MARKET UPDATE

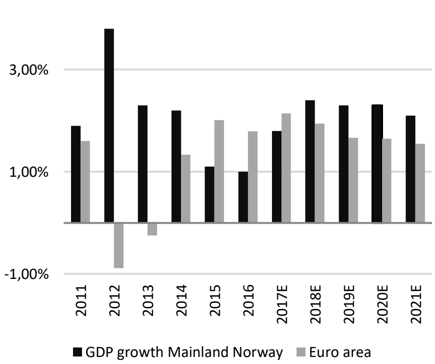
March 2018

Møllergata 37
Malling & Co Project Finance has set up a club deal to invest in Møllergata 37 in Oslo city centre. The property comprises 6 400 m² of office and retail space

Latest figures Norway

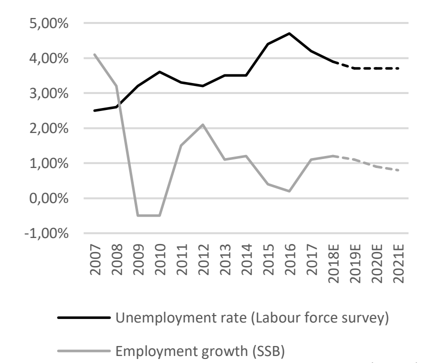
- The latest yearly estimate for Mainland Norway GDP-growth 2018 is 2.4 %, according to Statistics Norway (SSB). The estimate for 2019 and 2020 stands at 2.3 %.
- The unemployment rate has been trending downwards since July 2016, and ended at 4.0 % (LFS) in January 2018 (avg. Dec. – Feb.). Employment is increasing, and the increase is expected to continue with an expected growth of 1.2 % in 2018.
- The key policy rate was kept at the record low level of 0.50 % at the last meeting in March. The Norwegian Central Bank communicated in the last meeting that there is high probability for an increase in the key policy rate already after the summer. The Government has recently adjusted the inflation target to 2.0 %, down from 2.5 %, more in line with Norway's trading partners.
- Money market rates (3m NIBOR) have been slowly increasing from around 0.85 % in January to above 1.00 % at the time of writing.
- The NOK has appreciated approx. 4 % against the EUR since the start of 2018, while the NOK has appreciated almost 6 % against the USD in the same period.
- The 12 month change in CPI in February ended at 2.2 %. CPI is according to Statistics Norway expected to be approximately 2.0 % for 2018 and somewhat lower in the following years.
- The crude oil price has increased steadily since the summer of 2017 from below 50 USD per barrel, up to around 70 USD per barrel.

GDP: Mainland Norway vs. Eurozone



Source: Statistics Norway/IMF

Labour market Norway



Source: Statistics Norway (Nov. 17)

Latest lease contracts

Tenant	Address /Cluster	Size (m²)
Infratek (Renegotiation)	Østre Aker vei 60 / Økern/Løren/Risløkka	~ 9 900
Atea	Hasle Linje /Økern/Løren/Risløkka	~ 9 000
Regus	Carl Meyers gate 1 /Inner City	~ 5 200
Arntzen de Besche	Ruseløkkveien 26, VIA / CBD	~ 5 500
Sopra Steria	Biskop Gunnerus gate 6 / Inner City	~ 2 700

