MALLING & CO MARKETS

MARKET REPORT WINTER 2017 / 2018

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CONTENTS

Introduction 3
Macro 4
Oslo office market 8
Stavanger 28
Drammen 30
Retail 34
Industrial & Logistics 36
The transaction market 38
Guest column – Norway: An economy in transition 40
About Malling & Co 42

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DESIGN OG LAYOUT Semway

THE LITTLE COUNTRY THAT COULD

We have argued that rental increases are taking over as the main driver for value increases in the office CRE market for a while now. Rental development has shown strength throughout 2017 on average, but further analysis reveals that the office rental market is segmented. While some parts of the market are enjoying rental increases and good demand, other areas are more challenged and experiencing a flat development.

With decreasing unemployment and increased growth, the economic outlook for Norway now appears better than it has done for many years. The leading indicators have been positive, but the development in the residential market is weaker than many had anticipated. Although we experienced decreasing residential prices in 2013, this lasted for no more than eight months. This time around, however, it appears that the downturn is more deeply-rooted, and due to a combination of high construction activity, stricter mortgage rules, decreasing population growth, and not least a reaction to Oslo's incredible and excessive annual price growth of 23 % in 2016. In turn, the office market is experiencing the immediate effects of this through less conversion and fewer transactions with residential developments. The probable effects on the rest of the economy are highlighted by Jan Ludvig Andreasen in our guest column.

We have been predicting increasing rents and flat yield development for a while now, and our forecasts appear to be correct. However, it is also important to be balanced in our message. Firstly, the office letting market is doing well in central Oslo, as rents are increasing, and vacancy is pointing downwards. But amid these positive developments, we still see some challenges. New projects aimed at the large tenants and existing premises in the fringe are experiencing a flat rental development. Competition remains fierce in those markets, and in addition tenants – as always – are demanding costly fit-outs.

The CRE transaction market is still boiling hot, and the antipodal of the residential market. Yields have even compressed a few bps more than we anticipated half a year ago. Demand from both foreign and national investors in search of real estate exposure and returns continues to be strong. Our 2017 transaction volume estimate of NOK 60 billion at the start of the year has been put to shame, as we have had to revise it upwards to NOK 85 billion for the full year. The limiting factor in the markets seems to be a lack of high-quality product, not the number of customers entering the store.

We hope you enjoy our latest market report. Remember that Malling & Co is here to support you in all your commercial real estate needs, including transaction support, tenant representation, development, energy and environment services, research services, rental services, valuations, and property and asset management.

PETER T. MALLING SR.
CHAIRMAN — EIENDOMSHUSET MALLING & CO

MACRO – NORWAY

Back to growth at the tortoise's pace

Norway has returned to growth through expansive financial and monetary policies, where a weak krone has supported the competitiveness of traditional Norwegian exports industries outside of the Oil & Gas sector. But the former driver of the economy, the residential housing and construction industry, is turning from a growth driver into a growth pacifier. After a 1.0 % GDP growth in 2016, estimates for growth over the next three years are 2.0 % for 2017, 2.1 % for 2018, and then back up at 2.4 % for the next two years (Statistics Norway, Sept. 2017). All figures are upwards or neutral revisions from our previous report in June of this year.

GDP growth

SSB estimates that from September 2017, mainland GDP growth will be 2.0 % in 2017, 2.1 % in 2018, and 2.4 % in 2019 and 2020. In their update from late August, DNB Markets' forecast is the same for 2017 at 1.6 % growth, but their projection is slightly lower for 2018 at 2.0 %, and significantly lower for 2019 and 2020 at just 1.9 % growth. The Norwegian Central Bank regional network survey 3/2017 shows increased activity among their network of companies in the last reporting period, in line with their expectations from the last report. However, expectations going forward are more moderate for the upcoming six-month period, as the main driver is largely regarded as increased public spending, while the other previous driver, residential construction, is expected to reduce its demand.

The national budget

The proposed national budget for 2018 was presented on 29 September, and showed a NOK 6.0 billion increase in the use of funds from the Sovereign Wealth Fund, increasing the oil-corrected deficit to NOK 231 billion. Oil fund spending corresponds to 2.9 % of the fund's current value – the same as last year – just below the new long-term limit of 3.0 %. The overall view of the underlying growth in expenses and model calculations shows that this is as close to a neutral budget as it is possible to propose. However, it is worth noting the disparity between the growth estimates for 2018 and 2019 as projected by Statistics Norway and DNB Markets – and the 2.5 % and 2.6 % growth for these years respectively, as projected by the Ministry of Finance.

Oil price

Following our last report released in June 2017, the Brent Crude Oil price dropped from just above USD 50 per barrel to just below USD 45 per barrel towards the end of June. Since then the price has seen a steady increase up until the time of writing, and the Brent Crude Oil price is currently close to USD 64 per barrel – an all-time high for the year. The forward market is now pricing Brent Crude Oil for delivery in 12 months' time at close to USD 59 per barrel.

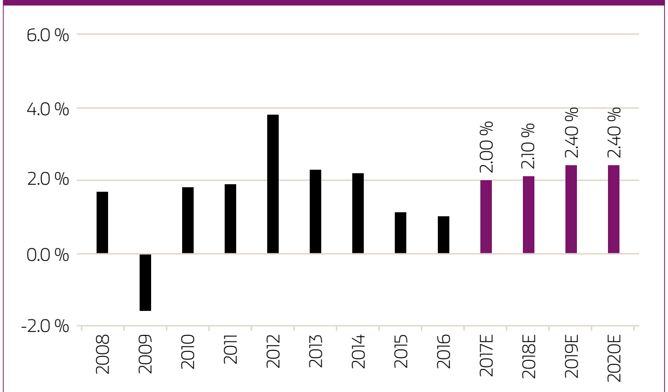
Oil investments

Oil-related investments peaked in 2013, and have declined continuously since the fourth quarter of 2013. The latest counting issued by Statistics Norway shows a further estimated decrease of 7.1 % in 2017 over 2016 figures. Although investments decreased over 2016, the decrease was significantly less than what was expected only six months ago, when the 2017 decrease was projected to be 13 %. The current estimate for investments in Oil & Gas extraction and pipeline transport for 2017 is NOK 152.2 billion.

Key policy rate

The Norwegian Central Bank has held the key policy rate at 0.50 % since March 2016, and the latest estimates from the Monetary Policy Report

MAINLAND GDP GROWTH NORWAY



Source: Statistics Norway (September 2017)

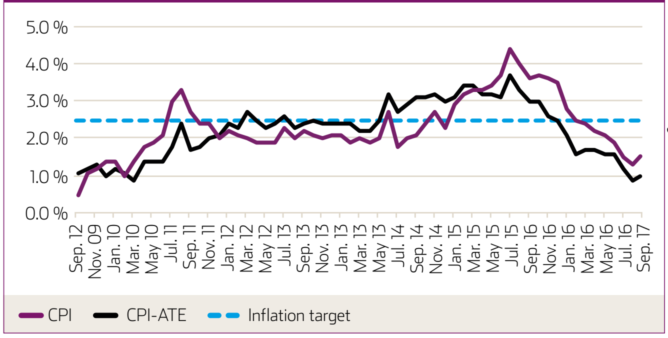
THE LABOUR MARKET 2006 – 2016 WITH FORECASTS UNTIL 2020

Source: Statistics Norway (September 2017)

MAIN FIGURES (ANNUAL PERCENTAGE GROWTH UNLESS OTHERWISE NOTED)	2016	2017E	2018E	2019E	2020E
Consumption in households etc.	1.5	2.4	2.4	2.9	2.8
General government consumption	2.1	1.9	1.7	1.8	2.2
Gross fixed investment	-0.2	4.2	1.6	1.9	2.4
– Extraction and transport via pipelines	-16.9	-0.3	0.2	8.2	3.0
– Gross investments mainland Norway	6.1	5.7	1.5	0.2	2.2
Exports	-1.8	1.6	1.6	2.6	2.5
– Traditional goods	-8.2	2.1	5.0	3.3	2.6
– Crude oil and natural gas	4.3	1.4	-0.4	1.0	2.3
Imports	2.3	4.9	2.0	2.7	2.7
GDP	1.1	1.8	1.8	2.2	2.3
Unemployment rate (level)	4.7	4.2	4.1	4.0	3.9
Employed persons	0.3	1.0	0.8	1.0	0.9
CPI - yearly growth	3.6	2.1	1.9	1.7	1.9
Core inflation (CPI-ATE)	3.0	1.6	1.7	1.6	1.6
Wages per standard man-year	1.7	2.4	3.0	3.2	4.0
Real after-tax lending rate, banks (level)	-1.6	-0.1	-0.1	0.1	0.2
NOK per euro (level)	9.3	9.2	9.2	9.1	9.0
Current balance (Bn. NOK.)	154.8	170.9	143.5	170.2	194.9
Current balance (in % of GDP)	3.3	5.2	4.2	4.6	5.1

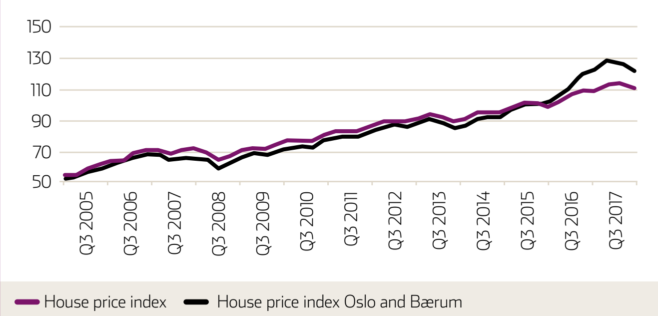
Source: Statistics Norway (September 2017)

INFLATION (12-MONTH CHANGE)



Source: Statistics Norway

HOUSE PRICE INDEX (2015 = 100)



Source: Statistics Norway

suggest a flat development over the coming year, with an expectation of a gradual increase close to 1.50 % towards the end of 2020. The key policy rate is therefore expected to begin increasing roughly six months earlier than the Norwegian Central Bank expected when we released our previous report. Growth in the Norwegian economy has picked up, although at a dawdling pace, and inflation has come down.

CPI

September's 12-month CPI and CPI-ATE were 1.6 % and 1.0 % respectively – well below the current inflation target of 2.5 %. Looking at Statistics Norway's CPI expectations over the coming years, these lie well below the target of 2.5 %, and economists in the financial sector predict inflation of around 2.0 %. The past year's high inflation figures due to the weakening of the Norwegian krone are over.

Unemployment

According to the Labour Force Survey (LFS), the unemployment rate has decreased since it peaked at 5.0 % in July 2016 (average of June-September), and was down to 4.1 % in August (average of July-September). The register based unemployment from NAV (the Norwegian Labour and Welfare Administration) was 2.5 % in September, down from 2.8 % one year ago. Gross unemployment figures for September (including job-seekers on initiatives) also show a decreasing trend, and gross unemployment is at 3.1 %. The trend of a decreasing workforce seems to be over, with the number of employed persons seeming to be on an increasing trend. However, the workforce share of the total population (seasonally adjusted within the 15-74 age range) is decreasing, and now at 69.7 %, down from 70.8 % last year.

Employment

The seasonally-adjusted Q2 national accounts indicate an increased employment of about 24 000 persons when comparing Q2 2017 with Q2 2016. Several reports, like the latest from NAV (discussed further on page 8), also indicate an increase in employment for this year and 2018. Employment growth is expected to be moderate, however.

Wages

Nominal wage growth is expected to come in at 2.4 % in 2017, leading to an expected real disposable income growth of 2.2 %. Statistics Norway is expecting nominal wage growth of 3.0 % in 2018, more than 1.0 % above the CPI forecast of 1.9 %. Nominal wage growth is expected to increase to 3.2 % in 2019 and 4.0 % in 2020.

The stock market

The Oslo Stock Exchange broad index (OSEBX) started the year just below 700 points, and reached an all-time high of 817 on November 6, up more than 18 % since the beginning of January.

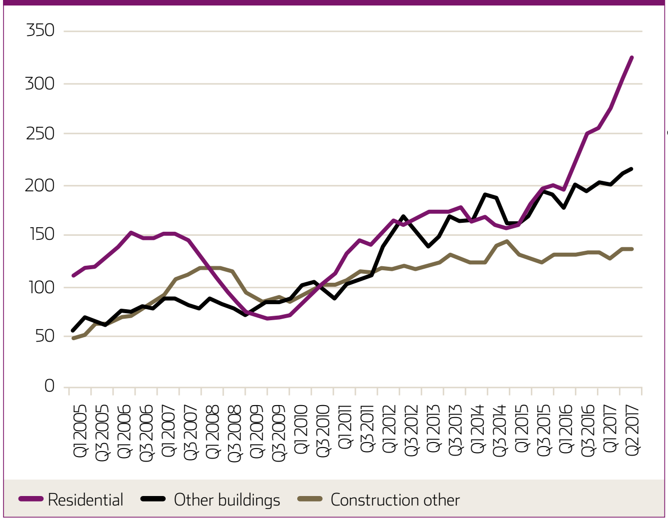
Residential prices

Residential prices for Norway as a whole were down 0.2 % (m/m Sept-Oct 2017), and up 0.4 % when seasonally-adjusted for the same period. This may be interpreted as a sign that the drop in prices is over, but the underlying story tells a different tale. Coming from very high figures in 2016, the lag effect of a high baseline is affecting 12-month figures such as the 12-month growth rate, which is down to 0.7 % on a national level, while both time on market and age of inventory (unsold) are going up. Many new units are being constructed in Oslo, with the pipeline count currently at 9 000. This is 3 200 units more than just 12 months ago. Simultaneously, prices are continuing to fall in Oslo, with prices down by 1.8 % (m/m Sept-Oct), and the same trend being witnessed in all four of Norway's largest cities over the past month. The 12-month growth rate in Oslo is now negative for the first time since June 2014, at -2.8%. The cooldown in the Oslo market is a welcome response to the concerns of increasing household debt and the risk of financial instability in discussions concerning the setting of the key policy rate. However, the negative impact on consumption and the economy could be a new concern should the drop in prices prove deeper and longer than expected.

Consumption growth

According to Statistics Norway, private consumption growth is expected to increase from a modest 1.5 % in 2016, to 2.4 % in 2017 and 2.6 % in 2018. Positive changes in real income over the coming years and higher employment are expected to lead to higher consumption growth, although the latest seasonally-adjusted volume index of retail sales showed a decrease of 0.8 % from August to September, following a decline of 0.6 % from July to August this year. However, when taking working-day adjusted figures into account, retail sales increased by 2.5 % in July-September this year, compared to the same period in 2016.

CONSTRUCTION NEW ORDERS (2010 = 100)



Source: Statistics Norway

MACRO – GLOBAL

Stronger growth – inflation resilient towards increases

The improvement in global economic activity is strengthening. According to the IMF, global growth, which in 2016 was the weakest since the global financial crisis at 3.2 %, is projected to rise to 3.6 % in 2017 and to 3.7 % in 2018. This is an increase of 0.1 percentage points in the growth forecasts for both 2017 and 2018, compared with the previous report in early 2017. Better than expected growth in the Euro Area, Japan, Emerging Asia, Emerging Europe and Russia has more than offset downward revisions for the US and the UK. However, there are several challenges that need to be remedied before a full bill of health can be issued for the world economy. The broad outlook is that of a global strengthening, but growth remains weak in many countries, and inflation is below target in most advanced economies. Commodity exporters – especially of energy – are particularly affected, as falling foreign earnings continue to demand adjustments in domestic spending, and budgets are under strain. In the short term, risk is broadly balanced, but medium-term risks are still skewed to the downside. The cyclical pickup in global activity means many countries and regions now face an opportunity – and challenge – to handle public debt in a sustainable manner.

Sweden

The pace of expansion of Sweden's economy is projected to moderate to 3.1 % in 2017 and 2.4 % in 2018 (IMF), and 2017 is projected to maintain a higher growth level than previously reported. The solid figure for 2017 will keep the momentum of 2015 and 2016 going, before returning to a more normalised growth case in 2018. The Swedish Central Bank (SCB) is continuing to keep the key policy rate low, holding it stable at -0.50 %, despite seeing inflation close to target level at 2.00 % and a very good level of activity in the economy. The SCB has elected to focus what they deem to be a situation of less of a reduction in quantitative easing abroad, and therefore a situation in which they must refrain from lowering quantitative easing and remain committed to keeping the program at SEK 15 billion for the second half of 2017, for a total of SEK 290 billion, before making a decision on the future of the programme in December this year. The projection from the SCB is that the key policy rate will remain at -0.50 % until the summer/fall of 2018, and that the key policy rate will be set at 0.75 % in Q4 of 2020.

The Eurozone

After almost a decade of slogging through the mud in the wake of the financial crisis, and getting to grips with bank and state debt in the midst of a financial depression and high vacancy rates, the Eurozone economy has finally started to accelerate, and growth so far in 2017 has been stronger than projected. The second quarter annualised GDP growth was 2.1 %, and we are now seeing evidence of the European Central Bank (ECB) easing off the throttle. The key policy rate – the deposit rate, which has been in negative territory since mid-2014 – is expected to be neutral towards the end of 2018, and analysts believe that slow and moderate increases will be seen from mid-2020. The ECB has simultaneously voiced its intention to halve its asset purchases, which presently total EUR 60 billion per month. From January to September 2018, the ECB will buy bonds worth EUR 30 billion per month. However, the ECB is adamant that the monetary policy will remain very accommodative, with reference to the asset purchases in particular, and that these will continue until inflation clearly moves towards the 2 % target. The ECB will continue to closely monitor the solidity of the recovery, allowing it to gain strength. The Euro area GDP growth projections from the IMF are now at 2.1 % for 2017, and 1.9 % for 2018.

The UK

In our previous report we argued that negotiations for the withdrawal of the UK from the European Union would be a long and arduous task, and that statement presently seems to be more of an understatement. The Bank of England (BoE) now faces the task of navigating the monetary policy through a very uncertain future economic climate for the UK. The BoE has increased the key policy rate by 25 bps to 0.50 %, and is continuing the quantitative easing program totalling GBP 435 billion as previously. The UK GDP growth in Q3 2017 was 0.4 % over the previous quarter, more than 10 bps higher than both analysts and the BoE had projected, and overall there is little evidence of the turmoil surrounding Brexit affecting the growth of the UK economy. However, this is largely due to the weakening of the GBP and the resulting increase in the cost-related competitive capability of British industry. The BoE is signalling a gradual and limited increase in the key policy rate. However, many analysts disagree with this, as the evidence suggests that the growth rate and other factors will recede more than the BoE is forecasting, and that an increase is unlikely over the next few years. The UK GDP growth projections from the IMF are now at 1.7 % for 2017, and 1.5 % for 2018.

