MALLING & CO

Market report

Winter 2022/2023

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Opportunities ahead

As most of the world has recovered from the pandemic over 2021 and 2022, high inflation has become the new economic headache throughout the world, with inflation now being past the point of being transitory. Geopolitical instability following the Russian invasion of Ukraine has fuelled inflation further to levels not seen for many decades. The central banks, with the Federal Reserve leading the way, are increasing interest rates at a rapid pace, trying to tackle price growth while still maintaining a sustainable level of employment. On the brink of 2022, it is reasonable to assume that data from the market will be less clear-cut for the central banks at the beginning of 2023 when the effects of their work will be even more visible. The actions taken by the central banks ahead will be extremely important for the CRE market globally. Uncertainty is higher than it has been for a long time.

Anders Berggren
CEO, Eiendomshuset Malling & Co

The pain inflicted by inflation may dampen with a cooldown or recession in the world economy, but there are also several inflationary drivers that will likely sustain their force for some time. Increased geopolitical risk may push towards onshoring strategies and focus on self-sustainability and a more rapid shift towards green energy. This may push western countries into a period of higher inflation for longer, hence resulting in higher interest rates for longer. The real estate industry is potentially facing a major shift in market conditions, seen as both frightening and exciting.

While the investment market has dried up into almost a desert over the summer, the leasing market remains strong, at least for segments like office and logistics. The incredible rebound after the pandemic with employment growth passing 8 % in Greater Oslo from Q2 2021 to Q2 2022, combined with a minimal pipeline of new stock due to the pandemic-related uncertainty seen over the past two years, the leasing market has seen incredible rental growth at a level not seen in almost a decade. The simple average of signed office leases in Oslo in Q3 2022 was 14 % higher than registered in Q3 2021. However, the rental growth becomes less impressive with inflation at almost 7 % and construction costs rising far above inflation. On a welcoming note, rental growth is easing the rapid adjustments to the discounting factor, as financing has doubled in price in a year.

The logistics segment, which has been an investor's favourite for many years and which boomed during the pandemic, has also seen significant rental growth. Logistics rents registered by Arealstatistikk in Greater Oslo in 1H 2022 show growth above 7 % compared to average rents from 1H 2021. This segment is still in high demand, pushing vacancy rates down to impressive lows. While space in this segment is typically large in volume and lower in rents than offices, there is a significantly higher ratio between energy costs and rent. The logistics segment is seeing a particularly increased focus towards modern and energy efficient buildings, something not seen before. This is yet another example of opportunity for investors to pursue, looking ahead.

Other segments like retail, F&B and hospitality are more affected by higher interest rates and high inflation undermining consumers' real purchasing power. The high demand for retail goods seen during the pandemic is now gradually easing off and many tenants will now face tougher times through lower turnover and higher costs.

At Malling & Co, with our core values and long-term position, we are prepared to guide our clients through tougher times with more challenges and, not least, opportunities. Savvy investors may get their chance of a lifetime to position themselves for the bullish market on the other side of the storm. As introduced in our previous report, we have the pleasure of including a market update on Bergen and Trondheim, in addition to Stavanger and Drammen, supplied by our regional contacts WPS and Norion. Remember that Malling & Co is here to support you in all your commercial real estate needs, including transaction support, tenant representation, development, energy and environment services, research services, leasing services, valuations, technology advisory, as well as property- and asset management.

Macro — Global page 4
Macro — Nordics page 8
Macro — Norway page 10
The office market page 16
Stavanger page 34
Drammen page 40
Bergen page 48
Trondheim page 54
Retail page 60
Hospitality page 66
Industrial & Logistics page 74
Residential page 80
The investment market page 84
About Malling & Co page 92

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Macro — Global

High inflation and drastic measures by central banks

The world economy is currently facing major challenges. The global growth outlook looks bleak, which is the result of several different factors. In China, drought, debt problems and shutdowns due to the coronavirus have weakened the growth forecasts. In Europe, the war in Ukraine has had its impact, a war that seems to persist.

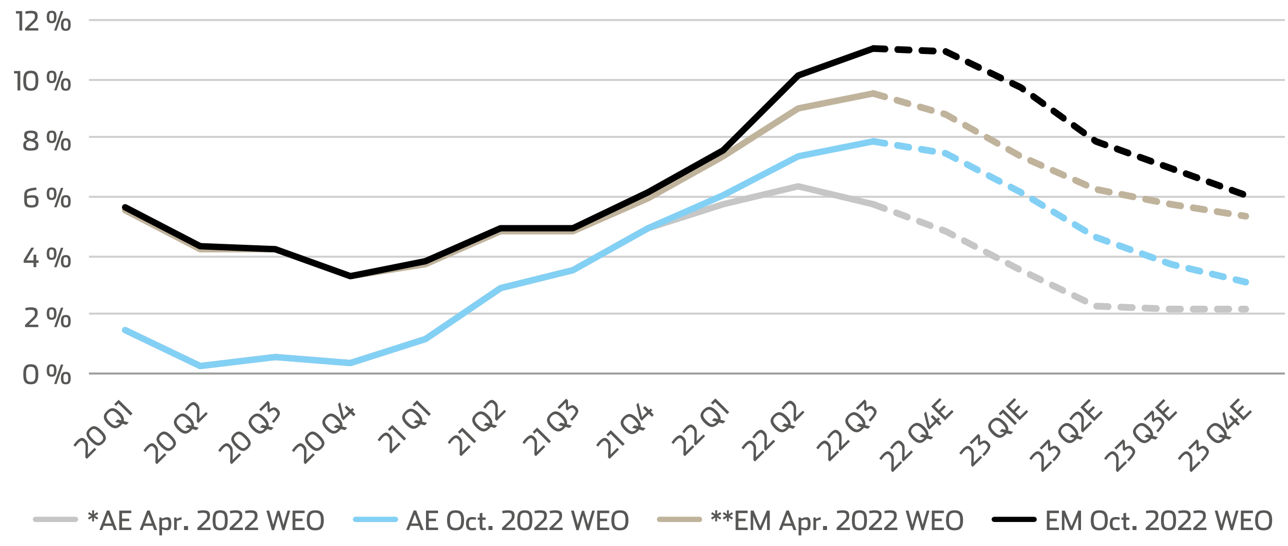
A consequence of the war is the financial sanctions the rest of the world introduced against Russia, to which Russia responded by cutting gas supplies to Europe. High demand for gas, together with limited supply, has led to gas prices reaching a historically high level. The supply of gas decreased further when the North Stream 1 pipeline was sabotaged in September. Due to an uncertain future and a fear of an energy crisis in Europe, European countries are stockpiling their gas in anticipation of winter. Limited gas supplies will continue to affect the world economy, and also makes it more difficult to predict the coming period.

One consequence of the high energy price is that the CPI has risen considerably. High food and energy prices are a driver of the negative growth outlook globally. As a result of the high inflation, central banks around the world have decided to raise key policy rates considerably in an effort to curtail inflation.

Inflation rates are soaring, demanding action from policy makers

Since 2021, inflation has increased faster and more markedly than expected. Inflation in advanced economies has not increased as strongly since 1982. Inflation in the US has been at a record high and this summer reached its highest level in approximately 40 years. The prices in the US in August were 8.3 % higher than at the same time the previous year. In Europe, inflation has also been at a record high, with as much as a 10 % annual change in September. It is expected that inflation will have a major impact on both households and businesses. As their purchasing power has weakened, households have been compelled to be more conscious of their consumption. This means less income for companies, which has also incurred increased costs in the form of increased commodity prices and energy prices. The IMF expects a decline in commodity, and food prices in the coming quarters before the levels stabilise.

Headline inflation forecasts, percent



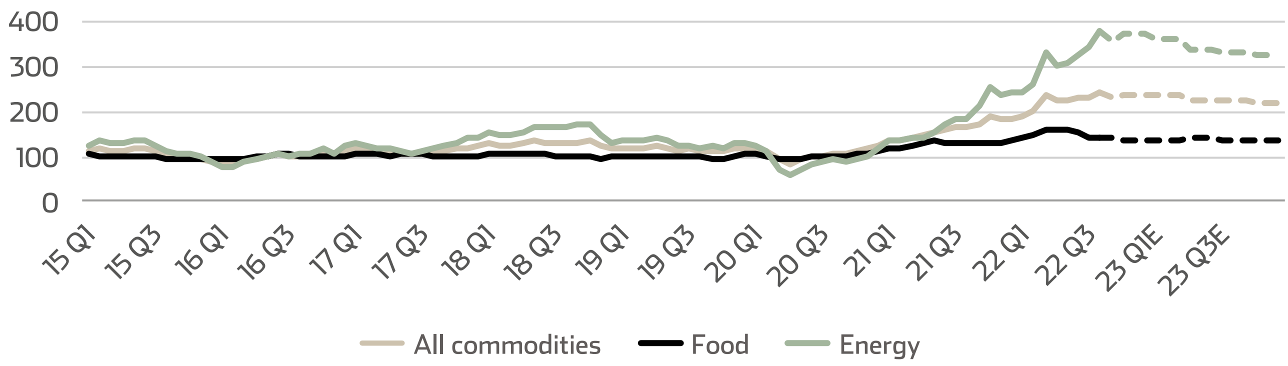
*AE = advanced economies
**EM = emerging market and developing economies

Source: IMF WEO (October 2022)

Commodity prices

The main factor that has led to the strong acceleration in inflation is the high energy prices. These prices rose considerably as a result of the war in Ukraine. European countries introduced financial sanctions against Russia, which responded by cutting gas supplies to Europe. When a major supplier of gas such as Russia chooses to cut supply, the overall supply decreases considerably, leading to huge increases in prices. Energy prices have risen by 105 % in the past year. As the war is so unpredictable, it is difficult to forecast how prices will change in the coming period. There has also been a sharp increase in food prices, which can be seen as a consequence of the high energy prices. In the last year, food prices increased by 6 % globally, although they have now begun to fall, with the latest data showing a minimal decline.

Commodity Price Indices with Forecast (Index, 2016 = 100)

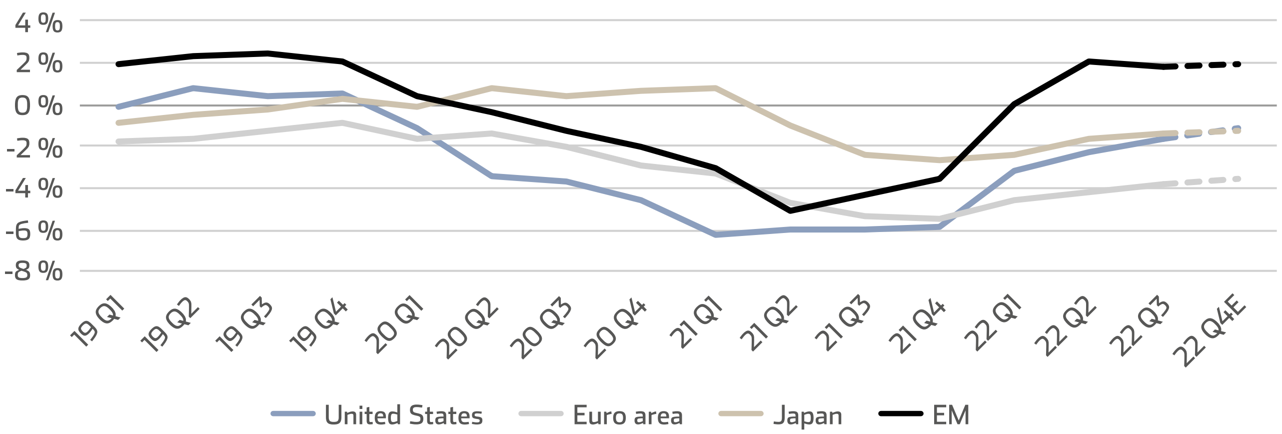


Source: IMF WEO (October 2022)

Monetary policy

To stop inflation, central banks around the world have found themselves forced to raise key policy rates. In recent months, a record number of increases in key policy rates have been implemented around the world. In the US, the FED has been very aggressive in its interest rate strategy, and several triple interest rate hikes have been seen in the last period. The European Central Bank also carried out a triple interest rate hike, as recently as 27th October, and the key policy rate is now at 1.5 %. It is expected that the central banks will continue to raise policy rates in the coming period.

Real short-term rates, %



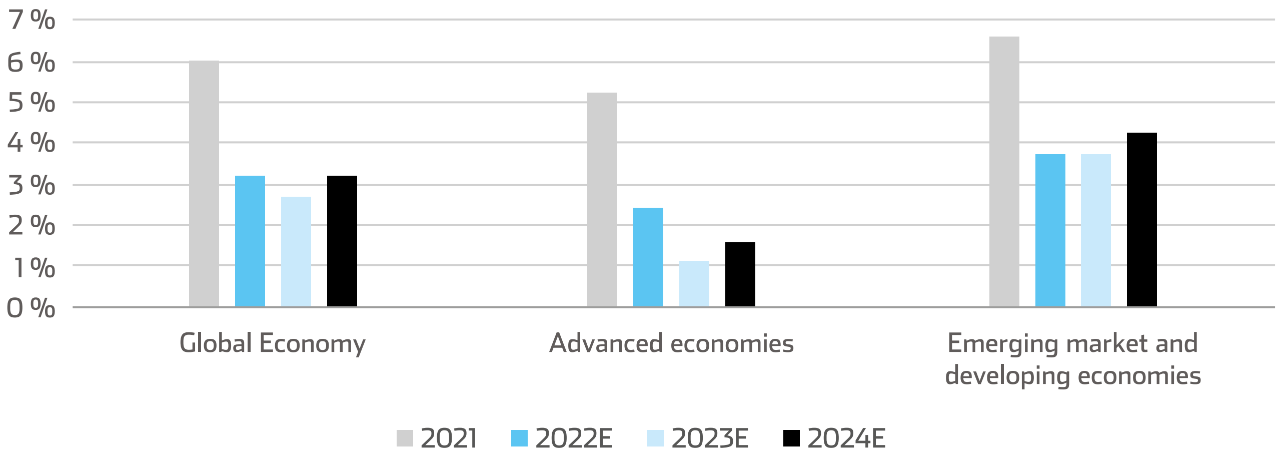
Source: IMF WEO (October 2022)

GDP growth projections

Short-term indicators show that economic activity has slowed considerably. The IMF's report from April forecast the global inflation to slow from 6.1 % in 2021 to 3.6 % in 2022. The forecast for 2022 has been adjusted downwards further to 3.2 % for 2022 in the report from October. Even more startling is the downward adjustment of the forecasts for 2023. In the IMF's report from April, the forecasts showed a GDP growth of 2.4 %. In the most recent report from October, forecasts for 2023 show economic growth of only 1.1 %, in other words, more than half the previous forecast. It is mainly the forecasts for the US and Europe that show little economic growth in 2023, 0.1 % and 0.5 % respectively. As mentioned at the outset, the low forecast for Europe can mainly be explained by the war and high energy prices, which in turn are partly to blame for the strong momentum in inflation which the central banks are now trying to reverse. The background to the low forecasts in the US is sky-high inflation, and the FED's aggressive strategy to tame it. In Asia, too, the forecasts have been adjusted downwards, as there has been both an increase in the number of people infected with the coronavirus, while at the same time a very strict Covid strategy is in place.

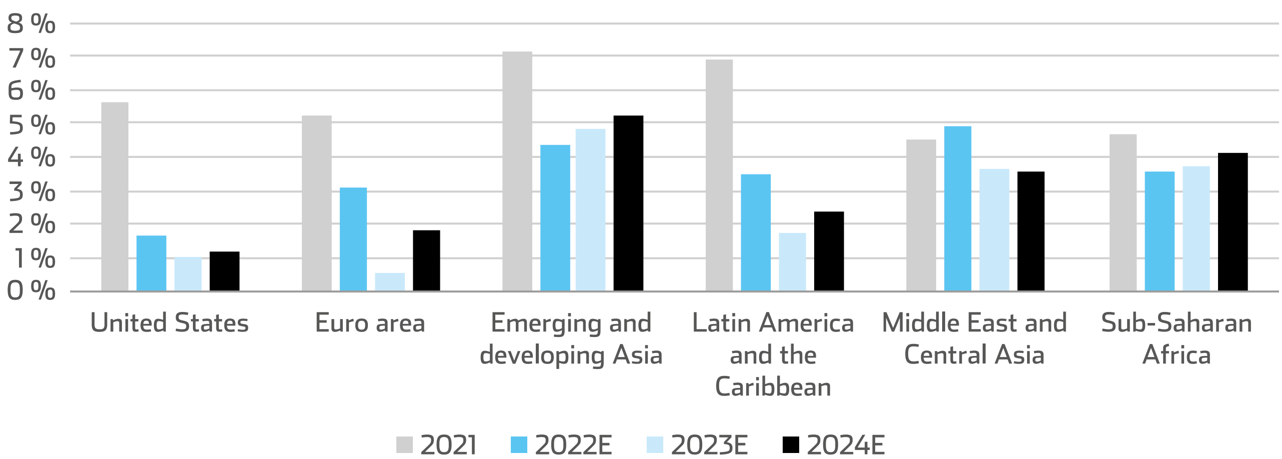
The forecasts for 2024 show an increase in growth from the 2023 forecasts, but far from the levels we saw in 2021. Both on a global basis, but also especially for the USA, Europe and Asia, the forecasts have been adjusted downwards from the IMF's April report. On a worldwide basis, the forecasts have been adjusted downwards from 3.4 % to 3.2 % for 2024, due to the repercussions from a decline that is likely to be larger than previously expected.

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



Source: IMF WEO (October 2022)

GDP growth rate projections, by region, % change

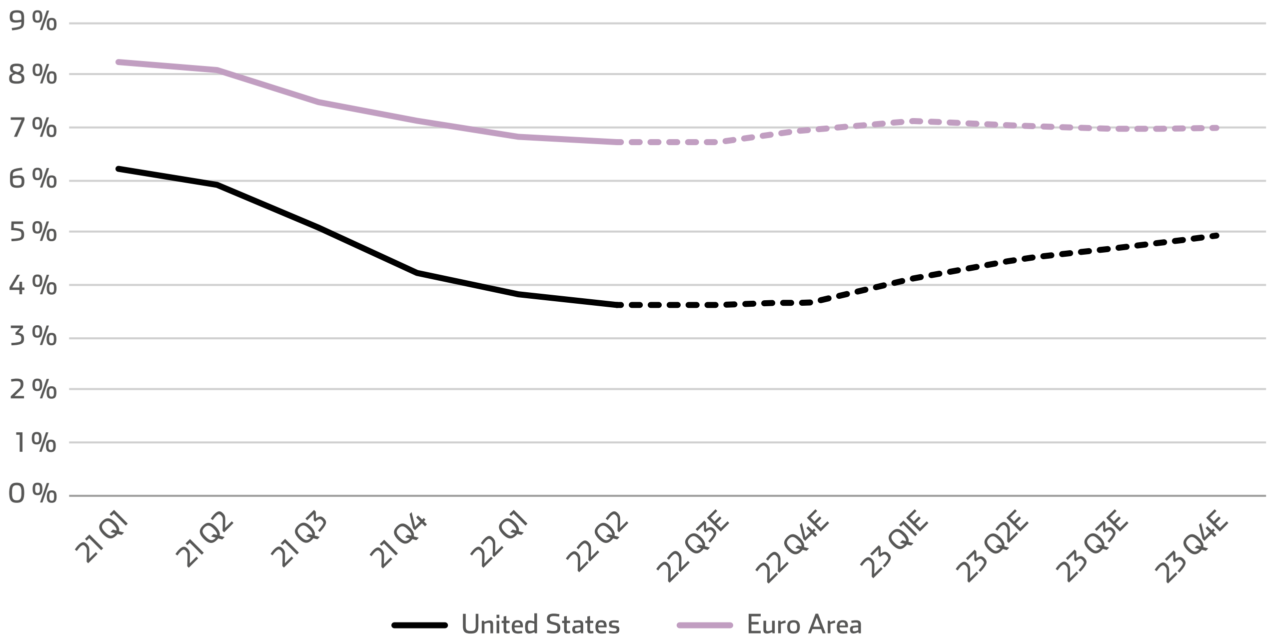


Source: IMF WEO (October 2022)

Employment market

Lower purchasing power among consumers, as well as record high energy prices, could lead to factories forced to shut down production. At the same time, the low purchasing power among households will also lead to stricter prioritisation of what money is spent on. This will probably lead to cuts in spending on visits to restaurants and on other services that are easy to cut down on. Closed factories and a decline in customers in the service industry could lead to an increase in unemployment. An increase in unemployment will probably be unavoidable, and an increase in Europe from 6.7 % to 7.1 % is expected over the course of the next year. The IMF also predicts an increase in unemployment in the US, from 3.6 % to 4.9 % by the end of 2023.

Unemployment rate, %



Source: IMF WEO (October 2022)

«An increase in unemployment will probably be unavoidable, and an increase in Europe from 6.7 % to 7.1 % is expected over the course of the next year».

Macro — Nordics

Focus on stopping the high inflation

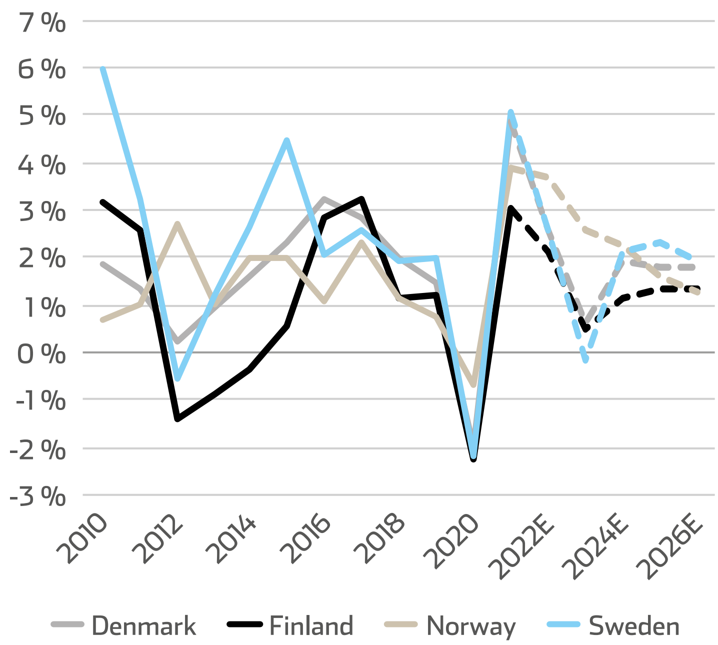
All the Nordic countries are expected to experience consequences from the high inflation and sharp increases in key policy rates brought in to tame it. However, the IMF forecast shows a rather quick recovery among the Nordic countries to normal levels in terms of CPI and GDP. Surprisingly, large increases in unemployment rates among the Nordic countries is not expected.

GDP growth projections

Since April and up to September, the IMF has updated its forecasts for GDP in the Nordic countries for 2022-2026. For Denmark, the GDP forecast for 2022 has been adjusted upwards from 2.3 % to 2.6 %, while for 2023 it has been adjusted downwards from 1.7 % to 0.6 %. The same trend applies to Finland, with an upward adjustment in 2022 and a downward adjustment in 2023 from 1.7 % to 0.5 %, thereafter remaining pretty much unchanged for the following years until the end of the forecast. The forecast for GDP growth in Norway remains fairly stable compared to the forecasts from April with higher growth compared to the other Nordic countries in 2022 and 2023. The GDP forecast for Sweden has been adjusted downwards by more than the neighbouring countries from 2.70 % to -0.14 % in 2023. Extreme energy prices, general inflation and higher interest rates are the reasons for the downward adjustments in the expected economic growth across the region.

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

Real GDP, annual change %

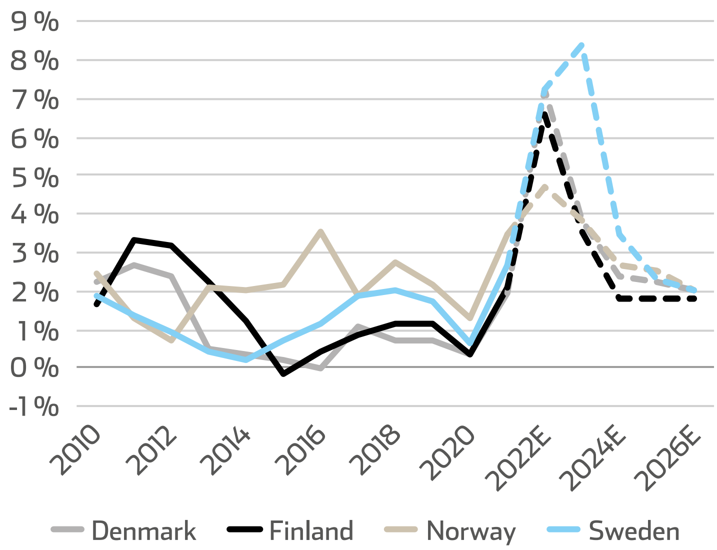


Source: IMF WEO (October 2022)

Consumer Price Index (CPI)

The consumer price index has risen considerably in the past year, including in the Nordic countries. It is worth noting that the CPI in Norway was calculated after the introduction of the household electricity subsidy and this probably explains much of why the CPI rate is at lower levels in the IMF's forecast for Norway relative to the other countries. The largest average increase in the CPI for 2022 among the Nordic countries is expected to be in Denmark and Sweden at 7.2 %. It is also expected that the central banks' increases in key policy rates will dampen inflationary pressure in 2023. According to the IMF's forecasts, this does not apply to Sweden, where the CPI growth rate is expected to remain elevated into 2023.

Consumer Price Index, annual change %

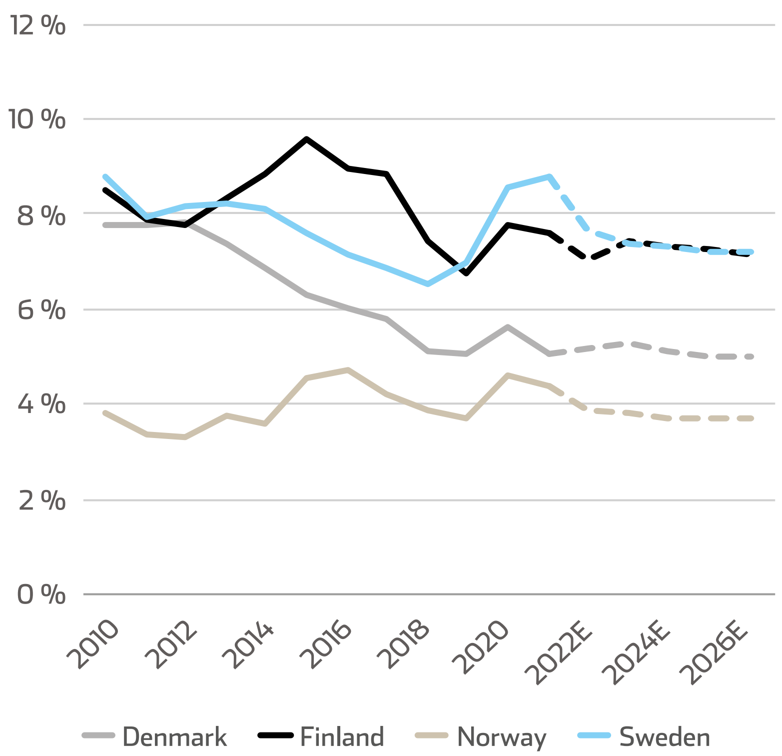


Source: IMF WEO (October 2022)

Employment market

There are large variations between unemployment in the Nordic countries. Norway has the lowest unemployment, with the IMF's forecasts for 2022 showing 3.9 % on average. According to the forecasts, Denmark has the second lowest unemployment among the Nordic countries and will remain over the coming years. The forecasts for 2022 show an unemployment rate of 5.2 %. Finland and Sweden come out higher in the forecast, with 7.1 % and 7.6 %, respectively, for 2022. The IMF's forecasts show that unemployment will remain stable in the coming years.

Unemployment rate, %

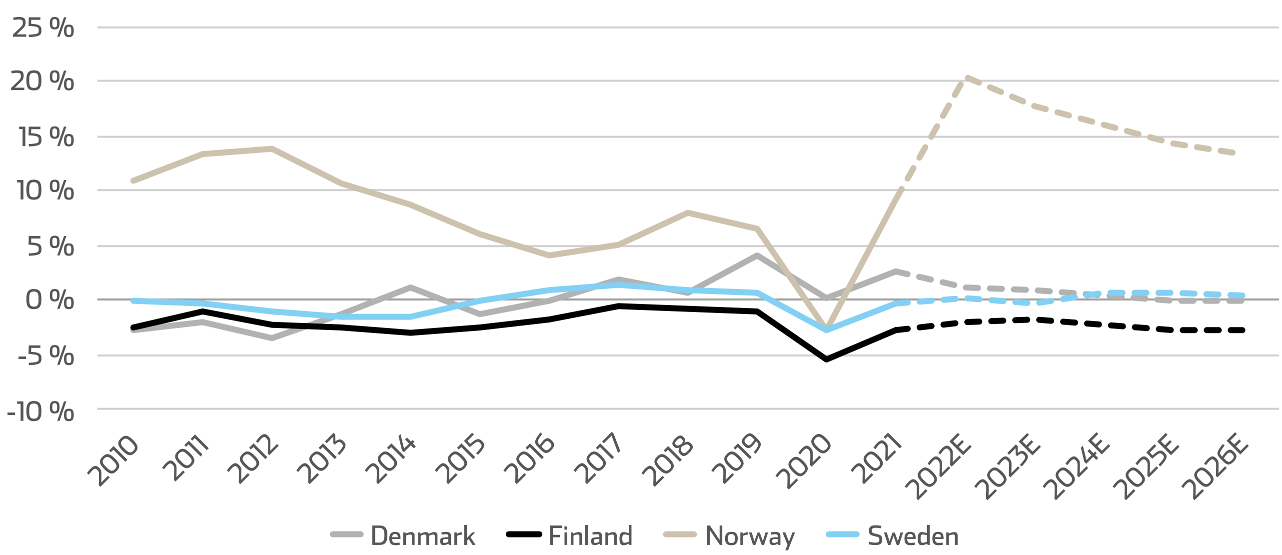


Source: Eurostat, National Statistics Office, IMF WEO (October 2022)

General government net lending/borrowing

The pandemic resulted in all Nordic countries, apart from Denmark, becoming net borrowers as a percentage of national GDP. The forecasts from the IMF for 2022 predict that Norway's net lending as a percentage of GDP will double from 2021, reaching a level of over 20 %. It is expected that Finland remain being a net borrower at a stable level of around 2 %, while Denmark and Sweden will maintain a level of +/- 1 in the coming years.

General government net lending/borrowing, % of GDP



Source: IMF WEO (October 2022)

Macro — Norway

High inflation, also in Norway

High inflation, strong employment market, high energy prices and hawkish central banks are creating unusual high uncertainty about the economic development in Norway. The increase in prices measured by the CPI, has recently been clearly above the target of 2 %, at levels not seen since the inflation-based mandate was introduced in 2001. The Norwegian central bank has therefore increased the key policy rate several times, most recently on 3 November, when the policy rate in Norway was raised by 0.25 percentage points, to 2.50 %. The current level is the highest key policy rate seen since 2009. The future outlook is more uncertain than normal, but the signals are clear for further increases, although future policy rents depend on the economic development and how the central bank will react to this information.

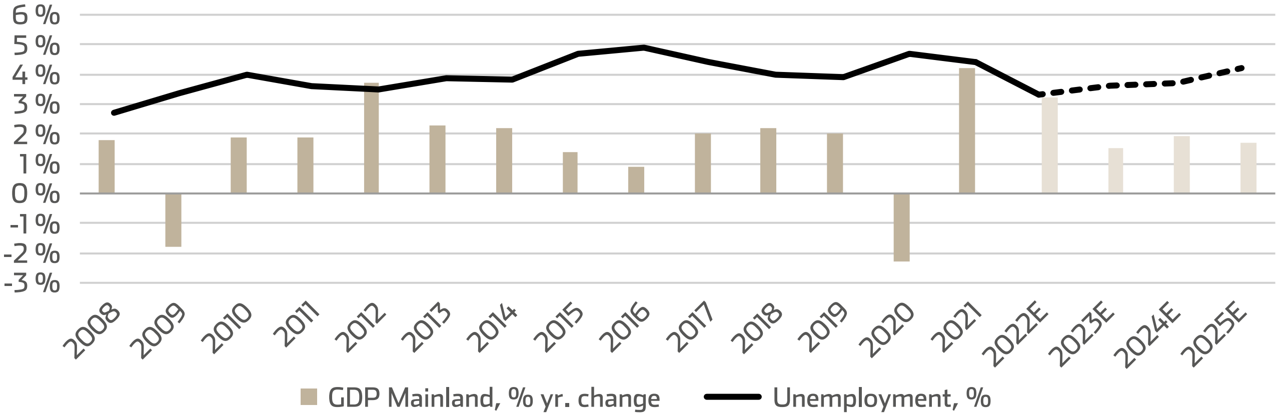
One consequence of the devastating war in Ukraine is cut in the energy supply to the rest of Europe by Russia, which has led to a shortage of natural gas and record high prices for gas and electricity. The increased energy prices have had direct consequences for households, as well as businesses. Heavy taxation on oil and gas combined with public ownership means that most of the increase in income as a result of high electricity prices accrues to the public sector.

Mainland GDP and unemployment

After 2021, with economic growth at a strong 4.10 %, economic growth was expected to slow down in 2022. Statistics Norway's forecasts from early September expected an economic growth of 3.20 % for 2022, which was lower than previously predicted. Statistics Norway's forecasts for 2023, 2024 and 2025 are expecting lower growth, at 1.50 %, 1.90 % and 1.30 % respectively. The expected slowdown in economic growth comes from international turbulence, such as the war in Ukraine and high inflation, and it is based on the assumption that sanctions against Russia will persist. While SSB assumed a key policy rate top of 2.75 % in their estimates, The Norwegian central bank communicated a more hawkish approach in their Monetary Policy report 3/22 from 22 September. It indicates a peak in the key policy rate at 3.1 % in 2023, and negative GDP growth for Mainland Norway in 2023.

The unemployment rate measured in the Labour Force Survey (LFS) is currently lower than the 4.1 % average for 2010-2019, at 3.20 % in August (3-month rolling average). When the pandemic restrictions were lifted, this led to a return to normalcy. Statistics Norway's forecast for unemployment in 2022 is 3.30 %. It is estimated that unemployment will be higher in 2023, 2024 and 2025, at 3.60 %, 3.70 % and 4.20 % respectively, measured in the LFS. The background to the expected increases is due to an expected negative development in demand as a result of weaker growth among Norway’s trading partners, higher inflation and higher interest rates. It is also expected that labour market immigration will slowly increase.

Mainland GDP and unemployment (LFS), %



Source: Statistics Norway

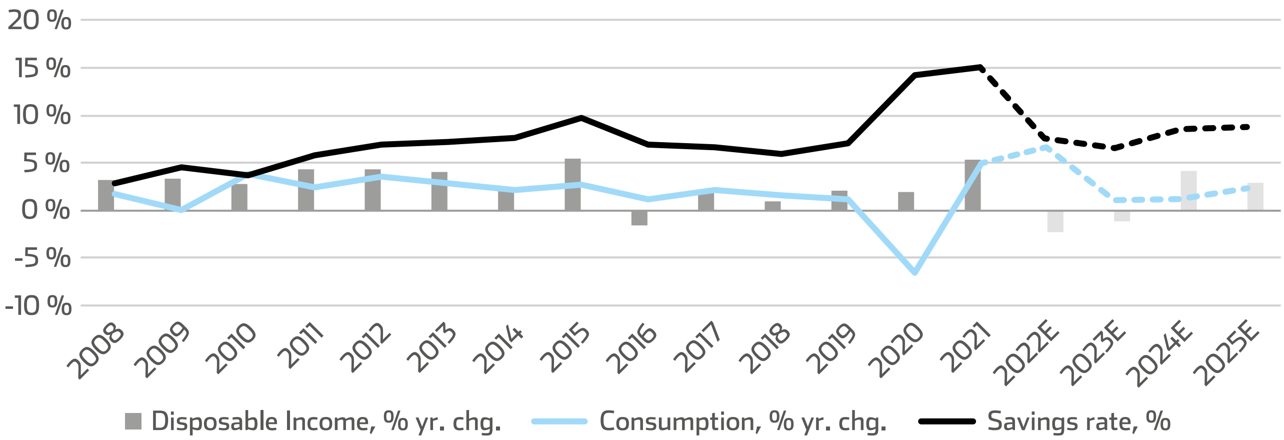
Households' financials

The growth in Norwegian households' disposable real income is estimated at -2.30 % for 2022, which is a sharp decline from the growth in 2021 of 5.40 %. The forecasts for 2023 also show negative growth in households' real income, at -1.20 %. Statistics Norway expects growth in real income to increase again from 2024 and continue in 2025. The background to the expected weak real income growth is the high inflation rather than the expected development in wages. An expected fall in inflation while wages continue to increase in the coming years is the explanation behind Statistics Norway's prediction of an increase in real wage growth from 2024.

In 2021, household consumption increased following a decline during the pandemic, and there was a return to pre-pandemic patterns. The increase in consumption for 2021 ended at 4.90 %, the strongest increase in many years. The strong increase in consumption was largely expected after the decline during the pandemic, but has turned out somewhat weaker than initial estimates. The increase in consumption has persisted in 2022, and Statistics Norway's forecasts from September expect an increase in consumption in 2022 of 6.70 %. This is a downward adjustment from previous forecasts, which expected an increase of 7.80 %, and can be seen in the context of inflation. High food and energy prices will slow consumer growth. Household consumption is estimated to grow between 1.50-2.00 % as an annual average from 2023 to 2025.

A record high savings rate of 14.2 % was recorded in 2020, even surpassed in 2021 with a savings rate of 15.1 %. The forecasts for 2022 show a decrease in the savings rate from 2021, but according to the forecasts, it will still be higher than pre-pandemic levels. The savings rate is expected to increase in 2024 and 2025, largely due to rising real interest rates.

Households' financials, annual change %



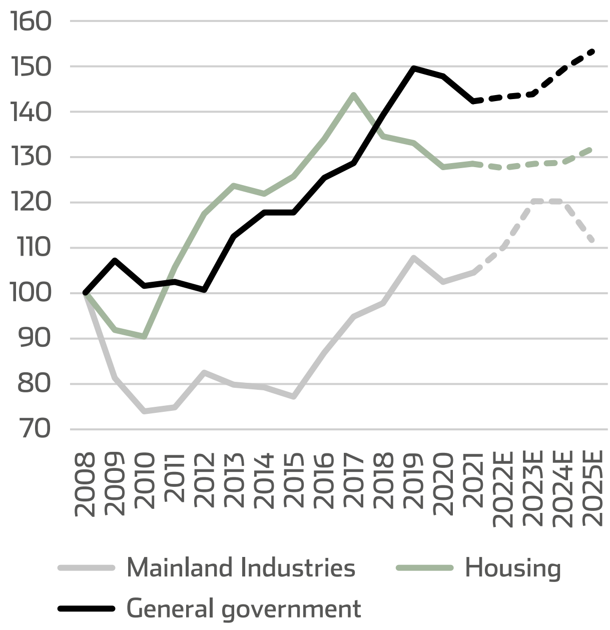
Source: Statistics Norway

> «The increase in consumption has persisted in 2022, and Statistics Norway's forecasts from September expect an increase in consumption in 2022 of 6.70 %. This is a downward adjustment from previous forecasts, which expected an increase of 7.80 %, and can be seen in the context of inflation».

