MALLING & CO

Market report

Summer 2023

Breathing Thin Air

In our previous bi-annual report, we discussed the high uncertainty regarding inflation and interest rates. This uncertainty remains high into 2023. The bond volatility index MOVE is at a high level, creating uncertainty within all asset classes. Inflationary pressure remains at elevated levels across most major economies and brings expectations of rate cuts anytime soon into question. So far into 2023, we are continuing to see a stronger economy, higher inflation and a weaker NOK than the central bank of Norway (NB) had expected. As time passes, the top of the interest rate curve mountain seems more elevated than the initial view from the trail. However, the market is still pricing in high probability of significant rate cuts a few years down the road when the feared recession may become a reality. In either case, the probable scenarios for commercial real estate seem quite challenging.

Anders Berggren
CEO, Eiendomshuset Malling & Co

In addition to a surging cost of debt, CRE is also facing a shifting demand side in many parts of the world. While work from home (WFH) is said to have reduced office demand in large metropolitan cities, such as New York and London, the office market in Oslo and Norway is still seeing strong demand for office space and seems little affected by WFH. Over the past four quarters, gross office take-up hit an all-time high in Oslo with a 11 % y/y rental growth. The fact that our leasing team hit an all-time high in 2022 is also a good indicator of strong tenant demand.

However, the cost of construction and financing is creating a huge gap between breakeven rents for new construction and top market rents in many office clusters. If the market remains strong, we may see significant rental uplift. However, NB and other forecasters expect a slowdown in employment and economic growth, which is pushing developers to re-think the land values and project costs they have put into their spreadsheets. On the other hand, low vacancy and the lack of a huge pipeline of new construction is limiting the usual downside of falling rents if the leasing market faces a more challenging demand side.

So far though, the economy is handling higher rates better than many had expected, but some cracks are beginning to appear in the concrete. Households are cutting down hard on consumption, which is challenging retail and e-commerce growth, which in turn is hitting these CRE segments. Numerous CRE companies are facing challenging re-financing and loan covenants, which may eventually force them to sell and change the strategies in their existing portfolio. Existing and solid cash flows become more important than new developments. We expect a slowdown in the development of new districts and clusters. Re-using and improving the existing stock is becoming more profitable, and it is also beneficial for the environment, ticking another box on today's agenda.

An increasing share of investors are now becoming sellers, according to our latest survey from Q1. There are still buyers, but the flow of funds has shifted from lack of product to lack of takers who are able and willing to overbid the other. Investment activity measured by volume is plummeting, and as of Q1 we need to look back to 2014 to find similar nominal levels. At the same time, highly leveraged real estate companies in Sweden are now struggling with financing and may create additional stress in the Norwegian investment market towards the end of 2023, also creating opportunities for others.

At Malling, with our core values and long-term position, we are still prepared to guide our clients through tougher times with more challenges and, not forgetting, opportunities. As usual, we have the pleasure of including a market update on Bergen and Trondheim, supplied by our regional contacts WPS and Norion, in addition to Stavanger and Drammen. Remember that Malling 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: 15 May 2023

Macro — Global

Decline in inflation and stabilisation of commodity prices

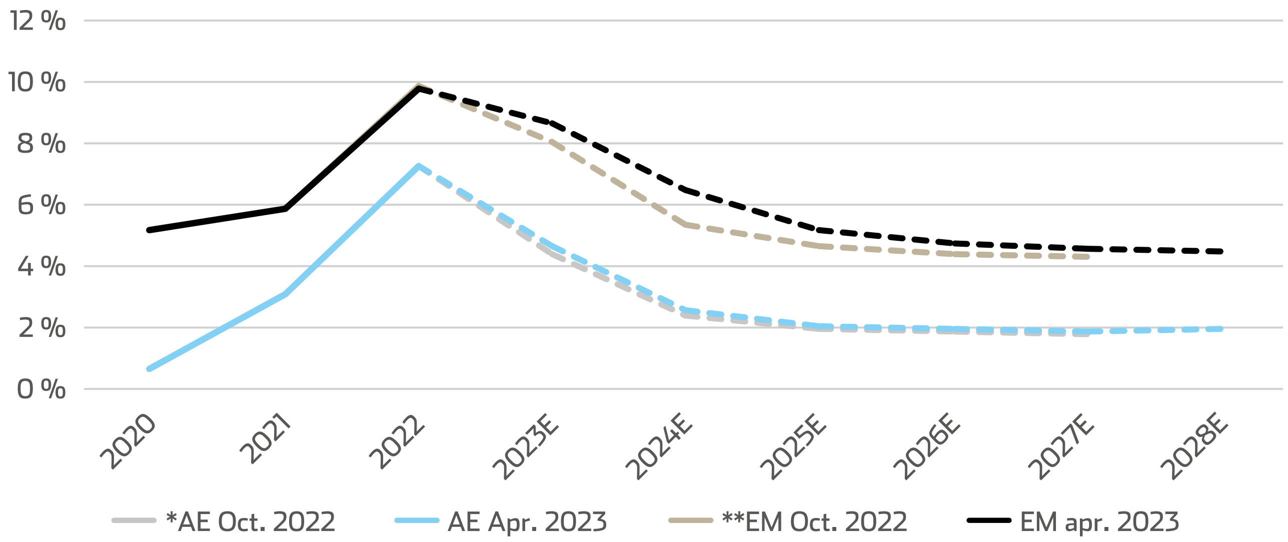
The global economy is experiencing a gradual decline in inflation after reaching its peak in 2022. Most advanced economies are aiming for an inflation target of 2 %, while emerging market and developing economies are expected to maintain slightly higher target rates. Commodity prices have since Q4 2022 stabilised, defying IMF's expectations from October, which is beneficial for economic stability. Policy interest rates have increased significantly to address inflationary pressures, and while they are expected to decline gradually, it will take time. GDP growth has slowed down, with advanced economies experiencing a significant decline, while emerging economies maintain a relatively stable growth trajectory. IMF's April 2023 outlook for the labour market for 2023 and 2024 varies between regions, with the United States expecting an increase in unemployment rates and the euro area anticipating a marginal decline.

CPI

In the latest report from April 2023, the International Monetary Fund (IMF) states that inflation peaked in 2022 for both advanced economies and emerging market and developing economies. This peak was primarily driven by various factors, including supply chain disruptions, pent-up demand and rising input costs. However, the IMF foresees a gradual decline in inflation going forward as these temporary factors dissipate.

For advanced economies, the IMF projects that inflation will gradually stabilise at around 2 % by 2025. This level aligns with the target inflation rates set by central banks in many advanced economies. The process of reaching this stability may take some time, due to the adjustments needed in various sectors and the overall economy. On the other hand, emerging market and developing economies usually experience slightly higher inflation rates compared to advanced economies. The IMF expects inflation in these economies to stabilise at between 4 % and 5 % from 2025 onwards. This higher inflation reflects structural challenges, such as limited productivity growth and supply-side constraints, which can exert upward pressure on prices. When comparing the current inflation expectations to the IMF's projections from October 2022, there have been slight upward revisions for both advanced economies and emerging market and developing economies.

Headline inflation forecasts, %



*AE = advanced economies
**EM = emerging market and developing economies

Source: IMF WEO (April 2023)

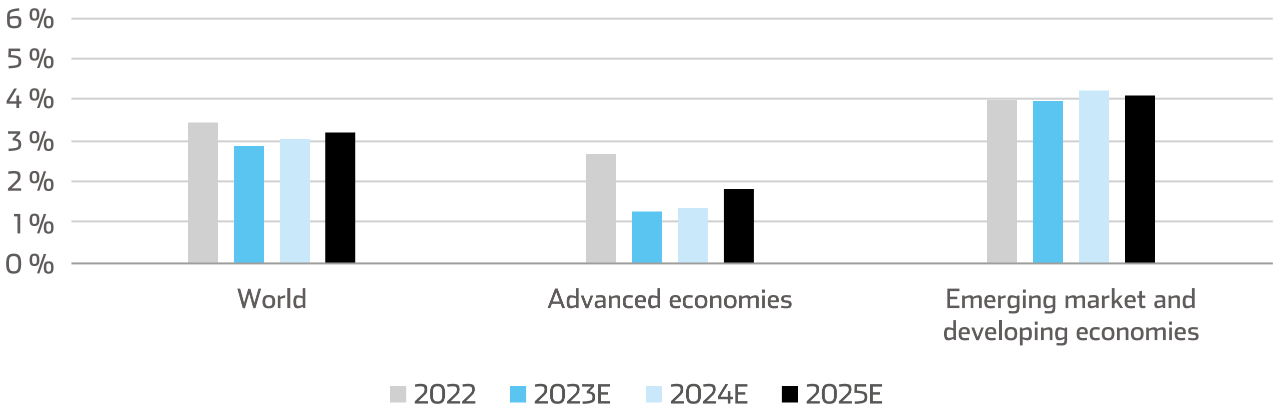
GDP growth projections

Following a significant slowdown in global economic growth from 2021 to 2022, with GDP growth rates declining from 6.28 % to 3.42 %, the IMF expects a further cooling of the world economy in 2023. According to the IMF's April 2023 report, the projected GDP growth rate for 2023 stands at 2.83 %. Although this forecast is slightly higher than the expectations outlined in the October 2022 report (2.66 % GDP growth for 2023), it indicates a continued deceleration of economic expansion.

Notably, advanced economies are expected to experience a significant decline in GDP growth. The IMF projects a decrease from 2.66 % in 2022 to 1.26 % in 2023 for these economies. Furthermore, 2024 is anticipated to be another year of low GDP growth for advanced economies, with expectations remaining relatively similar to 2023. Over the next three years, GDP growth is projected to gradually approach the 2 % mark. This gradual improvement is in line with the anticipated gradual easing of interest rates.

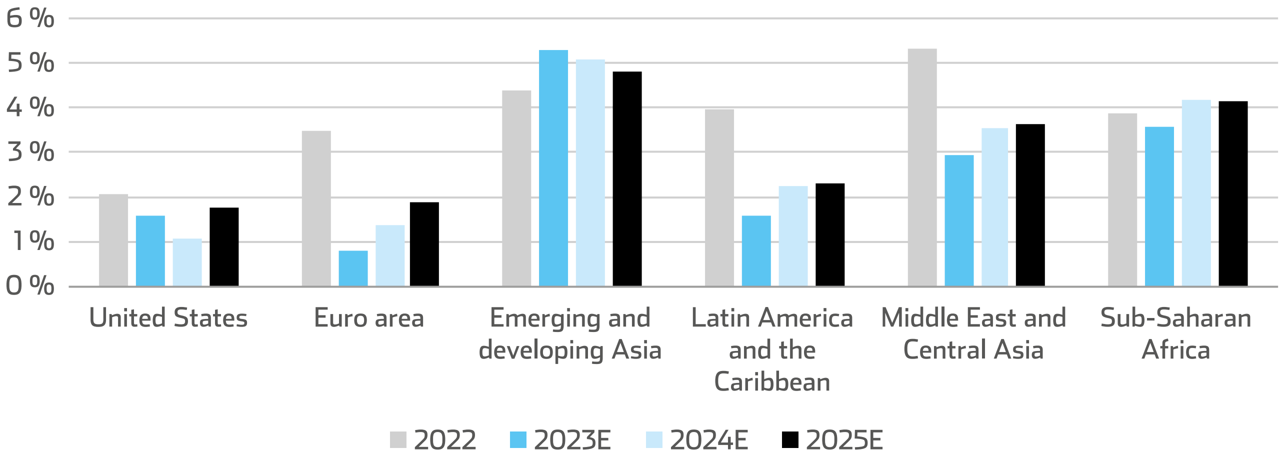
Conversely, for emerging market and developing economies, the IMF projects a GDP growth rate of 3.93 % in 2023. According to the IMF, these economies will likely maintain a growth rate of around +/- 4 % for the next six years. This projection suggests a relatively stable growth trajectory for emerging economies, although challenges such as structural reforms, fiscal policy adjustments, and external vulnerabilities may pose risks to their economic performance.

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



Source: IMF WEO (April 2023)

GDP growth rate projections, by region, % change



Source: IMF WEO (April 2023)

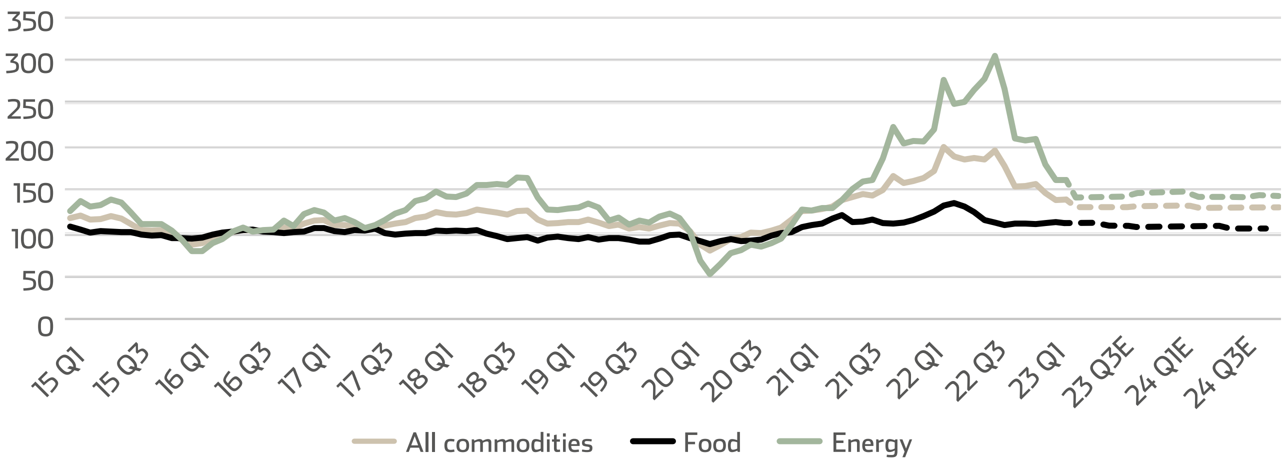
Commodity prices

Following the significant increases in commodity prices, there has been a recent adjustment towards more normalised levels. The current prices observed in the global market can be compared to the price levels experienced in the third quarter of 2021. In its April 2023 report, the IMF expects these prices to stabilise and remain at their current level throughout 2024.

The decline in commodity prices does not reflect the forecasts presented in the IMF's report from October 2022. Back then, it was projected that commodity prices would remain high until 2024. The decline in commodity prices will facilitate central banks in attaining their objectives of deflating inflation. These measures were aimed at addressing the inflationary pressures and restoring balance to the markets.

The recent adjustment in commodity prices is beneficial for economic stability, as it mitigates the risk of prolonged inflationary pressures. It provides some relief to businesses and consumers, helping to alleviate cost pressures across various sectors. However, it is important to note that commodity prices remain subject to market fluctuations, and future developments in supply and demand dynamics will continue to influence their trajectory.

Commodity price indices with forecast (Index, Q1 2016 = 100)



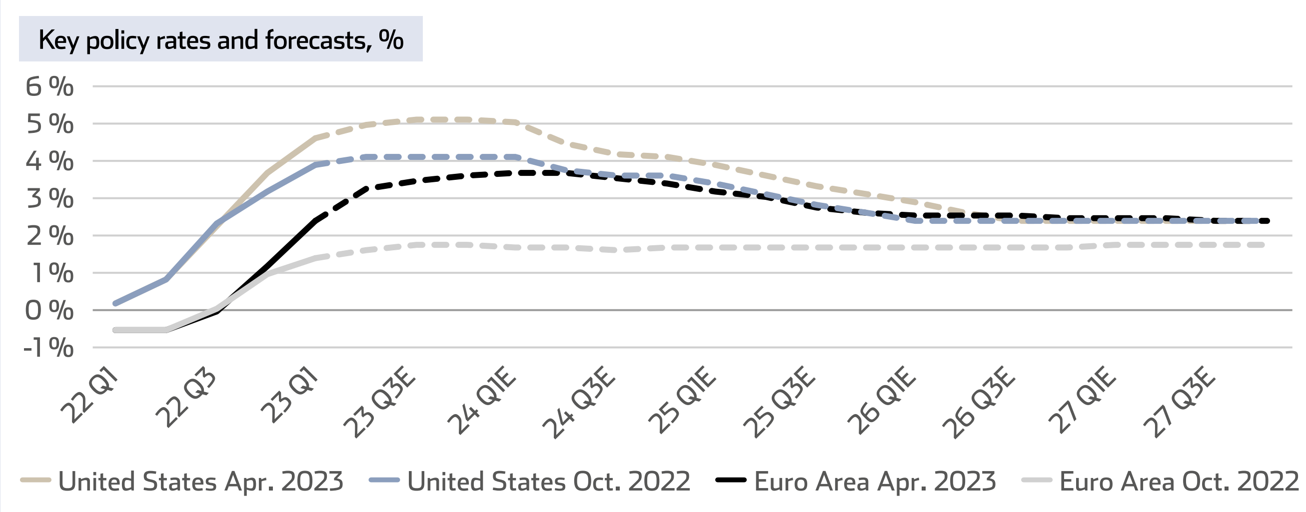
Source: IMF WEO (April 2023)

Key policy rate

Over the past year, policy interest rates have witnessed significant increases across various countries. This trend has exceeded initial expectations, as interest rates reached higher levels than anticipated. The tightening of the monetary policy by central banks has been a common response to address inflationary pressures and maintain economic stability.

According to the IMF in its April 2023 report, the Federal Reserve (Fed) in the United States is expected to reach a peak policy interest rate of 5.10 %. In contrast, the European Central Bank (ECB) or the euro area is projected to reach a peak rate of 3.70 %. As at 15 May, the ECB's policy interest rate stands at 3.75 %, while the Fed's rate lies within the range of 5.00 % to 5.25 %. The IMF expects in the April report that these rates are the peak for both the Fed and ECB. The tightening of policy rates has occurred at a faster pace than anticipated by the IMF in its April report, thereby suggesting that the peak could potentially be higher as well.

Based on the IMF's report, these interest rates are expected to persist until the first half of 2024. Thereafter, a gradual decline is projected to occur, eventually settling at around 2 %. However, this adjustment process will likely span several years.



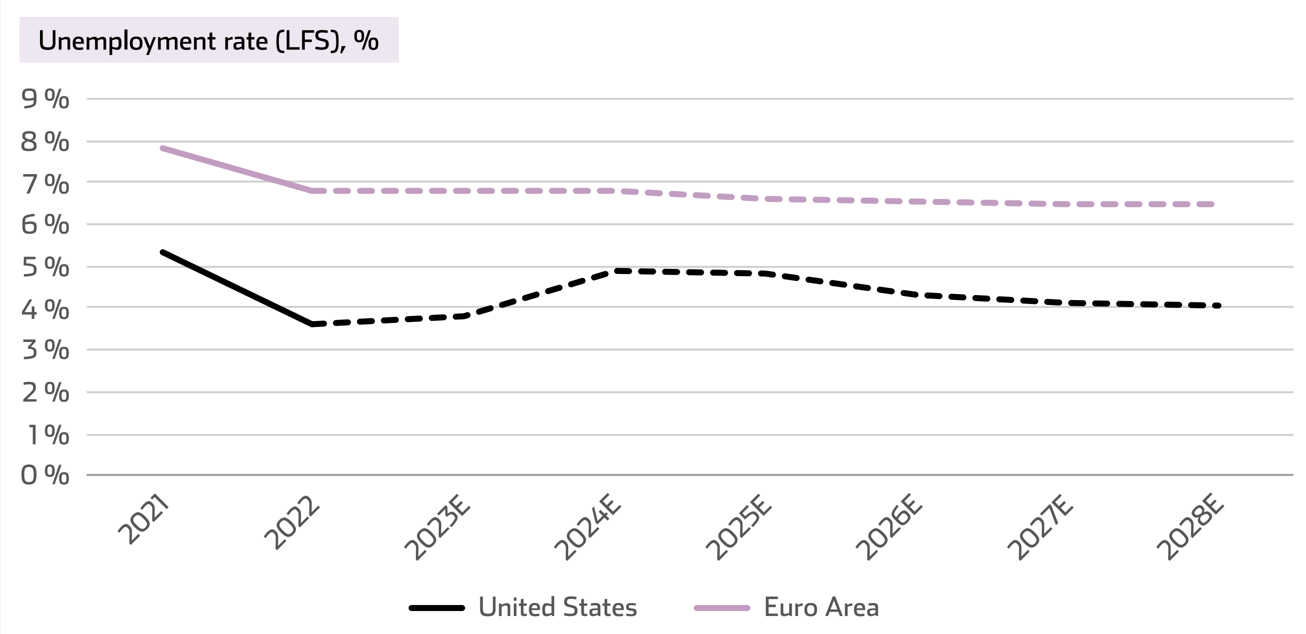
Source: IMF WEO (April 2023)

Unemployment rate

Both the euro area and the United States experienced a decline in the unemployment rate in 2022, measured in the Labour Force Survey (LFS), the unemployment rate in the United States decreased from 5.37 % to 3.64 %, while unemployment in the Euro area decreased from 7.80 % to 6.79 %.IMF's April report's outlook for the labour market differs between these regions.

In the United States, it is expected that the unemployment rate will increase significantly during the next year. The IMF projects a rise from 3.64 % in 2022 to 4.92 % in 2024, before gradually stabilising towards 4 %. This upward trend reflects the potential impact of various factors, including the tightening of monetary policy and the cooling of economic growth.

In contrast, the euro area is expected to see a marginal decline in the unemployment rate from the 2022-levels. The IMF anticipates a decrease of 30 bps over the next five years, indicating a more favourable labour market outlook for the region. This projected decline suggests potential improvements in job creation and employment opportunities.



Source: IMF WEO (April 2023)

Macro — Nordics

Economic slowdown, also in the Nordics

In the Nordic countries, the central banks have found themselves compelled to raise interest rates in response to economic challenges. The consequences of these measures are now becoming evident as the pace of economic growth decelerates. However, thanks to accumulated savings, households in all Nordic countries have displayed greater resilience against the increasing prices. Nevertheless, it is anticipated that the purchasing power of households will continue to weaken in the coming period. Moreover, there is a noticeable decrease in industrial order backlogs due to a subdued global demand.

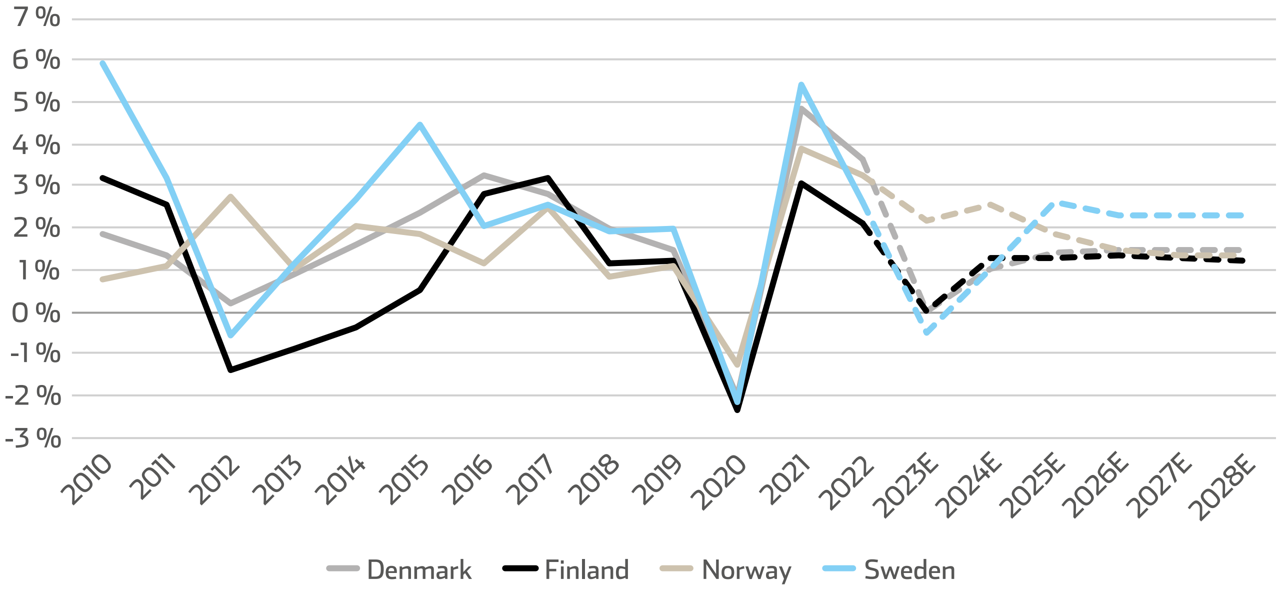
GDP growth projections

In the Nordic countries, there is a collective effort to avert a recession; however, there is no denying the impending economic slowdown when considering the four nations as a whole. According to the IMF's April 2023 report, annual GDP growth in both Denmark and Finland for 2023 is expected to hover around zero, marking a decrease of 60 and 42 bps, respectively, compared to the October report's projections. Likewise, expectations for Norwegian GDP growth have been revised downward by 42 bps to 2.15 %. Consequently, Norway is projected to fare slightly better than Finland and Denmark, until 2026. Sweden, on the other hand, is anticipated to face the greatest challenges, with the IMF estimating a growth rate of -0.48 %, a decline of 34 bps from the October report. However, the IMF foresees a more robust annual growth rate in Sweden in the subsequent years compared to the other Nordic countries. Sweden is expected to stabilise at an annual GDP growth rate ranging between 2.30 % and 2.60 % from 2024 to 2028, while the other Nordic countries are projected to range between 1.25 % and 1.50 % in annual GDP growth by the end of 2028.

The change in expectations from the October report to the April report is minimal when looking a few years ahead. Denmark has experienced slight downward adjustments, with an average decrease of 53 bps from 2024 to 2026. However, overall, the average expectations for the corresponding period remain relatively stable.

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

Real GDP, annual change, %



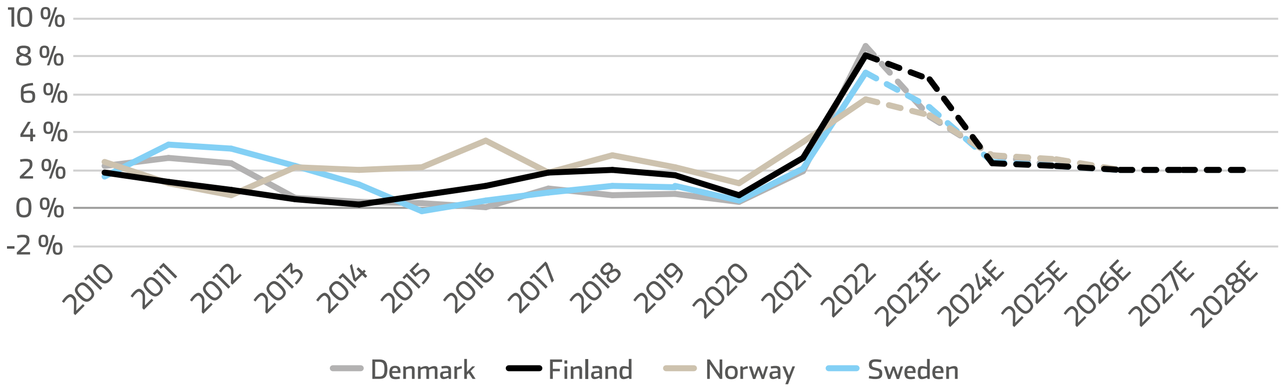
Source: IMF WEO (April 2023)

Consumer Price Index (CPI)

Following a year of substantial hikes in inflation in 2022, the IMF anticipates that central banks will succeed in gaining better control over inflation this year. However, the process of aligning inflation with the inflation targets is not a swift one, and it is not projected that any of the Nordic countries will achieve a y/y inflation rate of 2 % before the end of 2026. The expected y/y inflation for the Nordic countries in 2023 ranges between 4.80 % and 5.30 %, with the exception of Sweden, which continues to grapple with inflationary pressures. The IMF estimates a 6.82 % inflation rate for Sweden in 2023. In April/May, all four central banks raised their policy rates, with Finland, aligning with the ECB, currently at 3.75 %, Denmark at 3.00 %, Norway at 3.25 %, and Sweden, implementing a double rate hike, at 3.50 %.

In comparison to the October forecasts, there have been significant revisions in the expectations for inflation for 2023. Finland, Denmark, and Norway have been revised upwards by over 100 bps, while Sweden has experienced a substantial downward revision of 155 bps. The IMF's October report significantly underestimated the figures for 2022, with an average deviation of 96 bps for the four Nordic countries compared to the current data. It should not be discounted that a similar situation may unfold in the coming years.

Consumer Price Index, annual change, %

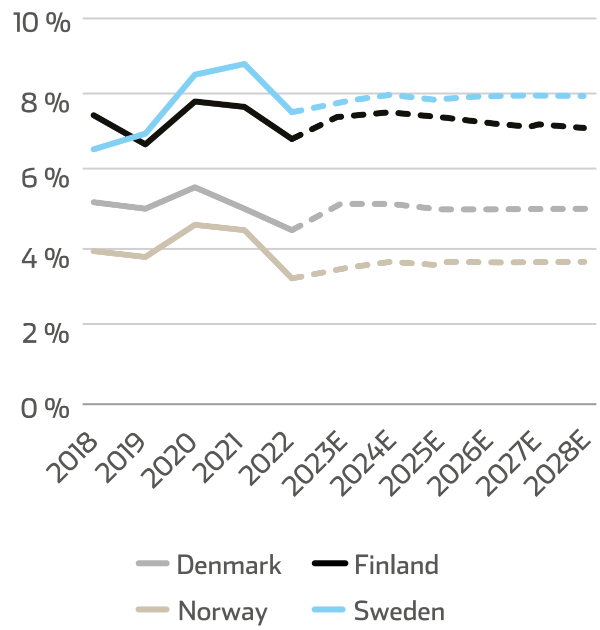


Source: IMF WEO (April 2023)

Unemployment rate

In the previous autumn, the IMF projected a modest decline in the unemployment rate for 2022 in the Nordic countries, amounting to an average decrease of 53 bps. However, the outcome surpassed expectations with a significant drop of 98 bps. By the end of 2022, the average unemployment rate in the Nordic countries stood at 5.49 %, measured in the Labour Force Survey (LFS), marking a notable decrease from the previous year's 6.47 %. Nonetheless, a reversal of the trend is anticipated for 2023, as the April reports indicate an expected increase in the unemployment rate to approximately 6 % towards the end of the year. Among the Nordic countries, Norway is expected to maintain the lowest unemployment rate at 3.50 %, followed by Denmark at 5.10 %. Conversely, Sweden and Finland are projected to face higher levels of unemployment, with rates of 7.80 % and 7.55 % respectively in 2023. Looking ahead, the IMF anticipates a marginal upward trajectory in unemployment rates across the Nordic countries in 2024, with an average increase of 0.21 %. Overall, it is forecasted that unemployment levels will stabilise and remain relatively steady through to 2028.

Unemployment rate (LFS), %



Source: Eurostat, National Statistics Office, IMF WEO (April 2023)

Macro — Norway

Rising interest rates and weakening NOK

The Norwegian economy has experienced a gradual slowdown in the first quarter of 2023, with a modest growth of 0.20 % in mainland GDP. SSB's outlook from March for annual GDP growth in mainland Norway for 2023 has been adjusted downward to a mere 1.30 %. Unemployment rates have gradually increased from 3.10 % in May 2022 to 3.60 % in March 2023, with further expected increases in the coming years. The central bank of Norway raised the policy rate to 3.25 % in May and we anticipate further increments. CPI has seen a significant upward revision, and SSB projects an average year-on-year CPI growth rate of 5.00 % for 2023 in their outlook from March. NOK has during the first 4-5 months of 2023 weakened against major currencies, which may lead to increased import costs but potentially benefit export-oriented industries. Household purchasing power has declined due to high inflation and increased interest rates, leading to a decrease in savings and a rise in consumer debt.

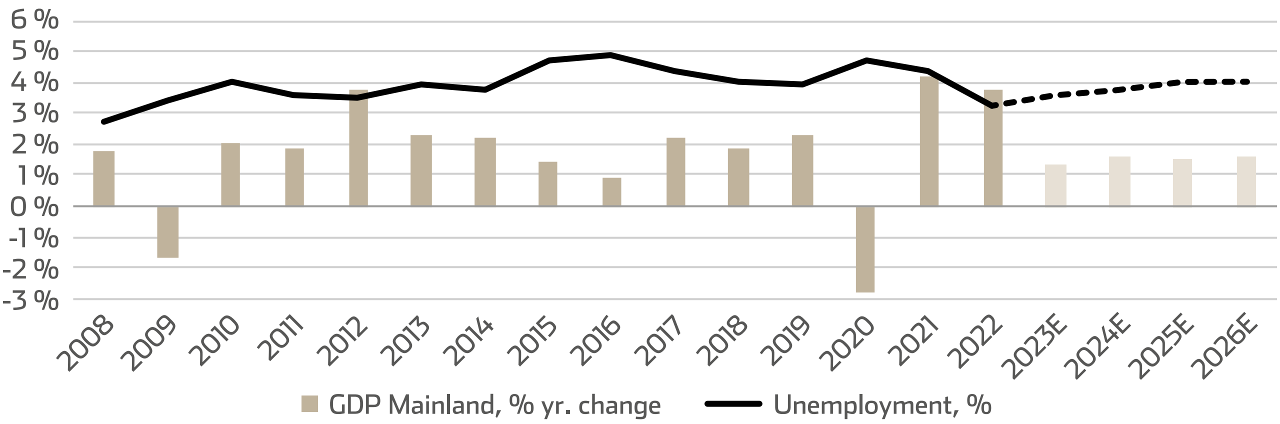
GDP and unemployment

The Norwegian economy is demonstrating signs of a gradual slowdown in the first quarter of 2023, according to the figures from Statistics Norway (SSB) published in May. Mainland GDP experienced a modest growth of 0.2 % from the fourth quarter of 2022 to the first quarter of 2023. Surprisingly, the economy has demonstrated greater resilience than anticipated in the face of heightened inflation and interest rates. SSB's March outlook expects that high and increasing interest rates will have a substantial impact on mainland Norway's GDP levels from 2023 onwards.

A decline in both domestic and international demand is expected, potentially undermining the investment climate. SSB's March report anticipates an annual GDP growth of merely 1.3 % for mainland Norway in 2023. This represents a significant decrease from the growth of 3.8 % in 2022. SSB has adjusted its forecasts downwards since their September 2022 report, when they anticipated an annual GDP growth of 1.5 % for 2023. In the long term, SSB's March report expects signs of economic improvement in 2024, with growth at 1.6 %, followed by sustained growth until 2026.

Unemployment, measured as a percentage of the workforce, in the Labour force survey (LFS), has experienced a gradual increase since May 2022 at 3.1 %, to 3.6 % in March 2023. According to SSB's forecast from March, unemployment is expected to remain relatively stable throughout 2023 at an average rate of 3.6 % in 2023, before gradually increasing to 3.8 % in 2024 and 4.0 % in 2025-2026. IMF's April report forecasted an unemployment for 2023, 2024 and 2025 of 3.5 %, 3.7 % and 3.6 % respectively.

Mainland GDP and unemployment (LFS), %

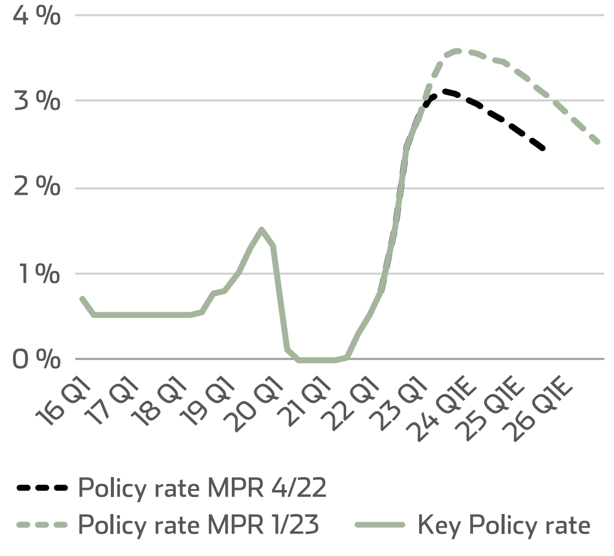


Source: Statistics Norway

Key policy rate

In May, the central bank of Norway announced a rise in the policy rate to 3.25 %, with relative clear expectations of a further increment, taking it to 3.50 % in June. According to Monetary Policy Report 1/23, the updated and increased interest rate projection indicates a 40 % probability of the rate being increased to 3.75 % by the end of the year. Since then, wage growth, employment and inflation seem to have overshot expectations, increasing the probability of higher rates by the end of the year. Both DNB's and Nordea's macro forecasters anticipated in May that the rate will reach a peak at 4.00 % and that this rate level will be sustained over a considerable period. We do not rule out the possibility that the peak interest rate could exceed 4.00 %. It should be noted that the guiding curve still anticipates key economic indicators to cool off, and the central bank makes it clear that the interest rate will be set higher if economic indicators, such as CPI, wages and employment, indicate that an even higher policy rate is needed.

Key policy rate



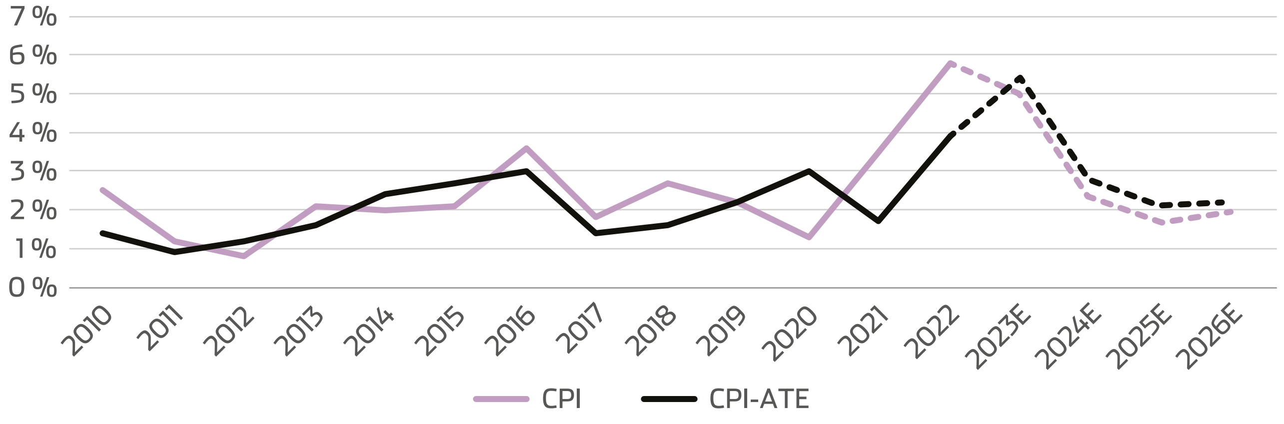
Source: The central bank of Norway (MPR 1/23)

CPI and CPI-ATE

Over the past year, we have observed unusually high inflation rates, significantly impacting these indicators. SSB projected in March, an average y/y CPI of 5,0 % for 2023, a substantial upward revision compared to the September 2022 forecast of 3.5 %. Despite the revision, this still indicates a decline from the 2022 level of 5.8 %, but it remains to see whether this forecast turns out correct. Since the forecasts in March, it appears that the growth of CPI has increased. In order for SSB to accurately predict the annual growth rate of 5.0 % for 2023, the pace of CPI growth must significantly decrease throughout the remainder of the year. Given the recent developments in the CPI and the weakening of the NOK, we expect SSB to revise their CPI estimate for 2023 in the upcoming outlook in June. The projections expect that the central bank of Norway will achieve its inflation target of 2.0 % in the first half of 2025.

Regarding the CPI-ATE, an indicator that measures underlying inflation by adjusting for tax changes and excluding energy products, SSB expects a rate of 5.4 % in 2023, with a decline to 2.8 % in 2024. This relatively high CPI-ATE indicates that inflation is broad-based and driven by factors such as increased import costs and residential rents. SSB estimates that the inflation target of 2.0 % for the CPI-ATE will be close to being achieved by 2025.

CPI and CPI-ATE



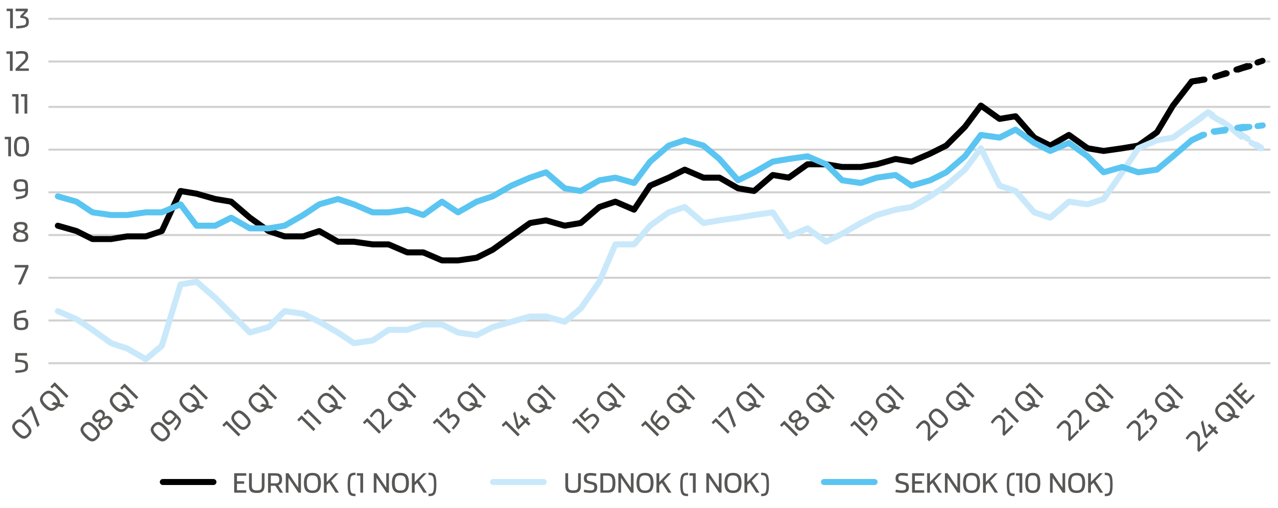
Source: Statistics Norway

Currency

The NOK has experienced a significant weakening over the first 4-5 months of 2023, as reflected in the currency exchange rates. Over the course of a year, as at 15 May, NOK has weakened from 10.2 to 11.58 against the EUR, from 9.83 to 10.65 against the USD, and from 0.97 to 1.02 against the SEK. This development can be attributed to differences in interest rates and several other factors, including the risk premium in the NOK, the central bank's sale of Norwegian currency, changes in commodity prices and developments in the Norwegian and global economy. DNB anticipates the NOK to depreciate further relative to the EUR to an exchange rate of NOK 12 to EUR 1. On the other hand, the NOK is expected to appreciate slightly in relation to the USD, decreasing from the rate as at 15 May of 10.65 to 10.00. The SEK is also expected to become slightly more expensive, with an increase from 1.02 to 1.05.

