THE RENTAL MARKET

AUTUMN 2024

UNION

A temporary slowdown

There has been a **slowdown in rent growth so far this year.** Assuming no surprises toward the end of the year, we expect growth to settle around two to three percent for 2024, likely aligning closely with inflation.

This trend is not unexpected, as economic growth in Norway has largely stagnated. It also aligns with our earlier forecasts for this year, where we estimated rental growth between two and three percent for the current year. On the short term, there's little to suggest a shift in momentum, as we observe prolonged leasing processes and heightened cost sensitivity among many tenants.

However, several factors continue to support a significant uplifts in rents over the medium term. We anticipate rents to resume an upward trend by next year, driven by:

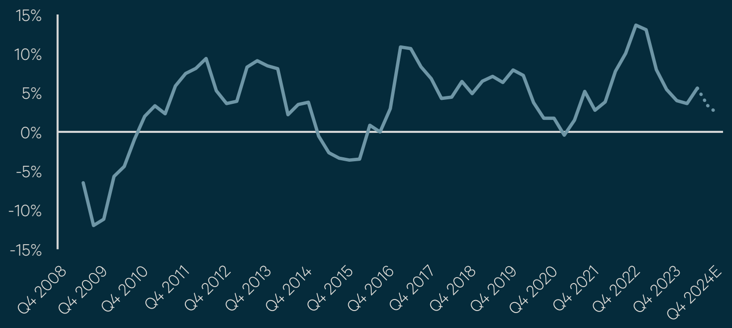
- **Economic growth expected to recover from 2025 onwards**, according to most forecasts.
- **Favourable supply conditions** from a landlord perspective.
- **High construction costs and increased yields** likely pressuring new developments and renovation projects toward **higher rent levels.**

Our forecast projects rental prices to increase by **seven percent in both 2025 and 2026.** That said, the **projections carry higher-than-usual uncertainty**:

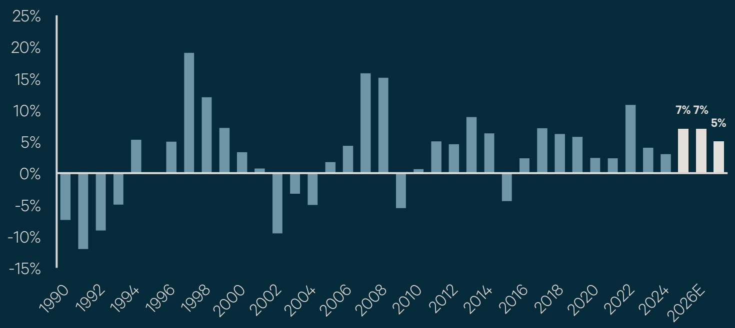
- There is **unprecedented disagreement among leading macroeconomic environments** regarding the strength of future growth in Norway's economy (see page 8).
- There remains some uncertainty about **how tenants will adjust their space usage** following shifts in working patterns post-pandemic.

Additionally, the drastic rise in replacement cost means larger-than-normal impacts. Should the labor market strengthen, and unemployment remain low, replacement cost will likely have a significant effect—and vice versa. We also note a wide variance in tenants' willingness to pay, depending on the type of property in today's market.

Arealstatistikk annual growth in office rent (geographically weighted)*



Average nominal growth in market rent for offices in Oslo



Source: UNION, Arealstatistikk. *Based on two-quarter rolling average

New constructions still lack profitability

Estimates for new construction volumes continue to fall. Since autumn 2023, our expectations for new office space have been adjusted from 290,000 m² to 240,000 m² for the period 2024 to 2026. This volume now appears fairly certain.

However, there is considerable uncertainty about 2027, with **several factors indicating that new supply may remain low:**

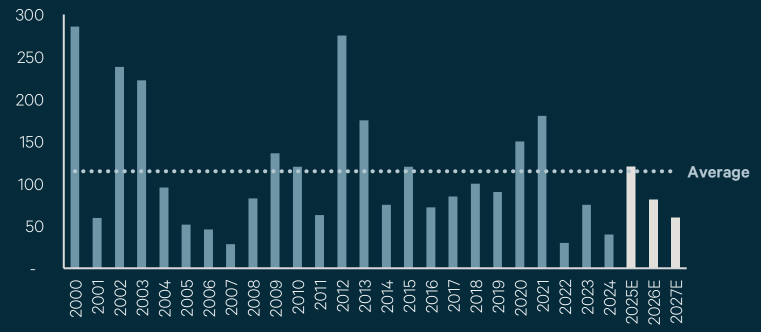
- As of now, **no new developments have been confirmed for completion in 2027.**
- In most areas, there is still a **substantial gap between prime rent and the rent levels required for projects to be profitable.** For example, a hypothetical development in Helsfyr would need a 700 NOK/m² increase to reach profitability; see the graph at the bottom right.
- **Future economic growth in Norway is highly uncertain.** There has "never" been a wider divergence among forecasters regarding the development over the next three years. See page 8.
- There are **fewer attractive new construction projects available** to tenants than during the 2010-2021 period, as several major areas with prime office locations are nearing full development.