The US

The US continues to be a leading driver of the world economy, but disappointing results from the reforms and economic stimuli promised by POTUS and the administration have reduced the medium-term outlook slightly. Recent indicators are coming in at their lowest scores since December last year, indicating that growth may be slowing somewhat. However, the outlook for the current eight-year economic growth period remains bright. Multiple conditions are pointing towards several years of continued growth, making it the longest period of sustained growth in modern times. The latest GDP growth figures for Q3 2017 came in at 3.0 % (SAAR), higher than expected by consensus and the Fed. A decline in core PCE inflation this year seems broad-based, and inflation is likely to stay low for a while, with the current figure being 1.3 % (y/y October). This will likely dampen the Fed's ability to increase the federal funds rate as quickly as previously projected, with current figures at 1.00-1.25 %.

ANNUAL GDP GROWTH (PERCENT)	2017E	2018E	2019E	2020E	2021E	2021E
Global	3.6	3.7	3.7	3.7	3.8	3.8
The US	2.2	2.3	1.9	1.8	1.7	1.7
EU 28	2.3	2.1	1.8	1.8	1.7	1.7
The Eurozone	2.1	1.9	1.7	1.6	1.5	1.5
Advanced economies	2.2	2.0	1.8	1.7	1.7	1.7
Emerging and developing Europe	4.5	3.5	3.3	3.2	3.2	3.2
Germany	2.1	1.8	1.5	1.4	1.3	1.2
France	1.6	1.8	1.9	1.9	1.9	1.8
The UK	1.7	1.5	1.6	1.7	1.7	1.7
Sweden	3.1	2.4	2.1	2.0	1.8	1.7
Denmark	1.9	1.8	1.8	1.9	1.8	1.8
Italy	1.5	1.1	0.9	1.0	0.9	0.9
Japan	1.5	0.7	0.8	0.2	0.7	0.6
China	6.8	6.5	6.3	6.2	6.0	5.8
Russia	1.8	1.6	1.5	1.5	1.5	1.5
Middle East and North Africa	2.2	3.2	3.2	3.3	3.5	3.5

Source: IMF World Economic Outlook October 2017

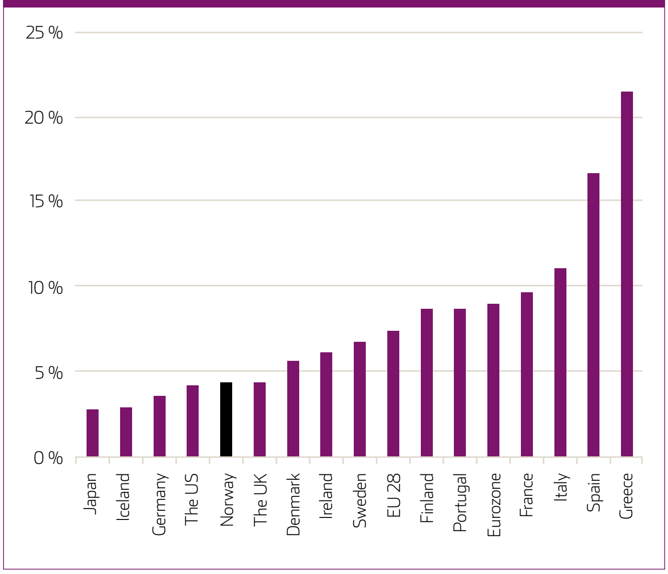
LILLE GRENSEN
Malling & Co Corporate Real Estate is handling the sale of Lille Grensen 5 on behalf of PATRIZIA.

However, analysts believe we will see a 25 bps increase at the FOMC meeting in December, since the Fed refrained from increasing the federal funds rate at the November meeting. The US GDP growth projections from the IMF are now at 2.2 % for 2017, and 2.3 % for 2018.

Emerging markets

Growth rates for emerging economies have over the past year shown substantial progress, and key indices have been coming in above projections. The IMF have further revised both 2017 and 2018 growth rates by 10 bps relative to our previous report, primarily owing to a stronger growth projection for China which has been revised up by 20 bps alone in 2017, to 6.80 % for the full year. Growth forecasts have also been marked up for Emerging Europe for 2017, reflecting stronger growth in Turkey and other countries in the region. Former laggards such as Russia are seeing positive projection revisions from the IMF over our previously reported figures of 40 bps for 2017 and 20 bps for 2018, with Brazil projected to grow by an additional 50 bps in 2017. In India, however, the growth momentum is slowing due to the impact of the authorities' currency exchange initiative, as well as uncertainty related to the mid-year introduction of the country-wide Goods and Services Tax. The Emerging markets GDP growth projections from the IMF are now at 4.6 % for 2017, and 4.9 % for 2018.

UNEMPLOYMENT RATE IN SELECTED COUNTRIES/AREAS (LFS)



Source: Eurostat Q3 2017

OSLO OFFICE MARKET

Employment and demand for office space

Employment outlook still moderate

Economic growth in Norway is picking up and the labour market is slowly improving. The estimate for employment growth at or just below 1 % p.a. is relatively moderate compared to the boom in 2007, where we observed annual growth above 4 %. However, the aforementioned figures are estimates for the whole of Norway, while the growth in office demand in Oslo is dependent on increasing employment within office-related sectors. The latest surveys indicate that the moderate growth discussed in our previous report seems to prevail as the main expected scenario over the coming years. Beneath all the estimates, there is also increased focus on the threats and opportunities associated with increased automation and the use of AI to replace the classic labour-intensive office tasks found across most sectors.

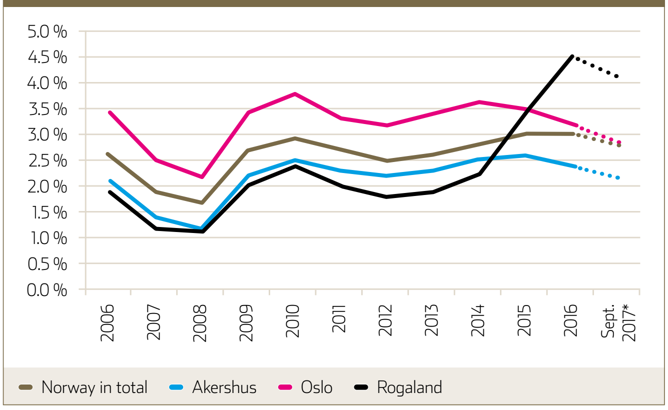
Unemployment on a downward trend

As discussed in our previous report, unemployment measures from both NAV (register-based) and Statistics Norway Labour Force Survey (LFS) are showing a downward trend. The previously discussed effects of the reduction in the workforce, which caused unemployment rates to fall, now seem to have diminished. In the previous quarters, increased employment was the main driver behind reduced unemployment figures, which is positive. Register-based unemployment was at 2.6 % at national level in September (seasonally-adjusted), compared to 3.0 % one year ago, and at 2.7 % and 2.0 % in Oslo and Akershus respectively. The workforce measured as a percentage of the total population aged 15-74 is still just below 70.0 %, or 69.7 % to be precise (LFS August seasonally adjusted). By comparison, 2008 was the peak of the workforce employment ratio, when this figure was at 73.8 %.

Increased positivity regarding employment

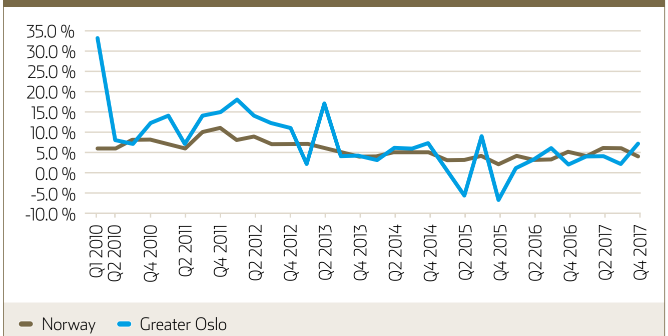
The Manpower Employment Outlook Survey (MEOS), which identifies net expected staffing for the next quarter (see definition at the bottom of the page), ended at 4 % seasonally-adjusted for Q4 2017, the same as in Q1. This is still somewhat higher than the bottom record of 2 % in Q4 2015. The positive outlook for hiring remains moderate. Other leading surveys and indicators, such as the Norwegian Central Bank Regional Network Survey 03/2017 and the Norwegian PMI, also report a positive, yet moderate, outlook for employment. The employment outlook for the eastern parts of the country, including Oslo, remain in line with the overall country outlook at a moderate level. The latest employment forecast from NAV (03/2017) estimates an employment growth of 10 000 persons this year, and 30 000 persons next year, on a national scale. However, these prognoses were not based on the latest LFS measurements, and following discussions NAV commented that the estimates would have been adjusted down given the latest available LFS results. The Q1 and Q2 seasonally-adjusted national accounts for employed persons show increasing employment in both quarters. As these figures are seasonally-adjusted and based on several measurements (including LFS), they may be revised and adjusted in the coming quarters. Our conclusion is that employment is accelerating more slowly than anticipated by many analysts at the start of the year, and that expectations point to continued moderate growth in employment.

REGISTER BASED UNEMPLOYMENT



Source: Norwegian labour and welfare administration

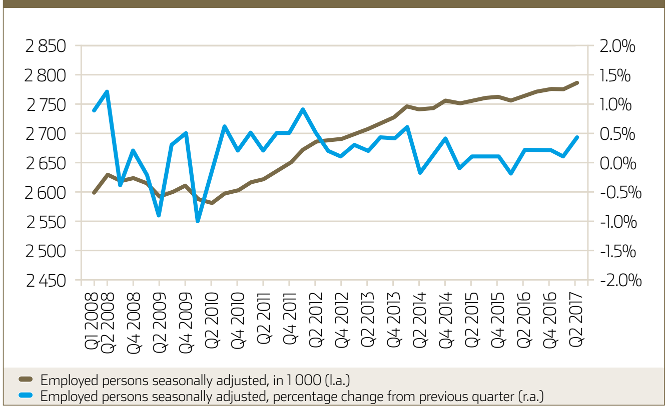
NET EMPLOYMENT OUTLOOK* – DEVELOPMENT OVER TIME (SEASONALLY ADJ.)



*Net employment outlook is derived by taking the percentage of employers anticipating an increase in hiring activity and subtracting from this the percentage of employers expecting to see a decrease in employment at their location in the next quarter.

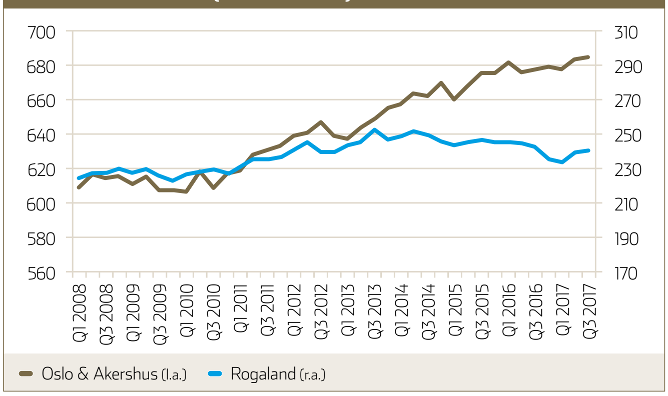
Source: Manpower Employment Outlook Survey (Q4 2017)

NATIONAL ACCOUNTS, QUARTERLY EMPLOYMENT



Source: Statistics Norway

EMPLOYMENT BY DOMICILE IN OSLO & AKERSHUS VS. ROGALAND, LABOUR FORCE SURVEY (IN THOUSANDS)



Source: Statistics Norway

Stable demand for office space in Greater Oslo

The demand for office space is not necessarily directly linked to overall increased employment, as the demand for office space varies greatly between sectors and industries. Looking at the number of vacant positions recorded by NAV, the health, nursing and care sector holds the largest share of vacant positions, comprising almost a quarter of all vacancies throughout the year. Construction is also a large group, reflecting the boom in building and construction, where the sudden increase in residential developments has had a positive impact. In the office market, we also observe that tech companies in particular are searching towards the city centre in the battle to attract the best talent. The latest Q3 Labour Force Survey (LFS) shows that employment growth is continuing on a rather flat or slightly increasing trend in greater Oslo. The development in Stavanger (the main city in the county of Rogaland, in the western part of Norway) also seems rather flat, considering the LFS figures with the underlying margin of error for this study. However, it seems that the decrease in employment has stopped in this region, and that Rogaland is well on the way to recovery.

URTEGATA 9 / INNER CITY
Malling & Co Næringsmegling has been commissioned by Eiendomsspar to lease around 22 000 m² in the new office project. Illustration: Oxivisuals

HELSFYR PANORAMA / HELSFYR

Malling & Co Forvaltning assists Brynseng Eiendom AS with the management of 18 000 m^2 in Innspurten 9.

Tenant representation mapping

High level of activity continues

The activity in the market for these searches in terms of total space is down from last year (as of Oct. 2017), but the number of searches is up slightly from 2016. However, the number of office searches continues to be relatively high, compared to the corresponding figures for the period 2012-2015.

Fewer public tenants this year

In 2016, we registered 108 tenants looking for office space through estate agents, with searches comprising a total of just above 300 000 m². A shift from last year is that more medium-sized private tenants now are searching the market. In 2016, public tenants constituted more than half the volume, while so far this year, public tenants account for just over 20 %. As at 24 October, we have registered 103 office searches, comprising almost 220 000 m². In terms of sectors, we see a relatively broad mix within the private sector. Companies within the tech industry, financial services and consulting are probing the market, and concentrating their searches within the city centre. These companies often have different requirements compared to the public tenants who dominated the market last year, and are generally more concerned about value for money, rather than price alone.

Shorter takeover periods

The office letting market can be divided into several sub-segments, depending on timing and tenant size. In general, the office searches this year have had a shorter timeframe from initiation of the search to when the estimated relocation will take place. This is a direct consequence of smaller tenants comprising the average search this year, at 2 100 m², compared to the average search of 2 800 m² last year. The space-weighted timing has decreased from about 2.1 years last year to 1.7 years this year (moving within the same year has weighting of 0). The consequence of smaller searches and decreased timing is a reduction in the probability of triggering new-builds in the coming two years. The increase in demand from medium-sized businesses may trigger many of the development projects to focus on multi-tenant layouts, and potentially push the pre-let threshold for starting developments in the market.

Less demand within eastern Oslo so far in 2017

One major change since last year is that fewer office searches are aimed at the eastern fringe. Last year, the eastern fringe was in high demand – a demand led mainly by public tenants. The city centre remains strong, as do the favourable locations at Skøyen and Lysaker, which is increasing demand on the western fringe. As always, immediate proximity to public transport is highly important for most office searches, with some searches even using a specific maximum walking distance from the nearest transport hub. We believe that the municipality's increased focus on limiting car traffic through an increase in tariffs and the number of toll roads in Oslo, in addition to increased public transport, will probably push demand towards offices with a central location close to public transport.

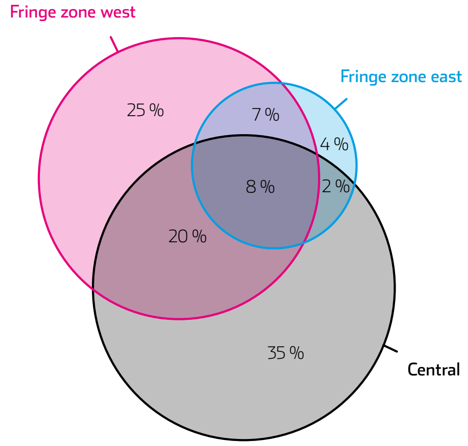
Many searches expected to be resolved in Q4

Our leads list features many tenants who are in the process of signing contracts, and we are confident that many of the searches will end in high volumes for signed lease agreements in the fourth quarter of 2017. Most of these searches are aimed at central Oslo, and will probably push available space in the city centre down.

About the analysis and database

Tenant representation agents map tenants' requirements regarding location and facilities, and manage the actual search for new commercial space. This applies to office space, combined premises, and retail and warehousing/logistics premises. Larger tenants are more likely to use tenant representation agents, but many small and medium-sized enterprises also obtain assistance during their relocation processes. We register and systematise all property searches covering the Greater Oslo area. This makes it possible to analyse one of the main sources of demand in the market. Our figures show that rental searches account for between 15 % and 50 % of the total annual volume (measured in square meters) of signed office lease agreements. Our analysis of market searches goes back to 2009 and includes more than 1 200 searches to date – two thirds of which are pure office market searches. This enables us to study the demand side trends in detail, and to help our clients to offer and invest in the right project for the end user.

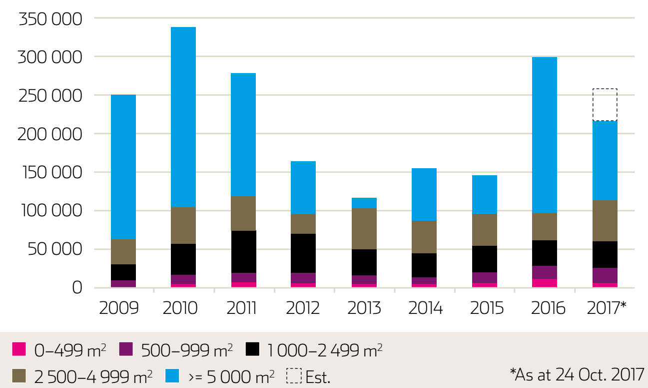
OFFICE SEARCHES GREATER OSLO 2017*, SIZE AND OVERLAP



*As at 24 Oct. 2017
Due to rounding, percentages stated does not add up to exactly 100 %

Source: Malling & Co

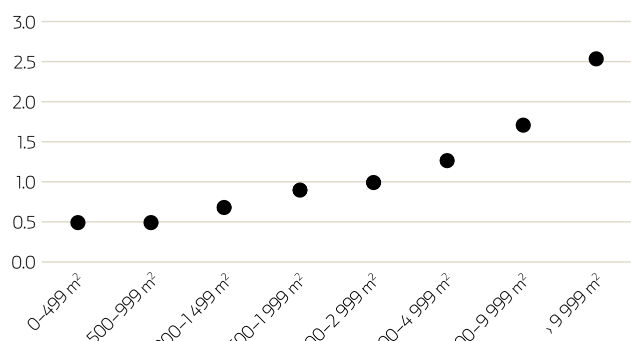
OFFICE SEARCHES GREATER OSLO 2009–2017* (M²)



*As at 24 Oct. 2017

Source: Malling & Co

AVERAGE YEARS BETWEEN PUBLICATION OF MARKET SEARCH AND DESIRED LEASE STARTUP, DIVIDED INTO SIZE SEGMENTS (2015 – 2017*)



*As at 24 Oct. 2017

Source: Malling & Co

Construction activity in Greater Oslo

An abundance of possible new projects in the market puts pressure on low construction volumes

This spring, we reported that the change in total office stock supply for 2017 was likely to turn out negative. The mentioned contributing factors included the low level of new building activity, and high conversion rates of office space for mainly residential, but also other, uses. Our projections for 2017 remain the same, but our expectations for subsequent years have changed somewhat. So far this year, 75 000 m² of new office space has been completed, and we expect an additional 53 500 m² to be completed by the end of the year. This constitutes a total of 128 500 m² for 2017, which is well below the 10-year average of approximately 150 000 m² (2007-2017).

