Malling

Market report
Summer 2024

Beyond the Turning Point

Still affected by the inflation spike, initiated by the pandemic, and the subsequent drastic interest rate increases over the past few years, many real estate investors remain shocked and wounded from the inflation cure. While 2023 turned out to be a dreary year for many real estate investors, especially those with high leverage, 2024 seems to be boosting activity and positivity among market players. Despite a continued challenging market in 2024, we are very optimistic for commercial real estate, especially offices, in the coming years. The turning point of the cycle has likely passed, and the time seems right to turn bullish!

Anders Berggren
CEO

While the market remains nervously focused on interest rates, we can see a few positive signs that we believe are just the start of a positive trend for commercial real estate. As we await the first-rate cuts from the FED, the Norwegian Central Bank appears rather dovish in its communication on its updated strategy, which places more focus on employment. Looking at the bigger picture, this is very positive news for real estate, as the employment market could indirectly boost the demand side of commercial space and support further income growth. The toxic combination of high inflation and slow growth with hawkish central banks seems rather unlikely. Despite some risk of another inflation spike and rate hike, the overall view aligns with the market that the rate peak is most likely behind us, and rates will be cut when inflation returns closer to target. However, the timing remains the key risk in our view. On the other hand, if employment turns out weaker than expected, it will probably trigger more rate cuts. If that scenario plays out, we will see lower income growth, but probably also further yield compression and value increases from more rate cuts. In either scenario, real estate performs well.

Over the past few months, we have shifted our forecast and view of the office market for the coming three years. We are now bullish on office rents in Oslo! While the office segment remains undesirable for most foreign investors, it remains rather attractive to domestic investors. Normally, the surge in employment seen over the past three years should have created significant demand for office space. This has not happened for many reasons, one being the over-optimistic view of Work from Home. However, we believe that office tenants are gradually realising that sitting cramped in existing space is not the ideal solution to get employees back to the office. Pent-up demand will be further boosted by the expected growth in employment. Office employment in Oslo has, on average, been twice as high as other types of employment since 2008. This should corroborate the demand for more office space in Oslo as the city grows.

While prime office yield estimates increased marginally in our last quarterly investor survey, the outlook among investors has shifted from increasing to decreasing yields over the past two quarters. The number of buyers has increased significantly, and they are ready to deploy capital. The proportion of sellers has decreased somewhat, but opportunities remain available for the right investor at the right price. As soon as the uncertainty surrounding inflation and interest rates abates, we expect the market to improve in the second half of 2024 and into 2025.

Some areas of the market remain challenging, especially new developments. The challenge of offering attractive new developments at current market rents, construction costs and yields is also the main reason why we believe the owners of existing high-quality space, office and logistics, with confined need for capex will turn out the winners.

We at Malling, with our core values and long-term position, are still prepared to guide our clients through an optimal strategic approach to investments in existing or new real estate assets. As usual, we have the pleasure of including a market update on Bergen and Trondheim, supplied by our regional contacts WPS and Norion, in addition to Stavanger and Drammen. Remember that Malling is here to support you in all your commercial real estate needs, including transaction support, tenant representation, development, energy and environment services, research services, leasing services, valuations, technology advisory, as well as property and asset management.

Editing completed: 10 May 2024

Macro — Global

Interest rate cuts approaching, but later than desired and expected

The geopolitical situation remains uncertain, with Russia's war against Ukraine lingering on. Tensions are increasing in the relations between the US and China. A number of large countries are facing important elections in 2024, with the outcome of the US election undoubtedly the most decisive for the global economy.

Nevertheless, the global economy is expected to grow at about the same rate in 2024. The US economy, in particular, plays a pivotal role in setting key policy rates, influencing crucial decisions by the Norwegian Central Bank. This, in turn, impacts Norwegian interest rates. This could be decisive for Norwegian interest rates as higher US interest rates may attract even more money from small currencies like the Norwegian krone. While inflation in the Eurozone appears to be nearing the European Central Bank's (ECB) target, the US economy is demonstrating signs of resilience. This suggests that interest rate cuts are more probable in the Eurozone than in the US this year. Currently, option market prices indicate that the Federal Reserve's next move is more likely to be an interest rate hike rather than a cut.

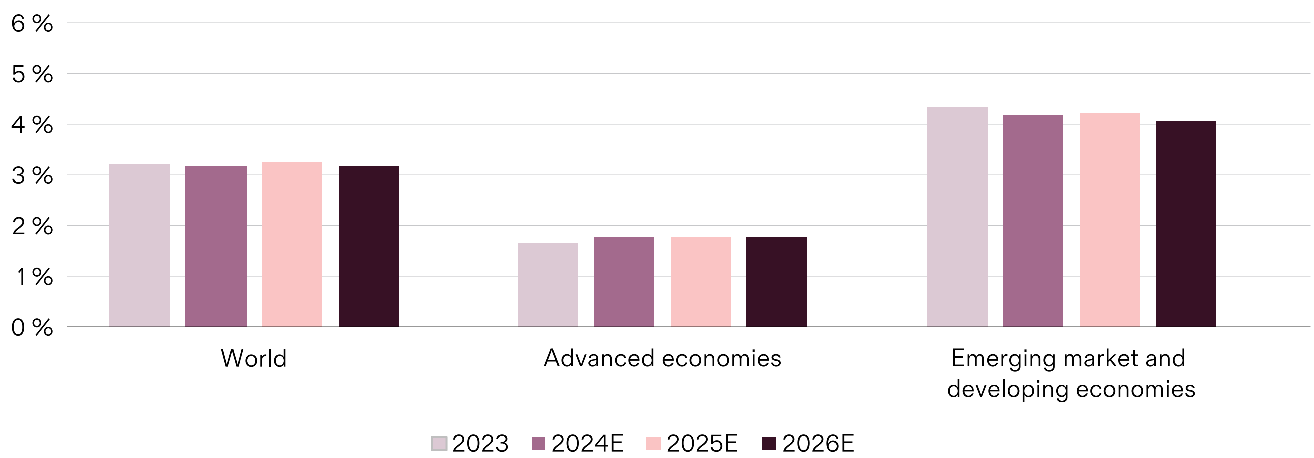
These negative developments have caused Norwegian interest rates to increase significantly since mid-February. Simultaneously, the strengthening of the dollar against other currencies will impact the Norwegian economy and the actions of the Norwegian Central Bank. Additionally, ongoing geopolitical tensions continue to affect the global economy to varying degrees, complicating the task of forecasting the next few years.

Continued high GDP growth in the US

The high policy rate in the US seems to have had less impact on the economy than expected. Inflation is coming down, albeit slowly, and the US economy has shown a remarkable resilience. Fiscal policy has stimulated investments and maintained high demand among households. The high degree of fixed-rate mortgages among US households is one reason the US economy has fared better than in the Eurozone, where floating interest rates and shorter loan terms are more common. Consequently, interest rate changes have had less impact on US households, sustaining relatively high demand. Additionally, the US hosts many large technology companies that have experienced favourable growth conditions in recent years. However, GDP growth for Q1 2024 was lower than expected, dropping from 3.4 % to 1.6 %.

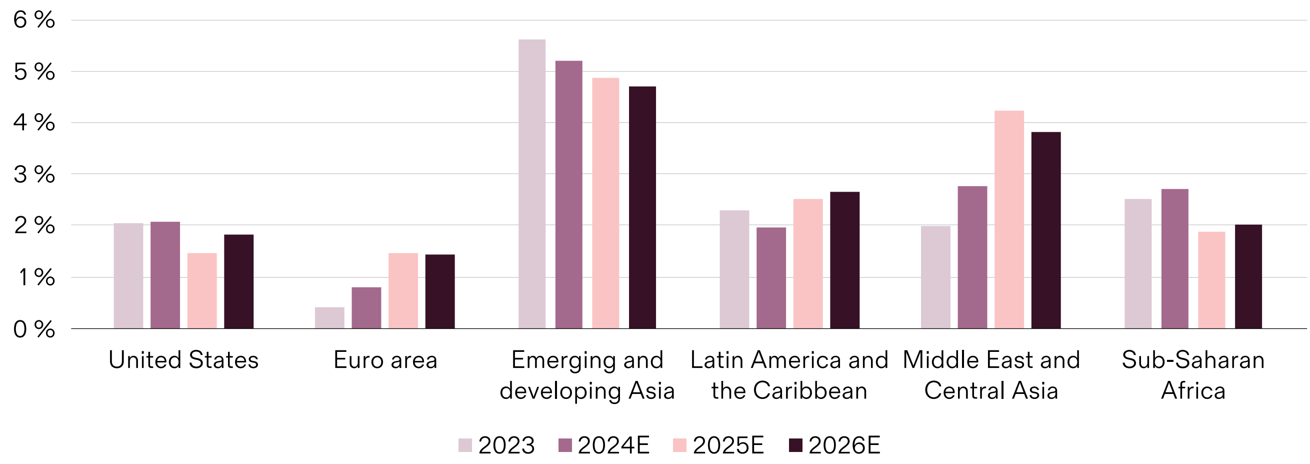
Meanwhile in the Eurozone, economic growth has been much weaker. One reason is the less expansive fiscal policies. Additionally, there is a significant difference in energy prices between the US and the Eurozone. The US is energy self-sufficient and has not been affected as severely by Russia's invasion of Ukraine, whereas high energy prices in the Eurozone have contributed to slowing economic growth. Short term, US GDP growth is expected to remain relatively strong, while growth in the Eurozone is expected to stay subdued, continuing the trend observed from the end of last year and beginning of this. In the belief that inflation will keep coming down, European central banks are expected to gradually reduce policy rates, as Sweden's Riksbanken recently did. This, in turn, is expected to boost economic activity, and household real income is also expected to increase during this period.

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



Source: IMF WEO (April 2024)

GDP growth rate projections, by region, % change



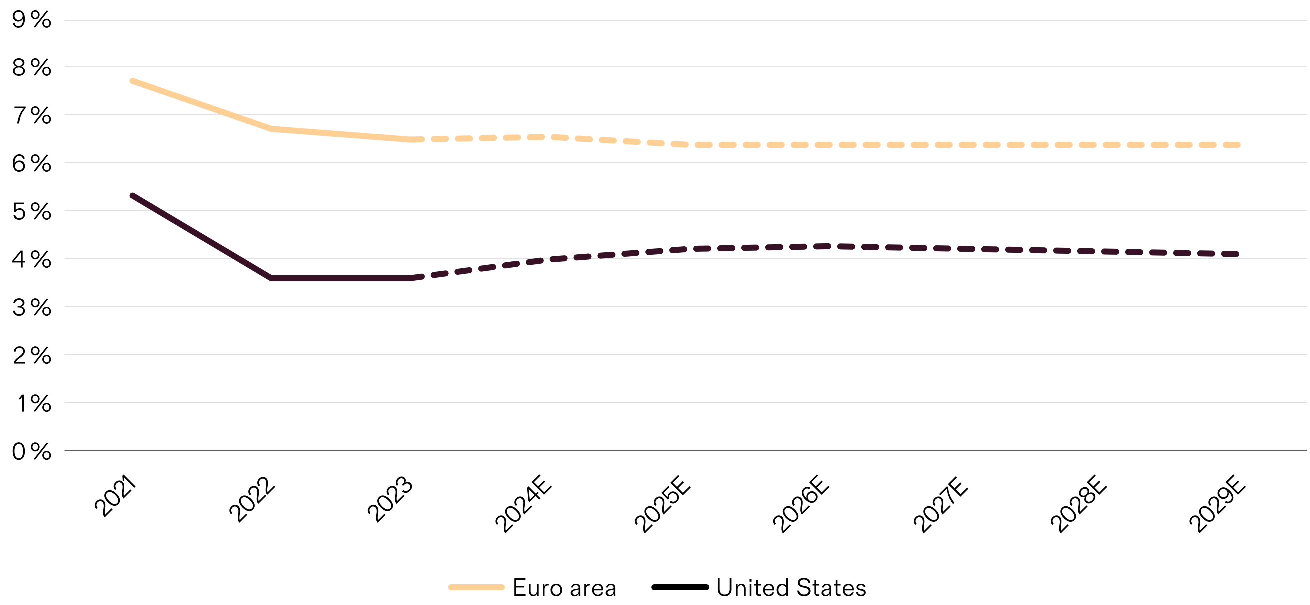
Source: IMF WEO (April 2024)

Stronger labour market than expected

Despite tighter monetary policy, labour markets in both the US and the Eurozone have seen strong growth. In the US, unemployment has been lower than expected. Numbers for April saw fewer claims for unemployment benefit than expected. The automotive industry, however, has seen some major job cuts in recent months, mainly due to Tesla's announcement that it was cutting 10 % of its global workforce. The education sector in the US has also faced many cuts so far in 2024. The job market cooled down in April, with only 175 000 new jobs, nearly 30 % less than the forecast. This quickly impacted the dollar and government bond yields, which weakened in the wake of the job market report. US interest rates have been volatile and very sensitive to economic data, as investors are looking for direction with the next interest rate move by the Federal Reserve.

The European labour market has also been relatively tight after the unemployment rate levelled out in 2023. In China, on the other hand, the labour market has weakened. Subdued demand across sectors has led to fewer job opportunities. Looking ahead, growth in China is expected to slow further. This slowdown will not necessarily result just from layoffs, but also from companies slowing their hiring rate due to rising labour costs, making each employee more expensive for businesses.

Unemployment rate, %



Source: IMF WEO (April 2024)

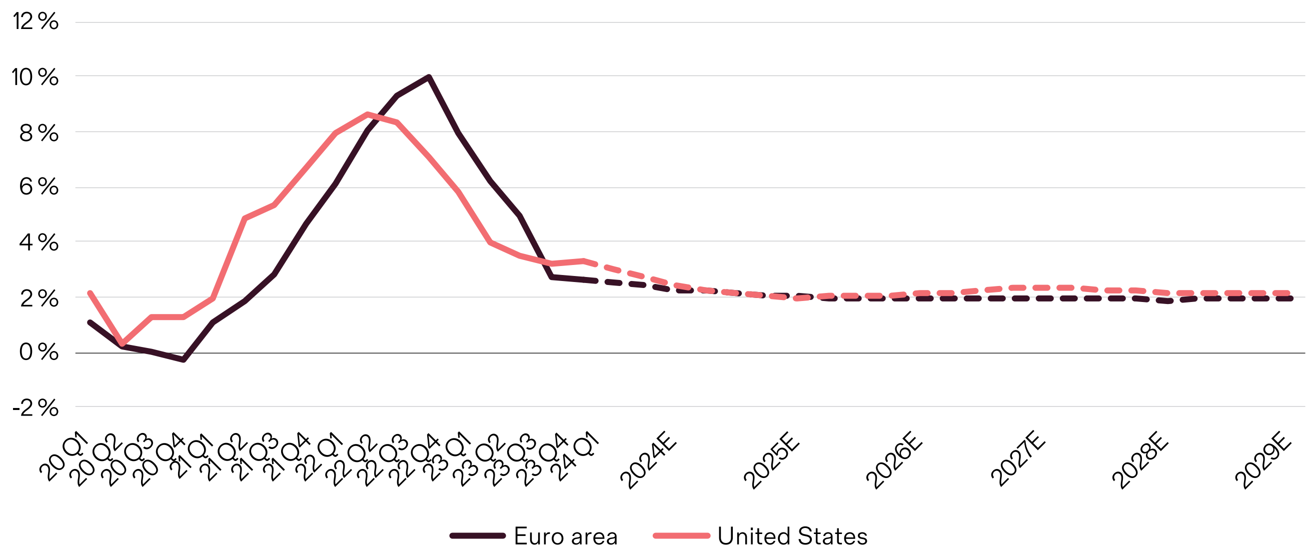
Decreasing inflation, but continued uncertainty

Following aggressive interest rate hikes in many countries, inflation rates have been coming down sharply in recent quarters. Although the decline is continuing, the pace is expected to be somewhat slower. Inflation, as measured by the CPI, seems to be levelling out in the US temporarily, sustained by a significant increase in rents. Price hikes for services are helping keep the inflation rate higher than the Federal Reserve's target of 2 %. The same factor is impeding a further drop in inflation in the Eurozone, too. This is being especially driven by strong wage growth.

It is expected that inflation will continue to decline in both the US and the Eurozone, and that levels in the Eurozone will reach the target of 2 % by the end of this year. Inflation in the US, however, is expected to reach target in the first half of 2025 due to an expected decline in prices for services. Growth in food and commodity prices are approaching target levels.

Although inflation is coming down, and the consensus is pending interest rate cuts, there is still significant uncertainty surrounding global inflation. Geopolitical uncertainty and escalations of ongoing conflicts may pose a significant risk of yet higher inflation.

Headline inflation forecasts, %



Source: ECB, FED, IMF WEO (April 2024)

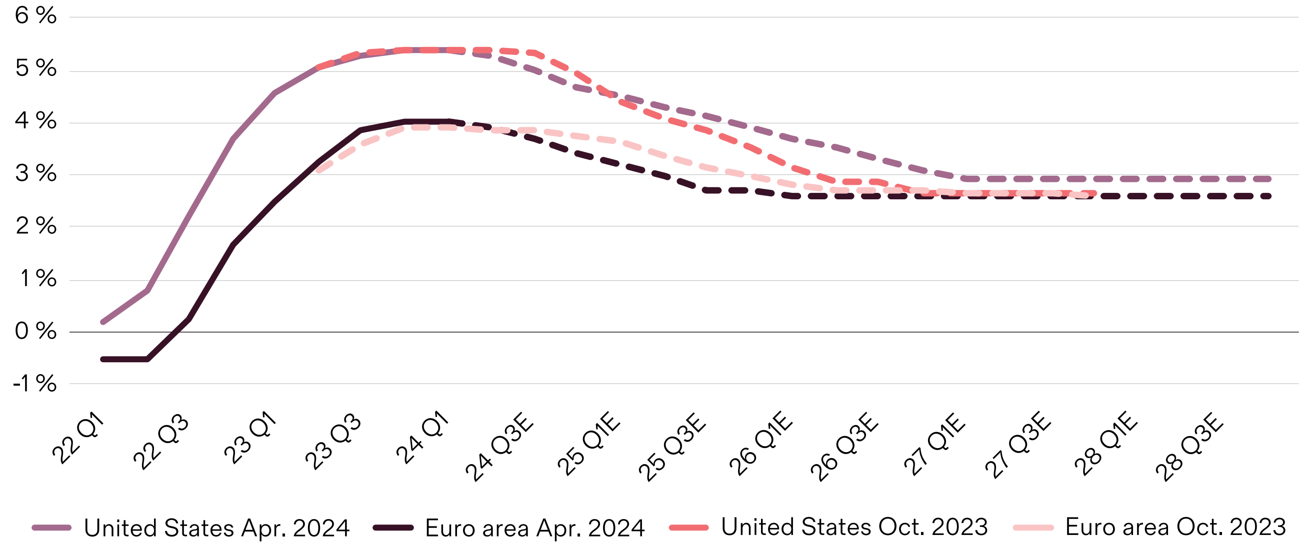
«It is expected that inflation will continue to decline in both the US and the Eurozone».

Interest rate cuts delayed

Both the European Central bank (ECB) and Federal Reserve (Fed) decided to keep policy interest rates unchanged in their latest meetings. In their statements they said that interest rates had peaked, and that their next move would be a cut in interest rates. It was also communicated that this view has strengthened in Q1. In its March meeting, the Fed stated that it expects up to three rate cuts in 2024. However, expectations shifted somewhat in its latest meeting in May, due to the recent unexpectedly high price rises. In its latest meeting, the Fed therefore kept the rate unchanged within the range of 5.25-5.50 %, while also reducing the number of expected rate cuts next year and raising inflation expectations. In Europe, on the other hand, a continued decline in inflation is expected to push the ECB towards cutting the interest rate in its forthcoming meeting in June.

Nevertheless, both the ECB and the Fed also emphasise that they want clear signs that price rises have eased before deciding to lower the policy interest rate. The strong wage growth could have a significant impact on costs, putting pressure on prices going forward, making it harder to reach the targets short term.

Key policy rates, %



Source: IMF WEO (April 2024)

«ECB and the Fed emphasise that they want clear signs that price rises have eased before deciding to lower the policy interest rate».

Declining commodity prices

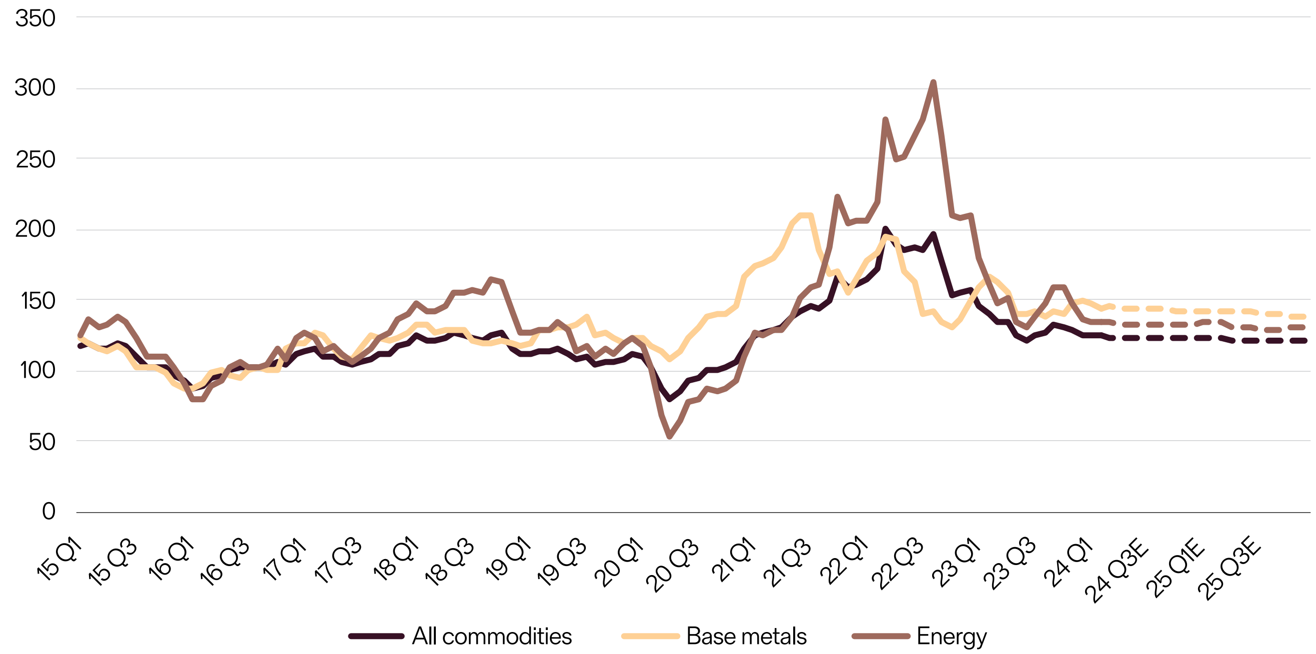
Since our previous report was published in November, there has been a total decline of just over 2 % in commodity prices. The war in Ukraine, the conflict in Gaza and Israel, and the pandemic have led to increased volatility in commodity prices over the past few years, contributing to destabilizing inflation. Although geopolitical tensions persist worldwide, commodity prices continue to fall.

The recent decline in commodity prices is primarily due to a significant drop in energy prices, which have decreased by well over 3 %. Despite tensions in the Middle East, the oil price has fallen by nearly USD 10 per barrel since September. The tension around the Red Sea, which has led to increased global freight rates for tankers, has driven prices up, but weak demand has nonetheless pulled prices down. Natural gas prices have also fallen due to ample supplies.

Aside from commodities' impact on inflation and the global economy, building material prices are particularly important for the commercial real estate industry, as they significantly affect construction costs. In line with rising inflation, building material prices have also risen sharply in recent years. One example are the iron ore prices, which have surged in recent quarters due to increased steel production in China. Building materials are sensitive to geopolitical tensions since raw materials used in the construction industry are traded globally. Recent years' conflicts have thereby contributed to the price increase in the construction industry. For example, attacks on ships in the Red Sea have disrupted several of the world's major trade routes, leading to decreased availability of several raw materials.

The IMF expects commodity prices to fall by almost 2 % by the end of 2025. This expected decline also applies to raw materials for building materials. However, it is unlikely that we will see the low material prices of the past in the foreseeable future, and we will need to adapt to the high material prices going forward.

Commodity price indices with forecast (index, 2016=100)



Source: IMF WEO (April 2024)

Akersgata 51, Oslo

Malling & Co Næringsmegling was the advisor when Rystad Energy leased 6 300 m^2 in Akersgata 51.

Macro — Nordics

Declining CPI across the Nordics with anticipated cuts in policy rates

The macroeconomic landscape of the Nordic commercial real estate market exhibits certain similarities among the Nordic countries, yet distinct differences also emerge. A common thread across the Nordic countries has been high price growth, which has bolstered rental incomes for some property owners. However, this trend has also been accompanied by a significantly higher interest rate environment, which, for a rate-sensitive industry like real estate, has brought down property values and implied more expensive financing compared to previous years. Consumer prices (CPI) are trending downwards in the Nordic countries, but at varying pace.

Norway did not experience as high an annual average inflation peak as its neighbouring countries. However, the Norwegian Central Bank does not expect Norway to reach the inflation target of 2 %, at least not until the end of 2026.

In Sweden, Denmark and Finland, inflation is projected to hover around the countries' respective inflation targets as early as 2024. This opens up for earlier loosening in the monetary policy and a faster return to economic growth. This is particularly welcomened in Sweden and Finland, where unemployment rates stand at 7-8 %, significantly higher than the 4-5 % unemployment rate in Norway and Denmark. Despite a tight monetary policy in all countries, the Nordic job markets have performed remarkably well.

Largest threats to the declining CPIs are wage growth and currency depreciation

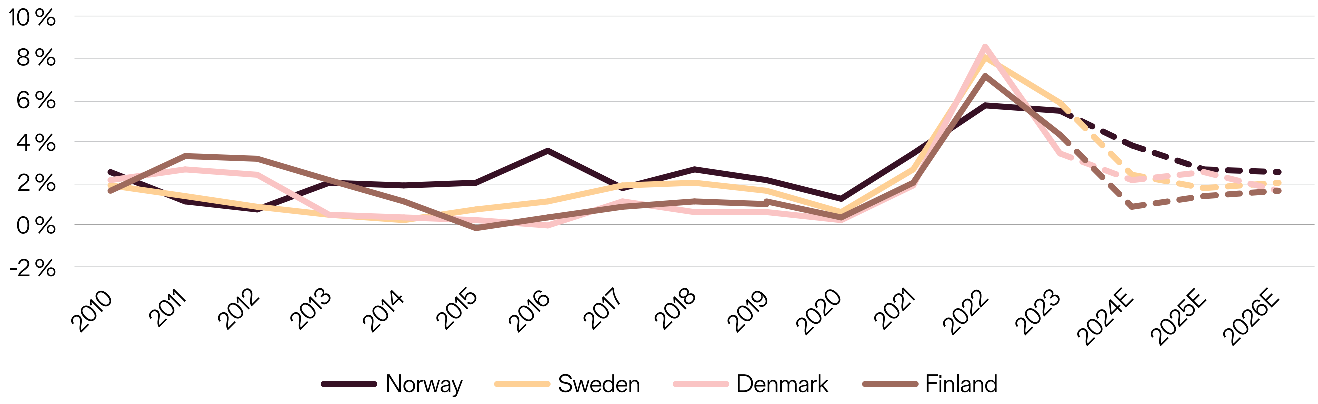
In recent years, all Nordic countries have struggled with inflation rates exceeding their 2 % targets, peaking in 2022. In response, central banks tightened monetary policies, which in combination with moderating energy prices set a course for declining inflation rates across the region in 2023. While the prices of goods has notably decreased, the cost of services has remained relatively high. According to central banks, the trend of slowing inflation is expected to continue into 2024 across the Nordic nations. Finland may even fall below the 2 % inflation target this year.

Norway's currency (NOK) depreciated notably against the USD and EUR in 2023, but less so in 2024 (up to mid-May). The Swedish krone (SEK) has followed the NOK, while the Danish krone (DKK), which is pegged to the EUR, depreciated against the USD. Finland, which uses the EUR, also experienced this depreciation against the USD. Currency depreciation may drive inflation through the price increase of imported goods measured in the local currency. Being a small and open economy, Norway is more exposed to import-driven inflation. Furthermore, compared to Sweden's biennial wage settlements, which were last held before the recent spike in inflation, Norway's yearly wage negotiations pose a higher risk of increasing wage inflation and impacting overall inflation. This situation is likely to hamper the fall in Norwegian inflation, potentially requiring higher key policy rates for a longer period than in other Nordic countries.

Additionally, geopolitical unrest is a shared threat across all Nordic countries, potentially disrupting supply chains and increasing inflation pressures.

Main risks to higher inflation rates going forward:
- Norway: Wage growth, currency depreciation, petroleum prices, geopolitical developments.
- Sweden: Currency depreciation, geopolitical developments.
- Denmark: Wage growth, currency depreciation against the euro, geopolitical developments.
- Finland: Wage growth, currency depreciation (euro), geopolitical developments.

Consumer Price Index (CPI), annual change, %



Source: Statistics Norway, Norges Bank, Statistics Sweden, Sveriges Riksbank, Statistics Denmark, Danmarks Nationalbank, Statistics Finland, Bank of Finland

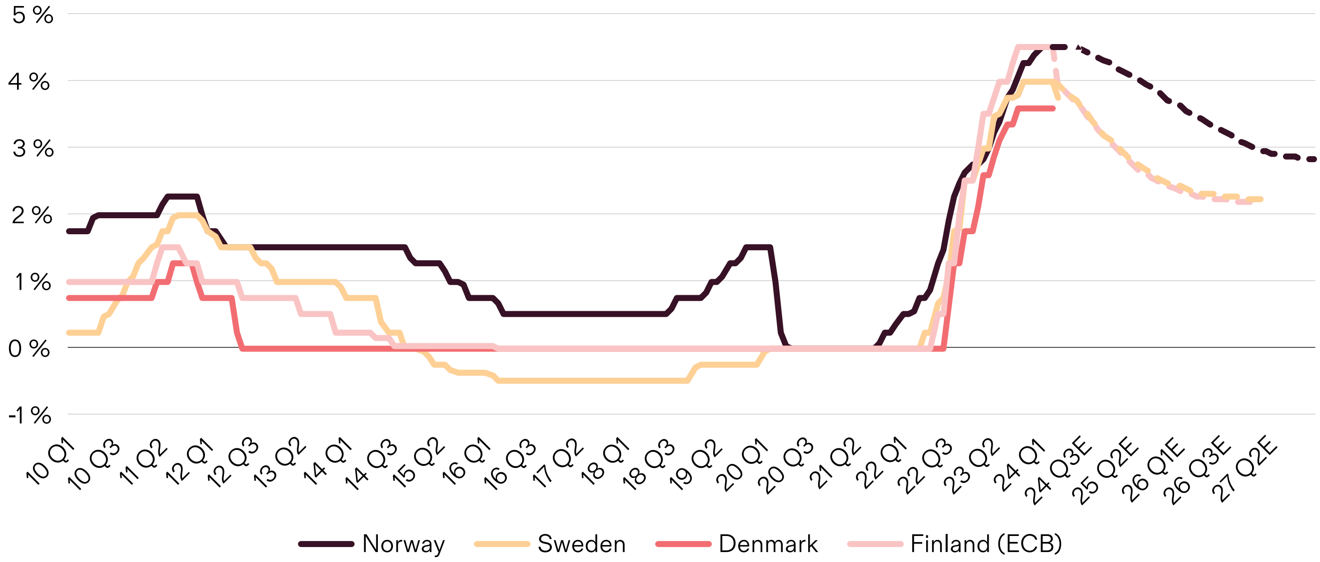
Central banks cautious before cutting policy rates, except in Sweden

In the effort to combat the high inflation rate, the primary strategy has been to increase policy rates across the Nordic countries. With inflation abating in some European countries, interest rate cuts are expected this summer. Sweden's Riksbanken cut its key rate by 25 bps to 3.75 % in response to a weaker jobs market and the mild recession the Swedish economy has been going through over a 12-month period.

Despite the series of rate hikes in Norway, to a policy rate of 4.50 %, the Norwegian economy has performed well over the past 12 months and expectations of an imminent rate cut are muted. The market is currently pricing in the first rate cut for December. Over the first four months of the year, the probability of rate cuts in 2024 decreased, with even a slight chance of a rate hike. However, the main consensus is still of one rate cut in December 2024. Our view is that the Norwegian Central Bank has adopted a dovish stance, signalling a gradual trajectory towards an interest rate slightly below 3.0 % by 2027. By the end of the forecast period in 2027, the increase in the consumer price index (CPI) is expected to fall to 2.2 %, which is still slightly above the inflation target.

In Denmark, Finland, and the broader Eurozone, sluggish economic growth is making rate cuts in June seem likely. However, persistent domestic price pressures suggest a more cautious approach than previously anticipated. Interest rates in the Eurozone, Sweden and Denmark are expected to bottom out just above 2.0 % by 2027. In contrast, Norway may well stand out with an economy that is likely to experience higher policy rates than its closest neighbours over the coming years.

Key policy rates and interest rate path, %



Source: ECB, Norges Bank, Riksbanken, Danmarks Nationalbank

Today's policy rate and expected policy rate in 3 years

	April 2024	April 2027E
Norway	4.50 %	2.90 %
Sweden	4.00 %	2.20 %
Denmark	3.60 %	2.20 %
Finland (ECB)	4.50 %	2.20 %

Source: ECB, Norges Bank, Riksbanken, Danmarks Nationalbank

«Interest rates in the Eurozone, Sweden and Denmark are expected to bottom out just above 2.0 % by 2027».

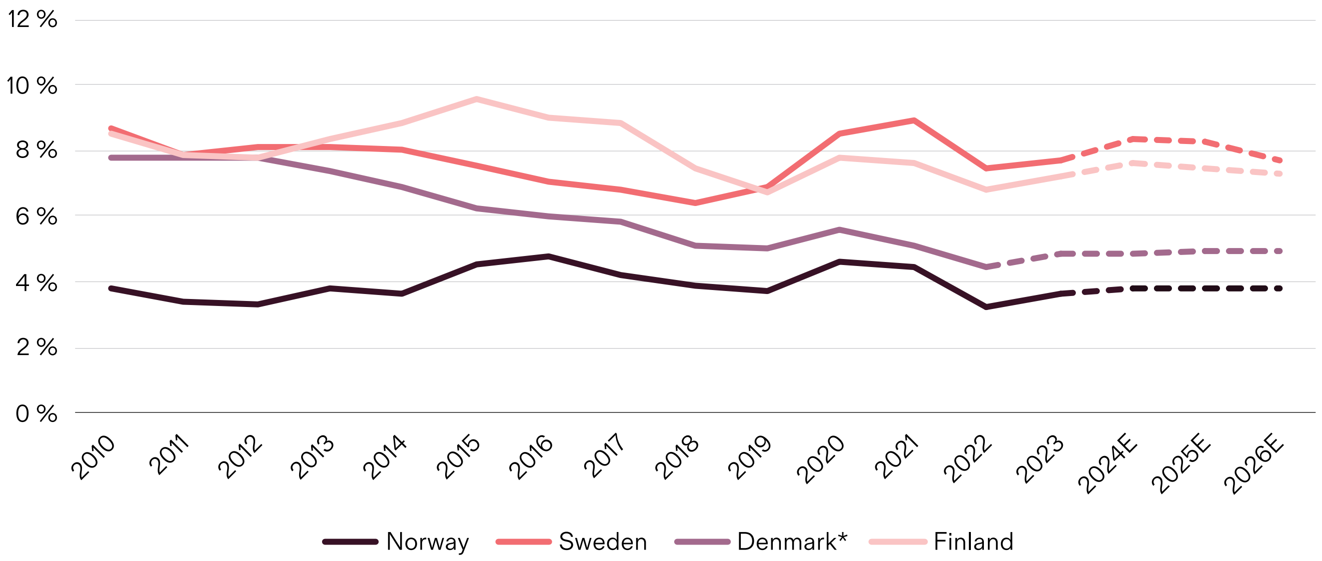
Nordic employment markets performing remarkably well

All Nordic countries experienced an increase in unemployment rates in 2023, following the rise in key policy rates, thus reversing the decrease seen after pandemic restrictions were lifted. This trend is expected to persist in 2024, although to varying extents across the countries. Headwinds in the struggling construction sector have led to layoffs and increased unemployment in all countries. However, other sectors have performed better, moderating this impact somewhat.

Norway is benefiting from a robust petroleum industry and proactive government policies, helping the unemployment rate to stay at around 3.8 %. Sweden's job market is supported by resilience in its large technology and financial sectors, although it is currently facing a minor recession with weak GDP growth. The unemployment rate is therefore expected to hit 8.4 % in 2024, up from 6.8 % at the start of 2023 and 7.4 % at the start of 2024. Denmark is experiencing a boom in the pharmaceutical industry, but since much of this is driven by production abroad, it is having a limited impact on domestic employment. Although cheap labour previously helped reduce unemployment, despite weak economic output, rising wages may reverse this trend. Still, Denmark is likely to keep its unemployment rate low at about 4.9 %.

Finland, like Sweden, is experiencing a mild recession, which is expected to push unemployment up by 0.4 pp to 7.6 % in 2024. From 2025, economic conditions across the Nordics are expected to improve as monetary policies relax, leading to better employment prospects. Both Sweden and Finland are projected to recover from their recessions, supporting employment growth.

Unemployment rate, %



*Estimated from 2023.

Source: IMF WEO (April 2024)

Victoriapassasjen, Oslo

Malling Core Plus Fund has acquired Victoriapassasjen, an office building centrally located in Oslo's CBD.

Macro — Norway

Higher for longer with a soft landing

The Norwegian economy has done relatively well despite the sharp increase in interest rates. While it has performed slightly worse than the US economy, it has outperformed Europe's. Withstanding high interest rates, Norway has avoided a recession and the labour market has held up surprisingly well. There are signs of improvement, but the key question is how long we will have to wait before seeing cuts in interest rates. Even though inflation has decreased significantly, a weak Norwegian krone and strong increases in earnings may infer high interest rates for a longer period. It appears to be a "higher for longer" scenario, with the first interest rate cut expected no earlier than December. The good news is that a soft landing seems to be the most likely scenario.

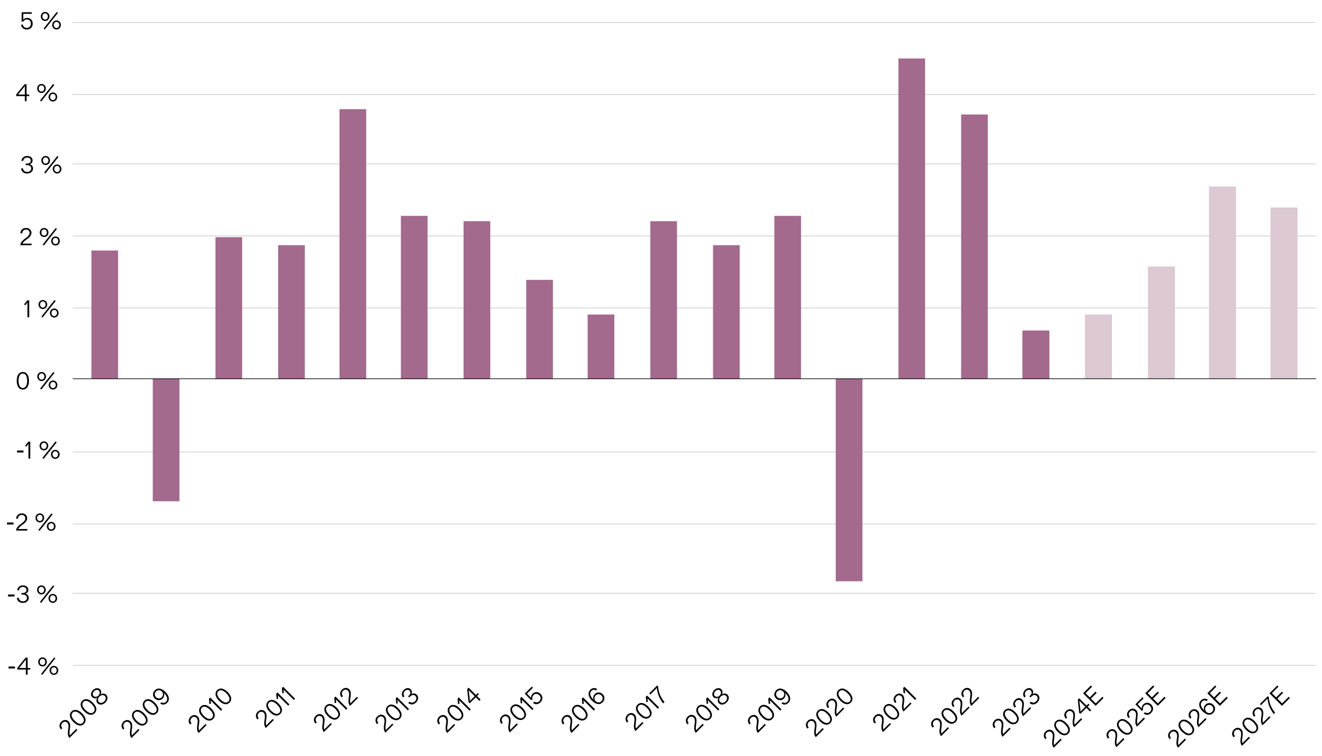
Low GDP, but recession avoided

Mainland Norway's GDP increased by 1.1 % in 2023. The growth has gradually decreased since what appears to have been its peak at the end of 2022. The Norwegian Central Bank expects the Norwegian economy to grow by a mere 0.5 % in 2024. In subsequent years, growth is expected to increase again, with rates of 1.2 % and 1.3 % in 2025 and 2026, respectively.

Businesses participating in the Norwegian Central Bank's survey of its regional network believe that overall economic growth will be zero in Q2 2024. Looking deeper into the various industries, there are significant differences. Industries such as manufacturing, retail and services all expect growth rates of around +/- 0.5 %. The construction industry is struggling the most and is expecting the lowest growth going forward, due to high construction costs and a weak market for new housing and CRE. The industry is expecting a 2 % decline for Q2 this year, whereas the oil supply sector, on the other hand, is expecting a growth rate of 1 % for the current quarter.

Domestic demand has declined somewhat, due to inflation and higher interest rates. The Norwegian Central Bank expects further declines in housing investments for the current year and a slowdown in export growth from last year. Overall, the Norwegian economy has performed well and better than expected, in terms of GDP growth. The most probable current scenario is that Norway is headed for a soft landing.

Mainland GDP, %



Source: Statistics Norway

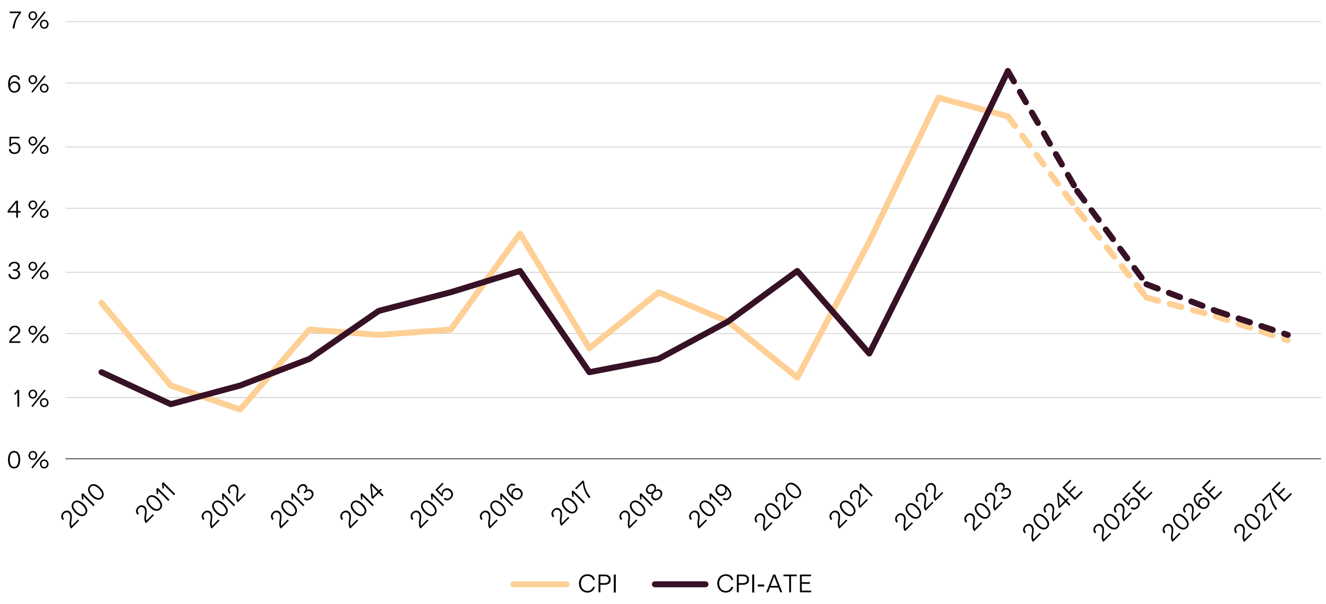
Continuously decreasing inflation

Since the end of 2022, inflation has steadily declined, albeit from very high levels and at a slower pace than forecast. In recent months, price growth has come in slightly below what the Norwegian Central Bank predicted in its latest Monetary Policy Report, although annual inflation rates are still relatively high compared to the central bank's target of 2.0 %. In April, 12-month inflation rate stood at 3.6 %, while core inflation stood at 4.4 %. However, it is worth noting that we have come a long way from the peak of 7.5 %, and as recently as June 2023, we saw 12-month price growth of 6.5 %. The Consumer Price Index (CPI) is still considered high and high price growth persists in both goods and services. The Harmonized Index of Consumer Prices (HICP) has shown a similar trend to the CPI, landing at 4.5 % in March. The big question is whether the central bank has gained control over inflation and what will happen going forward.

One factor that will be important for inflation going forward is how wage growth for the year pans out. If wage growth is high, households will have more income to spend and businesses will see increased wage costs, which could further push the price growth upwards and challenge the downward trajectory of the inflation rate.

As mentioned in the section on Macro Global, geopolitical tensions have affected energy prices in Europe and could also reduce supply if maritime traffic is hindered. For Norway, geopolitical tensions could affect oil prices. Increased oil prices would mean increased revenues for Norwegian oil companies, which could, in turn, contribute to higher inflation.

CPI and CPI-ATE



Source: Statistics Norway

«One factor that will be important for inflation going forward is how wage growth for the year pans out».