At the same time, a couple of factors **could push construction activity in the opposite direction:**

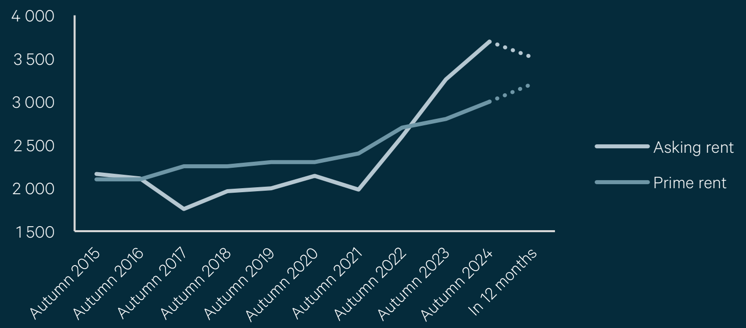
- **Lease expirations will increase in 2027,** which may, in turn, initiate new construction. The number of large contracts expiring in the fringe areas is set to increase significantly during 2027-2028.
- Over the past few years, **a high proportion of tenants have renegotiated leases.** Assuming half renew, 11 are expected to relocate in 2027, with 7 currently based in the fringe areas.

In summary, we expect that a few new construction projects may become "necessary" by 2027, but volumes will remain historically low, with a forecasted volume of 60,000 m².

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

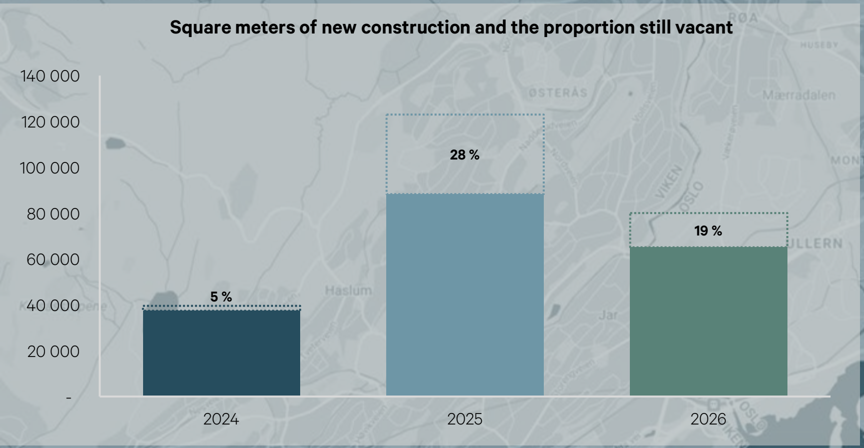


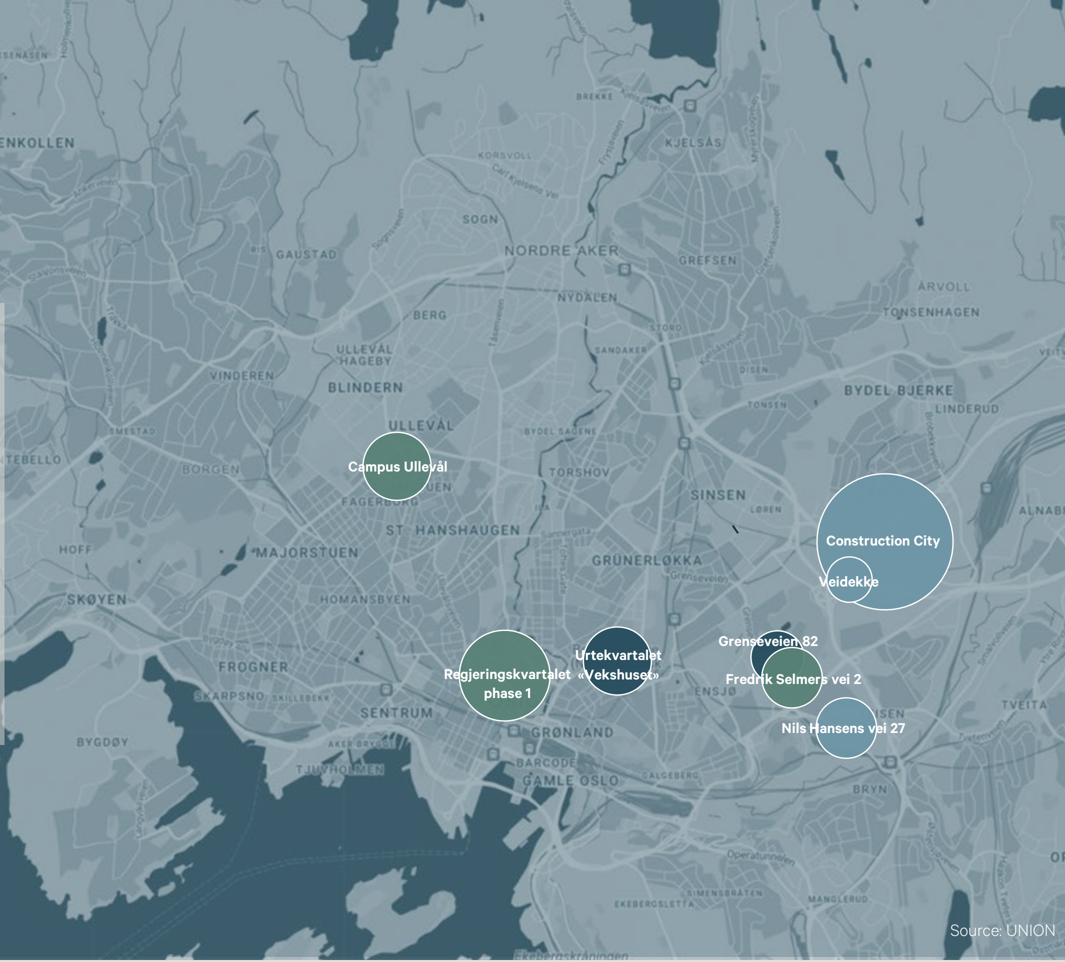
Prime rent vs. asking rent for offices at Helsfyr



