



THE RENTAL MARKET

SPRING 2024



UNION

Little new supply – especially in central areas

Over the past few years, the supply side has significantly improved from a landlord's perspective. Estimates for new construction volumes have been revised downwards several times, and since last fall, we have reduced our estimate by 30,000 m² for the period 2024 to 2026.

For the five years from 2022 to 2026, it is assumed that there will be a gross addition of only 365,000 m², or a net addition of 255,000 m² of office space. This is the lowest level for a five-year period since 2009.

Three key factors contribute to a weakened supply side:

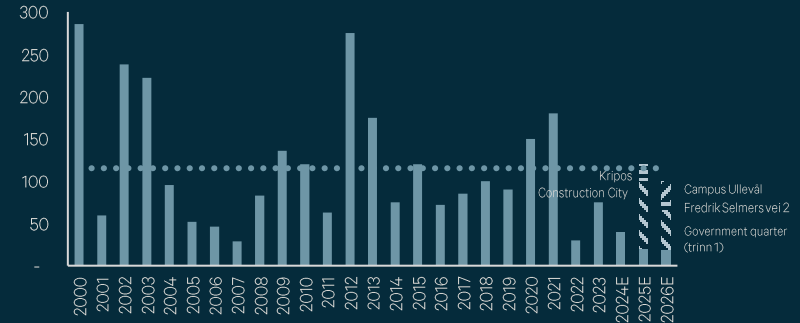
- **Construction costs have risen** significantly since 2021. Although raw material prices have seen a decline, this is largely offset by increases in labor costs and a NOK depreciation.
- **Yields have increased by approximately 150 basis points** over the last two years. This increase has a more pronounced impact than construction costs, making it challenging to realize new construction projects based on «old» rent levels.
- **Uncertainty about the development of the Norwegian economy** contributes to a more cautious stance among many tenants.

So far, the situation has led many tenants to postpone relocation processes, and a whopping 83 percent of lease agreements over 5,000 m² were renegotiated in 2023. This is far above the average for the period 2015-2022, where 42 percent of large lease agreements were renegotiated.

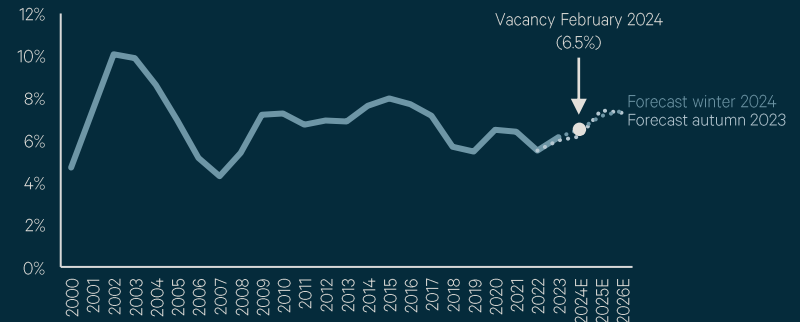
To bring the market for newbuilds back into equilibrium, one or more factors must change:

- **Rent levels must increase** to reflect the new cost of capital and construction costs.
- **Alternatively, yields and construction costs must decrease.**

Completion of new office space in Oslo, Asker og Bærum (in 1,000 m²)



Office vacancy in Oslo, Asker and Bærum



Lowest growth in supply in the city center, but vacancy is increasing broadly

New construction activity is currently low throughout the Oslo area, but it is at its lowest in the central areas of Oslo. In the period from 2022 to 2025, not a single new building will likely be added in the city center*. Only in 2026, when the first phase of the Government Quarter is completed, will new space be introduced to the market. This means four years without any new space, which is highly unusual.

Office vacancy in the city center reached historically low levels at 3.5 percent in 2019. High demand combined with very low new construction activity has long kept vacancy in the city center low.

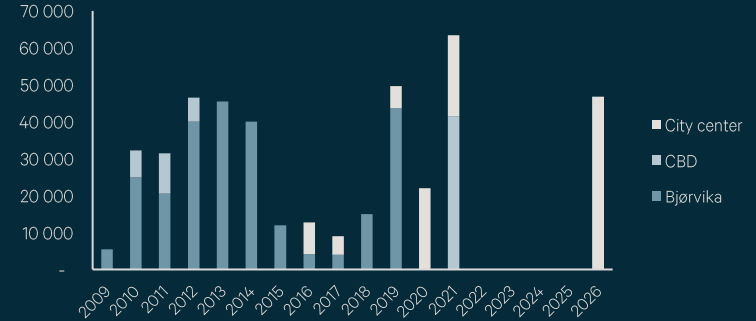
In the western fringe, vacancy was high for several years following the oil crisis in 2014. The area, stretching from Lysaker westward to Asker, has experienced very low new construction activity in the past decade.

