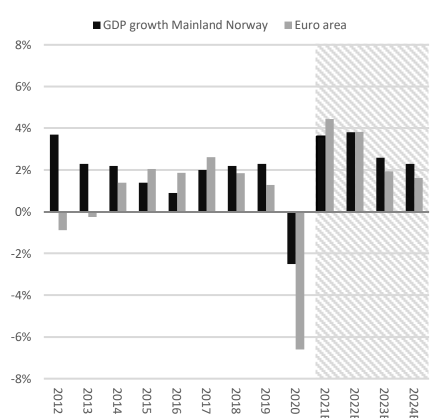
MARKET UPDATE

September 2021

MALLING & CO

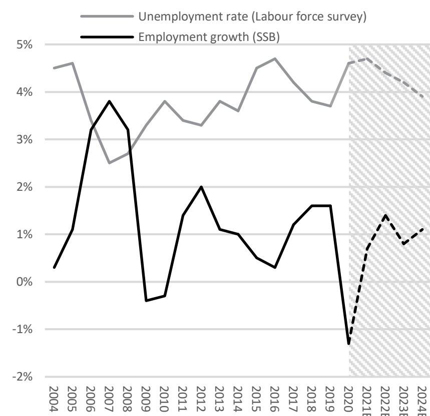
Malling & Co Investments acquired Bøkkerveien 5 in June 2021 on behalf of Malling & Co Eiendomsfond.

GDP: Mainland Norway vs. Eurozone



Source: Statistics Norway Outlook (September 2021) IMF WEO (April 2021)

Labour market Norway



Source: Statistics Norway (September 2021)

Economic Outlook

- Seasonally adjusted figures from Statistics Norway's (SSB) National Accounts show that Mainland GDP increased by 1.4 % on average in Q2 2021, after declining by 1.0 % in Q1. Q3 also started well with a 0.4 % seasonal- and calendar adjusted growth in July. SSB estimate this year's full growth to be 3.6 %.
- Unlike the Mainland GDP-growth, the employment level is not back to pre-pandemic levels as of yet. The 3-month average unemployment rate from SSB's labour force survey was at 4.8 % of the total workforce in June. Number of employed persons increased by 0.4 % in Q2 2021, perhaps as a result of the 0.7 % increase in the number of available jobs in the same period. Latest unemployment projections from SSB are 4.7 % on average in 2021, before declining to 4.4 % and 4.2 % in 2022 and 2023, respectively.
- We are now in September where the projected lift in key rate from 0.00 % to 0.25 % is expected. The Governor of the Central Bank of Norway, Øystein Olsen, announced his departure in February 2022. It raises the question whether his replacement is more hawkish than him, with Deputy Governor Ida Wolden Bache being the most likely successor.
- Norway's Consumer Price Index (CPI) was unchanged from July to August 2021, while CPI-ATE fell by 0.6 %. The 12-month CPI-ATE rate increased by 1.0 %, still a bit lower than previously expected bearing in mind that the target of the inflation rate is set at 2.0 %.
- The residential housing market increased by 1.9 % (1.0 % seasonally adjusted) nationally in August, according to Eiendom Norge.

Office vacancy (August 2021)* and Indicative Office Rents (Q3 2021) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	12 %	1 600 – 1 800	2 150
Sandvika	1 %	1 500 – 1 800	2 200
Fornebu	8 %	1 500 – 1 800	2 000
Lysaker	5 %	1 800 – 2 200	2 400
Skøyen	10 %	2 400 – 2 800	3 500
Forskningsparken/Ullevål	0 %	1 700 – 2 100	2 500
Majorstuen	4 %	2 000 – 2 600	3 200
Vika/Aker Br./Tjuvholmen	6 %	3 600 – 4 300	5 600
Kvadraturen	7 %	2 600 – 3 300	4 000
Inner City	7 %	2 800 – 3 400	4 100
Bjørvika	0 %	3 600 – 4 100	4 700
Nydalen/Sandaker	7 %	1 700 – 2 200	2 500
Økern/Løren/Risløkka	6 %	1 200 – 1 700	2 100
Bryn/Helsfyr	9 %	1 700 – 2 100	2 350