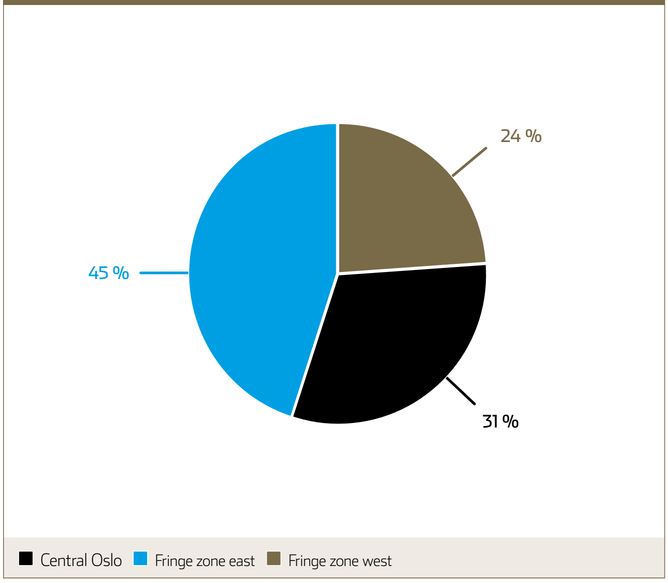
Favourable market conditions in the residential sector have increased the number of office space conversions over the past few years. However, over the summer we witnessed the slowdown of this sector, which is likely to affect the conversion rate, and eventually increasing supply. Nevertheless, we believe the short-term conversion rate will remain the same, as it is unlikely that developers will be willing to alter their plans on such short notice. The change in net supply is therefore unlikely to be affected by the developments in the residential sector in the near future.

Due to low construction activity and high conversion rates, we expect the change in net supply to stay relatively low over the next two years. Confirmed projects for 2018 correspond to just 125 000 m², and several projects previously expected to be completed during 2019 have been delayed, and are now not expected to be finalised until 2020. The current projection for 2019 is therefore somewhat lower than previously assumed, while the new building expected in 2020 has substantially increased.

Along with the delay to several new constructions, we have also observed an increase in the number of larger tenants in search of new office space as their current contracts near expiry. This implies that we might experience a decrease in office vacancy in the coming years. Up until now, an important reason for the low level of new construction activity has been a lack of these anchor tenants. New construction activity may therefore also be stimulated as competition for office space increases.

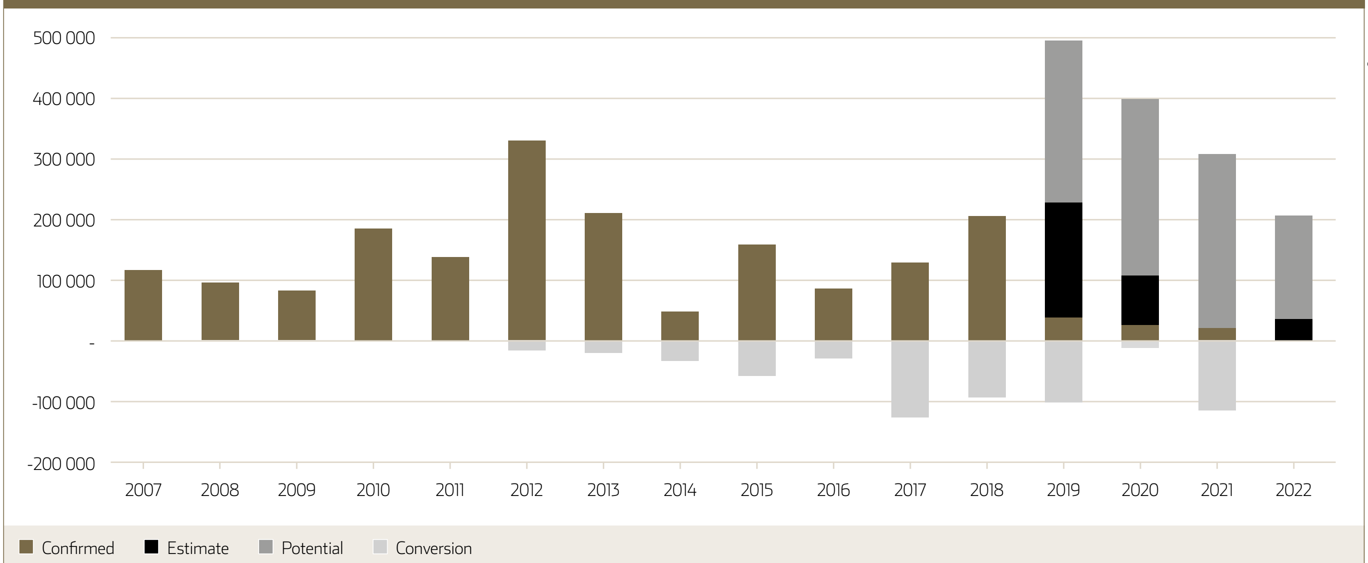
Although new construction has been affected by the lack of large tenants, the number of new builds initiated on the basis of speculation has substantially increased over the past few years. Examples include Schweigaards gate 33 in Bjørvika, Freserveien 1 just outside the Inner City, and Vitaminveien 4 in Nydalen, although these are more commonly found in CBD areas. This is because developers are usually more confident in a project's ability to attract interest among tenants in these areas. The speculation trend is expected to continue, as the expected decrease in office vacancy limits the risk of vacancy when the project is finalised. Developers are also seeing that the decision to initiate construction enables marketing towards smaller tenants, which constitute a more liquid part of the market.

CONFIRMED AND ESTIMATED COMPLETION OF NEW OFFICE DEVELOPMENTS SPLIT INTO CITY AREAS



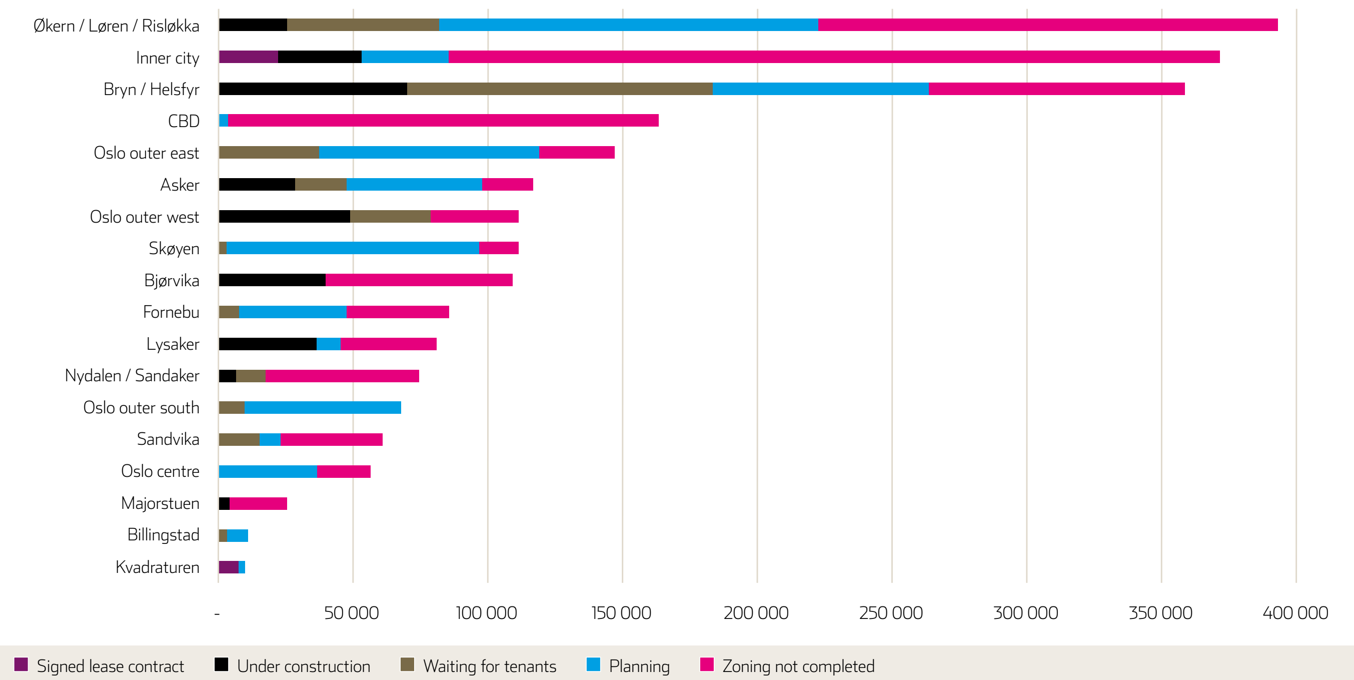
Source: Malling & Co

COMPLETION OF NEW OFFICE BUILDINGS IN GREATER OSLO AND EARLIEST POSSIBLE COMPLETION OF PROJECTED NEW OFFICE BUILDINGS (IN M²)



Source: Malling & Co

NEW OFFICE CONSTRUCTION VOLUME AND PROJECT STATUS IN DIFFERENT CLUSTERS (M²)

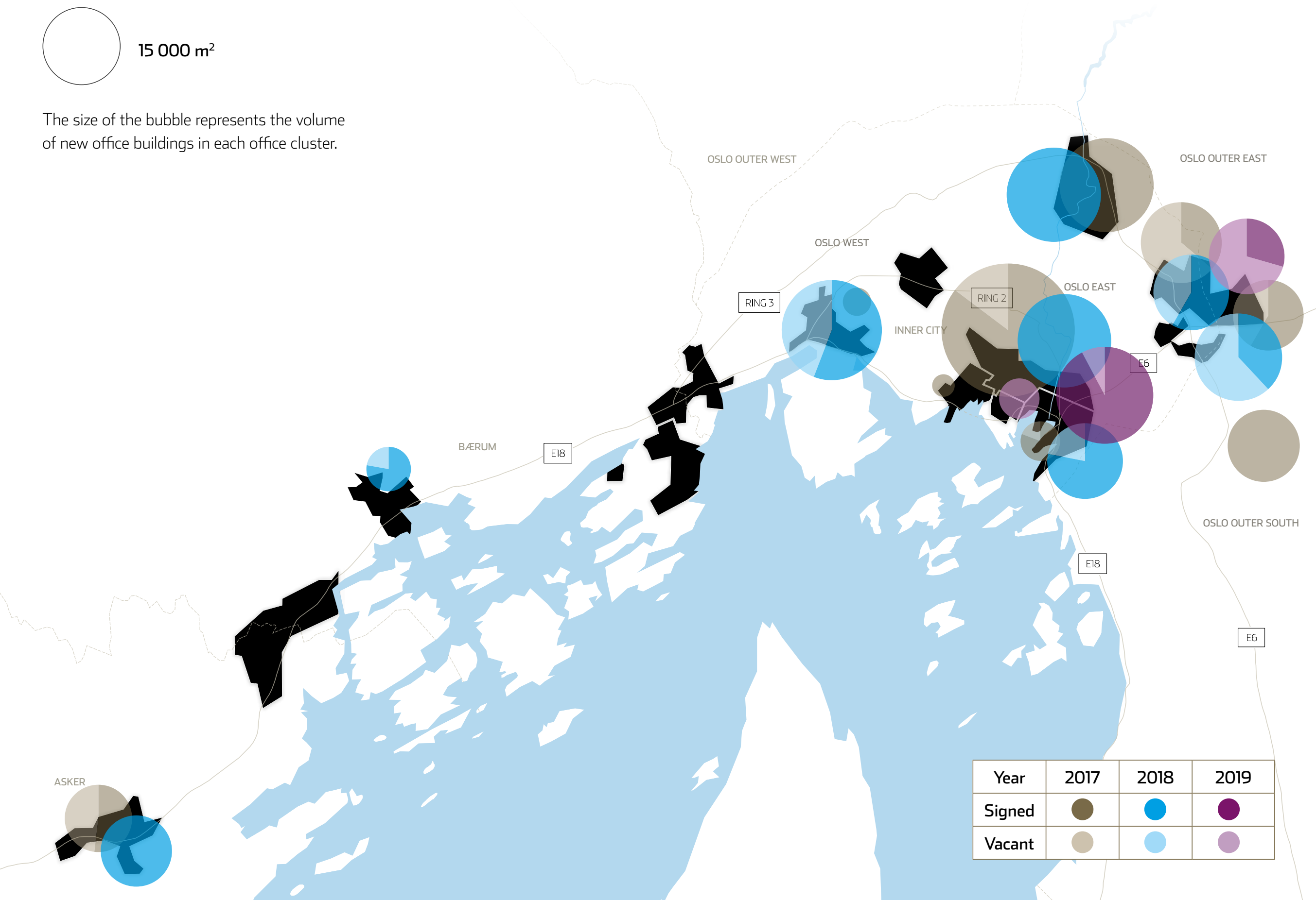


Source: Malling & Co

COMPLETION OF NEW OFFICE BUILDINGS THAT WILL BE FINALIZED 2017-2019

15 000 m²

The size of the bubble represents the volume of new office buildings in each office cluster.



Year	2017	2018	2019
Signed	●	●	●
Vacant	●	●	●

Source: Malling & Co


storebrand
HOVEDINNGANG

LYSAKER PARK

Malling & Co Corporate Real Estate is advisor to Storebrand in the sales process of Lysaker Park.

PARTNER REVISJON
NEW OFFICE / CBD

Malling & Co Leietakerrådgivning assisted Partner Revisjon in the search for new office premises, and the signing of a lease agreement in Dronning Mauds gate 10, Oslo.

Supply in the rental market

Decrease in vacancy due to high competition for office space

Market supply is currently measured at 12.7 %, and has therefore decreased since our May estimate of approximately 13.0 %. This is however an increase on October 2016, when the estimated total supply was 12.2 %. Office supply is expected to continue increasing over the next few years, as the number of potential new builds increases. There are many projects due to be completed in 2019 and 2020, and several more are to be expected as vacancy decreases.

Of all our defined office clusters, Asker has the largest supply, with approximately 27.5 % relative to the current stock. Bryn/Helsfyr and Økern/Løren/Risløkka come in second and third, with 23.7 % and 22.8 % respectively. There are several new building projects planned in the eastern fringe of Oslo, which explains the high supply in these areas. Examples include Fyrstikkalléen 1, as well as multiple buildings at Valle. As for Asker, 'Asker Genera' and the multi-stage project at Føyka constitute a large part of the area's supply.

The total vacancy in Greater Oslo has decreased since last year. According to our October estimates, current vacancy in Greater Oslo is approximately 7.0 %, which is down 40 bps from the estimated 7.4 % in October 2016. As several large tenancy contracts are nearing expiry, vacancy is expected to remain low as the competition for office space increases. In our defined office clusters, approximately 39 % of the advertised space above 2 000 m² will be vacated by the end of 2017, while an additional 12 % will be become vacant in 2018. Moreover, the moderate employment growth outlook is currently favouring the office space demand.

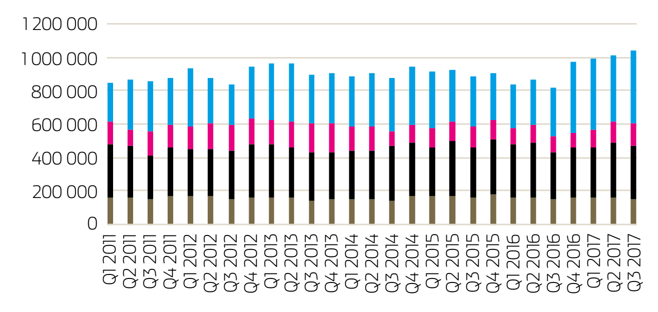
Another observation is that tenants are generally favouring centrally-located offices, and the majority of searches specify close proximity to a public transport hub as a requirement. This is reflected in the vacancy, which differs substantially between the individual office clusters. As at October, Asker has the highest vacancy (19.6 %), while the cluster area with the lowest rate of vacancy is Bjørvika, with 2.9 %. Asker has been challenging market lately, largely due to the setbacks in the Oil & Gas sector. However, as future plans for Billingstad and Sandvika are focused on residential developments, the outlook for Asker looks more positive.

Subletting currently constitutes 9.7 % of the total vacancy – a decrease since our May estimate of 11.1 %. Subletting is expected to remain at this level as the pipeline of space we are aware of will come onto the market in stages, as the currently marketed space is leased out. It is worth mentioning that in most cases, subletting constitutes an inferior product compared to a lease contract signed directly with a landlord.

How we measure supply

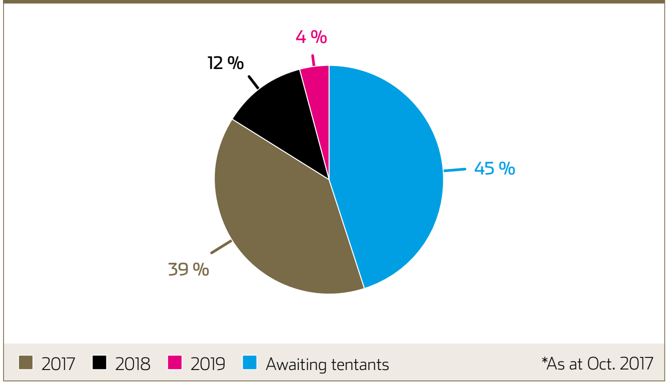
When analysing the supply side of the rental market, we wish to be able to describe what is available for prospective tenants, not only vacant space. We therefore split the total offered office space into two definitions: supply and vacancy. Supply includes all projects and vacancies, regardless of delivery date, while vacancy comprises only existing or new projects available for delivery within 12 months from the date of measurement. In more detail, we define supply as all office space that is available in the market, including existing buildings and new constructions. Projects offered to tenants looking for space via specific processes, but which are not listed as available on the online marketplace FINN.no, are not included in the figures. However, these projects usually end up listed on FINN.no eventually, which means that the potential supply may be higher than that reported in these figures, but vacancy is a more exact measure. Including a measure of available new office projects explains possible discrepancies in a simple supply/demand relation looking only at rents and vacancy.

