MALLING & CO

# Market report

Winter 2021/2022

www.malling.no

# Full steam ahead despite surging inflation, interest rates and energy prices

**Saturday, 25 September 2021 at 16:00 was the time and date we had been waiting for a long time. Almost all restrictions caused by the Covid-19 pandemic were lifted, and we were suddenly back to something like normality with a lot of uncertainty of where we are heading. By the end of October 2021, Norway had a vaccination coverage of 86.6 % of the adult population. Hence, we now consider the pandemic to be over, at least its relentless impact on domestic economic activity. However, we cannot completely rule out the likelihood of Covid-19 playing further tricks on us over the next year.**

**Anders Berggren**
CEO, Eiendomshuset Malling & Co

The employment market is now considered quite strong, with increased employment and a decreasing vacancy rate. Many sectors that were hit hardly during the pandemic, like service-oriented sectors, are now struggling to attract competent workers. Many of these sectors have relied on foreign workers in the past and these have not yet returned to the same level as before. The forecast is that employment growth will continue, however levelling out as employment rates approach previous highs.

While it is full steam ahead in the CRE investment market have yet to be reefed, the wind is increasing at sea. Interest rates are rising, and the Norwegian Central bank has clearly communicated its intention to continue to increase the key policy rate over the coming two years. Despite higher than usual inflation at the moment, with a 12-month trailing rate at 4.1 % in September, expectations for the CPI in the latest Monetary policy report lie at around 1.5 % in the coming years, well below the target of 2.0 %. This means that real interest rates are expected to rise, putting pressure on yields going forward, and the prime office benchmark yield of 3.25 % may prove to be the bottom yield level in this cycle. The Norwegian krone is appreciating along with risk appetite and increasing energy prices, and it remains to be seen if this trend will motivate international investors to increase their interest in Norwegian CRE and exposure to the NOK.

At the same time, office workers are returning to their offices and demand for office space is now back on the agenda. While the shift to some sort of hybrid working model seems to be determined by the crowd, the details of how it will unfold is still up for discussion. However, we are seeing trends in the office leasing market that we believe will create continued strong demand for high quality office space. Achievable office rents in our broker consensus have been increased significantly in several office clusters for this report, reflecting our optimistic view of office rents going forward.

The expectations of strong fundamentals in the office segment are also visible in the investment market, where offices are the no.1 sought-after segment within commercial real estate, according to our latest investment survey. All the respondents in our Q3 survey, consisting of only active real estate investors in the Greater Oslo market, intend to be net buyers of commercial real estate over the coming 12 months. This result was well driven by a 100 % net buyer response for the office segment. At the same time, we just passed the NOK 100 billion mark in investment volume by the end of Q3, recording an all-time high in the 12-month rolling investment activity. And, with everything set for the most active quarter of the year, we are expecting an all-time high for investment volume for 2021, at somewhere between NOK 140-160 billion.

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

**Editing completed:** 29 October 2021

# Macro — Global

## Demand has accelerated, but supply has been slower to respond

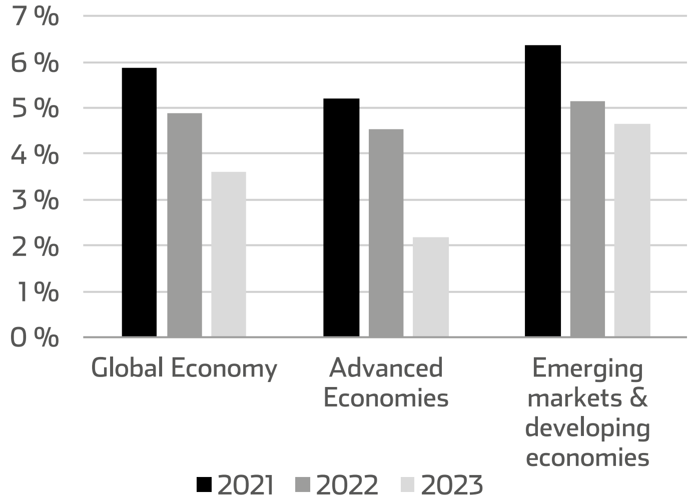
As the world continues to navigate through the global pandemic, recovery continues, albeit the momentum has softened. The recorded global Covid-19 death toll has reached over 5 million people, holding back a full return to normalcy. Pandemic outbreaks in critical links of global supply chains have resulted in supply disruptions, further feeding inflation, while employment is below pre-pandemic levels in many economies. Still, aggregate output for the advanced economies is expected to regain its pre-pandemic path in 2022 and exceed it by 0.9 % in 2024. By contrast, emerging market and developing economy groups (excl. China) are expected to remain 5.5 % below the same path in 2024, reflecting the dangerous divergence in economic prospects across countries. Persistent scars and the risk of derailments remain for heavily impacted economies for as long as the pandemic continues forcing difficult choices on policymakers.

### GDP growth projections

The global growth outlook for 2021 of 5.9 % has been marginally revised down by 0.1 % points from the July World Economic Outlook (WEO), even though the first quarter of the year was stronger than anticipated due to the good adaptation of economic activity to the pandemic and strong policy support in many countries. Momentum weakened in the second quarter, however, affected by supply disruptions and increasing infection in many emerging markets. Along with continued policy support, vaccine access remains the principal driver of the global recovery. While advanced economies have achieved a vaccination rate of 58 %, about 36 % in emerging market economies and less than 5 % in low-income developing countries are fully vaccinated against Covid-19 as at September. More recent 2021 GDP data is mixed due to the gaps in expected recoveries, especially between advance economies and low-income developing countries, which have widened since the July forecast. However, the data mainly suggests that the recovery will continue, but with some softening in the third quarter.

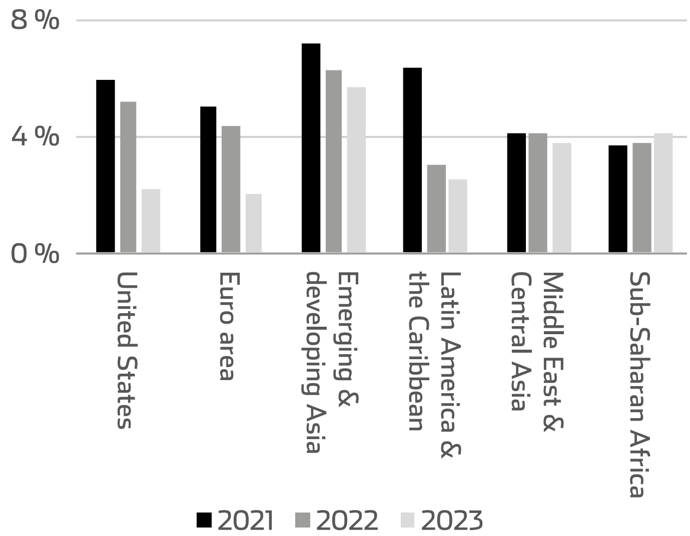
Global GDP-growth is expected to continue into 2022 and 2023 with 4.9 % and 3.7 %, respectively. The IMF forecast assumes that some emerging market economies will join advanced economies in gaining broad vaccine access in 2021, while most emerging markets and developing economies will have broad access in 2022 and 2023. The future upside risk is still portrayed by rising inflation and supply chain bottlenecks, seen especially among advanced economies. However, an ever-stronger rebound is expected in the first half of 2022, contributing to the growth outlook. GDP growth in the advanced economy group is projected to return to pre-pandemic trends by 2022 and rise thereafter, largely due to the anticipated policy support in the United States. The other income groups are expected to remain below their pre-pandemic paths for the coming years.

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




Source: IMF WEO (October 2021)

GDP growth projections, by region, % change



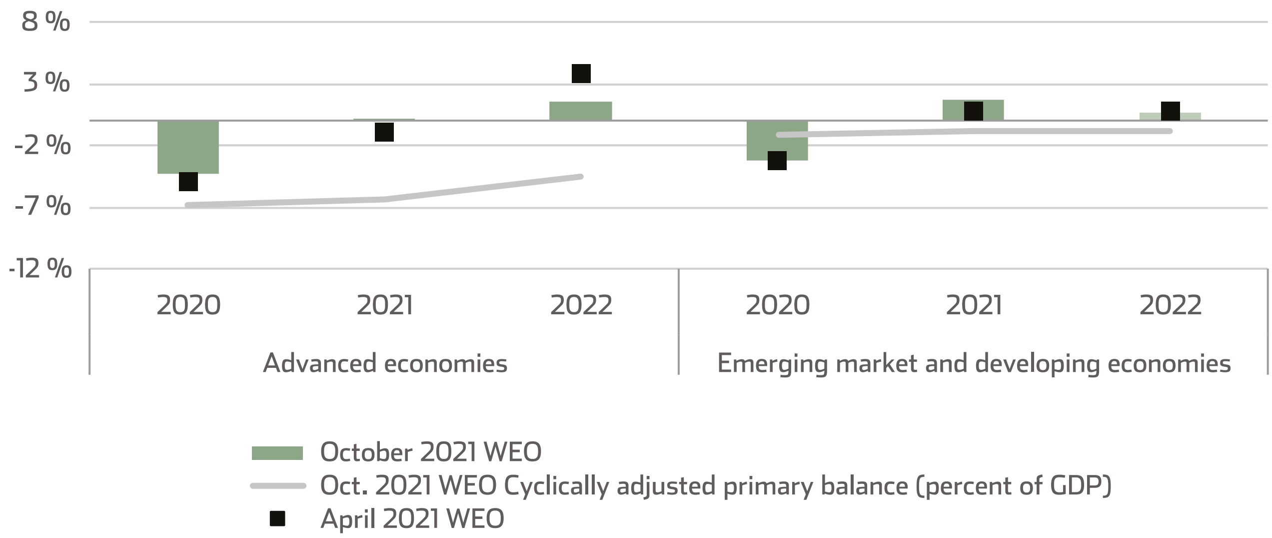

Source: IMF WEO (October 2021)

## Monetary and fiscal policy

The economic recoveries vary across countries and sectors, reflecting not only the outcome of the battle between the virus and vaccines, but also how effectively policy measures can limit lasting damage from this unprecedented crisis. Not long back, it was assumed that the central banks in the major advanced economies would leave policy rates as they were this year, some through 2022, even. In recent weeks, this assumption has begun to change for some countries. The pressure of inflation has taken its toll on major economies and is increasing the likelihood of a more rapid interest rate increase in the US and UK, especially. In the UK, it has even been discussed whether the base rate could be subject to an increase from 0.10 % to 0.25 % in December this year. The timeline for rises in interest rates is being tightened nonetheless but raises the question of whether supply can adjust quickly enough. As for government bond purchases, processes are already underway to scale these back in some economies, e.g. the Federal Reserve is beginning to taper purchases in the US, with more countries such as Australia and Canada to follow. Over the coming quarters, further tightening is expected in both advanced economies and emerging market economies.

In many advanced economies, fiscal policy continues to be accommodative and supportive of long-term investments. The large fiscal packages announced by the European Union (EU) and the United States could add a cumulative USD 4.6 trillion to global GDP between 2021 and 2026. By contrast, higher interest rates and lower government revenues have held back growth and shifted expenditures towards pandemic-related priorities in emerging market and developing economies. Fiscal policy remains supportive overall, however, with deficits falling by about 2 % of global GDP on average in 2021. Global deficits are projected to decrease further by almost 3 % in 2022 and return to pre-pandemic levels by 2026. Even though it has been appropriate and necessary, the support has resulted in higher gross financing needs and government debt is likely to remain at record-high levels for many years. Globally, debt is expected to be close to 100 % of GDP in 2021 and to decrease slightly towards 2026. Large purchases of government debt by central banks, mostly in advanced economies, and by the domestic banking sector have helped to contain the cost of new borrowing. Many low-income developing countries are likely to need further international aid and, in some cases, debt restructuring to stay afloat in the times ahead.

### Change in structural primary fiscal balance, % of potential GDP




Source: IMF WEO (October 2021)

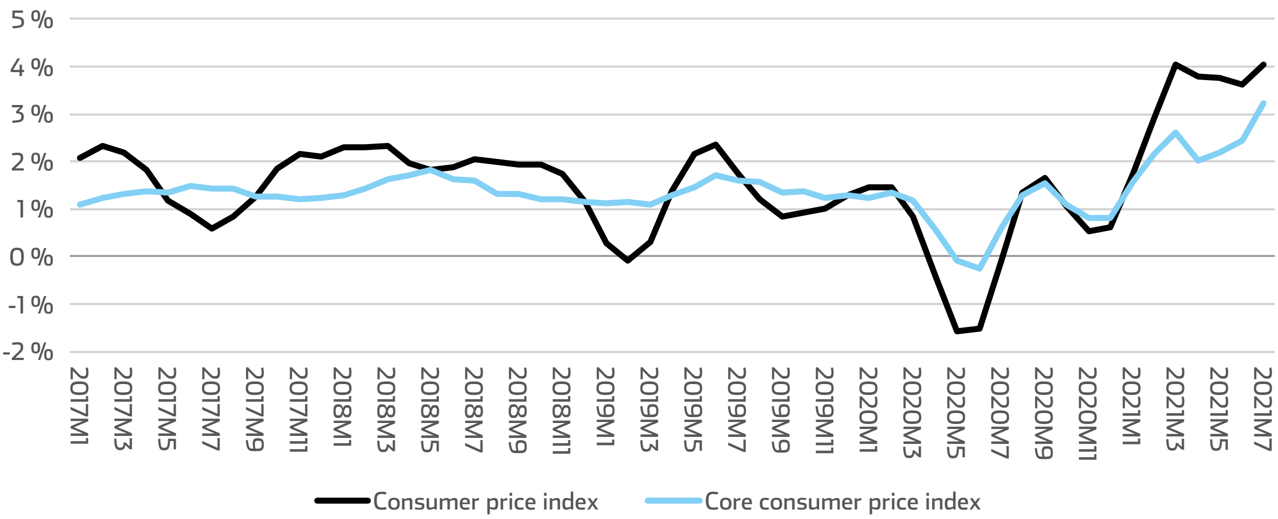
«The pressure of inflation has taken its toll on major economies and is increasing the likelihood of a more rapid interest rate increase in the US and UK, especially».

## Financing

Financial market sentiment has largely stayed attuned to the process of global recovery. However, the high uncertainty of the conjuncture has also led to sensitivity with respect to any news, particularly about inflation prospects in advanced economies. The first quarter of 2021 and a period in June saw a spark of financial market volatility, with investors repositioning portfolio holdings as the outlook for US inflation and monetary policy was reassessed. Even so, the overall picture is broadly supportive of financial conditions. Equity markets are buoyant, credit spreads are tight and net flows to market economies have hitherto been stable.

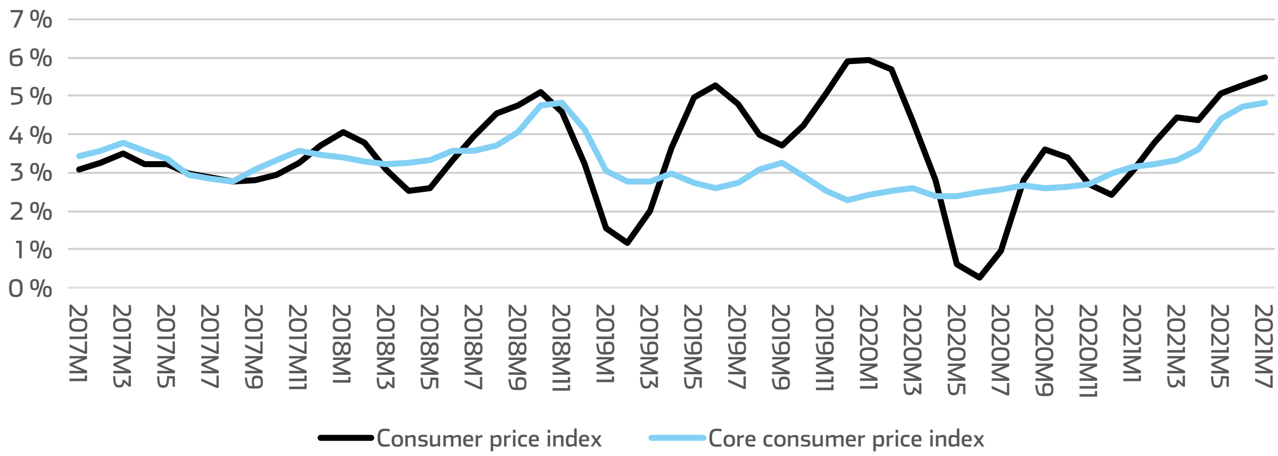
On the net side, financial conditions have continued to ease further in advanced economies, but the sense of optimism that was encouraging the markets in the first half of the year faded somewhat over the summer. Investors are increasingly concerned about the economic outlook amid rising virus infections and greater uncertainty about the strength of the recovery. More recently, some countries are reversing their policy moves, as the inflationary pressure is being perceived as more persistent than previously anticipated. With nominal bond yields rising, there is a sense that the massive financial policy stimulus is masking financial vulnerabilities in a number of sectors.

Inflation trends – Advanced economies, 3- month moving average, annualized %-change




Source: IMF WEO (October 2021)

Inflation trends – Emerging market & developing economies, 3- month moving average, annualized %-change




Source: IMF WEO (October 2021)

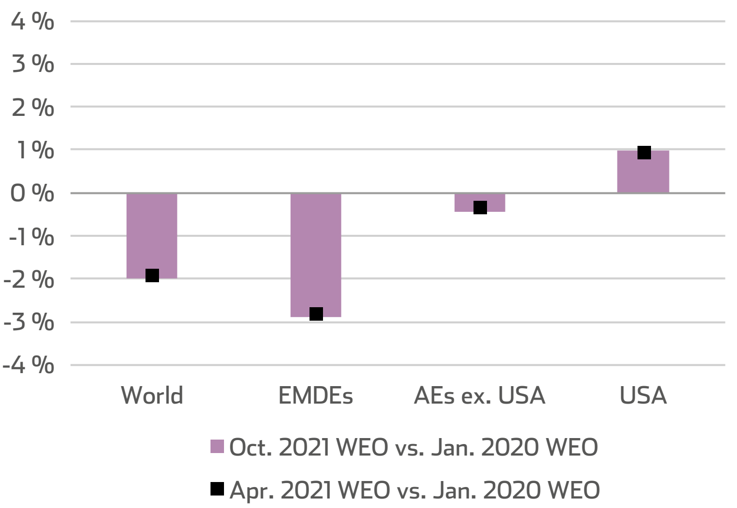
## Labour market

The global labour markets took a catastrophic hit in 2020 and are still recovering. According to figures from the International Labour Organization (ILO 2021a), the decline in hours worked were equivalent to 255 million full-time jobs lost. The pace is differing across economies and workers, however, but reflects negative output gaps, fear of on-the-job infection, labour demand changes resulting from automation in certain sectors and frictions in job searches and matching.

Emerging markets have been hit harder than advanced economies on average. Latin America and the Caribbean, and South Asia were regions in particular where the decline in working hours was considerable. Across all economies, employment among young people and lower skilled workers was weaker than that among prime-age and higher skilled workers, since they tend to be employed in more contact-intensive sectors and are generally more vulnerable to automation. Among emerging markets and developing countries, the employment rate among young people fell by 13 % in Q1 2021 relative to Q4 2019, while the decline was 6 % in advanced economies.

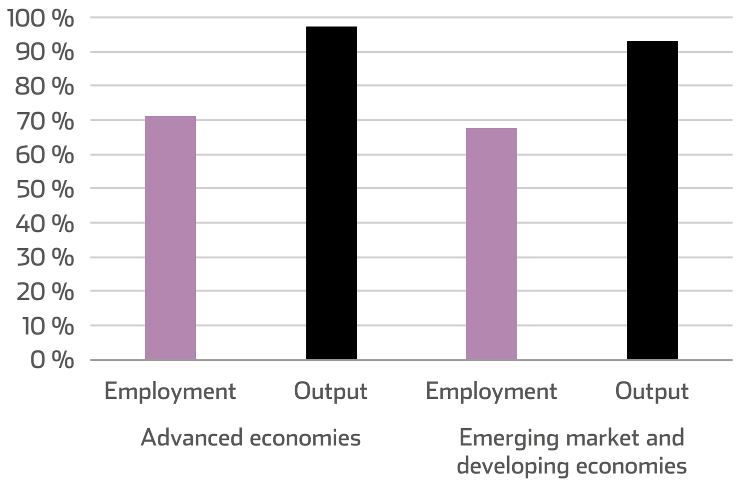
While recent developments are encouraging, the employment recovery may be subject to lagging output for a large share of economies. On the supply side of the labour market, all advanced economies are expected to regain pre-Covid output levels by the end of 2022, but only two-thirds are projected to regain their earlier employment. The same pattern exists for emerging market and developing economies.

**Employment losses relative to pre-pandemic trend, 2024**



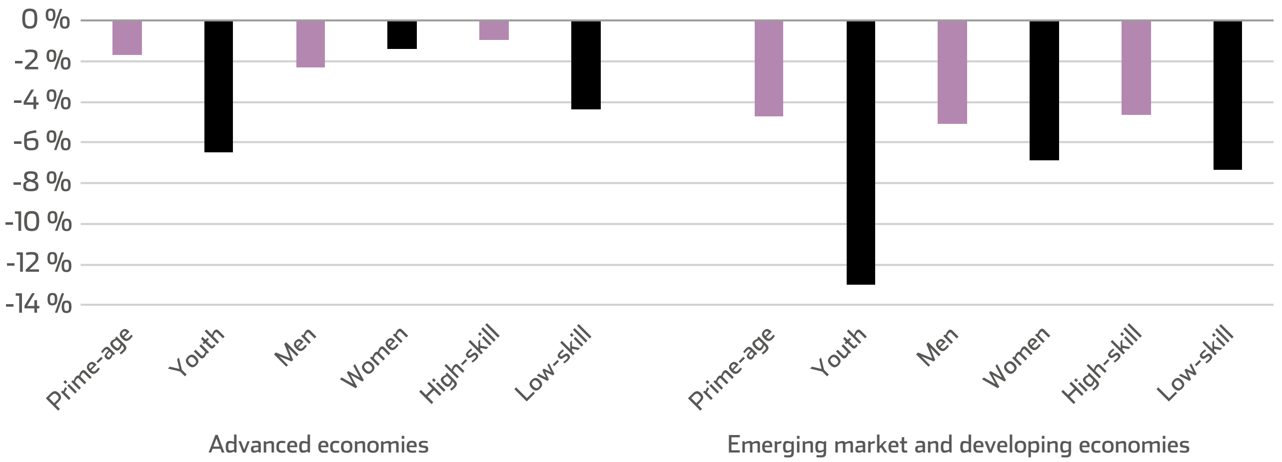

Source: IMF WEO (October 2021)

**Share of economies projected to regain pre-pandemic employment and output levels by 2022**




Source: IMF WEO (October 2021)

**Employment, by economy and worker groups, average % difference from Q4 2019 to Q1 2021**




Source: International Labour Organization / ILO Monitor: Covid-19 and the world of work

# Macro — Nordics

## Nordics: Best in class

The macroeconomic development in the Nordic countries is just one of many issues that have been affected by the pandemic. Like so many others, all the Nordic countries have experienced a decline in gross domestic product (GDP) growth during 2020. However, compared with other EU nations, the Nordic countries have performed relatively well. IMF figures suggest that GDP fell by 2.2 % in 2020 in the Nordic region overall (incl. Iceland), while the decline in the EU was 6.1 %.

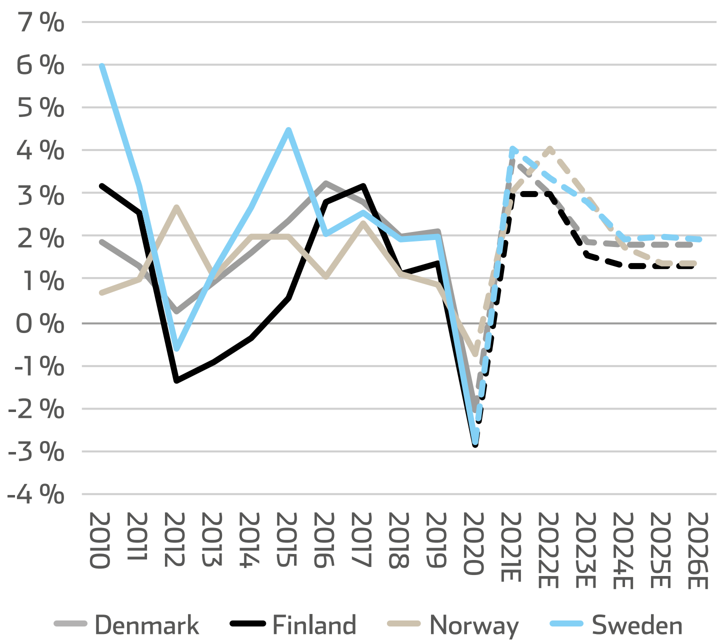
### Recovery revised upwards

Since April, the IMF has revised GDP growth in Norway for 2020 upwards and reports a decline of only 0.8 % for the year in total. The figure indicates better handling of the pandemic compared to its neighbouring countries. From the 3.1 % and 2.8 % presented in the April WEO, 2021 GDP growth in Sweden and Denmark has been revised up to 4.0 % and 3.8 %, respectively. Expected GDP growth in Finland and Norway is set at 3.0 %, Finland up from 2.3 %, while the Norwegian projection is 0.9 % lower.

From 2022 and onwards, Norway is expected to be the better performer in terms of economic growth with GDP set at 4.1 % in 2022 and 2.9 % in 2023. Sweden follows with 3.4 % and 2.8 % in the next couple of years, while Denmark and Finland also see growth but not to the same extent.

Note that the IMF presents real GDP, not mainland GDP as we refer to in the next chapter Macro - Norway.

**Real GDP, annual change %**



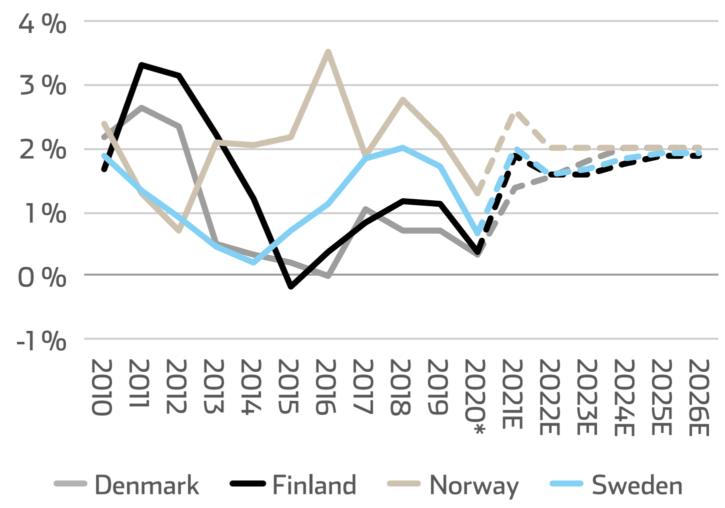

Source: IMF WEO (October 2021)

### Pivoting towards target inflation rate

The inflation risk is considered to be the largest in Norway with an expected increase from 1.3 % in 2020 to 2.6 % in 2021. The year-to-year increase also ranges from 1.1 % - 1.5 % for the other countries and reflects the global picture of higher inflation throughout 2021 due to increased demand and supply shortages. Next year, y/y CPI is expected to fall to 2.0 % in Norway and 1.6 % in Denmark, Finland and Sweden. CPI is estimated to continue in this fashion in Norway while the other Nordic countries follow, although at a diverging pace.

*Estimation for Norway starts from 2019, meaning that the 2020 figure is just an estimate and not a confirmed CPI measure. However, 1.3 % is aligned with Statistics Norway's 2020 measure, but from 2021 and onwards it differs.

**Consumer Price Index, annual change %**

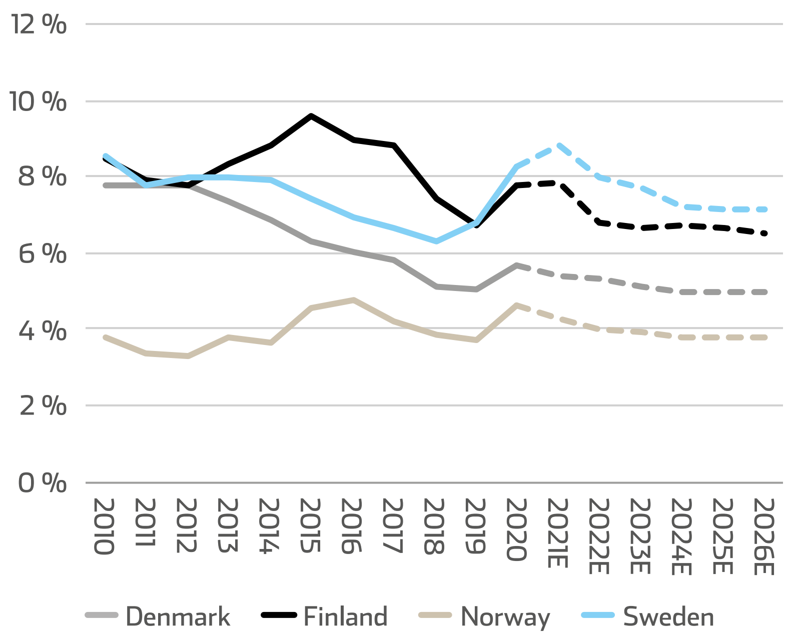



Source: IMF WEO (October 2021)

## Similar, development, different unemployment rate

While the unemployment rate in Denmark and Norway is expected to fall in 2021, Finland and Sweden are struggling to increase employment levels. Norway's unemployment rate is the lowest and the IMF expects it to decrease from 4.6 % in 2020 to 4.3 % in 2021. This trend is expected to continue in the years to come, ending at 3.8 % in 2025. Sweden, on the other hand, surpassed Finland in terms of the highest unemployment rate in recent years and the rate is expected to increase from 8.3 % in 2020 to 8.9 % in 2021, reflecting its employment challenges. 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, %



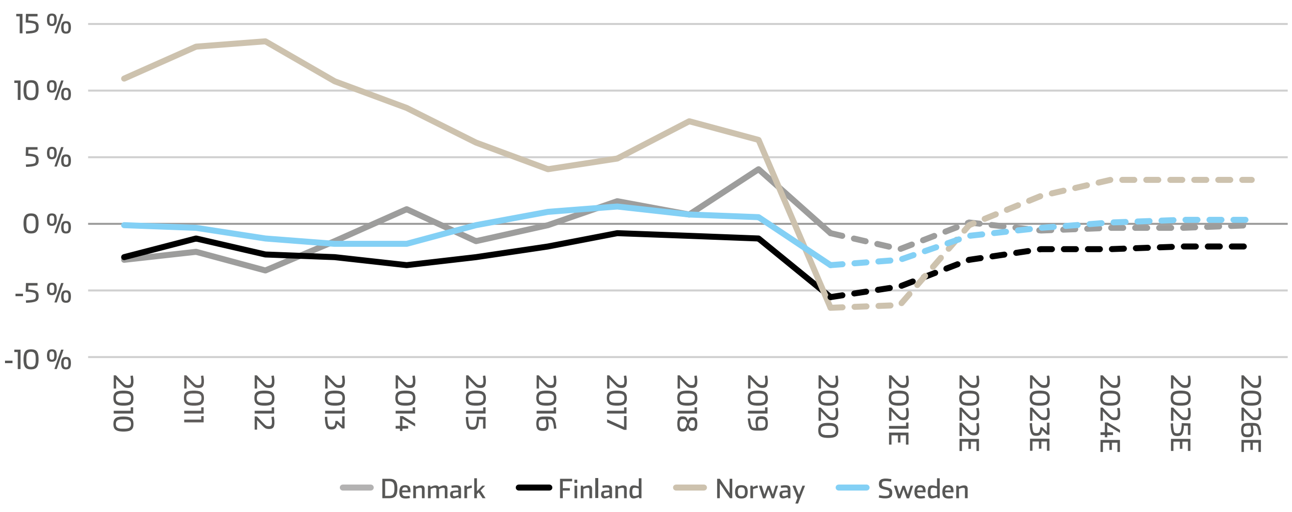

Source: IMF WEO (October 2021)

## Increased net borrowing in % of GDP in 2021

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 a-float during the troubling times. The largest shift from the April WEO is that instead of a bounceback in 2021, it appears as though all countries need at least one more year of net borrowing to further recover and strengthen the economy.

Norway was a net lender in % of GDP previously but, like so many other countries, needed to shift to borrowing in 2020. The support scheme presented in 2021 was almost the size of that in 2020, contributing to 5.9 % of GDP. Norway, along with Denmark, is marginally expected to see net lending as a % of GDP by as early as 2022. Finland's national budget presents a net borrower for the next five years, while Denmark and Sweden are expected to position themselves close to 0 % net borrowing/lending as a % of their GDP, respectively.

General government net lending/borrowing, % of GDP




Source: IMF WEO (October 2021)

# Macro — Norway

## Recovery well on track

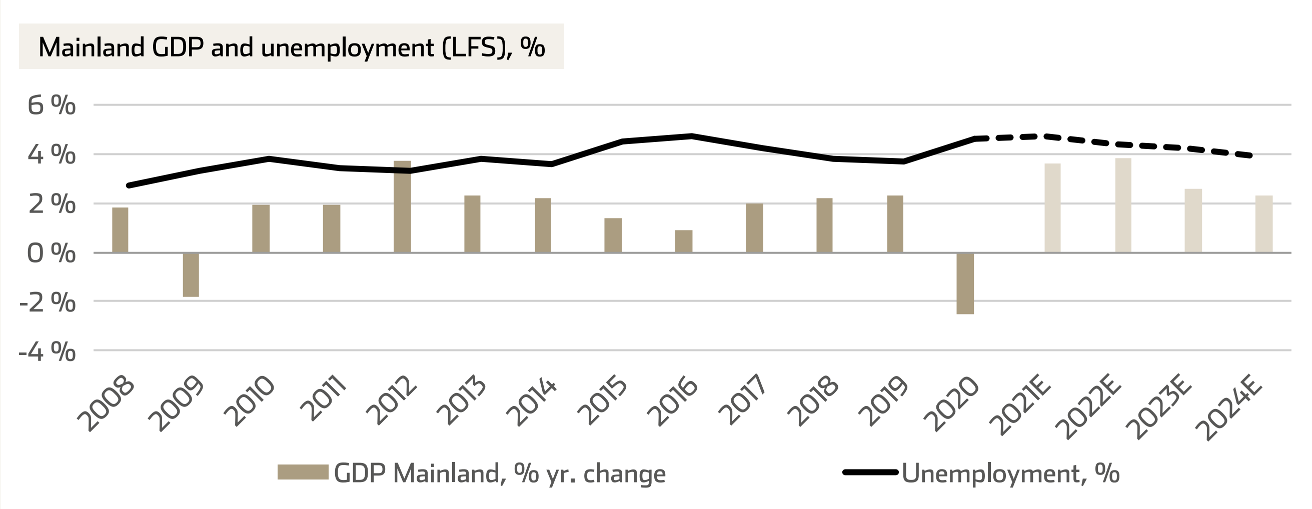
The reopening of Norwegian society is well underway, which is undoubtably shown by the pace of the economic activity that we have seen recently. Back in June, GDP growth for mainland Norway was back to pre-pandemic levels. Yet, GDP output is still around 2.5 % below trend level, had there not been a pandemic leaving lasting marks on the economy. From a historic perspective, such a loss has not been seen since the dot-com bubble in the early 2000s or the banking crisis in the 1990s. The ramifications will also impact employment, which is not considered to reach what is considered a normal level until 2023.

On an encouraging note, the vaccination rate is high, which has provided a solid foundation for strong growth during the year and moving into 2022. Strong policy support came to the rescue in troubling times within struggling sectors and indirectly contributed to maintaining household income. According to statistics from the Revised National Budget presented by Statistics Norway (SSB), support schemes alone are expected to boost mainland GDP by 1.4 % in 2021. Household savings have increased considerably and these have already begun to shift to consumption, which will further drive economic activity. Spurring activity has led Norges Bank to tighten monetary policy by increasing the interest rate to 0.25 % from 0.00 % in September and signalling it will continue to raise the rate gradually to 1.68 % in 2024.

