M2

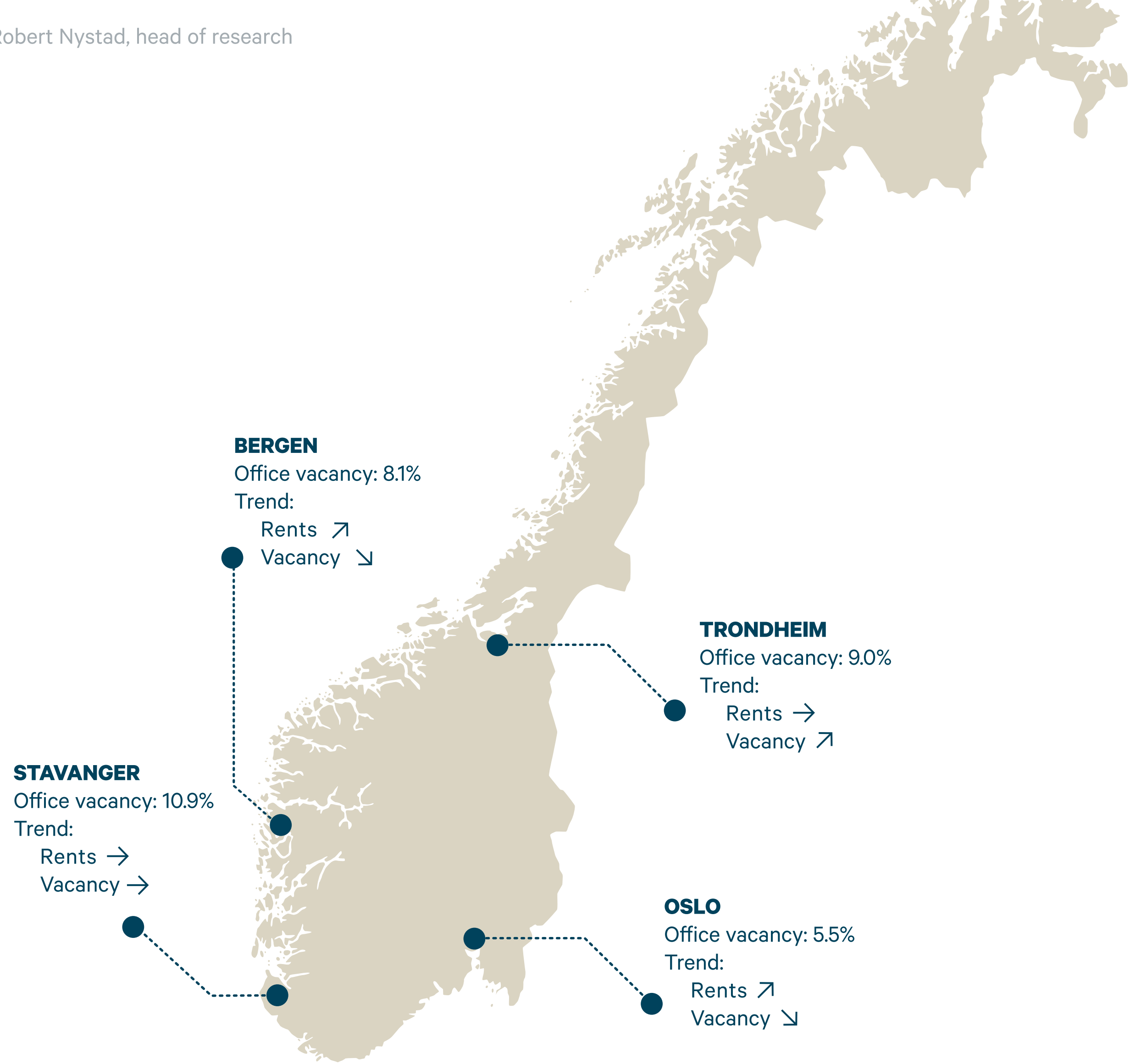
UNION Market Report | **AUTUMN 2019**

We create value from property

SUMMARY

“Overall, developments during the past year have been favourable for Norwegian commercial property in terms of pricing. We expect prime yield to remain at today’s level. In other words, we have downgraded our forecast for prime yield substantially over the past year from our original expectation that this would rise by 40 basis points up to 2021.”

Robert Nystad, head of research



OFFICE
YIELD

3.60

Prime yield has remained stable at 3.60 per cent since last winter, while secondary yield is experiencing slight downward pressure. We expect the latter, which was 5.25 per cent last winter, to be five per cent by 31 December. Our expectation is that both prime and secondary yields will remain stable in 2020.

LOGISTICS
YIELD

4.75

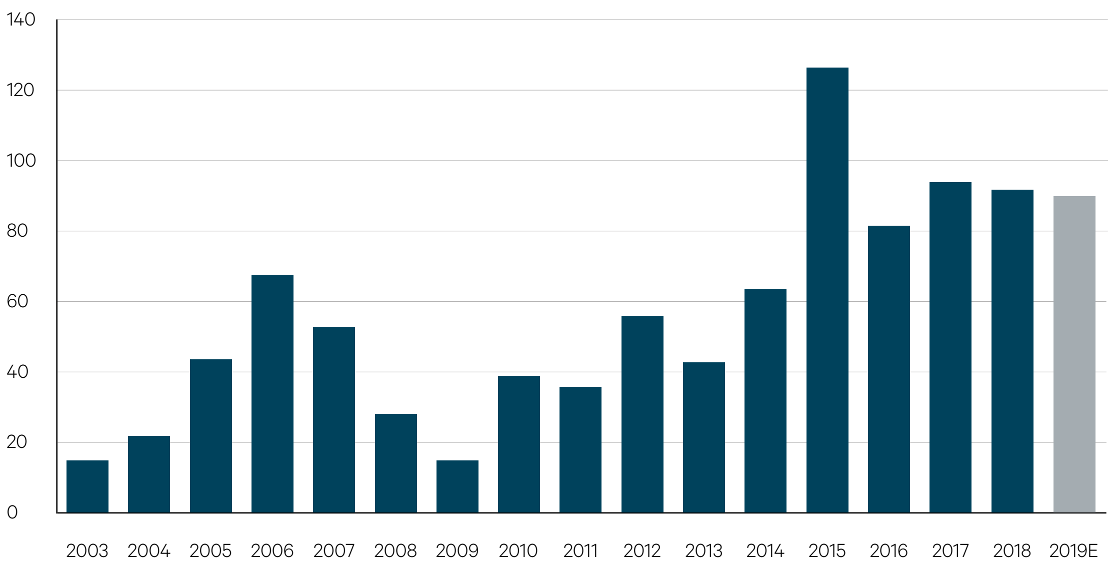
Prime yield for logistics property is still estimated to be 4.75 per cent. Interest in investing in such property is strong and, given the development in interest rates since last winter, we would not be surprised if the yield is driven down a few points in coming quarters.

RETAIL
YIELD

3.75

Prime yield for high-street retail property in Oslo remains stable at 3.75 per cent, while the yield for shopping centres has risen by 25 basis points (bps) to 4.75 per cent since last winter. The best big-box stores in strategic locations and with long leases are typically achieving a yield of around 5.5 per cent. All sub-segments in retail property are showing an increasing spread between attractive and less attractive assets.

Transaction volume



Figures in NOK billion. Only transactions with a value over NOK 50 million are included.

Source: UNION after 2008. DNB Næringsmegling for earlier years.

UNION

UNION GRUPPEN

Contents

Published 24 October 2019

Robert Nystad
Head of research
UNION Gruppen

Back to the grindstone

In many ways, little has changed in the Norwegian property market over the past year. Activity in the transaction market is being sustained at the same high level, yields are largely stable, and rents in Oslo have maintained their indefatigable rise. We are talking about digitalisation, the environment, flexible offices and e-commerce, but were doing that last year as well.

But one aspect in particular looks different today. While both short- and long-term interest rates were rising as recently as last October, the long-term ones have since declined considerably. And although the interbank rate has risen, it is likely to peak below the level many expected. Expectations for future short- and long-term rates have fallen substantially. "Japanification" is suddenly on "everybody's" lips.

As we have noted earlier, no one-to-one relationship exists between interest rates and yields. Our expectation last year was that property yields would rise less than interest rates, but that some upward pressure on the former was nevertheless likely. The parameters have now changed.

It is not only getting cheaper to borrow money, but also even more difficult than before to achieve a return from investing in bonds. The overall volume of fixed-interest securities with a negative yield has doubled in the space of a year and totals about USD 16 trillion globally. These investments guarantee a negative nominal return if held to maturity – risk without a return, if you like.

According to Preqin, international funds with a mandate to invest in property held USD 333 billion in dry powder at 30 June. That level was record-high, and Blackstone recently established the biggest-ever property fund when it raised USD 20 billion in equity.

Competition over properties is strong in many countries, and fund managers are struggling to put their cash to work. Increased macro uncertainty, record-low direct returns and slowing rent growth in many places do not make the job easier. In a number of cases, reaching the target returns communicated to investors when raising money is difficult.

We believe lower returns from property investment must be accepted in the future. But with negative interest rates across ever larger parts of the bond universe and a volatile share market with high multiples, it is by no means certain that the alternatives are more tempting.

2/ Macro

"The economic boom we have enjoyed over the past three years is likely to be replaced by a more cyclically neutral period up to 2022."

Macro

Uncertainty greater

The Norwegian economy is experiencing a moderate and broad-based upturn which has lasted for about three years. A substantial willingness by companies to invest, particularly in the oil sector and manufacturing, will help to sustain the boom during 2019.

However, the macro picture is more complex. On the one hand, the figures from the quarterly accounts show that GDP growth is still above trend, unemployment has fallen to a new low and inflation is more or less in line with the target set by Norges Bank, Norway's central bank. Various business trends surveys – such as the expectations survey from Norges Bank and Manpower's labour market survey – also show that companies remain relatively optimistic.

At the same time, several clouds are gathering. The growth outlook for the world economy has weakened substantially over the past year, partly because of much political turmoil. Growth has slowed in both Europe and the USA this year, and GDP fell in both Britain and Germany during the second quarter.[1] Unemployment in Sweden has risen surprisingly swiftly. August's Swedish labour force survey put it at 7.2 per cent after climbing one percentage point over 12 months.[2] External growth influences are set to weaken in the time to come.

Statistics Norway (SSB) also expects growth in oil investment, currently the most important driving force in the Norwegian economy, to decline next year. It forecasts a fall of 1.6 per cent in capital spending by this sector in 2020.

In other words, a disconnect exists between the present state of the Norwegian economy and the outlook for growth. This helped to fuel great anticipation ahead of the Norges Bank interest rate decision published on 19 September. The central bank then chose to raise its base rate by 25 bps to 1.50 per cent. At the same time, it reduced its forecast for this figure. The interest-rate curve indicates that the base rate will probably remain at today's level until the end of 2022, but that a rise is more likely than a fall during the period.

Employment growth has been solid over the past two years, which has helped the jobless rate to fall from 5.1 to 3.6 per cent (labour market survey). SSB expects this rise to slow from about 1.6 per cent in 2019 to 0.5 per cent next year. Although most macro forecasts indicate slower jobs growth in the future, the SSB's expectations here are among the lowest of the forecasts.

Less help from oil investment and weaker growth prospects internationally are likely to help reduce Norwegian economic expansion in coming years. The boom we have enjoyed over the past three years will probably be replaced by a more cyclically neutral period up to 2022.

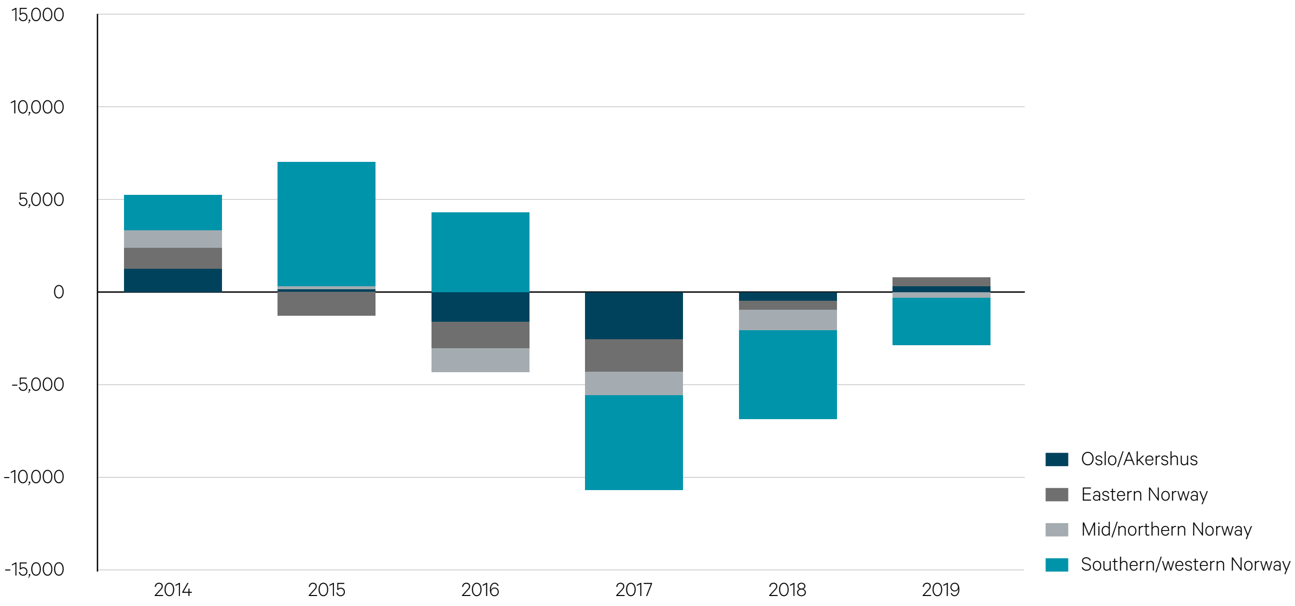
[1] **Source:** Norges Bank, monetary policy report 3.
[2] **Source:** Statistics Sweden (SCB).

Key figures for the Norwegian economy

Annual change, %	2016	2017	2018	2019E	2020E	2021E	2022E
GDP (mainland)	0.9	2.0	2.2	2.4	2.2	1.6	1.4
GDP	1.1	2.3	1.3	1.6	3.3	1.9	1.4
CPI	3.6	1.8	2.7	2.2	1.8	1.9	2.0
Private consumption	1.1	2.2	1.9	1.9	2.4	2.2	2.0
Public consumption	2.3	1.9	1.4	2.2	1.8	1.9	1.7
Oil investment	(16.0)	(5.4)	1.9	15.4	(1.6)	(3.1)	4.2
Traditional exports	(8.6)	1.7	2.0	4.9	3.8	2.2	1.6
Employment	0.3	1.2	1.6	1.6	0.5	0.3	0.2
Unemployment (level) LFS	4.7	4.2	3.8	3.6	3.7	3.7	3.8

Source: Statistics Norway, September 2019

Annual change in registered unemployment (number of people)



The figures show year-on-year change in registered unemployment at August.