OFFICE SPACE FOR RENT IN GREATER OSLO (M²) PER SIZE INTERVAL



Source: Malling & Co/FINN.no

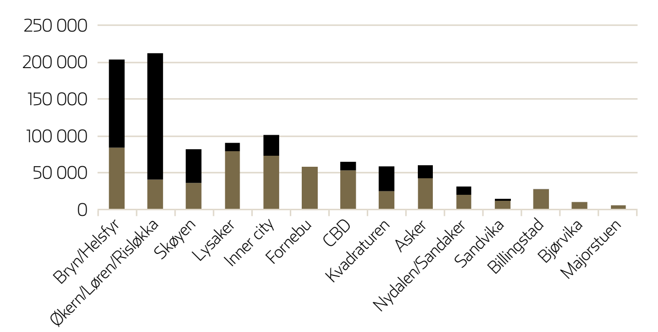
AVAILABILITY OF OFFICE SPACE ABOVE 2 000 M² OFFERED AT FINN.NO*



*As at Oct. 2017

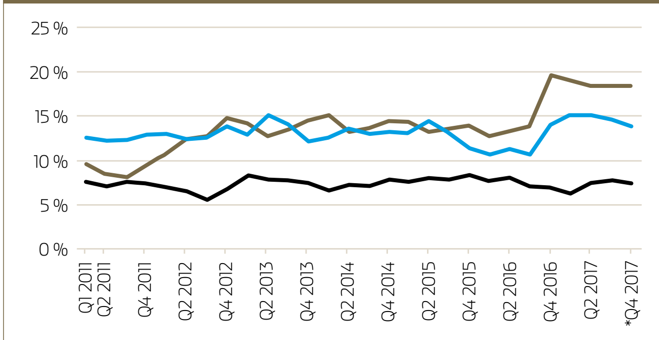
Source: Malling & Co/FINN.no

OFFICE SPACE FOR RENT DIVIDED INTO OFFICE CLUSTERS PER OCTOBER 2017 (M²)



Source: Malling & Co/FINN.no

SUPPLY IN CENTRAL OSLO, EASTERN AND WESTERN FRINGE ZONE



*As at Oct. 2017

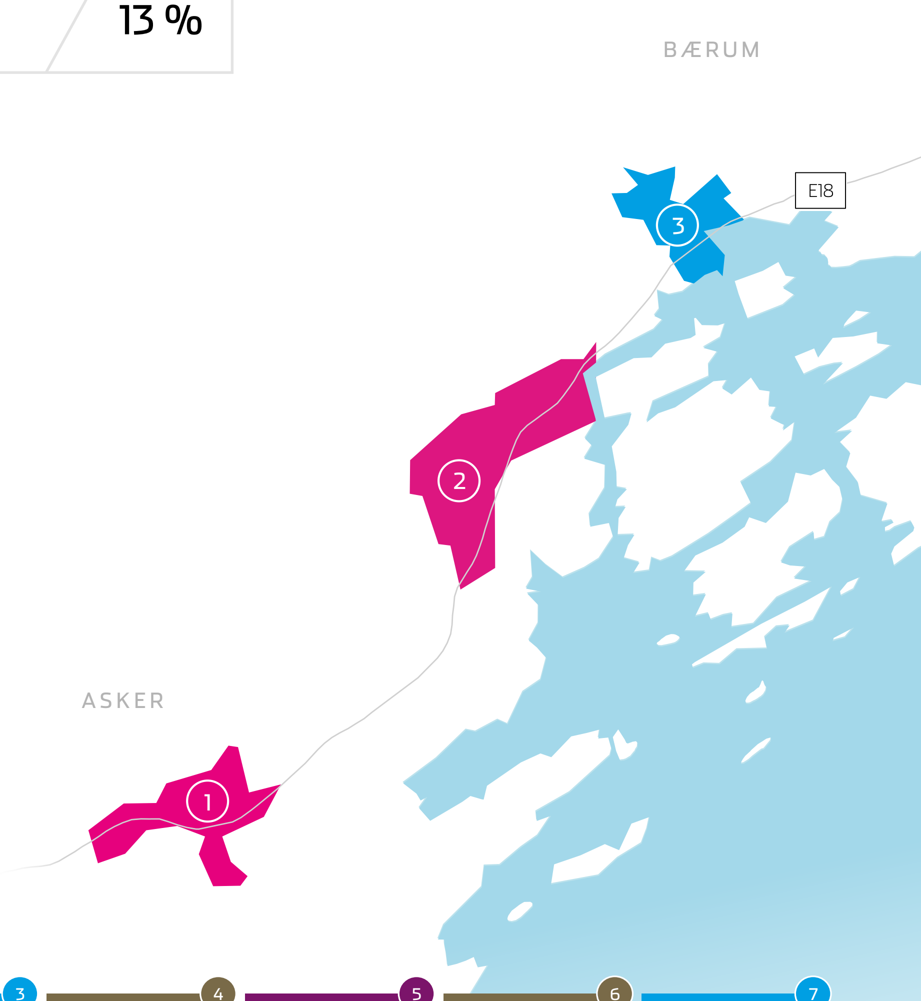
Source: Malling & Co/FINN.no

Vacancy* and supply**

* Advertised office space within 12 months at FINN.no of the total office stock in Greater Oslo.
** Advertised office space at FINN.no of the total office stock in Greater Oslo. This includes potential advertised new projects.

VACANCY* IN DEFINED OFFICE CLUSTERS – Down approx. 0.4 percentage points past 12 months	7 %

SUPPLY** IN DEFINED OFFICE CLUSTERS – Up approx. 0.5 percentage points past 12 months	13 %



Map colour indicates vacancy rates per October 2017

0–5 % 5–10 % 10–15 % Above 15 %

Indicates trend past 6 months (> 1 percentage points change)

	1 ASKER	2 BILLINGSTAD	3 SANDVIKA	4 FORNEBU	5 LYSAKER	6 SKØYEN	7 MAJORSTUEN
VACANCY RATE PER OCTOBER 2017	20 %	16 %	4 %	10 %	14 %	6 %	3 %
SUPPLY RATE PER OCTOBER 2017	28 %	16 %	5 %	10 %	16 %	15 %	3 %

	8 CBD	9 KVADRATUREN	10 INNER CITY	11 BJØRVIKA	12 NYDALEN / SANDAKER	13 ØKERN / LØREN / RISLØKKA	14 BRYN / HELSFYR
VACANCY RATE PER OCTOBER 2017	9 %	4 %	5 %	3 %	4 %	4 %	10 %
SUPPLY RATE PER OCTOBER 2017	10 %	9 %	7 %	3 %	6 %	23 %	24 %

Source: Malling & Co/FINN.no

Further development of the rental market

Rental growth continues

Economic growth is picking up speed
Leading indicators show increased optimism, and strong first half year GDP growth supports expectations of stronger economic growth ahead.

Moderate employment growth
Despite weaker net immigration to greater Oslo, the region continues to grow. Combined with increasing employment, office demand is pointing upwards. The growth is slow, however, and is unlikely to experience a significant boost within the coming year.

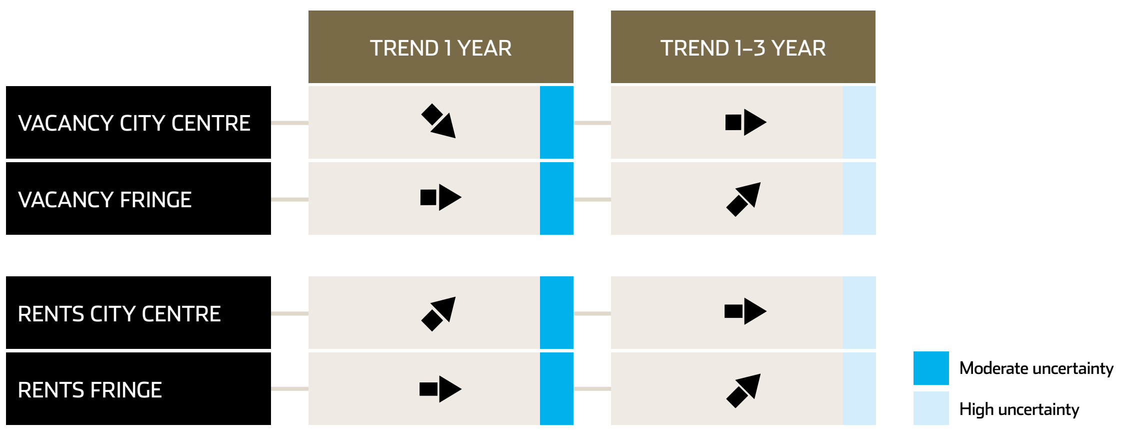
High demand has already affected city centre rents
Average rents for signed lease agreements have turned upwards over the past three quarters. However, the data is influenced by high activity in the favourable locations. While smaller office spaces in the city centre or very close to public transport hubs command higher prices, fringe area rents are a different story. These areas are still affected by plentiful development potential and fierce competition for anchor tenants to sign on to projects to feed the hungry investment market at record low yields.

Vacancy is down
Vacancy in office clusters is trending downwards, but the driver behind the vacancy drop is the city centre. The overall vacancy is regarded as being at close to a balanced level, so flexibility for increased demand within current stock is limited.

Limited new construction and high conversion rates in the short term
Continued low net office construction over the next two years is expected to keep the vacancy low. The risk of higher vacancy further down the road is present, and depends on developers' willingness to initiate projects.

The urbanised tenant
The city centre is especially attractive among tenants, with many unwilling to consider a fringe location. An urban location has become the key to attracting talented workers.

The residential market is a risk factor
The downturn in the residential market has already affected investors' appetites for new projects, curbing the demand for conversion projects. If the downturn in the residential market continues, this may also affect the economy in general, and indirectly slow down the demand for office space.



Short-term trend for rents (1 year): Increasing rents
› City centre rents will continue to increase by 10 % on a four-quarter rolling average.
› The rental increase in the fringe observed over the past few quarters will turn out to be a statistical variation, rather than a fundamentally anchored increase.
› Vacancy is expected to reduce.

Long-term forecast (1-3 years): Increasing rents, then flattening
› City centre rents will continue to grow, and push up rents on assets with immediate proximity to public transport in the best fringe clusters.
› Rents for low-quality assets will have little effect on official figures due to low liquidity.
› The rental increase is dependent on the expected economic growth and increased employment.
› Increased construction will dampen rental growth in 2-3 years' time.
› Further development in the residential market is a risk factor for office rents.

BILLINGSTADSLETTA 35
Malling & Co Eiendomsutvikling is developing a 7 000 m² new building for retail purposes on behalf of the owner T.A.F. Eiendom.

The rental market

Greater Oslo

In the following section, we provide our readers with a brief overview of the most important updates in the various office clusters in Greater Oslo. We also provide tables with estimated normal* and prime* rent levels, as well as the supply** and vacancy** for every office cluster. Office vacancy is estimated on a monthly basis using the office space advertised on FINN.no, with manual screening to ensure that the space type, location, size and availability are correct. The October figures amount to a total supply (all advertised space) within the office clusters of 12.7 % (up from 12.2 % one year ago), and a vacancy (space available within 12 months) of 7.0 % (down from 7.4 % one year ago). As the space available to discuss each cluster here is limited, readers with interest in a specific area are encouraged to contact our research team for a comprehensive market update on relevant clusters.

A SELECTION OF THE LATEST MAJOR LEASE CONTRACTS

Tenant	Moving to address / Office cluster	Moving from address / Office cluster	Space m² (rounded)
Norwegian Air Shuttle ASA	Snarøyveien 36 / Fornebu	Oksenøyveien 3 / Fornebu	13 000 (temporary re-location)
Hafslund ASA	Harbitzalleen 3-7 / Skøyen	Drammensveien 145 / Skøyen	11 000
Santander Consumer bank	Strandveien 18 / Lysaker	Renegotiation	10 000
Eika Group	Parkveien 61 / CBD	Renegotiation	6 900
Norwegian State Educational Loan Fund	Fyrstikkalleen 1-3 / Helsfyr	Østre Aker vei 20 / Risløkka	4 200
Nordea	Sørkedalsveien 8 / Majorstuen	New space	3 900
Computas	Akersgata 35 / Inner city	Lysaker Torg 45 / Lysaker	3 400
Geodata	Schweigaards gate / Inner city	Renegotiation	3 400
TRY	Øvre Slottsgate 8 / Inner city	Renegotiation	2 900
Partner Revisjon	Dronning Mauds gate 10 / CBD	Olav Vs gate 6 / CBD	1 100

ASKER

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	1 500 – 1 700	1 600 – 1 800
Prime rent (NOK/m²)*	2 150	2 200
Supply**	28 %	29 %
Vacancy**	20 %	18 %

Comment: Asker is currently characterised by both high supply and high vacancy. The high supply is mainly due to the new construction project 'Asker Genera', where approximately 17 000 m² is planned to be completed in 2021. Subletting still comprises a major part of the vacancy. Ferd Eiendom's new build 'Asker Tek' will be completed in Q1 2018. The project has signed several lease agreements with good rents in the past months, proving that tenants are willing to pay for high-quality products. The tenants active in the Asker market are mainly from the SMB segment

BILLINGSTAD

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	1 250 – 1 500	1 250 – 1 500
Prime rent (NOK/m²)*	1 800	1 800
Supply**	16 %	12 %
Vacancy**	16 %	12 %

Comment: Olav Brunborgsvei 4-6 is accounting for almost half of the office vacancy at Billingstad. Billingstad, as an office cluster, is losing the competition against Asker and Sandvika, and conversion from office to more big box retail and residential is the main focus for many of the properties.

**See definition of «normal» rent and prime rent on page 26.*
***See definition of supply and vacancy on page 18.*

SANDVIKA

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	1 500 – 1 700	1 600 – 1 800
Prime rent (NOK/m²)*	2 150	2 250
Supply**	5 %	14 %
Vacancy**	4 %	4 %

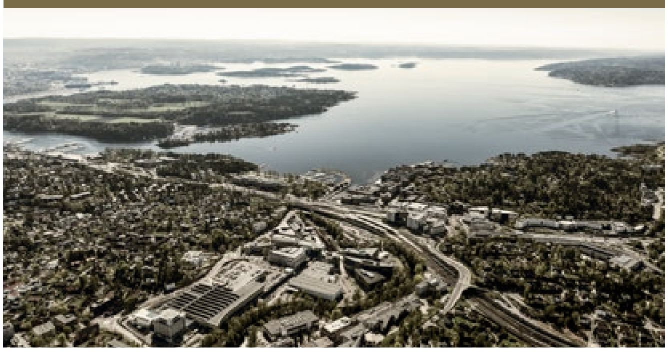
Comment: The area plan for Sandvika East was approved by Bærum municipality in June, with a marginal majority. The plan opens for high utilisation around the train station, which means up to 19 floors and a mix of residential, office and retail development, equivalent to three times' the area's current floor space. Vacancy in Sandvika remains low, in sharp contrast to the rest of the western fringe office clusters. An NRP syndicate has acquired Sandvika Business Center, one of the latest development projects in Sandvika, with the remainder of the project now planned for residential space. Rents in Sandvika are somewhat higher than those in Asker.

FORNEBU

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	1 400 – 1 600	1 500 – 1 700
Prime rent (NOK/m²)*	2 000	2 150
Supply**	10 %	9 %
Vacancy**	10 %	9 %

Comment: Norwegian Air Shuttle will occupy 13 000 m^2 of sublet space in the former Aker Solutions complex in Snarøyveien 36 until 2019, as the company has started a complete refurb of their own HQ. The owner, Norwegian Property, is considering re-zoning the building to a residential property, and Telenor have plans for further development of their property into more residential space. The office market is still demanding at Fornebu, and the Fornebu metro is now considered a requirement if the Fornebu area is to attract larger numbers of tenants. The area is considered a low-cost alternative, with high standard buildings.

LYSAKER



	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	1 700 – 1 900	1 700 – 1 900
Prime rent (NOK/m²)*	2 350	2 300
Supply**	16 %	13 %
Vacancy**	14 %	11 %

Comment: Lysaker still commands good rents, despite a period with high vacancy. Storebrand Eiendom is in the process of selling the Storebrand HQ. Mustad Eiendom is continuing their development with the acquisition of Lilleakerveien 2, and plans to replace Lilleakerveien 4A with a new building. Several other developers are planning upgrades to and re-developments of existing premises at Lysaker, and the quality of the area will be increased over the coming years. An urbanisation process, including residential, hotel and retail developments around the new metro station on the planned Fornebu line, is planned to be completed in around 2025.

SKØYEN

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	1 800 – 2 300	2 000 – 2 300
Prime rent (NOK/m²)*	3 000	3 000
Supply**	15 %	12 %
Vacancy**	6 %	6 %

Comment: Skøyen has low vacancy at around 6 %. Along with Fornebu and Lysaker, much of the development at Skøyen is dependent on the new metro line. However, some of the projects have been approved to start construction. Skøyen Atrium 3 will be finalised in Q3 2019, and Orkla HQ will be finalised by the end of 2018. Hafslund will move from Drammensveien 144 to Harbitz Torg. KLP is planning to demolish Drammensveien 144 to build a larger and more modern office complex. The other projects at Skøyen are dependent on the development of the metro and final zoning plans. Drammensveien 211, located at the outer part of Skøyen, has started to fill up, and Verisure recently signed a lease agreement here.

**See definition of «normal» rent and prime rent on page 26.*
***See definition of supply and vacancy on page 18.*

MAJORSTUEN

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	1 800 – 2 200	1 800 – 2 200
Prime rent (NOK/m²)*	2 800	2 800
Supply**	3 %	4 %
Vacancy**	3 %	4 %

Comment: Majorstuen continues to enjoy low vacancy and good rents, but the market isn't the most active as the area is small and occupied by several large tenants who have been in the area for decades. Nordea has leased space in the newly-renovated Sørkedalsveien 8, to join tenants like Bouvet, Handelsbanken and Danske Bank. The development property Fridtjof Nansens vei 2 is currently in the process of being sold, and according to rumours Middelthuns gate 29 is currently subject to an exclusive process with potential buyer. Worth mentioning is the coming project to move the current metro station under Valkyrien square, and create opportunities to develop new space above the current open-air rails.