**W-shaped recovery**

The latest figures from SSB's National Accounts point to the Norwegian economy having turned the corner from its lowest level created by the pandemic. Instead of the often referred to V-shaped economic development in abnormal periods, a W-shape is more appropriate, as the increase were surprisingly sharp in the second half of 2020. Q1 2021 started slowly with a 1.0 % decrease from January to March, but lower infection rates along with higher vaccine access and a gradual opening of society saw GDP grow in each of the months in the second quarter. In June, mainland GDP was at pre-pandemic levels despite ongoing restrictions. However, considering annual GDP growth is 2.0 % in normal times, current mainland GDP is still around 2.5 % lower than trend level. As national restrictions were lifted in the last week of September, it is likely that economic activity will pick up. Prior to the full reopening, SSB estimated that average mainland GDP grew by 3.6 % in 2021. Moreover, growth in 2022 is expected to be even stronger at 3.8 %, while it will ease somewhat to normal levels in 2023 at 2.6 %.

The government decision to lift the pandemic restrictions has impacted employment figures for the better. The latest Labour Force Survey (LFS) from SSB shows that unemployment was at 4.0 % in August. The figure has not been that low since March 2020 and also shows that employment has grown more than unemployment has fallen, meaning that the labour force has grown. More recent figures from the Norwegian Labour and Welfare Administration's (NAV) record of completely unemployed persons to be 2.4 % in September. This decrease has been consistent in recent months, although SSB does not project yearly employment to exceed 2019 figures before 2022 or 2023, even. The latest estimate is for the unemployment rate to average 4.7 % in 2021, before gradually pivoting towards 4.4 % in 2022 and 4.2 % in 2023.



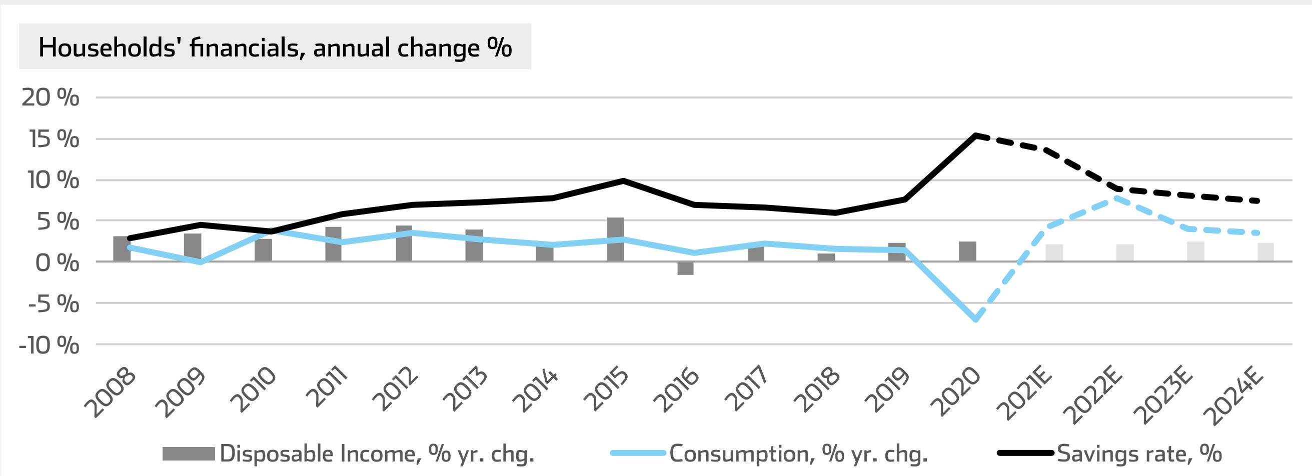

Source: Statistics Norway

## Household consumption to contribute to economic growth

Norwegian household disposable real income in 2020 has been revised upward to 2.5 % from 1.7 % since our last market report, according to SSB. The most important factor for household income, wages, showed weak development, as employment fell and infection restrictions affected many sectors. The effects were, nevertheless, softened and offset by public support schemes to unemployed workers and those that were temporarily laid off. Wages are projected to increase in line with increased employment in the years to come, setting the projection for household real income in both 2021 and 2022 at 2.2 %, followed by 2.5 % in 2023.

Household consumption is expected to return to previous pre-pandemic levels by the end of this year due to high vaccination rates and accumulated demand from the pandemic period. The projection is that consumption will reach 4.1 % on average in 2021 and continue to increase to 7.8 % in 2022. According to SSB, the high figures are dependent on no further coronavirus outbreaks potentially bringing about a further period with limiting restrictions. Moving forward, based on the outlook of an increase in disposable income and a modest growth in housing prices, consumption is expected to stay at between 4.0 % and 3.5 % in 2023 and 2024.

Due to the increase in disposable income and the dramatic fall in consumption in 2020, the savings rate underwent an enormous upswing among the population. The 15.4 % increase in 2020 was a record high compared to the yearly average of 7.5 % in 2010-2019. The level stood at 16.5 % in Q2 2021 this year, after seasonal adjustment, but the expected yearly average from SSB is 13.5 % for 2021. The household savings rate is expected to gradually decrease to around 7.4 % in 2024, 0.5 % higher than the yearly average from 2010-2019.

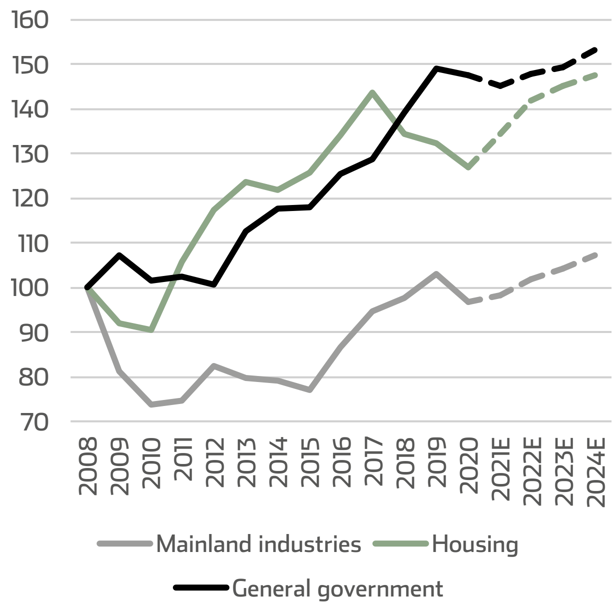



Source: Statistics Norway

## Upward revision on gross fixed investments in 2021

Norwegian gross fixed investments recovered from their fall in Q1 in Q2 this year with a 1.1 % increase. The growth was driven within both the service and industry sectors by 3.0 % and 2.2 %, respectively. The sentiment is positive for further mainland investments this year, as the SSB estimate was revised upwards to 1.8 % from 0.3 % six months ago. General government investments are expected to decrease by 1.6 % mainly due to continued support schemes to keep troubled industries afloat. The projection for housing investments, on the other hand, is considerably strong at 6.0 % in 2021 and 5.5 % in 2022. On the other hand, mainland industries investments are recovering from their negative 6.1 % in 2020 with a modest 1.6 % increase this year. However, 2022 is expected to be even stronger with an increase of 3.4 %.

Mainland investments, index 2008 = 100

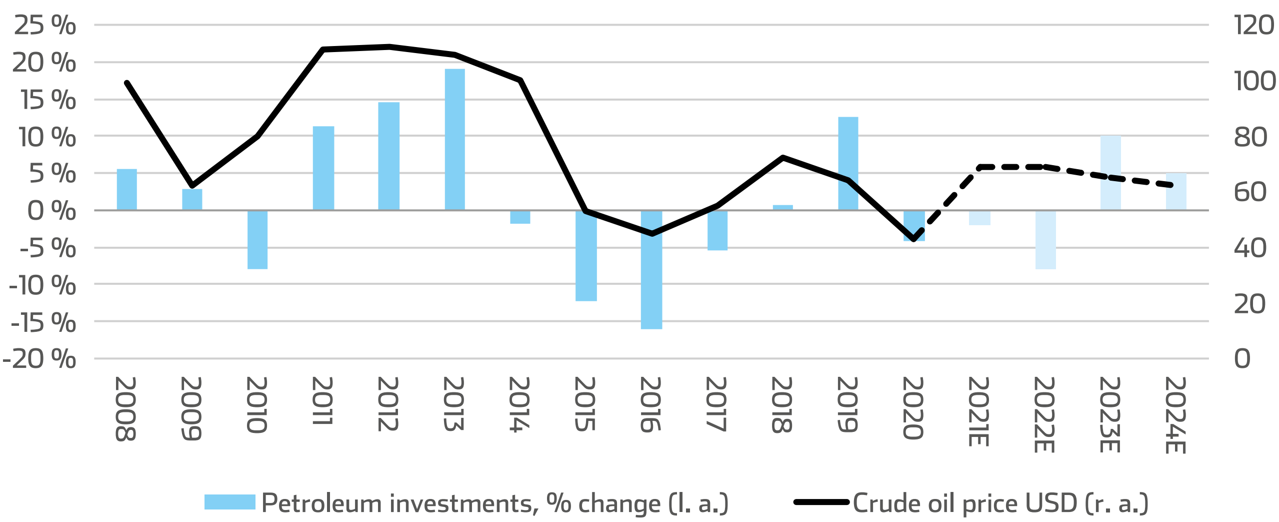



Source: Statistics Norway

## High crude oil price fuels petroleum investments

Petroleum investment activity fell by 4.1 % in 2020 after the strong year of 2019, when growth was 12.6 %. Previous expectations of petroleum activity were therefore low in 2021, but the estimate has picked up by 25 % since Q2 2020. However, the projection for 2021 is currently still a -2.0 % change, reflecting the ongoing downsizing in field development. The reduction is in many ways due to the extensive operational search and drilling fuelled by the increased crude oil price that traded at almost USD 85 per barrel as of 29 October 2021. The figure is seemingly higher than the latest SSB estimate, which projects the 2021 average crude oil price to be USD 69 per barrel. Moreover, SSB projects the price to drop gradually in the coming years to USD 62 per barrel in 2024. As for future petroleum investments, 2022 is expected to be a bleak year with an 8.0 % decrease, before activity picks up in 2023 and 2024 with an increase of 10.0 % and 5.0 %, respectively.

Development in petroleum investments and crude oil price



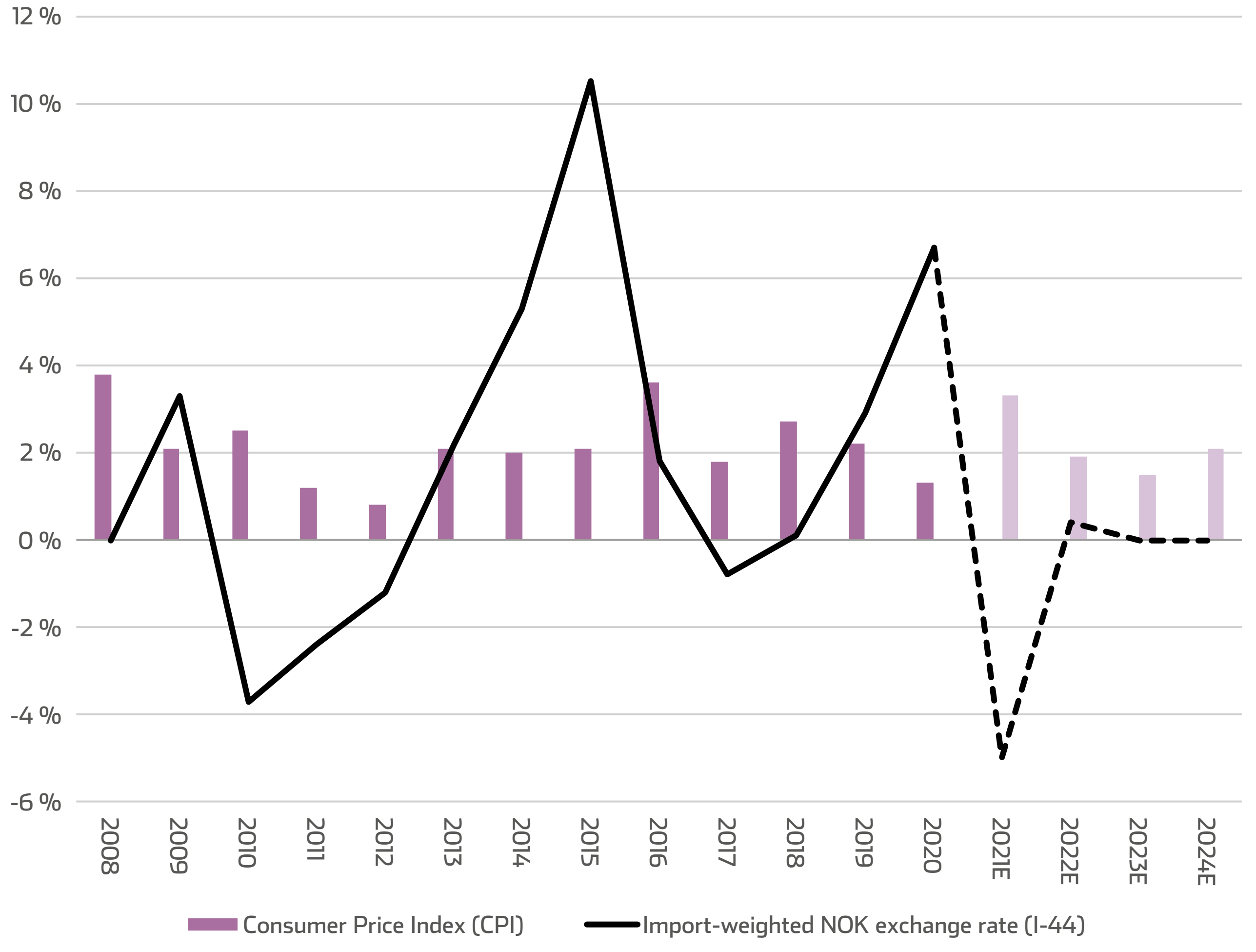

Source: Statistics Norway

## Steady outlook for a strong NOK and higher inflation than previously expected

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 estimates show a 5.0 % appreciation of the NOK in 2021, the reason being the appreciation of the NOK that has already happened this year, following the weak levels the NOK came from once the pandemic broke loose. For instance, the EURNOK passed NOK 12 in March 2020, while, for the first time in years, it sank below NOK 10 in May this year. The NOK has continued to gain strength against other and larger currencies. High energy prices and increased interest rates with outlooks for several more increases from the Norwegian Central Bank are some factors believed to have contributed to the appreciation of the NOK. According to the SSB September estimates, a slight weakening of the NOK of 0.4 % from 2021 to 2022 measured by the I-44 is expected.

Global inflation risk has risen and Norway is no exception to this. From September 2020 to September 2021, the Consumer Price Index (CPI) increased by 4.1 %, the highest 12-month rolling increase since July 2016. By far the largest contributor is the record-high electricity prices, which rose by 107.7 % over the same period. Also worth keeping in mind is the low price level for electricity throughout 2020. Thus, SSB projects the yearly average to be 3.3 % for 2021, before decreasing to 1.9 % and 1.5 % in 2022 and 2023 respectively. CPI-ATE (CPI adjusted for taxes and energy) has increased in the last 12-months to a more modest level of 1.2 %, reflecting the impact of electricity prices on CPI as a significant driver.

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




Source: Statistics Norway

## Bygdøy Allé — Oslo

Malling & Co Næringsmegling has been commissioned by Norsk Hydros Pensjonskasse AS broker for Bygdøy Alle 2.


## Økern Portal — Oslo

Malling & Co Tenant Representation was advisor for Fiskars in their process of relocating their Norwegian headquarters of 710 m² from Nydalen to Økern Portal.

# The office market

## Office Rental outlook

Strong office demand after re-opening expected

**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.

› The pandemic seems to have put the office letting market into a rather flat development until Q3 2021. This development has been in line with our expectations, or even slightly better.

› Typical office-using sectors have been less affected by lay-offs and the expected employment growth towards the end of the year and into 2022 will boost office demand.

› The effects of hybrid working are still uncertain, but we are confident that the demand side will remain strong in the shorter terms as most tenants are reluctant to make huge changes to the amount of space required. However, experiences over the next year will be crucial to how tenants change their demand in terms of both quality and amount.

› The expected pipeline of new construction in Greater Oslo is very low for the coming two years. The relatively high construction volume in 2020 has already had its effect on the vacancy rate and increased demand will push vacancy even lower going forward. In the longer term, even if many of the current unconfirmed projects are confirmed, it is not enough to increase our main view of low vacancy.

› While yields have compressed for secondary offices, increased construction costs and material costs seen over the past year counteracts this effect on rents for new stock.

› Outlooks of high inflation adjustment (November/November index) used in most lease agreements of somewhere between 4-5 % will increase the passing rents significantly.

› The outlook for lower vacancy and increased costs for new space will contribute to pushing rents upwards. We expect the demand side to peak around summer 2022, and we expect rents to increase significantly over the coming 9-12 months, especially in areas with low vacancy.

› Lease agreements for smaller space will experience increasing rents first, since they are more in the spot market, hence more sensitive to lower vacancy rates.

› In contrast to our previous report, we expect flexible office space to increase take-up slightly over the coming year, as landlords become challenged to offer flexibility in their buildings to accommodate the uncertainty of hybrid working and to spice up regular leases.

We expect average office rents in Greater Oslo to accelerate over the coming year and activity to increase. With the current employment forecasts and newbuild pipeline, we expect office rental growth to ease off towards the end of 2022 and into 2023 as supply and demand becomes more balance. The city centre will continue to see the strongest increase in rents, as vacancy is lowest here. In the fringe areas, we expect to see the strongest rental growth in the western fringe clusters, such as Lysaker and Skøyen. Clusters in the eastern fringe will also see rental growth when vacancy levels decrease well into 2022. Areas such as Helsfyr-Ensjø, with low vacancy already, are likely to see the strongest rental growth in the eastern fringe. On the other hand, an overall risk of decreasing rents seems rather unlikely at the moment. Below we have specified our rental expectations for our defined office clusters. We expect the clusters to be affected differently 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

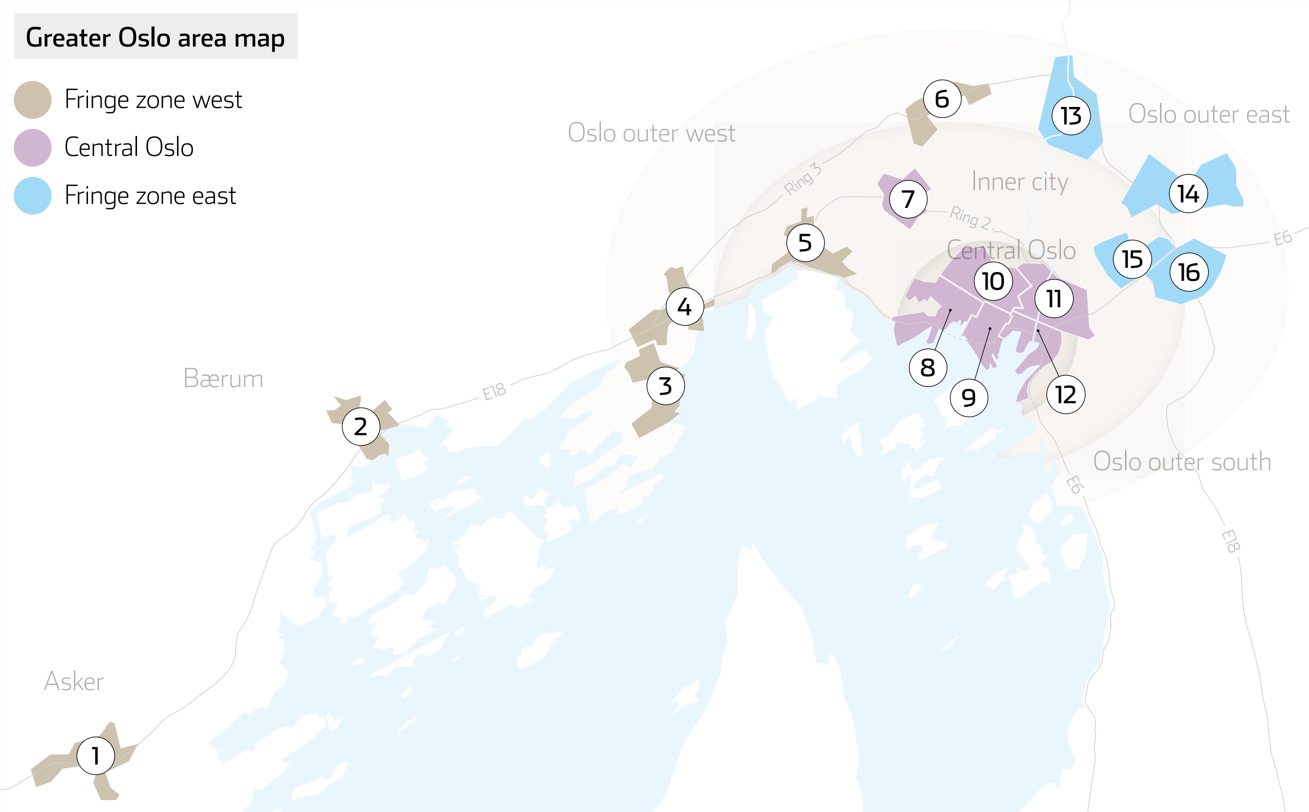
Highly uncertain | Uncertain | Fairly certain

| Office cluster | Change Q3 2021 – Q3 2022 | Change Q3 2021 – Q3 2024 |
|---|---|---|
| Asker | 0 % | 10 % |
| Sandvika | 0 % | 10 % |
| Fornebu | 0 % | 10 % |
| Lysaker | 5 % | 15 % |
| Skøyen | 5 % | 15 % |
| Forskningsparken/Ullevaal | 5 % | 15 % |
| Majorstuen | 5 % | 15 % |
| Vika/Aker Brygge/Tjuvholmen | 10 % | 15 % |
| Kvadraturen | 10 % | 15 % |
| Inner city | 10 % | 15 % |
| Inner city east | 10 % | 15 % |
| Bjørvika | 10 % | 15 % |
| Nydalen/Sandaker | 5 % | 15 % |
| Økern/Løren/Risløkka | 5 % | 10 % |
| Helsfyr/Ensjø | 10 % | 15 % |
| Bryn | 5 % | 10 % |
| **Oslo Total** | **7 %** | **13 %** |

## A selection of the latest lease contracts

| Tenant | Moving to address/ office cluster | Moving from address/ office cluster | Space m² (rounded) |
|---|---|---|---|
| Oslo municipality (PBE) | Vahls gate 1-3 / Inner city east | Vahls gate 1-3 / Inner city east | 13 200 |
| Statsbygg | Biskop Gunnerus gate 6 / Inner city east | Biskop Gunnerus gate 6 / Inner city east | 9 300 |
| Statens vegvesen | Valle vision / Helsfyr/Ensjø | Brynsengfaret 6A / Bryn | 8 000 |
| Fellesforbundet | Lakkegata 53 / Inner city east | Lilletorget 1 / Inner city east | 4 400 |
| Spaces | Fjordalléen 16 / Vika/Aker Brygge/ Tjuvholmen | New estblishment | 4 200 |
| Landbruksdirektoratet | Valle view / Helsfyr/Ensjø | Stortingsgata 28 / Vika/Aker Brygge/ Tjuvholmen | 3 100 |
| BSH Husholdnings-apparater | Brynsveien 16-18 / Bryn | Grensesvingen 9 / Helsfyr/Ensjø | 3 000 |
| Redd Barna | Hasle Tre / Økern/Løren/Risløkka | Storgata 38 / Inner city east | 3 000 |
| Scandic Norway | Brynsalléen 2 / Bryn | Karenslyst allé 11 / Skøyen | 2 600 |
| Norsk Gjenvinning | Lørenveien 73 / Økern/Løren/Risløkka | Lysaker Torg 35 / Lysaker | Est. 2 000 |

## Greater Oslo area map

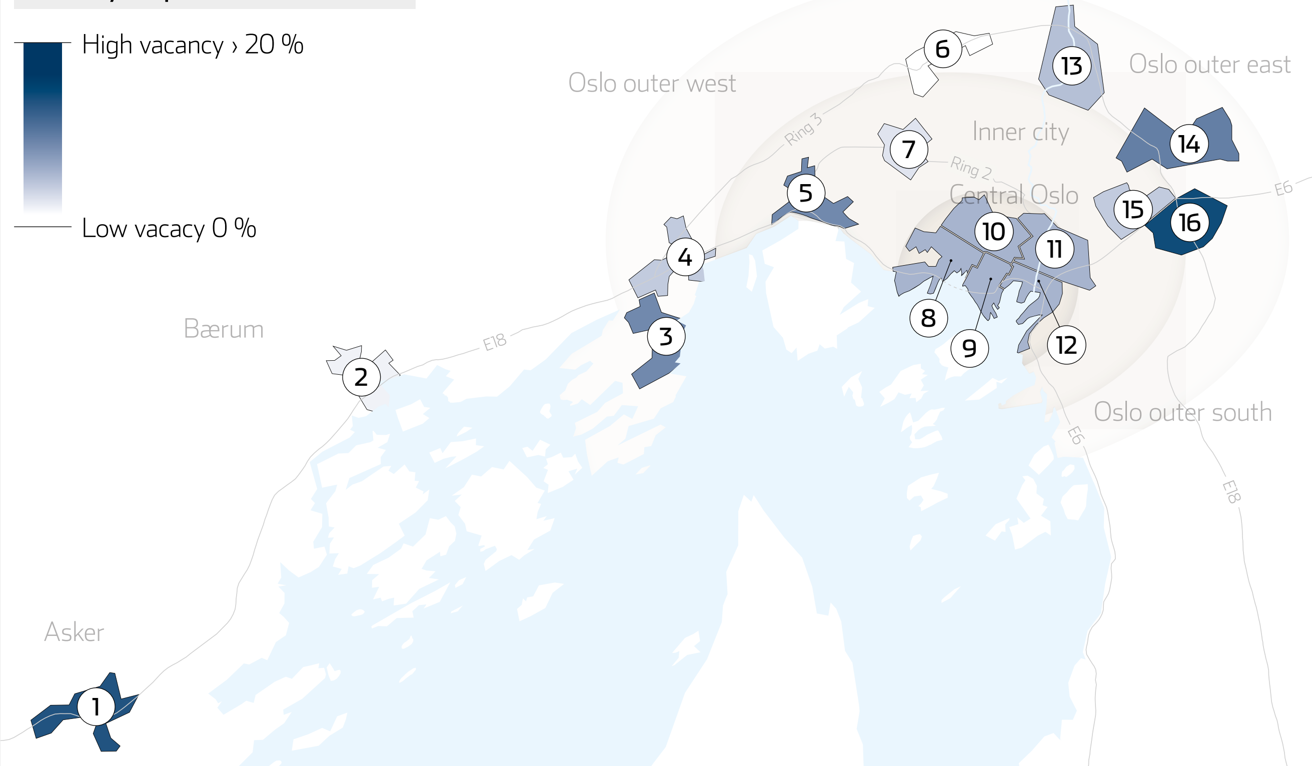



## Office rents — Malling & Co consensus (NOK/m²/yr)

| | Office cluster | Prime rent* | 12-month change (Prime rent)* | Normal rent* | 12-month change (Normal rent)* |
|---|---|---|---|---|---|
| 1 | Asker | 2 150 | 0 % | 1 600 – 1 800 | 0 % |
| 2 | Sandvika | 2 300 | 5 % | 1 500 – 1 800 | 0 % |
| 3 | Fornebu | 2 150 | 8 % | 1 500 – 1 800 | 0 % |
| 4 | Lysaker | 2 500 | 4 % | 1 900 – 2 250 | 4 % |
| 5 | Skøyen | 3 900 | 11 % | 2 500 – 2 900 | 4 % |
| 6 | Forskningsparken/Ullevål | 2 700 | 8 % | 1 800 – 2 500 | 13 % |
| 7 | Majorstuen | 3 500 | 9 % | 2 400 – 2 700 | 11 % |
| 8 | Vika/Aker Brygge/Tjuvholmen | 5 800 | 4 % | 3 600 – 4 500 | 3 % |
| 9 | Kvadraturen | 4 000 | 0 % | 2 700 – 3 400 | 3 % |
| 10 | Inner city | 4 250 | na | 2 800 – 3 600 | na |
| 11 | Inner city east | 3 400 | na | 2300 – 2 800 | na |
| 12 | Bjørvika | 4 900 | 4 % | 3 500 – 4 200 | 0 % |
| 13 | Nydalen/Sandaker | 2 600 | 4 % | 1 800 – 2 400 | 8 % |
| 14 | Økern/Løren/Risløkka | 2 250 | 7 % | 1 500 – 1 900 | 17 % |
| 15 | Helsfyr/Ensjø | 2 450 | 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 October 2021




## Vacancy and new construction

| | Office cluster | Vacancy | 12-month change (Vacancy) | New construction: 3-year pipeline (Confirmed) |
|---|---|---|---|---|
| 1 | Asker | 16 % | 7 % | |
| 2 | Sandvika | 1 % | -1 % | |
| 3 | Fornebu | 10 % | 2 % | 30 000 |
| 4 | Lysaker | 4 % | -3 % | |
| 5 | Skøyen | 10 % | 3 % | 11 300 |
| 6 | Forskningsparken/Ullevål | 0 % | 0 % | |
| 7 | Majorstuen | 2 % | 1 % | 20 000 |
| 8 | Vika/Aker Brygge/Tjuvholmen | 6 % | 1 % | 41 500 |
| 9 | Kvadraturen | 5 % | 1 % | |
| 10 | Inner city | 6 % | 1 % | 22 500 |
| 11 | Inner city east | 6 % | 1 % | 3 000 |
| 12 | Bjørvika | 1 % | -1 % | |
| 13 | Nydalen/Sandaker | 5 % | 1 % | 20 000 |
| 14 | Økern/Løren/Risløkka | 11 % | -5 % | 9 500 |
| 15 | Helsfyr/Ensjø | 4 % | -3 % | 44 000 |
| 16 | Bryn | 17 % | 5 % | 7 000 |

Source: Finn.no/Malling & Co

# Indicators for office demand

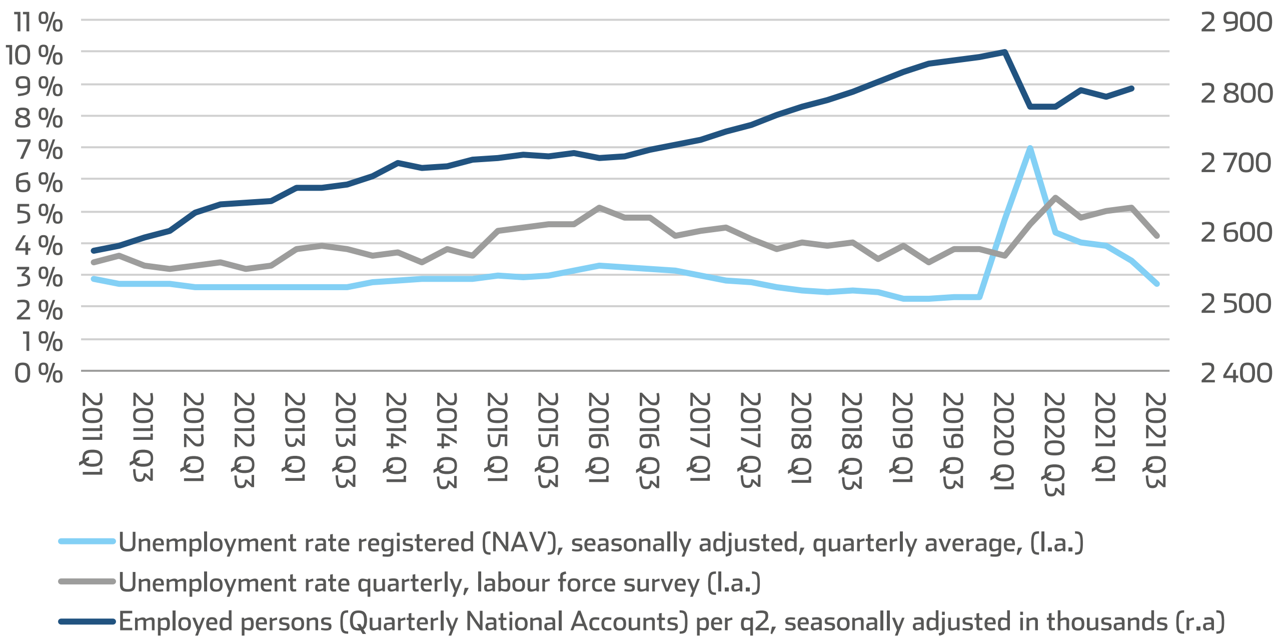
## Employment growth and "back to the office" fuelling office demand

Saturday, 25 September 2021 at 16:00 marked a long-awaited lifting of basically all Covid-19 restrictions in Norway. With a very high vaccination rate in Norway, we seem well prepared for the winter and further challenges caused by the coronavirus. That being said, there are rising cases at the time of writing, along with seasonal flu, and we cannot completely rule out the risks of further bumps in the road back to normality. In any case, the re-opening has boosted economic activity and employment, and this will also play positive for demand for office space. While structural changes to demand due to hybrid working models are still being discussed, we have not yet seen much hard evidence that this is having much influence on the current demand side. We are, however, seeing an increase in the number of leads into Q4 and are expecting the leasing market to heat up towards the end of 2021.

### Unemployment gradually falling towards pre-pandemic levels

Unemployment rates have been decreasing throughout 2021, as measured by both the Labour Force Survey (LFS) and Norwegian Labour and Welfare Administration (NAV). At the same time, employment has also been growing steadily since February through to August (LFS). Complete figures from the LFS for Q3 were not available at the time of writing this report, but the seasonally-adjusted numbers for July and August showed continued growth in employment well into Q3. The lifting of restrictions by the end of September will likely continue to fuel strong employment growth through Q4 2021. As many companies try to resume their businesses after the lifting of the restrictions, the availability of skilled workers has in some sectors become more difficult, especially within the service and construction sectors. Many foreign workers have left the country, leaving employers with fewer candidates to fill vacant positions. According to Regional network report 3/2021 from Norges Bank, the lack of skilled workers is mostly being felt in healthcare, along with the construction and service sectors.