Source: Norwegian Labour and Welfare Administration (NAV), September 2019

Financing – part 1: banks

Interest rates on lending have fallen

The 10-year swap rate in Norway is 1.72 per cent at the time of writing,[1] down by about 75 bps from its peak in mid-October last year. Over the same period, the three-month Nibor has risen by almost the same amount and short- and long-term Norwegian interest rates are currently at roughly the same level.

All the signs are that Norges Bank will be making no further base-rate increases and that money-market interest rates are thereby close to peaking for now. Overall, these developments mean that interest rates – and expectations for future rates – have declined substantially over the past year.

Bank financing

UNION's bank survey for the third quarter of 2019 shows that the average margin on new five-year loans with 65 per cent loan-to-value (LTV) is 204 bps. This represents a fall of two bps from the second quarter. The bank margin has declined by a total of 41 bps since peaking in the fourth quarter of 2017, and is 39 bps above the low point of 165 bps for the second quarter of 2015. Today's margin is roughly on a par with the average level for the period since 2010.

When our survey was conducted, the five-year swap rate was down by 26 bps from the second quarter. Overall financing costs for five-year loans with full interest-rate hedging throughout their term had thereby fallen by 28 bps to 3.68 per cent. They were down 56 bps from the second quarter of 2018, and we must go back to the autumn of 2016 to find a lower level. At the same time, costs are still some way off the low point of 2.91 per cent seen in the first quarter of 2015.

The bank survey shows that competition between banks remains high. All the banks report that their appetite for lending remains unchanged from six months ago, and they all expect this willingness to lend will persist.

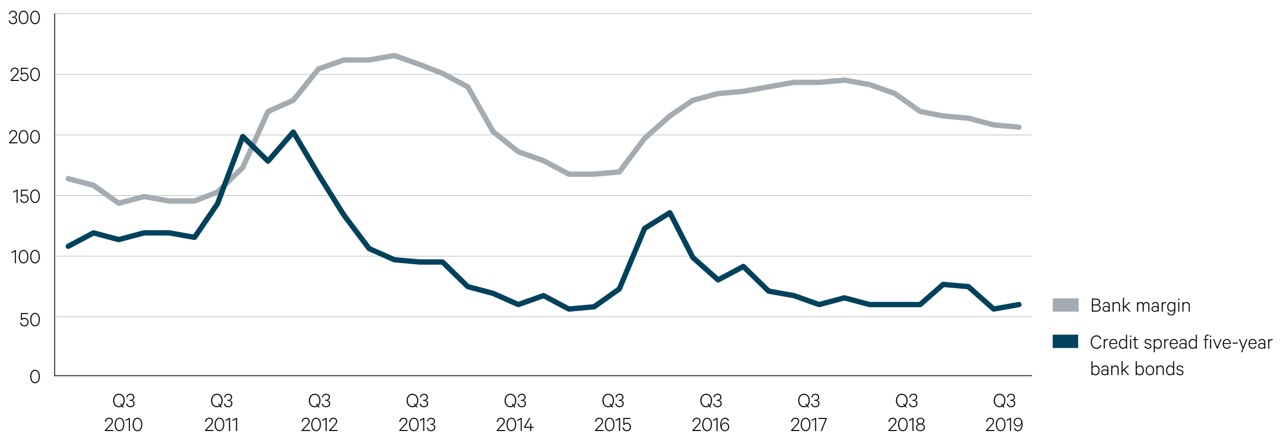
Since our previous report, a memorandum on adjustments to capital requirements for banks has been issued by the Ministry of Finance for consultation. Put briefly, this document deals with possible amendments to avoid undesirable deteriorations in the capital position of Norwegian banks following the incorporation of EU regulations in the European Economic Area agreement.

In practice, this means relatively small changes for the large Norwegian banks. If the memorandum is implemented in its present form, however, it would probably hit a number of the foreign banks since the Norwegian part of their business would have to take greater account of domestic regulations. That is likely to mean they must support their lending for Norwegian commercial property with more equity.

Although this could affect loan pricing – if the proposal is adopted in its present form – we do not believe the effect will be as dramatic as the previous occasion when higher capital requirements were imposed on the banks. The capital increase which might be required is likely to be smaller than last time, and willingness to lend is unlikely to be markedly reduced. All in all, the signs are nevertheless that bank margins have bottomed out for now.

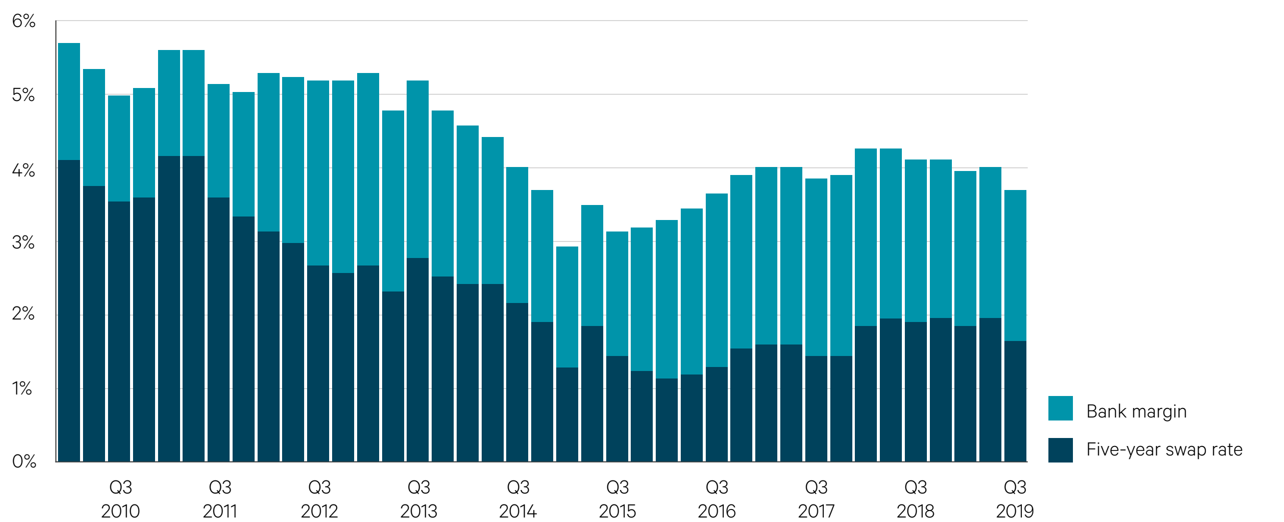
[1] At 23 September 2019

Bank margin and credit spread for five-year bank bonds



Sources: UNION and DNB Markets

Lending rate five-year bank loan



Applies for new five-year loans to finance centrally located office properties in Oslo, with full interest-rate hedging, 65 per cent LTV and a remaining lease duration of seven years.

Sources: UNION and DNB Markets

Financing – part 2: bonds

Activity high, big share for high yield, and small credit spreads

After few new property bond issues around the New Year, activity has increased in recent months. New property bonds totalling roughly NOK 14 billion have been issued so far this year. If this level of activity is maintained to the end of 2019, we are likely to come close to the levels seen in recent years.

About half the volume of bond issues in 2019 is classified as high yield, indicating a relatively large spread in the cases being financed through the bond market at the moment. By comparison, only 15 per cent of the volume was high yield in 2014-18.

Although the Financial Supervisory Authority of Norway (FSA) tightened its interpretation of the rules in the spring of 2018, making it more challenging to use bond financing for special-purpose vehicle (SPV) cases, we see many examples of structures which accomplish this. However, loan tenors have become considerably shorter.

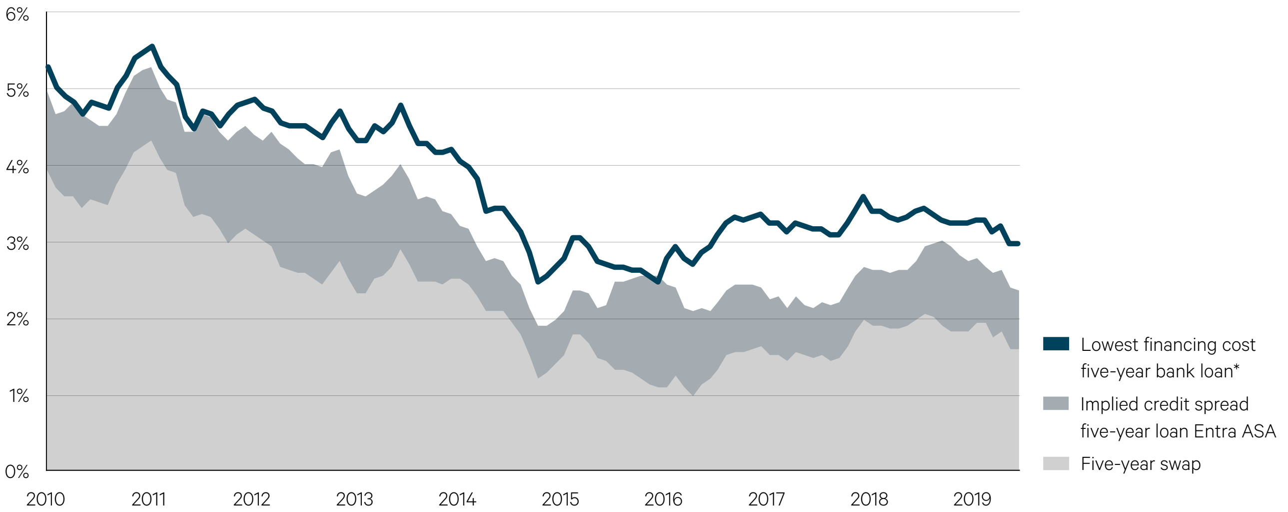
The explosive growth in the volume of outstanding bonds during 2011-18 has flattened out. That probably reflects the fact that an ever larger share of new issues is related to refinancing bonds issued in recent years.

Credit spreads in the bond market have narrowed since 1 January, and are small in historical terms. They are particularly narrow for investment-grade bonds, while the picture is rather more mixed for the high-yield segment. In the latter case, the distinction between bonds of varying quality has become somewhat greater, and the balance between risk against return is being weighed narrowly by many investors.

Despite much political turmoil and concerns over weaker economic growth globally, the state of the credit market has remained good. The active role played by the central banks and a good supply of capital for bond funds are among the factors which have helped to keep credit spreads small.

The indicative credit spread for a bond from the major Entra property company with a five-year tenor is 78 bps, down by 30-40 bps from January. The current coupon for a five-year fixed-interest loan is thereby estimated to be 2.36 per cent at the moment.

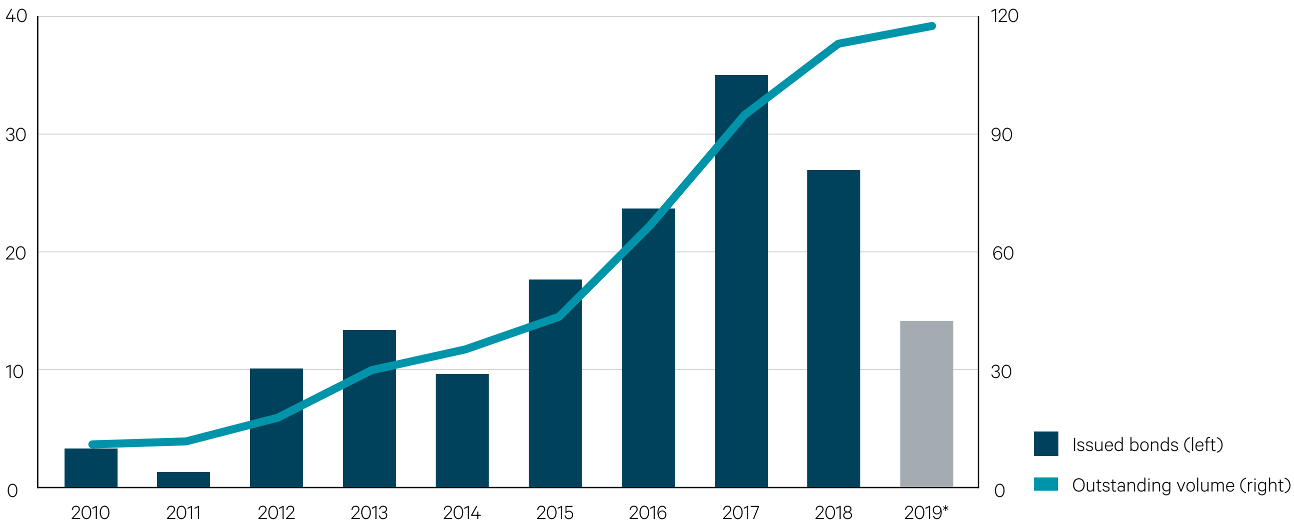
Overall financing cost bank versus bonds



* Quarterly average lowest bank margin on loans with a minimum maturity of three years + five-year swap rate

Sources: UNION and DNB Markets

Property bonds (NOK bn)



* 2019 figures at September.

Source: Stamdata

3/ Transaction market

“A number of international players are selling properties acquired in 2014-16 because they have completed the business plan and are realising the gain. At the same time, the search is on to find new investments for new funds which will put capital to work.”

Transaction market

No sign of slackening in the level of activity

We have registered 166 property transactions worth in all roughly NOK 51.5 billion so far this year. This represents both a bigger number and a larger volume than in the same period of 2018, when we registered 137 transactions adding up to NOK 43 billion.

This year's biggest transaction is the Midtbygget. DNB Livsforsikring has acquired DNB's head office in Bjørvika from SBB for almost NOK 4.5 billion, and thereby bought back the building it sold to Trond Mohn in the autumn of 2015.

A number of large office properties in Oslo have changed hands this year. UNION Real Estate Fund II has acquired the whole Valle project at Helsfyr from NCC Property Development for NOK 1.83 billion. In addition, DNB Scandinavian Property Fund purchased the new Vitaminveien 4 office building at Storo from Skanska Commercial Development, while a club deal arranged by Clarksons Platou bought Grensen 5-7 from Tristan Capital Partners.

Tristan has also sold a large portfolio of retail properties to Ragde for about NOK 1.5 billion. This London-based fund manager purchased the Helsfyr Atrium office building last autumn. These transactions provide a good illustration of the way international investors are currently playing the Norwegian market. Many players are selling properties acquired in 2014-16 because they have completed the business plan and are realising the gain. At the same time, the search is on to find new investments in Norway for new funds which will put capital to work.