Source: UNION

Construction projects – confirmed





Source: UNION

Confirmed completion: 2024 2025 2026

Approx. 10,000 m² Approx. 20,000 m² Approx. 30,000 m² Approx. 40,000 m²

A surge in renovations for 2025

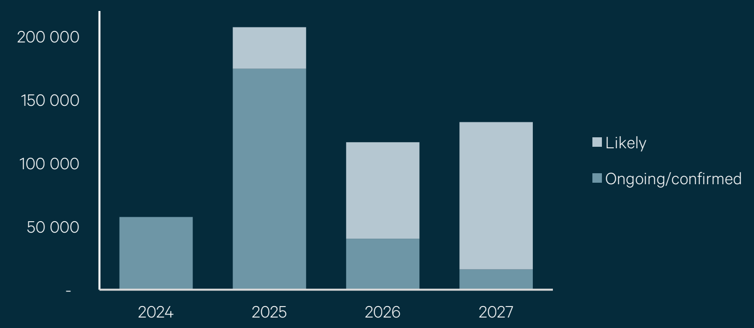
While new construction volumes remain relatively low, the volume of renovated properties is set to increase in 2025. This trend is driven both by the completion of some new buildings and by projects that have been delayed due to earlier relocations.

Unlike new construction activity, which has largely taken place outside central areas, **85 percent of the space undergoing full renovations is in the central part of Oslo, including the outer city** (see map on page 6). The majority of renovations occurs in central areas due to:

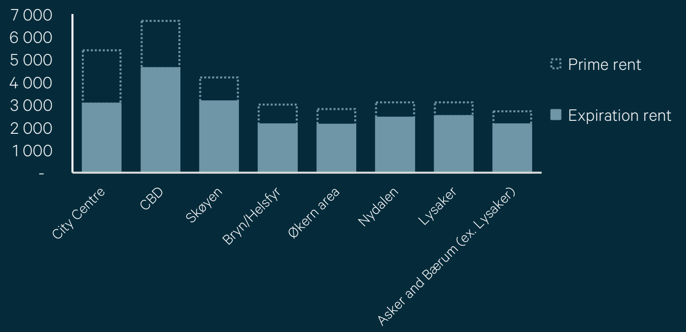
- In the fringe areas, the current expiration rent for contracts larger than 1,000 m² averages 2,286 NOK/m², with prime rents ranging between 2,900 and 3,100 NOK/m². In most cases, a full renovation—which often costs around 20,000 NOK per m² depending on scope—would not be profitable.
- **In the central areas, the gap between expiration rents and prime rents is considerably higher than in the fringe areas,** indicating that market rents in these areas have increased more than the CPI over time. This potentially allows for greater uplifts in rent with a renovation. However, both the building stock and tenant mix in central areas are highly varied.
- In contrast, the office building stock in the fringe areas (excluding mixed-use properties) is newer, whereas **the greatest need for renovations is in the central areas,** where the building stock is older

A total of 18 percent of the square meters that are currently under renovation (or confirmed to be completed by 2027) are vacant, **with vacancy rates highest in central projects,** where 24 percent remains unleased.

Renovations to be completed (m²)



Expiration rent* vs. prime rent for selected areas**



Source: UNION, Arealstatistikk
*CPI adjusted rent for contracts expiring in 2024 (>1,000 m²)
**Prime rent in different areas according to UNION estimates