**Unemployment rate – registrered (NAV) and Labour Force Survey (LFS), and employed workforce (LFS), 2011-2021**

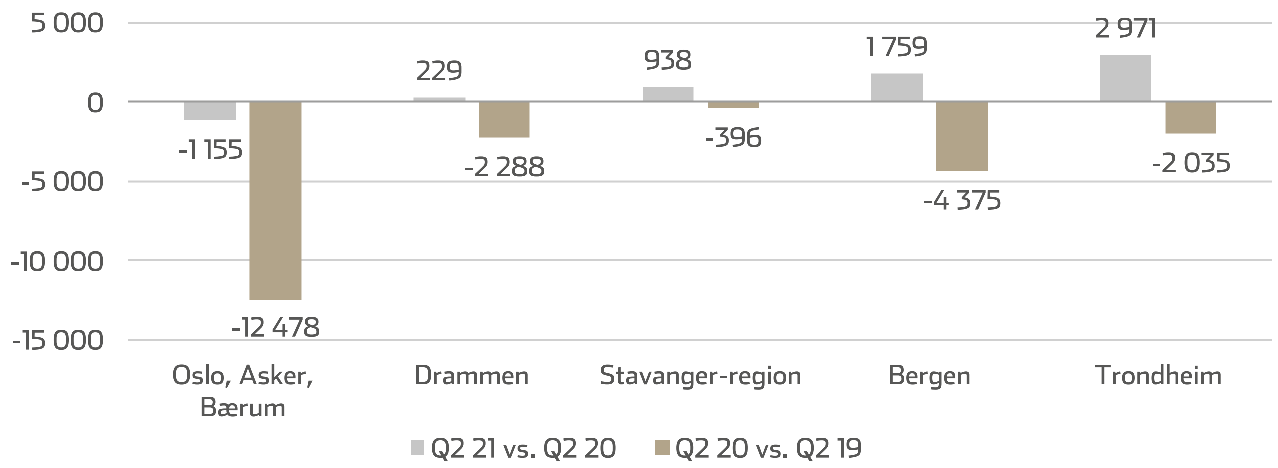



Source: NAV (Norwegian Labour and Welfare Administration), Statistics Norway

## Employment is growing

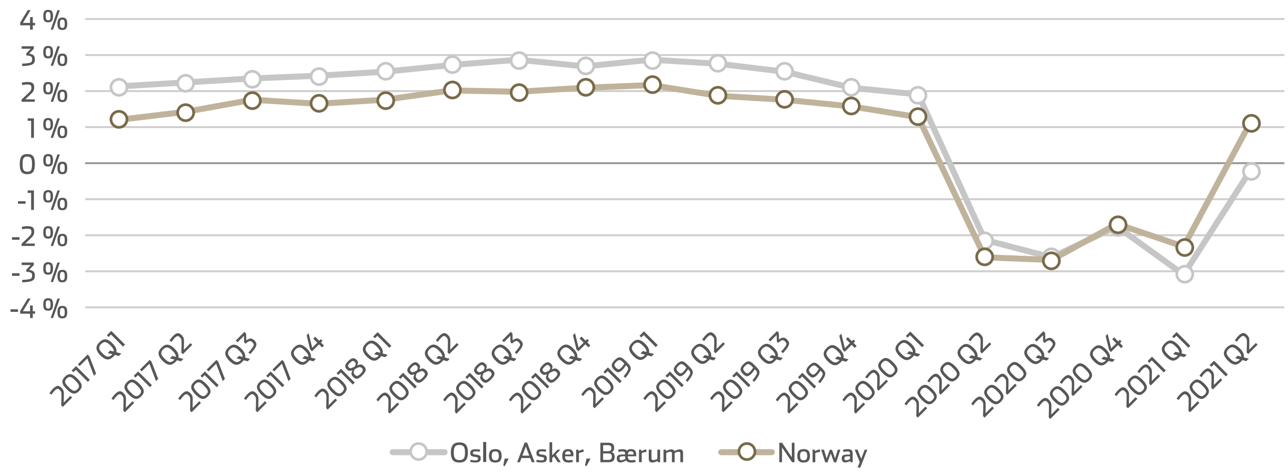
At the time of writing this report, it is difficult to say whether the fall in employment seen during the pandemic has already been absorbed by the growth in employment seen, but we seem pretty close. The latest monthly figures available from the LFS (sample) and the number of wage earners (full count) are, however, pointing towards strong growth from the end of summer. The wage earner report has only preliminary figures for September, but it showed an estimated 0.8 % growth from August to September. The effects of lifting all restrictions by the end of Q3 will hopefully accelerate employment growth into Q4 and Q1 2022, until most activities are back at more normal capacities. We believe that Q3 wage earner numbers will reveal a satisfactory growth in employment when available on 9 November, but since they are based on measurements from around mid-August, most of the expected growth from the reopening at the end of September will only first be visible in the Q4 numbers available in February 2022. Since the LFS has been changed significantly from 2021, employment numbers from the LFS in 2021 will not be directly comparable to 2020, although SSB has estimates for the changes and adjusted time series available. The chart showing the Q4 growth in wage earner numbers indicates that the employment market was quite steady from Q2 2020 to Q2 2021, with all major cities except Oslo showing growth over this period. Trondheim had the strongest growth, with a 2.6 % growth in wage earners, while the corresponding rates were 1.1 % in Bergen, 0.6 % in the Stavanger region, 0.5 % in Drammen and -0.2 % in Oslo. Since most of the drop in wage earners took place abruptly at the very start of the pandemic, Q2 2021 vs. Q2 2020 is the first four-quarter measure of the development of growth through the pandemic and after the initial shock. Split into different sectors, we can also see that the employment market was much less negatively affected by the pandemic within typical office-renting professions than more the service-oriented.

### Four-quarter change in wage earners per city-area




Source: Statistics Norway

### Four-quarter growth in wage earners

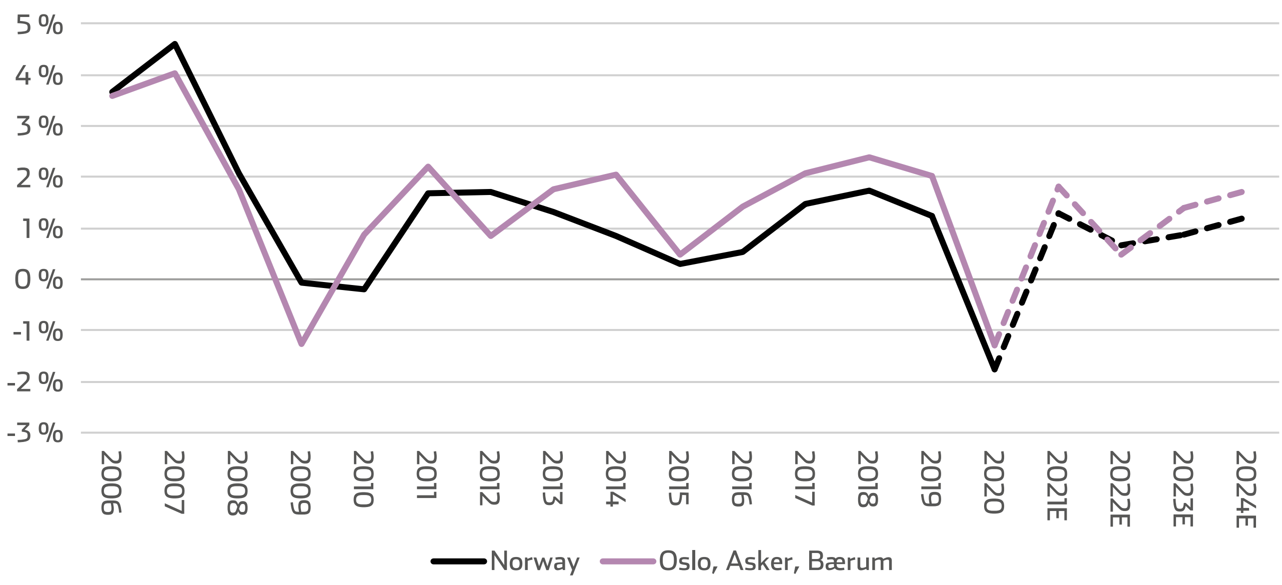



Source: Statistics Norway

## Positive outlook for employment growth

Looking at the employment outlook, the current forecasts are positive towards continued employment growth. According to Statistics Norway, the economic outlook for Norway as of 10 September 2021 is a y/y increase in employment of 0.7 % for 2021, 1.4 % in 2022 and 0.8 % in 2023 and 1.1 % in 2024. Since employment stayed rather flat during the first half of 2021, the SSB forecast indicates actual forecasted pace for the second half of 2021 to be significantly stronger than the yearly average. Likewise, its forecast for employment growth in 2022 indicates a decreasing growth rate towards the end of 2022 as the employment rate approaches high levels. However, at the time of writing this report, the outlook for increased employment over the coming 12 months is strong. This employment growth will be a positive factor for CRE demand. We have used SSB estimates as a basis for our forecast for the Oslo-market, which is seen in the chart below. The forecast is based on historical changes in Oslo vs. the country (higher volatility in Oslo) and adjusted by the y/y measure from the end of Q4 to the end of Q4 (change over the year), producing strong growth in 2H 2021 and at the start of 2022. According to our estimates, this expected increase in employment in 2021 and 2022 in Oslo is likely to create the need for somewhere around 185 000 m$^2$ in new office space in the market over the period. Other cities will also experience increasing demand due to employment growth, and this is confirmed by the positive outlook for employment over next three months in Regional network report 3/2021 (survey period 2-20 August 2021) from Norges Bank. It should be noted that the SSB forecast from 10 September and the responses in the Regional network report were finalised before the decision to lift restrictions by the end of September, and that its forecast also pointed out the uncertainty of the pandemic. At the time of writing, infections were again rising in Norway and other countries in Europe, hence there still exists the risk of new pandemic measures that will affect the employment market. As already mentioned in the section that comments on unemployment rates, a lack of skilled workers in certain sectors may also put a short-term limit on employment growth. SSB will release new economic forecasts on 3 December 2021, including new estimates for employment growth y/y.

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



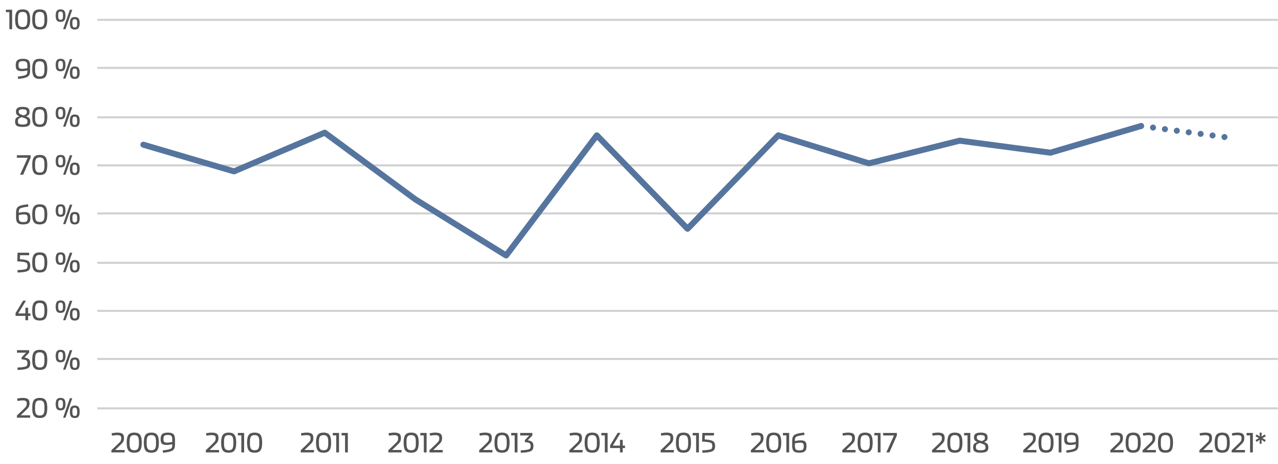

Source: Statistics Norway

«According to our estimates, this expected increase in employment in 2021 and 2022 in Oslo is likely to create the need for somewhere around 185 000 m² in new office space in the market over the period».

## Office searches almost at 2018 levels

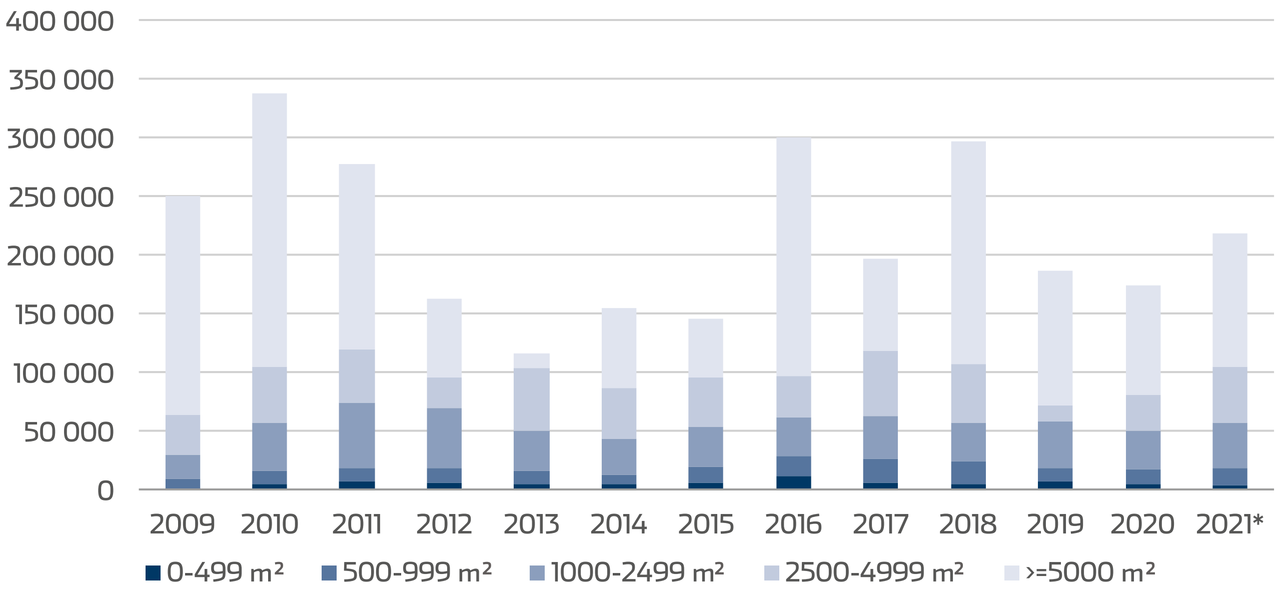
Our usual counting of office searches shows significantly higher volumes up to 29 October 2021, compared to the same date last year, and only 14 000 m² behind the previous peak in 2018 on the same date. As of 29 October, we have registered approx. 219 000 m² of office space searched for, in a total of 116 searches. This is even more searches than registered in 2018, which stood at 88 by the end of October. This does not just mean high search activity, as our tenant rep team can report increasing activity and focus on workplace strategy as tenants return to office and may find a need for changes to a new way of working. Workplace strategy projects are being run in many large companies as office workers have only just started to return and companies are still wondering how much and how the office will be used. While companies may have different views and guidelines in how home offices are used, our view is that companies have different strategies and will learn from their own experience and from others over the coming months as things return to normal. So far, we can see very little effect on total office demand in the market caused by any radical shift towards working from home, although demand has changed and tenants have become even more demanding. Flexibility, technology, location and overall product attractivity is still the focus among tenants. Central location continues to be very important as almost 76 % of office searches in the market are directed at central Oslo.

### Share of demand for central Oslo office clusters




*As of 29 October. Source: Malling & Co, NEMeet

### Office searches registered in Greater Oslo (2009-2021*)

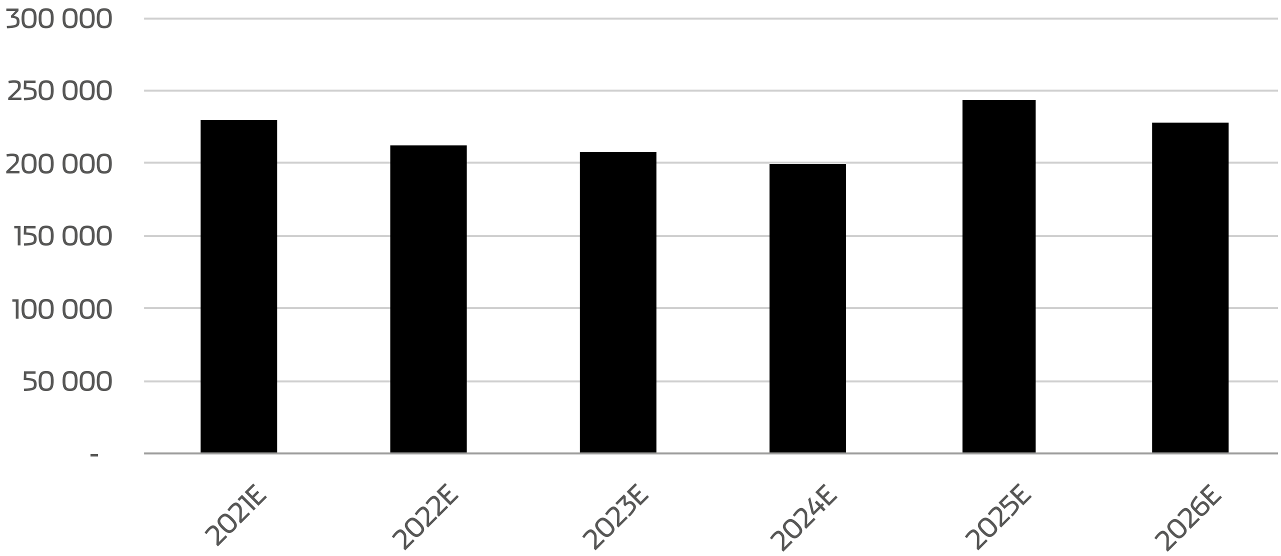



*As of 29 October. Source: Malling & Co, NEMeet

## Demand from larger tenants likely to peak this year

Search-volumes for 5 000 $m^2$ + tenants are expected to peak this year at around 230 000 $m^2$ before slowly decreasing towards around 200 000 $m^2$ in 2024. In 2025, we expect demand to grow to almost 250 000 $m^2$, however estimates are increasingly uncertain this far out on the timeline. It is also important to remember that the proportion of new leases and renegotiations may vary from year to year, and these numbers include both. The estimates further out on the timeline are likely to be on the lower side, as expiry dates tends to increase towards the target year. Regardless of the actual search volumes, the pandemic has postponed ongoing processes for tenants searching for space over the past years. These searches remain as opportunities for landlords with suitable space to offer, until the tenants have decided and leases are signed. With the outlook of a slight decrease, but fairly stable demand from larger tenants, we do not believe that there will be any significant increases in new developments coming to market in relation to previous years' volumes. We also believe landlords will remain reluctant to construct on speculation, since the pandemic has reminded developers of the risks involved, and also a couple of speculative projects in the market have failed after completion, leaving large newbuilt space vacant. However, the increased delay in demand from larger tenants during the pandemic may cause some of them to have fewer opportunities as the required move-in date approaches, and hence secondary properties with vacant space may have better chances in the market over the coming year than would have been the case without the shock of the pandemic. This shock has, therefore, probably postponed several projects and decreased the outlook for vacancy in the short term.

**Estimated aggregated demand from >5 000 $m^2$ tenants***




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

«The increased delay in demand from larger tenants during the pandemic may cause some of them to have fewer opportunities as the required move-in date approaches, and hence secondary properties with vacant space may have better chances in the market over the coming year than would have been the case without the shock of the pandemic».


## St. Olavs Plass 5 — Oslo

Malling & Co Næringsmegling was the advisor for Entra when Geelmuyden Kiese AS leased 1 123 m² office space at St. Olavs plass 5.

# Construction activity in Greater Oslo

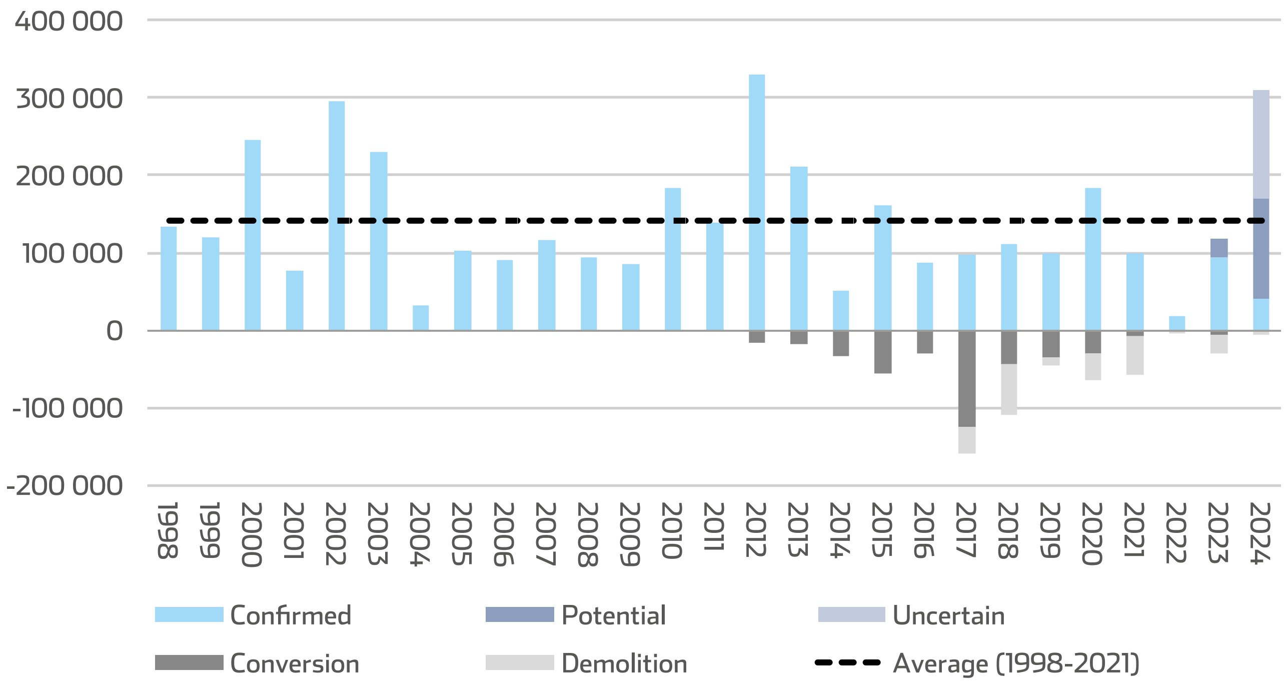
## Potentially high construction volumes in 2023 and 2024

Construction in 2022 will be moderate, with most of the projects due to be completed being refurbishments. On the other hand, 2023 and 2024 are looking to be years of high construction activity, with projects located mainly in central Oslo and in the eastern fringe.

### An overview of new construction in Greater Oslo

Gross new construction of office space in Greater Oslo will conclude at approx. 98 600 m² in 2021, well below the 20-year average of approx. 140 000 m² per year. The 2021 volume includes several high-profile projects such as VIA, Tullinkvartalet and Valle View. In addition to these newbuilds, there are several refurbishments that have been completed in 2021, including Dronning Eufemias gate 8, Rebell and Urtegata 9 (Fabrikken). In 2022, confirmed new construction is approx. 18 500 m², meaning that 2022 will have the lowest recorded volume since 1998. The newbuilds that will be completed in 2022 are Gullhaug Torg 5 and Hasle Tre. Like 2021 however, there are many refurbishments due to be completed in 2022, including Entra's projects at St. Olavs plass 5 and Tordenskiolds gate 12 in central Oslo. New New construction is expected to increase from 2023 and onwards, although not dramatically. Currently, confirmed new construction volume in 2023 is at 93 800 m². Another 24 000 m² is awaiting tenants and is still considered as "potential" for 2023. However, as we approach 2022, it is becoming more and more likely that undecided projects will move over into 2024. At the time of writing, the confirmed pipeline in 2024 is 41 000 m², and there are many projects with the status of being both potential and uncertain. We do, however, find it very unlikely that all the projects will be realised on that timeline, as some projects are likely to outcompete one another, unless developers decide to initiate on speculation.

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




Source: Malling & Co, Norgebygges

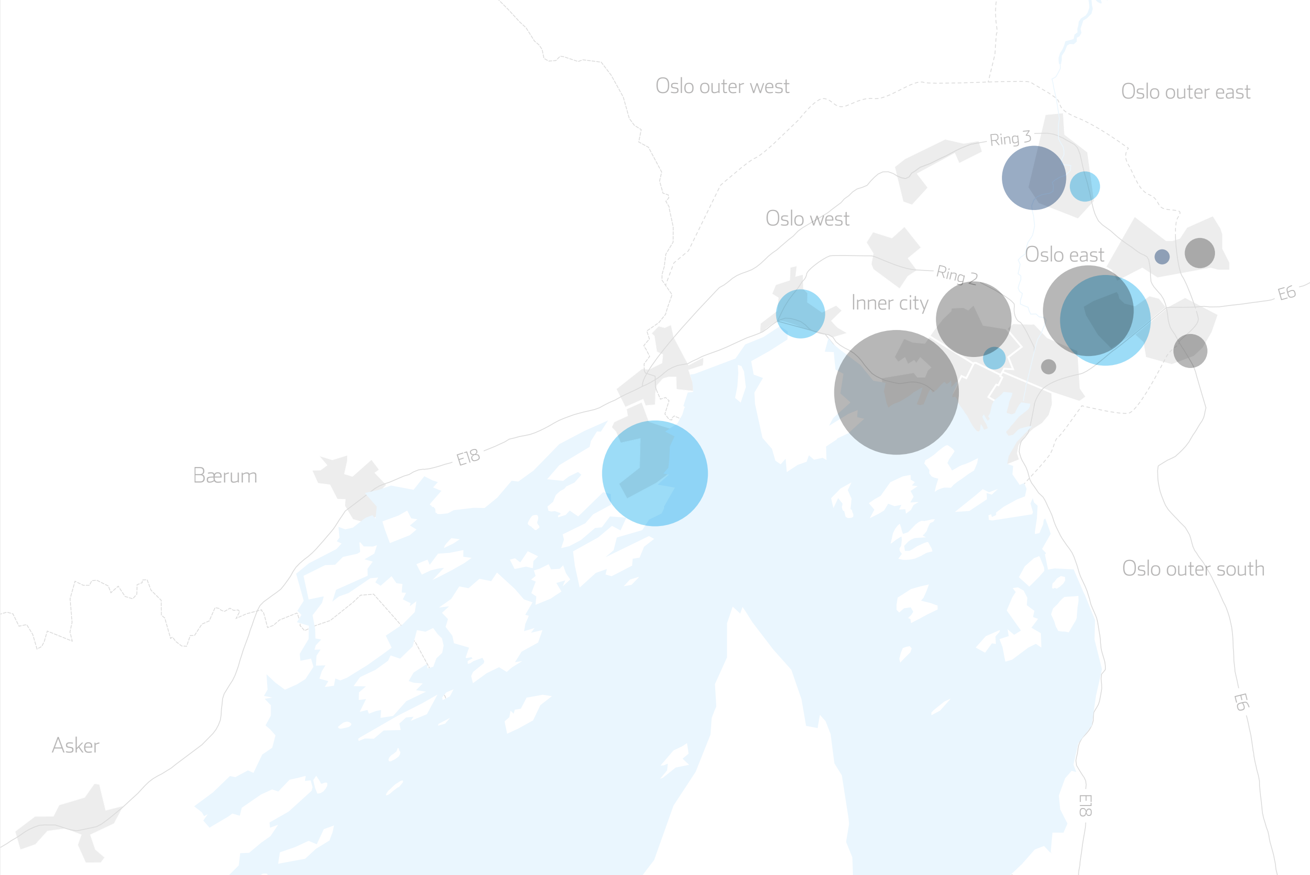
**Project definitions** — Confirmed volume include all new constructions that are zoned and will be initiated either because they have secured a sufficient tenant-base or because they will build on speculation. The potential volume includes all projects that are zoned, and which we deem likely to be 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.

## New construction in detail

At the time of writing there is 375 000 m$^2$ in the confirmed pipeline in Greater Oslo, regardless of estimated completion. Approx. 45 % (169 500 m$^2$) of this volume is located in the eastern fringe zone and includes several large projects such as Construction City, Valle View and Valle Vision. In addition to the confirmed volume, approx. 128 000 m$^2$ currently has the status of being potential, meaning that they are currently awaiting tenants or in planning. All the potential projects are located at Bryn or Helsfyr and include Spire (20 000 m$^2$), Grenseveien 82 (12 000 m$^2$) and Valle Value (14 000 m$^2$). Although Økern/Løren/Risløkka has the largest long-term development pipeline, most of the remaining projects there are currently in zoning and therefore have the status of being uncertain, according to our definition.

Around 38 % of the confirmed new construction volume is in Central Oslo, equalling approx. 144 000 m$^2$. Naturally, the first stages of the new governmental quarter make up a substantial proportion of this volume, along with VIA (41 500 m$^2$ office space) and Universitetsgata 7-9 (18 500 m$^2$ office space), both of which will be finalised by the end of 2021. There is also another 162 000 m$^2$ in potential volume in Central Oslo, mainly located in the inner city east cluster. It should be noted that, despite having a large development pipeline, most of the projects in Central Oslo involve the demolition of existing space, thus net construction is much lower. Lastly, there is approx. 61 300 m$^2$ in confirmed new construction in the western fringe, and another 130 000 m$^2$ in potential volume. With the new area zoning plan at Skøyen having been sent to the city council for consideration, and the zoning plan for Lilleakerbyen well underway, it is likely that the western fringe will see increases in new construction volume over the coming 5-10 years.

### Confirmed new office buildings that will be finalised in 2021-2023, sum m$^2$



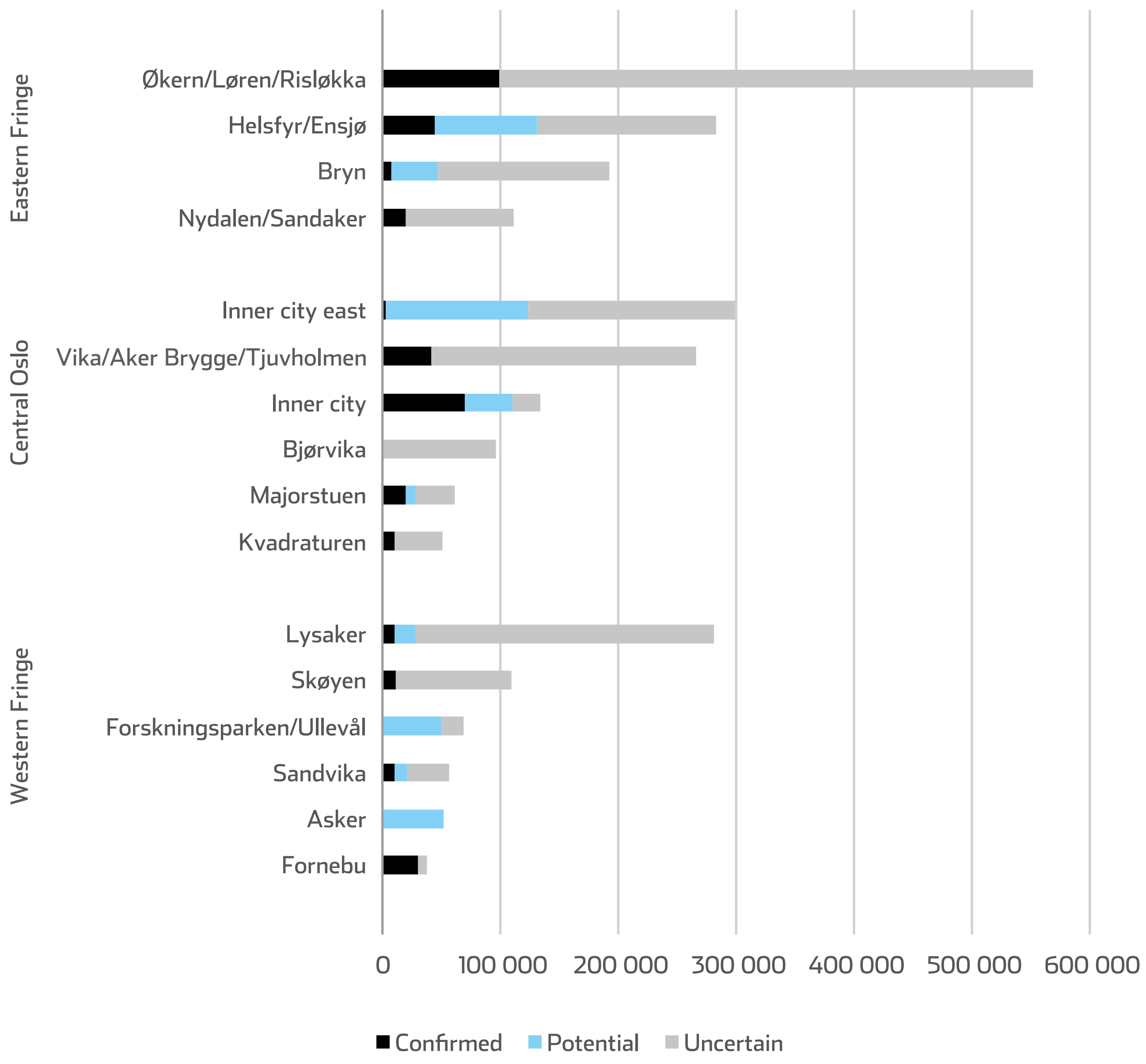

| 2021 | 2022 | 2023 |
| --- | --- | --- |
| | | |
| 4 % Vacant* | 0 % Vacant* | 40 % Vacant* |

15 000 m$^2$ The size of the bubble represents the volume of new office buildings in each office cluster.

Source: Malling & Co

*Share of total yearly construction volume vacant

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




Source: Malling & Co

## Dronning Mauds gate 15 — Oslo

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

# Supply and vacancy in Greater Oslo

## Gradually decreasing vacancy

Since our last report, vacancy has continued to gradually decrease over the summer. A booming employment market and little new construction over the short term should facilitate further decreases. Vacancy is expected to stabilise at around 6 % as we move towards 2023-2024, due to an expected slowdown in employment growth and increased new construction, which will prevent a further decrease.

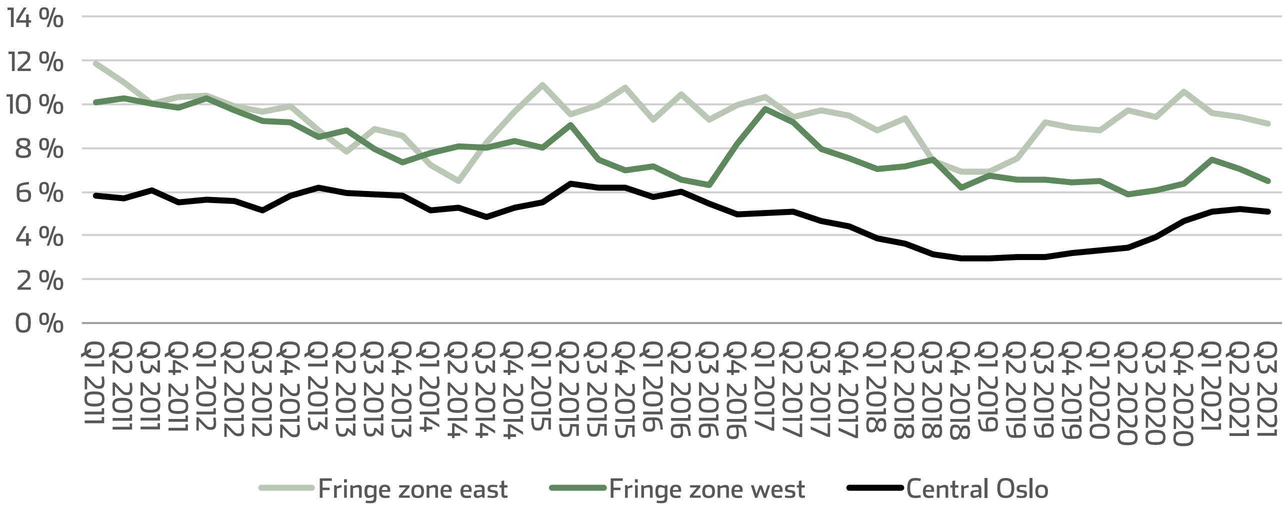
Please note that we have made changes to our defined office clusters which affect both current and historic vacancy and supply figures.

### Vacancy in Greater Oslo

As predicted in our previous reports, vacancy topped out in Q1 2021, measuring in at approx. 6.7 % in Greater Oslo. After gradually decreasing over the spring and summer, average vacancy is recorded at approx. 6.3 % in Q3. Vacancy is highest in the eastern fringe, with an average of 9.1 % in Q3. Vacancy in the area is mainly pulled up by the high vacancy at Bryn and Økern/Løren/Risløkka, with 17.0 % and 10.5 % respectively. Bryn currently has the highest measured vacancy in Greater Oslo. In addition to the multiple large spaces currently in the market, there are several small-medium sized spaces currently available for short-term rent, while they are in the process of re-zoning for further development.

Nydalen and Helsfyr/Ensjø, on the other hand, both have moderate vacancy levels with 4 % and 6 % in Q3, respectively. In the western fringe, average vacancy ended at 6.5 % in Q3, down 100 bps since topping out at 7.5 % in Q1 2021. One of the main reasons behind this decrease is the reduction at Lysaker, where vacancy stood at 3.8 % in Q3, down from 7.6 % in Q1. In central Oslo, average vacancy ended at 5.1 % in Q3, a flat development since our last report. Vacancy in central Oslo has stayed at a relatively low level throughout the pandemic, only increasing somewhat from the record low levels of around 3 % it was circling in the period of 2018-2020. High demand for offices in central Oslo, as well as very little net new construction are the main factors behind the continued moderate vacancy.