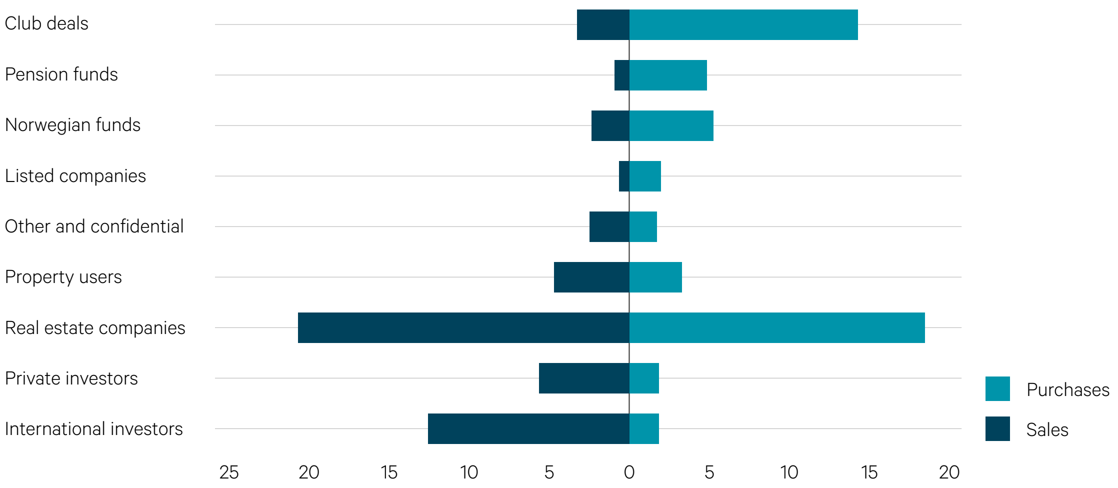
Ignoring Arctic's purchase of Kongsberg Teknologipark for NOK 3.1 billion, little activity has occurred so far this year in the industry, warehousing and logistics segment. We believe this reflects a lack of assets for sale, not least because a number of the most attractive logistics buildings have changed hands in recent years.

Club deal players have been the most active buyer group in the Norwegian property market during recent years. Such transactions totalled NOK 31.6 billion last year and, if we take account of properties sold, club deal investors increased their net exposure by NOK 18.6 billion. Great interest has accordingly been shown in how the market might be affected by the circular from the FSA on 4 June concerning the definition of alternative investment funds and project financing companies.

This circular has been perceived by many as a tightening of opportunities to arrange property investments without being subject to the regulations for alternative investment funds (AIF). Although the position still appears unclear in some cases, the signs are that the market has been little affected so far. Activity in the transaction market is high and club deal arrangers were the biggest net buyers in the first half. They have accounted for 47 purchases totalling NOK 13.7 billion so far this year. Since many of these transactions were initiated before the FSA's circular, however, the full implications still remain to be seen.

With long-term interest rates falling even further, good access to credit and continued favourable progress for the office rental market in several of the large cities, we expect the strong transaction market to persist through the autumn and into 2020.

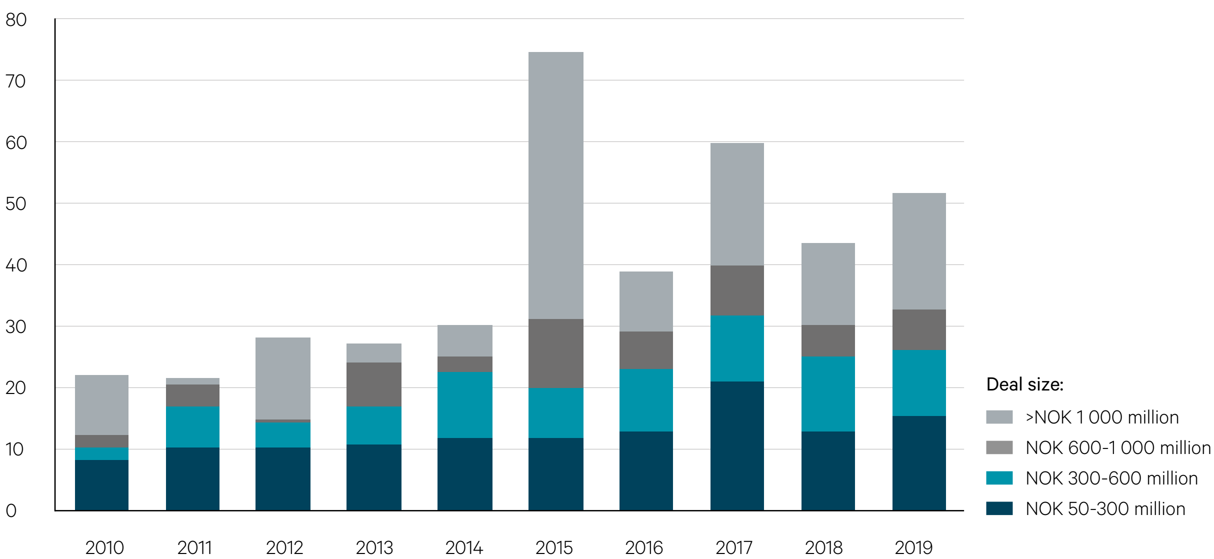
Purchase and sales volumes in 2019 (NOK bn)



Investors are arranged in descending order based on net purchase volume (at September).

Source: UNION

Transaction volume at September (NOK bn)



Transaction volume by deal size.

Source: UNION

4/ Segments

“A great many players are still seeking property with an added value potential, and we believe the gap between prime and secondary yields will narrow further.”

Office

Outlook fundamentally changed

Much has happened in terms of the outlook for yields from Norwegian commercial property over the past year. Long-term interest rates have fallen markedly, while short-term rates have risen by a similar amount over the same period. Although the boom in the Norwegian economy has persisted, the future looks ever weaker. In other words, the picture is fairly mixed at the moment.

Interest rates and financing

The greatest change is nevertheless that interest rates with a long tenor – and expectations for future rates – have declined substantially. At this time last year, the return on equity began to come under pressure in many cases and most people expected interest rates to rise further. The gap between interest rates and property yields has now widened, and few expect the former to rise much.

Overall financing costs for five-year loans with full interest-rate hedging throughout their term had thereby fallen by 28 bps to 3.68 per cent. They were down 56 bps from the second quarter of 2018, and we must go back to the autumn of 2016 to find a lower level.

In addition, the decline in long-term interest rates has helped to make property relatively more attractive than interest-bearing investments. The gap between prime yield for offices in Oslo and the 10-year swap rate has risen by 73 bps over the past 12 months.

Interest in property as an investment class

Much dry powder is still available in international property funds with an investment mandate in Europe.[1] We regularly see examples of such capital flowing into Norway. The most recent is CapMan Nordic Real Estate II, which has acquired Brynsalléen 2 from KLP Eiendom. Established in 2017, this fund has an added value strategy and bought the property to be vacated by Atea. According to the Inrev investor survey, no less than 50 per cent of institutional investors in Europe report that they prefer to purchase property with a risk profile of this kind.

Club deal players have been the most active buyer group in the Norwegian property market during recent years. Great interest has accordingly been shown in how the market might be affected by the FSA's circular.[2]

Issued on 4 June, this has been perceived by many as a tightening of opportunities to arrange property investments without being subject to the regulations for alternative investment funds (AIF). Although the position still appears to be unclear in a number of cases, the signs are that the market has managed to adjust relatively well. Activity in the transaction market is high and club deal arrangers have been responsible for several major transactions during the past quarter.

Rental market outlook

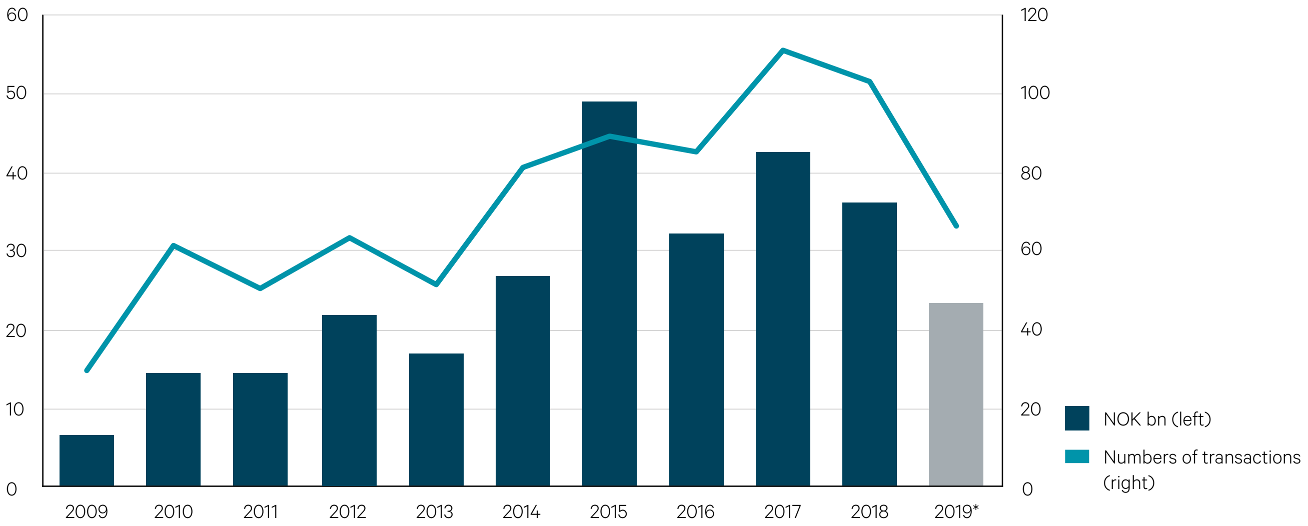
The strong rise in rents in Oslo's office letting market has undoubtedly been an important driver in recent years. Given weaker growth prospects for the Norwegian economy and increasing newbuild activity, we expect rents to rise more slowly over the next three years. If that proves correct, it will mean – viewed in isolation – that investors can be a little less aggressive in bidding rounds.

Overall, developments during the past year have nevertheless been favourable with a view to the pricing of Norwegian commercial property. We expect prime yield to remain at its current level. In other words, we have substantially downgraded our forecast for prime yield over the past year from our original expectation that it would rise by 40 bps over a little more than two years. Where secondary yield is concerned, we expect to see a weak downward pressure. A great many players are still seeking property with an added value potential, and we believe that the gap between primary and secondary yields will narrow further.

Moreover, we would not be surprised to see cases of properties being sold below our prime yield estimate, because rents well below the market rate have now built up in many buildings. Our definition of prime yield assumes market rents.

[1] **Source:** Preqin
[2] Definition of alternative investment funds and project financing companies

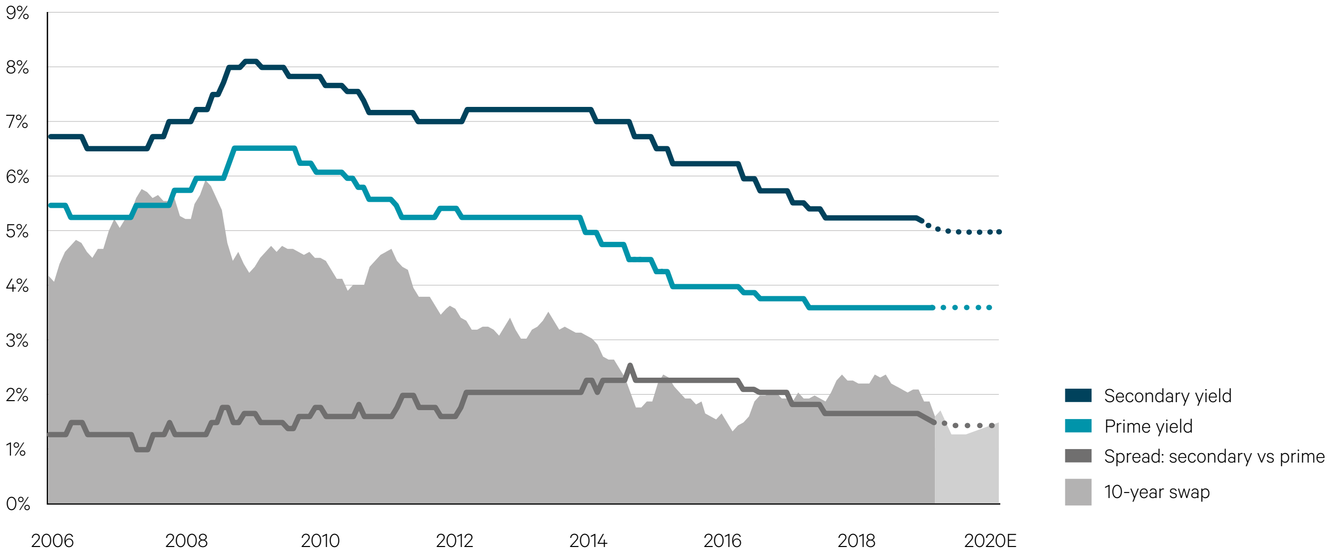
Office transactions in Norway



* 2019 figures at September.

Source: UNION

Development of prime and secondary yields



Source: UNION and DNB Markets

Retail

Risk premium on the way up

Twenty-eight retail transactions worth NOK 8.94 billion in all have been concluded so far this year. That volume is on par with the same period of 2018, when the total volume came to NOK 16.1 billion spread over 49 transactions. In other words, liquidity is relatively high in this part of the market as well. However, investors are undoubtedly more selective in their purchases and a more marked division has arisen between attractive and less desirable retail properties.

The big changes in retailing have left many investors and banks sceptical about properties in this sector, which is helping to push up yields. Shopping centre yield has risen 50 bps over the past year, and we now estimate prime yield at 4.75 per cent.

Although the risk associated with investing in retail property is higher than before, the big differences found in this segment must be emphasised. Estimated yield for the best retail properties in central Oslo is still 3.75 per cent, assuming rents at the market level.

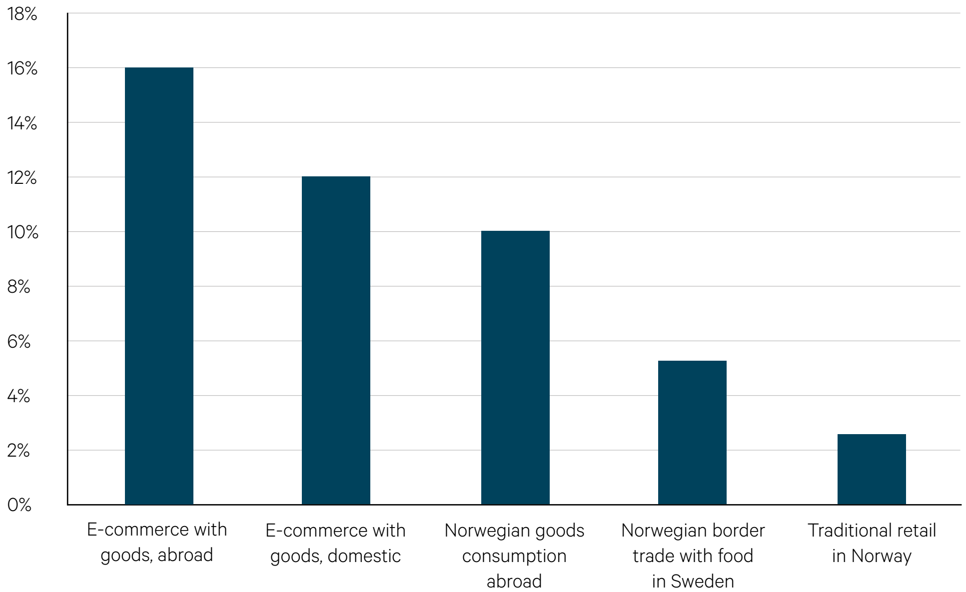
With their entry into the Norwegian market, luxury shops and international brands have driven rents to record levels in the capital's best shopping streets. Strong competition and restructuring in the retail segment mean that many sectors have experienced contracting margins and declining turnover. In many cases, landlords expect higher rents than many tenants can manage on their turnover.

