Malling

Market report
winter 2023/2024

The Falling Knife

While uncertainty regarding inflation and interest rates was the main topic in our previous report, we are now more or less well placed for the more challenging scenario of "higher for longer". This sets the scene for commercial real estate over the coming year, affecting both investments and the leasing market.

Anders Berggren
CEO

The interest rate risk is still prevalent in financial markets, but hopefully and likely, we are now close to the interest cycle peak. The US 10-Year Treasury yield touched the 5 % threshold in October 2023, driven somewhat by speculative trading. With the key policy rate in Norway currently at 4.25 %, and inflation now seemingly "on track", the key policy rate upper limit seems close. However, the risk of further hikes remains, as wage growth and a weak NOK could re-fuel the inflationary pressure. We are assuming there's a high risk of another hike of 25 bps in December 2023 and potentially one more in 2024.

Current rates are too high to justify current pricing. Yields remain relatively low, mainly because investors believe in rate cuts and/or increased cash flow. And while nominal rental growth from CPI and market rents have softened the decrease in value from increasing yields so far, these factors are now easing off. Equity available for the CRE market is decreasing, as alternatives offer better risk/return. Bond yields are now too attractive with current yield levels. As the real interest rate increases, it remains a weak argument that real estate cash flows are inflation adjusted.

A further increase in CRE yields seems inevitable and is embedded in our forecasts for the coming year. 2024 is likely to be one of the most challenging years we have seen for decades. Investment syndicates, an active buyer segment in past years, have decreased their share as sources of equity are drying up and spreadsheets are showing unattractive risk/return with current pricing. Negative headline news on projects in trouble is not helping investor credibility. Sellers are gradually approaching buyers' price levels, but buyers are also moving, maintaining the bid-ask spread. Excluding investment syndicates, we have observed more sellers than buyers in our investor sentiment survey for the first time since the survey started in 2017. Barring all these factors, there are, and will be, cases of opportunistic and long play investors ready to deploy equity when the right property at the right price becomes available.

In the leasing market, landlords are now facing high construction costs, higher financing costs, and much higher exit yields than before. Offers for refurbished and new space have increased significantly as landlords try to equalise the cost side with higher rents. This puts upward pressure on market rents, especially for new and refurbished space. The spread from passing rent is increasing, causing more tenants to renegotiate their existing lease. As we move towards the end of the year, the leasing market remains strong, still characterised by pent-up demand. However, we expect the effects of a weaker employment market to affect demand and increase price sensitivity among tenants. The leasing market is already showing various signs of weakening across all segments, with vacancy slightly increasing over the past months. Retail and F&B stand out as the canaries in the coal mine, as households cut down on spending. An increase in yields is inevitable if the leasing market turns sluggish. But ultimately, the falling knife will create rare opportunities for opportunistic investors. So even if 2024 is expected to be a challenging year for the CRE market, it will also probably be a year of opportunity, as pricing eventually becomes attractive.

We at Malling, with our core values and long-term position, are still prepared to guide our clients through tougher times with more challenges and, not least, 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: 30 October 2023

Macro — Global

The balancing act of reducing inflation while maintaining momentum

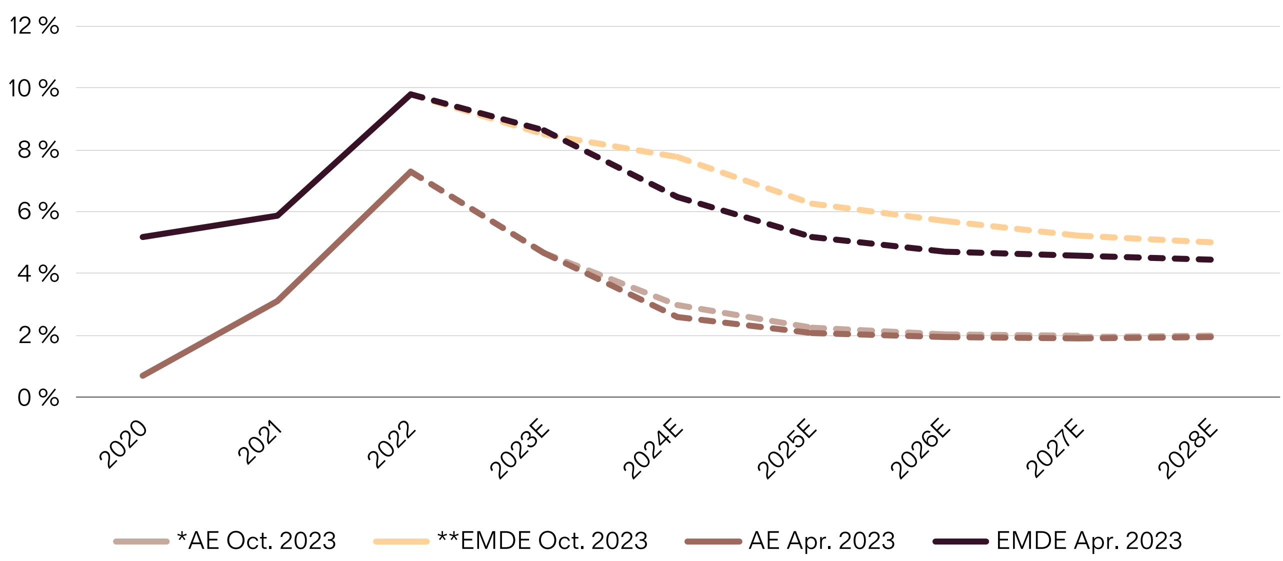
The global economy is slowly recovering from the challenges of a global pandemic and a full-scale invasion of Ukraine, that has fuelled the cost-of-living crisis for many. Put into perspective, the resilience of the global economy is quite remarkable. Despite disruptions in energy and food markets and an unprecedented tightening of global monetary conditions due to high inflation, the global economy has slowed, but not stalled. Global activity hit a low at the end of last year while inflation was gradually being curtailed. But there is still a way to go, and a swift return to the trend before the pandemic is not a likely scenario in the near future. The IMF's latest projections from the World Economic Outlook (WEO) in October 2023 predict that global growth will slow from 3.5 % in 2022 to 3.0 % in 2023 and 2.9 % in 2023. These levels are well short of the historical average as the battle to bring inflation down from 9.2 % in 2022, to a projected 5.9 % in 2023 and further down to 4.8 % in 2024 hampers global growth. Projections are increasingly pointing towards a "soft landing" scenario, bringing inflation down without a major downturn in activity. Especially key to this outlook of a "soft landing" scenario, as a driver of global growth, is the USA. However, fundamental divergences are appearing, which are important to monitor. The slowdown is more pronounced in advanced economies than in emerging and developing markets, and while the USA has surprisingly been on the upside, activity in the euro area has been revised downwards.

CPI and CPI-ATE

Global inflation figures have shown a gradual decline from the peak of 8.7 % in 2022 to an expected 5.8 % in 2024. This decline reflects a significant effort from central banks to tighten monetary policy. In advanced economies, inflation has exhibited a noticeably downward trend, decreasing from 2.6 % in 2022 to an expected 1.4 % in 2024. This reflects an economic momentum stronger than expected in the USA, while growth in the euro area has been weaker than forecast. Although inflation is moderating, it remains above target, indicating challenges in tightening monetary policy.

Going forward, inflation is expected to stabilise, but certain factors may influence this trajectory. Influences such as changes in energy prices, commodity supply and global demand will be key factors. Inflation trends in both advanced economies and Emerging Market and Developing Economies (EMDEs) point towards a shift to more moderate levels, but uncertainties surrounding geopolitical conditions, trade tensions and the aftermath of the pandemic could impact the forecasts. The ability of central banks to navigate these complex challenges will be crucial for maintaining economic stability.

Headline inflation forecasts, %



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

Source: IMF WEO (October 2023)

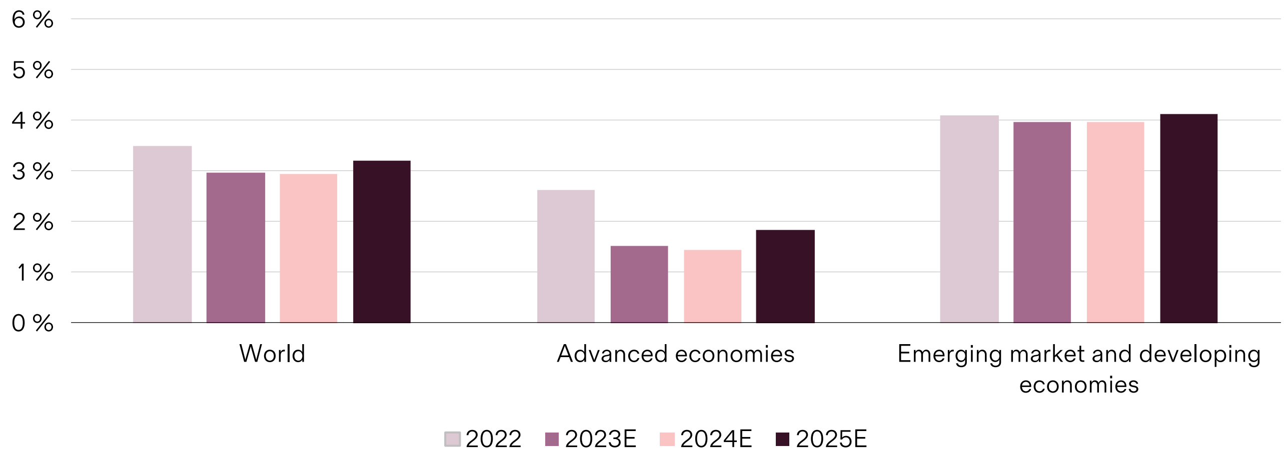
GDP growth projections

Global GDP growth has shown a gradual improvement in the aftermath of the significant challenges posed by the COVID-19 pandemic to the world economy. IMF forecasts from October suggest an annual decline in global GDP growth from 3.5 % in 2022 to 3.0 % in 2023 and further to 2.9 % in 2024. Although lower than earlier projections, the global economy has managed to avoid a contraction in per capita real GDP, and growth has proven to be more resilient than previously predicted. Advanced economies play a central role in global GDP growth. The IMF expects these economies to maintain broadly stable growth in 2024. This resilience can largely be attributed to a strong service sector, especially in countries like the USA, where the labour market is tight and economic activity is robust. At the same time, the manufacturing sectors in these economies have experienced some slowdown, partly due to higher interest costs and lower demand for credit.

For EMDEs, IMF forecasts indicate that growth will remain stable from 2022 to 2024, with a slight upturn in 2025. However, there are significant regional differences. Some areas, especially those with strong ties to tourism and travel, have experienced a decline in growth, while others with less exposure to such sectors have fared better.

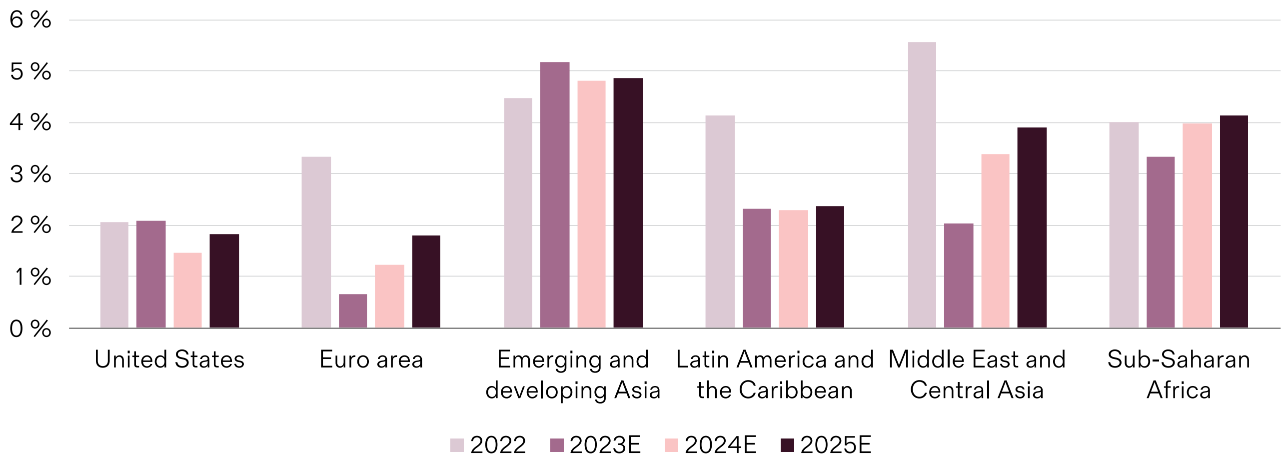
The expected growth trends largely reflect developments in global factors such as commodity and fuel prices, as well as policy measures from central banks and governments. Advanced economies will continue to rely on a strong service sector, while emerging markets will hope for steady growth in exports and increased domestic demand. Furthermore, the price movements of fuel and non-fuel commodities, such as food, are expected to play a central role in GDP growth.

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



Source: IMF WEO (October 2023)

GDP growth rate projections, by region, % change



Source: IMF WEO (October 2023)

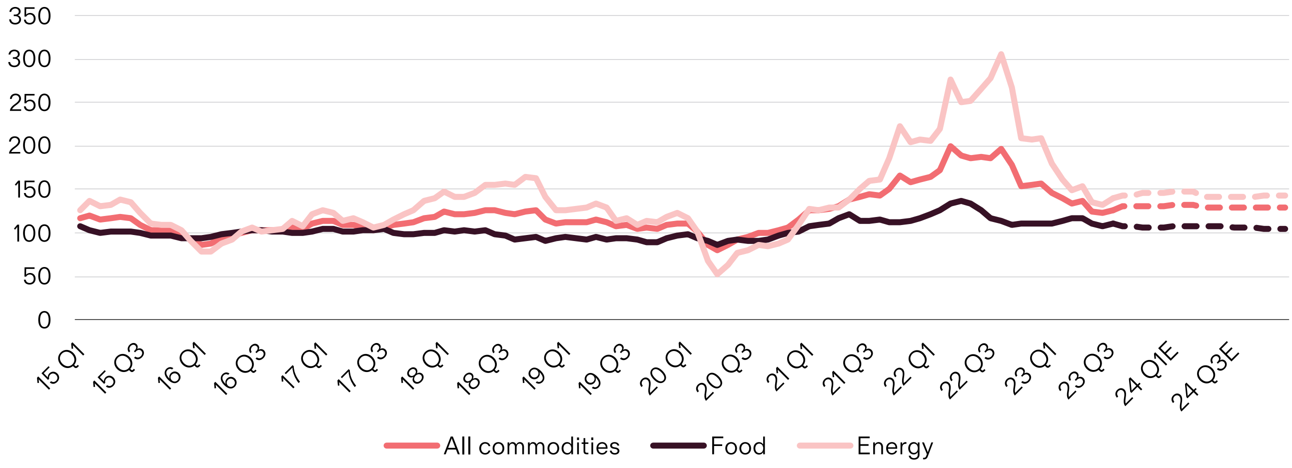
Commodity prices

In the period from February to August 2023, there were significant developments in the commodity market. Crude oil prices increased by 4.4 %, mainly due to a recovery in July and August. However, they remain well below the peak of USD 115 per barrel in June 2022. Factors contributing to the price pressure include lower oil consumption than expected in China, concerns about recession sparked by banking challenges, and tighter monetary policies in several major economies in Q2 2023.

On the supply side, production cuts from OPEC+ and voluntary cuts from Saudi Arabia and Russia helped to mitigate the decline. However, these measures were partially offset by increased oil production in non-OPEC countries, especially in the USA. Western sanctions on Russian oil exports have had mixed effects, as export flows have remained relatively stable. Futures markets suggest a 16.5 % decline in crude oil prices on an annual basis. The uncertainty surrounding this price outlook is high, with upside price risks stemming from further production cuts, military escalations in the Black Sea, and insufficient investments in fossil fuel extraction. On the other hand, downside price risks include a global economic downturn, a decline in the demand for oil in China, and faster adoption of electric vehicles.

Natural gas prices in Europe experienced a 36 % decline from February to August 2023, attributed to factors such as lower demand and an abundance of stored natural gas after the winter. Base metal prices have significantly weakened, with a 15.7 % decline from February to August, attributed to a slow reopening of the Chinese economy, weak demand from European industry, and higher interest rates. Projections indicate a further decline of 4.7 % in 2023 and 7.1 % in 2024. Agricultural commodity prices have persisted in their downward trend, and between February and August 2023, the IMF's index for food and beverage prices decreased by 6.7 %. Outlooks for food prices are pointing upwards, primarily due to the consequences of the collapse of the so-called Black Sea Grain Initiative.

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



Source: IMF WEO (October 2023)

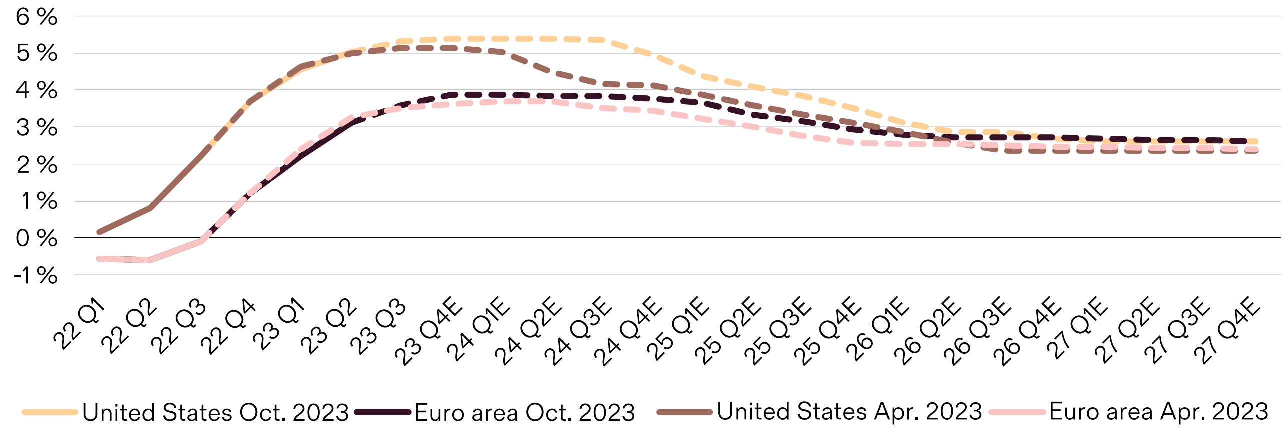
Key policy rate

Following significant increases in policy rates by central banks, there have been several recent monetary policy meetings during which the central banks opted to keep the key policy rate unchanged. The IMF's October projections indicate a marginal upward adjustment in the interest rate paths for the Federal Reserve (FED) and the European Central Bank (ECB), with expectations that interest rate peaks are imminent.

The IMF anticipates that both the interest rate peaks for ECB and FED will persist for a couple of quarters before policy rates are lowered in the latter half of 2024 and continuing into 2025. The interest rate paths for the two major economies show peaks at 5.38 % and 3.88 % for the USA and the euro area in the October report, a change from 5.13 % and 4.13 % in the April report.

As mentioned earlier, the central banks' rate hikes have had an impact on the economies, resulting in declining inflation. At the same time, there has been a substantial increase in the yield on ten-year US Treasury bonds in recent months. This interest rate, often referred to as the “world's most important rate”, has a significant influence on interest rates and financial markets worldwide. Since the end of the first half of the year, the rate has surged from 3.82 % to a brief peak above 5.00 %, having now stabilised just below 5.00 %, making it the highest level since 2007.

Key policy rates, %



Source: IMF WEO (October 2023)

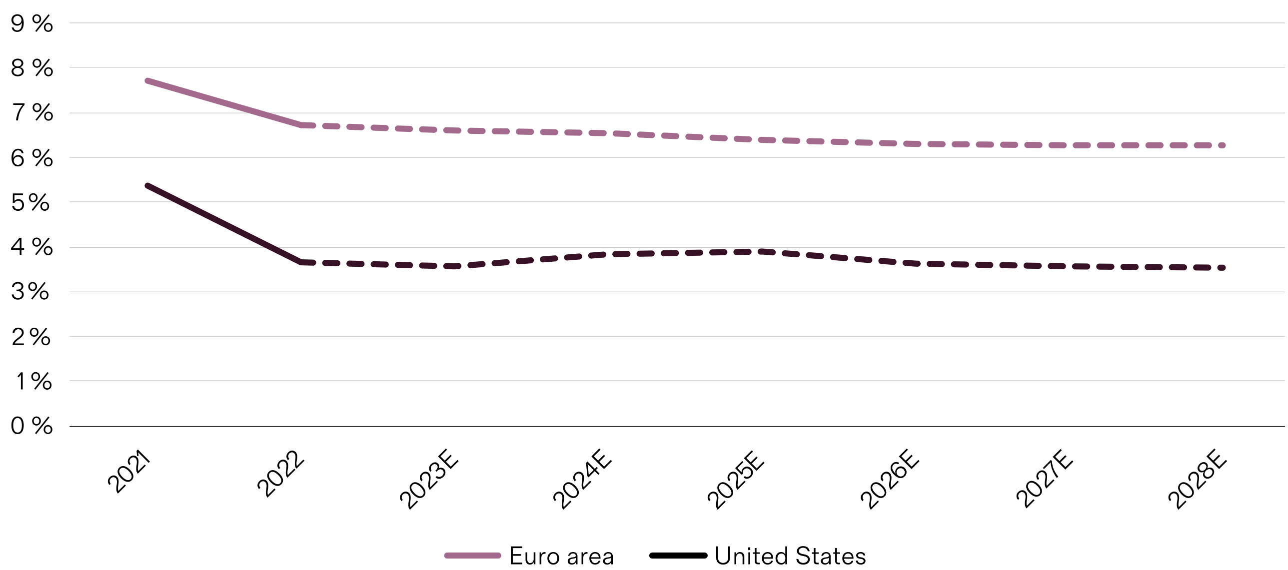
Unemployment rate

In advanced economies such as the USA and the euro area, labour markets have been tight, particularly in the context of economic tightening and inflation control. However, the IMF has downgraded its forecasts for both the euro area and the USA from the April report to the October report. The 2023 figures have been revised downwards by 22 % and 26 % for the euro area and the USA, respectively, with the revised forecasts for 2023 being 6.60 % and 3.57 %. A slight increase in unemployment is expected in the USA in 2024 and 2025, followed by a decline. The forecast has been adjusted downwards for all years since April.

In EMDEs, the situation has been more varied. Some countries, especially low-income ones, have struggled with high unemployment and are expected to see a gradual improvement as the economy stabilises. Others, especially in Asia, have managed to maintain low unemployment despite global challenges. The IMF's reports provide a nuanced understanding of regional differences and the factors influencing the employment dynamics.

Looking ahead, the IMF points to several factors that will impact unemployment. Ongoing uncertainty in the global economy, along with inflationary pressures and tightening monetary policies, may influence businesses' hiring decisions.

Unemployment rate, %



Source: IMF WEO (October 2023)

Macro — Nordics

Sweden falling behind

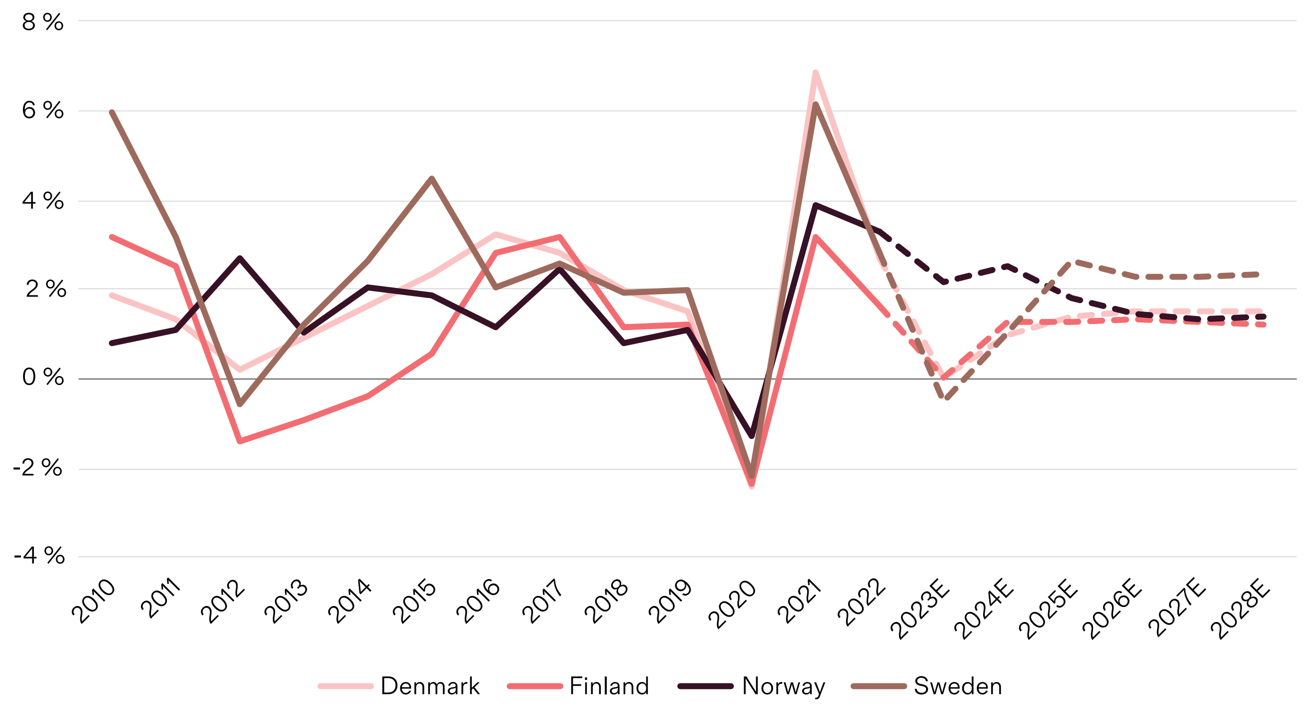
Except for Finland, where the central bank follows the European Central Bank (ECB), the central banks in the rest of the Nordic countries control their key policy rates independently. Globally, as seen in the Nordic region, there has been a move towards what is assumed to be the peak, or close to the peak, of the key policy rates. Interest rates have had time to take effect, and inflation has been adjusted downwards after reaching high record levels earlier in 2023. Sweden is still experiencing relatively high inflation compared to other European countries, but even there, it is on a downward trajectory. The fight against inflation and monetary policy continues to steal the headlines in terms of economic outlook, in the Nordics too.

GDP growth projections

The latest projections from the IMF suggest a cooling of economic activity measured by GDP in the Nordic region, and Denmark and Norway are expected to avoid a recession. Significant changes have taken place in the economic outlook for the Nordic countries in the period between the April report and October's. In Denmark, expectations for GDP growth in 2023 substantially increased, with an adjustment of 170 bps. The forecasts now indicate stable growth of between 1.2 % and 1.4 % for the following five years. In contrast to Denmark, Finland has seen a marginal downward adjustment in its expected growth in GDP for both 2023 and 2024. A minimal decline is expected in 2023, followed by a growth trend similar to Denmark from 2024. Norway has maintained its expectations for relatively stable GDP growth from April to October and is forecast to have the strongest economic growth among the Nordic countries, with an expected annual growth of 2.3 % in 2023. Expectations also suggest a growth trend similar to Finland and Denmark in the following years. Sweden has experienced a slight downward adjustment in its GDP forecasts from April to October, with an expected annual decline of 0.7 %. While lower growth is anticipated in 2024 compared to other Nordic countries, Sweden is expected to have stronger economic growth from 2025 to 2028, with an average annual growth of about 2 %.

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

Real GDP, annual change %

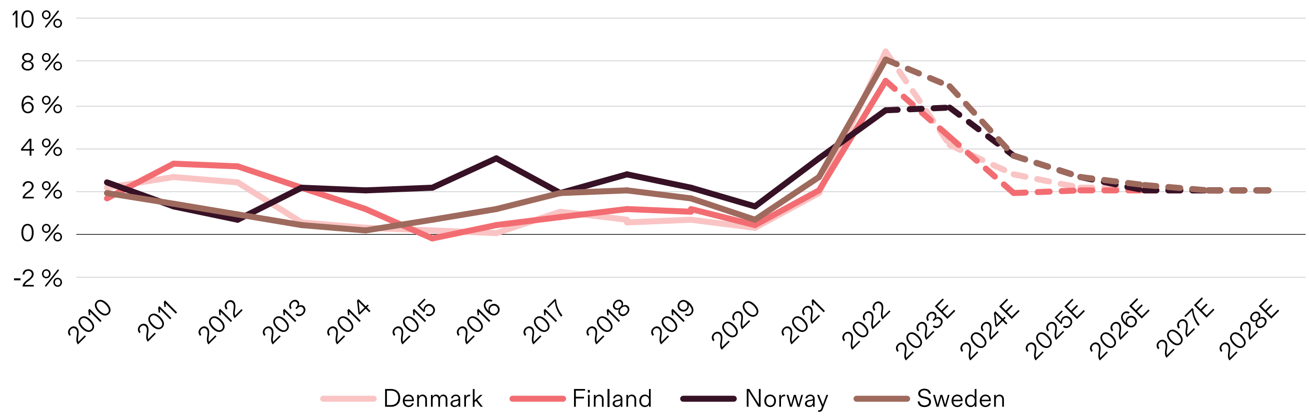


Source: IMF WEO (October 2023)

CPI

In the period between the IMF's April and October reports, there have been significant changes in the forecasts for the Consumer Price Index (CPI) in the Nordic countries. Both Denmark and Finland have experienced downgrades for 2023. Denmark has seen a downgrade of 65 bps and is now expecting a CPI annual average of 4.15 %, while Finland has experienced a downgrade of 83 bps, with a new forecast of 4.47 %. The forecasts for Denmark for 2024 remain nearly unchanged, while there is an expectation of slightly lower inflation in Finland compared to the April forecast. As for Norway, the IMF has upgraded its CPI forecast for 2023 by almost 1 pp since April, now expecting an annual average 12-month growth of 5.83%. Furthermore, a somewhat slower decline in inflation is expected compared to Finland and Denmark. Sweden, on the other hand, as faced the most significant challenges with inflation among the Nordic countries. For 2023, an annual growth of 8.06% is expected, the same as projected in the April report. While high growth is also anticipated in 2024, the forecasts suggest that from 2025, price growth will stabilise around 2 %.

Consumer Price Index (CPI), annual change %

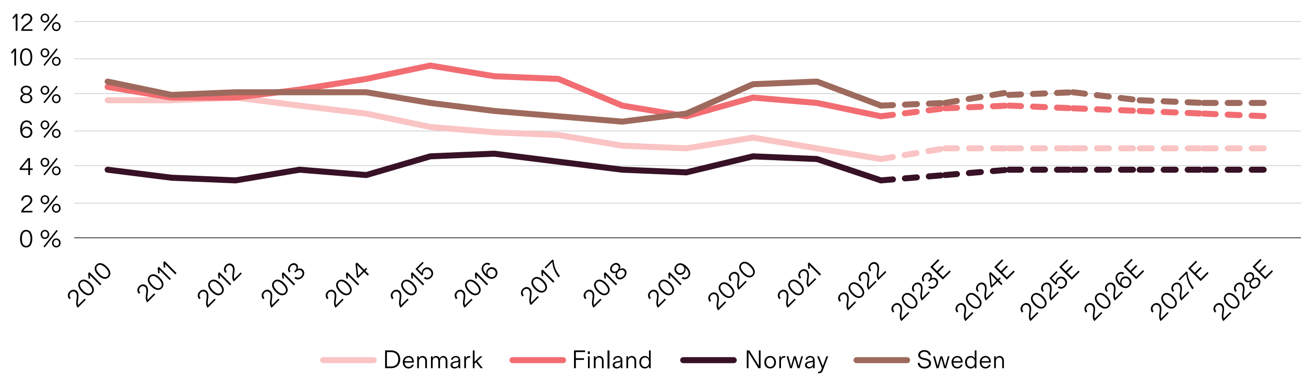


Source: IMF WEO (October 2023)

Unemployment rate

In the period between the IMF's April report and October's, unemployment expectations (Labour Force Survey) in the Nordic countries have evolved in different ways. Denmark has maintained virtually unchanged expectations from April, with a stable unemployment rate of 5.00 % annually throughout the forecast period. Finland and Sweden are expected to have somewhat higher unemployment, with anticipated unemployment rates of 7.30 % and 7.55 %, respectively, in 2023. This represents a decrease from the April report of 17 and 25 bps for Finland and Sweden. The forecasts suggest that unemployment will initially increase in both countries before gradually decreasing and stabilising at levels lower than the current ones. Norway remains the country with the lowest unemployment in the Nordic region and is expected to experience a moderate increase in 2024. A growth of 20 bps is expected, and the new forecast places unemployment at 3.80 %. Expectations for Norway have been adjusted minimally since the April report.

Unemployment rate (LFS), %



Source: IMF WEO (October 2023)

Macro — Norway

Biting rates

The macroeconomic picture for Norway has been both turbulent and challenging to predict over the past year. The tightening measures implemented by the Norwegian Central Bank as of November have begun to yield results, with a decrease in inflation figures. However, significant uncertainties regarding the upcoming period persist, as the depreciation in NOK is affecting the price of all imported and internationally traded goods, as well as other price impulses from e.g., electricity, food and housing rents.

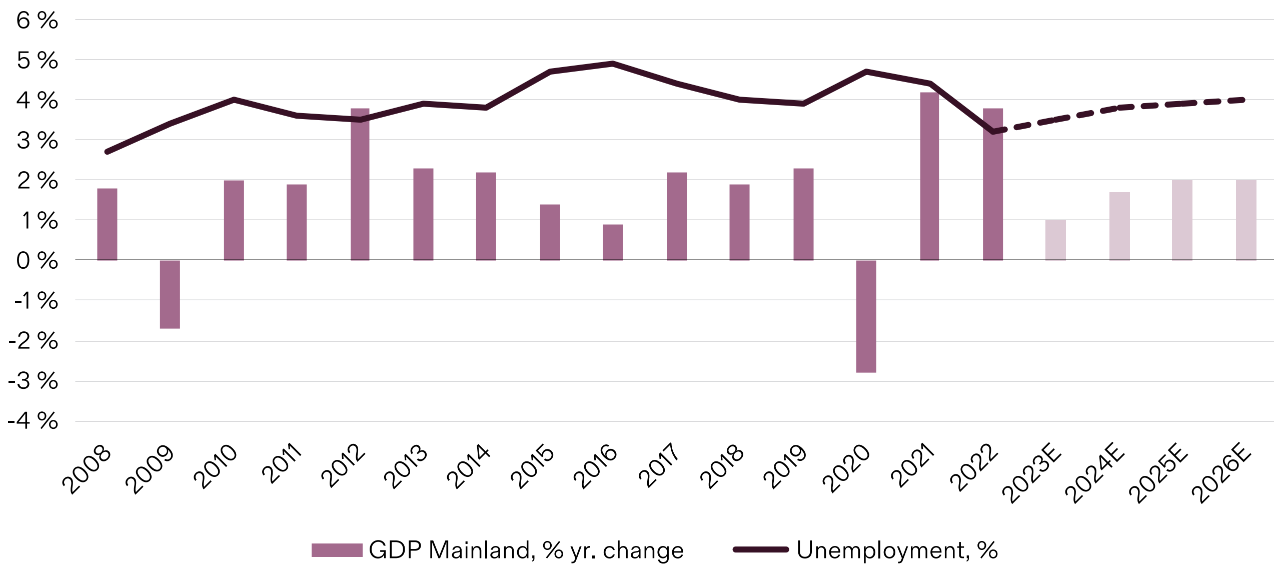
GDP and unemployment

Over the next 12 months, a decline in the Gross Domestic Product (GDP) for mainland Norway is expected, as indicated in the Monetary Policy Report 3/23. The forecasts for subsequent years remain largely unchanged compared to the Monetary Policy Report 2/23. After a very modest increase of only 0.2 % in GDP for mainland Norway from Q4 2022 to Q1 2023, GDP for mainland Norway declined further in the following quarter to a growth of 0.0 %, seasonally adjusted.

SSB's (Statistics Norway) forecasts for GDP growth for mainland Norway show an expected growth rate of 1.0 % in 2023 relative to 2022. This growth is expected to gradually accelerate in the following years, with forecasts of 1.7 %, 2.0 %, and 2.0 % for 2024, 2025, and 2026, respectively. This apparent upward trend suggests a cautious improvement in the economy in the years ahead. However, the expected improvement in GDP growth for mainland Norway will still be significantly lower compared to the robust figures recorded in 2021 and 2022, when annual growth rates of 4.2 % and 3.8 %, respectively, were experienced, strongly driven by the post-pandemic rebound. The forecast from the Norwegian Central Bank for the GDP growth for Mainland Norway paints a much weaker picture, with 0.3 % and 0.8 % growth in 2024 and 2025, respectively.

In September, the unemployment rate was measured at 3.5 %, based on data from the Labour Force Survey (LFS). This corresponds to SSB's forecast from March, which estimated an average unemployment rate of 3.6 % for 2023. Updated economic expectations published in September support the expectation of an unemployment rate slightly lower than 3.5 % in 2023. SSB has adjusted its forecasts for 2024 and 2025 since March with increases of 10 and 20 bps and now estimates an unemployment rate at 3.8 % and 3.9 %, respectively. For 2026, a further increase in the unemployment rate is expected, projected at 4.0 %.

Mainland GDP and unemployment (LFS), %



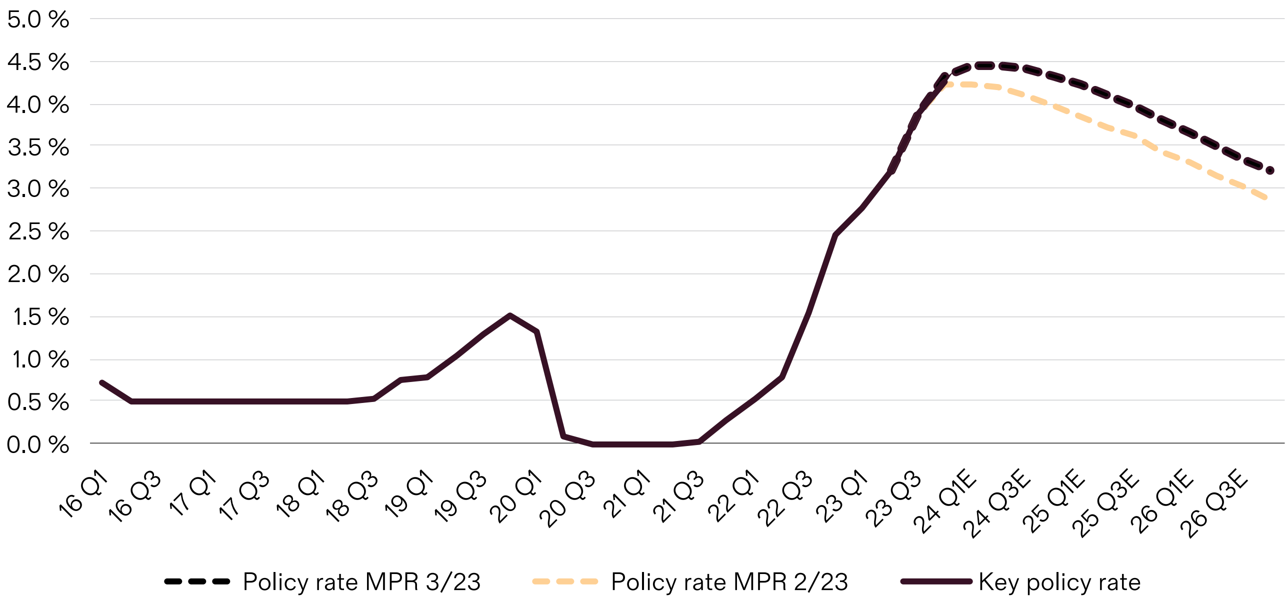
Source: Statistics Norway

Key policy rate

Throughout the year, the Norwegian Central Bank has continuously adjusted the interest rate path, and the current upper bound of the path is set just below 4.5 %. This adjustment has been a result of persistent and higher than expected inflation combined with better than expected economic indicators. As of November 2023, the policy rate stands at 4.25 %, after being raised in September. The central bank indicated during the interest rate decision in September and November that another rate hike would be coming in December. Forecasts suggest that the current upper limit of the interest rate is expected to persist at least until the second half of 2024. However, there is a growing perception that the peak has already been reached. Some even expect a decrease in the policy rate in the first half of 2024. Our view is that the inflationary risk is persistent and that we may even see one additional hike in 2024 before the highest point is reached, depending on incoming data.

The drivers that adjusted the interest rate path upwards as shown in the monetary policy report from September were prices and wages, foreign developments, domestic demand, and petroleum prices and investments. The exchange rate pulled the interest rate path slightly downwards relative to the June report. The net effect was a significant upward adjustment. It is already evident that the NOK is expected to depreciate relative to the Norwegian Central Bank's forecast, with increased foreign government bond yields in recent periods being a possible explanatory factor for the depreciation. Despite the Norwegian Central Bank not working towards a set target for the NOK, it follows the changes in NOK, as it has a strong impact on future inflation. This points towards the possibility of a new increase in both the interest rate and the interest rate path in the next monetary policy report.

Key policy rate



Source: The Norwegian Central Bank, MPR 3/23

«We may even see one additional hike in 2024 before the highest point is reached».

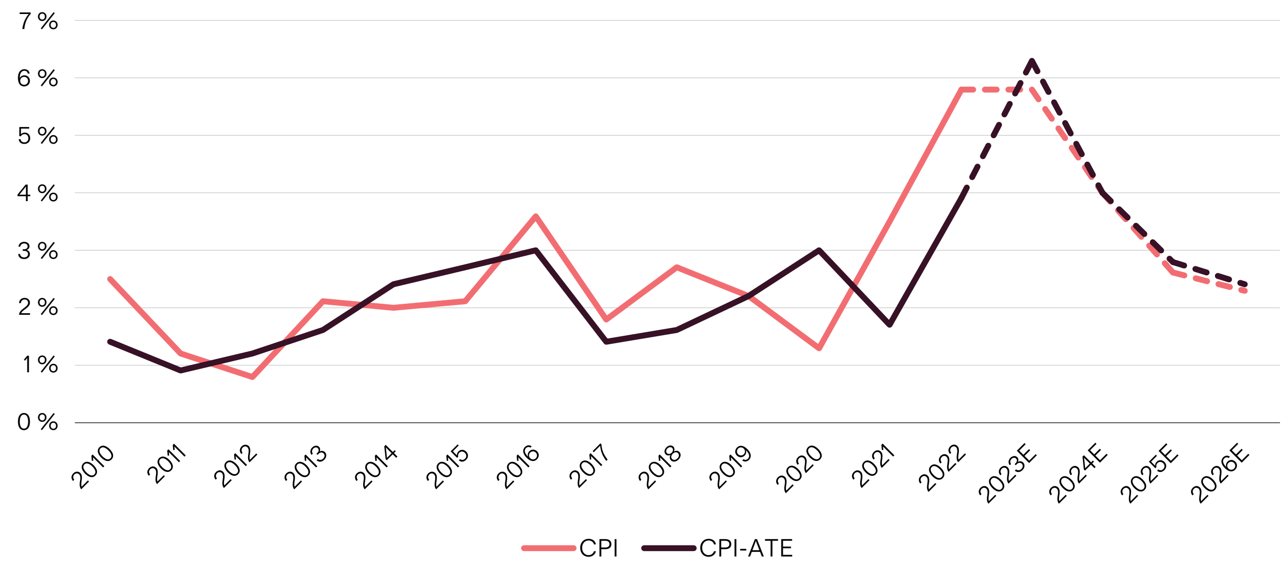
CPI and CPI-ATE

The rise in core (CPI-ATE) and headline inflation (CPI) seems to have eased off, and it appears that the central bank has gained some control over inflation. This is reflected in the actual Consumer Price Index (CPI) figures obtained after the Monetary Policy Report 3/23. For September, the 12-month growth was 90 bps lower than the central bank's expectations from earlier that month, at 3.3 % compared to an expectation of 4.2 %. The central bank did not expect such low inflation figures until Q1 2025. The 12-month growth for core inflation, measured at 5.7 %, was 40 bps lower than expectations, due to a surprising decrease in September. Some higher core inflation is however expected in the future, compared to the level measured in September. The sudden changes relative to estimates reveal the uncertain nature of CPI measures.

