THE RENTAL MARKET

SPRING 2025

UNION

Increased uncertainty and delayed rental growth

Unlike previous instances, where market shifts have typically occurred rather abruptly, the rental market has been cooling gradually—but steadily—since 2022.

This development is not unexpected, given that growth in the Norwegian economy has been slowing down over time. At present, there are few signs of a near-term turnaround, either in the broader economy or the rental market. We observe that leasing processes are taking longer, and tenants are increasingly cost-conscious. Office vacancy has also risen, giving tenants a broader selection of space to choose from. **As such, we expect limited rental growth in 2025.**

Over the medium term, however, there are still several structural factors supporting a significant upward shift in rents. Elevated construction and capital costs are likely to push new rental levels higher—particularly for new developments, refurbishments, and fit-outs.

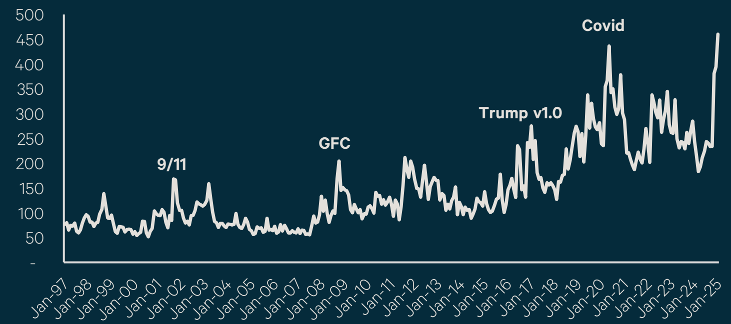
Yet for this to materialize, a recovery in economic growth is a necessary precondition. Most forecasters believe that the economic slowdown is bottoming out, and growth is expected to resume from 2025 onward. However, global political uncertainty has surged—now exceeding levels seen during the Covid-19 pandemic, the Global Financial Crisis, and even following the September 11 attacks. This may contribute to a continued wait-and-see approach in the rental market.

As a result, we have revised down our rental growth projections, particularly for 2025. It is worth noting that there remains significant disagreement among leading macroeconomic institutions regarding the strength of Norway's economic rebound (see page 8). The recent developments in international politics and interest rate trajectories only add to the uncertainty.

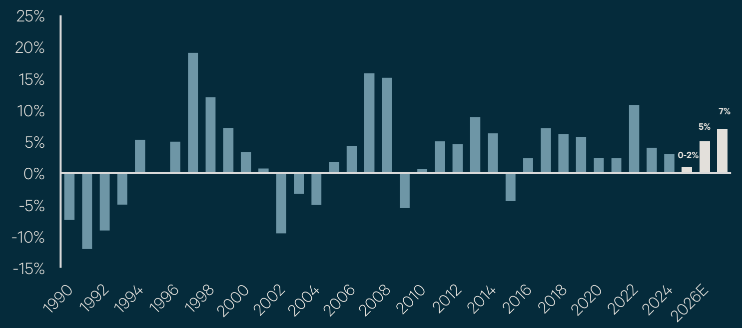
There is still considerable uncertainty around how tenants will adapt their space usage in the wake of changing work patterns post-pandemic. The past two years have seen surprisingly weak levels of net absorption (see page 7).

In short, while underlying fundamentals point to higher rent levels over the long term, the combination of muted economic growth, heightened geopolitical risk, and cautious tenant behavior is likely to affect the rental market in the near term.

Global Economic Policy Uncertainty Index



Average nominal growth in office market rent in Oslo



Source: UNION, Arealstatistikk, Macrobond

CAPEX-driven growth

From 2019 to 2024, rental growth for prime properties in fringe areas outpaced the top segment in the CBD. This marks a clear contrast to the 2008–2019 period, when rental growth was strongest in central areas.

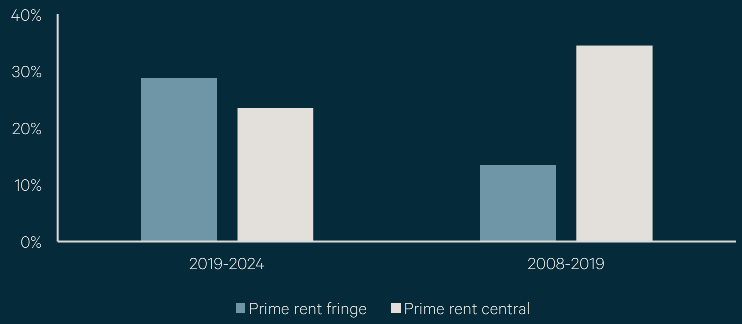
Consequently, the sharpest rent increases have occurred in locations where construction costs and CAPEX typically make up a large share of the property's total value—while the land component represents a relatively small portion. At the same time, both employment growth and, in particular, net absorption have been weak over this period. It is therefore unlikely that demand has been the main driver behind rental growth. Rather, the more plausible explanation is rising CAPEX.