A steadily increasing share of retail turnover is slipping across to other channels, and online purchases accounted for almost 20 per cent of the growth in sales last year. Service consumption has also expanded almost twice as fast as the turnover of goods over the past decade.[1] So it is not surprising that an ever-growing number of retail premises in shopping streets are being replaced by restaurants, wellbeing salons and other experience-based outlets. The challenge is that service providers often lack the same ability to pay as the shops had, and rents in shopping streets have thereby come under pressure.

The average annual rise in turnover for physical shops has been a mere 2.5 per cent since 2012. Adjusted for inflation over this period, real annual growth has been 0.1 per cent. Big differences admittedly exist between retail sectors. Cosmetics and pharmacies are those with the highest growth in turnover. Shops with a broad range or "dollar stores" have increased their sales at twice the rate for physical retailers as a whole since 2012.[2] Europris, Hula and Clas Ohlson are examples of chains which have experienced solid turnover growth and which are opening outlets at a rapid pace. Low prices and a large range have been a recipe for success so far.

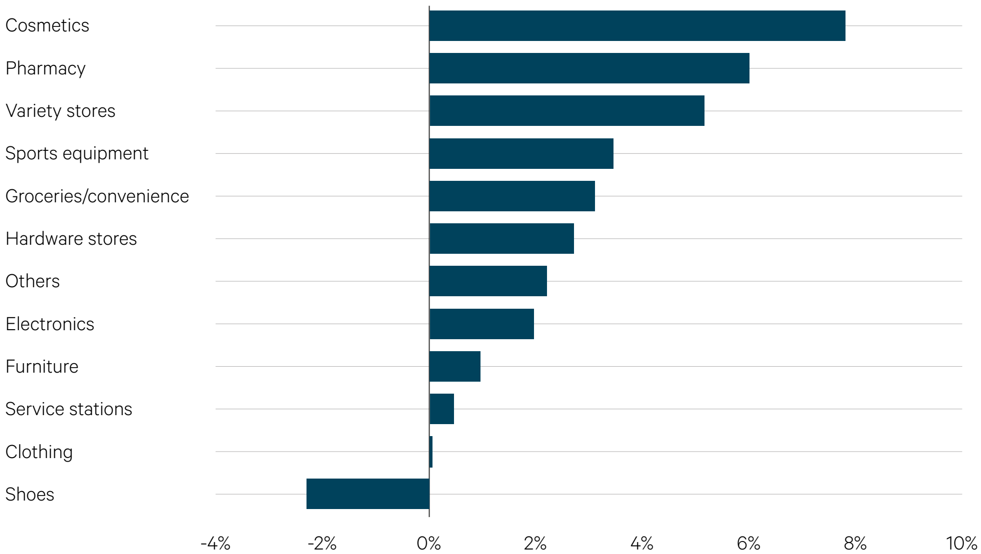
[1] **Source:** Virke/SSB
[2] **Source:** Virke/SSB

Annual growth in revenue 2012-2018 (CAGR)



Sources: Statistics Norway, Virke – Enterprise Federation of Norway

Annual growth among various retail segments 2012-2018 (CAGR)



Source: Statistics Norway, Virke – Enterprise Federation of Norway

Logistics

Interest remains high

Transaction market

The transaction market for the warehousing, industrial and logistics segment set records for both number and volume in 2018. Attractive cash flows, combined with expectations of increased demand as a result of growing online shopping, have contributed to the investor interest. However, we have observed a significant decline in activity so far this year and have only registered 28 transactions at the moment. By comparison, we counted 43 in the same period of 2018.

Viewed in isolation, declining long-term interest rates over the past year should strengthen demand for properties with long and secure cash flows. We believe that the moderate turnover of logistics properties so far this year largely reflects a lack of assets for sale, and that interest in attractive assets which come to market in the time ahead will be strong. We are sticking to our estimate of a prime yield of 4.75 per cent for warehousing and logistics properties, but believe we may see a weak downward pressure on yield in the future if long-term interest rates fix at today's level.

Despite the low number of transactions so far this year, their total volume is NOK 7.9 billion. That figure is boosted by the sale of Kongsberg Teknologipark, which accounts for about 40 per cent of the amount. This transaction joins the series of large industrial assets traded in recent years.

Rental market

Online shopping typically requires three times more logistics space than traditional retailing.[1] Although the web still accounts for only a small share of total retail turnover, this channel is expanding considerably faster than sales in traditional stores. The value index for mail order and online purchases has had a compound annual growth rate (CAGR) of 11.4 per cent over the past five years.[2] Virke estimates that the share of online shopping in domestic retail will exceed 14 per cent by 2030.[3]

Groceries account for about 40 per cent of all retail turnover, a proportion which has remained stable through the major changes in this segment. Average annual turnover in the grocery market grew by 2.9 per cent in 2010-17.[4] Norwegians buy food through a growing number of channels, and online shopping for groceries is expanding sharply. While 15 per cent of us bought groceries on line in 2017, that proportion had reached 20 per cent last year.[5]

Higher growth in real incomes and increased employment will probably help to boost private consumption in the time to come, which is likely to benefit retailing. In other words, the signs point to rising demand for logistics space.

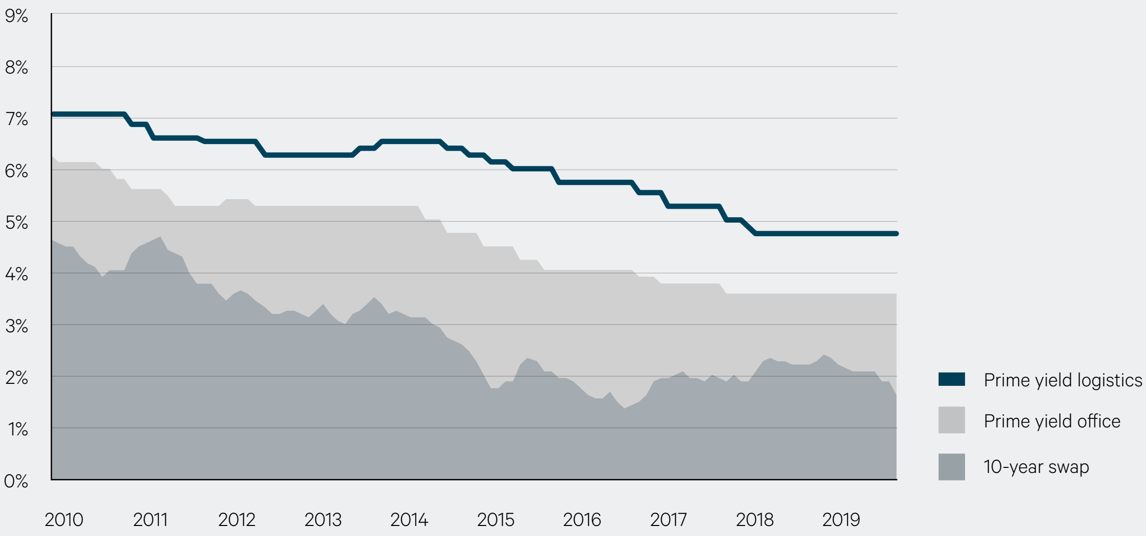
An important divide in this segment runs between smaller warehouses and mixed-use properties and large logistics buildings. The latter are characterised by a relatively limited number of tenants who enter into large leases and often secure volume discounts. Many attractive sites are still to be found along the motorways, so that tenants who do not need to be positioned in the immediate vicinity of the city still have a lot to choose between. A combination of good availability of sites, short construction times and yield compression has helped to keep prices down, despite increased demand for space. Real rents have accordingly declined in recent years.

We find a number of small and medium-sized tenants in the market for warehousing and mixed-use properties. They are looking for warehouses, showrooms, cash-and-carry premises and offices, or a combination of these. The biggest market for warehousing and mixed-use properties is found in Groruddalen on Oslo's north side. A substantial proportion of such properties lies in the development areas which the City of Oslo has incorporated in its planning strategy, and which will probably be converted to other purposes in the long term. In addition, new buildings of this type seldom appear within the city limits.

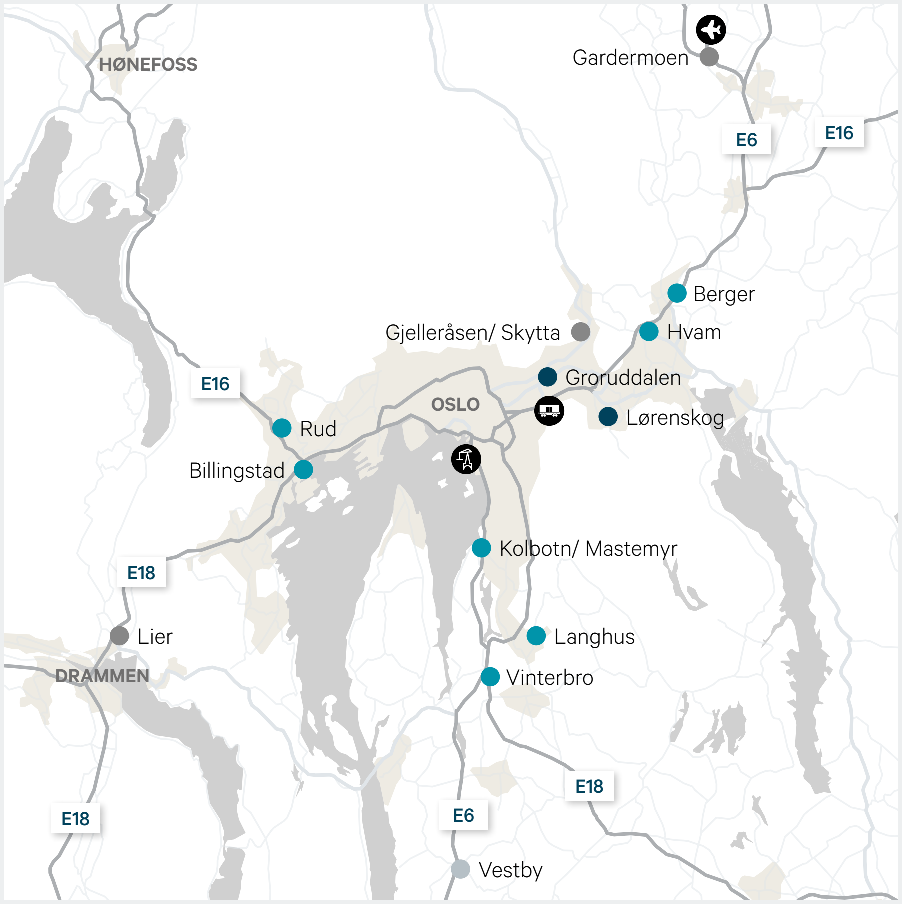
Online shopping also has a positive effect on this market because a number of players need delivery points close to customers. With rising demand and a restricted supply, rents for such premises are likely to rise.

[1] **Source:** Prologis
[2] **Source:** SSB
[3] This estimate assumes low growth in online grocery shopping.
[4] **Source:** Grocery report 2018
[5] **Source:** Dibs/Nets

Prime yield logistics



Sources: UNION and DNB Markets



Source: UNION

Rents (NOK/m²/year)

	Normal/high standard[1]	Prime rent[2]
● (dark blue)	800 - 1 000	1 250
● (teal)	700 - 900	1 100
● (grey)	700 - 900	1 000
● (light grey)	500 - 700	800

[1] Ceiling height below six metres

[2] Top standard with ceiling height above six metres

Hotel

Comeback for western Norway

Transaction market
Only four hotel properties with a combined volume of roughly NOK 800 million have changed hands in Norway so far this year – three transactions less than in the same period of 2018. The turnover volume is virtually unchanged from last year's figure, but significantly below the annual average of NOK 2.5 billion in 2010-18.

Rental market
Just under 15 million overnight stays have been registered in Norway for the year to 31 July, representing a solid increase of four per cent from the same period of 2018.[1] Tourist stays rose by five per cent, while growth for business travellers was 3.5 per cent.

Occupancy rose by 0.7 percentage points to 55.6 per cent after a small decline in 2018. Prices have increased by 1.5 per cent so far this year. Rising prices and higher occupancy yield a growth of almost five per cent in revenue per available room (RevPar) on a national basis – the second strongest rise for this measure over the past decade.

RevPAR in Oslo has declined by 1.2 per cent so far this year. Occupancy is down by 0.8 percentage points, which probably reflects several new hotel openings in 2019. Clarion Hotel The Hub and Amerikalinjen at Oslo's central station both reopened after renovation, for example. These two hotels alone add almost 1 000 rooms. Clarion also opened a new 255-room hotel in Bjørvika during the summer, and City Box added 125 extra rooms in central Oslo. A total of 1 400 additional rooms are opening in 2019, but capacity growth is expected to slow from 2020.

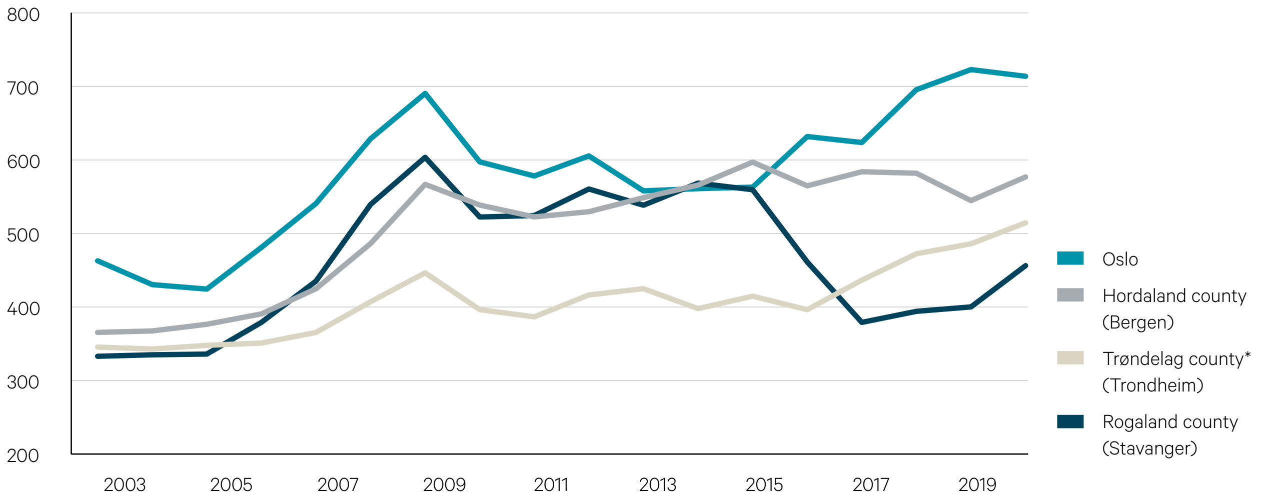
Last year's positive trend in the Stavanger region is continuing. Room occupancy and prices have both risen substantially this year, with RevPAR up no less than 13.9 per cent. Demand is increasing on several fronts. Occupancy rose by 18.8 per cent for tourists and holiday travellers and by 10.8 per cent for course and conference guests. Although developments in the oil centre are very positive, RevPar remains 20 per cent down from 2013.