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



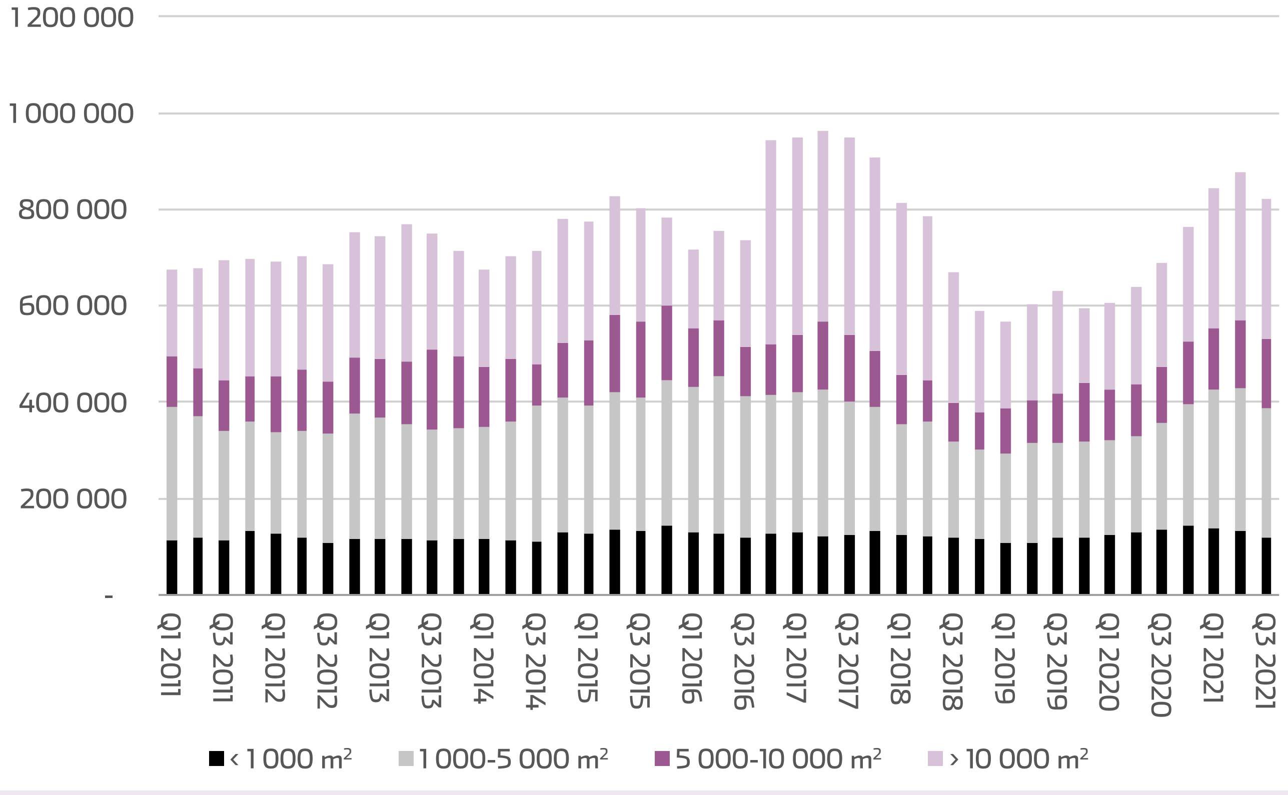

Source: Malling & Co, Finn.no

**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

We differentiate between vacancy and supply when looking at advertised space. Only space available within 12 months is considered vacant space and is thus a part of the vacancy measure. Supply, on the other hand, includes all office space being advertised in the market, regardless of when the space is available for tenants. In Q3, average supply in absolute terms was approx. 820 000 m² in Greater Oslo, whereas vacancy was approx. 600 000 m², meaning that around 220 000 m² is currently in the market, albeit not available for tenants within 12 months. The difference between vacancy and supply has substantially increased over the past 1-2 years, probably because of the several newbuilds and refurbishments, with estimated completion in 2023-2024, being brought to market. This theory is supported by the increase in the supply of large space, due often in relation to projects. Over the past 12 months, advertised space above 10 000 m² has increased by 35 %. As commented on in our last market report, the gap between vacancy and supply is especially high in central Oslo, or more specifically in the inner city and inner city east. In September, supply in central Oslo was measured at approx. 405 000 m², whereas vacancy was measured at 244 000 m². This means that there is a slight chance of vacancy increasing in central Oslo over the next 2-3 years. It is unlikely, however, that all the projects currently being advertised will be built on the currently suggested timeline. Moreover, we believe that high demand for centrally located office space will absorb this space rather quickly.

**Advertised office space split by size interval, sum m²**



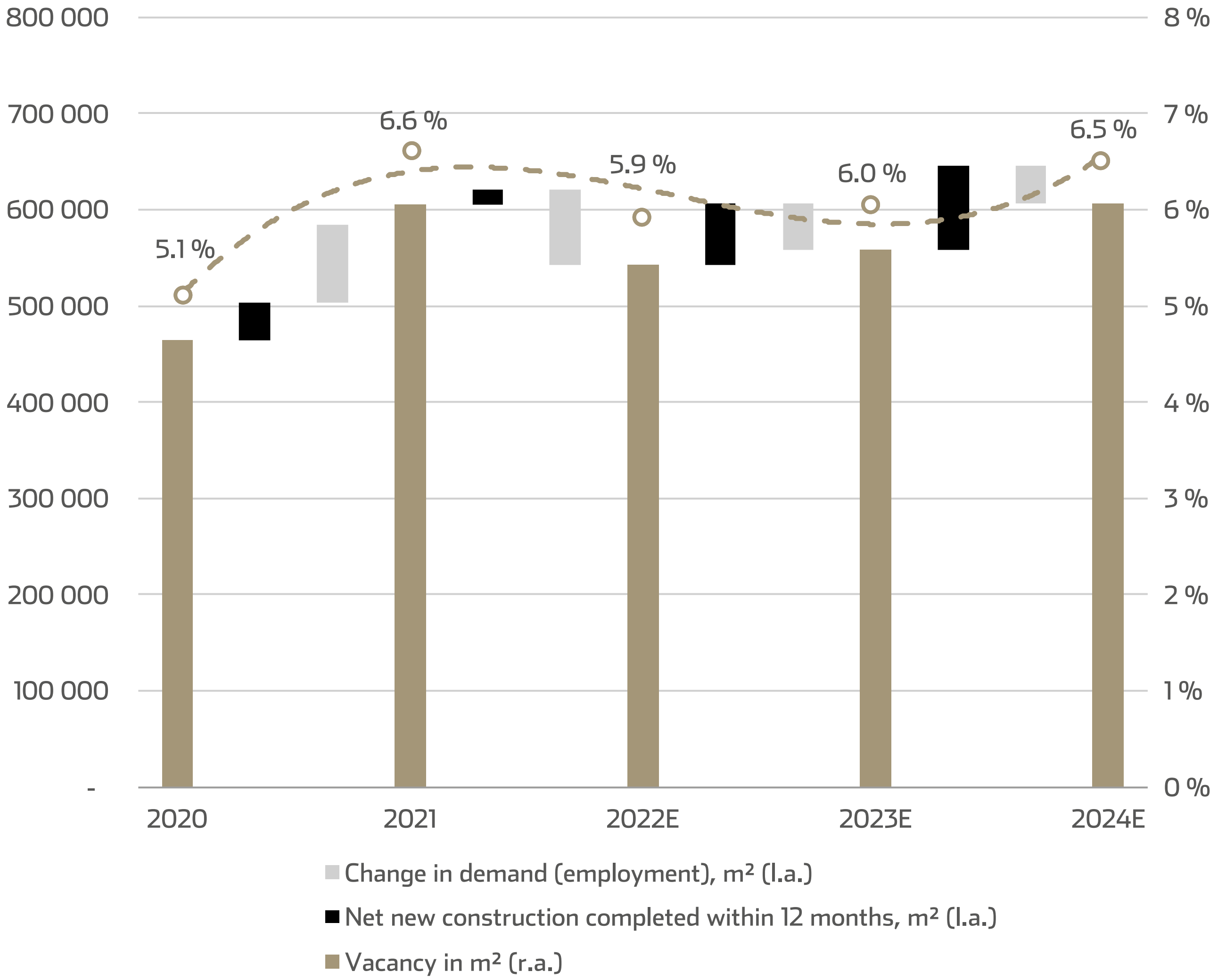

Source: Malling & Co, Finn.no

> «Over the past 12 months, advertised space above 10 000 m² has increased by 35 %».

## 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. Changes to employment must be dramatic for it to have effects on vacancy exceeding that which is possible to accommodate for through increased density in existing leases until the contract expires. Any further changes imply that either a termination of the current contract or an additional contract is necessary. Therefore, there is a lag in the employment effect following the expiration profile of leases or other extraordinary events in the employment market. We attempt to adjust for the timing issue by imitating the lag in the employment effect on absorption of office space, spreading the change over four years. This has proven to be a relatively realistic estimation method over time. It is, however, important to note that the forecast only provides an indication of the direction 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 expect average vacancy in Greater Oslo to continue to decrease well into 2022, touching 6.0 % at the beginning of 2022. Extremely little new construction in 2022 and below average confirmed construction in 2023 brings little new space to the market. Moreover, office-related employment is expected to grow substantially in 2021 before stabilising from 2023 and onwards. Although confirmed construction is still fairly low in 2024, we believe that a high expiry of large contracts will increase the risk of a substantial increase in new construction in 2024 and hence a slight increase in vacancy.

### Estimated vacancy trend in Greater Oslo by year-end




Source: Malling & Co, Finn.no


## Bøkkerveien 5 — Oslo

Malling & Co Eiendomsfond has acquired Bøkkerveien 5, an attractive core office property at Hasle Linje.

# Stavanger

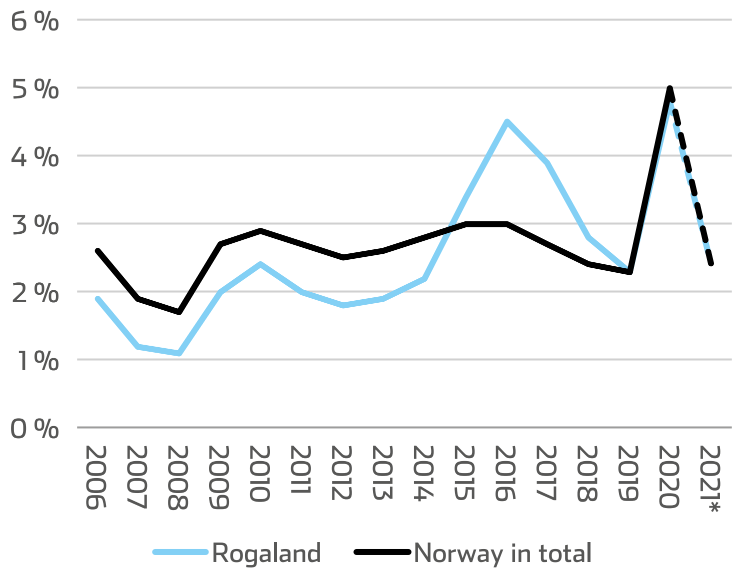
## Second Wind

Along with the reopening of the society and surging energy prices, there is optimism in Stavanger. The registered unemployment (NAV) rate is back to 2.4 % in Rogaland, close to the low level that took years to achieve post the 2015 oil price drop. The oil industry is experiencing good times as the Brent crude oil is now trading at 85 USD/barrel, an increase of USD 20 since our last report. While the oil industry is still important for the employment market in Stavanger, strong measures to cope with seemingly fewer oil investments in future have been taken. Both new and established companies in the region have begun and, in some cases, achieved successful restructuring processes within renewable energy and IT. This is reflected in the positive employment growth in the Stavanger region and has also given birth to several start-up companies. Luckily, the office market has ample supply for the years to come and is welcoming more tenants to reduce today's high vacancy. The outlook for rents is, for the most part, flat, although we are starting to see signs of growth in Stavanger city centre.

### Employment market back to normal

With an unemployment rate of 2.4 % according to NAV figures, in the Rogaland-region, the employment market is considered to be back to "normal". Stavanger municipality is responsible for pushing the county's registered unemployment slightly upwards with a rate of 2.8 %, although this is actually same level as Oslo. The corresponding figures in April were 3.4 % and 4.1 % in Rogaland and Stavanger municipality, respectively, which shows the massive improvement in unemployment figures over the summer. The hope for Stavanger must be that the improvement is a result of the steps taken to transform Stavanger away from the both the pandemic and its unilateral focus on the petroleum industry into other growing sectors, such as renewable energy and IT.

**Registered unemployment Rogaland (incl. temporary lay-offs)**




*As at September 2021. Source: NAV (Norwegian Labour and Welfare Administration)

«Stavanger municipality is responsible for pushing the county's registered unemployment slightly upwards with a rate of 2.8 %, although this is actually same level as Oslo».

## Office market

Unlike the Oslo market which has experienced continuous growth, at least for central offices, the Stavanger office market has been rather flat since the oil price drop in 2015. Figures for H1 2021 from Arealstatistikk show that average rents are at NOK 1 680 m²/yr, similar to the 2020 average. However, we have received reports from local leasing agents that top rents in Stavanger city centre are beginning to climb upwards. In the past, this development of increasing rents in the city centre has been the starting point for increasing rents in fringe zones. The same development applies to the residential housing market, where prices finally have started to pick up where, in fact, the 12-month increase is at 9.4 % as at September, according to the index from Eiendom Norge.

Since our last market report, there have been changes in the vacancy measurement. Fringe zones have been reselected and categorisation between the segments has been tightened. Thus, overall office vacancy in the Stavanger region is measured at 7.6 % as at September, and numbers have been revised historically in our database according to new geographical areas. Forus has the highest rate of 10.4 % adding 118 400 m² of vacant office space. This event is not new, as newbuilds in Forus definitively took the largest hit when the oil price dropped. The largest shift is seen in Stavanger city centre, where vacancy is down from 12.6 % measured in April to 8.2 % as at September. Still, there are approximately 27 000 m² of vacant space in this area, but this decrease in vacancy may help explain the sign of positive development in market rents.

Our local touch on the market reports that several new leases for office space have been signed this year, and more firms are in the process of clarifying their tenancy and need for office space going forward. In addition to several new and exciting start-up companies entering the market, there are also several large established office tenants in the process of finding new premises in the region.

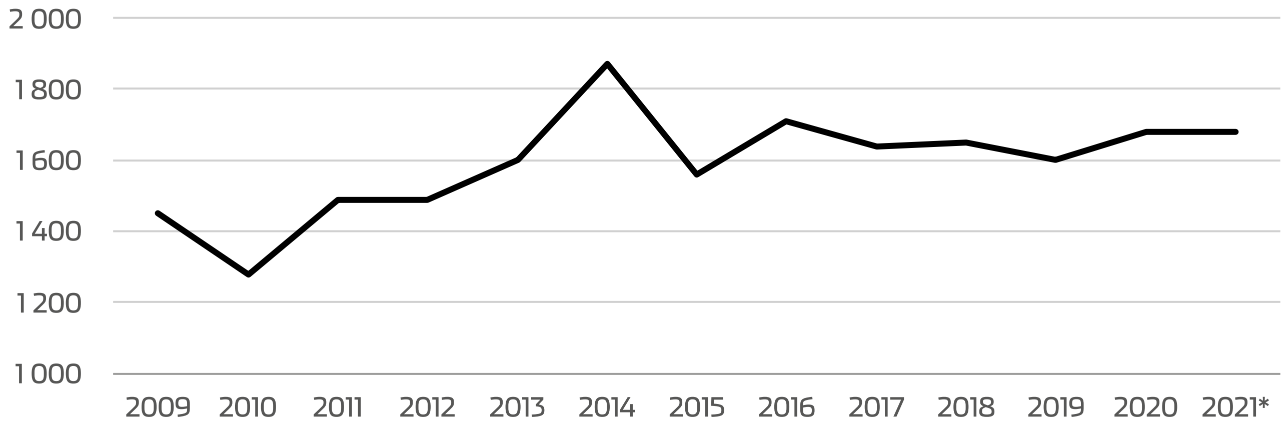
There have, however, not been many attempted searches for pure office space in the Stavanger region in the past six months, although one that is of great importance is the search for a new police building. Southwest Police District recently arranged a conference in order to present building requirements and gather ideas from the real estate industry. It is searching for 13 000-18 000 m² and its desired location stretches from Stavanger city centre in the north to Forus in the south.

Agents report that leasing activity has increased in recent months following the reopening of society, a trend seen across all markets. Some large office lease agreements have been signed, while activity is approaching normal levels. However, we believe the office leasing market in Stavanger needs to see higher demand over some time in order to reduce vacancy rates in existing stock, before we see substantial rental growth across all office clusters.

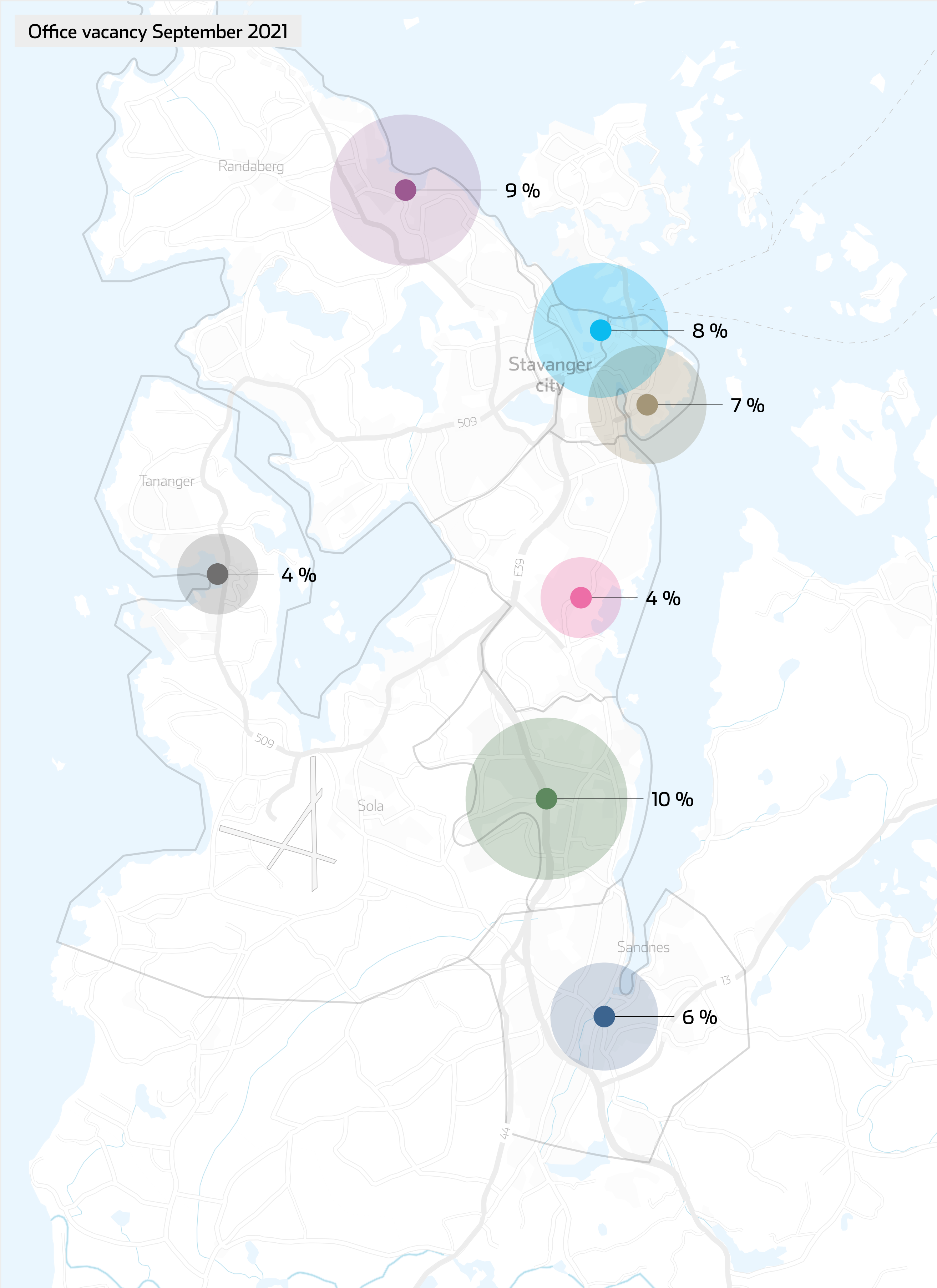
Results from our broker consensus highlight flat or stable rents in most fringe areas, similar to the previously mentioned H1 estimate from Arealstatistikk. The exception is market rents in Stavanger city centre and Forus, which have taken different directions. Normal rent in Stavanger city centre is marginally up, whereas top rent is at 3 400 NOK/m²/yr, NOK 400 higher than six months ago. Market rents in Forus, on the other hand, are clearly down, and top rent is no longer at 1 600 NOK/m²/yr, but down NOK 200 to a more realistic 1 400 NOK/m²/yr.

Shell Norway has decided to leave its long-occupied office space in Risavika. The reason for leaving is it is downsizing following the reduction in the number of employees over recent years. From 600 employees initially, to its present 250, the current office space is too large. Løkkeveien 103 is the new location for Shell Norway, whereas the former tenant, Smedvig, have already shifted premises into Øvre Strandgate 123.

Average of signed office rents (NOK/m²/yr.) in Stavanger region 2009-2021




*2021 per H1. Source: Arealstatistikk

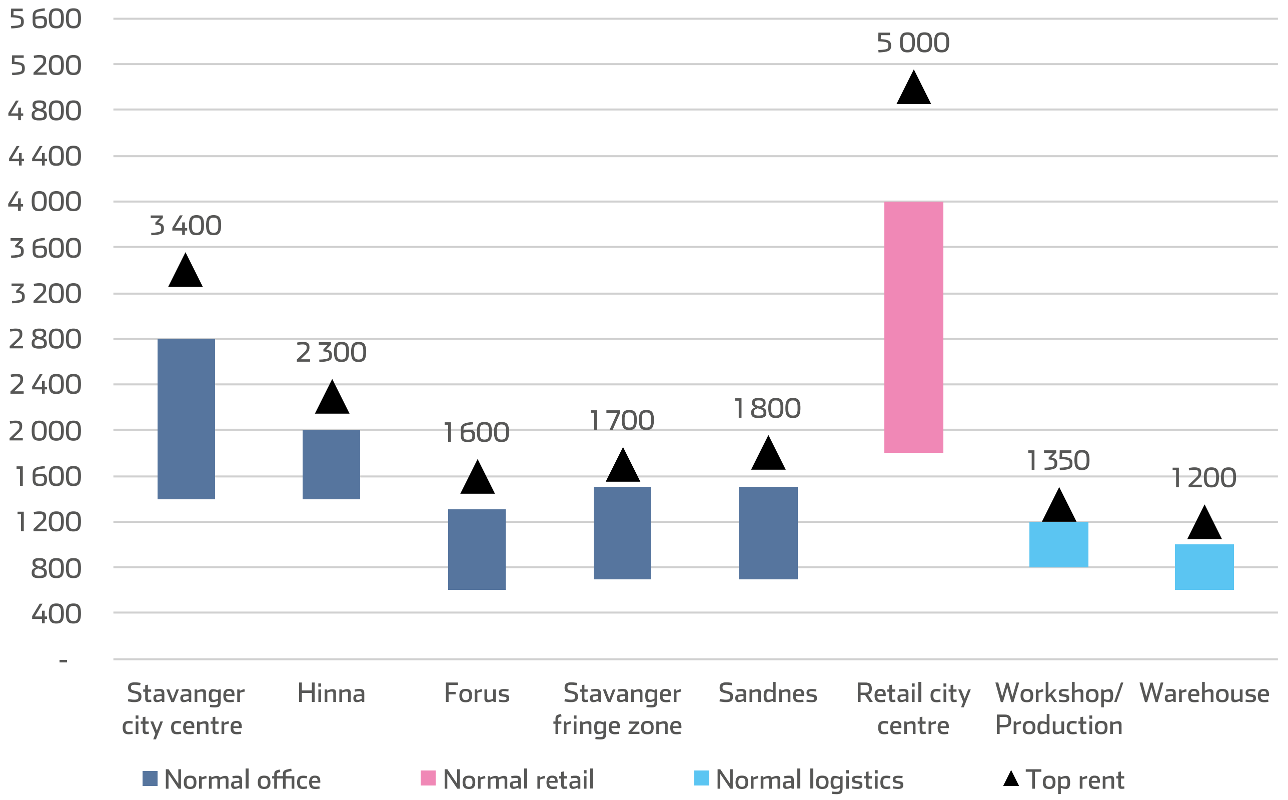



| Total office Vacancy* = 7.6 % | Total office Supply* = 7.9 % |
|---|---|

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

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

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




Source: Malling & Co

«Normal rent in Stavanger city centre is marginally up, whereas top rent is at 3 400 NOK/m²/yr, NOK 400 higher than six months ago».

## New developments

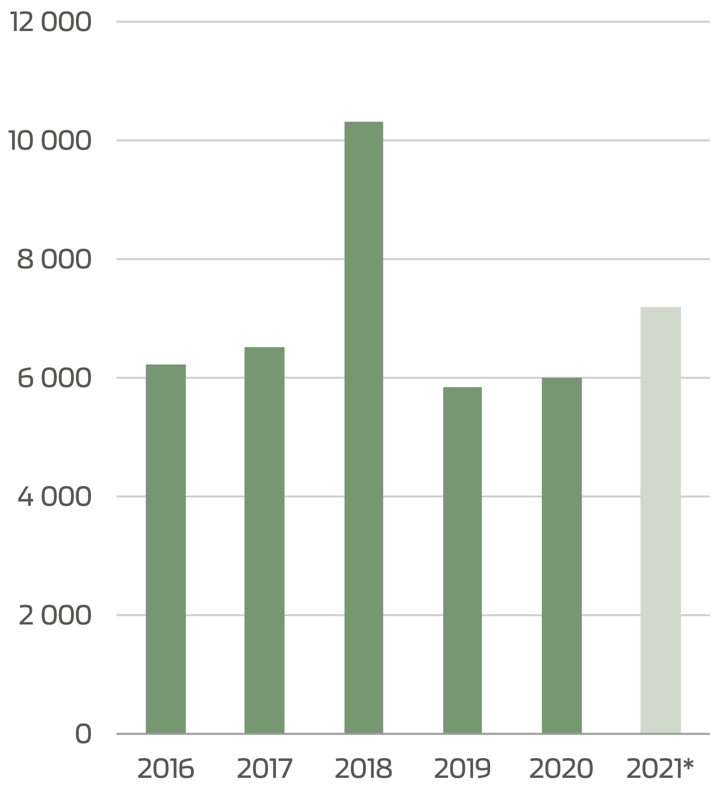
Despite high vacancy figures in the market and the future prospect being a continuation of this, developers are planning new projects in the region. Most of the offering is in Stavanger city centre or in the city fringe. At present, few of these projects have been confirmed, as demand is limited.

- K2 Stavanger and Bane NOR Eiendom are in the process of offering a new project called "The Box Office" at Paradis Station. The building contains 5 500 m² of office space over eight floors and is situated next to the train station. The building is one of two on the site.
- Base Property is developing the high-rise building planned at Knud Holmes gate 8 in the city centre, known as K8, which is expected to be finalised in 2023. Deloitte will be the anchor tenant in the project, and Helse Vest and the law firm Thommessen have signed leases here. There is still 2 500 m² of available office space in the project.
- "Møllekvartalet" is under construction at the heart of Sandnes city centre. There are 16 floors in total, of which 2-4 comprise about 1 500 m² of office space, and the rest residential. The project is expected to be finalised in Q1 2022.

## Investment market

Stavanger continues to follow a good trend in investment activity and is already at NOK 7.2 billion (NOK 2 billion relating to the ABP portfolio deal) in investment volume with some larger transactions still to be completed. This lifts the full-year potential for Stavanger up towards NOK 10.3 billion, which was the record volume recorded in 2018. Although our main scenario expectation is for volume to fall just shy of NOK 10 billion, we are not ruling out a positive surprise on the upside of this estimate. We still believe that activity in the investment market going forward will tend to be either focused on central long-term leases or the strategic development of value-add opportunities. But as oil and gas prices are higher than expected and activity on the Norwegian shelf is as promising in the outlook as we are now seeing, we believe that there is a potential for industrial properties to make a significant impact on the investment activity in the region.

Transaction volume Stavanger (MNOK)




Source: Malling & Co

«This lifts the full-year potential for Stavanger up towards NOK 10.3 billion, which was the record volume recorded in 2018».

## Notable transactions

› Storebrand Eiendomsfond Norge has acquired "Skattens Hus" Lagårdsveien 46 from a Pareto syndicate. The 20 000 m² office building is on a single tenant lease agreement with Skatteetaten.

› UNION Core Real Estate Fund has acquired Nedre Holmegate 30-34 from Køhler Eiendom AS. The 5 300 m² property is let to among others Projure Advokatfirma, Rogaland statsadvokatembeter and Elkjøp.

› Nordea Liv has acquired "Stavanger Bilpark" Fabrikkveien 36, 38 and 41 from a Njord syndicate for NOK 485 million. The 22 000 m² property is let to car dealerships Bavaria, Mini and Porsche on longer leases.

› Ragde Eiendom has acquired Svanholmen 21 from an NRP syndicate. The 10 000 m² logistics property is fully let to IKEA.

› Stout Real Estate has acquired Kanalsletta 8 from Hitec Vision and IDS Invest. The 15 000 m² office building is let to among others PwC, Havfram and Global Maritime.


## Portalen — Drammen

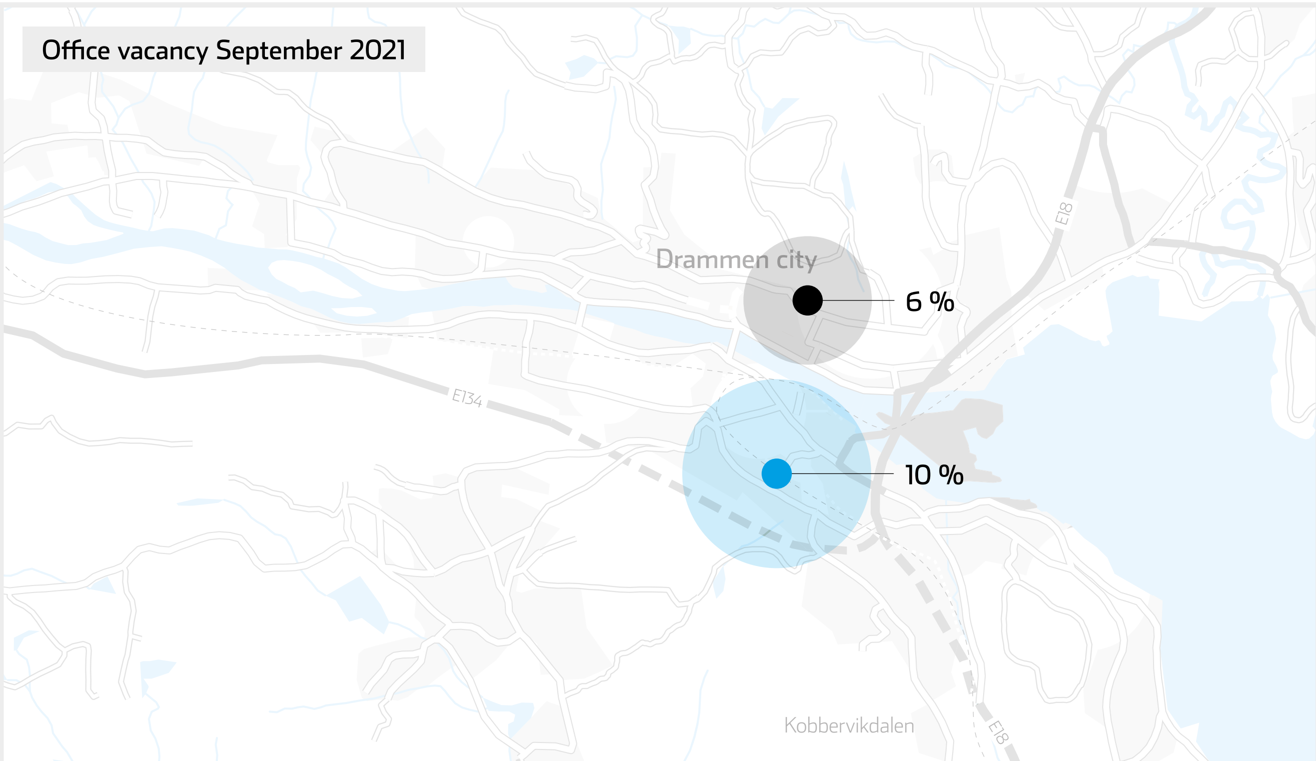
Malling & Co Drammen was the advisor for Union Eiendomsutvikling when Axactor leased 2 600 m² office space at Grønland 61 in central Drammen.

# Drammen

The Drammen-region is experiencing high activity in the second half of 2021. Investment activity has been strong, and the office rental market has blossomed after a period of businesses being cautious and pausing their searches for office space. The industrial segment is seeing stable and strong activity, also after the lifting of national restrictions. There is a lot of development in the Drammen region looking ahead to 2025, which is the focus in the local CRE market. Both rail, road and public buildings have large-scale construction projects in the pipeline. This will create opportunities within leasing, investments and development over the coming years. The total stock of our cluster-mapped commercial property stock in the Drammen region comprises around 750 000 m² office space, 600 000 m² retail premises and 800 000 m² industrial/logistics/mixed-use premises. Vacancy in Drammen is around 6.2 % for office space and around 2.7 % for industrial/logistics premises in September 2021.

## The rental market

As much of the uncertainty around the pandemic has faded in recent times, tenants are feeling more confident in making decisions involving their future office space. There are still great differences in future prospects within the various segments, still leaving uncertainty regarding future demand for leasing CRE in the region.




| | |
|---|---|
| Total office Vacancy* = 8.3 % | Total office Supply* = 8.3 % |

● Bragernes ● Strømsø

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

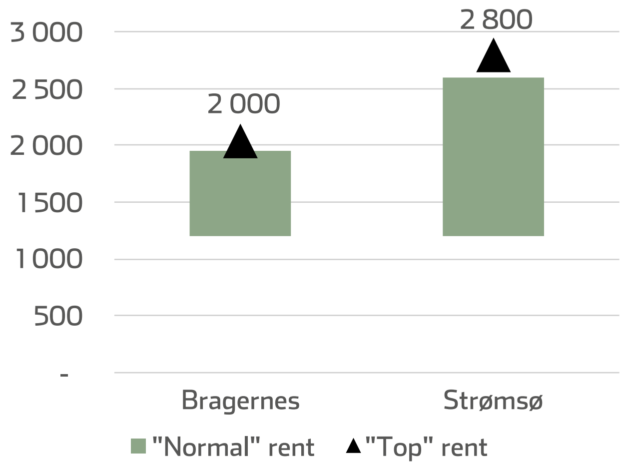
## Office

As a continuing trend from the last market report, several large Oslo-based firms have decided to open subsidiary offices in Drammen. For instance, the two IT consultancy firms, Sopra Steria and Bouvet, will be entering the newbuild SporX developed by Vestaksen Eiendom at Strømsø. Part of the reason for this demand-driving trend stems from a decentralisation factor driven by the challenges of public transport that commuters had not faced prior to the pandemic. The pandemic has among many key tenants in the region intensified the focus on offering local hubs to its clients and employees.

Like the trend seen in other cities, office tenants have increased their focus on adapting office space to accommodate even more space for social meetings. There is also a greater need for quiet- and multi-room spaces to cope with the extensive use of video meetings within the office space. This will challenge landlords in the Drammen region to facilitate this demand in their office space offerings.