These projections have significant implications for the Norwegian economy. A weaker NOK will increase import costs, as of Norway's imported goods are priced in foreign currency that have appreciated relative to the NOK. This may lead to increased inflation as imported goods become more expensive for Norwegian consumers. On the other hand, a weaker NOK can be beneficial for the Norwegian export industry, as domestically produced goods and services become cheaper for foreign buyers. The weakened NOK may have different consequences for different sectors of the economy. Consumers may experience higher prices for imported goods, while export-oriented industries may face increased competitiveness. At a macroeconomic level, such depreciation can impact inflation, interest rates and the country's trade balance.

NOK vs. other currencies



Source: DNB, Eikon

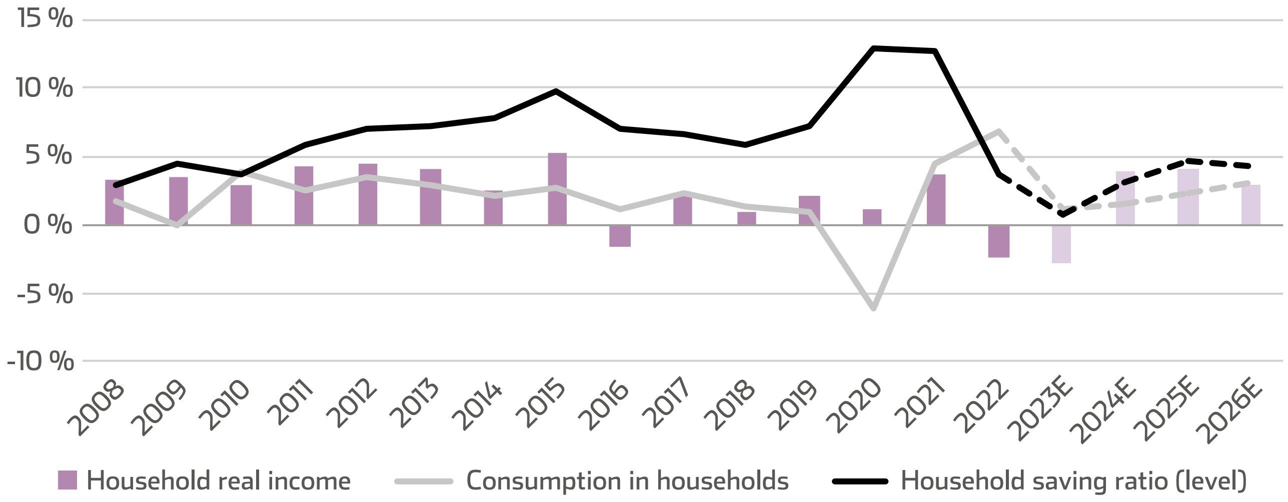
«A weaker NOK could increase inflation as imported goods become more expensive for Norwegian consumers»

Households' financials

Over the previous year, Norway has witnessed a noteworthy decline in household purchasing power, mainly due to high inflation and higher interest rates increasing the basic cost of living. Despite this downturn, the overall consumption among Norwegian households has remained elevated, partially attributed to the substantial savings during the period of low interest rates. However, current economic trends indicate that these accumulated funds are starting to diminish, coinciding with a concerning rise in the levels of credit and consumer debt. While the household savings rate was 12.9 % in 2020 and 12.7 % in 2021, SSB expects in their March report that the ratio to decrease to as low as 0.8 % in 2023, which would be the lowest level since 2007. With the expected depletion of savings and the prospects of sustained high interest rates, it appears inevitable that households will need to undertake extensive reductions in their expenditure, and some signs are already visible (see also retail section page 62).

This year's wage negotiations in April have resulted in the most robust wage growth since 2008, with a significant increase of 5.2 %. This surge in wage levels has the potential to mitigate much of the impact of consumption reductions. However, it may also contribute to enduring high inflation, thereby necessitating elevated policy rates to maintain economic equilibrium. Accordingly, in their March outlook, SSB anticipates a substantial decline in household consumption growth, from 6.8 % in 2022 to 1.2 % in 2023. At the same time, SSB's projections from March for real wage growth in 2023 have been downwardly revised from their September 2022 report, from -1.2 % to -2.8 %. Despite the bleak outlook for the current year, future estimates in the March report indicate a significant rise in real wages during the period from 2024 to 2026, with expectations ranging between 2.8 % and 4.1 %. In the short term, there are distinct challenges associated with reduced purchasing power, mounting debt, and the declining savings rate. However, long-term indicators, such as wage growth and consumption, point towards a gradual improvement, providing some optimism for the financial situation of Norwegian households.

Households' financials, annual change, %



Source: Statistics Norway

> «Despite the bleak outlook for the current year, future estimates indicate a significant rise in real wages during the period from 2024 to 2026, with expectations ranging between 2.8 % and 4.1 %»

Kirkegata 5 — Oslo

Malling & Co Eiendomsfond has acquired Kirkegata 5, a core office property located in Kvadraturen, Oslo City centre. The property consists of approx. 3 700 m² office and retail / food & beverage.

Dokkveien 1 — Oslo

Malling & Co Leietakerrådgivning has advised Wiersholm in the renegotiation of their 11 000 m² office at Dokkveien 1 in Oslo.

The office market

Office rental outlook

Rent outlook: limited short-term growth, positive long-term outlook

Key takeaways on the office market — In this section, we delve into the analysis of key market indicators and their anticipated impact on future office rental growth in Greater Oslo. We present important insights regarding the state of the office market and provide a detailed forecast for office rents.

› The robust employment market witnessed in recent years has surprisingly continued into 2023, but there are signs of a turning point as unemployment numbers start to rise marginally.

› The central bank of Norway (NB) predicts a reduction in employment figures throughout 2023 and into 2024, albeit smaller than initially expected in their Monetary Policy Report (MPR) 3/22 and 4/22.

› The positive employment figures bode well for the office market, and we anticipate an increase in demand for office space from 2023 to 2026, but at a slower pace.

› The limited pipeline of new construction projects in Greater Oslo from 2021 to 2024 restricts available space to meet the growing demand. Vacancy levels are projected to decline until 2025.

› High construction costs and increasing yields have led to higher breakeven rents, hindering new construction projects, particularly in fringe clusters where breakeven rents currently exceed achievable market rents.

› The use of home office has not significantly affected the demand for office space, as evidenced by record-high signing volumes in Greater Oslo in 2022 and continued strong volumes so far in 2023. The leasing market remains active.

› There is a high volume of searches for new office space, which is expected to continue over the next few years based on lease expiry profiles, indicating sustained activity in the leasing market. However, due to the increasing price delta between new space and existing space, more tenants are likely to re-negotiate their contracts over the coming years.

› Favourable factors such as a strong employment market, low vacancy rates, sustained office demand despite remote working, high search activity, and increasing breakeven rents suggest a potential increase in rental prices.

› However, tenants' focus on cost reduction due to inflation, energy costs and weaker economic outlook may lead to a reluctance in accepting a significant increase in rental costs when moving or extending their lease.

› We anticipate close to zero rental price growth in Greater Oslo in the coming year, which, in reality, means a decline in real rents, considering the high inflation. If the market remains stronger for longer, the rental increase may be higher than we are expecting in this report.

› In the longer term, given that economic conditions will improve, and with the low vacancy rates expected, several office projects will likely be initiated, driving up the rental price. We forecast a 10 % growth in rental prices from Q2 2024 to Q2 2026.

› The rent forecasts are subject to greater uncertainty than previous years, heavily dependent on the trajectory of the economy. In the event of a recession, it is crucial to acknowledge that rent forecasts are likely to lean towards a more pessimistic outlook.

Our letting agents have reported consistent increases in office rents in Greater Oslo over the past six months. According to our broker consensus, prime rents have experienced an average rise of 4 % across our office clusters, while normal rents have seen a 3 % increase. This upward trend can be attributed to strong activity in the leasing market. Looking ahead, we anticipate limited growth potential for office rents in Greater Oslo in the short term, considering the current weakened economic outlook and prevailing uncertainty. Over the next twelve months, we expect rental prices to remain relatively stable across all Greater Oslo clusters, except for Lysaker, Skøyen, and Bjørvika. It should be noted that our forecast is for average signed leases, not taking into account any shifts in quality. Since we expect the share of re-negotiated contracts, which are typically cheaper than new contracts, to increase, landlords may see rental uplifts, despite a relative flat market according to our measurements. In the consecutive 24-month period from Q2 2024 to Q2 2026, we anticipate an improvement in economic conditions and a subsequent increase in rents. Most clusters are forecast to experience a nominal 10 % rise in rents, with some exceptions. It is important to acknowledge that these forecasts are subject to high uncertainty given the economic climate.

A significant challenge faced in today's market is higher construction costs and increased yields, which means that landlords have to demand higher rents to break even in projects. However, whether the asking price is obtainable is up to the market to decide. Many tenants, who are currently facing financial constraints, are reluctant to pay such steep rents, especially in the fringe zones. It is, therefore, important to note that our broker consensus represents rents that we believe are realistically achievable in the market, rather than breakeven rents for projects yet to be initiated.

› Normal rents reflect the period in which most contracts are signed in the specific area.
› Prime rent is the consistently achievable headline rental figure relating 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 are signed within the reporting period. It is important to note that prime rents do not signify the breakeven rents required to initiate a project; rather, they reflect the actual achievable rent in the market. One-off deals that do not represent the market are discarded.

Office rent forecast

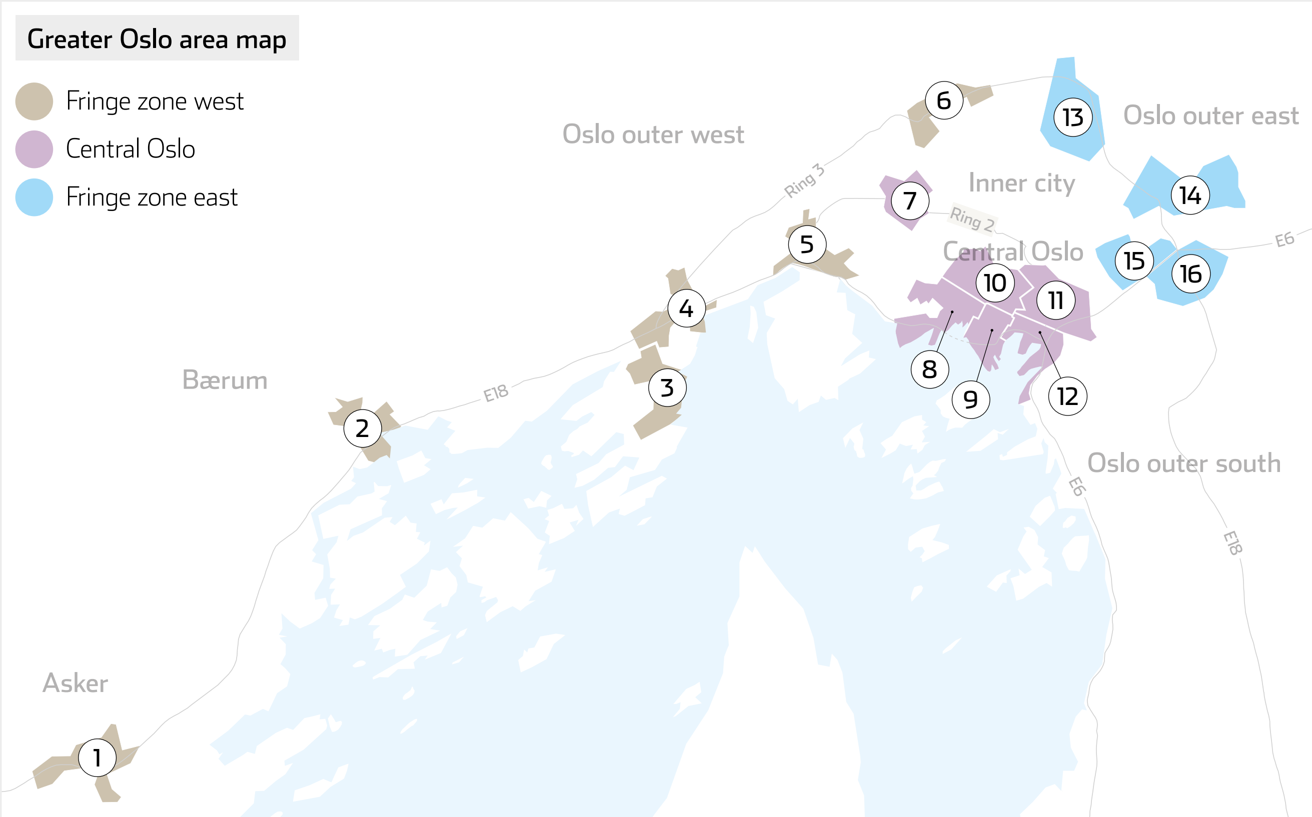
Highly uncertain | Uncertain | Fairly certain

Office cluster	Change Q2 2023 – Q2 2024	Change Q2 2023 – Q2 2026
Asker	0 %	5 %
Sandvika	0 %	10 %
Fornebu	0 %	15 %
Lysaker	10 %	15 %
Skøyen	5 %	15 %
Forskningsparken / Ullevål	0 %	5 %
Majorstuen	0 %	10 %
CBD	0 %	15 %
Kvadraturen	0 %	10 %
Inner city	0 %	10 %
Inner city east	0 %	10 %
Bjørvika	5 %	15 %
Nydalen	0 %	10 %
Økern	0 %	10 %
Helsfyr / Ensjø	0 %	10 %
Bryn	0 %	5 %
Oslo total	**0 %**	**10 %**

A selection of the latest lease contracts

Tenant	Moving to address Office cluster	Moving from address Office cluster	Space m² (rounded)
OsloMet (renegotiation)	Campus Frydenlund Inner city	Campus Frydenlund Inner city	90 000
Equinor (renegotiation)	Martin Linges vei 33 Fornebu	Martin Linges vei 33 Fornebu	44 700
Deloitte (renegotiation)	Dronning Eufemias gate 14 Bjørvika	Dronning Eufemias gate 14 Bjørvika	15 000
Wiersholm (renegotiation)	Dokkveien 1 CBD	Dokkveien 1 CBD	12 000
Kredinor	Sjølyst Plass 1-3 Skøyen	Rådhusgata 27 Kvadraturen	7 200
NHST Media Group (renegotiation)	Christian Krohgs gate 16 Inner City East	Christian Krohgs gate 16 Inner City East	7 000
Norwegian Directorate of Education and Training (renegotiation)	Schweigaards gate 15B Inner City East	Schweigaards gate 15B Inner City East	6 000
Accenture	Rådhusgata 27 Kvadraturen	Rolfsbuktveien 2 Fornebu	5 300
Orange Business Services	Økern Portal Økern	Nydalen Allé 37 Nydalen	5 000

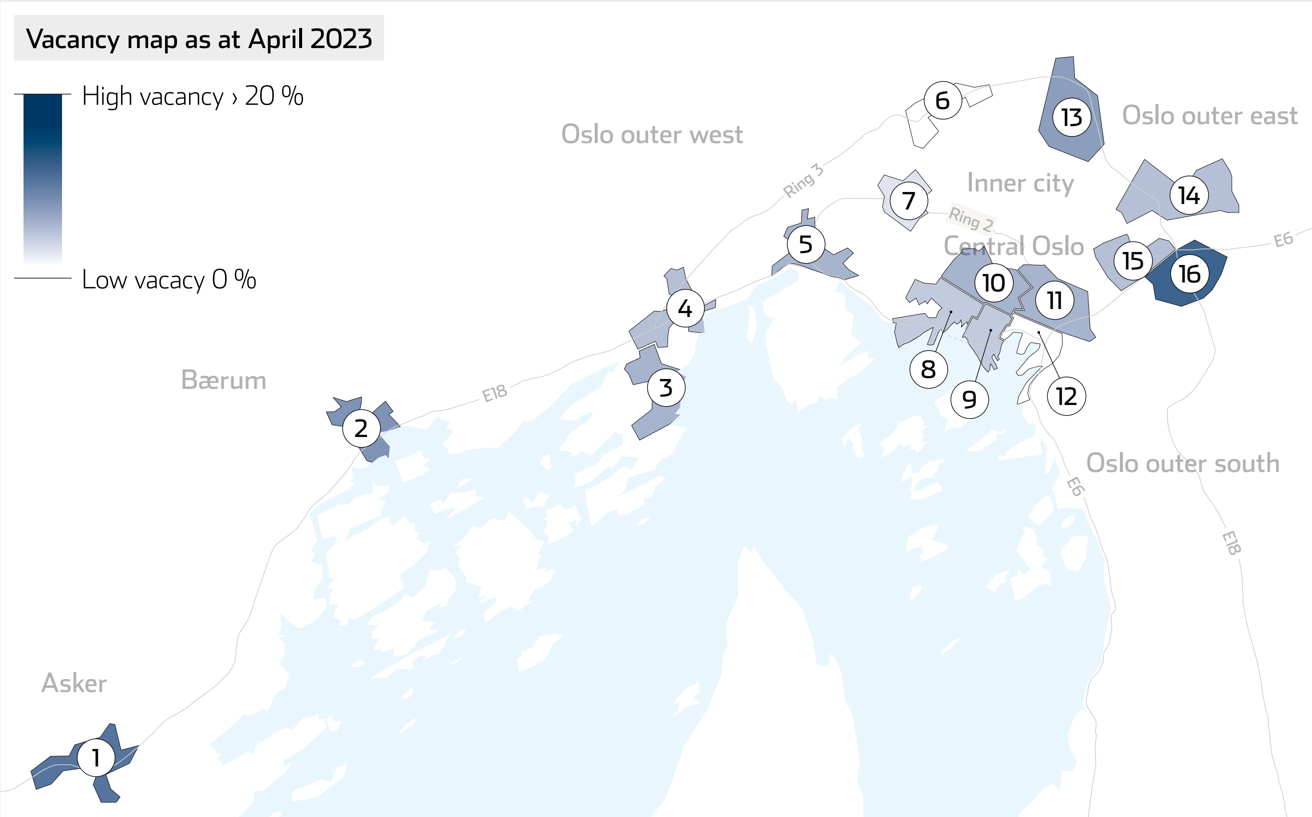
Greater Oslo area map



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

	Office cluster	Prime rent*	Past 12 months change (Prime rent)*	Normal rent*	Past 12 months change (Normal rent)*
1	Asker	2 200	2 %	1 700 – 1 900	6 %
2	Sandvika	2 500	9 %	1 700 – 2 000	12 %
3	Fornebu	2 500	9 %	1 800 – 2 100	18 %
4	Lysaker	2 800	12 %	2 200 – 2 500	11 %
5	Skøyen	4 200	8 %	3 000 – 3 500	10 %
6	Forskningsparken/Ullevål	2 800	4 %	2 100 – 2 500	7 %
7	Majorstuen	4 000	16 %	2 800 – 3 200	18 %
8	CBD	6 300	5 %	4 200 – 5 200	12 %
9	Kvadraturen	4 750	19 %	3 200 – 4 000	11 %
10	Inner city	4 600	8 %	3 000 – 3 800	6 %
11	Inner city east	3 700	6 %	2 700 – 3 200	16 %
12	Bjørvika	5 400	4 %	3 800 – 4 600	8 %
13	Nydalen	2 700	0 %	2 100 – 2 400	2 %
14	Økern	2 500	2 %	1 700 – 2 250	13 %
15	Helsfyr/Ensjø	2 650	6 %	2 000 – 2 250	4 %
16	Bryn	2 300	10 %	1 800 – 2 050	5 %

*See definition of prime and normal rents on page 16. 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 and new construction

	Office cluster	Vacancy	Past 12 months change (Vacancy)	New construction: 3-year pipeline (Confirmed)
1	Asker	12 %	-4 %	7 500
2	Sandvika	9 %	8 %	17 000
3	Fornebu	6 %	-1 %	30 000
4	Lysaker	5 %	2 %	5 500
5	Skøyen	6 %	-2 %	11 300
6	Forskningsparken/Ullevål	0 %	-2 %	2 300
7	Majorstuen	2 %	0 %	25 100
8	CBD	4 %	-2 %	1 800
9	Kvadraturen	4 %	-2 %	10 000
10	Inner city	6 %	-1 %	51 400
11	Inner city east	6 %	1 %	23 400
12	Bjørvika	0 %	-1 %	5 900
13	Nydalen	8 %	-1 %	4 500
14	Økern	5 %	-3 %	88 100
15	Helsfyr/Ensjø	5 %	1 %	46 000
16	Bryn	14 %	0 %	9 900

Source: Malling & Co, FINN.no

Indicators for office demand
Improved outlook for the office market, no bust expected

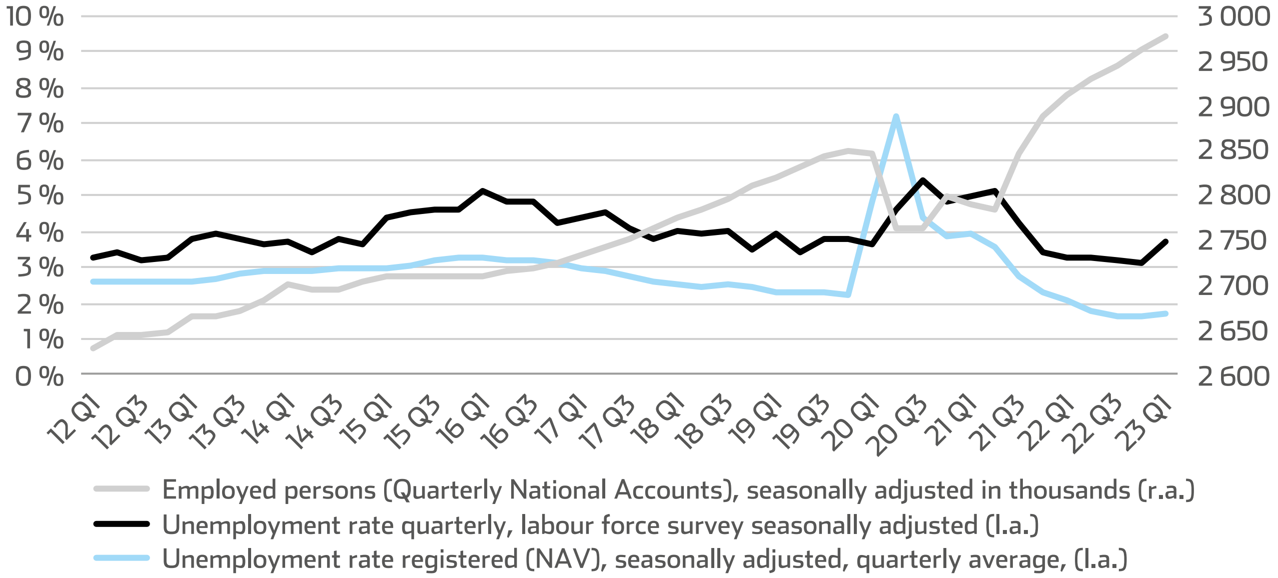
The employment landscape continues to defy expectations, with a steady rise in the number of employed and just a slight increase in the unemployment rate up to a normal low level. Nevertheless, the most recent employment data suggests that we may be standing at a critical juncture. The Norwegian Welfare Administration (NAV) has reported a rise in unemployment rates alongside a decrease in available job opportunities throughout the start of 2023. The Labour Force Survey (LFS), conducted each month by Statistics Norway (SSB), also indicates a slight increase in the unemployment rate for Q1 2023, but attributes this to more young people seeking part-time employment. SSB's data reveals a rise in vacant positions, indicating that the employment market remains robust. In any case, the NB has revised its future employment projections, now anticipating a much smaller decline than initially predicted in both MPR 3/22 and MPR 4/22. This revision augurs well for our office demand forecasts, as we predict that demand for office spaces in Greater Oslo will increase each year from 2023 to 2026. Notably, the search activity for office premises in 2023 remains robust and these levels are expected to persist at least until 2026.

Unemployment rates have increased, but is it really a shift in trend?

After experiencing a significant decline in the unemployment rate from Q3 2020 to Q3 2022, the trend has now reversed, as indicated by seasonally adjusted figures from the Labour Force Survey (LFS). While the unemployment rate stood at 3.2 % in Q3 2022, it has increased to 3.7 % in Q1 2023. This shift in trend has been anticipated for some time, given the ongoing tightening of macroeconomic conditions and the increasing key policy rate. NB's aim is to moderate the employment market to prevent an inflationary spiral caused by rising prices and wages. The registered unemployment figures from the Norwegian Labour and Welfare Administration (NAV) confirm the trend observed in the LFS data, although to a lesser extent. The unemployment rate has remained stable at 1.7 % since June 2022, apart from only two months (Aug.-Sep.) when it dropped briefly to 1.6 %, before reaching 1.8 % in April 2023. NAV also reports a monthly decrease in the number of vacant positions throughout this year, indicating a somewhat weaker outlook for the employment market.

On the one hand, the LFS, being based on survey responses, is likely to capture shifts in the unemployment trend more quickly than register-based employment statistics. On the other hand, SSB reports that the increase in the unemployment rate is primarily due to more young people seeking part-time jobs and that the proportion of people losing their jobs is not higher than normal. Additionally, SSB's statistics indicate that the percentage of available positions has reached an all-time high since 2010, standing at 4.1 %. This suggests that the labour market remains tight. In fact, according to the quarterly national accounts (seasonally adjusted), the number of employed continued to rise in Q1 2023, increasing by 0.5 % compared to Q4 2022. This growth rate is consistent with the increases observed from Q2 2022 to Q3 2022 and from Q3 2022 to Q4 2022, so as yet there are no signs of employment growth slowing down.

Unemployment rate – registrered (NAV) and Labour Force Survey (LFS), and employed workforce (LFS), 2012-2023

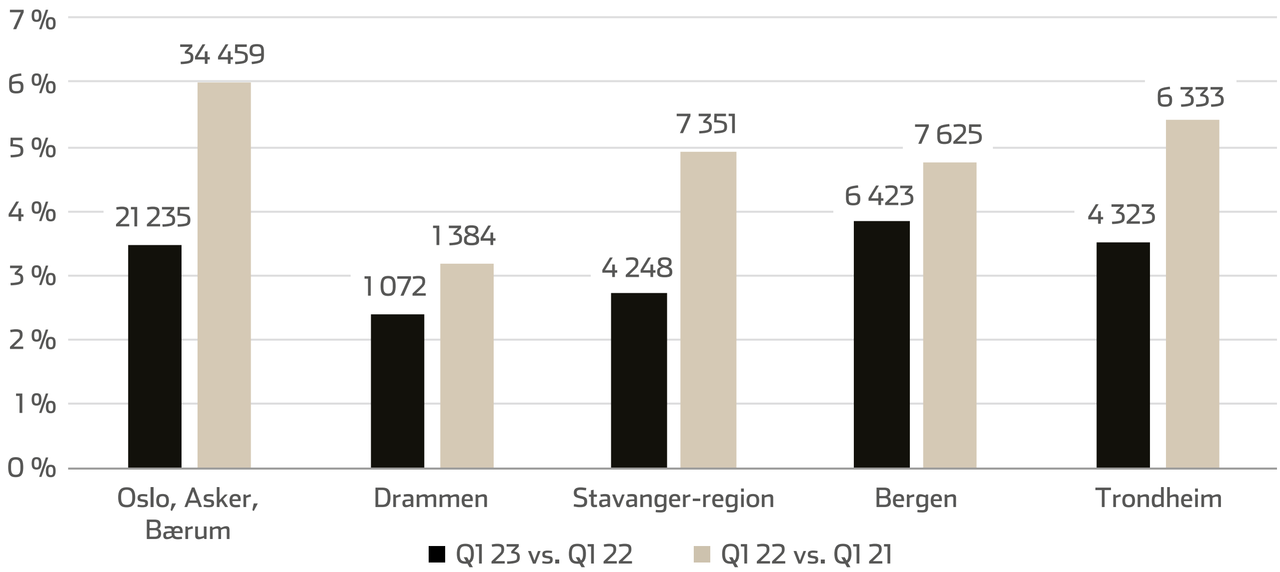


Source: NAV (Norwegian Labour and Welfare Administration), Statistics Norway

Continued high employment growth throughout 2022, although not as strong as 2021

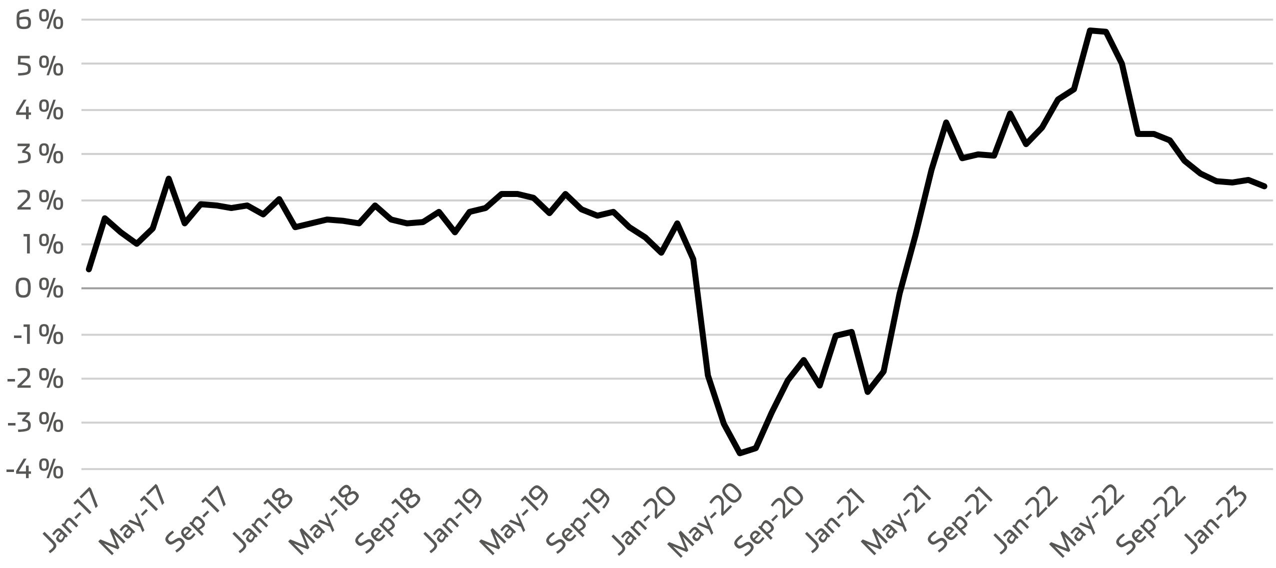
Over the past year, employment has grown in all major cities, although not as strongly as from Q1 2021 to Q1 2022. 2021 was a year of strong recovery from the Covid-19 pandemic, and while this trend continued into the beginning of 2022, it tapered off towards the end of the year and into 2023. The strongest relative growth from Q1 2022 to Q1 2023 was seen in Bergen, where employment grew by 3.7 %. Oslo and Trondheim both experienced growth of 3.5 %, while the Stavanger region saw a growth rate of only 2.7 %. This was unexpected given the strong surge in the energy sector over the last year. Although there was strong year-on-year growth in Stavanger in Q1, Q2 and Q3 2022, at 4.9 %, 5.5 %, and 4.1 % respectively, growth slowed from Q4 2022. The 2.7 % growth in the Stavanger region from Q1 2022 to Q1 2023 is still stronger than the average for Norway, at 2.6 %.

Four-quarter change in wage earners per city-area (%-change)



Source: Statistics Norway

12 months rolling change in wage earners Norway, %, (preliminary numbers)



Source: Statistics Norway

Optimistic outlook for Norway's employment market and office demand forecast

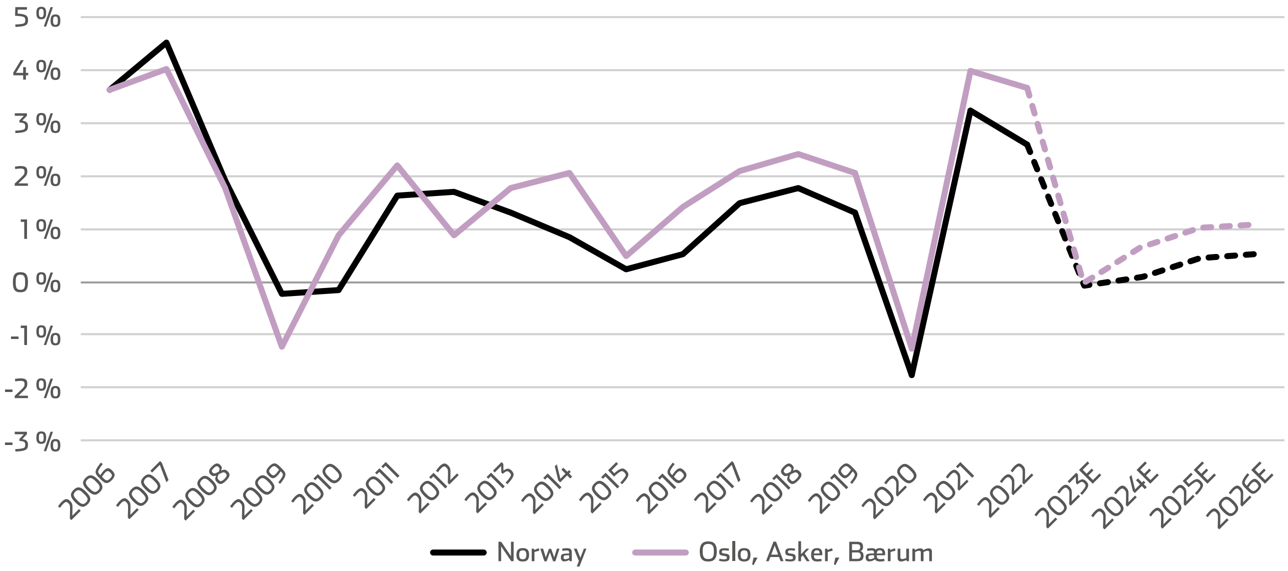
The employment market in Norway has defied expectations, surpassing the sluggish projections of NB, which is aiming to ease inflationary pressure at the cost of higher unemployment. Despite the central bank's anticipation of employment peaking in Q3 2022, as stated in Monetary Policy Report (MPR) 3/22, employment numbers have continued to rise into 2023. In MPR 4/22, the central bank predicted that employment would peak in Q4 2022, and in MPR 1/23, the projected peak was shifted to Q1 2023. Actual numbers for Q1 have overshot these expectations once again. It remains to be seen whether this positive trend in employment will persist. Current wage settlements and the strong employment provide greater leeway for the central bank to defy high inflation and increase rates even more.

There are signs that the trend is weakening with increasing unemployment and a decline in vacant job positions. Specifically, occupational groups in construction, office work and academia have experienced a decrease in demand for manpower over the past year, according to NAV. On the other hand, SSB which conducts the Labour Force Survey, reports increasing unemployment rates, but attributes them to factors other than a weak employment market. This conflicting information from different sources and the different methods in gathering data makes it difficult to determine whether a turning point has truly been reached. Regardless, considering the current tightening of the monetary policy, employment growth will inevitably need to slow down.

Looking ahead, NB has revised its projections for the employment rate, significantly reducing the expected decline forecast in MPR 4/22. Previously, the central bank anticipated a decrease in the employment rate of 1.5 % from Q4 2022 to Q4 2023. However, in MPR 1/23, the revised forecast indicates a smaller decline of 0.3 %. It is expected to bottom out in Q1 2024, followed by a gradual increase in the rate from Q4 2024, eventually reaching today's levels by Q1/Q2 2025. Consequently, the central bank now anticipates a softer landing for employment following the recent increase in interest rates. SSB also projects employment growth for the coming years, with year-on-year growth rates of 0.6 %, 0.1 %, 0.2 %, and 0.4 % in 2023, 2024, 2025, and 2026, respectively. Our employment forecasts for Oslo, Asker, and Bærum are based on the national trend, albeit adjusted for higher volatility as seen historically. As a result, the Oslo region is expected to experience stronger overall growth during the period 2023 to 2026.

Based on our outlook for employment activity, we expect increased demand for office space in the Greater Oslo area over the 2023-2026 period. The forecast assumes that there is a historical lag between fluctuations in employment and the demand for office space, taking into account factors such as contract length and available space in current contracts. The net demand for office space is estimated to increase by approximately 102 000 m² in 2023, 166 000 m² in 2024, 96 000 m² in 2025, and 37 000 m² in 2026. However, sudden changes and disruptions to the leasing market could affect the timing and distribution of this additional demand going forward. Please see our office vacancy forecast for Oslo on page 34.

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



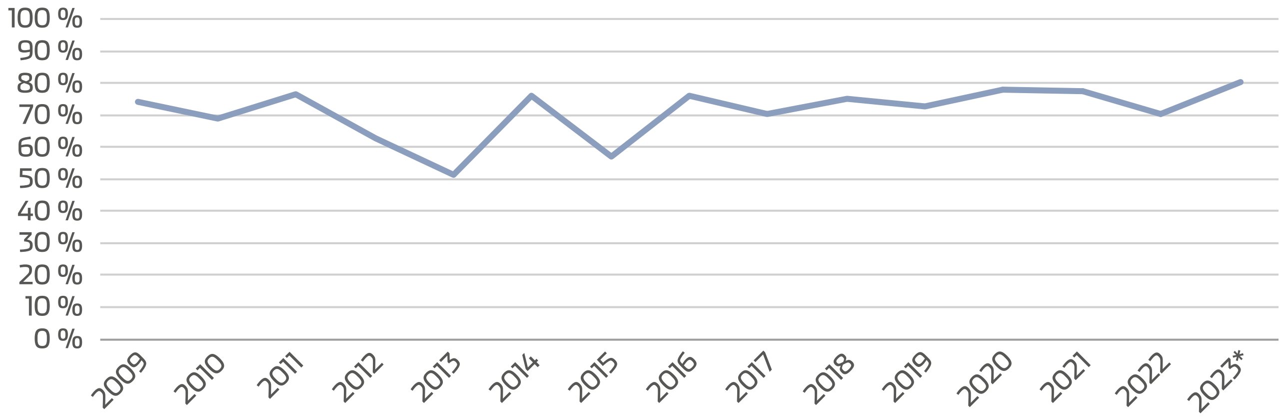
Source: Statistics Norway

Searches still high for office premises, although the average size is smaller

In 2022, the office space market in Greater Oslo experienced a surge in search activity, setting a new record in terms of the number of searches conducted. While the total area volume of approximately 223 000 m² was slightly lower than the previous year's 270 000 m², the number of searches increased from 139 in 2021 to 148 in 2022. This indicates continued strong activity in the leasing market, albeit with a trend towards smaller average-sized searches. While the average size of an office search between 2009-2023 was 2 100 m², the average size was only 1 500 m² in 2022. This could be explained by a high number of leases expiring in 2023. Typically, the average time between initiating an office search and moving into the premises is shorter for smaller spaces, meaning there would naturally be many smaller searches initiated in 2022. There are still contracts expiring in 2023 that are yet to be signed, and as of 15 May, the average size of an office search in 2023 remains at 1 500 m².

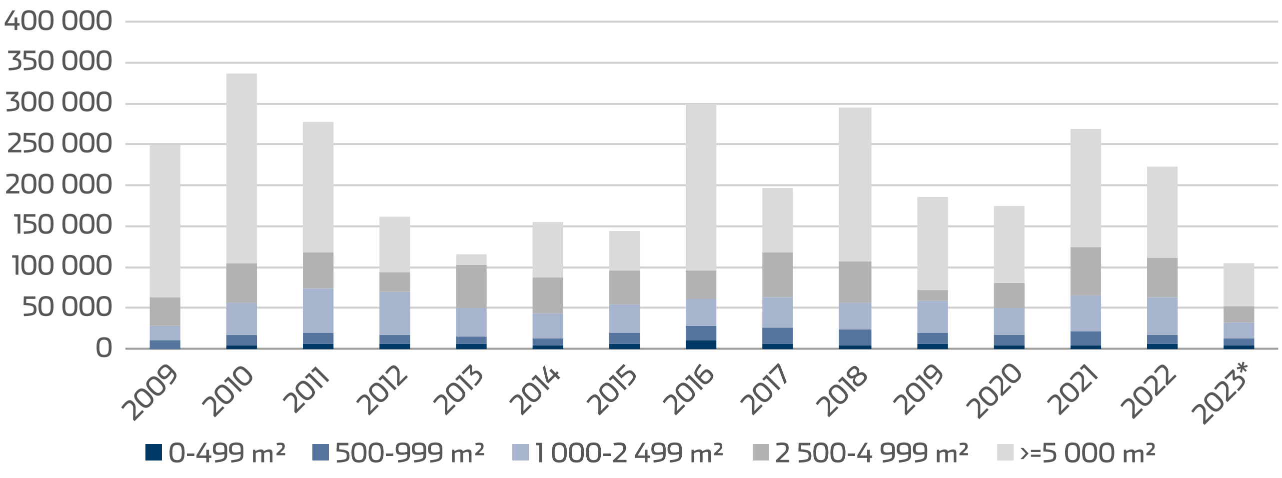
Search activity in 2023 has maintained its robustness, comparable to the levels seen in 2022. As of 15 May, the search volume had reached around 104 000 m² across 70 contracts, demonstrating a steady level of interest in the market. This is in line with the search volume recorded as of 13 May 2022, which stood at approximately 100 000 m² across 75 contracts. Notably, a few large searches have significantly contributed to the overall volume, with companies like Storebrand, Vest Politidistrikt, and Yara driving up the numbers. In terms of location preferences, there has been an increase in the share of tenants searching for centrally located offices in 2023, rising from 70 % in 2022 to 80 %. This suggests that central locations continue to hold high value for businesses. However, it remains to be seen whether companies will need to move out of the city centre due to the strong increase in rental prices for centrally located premises over the last year and the weaker economic outlook.

