	0 %	
9	Kvadraturen	6 %	1 %	10 000
10	Inner city	6 %	0 %	2 000
11	Inner city east	6 %	1 %	23 000
12	Bjørvika	1 %	-1 %	
13	Nydalen/Sandaker	9 %	3 %	20 000
14	Økern/Løren/Risløkka	8 %	-5 %	14 000
15	Helsfyr/Ensjø	4 %	-1 %	33 800
16	Bryn	15 %	2 %	1 800

Source: Finn.no/Malling & Co

Indicators for office demand

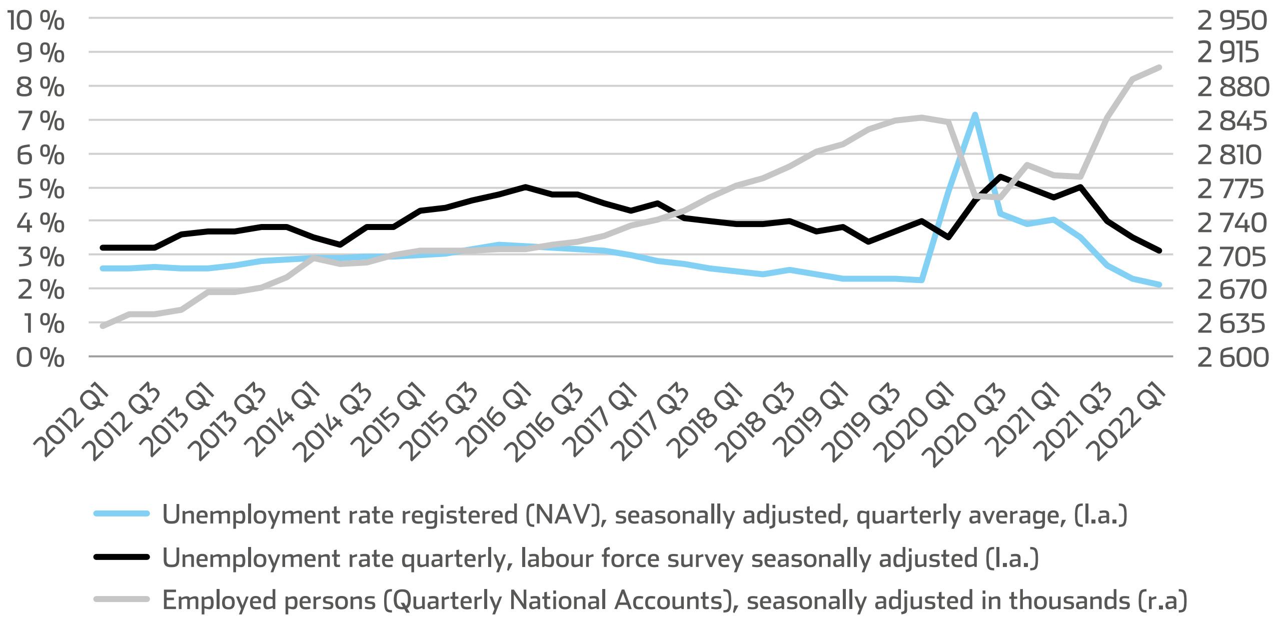
Rebound after the pandemic creates high demand for office space

Leaving the restrictions from the pandemic well behind us, the employment market is back in full swing. While employment growth is very strong as a rebound effect, several factors are pointing towards a corresponding strong employment market. Companies report of a lack of skilled workers, many unfilled positions and decreasing unemployment are all factors which confirm the hot market. While the number of jobs are increasing at a very high pace, this should be seen in the context of the macroeconomic environment and also of the overall employment level in order to assess further growth. Ultimately, commercial real estate demand comes from more jobs, not lower unemployment rates. The fact that we are already at high employment levels points towards limited potential for continued strong growth ahead. On the other hand, the sudden sharp growth seen over the past year will create strong demand over the coming year, and we expect 2022 to see a high growth in rents.

Lowest unemployment level since 2012

Unemployment rates have decreased steadily since May last year, and the latest available rate from the Labour Force Survey (LFS) in February and registered unemployment rate from the Norwegian Labour and Welfare Administration (NAV) in April stands at 3.1 % and 1.9 % respectively. Looking at Norway's main cities, Oslo has registered unemployment of 2.3 %, Bergen 2.1 %, Trondheim 1.3 % and Stavanger 2.0 %. According to the quarterly national accounts, seasonally adjusted, the number of employed passed the pre-pandemic peak from Q4 2019 at 2 847 (in thousands) in Q3 2021, and continued to grow significantly into Q4 2021 and Q1 2022. If the benchmark is set at an extrapolated employment rate, assuming the same growth from 2016 to 2019, we would still need a further 40 thousand employed to reach that level. However, we assume that this continuous employment growth of 1.4 % annually seen from 2016 -2019 would not be possible, since the tightness in the employment market would limit further growth. Given the current unemployment rate and rapid employment growth and demand for labour, the employment market should, in any case, be deemed healthy in terms of Covid factors.

Unemployment rate – registrered (NAV) and Labour Force Survey (LFS), and employed workforce (LFS), 2012-2022

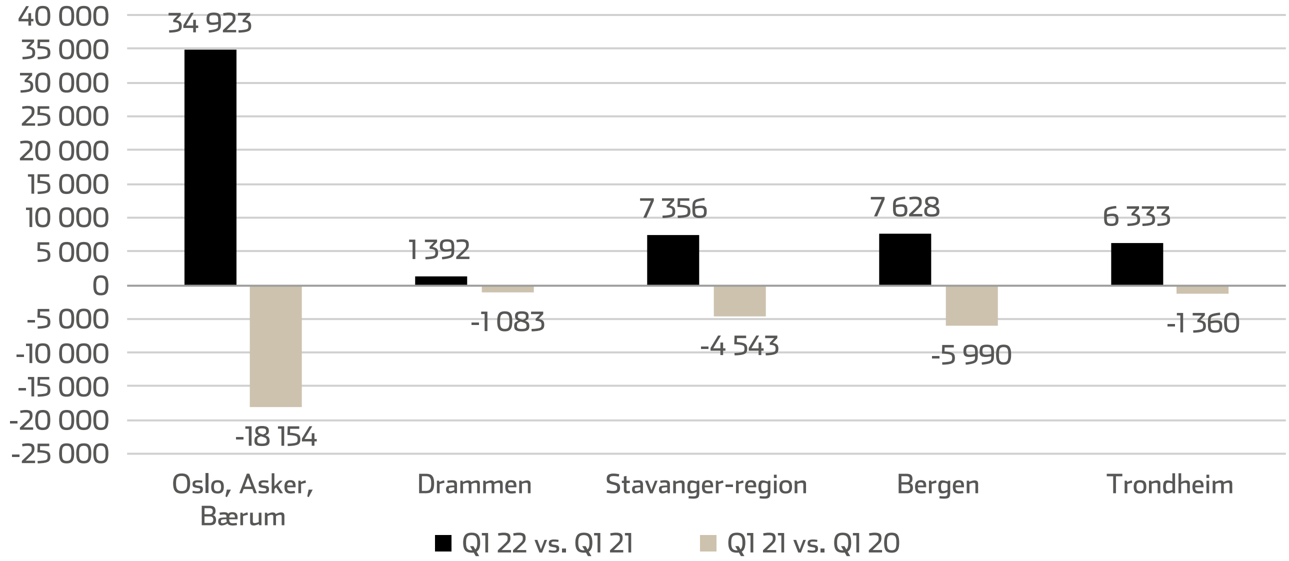


Source: NAV (Norwegian Labour and Welfare Administration), Statistics Norway

High employment growth over the past three quarters

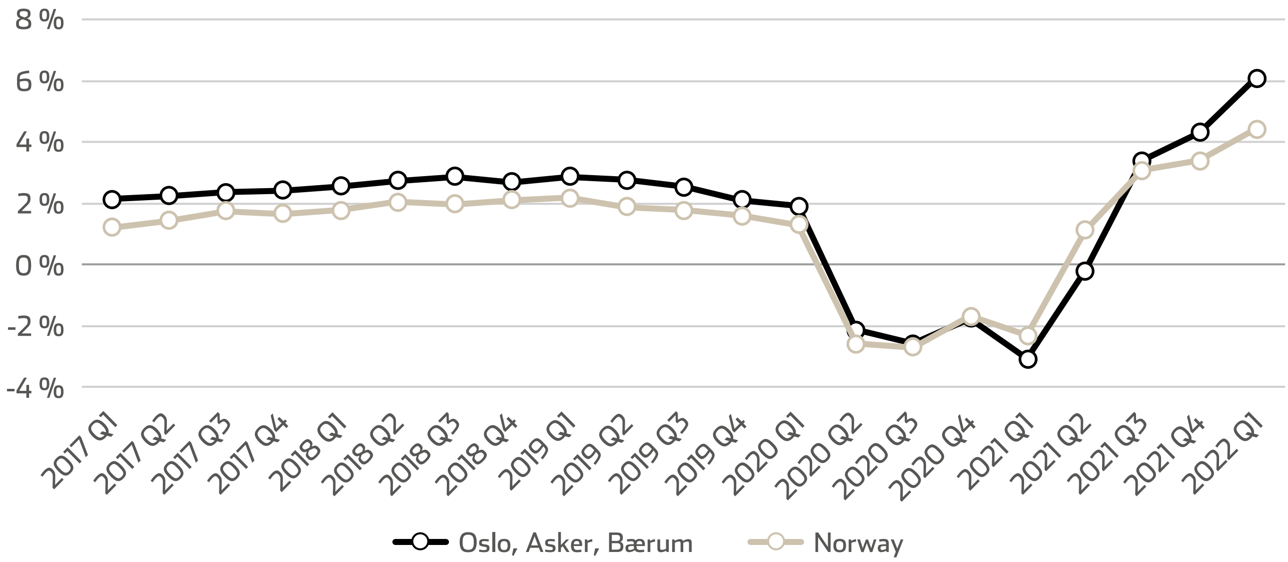
The chart showing the four-quarter wage earner growth indicates that the employment market has been very strong over recent quarters. From Q1 2021 to Q1 2022, all main cities saw high growth in the number of wage earners and growth was higher than the loss in the previous four-quarter period. While the chart below shows absolute numbers, the growth in Oslo, Asker and Bærum stood at 6.1 % over the period, while Trondheim, Bergen and Stavanger saw a four-quarter growth of 5.4 %, 4.8 % and 4.9 % respectively. Drammen recorded 3.2 % growth, just below the Norwegian average of 4.4 %. Split into different sectors, we have previously commented that the employment market was much less negatively affected by the pandemic within typical office-renting professions than the more service-oriented. Q1 2022 wage earner figures reveal stronger growth within typical office work over the past four quarters than typical non-office sectors, but this could change in coming quarters as there were still some pandemic restrictions in place at the start of 2022. We can also see from the wage earner figures that the private sector has seen the strongest growth over the past four quarters, while the public sector has remained fairly stable.

Four-quarter change in wage earners per city-area



Source: Statistics Norway

Four-quarter growth in wage earners

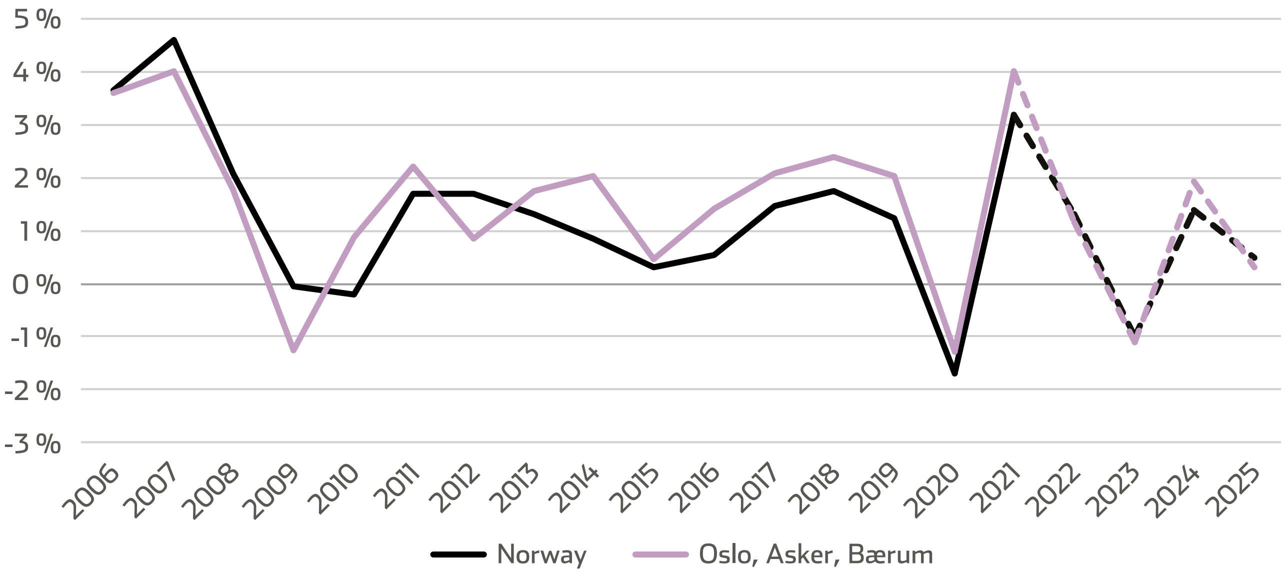


Source: Statistics Norway

Employment growth likely to ease off this year

The already tight labour market with very low unemployment rates and an economic outlook with high inflation and increasing interest rates are expected to put a dampening effect on the labour market growth towards the end of the year. According to the Regional Network Survey from Norges Bank, the share of companies reporting a lack of workforce is at its highest since 2008. The Eastern part of Norway is, according to the survey, the part of the country with the highest lack of workforce. According to SSB, the number of vacant positions passed 100 000 in Q1 2022. This is the highest number ever recorded. Construction and building, accommodation and service, professional and technical services and healthcare are seeing the largest growth in vacant positions from Q4 21 to Q1 22, according to seasonally adjusted figures from SSB. According to NAV's forecast, they expect the unemployment rate to continue downwards until after the summer, before they expect the growth in the workforce to increase more than the growth in employment. However, this means that there is room for further growth in employment, which is positive for demand in the leasing market. Based on the latest estimates from Statistics Norway from March, we believe employment growth will end on a fairly moderate rate this year at 1.3 % measured from Q4 2021 to Q4 2022. We believe that employment growth in the Oslo region will follow pretty much the same suit, based on historical changes relative to the rest of Norway. It should be noted that the continued conflict between Ukraine and Russia may change the economic outlook for Norway and, hence, also the labour market going forward. Based on SSB's estimates from March, it is assumed the conflict will last for about two months. SSB will revise its estimates in June. According to our estimates, assuming a historical lag between changed employment and demand for office space and taking into account contract length and existing available space in current contracts, we are expecting to see increased demand for about 85 000 m^2 new office this year, 68 000 m^2 in 2023 and 105 000 m^2 in 2024. However, sudden changes and disruptions to the leasing market may change the timing and distribution of this additional demand going forward.

Growth in registered employment Q4/Q4 and employment growth from national accounts, with forecasts



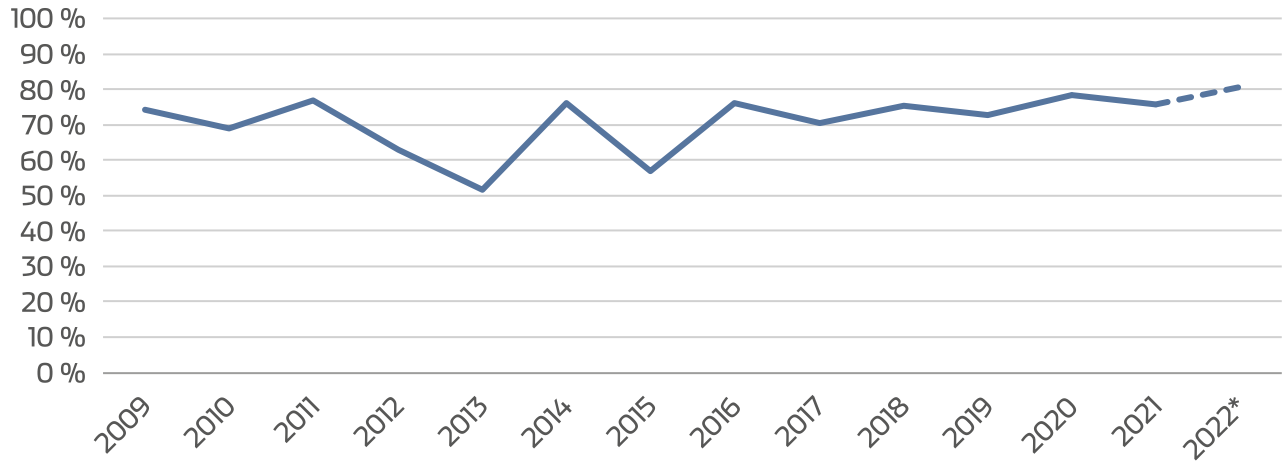
Source: Statistics Norway

«We are expecting to see increased demand for about 85 000 m^2 new office this year, 68 000 m^2 in 2023 and 105 000 m^2 in 2024».

Search for office space remains at a high level

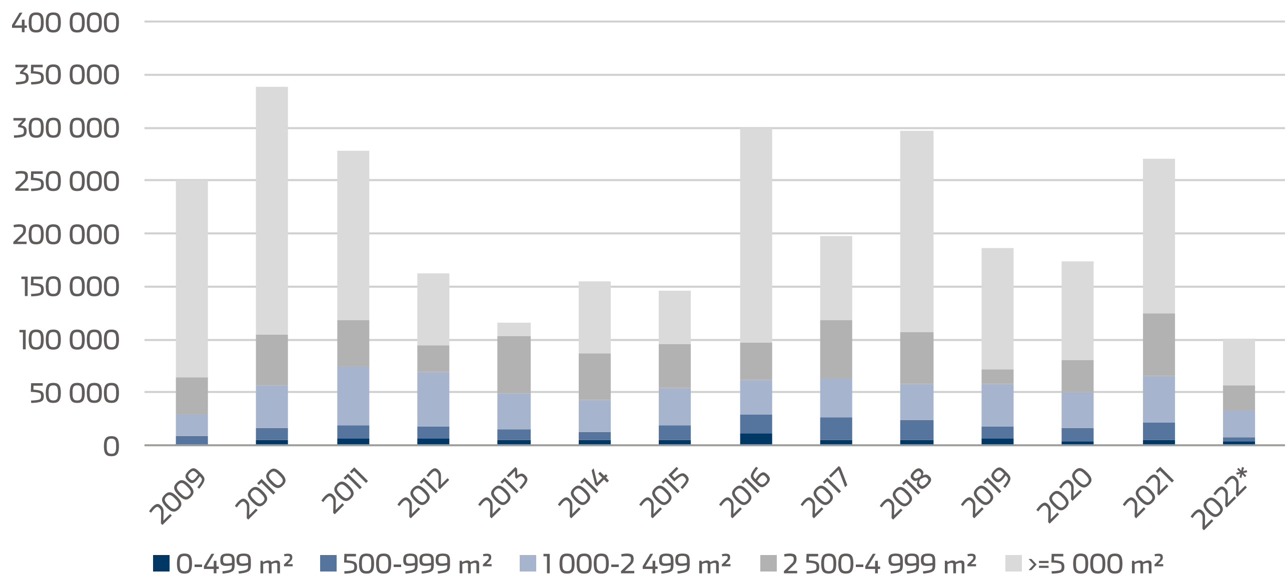
Our usual counting of office searches shows that the high demand from office searches seen in 2021 relative to 2020 is continuing into 2022. At the editorial time of this report, 13 May, we had just passed searches for 100 000 m^2 office space in Greater Oslo. This is about the same amount we saw last year, although the number of searches is up from 48 to 75 YTD last year vs. this year. In that sense, the pace and activity in the search market is much higher this year than last. This is in line with our tenant rep team, who can report sharp increases in activity, both within searches and workplace strategy. The latter is being increasingly put to action as tenants return to office. According to Google data, we still have a higher rate of "work from home" than pre-pandemic, although this may have several natural explanations, such as some tenants not having enough space within their existing lease to offer everyone a quiet space to work when needed. The competition between the office and the home office has created additional focus on attracting employees to the office in the workplace strategies currently being implemented. Flexibility, technology, location and overall product attractivity is still a main focus among tenants. Central location is more important than ever before, as we have noticed that over 80 % of office searches have been directed at central Oslo so far this year. This trend is also seen in other markets around Europe.

Share of demand for central Oslo office clusters



* As of 13 May 2022 Source: NEMEET/Malling

Office searches registered in Greater Oslo (2009-2022*)

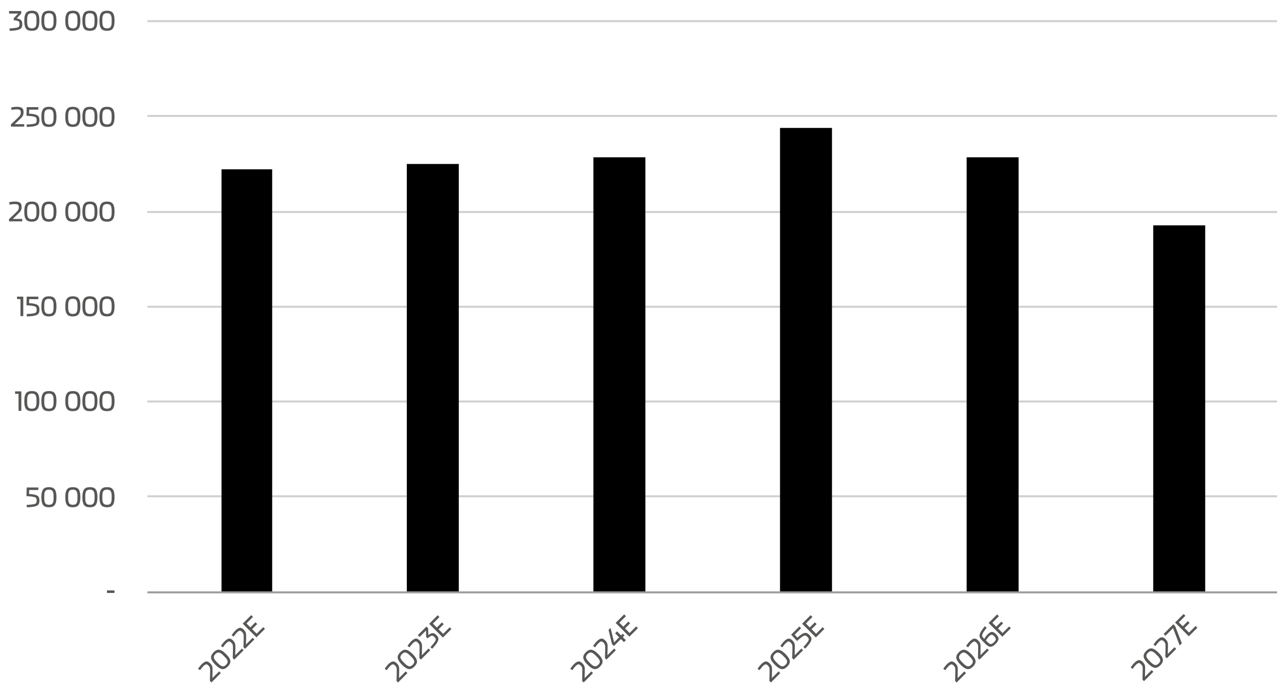


*As of 13 May 2022. Source: Malling & Co, NEMeet

High activity in the leasing market expected

Search volumes for + 5 000 m² tenants are now expected to remain fairly stable at between 220 000 - 230 000 m² per year over the coming two years with a slight increase to almost 250 000 m² in 2025. This is based on expiry profiles only and may increase due to high demand growth caused by employment growth. It is also important to remember that estimates further out on the timeline are likely to be on the lower side, as expiry dates tend to increase towards the target year. Regardless of the actual search volumes, the pandemic has postponed ongoing processes for tenants on search over the past years. As we are now back from the pandemic restrictions, tenants are also more comfortable with taking decisions regarding their future space. We believe that many unresolved searches will end in 2022 as a result of this decision bottleneck seen over the past two years. Vacancy is thus decreasing. Rising construction costs accompanied by higher interest rates pushing up yields, increase breakeven rents on refurbished or new space tenants on search are facing. As future construction is limited due to a lack of anchor leases signed during the pandemic, the increased short-term demand sees few options in new developments, especially in the city centre. This will continue to push vacancy rates down and rents up. We are also seeing more tenants signing leases in the fringe, where available space in newbuilds have been easier to find.

Estimated aggregated demand from >5 000 m² tenants*



*Estimate based on historic search data (2019-2021) and known lease expiries. Source: Arealstatistikk/Malling.

«Rising construction costs accompanied by higher interest rates pushing up yields, increase breakeven rents on refurbished or new space tenants on search are facing».

Østre Aker vei 25 — Oslo

Malling & CO Næringsmegling has been commissioned by Skanska as letting agent for Østre Aker vei 25.

Construction activity in Greater Oslo

Construction volumes threatened by increasing construction costs

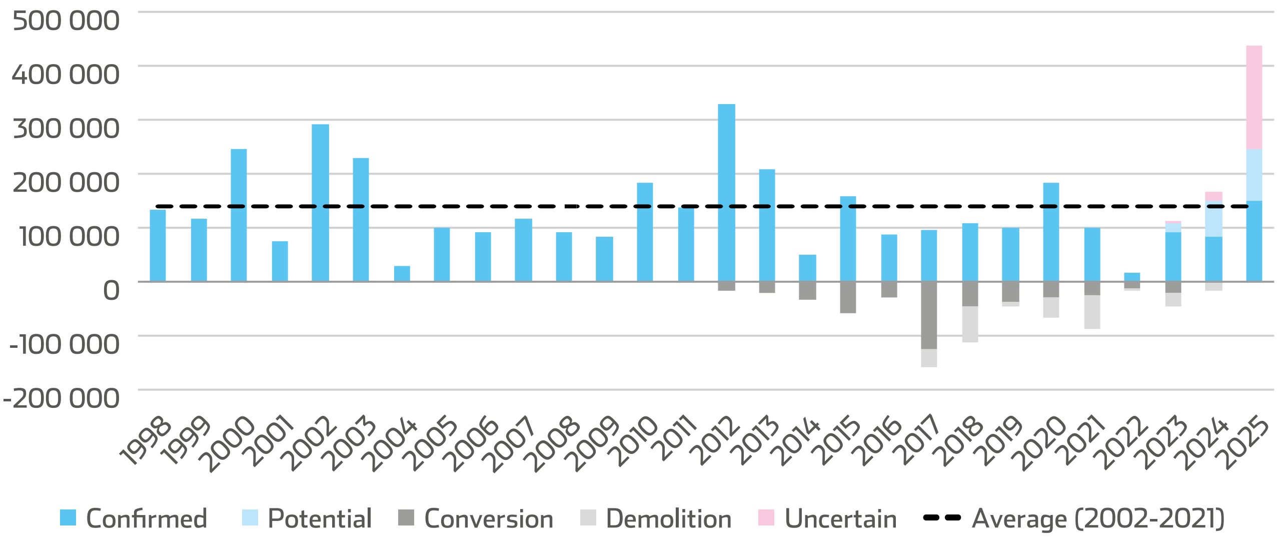
Office construction activity in Greater Oslo will be historically low in 2022, with only 18 200 m² added to the market. Supply of new and modern offices will mainly be accounted for through refurbishment activity, expected at 98 400 m² this year. From 2023, activity is expected to improve, with 92 600 m² and 85 300 m² of confirmed volumes estimated completed in 2023 and 2024, respectively. 2025 is expected to be above the 20-year average at approx. 140 000 m², with 151 800 m² already confirmed. However, with the rapidly increasing construction costs currently witnessed in the market, consideration should be given to potential delays in the supply side.

An overview of new construction in Greater Oslo

Gross new construction of office space in Greater Oslo concluded at 99 700 m² in 2021, with significant projects including VIA, Valle View and Universitetsgata 7-9 being built. The 2021 construction volume is well below the 20-year average of approx. 140 000 m² per year, however significantly higher than what is in the pipeline for 2022. In 2022, Gullhaug Torg 5, Hasle Tre and Bogstadveien 11 are expected to be the only new construction projects being completed, together totalling 18 200 m². This is the lowest construction volume witnessed in Greater Oslo over the recorded time period, going back to 1998. 2022 completion of refurbishment projects is, however, expected to be stronger, estimated at 98 400 m². The most important projects include Kommunegården, St. Olavs plass 5 and Karenslyst Allé 12-14.

From 2023, construction of office space is expected to be back at more "normal" levels, however still below the 20-year average in 2023 and 2024. In 2023, sizeable projects, such as Aker Tech House, Veksthuset and Fridtjof Nansens vei 12, are expected to be completed, contributing to a confirmed new construction volume of 92 600 m². Another 18 000 m² is awaiting tenants and is still considered as "potential" for 2023, however, as we are already well underway in 2022, it is becoming more and more likely that undecided projects will move over into 2024. The confirmed construction volume for 2024 is 85 300 m², and another 65 700 m² and 17 800 m² may be added as potential and uncertain projects, respectively. In 2025, completion of newbuilds is expected to significantly pick up, with confirmed construction volume already at 151 800 m². This is mainly due to the completion of Construction City, step one of the new governmental quarter and NGI Campus. Another ~290 000 m² may be added through potential and uncertain projects.

Historical and estimated new construction, conversion and demolition in Greater Oslo, total m²



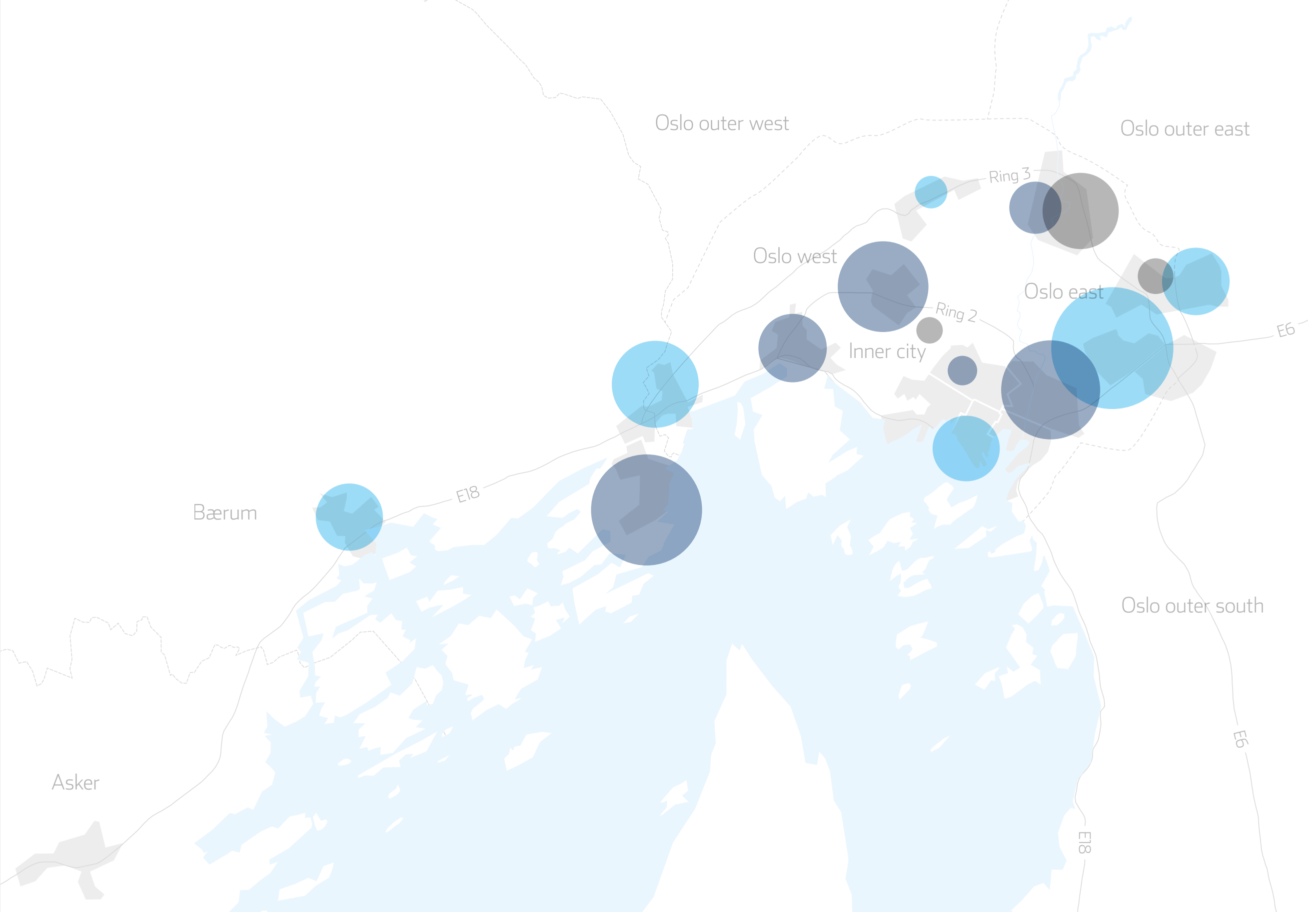
Source: Malling & Co, Norgebygges

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

Short-term new construction and cost risks

As we have seen, construction of new office space in Greater Oslo over the next three years is expected to be below the average seen over the past 20 years. With the increasing construction cost that is currently being witnessed in the market due to first the pandemic and now also the war in Ukraine, we may see delays in these projects, thus further lowering the construction volume in the short term. The material cost of building residential properties as published by SSB has increased by approx. 25 % since February 2020, right at the outburst of the pandemic. It is the cost of woodware and steel especially that has seen large increases over the past couple of years. Even though this index is for residential property and not commercial property, it is the most proximate reported index to use for tracking building cost. With a higher cost of material, contractors will require higher prices from the developers, and negotiations of new terms could take time and thereby delay projects. In addition, the risk of not knowing how the construction costs will evolve over time could put projects at risk, as it will be difficult and time-consuming to negotiate who will carry this risk. A third point is that higher building costs may turn projects uncommercial, resulting in either postponements or even cancellations. To secure an appropriate return on the projects and avoid them turning uncommercial, rental prices will have to increase with the increased cost of materials. In some regions, such as the eastern fringe zone, this could turn out difficult as vacancy levels are already high, currently at about 8 %. The eastern fringe zone is expected to account for 69 600 m^2 or 35 % of the construction volume in 2022-2024, a volume that will therefore face the risk of being delayed or cancelled. However, most of this volume will not be finalised until 2024 and much can happen to both building costs and vacancy rates over two years.