While many out-of-town tenants are filling up newbuild projects at Strømsø, there are still many tenants coming from existing buildings that are in the process of completion. Thus, the vacancy rate of 10.2 % in September 2021 has not reduced particularly as a result. Tenants are more concerned about office facilities, strong environmental ambitions, and properties of high quality, making newbuilds at central locations the winners of the contest.

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




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

«The pandemic has among many key tenants in the region intensified the focus on offering local hubs to its clients and employees».

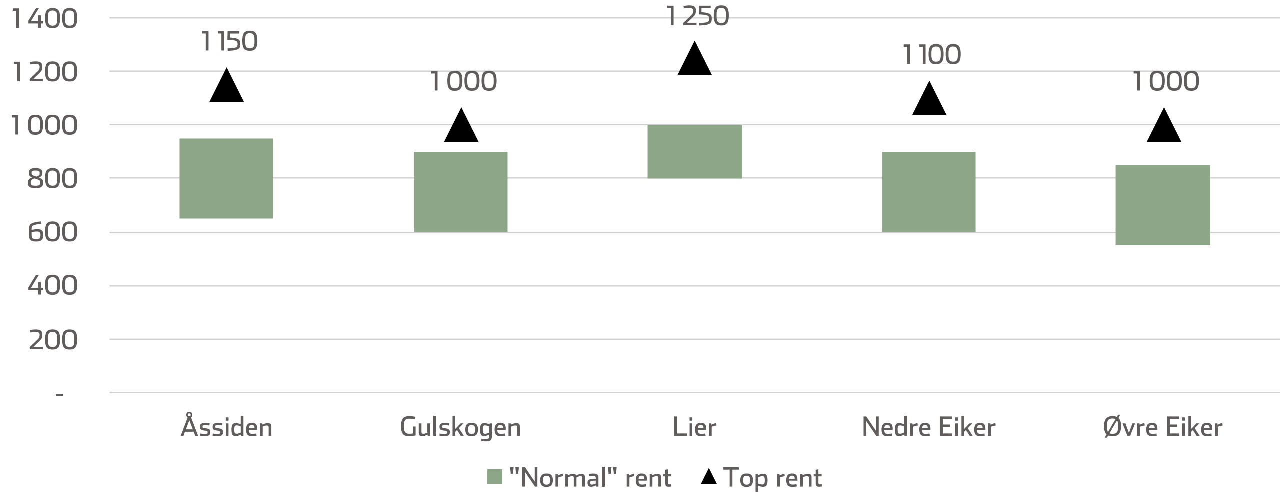
## Selected notable lease agreements

- Sopra Steria has signed a lease agreement for roughly 600 m² office in Vestaksen Eiendom's property SporX
- Bouvet has signed a lease agreement for roughly 350 m² office in Vestaksen Eiendom's property SporX
- Asplan Viak has signed a lease agreement for roughly 400 m² office in Vestaksen Eiendom's property SporX
- Stadium Outlet has signed a lease agreement for roughly 1 900 m² big box retail in Zeiner Eiendom's property Orkidehøgda
- Thansen has signed a lease agreement for roughly 1 000 m² big box retail in Stor-Oslo Eiendom's property Sølvparken

## Logistics and mixed-use

Logistics and the mixed-use segment have fared well through Covid-19. Some tenants have experienced increased turnover, which has subsequently increased demand for space over the past year. The segment has low vacancy rates in the existing stock followed by a generally low supply side in terms of new projects. In popular areas such as Liertoppen and Kobbervikdalen, vacancy rates are close to zero in addition to limited plots for development in the next few years. The result is that the larger, land-intensive tenants looking for built-to-suit or newer buildings must move somewhat further out into the fringe zones to find their desired property. Hanekleiva, Røyken and Eikerbygdene have fully regulated and accessible plots close to the main E18 and E134 routes available for keen tenants. Conversion into housing, changing area demand, and a desire for energy- and environmentally-efficient buildings are the main drivers for firms moving or considering relocation. This trend is likely to benefit developers with modern projects in the mentioned areas outside the city of Drammen.

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




Source: Malling & Co

## Land for new developments

Central Drammen is characterised by few available plots of land for greenfield developments. The closest available to Drammen city is Kobbervik Næringspark, located along Holmestrandveien towards Kobbervikdalen.

On a larger scale, there is Hanekleiva Næringspark, located south of Drammen along the E18. Some vacant land areas have been brought to light and deemed ready for newbuilds. The Park comprises a total of 470 acres and is suitable for warehouse, logistics and industrial enterprises.

As mentioned in the previous market report, Sagvollskogen, close to the established area at Liertoppen, has been targeted for future development. Sagvollskogen covers roughly 220 000 m² and will go through a regulatory process with local developers at the helm. There are high expectations of what this area can offer in the long term.

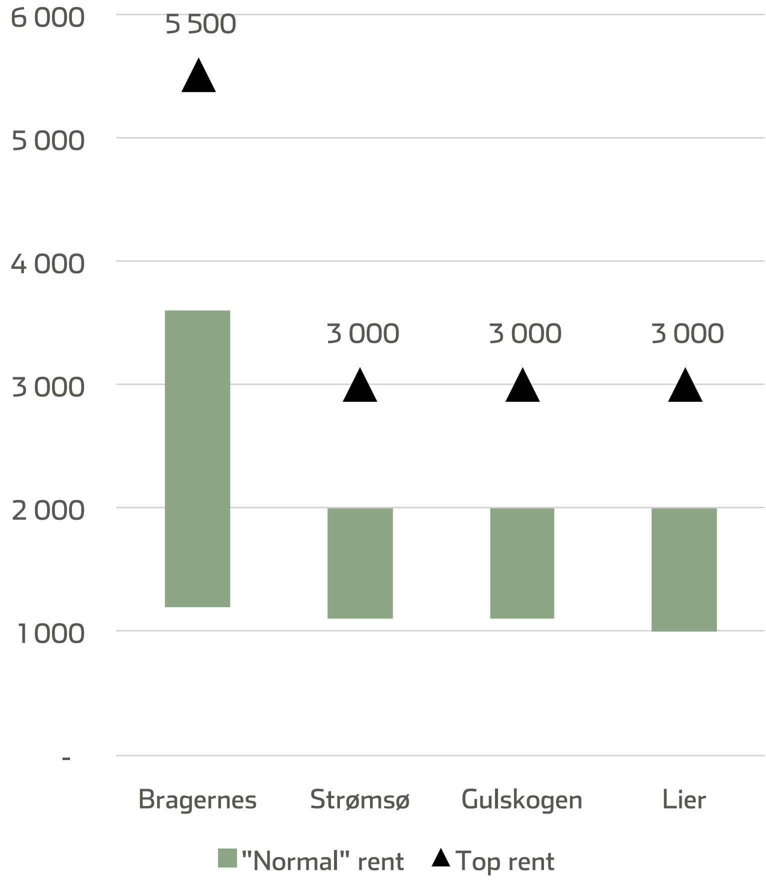
The area Toppen Næringspark, right at the entrance to Kongsberg, is characterised by large firms such as Circle K, Max Burger and Volmax. Added to this, the business park, covering approximately 100 000 m² has sold land to established firms such as Krøderen Elektro, Drammen Liftutleie, Drammen Rørservice, HS News and Alt-i-Bygg Kongsberg.

Fiskumparken, along the E134 between Hokksund and Kongsberg, is under development with the construction of land areas and establishment of infrastructure. The first land areas have been sold and the park will be fully developed field by field. For early investors, there is still flexibility in terms of land size.

## Retail

Like for the national market during the pandemic, great variations have been recorded within the different retail sub-segments in the Drammen region. The trend has, however, been positive overall since the summer with several tenants in the big box segment showing particular interest in properties in the region. Lease agreements have been signed with tHansen, Jysk and Stadium Outlet, among others. We are also seeing a continuation of the trend of big-box tenants wanting shorter contracts or seeking exit -options during the rental period. In our belief, this demonstrates the uncertainty among the tenants in this segment. Within F&B, the pandemic period was tough, although there has been an increase in potential tenants wanting to position themselves in the Drammen region and take part in the expected upturn in this market as society returns to normality after the lifting of restrictions nationally.

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

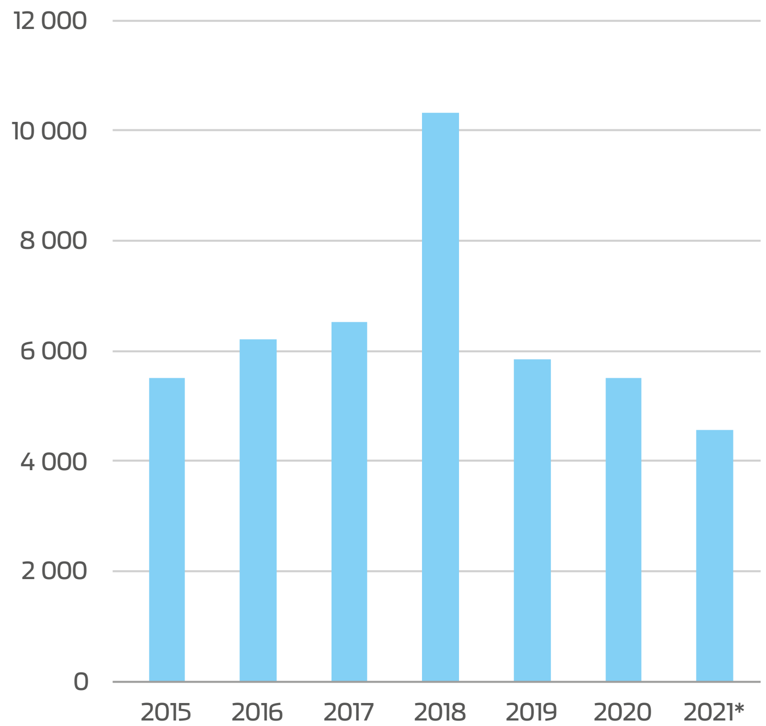



Source: Malling & Co

## The investment market

A good start in 2021 continued through spring and further into autumn. Early on, there was uncertainty among investors as to whether the high activity and low yields could persist. Experience so far shows that yields have compressed even further. The first half of the year was characterised by many medium-sized and somewhat larger divestments primarily within warehouses and logistics/mixed-use buildings. In addition to these segments, the retail market has also come back stronger, where numerous processes are going on. Demand for residential development projects is high, especially close to Drammen and Lier. Several residential properties near Fjordbyen have changed ownership in recent times, and the first steps in the upcoming conversion process have started.

Annual transaction volume Drammen (MNOK)




*As of 29 October. Source: Malling & Co

## Logistics and mixed-use

As we wrote in the previous market report, several transactions have recently been carried out involving mixed-use buildings at Liertoppen and along Kobbervikdalen. These are for the most part newbuilds or are currently being erected on the few remaining plots along the axis. Sharp yield levels close to 4.0 % have been achieved on these buildings with 10–15-year lease agreements. Investor focus is particularly centred on having a solid counterparty, flexibility in relation to alternative use and an office/warehouse factor in the range of 20/80 to 30/70.

Since the available plots close to Lier and Drammen are scarce, new clusters for mixed-use buildings have been established in the surrounding fringe zones. As new tenants fill up a property there is high demand from investors for these properties. Fiskumparken, Toppen Næringspark at Kongsberg and Hanekleiva are examples of this. Hanekleiva Business Park, in particular, has now taken the form of an attractive business park.

## Office

Much of the office investor focus is centred around Strømsø Torg and along the axis following Dr. Hansteinsgate from the Quality River Station Hotel. New office buildings have been developed in recent years, whereas the DBC building, totalling about 13 000 m², was built in 2018/2019, and has already changed ownership twice. Around Strømsø Torg, several owners and developers have merged buildings and purchased value-add projects. There are also quite a few ongoing rehab and add-on projects, and some of these have also changed ownership over the past year. We believe that there will be an increase in investment activity in this part of the city going forward.

«Around Strømsø Torg, several owners and developers have merged buildings and purchased value-add projects».

## Selected notable transactions

- Bane NOR Eiendom AS has sold the hotel property Quality Hotel River Station Drammen to NREP for NOK 485 million
- Orhusveien 9, a 1 921 m² workshop build for Scania Norge on a 10-year lease agreement at Hanekleiva Næringspark, was sold from Trippel Eiendom AS
- Holmestrandsveien 117, a 3 666 m² mixed-use building fir Hitachi ABB Power Grids and ABB Bygg with approximately 9 year remaining lease agreement at Kobbervik Næringspark, was sold to Fevang

## SporX — Drammen

Malling & Co Drammen was the advisor for Vestaksen Eiendom when Sopra Steria leased 650 m² in Dr. Hansteinsgate 13 in central Drammen.

# Bergen

## New records in a red-hot investment market

After a very active first half-year in the investment market, the temperature has remained high in recent months. Previous records, both in terms of investment volume and the number of transactions, have long since been passed as we now enter what are normally the most active transaction months in Q4.

In the rental market, we continue to see increasing activity after a slow start to the year. The demand for office space is stable and newbuild activity is rising, at the same time several older office buildings are being transformed to a modern standard in the centre of Bergen.

### Office rental market and demand

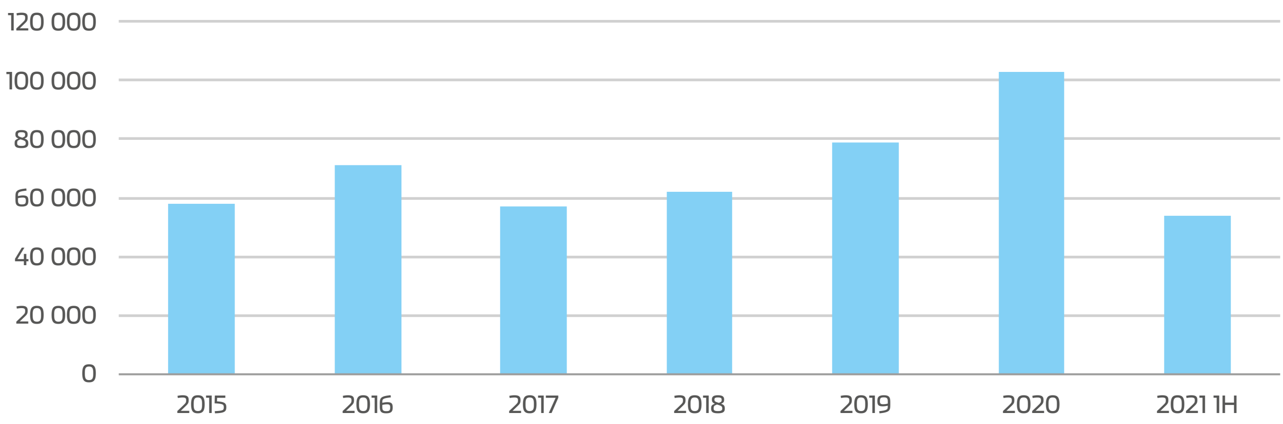
We are seeing gradually increasing activity in the rental market, in line with the vaccination of the adult population and the ending of Covid-19 restrictions. However, the rental year 2021 as a whole has been characterised by a higher degree of renegotiations than normal. There are now several attractive rental properties in the market, so those seeking new office space have a good selection of quality premises to choose from.

In the centre of Bergen, several older office buildings are being transformed into modern, full-service buildings. Examples include Olav Kyrres gate 22, Baneveien 16 and Markeveien 1B. The demand for high-quality premises is still very high in central Bergen.

Several newbuilds will be added in Bergen city centre in the coming years, and we are confident that the city centre will hold up well in the competition for tenants.

During 2020 and so far in 2021, we have not registered any "corona effect" on demand. Tenants are planning full coverage of their requirement and signed leases, as well as the development in rent levels, do not indicate any decline in demand. According to Arealstatistikk's letting report, leases in the order of 100 000 m$^2$ representing approximately 120 contracts were signed in 2020. In the first half of 2021, approximately 60 contracts were signed for more than 50 000 m$^2$ in aggregate.

Signed Office contracts, sum m$^2$




Source: Arealstatistikk

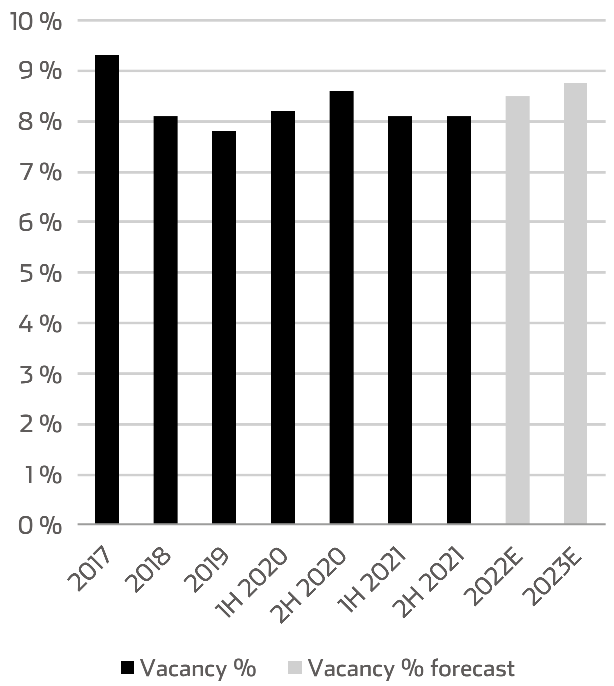
This section has been provided by WPS Næringsmegling in Bergen.
To check out more details about the CRE market in Bergen — click here

## Vacancy

The stable development in office vacancy continues, and our last vacancy count is unchanged compared with the first half of 2021. Regarding the various geographical areas, we find the most positive development in Bergen north and Bergen west, where vacancy has decreased by 2 pp since the previous count. However, these are areas with a relatively limited amount of office space, and the effect on total vacancy for Bergen is therefore limited. Vacancy in Bergen city centre continues to increase, and now amounts to 7.0 %. In this context, it is worth mentioning that vacancy comprises existing space or new construction available within 12 months from the date of measurement. In practice, the increase is mainly due to the addition of newbuilds, where advertised office space has not yet been filled with tenants. In time, we believe the newbuilds will be occupied and that vacancy will be concentrated on the older buildings with a lower standard.

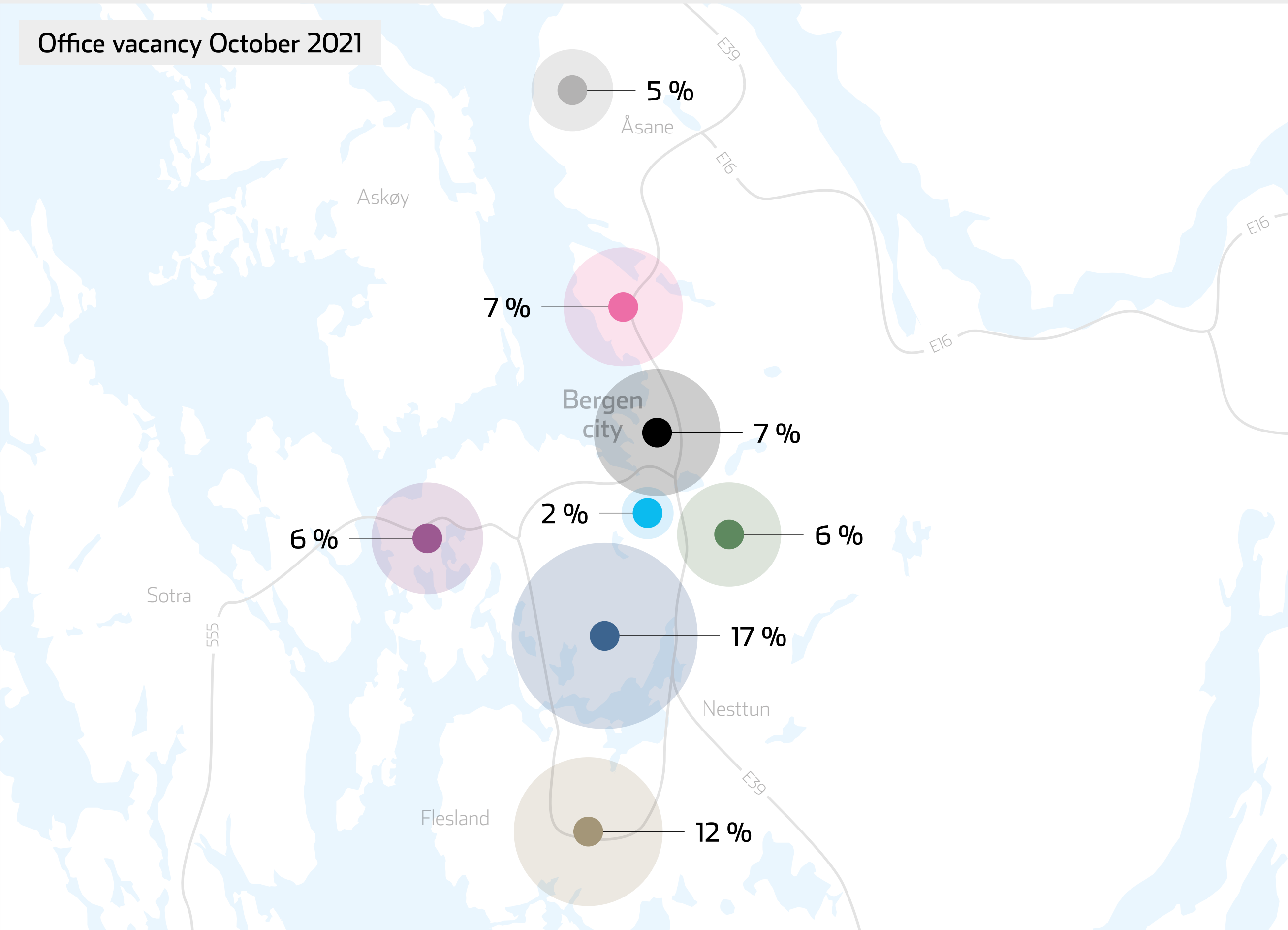
Over the next two years, we expect a slight increase in office vacancy, which is in line with our previous vacancy forecast.

### Vacancy % and forecast




Source: WPS Næringsmegling, Finn.no

### Office vacancy October 2021




Total office Vacancy* = 8.0 %

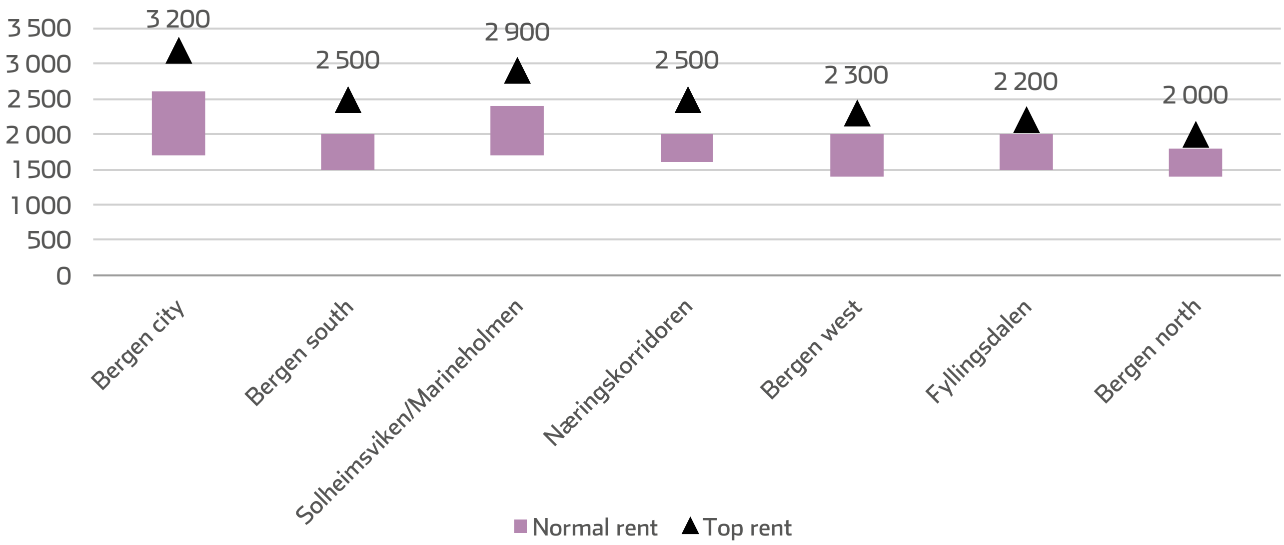
Bergen city, Bergen south, Solheimsviken/Marineholmen, Næringskorridoren, Bergen west, Fyllingsdalen, Bergen north, Sandviken

* See page 30. Source: WPS Analyse

## Rents

During the first half of the year, we raised the indicative rent for the best premises from NOK 3 000 per $m^2$ to NOK 3 200 per $m^2$. The completion of newbuilds and refurbishment of older office buildings to modern standards in the centre of Bergen have led to an increased supply of high-quality buildings, which in turn has resulted in higher rents. Our forecasts indicate a continued flat development in the normal segment, but price pressure may arise in geographical areas with high vacancy levels.

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




Source: WPS Næringsmegling

## Investment market

**Demand and volume** — At the end of the first half of 2021, we had already registered a total investment volume of NOK 10.8 billion, where the sale of Asset Buyout Partners (ABP) from HitecVision to Fastighets AB Balder was the largest transaction. The YTD investment volume now amounts to almost NOK 18 billion, spread across 57 transactions. This is a new record for the Bergen market, both in terms of investment volume and the number of transactions.

Demand in the market is still strong, and in our latest investor survey, 75 % of investors stated that they are net buyers of commercial property in the next 12 months. Furthermore, the market is characterised by good liquidity, and investors have good access to financing.

**Who are the buyers and sellers?** — Local investors represent the largest group of sellers, and account for a total sales volume of almost NOK 7 billion. We see that several professional investors are active, in addition to the fact that there are several family companies that are choosing to realise profits in a historically strong market. National investors are the second largest seller group.

On the buying side it is a continuous trend that national investors have overtaken local investors in the Bergen market. In this respect, national investors this year include Rica Eiendom, OBOS and Entra, among others.

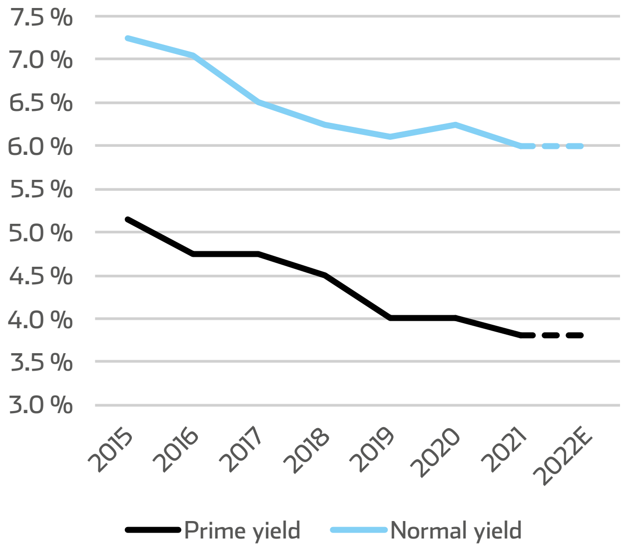
Furthermore, foreign investors have also once again focused on Bergen and represent a larger share of purchases than for several years.

## Investment market

**Yields** — In the first half of 2021, we lowered our estimate for the prime office yield from 4.00 % to 3.80 %, which is a record low level. Norges Bank raised its key policy rate by 0.25 % in September 2021 and have announced a new increase in December, as well as several increases next year depending on how well the Norwegian economy performs. The investment market is characterised by strong demand, relatively few prime properties in the market and good access to capital among investors. Based on this, we expect a flat development in the prime yield over the next 12 months.

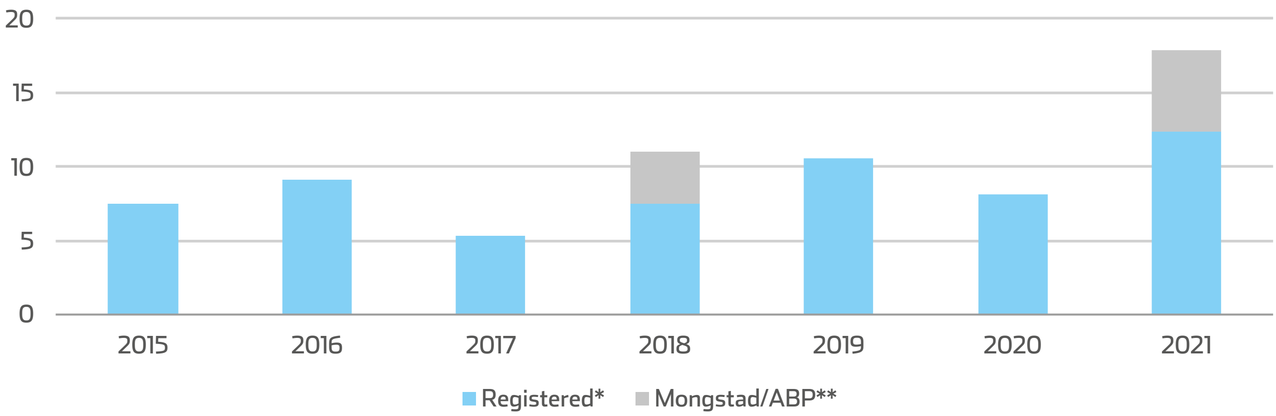
In the normal segment, there is wide variety, both in terms of geographical location and segment distribution. This is resulting in a large range of outcomes, but so far we have registered an average yield of approximately 6.0 % in this segment. We are also seeing strong demand for development properties.

Office yield development in Bergen, %



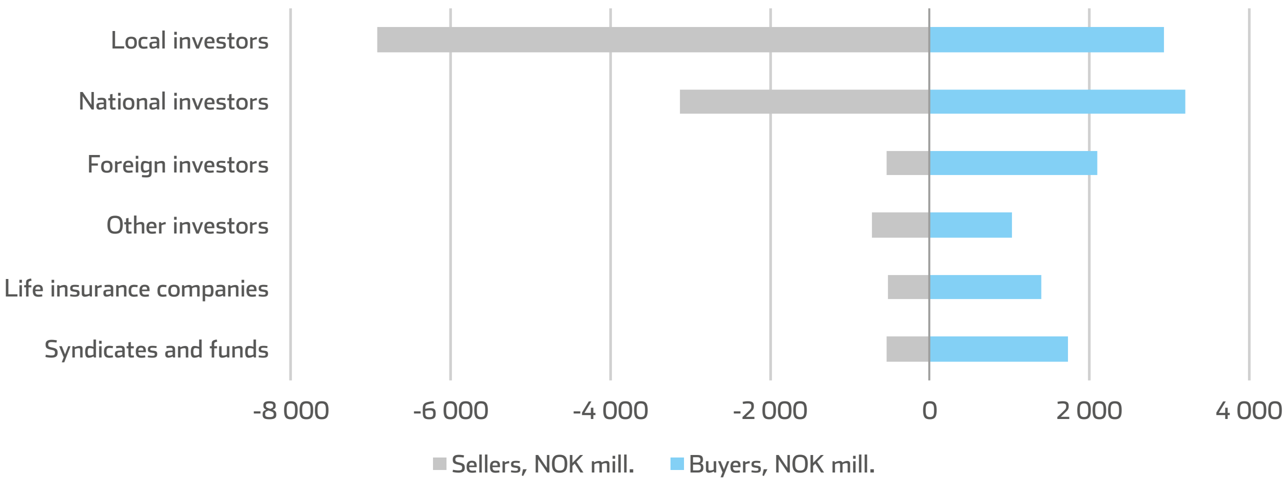

Source: WPS Næringsmegling

Annual transaction volumes in Bergen, NOK bn.




* Registered YTD 31. Oct. 2021.
** 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

Transaction volume 2021 – sellers and buyers, NOK mill.




* Registered YTD 31. Oct. 2021. Transaction volume presented is excluded ABP. Source: WPS Næringsmegling

## Olav Kyrresgate 22 — Bergen

Malling & Co Eiendomsutvikling is managing the renovation project of Olav Kyrres Gate 22 in Bergen on behalf of Nordea Liv Eiendom. The scope of the project is almost a complete refurbishment of the property.

## Drammensveien 130 — Oslo

Malling & Co Næringsmegling was the advisor for the owners when A-Lab AS leased 3 285 m² in Drammensveien 130.

# Retail

## Continued interest from investors

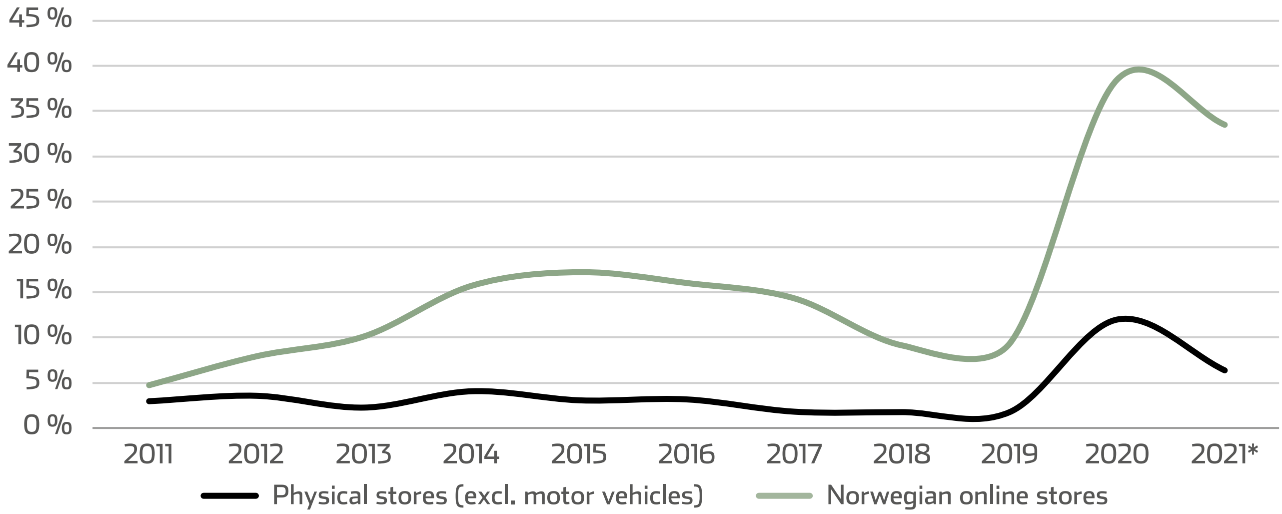
Retail properties continue to receive increased interest from investors in line with the re-opening after the pandemic. Retail turnover in general soared during the pandemic, however the gradual reopening of society after the summer has brought with it an overall decreased turnover volume index in Q3 2021 relative to Q2 2021. Nevertheless, turnover is still substantially higher than pre-pandemic levels. On the other hand, the leasing activity within high street retail space has soared during the end of Q3 and start of Q4. The following months should reveal whether retail turnover will remain at elevated levels and hence fuel the increased leasing activity further.

### Trends in retail

Retail was highly affected by the lockdown and the pandemic in 2020 and the first half of 2021. With their spending options being extremely limited, many consumers increased their spending on physical goods. In 2020, turnover in physical stores grew by 12 %, while turnover in the online shopping channel, on Norwegian websites, grew by approx. 39 %. As noted in our last market report, online shopping's share of total retail experienced a large jump in 2020, up from 5.1 % to 6.3 %. This change of pace seems to have continued into 2021, with online shopping making up 7.3 % of total retail spending in the first half of 2021. As we hopefully move on from the pandemic and its restrictions, it will be exciting to see whether the online channel continues to take large chunks of total turnover at the pace being observed now.

