

Malling & Co Corporate Real Estate AS Malling & Co is advisor for Ferd Eiendom in the sales process of Asker TEK, a state-of-the-art office building next to Asker station.



Economic Outlook

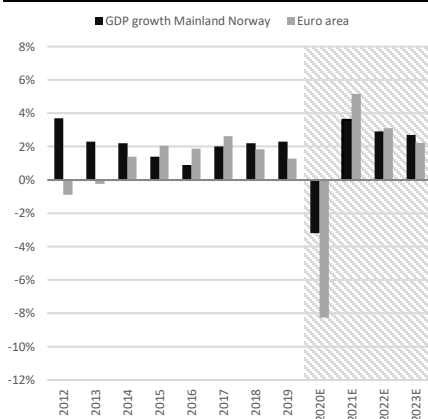
- According to the September forecast from Statistics Norway, GDP-growth for Mainland Norway is expected to decrease by 3.2 % in 2020. At 8 October SSB released the monthly national accounts showing a GDP-growth of 0.6 % from July to August (seasonally adjusted), while the consensus expected 0.9 %. Overall activity is thus 3.9 % lower than in February. The September forecast from SSB predicts a GDP-growth of 3.6 % and 2.9 % in 2021 and 2022, respectively, but SSB will reveal new forecasts 11 December.

- Unemployment, measured by the LFS, showed 5.2 % in July (avg. of June-August). Norway's total employment is down by 59 000 from February to July according to the LFS. It is expected that unemployment will stay above 4 % over the next three years.

- The key policy rate was kept at 0 % as expected in September. The Central Bank signalled that the interest rate is likely to stay unchanged until 2022. According to the monetary policy assessment revealed at the meeting, the development in production and employment, as well as risk of increased financial unbalances, will be key factors for changes in the interest rate path.

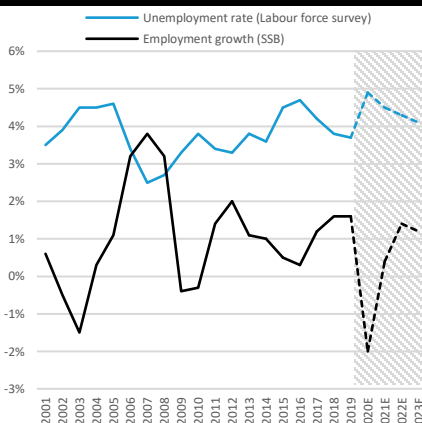
- The 12-month change in CPI ended at 1.6 % for September (3.3 % CPI-ATE). CPI increased by 0.4 % from August to September. SSB expects CPI to be 1.5 % in 2020 y/y, while CPI-ATE is predicted at 3.1 %. The CPI-forecast from SSB at 1.5 % y/y would imply a 1.95 % CPI-growth Nov./Nov., which is the most used measure for lease adjustments.

GDP: Mainland Norway vs. Eurozone



Source: Statistics Norway Outlook (Sept. 2020) IMF WEO (Oct. 2020)

Labour market Norway



Source: Statistics Norway (Sept. 2020)

Vacancy (September 2020) and Indicative Office Rents (Q4 2020) in Greater Oslo

Cluster	Vacancy	Normal Rent**	Prime Rent*
Asker	9.8 %	1 600 – 1 800	2 150
Sandvika	2.1 %	1 600 – 1 800	2 150
Fornebu	5.3 %	1 400 – 1 600	1 900
Lysaker	11.5 %	1 800 – 2 100	2 350
Skøyen	8.0 %	2 300 – 2 700	3 200
Forskningsparken/Ullevål	0.5 %	1 700 – 2 000	2 300
Majorstuen	2.4 %	2 000 – 2 600	3 200
Vika/Aker Br./Tjuvholmen	6.6 %	3 600 – 4 200	5 600
Kvadraturen	4.6 %	2 500 – 3 200	3 800
Inner City	5.5 %	2 800 – 3 400	4 100
Bjørsvika	1.4 %	3 200 – 3 500	4 200
Nydalen/Sandaker	3.7 %	1 800 – 2 100	2 400
Økern/Løren/Risløkka	9.5 %	1 200 – 1 700	2 100
Bryn/Helsfyr	8.2 %	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)

	OCT 2020	OCT 2019
Prime Yield	3.25 %	3.75 %
Normal Yield***	5.00 %	5.05 %
5Y SWAP (COB 14.10)	0.63 %	1.71 %
10Y SWAP (COB 14.10)	0.90 %	1.73 %
EUR/NOK (COB 14.10)	10.85	10.04
CPI 12-month change (Sept)	1.6 %	1.5 %
Ave. Rent* Top 15 % (Q3)	3 720	3 910

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

Latest Lease Contracts

Tenant	Address/Cluster	Size (m ²)
Kolonial	Drammensveien 189/ Oslo west other	~ 18 000
Oslo Muni. Education Agency	Grønseveien 95/ Bryn-Helsfyr	~ 7 500
WSP Norge	St. Olavs plass 5/ Inner city	~ 3 800
Skagtind	Kongens gate 21/ Inner city	~ 3 200

Source: Malling & Co

Latest Transactions

Address	Buyer	Size ¹ (MNOK)
Vilbergveien 130	NREP	Est. 3 000
Tjuvholmen Allé 1-5	Canica	Est. 1 950
Neptune Properties	Profier	N/A
Svelleveien 33	Ragde Eiendom	650

¹Deal size may be rounded due to confidentiality

Source: Malling & Co

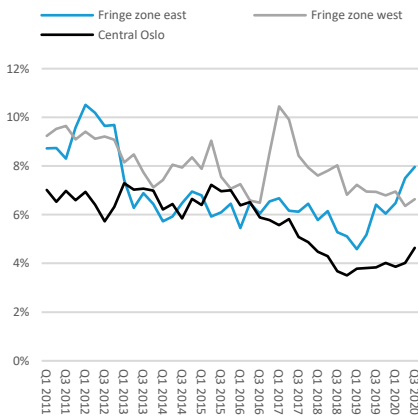
Special Topic: Will our forecast of 5-10 % rental decrease hold?