Mainland investments

In 2021, industrial investments increased by 2.20 %, this after a strong 4th quarter. Companies report activity to be even higher in 2022, and Statistics Norway expects an annual increase of 5.30 % in 2022 industrial investments. Despite the economic situation, Statistics Norway is also expecting an increase in industrial investments in 2023, of 8.90 %. The forecasts are not expecting any change in 2024, and a decrease of 7.20 % in 2025. Government investment is expected to rise 0.90 % in 2022 relative to 2021, after two years of decline due to pandemic-related support schemes. The forecasts show a slight increase in government investment in the coming years. Housing investment was previously expected to increase significantly, but has been adjusted downwards as a result of inflation and interest rate increases. A decrease of 0.70 % in housing investment is expected in 2022, according to SSB.

Mainland investments, index 2008 = 100

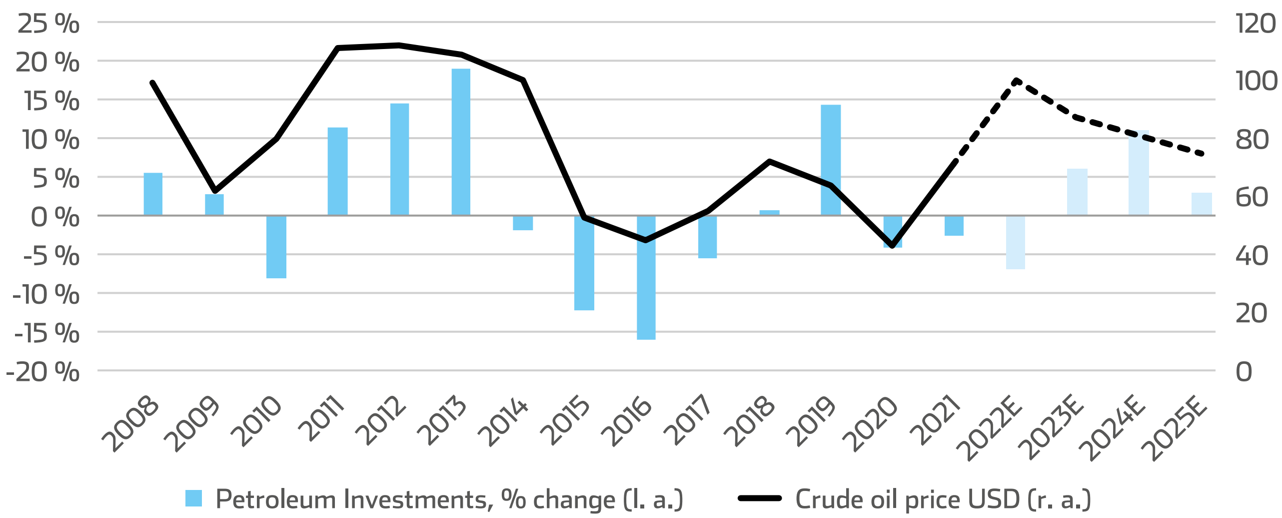


Source: Statistics Norway

Development in petroleum investments and the crude oil price

Petroleum investment activity has fallen in the last two years as a result of reduced field development. Statistics Norway's forecasts show an expected decline in petroleum investment activity of 7 % in 2022, which is a greater decline than in both 2020 and 2021. The forecasts for both 2023 and 2024 show an increase of 6 % and 11 % respectively. The expectation of increase in activity comes from the favourable taxation of projected oil drilling planned by the end of 2022. As for the crude oil price, Statistics Norway expects the price per barrel in 2022 to be USD 100, falling steadily over the next few years to USD 75 per barrel in 2025.

Development in petroleum investments and crude oil price



Source: Statistics Norway

CPI and NOK (i-44) exchange rate

The estimates for growth in the annual average consumer price index (CPI) was reported to be 5.70 % for 2022 in SSB's September forecast. This is an even greater increase than last year's increase of 3.50 %. The increase in 2022 is broadly based across most categories, but the record high energy prices prevailing for a significant time now have probably affected most prices in the CPI-basket over the past year. Energy prices have eased off somewhat in recent months, but a potential cold winter in Europe may put further pressure on energy prices in 2023. The central banks, including the Norwegian central bank, have been addressing the inflation issue and have therefore increased the key policy rate several times in 2022. They are also addressing the prevailing inflationary pressure through further rate hikes in 2023 in the key policy forecasting path communicated in the Monetary Policy Report. The Import-weighted NOK exchange rate (44 countries) is expected to increase marginally in 2023 and remain stable in 2024 and 2025, according to Statistics Norway.

«Energy prices have eased off somewhat in recent months, but a potential cold winter in Europe may put further pressure on energy prices in 2023».

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

Source: Statistics Norway

Kronprinsens gate 9 — Oslo

Malling & Co Corporate Real Estate was the advisor for DNB Scandinavian Property Fund in the sales process of a 7 000 m² office property in Oslo CBD.

Bygdøy allé 2 — Oslo

Malling & Co Næringsmegling was the letting agent when BDO leased 10 900 m² in Bygdøy allé 2.

The office market

Office rental outlook

Office demand to cool off

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

- The extraordinary high employment growth seen over the past year will shift to falling employment by the end of 2022 and continue throughout 2023.
- Despite a weak employment market in 2023, overall demand will remain fairly strong due to the previous growth which has created a lag in demand for space.
- The net pipeline of new construction in Greater Oslo is expected to be very low for the next two years, although some refurbishments will be finalised next year, most of which is pre-leased.
- Low net construction and the pent-up demand will continue the downward trend in office vacancy rates in Greater Oslo.
- The high search activity in 2022 has created activity in the leasing market, lasting into next year, too.
- So far, office demand has been little affected by home office, at least from what we have observed in demand numbers with a strong net take-up in the past year.
- While interest rates and yields rise, high construction costs are also contributing to significant growth in breakeven rents for new space, and, combined with low vacancy, is creating a better opportunity for existing space to achieve higher rents.
- We expect tenants to become more cost-focused in 2023 as the economic outlook deteriorates and due to the significantly higher costs, especially energy.
- Tenants will assess the energy costs in their leases more directly, and new certified buildings with a high ESG score will stand out as rental winners.
- We expect rents to increase slightly from Q3 2022 to Q3 2023, although such an increase may fall below the change in the CPI over the same period.
- Rental growth is expected to be spread more evenly across office clusters as demand reduces, since rental differences between fringe and central clusters have become greater and the cost focus increases. We believe the main driver behind rental growth will be increased costs for finance and fit-outs.
- We expect the demand for flexible office space to remain stable over the year based on reports of high demand.

Comparing our letting agent consensus rents to our previous report reveals that several office clusters have significantly increased rent levels. As business cases across all landlords have been affected by higher costs for fit-outs and new construction and higher interest rates, most landlords have needed to increase rents in new offers. Despite strong rental increase, the total profit for landlords may not have increased. Since the economy outlook has weakened significantly since June 2022, the uplift in this rental cycle may turn out short lived. Putting all these factors into our models results in an increase in rents in the magnitude of +-5 % over the coming 12 months in most office clusters, while Lysaker is expected to be somewhat higher due to strong demand in the main sectors there and relative prices with respect to neighbouring alternative clusters. Further out, centrally located clusters and western fringe zones will see additional rental growth of around 5 % over the consecutive 24-month period, while Fornebu is expected to see the highest growth in this period. We believe the current low levels and the increased attractiveness due to the Fornebu Metro line will create additional growth potential for this cluster. Eastern fringe zones will remain at 5 % overall rental growth from the start of the 36-month forecasting period. This is due to a slow economic outlook for the typical tenant mix seen here. The forecast is highly uncertain, given the uncertainty seen in the economy. The low vacancy rates and high breakeven rents for new space are expected to keep rents higher than a typical downturn in the rental market.

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

Office rent forecast

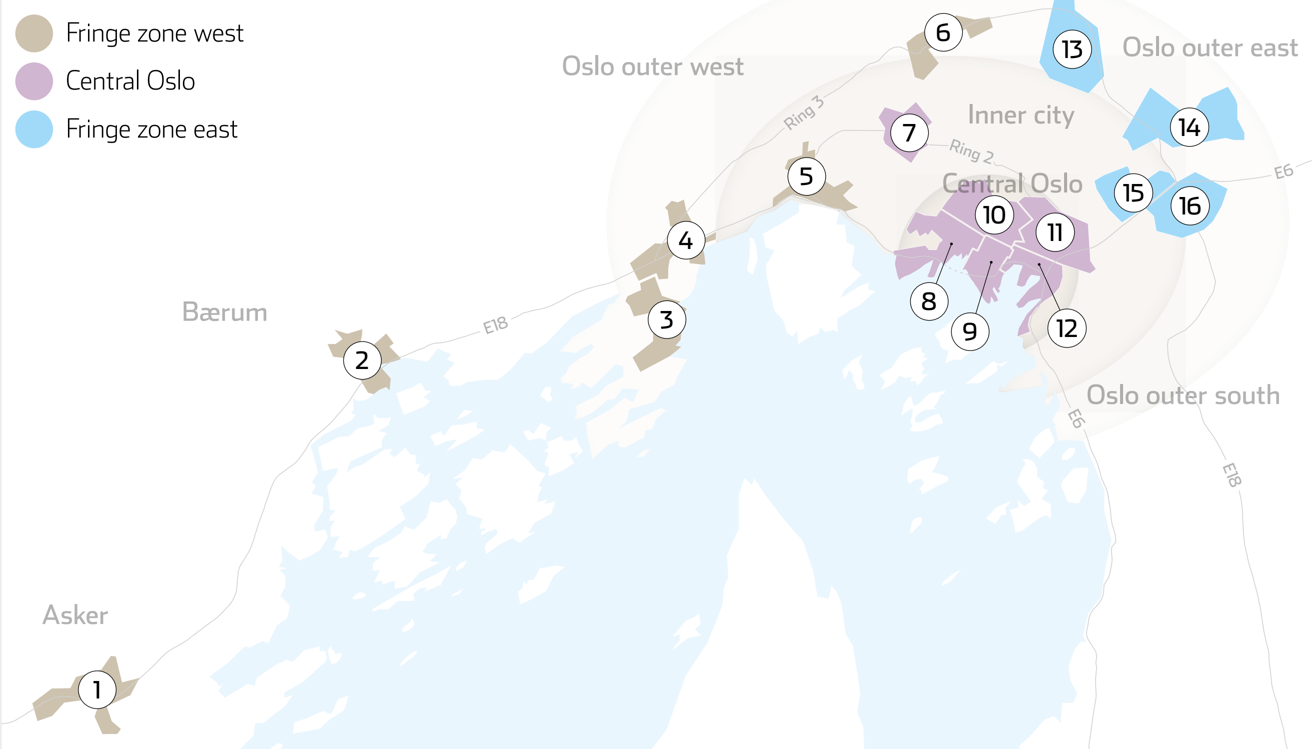
Highly uncertain | Uncertain | Fairly certain

Office cluster	Change Q3 2023 – Q3 2023	Change Q3 2022 – Q3 2025
Asker	+5 %	+5 %
Sandvika	+5 %	+10 %
Fornebu	+5 %	+15 %
Lysaker	+10 %	+15 %
Skøyen	+5 %	+10 %
Forskningsparken / Ullevaal	+5 %	+10 %
Majorstuen	+5 %	+10 %
CBD	+5 %	+10 %
Kvadraturen	+5 %	+10 %
Inner city	+5 %	+10 %
Inner city East	+5 %	+10 %
Bjørvika	+5 %	+10 %
Nydalen / Sandaker	+5 %	+10 %
Økern / Løren / Risløkka	+5 %	+5 %
Helsfyr / Ensjø	+5 %	+5 %
Bryn	+5 %	+5 %
Oslo total	**+5 %**	**+10 %**

A selection of the latest lease contracts

Tenant	Moving to address/ office cluster	Moving from address/ office cluster	Space m² (rounded)
reMarkable	Fridtjof Nansens vei 12 / Majorstuen	Biermanns gate 6 / Torshov	17 000
BDO	Bygdøy Allé 2 / VAB	Munkedamsveien 45A / VAB	11 000
Amedia	Tollgaarden / Inner City East	Akersgata 34 / Inner City	8 550
Manpower (renegotiation)	Sundtkvartalet / Inner City East	Sundtkvartalet / Inner City East	4 900
NAV	Oslo K / Kværnerbyen	Sannergata 2 / Torshov	4 400
Compass Group	Construction City / Økern	Drengsrudbekken 12 / Asker	2 700
Bærum Kommune (renegotiation)	Malmskriverveien 18 / Sandvika	Malmskriverveien 18 / Sandvika	2 250
Xeneta	Biskop Gunnerus' gate 14 / Inner City East	Torggata 8 / Inner City	2 100
Norselab	Nedre Slottsgate 5 / Kvadraturen	Karenslyst Allé 9 / Skøyen	2 100
Econa	Kongens gate 6 / Kvadraturen	Rosenkrantz' gate 22 / Kvadraturen	1 400

Greater Oslo area map

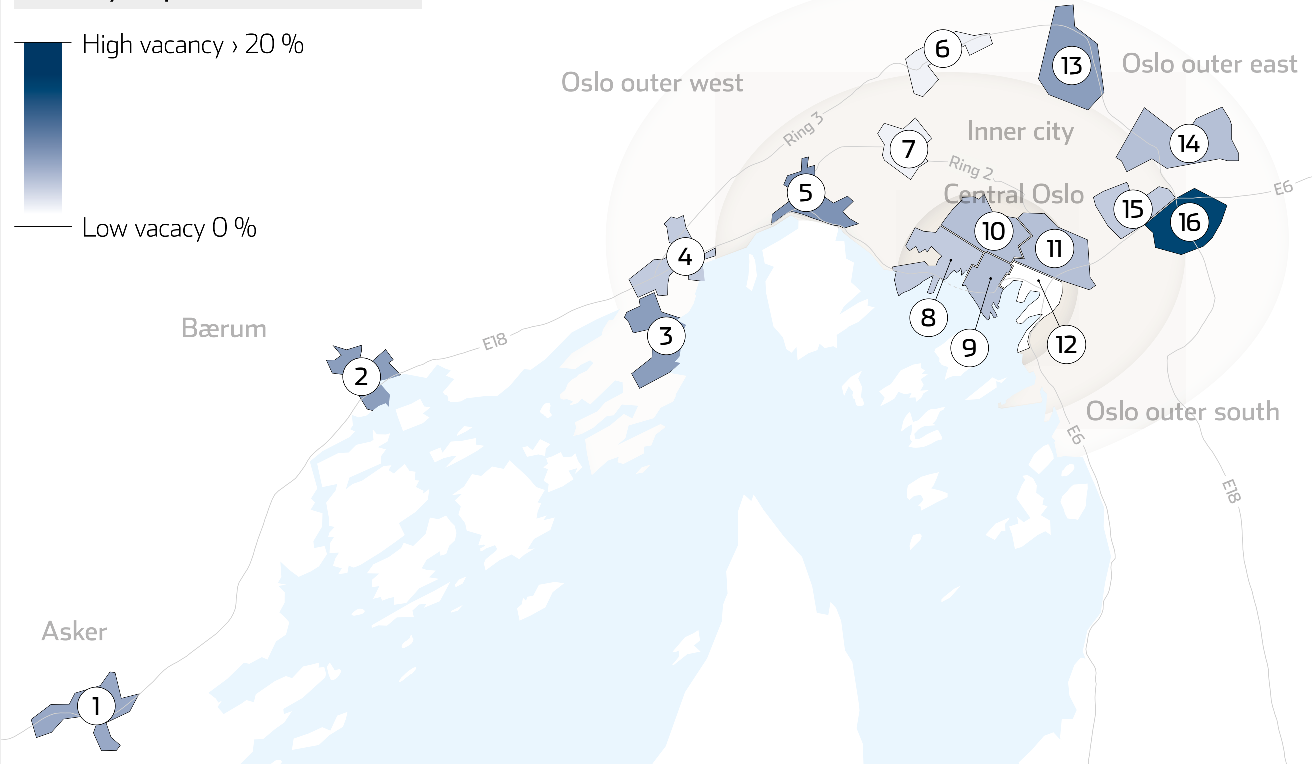


Office rents — Malling & Co consensus (NOK/m²/yr)

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

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

Vacancy map as at October 2022



Vacancy and new construction

	Office cluster	Vacancy	Past 12 months change (Vacancy)	New construction: 3-year pipeline (Confirmed)
1	Asker	7 %	-7 %	
2	Sandvika	8 %	7 %	10 000
3	Fornebu	8 %	3 %	30 000
4	Lysaker	4 %	1 %	5 500
5	Skøyen	9 %	1 %	11 300
6	Forskningsparken/Ullevål	1 %	0 %	2 300
7	Majorstuen	1 %	-1 %	21 700
8	Vika/Aker Brygge/Tjuvholmen	4 %	-1 %	
9	Kvadraturen	5 %	0 %	10 000
10	Inner city	5 %	-1 %	49 200
11	Inner city east	5 %	0 %	24 800
12	Bjørvika	0 %	-1 %	
13	Nydalen/Sandaker	8 %	2 %	6 500
14	Økern/Løren/Risløkka	5 %	-4 %	91 100
15	Helsfyr/Ensjø	4 %	-2 %	33 800
16	Bryn	18 %	6 %	8 600

Source: Finn.no/Malling & Co

Indicators for office demand

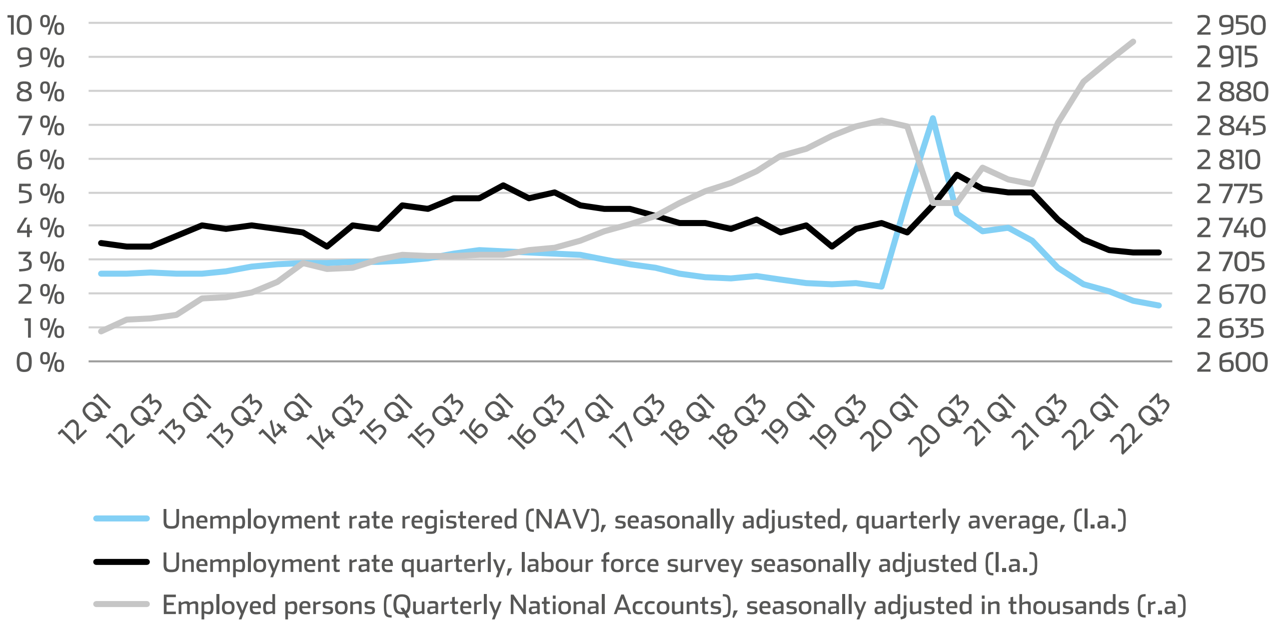
From boom to bust

The picture we painted in our latest report of a strong employment market at the start of 2022 has been confirmed over the summer when key figures were released for the development in the employment market. The growth in employment has been stronger than has been seen for many years, reflecting the rebound after the pandemic and a strong demand for workers. The number of wage earners registered increased by more than 8 % from Q2 2021 to Q2 2022 in Oslo and neighbouring municipalities, resulting in unemployment figures hitting new record lows. The low unemployment rate risks limiting further growth, although the more challenging macroeconomic outlook is expected to reverse some of the employment growth in 2023, as higher inflation and higher interest rates are expected to cool down the economy into negative growth. The fundamentals behind any growth in demand for office space paint a negative picture for 2023, but suggest a weak improvement in the longer term.

Lowest unemployment level in 14 years

The unemployment rate decreased steadily from April last year (4.0 %) to March this year to 3.1 %, since when it has remained stable at ca. 3.2 %, according to LFS (Labour Force Survey) seasonally adjusted figures. However, registered unemployment numbers have continued to decrease slowly, but seem to be approaching an asymptotic level at around 1.5 %. The record low unemployment combined with high inflation, a trend seen in many economies around the world, are key factors in the central bank's decision to increase policy rates. The strongly improving employment market has come as a rebound after the easing of the restrictions put in place during the pandemic. Looking at the registered unemployment figures from the Norwegian Labour and Welfare Administration (NAV) for October at city level, we can see that Oslo had registered unemployment of 1.9 %, Bergen 1.8 %, Trondheim 1.1 % and Stavanger 1.6 %, all lower than our previous report from June (which commented on April's figures). According to the quarterly national accounts (QNA), seasonally adjusted, the number of employed persons passed the pre-pandemic peak from Q4 2019 at 2 847 (in thousands) in Q4 2021 by a significant margin and continued to grow significantly into 2022. The latest available Q2 figures from the QNA show a slowdown in employment growth, a trend which is also seen in the figures for monthly wage earners commented upon in the next paragraph.

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

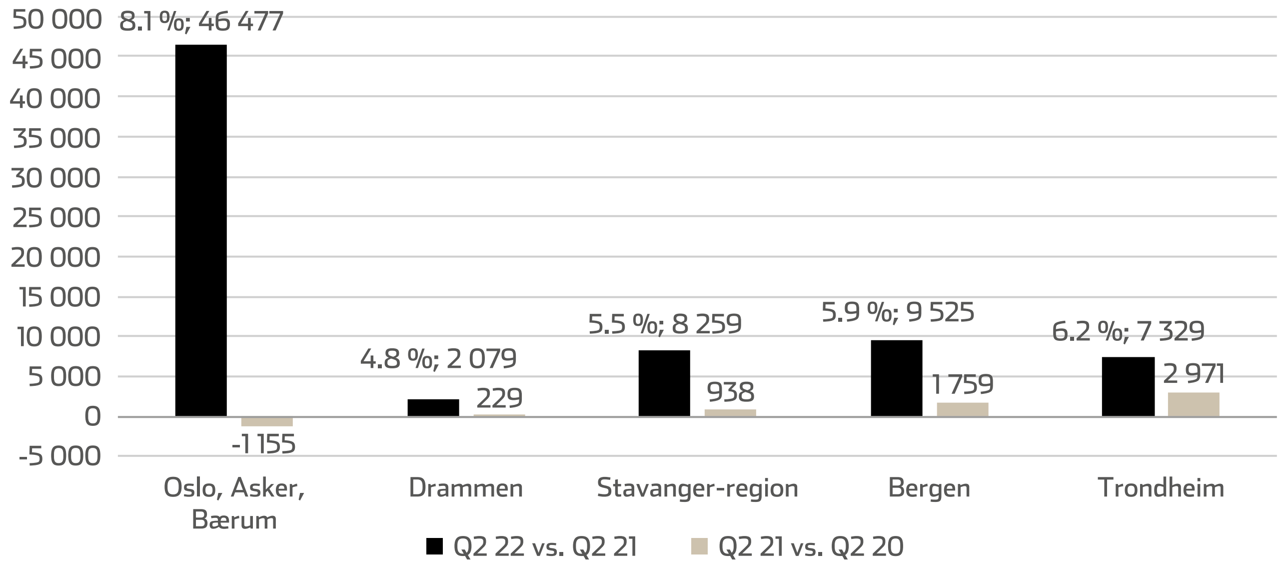


Source: NAV (Norwegian Labour and Welfare Administration), Statistics Norway

High employment growth for the past four quarters

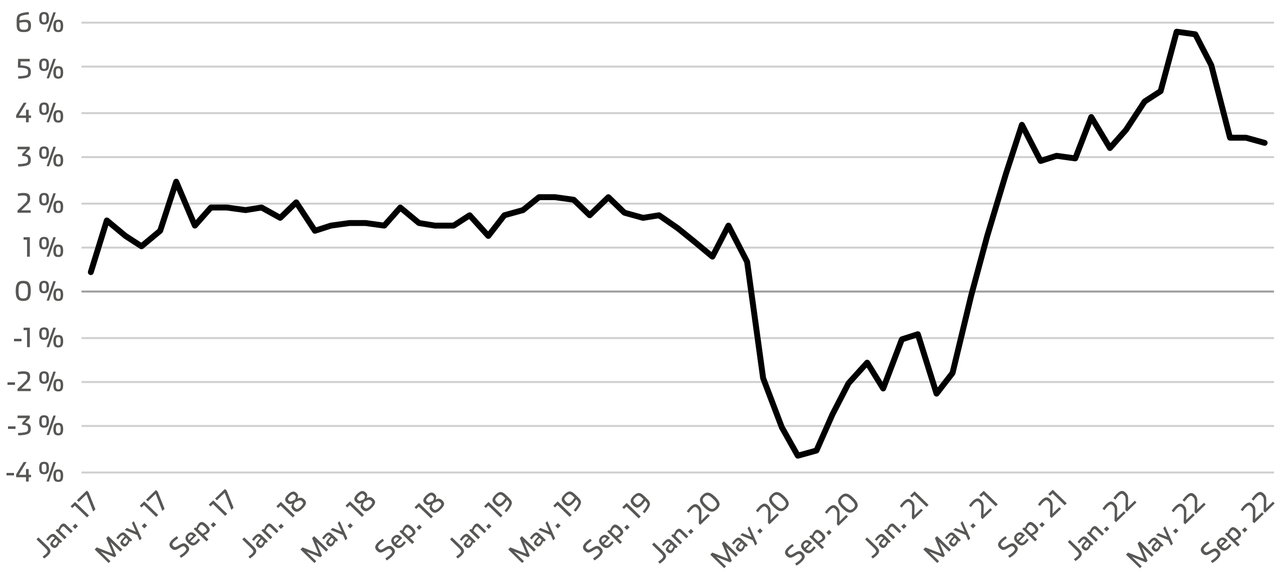
The chart showing four quarter wage earner growth shows that the employment market was very strong in the second half of 2021 and the first part of 2022. From Q2 2021 to Q2 2022, all main cities saw high growth in numbers of wage earners. Like in previous booms, Greater Oslo saw higher growth than other cities at 8.1 % and much higher than the national average of 5.6 %. Drammen saw the weakest growth among the main cities we have included in our chart. While growth was particularly strong within the sectors that were hit the hardest during the Covid crisis, office-oriented employment has also been growing sharply since Q2 2021. As we described in our previous report, growth has been particularly strong within the private sector over the past four quarters, while in the public sector, growth has been fairly stable at just above 1 % p.a. from Q2 21 to Q2 22 nationally. The private sector, has seen a growth rate of almost 8 % nationally, and over 10 % in Oslo, Asker and Bærum for the same four quarters.

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



Source: Statistics Norway

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

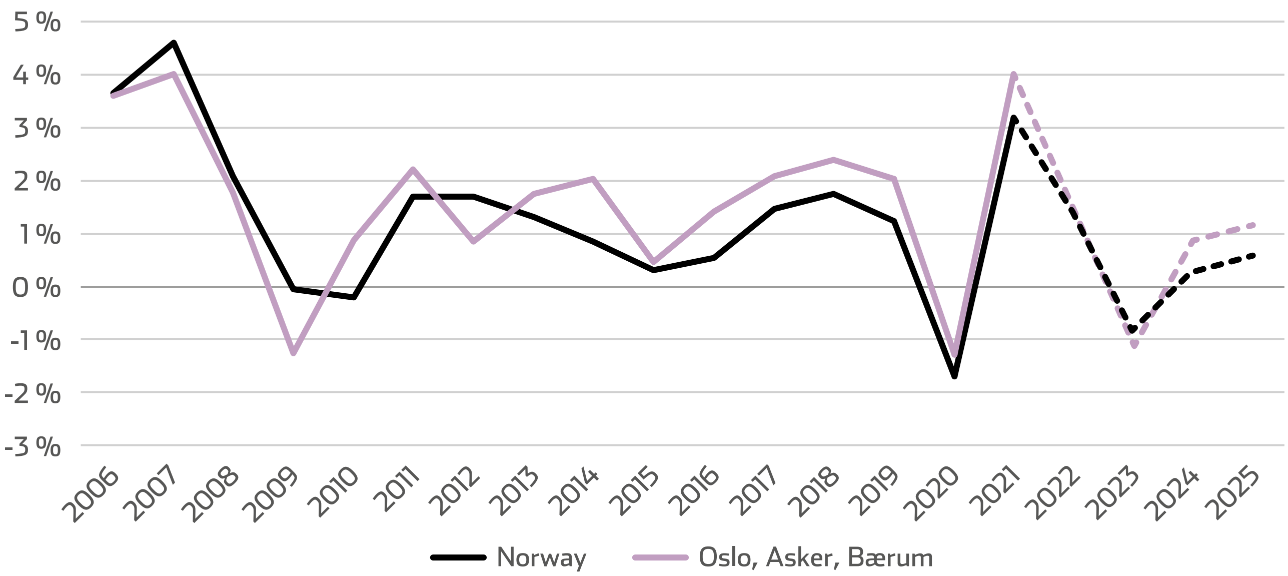


Source: Statistics Norway

Employment growth on the brink of turning negative

While the employment market has been booming over the past 18 months, the potential for further growth is limited in the short term. Companies are reporting a lack of skilled workers in the Norwegian central bank's Regional Network Survey 3/22, while unemployment rates are at a record low. We are facing a situation where further employment growth will bring with it a risk of higher wages, potentially fuelling the already record-high inflation. In the Norwegian central bank's Regional Network Survey conducted in May, the proportion of companies reporting a shortage of labour peaked at the highest value recorded since 2007. This had eased slightly in the 3/22 survey conducted in August. The reported lack of workers was still at a very high level compared to historical levels, though, reflecting a continued tight labour market. Regions North and Northwest reported the highest shortage of labour. Region East (including Oslo) is still at a high level with 48 % of respondents reporting of a scarcity of workers. According to Statistics Norway (SSB), the number of vacant positions passed 100 000 in Q1 2022 and increased to 107 800 in Q2. The Q3 numbers will be released on 9 November 2022. Healthcare, accommodation and service, professional and technical services saw the largest growth in vacant positions from Q1 22 to Q2 22, according to seasonally adjusted figures from SSB. Construction and building saw a fall in vacant positions in Q2 from Q1, back to Q4 2021 levels. In light of the economic outlook, we expect this negative trend to continue for this sector. According to the latest estimates in the Monetary Policy Report 3/22, employment is expected to peak in Q3 2022 and then follow a negative trend from Q4 2022 until Q4 2023. Hence, the Norwegian central bank expects employment in Norway to fall by approximately 0.9 % over these five quarters, before turning in a slightly positive direction again. Over the next three years, employment is expected to return to current absolute levels, giving us three years without net growth over the period. Our model for employment growth in Greater Oslo will follow this national trend, with slightly higher volatility and slightly higher average growth. Assuming a historical lag between changed employment and demand for office space and taking into account contract length and existing available space in current contracts, our estimate is that we will see increased net demand of about 107 000 m^2 new office space in 2022, negative 74 000 m^2 in 2023, positive 71 000 m^2 in 2024, and positive 97 000 in 2025.
The link between the upcoming inflation figures, the policy rate decision and the Norwegian central bank's assessment of the output gap in the economy will be important in assessing the required reduction in employment needed for the Central Bank to reach its goals set out in its monetary policy mandate. If these estimates turn out to be realistic, the net take-up of space in the next three years will come from the lagged effects of the sudden growth in employment among tenants unable to re-position in their current lease.
In our model, this pent-up demand will create a need for additional space going forward. Please see our office vacancy forecast for Oslo on page 32.

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



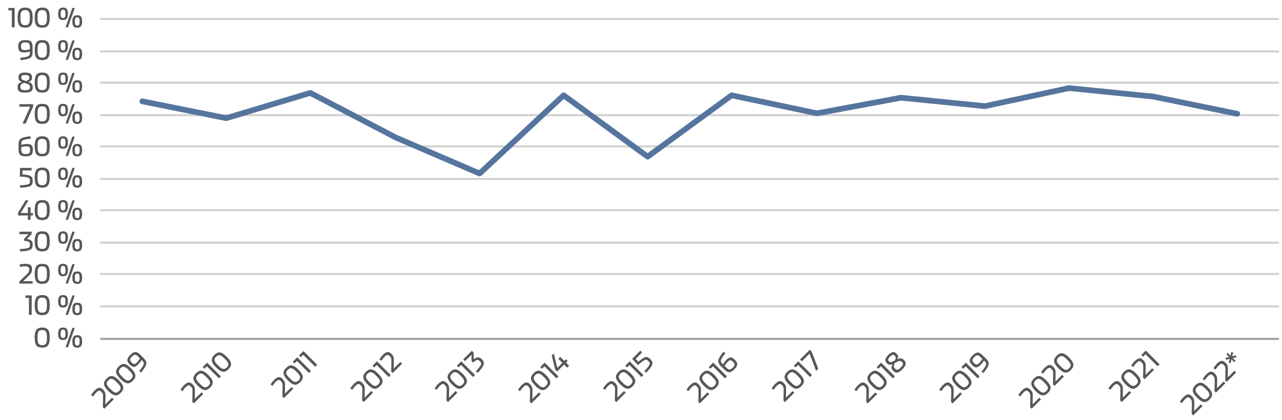
Source: Statistics Norway

Search for office space remains at a high level

Our usual calculation of office searches shows that the high demand from office searches seen in 2021 relative to 2020 continued into 2022. Up until 1 November, we have registered 127 searches for offices in Greater Oslo for a total of 183 000 m^2 compared to 122 and a total of 219 000 m^2 at the same time last year. However, the average search has declined from almost 2 000 m^2 to approx. 1 400 m^2, which is lower than the historical average at above 2 100 m^2. The search market is driven by the largest tenants and their activity in the market is highly linked to contract expiry profiles. We have seen small evidence that the 2021 numbers were also affected by tenants postponing searches from 2020 to 2021 due to the pandemic, moving the volume from 2020 to 2021. Therefore, a comparison with 2021 is not entirely fair. The numbers we find in the search data reflect the overall market reported by our leasing agents, that of an all-time high activity. At the same time, our tenant rep. team are still reporting very high activity with many search projects coming into the market over the coming six months. Hence, the search market is expected to remain strong for some time, despite the expected economic slowdown seen in economic forecasts. The sudden boom and change in office use after the pandemic have boosted the need to relocate and increase space for growth.

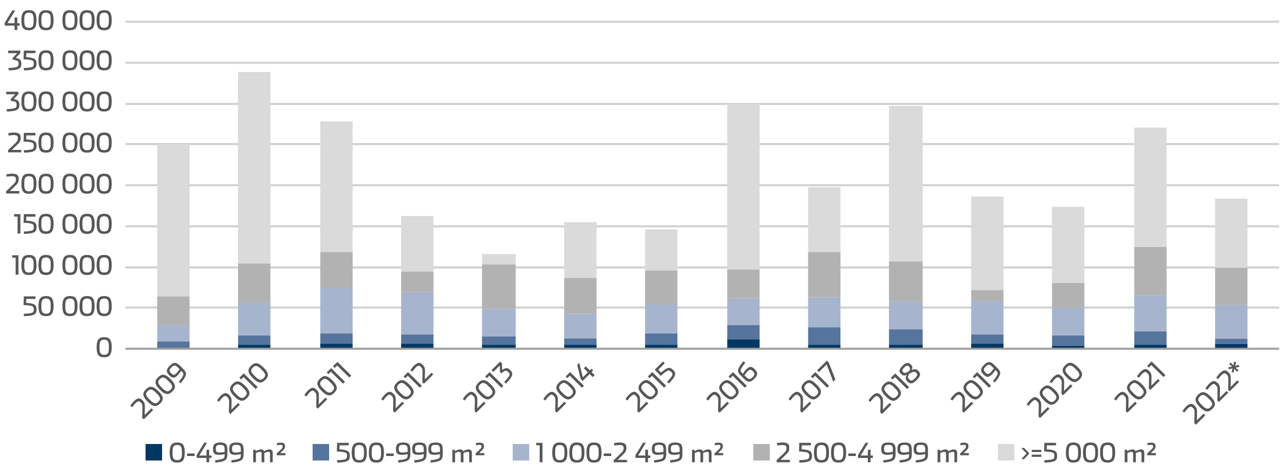
According to Google data, the rate "working from home" is still higher than pre-pandemic. The data for Oslo shows around 20 % less use of the office on weekdays, although the trend seems to be gradually returning towards pre-pandemic "normality". We are at least not seeing any signs of less demand in the leasing data due to increased working from home. Almost 80 % of office searches have been directed at central Oslo so far this year and we believe this is another data point confirming the strong rental uplift seen in the leasing data for central Oslo over the past year. Demand registered for eastern fringe zones is very low and we have to go back 9 years to find similarly low numbers. Demand for the western fringe has also cooled off according to search volumes in 2022 compared to 2021, but fares better than what we have observed in the east.