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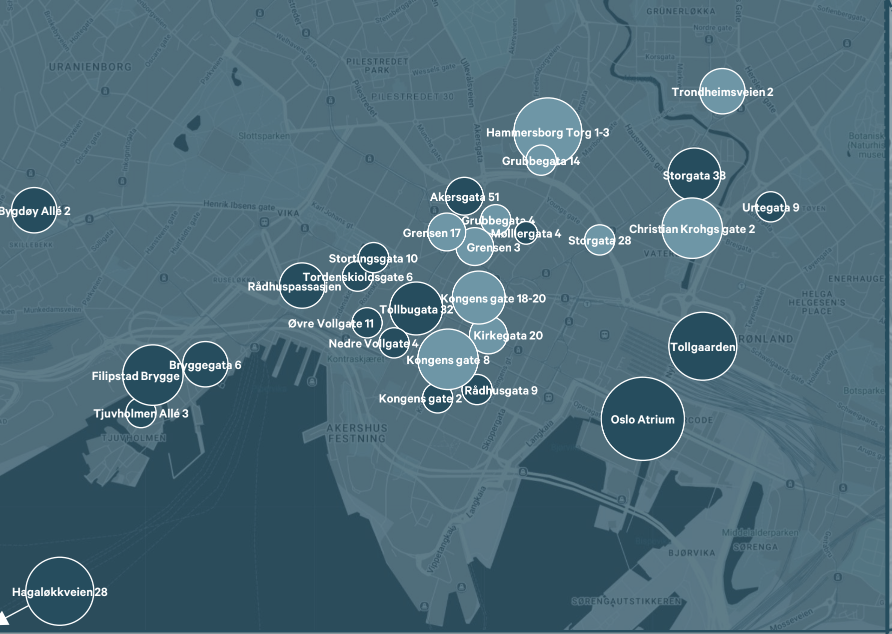
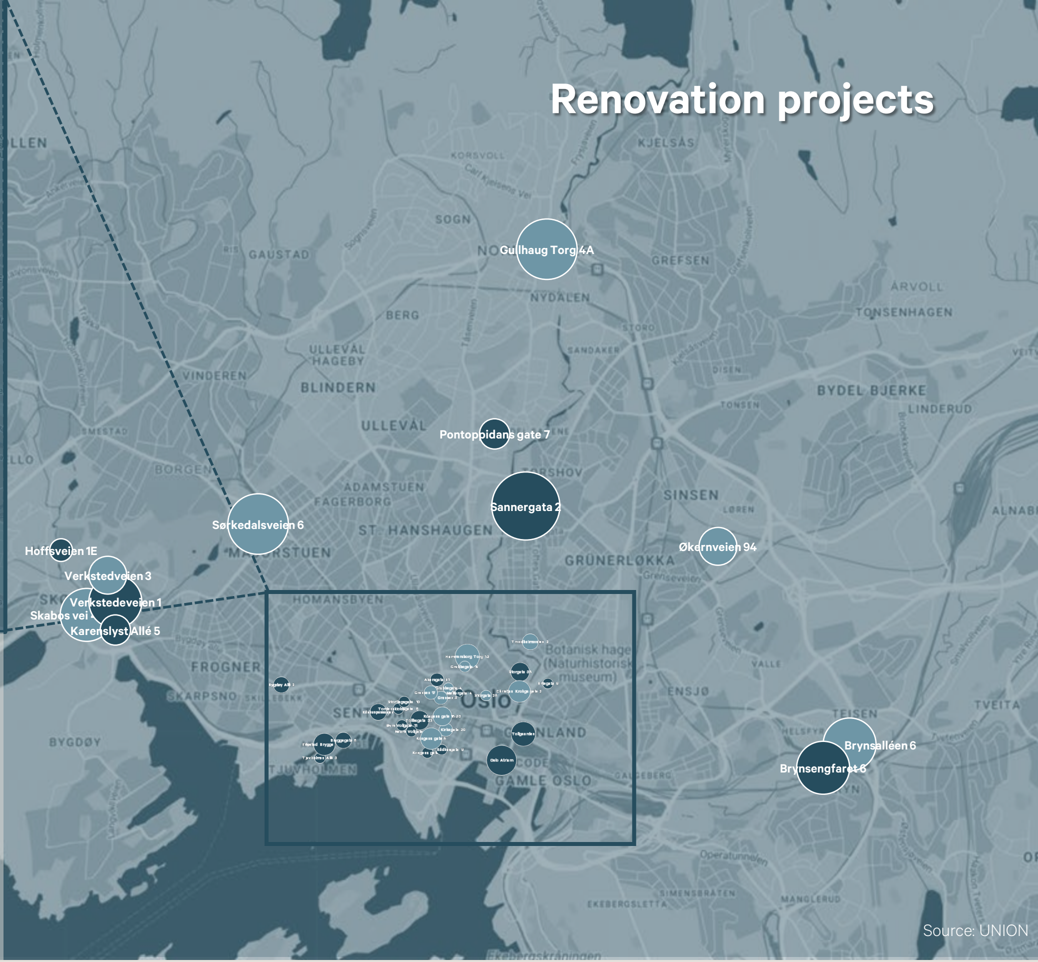
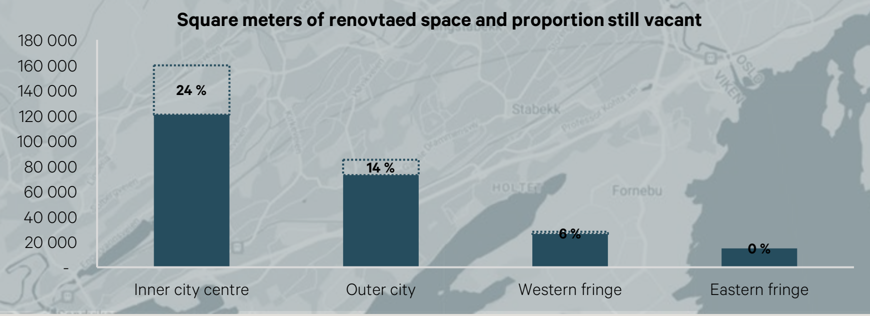
Renovation projects