Confirmed new office buildings that will be finalised in 2022-2024, total m^2



2022	2023	2024
●	●	●
0 % Vacant*	34 % Vacant*	23 % Vacant*

○ 15 000 m^2

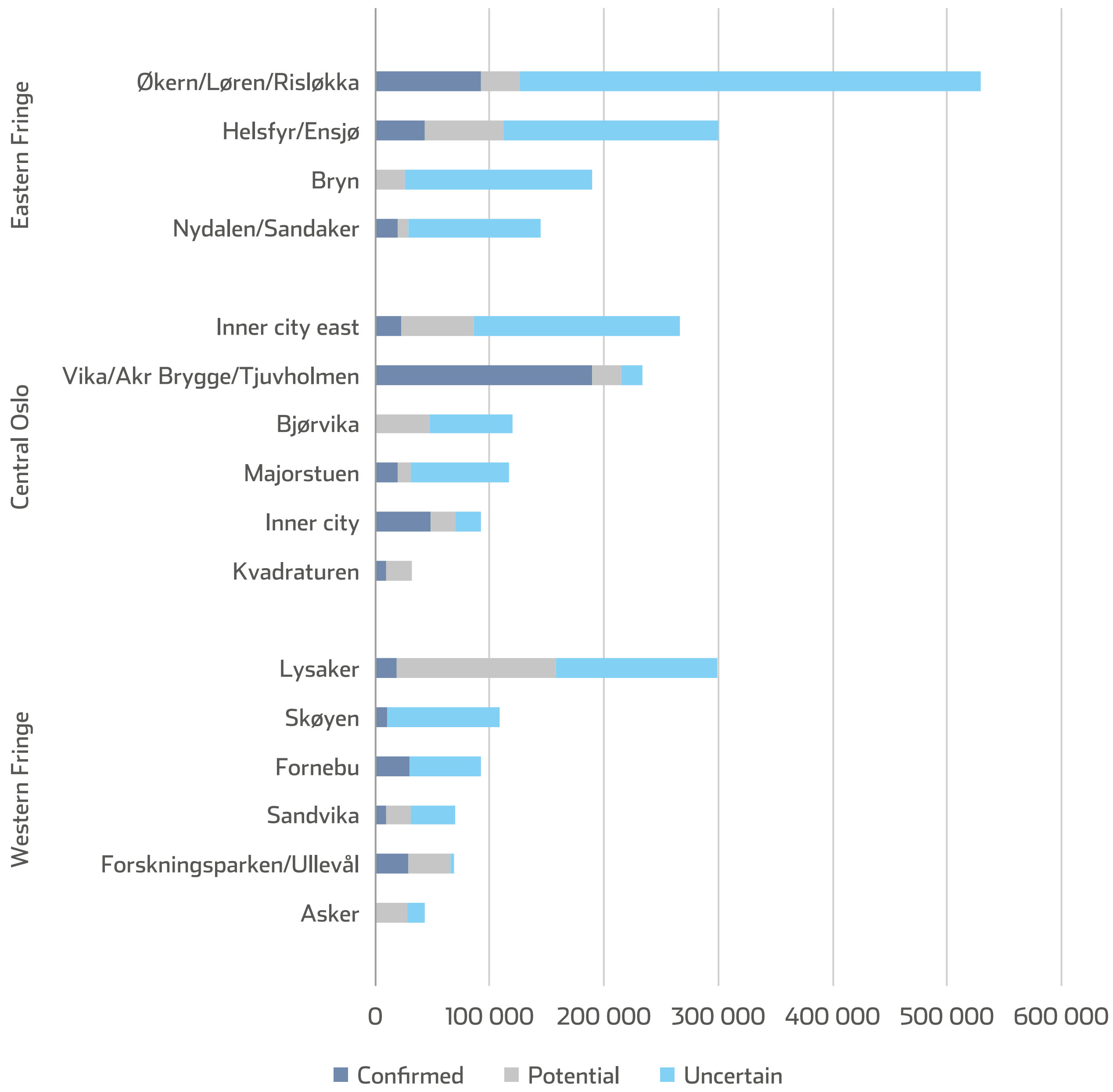
The size of the bubble represents the volume of new office buildings in each office cluster.

*Share of total yearly construction volume vacant. Source: Malling & Co

Long-term new construction

At the time of writing, there is 548 000 m² in the confirmed pipeline in Greater Oslo from 2022 onwards. 198 000 m² or 35 % will be constructed in the short term, defined as 2022-2024, while the remaining 65 % will be constructed in the longer term. 30 % of the confirmed pipeline is estimated to be completed in 2025, whereas the remaining 35 % is attributed to development of Filipstad, which is planning on adding 190 000 m² of office space to the market. HAV Eiendom has been given the responsibility of developing the area and is planning to start construction in 2026 with an estimated completion time of 10-20 years. More than half of the confirmed pipeline includes projects located in Central Oslo. In addition to the confirmed pipeline, there is 556 000 m² of potential volumes and 1 690 000 m² of uncertain volumes that may be added to the market from 2022 onwards. Almost 50 % of these volumes are located in the eastern fringe zone and include major projects, such as Økern Sentrum, Bryn Sentrum and Eikenga. Most of the projects in the eastern fringe zone are, however, uncertain projects with regards to the likelihood of being brought to life, size and timing. The western fringe zone is dominating among projects classified as "potential", to a large extent driven by the planned development of Lilleakerbyen at Lysaker.

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



Source: Malling & Co

Urtekvartalet — Oslo

Malling & Co Tenant Representation has advised Sweco with the development of a new, tailormade fit-for-future workplace concept for their 800 employees.

Office vacancy

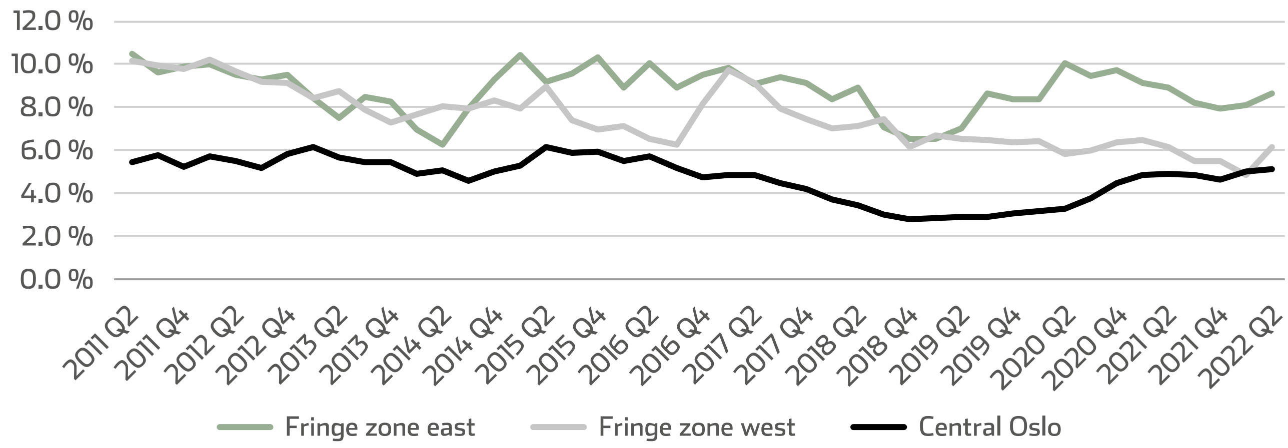
Increasing vacancy levels so far this year, but we expect a turn

Vacancy rates in Greater Oslo have been increasing so far this year. New large premises are now being advertised in the fringe zones and, in the central areas of Oslo, many of the premises that were previously part of the supply have now become vacant. However, there is strong growth in the employment market and, at the same time, construction volumes are low, making us believe that vacancy levels will decrease over the remainder of the year.

Vacancy in Greater Oslo

After seeing decreasing vacancy rates in Greater Oslo throughout 2021, bottoming out at 5.6 % Q4 2021, the trend has turned in 2022. Vacancy has increased by 50 bps and now stands at 6.1 %. The largest hikes are found in the fringe zones, with a 70 bps jump in both the eastern and western fringe zone, ending at 8.6 % and 6.2 %, respectively. Bryn and Nydalen have the highest vacancy rates in the east, both up 3 percentage points from Q4 2021 to 14.8 % and 9.3 %, respectively. The large mixed-use premises at Ole Deviks vei 10, Bryn, offering approx. 18 000 m^2 of office space and 10 000 m^2 of storage, are now being advertised in the market as ABB is moving out. In the western fringe zone, Asker and Fornebu are seeing the greatest vacancy rates, at 12.8 % and 7.5 %, respectively. Vacancy at Fornebu has increased by 2.5 percentage points following the advertisement of Snarøyveien 30, offering in total 31 000 m^2 of office space. Vacancy in Central Oslo has also increased marginally from 4.7 % to 5.1 %, as several new small- and medium-sized premises have been advertised in the market. These include, among others, Storgata 51, Hagegata 32 and Rosenkrantz gate 22. In addition, several premises have changed from being part of the supply to being part of the vacancy, meaning that it is available within 12 months. Supply, on the other hand, includes all office space being advertised in the market, regardless of when the space is available for tenants. Some examples of this switch from supply to vacancy include Hausmanns gate 21 and Drivhuset in Urtekvartalet. Vacancy in Central Oslo is still very low compared to other areas, as most companies prefer a city centre location, a trend that has intensified after the pandemic. The lowest vacancy rate among all clusters is found in Bjørvika, where vacancy is basically at zero.

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



Source: Malling & Co, Finn.no

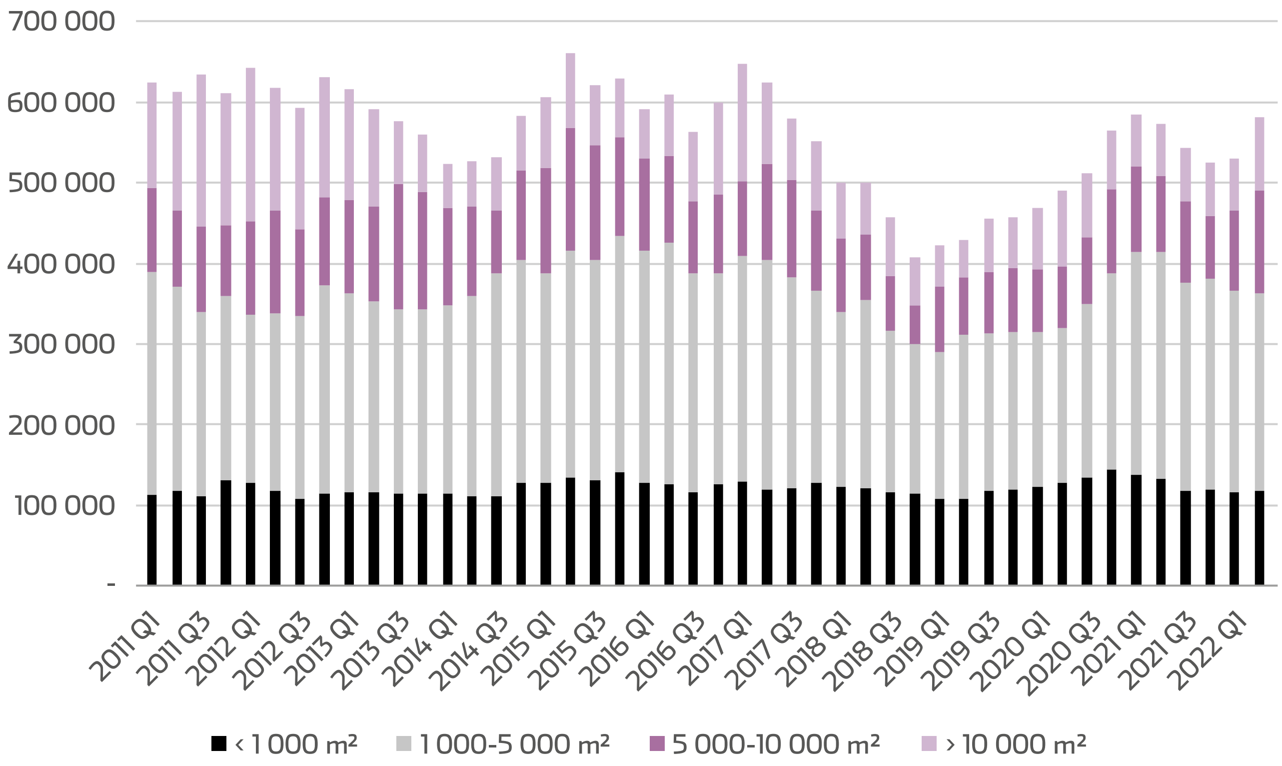
How we measure vacancy and supply — When analysing the supply side of the rental market, we want to describe what is actually available for prospective tenants, not only vacant space. Therefore, we split the total amount of offered office space into two definitions: supply and vacancy. Supply includes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

Description of market supply

The volume of vacant office premises in Greater Oslo currently stands at approx. 580 000 m². This is an increase of almost 10 % since our last market report in Q4 2021, when the vacancy was approx. 530 000 m². It is primarily the advertisement of larger offices that has increased. Premises in the range of 5 000 – 10 000 m² have increased by 62 % from about 80 000 m² to about 130 0000 m², and premises larger than 10 000 m² have increased by 35 % from about 70 000 m² to about 90 000 m². Properties that have been added in the range 5 000 – 10 000 m² typically include centrally located premises, such as the already mentioned Storgata 51 and Hausmanns gate 21, whereas the largest premises are found in the fringe zones and include Ole Deviks vei 10 and Snarøyveien 30, where tenants have left in favour of other projects.

The total volume of office space on the online marketplace finn.no in Greater Oslo is now at approx. 750 000, 30 % higher than the vacant office space available within 12 months. The difference between vacancy and supply was high over the course of 2021, averaging at 50 %, but is now on the way down. Many newbuilds and refurbishments will be completed at the beginning of 2023 and have thus switched from being part of the supply to being part of the vacancy. At the same time, fewer new premises with completion more than 12 months out have been added to the market. The difference between vacancy and supply is largest in Central Oslo, currently at almost 50 %. This heightens the risk of vacancy increasing in this area going forward, however, as centrally located offices are highly attractive, we believe that the space will be absorbed rather quickly and before they enter vacancy.

Vacant office space split by size interval, total m²



Source: Malling & Co, Finn.no

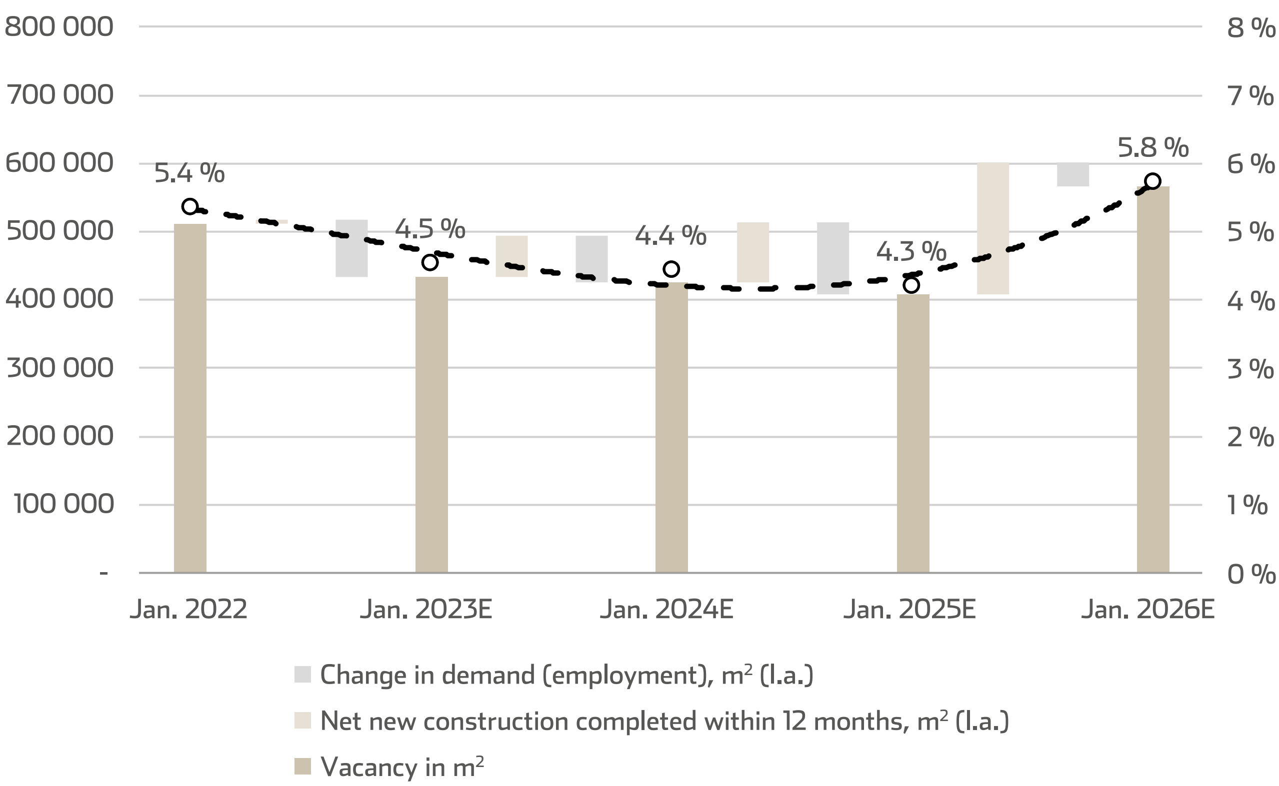
«Many newbuilds and refurbishments will be completed at the beginning of 2023 and have thus switched from being part for the supply to being part of the vacancy».

Vacancy going forward

When estimating future vacancy, we subtract the estimated change in absorption of office space and add the estimated change in office supply to vacancy measured at the beginning of the respective year. This is a simplified way of forecasting vacancy, as there are substantial variations in timing, both in employment and new construction, which complicates the estimate. There is a lag between increased employment and the acquiring of more office space, as companies would either need to terminate the current contract or add an additional contract to immediately accommodate for the increased need of space. Therefore, the lag typically follows the expiration profile of leases. We attempt to adjust for this lag by spreading the change over four years, which has proven to be a relatively realistic estimation method over time. However, the changes seen during the pandemic may alter this lagging effect. It is also important to note that the forecast only provides an indication of the direction of which the vacancy trend will take given current information, and that the exact timing may change as new information about how the employment market is developing is made available.

We forecast the declining vacancy rate seen through 2021 to continue well into the future. The net new construction volume is very low in 2022, at 6 000 m^2, and a strong employment growth in 2021 that we believe will persist throughout the year of 2022 will significantly increase the demand for office space, more than the new construction. Starting from a 5.4 % vacancy rate at the beginning of the year, we forecast vacancy to be around 4.5 % at the end of the year. As 2022 has started off with an increasing vacancy rate, vacancy must see a considerable decline for the remainder of the year for this to hold. From 2023 onwards, employment growth is expected to be more moderate, Statistics Norway estimating it to be 0.5 %-0.8 % per year over the 2023-2025 period. Due to the lag between increased employment and demand for new office space, the strong employment growth in 2021 and 2022 is still expected to keep demand for new office space high in 2023 and 2024. On the other hand, the new construction volume is expected to be considerably higher than in 2022, at net 57 400 m^2 and 95 500 m^2, respectively, making the vacancy bottom out by the end of 2024. We forecast vacancy to be 4.4 % by the end of 2023 and 4.2 % by the end of 2024. In 2025, the confirmed construction volume is expected to be above average, and there is much potential volume that can be added to the pipeline. At the same time, the high employment rates from 2021 and 2022 will have minimal effect on required new office space. Thus, we forecast vacancy to increase substantially up to 5.7 % by the end of the forecasting period.

Estimated vacancy trend in Greater Oslo by year-start



Source: Malling & Co, Finn.no

Øvre Vollgate 13 — Oslo

Malling & Co Næringsmegling was the letting agent when Cegal AS leased 3 000 m² in Øvre Vollgate 13.

Stavanger

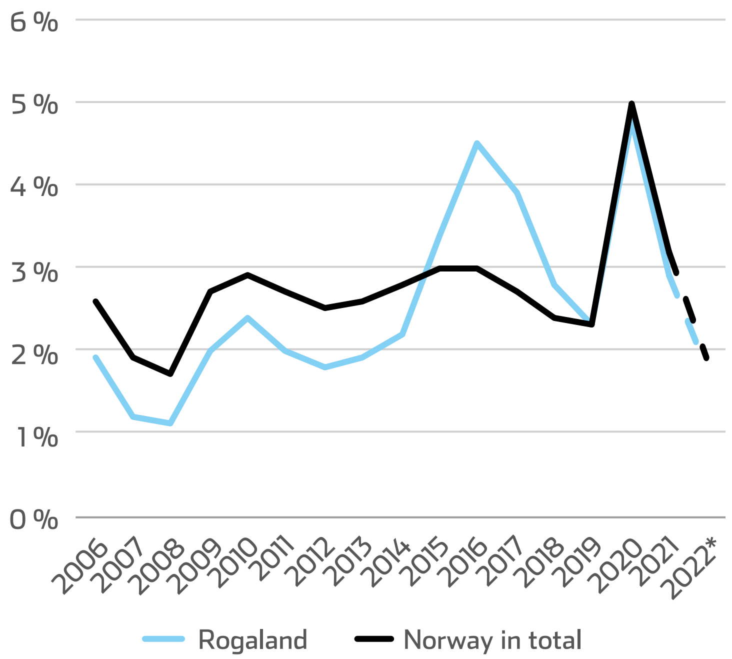
Flourishing market

The Stavanger market is looking brighter than it has done for several years. The oil and gas industry is flourishing, with the Brent Oil price currently trading at above 100 USD/barrel, driven by both the war in Ukraine and limited supply of energy. In addition, as the world is transitioning away from fossil fuels, several new companies within renewable energy have been established in the region. Much of the same competences that have been important for the exploration and production of oil and gas can be applied to energy generation from other sources, for example offshore wind. Further on, IT companies have also established a strong presence in the region. These trends have led to a strong employment market in the Stavanger region, with the unemployment rate down at 1.80 % in April 2022. Such low levels have not been seen since before the oil price drop in 2014. The market for commercial real estate has followed suit, with office rental prices increasing and vacancy rates decreasing. Luckily, there is ample supply of office premises in the region, welcoming more tenants.

Unemployment back at pre-2014 levels

Unemployment rates have steadily decreased since the peak in 2020 following the outbreak of Covid-19, both in the country as a whole and in the Stavanger region. The unemployment rate in Rogaland, as measured by the Norwegian Welfare Administration (NAV), has gone from a high of 4.80 % in 2020 to 1.80 % in April 2022, which is the lowest level seen in the province since 2012. This is also lower than the unemployment rate for Norway in total, which stands at 1.90 % as of April. The lowest unemployment rates are found in the smaller districts of Rogaland, whereas Stavanger and Sandnes are seeing rates of 2.0 % and 2.2 %, respectively. Nevertheless, these are still low unemployment rates, representing the optimism currently found in the region. A booming oil and gas market combined with new establishment within sectors such as renewable energy and IT has led to a new hiring wave.

Registered unemployment Rogaland (incl. temporary lay-offs)



*As at April 2022. Source: NAV (Norwegian Labour and Welfare Administration)

«A booming oil and gas market combined with new establishment within sectors such as renewable energy and IT has led to a new hiring wave».

Office market

After being a challenging market for several years following the oil price downturn in 2014, the Stavanger office market is finally looking brighter. Over the last year, activity in the region has significantly picked up and companies are confident that this will continue into the future. Many are therefore in need of expanding their capacity. At the same time, the construction of new office premises is still rather limited. With increasing demand for commercial real estate combined with a flat development in supply, we are witnessing increasing rents and decreasing vacancy rates.

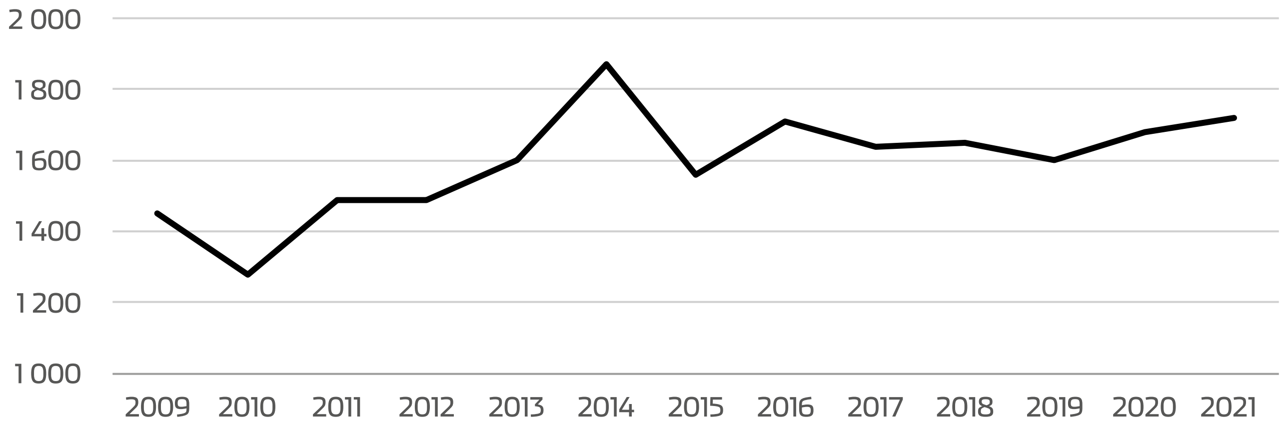
The average office rent in the Stavanger area as reported by Arealstatistikk has been on a declining path since 2014, bottoming out at 1 600 NOK/m^2/yr in 2019. From 2020 this trend turned and, in 2021, the average rent was up 7.5 % from the bottom, ending at 1 720 NOK/m^2/yr. The top rent, consisting of the 15 % most expensive contracts, was up 8.2 % from 2019, at a value of 2 640 NOK/m^2/yr in 2021. Approx. 30 % of the contracts signed in 2021 had a rental price of above 2 000 NOK/m^2/yr. According to our letting agent consensus, the most expensive office cluster in the region are Stavanger City Centre and Hinna, where we can find top rents of 3 500 and 2 400 NOK/m^2/yr, respectively. The rest of the city clusters, Forus, Sandnes and the Stavanger fringe zone, are lagging behind, with rents down to 600-700 NOK/m^2/yr being normal. Since the previous letting agent consensus in Q4 2021, the top rents have been lifted by 100 NOK/m^2/yr in all of the office clusters, except the Stavanger fringe zone. The upper range of the normal rent has also been lifted by 200 NOK/m^2/yr at Hinna, representing the attractiveness of this area.

Activity in terms of signed new contracts in the Stavanger area has also been high over the past year, as reported by our local touchpoint on the market. This is due to a combination of two main driving forces – the flourishing market in the region and high expiry of contracts. Based on Arealstatistikk's reported figures, the number of contracts expiring in 2021 was 87, compared to levels of around 50 in 2019 and 2020. 2022 is also characterised by many contracts expiring, 84 contracts according to Arealstatistikk. We therefore expect leasing activity to continue on a strong path in 2022. In addition, there is a shift in the average size of the contracts expiring, from levels of around 500 m^2 in 2019-2020 to levels of around 1 000 m^2 in 2021 and 2022. Some of the latest lease contracts include Adecco, Multiconsult, Azet Insight and Automasjon og Data in the "Equinor building", Vassbotnen 23.

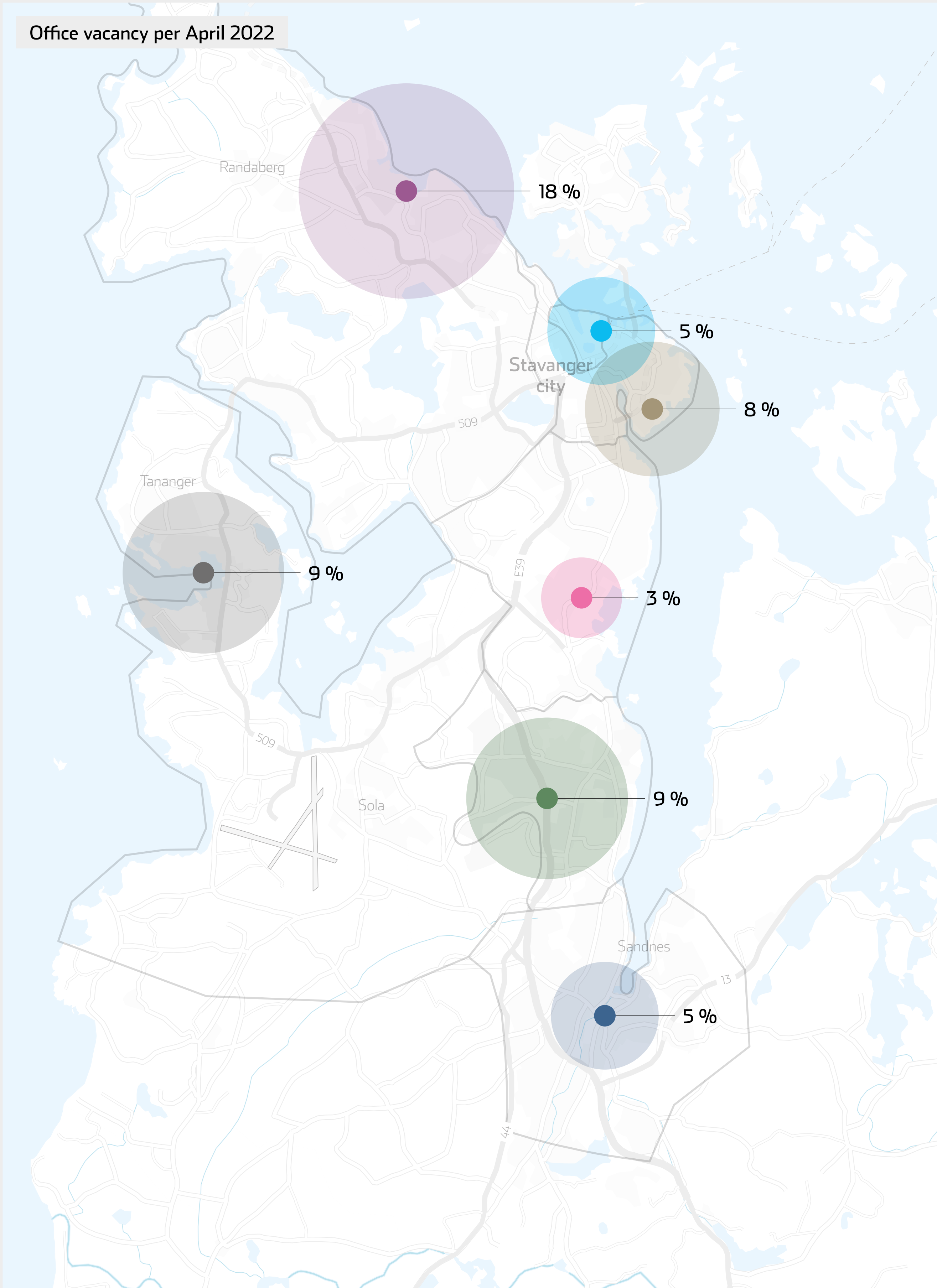
Since many new leasing contracts are being signed, vacancy levels in the region are declining. The average vacancy level for the region in total has declined from 8.9 % to 7.5 % over the last half year, which is the lowest vacancy level seen in seven years. When we zoom into the different office clusters, we can see that vacancy in the fringe zones has actually increased, whereas vacancy in all of the central clusters has decreased. The largest decreases are found at Forus and in the Stavanger City Centre, with declines of 3.9 % and 5.2 %, respectively. For the traditional "Forus companies", typically within the energy sector, favourable market conditions lead to expansions within existing businesses in addition to new establishments, thus increasing the demand for office premises. As people generally want to sit centrally close to good service offerings, it is natural that vacancy levels in the city centre are declining along with the favourable market conditions in the region. The lowest vacancy levels are still found at Hillevåg/Hinna at only 2.6 %.