Share of demand for central Oslo office clusters



*As of 1 November 2022. Source: Malling & Co, NEMeet

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

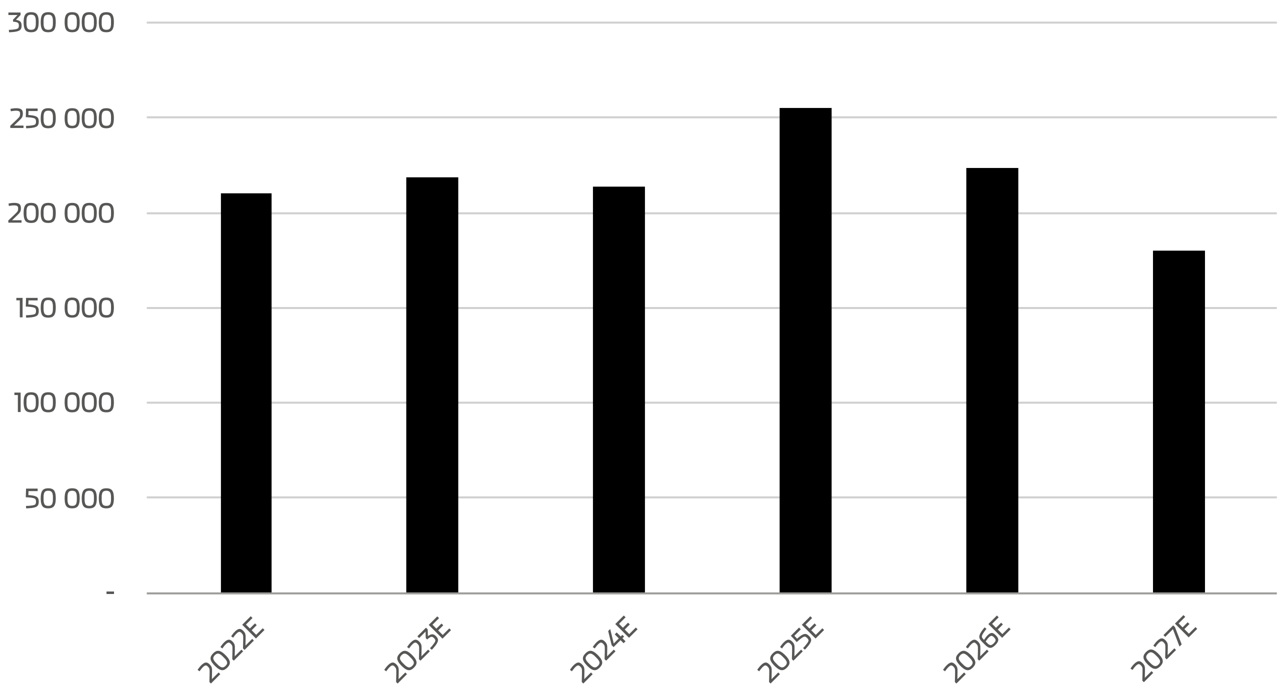


*As of 1 November 2022. Source: Malling & Co, NEMeet

Activity in the leasing market expected to ease off into 2023

Search volumes for 5 000 m^2+ tenants are estimated to remain as good as stable at between 210 000-220 000 m^2 per year over the coming two years and increase slightly to almost 250 000 m^2 in 2025. This is based on expiry profiles registered by Arealstatistikk and data on timing to market from our search database. Demand in this context is understood as when a tenant goes to the market and/or existing landlord and either extends the current lease or re-locates to a new asset. It is important to remember that estimates further out on the timeline are likely to be on the lower side, as expiry data tend to increase towards the target year. While many large searches over the recent years have come from tenants with a lease expiry in 2023, the next peak in demand will come from tenants with leases expiring in 2025 and 2027. 2027, in particular, will see many large leases expiring, with the processes likely to be resolved in 2023 or 2024. We expect tenants to be affected by the more sluggish economic outlook and, combined with low office vacancy rates, they may be short of options other than their existing space. Rising construction costs and higher interest rates will push up breakeven rents on refurbished or new space and this may push the market towards more extensions on existing leases. Many landlords may have the chance to extend leases at attractive levels net of alternative investments. This may also be a desirable, cost-effective alternative for tenants, given the economic outlook and weakened growth potential. We expect vacancy rates to continue to drop despite employment figures falling slightly, since the pent-up demand is not fully visible in the current market and since supply is low.

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



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

«Rising construction costs and higher interest rates will push up breakeven rents on refurbished or new space and this may push the market towards more extensions on existing leases».

Joint Venture Major Eiendom — Oslo

Malling & Co Corporate Real Estate was the advisor when Furuholmen Eiendom AS established a joint venture with Reitan Eiendom AS regarding two office properties, approx. 29 000 m², in Majorstuen, Oslo.

Construction activity in Greater Oslo

Construction volumes historically low, but saved by refurbishment activity

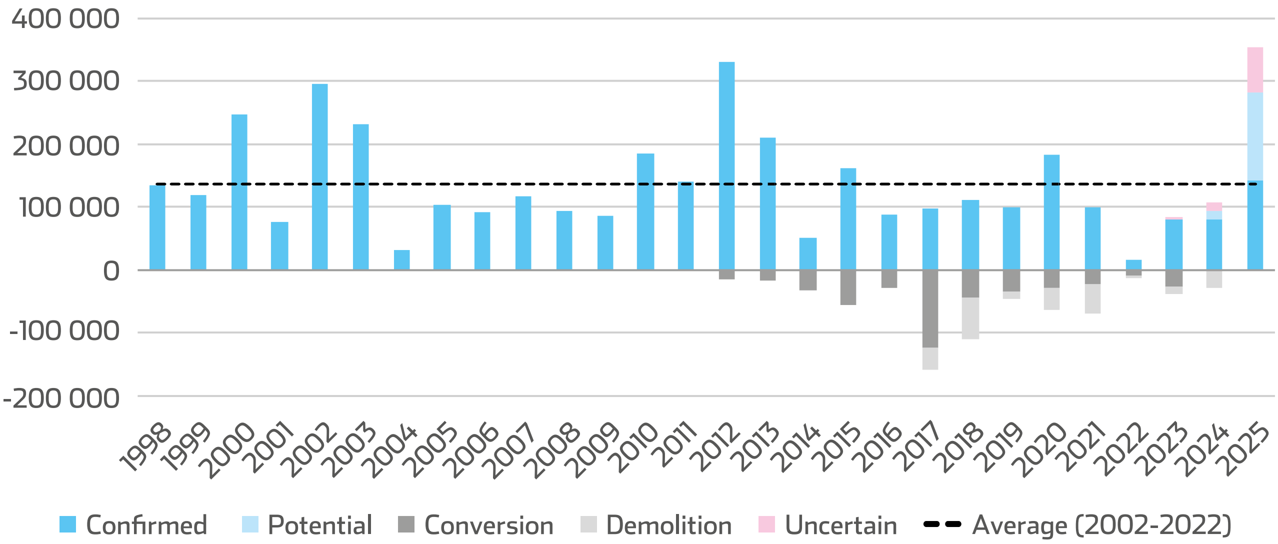
The construction of new office premises in Greater Oslo is currently at historically low levels. In 2022, only 16 400 m² will be added to the market, and 2023 and 2024 will both continue at approx. 80 000 m² already confirmed volumes, which is ~50 000 m² below the yearly average. Construction activity will mainly take place in the fringe zones. In contrast to these low construction volumes, the refurbishment activity is expected to be much stronger. 280 000 m² is already confirmed for the 2022-2024 period, with more than 80 % in the city centre. In the longer term, the construction of new premises is expected to pick up again, with more than 140 000 m² already confirmed in 2025. However, the challenging macro conditions currently observed in the market are posing a risk to the profitability of many projects, potentially delaying many of the more uncertain projects.

An overview of new construction in Greater Oslo

New construction of office space will conclude at a historically low level in 2022, at a mere 16 400 m². This is the lowest construction volume witnessed in Greater Oslo over the recorded time period, starting in 1998. Taking into consideration the demolition and conversion activity in 2022, only 4 200 m² of net new office space is added to the market. This is putting considerable pressure on vacancy levels, especially for centrally located office premises, which are in high demand and where new construction is rather limited. The only projects adding to office volumes in Greater Oslo in 2022 are Gullhaug Torg 5 in Nydalen (13 400 m²) and Hasle Tre in Økern (3 000 m²).

New construction volumes confirmed for 2023 and 2024 continue to fall short of the 1998-2022 average of approx. 136 000 m², adding ~80 000 m² each year. This means that we will see a sustained low contribution of new office premises in Oslo, tightening up the competition for the best premises. There is an upside potential to the 2023 and 2024 volumes, but it is rather limited. 2023 sees an upside of 3 800 m² characterised as uncertain volume, meaning volume which has not yet been approved by the municipal's planning and building service and where there is still a high uncertainty whether the project will ever materialise. For 2024 there is an upside of 12 900 m² in uncertain volume and 14 300 m² characterised as potential volume, the latter including projects currently in the planning process or awaiting tenants. Among the larger confirmed projects to be completed in 2023 are Aker Tech House and Fridtjof Nansens vei 12 and 2024 is expected to see the completion of Urtekvartalet and Valle Vision. In 2025, construction activity is expected to have returned and risen above "normal" levels, with 141 600 m² already confirmed. This volume includes Construction City and the new governmental quarter (blocks A and D). In addition, another 140 000 m² and 70 000 m² may be added through volumes currently labelled as potential and uncertain.

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



Source: Malling & Co, PBE, Byggfakta

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

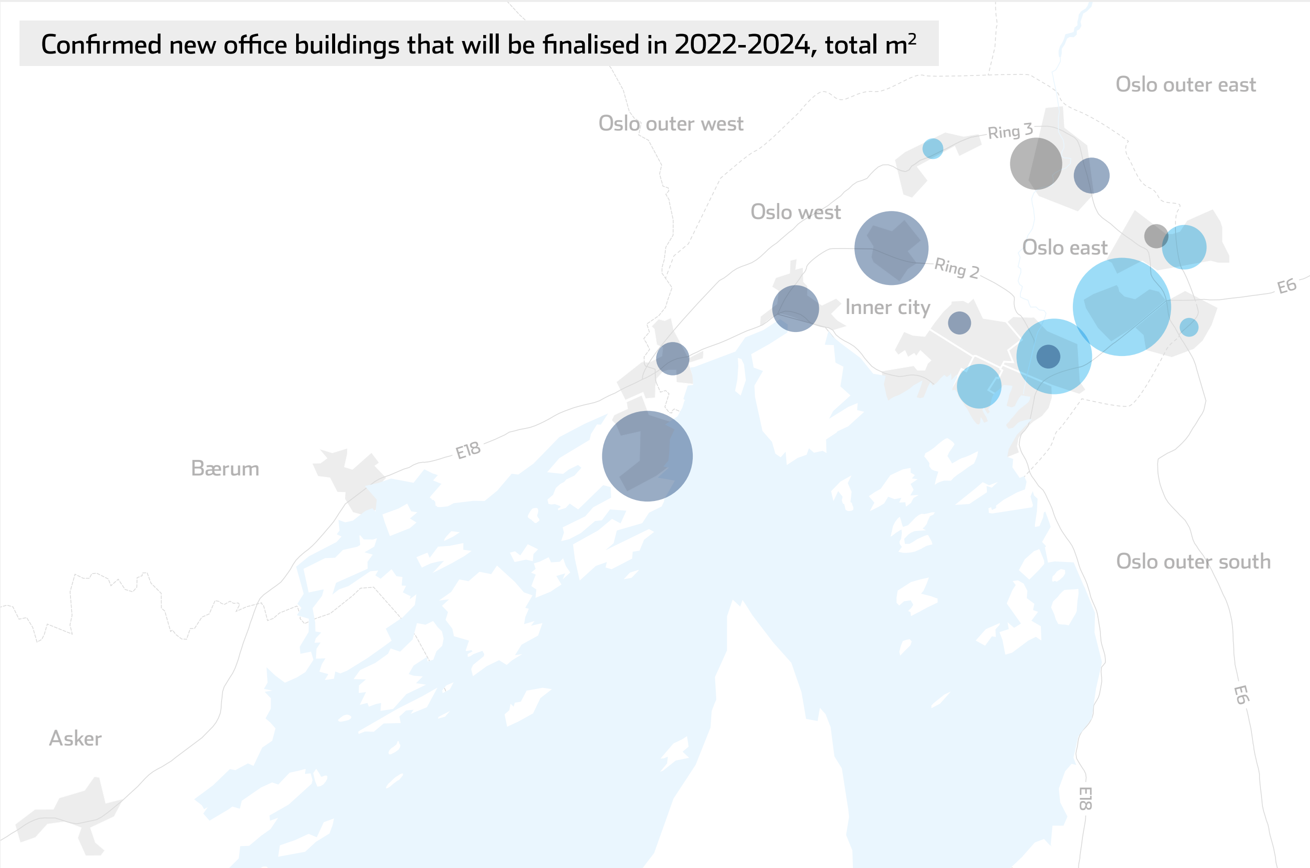
New construction by geography

Confirmed construction activity in 2022-2024 is spread across the Greater Oslo region, but with the main activity being in the fringe zones. In 2022, only volumes in the eastern fringe zone will be completed. In 2023, the western part of Oslo will be the focus, dominated by Fornebu, Skøyen and Majorstuen. In 2024, the eastern part of Oslo will again be the focus, with large projects including Valle Vision and Grenseveien 82 being completed at Helsfyr, but also with the completion of Urtekvartalet in the eastern part of the inner city. Considering only premises inside "Ring 2" (thereby excluding Majorstuen), as little as ~40 000 m² is confirmed to be completed over the 2022-2024 period, making up only 25 % of the period's total confirmed construction volume in Greater Oslo. Looking beyond 2024, there are several projects in the pipeline with zoning already in place, totalling approx. 400 000 m². The most important development is Filipstad, which will contribute another 190 000 m² of office space in the city centre.

The potential and uncertain volumes become more relevant over the longer term. The bulk of potential volume can be found at Lysaker where the development of Lilleakerbyen is ongoing with plans for 122 000 m² of new office space. Other sizable projects include NRK Ensjø, Teleplanbyen and Lilletorget 1. 60 % of the volumes in the construction pipeline are characterised as uncertain volumes and, among these volumes, more than 50 % are located in the eastern fringe zone. All the eastern clusters have several large projects currently in zoning processes. Both Økern and Bryn are planning the development of cluster centres, which, as things stand, will contribute 100 000 m² and 60 000 m² of new office space, respectively. Skøyen in the western fringe zone also carries large uncertain volumes. Most of the projects here are on hold, awaiting the new area zoning plan for Skøyen. In addition, depending on the new Oslo high rise strategy, Sparebank 1 is looking to expand the volumes at Sjølyst Plass. In the city centre, Inner City East is undergoing a transformation with large potential for new volumes in the market. The area around Oslo S, especially, has many projects in the pipeline – Oslo Galleri, Biskop Gunnerus' gate 14B, Landbrukskvartalet, etc.

It is important to mention that given the current macro-economic conditions, with high inflation and rising interest rates, it is becoming increasingly more difficult to calculate a project home. In many cases, rent levels will have to increase substantially for projects to turn profitable. Consequently, we see many projects being delayed.

Confirmed new office buildings that will be finalised in 2022-2024, total m²

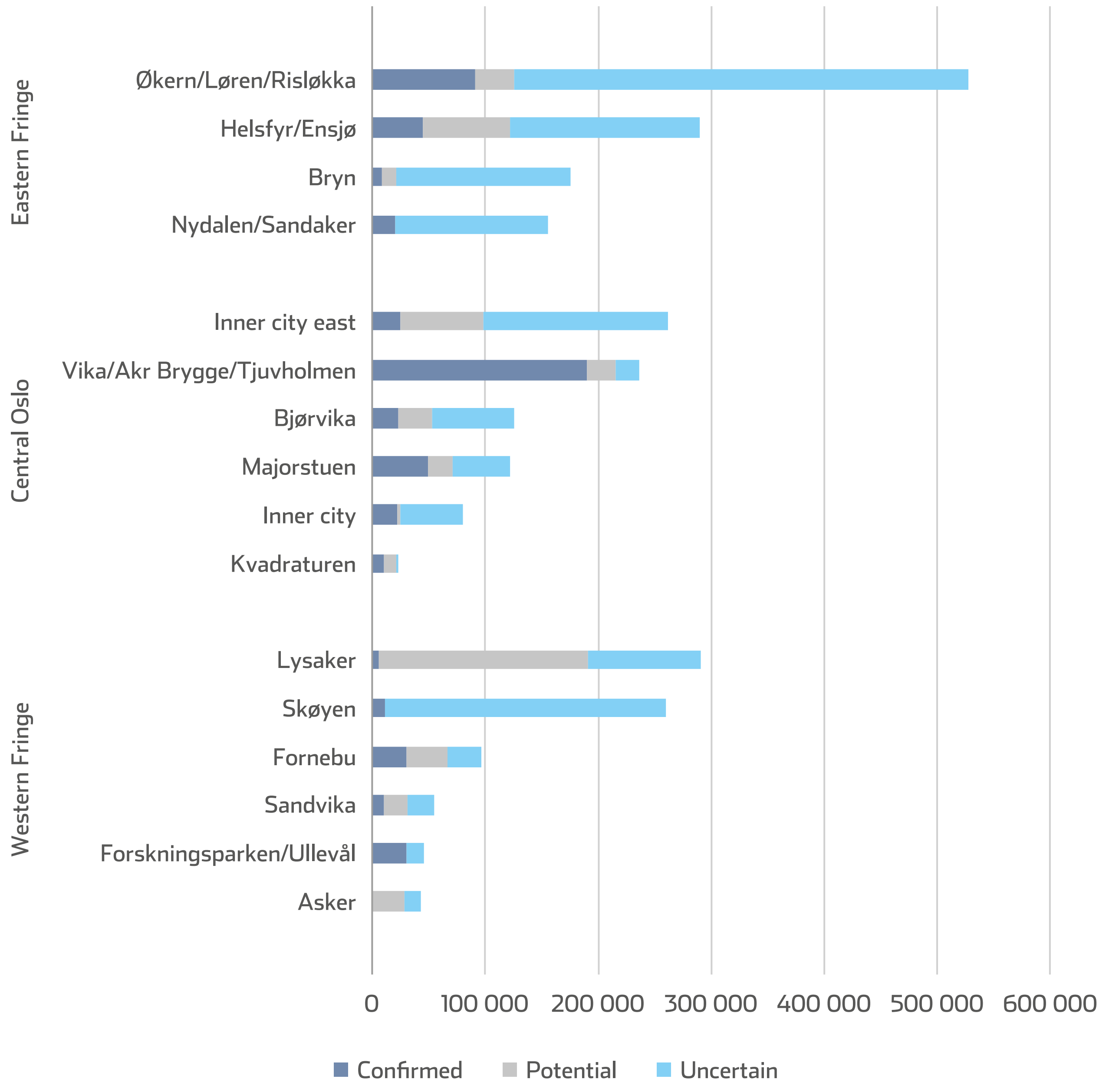


2022	2023	2024
0 % Vacant*	10 % Vacant*	12 % Vacant*

15 000 m² — The size of the bubble represents the volume of new office buildings in each office cluster.

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

Estimated new construction in Greater Oslo from 2022 split by cluster and status, total m²



Source: Malling & Co

Refurbishments

In contrast to the low volumes of new office premises being brought to the market in the 2022-2024 period, the volumes of refurbishments of existing stock indicate stronger numbers. 2022 Greater Oslo refurbishment volumes are expected to conclude at 67 800 m^2, more than four times the new construction volume. Important projects include Karenslyst Allé 12-14, St. Olavs plass 5 and Tordenskiolds gate 12. 2023 and 2024 see refurbishment volumes of 132 600 m^2 and 80 700 m^2 already confirmed, respectively. The largest projects include Kommunegården in Sandvika, Tollgaarden, Grev Wedels plass 9, Stortorvet 7, Oslo City part 1, Filipstad Brygge 1 and Bygdøy Allé 2. Over the 2022-2024 period, more than 80 % of the confirmed refurbishment volumes will be located within the city centre of Oslo. The only refurbishment volumes beyond 2024 that are already confirmed relate to Oslo City part 2, estimated to be completed in 2027. Nevertheless, there is 275 000 m^2 of potential and uncertain volume in the pipeline from 2025 onwards that can potentially materialize.

Fridtjof Nansens vei 12 — Oslo

Malling & Co Næringsmegling was the letting agent when Remarkable leased 16 890 m² in Fridtjof Nansens vei 12.

Office vacancy

Vacancy on a declining path

Vacancy levels in Greater Oslo are on a declining path. Since our last market report, the take-up of office space in the central clusters especially has been strong, resulting in vacancy levels decreasing from 5.1 % to 4.2 %. These are very low vacancy rates, which can be explained by a strong employment market putting pressure on offering central and modern premises in addition to historically low new construction volumes. Going forward, the strong employment growth of 2021 and 2022 is expected to carry a continued increase in demand for office space and, combined with low net construction volumes over the 2021-2024 period, vacancy levels are forecast to decline towards 2024.

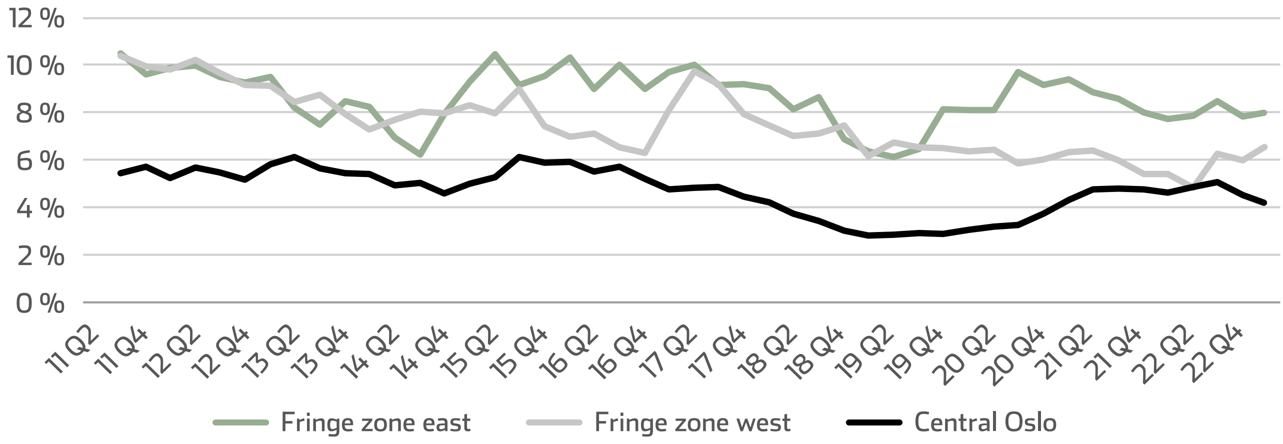
Vacancy in Greater Oslo

Since our Q2 2022 market report, vacancy rates in Greater Oslo have dropped by 0.5 pp. from 6.1 % to 5.6 %. This is mainly driven by a decline in vacancy of almost 1 pp. in central Oslo, which can be explained by two main reasons. First, 2022 has been characterised as the employees' labour market, with high employment rates and difficulties in attracting the best people. Having modern and centrally located premises has therefore been a leverage in the recruitment process. Second, the construction of new office premises has been, and will continue to be, below normal levels over the 2021-2024 period, a trend that is most strongly observed in the city centre. As a result, all the central clusters are seeing low vacancy rates, currently below 5.0 %, and particularly low rates can be found in Bjørvika and Majorstuen at 0.1 % and 1.2 %, respectively.

The vacancy rates in the eastern fringe zone have seen a more modest decline of 0.4 pp. since Q2 2022. Økern and Nydalen have seen declining vacancy, while vacancy at Bryn has increased by almost 3 pp. due to Brynsengfaret 6 being offered in the market with 14 000 m² available. Vacancy at Bryn now stands at 17.7 %, and it is in fact the only Greater Oslo cluster with vacancy above 10 %.

In the western fringe zone, the vacancy rate has seen a surprising increase over the last six months of 0.4 pp. This contrasts with the general attraction lately observed in the western fringe, with a high number of lease searches directed towards the western clusters and with increasing rental prices. However, this can be explained by some large premises now being advertised in the market, including Eyvind Lyches vei 10, Drammensveien 144 and Rolfsbuktveien 17, offering 11 000 m², 8 650 m² and 6 000 m², respectively.

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



Source: Malling & Co, Finn.no

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

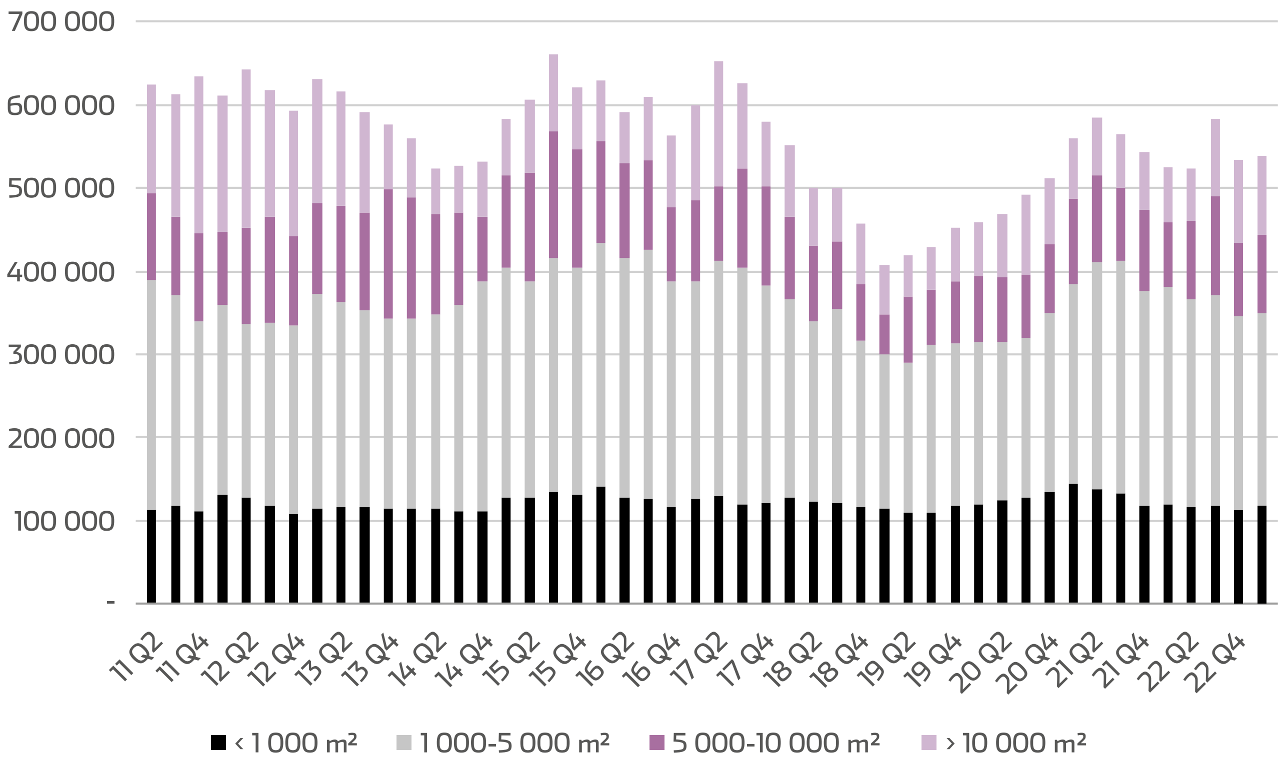
Vacancy and supply in detail

The 0.5 % decline in Greater Oslo vacancy rates from Q2 2022 to Q4 2022 translates into the volume of vacant office premises decreasing from approx. 575 000 m² to 537 000 m², with only minor adjustments in the total office stock. It is the advertisement of medium sized premises that has seen a decline, with offices in the range of 1 000 – 5 000 m² being 9 % down, and offices in the range of 5 000 – 10 000 m² being 22 % down. Many of the premises in these size ranges have been let over the past 6 months, either fully or partially, including Hausmanns gate 21, Østensjøveien 27, Innspurten 15 and Fred. Olsens gate 1. Still, premises in the 1 000 – 5 000 m² range make up the largest share of the currently advertised office space, at 43 % of the total. Advertised premises in the size of ‹ 1 000 m² and › 10 000 m² have seen a minor increase of 1 % since the Q2 2022 market report.

The total volume of office space in Greater Oslo currently being advertised on the online marketplace finn.no is approx. 660 000 m². We label this volume the supply. The vacancy, which is the total volume of office space being available only within 12 months, currently stands at approx. 537 000 m². The difference between the supply and the vacancy has been decreasing over the last couple of years. In 2021, supply volumes were on average 50 % higher than the vacancy volumes, while they are now down to only a 23 % difference. There is a logical explanation for this, as we have seen that the completion of new office premises is below normal levels for several years now. As the volumes available further out in time than 12 months typically relate to larger new construction projects, this means that less office space characterised as supply will be advertised. The difference in vacancy and supply is around 20 – 25 % in all the regions – central Oslo, fringe zone east and fringe zone west, but the largest delta decline has been observed in central Oslo, highlighting the fact that central construction activity is limited.

> «The difference between the supply and the vacancy has been decreasing over the last couple of years as new construction activity is limited».

Vacant office space split by size interval, total m²



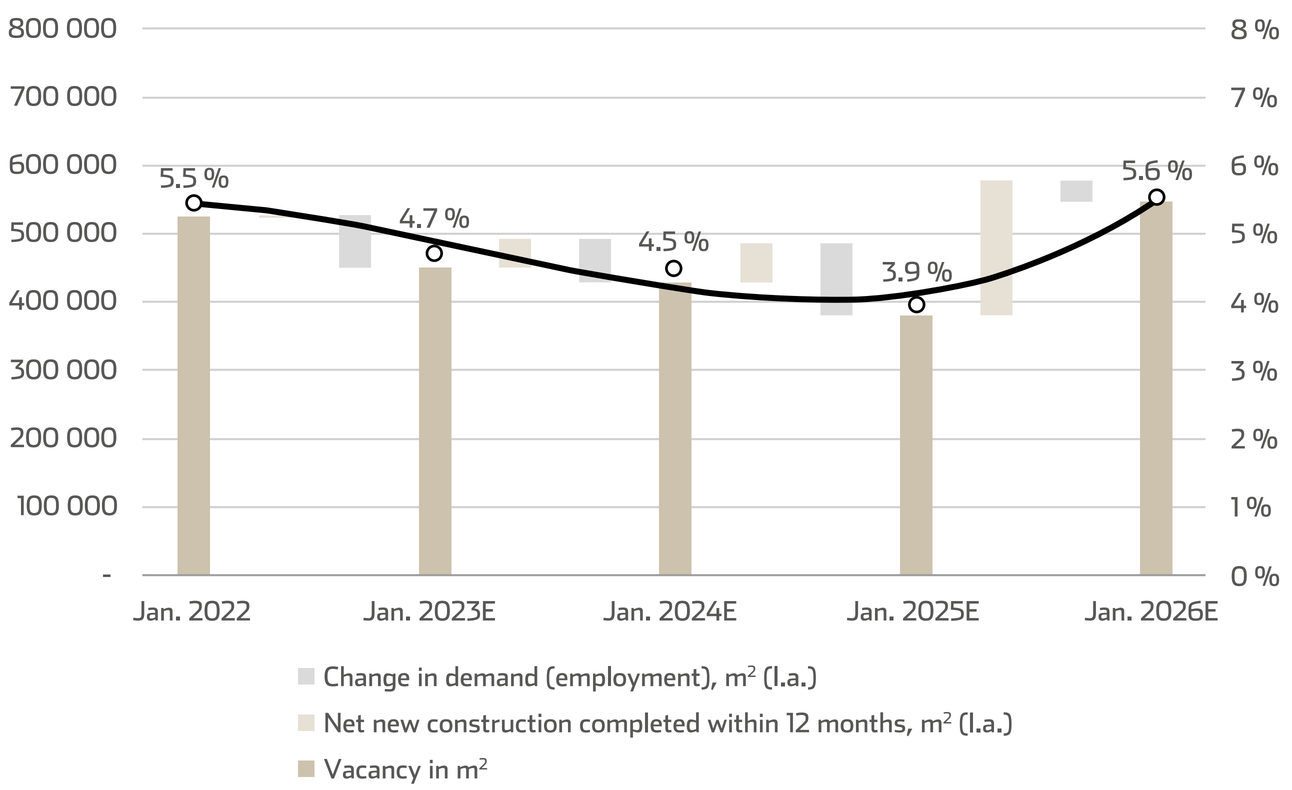
Source: Malling & Co, Finn.no

Vacancy going forward

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

Our vacancy forecast for Greater Oslo follows pretty much the same trend as in our last market report in June. We estimate that the vacancy level will continue to decline in the upcoming years before bottoming out by year-end 2024. The Norwegian central bank's projections for development in the employment market is more negative than in Q2 2022 due to the increasingly more challenging macro environment, with an expectation that 1 out of 100 will lose their job in 2023. However, both 2021 and 2022 have been years with exceptionally strong employment growth, and with a lagging effect in the absorption of office space, we still expect that there will be a positive development in demand for new office space that is well above 50 000 m^2 per year. This is higher than the expected net new construction volumes, resulting in a decline in vacancy levels, however a slightly weaker decline than what was estimated in our last market report. Our net new construction forecast for 2024 has been adjusted downwards since Q2 2022 as several projects have been delayed, and consequently our forecast for the 2024 vacancy bottom has seen an equivalent decline, from 4.2 % to 3.9 %. Our projections for 2025 vacancy levels have not seen any large alterations – we still estimate that vacancy will see a significant increase up to 5.6 % as many large construction projects will be completed this year, including Construction City and the new governmental quarters.

Estimated vacancy trend in Greater Oslo by year-start



Source: Malling & Co, Finn.no

Adamstuen — Oslo

Malling & Co Corporate Real Estate was, along with Hadrian Eiendom, the advisor for Statsbygg in the sales process of the last part of the former Norwegian Veterinary College property in Adamstuen, Oslo. The property comprises approx. 15 000 m² of land and a total 30 000 m² of building area.

Stavanger

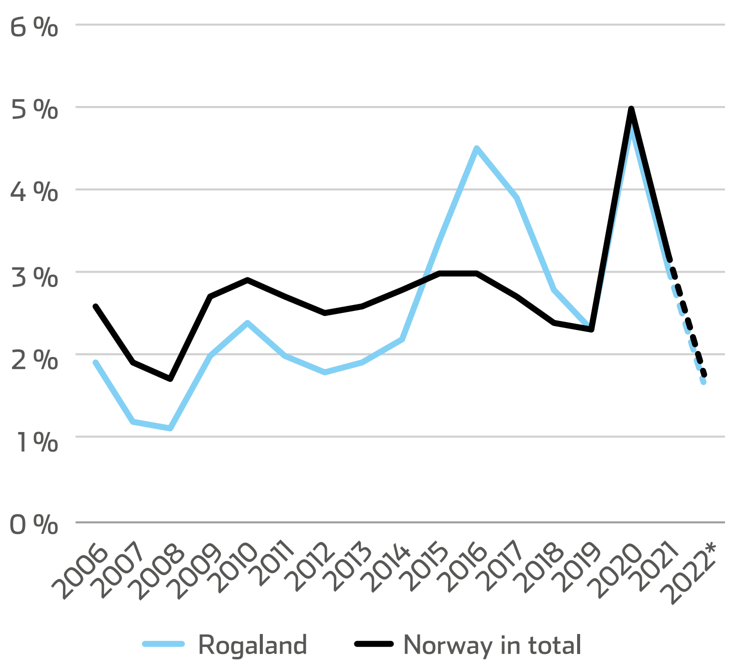
Flourishing market

While the general economy is heading towards a cooldown or maybe even recession, the Stavanger market is gradually recovering from the major hit it took after the oil price slump in 2014. The market here, at least for offices, has been chronically diseased from the oversupply of office space that has come to this market. This oversupply has gradually eased off, vacancy rates have come down and the employment market has improved significantly. Energy is now a scarce resource in Europe, and Stavanger is the capitol city of the oil and gas industry supplying the market with the important replacement for Russian gas. There are good reasons to believe that the Stavanger market will develop favourably relative to e.g. Oslo, as Stavanger's energy focus is set to benefit from the geopolitical landscape and the high prices for energy in general, as its offshore knowledge has proved important also for renewable energy. With already much higher yields than other major cities in Norway, the Stavanger market may be the right place for opportunistic investors for the coming years.

Low unemployment rates, but will it last?

The unemployment rate in Rogaland has continued its declining path. From its peak of 4.80 % in 2020 with the outbreak of the Covid pandemic, down to 1.80 % in April this year and now as low as 1.50 % as of October, we understand that the region is producing at close to maximum capacity. We have to go all the way back to 2008 to find such low unemployment rates in the region. These positive employment numbers are in line with the general trend in Norway, where unemployment is at a low level of 1.60 %. However, this picture is likely to change, as Norway's central bank is pushing up the key policy rate to combat skyrocketing inflation figures. The central bank forecasts that the number of employees in Norway will decline by 0.40 % in 2023 and 0.10 % in 2024 on the previous year. The question is how will the Stavanger region handle the tightening of the economy. The outlook for the energy sector, in which the region is heavily involved in, looks far more positive than for the rest of the economy, and future employment rates in the Stavanger area could therefore look less bleak than the central bank's forecast for Norwegian employment.

Registered unemployment Rogaland (incl. temporary lay-offs)



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

«Future employment rates in the Stavanger area could look less bleak than the central bank's forecast for Norwegian employment due to the positive outlook for the energy sector».

Office market

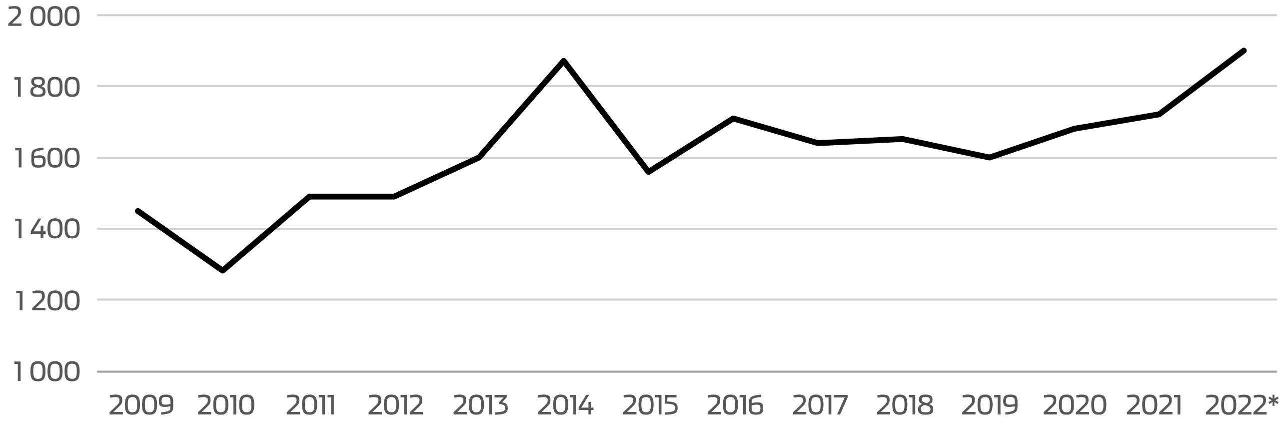
The strong employment market in the Stavanger region is reflected in the commercial real estate market – companies are in need of more office space as they are hiring new people, and several companies looking to change location are also searching for new premises. This has put an upward pressure on office rental prices. However, despite the high activity in the leasing market, vacancy levels have not come down over the last six months as construction activity has got going again.

According to Arealstatistikk's data, the average office rent in the Stavanger area has been on an increasing path since 2019, which has continued into 2022. From 2021 to 2022, the average price increased by as much as 10 %, from 1 720 NOK/m^2/yr to 1 900 NOK/m^2/yr. The largest increase in rental prices have been seen in the B-D segments, meaning contracts outside the top 15 %. The A segment with the 15 % most expensive contracts has only seen a 3 % increase in average prices, from 2 640 NOK/ m^2/yr to 2 730 NOK/ m^2/yr. The rent indications as reported by our letting agent consensus have seen limited adjustments since our Q2 2022 report. There may be several explanations to this. First, the rental prices were lifted across most of the office clusters in our last letting agent consensus, already reflecting much of the price jump seen in 2022. Second, the price increase has primarily happened within the price segment characterised as "normal" rent, which in our letting agent consensus is reported as a range. One hypothesis is that a higher number of the signed contracts are now in the upper end of the "normal" price range, thus leading to an increase in the average rental price. Nevertheless, the consensus is that the rental market in Stavanger is on a positive path. According to our letting agent consensus, Stavanger city centre and Hinna are still the clusters receiving the highest rents, the top rent being 3 400 NOK/m^2/yr and 2 300 NOK/m^2/yr, respectively.