Source: UNION

Confirmed/under development | Likely renovations

Approx. 5,000 m² | Approx. 10,000 m² | Approx. 20,000 m² | Approx. 30,000 m²

Large tenant searches are back

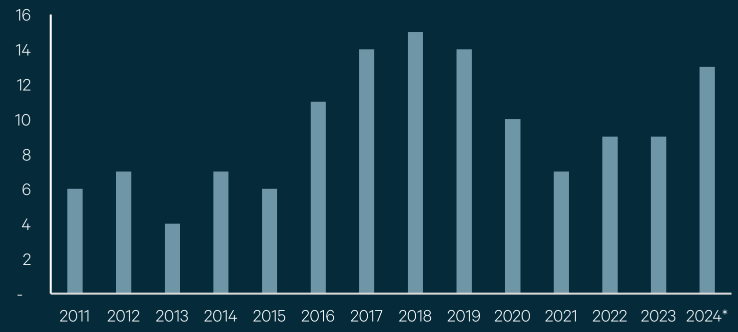
After 3-4 years of low search volumes, activity has picked up significantly this year. This is **primarily due to an increase in large searches** (over 5,000 m²), but there is also a **notable rise in the number of smaller searches** (under 1,000 m²).

For mid-sized tenants (1,000–5,000 m²), search activity was historically high in 2021 but has declined steadily since. So far this year, we have recorded only 21 searches of this size—nearly half of the annual average since 2012.

There is a **clear correlation between the size of searches and the lead time before desired occupancy.** Smaller tenants typically start their search six months before, whereas larger tenants are often searching for new potential locations 2.5 years in advance. Thus, **we anticipate more large searches in the coming years,** as the number of large tenants with expirations between 2027 and 2029 is significantly higher than for 2026.

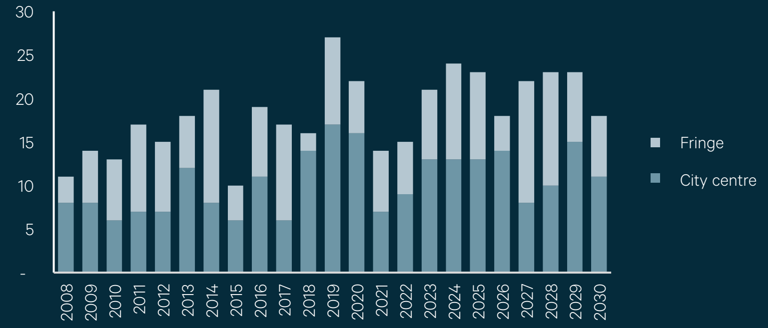
In 2027 and 2028, particularly **many large tenants in the fringe areas have expirations.** A total of 27 tenants with spaces over 5,000 m² have expirations during this period—nearly double the average since 2009.

Number of searches from tenants over 5,000 m² (office)



*At 23.10.2024

Number of leases over 5,000 m² expiring in the city centre and fringe area



Source: UNION, Arealstistikk

Where are we in the cycle?

The momentum in Norway's economy has stalled, entering a two-year phase of low growth in mainland GDP. Forecasters agree that we will reach the bottom this year, with growth between 0.6% and 0.8 percent. However, there is **significant disagreement regarding the strength of the expected rebound in the coming years,** with Statistics Norway and Norges Bank representing the extremes.

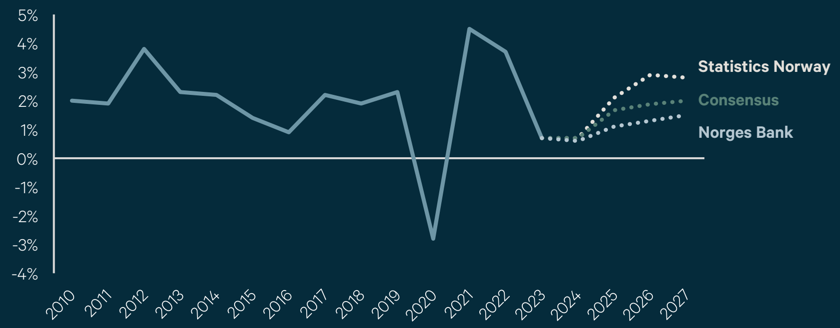
Between 2024 and 2027, SSB forecasts an accumulated growth of 8.5 percent for Mainland Norway's GDP, while Norges Bank expects only 4.5 percent. The large discrepancy is due to differing views on factors such as:

- **Housing Investments:** SSB expects an 11.4 percent accumulated growth in gross housing investments during this period, while Norges Bank projects only 5.7 percent.
- **Private Consumption:** SSB's forecast favors a 2.8 percentage point higher growth in private consumption, partly because it anticipates higher wage growth than Norges Bank does.