To assess whether this inflation level is here to stay, we have examined the various drivers and expectations for these drivers in the coming period. Firstly, NOK has weakened significantly since the inflation figures for September were released, which can be expected to push inflation upwards, as imported goods account for approximately 35 % of the CPI-ATE. Additionally, as mentioned in previous sections, foreign interest rates have increased significantly, pushing inflation up as NOK investments become less favourable relative to other currencies with higher rates.

From September, SSB expects the 12-month growth for the Consumer Price Index as an average in 2023 relative to 2022 to end at 5.8 %, an upward revision from March, when the expectation was 5.0 %. The subsequent years have also been revised slightly upwards, and growth is not expected to drop below 2.5 % until 2026. There has been an upward revision since March for core inflation, from 5.4 % to 6.3 %. Expectations for the coming years have also been revised, including an increase in the expected CPI-ATE for 2024 from 2.8 % to 4.0 %.

CPI and CPI-ATE



Source: Statistics Norway

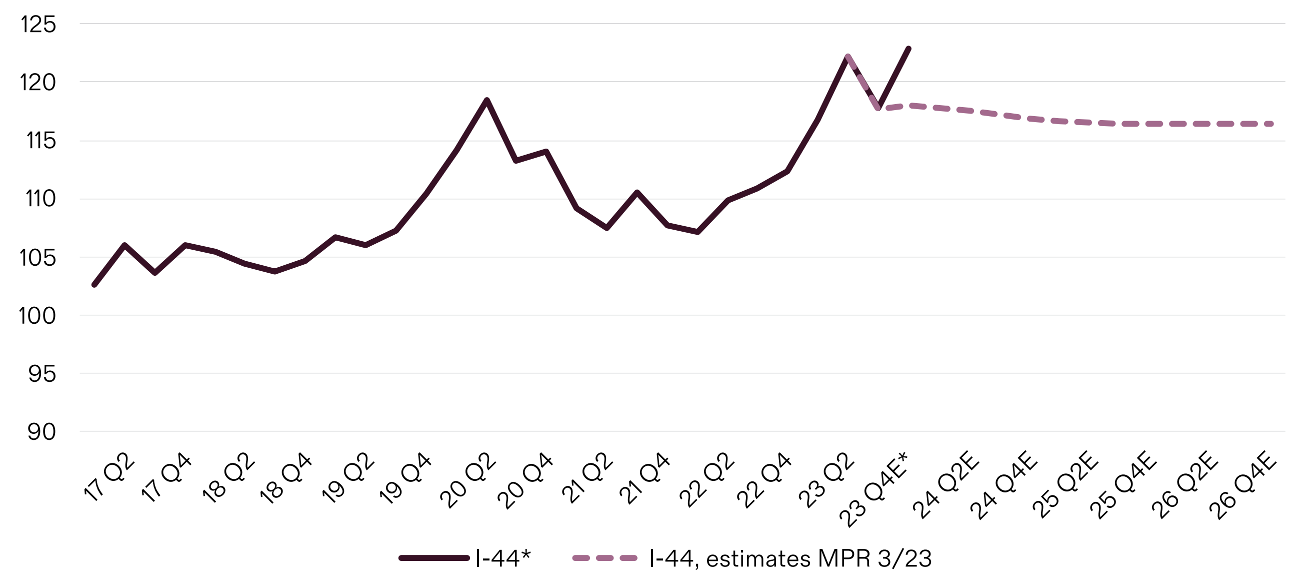
«The sudden changes relative to estimates reveal the uncertain nature of CPI measures».

Currency

A focal point in our previous report from May 2023 was the depreciation of NOK, which we closely monitored. After strengthening in the subsequent months, NOK has again weakened significantly against other currencies. Since the last report, NOK has weakened from 11.58 to 11.82 against the EUR and from 10.65 to 11.12 against the USD. Against a weak SEK, NOK has remained somewhat stable. Explaining the changes in exchange rates over time is complex, but an explanation for the observed development could be interest rate parity and several other factors, including the risk premium in NOK, the central bank's sale of NOK, changes in commodity prices, and developments in the Norwegian and global economies. The Norwegian Central Bank's forecast for the import-weighted exchange rate index, also known as I-44, in the Monetary Policy Report 3/23 from September, was that I-44 could be expected to remain stable until the end of the year, at an average level of 118. As of 3 November 2023, I-44 is well above 122. This difference between the Norwegian Central Bank's forecasts and the actual currency level increases the likelihood of a new interest rate hike in December.
In the coming years, the central bank expects I-44 index to decrease somewhat (NOK appreciating) but remain stable between 116.4 and 117.8.

These forecasts have significant implications for the Norwegian economy. Depreciation drives not only the price of imported goods, but also the demand for Norwegian products and services, as domestically produced goods and services become more competitively priced for foreign buyers. This may lead to a second order effect where exporters are in a better position to pay wages, leading to second order price impulses.

I-44 with estimates from MPR 3/23



*23 Q4 as at 30 Oct. 2023.

Source: The Norwegian Central Bank, MPR 3/23

«This difference between the Norwegian Central Bank's forecasts and the actual currency level increases the likelihood of a new interest rate hike in December».

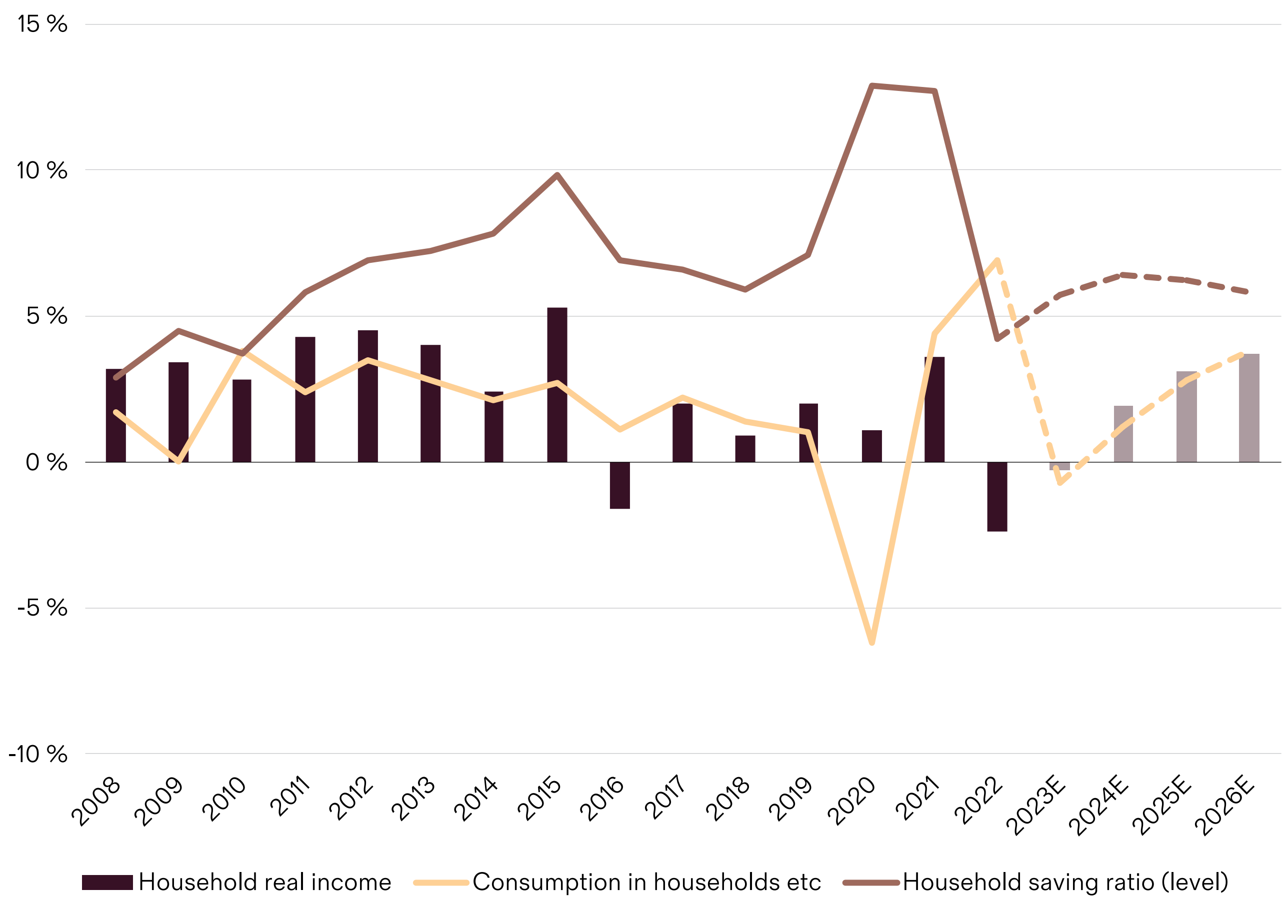
Households' financials

The purchasing power of Norwegian households has experienced a decline, a trend largely attributed to increased interest costs due to repeated interest rate hikes over the past two years. The resulting effect is that households now have significantly reduced purchasing power compared to previous periods. Meanwhile, the increase in consumer debt has been significant, rising by 5 % since September 2022 and reaching a total of NOK 157.7 billion in September 2023. September marks the third consecutive month in which Norwegians have reduced their consumption compared to the previous month. This trend underscores a general economic challenge for businesses selling to end consumers.

SSB's forecasts from March expected a household savings rate of only 0.8 % in 2023. Surprisingly, the figures for September have been significantly revised upwards, and it is now expected that the savings rate will end at 5.7 %. The positive indication of an increasing savings rate suggests that households recognise the importance of limiting consumption and reducing debt. This has also been observed, as despite the ongoing price increases, consumption decreased in 2023, with an expected decline of 0.7 %. This represents the largest annual decline in the last 15 years, except for 2020 when the pandemic broke out.

Even with a positive wage settlement of 5.2 % this spring, SSB expects real wages to weaken with a decline of 0.3 % in 2023. It is worth mentioning that this represents a significant upward adjustment from March, when a decline of 2.8 % was expected. Wage forecasts for the coming years have also been adjusted downwards since March, and a gradual increase from 1.2 % to 3.8 % is now expected from 2024 to 2026, lower than the previous expectation of an increase from 2.8 % to 4.1 %. These adjustments are partly attributed to higher interest rates than anticipated, a somewhat favourable wage settlement, and the expectation that interest rates will remain at high levels over a longer period. In the short term, households will have to deal with significant costs, increasing debt and reduced purchasing power. However, in the longer term, the prospect of lower interest rates, lower inflation and real wage growth paints a more positive picture.

Households' financials, annual change, %



Source: Statistics Norway

Hagaløkkveien 28, Asker

Malling is managing the project on behalf of Oslo Pensjonsforsikring. The project includes rehabilitation, HVAC renewal and tenant adaptions of internal areas approx. 23 000 m^2, external upgrades and establishment of a solar system. The project is moving into the implementation phase, with completion in the summer of 2025.

The office market

Office rental outlook

Rent outlook: Main scenario is a marginal nominal increase in rents

Key takeaways on the office market

In the following section, we explore key market indicators and their expected impact on future office rental growth in Greater Oslo.

- The thriving employment market of the past two years has contributed to a consistently strong office rental market. Greater Oslo has already witnessed the signing of 615 000 m^2 of office space in the first three quarters of this year, making it the highest volume ever recorded by Arealstatistikk for this timeframe.
- While the Norwegian Central Bank signals an expected slowdown in employment figures in 2024, it is expected to be relatively modest. Coupled with the pent-up demand resulting from recent robust employment growth, demand for office space is projected to remain strong in the upcoming years.
- Search activity for office premises has remained vigorous throughout 2023 and is on track to surpass 2022 levels. Notably, there has been an increase in very large searches, exceeding 10 000 m^2 in size.
- Large tenants are facing limited options in the office market, further aggravated by a current slowdown in new construction activity in Greater Oslo. As a result, many of these tenants are expected to opt for renegotiating their current lease agreements.
- Another incentive for pursuing renegotiation options are the considerably high construction costs, leading to a wider price gap between newbuilds and major refurbishments compared to passing rent.
- Based on signing data for this year, we are already observing signs of an uptick in renegotiations from a normal level.
- Driven by strong office demand resulting from a robust employment market and constrained supply due to limited construction activity, vacancy rates are projected to decrease until 2025.
- The office leasing market in Oslo is currently favourable, marked by strong demand for office space and the anticipation of low vacancy rates. These factors support the case for potential increases in office rents.
- On the other hand, the greater proportion of renegotiation is likely to reduce the neutral vacancy level in the market, leading to a neutral pricing effect from decreasing vacancy.
- As the economy is anticipated to face increasingly challenging times, including the possibility of a recession, tenants may become more hesitant to accept high rental costs, with some needing to reduce their rental expenses. Consequently, we are maintaining a rather subdued view of the outlook for rental prices.
- Over the next 12 months, we foresee nominal rental prices in Greater Oslo remaining stagnant, effectively resulting in a slight decrease in real rental prices.
- Looking further ahead over the next three years, we do not anticipate significant improvements in market conditions and forecast only a modest 5 % growth in nominal prices. Given SSB's projection of approximately 9 % inflation over the same period, this implies that real rental growth is also expected to be negative in the longer term.
- It's crucial to acknowledge that rent forecasts carry higher uncertainty this year due to their heavy reliance on the economic trajectory.

Office rents in Greater Oslo have continued their upward trajectory over the past six months, as reported by our leasing agents. This trend is underpinned by a robust office leasing market. We also posit that the escalation of breakeven rents has played a role in driving asking rents higher, with tenants who require alterations compelled to accept these higher rates to bring projects to fruition. It's worth noting that there have been a few isolated instances of exceptionally high rents this year, which we believe do not necessarily reflect the prevailing market conditions and are therefore not accounted for in our broker consensus. Rather, these deals involve tenants who have had limited options but to enter into contracts at elevated rates in costly projects.

Looking ahead, our rental growth forecasts for Greater Oslo are relatively subdued. In the coming year, we expect most clusters to experience zero growth in rents. Several factors, as discussed in the bullets above, play a role in shaping the rental landscape. Taking a longer-term view, three years into the future, our overall price development forecast for Greater Oslo is approximately 5 %. However, there are significant variations among different clusters. In the city centre, we foresee stagnant development in Kvadraturen, as space becomes available with the completion of phase 1 of the new governmental quarter. The CBD is expected to show only 5 % growth, as companies tend to be cautious with expenses during economic challenges. In the western fringe zone, Fornebu and Lysaker are expected to gradually benefit from the development of Fornebubanen, leading to an expected 10 % growth. The eastern fringe zone, with ample supply of space, has generally seen weaker demand among tenants over the past years, limiting the upside potential for rents. It is essential to acknowledge that both our short-term and longer-term forecasts carry a high degree of uncertainty.

- Normal rents reflect the interval 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

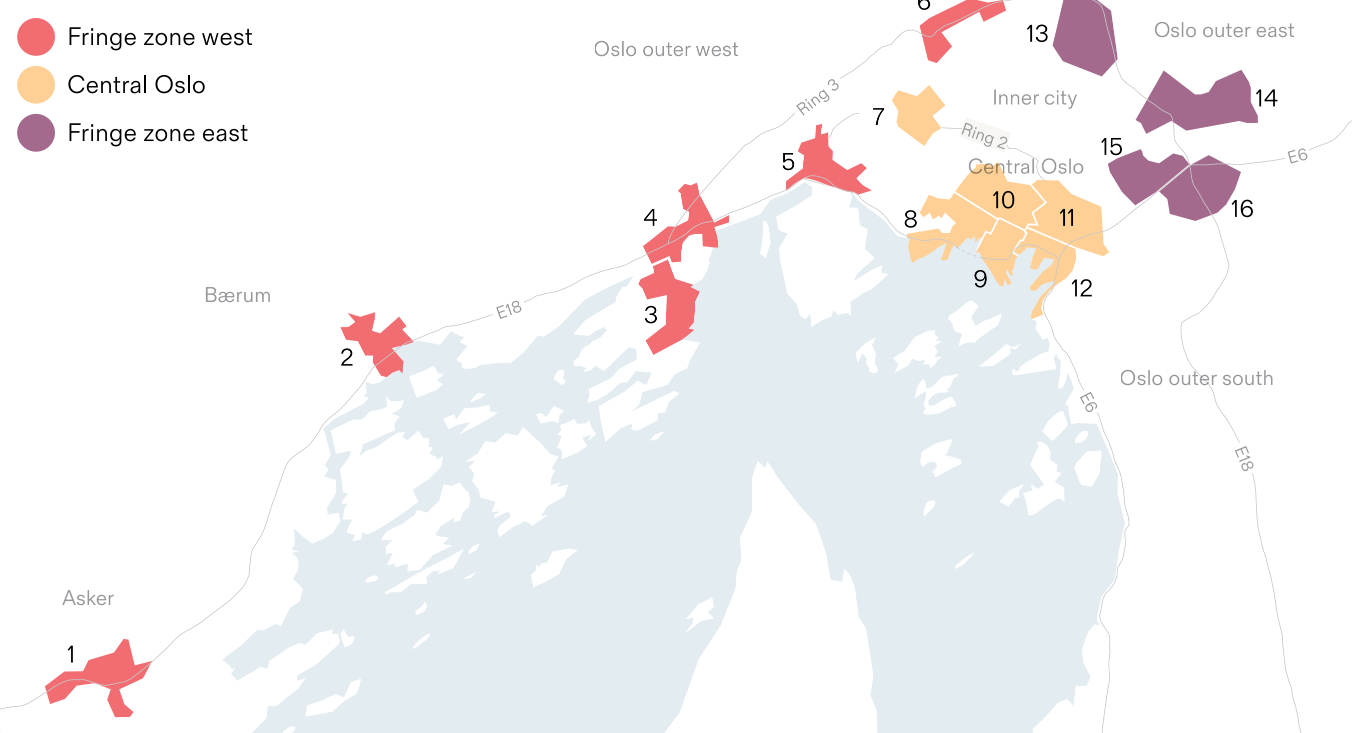
Highly uncertain | Uncertain | Fairly certain

Office cluster	Change Q3 2023 – Q3 2024	Change Q3 2023 – Q3 2026
Asker	0 %	5 %
Sandvika	0 %	5 %
Fornebu	0 %	10 %
Lysaker	0 %	10 %
Skøyen	0 %	5 %
Forskningsparken / Ullevål	0 %	10 %
Majorstuen	0 %	10 %
CBD	0 %	5 %
Kvadraturen	0 %	0 %
Inner city	0 %	10 %
Inner city east	0 %	5 %
Bjørvika	0 %	10 %
Nydalen	0 %	5 %
Økern	-5 %	0 %
Helsfyr / Ensjø	-5 %	0 %
Bryn	0 %	5 %
Oslo total	0 %	5 %

A selection of the latest lease contracts

Tenant	Moving to address Office cluster	Moving from address Office cluster	Space m² (rounded)
Aibel (renegotiation)	Hagaløkkveien 28 Asker	Hagaløkkveien 28 Asker	30 000
Sykehuspartner (renegotiation)	Hoffsveien 1D Skøyen	Hoffsveien 1D Skøyen	15 000
Oslobygg KF	Grenseveien 82 Helsfyr	Grenseveien 78C Helsfyr	10 400
Cappelen Damm	Stortingsgata 28 CBD	Akersgata 47 Inner City	10 000
NAV (renegotiation)	Hagegata 23 Inner City East	Hagegata 23 Inner City East	5 500
Galleri Akershus (renegotiation)	Schweigaards gate 6-14 Inner City East	Schweigaards gate 6-14 Inner City East	5 500
Intrum	Lysaker Torg 6-10 Lysaker	Hoffsveien 70B Smestad	5 000
Mestergruppen	Brynsengfaret 6 Bryn	Nils Hansens vei 8 Bryn	5 000
ABK-Qviller	Brynsengfaret 6 Bryn	Brobekkveien 80 Alnabru	3 300
Handelsbanken (renegotiation)	Cort Adelers gate 30 CBD	Cort Adelers gate 30 CBD	2 700

Greater Oslo area map

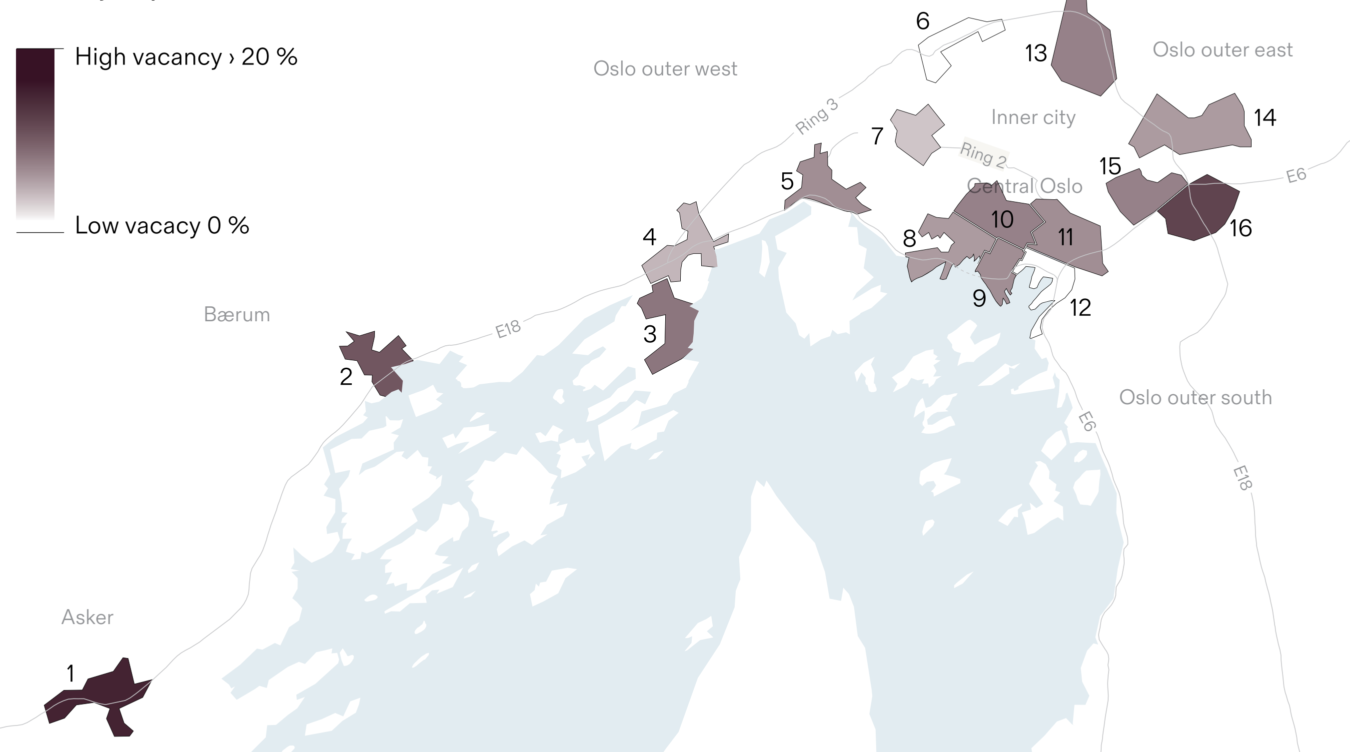


Office rents — Malling consensus (NOK/m²/yr)

	Office cluster	Prime rent*	Past 12 months change (Prime rent)*	Normal rent*	Past 12 months change (Normal rent)*
1	Asker	2 200	0 %	1 700 – 1 900	0 %
2	Sandvika	2 600	8 %	1 900 – 2 400	23 %
3	Fornebu	2 700	17 %	2 000 – 2 300	26 %
4	Lysaker	2 900	7 %	2 300 – 2 700	6 %
5	Skøyen	4 200	5 %	3 000 – 3 700	8 %
6	Forskningsparken/Ullevål	3 200	19 %	2 200 – 2 800	9 %
7	Majorstuen	4 200	11 %	2 900 – 3 500	14 %
8	CBD	6 500	7 %	4 500 – 5 500	14 %
9	Kvadraturen	4 750	13 %	3 200 – 4 000	6 %
10	Inner city	4 900	11 %	3 200 – 4 000	6 %
11	Inner city east	4 000	11 %	3 000 – 3 600	20 %
12	Bjørvika	5 400	0 %	3 800 – 4 600	2 %
13	Nydalen	3 100	15 %	2 300 – 2 800	13 %
14	Økern	2 600	4 %	2 000 – 2 300	9 %
15	Helsfyr/Ensjø	2 750	10 %	2 100 – 2 500	7 %
16	Bryn	2 500	9 %	2 000 – 2 300	12 %

*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 map as at October 2023



Vacancy and new construction

	Office cluster	Vacancy	Past 12 months change (Vacancy)	New construction: 2023-2025 pipeline (Confirmed)
1	Asker	18 %	8 %	0
2	Sandvika	12 %	3 %	17 000
3	Fornebu	9 %	2 %	30 000
4	Lysaker	4 %	0 %	5 500
5	Skøyen	7 %	-3 %	11 300
6	Forskningsparken/Ullevål	0 %	-1 %	2 300
7	Majorstuen	3 %	1 %	25 100
8	CBD	6 %	2 %	2 900
9	Kvadraturen	5 %	0 %	10 000
10	Inner city	7 %	1 %	51 400
11	Inner city east	6 %	1 %	25 600
12	Bjørvika	0 %	0 %	5 900
13	Nydalen	8 %	0 %	4 500
14	Økern	6 %	-1 %	88 100
15	Helsfyr/Ensjø	8 %	4 %	46 000
16	Bryn	14 %	-4 %	28 100

Source: Finn.no, Malling

Indicators for office demand
Employment nearing its peak, with a minor decrease expected

After two years of a robust employment market, the sustained growth in employment figures appears to be tapering off. The growth has slowed significantly, with a seasonally adjusted increase of just 0.1 % from Q1 to Q2 this year. Unemployment figures have seen a marginal increase according to data from the Labour Force Survey, while the registered numbers from the Norwegian Labour and Welfare Administration show a rather flat trend. The Norwegian Central Bank anticipates a modest decline in employment figures for 2024. Nevertheless, we remain optimistic about the net demand for office space in the coming years, projecting a cumulative growth of 250 000 m^2 between 2023 and 2026 due to lagged demand. Our confidence in this projection is bolstered by the search volumes for office space in Greater Oslo this year, which are on track to surpass 2022 figures and potentially even approach 2021 levels. The prevalence of numerous searches exceeding 10 000 m^2 may be attributed to limited viable options for these tenants in the foreseeable future. To secure the best possible premises, they are entering the market early. However, due to the scarcity of opportunities in the existing stock, we anticipate that many of them will opt for contract renegotiations rather than relocating to new spaces.

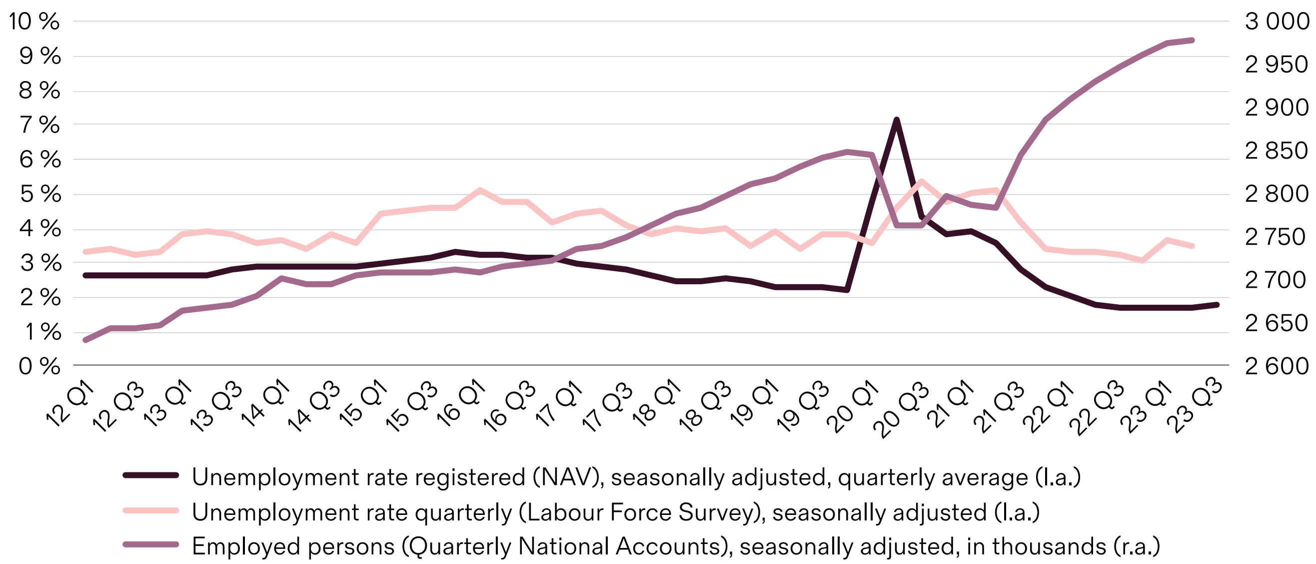
Lower employment growth and increasing unemployment rates

Over the past two years, the employment market has grown increasingly tighter, but now there are signs that the central bank's strict financial policy has extended its influence on the employment market. The growth in the number of employed, seasonally adjusted as reported by the Quarterly National Accounts, has gradually waned over the past couple of years. From Q1 2023 to Q2 2023, the growth rate was a mere 0.1 %, making it the weakest employment growth seen since late 2021.

At the same time, unemployment rates have also begun to rise slightly. According to seasonally adjusted data from the Norwegian Labour and Welfare Administration (NAV), unemployment has shown a slow and modest increase since hitting a low of 1.7 % in Q3 and Q4 2022, reaching 1.8 % as of Q3 2023. However, these unemployment rates remain historically low, well below the pre-pandemic average from 2011 to 2019 of 2.8 %.

Unemployment rates reported by the Labour Force Survey (LFS) have also started to tick upwards. Notably, there was a significant surge in the unemployment rate, leaping from 3.1 % to 3.7 % between Q4 2022 and Q1 2022, before stabilising at 3.5 % in Q2 of the current year. It's worth noting that the Q1 increase was primarily attributed to a larger number of young people seeking part-time employment. The overarching trend still indicates a gradual uptick in the unemployment rate. Recent monthly data from August and September of this year consistently reports unemployment remaining stable at 3.5 %. Concurrently, there has been a decline in the number of available job positions, as per the seasonally adjusted LFS data. The decrease in the number of available jobs in both August and September marks the first time there has been a consecutive two-month decline since February 2021. In light of these developments, it is prudent to prepare for a potentially less favourable employment market in the coming period.

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

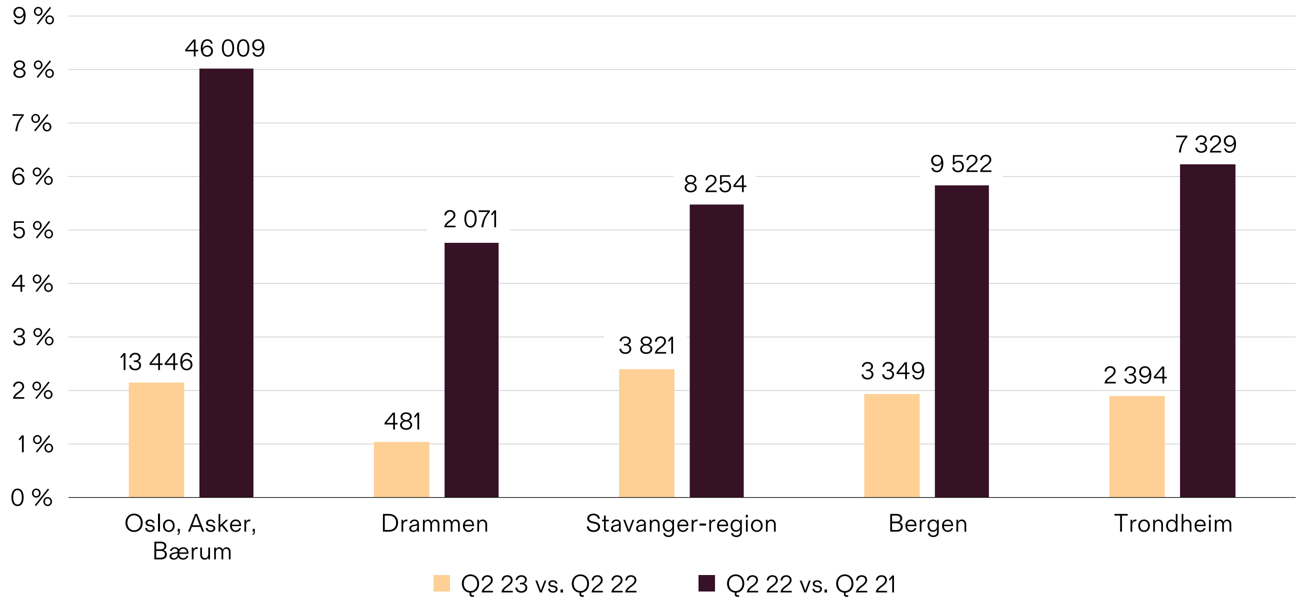


Source: NAV (Norwegian Labour and Welfare Administration), Statistics Norway

Continued growth in major cities, yet signs of a slowdown

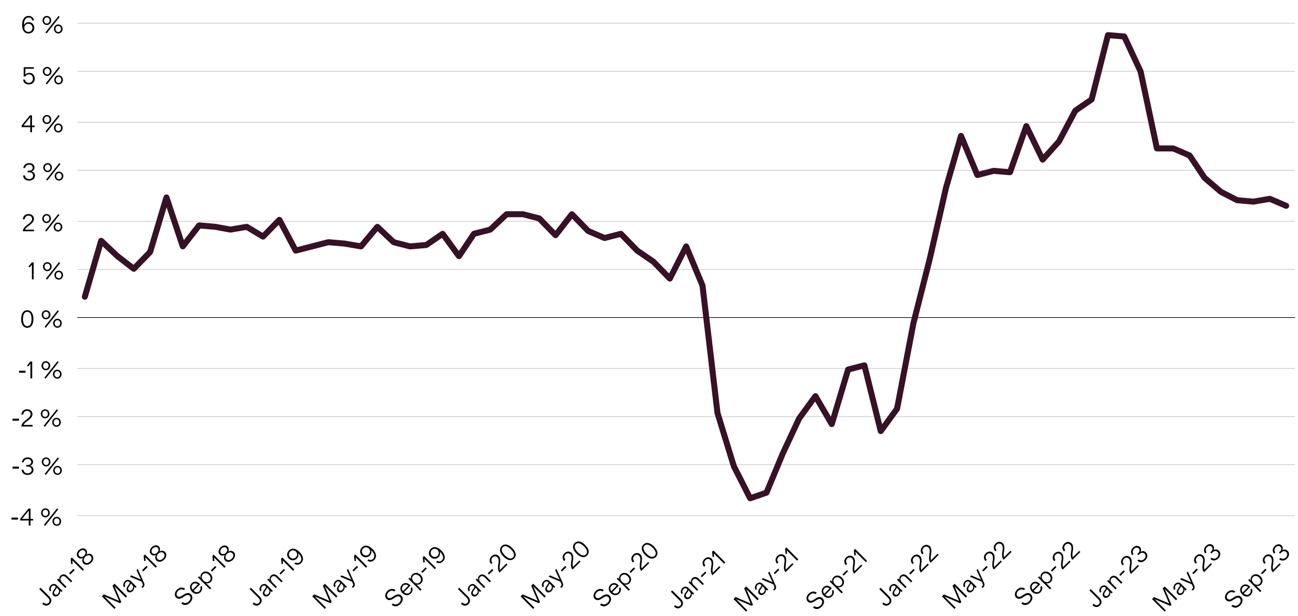
Over the past four quarters, there has been employment growth in all the major cities in Norway. However, in line with the country's overall economic trend, this growth has been notably more moderate compared to the previous year spanning from Q2 2021 to Q2 2022. On average across these cities, growth has been approximately one-third of the high levels witnessed in 2021 and early 2022. The strongest employment growth in the past year was recorded in the Greater Oslo area and the Stavanger region, at 2.2 % and 2.4 %, respectively. During periods of rising employment, Oslo typically outpaces the rest of the country in terms of growth, while the Stavanger employment market has been buoyed by the energy sector. Bergen and Trondheim both achieved a growth rate of 1.9 % from Q2 2022 to Q2 2023, while Drammen had the weakest growth at 1.1 %. Preliminary figures from the 12-month change in wage earners in Norway support the trend of slowing employment growth, with a mere 0.8 % growth in September, significantly lower than the peak growth of 5.8 % in April 2022.

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

Employment anticipated near its peak, with a soft landing ahead

The robust employment market that has characterised the past two years is showing signs of cooling. The Norwegian Central Bank's measures to counter inflationary pressures and forestall a price-wage spiral are now exerting real economic impact. The central bank initially anticipated that its monetary policies would affect the economy more swiftly than in fact materialised. Its expectations of an employment peak as early as Q3 2022 have since been adjusted to Q4 of this year, a shift that aligns with recent employment data trends. Employment growth is indeed slowing down, and the unemployment rate is currently creeping up.

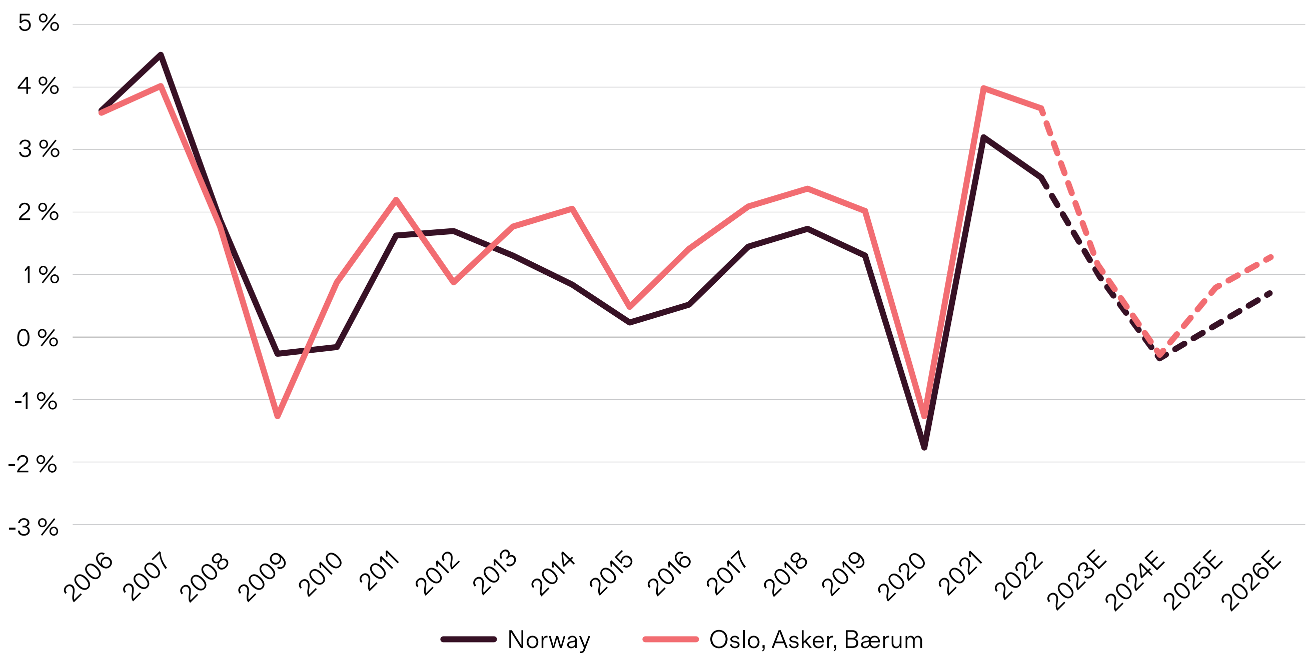
In its Regional Network Survey for Q3 2023, the central bank reported that companies are anticipating continued employment growth in the second half of 2023. Notably, businesses in the oil services sector are driving this growth, while the construction and retail trade industries are experiencing a decrease in employment. However, companies appear intent on downsizing their workforce less than the expected reduction in production would suggest. This is mainly driven by concerns about attracting a sufficiently skilled workforce once business conditions improve. This mindset may become increasingly prevalent, potentially leading to a soft landing in terms of employment figures.

In fact, the central bank's Monetary Policy Report 3/23 only anticipates a marginal decline in employment numbers throughout 2024. Following an expected peak in employment figures in Q4 2023, the central bank forecasts a 0.4 % decrease in the first three quarters of 2024. Subsequently, employment is projected to remain relatively stable throughout most of 2025 before returning to the expected Q4 2023 levels by Q1 2026.

The period from Q4 2023 to Q4 2026 is expected to witness 0.6 % growth in employment in Norway, which is a relatively weak development. The central bank's forecasts serve as the foundation for estimating future office demand in Norway. They also form the basis for our projections regarding employment and office demand in Oslo, Asker, and Bærum, taking into account the historically heightened employment growth experienced in this region during periods of overall economic upswings. For this specific area, we anticipate a cumulative employment growth of 1.9 % from Q4 2023 to Q4 2026. It is worth noting that SSB offers an even more optimistic outlook on employment figures compared to the central bank. In its latest Economic Trends report published on 8 September, SSB forecasts continued growth in employment throughout 2024-2026. It predicts stable growth rates of around 0.4-0.5 % per year over this period, amounting to a total growth of 1.4 % for the entire country. What remains certain is the analysts' unwavering positive outlook for the future trajectory of the employment market, despite the prevailing stringent fiscal policies.

The anticipated resilience of the employment market fills us with optimism regarding future office space demand. We project a net demand increase for office space in direct response to employment trends: an 88 000 m^2 rise this year, followed by a 23 000 m^2 dip next year, and subsequent increases of 67 000 m^2 and 116 000 m^2 in 2025 and 2026. Altogether, this adds up to a significant demand upswing of approximately 250 000 m^2 over this period. However, the absorption of office space following employment growth will not be immediate, contingent on factors like available space in existing contracts and contract durations. As such, we anticipate annual growth in demand for office space in the years ahead, with particularly pronounced expansion in the current year and the following year, propelled by the recent robust employment market.