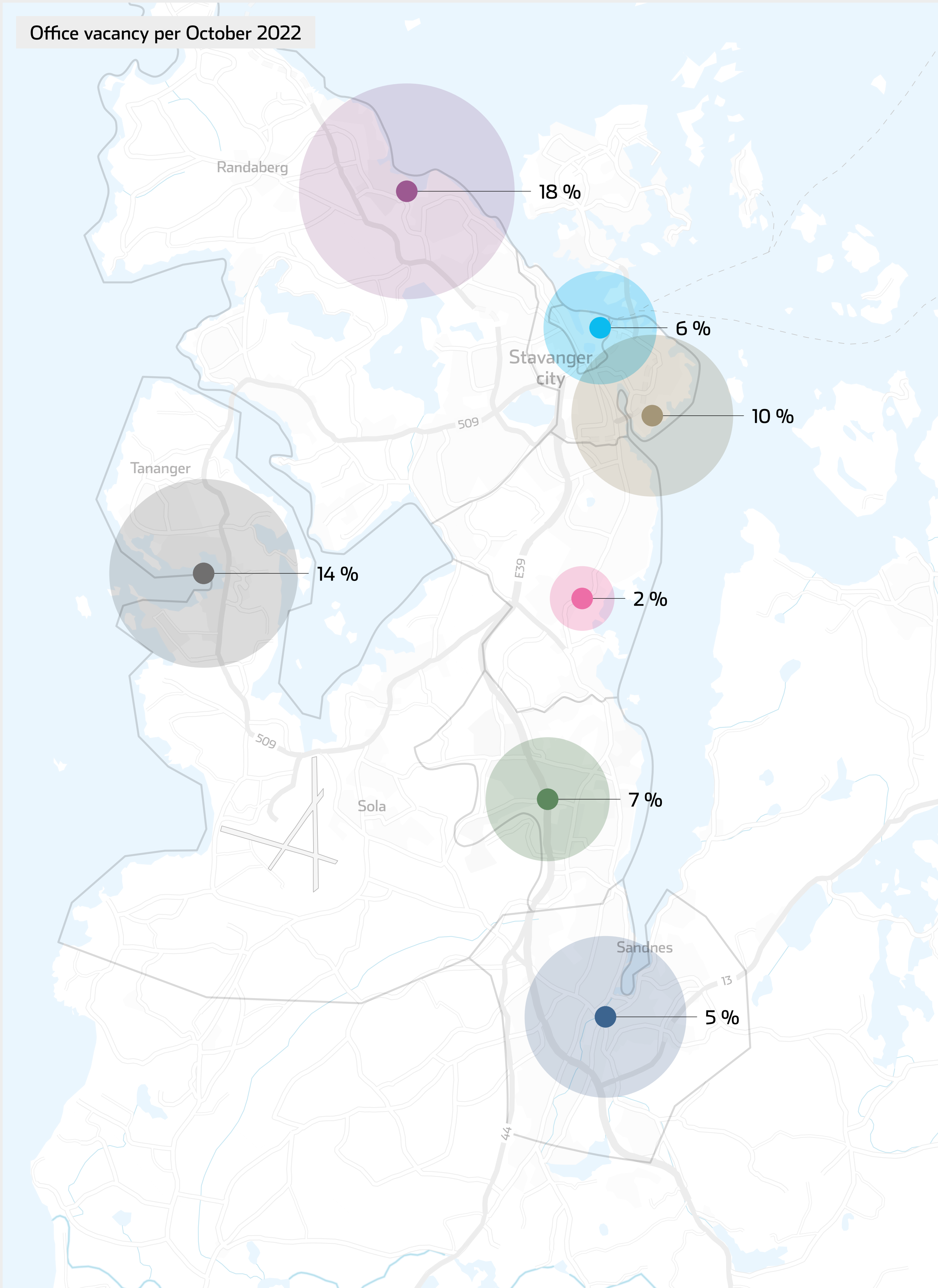
According to our local touchpoint, activity in the market in terms of signed new contracts is continuing on the good trajectory seen in 2021. One of the most important contracts has been the signing of Aker BP and Aker Solutions, taking over 48 000 m^2 in the new premises named Valhall in Hinna Park. They will move in once the premises are completed in 2025. Another large tenant search currently in the market is the Southwest Police District looking for a new police station in Sandnes at the size of 5 000 – 7 000 m^2. The strong activity in the Stavanger area is driven by some companies expanding their business and therefore needing more office space and some companies considering moving to new locations as their contracts are close to expiring. In fact, the number of contracts expiring in 2021 and 2022, as reported by Arealstatistikk, are exceptionally high, at levels well above 80 compared to levels of around 50 in 2019 and 2020. Going forward, Arealstatistikk forecasts that the number of contracts expiring will decline to 60, 75 and 40 in 2023, 2024 and 2025, respectively. With fewer contracts expiring, combined with what may be a tougher employment market, activity in the office rental market may slow down.

Despite the high activity in the office leasing market, vacancy levels have not come down since our last market report. In fact, there has been a small increase from 7.5 % in April 2022 to currently 7.8 %. The reason behind this is that construction activity in the region has finally got going again. According to Sparebank 1, the volume of office area which started construction this year was 85 000 m^2, compared to 20 000 m^2, ˜0 m^2 and 10 000 m^2 in 2021, 2020 and 2019, respectively. Some of the projects that are expected to be completed next year and thus have led to higher vacancy levels include Base Property's Knud Holms gate 8 in Stavanger city centre and Prospectives' refurbishment of the old town hall at Jærveien 33 in Sandnes. In addition, the former headquarters of Shell in Risavika will mean a lot more volume becoming available once Shell moves to its new premises in Løkkeveien. At Hinna and Forus, vacancy levels have declined since our last market report, reflecting the strong employment market especially within the energy sector, which dominates these clusters. Hinna has the lowest vacancy in the Stavanger region, at only 2 %. However, Hinna is undergoing a large transformation process with the project Hinna Park, in which offices for 6 000 new workplaces will be developed. A substantial increase in the demand for office premises at Hinna is needed in order to avoid increasing vacancy rates.

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



*2022 per H1. Source: Arealstatistikk

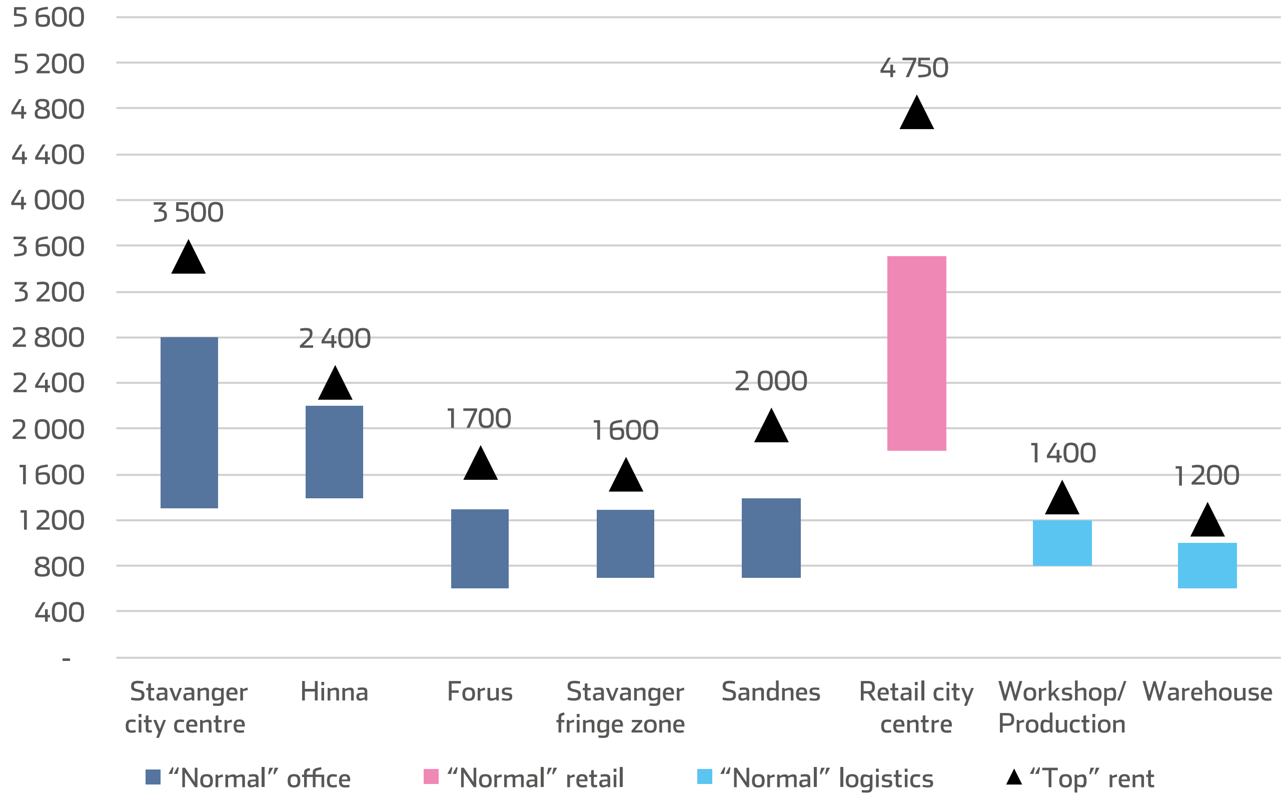


Total office vacancy* = 7.8 %	Total office supply* = 8.0 %

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

*See page 30 on how we measure vacancy.
Source: Malling & Co/FINN.no

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



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

New developments

After years of close to drought in the construction market in the Stavanger region, several new projects have started construction this year. This has put an upward pressure on vacancy rates. In addition, there are several projects in the pipeline which could further challenge vacancy. Many projects already have zoning in place but are awaiting tenants before construction can start. As demand for more office space has been quite limited for several years, many of these projects have been searching for tenants for quite some time. With the challenging economic conditions possibly ahead, there is a chance that several of these projects will not go ahead at all.

› Base Property's Knud Holmes gate 8 in the city centre, comprising 18 000 m², is under construction and is expected to be finalised in 2023. New construction in the city centre of Stavanger is rare, especially a high-rise building.

› K2 Stavanger and Bane NOR Eiendom are developing Lagårdsveien 100 located at Paradis station, with two separate buildings "The Box Office" and Stasjonsbygget, both projects waiting for tenants.

› Smedvig is refurbishing Sverdrups gate 27, called Innoasis, comprising 4 000 m² with BREEAM Very Good rating. Further on, Smedvig is developing Site 4016 ARK, which will be completed in 2023. Smedvig also have several other projects in the pipeline waiting for tenants.

› Stavanger Fylkeskommune is planning to refurbish the county headquarters at Arkitekt Eckhoffs gate 1, with estimated completion in 2025.

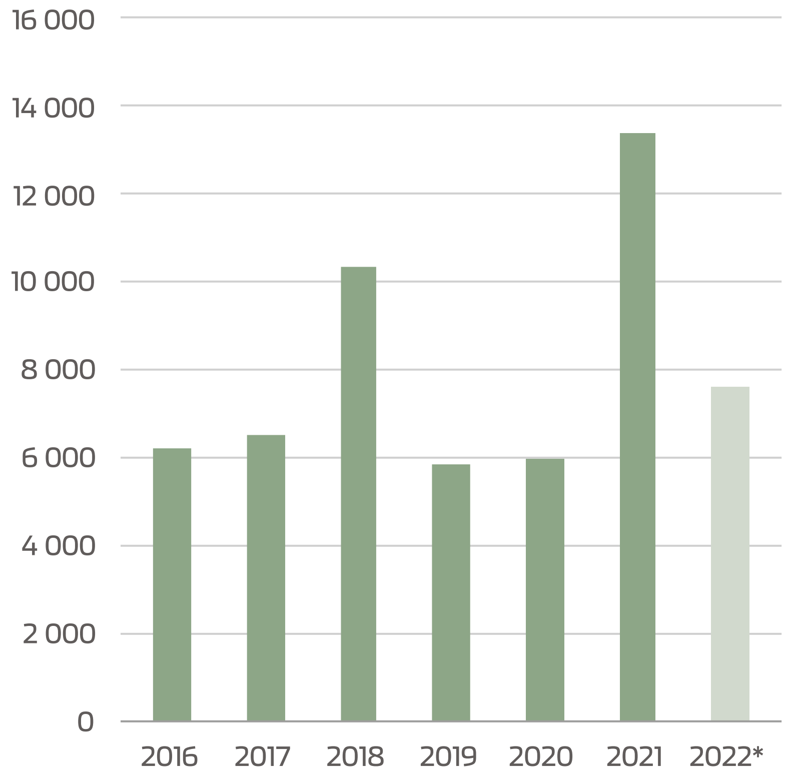
› There are still new projects planned at Forus, 230 000 m² mainly office, according to our research. All these projects are awaiting tenants, proving that the supply side is still strong in this market.

Higher interest rates and higher construction costs are pushing up breakeven rents in new developments to levels far above current market rents. This may prove beneficial for existing stock.

Investment market

Stavanger has had a resurgence in interest after a period of limited interest on the back of the challenging times in the oil & gas sector stretching back to 2014. As the energy sector has seen a spike in activity, so has the region. Although total investment volumes in Stavanger at the time of writing are only slightly more than half of 2021, at NOK 7.6 billion over 32 transactions, that is still more than a billion higher than the full year 5-year average in the period 2016-2020, and the second highest volume in Norway, surpassed only by Oslo. The trend of recent years for a broader investor universe to constitute the majority of investor interest than the predominantly regional investors is continuing. More than 60 % of the buyers are non-regional domestic or foreign, while more than 50 % of the volume is industrial in nature. This is in line with our prediction in earlier reports that the potential for industrial properties to make a significant impact on the investment interest in the region is high, as the production and exploration activity on the Norwegian continental shelf and global markets has moved back up to a higher gear.

Transaction volume Stavanger (MNOK)



*As of October. Source: Malling & Co

«2022 investment volumes in Stavanger are at the time of writing at NOK 7.6 billion, the second highest volume in Norway, surpassed only by Oslo».

Notable transactions

› Oro established Forus Areal and acquired a portfolio of 22 industrial properties, predominantly at Forus, from Tjelta Eiendom. The portfolio size is roughly 93 000 m² with a WAULT of roughly 5 years, and the deal was valued at roughly NOK 2 billion.

› A Malling & Co syndicate sold Badehusgata 33-39, a 21 100 m² office building, to Swiss Life for NOK 585 million at an estimated yield of 5.25 %.

› Norce (Norwegian Research Centre) acquired Risavika Gas Centre at Energiveien 16 from SIVA, a 2 000 m² industrial property at Tananger, for an estimated NOK 100 million.

› Base Property has acquired Bjergsted Terrasse 1, a 7 850 m² office building, from Sparebank 1 SR-Bank for NOK 200 million.

› Vika Project Finance has acquired Jernbanegata 6, a 1 950 m² office building at Bryne, from Invento and Jæren Sparbank for NOK 85 million at an estimated yield of 5.25 %.

Wergelandsveien 15 — Oslo

Malling & Co Næringsmegling has been commissioned by Deas Fund Management AS as the letting agent for Wergelandsveien 15.

Drammen

The general trends also prevail in this market

The CRE market in Drammen reflects much of the trends seen in markets elsewhere, with high demand for leasing throughout 2022, and slowing investment activity after the summer. The more dismal outlook for the coming year is also affecting Drammen. Higher interest rates are affecting costs for new investments and yields, and high energy prices are hitting many of the region's tenants hard. Since the Drammen region has a stronger focus towards mixed use, with typically lower rents to energy costs, the hit from surging energy prices is even harder here than e.g. the high-end Oslo office market. The spell of dry weather in the investment market is not helping the Drammen region, with investments halting. As observed in other markets, investors are concerned by the uncertainty and are awaiting potential interest in new cases once the fog of doubt has cleared. As seen in other more liquid markets, yields have come up 50-100 bps since hitting the bottom last year, despite a lack of transactions to confirm exact levels. Drammen will continue to develop over the coming years with large projects like the new hospital at Brakerøya, leaving the market an interesting long-term opportunity for CRE development.

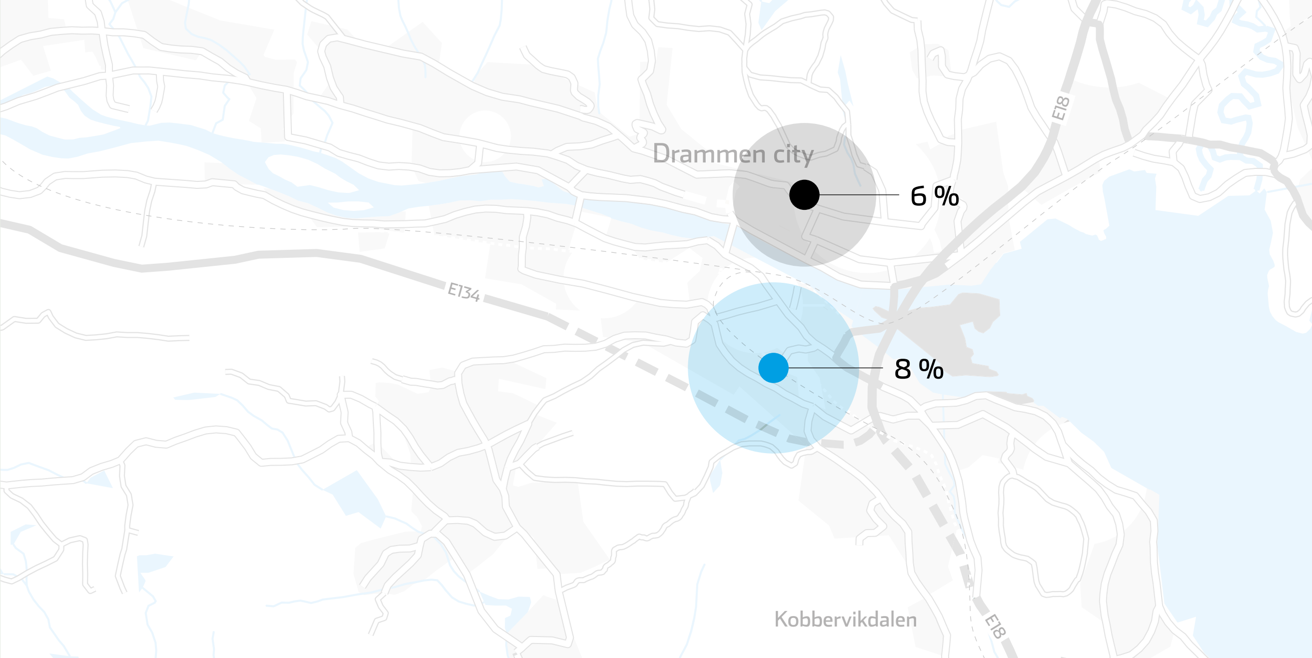
Office leasing market

So far in 2022, the office rental market in Drammen has seen high demand, a trend also seen in Greater Oslo. Another trend seen across all markets and in Drammen is the increased focus on energy and other leasing-related costs, a natural change given the surge in energy prices. What is considered to be normal rent has been adjusted slightly downwards at Bragernes, and top rents have been adjusted downwards to 2 200 NOK/m²/yr since the previously reported rents proved too hard to obtain for the very best. The even higher top rent at Strømsø at 2 900 NOK/m²/yr, which can be traced back to the completion of Spor X, has been adjusted up to 3 000 NOK/ m²/yr, while normal rents have been kept at previous levels. At 1 500-2 500 NOK/m²/yr, Strømsø's close connection to Drammen Station attracts interest, along with new, modern and environmentally friendly office buildings, such as Spor X and Portalen.

Vacancy has dropped slightly since our last report in June in the two office clusters. The total area advertised for letting in the Drammen Region over twelve months has been calculated at 7.2 %, down from 8.4 % in our last report in June. Vacancy in Bragernes fell from 7.3 % in April 2022 to 6.0 % in October. Vacant space in Strømsø is slightly higher at 8.3 %, although this is a drop from April when it was 9.5 %. Vacancy in Bragernes has been more stable than in Strømsø in general, as newbuilds added to the supply side in Strømsø have brought about a larger variation. The reduced vacancy at Strømsø is a result of the newbuilds to be absorbed.

We find that most of the vacancy mentioned is typically in older buildings with suboptimal layouts. Our letting agents in Drammen report an increasing desire for energy-efficient buildings and well-built common-facilities. Tenants are increasingly concerned about energy classes and BREEAM certification. We see the 'winners' to be those landlords who continually maintain and develop their buildings and meet the expectations of tenants. Smaller tenants below 500 m² are struggling to find good options and often end up in older buildings or in coworking spaces.

Office vacancy per October 2022

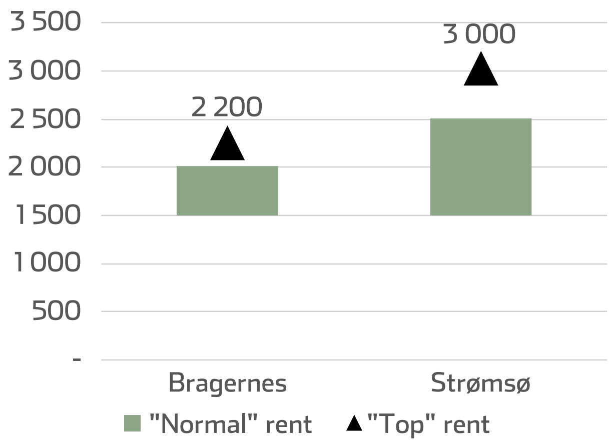


Total office vacancy* = 7.2 %	Total office supply* = 7.2 %

● Bragernes ● Strømsø

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

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



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

«Strømsø's close connection to Drammen Station attracts interest, along with new, modern and environmentally friendly office buildings, such as Spor X and Portalen».

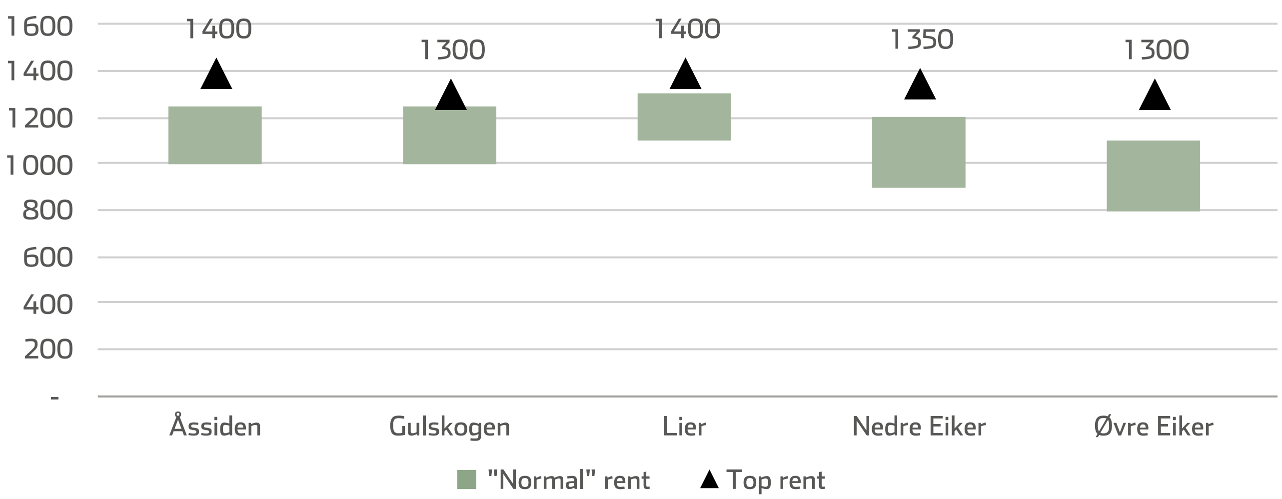
Selected notable lease agreements

- Tesla has signed a lease agreement for roughly 13 000 m² mixed-use in Holmestrandsveien 117.
- Padel United has signed a lease for 6 800 m² padel centre in Havnegata 59.
- Lindab has signed a 1 300 m² lease for combined space in Ingvald Ludvigsens gate 14.
- Solar Norge AS has signed a 1 300 m² lease for combined space in Gråterudstubben 1.
- Igaidi has signed a new lease for 1 000 m² office in Strømsø Torg 4.

Logistics and mixed-use leasing market

While other markets are more distinct in terms of different segments, Drammen is mainly recognized by combined space with a mix of storage, workshop, office and space-requiring retail. The mixed-use vacancy of existing space in the wider Drammen area currently stands at 2.7 %, just slightly up from 2.3 % in our previous report. Vacancy in this segment is fairly low, so even if demand is high, one or two additional large assets could potentially make huge changes when put on the market. Since April, Lierstranda has increased vacancy by around 6 000 m^2 and Solbergmoen by around 10 000 m^2. Other areas have remained fairly stable or have seen decreased vacancy. Vacancy is considered low and the market is tight enough for further rental increase. Supply in terms of new projects is still limited, making it difficult for land-intensive tenants to find the appropriate space. As energy prices have soared, the focus on energy consumption has suddenly increased significantly, and is now a key driver for rental differentiation among assets. Tenants with high environmental ambitions will need to find a developer with unbuilt land and sign a lease for a new building, as very little of the old stock complies with any environmental certification. This would usually mean that tenants will have to move to greenfield areas in the outer fringe, as centrally located land is scarce to find without a building and tenant. As Tesla has leased one of the few remaining centrally located plots in the region for a new sales and service centre in Holmestrandsveien 117, the alternatives for further projects remain even scarcer. Leased by our agents in Drammen, the 13 000 m^2 project will be finalised in 2024 and has been developed by Eneo Eiendom and Drammen Municipality real estate development. The increase in construction costs and interest rates will continue to challenge rental levels for new developments, as breakeven rents on spreadsheets need to increase for landlords to achieve required return on their projects. So far, low vacancy and increased costs for new space has led to an even further increase in rental prices for mid and low-quality existing space, while top rents are starting to see the effects of the increase in breakeven rents, although this will need increasing tenant demand and a willingness to pay higher rents. Accessibility to main roads is still an important driver for rental growth. According to our letting agent consensus, the range of both "normal rent" and the top rent in logistics and mixed-use clusters have moved upwards by 50-150 NOK/m^2/yr since the June report. The uncertain macroeconomic outlook for 2023, with falling investments among businesses and households, is likely to affect the tenants in this region specifically. Many companies in the region are exposed to capital intensive businesses, e.g. car imports, which are expected to be hit hard over the coming year. The effect on vacancy and rents is a bit unclear, but it would be fair to say that we will see some increased vacancy and easing off on rents. Tenants are already increasing their focus on costs and are downscaling and streamlining storage space.

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

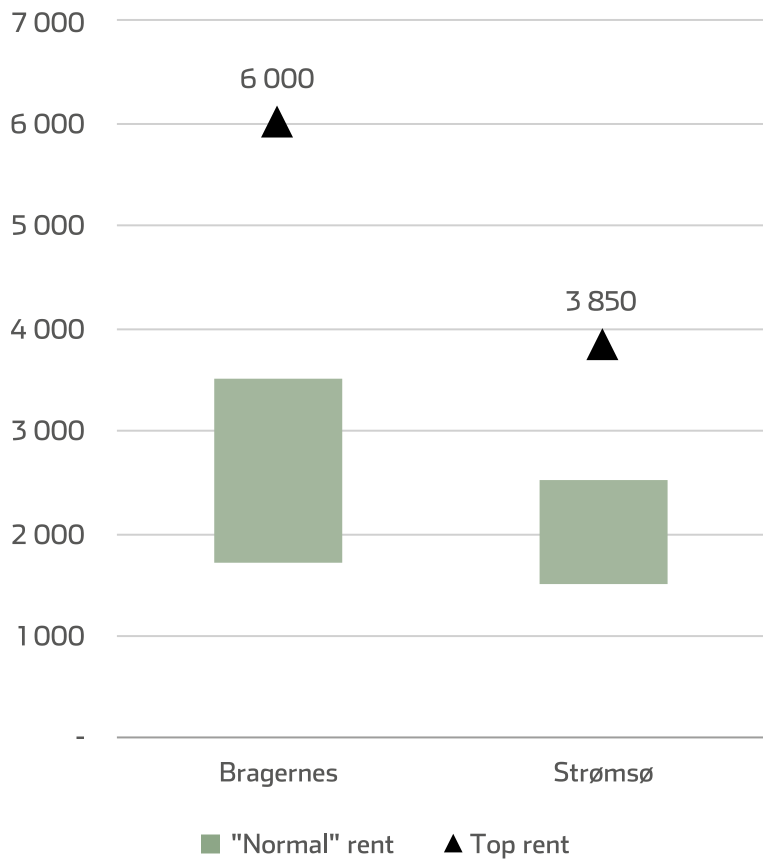


*See definition of prime and normal rent at page 16. Source: Malling & Co

Retail leasing market

The retail market in Drammen is more of a mixed story in comparison to the other segments. Tenants within F&B are struggling, as people are increasingly cutting costs due to inflation and higher interest rates. Brask og Bram, Los Tacos og Tuktuk are examples of restaurants that have closed down during the autumn. Retail tenants selling goods are also getting a hit from reduced sales and increased costs, and we expect vacancy to increase and rents to decrease in the coming year. Bottom rents at Bragernes are down 100 NOK/ m^2/yr to 1 700 NOK/m^2/yr. At Strømsø normal rents have stabilised, while top rents have been adjusted upwards with new contracts at record levels. The big box segment, which in many cases has a blurred distinction with the combined segment, has seen better activity lately, but this segment is also expecting to see more difficult times ahead.

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



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

> «Tenants within F&B are struggling, as people are increasingly cutting costs due to inflation and higher interest rates».

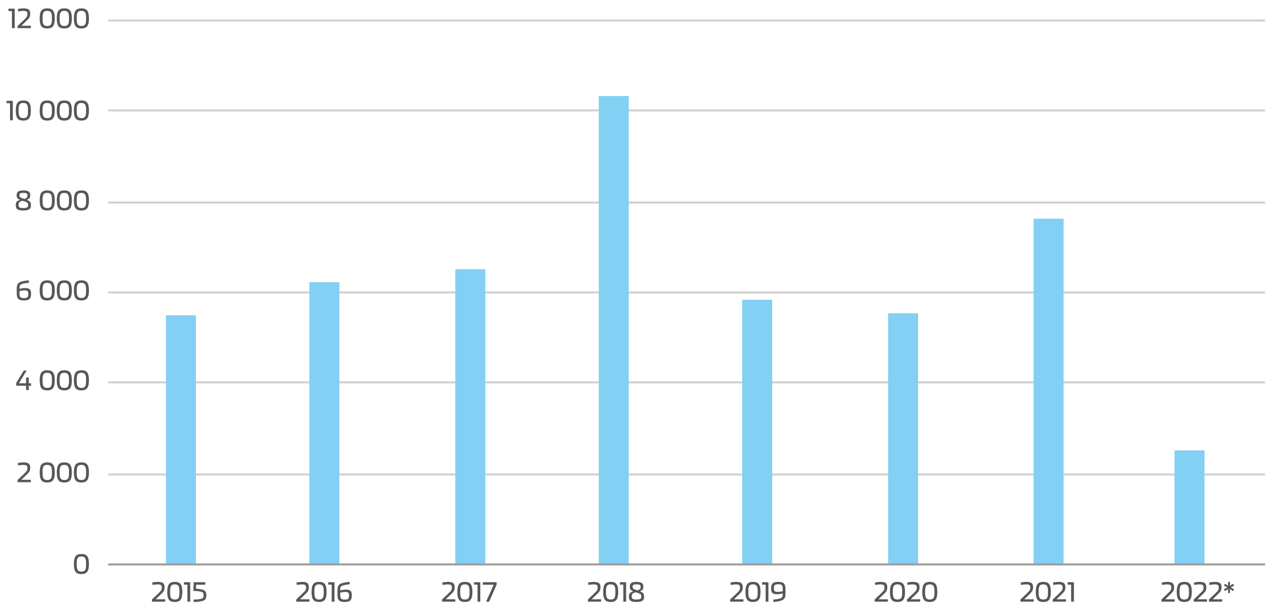
New developments

As mentioned in the above section, there are few vacant logistics and mixed-use buildings in the existing stock. The natural solution is to develop new stock, but the availability of quality land is limited in this region. The most attractive land bank sites outside of Drammen, including Hanekleiva Næringspark, Toppen Næringspark, Røyken Næringspark and Fisumparken, have been filling up with tenants quickly. For example, Røyken Næringspark between Drammen og Drøbak, with links to both the E18 and E6, has secured tenants such as Birger N Haug, Bilia, Apilar and Rental Group. The pipeline in central and highly attractive areas like Liertoppen still has some development potential, but is awaiting zoning. Another proven attractive location is Fiskumparken, located along the E134 between Hokksund and Kongsberg. It still has plots available for tenants or investors. However, the general economic outlook with higher interest rates and slower growth may dampen demand, as well as push up the breakeven rents for landlords for new built space. This will eventually increase the gap between tenants and landlords in the negotiations for the coming year.

The investment market

The momentum observed in the investment market going into 2022 came to a clear halt over the summer. Many transactions were carried out in H1 2022 and, relative to H1 2021, activity was much stronger. H2 2022 is so far the complete opposite, as activity is well below the activity observed in H2 2021, and also in a historical context. The first signs of a shift in the sentiment came as properties launched over the summer were met with interest, but at much lower levels than sellers were expecting. The bid/ask spread quickly caused a slowdown in activity, and there are few transactions to benchmark against as buyers and sellers in general have yet to find new common ground. But there are signals that there is some chance of seeing the gap closing towards the end of the year. Investors have become much more wary of the strength of the tenants, as several sectors in the Drammen region are set to face an economic downturn. Yet there are also a few bright spots in the investment market in the region. Central business parks continue to drum up interest, especially where there is larger value-add potential involving demolition, larger upgrades and expansion possibilities.

Annual transaction volume Drammen (MNOK)



*As of October. Source: Malling & Co

Office investment market

Strømsø has been characterised by high construction activity. Newbuilds, add-ons and rehabilitation projects near to Strømsø Torg have been taking form, such as Spor X and The Square. The renewal of the area is expected to continue into the future with many prospects currently under regulation, including Torgeir Vraas plass 1-3 and Torgeir Vraas plass 5-7. The timeline for some of this transformational activity to increase the attractivity of Strømsø, making it a desirable location for investments, could be prolonged. We expect the investment activity in the area to increase again in the longer term, while at present we will probably face a temporary slowdown while investors and developers adjust to new and higher breakeven rents as building costs and yields increase.

Logistics and mixed use investment market

Liertoppen and Kobbervikdalen continue to be the most attractive areas for investment objects within logistics and mixed-use, in which transactions of both existing stock and land have been carried out over the summer. These are for the most part newbuilds or buildings currently under construction on the few remaining plots along the axis, but the yield has climbed back up above 5.0 %, a notable shift from the levels well below 5.00 % seen just 6 months ago. Due to the scarcity of available plots of land close to Lier and Drammen, new clusters for mixed-use buildings are forming in the surrounding fringe zones, and these have proven to be attractive to investors as well. Examples include Hanekleiva Business Park and Fiskumparken. Yet, these projects will also be facing a lower willingness to pay from investors due to higher breakeven rents affected by building costs and yield increase.

Selected notable transactions

› Høvik Næringspark, Lier – Høvik Argos Holding AS sold a 46 000 m^2 industrial property with development potential to a undisclosed investor.

› Vedal Investorer and J.B Ugland purchased a development property at Bragernes, Nedre Strandgate 9 and Erik Børresens Alle 1 for an estimated NOK 95 million.

› Vestaksen Eiendom acquired Kobbervikdalen 119, a 4 200 m^2 industrial property, for an undisclosed amount from Ole Selvig Eiendom AS

«The first signs of a shift in the sentiment came as properties launched over the summer were met with interest, but at much lower levels than sellers were expecting. The bid/ask spread quickly caused a slowdown in activity, and there are few transactions to benchmark against as buyers and sellers in general have yet to find new common ground».

Høvik Næringspark — Lier

Malling & Co Drammen was the advisor for Høvik Argos Holding AS in the sales process of a 46 000 m² industrial property with development potential.

Terminalen 12-16 — Lier

Malling & Co Investments has acquired Terminalen 12-16 at Lierstranda in Drammen and arranged a "club deal" on behalf of its investors. The property is included in the future development area of "Fjordbyen".

Bergen

Slowdown in the investment market

There is lower activity in the investment market in the second half of 2022 in Bergen like in other cities. Rapidly rising interest rates, restrictive access to debt and uncertain macroeconomic developments have slowed down the market. However, there are still ongoing transactions, but the distance between buyers' and sellers' price expectations have increased, which leads to a higher level of uncertainty. The activity in the rental market is high, where several factors are contributing to a strong demand for office premises.

Office rental market and demand

The activity level in the rental market is high, driven by stable office vacancy over several years, increased oil price and very low unemployment. The labour market is very tight in Bergen, and the percentage of people who are completely unemployed is at the lowest level recorded for many years (Sept. 2022: 1.8 %). This has had a positive effect on the demand for office space.

We have seen that the distinction between buildings in the top segment and less attractive buildings is becoming more apparent. Furthermore, higher energy costs have resulted in increased demand for energy-efficient buildings. Office buildings close to the city centre and Bergen Light rail, "Bybanen", with a wide range of services are still the most sought after.

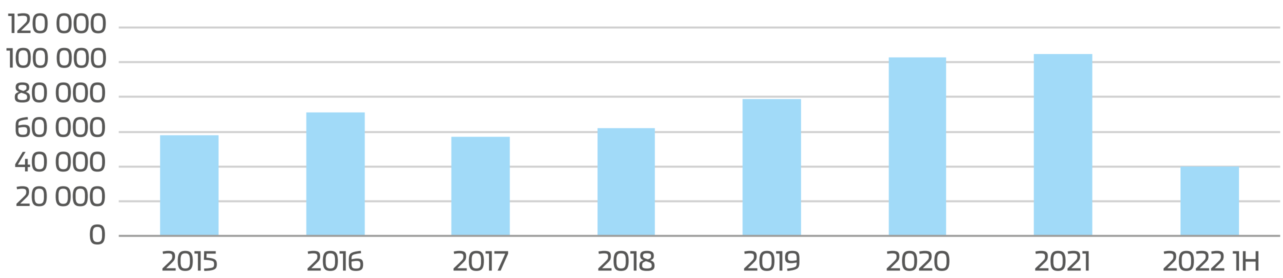
We've seen a steady increase in the demand for office space in Bergen since 2018. According to Arealstatistikk's letting report, leases for approx. 105 000 m^2, split between approximately 130 contracts, were signed in 2021. It was somewhat slower in the first half of 2022, as only approx. 40 000 m^2 and 60 contracts were signed. We believe that there are mainly two reasons for this:

1) There is normally less activity in the first six months of the year than in the second half, both in terms of total m^2 signed and number of contracts.

2) There have been only a few larger tenants in the market. As a result, the total office search volume is limited.

   The pipeline of office newbuilds in Bergen is expected to decline over the next two years. We have registered approximately 40 000 m^2 in 2023, and only 12 500 m^2 in 2024. Several of the newbuilds are speculative projects or built with low occupancy rate. This is in line with the majority of newbuilds in Bergen since 2019/2020.