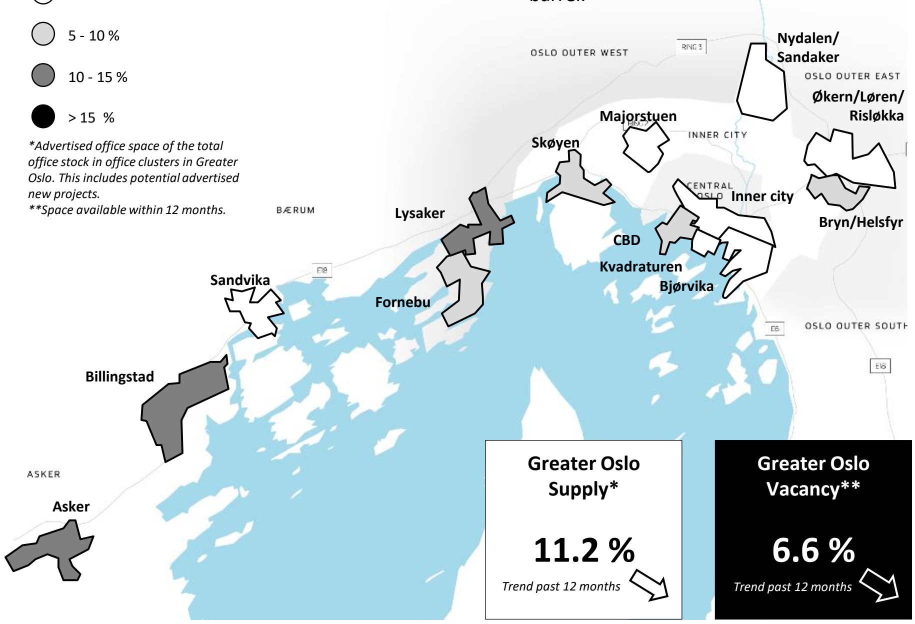
Latest transactions

Buyer	Address	Size (NOK million)
Asset Buyout Partners	Mongstad Base	Est. 4 000
Ragde Eiendom	Brobekkveien 80 / Alf Bjerckes Vei 14	Est. 1 000+
Joh. Johannson AS	Fornebuveien 7-13	N/A
Vika Project Finance	Mølleparken 4	440
HCH Eiendom	Møllergata 12	130

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

0 - 5 %
5 - 10 %
10 - 15 %
> 15 %

**Advertised office space of the total office stock in office clusters in Greater Oslo. This includes potential advertised new projects.*
***Space available within 12 months.*



Greater Oslo Supply*

11.2 %

Trend past 12 months

Greater Oslo Vacancy**

6.6 %

Trend past 12 months

Commercial Real Estate

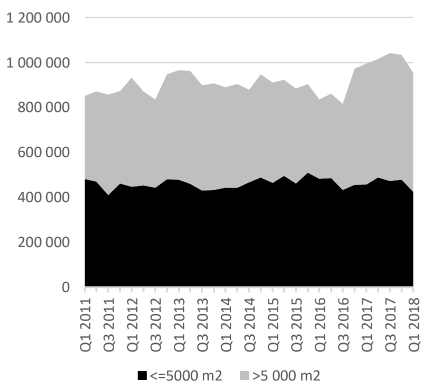
Office market

- The office vacancy level (office premises available within 12 months) has decreased since the summer of 2017, and is now at 6.6 % on average in the office clusters we follow. Vacancy is starting to become very low in the city centre, and tenants in immediate need of large space will struggle to find high quality space.
- As we saw the total amount of offered office projects (supply) increased during 2017, this has now decreased as a consequence of several projects having secured an anchor tenant. We therefore expect construction to increase somewhat compared to previous years, however net additional supply is still rather limited.
- Office rents continue on a positive trend, and is expected to continue the growth throughout 2018. Increasing economic growth in Norway, and low vacancy among central and high quality assets supports the positive outlook. The latest rental statistics from Arealstatistikk supports the strong letting market in 2017 with a y/y growth of around 10 %, way above the November CPI of 1.1 %.

Transaction market

- The transaction market is off to a more moderate pace than last year, with a registered volume of approximately NOK 15.2 billion divided into 37 transactions. We would however like to emphasize that this is still a very healthy volume, and the pipeline of properties coming to market is strong. Another sign of a strong momentum is the high number of off-market deals we are seeing taking place. The appetite is still there for both buyers and potential sellers.
- Interest rates have had a new upwards surge on the back of the US Fed raising their key policy rate, and a outlook of several more to come. The Norwegian Central Bank is also seen revising their projected key policy rate increase to happen just over the summer of this year. The 5YNOK swap is now sitting at a flat 2.00 %.
- We estimate prime office yield to be 3.65 % while our estimate for normal yield is at 5.10 %. With the increase in the long interest rates, one would be forgiven to believe that this will lead to a immediate increase in the yield levels. We do however believe that this could at least be subject to a lag effect as there are other drivers in place to moderate an immediate increase. Bank margins are coming down, and could quite possibly come further down. There are also still expectations of further rental increases, especially in Oslo city centre.