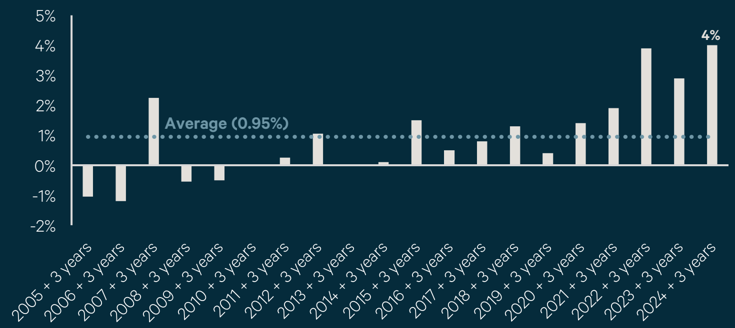
Following the inflation shock and subsequent interest rate hikes in 2022, the gap between SSB and Norges Bank's forecasts has widened significantly, **reaching its largest point since 2005.** There is also still a possibility of an economic hard landing, although that scenario is unlikely.

In sum, the current **economic outlook carries an unusually high level of uncertainty.**

Annual growth in GDP Mainland Norway with forecast



Difference in accumulated GDP growth: Statistics Norway and Norges Bank (percentage points)*



Source: SSB, Norges Bank, DNB Markets *Difference in forecast

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A key factor for demand

Historically, office employment growth has closely followed the trend in mainland Norway's GDP growth. A regression analysis indicates that projected office employment growth could vary by nearly three percentage points from 2024 to 2027, depending on whether we rely on growth forecasts from Statistics Norway or Norges Bank. This difference will significantly influence future office demand, as the extent of demand depends heavily on which of these forecasts proves to be more accurate.

Office vacancy rates in Oslo remain low, particularly by international standards; **among Nordic capitals, Oslo leads** with a 6.6 percent office vacancy rate, compared to Stockholm's 13.5 percent.

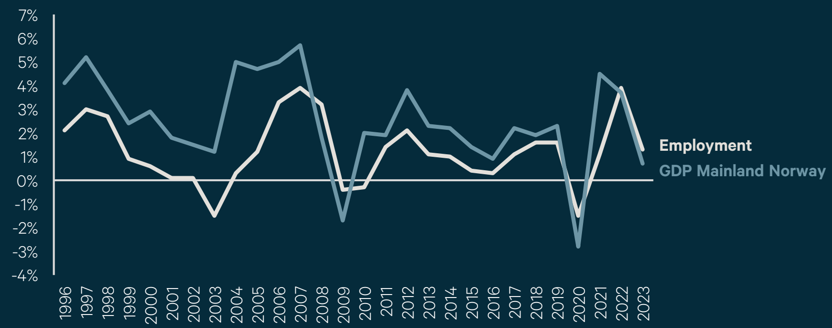
Although Oslo's vacancy rate is slightly above the historical average. The vacancy rate remains lowest in central areas, with a relatively small gap between central and fringe areas by historical standards. **We expect a modest increase in office vacancy to around 7 percent over the coming years,** based on:

- **Moderate economic growth** in a consensus scenario
- **Tenants utilizing roughly the same space** upon relocation

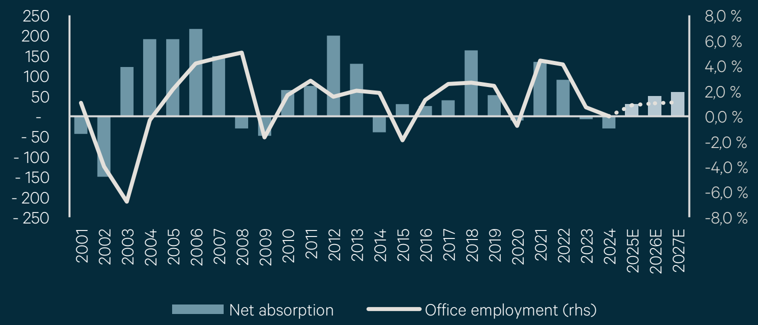
Under these conditions, net absorption growth will likely remain slightly lower than the volume from new construction, leading to a slight rise in vacancy rates.

In total, we anticipate a net absorption of 140,000 m² of office space from 2025 to 2027. This growth follows two years of low activity but is expected to remain below the historical average through 2027.

Growth in employment and GDP Mainland Norway



Net absorption (1,000 m²) and growth in office employment



Source: UNION, SSB

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A wider range of outcomes than usual

Over the next few years, the volume of leases expiring will rise, **potentially triggering both expansion and efficiency adjustments among tenants.** The extent of any **potential economic upswing in the Norwegian economy will also have an impact.** To assess this, we have performed a scenario analysis illustrating how these factors might affect office demand and, consequently, vacancy rates.