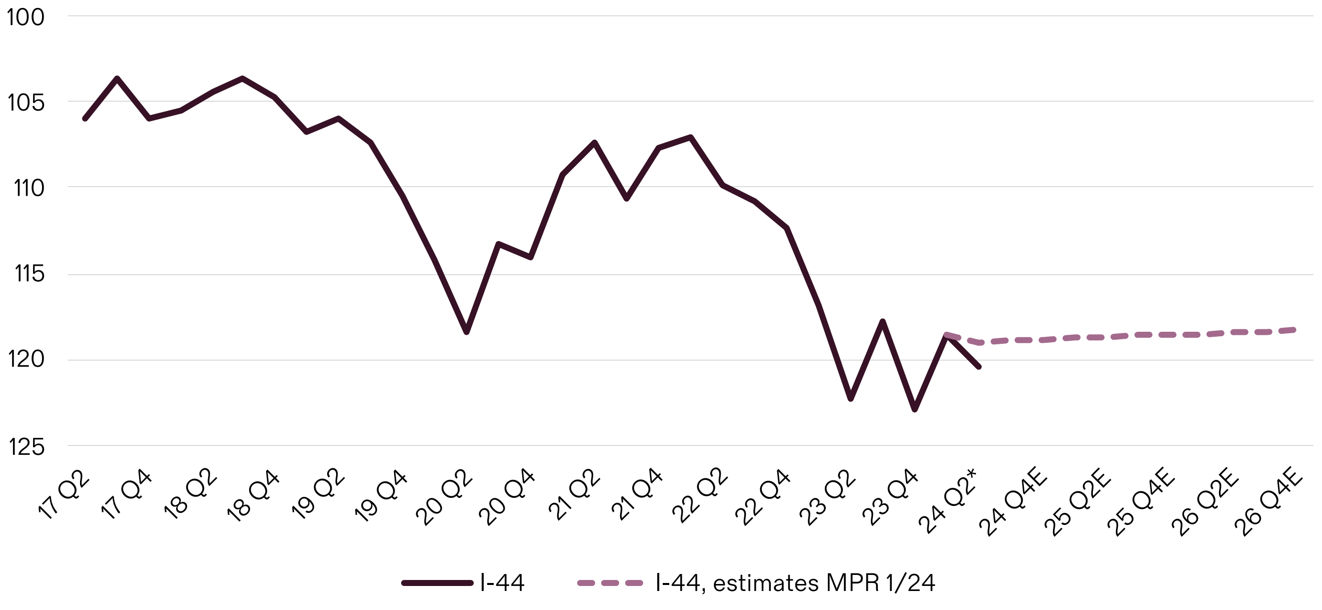
Norwegian krone weak and volatile

The Norwegian krone has significantly weakened against the currencies of our largest trading partners in recent times. Shortly after the interest rate hike in December, the Norwegian krone strengthened significantly, but the joy was short-lived and since the end of February, we have seen a steady weakening of the Norwegian krone. The Norwegian krone is one of the factors the Norwegian Central Bank considers when deciding the key policy rate, mainly through the risk of higher imported inflation. A further weakening of the krone may imply that the key policy rate needs to remain higher for a longer period, despite rate cuts by other central banks.

In the Monetary Policy Report from March, the Norwegian Central Bank predicted that the import-weighted exchange rate index, I-44, would be 119 during Q2 2024. At present, it stands at 120.5, indicating that the krone is somewhat weaker than that predicted just a few months ago by the bank.

Since policy rate decision forecasts are shifting rapidly, they are having a significant impact on the dollar, and thus also on I-44. The same applies to the ECB and the euro. This has resulted in high volatility in I-44, with large fluctuations from day to day. In its latest forecast, the Norwegian Central Bank expects I-44 to gradually move down towards 118 by 2027.

I-44 with estimates from MPR 1/24



*24 Q2 at 10 May 2024.

Source: The Norwegian Central Bank. MPR 1/24

«A further weakening of the krone may imply that the key policy rate needs to remain higher for a longer period, despite rate cuts by other central banks».

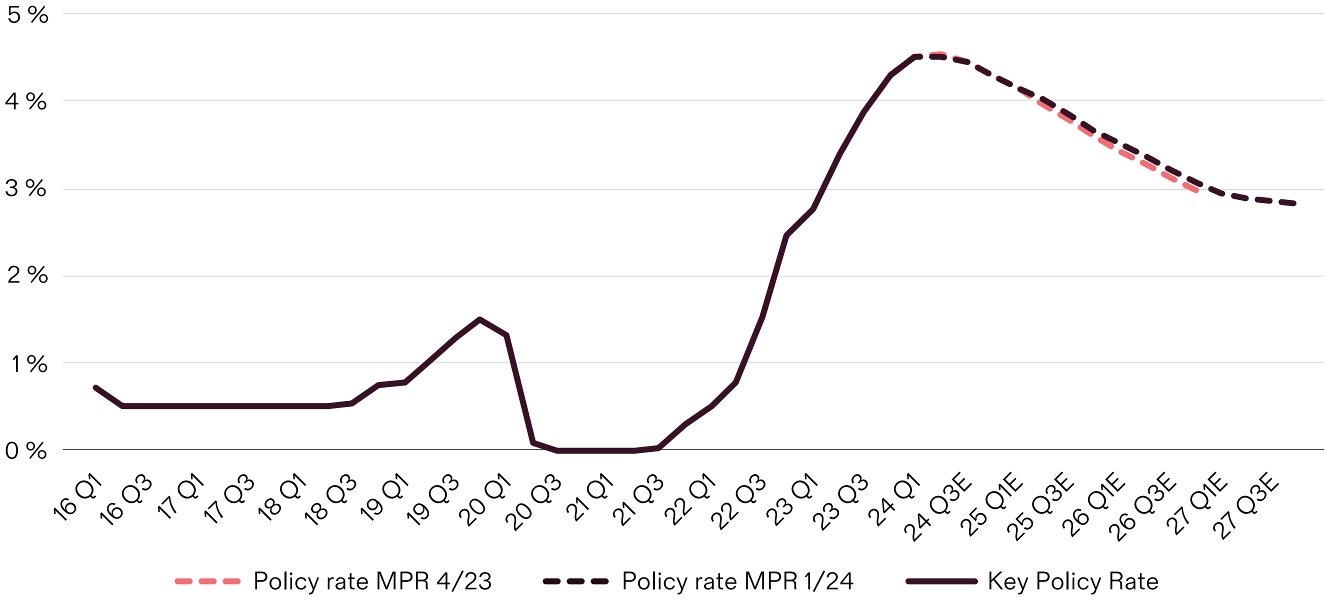
Key policy rate – higher for longer

In December, the Norwegian Central Bank raised the interest rate to 4.50 %, which is the latest interest rate change to date. Earlier this year, there was significant optimism about interest rate cuts later in the year, with several economists expecting multiple rate cuts, potentially as early as June. However, things have changed, and after the May interest rate meeting, there is now uncertainty about whether there will be any interest rate cuts in 2024 at all. When the Norwegian Central Bank estimates the interest rate path, they divide it into various components and assess the expectations for each component. These components include the exchange rate, foreign developments, prices and wages, petroleum prices and investments, and domestic demand.

As we have discussed, the exchange rate has performed worse than expected by the central bank, which will significantly influence the model path upwards. While the CPI has been slightly below forecasts, wage growth is likely to offset this to some extent, and this component is expected to be roughly neutral. Petroleum prices surged after the publication of the Monetary Policy Report, but have since fallen back, likely having minimal downward impact on the model path at this point. However, it should be noted that geopolitical tensions in the world contribute to significant volatility and uncertainty regarding petroleum prices. Foreign market interest rates have risen sharply in the past month due to stronger economy and higher inflation than expected in the USA. Therefore, foreign developments are currently contributing to pushing the model path upwards, although it is important to mention that foreign interest rates are highly volatile at the moment.

As it stands, the model path is likely to be pushed slightly upwards. The consequence of this will most likely be a "higher for longer" scenario, meaning it will take longer before we see any interest rate cuts. We expect that the first rate cut will come no earlier than December, but there is a high probability that we may have to wait until next year. We also do not rule out the possibility of another interest rate hike, but it seems likely that we are at the peak now.

Key policy rate



Source: The Norwegian Central Bank. MPR 1/24

«The model path is likely to be pushed slightly upwards».

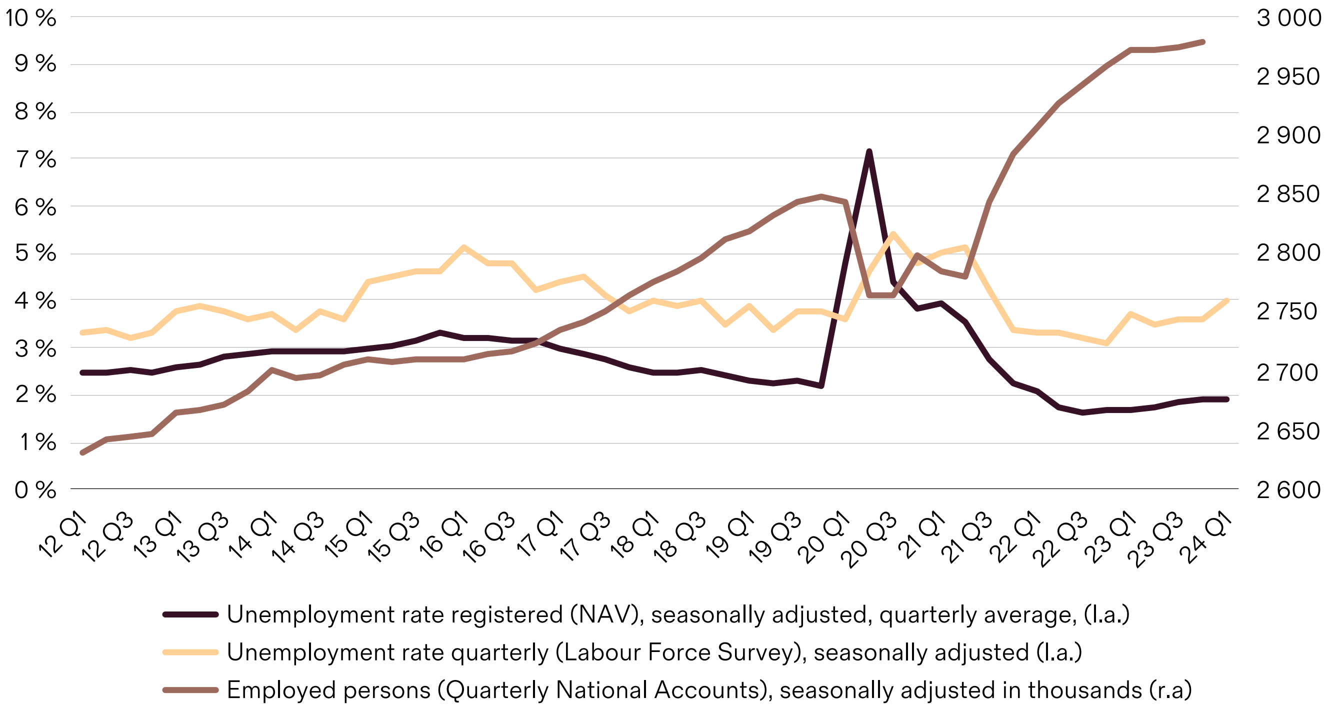
Increasing unemployment rates and lower employment growth

While the employment levels, as measured by the seasonally adjusted number of employed persons reported by the Quarterly National Accounts, have reached record levels, there is now evident deceleration in growth. Comparing growth rates, from Q4 2022 to Q4 2023, the growth rate stood at 0.7 %, a notable decline from the 2.6 % growth rate observed from Q4 2021 to Q4 2022.

While the number of registered employers increased throughout 2023, unemployment rates experienced a slight rise from 1.7 % to 1.9 % during the first three quarters of the year. However, there has not been any further increase from this level, and data from the Norwegian Labour and Welfare Administration (NAV) still indicates a 1.9 % unemployment rate in Q1 2024. Despite this slight uptick, unemployment rates remain historically low, well below the pre-pandemic average of 2.8 % from 2011 to 2019.

According to the Labour Force Survey (LFS), unemployment rates have continued to rise. Notably, there was a significant increase in the unemployment rate, jumping from 3.1 % to 3.7 % between Q4 2022 and Q1 2023, before stabilising at 3.5 % in Q2 2023. In our previous market report, we highlighted the ongoing trend of a gradual increase in the unemployment rate. This trend was further evidenced by another uptick in unemployment, rising from 3.5 % to 3.6 % in Q3 2023 and remaining at the same level in Q4 2023. Currently, the unemployment rate has risen further to 4.0 % based on Q1 2024 data.

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



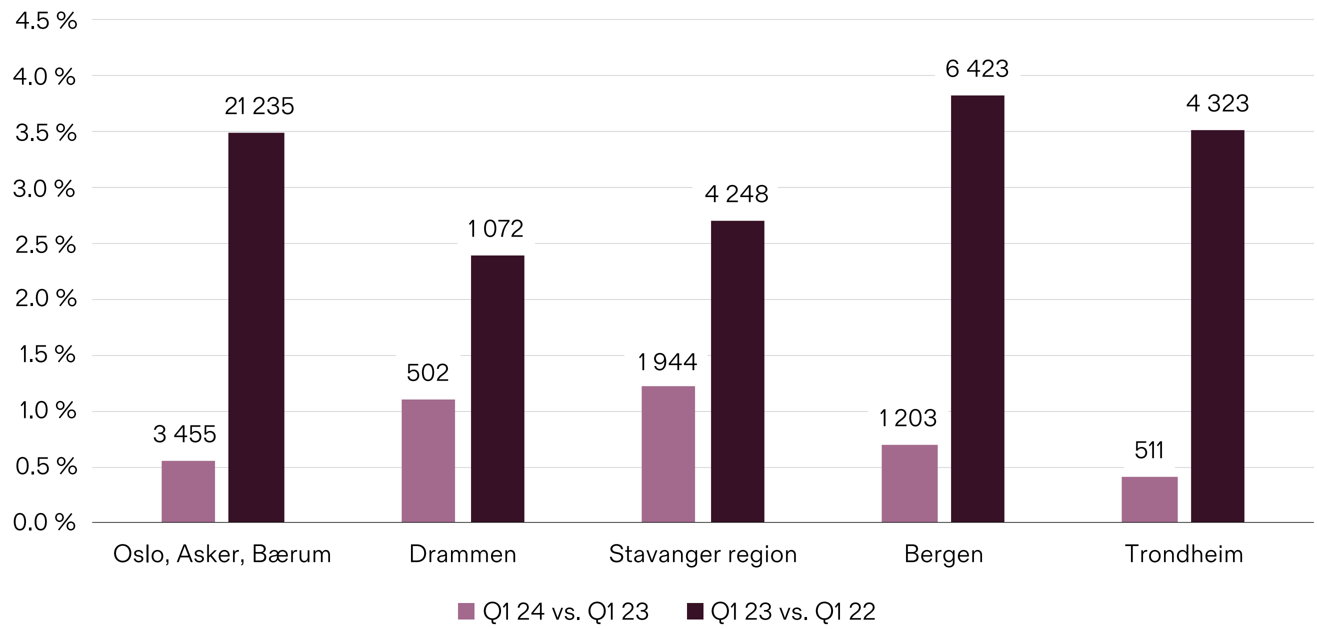
Source: NAV (Norwegian Labour and Welfare Administration), Statistics Norway

«There is now evident deceleration in employment growth, as measured by the seasonally adjusted numver of employed persons from the Quartely National Accounts».

Continued growth in major cities, yet significant slowdown compared to previous years

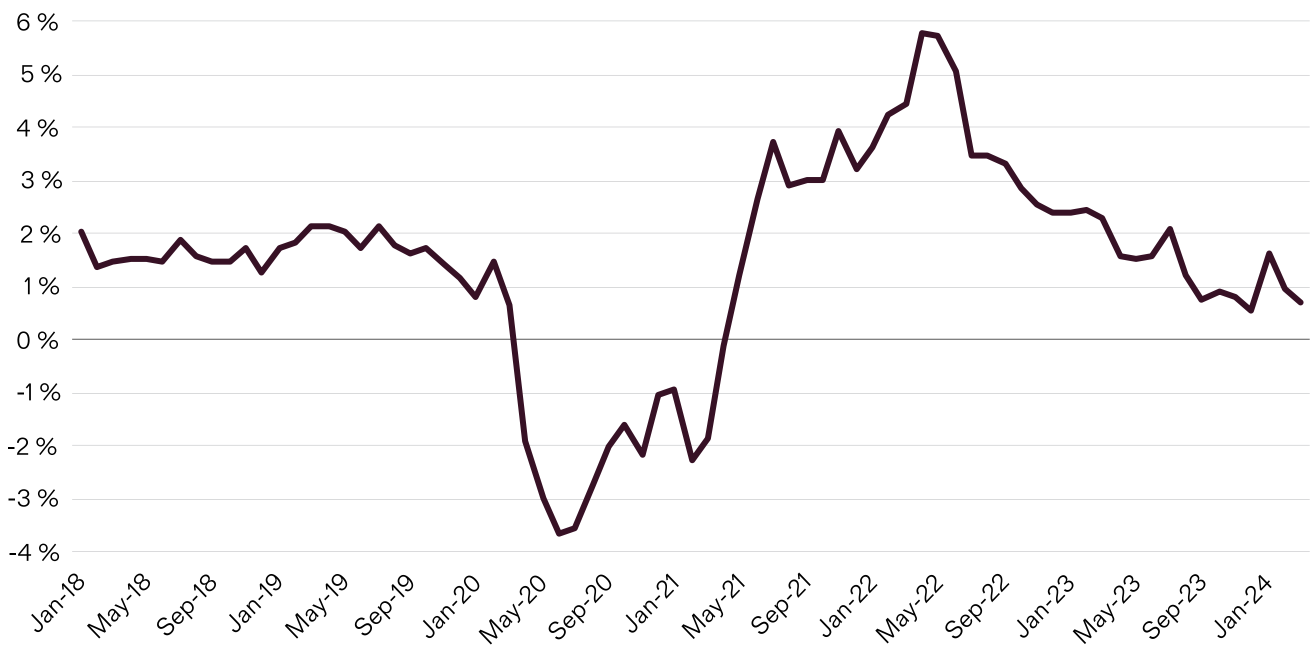
The major cities in Norway have experienced increased employment over the past four quarters. However, compared to the previous year (Q1 2022 to Q1 2023), this increase has been notably more moderate, consistent with the country's overall economic trend. The strongest employment growth in the past year was observed in the Stavanger region at 1.2 %, driven by optimism in the oil and energy sector. Additionally, Drammen experienced the second greatest employment growth at 1.1 %, followed by Bergen and the Greater Oslo area at 0.7 % and 0.6 % respectively. Trondheim's employment growth remained flat, ending at 0.5 %, significantly lower than the 3.5 % growth in the previous year. Preliminary figures from the 12-month change in wage earners in Norway support the trend of slowing employment growth, with a modest increase of 0.7 % in March, significantly lower than the peak growth of 5.8 % in April 2022.

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



Source: Statistics Norway

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



Source: Statistics Norway

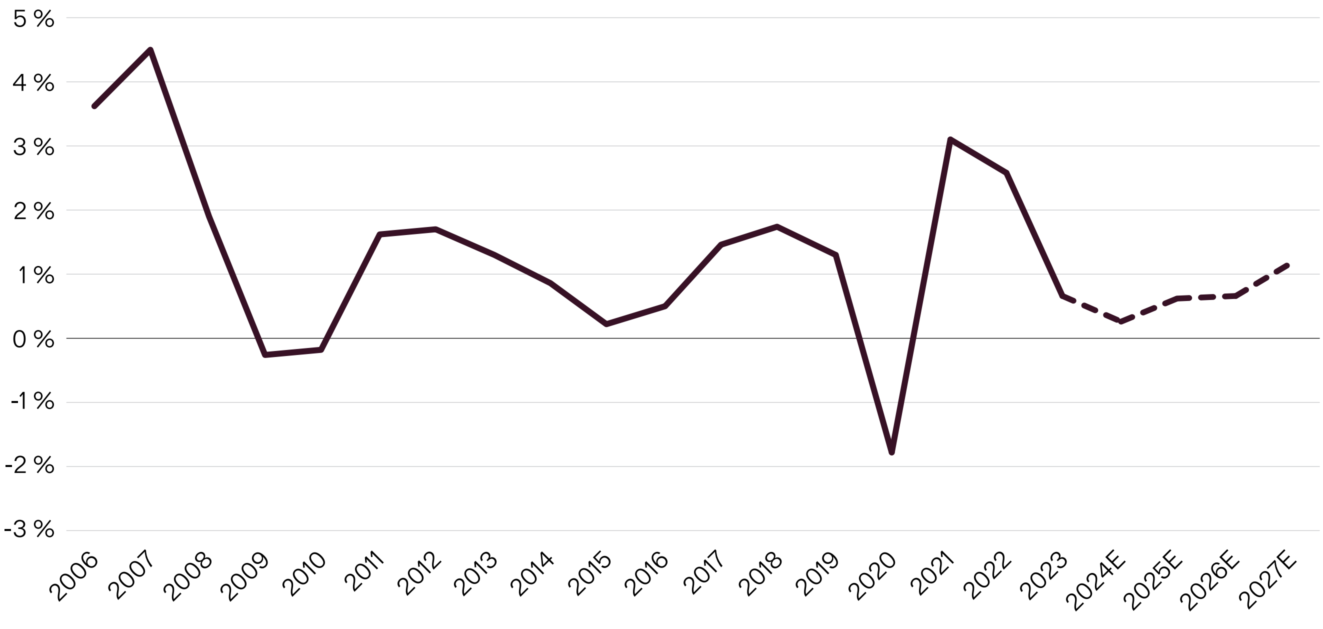
Employment outlook

The robust employment market that has characterised the past two years has now started to show signs of cooling off. The growth in registered employment in Norway in 2023 ended at 0.7 %, a sharp decrease from 2022 when growth was 2.6 %. The Norwegian Central Bank initially anticipated that its monetary policies would affect the economy more swiftly than in fact materialised. Demand for labour is still strong, and in the last few months, new job advertisements have increased somewhat according to NAV. Despite this, employment growth is slowing down, and unemployment rates are becoming more stable.

In the Norwegian Central Bank's Regional Network Survey for Q1 2024, the employment outlook for the Q1 has been adjusted slightly upwards, indicating a weak projected growth in employment compared to the previous survey. Initially, the respondents anticipated -0.1 % employment growth, but this has now been adjusted to 0.1 %. Respondents further predict a slight increase in employment throughout the spring. Notably, growth is being primarily driven by businesses in the oil services sector and service provision companies. According to the survey, service providers are expected to experience even greater growth in Q2 2024 compared to Q1. The construction and retail trade industries, on the other hand, are experiencing a decrease in production. Furthermore, some consultancy firms are experiencing dampened activity growth due to clients hiring professionals instead of purchasing their services. Despite these factors, the proportion of companies with full capacity utilisation and those experiencing labour shortages remains unchanged from the previous quarter after a two-year decline.

According to the Statistics Norway, employment continued to increase in January, and contacts in the Regional Network anticipate some growth in employment towards summer. However, business leaders surveyed in the Norwegian Central Bank's Expectations Survey anticipate that employment will remain largely unchanged over the next twelve months. With prospects for low growth in the Norwegian economy, employment growth is expected to be weak this year and next. Expectations of weak employment growth in the coming years are likely to result in some increase in unemployment. The central bank estimates that registered unemployment will gradually rise to around 2.2 % at the beginning of next year and remain close to this level throughout 2026 and 2027. This level of unemployment will be similar to pre-pandemic levels. Compared to the previous report, the estimates from the central bank for unemployment have been slightly adjusted downwards.

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



Source: Statistics Norway, Malling

«The Norwegian Central Bank estimates that registered unemployment will gradually rise to around 2.2 % at the beginning of next year and remain close to this level throughout 2026 and 2027».

High interest costs for households

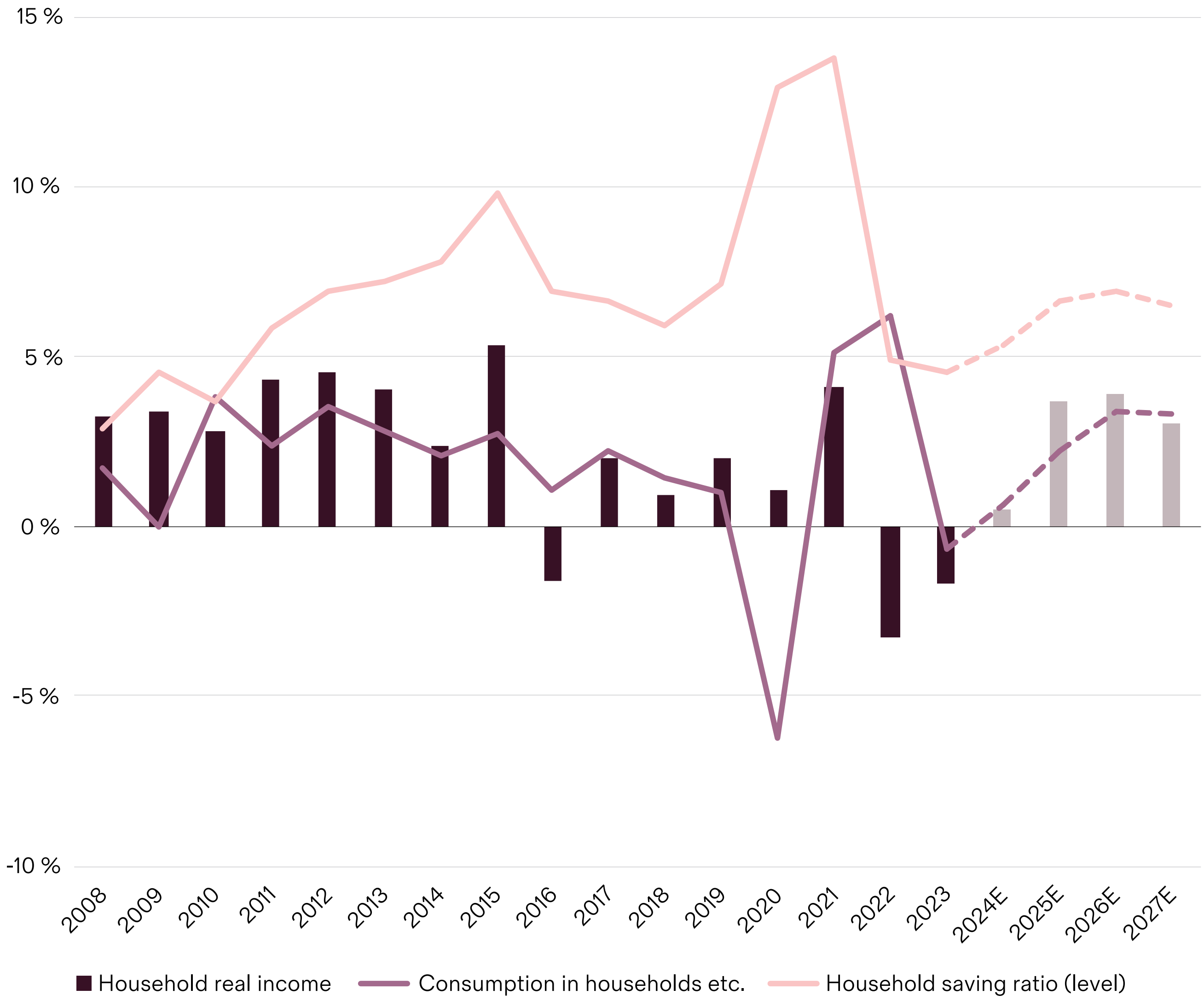
Consumption by Norwegian households decreased by 0.5 % in 2023. It was during the first half of the year that consumption decreased the most, while towards the end of the year, it increased somewhat, due in part to the higher cost of electricity and fuel due to the cold weather. The Norwegian Central Bank expects consumption to remain relatively stable through the first half of 2024, before increasing in the second half. They have also revised their expectations from the December report to the March report. The expected increase in consumption aligns with what household service providers and retailers expect in the latest report from the regional network, where both business groups anticipate better growth than previously thought.

The savings rate, excluding pension savings, among Norwegian households has been negative in recent quarters. This suggests that high interest rates have not been without consequences and households have had to dip into their savings.

Households have really felt the impact of the interest rate hikes of recent years. In terms of interest costs, it has continued to worsen into 2024 as all rate hikes have materialised in mortgage rates. Norwegian households are generally highly indebted, and the vast majority have variable interest rates, which has contributed to an increase in household debt expenses as rates have increased.

Higher wages will naturally help cover some of the debt expenses, and households can expect relatively high wage growth in 2024, with the Norwegian Central Bank estimating a wage increase of 4.9 % for the year. Based on this, along with any interest rate cuts and reduced debt accumulation, it is expected that households' disposable income will increase in future.

Households' financials, annual change, %



Source: Statistics Norway

The investment market

Capital waiting for the right opportunities

Relative to previous years, 2023 was a bleak year for the CRE investment market, with the Norwegian transaction volume ending at NOK 58 billion. Increasing confidence in the belief that peak interest rate had been reached in December, coupled with expectations of a series of rate cuts in 2024 and 2025, pushed the five-year NOK interest rate swap down by around 100 bps from October to the end of December 2023. This created optimism in the market in the start of this year, with increased investor appetite for CRE. However, from January to the end of April, much of this was reversed with an increase in the five-year SWAP of around 80 bps. The volatility in long-term rates have kept the market relatively quiet and cautious so far in 2024. The global market has had an even slower start to the year than the Norwegian market. A decent amount of capital is waiting to be deployed into CRE, but investors are still cautious and will gladly wait for the right investment opportunities and at the right price. For now, the gap between buyer and seller remains too large on average, and there are few properties in the market. We observe that a lot of the recorded activity has been processes with sellers that have been forced to meet buyers at their offers, rather than the market bridging the gap for a new equilibrium.

A closer analysis of the transaction volume, which as of mid May amounts to NOK 29.1 billion, reveals a significant increase in transaction volume compared to the previous year. Over the same period in 2023, the transaction volume was NOK 17.4 billion, representing a 67 % increase in 2024 compared to 2023. Compared to 2022, which saw higher activity than 2023, the volume recorded by mid may was NOK 30.2 billion, somewhat similar to the current records. However, there are significant differences in the number of transactions between year-to-date 2022 and 2024, despite similar volumes. We have recorded just under 60 transactions as of mid May, which is almost half of the 115 transactions we had recorded at the same time in 2022.

In 2024, there have been several large transactions contributing to the relatively high volume. Examples of these transactions include the Equinor building at Fornebu, Entra's sale of its Trondheim portfolio, and Public Property Invest's purchase from SBB, many of which have been triggered by LTV covenants and financial distress. For the last half of the year, a more stable interest rate outlook is likely to stabilize yields and gradually reduce the bid ask spread in the market. We believe this will increase the transaction volume going forward, not necessarily in value, but at least in the number of deals. Our estimate for the transaction volume in 2024 therefore stands at NOK 65 billion.

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

*As of 10 May 2024.

Source: Malling

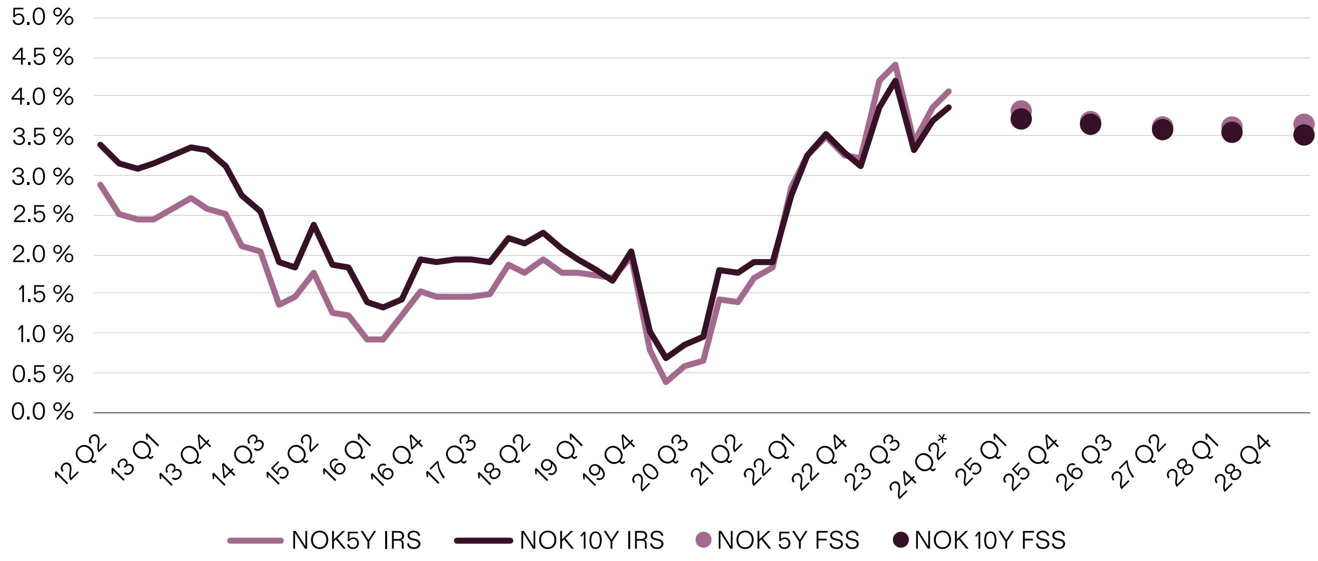
> «For the last half of the year, a more stable interest rate outlook is likely to stabilize yields and gradually reduce the bid ask spread in the market».

Investors are gradually adjusting to new interest rate levels

At present, the NOK 5Y Interest Rate Swap (IRS) stands at 4.07 %, which is 27 bps lower than at the editorial date 30 October in our previous report. Although the rate is somewhat lower than the peak levels seen early October, it remains historically high. Given the sensitivity of the CRE-market to the cost of debt, activity is slowing when rates are increasing. The persistent volatility in the long-term interest rate outlook continues to slow transaction activity. Despite today's interest rates being high even in a 10 year plus context, yields are gradually adjusting to the new level of interest rate creating an acceptable spread for investors. NOK 5Y Forward Starting Swaps (FSS) indicate that the market expects interest rates to decline somewhat in the years ahead but stabilise at higher levels. The NOK 5Y5Y FSS was noted to 3.65 % on 10 May, supporting the belief of higher for longer, even adjusted for a term premium.

In today's market, many potential seller are holding out, expecting a significant decrease in interest rates, and therefore, they are not rushing to divest assets. As a result, there is still a supply side curtailment, and there are also challenges when it comes to achieving the desired prices. But the pipeline of new opportunities is unquestionably growing, and we predict a noticeably higher activity level over the summer. At the same time, the buy side is required to see investments as financially viable, which will remain challenging with high interest rates. Significant uncertainty on the longevity of central banks maintaining current interest rates before even considering cuts is causing buyers and sellers to remain at a distance. Our expectation is that the gap will narrow as rate cuts materialise with Fed in the driver's seat. Aiding the closure is the perception that financing margins have decreased slightly.

NOK 5Y and 10Y IRS and FFS



*2024 Q2 as at 10 May.

Source: Thomson Reuters

«The persistent volatility in the long-term interest rate outlook continues to slow transaction activity».

Regional overview and changes in segment shares

Our regional overview of the transaction market shows that Greater Oslo has the largest share of this year's transaction volume as of 10 May, accounting for 40 %. However, this share has declined slightly compared to 2023, when Greater Oslo had a share of just over 50 % of the volume. Compared to other cities, Trondheim stands out, with a share of the transaction volume of 24 %, a significant increase from 8 % in 2023. As we will discuss in the section on Trondheim, this increase in share is not due to a surge in activity, but more to one large transaction making up a substantial part of the volume, namely E.C. Dahl's acquisition of Entra's portfolio in Trondheim. This transaction amounted to just under NOK 6.5 billion, more than the entire volume of CRE-transactions recorded in Trondheim in 2023. Bergen has a slightly lower share than in previous years, while Stavanger and Drammen have increased their share to some extent.

Syndicates usually account for substantial portions of the purchase volume. In our previous report from November, we mentioned that the share of investor volume made by syndicates had fallen considerably, from consistently being over 20 % to 12 % last year. From 2023 to 2024, there has only been a minimal increase of 1 pp, reaching a 13 % share as of 10 May. The most active investor type so far this year is professional property companies, similar to 2023. The share of volume they have purchased has increased, from a level of 48 % in 2023 to a measured share of 57 % year-to-date. Professional property companies have been net sellers, similar to funds to funds, which have sold almost twice the volume they have purchased as of 10 May. In contrast, both syndicates and private property companies have been net buyers.

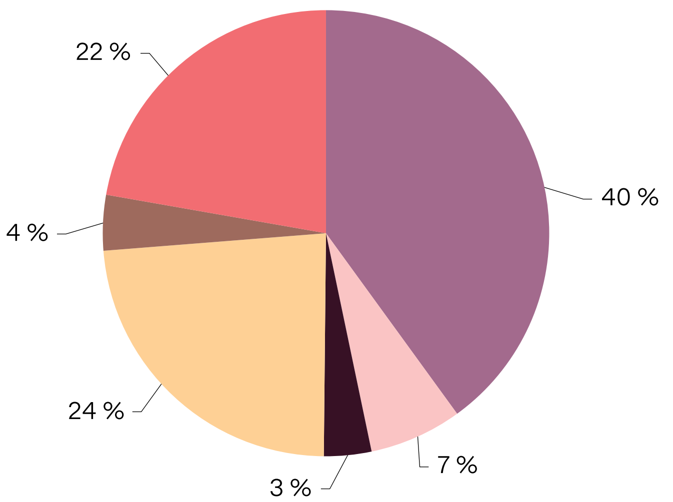
Prime yield (net) in Norway per May 2024

City	Prime yield (office)	△ from last report
Oslo	4.75 %	▲ +25 bps
Stavanger	5.85 %	▲ +35 bps
Bergen*	5.25 %	▲ +50 bps
Trondheim**	5.50 %	▲ +25 bps
Drammen	5.95 %	▲ +35 bps

*WPS Næringsmegling **Norion Næringsmegling. Source: Malling

«The most active investor type so far this year is professional property companies».

Regional split of the transaction market 2024* by volume



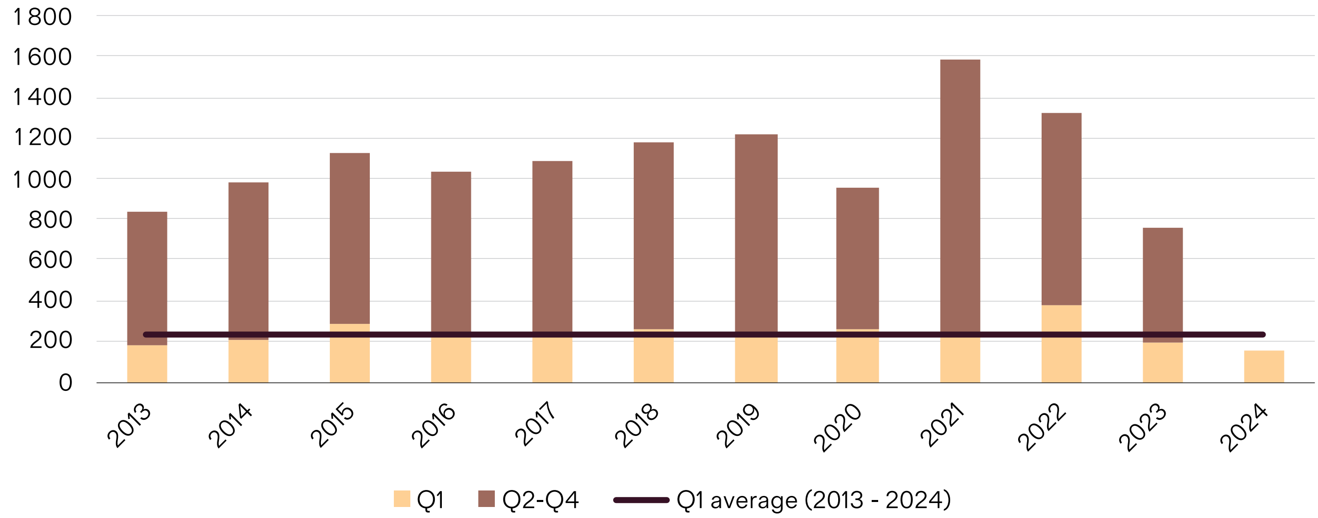
*As at 10 May. Source: Malling

Even worse start to the year globally than the initial pessimistic scenario

At the end of 2023, which ended with the lowest global CRE transaction volume since 2012, there was hope that the start of 2024 would reverse the poor trend. However, quite the opposite has happened, and this year's Q1 was even worse than in 2023. So far this year, the global transaction volume stands at USD 150 billion, almost 20 % lower than the volume for Q1 2023. The global volume for Q1 this year is the lowest global volume for a Q1 since 2012. Compared to the average for Q1 over the last five years, this year's volume is a whopping 43 % below average. Many of the symptoms seen in the global market are also evident in the Norwegian market. At segment level, logistics has been the liquid, at USD 35 billion, while office is close behind at USD 34 billion. Seeing logistics overtake office as the largest segment is a testament to the dire situation and stigma surrounding work from home and office attendance in the post-pandemic work environment. Both the retail and residential segments have declined since last year.

For fundraising, 2023 was a very challenging year, with a total decline of 37 %. Similarly, 2024 has started even worse, and levels measured so far this year are the lowest since 2010 for Q1. The cross-border investment volume has also declined significantly and is at a record low for Q1 2024. One of the reasons for this is that many of the large institutional and cross-border investors have scaled back their activity over the year, with many sitting out market volatility and higher debt costs.

Total global real estate volume, USD billion



Source: Savills, Malling

«The global volume for Q1 this year is the lowest global volume for a Q1 since 2012».

Prime yield (net) in Europe per Q1 2024

City	Prime yield (office)	∆ from last report
Stockholm	4.10 %	▲ +10 bps
Munich	4.20 %	▲ +20 bps
Paris	4.25 %	▲ +25 bps
Copenhagen	4.25 %	▲ +25 bps
Amsterdam	4.60 %	▲ +20 bps
Milan	4.25 %	▲ +25 bps
London	4.00 %	▲ +0 bps
Oslo*	**4.75 %**	**▲ +25 bps**

*Oslo as at May.

Source: Savills, Malling

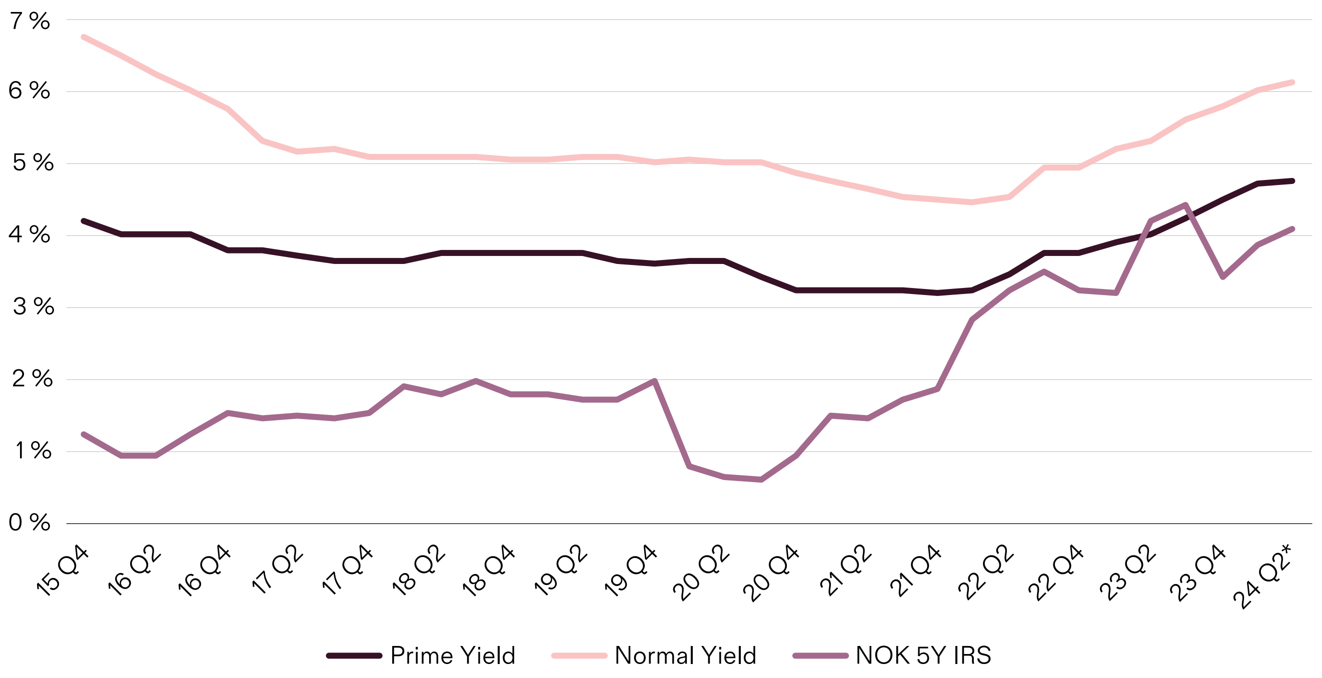
High yield levels are making buyers more selective

In our previous market report from November, we assumed that yield levels would reach their peak just before summer 2024, with the peak expected to be between 4.75 % and 4.90 %. With a prime yield for CBD office space at 4.75 %, we assume that the peak has been reached for prime offices. The normal yield for office space is 6.15 %, and the spread between normal and prime yield is 140 bps, which is more than 20 bps lower than the average spread from 2015 to the beginning of the pandemic. The significant uncertainty lies in how how long the current yield levels will persist before beginning to decline. Our main scenario is that today's levels will remain longer than initially expected, and we do not anticipate any decline in yields before the start of 2025.

The high yields, coupled with high financing costs, have led to lower demand for typical yield properties. Value-add properties are still popular, and demand for these types of properties remains solid. A combination of capital waiting to be deployed, strong willingness among buyers, and limited supply of prime assets have kept yields relatively low for prime properties. Although we see increased optimism among buyers, there is no rush to deploy capital at any cost.

Despite the increase in activity, the market still struggles with few closings and bid acceptances. Whereas there used to be a greater willingness from buyers and sellers to meet halfway, it now often happens that buyers and sellers part ways after the initial bid is made. Bids are coming in, but the parties are less willing to come to an agreement. As mentioned, there is capital waiting to be deployed among certain buyers, but they remain selective. Our investment advisors report a high demand for projects involving residential development and rental properties, especially student housing in central urban areas. In line with our quarterly investor survey, they report strong demand for logistics properties and offices, especially prime, despite offices being out of flavour among foreign investors. Big box properties, on the other hand, are perceived to see increased demand from both domestic and foreign investors.

Yield development



*As at 10 May.

Source: Thomson Reuters, Malling

«With a prime yield for CBD office space at 4.75 %,
we assume that the peak has been reached for prime offices».