CBD

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	2 800 – 3 500	2 800 – 3 200
Prime rent (NOK/m²)*	5 200	4 800
Supply**	10 %	10 %
Vacancy**	9 %	10 %

Comment: The CBD has a somewhat higher vacancy than the rest of the inner city, at just below 9 %. However, most of the above-average vacancy is caused by a high number of refurbishments, and tenants moving between premises within the cluster. The total supply will most likely increase as new refurb projects are launched in the market. However, the demand for high-quality space is good, and we expect the take up to stay strong. Storebrand sold 50 % of Ruseløkkveien 26 to developer Aspelin Ramm this summer. Eika recently extended their lease at Parkeveien 61 after having searched the market for opportunities. The first tenants are now starting to consider Dronning Mauds gate 10, as its twin DM11 is almost completely occupied.

KVADRATUREN

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	2 100 – 2 600	1 800 – 2 300
Prime rent (NOK/m²)*	3 200	3 200
Supply**	9 %	7 %
Vacancy**	4 %	7 %

Comment: Kvadraturen is developing faster than ever, and vacancy has been reduced to 3.9 %, almost half the vacancy recorded in October 2016. Both refurbishments and conversions are plentiful. Fram is re-developing Rådhusgata 5 in project called Transperia, offering 8 000 m^2 of office space. Just across Skippergata, Clemens Eiendom are planning a total makeover of Rådhusgata 1-3. Building permissions for the major project at Kongens gate 21 are currently in process. Kongens gate 9 has been converted from office space to apartments. Arctic Securities recently acquired Kongens gate 8 / Kirkegata 9, a 19 300 m^2 office building with the Norwegian Ministry of Trade, Industry and Fisheries on a 5-year lease

INNER CITY

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	2 400 – 2 800	2 100 – 2 600
Prime rent (NOK/m²)*	3 500	3 500
Supply**	7 %	7 %
Vacancy**	5 %	6 %

Comment: The inner city office cluster has a vacancy of just below 5 %, and rents are increasing. A new development at Schweigaardsgate 33 is attracting high interest among tenants, and is expected to be fully let before completion in November 2018. Tine will vacate Lakkegata 23 late in 2018 and move to Kalbakken, and Eiendomsspar have plans to erect a 20 200 m^2 office complex in Urtegata 9. Youngskvartalet office will soon be completed, and tenants are expected to sign contracts before the end of the year. Other projects worth mentioning are Pilestredet 33, Stortorvet 7, Tullinkvartalet, and Universitetsgata 7-9. Entra is still working with zoning at Lilletorget 1, aiming for a high-rise office building.

**See definition of «normal» rent and prime rent on page 26.*

***See definition of supply and vacancy on page 18.*

BJØRVIKA

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	2 700 – 3 000	2 700 – 3 000
Prime rent (NOK/m²)*	3 800	3 500
Supply**	3 %	6 %
Vacancy**	3 %	3 %

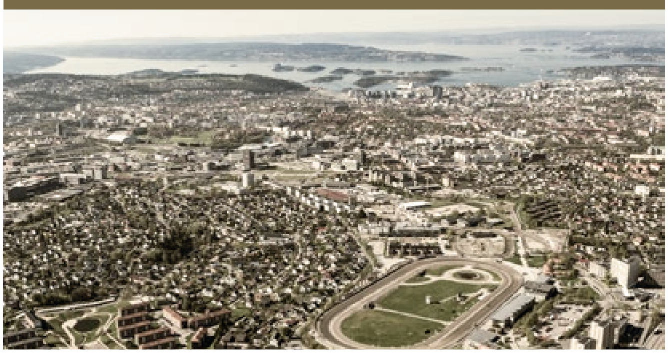
Comment: Bjørvika is still experiencing very low vacancy below 3 %, as the vacant buildings we discussed in our previous report are now fully let. Dronning Eufemias Gate (DEG) 42 has been leased by VIPPS, and EnterCard has leased 3 300 m^2 of DEG 6B, which constitutes most of the new VIEW building, currently being erected by Watrium. The tram line in DEG opened in August, and construction of Eufemia has started. Diagonale still has some vacant space on the upper floors. Diagonale will be finalised in 2018, and includes housing for 420 students.

NYDALEN / SANDAKER

	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	1 500 – 1 700	1 500 – 1 700
Prime rent (NOK/m²)*	2 350	2 300
Supply**	6 %	11 %
Vacancy**	4 %	7 %

Comment: Nydalen has low vacancy at 4 %. The mix of office and retail space, schools, activities, restaurants and residential properties in Nydalen is considered an important factor in its attractiveness. Gjerdrums vei 12 is under conversion to student housing, and SIO is also converting Gjerdrums vei 10 for the same purpose. Avantor is about to finalise 'Spikerverket', and Elkjøp's HQ and Oslo Kemnerkontor are about to move in. Skanska has the new 22 000 m² office block in Vitaminveien 4 under construction, where half the building will house the Norwegian Directorate of Health. Realkapital Investor is making changes to the façade and lower floors at Vitaminveien 1.

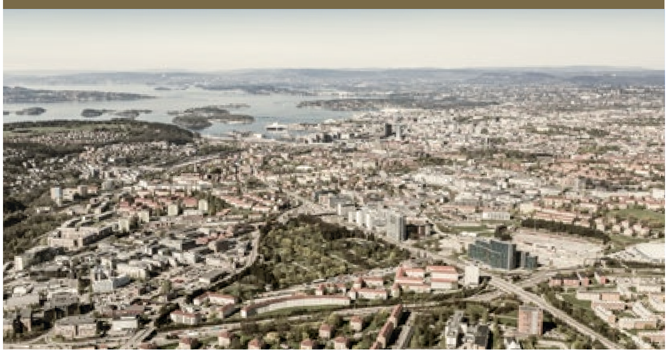
ØKERN / LØREN / RISLØKKA



	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	1 000 – 1 500	1 000 – 1 500
Prime rent (NOK/m²)*	2 200	2 200
Supply**	23 %	23 %
Vacancy**	4 %	5 %

Comment: This area has low vacancy and relatively low activity on the tenant side, but there are very few properties in the area that do not have a significant plan for development. OPF will start to demolish the existing buildings at Lørenfaret 1-3, and is active in the market. Skanska has recently acquired Lørenveien 65 from Stor-Oslo Eiendom, with plans to erect a 20 000 m^2 office block. Steen & Strøm will start the construction of two new office buildings, a shopping centre and a cinema later this year – a project totalling 91 000 m². A new plan for the northern side of Østre Aker vei opens for more housing and commercial space along the road.

BRYN / HELSFYR



	Per October 2017	Per October 2016
Normal rent (NOK/m²)*	1 500 – 1 700	1 550 – 1 750
Prime rent (NOK/m²)*	2 200	2 250
Supply**	24 %	18 %
Vacancy**	10 %	11 %

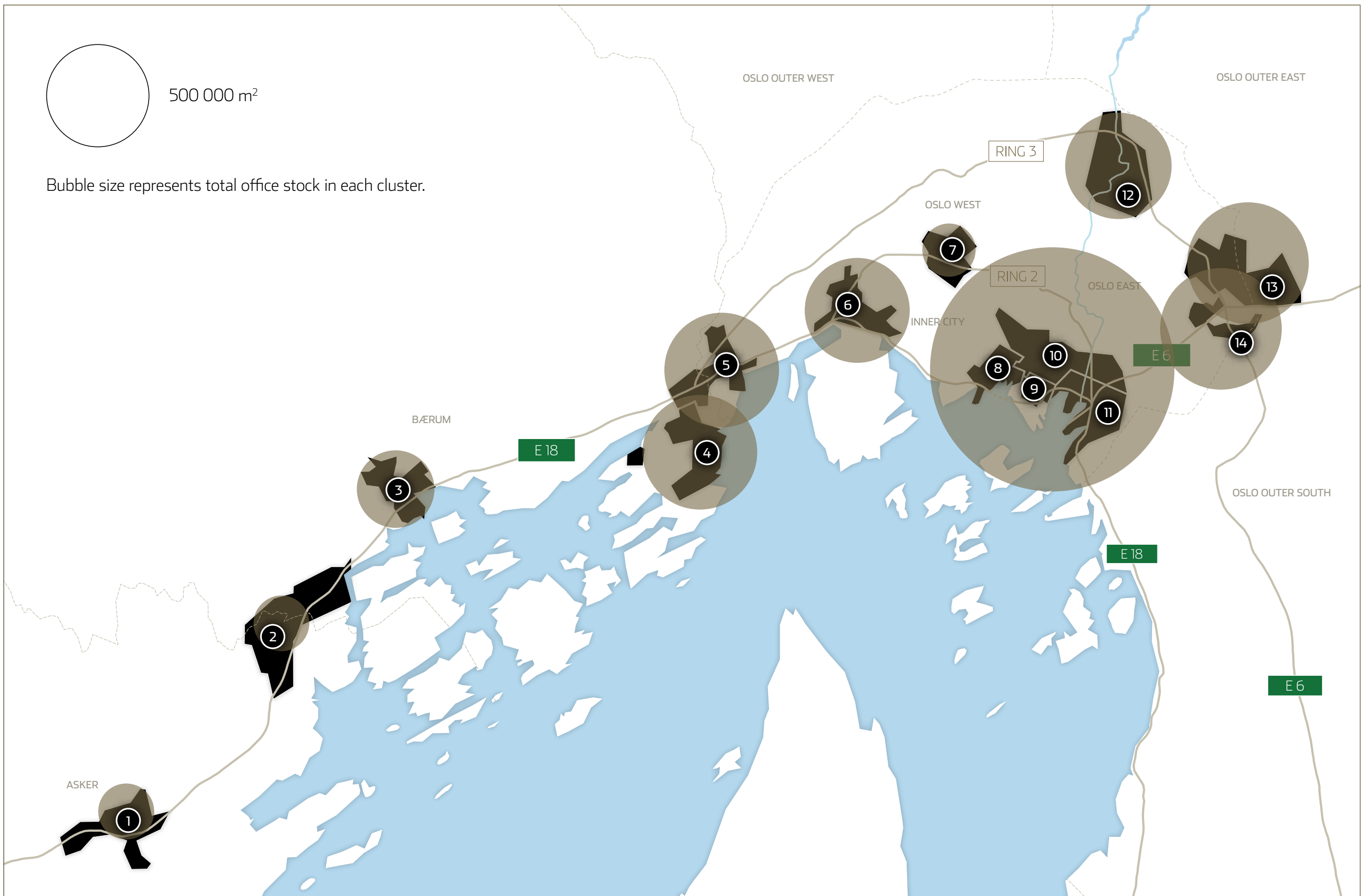
Comment: Vacancy in this area is just below 10 %, and rents are stable. Rents for new builds have been under pressure from yield compression and fierce competition among developers. Grenseveien 80, leased by Omsorgsbygg, was recently sold and obtained very good interest in the market. The new Fyrstikkalleen 1-3 managed to secure two lease contracts with the Norwegian Labour and Welfare Administration (NAV) and the Norwegian State Educational Loan Fund. NCC started the construction of Valle Wood this summer, and Østensjøveien 16 is also under construction. Aberdeen is offering a refurbished Brynsalleen 4 to the market. The Bryn area is currently undergoing a re-development process, where old office stock is being modernised, replaced or converted to residential space.

**See definition of «normal» rent and prime rent on page 26.*

***See definition of supply and vacancy on page 18.*

OFFICE RENTS: MALLING & CO ESTATE AGENT CONSENSUS (NOK/M²/YEAR)					
#	OFFICE CLUSTER	«NORMAL» RENT*	PRIME RENT**	TREND	△ PRIME RENT PAST 12 MONTHS
1	Asker	1 500 – 1 700	2 150	↘	-2 %
2	Billingstad	1 250 – 1 500	1 800	↘	0 %
3	Sandvika	1 500 – 1 700	2 150	↘	-4 %
4	Fornebu	1 400 – 1 600	2 000	→	-7 %
5	Lysaker	1 700 – 1 900	2 350	↗	2 %
6	Skøyen	1 800 – 2 300	3 000	↗	0 %
7	Majorstuen	1 800 – 2 200	2 800	→	0 %
8	CBD	2 800 – 3 500	5 200	↗	8 %
9	Kvadraturen	2 100 – 2 600	3 200	↗	0 %
10	Inner city	2 400 – 2 800	3 500	↗	0 %
11	Bjørvika	2 700 – 3 000	3 800	↗	9 %
12	Nydalen / Sandaker	1 500 – 1 700	2 350	↗	2 %
13	Økern / Løren / Risløkka	1 000 – 1 500	2 200	→	0 %
14	Bryn / Helsfyr	1 500 – 1 700	2 200	→	-2 %

Source: Malling & Co



* Normal rents reflect the interval where most contracts are signed in the specified market area.
** Prime rents is the consistently achievable headline rental figure that relates 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.

FORUS PARKERING / STAVANGER
The largest parking house in the region with up to 1 700 parking spaces. The parking house is currently under development to become a "mobility-hub" for charging of electric cars and buses. It has received commercial support from "ENOVA" to prepare a concept study for energy self-supply by wind or solar power.

STAVANGER

Optimism returns, with focus on urban Stavanger

The Oil & Gas sector, which has been – and continues to be – the main private business sector in Stavanger, is now doing better, and most downsizing and cost-cutting measures seem to have passed. With a crude oil price above USD 60 per barrel, some companies are now hiring again. According to the Offshore Technology Days survey, contributors showed optimism and a belief that an upswing within Oil & Gas will be seen in 2018 or 2019. Residential prices are flat or slightly increasing. Unemployment in the Stavanger region, as registered by NAV, is on its way down, and was at 3.4 % in September, down 0.9 percentage points from last year. Despite the improved situation, high office vacancy levels in Forus and Hinna continue, and rents have remained largely unchanged. On a positive note, Stavanger city centre has increasingly been in focus among office tenants, and the future is looking a lot brighter.

Office letting market

› Compared with the figures from our last report, vacancy in Stavanger has stabilised at around 12 % for the region. Hinna still has the highest vacancy in terms of per cent, with around 21 % of properties vacant (approx. 28 000 m²). Vacancy in Forus is still at around 15 %, with approx. 140 000 m² vacant. Measuring vacancy is difficult for areas like Forus, since much of the space is leased but sits unused, and is therefore not officially available in the market. The largest tenant at Forus, Statoil, will vacate approx. 66 000 m² in 2018, indicating increased vacancy in Forus over the next few years. Rents are even more difficult to report with accuracy in a downward market, since most of the activity takes the form of short-term contracts.

› Vacancy in the city centre is still significantly lower than in areas like Forus and Hinna, and remains attractive among tenants.

› Market rents at Forus are difficult to estimate with accuracy, as both tenants and landlords are creative in terms of tenant initiatives.

› Stavanger city centre has maintained a stable vacancy level lower than the overall vacancy for the region, despite the downturn within the Oil & Gas sector, and top rents are estimated to be around NOK 2 550 per m²/year.

› Many lease contracts will expire in 2018-2020, and will create movement in the office market.

› Some new lease contracts: Byfjordparken has signed lease agreements with the Norwegian Labour and Welfare Administration (NAV), Stavanger municipality and Norwegian Business School (BI).

Transaction market

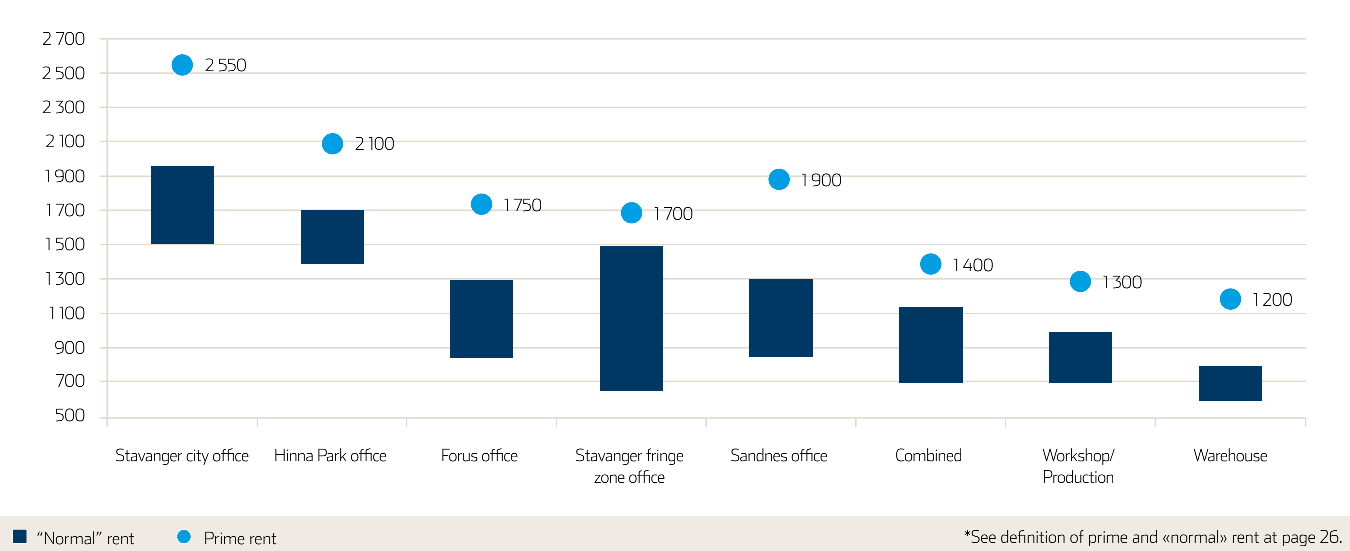
We have registered just over NOK 5.1 billion in transaction volume for the year to date, divided across 13 transactions (above NOK 50 million). This is lower than the same period for the past three years, but we know of at least one large deal in the pipeline that could put the Stavanger volume at a level higher than any recorded over the past five years. The Statoil HQ at Forus is currently in the market, and offers a potential deal worth between NOK 2.7 and 2.9 billion.

We have observed examples of office transactions in Stavanger with a yield level of slightly over 4.5 %. The best properties in central Stavanger with solid tenants and long-term contracts remain attractive, especially compared to the yield levels in Oslo. While the region has been troubled by the downturn in the Oil & Gas sector, we are seeing significant interest from investors who have been absent from Stavanger for some time. This renewed interest, coupled with a belief that things will turn around within the Oil & Gas sector within a few years is an indication that the transaction market will be picking up going forward.