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



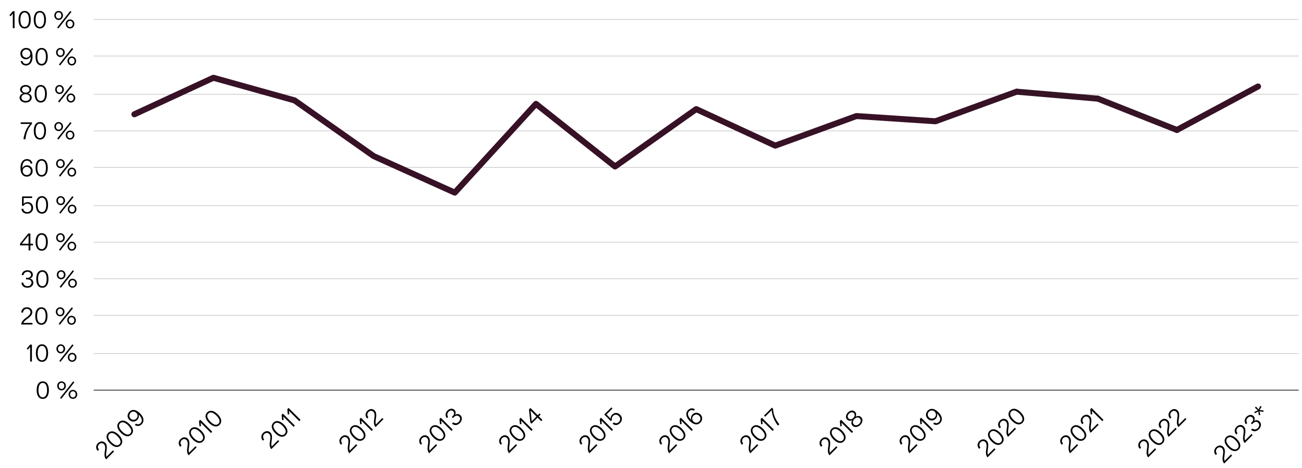
Source: Statistics Norway

2023 search volume is strong, with many large searches

Search activity in 2023 has maintained its vigour, nearing the total search volume of 2022. As of 30 October 2023, our records show a cumulative search volume of 210 000 m² across 79 searches, whereas the volume at the same time last year was 183 000 m², spread across equally as many searches. This trajectory places us on course to surpass the search volume of 2022, and we may even approach the levels observed in 2021. It's noteworthy that this year, the average size of individual searches is slightly larger than last year, around 2 700 m² as opposed to 2 400 m². A striking feature of this year's data is the presence of numerous substantial searches exceeding 10 000 m². These include Statkraft, Storebrand, Yara, NVE, Institute of Health and Society, and Wikborg Rein, all seeking premises with a move-in date in the distant future. One potential explanation for the surge in large searches is the limited availability of suitable office spaces for larger tenants in the foreseeable future. This situation is exacerbated by the current sluggish pace of new construction activity, leading tenants to seek out spaces well in advance to secure the best options.

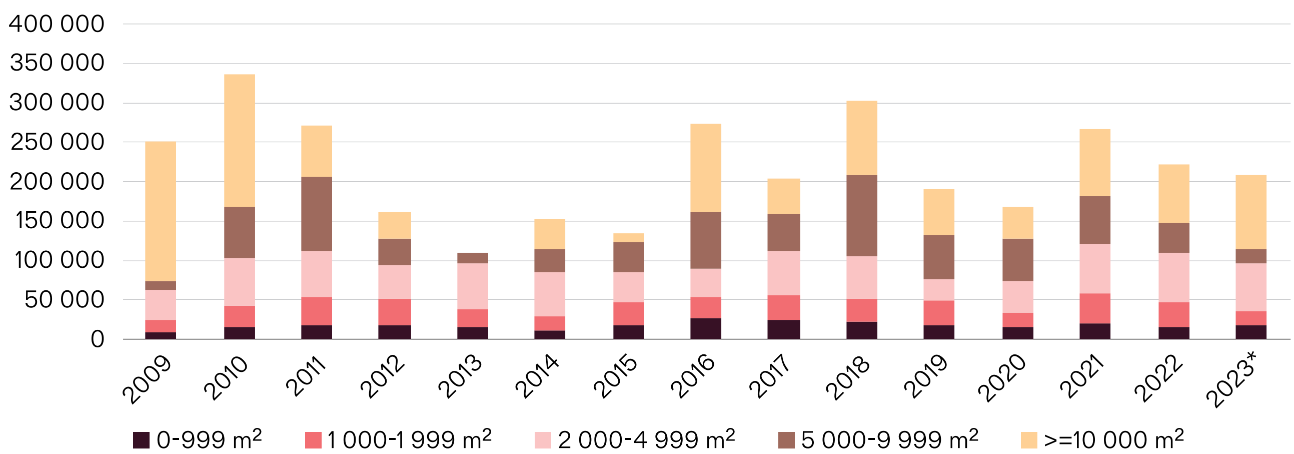
Centrally located premises continue to be in high demand, with a noteworthy increase from having constituted 70 % of searches in 2022 to 82 % of searches in 2023. While demand for city centre offices has consistently been robust, hovering at around 60 % to 80 % of all searches, this year's share has reached its highest point since 2010. Notably, the average proportion of city centre searches has been higher post-pandemic, reflecting companies' desire to attract employees back to the office and secure top talent in a highly competitive labour market. It could be assumed that as companies face mounting economic challenges due to high interest rates, more tenants would opt for fringe areas to secure a lower rental cost. However, the distribution has remained at consistently lower levels, with 65 % of searches targeting the western fringe zone and 41 % directed towards the eastern fringe zone in 2023.

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



*As at 30 October 2023. Source: NEMeet, Malling

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



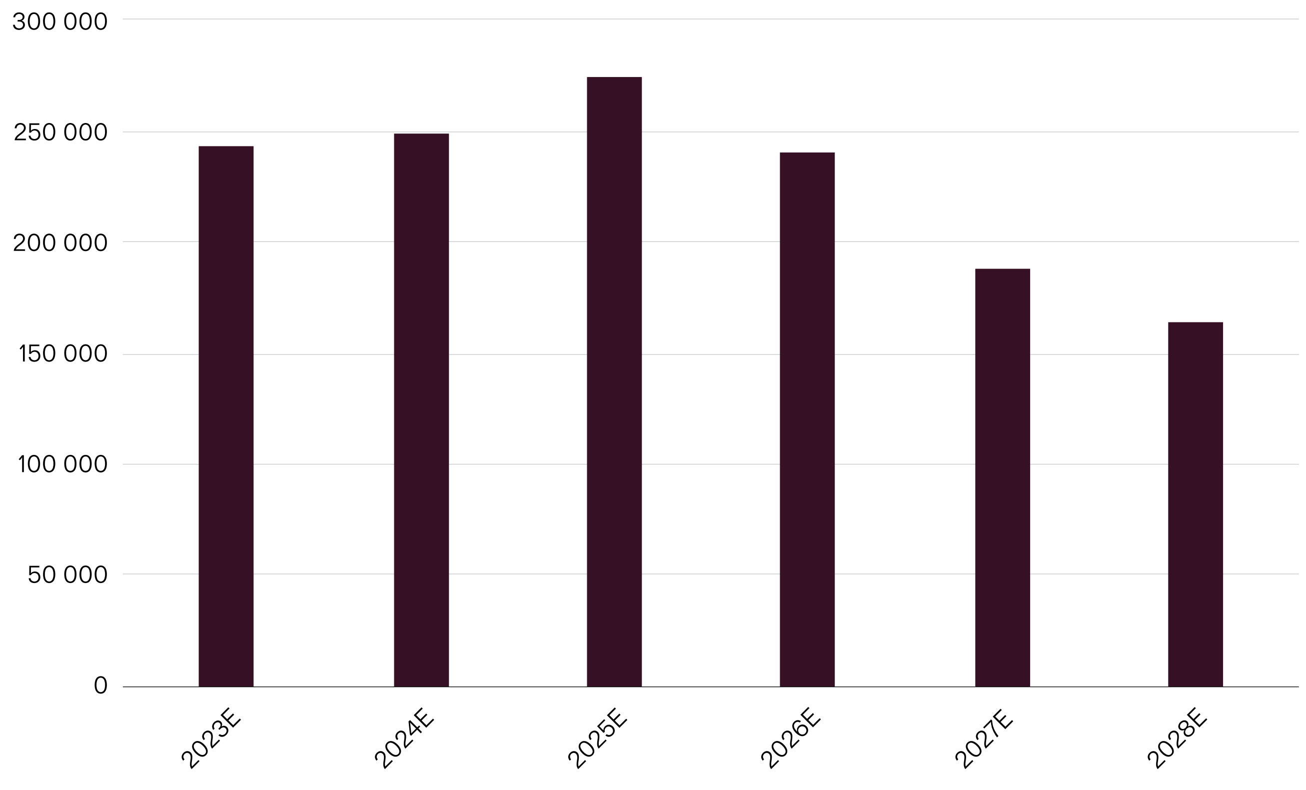
*As of 30 October 2023. Source: NEMeet, Malling

High demand for larger premises amid limited options spurs renegotiations

The projected demand for office spaces in Greater Oslo by tenants requiring more than 5 000 m^2 is expected to remain substantial in the coming years. From 2023 to 2026, demand is estimated to be approximately 250 000 m^2 annually, except for in 2025 when demand is expected to peak at around 275 000 m^2. This forecast is based on lease expiration profiles and data on the lead time to market from our search database. In this context, demand is defined as instances where tenants approach the market and/or their existing landlord to either renew their current lease or relocate to a new property. It's essential to note that this demand typically arises in advance of lease expiration. Larger tenants typically initiate their search processes at least two years before their intended move-in date. Consequently, the peak in the demand for office space in 2025 is driven by an exceptionally high number of lease expirations in 2027, totalling over 350 000 m^2. This figure significantly surpasses the 2023-2028 average of approximately 250 000 m^2. Looking further into the future, the estimated demand profile diminishes to about 190 000 m^2 in 2027 and 160 000 m^2 in 2028. It's worth noting that these figures are subject to change over time as lease expiration dates tend to shift closer to the target year.

As mentioned on the previous page, there have been numerous extensive property searches this year, as tenants find themselves with limited choices for future premises. We anticipate that this situation will prompt more companies to opt for lease extensions or renegotiations. Already several signed contracts this year are in fact renegotiations, involving tenants such as OsloMet, Equinor, Aibel, Deloitte, Sykehuspartner, and Wiersholm. All these contracts involve over 10 000 m^2, reinforcing our belief that larger tenants will increasingly resort to renegotiation as their primary choice due to limited and costly alternatives.

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



*Estimate based on historic search data (2019 -2022) and known lease expiries.

Source: Arealstatistikk, Malling

«The projected demand for office spaces in Greater Oslo by tenants requiring more than 5 000 m^2 is expected to remain substantial in the coming years».

Vertikalen, Nydalen

Photo: @knutneerland/@magentfotografer)

Malling advised Buypass for both negotiation and project management in their relocation of approx. 1 800 m² leased office space in Vertikalen, Nydalen.

Construction activity in Greater Oslo

Shift from newbuild projects to value-add projects

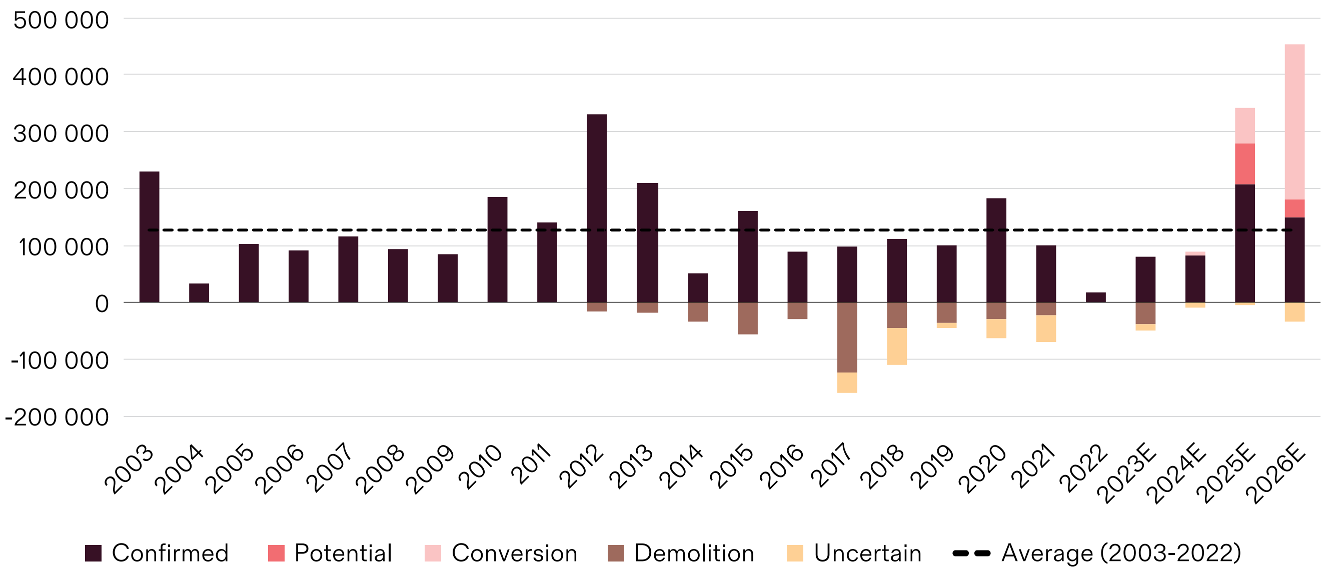
The office construction pipeline in Greater Oslo for the period of 2023-2026 remains relatively stable, showing minimal changes since our last market report. Construction volumes stand at approximately 80 000 m² for both 2023 and 2024, which is nearly 50 000 m² below the 20-year average. However, there is an anticipated surge in construction activity in 2025, with volumes exceeding 200 000 m², driven by a few very large projects. This modest pipeline can be attributed to the uncertain economic climate marked by continuous increases in interest rates and historically high construction costs. These factors have deterred the initiation of new construction projects, prompting a shift in focus towards value-add projects and refurbishments. Looking further into the future, the approval of the new high-rise strategy and the introduction of the new zoning plan for Skøyen will likely impact newbuild volumes on a longer horizon towards 2030.

An overview of new construction in Greater Oslo

Construction volume in Greater Oslo in the commercial real estate sector has remained relatively stable since our last market report, characterising a period of limited activity. Notably, for 2023 and 2024, there have been no changes to the confirmed volume, which continues to hover at around 80 000 m². This figure falls nearly 50 000 m² below the 20-year average of 126 000 m². From 2025, construction activity sees an uptick with confirmed volumes well above average, at 210 000 m² in 2025 and 150 000 m² in 2026. However, only minor alterations have been made since our last report, with an increase of 14 000 m² and 23 000 m², respectively. When considering potential and uncertain volumes over the 2023-2026 period, the pipeline has seen a reduction of 37 000 m² for potential volumes and 9 000 m² for uncertain volumes. These adjustments are primarily due to projects becoming more certain or being postponed, and at the same time, additional new volume has been limited. As a result, the full 2023-2026 construction pipeline remains relatively unaltered, with only an 8 500 m² decrease in total volumes compared to our last report.

The limited movement in the construction pipeline can be attributed to the dramatic surge in financing cost, coupled with exceptionally high construction costs. Many landlords have found it financially unviable to proceed with numerous projects, particularly in the fringe zone, where break-even rents have consistently exceeded market rents. Consequently, landlords have shifted their focus from new construction projects to value-add projects and refurbishment projects with a more moderate cost strategy, where it is easier to calculate the potential for value creation. If the mix of construction costs, financing and rents become more favourable, we may see an increased project pipeline in a couple of years.

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



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.

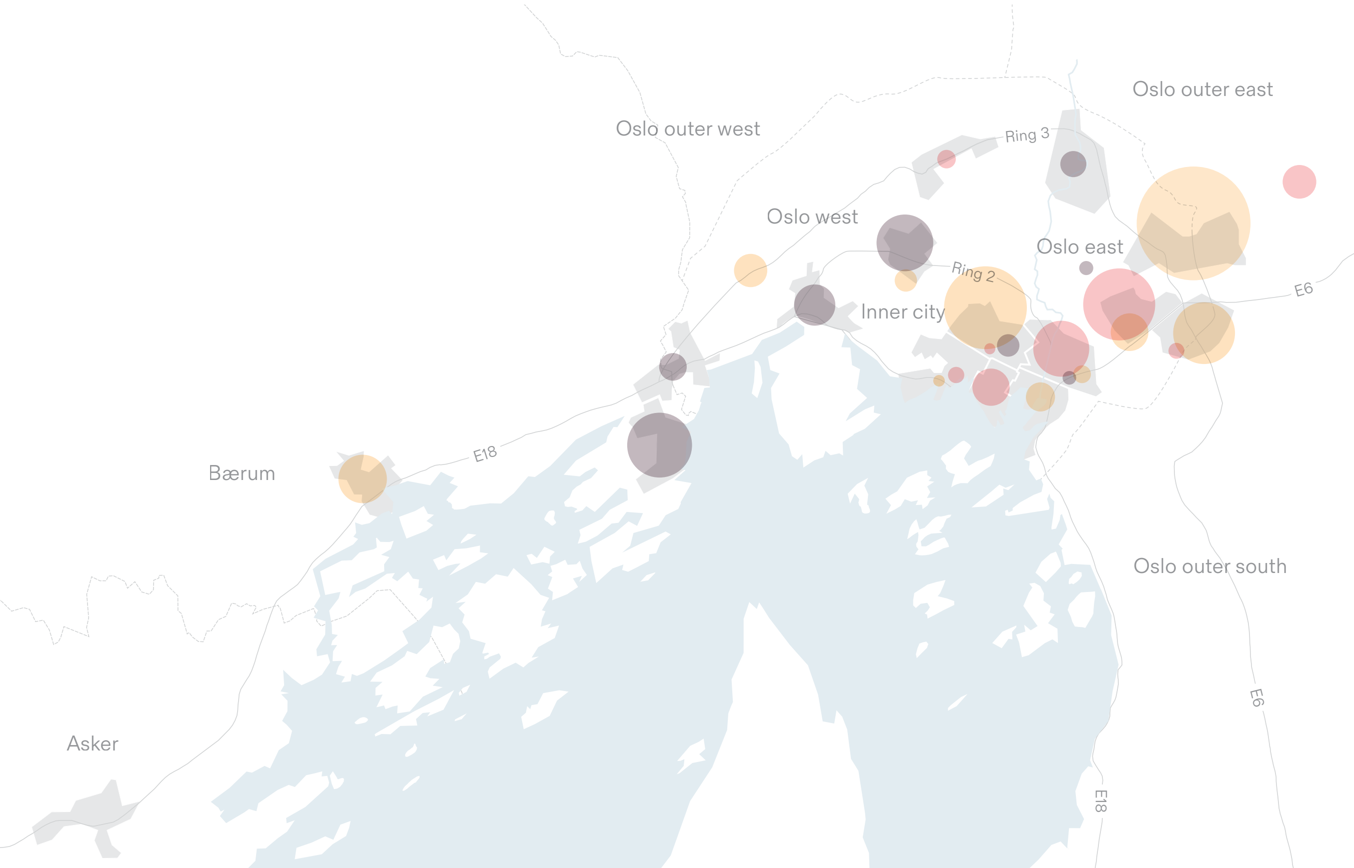
Source: PBE, Byggfakta, Malling

Short-term construction activity

Over the 2023-2025 period, an addition of approximately 370 000 m² to the Greater Oslo office market has been confirmed. In 2023, the majority of the volume will be introduced in the western fringe zone, propelled by substantial projects such as Aker Tech House (30 000 m²) and Thune Eureka (11 300 m²). Another noteworthy project set for completion in 2023 is Fridjof Nansens vei 12 (20 000 m²) at Majorstuen, where reMarkable will occupy the office space. In contrast, for 2024 and 2025, the western fringe will witness limited new projects, with the eastern fringe zone taking the lead. In 2024, Valle Vision (22 000 m²) and Helsfyret (11 800 m²) are expected to be finalised, while in 2025, Construction City (78 000 m²) will be prepared for occupancy. The city centre will also witness the addition of substantial projects in 2024 and 2025, with the largest ones being Veksthuset at Urtekvartalet (22 000 m²) in 2024 and stage 1 of the new governmental quarter (46 800 m²) in 2025. Looking further ahead to 2026, some notable projects include Livsvitenskapsbygget (65 000 m²), Campus Ullevål (28 000 m²), Magnus Poulssons vei 7 (24 000 m²) and Fiskebrygga (23 000 m²). It's worth noting that the mentioned volumes are only for office space.

Newbuild activity in Greater Oslo is experiencing a slowdown in 2023 and 2024, while refurbishment activity is thriving. In 2023, a total of 130 000 m² of refurbished volumes are confirmed for completion, including notable projects like Grev Wedels plass 9 (19 000 m²), Stortovet 7 (18 000 m²) and Oslo City part 1 (15 800 m²). In 2024, the refurbishment volume amounts to 82 000 m², with potential for an additional 26 000 m². Large-scale refurbishment projects include Tollgaarden (22 800 m²), Filipstad Brygge 1 (15 600 m²) and Bygdøy Allé 2 (11 000 m²). The outlook for 2025 also indicates substantial potential for refurbishment completions, with 76 500 m² already confirmed and an additional 77 000 m² of possible volumes in the pipeline. This shift towards refurbishment projects reflects the impact of high construction costs and escalating interest rates. Landlords are redirecting their focus from new construction ventures to value-add projects, aiming to maximise returns within the current market environment. Also, an increased focus on sustainability favours refurbishments rather than newbuilds.

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



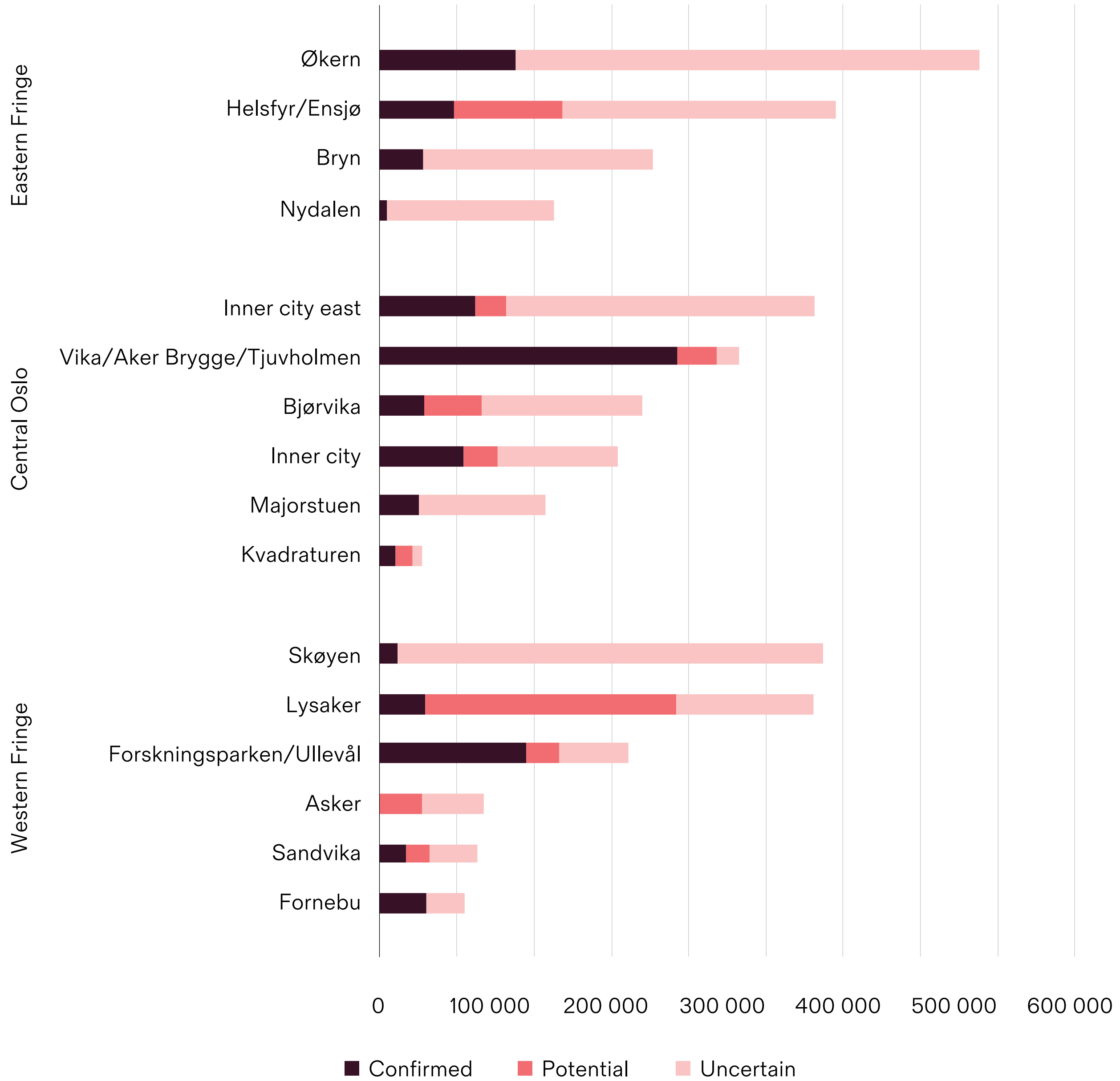
2023	2024	2025
3 % Vacant*	13 % Vacant*	42 % Vacant*

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: PBE, Byggfakta, Malling

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



Source: Malling

«There is further potential for additional vertical office space around public transportation hubs, as the city council has greenlighted the new high-rise building strategy in September this year».

Long-term construction activity

Looking at the full pipeline of newbuild projects in Greater Oslo from 2023 and beyond, there is potential for 2.86 million m^2 of office space to be added to the market. This volume is rather evenly distributed between Central Oslo and the eastern and western fringes, with variations in certainty.

Central Oslo: The majority of the confirmed volume is concentrated in Central Oslo, primarily stemming from the future development of Filipstad, contributing 190 000 m^2 of office space. However, Filipstad's completion is not anticipated to be before 2040 at the earliest. There is further potential for additional vertical office space in the city centre, as the city council has greenlighted the new high-rise building strategy in September this year, allowing construction to extend up to 70 metres above ground near public transport hubs and up to 125 metres above ground at Oslo S. Given the city centre's advanced development, this strategy holds promise for expanding the available workspace. However, it's essential to note that this strategy lacks legal binding, leaving its potential prominence in the new municipal plan open to question.

Fringe zones: Within the fringe zones, approximately 20 % of the volumes are confirmed, while the remainder remain shrouded in uncertainty. In the western fringe zone, 25 % of the volumes are classified as potential, indicating their likely realisation, albeit with pending zoning or tenant base establishment. The most substantial potential project is Lilleakerbyen at Lysaker (gross 122 000 m^2), which is still awaiting full zoning. The introduction of the new zoning plan for Skøyen gained considerable optimism for increased development in the area, underscored by numerous outlined projects that are most evident in the substantial uncertain volume. However, the zoning plan, which received approval from the city council in September of this year, just prior to the non-socialist council taking office, presents some notable challenges for upcoming office projects. Firstly, it entails the need for zoning approvals to facilitate minor tenant adjustments. Additionally, the zoning mandates the incorporation of 5 000 new residents, a number significantly in excess of the realistic estimate of 800 to 1 000 residents. Concerns have arisen regarding the potential impact of this emphasis on residential development at the expense of new office space. Before the new zoning plan becomes available, objections from Statens Vegvesen and Bane NOR need to be addressed. It is probable that the new council will introduce amendments to the zoning plan, and an entirely new plan may even be developed.

In the eastern fringe zone, up to 75 % of the pipeline volume remains uncertain. Several significant projects, including Bryn Sentrum, Økern S, NRK Ensjø and Eikenga, each offer 50 000 m^2 or more of prospective office space. Uncertainty regarding eastern fringe volumes has increased over the past year due to the high construction costs associated with many projects. The required rent to break even is often above the current market rent, prompting several landlords to explore alternative land use options rather than office space.

Dronning Mauds gate 15, Oslo

Malling is managing the project on behalf of Nordea Liv Eiendom and Tekna. First phase of the project was replacement of external facades and has been completed. The second phase is ongoing and includes replacing the facades facing the backyard and building a glass roof to utilize the backyard as lounge and canteen.

Stortingsgaten 28, Oslo

Malling was the advisor when Cappelen Damm leased 11 000 m^2 in Stortingsgaten 28.

Office vacancy

Rising vacancy, yet recently strong employment anticipated to turn this around

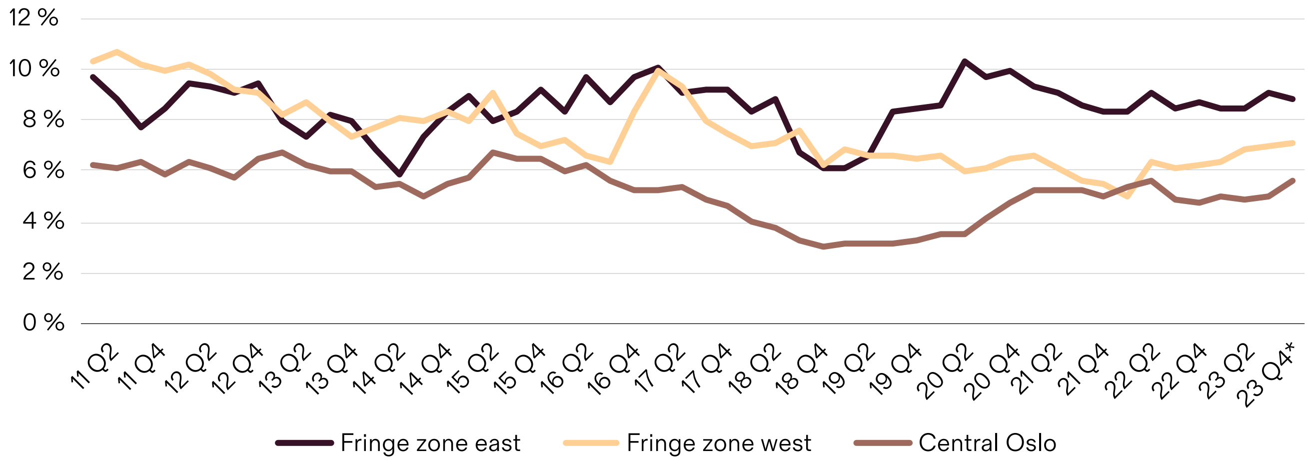
Over the past year, vacancy rates in Greater Oslo have been steadily increasing, currently standing at 6.7 %. This trend has been particularly notable in Central Oslo and the western fringe areas. The increase in the vacancy trend has persisted despite robust employment growth and minimal construction activity. It's possible that the prevailing challenging economic conditions have compelled companies to implement cost-cutting measures, including the containment of rental costs. However, our outlook remains optimistic, anticipating that vacancy rates will inevitably decrease in the future due to the robust employment market observed over the past two years and the limited supply-side additions. We forecast the vacancy rate to drop to 4.2 % by the beginning of 2025. Subsequently, there is expected to be a shift in the supply-demand balance, leading to an increase in vacancy rates to levels comparable to current levels throughout 2025 and 2026.

Vacancy in Greater Oslo

Vacancy in Greater Oslo bottomed out in Q3/Q4 2022 at 6.0 %, but has been steadily increasing since then. As of October 2023, the vacancy rate in Greater Oslo stands at 6.7 %. Both Central Oslo and the fringe zones have experienced higher vacancy rates compared to a year ago, with Central Oslo and the western fringe zone experiencing the most significant increases, each nearly 1 pp. higher in Q4 2023 compared to Q4 2022. The ongoing challenges in the economic macro-conditions is increasingly likely to have adverse effects on many companies. This situation may necessitate cost-cutting measures, potentially resulting in a reduction of office space or relocations to clusters with lower rental levels to mitigate rental expenses.

In the city centre, all clusters except Kvadraturen and Bjørvika have seen vacancy levels increase by more than 1 % over the past 12 months, with some approaching a 1.5 % increase. This rise in vacancy can be attributed to the inclusion of larger premises such as Biskop Gunnerus' gate 14A, Filipstad Brygge 1, Christian Krohgs gate 2 and Fridtjof Nansens vei 2. In the western fringe zone, vacancy has decreased at Skøyen and Forskningsparken/Ullevål, while all other clusters have experienced increased vacancy. Fornebu and Sandvika have seen significant increases of 2.0 % and 2.5 %, respectively, while vacancy in Asker has surged by as much as 7.5 %. The primary contributor to the increased vacancy in Asker is Gamle Borgenvei 3. Other premises that have added to the vacancy count in the western fringe include Martin Linges vei 14, Eyvind Lyches vei 10 and Løkkeveien 18, among others. In the eastern fringe, vacancy at Helsfyr/Ensjø has risen, while it has decreased at Bryn and Økern, resulting in overall steady levels in the eastern fringe over the past year. Ole Deviks vei 10 at Bryn has been leased, whereas premises such as Innspurten 9 and Innspurten 11A have been added to the vacant area at Helsfyr/Ensjø.

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



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 total listing. Total listing 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 total listing 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 total listing 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.

*As at October.

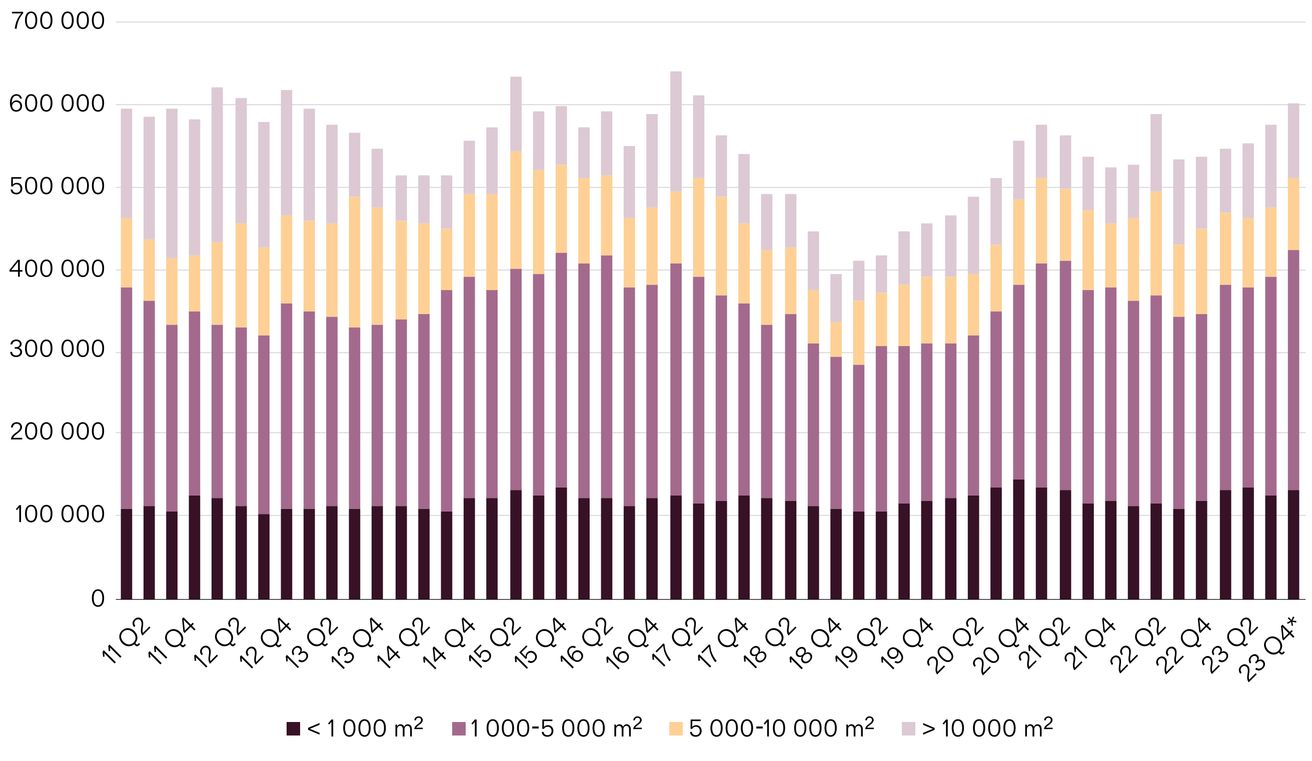
Source: Finn.no, Malling

Vacancy and total listing in detail

The increasing vacancy rate in Greater Oslo has led to an increase of approximately 65 000 m^2 in advertised office space, from 535 000 m^2 in Q4 2022 to 600 000 m^2 in Q4 2023. Notably, the advertising of premises in the range of 1 000 to 5 000 m^2 has shown substantial growth, with an additional 62 000 m^2 entering the market, corresponding to a 27 % increase. The advertising of small premises up to 1 000 m^2 has also risen by 11 % over the past year. Premises with sizes from 10 000 m^2 and up have remained relatively stable, while the advertising of premises ranging from 5 000 to 10 000 m^2 has decreased by 12 %. Small premises, less than 5 000 m^2, dominate in Central Oslo, where approximately 85 % of the advertised volume falls within this size range. The eastern fringe also sees the majority of advertised space being smaller than 5 000 m^2, at around 70 %, whereas only half of the volume advertised in the western fringe is smaller than 5 000 m^2, with as much as a third of the volume exceeding 10 000 m^2. The western fringe features some large premises like Snarøyveien 30, Martin Linges vei 33 and Eyvind Lyches vei 10 available on the market.

To clarify, our report distinguishes between two terms: "vacancy", referring to available space within the next 12 months, and "total listing", encompassing all advertised space, including that available 12 months from now. As of October 2023, the vacancy in Greater Oslo is 600 000 m^2, and the total listing is 664 000 m^2. A trend we have observed across our recent market reports is the gradual narrowing of the gap between vacancy and total listing, which has continued for the past six months. Currently, total listing exceeds vacancy by 10 %, whereas the difference was as high as 50 % in 2021. This indicates that not as much volume is advertised far in advance as previously, a trend attributed to the very low construction volumes currently observed. Large newbuild projects are typically advertised further in advance to avoid speculative construction. Increased construction costs and more expensive financing with higher exit yields have had a negative effect on the go-to-market strategy for several new projects in the pipeline.

Vacant office space split by size interval, total m^2



*As at October.

Source: Finn.no, Malling

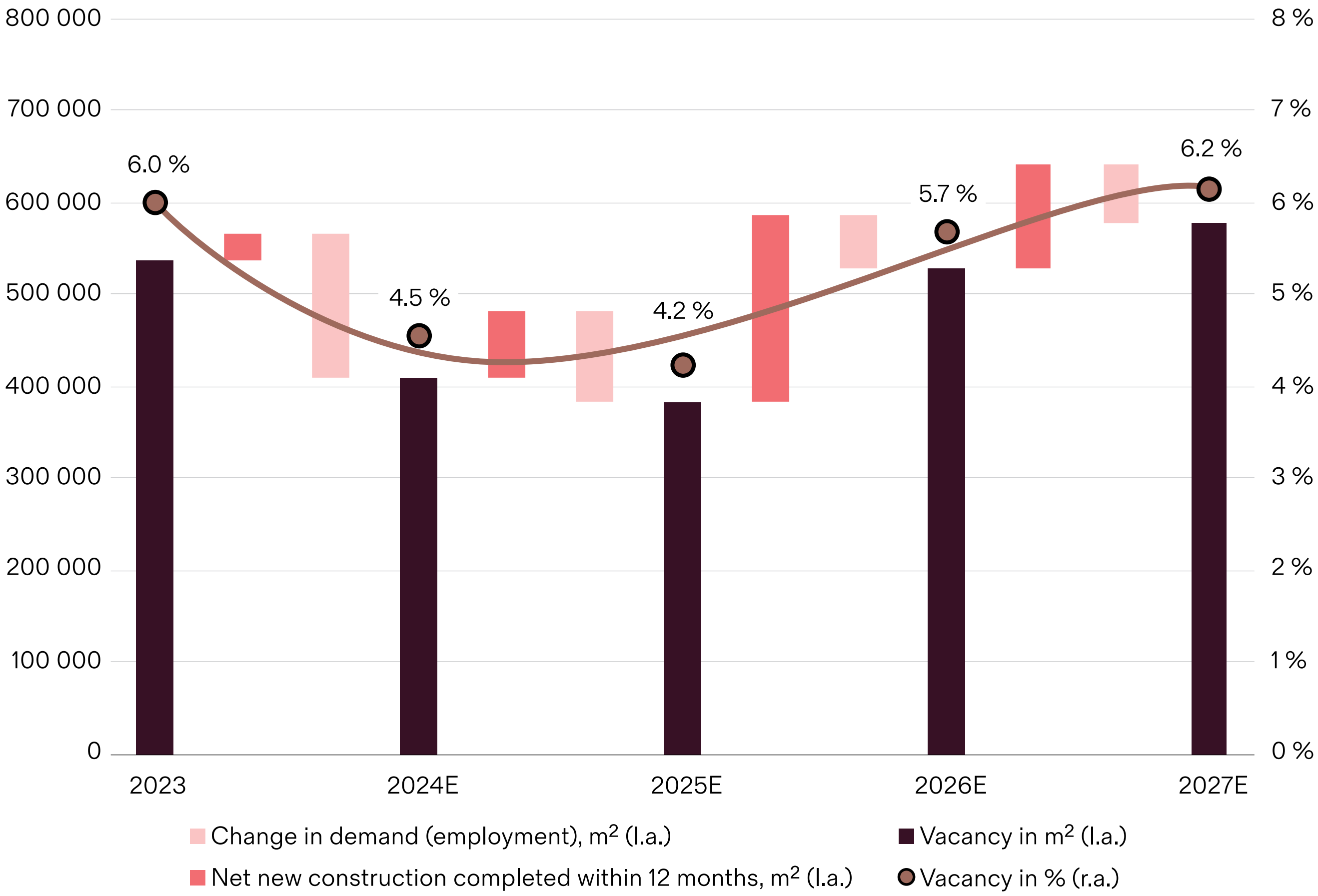
«The advertising of premises in the range of 1 000 to 5 000 m^2 has shown substantial growth over the past year, with an additional 62 000 m^2 entering the market, corresponding to a 27 % increase».

Vacancy going forward

Despite the recent upward trend in vacancy rates, we anticipate a decline in vacancy moving forward. The substantial employment growth observed over the past couple of years, combined with the lagging effect between employment and the occupancy of new office space, is expected to have a considerable impact on office demand in the coming years. We estimate a take-up of approximately 160 000 m² in the Greater Oslo area this year and 100 000 m² next year. At the same time, there is a noticeable slowdown in construction activity, which restricts the addition of new office space to the market. This year, we expect only 30 000 m² of net new construction, and around 70 000 m² next year. This is likely to exert significant pressure on vacancy rates, and we project a vacancy rate of only 4.5 % at the beginning of 2024, with a continued marginal decline to 4.2 % by the start of 2025 according to our model. However, the employment figures, as forecast by the central bank, are expected to decelerate over the 2024-2026 period, leading to a future reduction in the demand growth for office space. Concurrently, new construction completions are set to increase from 2025, with several large projects confirmed for 2025 and 2026. This shift in the supply-demand balance is expected to occur from 2025 onwards, and we anticipate the vacancy rate to rise towards current levels throughout 2025 and 2026.