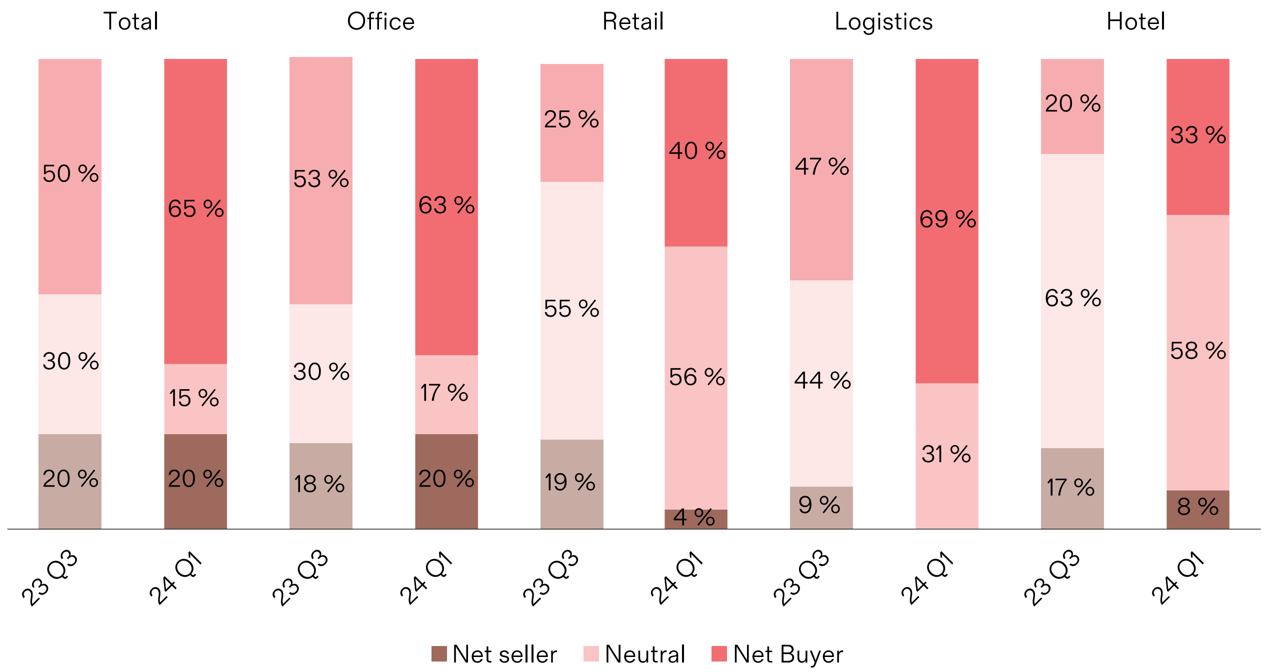
Investor sentiment and yield development

In our latest investor sentiment and yield survey from Q1 2024 (the survey period concluded on Friday, 12 April), it is evident that investor demand is increasing. The proportion of respondents indicating they want to be net buyers of CRE in the next 12 months stands at 65 %. Comparing this with the proportion of net buyers from our previous market report (November 2023), this is a 15 pp increase. Although this result is favourable compared to Q3 2023, it has still slightly weakened since the survey we conducted in Q4 2023, when we recorded a buying interest of 75 %. On the other hand, the proportion of net sellers has increased since the Q4 2023 survey, rising from 11 % to 20 %. This is back to the same level we recorded in Q3 2023, which is the highest we have measured since we started the survey in Q1 2017.

There are significant differences across the various segments, which aligns with that being experienced in the market. Office and logistics properties are the most popular among the investors who responded to the survey, with a net buyer proportion of 63 % and 69 %, respectively. It is worth noting that the logistics segment has a net seller proportion of 0 %. Compared to the results from the survey six months ago, it is evident that, at 22 pp, the logistics segment has seen the largest increase in net buyers. It should also be mentioned that there has been an increase in the proportion of net buyers in all segments, indicating that the market is in a healthier state now than it was in November.

The average of investor's view on CBD prime office yield in our survey CBD is 4.75 %, which aligns with our house view. Compared to six months ago, the average yield quoted is 30 pp higher. Much of this increase occurred in the period between the surveys from Q3 2023 and Q4 2023, when the average yield quotes rose from 4.45 % to 4.70 %. Today's level is the highest we have measured in the survey, and 155 pp higher than the record-low level of 3.20 % estimated in Q4 2021. Although the yield is now at a record high, there are still several positive aspects from the survey results. Despite yield increases across most segments, investors believe that the yield has started to decline for both the retail and logistics segments, where the average prime yields are quoted to 5.25 % and 5.50 %, respectively. Additionally, investors expect the yield to decrease going forward. For prime office yield in CBD, a decrease of 15 pp is expected over the next 12 months, to a level of 4.60 %. Investors expect the same decrease for the logistics segment, while a smaller decrease of 5 pp is anticipated for retail.

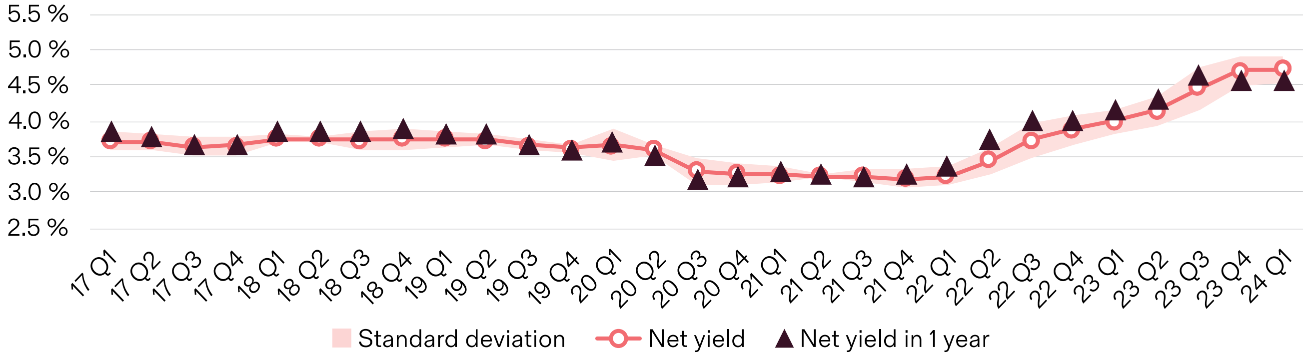
Desired exposure towards commercial real estate next 12 months



Source: Malling Investor Yield and Sentiment Survey

Disclaimer: All graphs on page 27, 28 and 29 are results from the quarterly investor survey, and do not necessarily reflect the official views of Malling Research and Valuation.

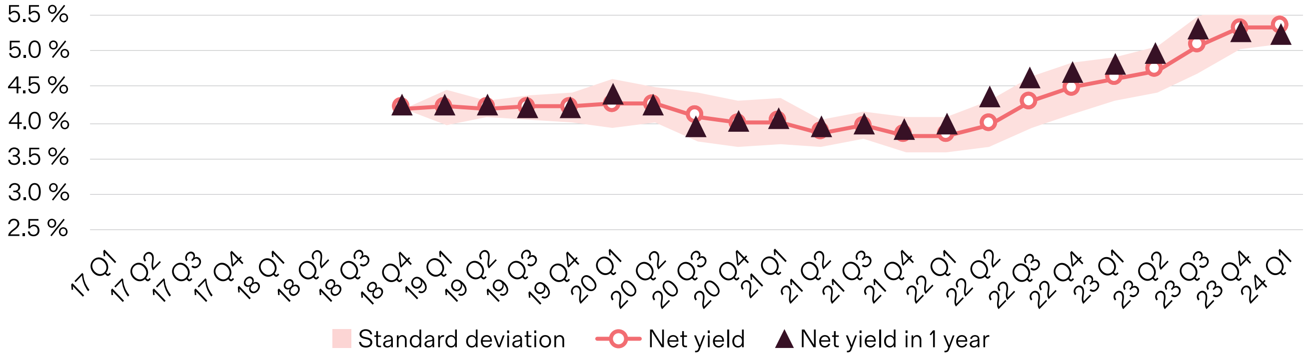
Prime office yield, CBD



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

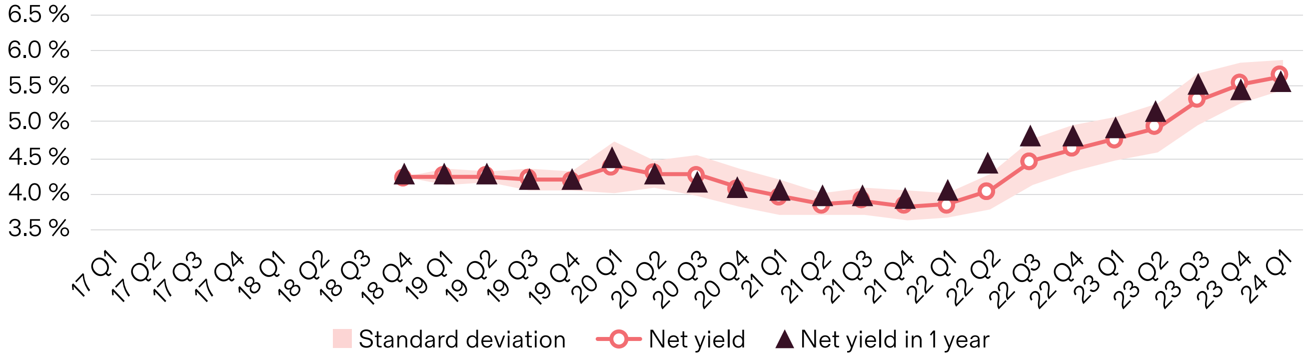
Normal office yield, CBD



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

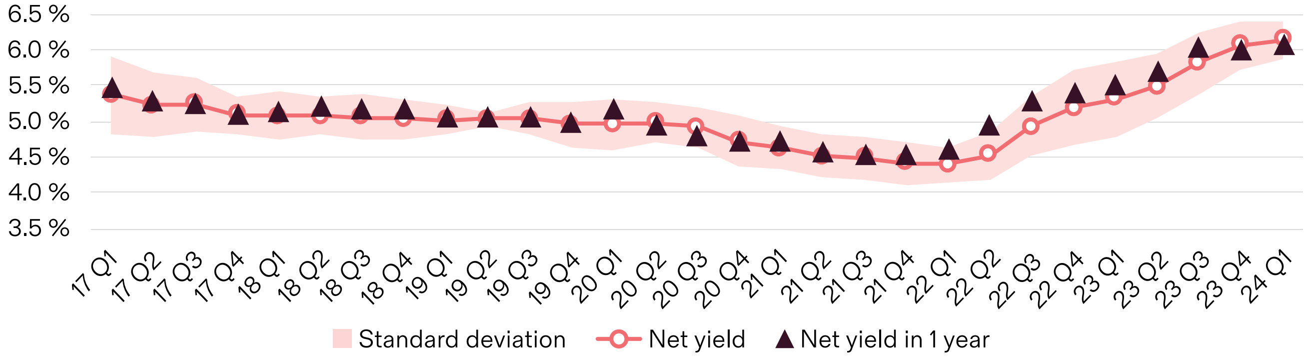
Prime office yield, Helsfyr



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

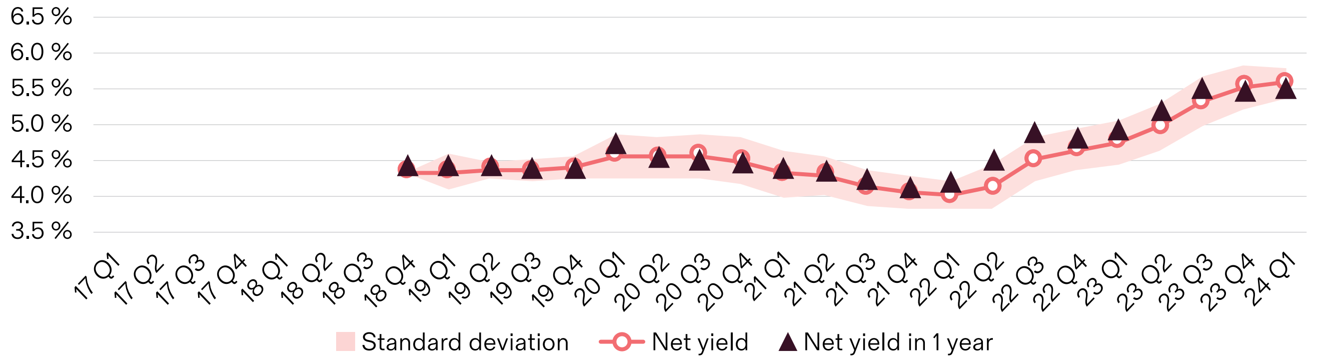
Normal office yield, Helsfyr



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

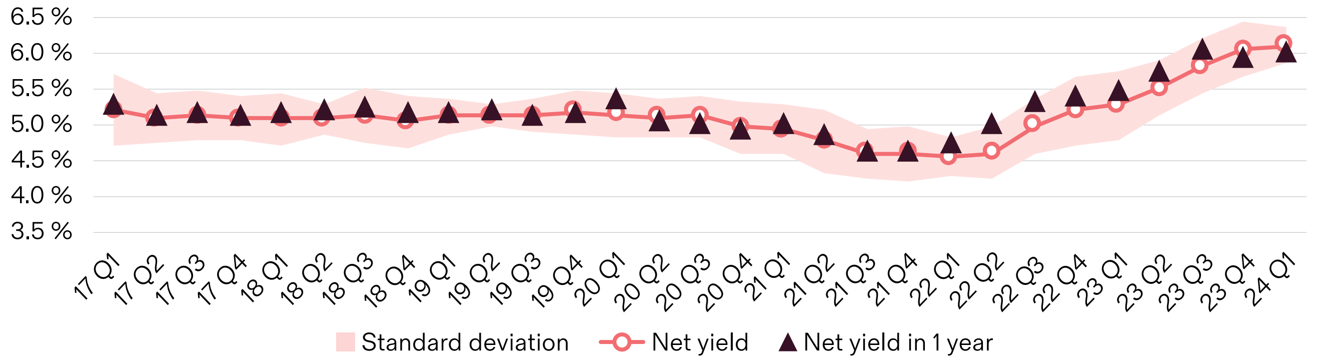
Prime office yield, Lysaker



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

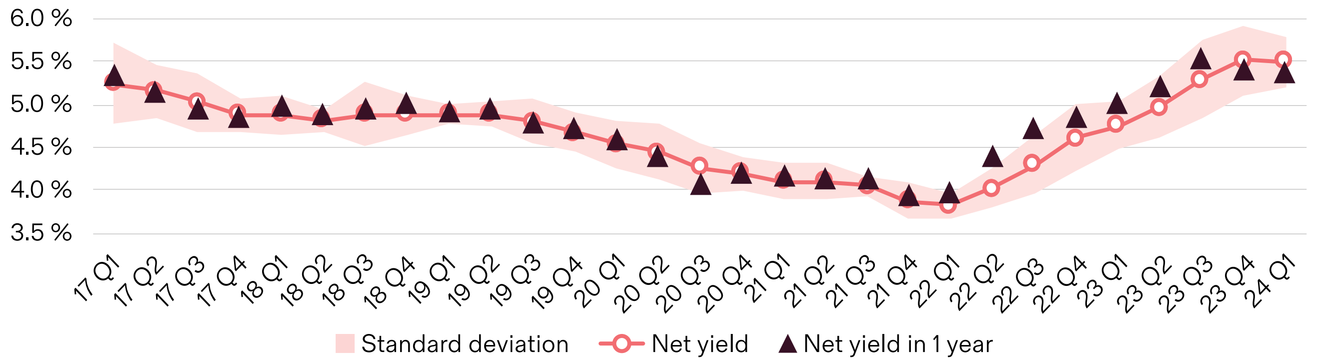
Normal office yield, Lysaker



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

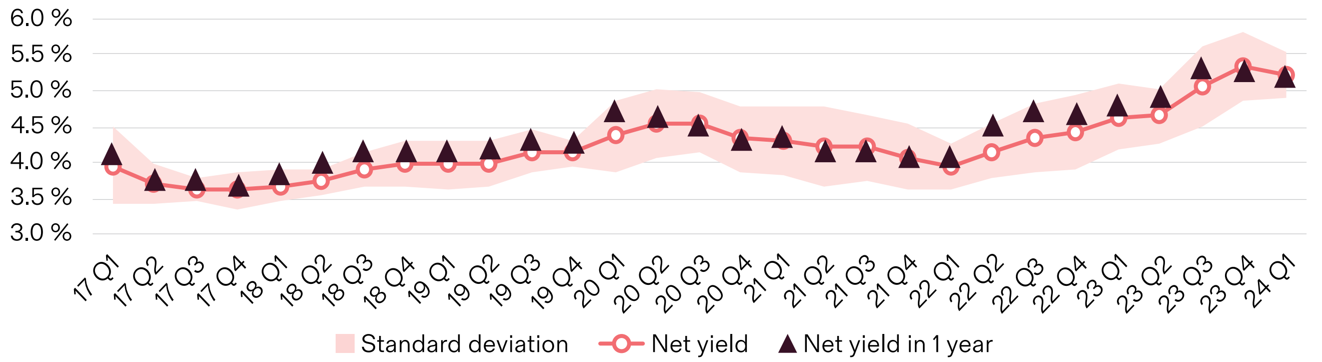
Prime logistics yield, Berger



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

Prime retail high street yield, Egertorget



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

The office market

Office rental outlook

Rent outlook: Expectations of solid rental growth over the coming three years

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

- The robust employment market observed following the pandemic has contributed to a strong office rental market with solid signing volumes in 2023. As of Q1 2024, signing volumes stand at 174 110 m^2 according to Arealstatistikk, a significant decrease from Q1 2023's figure of 250 030 m^2, as reported by Arealstatistikk, and lower than we previously expected.
- The Norwegian Central Bank anticipates further but slowed employment growth in the coming years, with a relatively modest increase expected next year. We anticipate a growth in office space demand over the whole forecasting period until 2027.
- The search activity in 2024 has not been exceptionally high YTD, but the current levels are not a cause for concern. The year began at a slow pace, gradually increasing, and in the early part of Q2, activity experienced an uptick.
- The volume of office space completed is low in 2024, before several large projects are finalised in 2025 and 2026. Completion volumes are then expected to decrease to a more modest level in 2027 and 2028.
- Our vacancy forecast indicates a projected decrease of 1.5 pp over the next year to 5.4 %, followed by a period of stabilisation before dropping to just below 4 % by 2028. We believe that the strong employment growth we have seen in the aftermath of the pandemic, without the absorption of office space we would have expected, has created an additional pent-up demand, which we think will capitalise within the next five years. Coupled with the employment growth outlook in Greater Oslo, our model predicts a reduction in vacancy rates, despite the relatively high volume of new office space being completed.
- To further elaborate on the unrealised absorption of office space, we have noted a trend in recent years, in that new employees are taking up less office space. Between 2000 and 2019, the average absorbed office space per new employee stood at 20 m^2. However, following the pandemic, it seems that tenants have become more thrifty with their office space. This inference is drawn from the fact that the average absorbed office space per new employee decreased to around just 13 m^2 from the onset of the pandemic until the end of 2023.
- Over the next 12 months, we foresee nominal rental prices in Greater Oslo increasing by 5 % in all clusters.
- Looking further ahead over the next three years, we anticipate an improvement in rental prices and forecast an average 18 % growth in nominal prices in Greater Oslo as an average. Although the growth in some clusters is quoted to outperform others in terms of rental price growth, these projections also carry high uncertainty.

Office rents in Greater Oslo have continued their upward trajectory over the past six months, as reported by our Malling broker consensus. This trend is supported by a robust office leasing market despite decreasing economic growth. Fringe zones have attracted considerable attention from tenants seeking relocation over the past year, as indicated by the 12-month change in typical rents based on our consensus. Additionally, in the last six months, there has been a higher proportion of signed lease contracts in the fringe zones compared to the city centre, leading to a flatter development in the average rent in signed lease agreements. Furthermore, a smaller share of total lease searches in Greater Oslo have been targeted towards the city centre, indicating growing interest in the fringe zones. This increased attention can be attributed to various factors, such as rising operating costs for tenants, leading them to seek more affordable locations rather than premium office spaces in the city centre.

Looking forward, our rental growth forecast for Greater Oslo is optimistic for landlords. In the coming year, we expect most clusters to experience a modest rent growth of 5 %. Various factors, as discussed in the bullet points above and throughout this chapter in the report, contribute to shaping the rental landscape. Taking a longer-term perspective, three years into the future, our overall price development forecast for Greater Oslo is 18 %, representing a rather enduring period of rental growth ahead. While the development is expected to vary among different clusters, we anticipate rent growth to be within the range of 15-20 %. In the city centre, clusters are expected to increase by 20 %, except for Inner City East, where a rent growth of 15 % is anticipated due to today's relative pricing with other clusters. In the fringe zones, our forecast indicates a 15 % rental growth in all clusters except Lysaker and Skøyen. We hold this belief because both clusters have high attractiveness and need higher rents to re-develop existing properties with the required profit.

- Normal rents reflect the interval in which most contracts are signed in the specific area.
- Prime rent is the consistently achievable headline rental figure relating to a new, well located, high specification unit of a standard size within the area. The prime rent reflects the tone of the market at the top end, even if no leases are signed within the reporting period. It is important to note that prime rents do not signify the breakeven rents required to initiate a project; rather, they reflect the actual achievable rent in the market. One-off deals that do not represent the market are discarded.
- Project asking rent represents the typical rent that landlords ask to initiate a new building project on their plot or to refurbish an existing building. These project rents reflect the market for newly constructed office spaces, considering plot values and total project costs. It is important to note that these rents do not indicate what the market is willing to pay for the property; instead, they indicate the actual rent developers need to achieve to start projects. One-off instances, such as landlords building on speculation or taking a loss on the plot, are excluded.

Office rent forecast

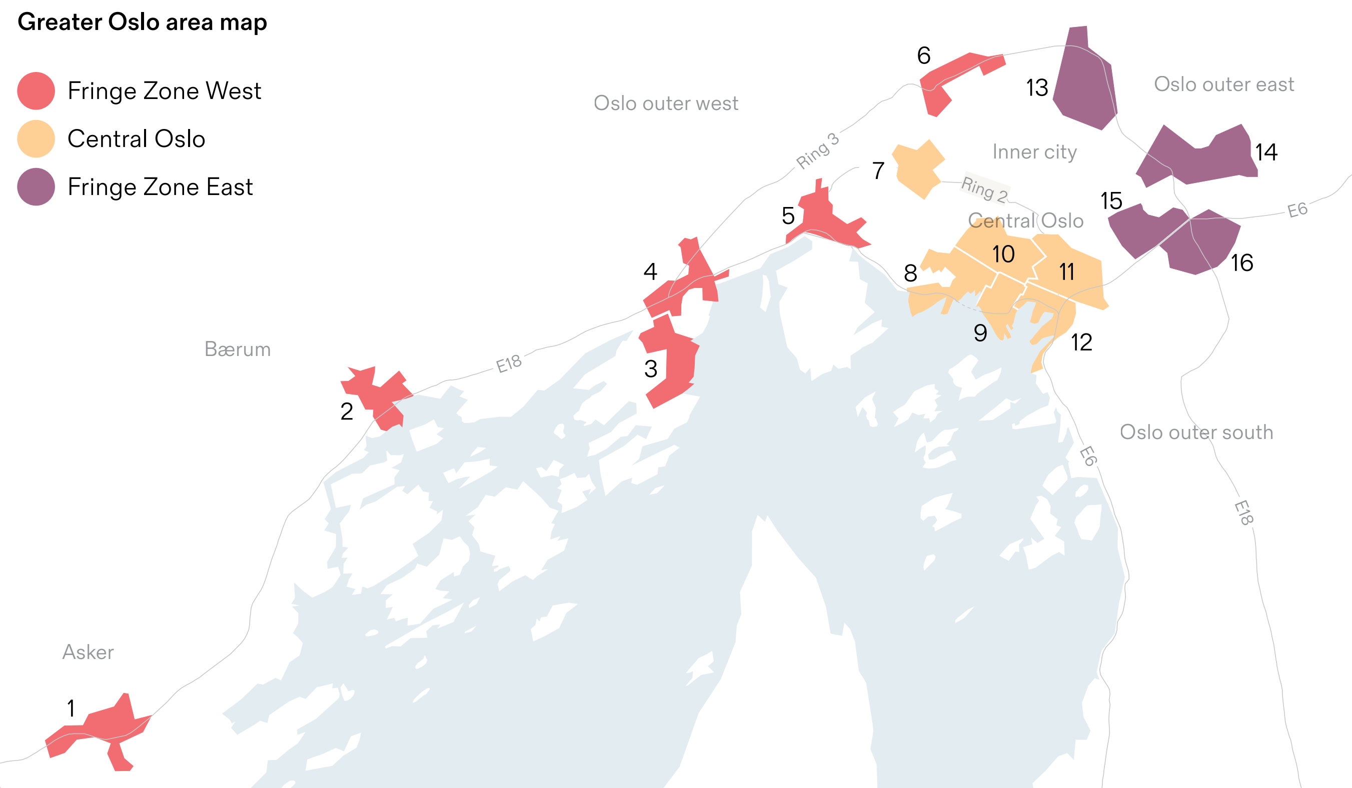
Highly uncertain · Uncertain · Fairly certain

Office cluster	Change Q2 2024 – Q2 2025	Change Q2 2024 – Q2 2027
Asker	5 %	15 %
Sandvika	5 %	15 %
Fornebu	5 %	15 %
Lysaker	5 %	20 %
Skøyen	5 %	20 %
Forskningsparken/Ullevål	5 %	15 %
Majorstuen	5 %	20 %
CBD	5 %	20 %
Kvadraturen	5 %	20 %
Inner city	5 %	20 %
Inner city east	5 %	15 %
Bjørvika	5 %	20 %
Nydalen	5 %	15 %
Økern	5 %	15 %
Helsfyr/Ensjø	5 %	15 %
Bryn	5 %	15 %
Oslo total	**5 %**	**18 %**

A selection of the latest lease contracts

Tenant	Moving to address Office cluster	Moving from address Office cluster	Space m² (rounded)
DNB Bank ASA (renegotiation)	Dronning Eufemias gate 30 Bjørvika	Dronning Eufemias gate 30 Bjørvika	49 200
NAV	Fredrik Selmers 2 Helsfyr	Various locations	18 000
Yara	Verkstedveien 1 Skøyen	Drammensveien 131 & 134 Skøyen	16 100
Miljødirektoratet Oslo (renegotiation)	Grensesvingen 7 Helsfyr	Grensesvingen 7 Helsfyr	11 350
Oslo Kommune Bymiljøetaten (renegotiation)	Karvesvingen 3 Økern	Karvesvingen 3 Økern	11 200
Miljødirektoratet Oslo (renegotiation)	Biskop Gunnerus' gate 14 Inner City	Biskop Gunnerus' gate 14 Inner City	8 400
Rystad Energy	Akersgata 51 Inner City	Fjordalléen 16 CBD	6 300
BankID Bankaxept	Biskop Gunnerus' gate 14 Inner City	Dronning Eufemias gate 11 Bjørvika	4 000
NIFU (renegotiation)	Økernveien 9 Inner City East	Økernveien 9 Inner City East	3 000
Universal Music	Akersgata 34–36 Inner City	Drammensveien 88B	2 200

Greater Oslo area map

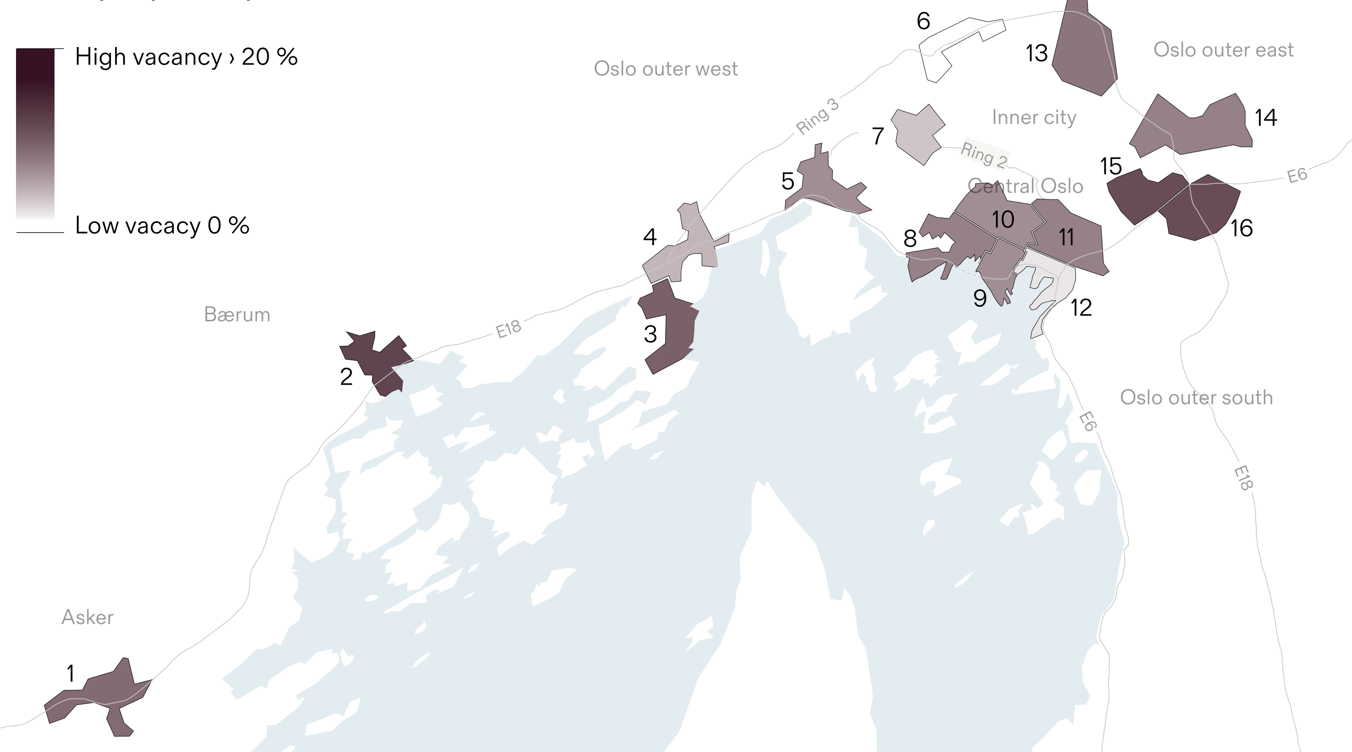


Office rents — Malling consensus (NOK/m²/yr)

	Office cluster	Typical project asking rent*	Prime rent*	Past 12 months change (prime rent)*	Normal rent*	Past 12 months change (normal rent)*
1	Asker	3 000	2 400	9 %	1 800 – 2 000	6 %
2	Sandvika	3 000	2 800	12 %	1 900 – 2 400	16 %
3	Fornebu	3 200	2 700	8 %	2 000 – 2 500	15 %
4	Lysaker	3 500	3 200	14 %	2 400 – 2 800	11 %
5	Skøyen	4 500	4 300	2 %	3 100 – 3 800	6 %
6	Forskningsparken/ Ullevål	3 500	3 200	14 %	2 200 – 2 800	9 %
7	Majorstuen	4 500	4 300	8 %	3 000 – 3 500	8 %
8	CBD	7 000	6 500	3 %	4 500 – 5 500	6 %
9	Kvadraturen	5 000	4 800	1 %	3 200 – 4 000	0 %
10	Inner city	5 000	5 000	9 %	3 400 – 4 000	9 %
11	Inner city east	4 200	4 200	14 %	3 000 – 3 600	12 %
12	Bjørvika	5 600	5 500	2 %	4 000 – 4 800	5 %
13	Nydalen	3 400	3 200	19 %	2 300 – 2 800	13 %
14	Økern	3 200	2 600	4 %	2 000 – 2 500	14 %
15	Helsfyr/Ensjø	3 200	2 900	9 %	2 200 – 2 600	13 %
16	Bryn	2 800	2 650	15 %	2 000 – 2 500	17 %

*See definition of prime and normal rents on page 30. As change figures are presented as % change in the reported average of the intervals, they may not reflect actual increase in average obtainable rents for the specific cluster.

Vacancy map as at April 2024



Vacancy and new construction

	Office cluster	Vacancy	Past 12 months change (vacancy)	New construction: 2024–2026 pipeline (confirmed)
1	Asker	10 %	-4 %	-
2	Sandvika	14 %	5 %	18 500
3	Fornebu	11 %	4 %	-
4	Lysaker	4 %	-1 %	5 500
5	Skøyen	7 %	0 %	-
6	Forskningsparken/Ullevål	0 %	0 %	124 000
7	Majorstuen	3 %	2 %	3 700
8	CBD	8 %	4 %	3 100
9	Kvadraturen	7 %	3 %	11 000
10	Inner city	7 %	2 %	58 000
11	Inner city east	8 %	2 %	27 200
12	Bjørvika	1 %	1 %	6 200
13	Nydalen	9 %	1 %	4 500
14	Økern	8 %	2 %	96 000
15	Helsfyr/Ensjø	13 %	8 %	66 000
16	Bryn	13 %	-1 %	21 700

Source: Finn.no, Malling

Indicators for office demand

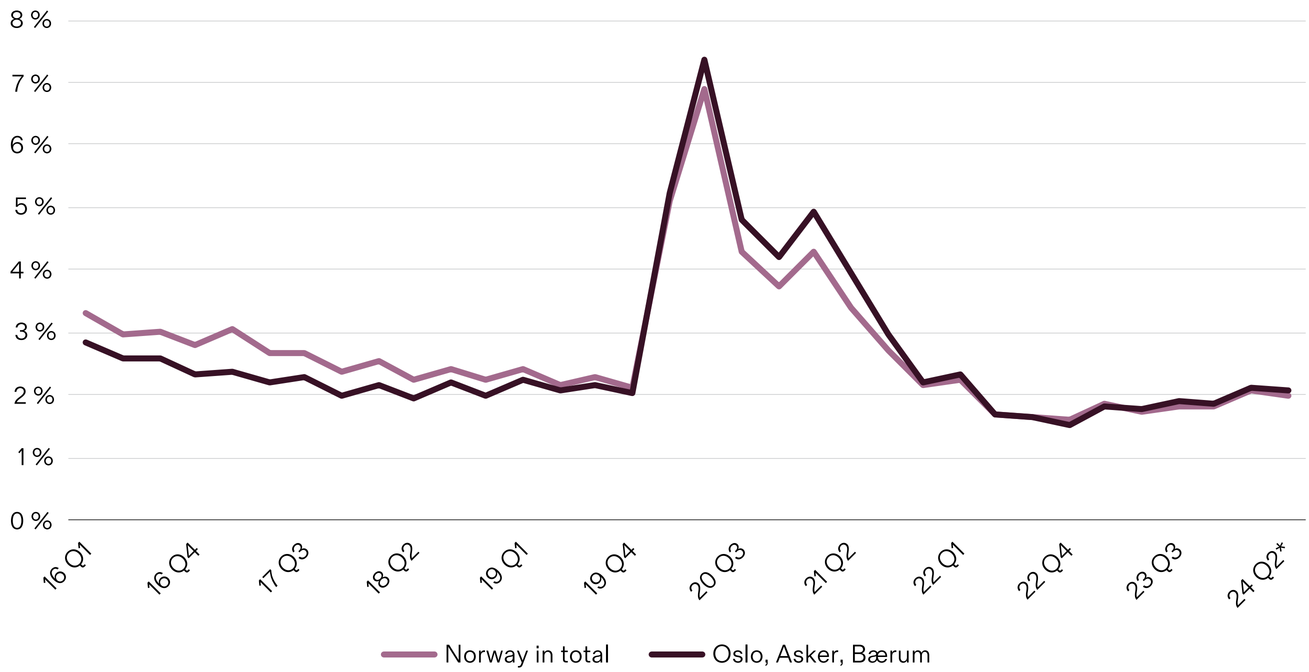
Demand for office space expected to be stable with a potential surge in 2027

After over two years of a robust employment market, the sustained growth in employment figures appears to be tapering off. Growth has slowed significantly in Norway, ending at 0.7 % in 2023. However, estimates from Statistics Norway (SSB) still indicate that the growth will stay positive. Unemployment figures from the Norwegian Labour and Welfare Administration have remained stable in Greater Oslo, showing a rather flat trend. The Norwegian Central Bank anticipates a modest increase in employment figures for the remainder of 2024 and in the forthcoming years. Historically, the employment growth in Oslo has outperformed the rest of the country in times of a positive trend. Therefore, we remain optimistic about the net demand for office space in the coming years, projecting a cumulative growth of 444 000 m^2. Our confidence in this projection is bolstered by the search volumes for office space in Greater Oslo this year, which are on track to reach levels similar to those we have witnessed for the last couple of years.

Stable unemployment in Greater Oslo

The unemployment rate in the Greater Oslo region has closely followed the national average since the last quarter of 2021. As of Q2 2024, the unemployment rate in Greater Oslo is 2.1 %, 1 pp higher than the national average. The situation in Oslo reflects what we are seeing in the rest of the country, as described in the “Macro – Norway” section earlier in this report. The sectors with the highest numbers of unemployed include construction, tourism and transport, as well as service-related industries. While still lower in absolute numbers, there has been a significant percentage increase in unemployment among academics, leaders, engineers, and IT professionals compared to last year. Additionally, it is worth noting that the unemployment rate for Oslo municipality is higher than the average for Oslo, Asker and Bærum, standing at 2.5 % compared to 2.0 %. According to a business survey conducted by NAV Oslo (Norwegian Labour and Welfare Administration Oslo), a quarter of businesses are facing recruitment challenges due to difficulties in finding workers with the required skills. However, the survey suggests that we can expect employment growth in the coming year. NAV predicts this by analysing businesses looking to hire versus those considering downsizing. Based on the analysis, they anticipate that 11 % of businesses are looking to increase their workforce.

Registered unemployment in Greater Oslo and Norway (incl. temporary lay-offs), %



*As of April 2024.

Source: NAV (Norwegian Labour and Welfare Administration)

Employment growth in Greater Oslo expected to exceed the country as a whole

The employment growth outlook for Norway is expected to stay positive, but at low levels according to SSB. Growth is expected to be 0.6 % for both 2025 and 2026, before they expect a 1.2 % increase in 2027. See the “Macro – Norway” section for more information regarding the employment growth outlook in Norway. Looking closer at a regional level, we have tried to predict employment growth in Oslo, Asker and Bærum. Our model predicts that employment growth will outperform the country as a whole and stand at 1.4 % in both 2025 and 2026, before further increasing to 2.0 % in 2027. This prediction is estimated based on historic employment data and how growth in Greater Oslo has developed historically relative to Norway as a whole.

The anticipated resilience of the employment market leads us to be moderately optimistic about the future demand for office space. Our projections indicate a net increase in demand for office space correlated with employment trends. Specifically, we anticipate a rise of 21 000 m^2 this year, followed by increases of 122 000 m^2 in 2025 and 125 000 m^2 in 2026. In 2027, we foresee a substantial surge in demand, with an expected increase of 179 000 m^2. This results in a significant overall increase in demand of approximately 444 000 m^2 over this period. However, it is important to note that the absorption of office space following employment growth will not be immediate, contingent on factors like available space in existing contracts and lease durations. We expect an annual growth in demand for office space in the years ahead, with a particularly pronounced expansion in 2027, driven by the expected growth in employment.

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

Source: Statistics Norway, Malling

«We anticipate a rise of 21 000 m^2 this year, followed by increases of 122 000 m^2 in 2025 and 125 000 m^2 in 2026. In 2027, we foresee a substantial surge in demand, with an expected increase of 179 000 m^2».

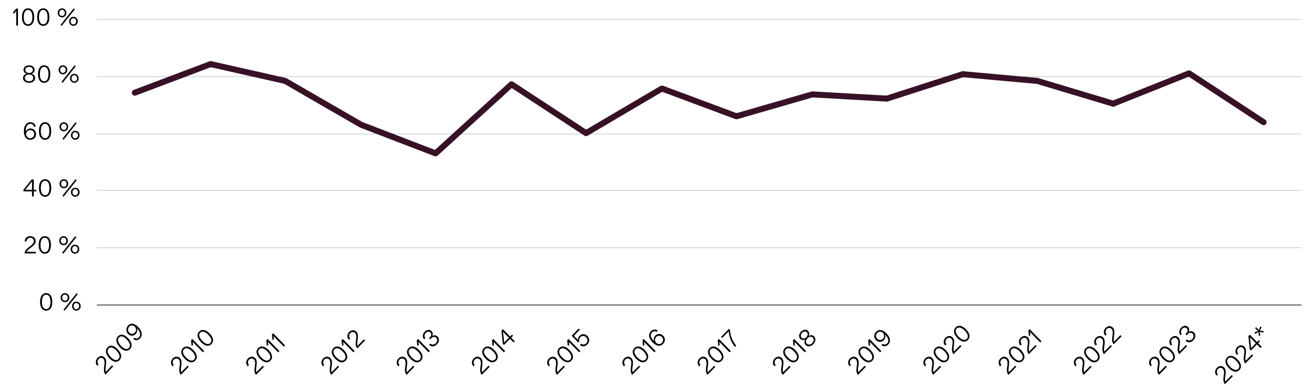
High lease search activity for premises within the upper middle size category

Search activity in 2024 started off slower than in the past previous two years, with approximately 20 000 m^2 below the 2022 and 2023 Q1 levels. Q1 search volumes for 2024 ended at just above 60 000 m^2, while 2022 and 2023 was at approximately 83 000 m^2 and 78 000 m^2 respectively. However, this has been offset by search volumes so far in Q2, with the April figure ending at 36 000 m^2, whereas 2022 and 2023 figures were both at approximately 12 000 m^2. Although this could potentially be explained by the Easter holiday and other bank holidays, it is still worth noting that activity appears to be increasing going forward in Q2.

Moreover, it is worth noting that so far this year, the average size of individual searches is larger than last year, around 2 850 m^2 as opposed to 2 340 m^2 in 2022 and 2 350 m^2 in 2023. If this average level continues throughout the year, we will potentially see the highest average in the last six years. Even though we have seen fewer lease searches for premises above 10 000 m^2 compared to previous years, searches for spaces of between 5 000 – 9 999 m^2 have the potential of breaking records if the volume keeps up for the rest of 2024. As of 10 May, we have 57 150 m^2 in this category, distributed between eight searches. The volume is greater than both the 2022 and 2023 total figures, even though we are still only in the fifth month of the year.

As mentioned in our last market report, it could be assumed that, as companies face mounting economic challenges due to high interest rates, more tenants are opting for fringe areas to secure a lower rental cost. So far in 2024, the share of demand for Central Oslo office clusters would suggest that this could be a continuing trend going forward. While over 80 % of the lease searches in 2023 were directed towards clusters within Central Oslo, this year's searches suggest that only 66 % of tenants seek to the city centre's more expensive areas. This is also backed by signed contracts, where the fringe zones have shown an upwards trend in the share of signed contracts in Greater Oslo. However, the distribution between the fringe zones has remained consistent, with 60 % of searches targeting the western fringe zone and 40 % directed towards the eastern fringe zone so far in 2024.

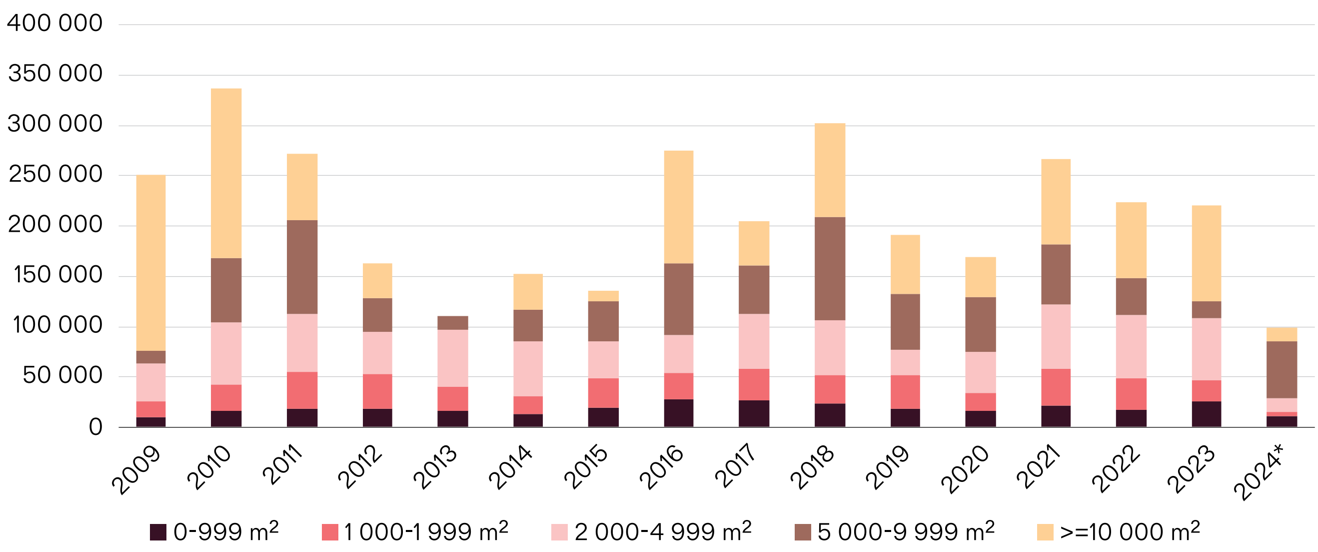
Share of demand for central Oslo office clusters (2009-2024*)



*As at 10 May 2024.

Source: NEMEET, Malling

Office searches registered in Greater Oslo (2009–2024*)



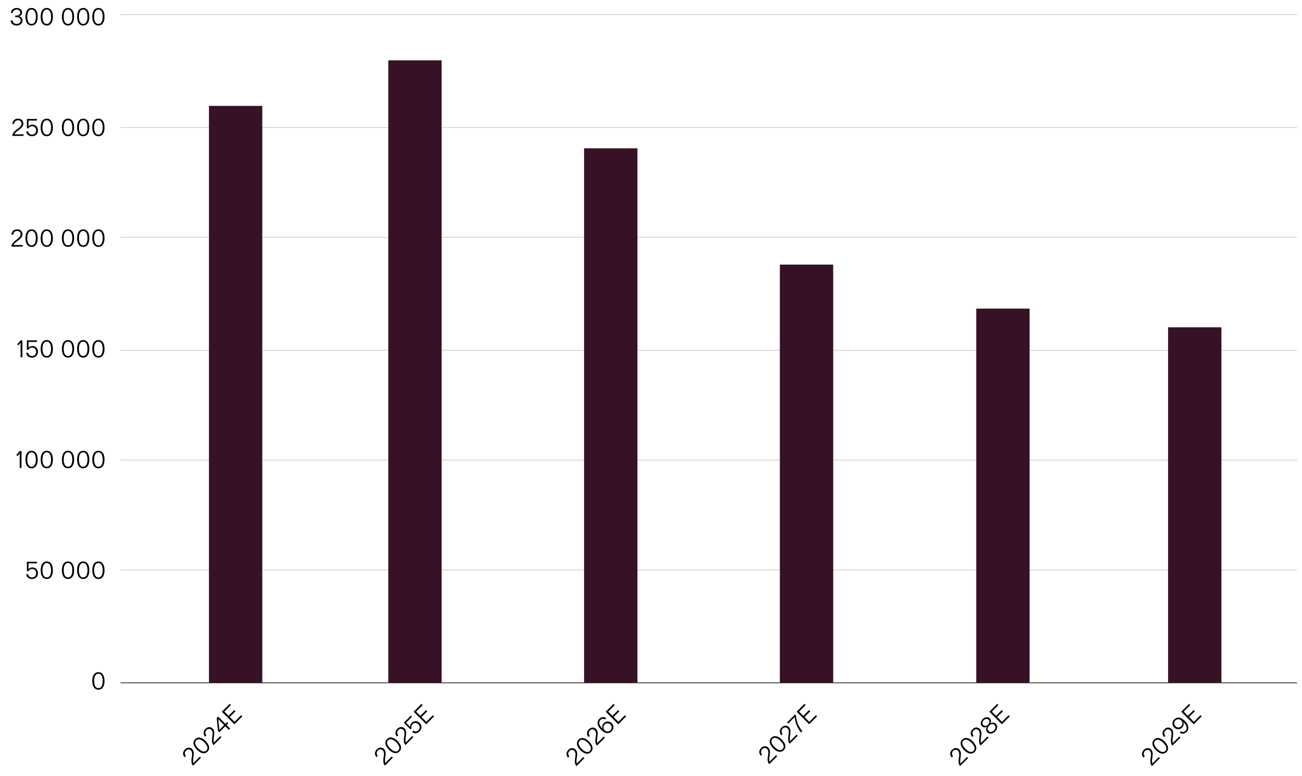
*As of 10 May 2024.