Major recent transactions in the region

- Statens Hus has been sold by a NRP syndicate to Storebrand for an estimated yield of 4.6 %.
- A Castellar syndicate has purchased two retail properties from Camar, which are leased to car dealership Bavaria on long-term contracts.
- As the region is looking to a brighter future, and residential prices are looking more positive than they have done for many years, local developers Base Properties and Ineo Eiendom have acquired a piece of land from Sandnes municipality for the development of 250 residential units.

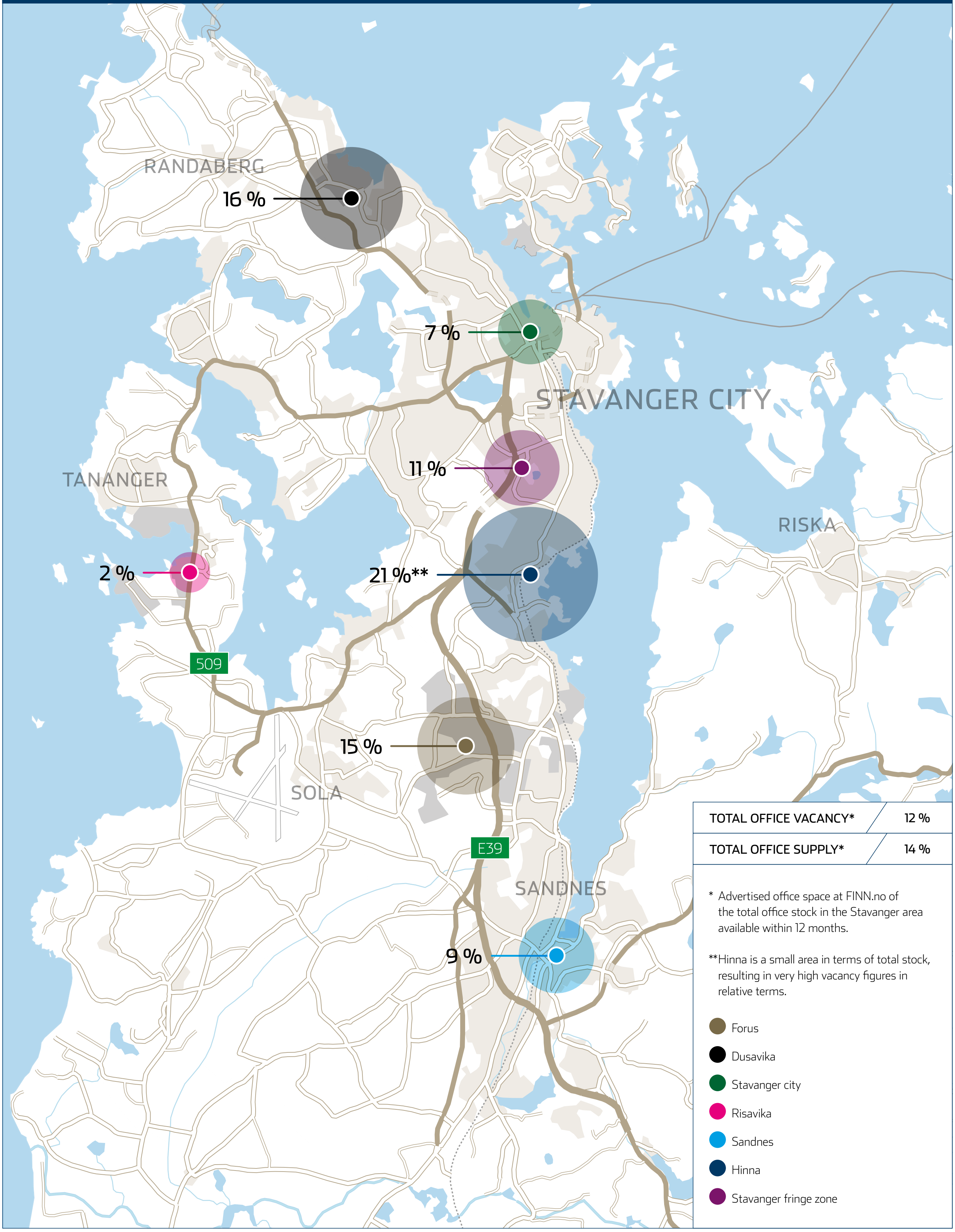
INDICATIVE RENTS IN THE STAVANGER REGION DIVIDED INTO AREAS AND SECTORS (NOK/M²/YEAR)



*See definition of prime and «normal» rent at page 26.

Source: Malling & Co

OFFICE VACANCY



TOTAL OFFICE VACANCY*	12 %
TOTAL OFFICE SUPPLY*	14 %

* Advertised office space at FINN.no of the total office stock in the Stavanger area available within 12 months.

**Hinna is a small area in terms of total stock, resulting in very high vacancy figures in relative terms.

- Forus
- Dusavika
- Stavanger city
- Risavika
- Sandnes
- Hinna
- Stavanger fringe zone

Source: Malling & Co/FINN.no

DRAMMEN

Our Drammen office continues to experience a high level of activity in the region, and the pace has picked up compared to last year. The city is located less than 40 km west of Oslo, and can be categorised as something between a city and a suburb of Oslo. The city is capitalising on its seaside location and role as a hub for both railways and the main road systems connecting all major cities and densely-populated areas on the west side of Oslo. The total stock of 1 300 commercial properties in the Drammen area (including Nedre Eiker and Lier) comprises around 750 000 m² of office space, 600 000 m² of retail premises and 800 000 m² of industrial/logistics/mixed-use premises. Vacancy in Drammen is around 8 % for office space and as low as 3 % for industrial/logistics premises.

Rental market

The rental market for commercial property in Drammen is characterised by stability, yet there are significant differences between office, retail and industrial/logistics premises. The different segments are highly location-dependent, and market mechanisms in Drammen may therefore vary greatly.

Office

In our last market update, we reported a moderately lower activity level than usual for the letting of both new builds and existing office space in both the city centre and the fringe areas. However, over the course of the summer and fall we have observed an increase in interest in projects close to the city centre, and several of the buildings are now fully let.

However, an increasing share of conversion potential for old, worn down office space and commercial spaces close to the city centre has been observed, due to the strong increase in residential prices. This will absorb space that would otherwise affect the supply and vacancy balance in the short term.

Despite the downturn in new residential projects, there is still good interest in old, worn down office space close to the city centre that is suitable for conversion to residential space. In addition to conversion, the demand for more efficient and modern office space with less square metres per employee is ensuring that new office space will be more attractive to tenants than older office space going forward.

There are multiple new projects currently entering the market, and these will affect the supply when they are officially released. Particularly worth mentioning among these projects are the project by Christensen Eiendom at Strømsø Torg, and ROM Eiendom's project by the train station. We believe that the market for modern, energy and space efficient buildings such as the aforementioned projects, with close proximity to public transport hubs, will be the most sought-after in the Drammen region going forward.

Logistics

This segment has long been characterised by very low vacancy in the region. The transformation of land-intensive businesses in the areas close to the city centre is affecting the demand side. Worth mentioning here is the area around Brakerøya, which must give way to a new hospital. The effects of the hospital project are now starting to make their mark on the areas of Liertoppen, Kobbervikdalen and Herstrøm, where activity from interested parties has significantly increased.

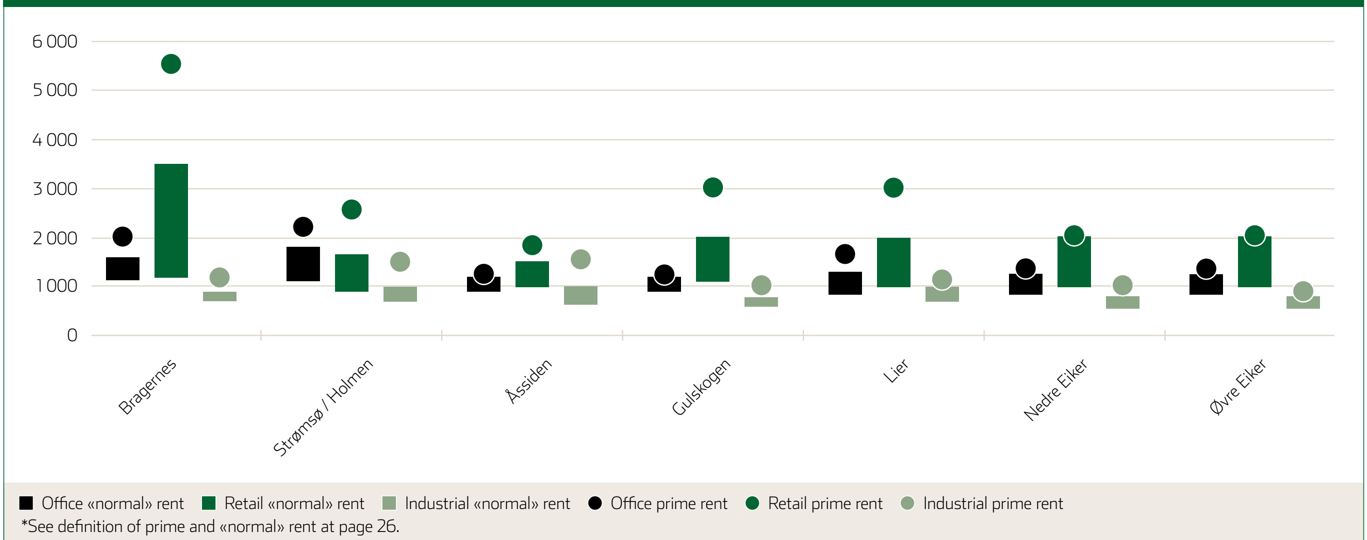
Retail

There are few new sites and locations for space-demanding retail properties available in the market, and the supply of such space generally follows the trends of the logistics and warehousing market. Some players in the retail segment are showing interest in such sites, but willingness to pay is relatively low, and major refurbishments or new constructions of such sites are therefore often marginal in terms of returns. An exception to this is boutique/shop retail, but the supply of space in this category is close to zero, especially in and around Drammen city centre.

More rental agreements – general tendency

In our last report we expected more lease agreements to be signed in 2017, compared with the same period of 2016, and with the preliminary answer now in hand, we can already conclude that this will hold true. The primary driver for the increase is the transformation of the city, with many areas being converted for new and different purposes. Changes in companies' operations and organisational structures are often a more causative factor than the expiration of the rental contracts themselves. However, the conditional availability of land and the right locations for such structural changes in any given company are conditions that must be met to result in a relocation. The major difference between the office market, with its abundance of good, available newbuild projects, and the mixed-use

INDICATIVE RENTS IN THE DRAMMEN REGION – OFFICE, RETAIL AND INDUSTRIAL (NOK/M²/YEAR)



*See definition of prime and «normal» rent at page 26.

Source: Malling & Co

market, is the lack of suitable empty space. Our project to comprehensively map the expiration of contracts in the region is now well underway, and we are starting to see some evidence to support our views.

The transaction market

A number of transactions have been completed in 2017, with the activity level looking good towards the end of the year, with several properties in various segments in the pipeline. Financial investors and private investors from out of town are continuing to seek opportunities at an increasing rate, together with the local investors.

Several large private and public projects have long been in the planning phase, and many of these have recently been confirmed and initiated. Among the projects is a major development along the railway station, the new hospital at Brakerøya, and a new Choice conference hotel. Construction of the latter commenced in week 44. The public transport hub development we highlighted in our last report is increasing in strength, with proximity to trains and the airport express train providing a solid competitive advantage. A new office development project over ten floors at Torgeir Vraas Plass was approved by the city council in week 43. This, in combination with the new Choice hotel, will provide an excellent start to the creation of a new attractive area at the public transportation hub. In addition, several properties in this area are being transacted, with the new owners planning conversions or to demolish the existing property for new developments.

Over the past year, multiple residential projects have been completed in Drammen city centre, with several also planned for the near future. Although the price growth has been slowing, there is a high level of interest in residential projects, for both properties with cash flow and empty plots of land. For larger properties, there is a high level of interest in office and mixed-use buildings. The office properties must tick all the boxes, however, while mixed-use properties remain attractive, even with short leases and in fringe locations. The latter attractiveness must be viewed in connection with the very low measured vacancy of only around 3 % for this segment in the Drammen region, and the consequent low vacancy risk.

Land

The demand for land is stable, but supply is limited as few new plots of land are zoned for commercial use. This is evident for example at Røyken Business Park, where only five out of 32 plots are available.

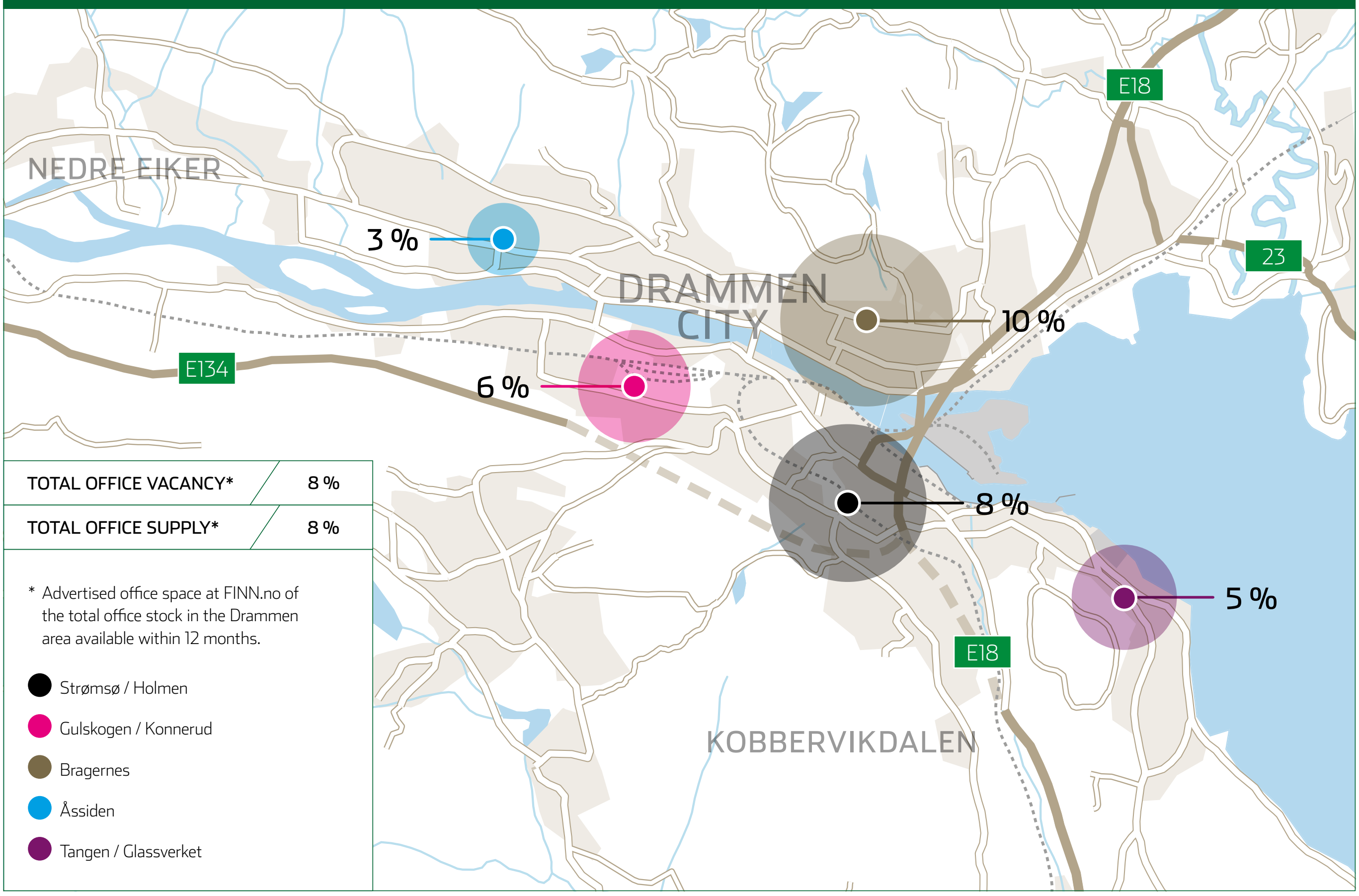
Latest news – Transactions

- Ingeniør Rybergsgate 44, a retail property comprising 14 121 m² at Åssiden, was sold from BGM Eiendom to Ragde.
- Knud Schartumsgate 7, a mixed-use property comprising 5 648 m² at Gulskogen,was sold from BGM Eiendom to Ragde.

Lease agreements

- Automobil Kompaniet has leased around 5 400 m² of sales and garage/ industrial space at Bjørnstjerne Bjørnsonsgate 78.
- Ramberg Transport & Logistikk has leased around 3 000 m² of industrial and logistics space at Nedre Eikervei 65.
- Toram & Cutfab has leased around 900 m² of mixed-use space at Konnerudgata 73.

OFFICE VACANCY



Source: Malling & Co/FINN.no

TORGEIR VRAAS PLASS 5 / STRØMSØ TORG
Malling & Co Drammen has been commissioned to lease around 8 500 m^2 in a new 10 floors office-building, close up to Drammen railway station.
Developer: Christensen Eiendom AS
Architect: DRMA. Illustration: MIR

OSLO RETAIL

Structural changes and growth

After a period of weak development, the retail volume index has shown an increasing trend so far in 2017. Despite a negative development over the past two months, the seasonally-adjusted retail volume index (excluding cars and automotive fuel) was 2.2 % higher in September, compared with same month last year. As the Norwegian economy is expected to see increased growth in the coming years, consumer spending is expected to show a moderate increase. However, the latest drop in housing prices has created a possible hurdle for increased consumption growth. Low interest rates and increasing wages should, however, affect consumer spending in the opposite – positive – direction.