When estimating future vacancy rates in the office market, we employ a relatively straightforward method that relies on two key factors: employment growth and the supply pipeline. We initiate the calculation with the current vacancy rate at the beginning of the year, deduct the estimated increase in office space absorption, and then incorporate the projected rise in office supply. However, this simplified approach does not encompass all variables that can influence the timing of changes related to employment-driven demand, new construction, and leasing activity. This makes it difficult to predict with complete accuracy. There is often a lag between a company's decision to expand its workforce and its actual acquisition of additional office space, depending on existing contracts and flexibility. To address this delay, we allocate the projected changes in employment over a four-year period. We assume that most space is absorbed in the first year, as some tenants need to swiftly accommodate additional employees, either by extending their current lease or securing additional space. Afterwards, we anticipate a gradual decline in office space absorption over the following three years. This approach has proven to be a reasonably accurate estimation method over time. It's crucial to note that our forecast serves as an indicator of the likely direction of the vacancy trend based on current information, and timing may shift as new data on the employment market emerges.

Estimated vacancy trend in Greater Oslo by year-start



Source: Finn.no, Malling

Carl Berner Torg, Oslo

Malling was the advisor for the listed Swedish company Annehem Fastigheter AB in the divestment of a prime retail property in Oslo.

Stavanger

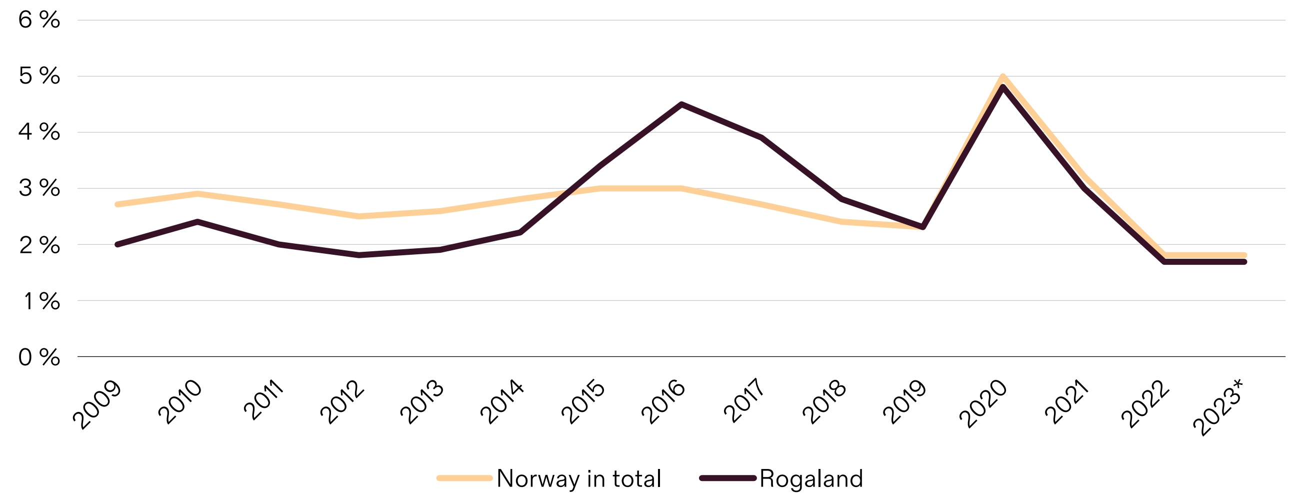
A robust office market in Stavanger

The Stavanger office markets remains strong, thanks to its significant presence in the energy sector, in addition to very low unemployment rates. Projects are being completed, and there are more to come in the next few years with a significant surge in completion in 2025. However, there are also many projects that have made limited progress in the last 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 robust and its strong foothold in the energy sector positions it for continued economic growth.

Unemployment rates remains at a low level

Since 2019, Rogaland has consistently followed the national average, but at marginally lower rates. It is still following this trend, with an unemployment rate averaging at 1.7 % throughout the year, making it the lowest average since 2008. Our 2022 autumn market report highlighted a record low unemployment rate of 1.5 %. Since then, there has been a gradual increase, except for May and June when the unemployment rate briefly reached 1.5 % and 1.6 %, respectively. These minor fluctuations, however, reflect the overall resilience of the labour market and can be ascribed to the thriving energy sector, a cornerstone of the Stavanger region's economy. The price of Brent Crude oil is currently close to USD 90 per barrel after remaining above USD 70 per barrel for the past 12 months. Employment levels have historically been dependent on the previous year's oil price, with increased investments during periods of high prices and vice versa. Consequently, a strong labour market is anticipated in the coming years, and we expect employment in Rogaland to outperform the national average.

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

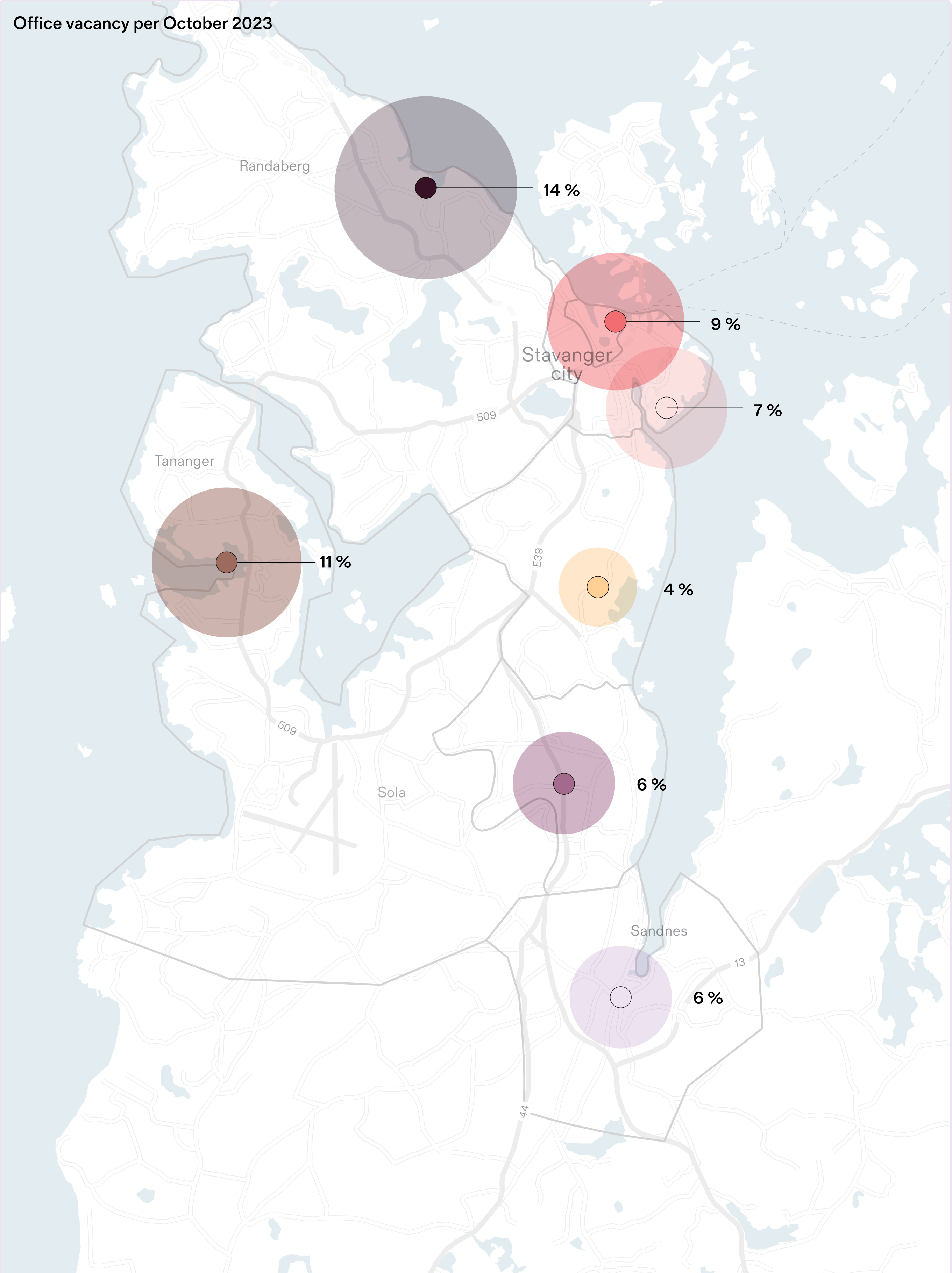


*As at September 2023.

Source: NAV (Norwegian Labour and Welfare Administration)

«The average unemployment rate of 1.7 % throughout the year is the lowest since 2008».

Office vacancy per October 2023



Total office vacancy* = 7.0 %	Total listings* = 8.6 %

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

The office market

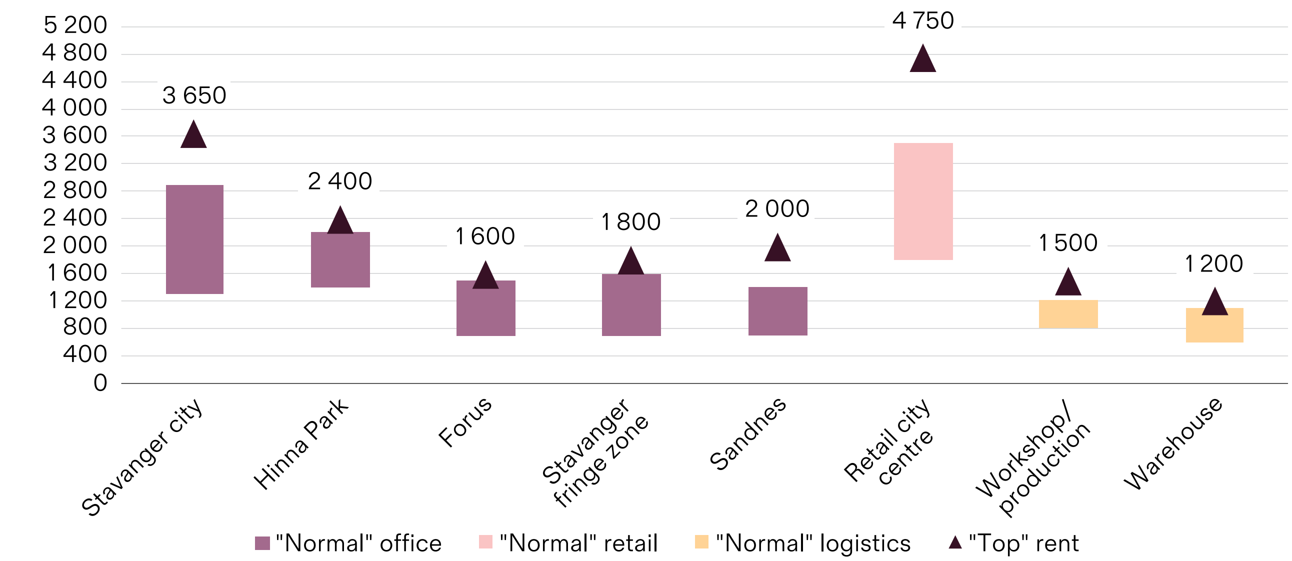
The Stavanger office market remains robust, driven by a thriving economy and low unemployment rates in Rogaland. Office rents have seen a slight increase since 2022, and overall vacancy remains at a relatively low level of 7 %. Notably, this stabilisation signifies a healthier state of the market compared to the challenging years following the 2014 oil price downturn.

Office rents in the Stavanger region have been steadily on the rise since 2019, as evidenced by data from Arealstatistikk. On average, rents have climbed from 1 600 NOK/m²/year to 1 860 NOK/m²/year, corresponding to a 14 % increase. In 2022, we observed a more moderate 2 % increase compared to the 8 % increase seen in 2021. This recent trend is bringing rent levels closer to those observed during the peak of activity in 2014 when average rents stood at 1 870 NOK/m²/year. This indicates that rent levels are now stabilising, which is supported by our broker consensus, which suggests minimal changes in rent indications compared to our previous report. While there have been some adjustments, normal and top rents have largely remained steady across most regions and market segments. Notably, the top rent in Forus has seen a slight downward adjustment, currently at 1 600 NOK/m²/year. Excluding Forus, the Stavanger region experienced a 4 % increase in average rents, and the top 15 % of contracts in the entire region also saw a 4 % increase, reaching 2 810 NOK/m²/year.

The robust leasing activity witnessed in the Stavanger region throughout 2022 continued into the first half of 2023. Notably, the amount of leased space in the first half of 2023 surpassed that of the latter half of 2022, despite a decrease in the number of contracts. Additionally, the search activity in the region remains strong, exemplified by Equinor's search for approximately 2 500 m² office space at Forus by the end of Q1 2024. Similarly, Petoro is actively seeking up to 2 000 m² of office space to relocate in Q4 2025. Both companies operate within the oil and gas sector, underpinning our expectation of continued growth in the industry in the coming years.

In terms of vacancy, the Stavanger office market has witnessed a decrease. Over the past 12 months, the region's vacancy rate has decreased by 1.1 pp, moving from 8.1 % to 7.0 %. Since our last market report, the decrease has been less significant with a change of 0.3 pp. Furthermore, there has been a gradual increase in the average lease term, which has extended from 3.7 to 4.9 years. This shows that tenants are opting for longer-term commitments, reinforcing the outlook of a robust market in the years to come.

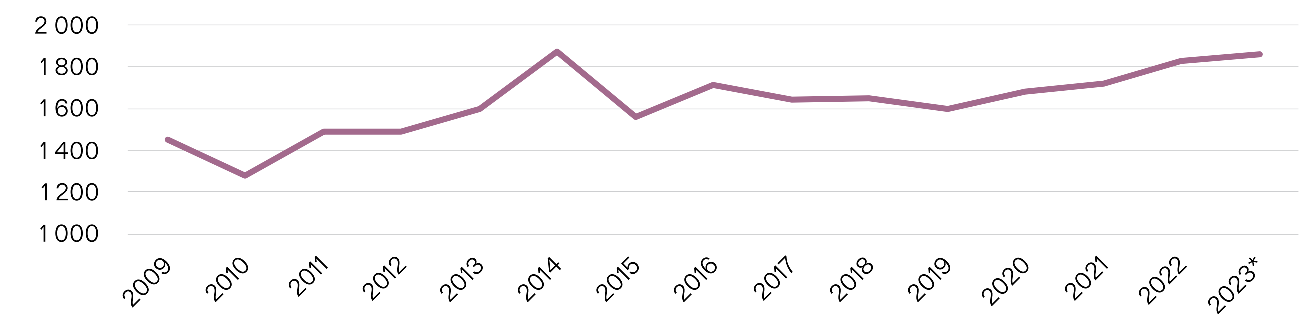
Indicative rents in the Stavanger region divided into areas and segments (NOK/m²/yr)



*See definition of prime and normal rent at page 16.

Source: Malling

Average of signed office rents (NOK/m²/yr) in the Stavanger region 2009 - 2023*



*As at H1.

Source: Arealstatistikk

New developments

The Stavanger region features a substantial lineup of construction projects, a testament to its market potential. However, over the past decade, the challenging conditions in the Stavanger office market have led to many of these projects stalling, with limited progress. While there was a surge in project advancements last year, reflecting the region's prosperity at the time, progress has since been constrained. One possible explanation is the impact of rising interest rates and high construction costs, which have increased the necessary rent for these projects to break even, rendering many of them financially unviable at the moment. This is evident in the case of K2 Stavanger and Bane Nor's three projects at Paradis, which have yet to begin due to difficulties in attracting tenants. The projects consist of a total of 43 500 m^2 divided between "The Box", "Stasjonsbygget" and "Sjøsiden". Even though these projects are yet to be initiated, several other new projects are in the pipeline.

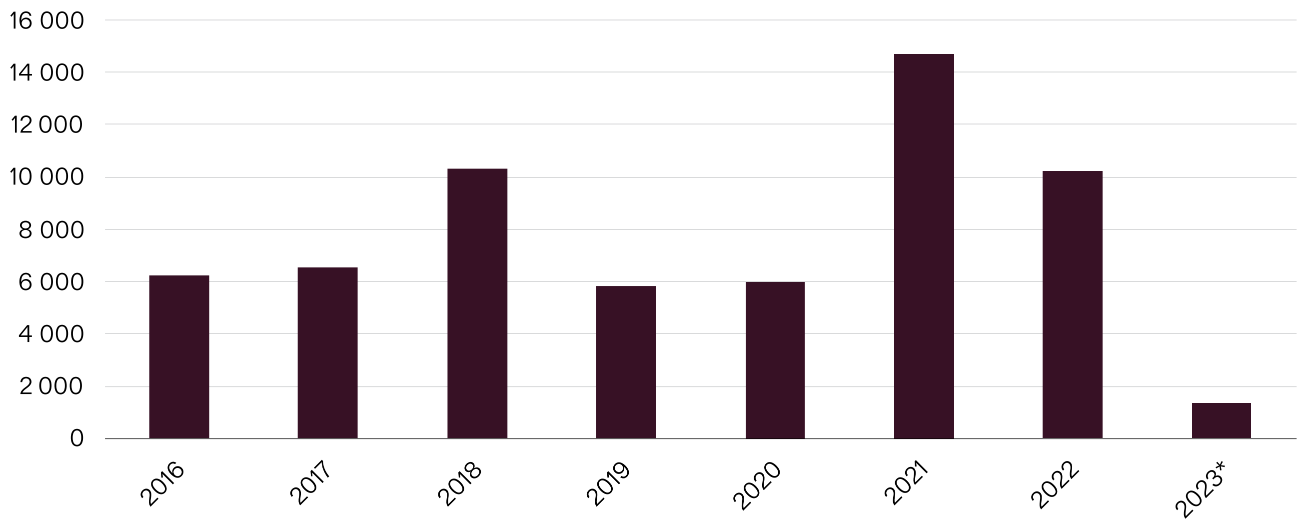
- The K8 project in Stavanger city centre by Base Property, one of the largest projects covering 18 000 m^2, is on track for completion during 2023 or early 2024. The company also has existing office space of 8 000 m^2 that they are seeking to improve both environmentally and ecstatically.
- Smedvig Eiendom has several projects in the pipeline, including the completion of the 10 000 m^2 ARK at Site 4016 and the addition of 2 500 m^2 at Verksgata 28 – 32 in 2023.
- In 2025, the 70 000 m^2 Valhall project is set to complete in addition to the "Ormen Lange" project of 19 000 m^2, estimated to be finished in 2026.
- In 2028, Ankerkvartalet, a project by SVG property, is set to complete with 20 000 m^2 of new office space.

The pipeline of office construction reveals a considerable number of upcoming projects that could materialise within the next five years.

Investment market

Much in line with the overall investment market, Stavanger is experiencing a quiet period, as interest rates have been driving up yields. The prevalent sentiment across the investment market is that of caution, as investors in a position to buy behave opportunistically as the general bid/ask spread is still large. Access to adequate financing terms for meeting sellers' expectations is limited, or in simpler terms, banks and buyers are finding asking prices unpalatable. This has been keeping the volume and number of transactions low. We have only counted ten transactions with a total volume of just over NOK 1.3 billion so far this year. There are a few properties and portfolios being marketed in the region, but the odds are stacked against a near time bid acceptance for most of these properties, unless seller guide prices come down. As we reported before the summer, the majority of the volume still stems from local and regional buyers and more than 50 % of the volume is industrial in nature. Our forecast for activity levels going forward remains low, at least until summer 2024. But as time goes on, we could see in an influx of distressed assets coming to market, with some assets already there.

Transaction volume Stavanger (MNOK)



*As of October.

Source: Malling

Drammen

Robust leasing activity in Drammen

In Drammen, there are reports of robust activity keeping our leasing agents busy, both on the leasing and transaction fronts. While lease agreements are indeed being signed in the office, logistics, and retail sectors, there have not been many actual signings on the investment side. Vacancy rates are relatively high for both office spaces and industrial buildings. Despite the high vacancies, our leasing agents have the impression that there are few appealing office properties available for larger tenants in Drammen city centre. Much of the centrally located building stock is in need of renovation, which would not only attract high-quality tenants but also elevate price levels.

The rise in vacancies among industrial buildings can be attributed to other factors like offshoring and a weaker job market. Nonetheless, there is strong demand among tenants, who sometimes hold the upper hand in lease contract negotiations. Retailers report that people are continuing to spend money, even after the summer and holiday season. However, major companies are cautious about investing in new establishments around the city.

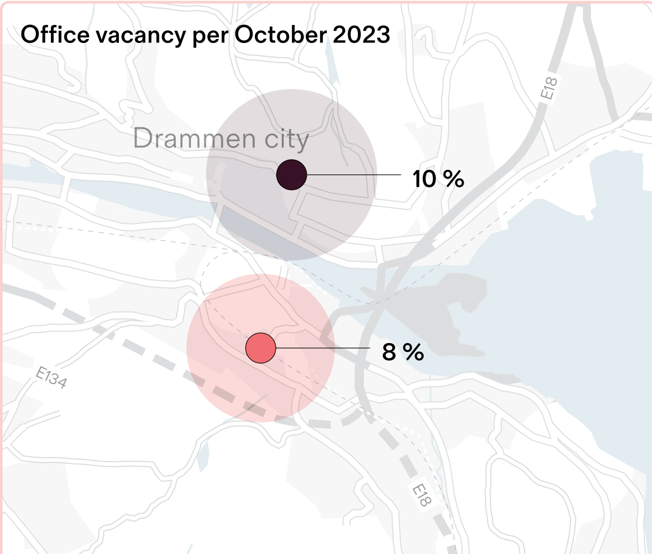
Office rental market

The labour market in Drammen has been weaker than in the other large cities we cover in this report, with a four-quarter growth of 1.1 % from Q2 2022 to Q2 2023. This is lower than the national average in Norway at 1.5 % and relatively weak, considering that the other areas covered in the market report have outperformed the national average. This may be attributed to the average office vacancy rate in the centre of Drammen at 8.8 %, a slight increase from 8.2 % in April 2023. During this period, vacancy rates have remained stable in Strømsø but have increased somewhat in Bragernes. The largest available advertised rental property is Tollbugata 4, with an area of 4 000 m². If we extend the horizon beyond 12 months, we also find the development project by Ticon Eiendom at C.O. Lundsgate 56, offering 5 000 m² of leasable space, awaiting tenants.

Activity in the office rental market in Drammen is strong, with tenants actively searching for spaces. Compared to the previous market report, there have been few changes in the typical rental rates, ranging from 1 500 to 2 000 NOK/m²/year in Bragernes and the same floor in Strømsø, but with a higher range of up to 2 500 NOK/m²/year. However, we have adjusted the top rent rate in Strømsø from 3 000 NOK/m²/year to 3 150 NOK/m²/year, which has become possible in the new, energy-efficient buildings on this side of the river. What both office clusters have in common is the need for significant property rehabilitation to meet the standards demanded by tenants.

The lack of attractive properties is a challenge in the Drammen market. Currently, there are few or no tenants willing to agree to the necessary rental rates that new construction demands, similar to the case in Oslo. There is a substantial amount of older building stock that has not been adequately maintained or upgraded to meet the requirements of today's tenants. The trend is towards increasing the rehabilitation of existing buildings and attempting to enhance the existing cash flow. However, the presence of historically preservable buildings and strict regulatory considerations, particularly on the Bragernes side, make it challenging for some developers.

Office vacancy per October 2023



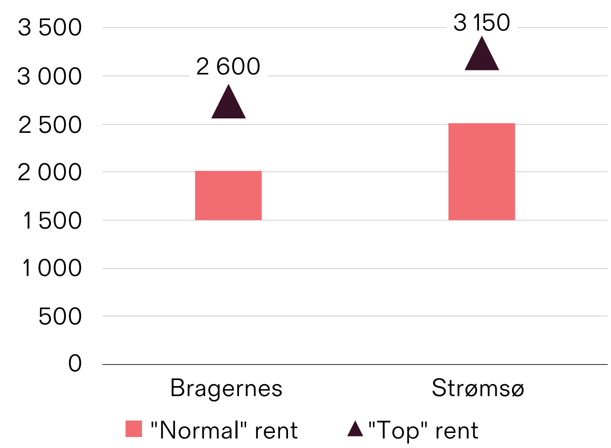
Total office vacancy* = 8.8 %

Total listings = 10.2 %

● Bragernes
● Strømsø

*See page 32 on how me measure vacancy.
Source: Finn.no, Malling

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



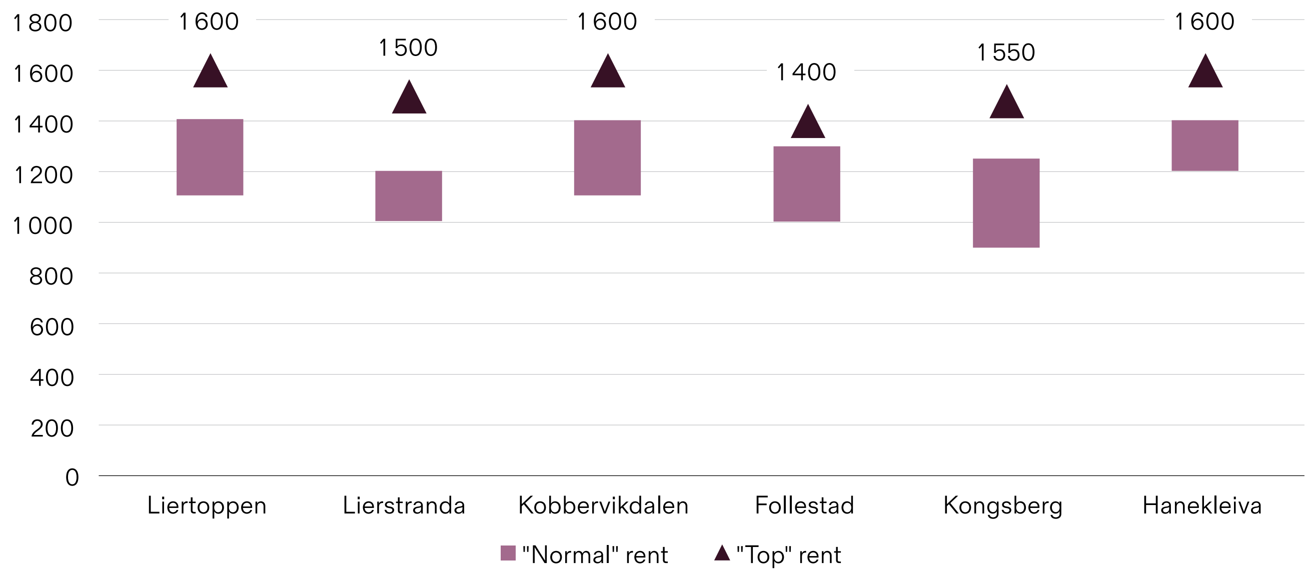
*See definition of prime and normal rent at page 16. Source: Malling

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. In this section, the Drammen market is defined as the area extending from Asker in the north to Kongsberg in the west, Hanekleiva in the south, and Sætre in the east. Within this region, we have observed a rising vacancy rate from 2.5 % in May 2022 to the current 7.9 % in October 2023. There are several factors contributing to this trend. In the industrial and logistics sectors in Drammen, the dominant industries are construction and retail. These industries are particularly vulnerable to macroeconomic factors such as high construction costs, elevated interest rates and reduced demand for goods. Another factor may be that these players are compelled to explore alternative solutions, such as offshoring for efficiency and further growth, similar to that undertaken by KID Interiør and Prysmian Group, for instance. There are also developments in commercial areas like Hanekleiva, Fiskumparken and Toppen, where significant areas have been designated for expansion, thus increasing the supply side.

The higher vacancy rates have given tenants an advantage in contract negotiations with property owners. However, this has not yet translated into significant changes in rental rates in the clusters we cover.
In Liertoppen and Lierstranda, rental rates have been adjusted upwards by NOK 100 and NOK 50 to range from 1 100 - 1 400 NOK/m²/year and 950 - 1 200 NOK/m²/year, respectively. In Kobbervikdalen, somewhat lower rental prices have been achieved, even for quality spaces within our consensus, ranging between 1 100 and 1 400 NOK/m²/year. Despite an increasing number of available spaces, there continues to be in strong demand, and our brokers in Drammen have finalised contracts with several major logistics and mixed-use operators this year. However, the previous upward pressure on prices seems to have subsided.

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



*See definition of prime and normal rent at page 16.

Source: Malling

«In the industrial and logistics sectors in Drammen, the dominant industries are construction and retail. These industries are particularly vulnerable to macroeconomic factors such as high construction costs, elevated interest rates and reduced demand for goods».

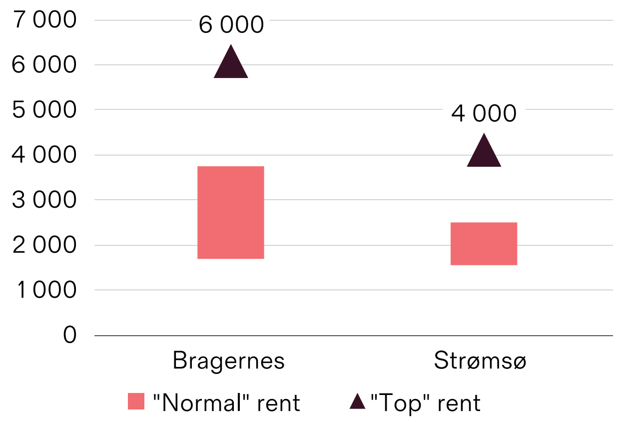
New developments

The majority of the industrial clusters we cover in the Drammen area have already been developed, with few land projects in progress. However, there are exceptions, such as Hanekleiva, where a substantial area covering 80 000 m² and ready to be built on is currently advertised, presenting the potential for new projects. Nevertheless, it is challenging to find tenants willing to pay the rent that developers need to make these projects financially available. As the options increase due to rising vacancy rates and agreements are signed at significantly lower market prices, there are currently few companies committing to new construction projects. A similar situation exists in Fiskumparken. However, we have recently observed specific interest in new construction projects, for example an agreement for land where approximately 8 000 m² of warehouse/mixed-use buildings will be developed for E-Wheels and Kajakk & Fritid AS. Additionally, there have been offers and reservations made for approximately 60 acres in this area. There exists approximately 400 acres of land available for further development.

Retail leasing market

In the city centre of Drammen, our leasing agents report strong activity, including the signing of lease agreements with smaller players in Globusgården. At the same time, we're hearing from some larger retail chains that they've put a temporary stop on opening new locations for the rest of the year. The ongoing increase in interest rates is starting to impact people's finances, making retail businesses cautious about expanding. Nevertheless, local operators report solid turnover figures in the retail sector even after the summer and holiday season. People are still active in the city, but they are reported to be more budget-conscious than before. Reduced consumer spending has significantly weakened the income base for retail tenants, but this has not yet had a major impact on rental rates in Drammen, which remain stable since the last market report. In Bragernes, normal rents range from 1 700 to 3 750 NOK/m²/year, while the range is somewhat narrower in Strømsø, ranging from 1 500 to 2 500 NOK/m²/year. Notably, the highest rent you can fetch in prime locations at Bragernes Torg, reaching up to 6 000 NOK/m²/year, is considerably higher than in Strømsø, which stands at 4 000 NOK/m²/year.

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



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

«People are still active in the city, but they are reported to be more budget-conscious than before».

Selected notable lease agreements

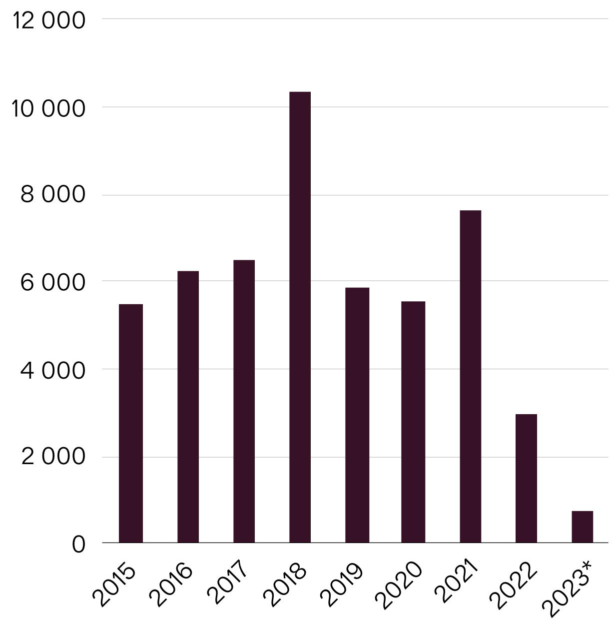
- Nordic Earpod has signed a lease agreement for approx. 5 000 m² at Teglverksveien 100 with Dpend.
- Norsk Biltransport has signed a lease agreement for approx. 65 000 m² of parking space at Lierstranda.
- Scandi Maskin has signed a lease agreement for approx. 1 150 m² at Gråterudveien 15 with Kvadratera.
- Servi has signed a lease agreement for approx. 2 400 m² at Toppen Næringspark with Kvadratera.
- Logista has signed a lease agreement for approx. 1 500 m² at Kvantum Næringspark with Kvadratera.
- Bring Home Delivery has signed a lease agreement for approx. 5 000 m² at Støperigata 7 with Brække Eiendom.

The investment market

Regarding investment activity in the commercial real estate sector in Drammen, the landscape presents limited notable highlights, with around NOK 750 million distributed across five transactions thus far. Nevertheless, there is some noteworthy activity in the market, as properties are actively advertised and engaged parties have been seen accepting bids. However, the process of securing the required capital has proven to be a challenge. Access to costly debt capital remains an obstacle, and raising equity has emerged as a particularly tough endeavour.

Nevertheless, there are ongoing processes on the horizon where we anticipate a forthcoming resolution on the purchase front. Additionally, there is occasionally the sale of smaller properties, often due to generational transitions within families. These transactions tend to be more manageable, largely due to potentially more flexible pricing expectations and fewer recent references for valuation comparisons.

Annual transaction volume Drammen (MNOK)



*As of October.

Source: Malling

Office investment market

The office market in Drammen may be modest in size, with limited transactional activity in these times, but it's not devoid of activity. Nevertheless, the challenge arises when sellers must agree to buyers' repricing.

Our current house view indicates a prime yield in Drammen of 5.50 %, up from the sharpest rate we reported previously at 4.00 % around the turn of the year 2021/2022. In times when property values decline due to increased financing costs, there is often value in seeking buyer cases where additional value can be extracted through rehabilitation. For instance, in Bragernes, there are several such cases at prime locations. Regulatory considerations make it demanding work, but for opportunistic investors, there may be opportunities. Additionally, we expect distressed assets to gradually surface in the market, and it's possible that such opportunities may arise in Drammen as well.

Logistics and mixed-use investment market

A more functional transaction market is reported in the logistics and mixed-use property segment in Drammen, where repricing is more established than in the office market. In our quarterly Investor Yield and Sentiment Survey, we asked about the yield levels for logistics properties in Liertoppen. As of Q3, investors on average believed that the normal yield in this area stands at 6.10 %. This marks a significant increase from the 4.80 % we once measured as an average in Q1 2022. Moreover, investors are anticipating a further yield increase of up to 6.35 % within the next 12 months. In this segment as well, value-add projects are in demand, and with developers exercising better control over capital expenditures, reaching a consensus on a transaction is becoming more achievable.

There are few acquisitions that we recorded in this region that exceed NOK 50 million, but there have been several smaller mixed-use property transactions. User purchases have also proven effective, as the alternative often involves land development and the associated costs of new construction. Among investors with a longer investment horizon, there has also been notable interest in land acquisitions, which are in short supply in the region. We have witnessed land purchases taking place in Fiskumparken, and reports indicate continued strong interest in this regard.

Kjerraten 16, Holmen, Drammen

Malling is the advisor for Prysmian Group for the sublease of 11 000 m^2 industrial buildings and outdoor areas.

Støperigata 7, Drammen

Malling is the advisor for Brække Eiendom on the letting of 10 000 m² warehouse and logistics property. Roughly 5 000 m² has already been let out to Bring Home Delivery Norge which will establish a new distribution centre.

Bergen

Quiet investment market, strong rental market

The transaction market is going through a period of considerable uncertainty and low liquidity, due to higher financing costs, and the uncertainty surrounding future interest rates. “Higher for longer” is becoming more and more likely, as yields increase rapidly. On a positive note, the office rental market is performing well. For the next few years, we expect a reduced volume of newbuilds and refurbished office buildings. Our forecasts for the next two years show a reduction in office vacancy, driven by a lower supply of new office spaces.

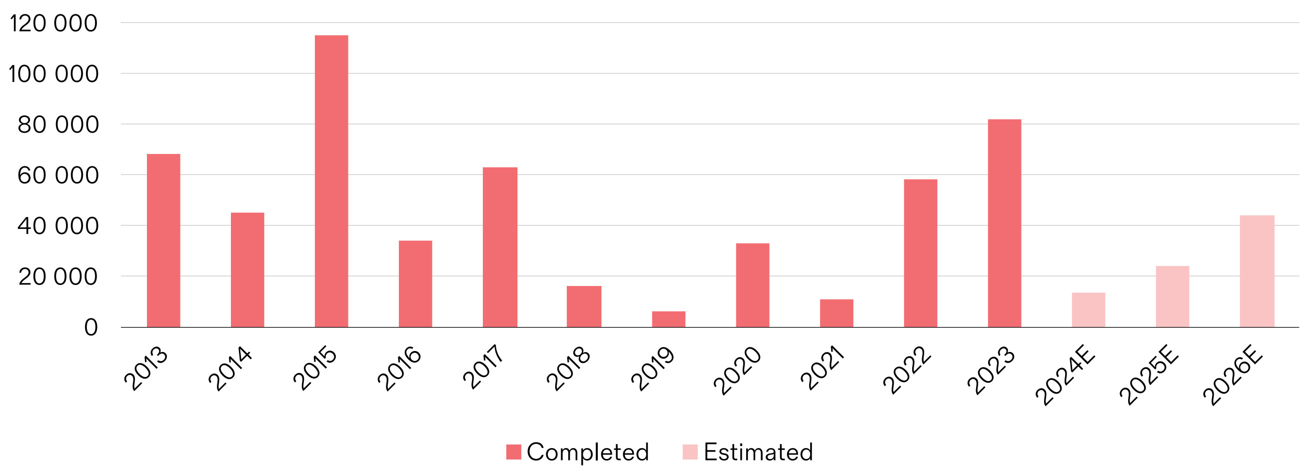
Office rental market

The high level of activity in the rental market in Bergen has continued throughout 2023. Some of the largest office contracts that have been signed this year are Bergen Kommune in Eidsvågveien 115, Vestland Idrettskrets in Fjøsangerveien 68B and Domstoladministrasjonen in Strandgaten 197. Unemployment rates have remained low, and the percentage without any form of work has stabilised at around 2 % for the last 18 months (Sept. 2023: 2.0 %). The unemployment rate is expected to rise slightly, which could result in reduced demand for office spaces.

From 1H 2014 to the end of 2015, the oil price fell from well over USD 100 per barrel to below USD 40 per barrel. In the same period, Bergen experienced an increase in unemployment and office vacancy, particularly in Bergen south. According to the Monetary Policy Report 3/23, the oil price (Brent) is expected to decrease from around USD 90 per barrel in Q4 2023 to USD 75 per barrel in Q4 2026. For now, this will likely contribute to keeping the activity level high, but may cool down demand in years to come.

In 2023, we recorded 80 000 m^2 of newbuilds and refurbished buildings added to the office market in Bergen. This is a high volume compared to the annual average for the last ten years, which is around 50 000 m^2. Our forecasts show a sharp reduction in newbuilds and refurbished office buildings for the next two years. Increased construction and financing costs have made it more difficult to initiate new projects, and this will lead to a lower supply of newbuilds in the coming years.

Newbuilds and refurbished office space in Bergen, sum m^2



Source: WPS Næringsmegling

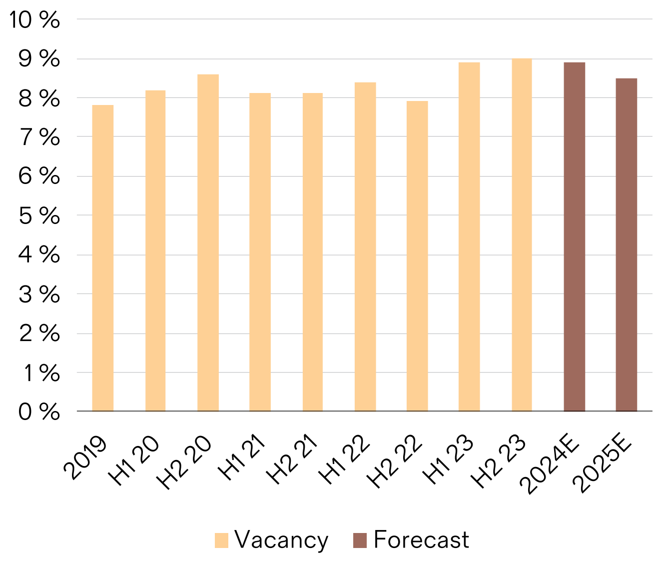
This section has been provided by WPS Næringsmegling in Bergen.
To check out more details about the CRE market in Bergen → **click here**

Vacancy

Office vacancy in Bergen has had a flat development from the first half of the year, and we have recorded 9.0 % vacancy for 2H 2023. For the next two years we expect lower office vacancy due to a strong labour market, few newbuilds and refurbished buildings and a relatively high oil price.

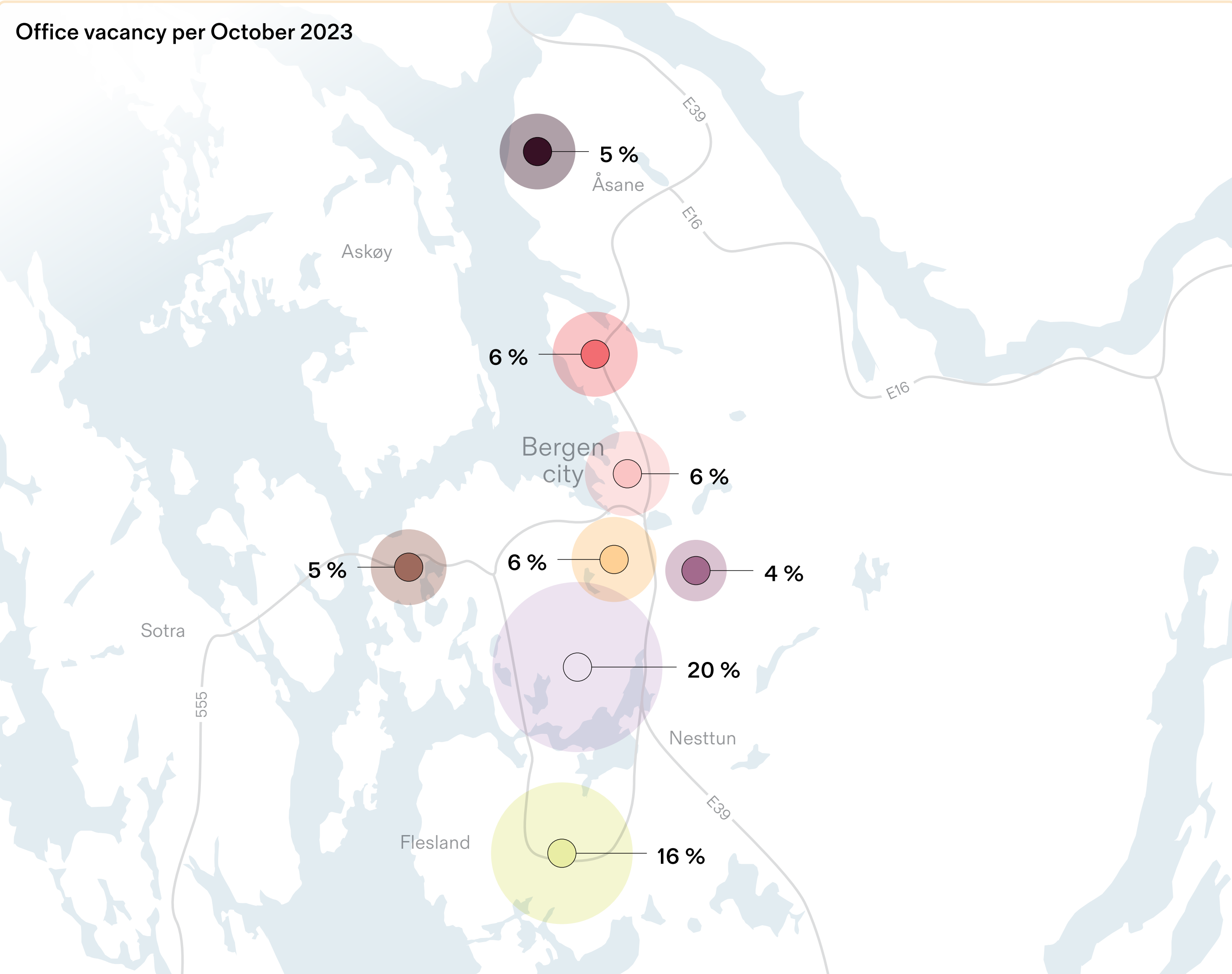
The two geographical areas with highest vacancy are still Fyllingsdalen and Bergen south. In Fyllingsdalen, several large office tenants in finance and consultancy have moved out, and the potential construction of Bergen Light Rail to Spelhaugen has not been clarified. The situation for Bergen south is more positive, where a historically strong oil price has increased demand for office spaces. However, vacancy is still at a high level, but this is expected to decrease in the coming years, as several vacant office buildings are planned for conversion into residential developments.