A general trend observed in the Stavanger region lately is a desire to cluster similar companies together. Site 4016 at Åsen in Stavanger will be a cluster for innovative thinking within the building and construction sector, while Innovasjonsparken close to the new hospital at Ullandhaug will be a hub within healthcare. Hinna Park is planning to build an energy and technology cluster called Energeeks, in addition to Mediebyen Stavanger, which will be a gathering place for journalism, communication and technology. The benefits of clustering are found to be greater innovation, greater growth and greater value creation.

Average of signed office rents (NOK/m^2/yr) in the Stavanger region 2009-2022



Source: Arealstatistikk

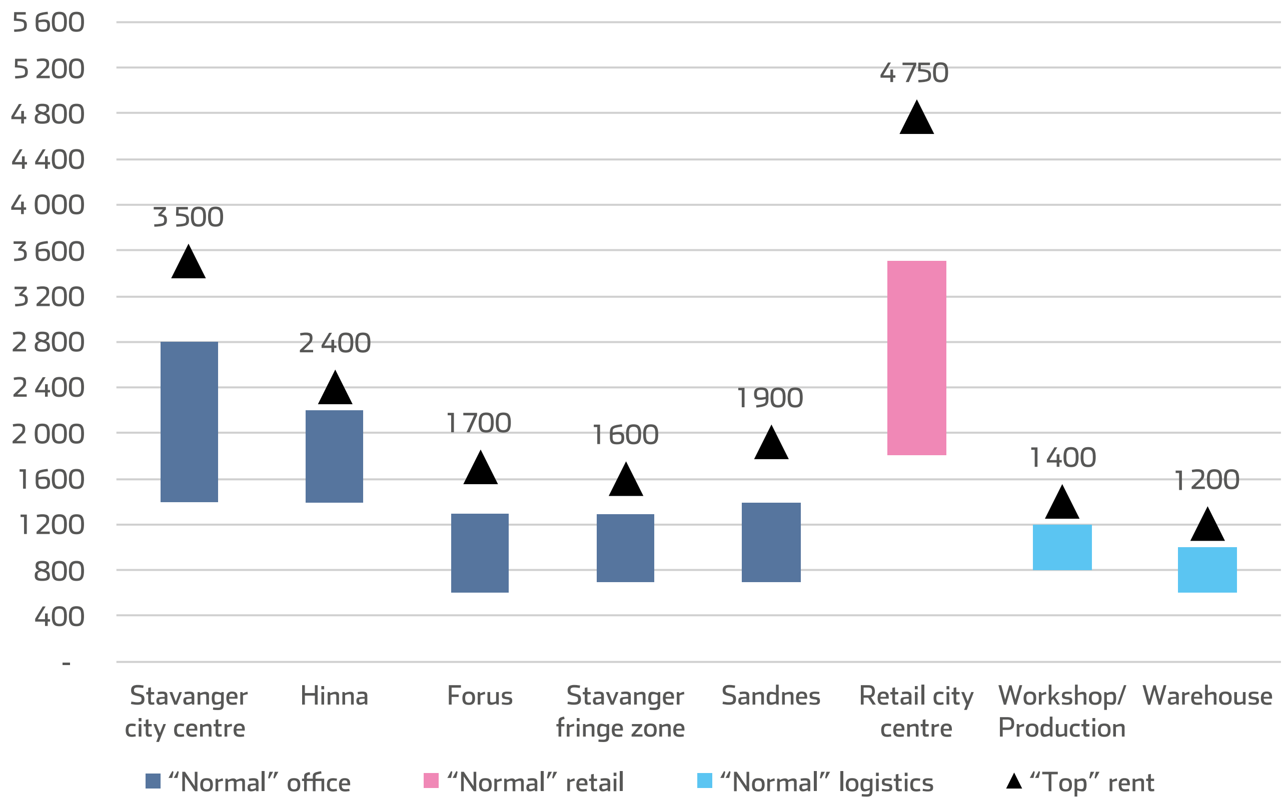


Total office vacancy* = 7.5 %	Total office supply* = 7.8 %

Stavanger fringe zone north · Stavanger city centre · Stavanger city fringe · Hinna · Stavanger fringe zone south · Forus · Sandnes

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

Indivative rents in the Stavanger region divided into areas and segments (NOK/m²/yr)



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

New developments

There are several new projects in the pipeline which could challenge the declining vacancy levels observed in the Stavanger region. However, many of these projects are not yet confirmed, as demand for office space has been quite limited for some years now. At the same time, increasing construction costs and rising interest rates raises the bar for the breakeven rent needed, in a market where rent levels were far below breakeven already before the boom in construction costs.

› Hinna Park is currently constructing two new office buildings in Jåttåvågen, Ormen Lange and Oseberg. Both are planned to be completed in 2022.

› K2 Stavanger and Bane NOR Eiendom are offering a new project named "The Box Office" at Paradis station, the first of two office buildings on the site. Regulations have been approved and the office will be available for Q4 2023.

› Base Property is developing the high-rise building planned in Knud Holmes gate 8 in the city centre, known as K8, which is expected to be finalised in 2023. In addition, Base Property has plans of developing a building purposed for hotel, residents and offices at Sverdrups gate 20, and, at the old city hall in Sandnes, Jærveien 33, they are looking to develop a health-related park.

› Smedvig has several planned projects in the Stavanger region, including Innoasis, which will be completed autumn 2022, Energihuset with estimated completion in 2024 and the multiple buildings at Site 4016 – Ark, Wood and Spinn.

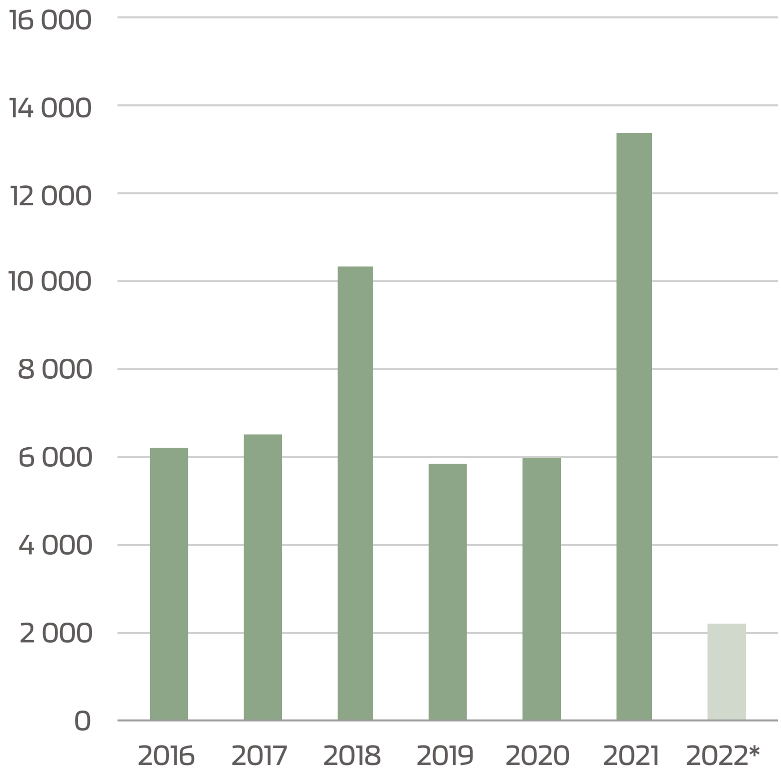
› Laerdal Medical is planning to build new headquarters at Tanke Svilands gate 30. The project is still in an early phase.

› Seabrokers has bought Shell's headquarters in Tankvegen 1. When Shell moves out, Seabrokers are planning on either a refurbishment of the building or demolition with construction of a new one.

Investment market

Stavanger is back on the radar amongst a broader investor universe than the predominantly regional investors who have been constituting the majority of investor interest over the past years. Our current volume recorded so far in 2022 is NOK 3.1 billion over 17 transactions. The sharply increasing prices in the global energy markets are very positive drivers for the region, and investors are sharing the optimism. A follow-up on our comment from our previous report that our belief that activity in the investment market going forward will tend to be focused on central long-term leases and strategic development of value-add opportunities stands strong, as we can report on the consolidation that happened late in 2021 when SVG Property emerged as the new NOK 4.5 billion office giant in the region. Further to the trend observed in Stavanger is the potential for industrial properties to make a significant impact on the investment activity in the region as activity is ramping up. Forus is again seeing interest and a bustling environment as the activity on the Norwegian continental shelf and global markets are producing and exploring at high gear again.

Transaction volume Stavanger (MNOK)



*As of May. Source: Malling & Co

«Forus is again seeing interest and a bustling environment as the activity on the Norwegian continental shelf and global markets are producing and exploring at high gear again».

Notable transactions

- SVG Property acquired Hinna Park, Ankerkvartalet and Herbarium in a deal valued at NOK 4.5 billion. 113 000 m² existing space with roughly NOK 200 million in annual rent, and a further 75 000 m² development potential.
- Tankvegen 1, the former Shell HQ in Stavanger has been flipped in a deal where the seller Seabrokers is continuing as a stakeholder and partner with a Vika Project Finance syndicate acquiring the property.
- ORO has acquired Luramyrveien 64-66 and Stokkamyrveien 15-17 from Ferd Eiendom in a deal downward of NOK 600 million. The 26 000 m² combination property is the HQ for Weatherford Norway.
- Business Center Stavanger, an office hotel in Reidar Berges Gate 9 has been acquired by Realforum and O. G. Ottersland from Øgreid Eiendom. Realforum and O. G. Ottersland already own the adjacent hotel and are now in full control of the property.

Citycon Portfolio — Drammen

Malling & Co Corporate Real Estate was the advisor for Citycon in the sales process of two premier shopping centres with residential development potential in the Drammen region. Total GLA of approx. 48 000 m².

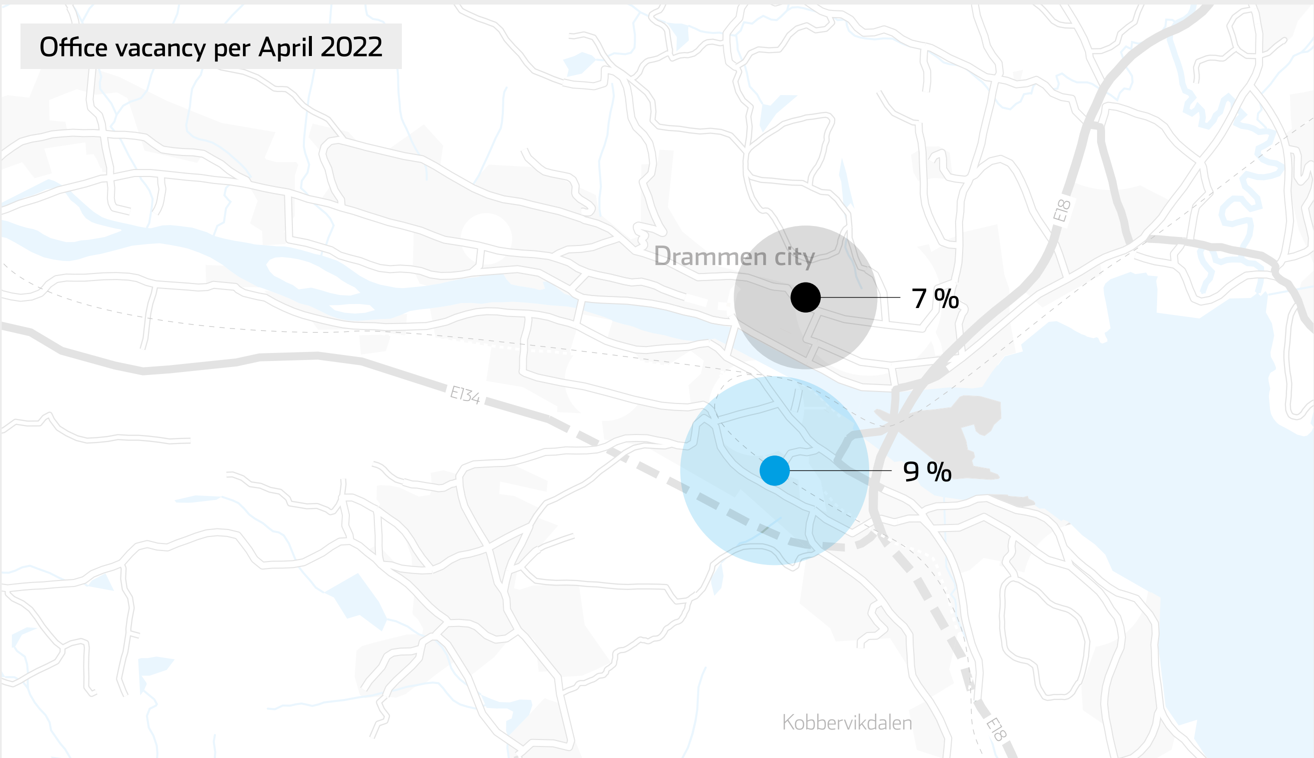
Drammen

Activity in the Drammen region is still going strong

Activity in the Drammen region has been good so far in 2022, both in the rental market and in the transaction market. Rental prices are increasing across all segments, and a record number of transactions have been carried so far this year. Drammen continues to be a region focusing on logistics and mixed-use buildings, highlighted by the low vacancy levels and the high transaction volume. A limitation on the availability of centrally located properties leads to sharp yields below 5.0 % in the most attractive locations. For the office market, value-add projects are the most sought-after, and the Strømsø side of the river especially is undergoing a large renewal process. Looking ahead to 2025, the Drammen region has several development projects in the pipeline, both within rail, road and public buildings. This will create opportunities within leasing, investments and development over the coming years.

The rental market

The rental market in the Drammen region is experiencing high activity across all segments, with increasing rental prices. The office market is characterised by a growing attractiveness of Strømsø as a location, due to its proximity to public transportation and the offering of modern premises. For the logistics and mixed-use segment, vacancy levels are extremely low, pushing tenants further and further out in the fringe zones. There are also challenges in that land that is centrally located is in limited supply. The retail market is experiencing increasing demand for premises used for food and beverages (F&B) and entertainment.



Total office vacancy* = 8.4 %	Total office supply* = 8.4 %

● Bragernes ● Strømsø

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

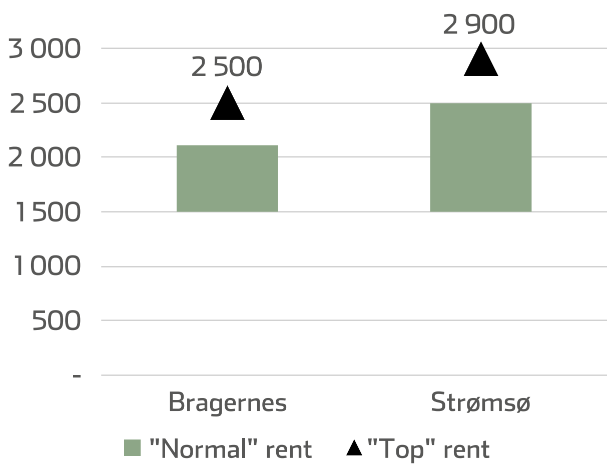
Office leasing market

Since the pandemic restrictions have come to an end, the cautiousness of office tenants has faded. Relatively large contracts have been made with tenants, such as Statens Vegvesen (3 000 m²) and Addovation (1 300 m²). This has led to increasing rental prices. According to our letting agent consensus, the lower part of what is considered normal rent has increased by 300 NOK/m²/yr in both Bragernes and Strømsø since our last market report in November. The top rent in Bragernes has increased by 500 NOK/m²/yr and now stands at 2 500 NOK/m²/yr. In Strømsø we find even higher top rents, at 2 900 NOK/m²/yr, an increase of 100 NOK/m²/yr since November. Due to high construction activity with several projects in the pipeline, vacancy levels are also slightly increasing. The average for Drammen in total is currently at 8.4 %, an increase of 20 bps since November. Vacancy is highest in Strømsø at 9.5 %, while Bragernes is seeing a vacancy rate of 7.3 %.

While Bragernes has traditionally been the most attractive area for office premises in Drammen, a desire to be located close to public transportation in addition to renting in a modern, environmentally friendly building, has increased the popularity of Strømsø. Many of the employees working in Drammen live in nearby residential areas where they depend on rail transport to get to work, so minimising the distance from the train station to the offices is therefore highly desirable. Further on, the construction of new office premises has been particularly strong on the Strømsø side of the river, including Spor X and Portalen. The most modern premises that can offer the best qualities are therefore found in this area. Both the proximity to rail transport and the high quality of the premises has made it possible to achieve top office rents of almost 3 000 NOK/m²/yr, the highest in the Drammen region.

The focus on offering the right office qualities has been increasing in importance. Tenants look for flexibility, both in terms of square metres and expiry of the contract. Premises should include a high proportion of quiet rooms and multi-room space to accommodate high-concentration work and the more extensive use of video meetings. Good communal services, such as canteen, gym and wardrobes, should be offered, along with BREEAM certification. Co-use of areas is also highly attractive.

Indicative rents in the Drammen region – Office (NOK/m²/yr)



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

«Both the proximity to rail transport and the high quality of the premises has made it possible to achieve top office rents of almost 3 000 NOK/m²/yr, the highest in the Drammen region».

Selected notable lease agreements

- Statens Vegvesen has signed a lease agreement for roughly 3 000 m² office in Dr. Hansteinsgate 13.
- Addovation has signed a lease agreement for roughly 1 300 m² office in Erik Børresens Allé 7.
- WSP has signed a lease agreement for roughly 700 m² office in Strømsø Torg 4.
- Demanor has signed a lease agreement for roughly 3 000 m² mixed-use in Orhusveien 10.
- Keller Geoteknikk has signed a lease agreement for roughly 3 000 m² mixed-use in Havnegata 83.
- Interpadel has signed a lease agreement for roughly 4 000 m² warehouse in Havnegata 83.
- Stadium Outled has signed a lease agreement for roughly 2 000 m² retail in Orkidehøgda.
- Sykehusbygg has signed a lease agreement for roughly 15 000 m² outside area at Terminalen, Lierstranda.

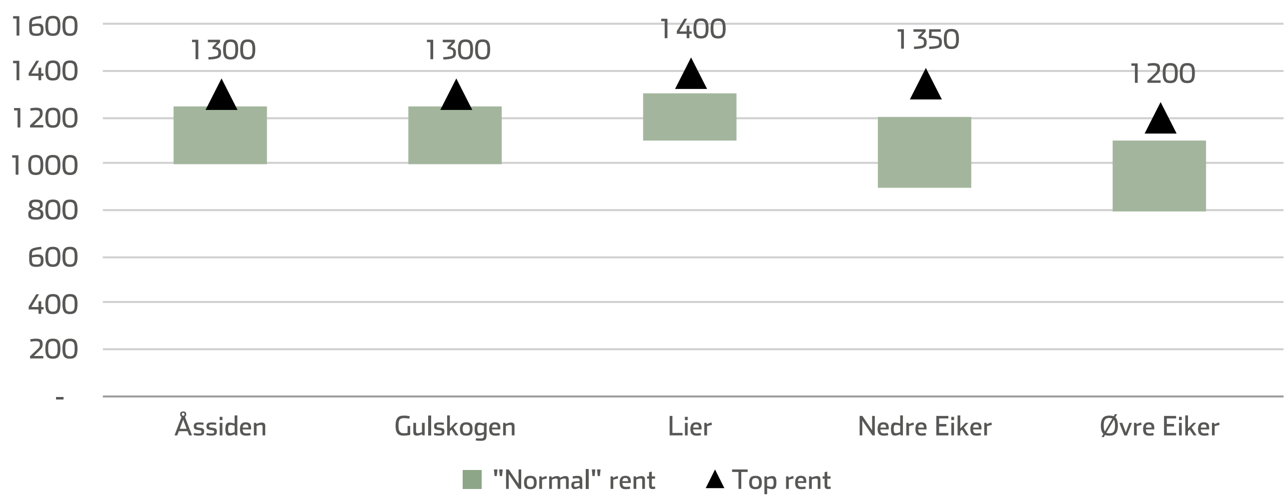
Logistics and mixed-use leasing market

Drammen is an attractive location for the logistics and mixed-use segment. Mixed-use vacancy of existing space in the wider Drammen area currently stands at 2.3 %. This is a very low vacancy level, and vacancy is low both in popular clusters located close to the E18, such as Liertoppen, Lierstranda and Holmen, and in less central clusters such as Mjøndalen, Slemmestad and Sætre. Also going forward, supply in terms of new projects is limited, making it difficult for land-intensive tenants to find the appropriate space. Supply becomes even more limited when you add to this the increasingly higher demand for environmental standards and certifications. Therefore, the trend is for logistics and mixed-use tenants to move further and further out in the fringe, especially among the most land-intensive tenants.

The high inflation levels currently seen in the economy have affected the logistics and mixed-use segment. High construction cost has led to an increase in the rental prices for existing space. According to our letting agent consensus, the range of "normal rent" has been moved upwards by 250-400 NOK/m^2/yr for all clusters since the November report, and top rents have increased by 150-300 NOK/m^2/yr. The largest increases have been seen at Gulskogen. Further, high energy costs have increased the focus on total living costs and the properties' energy use. It is unclear how these factors will affect the logistics and mixed-use market going forward, but the hypothesis could be that more space will become vacant.

The problem of having only a few vacant logistics and mixed-use buildings in the existing stock is further intensified by the limited land available for greenfield developments. We have to move far out from central Drammen to be able to find good and large land. There are a few examples of larger development areas outside of Drammen, including Hanekleiva Næringspark, Toppen Næringspark and Fisumparken. However, these are filling up quickly. Hanekleiva Næringspark, located south of Drammen along the E18, has already secured Asko and Postnord as tenants. Toppen Næringspark, located at the entrance of Kongsberg, is characterised by large retail tenants, such as Circle K, Max Burger and Volmax. The business park, covering approx. 100 000 m^2, has sold land to established firms such as Krøderen Elektro, Drammen Liftutleie, Drammen Rørservice, HS News and Alt-i-Bygg Kongsberg. The development area with the best chances of securing new land is at Fisumparken, located along the E134 between Hokksund and Kongsberg. This area will be developed field by field, with the first land areas having already been sold.
For early investors, there is still flexibility in terms of land size.

Indicative rents in the Drammen region – Industrial (NOK/m²/yr)

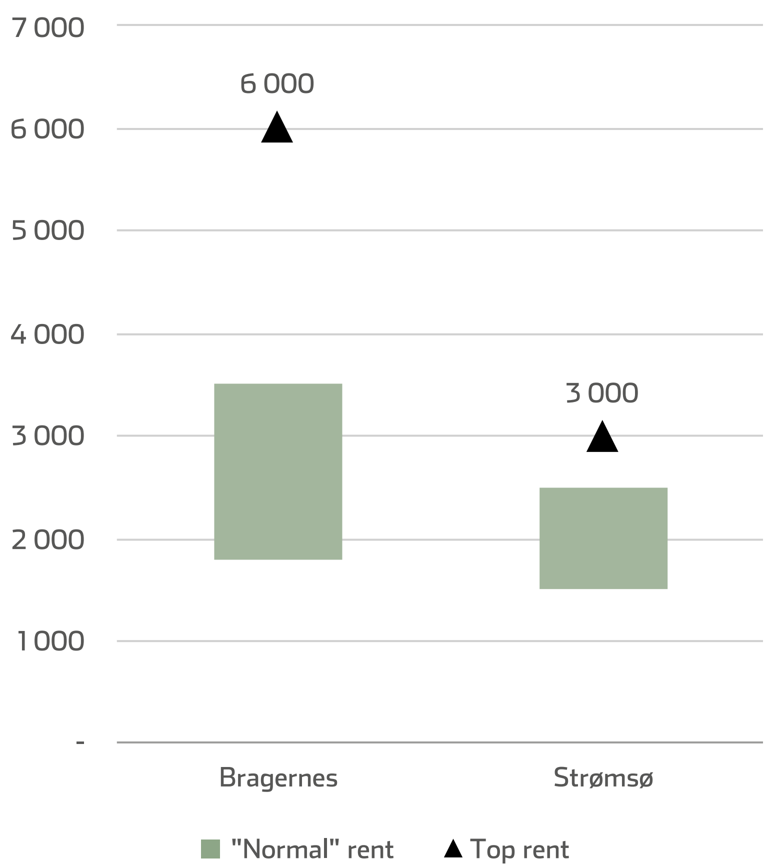


*See definition of prime and normal rent at page 16. Source: Malling & Co

Retail leasing market

The retail market in Drammen is also doing well, with increasing rental prices according to our local agents. At Bragernes, the top rent increased from 5 500 NOK/m²/yr in November to 6 000 NOK/m²/yr, and at Strømsø normal prices have increased by approx. 500 NOK/m²/yr. Establishment within the F&B and entertainment segments especially has taken a turn for the better following the Covid-19 pandemic, as people have been more willing to pay for experiences after having been locked down for two years. One example is O'Learys, which has rented 2 000 m² in Braathengården, which it will fill with food, beverage, bowling courts, shuffleboards and other activities. Other than this, the big box segment is still strong in the Drammen region, where Drammen Handelspark, Gulskogen and Åssiden are attractive locations.

Indicative rents in the Drammen region – Retail (NOK/m²/yr)

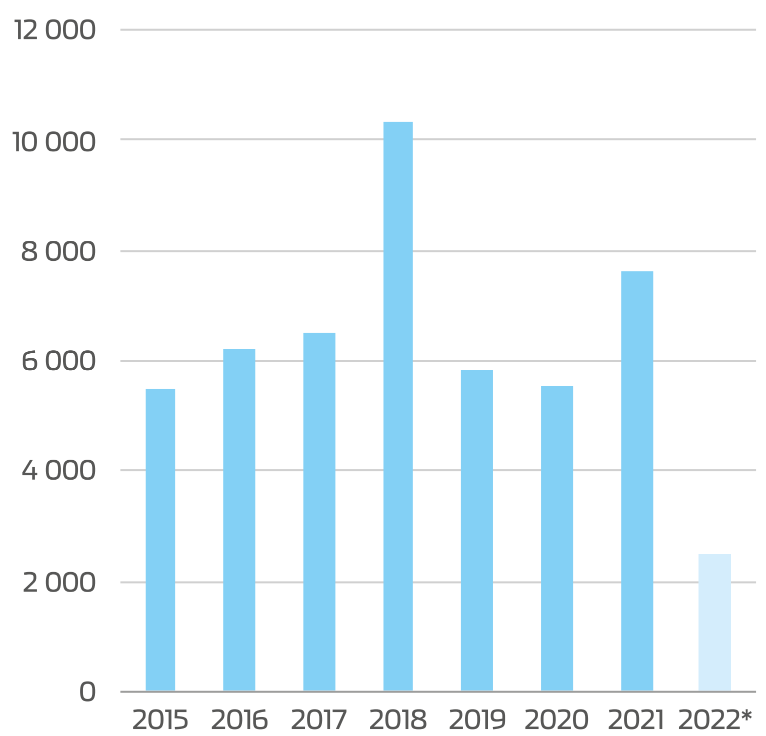


*See definition of prime and normal rent at page 16. Source: Malling & Co

The investment market

2021 was an active year in the Drammen investment market, and the momentum has continued into 2022. Many transactions have already been carried out this year and, relative to the same period previous years, activity has been much stronger. Demand continues to be highest for mixed-use properties and properties with value-add potential. It should be noted, however, that the tension among investors seems to have increased somewhat due to the large increases in interest rates, especially in the 10-year swap rate. This has led to a marginal increase in yields. On a general note, Drammen is experiencing a lot of interest from non-local investors.

Annual transaction volume Drammen (MNOK)



*As of May. Source: Malling & Co

Logistics and mixed use investment market

Liertoppen and Kobbervikdalen continue to be the most attractive areas for investment objects within logistics and mixed-use, with several transactions having been carried out over the past six months. These are for the most part newbuilds or buildings currently under construction on the few remaining plots along the axis. The yields are still sharp at levels below 5.0 %, even though slight increases have been seen following the hikes in the key policy rate. Due to the scarcity of available plots close to Lier and Drammen, new clusters for mixed-use buildings are forming in the surrounding fringe zones, and these have proven to be attractive to investors as well. Examples include Hanekleiva Business Park and Fiskumparken.

The trend in what is considered to be desirable qualities of the logistics and mixed-use buildings is mostly static – it is important to have a solid counterparty, flexibility in relation to alternative use and an office/warehouse factor in the range of 20/80 to 30/70.

Office investment market

As mentioned in a previous section, Strømsø is characterised by high construction activity. Newbuilds, add-ons and rehabilitation projects near to Strømsø Torg are taking form, such as the The Square. The renewal of the area is expected to continue into the future with many prospects currently under regulation, including Torgeir Vraas plass 1-3 and Torgeir Vraas plass 5-7. This is increasing the attractivity of Strømsø, making it a desirable location for investments. Several transactions within both pure office buildings, but also development properties and apartment buildings at Strømsø have been carried out over the last half year. Examples such as Spor X which was recently completed and sold From Vestaksen to Storebrand, and Tollbugata 4-6, offering approx. 7 200 m^2 of office space. We expect the investment activity in the area to even increase going forward.

«The ongoing renewal of Strømsø is increasing the attractivity of the area, making it a desirable location for investments».

Selected notable transactions

- Tollbugata 4-6 – Drammen centre, sales project for the family Werner, apartment/office building, larger number of tenants, 7 155 m^2.
- Johan Follestadvei 19, Røyken, sales project for Carnegie, mixed-use building for Bilia Norge AS, 5 900 m^2.
- Luftveien 4 – Røyken, Asker municipality, sales project for Malleus Eiendom, mixed-use building + development land, approx. 2 500 m^2 – 29-acre plot.
- Spor X – Drammen, Strømsø, a 10-story massive wood office building of approx. 6 700 m^2 was sold from Vestaksen to Storebrand Eiendomsfond for approx. NOK 400 million. Among the 11 tenants are EY, Statens Vegvesen, Sporia Steria, Dark and Asplan Viak.

Gilhusveien 1 — Drammen

Malling & Co Eiendomsfond has acquired Gilhusveien 1, a core logistic property located at Lierstranda. The property is included in the future development area of "Fjordbyen".

Bergen

From record year to “normal year”

The investment market in 2021 was characterised by a record-high level of activity, both in terms of volume and the number of transactions. So far in 2022, the high activity level in the investment market is continuing and is in line with the transaction figures at the same time last year. Nevertheless, we expect somewhat lower transaction activity in 2022. The rental market is characterised by growth in demand and rising rents in the top segment for offices, while quality on the supply side is improving with several new buildings and refurbishment projects.

Office rental market and demand

Unemployment is low, while employment growth in Bergen is strong, which has a positive effect on demand for commercial real estate. So far in 2022, the rental market has been characterised by growth in demand, a stable vacancy rate and rising rents, especially for the best properties. At the same time, we can see that the distinction between buildings in the top segment and less attractive buildings is becoming sharper. Office buildings close to the city centre and Bybanen with a wide range of services are still the most sought after.