Share of demand for central Oslo office clusters (2009-2023*)



*As of 15 May 2023. Source: NEMEET, Malling & Co

Office searches registered in Greater Oslo (2009-2023*)



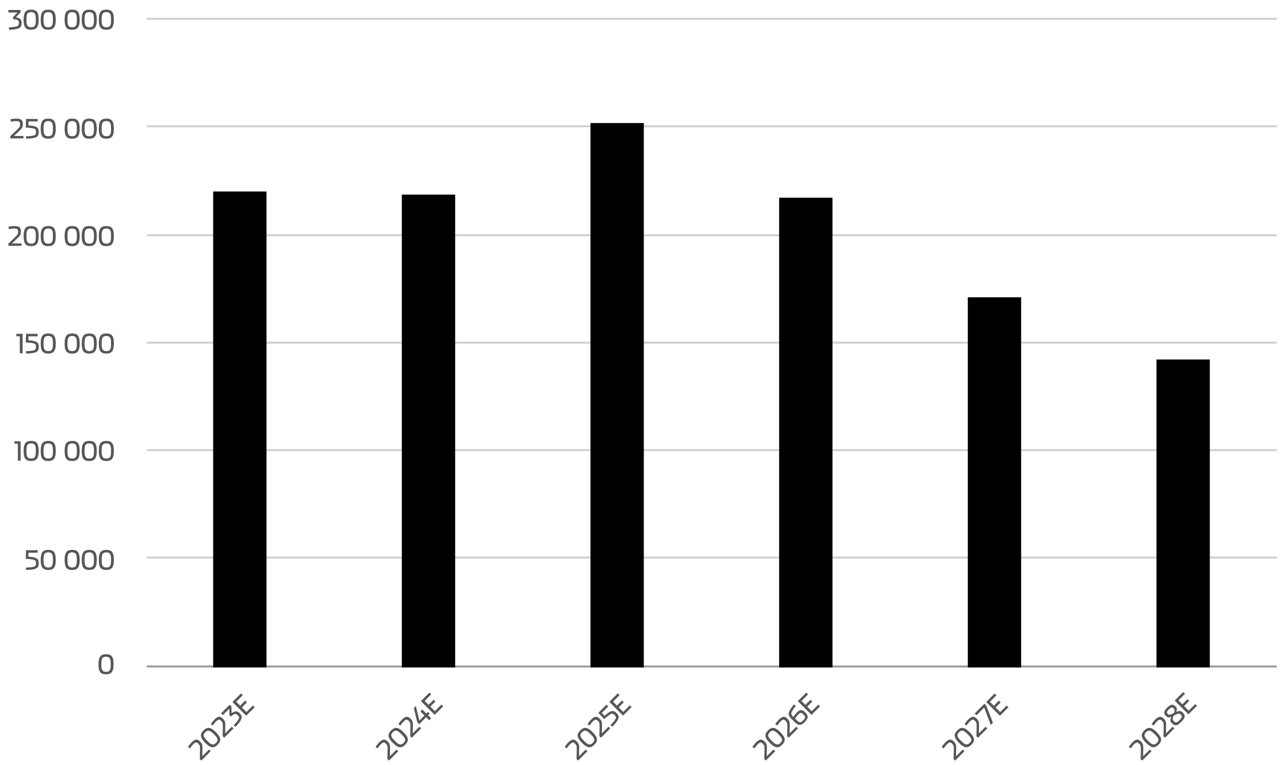
*As of 15 May 2023. Source: NEMEET, Malling & Co

High demand for larger office space in Greater Oslo, but limited availability

The estimated demand for office premises in Greater Oslo, specifically for larger tenants requiring 5 000 m² or more, is projected to remain consistently high from 2023 to 2026, surpassing 200 000 m² annually. This demand forecast is based on an analysis of the expiry profiles recorded, along with data on the time to market sourced from our comprehensive search database. In this context, demand refers to tenants approaching the market or their current landlords to either extend existing leases or relocate to new properties. A peak in demand is expected in 2025, surpassing 250 000 m². This surge is attributed to a relatively high expiry profile in 2025, reaching 232 000 m² for tenants who will be requiring more than 5 000 m² of office space. However, the peak is primarily driven by an exceptionally high expiry profile in 2027, reaching 342 000 m². Historical data indicates that more than 40 % of tenants requiring over 5 000 m² typically begin the search process at least two years prior to their move-in date. Consequently, many of the tenants with leases expiring in 2027 will initiate their search in 2025 or earlier. For the years 2027 and 2028, our demand profile declines to approximately 171 000 m² and 143 000 m², respectively. It's worth noting that estimates further into the future may lean towards the conservative side, as expiry dates tend to shift closer to the target year over time.

Currently, there are limited options available for larger tenants in Greater Oslo, particularly in the highly sought-after city centre. This scarcity is a result of restricted construction activity. In the fringe zone, increasing yields and high construction costs pose significant challenges, as breakeven rents exceed the market rent in most fringe office clusters. Consequently, securing rental agreements between landlords of new construction projects and tenants has become exceedingly difficult. The scarcity of available options both in the city centre and the fringe zone leads us to hypothesise that fewer tenants will actively seek the market in the near future. Instead, they are more likely to focus on renegotiating their existing rental agreements, a trend that has already been observed with companies like Equinor, Deloitte, and Wiersholm. We also believe that landlords will seek to keep and upgrade existing buildings if possible to reduce costs and maintain a healthy project margin at rents lower than breakeven rents for newbuilds.

Estimated aggregated demand from >5 000 m² tenants*



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

Dronningens gate 16

Malling & Co Eiendomsutvikling is managing the project Cinemateket at Dronningens gate 16 in Oslo on behalf of Dronningens gate 16 AS. Currently nearing completion, the main measures consist of renovating existing buildings. The total number of square meters at full development will be approx. 4 500 m².

Construction activity in Greater Oslo

Challenges to future construction activity due to increasing breakeven rents

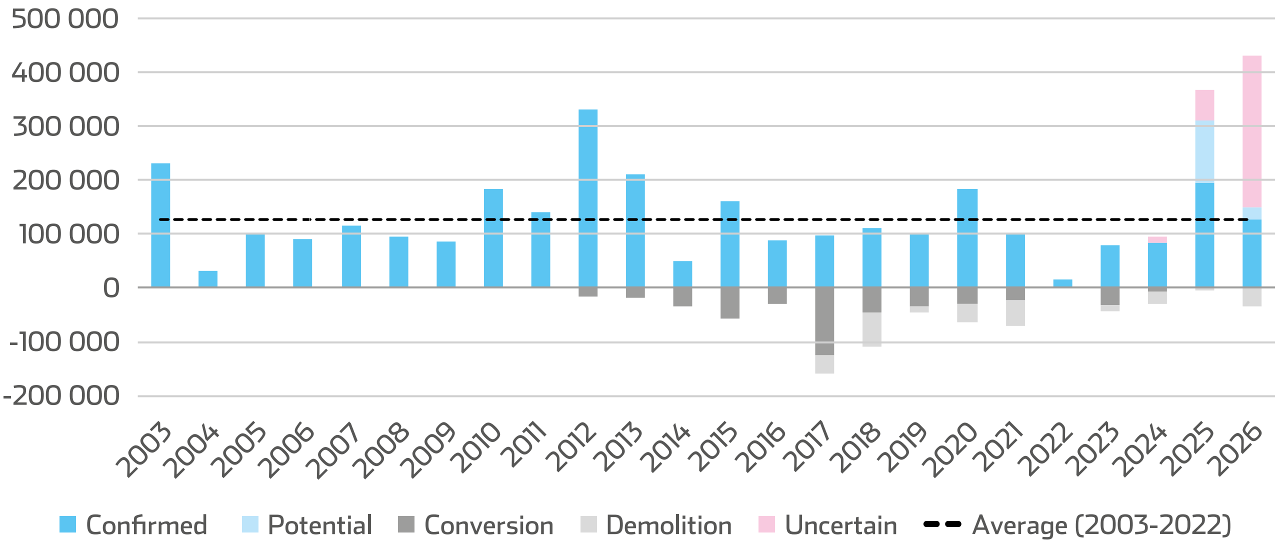
Due to the pandemic and rising construction costs, construction activity is currently at a historic low. This trend is expected to continue through 2022-2024, with new office space added each year remaining well below the 20-year average. However, there is potential for a significant increase in construction activity starting in 2025 and beyond. Despite this potential, current market conditions pose a risk to future construction, as increasing yields and construction costs make it challenging to break even, given current market rents. As a result, we may see more reuse of existing buildings and renegotiation of rental agreements in the future.

An overview of new construction in Greater Oslo

The current period is characterised by a dearth of new office spaces entering the market. This situation can be attributed to two key factors. Firstly, the pandemic-induced delays in zoning processes and decisions among developers and tenants have significantly slowed down the development of new properties. Secondly, the ongoing surge in construction costs has forced many developers to put their projects on hold. Last year, the market saw a minimal addition of 16 400 m², with Gullhaug Torg 5 and Hasle Tre being the only new entries. While the confirmed volumes for 2023 and 2024 remain around 80 000 m² as in our last report in November 2022, most of the potential and uncertain volumes have been put on hold or postponed, limiting the upside potential. The 2023 and 2024 construction volumes are therefore expected to remain below the last 20-year average of approximately 125 000 m². Some of the significant upcoming projects include Aker Tech House and Fridtjof Nansens vei 12 in 2023 and Veksthuset and Valle Vision in 2024.

In 2025, construction activity is expected to experience a significant increase, with a confirmed volume of 195 000 m². This year, several large projects are expected to be completed, such as Construction City (78 000 m²), stage 1 of the new governmental quarter (46 800 m²) and Helgerudkvartalet (17 000 m²). There are also around 170 000 m² of uncertain projects that could contribute to further boosting construction activity in 2025. However, there is a risk that some of the projects currently planned for completion this year may be delayed. For 2026, the above-average trend is expected to continue, with 127 000 m² already confirmed and another 300 000 m² of uncertain volume in the pipeline. The eastern fringe zone presents the largest upside potential.

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



Source: Malling & Co, PBE, Byggfakta

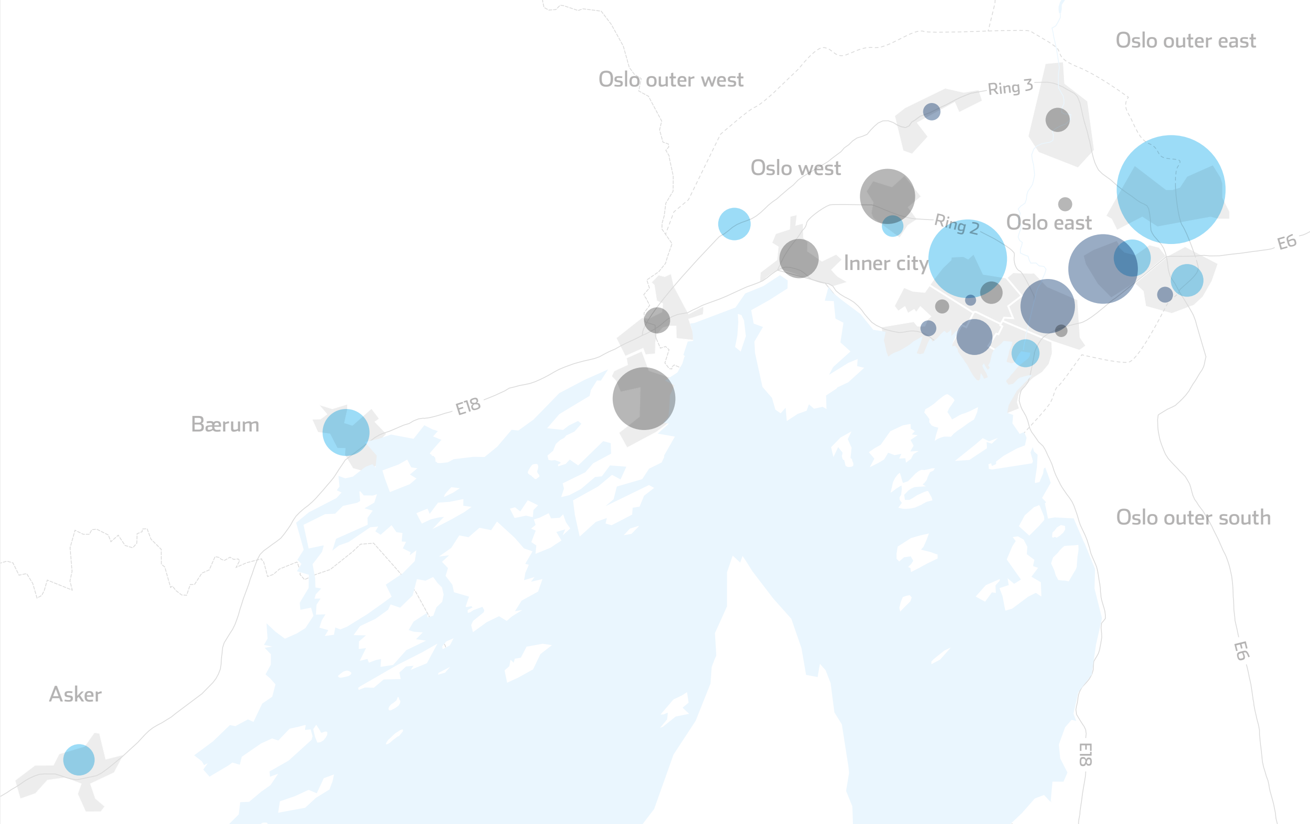
Project definitions — Confirmed volume includes all new constructions that are zoned and will be initiated either because they have secured a sufficient tenant base or because they will build on speculation. The potential volume includes all projects that are zoned and which we deem likely to be able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

Short-term construction activity

Over the 2023-2025 period, roughly 1/3 of the confirmed volume will be added to the city centre clusters, about 25 % to the western fringe zone and about 45 % to the eastern fringe zone. While the western fringe zone is dominating the completion of newbuilds in 2023, the eastern fringe zone is taking over as the dominating area with completions in 2024 and 2025. It is worth noting that the timing of upcoming projects, particularly the less certain ones, is at significant risk due to current market conditions. It is becoming increasingly difficult to ensure that a new project can break even with rising yields and rents. Presently, only projects in the city centre are economically viable based on current market rents. Furthermore, there is very little space available in the city centre for new office buildings, and as such, most new construction projects are concentrated in the fringe zones.

While new office space construction is experiencing a slowdown, the refurbishment of existing office buildings is on the rise. In 2022 alone, 80 000 m² of office refurbishments were completed, and there are even larger projects in the pipeline for 2023 and 2024. Specifically, 124 000 m² of office refurbishments are expected to be finalised in 2023, while 112 000 m² are slated for 2024. Given the current market conditions, we anticipate that numerous developers who have acquired existing spaces with plans for demolition and new construction will likely shift their focus towards refurbishments. This strategic change is a direct result of the escalating interest rates and construction costs, which have significantly impacted the profitability of new projects compared to refurbishments. By opting for refurbishments, developers can navigate the financial challenges and maximise their returns in the prevailing market environment.

Confirmed new office buildings that will be finalised in 2023-2025, total m²



2023	2024	2025
6 % Vacant*	21 % Vacant*	38 % Vacant*

15 000 m²

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

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

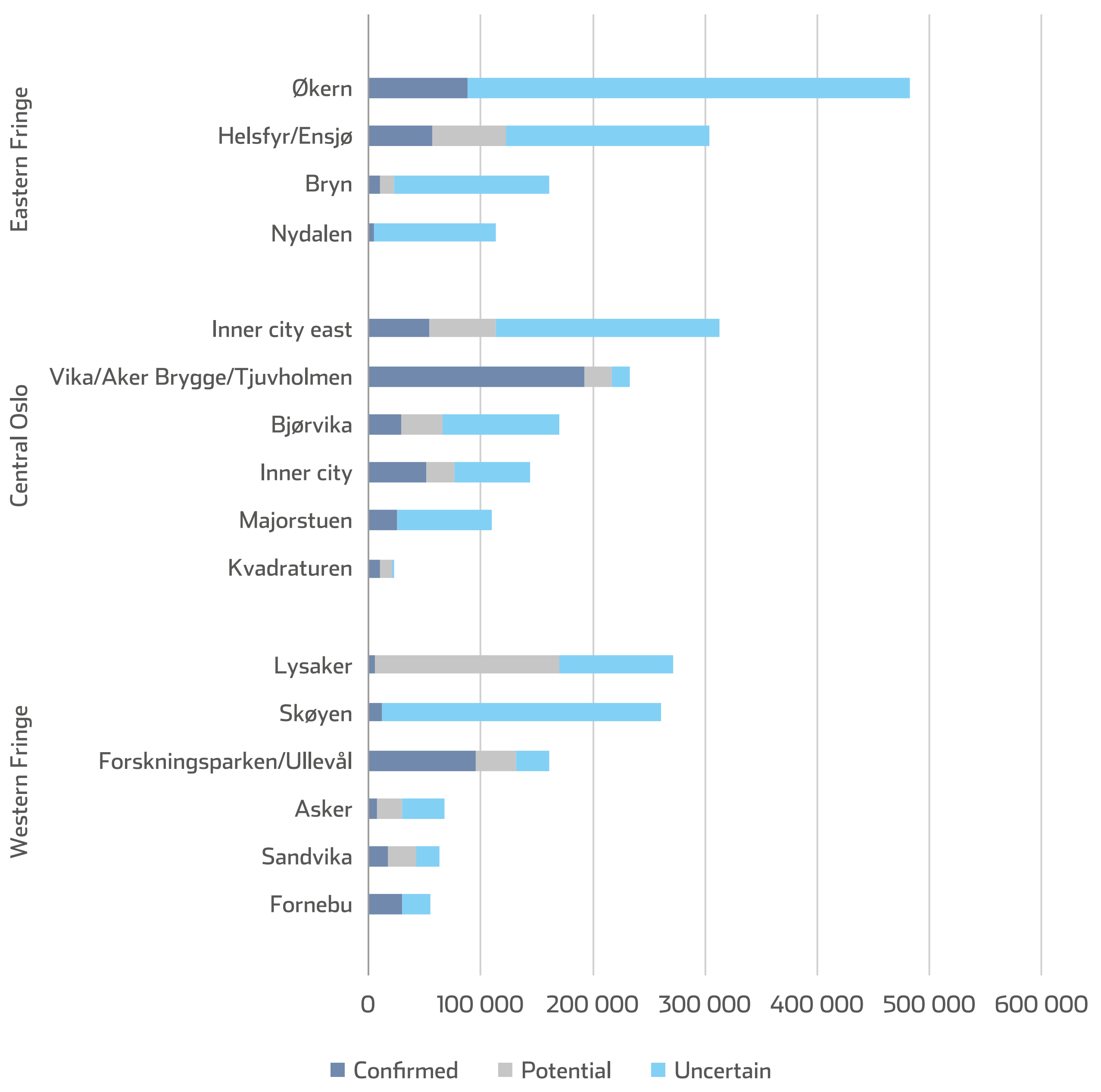
Long-term construction activity by geography

When considering the full pipeline of office space projects, including those beyond 2025 and unconfirmed projects, there is a potential for 3 million m² of office space to be added to the market. The eastern fringe zone has the largest potential, accounting for 36 % of the total. Nearly half of this volume is part of the Økern cluster. However, it's crucial to note that close to 80 % of the volume in the eastern fringe zone is uncertain and it remains questionable whether there will be enough demand for office space to completely fill this volume, especially with current breakeven rents. Moreover, many of the planned volumes are replacing existing combined space, which is still in high demand. To optimise the value of these projects, it may be better to maintain properties for combination purposes, carry out some minor upgrades, and attract top rent tenants in this segment, rather than erecting a plain office building. Given the recent development in construction costs and interest rates, this AS-IS strategy becomes even more attractive for investors.

The city centre is the location of the second largest pipeline of projects. The main project in this area is the revitalisation of Filipstad, which accounts for 20 % of the pipeline and translates to 190 000 m² of new office space. However, this project is far off into the future, with estimated start of construction in 2026 and a development time of 10-20 years. As most of the land in the city centre has already been developed, there is limited space available for adding volume compared to the fringe zone, making refurbishment activity more relevant. Nevertheless, the new high-rise building strategy is well underway and expected to be completed in 2024/2025, potentially opening up more space in the city centre. High-rise buildings will be permitted to reach up to a height of 70 metres, 125 metres near Oslo S, with a focus on public transportation hubs. However, a significant challenge with high-rise buildings is the significantly higher construction cost, and therefore, exceptionally high rents would be necessary to make these projects profitable. At the same time, slim structures in high-rise buildings are rarely very attractive in today's office market, at least not for larger tenants. Additionally, high-rise office towers will in most cases comprise so much space, that very few tenants will be large enough to secure a prelease of at least 50 %. Consequently, developers are more likely to resort to speculative construction, where projects are built without a confirmed tenant, making these ventures even more challenging to rationalise and justify financially.

The western fringe zone also shows strong potential for office development, accounting for 30 % of the pipeline. Lysaker is currently undergoing transformation with the construction of a new neighbourhood, Lilleakerbyen, where a total development of 315 000 m² is being considered, including 120 000 m² of office space. This project is estimated to be completed in 2028 at the earliest. The new zoning plan for Skøyen is nearing completion and is expected to accommodate much new construction activity in the area. Forskningsparken is an area that is still under development and Sandvika's eastern part has also just started a larger transformation.

Estimated new construction in Greater Oslo from 2023 split by cluster and status, total m²



Source: Malling & Co

«Given the current market conditions, we anticipate that numerous developers who have acquired existing spaces with plans for demolition and new construction will likely shift their focus towards refurbishments»

Rådhuspassasjen — Oslo

Malling & Co Eiendomsutvikling is managing the project Rådhuspassasjen in Oslo on behalf of Nordea Liv Eiendom. The project is in an early phase where the main measures consist of renovating existing buildings in addition to adding on one floor. The total number of square meters at full development will be approximately 10 860 m².

Campus Ullevål — Oslo

Malling & Co Næringsmegling has been commissioned by NGI and Aspelin Ramm as the advisor for the letting process of Campus Ullevål.

Office vacancy

Resilient employment and vacancy rates expected to decline

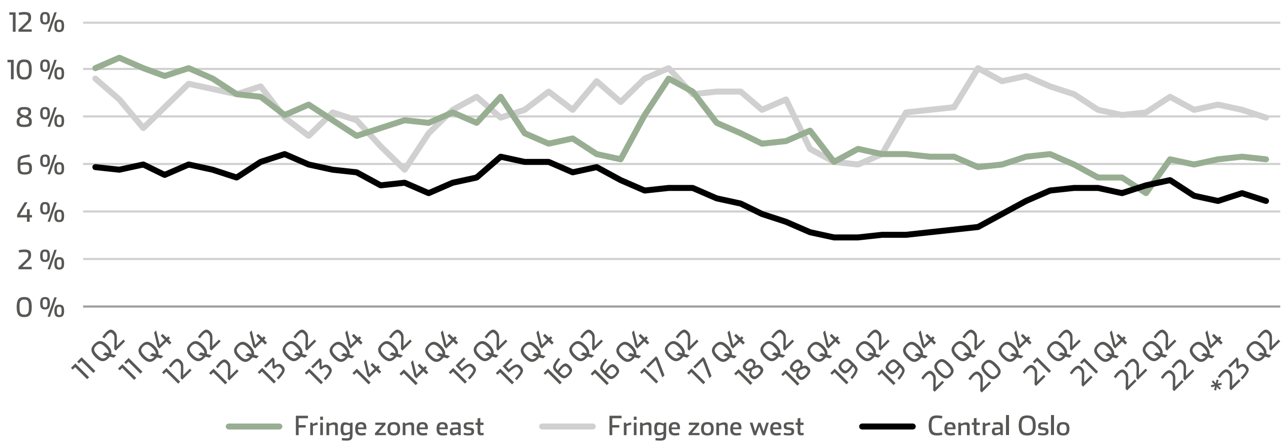
There has been a slight reduction in vacancy rates of 0.1 pp in Greater Oslo since the last market report, driven by the eastern fringe zone. However, the decline is less than what was previously forecasted. One explanation is that companies are starting to be more uncertain about the current macroeconomic conditions. Tech companies, in particular, have revised their growth projections downwards. On the other hand, NB has significantly adjusted its employment forecast upwards since the last market report, suggesting that the decline in employment will become much milder in 2023 than previously anticipated. With minimal construction activity and little addition in terms of new office space, we predict that vacancy rates will continue to decline as the utilisation of existing stock increases.

Vacancy in Greater Oslo

Vacancy rates in Greater Oslo have been steadily declining since Q2 2022. Over the past six months, there has been a small 0.1 pp reduction from 5.8 % to 5.7 %, driven primarily by a decrease in the eastern fringe zone. This area has historically had high vacancy rates, particularly due to large available premises such as Ole Deviks vei 10 and Brynsengfaret 6. However, there has been a recent reduction in vacancy levels at Ole Deviks vei 10, with much of the available area being leased over the past six months. This has been influential for the 0.7 pp decline in overall vacancy rates for the eastern fringe zone.

Since the autumn 2022 market report, the vacancy rates in Central Oslo and the western fringe zone have remained largely unchanged. While some premises in Central Oslo, such as Storgata 51, Grev Wedels plass 9 and Karl Johans gate 37, have been leased, new vacant spaces have emerged at Munchs gate 5, Tjuvholmen Allé 5 and Nedre Vollgate 4. The Kvadraturen and CBD areas have experienced a slight decrease in vacancy rates, while Inner City East and Majorstuen have seen some increases. Overall, vacancy in central Oslo increased from 4.3 % in October 2022 to 4.4 % in April 2023. The vacancy rates in the western fringe zone have seen a slight decrease from 6.5 % to 6.3 % over the same period. The properties available for lease have remained relatively stable, with Snarøyveien 30 (30 000 m²) being a significant contributor. Drammensveien 144 and Drammensveien 151 have been partially leased, leading to a decline in vacancy rates of 2.6 pp in Skøyen. Vacancy levels in Fornebu, Forskningsparken and Sandvika have also slightly decreased, while Lysaker and Asker have experienced an increase in vacancy rates.

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



*As at April. Source: Malling & Co, FINN.no

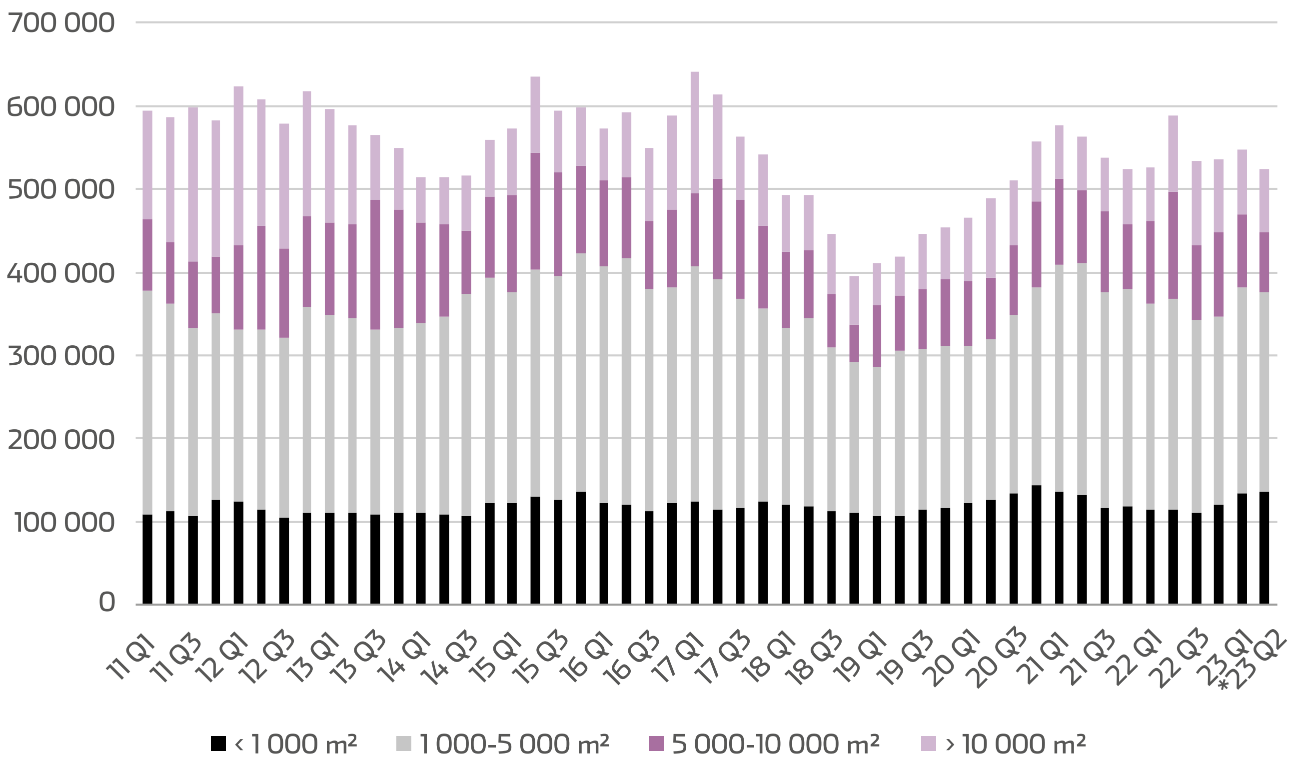
How we measure vacancy and supply — When analysing the supply side of the rental market, we want to describe what is actually available for prospective tenants, not only vacant space. Therefore, we split the total amount of offered office space into two definitions: supply and vacancy. Supply includes 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.

Vacancy and supply in detail

The Greater Oslo office market has experienced a decrease in vacant office space from around 538 000 m² in October 2022 to approximately 524 000 m² in April 2023. This reduction has contributed to the previously mentioned 0.1 pp decline in vacancy rates since the last market report. The decrease is primarily due to a reduction in advertising larger premises, with premises over 10 000 m² reduced by 19 % and premises between 5 000 to 10 000 m² reduced by 22 %. On the other hand, the advertising of small and medium-sized premises has increased, with premises between 1 000 to 5 000 m² increasing by 2 % and smaller than 1 000 m² increasing by 16 %. However, despite this increase, our search data shows no difference in the proportion of searches for premises below 1 000 m² between 2022 and 2023 as of 15 May, with them accounting for 49 % of searches in both years. This suggests that smaller tenants have a broader range of options to consider when deciding on their preferred location.

To clarify, our report distinguishes between two terms: "vacancy", which refers to available space within the next 12 months, and "supply", which encompasses all advertised space, including that available 12 months from now. While the vacancy level is 524 000 m², supply is approximately 631 000 m². This means that supply currently exceeds vacancy by 20 %, which is a decrease on previous years. In 2021, supply was 50 % higher than vacancy on average, while in 2022, it had shrunk to around 30 %. The construction of new office space and large rehabilitations are often advertised well in advance of moving in, thus increasing supply, and since construction activity is currently in a slow phase, the volume available 12 months from now will be more limited.

Vacant office space split by size interval, total m²



*As at April. Source: Malling & Co, FINN.no

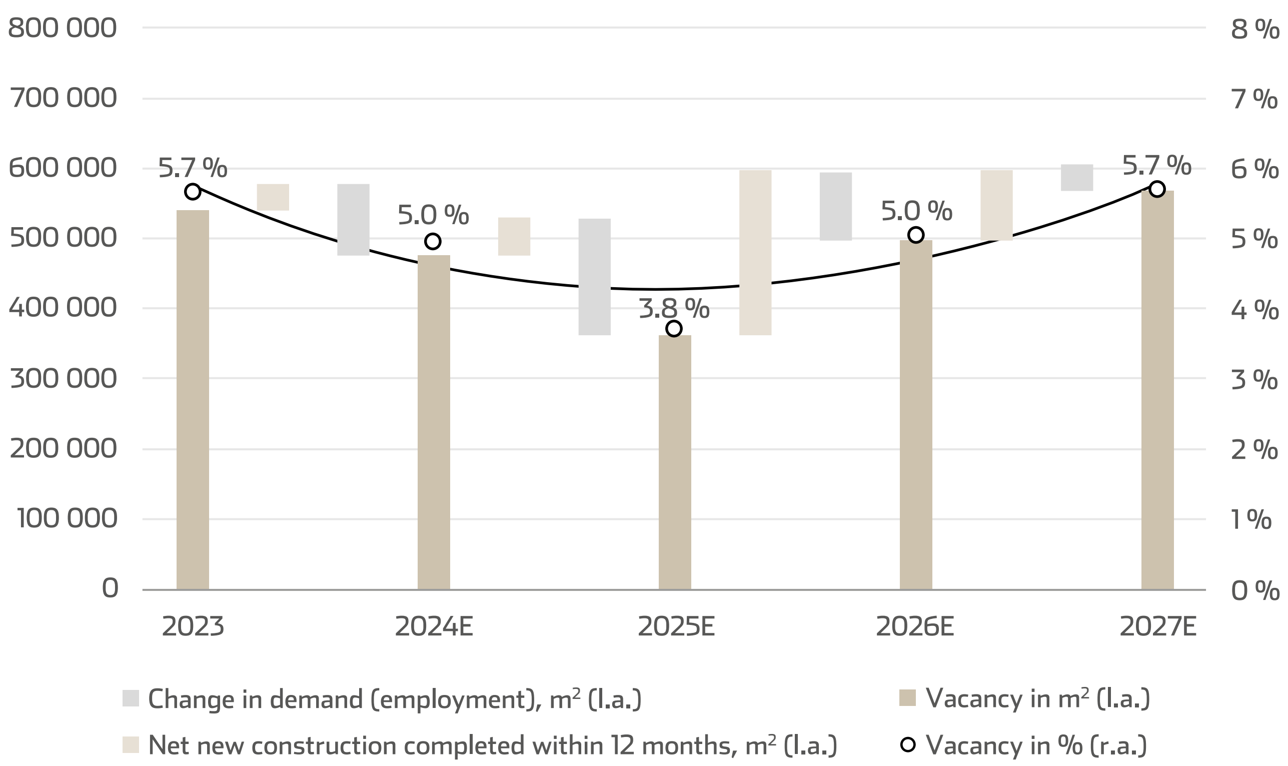
«Vacancy rates in Greater Oslo have been steadily declining since Q2 2022»

Vacancy going forward

When predicting future vacancy rates in the office space market, we use a relatively simple forecasting method based on employment growth and supply pipeline. We start with the current vacancy rate at the beginning of the year and subtract the estimated increase in absorption of office space, and then add the estimated increase in office supply. However, this simplified approach does not take into account other variables that can affect the timing of changes in both employment driven demand, new construction and leasing activity. This makes it difficult to predict with complete accuracy. There is often a delay between companies increasing their employment and their acquisition of additional office space, depending on the current contract and flexibility. We try to account for this lag by spreading out the predicted changes over four years, which has proven to be a reasonable estimation method over time. It's important to remember that this forecast is only an indication of the direction that the vacancy trend may take given current information, and that the timing may change as new information about the employment market becomes available.

The robust employment market observed in recent years provides a strong foundation for continued growth in office demand in the coming years. This positive outlook is further reinforced by NB's most recent employment forecasts, which no longer anticipate a significant decline in employment figures. Combined with limited ongoing construction activity in the office segment, we anticipate a further decrease in vacancy rates, reaching just below 4 % by the beginning of 2025. In 2025, significant new construction projects will be completed, such as Construction City and the first stage of the new governmental quarter. At the same time, the office demand growth from the recent employment surge is expected to stabilise, and we anticipate an increase in vacancy rates. Looking ahead to 2026, we expect a continuation of robust office construction activity and even slower growth in office demand, resulting in a projected vacancy rate of 5.7 % by early 2027.

Estimated vacancy trend in Greater Oslo by year-start



Source: Malling & Co, FINN.no

Lysaker Torg 6-12 — Lysaker

Malling & Co Leietakerrådgivning has advised Intrum in their 4 948 m² relocation to Lysaker Torg 6-12.

Stavanger

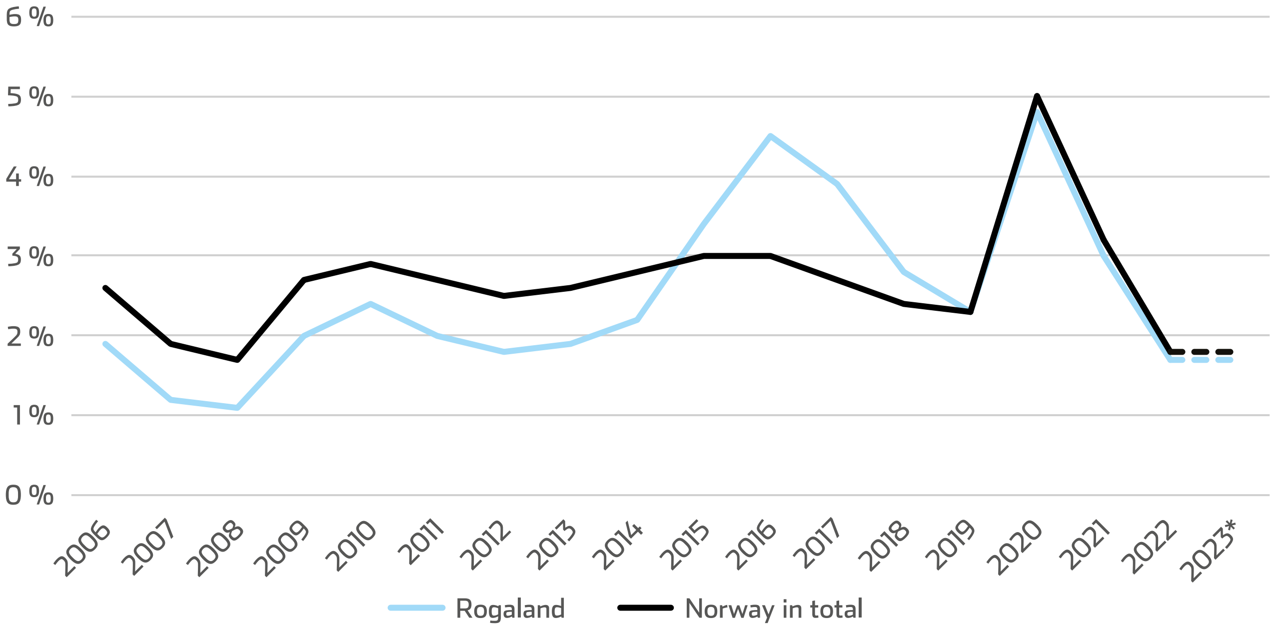
A thriving office market in Stavanger

The Stavanger office market is thriving, thanks to its significant presence in the energy sector, in addition to very low unemployment rates. Lease contracts are being signed, vacancy rates are decreasing, and there are signs of rent stabilisation at a new and higher level. There are many construction projects in the pipeline in the region, with several well underway and filling up. A significant surge in project completion is expected in 2025. However, there are also many projects that have made limited progress in the past six months due to rising interest rates and high construction costs, making it difficult for projects to break even and stay competitive in relation to existing vacant space. Nevertheless, this situation with the market hindering construction may serve as a positive aspect, preventing a prolonged period of high vacancy rates as seen in the aftermath of the 2014 oil price downturn. Overall, the Stavanger office market is currently healthy and its strong foothold in the energy sector positions it for continued economic growth.

Low unemployment rates reflect a strong energy sector

Unemployment rates in Rogaland have remained consistently low in 2023, aligning with the national trend in Norway. In 2022, the average unemployment rate stood at 1.7 %, marking the lowest average since 2008. Our previous market report in autumn 2022 highlighted exceptionally low unemployment rates of 1.5 %. Since then, there have been slight upward adjustments, reaching 1.6 % in November-December, 1.8 % in January and stabilising at 1.7 % from February to April. These minor fluctuations suggest that the tightening economy may have also influenced the employment market in this region. Despite these adjustments, the current unemployment rates in Rogaland remain historically low. This can be attributed to the prosperous times in the energy sector, the key business sector in the Stavanger region. The Brent oil price has been above USD 70/barrel for the past year and natural gas prices have remained high. Although the energy transition poses challenges for the sector and is expected to reduce oil and gas activity, the region is actively adapting to meet this transition. Given the positive prospects for the energy sector, we anticipate that employment in Rogaland will outperform the national average for Norway as a whole.