Vacancy and forecast, %



Source: WPS Næringsmegling, Finn.no

Office vacancy per October 2023



Total office vacancy* = 9.0 %

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

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

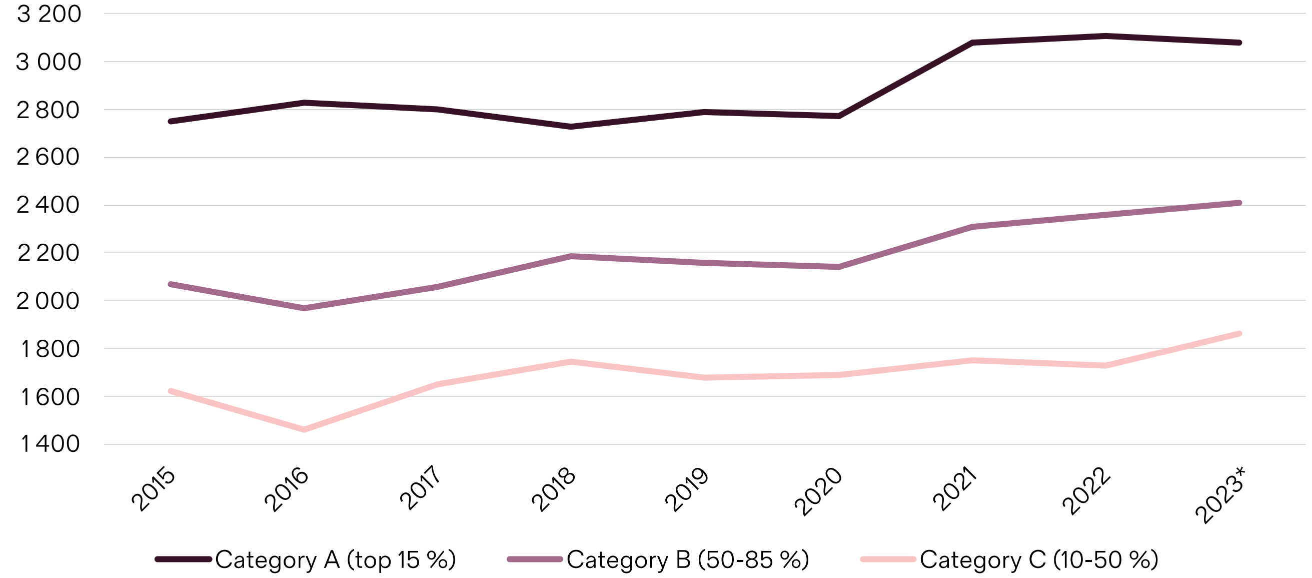
Rents

According to figures obtained from Arealstatistikk, top rents in Bergen so far in 2023 have had a flat development. We find the strongest rent growth in category C (10-50 %), where rent has increased by nearly 10 % compared to 2022.

Historically, an increased supply of newbuilds and refurbished office buildings in the centre of Bergen has raised prime rents. Due to the expected decline in newbuilds, we predict a flat development in prime rents for the coming year. For now, we have kept the indicative rent for the best premises unchanged at NOK 3 500/m²/year.

«Due to the expected decline in newbuilds, we predict a flat development in prime rents for the coming year».

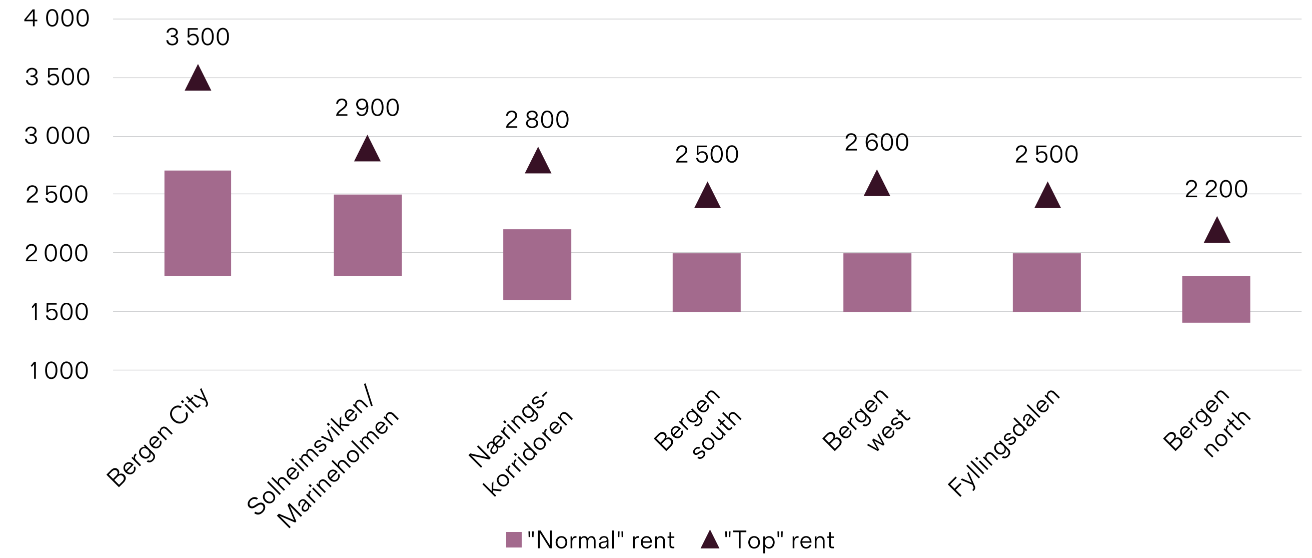
Average nominal office rents in Bergen, (NOK/m²/yr)



*As at H1.

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

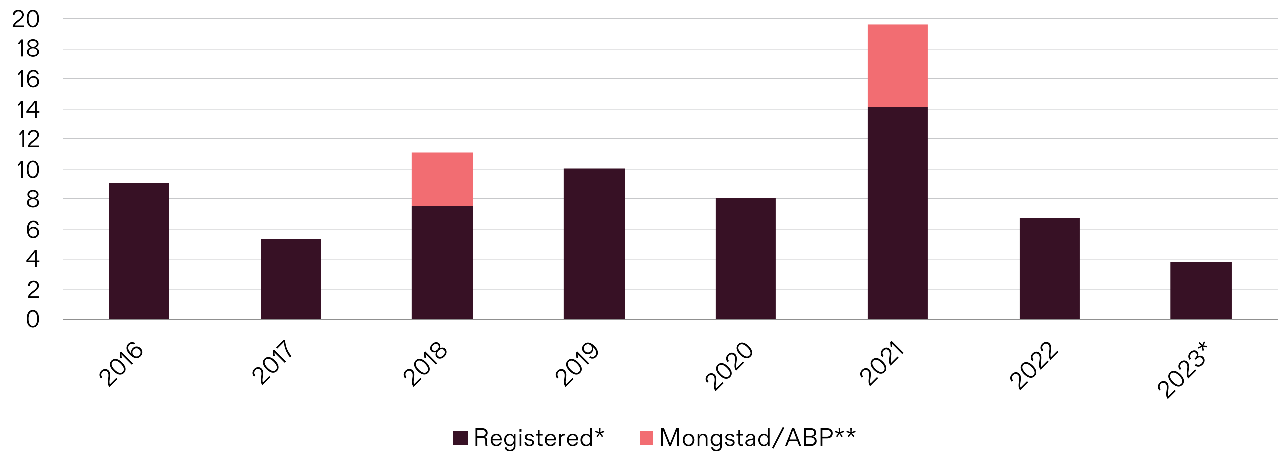
Demand and volume: So far in 2023, we have recorded a total transaction volume of NOK 3.8 billion, 30 % down from the same period in 2022. Looking at the national transaction volume, Bergen contributes approximately 10 % of the volume, which is in line with previous years. Liquidity is greatly reduced in the investment market, and it seems that most of the investors are still taking a wait-and-see approach. The transactions that have been completed this year are dominated by properties with development potential ("value-add") and residential properties (both related to development properties and rental housing).

The WPS Investor Survey for Q3 2023 shows that 50 % of the investors will be net buyers of commercial real estate in the next 12 months. Compared to Q4 2021, with 80 % net buyers and a red-hot investment market, buying interest has clearly weakened. However, if half of the investors are net buyers why aren't there more transactions? From our point of view, buyers' and sellers' price expectations are still not aligned. This has been, and still is, the largest contributing factor to the low level of activity in the investment market.

Yields: Driven considerably by the rise in interest rates over the summer and an increasing number of investors who believe it will be "higher for longer" in the interest rate market, yields have risen sharply. In the last six months, we have recorded a sharp increase in the key interest rate of as much as 100 bps, from 3.25 % to currently 4.25 %. The interest rate peak will probably be reached in December, but interest rates are only expected to decline moderately in the coming years.

The answers given in the WPS Investor Survey for Q3 2023 indicated that current prime office yield is 4.75 %, and that investors expect the prime office yield to be 5.00 % in 12 months' time. However, the uncertainty in the investment market and increasing interest rates have already lifted the prime yield above this level. We estimate the prime office yield to be 5.25 % as of 2H 2023, and anticipate that the prime yield may rise further in line with the key interest rate. Fewer transactions result in fewer yield references, and so far, there are few benchmark transactions that indicate how much the prime yield has risen.

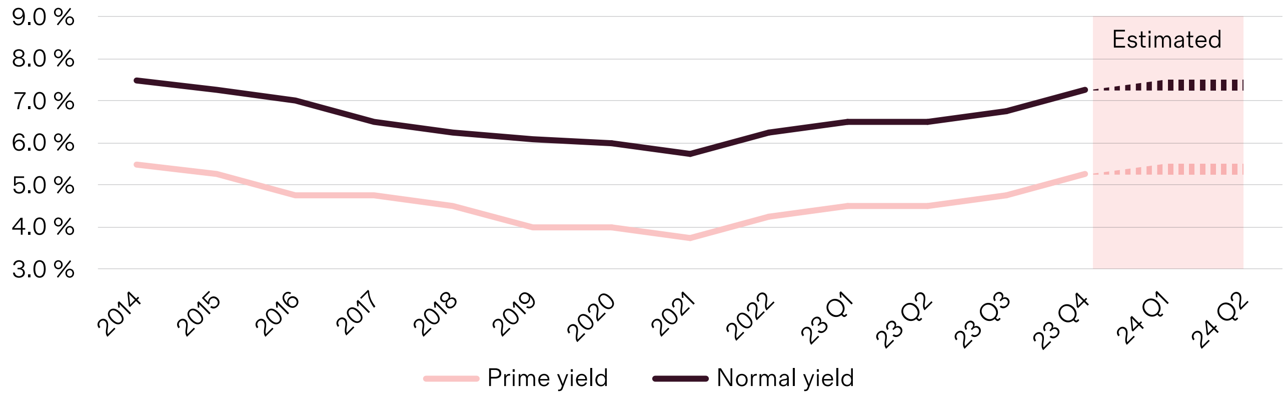
Annual transaction volumes in Bergen, NOK bn.



*As of October. **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

Brynsalleen 6, Oslo

Malling is the advisor for Storebrand in the concept development and letting of the 20 000 m^2 office building.

Gardermoen

Malling is acting as the advisor for governmentally owned Avinor in the letting process of a 120 000 m^2 plot outside Oslo Airport, with a potential building size of more than 60 000 m^2.

Trondheim

A solid market, however...?

A slow investment market and a strong rental market summarises 2023 so far. We have noted that the activity recorded within the rental market during 2022 is at the same level year to date, however there are some “clouds” on the horizon. Furthermore, our latest vacancy measurement shows a vacancy rate of 4.8 %, about the same level measured in our previous report in May at 4.9 %, which is the lowest among Norway’s large cities. The rental prices are reflecting high demand and low vacancy rates, for which we have been experiencing moderate growth so far this year.

Office rental market – vacancy and new projects

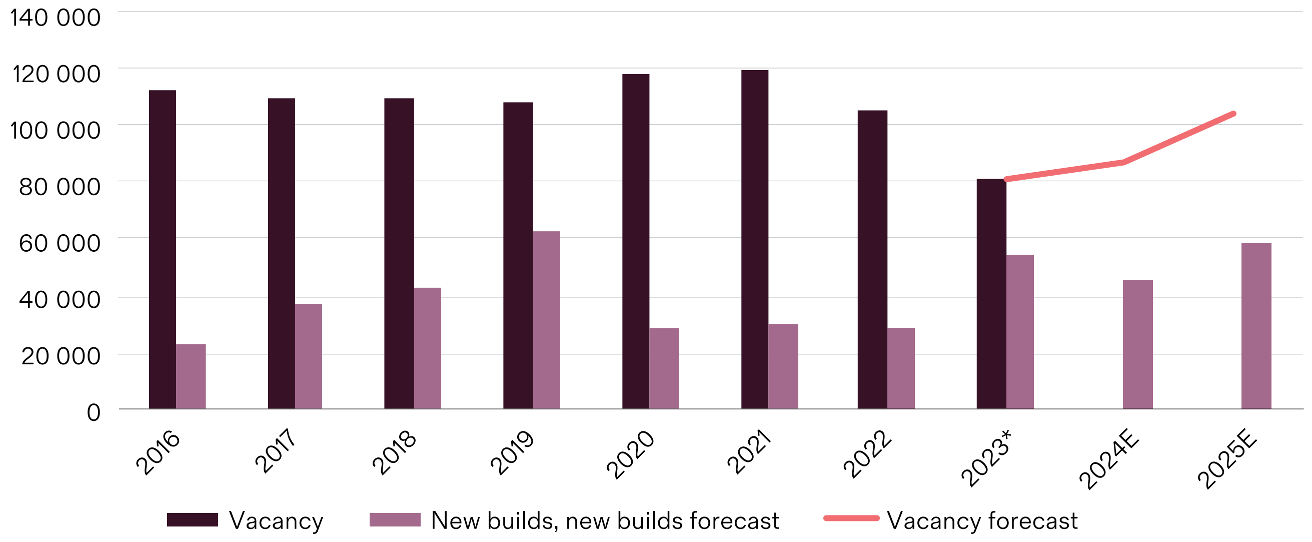
The activity in the rental market in Trondheim is still high. The latest vacancy report from August shows a total vacancy rate of approximately 4.8 %. Office vacancy is now at the lowest level we have recorded. It seems that the declining vacancy is related to a significant decrease in the supply of new office space in 2020, 2021, and 2022.

Demand for office space is stable and several new office buildings are planned to be built by 2025, which will provide a significant amount of additional office square metres by the end of 2025. A total of 160 000 m^2 of new office space will be built over the coming years: with approximately 63 000 m^2 in 2023, 37 000 m^2 in 2024 and 58 000 m^2 in 2025. We only consider new buildings as vacant if they complete within the next 12 months.

A significant proportion of the leased space in the new buildings is most likely to be leased by tenants who will be vacating space in existing buildings. A large part of this office space is currently not advertised, so we believe that the vacancy rate will increase to a total vacancy of approximately 100 000 m^2 by the end of 2025, which gives a vacancy rate of approximately 5.7 %. This level is indicative of a more stable market and is in line with what we consider to be a normal vacancy rate over time.

The trend in energy-efficient and modern office spaces is still relevant. They are often combined with a wide range of services and proximity to the metro bus. Commercial properties and public buildings are gradually facing stricter requirements for energy efficiency which will likely compel both tenants and owners to opt for more energy-efficient office buildings in the coming years.

Vacancy and forecast, m^2



*As at October

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)

	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

Source: Norion Næringsmegling

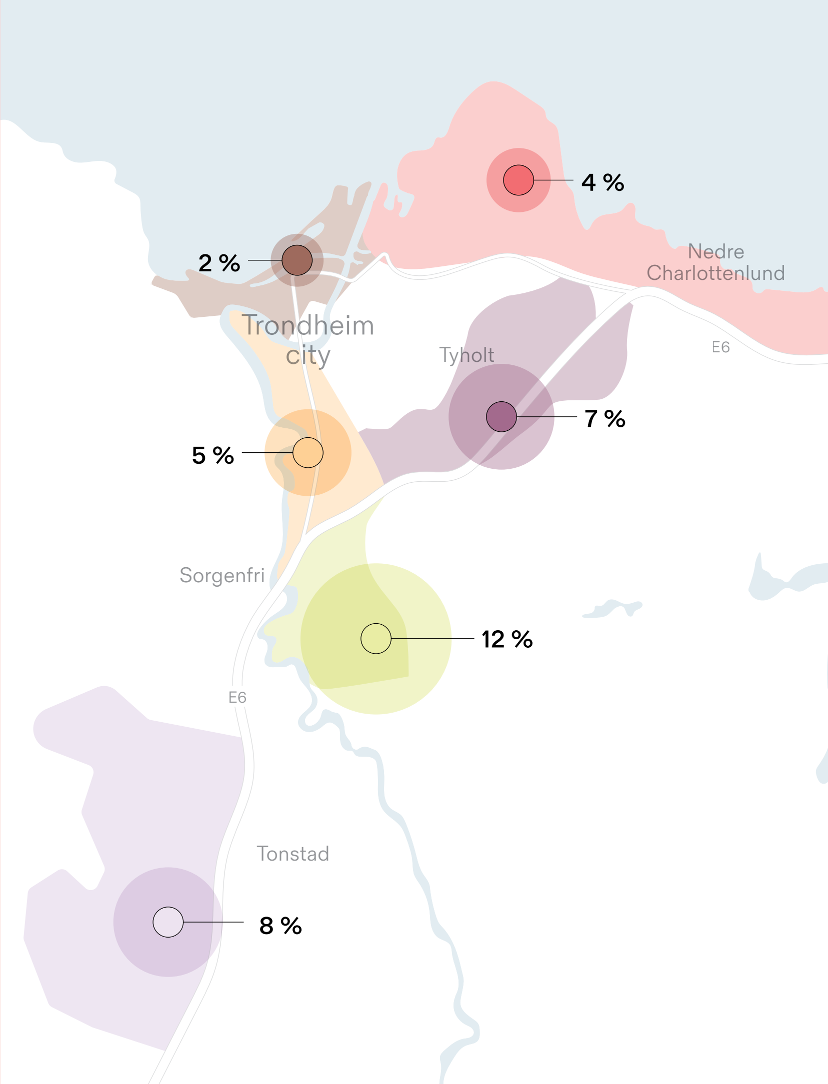
Rents

There has been a significant increase in rental prices in Trondheim since 2019. The positive activity in the office rental market seems to have persisted throughout this year. Although we may see a slightly more moderate rental market for the second half of 2023, there is still a moderate upward trend in rental prices, indicating a stabilisation of prices at a consistently high level.

Compared to other typical office areas, Trondheim city centre has the highest rental price and the lowest vacancy rate. Except for the renovation of older office spaces, Trondheim Stasjonsenter will be the only new office building added to Trondheim city centre in the coming years. The low supply of newbuilds and refurbished high-quality buildings means that rental prices in the centre of Trondheim are maintained at a consistently high level with a low vacancy rate.

We believe there is still room for further growth in rental prices in Trondheim, based on strong demand and a moderate supply of available office spaces. In a market where yields have increased and construction costs have risen, rental prices must increase significantly for developers to maintain the same level of profit.

Office vacancy per October 2023



Total office vacancy* = 4.8 %

*See page 32 on how we measure vacancy.

Source: Norion Næringsmegling

Fewer new project initiations

We noted in the previous update in June that activity in the construction business was high at the time, and production is still high. We expect a slight reduction in activity going forward, as the number of new initiations for both residential and commercial building projects have reduced.

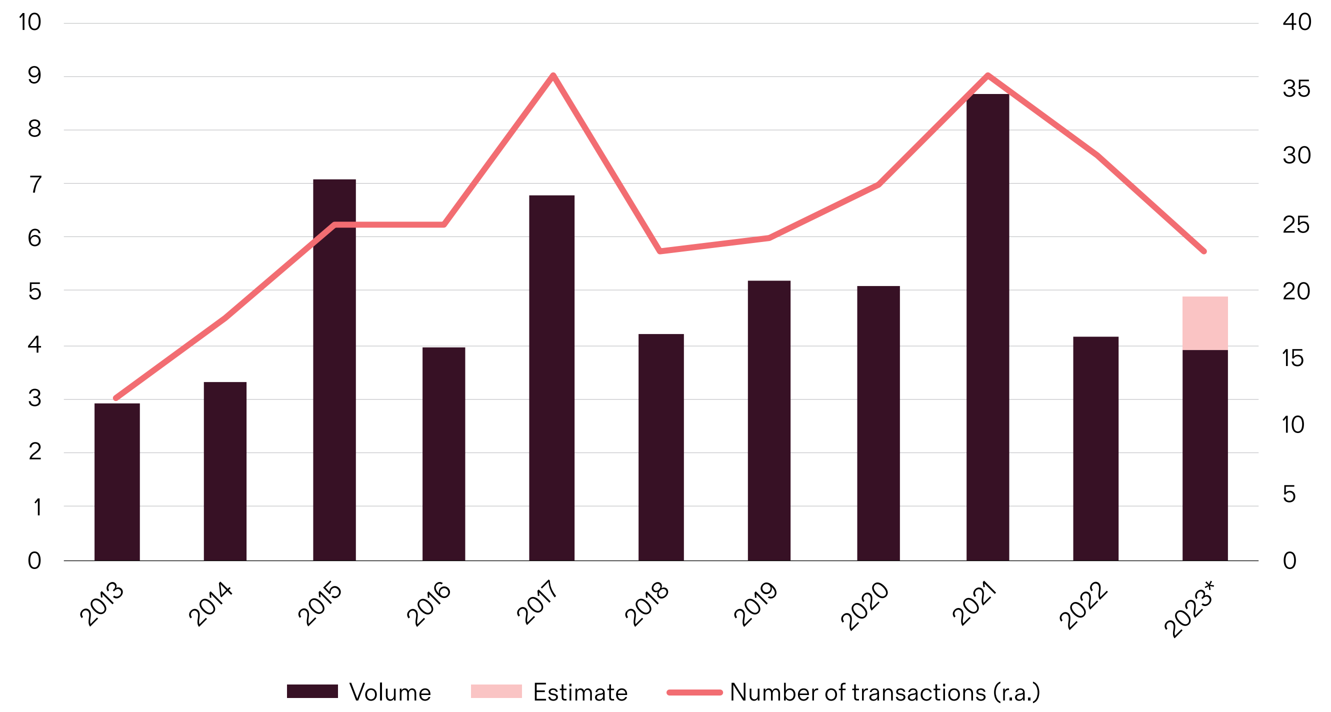
For all projects exceeding 1 000 m² (excluding residential projects), the YTD number has fallen by 26 % compared to YTD in 2022. For residential builds in Trøndelag, the YTD drop is -12 % compared to -36 % nationwide. In summary, we see signs of reduced activity for the coming periods.

Investment market

Investment volume: We are still experiencing a slow investment market due to high interest rates and a considerable distance between buyers and sellers in terms of pricing. However, if we look at the total transaction volume, the market looks pretty much the same as in a normal year. We have recorded a total transaction volume of approximately NOK 3.9 billion so far this year (as of October). We must emphasise that the volume is driven by four transactions, each one with a value of considerably more than NOK 0.5 billion. It should also be mentioned that these transactions were initiated long before 2022/2023.

For activity to pick up again, we believe we must see a stabilising policy rate combined with the establishment of a new market intersection. The trend we observe in Trondheim is similar to what is seen in the rest of the country. Based on predictions from the largest financial institutions, this may happen sometime during the second half of 2024. Thus, we are somewhat pessimistic when forecasting the transaction volume for the whole of 2023 and we expect the volume to come in just under NOK 5.0 billion.

Annual transaction volumes in Trondheim, NOK bn.



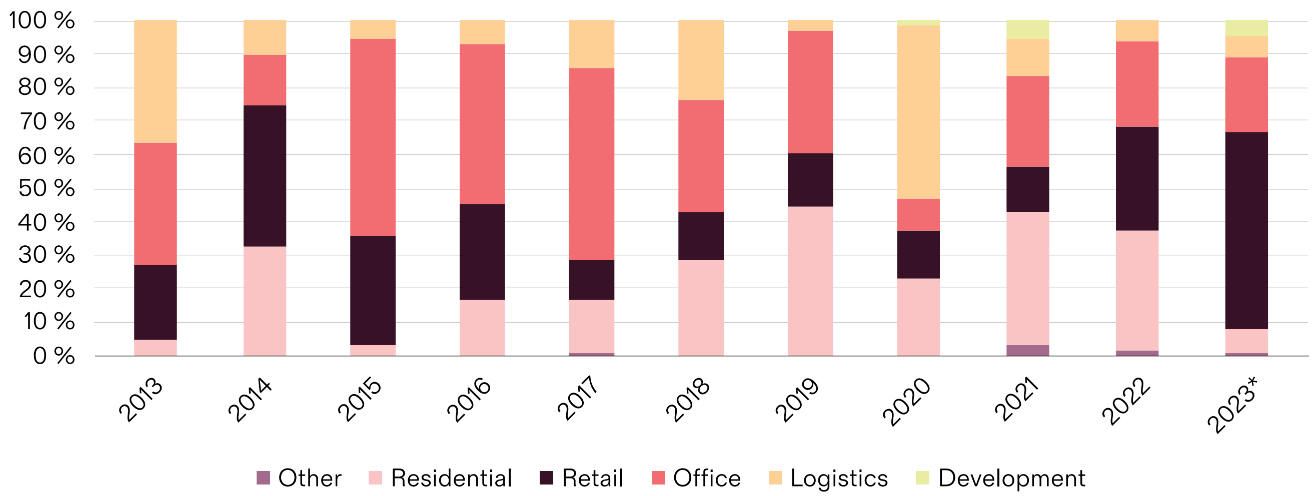
*As of October

Source: Norion Næringsmegling

Volume per segment: The graph shows how the transaction volume is distributed per market segment. There has been some activity within all the market segments so far this year. We are quite surprised to see that the retail segment constitutes approximately 60 % of the total investment market. Within this segment we have tracked a total of four transactions with a joint volume of approximately NOK 2.15 billion. In a period when household finances are being put under pressure due to rapidly increasing interest rates, it should be assumed that this will impact the retail segment, thus making investors somewhat sceptical of this segment. Our latest investor yield and sentiment survey supports this, showing that only 31 % of investors predict themselves to be net buyers of retail property in the upcoming 12 months. The corresponding number when asked the same question one year ago was 62 %.

The above mentioned transactions have, however, one key element in common: Value add in terms of rent levels below what is to be expected in the market, vacancy and development potential. Thus, these transactions are not 100 % "yield driven" because the seller's- and buyer's yield does not necessarily correspond.

Transaction volume per segment



*As at October

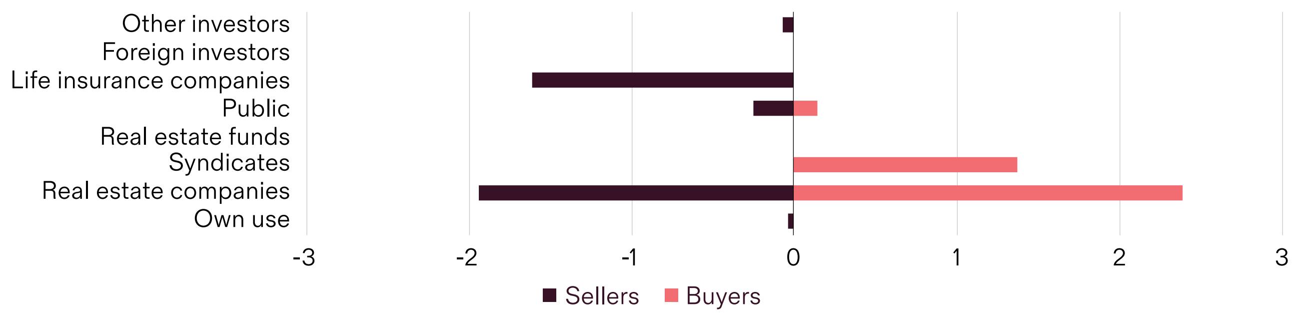
Source: Norion Næringsmegling

Sellers and buyers: Traditional real estate companies constitute most of the activity in the investment market both as sellers and buyers. Among these companies on the buyer side, we find exclusively local investors. In our opinion, the investors are characterised by good liquidity and a moderate LTV on their existing portfolio.

In 2022, we pointed out that the "contribution" from the financial players (mainly syndicates) was fairly modest. So far this year, we have recorded that syndicates constitute approximately 35 % of the total buyers' volume. However, this relates to one transaction.

Furthermore, we have noticed that life insurance companies have sold properties for a total of NOK 1.6 billion. These companies are normally governed by slightly different mandates than, for example, traditional real estate funds, and we do not find it unusual for them to weigh down their property investments in view of the market development.

Transaction volume 2023* – sellers and buyers



*As of October

Source: Norion Næringsmegling

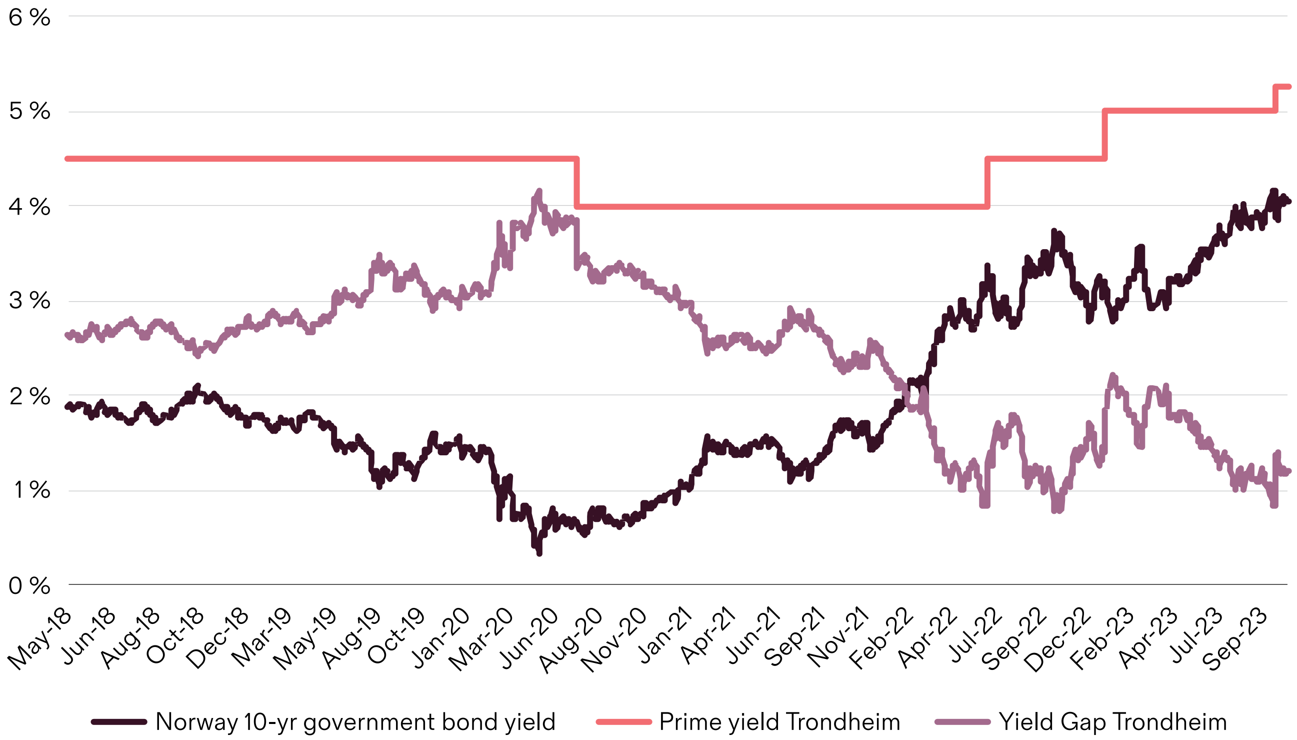
Rates and yields

The new “higher for longer” interest rates environment also affect Trondheim and Trøndelag. While the economists agree that interest rates are about to peak (or have peaked already), we have recorded that the interest market is still showing interest rates at high levels for the coming years. This puts upward pressure on yields.

Despite a decent transaction volume so far this year, there is more uncertainty surrounding the yield now than a few years ago. There is still some distance between buyer and seller in today’s market.

We changed our prime yield estimate from 4.5 % to 5.0 % going in to 2023, which has been kept unchanged until now. Due to current interest rate levels, combined with a couple of recent transactions, we adjusted our prime yield estimate to 5.25 % during October 2023. There is a possibility of one more increase in the prime yield estimate, but we anticipate a prime yield within the range of 5.25 – 5.50 % for the majority of 2024 before interest rate levels start declining by the end of 2024 or the first couple of quarters of 2025.

Norway 10-yr government bond yield, prime yield Trondheim and yield gap, %



Source: Norion Næringsmegling

«Due to current interest rate levels, combined with a couple of recent transactions, we adjusted our prime yield estimate to 5.25 % during October 2023».

Drammensveien 211, Oslo

Malling is managing the project on behalf of Portal Skøyen AS (Genesta). The main measures consist of renovating existing office space for new tenants and upgrading the building to new energy technical solutions to reach energy class B or C. The total number of square meters at full development will be approximately 3 500 m^2.

Retail

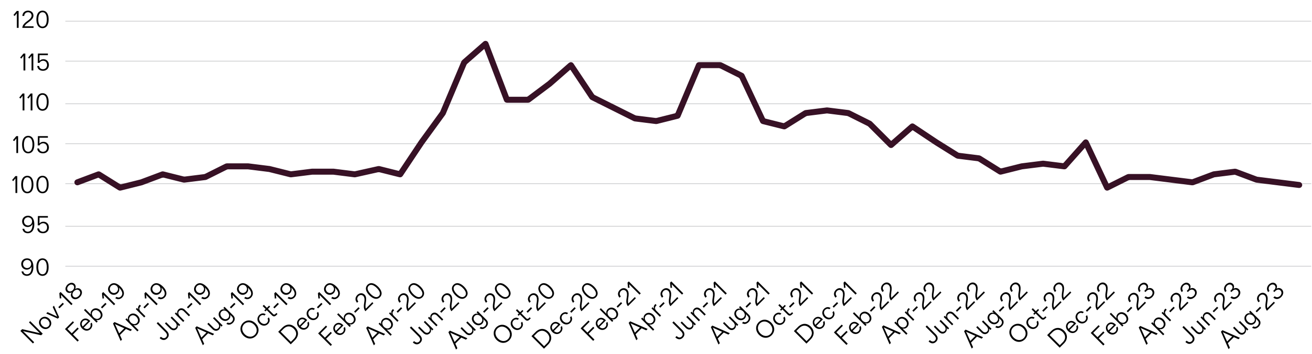
Tougher market ahead?

The economy has experienced a tight monetary policy for the past two years and is set to dampen the inflationary pressures. Households take time to adapt their financial habits, and we are starting to observe this adjustment taking place. Over the past two years, the retail trade volume index has gradually decreased, attributed to both higher interest rates and a shift from buying goods to preferring services. This, in combination with an upcoming period of current interest rate levels or above, lead us to believe that the retail market will be challenging throughout 2024.

Retail turnover volume remains stable so far after last year's decline

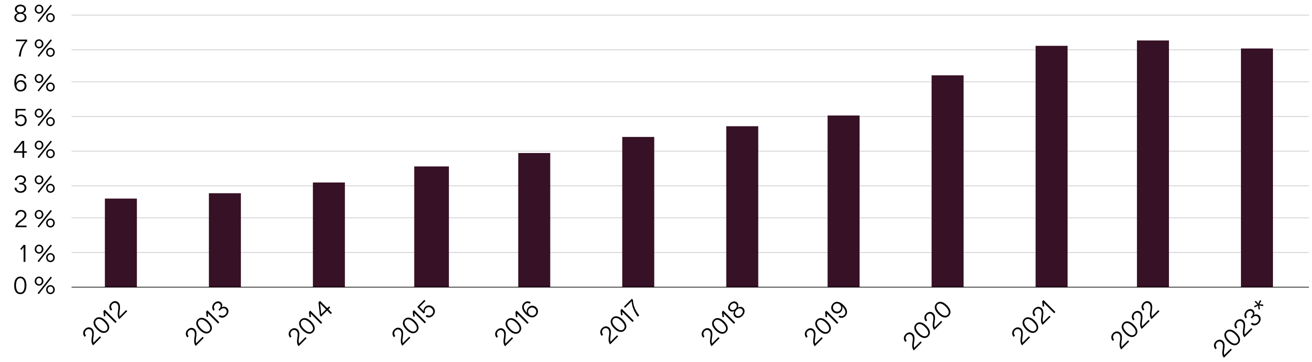
The restrictive monetary policy implemented since the initial hike in the key policy rate in Q3 2021 has yet to have a significant impact on the retail turnover. The year-to-date change in the retail trade volume index indicates a decline of 1.09 %. Furthermore, the year-on-year change from September 2022 to the present stands at -2.44 %. For comparison, the year-on-year change of -4.30 % from August 2021 to August 2022 suggests a gradual return to a more conventional retail turnover environment closer to pre-pandemic levels. The regional report from the Norwegian Central Bank reports that even though households are becoming more cost-conscious, their demand for services is increasing. Nevertheless, it is anticipated that this growth trajectory will eventually taper off. Historically, the demand for services has offset the demand for goods but, during the pandemic, there was a shift towards a greater demand for goods rather than services. However, over the past year, this trend has shifted again, with a noticeable increase in the demand for services. The sales volume of retail trade has exhibited a decreasing trend since the start of 2022, and this pattern is anticipated to persist. Many businesses are struggling with large extensive inventories in the aftermath of the pandemic, resulting in an escalation in the frequency of sales campaigns, according to the report. On a positive note for landlords with physical stores and tenants with revenue-based contracts, the online share of total retail sales per year has decreased compared to the previous year.

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



Source: Statistics Norway

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



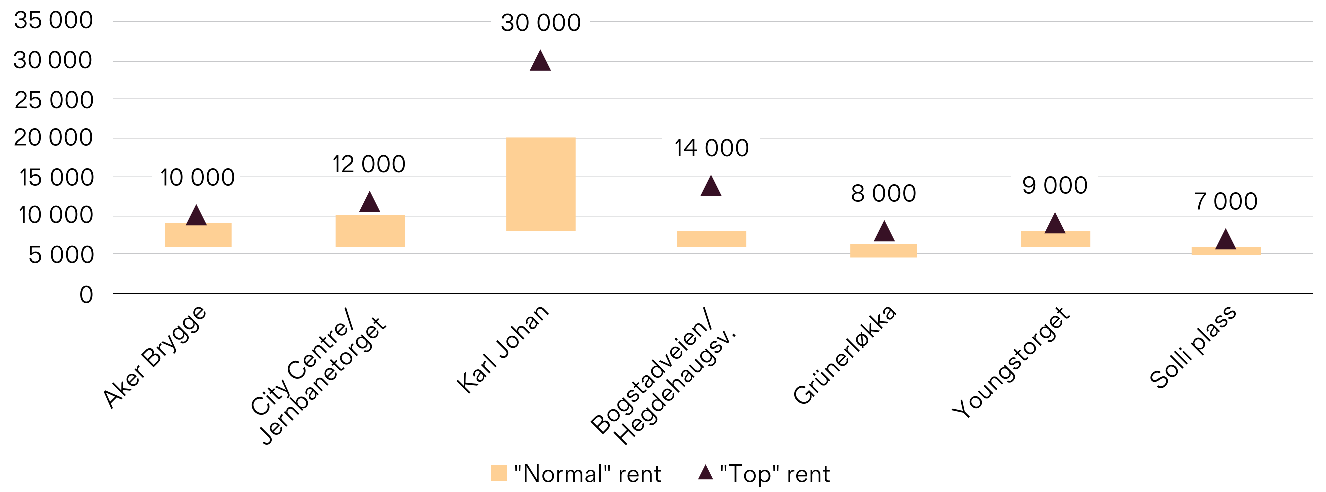
*As at October.

Source: Statistics Norway

Small upwards adjustments in high street retail rents

Despite the economic conditions, our leasing agents have observed that the retail rental market has seen an increase in top rents in selected high street locations. Rent levels vary in size and micro-location, and the actual contract rent depends highly on the quality of the location of the rented space. While there has not been any considerable shift in "normal" rents across various areas, both tenants and landlords have been affected by a reduced demand for goods in the context of revenue-based contracts. In our summer report, we noted a growing trend among tenants to explore options for mitigating risks by seeking a larger proportion of their rent to be based on revenue, as opposed to fixed contracts. This trend has not abated, and we anticipate tenants continuing to seek an even greater proportion of their rent tied to their revenue. The spending habits of households have also been affecting the food & beverage sector. Despite relatively healthy consumer spending, our leasing agents report that some newly opened bars and restaurants are facing challenges in their initial phases. The importance of a good fit between the establishment's location and concept has become all the more crucial, and the fact that certain units continue to struggle despite changing tenants should concern some landlords. Furthermore, the trend reported in previous market reports of a consolidation in the food & beverage sector is still highly relevant. In a more challenging consumer market, businesses can exploit opportunities for economies of scale to increase their profitability.