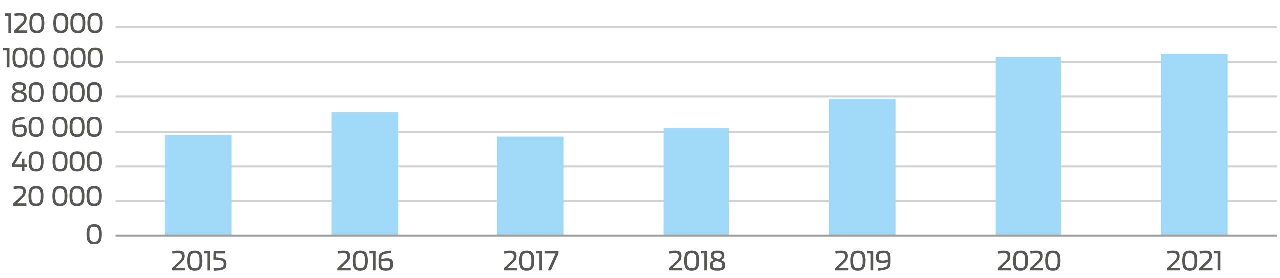
We have seen a steady increase in the demand for office space in Bergen since 2018. According to Arealstatistikk's letting report, leases for approximately 105 000 m^2, split between approximately 130 contracts, were signed in 2021. This corresponds to an increase of approximately 3 % from 2020.

Several new and refurbished office buildings have recently been completed in the centre of Bergen, and these buildings are quickly filling up. Larger tenants are seeking good full-service buildings in central locations, and we can see that properties with a wide range of facilities and the best concepts are outperforming the competition.

The expected pipeline of office newbuilds in Bergen over the next two years is approximately 30 000 m^2 in 2022, and 40 000 m^2 in 2023. Several of the newbuilds are speculative projects or built with low occupancy rate. This is in line with the majority of newbuilds in Bergen since 2019/2020.

We are also seeing an increasing focus by tenants on the environment and sustainability, but there is a significant difference between smaller and larger tenants. Larger companies are leading the way by setting strict requirements in line with their environmental profile. We believe that environmental certification and a focus on sustainability will be necessary to achieve the best rents and the most attractive tenants in the future.

Signed office contracts, sum m^2



Source: Arealstatistikk

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

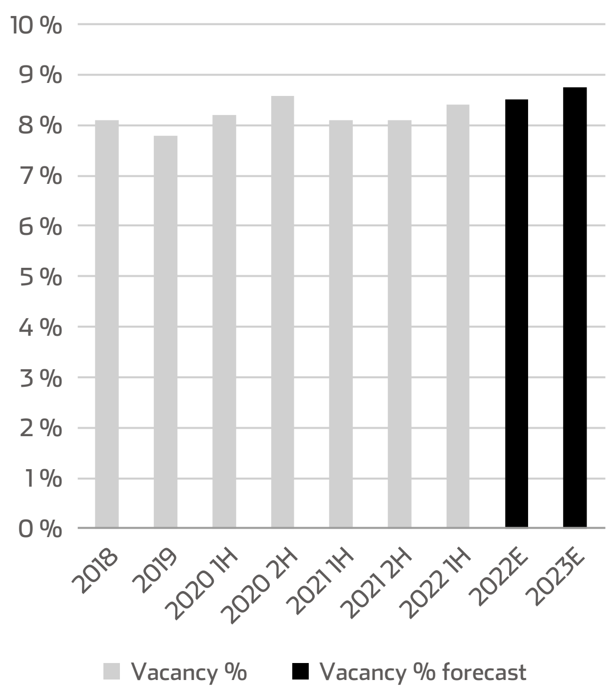
Vacancy

Office vacancy in Bergen is still at a stable level, and in our last vacancy count we recorded a slight increase compared to 2H 2021. The increase in vacancy is mainly due to the addition of newbuilds where advertised office space has not yet been filled. In time, we believe the newbuilds will be occupied and that vacancy will shift from the newbuilds to older buildings with a lower standard.

Regarding the various geographical areas, Solheimsviken/Marineholmen has for a long time had a stable, low vacancy rate of around 2 %. We are now seeing an increase in vacancy of 3 percentage points, which is mainly due to the Norwegian Labour and Welfare Administration (NAV) moving to Møllendalsveien 6-8. In this context, it is worth mentioning that vacancy is defined as available existing space or newbuilds available within 12 months from the date of measurement. Vacancy in other areas is primarily at the same level as the previous vacancy count.

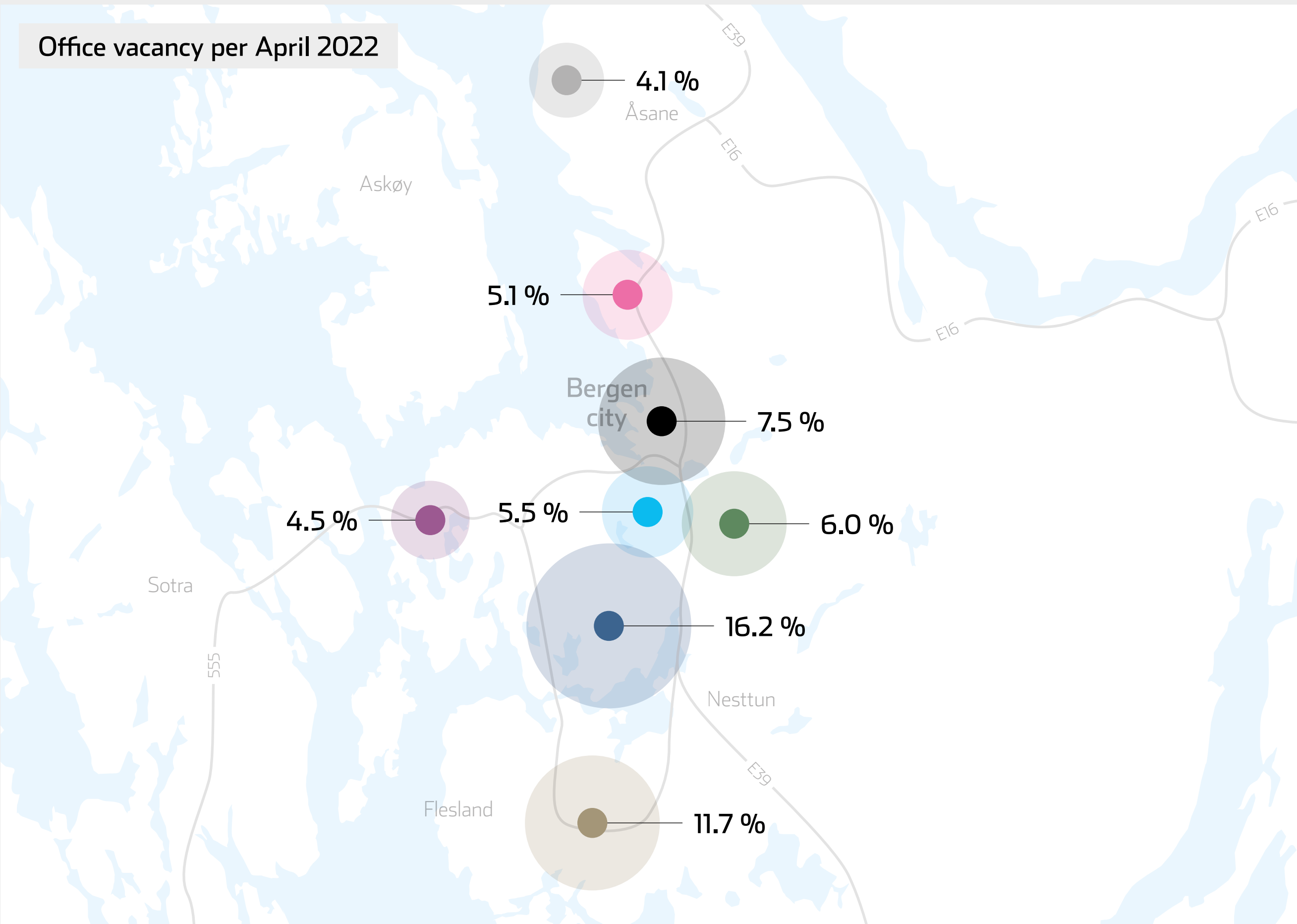
As a result of increasing supply of newbuilds and a relatively low volume of leases expiring, we expect a slight increase in office vacancy over the next 12 months and estimate office vacancy in 2023E at 8.7 %.

Vacancy % and forecast



Source: WPS Næringsmegling, Finn.no

Office vacancy per April 2022



Total office vacancy* = 8.4 %

Bergen north, Sandviken, Bergen city, Solheimsviken/Marineholmen, Næringskorridoren, Bergen west, Fyllingsdalen, Bergen south

*See page 30 on how we measure vacancy.

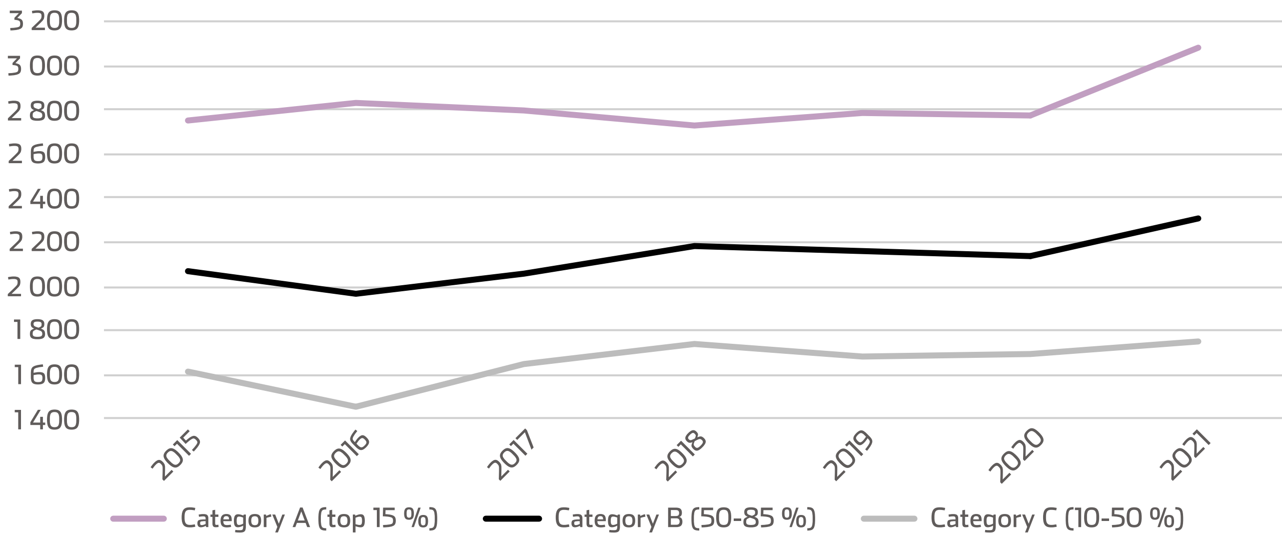
Source: WPS Analyse

Rents

Rental growth in the top segment is continuing, and we have now raised the indicative rent for the best premises to NOK 3 300 per m^2/year. Rent levels in the prime segment are largely quality-driven and rising rents must be seen in the context of the supply of newbuilds and refurbished high-quality buildings. The majority of these buildings are located in or around the centre of Bergen, where tenants also have the greatest willingness to pay. Increased construction costs and higher land prices are also a factor in pushing up rents. We have observed little price sensitivity among tenants as long as the product is of high quality.

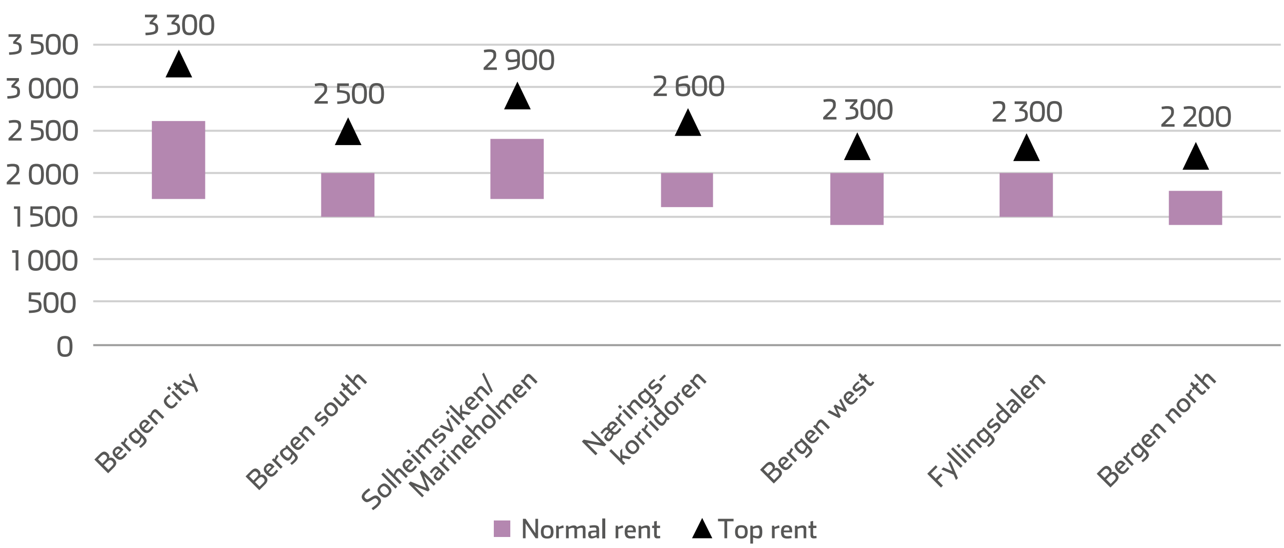
Our estimates still indicate a flat development in the normal segment, which is in line with our forecasts in the previous market update. The result is that the gap in rent levels between the top segment and the normal segment is continuing to increase.

Average nominal office rents, (NOK/m²/yr)



Source: Arealstatistikk

Indicative office rents in Bergen, (NOK/m²/yr)



Source: WPS Næringsmegling

Investment market

Demand and volume — The investment market in 2021 was characterised by a very high level of activity. Previous records, both in terms of volume and the number of transactions, were succeeded by a good margin. So far in 2022, we have recorded a total transaction volume of NOK 3.9 bn., divided between 20 transactions, which is in line with the transaction figures from the same time last year. Market demand is still perceived as strong, and for the full year we expect a total transaction volume in the order of NOK 10-12 bn.

The WPS Investor Survey for Q1 2022 indicates a slight reduction in buying interest for commercial real estate over the next 12 months compared to the record high interest in Q4 2021. Nevertheless, the majority of investors still wish to increase their exposure. Office buildings are the most sought-after segment with the percentage of net buyers standing at 67 %, followed by logistics with 58 % net buyers.

Foreign investors — Throughout 2021, the investment market was characterised by remarkably strong buying interest from foreign investors. In Bergen, foreign investors accounted for a total purchase volume of approximately NOK 8.3 bn., which is larger than the previous 10 years combined. This is in line with the trend for the Norwegian investment market, where foreign investors were particularly active in 2021.

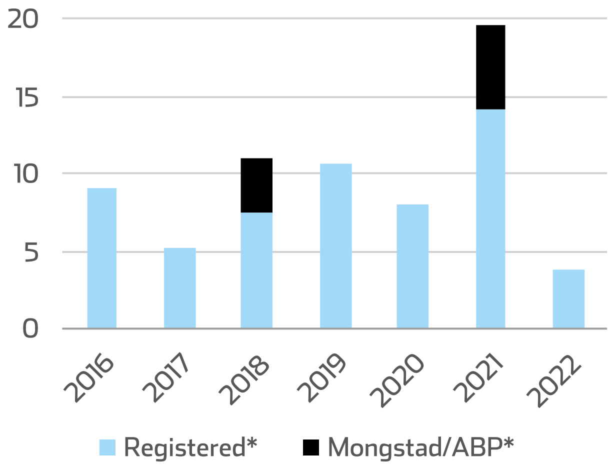
Q1 2022, and so far in Q2, has been marked by increased geopolitical uncertainty due to Russia's invasion of Ukraine. The international economy is currently affected by high energy prices and bottlenecks in the production of goods and services, and this is exacerbated by the sanctions against Russia. Foreign investors have been more cautious in 2022, especially investors from e.g. the UK and US.

However, we believe that foreign buying interest will continue to be considerable in the coming years, also in the Bergen investment market.

Yields — So far in 2022, interest rates and credit margins have risen sharply. In March 2022, Norges Bank raised its key policy rate to 0.75 %, which was an expected change. It was perhaps more surprising that the interest rate path was increased by almost 100 bps from the previous edition of the Monetary Policy Report. As a result, we are raising our estimate for the prime office yield from 3.80 % to 4.00 % for 2H 2022.

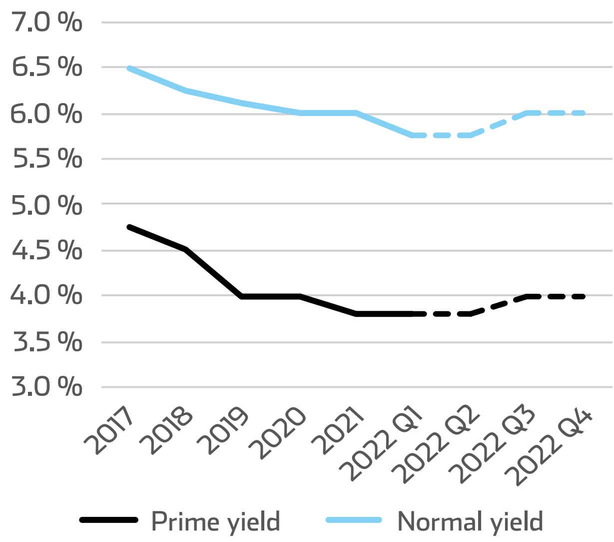
This figure is in line with the answers given in our latest investor survey, where the current prime office yield was estimated at 3.75 %. However, investors expected the prime office yield to be 4.00 % in 12 months, an increase of 25 bps from today's level. Currently, strong demand seems to outweigh interest rate concerns. In slightly longer terms, it seems that investors are positioning themselves for higher interest rates and predicting higher yields in 12 months' time.

Annual transaction volumes in Bergen, NOK bn.



*Registered YTD May 2022. **2018: Mongstad Supply Base sold from EQT to ABP (owned by HitecVision). 2021: ABP sold from HitecVision to Fastighets AB Balder (estimated region Bergen). Source: WPS Næringsmegling

Office yield development in Bergen, %



Source: WPS Næringsmegling

St. Olavs gate — Oslo

Malling & Co Eiendomsutvikling is managing the project on behalf of SiO (Studentsamskipnaden i Oslo). The project includes renovation of the existing building.

Dyrskuevegen — Kløfta

Malling & Co Corporate Real Estate was the advisor for OPF in the sales process of a 14 600 m² logistics property at Ullensaker Næringspark.

Trondheim

New records in investment market

The investment volume for Trondheim area in 2021 amounted to approx. NOK 8.6 billion, by far a new record. There were no signs of the transaction market cooling down when entering 2022, but the increase in long term interest rates have made some impact. YTD investment volume amounts to approx. NOK 1.4 billion and we are expecting a total investment volume of approx. NOK 2.6 billion when reaching the end of June. In average the investment volume for the first half of the year amounts to NOK 2.3 billion, which indicates that the activity is above average. We are seeing gradually increasing activity in the office rental market. The descending vacancy is probably correlated to the fact that few new development projects were added through 2020 and 2021 and strong employment growth as seen in other cities. This means a shifting balance between supply and demand in the office rental market in Trondheim, which is a foundation for rental growth.

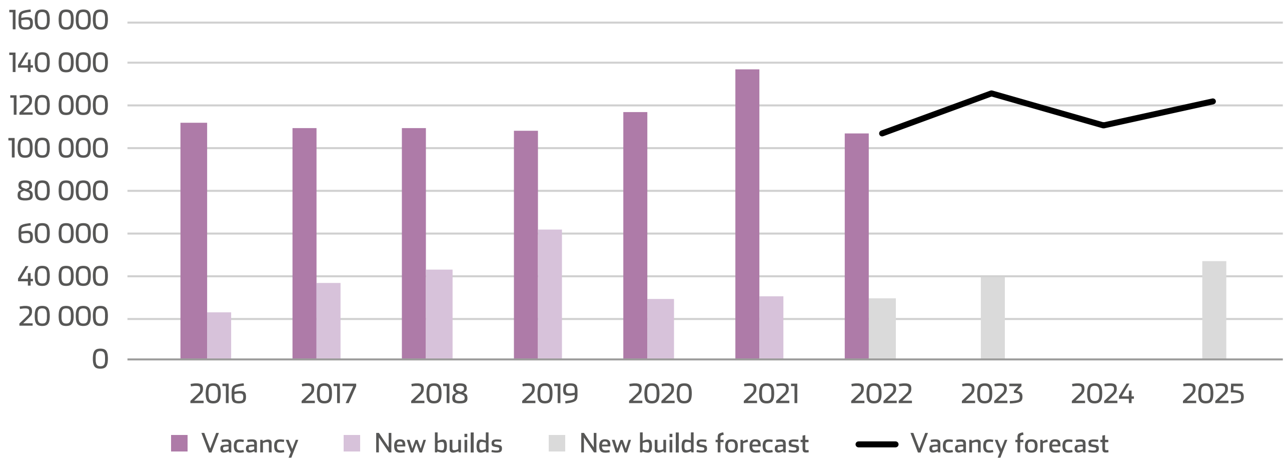
Office rental market – vacancy and new projects

We are seeing gradually increasing activity in the rental market. Vacancy measured in May 2022 shows a further fall in vacancy from the first to the second quarter of this year. We have recorded declining vacancy from the first quarter of 2021, which indicates an active and solid rental market and a moderate supply side of new space added to the market.

During the current year, we anticipate approx. 29 000 m^2 new office space and approx. 39 000 m^2 new office space in 2023. However, we have not recorded any projects with estimated completion in 2024. In 2025, we are anticipating a new registered supply of approx. 46 000 m^2. Experience has shown that the completion of newbuilds often takes longer time than planned, which means that we believe that some of the volume with estimated completion in 2023 may end up being shifted over to 2024 and supply will thus be distributed somewhat more evenly over the coming years.

We estimate that on average the market in Trondheim absorbs approx. 30 000 m^2 added office space per year. Based on this, we predict a horizontal development in office vacancy into 2023 before expecting vacancy to increase until 2025. We estimate a moderate growth in vacancy from today's vacancy at 7.1 % to 7.6 % until 2025.

Vacancy and forecast, m^2



Source: Norion Næringsmegling

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

Indicative Office rents in Trondheim (NOK/m²/yr)

Source: Norion Næringsmegling

Area	Normal rent low	Normal rent high	Top rent
Trondheim City Centre	1 800 – 2 200	2 300 – 2 800	3 000
Trondheim East	1 400 – 1 700	1 700 – 2 000	2 100
Omkjøringsveien / Tunga	1 300 – 1 600	1 600 – 1 900	2 000
Sydkorridoren	1 600 – 1 850	1 850 – 2 100	2 300
Sluppen / Fossegrenda	1 300 – 1 600	1 700 – 2 000	2 200
Trondheim South	1 100 – 1 500	1 500 – 1 700	1 800

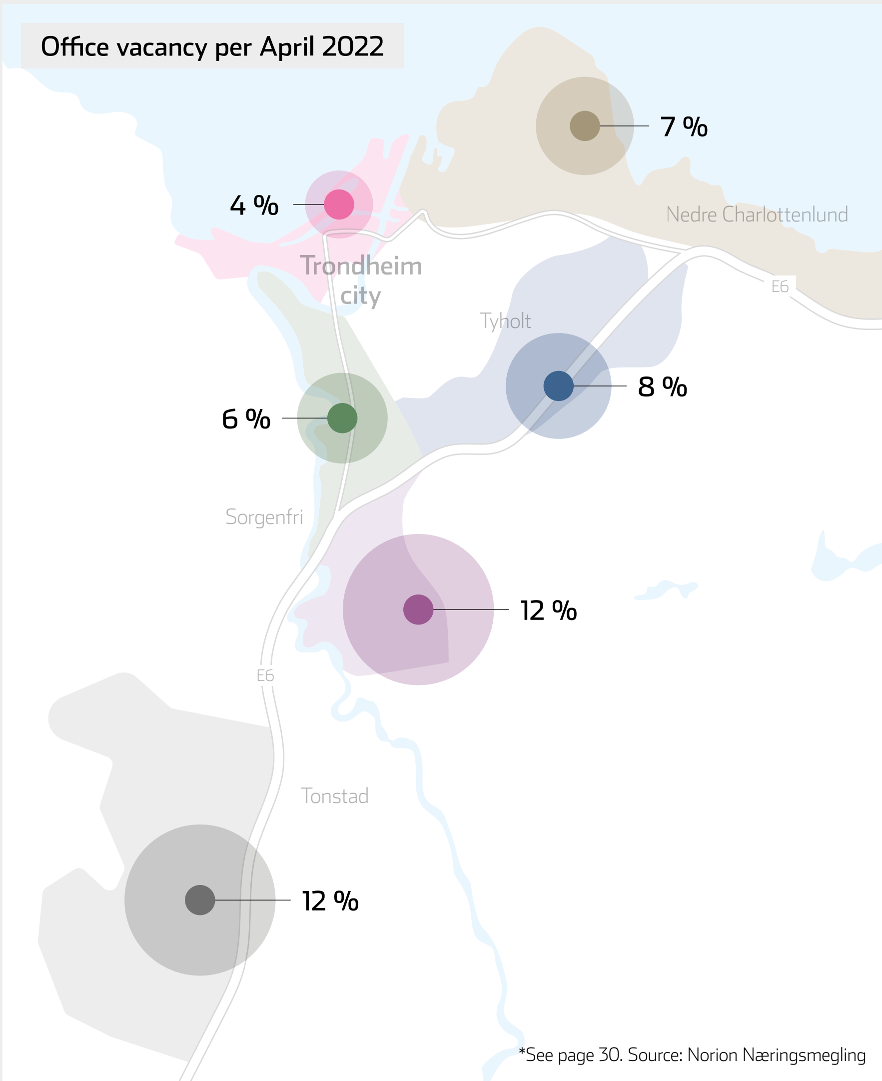
Rents

Rents in Trondheim increased moderately throughout 2021, and 2022 is showing the same trend. Current top rent for the area Trondheim city centre is NOK 3 000 per m^2, which is the highest rent level seen since we started monitoring the office rental market.

Rents in H1 2022 have been increasing more in the centre of Trondheim than other sub-markets, especially regarding the top rents. We believe there is still room for increasing rents (approx. 5-10 % in the upcoming 12 months), as the demand for offices is at a high level. There will be a relatively high increase in supply as well, which could result in an even more diversified rental market regarding rent levels.

There have been a lot of new office projects in Sydkorridoren (south of the city centre) in recent years, and there is still potential for further development along Tempe/Sluppen and Omkjøringsveien (E6).

Office vacancy per April 2022



*See page 30. Source: Norion Næringsmegling

Total office vacancy* = 3.6 %	Total office supply* = 4.2 %

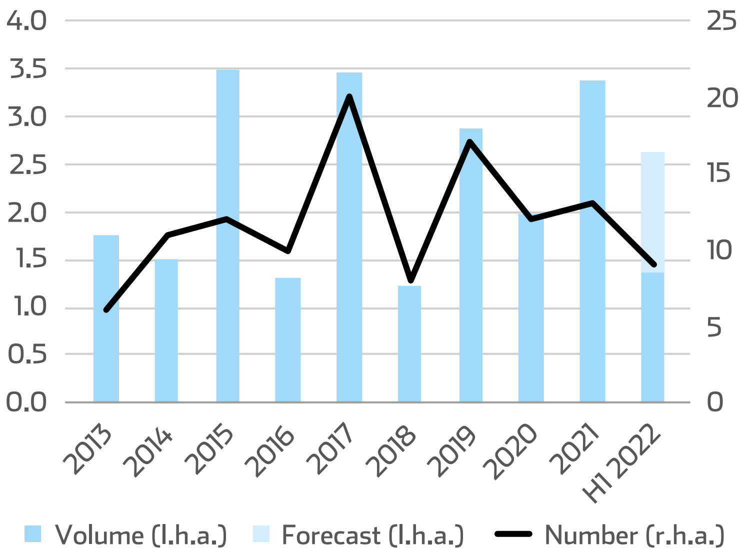
«Office rents has reached a new record high in Trondheim. First time over NOK 3 000 per m^2».

Investment market

We have recorded a total transaction volume (transactions over NOK 50 million) of NOK 8.6 billion for 2021, which was NOK 1.6 billion higher than the previous record from 2015. The number of transactions recorded were 36, which means that the activity was very good throughout the year. The demand for commercial real estate maintained record levels, making sure yields maintained at a low level despite increasing interest rates.

At this point, there is still high demand for commercial real estate based on our knowledge of ongoing processes in Trondheim. YTD investment volume amounts to approx. NOK 1.4 billion and we are expecting a total investment volume of approx. NOK 2.6 billion when reaching the end of June.

Transaction volume 2022 per first half, NOK bn.



Source: Norion Næringsmegling

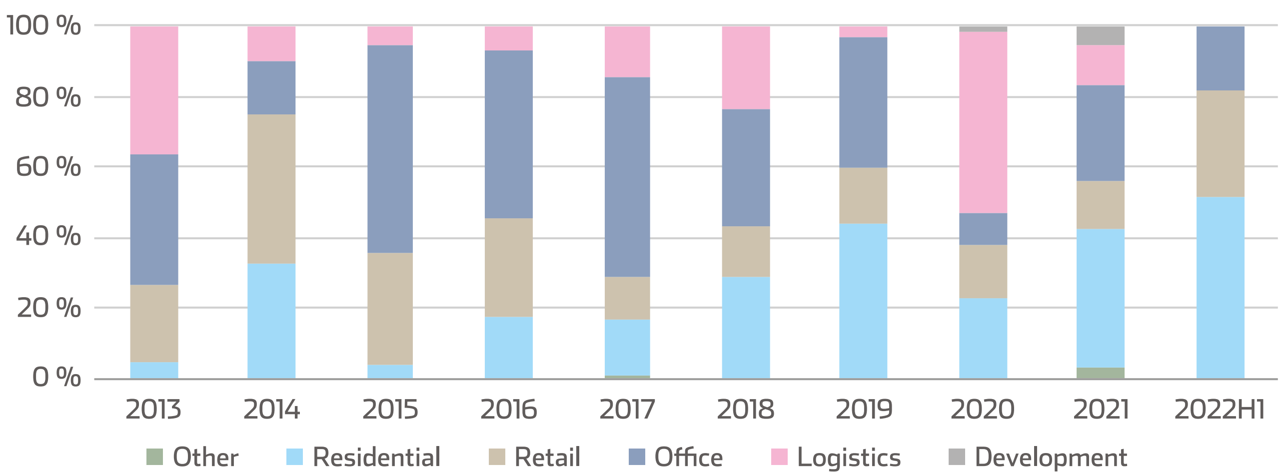
Transaction volume per segment

The graph shows how the transaction volume is distributed per market segment. The housing market (both related to development properties and rental housing) had the most activity and constituted 39 % of the total volume. We have seen a notable change in the housing segment, where rental housing in 2021 accounted for 80 % of the total housing related transactions. This is driven by several larger transactions involving student housing.

We have also noted that the share of office related transactions remains low, compared to volumes before 2020. Except for some new office buildings, we have recorded very few office-related transactions in Trondheim. This is partly due to the holding strategy among office owners in Trondheim, where a handful of actors with long-term commitment to their investments dominate the segment.

We are pleased to notice transactions with both shopping centres and hotels in 2021. We expect increased interest in these segments as the Covid pandemic is put behind us.