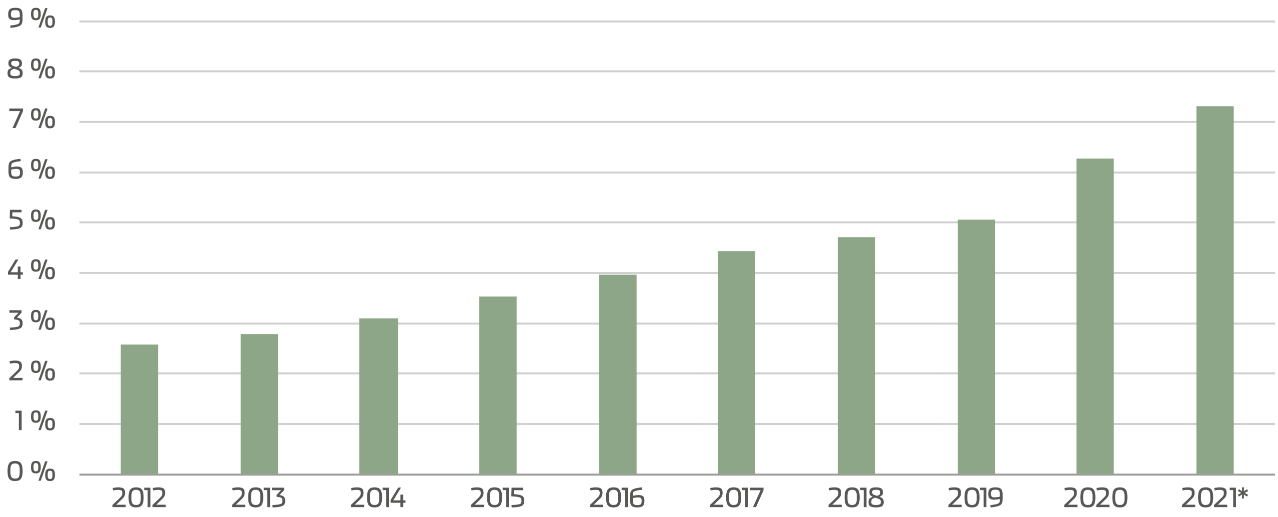
After the summer, the retail volume index dropped somewhat, with SSB reporting a seasonally-adjusted monthly decrease of 3.0 % and 3.9 % in July and August, respectively, followed by a slight increase of 0.5 % in September. The main reason behind the decrease in July and August was a large reduction in the grocery category, which is most likely a result of society reopening with a shift in spending habits. Before the pandemic, there was a clear trend in consumers focusing their spending on experiences and services rather than material goods. We believe this trend will return going forward, as consumers are hungry for experiences. Households also increased their savings during the pandemic, with a peak of 10 % growth in the 12 months to January 2021. This is one of the main reasons behind the expected significant increase in overall consumer spending over the next 12 months period. Whether the 11 % increase in spending expected in the government budget for 2022 is realised, remains to be seen.

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




* H1 2020/H1 2021. Note: Smoothed line. Source: Statistics Norway

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




* As at H1 2021. Source: Statistics Norway

## Development in retail rents

Retail rents in Oslo stayed relatively flat during the pandemic. Karl Johan is still the priciest area, with an indicative top rent of approx. NOK 20 000 per m$^2$/year. Normal rents in the area may vary between NOK 8 000-18 000 per m$^2$/year depending on unit size, floor, visibility and so on. The second priciest areas are the city centre/Jernbanetorget and Bogstadveien/Hegdehaugsveien with indicative top rents of NOK 12 000 per m$^2$/year. Coming out of lockdown there are very few vacant spaces, particularly in central Oslo, and our retail broker reports very high interest and competition from tenants for the few spaces that are still free. Market activity is reportedly very high, with several major concepts planning to either increase or reduce their exposure in Oslo. While larger units have been difficult to lease for several years, also before the pandemic, landlords may now have better opportunities for larger units with several new car makes (EVs in particular) looking to establish flagship stores in high streets. Nio is one example, with a flagship showroom in Karl Johans gate 33. As supportive measures are now being lifted, and the time for repayment has come, we may see an increase in free space over the winter. We are likely to see substantial changes in the tenant mix in central Oslo over the next year, due to both new establishments and closures as the market adjusts to new trends.

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

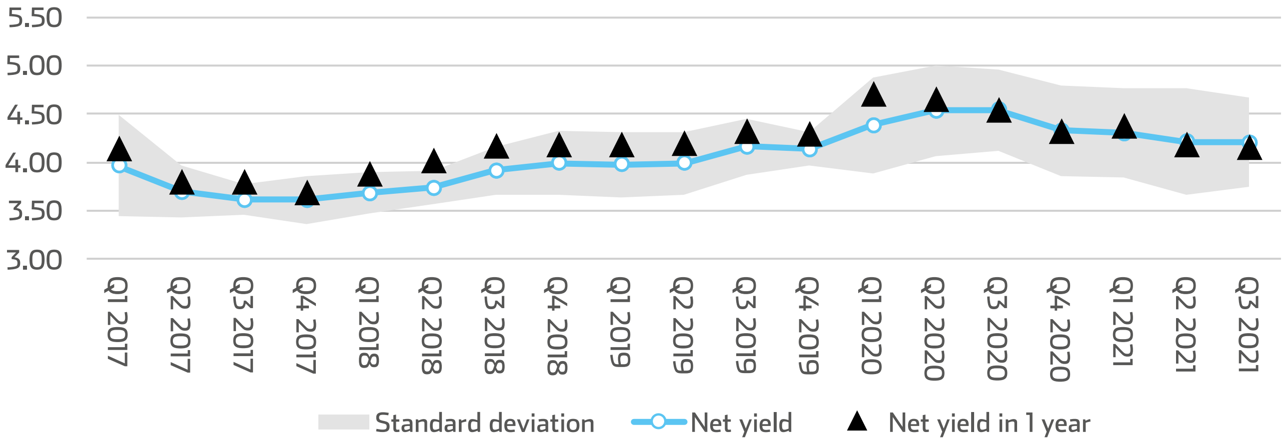

Source: Malling & Co

## Development in net yields

In our previous report, we reported a change in investor sentiment towards the retail segment. For years, changing consumer behaviour with increased focus on experiences and travel, as well as online retail becoming a serious competitor for the physical stores, has put upwards pressure on retail property yields. Ever since prime retail yields reached their bottom of 3.60 % in 2017, prime yield has been increasing steadily, that is, up until 2020. In our Q3 2020 investor sentiment survey, prime retail yield topped out at 4.50 %. Since then, prime yield has been falling gradually towards its current level of 4.20 % (Q3 2021), and investors predict prime yield to decrease by another 5 bps by Q3 2022, to 4.15 %. Normal retail yields, however, appear to have flattened out after reaching 5.20 % in Q1 2021, with investors' responses in our Q3 survey averaging normal yield at 5.25 %, both now and in 12 months' time. This pattern is in line with what we have observed across most segments throughout the pandemic, namely a preference for quality assets, particularly in the non-office segments. It should be noted, however, that there is an especially large standard deviation in the survey when it comes to the retail segment, meaning that there is a higher spread in the consensus among the participating investors.

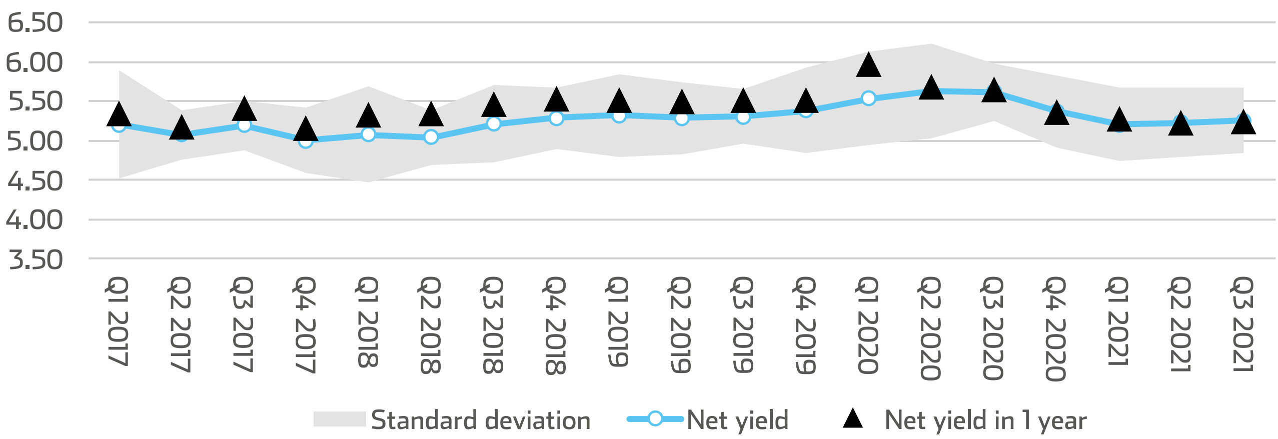
«Prime yield has been falling gradually towards its current level».

### Prime yield retail, %




Source: Malling & Co Investor Yield & Sentiment Survey

### Normal yield retail, %

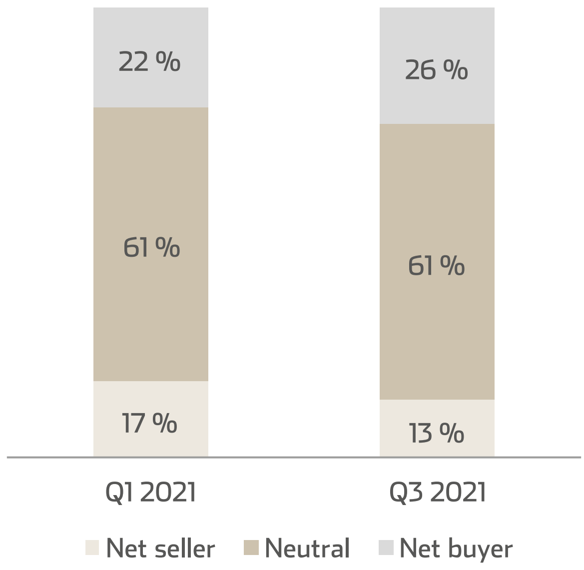



Source: Malling & Co Investor Yield & Sentiment Survey

### Investors' desired exposure to retail properties

In our last report, we noted that there had been an increase in the share of investors wanting to be net buyers of retail properties. In Q1 2021, our quarterly investor survey showed that 22 % wanted to buy retail property over the coming 12 months, while 61 % wanted their position to stay the same.
In our latest investor sentiment survey (Q3), 26 % of investors replied that they wished to be net buyers of retail properties over the next 12 months, while 61 % wanted to stay neutral. This is a continuation of the trend observed since the beginning of the pandemic, with investors returning to the retail segment. Approx. 15 % of the total investment volume in 2020 and up until September 2021 was related to retail property. Note, however, that 40 % of this volume was in the shopping centre category, while 29 % was big box. Our investor survey, on the other hand, focuses on high street properties, which made up approx. 10 % of the investment volume in retail over this period.

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




Source: Malling & Co Investor Yield & Sentiment Survey

«An increase in the share of investors wanting to be net buyers of retail properties».


## Karl Johans gate 14 — Oslo

Malling & Co Eiendomsfond has acquired Karl Johans gate 14, an attractive core retail and office property with an extraordinary location in central Oslo.


## Brynsalléen 2 — Oslo

Malling & Co Eiendomsutvikling is managing the renovation project of Brynsalléen 2 on behalf of Capman. The project includes a refurbishment of the existing building of approx. 17 000 m² in total.

# Hospitality

## Starting phase of normality

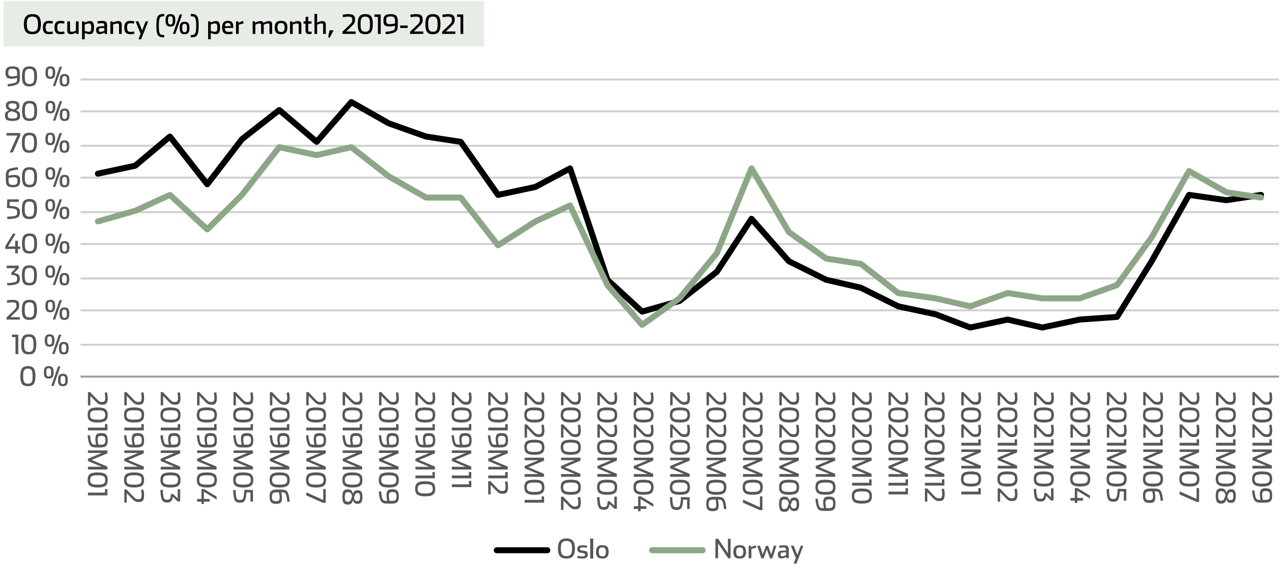
If the pandemic period was a contest, then the hospitality industry would be the loser. With a decline in 70 % foreign travellers, alongside a decrease in domestic travel of 30 %, overall hotel occupancy fell by 24 % in 2020. The decrease has continued in the first half of 2021, even more than the first half of 2020. However, recent sentiment has been that growth was strong during the summer this year and all of the large hotel chains expect 2021 to be better than 2020 overall.

Uncertainty is high among tourist and travel firms and the stages of recovery differ tremendously. The risk of potential virus mutations followed by the risk of new restrictions is still looming over the outlook and many firms need to be able to quickly react to short-term rearrangements in bookings. Only two out of ten report increased turnovers this year and over half the respondents in NHO's tourist and travel survey expect lower turnovers. On the bright side, the conference market has woken up, and holiday travel has increased significantly following the full reopening in late September. Business travel may be a lagging segment due to the introduction of digital meetings, but the September figures were uplifting, nonetheless. Full recovery will take some time, but then again the potential for hospitality stakeholders who manage to take advantage of the abnormal situation and strengthen their offerings, while reducing their carbon footprints, is huge.

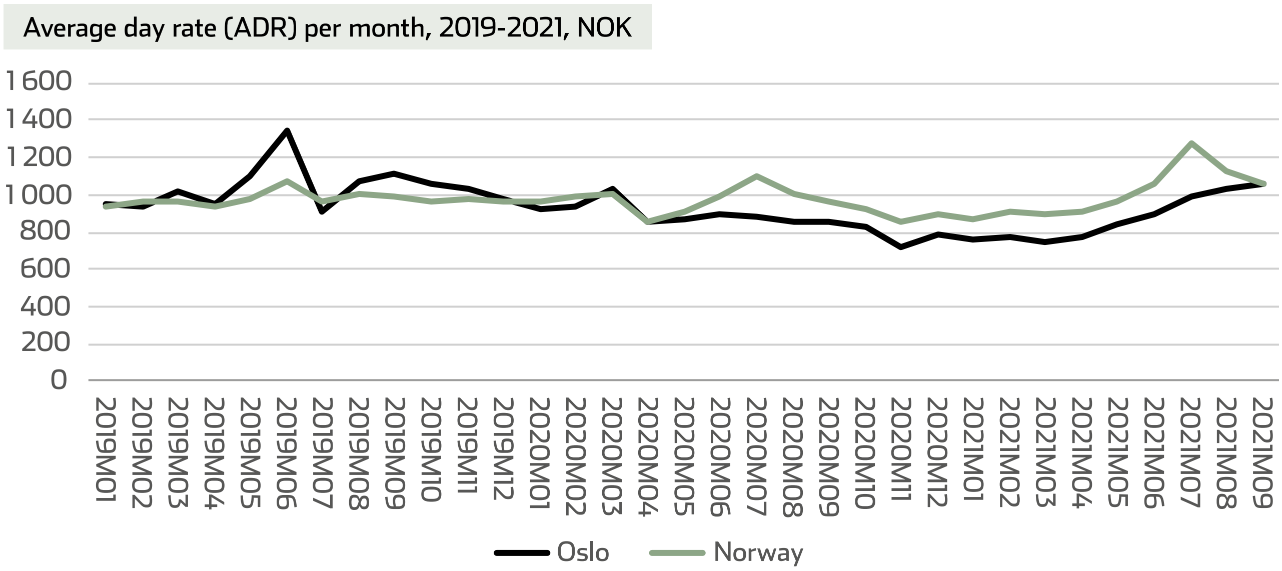
### 2021 somewhere between 2019 and 2020 – Norway & Oslo

**Norway** — Recent key figures are pointing upwards but considering the low volumes in the last year and a half, hotel activity is still at a low level. For September alone, hotel occupancy was at 54 %, slightly lower than 61 % in 2019, but still significantly higher than the 36 % recorded 12 months ago. Also worth keeping in mind is that the available number of rooms may have been reduced when travel restrictions were introduced. The average day rate (ADR) may be the only parameter within the hotel industry that has not dropped significantly in the pandemic. In fact, the Q1-Q3 2021 day rate has been higher on average than pre-pandemic at NOK 1 007 compared to NOK 982 in 2019. It appears as though hotels have used reopening to adjust prices to salvage the revenue this year, expressed by ADR figures in recent months. Naturally, revenue per available room (RevPar) pretty much follows occupancy development, and even though revenues are much higher than last year, there is still a way to go before it is back to 2019 levels. The exception was a strong July month, reflecting high domestic travels nationally.

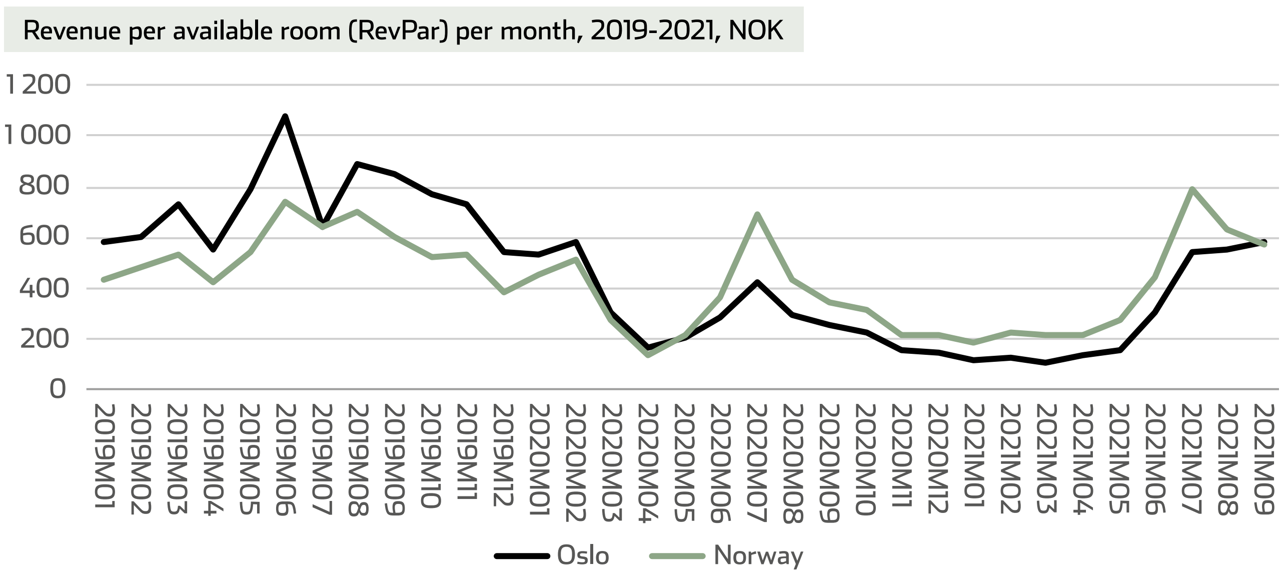
**Oslo** — The Oslo market is characterised by high exposure to international guests, conferences and business travellers. In addition, higher infection rates and long-lasting periods with restrictions have made the situation close to unbearable for many hotels in the capital. As a result, the occupancy rate went from being higher than in Norway as a whole to being constantly lower in 2020. However, September was the first month in which Oslo recorded 1 % higher occupancy than the rest of the country. The ADR has been weak for Oslo hotels since March 2020, but it has certainly woken up in recent months. The September ADR stood at NOK 1 059, however, still lower than NOK 1 114 in 2019. As for RevPar, figures have increased significantly in recent months, but in a broader perspective, they are still somewhere in the middle of 2019 and 2020 levels.




Source: Statistics Norway

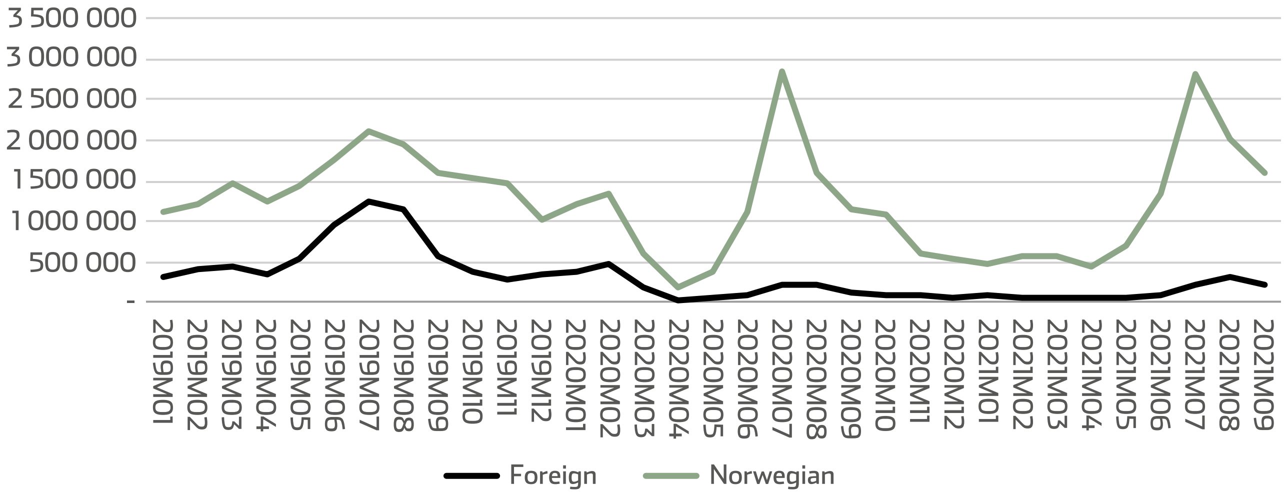



Source: Statistics Norway




Source: Statistics Norway

Number of nights in Norway per month by Norwegian and foreign guests, 2019-2021




Source: Statistics Norway

| Key figures, Q3 2021 vs. Q3 2020 | Oslo | | | Norway | | |
|---|---|---|---|---|---|---|
| | Q3 2021 | Q3 2020 | 2021 vs 2020 | Q3 2021 | Q3 2020 | 2021 vs 2020 |
| Total revenue Q3, MNOK | 632 022 | 366 780 | 72.3 % | 5 003 112 | 3 601 714 | 38.9 % |
| RevPar Q3, NOK | 557 | 324 | 71.9 % | 668 | 491 | 36.0 % |
| ADR Q3, NOK | 1 026 | 865 | 18.6 % | 1 154 | 1 019 | 13.2 % |
| Occupancy Q3, % | 54 % | 37 % | 45.9 % | 57 % | 48 % | 18.8 % |
| Total # of guest nights Q3 | 999 215 | 701 191 | 42.5 % | 7 206 499 | 6 133 722 | 17.5 % |
| Norwegian guest nights | 841 347 | 592 714 | 41.9 % | 6 444 588 | 5 597 894 | 15.1 % |
| Foreign guest nights | 157 868 | 108 477 | 45.5 % | 761 911 | 535 828 | 42.2 % |

Source: Statistics Norway

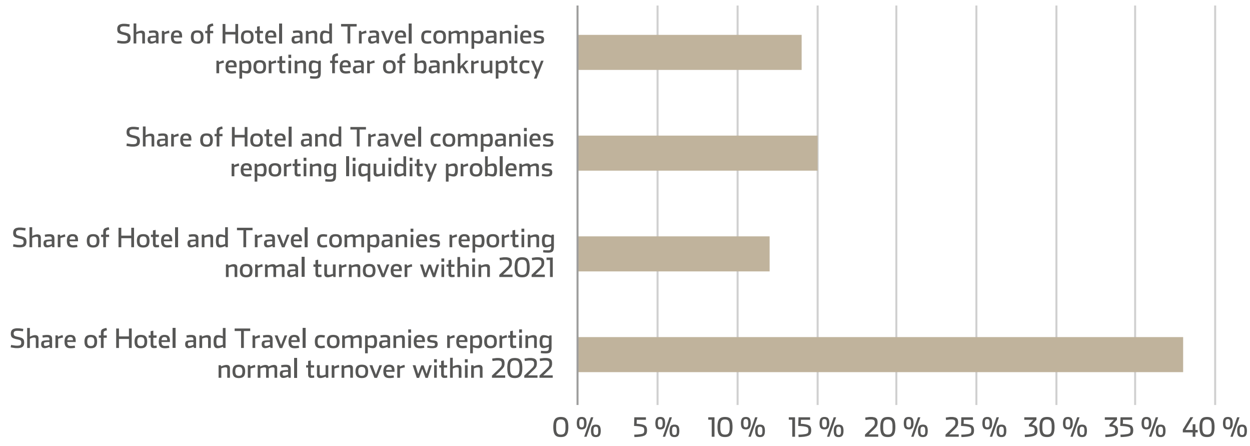
«The ADR has been weak for Oslo hotels since March 2020, but it has certainly woken up in recent months».

## Latest status from hotel and travel industry players

It's not an understatement to suggest that the hospitality sector has been the main loser from the pandemic. However, the 1-metre rule was removed in late September and the Norwegian Hospitality Association (NHO) has reported that some of its members have experienced a rapid increase in revenue. In the NHO tourist and travel survey from October, the share of firms reporting liquidity problems stands at 15 %, down from 40 % presented in our last market report. On the other hand, the differences in terms of sector and geography among the respondents are large and many are still struggling. For instance, within nightlife, experiences and culture, the fear of bankruptcy is high, and many are still reporting shortage of liquidity funds. Firms located in Oslo have substantially lower income than was the norm and a high proportion of firms are struggling to survive. By contrast, 55 % of the NHO members in general state that turnover is back to pre-pandemic levels, while only 12 % of firms within tourism and travel expect it to be by the end of 2021.

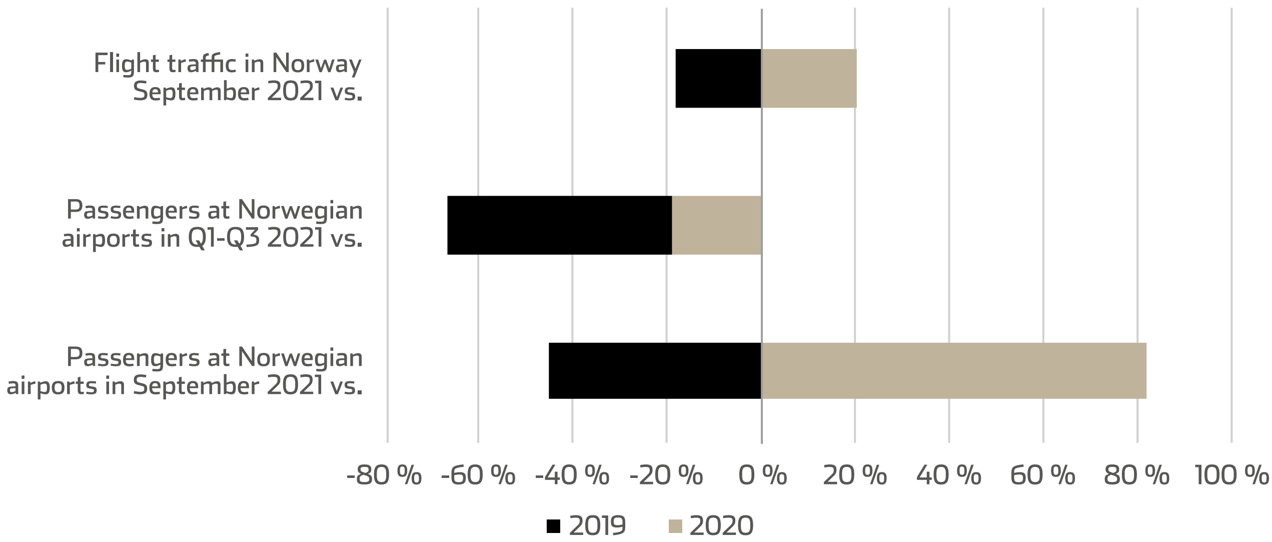
Norwegian hospitality is very much dependent on access to domestic and international flight routes. Thus, a year-on-year increase of 82 % flight passengers in September 2021 is very good news. Still, air traffic is 45 % lower than in September 2019, although it does show that job-related travel especially is increasing, according to Avinor. The number of international flights increased by 263 % this September relative to September 2020, and further flight routes are set to reopen. The growth in October is expected to be even higher as international travel restrictions were lifted from 1 October.

### Responses from the Norwegian Hospitality Assocation member survey, October 2021




Source: NHO Tourist and Travel's member survey

### Flight traffic and passengers at Norwegian airports, 2021 vs. 2020 and 2019



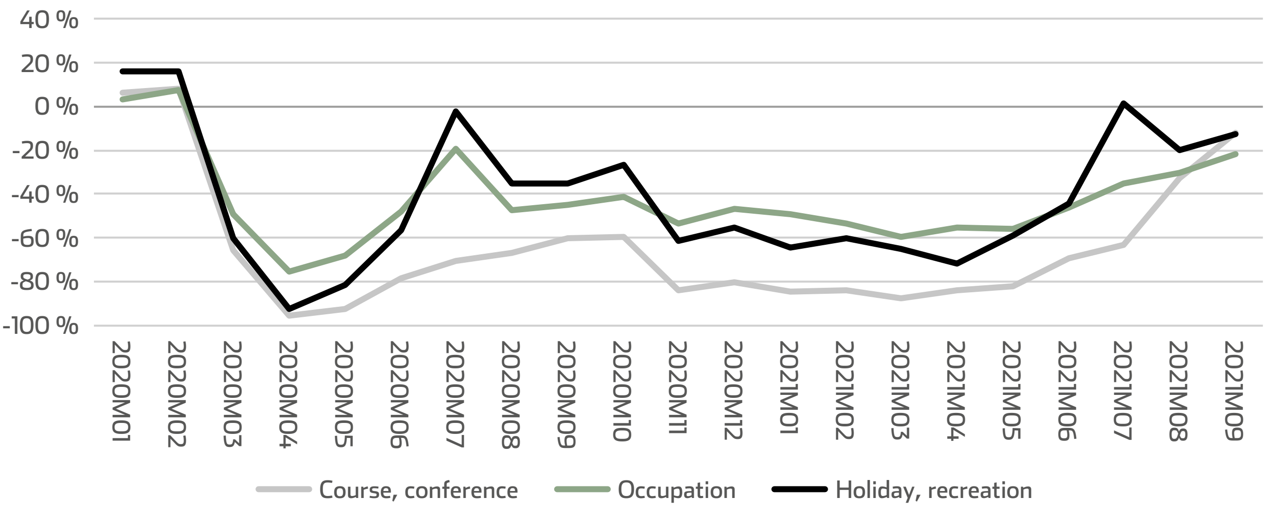

Source: Avinor

## Starting phase of normality

Historically, foreign guest nights have been a large contributor to the hospitality industry in Norway. For instance, Chinese travellers alone constituted 437 000 guest nights in 2019 and these tourists were as good as absent in 2020. The number of foreign guest nights in Norway more than doubled in September 2021 relative to 2020. Prior to the pandemic, foreign guest nights at hotels accounted for around 25 % of total guest nights in a normal September month. This year, the proportion was as low as 8 %, showing the current absence of this customer base.

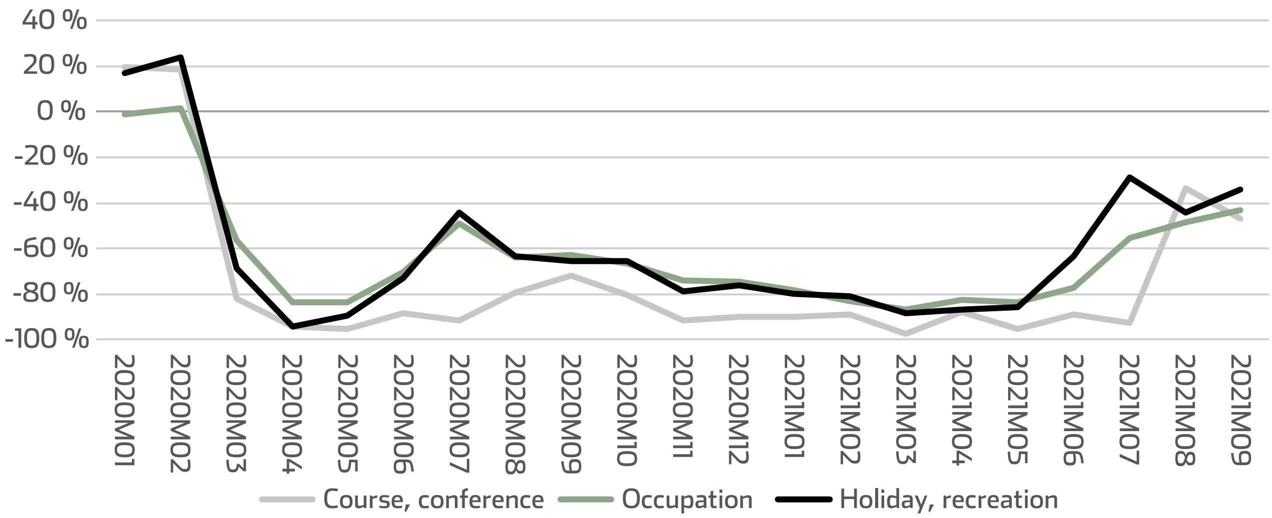
Norwegian guest nights increased by 34 % in September, compared to the same month last year. The increase is largely due to more hotel overnights, which saw an immediate effect from entering into stage 4 of the national reopening plan on 25 September. A further contributor to this solid September was the 120 % y/y increase in course and conference-related guest nights, along with a work-related guest night increase of 42 % y/y. Total hotel guest nights amounted to 1.8 million in September, and including holiday-related travel, this is about 350 000 fewer than in September 2019, although the arrow is pointing upwards. By contrast, the largest cities that struggled the most in 2020 were the strongest contributors to the growth. We believe that we are in the starting phase of normality, but as shown by the numbers, there is still a long way to go, especially considering that hotels would prefer higher revenues to make up for the losses during the last year and a half.

### 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

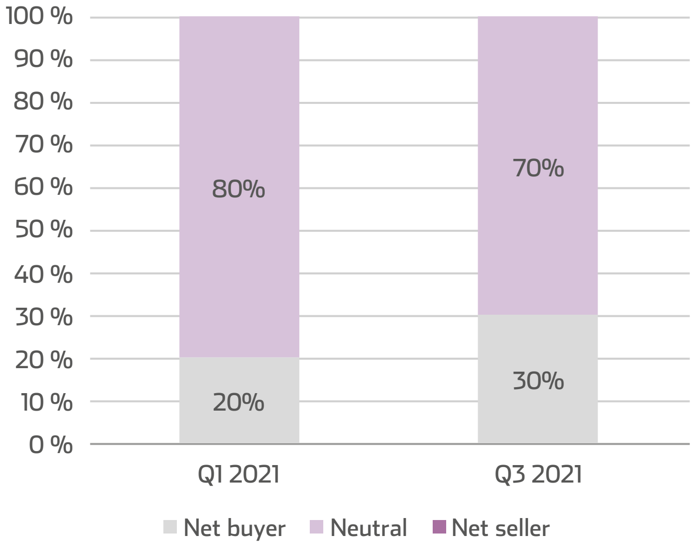
## Emerging market demand for hotel real estate in the next 12 months

The expected decline in revenue has also affected hotel landlords, not just operators, as rent in most hotel lease agreements is linked to turnover, including a minimum rent. Hotel operators can receive public compensation for "fixed and unavoidable costs" to some extent, but revenue based rents are not included in this scheme. Thus, omission of this rent component will result in reduced rent for hotel landlords, also leading to reduced property values. Last year, Scandic Hotels agreed with its property owners to postpone rent payments resulting from rental costs exceeding hotels' net sales. In total, the rent reductions amounted to SEK 900 million throughout the year.