Source: NEMEET, Malling

Demand for large premises expected to peak next year and gradually decrease

The projected demand for office space in Greater Oslo by tenants requiring more than 5 000 m^2 is expected to remain substantial in the coming years. Demand this year and next is estimated to be approximately 259 000 m^2 and 280 000 m^2 respectively. This forecast is based on lease expiration data and lead time to market from our lease search database. Here, demand is defined as instances where tenants approach the market and/or existing landlord to either renew their current lease or relocate to a new property. It is important to note that this demand usually arises prior to the expiration of their lease contract. Larger tenants typically start looking for space at least two years or more before they plan to move in, based on historical data. As a result, the peak in demand in 2025 for office space over 5 000 m^2 is driven by a high volume of lease expirations in this size category over the next couple of years, totalling over 360 000 m^2 according to Arealstatistikk. This figure is substantially higher than the 2024-2029 average which is approximately 250 000 m^2. After 2025, demand is estimated to drop by over 40 000 m^2 in 2026 to 240 000 m^2 and then further to 187 000 m^2, 168 000 m^2 and 160 000 m^2 in the following years. It is worth noting that these figures are subject to change over time as lease expiration dates tend to shift closer to the target year.

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



*Estimate based on historic search data (2019–2023) and known lease expiries.

Source: Arealstatistikk, Malling

«Demand for premises above 5 000 m^2 this year and next is estimated to be approximately 259 000 m^2 and 280 000 m^2 respectively».

Construction activity in Greater Oslo

High volume of newbuild projects to be completed in 2025

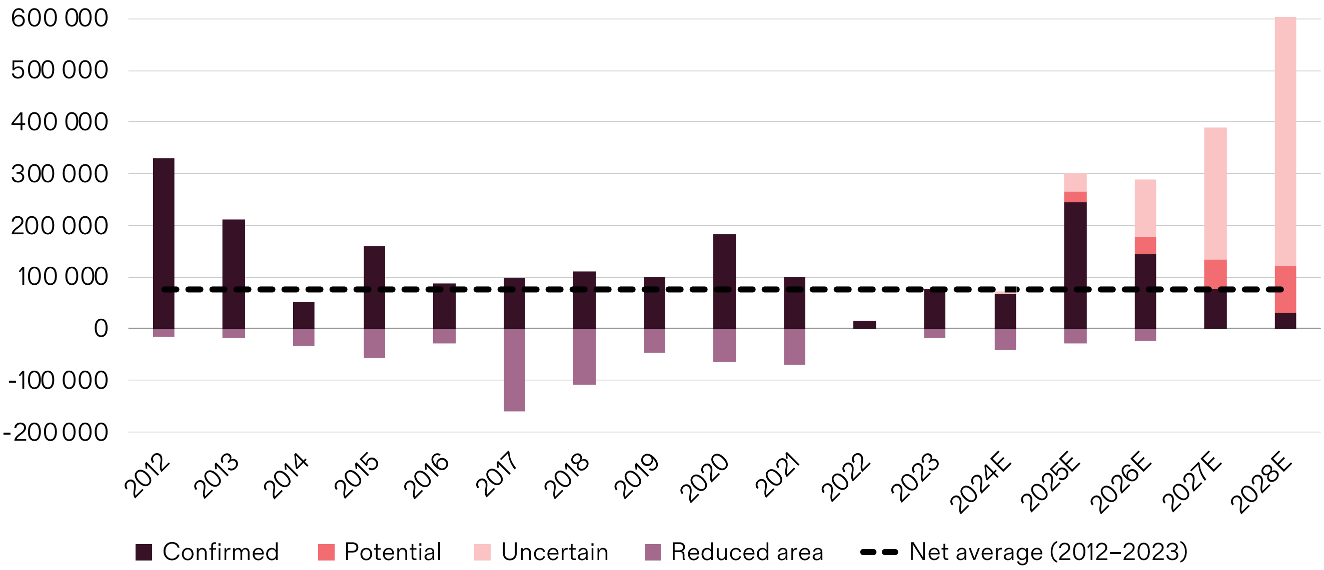
The office construction pipeline in the Greater Oslo area for 2024-2028 continues to remain stable, with few changes noted since our last market report. Construction volumes stand at approximately 564 000 m^2 of confirmed new office space for the total period, with 66 000 m^2 in 2024 for the remaining of the year, 245 000 m^2 in 2025, 145 000 m^2 in 2026 and 78 000 m^2 in 2027. The anticipated surge in construction activity in 2025, with volumes exceeding 200 000 m^2, well above the 20-year average, is driven by a few very large projects. Except for 2025, the limited new construction pipeline can be attributed to an uncertain climate characterised by a period of rising interest rates and expectations of sustained high rates. These factors have discouraged the launch of newbuild projects, leading to a shift in focus towards value-add projects and refurbishments.

An overview of new construction in Greater Oslo

In 2023, the construction of new office space amounted to just under 80 000 m^2. However, due to conversions and demolitions, the office stock was reduced by 19 000 m^2, resulting in a net area growth of approximately 58 000 m^2. This figure is somewhat lower than the 2012-2023 average of 75 500 m^2. Moving to 2024, we anticipate a net increase in office space of 26 000 m^2, much lower than the 2023 volumes, which can be explained by explained by much volume being removed from the market. From 2025 and onwards, estimated completion of new office space increases, with confirmed volumes almost 120 000 m^2 above the 20-year average, totalling approximately 245 000 m^2 of confirmed office space. Despite the confirmed new office space in 2026 being approximately 100 000 m^2 lower than the estimates for 2025, it remains above the average level. Looking ahead to 2027, estimates are subject to change due to uncertainty surrounding several new projects in the pipeline. Nevertheless, confirmed volumes for three years ahead are still high, with numerous uncertain projects that could be initiated.

Despite the high newbuild estimates for 2025 and 2026, mainly driven by a few projects that are further elaborated on in the section below, there are still few newbuild projects that are being initiated. This limited movement in the construction pipeline can be attributed to the former surge in financing cost, which is still evident, coupled with the high construction cost levels that we have seen in previous years. Landlords have generally found it financially unviable to proceed with numerous projects, particularly in the fringe zone, where break-even rents have consistently exceeded market rents. Consequently, landlords have shifted their focus from new construction projects to value-add projects and refurbishment projects with a more moderate cost strategy, where it is easier to calculate the potential for value creation. Therefore, we have for the first time introduced a “Typical rent newbuilds” for each of the Greater Oslo cluster. This column in the office rent consensus illustrates the gap we typically see between what landlords can get for their existing prime offices and what they typically need in rent to initiate new projects. In cases where we see the mix of construction costs, financing and rents become more favourable, we may see an increased project pipeline in a couple of years.

Historical and estimated new office construction, conversion and demolition in Greater Oslo, total m^2 (GLA)



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

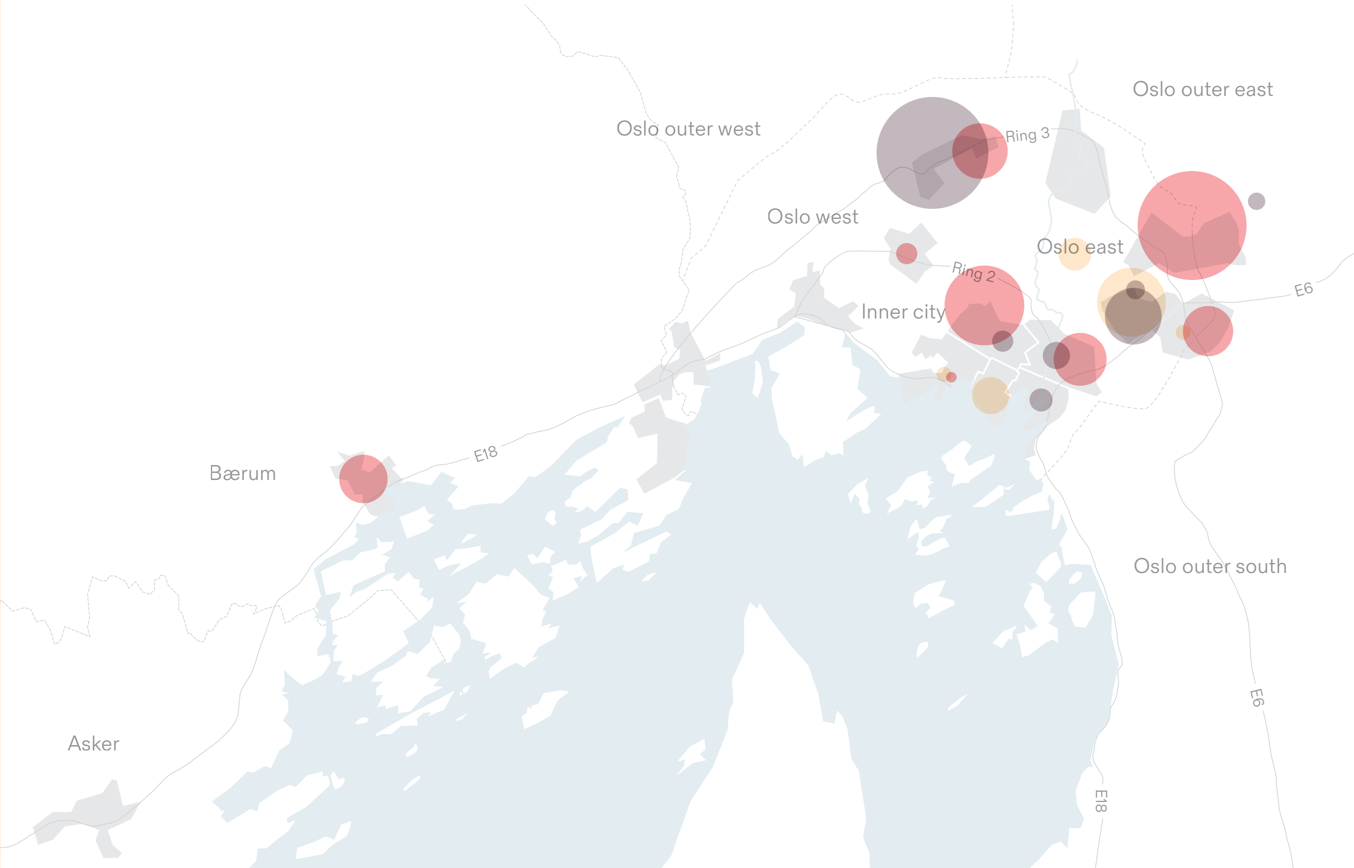
Source: PBE, Byggfakta, Malling

A few large projects driving short-term construction volume

Over the 2024-2026 period, an addition of approximately 456 000 m^2 to the Greater Oslo Office market has been confirmed. In 2024, most new construction, accounting for over three quarters of the total volume, is concentrated in the eastern fringe zone. This surge is driven by developments such as Valle Vision (24 000 m^2), Grenseveien 82 (13 500 m^2) and Kakkelovnskroken 3 (8 700 m^2). Both Valle Vision and Grenseveien 82 are situated at Helsfyr, while Kakkelovnskroken 3 is located at Rødtvedt, a part of Oslo Outer East. Looking to 2025, the eastern fringe zone remains the most active area, contributing nearly 50 % of the total volume. Notably, the completion of the large-scale "Construction City" project (78 000 m^2) will significantly impact this zone, making it one of the major additions to the fringe zone office market in the coming years. Additionally, the expected completion of Nils Hansens vei 27 (14 000 m^2) at Bryn will further augment the new office stock. The city centre will also see significant additions in 2025, with the completion of two buildings within "Regjeringskvartalet", the new headquarters for Norway's government ministries: Block D (32 000 m^2) and Block A (18 800 m^2). Another noteworthy project completed in 2025 is "Veksthuset" (21 300 m^2) located at Urtegata 9, a part of the larger "Urtekvartalet" project, comprising both new construction and refurbishments. Additionally, Kirkegata 23-25 will be implemented by Kristiania University College as their newest lecture and teaching facility.

In the coming years, while there are notable newbuild projects underway, the refurbishment sector will remain vibrant. Several significant refurbishment projects are expected to be completed, with notable examples including Oslo Atrium in Bjørvika, and Sannergata 2-4 in the city centre. Additionally, Cappelen Damm's new headquarters at Stortingsgata 28 is currently undergoing refurbishment and is projected to be completed in Q2 2025. In contrast, the fringe zones are predominantly marked by newbuild activities. Notable refurbishment projects in the fringe zones include Brynsengfaret 6 at Bryn, the largest confirmed project in the eastern fringe zone, and Hagaløkkveien 28 in Asker, the largest in Fringe Zone West. Although we are seeing a high volume of newbuild projects in the coming years, the shift towards refurbishment projects, especially in Central Oslo, reflects the impact of high construction costs and a "higher for longer" view on interest rates. Landlords are redirecting their focus from new construction ventures to value-add projects, aiming to maximise returns within the current market environment.

Confirmed new office buildings that will be finalized in 2024–2026, total m^2 (GLA)



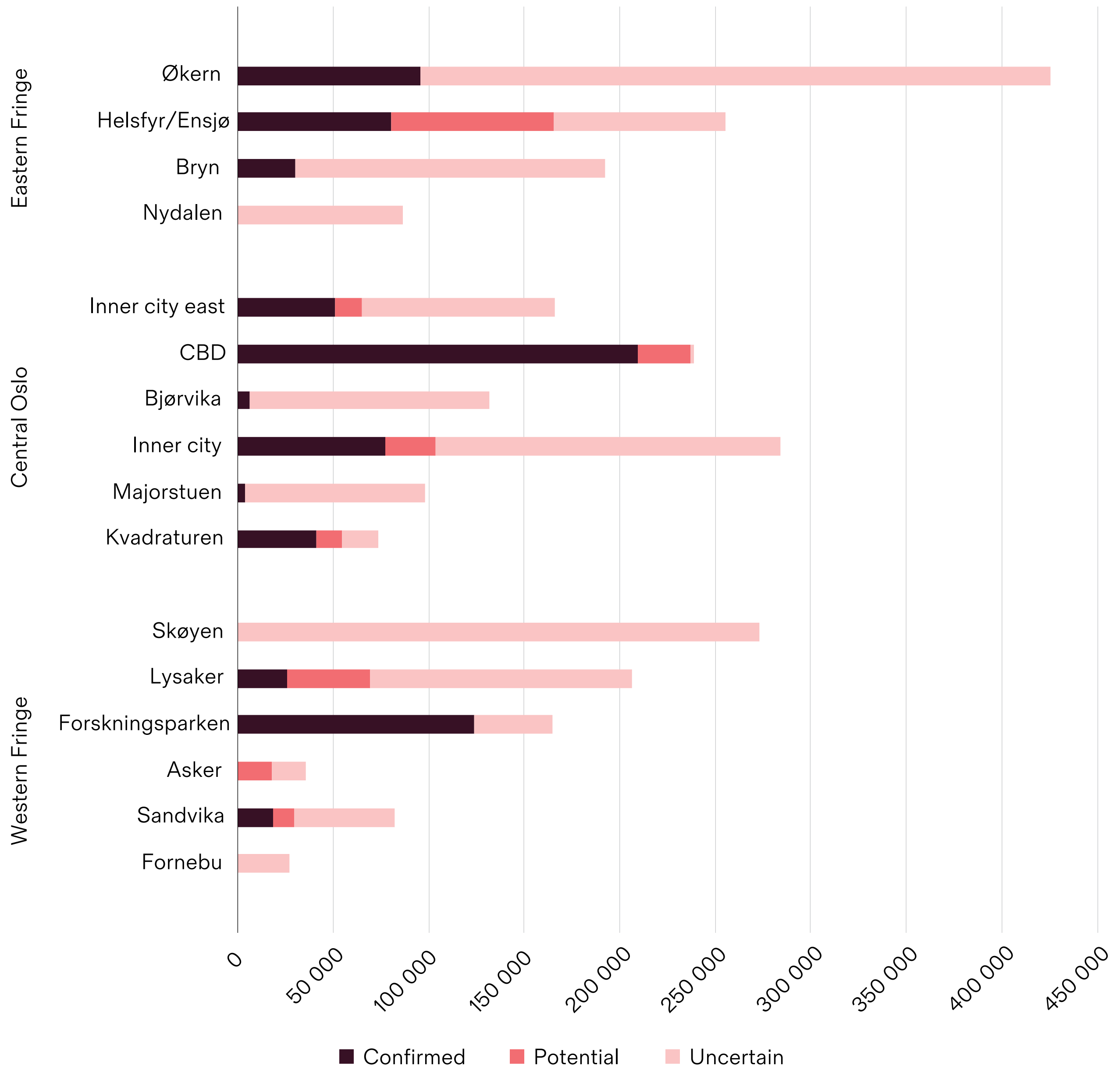
2024	2025	2026
●	●	●
12 % Vacant*	22 % Vacant*	24 % Vacant*

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

*Share of total yearly construction volume vacant.

Source: PBE, Byggfakta, Malling

Estimated new construction in Greater Oslo from 2024 split by cluster and status, total m² (GLA)



Source: PBE, Byggfakta, Malling

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

Long-term construction activity

Looking at the full pipeline of construction activity of newbuild projects in Greater Oslo from 2024 and beyond in our database, there is potential for approximately 2.75 million m^2 of office space to be added to the market. This volume is rather evenly distributed between Central Oslo and the eastern and western fringe zones, with great variations in certainty.

Fringe Zone East: In the eastern fringe zone, about 70 % of the project pipeline remains uncertain. Several significant projects, including Økern S, NRK Ensjø, and Eikenga, each offering 50 000 m^2 or more of prospective office space. Notably, NRK Ensjø, the new office building for the Norwegian government-owned radio and television public broadcasting company, is highly likely to be completed as they have sold their previous headquarters at Marienlyst. However, uncertainty persists regarding the project's scope and completion year. Just under 9 % of the total volume in the eastern fringe zone is categorised as potential, with 22 % confirmed as new office space.

Central Oslo: Most of Greater Oslo's confirmed volume is focused in Central Oslo, mainly due to the upcoming development of Filipstad, which will add 190 000 m^2 of office space. However, it is highly uncertain when the different stages of the development will be completed, which is not anticipated to be before 2040 at the earliest. In September 2023, the city council approved the new high-rise building strategy, increasing potential for additional vertical office space in the city centre. This new strategy will allow construction to extend up to 70 metres above ground near public transport hubs and up to 125 metres above ground at Oslo Central Station. It is essential to note that this strategy lacks legal binding, leaving its potential prominence in the new municipal plan open to question.

Fringe Zone West: Within the western fringe zone, approximately 20 % of the volumes are confirmed, while the remainder remain uncertain or potential. See page 38 for how we define projects in our project database. In the western fringe zone, 9.5 % of the volumes are classified as potential, suggesting that they are likely to be realised, although zoning or tenant base establishment is pending. Uncertain projects represent 70 % of the total volume in Fringe Zone West, with significant uncertainty centred around developments at Lysaker and Skøyen.

Office vacancy
Rising vacancy, yet optimism in the coming years

Over the past year, vacancy rates in Greater Oslo have been steadily increasing, currently standing at 7.6 %. This trend has been evident in both Central Oslo and the fringe zones. The increase in the vacancy trend has persisted, despite robust employment growth and low construction volumes. It is possible that the prevailing challenging economic conditions have compelled companies to implement cost-cutting measures, including the containment of rental costs. However, our outlook remains optimistic, anticipating that vacancy rates will inevitably decrease in the future due to expectations of a strong employment market. We forecast the vacancy rate to drop to 5.4 % by the beginning of 2025 and to stay at that level throughout the year and into 2026 before further decreasing.

Greater Oslo office vacancy to top out in 2024

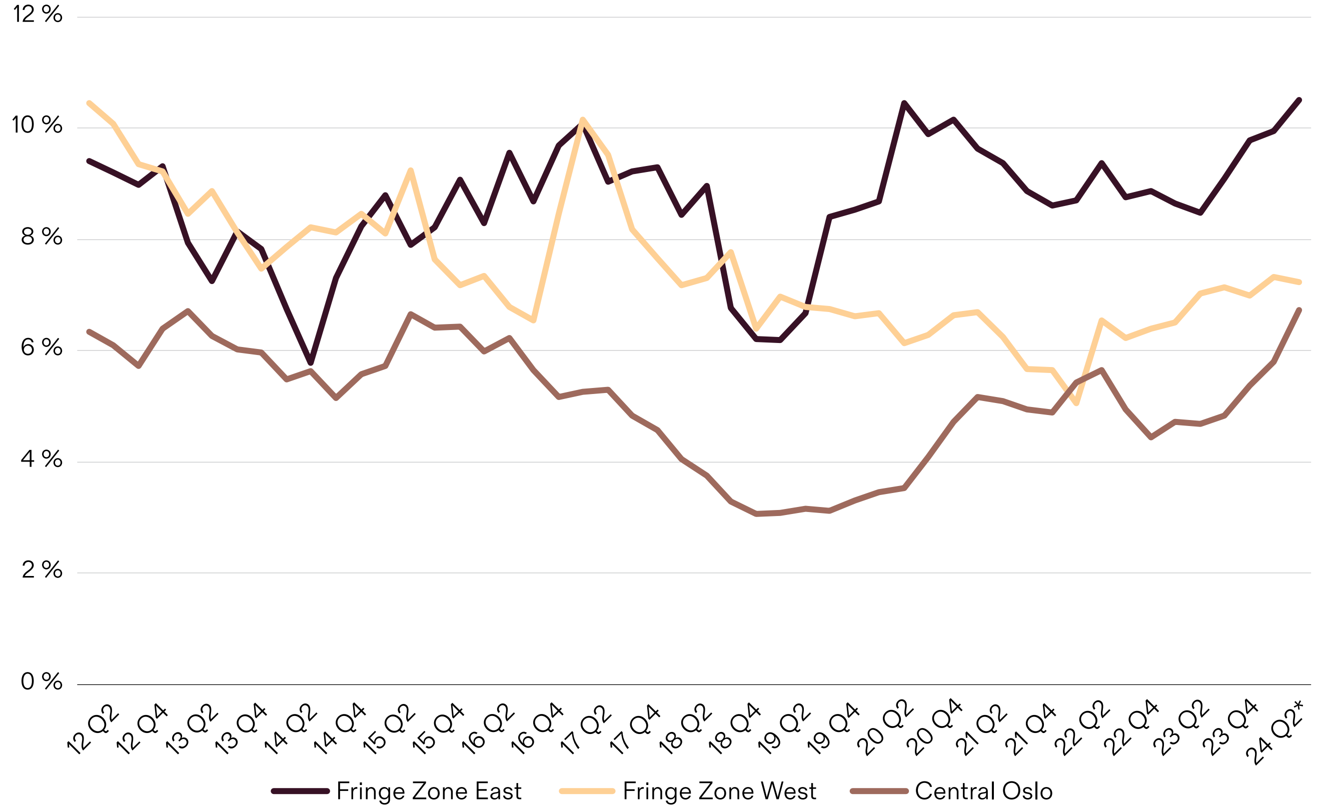
The vacancy rate in Greater Oslo has been rising since Q4 2022, when it stood at 5.9 % in Greater Oslo. As of April 2024, the vacancy rate, as we measure it, has reached 7.6 %. In the fringe zones, the rates are at 7.2 % and 10.5 % for west and east respectively. This upward trend has been consistent across all areas since Q3 2022, affirming the departure from the short-lived downward trend. The most significant increases have occurred in Central Oslo and the eastern fringe zone, with average increases of around 2 pp for both areas compared to last year. When examining specific clusters, it is evident that CBD (Vika/Aker Brygge/Tjuvholmen area) has had the most substantial impact on vacancy rates in Central Oslo, with a 4 pp increase since Q2 2023. Additionally, Kvadraturen has experienced a notable increase of above 2 pp during the same period. It is worth noting that Majorstuen, historically one of the clusters with the lowest vacancy rates in Central Oslo, has seen a rise to just above 3 % in Q2 2024, well above the 10-year average of around 2 %.

The increase in vacancy rates can be attributed to various factors. However, a noticeable aspect in 2024 is the practice among some shared office space providers of listing their entire premises as a single ad, rather than specifying smaller office spaces available for more typical shared-office tenants. This strategy has emerged as a means to attract larger tenants and demonstrate their capacity to accommodate companies requiring premises from 1 000 m^2 to above 5 000 m^2. Conversations with management team members from office providers within the shared-space category reveal this tactic as part of a broader effort to appeal to larger businesses and to show that they are capable of handling sizable tenants. However, they are not necessarily ready to move into at short notice, although their ads clearly state ready to move in immediately.

This raises the question of whether we may see vacancy levels above what actually is vacant. Our theory is that the real vacant space in these ads is lower than advertised, although substantial. Nevertheless, it is an example of how difficult it is to measure vacancy at an accurate level. Economic factors are now affecting smaller businesses which are typical shared-office tenants, and it is starting to sink in that interest rate levels are expected to stay higher for longer than initially expected. If these typical tenants are starting to utilise their option to end the lease contract, the space will in fact become vacant after their lease expiry. As illustrated and explained in more detail in the “Indicators for office demand” section, larger tenants often initiate the process of relocating several years in advance. Shared-office providers may be positioning themselves to house these larger businesses due to the decrease in demand from smaller companies, which could be the reason why their advertised space is currently much higher than usual. If this is the case, we may see this type of ads eventually becoming detached from the market.

«As of April, the vacancy rates are at 7.2 % in Fringe Zone West, 10.5 % in Fringe Zone East, and 6.7 % in the City Centre».

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



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

*As at April.

Source: Finn.no, Malling

Selected properties with ads affecting the vacancy as of April 2024

Adress	Cluster	Area (m²)	Provider of shared office space
Snarøyveien 30	Fornebu	30 000	No
Eyvind Lyches vei 10	Sandvika	16 500	No
Innspurten 15	Helsfyr	12 100	No
Munkedamsveien 45	CBD	9 900	No
Verkstedveien 3	Skøyen	7 800	No
Stortorvet 7	Inner City	7 100	Yes
Tollbugata 8	Kvadraturen	6 200	Yes
Lørenveien 73	Økern	5 000	No
Kristian Augusts gate 13	Inner City	4 300	Yes
Fjordalleen 16	CBD	4 200	Yes

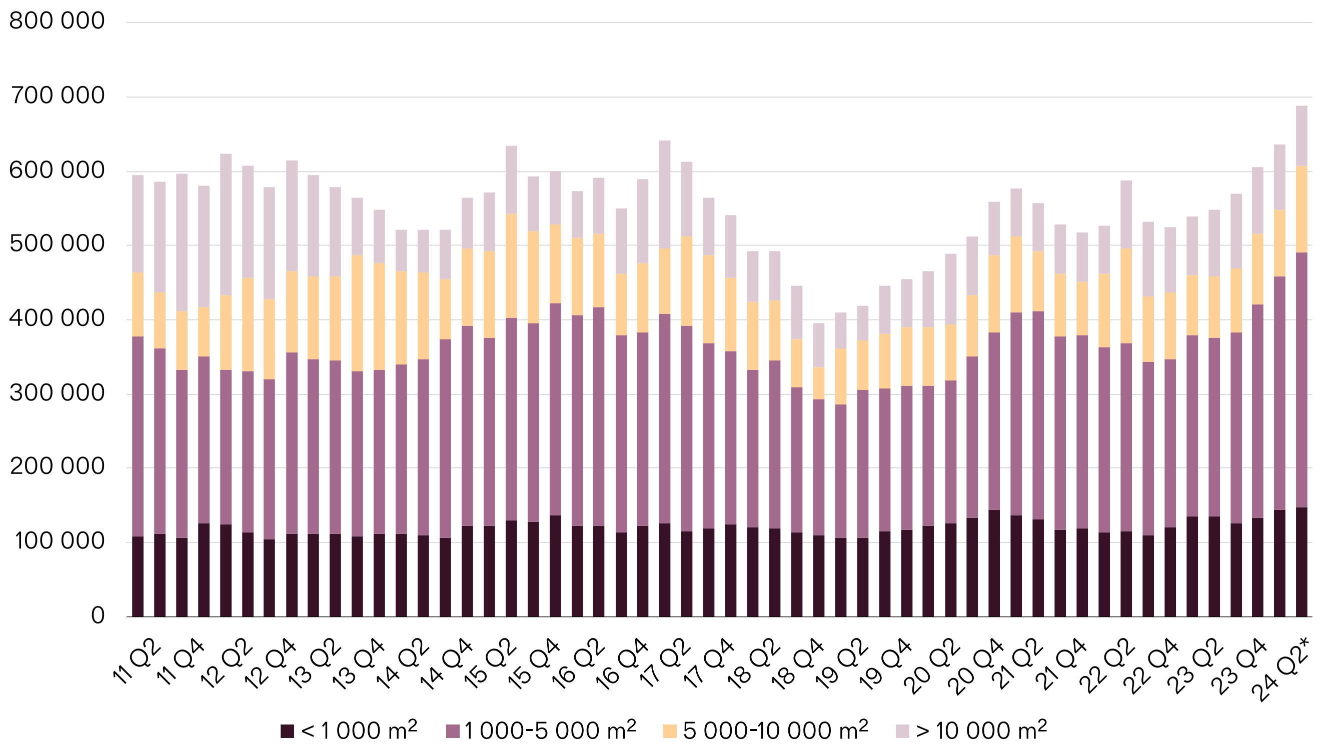
Source: Finn.no, Malling

10 % decrease in advertised premises over 10 000 m²

The vacancy rate in Greater Oslo has been steadily increasing, resulting in a notable rise in advertised office space from 549 000 m² in Q2 2023 to 689 000 m² in Q2 2024, representing an increase of approximately 140 000 m². In particular, there has been significant growth in the advertising of premises ranging from 1 000 to 5 000 m², with an additional 101 500 m² entering the market, indicating a 42 % increase. Similarly, the 5 000 to 10 000 m² segment experienced the equivalent percentage increase, with 34 500 m² more being advertised in Q2 2024 compared to Q2 2023. While smaller premises up to 1 000 m² have also seen an increase, it is considerably lower than the aforementioned size categories, with 13 100 m² entering the market, representing a 10 % increase. On the other hand, available office space above 10 000 m² has fallen by approximately 9 900 m², corresponding to an 11 % decrease.

To clarify, our report distinguishes between two terms: “vacancy”, referring to available space within the next 12 months, and “total listing”, encompassing all advertised space, including what is available 12 months from now. As of April 2024, the vacancy in Greater Oslo was measured at 688 000 m², while the total listing is 753 000 m². A trend we have observed in recent years is the gradual narrowing of the gap between vacancy and total listing. It is now evident that the gap has stabilised, remaining at approximately the same level for the past six months. Currently, total listing exceeds vacancy by 9.5 %, whereas the difference was as high as 50 % in 2021. This indicates that not as much volume is being advertised far in advance as previously, a trend attributed to the low construction volumes currently observed. Large newbuild projects are typically advertised further in advance to avoid speculative construction. Increased construction costs and more expensive financing with higher exit yields have had a negative effect on the go-to-market strategy for new projects in the pipeline.

Vacant office space split by size interval, total m²



*As of April.

Source: Finn.no, Malling

«As of April 2024, the vacancy in Greater Oslo was measured at 688 000 m², while the total listing is 753 000 m². A trend we have observed in recent years is the gradual narrowing of the gap between vacancy and total listing».

Vacancy going forward

Vacancy has developed in the opposite direction than we expected six months ago. Our belief was that vacancy would decrease in 2024 from the effects of a strong employment market, seen in the period 2021 - 2023. Since the demand for space has been weaker than expected when looking at employment numbers employment numbers, we have re-calibrated our office demand model and tuned the demand side according to historical employment numbers since the year 2000. Our new model includes a longer historic dependence between employment and demand (up to seven years), as well as employment growth materialising as increased demand the year after. We have also identified a shift in the demand for office space relative to employment growth. For the period 2000 - 2019, the change in office demand per employed person was approximately 20 m^2. This number is higher than the overall ratio between office stock and employed persons over the period, averaging at 13.3 m^2 per employee. In this time, office employment growth was about twice as strong as employment within non-office jobs. This indicates the importance of office space in Oslo and that the market demand for offices is growing faster than overall employment indicates. However, since the end of 2019, just before the pandemic, office demand has just marginally increased, despite the strong growth in overall employment in Oslo, Asker and Bærum of around 45 000 persons. The applied ratio, using the historical number of 20 m^2, should yield additional demand for around 900 000 m^2, while we have measured an increase in demand for around 60 000 m^2 over the period. One explanation could be that non-office sectors saw a greater increase in employment growth, but as mentioned, this is not the case.

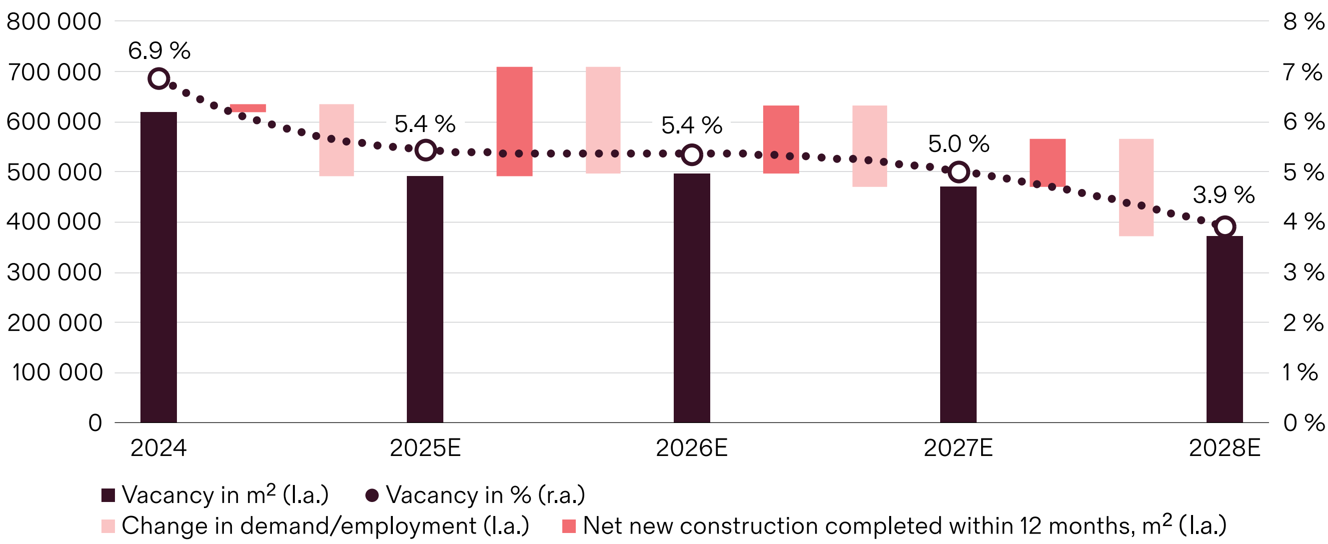
There are many possible reasons for why office tenants are not increasing space as in the past:

- Increased use of working from home (WFH) and the belief among decision-makers that this could limit the need for an increase in space, despite growth.
- Since yields and construction costs have increased significantly, we can see that the supply side of older buildings that were planned to be demolished and re-built as new office projects have re-entered the market, as the owners are seeking to maximise current cash flows from their assets with higher interest rates.
- Some tenants could be playing cautious in the leasing market due to the economic situation with high inflation and high interest rates.
- Sharply rising construction costs and higher interest rates have made newbuilds, total refurbishments and comprehensive fit-outs very expensive, yielding rents above current market rents. For many tenants, sitting tighter in the existing lease for one option period of e.g. five years may play out as a cost effective alternative to moving.

Going forward, we have calibrated our new vacancy model, where we expect that the unmet pent-up demand from employment growth in previous years will be absorbed evenly across five years from 2025, along with the main scenario of a soft landing and further growth in employment. We have also adjusted down the demand ratio per employee to the overall average. With these assumptions, demand for office space will boost going forward, and gradually decrease vacancy throughout 2024 to around 5.5 %, before high construction volumes in 2025 and 2026 are expected to cancel out this increase in demand. In 2027, we believe the demand side will increase more than the supply side and finally bring down vacancy to just below 4 %.

Our forecast is uncertain, and we also see that the demand and supply sides have correlating drivers. Furthermore, the assumption regarding the absorption of office space per new employee carries uncertainty. It is difficult to predict whether the reduced absorption of office space per employee observed in the aftermath of the pandemic will become the new standard or if it was merely a temporary adjustment. In any case, our main scenario predicts slightly increased construction beyond current certain projects, and this means rents will need to increase between by 5–20 % in most office clusters to defend new construction. In some areas like Asker, top rents would need even higher growth, but we do not believe the demand side will be strong enough to lift rents up to this level in these areas to trigger new construction. We are certain that increased costs and yields will enable significant rental growth over the coming three years, including also for normal rents, as the marginal cost for space will lift the whole market.

Estimated vacancy trend in Greater Oslo, year start



Source: Finn.no, Norges Bank, SSB, Malling

Industrial & Logistics

Extraordinary surge in Logistics activity has subsided

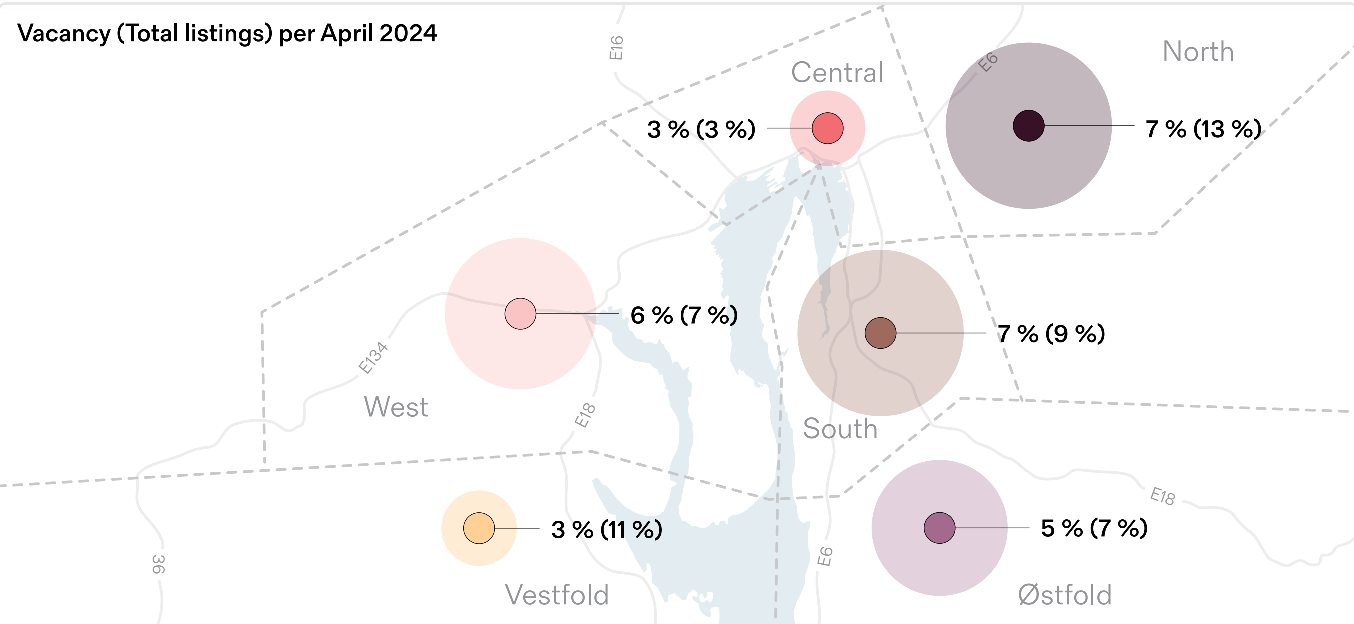
The high leasing activity observed in the industrial real estate market has slightly diminished. Reduced demand is reflected in an increasing trend of vacancy in areas outside Central Oslo. Consequently, the significant pressure on market rents experienced over recent years has eased, and we anticipate a stabilisation going forward. However, there still exists a substantial gap between current market rents and the lease prices of expiring contracts, which continues to pique investor interest. In our investor survey, logistics properties have surpassed office properties as the most attractive segment and is increasingly capturing a larger share of the total transaction volume. Our analysis of industrial new construction projects reveals a supply side theoretically meeting future demand. However, several factors influence logistics operators' location choices. Emphasised factors include geographical location and proximity to main highways. Additionally, in some areas, rental levels are not high enough to justify project viability. Tenants also prioritise energy-efficient buildings that meet tougher environmental and governance requirements, leading to additional costs for developers.

Increasing vacancy in big box logistics, while last-mile logistics vacancy remains flat

The industrial vacancy rate in Eastern Norway was measured at 5.4 % as of April 2024, up 1 pp from the previous market report in October 2023. While vacancy rates have decreased from 7.9 % to 6.4 % and 3.1 % in Oslo West and Vestfold, respectively, since October, vacancy rates have increased in other areas of the Eastern region. The most significant increase occurred along the northern axis, rising by 3.8 % to reach 7.0 %, despite relatively little new space being added in the last years, excluding Gardermoen. Additionally, on the eastern side of the Oslo Fjord, vacancy rates have increased by 2-3 %, reaching 7.1 % in Oslo South and 5.3 % in Østfold. Within the warehouse segment, a single property marketed as vacant can contribute significantly to the overall vacancy rate in an area. An example of this is the 45 000 m^2 advertised at Vestre Vanemvei 40, which is largely responsible for the increased vacancy rate in Østfold. For last-mile logistics properties in Oslo central, vacancy rates have remained at 3.1 % since October 2023.

The overall vacancy trend within this segment is increasing, as vacancy rates have remained at very low levels for several years. The reasons are multifaceted; the significant demand for warehouse space during the pandemic led some players, particularly third-party logistics providers, to lease excessive amounts of space that are now being sublet in the market. Tenants within the industrial, retail, and especially the construction industries have also reported declining production growth prospects over time, which has not resulted in higher demand for additional space, atleast. It should be noted that vacancy rates are by no means alarmingly high in any areas. Our leasing agents report that there are no major issues in leasing out quality spaces, the pace and demand has simply normalised. We expect to see a slight further increase in vacancy rates to around 6%, before it stabilizes in line with the current low level of new construction activity.

Vacancy (Total listings) per April 2024



North, Central, West, South, Vestfold, Østfold	Total vacancy = 5.4 %	Total listings = 8.2 %

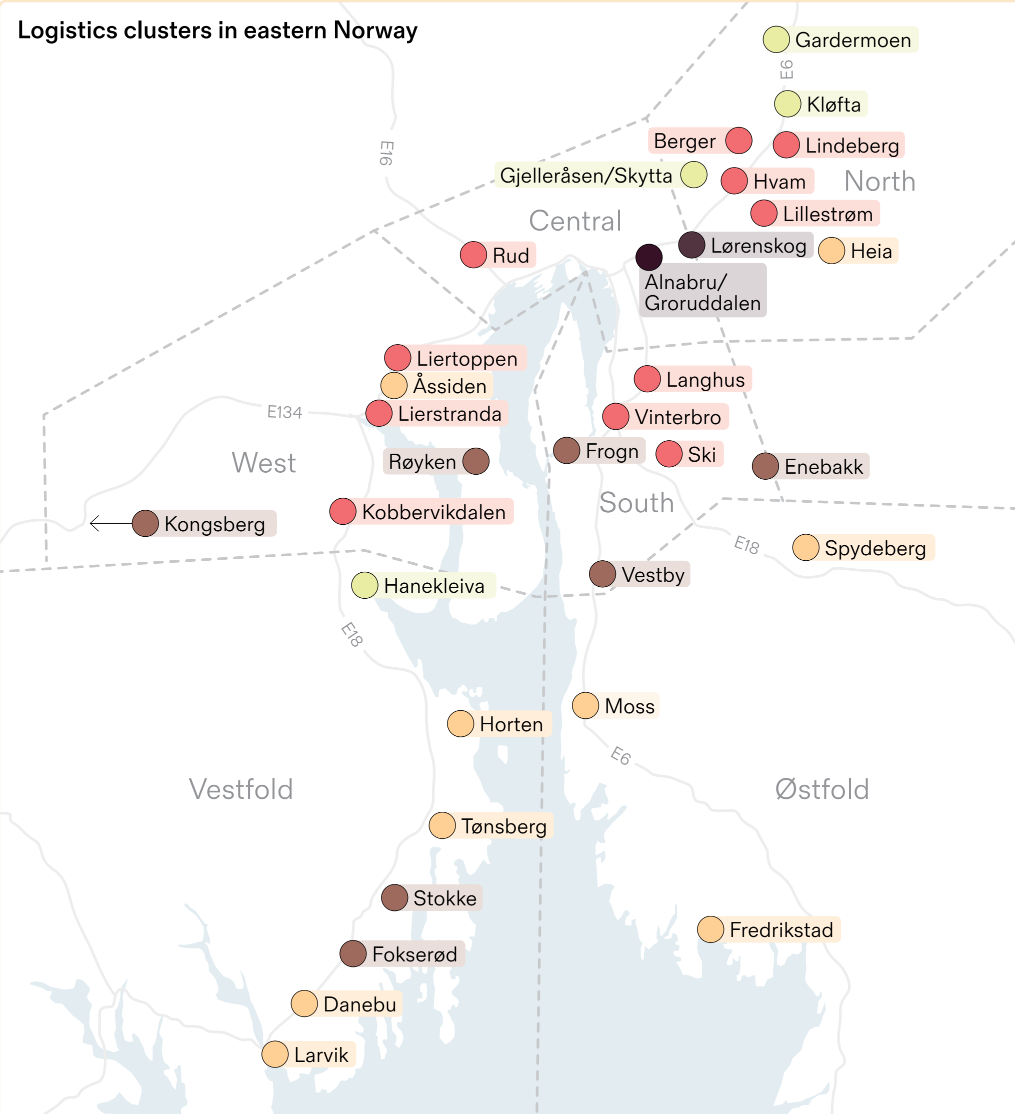
Mapping of the Eastern Norway logistics market: Our extensive mapping of the logistics market in Eastern Norway is an expansion on the Greater Oslo mapping we previously performed. Our extension of the database of all the logistics clusters and large stand-alone properties thus continues to be refined and developed, and we are utilising our findings to provide an answer as to the future development for logistics. The estimated total stock of warehouses and logistics properties in our defined areas comprises 12.7 million m^2 gross lettable area (GLA), with a total identified lot size of 25.9 million m^2.