Arealstatistikk released new data on office rents 13 October, including average rents on signed lease agreements in Q3. The key takeaway is that average rents are down a scanty 5 % since the previous quarter. We now have two quarters of post Covid-19 data, both indicating a decreasing trend on rents.

In our July update, we made a comment on the Q2 data from Arealstatistikk. The seasonal effects are usually on the positive side for Q2, and we made a note that we had not seen any Q2 since 2008 with a negative change in the average rents signed in the preceding quarter. Q3 on the other hand is usually negative, and the Q2/Q3 change has been more negative in 2009, 2010, 2013 and 2019 than the scanty 5 % we are observing for Q3 2020. However, if we analyse the Q1/Q3 change over the same period, the 2020 Q1/Q3 change is the worst in 12 years (2008-2020), although noting that all previous crises hit in the autumn rather than in the winter/spring like Covid-19. Leaving the comparison over the same season, the Q2/Q4 change in 2008 that was measured at -11 %. The current rental decrease from Q1 to Q3 therefore seems milder than the decrease seen in 2008.

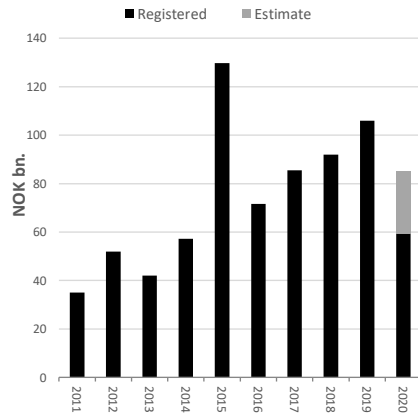
It should be noted that any conclusion on a price correction due to Covid-19 should be viewed with cautiousness at this point. Low volumes of leases signed in some clusters, due to lack of lease expiries and a general Covid-19 deferment of leasing processes, makes the Q3-data somewhat unreliable. Random changes in sample quality affects the reliability of the observed mean. According to Arealstatistikk, figures for Bryn-Helsfyr was affected by no signed leases at Helsfyr during the quarter, meaning that all leases were signed at Bryn, which we know is 10-15 % lower in price. The final conclusion on rental development will need one or two more quarters of data, but for now the data supports our forecast of a 5 % - 10 % rental decrease before the supply/demand balance is re-established in the office market. As a relieving note, our letting agents report on record high volume of space to be leased in their portfolio pipeline for Q4, leaving a positive turn to the demand side of the market before the finish line of the year.

Historical Office Vacancy, Greater Oslo



Source: Malling & Co

Transaction Volume (>50 MNOK)



Source: Malling & Co

Commercial Real Estate

Oslo Office Market

- Average vacancy in Greater Oslo is measured at 6.2 % in Q3 2020. The main reason for the last months increase is the completion of several new constructions in the Eastern Fringe. Average vacancy in the Eastern Fringe is currently 8.0 %, up from 4.6 % at its lowest in Q1 2019. We expect vacancy to continue increasing with around 200 bps over the next 6-12 months, before stabilising in 2021.
- Average recorded rents fell by 5 % in Q3, in line with our rental forecast. Comparing full year 2019 and Q1-Q3 2020, average rents have had a flat development. However, summing up quarterly changes for Q1-Q3 historically, this year's decrease in average office rents (Q1-Q3) is the worst recorded. (see also special topic below).
- The Vika/Aker Br./Tjuvholmen office cluster saw the largest increase in average rents in Q3 vs. Q2 with an increase of 7 % for the average of the 10 contracts recorded. This is regarded as being within the random variations in the cluster over the past quarters, leaving the rental development on a rather flat trend over the past year. The same flattening trend is seen for the inner city centre in general.
- Activity was low in Q3 with an aggregate signing volume of just below 110 000 m². Only 135 contracts were signed in Greater Oslo, which is the lowest number in Q3 since the recording started in 2008.

Transaction Market

- The investment market is piping hot as we are heading into the final quarter of 2020, and we have counted 173 transactions totaling NOK 59.4 bn. Our transaction survey for Q3 which closed Friday 9 October revealed that demand for CRE is continuing at record high levels with roughly 80 % of investors intending to increase their exposure towards CRE in the coming 12 months. The investor demand is still around 90 % intending to increase their share in the office segment (similar as Q2). Demand for Logistics is now soaring at 80 % intended increase in exposure in the coming 12 months, up from around 35 % in Q2. Our main scenario for the total transaction volume for 2020 is at NOK 85 bn. for 2020, but with a significant upside potential.
- We have previously covered a pending yield compression in our various research publications, and now we have both evidence observed in the market and our survey to back up our predictions. The Prime office yield is by our estimates down to a record low 3.25 %, and the 12-month outlook is skewed towards a further compression of another 5 to 10 bps. The prime logistics yield has also come down to a new record low 4.25 %, down 20 bps from the previous quarter. A further compression of 15-25 bps is expected over the coming 12 months.

Change in average rents for signed office leases from Q1 to Q3, Greater Oslo



Source: Arealstatistikk