RevPar in the Bergen region has risen by 5.8 per cent so far this year. In other words, the market is turning upwards after a RevPAR decline of 6.3 per cent over the same period of 2018. The course and conference segment has seen the largest increase in demand, at 9.7 per cent. Several years of big growth on the supply side are expected to give way to moderate expansion in the next few years. That lays the basis for maintaining the positive trend.

The Trondheim region has experienced a steady rise in RevPAR since 2016, and that development is continuing so far this year with a 5.8 per cent increase. Growth in hotel rooms is expected to be moderate in the time to come, so that the market will be in relative balance.

[1] **Source:** SSB

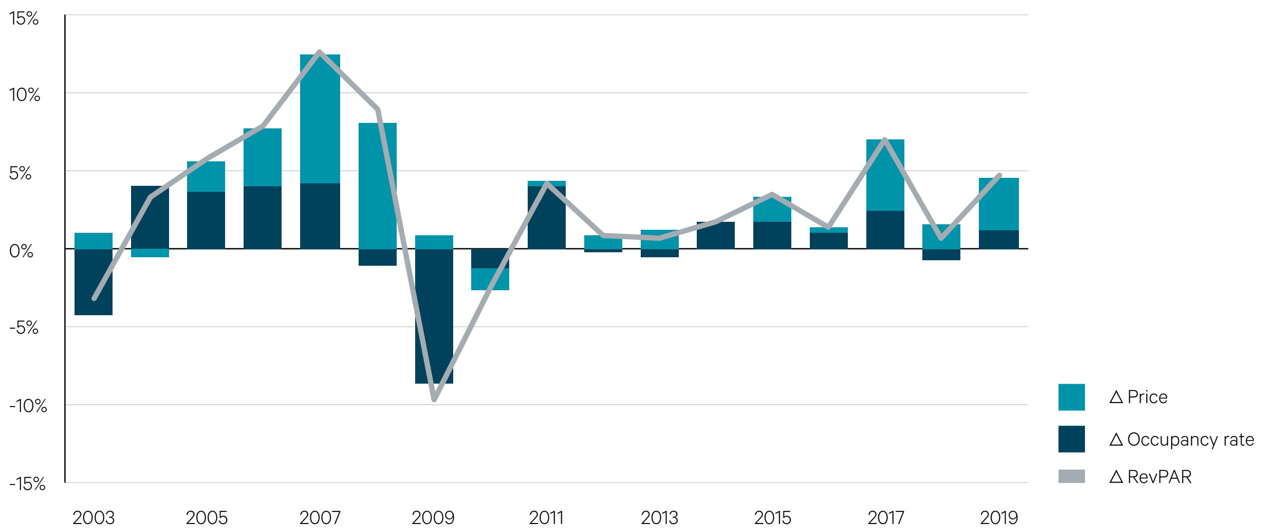
Revenue per available room (NOK)



The figures show development in RevPAR from January to July
* The figures for Trøndelag until 2018 are estimated on the basis of figures from Nord- and Sør-Trøndelag.

Source: Statistics Norway at September 2019

Change in revenue per available room (RevPAR) in Norway



The figure shows changes in the three parameters from January to July.

Source: Statistics Norway at September 2019

Residential

Moderate trend

House prices have shown moderate growth so far in 2019, and many homes have been sold. Seasonally adjusted prices rose by 2.6 per cent nationally over the past year, while the increase in Oslo was 3.7 per cent in the same period.[1] Adjusted for seasonal variations, house prices in the capital are now only 1.1 per cent below the early-2017 peak. Prices on a national scale, which did not fall so drastically in that year, recovered to the peak level as early as a year ago. Norwegian house prices are thereby at their highest-ever level.

Household debt is high and continuing to grow faster than income. On the other hand, the rise in debt has slowed over the past two years. This can be viewed in relation to tighter lending practice by the banks and the interest-rate increases of the past year.

Norges Bank's base rate has been raised from 0.50 to 1.50 per cent over the past year. This increase contributes to higher interest rates for residential mortgages and, viewed in isolation, has had a moderating effect on house-price growth. At the same time, such factors as greater employment and stronger growth in real incomes have had the opposite effect. It is also worth noting that the central bank has reduced its base-rate forecast. The interest-rate curve indicates that the base rate will probably remain at its current level to the end of 2022. By comparison, Norges Bank took the view a year ago that the rate would be up to about two per cent by 31 December 2021.

The FSA proposes to extend and tighten today's residential mortgage regulations because many observers believe that further measures are needed to slow the accumulation of debt in vulnerable households. It has proposed that the ceiling for debt in relation to income should be reduced from five to 4.5 times gross annual earnings. In addition, the FSA wants the flexibility quota for the banks to be set at five per cent nationwide. That compares with up to 10 per cent in the present regulations, which currently run to 31 December 2019, and eight per cent for Oslo. If the regulations are adopted in accordance with the FSA's proposals, we believe they will dampen price growth in the market.

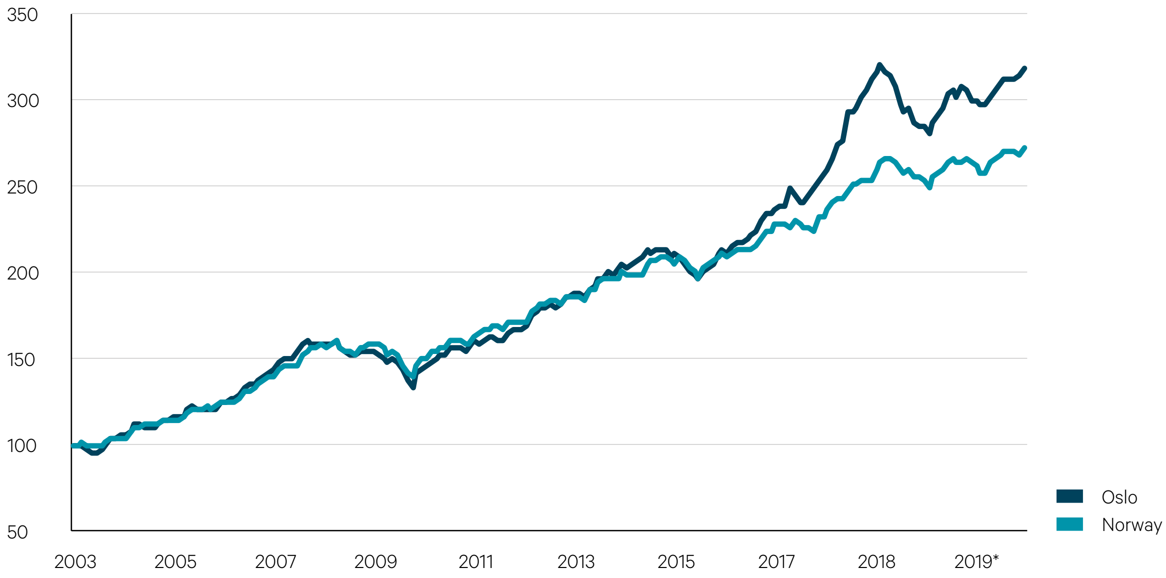
Housing demand in Oslo and Akershus has increased, in part because of a strong labour market and because several of the local authorities around the capital have high net residential inflows. The inventory of unsold second-hand homes in Oslo has remained relatively flat at around 2 000 units so far this year. Activity in the market is good, and more second-hand homes have been sold in the Oslo region so far this year than in the same period of 2018.

The housing market is now enjoying its longest period of stable price growth since the early 2000s, and we expect that this modest rise will continue. Interest rates will probably be lower than earlier expected. But growth in the Norwegian economy will probably slow in the time to come, and a considerable risk exists that new government regulations will have a moderating effect. All in all, the housing market appears to be in balance at the moment.

So far this year, sales of residential blocks have totalled more than NOK 3.5 billion. Virtually all these transactions were in Oslo. By comparison, sales of such properties in 2018 came to about NOK 1 billion.[2] Estate agents report great interest in rented blocks in central Oslo, and substantial attention is being paid by players who normally invest in other property segments.

[1] **Source:** Eiendom Norge
[2] The count only includes transactions worth more than NOK 50 million

House price index (January 2003 = 100)



* 2019 figures at August.

Source: Real Estate Norway

Supply and demand for housing in Oslo and Akershus

Source: Statistics Norway, processed by UNION

5/ Areas

“Much of the vacant space relates to older, outdated buildings without the standards demanded by most tenants in today’s market.”

Bergen

Declining office vacancy and rising rents

Transaction market

A new transaction record was set in Bergen last year at NOK 11 billion, including the Mongstad sale at NOK 4 billion. The market has been significantly quieter so far this year, and we have only registered 11 transactions with a combined volume of NOK 3.6 billion. We nevertheless expect the transaction volume for the full year to exceed the 2017 level of about NOK 5 billion.

The number of transactions so far this year has halved from the same period of 2018. However, they include several outstanding city-centre buildings. Sparebanken Vest is now the sole owner of its head office in Jonsvollsgaten 2 after buying out Trond Mohn, among others. In addition, DNB Livsforsikring acquired Torgallmenningen 6 while Westcoast Invest bought Kroepeliengården.

Interest in investing in Bergen is high, in part because the outlook for the rental market looks promising with declining vacancy and rising rents. We believe that the relatively quiet transaction market reflects a scarcity of assets for sale rather than any lack of interest among buyers. Our estimate remains that the best office properties in Bergen will achieve a yield of 4.25 per cent.

Rental market

A clear majority of companies in Hordaland county, which embraces Bergen, are optimistic, but confidence in the future declined in the last quarter if SR-Bank's business trend survey for September is to be believed. Twelve-monthly employment growth in Bergen is currently 1.5 per cent,[1] compared with a national rate of two per cent. Hordaland has experienced a smaller rise in jobs than the rest of the country since 2017, which is surprising given that increased oil investment is the most important driver in the Norwegian economy at the moment. The exchange rate for the Norwegian krone has also been weak during this period, which normally benefits a region where many companies are exposed to the seafood sector, traditional exports and tourism.

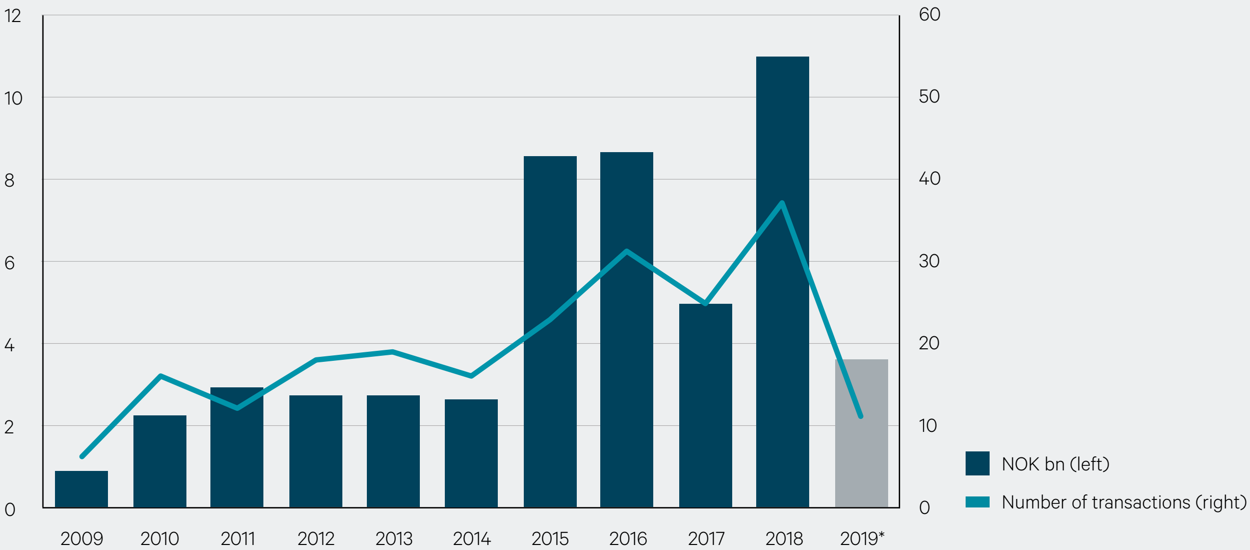
Office vacancy in Bergen is 8.1 per cent, after falling more than two percentage points over the past couple of years.[2] The supply side in the city still looks very favourable. While about 90 000 m^2 of new office space was completed in 2015-17, the figure for 2018-20 will be around 45 000 m^2. In addition to a halving in the newbuild volume, a number of projects for conversion to residential accommodation and hotels will contribute to removing an estimated 65 000 m^2 of office space from the market over the same period. A weak rise on the supply side will first be seen in 2021.

The city centre has the lowest office vacancy, and modern premises with efficient layouts are in short supply. Rents for such space have therefore made favourable progress in recent years, and a new "top level" has been established in Bergen.

Until now, a rent boost has primarily been experienced by attractive assets in the city centre. Given the favourable supply-side trend, more properties are likely to benefit from rent growth in coming years.

[1] **Source:** SSB (number of wage-earners)
[2] **Source:** Kyte Næringsmegling

Transactions



* 2019 figures at September.

Source: UNION

Office rents (NOK/m²/year)

	Normal/high standard	Prime rent
● (City Centre)	2 200 - 2 800	3 000
● (Marineholmen/ Solheimsviken)	1 800 - 2 200	2 600
● (Fyllingsdalen)	1 600 - 1 800	1 950
● (Kokstad/Sandsli)	1 300 - 1 600	1 800

Source: Kyte Eiendom/UNION

Trondheim

Strong transaction market

Transaction market

After a quiet start to the year, 2018 witnessed 22 transactions with a total volume of NOK 3.5 billion. The high level of activity in late 2018 has continued into 2019. We have registered 18 transactions with a combined volume of NOK 3.2 billion so far this year, and the 2017 record of 33 transactions is within reach.

