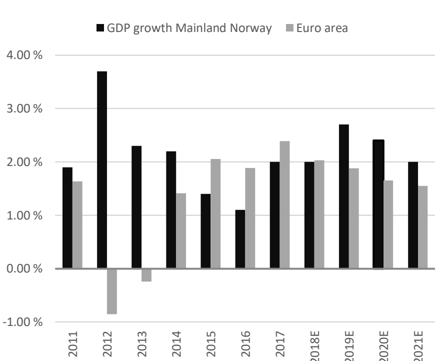
MARKET UPDATE

January 2019

Schweigaards gate 33
Malling & Co Corporate Real Estate advised Bane NOR Eiendom with the sale of the new Bane NOR HQ, a 22 635 m² new office development located in central Oslo.

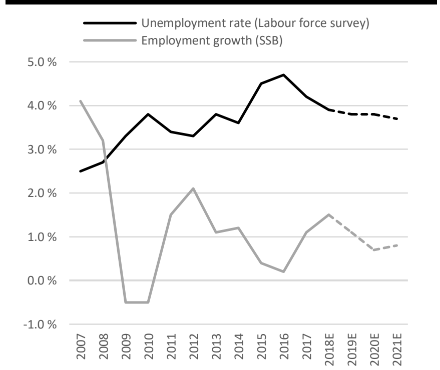
Illustration: LPO

GDP: Mainland Norway vs. Eurozone



Source: Statistics Norway (December 2018)/IMF World Outlook (October 2018)

Labour market Norway



Source: Statistics Norway (December 18)