Transaction volume per segment



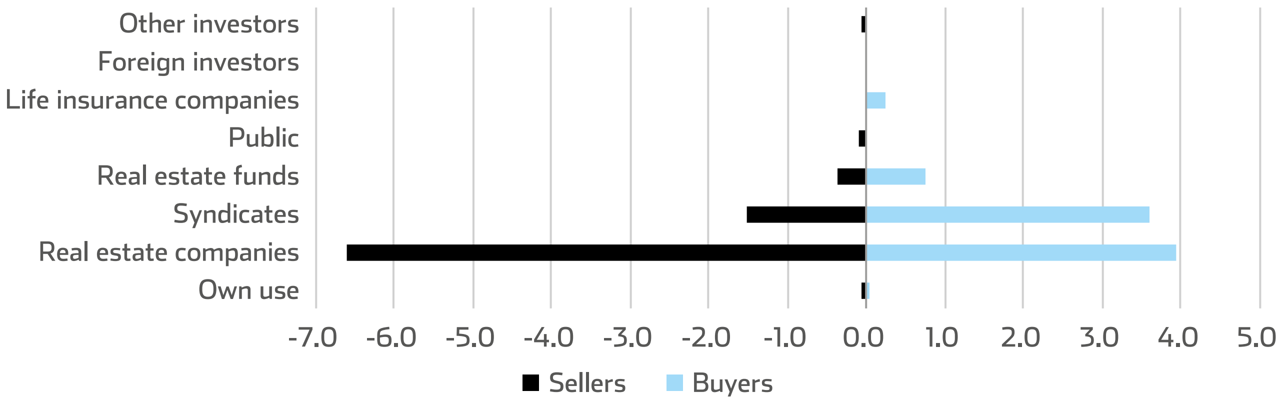
Source: Norion Næringsmegling

Sellers and buyers in 2021

As the graph shows, the traditional real estate companies have been the most active in the transactions market throughout the year, although as net sellers. We have noted that the institutional investors are continuing to buy real estate. Syndicates were active as well, which contributed to raising the total transaction volume.

Our perception is that the decreasing yield gap between the long-term interest rates and prime yields in the Oslo region will mean that the actors will look to Trondheim, where properties are still priced at 50-75 base points higher than comparable properties in and around the capital.

Transaction volume 2021 – sellers and buyers, NOK mill.



Source: Norion Næringsmegling

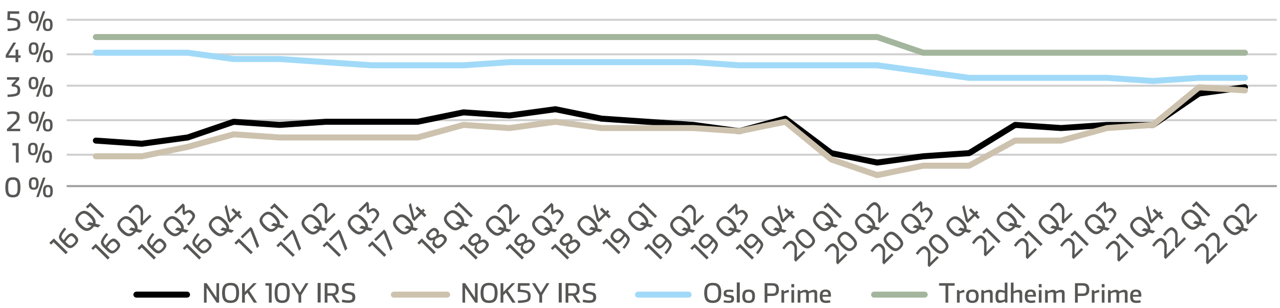
Rates and yields

The activity in the transaction market was very good throughout 2020 and 2021, based on declining interest rates and yield pressure within most segments. As the graph shows, interest rates bottomed out midway through 2020. During 2021, long-term interest rates returned to pre-Covid levels and have continued to increase through 2022 due to high inflation and increasing global rates.

In 2021, we noted that most investors still wished to increase their exposure in real estate. We are also noting that investment funds are looking for a greater share of capital in real estate. We assume that this is based on better returns (related to risk) within real estate rather than other assets. We estimate the office prime yield level in the city centre of Trondheim to be 4.0 %. There are relatively few objects for sale, which will contribute to keeping yield levels unchanged on short term.

The gap between the prime yield level and 10-year swap is at its lowest since the financial crisis in 2007/2008. When looking at how the yield levels changed during 2008/2009, we believe there will be an increase (both prime and secondary levels) when looking forward at a slightly longer term. According to the latest investor survey for Q1 2022, the investors expect an increase in yields, on average, of approx. 0,42%-points for the upcoming 12 month.

Interest rates and yield



Source: Norion Næringsmegling

Brynsengveien 10 — Oslo

Malling & Co Investments has acquired Brynsengveien 10 and arranged a "club deal" on behalf of its investors. The property is located at Bryn and consist of approx. 12 000 m² office.

Bogstadveien 11 — Oslo

Malling & Co Corporate Real Estate was the advisor for CBRE Global Investors in the sales process of a 4 800 m² landmark building at Bogstadveien high street.

Retail

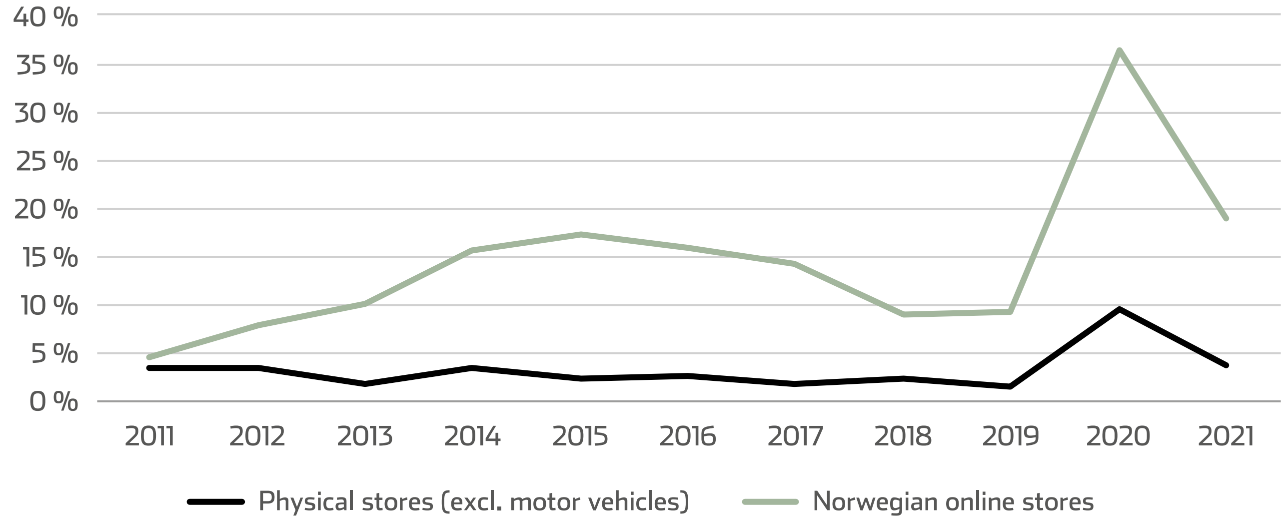
Healthy leasing market

Retail properties have just started their return to normality, leaving the pandemic restrictions well behind. According to Google Mobility data for Oslo, the category "retail and recreation" is almost back at pre-pandemic levels. High street rents have been adjusted upwards in some areas and activity is good. While the threat of online retailing seemed to stress this market before the pandemic, the segment has gradually adopted the changes and the symbiosis between online shopping and physical retail has matured, and segments have shifted from fashion/beauty towards other segments like showrooms for EVs or F&B. While overall turnover for retail has peaked during the pandemic, and come down from high levels, retail trading volumes are still at high levels. High street is now seeing a renaissance. Yields are reported down in Q1, despite increase in long term interest rates. Investors seem to sit comfortable with retail exposure and is probably awaiting the leasing market activity to help boost income going forward.

Retail turnover still high, but might be fragile

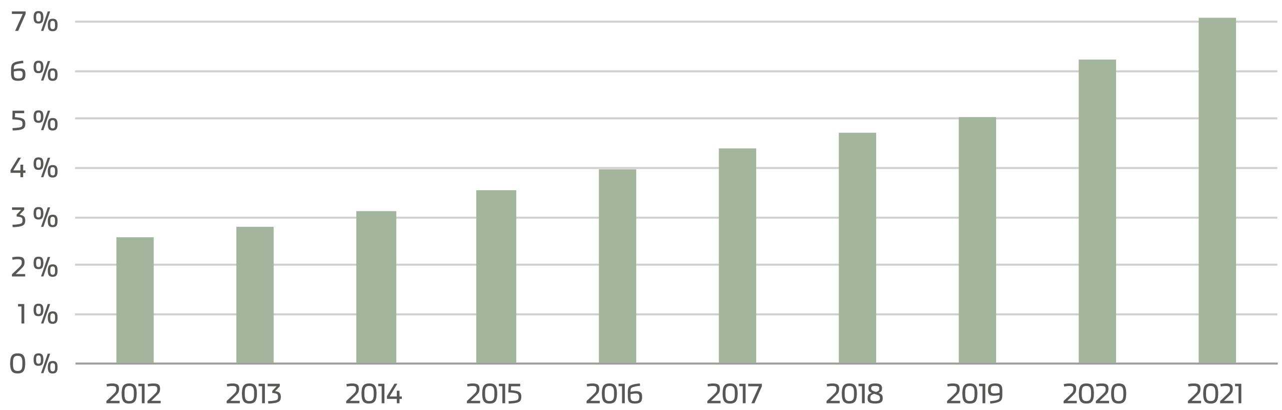
After booming retail sales in 2020 when the pandemic hit with a turnover growth of almost 11 % compared to 2019, the trend cooled off somewhat in 2021 with an overall growth of 4.7 %. Online retail has seen the greatest increase during the pandemic, but the difference in growth between the two main channels became somewhat lower in 2021. While online retail grew 19 % in 2021, physical retail grew 3.7 %. However, online retail (from Norwegian web sites) is still only 7.1 % of total retail turnover. The latest volume index seasonally adjusted from Statistics Norway on retail showed an increase of 3.3 % from February to March, after two months of weaker development in January and February, 0.4 % and - 1.1 % respectively. However, the retail volume index has been highly volatile during the pandemic. Going forward there are some threats to the retail volumes: Inflation is high adding increasing costs for consumers, probably faster than salaries increase this year. In addition, interest rates are rising and costs for especially energy (fuel and electricity) has soared since the end of 2021. Despite high savings rate by consumers during the pandemic, much of this is likely to be consumed by increased prices on food, energy and increased interest rates going forward. Still, estimates in the 1/22 Monetary Policy report by Norges Bank forecast a 6 % growth rate in household consumption in 2022, up from 4.8 % in 2021. For high street retail, other factors like tourists gradually coming back after the pandemic restrictions, is probably more important than overall spending nationally.

Retail turnover growth per year (excl. motor vehicles), %



Source: Statistics Norway

Online share total retail sales per year, % (Norway)

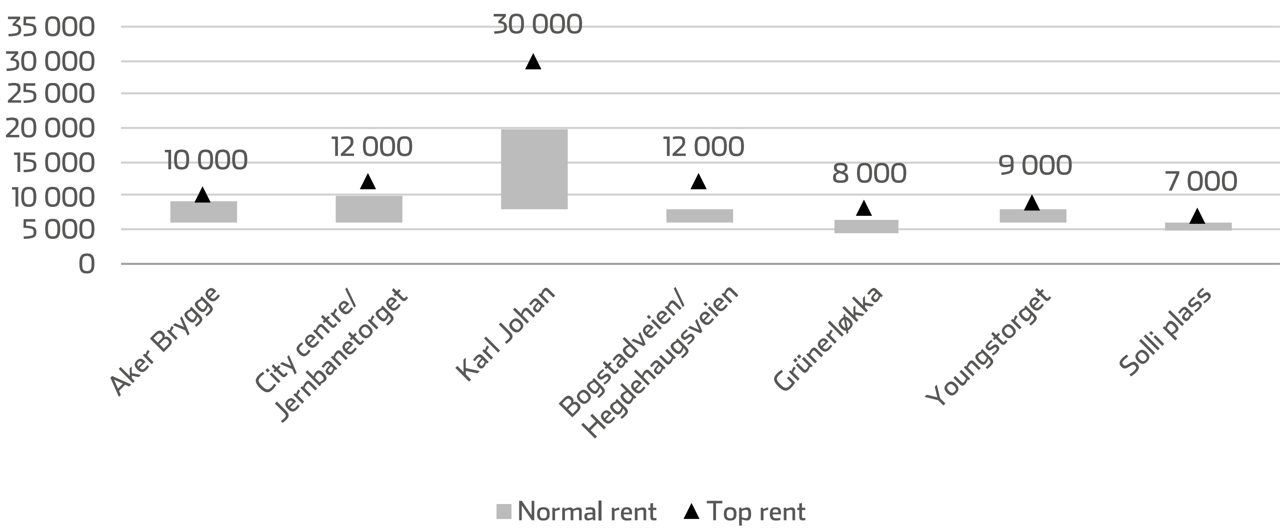


Source: Statistics Norway

Development in retail rents

Retail rents in Oslo stayed relatively flat during the pandemic as the activity was silent, but rents are now picking up as tenants are active back in the market looking to re-position or introduce new concepts after the long pandemic silence. The activity among tenants increased already after the summer 2021 but took a break when the Omicron-variant of the coronavirus forced new restrictions in place until mid-February. As people are heading back to the streets of the city, so are retailers. The trend in car dealerships heading for the high streets is intensifying, and our retail letting agents report of one new car brand a week looking for space in or around Karl Johan Street. Our letting agents have signed several deals in and around Karl Johan Street, and we have examples of small units leased at 30 000 NOK/m^2/yr, however, larger space typically see lower lease levels, but the luxury area of Nedre Slottsgate can achieve just below this price mark for larger units as well. However, rents vary with size and micro location, and the actual contract rent highly depends on the quality and location of the specific space. Normal rents in the Karl Johan area typically vary between 8 000-20 000 NOK/m^2/yr, depending on unit size, floor, visibility and so on. We believe rents will continue to increase as the market activity stabilise and vacant space is absorbed. Retailers are gradually feeling more confident after the struggling years of the pandemic. F&B-tenants are however more reluctant to open new space as they fear higher costs will force people to cut down on eating and drinking out. Landlords are also challenged to take more risk with the tenants, as minimum rents are down, and the revenue-based share of the rent has in general has increased. This also puts higher pressure on Landlords to program retail space for optimum flow and revenues, favouring professional landlords and property managers within retail.

Indicative retail rents in the Greater Oslo high streets, (NOK/m^2/yr)

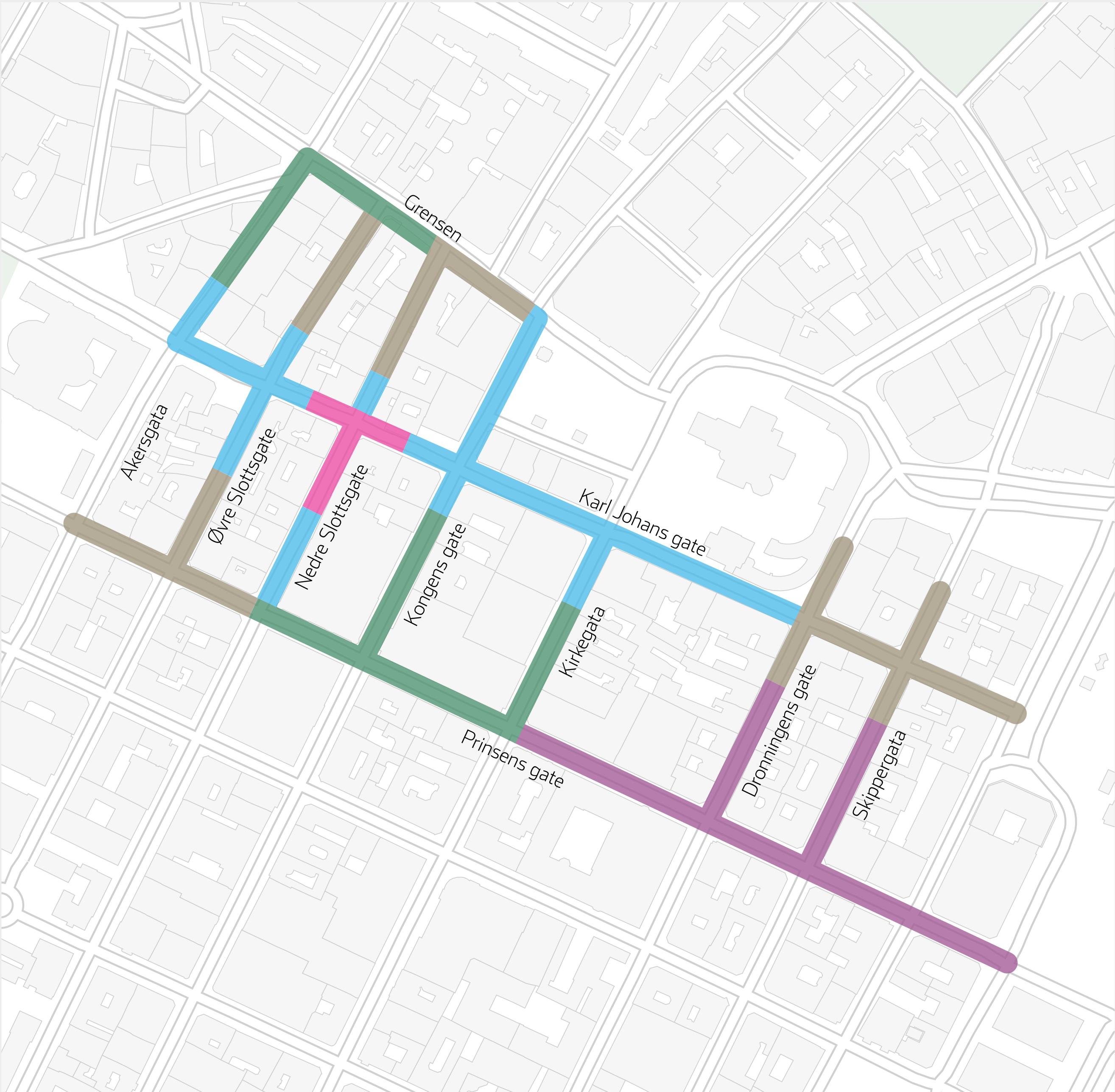


Source: Malling & Co

Indicative High Street retail rents in and around Karl Johan Street, (NOK/m²/yr)

Source: Malling & Co

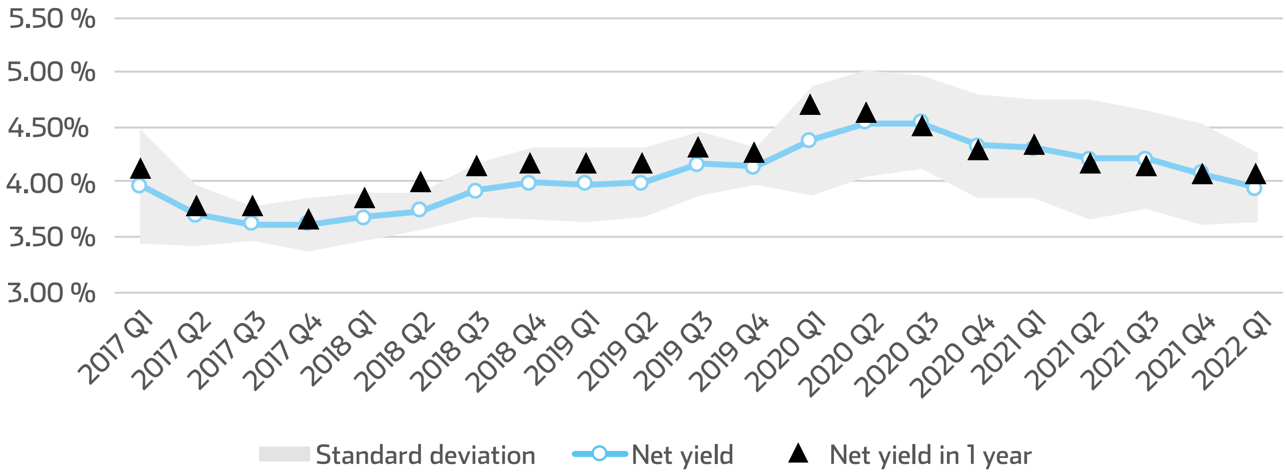
Area Category	From	To
● (purple)	2 500	3 500
● (dark green)	3 500	8 000
● (beige)	6 000	12 000
● (blue)	10 000	15 000
● (pink)	15 000	30 000



Compressing retail yields

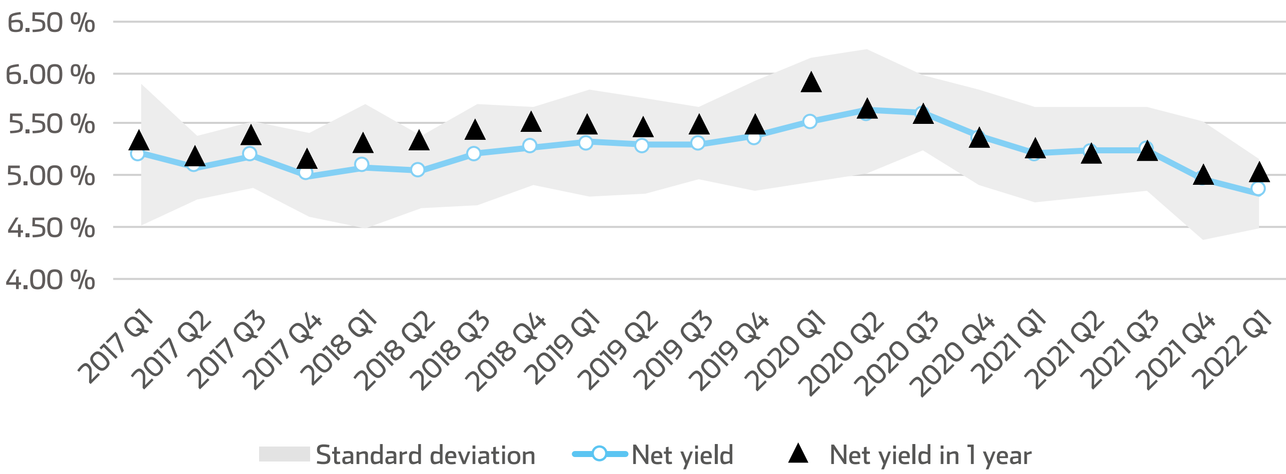
Ever since prime retail yields reached their bottom 3.60 % in 2017, prime yield has been increasing steadily, that is, up until the level of our Q3 2020 investor yield and sentiment survey, when prime retail yield topped out at 4.50 %. Since then, prime yield has been falling gradually towards its current level of 3.95 % (Q1 2022), 25 bps lower than same survey in the end of Q3 2021. This yield compression has come in a quarter where long term interest rates have risen around 100 bps. Since investors expect yields to increase by around 15 bps over the next 12 months, this indicates that the investors believe the high street retail segment will see rental growth over the coming year. Optimism for a healthy retail leasing market after re-opening from the pandemic seems reasonable, and so far, the activity in this segment is supporting such optimism. One other thing to mention regarding yields on prime High Street is the standard deviation that is higher than other prime segments. We interpret this as a result of a silent leasing market over the pandemic, and few transactions to benchmark, as most investors in the segment have been sitting quiet. We have seen more transactions over the past two quarters, and we also believe the lower standard deviation reflects the investors' perceived decreased uncertainty about income, as leasing activity has picked up. This is a reminder of the underlying leasing market being a very important driver for yield levels, it's not only interest rates that have been the driver behind continuous yield compression for a long time.

Prime high street yield retail, %



Source: Malling & Co Investor Yield & Sentiment Survey

Normal high street yield, %



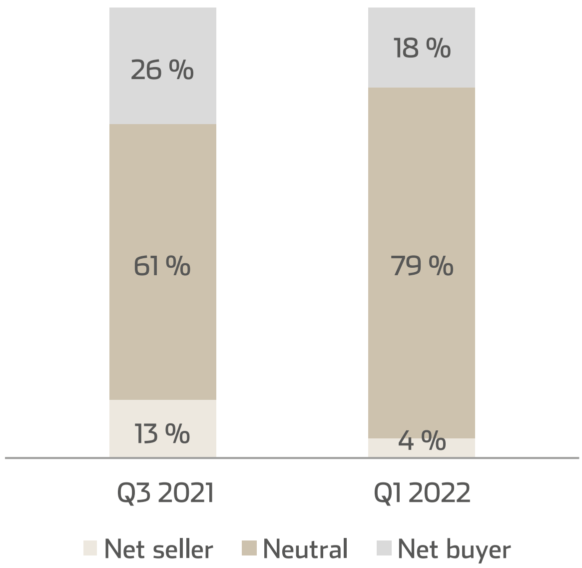
Source: Malling & Co Investor Yield & Sentiment Survey

«For the high street yields, however, the strength of the income seems to be the most important factor to confirm as solid for settling a correct yield level».

Investors' desired exposure to retail properties

In our last report, we noted that there had been an increase in the share of investors looking to be net buyers of retail properties from Q1 2021 to Q3 2021. In the last survey from the end of Q1 2022, fewer investors reported an interest to increase exposure, but there is a significant increase in the neutral portion. We interpret this as investors looking to wait for the underlying leasing market to stabilise after a long hibernation, and that they want to settle the income potential before making any further bets through active sell or buy in the market. This reflects a continued uncertainty in this segment, but we expect this to improve as the leasing markets settles over the next quarters. We believe transaction activity in this segment will increase, unless the transaction market as a whole enters into a significant slowdown due to increased interest rates and pressure upwards on yields increasing space between buyers and sellers. For the high street yields, however, the strength of the income seems to be the most important factor to confirm as solid for settling a correct yield level. While only 13 % reported to be net sellers in or Q3 2021 survey, only a mere 4 % reported to be sellers in Q1 2022. Approx. 16 % of the total investment volume in 2021 was related to retail property. Note however that 41 % of this volume was in the shopping centre category, while 27 % was big box. Our investor survey on the other hand focuses on high street properties, which made up approx. 9 % of the investment volume in retail over this period. The small liquidity reflects that these assets are rarely for sale and it is therefore difficult for investors who are not exposed to this special segment to quote a sound market yield.

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



Source: Malling & Co Investor Yield & Sentiment Survey

Lille Grensen 5 — Oslo

Malling & Co Corporate Real Estate was the advisor for CapMan in the sales process of a 4 700 m² high-street retail property in Oslo city centre for NOK 488 mill.

Hospitality

Back to normality – again

After two very challenging years in the hospitality industry, we are finally approaching more normal conditions. This was also the sentiment back in November 2021 when the last market report was released, but we were then hit by a new mutation of the Covid virus, Omicron. However, after discovering that this virus was a milder version of the disease compared to previous versions, the strategy became to remove all restrictions and allow people to become infected. Much of the anxiety around potential future lockdowns is therefore gone. With this, occupation is getting back to levels seen prior to the pandemic – 49 % in March 2022 compared to 55 % in March 2019. Guest nights related to holiday and recreation are even above March 2019 levels. The hotel business has gone from being characterised by temporary and permanent layoffs in 2020 and 2021, to now lacking the needed manpower. According to the Norwegian Hospitality Association (NHO) Tourist and Travel's member survey, 50 % and 34 % of companies are reporting a satisfactory and a good market situation as of May 2022, respectively. It is clear that the optimism in the market is back.

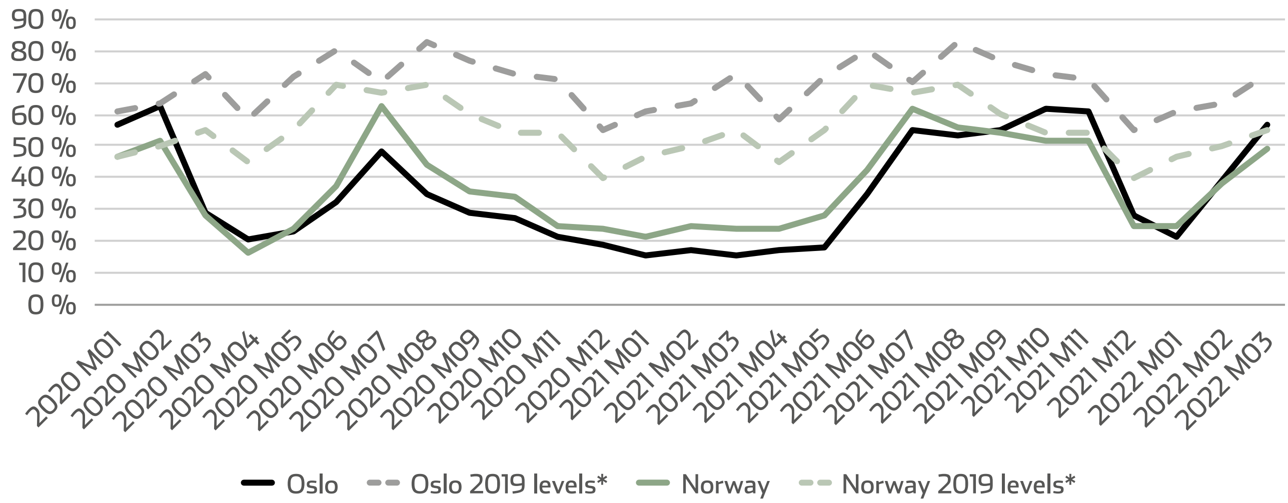
Even though the optimism in the hospitality market is back as pandemic concerns fade away, the war in Ukraine has imposed a new possible threat. International tourism especially could be negatively affected by the uncertainty. The airspace above Russia is closed, and Finnair has decided to shut down the flight route from Asia to Norway. This was, in the past, the major transport route of Asian tourists. However, most of the international tourists are travellers from Europe. In its Q1 2022 report, Scandic is reporting that the war has not had a significant effect on hotel demand in the Nordic region so far. Further on, it is worth noting that the NHO's member survey reports that 55 % of their participants believe in an improvement in the market prospects over the next six months.

International travel lagging behind

Norway — As of March 2022, the revenue per available room (RevPar) in Norway is back at pre-pandemic levels after some challenging months since December 2021 due to the Omicron virus. The RevPar stood at NOK 531, compared to NOK 530 in March 2019. The RevPar naturally follows the occupancy rate as the most important driver for revenue. However, as the March occupancy rate was still lagging pre-pandemic levels by 6 percentage points, we understand that the average day rate (ADR) also makes a difference, 12 % up from NOK 969 in March 2019 to NOK 1 081 in March 2022. In fact, ever since May 2021, the ADR has been above 2019-levels, one possible explanation being that hotels try to make up for the lost revenues throughout the pandemic. In addition, high inflation due to among other high energy prices will naturally lead to increasing prices. The 6-percentage point lag in occupancy is driven by international guests. While the number of Norwegian guest nights was approx. the same in March 2019 and 2022, at ~1 500 000, the number of foreign guest nights was still 24 % behind, at ~430 000 in March 2022. Repercussions after the pandemic combined with the ongoing war in Ukraine are likely reasons for a slowdown in international travel.

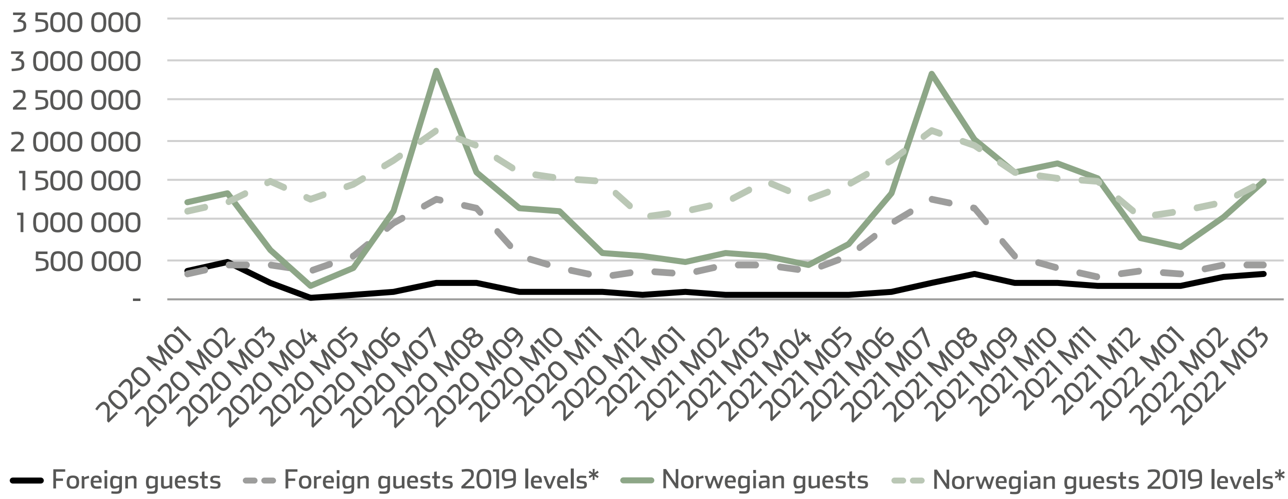
Oslo — The Oslo market is lagging somewhat behind in catching up to pre-pandemic levels compared to the rest of Norway. As of March 2022, the occupation level in Oslo stood at 57 % compared to 73 % in March 2019, a 16 percentage point lag. The Oslo market has a high exposure to international guests, conferences and business travellers, which are all segments with less travel following the pandemic. Guest nights in Oslo related to occupation and conferences were in March 25 % and 36 % behind 2019-levels, respectively. As a result of the lagging occupation levels, the RevPar is also 15 % lower than what we saw in 2019, despite an increase in ADR from NOK 1 011 to NOK 1 103 as of March. Traditionally, both occupation levels and ADRs have been higher in Oslo than in Norway in total, but during the pandemic the table was turned, most likely due to the strict restrictions put in place in the capital. After the restrictions were first lifted in September 2021, Oslo and Norway have followed each other more closely.