Over the past 10–12 years, construction costs have nearly doubled. While there are wide variations between submarkets, average office rents have increased far less during the same period.

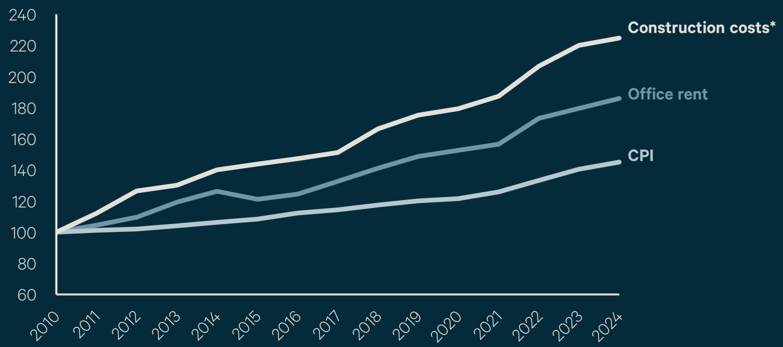
Notably, rents have outpaced the consumer price index (CPI), but construction costs have significantly outstripped both CPI and rent levels. This divergence began well before 2020. A major part of the explanation likely lies in the prolonged and substantial decline in capital costs over many years, which helped offset the increase in construction expenses.

Now that interest rates have normalized, the consequences are becoming evident: rental levels have not kept pace with the cost of building and fitting out space. **As a result, the market is out of equilibrium—and over time, this imbalance is likely to put upward pressure on rents.**

Rental growth before and after 2019 in Oslo



Development in office rent, CPI and construction costs (2010=100)



Source: Arealstatistikk, SSB *Development in construction costs for residential buildings.

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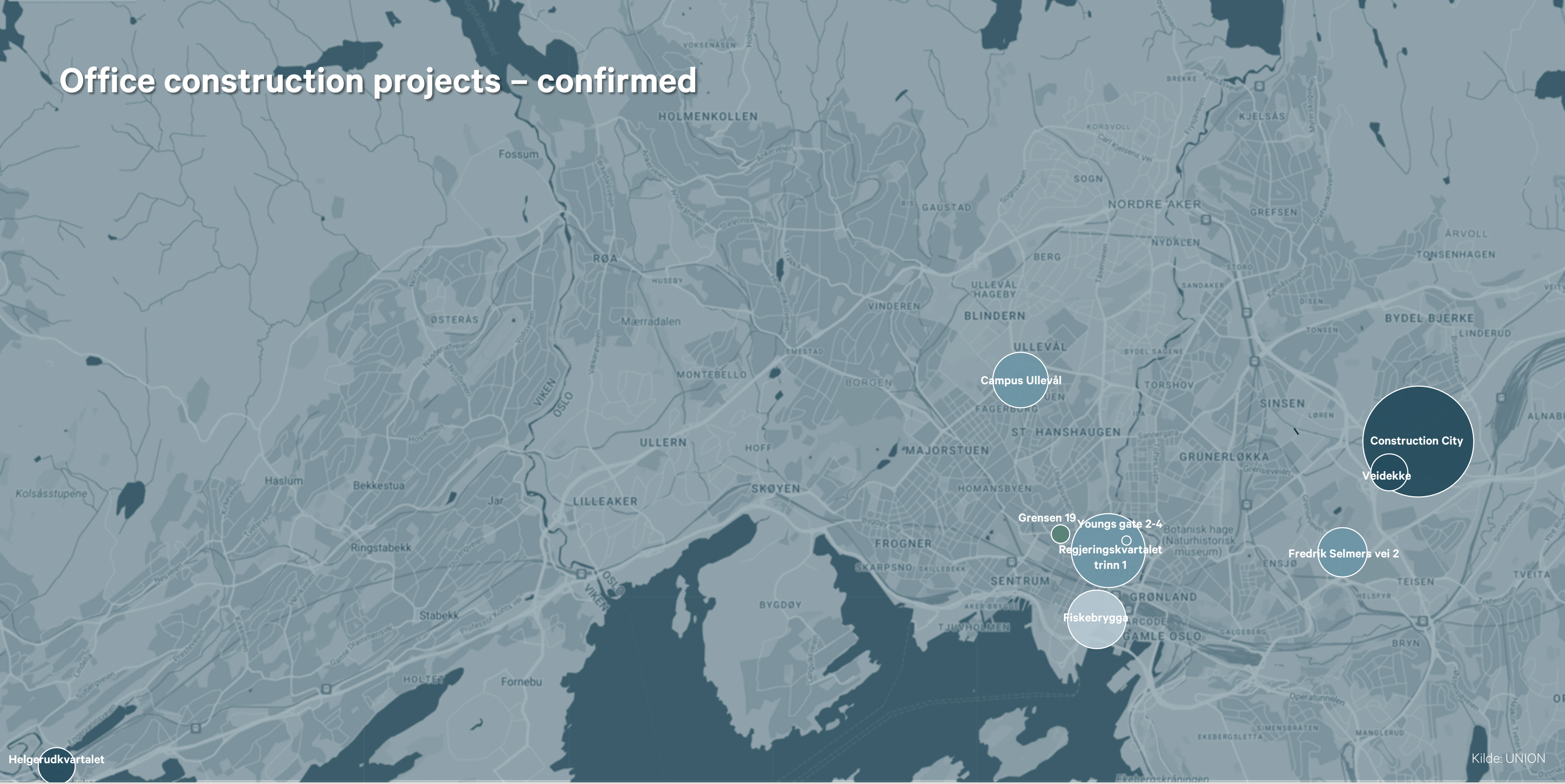
Office construction projects – confirmed