Registered unemployment Rogaland (incl. temporary lay-offs), %



*As at April 2023. Source: NAV (Norwegian Labour and Welfare Administration)

Office market

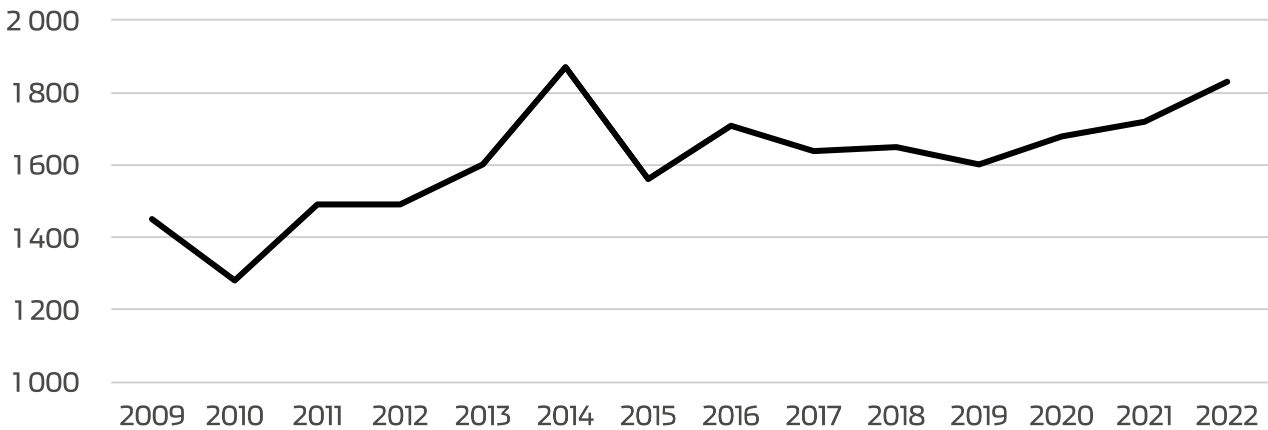
The Stavanger office market remains robust, driven by a thriving economy and low unemployment rates in Rogaland. "Activity remains high and vacancy rates are decreasing." Although there have been some upward adjustments in office rents, the market is demonstrating signs of stabilisation. The relatively high vacancy rate in the region is limiting any significant rental growth. Notably, this stabilisation represents a healthier state compared to the challenging years following the 2014 oil price downturn.

Office rents in the Stavanger region have been on a steady upward trajectory since 2019, with average rates increasing from 1 600 NOK/m²/year to 1 830 NOK/m²/year in 2022, according to data from Arealstatistikk. This represents a significant 14 % increase, bringing rent levels closer to those seen during the peak activity in 2014, when rates reached 1 870 NOK/m²/year. There are indications that rent levels are now stabilising, supported by our broker consensus which suggests minimal changes in rent indications compared to our previous report. While most geographies and segments have maintained unchanged normal and top rents, there have been some exceptions. Peripheral areas of Stavanger have experienced upward adjustments in both normal and top rents, with top rents now reaching 1 800 NOK/m²/year compared to 1 600 NOK/m²/year in October 2022. Additionally, Forus has seen a notable increase in the range of normal rents, rising from 600 - 1 300 NOK/m²/year to 700 - 1 500 NOK/m²/year. Stavanger city centre and warehouses have seen smaller increases in normal rent, while only the Stavanger fringe zone and workshop/production have seen increases in top rent.

The high levels of activity seen in the Stavanger region in 2022 has continued into 2023, particularly in the first two months of the year. However, there has been a slight slowdown in activity over the last few months, which could be a sign that the tightening of the Norwegian economy is starting to impact companies' economic outlook. Nonetheless, notable contracts have already been signed this year, with DNB and Melberg Partners securing space in K8, Nordea in Smedvigkartalet, Nordic Bulk in Koppholen 23 and BR Industrier in Tangen 7. Ongoing construction projects are thus filling up. Search activity remains strong in the region in 2023, with Kartverket seeking office spaces between 1 850 and 2 300 m² for occupancy in 2025. Areal is also actively searching for larger spaces in the range of 3 000 to 4 000 m². Overall, the Stavanger office market appears to be resilient and continues to show potential for continued growth.

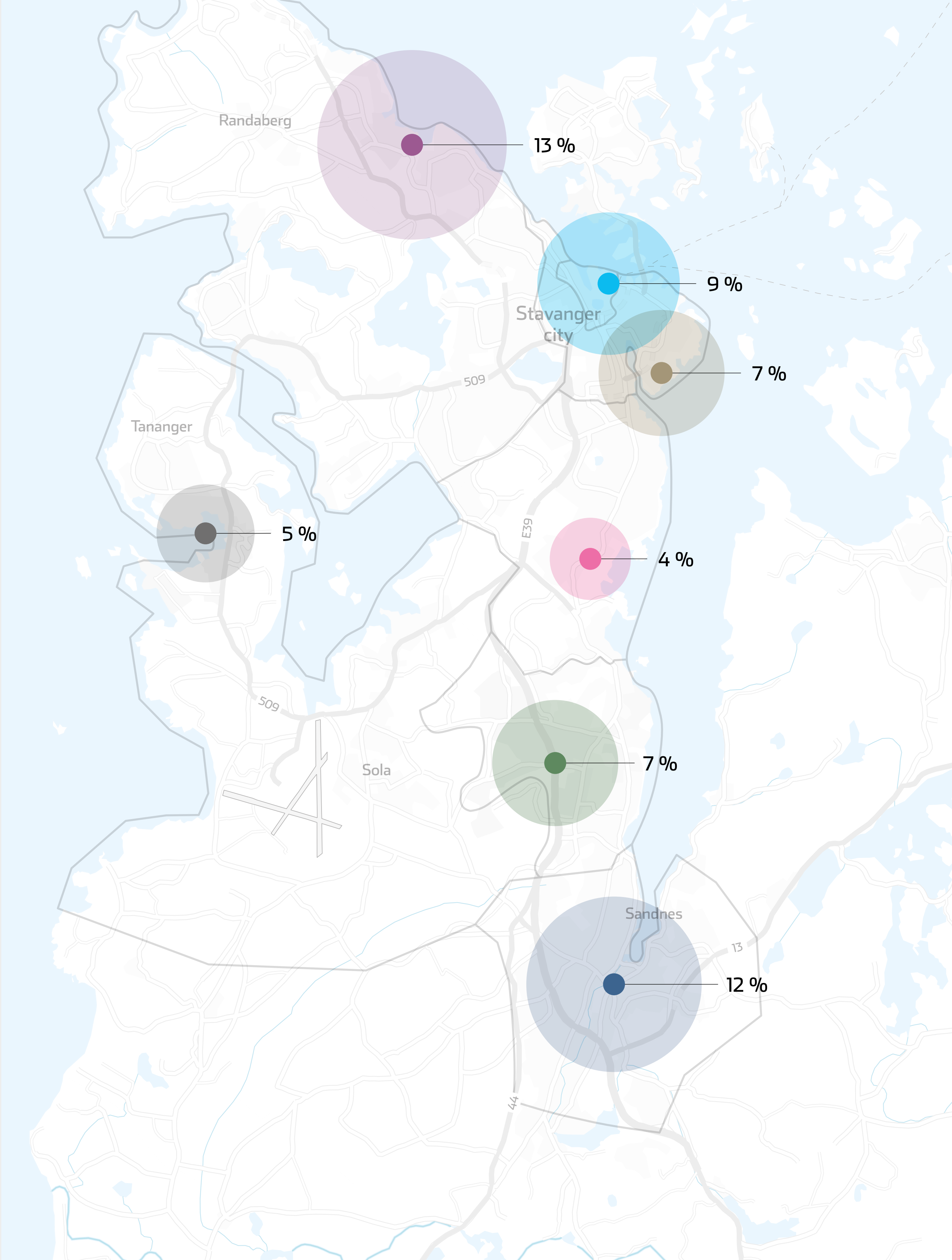
The Stavanger office market has experienced a decrease in vacancy rates, a consequence of the signing of several lease contracts. In October 2022, the vacancy rate in the Stavanger region stood at 7.8 %, which has now decreased to 7.1 %. This decrease in vacancy rates is particularly notable in the fringe zones, where the removal of large offices at Tankveien 1 and Tangen 7 has played a significant role. Both properties, previously occupied by Shell and ConocoPhillips respectively, are undergoing renovations to bring them up to modern standards. Byfjordparken has also experienced a decline in vacancy, dropping from 9.6 % to 6.5 %. On the other hand, other clusters in Stavanger have seen increases in vacancy rates, most notably in Stavanger city centre, which has risen from 6.1 % to 9.0 %. While the city centre remains an attractive office location, the higher rents compared to other clusters have limited the number of companies moving into the area. Forus has experienced an upswing in activity, driven by the good performance of the energy markets, leading to company growth and the establishment of new businesses. Several premises have been leased out, but there are also premises that have been added to the market, resulting in a minor increase in vacancy rates at Forus. Nevertheless, there are promising signs that the office market at Forus is starting to stabilise at a more prosperous level than for several years since 2014.

Average of signed office rents (NOK/m²/yr) in the Stavanger region 2009-2022



Source: Arealstatistikk

Office vacancy per April 2023



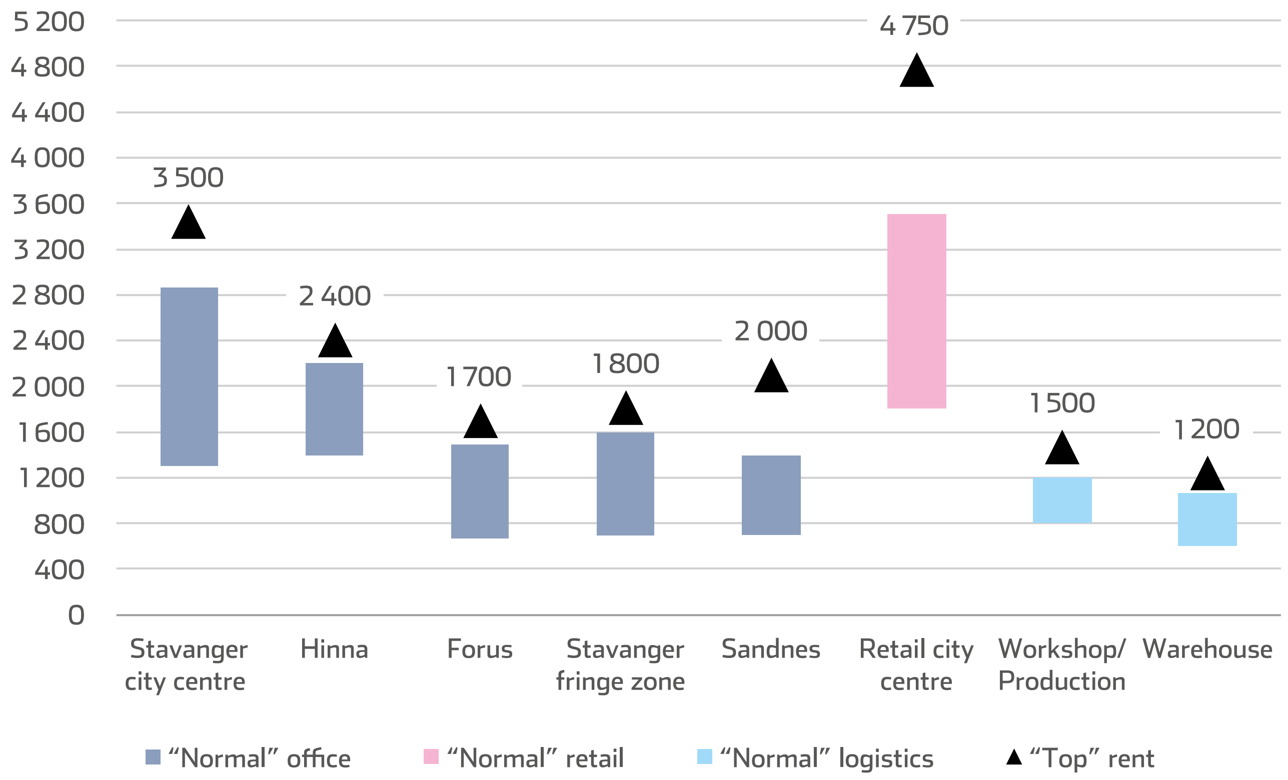
Total office vacancy* = 7.1 %

Total office supply* = 7.5 %

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

*See page 32 on how we measure vacancy.
Source: Malling & Co, FINN.no

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



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

New developments

The Stavanger region has a sizable pipeline of construction projects, reflecting the market's potential. However, due to the challenging operating conditions in the Stavanger office market for the past several years, many projects have remained stagnant in the pipeline without progress. Last year, there was an increase in projects moving forward, which aligns with the prosperous times in the region. However, since then, progress on the project list has been limited. One possible explanation is the impact of increasing interest rates and high construction costs, which have raised the rent required to break even, making many projects currently financially unviable. Despite this, two significant new projects have been added to the list – Ankerkvartalet and Interwell's new head office, more details below.

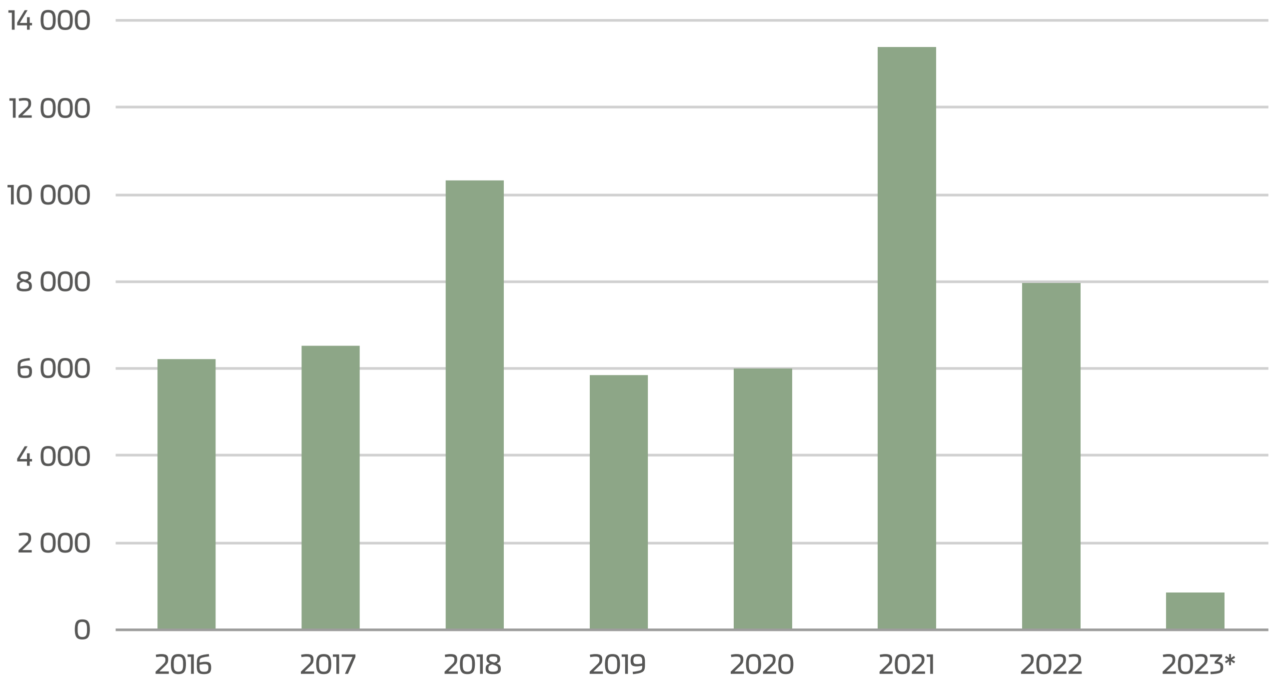
- Base Property's K8 project in Stavanger city centre, covering 18 000 m², is the largest project set to be completed in 2023. The project is nearly fully leased. Base Property also has another large project in the pipeline, with an estimated completion date in 2025, consisting of 20 000 m² at Sverdrups gate 20.
- Smedvig Eiendom has several projects in the pipeline in the Stavanger region, including the completion of the 10 000 m² ARK at Site 4016 and the addition of 2 500 m² at Verksgata 28-32 in 2023.
- Interwell and Lars Berland Eiendom have initiated a large new construction project at Moseidsletta 34 in Forus, which will be the head office for Interwell and help consolidate the company under one roof. It covers 25 000 m² and is estimated to be completed in 2024.
- In 2025, there will be a significant increase in market volume, driven by Hinna Parks' Valhall project, contributing up to 70 000 m². Hinna Park will also add another 19 000 m² in 2026 with the Ormen Lange project.
- K2 Stavanger, in collaboration with Bane NOR, is constructing two new office buildings at Paradis: Stasjonsbygget, covering 14 000 m², and The Box Office, covering 5 500 m². Both projects are awaiting tenants and are estimated to be completed in 2025.
- SVG Property plans to construct 20 000 m² of new office space at Ankerkvartalet, which is set for completion further out in time, in 2028.

The project list indicates a significant number of projects expected to be completed in 2025, with a potential addition of 177 000 m². Unless there is a substantial surge in office demand, this poses challenges to vacancy levels in the region.

Investment market

The investment market in Stavanger is experiencing a quiet period, trending in line with the other regional cities of Oslo, Bergen and Trondheim. A challenging financing market and a bid/ask imbalance between buyer and seller is keeping the volume and number of transactions low. We have only counted 7 transactions with a total volume of just over NOK 700 million so far this year, and a few more transactions that have not made it quite past bid acceptance. Despite the positive movement in the energy sector, which saw Stavanger experiencing a spike in investment activity last year, it has not been enough to shake off the burden of increasing interest rates and the sombre mood among banks. The trend in recent years for a broader investor universe to constitute the majority of investor interest, in contrast to predominantly regional investors, has thus also been broken, with more than 80 % of the volume stemming from local and regional buyers. Yet, as before, more than 50 % of the volume is industrial in nature, which is only natural considering the uptick in the economic activity in the region.

Transaction volume Stavanger (MNOK)



*As of May. Source: Malling & Co

«Experiencing a quiet period, trending in line with the other regional cities»

Grønland 53 — Drammen

Malling & Co Drammen was the advisor for Entra ASA when Viken Fiber AS signed a lease agreement for approx. 2 000 m² at Grønland 53 in Drammen.

Drammen

Leasing activity in Drammen exceeds expectations

In the previous edition of our market report, the Drammen chapter described how the commercial real estate market in Drammen was akin to the Oslo market. This time we are seeing signs of a change. Our local Drammen office has reported that leasing activity for offices has been higher this year compared to last year. Several larger companies have turned their attention to Drammen and are exploring opportunities to open regional offices. Advisory firms, in particular, have shown interest. In the investment market, there are various ongoing processes with significant buyer interest. However, yields continue to tick upwards. Nevertheless, this high level of interest mentioned may explain why a new price level is starting to stabilise in the market. On the other hand, there is a slight dip in activity levels in the market for mixed-use properties, which typically have a strong presence in the Drammen region. We believe this is a natural consequence after an unusually high level of activity during the previous year, especially during autumn, in a limited market. We are firm in our belief that activity will pick up again, especially considering new developments are taking place in the region.

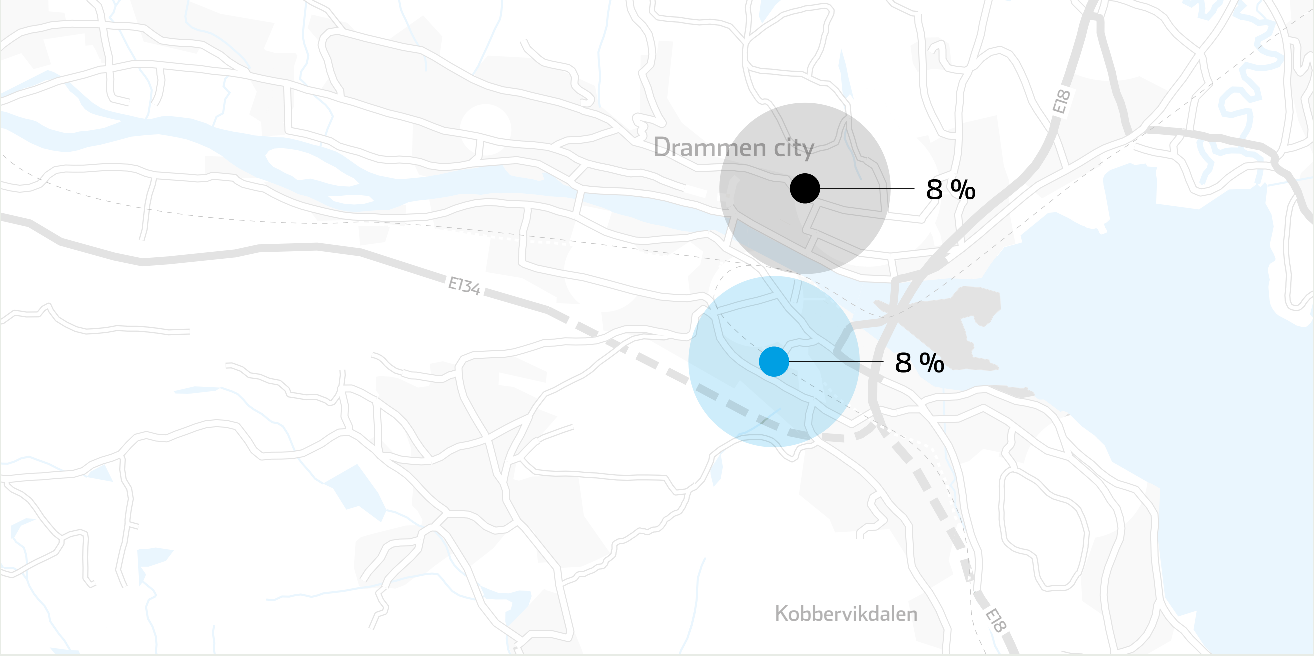
Office rental market

In contrast to the other cities covered in this report, employment growth in the Drammen region has developed on a slightly weaker scale than the country average, with a 2.4 % growth in wage earners from Q1 2022 to Q1 2023 compared to 2.6 % for the country. The office vacancy rate in Drammen has also slightly increased since our last market report. As at April 2023, the overall vacancy rate stands at 8.2 %. Historically, Strømsø has had slightly higher vacancy rates, but we are now seeing that it has decreased to 8.1 %, which is 0.2 pp lower than Bragernes. When breaking down the numbers, it is particularly Tollbugata 4, with up to 4 000 m² of leasable area, that contributes to the current vacant area in Strømsø. In our previous report, it was Grønland 1, 51, and 53 that contributed to the increase in vacancy rates. Currently, there is only 1 870 m² of remaining advertised space in Entra's building at Grønland 53. The office supply side, including office space available beyond the next 12 months, is larger and measures 9.6 % in Drammen city centre as at April. In addition to the vacancy, there is an upcoming development by Ticon Eiendom at C.O. Lundsgate 56, which can be completed by 2024 upon contract signing, providing an additional 5 000 m² of lettable space.

Leasing agents in Drammen report a high level of activity in the office market. In Bragernes, rents range from 1 500 NOK/m²/year to 2 000 NOK/m²/year and are unchanged from our previous market report. However, the top-end rent has been adjusted upwards by a significant 400 NOK to 2 600 NOK/m²/year, which has proven to be an achievable price for prime properties at Bragernes. As a result, the gap of NOK 700 in top-end rents compared to Strømsø, which we reported in the previous market report, is gradually closing. Nevertheless, it is still on Strømsø where the highest rental rates are found. The lowest level is equivalent to Bragernes at 1 500 NOK/m²/year, but the ceiling is somewhat higher at 2 500 NOK/m²/year depending on the standard and proximity to Drammen train station. The top rent of 3 000 NOK/m²/year can be found in newly constructed buildings located centrally in Strømsø. In the long run, we believe that a similar rental price can be achieved on Bragernes as well, provided that the right product enters the market and with a new city bridge in place.

As we mentioned in our previous market report, there was a clear distinction in the extent to which efficient energy use in buildings to reduce energy costs was a significant focus among tenants. Since then, electricity prices have largely decreased, although energy use remains an area of focus. Additionally, we are experiencing demand for centrally located premises, with greater emphasis on proximity to train stations and a good public transport network than before. The increase in top rents helps explain this demand. We are also observing that modern newbuilds have become an important factor for companies aiming to be at the forefront of attracting younger talent.

Office vacancy per April 2023

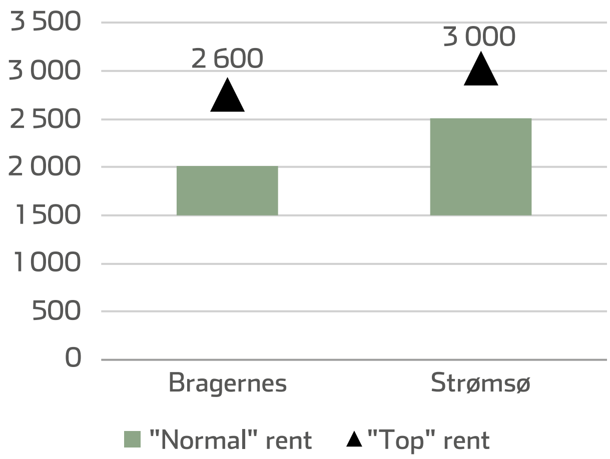


Total office vacancy* = 8.2 %	Total office supply* = 9.6 %

● Bragernes ● Strømsø

*See page 32 on how me measure vacancy. Source: Malling & Co, FINN.no

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



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

«Leasing agents in Drammen report a high level of activity in the office market»

Selected notable lease agreements

- Viken Fiber AS has signed a lease agreement for approx. 2 000 m² at Grønland 53 with Entra ASA.
- Söderberg & Partners has signed a lease agreement for approx. 600 m² at Strømsø Torg 9 with Ticon Eiendom AS.
- Telway AS has signed a lease agreement for approx. 8 000 m² at Tverrveien 1 with Dpend.
- Igaidi AS has signed a lease agreement for approx. 800 m² at Strømsø Torg 4 with Dpend.
- Bilia Norge AS has signed a lease agreement for approx. 4 750 m² at Johan Follestads Vei 25 with Røyken Næringspark Invest AS.

Logistics and mixed-use leasing market

While other markets may have more distinct segments, Drammen is mainly characterised by mixed-use properties, combining warehouse, workshop, office, and space-intensive retail. As at April 2023, the logistics and mixed-use vacancy rate in the Drammen region measured 4.6 %, a significant increase from our previous report of 2.7 %. Since then, Teglverksveien 100, a mixed-use building, has remained vacant with approximately 6 000 m² of available space storage and office space. On the supply side, the advertised area accounts for a substantial 10.6 % of the total stock, marking a significant increase from 8.1 % in October 2022. The availability of fully zoned plots in Hanekleiva continues to contribute to the high supply side.

Despite the rising vacancy rate, many tenants perceive vacancy as low in Drammen because the existing building options do not align with their environmental ambitions and space requirements. Consequently, tenants need to enter into agreements with developers who have undeveloped land for new construction. In light of the soaring construction costs, this entails substantial increases in rental prices to make new building projects economically viable. We are observing a significant, ever-growing disparity in rental rates between existing buildings and new constructions. According to our rental consensus, rental levels for mixed-use buildings have remained unchanged in Liertoppen and Lierstranda. However, the top rent has increased by 200 NOK/m²/year, highlighting how newbuilds have driven up the willingness to pay for high-quality properties. In Kobbervikdalen and Kongsberg, the rent floor has increased by 150 NOK/m²/year since the previous market report. Furthermore, the top end rent has been adjusted significantly upwards by 200 NOK/m²/year, reaching 1 600 NOK/m²/year and 1 550 NOK/m²/year specifically, according to our leasing agents at our Drammen office.

As mentioned in our previous report, we were uncertain about how the macroeconomic uncertainty would impact businesses in the region. We anticipated increased vacancy rates and cooling in rental prices due to the capital-intensive nature of the key industries in Drammen. We have observed a certain degree of increased vacancy rates, although not a dramatical one. However, we have not witnessed any cooling in rents; quite the opposite. The aforementioned macroeconomic factors have contributed to reducing the supply side, leading to increased rents. Capital-intensive industries, such as the prevalent automobile import industry in Drammen, are still expected to face challenging times, and therefore, we are not altering our outlook for this region.

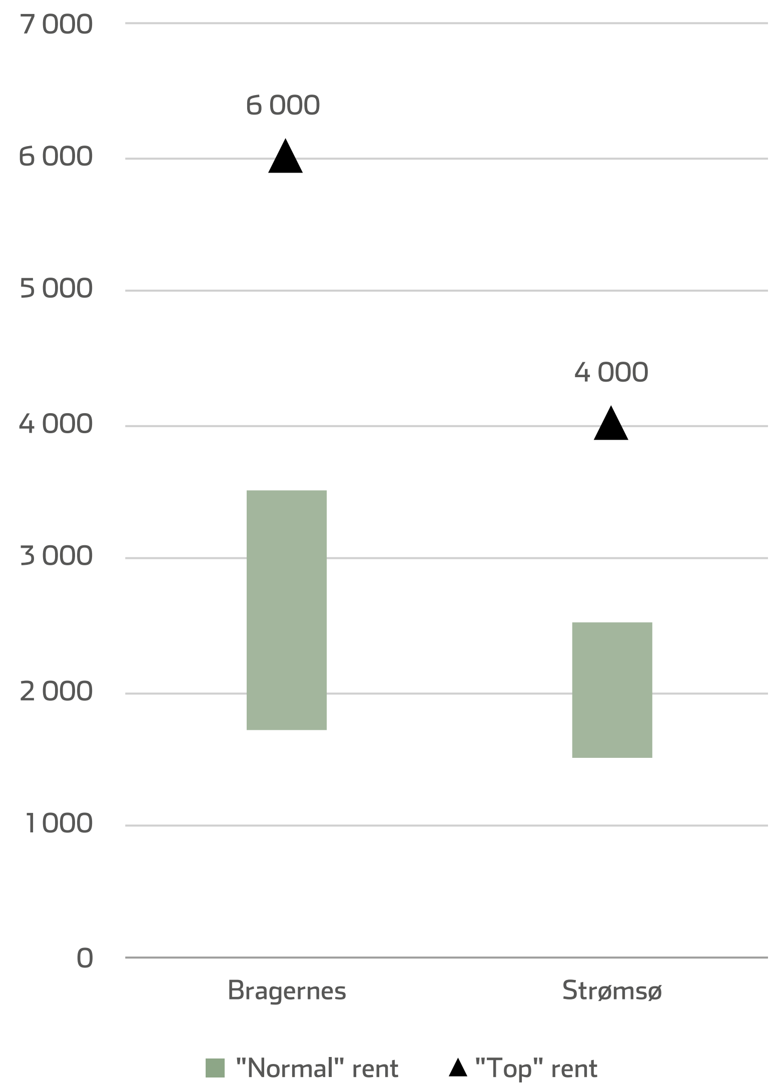
Indicative rents in the Drammen region – Industrial (NOK/m²/yr)

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

Retail leasing market

In our previous market report, we highlighted the challenges faced by F&B tenants in Drammen. This situation persists, and we have witnessed even more restaurant closures, including the recently opened Drammen Street Food at Strømsø Torg. Except for certain turnover-based leases, we have not observed a decline in retail rents.
While we have seen some recently signed lease agreements below market levels, we maintain our view that it is possible to secure retail leases at the same levels as before, and even slightly higher on Bragernes, where we have adjusted the top of the normal rent range by 250 NOK/m²/year to 1 700 - 3 750 NOK/m²/year. Although recent consumer spending on goods and services has been surprisingly high, we remain somewhat pessimistic about future prospects for this segment in Drammen. According to leading macroeconomic experts, consumers' savings rates are diminishing, and the income base for retailers supplying goods or services is weakening. Over time, rents will need to cool down as it becomes more difficult for real estate owners to find suitable tenants.

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



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

«While we have seen some recently signed lease agreements below market levels, we maintain our view that it is possible to secure retail leases at the same levels as before, and even slightly higher on Bragernes, where we have adjusted the top of the normal rent range by 250 NOK/m²/year to 1 700 - 3 750 NOK/m²/year»

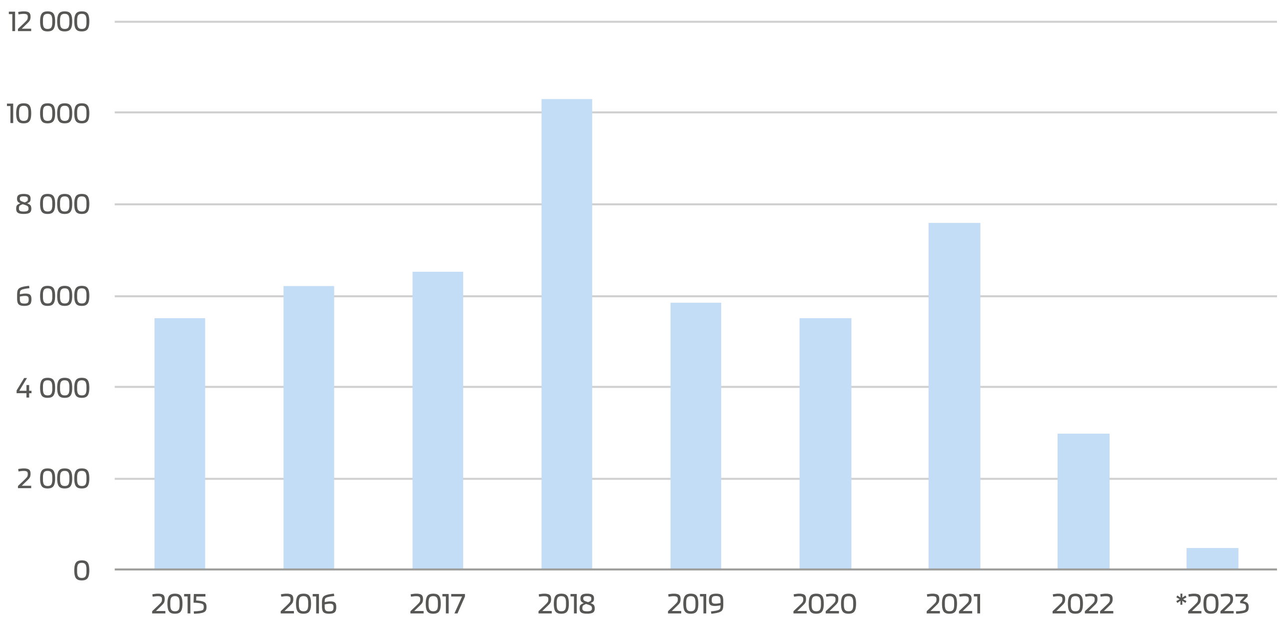
New developments

There are few vacant logistics and mixed-use spaces in the Drammen region. Therefore, it is natural for developers to consider the possibility of constructing newbuilds with potential tenants, and opportunities do exist in the Drammen region. Hanekleiva already has advertised between 60 000 and 100 000 m² of fully zoned land ready for development. Exciting developments are also taking place at Fiskumparken, with reports indicating that new areas are close to being constructed. The same applies to Toppen Næringspark, located near the centre of Kongsberg. In Liertoppen, near the Asker border, there are ready-to-be-zoned plots available. In Lierstranda, some of the older commercial buildings are planned for long-term conversion to residential development, but in the short term, there are still opportunities for subleasing on short-term contracts. Finally, in Høvik, Lier, Dpend has plans to convert an older business park with new zonings and subsequent development.

The investment market

In terms of investment market volume in Drammen, there is little to note in comparison to previous years, as in the rest of the country. There is still a gap between buyers and sellers in terms of pricing and it remains to be seen whether it will close anytime soon. However, the availability of debt capital poses the most significant challenge for potential buyers. There are several examples of lower loan-to-value ratios, and financing that is significantly more expensive and often inaccessible. Nevertheless, we recorded some transactions towards the end of last year that brought the total volume to NOK 3.0 billion. The recent volume has been greatly assisted by the sale of Konggata 51 and Grønland 32 by Entra, as a part of their divestment of non-core properties to reduce the debt ratio. We are also aware of ongoing processes that will further contribute to the transaction volume in the region.

Annual transaction volume Drammen (MNOK)



*As of May. Source: Malling & Co

Office investment market

In an investment market where it is increasingly challenging to secure straightforward investment cases, there are opportunities to extract value by making improvements to properties. The office market in Drammen has precisely such properties in centrally located areas such as Bragernes and Strømsø, where the value can be increased through rehabilitation or conversion. Therefore, we are confident, and it has been confirmed, that investors will be willing to invest in value-add office space in Drammen. Despite some lean first months so far this year, we are confident that we will see these types of transactions going forward. According to our leasing agents, proximity to public transportation hubs, particularly Drammen train station, has become a key driver for rental uplift and hence investor appetite. We therefore believe that Strømsø, with its proximity to the train station, in addition to the best locations at Bragernes around the square and the connecting bridge to Strømsø, will remain attractive to investors in the office segment in Drammen.

Logistics and mixed use investment market

While mixed-use properties have been the key flavour among CRE-tenants in the Drammen region, the growing need for pure warehousing and logistics is also prominent in areas like Liertoppen and Kobbervikdalen. Kobbervikdalen has witnessed the majority of transactions in the logistics and mixed-use segment since the previous market report. This indicates the presence of potential buyers for this type of property, despite the yield having increased significantly. In our investor survey for Q1 2023, the average logistics yield on Liertoppen among respondents was 5.55 %, up by 90 bps from the lowest point in Q1 2022. While the level remained flat from Q4 2022, investors expect a further increase of 20 bps over the next year. We may also observe more transactions in other areas that have undergone development due to the scarcity of available plots close to Drammen. Examples include Fiskumparken and Toppen Næringspark, where there are ready-to-build areas.

«In our investor survey for Q1 2023, the average logistics yield on Liertoppen among respondents was 5.55 %, up by 90 bps from the lowest point in Q1 2022. While the level remained flat from Q4 2022, investors expect a further increase of 20 bps over the next year»

Strømsø Torg 9 — Drammen

Malling & Co Drammen was the advisor for Ticon Eiendom AS when Söderberg & Partners signed a lease agreement for approx. 600 m² at Strømsø Torg 9 in Drammen.

Helsfyr Panorama — Oslo

Malling & Co Corporate Real Estate was the advisor for Bryn Eiendom in the sales process of a 21 200 m² office property in Helsfyr, Oslo.

Bergen

A relatively slow start to the year

The investment market has had a relatively slow start to the year, with few transactions recorded so far. Yields are expected to rise further, access to debt is still restrictive and there is still some distance between buyers' and sellers' price expectations.

The rental market is characterised by a continued high level of activity, where several factors are contributing to a strong demand for office premises. However, going forward we expect the activity level in the rental market to decline somewhat, mainly due to interest rate hikes.

Office rental market and demand

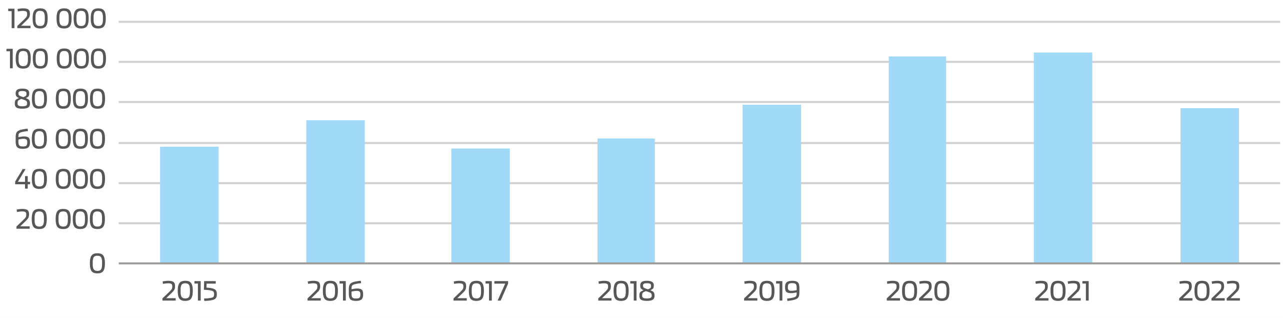
The activity level in the rental market is still high. The labour market continues to be very tight in Bergen, and the percentage without any form of work has been around 2.0 % for the last 12 months (Apr. 2023: 2.0 %). Oil prices are somewhat lower than in 2022, approx. 18 %, although still historically high. This has a positive impact on the demand for office space from oil and gas companies, mainly located in Bergen south.

According to Arealstatistikk's letting report, leases for approx. 80 000 m², split between approx. 130 contracts, were signed in 2022. This represents a reduction in volume of nearly 25 %, but unchanged when looking at numbers of contracts. There have been relatively few larger tenants in the market for new premises. As a result, the total office search volume is limited.

The rental market, so far, seems unaffected by rising interest rates. However, the frequent interest rate hikes will sooner or later affect activity in the rental market. Several tenants are facing drastically higher operating costs because of generally higher price growth, inflation-adjusted rental levels, salary increases and high electricity prices. Furthermore, the unemployment rate is expected to rise slightly, from low levels.

The pipeline of newbuilds and refurbished office buildings in Bergen is approx. 80 000 m² in 2023, which is a high volume from a historical perspective. For 2024, we expect a significantly lower number, around 13 000 m². Several of the newbuilds are speculative projects or built with low occupancy rate. This is in line with the majority of newbuilds in Bergen since 2019/2020.