Occupancy (%) per month



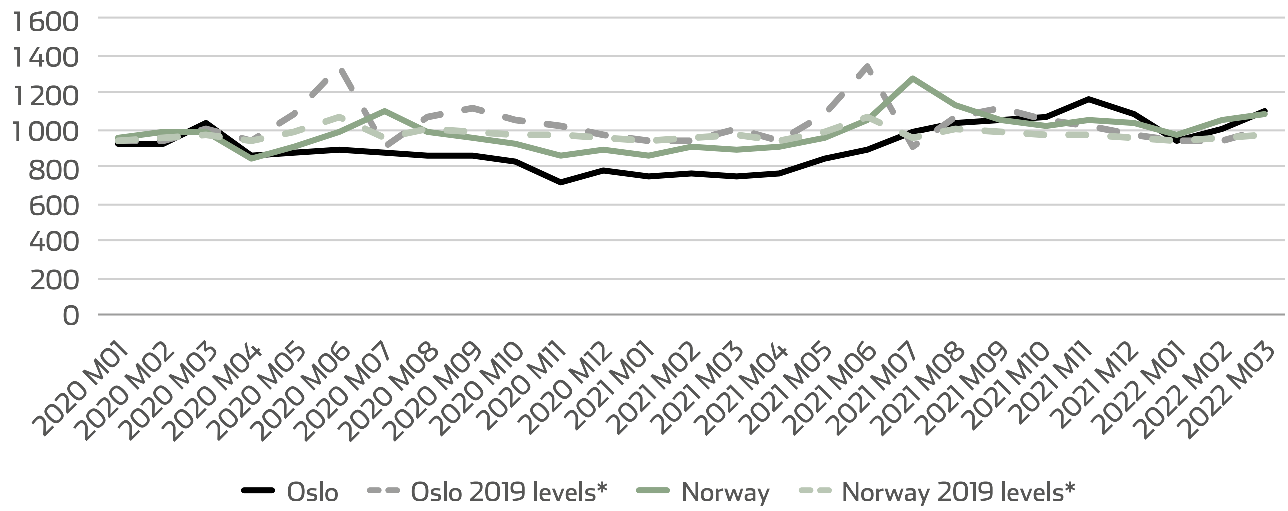
*The 2019 level for the respective month. Source: Statistics Norway

Number of nights in Norway per month by Norwegian and foreign guests



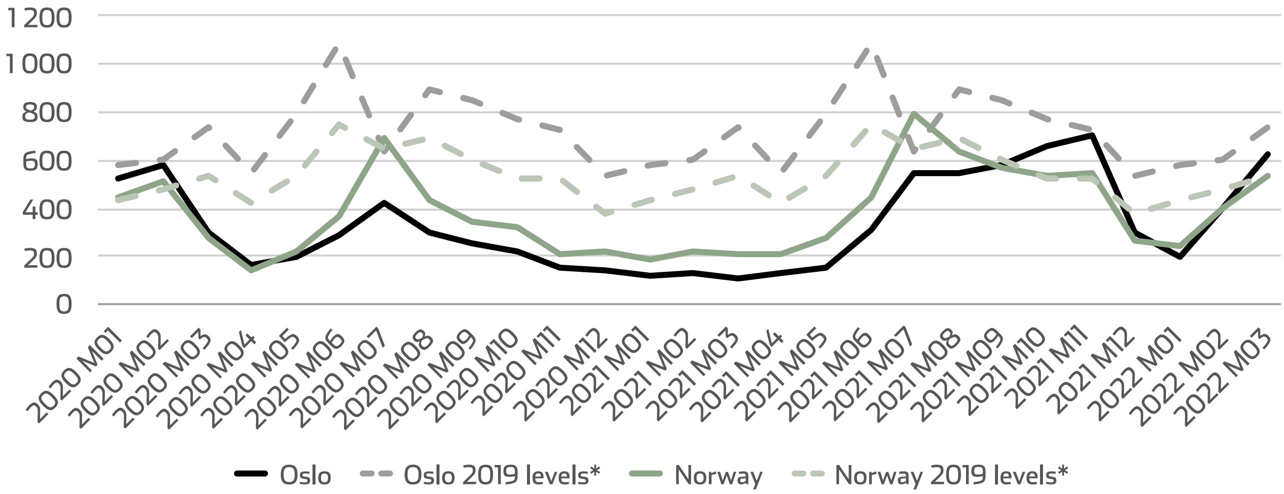
*The 2019 level for the respective month. Source: Statistics Norway

Average day rate (ADR) per month, NOK



*The 2019 level for the respective month. Source: Statistics Norway

Revenue per available room (RevPar) per month, NOK



*The 2019 level for the respective month. Source: Statistics Norway

Key figures Q1 2022 vs. Q1 2021	Oslo			Norway		
	Q1 2022	Q1 2021	2022 vs. 2021	Q1 2022	Q1 2021	2022 vs. 2021
Total revenue Q1, MNOK	515 644	101 449	408.3 %	2 974 145	1 254 249	137.1 %
RevPar Q1, NOK	406	353	15.0 %	392	208	88.5 %
ADR Q1, NOK	1 019	755	35.0 %	1 032	890	16.0 %
Occupancy Q1, %	39 %	16 %	143.8 %	37 %	23 %	60.9 %
Total # of guest nights Q1	705 680	169 684	315.9 %	4 023 506	1 848 054	117.7 %
Norwegian guest nights	559 852	142 927	291.7 %	3 218 084	1 626 288	97.9 %
Foreign guest nights	145 828	26 757	445.0 %	805 422	221 766	263.2 %

Source: Statistics Norway

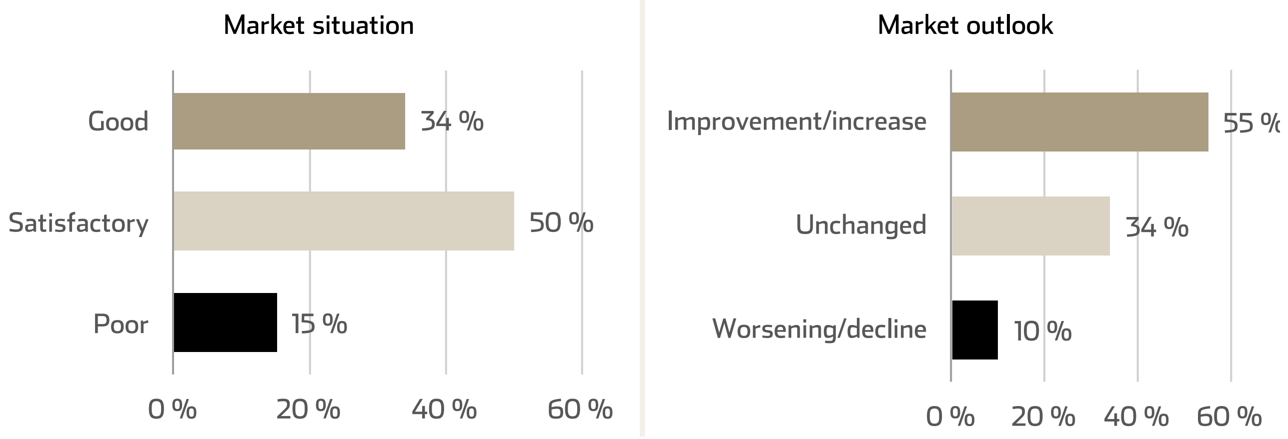
«The Oslo market has a high exposure to international guests, conferences and business travellers, which are all segments with less travel following the pandemic».

Latest status from hotel and travel industry players

The pandemic has hit the hospitality industry hard, but companies are now communicating optimistic numbers. NHO Tourist and Travel has carried out a member survey with 438 companies within hospitality participating. Regarding the current market situation as of May 2022, only 15 % consider it poor, while the remainder think the situation is either satisfactory (50 %) or good (34 %). Svalbard, Rogaland and Møre og Romsdal are well above the average in terms of how many consider the market situation good. The industry has high hopes for the future, with 55 % of companies communicating that they believe in an improvement in the market over the next six months. Greater optimism is found among larger companies, and the regions that are most positive are Nordland, Vestland, Oslo and Møre og Romsdal. Despite the optimism in activity levels, there is still one major concern that can negatively affect the bottom line of hospitality companies, namely the record high electricity prices that we are currently experiencing. 41 % of the participants believe that the high prices will lead to a very large reduction in the operating result, and 27 % believe they will see medium reduction. The horizon is not yet fully clear.

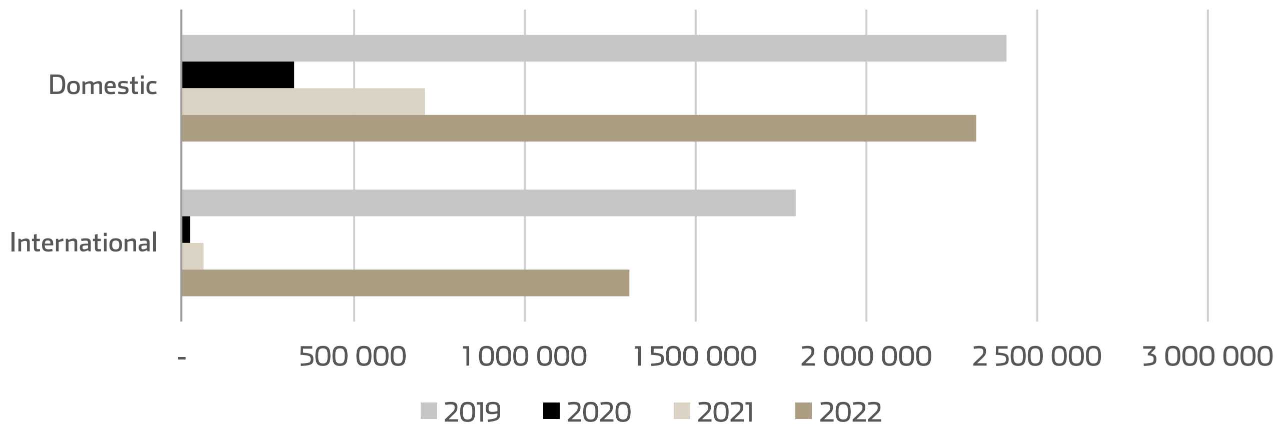
We have seen that the number of international hotel guests are still behind pre-pandemic levels. This is confirmed by travel information from Avinor, where the number of international terminal passengers at Norwegian airports in April 2022 was 27 % behind the 2019 level. The activity is still much higher than for both April 2020 and April 2021, when international travel was 99 % and 96 % down from the 2019 level, respectively. Domestic travel has also significantly improved, from being 86 % and 71 % below 2019 numbers in April 2020 and April 2021, to being now only 4 % below. According to NHO, international tourism is expected to continue below normal levels this summer, while the number of Norwegian guests is expected to be higher than normal as in 2020 and 2021.

Responses from the Norwegian Hospitality Association member survey, May 2022



Source: NHO Tourist and Travel's member survey

Number of terminal passengers at Norwegian airports in April, 2019-2022



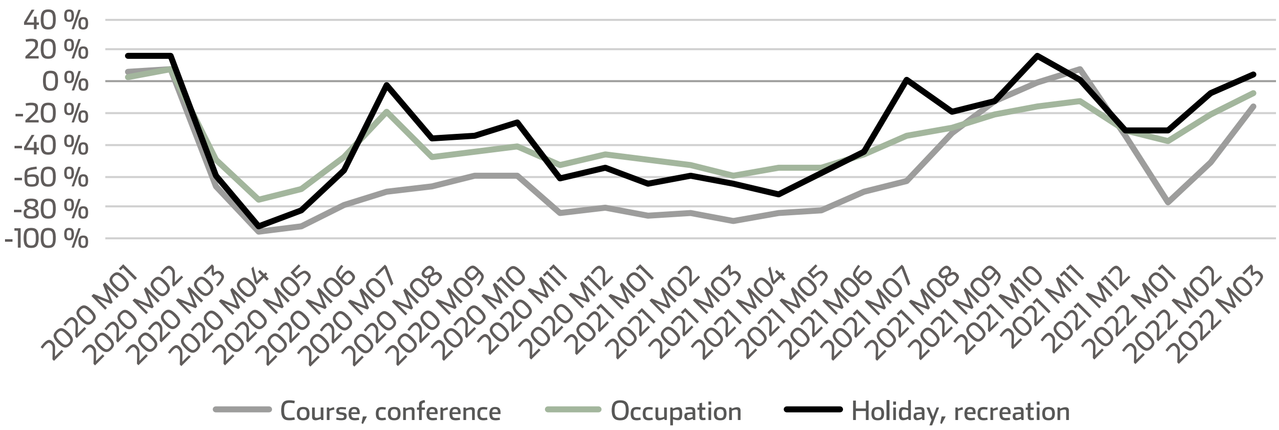
Source: Avinor

Will hospitality get back to pre-pandemic levels?

After the drastic changes seen within the hospitality industry for two years now, the question is when we will be fully back to 2019 levels, if we ever get back. McKinsey and Avinor suggest that the market will normalise around 2025/2026, whereas industry leaders and the prognoses from Hotelia are more positive, suggesting that the market will be back to normal already in the first quarter of 2024. What is certain is that it will take time. In terms of the purpose of hotel stays, as of March, occupation- and conference-related guest nights in Norway are lagging 8 % and 16 % behind 2019 levels, respectively. The lag is even greater in Oslo, at 25 % and 36 %. Companies have become used to holding digital meetings and, considering that this is both time and cost saving, it is likely that many will stick with a high proportion of digital meetings going forward. Occupation-related travel may, therefore, never return to pre-pandemic levels on a per capita basis. The same might be true for conference related travel, as webinars have become a popular way of conveying information throughout the pandemic. However, as conferences is an important forum for meeting new people and maintaining current ties, we expect conference-related hotel activity to significantly improve from today's level.

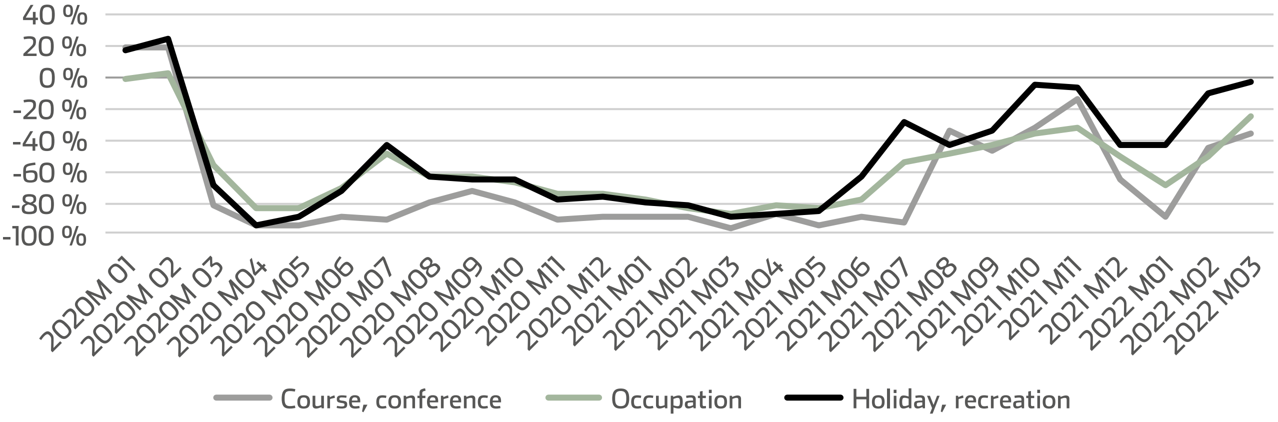
The lag we are currently observing in international travel activity is also expected to improve as travel restrictions are fully lifted across the globe and as the war hopefully comes to an end. Yet, it can be questioned whether activity will return entirely to where it was prior to Covid-19. There is an increasing focus on minimising carbon emissions, which may make people reluctant to travel by aircraft when not necessary. Instead, people may choose to holiday closer to home. If this happens, Norway will lose out on tourists who live far away. On the positive side, with little travelling activity over the past two years, people may be hungry for new experiences. In this case, Norway, with its beautiful and pure nature, may serve as an attractive alternative.

Guest nights related to conference, occupation and holidays in Norway, relative to 2019



Source: Statistics Norway

Guest nights related to conference, occupation and holidays in Oslo, relative to 2019



Source: Statistics Norway

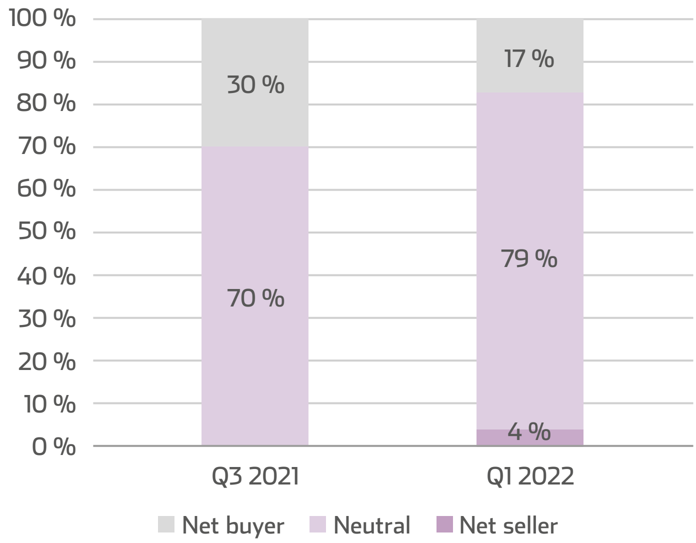
Investors still prefer a neutral exposure towards hotel real estate

The property values of hotels have been adjusted downwards following the pandemic. The rent paid from hotel operators to hotel landlord is in most contracts linked to turnover, including a minimum rent. As operator revenues have declined due to lower occupancy and average day rates throughout the pandemic, income to landlords has also declined. Hotel operators have to some extent been receiving public compensation for "fixed and unavoidable costs", but revenue-based rents have been excluded from this scheme. Landlords have therefore not received any compensation for the variable part of the rent.

Since the last market report in November 2021, our quarterly Investor Yield and Sentiment Survey shows a decrease in desired exposure towards hotel properties over the next 12 months. While 30 % found themselves being net buyers and 0 % net sellers in Q3 2021, the desired exposure has changed to 17 % and 4 % in Q1 2022, respectively. However, the development is positive since Q4 2021, when 12 % wanted to be both net buyers and net sellers. The lockdowns due to the Omicron mutation is likely to be the reason behind the negative development. Still, the majority of investors (79 %) prefer a neutral position.

«Since the last market report in November 2021, our quarterly Investor Yield and Sentiment Survey shows a decrease in desired exposure towards hotel properties over the next 12 months».

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



Source: Malling & Co Investor Yield and Sentiment Survey

New construction and expansions

A long period of workforce reduction and cost cuttings has led to a setback in the development of new hotels and expansions. However, we can see that operators still have several projects in the pipeline, and that they are working to develop projects in line with recent trends. Among others, there is a greater demand for activity-based vacations, and people are setting higher standards for sustainability. As of 31 March 2022, Scandic Hotels had 421 rooms in the Norwegian pipeline, among others a third hotel in Tromsø with 305 rooms. Nordic Choice Hotels have recently opened the doors to Clarion Collection Hotel Kongsberg and Quality Hotel Grand Larvik, and will soon start the development of Quality Hotel Panorama in Trondheim. Together these projects make up 367 new hotel rooms. Thon Hotels is developing a new hotel at Lørenskog, Thon Hotel Snø, introducing 300 new rooms next to the full year indoor ski arena just outside Oslo. This spring, Radisson opened up two new hotels next to Oslo airport, a dual offering with Radisson RED and Radisson Hotel & Conference Centre, together making up more than 500 rooms. This is the first of its kind in Norway and, during the summer of 2022, one additional Radisson RED hotel with 204 rooms will open at Økern. On top of this, Radisson has renovated 214 rooms at Park Inn by Radisson Oslo Airport, which makes the total offering of Radisson at Gardemoen 1 250 rooms.

Økern Portal — Oslo

Malling & Co Næringsmegling was the letting agent when Basefarm leased 4 800 m² in Økern Portal.

Kongeveien 49 — Kolbotn

Malling & Co Eiendomsutvikling is managing a property development project on behalf of Fremtind Forsikring AS. The project includes renovating the existing building with new façade and tenant fit outs. The project also includes the development of 6 000 m^2 of new commercial space.

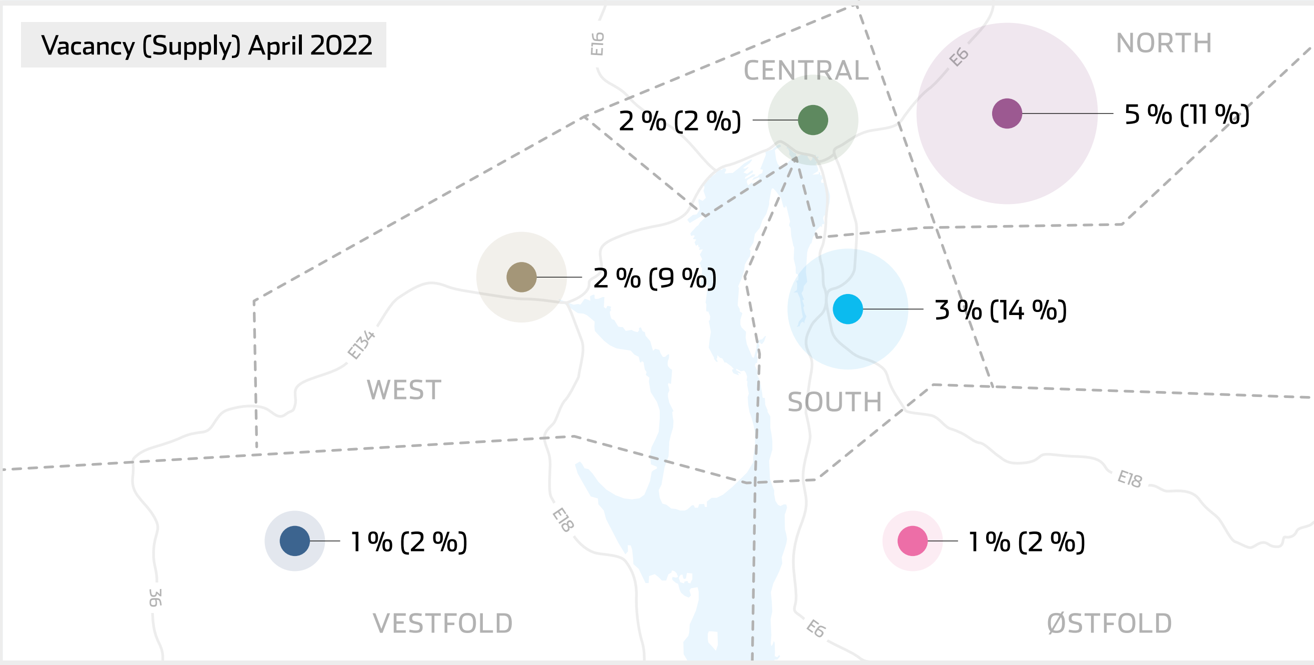
Industrial & Logistics

Supply chain disruptions fuels logistics demand

The pandemic, and as of late the war in Ukraine, is wreaking havoc on global supply chains. Disruptions in the flow of goods, and lack of space for storage is causing demand to soar. The flip side of these supply/demand effects looked to be a lot more regionalising of production, yet the war in Ukraine brought a lot of these plans on to a screeching halt. The activity level in the logistics segment is continuing to fuel investment volumes, as we are seeing a surge of investment activity for the third year in a row. Yields are down even further to new record low levels, further closing the gap to office segment yields. Central niche facilities and SMB-sized developments still comprise the bulk of activity, holding a clear position in the long-term Norwegian market. Investor confidence and interest is remaining stable. We believe that the investor market will be strong in the coming years, as demand is higher than the current available supply, and the supply side could be curtailed for an extended period as building cost and lead time is under pressure in the medium term. However, we remain firm that our initial research into the available plots of land for development along with a brewing structural shift towards Nordic centralised logistics hubs could affect part of the single tenant high volume market in the longer term.

Vacancy and supply for Eastern Norway

The vacancy in our defined logistics clusters and areas in the newly expanded scope from Greater Oslo to covering Eastern Norway is 2.4 %, a reduction from 2.9 % at the time of writing our previous report. The supply, adding offered newbuilds to vacancy, in Eastern Norway is 6.3 %, down from 7.4 % at the time of writing our previous report. Diving further into our three defined regions, we have Greater Oslo at a vacancy of 3.1 % and supply of 8.5 %, Vestfold at 0.7 % vacancy and 2.3 % supply, while vacancy in Østfold is 1.4 % and supply at 2.1 %. Breaking Greater Oslo further down into its sub-areas reveals a vacancy of 5.3 % in the Northern area, a flat development from six months ago. The supply in the Northern area is 10.7 %. The vacancy is 2.5 % in the Southern area, a decrease from 3.3 % six months ago. The supply in the Southern region is 13.6 %. In the Western area the vacancy is 2.3 %, a decrease from 3.5 % six months ago. The supply in the Western region is 9.4 %. Vacancy is at 1.6 % in the Central area, an increase from 1.6 % six months ago. Supply in the Central region is 1.7 %.



Total Vacancy = 2 %	Total Supply = 6 %

North · Central · West · South · Vestfold · Østfold

Source: Malling & Co/FINN.no

Mapping of the Eastern Norway logistics market — Our extensive mapping of the logistics market in Eastern Norway is an expansion on the Greater Oslo mapping we previously performed. Our extension of the database of all the logistics clusters and large stand-alone properties thus continues to be refined and developed, and we are utilising our findings to provide an answer as to the future development for logistics. The estimated total stock of warehouses and logistics properties in our defined areas comprises 11.9 million m² gross lettable area (GLA), with a total identified lot size of 22.8 million m².

Rents affected by the rising cost of new construction

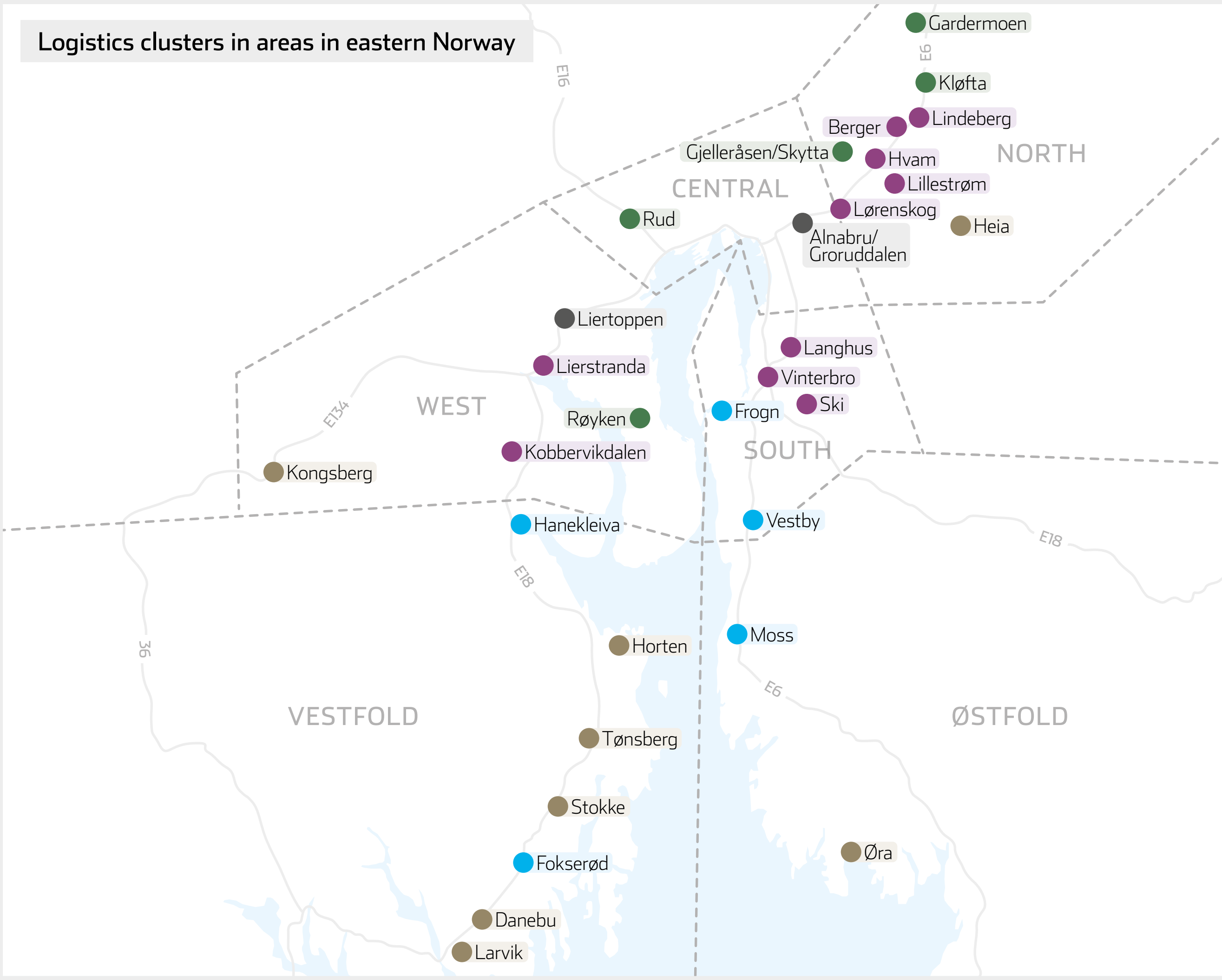
Most established logistics hubs, with a few exceptions like Liertoppen, are continuing to see a flat development in rents and, overall, we have so far seen neither upwards nor downwards pressure. Newbuilds set the rent level, and continue to be driven as a price of construction and financing terms calculation. The pressure on construction costs has, however, driven the floor of rents in several areas to increase as inflation and supply disruptions are pushing the prices of building materials ever higher. Certain clusters have experienced near or full capacity, and thus moved their internal achievable rent, but we have observed that attempts at pushing top rents usually results in a tenant choosing alternative locations. Our rent estimate for prime logistics spaces is adjusted upwards from NOK 1 250 to 1 300/m²/yr, but the niche segment of last mile logistics in the special corridor at Alnabru/Groruddalen is seeing that higher rents are achievable. This is still, however, a function of the alternative uses for the space and not a function of pure logistics prices in dedicated clusters such as Berger.