Confirmed completion: 2025 · 2026 · 2027 · 2028

C. 10,000 m² · C. 20,000 m² · C. 30,000 m² · C. 40,000 m²

More completions in the short-term, fewer in the long-term

The development of new construction projects has been highly predictable in recent years, with little change since the last update. It remains challenging to justify new construction projects in the current market, and as a result, the volume of new projects has remained limited.

While few new projects have been launched in recent years, the volume of completions is expected to increase in 2025. These projects were primarily initiated several years ago. The increase in completed space, combined with weak demand-side dynamics, has led to a gradual rise in office vacancy rates, which have increased by 1.5 percentage points since 2022. The vacancy rate now stands at 7.0%, the highest level since 2018.

A total of 125,000 m² will be completed this year, with 90,000 m² expected in 2026. From 2027 onward, the volume of completions is expected to decrease significantly.

- **There remains a substantial gap between prime rents and the rental levels required to make projetcs profitable** in most office submarkets. For a theoretical example at Helsfyr, the difference is 600 NOK/m², as shown in the graph on the bottom right.
- **There are fewer attractive new office projects available in the market** for tenants compared to the period from 2010 to 2021, as several large areas with prime office locations area nearing full development.
- **The outlook for the Norwegian economic growth is highly uncertain,** with significant variation between the forecasts for the next three years, see page 8.

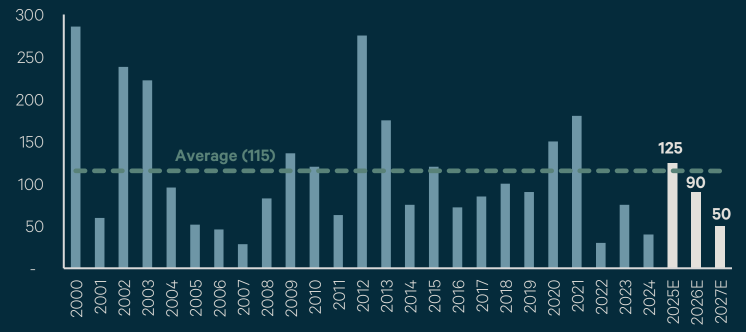
In recent weeks, it has been confirmed that Statkraft will move into a new office building at Fiskebrygga in Bjørvika in 2028. The project is being developed by Hav Eiendom and will cover approximately 28,500 m², housing up to 1,500 employees.