A lot of development property has changed hands in the city so far this year, often with local buyers. At the same time, we see that the Trondheim area is interesting for Oslo-based investors when the right assets are for sale. Pareto, for example, has acquired Lysgården at Sluppen. Covering about 12 000 m^2, this new office building was completed in June and is let on long-term leases to Sweco and DNV. During the first half, NRP also arranged the purchase of a portfolio of seven builder's merchants in Trøndelag county.

Interest in property investment in Trondheim is high. We now estimate that the best office properties will achieve a yield of 4.6 per cent – down by 20 bps from a year ago.

Rental market

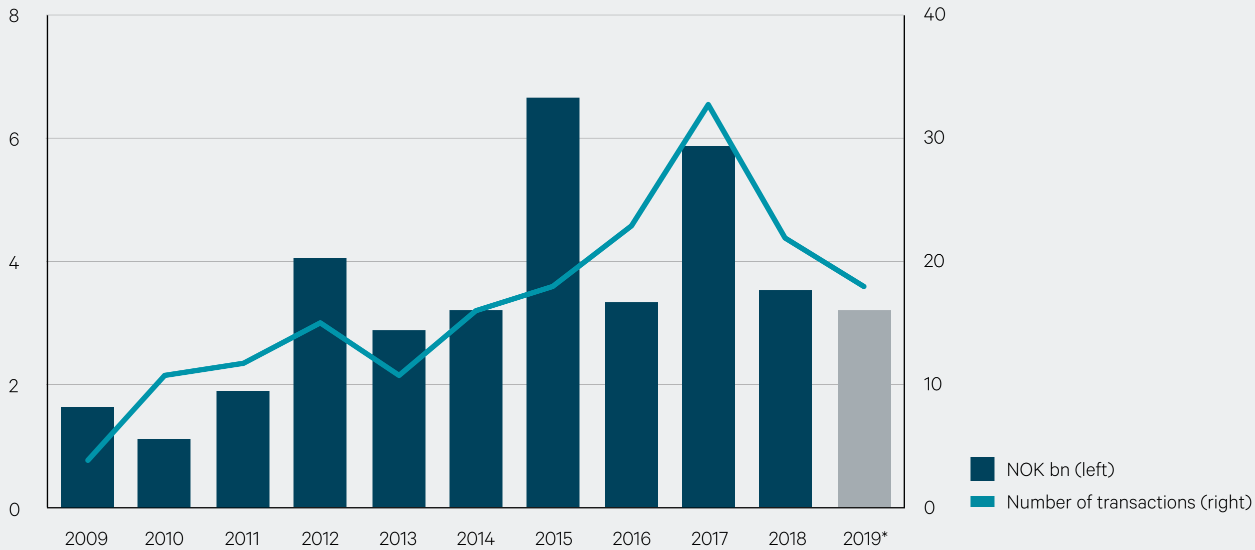
The company survey from the Labour and Welfare Administration (NAV) for Trøndelag county, including Trondheim, shows that companies are overwhelmingly optimistic. Twenty-six per cent of enterprises expect to have a bigger workforce in a year's time, and only eight per cent predict downsizing. The net expectation is higher than last year. Construction and parts of the manufacturing sector, in particular, have the highest expectations of increased employment.

Office vacancy in Trondheim has remained relatively stable at eight to 10 per cent over the past three years.[1] As with the office markets in Stavanger and Bergen, vacancy is increased by the presence of many older and outdated buildings on the city's fringe. At the same time, new, efficient and centrally-located space is relatively scarce. The willingness to pay for such premises is therefore rising, and the differential between attractive and outdated assets is increasing.

Some 60 000 m^2 of new office space are due for completion this year. Newbuilding is record-low, and the additional space represents a supply-side growth of 4.7 per cent. Although we see examples of offices being converted to residential accommodation, net supply-side growth is likely to be too high in relation to the market's ability to absorb it. We therefore expect vacancy to increase somewhat in coming quarters. However, the newbuilding volume is set to fall sharply in 2020-21, so that vacancy will probably creep down again.

[1] **Source:** Norion Næringsmegling

Transactions



* 2019 figures at September.

Source: UNION

Office rents (NOK/m²/year)

	Normal/high standard	Prime rent
● (dark blue)	1 800 - 2 200	2 600
● (teal)	1 600 - 1 800	2 000
● (grey)	1 400 - 1 600	1 900
● (light grey)	1 200 - 1 500	1 800

Source: Norion/UNION

Stavanger

Optimism still high

Transaction market

After a record year in 2018, the first half of 2019 showed tendencies towards a quieter transaction market. We have registered 10 transactions in the Stavanger area so far this year, with a combined volume of NOK 2.4 billion. However, it is too early to draw any conclusions about how 2019 as a whole will turn out. Last year was also characterised by a modest first half before the volume increased markedly in the final months.

As in 2018, few transactions have occurred so far this year in central Stavanger. We observe a big spread in the sales which have taken place, with housing developments, retail properties and mixed-use premises changing hands during the past six months. Office properties nevertheless account for the largest share of the volume, and the bulk are located at Forus.

The risk premium in the region increased substantially in the wake of the oil price slump in 2014-15, and the appetite for property was small outside the low-risk segment. Today, the economic position has normalised and we detect great optimism and a sustained interest in buying in the region. All in all, we estimate that the best office properties in Stavanger can achieve a yield of 4.60 per cent, down by 20 bps from the same time last year.

Rental market

Companies in Rogaland county, including Stavanger, appear little affected by Brexit and trade wars, according to the September business trends report from SR-Bank. They still take an optimistic view of the future, and such optimism is greatest among enterprises with the highest exposure to the oil sector. Development of the Johan Sverdrup field and a weak krone exchange rate – which makes companies involved in exports and imports more competitive – probably explain this buoyant outlook.

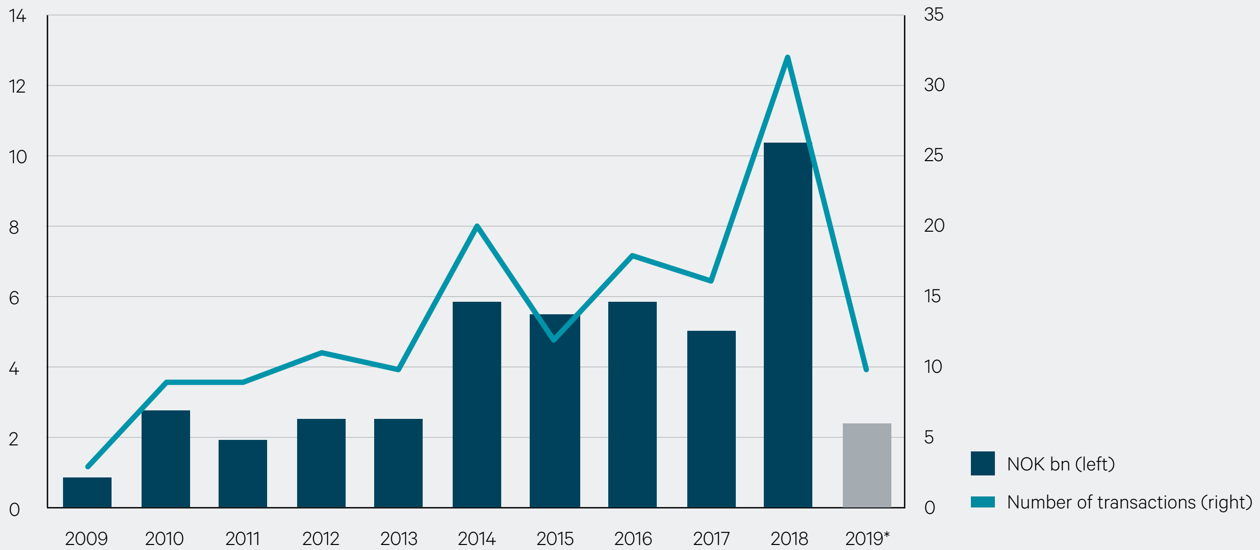
Since the labour market improved in 2017, employment growth in Rogaland has been strong. It amounted to no less than 4.7 per cent of 2018.[1] However, the annual rate of increase slowed to 2.9 per cent in the second quarter of this year. Although the level remains solid, the strongest expansion in new jobs is probably behind us. The rise in oil investment is flattening out, and weaker growth prospects for the world economy will probably curb expansion in the time to come.

In any event, the positive development since 2017 has helped to boost demand for space. After office vacancy in Stavanger rose from 3.4 per cent in 2012 to 13.5 per cent in 2017, it fell to 10.4 per cent this spring.[2] However, it has risen by 1.2 percentage points since last autumn – in part because the Total building in Dusavik has been vacated. City-centre vacancy rose by 3.5 percentage points to 10.8 per cent over the past half-year. Vacancy at Forus is 14.4 per cent, about the same as in our spring report.

Much of the vacancy relates to older, outdated buildings without the standards demanded by most tenants in today's market. Where modern, efficient premises in the right location are concerned, we see that high rents are achieved and the market is undoubtedly more balanced than vacancy viewed in isolation might suggest.

[1] **Source:** SSB (number of wage-earners).
[2] **Source:** EiendomsMegler1 Næringseiendom

Transactions



* 2019 figures at September.

Source: UNION

Office rents (NOK/m²/year)

	Normal/high standard	Prime rent
● (dark blue)	2 000 - 2 600	3 100
● (teal)	1 500 - 1 800	2 100
● (grey)	1 200 - 1 600	1 900
● (light grey)	1 000 - 1 300	1 500

Source: EiendomsMegler1/UNION

6/ Office rental market in Oslo

“Growth in demand for offices in Oslo has been positively affected by the fact that many providers of flexible office premises have signed up a lot of space.”

Supply

Newbuilding gathering pace

Office vacancy in the Oslo region is now 5.5 per cent,[1] and has thereby fallen by a further 0.2 percentage points over the past six months and by one percentage point since the same time in 2018. Over the past half-year, vacancy has fallen in 10 of 16 defined office areas. The biggest decline in square metres is at Lysaker, where vacancy now stands at 8.3 per cent. Vacancy in the central areas has stabilised at less than four per cent, which is overall very low in historical terms.

A total of 90 000 m^2 of new office space is due to be completed by 2019. Of this, 15 per cent remains unlet. Almost 200 000 m^2 is set for completion next year, with a third still not let. Several developers have initiated major projects on a speculative basis which are due to be ready in 2020, such as OBOS Eiendom's 30 000 m^2 office building at Freserveien 1 and Skanska's 19 500 m^2 Parallel office project at Lørenveien 65 in Økern. These two projects account between them for a quarter of next year's newbuild volume.

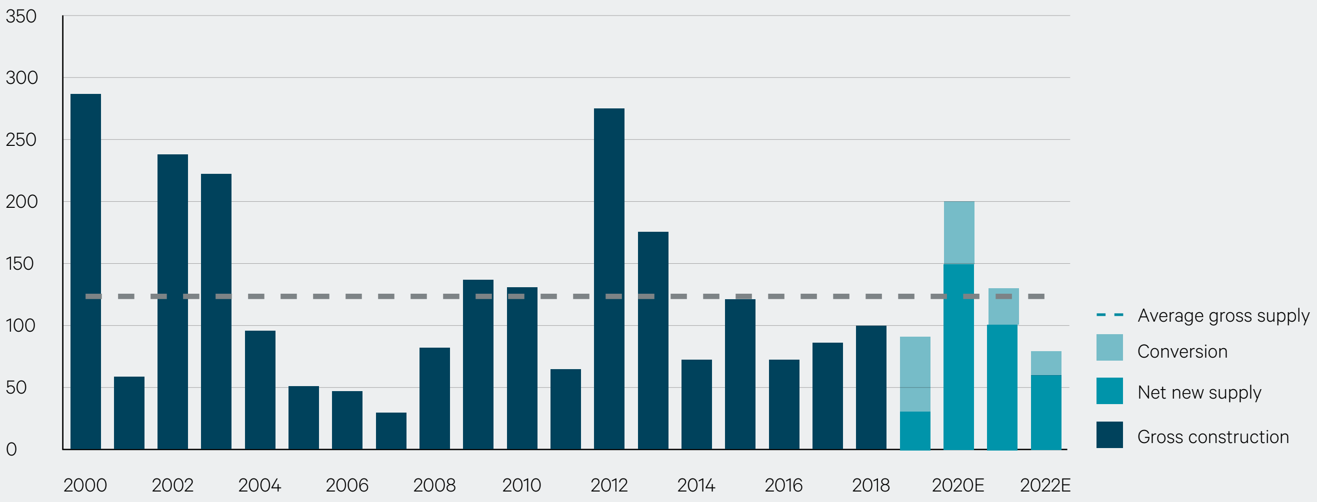
We are aware of five newbuild projects scheduled for completion in 2021. The largest are Storebrand and Aspelin Ramm's VIA project in the CBD and Oslo Pensjonsforsikring's Økern Portal project. These two developments collectively represent 90 000 m^2 of office space, and 60 per cent of this is already let. We expect that 130 000 m^2 of office space will be completed in 2021, but that newbuild activity will decline to 80 000 m^2 in 2022. It is still more than three years to the end of 2022, but no office buildings due to be completed in that year have been confirmed at present.

Large leases have been awarded over the past couple of years in newbuild projects due for completion in 2020-21. Examples include law firms Thommessen and Arntzen de Besche, who are moving to VIA, and Telia and Get, relocating to Økern Portal.

The volume of office space being converted to other purposes is expected to decline gradually, from 100 000 m^2 at the 2017 peak to 20 000 m^2 by 2022. After adjusting for office space being removed from the market, the net growth in space will be only 30 000 m^2 in 2019. Our expectation for next year is a net newbuild supply of no less than 150 000 m^2. We are accordingly sticking with our forecast that office vacancy will bottom out at 5.4 per cent this year before rising gradually from 2020 when the supply of space increases.