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

Source: Malling & Co

Area Category	Ceiling 4-6 metres (heated, high standard)	Ceiling > 6 metres (heated, high standard)
● (dark grey)	1 000 – 1 200	1 200 – 1 550
● (purple)	950 – 1 050	950 – 1 300
● (green)	800 – 950	950 – 1 100
● (light blue)	700 – 900	900 – 1 100
● (beige)	700 – 800	900 – 1 000

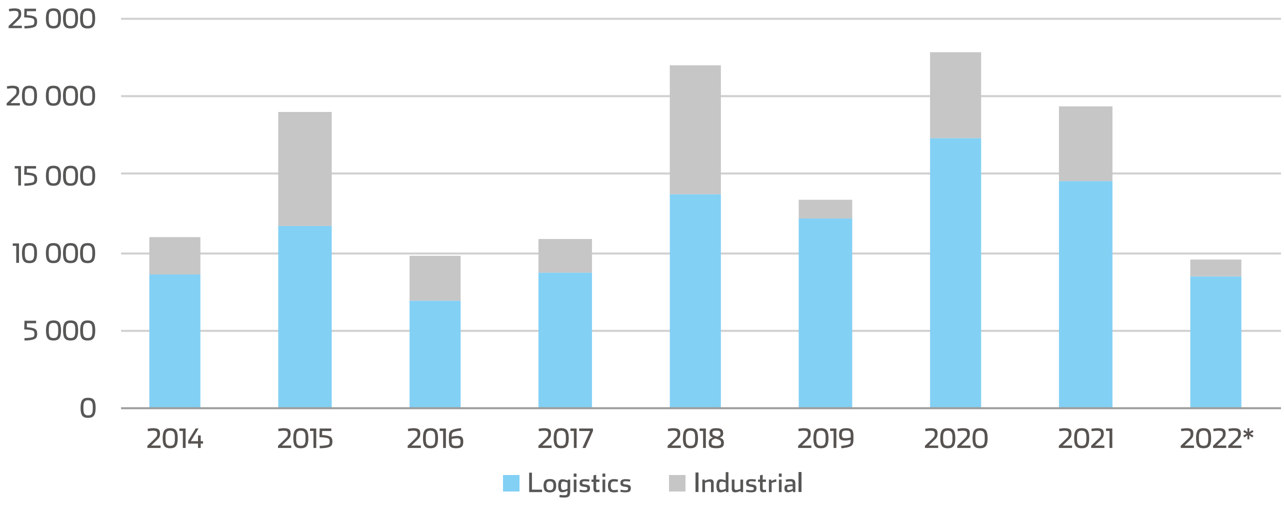
Logistics clusters in areas in eastern Norway



Investment activity in logistics is breathing down the neck of office

The number of industrial transactions recorded countrywide for the year to date is 45, amounting to NOK 9.9 billion in total - an incredible number of transactions this early in the year, putting the industrial share of the volume at around 32 % of the total investment market. This is the third year in a row that Logistics has had a higher share than Retail of the overall investment volume, and this year marks the first year in which Logistics is close to equalling the share of the volume with office. The pipeline is still fair, and we expect the segment to be a strong performer for the remainder of the year compared to other segments. Foreign investors are also expected to be part of the scene alongside domestic investors and foreign interest in Logistics assets is expected to be a driver of foreign investment volumes in 2022.

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

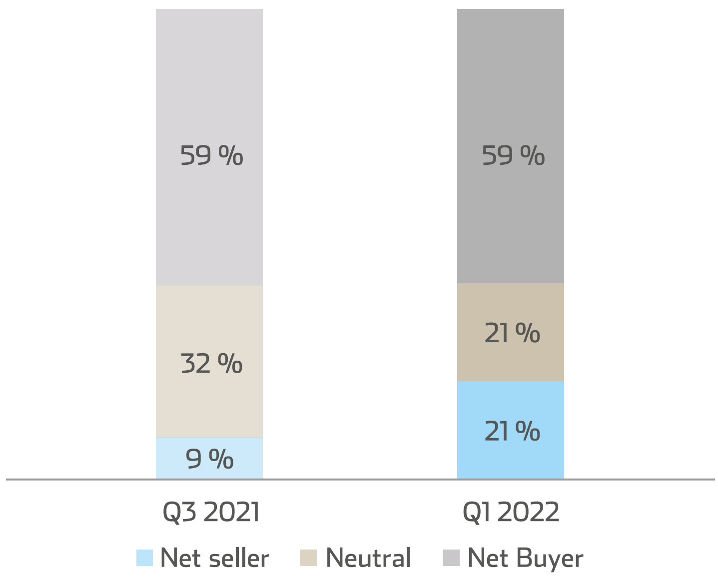


*As of 13 May. Source: Malling & Co

Logistics demand continues to be high – but willing sellers are also emerging

According to our latest Q1 investor survey, conducted early-April, we can see that Logistics has stabilised at a relatively high level of investors intending to be net buyers over the coming 12 months at 59 %. There is, however, a growing share of investors that intend to be net sellers at 21 %, in which a more balanced supply/demand situation could emerge. Following up on our side note from our previous report, that across Europe there are tendencies for the segment to even overtake office in terms of investor interest, we can, as mentioned in the previous section, confirm that Norway is also experiencing the gap closing in investment volume between office and logistics.

Desired exposure towards Logistics properties in the coming 12 months

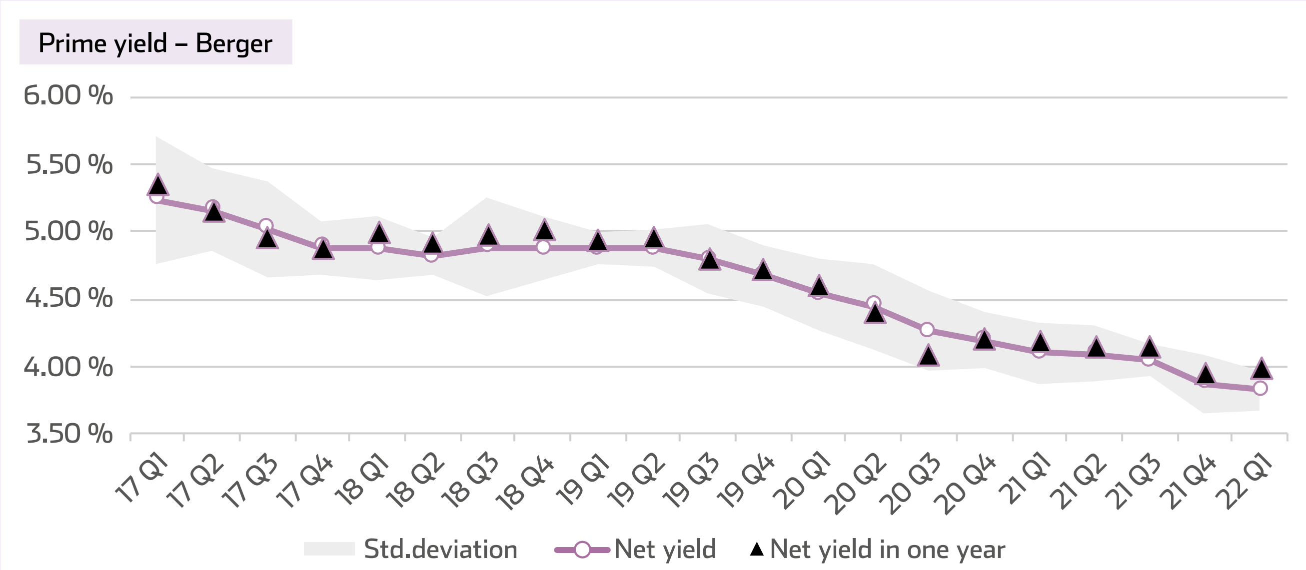


Source: Malling & Co Investor Yield and Sentiment Survey

Record low yield after continued compression

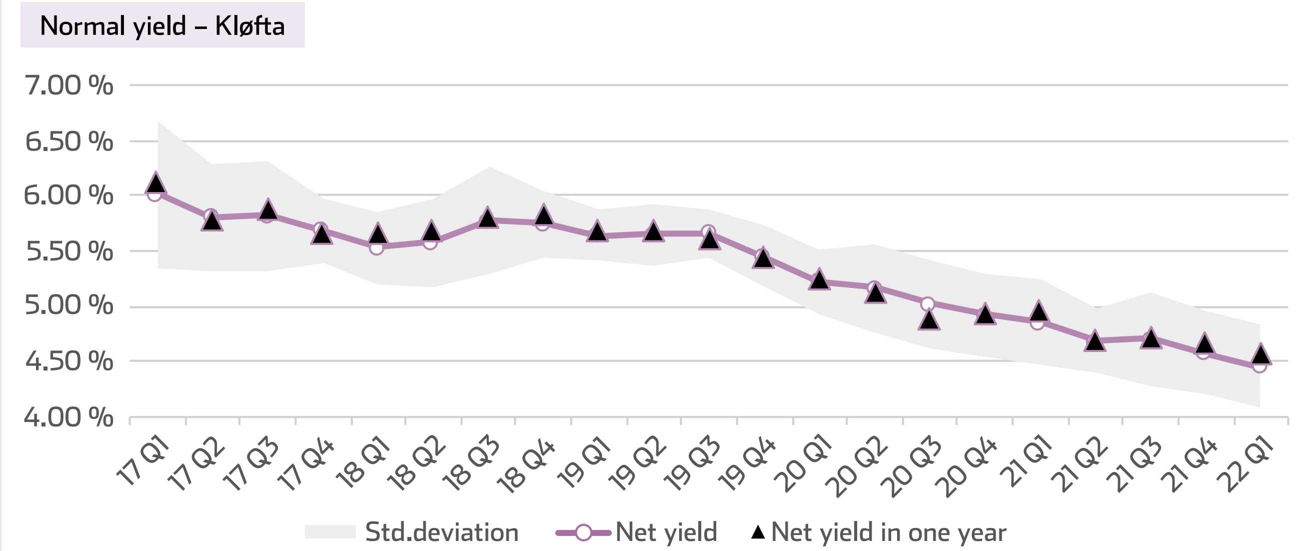
The pricing of logistics assets has continued to compress for both Prime and Normal logistics since our last report. Expectations among investors and ourselves was for a flattening over the past six months, yet another final push has brought Prime yield marginally down 5 bps to 3.80 %, However, we believe, along with the latest investor survey, that this will increase again over the coming 12 months. The investor survey suggests an increase of 20 bps, yet we believe risk is on the upside of this yield development upwards of 25 – 30 bps.

While normal yield has come down as much as 15 bps over the past 6 months. Kløfta normal yield is now estimated at 4.45 %, down 25 bps since our last report, with an increase of 15 bps over the coming 12 months. At Lier, the investor survey estimates the average normal yield at 4.65 %, a reduction of 20 bps since our last report, and the outlook is a 15 bps increase over the coming 12 months. At Vestby, the investor survey estimates the average normal yield at 4.60 %, a reduction of 10 bps since our last report, and the outlook is a 10 bps increase over the coming 12 months. As with the Prime yield outlook, we see the risk as being on the upside of these investor survey estimates at closer to 25-35 bps over the coming 12 months.

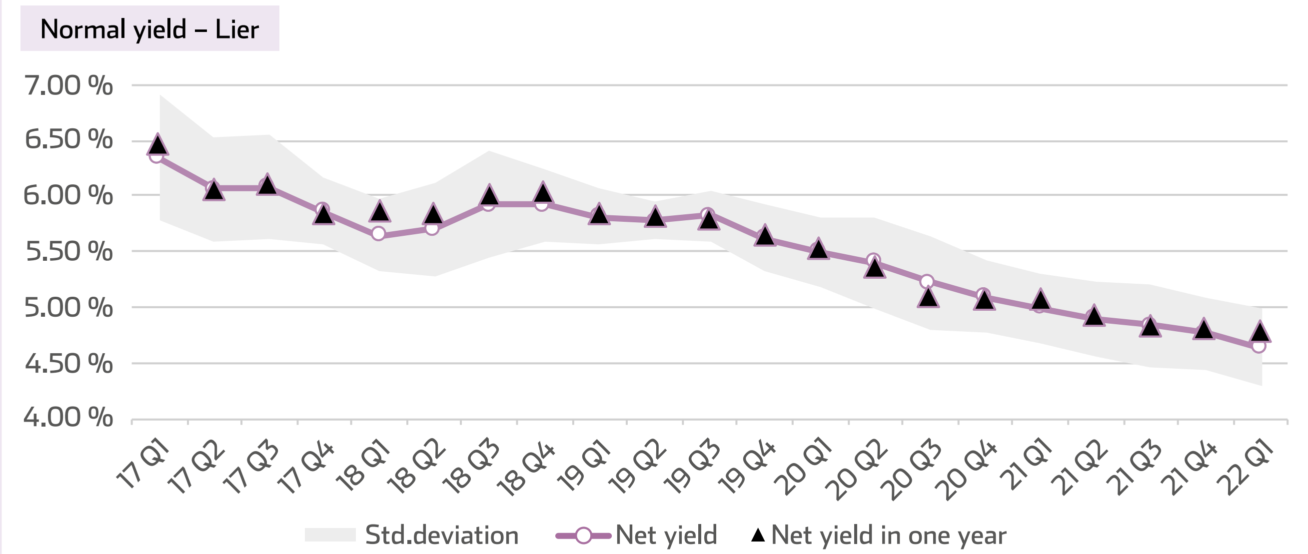


Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

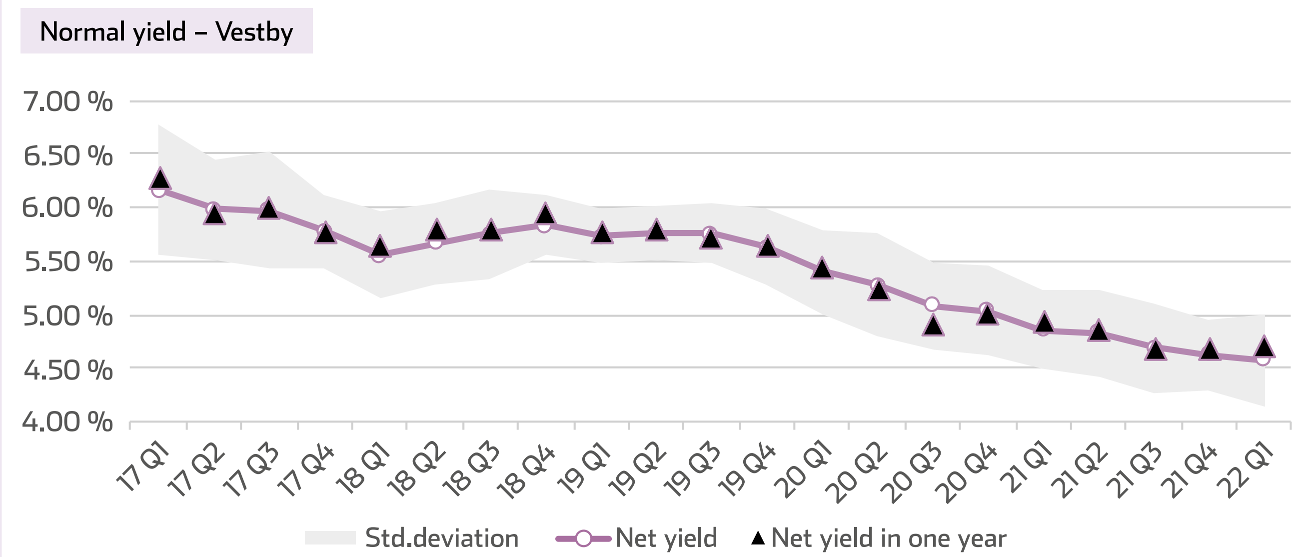
«The pricing of logistics assets has continued to compress for both Prime and Normal logistics».



Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey



Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey



Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Kjelsåsveien 161 — Oslo

Malling & Co Corporate Real Estate was the advisor for UNION in the sales process of a 17 400 m² industrial property with residential development potential at Frysja.

Residential

The key policy rate is challenging growth in residential housing prices

The residential property market started to slow down and stabilise towards the end of 2021 after extraordinary strong growth throughout the pandemic. This stabilisation was believed to represent the future, but as the new Alienation Act was put to life in 2022, the process of getting properties out in the market was delayed, thus limiting the supply. This led to a new spike in prices in Q1 2022. Going forward, a new stabilisation of prices is expected, driven by the signalled steep increase in the key policy rate. We could even see declining prices for the rest of 2022.

Residential property in Norway

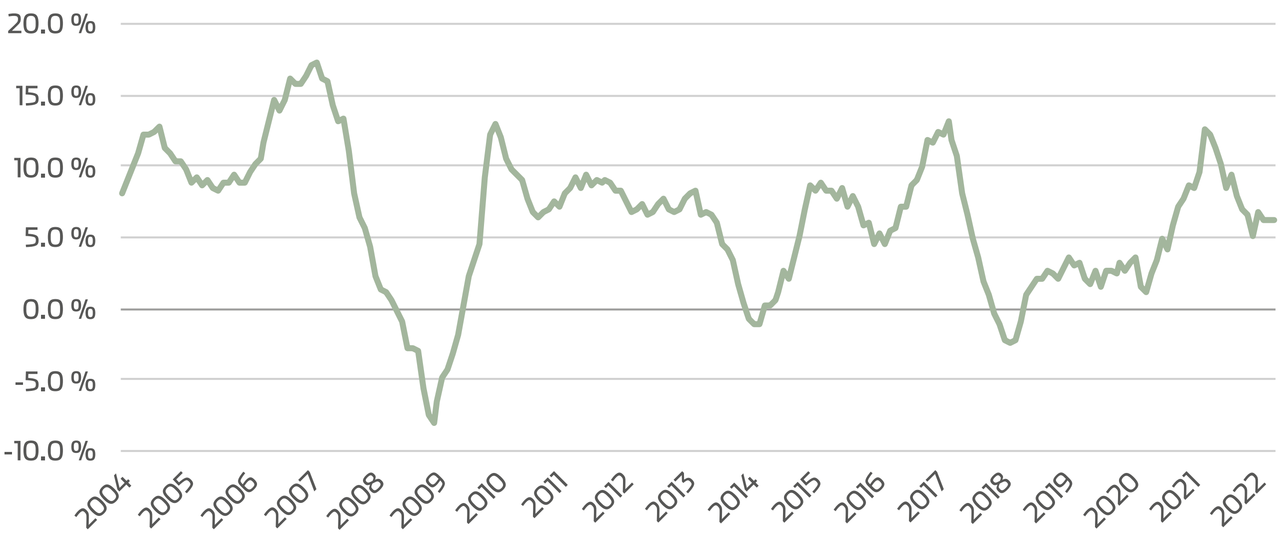
2021 turned out to be an extraordinary active year in the residential real estate market. For the first time in history, the number of properties sold passed 100 000. This was arguably driven by an increased desire to move during the pandemic, combined with very low interest rates throughout most of the year. The average price of residential properties in Norway increased by 5.2 % from January to December 2021, and in contrast to the price development in 2020 when the whole country experienced strong growth, 2021 was characterised by large differences across regions. The development in Oslo was rather flat at 2.2 % throughout the year, whereas the other large cities in Norway witnessed stronger growth at 6-9 %.

In the first quarter of 2022, housing prices have again spiked. During the first three months, prices have increased by as much as 7.6 %, seasonally adjusted by 4.1 %, which is the strongest price growth in Q1 ever seen. This was influenced by a limited supply of residences, affected by the new Alienation Act, which makes it more time-consuming to get a property onto the market. The strong price growth was, however, quite a surprising outcome, as the key policy rate was lifted during this same period and is signalled to hike several times up to 2.5 % over the next couple of years. Still, it usually takes time for the average household to take note of the real difference in disposable income and implement this into their mindset. In April 2022, we saw the first sign of house prices stabilising, with a price growth of 0.3 % from March to April, 0.0 % seasonally adjusted.

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

Source: Eiendomsverdi, Eiendom Norge

12-month nominal change in price, Norway

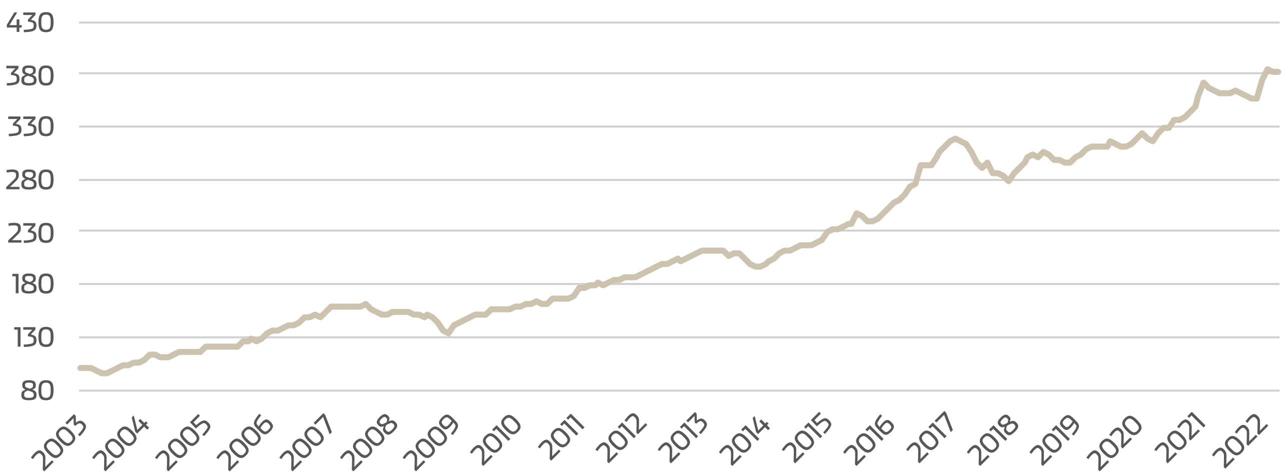


Source: Eiendomsverdi, Eiendom Norge

Oslo

Residential prices in Oslo have been fluctuating over the past year. In February 2021, a peak was reached following a 17 % increase in prices since Norway went into lock-down in March 2020. Thereafter, housing prices in Oslo followed a declining path for most of 2021, most likely due to the high inflation rates and expectations regarding increased interest rates. Residents of Oslo are more sensitive to increased interest rates than the rest of Norway due to high housing prices and therefore also high mortgages, and changes to the policy rate will therefore hit Oslo harder than the rest of the country. From January 2022, the price development turned positive again and a new peak was reached in February 2022 at 3.3 % above the 2021 peak. Oslo, like the rest of the country, was affected by limited supply in January and February due to the new Alienation Act. From March 2022, however, the supply side significantly improved, especially in Oslo, resulting in a weakly negative development in housing prices of -0.4 % and -0.1 % in March and April, respectively. The 12-month change in residential prices in Oslo ended at 4.6 % in April. Going forward, increases in the key policy rate are likely to have negative effects on the housing prices in Oslo. In addition, there is a pronounced lower population growth in Oslo following the pandemic and, combined with high building activity in the city, the hypothesis could be that the residential market will fold.

Residential property prices in Oslo, nominal, Index = 2003, monthly figures

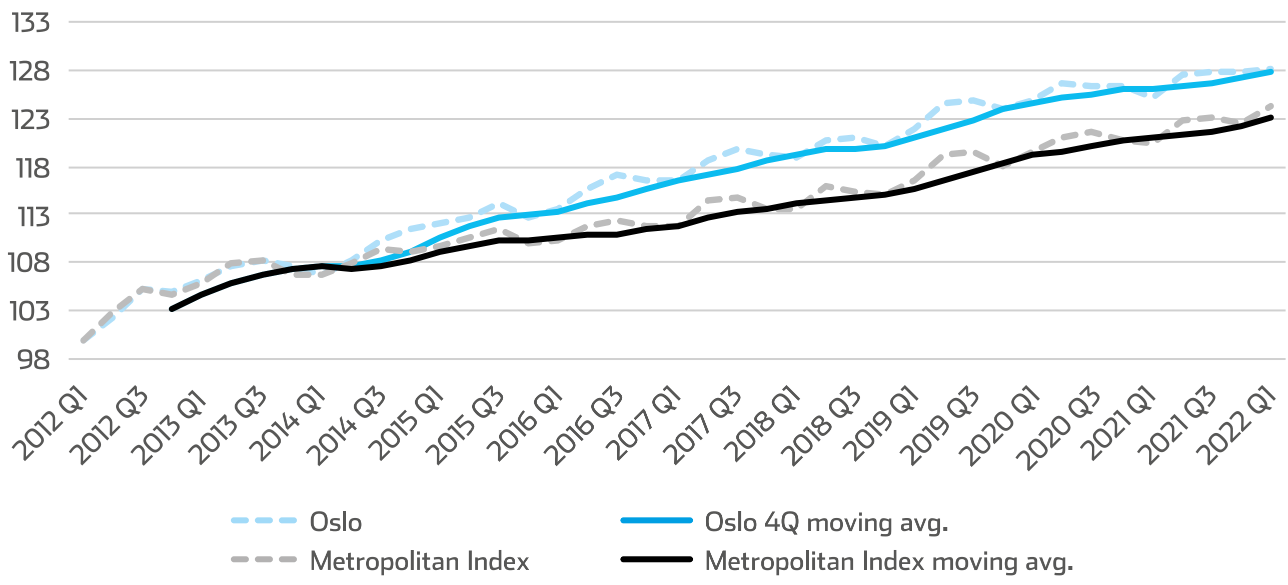


Source: Eiendomsverdi, Eiendom Norge

The rental market

The average weighted residential rent in Norway's four largest cities (Oslo, Bergen, Trondheim, Stavanger/Sandnes) increased moderately by 1.4 % in 2021. The only city area with significant growth in rental prices was the Stavanger region, which is finally looking like a healthier market following the oil price downturn in 2014. The growth in Stavanger/Sandnes stood at 11 % in 2021. 2022 is already suggesting to be a stronger year than 2021 in terms of rental increases in the four largest cities, with a 1.6 % increase in prices during the first quarter, 3.4 % y/y. The price growth is primarily driven by Bergen with a strong increase of 15.1 % in Q1, which to a great extent can be explained by the letting of many high-quality homes compared to last quarter. The Q1 2022 development in residential rent was 5.8 % in Trondheim, 0.1 % in Oslo and a negative of 1.9 % in Stavanger/Sandnes. The y/y change is positive for all cities, but weakest in Oslo at 2.3 %. In terms of number of units being offered in the market, supply has been noticeably low in Q1 2022 compared to previous quarters. 2 491 flats were announced for hire on Finn.no, compared to ~3 000 – 4 000 units per quarter over the past three years. All the largest cities except Trondheim have experienced lower supply than usual. One hypothesis behind this development is the increased property taxation of secondary properties applying from 2022.

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



Source: Eiendomsverdi, Eiendom Norge

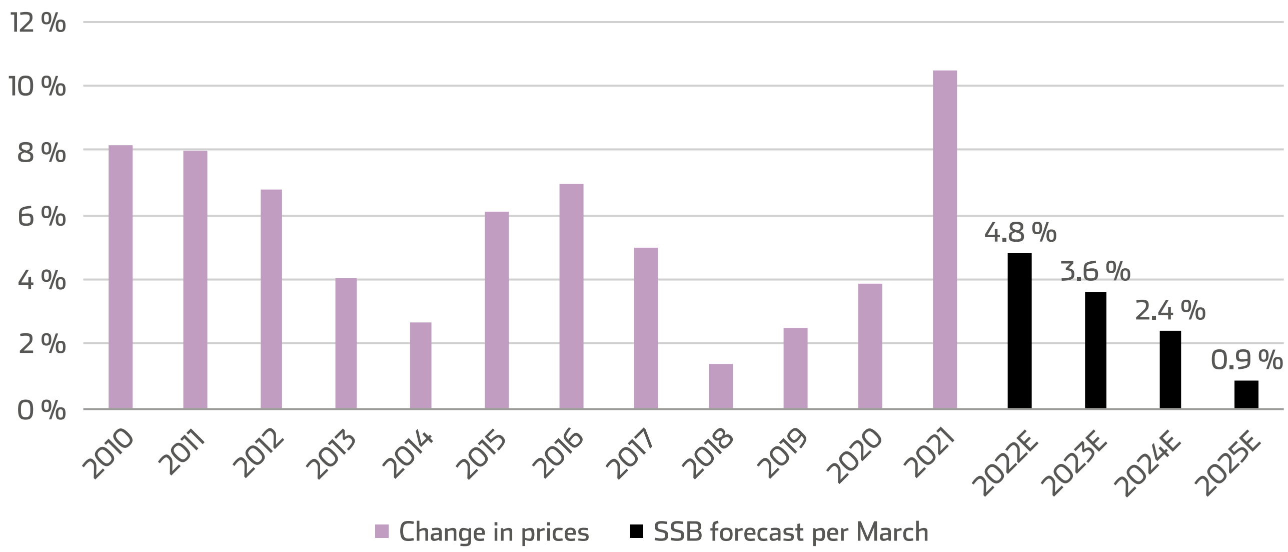
«2022 is already suggesting to be a stronger year than 2021 in terms of rental increases in the four largest cities, with a 1.6 % increase in prices during the first quarter, 3.4 % y/y».

Housing prices going forward

Whereas 2021 was an extraordinary year in terms of residential price development, with an average growth of 10.5 % nationally, prices are predicted to grow at a significantly lower pace from 2022 and onwards. The growth rates are expected to be 4.8 %, 3.6 %, 2.4 % and 0.9 % on average in 2022, 2023, 2024 and 2025, respectively. It is important to note that these numbers, which are reported by Statistics Norway, compare average prices over the years. The growth of 10.5 % in 2021 is thereby the change from the average price in 2020 to the average price in 2021. The much more moderate growth of 5.2 % as reported by Eiendom Norge, however, compares the price at the beginning of January 2021 with the price at the end of December 2021. Since 2020 started off with a relatively modest residential price growth due to the outbreak of Covid-19, the 2020 average price is dragged down, making the growth from 2020 to 2021 larger than the growth from January to December. In addition, 2021 experienced price decreases towards the end of the year, resulting in a December price lower than the 2021 max price. This is also contributing to making the January to December growth smaller than the 2020 towards 2021 growth. When using the residential property price index as reported by Eiendom Norge, the average of 2021 ended up at 304 (Index=2003). With a price growth of 4.8 % in 2022 as predicted by Statistics Norway, the average index of 2022 should wind up at 319. This level was surpassed already in February 2022, and currently the 2022 average stands at 320. This means that prices will have to decline over the rest of the year to meet the forecast from SSB.

The main reason to a more moderate expected price growth going forward is the signalled increase in the key policy rate. The key policy rate now stands at 0.75 % after last being lifted at the end of March. The Central Bank of Norway is indicating that the policy rate will increase to about 2.5 % by the end of 2023, which is above what is considered a neutral level at around 1.7 %. SSB forecast that the rate will hike four times during 2022 and one time during 2023, and thereby end up at 1.75 %. Nevertheless, it is clear that the policy rate will increase significantly to levels not seen in several years, and when the households absorb the increase in cost, all empirical data suggests that the growth in residential prices will slow down. The fact that most households have floating rate mortgages, makes the effect of policy rate changes particularly strong in Norway. In the somewhat longer term, residential price growth is also expected to be curbed by high residential construction activity.

Historic and estimated development in property prices per year, Norway



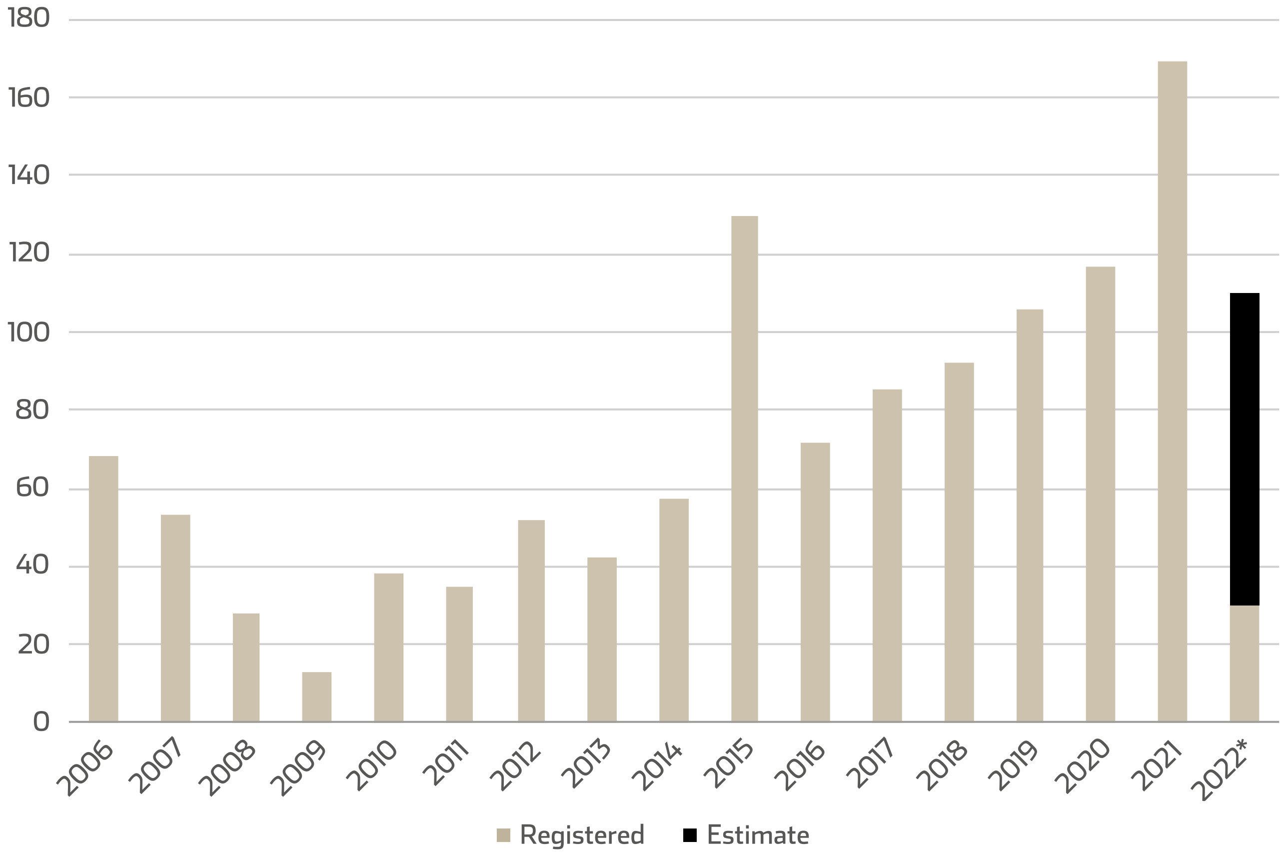
Soruce: Statistics Norway

The investment market

The swell has potential to become plunging breakers

2021 was a year for the history books with a total investment volume edging close to NOK 170 billion, and Q1 of 2022 continued the astonishing pace, keeping the rolling 12-month volume at a record high of NOK 165 billion. So far this year, we have recorded a total investment volume of NOK 30.2 billion*, split between 115 transactions*. As the pipeline looked very promising, and the market had seen keen investors, especially as pandemic restrictions were lifted and society looked to return to a normal modus operandi in Norway and Western Europe, a dual effect of critical events unfolded. The invasion of Ukraine and inflation running rampant as a mix of existing supply chain issues were intertwined with continued lockdowns and zero incident policies in China, Interest rates swaps have followed the ever-hawkish central banks skyrocketing guidings. While cash flow and economic outlook was very promising for curtailing the effects of a slight increase in yields, we are now facing a more uncertain territory on the curve of the yield increases, and the potential hit to overall economic activity. While parts of Europe undoubtedly are feeling these effects to a much higher degree than a natural resource heavy Norwegian economy, gravity is still a physical constraint one must adhere to in Norway as well. With a daunting task of curtailing inflation while not breaking the economic activity, we are eyeing a shift in investor sentiment over the summer as risk is on the upside. While interest rate sensitive cases are already seeing investors more cautious of the future outlook, we see continued potential in value-add cases. Hence, we have also revised our full year investment volume estimate down from NOK 120 – 140 billion to NOK 100 – 120 billion.