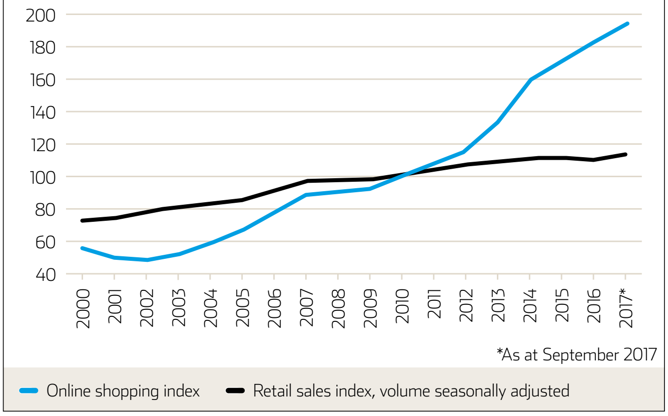
Structural changes in retail ahead

According to the latest retail report from the Enterprise Federation of Norway (Virke), the retail sector faces some major changes going forward. In addition to the obvious trend of more retail activity over the Internet, there are also trends of larger companies shaping the retail landscape, and competition increasing across industries. We also see that winning concepts with a high growth rate also perform well in terms of margins. In 2016, Norwegians undertook 86 % of their retail shopping, measured in revenues, in traditional stores. Of the remaining 14 %, 47 % was online shopping. Around two thirds of the total value of Norwegian online shopping ends up in online stores based in Norway, which according to Virke accounts for 4.9 % of the total retail value spent in Norway (excluding international online shopping, which currently comprises a third of the online retail spend). Online shopping has been growing significantly, with a 12.9 % CAGR from 2011 to 2016, and is expected to continue to exhibit growth stronger than for traditional retail. Virke expects a 10 % annual increase towards 2030, which will push online shopping up to 14 % of total retail revenues. In this estimate, they have assumed a CAGR of 17.1 % for groceries purchased online, but grocery shopping will still only comprise 5 % of total revenues. Virke also discusses a "what if ?" scenario, in which half of all grocery shopping has converted to online platforms in 2030. The online retail share will then reach one third of the total retail volume in 2030.

The trend towards more food and beverage

Combined with the fact that traditional "over the counter" retail is challenged by increased online shopping, we see an increasing demand for premises used in connection with restaurants, bars and other service concepts. New concepts are typically replacing traditional retailers in secondary locations previously occupied by niche retailers. This general trend is observed for several shopping centres as well, with restaurants and entertainment replacing traditional retailers. The process of transforming central Oslo's streets to pedestrian-only streets continues, and may give retailers in the city centre an additional boost if the project proves successful.

RETAIL SALES (EXCL. CAR SALES) AND ONLINE SHOPPING INDEX, 2010 = 100



Source: Statistics Norway

High street prime rents are stable

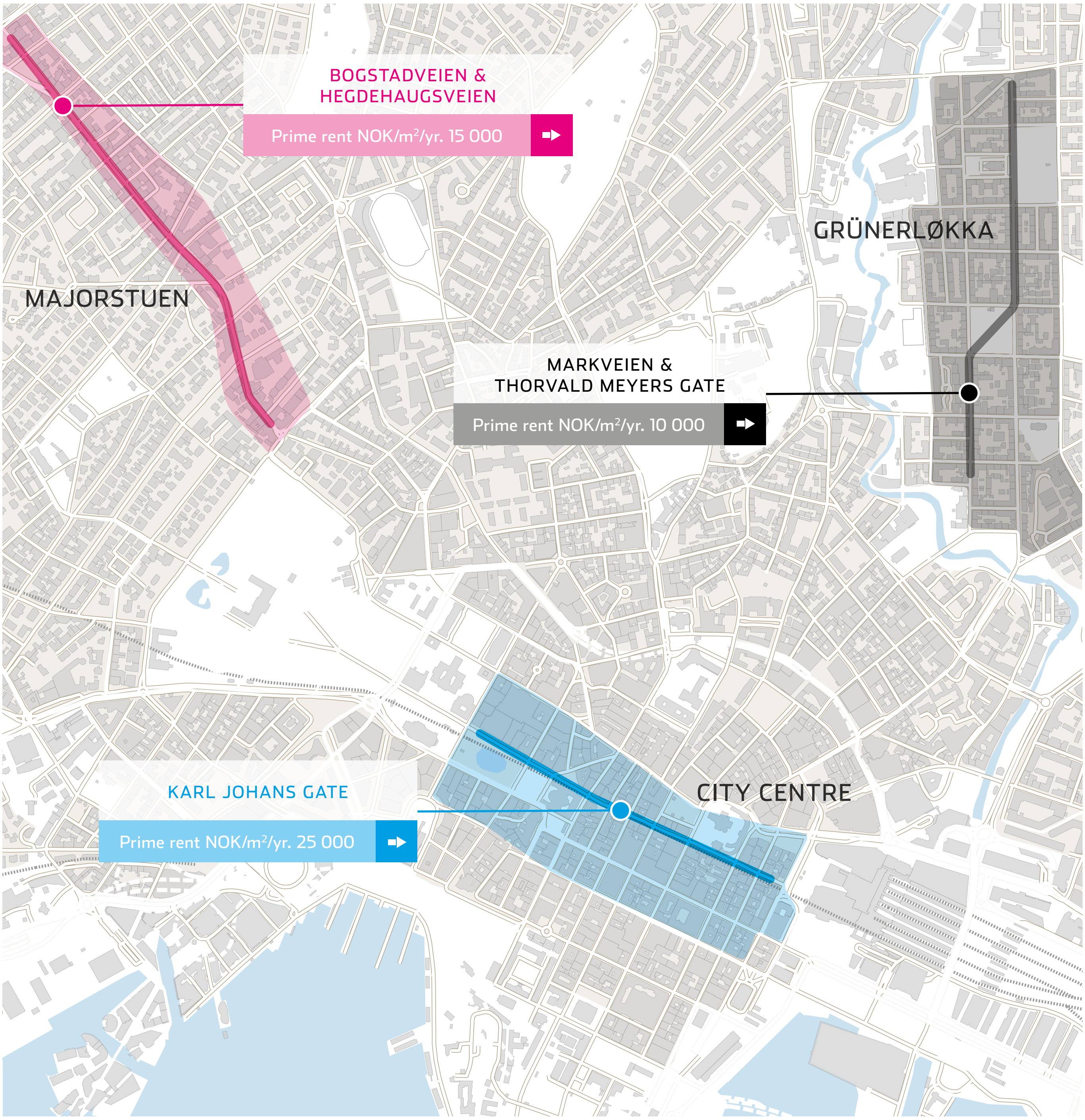
As far as we are aware, we have no reason to expect a rental increase for the best locations in the major high streets just yet. That being said, Louis Vuitton Norway's accounts show a revenue of NOK 110.4 million for 2016 – a 16 % increase compared to their 2015 figures. Louis Vuitton currently has only a single store in Nedre Slottsgate. This should leave no doubt that high revenues – and consequently high rents – are still obtainable in the very best high street locations. We have observed some rental increases in the eastern parts of Karl Johans gate with high footfall, and that rents south of Karl Johan, towards Kvadraturen, are increasing, as this area becomes more strategically located between the newly-developed Bjørvika and the 'old' CBD. In addition, Kvadraturen is anticipated to benefit from less car traffic and upgrades for tram and bus lines in Prinsens gate and Tollbugata. In terms of rental growth potential, Grünerløkka also stands out as an area with opportunities to increase rents in high footfall locations.

Development projects create opportunities for tenants

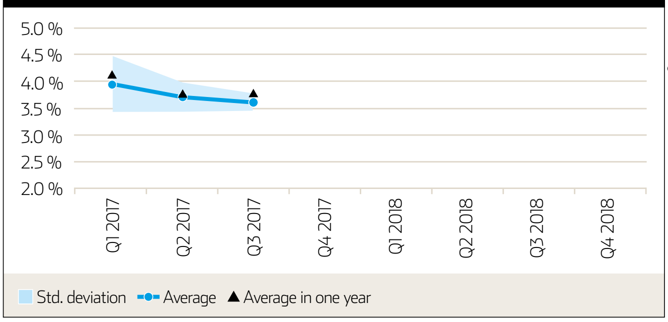
As stated in our previous reports, several projects are currently in pipeline in and around the main high streets. Fram Eiendom is developing Valkyrien close to Majorstuen – a 6 000 m² retail concept over three floors, combining five existing properties in a complete modernisation project. All the retail space in Lille Grensen 7 is currently undergoing a total makeover, and a new optimised layout will be ready for three new retail tenants in the first half of 2018. The project at Kongens gate 21, one block from the most prime retail space in Karl Johans gate, is still ongoing, and the zoning should soon be in place. At Stortorget 7, the current landlord is planning a total makeover, and 6 000 to 8 000 m² will be ready for new retail tenants within 2-3 years. As previously mentioned, H&M will open a new flagship concept store over five floors in Karl Johans gate 14. At Grünerløkka, the recently sold Markveien 35 is currently being considered for significant re-development and streamlining for a new retail concept by the new owner.

Examples of retailers opening or moving in Oslo's high streets

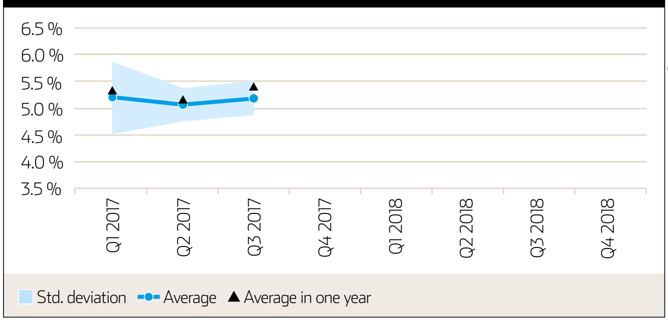
- H&M will open their new flagship store in Karl Johans gate 14 in late 2018.
- Marimekko and Masai have opened new stores in Øvre Slottsgate 17.
- Rag & Bone has opened a new store in Prinsens gate 22. Blender has also opened a new Isabel Marant store on the corner of the same address.
- Zara will move to Øvre Slottsgate 12 in the first half of 2018, and Zara Home will thereafter open in the current Zara premises in Karl Johans gate 25.
- Balenciaga recently opened in Nedre Slottsgate 8.
- St. Laurent, represented by the Danish high-end retailer Group 88, opened a new store in Nedre Slottsgate 13-15 in July.
- Kamikaze just opened a new store in Prinsens gate 21, next to Bottega Veneta.
- A new flagship Nike store just opened in Karl Johans gate 12.
- A new food and beverage concept has just opened in completely refurbished listed buildings at 'Youngskvartalet', comprising seven different but connected units of around 2 400 m² under the same roof.



TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME RETAIL



TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL RETAIL



INDUSTRIAL & LOGISTICS

EVER LOWER YIELD

Yields are pushed down; expectations are even lower

The transaction market for core logistics properties is still sizzling hot, and we have seen the prime yield drop to an estimated 5.00 %. This is another 25 bps down since our last report, and our survey-based investigation of the yield levels indicates a further decrease over the coming years by another 5-10 bps. Prime logistics is the only segment where investors are still expecting a decrease in yield levels over the coming year. The total number of transactions for the year to date is 43, comprising around NOK 7.4 billion in total.

Brand new comprehensive mapping of the Greater Oslo logistics market

Over the course of the summer we performed an extensive mapping of the logistics market in Greater Oslo, creating a database of all the logistics clusters and large stand-alone properties. Our findings estimate the total stock of warehouses and logistics properties in our defined areas at 2.64 million m² gross lettable area (GLA), with a total identified lot size of 7.11 million m². The three largest municipalities for logistics and warehousing by GLA are Oslo, Skedsmo and Vestby. The total size ranges from more than 860 000 m² in Oslo, to 450 000 m² in Skedsmo, and a little over 360 000 m² in Vestby. Our mapping has also looked at the ownership structure, and our general findings point to a highly dispersed segment, where most participants own only one or two properties, and the top five owners control 16 % of the market in terms of GLA.

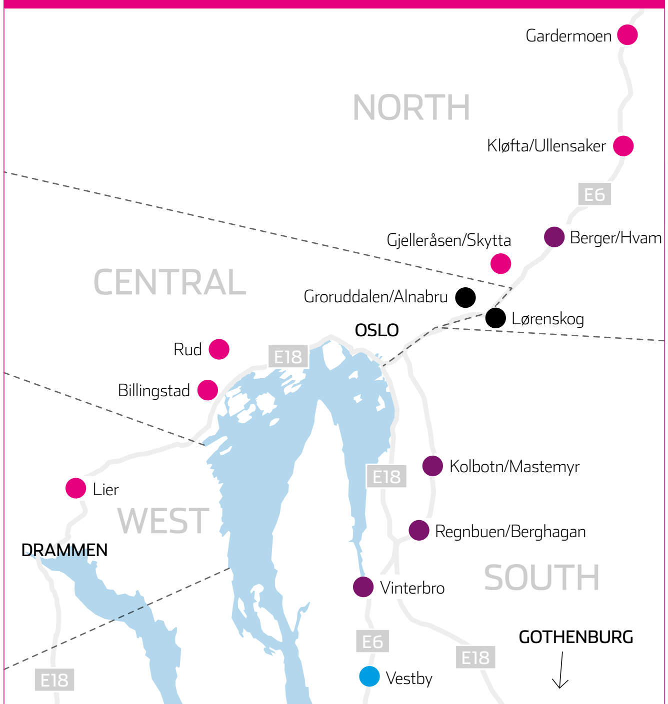
Low vacancy but flat rent development

The vacancy in our defined logistics clusters and areas in Greater Oslo is 3.2 %. Further division into our four defined sub-divisions shows a vacancy of 1.4 % in the Northern region, 9.4 % in the Southern region, 1.8 % in the Western region and 1.4 % in the Central region. Activity in the rental market remains active, and several companies are expanding their current premises or developing new sites. The corridor on the eastern side of Oslo, running from Vestby south of the city to Gardermoen to the north, is experiencing significant activity. However, rent levels currently remain flat, and our rent estimate for prime logistics spaces remains firm at NOK 1 250/m²/year. The cluster around Lier and areas surrounding Drammen are also very attractive for tenants, keeping vacancy low. A shift in demand could trigger a rental increase, especially at the lower end of the supply spectrum.

We expect increased demand

In the long term, the emergence of online goods providers will continue to put pressure on logistics properties close to the city centre. This trend has already been observed in many metropolitan areas throughout Europe for several years, and the latest indication is that we could also see an increase in this area in Norway. We have heard rumours that Amazon will establish an operation in Sweden within the next year. While these properties are also prime objects for conversion to other uses, supply will remain curtailed. Whenever our brokers market warehouses or logistics properties in close proximity to Oslo, there is always a high level of interest. Owners of properties that attract tenants who need immediate proximity to the city should see an increase in interest and a greater willingness to pay.

LOGISTICS CLUSTERS IN GREATER OSLO



INDICATIVE RENTS INDUSTRIAL/LOGISTICS (NOK/M²/YEAR)

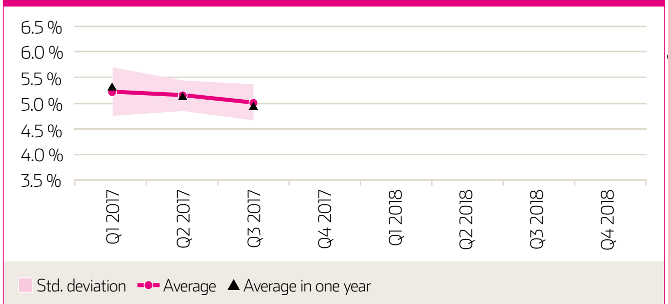
Area Category	Ceiling 4-6 metres (heated, high standard)	Ceiling > 6 metres (heated, high standard)
●	900 – 1 000	1 150 – 1 250
●	700 – 900	800 – 1 150
●	700 – 900	750 – 1 000
●	400 – 700	550 – 850

Special fit-outs for requirements not covered in a standard building will be added to the rents above based on an annuity calculation, with an interest rate typically within 6-8 %. The rent is set based on tenant solidity and usefulness for other tenants. The annuity length is based on the lease length. Examples of special fit-outs include: Floors capable of handling heavy loads, automated storage systems, air and climate specifications (e.g. fruit storage and freezing), cranes and other fixed machinery, etc. Properties with cross-docking capabilities generally command higher rents, often linked to land prices and current yields, but as a rule these buildings are generally 30-40 % more per m² than a regular storage unit.

Source: Malling & Co

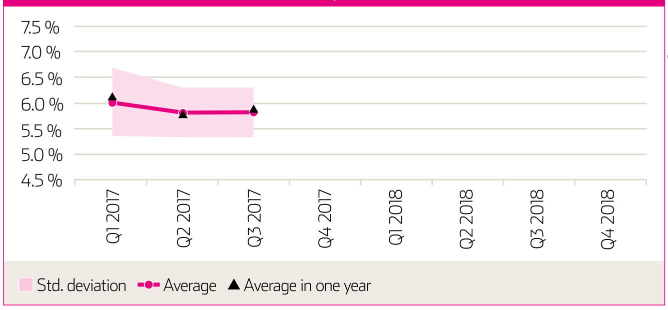
ULLEVÅL STADION
Malling & Co Energy and Environment have assisted OPF in the endeavor of converting fossil fuel based peak load boilers into bio fuel based boilers.

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME INDUSTRIAL & LOGISTICS



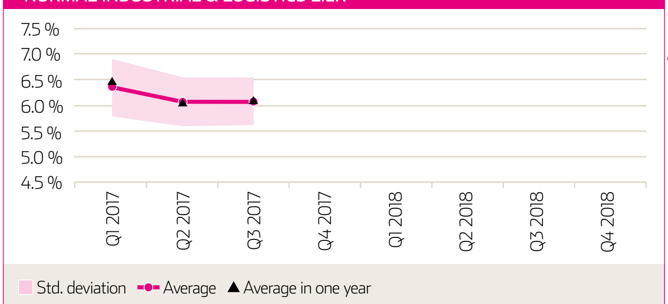
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL INDUSTRIAL & LOGISTICS KLØFTA



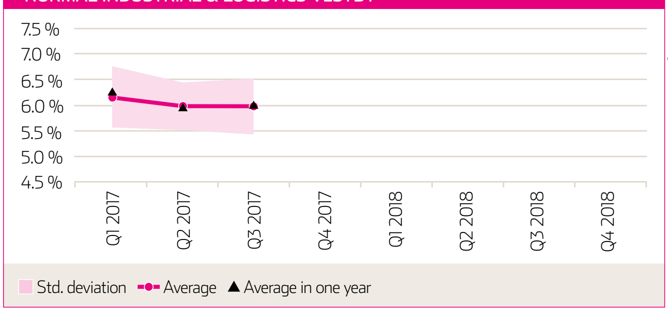
Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL INDUSTRIAL & LOGISTICS LIER



Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL INDUSTRIAL & LOGISTICS VESTBY



Source: Malling & Co

THE TRANSACTION MARKET

A REAL HUNGER FOR CRE

So far this year we have registered a total transaction volume of NOK 67.8 billion*, divided across 243 transactions*, and a very active pipeline of pending transactions and properties waiting to be launched in the market. Looking at the number of transactions through to Q3 2017, we have observed what is by far the highest number of transactions ever recorded in the first three quarters of a year, and the market is enjoying healthy liquidity. If the fourth quarter finishes as strongly as the pipeline suggests – which we believe it will – a new record number of transactions will be set, which could be approaching 300 transactions for the full year. In terms of volume in direct investments, foreign investor interest in the Norwegian market is still very good, and is currently* at 20 %. Roughly 85 % of the foreign volume is Europe-based, while the remaining 15 % is comprised of US-based investors. Together with domestic investors, the interest in Norwegian CRE is pushing our full-year estimate for 2017 up to NOK 85 billion.