Apart from that, only a few smaller projects have emerged, including Canica's conversion of Grensen 19 from a hotel to office space, with completion scheduled for 2027. At the same time, the neighboring property (Grensen 17) will be refurbished, bringing the total area to around 13,000 m².

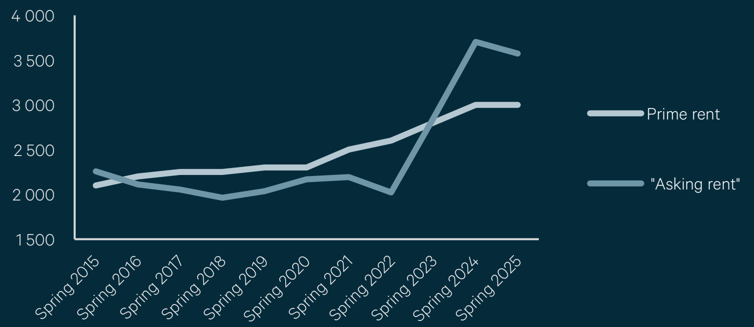
While several factors suggest that the expected volume of new office construction will decrease from 2027 onwards, **there are also some factors that could drive development in the opposite direction.** The volume of lease expirations will increase in 2027, which could potentially trigger new construction. Additionally, the proportion of tenants renegotiating leases has been high in recent years, which may indicate accumulated demand for changes to office space.

In summary, we expect the volume of new builds to remain moderate in 2027.

Completions of new office space in Oslo, Asker and Bærum (1,000 m²)



Prime rent vs. asking rent for offices at Helsfyr (NOK/m²)



Source: UNION, Arealstatistikk

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Weak economy contributes to delayed employment growth

In the past few years, the Norwegian economy has gone through a cooling period. **Since 1972, there have only been three two-year periods with weaker GDP growth.** These have been times when the economy was hit by negative shocks such as the Banking Crisis, the Financial Crisis, and the Pandemic.

This time, there has been no crisis, but rather a gradual and prolonged cooling, with much uncertainty along the way. What once appeared to be "the most anticipated recession ever" has yet to materialize.

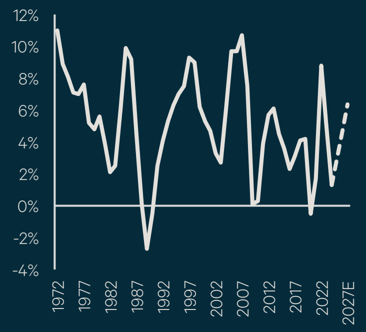
However, the development has affected both investment and employment plans of businesses. **Business leaders' net employment plans have remained well below the long-term average for 11 consecutive quarters.** In comparison, it took six quarters to return to average levels during the Financial Crisis.

At the same time, macroeconomic environments expect that we have reached the bottom of this cycle, and that growth will pick up from this year onwards. There is **still considerable uncertainty** regarding the scale of the economic recovery. The gap between Statistics Norway's and Norges Bank's forecasts for GDP growth remains high.

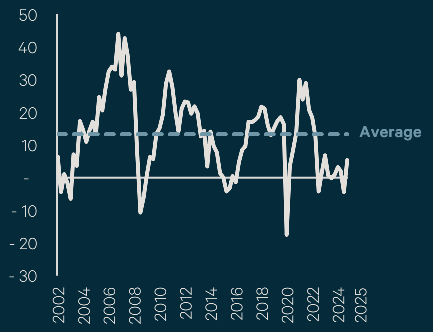
Moreover, significant doubts have been raised regarding the central bank's willingness to cut interest rates, both in the short-term and long-term, which in turn impacts the development in several sectors and the purchasing power of Norwegian households. The risk of a global economic slowdown has also increased following developments in U.S. politics.

Overall, the economic outlook appears weaker and more unpredictable than before.

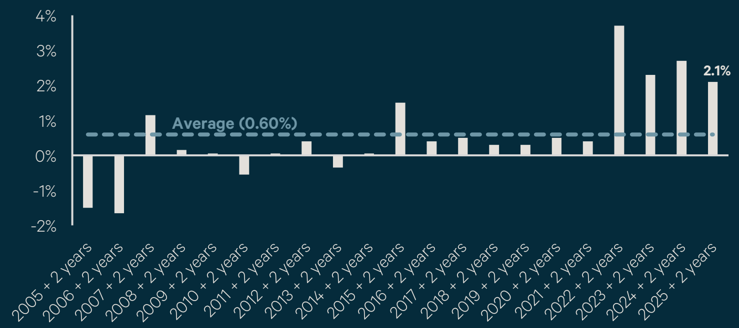
Growth in GDP Mainland Norway*



Net employment plans**



Difference in accumulated GDP growth: Statistics Norway vs. Norges Bank (percentage points)



Source: SSB, Norges Bank *Two-year rolling sum **The expectations survey, net positive means that business leaders expect to have more employees in 12 months.