Source: Finn.no, Malling

The growth in market rent is decelerating

With slightly higher vacancy rates, the upward pressure on nominal rental prices has eased in the logistics market in Eastern Norway. For instance, we have adjusted the prime rent for last-mile properties to 2 000 NOK/m² from 2 100 NOK/m², despite ongoing high demand for storage space in Central Oslo. That said, there are instances where customizations or other specific preferences result in rental levels in this area exceeding 2 000 NOK/m². In the popular areas of Berger and Lindeberg north of Oslo, prime rent has also been adjusted downwards by 50 NOK/m² to 1 600 NOK/m², as achieving higher rents for existing buildings without special adjustments has proven challenging. Market rents have generally remained stable in most clusters in the Greater Oslo area proximate to the main highways. However, in Vestfold and Østfold, we have adjusted both prime rent and normal rent levels downwards by 50-100 NOK/m² in most of the clusters. Despite the deceleration in nominal rental price growth, numerous industrial property owners still possess considerable income potential through renegotiation or attracting new tenants, given that rental rates at lease expiration still lag well behind prevailing market rents.

Logistics clusters in eastern Norway



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

Ceiling 4-6 metres (heated, high standard)	
● (dark purple)	1 650 – 2 000
● (red)	1 250 – 1 500
● (light green)	1 050 – 1 400
● (brown)	950 – 1 100
● (light orange)	800 – 1 000
Ceiling > 6 metres (heated, high standard)	
● (dark purple)	1 650 – 2 000
● (red)	1 300 – 1 600
● (light green)	1 200 – 1 500
● (brown)	1 000 – 1 350
● (light orange)	850 – 1 150

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

Source: Malling

«Despite the deceleration in nominal rental price growth, numerous industrial property owners still possess considerable income potential through renegotiation or attracting new tenants, given that rental rates at lease expiration still lag well behind prevailing market rents».

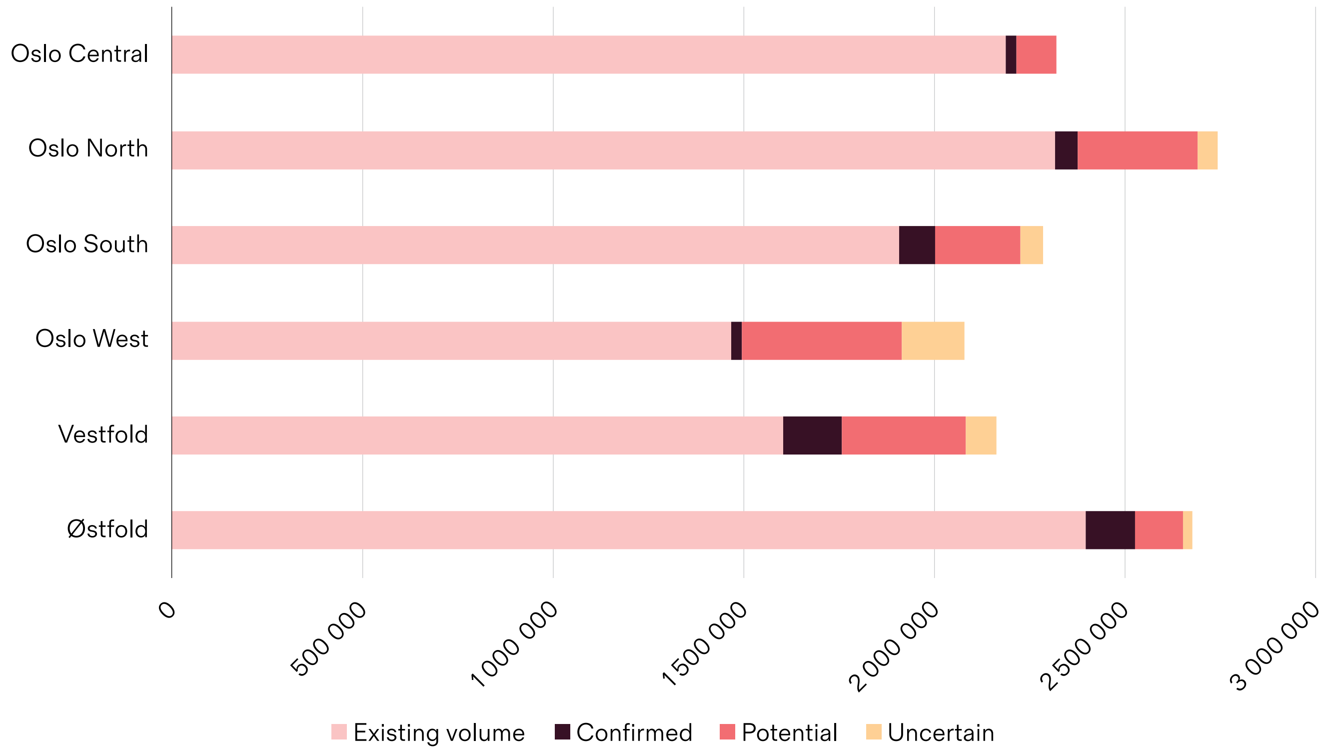
Sufficient supply side of newbuilds in theory

In a market historically characterised by limited new construction, grand-scale, high-quality logistics buildings have been erected in the Greater Oslo area in recent years. The pipeline remains ample, with approximately 500 000 m^2 of confirmed new construction set to be completed. The largest share is found in Vestfold, notably boosted by logistics buildings adjacent to the new Kopstad Freight Terminal, expected to be completed by mid-2030. In the short term, examples of buildings under construction include IKEA's central warehouse in Vestby, spanning 43 000 m^2, and Vestre Vanemvei 40 in Moss, potentially totalling 45 000 m^2.

Compared to 2023, there are fewer confirmed new development projects for industrial buildings in 2024. However, there are plenty of shovel-ready plots, particularly outside Central Oslo. We have identified nearly 1 900 000 m^2 of potential building area in the Eastern region. Much of this is in development areas such as Gardermoen, Fiskumparken, Danebu and Enebakk in respectively Oslo north, Oslo west, Vestfold and Oslo south, where plots are fully regulated, and projects can be initiated promptly if a willing tenant emerges.

In theory, there is sufficient supply, but the question remains whether the plots are adequate to meet the requirements of certain tenants. In many cases, the rental price tenants must pay to justify a new construction project exceeding market levels, particularly as one moves farther away from Oslo. Another wildcard is the lack of power supply in the distribution network, which can make it challenging to obtain energy-intensive building permits in areas with limited capacity. Tenants also demand energy-efficient buildings, and developers offering viable solutions in this regard will have an advantage in attracting major tenants. We also observe clear economies of scale in this aspect, enabling easy energy transfer between multiple buildings in the same area.

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



Source: Matrikkelen, Byggfakta, Malling

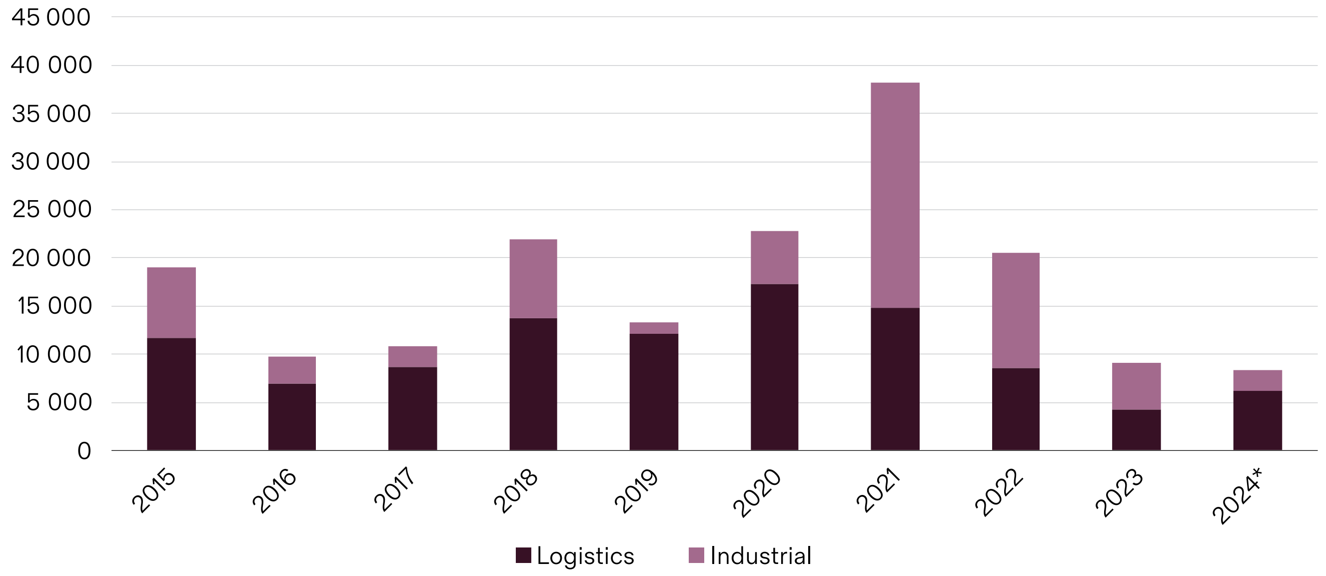
«Compared to 2023, there are fewer confirmed new development projects for industrial buildings in 2024. However, there are plenty of shovel-ready plots, particularly outside Central Oslo».

Industrial transaction volume on track to surpass 2023

Industrial transactions recorded so far this year amount to NOK 8.4 billion, distributed across 17 transactions. In today's high-interest-rate environment, this can be considered a substantial transaction volume for this type of property and is well on track to surpass last year's industrial volume, which ended just shy of NOK 10 billion. However, the number of transactions is fewer than at the same time in 2023, indicating that there are a few large transactions driving the volume. Relative to other segments, industrial transactions represent 22 % of the total. This is approximately the same share as in previous years, but in a market where investors' funds have completely shifted away from other property types, with investment primarily focused on office, logistics, and to some extent residential properties.

Breaking down the industrial volume into subsegments, warehouse properties have received the largest allocation of funds so far, totalling around NOK 6.2 billion. This trend is also observed internationally, where the consensus is to purchase buildings with sublease agreements that have not seen the rental growth experienced in market rents. This is made possible by a significant gap between the rental price at current lease expiration and the rental price that can potentially be achieved through renegotiation or attracting new tenants. The remaining industrial volume is distributed approximately as NOK 2.6 billion for mixed-use properties and NOK 500 million for production facilities.

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



*As of 10 May.

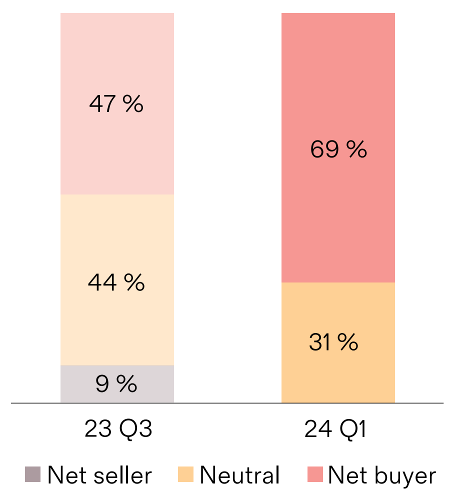
Source: Malling

Logistics properties most longed for among CRE segments

The results from our investor survey for Q1 2024 indicate that logistics is the most attractive segment among respondents, with 69 % net buyers, up from 47 % in Q3 2023. However, this is down from 75 % in Q4 2023, but much of this reduction may possibly be attributed to a significant interest rate increase during this period. The proportion of neutral respondents has decreased from 44 % in Q3 2023 to 31 % in Q1 2024. This implies that as of Q1 2024, there are no longer any net sellers, potentially making it costly for the significant portion of investors looking to increase their exposure to logistics properties. It should be noted that if we exclude responses from syndicators, who have a mandate to acquire properties, the proportion of net buyers in the survey is reduced to 50 %.

The appeal of warehouse/logistics properties extends beyond Norway, as evidenced by our international alliance partner Savills' investor survey. An impressive 72 % of respondents expressed their interest in investing in big box logistics over the next 12 months. Furthermore, Savills explored another sub-segment within logistics, urban logistics, revealing that 81 % of respondents intend to invest in this area within the same timeframe. This high level of interest underscores the attractiveness of acquiring properties in close proximity to end-users, aligning with prevailing investor sentiment in our country.

Desired exposure towards logistics properties in the coming 12 months



Source: Malling Investor Yield and Sentiment Survey

Prime logistics yield has peaked and investors anticipate a decrease within 12 months

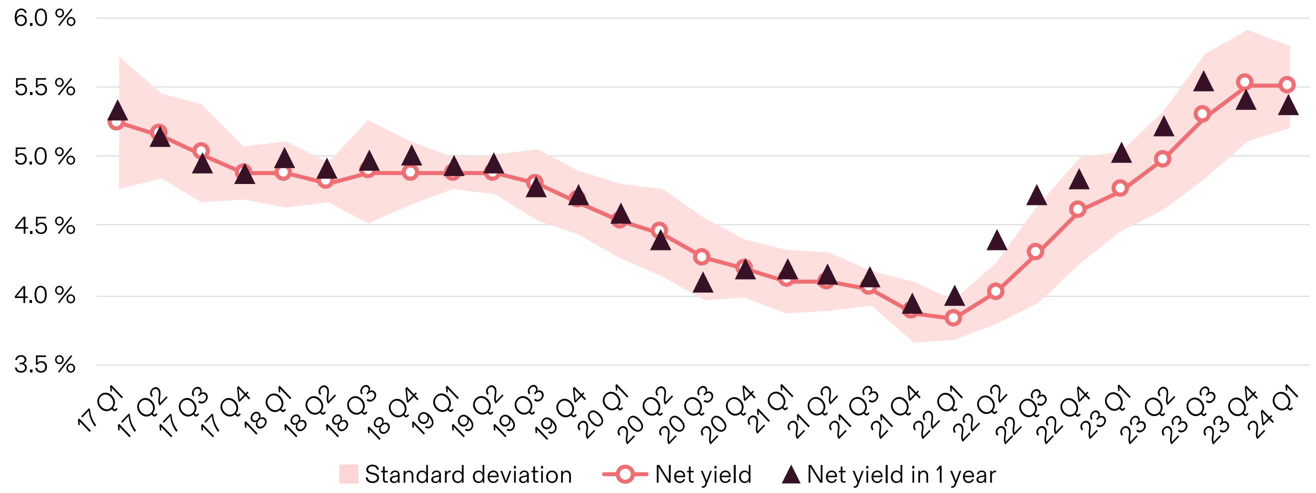
Ever since the bottom levels recorded in our investor survey in Q1 2022, we have consistently reported rising yields in line with increasing interest rates. According to investors in the survey, prime yield reached its preliminary peak in Q3 2023, averaging 5.50 %, and has since remained flat. During the same period, interest rates have risen significantly, suggesting that a stronger macroeconomic outlook may be the reason for the stabilisation of prime logistics yield. On the back of the strong international and national investor demand, we see no reason to deviate from investors' perception and maintain our house view at 5.50 % as of May 2024. When asked about their expectations for prime yield one year from now, investors responded with a 10 bps decrease to 5.40 %. However, the likelihood of seeing a decrease in yield one year from now has become more uncertain since this survey was conducted in early April, as market expectations for interest rate cuts have shifted somewhat. In a period where 'higher for longer' is prevalent, we anticipate a marginal increase by 5 bps in prime yield to 5.55 % over the summer.

While prime yield has remained flat since Q4 2023, normal yield has decreased by a significant 10-15 bps on average in the fringe zones according to investors in the Q1 2024 survey. For example, the normal yield in Kløfta is now measured at 6.00 % and 5.90 % one year ahead. This development contrasts with normal office property yield, which was up by 5-10 bps from the previous quarter. It indicates that the gap between office and logistics properties is narrowing, consistent with increased buyer interest in logistics properties in the investor survey. The gap still stands at a substantial 38 bps when comparing average levels for logistics to office and retail properties in the survey.

For the first time, we included questions about yield levels for last-mile logistics properties in the survey. Prime last-mile logistics is measured at an average of 5.40 %, while normal last-mile logistics is measured at an average of 5.85 %. These figures are 10 and 25 bps lower, respectively, than the corresponding yields for large-scale logistics in the logistics parks outside Oslo, likely driven by the high rental levels achieved by properties located in close proximity to Oslo.

«On the back of the strong international and national investor demand, we see no reason to deviate from investors' perception and maintain our house view at 5.50 % as of May 2024.».

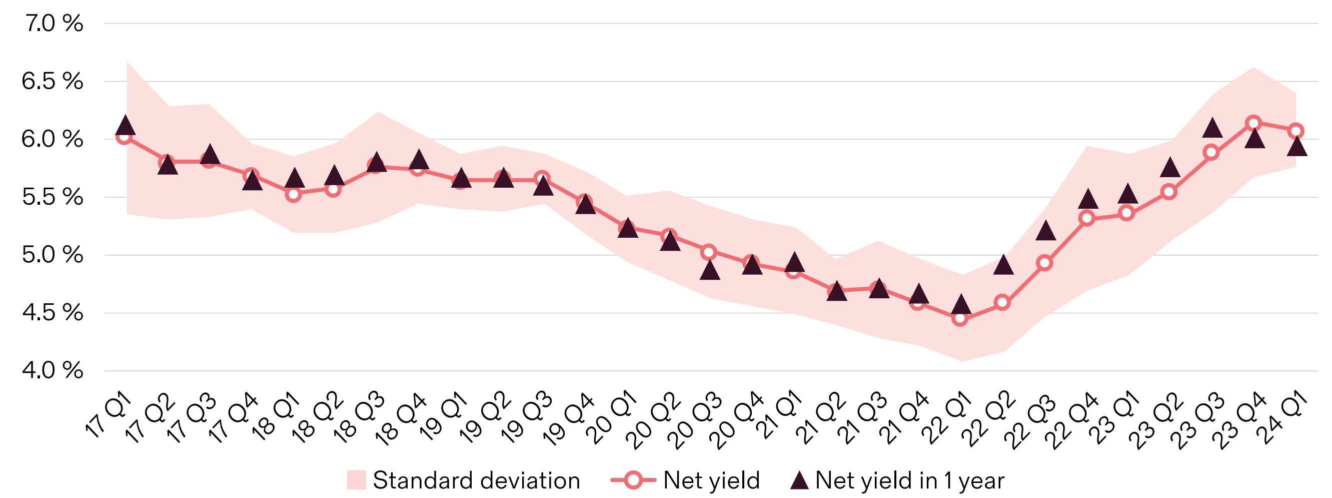
Prime logistics yield, Berger



Net yields on market rent.

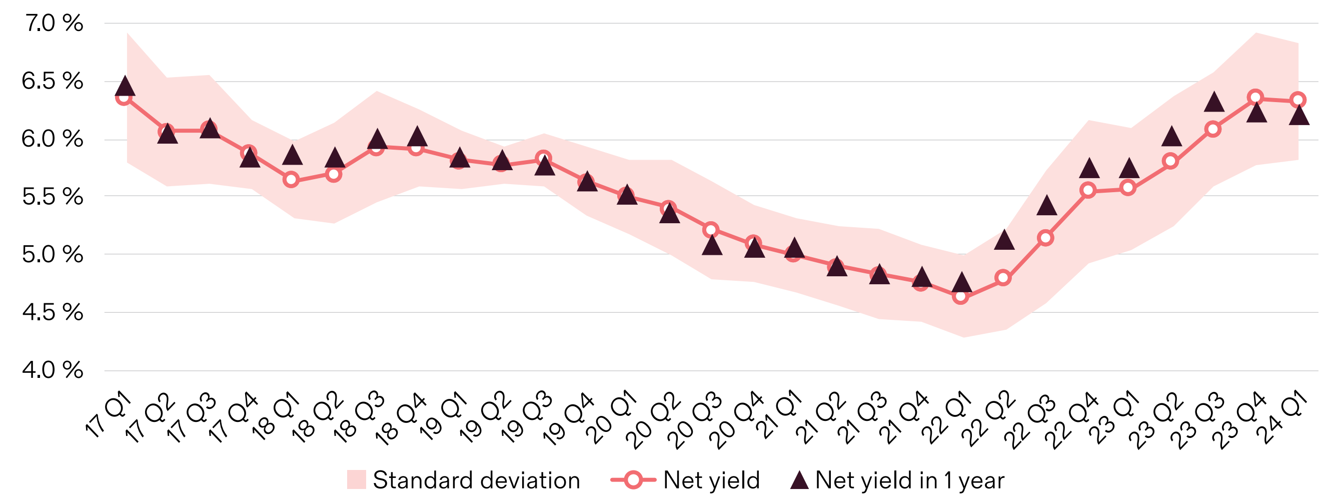
Source: Malling Investor Yield & Sentiment Survey

Normal yield, Kløfta



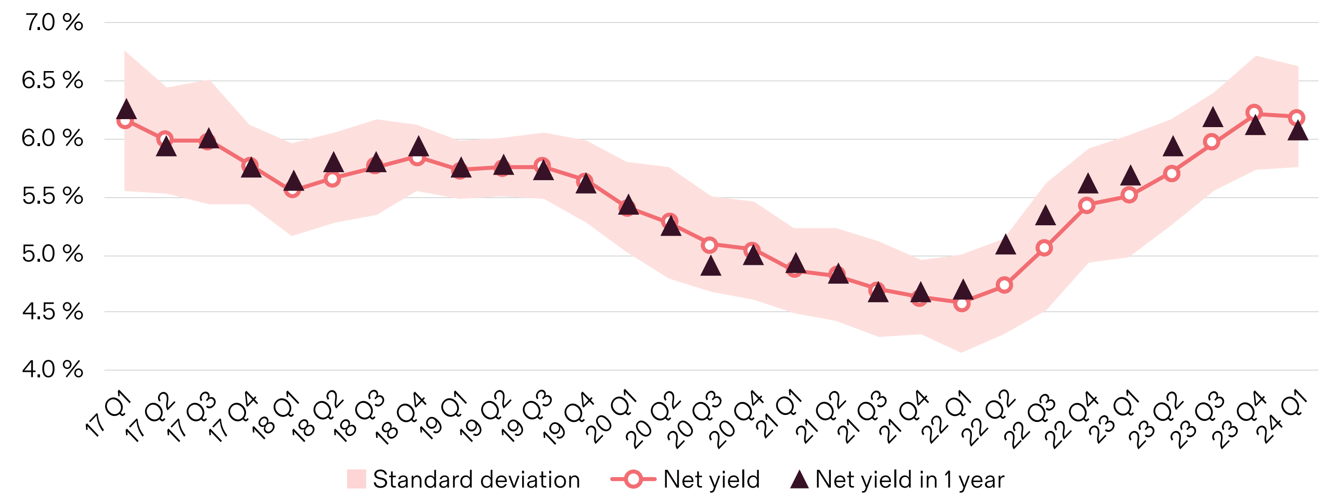
Net yields on market rent. Source: Malling Investor Yield & Sentiment Survey

Normal yield, Lier



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

Normal yield, Vestby



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

Marine Trading

Malling acted as transactions advisor in the sale of Marine Trading, a portfolio comprising nine logistics properties in Moss with a total of 78 000 m², along with a significant development site in Våler Næringspark.

Gilhusveien 1, Drammen

Malling & Co Drammen has been tasked with subleasing a warehouse building of 15 661 m^2 at Gilhusveien 1 for KID, the property is located near E18 and E134 at Lierstranda.

Retail

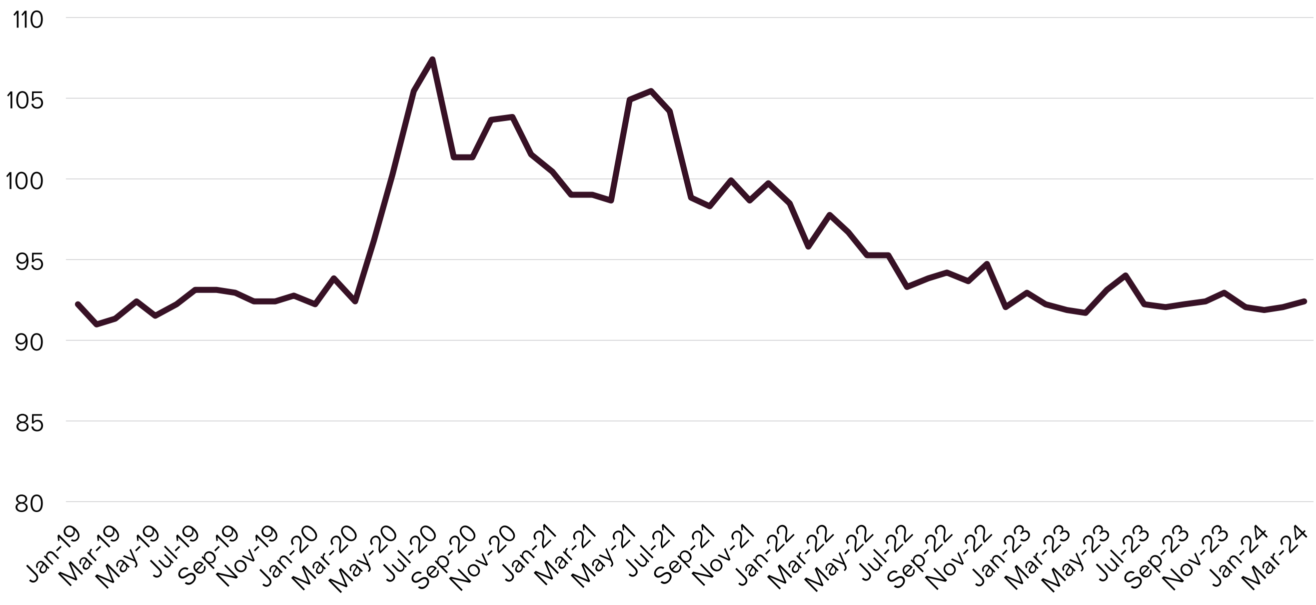
Retail market proves difficult to curb

The retail market has demonstrated remarkable resilience despite numerous interest rate hikes that have constrained consumer purchasing power. Since the beginning of 2023, the retail volume index has remained stable, mirroring pre-pandemic levels. Similarly, the turnover index for food and beverage has consistently maintained high levels since early 2022, significantly surpassing those before Covid-19. Additionally, bankruptcy rates within the sector are aligning with pre-pandemic figures, contradicting media claims of unusually high numbers. This robust performance has sustained market rents. In the investment realm, there has been a significant increase in buyer interest for retail properties. Additionally, for the first time in two years, yields for prime high street properties have transitioned from an upward to a downward trend, indicating a shift in market dynamics.

Consumer spending remains strong with attention from international retailers

The retail market has shown remarkable resilience, navigating through multiple hikes in the key policy rate that have diminished consumer purchasing power. Market activity remains robust, with the retail trade volume index now having stabilised after a period of decline from the second half of 2021 throughout 2022 caused by a shift from goods to services post Covid-19. Since early 2023, the index has shown minimal month-to-month changes, maintaining an average growth of around 0 %. Budget-friendly consumer items, particularly in pharmacies and cosmetics, are gaining traction. Additionally, a cold and snowy winter has boosted sales in clothing, sports equipment, and ski holiday-related goods and services. In contrast, demand for capital goods like furniture, electronics, and cars is weak. Our retail brokers have noted a particularly stark drop in interest for car showrooms, reflecting the downturn in new car sales. Meanwhile, more international retailers are raising attention towards the Norwegian market, with textile firms especially seeking central locations in Oslo, but also other global entities. Another trend sees retailers previously situated in suburban areas now opting to pay premium rates for city centre spaces.

Retail trade (excl.motor vehicles and motorcycles), volume index seasonally adjusted (2021=100)



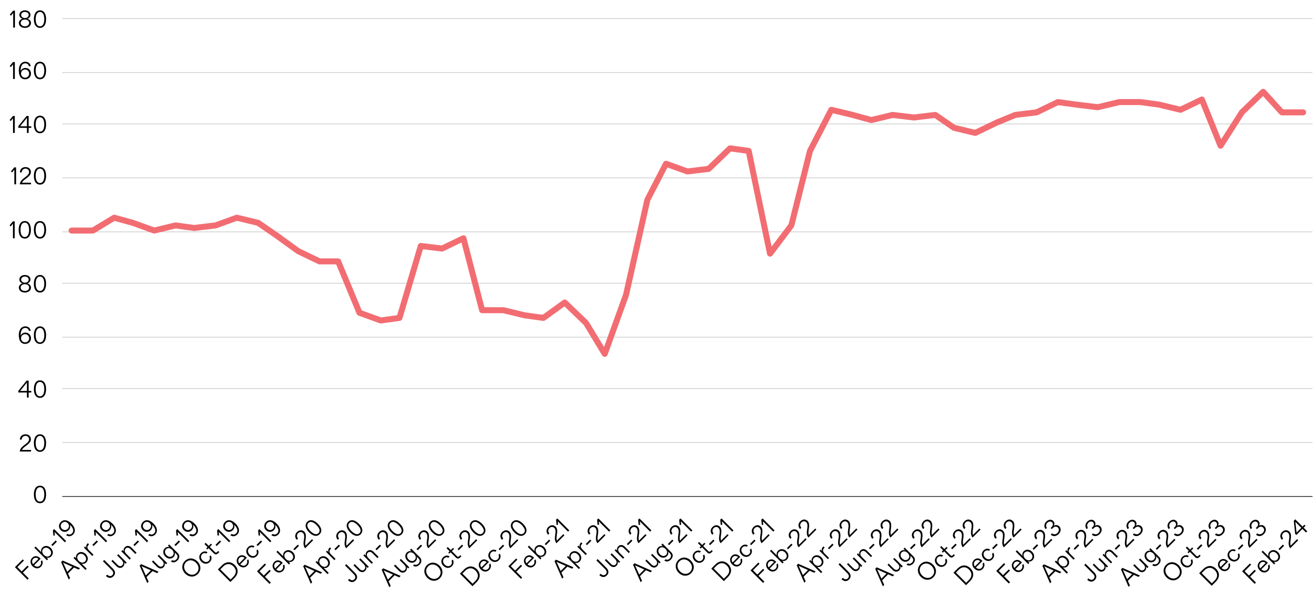
Source: Statistics Norway

«The retail market has shown remarkable resilience despite weaker consumer purchasing power».

Food and beverage continues to perform – a shift towards consolidation

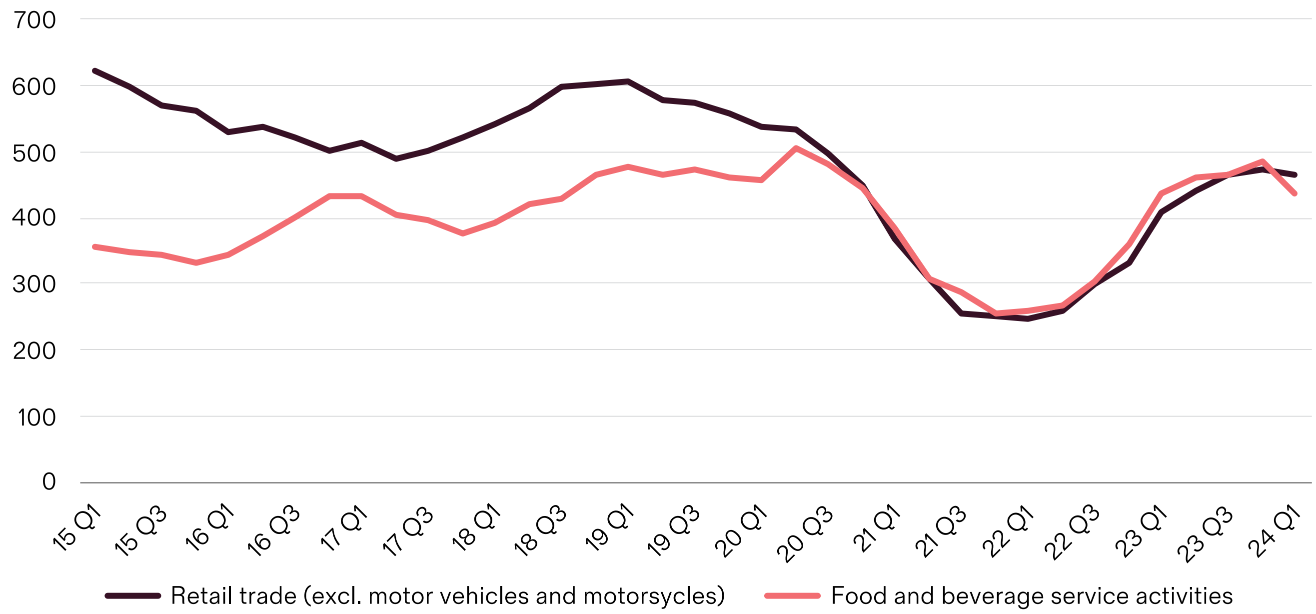
The food and beverage sector is also maintaining high activity levels in this challenging economic landscape. Since lifting pandemic restrictions in spring 2022, the turnover index has consistently outperformed pre-pandemic figures, underscoring a robust appetite for dining out. While the pace of establishing brand new restaurants has slowed somewhat, there's a noticeable pivot towards acquiring successful existing outlets, thus mitigating the high initial costs associated with new ventures. This strategic shift, observed in companies like Eik Servering and Akershusgruppen, reflects a broader trend of consolidation in an era of financial uncertainty. Additionally, there's a trend towards leasing turnkey premises from landlords to avoid hefty initial investments. Amidst this, some high-end chefs are seizing opportunities to launch their own ventures, moving away from established eateries. Although there have been several news articles recently about restaurants going bankrupt, data from Statistics Norway shows that the current bankruptcy rate does not exceed pre-pandemic levels. During the pandemic, restaurants received significant governmental support, resulting in an unusual low bankruptcy rate. Looking ahead, both the retail and food and beverage sectors remain optimistic, buoyed by the peak of the key policy rate most likely having been reached in addition to anticipated strong wage agreements.

Turnover index for food and beverage service activities, seasonally (2021=100)



Source: Statistics Norway

Number of bankruptcies, 4-quarter rolling numbers, by industry



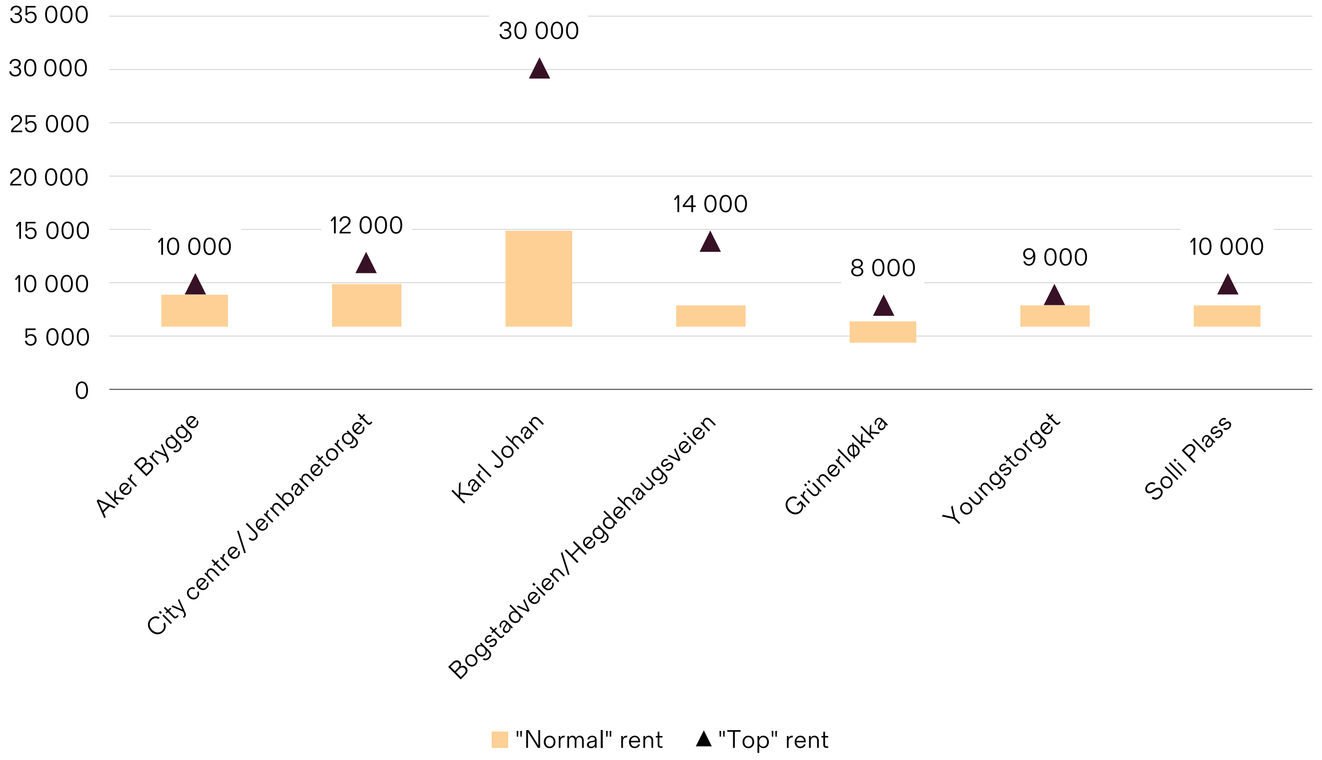
Source: Statistics Norway

Sommerro and Ambassaden have lifted high street retail rents around Solli Plass

Retail rental rates have remained relatively stable since our last report, though significant variations exist depending on the size and specific location of the premises. In the Oslo retail market, Karl Johan Street continues to command the highest rents, significantly outpacing other popular retail areas like Jernbanetorget and Bogstadveien. Solli Plass is the only retail area which has experienced a lift in our broker consensus rents since our last report, rising by 2 000 NOK/m²/year for normal rents and 3 000 NOK/m²/year for top rents. This increase is largely due to the influence of Hotel Sommerro and Ambassaden, which have enhanced the area's appeal and increased foot traffic.

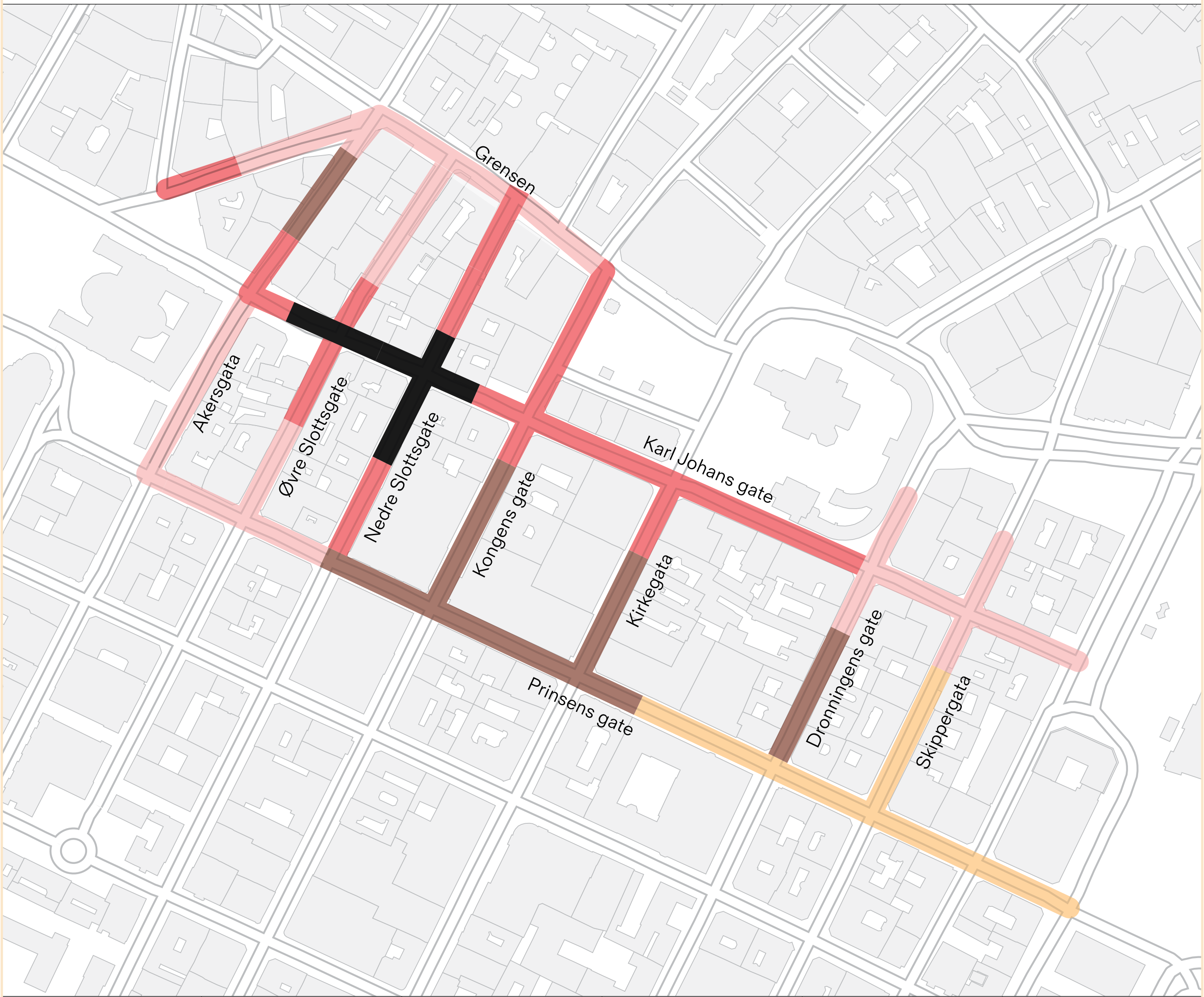
In the luxury retail segment along Karl Johans gate, particularly at the crossroads with Nedre and Øvre Slottsgate, high-end brands keep up extraordinary high rental rates. These brands, along with major international chains, demonstrate a strong willingness to pay, which has gradually displaced traditional Norwegian retailers who struggle to compete. Further down the area, the popularity of Mamma Pizza in Dronningens Gate has significantly increased foot traffic, thereby elevating the rental willingness of other retailers in the vicinity.

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



See definiftion of prime and normal rent on page 30. Source: Malling

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



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

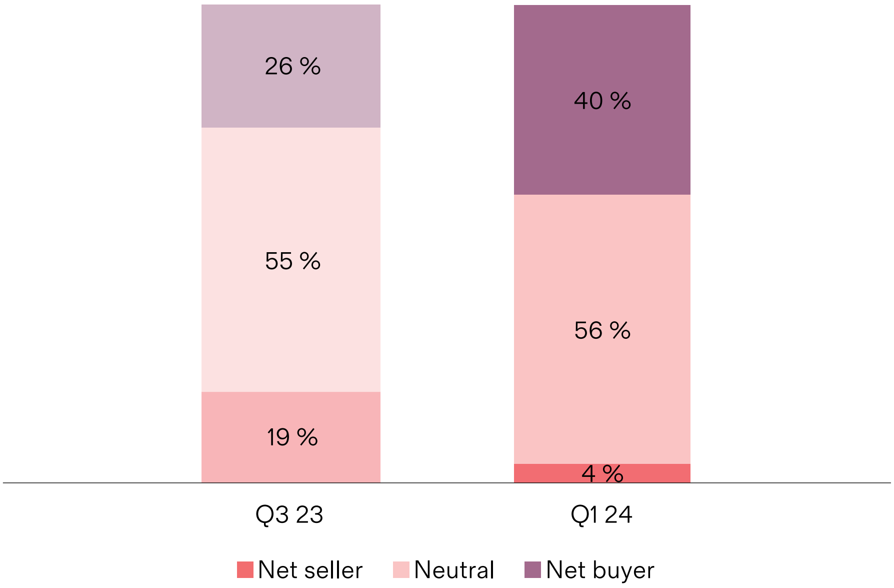
Source: Malling

«Luxury brands maintain extraordinarily high rental rates at Karl Johans gate, displacing traditional Norwegian retailers».

Surge in buyer interest for retail properties

According to our latest Investor Yield and Sentiment Survey, there has been a marked increase in the interest in purchasing retail properties since Q3 2023, the timing of our last market report. The proportion of respondents looking to be net buyers has risen from 26 % to 40 %, the highest recorded in our survey's history, surpassing the previous peak of 29 % in Q3 2022. Conversely, the proportion of those wanting to be net sellers has significantly declined, dropping from 19 % to just 4 %. Although there tends to be quarter-to-quarter fluctuations in the share of net sellers, the consistent decrease over the last two quarters suggests a trend of diminishing interest in selling properties. This creates a scenario where many are keen to buy retail properties, but few are willing to sell, complicating the transaction market. Given the high demand and limited supply, property values could potentially rise. A key factor likely contributing to this shift in investor sentiment is the retail market's unexpected resilience, which seems to have renewed investor interest in this sector.

Desired exposure towards high street retail next 12 months



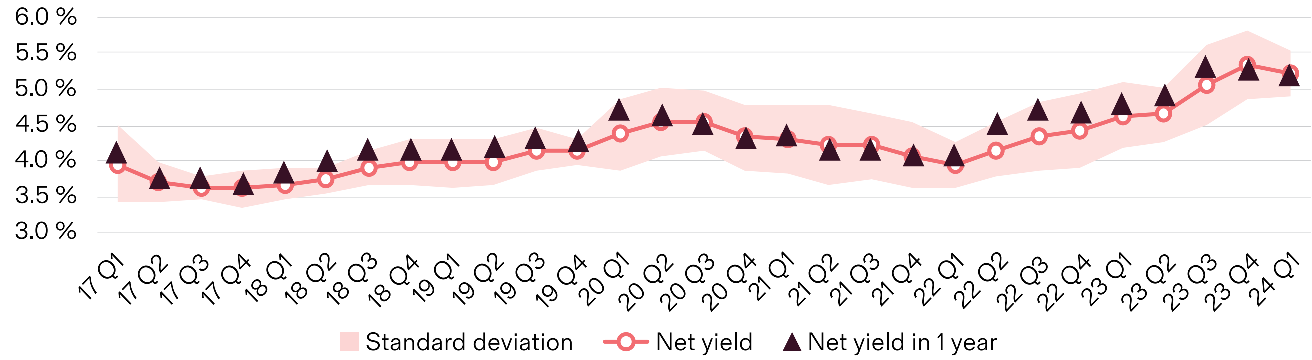
Source: Malling Investor Yield & Sentiment Survey

Retail high street yields retract

For the first time since Q1 2022, the trend in prime retail high street yields has reversed, shifting from an upward to a downward trajectory. This change, though modest at a decrease of 10 bps from 5.35 % to 5.25 %, signals increasing market optimism. Concurrently, the standard deviation has narrowed, now standing at approximately 30 bps, down from an average of 45 bps observed over the past couple of years. This convergence in yield expectations among investors could enhance the likelihood of reaching agreements on yield levels, thus facilitating successful transactions. Meanwhile, the normal retail high street yield has stabilised at 6.20 %, also marking a notable change from the consistent increases observed over the past couple of years.