There has been a positive development in investors' sentiment towards hotel properties, shown in our quarterly Investor Yield and Sentiment Survey Q3 2021. While most investors (70 %) will have a neutral exposure towards hotels in the next twelve months, the share of net buyers is increasing step by step. 30 % of the participants in the survey see themselves as potential buyers, whereas none were interested in Q4 2020. The response prolongs the trend of zero net sellers, which has been the result for the majority of the measured quarters.

«There has been a positive development in investors' sentiment towards hotel properties».

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




Source: Malling & Co Investor Yield and Sentiment Survey

## New construction and expansions

The market uncertainty that came with the loss of revenue among hotel chains has affected several development projects in the pipeline. Some projects were cancelled, while some have been put on hold until the market recovers. As at 30 June, Nordic Choice Hotels has 2 074 additional rooms in its pipeline, a 21 % decrease from last year. Scandic Hotels has also lowered its expected hotel rooms in the pipeline by 58 %, totalling 404 new rooms. Thon Hotels and Radisson Hotel Group have increased their pipeline from last year by 67 % and 96 %, amounting to 571 and 426 rooms, respectively.

## Fredrik Selmers vei 2 — Oslo

Malling & Co Property Partners has acquired Fredrik Selmers vei 2 at Helsfyr – and arranged a "club deal" on behalf of its investors. The project is planning to demolish the existing office building and develop new buildings consisting of offices and apartments.

## Torgeir Vraas Plass 4 — Drammen

Malling & Co Drammen was advisor for Origo Eiendom in the sales process of a 4 350 m² office building in central Drammen.

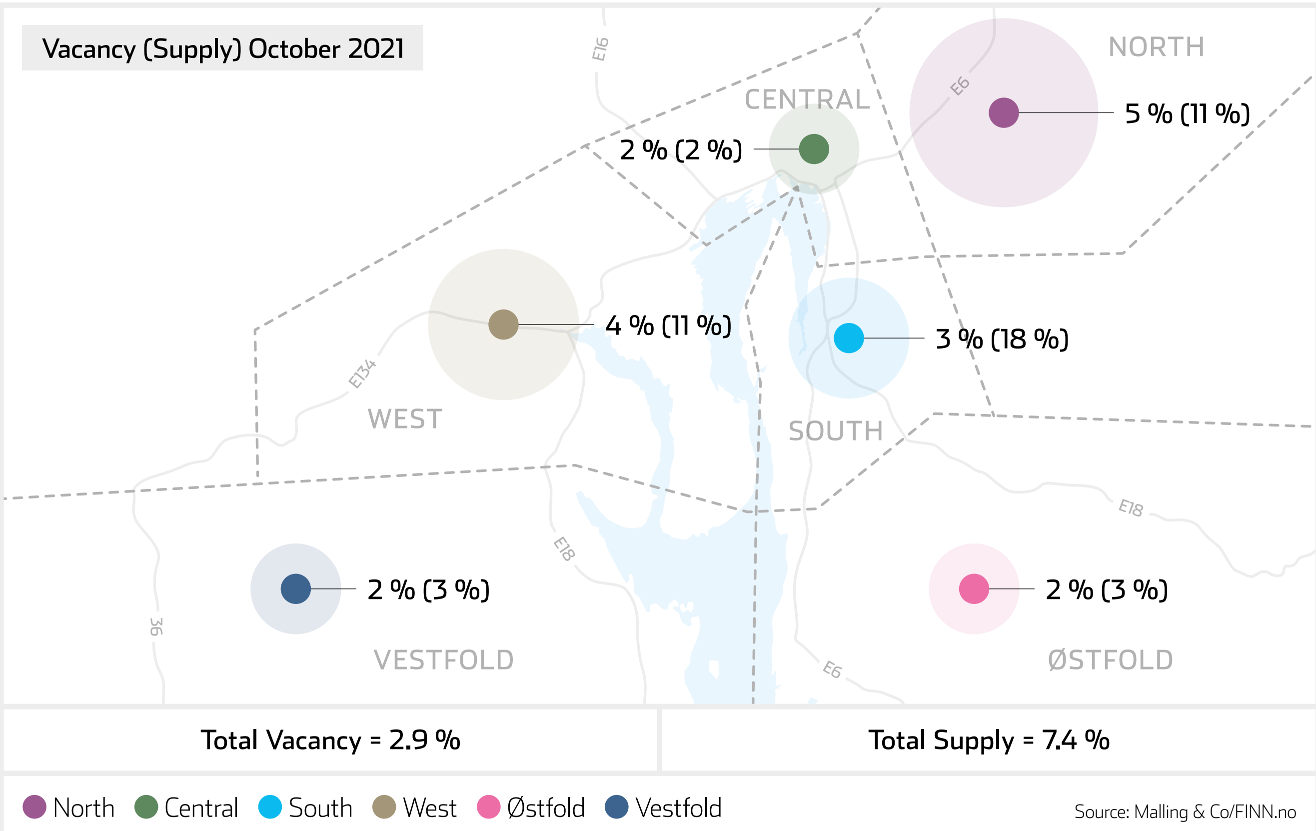
# Industrial & Logistics

## Another great year for logistics

The activity level in the logistics segment sees investment volumes surging for the second straight year, and the massive shift of investor interest to the market segment is causing a lot of competition, while also creating a lot of opportunities. Yields are down to record low levels, with quality of location and strength of covenant driving pricing at the Prime level, but now also mimicking the Prime/Normal gap compression seen in the office segment. Investor confidence is underpinned by the strong fundamentals of the sector, and the underlying structural shift benefitting the segment that was accelerated by the pandemic. We believe that the investor market will be strong in the coming years as demand is higher than current available supply, but 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. More central niche facilities and SMB sized developments have a much clearer position in the long-term Norwegian market.

### Vacancy and supply for our newly expanded region of Eastern Norway

The vacancy in our defined logistics clusters and areas in the new expanded scope from Greater Oslo to covering Eastern Norway is 2.9 %, a reduction from 3.2 % at the time of writing our previous report. The supply, adding offered newbuilds to vacancy, in Eastern Norway is 7.4 %. Diving further into our three defined regions, we have Greater Oslo at a vacancy of 3.5 % and supply of 9.7 %, Vestfold at 2.2 % vacancy and 3.4 % supply, while vacancy in Østfold is 1.6 % and supply at 2.7 %. Breaking Greater Oslo further down into its sub-areas reveals a vacancy of 5.3 % in the Northern area, an increase from 3.8 % six months ago. The supply in the Northern area is 10.9 %. The vacancy is 3.3 % in the Southern area, a reduction from 3.5 % six months ago. The supply in the Southern region is 17.6 %. In the Western area the vacancy is 3.5 %, an increase from 3.0 % six months ago. The supply in the Western region is 10.7 %. Vacancy is at 1.5 % in the Central area, a decrease from 2.1 % six months ago. Supply in the Central region is 1.5 %.




Source: Malling & Co/FINN.no

**Mapping of the Eastern Norway logistics market** — Our extensive mapping of the logistics market in Eastern Norway and our creation of a database of all the logistics clusters and large stand-alone properties continues to be refined and developed, and we are utilising our findings to provide an answer as to the future of development for logistics. The estimated total stock of warehouses and logistics properties in our defined areas comprises 12.8 million $m^2$ gross lettable area (GLA), with a total identified lot size of 49.8 million $m^2$.

## Rents moving at the bottom and at the top for niche segment

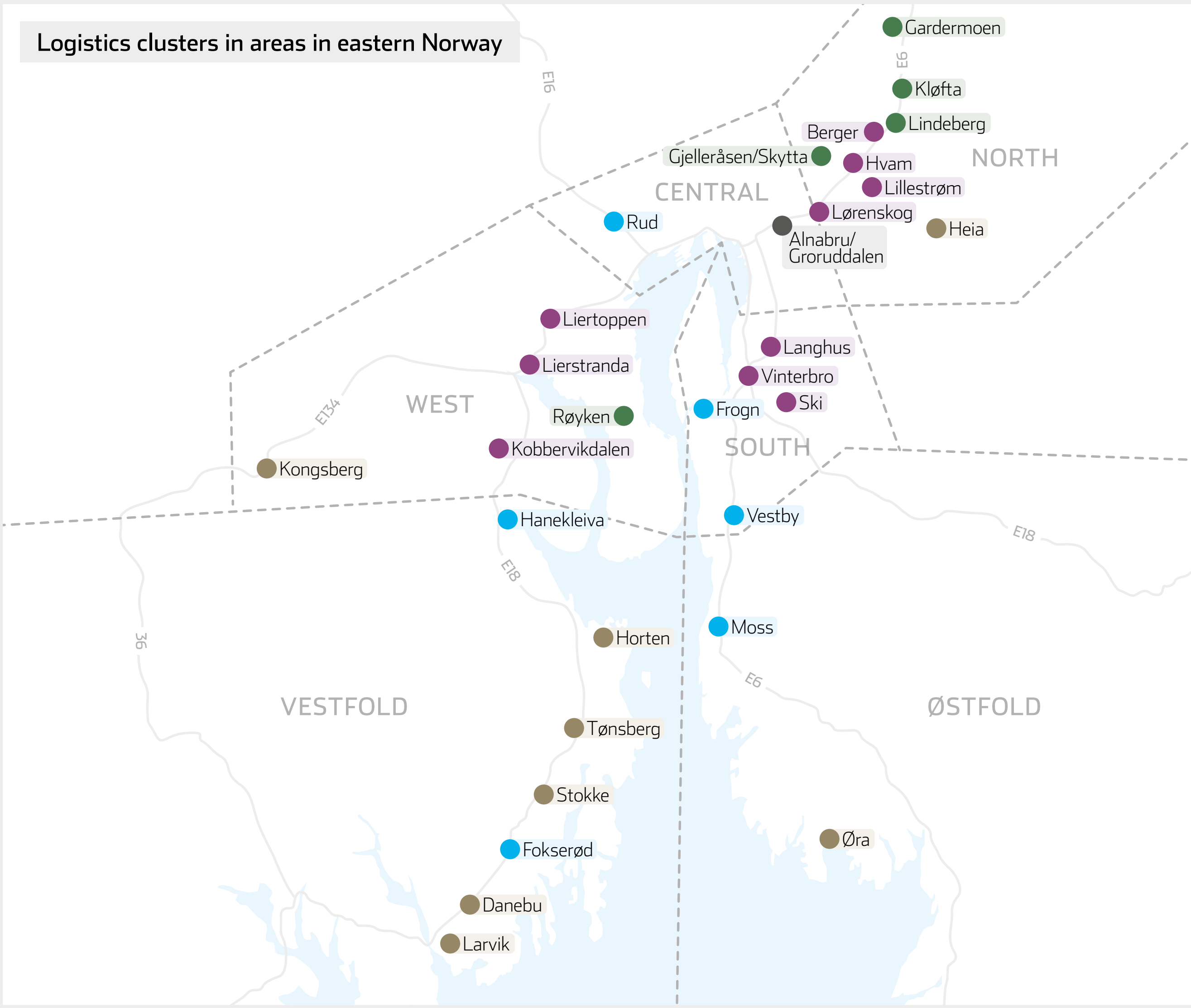
Most established logistics hubs are continuing to see a flat development in rents and, overall, we have so far seen neither upwards nor downwards pressure. Supply remains ample and rent levels continue to be a factor in the price of construction and financing terms. The pressure on construction costs has however driven the floor of rents in several areas to increase. Our rent estimate for prime logistics spaces remains firm at NOK 1 250 m²/year, but the niche segment of last mile logistics in the special corridor at Alnabru/Groruddalen continues to see upwards pressure. 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) | 900 – 1 000 | 900 – 1 250 |
| ● (green) | 800 – 950 | 950 – 1 100 |
| ● (blue) | 700 – 900 | 900 – 1 100 |
| ● (beige) | 700 – 800 | 900 – 1 000 |

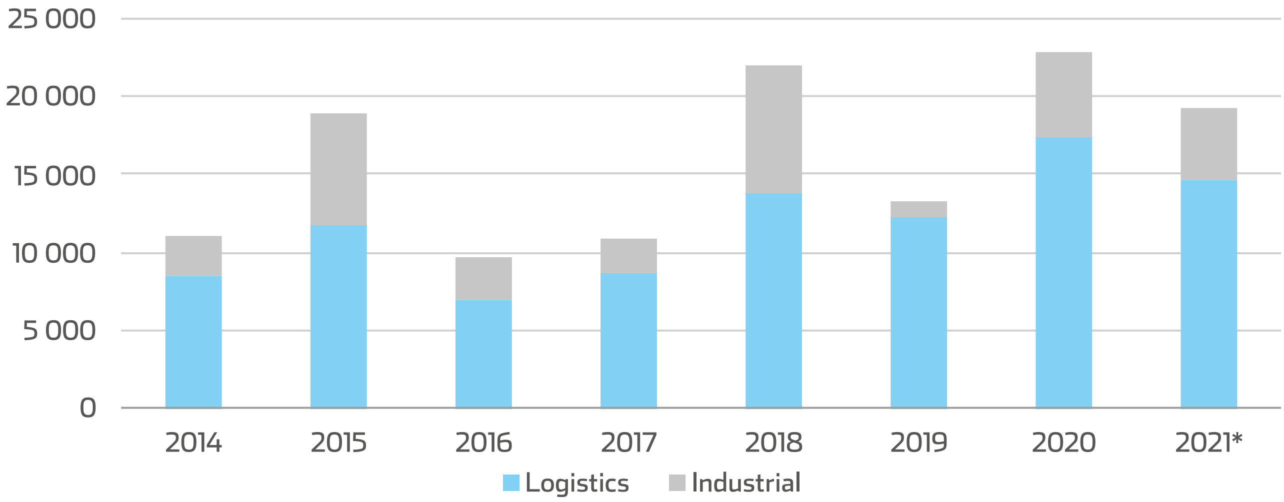
### Logistics clusters in areas in eastern Norway



## Investment activity is high as Logistics surpasses Retail

The number of industrial transactions registered countrywide for the year to date is 44, amounting to NOK 19.6 billion in total. That puts the industrial share at around 19 % of the total transaction market. This is the second year in a row that Logistics has a higher share than Retail of the overall investment volume, and cements the massive demand investors now have for the segment. Deal sourcing is actively happening in a very active off-market investment universe, as well as a high number of structured processes. The pipeline going forward is strong, and we expect the segment to have a strong finish to the year. Foreign investors also keep Logistics as a favourite for their 2021 interest in Norway along with office, and that foreign interest in Logistics assets is expected to continue into 2022.

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

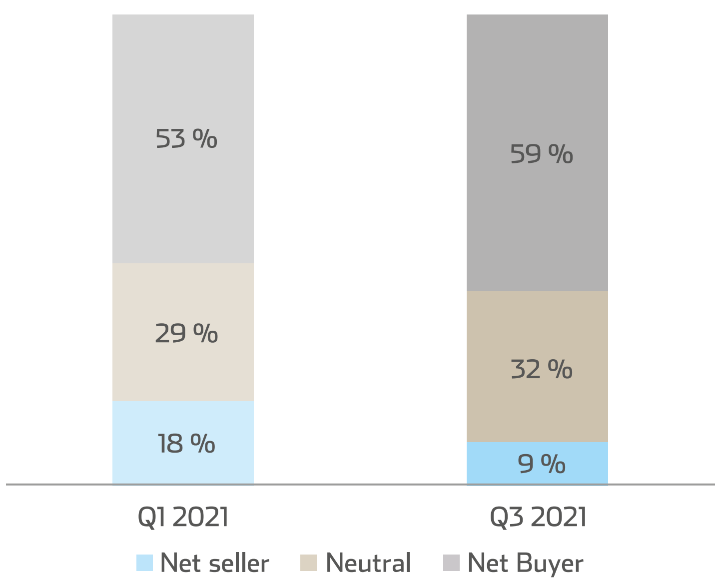



Source: Malling & Co

## Logistics demand continues to be high

According to our latest Q3 investor survey, conducted late-September, 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 %. This coupled with 32 % intending to remain neutral in their exposure towards the segment is cementing the high demand for logistics. In addition, we observe that Logistics has firmly surpassed Retail as the second highest investment volume driver in Norway, and that logistics is the segment in which most foreign investors have been involved in processes to buy. Further we can make a side note that across Europe there are tendencies of the segment even overtaking office in terms of investor interest.

### Desired exposure towards Logistics properties in the coming 12 months




Source: Malling & Co Investor Yield and Sentiment Survey

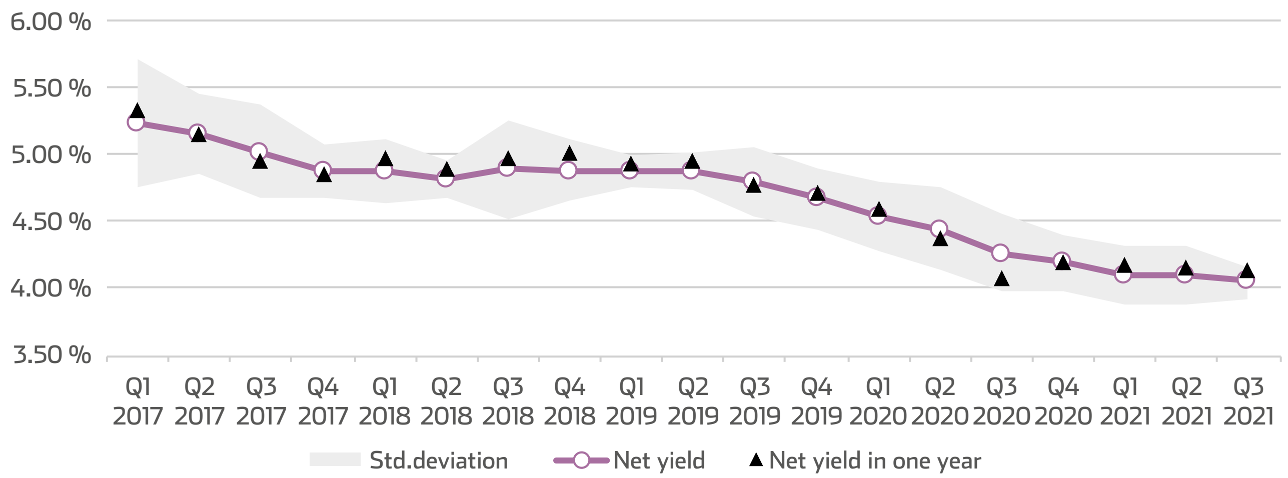
### Continued yield compression for normal logistics, solid footing for prime yield

The pricing of logistics assets has continued to compress for Normal logistics while Prime logistics has found solid footing since our last report. Expectations among investors however are finally catching up with gravity and we expect to see a flat development moving forward. We believe, and the latest investor survey from Q3 also shows, that a flat yield development is expected over the coming 12 months, and as we have covered closer in our Investment Market section of this report, risk is on the upside for the yield development.

Since our previous report we have seen the Prime logistics yield come down a further marginal 5 bps to 4.05 %. Expectations among investors are that these levels will likely be the trough and that a small upwards adjustment of 10 bps is likely to occur over the coming 12 months. We believe that the positive investor demand, seen not only in Norway but even stronger in Europe, is a strong enough force to keep the yield steady.

Yield levels for normal logistics have compressed significantly since our last report. At both Kløfta and Vestby, normal yield is now estimated at 4.70 %, down 15 bps since our last report and a flat outlook 12 months out. At Lier, we estimate the average normal yield at 4.85 %, a reduction of 15 bps since our last report, and the outlook is flat 12 months out. The normal logistics yields have followed the same rationale and development observed in office yields where the gap between normal and prime has narrowed to record low levels.

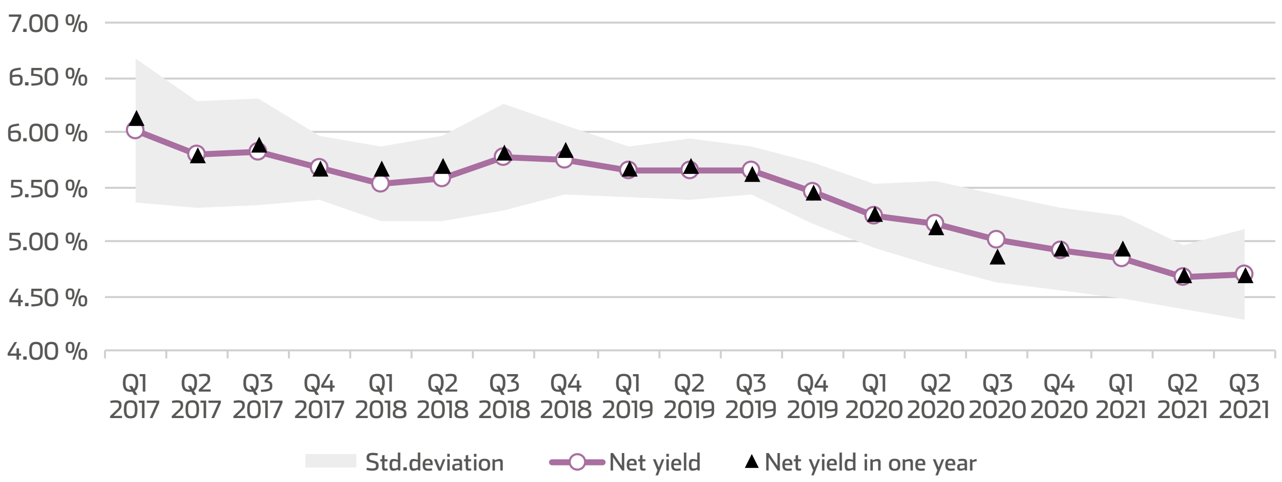
Prime yield – Berger




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

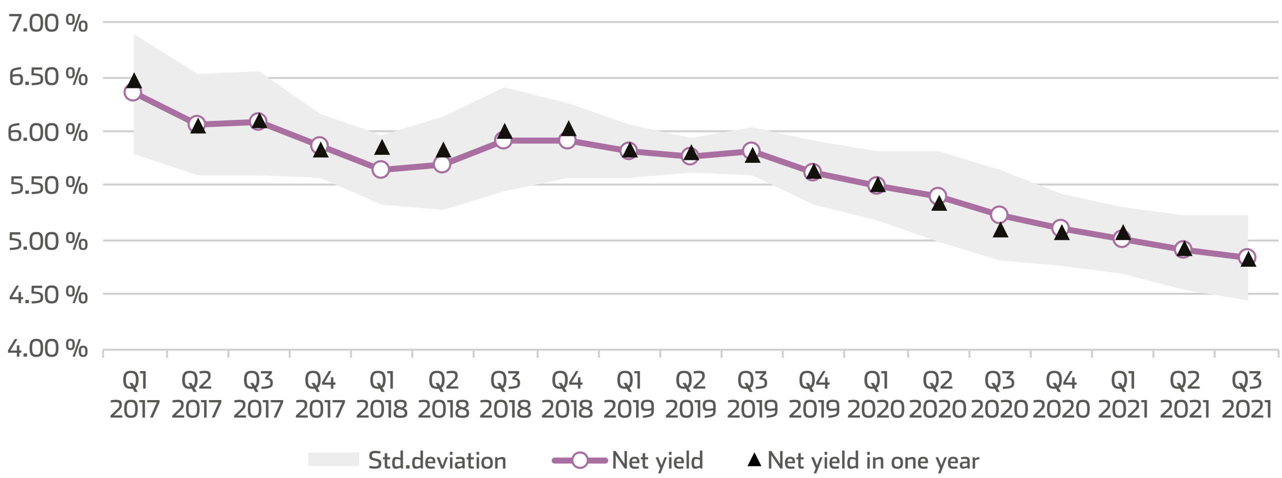
«The pricing of logistics assets has continued to compress for Normal logistics while Prime logistics has found solid footing».

Normal yield – Kløfta



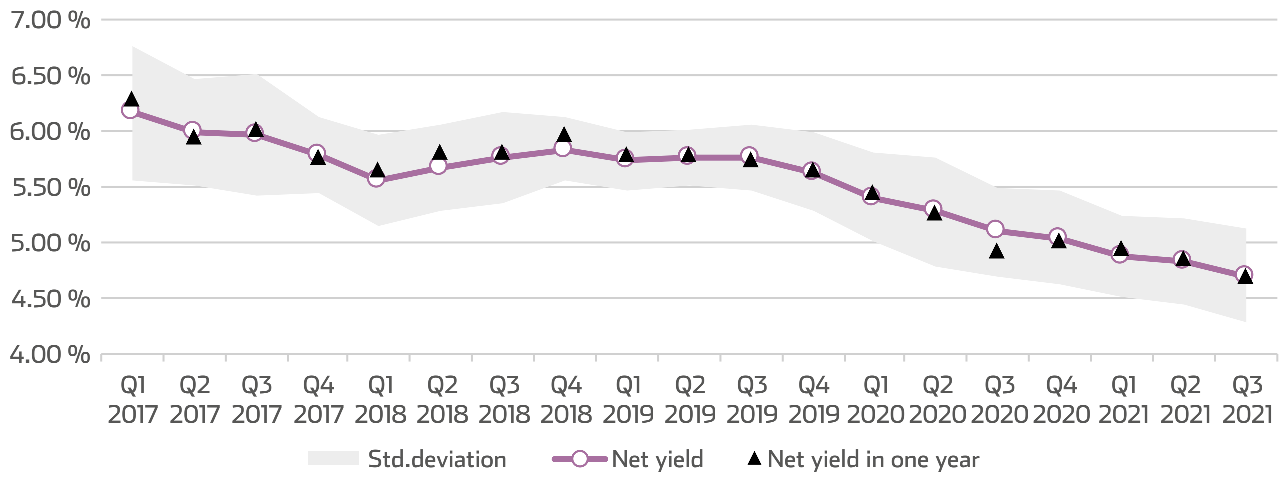

Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Normal yield – Lier




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

Normal yield – Vestby




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

## Leiraveien 11 — Lilløstrøm

Malling & Co Næringsmegling was the advisor for the owner when Loadmaster leased 3 500 m² warehouse space at Leiraveien 11.

# Residential

## Back to normal?

After what some may call a “crazy” development in the residential property market in 2020 and the beginning of 2021, things are now appearing to slow down. After the summer, price growth has developed more according to the pre-pandemic cycle, which normally includes a slower market during the autumn and early winter. The x-factor going forward will be the steep key policy rate curve that has been signalled for the next 4 years.

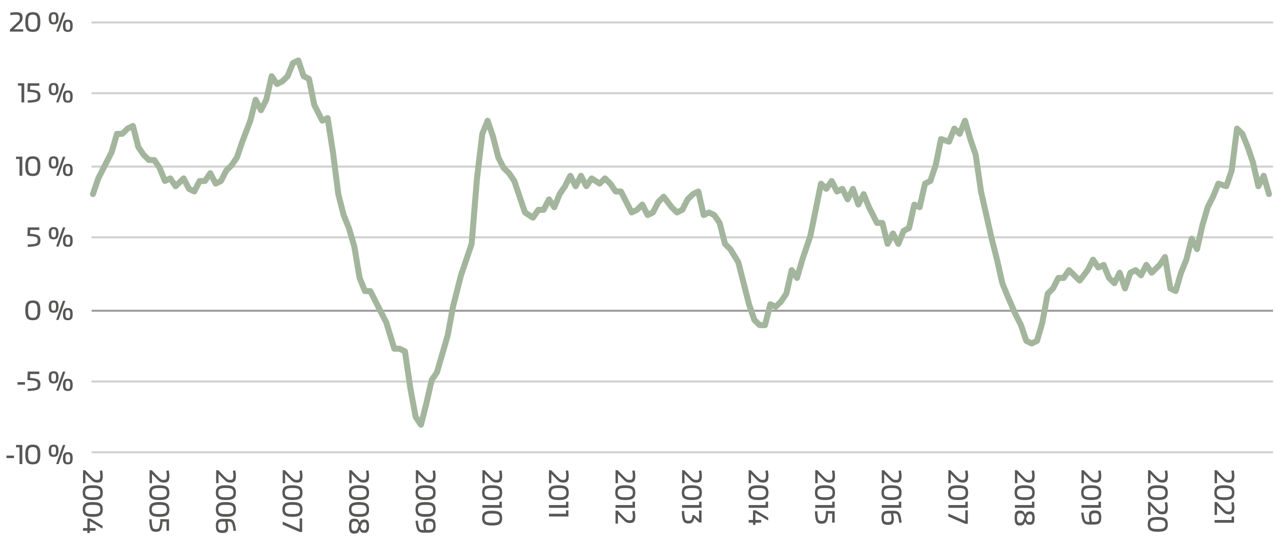
### Residential property in Norway

The first half of 2021 turned out to be a continuation of the soaring property market seen in 2020. Average prices have already increased by 7.7 % in 2021, and since March 2020, average housing prices in Norway have increased by 12 %. In September, prices fell by 0.9 %, which is actually a stronger development than what is normal for this month, resulting in a seasonally adjusted price growth of 0.2 %. However, price growth has been slowing over the past few months, as the market now seems to be following a more traditional cycle, in contrast to what happened in 2020. Looking at historical data, prices usually stagnate or slow up during autumn, hence this trend is expected to continue over the next few months. In September, Norway also saw the first of many forewarned key policy rate increases. Although the hike was very much expected, it usually takes time for the average household to notice the real difference in disposable income and implement it into their mindset, thus we are most likely yet to see the hike’s full effect on the residential property market. A key policy rate of 0.5 % by the end of 2021 has already been signalled, which will most likely reveal its effect on the market in 2022. 2021 has been a highly active year in the residential market, with a 4.7 % increase in sales thus far in 2021, compared to the same period last year. Looking only at September, however, sales were down by 6.8 % compared to September 2020. Like the stabilised price development, this also indicates a market more on trend with pre-pandemic years going forward.

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


Source: Eiendomsverdi, Eiendom Norge

12-month nominal change in price, Norway

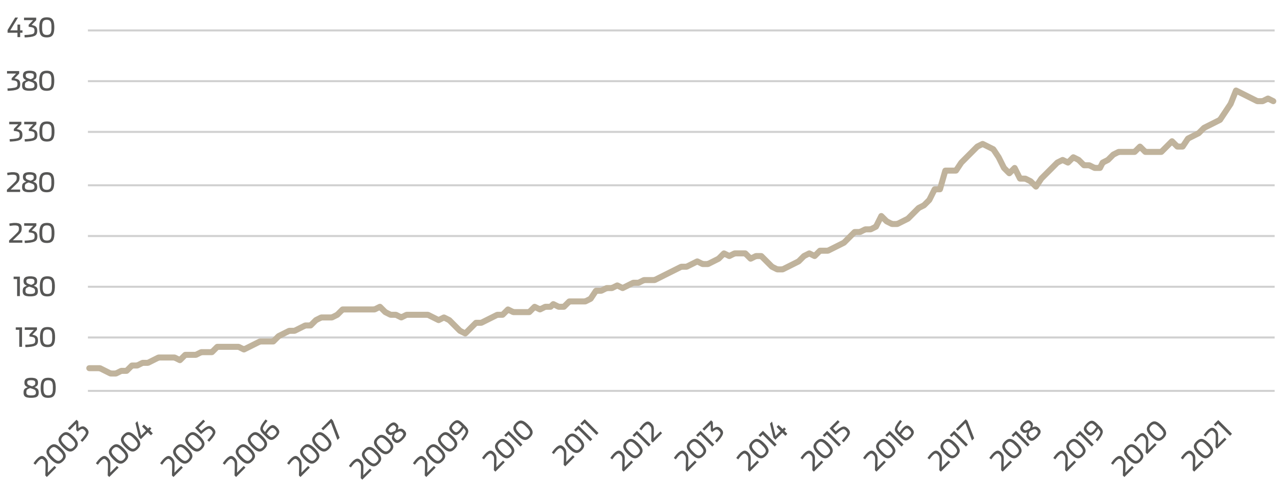



Source: Eiendomsverdi, Eiendom Norge

## Oslo

The 12-month change in residential prices in Oslo ended at 7.2 % in September. Residential prices in Oslo reached its peak in February 2021, after having increased by 17 % since Norway went into lock-down in March 2020. Since February, the market appears to have cooled off somewhat, with prices in the capital decreasing by approx. 3 % on average between February and September 2021. Over this period, reported changes have been approx. -0.4 % on average per month. The decrease is, however, moderate, considering that last year's price growth was substantially higher in Oslo than for the rest of the country. Moreover, as August and September are normally weak pricewise, seasonally adjusted prices were actually up 0.3 % and 0.2 % respectively these months. The Norwegian Central Bank has been preparing the market for an increased key policy rate for a long while, thus September's hike was very much expected. It is, therefore, likely that some of the cool-down in recent months in the Oslo market was due to the expectations related to increased interest rates. As several more interest rate hikes have been signalled, many expect either a more modest growth or flat development going forward, as households adjust to changes in their disposable income and savings.

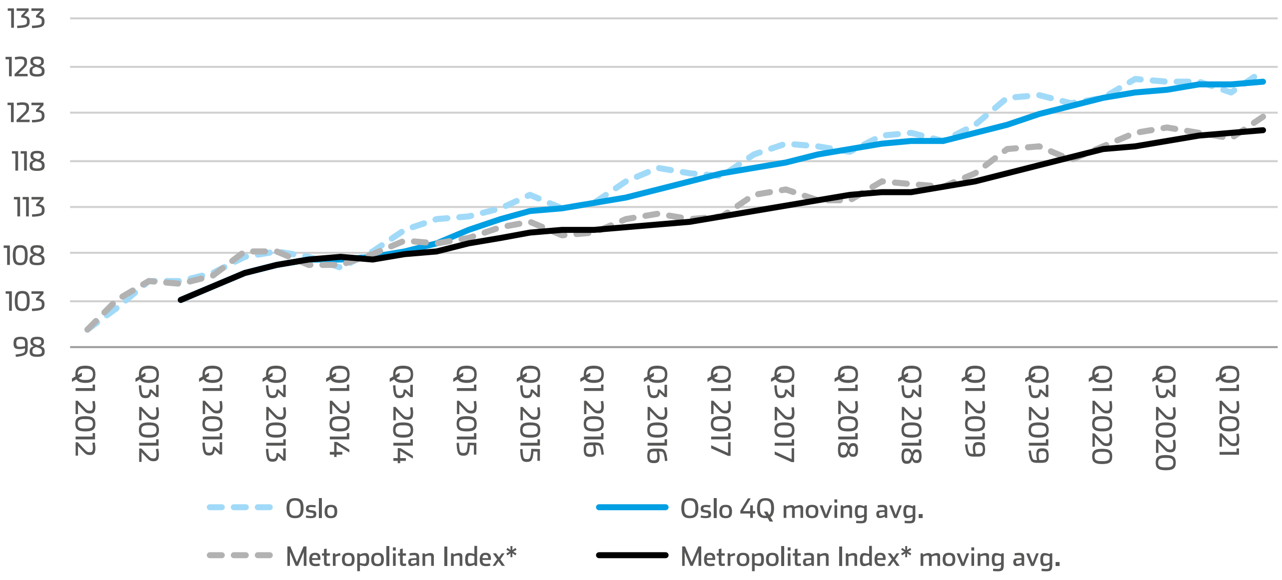
Residential property prices in Oslo, nominal, Index = 2003, monthly figures




Source: Eiendomsverdi, Eiendom Norge

«Oslo, in particular, experienced negative changes in rent last year, as students and migrant workers were forced to stay at home and away from the city. With lock-down over and things getting back to normal, the rental market appears to have stabilised as well».