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Low growth has materialized in weak demand

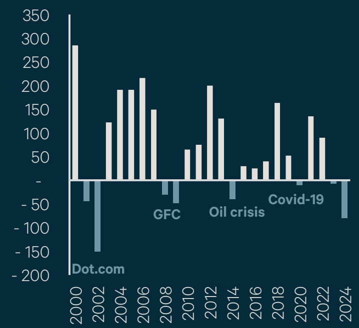
In 2024, there was negative growth in space demand for the second consecutive year. The last time we saw such a weak two-year period was during the dot-com bubble. The reasons for the weak demand in recent years are a combination of:

- **Weak economic growth,** particularly in interest-sensitive sectors. Mainland Norway's GDP, adjusted for oil investments and public demand, has been declining since the first quarter of 2023.
- **Tenants have been optimizing space usage** more than trend in recent years.
- **Uncertain growth prospects** are impacting employment plans, with a «wait and see» attitude among many tenants, also regarding future space requirements.
- **High costs** related to major renovations and new office developments during relocations.

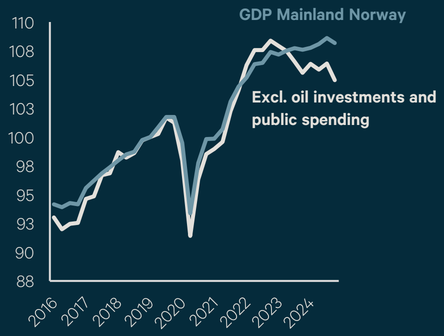
At the same time, demand has been weak, **some office buildings being vacated due to the completion of new office developments in 2025** have been added to the vacancy count.

This has contributed to the increase in office vacancy rates throughout 2024. In the first quarter, office vacancy in Oslo stands at 7 percent. The vacancy rate is lowest in the city center and highest in the eastern fringe area, where the majority of the new buildings set to be completed in 2025 are located.

Net absorption (1,000 m²)



GDP Mainland Norway (Q1 2019 = 100)



Net employment plans and office employment growth

Source: UNION, SSB, Norges Bank

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Will demand pick up going forward?

We expect **demand for office space to recover over the coming years**, with net absorption between 2025 and 2027 estimated at approximately 140,000 sqm in total. This estimate is unchanged from autumn 2024, although 2024 turned out significantly weaker than anticipated.

The forecast assumes that **economic growth will pick up** in line with consensus expectations and that tenants do not significantly optimize their space usage further.

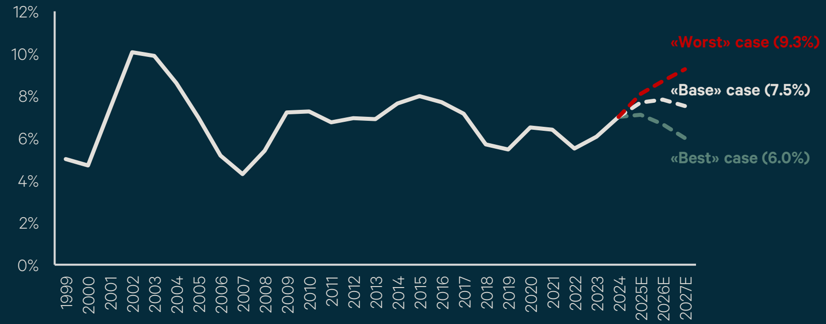
At the same time, there are both positive and negative triggers for demand growth going forward, including 1) the strength of the economic upswing and 2) growth and efficiency-related decisions on the tenant side. This is illustrated through a scenario analysis.

- In the **best-case scenario**, we assume that tenants' space requirements increase due to both a solid economic recovery and accumulated demand following several years of high renewal rate.
- In the **worst-case scenario**, economic growth develops in line with the most pessimistic forecast, while tenants continue to reduce their space at lease expiry.