Advertised office space in Oslo (m²)



Key facts real estate (office)

	PER MAR. 2018	PER MAR. 2017
Prime yield	3.65 %	3.70 %
Normal yield***	5.10 %	5.30 %
5 yr. swap rate (COB 21 March)	2.00 %	1.52 %
Average of 15 % highest rents in Oslo, NOK/m²/yr. (Q4)	3 510	3 280
Office contracts signed, m² (Oslo) (Q4)	203 380	247 510
Largest office contract, m² (Oslo) (Q4)	12 400	17 060
Avg. contract length, yrs. (Oslo) (Q4)	5.0	5.2

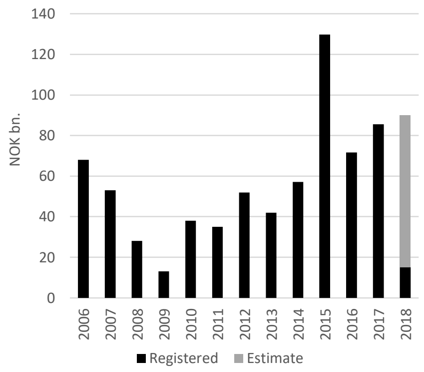
Source: Malling & Co/DNB Markets/Six/Arealstatistikk

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

Office cluster	Prime rent*	Normal rent**
CBD	5 200	2 800 – 3 500
Skøyen	3 000	1 800 – 2 300
Inner City	3 500	2 300 – 2 700
Bjørvika	3 800	2 700 – 3 000
Lysaker	2 350	1 700 – 1 900
Fornebu	2 000	1 400 – 1 600
Nydalen/Sandaker	2 350	1 500 – 1 700
Økern/Løren/Risløkka	2 200	1 000 – 1 500
Bryn/Helsfyr	2 200	1 500 – 1 700

Source: Malling & Co

Transaction volume (>50 NOK million)



Source: Malling & Co

**Prime rents are consistently achievable headline rental figures that relate to a new, well 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.*

Topic of the month: What happened in Stavanger?

It is almost 4 years since the oil price dropped and made a huge impact on the office market in Stavanger. The market has ever since, been seeing high office vacancy and reduced rents, especially at Forus. We now see that some investors are starting to reconsider Stavanger, and our latest research outlook for Stavanger points out a few interesting facts from this market.

As many should be aware, Stavanger has been totally dominated by the Oil & Gas sector since the 1960s. Statistics Norway (SSB) recently released an interesting analysis of what happened to all the employees in this sector that lost their jobs in the cost cutting programs that followed the oil price drop in 2014. It seems that this sector is specifically structured to allow for long haul commuting, hence attracting employees living outside Stavanger or even Norway. As the SSB-article discusses, a higher share of foreign employees actually lost their jobs. While more than half of local employees who lost their jobs managed to get a new job within 5 months, employees from other countries appeared to leave the Norwegian labour market for good. In total, they found out that 1000 persons disappeared from the labour market over the 5 months. This may explain why the real estate market in Stavanger is seeing a much higher volatility in demand than other cities in Norway.

But what is happening now? The vacancy in areas like Forus is still very high, but it is concentrated to a handful of very large office buildings, and in our view making the vacancy more manageable for the market as a whole (not for the individual owners). In addition, it is reasonable to believe that increased activity in the Oil & Gas sector could suddenly create a need for more space when activity is picking up momentum. The question is how long it will take to absorb much of the vacant space and how the real estate market will react. Hopefully, developers will not again initiate new constructions based on short term needs from the cyclical industry, and rather focus on developing a sustainable office stock that that will be attractive even demand drops from cyclical sectors. In that respect, we believe Stavanger city centre is the place to search for new projects rather than easy accessible land at Forus. Here, the development will focus on tenants need for urban office space, and the pace of new developments will be constrained by a lack of land. The current office stock at Forus could then be used as flex space when demand suddenly peaks.

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