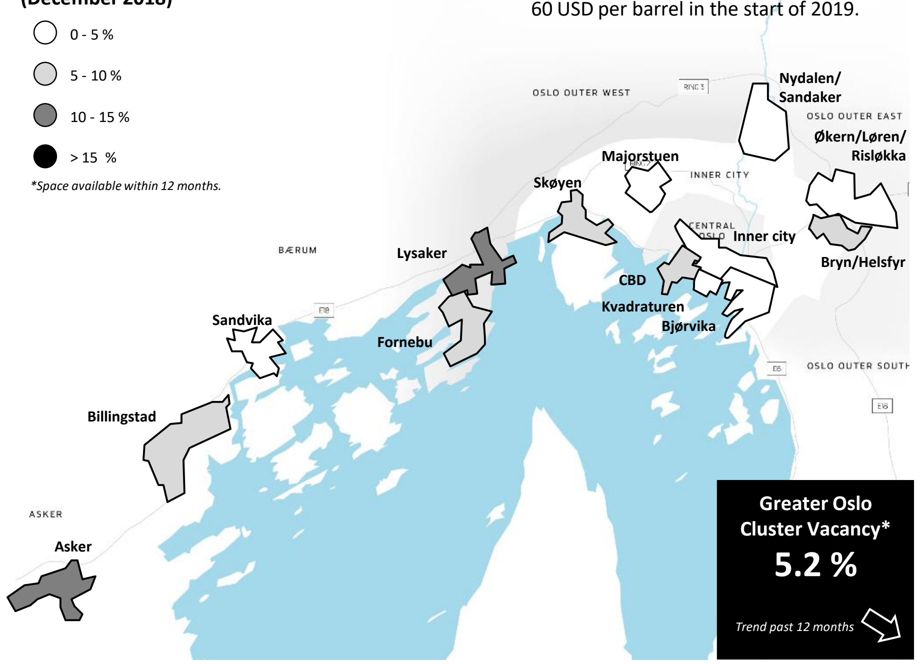
Latest figures Norway

- Statistics Norway adjusted its GDP-growth forecast for Mainland Norway in the beginning of December down from 2.3 % to 2.0 % for 2018, and up from 2.4 % to 2.7 % in 2019. Growth is expected to fall towards trend at 2.0 % in 2021.
- The unemployment rate (LFS) has stabilized around 4 % in the second half of 2018, the latest observation from October (avg. September-November). However, employment has increased more than twice as much over the past 12 months compared to the previous 12 months.
- The key policy rate was increased from the record low level at 0.50 % to 0.75 % on 20 Sept. The Norwegian Central Bank has signalled two interest rate hikes in 2019, with the first expected in March.
- Money market rates (3m NIBOR) have increased significantly since the summer and after peaking at 1.30 % in mid December, it is currently just above 1.25 %.
- The NOK has depreciated significantly against the EUR over the past month and 1 EUR is now 9.8 NOK. The NOK is by currency analysts considered under-priced, and is expected to appreciate over the coming year from current FX-rates on major currencies.
- 12 month rolling inflation for November (the most commonly used index for lease adjustments) ended at 3.5 %. This is much higher than the 1.1 % seen last year.
- The crude oil price has decreased significantly since the 2018 peak at 86 USD per barrel, and is currently trading around 60 USD per barrel in the start of 2019.

Latest lease contracts

Tenant	Address /Cluster	Size (m²)
Telia Norge AS (expansion)	Lørenfaret 1 (Økern Portal) / Økern/Løren/Risløkka	~ 7 650
The Norwegian Directorate for Education and Training (extension)	Schweigaards gate 15 B / Inner City	~ 9 260
Landsforeningen for hjerte og lungesyke	Vitaminveien 1 / Nydalen	~ 6 400
Spaces	Kristian Augusts gate 13/ Inner City	~ 4 300
ABG Sundal Collier	Ruseløkkveien 26 (VIA)/ CBD	~ 3 700

Vacancy* in office clusters in Greater Oslo (December 2018)



Latest transactions

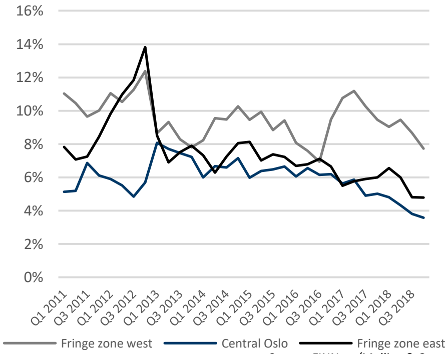
Buyer	Address	Size ¹ (NOK million)
DNB Markets	Schweigaards gate 33	1 700
H.I.G. Capital	Jåttåvågen 10-12	1 700
Aberdeen Eiendomsfond Norge I	Tollbugata 1A, Pilestredet 19/21 og Pilestredet 28	1 100
Pareto Eiendomsfelleskap	7 logistics assets / Vestby + Ski	600
Solon Eiendom	Kongeveien 47 og Fløisbonnveien 2-4	500

¹Deal size may be rounded due to confidentiality

Number formatting: SI style (English version)

Commercial Real Estate

Advertised office space in Oslo (m²)



Source: FINN.no/Malling & Co

Key facts real estate (office)

	PER JAN. 2019	PER JAN. 2018
Prime yield	3.75 %	3.65 %
Normal yield***	5.10 %	5.10 %
5 yr. swap rate (COB 11 Jan)	1.83 %	1.60 %
Average of 15 % highest rents in Oslo, NOK/m²/yr. (Q4)	3 720	3 510
Office contracts signed, m² (Oslo) (Q4)	171 130	202 380
Largest office contract, m² (Oslo) (Q4)	8 400	12 400
Avg. contract length, yrs. (Oslo) (Q4)	4.7	5.0

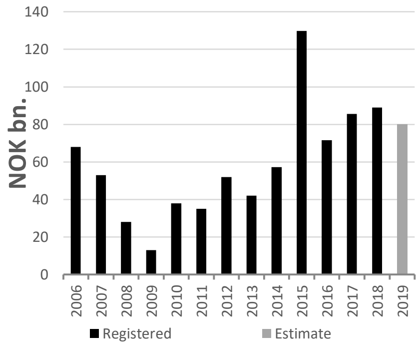
Source: Malling & Co/DNB Markets/Six/Arealstatistikk

Indicative office rents in Oslo (NOK/m²/yr.)