As illustrated, the outcome range is wide. In a best-case scenario, the vacancy rate could move toward six percent, and demand growth would be more than twice as high as in our base case. In the worst case, the trend of negative net absorption continues, pushing vacancy above nine percent.

Net absorption given different scenarios* (1,000 m²)

Office vacancy development given different scenarios*



**By change in space utilization, we mean the difference between what tenants would ideally occupy given employment trends and what they actually occupy. Note that we assume that the optimization occurs when tenants move, and we have assumed a renegotiation rate of 50 percent, meaning that the optimization takes place gradually over time.

Source: UNION, SSB, Norges Bank

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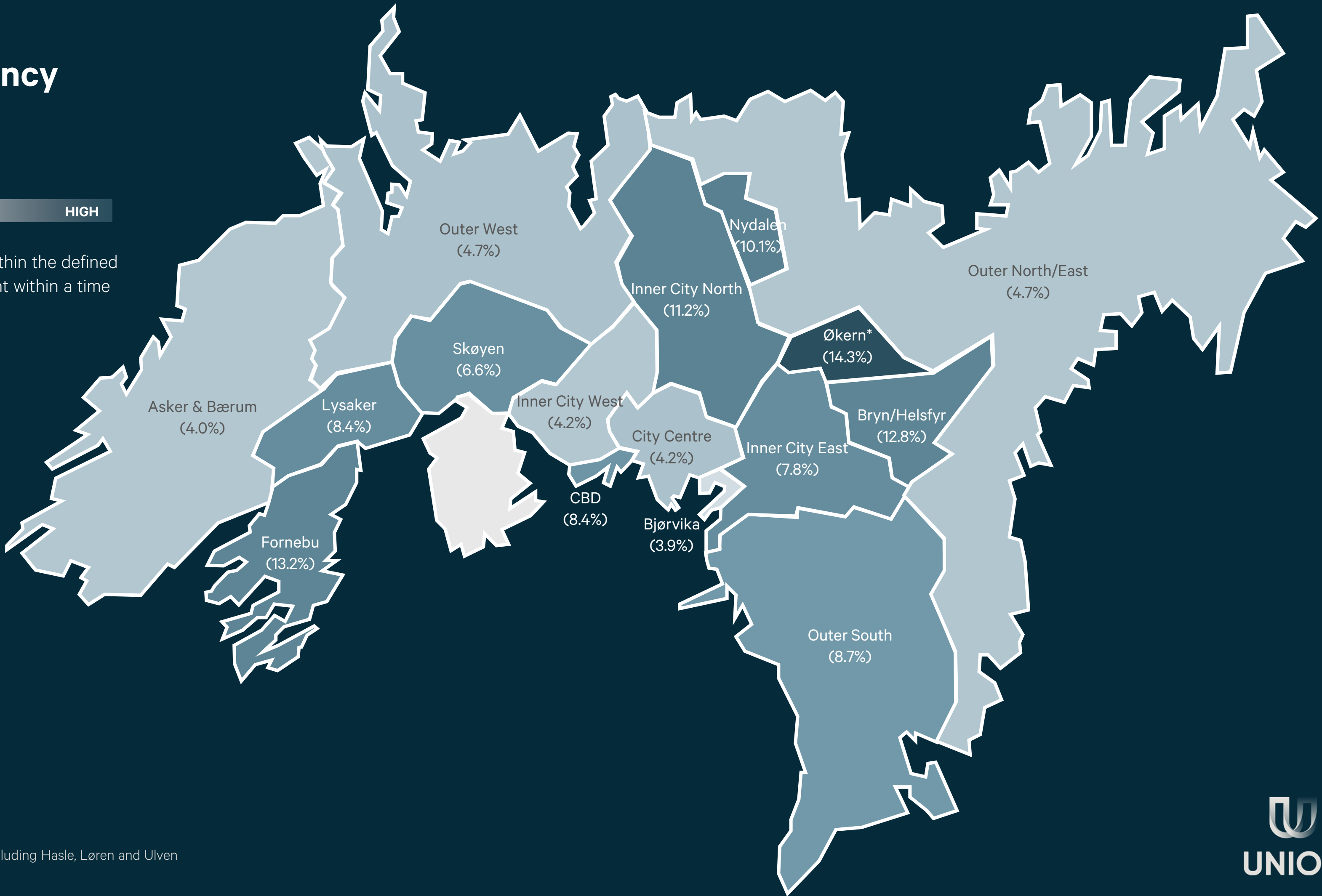
Office vacancy

LOW HIGH

Proportion of the area within the defined office zones that is vacant within a time horizon of 12 months.