Looking ahead, investors anticipate a slight decrease in both prime and normal retail high street yields, forecasting them to lower by 5 bps to 5.20 % and 6.15 %, respectively, over the next year. Investors thus believe that yields will continue to decline, albeit gradually. This outlook is likely influenced by the expectation that the key policy rate has peaked, mirroring trends in other market segments where a yield decrease of 5-15 bps is forecast over the coming year.

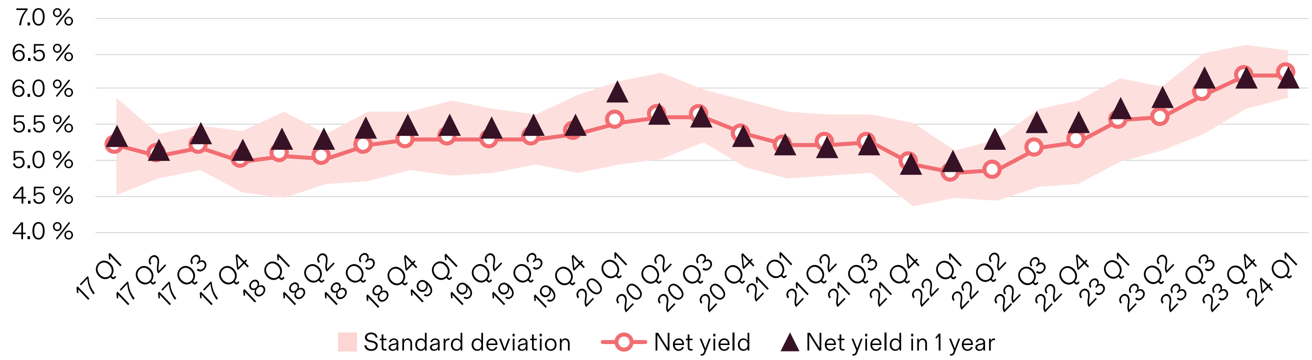
Prime retail high street yield



Net yields on market rent.

Source: Malling Investor Yield and Sentiment Survey

Normal retail high street yield



Net yields on market rent.

Source: Malling Investor Yield & Sentiment Survey

«Prime retail high street yields have reversed to a downward trend, indicating increasing market optimism».

Grensen 17-19, Oslo

Canica has engaged Malling & Co Næringsmegling to let approximately 13 000 m^2 of office and retail space at Grensen 17-19.

Biskop Gunnerus' gate 14, Oslo

Malling & Co Næringsmegling has assisted Entra with leasing approximately 4 000 m^2 in Posthuset to BankID BankAxept.

Hospitality

Fear of downturn in hotel market diminishing

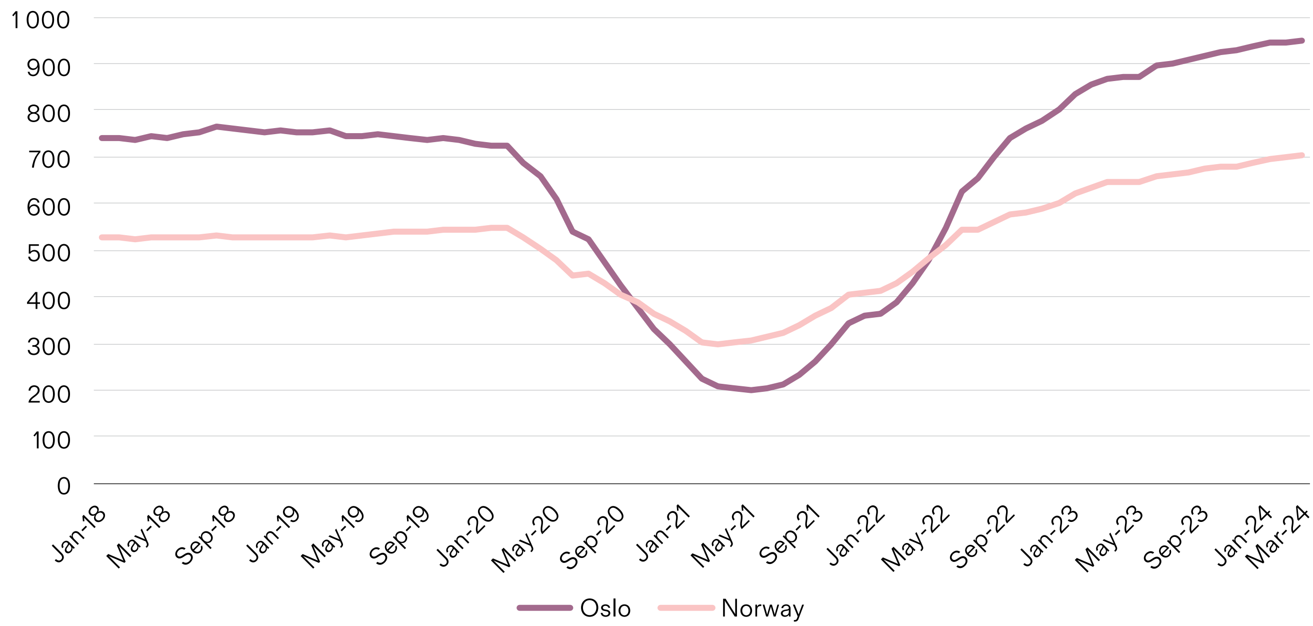
Hotels in Oslo and nationwide continue to experience growth in earnings, with revenue per available room (RevPAR) reaching new highs. While occupancy rates have not yet fully returned to pre-pandemic levels, hotel prices have risen by over 30 % during this period—surpassing the general price level. This increase has been welcomed by hotels that were occasionally closed during the pandemic, significantly boosting their top-line revenue and, all else being equal, increasing profitability for hotel owners. However, costs have also risen during the same period, posing challenges for hotels going forward, especially considering that the average person's purchasing power is decreasing, potentially leading to a decline in leisure-related travel, which has been the primary driver of the hotel industry's comeback. On the other hand, it is encouraging to note that international tourism is finally returning, and to an increasing extent, thanks in part to a weak Norwegian krone. Hotels have demonstrated that profitability is influenced by several conflicting factors, and additionally, with relatively simple adjustments, one can introduce new concepts and upgrades that make investments in this property type attractive.

Record high levels of revenue per available room

Norway: Revenue per available room (RevPAR) is an important key performance indicator for hotels, as it provides valuable insights into the revenue base. The reported earnings are directly linked to accommodations and exclude revenue from dining or other services. The 12-month growth in RevPar has surpassed NOK 700 nationwide as of March 2024, thereby maintaining the record-high level of profitability among Norwegian hotels. When comparing Q1 2024 to Q1 2023, the growth stands at a solid annual basis of 10 %. While the occupancy rate has not fully stabilised at pre-pandemic levels, the increase in price per room is driving high revenue growth per available room. The 12-month growth in room rates stands at NOK 1 298 as of March 2024 compared to NOK 978 in 2019, marking a 33 % increase. This growth surpasses the high inflation rate during the same period and has enabled hotels to better manage increased costs.

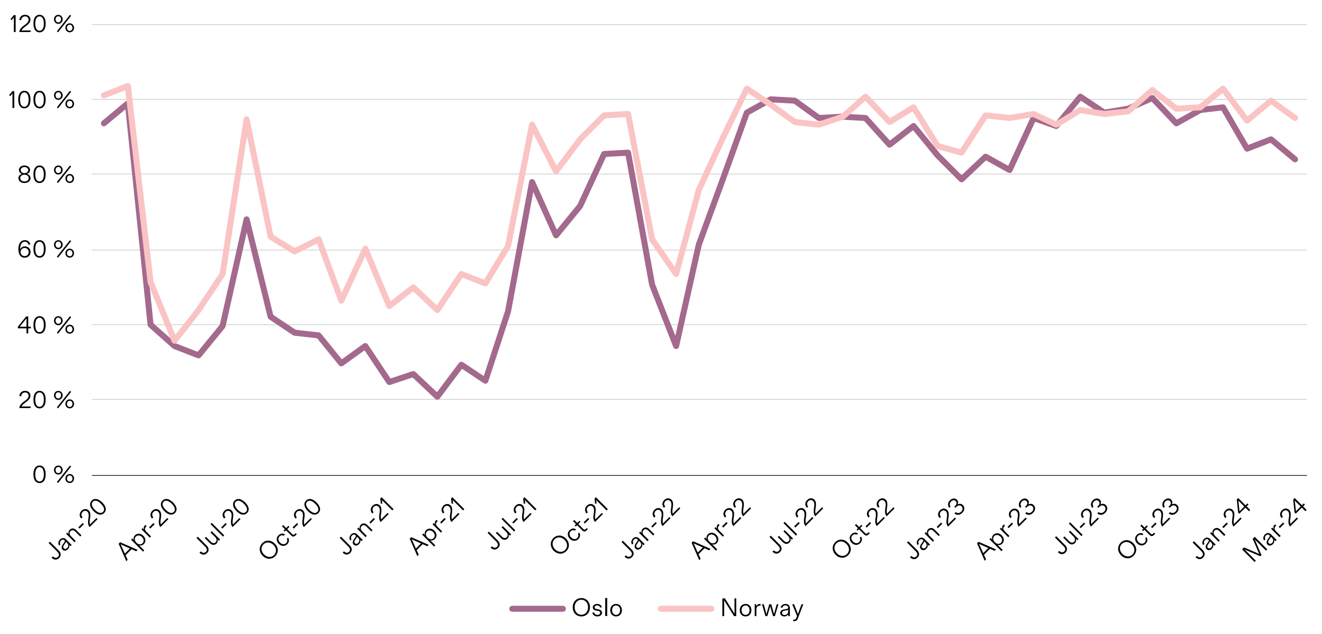
Oslo: The RevPar in Oslo exceeds the national level, averaging NOK 950 over the past 12 months ending in March 2024. Hotels in Oslo boast a higher occupancy rate at 66 % over the last 12 months and a significantly higher Average Daily Rate (ADR), averaging NOK 1 421 over the same period. However, while occupancy and ADR have plateaued and stabilised to a greater extent nationwide, the trend has been more negative in Oslo. The occupancy rate of 57 % in Q1 2024 is down from 66 % in the same period in 2023. Part of this reduction can be attributed to greater fluctuations in a smaller hotel market like Oslo. The growth in ADR, which has been higher than the national growth since April 2022, has also been lower over the past five months. However, hotel operators in Oslo are not concerned about empty hotels this summer, with pre-bookings up by 32 % from 2023 according to Benchmarking Alliance figures. Additionally, there is expected to be little new capacity in the Oslo market, which could contribute to increased profitability for those already established.

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



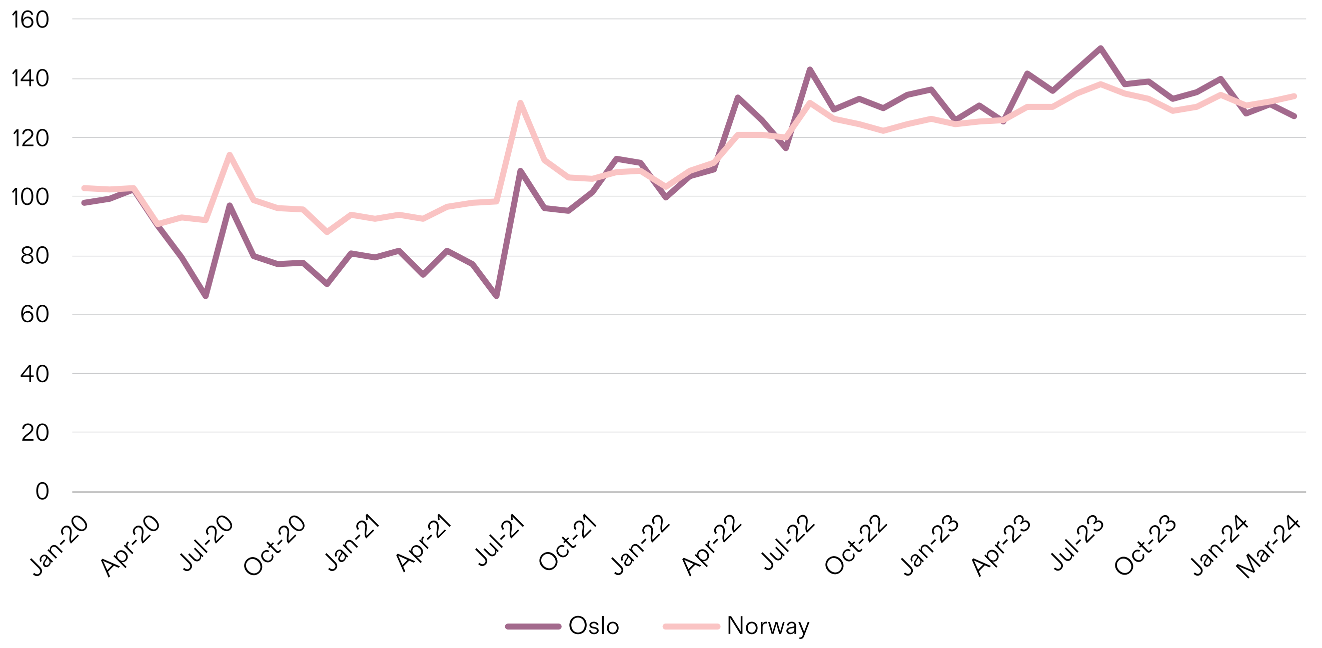
Source: Statistics Norway

Occupancy (%) per month, relative to 2019



Source: Statistics Norway

Average day rate (ADR) per month, NOK, 2019=100



Source: Statistics Norway

«Hotels in Oslo and nationwide continue to experience growth in earnings, with revenue per available room (RevPAR) reaching new highs».

Revenue per available room (RevPar), 12-month rolling average, NOK						
Key figures Q1 2024	**Oslo**			**Norway**		
	Q1 2024	**Q1 2023**	**2024 vs. 2023**	**Q1 2024**	**Q1 2023**	**2024 vs. 2023**
Total revenue, MNOK	947 706	902 094	**5 %**	4 686 948	4 306 948	**9 %**
Average RevPar, NOK	709	659	**8 %**	616	559	**10 %**
Average ADR, NOK	1 246	967	**29 %**	1 265	956	**32 %**
Average Occupancy, %	57 %	66 %	**-14 %**	49 %	51 %	**-4 %**
Total # of guest nights	1 095 133	1 030 036	**6 %**	5 296 008	5 030 205	**5 %**
Norwegian guest nights	738 338	737 353	**0 %**	3 912 873	3 900 043	**0 %**
Foreign guest nights	356 795	292 683	**22 %**	1 383 135	1 130 162	**22 %**

Source: Statistics Norway

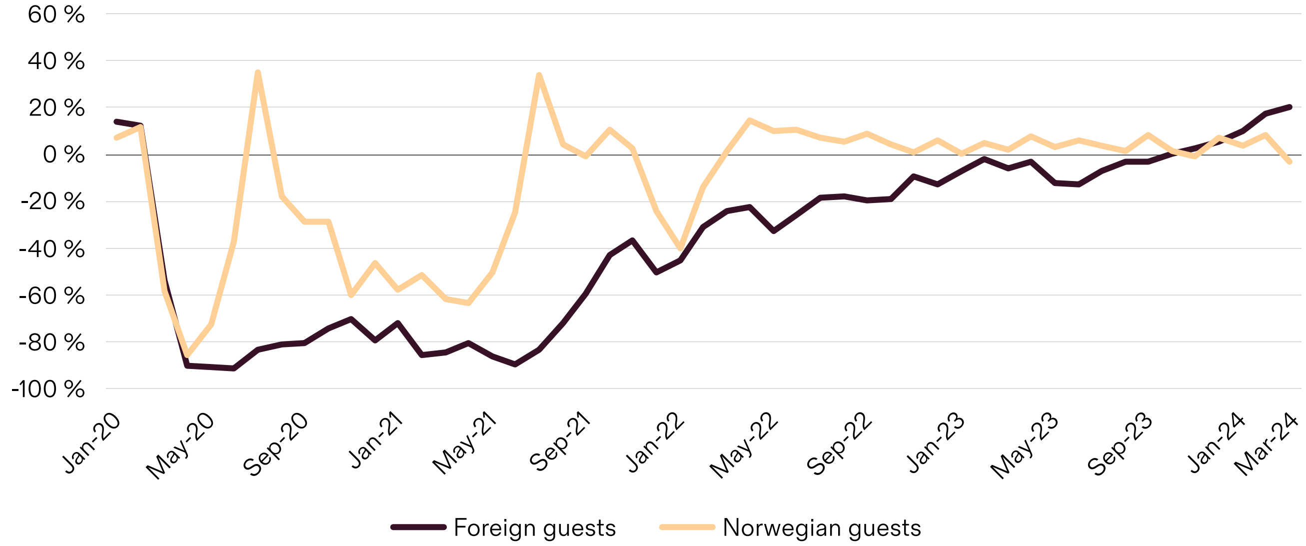
«The occupancy rate [in Oslo] of 57 % in Q1 2024 is down from 66 % in the same period in 2023. Part of this reduction can be attributed to greater fluctuations in a smaller hotel market like Oslo, but the growth in ADR, which has been higher than the national growth since April 2022, has been lower over the past five months».

Foreign guest nights finally surpass pre-pandemic levels

The number of overnight stays in Norway among Norwegians experienced a boost shortly after society reopened in 2022 and has since remained consistently above pre-pandemic levels. Q1 2024 vs. Q1 2023 shows an increase in the total number of overnight stays in Norway by 5 %. While overnight stays among Norwegians have not seen a percentage increase, it is the foreign overnight stays that contribute to the growth, with a substantial increase of 22 %. Over the past 12 months, the proportion of foreign overnight stays has accounted for 27 % of the total, greatly aided by a weak Norwegian krone. Additionally, in certain regions such as Northern Norway, successful tourism marketing efforts targeting foreigners have yielded positive results. With a Norwegian krone that does not appear to be strengthening in the near future, it seems likely that the growth among foreigners may continue.

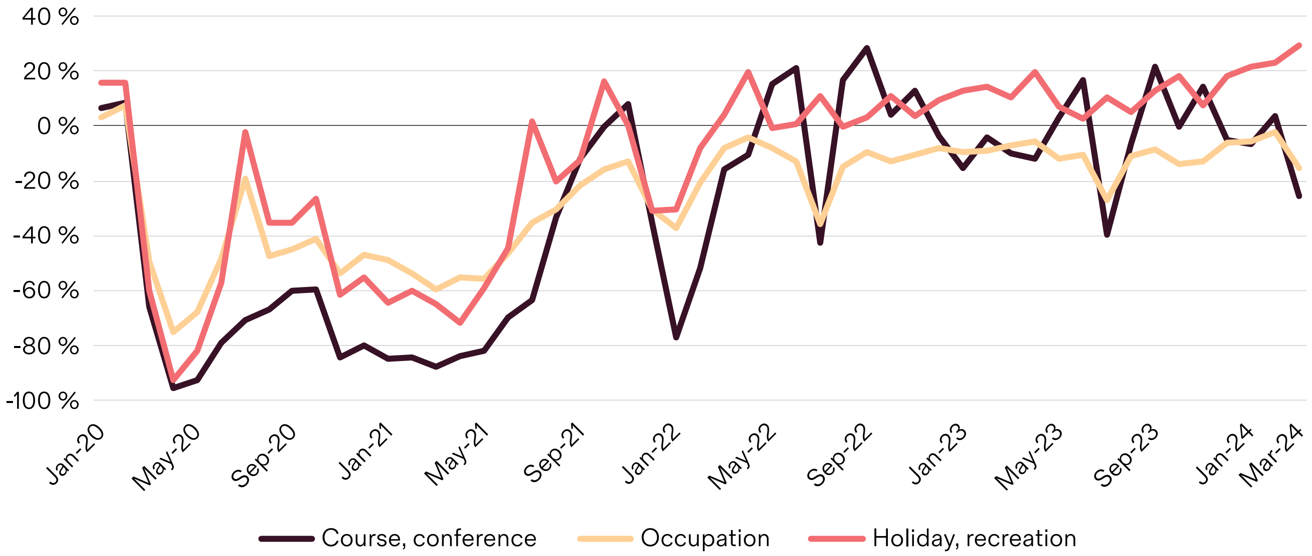
For hotels, holiday-related stays account for 58 % of all overnight stays in the past 12 months and have been the primary contributor to hotels' overall utilisation capacity. Holiday-related overnight stays have further increased in recent months due to the aforementioned rise in foreign overnight stays. Business travel has never recovered, with some lasting changes likely contributing to this trend. Factors such as increased use of digital meetings and an environmental focus on minimising travel are among the reasons. Conference-related travel constitutes only about 10 % of all overnight stays and consequently experiences variations in accommodation patterns based on the presence or absence of major conferences.

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



Source: Statistics Norway

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



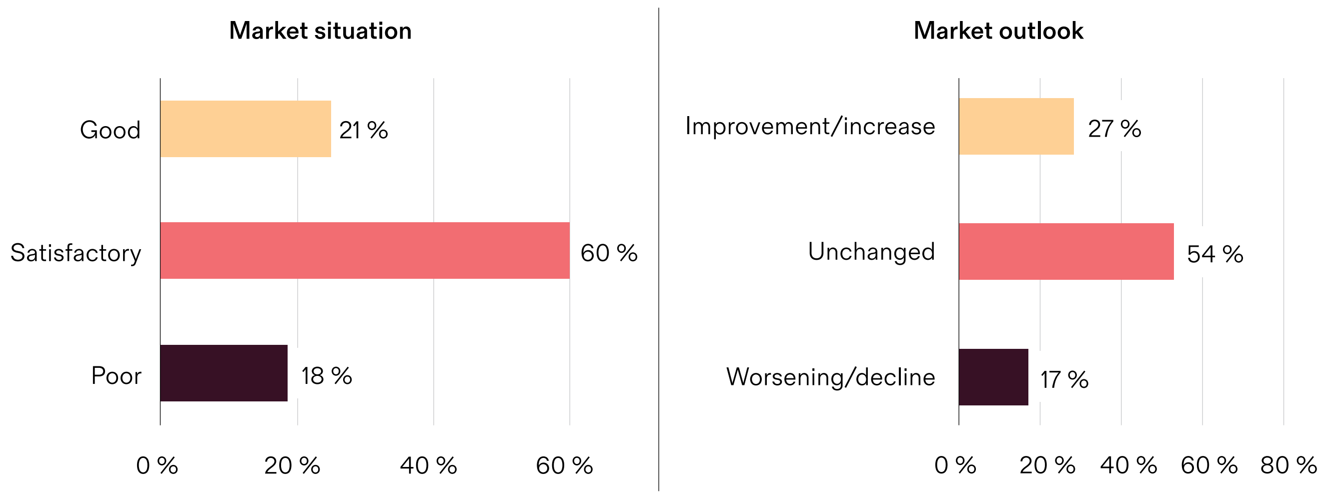
Source: Statistics Norway

Vast majority of tourism companies are optimistic moving forward

NHO Reiseliv conducts a monthly survey among its member companies, and in April, approximately 8 out of 10 businesses express confidence in a better or unchanged market situation in the coming months. This is slightly higher than the 7 out of 10 reported in April 2023. Moreover, future prospects appear somewhat brighter, with 27 % anticipating improvement compared to 21 % reporting a favourable market situation currently. However, there are relatively significant regional disparities, with high optimism in the north, while in Oslo and the surrounding counties of Akershus, Buskerud, and Innlandet, 3 out of 10 businesses still perceive the current market situation as poor. The growth in foreign visitors, attributed to a weak Norwegian krone, is particularly highlighted as the driving force behind the upturn, with northern and western regions benefiting the most from the increase.

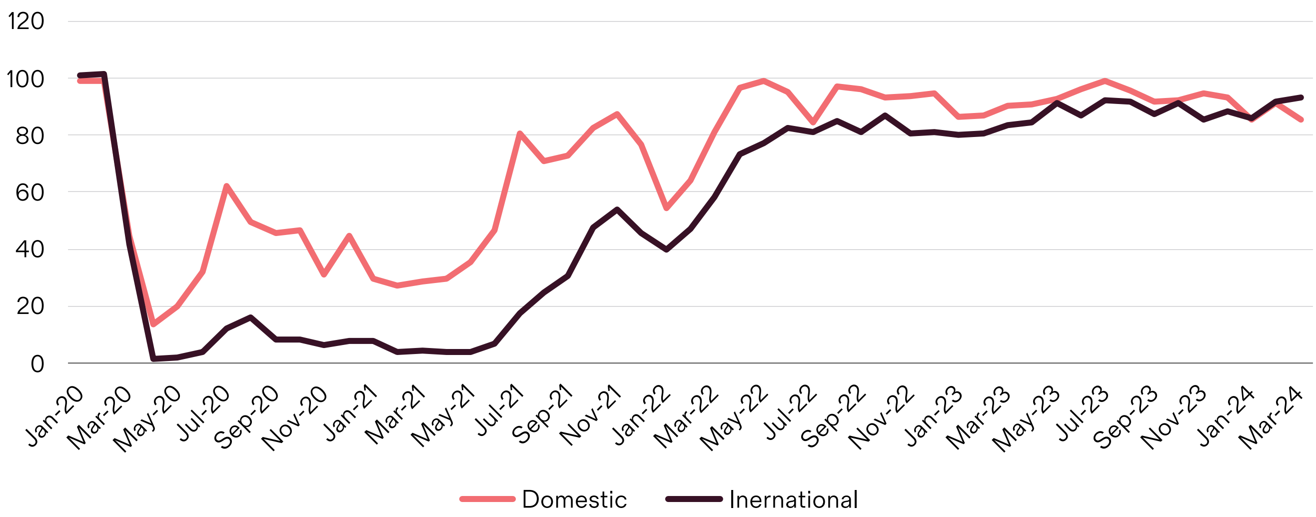
Air traffic is critical to the tourism sector, exerting a significant influence on hotel revenues, and consequently, it is a focal point for many stakeholders in the commercial real estate industry. The beginning of 2024 has seen a relatively flat trajectory, with a modest growth of 0.6 % in passenger traffic at the terminal compared to Q1 2023. This suggests that air traffic may have stabilised, albeit with a downward trend in domestic travel since the summer of 2023, partially offset by short-haul international flights. Avinor, in its passenger volume forecasts, adopts a cautious optimism, anticipating an average annual growth rate below 1 % for domestic flights throughout the forecast period until 2029. Regarding international flights, a growth of 7.1 % is anticipated in 2024, followed by a somewhat lower growth rate, ranging between 3-4 % in the subsequent years.

Responses from the Norwegian Hospitality Association member survey, April 2024



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

Terminal passengers at Norwegian airports per nationality, Index 2019=100

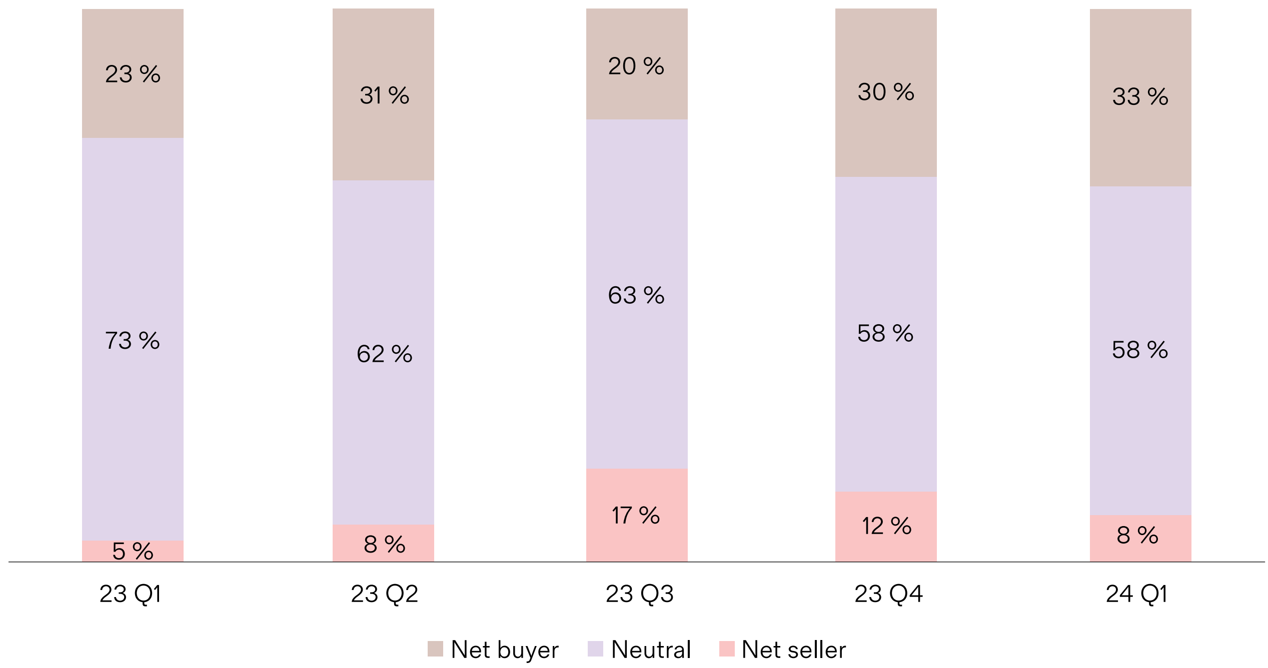


Source: Avinor

Attractiveness is increasing, but large transactions are lacking

Investors in our quarterly Investor Yield and Sentiment Survey have shown an increasing trend over the past two quarters, indicating a desire to increase their exposure to hotel properties. As of Q1 2024, 33 % of investors consider themselves net buyers in the coming 12 months compared to 20 % in Q3 2023. Meanwhile, the proportion of net sellers has decreased from 17 % to 8 %, reinforcing the impression that investor interest in hotel properties has grown. It should be noted that 58 % wish to maintain a neutral exposure in the coming 12 months, a categorisation that has been prevalent in a market where the transaction volume has remained low so far this year. This is despite significant increases in prices and RevPAR, thereby increasing the ongoing turnover-based rental income for hotel property owners. Hotels also have the advantage of being able to introduce new concepts and offer innovative solutions with relatively simple adjustments, which can boost revenues. This means that some hotel investments fall into the value-add category, making the property type attractive even for long-term investors.

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



Source: Malling Investor Yield and Sentiment Survey

«It should be noted that 58 % wish to maintain a neutral exposure in the coming 12 months, a categorisation that has been prevalent in a market where the transaction volume has remained low so far this year».

Munchs gate 5B, Oslo

Foto: Kyrre Sundal/MAD

Malling & Co Eiendomsutvikling is managing the project on behalf of Nordea Liv Eiendom. The project includes renovation of the existing building and adding 1 ½ floors, approx. 5 000 m^2 in total. The four upper floors are now being adapted to Regjeringsadvokaten as a new tenant.

Kirkegata 17, Oslo

Malling Investments acted as buy-side advisor for Union Real Estate Core Fund in the acquisition of Kirkegata 17 in Oslo city centre.

Residential

Significant price growth projections – both in property and rental prices

The Norwegian residential market continues to perform strongly. Despite a modest decrease of 0.5 % in housing prices in 2023, Statistic Norway's (SSB) projections indicate steady growth from 2024 to 2027. A key factor expected to fuel this growth is the critically low volume of new housing construction, although falling policy rates leading to decreasing mortgage costs will also play a significant role. Residential leasing prices have seen a significant increase over the past two years. The demand for rental units has been resilient, while supply has diminished due to the lure of better investment returns elsewhere, caused by high financing costs and increased wealth taxation on secondary homes.

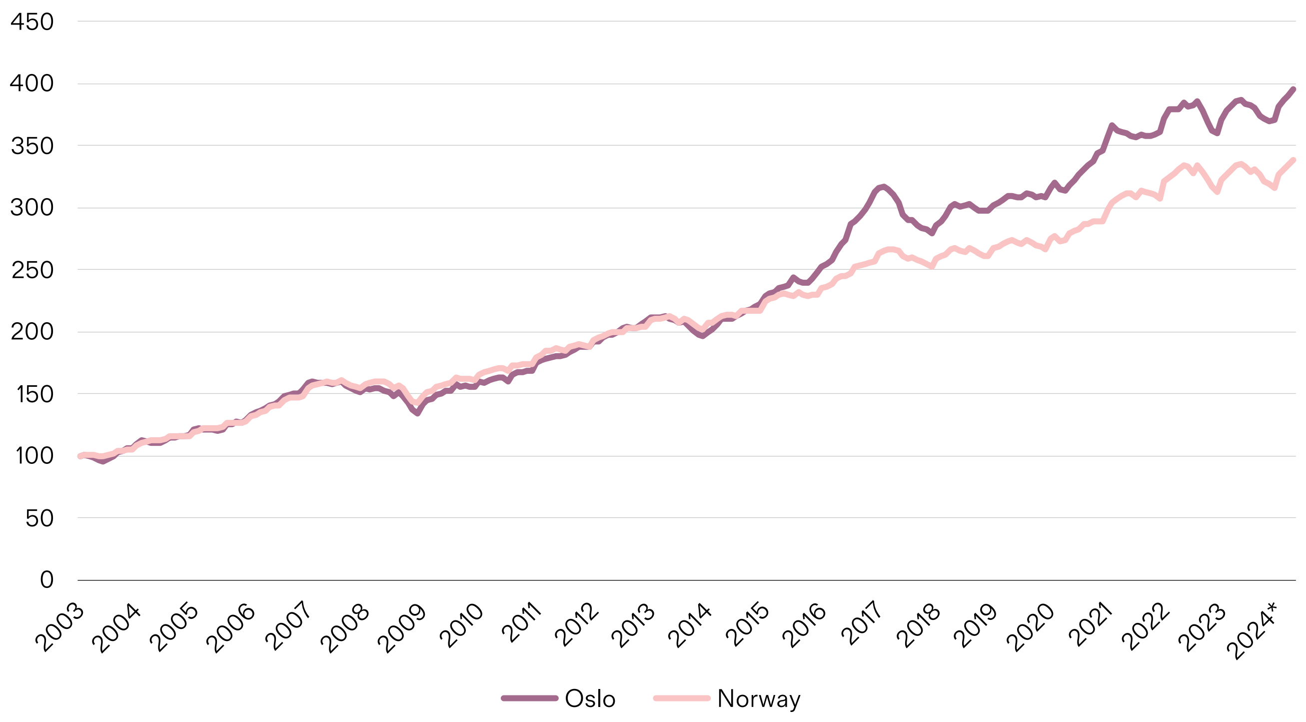
Surprisingly resilient residential market, yet real price growth stagnant since 2017

The Norwegian residential property market continues to display remarkable resilience amid rising mortgage costs. Indeed, 2023 saw a slight downturn in housing prices—the first since 2008—with a modest year-end decline of 0.5 %. Prices initially rose early in the year but began to fall by mid-year, likely due to rising lending rates and expectations of a market dip, causing delays in home purchases. This hesitation was reflected in the increase in unsold homes, averaging 18 500 per month in the latter half of 2023, up from the average since 2010 of 13 500.

In contrast, 2024 has witnessed a robust recovery, with housing prices increasing by 7.2 % as of April. This growth may be attributed to strong wage settlements enhancing purchasing power, coupled with a decrease in the number of newly constructed homes entering the market. Sales have rebounded, with a 4.3 % increase in homes sold in the first four months of 2024 compared to the same period in 2023, and a 3.7 % rise in listings. Despite lending rates reaching their highest levels since the policy rate increases began, the resurgence in market activity may be driven by concerns over potential price spikes, as discussed in the next section. It is crucial to note that in real terms, there has been no price growth since 2017. Although there was a temporary uptick in real housing prices during the pandemic, modest growth in 2022 and a decline in 2023—coupled with high inflation rates—have made housing more affordable in real terms over recent years.

The residential property prices in Oslo have mirrored the national trend closely, albeit at approximately 15 % higher price levels. Historically, Oslo's market fluctuations have been more pronounced than the rest of Norway, experiencing stronger growth during upturns and steeper declines during downturns. However, in recent years, the trends in Oslo have aligned more closely with national patterns.

Residential property prices in Oslo and Norway, nominal, index (2003=100), monthly figures



*As of April.

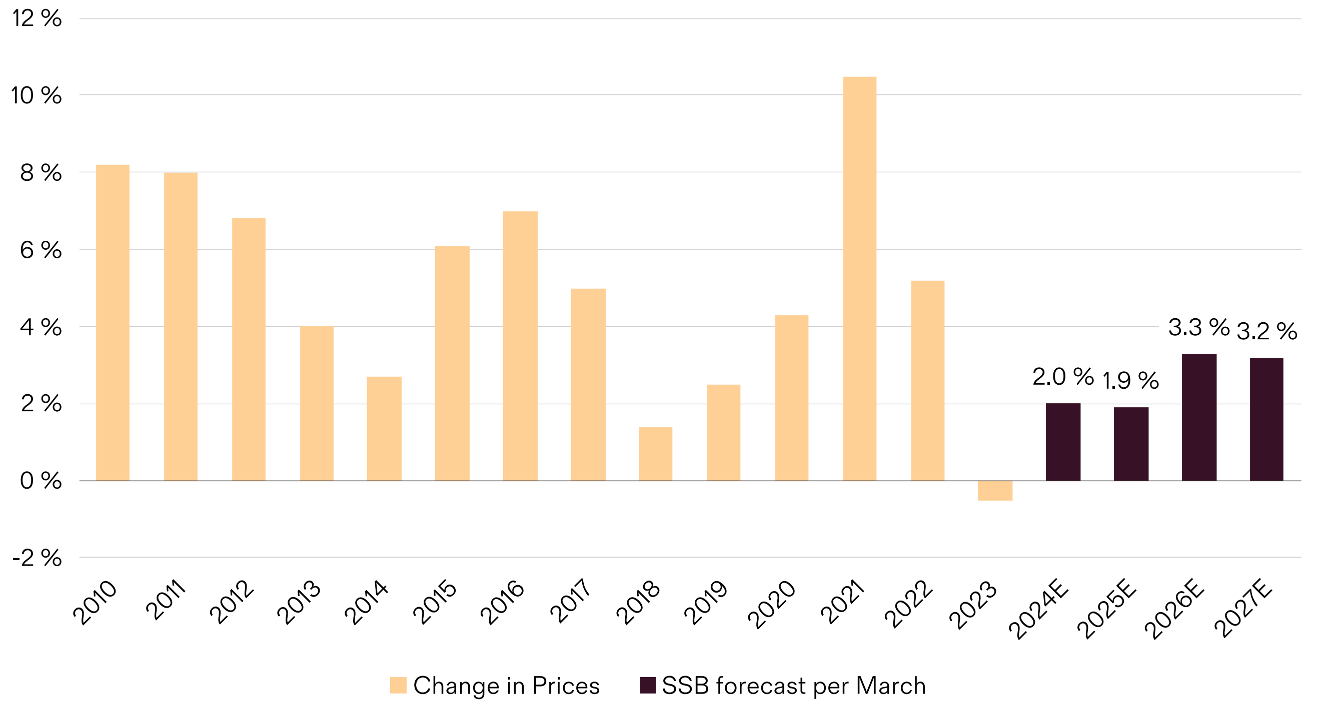
Source: Eiendom Norge

Housing prices expected to grow

SSB has repeatedly revised its growth projections for Norwegian residential prices upwards. A year ago, SSB anticipated a decline of 2.8 % in 2023 and 1.3 % in 2024. As of 15 March, 2024, SSB now forecasts annual growth in housing prices from 2024 to 2027, with projected increases of 2.0 %, 1.9 %, 3.3 % and 3.2 % for the respective years, which is still lower than expected wage growth. For the 2024 growth forecast of 2.0 % to materialise, however, prices would need to decline by more than 5 % in the latter part of the year due to the already significant early-year growth. The Norwegian Central Bank projects even stronger growth, forecasting rates of 2.9 %, 6.2 %, 7.7 % and 6.5 % from 2024 through 2027 in its latest Monetary Policy Report.

Several factors contribute to this anticipated surge in prices. Firstly, the policy rate is expected to eventually decline, reducing mortgage costs. Secondly, there is likely pent-up housing demand from those who have delayed purchases due to anticipated price drops. Thirdly, and most critically, residential construction volumes are historically low and not keeping pace with the demand increases driven by population growth. According to the Boligprodusentenes Forening as of March 2024, the number of dwelling starts over the past 12 months was approximately 14 000, 32 % lower than the previous 12-month period. Furthermore, the government has recently proposed several new regulations for the residential market, which could further reduce construction volumes. One notable proposal is granting municipalities the authority to dictate the resident model type for projects—such as housing cooperatives, rent-to-own, or partial ownership schemes. In and around Oslo, prices are still way above pure construction cost. If land becomes available in the market at lower prices, developers might offer new homes at a lower cost.

Historical and estimated development in residential property prices, Norway, y/y



Source: Statistics Norway

«SSB forecasts annual growth in housing prices over the 2024-2027 period of around 2-3 % each year».

Rental prices surging due to increased demand and stable supply

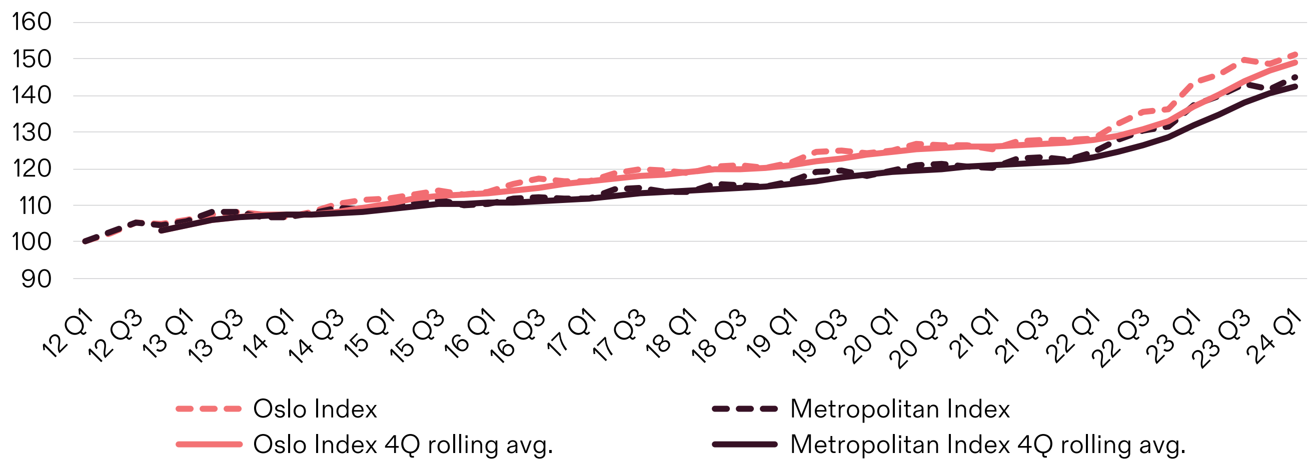
Over the past couple of years, Norway's residential rental market has experienced a significant surge in prices. The Metropolitan Index, representing the four largest city areas—Oslo, Trondheim, Bergen, and Stavanger/Sandnes—shows a growth rate from an average annual increase of about 2 % during 2012-2021 to around 8 % since the beginning of 2022. Oslo, in particular, has mirrored this increase in rental prices since early 2022. This substantial rise above the general CPI can be attributed to a combination of supply and demand factors that have dynamically influenced the market.

On the demand side, many individuals, especially in large cities, find homeownership unaffordable, leading to increased demand for rentals. The "Nurse Index", which measures home affordability for nurses, stood at just 2.4 % in Oslo in 2023, indicating that nurses could barely afford any available homes, thereby increasing their reliance on rental housing. This index has remained below 10 % since 2017, following mortgage regulations that capped borrowing at five times an individual's income. Another telling metric is the "parental bank," which reflects the percentage of individuals requiring financial assistance from parents to purchase homes. According to Eiendom Norge, the proportion of young adults aged 20-29 requiring this assistance has increased from about 50 % in 2015 to 65 % in 2023, underscoring the growing challenges of entering the housing market. Additionally, with rising interest rates and the associated costs of mortgages, along with uncertainties about housing price trends, renting has become a more financially viable option for many. The growing population, bolstered by refugees from Ukraine, seem to have further intensified the demand for housing. At the same time, the student grant for housing increased by a nominal 14.2 % from 23/24 to 24/25. This enables students to pay significantly higher rents.

The supply side dynamics are also influencing rental prices. At the end of Q1 2024, the listings for rentals on Finn.no stood at 3 054, up from Q1 2022 and Q1 2023, but lower than Q1 2020 and Q1 2021. The higher cost of owning relative to renting is compelling more individuals to divest their rental properties to invest in other markets yielding more attractive risk adjusted returns. Additionally, the fiscal landscape for properties used exclusively for renting out—typically secondary homes—has become less favourable. In 2024, the taxable value of secondary homes was set at 100 %, a rate that has been rising steadily over the years, making the economics of owning leasehold flats less attractive. Consequently, some owners are selling their secondary homes, which could further constrict the supply and elevate rental prices. Data from Norges Eiendomsmeglerforbund and Ambita illustrate that the proportion of secondary homes has declined significantly, particularly in Oslo where it dropped from 17.4 % in Q4 2019 to 14.8 % in Q4 2023. Those retaining their leasehold properties are forced to raise rents to maintain profitability and alternative cost, partly passing the increased financing and tax costs onto tenants. This situation has led to a concerning trend where the most financially vulnerable tenants are being displaced from the market, outcompeted by those in more stable financial circumstances with secure employment. This dynamic is reshaping the tenant demographic and intensifying the challenges in the rental market.

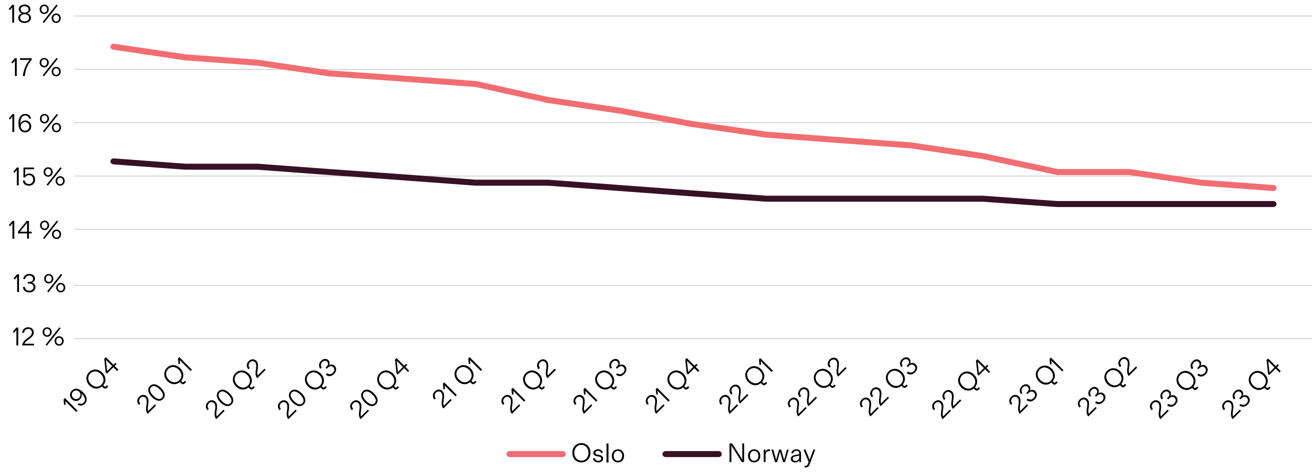
The trend of rising rental prices alongside limited supply of secondary homes shows no signs of reversing soon. In the current market, landlords are to some extent subsidising tenants, a situation that is unsustainable and will likely lead to further increases in rental prices. Additionally, in the current political situation with a heightened taxation on secondary homes, we expect the ongoing trend of landlords selling off their rental properties to continue. Compounding these issues, the government is considering new legislation that could further constrict the supply side. A rent restriction act is currently under review, which strongly favours tenant protections at the expense of landlords. Should this legislation pass, landlords will face increased uncertainty, potentially resulting in even fewer rental properties being offered. As a result of these dynamics, the rental market is becoming more professionalised. In Oslo, for instance, as much as 40 % of the residential market is now owned by professional investors. This shift is also attracting greater interest from international investors eager to understand the nuances of the Norwegian residential market.