The employment growth is modeled based on the GDP forecasts from SSB (optimistic), Norges Bank (pessimistic), and consensus expectations. These are the three most important scenarios.

- **Best Case:** We assume that tenants have an unmet demand for office space, as demand growth has trailed office employment growth from 2019 to 2023. Here, tenants are expected to increase their space usage by 5 percent upon relocating, with optimistic GDP growth from Statistics Norway.
- **Base Case:** This scenario assumes that tenants neither increase nor decrease space efficiency when they move. The economic growth aligns with the consensus outlook.
- **Worst Case:** The worst-case scenario combines increased space efficiency due to remote work and weak economic conditions. Here, space efficiency rises by an average of 10 percent with each move, alongside Norges Bank's pessimistic economic forecast.

As illustrated, the range of outcomes is substantial. In the best-case scenario, **vacancy rates could drop below 2022 levels to approximately 5.1 percent,** while in the worst case, vacancy could rise to around 9 percent.

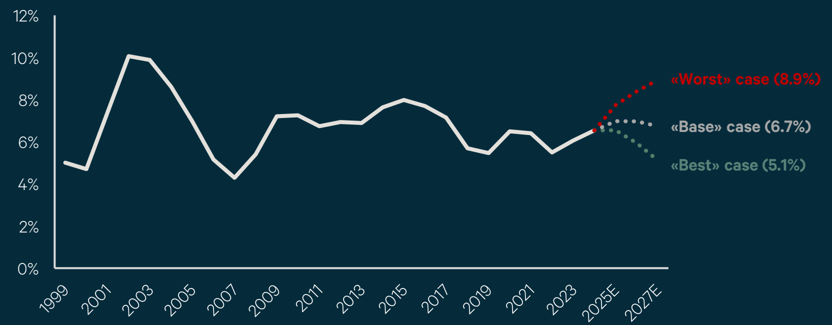
We consider the base case scenario the most probable.

Net absorption (2025-27)

PLAYER/CHANGE IN SPACE UTILIZATION*	5%	0%	-10%
Statistics Norway	335	253	88
Consensus	248	165	1
Norges Bank	184	102	-63

*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.