* / ** / *** For explanation please see Link

Rents are quoted as NOK/m²/Yr. Source: Malling & Co

Key Facts: Real Estate (Office, Oslo)

	SEP 2021	SEP 2020
Prime Yield	3.25 %	3.60 %
Normal Yield***	3.85 %	5.05 %
5Y SWAP (COB 10.09)	1.46 %	0.65 %
10Y SWAP (COB 10.09)	1.63 %	0.95 %
EUR/NOK (COB 10.09)	10.2	10.7
CPI 12-month change (August)	3.4 %	1.7 %
Average Rent Top 15 % (Q221/20)	4 100	3 810

Rents are quoted as NOK/m²/Yr. Source: Malling & Co/Eikon/Arealstatistikk/SSB

Number formatting: SI Style (English version)

Latest Lease Contracts

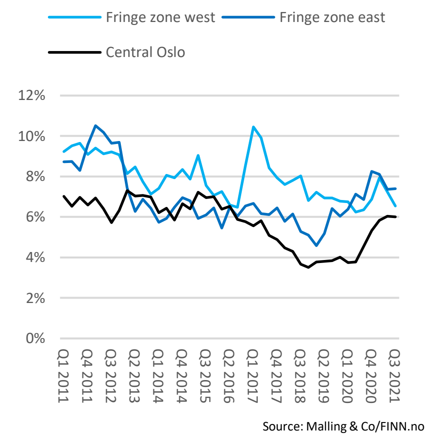
Tenant	Address/Cluster	Size (m²)
Oslo Municipality Planning and Building Services	Vahls gate 1-3 / Inner City	~ 13 200
Statsbygg	Biskop Gunnerus' gate 6 / Inner City	~ 9 300
Statens Vegvesen	Valle Vision / Bryn/Helsfyr	~ 8 000
Spaces	Fjordallèen 16 / Vika/Aker Br./Tjuvholmen	~ 4 200

Source: Malling & Co

Address	Buyer	Size [1] (MNOK)
Billingstad portfolio	Pareto club deal	Est. 1 800
Strandgaten 19	BaneNor	Est. 1 000
Rosenbergveien 15	Carnegie syndicate	402
Åråssvingen 11	H-2 Eiendom	300

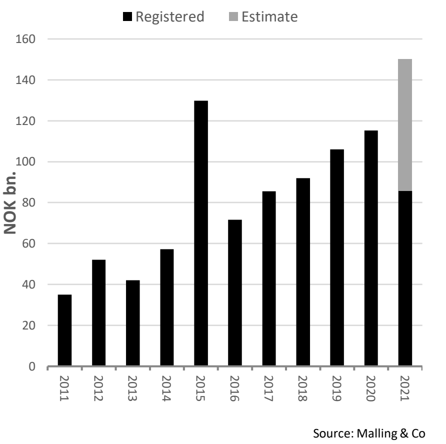
[1]Deal size may be rounded due to confidentiality

Historical Office Vacancy, Greater Oslo



Source: Malling & Co/FINN.no

Transaction Volume (>50 MNOK)



Source: Malling & Co

Special Topic: Comparing prime office yields across European cities

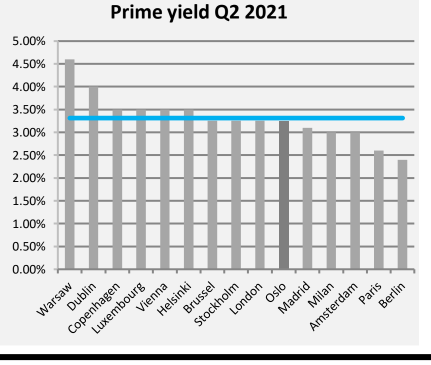
On the chart below, Oslo is situated with a prime yield of 3.25 %, lower than the average of 3.31 %. You may argue that in a country with interest rates that exceeds those of other European countries prime yield should be higher. We have identified three explanatory factors that might help to explain current prime office yields relative to other cities and interest rates.