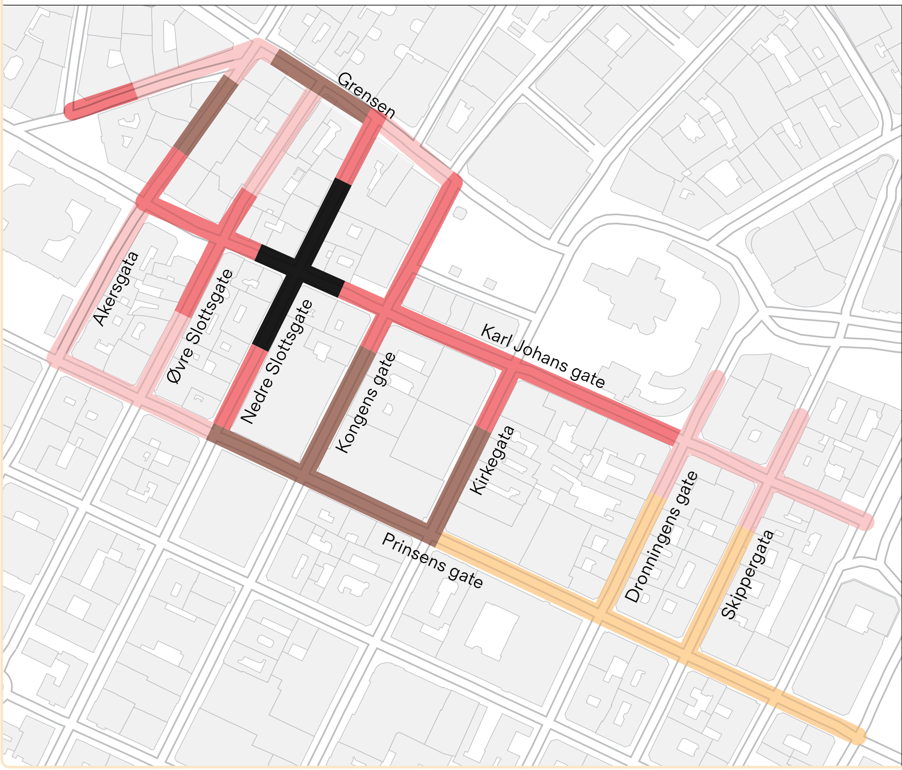
Indicative retail rents in Oslo high streets (NOK/m²/yr)



See definiftion of prime and normal rent on page 16.

Source: Malling

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



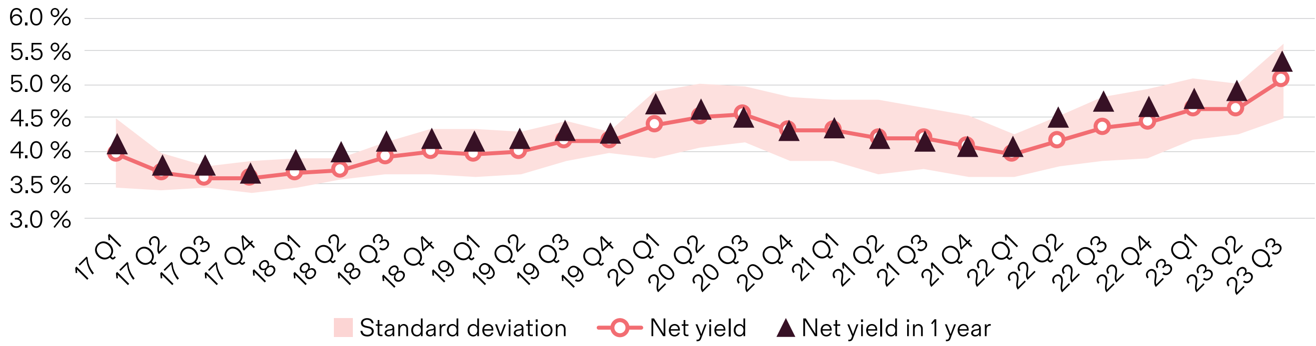
Area Category	From	To
● (dark purple)	15 000	30 000
● (red)	10 000	15 000
● (light pink)	6 000	12 000
● (brown)	3 500	8 000
● (light orange)	2 500	3 500

Source: Malling

Weaker consumer demand for goods is creating a tough environment for retail investors

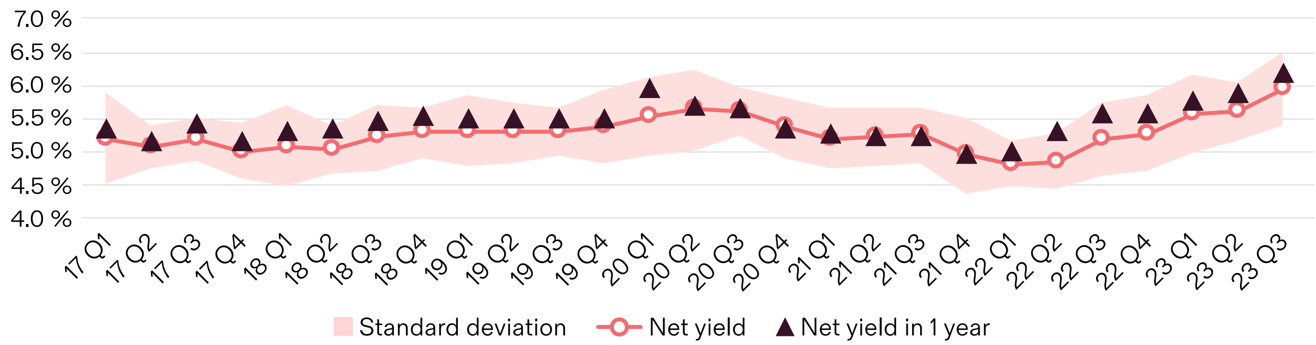
Based on our Investor Yield and Sentiment Survey, the prime high street yield in Q3 2023 reached the 5 % mark, which has been a consistent level for normal yields over the past 5 years. Since Q1 2021, the retail prime yield has steadily increased. However, the last two quarters have shown a deviation from this pattern, with no change in the net yield from Q1 to Q2, followed by a substantial 40 bps increase from Q2 to Q3. One mentionable fact is that Q3's yield surpassed the prediction for the 12-month forward-looking yield from Q2 with 10 bps. This suggests that yields are rising at a faster pace than investors had forecast, and there are some potential reasons for this shift. One significant factor is the clear indication from the central bank that the policy rate will remain at the current level or higher for a long period of time. This has led to a weakening of consumer purchasing power, in addition to the mentioned shift in demand from goods to services. These factors combined have generated higher levels of uncertainty among investors and agents seeking to invest in retail properties.

Prime retail high street yield



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

Normal retail high street yield



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

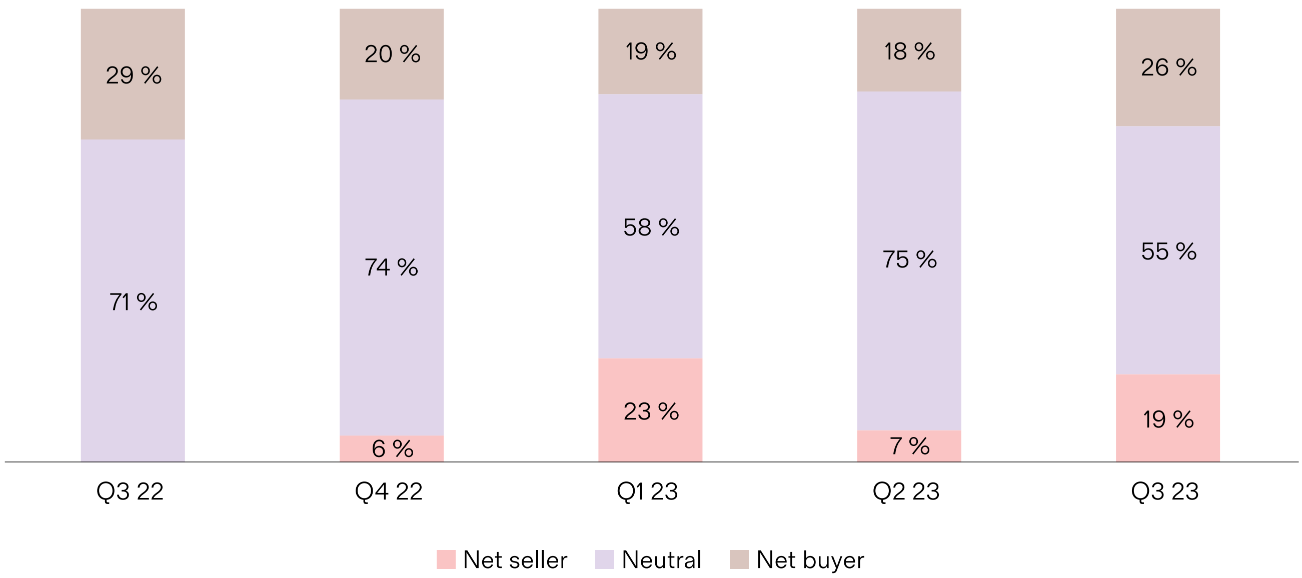
«The prime high street yield in Q3 2023 reached the 5 % mark, which has been a consistent level for normal yields over the past 5 years».

Desired exposure to retail properties

According to the results from our Investor Yield and Sentiment Survey, roughly one quarter of the respondents expressed a desire to invest in retail properties within the upcoming 12 months. This is a substantial increase when compared to the preceding two quarters, when 19 % and 18 % of the respondents expressed intentions to engage in net buying activities. The proportion of net sellers increased substantially, climbing to 19 % from 7 % the previous quarter. It is worth noting that while the percentage of net sellers remained relatively consistent in both Q1 and Q3 of 2023, Q4 2022 and Q2 2023 exhibited unexpectedly low levels of net sellers. These inconsistent responses from quarter to quarter have made it challenging to draw conclusive insights regarding the direction of investor sentiment, leaving the precise reasons for the volatility unclear. The inconsistency is underscored by the standard deviation in the respondents' answers to the current yield for both prime and normal, which is generally higher than during stable periods.

An interesting observation here concerns the forward-looking prime yield in Q4 2022, when the proportion of net sellers stood at 6 % and the yield was recorded at 5.55 %. In Q1 2023, the respondents' expectations for the yield deviated by only 1 bps from their previous quarter's 12-month forward-looking projections, and this period witnessed a notable surge in the proportion of net sellers. Furthermore, the yield remained stable at 5.6 % from Q1 to Q2, and, in contrast to the previous quarter, a decrease in the proportion of net sellers was observed. Of particular interest is the transition from Q2 to Q3 in the same year, during which the yield saw a significant increase of 35 bps, coupled with an upswing in the proportion of net sellers to 19 % from the previous 7 %. In summary, we have observed that when yields increase from one quarter to another, a higher percentage of investors become net sellers, but when yields remain stable there are fewer net sellers.

Desired exposure towards high street retail next 12 months



Source: Malling Investor Yield & Sentiment Survey

«The volatility in the share of net sellers is significantly higher than net buyers».

VIA, Oslo

Malling was the advisor for Storebrand and Aspelin Ramm when O'Learys signed for a 710 m^2 retail space in VIA for the restaurant they are establishing to cover the western part of Oslo city centre.

Stortovet 7, Oslo

Malling was the advisor for Schage when IKEA signed for a 2 000 m^2 retail space for the city centre concept they are establishing in Oslo.

Hospitality

Dark clouds looming on the horizon of the hotel industry

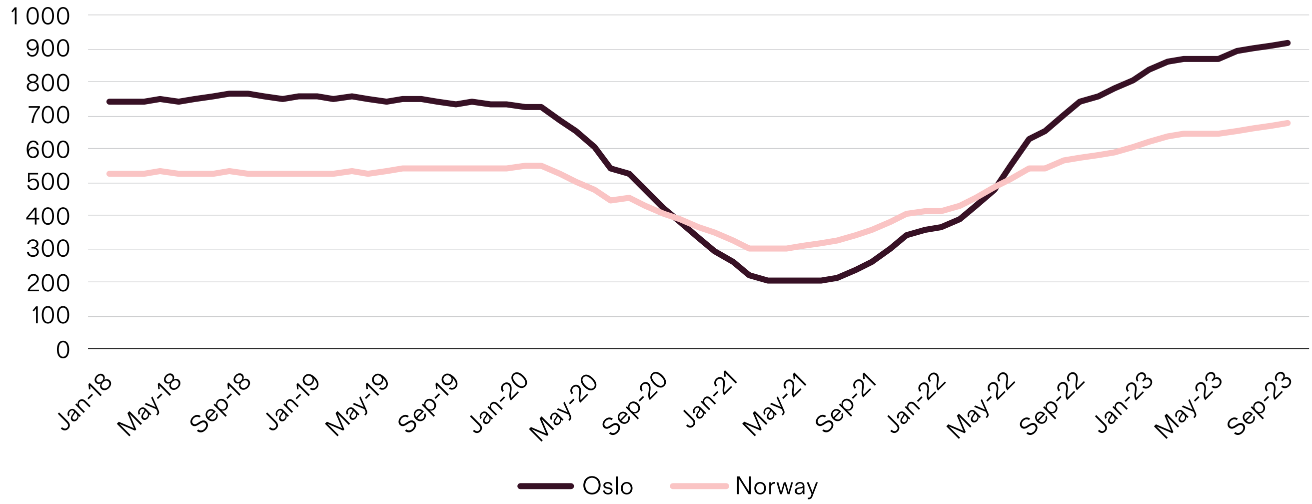
Since the reopening of society after the COVID-19 pandemic, hotel figures have consistently defied pessimistic expectations and delivered beyond presumed performance. Both nationally and in Oslo, the Revenue Per Available Room (RevPar) has reached record highs, driven by the necessity to cover the inflation-driven cost increases in the hotel industry. The increase in room rates appears to have had a relatively minor impact on occupancy rates, and several regions across the country are reporting a positive booking outlook for the winter season. A weaker NOK compared to other currencies may enhance foreign guest nights, contributing to this positive trend. However, at some point, the high interest rates are likely to affect people's personal finances and reduce leisure-related travel. The mentioned high earnings have heightened the attractiveness of hotel real estate among investors, but the uncertainty about the future has led many to adopt a cautious approach. Despite the growing interest in hotel real estate, there have been few transactions, primarily due to a challenging financing environment.

Price per hotel room has increased by over 30 % in Norway on average since 2019

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. Nationally, RevPar continues its upward trajectory, 12-month averaging at NOK 673 as of September 2023. This figure represents a substantial increase compared to the corresponding average in September 2019, which was NOK 541, illustrating the robust recovery that hotels across the country have experienced following a challenging period during the pandemic. Occupancy rates are approaching 2019 levels, although they have not yet fully reached that point on a yearly average, except for certain individual months. Therefore, it is the price per room that has been the major driver behind the strong revenue growth observed in the hotel sector. Compared to 2019, the price per room has increased by over 30 % on average nationwide as we approach September 2023. This growth is also remarkable when adjusted for the consumer price index (CPI).

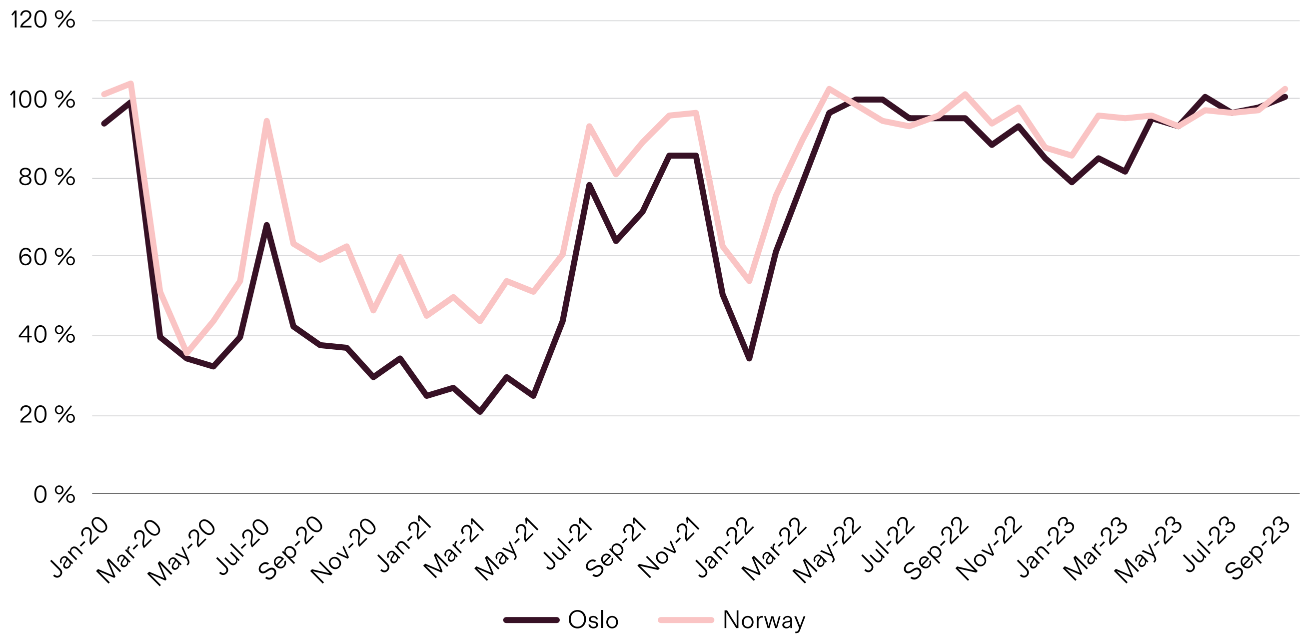
Oslo: In comparison to the rest of the country, the RevPar-gap in Oslo has reached record-high levels. The 12-month rolling average stands at NOK 917 as of September 2023, which is NOK 244 higher than the national average. While the occupancy rate in Oslo was considerably lower than the rest of the country during 2022, the capital city's hotels have made notable progress during the summer months of this year. A significant portion of the lodging revenue is attributed to the Nor-Shipping conference held in June, last hosted in Oslo in 2019. However, even in Oslo, the occupancy rate still lags slightly behind the average for the same period in September 2019. Prices in the capital city are closely approaching 40 % higher than the levels during the corresponding period in 2019, a substantial factor for landlords with revenue-based lease agreements.

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



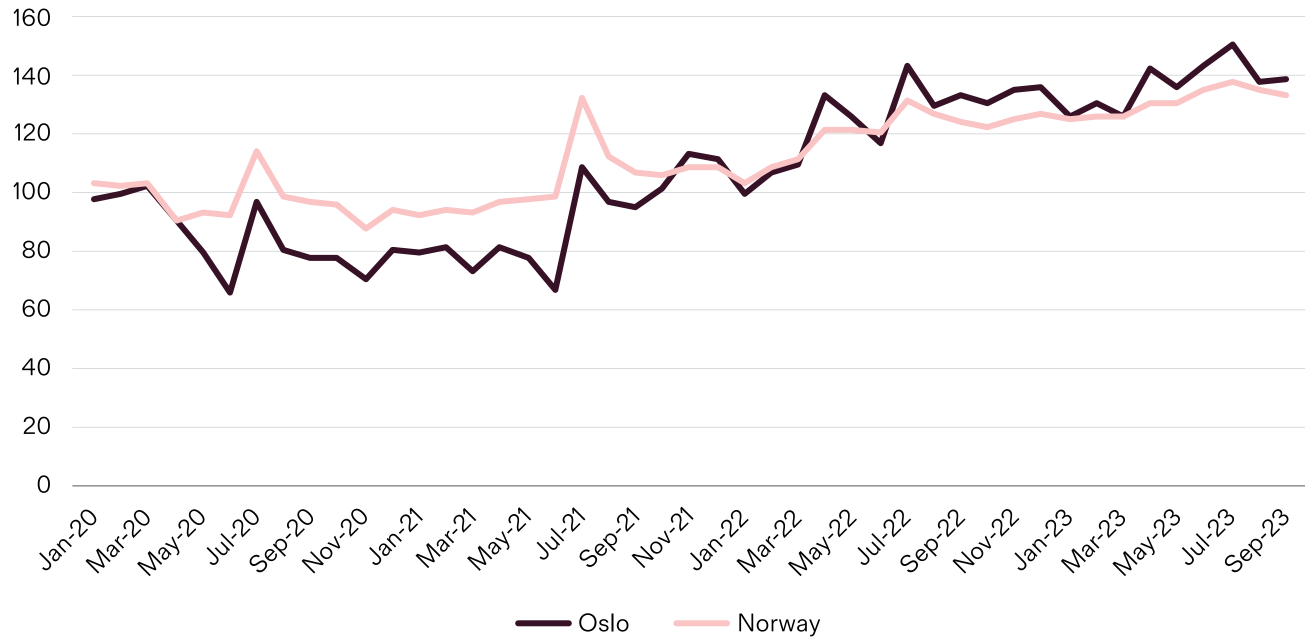
Source: Statistics Norway

Occupancy (%) per month, relative to 2019



Source: Statistics Norway

Average day rate (ADR) per month, NOK, Index (Jan-19 = 100)



Source: Statistics Norway

«Compared to 2019, the price per room has increased by over 30 % on average nationwide as we approach September 2023. This growth is also remarkable when adjusted for the consumer price index (CPI)».

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

Key figures Q1-Q3 2023	Oslo			Norway		
	Q1-Q3 2023	Q1-Q3 2022	2023 vs. 2022	Q1-Q3 2023	Q1-Q3 2022	2023 vs. 2022
Total revenue, MNOK	3 963 330	3 117 980	**27 %**	17 158 189	14 728 392	**16 %**
Average RevPar, NOK	954	802	**19 %**	711	617	**15 %**
Average ADR, NOK	1 426	1 270	**12 %**	1 285	1 166	**10 %**
Average Occupancy, %	66 %	60 %	**8 %**	55 %	52 %	**6 %**
Total # of guest nights	6 786 537	5 793 906	**17 %**	20 133 125	18 824 516	**7 %**
Norwegian guest nights	3 024 679	2 898 568	**4 %**	14 505 095	14 246 055	**2 %**
Foreign guest nights	1 880 929	1 447 669	**30 %**	5 628 030	4 578 461	**23 %**

Source: Statistics Norway

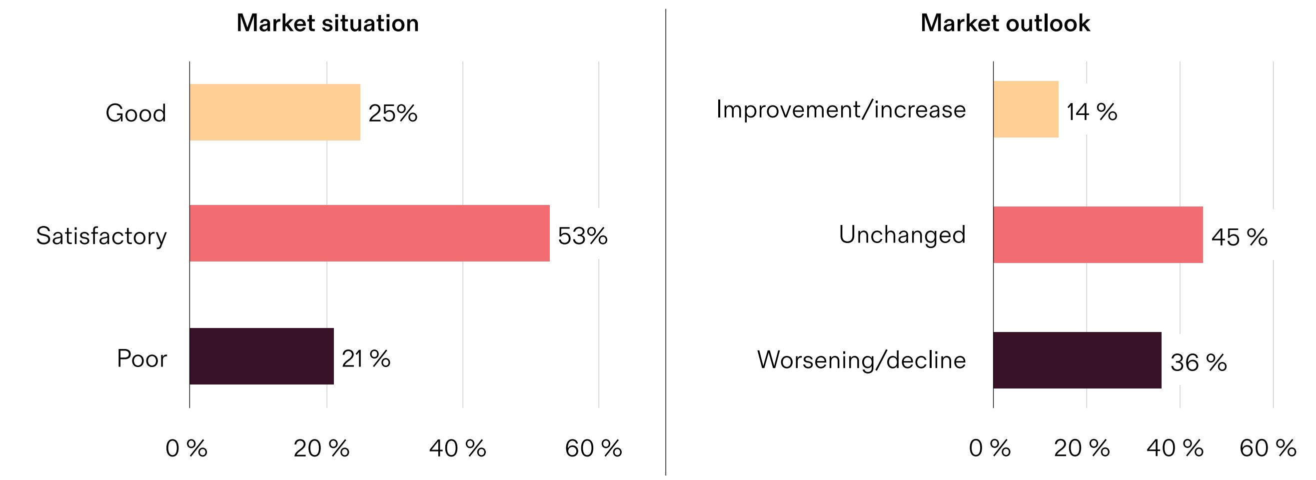
«While the occupancy rate in Oslo was considerably lower than the rest of the country during 2022, the capital city's hotels have made notable progress during the summer months of this year».

Norwegians have more hotel guest nights than before the pandemic

Following the last reopening from the pandemic in Norway in February 2022, the data on the nationality of overnight stays is clear. Norwegians are booking more hotel nights each month than they did in 2019, while foreign guest nights are lagging somewhat. International travel, which accounted for 22 % of all guest nights in the past three years, has gradually been recovering and is approaching pre-pandemic levels. The significant depreciation of NOK against major currencies earlier this year should make it more attractive for foreigners, but it has not significantly impacted the statistics. An important factor could be the absence of Chinese tourists, who have not returned to Norway to the same extent as before due to much stricter and enduring pandemic restrictions. European and North American tourists are nearing a full return.

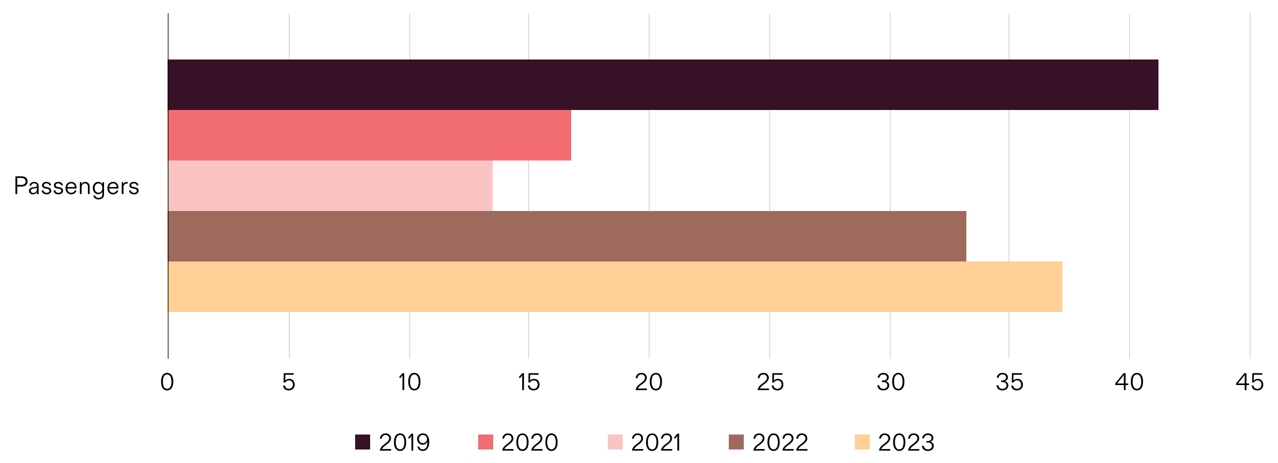
When we categorise overnight stays by purpose, we observe significant changes compared to guest nights before the pandemic. Holiday-related travel has consistently been at a higher level than in 2019 since society reopened after the pandemic. This can be attributed to many people wanting to make up for the lost opportunities during the lockdown, combined with substantial savings. However, this type of travel is expected to decline as rising interest rates to cope with high inflation begin to affect people's personal finances. Conference-related travel accounts for only 10 % of the total travel purpose and varies significantly from month to month based on major events. Business travel must, therefore, reach higher levels to compensate for the expected recuction in guest nights from holiday-related travel. The introduction of digital meetings, along with companies' focus on sustainability, appears to be a lasting trend, not just a phenomenon observed during the pandemic.

Responses from the Norwegian Hospitality Association member survey, October 2023



Not all respondents answer the question. The proportions among the three response categories do not add up to a full 100 %. Source: NHO Tourist and Travel's member survey

Number of terminal passengers at Norwegian airports in millions in Q1-Q3, 2019-2023



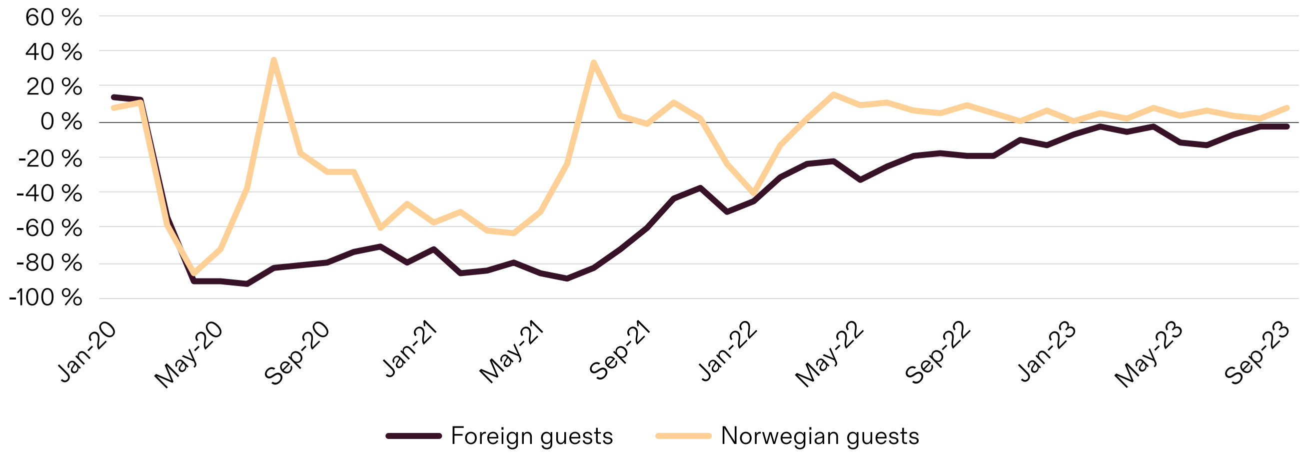
Source: Avinor

Tighter budgets impact the outlook of the travel industry

NHO Reiseliv conducts monthly surveys among its members, and in October, nearly 8 out of 10 reported a good or satisfactory market situation. This picture remains unchanged from what it was in May 2023. During that time, most member companies reported an unchanged situation for the next six months, attributed to a weaker NOK and a favourable booking scenario, an expectation that appears to have been met. However, the outlook becomes somewhat more pessimistic when inquiring about future prospects today, with 36 % believing that the market situation will worsen, an increase from 26 % who held the same view in May. Regional differences are more noticeable in this regard. In the north, the anticipation revolves around Northern Lights tourism and an increased number of foreign visitors due to a weaker currency. Other businesses highlight rising interest rates, high electricity prices, and a tighter financial situation for the general populace as concerning factors affecting the travel industry. Optimism is highest in Oslo, where 37 % view the situation as positive.

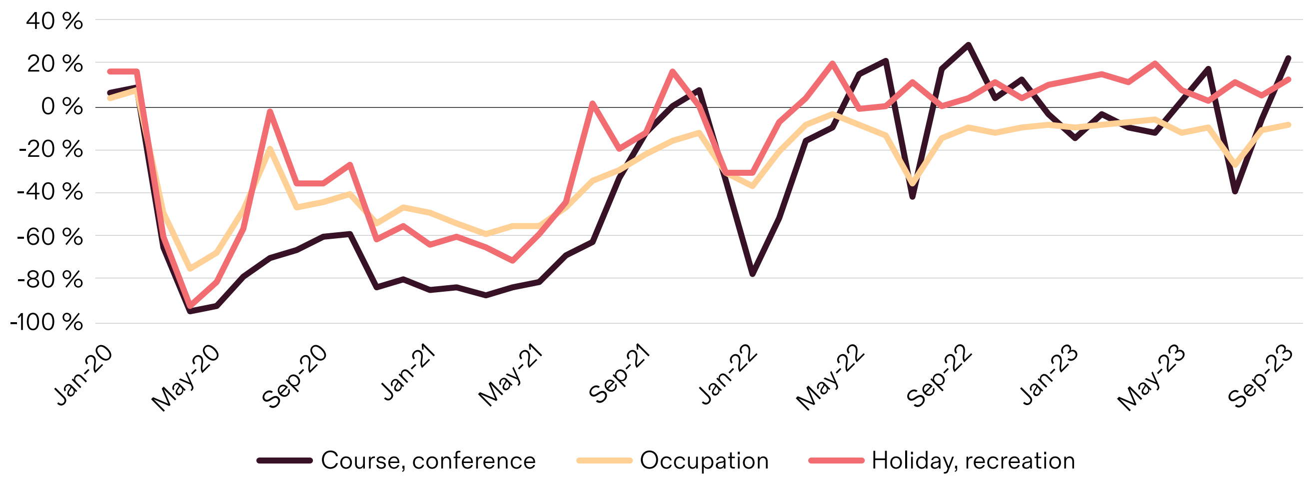
Air traffic is pivotal for the tourism sector, impacting hotel revenues and, therefore, is a concern for many actors in the commercial real estate industry. As of September, air traffic has returned to a robust level, with 37.2 million passengers recorded at Norwegian airports during the first three quarters in 2023. This figure is slightly higher than that of 2022, although it's important to note that January and part of February were still affected by pandemic restrictions. Nevertheless, the numbers in 2023 remain significantly lower than during the same period in 2019, signifying that the aviation industry cannot yet be declared fully recovered. Avinor has had to revise its forecasts for when air traffic will return to pre-pandemic levels, pushing it from 2024/2025 to closer to 2027/2028, a concerning shift. Additionally, the competitive landscape at Norwegian airports has altered, with SAS going through chapter 11 and Norwegian acquiring Widerøe. The lack of competition could potentially lead to increased flight costs, particularly affecting leisure travel.

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

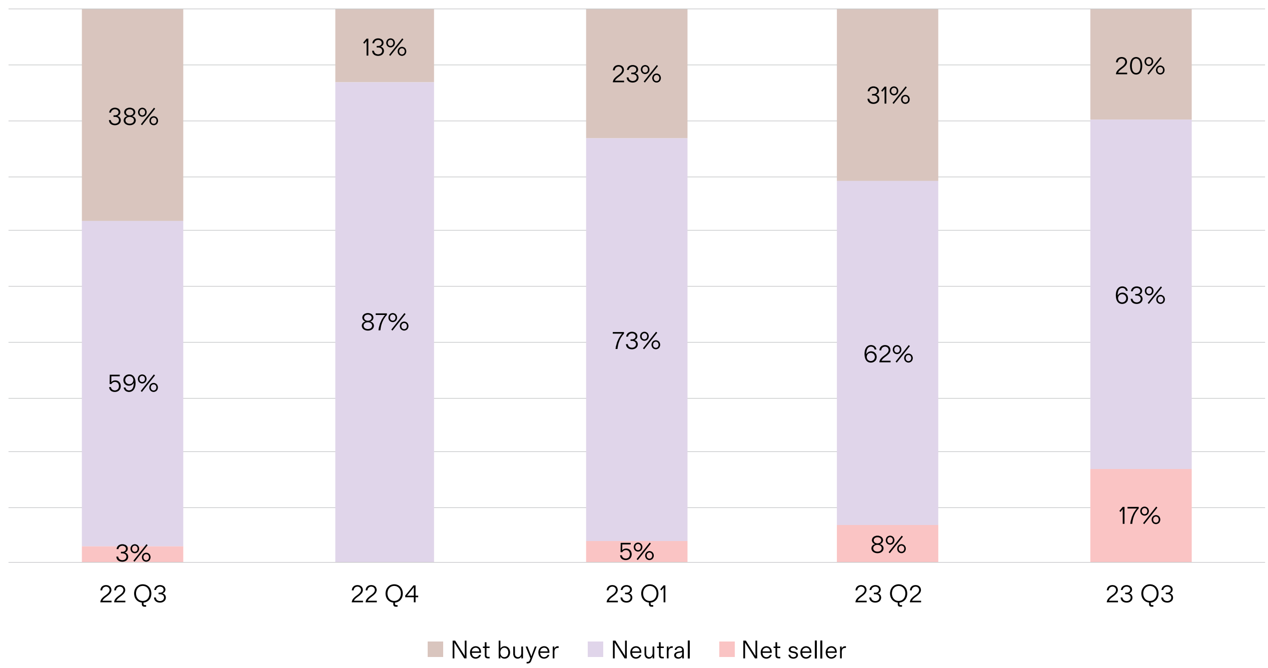


Source: Statistics Norway

The growth in hotel earnings has increased attractiveness for investors

The increasing proportion of investors in our Investor Yield and Sentiment Survey expressing a desire for greater exposure to hotel real estate in the coming 12 months turned from Q2 to Q3 2023, decreasing from 31 % to 20 %. This trend had been favourable until the previous quarter, largely bolstered by the revenue growth observed in the hotel sector, as exemplified by RevPar figures. Given that hotels often have revenue-based lease agreements, the robust earnings in the hotel industry have translated directly to the bottom line for property owners. Earnings growth has, therefore, been more substantial in comparison to other market segments, and one could argue that the yield increase on hotel properties has not been as significant. However, the pandemic has demonstrated that hotels are vulnerable during uncertain times, necessitating a premium on hotel real estate. We have recorded NOK 1.2 billion in hotel transactions, which is lower than the preceding two years, aligning with the overall transaction market. What sets hotels apart is the potential to introduce new concepts and innovations with relatively simple adjustments, enhancing their appeal. This makes them a potential value-add investment, something to consider in an otherwise tranquil market.

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



Source: Malling Investor Yield and Sentiment Survey

«Given that hotels often have revenue-based lease agreements, the robust earnings in the hotel industry have translated directly to the bottom line for property owners».

Rolf Olsens vei 30–32, Lillestrøm

Malling is acting as the advisor for ORO in the sales process of an industrial property comprising approx. 40 000 m^2 plot size.

Maria Dehlis vei 40, Oslo

Malling is acting as the advisor for Ragde Eiendom in the sales process of an industrial and logistics property comprising approx. 49 000 m^2 plot size.

Industrial & Logistics

Extraordinary surge in logistics activity has subsided

In the industrial property sector, particularly in warehousing and logistics, there was an extraordinary boost in activity during the pandemic. However, reports now indicate that this surge has subsided. The leasing market continues to demonstrate robust activity, with rental prices having stabilised at a new, elevated level. While it's unlikely that rental price growth will continue at the same pace in the future, there is still pricing pressure in certain areas with limited new construction activity. Notably, we are observing regional disparities, with low vacancy and upward pricing pressure in the northern area of Greater Oslo, while on the west side of the Oslo Fjord, vacancy rates have increased, placing tenants in a favourable position.

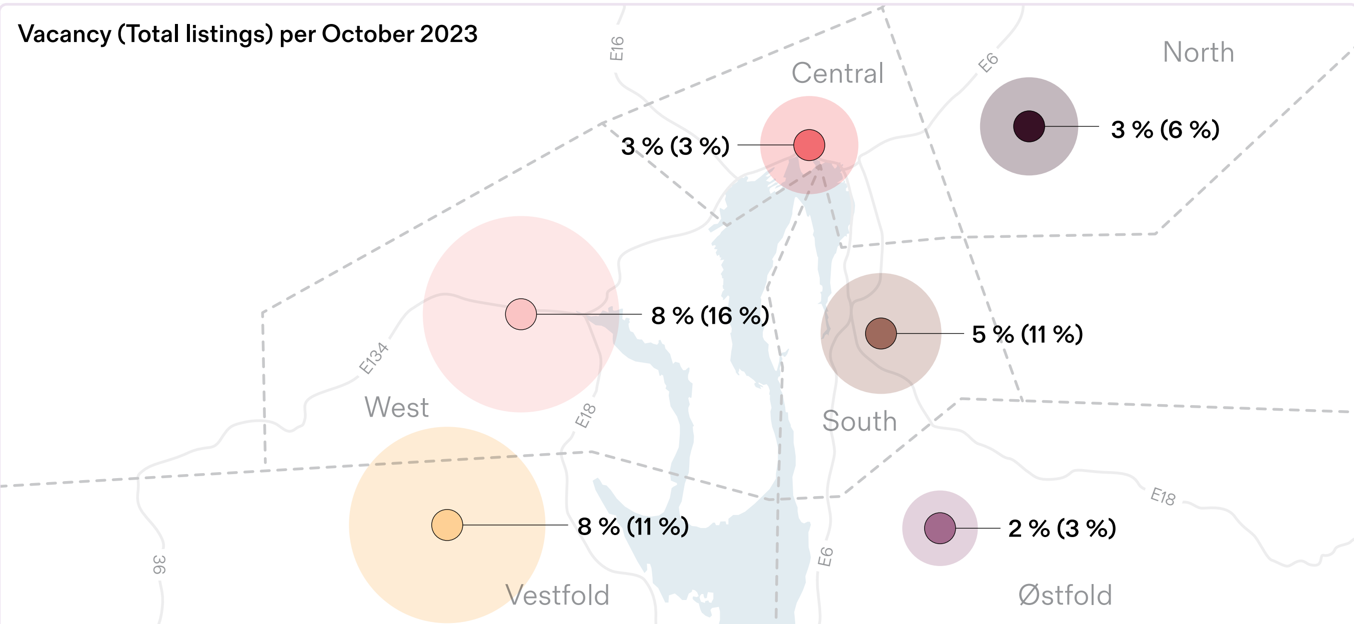
The concept of nearshoring, hailed as a new trend in this sector, has encountered resistance from certain businesses. For instance, some Norwegian companies seem to prefer a connection to the logistics triangle in Sweden, with its EU membership and consequently lower tariffs, which some Norwegian enterprises are evaluating for potential further growth and expansion. On the investment front, 2023 is on track for a low point in terms of transaction volume, primarily due to the challenging financing environment that investors are currently navigating, rather than specific attributes of industrial properties.

Increasing vacancy on the western shore of the Oslo Fjord

As of October 2023, the overall vacancy rate for industrial and logistics properties in Eastern Norway stands at 4.4 %, a notable increase from 2.5 % six months earlier in May. Apart from Østfold, vacancies have increased by more than 1.0 % across all clusters in Eastern Norway since May 2023. Within this segment, historically characterised by very low vacancy, we are now witnessing a perceptible upturn, especially in specific regions. Western Oslo and Vestfold both exhibit a vacancy rate of 7.9 % as of October 2023. In Western Oslo, vacancy has notably increased from 4.7 % since our last report published in May. In Vestfold, the bulk of available space is predominantly found in Stokke, where a considerable area is being actively marketed.

A parallel trend is evident in the total area advertised beyond the coming 12 months. In October, the aggregate advertised area in Eastern Norway stands at 7.4 %, up from 4.5 % in April 2023. In the realm of longer-term supply, it is the Western Oslo and Vestfold areas that make up the substantial share of available space, accounting for 16.1 % and 11.2 %, respectively, with Southern Oslo following closely at 10.8 %. Notably, there is the prospect of an additional 80 000 m^2 of space emerging from Hanekleiva, provided the developers secure suitable tenants. Furthermore, the market landscape is augmented by advertised spaces in developmental areas such as Gardermoen and Vestby Næringspark Øst, contributing to the total available listings.

Vacancy (Total listings) per October 2023



North Central West South Vestfold Østfold

Total Vacancy = 4.4 % | **Total listings = 7.4 %**

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 m^2 gross lettable area (GLA), with a total identified lot size of 25.9 million m^2.