Signed office contracts, sum m²



Source: Arealstatistikk

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

Vacancy

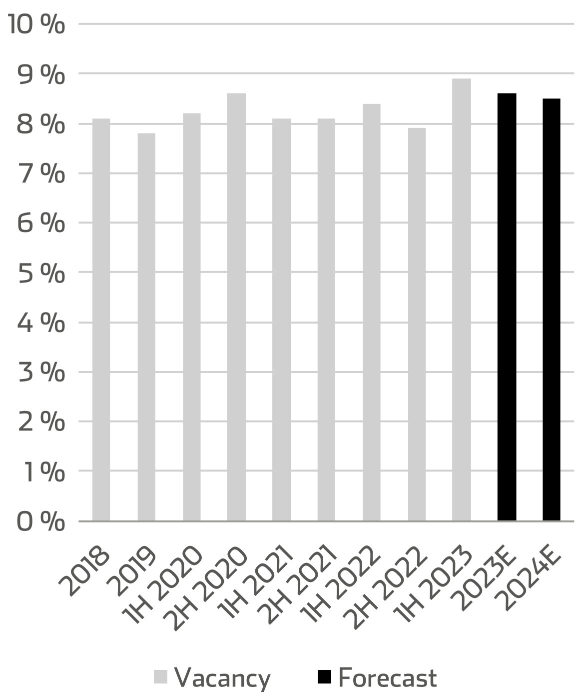
Office vacancy has increased by 1.0 pp compared to 2H 2022 and is now at its highest level for several years. The reason for the increased vacancy is mainly due to the following:

1) Addition of newbuilds where advertised office space has not yet been filled. It is worth mentioning that vacancy is defined as available existing space or newbuilds available within 12 months from the date of measurement.

2) Vestland County Council moved out of Sandslihaugen 30 during Q1 2023, leaving nearly 30 000 m² vacant. At some point, this building is planned to be converted into housing.

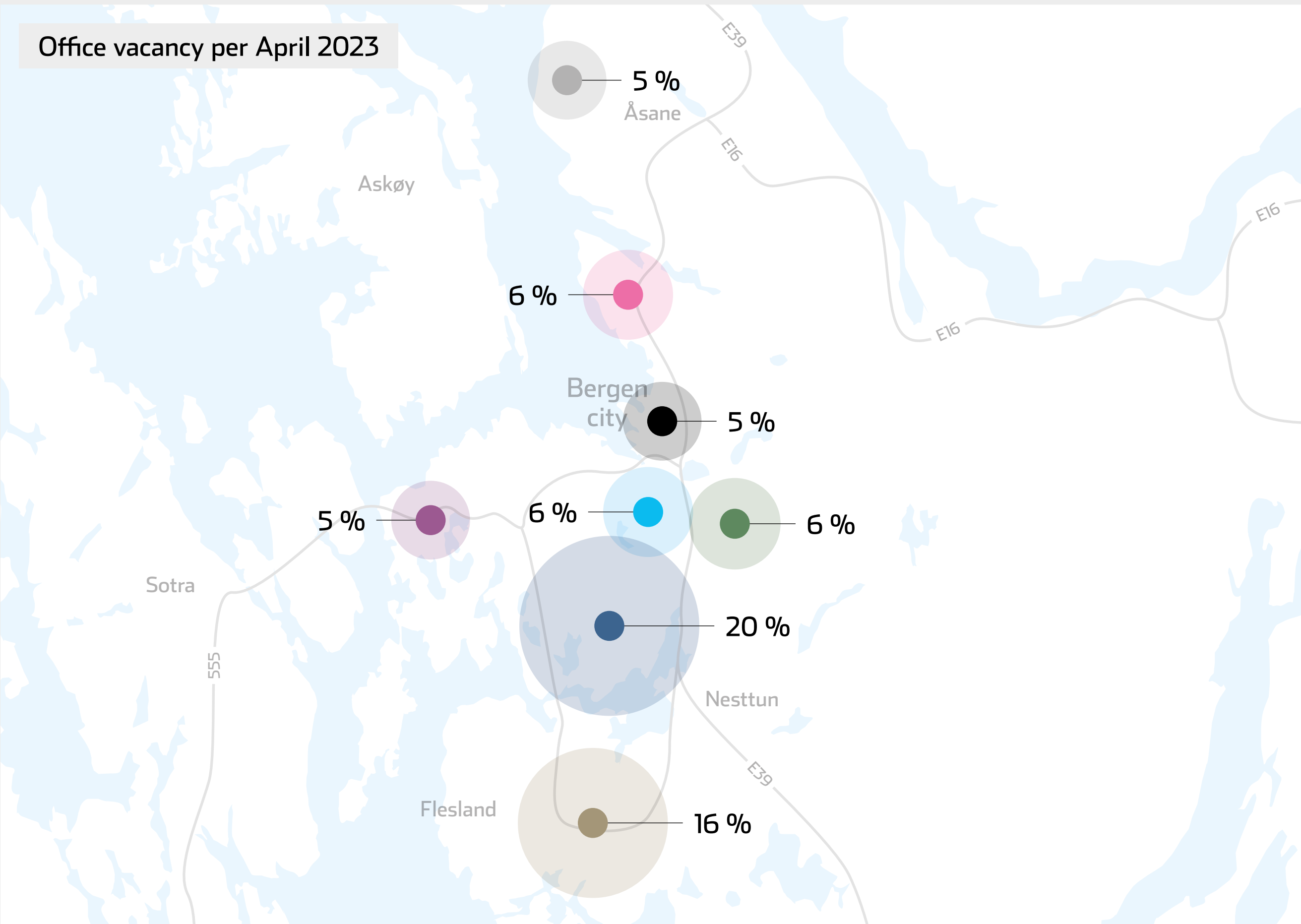
Regarding the various geographical areas, we find the most positive development in Bergen city, where vacancy has decreased by 0.6 pp since the previous count. Several new and refurbished office buildings have recently been completed in the centre of Bergen and vacancy is decreasing as these buildings are quickly filling up. We have registered a sharp rise in vacancy levels in both Fyllingsdalen and Bergen south. These are also the two geographical areas with the highest vacancy.

Vacancy and forecast, %



Source: WPS Næringsmegling, FINN.no

Office vacancy per April 2023



Total office vacancy* = 8.9 %

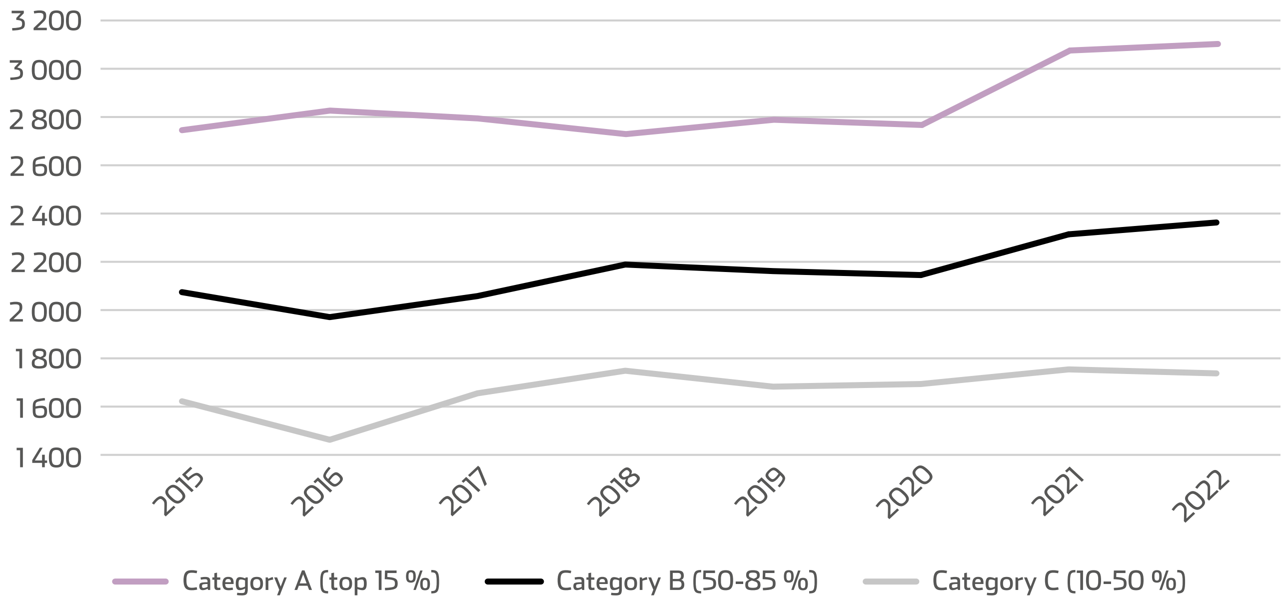
Bergen north, Sandviken, Bergen city, Solheimsviken/Marineholmen, Næringskorridoren, Bergen west, Fyllingsdalen, Bergen south

*See page 32 on how we measure vacancy.
Source: WPS Analyse

Rents

The supply of newbuilds and refurbished high-quality buildings, especially in the centre of Bergen, have raised the quality in the market and as a result, also prime rents. We have now raised the indicative rent for the best premises to 3 500 NOK/m²/year. This is also supported by the figures from Arealstatistikk's letting report for 2H 2022, where rental prices for both category A (top 15 %) and B (top 50-85 %) have increased.

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



Source: Arealstatistikk

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

*See definition of prime and normal rent at page 16. Source: WPS Næringsmegling

Investment market

Demand and volume — So far in 2023, we have recorded a total transaction volume of NOK 2.1 billion, divided between 10 transactions. The low transaction volume reflects a pending and slow market where processes are prolonged and lengthy. However, the activity level for commercial real estate advisors is high, as many potential transactions are in progress. We have registered that there is a stronger demand for properties with development potential ("value-add").

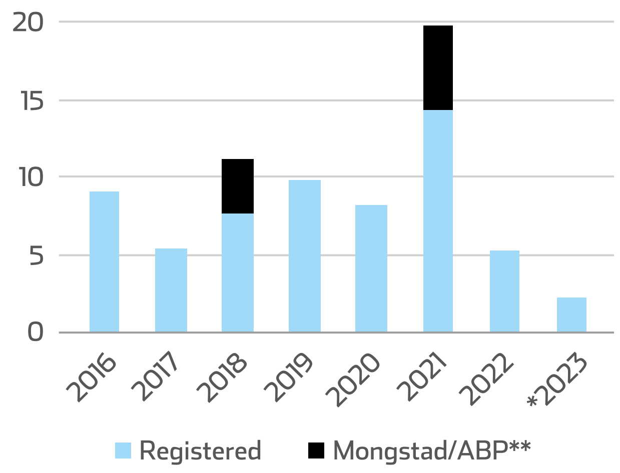
The WPS Investor Survey for Q1 2023 indicates that the buying interest for commercial real estate will weaken, as only 44 % of investors state that they will be net buyers over the next 12 months. This is the first time we have registered below 50 % net buyers, and it seems that investors are taking a wait-and-see approach for now. Investors are especially sceptical towards retail and hotel, where less than 20 % of the investors will be net buyers in the next 12 months.

Yields — The key policy rate is currently at 3.25 %, the highest since 2008. The Norwegian economy has shown greater resilience against increased interest rates and high price growth than expected. Analysts now expect the key policy rate to, most likely, rise further to 4.00 %. This will result in a further increase in yields, especially prime yields.

Buyers' and sellers' price expectations are still not aligned, and as a result, there are fewer transactions recorded this year. Fewer transactions result in fewer yield references, and so far, there are few benchmark transactions that indicate how much the prime yield has risen.

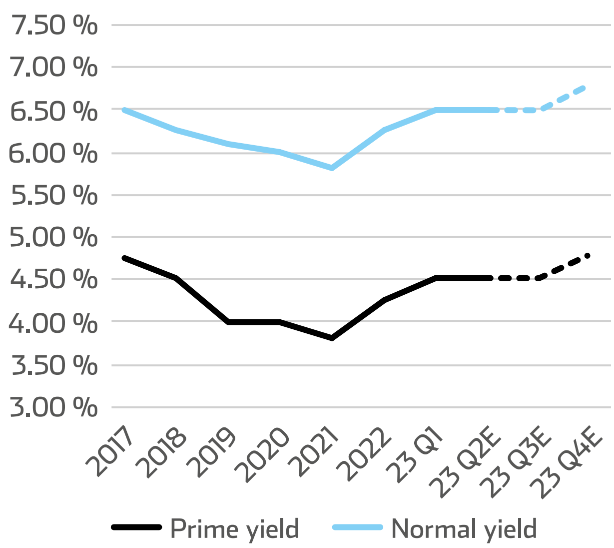
The answers in WPS Investor Survey for Q1 2023 indicated that current prime office yield is 4.45 %, and investors expect the prime office yield to be 4.60 % in 12 months' time, an increase of 15 bps from today's level. We share the investors' view on prime yield and estimate current prime office yield at 4.50 %, unchanged from our last market report.

Annual transaction volumes in Bergen, NOK bn.



*Registered YTD 12 May 2023. **2018: Mongstad Supply Base sold from EQT to ABP (owned by HitecVision). 2021: ABP sold from HitecVision to Fastighets AB Balder (estimated region Bergen). Source: WPS Næringsmegling

Office yield development in Bergen, %



Source: WPS Næringsmegling

«Fewer transactions result in fewer yield references, and so far, there are few benchmark transactions that indicate how much the prime yield has risen»

Ringeriksveien 193-201 — Vøyenenga

Malling & Co Corporate Real Estate advised Brødrene Jensen and Kvadratera in the sale of an industrial property in Bærum, comprising approx. 45 000 m² of land with future development potential.

Østre Aker vei 19 — Oslo

Malling & Co Corporate Real Estate advised Neaco Holding in the sale of the 7 300 m² office building at Østre Aker vei 19 in Oslo. The property has a significant development potential located right alongside Økern metro station.

Trondheim

"Status quo?"

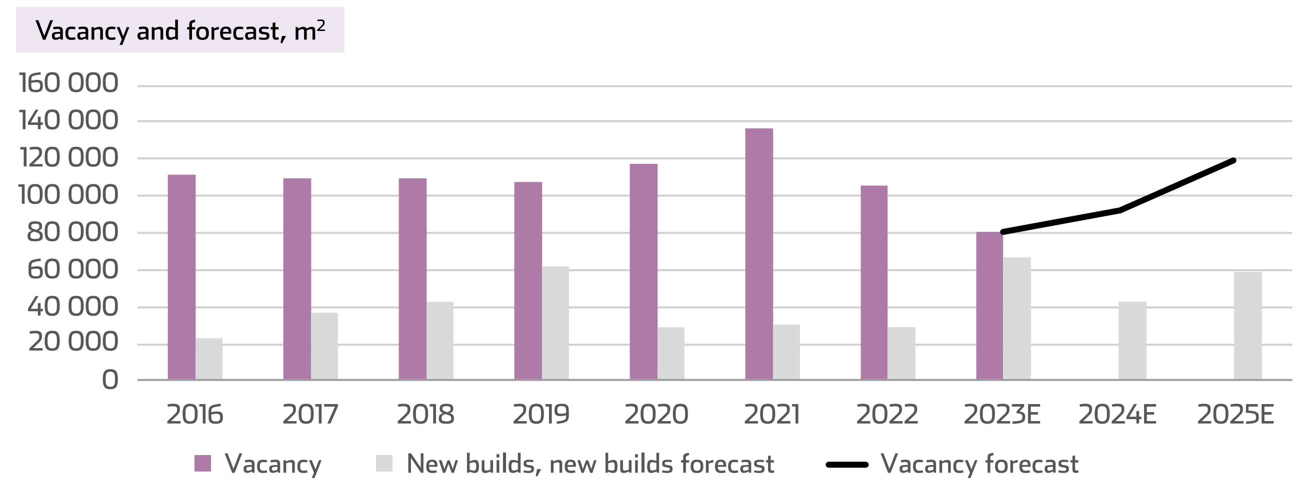
The commercial real estate market in Trondheim during the first half of 2023 looks pretty much the same as for the second half of 2022. We are still experiencing a significant distance between buyers and sellers in terms of pricing, resulting in low activity within the transaction market. Floating interest rates have gradually increased throughout 2022 and so far in 2023, while we have seen more stabilising levels for long-term swap rates. The more stabilised, long-term, risk-free yield for all type of investments (in this case the 10-year Norwegian bond) for the past six months should indicate that the prime yield should continue unchanged going forward. On a positive note, the office rental market continues to perform well. Despite a significant supply of new office space in 2023 (approx. 67 000 m² added to the total market), we have registered that rent levels are increasing and vacancy decreasing. Vacancy measured in April 2023 shows a further fall in office vacancies, now at a record low of 4.9 %.

Office rental market – vacancy and new projects

We have been experiencing a high demand for office space/rental in Trondheim in the first half of 2023. Vacancy measured in April 2023 shows a further fall in office vacancies. We have recorded declining vacancy from the first quarter of 2021, despite a considerable supply of new space added to the market. Office vacancy in Trondheim is now at a record low of 4.9 %. It has long been known that Trondheim municipality has been looking for new premises. Pending completion of their new office premises, the municipality has rented approx. 13 000 m² temporarily from 2024, resulting in a record low vacancy.

We have registered higher demand for office buildings close to the city centre and metro bus, and offering a wide range of services. Demand for modern and energyefficient buildings has also increased, which most likely has a correlation with higher electricity prices and new requirements from the European Parliament. Energy efficiency requirements on commercial properties and public buildings are gradually being tightened up. This will most likely put pressure on both tenants and owners to favour more energy-efficient office buildings in the years to come.

Demand for office space is stable and several new office buildings are planned to be built by 2025., which will provide additional office square metres by 2025. With approx. 67 000 m² of new office space in 2023, 43 000 m² in 2024 and 59 000 m² in 2025, this means 170 000 m² in total over the coming years. Based on our experience, the market absorbs approx. 30 000 new office square metres each year without this affecting rent levels or vacancy. With this level of supply, we expect office vacancy to increase to approx. 120 000 m² by the end of 2025.



Source: Norion Næringsmegling

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

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

Source: Norion Næringsmegling

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

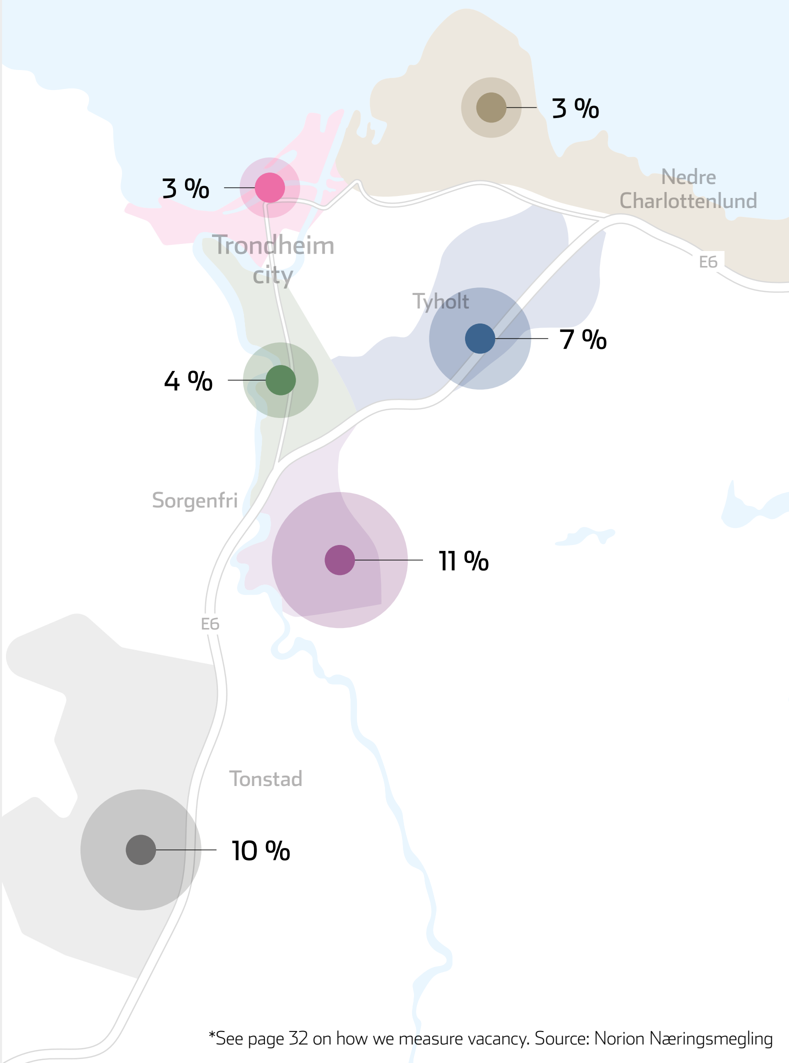
Rents

The rental market in Trondheim is still showing positive development and we are still experiencing rental growth within the top segment. We have noted that the indicative rent for the most attractive locations is 3 200 NOK/m²/year. These buildings are located in the centre of Trondheim, where tenants also have the greatest willingness to pay.

In a market where yields have increased combined with an increase in construction costs and a high CPI, rental prices must increase, if developers are to achieve the same return. According to figures obtained from Arealstatistikk, the average nominal rental price increased by 8 % from 2021 to 2022. In the same period, top rents (top 15 % most expensive contracts) increased by 11 %. This is one of the highest levels we have seen since Arealstatistikk started monitoring the Trondheim market.

As we are seeing an increase in the supply of new office space over the next two years, we believe that rental price growth will decrease somewhat. To a degree, this depends on how quickly the Norwegian economy cools down. Furthermore, we believe there will be a greater gap in rental levels among the various areas of Trondheim and that the distinction between modern and energy-efficient office buildings and less attractive buildings will continue to grow.

Office vacancy per April 2023



*See page 32 on how we measure vacancy. Source: Norion Næringsmegling

Total office vacancy* = 4.9 %

Labour market and activity in Trondheim

Unemployment rates in Trondheim and the Trøndelag region have been low for some time, with the expected increase in unemployment rates from autumn 2022 failing to materialise. With only 1.4 % unemployed in Trøndelag, it has the 2nd lowest unemployment rate in Norway (second only to Nordland).

There is continued high activity in the construction business in the region. So far in 2023, there has been a 16 % reduction in initiated construction space for all type of buildings (excluding residential) compared to Q1 2022. Activity is still at a historically high volume, due to a record high in the number of spaces being built.

On the residential side, we have seen that Trondheim has developed along the lines as the rest of the country. In other words, the sale of new homes especially has decreased significantly.

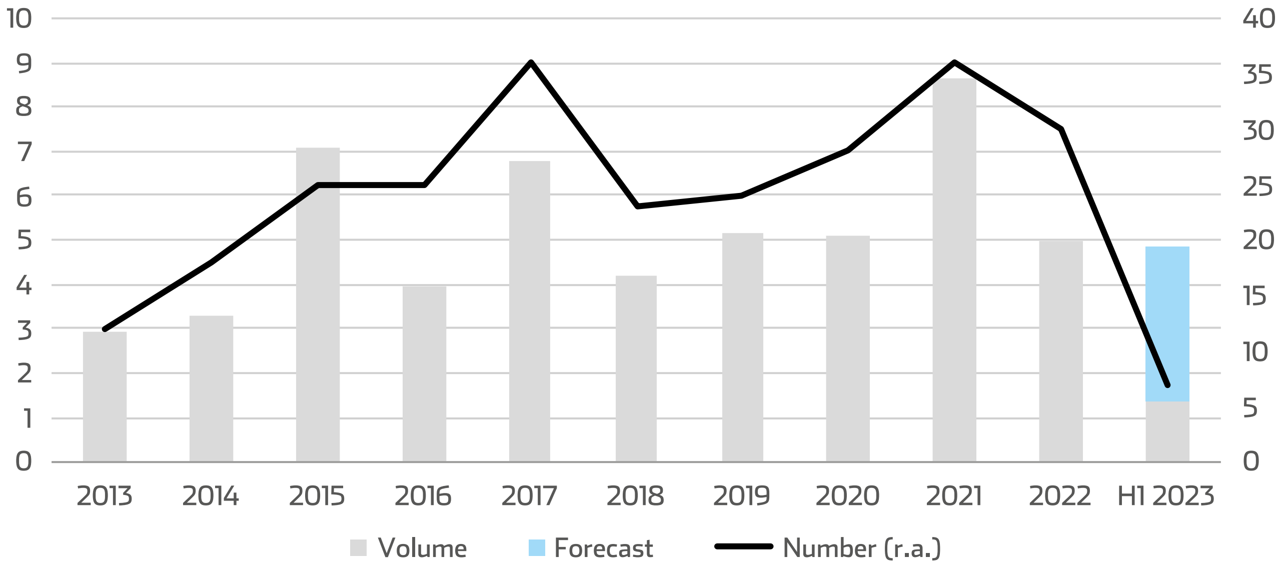
Investment volume

We have registered a total transaction volume of approx. NOK 1.36 billion so far this year (as of 15 May), which is lower than we experienced at the same time last year and significantly lower than what we experience in a "normal" year. The number of transactions registered so far this year is 7.

At some point during the spring last year, the market definitely cooled down and we are still not seeing any signs of a turnaround anytime soon. The increase in interest rates has certainly put an upward pressure on yield levels, which of course buyers have had to adapt to, meaning that there is considerable distance between buyers and sellers at this point. Although it appears at least that long-term interest rates have stabilised at around 3.2 %, we don't expect activity to pick up anytime soon (especially considering the latest signals from the central bank). Short-term interest rates are still volatile and we are also experiencing that access to financing is proving challenging (high loan margins for LTV > 50 %). Based on persistently high interest rates combined with a strict capital market, we predict a moderate year for the investment market in Trondheim/Trøndelag. There are a few, sizeable ongoing processes in terms of transaction volume, and we believe the total transaction volume by the end of 2023 will come in at NOK 4.5 – 5.0 billion.

In conclusion, we expect a moderate year within the investment market and we believe that the "recovery period" will last longer than first expected. However, in our latest investor survey we noticed that participants were slightly more "moderate" when predicting yield levels one year ahead (still an increase from today's yield levels) compared to the answers from the Q3 2022 survey. This may indicate a somewhat more predictable future than was seen at the end of 2022, which could be interpreted in a slightly positive way.

Annual transaction volumes in Trondheim, NOK bn.



Source: Norion Næringsmegling

«In conclusion, we expect a moderate year within the investment market and we believe that the "recovery period" will last longer than first expected»

Segments

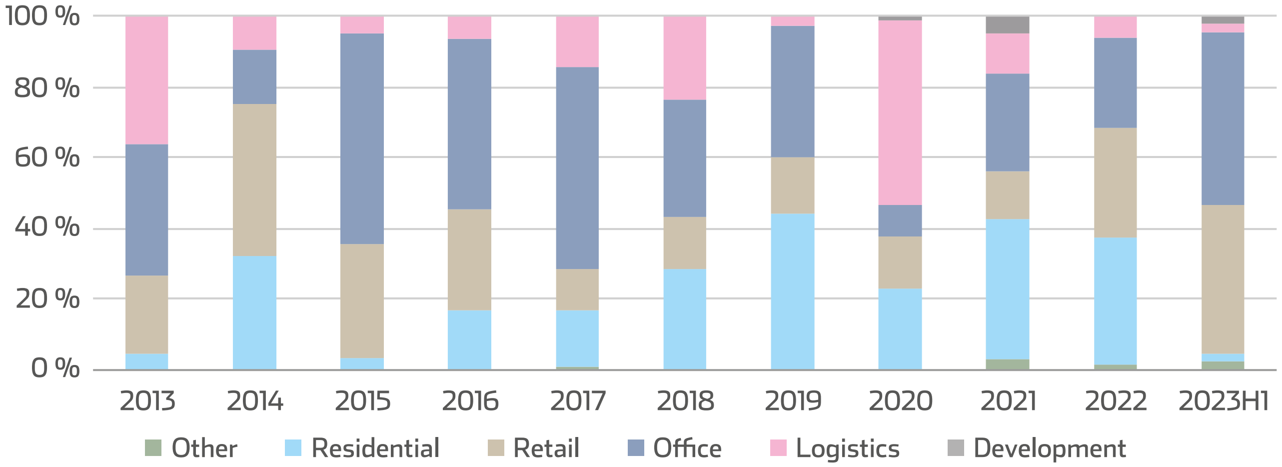
During the last couple of years, the residential market (both related to development properties and rental housing) has performed well. Even though rental housing still performs well in terms of demand and thus price levels, we have registered that far fewer residential properties (both in terms of the number of transactions and in terms of volume) have been traded so far this year compared to the same time last year. This may of course be related to the supply of properties within this segment, but there is no doubt that increased construction costs combined with high energy prices, sustained high inflation figures and thus the trend in interest rates make it more difficult for developers to find a satisfactory return on their projects.

On a positive note, the rental market, especially the office rental market, continues to perform well and we have registered that this has led to some activity within the office segment so far this year. A bit surprisingly, we can see that the retail segment accounts for a considerable share of the total transaction volume so far this year. It should be pointed out that this involves one transaction (as part of a portfolio of retail properties somewhat geographically diversified), which currently constitutes a large proportion of the total volume.

Although we can see some difficulties within the residential segment, we believe that some properties, both development and residential housing, will be traded by the end of this year. After all, Trondheim is a city with a large number of students (growing by approx. 800 students on average each year) and thus there is a great need for housing. As for the logistics segment, it seems that supply as much as anything is causing low activity within this segment.

In conclusion, we expect a moderate year within the investment market and we believe that the "recovery period" will last longer than first expected. However, in our latest investor survey we noticed that participants were slightly more "moderate" when predicting yield levels one year ahead (still an increase from today's yield levels) compared to the answers from the Q3 2022 survey. This may indicate a somewhat more predictable future than was seen at the end of 2022, which could be interpreted in a slightly positive way.

Transaction volume per segment



*As of May. Source: Norion Næringsmegling

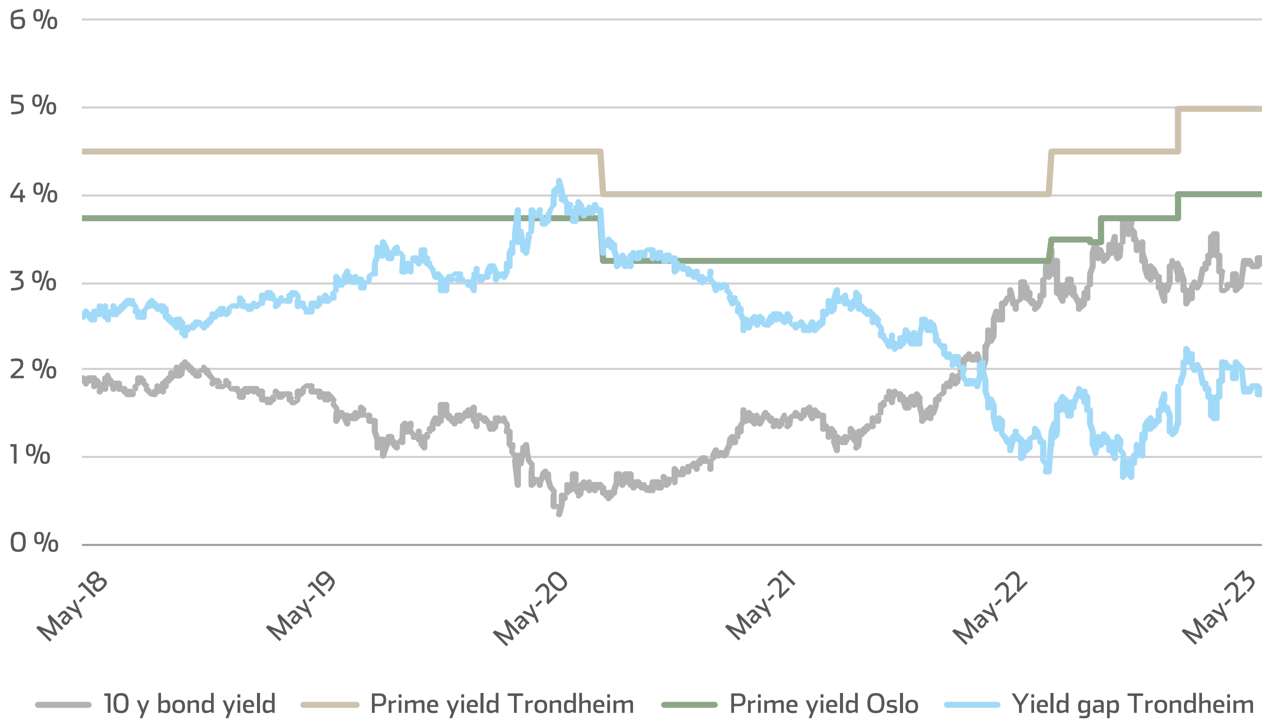
Rates and yields

Floating interest rates have gradually increased throughout 2022 and so far in 2023, while we have seen more stabilising levels for long-term swap rates. Since November 2023, 10-year Norwegian bonds have had an average rate of approximately 3.20 %, varying between 2.80 % and 3.55 % over the period.

The more stabilised, long-term, risk-free yield for all type of investments (in this case the 10-year Norwegian bond) for the past six months should indicate that the prime yield should continue unchanged going forward. Meanwhile, short-term interest rates in Norway have increased by 0.50 pp since January, while the USA and euro area have increased their policy rates by 0.75 % and 1.50 % points respectively. The increase in global rates has led to a weaker NOK, which again puts pressure on the central bank of Norway (NB) when it next sets the interest rate.

So, what happens when the long-term yield seems stable, while short-term rates are still going up? As a buyer, you may face a short-term challenge regarding cash flow, while the real estate owners can expect a yield comparable to other long-term investments.

Interest rates and yield



Source: Norion Næringsmegling

Stortorget 7 — Oslo

Malling & Co Næringsmegling was commissioned by Schage Eiendom as the broker for the letting process of Retail and F&B at Stortorget 7.

Retail

What is in store for stores?

Since the onset of the high inflation paradigm in the midst of 2022, the central bank of Norway (NB) has been increasing interest rates and the key policy path. The restrictive monetary policy is expected to dampen inflationary pressures mainly through the cash flow channel. Nevertheless, the overall retail turnover ended up in favourable terrain at 4 % for 2022. Several factors may have contributed to this result. There is a lag between changes in monetary policy and its effects on inflation and economic activity. Households take time to adjust their behaviour. Household consumption during 2023 mainly depends on how temporary the inflation and interest rate shock is expected to be and how the labour market and wage growth support purchasing power.

According to the data published by Statistics Norway (SSB) and the Norwegian central bank, the services sector has exhibited an upward trend in overall turnover during the first quarter of 2023. Conversely, the goods sector has experienced a decline in overall turnover. These observations signify a reversal of the trends observed during the pandemic period. Furthermore, an analysis of bankruptcy statistics reveals a consistent increase in bankruptcies since reaching a historically low point in Q3 2021. However, there is yet no evidence indicating an abnormal surge that can be attributed to more challenging economic conditions.

Retail turnover volume declined in 2022, and trends sharply downward into 2023

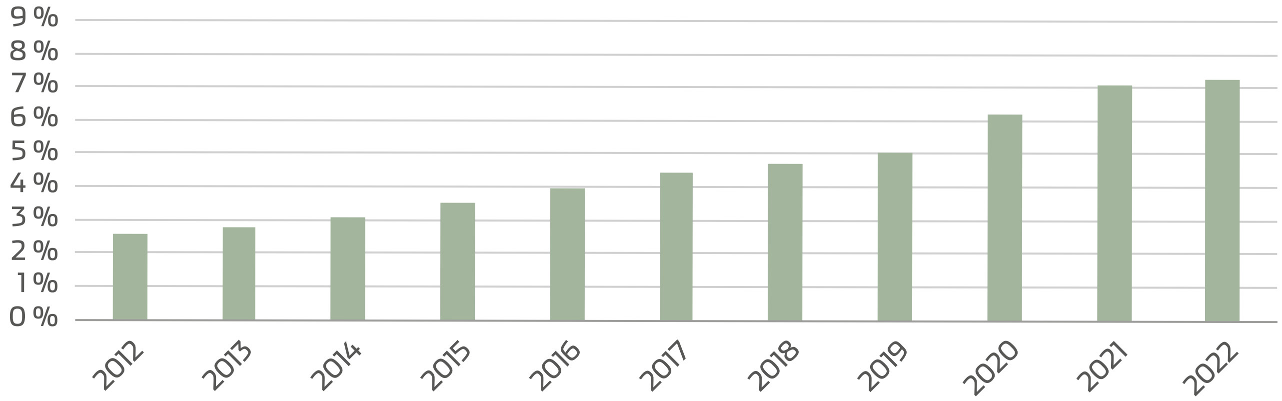
Retail turnover has been experiencing growth over the last few years. The pandemic reinforced this tendency especially due to the consumption of goods rather than services. Online sales have benefited most, and revenue growth in this segment has been above 70 % from 2019 to 2022. Overall retail sales volume stabilised in 2021, but declined in 2022, despite an increase in total revenue due to the sharp growth in prices seen in 2022. However, the retail sales index clearly shows a decrease in overall retail turnover of about 3.5 % measured as an average in the first four months of 2023 relative to the average volume index in 2022. The y/y change in April was at negative 6.4 %.

Unlike the pandemic period, it appears that the consumption of services has surpassed that of goods. The regional network report released by the Norwegian central bank in March 2023 concludes that households buy more services than expected. It states that restaurants and hotels, in particular, experience a surprisingly robust demand, and order intake indicates some rise also in the immediate future (Q2 2023). Such conclusions are supported by the turnover index for service activities by SSB in May 2023. The overall service m/m turnover growth seasonally adjusted was 0.1 % for March 2023 , and the y/y turnover is at 10.0 %. For accommodation and food service activities, the y/y turnover ended up at 8.0 % in March.

Retail trade (excl. motor vehicles and motorcycles), volume index seasonally adjusted (2015=100)

Source: Statistics Norway

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



Source: Statistics Norway

Development in retail rents

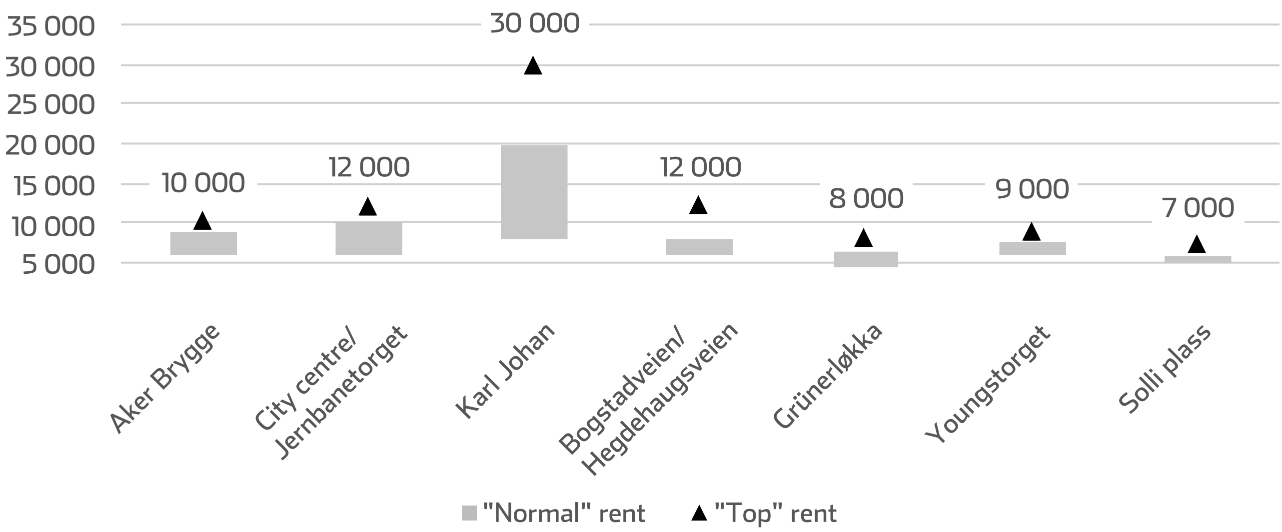
Our letting agents say the retail rent market has shown minimal changes despite the evolving economic conditions. There is a notable interest among tenants looking to establish new businesses in Oslo. To mitigate risks, tenants are proposing lower minimum rents to landlords in exchange for a higher share of the rent based on revenue. This trend has been consistent since the start of the Covid pandemic. Consequently, there is increased pressure on landlords to optimise retail space for better flow and revenues, favouring professional landlords and property managers within the retail sector.

While specific retail industries, such as electronics, have experienced significant declines, there has been a remarkable surge in interest from businesses seeking to open new stores, particularly in the clothing and beauty sectors.

Furthermore, the restaurant sector has encountered challenges in establishing new businesses due to banks' reluctance to provide financing. However, there is a consolidation trend in this industry, with well-established brands acquiring smaller businesses, leading to the solidification of the sector. As for car dealerships' interest in occupying high streets in Oslo, our letting agents indicate that this trend is still on the rise, with new brands planning to open new stores in the near future.

Overall, the demand in the market remains stable, with similar levels of interest as reported in our winter 2022 market update.