Residential rent development in Oslo ad Norway, index (Q1 2012=100), quarterly figures



Source: Eiendom Norge

Share of secondary residences in Oslo and Norway, quarterly figures

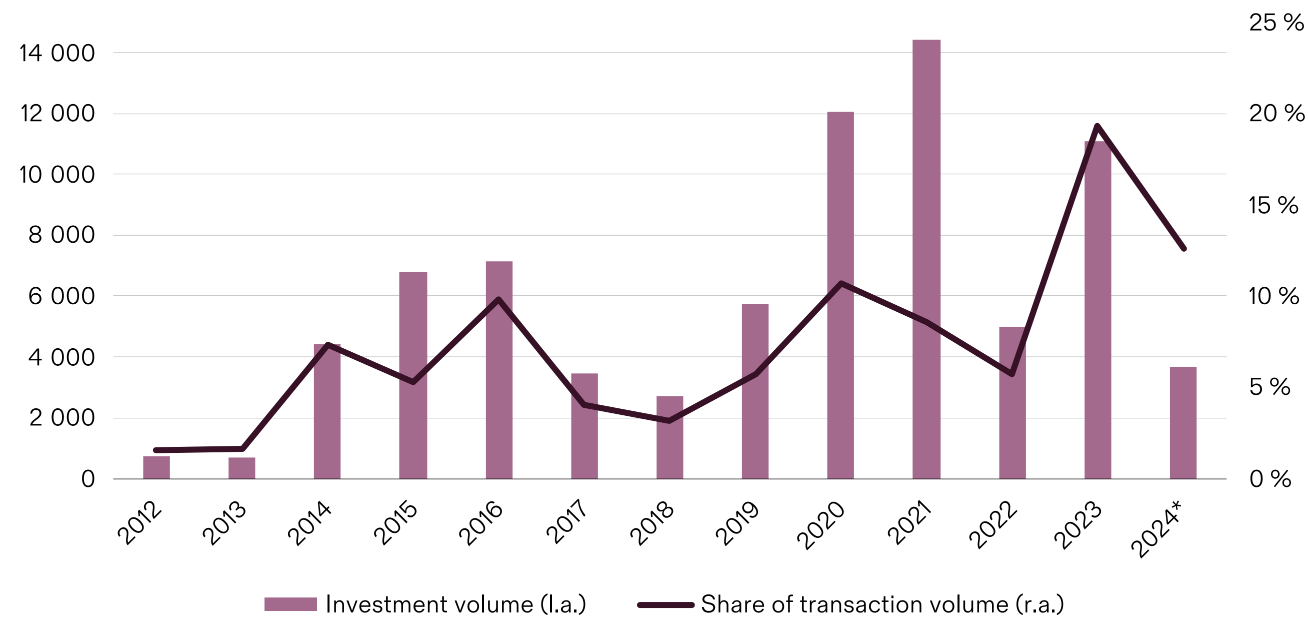


Source: Norges Eiendomsmeglerforbund, Ambita

Residential investments capture significant market share of total transaction volume

The transaction market discussed in this section refers to transactions of multifamily properties and residential development land valued at NOK 50 million and above. The year 2023 marked a strong year in the residential transaction market, recording 41 transactions that amounted to NOK 11.1 billion. This represented nearly 20 % of Norway's total transaction volume— an unprecedented ratio during the record period. Key deals included a NOK 1.8 billion acquisition of Bo Coliving by US investor Heitman, and two NOK 1.5 billion transactions: Fredensborg Bolig's sale of Sinsenveien to the state and Union Residential Development's purchase of Bonava. As of 1 May 2024, the residential sector still claims a significant share of the investment market at 13 %, with a total of NOK 3.7 billion across 16 transactions. If this pace continues, 2024's total might mirror last year's figures. This year's significant transactions include Vander Group's acquisition of Merkantilbygg's Stavanger portfolio and Bo Coliving's purchase of apartments in Bergen from an undisclosed Norwegian seller, though these deals have not reached the high values seen last year. Additionally, several portfolios are currently on the market, reflecting a robust pipeline. Notably, there exists a significant yield gap of 250 to 300 bps between the returns on individual units, based on current rental prices, and the yields targeted by professional investors for entire buildings and portfolios. The market remains predominantly driven by domestic participants, though international investors are showing increasing interest.

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



*As of 1 May.

Source: Malling

Stavanger

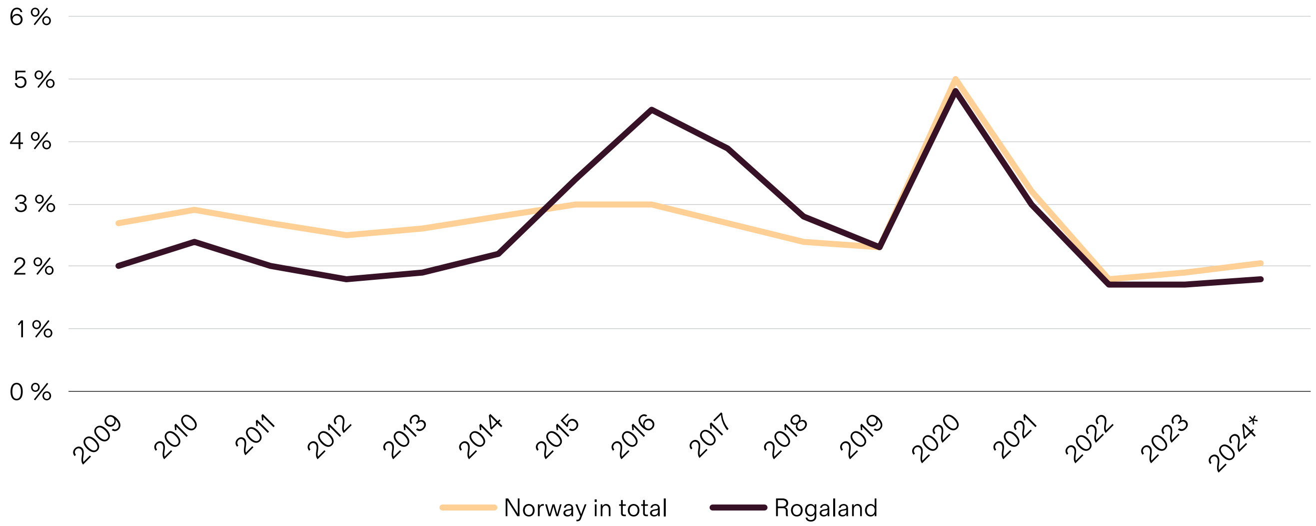
Stavanger market maintains momentum with surge in new office development

The Stavanger area's employment market remains strong, notably propelled by the robust oil and energy sector, maintaining low and stable unemployment rates. This economic vitality has spurred a flourishing office rental market, where high demand for premium, strategically located office spaces has driven up rental prices and leasing activity, particularly in the city centres of Stavanger and Sandnes. The office vacancy rate is steady at 7.2 %, with newer, more appealing premises drawing tenants from older buildings. The region's vibrant market activity and a growing preference for high-quality premises have reinvigorated construction efforts, with several projects now underway. However, this resurgence may challenge future vacancy levels. Meanwhile, investment activity in the region, although slow, is on a trajectory to surpass last year's low performance.

Strong employment market, boosted by the oil and energy sector

The employment market in the Stavanger area remains robust, even outperforming the national average ever since the start of the pandemic. Despite the tightening monetary policy that has nudged the national unemployment rate upwards, as reported by the Norwegian Labour and Welfare Administration (NAV), Rogaland has experienced relatively stable unemployment figures. Nationally, unemployment rose from an average of 1.9 % in 2023 to 2.1 % in 2024 by April. In contrast, Rogaland's rate increased only slightly from 1.7 % in 2023 to 1.8 % in Q1 2024, before returning to 1.7 % in April. Moreover, Stavanger has demonstrated significant employment growth relative to other major Norwegian cities. According to Statistics Norway, from Q1 2023 to Q1 2024, the Stavanger region saw the highest relative employment increase at 1.2 % compared to just 0.7 % in the Greater Oslo area. This growth is largely driven by the robust oil and energy sector, supported by high Brent crude oil prices, currently trading between USD 80 and 90 per barrel, and a weak Norwegian krone. While the oil and energy sectors are expected to continue growing, other industries in the region may experience more moderate growth, aligning with the broader trends in the Norwegian economy. Looking ahead, Rogaland's employment prospects are anticipated to remain stronger than the national outlook.

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



*As of April 2024.

Source: NAV (Norwegian Labour and Welfare Administration)

«Low unemployment rates in Rogaland are supported by a robust oil and energy sector and a weak Norwegian krone».

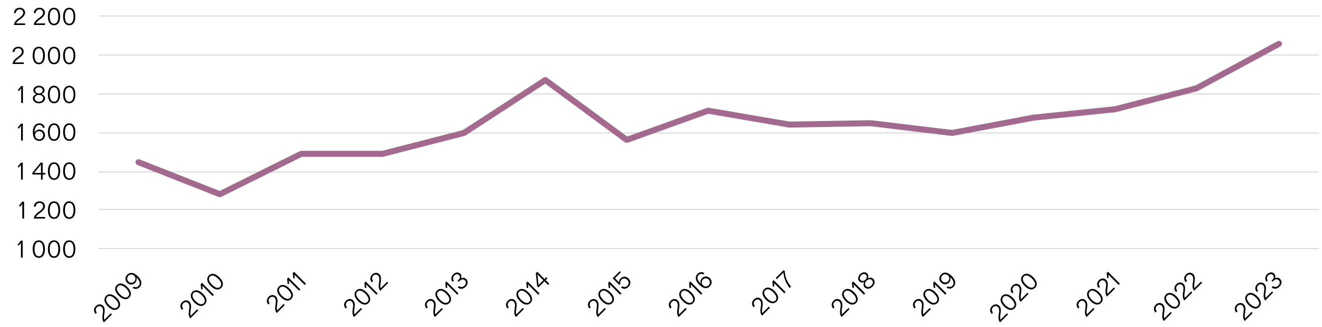
Stavanger region's office rental market thrives

The vibrant economic activity and high employment rates in the Stavanger region have fuelled a similarly robust leasing market. The region has witnessed strong signing volumes, with some large contracts currently in negotiation. Particularly in the office sector, rental prices have surged, and there's renewed interest in constructing new office spaces.

In 2023, the average office rent for signed contracts in the region surpassed the 2 000 NOK/m²/year mark, settling at 2 060 NOK/m²/year—a considerable increase from 1 830 NOK/m²/year in 2022, as reported by Arealstatistikk. The top segment, representing the top 15 % most expensive contracts, has seen an even more pronounced increase of 25 %, from 2 710 NOK/m²/year in 2022 to 3 400 NOK/m²/year in 2023. Tenants are increasingly prioritising high-quality, well-located, and sustainable office spaces to attract top talent, driving up rents for prime properties, especially in city centres. Broker consensus reflects this trend, with top rents in Stavanger city rising from 3 650 NOK/m²/year in our last market report to 4 100 NOK/m²/year now, and in Sandnes from 2 000 NOK/m²/year to 2 250 NOK/m²/year. The newly completed K8 high-rise in Stavanger is particularly influential, commanding rents up towards 5 000 NOK/m²/year according to Stavanger Aftenblad.

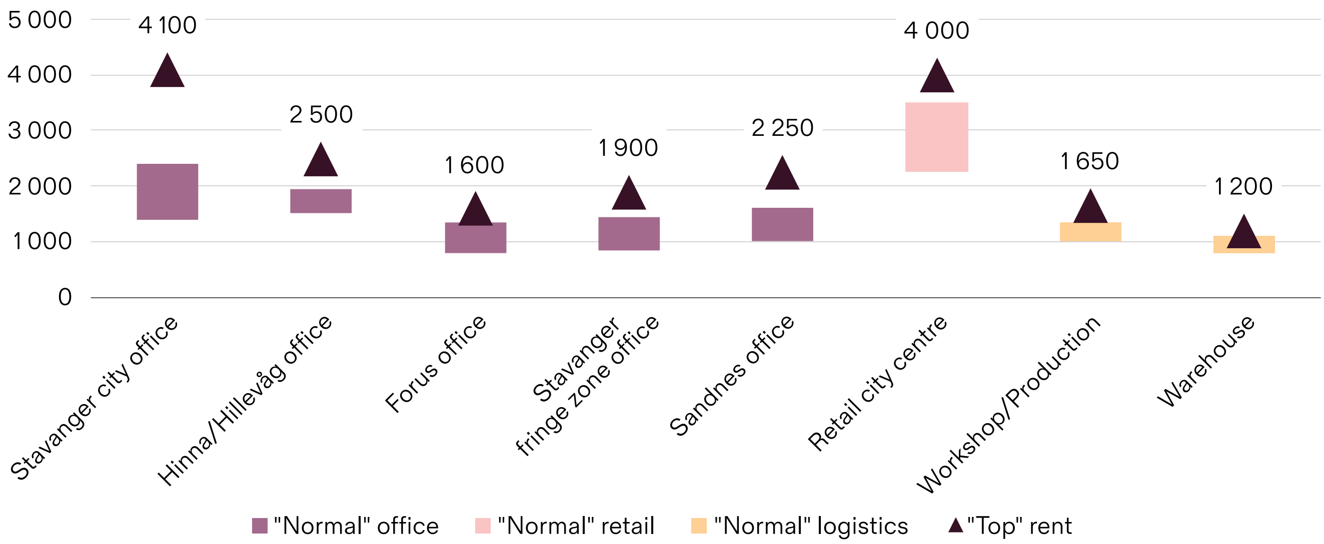
Leasing activity has remained robust, with a 10 % increase in the square metres of office space signed from 2022 to 2023. Notable recent contracts include the Stavanger Police Headquarters renewing a 17 000 m² lease, the subletting of DNB's former offices in Ankerkvartalet totalling approximately 4 500 m², and Coor signing for space at Jåttåvågen 10 as Aker vacates. Additionally, Schlumberger is relocating from Tananger to the new K8 building in Stavanger, reflecting the broader trend of firms seeking more central locations. Equinor is currently evaluating its office strategy, contemplating a move from its current location at Forus to a more central site. They are exploring several options, from staying, leasing elsewhere, to constructing a new office building, with speculation suggesting the latter as the most probable choice. Given their need for 120 000 m², there are not many options to choose from, and Paradis is frequently mentioned as the potential site for their new headquarters. Though not as large as Equinor, other companies are also on the hunt for new premises. UiS is seeking 11 000 – 12 000 m² near Ullandhaug, OMV is looking for 3 500 – 4 000 m² in the Forus - Jåttåvågen - Stavanger city centre corridor, and Bufetat is searching for approximately 1 500 m² between Stavanger city centre and Forus east.

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



Source: Arealstatistikk

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



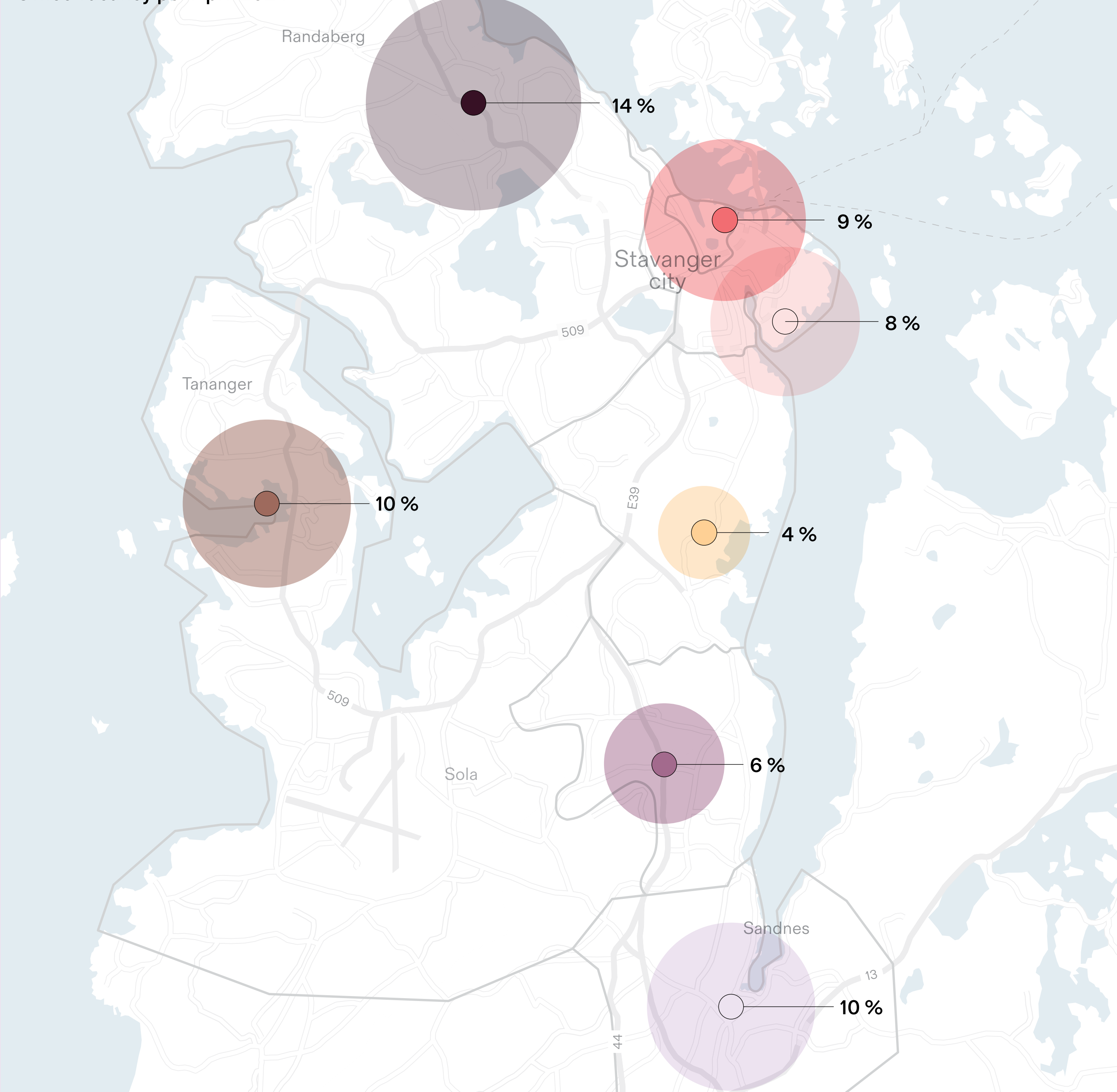
*See definition of prime and normal rent at page 30.

Source: Malling

Stable office vacancy rates face risks of future increases

As of April 2024, the Stavanger region's vacancy rate remains relatively stable at 7.2 %, only slightly down from 7.3 % one year ago. Notable shifts have been seen in Sandnes and Forus, where vacancies have decreased, contrasting with Sola, where it has increased by nearly 6 pp. In Sandnes, the reduction can be attributed to the leasing of Møllekvartalet, whereas Forus has benefited from the success of the FOMO Works coworking space, which now accommodates approximately 160 companies. Conversely, the rise in Sola's vacancy rate is largely attributed to the listing of Tankvegen 1, a 17 000 m^2 facility that became available after Shell's departure and sale of the property. Although the property was first listed in 2022, it has proven difficult to lease. Further changes are anticipated as Schlumberger relocates to Stavanger, leaving an additional 11 200 m^2 vacant at Sola. With a lease at Risabergveien not expiring until 2030, the future of this space post-Schlumberger's relocation remains uncertain. As tenants increasingly favours newer higher-quality buildings, several new construction projects are underway that could lead to higher vacancy rates. Currently, older buildings are particularly struggling to attract tenants, a trend that as a result may be intensified.

Office vacancy per April 2024



Total office vacancy* = 7.2 %	Total listings* = 9.0 %

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

*See page 43 on how we measure vacancy. Source: Malling

Boost in new developments

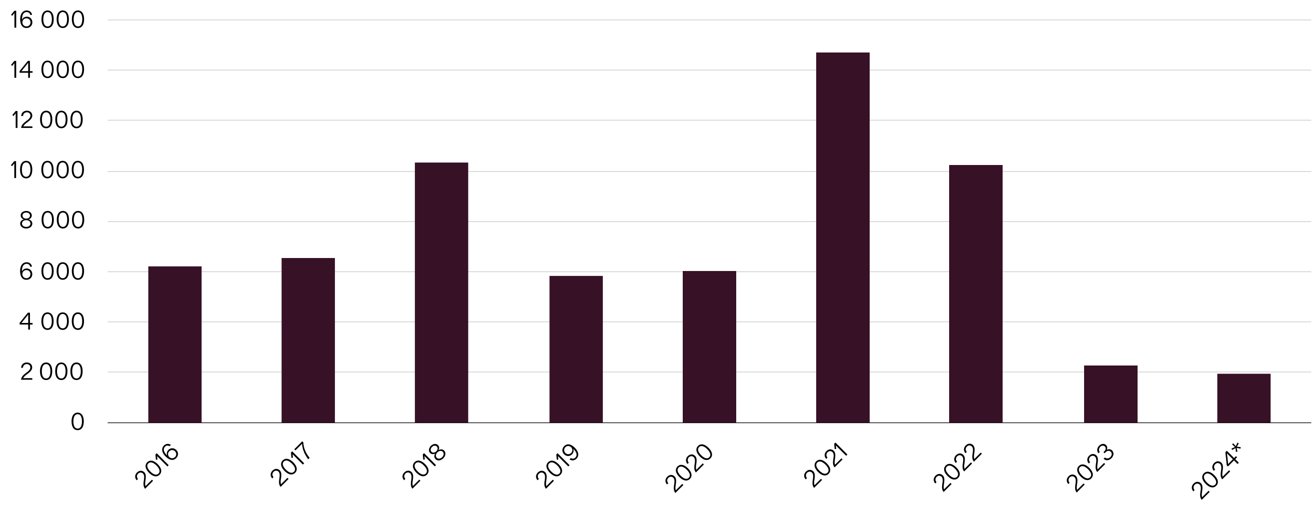
The Stavanger region has long coped with an extensive construction pipeline that was underutilised due to insufficient market demand for office space, making it challenging to secure tenants and initiate projects. However, following several years of robust business activity, developers have successfully attracted tenants for various projects, despite high interest rates and elevated construction costs. A growing preference for high-quality premises has fuelled demand for new construction and rehabilitation projects, leading to increased rent levels. These factors have made it feasible to kickstart projects against a challenging economic landscape. Consequently, we anticipate the introduction of several new projects to the market in the coming years.

- Two new office projects opened in March this year: Knud Holms gate 8 (K8), a high-rise in Stavanger city centre with 15 000 m^2, hosting tenants such as DNB, Schlumberger, Deloitte, Melberg Partners, and Helse Vest; and ARK at Site 4016 at Auglend, a 10 000 m^2 building dedicated to the construction sector, owned by Smedvig Eiendom.
- The largest office project in the region, Valhall at Hinna Park, is scheduled for completion in 2025. It will offer 70 000 m^2, with Aker BP and Aker Solution occupying 48 000 m^2. Their current premises in Jåttåvågveien will be rehabilitated and some converted to hotel.
- Interwell is developing new headquarters at Moseidsletta 34 in Forus, planned as a 25 000 m^2 multipurpose building and expected to be complete in 2025.
- Laerdal Medical is developing new headquarters at Tanke Svilands gate 30 in Stavanger, with zoning approved this January and completion expected in 2026.
- SVG Property is developing “Mediebyen” at Nytorget 1 in Stavanger, a media hub with 11 500 m^2 set to be completed in 2026 that will host NRK and Stavanger Aftenblad.
- Construction of The Box Office at Lagrådsveien 100 in Paradis, a 5 500 m^2 project with Norconsult as a tenant, will begin after this summer.
- Stavanger County administration will consolidate at Arkitekt Eckhoffs gate 1, with plans for rehabilitation and expansion to approximately 20 000 m^2; a competition for the main contract will be announced in autumn 2024.
- A new high-rise of approximately 8 000 m^2 is planned at St. Svithuns gate 5 in Stavanger by K2 Stavanger and Camar, currently in the final zoning stages.
- SVG Property plans to add 14 000 m^2 at Ankerkvartalet in Stavanger, with zoning expected to continue for another year followed by three years of demolition and construction, aiming for a 2028 completion.

Investment market still slow, but picking up in pace

The investment market in the Stavanger region has recently been relatively modest, influenced by rising yields and a noticeable disconnect between buyer and seller price expectations. In 2023, the total transaction volume reached approximately NOK 2.3 billion, spread across 17 transactions, marking the lowest recorded volume for the area. Notably, seven of these transactions occurred in the last quarter, including a significant deal where IKM acquired four multipurpose buildings from Prospective for nearly NOK 0.5 billion. As of 1 May this year, the transaction volume is already nearing the total for 2023, with about NOK 2 billion recorded over six transactions. Key transactions include a major sale of TotalEnergies’ headquarters at Finnestadveien 44 by W.P Carey to a local buyer, in addition to a residential sale of Merkantilbygg's Stavanger portfolio to Vander Group, together accounting for nearly NOK 1.5 billion of the 2024 volume. While industrial properties dominated 2023's transactions, their volume has been low this year. Domestic buyers continue to be the main participants in the market. Despite a relatively slow start, the transaction volume for 2024 is on track to surpass last year’s figures, offering a glimmer of recovery in a cautious investment climate.

Transaction volume Stavanger in NOK million



*As of 10 May.

Source: Malling

Lundsletta Utvikling

Malling Investments arranged a club deal on behalf of its investors. Lundsletta Utvikling is a residential development project centrally located in Kristiansand.

Balder Allé 1, Gardermoen

Malling & Co Næringsmegling has been tasked with letting a projected building of 11 000 m^2 at Balder Allé 1, one of the plots with the best exposure at Gardermoen.

Drammen

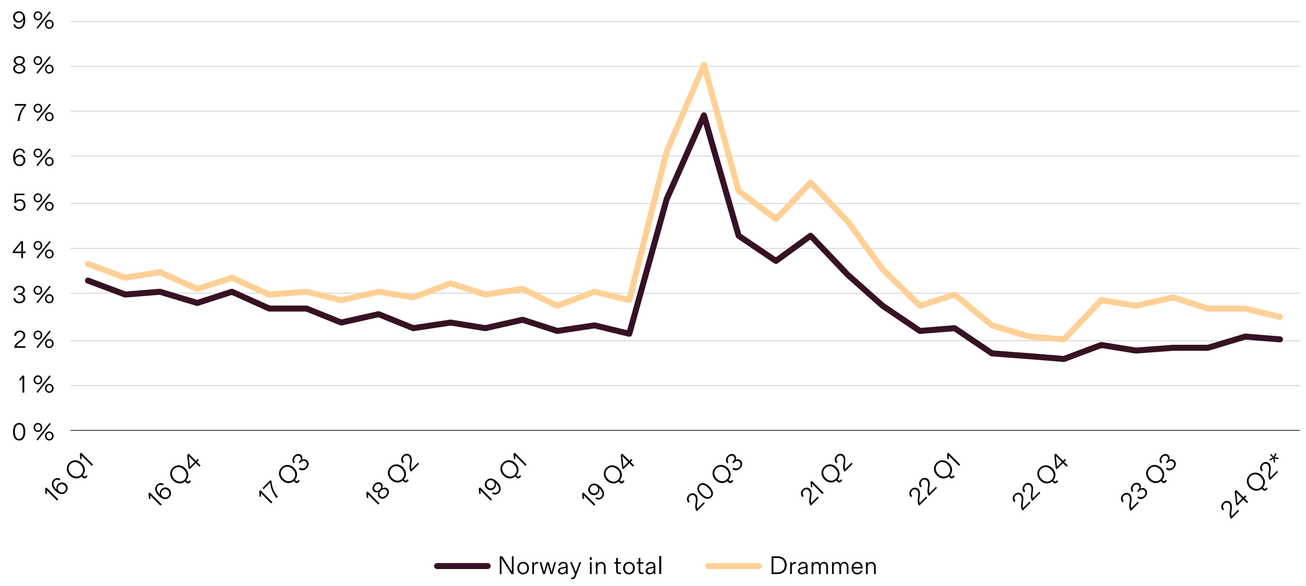
Office vacancy record low

The Drammen area continues to report activity in both the rental and transaction markets. Office vacancy rates are at a record low as of April 2024, primarily due to the few new construction projects realized recently and the strong growth of large companies with branch offices in Drammen. The trend for mixed-use and logistics properties is deviating, with vacancy rates showing a slight upward trend. Additionally, there is a substantial land bank in the surrounding areas that could expand existing building space by up to 40 % if projects are realized. Such plots have garnered investor interest, alongside value-add mixed-use properties with sufficiently high yields.

Employment market

Unemployment in Drammen stands at 2.5 %, slightly higher than the national average of 2.0 %, according to figures from NAV. As seen in the graph showing the growth in wage-earners over the past four quarters on page 19, Drammen has experienced a moderate growth of 1.1 % in Q1 2024 compared to Q1 2023. This is higher than the national average of 0.7 %, and among the five largest cities, only the Stavanger region, with a growth rate of 1.2 %, has seen higher growth over the past year. This growth is particularly welcome, as Drammen's growth rate lagged behind the national average in both 2022 and 2023. However, in absolute numbers, this growth amounts to 502 new wage earners, a reminder of how small this market is.

Registered unemployment in Drammen and Norway (incl. temporary lay-offs), %



*As of April 2024.

Source: NAV (Norwegian Labour and Welfare Administration)

«Drammen has experienced a moderate growth of 1.1 % in Q1 2024 compared to Q1 2023».

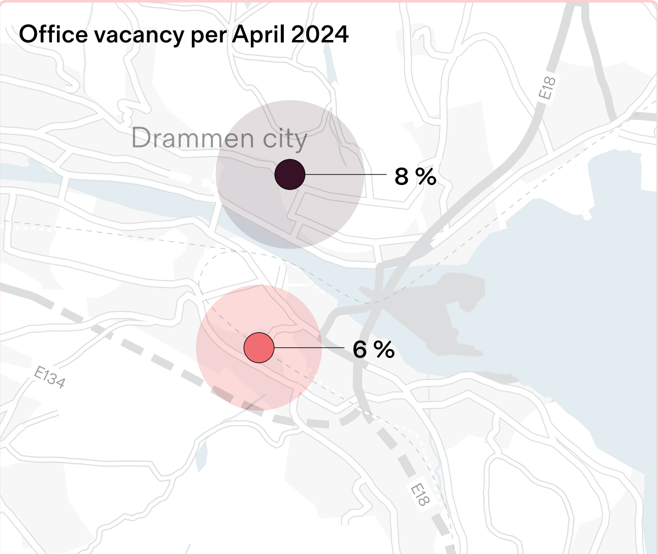
Office rental market

Activity in the office market in Drammen is considered to remain strong, according to our leasing agents. The total office vacancy rate in central Drammen is measured at an average of 6.8 % as of April 2024, marking a record low for the region. This is down by 2.0 % from October 2023 and continues the trend of decreasing available space in central Drammen observed since Q2 2021. This trend is similar on both sides of the Drammen River, with a decrease of 1.9 % in Bragernes and 2.1 % in Strømsø, bringing vacancy rates to 7.7 % and 6.1 %, respectively.

One reason for the decline in the vacancy rate may be that new construction projects are being put on hold due to higher construction costs, increased valuation yields, and high financing costs. Additionally, developers require a higher pre-leasing rate before they can commence projects, which further reduces the supply side. These are similar market dynamics to those observed in other markets like Oslo. There are some ongoing renovation projects in Drammen, such as Bragernes Torg 1 and Wernergården, but there are few confirmed new construction projects that will significantly increase the supply in the Drammen office market. Exceptions include St. Olavsgate 5-9, with 3 000 m² already leased to NAV, and the T2 site in Bragernes Torg, with a total of 10 000 m² expected to be completed no earlier than 2027.

A recent reassessment of the market situation has led to an upward adjustment of rental levels in Drammen CBD. In Bragernes, we have increased the prime rent from 2 600 NOK/m²/year to 2 900 NOK/m²/year for the highest quality spaces. This increase is driven by ongoing renovation projects and a heightened demand for proximity to central activities in Bragernes. For 'normal' standard office spaces, we have raised the upper end of the range by NOK 500 to 1 500-2 500 NOK/m²/year. We anticipate this trend to strengthen with the completion of the new city bridge in autumn 2025. Similar rental increases have been made in Strømsø, where the achievable prime rent has been adjusted up by NOK 100 to 3 250 NOK/m²/year, and the normal rent range has been increased to 2 750 NOK/m²/year.

Office vacancy per April 2024



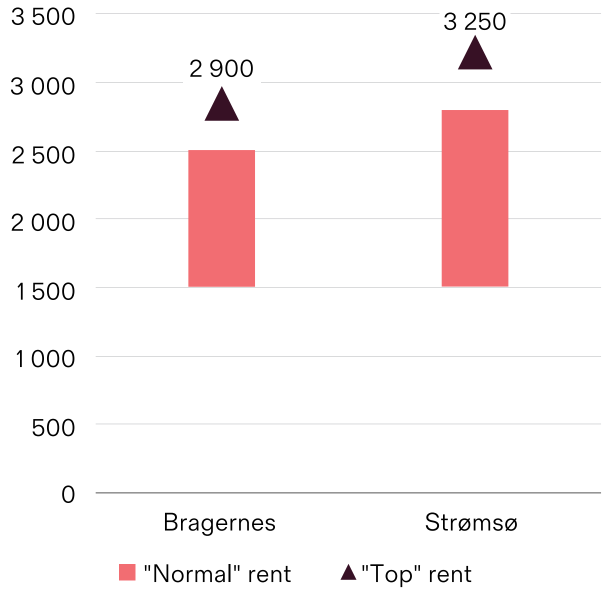
Total office vacancy* = 6.8 %

Total listings = 15.2 %

● Bragernes
● Strømsø

*See page 43 on how me measure vacancy.
Source: Finn.no, Malling

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



*See definition of prime and normal rent at page 30. Source: Malling

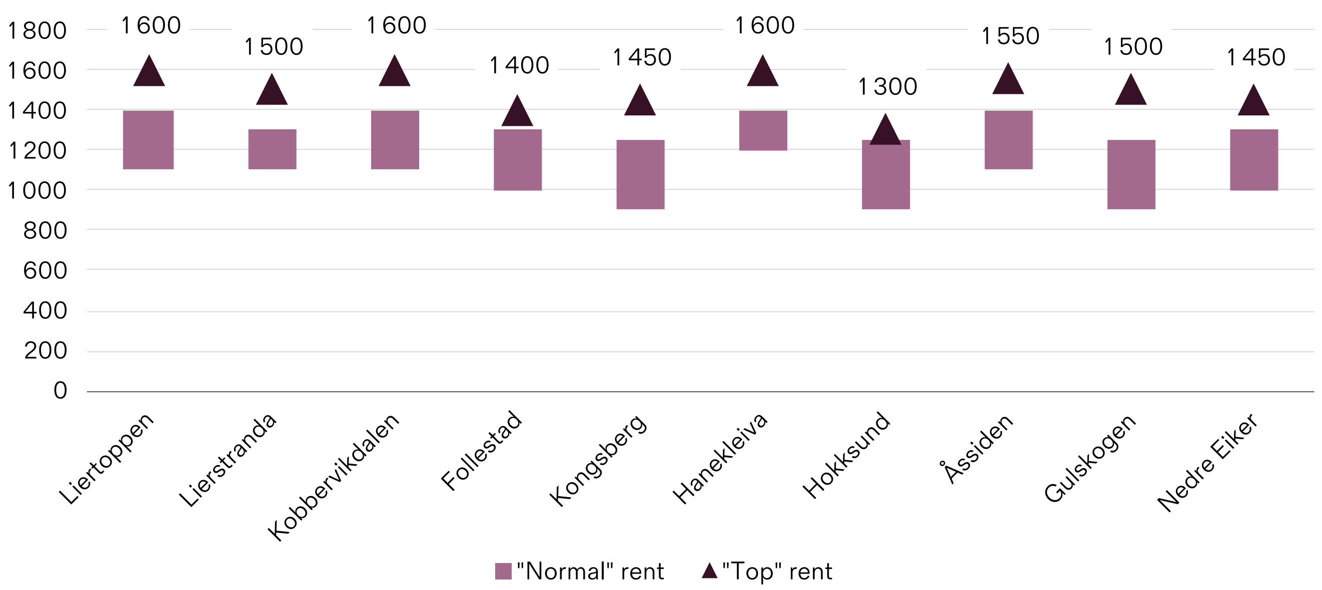
«The total office vacancy rate in central Drammen is measured at an average of 6.8 % as of April 2024, marking a record low for the region».

Logistics and mixed-use leasing market

While other markets may have more distinct segments, Drammen is mainly characterized by mixed-use properties, combining warehouse, workshop, office and space-intensive retail. In this section, the Drammen market is defined as the area extending from Asker in the north to Kongsberg in the west, Hanekleiva in the south, and Sætre in the east. In this region, the vacancy rate is measured at 5.9 % as of April 2024 for all logistics and mixed-use properties combined, slightly down from 6.1 % in October 2023. Although the vacancy rate has marginally decreased over this period, the longer-term trend shows a rising vacancy rate in the Drammen area compared to the 2-3 % seen throughout 2022. Within the logistics and mixed-use segments, the largest industries in the Drammen area are construction and retail. These industries have reported the lowest expected production growth over the past two years, according to the Norwegian Central Bank's regional network. It should be noted that despite the rising vacancy rate, our leasing team reports strong activity and demand. In Drammen, there are several ongoing residential conversion projects, leading space-intensive mixed-use tenants to relocate from central areas.

A slightly higher vacancy rate has contributed to a slowdown in the rental price growth observed in recent years. We are in this report keeping rental levels mostly flat, with a slight exception for the lower end on Lierstranda, which we set at 1 100 NOK/m²/year, comparable to Liertoppen and Kobbervikdalen. If anything, there is downward pressure on rental prices compared to the peak market activity period we have recently seen. We have expanded the number of clusters we report on to capture and convey rental levels for mixed-use properties closer to Drammen and along the E34 towards Kongsberg.

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



*See definition of prime and normal rent at page 30.

Source: Malling

«In Drammen, there are several ongoing residential conversion projects, leading space-intensive mixed-use tenants to relocate from central areas».

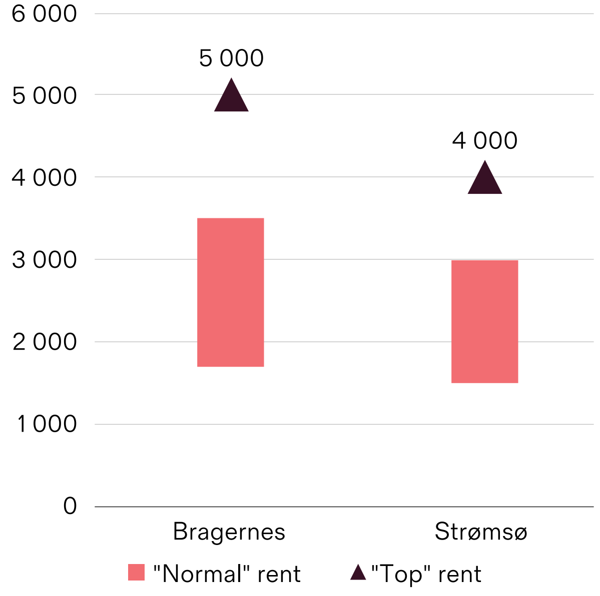
New developments

In the Drammen area, there are few confirmed development projects for larger industrial properties. One exception is in Hanekleiva, where there are ongoing processes with approximately 20 000 m^2 under development. However, there are larger land areas that, according to our research, could lead to a 40 % increase in industrial property space in the western corridor of Oslo if all potential projects are realized, given an average GLA to plot utilization rate of 55 %. The largest land bank in the area is found in Fiskumparken, where there are reports of steady interest from buyers and developers. A somewhat lower market rent than other areas in Eastern Norway has shown that it is possible to attract tenants looking for larger space units. Dpend Eiendom aims to develop Lyngås Næringspark on approximately 37 acres and is also in the zoning process for Sagvollskogen with approximately 70 acres. Bulk has recently purchased a plot in Kobbervikdalen where there is potential to develop 20 000 m^2 of pure logistics property in an area that currently consists mostly of mixed-use properties.

Retail leasing market

In the rental market for retail spaces in Drammen, the activity has been limited according to our local leasing advisors. Leasing opportunities occur as some smaller restaurants and cafés have gone bankrupt or chosen to cease operations. However, this is not the general case, as some businesses with strong concepts report good sales. Additionally, there are new establishments, such as Pincho Nation in Strømsø Torg 4. Nevertheless, there has been an increase in vacant ground-floor spaces in the pedestrian streets of central Drammen. We have adjusted the market prime rent downwards in Bragernes by NOK 1 000 to 5 000 NOK/m^2/year for the very best retail spaces to be more in line with the tenants' willingness to pay. On the Strømsø side, we are keeping the prime rent flat and raising the lower end of the rent range by NOK 500 to 1 500 NOK/m^2/year.

Indicative rents in the Drammen region
Retail (NOK/m^2/yr)



*See definition of prime and normal rent at page 30.

Source: Malling

«We have adjusted the market prime rent downwards in Bragernes by NOK 1 000 to NOK 5 000/m^2 for the very best retail spaces to be more in line with the tenants' willingness to pay».

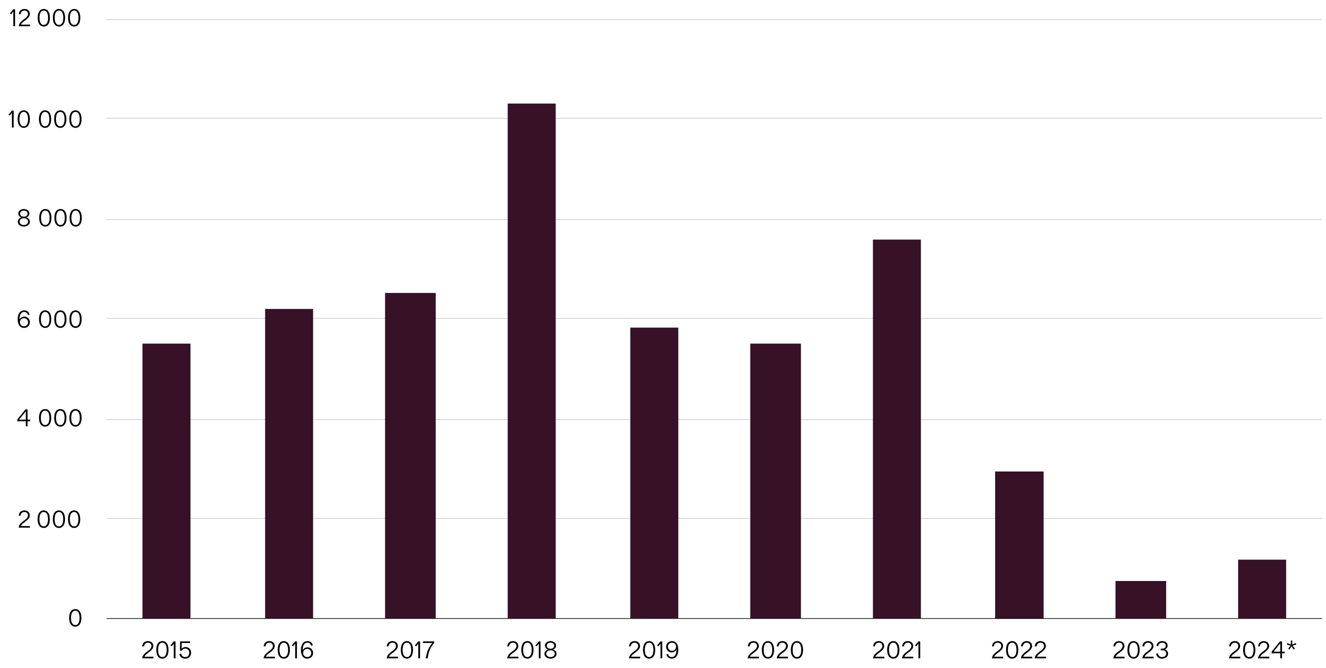
Selected notable lease agreements

- NAV has signed a lease agreement for approx. 4 600 m^2 in Grønland 70.
- NAV has signed a lease agreement for approx. 1 700 m^2 in Bragernes Torg 1 with Ava Eiendom.
- Optime has signed a lease agreement for approx. 1 300 m^2 in Gomsrudveien 11 (newbuild).
- Agaia has signed a lease agreement for approx. 1 000 m^2 in Bjørnstjerne Bjørnsonsgate 110.
- Pump Supply has signed a lease agreement for approx. 2 200 m^2 in Teglverksveien 100.

The investment market

2023 ended as a lean year for transactions in the Drammen area, with a total recorded volume of around around NOK 750 million. It is a good sign that 2024 has started significantly better, with a YTD volume of NOK 1 170 million, though some uncertainty remains as certain transaction details are incomplete. Compared to previous peak years such as 2021 and the years before, activity remains somewhat cautious, with participants reporting challenging financing conditions. While there is interest, transactions for centrally located office properties in Drammen rarely materialize in today's market. However, for mixed-use properties where yields are higher and strategic measures can be taken, buyers and sellers have found it easier to reach agreements. Additionally, both an automotive property and a development plot have been sold in Kobbervikdalen.

Annual transaction volume Drammen in NOK million



*As of 10 May.

Source: Malling

Office investment market

There have been few notable office transactions in Drammen recently. Despite the lack of confirmed transactions, there are investors in the market for central properties. Properties close to the square and public transport hubs in Drammen are of interest. However, interest wanes as one moves out of the city centre, mainly because of weak demand and liquidity in the leasing market. Larger, professional investors are particularly inquiring about office properties in Drammen, but as seen in other markets, investors are reluctant to pull the until financing conditions improve due to marginal yield spread at current interest rate levels. We estimate the prime yield for office properties in Drammen to be 5.90 % as of May 2024.