Over the last three years, vacancy in the **eastern fringe** has significantly decreased due to substantially lower construction activity combined with a robust leasing market. Many big tenants, including several public tenants, have relocated from the city center to areas such as Bryn/Helsfyr and Økern. This is partly due to low rent levels in new builds during the era of ultralow interest rates and yields.

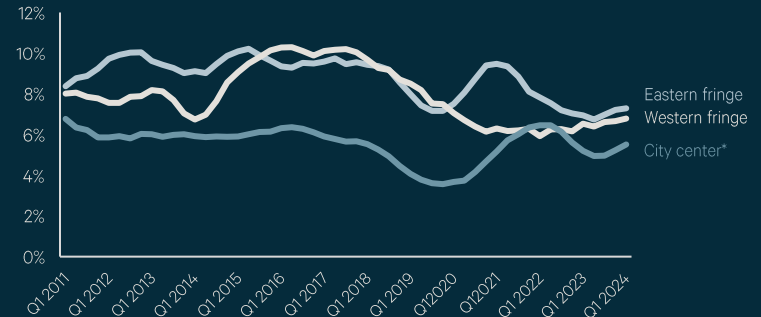
The vacancy is now increasing in most areas, as anticipated. The total vacancy rate for Greater Oslo is currently at 6.5 percent and is expected to rise further towards 7.4 percent by the end of 2026. If the forecast materializes, office vacancy, however, will still be at a moderate level historically.

*Other city center areas, Bjørnvika and CBD

Gross newbuild volumes in Oslo city center (excl. Skøyen)



Development in office vacancy – four quarter rolling average



Completion of new office space

Newbuild volume expected to be completed in the period 2024-2026

LOW HIGH



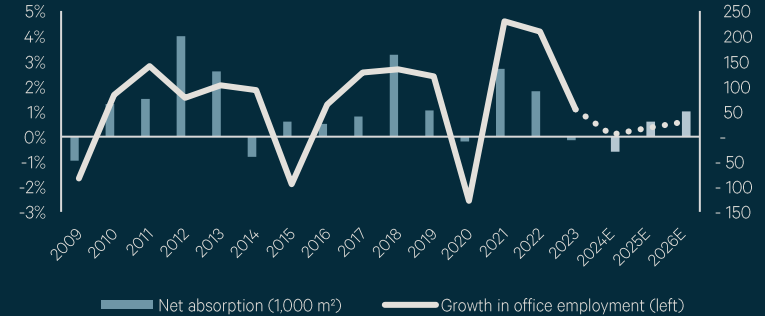
Sparse demand

Growth in office demand leveled off in 2023, and the net absorption of space was just below zero last year. Several explanations contribute to the weak demand:

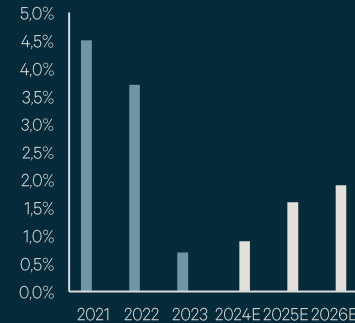
- **Weaker performance in the Norwegian economy.** GDP growth declined from 3.7 percent in 2022 to 0.7 percent in 2023, while employment growth within the office sectors in Oslo, Asker, and Bærum dropped from over four percent in 2022 to around 1 percent in 2023*
- Increased uncertainty about the future, coupled with high construction costs, has led to a **«wait-and-see»-attitude** among tenants. This has manifested in the proportion of renegotiations, which has reached unprecedented levels. In most renegotiations in 2023, companies typically neither significantly reduced nor increased their space.
- **Optimization of space utilization.** Although companies, on average, are not using less space, aggregated figures suggest optimization. Despite an increase in the workforce, overall figures indicate efficiency gains. There has been a growth of approximately 7.3 percent in the office sectors in Oslo, Asker, and Bærum over the last four years. However, the growth in leased space (net absorption) was only 2.2 percent during the same period, indicating densification.

*GDP growth for Mainland Norway

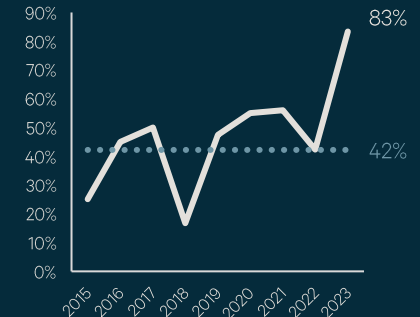
Net absorption and growth in office employment



Growth in GDP Mainland Norway



Share of renegotiations*



Source: UNION, SSB, Arealstatistikk, various banks, *Contracts above 5,000 m²

Tenants optimize space utilization

The optimization of space usage is not a recent phenomenon, and we have long observed that the growth in leased space has been lower than what employment growth suggests. From 2005 to 2020, the growth in leased space and employment was 15 and 35 percent, respectively.