Indicative retail rents in the Greater Oslo high streets, (NOK/m²/yr)

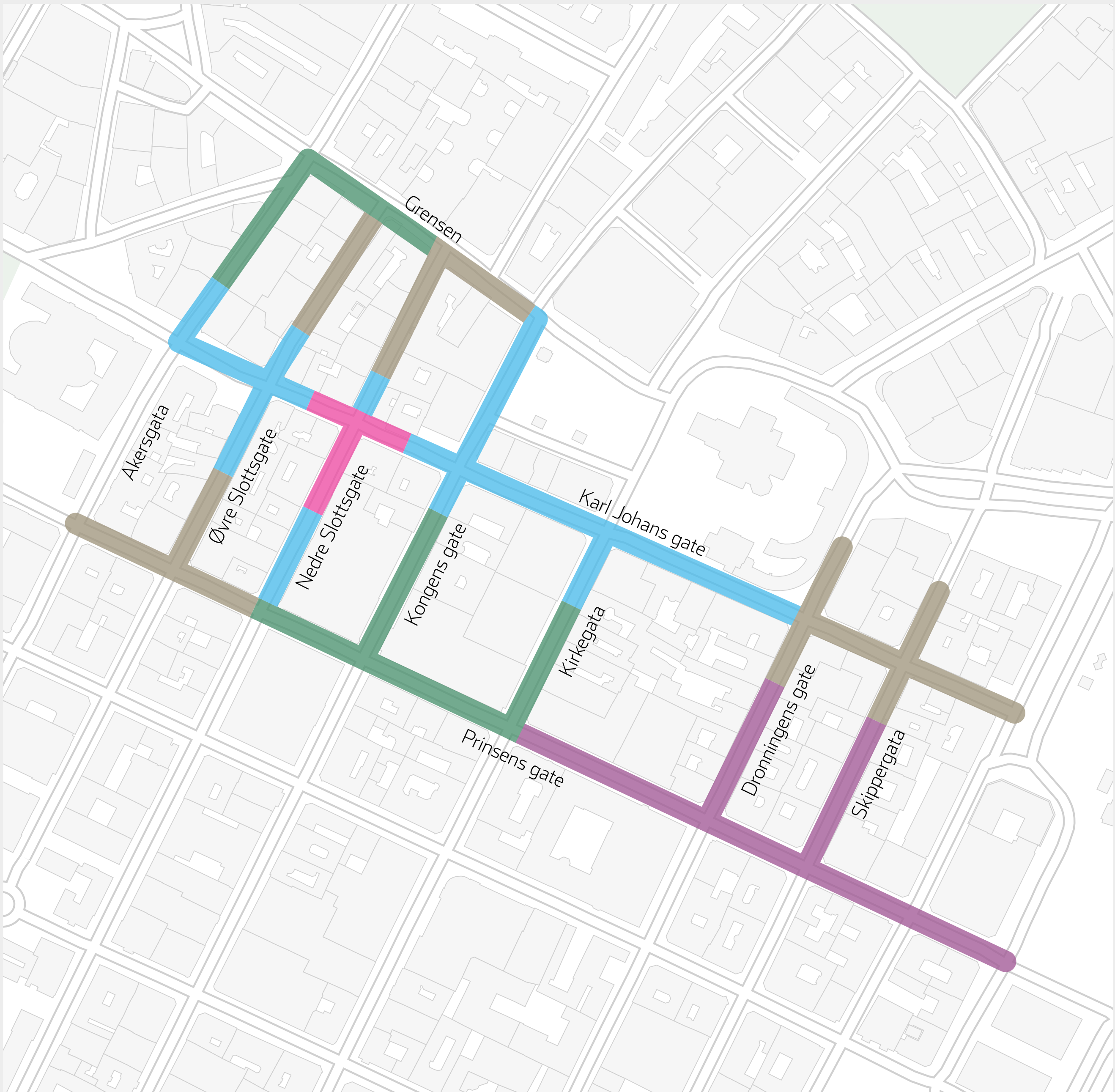


See definition of prime and normal rent on page 16. Source: Malling & Co

Indicative high street retail rents in and around Karl Johans gate, (NOK/m²/yr)

Source: Malling & Co

Area Category	From	To
Pink	15 000	30 000
Blue	10 000	15 000
Beige	6 000	12 000
Green	3 500	8 000
Purple	2 500	3 500

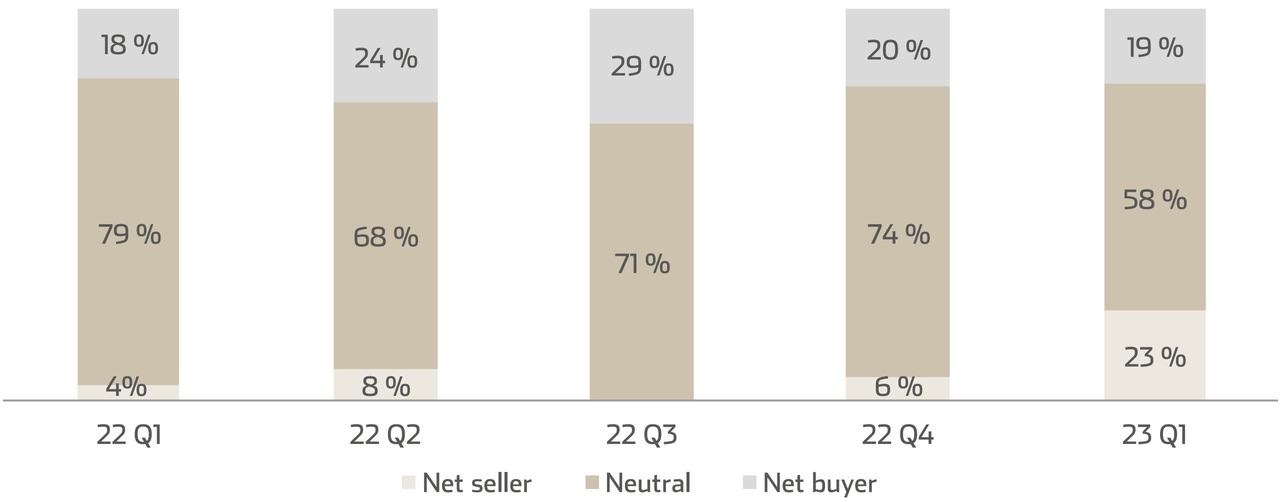


«The exact reasons why more investors want to reduce their exposure to retail properties are uncertain. One possibility is that investors have lost confidence in tenants within this segment and foresee difficulties in filling premises with long-term, low-risk leases»

Desired exposure to retail properties

According to the results from our Investor Yield and Sentiment Survey, only 19 % of the respondents desired increased exposure to retail properties in the coming 12 months in Q1 2023, which is stable from the previous quarter's result. This result represents a 10 % decrease from the highest recorded level of 29 % in Q3 2022. The proportion of net sellers is significantly up (23 %) and represents approximately one quarter of the investors in the survey. The exact reasons why more investors want to reduce their exposure to retail properties are uncertain. One possibility is that investors have lost confidence in tenants within this segment and foresee difficulties in filling premises with long-term, low-risk leases. This alternative is supported by the increased number of bankruptcies and the general weakening of purchasing power among the population. Another possibility is that it is a good time to sell this type of property before yields rise even further and values decline. This alternative is supported by the yield increase we observed in Q1 in our Investor Survey. So far this year, we have recorded roughly NOK 2 billion in transaction volume among retail properties, accounting for 11 % of the total volume which is slightly lower than the shares we have seen in recent years. We believe this trend will continue throughout the year and in the coming years.

Desired exposure towards high street retail next 12 months



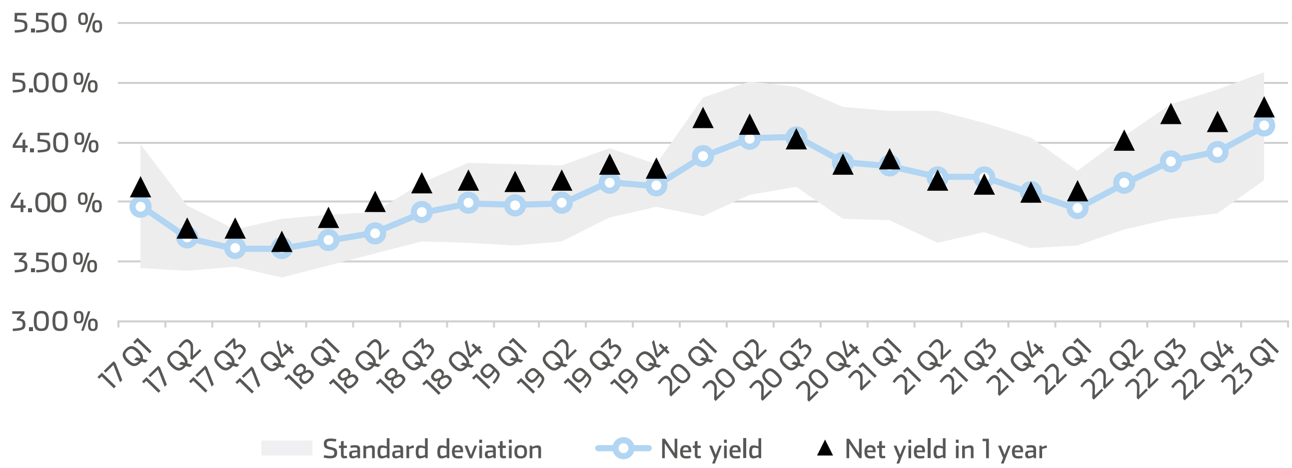
Source: Malling & Co Investor Yield & Sentiment Survey

Retail yields are increasing amidst a fragile consumer outlook

According to investors' view of the retail rental market based on our Investor Yield and Sentiment Survey, retail prime yields have increased since the bottom in the first quarter of 2022. The slope of the increase has been stable at around 20 bps each quarter, except for Q4 2022 where yields rose by just 8 bps. The prime yield for Q1 2023 was according to the investors 4.65 %, with a further 12-month outlook from investors of an increase of 35 bps to 4.80 %. The standard deviation of yields for prime high street retail remains high at 0.45, which is in line with the uncertainty witnessed at the height of the pandemic. The same trends can be seen in normal yield retail. From Q1 2022 to Q1 2023, the net yield has risen 75 bps to 5.55 %, all the while the standard deviation and investors' expectations about net yield in 1 year have also increased. The 12-month outlook for normal retail yield from investors now stands at 5.75 %. As expected, the outlook for retail is bleak, and investors have reacted accordingly. The sentiment now shows that there is a higher share of investors intending to be net sellers at almost a quarter of the investors, than there are investors intending to be net buyers of retail over the coming 12 months.

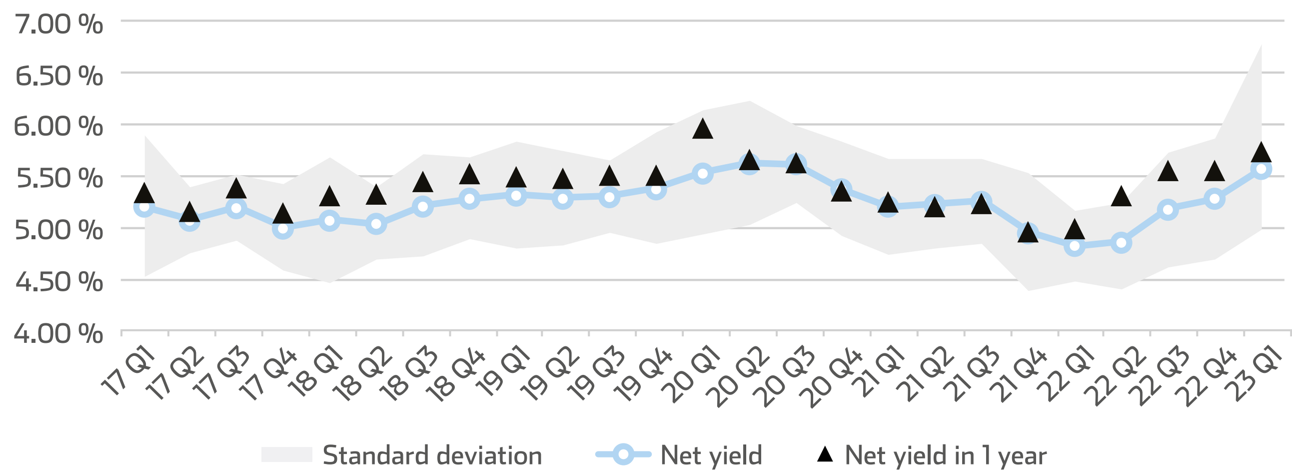
Our house view of prime retail is somewhat lower, and this is where we find the biggest discrepancy between our house view and that of the investor survey. Our retail prime yield estimate is at 4.45 % up 10 bps from our previous report, and in our view a function of the sharp yield increase we have seen in this segment already years prior to the interest rate increases of late, and something that was already a trend pre-pandemic (see investment market section on the global investment market). We thus also see less of an increase over the coming 12 months at a 20 bps increase to 4.65 %. For normal retail yield we estimate that at 5.55 %, more in line with the investor survey. But our 12-month outlook is an increase between 30 to 55 bps to somewhere between 5.85 % and 6.10 %.

Prime retail high street yield, Egertorget



Source: Malling & Co Investor Yield & Sentiment Survey

Normal retail high street yield



Source: Malling & Co Investor Yield & Sentiment Survey

Egertorget — Oslo

Malling & Co Eiendomsutvikling is managing a project at Egertorget on behalf of Promenaden Management. The project includes renovation and fitout for a large retail tenant, totaling approx. 3 000 m².

Hospitality

Dark clouds looming over the hospitality industry

2022 exceeded all expectations for the hotel industry in Norway, with a lodging revenue per available room far surpassing pre-pandemic levels. This positive trend has carried over into 2023, driven by an increasing number of international visitor nights. However, the high lodging revenue is not a result of increased capacity but rather substantial price hikes. This aligns with the drastic change in cost dynamics, and so far, visitors have accepted the higher prices. Going forward, we anticipate that the costs will become too burdensome for many, as evidenced by a decrease in household savings rates. The summer booking outlook is favourable, and a weak NOK has made Norway a more popular destination for foreigners. However, there are looming challenges for the hotel industry in the post-summer period that may discourage investors from entering the segment. Nevertheless, there are opportunities to implement strategies to enhance the appeal of hotels, as well as explore new concepts that have proven profitable within the luxury and budget segments.

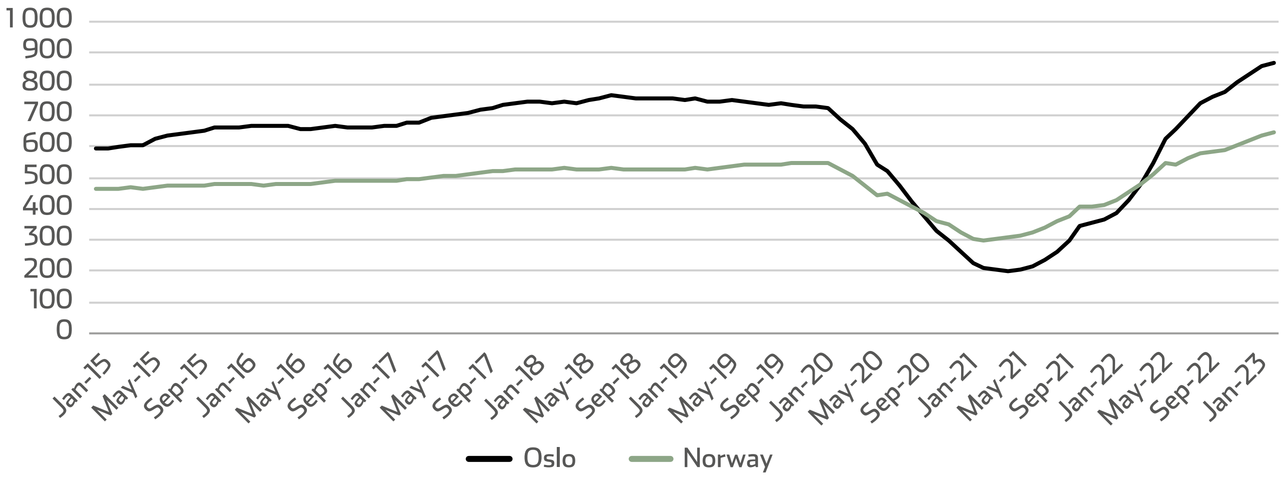
12-month rolling RevPar in Norway exceed 2019-level by 18 %

Norway — Revenue per available room (RevPAR) is an important key performance indicator for hotels as it provides valuable insights into the revenue base. The reported earnings are directly linked to accommodations and exclude revenue from dining or other services. On a national level, RevPAR has reached a high level, with a monthly average of NOK 644 over the past 12 months. This figure is NOK 100 above the 2019 average, which is a relevant year for comparison considering the challenges brought by the Covid pandemic to the hotel industry from 2020. The increased revenue per available room is not due to capacity utilisation. In Norway as a whole, the occupancy rate is 2 % below the 2019 level, averaging 53 % over the past 12 months. However, it is primarily the room rates that have significantly driven up accommodation revenue, with prices experiencing a drastic increase. The 12-month average stands at NOK 1 217, well above the average for the corresponding months in 2019 at NOK 978. Hotels have had to raise prices to recover from the losses caused by the pandemic, and then the Ukraine conflict ensued, leading to energy shortages and a tremendous surge in electricity prices. High costs continue to be a challenge that hotels are grappling with.

Oslo — In Oslo, the story is similar to the national trend, albeit to an even greater extent. The 12-month rolling average RevPAR in Oslo stands at NOK 867, significantly higher than the national average and the 2019 average for the same months at NOK 730. The occupancy rate of available rooms in Oslo is higher than the national level but still considerably below pre-pandemic levels. The average daily rate (ADR) for the past 12 months is an impressive NOK 1 347, making it the primary contributor to the increased earnings for Oslo hotels. Furthermore, it will be interesting to see if pricing will have a greater negative impact on capacity, as the expected interest rate hikes are anticipated to weaken the economic situation among the Norwegian population.

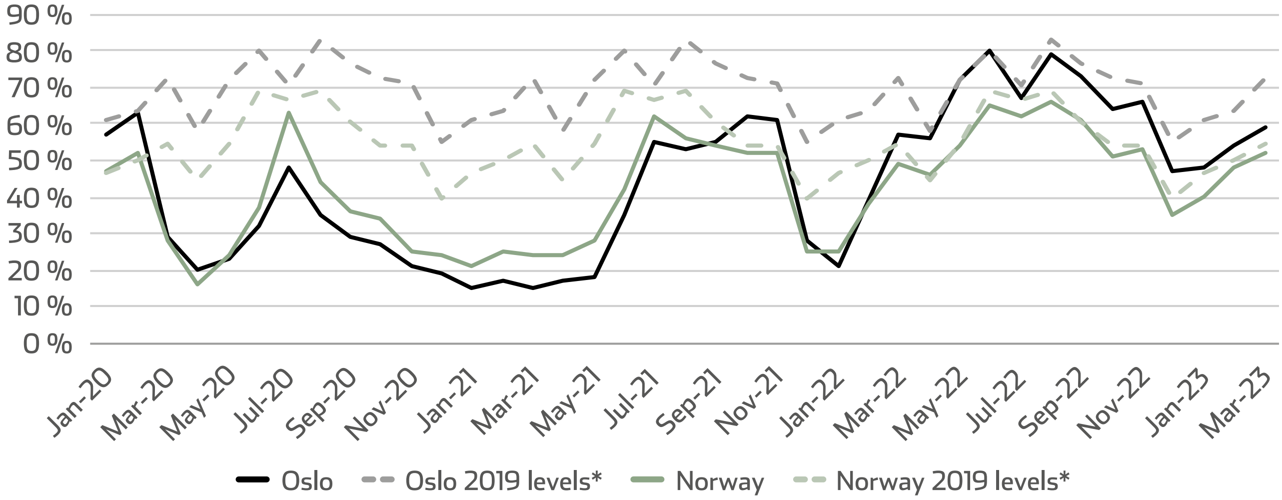
«Hotels have had to raise prices to recover from the losses caused by the pandemic, and then the Ukraine conflict ensued, leading to energy shortages and a tremendous surge in electricity prices. High costs continue to be a challenge that hotels are grappling with»

Revenue per available room (RevPar), 12-month rolling average, NOK



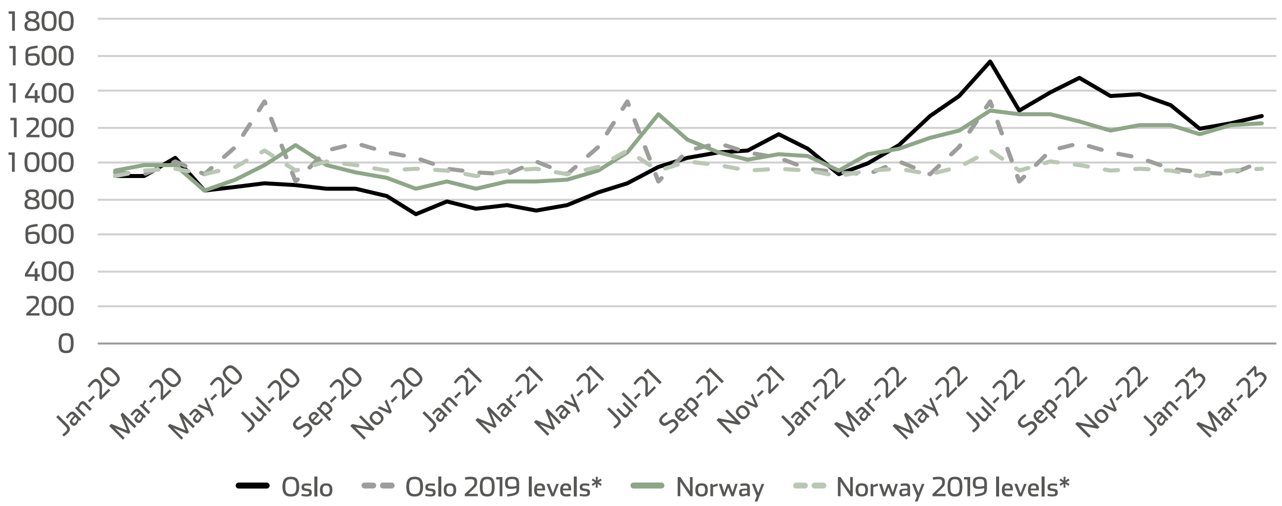
Source: Statistics Norway

Occupancy (%) per month



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

Average day rate (ADR) per month, NOK



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

Key figures Q1 2023 vs. Q1 2022	Oslo			Norway		
	Q1 2023	Q1 2022	*2022 vs 2023	Q1 2023	Q1 2022	*2022 vs 2023
Total revenue Q1, MNOK	902 094	515 644	**75 %**	4 306 946	2 974 143	**45 %**
Average RevPar Q1, NOK	659	406	**62 %**	586	438	**34 %**
Average ADR Q1, NOK	1 230	1 019	**21 %**	1 229	1 066	**15 %**
Average Occupancy Q1, %	54 %	39 %	**38 %**	46 %	39 %	**18 %**
Total # of guest nights Q1	1 030 036	705 680	**46 %**	5 030 205	4 023 506	**25 %**
Norwegian guest nights, Million	737 353	559 852	**32 %**	3 900 043	3 218 084	**21 %**
Foreign guest nights, Million	292 683	145 828	**101 %**	1 130 162	805 422	**40 %**

*%-increase/decrease of 2023 figures relative to 2022 figures.

Source: Statistics Norway

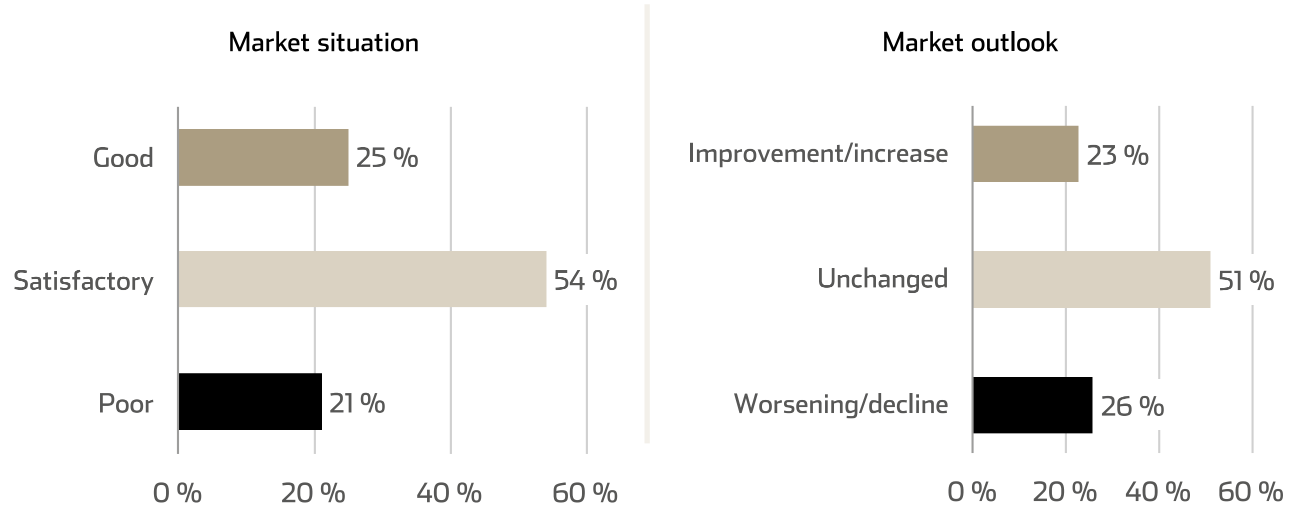
New construction and expansions

Some new hotel projects were put on hold during the pandemic and some were also cancelled, although some developments and expansions of hotels have taken place. This has resulted in limited new capacity entering the market in the next 2-3 years, given the typically lengthy project lead time. For many owners and operators, this is good news as it reduces the supply. However, there are still some projects in the pipeline. Nordic Choice Hotels is opening Hotel Riviera in Moss mid-2023 with 172 rooms and Quality Hotel Prinsen in Trondheim opened on 1 January 2023 with 122 rooms. Scandic Hotels has 421 new rooms in the pipeline, among them a third hotel in Tromsø with 305 rooms. Thon Hotels is developing a new hotel at Lørenskog, Thon Hotel Snø, introducing 300 new rooms next to the year-round indoor ski arena just outside Oslo.
In Bodø, Wood Hotel is under construction with estimated completion in early 2025.

Booking outlook for the summer is positive

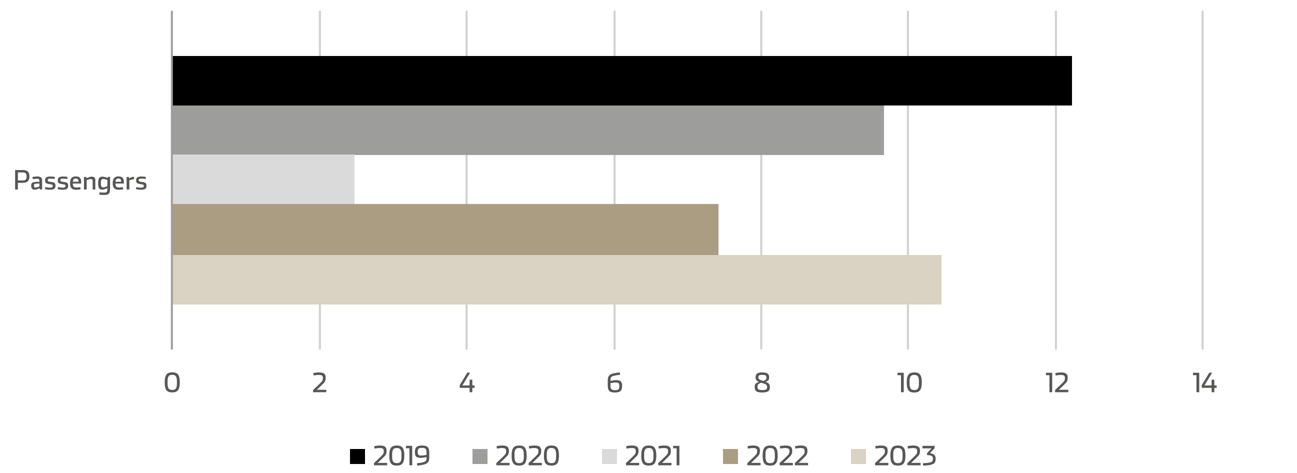
Where scepticism was prevalent in the autumn, with only 16 % considering the market situation as favourable, 25 % of the member companies of the Norwegian Hospitality Association have become more positive about the market situation now. At that time, high energy prices were the main cause of scepticism. While the price of electricity has decreased since then, the central bank of Norway (NB) has raised the key interest rate, which is expected to impact the hotel and tourism industry. This survey suggests that it has not yet had such a negative impact on these industry players, as fewer firms perceive the market situation as poor in May 2023 (21 %) compared to October 2022 (30 %). Looking at the market outlook for the next six months, it remains relatively similar to the current situation, with 23 % anticipating improvement, 51 % expecting no change, and 26 % considering the market situation unchanged. This is largely influenced by the upcoming high season for tourism, and companies report that the booking outlook for the summer is positive.

Responses from the Norwegian Hospitality Association member survey, May 2023



Source: NHO Tourist and Travel's member survey

Number of terminal passengers at Norwegian airports in millions in Q1, 2019-2023



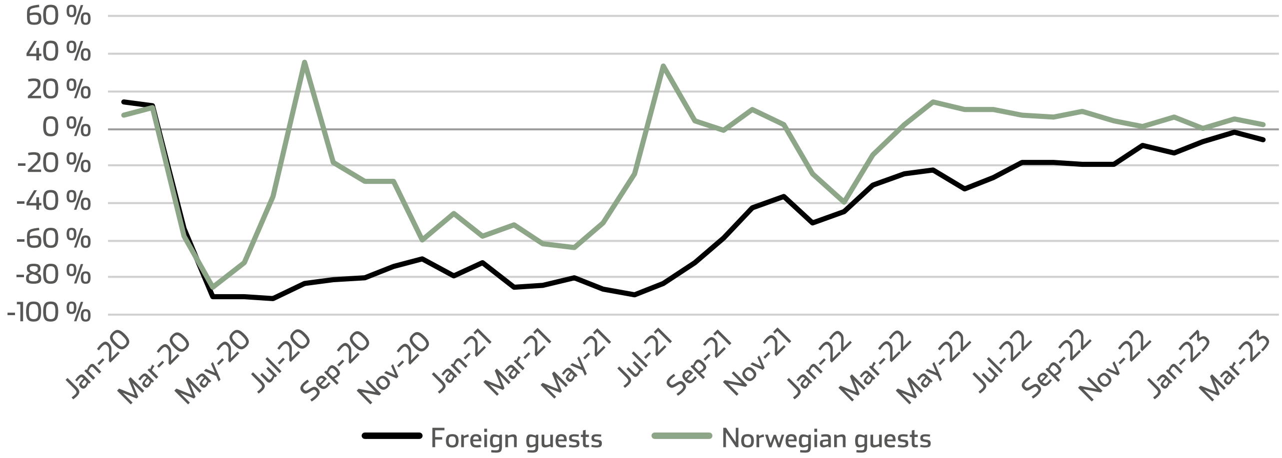
Source: Avinor

International guests returning

When examining who occupies hotel beds throughout the country, it is pleasing to see that the proportion of international guest nights is approaching pre-pandemic levels. Among Norwegians, this proportion has been consistently positive since March 2022, following the most recent reopening from the Covid restrictions. In March 2023, the highest number of foreign guest nights since 2019 was recorded. If this trend continues, it could be a promising summer, especially for hotels located in tourist areas. One factor contributing to this is the weak NOK, which makes Norway a much more popular destination now than before. According to figures from Statistics Norway (SSB), there are still significantly fewer Asian guest nights than before, largely due to Covid restrictions in China. However, these restrictions have now been lifted, which may lead to an increase in Chinese visitors to Norway in the future.

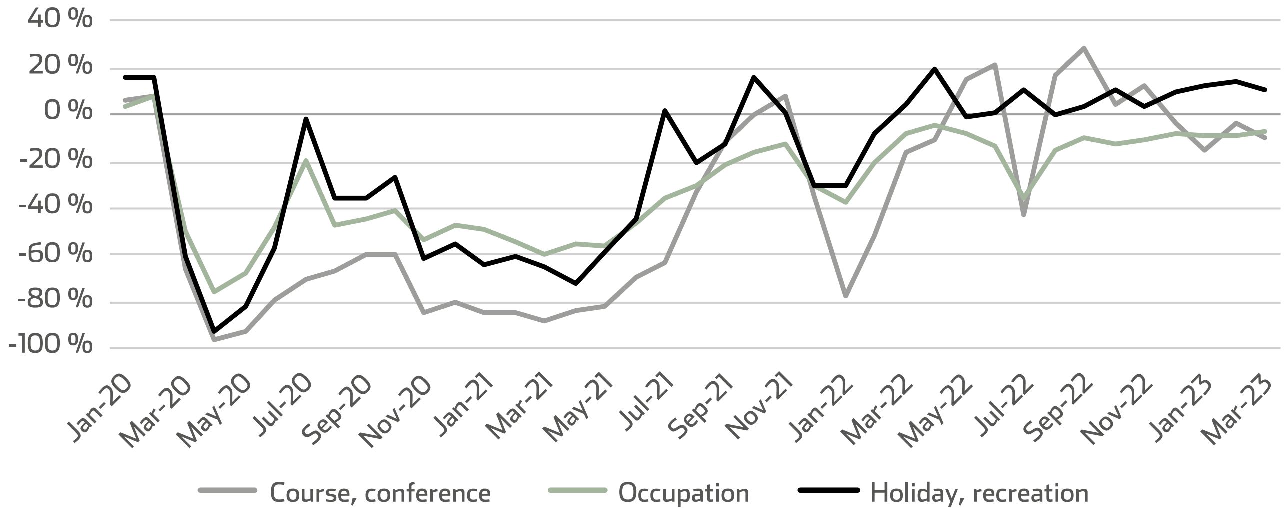
Holiday and recreational travel purposes have strongly contributed to activity in the hotel industry during periods without significant restrictions. This applies to both Norway as a whole and the capital city. Business travel related to courses and conferences is largely seasonal, but compared to the same months in 2019, we have seen periods of high activity. Especially in Oslo, this purpose of travel has been prominent again after being almost non-existent during the pandemic. On the other hand, there is significantly less job-related travel, a trend that has not reached pre-pandemic levels. This is likely to continue as the pandemic has taught us the value of digital meetings and increased focus on carbon footprints. This will also influence course and conference-related travel, although to a lesser extent, as this type of travel is not at the top of companies' lists of wasteful practices.

Number of nights in Norway per month by Norwegian and foreign guests, relative to 2019



Source: Statistics Norway

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

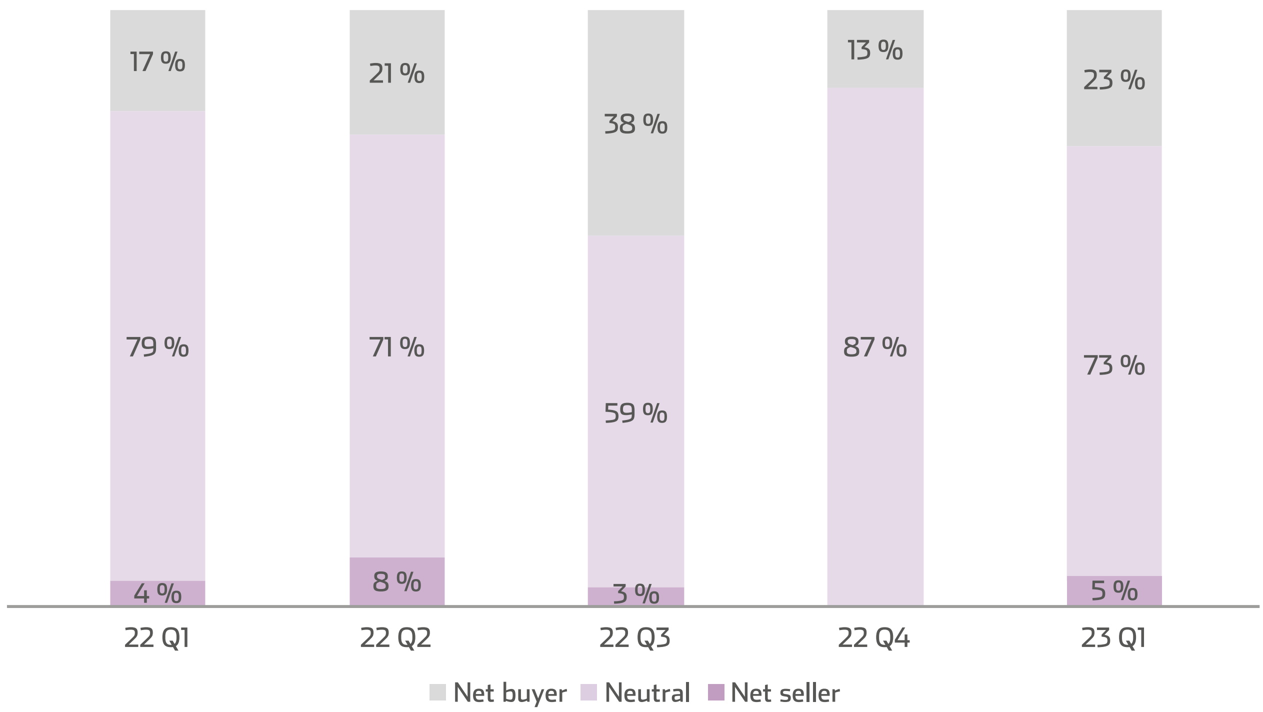


Source: Statistics Norway

Limited transaction activity for hotel properties

Since we started our Investor Yield and Sentiment Survey in 2017, hotels have been the least desirable segment for investors to allocate their resources compared to office, retail and logistics. This trend has continued, with the ambition of increasing exposure in the coming twelve months for hotels, decreasing to 23 % of the respondents in Q1 2023 compared to 38 % in Q3 2022. Despite fewer investors showing interest in hotel properties, the total transaction volume for 2022 reached approx. NOK 3 billion. However, so far this year, we have only recorded one hotel transaction. Looking at the revenue side of hotels, the short-term outlook appears decent, but there are dark clouds looming on the horizon. This does not suggest an increase in hotel transactions, although it is possible to enhance the attractiveness of a hotel property and potentially increase its revenue through strategic improvements. There are, for example, exciting new segments within the hotel industry, particularly in the luxury and budget segments.

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



Source: Malling & Co Investor Yield and Sentiment Survey

«Looking at the revenue side of hotels, the short-term outlook appears decent, but there are dark clouds looming on the horizon. This does not suggest an increase in hotel transactions, although it is possible to enhance the attractiveness of a hotel property and potentially increase its revenue through strategic improvements»

Dyrskuevegen 44 — Kløfta

Malling & Co Næringsmegling was the letting agent when Holship Norge AS leased 20 000 m² in Dyrskuevegen 44.

Vilbergvegen — Gardermoen

Malling & Co Næringsmegling has been commissioned by Møller Eiendom as the letting agent for Viridis Gardermoen – a state of the art logistics- and car dealership property, approx. 20 000 m².

Industrial & Logistics

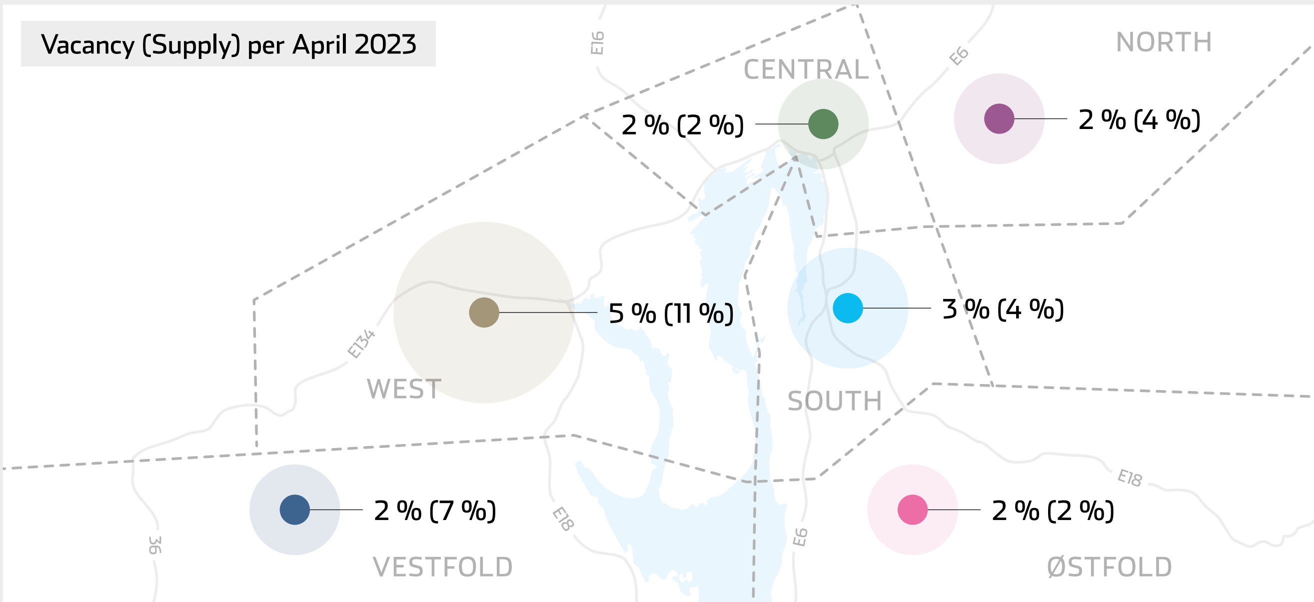
Leasing activity back to normal

The logistics segment experienced a significant decline in yields and a surge in activity due to the increased demand for storage and delivery of goods caused by pandemic restrictions. However, the current outlook has cooled off, with transaction activity coming to a near standstill and leasing activity returning to pre-2022 levels. Previously eager tenants are now being actively pursued by leasing agents who need to take a more proactive approach. Despite this, there is still underlying demand, and with limited availability of buildings, rents continue to rise. The main driver of this rental growth is the need to cover the high construction costs for newbuilds, in addition to a high consumer price index (CPI) influencing lease adjustments on market terms. The construction costs also result in a lower supply side, which in turn creates pressure on existing building stock. As a result, tenants must adapt to new pricing, while owners grapple with higher interest rate expenses.