Signed office contracts, sum m^2



Source: Arealstatistikk

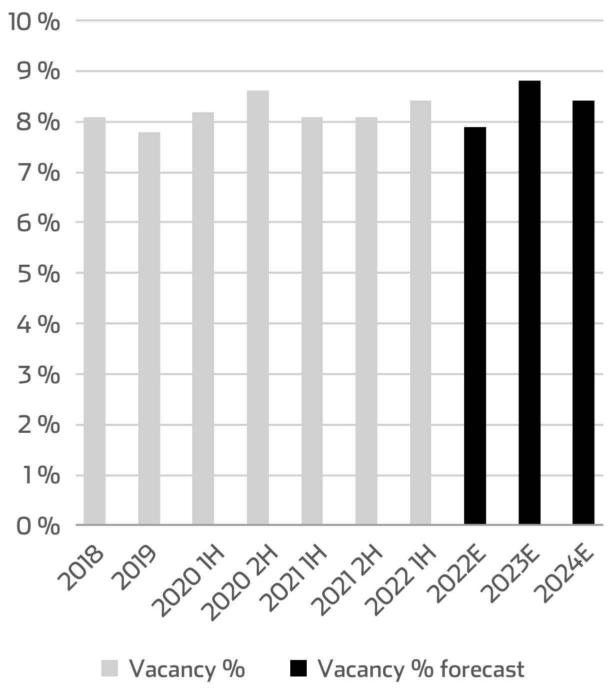
This section has been provided by WPS Næringsmegling in Bergen.
To check out more details about the CRE market in Bergen — click here

Vacancy

Since 2018, office vacancy has been steady at approx. 8 %, with only slight variances. This trend continues in 2H 2022, with office vacancy reducing by a mere 0.5 % compared to 1H. This reduction is mainly a result of higher occupancy rate in newbuilds. For the next 12 months, we expect an increase in office vacancy of nearly 1 %. The main reason for this change is that Vestland County Council is moving out of Sandslihaugen 30 during Q1 2023. Furthermore, we expect office vacancy to decline slightly to approx. 8.5 % in 2024.

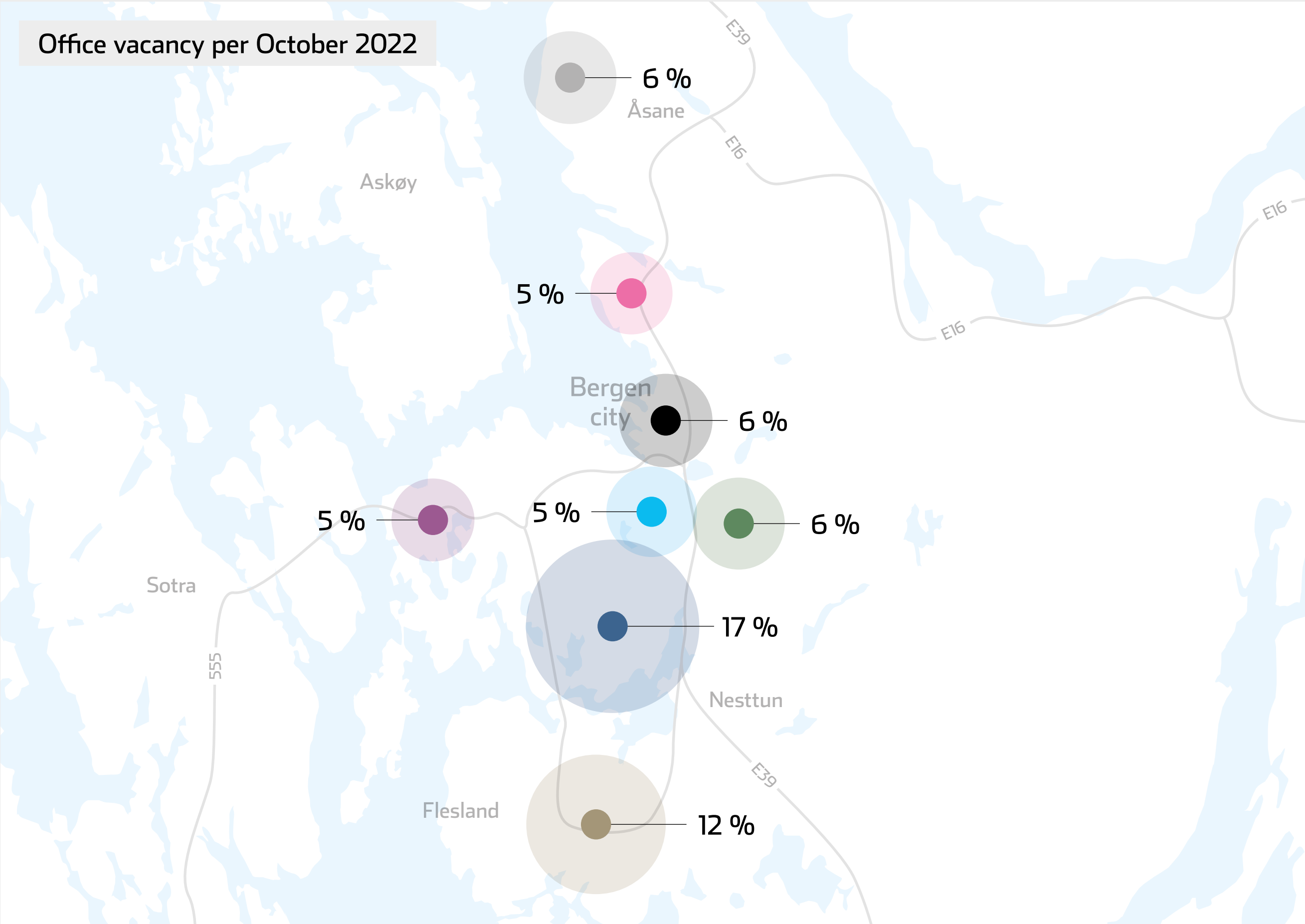
Regarding the various geographical areas, we find the most positive development in Bergen city, where vacancy has decreased by 1.6 % since the previous count. Several new and refurbished office buildings have recently been completed in the centre of Bergen, and vacancy is decreasing as these buildings have been filling up quickly. Fyllingsdalen is still the area with the highest vacancy. In the longer term, we expect a lower vacancy in this area due to conversion of vacant office buildings into housing and increased attractiveness due to the opening of Bybanen.

Vacancy % and forecast



Source: WPS Næringsmegling, Finn.no

Office vacancy per October 2022



Total office vacancy* = 7.9 %

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

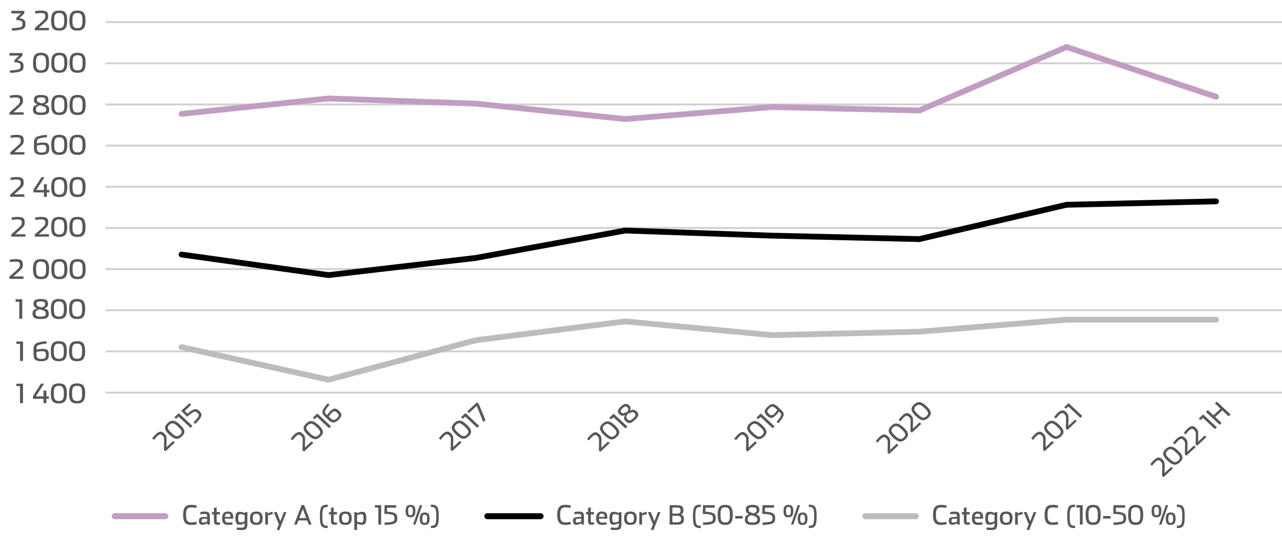
*See page 30 on how we measure vacancy.
Source: WPS Analyse

Rents

The supply of newbuilds and refurbished high-quality buildings, especially in the centre of Bergen, has raised the quality in the market and as a result, also the prime rents. However, figures from Arealstatistikk's letting report for 1H 2022 show a reduction of approx. 8 % in rental prices for category A (top 15 %) compared to 2021. There have been few signings among the best premises during the first half of the year. We expect rents for the best premises to increase in the second half of the year and maintain our indicative rent of 3 300 per m^2.

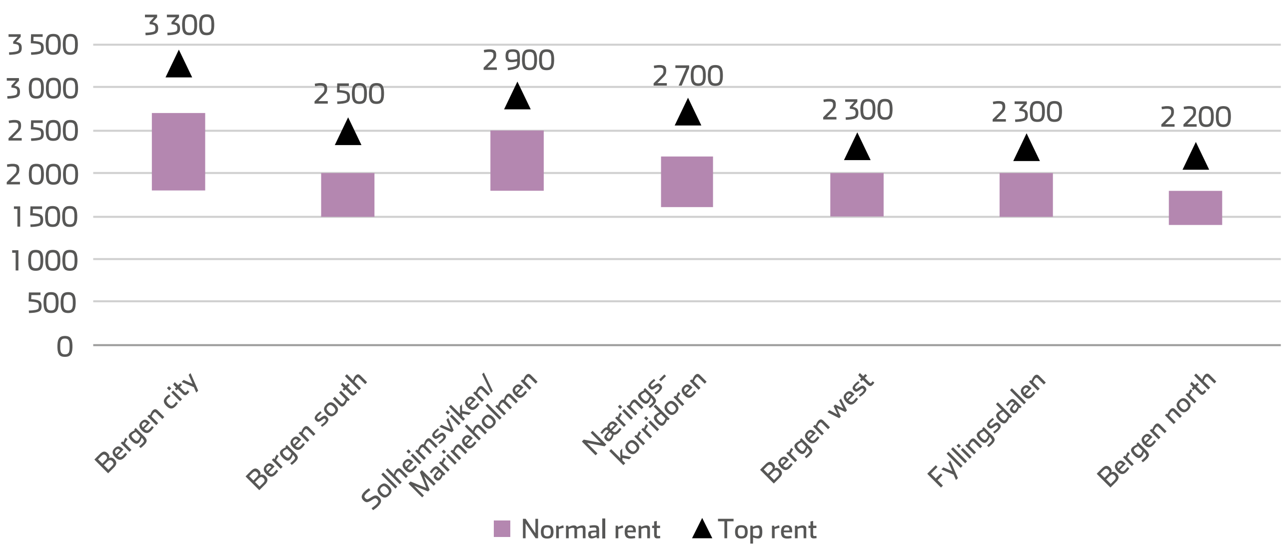
Even though the development in categories B and C is flat in 1H 2022 according to Arealstatistikk's data, we have registered somewhat higher rent levels for the normal rent in the various geographical areas. High inflation, continued increases in construction costs and higher land prices are contributing to a general increase in rental prices.

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



Source: Arealstatistikk

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



Source: WPS Næringsmegling

Investment market

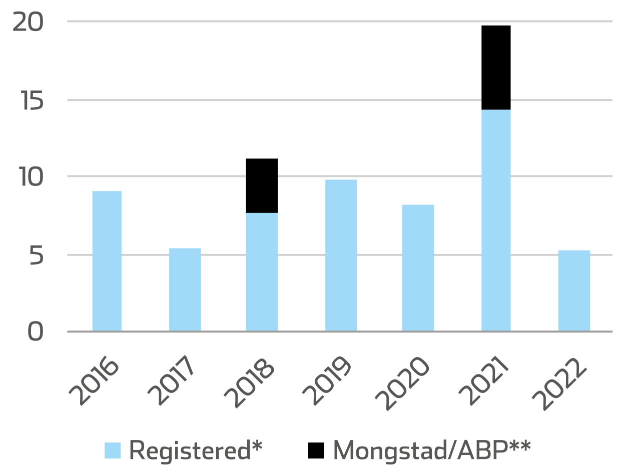
Demand and volume — After a strong start in 2022 for the investment market, we have registered a significantly lower activity level after the summer. Rapidly rising interest rates, restrictive access to debt and the uncertain macroeconomic developments have slowed down the market. As of 1H 2022, we recorded a total transaction volume of NOK 3.9 bn., divided between 20 transactions. The corresponding number is NOK 5.2 bn. as of October 2022, split between 30 transactions. For the full year we expect a total transaction volume in the order of NOK 8 bn., which is significantly lower than our previous estimate as of 1H 2022.

The WPS Investor Survey for Q3 2022 indicates a strong buying interest for commercial real estate over the next 12 months, as 73 % of investors state that they will be net buyers. Logistics is the most sought-after segment with the percentage of net buyers standing at 78 %, followed by office buildings with 64 % net buyers.

Yields — The key policy rate has continued to rise, as the Norwegian central bank, so far, is struggling to reduce inflation. Interest rates with maturities of five years and above have more than doubled in the last twelve months. In addition, credit margins have continued to rise. This has led to a slowdown in the investment market, but activity has not stopped completely. There are still ongoing transactions, but the distance between buyers' and sellers' price expectations have increased, which leads to a higher level of uncertainty. Higher financing cost and increased uncertainty in the market have definitely led to an increase in yields, but the scope is hard to predict. So far, there are too few benchmark transactions to indicate how much the prime yield has risen.

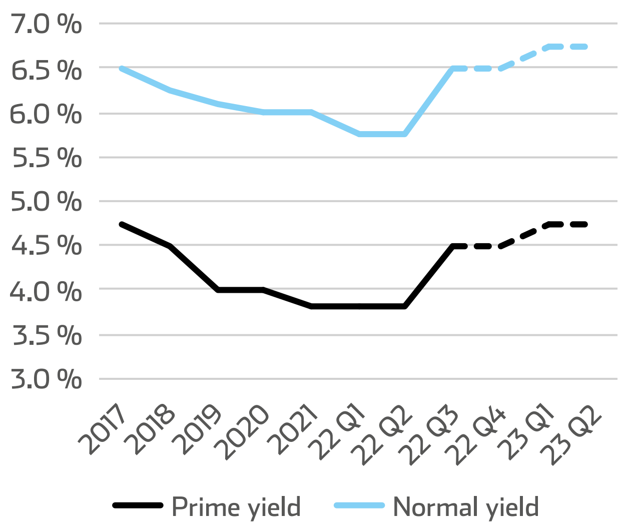
The answers in WPS Investor Survey for Q3 2022 indicated that current prime office yield was 4.20 %, and the investors expected the prime office yield to be 4.75 % in 12 months, an increase of 55 bps. from today's level. The survey was conducted in the period 19.09 - 30.09. However, we believe that the current prime office yield has risen since this period, and our estimate for the prime office yield is now 4.50 %, up from 4.00 %.

Annual transaction volumes in Bergen, NOK bn.



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

Office yield development in Bergen, %



Source: WPS Næringsmegling

«Rapidly rising interest rates, restrictive access to debt and uncertain macroeconomic developments have led to a slowdown in the investment market».

Residential portfolio — Bergen

Malling & Co Investments together with Pangea Project Finance has acquired a portfolio of 5 residential buildings in Bergen city centre let out predominantly to students. The short-term aim is to build up a larger portfolio of similar assets.

Munchs gate 5B — Oslo

Malling & Co Eiendomsutvikling is managing the project on behalf of Nordea Liv Eiendom. The project includes renovation of the existing building and adding 1½ floors. Approx. 5 000 m² in total.

Trondheim

Yield rises for the first time since 2009

The second half of 2022 has been characterised by a pending transaction market due to interest rate developments and thus a pressure on yield levels. We still register that there is a lot of capital to be invested, and that the demand side remains good. However, the distance between buyer and seller in terms of pricing is still considerable, resulting in a low number of large transactions. Due to the development in interest rates, we have increased our prime yield estimate by 50 basis points from 4.00 % to 4.50 %. Furthermore, we believe the prime yield to be within the interval 4.50 % to 5.00 % by the end of 2022.

In contrast to the investment market, we still experience good activity in the office rental market. The office vacancy is registered at all time low levels at 6.1 %. The demand side activity ensures that rental prices remain at the same level as observed in the first half of the year. We believe there is still room for an increase in rents in the upcoming 12 months, as the demand for offices is at a high level. High supply levels in the upcoming years combined with a cooling in the Norwegian economy will, in our assessment, lead to a flattening of the rental levels in the medium term.

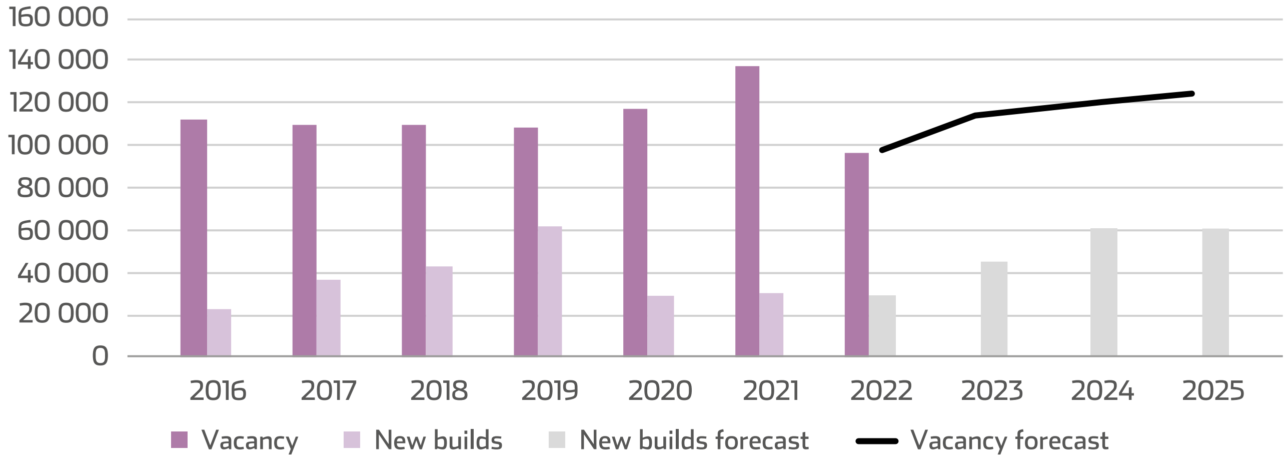
Office rental market – vacancy and new projects

Office vacancy in Trondheim is still at a stable level, and in our last vacancy count we recorded a further fall in vacancy. The descending vacancy indicates an active and solid rental market and a moderate supply side of new space added to the market. Office vacancy in the centre of Trondheim is at a record low 2.9 %. This will most likely lead to further rental increase in the area. Total office vacancy in Trondheim is now at 6.1 %.

We anticipate approx. 45 000 m^2 new office space in 2023. In 2024, we are anticipating a supply of approx. 29 000 m^2 and approx. 61 000 m^2 in 2025.

We estimate that on average the market in Trondheim absorbs approx. 30 000 m^2 added office space per year. Based on this, we predict a horizontal development in office vacancy into 2023 before expecting vacancy to increase until 2025. We estimate a moderate growth in vacancy from today's vacancy at 6.1 % to 7.3 % until 2025.

Vacancy and forecast, m^2



Source: Norion Næringsmegling

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

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

Source: Norion Næringsmegling

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

«Office vacancy in the centre of Trondheim is at a record low of 2.9 %».

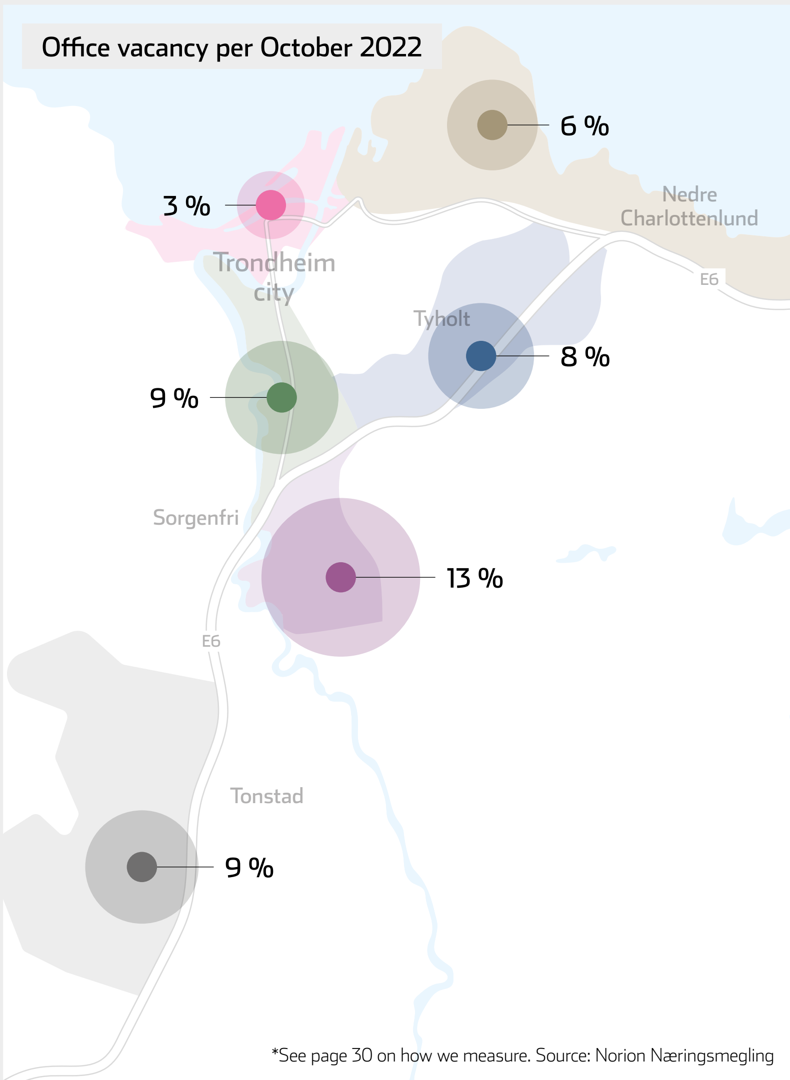
Rents

The rental market in the Trondheim region has a stable activity and the rent has increased moderately throughout 2022. Current top rent for the area Trondheim city centre is NOK 3 000 per m^2. The rent has been increasing more in the centre of Trondheim than other sub-markets, especially in regard of the top rent level. Several new and refurbished office buildings have recently been completed in the centre of Trondheim, and these buildings are quickly filling up.

Strong demand, an increase in construction cost and high CPI puts press on the rental levels. According to Arealstatistikk's letting report leases in Trondheim is increasing with 4 % from 2021 to 2022. We are seeing that the gap between buildings in the top segment and "less attractive" buildings is getting wider, which indicates that the rental level for the top segment is driven by the "object" and that increasing rental prices must be seen in connection with the supply of new buildings and "transformation objects".

We believe there is still room for increasing rents in the upcoming 12 months, as the demand for offices is at a high level. There will be a relatively high increase in supply as well, which could result in an even more diversified rental market regarding rent levels.

Office vacancy per October 2022



*See page 30 on how we measure. Source: Norion Næringsmegling

Total office vacancy* = 6.1 %

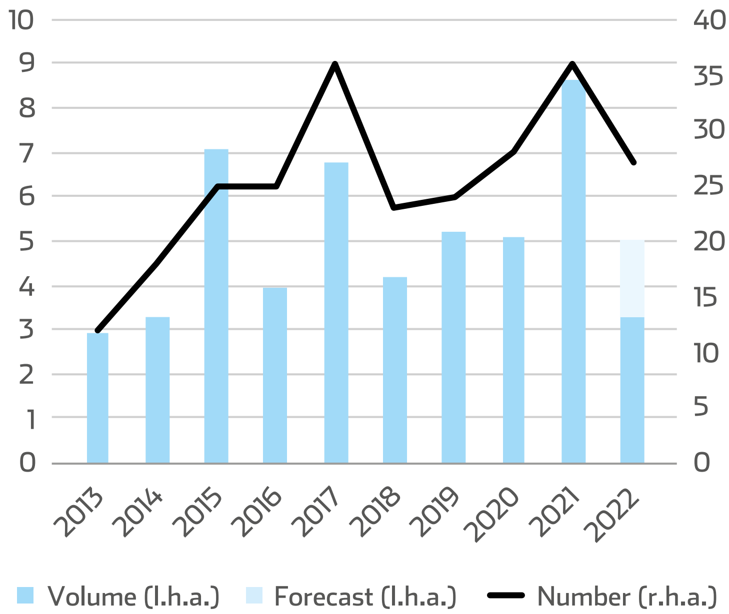
Investment market

We have registered a total transaction volume (transactions > NOK 50 million) of approx. NOK 3.0 billion for 2022 (per Nov.), which is significantly lower than the volume per November 2021. The number of transactions registered is 27.

The year so far is influenced by the increase in interest rates and thus a pressure on yield levels. The activity from January through April was good, before the market cooled down. We still register that there is a lot of capital to be invested, and that the demand side thus remains good. However, the distance between buyer and seller in terms of pricing is still considerable, resulting in a low number of large transactions.

Based on our knowledge of ongoing processes in Trondheim, we expect a total transaction volume by the end of 2022 at NOK 5.0 billion.

Annual transaction volumes in Trondheim, NOK bn.



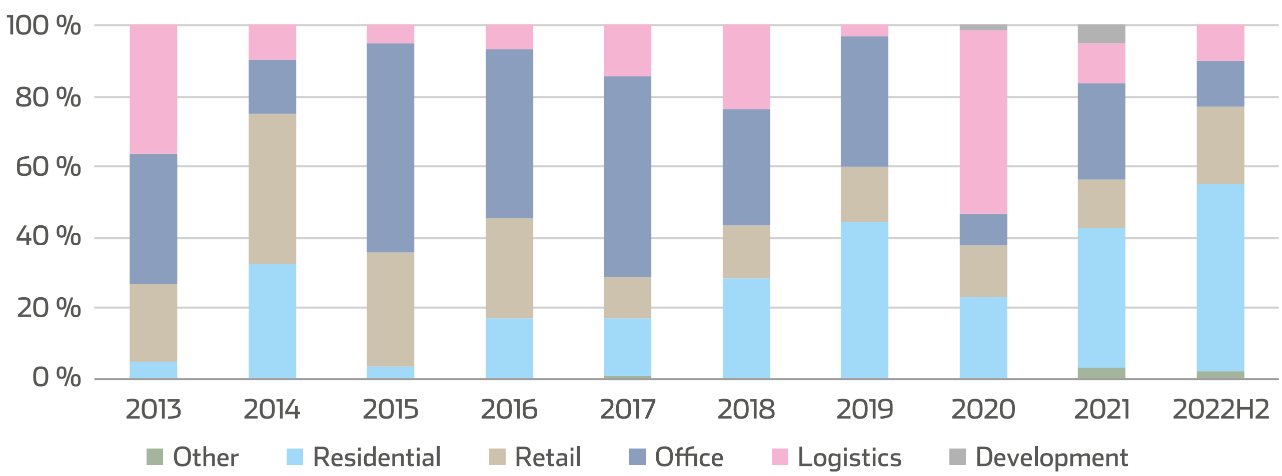
Source: Norion Næringsmegling

Transaction volume per segment

The graph shows how the transaction volume is distributed per market segment. The residential market (both related to development properties and rental housing) had the most activity and constituted for 53 % of the total volume so far. One should perhaps assume that the transaction volume related to the residential market mainly consists of development properties taking into consideration that development properties in general is not as "yield driven". When examining the numbers, we register that the volume is divided 50/50 between development properties and rental housing. This shows that the interest for rental housing remains at a high level. Many rental housing objects have an alternative value when divided and sold in the residential market which, in a sense, contributes to a lower yield due to price growth in the private housing market.

Furthermore, we notice that the transaction volume related to offices (especially from 2017 until today) is low compared to Oslo, Bergen, etc. The amount of office spaces built from year to year is registered at a quite high level, which indicates that a large proportion of the plot reserve is owned by parties with a perpetual perspective on their investments, and that the relatively modest volume traded is bought by the same parties.

Transaction volume per segment



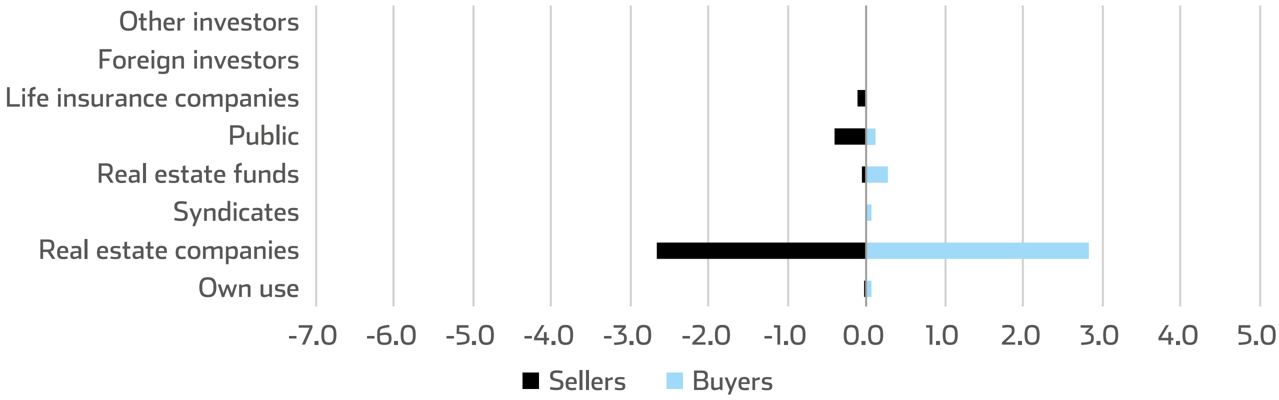
Source: Norion Næringsmegling

Sellers and buyers

As the graph shows, the traditional real estate companies have been the most active in the transaction market so far. During the last couple of years, we have registered an increasingly interest from real estate funds and syndicates. Last year the syndicates accounted for approx. 17 % of the sellers' volume and 42 % of the buyers' volume. Unsurprisingly, the syndicates have been virtually absent so far this year. This is related to the fact that the syndicates are struggling to raise equity in today's market as investors expect a higher rate of return.

We believe that these players will be more present as soon as a new "market intersection" is established. For this to happen we need to see some reference transactions at a new yield-level.

Transaction volume 2022 – sellers and buyers, NOK mill.



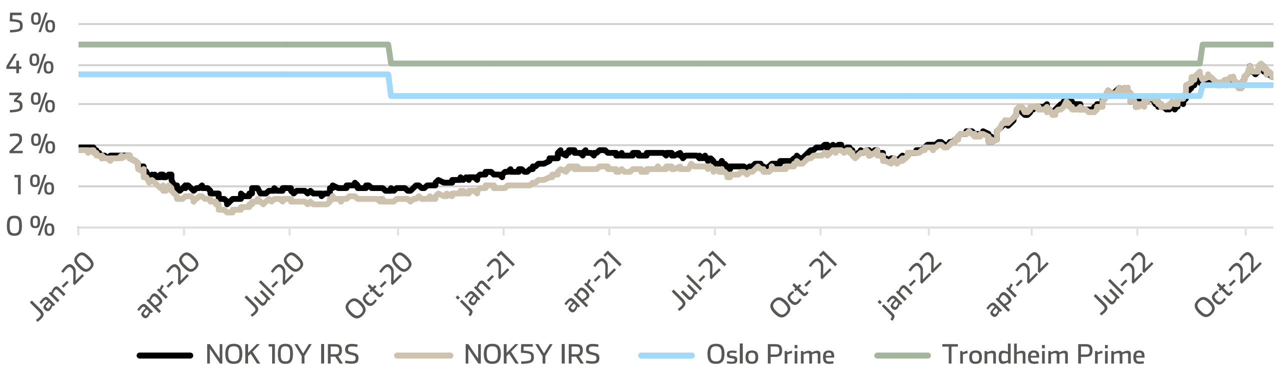
Source: Norion Næringsmegling

Rates and yields

The Norwegian central bank raised the policy rate by 0.50 percentage point to 2.25 % in September and is expected to raise the policy rate once more in November. Meanwhile, Nibor 3 month has passed 3.30 %, meaning that the market expects a new rate hike by 0.50 % point. Long rates are showing the same increase and have increased by nearly 2.50 % points the last 12 months. This means that the buyers will have to deal with an interest rate at typically 5.50 % - 6.00 % (including loan margins) when calculating new real estate investments.

Increasing interest rates has put pressure on yields, and we have seen that prime yield in Trondheim has shifted from 4.00 % to 4.50 % during the past months. Increasing rents, lower vacancy and still high inflation (which will increase rates for the coming years as well) explains why the yields have not increased as much as the increased financial cost should apply.

Interest rates and yield



Source: Norion Næringsmegling

Akersgata 13/15 — Oslo

Malling & Co Corporate Real Estate was the advisor for Innovasjon Norge in the sales process of its former head office, approx. 7 450 m² with development potential in central Oslo.

Valle Vision — Oslo

Malling & Co Tenant Representation has advised Kuehne + Nagel on its 2 200 m² relocation project to Valle Vision.

Retail

Inflationary pressures and higher interest rates set to curb post-pandemic recovery in retail properties

The return to normality that retail properties experienced recently was short-lived. According to data from Google mobility, the category "retail and recreation" has suffered a setback since last summer. The positive trend has reversed, retail and recreation visitors are now at the same level as at the beginning of the Covid pandemic.

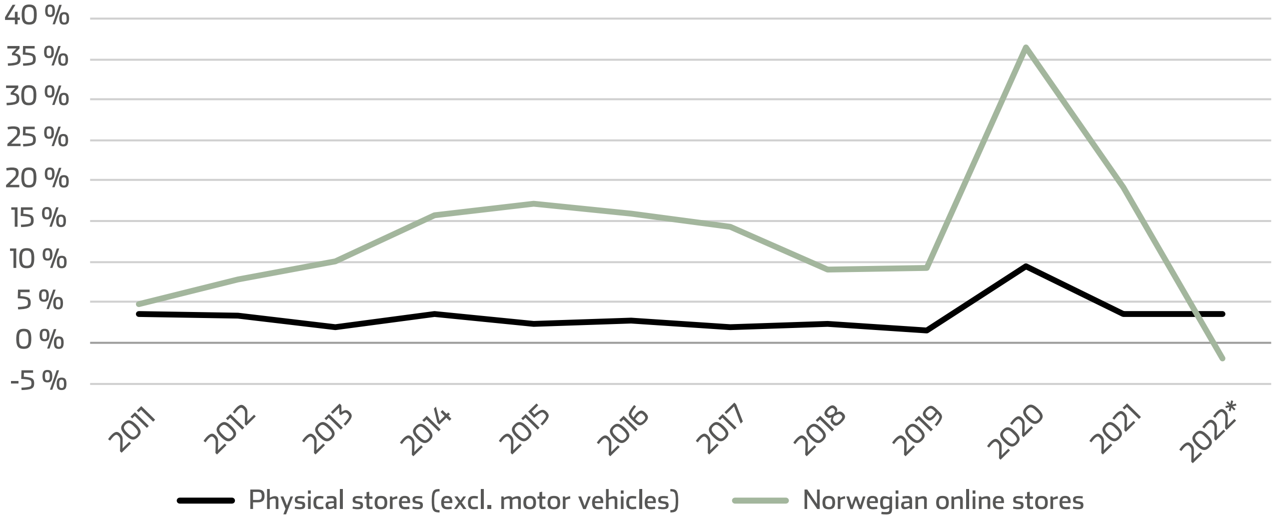
Even though the household's savings ratio has increased through the pandemic, uncertainty and tighter financial conditions are expected to support the negative trend in retail. Inflationary pressures, in isolation, should increase consumption since goods and services become more expensive over time. However, there are more vital forces at work that counteract this effect. As an attempt to maintain financial stability, The Norwegian central bank has been increasing interest rates, as well as the key policy rate path. As a result, household purchasing power is decreasing in terms of net interest-bearing debt. Since the household debt-to-income ratio has risen over time and most home mortgages have variable interest rates, we expect lower consumption to happen quickly. Due to geopolitical tension, energy crises, pandemic, and monetary policy we expect this reduced consumption to remain a factor for a prolonged period.

Retail turnover growth cools off in preliminary figures for 2022

After an overall increase in retail sales in the past two years due to the consumption of goods rather than services, especially during the pandemic, preliminary figures for 2022 exhibit retail turnover losing momentum. Online retail has so far in 2022 fallen into negative terrain of -2 % compared to 2021. Overall growth is, however, still positive at 4 % y/y change. Despite sentiment deterioration, retail turnover as of July is still 86.1 % higher than the same month in 2019 before the pandemic.

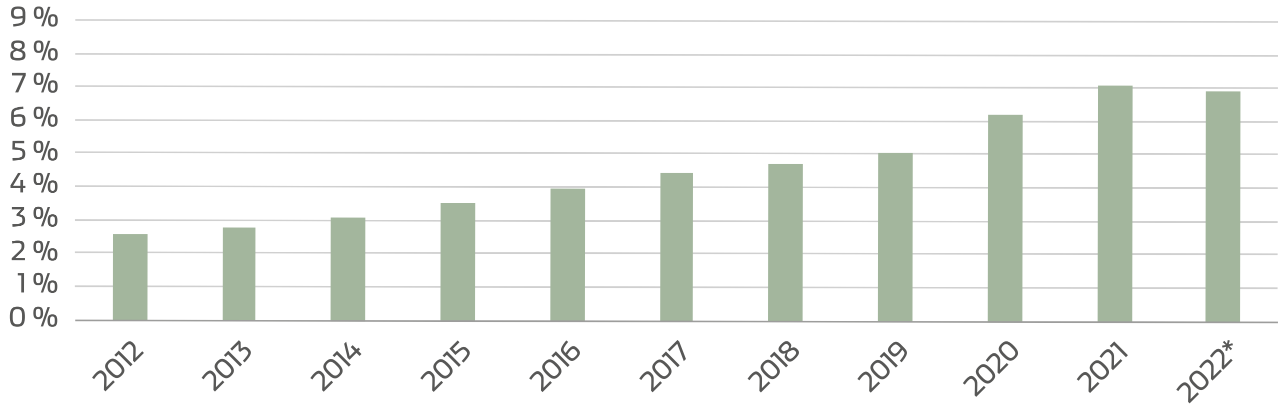
Estimates in the 3/22 Monetary Policy report by the Norwegian central bank forecast a 1.1 % fall in household consumption rate in 2023. After that, it will pick up gradually due to higher real disposable income. Further, it is expected that tourism will likely continue to increase. However, the impact on the mainland economy will be more negligible due to lower purchasing power among Norwegian trading partners.