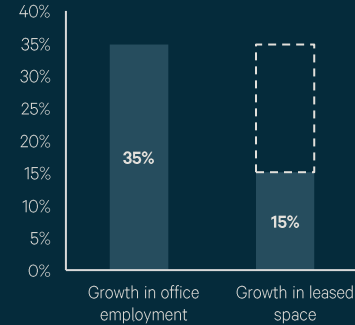
The figures from the period 2019 to 2023 can indicate that optimization has intensified in strength post-pandemic. However, the uncertainty related to the economic situation may also dampen the appetite for leasing more space. In the latter case, we may experience increased demand later.

The development in Oslo has nevertheless been much better than in many major cities in the USA and Europe, where office vacancy rates have risen significantly. Despite the weak demand trend, there is little indication that we are heading towards an office crisis as we have seen in other markets:

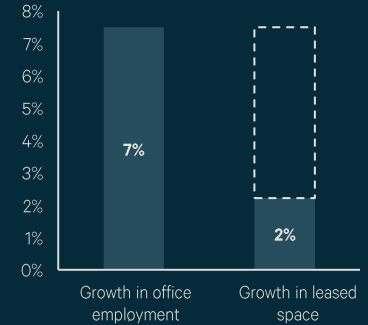
- **The volume of space in new office contracts** is on par with the expiration volumes, implying that tenants, on average, are not making significant cuts in space usage.
- **The office volume tenants ask for today** aligns with future expiration volumes, indicating that tenants, in total, do not plan substantial downsizing.

In summary, the demand appears weak in the short term due to a softer job market and tenants who do not seem inclined to take on more space despite several years of workforce growth. However, in 2025 and 2026, we expect demand to pick up slightly from low levels.

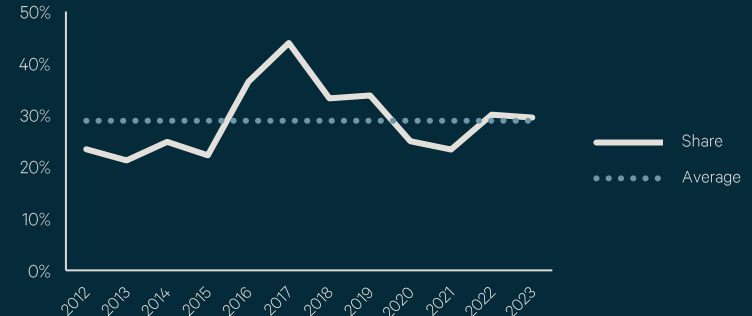
Space efficiency improvement from 2005 - 2020



Space efficiency improvement from 2019 - 2023



Search volume as a percentage of expiring volume in two years



Solid rental market, but diminishing growth

Rental prices in Greater Oslo increased slightly more than expected in 2023, with a nominal growth of 3.3 percent.* If we examine the rental price development in the city center (including Skøyen) and the fringe separately, rental price growth has been even stronger in both areas. This can be explained by the fact that in 2023, a significantly lower proportion of contracts were signed in the city center, thus understating the statistics' true price growth as the composition of the dataset has changed.

Over the past year, the most expensive lease agreements have increased more than the average for all contracts signed in Greater Oslo. The average of the top 15 percent of lease agreements had a nominal growth of 8.1 percent in 2023.* The fact that the rental market has held up so well is primarily due to avoiding a hard landing in the wake of all interest rate hikes.

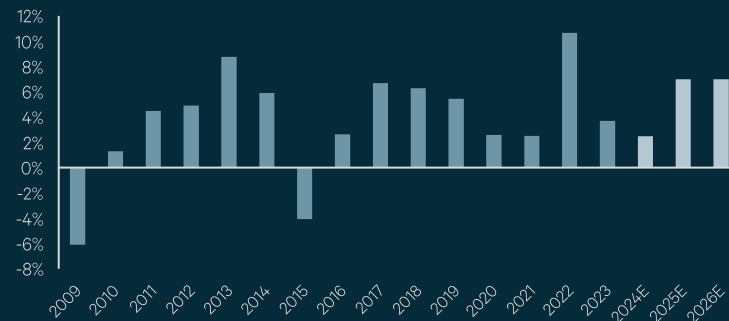
As the labor market and demand in the rental market are expected to decline this year, while tenants are cautious and cost-conscious, we anticipate modest rental growth of between 2 and 3 percent in 2024.

In summary, we expect that rental price growth in the overall market may improve already from 2025, and we have increased our forecasts from last fall by a couple of percentage points. However, this assumes neither a significant downturn in the Norwegian economy nor a significant amount of vacant space due to space utilization optimization.

