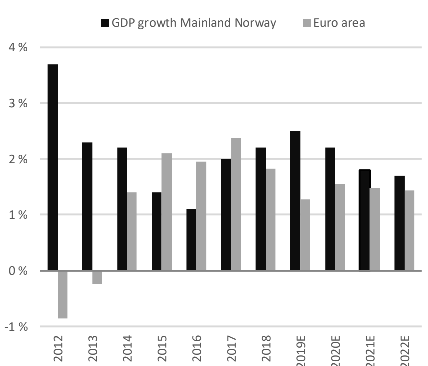
MARKET UPDATE

July 2019

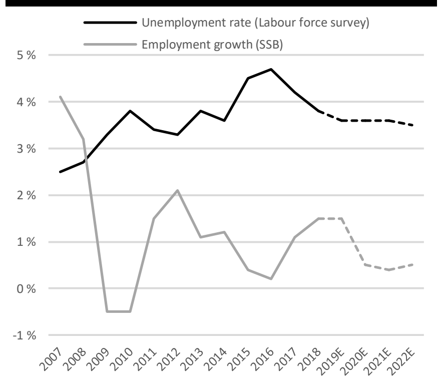
Malling & Co Corporate Real Estate was advisor in the transaction of the 100 000 m² retail portfolio from Tristan Capital Partners to Ragde Eiendom for NOK 1.55 bn. The portfolio consists of four retail parks with tenants such as Coop, Jula, Biltema and XXL.

GDP: Mainland Norway vs. Eurozone



Source: Statistics Norway (June 2019)/IMF World Outlook (April 2019)

Labour market Norway



Source: Statistics Norway (June 2019)

Latest figures Norway

- Statistics Norway adjusted its GDP-growth forecast for Mainland Norway in June to 2.5 % for 2019, and down from 2.3 % to 2.2 % in 2020. Growth is expected to fall further below trend to 1.8 % in 2021.
- The unemployment rate (LFS) was measured at 3.4 % in May (avg. April-June), which is down 0.4 % from the previous three month period measured in February (avg. January - March). Employment numbers from the LFS is showing a slight increase of approx. 1 000 employees over the same period, on a national level.
- The key policy rate was increased further to 1.25 % on 20 June. This is the third increase since the record low level of 0.50 % that lasted from March 2016 to September 2018. The Norwegian Central Bank has signalled further hikes in 2019.
- Money market rates (3m NIBOR) have increased significantly over the first half of 2019 and is currently at 1.60 %, up from 1.25 % at the start of January.
- Measured against the EUR over the first quarter of 2019 the NOK has appreciated, and 1 EUR is now priced around 9.7 NOK. The NOK is expected to stay around this level until next year.
- 12 month rolling inflation for June was measured at 1.9 % and 2.3 % for the CPI-ATE. CPI has decreased over the past six months.
- The crude oil price has decreased since the year high of around 75 USD per barrel in April to around 64 USD per barrel in the end of July.