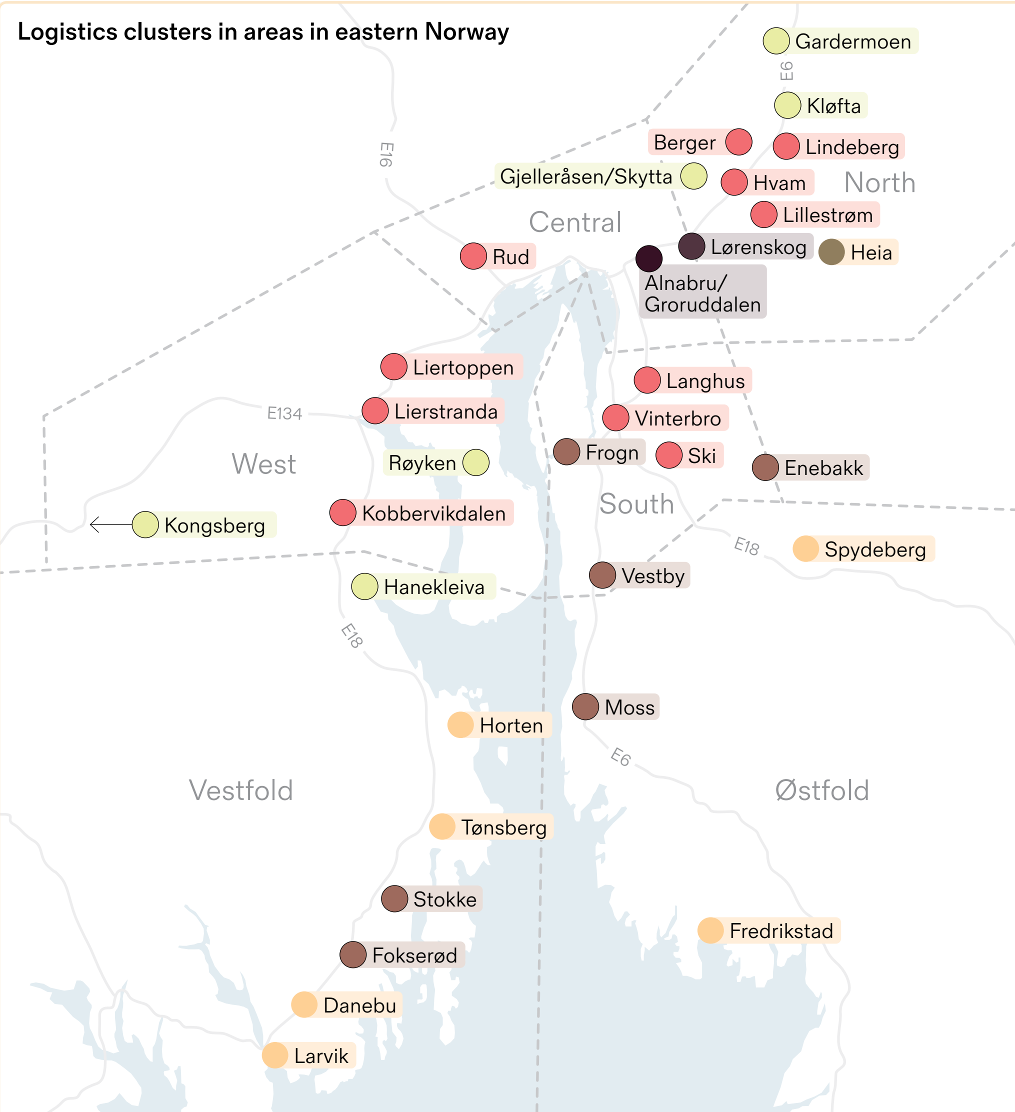
Source: Finn.no, Malling

Sharper regional disparities in rental rates pressure

Our leasing agents have reported a surge in activity and an influx of new tenant demands. In this assessment, we have opted to maintain nominal rental rates at a relatively stable level, with one notable exception – an additional upward adjustment of the top market rent by NOK 100 to 2 100 NOK/m²/year regardless of storage height, an attainable figure that we identified in the last mile logistics area of Alnabru/Groruddalen. The swiftness of service delivery, coupled with the area's high population density in Central Oslo, is a critical factor behind the substantial rental rates achievable in this locale, which has notably outpaced other attractive areas since our last market report.

The vigorous growth in rental prices within the industrial and logistics sector over recent years can be attributed in part to a situation where soaring demand has not been met with an equivalent increase in available properties. As vacancies begin to rise, particularly in specific regions, a discernible regional divide becomes apparent. Although we have refrained from making significant adjustments to our rental rates, we are receiving reports of mounting pressure on rental prices in the northern sector. With the exception of Gardermoen, where extensive land areas await development, there has been limited new construction activity just north of Oslo city centre. Some of this slowdown may be attributed to a lack of cooperation from local municipalities, a contrast to what we have observed in various other areas south of Oslo. In contrast, the western part of Oslo is experiencing a downward influence on rental prices, where tenants are presented with a greater range of choices, consequently strengthening their negotiating position with property owners.

Logistics clusters in areas in eastern Norway



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

Ceiling 4-6 metres (heated, high standard)	
● (dark purple)	1 700 – 2 100
● (red)	1 250 – 1 500
● (light green)	1 100 – 1 300
● (brown)	900 – 1 100
● (light orange)	850 – 1 000

Ceiling > 6 metres (heated, high standard)	
● (dark purple)	1 700 – 2 100
● (red)	1 350 – 1 600
● (light green)	1 200 – 1 400
● (brown)	950 – 1 150
● (light orange)	900 – 1 050

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

Diminishing prospects for coming newbuild projects

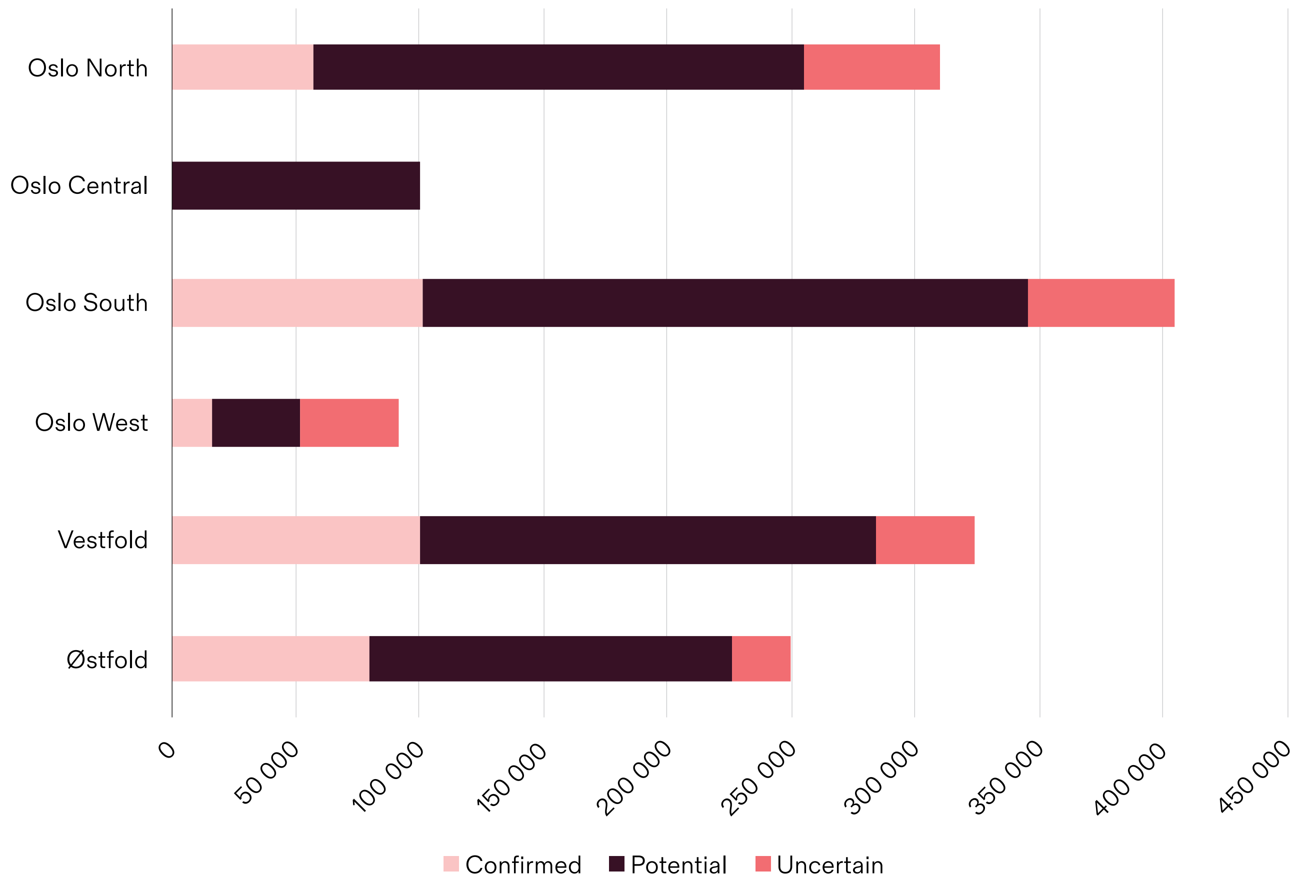
In a market that has long been characterised by low vacancy and limited new construction, several developers have seized the opportunity to acquire sizable land parcels for the development of state-of-the-art logistics facilities. Initiating new development projects means finding tenants willing to meet the rental levels required for the project to be financially viable. Long-awaited rental price growth has made such projects attractive, and we have witnessed several examples of this trend in recent years. However, escalating construction costs and more expensive financing have led to a decreasing number of confirmed project commencements in the years ahead.

Additionally, there are reports of a potential shortage of energy supply in Eastern Norway in the coming years, which may result in fewer energy-intensive new construction projects being initiated over the next 5-10 years. Development projects that are already in the pipeline or have secured a tenant are likely to proceed. However, obtaining approval for the construction of data centers and manufacturing facilities is anticipated to become significantly more challenging. The shortage of electricity may also impact the development of lighter industrial spaces.

In total, we anticipate approximately 350 000 m^2 of confirmed new logistics space to be added to Eastern Norway industrial market starting from the beginning of 2024. Approximately 100 000 m^2 of this will be located in both Vestfold and Oslo south, primarily a result of large-scale projects at Hanekleiva and Stokke/Borgeskogen in Vestfold, and Vestby, Frogn and Enebakk in Oslo South. North Oslo follows with 57 000 m^2, with ongoing projects in Gardermoen.

The volume we have categorised as 'potential' is substantial. These are pre-zoned plots awaiting prospective tenants. Even within this category, most activity is concentrated in North and South Oslo, aided by the presence of large, prepped plots at Gardermoen and Frogn Næringspark. Worth mentioning in Vestfold is Danebu, a substantial area with significant potential acreage that can be realised if the right tenant emerges. One challenge with the considerable portion categorised as 'potential' is that it may reduce the availability of what we classify as 'uncertain' – areas that have not yet been fully zoned and prepared, but which property developers have acquired with the intention of development for warehousing and logistics purposes. These land areas may lie further down the pipeline compared to fully prepared construction-ready spaces.

Industrial construction volume 2024-, m^2 per region, by probability of completion



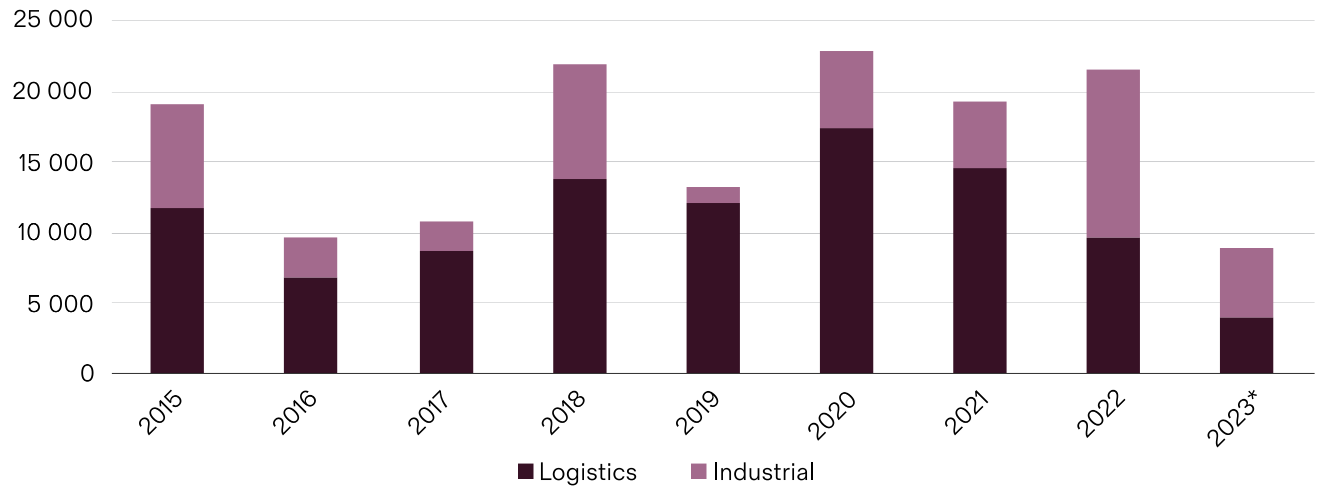
Source: Matrikkelen, Byggfakta, Malling

Industrial transaction activity at a standstill

Industrial transactions in 2023 as of October amount to approximately NOK 8.9 billion, spread across 39 deals. The volume is modest, and despite the traditionally busy Q4, it is unlikely to be enough to salvage what we are likely to summarise as a dreary year in terms of industrial property transactions. This share accounts for 21 % of the total volume, a figure roughly in line with what we have observed in recent years, indicating that industrial properties have not lost their appeal as investment targets relative to other segments within the commercial real estate market. This sentiment is agreed by the investor survey conducted by our international alliance partner, Savills, where urban logistics and big-box logistics are the most favoured segments in the survey. European and Middle Eastern investors expressed a desire to increase their exposure of 81 % and 72 %, respectively, over the next 12 months. Their appetite for acquisition is motivated by the growth of e-commerce and an increased demand for 'next day delivery' – factors that resonate in our market as well, making last-mile logistics an attractive segment for investors.

When we dissect the industrial segment into subcategories such as storage, combination, and production facilities, it's evident that the largest share of the transaction volume, totalling NOK 4.1 billion, is directed towards storage facilities. Combination facilities follow closely behind, amounting to NOK 3.1 billion, and it's within this subsegment that we observe the most transactions. The relatively limited number of transactions suggests that what is being sold often falls under the category of value-add properties, where with some strategic improvements, warehousing efficiency and supply chain effectiveness can be enhanced. Reports also suggest that the mentioned last-mile logistics properties are attractive, although we have yet to witness a significant number of such transactions.

Transaction volume development in NOK billion (transactions larger than NOK 50 million)



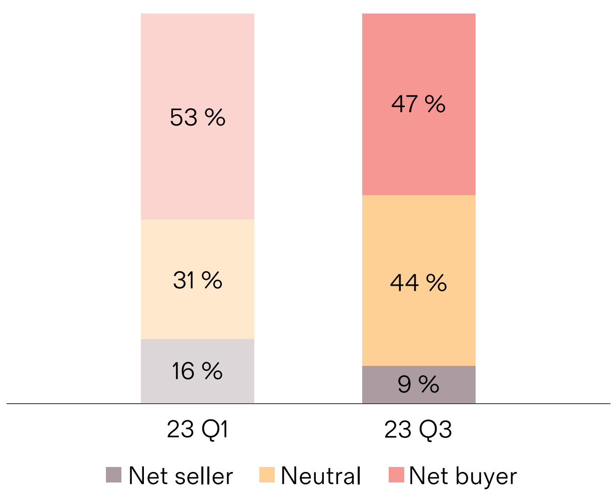
*As of October.

Source: Malling

Majority of investors no longer desire to increase their exposure to logistics properties

The results of our latest investor survey conducted in Q3 2023 reveal a decrease in net buyer exposure, which now stands at 47 %. This figure is slightly lower than the usual range of 50 % to 60 % that this category typically represents. Notably, it marks the lowest level we have recorded since the surge in interest in warehouse and logistics properties during the pandemic. While it does not constitute a drastic decline, it underscores an unfavourable trend and marks a significant drop from the peak level observed in Q3 2022 at 68 %. Meanwhile, the proportion of neutral positions has increased, mirroring trends in most segments of the commercial real estate market. The net seller percentage has declined from 16 % in Q1 2023 to a modest 9 % in the preceding quarter of Q3 2023. The lack of an increase in sellers entering the market is not particularly encouraging news for an already cautious transaction market.

Desired exposure towards logistics properties in the coming 12 months



Source: Malling Investor Yield and Sentiment Survey

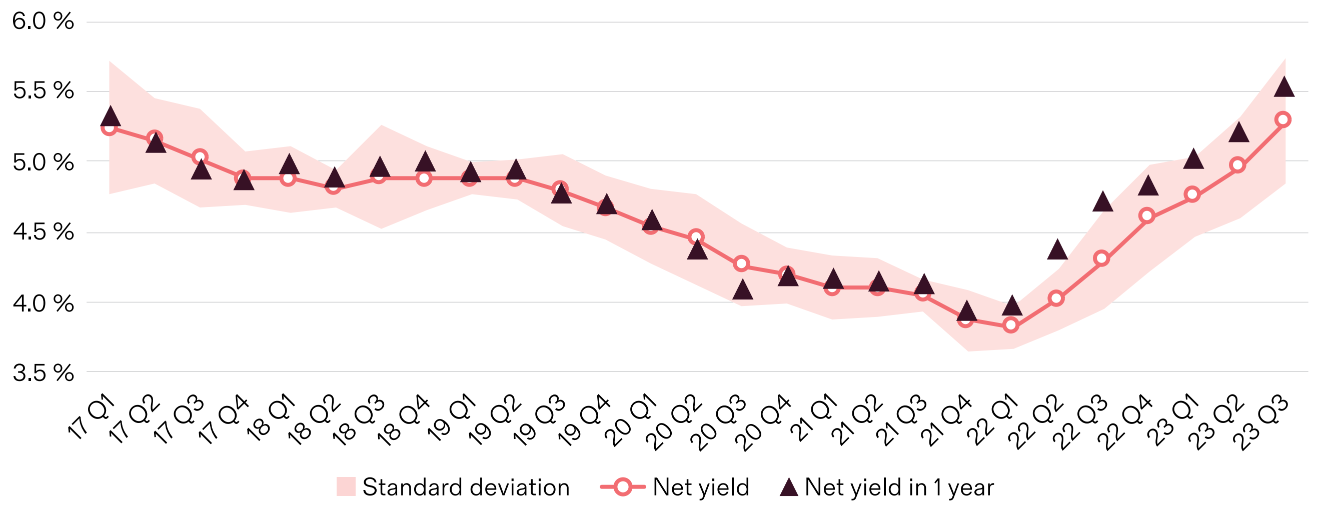
Logistics yields on the rise and set to continue upwards

Yields across various property segments continue their upward trajectory, and industrial properties are no exception. In our quarterly survey, we have inquired about investors' perceptions of yield levels for both prime and normal logistics properties since Q1 2017, and we are currently at some of the highest levels we have measured. In fact, for prime logistics, the yield stands at 5.30 % as of Q3 2023, making it the highest point recorded. Respondents in the survey believe that the yield peak has not yet been reached and anticipate a further 25 bps increase to 5.55 % one year from now. Given the continued indications from the Norwegian Central Bank regarding a higher interest rate peak, and considering the observed time lag in yield increases, there is no reason to deviate from the average sentiment of investors in the survey.

Similarly, normal yields are tracking the trends of prime-class properties, moving in an upward direction. For instance, the normal yield in Lier surpassed 6.00 % in Q3 2023, as per the investor survey, averaging at 6.10 %. However, while prime logistics properties have returned to the levels observed at the survey's launch in Q1 2017, there is still some way to go for normal yield properties in Kløfta, Lier, and Vestby. Consequently, the gap between prime and standard properties has narrowed, largely due to prime properties being aggressively priced during the pandemic, coinciding with the surge in e-commerce. Yet, the increased demand for warehousing and more automated processes appears to be a lasting structural shift that favours the resilience of logistics properties. Despite a robust leasing market and recent rent increases, it is inevitable, given the prevailing interest rate environment, that there will be a depreciation in the value of warehouse and logistics properties as well.

«Respondents in the survey believe that the [prime] yield peak has not yet been reached and anticipate further 25 bps increase to 5.55 % one year from now».

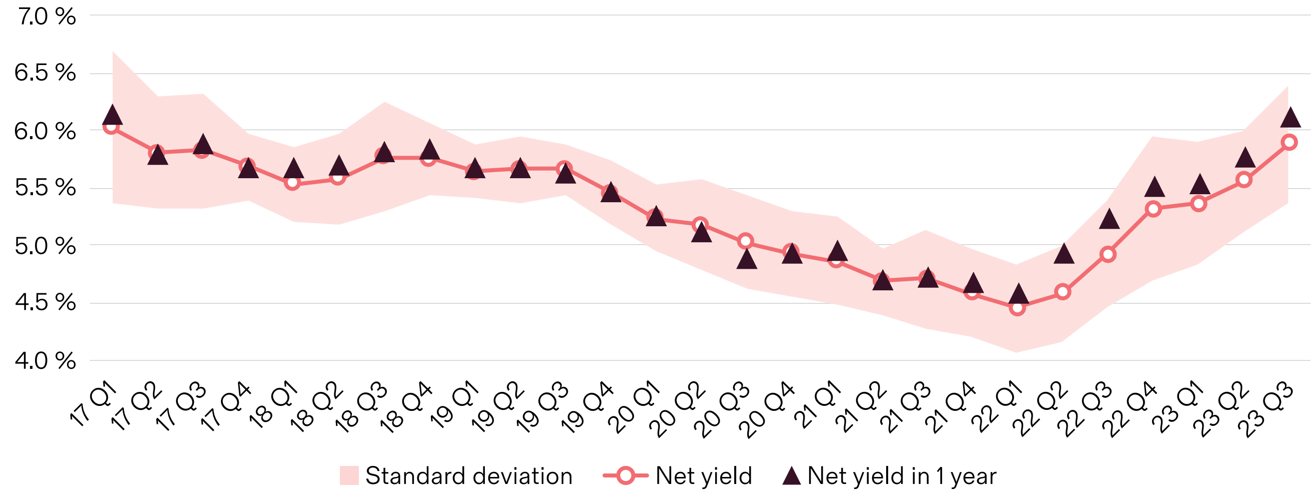
Prime logistics yield, Berger



Net yields on market rent.

Source: Malling Investor Yield & Sentiment Survey

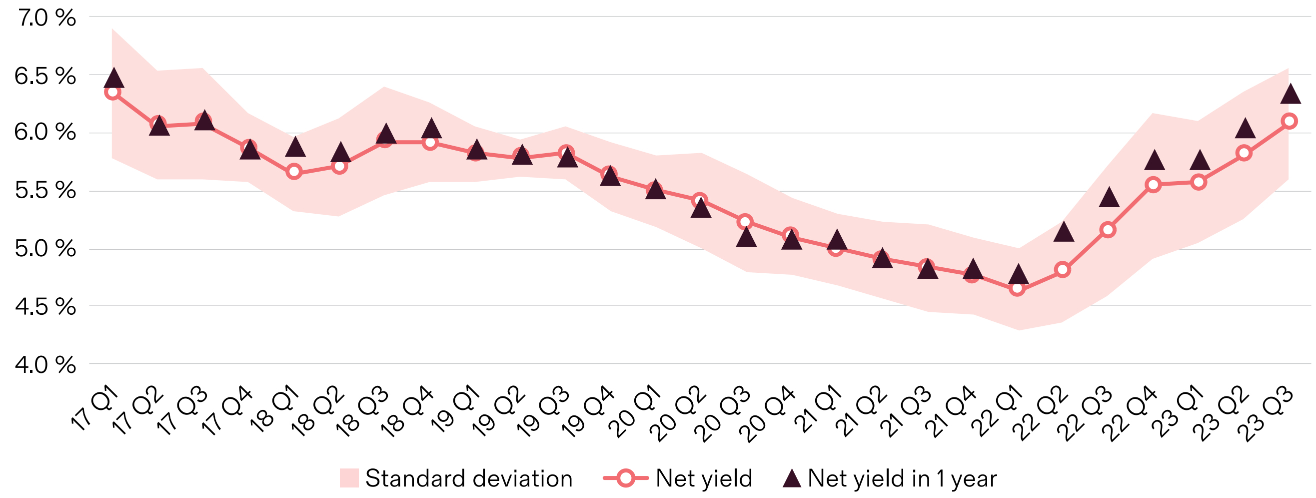
Normal yield – Kløfta



Net yields on market rent.

Source: Malling Investor Yield & Sentiment Survey

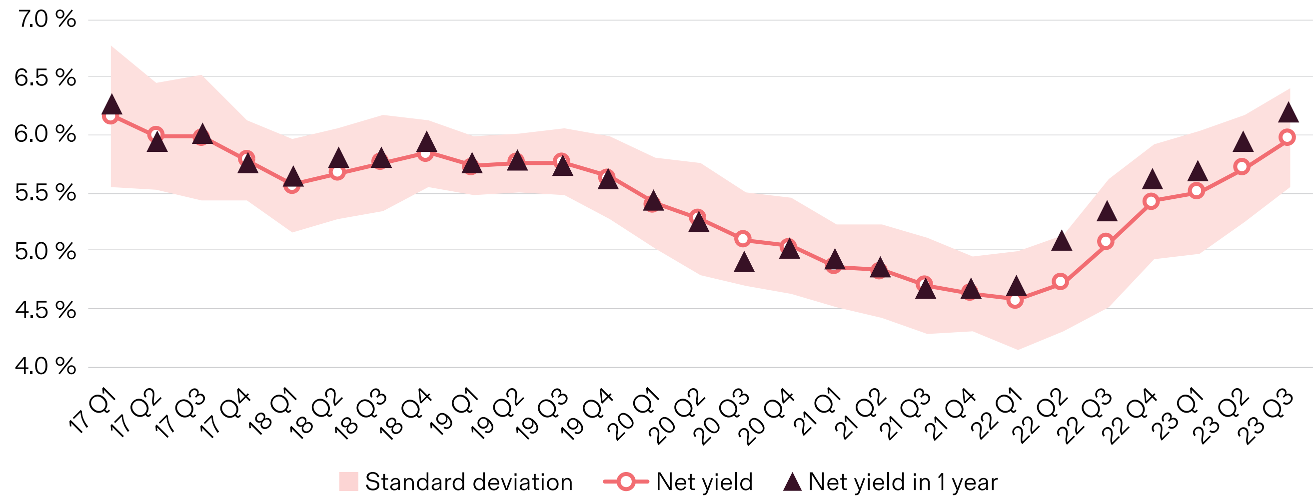
Normal yield – Lier



Net yields on market rent.

Source: Malling Investor Yield & Sentiment Survey

Normal yield – Vestby



Net yields on market rent.

Source: Malling Investor Yield & Sentiment Survey

Hagaløkkveien 28, Asker

Malling was the advisor when Aibel renegotiated the lease contract at Hagaløkkveien 28.

Kveldroveien 3, Ski

Malling advised Servi in the negotiation of approx 5 000 m^2 leased office and warehouse space in Kveldroveien 3, Ski.

Residential

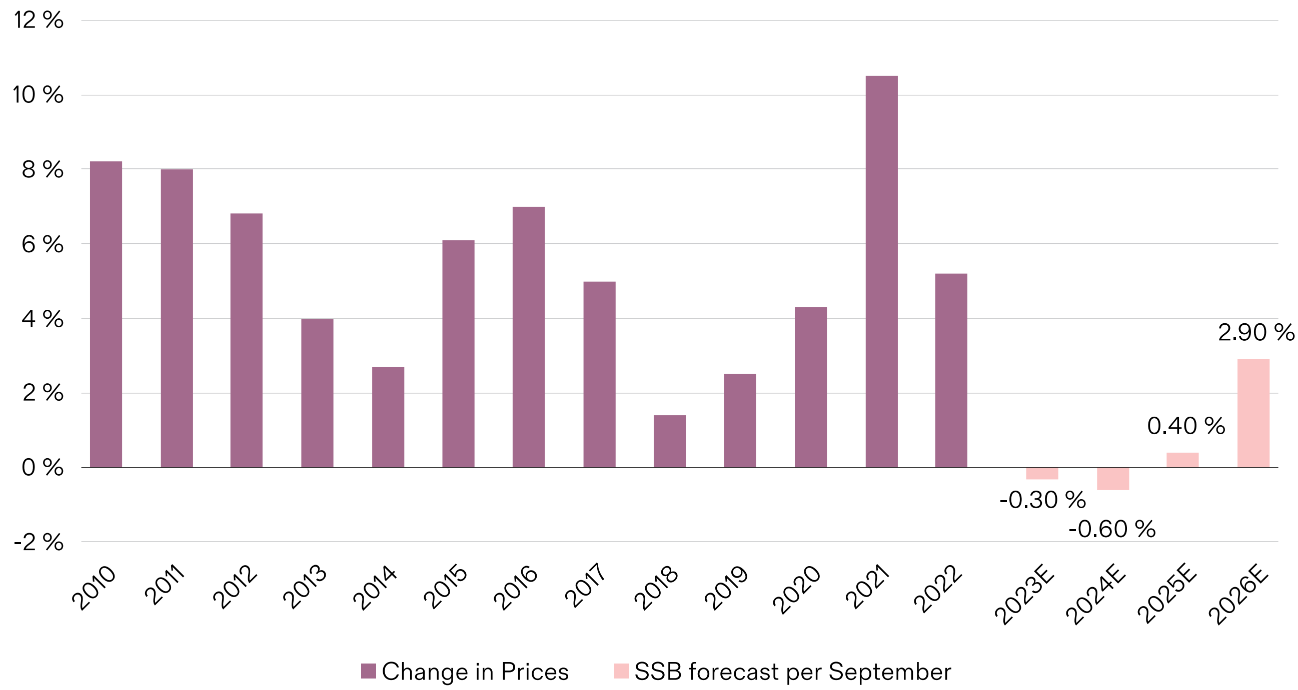
Resilient prices so far

After experiencing modest growth during the spring, house prices lived up to the weak expectations and fell during the summer. The Norwegian Central Bank and Statistics Norway (SSB) both forecast a decrease in average residential property prices in 2023 relative to 2022. The decrease did not materialise in the spring but began to take shape throughout the summer and thus far this autumn. The most recent projections indicate that prices will end the year with a nominal decrease.

Residential property in Norway

In the first part of 2023, the housing market did not perform as expected and presented a positive turnaround following a period of decline and pessimism during the second half of 2022. In SSB's March outlook, a decline in property prices was estimated of 2.8 % for the rest of 2023. Since then, property prices have performed stronger than expected and the estimated development for the remainder of 2023 has now been adjusted to a 0.3 % decrease. In addition, the estimate for 2024 has increased by 0.6 % due to the better than anticipated performance. This is a more optimistic outlook from SSB than we saw earlier this year when its March outlook estimated -1.3 %. The declining trend is expected to reverse in 2025, according to SSB, with a slight increase of 0.4 %, accelerating to 2.9 % in 2026. Furthermore, the Norwegian Central Bank anticipates a slight decline in house prices throughout the autumn, primarily due to higher lending rates and the surplus of unsold homes. Looking ahead to next year, the central bank expects limited growth in house prices, with a more significant uptick projected for 2025 and 2026. These forecasts are influenced by low housing construction activity and the expected stabilisation and eventual decline in mortgage interest rates. While the decline in nominal house prices is likely to be modest compared to previous downturns, the strong historical price growth suggests a considerable fall in the development of house prices, according to the central bank. Moreover, the number of unsold properties in Norway is increasing. As at 21 October, there are 19 800 unsold properties. For comparison, the number was 14 545 for the same date in 2022 and 10 793 in 2021, giving an increase of 36 % and 83 % to today's level. This could be because of higher uncertainty surrounding the interest rate path and myopic sellers waiting for a better market before listing their homes.

Historical and estimated change in housing prices, Norway, y/y

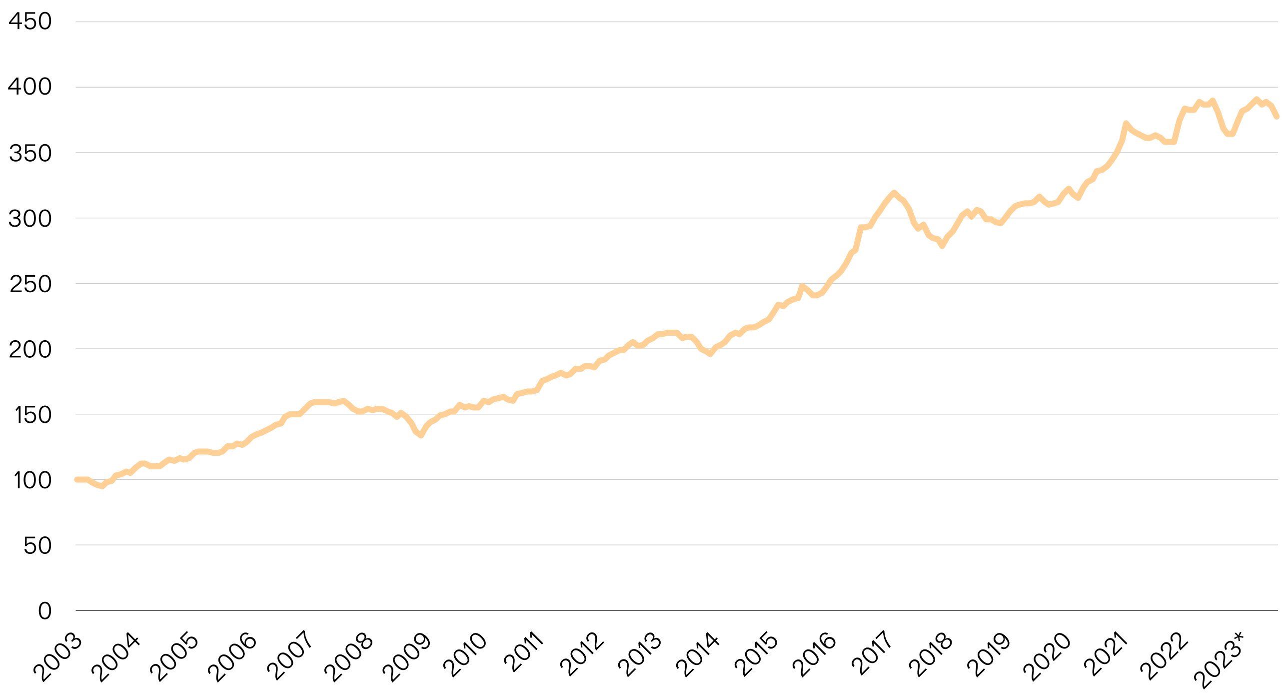


Source: Statistics Norway

Oslo

Residential property prices in Oslo have shown a gradual increase over the first half of 2023, but the 12-month change ended with a decrease of 0.72 %, in contrast to the 5.48 % increase observed from September 2021 to September 2022. Typically, residential property prices tend to rise during the initial months of the year, and 2023 was no exception. Prices surged by 7.30 % from the beginning of the year to May, only to reverse and decline by 3.35 % from May to September. It is expected that the remaining months of the year will see a continuous decline, as the impact of higher interest rates and higher cost of living continue to affect households. These effects are more pronounced in areas where both house prices and mortgages are higher, suggesting a potentially larger decline in Oslo compared to the rest of the nation. However, the relatively low level of new construction projects could partially counteract the price decline. Furthermore, the substantial increase in the number of rental units in Oslo, as elaborated upon in the following section, may indicate that homeowners are opting to wait for a more favourable market. There is a growing trend to sell prior to buying, thus reducing uncertainty in the process and giving sellers the option to hold onto their home in case demand and prices are less than expected. In the short term, changes in employment levels, combined with the upcoming interest rate decision from the Norwegian Central Bank, is expected to affect the Oslo residential market negatively.

Residential property prices in Oslo, nominal, Index (2003 = 100), monthly figures



*As at October.

Source: Eiendom Norge

The rental market

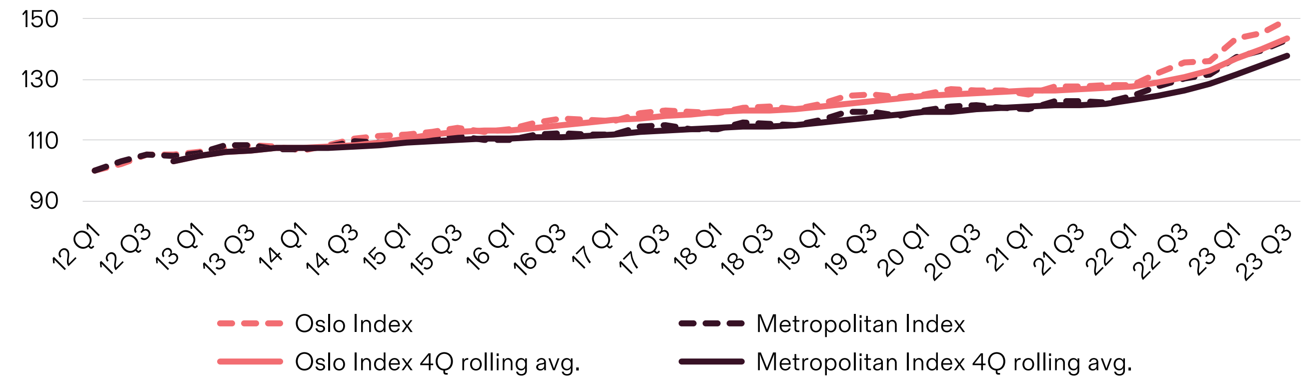
Throughout 2023, the housing rental market has gained increasing attention, particularly in the case of students and the challenges they faced finding accommodation at the start of the academic year. Oslo in particular, experienced the most substantial rental price hike, with a significant 10.5 % increase from July 2022 to 2023. Put into context, the increase in Bergen and Trondheim was 8.0 % for both cities while Stavanger saw an increase of 4.2 %. Even though a high CPI, which the landlords can use as a basis for adjusting their lease contracts, could explain some of the development in prices, there are contradictory aspects that are worth mentioning. In summary, the rental market in Oslo has various forces pulling prices in different directions. An increase in the population increases demand and, subsequently, rents. The supply of new housing units to Finn.no increases supply and, on the other hand, low levels of secondary homes decrease supply. These aspects of the rental market are elaborated upon below.

The population growth, along with an influx of refugees from Ukraine, contributed to the surge in rental prices. In the case of Oslo, the city witnessed a net migration of 4 688 in 2022. Notably, the 20-29 age group has been the primary driver of this migration, as is often the case. This demographic primarily comprises students and young professionals who tend to favour renting or saving up to become homeowners. In contrast, the 30-39 age group of experienced a net outflow of 2 562, reaffirming the trend of many young individuals relocating to Oslo before settling down or moving elsewhere. This trend may help explain why the average rent for 2-room apartments is approaching the average rent for 3-room apartments. The growth in the population could have impacted the rental price and combined with the age demographic, explain the difference in rent increases between the different types of apartments.

Interestingly, there have been reports of record low levels of secondary housing, indicating a diminished supply of rental units. Since Q3 2019, the number of secondary homes in Oslo has decreased by 7 226, corresponding to a 12.17 % decrease compared to the preceding 12 months. In contrast, when we compare this to the rest of the country, we see only a minor decline of 0.12 %. In the three largest cities, apart from Oslo, the change was 2.61 %, 4.97 % and -4.48 % for Bergen, Trondheim and Stavanger, respectively. Furthermore, the wealth tax on secondary homes has increased and it has become less attractive to acquire and retain these investments. Conversely, the removal of the equity requirement specific to the Oslo market should, theoretically, stimulate investments in secondary housing and rental units. Nevertheless, the increased cost of financing and inflated house prices have posed significant challenges in acquiring profitable rental properties, consequently reducing the demand for secondary homes.

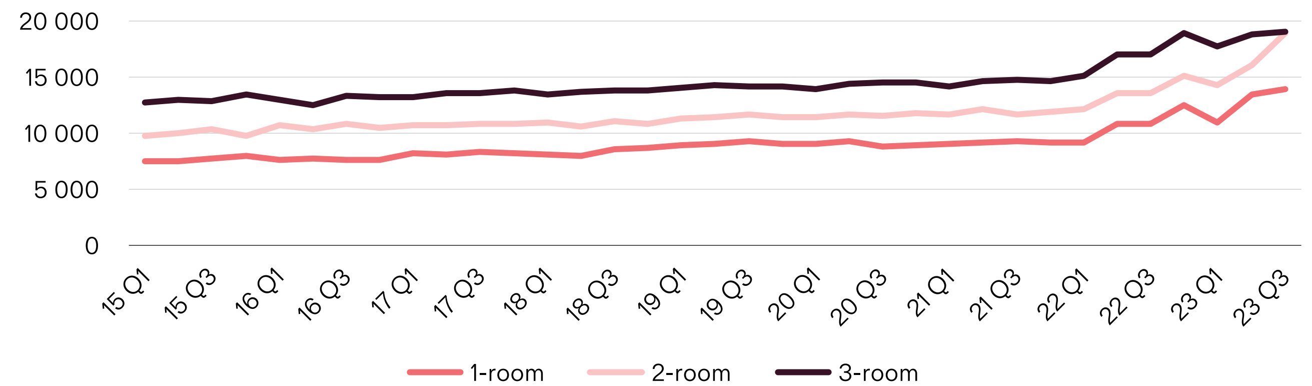
In contrast, data from Finn.no, the largest marketplace for real estate rentals in Norway, reveals a 44 % increase in the number of listed rental units, rising from 1 522 to 2 192 in the past 12 months. This surge can be attributed to a combination of factors. With the recent surge in rental prices receiving significant attention, individuals may now see opportunities to ease their financial burden resulting from increased mortgage payments. Also, the number of unsold properties, as mentioned in the previous section, is likely to affect the number of rental units available. If homeowners initially intend to sell but are unlikely to obtain their asking price or are unwilling to sell for less than their purchase price, it would be only natural for them to consider renting out their properties in the interim. Regardless of the reasons behind this uptick in rental units, it contradicts the effects of population growth and is likely to exert downward pressure on rental prices in the short term.

Development in rents, Oslo and Norway



Source: Eiendom Norge

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

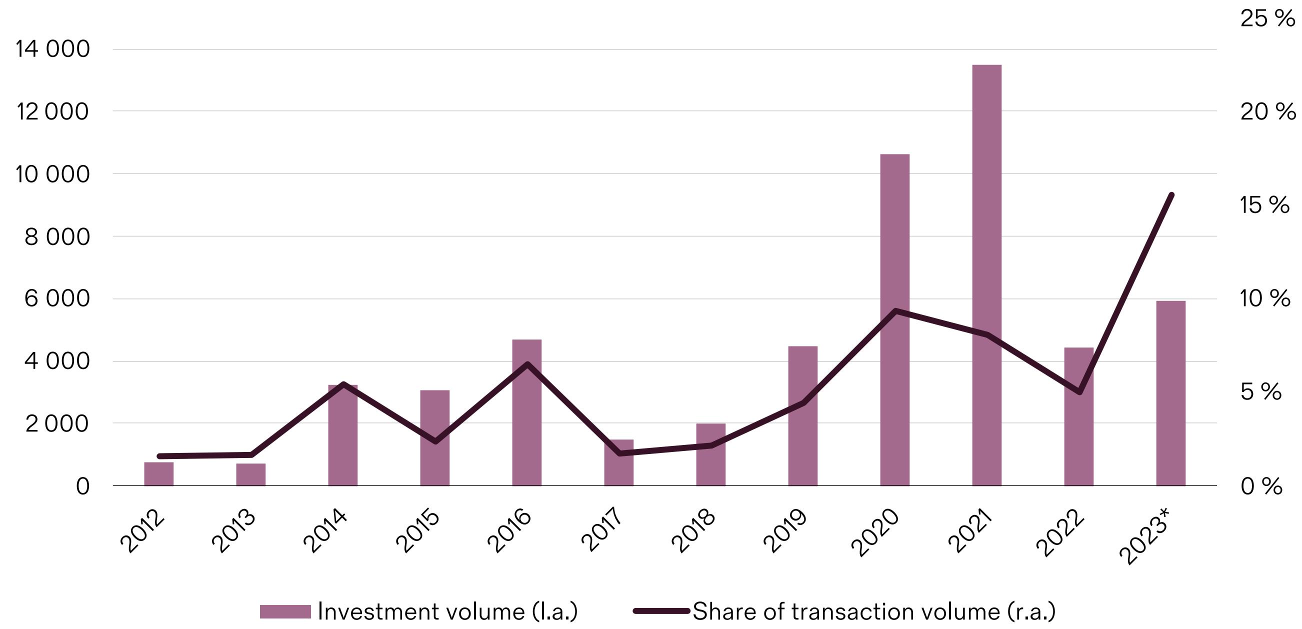


Source: Utleiemegleren, Finn.no, Malling

The investment market (above NOK 50 million)

The transaction market covered in this section refers to transactions of multifamily and residential development land valued at NOK 50 million and above. As of 30 October, the investment volume has surpassed last year's figures and now, at 21.5 %, constitutes a significantly larger proportion of the total transaction volume. Compared to last year, the share in terms of the total transaction volume was 5.0 %, representing an investment volume of NOK 4.5 billion. As of 30 October, the volume was approaching NOK 9.25 billion and is already the highest recorded volume the last decade, aside from the record years in 2020 and 2021. Since our summer market report, several noteworthy transactions have taken place in both multifamily and residential development properties. Recently, it became public that the municipality of Oslo has acquired a small portfolio of three apartment buildings in close proximity to the city centre. The properties consist of relatively large apartments and the total value of the acquisition was NOK 338 million. Moving from large apartments to the other end of the scale, Bo Coliving, a student accommodation company, has acquired Steinan Studentby from Fredensborg Bolig and Bolig Norge. This transaction, valued at NOK 111 million, marks the company's first acquisition since its change in ownership. This has broadened its portfolio by 102 apartments and is a step closer to its ambition of 10 000 student accommodation units by 2026.