Vacancy and supply for Eastern Norway

The average total vacancy rate in Eastern Norway has increased from 2.0 % in our previous market report to 2.5 %. Although this marks a 0.5 pp increase, the current figure still remains low and offers limited options for firms seeking available premises to relocate to. The highest vacancy rate can be found in the western area at 4.7 %, representing a 2.3 pp increase from October 2022. Vacancy rates in Eastern Norway are generally low, ranging from 1.5 % in Østfold to 3.3 % in Southern Oslo. The total supply of vacant commercial properties being advertised in the market beyond twelve months is currently at 4.5 %. This figure suggests a lack of newbuild activity, with developers opting to secure letting agreements with potential tenants before proceeding with construction. Compared to October 2022, the supply has decreased by 1.2 pp, mainly due to a significant drop in Southern Oslo where the supply has decreased by 9.7 pp, now standing at 3.8 %. The completion of large projects, such as Toveien 41 in Vestby, which will offer 90 000 m² of space, is set for Q4 this year, with approximately 80 000 m² already pre-let. Other projects in Vestby are also nearing completion, with space already pre-let. In contrast, the supply in Western Oslo has increased by 3.5 pp to 10.5 %, with 80 000 m² of ready-to-build lots available at Hanekleiva. Additionally, supply has increased by 4.0 pp to 6.8 % in Vestfold, with three construction projects at Borgerskogen being advertised as zoned for industrial purposes.

Vacancy (Supply) per April 2023



Total Vacancy = 2.5 % | Total Supply = 4.5 %

North · Central · West · South · Vestfold · Østfold

Source: Malling & Co, FINN.no

Mapping of the Eastern Norway logistics market — Our extensive mapping of the logistics market in Eastern Norway is an expansion on the Greater Oslo mapping we previously performed. Our extension of the database of all the logistics clusters and large stand-alone properties thus continues to be refined and developed, and we are utilising our findings to provide an answer as to the future development for logistics. The estimated total stock of warehouses and logistics properties in our defined areas comprises 12.7 million m² gross lettable area (GLA), with a total identified lot size of 25.9 million m².

Industrial tenants need to adjust to new pricing

Tenant activity remains robust, and as a result of limited available space, rents have surged even higher since our last report in November. After consulting with leasing agents on indicative rents, we have decided to raise the minimum rental rate by 50 NOK/m²/year nominally for clusters located furthest from Oslo. However, it is the top rent that has experienced the most significant adjustment, primarily due to the scarcity of available units and the strong demand for storage facilities near Oslo. According to our leasing agents, tenants in the Groruddalen/Alnabru area are willing to pay between 1 700 – 2 000 NOK/m²/year. Interestingly, tenants in the last-mile-logistics segment show consistent willingness to pay regardless of storage height; instead, proximity to the city centre is the most desirable factor.

The primary driver behind the rental increase is the high cost of new construction, as construction costs have not significantly decreased yet. Developers require a certain level of rental income to initiate new projects, which contributes to the upward pressure on rents. Currently, there is a record-high rental gap between newly built properties and existing buildings, particularly in locations farther away from Oslo. Furthermore, the rental prices of new constructions have spillover effects on the rents of existing buildings.

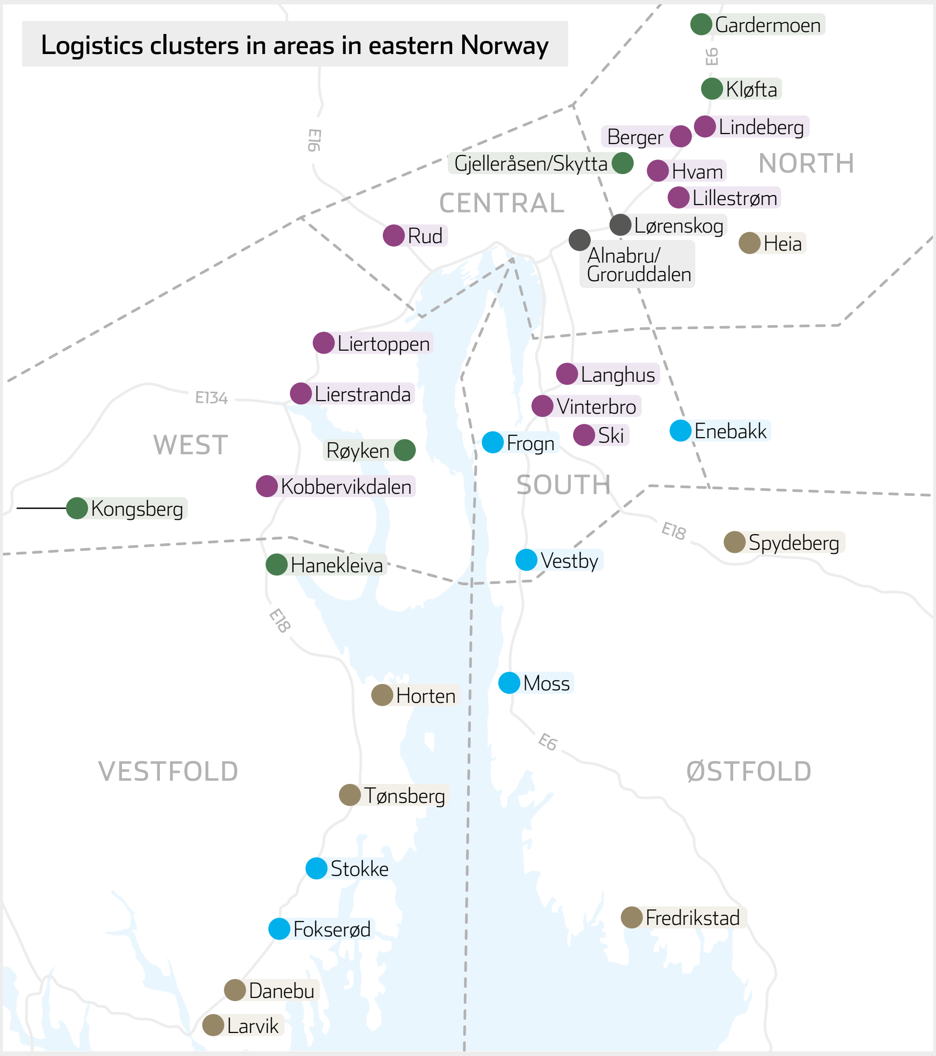
It is worth noting that the required rent varies among developers, with some anticipating a future decrease in construction costs and aiming to reduce overall expenses for their new projects. Additionally, there is a growing trend of offering longer rent-free periods to compensate tenants as the rent per square metre increases in newly constructed properties, thereby establishing a new standard not commonly seen in logistics.

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

Ceiling 4-6 metres (heated, high standard)	
● (dark grey)	1 700 – 2 000
● (purple)	1 250 – 1 500
● (green)	1 100 – 1 300
● (blue)	900 – 1 100
● (beige)	850 – 1 000

Ceiling › 6 metres (heated, high standard)	
● (dark grey)	1 700 – 2 000
● (purple)	1 350 – 1 600
● (green)	1 200 – 1 400
● (blue)	950 – 1 150
● (beige)	900 – 1 050

Logistics clusters in areas in eastern Norway



Market rent — Indicates the amount for which a vacant property may be let, or re-let when the existing lease terminates, for a standard logistics building with no extra investments in equipment or custom fit-out. Market rent is not a suitable basis for the amount of rent payable under a new construction where the definitions and assumptions specified in the lease have to be used to derive at a rent that satisfies the required return for a developer to realize a project.

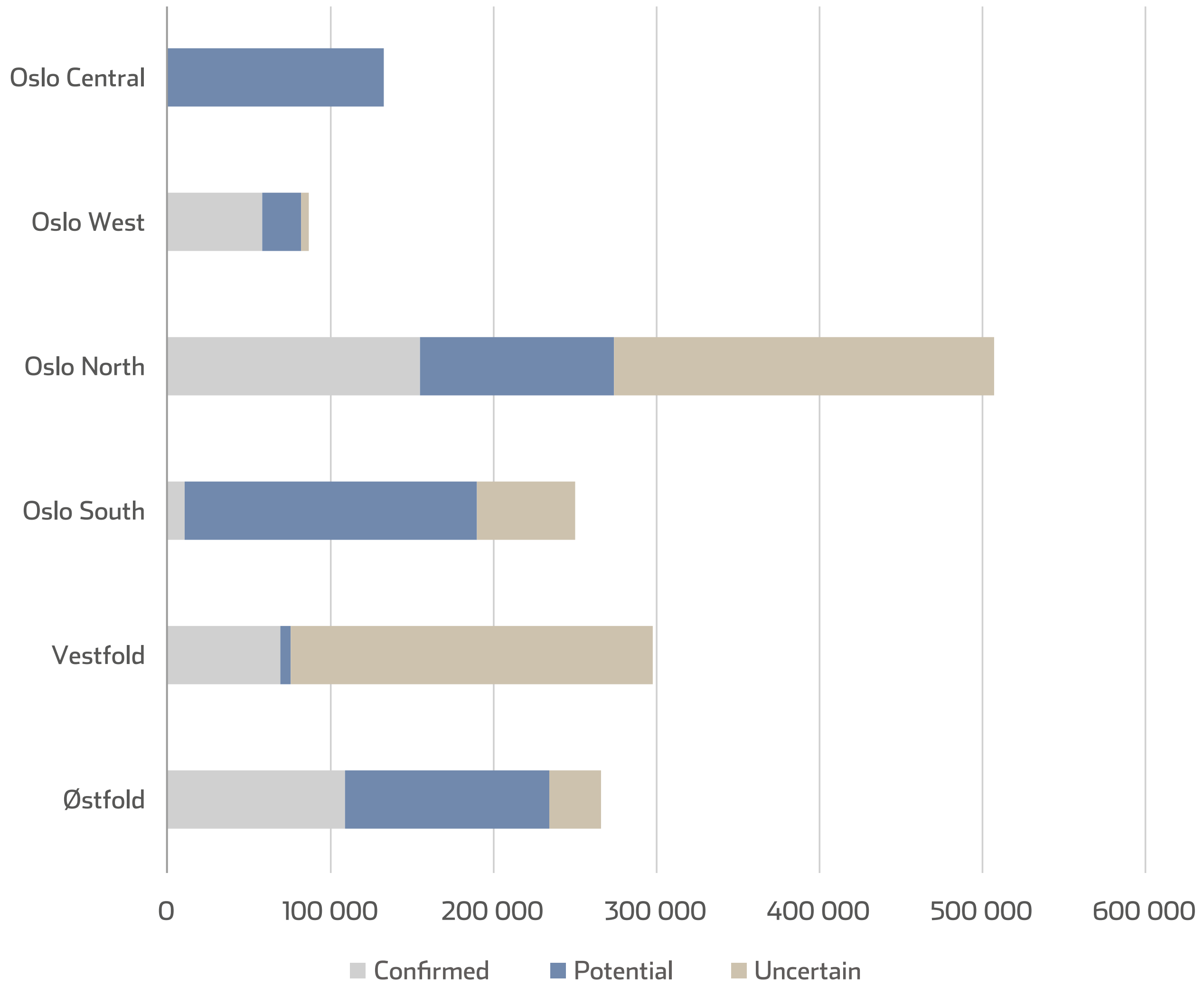
Source: Malling & Co

Newbuild activity in Eastern Norway

With low vacancy rates among industrial operators, newbuild activity holds great importance for the industry. Although there is a significant amount of land that could potentially be zoned for industrial purposes, the soaring construction costs have deterred many tenants from agreeing to the required newbuild rents set by developers. The highest volume of confirmed newbuild projects is seen in Northern Oslo, with 154 000 m² of planned construction. Additionally, several projects are in the pipeline at Gardermoen, such as Gardermoen Næringspark and Gardermoen Sjømatsenter. In Oslo South, there is significant activity taking place at both Vestby and Drøbak Næringspark, with a total of 95 000 m² of confirmed or potential building space coming to the region.

Further south across the Oslofjord, there are not many confirmed projects adding to the industrial capacity. However, at Danebu, there is a substantial amount of land with the potential for development. In Oslo central, where demand is high, the scarcity of available plots of land makes it unlikely for many projects to commence in the area. This creates an imbalance in the market, causing rents to skyrocket and leading to spillover effects on rents in other regions. In the highly desirable logistics area of Groruddalen/Alnabru located close to a significant portion of Oslo's population, there is limited available land for further development, which explains the low number of confirmed newbuild projects in that region.

Industrial construction volume, m² per region, by probability of completion

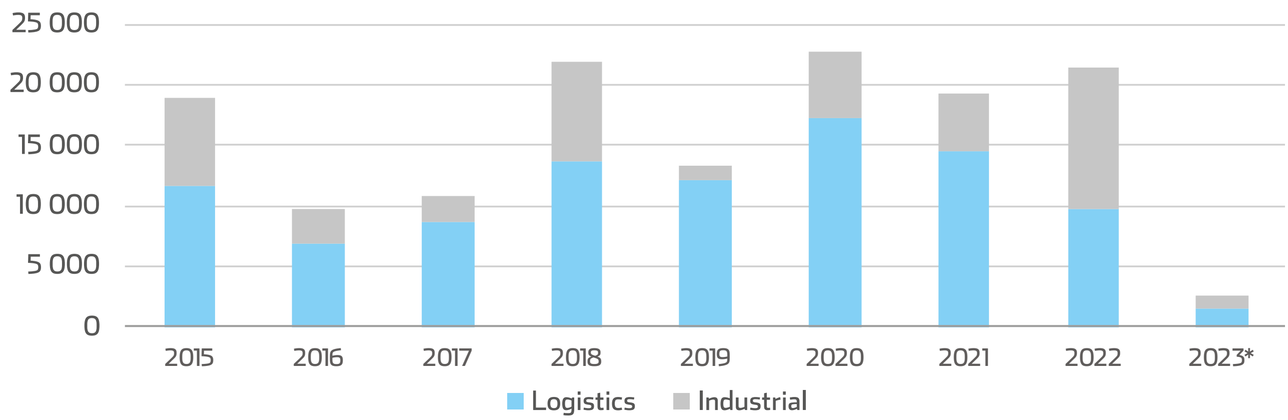


Source: Malling & Co, Matrikkelen, ByggFakta

Industrial transaction activity at a standstill

Industrial transactions registered in 2023 as of May amounts to NOK 2.6 billion, spread across 12 transactions only. The volume is at best a modest one and represents the impact of higher interest rates causing problems in financing the acquisitions of properties. The share accounts for 15 % of the total volume so far, which is a significantly lower share of the total transaction volume than we have seen in previous years. Logistics, which has undergone a journey from an alternative asset class to a core investment prospect, accounts for NOK 1.6 billion of the overall industrial investment volume. Despite a low volume, we have seen examples of how it is possible to sell high quality buildings with solid tenants on long contracts on a new established price level. We see this happening going forward as well, albeit not with the same euphoria we have seen for logistics properties in recent years.

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

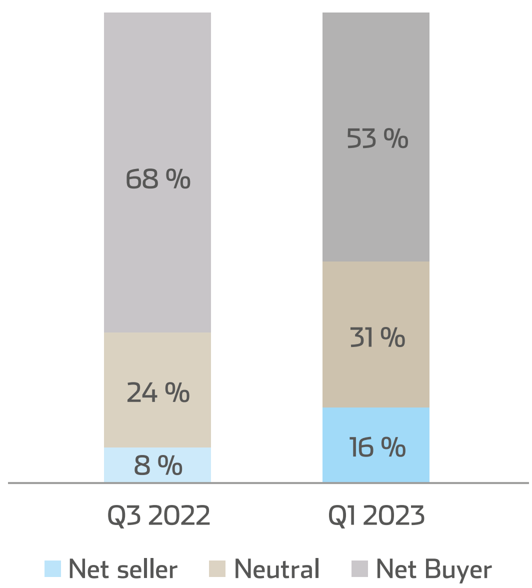


*As of 15 May. Source: Malling & Co

Increasing share of net sellers towards logistics properties

The results of our Q1 2023 Investor Sentiment and Yield Survey, which was conducted at the end of March, reveal that around half of the investors plan to increase their exposure to logistics properties in the next 12 months, representing 53 % of the survey participants. While this is a slight uptick from Q4 2022 (49 %), it is a decrease from Q3 2022 (68 %). One notable change in this quarter's survey is the increase in the proportion of net sellers, rising from 8 % in Q3 2022 to 16 % in Q1 2023. This trend is not limited to logistics properties and could be a reflection of differing views among investors on when interest rates will decline, potentially reigniting interest in logistics properties as an attractive investment opportunity. Additionally, logistics yields have rebounded from record lows, and with an outlook of rising interest rates, some investors may consider this an opportune time to offload assets and alleviate financing costs.

Desired exposure towards logistics properties in the coming 12 months



Source: Malling & Co Investor Yield and Sentiment Survey

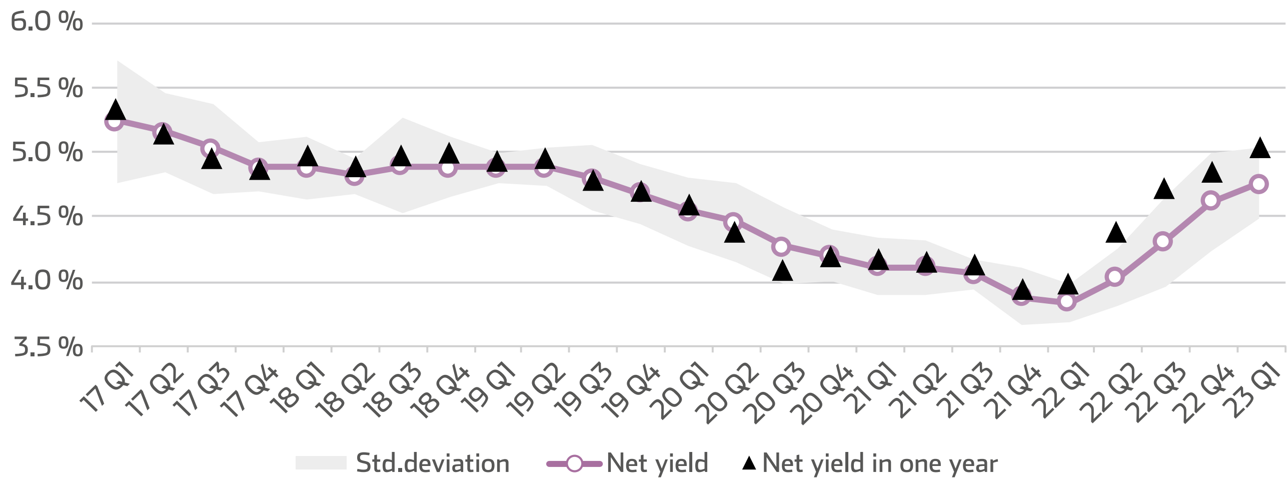
Logistics yields have increased by over 90 bps since bottoming out in Q1 2022

Since our last market report, the prime logistics yield has risen by 45 bps to reach 4.75 %. This increase in yields marks a total rebound of 95 bps from the lowest recorded yield of 3.80 % in Q1 2022, when logistics yields experienced a consistent downward trend between Q2 2019 and Q1 2022. Currently, logistics yields are returning to nearly pre-compression levels. According to our quarterly survey, investors expect the prime logistics yield to rise further to 5.05 % within the next twelve months. We share the view of the investors, but we believe there is a higher probability of the prime yield increasing even further.

Normal yield levels have also been in line with the development of the prime yield, increasing by over 90 bps since Q1 2022. As at Q1 2023, the Kløfta normal yield stands at 5.35 %, a 5 bps increase from Q4 2022. Similarly, the Vestby normal yield has risen by 5 bps to 5.50 % compared to the previous quarter. Lier normal yield remained unchanged from Q4 2022 at 5.55 %, but has increased significantly since our last market report (Q3 2022), being measured at 5.15 %. The moderate increase in normal logistics property yields in Q1 2023 may indicate that yields have reached their peak. However, investors anticipate a roughly 20 bps increase in yield levels within the next twelve months.

Another noteworthy factor is the narrowing gap between prime and normal assets. While there has been a yield increase for both risk classifications, the increase has been more pronounced for prime properties in recent quarters. This may suggest that prime real estate prices have become too high compared to lower quality buildings.

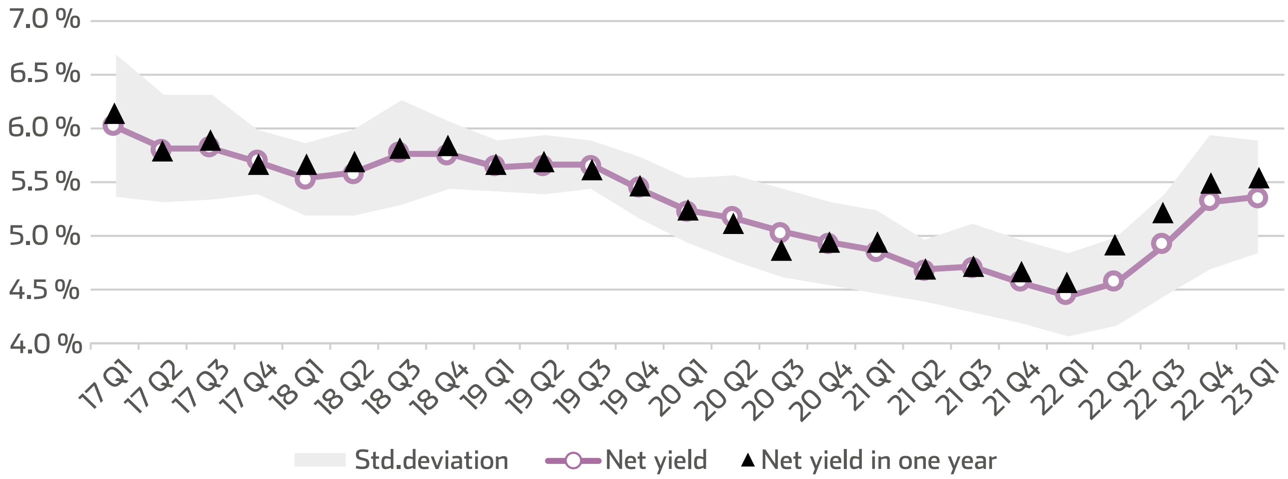
Prime logistics yield, Berger



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

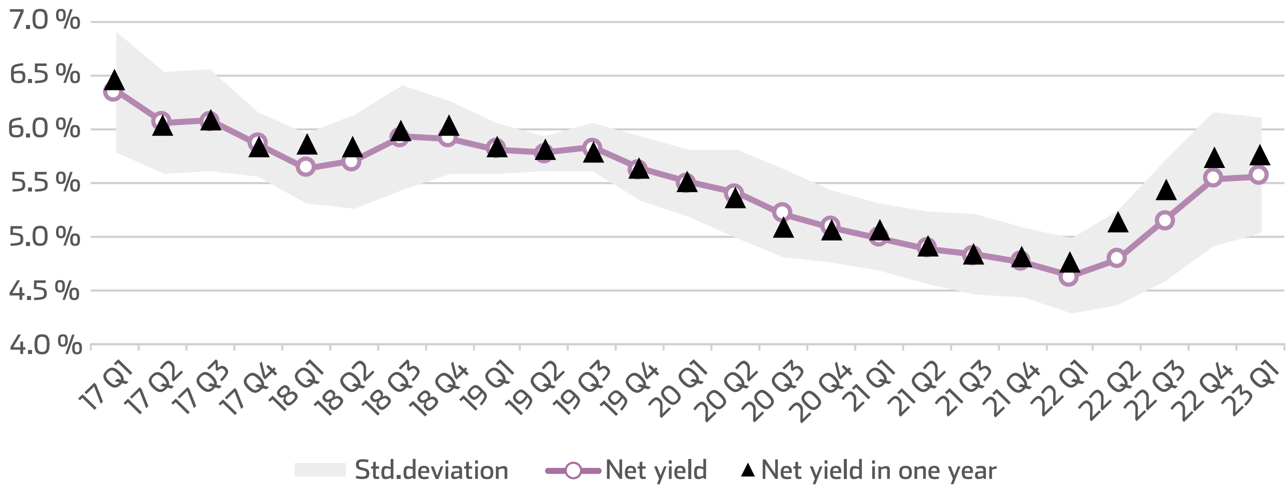
«According to our quarterly survey, investors expect the prime logistics yield to rise further to 5.05 % within the next twelve months. We share the view of the investors, but we believe there is a higher probability of the prime yield increasing even further»

Normal yield – Kløfta



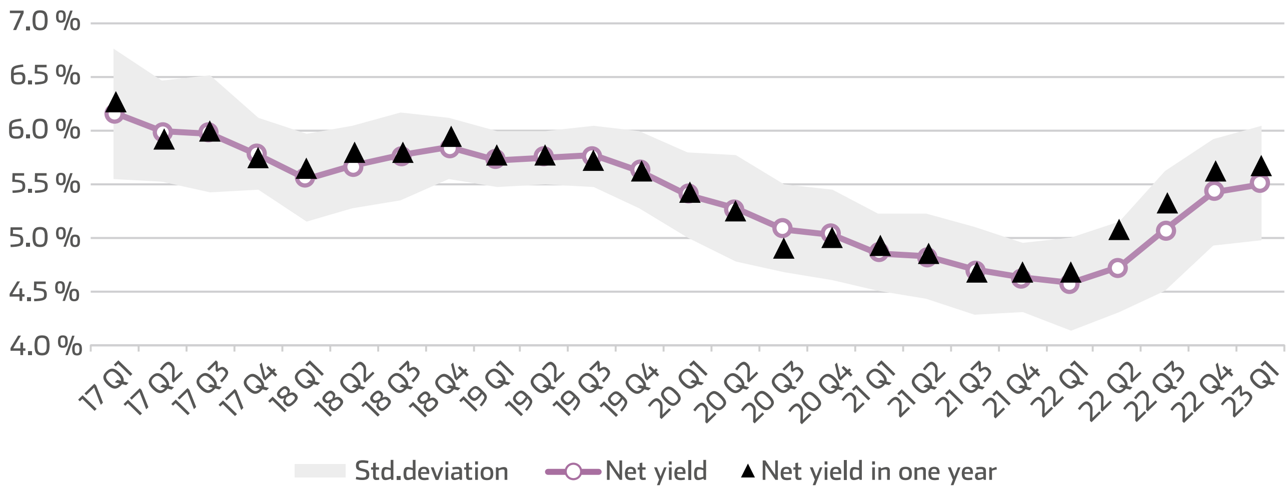
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

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

Seafood Center — Gardermoen

Malling & Co Energi og Miljø has advised Oslo Airport City (OAC) with the establishment of a highly efficient energy plant for the 60 000 m² Seafood Center at Gardermoen.

Holmen Brygge — Asker

Malling & Co Corporate Real Estate has been commissioned as advisor in the sales process of Holmen Brygge, a marina property in Asker, comprising an approx. 75 000 m² plot size for future residential development.

Residential

Residential prices surprising on the upside

The housing price development in Norway has been on the upside, which is surprising considering the challenging economic times. Both Statistics Norway (SSB) and the Norwegian central bank have predicted a decline in housing prices, which has yet to be observed in 2023. According to the latest forecasts, the year is expected to conclude with nominal negative growth in prices, indicating a significant decrease in overall prices in the remaining months of the year.

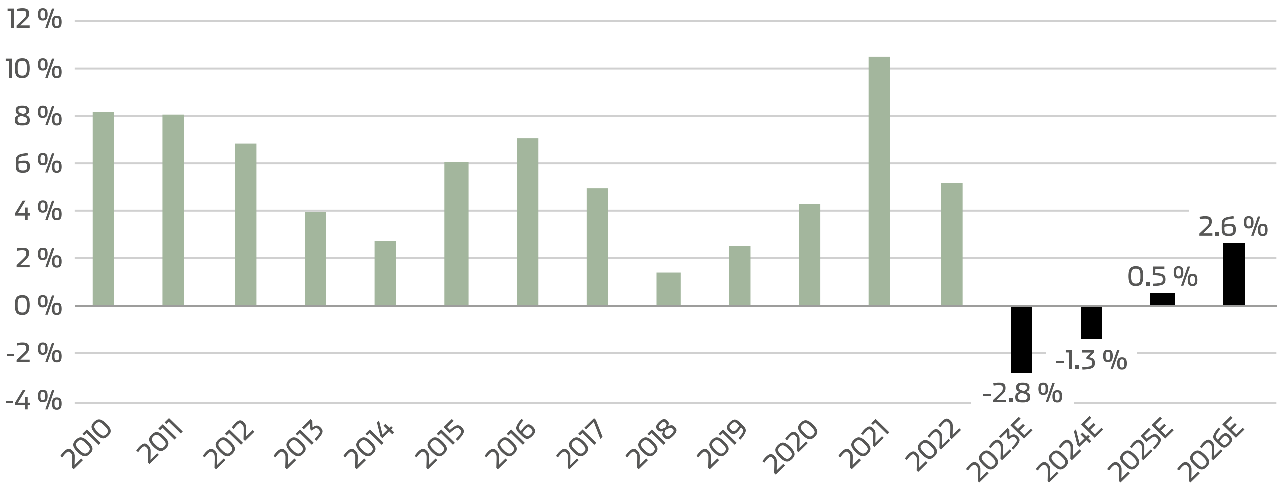
Residential property in Norway

In the first part of 2023, the housing market has defied expectations and presented a positive turnaround following a period of decline and widespread pessimism during the latter half of the previous year. As a result of challenges, such as interest rate hikes, elevated inflation rates, and mounting loan costs, many anticipated a continued downward trajectory in housing prices. However, contrary to these predictions, prices have experienced a noteworthy nominal increase of 6.6 % thus far this year. Following the decline in prices towards the end of the previous year, the 12-month price development shows a modest nominal increase of 0.5 %. Previous projections by SSB in the autumn had forecasted declines of -2.5 %, -2.5 % and 2.0 % for the years 2023, 2024 and 2025, respectively. However, these forecasts were revised in their March outlook to -2.8 %, -1.3 % and 0.5 % y/y for 2023, 2024 and 2025.

Multiple factors have contributed to the unexpected resilience displayed by the housing market in the first part of 2023. One key factor is the recent adjustments in mortgage regulations, which have simplified the loan acquisition process for borrowers. Consequently, a larger segment of the population now has the opportunity to enter the market, bolstering demand and subsequently driving up prices. Moreover, these regulatory changes have coincided with high nominal wage growth and high employment growth. However, it is important to note that the primary driver behind the relatively stable performance of the housing market is said to lie in the scarcity of new construction projects. Exorbitant borrowing costs, escalating expenses associated with construction projects, and historically low sales of newly constructed homes have posed significant obstacles to the initiation of new developments at attractive prices. As a result, the limited supply of used housing units in the start of 2023 has created a situation where current demand outstrips the existing inventory, while the newbuild market has slowed significantly.

While short-term projections suggest that high mortgage interest rates and increased prices on consumer goods may exert downward pressure on housing prices, it is essential to consider the long-term perspective. Over the coming years, experts anticipate a robust rebound in the housing market due to a combination of factors. We do not necessarily buy this argument as we believe the increase in interest rate and the increased cost living-costs eventually will affect the prices homeowners are able to pay. The lacking sale of new construction projects could also be viewed as a warning sign and not only as driver for supply-demand imbalance driving prices in a couple of years time.

Historic and estimated development in property prices per year, Norway



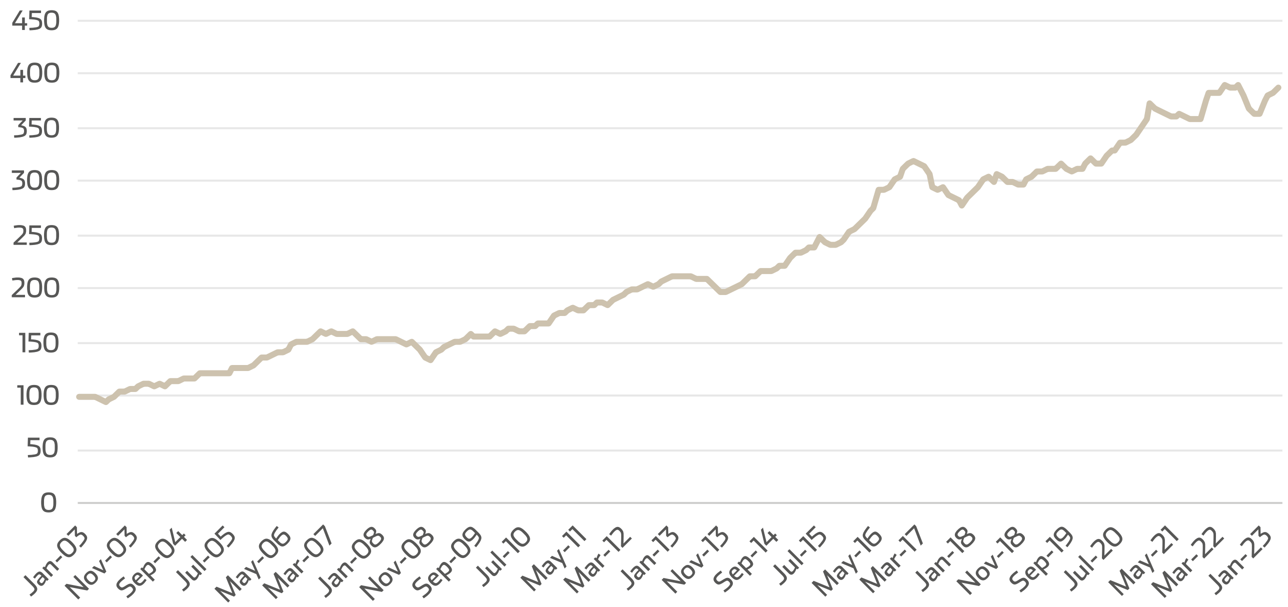
Source: Statistics Norway

Oslo

Housing prices in Oslo have followed a similar trend to the rest of the country, experiencing a strong recovery after a sluggish autumn. In Oslo as well, the lack of new projects and changes in mortgage regulations are mentioned as contributing factors behind this development.

When comparing the price development in Stockholm to Oslo, significant differences emerge. While prices in Oslo have weakened by 0.9 % since reaching their peak last summer, prices in Stockholm have plummeted by a staggering 13.9 % during the same period. As the scarcity of housing has been cited as one of the reasons why prices in Oslo have held up relatively well, it is interesting to consider the population density and living conditions in Oslo compared to Stockholm. On average, there are 41.5 square metres per capita in Oslo, whereas in Stockholm, it is only 34.6 square metres per capita. The Swedish capital also have more residents per unit than Oslo, with 2.14 and 1.95 respectively. This challenges the theory that Oslo's resilience can solely be attributed to a shortage of housing and space. The "shortage" of housing units is a relative term and is highly dependent on the ability pay for increased space and quality.

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



Source: Eiendom Norge

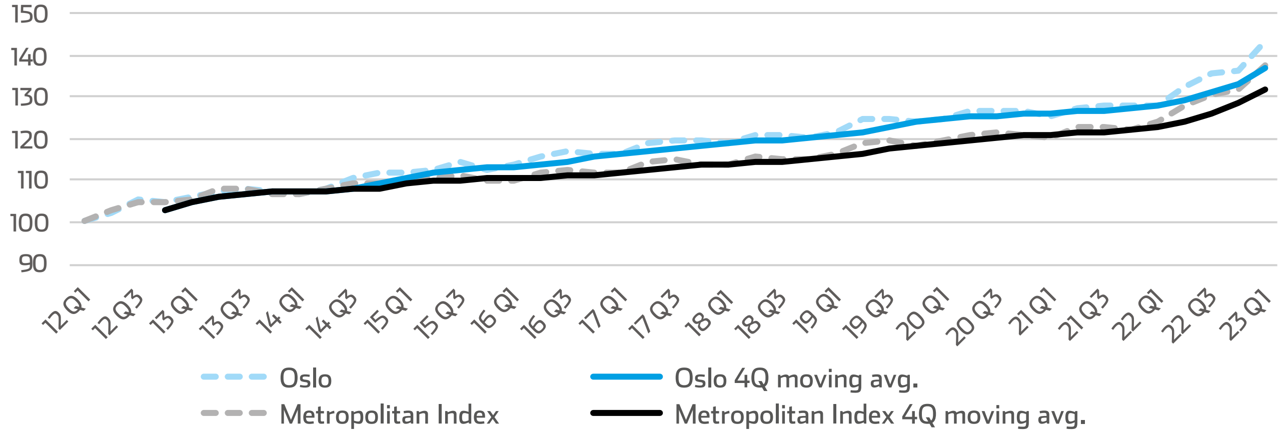
«The housing market in Oslo has shown relative resilience compared to Stockholm»

The rental market

Over the past 12 months, the average rent in Norway's four largest cities (Oslo, Bergen, Trondheim, Stavanger/Sandnes) has increased by 10.4 %, according to Eiendom Norge. Oslo saw the highest rental price growth over the period at 11.9 %.

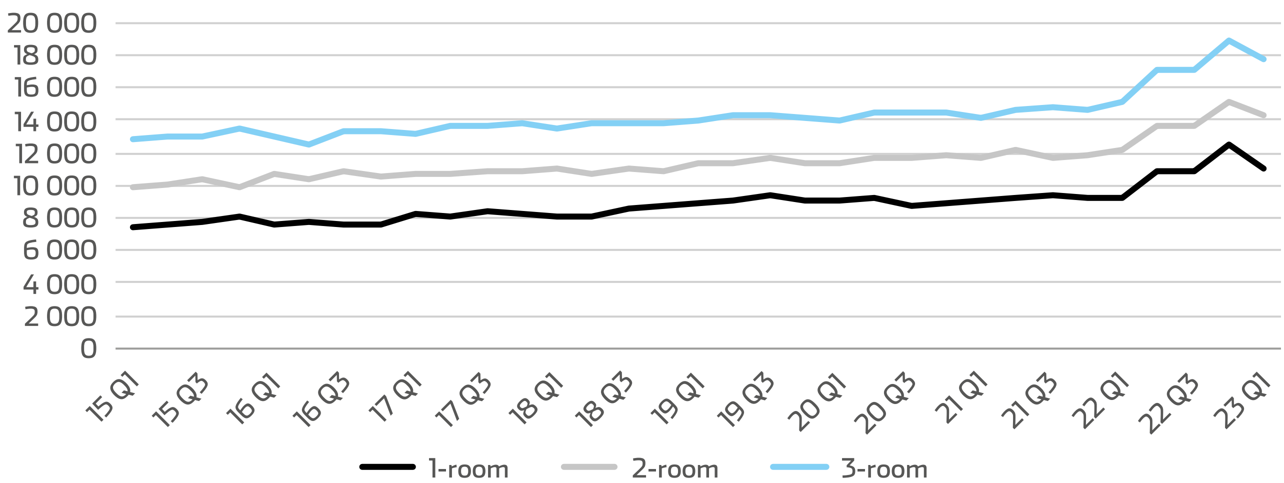
The rental prices for apartments in Oslo have experienced a significant surge in the past year, primarily driven by soaring inflation. Many rental agreements include a clause allowing for rent adjustments based on the Consumer Price Index (CPI) every 12 months. Between Q4 2021 and Q4 2022, rental prices soared by up to 30 %, with the average monthly rent across 1- to 3-room apartments increasing from NOK 11 900 to NOK 15 600. This remarkable growth exceeds the pace of CPI inflation. Although the exact reasons behind this impressive rental growth are challenging to ascertain, one plausible hypothesis is an improved mix of rented apartments, potentially resulting from renovation activities. Notably, the most substantial rent increases were observed in 1-room apartments, although 2-room and 3-room apartments also experienced significant rises. Moving into Q1 2023, rental prices slightly decreased by 8 %, averaging at NOK 14 400 per month. Again, it is challenging to draw definitive conclusions about the driving forces behind this change, and the numbers should be interpreted with caution. However, one possible explanation could be the impact of a tighter economy, prompting households to rent out portions of their houses or apartments, leading to smaller and more affordable rental units. Nonetheless, rental prices in Oslo remain high, with average monthly rates for Q1 2023 standing at NOK 11 000, NOK 14 300 and NOK 17 700 for 1-room, 2-room and 3-room apartments, respectively.

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



Source: Eiendom Norge

Average of monthly rental prices for apartmens in Greater Oslo, by apartment size (NOK/month)



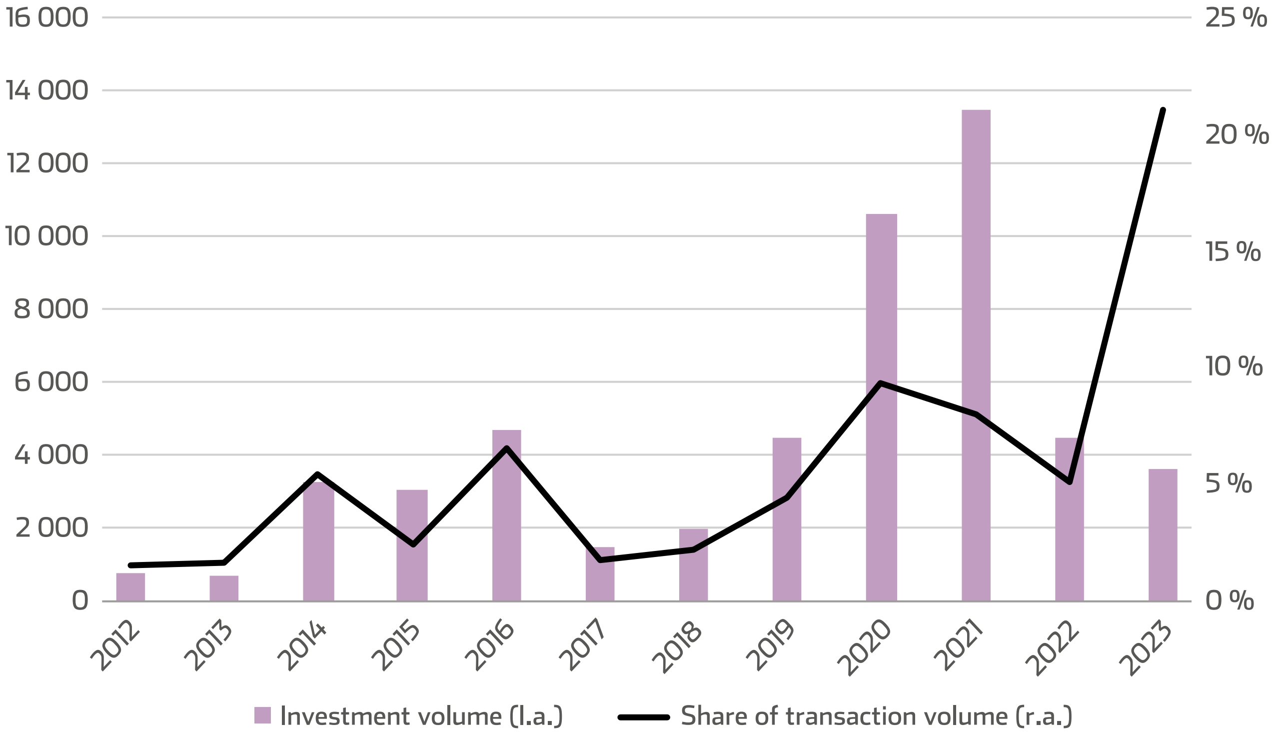
Sources: Utleiemegleren, FINN.no, Malling & Co

The investment market (above NOK 50 million)

In an economic landscape where housing prices have remained robust and rental prices persistently high, it has been a logical expectation to envisage a robust commercial residential market (CRM). The transaction market covered here refers to transactions of multifamily and residential development land valued at NOK 50 million and above. When examining the CRM in 2022, we observe a share of 5 % of the total commercial real estate investment volume, a significant decline from the previous two years, where the share was between 8 % and 9 %.