[1] Oslo, Asker and Bærum local authorities

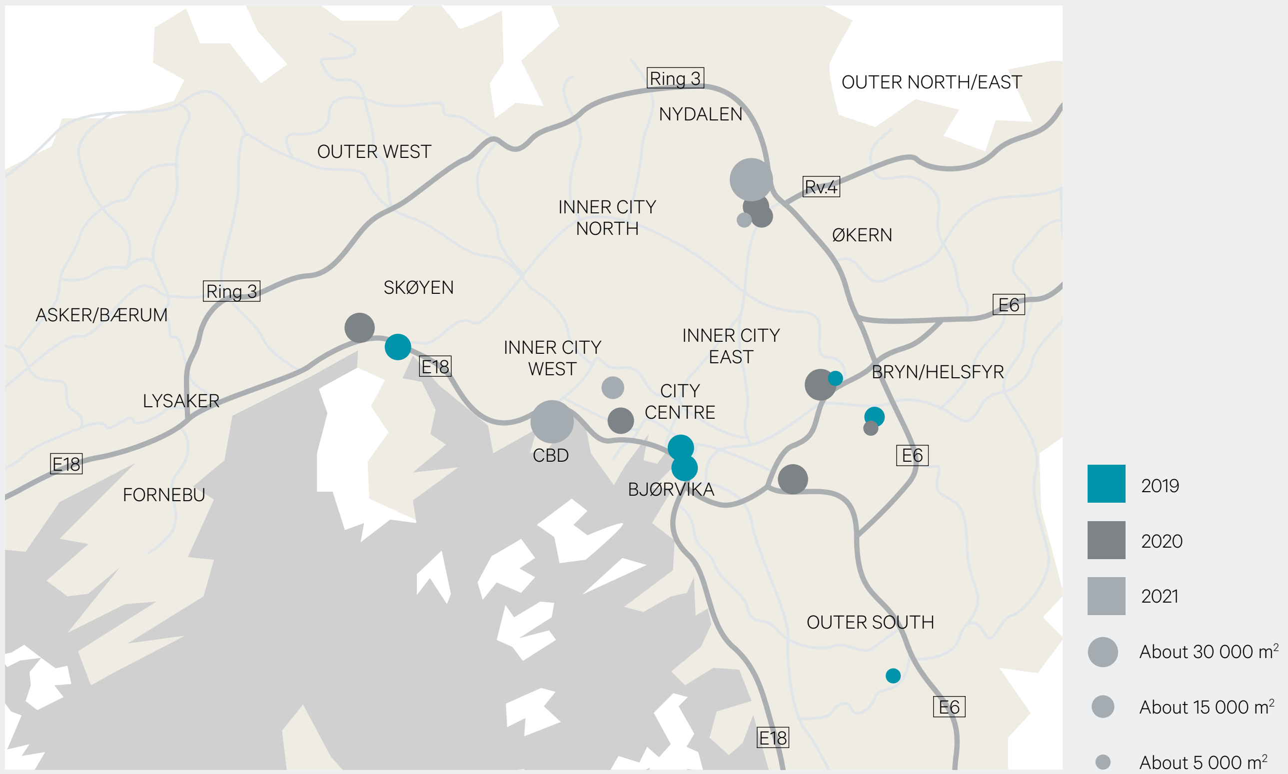
New construction and conversion of office space



Gross construction = net new supply + conversion.

Source: UNION

New office projects with completion in 2019-22



Source: UNION

Demand

Optimism remains high in the labour market

Employment growth in Oslo was high during 2017-18, helping to increase demand for office space by no less than 150 000 m^2 in the latter year. Data from SSB indicate that this trend has persisted into 2019. Moreover, ManpowerGroup's labour market survey for the fourth quarter of 2019 shows that companies in Greater Oslo are at their most optimistic for six years.

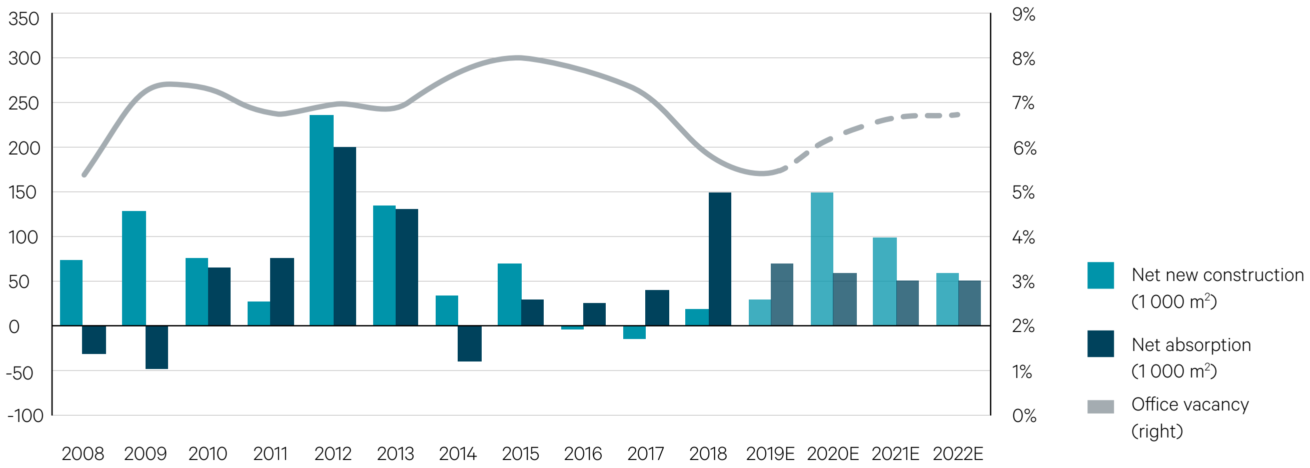
At the same time, several clouds are gathering. The Norwegian economy will get less help from increased oil investment next year, and the growth outlook is weaker internationally. SSB expects growth to decline gradually, and the national rise in employment to slow from an estimate of about 1.6 per cent this year to 0.5 per cent in 2020.

Growth in demand for offices in Oslo has been positively affected by the fact that many providers of flexible office premises have signed up a lot of space. The latter has been removed from the vacancy statistics, but remains to be filled up. We expect that part of the requirement for space will be channelled into flexible offices in the future. Combined with a somewhat weaker labour market, our view is that this will moderate the growth in demand. The latter is likely to be about 70 000 m^2 this year, and we believe it will gradually decline to 50 000 m^2 in 2022.

Interest in city-centre offices remains stable and high. Roughly eight out of 10 tenants searching for new premises cite the centre as a relevant area. Consultancy, engineering services and consultant engineers, banking, finance and insurance, and public sector tenants account for more than half the search volume so far this year. The IT and telecommunications sector, which accounted for 14 per cent of the volume in 2012-18, has made up only four per cent of this year's total. In contrast, consultancy, engineering services and consultant engineers alone have been responsible for 20 per cent of the search volume so far this year, while their 2012-18 average was four per cent.

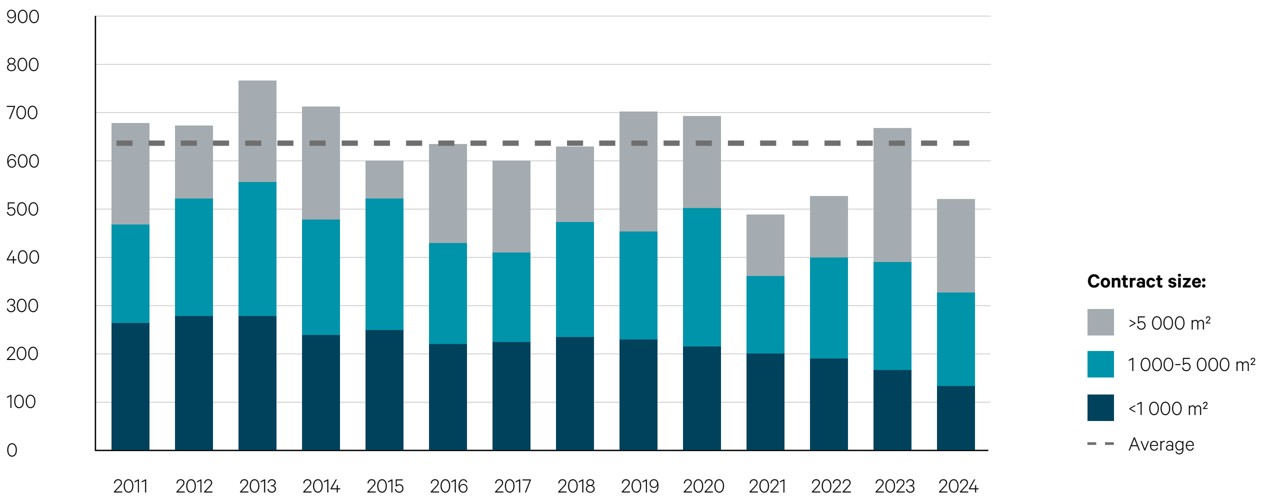
Demand from tenants who use search agents to find new office premises was record-high in 2017. The volume in 2018 was somewhat lower, but nevertheless high in historical terms. Generally speaking, tenant representation agents are used by big tenants and they are usually out in the market one-three years before the lease expires. According to Arealstatistikk, fewer large tenants have expiring leases in 2021-22, and we thereby expect search volumes to decline in 2019-20.

Net new construction, absorption and vacancy



Source: UNION

Expiry of leases (1 000 m²)



Source: Arealstatistikk

Flexible workspaces

Occupancy needs to increase further

More than 30 000 m^2 of flexible office space has opened annually on average over the past three years in Oslo.[1] Although such premises still represent a small share of the office market in the Oslo area,[2] at around two per cent, their rapid expansion and the great interest in the segment have made them an important part of the office market. A capacity of more than 6 000 workplaces has been established in such premises over the past two years. By comparison, we have calculated that the number of office employees in Oslo, Asker and Bærum expanded by almost 16 000 annually in the same period.

The market is expanding both through the entry of new players and through the opening of new centres by existing participants. Over the past three years, the number of players has almost tripled to 33. Four newcomers have also confirmed that they will be opening their concepts by the end of 2020. WeWork, for example, has secured leases for its first three premises in Oslo. The first of these will already open this side of New Year. IWG, which owns Spaces and Regus, is still the player with the biggest market share.

UNION Gruppen conducts a detailed analysis of Oslo's flexible office market twice a year. Data are acquired from players in the sector, and no less than 92 per cent of the market is analysed. Carried out in January 2019, the previous survey showed 53 per cent occupancy. This had increased to 63 per cent in the latest exercise. Members have thereby increased by more than available space during the period.

About 7 000 members currently occupy flexible offices, and space is available for another 4 000. Given today's spare capacity and expectations of establishing a further 4 000 workplaces up to 31 December 2020, much of the future employment growth will be channelled directly or indirectly into flexible offices.

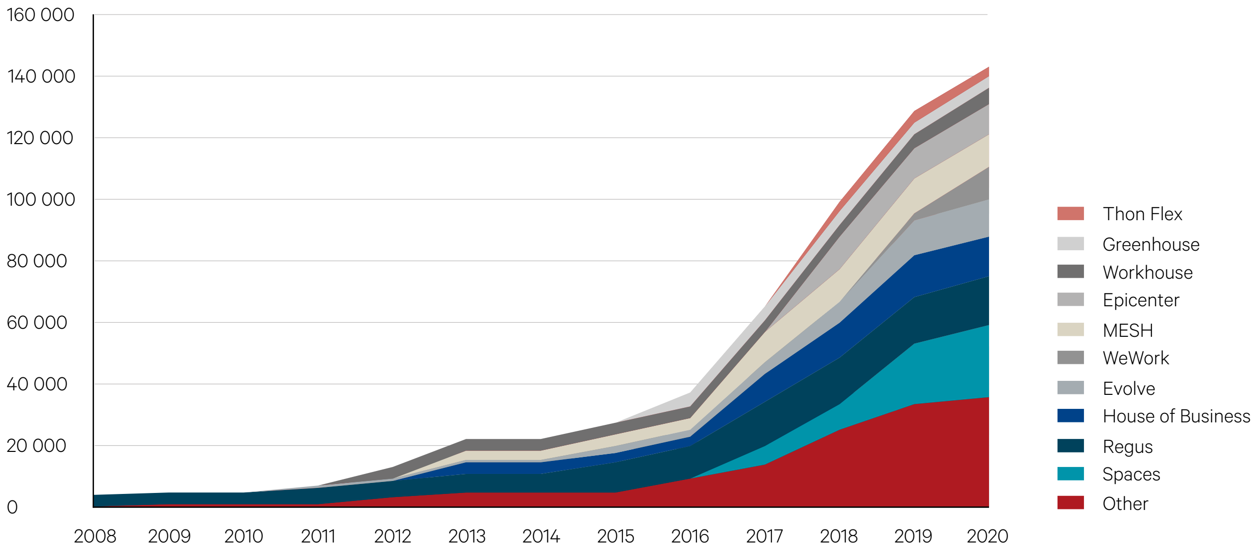
We see a clear connection between occupancy in the individual centres and the length of time since they opened. Average occupancy is below 40 per cent for centres operational for 12 months or less, 56 per cent for those open for 12-24 months and 85 per cent for those in action more than 36 months.

Rents for most of the space leased to players offering flexible office solutions are square-metre based and accord with market levels. In addition to rent, marketing costs and a couple of work-years in managing the centre are unavoidable on top of normal overheads. Centres which are about half full are thereby unsustainable. In our view, important requirements for creating a viable business model are therefore space-efficient premises, a high level of occupancy and very good operation.

According to our questionnaire-based survey, flexibility and efficient use of space are key factors for most of the players in this sector. Flexible lease terms are also important for many of them, not least by offering opportunities to extend and expand the lease. Several existing players also report that they have a steadily increasing number of large companies as members, and this trend is likely to persist. The trend whereby landlords are challenged on flexibility will undoubtedly continue.

[1] "Flexible office" is used here as a collective term for office hotels, coworking, flexible office workspaces and so forth.
[2] Oslo, Asker and Bærum local authorities

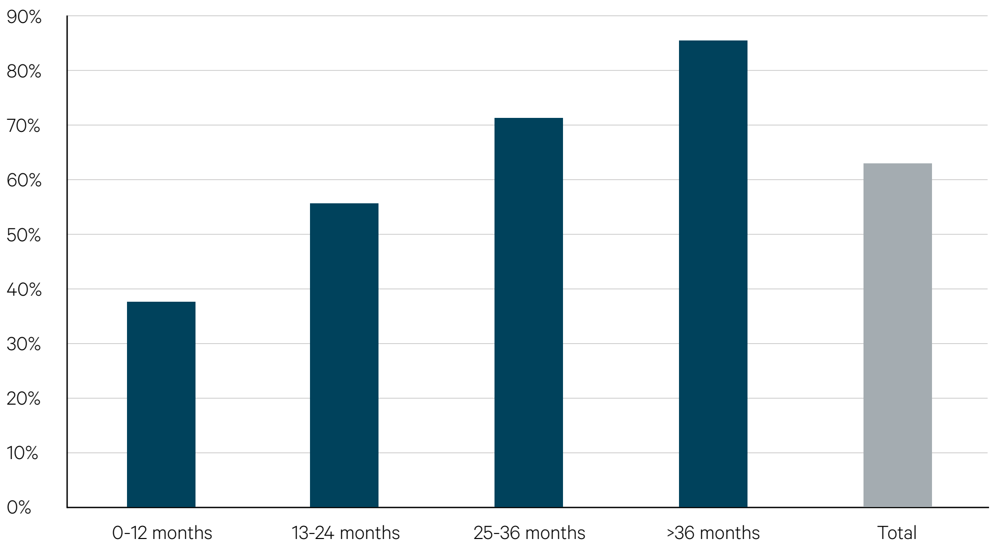
Volume of flexible office space in Oslo (measured in m²)



All flexible office space in Oslo, including Asker and Bærum, after confirmed opening date.