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



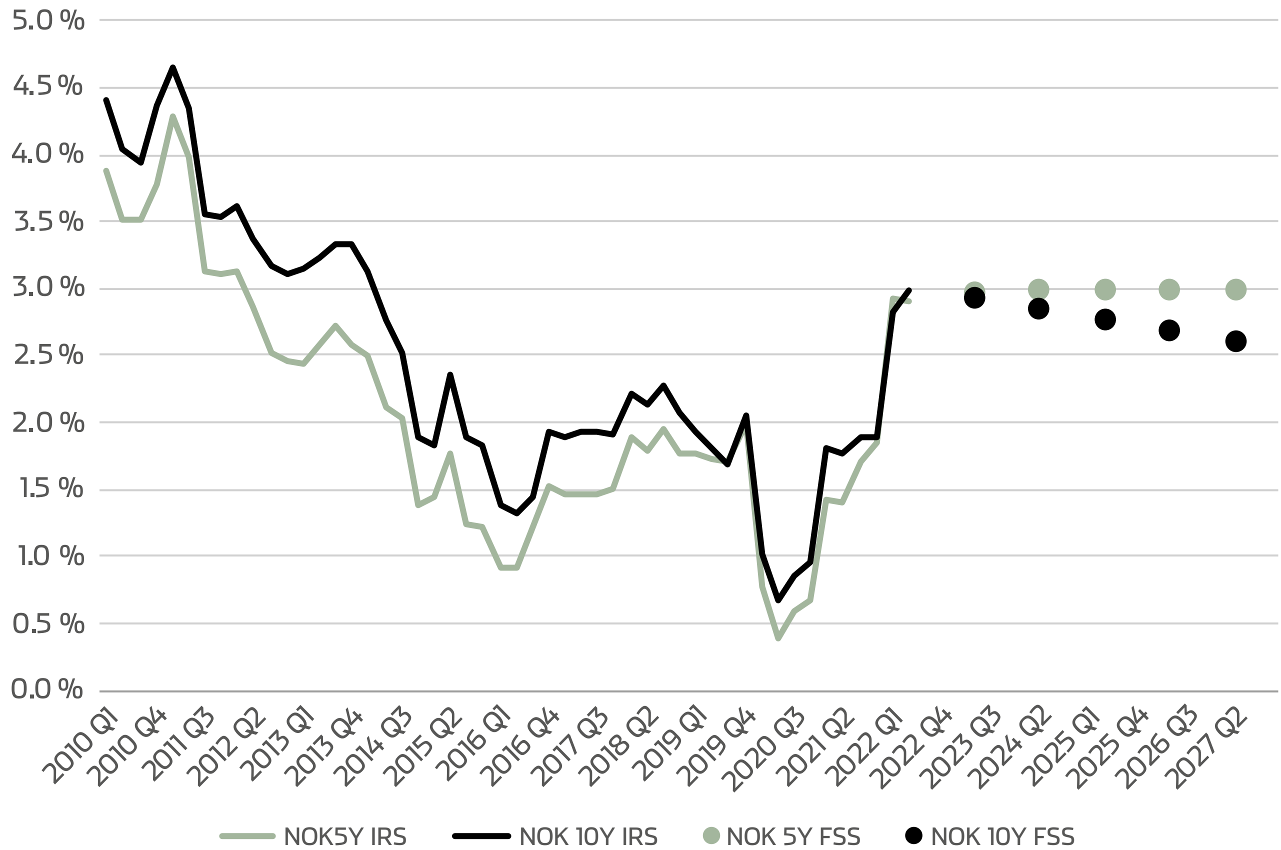
*As of 13 May 2022. Source: Malling & Co

Bank financing tightening while bond market is drying up

As central banks in the western world are battling with record high inflation not seen for decades, interest rate swaps are following suit. The inverted yield curve that was looming precariously in US interest rate markets for a while, a common indicator of a recession to come, seems to have been diverted for now. But the relentless struggle to regain control of a runaway inflation persists, and such does the backdrop of a recession from these potentially damaging interest rate hikes. Since our last report in November, we have seen the bond market for CRE dry up, so has the banks' criteria for granting financing gone up as well. Well positioned projects with a sound business case are still backed, but lesser business cases with higher risk profiles are no longer deemed creditworthy in the credit committees. The 5Y Interest Rate Swap (IRS) is up roughly 100 bps and over the same time period we have seen the NOK Forward Starting Swaps (FSS) coming up the same 100 bps. The NOK 5Y FSS is more or less dead flat at around 3 % from a 3-month forward all the way out to a seven year forward start, and the NOK 5Y forward in ten years is slightly lower at around 2.95 %. The NOK 10Y is currently at around 3 %, and the 10Y FSS is at roughly 3 % with a forward start from 1 year out while gradually declining to around 2.5 % ten years out. As bank margins have begun to increase along with the sharp increases in interest rate swaps, the average all-in financing cost is back to levels above 5 %, something not seen for almost 10 years.

Bond financing of single SPVs has seen a sharp decline, and the big-ticket item to address through 2022 will be all the bond financed volume that is up for refinancing. If the expected volume to be fixed for refinancing is the cause of the current lesser appetite for new projects, it is creating a softening effect on the investment market. If the cause for lesser bond financing is that the investor appetite is completely gone, then we will have a very sizeable portfolio of projects in dire need of financing from other means of funding.

NOK 5Y and 10Y IRS and FSS



*Q2 2022 as of 13 May. Source: Thomson Reuters

Regional and segment interest remaining stable

Our regional overview so far in 2022 is a reflection of the market we saw throughout 2021. It reveals that Greater Oslo is still the centre of attention, yet investors continue to seek increased exposure in other large cities, as well as more rural areas. A thriving and well-functioning investment market has seen ample activity in other regional cities, but while Bergen and Trondheim has eased of the activity level somewhat, Stavanger has seen a boost on the back of higher activity in the Oil & Gas sector. Going forward we expect that some of the interest for regional exposure in tier 2 and tier 3 cities will dwindle off from the record high levels witnessed last year as risk increases. But as always, solid cash flow will attract investors looking for a higher return than available in the tier 1 cities. The optimistic outlook for Norway as a whole rests on the ability to keep the economic wheels turning from the exposure to natural resources and the affiliated sectors. While interest rate sensitive cases could struggle due to the movements in the interest rates, we also see that the value-add segment of the market has the outlook to be a factor in the investment market going forward, and the investor demand we observe supports this.

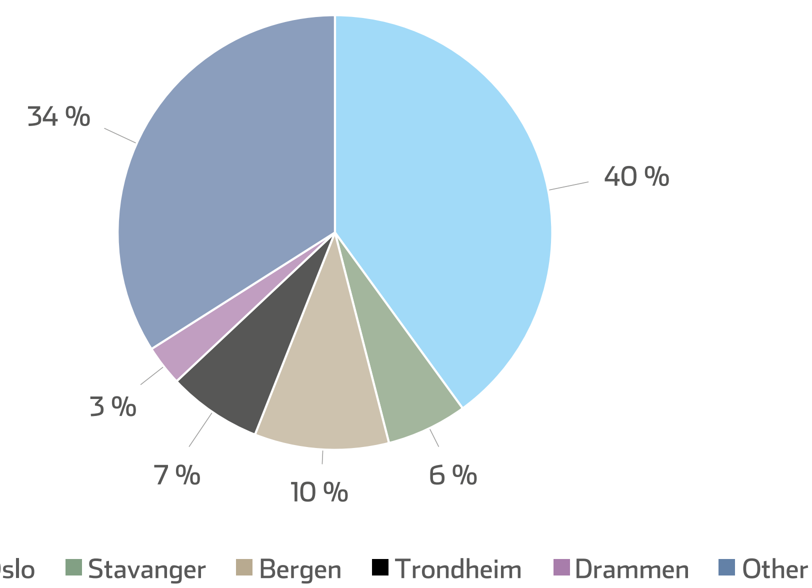
Prime yield (net) in Norway

City	Prime Yield (Office)	△ from last report
Oslo	3.25 %	— 0 bps
Stavanger	4.25 %	— 0 bps
Bergen*	3.80 %	— 0 bps
Trondheim**	4.00 %	— 0 bps
Drammen	4.00 %	— 0 bps

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

«The value-add segment of the market has the outlook to be a factor in the investment market».

Regional split of the transaction market 2022* by volume



*As of 13 May 2022. Source: Malling & Co

Global investment volume in Q1 2022 is highest ever record

Q1 2022 was a record breaking first quarter of the year for global investment volumes in commercial real estate, reaching USD 282 billion. Outperforming pre-pandemic levels, this represented a more than 20 % increase on Q1 2019. The year began with positive global sentiment in the real estate sector, carried over from Q4 2021, as pandemic induced restrictions were eased, while the full implications of inflation and geopolitical events were yet to fully materialise.

Year on year investment volumes increased across all major asset classes in Q1 2022. While a slow rebound, hospitality made the most noticeable improvement, more than doubling on Q1 2021 investment volumes and up by 5 % on Q1 2019. Investors' confidence in the segment returned as global pandemic travel restrictions have eased. Whilst office remains the second highest volume after residential, the segment is yet to return to pre-pandemic investment volumes.

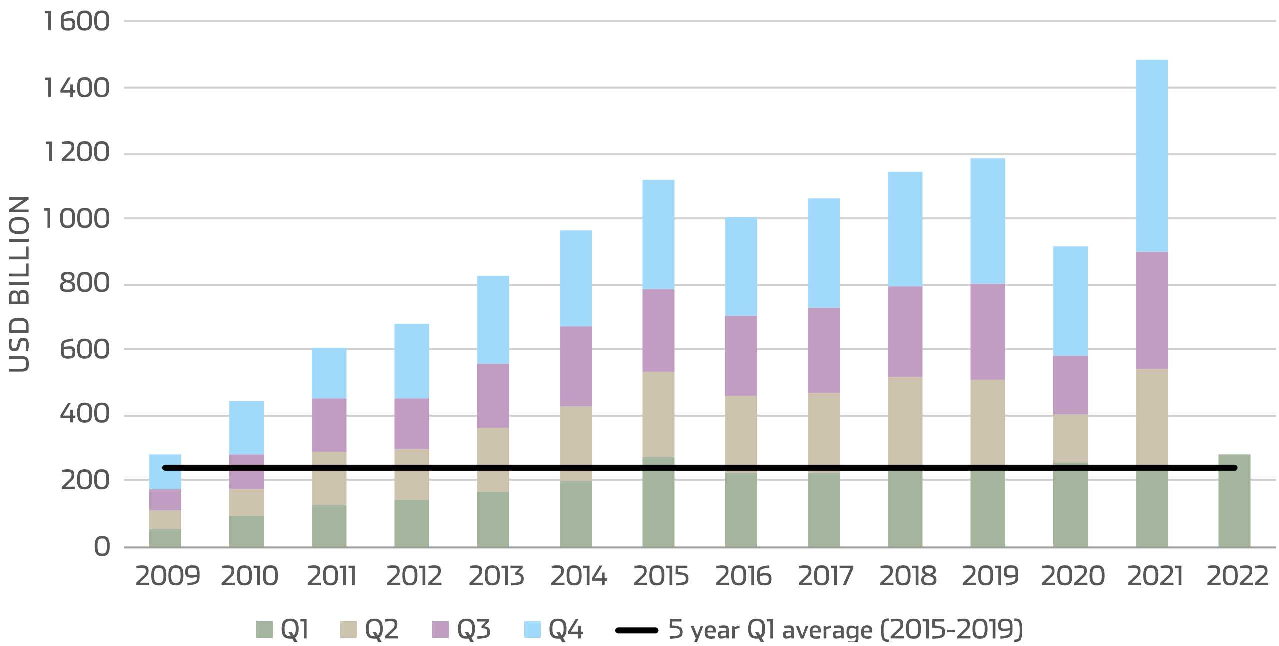
Regions with less stringent Covid restrictions had higher levels of real estate investment flows in Q1 2022, with EMEA and Americas investment volumes exceeding pre-pandemic levels, compared to the Asia Pacific.

Prime yield (net) in Europe

City	Prime Yield (Office)	△ from last report
Munich	2.50 %	▼ -10 bps
Paris	2.60 %	— 0 bps
Milan	2.90 %	▼ -10 bps
Amsterdam	3.00 %	— 0 bps
Helsinki	3.00 %	▼ -45 bps
Copenhagen	3.00 %	▼ -50 bps
Stockholm	3.20 %	▼ -5 bps
Oslo	**3.25 %**	**— 0 bps**
London	3.25 %	— 0 bps

Source: Malling & Co/Savills

Total global real estate volume

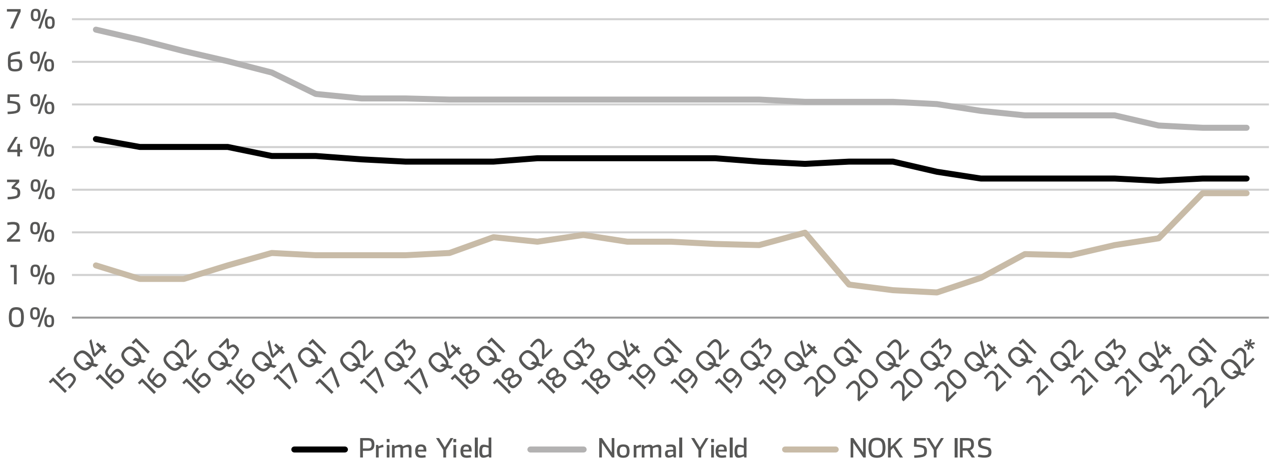


Source: Savills

Yields bound to increase as gap is diminishing

As interest rates have risen, we are seeing the spread between prime and normal yield tighten, and the prime yield gap to the NOK 5Y Interest rate swap has greatly reduced again. Yet, other drivers have been holding yield increases back so far, but our main scenario going forward is that the IRS increases will force yields to increase as the increase in cash flow simply won't cover the spread. As covered in our previous sections on Macro and Office, there are inflation and rental upsides that will create value in the years to come, which will partially offset the interest rate increase, but much less so than indicated just 6 months ago. Going forward, this effect will be observed both in the relative safe harbour of the office segment, as well as investors venturing back into retail and hospitality, which will see revenue-based rents return. Other drivers of increasing yields will be covered in the next paragraph.

Yield development past 5 years



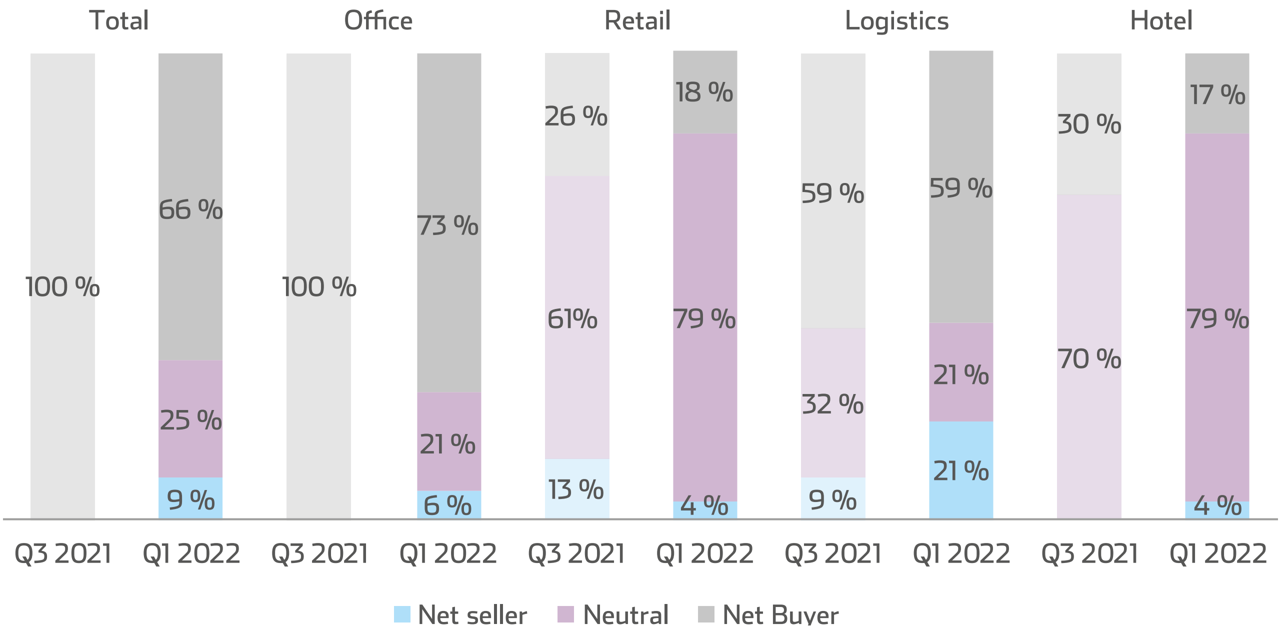
*As at 13 May. Source: Malling & Co/Thomson Reuters

Investor sentiment and yield development

Our latest survey-based investigation from Q1 2022 (survey period ended Friday, 8 April) into investor expectations for yield and investor intentions shows that the demand for commercial real estate is remaining high, yet softening from the record high levels witnessed 6- 12 months back. With 66 % of investors still stating that they intend to be net buyers of CRE in the coming 12 months, this marks the first quarter in 2 years with below 80 %. Office remains at the forefront of the demand side, where 73 % of investors are intending to be net buyers in the coming 12 months. Investor demand for the logistics sector is at 59 %, a flat development since our last report 6 months ago, and a relatively stable level over the past 18 months. However, we must see this survey in light of the timing, and or expectations is that the softening interest will materialise further in our next survey closer to July.

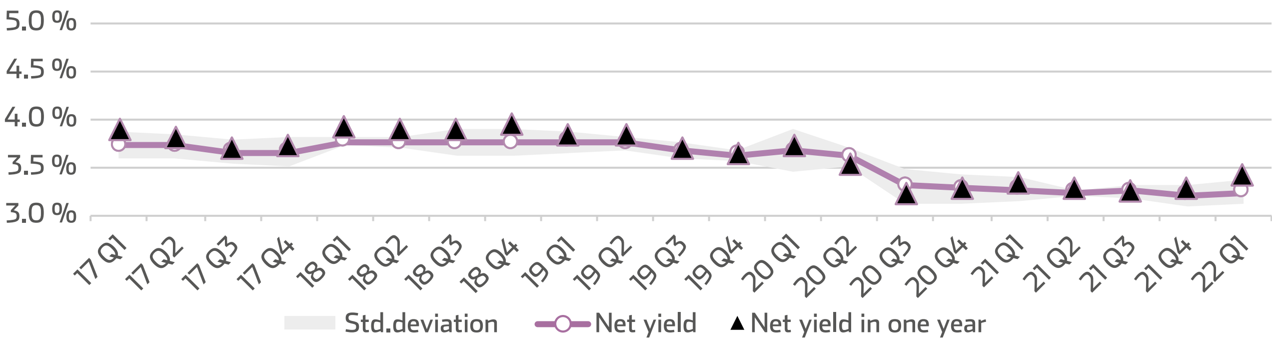
Yields remain almost flat, only 5 bps above all time low, currently at 3.25 % for CBD Prime office yield, but the economic and geopolitical turmoil will drive these levels higher than the 15 bps increase that investor signalled 12 months forward in the survey at the end of Q1 2022. A continuing outlier in the office segment is the fringe at Lysaker, which has seen the gap with Helsfyr reduce, as Lysaker is down another 5 bps for both prime and normal office. The characteristics of the area with engineering and Oil & Gas heavy concentration of tenants is a driver of further value creation in this western fringe cluster. Another big trend shift is the gravity defying interest in normal and prime logistics yields in the Greater Oslo area, with prime logistics now estimated at 3.80 %, Normal logistics at Kløfta at 4.45 %, and Vestby and Lier at 4.60 % and 4.65 %, respectively. Yet we do expect this to be a late cycle trend, and levels to come back up over the summer. We do however foresee prime yield to increase more than the 20 bps the investor are expecting over the coming 12 months. The retail high street segment, where both prime and normal yields have remained flat since our last report, is covered more closely in our retail section.

Desired exposure towards commercial real estate next 12 months



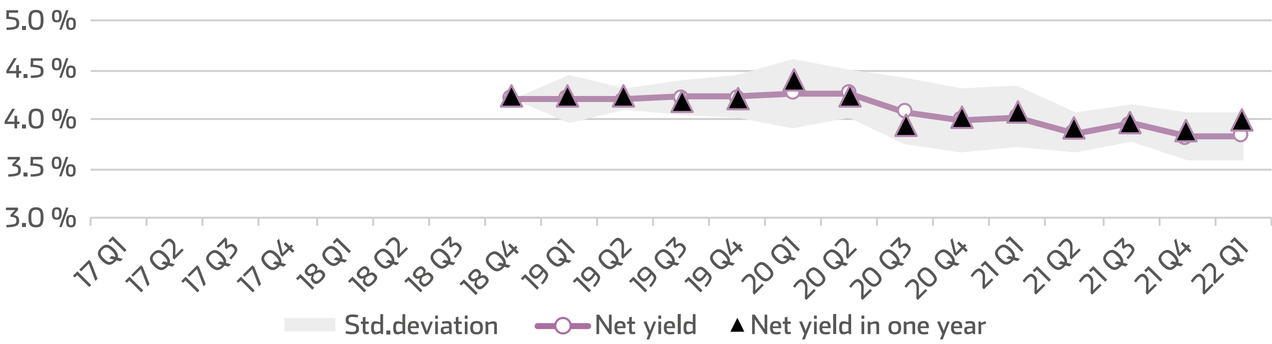
Source: Malling & Co Investor Yield and Sentiment Survey

Prime office CBD



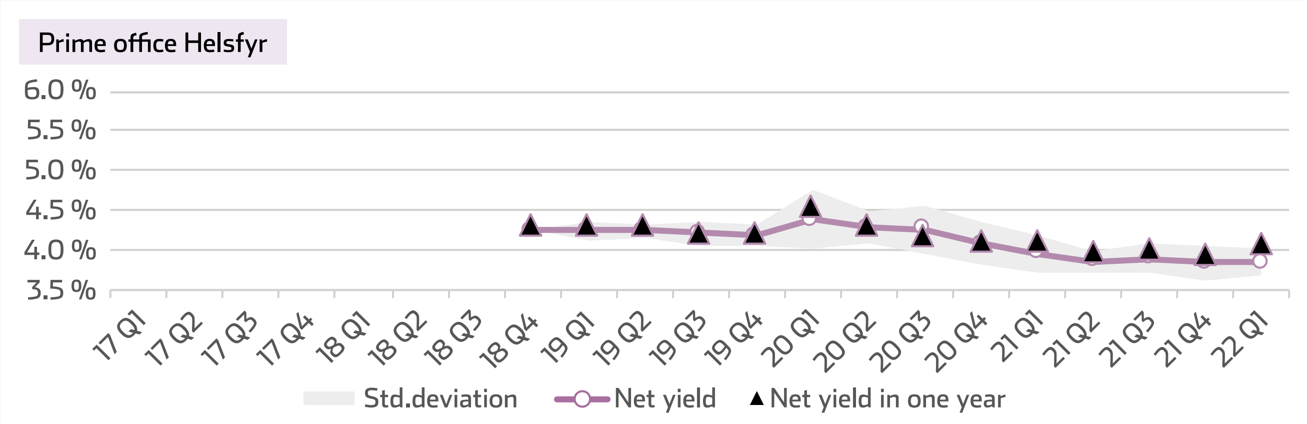
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Normal office CBD

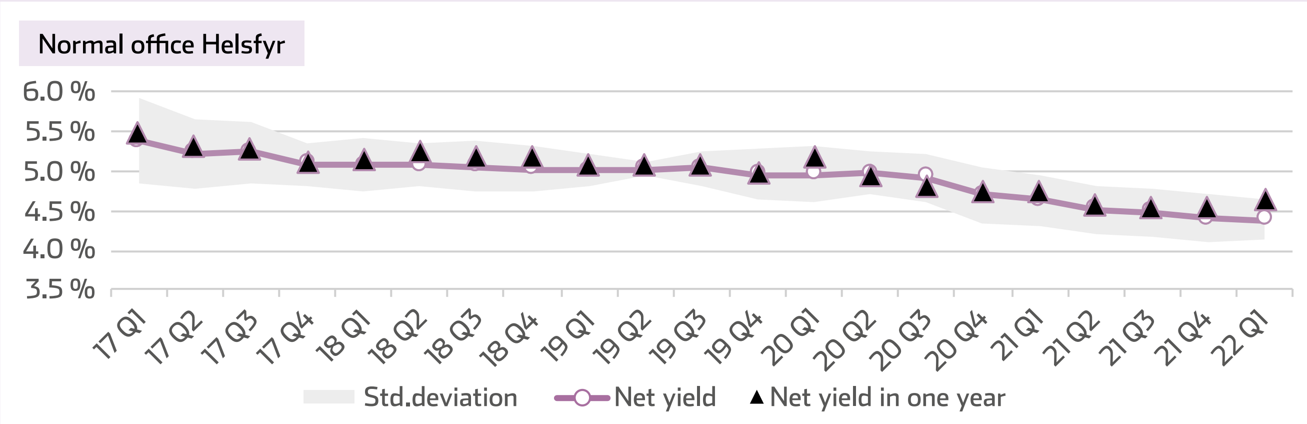


Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

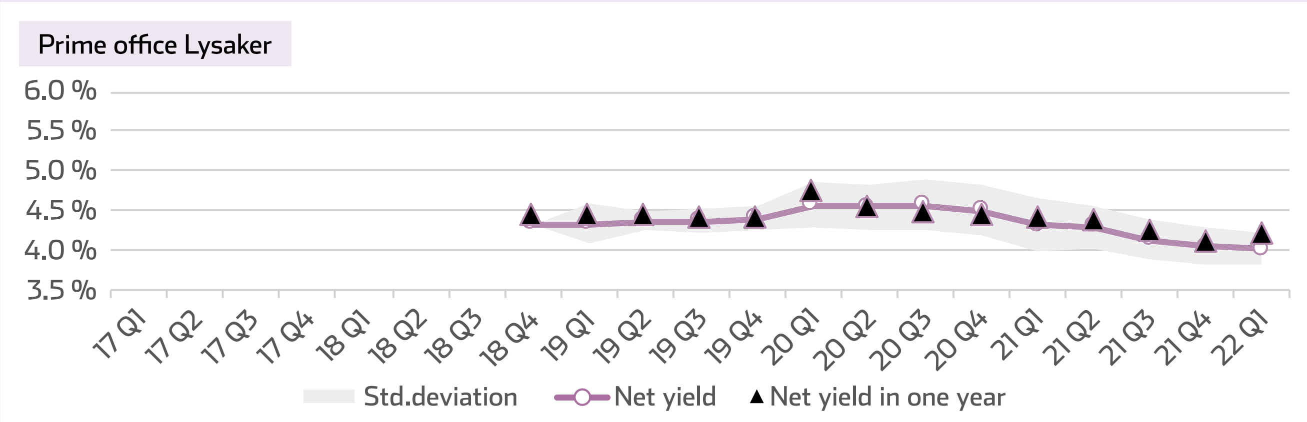
Disclaimer — All graphs on page 87 and 88 are results from the quarterly investor survey, and do not necessarily reflect the official views of Malling & Co Research and Valuation.



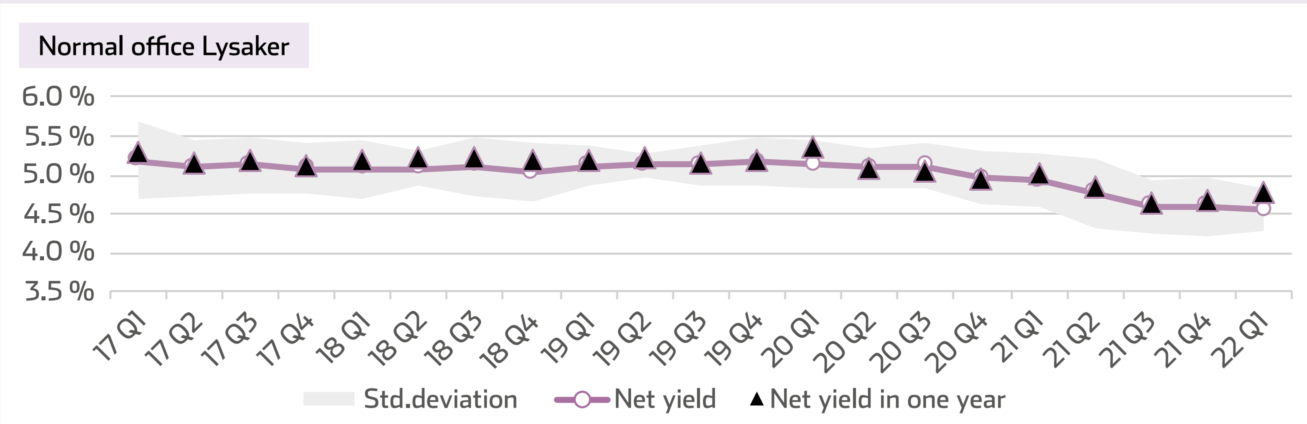
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey



Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey



Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey



Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Johan Follestads vei 19 — Asker

Malling & Co Drammen was the advisor for Bilia Norge AS and Carnegie in the sales process of a 5 900 m² logistics property at Røyken Næringspark.

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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