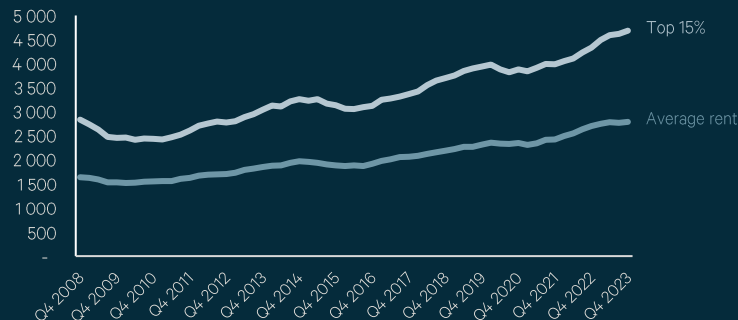
- **Economic activity** is expected to pick up from 2025. Consensus forecasts for GDP growth (Mainland Norway) in the period 2024-2026 appear more positive.
- **The supply side looks even more favorable** from a landlord's perspective.
- **High construction costs and increasing yields** are likely to push for higher rental levels in new construction and renovation projects.

*Four quarter rolling average

Average nominal growth in market rent for office spaces in Oslo



Rent development in Greater Oslo* (NOK/m²)



Source: UNION, Arealstatistikk

The era of cheap office spaces is likely over

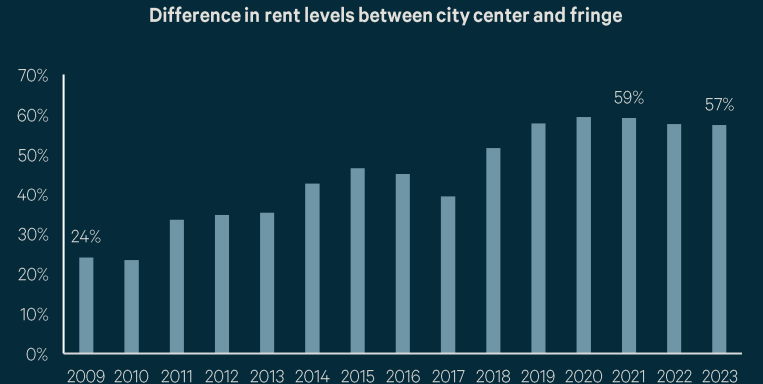
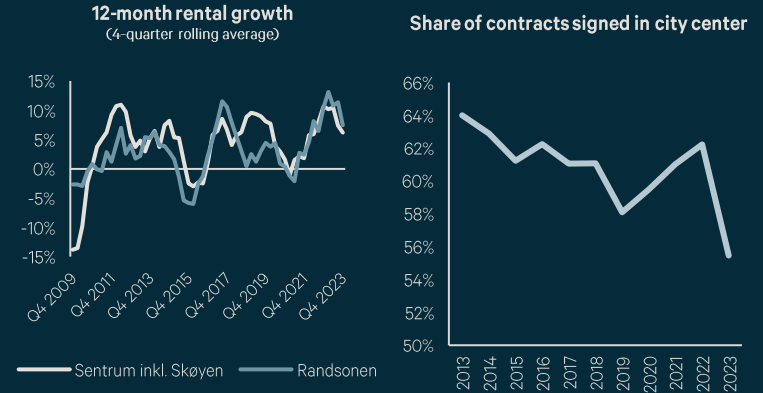
From 2012 to 2022, the rental prices for high-standard new office buildings in Oslo were kept low due to falling interest rates and yields, especially in the eastern fringe areas, where there were many ready-to-build plots. In many cases, there was a significant decline in real rent in these areas over the past decade.

Now, the dynamics have shifted. The cost of capital and construction costs has risen significantly in recent years, which is likely to exert upward pressure on rental levels in new construction and renovation projects. Over time, this is expected to contribute to lifting the rental levels throughout the market. The extent and speed of this change depend on the performance of the Norwegian economy and the evolving space requirements of businesses.

In the last couple of years, the rental price development in the fringe has kept pace with, if not exceeded, the rental prices in the city center, according to statistics from Arealstatistikk. The deviation between rental prices in the city center and the fringe has stabilized at just under 60 percent.

Although there are few references so far, we are already hearing anecdotes discussing rents at «new levels» in large projects. The key reasons for this are:

- As **yield compression turned into yield increase, coupled with significantly higher construction costs**, it is no longer feasible to justify new construction in the fringe at rental levels around 2,000 NOK/m².
- **The supply has decreased significantly.** As new construction activity has become considerably lower, the availability of larger spaces has diminished. Even though vacancy is increasing, it is still significantly lower than the levels observed a few years ago





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