Latest lease contracts

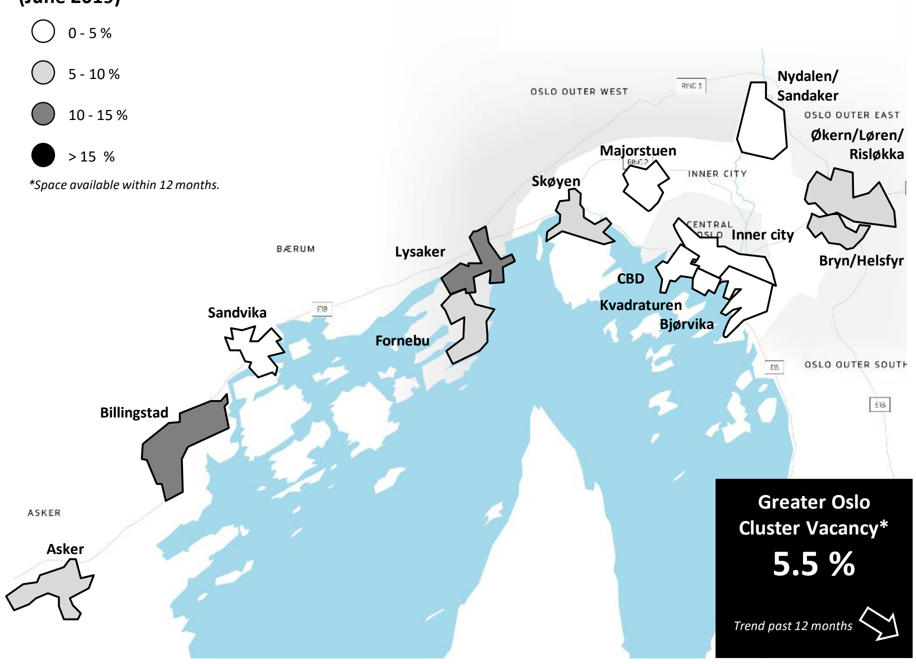
Tenant	Address /Cluster	Size (m²)
Høyskolen Kristiania	Urtegata 9 / Inner City	~ 10 000
The We Company (WeWork)	Fjordalléen 15 / CBD	~ 4 200
The We Company (WeWork)	Haakon VIIs gate 5 / CBD	~ 4 000
The We Company (WeWork)	Tjuvholmen allé 1-5 / CBD	~ 2 700
Advokatfirmaet Føyen Torkildsen	Dronning Eufemias gate 8 / Bjørvika	~ 3 000
Advokatfirmaet Bull & Co	Universitetsgata 7-9 / Inner City	~ 2 700

Latest transactions

Buyer	Address	Size [1] (NOK million)
DNB Liv	Dronning Eufemias Gate 30	4 500
Ragde Eiendom	Edge Portfolio	1 550
DNB Sca. Property Fund	Vitaminveien 4	1 325
Nasjonalmuseet for Kunst	Kristian Augusts gate 23	450
AKA	20 prop. retail portfolio	N/A

[1]Deal size may be rounded due to confidentiality

Vacancy* in office clusters in Greater Oslo (June 2019)



Number formatting: SI style (English version)

Commercial Real Estate

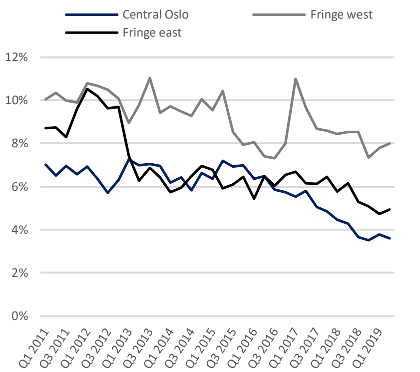
Oslo office market

- The arithmetic average of all new office contracts signed in Q2 2019 jumped incredible 9 % from Q1 to Q2. This increase is mainly due to an increased share of contract volumes in the city centre where rents are the highest, skewing the arithmetic average upwards. However, the growth was also recorded at almost 4 % for the location weighted average, signalling both higher rents in general and an increased share of expensive leases. The rental growth is way beyond normal statistical variations for the mean rental growth between quarters. The rental growth observed supports our projections of 10-15 % annual growth in 2019.
- The office vacancy is still at a low level and is measured at 5.5 % on average in the office clusters, slightly up from levels just above 5.0 % seen early in 2019 which we also have been expecting.
- Office take-up is high, both measured in m² and # of contracts signed compared to historical numbers for Q2 and H1 in previous years.
- Net construction finalized is expected to increase over the coming 24 months as the construction will increase and the conversion and demolition pipeline is somewhat reduced compared to previous years.

Transaction market

- The preliminary tally for H1 2019 shows a total volume of 40.3 NOK bn. Q2 2019 is the second highest ever recorded, and we have an unconfirmed pipeline of another 3 - 4 NOK bn. that we know of now. It is not unlikely that we could see Q2 become the highest Q2 ever recorded, surpassing the close to 31 NOK bn. in Q2 2015.
- The pipeline of future structured processes for H2 looks very promising for maintaining the high liquidity in the market. The latest investor survey shows that the demand for commercial real estate is high, and the access to financing is indicated to be good. Our forecast for transaction volume and activity for 2019 is hence revised upwards from NOK 80-85 bn to NOK 85-95 bn.
- Office is the largest segment with a 50 % share. The second largest segment is industrial at 20 %, still driven by demand for logistics assets, and on par with retail which is at a 20 % share. Given the negative connotations associated with retail, especially over the past year, the relatively high share of retail transactions shows that quality assets are still attractive investments. However, we are seeing that the investor sentiment towards retail is weakening, where an increasing number of investors have gone from a neutral stance towards a net seller view on the segment from Q1 to Q2.
- The prime office yield estimate remains at 3.75 % and other yield estimates, except retail, remain flat from late 2018 levels.