1. Inflation: Compared to other European cities, Norway has had higher inflation than the rest. In the time frame of 2000-2020 Norwegian CPI is at 2.1 % on average, while our Swedish neighbors for instance experienced 1.3 %. Berlin and Paris, the two cities with the lowest prime yield, are situated in countries with an average CPI of 1.4 % during the same period. Higher income growth can explain why the yield gap (yield vs. local five-year swap rate) is at the lowest in Oslo among the European cities.

2. Contract structure: In Norway, leasing contracts are CPI-adjusted every year. It provides a safe and steady cash flow adjustment to owners which could be integrated in the price. This is not the practice elsewhere, in fact, France have an index-based system set up by French law involving factors such as minimum wage, level on consumer prices and general wage levels etc. Germany, like Norway, typically adjust rent level based on the CPI level, but the adjustment is not necessarily set each year and often combined with a particular threshold. The difference in contractual structures influence the growth in the cash flow over the investment period.

3. Option value: What we know about the Oslo market, is that contractors/developers in general have greater opportunities in terms of regulation to increase height in brownfield-developments due to the political setting. This is very different in e.g. Stockholm, where building heights are more or less locked around existing heights in central areas.

To sum up, the abovementioned factors are just some of the factors explaining different yields observed across European main cities. In order to assess different pricing, local detailed knowledge is needed to compare markets on similar terms.



Commercial Real Estate

Oslo Office Market

- The average of signed office rents in Greater Oslo increased by 9 % in Q2 relative to Q1, according to figures from Arealstatistikk. This leaves a flat development in H1 2021 relative to H2 2020.
- In our international alliance partner Savills's European Office Outlook, Oslo was the only market in Europe to record office leasing volumes above its five-year average during H1 2021 (+2 %). In comparison, European office take-up were down 24 % on average. The total H1 volume in Oslo amounted to 340 610 m², were 180 640 m² was signed in Q2. We believe in even higher activity from tenants during H2.
- Vacancy in Greater Oslo has decreased recently and is now at 6.5 % per August 2021. Month-to-month changes where minor in all our defined clusters which is represented in the 0.1 % decrease from July. We believe that vacancy has reached its peak and expect a flat development from 2022 and onwards.
- Total confirmed construction volume in 2021 is at 98 500 m² in 2021, 18 500 m² in 2022 and 91 800 m² in 2023. We see a tendency of potential construction pipelined in 2023 being pushed into 2024 where 30 000 m² are confirmed.

Transaction Market

- Well past the halfway point, in the middle of Q3, we have registered a volume of NOK 85.7 billion. Although we have been very firm in our belief of a strong investment market, this surpassed even our most optimistic volume projections for H1 2021. With the known pipeline and the positive sentiment of the investors we expect a busy H2 in line with previous years, thus we have made another substantial upwards revision of our full year projection to NOK 140-160 billion.
- Our latest quarterly Investor Yield and Sentiment Survey (IYSS) from the end of Q2 showed that the demand for commercial real estate (CRE) was record high since the inception of our survey, and the yields are by and large all flat at record low levels. We are eagerly awaiting the results from our next survey for Q3 coming up at the end of September. From our view and feel of the market, we expect sentiment to remain at very high levels, and yields to remain flat. As society is gradually opening up, we expect to see further improvements for the retail outlook especially. We are also curious at any movements in the hospitality sector, although we suspect that this segment is still waiting for further positive signals before returning to investors favor.
- Geographically, we can definitely confirm that interest has shifted away from the narrower focus of 2020 on the Greater- Oslo region and prime assets. We see high demand in all tier 1 cities, as well as peripheral properties with cash flow, and more value-add assets.

Malling & Co Research and Valuation AS
Dronning Mauds gate 15, Postboks 1883 Vika, 1024 Oslo, Norway
T: +47 24 02 80 00 – **E:** post@malling.no – **W:** malling.no