Source: UNION *Including Hasle, Løren and Ulven

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Rent level and office vacancy per area

RENT LEVEL (NOK/M^2/YEAR)	PRIME RENT	HIGH STANDARD	MODERATE STANDARD	VACANCY	Δ 6 MONTHS
CBD	6,700	5,200 – 6,200	3,500	8.4%	0.5%
Bjørvika	5,500	4,200 – 5,000	3,200	3.9%	0.6%
City Centre	5,300	3,700 – 4,500	2,600	4.2%	-0.8%
Inner City West	4,800	3,400 – 4,200	2,000	4.2%	-0.5%
Inner City North	2,700	2,000 – 2,300	1,500	11.2%	1.5%
Inner City East	3,900	2,300 – 2,900	1,600	7.8%	-0.8%
Skøyen	4,200	3,000 – 4,000	2,500	6.6%	-1.7%
Lysaker	3,300	2,300 – 2,800	1,700	8.4%	3.4%
Fornebu	2,500	1,800 – 2,300	1,400	13.2%	-2.1%
Nydalen	3,100	2,200 – 2,800	1,600	10.1%	0.1%
Bryn / Helsfyr	3,000	2,200 – 2,800	1,400	12.8%	3.2%
Økern, Hasle, Løren, Ulven	2,800	2,000 – 2,400	1,400	14.3%	4.4%
Outer West	2,000	1,500 – 1,700	1,400	4.7%	0.9%
Outer North/West	1,900	1,500 – 1,700	1,200	4.7%	0.0%
Outer South	1,800	1,400 – 1,600	1,200	8.7%	1.2%
Asker & Bærum	2,700	1,800 – 2,200	1,300	4.0%	0.2%

Source: UNION

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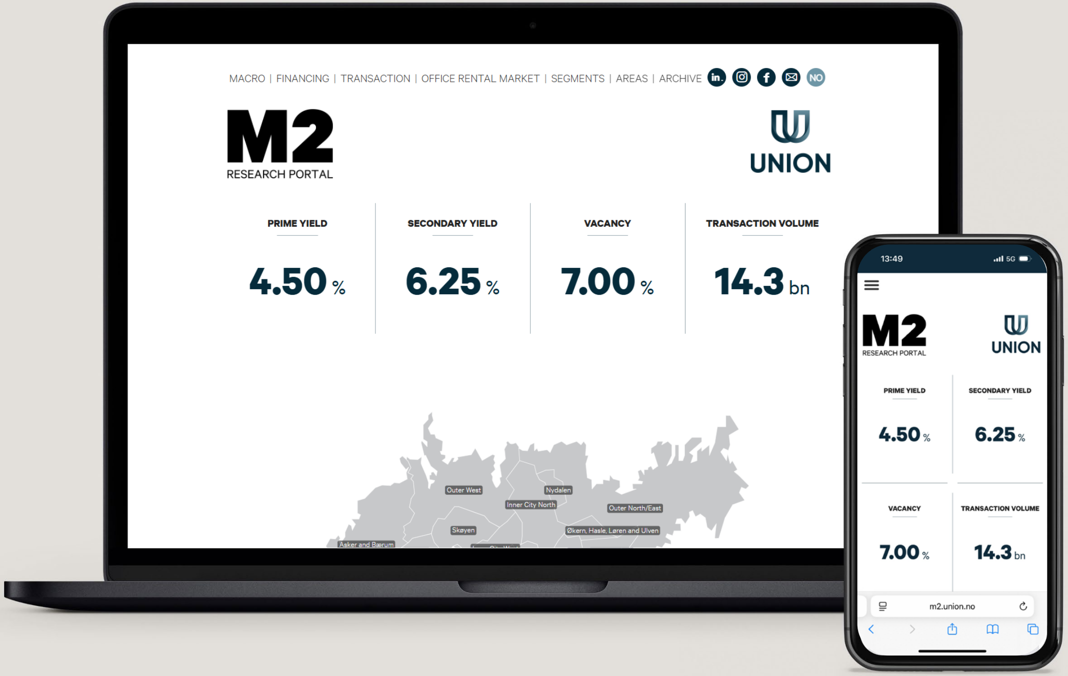

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