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



Source: Statistics Norway

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



Source: Statistics Norway

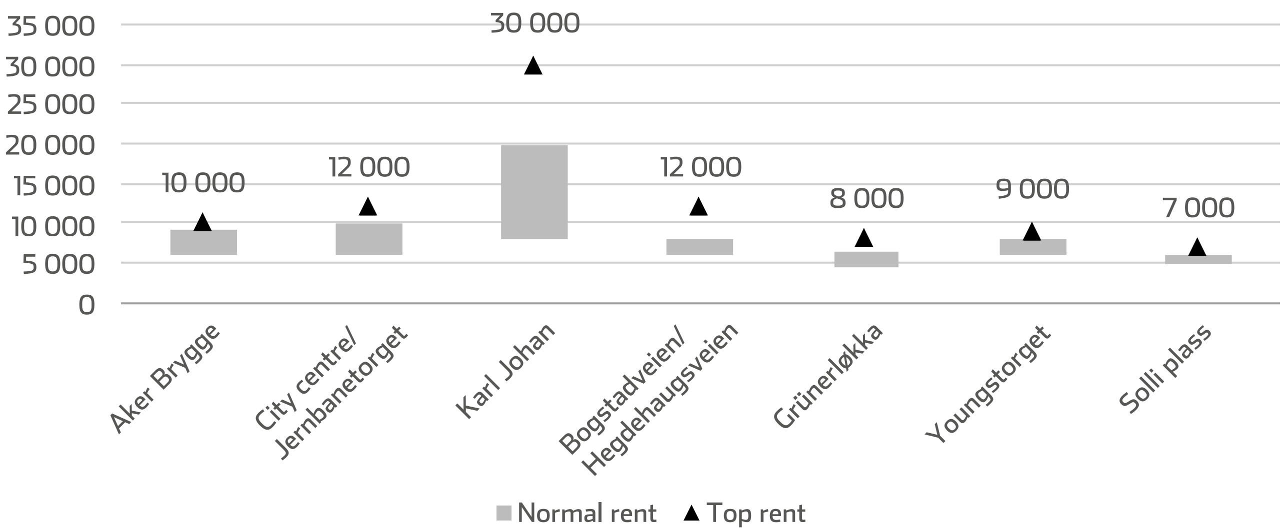
Development in retail rents

The higher activity we witnessed after the pandemic has now cooled off. Activity among tenants increased already after the summer of 2021, took a break due to new restrictions in mid-February 2022, but continued towards the spring. We still register interest among foreign investors willing to establish a retail business in Oslo. Car dealerships heading for the high streets continue, although to a lesser extent. This is likely a direct consequence of the new economic environment that might dampen business investment.

Our rental agents convey that although there has been fewer signed deals in and around Karl Johans Gate over the past year, the leasing prices remain unchanged. We have examples of small units leased at NOK 30 000/m²/yr. Larger spaces typically see lower lease levels, but the luxury area of Nedre Slottsgate can also achieve just below this price mark for larger units. Rents vary with size and micro-location, and the actual contract rent highly depends on the quality and location of the specific space. Average rents in the Karl Johan area typically vary between NOK 8 000 - 20 000/m²/yr depending on unit size, floor, visibility, etc. Top rents at Grünerløkka situate at about NOK 8 000/m²/yr.

Retailers are, though, more reluctant to open new spaces because they fear higher costs will force people to cut down on consumption. Landlords are also challenged to take more risk with the tenants, as minimum rents are down and the revenue-based share of the rent has generally increased. This puts higher pressure on landlords to program retail space for optimum flow and revenues, favouring professional landlords and property managers within retail.

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

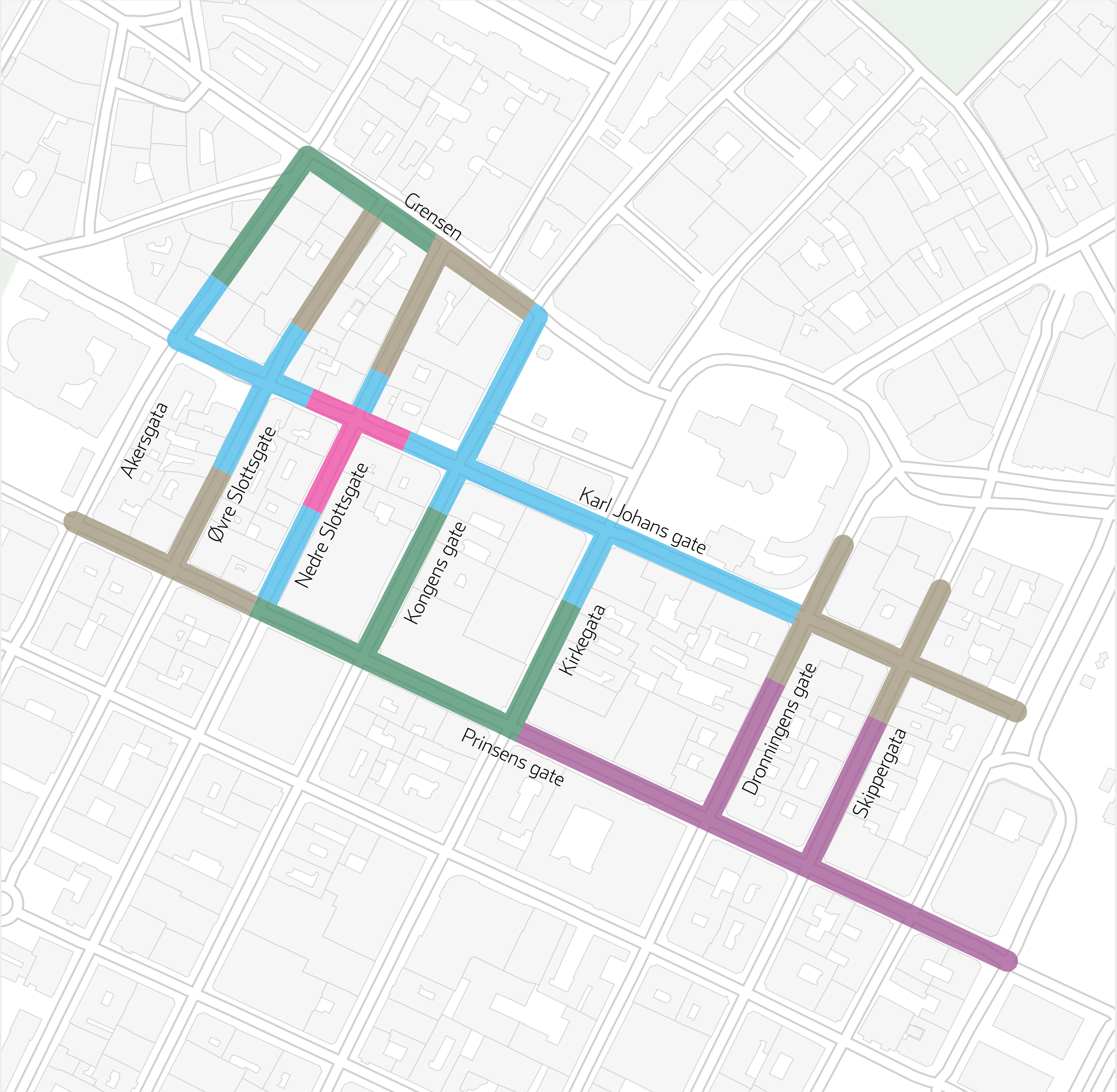


Source: Malling & Co

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

Source: Malling & Co

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

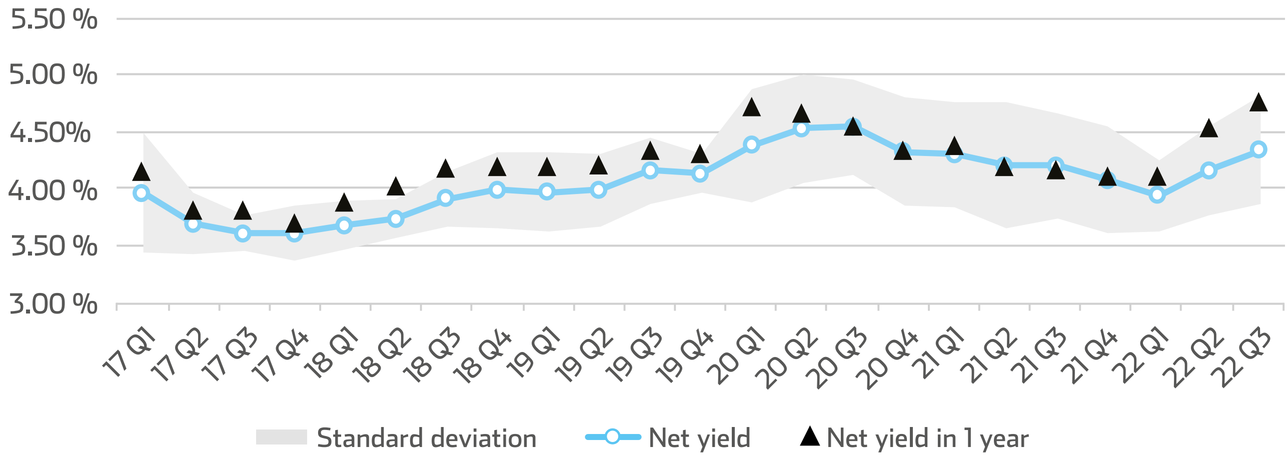


Retail yields are increasing amidst a fragile consumer outlook

Retail prime yields have been increasing since the first quarter of 2022. The post-pandemic trough was reached on our Q1 2022 investor yield and sentiment survey at 3.95 %. Since then, it has increased 40 bps to 4.35 % in Q3 2022, with a further 12-month outlook from investors of an increase of 40 bps to 4.75 %. Also worth highlighting is the increase in the standard deviation of yields for prime High Street retail, as uncertainty amongst investors increases amidst brewing turmoil for retailers as consumer purchasing power is deteriorating fast. Considering inflationary pressures and rent indexation, credit risk will increase as weakened business profitability due to a sharp rise in business costs (higher energy costs, wages, as well as other factors of production) results in a high likelihood of increased levels of business defaulting.

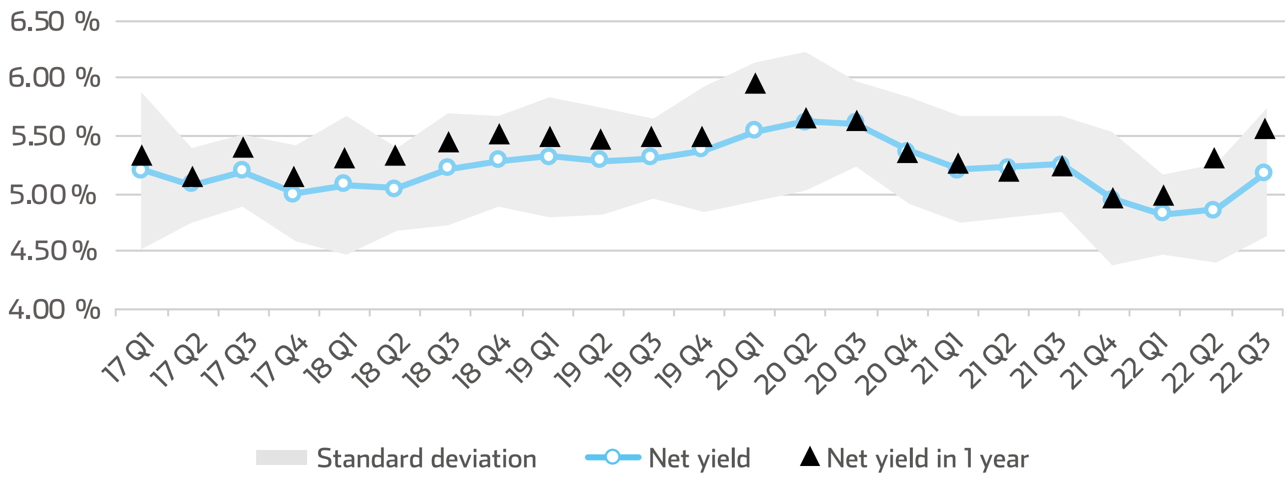
The same trends can be seen in normal yield retail. From Q1 to Q3 2022, the net yield has risen 40 bps to 5.20 %, all the while the standard deviation and investors' expectations about net yield in 1 year have also increased. The 12-month outlook for normal retail yield from investors now stands at 5.55 %. The outlook for retail is bleak, and investors have, as expected, reacted accordingly.

Prime high street yield retail, %



Source: Malling & Co Investor Yield & Sentiment Survey

Normal high street yield, %



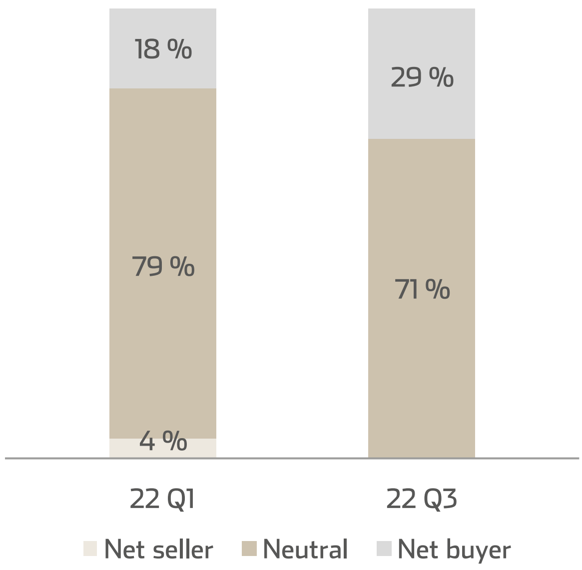
Source: Malling & Co Investor Yield & Sentiment Survey

«The low transaction activity after the summer reflects a neutral standing as sellers and buyers are conflicted on real market value on retail properties».

Investors' desired exposure to retail properties

Despite a lot of uncertainty surrounding the investment market, we have observed an increasing wanted exposure towards retail properties in our Investment Yield and Sentiment Survey. In the Q3 survey, conducted in late September, 29 % of the investors in the survey considered themselves to be net buyers of retail properties in the coming twelve months. The share is up from 18 % net buyers, registered in Q1 2022, and even further up from 24 % in Q2 2022. The increased willingness in wanting to be net buyer show that there are investors with capital to spend in the market on properties at a lower price. With 0 % net sellers, the majority is remaining neutral in its exposure, nevertheless. The low transaction activity after the summer reflects a neutral standing as sellers and buyers are conflicted on real market value on retail properties. As of October, retail accounts for merely 15 % of the total transaction volume registered in Norway. Shops and stores were harshly impacted by strict covid restrictions, and in some ways a less desirable segment among CRE's. Although increased household's savings in Norway were ready to be converted into income growth for retail actors, a new obstacle have hit shops as the central bank is putting a lid on consumption once again. We believe in tough times for retailers, making it a less wanted investment object in the coming months. Net yields on prime and normal objects further reflects this and has ticked up by roughly 50 bps since our Q1 Investor Yield and Sentiment survey. The survey focuses on high street properties, but weaker consumer purchase power along with potentially increased unemployment are factors that are negatively contributing to the prospects of investor activity within the retail segment overall.

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



Source: Malling & Co Investor Yield & Sentiment Survey

Kirkegata 20 — Oslo

Malling & Co Investments has acquired Kirkegata 20 and arranged a "club deal" on behalf of its investors. The property is located in Kvadraturen, Oslo city centre, and consists of approx. 8 100 m² office and retail / food & beverage.

Hospitality

Fear of new downturn for hotels to come

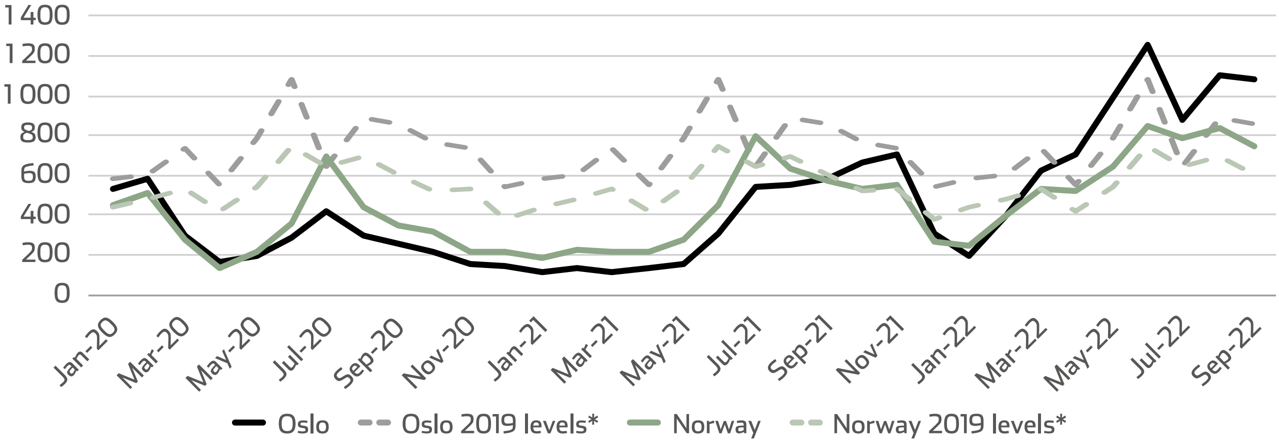
The hotel and travel industry were the main losers during the pandemic, but key figures in recent months suggest that both industries have bounced back. The occupancy is close to pre-pandemic levels, air traffic as well, along with several cultural events taking place. Revenue per available room (RevPar) is way beyond 2019-levels meeting the pressure on hotels to compensate landlords for the loss of income during the pandemic. The future is not so bright, however. Soaring inflation is weakening the purchasing power of consumers. The central bank is forcing the economy to slow down, potentially increasing unemployment. And as we have seen in recent years, the hotel and travel industry are in the frontline when the market situation is worsening. In fact, nearly half the respondents in NHO's travel member survey are preparing for a worsening market situation in the coming 6 months. Despite this, the large hotel chains have shown to be robust in recent years, and are likely to be able to handle this situation as well. Travel habits are continuously changing, and several new concepts have been introduced such as cut-rate-, apartment- and premium boutique hotels.

Hotels are making up for losses during the pandemic

Norway — A key figure for hotels, revenue per available room (RevPar), has been above 2019-levels in Norway in every month since March 2022. In September, RevPar was measured at NOK 750, 25 % higher than the September 2019 figure. Given that the occupancy rate has been slightly lower throughout 2022, there is evidence to hotels having increased the price of hotel rooms drastically. Higher prices are shown in the average day rate (ADR) with a steep increase since pandemic restrictions were lifted in February this year. ADR reached a top in June at NOK 1 293 and has decreased slightly during the months since. The trend of higher day rates during summer months naturally follows the increased demand shown by the occupancy rates. The high ADR relative to pre-pandemic times we are seeing now, however, results from hotels needing to recover from losses during the Covid crisis. Another factor is the high electricity bills endeavouring increased cost of each room. The record high inflation rate is also pushing up the price on purchases. The mentioned inflation rate is not only a case in Norway, but also affects traveling internationally. Foreign guest nights were considerably higher in the summer of 2022 than they have been in the previous summer periods. Yet, foreign travelling is below pre-pandemic levels and the outlook for increased foreign travelling is rather weak as prices soar.

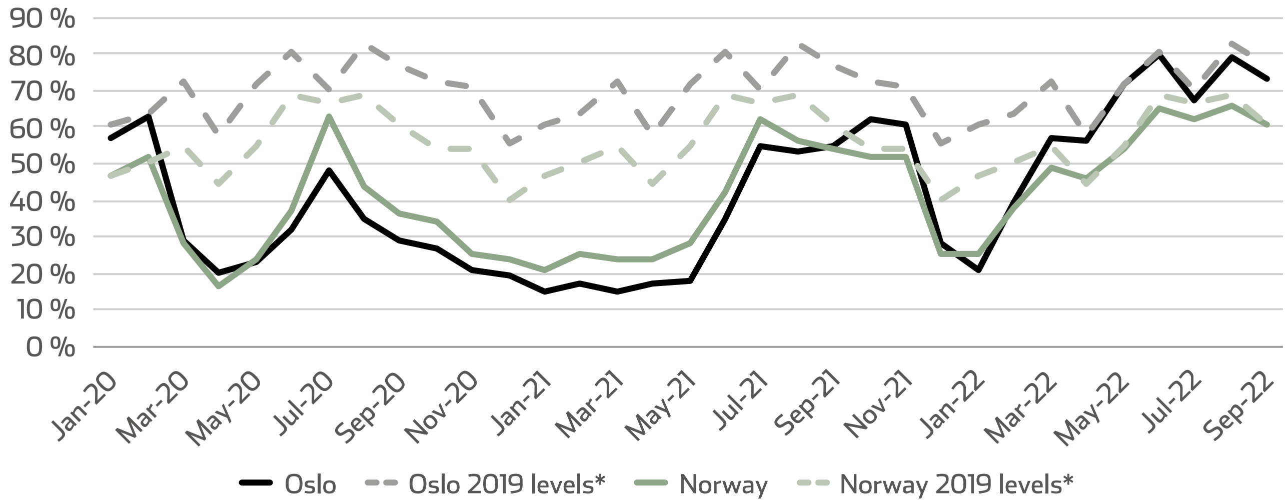
Oslo — RevPar for hotels in Oslo has been strong now that the pandemic restrictions have been lifted. The average in June amounted to NOK 1 256, a record high and well beyond NOK 1 082 measured in June 2019. Worth noting is that RevPar historically has been higher in Oslo than the average of Norway except during the pandemic. Occupancy, which is highly correlated with RevPar, has been equal or lower than in 2019, pointing towards a higher pricing to recoup much of the loss in 2020 and 2021. This is clearly shown in the ADR of NOK 1 481 in September, which is 33 % higher than in September 2019.

Revenue per available room (RevPar) per month, NOK



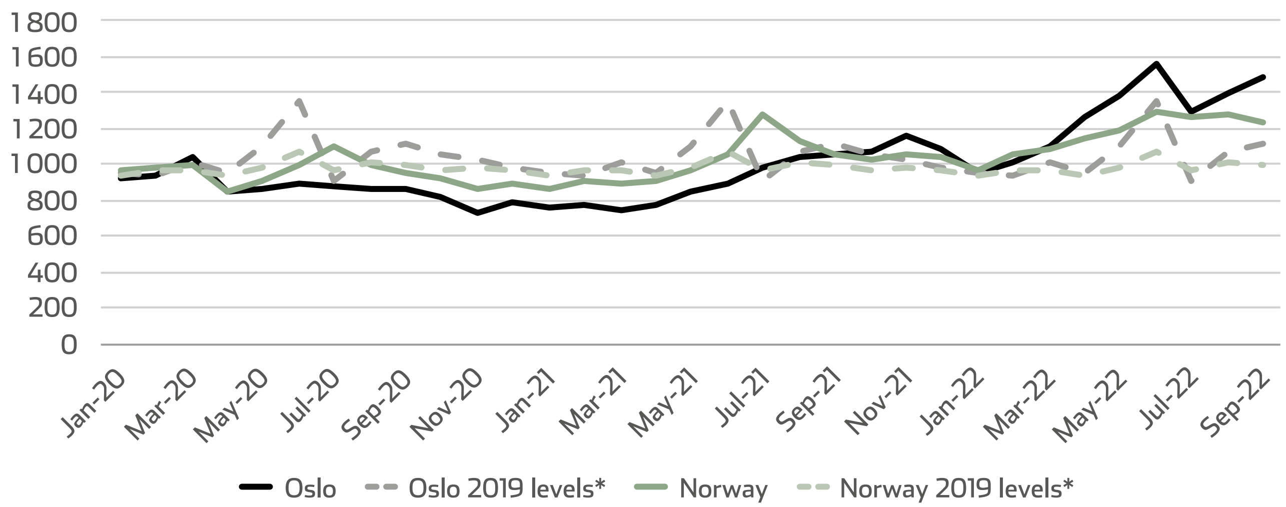
*The 2019 level for the respective month. Source: Statistics Norway

Occupancy (%) per month



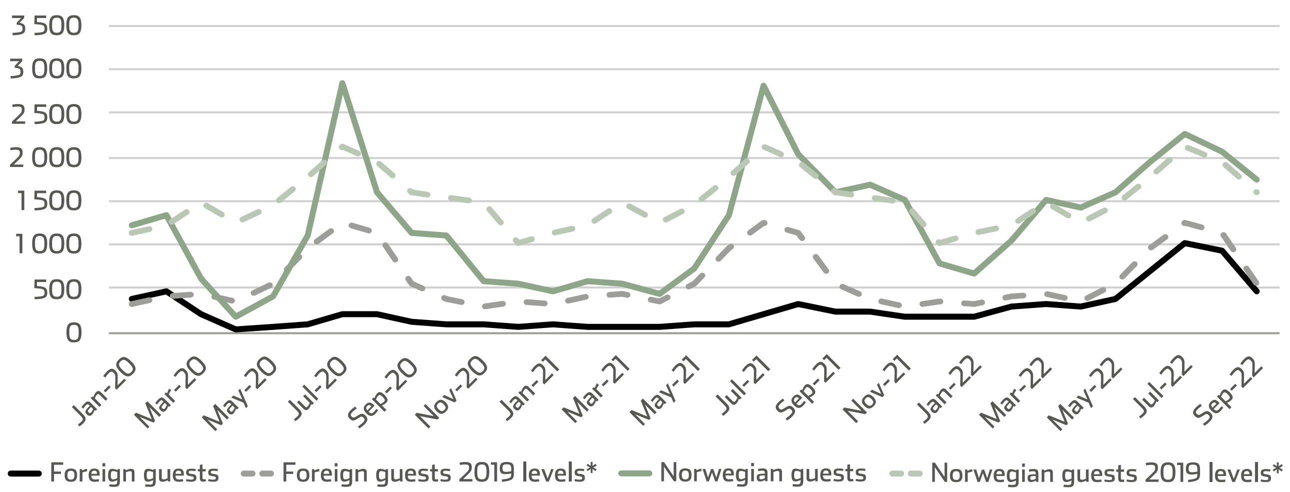
*The 2019 level for the respective month. Source: Statistics Norway

Average day rate (ADR) per month, NOK



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

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



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

Key figures Q3 2022 vs. Q3 2021	Oslo			Norway		
	Q3 2022	Q3 2021	2022 vs. 2021*	Q3 2022	Q3 2021	2022 vs. 2021*
Total revenue Q3, MNOK	1 370 425	632 022	**117 %**	6 519 803	5 003 112	**30 %**
Average RevPar Q3, NOK	1 018	557	**83 %**	791	668	**18 %**
Average ADR Q3, NOK	1 390	1 026	**35 %**	1 260	1 154	**9 %**
Average Occupancy Q3, %	73 %	54 %	**35 %**	63 %	57 %	**11 %**
Total # of guest nights Q3	1 610 863	999 215	**61 %**	8 475 136	7 206 499	**18 %**
Norwegian guest nights, Million	1 012 842	841 347	**20 %**	6 066 082	6 444 588	**-6 %**
Foreign guest nights, Million	598 021	157 868	**279 %**	2 409 054	761 911	**216 %**

*%-increase/decrease of 2022 figures relative to 2021 figures.

Source: Statistics Norway

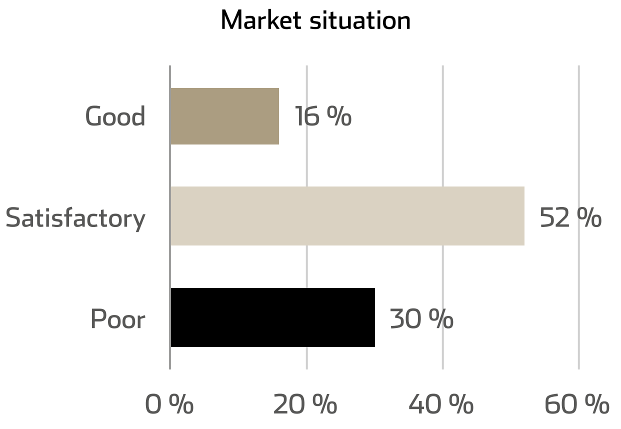
«The high ADR relative to pre-pandemic times we are seeing now, however, results from hotels needing to recover from losses during the Covid crisis».

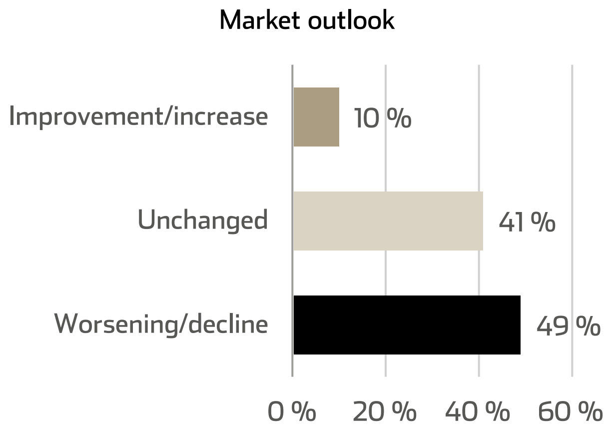
Hotel and travel industry players express scepticism towards the coming months

The growing optimism that took place among hotel and travel industry players once pandemic restrictions faded has now taken a new hit. October responses from the Norwegian Hospitality Association member survey show that only 16 % deem the current market situation to be good, down from 34 % in the May 2022 survey. The majority view the current situation as good or satisfactory, but the share of 'poor' recipients of 30 % is doubled from May. The answers can be split into regional differences linked to electricity prices, with the northern regions mostly satisfied or happy, while southernmost areas are less pleased. Pessimism in the market outlook is clearly evident in the survey with only 10 % expecting improvement in the coming 6 months. The share that is picturing a worsening market situation has risen from 10 % in May to 49 % in November. Again, skyrocketing costs are mentioned as the main obstacle for improvement going forward.

The number of terminal passengers registered at Norwegian airports in September paints a good picture of where the travel industry is at the moment. Air traffic domestically is close to 2019 levels, while international air traffic is lagging behind. 2.7 million passengers were travelling domestic and 1.7 million internationally in September 2022. Yet, the figure is way above what was registered in 2020 and 2021, naturally given the travel restrictions at the time.

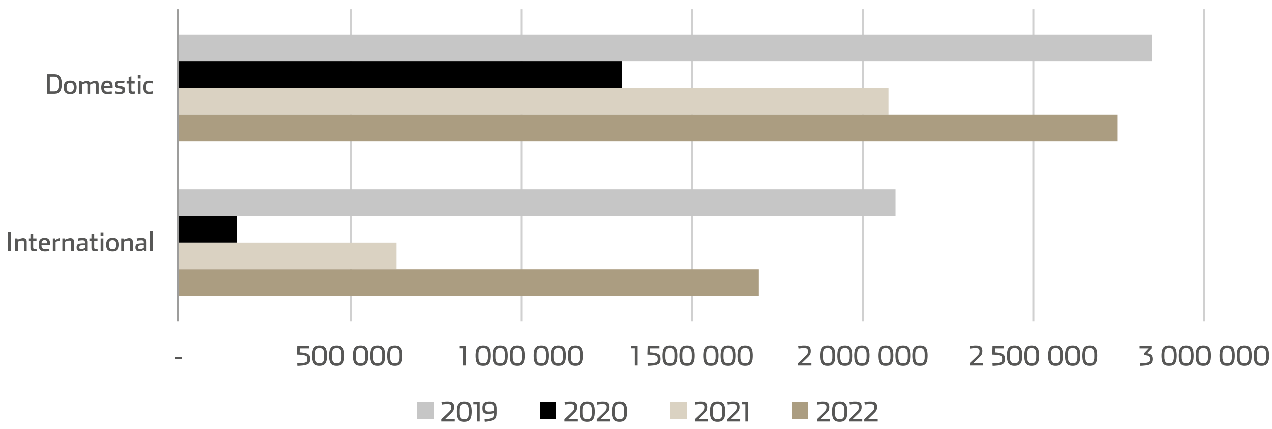
Responses from the Norwegian Hospitality Association member survey, October 2022





Source: NHO Tourist and Travel's member survey

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

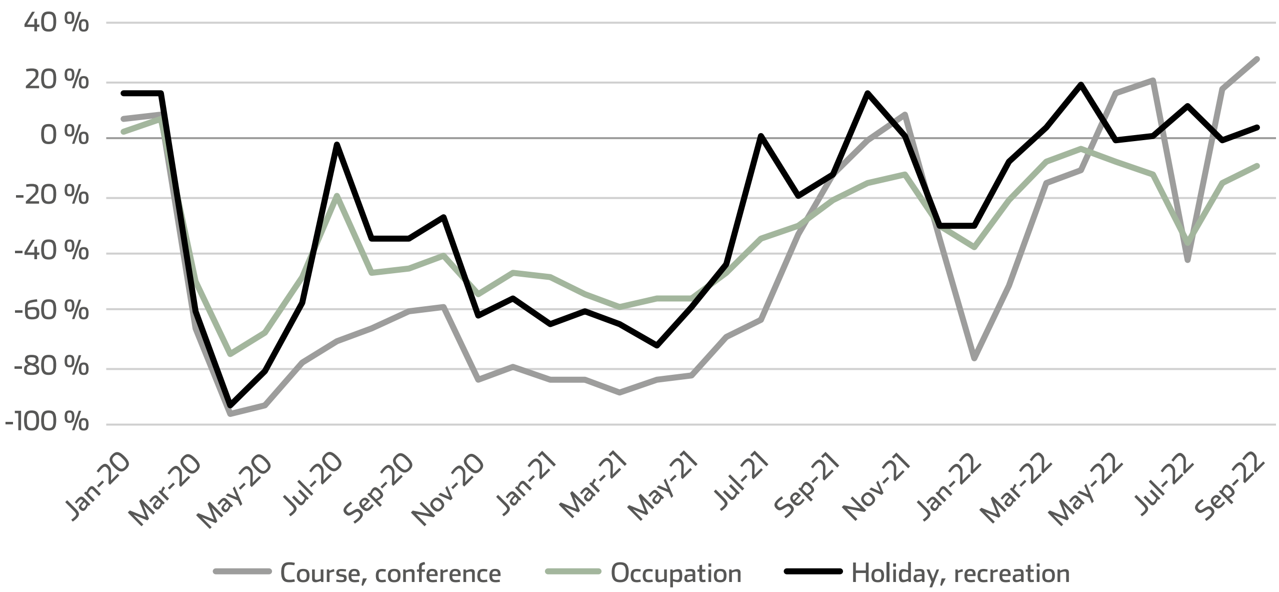


Source: Avinor

Hotel recovery driven by the holiday/recreation market

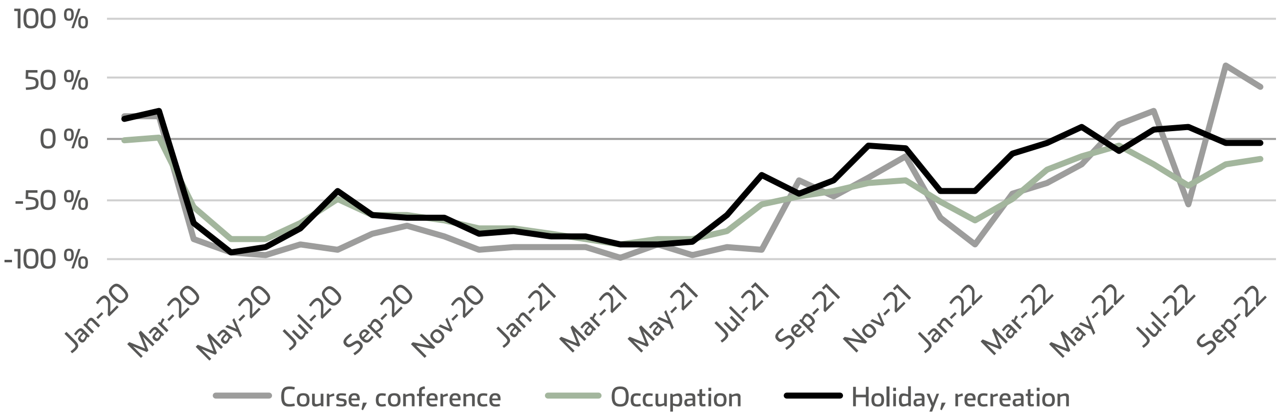
The recovery of hotels from the pandemic was at first highly driven by the holiday/recreation market according to SSB figures. People were obviously hungry for travel and new experiences. Weekend-traffic especially has been high with a ketchup effect of various events such as concerts, festivals and sporting events. Lead time for the conference market is a bit longer than the individual market, but conference traveling strongly gathered momentum in the months of May and June, both in Oslo and for Norway on average. During the latter months, course and conference related travels have skyrocketed. In August, course and conference travels were 60 % higher relative to August 2019. Occupational traveling has been the loser during the pandemic and whether this travel segment is ever going to fully recover is rather unlikely. The implementation of video meetings along with the environmental focus of avoiding unnecessary travel points in that direction at least.

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



Source: Statistics Norway

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



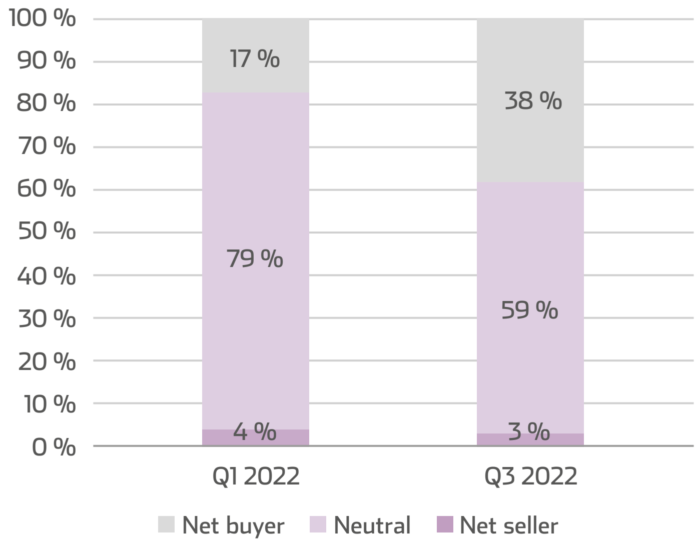
Source: Statistics Norway

Desired exposure towards hotel real estate is increasing

Since we started our Investor Yield and Sentiment Survey in 2017, Hotel has been the least desired segment in terms of buyer interest compared with Office, Retail and Logistics. Results from Q3 2022 are no exception, however, the share of net buyers have increased from 17 % in Q1 2022 to 38 % in Q3 2022. With only a handful of net sellers, the majority is remaining neutral. So far this year we have registered hospitality transactions amounting to NOK 2.6 billion spread across 7 transactions. The current volume is 1 billion less than we registered in 2021, but a fair amount given the current market situation of high interest rates.

«So far this year we have registered hospitality transactions amounting to NOK 2.6 billion spread across 7 transactions».

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



Source: Malling & Co Investor Yield and Sentiment Survey

New construction and expansions

Some new hotel projects were put on hold during the pandemic and some were also cancelled, although there have been a few developments and expansions of hotels have taken place. In Oslo, Sommero Hotel opened its in September 2022, offering 231 rooms and 11 to come in March 2023. Radisson Hotels has opened Radison RED Økern with 208 rooms and Radison Red Oslo Airport with 214 hotel rooms. Scandic Hotels has introduced 29 new rooms at Scandic Holmenkollen Park to their existing offering. In the pipeline, Nordic Choice Hotels is opening Hotel Riviera in Moss mid-2023 with 172 rooms and Quality Hotel Prinsen in Trondheim on 1 January 2023 with 122 rooms. Scandic Hotels has 421 new rooms in the pipeline, amongst them a third hotel in Tromsø with 305 rooms. Thon Hotels is developing a new hotel at Lørenskog, Thon Hotel Snø, introducing 300 new rooms next to the year-round indoor ski arena just outside Oslo.