Logistics and mixed-use investment market

Compared to the office market, there has been higher activity in the mixed-use market. Buyers have shown interest particularly in mixed-use buildings with value-add potential and where yields exceed 7.00 %. This is well above the yield level for warehouse/logistics at Liertoppen, which we include in our quarterly Yield & Sentiment Survey, measuring an average of 6.30 % as of Q1 2024. Investment activity has picked up so far this year, and businesses with a need for space are now also a significant group among buyers. In addition to value-add properties, investors are looking for development plots in the Drammen region. This likely reflects a belief in strong demand within the warehouse/logistics segment making the development of such properties attractive.

Overgangen 13, Drammen

Malling & Co Drammen has been tasked with subleasing a warehouse building of 7 786 m^2 at Overgangen 13 for Telenor. The property was completed In Q2 2024 and is located in Åssiden.

Bergen

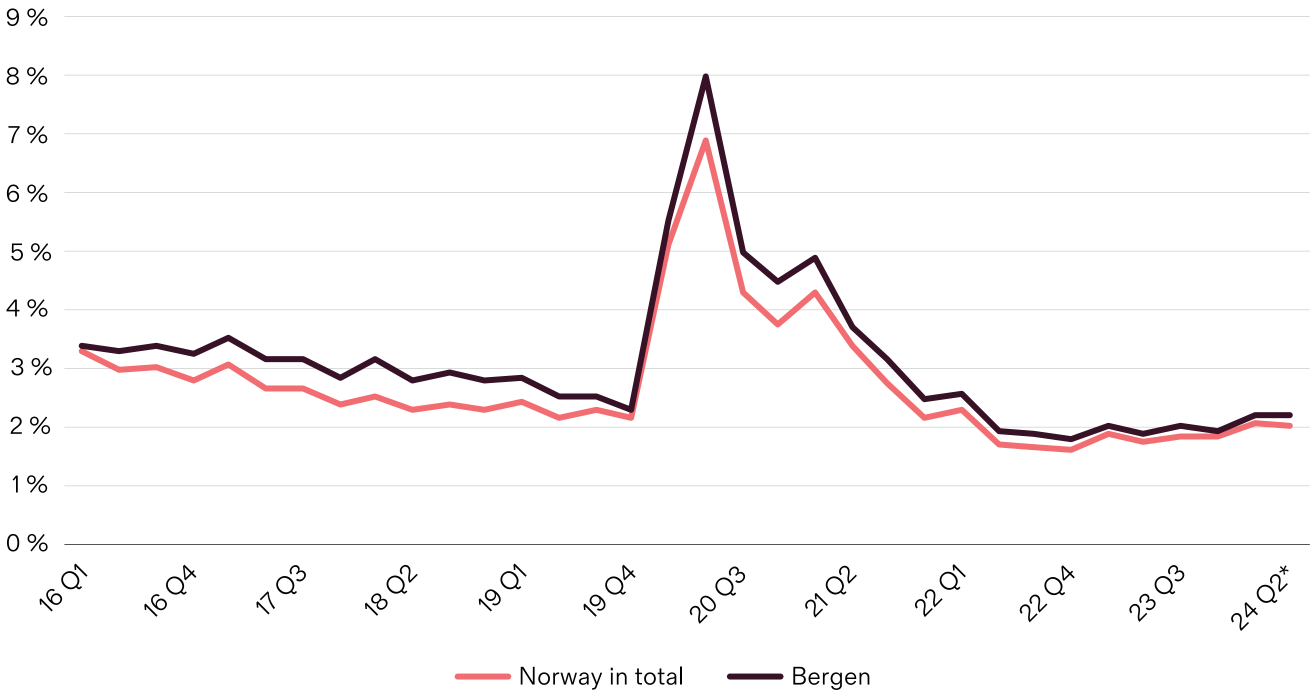
Low levels of new construction and favourable vacancy outlook

Unemployment levels in Bergen have remained low, and business activity is expected to remain stable in the foreseeable future. This stability has had a positive impact on the office rental market, leading to growth in rental prices. Historically, new office buildings have been a significant factor in driving top rents. However, with low levels of new construction and refurbishments, it is anticipated that top rents will experience a modest growth. Similarly, low construction volumes are expected to increase normal rents as demand for these premises will increase. In terms of the investment market, transaction volumes in the region remain low, and the prime yield currently stands at 5.25 %, with expectations of a flat trend.

Low regional unemployment level

Since 2019, Bergen's unemployment rate has consistently followed the national average, but at higher levels at the peak in Q2 2020 and marginally higher rates in the aftermath of the pandemic. Now, in Q1 2024, the spread is only 0.1 % according to the Norwegian Labour and Welfare Administration (NAV). The number of vacant positions in Vestland county is close to 8 000 and over half of them are in Bergen. The sectors that are experiencing the highest unemployment rates are construction, industrial work, leisure & travel as well as service-related work. Although the healthcare sector still has low unemployment, there has been an increase of 14 % from last year. This sector has had the highest numbers of advertised positions with over 1 700 in April. This implies that there could be shortage of qualified workers and underpins the low unemployment rates. In the latest edition of the Regional Network Report (March 2024), businesses collectively anticipate that the activity levels will remain stable through the first half of the yar. Among oil suppliers, activity levels are high with expectations of further growth. This is positive news for the office market in Bergen, particularly in Bergen south, where there are several tenants within the energy sector.

Registered unemployment in Bergen and Norway (incl. temporary lay-offs), %



*As of April 2024.

Source: NAV (Norwegian Labour and Welfare Administration)

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

W | P | S NÆRINGSMEGLING

Expectations of higher growth in normal rents than prime rents

The office market in Bergen remains robust, driven by low unemployment and expectations of stable business activity levels. Rental rates for prime office spaces have increased compared to last year, particularly for Bergen city and areas close to Bergen Light Rail.

According to data from Arealstatistikk, top rents in Bergen have continued to rise since 2020, and the average rent for the top 15 % of leases is now approximately 3 200 NOK/m²/year. Historically, a high supply of centrally located newbuilds, especially in Bergen city centre, has resulted in a substantial increase in top rents, particularly noticeable in the years 2014 and 2021. Tenants are willing to pay a premium for high-quality spaces with the right location.

We have adjusted the indicative rental price for prime office spaces in Bergen city centre to 3 700 NOK/m²/year. Rental rates have been pushed upwards due to a well-functioning leasing market with sustained high activity, and significant demand for high-quality premises within the city centre. The second most sought-after location after Bergen city is "Central Light Rail", which includes Solheimsviken/Marineholmen and Næringskorridoren. In these areas we have witnessed a strong increase in top rents, with both areas surpassing 3 000 NOK/m²/year.

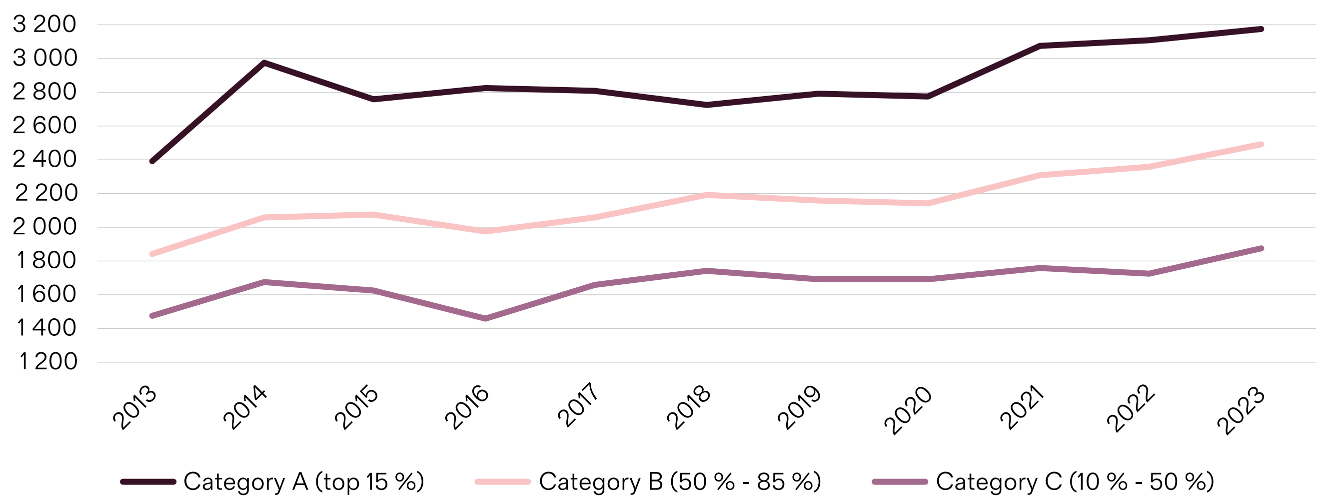
If history repeats itself, we anticipate modest growth in top rents in the coming years due to low volumes of newbuilds and refurbished office buildings. As for rental rates for the second-best office spaces, we expect an increase in the coming years, mainly due to high construction and financing costs, lower office vacancy rates and limited competition from newbuilds.

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

See definition of prime and nomal rent at page 30.

Source: WPS Næringsmegling

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



Source: Arealstatistikk

Decreased vacancy rates due to robust leasing market

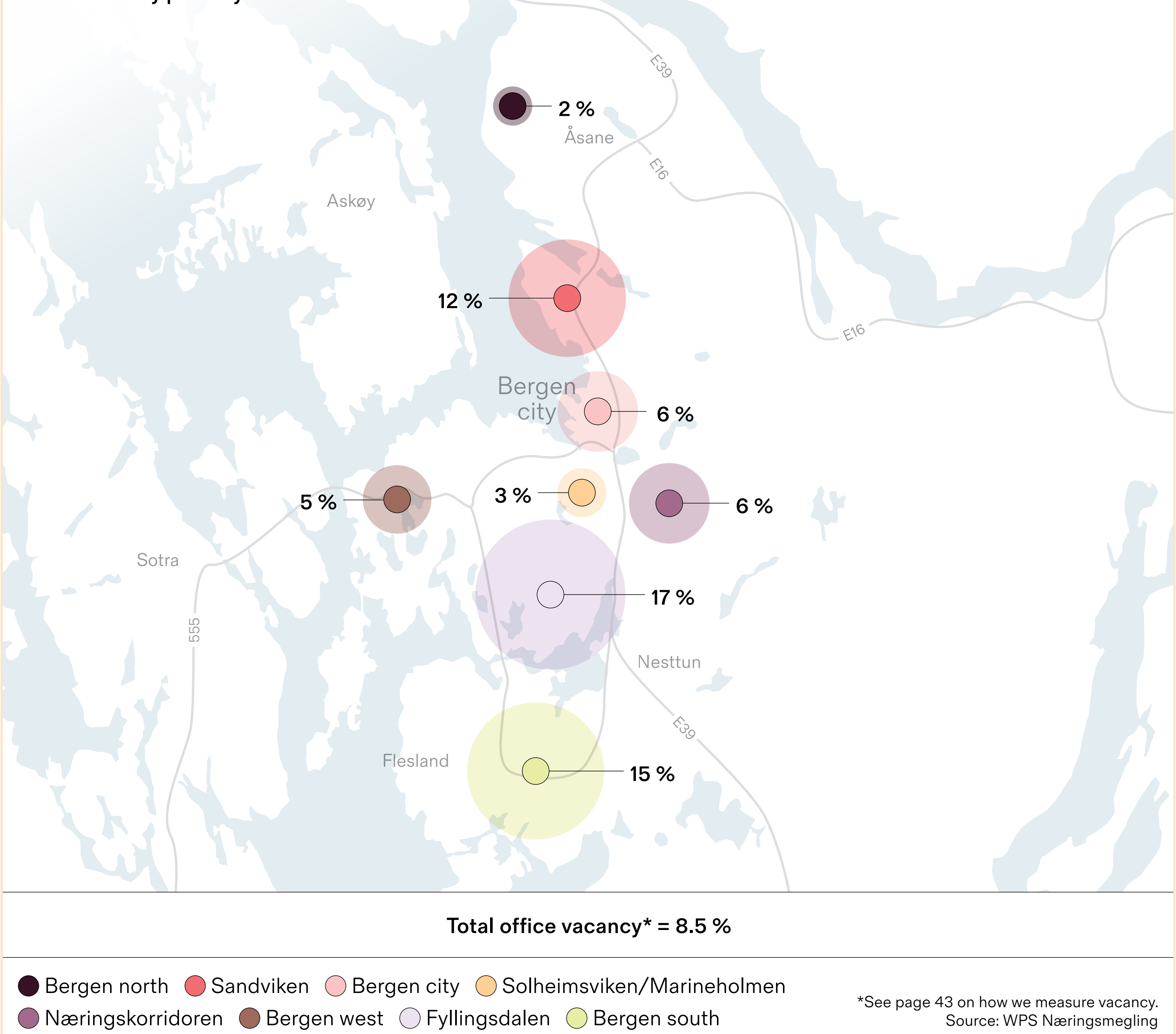
Office vacancy in Bergen as of the first half of 2024 stands at 8.5 %, reflecting a reduction of 50 bps from the previous vacancy count. The decreased vacancy rate mirrors a robust leasing market, where activity remains strong, unemployment is low and new construction supply is limited over the next few years.

Despite expectations of lower employment growth and reduced leasing market activity, our forecasts indicate a decline in office vacancy in the coming years. This is attributed to relatively low levels of new construction activity, as well as several large projects being withdrawn from the office market for conversion to residential use, such as Sandslihaugen 30 (approx. 27 000 m^2).

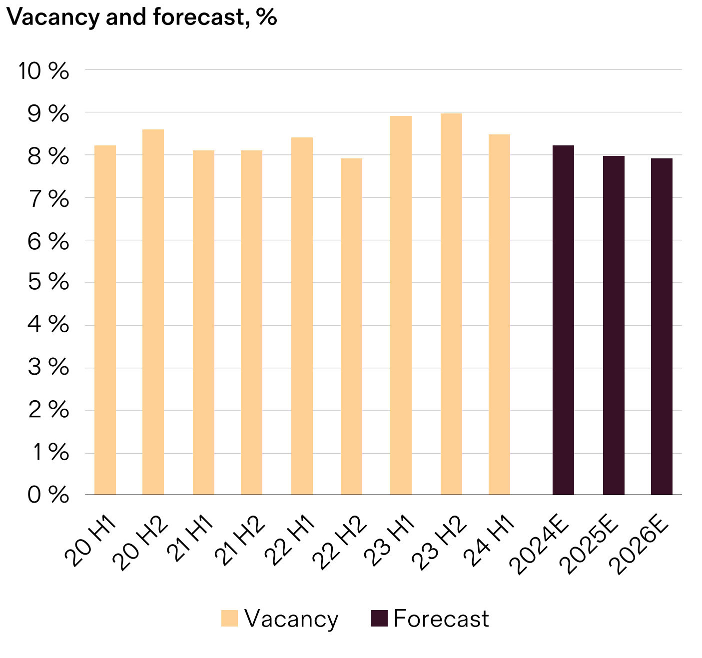
Bergen city's vacancy rate remains relatively stable compared to the previous report. Among areas with significant office space, the lowest vacancy is found in Solheimsviken/Marineholmen, where it was recently announced that Statped will relocate to Solheimsviken. Furthermore, GC Rieber Eiendom is commencing construction on Fenderen, with Norconsult scheduled to move in upon completion in 2026.

In Sandviken, we observe a significant increase in office vacancy due to PwC's impending relocation to the Sundt building (city centre) within the next 12 months.

Office vacancy per May 2024



*See page 43 on how we measure vacancy.
Source: WPS Næringsmegling

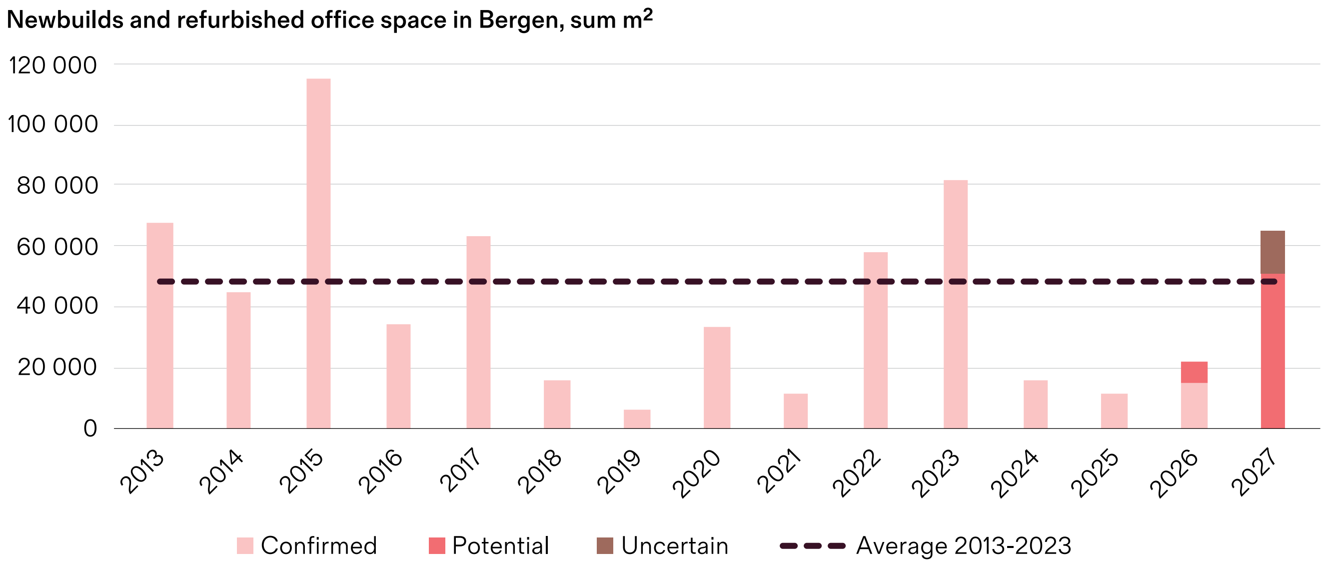


Source: WPS Næringsmegling, Finn.no

«Office vacancy in Bergen as of the first half of 2024 stands at 8.5 %, reflecting a reduction of 50 bps from the previous vacancy count».

Low levels of new construction

With the supply of newbuilds and refurbished office buildings exceeding historical averages in both 2022 and 2023, we anticipate a sharp reduction in volumes for the coming years. Since our last report, completion expectations for several planned projects have been pushed back by one or more years, resulting in lower newbuild and refurbishment activity in the near term. Rising construction costs, financing costs and yields are challenging the profitability of development projects and putting pressure on the rental rates developers need to achieve satisfactory risk/return. We anticipate that several planned newbuilds outside of Bergen city will be put on hold, awaiting lower cost levels. In the most attractive market areas, significant increases in rental rates may occur if the rental market remains robust. Most new office buildings constructed in Bergen in recent years have been built on speculation or had few lease agreements in place at the start of construction. It typically takes 18-24 months to complete an office building, while tenants often decide to relocate only 6-12 months before their lease expires. In a time of increasing economic uncertainty, developers may not continue to take on as much risk in the coming years.



Source: WPS Næringsmegling

Low transaction volumes, yet optimism among investors

The transaction volume in Bergen for 2023 amounted to NOK 5.1 billion, well below the 10-year average of NOK 8.6 billion. So far in 2024, investors' cautious approach has continued, with a preliminary transaction volume of NOK 1.0 billion spread across eight transactions. However, the transaction market now appears more optimistic, with the majority of investors assuming that the "worst" is behind us.

Regarding the types of properties traded, we have observed a clear distinction before and after August 2022, when the key policy rate really began to increase:

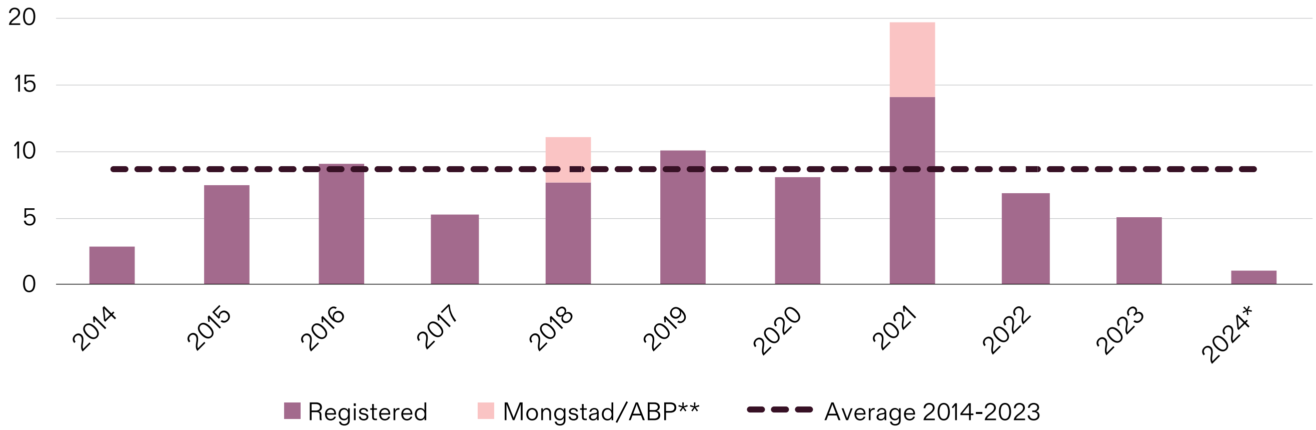
- Residential transactions, including residential development land, account for nearly half of the transaction volume and have tripled their relative share compared to earlier periods.
- Office properties represent only 15 % of the transaction volume over the last 18 months. Previously, the office segment was the most sought-after and historically accounted for 40-50 % of the transaction volume in Bergen.

In the WPS Investor Survey for Q1 2024, 57 % of investors indicated they will be net buyers of commercial properties in the next 12 months. In our opinion, there is now greater optimism in the transaction market driven by more sellers lowering their price expectations, rather than buyers changing their return requirements. The much-discussed repricing in the market seems closer than it has for a long time.

Few transactions have been completed this year, making it challenging to establish yield levels. Some office transactions in Oslo CBD have supported a prime office yield of 4.75 %. In recent years, the difference in prime office yield between Oslo and Bergen has been 50 bps. Assuming this gap remains unchanged, the prime office yield in Bergen should now be 5.25 %. This also aligns well with the responses in the WPS Investor Survey for Q1 2024, where the average responses indicated a prime office yield in Bergen of 5.30 %.

In our view, yield development going forward will highly depend on key policy rate trends. Twelve months from now, investors in the WPS Investor Survey for Q1 2024 expect the prime office yield to decrease to 5.20 %, representing a slight decrease of 10 bps from the current level.

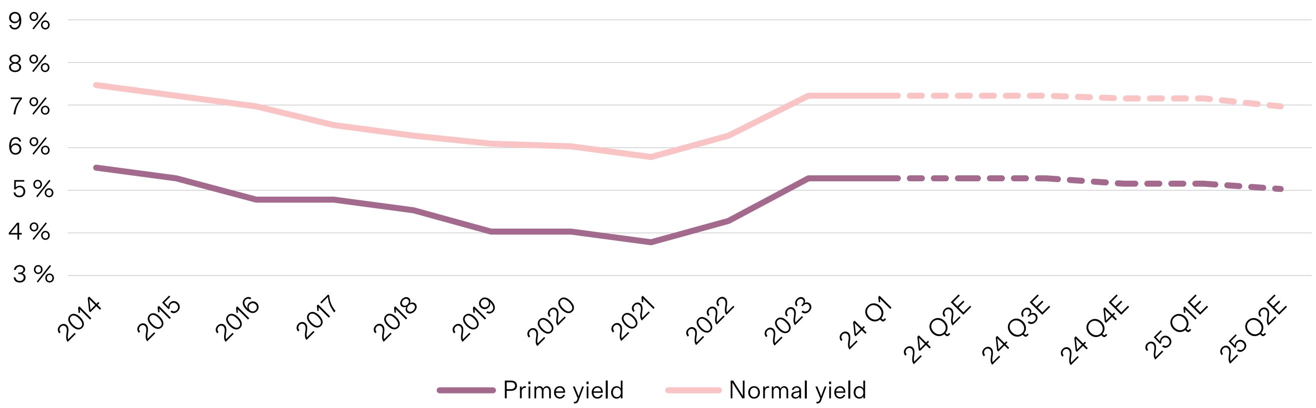
Annual transaction volumes in Bergen in NOK billion



*As of 1 May 2024. **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

Locus Living 2.0, Bergen

Malling Investments has acquired 4 new residential buildings to its residential portfolio in Bergen. The portfolio now consists of 9 buildings centrally located in Bergen.

Trondheim

Activity in the transaction market is expected to improve over the summer

With a significant increase in the share of the Norwegian transaction volume in Q1 2024, one would have thought that there has been high transaction activity in Trondheim. However, the fact is that it has been a slow start to the year, and Entra's sale of its portfolio in Trondheim is the reason for the high volume. The activity in Trondheim reflects the overall Norwegian investment market, with few transactions. In the office rental market, completed buildings have led to increased vacancies, but the absence of new projects in Trondheim CBD is likely to push rents higher. However, modest employment growth will restrain rental price increases somewhat.

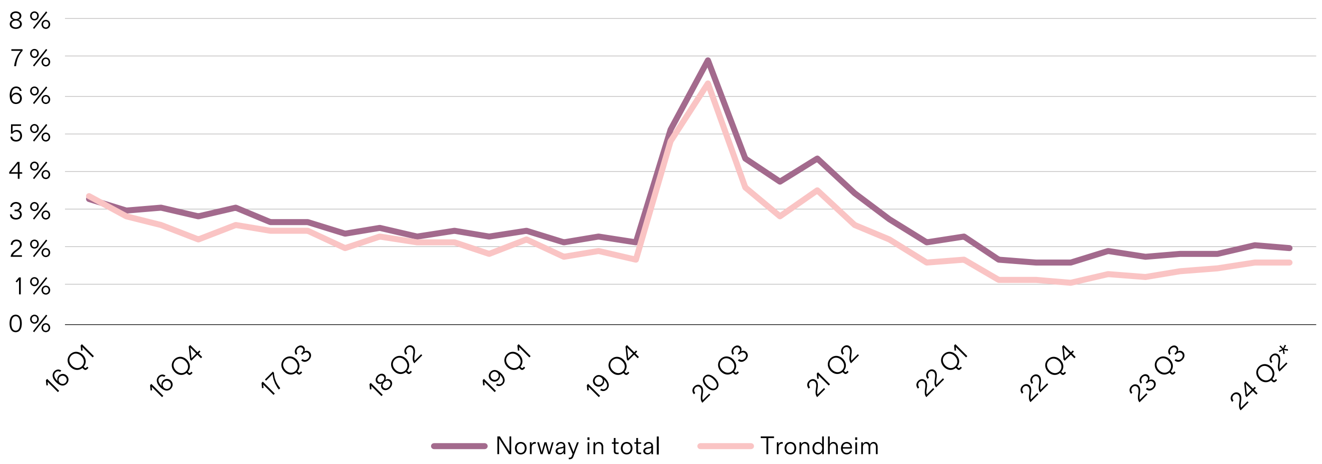
Lowest unemployment rates among the big cities

For the past two years, Trondheim has been one of the cities in Norway with the lowest registered unemployment rates, standing at 1.6 % in April 2024 according to the Norwegian Labour and Welfare Administration (NAV). Although there has been a slight increase since the record-low levels of 1.1 % unemployment in Q3 2022, figures are still significantly below the national average of 2.0 %. As the graphs for unemployment in Trondheim and Norway in total show, the rate has over time been below or in line with the national rate. This is partly because the types of business and share of public sector employment are fairly comparable to Norway in total. This correlation over time also indicates a low unemployment rate going forward, aligning with expectations for Norway.

In terms of advertised positions, the healthcare sector leads the way as of Q2 2024. In the county of Trøndelag, this sector stands for 23 % of the advertised positions in April. Furthermore, there are many advertised positions within retail and sales, as well as the industrial sector. Unemployment rates have decreased over the last year in the industrial and primary sector. In contrast, the unemployment rate is increasing in most professions, especially among jobseekers without a professional background, with engineering or IT backgrounds and construction workers.

We have seen from the past two reports from the Norwegian Central Bank's regional network that respondents from the Trøndelag region are a bit more pessimistic than the rest of Norway, after having been neutral with respect to their financial situation in 2022 and first part of 2023. At the same time, businesses report that there are still labour shortages, well beyond the country average.

Registered unemployment in Trondheim and Norway (incl. temporary lay-offs), %



*As of April 2024

Source: NAV (Norwegian Labour and Welfare Administration)

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

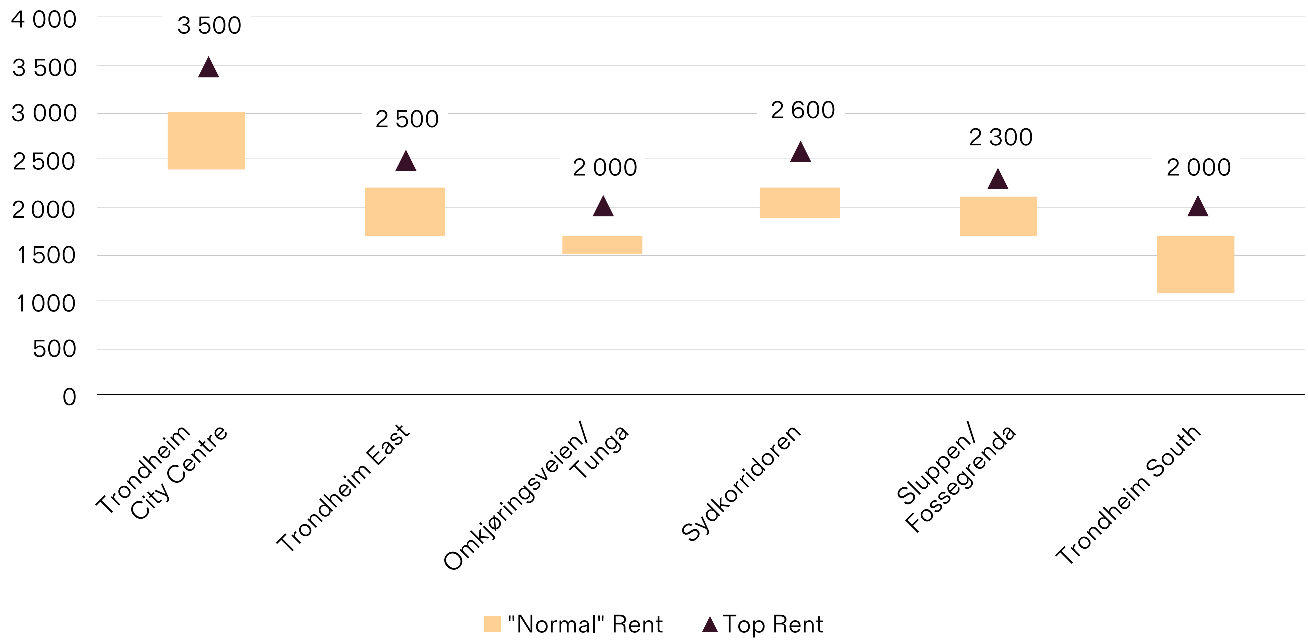
Expectations of modest rent growth in the coming years

Recently, office rents in Trondheim have shown a tendency to stabilise. However, there are some exceptions to this trend in the central area of Trondheim, Sluppen and Trondheim east.

In central Trondheim, there has been a rise in rents attributed to limited availability of space coupled with strong demand. In the Sluppen area, the recent construction of the newest Kjeldsberg office building has led to an increase in the top rents. This trend is also observed in Trondheim east, where Dora Eiendom's latest development on Kobbes gate has similarly elevated top rents in the vicinity.

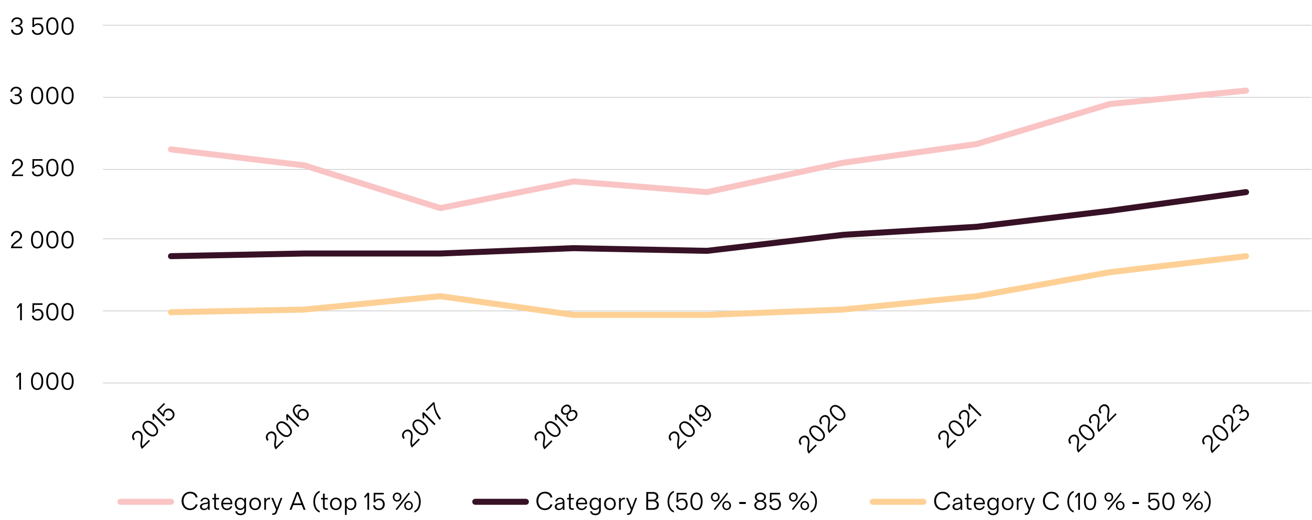
Going forward, we anticipate modest growth in rent, influenced by a slightly weaker employment market and expectations of moderate business growth. However, after taking upcoming projects from EC Dahls, KLP, and Bane NOR in Trondheim into consideration, we believe that the quality and locations of these projects will help push rent levels up in the next few years. On top of that, the absence of new projects in Trondheim city centre will exert pressure on rents there, too. Overall, we foresee limited downside risk to current office rents and anticipate modest increases in the years to come.

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



See definition of prime and nomal rent at page 30. Source: Norion Næringsmegling

Average nominal office rents in Trondheim (NOK/m²/yr)



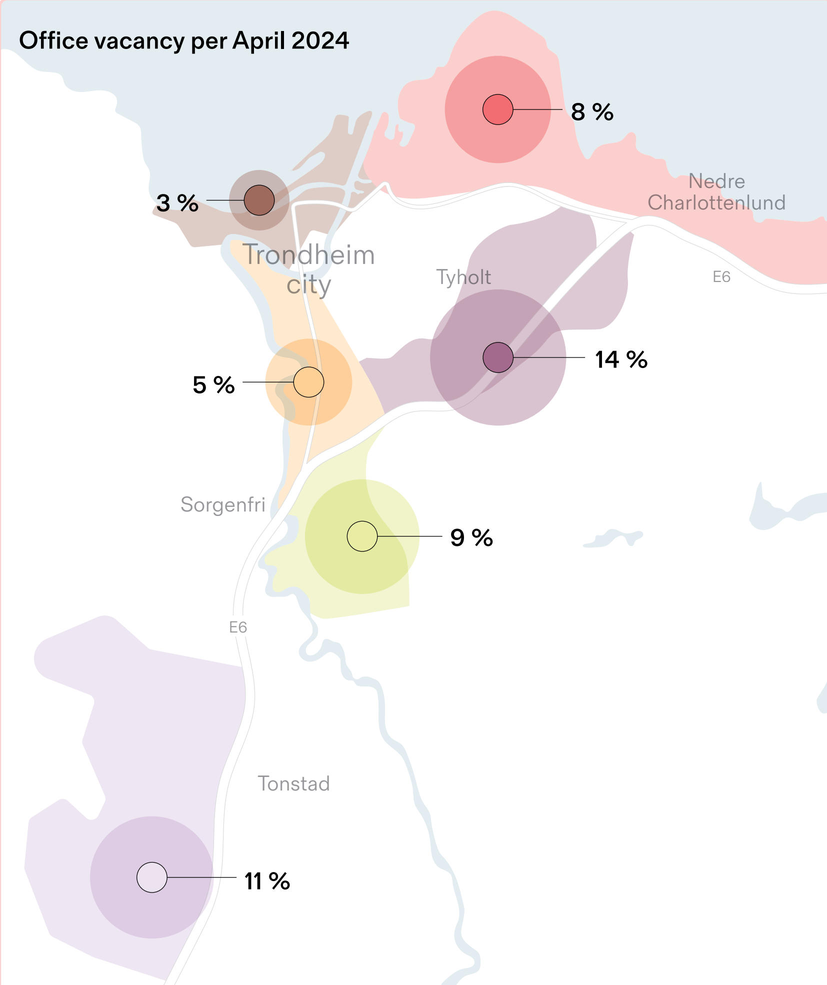
Source: Arealstatistikk

Office vacancy

We have recorded a higher total office vacancy so far this year compared to the vacancy measured in September 2023. This is mostly driven by an increase in office vacancy in the areas of Trondheim east, Omkjøringsveien/Tunga and Trondheim south. Furthermore, we have recorded a slight decline in office vacancy in the Sydkorridoren and Sluppen/Fossegrenda (primarily Sluppen) areas, showing that the market is somewhat geographically diversified. The increase in vacancy measured in the Trondheim east and Omkjørings-veien/Tunga areas is mainly due to several relocations where tenants are moving to newbuilds in Sydkorridoren and Sluppen.

Based on our latest vacancy measurement, Trondheim city centre remains the most attractive office destination.

Office vacancy per April 2024



Total office vacancy* = 6.4 %

*See page 43 on how we measure vacancy. Source: Norion Næringsmegling

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

	Area	From	To	"Normal" rent	Top rent	Vacancy
	Trondheim City Centre	2 400	3 000	600	3 500	2.9 %
	Trondheim East	1 700	2 200	500	2 500	7.8 %
	Omkjøringsveien / Tunga	1 500	1 700	200	2 000	14.4 %
	Sydkorridoren	1 900	2 200	300	2 600	4.5 %
	Sluppen / Fossegrenda	1 700	2 100	400	2 300	9.0 %
	Trondheim South	1 100	1 700	600	2 000	10.9 %

Source: Norion Næringsmegling

«Based on vacancy measurement, Trondheim city centre remains the most attractive office destination».

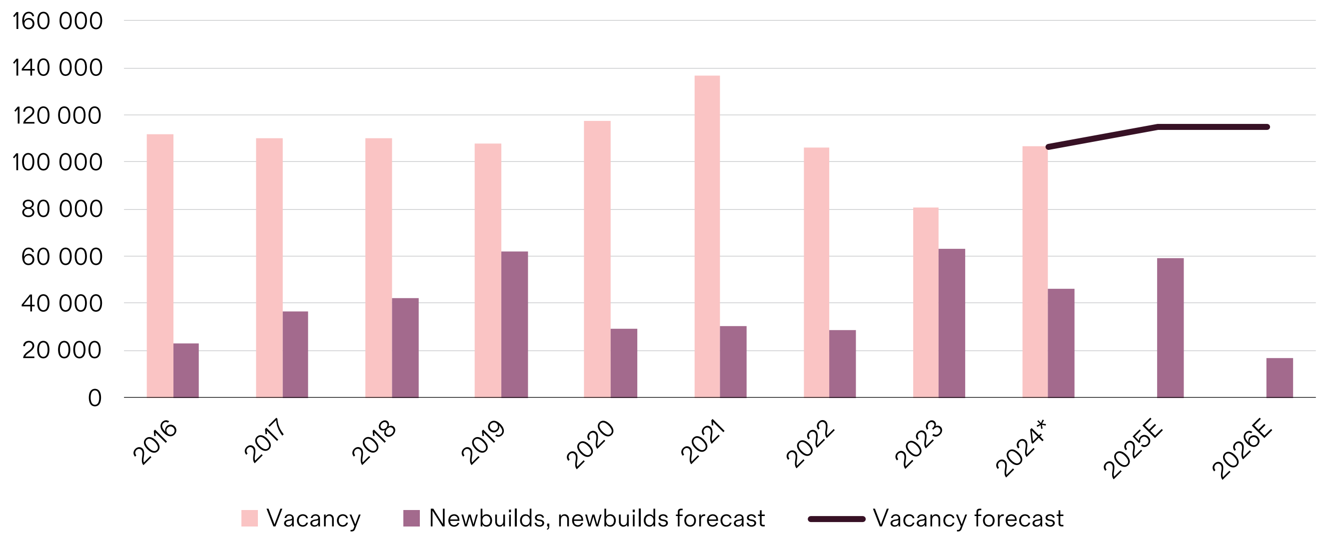
New developments

The total office vacancy measured in Trondheim in mid-2023 was at an all-time low of 4.8 % (approx. 80 000 m^2 vacant area). In our opinion, this is likely to be close to a structural vacancy in the office market in the Trondheim region. We assumed a total vacancy of 4.8 % to be artificially low at the time, since we recorded completion of approximately 63 000 m^2 newbuilds in 2023 with almost 100 % occupancy rate. Our prediction was that tenants relocating to the newbuilds would create vacant space in existing buildings which at the time were not advertised as vacant.

Our latest vacancy measurement confirms this assumption, resulting in an increase in office vacancy from 4.8 % in mid-2023 to approximately 6.4 % as of H1 2024. What may seem like a drastic shift in vacancy is not particularly alarming after monitoring vacancy over the last nine years, which shows that a total vacancy of slightly above 100 000 m^2 is fairly moderate. Furthermore, the shift in vacancy shows a slight mismatch between supply and demand, meaning that supply in 2023 is greater than the market can absorb. The trend of increasing vacancies despite strong employment growth over the past three years aligns with what we have observed in other markets, such as Oslo.

Furthermore, we have recorded a total volume of newbuilds of approximately 97 000 m^2 for the next three years (including 2024). The occupancy rate of the newbuilds in 2024 is approximately 100 % and approximately 10 % in 2025 and 2026 combined. Such newbuild volumes leads us to believe that vacancy should continue to increase throughout 2025 before stabilising at a level of approximately 7 % going in to 2026, which is comparable to the situation we saw back in 2020.

Vacancy, newbuilds and forecast, m^2



*As at May.

Source: Norion Næringsmegling

«Newbuild volumes leads us to believe that vacancy should continue to increase throughout 2025».

E.C. Dahls' portfolio acquisition driving investment volume

In terms of total transaction volume, 2023 turned out to be better than expected considering the increasing interest rate level seen over the past years. We recorded a total transaction volume of 5.3 billion, which is to be considered normal from a historical perspective.

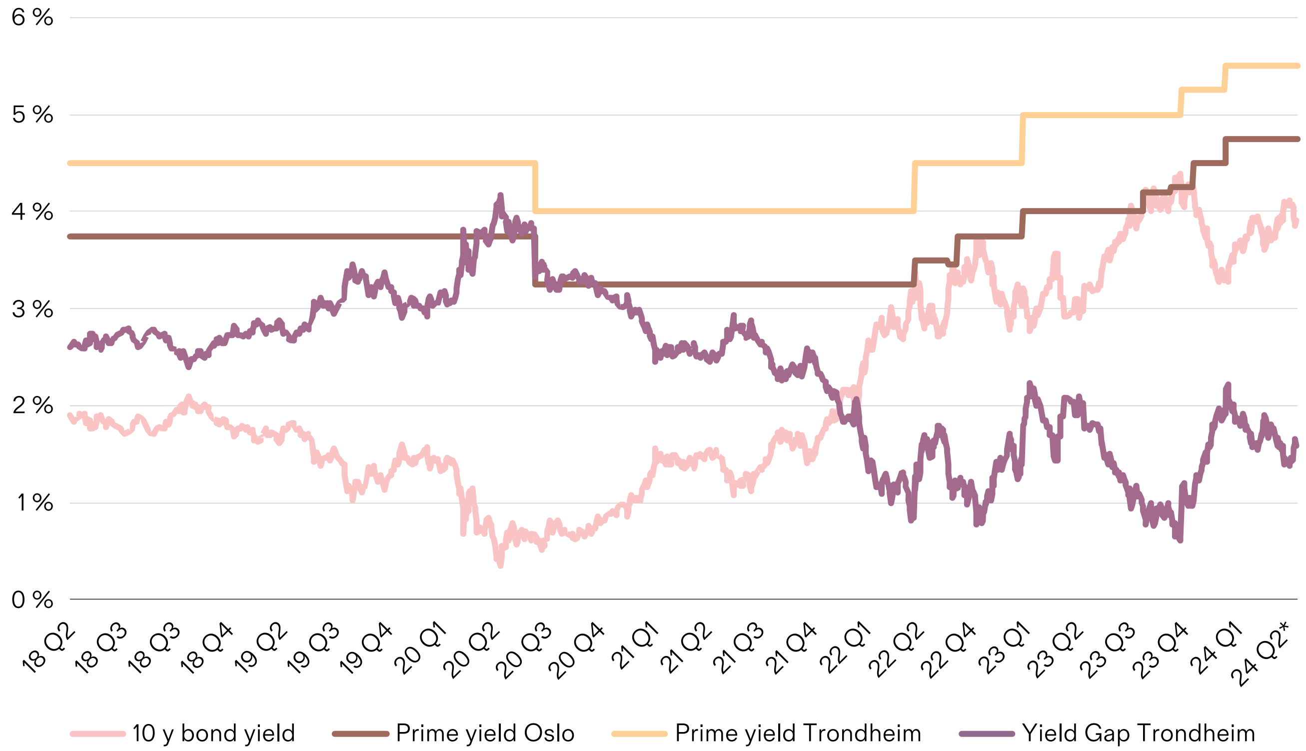
We raised our prime office yield estimate to 5.50 % at the beginning of 2024, approximately a 75 bps spread above Oslo. So far this year, we have seen transactions supporting this level in Trondheim. Although long-term rates have increased again in Q1 and Q2 and short-term rates have remained stable, we are maintaining our estimate at 5.50 % going forward.

The transaction volume recorded so far this year is mainly due to the Entra divestment, whereby Entra have divested all management properties in Trondheim. The buyer is E.C. Dahls Eiendom AS, a real estate company wholly controlled by the Reitan family. With this acquisition, our analysis shows that E.C. Dahls Eiendom AS now has a 20-25 % market share in the office rental market in Trondheim. The total value of the transaction has been communicated by Entra to be NOK 6.45 billion and we have calculated an average net yield at the lower end of the 5.70 – 7.75 % range.

Besides the Entra transaction, we have only recorded a few other notable transactions so far this year: four transactions within the logistics segment with a joint volume of approximately NOK 187 million.

As mentioned in the macro-chapter of this report, expectations of being at the policy rate top is leading us to believe that activity within the investment market will pick up sometime during the second half of this year, in line with the national market expectations. However, buyers and sellers are still at a distance regarding pricing, and still sensitive to interest rate changes. Hence, we are quite modest in our forecast for transaction volumes in the Trondheim region for the remaining part of 2024, with a "volume to come" of NOK 4 billion.

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



*As at 10 May.

Source: Norion Næringsmegling

Grev Wedels Plass 9, Oslo

Malling Leietakerrådgivning advised Alektum in the search and negotiation for their new 2 000 m² Oslo headquarters in Grev Wedels Plass 9.

About Malling

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

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

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

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