Office cluster	Prime rent*	Normal rent**
CBD (Vika/Aker B./Tjuvh.)	5 400	2 900 – 3 500
Skøyen	3 100	2 100 – 2 500
Inner City	3 900	2 400 – 2 800
Bjørvika	4 200	2 800 – 3 200
Lysaker	2 350	1 700 – 1 900
Fornebu	1 950	1 400 – 1 600
Nydalen/Sandaker	2 400	1 700 – 1 900
Økern/Løren/Risløkka	2 200	1 000 – 1 500
Bryn/Helsfyr	2 300	1 600 – 1 800

Source: Malling & Co

Transaction volume (>50 NOK million)



Source: Malling & Co

**Prime rents are consistently achievable headline rental figures that relate to a new, top located, high specification unit of a standard size commensurate demand within the predefined market area. The prime rent reflects the tone of the market at the top end, even if no new leases have been signed within the reporting period. One-off deals that do not represent the market are discarded.*
*** Normal rents reflect the interval where most contracts are signed in the specified market area.*
**** Normal yield is defined as the net yield of a well maintained building situated in the fringe zone with strong tenants on a 5 – 8 year lease contract.*

Special topic: Oslo office rental outlook for 2019

The final results for 2018 is now clear, showing significant rental growth for centrally located offices. Rents are approximately 10 % higher in the city centre, while the city fringe obtained 0-5 % growth depending on location and quality. The rental growth is in line with our forecast one year ago.

Our main view on the office letting market is more or less unchanged from our latest bi-annual report released in November. However, there are some downside risks that should be followed closely. The outlook for further employment growth is somewhat reduced, and significant sectors like retail is facing headwinds. This might affect employment and demand for office space down the road. Although Norway is a small open economy that is sensitive to the developments in international economy and stability, the Oslo office market has showed significant robustness earlier when the international economy has been facing trouble. And the supply side remains limited in the short term, leaving the downside risk to the demand-side of the market.

The past year's employment growth is gradually increasing demand in new office leases, and our estate agent are reporting on lack of available space, especially for medium sized and large space (>500 sq. m) in the city centre. Supply will remain very limited in the short term, putting pressure on fringe office clusters which we believe will see a rental increase in the next year. As the city centre is practically full, the only relief will be office clusters that could offer similar qualities to the city centre. Again, public transport is a key driver, and Skøyen, Bryn/Helsfyr and Lysaker are obvious candidates to provide available and attractive options for tenants that need space quickly. Despite that fact that there is a lack of large tenants for new projects finalized in 2-3 years, the majority of the market is still relatively short-term, focusing on existing stock that remains limited.

We therefore maintain our projections of general office rental growth in 2019, and predict an additional 10 % rental growth relative to average 2018 levels. This rental growth is expected to be seen in high quality space offering close proximity to public transport and other attractive amenities.

Oslo office market

- Office rents continue upwards on the positive trend, and is currently at all time high in nominal terms.
- The office vacancy level continues on a low level, and is measured at 5.2 % on average in the office clusters we follow.
- Office vacancy in the city centre is below 4.0 % on average for the city clusters, and tenants might have trouble finding new space available within 12 months.
- The construction pipeline in the near future is still moderate, and is supporting the strong office letting market. However, we see that net construction will increase as the conversion and demolition pipeline is reduced.
- There are many new developments in pipeline, but the timeline on new developments in the city centre tends to stretch out in time.
- Average office rents are per Q4 2018 approx. 7 % higher than in 2017. Our forecast is that the rental growth will continue throughout 2019 with a 10 % y/y growth. See also special topic below.

Transaction market

- The usual year end transaction rally could also be observed in Q4 2018, however, market players are commenting that assets for sale came out late in the quarter and that buyers did not have capacity to follow up on all processes by year end. We therefore expect deals to flow into Q1 resulting in an active Q1 2019 as well.
- The total transaction volume for 2018 now stands at NOK 88.7 bn. Divided on 262 transactions (above NOK 50 million).
- Our forecast for transaction volume and activity for 2019 is set at NOK 80 bn. but as always this estimate is likely to change over the year.
- Office is still the largest segment with a 42 % share. The second largest segment is industrial, a segment driven by demand for logistics assets specifically.
- The prime office yield estimate remains at 3.75 % and other yield estimates, except retail, remain flat from late 2018 levels.
- Retail is observing headwinds with retailers reporting disappointing sales. Some major retail assets remains unsold in the market which might reflect the apprehension of increased risk in this particular segment among investors.
- Our main yield outlook remains flat for the first half of 2019 as SWAP rates have come down and financing remains attractive and available.

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