Fred. Olsens gate 11 — Oslo

Malling & Co Eiendomsfond has acquired Fred. Olsens gate 11, a core hotel property consisting of 196 rooms, located just next to Oslo Central Station.

Kongens gate 12 — Oslo

Malling & Co Investments has acquired Kongens gate 12 and arranged a "club deal" on behalf of its investors. The property is located in Kvadraturen, Oslo city centre, and consists of approx. 3 400 m² office.

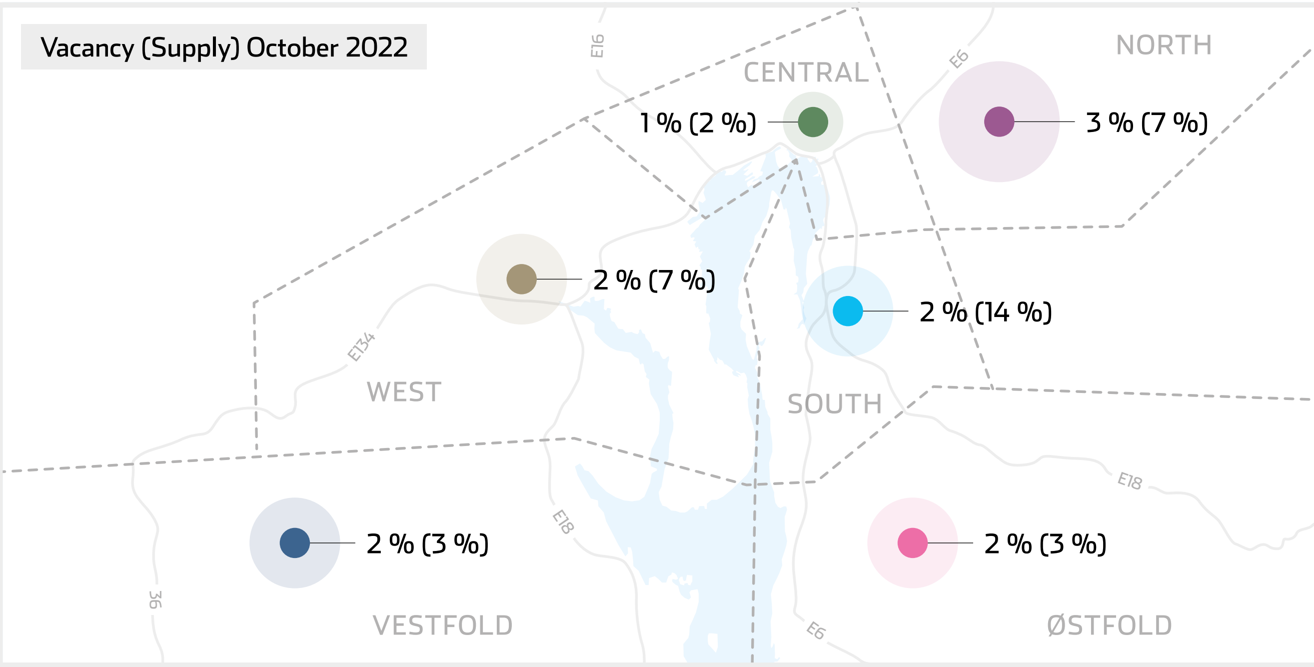
Industrial & Logistics

Logistics thrives despite demanding economic terrain

The Industrial & Logistics segment has by no way escaped the demanding economic times of rapidly increasing interest rates and soaring inflation. Global supply chain disruptions have caused problems for certain industry players, although this has eased off slightly lately. Higher materials cost and inflation on the whole are other important factors causing problems for manufacturing especially, but also for other supply chains within this segment. On the other hand, the industrial segments are continuing to close the gap on offices in terms of investment volume. In 2022 so far, we have registered the most transactions within this segment for the first time, showing that investors believe in this segment. Vacancy is generally low, and with relatively few new building schemes in the pipeline, rental levels have climbed. Also, with global uncertainty, we can see a trend of onshoring also happening in Norway.

Vacancy and supply for Eastern Norway

The average total vacancy in our defined logistics clusters covering Greater Oslo and extended to include two southern areas in Vestfold and Østfold is at 2.0 %, down from 2.4 % in our previous market report. In general, we mostly see lower vacancy figures in the clusters we cover. This development also applies to the total supply, adding offered newbuilds available in more than 12 months to vacancy, which is at 5.7 %, down from 6.3 % at the time of writing our previous report, suggesting that areas are pre-occupied or building projects have been put on hold. Looking further into our defined clusters, vacancy in Greater Oslo is at 2.1 %, 1.6 % in Vestfold and 1.9 % in Østfold. Vacancy in Greater Oslo is down by 1.0 % from six months ago, while vacancy in Vestfold and Østfold is slightly up (0.9 % and 0.2 %, respectively). Breaking down Greater Oslo even further, vacancy is below 2.0 % in Central and Southern Oslo, while vacant areas are the highest in the Northern and Western areas at 2.7 % and 2.4 %, respectively. On the supply side, area advertised as vacant but not taking residents in less than twelve months, is below 3.0 % of the industrial stock in Central Oslo, Vestfold and Østfold. Oslo West and North will see further area being added to its cluster in a few years' time with a supply of 7.0 %. Most notable is the 13.5 % supply in Oslo South, mostly driven by large building schemes such as Toveien 41 (90 000 m²), Stormåsan 20 (60 000 m²) and Landskaugveien (50 000 m²).



Total Vacancy = 2 % | Total Supply = 6 %

North · Central · West · South · Vestfold · Østfold

Source: Malling & Co/FINN.no

Mapping of the Eastern Norway logistics market — Our extensive mapping of the logistics market in Eastern Norway is an expansion on the Greater Oslo mapping we previously performed. Our extension of the database of all the logistics clusters and large stand-alone properties thus continues to be refined and developed, and we are utilising our findings to provide an answer as to the future development for logistics. The estimated total stock of warehouses and logistics properties in our defined areas comprises 13.3 million m² gross lettable area (GLA), with a total identified lot size of 25.9 million m².

Current market situation has caused an upward revision of logistics rents

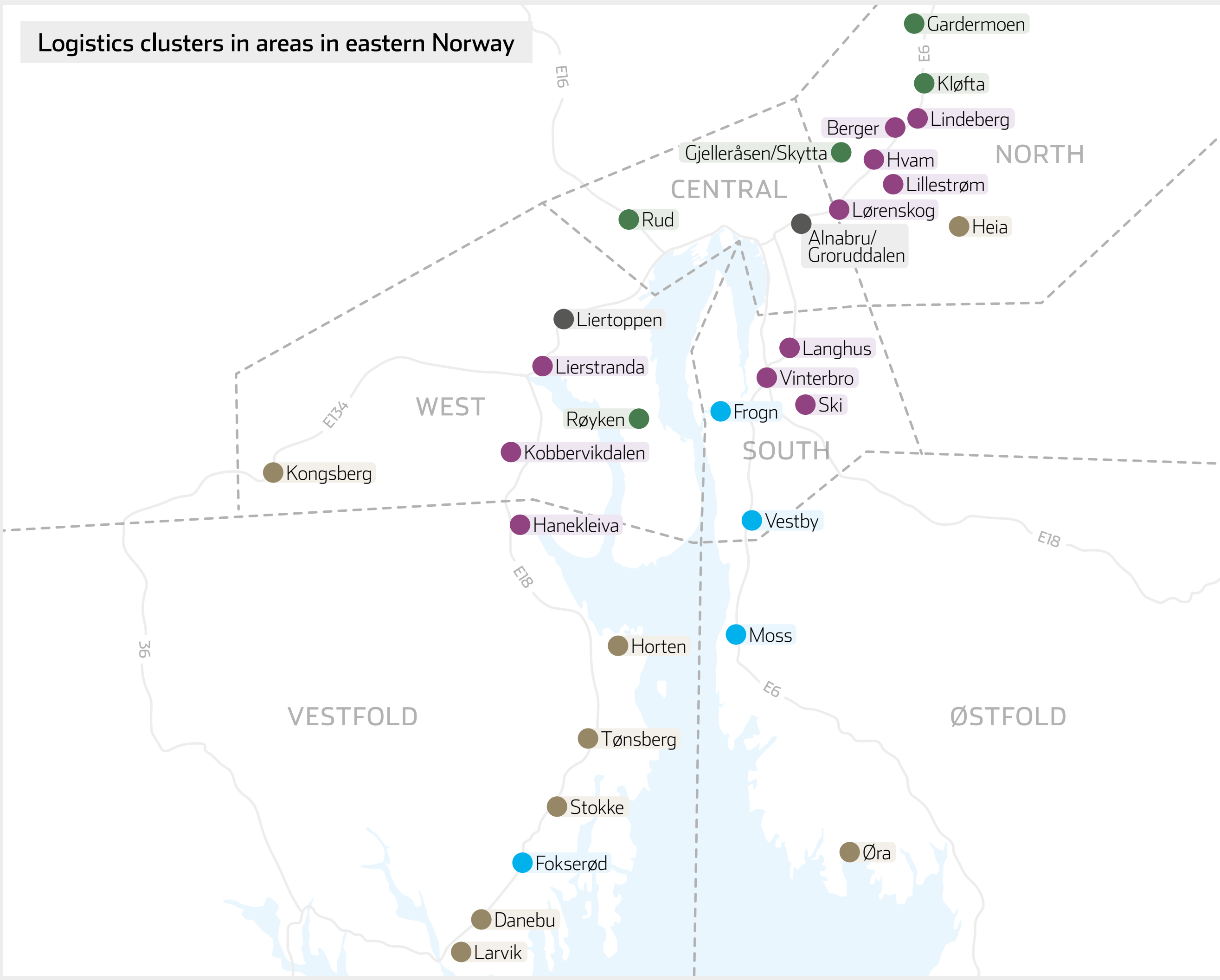
A lot has happened regarding logistics rents since our last report in June. Therefore, we have lifted the rental price intervals in the table below. A revision had to be made as we have further deep-dived into rent levels among our clusters and as a result discovered that the bottom floor of rents is up from 700 NOK/m² to 800 NOK/m² in the least popular clusters. The market situation of soaring inflation and increased building costs is the main driver for this change. Top category segments, such as last-mile logistics, have also set a new standard in terms of the highest achievable rents. When comparing clusters against each other, there are no changes, however. Another factor is the generally low vacancy in Greater Oslo among the most sought-after clusters. Higher construction costs make it less attractive to begin new building projects which, in turn, do not help on the already low vacancy. In addition, we have seen examples of companies operating with JIT (Just In Time) storage that have grown out of their respective premises, resulting in a need for new and higher storage, thus contributing to the rent increase.

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

Source: Malling & Co

Area Category	Ceiling 4-6 metres (heated, high standard)	Ceiling > 6 metres (heated, high standard)
	1 400 – 1 700	1 500 – 1 800
	1 100 – 1 300	1 200 – 1 400
	1 000 – 1 200	1 100 – 1 300
	850 – 950	900 – 1 150
	800 – 1 000	850 – 1 100

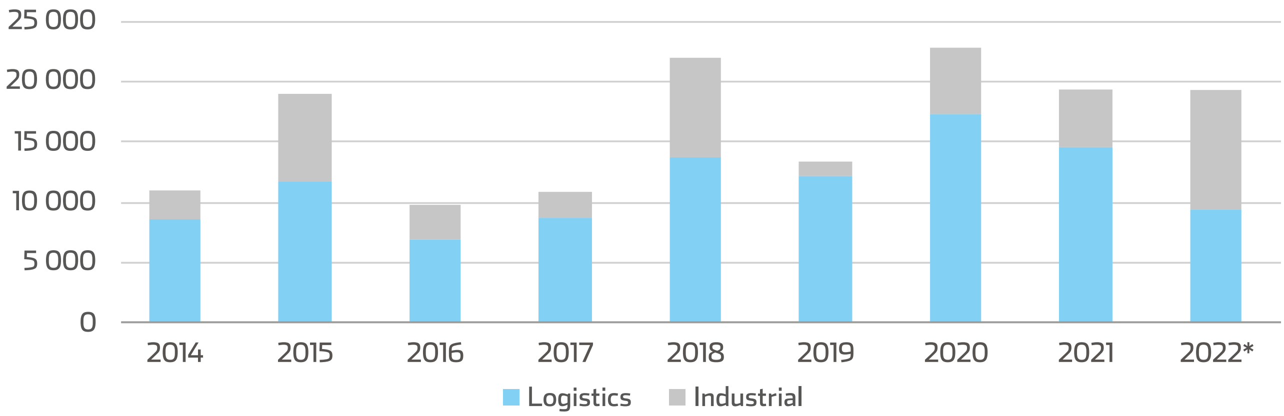
Logistics clusters in areas in eastern Norway



Number of Industrial transactions is highest among CRE segments – but volume still lower than Office

Industrial transactions recorded in Norway year-to-date (YTD) amount to NOK 19.2 billion in total, spread over 84 transactions – the highest of all segments in commercial real estate. The volume constitutes 28 % of the market share, still behind the Office segment at 38 %, but a continuation of the trend we have seen where investors are increasingly looking to place their funds in the Industrial segment. A new observation this year is that the Logistics share of the Industrial segment is slightly lower than in previous years, merely 50 % of the YTD volume. We have registered an increasing interest in smaller mixed-use properties, partially explaining why the number of Industrial transactions is high, but with a relatively lower investment volume compared to Office. We have also seen a number of portfolio transactions in the segment. Most notably are the 22 industrial properties comprising of 93 000 m² that ORO bought for NOK 2 billion in the Stavanger region. The increased interest rates in the last few months have brought the investment market in general to a standstill. However, once sellers and buyers meet on a new established market value of properties, we expect industrial properties to continue the positive trend of high liquidity.

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

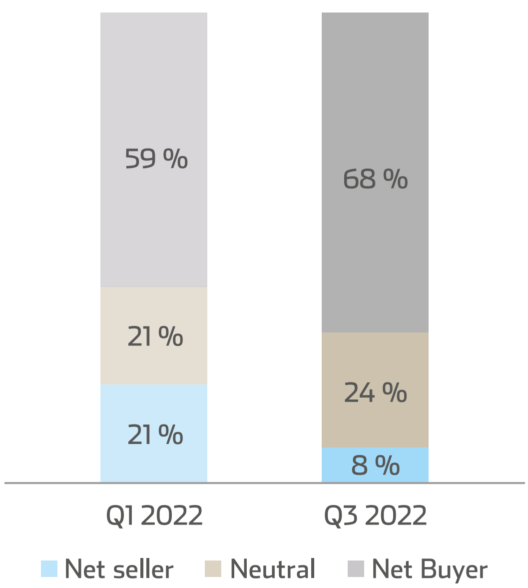


*As of 13 May. Source: Malling & Co

Increasing demand for exposure towards Logistics properties

Results from our latest Investor Sentiment and Yield Survey (Q3), conducted in late September, show an increasing share of net buyers of Logistics property. 68 % of the investors in the survey are looking to be net buyer of Logistics real estate in the coming 12 months from 59 % in Q1 2022. The share of net sellers is less than half of what we measured in Q1, while the share of neutral exposure is rather similar. The results are perhaps a bit surprising in light of increasing interest rates and outlooks for a global recession. However, we are aware of investors that have capital to spend and are looking for options to buy at a lower price than earlier. At the time of writing, the investment market has come to a standstill, but bear in mind that the survey asks for the sentiment within the next twelve months. Another explanation for the results is that the industry is commercialised and a good number of firms still exist who are yet to buy and sell properties. In addition, in tougher times firms often look to streamline operations, e.g. establish firms with mandates to buy properties in one particular segment. For instance, the newly founded company Wilog, established by Propcap (former Colliers Corporate), which has been an active market player this year.

Desired exposure towards Logistics properties in the coming 12 months



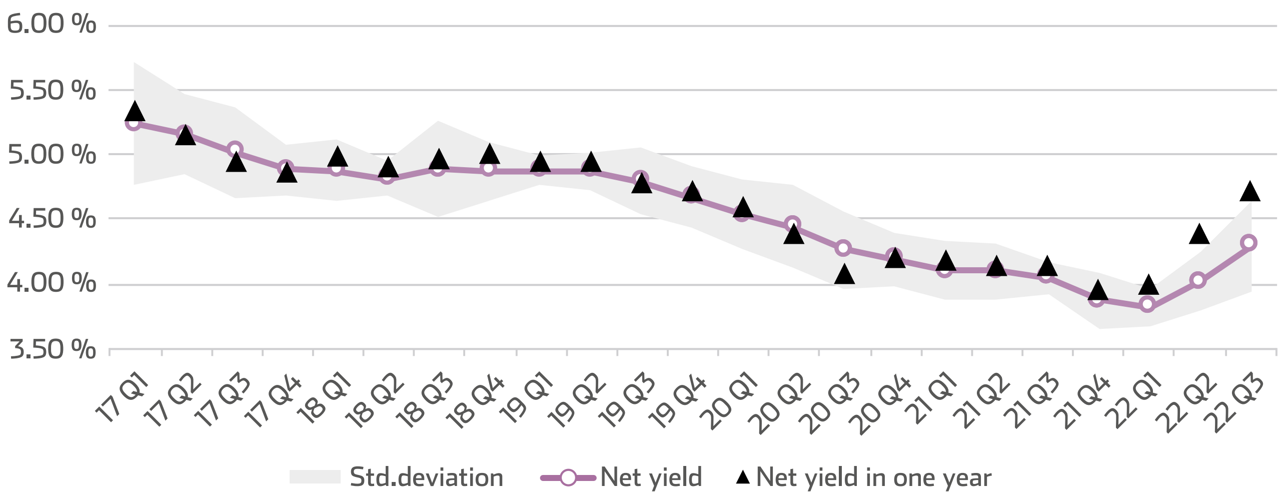
Source: Malling & Co Investor Yield and Sentiment Survey

Logistics yield skyrocketing

As we foresaw in our latest market report published in June, we have experienced quite a movement in logistics yield levels. Prime yield at Berger is up by 45 bps from Q1 to Q3 2022 currently measured at 4.30 %, and investors engaging in our survey expect another 40 bps increase in twelve months. We share the belief of the investors who responded in the survey that we haven't reached the top yet. Investors have seen rental growth in the logistics segment, but an enduring continuation of this may be a bit too hopeful.

Normal yield levels are in line with the development of prime yield and are up by ›30 bps since Q1 2022. Movement already began before the summer when we had our Q2 survey, but the market strongly interpreted the increasing interest rates once the summer was over. Normal yield at Kløfta is at 4.90 %, with investors expecting net yield at 5.25 % in twelve months. The story is similar at Lier and Vestby with a normal yield at 5.15 % and 5.05 % per Q3 2022. Investors expected increasing yield levels when asked in Q1 2022, but the current level is 20-30 bps above than their estimates at the time. The uncertain economic landscape powered by higher interest rates sees the standard deviation at new levels since we started the survey back in 2017. The spread in responses causing the abnormal standard deviation signals the uncertainty among the investors about the price level of Logistics properties.

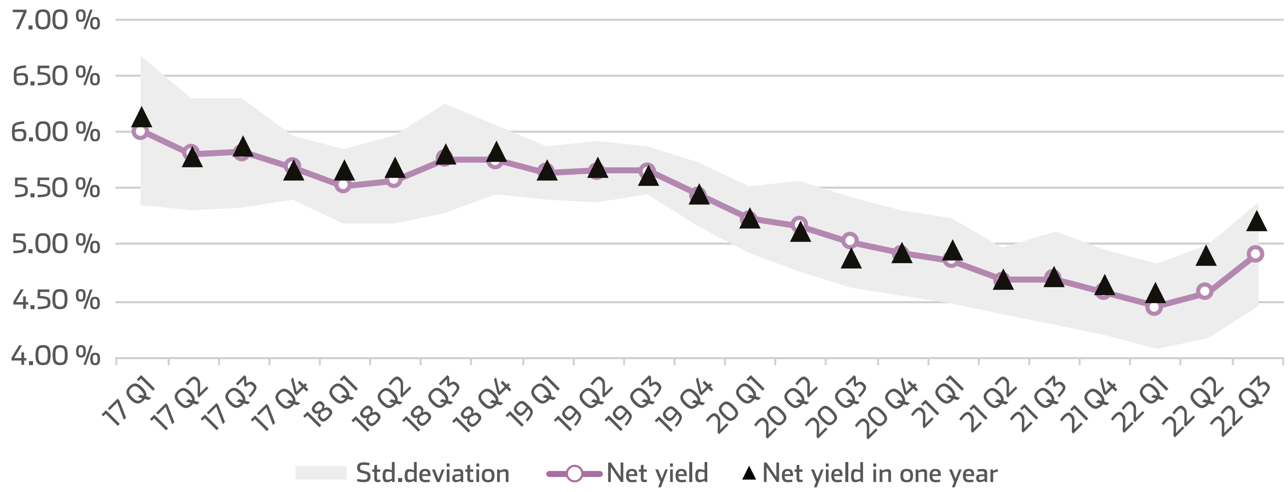
Prime yield – Berger



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

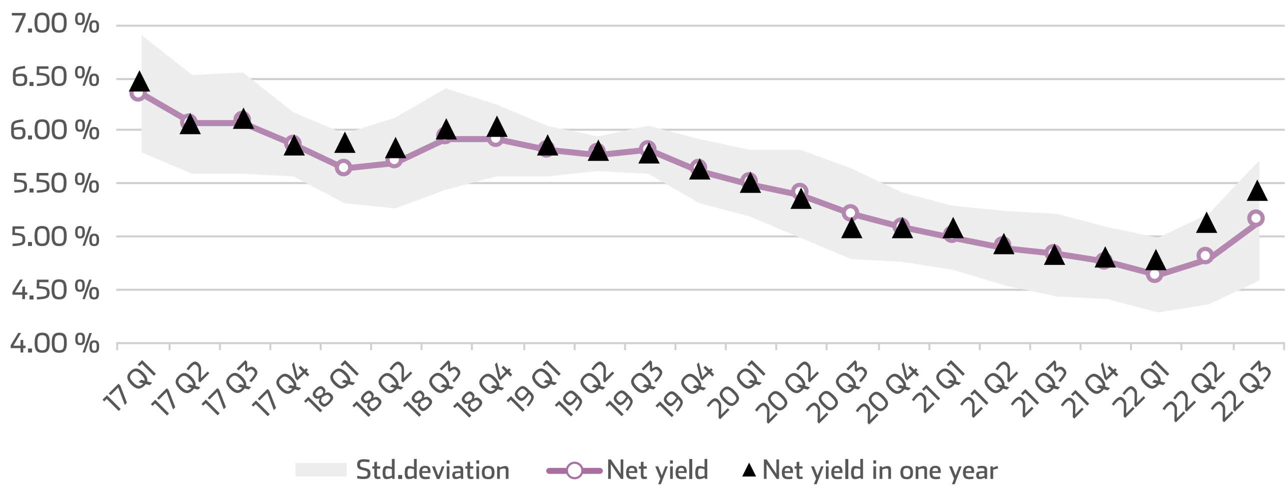
«Normal yield levels are in line with the development of prime yield and are up by ›30 bps since Q1 2022. Movement already began before the summer when we had our Q2 survey, but the market strongly interpreted the increasing interest rates once the summer was over».

Normal yield – Kløfta



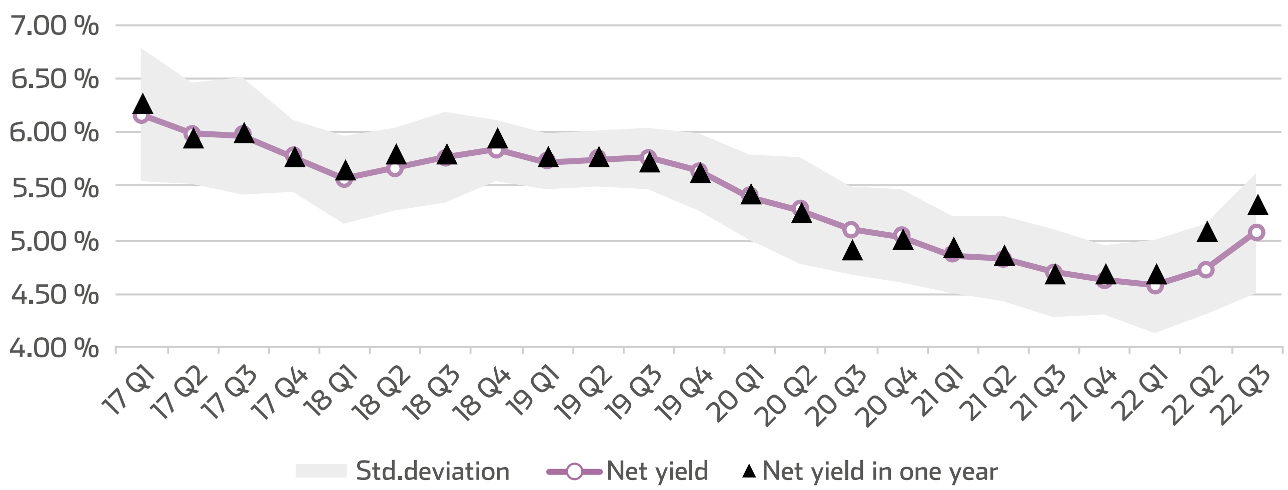
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Normal yield – Lier



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

Normal yield – Vestby



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

Dyrskuevegen 44 — Kløfta

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

Residential

A decline in the residential prices is expected

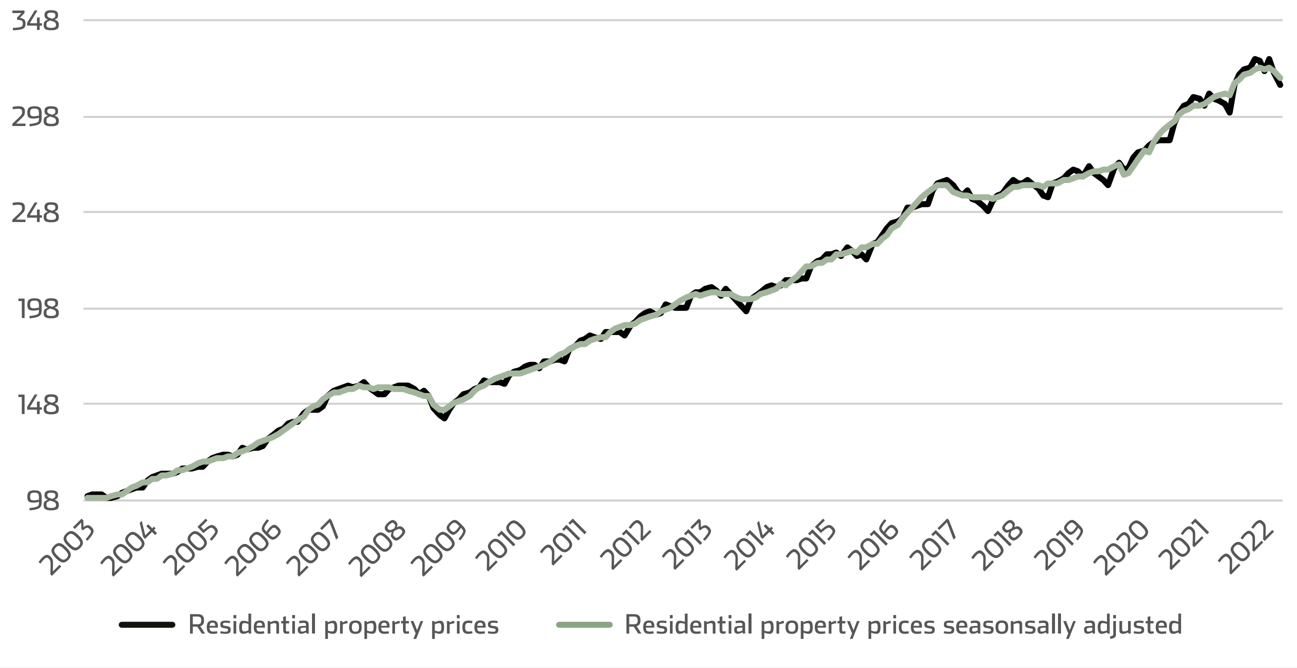
The residential property market began 2022 very strongly, and prices experienced a strong increase both nominally and seasonally adjusted. While prices stabilised over the summer, the market took on negative price development in September and October. The shift was quite sudden, and has also affected sales volumes negatively, with a rising trend in volume of unsold stock. High inflation, stemming especially from energy and food, is reducing the real purchasing power of households. Combined with the central bank's increases in the key interest rate, it is limiting the household's ability to handle high mortgages. The supply of previously-owned homes for sale has increased, while at the same time demand has decreased. Uncertainty among buyers is appearing to push many potential buyers over to the rental market, which is experiencing rising rents. As prices fall and rents go up, yields are also increasing in this segment.

Residential property in Norway

2021 was an extraordinarily active year in the residential market, when for the first time more than 100 000 residential homes were sold during a calendar year. This was likely driven by low interest rates and the fact that many people wanted to move during the pandemic. 2022 does not seem to be an equally active year. As of October, approximately 81 000 homes have been sold in 2022. The last months of the year are historically the least active months.

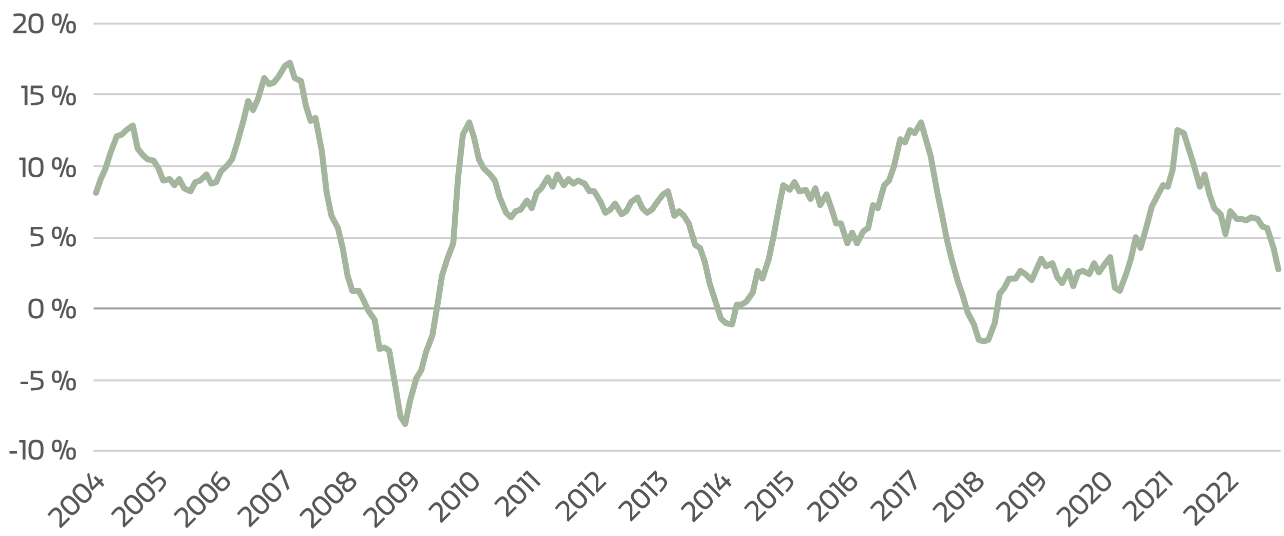
2022 began with record-high price growth in Norway in the first quarter, with a 7.6 % nominal price growth. Since then, growth has flattened out and moved in a negative direction in September and October. 2022 has seen large differences in price growth across the different regions of the country, although the differences have been more moderate than what was seen in 2021. Yet, Kristiansand and Stavanger in particular have seen a sharp increase in residential prices from January to October, of 9.1 % and 7.8 % respectively. By comparison, Oslo has seen an increase of 2.9 % so far this year. Tromsø, Bergen and Trondheim have seen price increases of between 3 % and 5 %.

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



Source: Eiendomsverdi, Eiendom Norge

12-month nominal change in price, Norway

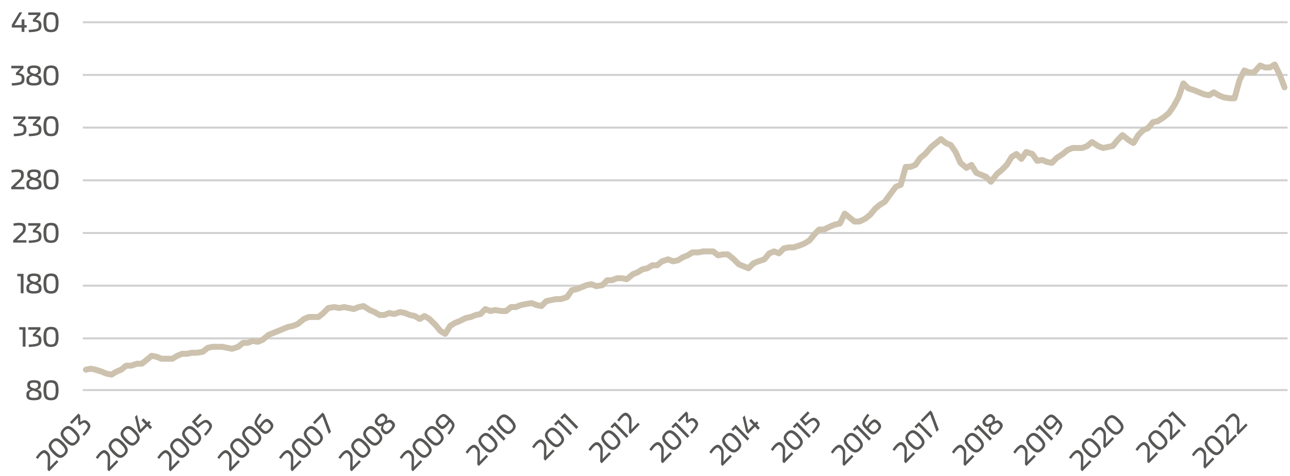


Source: Eiendomsverdi, Eiendom Norge

Oslo

Residential prices in Oslo have gradually increased over the past year, with a nominal increase in residential prices of just below 3 % over the past 12 months. In comparison, the residential prices in Oslo increased by 5.5 % from October 2020 to October 2021., While prices rose 8.1 % from December 2021 to June in 2022, prices fell 4.7 % from June to October. It is expected that the remaining months of the year will see an even steeper decline, as the impact of higher interest rates and higher cost of living are being absorbed by the households. These effects are hitting harder in areas where absolute prices and mortgages are higher, which means that we expect to see a larger fall in prices in Oslo compared to the nation. Further increases in the key interest rate, combined with a weaker employment market, are expected to have a continued negative effect on residential prices in Oslo, but on the other hand many believe low new construction will put a damper on the downside in the Oslo market. We believe the changes in the employment market to be important in the short term for the development in prices.

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



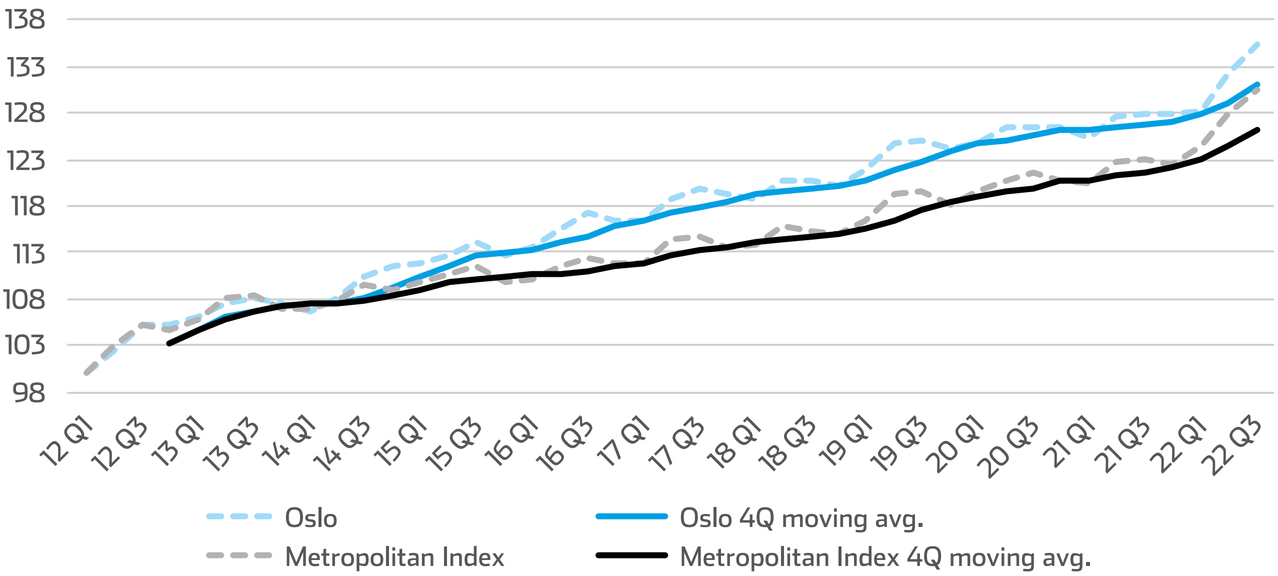
Source: Eiendomsverdi, Eiendom Norge

The rental market

In 2021, the average rent in Norway's four largest cities (Oslo, Bergen, Trondheim, Stavanger/Sandnes) increased by 3.4 %. Bergen and Stavanger in particular, saw the highest rental price growth in 2021, at 13.4 % and 7.8 % respectively. Rental prices in Oslo increased by 2.3 % in 2021. From Q4 2021 to Q3 2022 (July data), rental growth has already been stronger than seen over the whole of 2021. The average rent in the four largest cities in Norway over the past four quarters (Q3/Q3) has increased by as much as 6.0 %. Bergen is up 3.9 %, Stavanger 15.3 %, Trondheim is up 2.5 %, while Oslo has seen a rental price increase of 6.0 % since Q3 2021.

There are historically few rental properties available on the market. While from Q2 2019 until Q4 2021 there were over 3 000 homes for rent in each quarter, in all quarters of 2022 there were less than 2 500 homes on the market. The positive shift in the rental market compared to the negative shift in the transaction market will be interesting to follow going forward. Yields for residential have been low for a while, and the current swings towards higher rents and lower values are changing this picture, just like we are observing in the CRE-market.

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



Source: Eiendomsverdi, Eiendom Norge

«The average rent in the four largest cities in Norway over the past four quarters (Q3/Q3) has so far in 2022 increased by as much as 6.0 %».