Office vacancy development given the different scenarios*

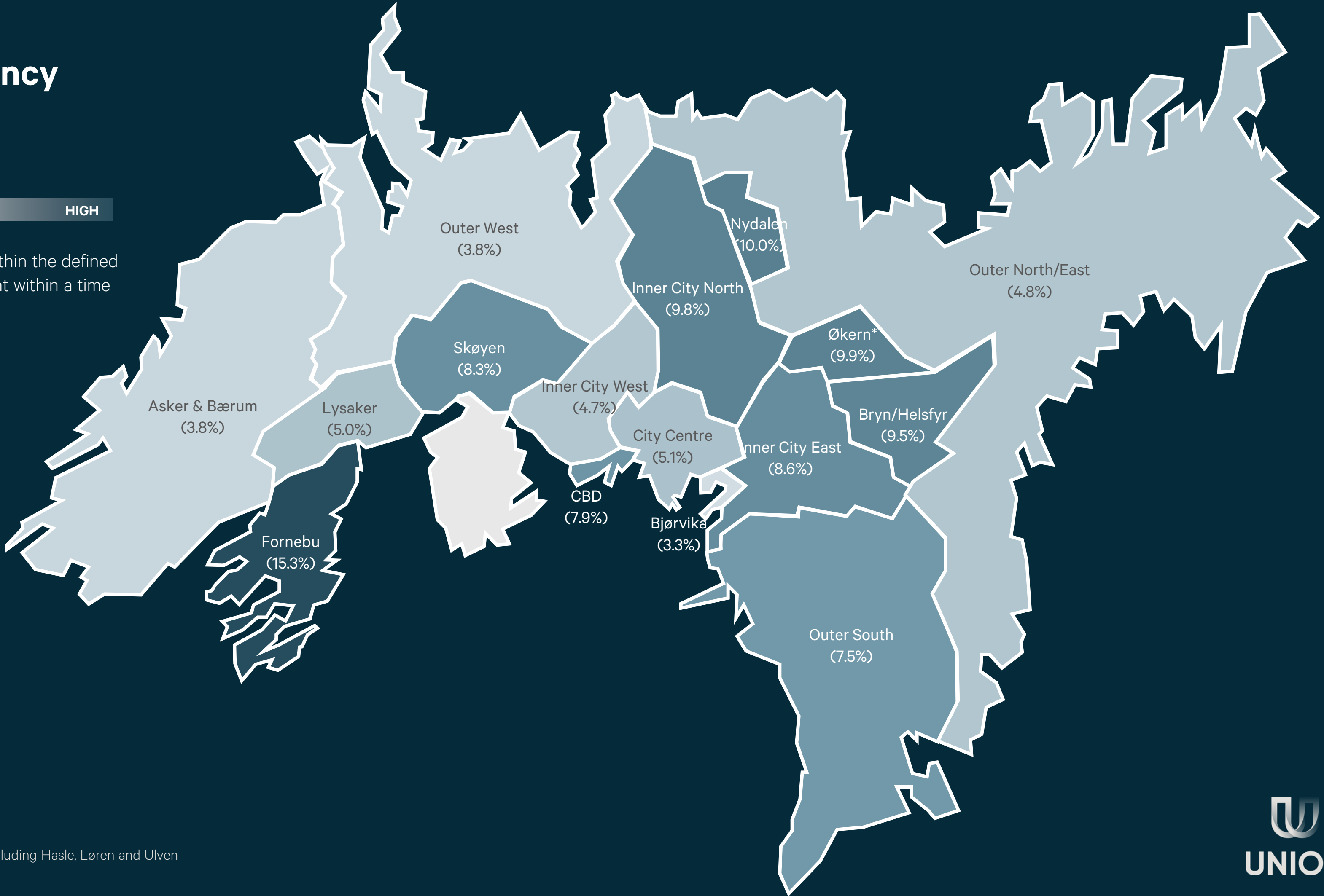


Source: UNION, SSB, Norges Bank

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

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	7.9%	0.4%
Bjørvika	5,500	4,200 – 5,000	3,200	3.3%	-0.7%
City Centre	5,300	3,700 – 4,500	2,600	5.1%	-0.3%
Inner City West	4,800	3,400 – 4,200	2,000	4.7%	0.1%
Inner City North	2,700	2,000 – 2,300	1,500	9.8%	0.2%
Inner City East	3,900	2,300 – 2,900	1,600	8.6%	2.9%
Skøyen	4,200	3,000 – 4,000	2,500	8.3%	1.1%
Lysaker	3,100	2,200 – 2,700	1,700	5.0%	0.2%
Fornebu	2,500	1,800 – 2,300	1,400	15.3%	-0.9%
Nydalen	3,100	2,200 – 2,800	1,600	10.0%	1.7%
Bryn / Helsfyr	3,000	2,200 – 2,800	1,400	9.5%	-0.5%
Økern, Hasle, Løren & Ulven	2,800	2,000 – 2,400	1,400	9.9%	2.5%
Outer West	2,000	1,500 – 1,700	1,400	3.8%	0.9%
Outer North/West	1,900	1,500 – 1,700	1,200	4.8%	0.8%
Outer South	1,800	1,400 – 1,600	1,200	7.5%	-1.8%
Asker & Bærum	2,700	1,800 – 2,200	1,300	3.8%	-1.1%

Source: UNION

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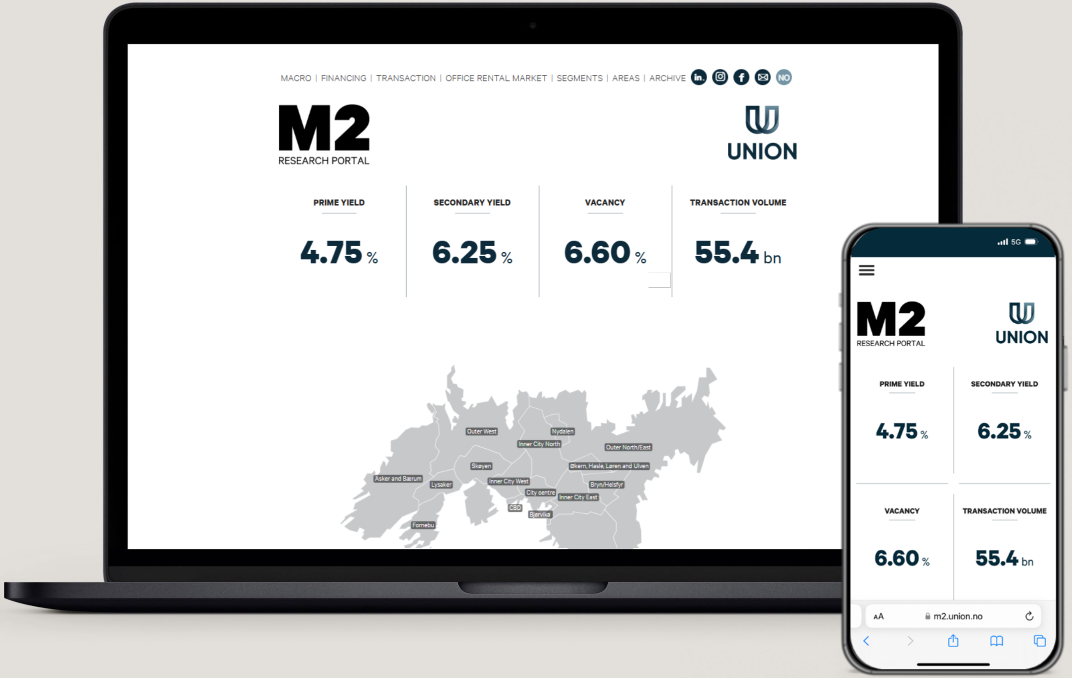

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