**Development in rents, Oslo and Norways four largest cities, per quarter and 4-quarter moving average, Index 100 = Q1 2012**




* Q4. Source: Eiendomsverdi, Eiendom Norge

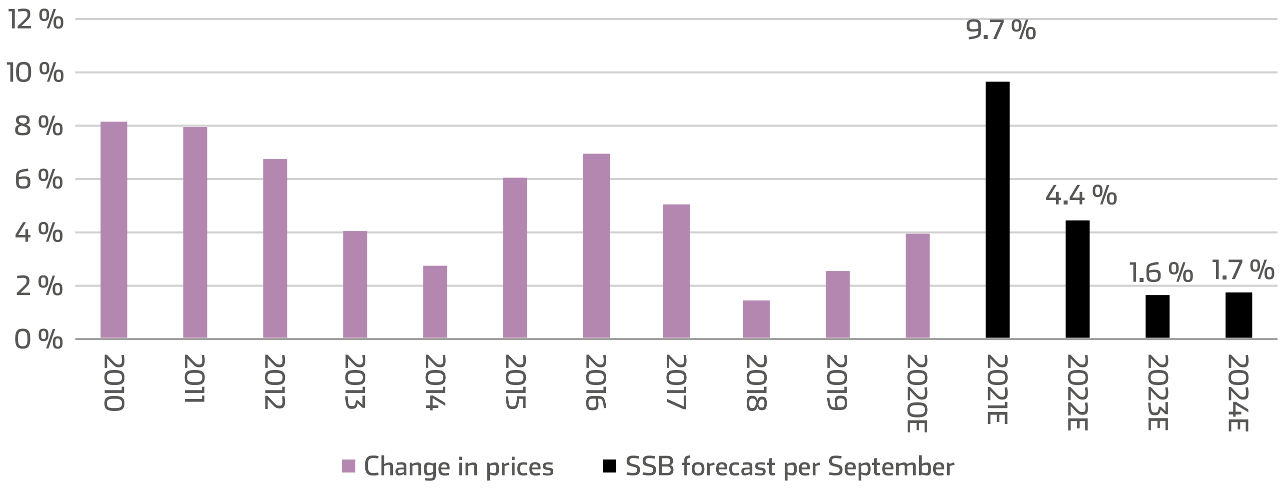
## The rental market

According to Eiendom Norge, the average weighted residential rents in Norway's four largest cities (Oslo, Bergen, Trondheim, Stavanger/Sandnes) increased by a mere 0.3 % between Q2 and Q3 2021, while the four-quarter change is reported as 1.3 %. This is a relatively normal development for a third quarter. In Oslo, rents stayed relatively flat in Q3, increasing by 0.1 %, whereas the four-quarter change is reported to be 1.1 %. Rents have picked up somewhat in 2021 after a rough 2020 because of the pandemic. Oslo, in particular, experienced negative changes in rent last year, as students and migrant workers were forced to stay at home and away from the city. With lock-down over and things getting back to normal, the rental market appears to have stabilised as well. Eiendom Norge reports that there was a notable decrease in supply of approx. 18 % in all the larger cities in Q3. Oslo, in particular, had reduced supply, with only 1 711 units offered in the market in Q3, compared to ~2 000-2 350 units per month in Q1-Q2. In Q3, the average asking price for apartments in Oslo was reported as NOK 14 075, whereas the average for houses was said to be NOK 23 064 as at Q3 2021. In Bergen and Trondheim, the average asking price for apartments was reported as NOK 13 237 and NOK 12 503 respectively, while in Stavanger, the asking price was reported as NOK 12 982 (Eiendom Norge).

## Residential housing prices going forward

As noted in the other sections, the residential market is now showing signs of having stabilised, with fewer people rushing to buy and sell, and price growth slowing down after the summer, as is usual for the season. In September, the Norwegian Central Bank implemented the first of several announced increases in the key policy rate, which now stands at 0.25 %, and banks quickly followed. The hike does not appear to have affected the overall housing market yet, other than perhaps in Oslo, but we are likely to see its full effect over the coming months and years, as households take in the increase in cost. Despite the long-forewarned increases in interest rates, Statistics Norway (SSB) projected an increase in price of 9.7 % in their latest forecast on 3 September. However, with growth in 2021 currently standing at 7.7 %, the slowing trend currently observed in the residential market will have to take a turn for this projection to hold. Thereafter, SSB projects growth to be 4.4 % in 2022, before settling at a more moderate level of 1.6 % and 1.7 % in 2023 and 2024 respectively, mainly due to expected increased interest rates. Note that SSB assumed that the key policy rate would gradually increase towards 1.75 % in 2024, whereas the Norwegian Central Bank is currently signalling a slightly less aggressive path for the key policy rate in their Monetary Policy Report 3/2021 with a peak at 1.68 % by the end of the forecasting period in 2024. SSB will present new projections for the economic outlook on 3 December 2021. Another factor that may affect the residential property market going forward is the political shift, which is likely to include some new policies and regulations concerning residential properties. A measure that has already been brought up is changing the method used to establish the taxable values on residential property. Depending on how the new method will be applied, it is most likely to influence the tax valuation for the most expensive residential properties.

### Historic and estimated development in residential property prices per year, Norway




Soruce: Statistics Norway

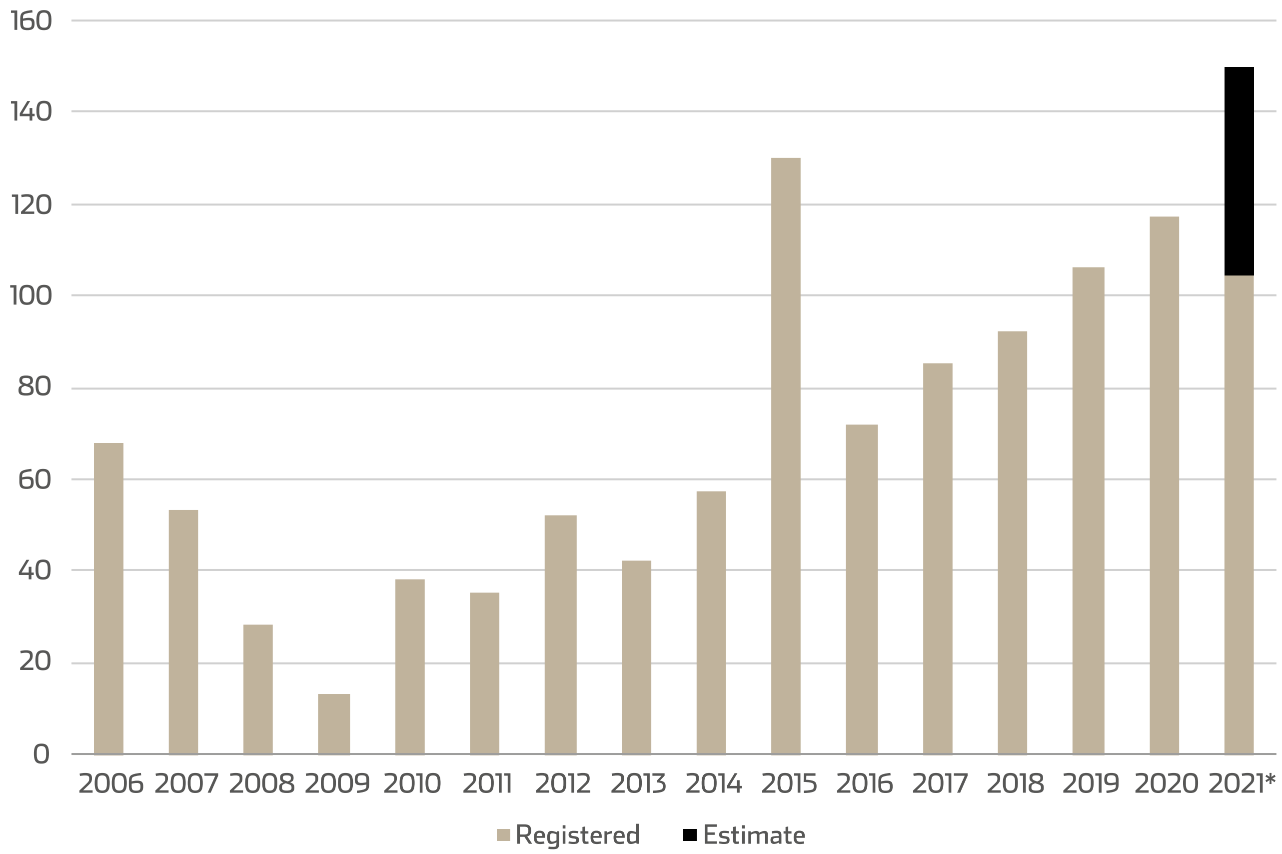
«The residential market is now showing signs of having stabilised, with fewer people rushing to buy and sell, and price growth slowing down after the summer, as is usual for the season».

# The investment market

## Record volume and peak activity

So far this year, we have registered a total transaction volume of NOK 104.2 billion*, split between 268 transactions*. 2021 has already been a year for the history books, and as we head into the peak activity in the fourth quarter, the rolling 12-month volume is at a record high at NOK 130 billion. There is no sign of investor activity slowing down. National restrictions have been lifted and the reopening of society has together with the low interest rates, just as we predicted, created the most liquid and active market we have ever witnessed. Judging by the pipeline and known active processes we are expecting the fourth quarter to rival that of the tremendous volumes that we saw in the fourth quarter of the two previous years, which last year was a little over NOK 50 billion. There are some macro-economic factors, such as inflation and key policy rates, that are closely linked to the economic outlook (covered more in-depth in our Macro section of this report), which will have an impact on price expectations going forward. The short version is that we now have a flat yield curve as our main scenario. But, as we will cover more extensively in the coming paragraphs, the expected interest rate increases will, in our view, not lift yields significantly. We see both investors' sentiments and the rent outlook as drivers of sustained or increasing property values. We set our full year estimate for 2021 at NOK 140 - 160 billion, which will mean an all-time high record, and the third consecutive NOK 100+ billion investment market. We expect the market to have a positive sentiment well into next year and are predicting 2022 to be the fourth consecutive year with a NOK 100+ billion investment market.

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



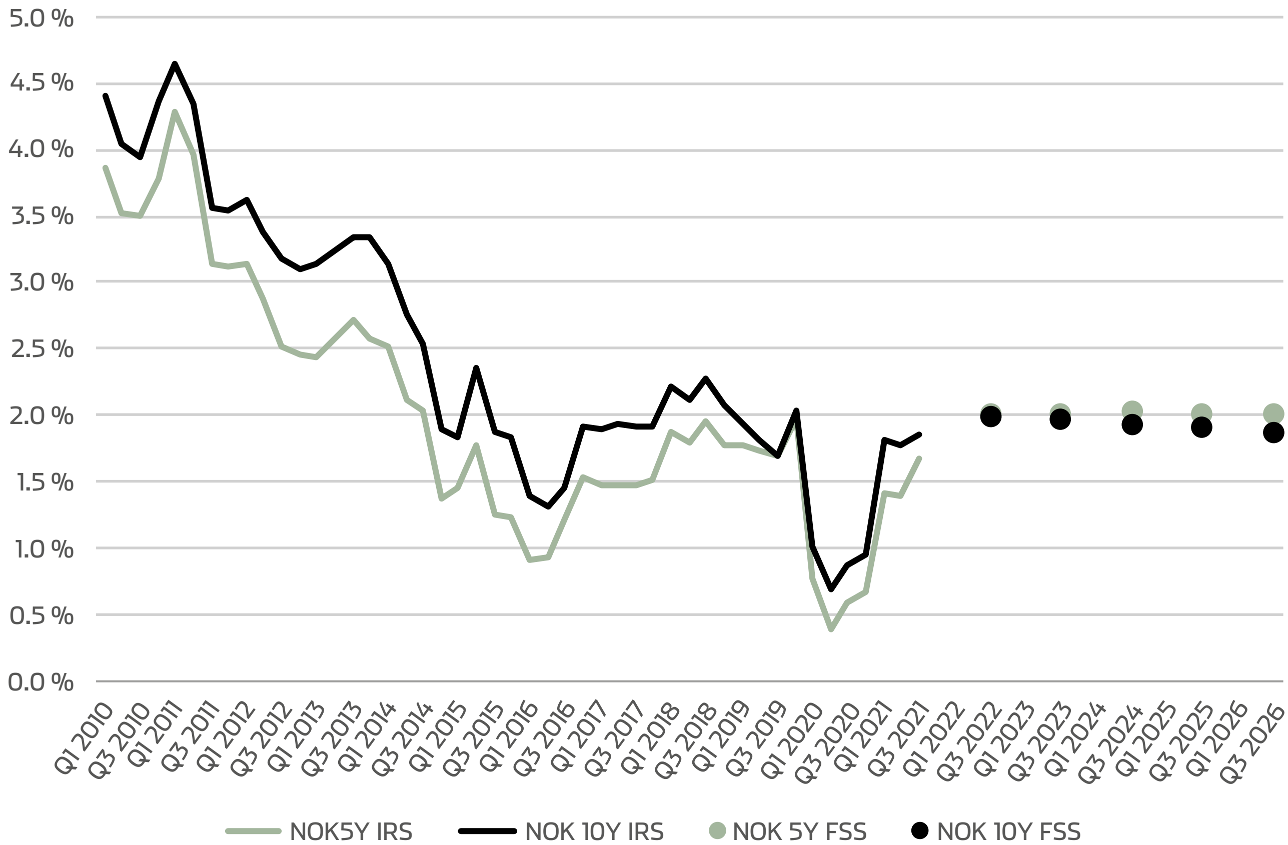

* As of 29 October 2021. Source: Malling & Co

### Financing readily available and at familiar pre-pandemic levels

With key policy rates guiding development upwards, and more aggressively so, from more and more central banks, especially of late, we have, as predicted, seen the NOK 5Y Interest Rate Swap (IRS) increase roughly 40 bps over the past 6 months to around 1.80 %. However, over the same time period, we have seen the NOK Forward Starting Swaps (FSS) coming slightly back down from where we were 6 months ago at the time of our last report. The NOK 5Y FSS is more or less dead flat at around 1.95 % 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 1.85 %. The NOK 10Y is currently at around 1.85 %, and the 10Y FSS is at roughly 1.90 % with a forward start from 3 months to three years out, before dipping down to 1.75 % five years forward, and 1.70 % ten years forward. These levels are still very attractive in a historical context and on par with the levels we saw during the already thriving period before the pandemic. Bank margins have reduced further and are now back down at the same levels seen in the last 12 months before the pandemic, with a decent spread to normal yields on the all-in financing cost. We are still seeing more financing available for projects on the core+ and value-add spectrum of opportunities, and as we will cover more in the next paragraph, an increased interest on the geographical spectrum of acceptable risk for the banks.

At the time of writing our last report, bond financing of single SPVs experienced a slump in H1 2021. Over the summer this has changed, and more SPVs have been financed by a bond issuance, lifting the volumes past the total volume seen in each of the past three years. New issuances for fleet financing of the larger real estate corporations still make up roughly 60 % of the total volume, but with the current pace and the re-emergence of single SPV financing we are probably heading for a new volume record in this market as well, surpassing the NOK 35 billion seen in 2017.

NOK 5Y and 10Y IRS and FSS




* As at 29 October 2021. Source: Thomson Reuters

## Regional and segment interest is back as risk appetite increases

Our regional overview so far in 2021 still reveals that Greater Oslo is a hot pot of activity, 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, and we are seeing volume records across the board. Both segment and geographical diversity is making a strong comeback, and we are seeing both hospitality and high street retail entering the mix of what investors are pursuing. One of our key take-aways through the pandemic was that all investor segments were active, and we can now conclude that the investor universe remains strong and diverse, with the segment diversity also being complete. The optimistic view from investors on assets supports the strong belief of a fundamental demand for commercial real estate and economic activity across most of Norway going forward. This is also evident in surveys of regional yields from other cities, such as Bergen and Trondheim, and our latest observed investment market comparables.

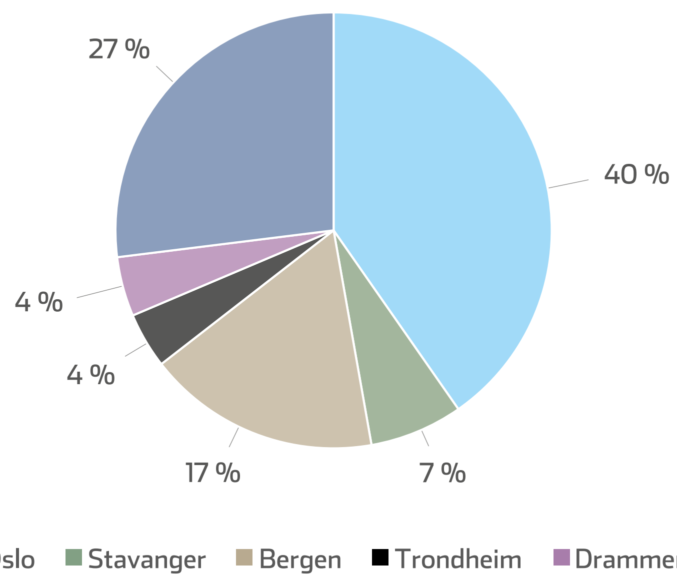
### Prime yield (net) in Norway

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

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

«A fundamental demand for commercial real estate and economic activity across most of Norway».

### Regional split of the transaction market 2021* by volume




* As of 29 October 2021. Source: Malling & Co

## European market is increasing volumes while shifting focus

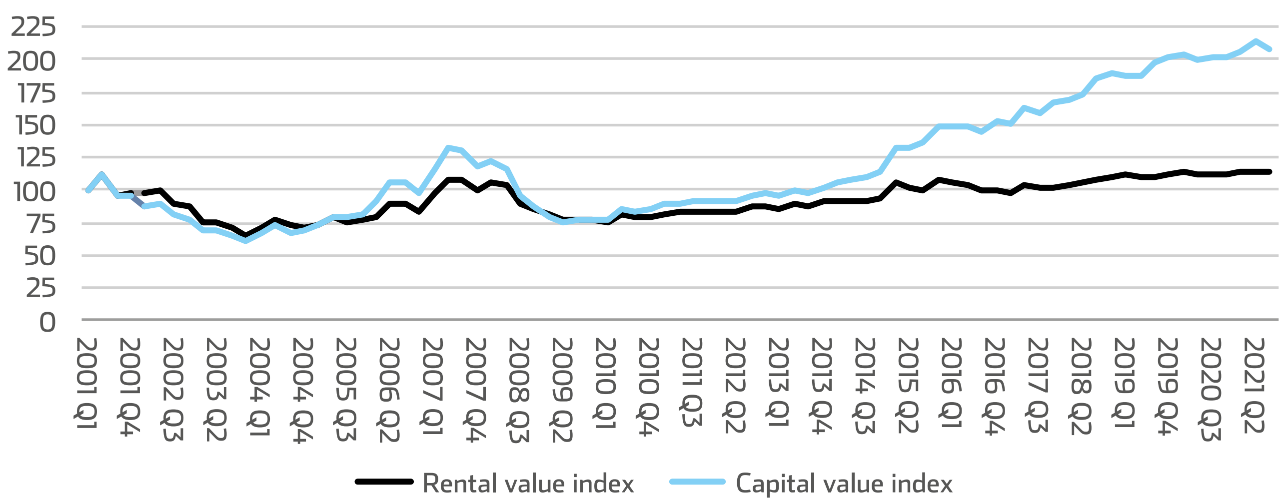
The interest in commercial real estate looks to remain solid in in the short to medium term. Cross border investor demand for European commercial real estate has been curtailed during the pandemic and is now expected to boost investment volumes. The full-year volume projection for Europe is close to € 270 billion, more than 15 % above last year's levels. Norway, and the Nordics, is a key driver in this increased activity level. As in Norway, the overall sentiment in Europe is that core pricing remains stable, supported by economic recovery and improvement of fundamentals. Our international partner Savills has looked at prime CBD office capital values, which have continued to rise faster than their respective rental values in most capital cities. In Q3 2021, the average rent index (2001=100, eight cities; London, Paris, Berlin, Munich, Madrid, Amsterdam, Warsaw and Stockholm) stands at 114 points, while the average capital value index has increased to 208 points, reflecting investor competition for prime assets in core markets. With this in mind, interest is expected to shift into the value-add segment where indicators from the office leasing markets is that activity is picking up. There are more enquiries for space, and the size of the requirements is also larger. Further, there is a shift towards increasing interest in the logistics sector, where the anticipated rental growth over the next 12–18 months is on an upwards trend, particularly in core markets, driven by undersupply of existing and future stock.

### Prime yield (net) in Europe

| City | Prime Yield (Office) | △ from last report |
|---|---|---|
| Munich | 2.60 % | ▼ -10 bps |
| Paris | 2.60 % | ▼ -15 bps |
| Amsterdam | 3.00 % | — 0 bps |
| Milan | 3.00 % | — 0 bps |
| Stockholm | 3.25 % | — 0 bps |
| Oslo | **3.25 %** | **— 0 bps** |
| London | 3.25 % | ▼ -25 bps |
| Helsinki | 3.45 % | — 0 bps |
| Copenhagen | 3.50 % | — 0 bps |

Source: Malling & Co/Savills

### European rental and capital value index

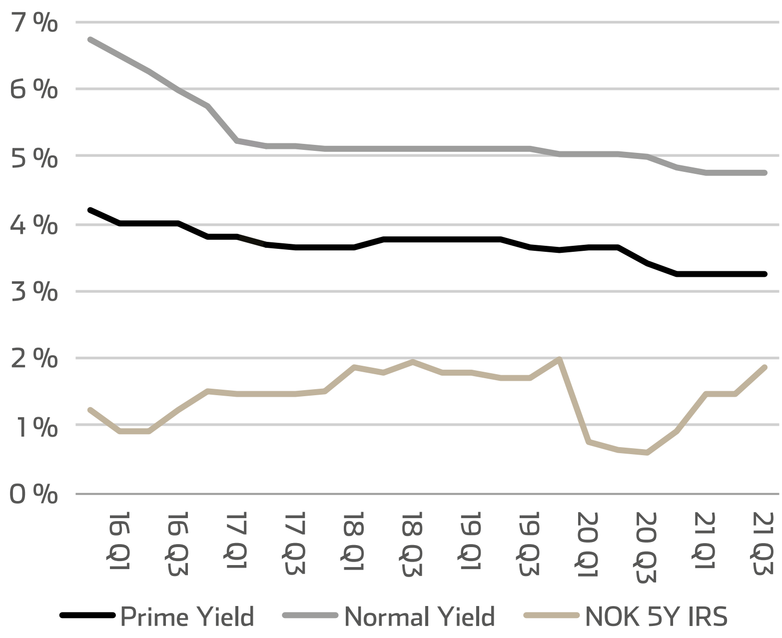



Source: Savills

## Yields remain flat as spread tightens

As interest rates have risen, we are seeing the spread between prime and normal yield tighten, while 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, and as we expect in our main scenario, also going forward. 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. 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 flat yields will be covered in the next paragraph.

Office yield development past 5 years, NOK 5Y IRS




Source: Malling & Co/Thomson Reuters

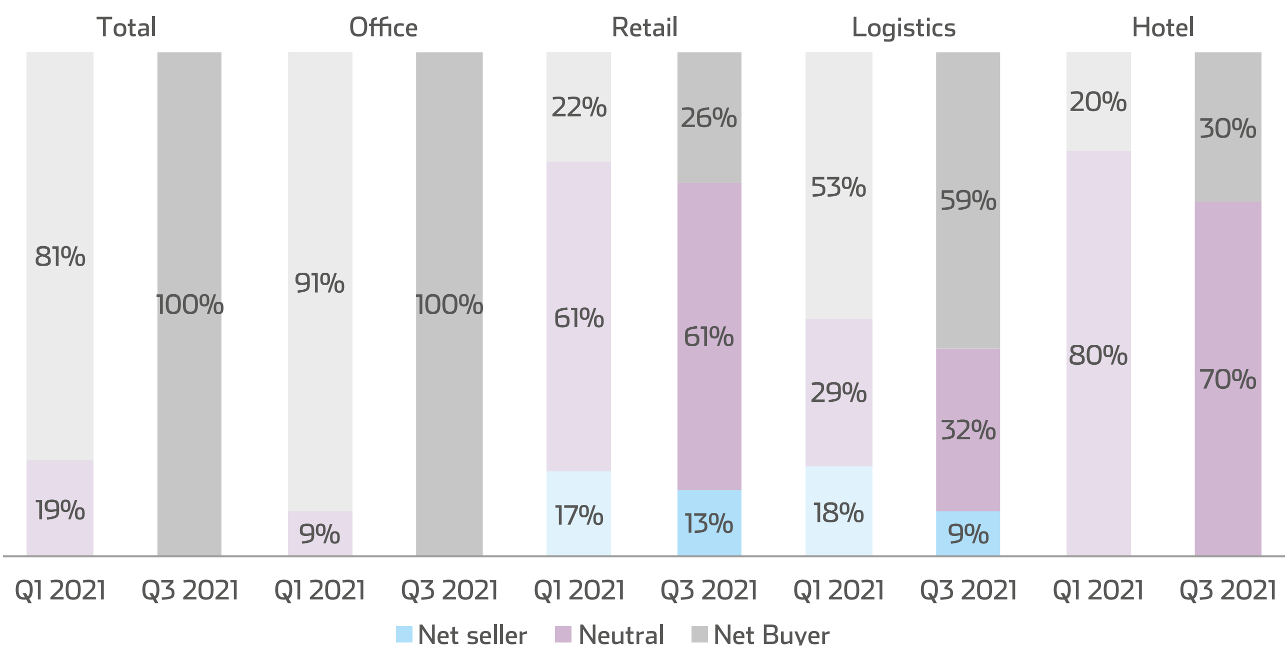
«The spread between prime and normal yield tightens».

## Investor sentiment and yield development

Our latest survey-based investigation from Q3 2021 (survey period ended Friday, 1 October) into investor expectations for yield and investor intentions shows that the demand for commercial real estate is soaring to a record-high level. With 100 % of investors stating that they intend to be net buyers of CRE in the coming 12 months, this marks the sixth straight quarter above 80 %. Office remains at the forefront of the demand side, where 100 % of investors are intending to be net buyers in the coming 12 months. Investor demand for the logistics sector is at 59 %, still short of the record high of 80 % seen in Q3 2020, although it must be regarded as still being at a high level in terms of investor sentiment and the decreasing yields at record low levels.

Yields remain flat at an all-time low of 3.25 % for CBD prime office yield, and we are still seeing risk on the upside of marginally increasing yields, but the demand sentiment, rental uplift projection and long-term interest rate outlook is a strong force on the opposite side and downward push. An outlier in the office segment is the fringe at Lysaker, which has seen the gap with Helsfyr reduce, as Lysaker is down 15 bps for both prime and normal office. The bigger trend shift is the downward push for normal and prime logistics yields in the greater Oslo area, with prime logistics now estimated at 4.05 %, and Normal logistics at Kløfta and Vestby at 4.70 % and Lier 15 bps higher at 4.85 %. 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.

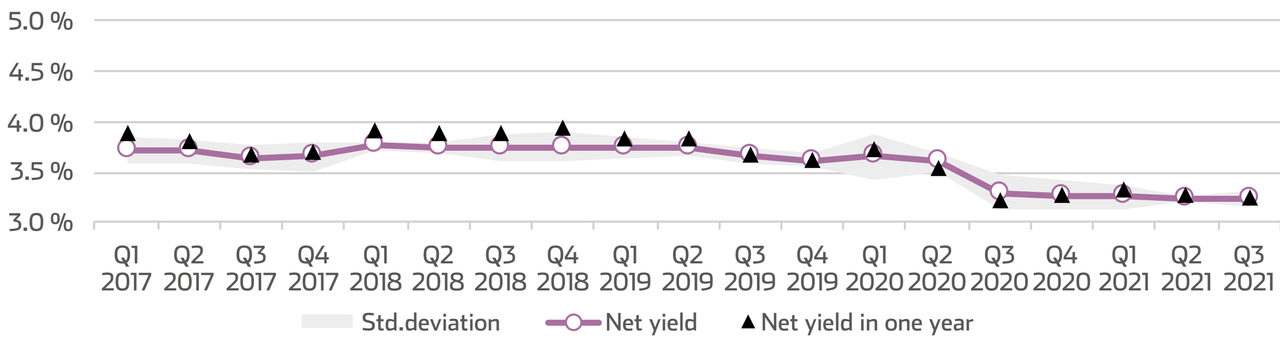
Desired exposure towards commercial real estate next 12 months




Source: Malling & Co Investor Yield and Sentiment Survey

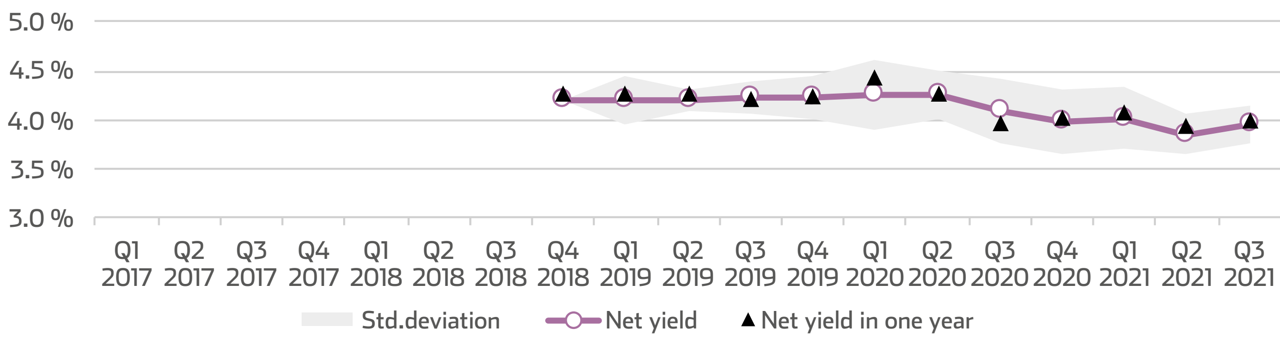
**Disclaimer** — All graphs on this page are results from the quarterly investor survey, and do not necessarily reflect the official views of Malling & Co Research and Valuation.

Prime office CBD



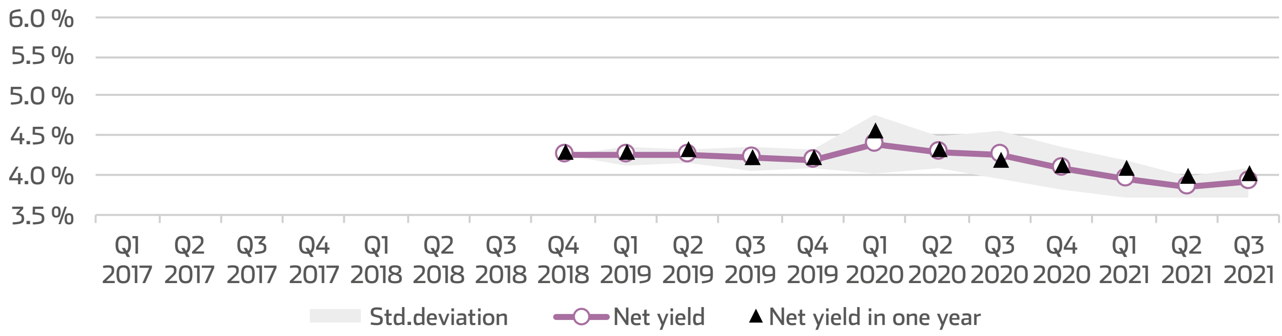

Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Normal office CBD



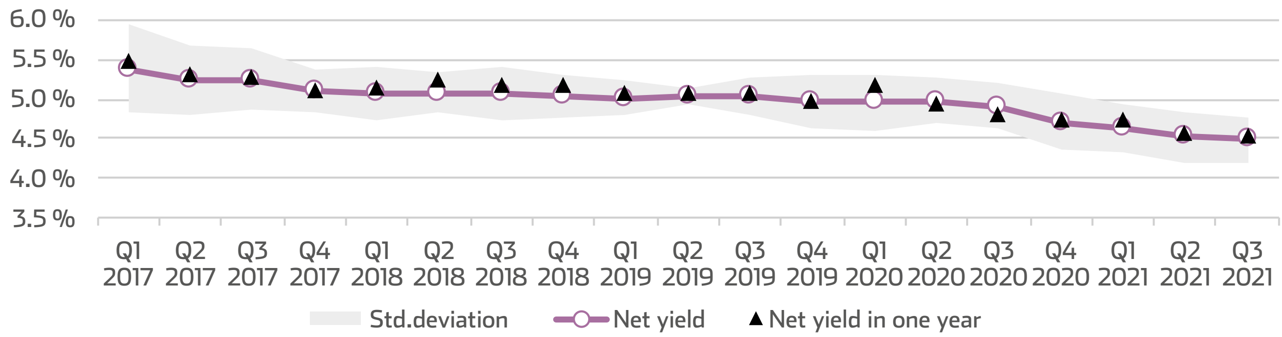

Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

## Prime office Helsfyr



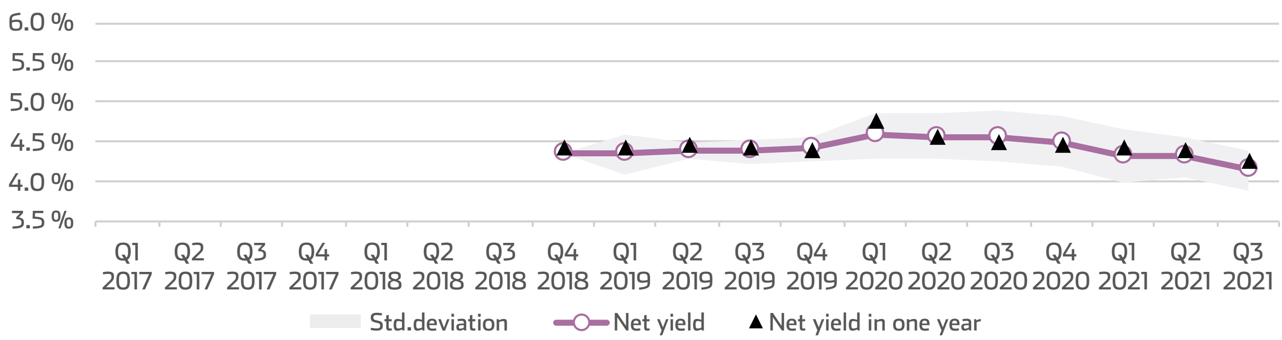

Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

## Normal office Helsfyr



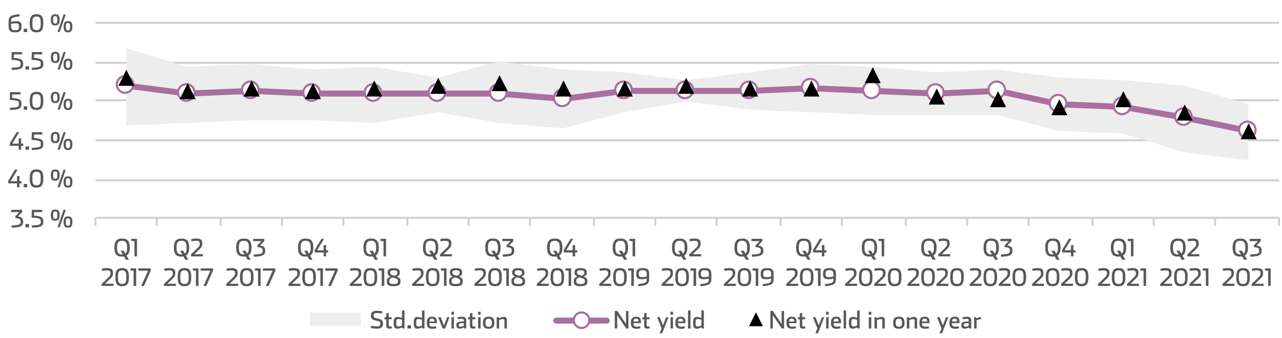

Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

## Prime office Lysaker




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

## Normal office Lysaker




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

## Øvre Vollgate — Oslo

Malling & Co Corporate Real Estate was the advisor for NBBL in the sales process of a 4 000 m² office building in central Oslo.

# 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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