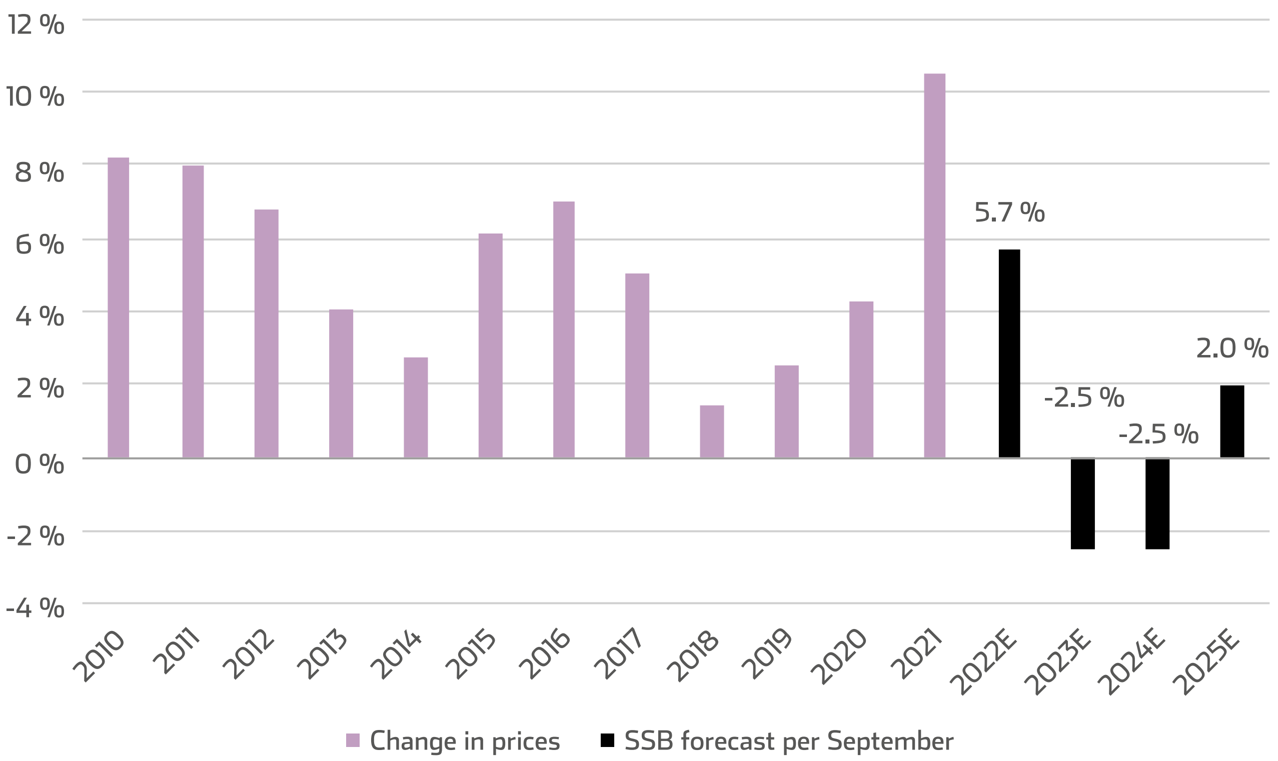
Residential prices going forward

After the record year of 2021, with a nominal residential price increase nationally of as much as 10.5 %, a significantly lower increase in residential prices is expected in 2022. More than halfway through 2022, a nominal residential price increase of 5.7 % is expected by Statistics Norway (SSB) as of September. As always, this is a Y/Y-change, and may be misleading with the respect to the actual change from the time of writing and further out into 2023. Since we saw high price increases in the first half of 2022, SSB expects a negative trend during the second half of 2022. So far, the average index is up 5.8 % Y/Y (nominal) and 5.3 % seasonally adjusted (Y/Y). If the two remaining months of the year continues on a downward path, the Y/Y decrease may end up being worse off than SSB expected in early September.

However, in September, Statistics Norway's forecast a decrease in residential prices for both 2023 and 2024, with a nominal decline nationally of 2.5% for each year. This is a significant downward adjustment from the forecasts from June, where 2023 and 2024 were expected to increase by 2.6 % and 1.1 %, respectively. In 2025, Statistics Norway expects house prices to rise again, but at a relatively low level, 2.0 %.

The main reason for the expected negative price growth in the coming years is the increase in the key policy rate. Hence mortgage rates are expected to continue to rise with full effect in 2023 and into 2024, and then remain at a higher level than seen in previous years. The key policy rate is now at 2.50 %, but a further increase is expected in December. Today's level is already higher than what is considered to be the neutral level, at 1.7 %. It is clear that the key policy rate will rise to levels not seen for several years, which will increase uncertainty in the market. As most households in Norway have floating mortgage rates, the effect of interest rate increases will be particularly strong relative to countries with a larger share of fixed rates. When households absorb the cost increase caused by the interest rate, together with inflation, all empirical data suggests that a decline in house prices can be expected.

Historic and estimated development in property prices per year, Norway



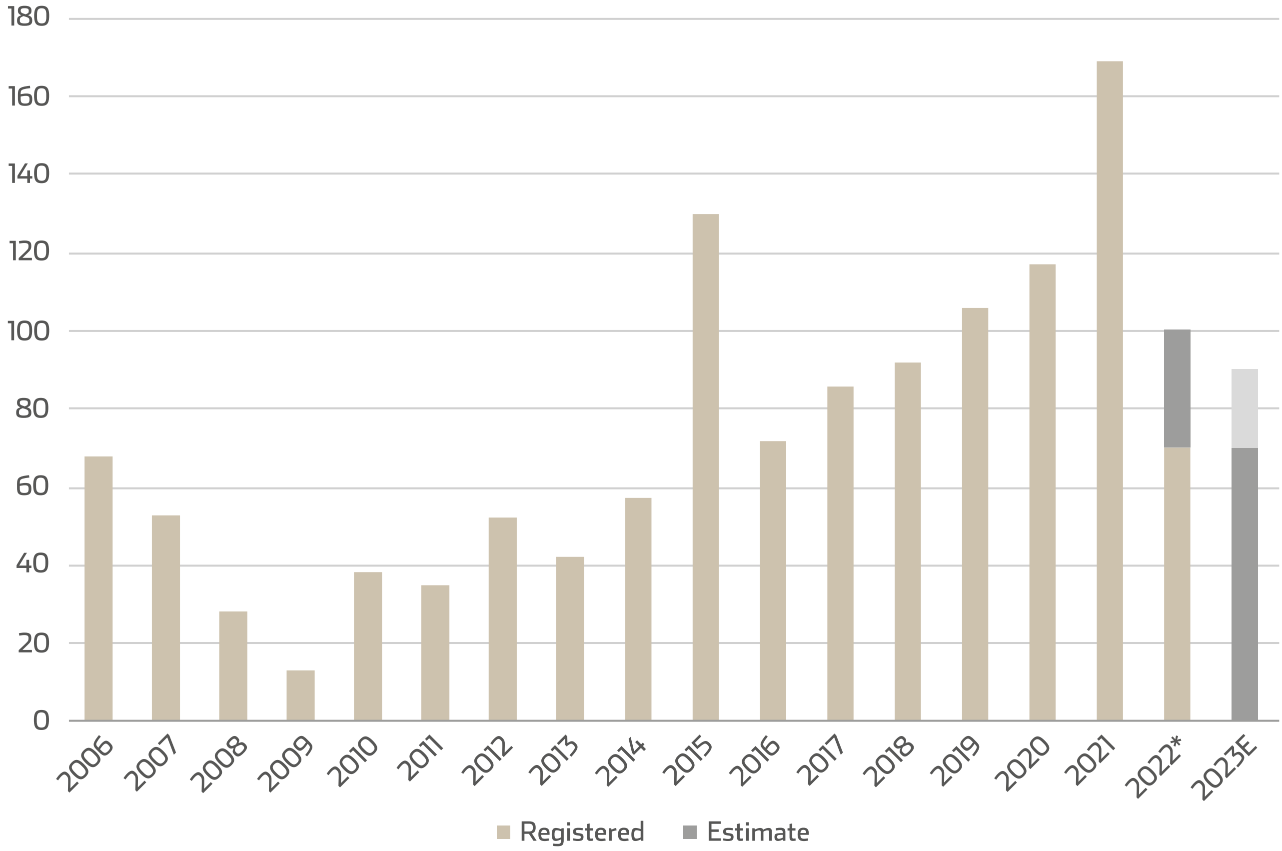
Soruce: Statistics Norway

The investment market

Will we see the plunging breakers, or an oncoming tsunami?

The first half of 2022 continued at a formidable pace, and we recorded a total investment volume of NOK 56.6 billion*, split between 193 transactions*. But there are a few key figures that signal a shift in investor behaviour. The average deal size and the Q3 volumes have shrunk to the lowest in 8 years. A natural tsunami warning includes unusual ocean behaviour. The ocean can look like it's receding suddenly, exposing the ocean floor like at a very low, low tide, before a fast-rising flood or wall of water rushes in, the tsunami itself. In our last report we highlighted how rising inflation and rising interest rates had the potential to become plunging breakers in the investment market, causing market conditions to become turbulent. Six months later we are confident when we say that current market conditions are in a sort of vacuum in the investment market, with little activity and a broad sense of a wait-and-see mentality. The bid/ask spread is high and uncertainty lingers amongst most investors. But there is still some activity and certain properties have seen surprisingly high pricing considering the outlook for interest rate levels. Make no mistake, however, we have also observed deals being cancelled and we are expecting many processes to be more fragile than before. Yield levels have seen a shift upwards, and the outlook remains blurry at best as central banks battle inflation rates never seen before in an era where the inflation rate is the guide for setting the key policy rate. The shift in investor sentiment over the summer has triggered another revision of our full-year investment volume estimate down from NOK 100 – 120 billion to NOK 100 billion, as we see Q4 numbers severely lagging behind typical activity levels towards the end of the year. As we are expect this reduced level of activity to continue well into 2023, our full-year estimate for 2023 is NOK 70 – 90 billion, as our main scenario suggests that any pick-up in activity will only happen closer to, or over, summer 2023.

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



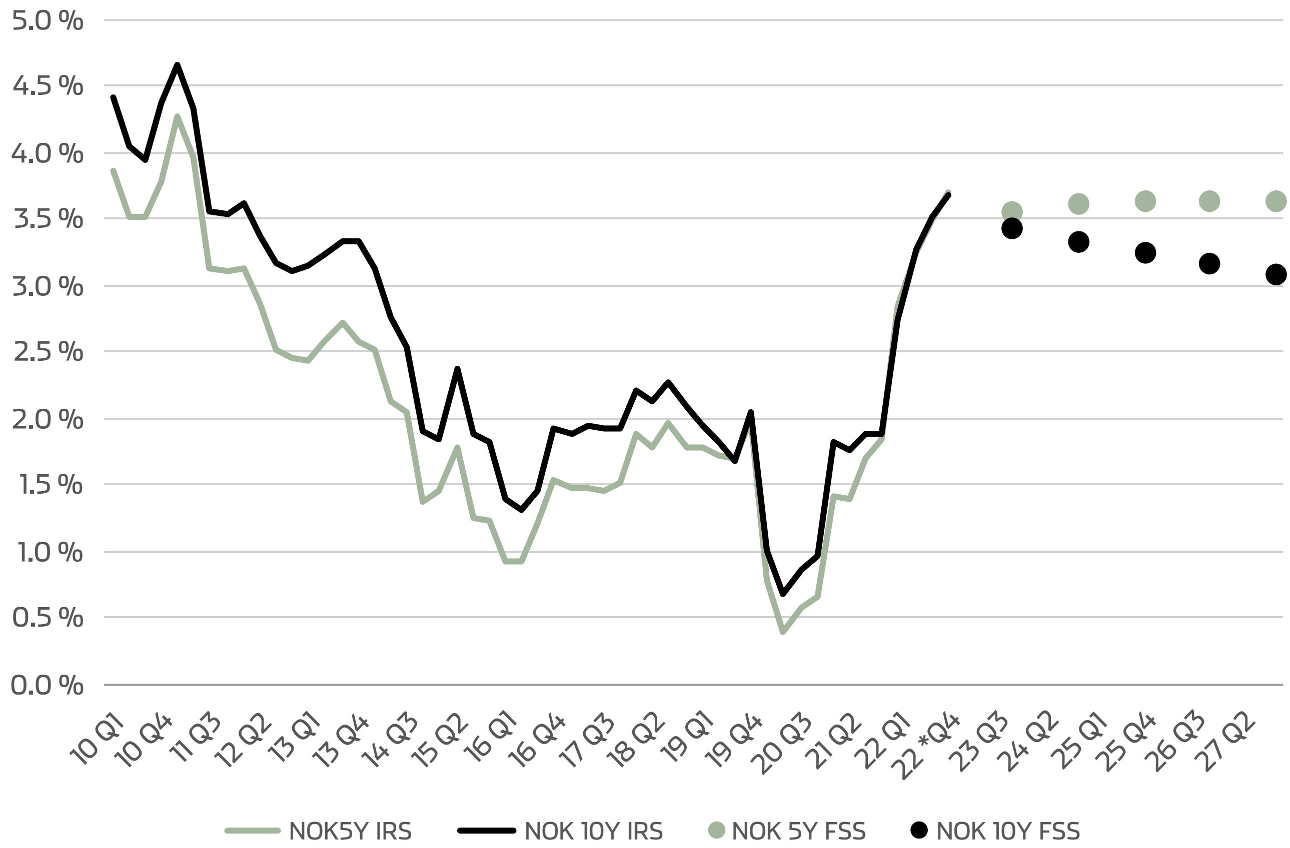
*As of 1 November 2022. Source: Malling & Co

Limited room for manoeuvring in the financing of CRE

As interest rate swaps following suit with increasing key policy rates, bank confidence in CRE values has inverted development. Margins and interest rates are up, while banks are clearly beginning to cherry pick which new customers they will finance going forward and, in some cases, which existing customers can expect to receive their support going forward. This, coupled with a dried-out bond market, moves the attention to the sizeable part of the market with bonds and loans reaching maturity in the year(s) to come. The focus going forward will be more on the management of existing portfolios and less on the potential for new business. The 5Y Interest Rate Swap (IRS) is up roughly 300 bps from 2 years ago, 200 bps from the same period a year ago, now standing at roughly 3.70 %. The NOK Forward Starting Swaps (FSS) has come up around 40 bps from the time of writing, relative to our last report, when the NOK 5Y FSS was more or less dead flat at around 3.10 % from a 3-month forward all the way out to a 7-year forward start, and the market is now pricing the NOK 5Y FSS in a band between 3.50 % and 3.65 % over the next 5 years. The NOK 10Y IRS is currently at the same level as the NOK 5Y IRS at around 3.70 %, but here we can see the market pricing a gradual decrease for the NOK 10Y FSS over time, back to just above 3.00 % with a start 5 years out. As bank margins have increased at the same time as we have seen sharp increases in interest rate swaps, it has brought the all-in financing cost back to levels well above 6 % for most new CRE-loans.

As briefly mentioned, the bond financing of single SPVs has seen a sharp decline, and the big-ticket item to address in the coming year(s) will be the bond financed volume that is up for refinancing. The appetite for bond financing has all but gone, and a very sizeable portfolio of projects in dire need of financing from other means of funding is on the horizon. Roughly NOK 4.5 billion is in need of refinancing in 2023 alone.

NOK 5Y and 10Y IRS and FSS



*Q4 2022 as of 1 November. Source: Thomson Reuters

Shift in regional and segment interest

Our regional overview so far in 2022 shows a shift in regional interest as the year progressed. On the surface, the split looks very much like a reflection of the market we saw throughout 2021; Greater Oslo is still the centre of attention, yet investors continue to seek increased exposure in other large cities, as well as more rural areas. As a large part of H1 was a thriving and well-functioning investment market that saw ample activity in other regional cities, Bergen eased back on the activity level somewhat, while Stavanger and Trondheim saw a boost on the back of higher activity in the oil & gas sector. But over the summer it became clear that the activity that garnered the most interest is gravitating towards central solid cash flow with rent potential, preferably with a value-add angle geared towards liquid rental markets. Much as we anticipated, some of the interest for regional exposure in tier 2 and tier 3 cities dwindled from the record high levels witnessed in 2021 as risk increased. But as always, a solid cash flow will attract investors looking for a higher return than available in the tier 1 cities. While interest rate sensitive cases and re-let risks remain unfavourable to investors, a long solid cash flow at fully repriced levels could create interest outside of the major tier 1 cities. The driving factor for most investors towards the end of the year and into 2023 will predominantly be the safe haven rental opportunities to be gained from the depth of liquidity in bigger markets.

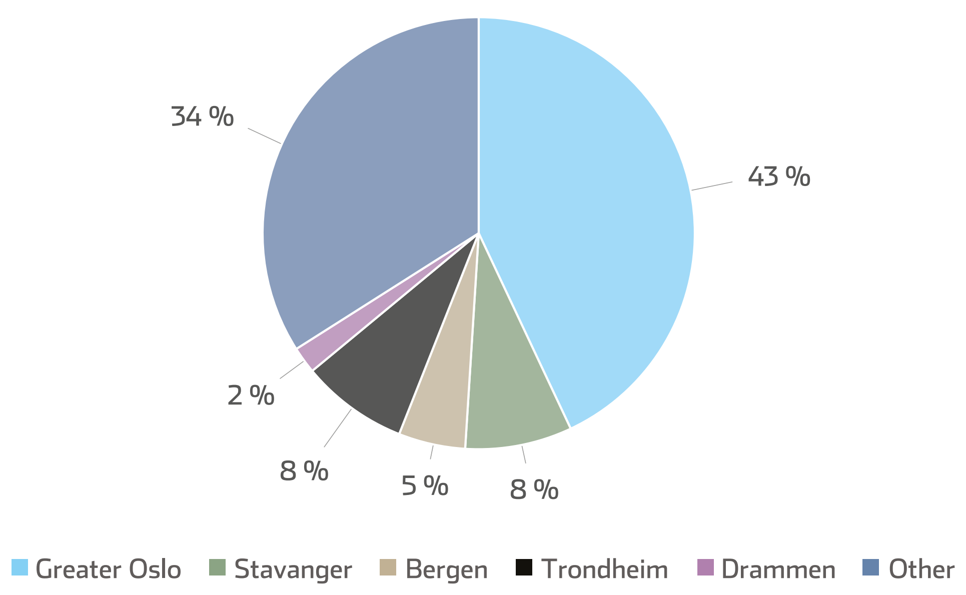
Prime yield (net) in Norway

City	Prime Yield (Office)	△ from last report
Oslo	3.75 %	▲ +50 bps
Stavanger	4.75 %	▲ +50 bps
Bergen*	4.50 %	▲ +70 bps
Trondheim**	4.50 %	▲ +50 bps
Drammen	4.75 %	▲ +75 bps

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

«The most interest is gravitating towards central solid cash flow with rent potential, preferably with a value-add angle geared towards liquid rental markets».

Regional split of the transaction market 2022* by volume



*As at 1 November. Source: Malling & Co

Global investment volume in H1 2022 was highest ever record

H1 2022 was a record-breaking first half of the year for global investment volumes in commercial real estate, reaching USD 605 billion. Outperforming pre-pandemic levels, this represented more than a 13 % increase on H1 2021, which was the previous record, and a 23 % greater volume than the 5-year H1 average. The year began with positive global sentiment in the real estate sector, carried over from Q4 2021, as pandemic-induced restrictions were eased, while the full implications of inflation and geopolitical events were yet to fully materialise.

Year-on-year investment volumes increased across all major asset classes in H1 2022, except for office. The office segment cooldown was a leading indicator of the shift in investor sentiment, and as economic activity seemed to brew, investors doubled down on the inflation effect on residential rents and the relatively speaking inelastic demand for housing compared to office. Whilst office, with a 25 % share of total global volume, remains the second highest volume after residential with 33 % share, the segment is seeing Industrial breathing down its neck at 22 %, up 6 percentage points from 2019.

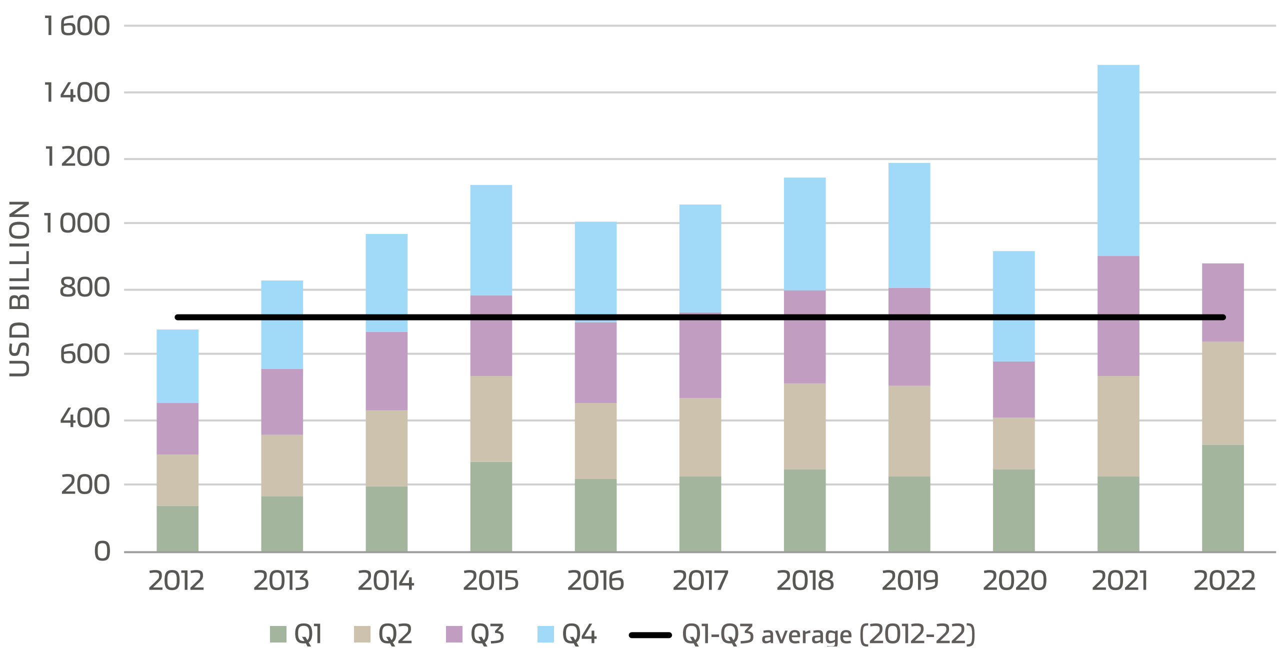
Cross border capital flows have remained relatively stable from previous years, but there are signs that both APAC and America's flow of funds is easing off the throttle on cross border capital investments. Meanwhile, Europe remains an active and attractive cross-border market with a roughly 50/50 split of domestic and cross-border share of total investments, although the total volumes themselves are naturally falling in H2 in Europe as well as the rest of the world.

Prime yield (net) in Europe

City	Prime Yield (Office)	△ from last report
Munich	3.00 %	▲ +50 bps
Paris	3.00 %	▲ +40 bps
Helsinki	3.20 %	▲ +20 bps
Milan	3.25 %	▲ +35 bps
Stockholm	3.40 %	▲ +40 bps
Amsterdam	3.50 %	▲ +50 bps
Copenhagen	3.50 %	▲ +50 bps
London	3.50 %	▲ +25 bps
Oslo	**3.75 %**	**▲ +50 bps**

Source: Malling & Co/Savills

Total global real estate volume

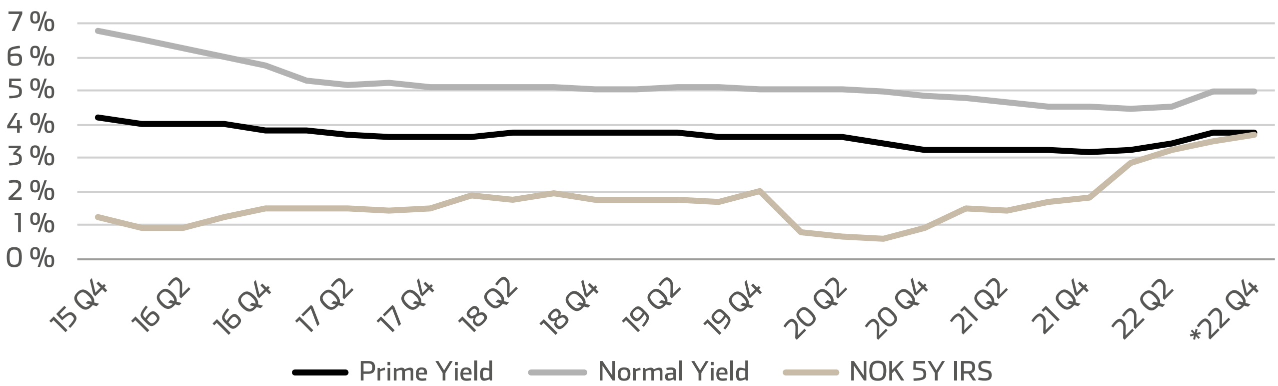


Source: Savills

Yields on the rise - more to come

As interest rates have continued to rise, we have seen the spread between prime office yield and the NOK 5Y IRS tighten and currently it is all but closed, as our prime office yield estimate is 3.75 %. When factoring in the NOK 5Y FSS projections and margins on top, we believe that the yield will continue to increase going forward. Our main scenario is a prime yield close to 4.00 % as we go into the new year and finding further footing to peak at around 4.50 % before the summer of 2023. In a minor scenario we explored, there is mathematical evidence to suggest an even higher prime office yield forecast, just north of 5.00 %, but we believe factors such as inflation, rental growth and long-term interest rate development will make such high prime office yield a less likely outcome. But, the effect of the same forces on normal yield must not be ignored. As we have witnessed over the past year, normal yields have tightened the gap on prime, something which we believe in our main scenario to be reversed going forward. The outlook for the general economy covered in our macro section, and the rental outlook covered in our rental market segment, coupled with the interest rate forecasts, suggest a return to a higher spread between prime and normal yields, on account of the normal yield increasing more than the prime yield. The Office segment will see a development along these lines together with the Logistics segment. We believe that both retail and hospitality will see higher yield increases on the back of a drastic reduction in consumer spending and purchasing power, at the same time as a decline in business expenditure on travel and representation. Other drivers of increasing yields will be covered in the next paragraph.

Yield development past 5 years



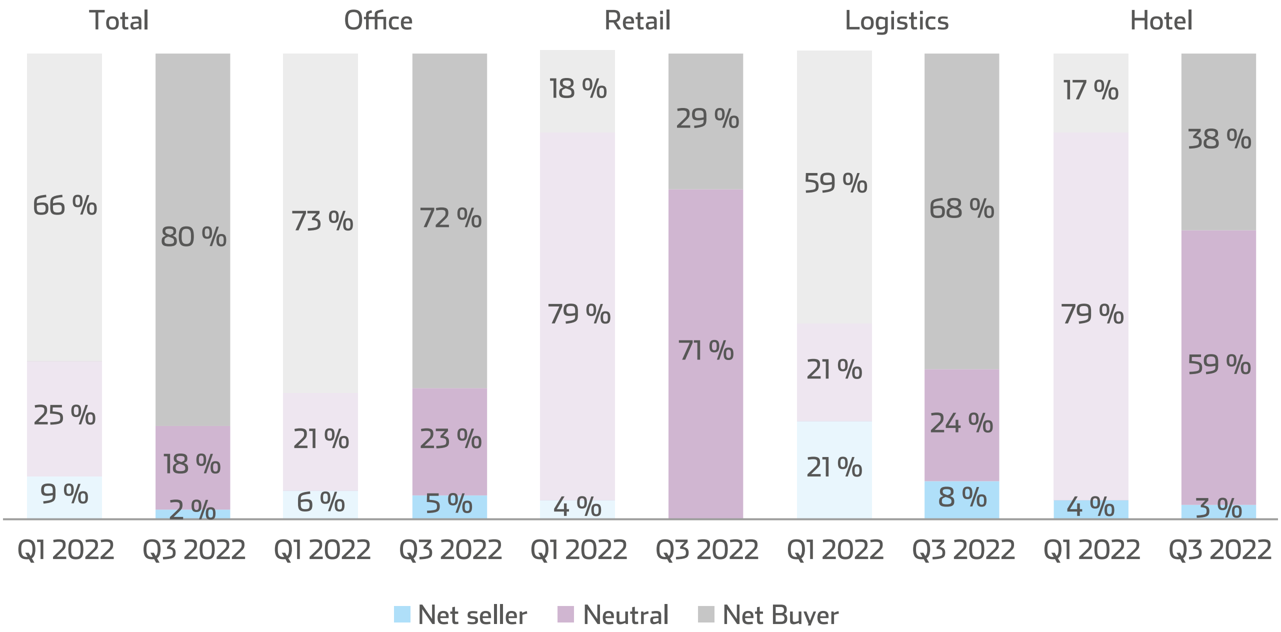
*As at 1 November. Source: Malling & Co/Thomson Reuters

Investor sentiment and yield development

Our latest survey-based investigation from Q3 2022 (survey period ended Friday, 30 September) into investor expectations for yield and investor intentions shows that the demand for commercial real estate remains high and, perhaps surprising for some and contrary to what many may have believed, the share of investors intending to be net buyers of commercial real estate has not decreased with increasing yields. The survey shows an increase from around 65 % in the past two quarters to around 80 % in Q3. The explanation for this is, in our view, something that resonates with the feedback we are getting from active investors. They are more than willing to keep investing in CRE, but not at yesterday's price level. The bid-ask spread has created a vacuum and liquidity in the investment market has fizzled out, as few sellers are currently willing to be the yardstick against which to establish a new equilibrium.

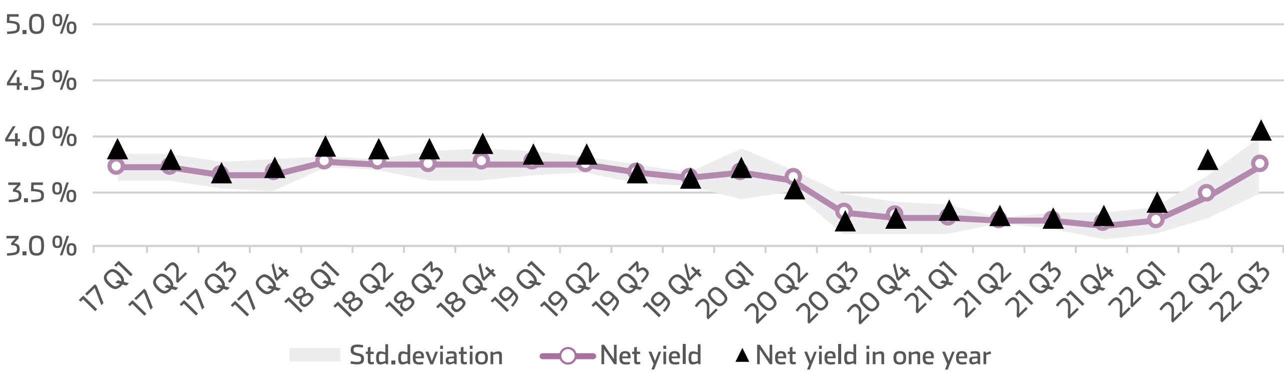
Prime office CBD is currently estimated at 3.75 %, up 30 bps from the previous quarter, and a full 55 bps up from the all-time low of 3.20 % in Q4 2021. The outlook 12 months out is also increasing quarter by quarter and the latest estimate from the survey is also up 30 bps from the previous quarter to 4.05 %. Uncertainty surrounding the yields is at an all-time high with a standard deviation of 0.25, a fair bit higher even than what we measured at the height of the uncertainty experienced in the early days of the outbreak of the pandemic. The prime office yield in the fringe is also increasing both at Helsfyr and Lysaker, standing at 4.50 % per Q3. Normal office yield is also up in both fringe locations, to 4.90 % and 5.00 % at Helsfyr and Lysaker, respectively. Contrary to our belief, investors in the survey do not see normal yields creating a larger gap to prime yields going forward. Similar increases in current yield levels have been observed in future outlooks across segments and risk classes, although firm observations are few and rare these days. However, we have seen some instances of cases that deviate both from the estimated prime yield in the survey and from our own estimates, which surprisingly, have been on the lower end of the scale. But regardless of the exact point at which yields will peak, we are certain that opportunities will arise from the current turmoil and uncertainty for those investors that have investing capacity and do their due diligence in the research phase of potential opportunities to come.

Desired exposure towards commercial real estate next 12 months



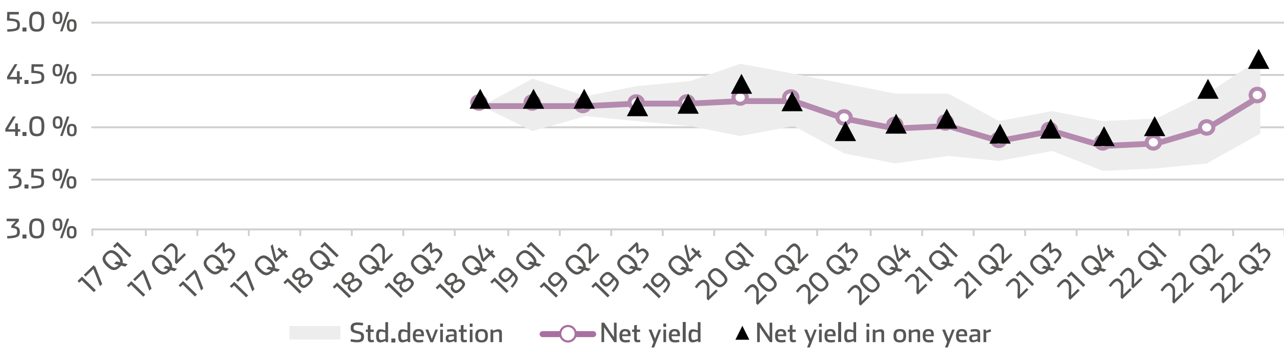
Source: Malling & Co Investor Yield and Sentiment Survey

Prime office yield, CBD



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

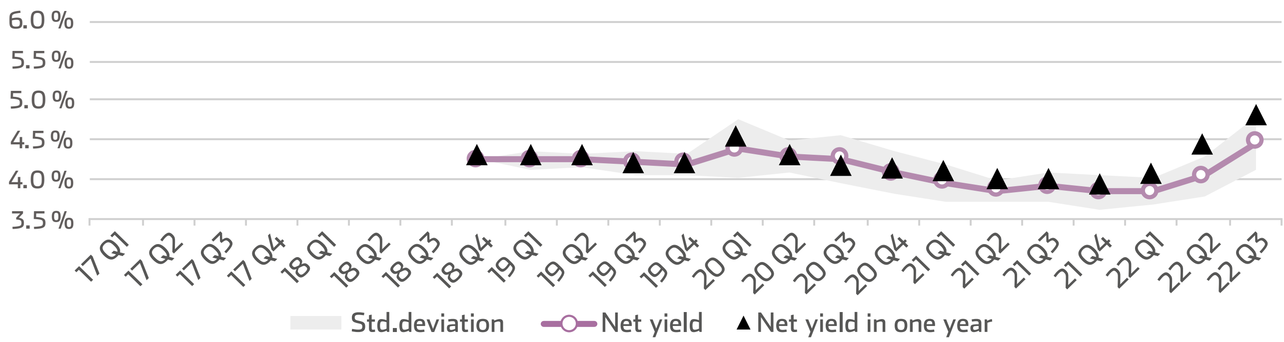
Normal office yield, CBD



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

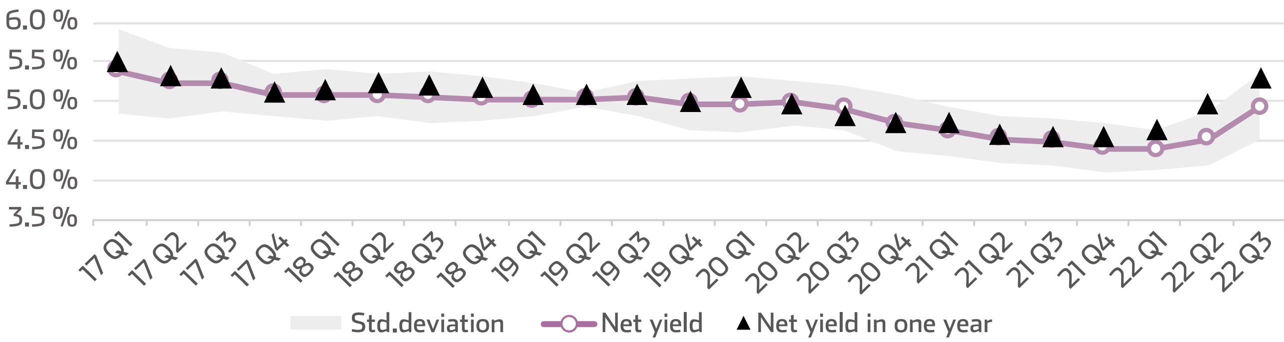
Disclaimer — All graphs on page 89 and 90 are results from the quarterly investor survey, and do not necessarily reflect the official views of Malling & Co Research and Valuation.

Prime office yield, Helsfyr



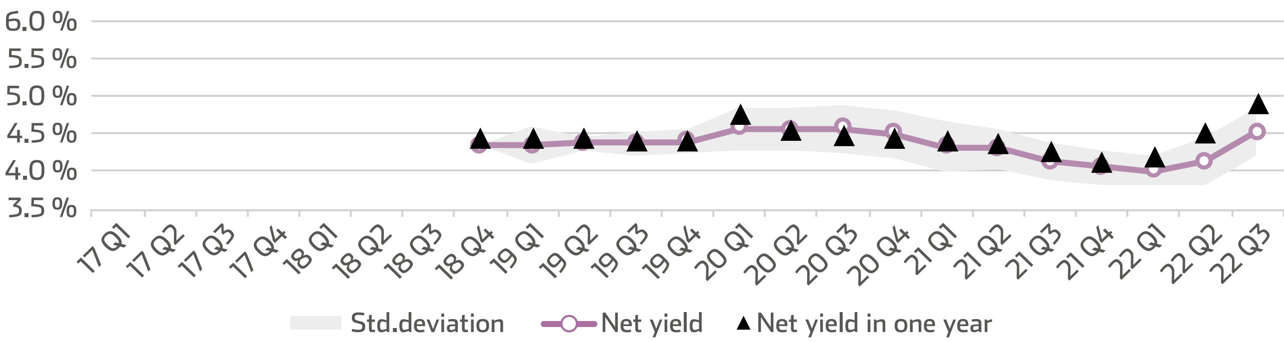
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Normal office yield, Helsfyr



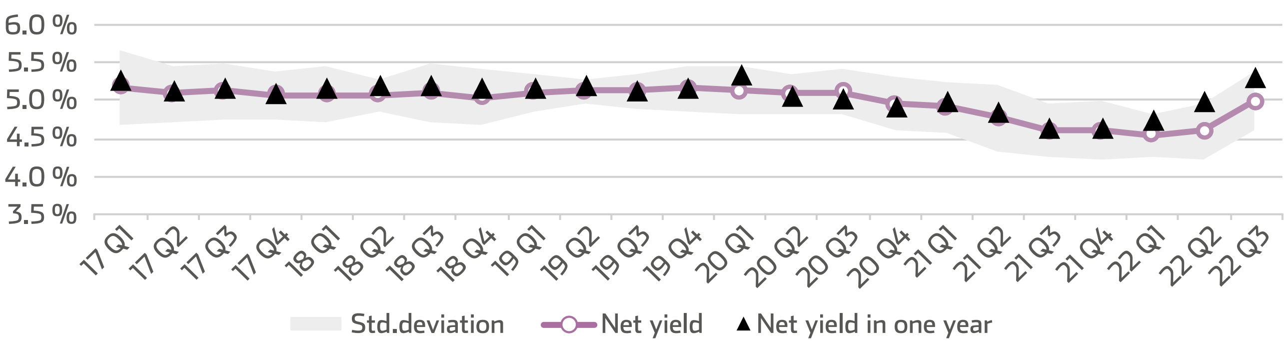
Net yields on market rent. Source: Malling & Co Investor Yield and Sentiment Survey

Prime office yield, Lysaker



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

Normal office yield, Lysaker



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

Lilleakerveien 6 — Lilleaker

Malling & Co Tenant Representation has advised Statkraft in the development of a new, tailormade workplace concept for its employees at Lilleaker.

About Malling & Co

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

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

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

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

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