Financing is readily available – and so is equity

Throughout 2017, we have registered an increasing availability of financing through both banks and the bond market. The shift from 2016 is noticeable, with a change in attitude from both national and not least regional banks, who are increasingly willing to offer financing for commercial real estate. The total cost for financing, interest rate and margin, is still at record low levels, while margins are almost back at 2015 levels. The corresponding low interest rates for both short and long durations have resulted in the Norwegian bond market for commercial real estate reaching record high levels. In today's market, we have observed that bonds are competitive with bank financing, as the structure is often set up as a bullet with a fixed interest rate for the entire duration. While the residential lending market has been subject to regulatory restrictions from the start of 2017, there is now a bright outlook for commercial real estate lending as the banks have passed the threshold put in place by regulatory restrictions. With an outlook of increased access to credit, both through banks and bond markets while interest rates remain low, from a financial standpoint everything is set for continued high activity in the transaction market.

The effect of financial instruments such as bonds with bullet structures, and junior and senior debt being packaged together in deals with preference shares in lieu of equity, has created a new scene in which investors are having to perform. Certain segments are emerging as favourites – not necessarily on the merits of the properties alone, but rather their appeal to investors in terms of how well-suited they are to the engineering of a financial package around the tenant and the remaining years on the lease. While this has certainly brought added liquidity into the market, it has also probably pushed yields further down in certain segments than we would otherwise have seen from a market with all equity or bank-financed investors.

Residential, Retail and Rogaland are undergoing changes

Office space continues to be the backbone of the transaction market, increasing to an even higher share of the total market at a little over 50 % by volume. Retail is following suit, and is almost at a 20 % share by volume. As we will discuss later, we expect the retail share to fall back a little over the coming year, partly due to the effect of the residential market cooling down (leading to lower private consumption). Although we are observing fewer residential projects, and the share of the total market by volume is less than 10 % for the year to date, the number of residential transactions comprises roughly 20 % of the market. We do not believe this will be the case for 2018, as the full effect of the cool down will reduce the demand for new residential projects or conversion opportunities.

As we covered in our previous report, the big shift is in the demand for regional properties. While Oslo continues to reign as the most liquid region by far, regional transactions outside of the major cities are still very much within the scope of investors – local and national alike. The share of the market by number of transactions is currently around 30 %. Another interesting development is the return of Stavanger and Rogaland as a target for investors. While there have been a number of noteworthy-sized transactions in previous years, and this year, investors are increasingly making enquiries regarding opportunities.

Prime office yield level at 3.65 %

Based on our survey-based investigation of the yield levels, we estimate the prime office yield to be 3.65 %. Although this is a five bps decrease since our last report, we believe it is still in line with our view that we have now passed the trough of the yield curve for the time being, and the survey results show the same when looking one year ahead in time.

The estimate for normal properties has also seen a decrease since our last report – currently 5.10 % for the western fringe represented by Lysaker, and 5.25% for the eastern fringe represented by Helsfyr. Several transactions provide evidence that longer contracts and a higher standard close to prime for these locations can obtain significantly lower yields, at 4.5 % or below. Our forecast for the normal yield is an expectation of a relatively flat development over the next 12 months. Both our analysis and the current market sentiment support a projection of this being the bottom of the cycle, but the period will be supported by expectations of low interest rates for at least the next year.

The biggest shift in yield expectations can be found in retail. Contrary to the other segments, our survey-based investigations provide evidence that investors expect both prime retail and normal retail to increase by 20 bps over the next year. We do not necessarily see the same upwards pressure on the prime yield for retail, as we believe that high street retail has some fundamental support for the current levels to be maintained. We do however understand, and partly agree with, the shift for normal retail, as there are indicators in the larger macro scope that private consumption could be reduced in the coming years, along with increased competition from online shopping.

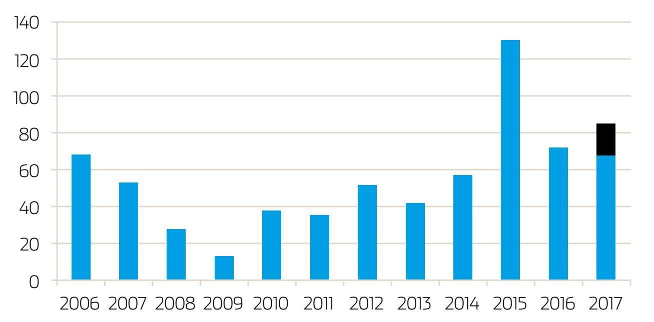
SELECTED MAJOR TRANSACTIONS 2017

PROPERTY (ADDRESS/NAME)	TENANT	SELLER	BUYER	SIZE (NOK MILLION, PROPERTY VALUE)
Eufemia (2- year forward)	Microsoft, PWC	OSU	KLP	1 740
Lilleakerveien 2	Multiple	Nordea Liv	Mustad Eiendom	1 245
Middelthungsate 29	NVE	Entra	Unknown	1 200 Est.
50 % of Ruseløkkveien 26	Being vacated	Storebrand Eiendomsfond	Aspelin Ramm	1 100 Est.
Forskningsveien 2	Multiple	Union	Pareto	1 100
Strandveien 4-8	Lundin	Ferd	Oslo Areal	920

Source: Malling & Co

*As at 6 November 2017

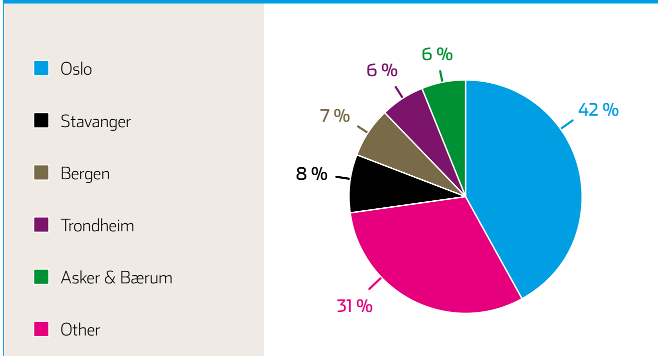
VOLUME DEVELOPMENT IN NOK BILLION* (TRANSACTION VOLUME LARGER THAN NOK 50 MILLION)



*As at 6 November 2017 (above NOKm 50)

Source: Malling & Co

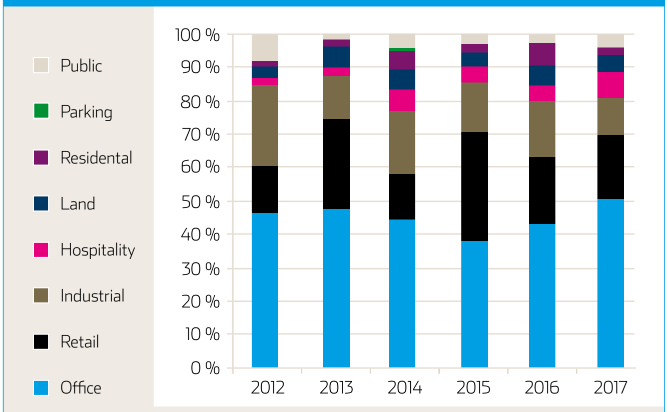
REGIONAL SPLIT OF THE TRANSACTION MARKET 2017* BY VOLUME



*As at 6 November 2017 (above NOKm 50)

Source: Malling & Co

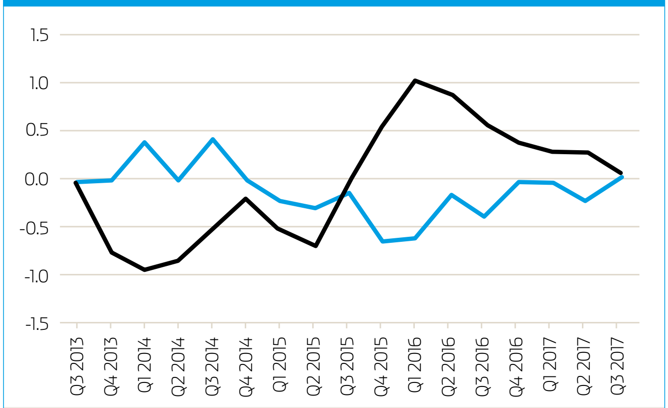
PERCENTAGE SPLIT TRANSACTION VOLUME BY SEGMENT 2017*



*As at 6 November 2017 (above NOKm 50)

Source: Malling & Co

FINANCING CONDITIONS (NET SURVEY RESULTS 3 MONTH CHANGE)



Commercial real estate loans   Lending margins

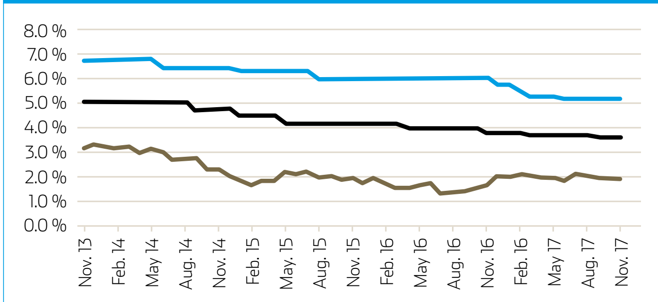
Source: Norwegian Central Bank Lending Survey

NET PRIME YIELD IN SELECTED EUROPEAN CITIES

CITY	PRIME YIELD (OFFICE)	Δ FROM LAST REPORT
Munich	2.90 %	▼ 30 bps
Paris	3.00 %	▲ 0 bps
London	3.25 %	▲ 0 bps
Stockholm	3.50 %	▲ 0 bps
Milan	3.50 %	▲ 0 bps
Oslo	**3.65 %**	▼ 5 bps
Helsinki	3.70 %	▼ 30 bps
Vienna	3.75 %	▲ 0 bps
Amsterdam	4.00 %	▲ 0 bps
Copenhagen	4.00 %	▲ 0 bps

Source: Malling & Co / Savills

YIELD DEVELOPMENT PAST 5 YEARS

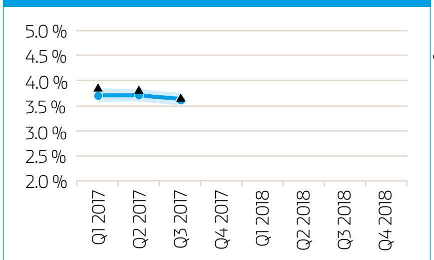


'Normal' property   Prime property   10 yr swap

Definition: Normal yield is defined as the net yield of a well maintained building situated in the fringe zone of Oslo with strong tenants on a 8 year lease contract.

Source: Malling & Co/DNB Markets

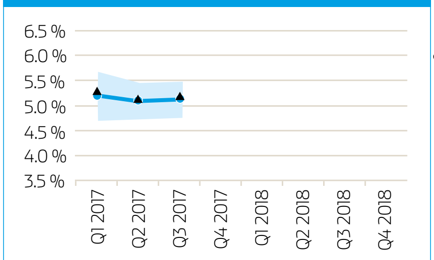
TRANSACTION SURVEY NET YIELDS ON MARKET RENT – PRIME OFFICE



Std. deviation   Average   ▲ Average in one year

Source: Malling & Co

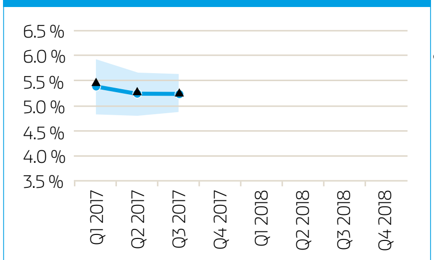
TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL OFFICE LYSAKER



Std. deviation   Average   ▲ Average in one year

Source: Malling & Co

TRANSACTION SURVEY NET YIELDS ON MARKET RENT – NORMAL OFFICE HELSFYR



Std. deviation   Average   ▲ Average in one year

Source: Malling & Co

GUEST COLUMN

Norway: An economy in transition

JAN LUDVIG ANDREASSEN
CHIEF ECONOMIST
EIKA GRUPPEN AS

Norway's economy is changing rapidly. The country's GDP growth is on the rise, from 1 % last year, to 2 % in 2017, and an expected 2.5 % in 2018, according to the recent (and relatively optimistic) National Budget. The Ministry of Finance also expects solid growth over the coming years, and has upgraded the estimated trend growth in mainland GDP (GDP minus the oil and offshore sectors) to 2.1 % per year – a relatively high figure in an aging Europe.

One could however make the case that growth will be slower than the forecast, for both trend rates and the near future. Norway's fiscal policy has been exceptionally stimulative in recent years, with higher withdrawals from Norway's massive Sovereign Wealth Fund (SWF) – the world's largest of its kind. Excluding oil money, the central government deficit in 2018 would have been almost 7.5 % of GDP for the mainland economy. In the future, the government will have broad political backing for reducing the increase in oil spending, in order to ensure that the USD 1 trillion SWF maintains its inflation-adjusted value for future generations. Another detriment to growth is productivity. With a gradual increase in the service sector's size of the total labour market, productivity growth is bound to be weak.

Regarding the business cycle, the industrial side of the economy has found its feet again after having been shaken by the plunge in oil prices. With oil prices firmly in the USD 50-70 range for Brent Blend, the go-ahead has been given for a number of projects on the Norwegian Continental shelf – projects which will ensure that the total oil investments rise modestly in the years to come. Investments in manufacturing, and electricity production and distribution, will likewise remain solid in the coming years.

The biggest cyclical risk lies in the housing sector. Housing starts are running at 35-40 000 units, close to record highs. But Norway already has an abundance of housing stock, and population growth is slowing dramatically, due to both lower fertility rates and less immigration. Prices for apartments in Oslo reached record highs earlier this year, but are now falling fast. If the decline continues unabated, households will probably reduce their consumption of big ticket items.

More worrying are the resulting volume effects if the housing industry falls into recession. 9 % of the working population is employed in the construction business. A drop of 20-30 % in building activity would likely reduce both employment and wage growth in this huge, but volatile sector.

For non-housing construction, a slowdown in the housing markets will damage retail property values as shopping declines. There will also be less conversion of offices to housing, meaning that the supply of offices will remain higher than if conversions had continued at their recent high pace. Banks are increasingly concerned about the possible imbalances that may be developing in the housing markets. Surveys from Norges Bank suggest that banks became more restrictive with housing credit in the third quarter this year. Households, too, seem to be more apprehensive. Credit demand from households fell to an annual pace of 6.5 % in September. Further declines in the growth of credit are expected.

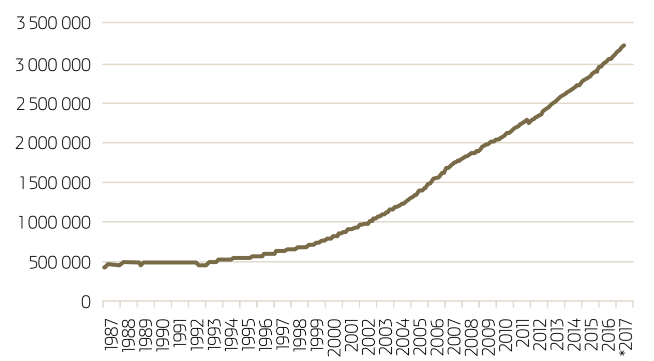
Many analysts are now calling for less regulation of the banking sector, to make it cheaper and easier to provide housing loans. However, retaining financial stability as the housing industry adjusts to structural demographic changes in Norway seems to be a top priority for the authorities. Investors should not expect any less onerous regulations in the near future.

The inflation picture is more complicated, as the recovery in the industrial sector – slow as it appears to be – will improve wage growth as profitability increases. Unemployment is low at 4.1 %, and could fall further in the near future. A weak currency will also underpin higher expectations for wage and price growth next year.

However, the single biggest component of Norway's CPI index is housing costs. Here, rents in the private market are used as a proxy for homeowners' costs. If Norway ends up building too much housing, one would assume that rents for students, and others, will fall back from already modest levels.

Norges Bank has signalled that as long as the housing market does not cause too much trouble, the economy will be able to absorb a rate hike in the first half of 2019. The present deposit rate of 0.5 % will, if everything goes as Norges Bank expects, increase gradually and reach 1.5 % at the end of 2020. However, a sustained downturn in the housing market will probably derail this plan.

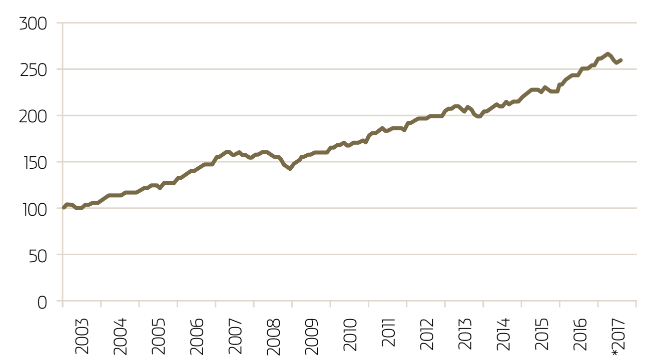
TOTAL CREDIT HOUSEHOLDS NOK MILLION



*As of September 2017

Source: Statistics Norway

HOUSING PRICES (100=2003)



*As of August 2017

Source: NEF

MARKVEIEN 35 / GRÜNERLØKKA
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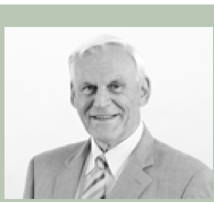
EIENDOMSHUSET MALLING & CO



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Malling & Co offers services throughout the entire supply chain, and benefits from synergies between the units

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Eiendomshuset Malling & Co is among Norway's leading advisors and service providers within the field of commercial real estate. We have acquired our knowledge and experience over more than 50 years. Our two divisions, Markets and Management, have a total workforce of around 185 employees. We offer services in the fields of management, rentals, transactions, valuations, analysis, consulting, tenant representation, energy and environment and project management.

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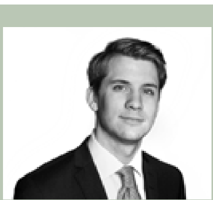

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