Last year's share of 5 % corresponded to a volume of NOK 4.5 billion. This year's volume is approaching last year's total CRM volume, having already reached NOK 3.5 billion (as at 15 May), which corresponds to approximately 24 % of the total commercial real estate investment volume. It should be noted that there have so far only been six transactions this year compared to the 21 transactions of the previous year. Much of this year's volume can be attributed to two significant transactions, namely the purchase of Bo Coliving and the Norwegian government's acquisition of the new hospital site from Fredensborg, currently a residential area. If we exclude the hospital site as non-residential, the total volume reduces to NOK 2.15 billion, which still constitutes a substantial proportion of 12.5 %. This figure is considerably higher than in previous years.

Transaction volume in MNOK and share of total transaction volume in %, residential segment



Soruce: Malling & Co

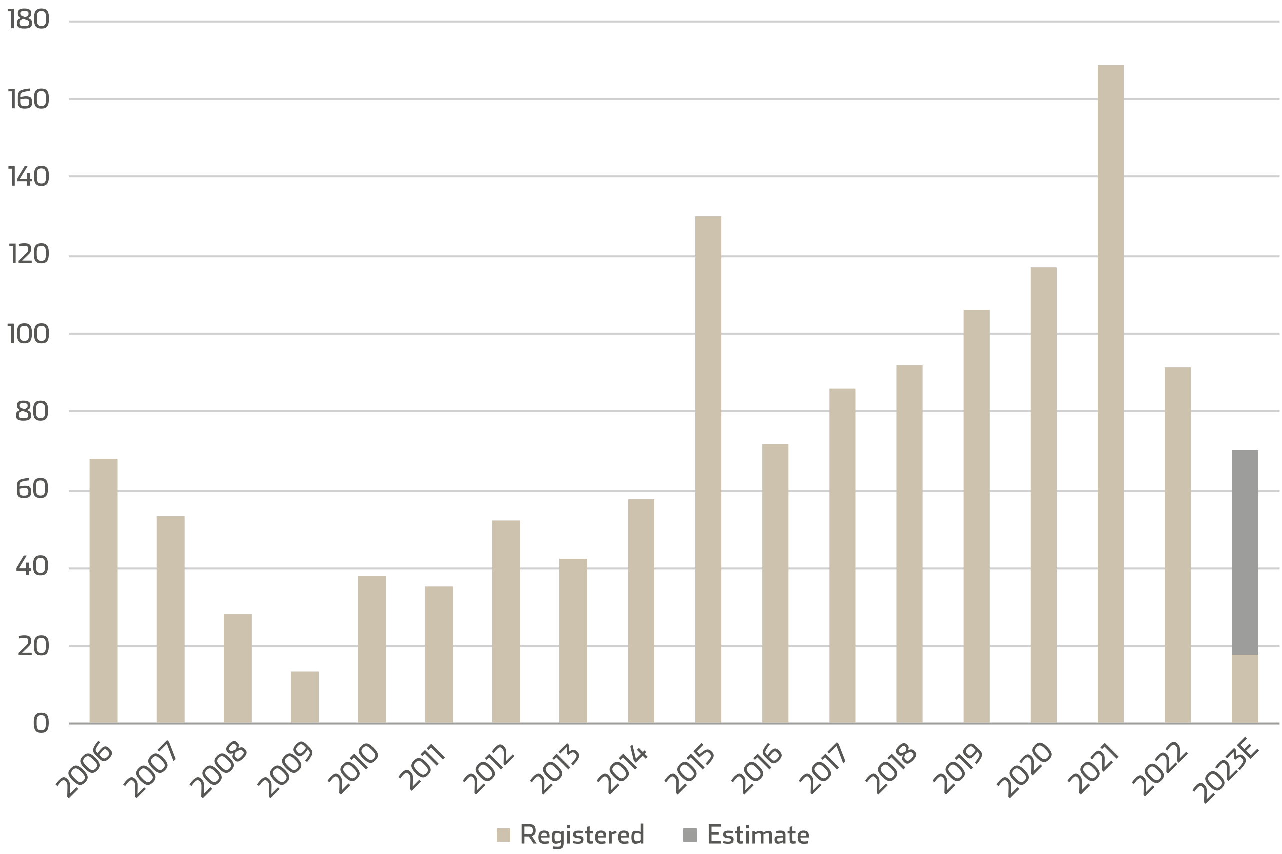
«This year's volume is approaching last year's total commercial residential market volume»

The investment market

An eerie quiet

The second half of 2022 saw the investment market grind to a halt, and an eerie quiet has shrouded the market. We entered this year with some optimism; market rates were coming down as falling energy prices helped ease inflationary pressures. Over the past months, however, expectations have shifted. In early March, surprising inflationary pressure again lifted interest rates expectations, and we can see just how dramatic this recent shift in expectations has been. By the end of 2024, markets can now expect policy rates in the euro area to be around 75 bps above the levels that were anticipated in early 2023. In the USA, the same shift is around 150 bps. Recent developments in interest rates following the central bank of Norway's (NB) key policy meeting have lifted the peak policy rate outlook even further. Currently at 3.25 %, we expect the key policy rate to top out at 3.75 % to 4.00 %, 15-40 bps higher than NB guide figure in Monetary Policy Report (MPR) 1/23 back in March. The pivot expected later in 2023 seems a bygone dream. The year-to-date volume is currently at NOK 17.4 billion, roughly 70 % down from the same period in 2022. The implications of inflation and interest rates will no doubt continue to dominate the agenda for many investors. The rebasing of interest rates has obvious consequences for borrowing costs in CRE (or refinancing terms), which will likely feed through to pricing. All this continues to reinforce our view that it will be the second half of this year before we really see a sustained pick-up in activity in the investment market. From the insight we have in the transactions that have seen interest and active bidding rounds with several investors, it is primarily office value-add cases, and investors positioning themselves towards residential. And we can clearly see that the risk of the transaction process has increased, due to the fragility of the process from bid acceptance to closing. The yield levels have seen a shift upwards, although the pace has subsided compared to the last 6-month period before our previous report, and we expect yields to increase towards a peak sometime in late 2023 or early 2024. The shift in investor sentiment, financing terms and yield movements has seen us revise our full-year 2023 estimate from our previous report at NOK 70-90 billion to the lower end, NOK 70 billion.

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



*Q2 2023 as of 15 May. Source: Malling & Co

The ultimate level of interest rates is likely to be higher than previously anticipated

The ultimate level of interest rates is likely to be higher than previously anticipated. Although the outlook for inflation is improving among major central banks, the expectation is that rates will soon reach their peak. However, the prevailing rate of interest is only one component of credit availability; the terms and conditions of loans also impact the flow of credit to the commercial real estate (CRE) sector.

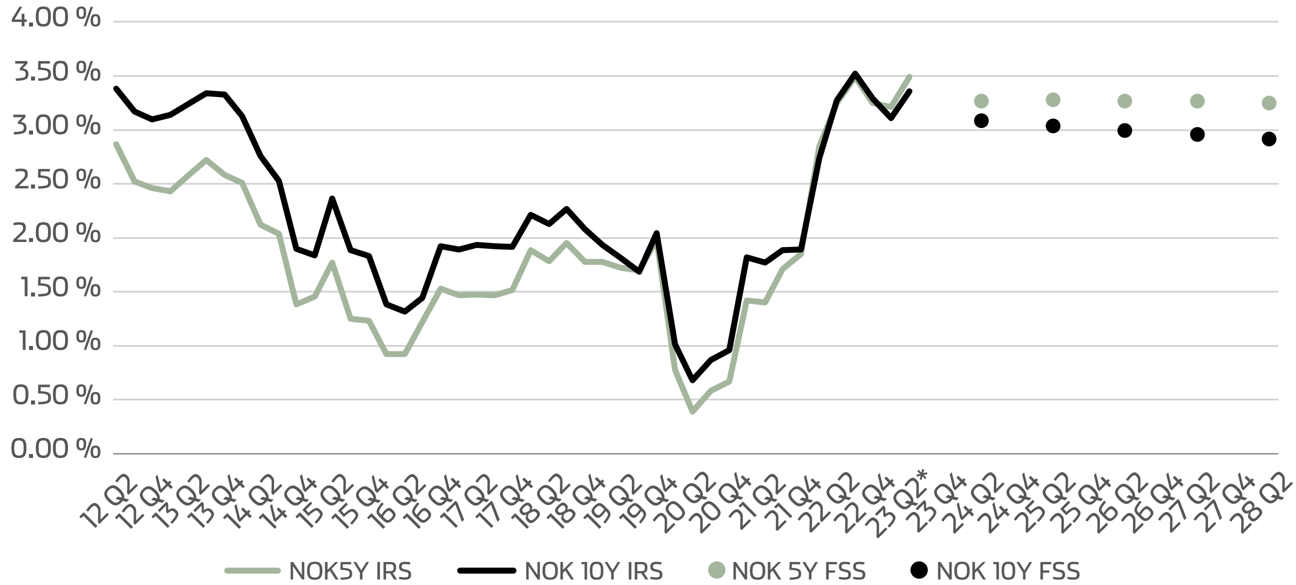
Going forward, credit conditions will be closely monitored. As banks become more risk-averse, their appetite for financing declines. This can manifest through a variety of channels, such as higher margins to compensate for additional risk or less generous terms and conditions, like lower loan-to-value (LTV) ratios. And, at the farthest end of the scale; a simple "no". Hence, investors facing imminent refinance events must contend not only with a much higher cost of debt but also less accommodating financing terms. According to MSCI, average LTVs across commercial real estate have fallen by around 10 pp since the beginning of 2020, with half of this decrease taking place in the last 6 months. A year ago, investors would receive favourable terms at a 65 % LTV, whereas they are now seeing 50-60 % LTV for similar margins.

Taking into account falling property valuations, this raises the effective LTVs on existing loans and increases the amount of equity required to secure new financing. Central bank surveys of credit standards do not suggest an imminent credit crunch, but the unfortunate reality is that credit conditions were already tightening before recent events heightened uncertainty, key policy rates, and risk aversion. This has resulted in higher margins, increased collateral requirements, and, in many cases, outright rejections. We are observing larger main lenders reporting tighter financial conditions, supporting our perception that many investors are encountering difficulties accessing credit. However, there are signs that regional and local banks are operating more leniently. Until credit conditions normalise, it is unlikely that we will see a recovery in investment market activity.

The 5-Year Interest Rate Swap (IRS) is up roughly 210 bps from 2 years ago and 60 bps from the same period a year ago, standing at approximately 3.50 % per 15 May. This is still, however, roughly 20 bps down from the time of our last report in November 2022. The NOK 5Y Forward Starting Swaps (FSS) has decreased around 30 bps from the time of writing relative to our last report in November, now sitting between 3.10 % and 3.25 % from a 3-month forward all the way out to a 10-year forward start. Further evidence that the market is expecting interest rates to come down in the longer run is the NOK 10Y FSS that sits below 3.00 % from 5 years and out, with the 10-year forward sitting at roughly 2.70 %. Bank margins have remained relatively flat since our last report, which has brought the all-in financing cost back down to levels of around 6 % for new CRE loans. The added cost to investors, however, is the previously mentioned LTV requirements, increasing the equity required.

The bond financing of single Special Purpose Vehicles (SPVs) continues to be low, and the big-ticket item remaining to be addressed in the coming year(s) is the bond-financed volume that is up for refinancing. The appetite for bond financing has all but disappeared, and a very sizeable portfolio of projects in dire need of financing by other means is looming. Roughly NOK 4.5 billion is in need of refinancing in 2023 alone.

NOK 5Y and 10Y IRS and FSS



*Q2 2023 as at 15 May. Source: Thomson Reuters

Regional risk reduction and opportunistic segment approach

Our regional overview so far in 2023 shows a shift in regional interest gravitating back towards Greater Oslo. And the big attraction for many has been the residential land opportunities that have come about. As the used residential market has seen increasing prices while the newbuild market has all but ground to a halt, developers have seen the opportunity to position themselves for a supply/demand in balance in the future, strengthening their pipelines of available land. For value-add opportunities within the office segment in particular, Oslo itself has been attractive based on the rental outlook and the curtailment of new office projects due to construction costs and increasing yields. Activity in other regional cities, however, such as Bergen, Stavanger and Trondheim, has been at low levels. Yet investors continue to seek increased exposure in other regions and more rural areas, and the syndicates, especially, have seen financing become more available and in line with the new requirements for returns, where a solid cash flow will attract investors looking for a higher return. While interest rate-sensitive cases and re-let risks remain unfavourable to investors, a long, solid cash flow at fully repriced levels could create interest outside of the major tier 1 cities. The driving factor for most investors in 2023 will predominantly be the safe haven rental opportunities to be gained from the depth of liquidity in bigger markets.

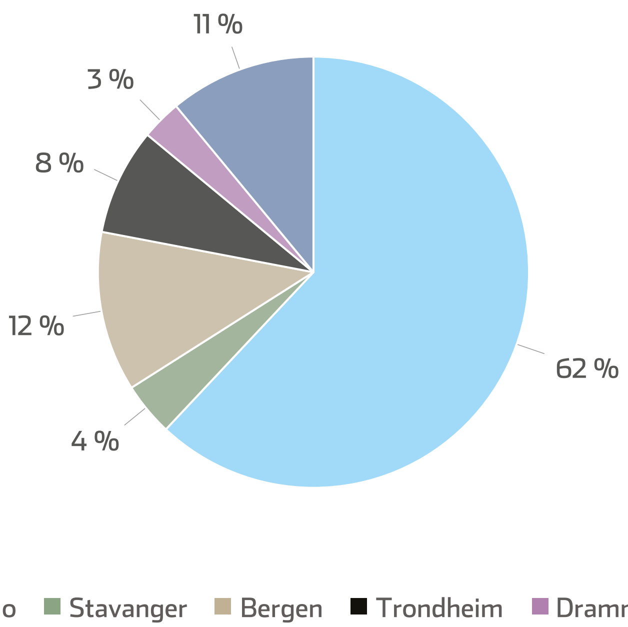
Prime yield (net) in Norway

City	Prime yield (office)	△ from last report
Oslo	4.00 %	▲ +25 bps
Stavanger	5.00 %	▲ +25 bps
Bergen*	4.50 %	▲ +0 bps
Trondheim**	5.00 %	▲ +50 bps
Drammen	5.00 %	▲ +25 bps

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

«For value-add opportunities within the office segment in particular, Oslo itself has been attractive based on the rental outlook and the curtailment of new office projects»

Regional split of the transaction market 2023* by volume



*As of 15 May. Source: Malling & Co

Global investment volume in Q1 2023 was the lowest recorded in a decade

Total global investment levels in Q1 2023, at approximately USD 152 billion, saw a fall to the lowest figures in a decade. A 57 % decline compared to Q1 2022, and 38 % decline compared to the five-year pre-pandemic average for Q1 (2015-2019). The same underlying drivers of negative key figures, as witnessed in Norway, are weighing on investor sentiment, and the same lone upside of tight labour markets, thus maintaining occupier demand. Breaking global investment volumes down by segment shows that every segment declined in Q1 2023 compared to Q1 2022. Office saw the largest decline, falling by 65 % and logistics by 58 %. Retail experienced the smallest decline, falling 36 % as pricing had already corrected itself over the past 2-3 years in many global retail markets.

Global cross-border investments fell to their lowest Q1 value since 2014 at USD 41 billion, falling by 46 % compared to Q1 2022. Activity focused on locations and segments where prices have corrected themselves, such as retail, or where the outlook was more positive, such as hotels, as international travel picked back up. In Europe, overseas property acquisitions fell to their lowest level since 2011, as the economic climate and disparity between buyer and seller on pricing caused a significant slowdown in the number of transactions. Cross-border investment in Europe declined by 71 % in Q1 2023 compared to Q1 2022.

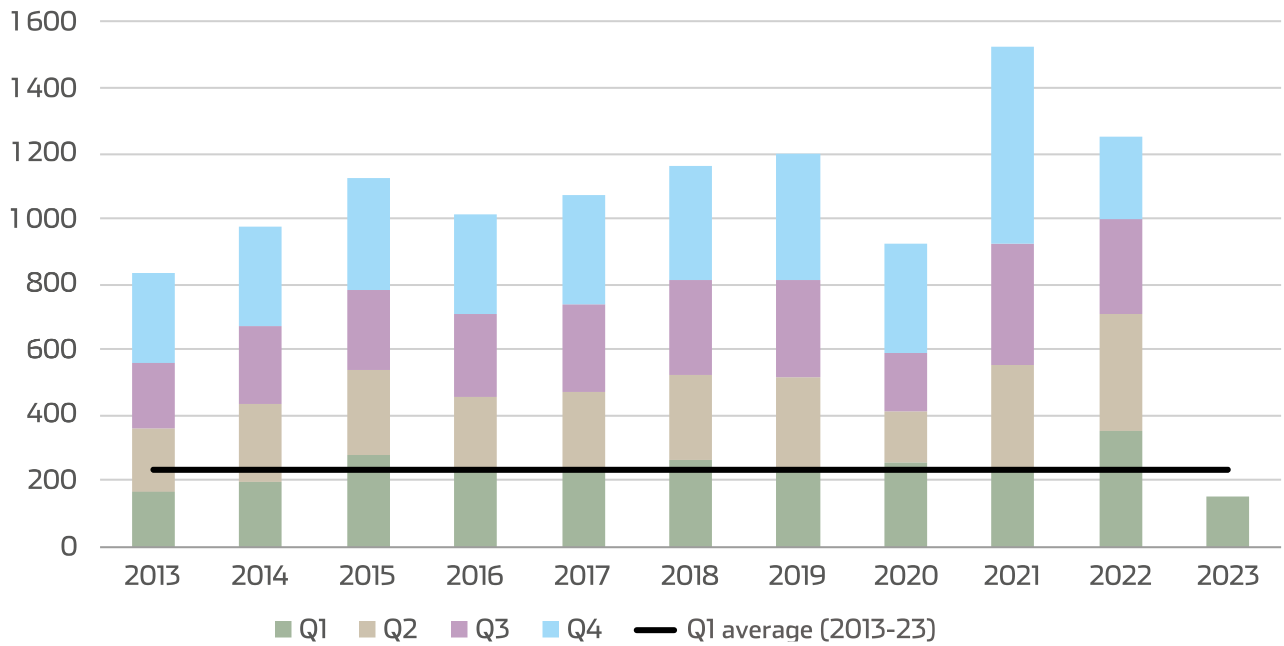
After a prolonged period of ever-increasing fundraising, global private real estate fundraising declined by 48 % year-on-year. Q1 2023 compared to Q1 2022 shows an even steeper decline of 62 %, demonstrating that investors tend to retract from commercial real estate as an asset class in high interest rate environments.

Prime yield (net) in Europe

City	Prime yield (office)	∆ from last report
Stockholm	3.25 %	+0 bps
Munich	3.60 %	▲ +60 bps
Paris	3.75 %	▲ +75 bps
Copenhagen	3.75 %	▲ +25 bps
Amsterdam	3.90 %	▲ +40 bps
Helsinki	4.00 %	▲ +80 bps
Milan	4.00 %	▲ +75 bps
London	4.00 %	▲ +50 bps
Oslo	**4.00 %**	▲ +25 bps

Source: Malling & Co, Savills

Total global real estate volume, USD billion

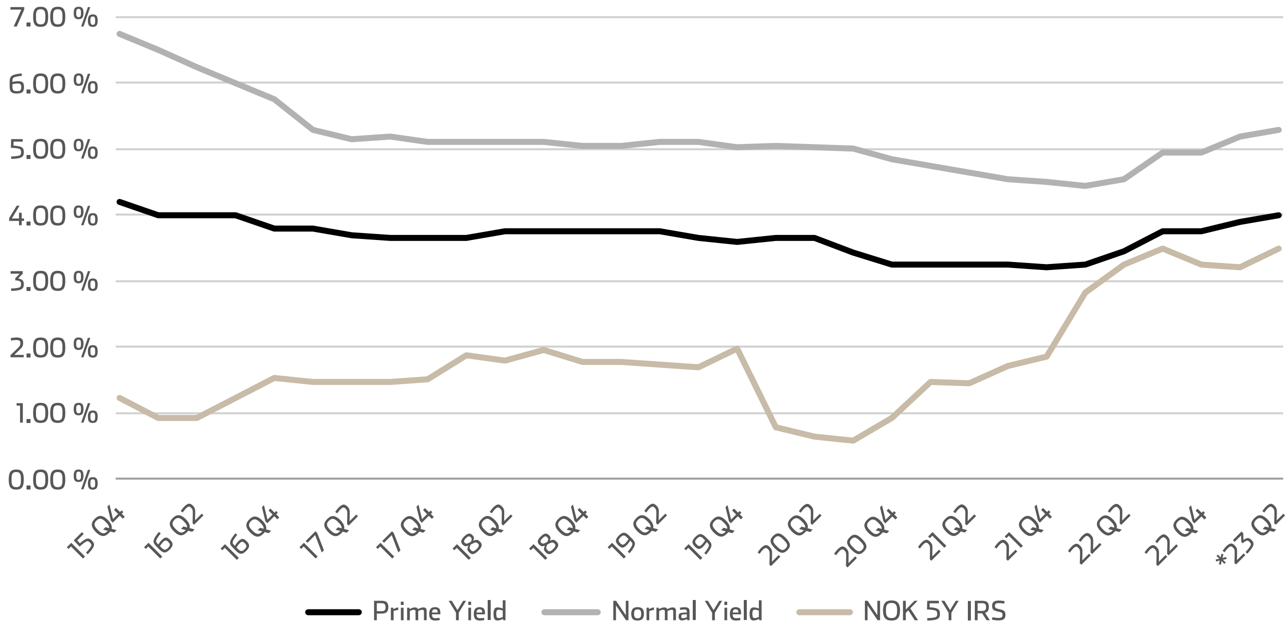


Source: Savills

Yields increases at a more moderate pace – but still more to come

As interest rates have marginally come back down, the prime office yield has increased moderately to 4.00 %, and the office CBD prime yield gap with the NOK 5 Y swap has slightly increased again and is in positive territory at around 50 bps. When factoring in the NOK 5Y FSS projections and margins, however, we believe that the yield will continue to increase going forward, as the real interest rate is expected to become positive as inflation comes down. Our main scenario is an office CBD prime yield north of 4.20 % as we go into the new year, peaking before the summer of 2024. The new single, most important driver of a yield that climbs significantly higher than this level is a trigger that sparks a massive oversupply of properties for sale, something which we have yet to see as a likely main scenario. A more relevant consideration is the pricing of risk viewed according to normal risk classification versus prime. In times of prolonged decreases in yields, the perception of risk becomes one of diminishing returns. Where the perceived risk is gradually faded out, the yield gap between prime and normal shrinks. As we are now seeing yields increase, along with increased economic turmoil, we are also seeing the spread widening. And our estimate of office CBD normal yield is currently at 4.60 %, a gap of 60 bps with prime in the same location, something we expect to widen by 10 to 30 bps over the next 12 months. If we venture out into the fringe zone, we would estimate today's office prime yield to be around 4.75 %, while the normal office yield is around 5.50 %. We expect this gap to increase further over the coming 12 months. Our prime logistics view is currently at 4.75 %, and our prime high street retail estimate is 4.45 %. In the following paragraph we cover investor sentiment and yield expectations expressed by the investors from our quarterly investor survey.

Yield development past 5 years, Oslo office



*As at 15 May. Source: Malling & Co, Thomson Reuters

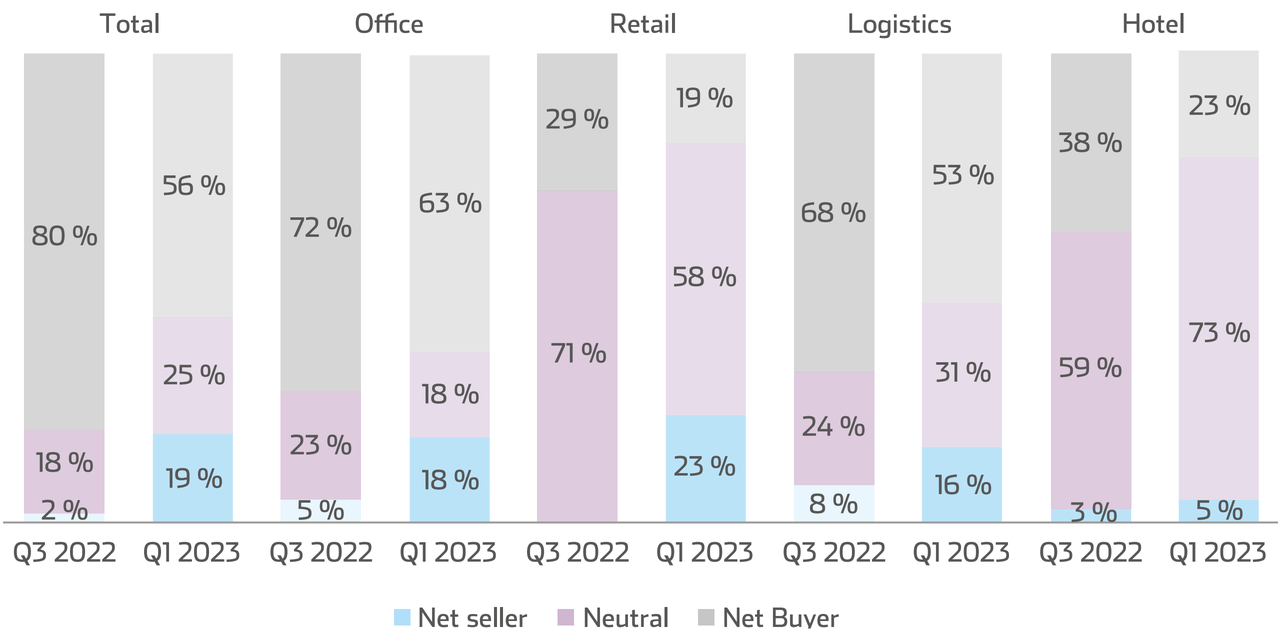
«The yield will continue to increase going forward, as the real interest rate is expected to become positive as inflation comes down»

Investor sentiment and yield development

Our latest survey-based investigation from Q1 2023 (survey period ended Friday, 31 March) into investor expectations for yield and investor intentions shows that the demand for commercial real estate remains higher than what we might expect given the market conditions. The share of investors intending to be net buyers of commercial real estate over the coming 12 months has decreased somewhat with the increasing yields, down 10 pp from Q1 2022 to 56 %. The share of investors intending to be net sellers over the coming 12 months has increased proportionally and now sits at 19 %. That is more than double the previous high recorded since the inception of the survey in Q1 2017. The increasing interest to be net sellers, along with the previously mentioned financing terms, is something we view as contributing to the increase in yields going forward, as the supply/demand balance shifts.

Prime office CBD is currently estimated at 4.00 %, up 10 bps from the previous quarter, and a full 80 bps up from the all-time low of 3.20 % in Q4 2021. The outlook 12 months out is also increasing quarter by quarter and the latest estimate from the survey is also up 15 bps from today's level, an increase of 10 bps over the previous quarter's 12-month outlook, at 4.15 %. The uncertainty surrounding yields is still high with a standard deviation of 0.17, although a fair bit lower than we measured at the height of the uncertainty last autumn, at 0.25. The prime office yield in the fringe is also increasing both at Helsfyr and Lysaker, standing at 4.75 % as at Q1, up 25 bps from the previous quarter. The investor 12-month outlook here is up 20 bps to 4.95 %. Normal office yield is also up in both fringe locations, to 5.55 % and 5.50 % at Helsfyr and Lysaker, respectively. Although firm observations are few and far between these days, we do not deviate much from our own house view and the findings in our investor survey. But concrete evidence is hard to find, as most of the transactions we have tracked over the past 6 months have had a sizeable element of value-add potential. However, we have seen some instances of cases that deviate both from the estimated prime yield in the survey and from our own estimates, which surprisingly, have been at the lower end of the scale. However, regardless of the exact point at which yields will peak, we are certain that opportunities will arise from the current turmoil and uncertainty for those investors with investing capacity and who do their due diligence in the research phase of the potential opportunities to come, as we can see investor sentiment increasing sharply among the share of investors intending to be net sellers in the coming 12 months. In fact, the level recorded is more than double what we have previously seen, with almost a fifth of investors intending to be net sellers of commercial real estate.

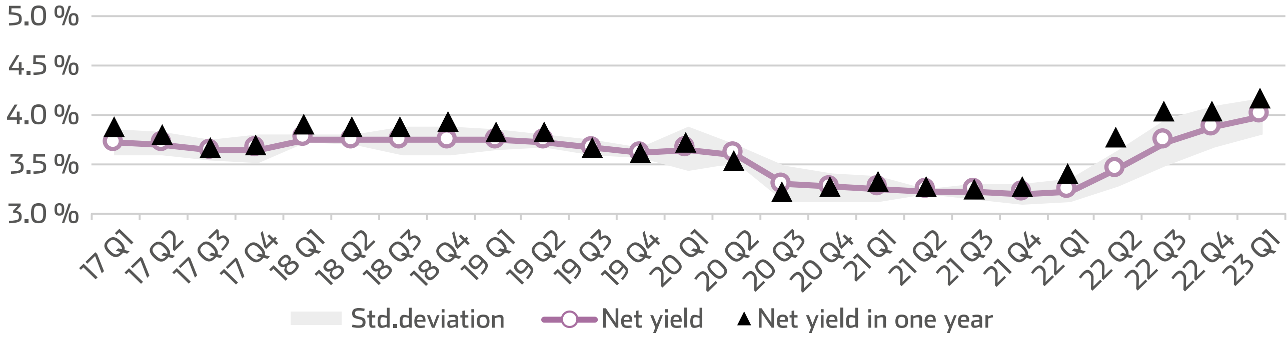
Desired exposure towards commercial real estate next 12 months



Source: Malling & Co Investor Yield and Sentiment Survey

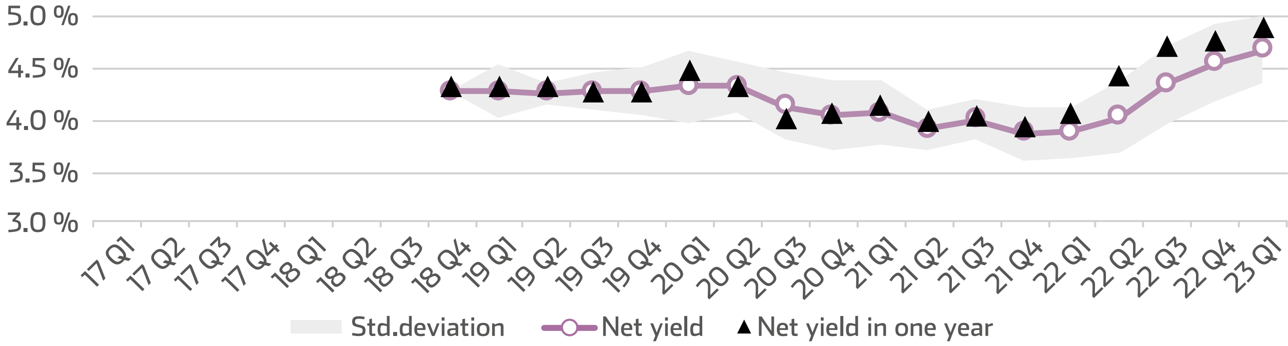
Disclaimer — All graphs on page 93, 94 and 95 are results from the quarterly investor survey, and do not necessarily reflect the official views of Malling & Co Research and Valuation.

Prime office yield, CBD



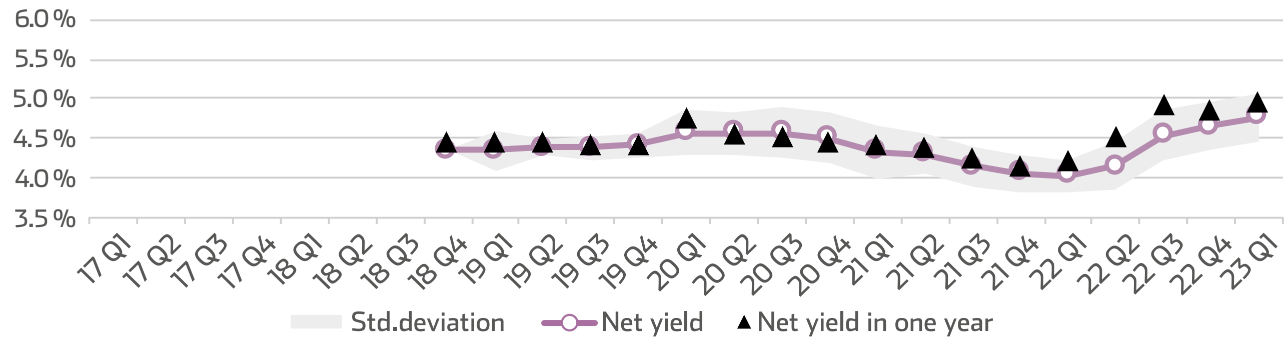
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Normal office yield, CBD



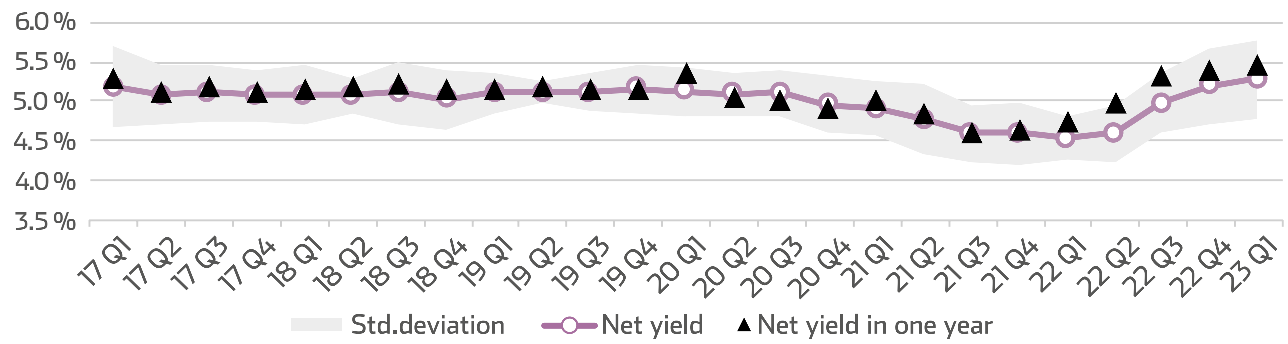
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Prime office yield, Lysaker



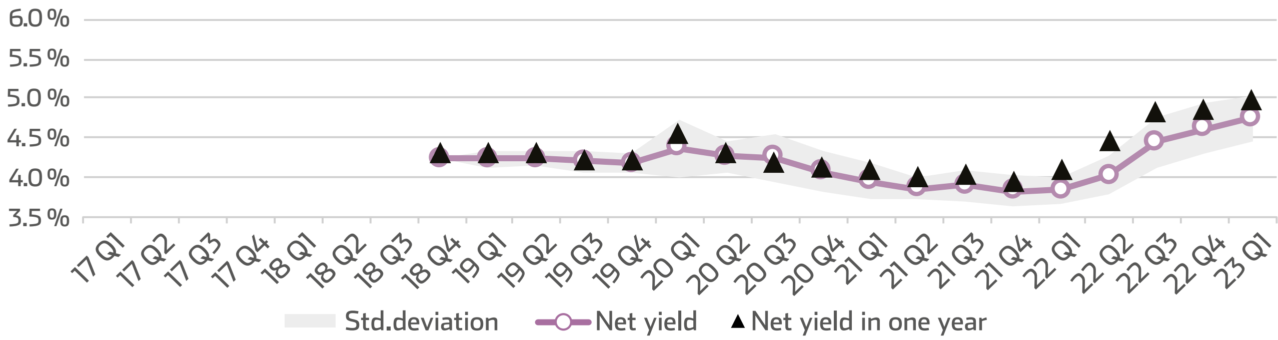
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Prime office yield, Lysaker



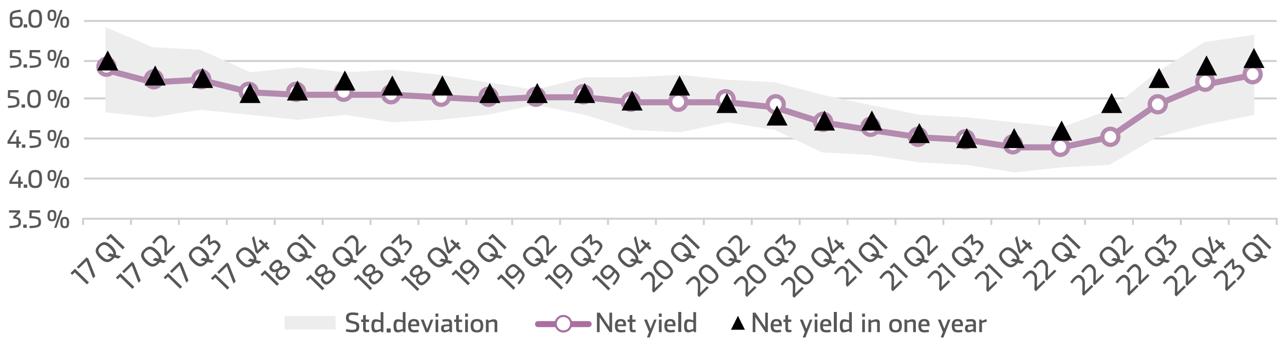
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Prime office yield, Helsfyr



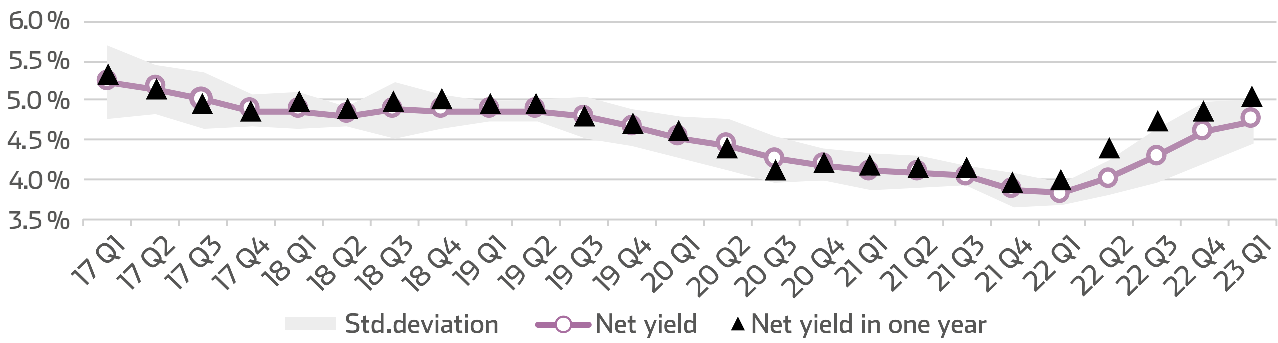
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Normal office yield, Helsfyr



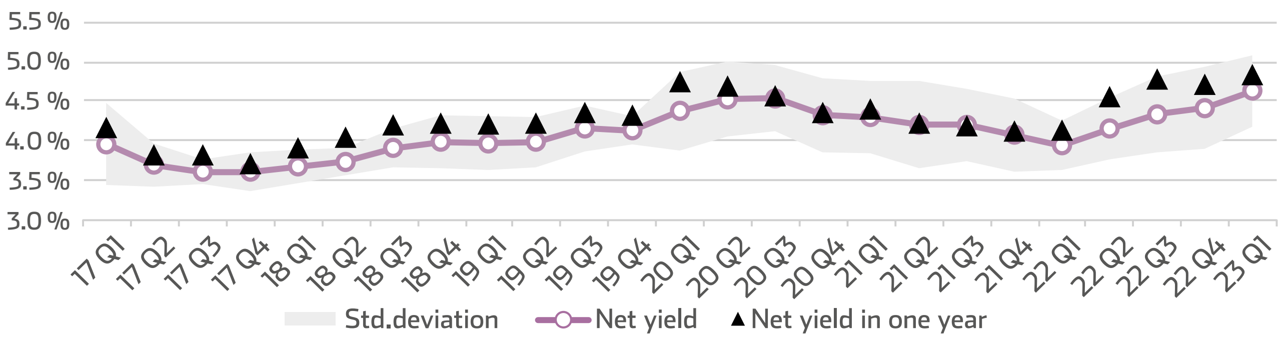
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Prime logistics yield, Berger



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

Prime retail high street yield, Egertorget



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

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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