Office vacancy development, Greater Oslo



Source: FINN.no/Malling & Co

Key facts real estate (office Oslo)

	PER JUL. 2019	PER JUL. 2018
Prime yield	3.75 %	3.75 %
Normal yield***	5.10 %	5.10 %
5 yr. swap rate (COB 26 Jul.)	1.78 %	1.91 %
Average of 15 % highest rents in Oslo, NOK/m²/yr. (Q2)	4 200	3 830
Office contracts signed, m² (Oslo) (Q2)	182 920	152 940
Largest office contract, m² (Oslo) (Q2)	13 940	15 173
Avg. contract length, yrs. (Oslo) (Q2)	4.9	5.4

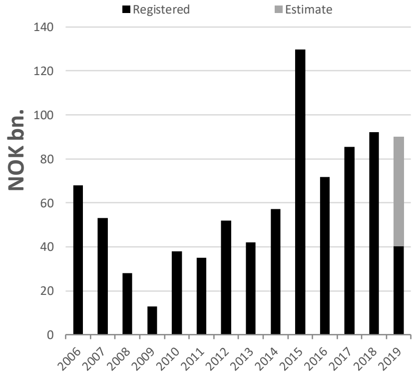
Source: Malling & Co/DNB Markets/Six/Arealstatistikk

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

Office cluster	Prime rent*	Normal rent**
CBD (Vika/Aker B./Tjuvh.)	5 600	3 000 – 3 600
Bjørvika	4 200	3 200 – 3 400
Inner City	3 900	2 600 – 3 000
Skøyen	3 200	2 200 – 2 600
Lysaker	2 400	1 750 – 1 950
Nydalen/Sandaker	2 400	1 750 – 1 950
Bryn/Helsfyr	2 350	1 600 – 1 950
Økern/Løren/Risløkka	2 200	1 200 – 1 700
Fornebu	1 950	1 450 – 1 650

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: Yield survey and investor sentiment in a world of shifting economic fundamentals

Over the past two and half years we have been surveying a select group of commercial real estate investors anonymously on a quarterly basis. The survey looks at net yield for prime and normal property for the segments office, retail and logistics for what the respondents believe is the level today and in one year, based on a specific definition of each segment. They are also asked to present their intentions for their net exposure towards commercial real estate, as well as the net exposure towards the different segments: office, retail, logistics and hotel. The data collected over time has provided valuable insight, and we will share a snippet of these findings here.

The most interesting finding in office prime yield data is the investor view that the yields would stay relatively flat from today's 3.75 %. Looking back a year ago, the belief in most macroeconomic circles and market pricing of interest rates showed a steady increase towards the perceived "normal" interest rate level. Admittedly, the continued pressure on the yields is also a function of the increasing rental prices, and other factors such as inflation expectations. But every indicator we can see from the investor's viewpoint going forward is that this flat development is going to continue.

Another very interesting takeaway from the survey is how early we can actually pick up shifts in the investors' view on the market. Very early on in the survey period, and a lot earlier than media or other entities started addressing the structural changes that were affecting Norwegian retail trends, we saw data that supported that something was about to happen in the retail segment. And at present we have the response, with the investors surveyed in Q2 2019 reporting an expectation of more than a 50 bps. increase on high street prime yields from our historic low at 3.50 %.

The final finding worth highlighting from our survey is that the latest investor sentiment at the intended exposure towards commercial real estate is very skewed towards an increasing exposure. Overall, close 70 % indicate that they intend to be net buyers over the coming 12 months. For office exposure, this number is even higher at almost 85 % intending to be net buyers.

With the pressure back on interest rates to remain low, or even be reduced again, and an investor universe so eager to increase the exposure towards commercial real estate, we continue our very positive outlook for a liquid transaction market and a high activity level keeping prices up.

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