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



*As of October.

Source: Malling

«As of October, the volume is approaching NOK 9.5 billion and is already the highest recorded volume the last decade, aside from the record years in 2020 and 2021».

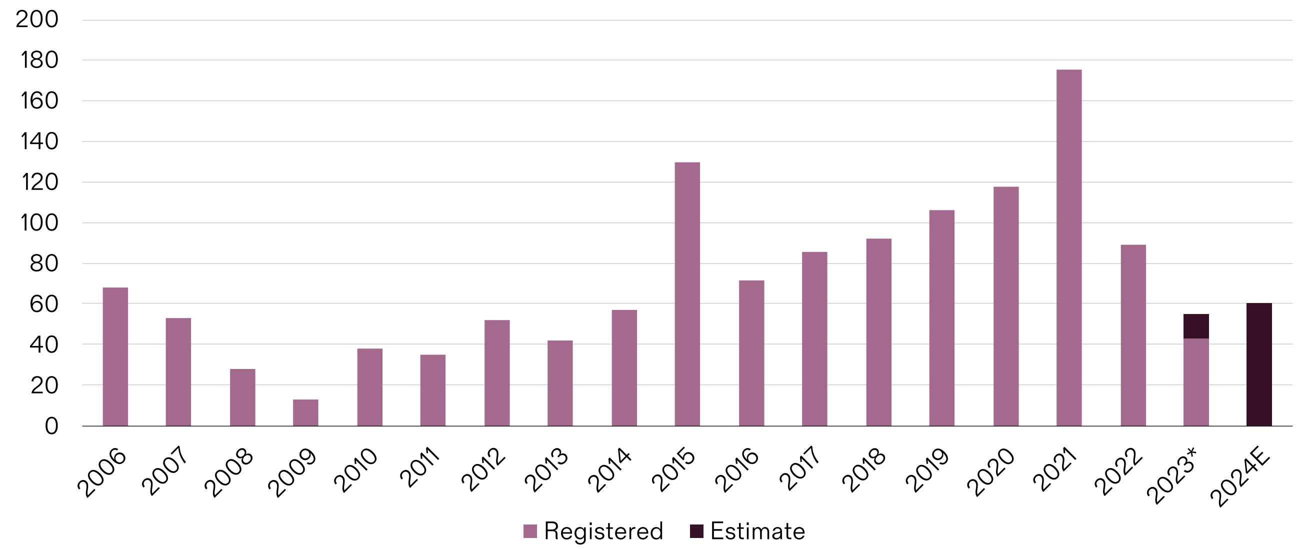
The investment market

A persisting, eerie quiet

In the current investment situation, the market is reflecting a significant degree of restraint, driven by the careful consideration among investors of the economic uncertainties. This complex backdrop has allowed for a deeper analysis of investment trends and market developments, especially given the significant changes in the interest rate landscape and the subsequent implications for real estate investments. Forecasts for Norwegian interest rates have surpassed previous estimates by a long way, and the persistent rise in the yield curve has created underlying concerns among market participants. This concern has manifested itself in an increasing level of volatility in interest rates, where moments of bid acceptance are followed by rapid rate hikes, often leading to withdrawals from previously agreed-upon deals. A key observation is the marked difference in valuations between buyers and sellers, directly slowing transaction activity. Value-add properties and development properties have been at the centre of transactions, along with a continued interest in multifamily buildings and residential portfolios. This dynamic underscores the need for investors to adapt to a changing investment landscape and identify areas with potential for value creation. As a consequence of these factors, the transaction process has been characterised by increasing uncertainty and risk, especially in the phase from bid acceptance to completion. Investors, in an attempt to manage this uncertainty, have displayed an increased degree of caution. This heightened risk aversion has also been evident in the banking sector, which has responded by tightening lending conditions, creating challenges for those seeking finance. The increased interest rates have also exacerbated the challenges for borrowers, and there have already been cases of distressed sales. This phenomenon, combined with instances where syndicates have accepted bids but failed to secure sufficient participation from investors, illustrates the complex challenges in today's real estate investment environment.

A closer analysis of the transaction volume, which as of October amounts to NOK 42.9 billion, reveals a significant decline of over 40 % compared to the same period in 2022 when the volume was NOK 72.3 billion. This marked change has led to a revision of market forecasts in the summer months, with an estimate of NOK 55 billion in 2023, which continuously reflects the prevailing market dynamics. This complex investment dynamic indicates a transitional period in the real estate sector, where investors are navigating cautiously through a challenging economic landscape characterised by increased complexity and uncertainty. Strategic positioning and careful risk management will be crucial for the sector. For 2024, we expect that activity will not see a substantial uptick, and our estimate for 2024 is NOK 60 billion.

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



*As of October 2023.

Source: Malling

«For 2024, we expect that activity will not see a substantial uptick».

Higher for longer means quiet for longer

As the interest rate outlook remains at an increasingly higher level, the focus for most investors has shifted from when they will see low interest rates to how long they will have to bear the burden of high interest rates. The latest movements from the central banks suggest a nuanced trajectory for rates, which implies they have reached or are close to peak levels, while the consequences of a higher for longer scenario regarding availability and terms of credit sink in. The optimism shown by some investors as we near the peak of the current interest rate cycle is, in our view, overshadowed by the events in October that saw the US 10-Year Treasury yield briefly hit the 5 % mark, a movement influenced in part by speculative activity. In Norway, with the key policy rate at 4.25 % and inflation appearing to be stabilising, the indications are that we may be approaching the zenith of the policy rate. However, the landscape is not devoid of upward pressures; wage growth coupled with a softening NOK has a firm grip on any hopes that rates will come down quickly. As such, we must emphasise that there is a high probability of a further 25 bps hike in the policy rate come December 2023, and the possibility of one additional adjustment in 2024 is still on the table. Our main scenario is an interest rate environment hovering at these elevated levels for an extended period before any potential retreat.

This enduring high-rate phase is having tangible repercussions for CRE credit availability. The cost of borrowing is just the tip of the iceberg; the undercurrents of loan terms are equally pivotal. Banks, having adopted a conservative stance, are recalibrating their risk thresholds. This recalibration is manifesting in increased margins to buffer the risk, more stringent loan-to-value (LTV) ratios, and in some instances, a curtailing of credit offerings. For investors navigating refinancing options, this climate presents a dual challenge, i.e. surmounting the steeper costs of debt coupled with constricted lending terms. The trend is palpable; MSCI is indicating a contraction in average LTVs within the CRE sector, echoing a broader tightening of credit conditions preceding the latest economic uncertainties, which have elevated key policy rates and risk aversion. Focusing on sustaining and developing cash flows is key to maintaining good relations with the banking providers.

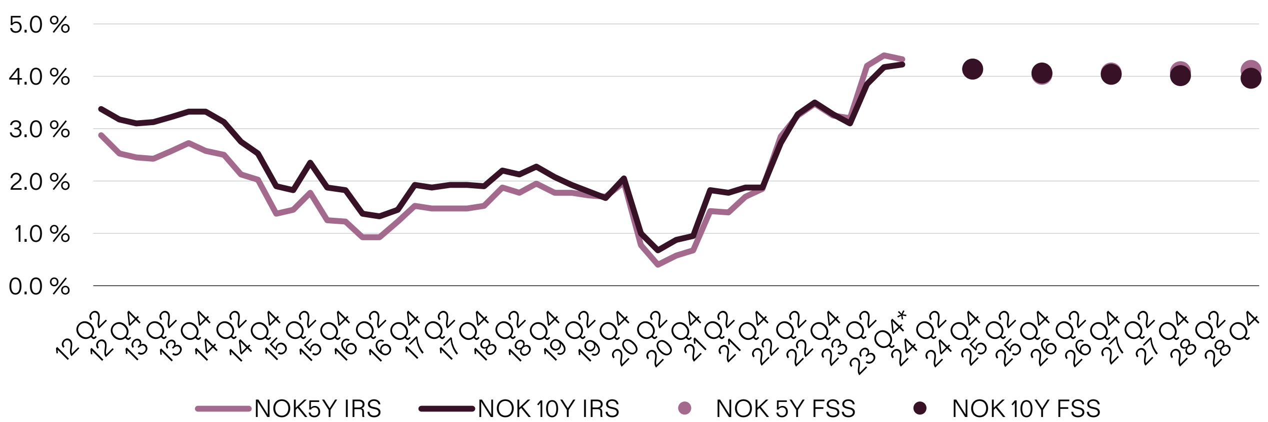
Currently, NOK 5Y Interest Rate Swaps (IRS) are sitting at 4.35 %, an increase of approximately 85 bps since our last report before the summer, and roughly 400 bps over the past three years. NOK 5Y Forward Starting Swaps (FSS) have also seen a decrement from today's levels, now hovering at around a flat 4.15 % from one year to five years out, suggesting that the market is anticipating a slight downward interest rate adjustment in the longer run, yet at elevated levels inconceivable by most just a couple of years ago. This is corroborated by the NOK 10Y FSS, which is positioned right around the same level and dipping below 4.00 % for periods beyond five years.

Amid these shifts, bank margins have shown relative stability, which has, in effect, realigned the all-in financing cost to more than 6.50 % for new CRE loans. This level alone, however, does not necessarily translate directly to levels that can be benchmarked against loans older than 12 months, due to the tightening of LTV ratios and loan duration.

Bond financing, particularly for single Special Purpose Vehicles (SPVs), remains subdued, flagging the risk of a potential crunch, as a significant volume of bond-financed projects approach their refinancing horizon. The current market's appetite for bond financing has diminished, leaving a substantial portfolio of projects in urgent need of alternative funding solutions. In 2023, the CRE sector has seen the refinancing requirements topple several notable CRE projects as many of the outstanding bonds due for maturity have been difficult to refinance under current market conditions. The undertow is looming for a series of bonds due for maturity in 2024, totalling NOK 6.6 billion, which is set to sweep several CRE projects off their feet and into default.

In sum, while there are indicators of a maturing interest rate cycle, the CRE investment landscape remains mired in a complex interplay of rate dynamics and credit market conservatism. Investors are advised to remain vigilant, strategise with foresight, and prepare for an operating environment that continues to value liquidity and fiscal prudence. The liquidity of the investment market will continue to be subdued until well into summer 2024.

NOK 5Y and 10Y IRS and FFS



*2023 Q4 as at 30 October.

Source: Thomson Reuters

Regional overview and changes in segment shares

Our regional overview indicates that the share of commercial properties traded in Greater Oslo has slightly decreased to 48 % compared to the 62 % level reported in the May report. Levels in other cities have remained relatively stable. As yields have increased in line with interest rates, typical yield properties have been less attractive than before. Investors have therefore shifted their focus towards properties with development potential. This particularly involves plots of land, but there has also been an increase in the share of traded buildings and residential projects. As at 30 October, the share of land and residential properties out of the total volume is 11 % and 15 %, respectively, reaching record-high levels for these segments.

Syndicates are the investor type that typically show the most interest in purchasing, and they usually account for substantial portions of the purchase volume. As the process of raising capital has become more challenging, the share of the total volume purchased by syndicates has naturally decreased. So far this year, the share is 12 %, significantly lower than levels in recent years. By comparison, the syndicate's share was 22 %, 20 % and 26 % in 2022, 2021 and 2020, respectively. Professional real estate companies have been the most active on the buying front this year, accounting for a share of 44 %. It is suggested that several foreign private equity funds are ready with capital and eager to buy if the anticipated situation arises where property owners are compelled to sell distressed assets.

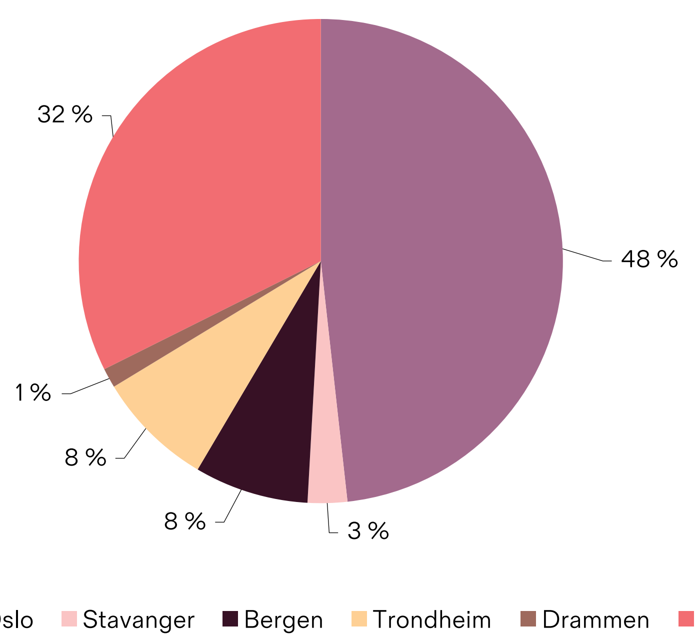
Prime yield (net) in Norway

City	Prime yield (office)	△ from last report
Oslo	4.50 %	▲ +50 bps
Stavanger	5.50 %	▲ +50 bps
Bergen*	5.25 %	▲ +75 bps
Trondheim**	5.25 %	▲ +25 bps
Drammen	5.60 %	▲ +60 bps

*WPS Næringsmegling **Norion Næringsmegling. Source: Malling

«Investors have shifted their focus towards properties with development potential».

Regional split of the transaction market 2023* by volume



*As at 30 October. Source: Malling

Heading towards the lowest global investment volume in a decade

The total global investment level as of Q3 2023 is just over USD 500 billion, making it the lowest volume overall in the first three quarters of a year in the past decade. Comparing the first three quarters of 2023 with the corresponding period in 2022 shows a decline of 49 % in total volume. When compared to the five-year pre-pandemic average for the first three quarters (2015-2019), the decrease is 34 %. The same underlying drivers that we have observed in Norway also impact investor sentiment among foreign investors.

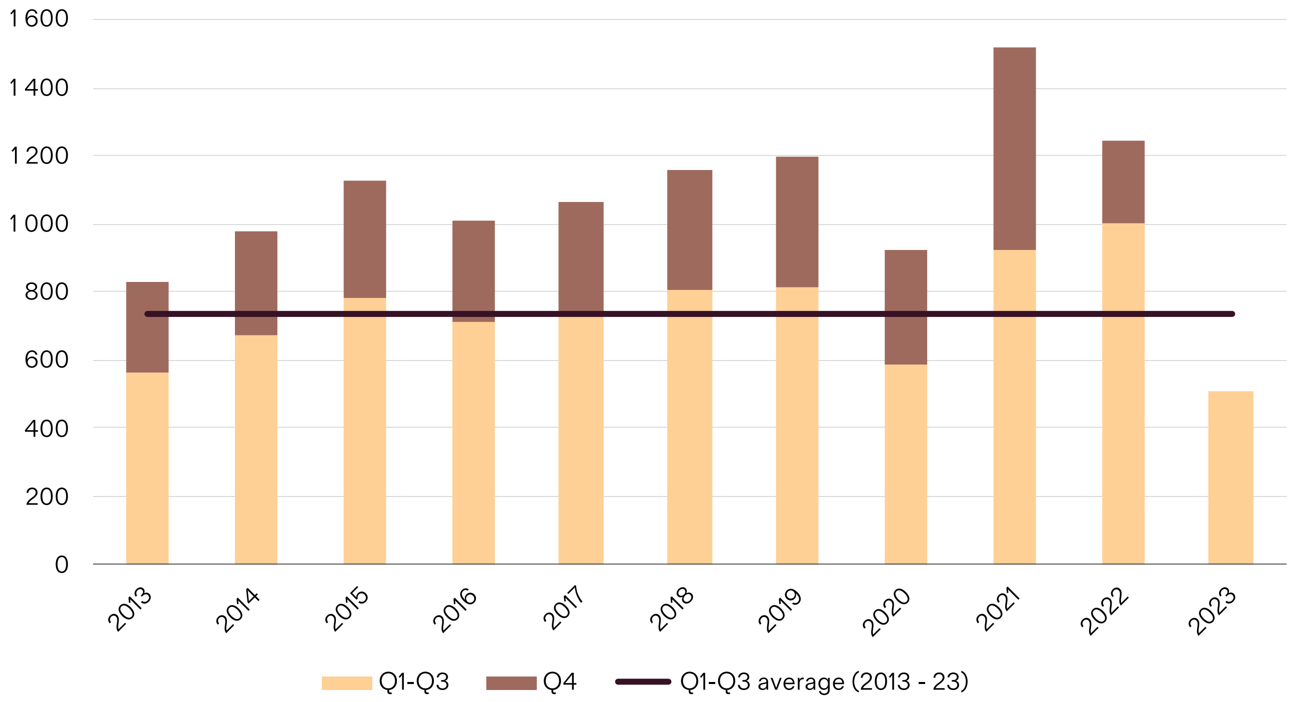
Breaking global investment volumes down by segments shows that every segment has declined from the first three quarters of 2023 compared to the first three quarters of 2022. Residential saw the largest decline, falling by 60 %, offices by 58 %. Retail experienced the smallest decline, falling 39 %. Global cross border-volume was record low in Q3 2023, falling by 67 % since Q3 2022.

Prime yield (net) in Europe

City	Prime yield (office)	∆ from last report
Stockholm	4.00 %	▲ +75 bps
Munich	4.00 %	▲ +40 bps
Paris	4.00 %	▲ +25 bps
Copenhagen	4.00 %	▲ +25 bps
Amsterdam	4.40 %	▲ +50 bps
Milan	4.00 %	+0 bps
London	4.00 %	+0 bps
Oslo	**4.50 %**	▲ +50 bps

Source: Savills, Malling

Total global real estate volume, USD billion



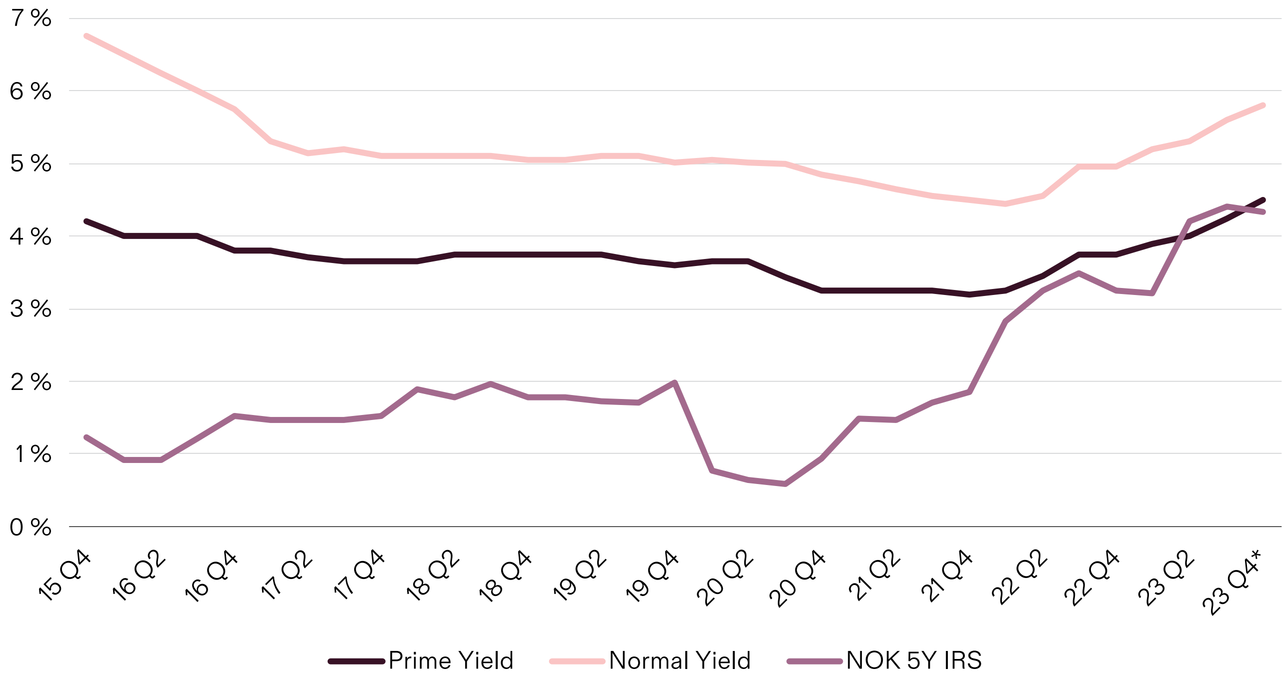
Source: Savills

«Every segment has declined from the first three quarters of 2023 compared to the first three quarters of 2022».

Yields are sitting on the shoulder preparing for the ascent to the summit

As interest rates seemed to have plateaued and fallen slightly at the time of writing our last report before the summer, it was felt by many that the upward pressure on yields had subsided. But we did warn about the pending yield and that there was more to come. As interest rates took off again over the summer, so the pressure on yields continued its relentless upward trajectory. Our prime yield estimate is currently sitting at 4.50 %, but there is still some upside left before the peak for this cycle is reached sometime before summer 2024. Our main scenario is an increase of between 25 and 40 bps, i.e. between 4.75 and 4.90 %. The spread in our estimate stems from uncertainty surrounding the interest rate peak and how long it will stay there before receding slightly, as well as what any financial turmoil from distressed assets may mean in the way of yield premiums above a mathematical yield/interest equilibrium. NOK 5Y FFS outlooks along with current NOK 5Y IRS are already portraying a negative yield gap of roughly -15 bps, then potentially increasing to between -60 and -75 bps. As we are now seeing yields increase, we are also seeing the spread between prime and normal yields widening. However, the spread is lower than expected at this stage in the cycle, as the normal office yield is around 5.80 %. The spread between prime and normal is roughly 130 bps, more than 30 bps lower than the average spread in the period from 2015 to the beginning of the pandemic. With the current outlook we would have expected the spread to be higher already, closer to the peak spread of somewhere between 200 and 250 bps over the same period. We believe this spread will become evident as we move into Q1 and Q2 of 2024. Our prime logistics view is currently at 5.30 %, and our prime high street retail estimate is 5.05 %. An additional risk for the yield levels is the risk of a weaker leasing market. This may play out differently among different segments, but we believe this will be a key driver behind an increase in the yield spread between prime and normal objects.

Yield development



*As at 30 October.

Source: Thomson Reuters, Malling

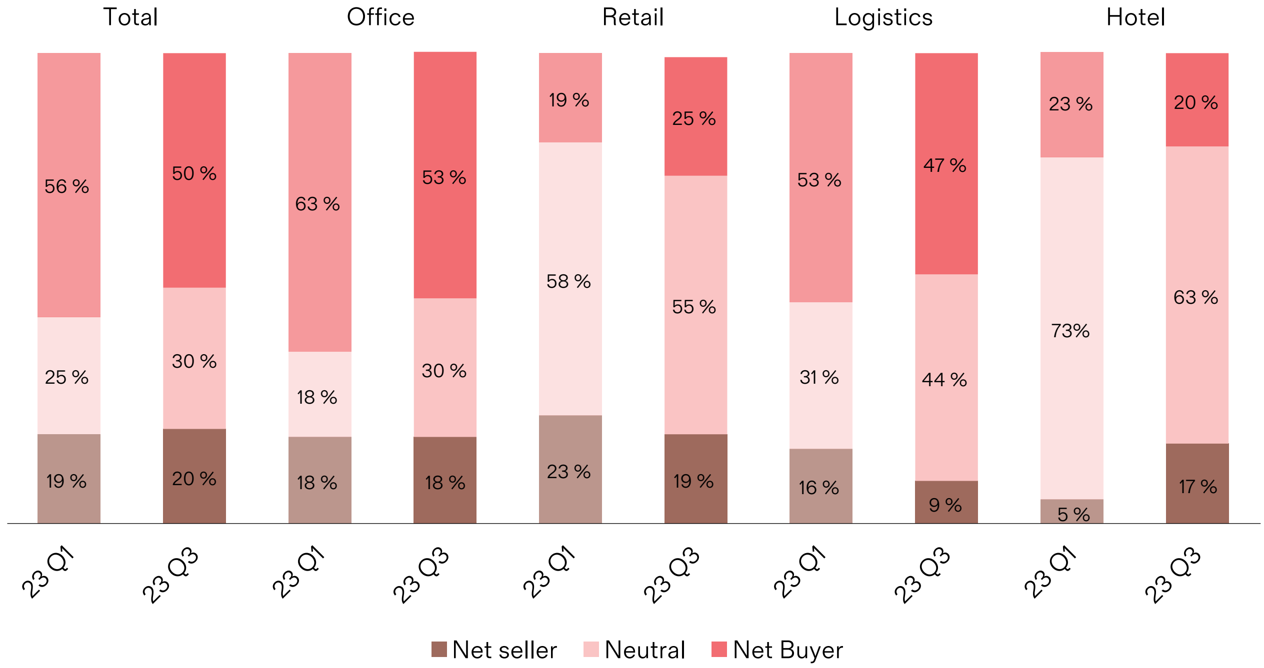
«Our prime yield estimate is currently sitting at 4.50 %, but there is still some upside left before the peak for this cycle is reached sometime before summer 2024».

Investor sentiment and yield development

Our latest survey from Q3 2023 (the survey period concluded on Friday, 29 September) on investors' yield expectations and investment intentions reveals a significant decrease in demand for commercial real estate. The percentage of investors intending to be net buyers of commercial real estate in the next 12 months has declined with rising yields, down by 7 pp from Q2 2023 to 50 %. Looking back 12 months, net buyers have decreased by a substantial 30 pp. The percentage of investors intending to be net sellers in the next 12 months has increased proportionally and now stands at 20 %. This is the highest recorded since the start of the survey in Q1 2017, and it represents an increase of 1 pp from the previous quarter's peak. The growing interest in being a net seller, coupled with the aforementioned financing conditions, is seen as a contributing factor to the anticipated increase in yields in the future, as the supply-demand balance shifts. If we filter out syndicates, which are essentially mandated net buyers, the overall picture changes. In this case, there is a larger proportion of net sellers than net buyers, at 35 % and 30 %, respectively, while 35 % remain neutral.

Prime office CBD is currently estimated at 4.50 %, up by 35 bps from the previous quarter and a significant increase of 130 bps from the lowest level of 3.20 % in Q4 2021. The 12-month outlook also increases quarter by quarter, with the latest estimate from the survey up by 15 new bps from the current level, a total increase of 35 bps over the previous quarter's 12-month outlook, at 4.30 %. Uncertainty regarding yields is at a record high, with a standard deviation of 0.28, the highest measured for prime office CBD. Prime office yield in fringe areas is also increasing both at Helsfyr and Lysaker, standing at 5.30 % and 5.35 %, respectively, which is a significant increase from the previous quarter when both were at 4.95 %. Investors' 12-month outlook here increases by 40 and 30 bps to 5.55 % and 5.50 %. Normal office yield also increases in both fringe areas, reaching a level of 5.80 % this month. Although specific observations are currently limited, there is no significant deviation from our own house view and the findings of our investment survey. However, concrete evidence is hard to come by, as most transactions we have monitored in the last six months have had a significant value-adding potential. Nonetheless, we have seen some cases that deviate both from the estimated prime yield in the survey and our own estimates, surprisingly falling at the lower end of the scale. While there is uncertainty about when we will see the peak yield, we expect opportunities to arise for investors who currently hold substantial capital. This is because more distressed sales are expected, coupled with a reduced number of buyers compared to when the market was at its peak.

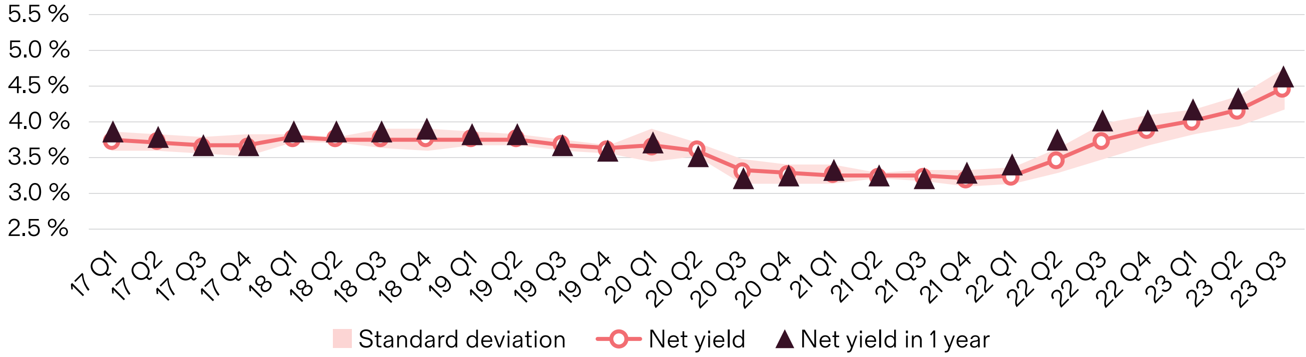
Desired exposure towards commercial real estate next 12 months



Source: Malling Investor Yield and Sentiment Survey

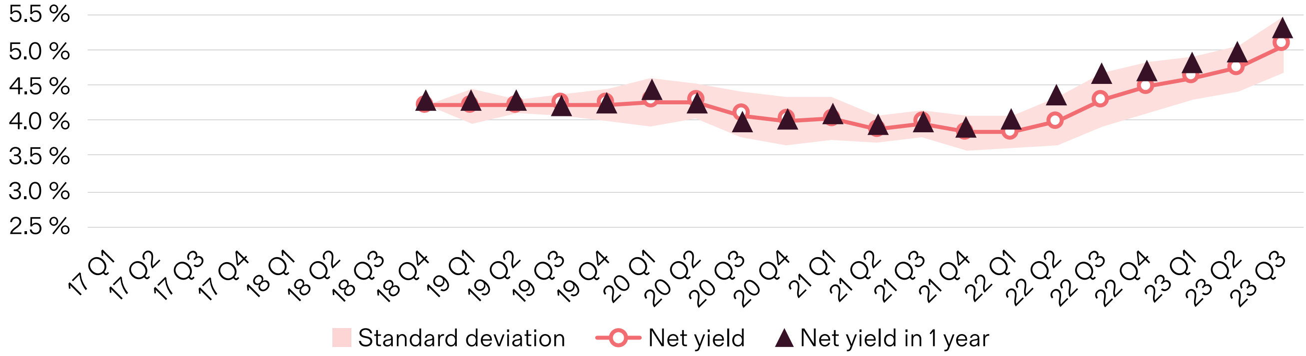
Disclaimer: All graphs on page 89, 90 and 91 are results from the quarterly investor survey, and do not necessarily reflect the official views of Malling Research and Valuation.

Prime office yield, CBD



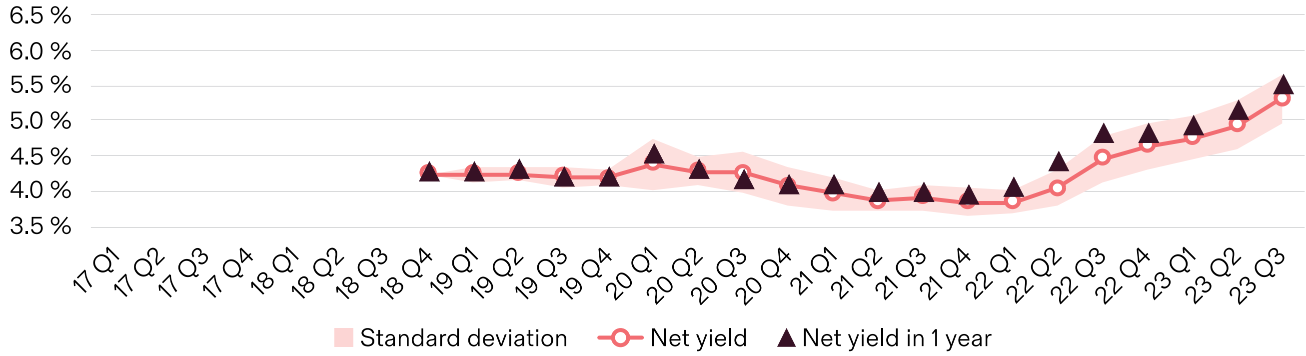
Net yields on market rent. Source: Malling Investor Yield and Sentiment Survey

Normal office yield, CBD



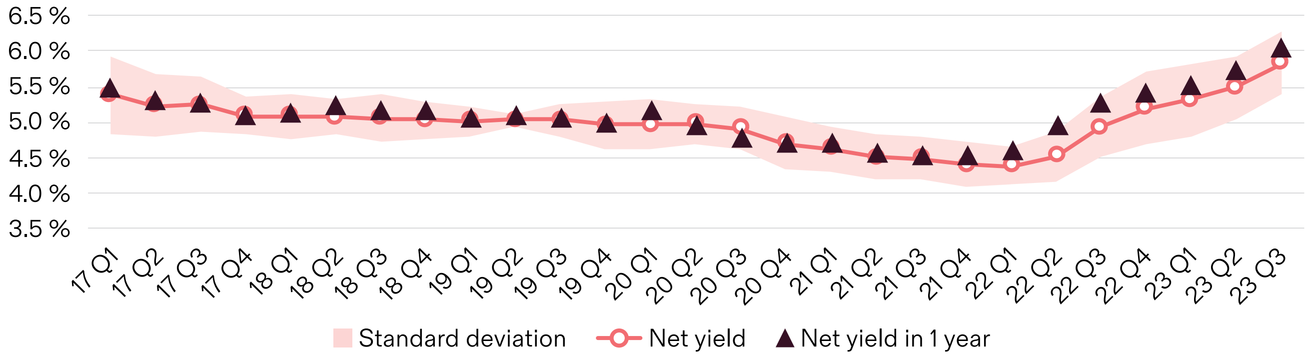
Net yields on market rent. Source: Malling Investor Yield and Sentiment Survey

Prime office yield, Helsfyr



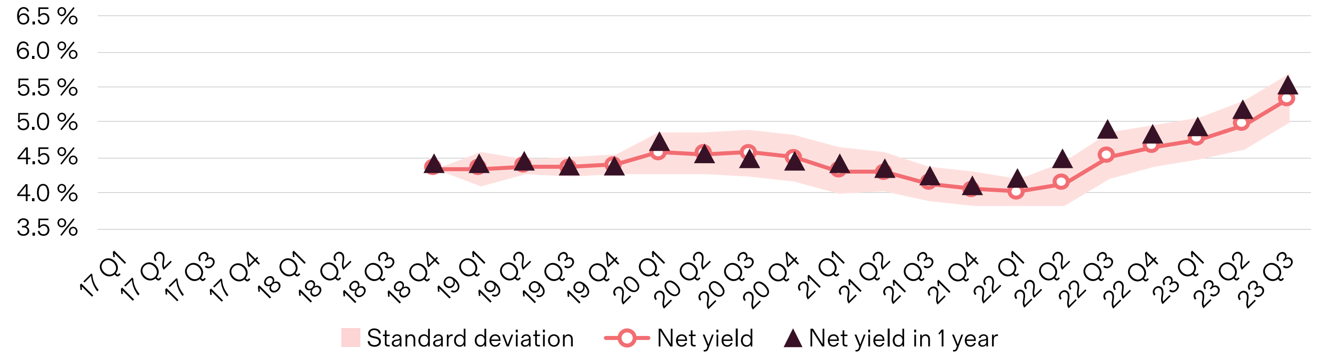
Net yields on market rent. Source: Malling Investor Yield and Sentiment Survey

Normal office yield, Helsfyr



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

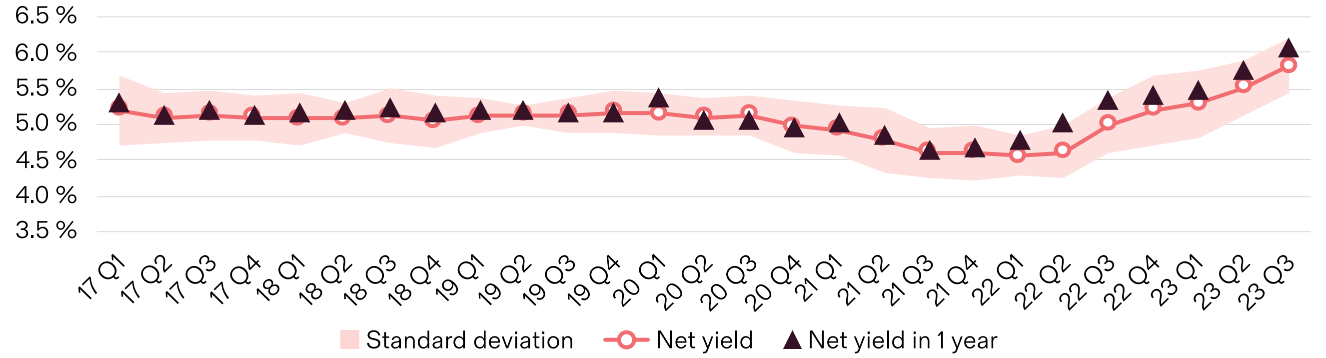
Prime office yield, Lysaker



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

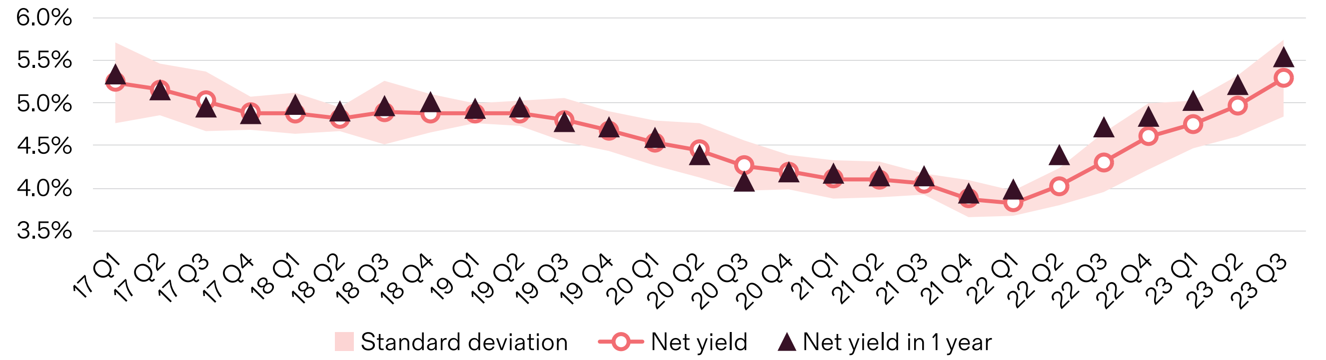
Normal office yield, Lysaker



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

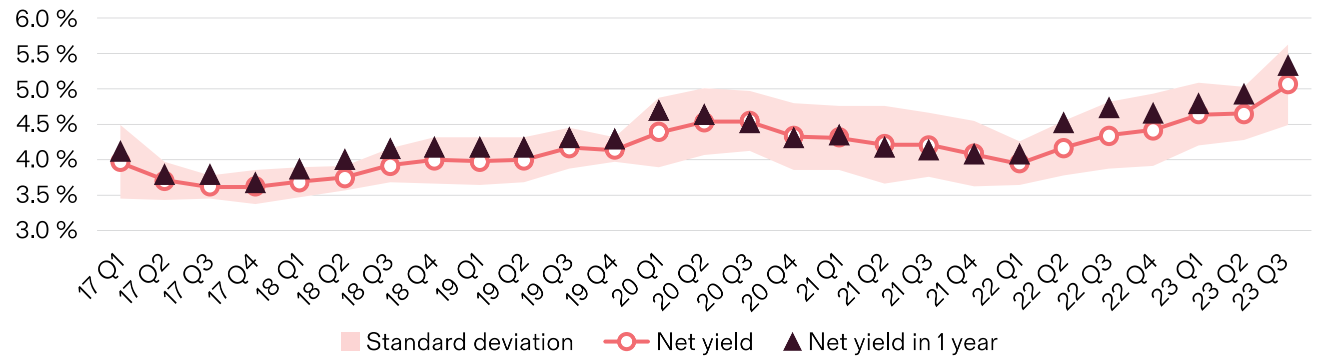
Prime logistics yield, Berger



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

Prime retail high street yield, Egertorget



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

About Malling

Established in 1964, Malling 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.

Malling Research and Valuation

Research

Haakon Ødegaard
Partner/Head of Research MRICS/REV
M: + 47 938 14 645
E: ho@malling.no

Herman Følling Ness
Partner/Senior Manager
M: + 47 995 44 488
E: hn@malling.no

Mona Killingland
Analyst
M: + 47 478 92 560
E: moki@malling.no

Simen Hotvedt
Analyst
M: + 47 924 98 697
E: sh@malling.no

Magnus Myre Mikalsen
Junior Analyst
M: + 47 994 45 111
E: mmm@malling.no

Marius Bull Karlsen
Junior Analyst
M: + 47 948 98 698
E: mbk@malling.no

Helene Kjeldaas
Assistant Analyst
M: + 47 412 00 022
E: hlk@malling.no

Business Intelligence

Stian Røstgård
BI Developer
M: + 47 962 38 841
E: sabr@malling.no

Nuno Trigo
BI Developer
M: + 47 900 45 276
E: nuno@malling.no

Valuation

Andreas Staubo Boasson
Partner/Senior Manager MRICS/REV
M: + 47 986 05 209
E: asb@malling.no

Sondre Skavern
Senior Analyst
M: + 47 481 84 022
E: sos@malling.no

Lars Löf Wiken
Analyst
M: + 47 476 00 857
E: larsw@malling.no

Peder Olrud Fjellvang
Analyst
M: + 47 905 74 766
E: pof@malling.no

Francis Emil Westerlund
Junior Analyst
M: + 47 996 02 605
E: few@malling.no

Torstein Dybvad Haugdal
Junior Analyst
M: + 47 482 69 778
E: tdh@malling.no

Ole Thomas Sekkenes Hamre
Junior Analyst
M: + 47 974 28 084
E: otsh@malling.no

Eiendomshuset Malling & Co
T: +47 24 02 80 00
E: post@malling.no

www.malling.no

Eberlin

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