Source: UNION

Relationship between occupancy and time since opening



The figures are based on responses from players who have participated in the survey. Occupancy is calculated on the basis of the number of members in relation to maximum capacity.

Source: UNION

Analysis of rent levels

Weaker rent growth in the offing

Rents in Oslo are rising for the third year in a row. Average nominal rents in the capital have increased by 21 per cent since the autumn of 2016, and by six per cent over the past year.[1] The top rent – the average of the highest 15 per cent of rents agreed in Oslo over the past three years – has risen by 24 per cent over the same period. Rents are now high in historical terms, which thereby means they are too low in many older leases and will have to be renegotiated in the time to come.

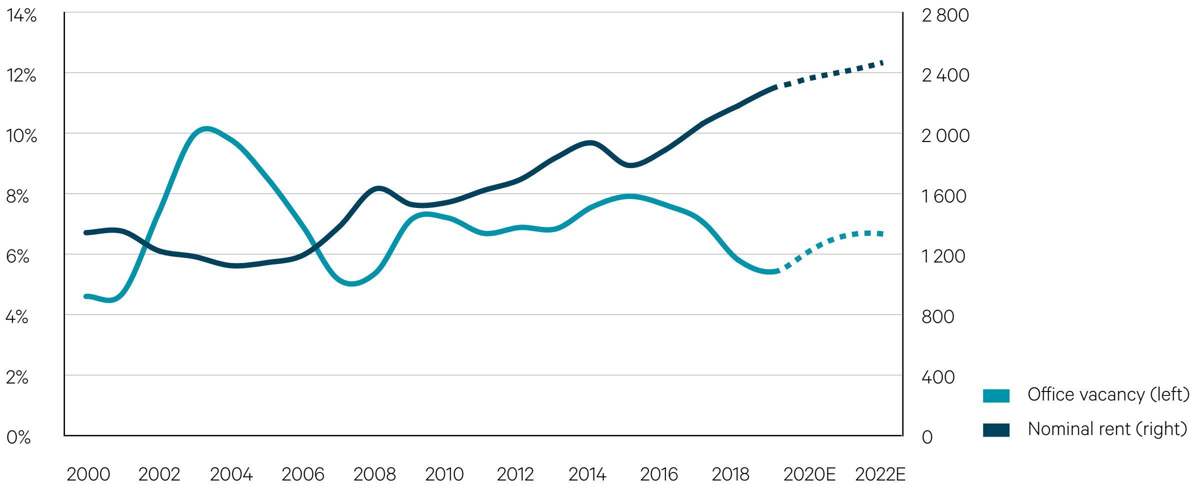
A marked twofold division of the market persists. The differential between top and average rents in Oslo has increased by 33 per cent over the past three years.[2] We have registered particularly strong rent growth in the CBD, Bjørvika and the rest of the city centre. Office vacancy is very low in these areas, with little newbuilding, and rent rises have been above the Oslo average. Office vacancy for the central areas overall is 3.7 per cent, after declining by 1.3 percentage points since last winter. Low vacancy and a high level of demand for office premises in central Oslo mean that we expect rent growth to remain highest in the city centre.

A good deal of newbuilding is underway, and relatively large numbers of planned newbuilds are available, in several of the areas outside the city centre – particularly in the eastern fringe area. That has had a moderating effect on rent growth for several years, and we expect this to persist. A double-digit number of office projects are competing for a limited number of tenants.

Office vacancy for Oslo as a whole is expected to bottom out at 5.4 per cent over the next few quarters, since growth in demand exceeds the supply of new space in the short term. However, we expect vacancy to start rising during 2020 as supply-side growth accelerates and is likely to outstrip demand. We believe this will be enough to slow down the rise in rents, and our forecast is for a three-per-cent increase in the Oslo average during 2020.

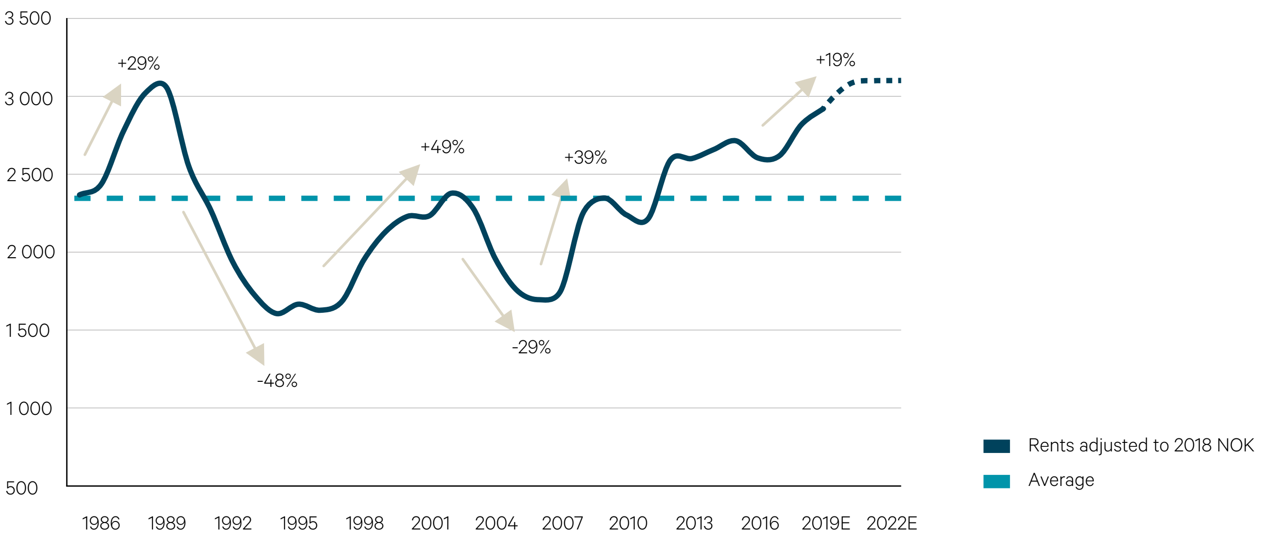
[1] **Source:** Arealstatistikk at 31 December 2018. The data have been processed by UNION.
[2] **Source:** Arealstatistikk at 31 December 2018. The data have been processed by UNION.

Office vacancy and average rent



Source: UNION

Real rents for centrally located high-standard offices in Oslo



Sources: Dagens Næringsliv/UNION

Rent growth forecast

Nominal change in market rents in 2020

0 to 2%

2 to 4%


Outer West
Nydalen
Inner North
Outer North/East
Skøyen
Økern, Hasle,
Løren og Ulven
Inner West
Bryn/Helsfyr
City
Centre
Inner East
CBD
Bjørvika
Outer South

Office areas

Overall vacancy in **the CBD,[1] Bjørvika and central Oslo** has declined by 0.6 percentage points over the past year to reach 3.7 per cent and is now 3.5 percentage points lower than three years ago. Low vacancy, little newbuilding and persistently high demand lay the basis for continued rent growth. Our forecast for these office areas is therefore that rents will rise by up to four per cent in 2020.

Office vacancy in **the CBD** is 5.3 per cent, down by 0.8 percentage points over the past six months. The only newbuild confirmed for the period up to 2022 is the VIA project being pursued by Storebrand and Aspelin Ramm at Ruseløkkveien 26. About 80 per cent of its 41 500 m^2 in office space is already let. Thommessen will be the first tenant to move in during mid-2021. Haavind is moreover moving into the premises being vacated by Thommessen at Haakon VIIs gate 10 once refurbishment has been completed.

Another property in the area getting a facelift is Dronning Mauds gate 10. Full refurbishment of this building has just been completed, with two of 11 stories leased.

Norwegian Property is planning a new congress centre and hotel on the “Triangle” site, which was earlier under consideration as a relevant location for a new foreign ministry office building.

In Bjørvika, office vacancy has declined further to a record-low 1.1 per cent. That represents almost a halving over the past half-year. However, vacancy is expected to increase by the New Year. Dronning Eufemias gate 8, previously occupied by PwC, is currently being refurbished with planned completion in December 2020. This office property provides a total of 16 300 m^2, with some restaurant activity on the ground floor. Bjørvika has begun to take shape, and a substantial expansion in retail and restaurant business is expected as the street level is completed.

The **rest of central Oslo**, roughly the area between Vika and Bjørvika, has an office vacancy of 3.6 per cent which has been relatively flat over the past six months. The Telegraph Building at Kongens gate 21, which is due to be fully refurbished in 2020, is now fully let. The Kvadraturen area has been considerably improved, with many major upgrades of both streets and buildings in recent years, and we see this reflected in rent trends.

At Universitetsgata 7-9, Entra is at work on a 13 800 m^2 office building due for completion in 2021. On the other side of the street, this company is also pursuing its The Rebel concept, a 27 000 m^2 technology building where the aim is to provide flexible offices for technology companies.

Schage Eiendom is due to start a total renovation of 18 000 m^2 at Stortorvet 7. Plans call for this property to be ready for new tenants in 2022.

Now 3.6 per cent, office vacancy in **Inner City West** has declined by one percentage point over the past six months. The law firms Arntzen de Besche and Haavind are vacating a total of 12 000 m^2 in Bygdøy allé when their leases expire in 2021-22.

Office vacancy in **Inner City North** is 4.6 per cent after a 17 percentage point rise over the past six months. This proportion is expected to rise because the Norwegian Directorate of Immigration (UDI) will be vacating its premises in Hausmannsgate when it moves to Valle View at Helsfyr in late 2020.

At 1.9 per cent, office vacancy in **Inner City East** has declined by a mere 0.1 percentage point over the past six months. Vacancy in this area has been stable at around two per cent for the past two years. However, it is expected to rise in the long term because OBOS Eiendom is well under way with constructing a 30 000 m^2 office building at Freserveien 1 without any leases awarded yet. ➜

[1] Vika, Aker Brygge and Tjuvholmen

Rent level by area

Rent level (NOK/m²/year)	Prime rent	High standard	Moderate standard	Vacancy	∆ Vacancy 6 months
Vika, Aker Brygge & Tjuvholmen	5 900	5 200 - 4 500	3 300	5.3%	-0.8%
Bjørvika	4 500	3 800 - 3 300	2 800	1.1%	-1.2%
City Centre	4 100	3 600 - 3 000	2 200	3.6%	0.3%
Inner City West	4 000	3 100 - 2 600	1 900	3.6%	-1.0%
Inner City North	2 300	1 900 - 1 700	1 400	4.6%	1.7%
Inner City East	3 200	2 200 - 1 900	1 400	1.9%	-0.1%
Skøyen	3 600	3 200 - 2 600	1 900	7.8%	-0.4%
Lysaker	2 500	2 300 - 1 800	1 500	8.3%	-2.5%
Fornebu	2 000	1 800 - 1 400	1 300	11.2%	2.6%
Nydalen	2 500	2 200 - 1 850	1 500	2.2%	-1.7%
Bryn / Helsfyr	2 300	1 900 - 1 600	1 300	8.0%	-0.9%
Økern Hasle Løren Ulven	2,250	1,850 - 1 600	1 200	18.6%	8.3%
Outer West	1 850	1 600 - 1 400	1 350	1.5%	-3.6%
Outer North/East	1 700	1 600 - 1 350	1 150	6.4%	0.4%
Outer South	1 800	1 600 - 1 350	1 150	4.2%	0.6%
Asker & Bærum	2 300	1 800 - 1 500	1 200	5.8%	-0.3%

Source: UNION

At **Skøyen**, office vacancy is 7.8 per cent after falling 0.4 percentage points over the past six months. The Skøyen Atrium III and Harbitz Torg newbuilds will be completed in early 2020, with a total of 10 600 m^2 remaining to be leased. Several newbuild projects in the district have been put on ice in anticipation of a new area plan for Skøyen. The planning process for the Fornebubanen metro line and the Oslo 2030 plan from the city council have laid the basis for integrated planning of what is now called "Fjord City West", which incorporates Skøyen.

Vacancy at **Lysaker** is 8.3 per cent, the lowest level we have observed since the low point was reached in 2013. This area has historically been characterised by the petroleum sector, and the oil price slump in 2014-15 helped to unleash a leap in vacancy there. Rising activity in this industry over the past couple of years also helps to explain the positive trend we are now witnessing.

Rents for offices with high standards have risen over the past year. Relative substantial differences exist within Lysaker, with buildings over the tunnel securing about 25 per cent more than the rest of the area thanks to proximity to trains and the Airport Express as well as other services.

At **Fornebu**, vacancy is 11.2 per cent and has thereby risen by 2.6 percentage points over the past six months. However, it has declined by six percentage points since the May 2017 peak – in part because the Aker block is fully leased. Rent developments have been considerably weaker than in other office areas, but are expected to rise over the longer term in line with the urban development taking place there. In addition, a start to construction for Fornebubanen is just around the corner. The tender documents will be issued in the autumn of 2019, and its opening is planned for 2027.

Outer West covers a relatively large geographical area, which includes Smestad and Ullern. Vacancy there has been low in recent years, and is now down to 1.5 per cent after falling 3.6 percentage points over the past six months. Only four properties with more than 1 000 m^2 of space are vacant. Much of the decline in vacancy we have seen over time reflects the conversion of a number of commercial buildings to residential accommodation in recent years.

Office vacancy in **Asker and Bærum** has continued to fall and is now 5.8 per cent. It has thereby declined continuously since the end of 2017. Oxer Eiendom is planning to build a new office block, Asker Genera, which will provide 23 800 m^2. The building could potentially be completed in 2022, but no leases have been awarded at the moment.

Nydalen has witnessed a continuous decline in the number of vacant square metres since 31 December 2017, and vacancy was only 2.2 per cent in the third quarter by our reckoning. The vacant space largely comprises Gjerdrums vei 11 and 4 as well as Gullhaugveien 1-3. However, vacancy is expected to rise in the longer term since Telia and Get are vacating roughly 30 000 m^2 (Sandakerveien 138-140 and Maridalsveien 323) between them when they move to Økern Portal in 2021.

The supply side in the area is also expected to increase further as a result of Avantor's newbuild plans. This company has been an important contributor to Nydalen's development since the 1990s, and is now working to secure planning permission for two new buildings. These could collectively provide around 20 000 m^2 in new commercial space, with offices accounting of the majority of this.

Office vacancy at **Økern**[1] is now 18.6 per cent, markedly higher than it was six months ago. This increase largely reflects the inclusion of almost 20 000 m^2 in available space at Skanska's Parallel project (Lørenveien 65) for the first time. The building is due to be ready in the second quarter of 2020 and, as far as we know, no leases have yet been awarded. In addition, 10 000 m^2 have become vacant at Økernveien 94.

A great deal of new space is due to be added in this area during coming years. Although Get and Telia are moving into Økern Portal and Atea is moving to HasleLinje, a lot of space remains to be filled. This relatively large supply will probably help to keep rents down.

Vacancy at **Bryn and Helsfyr** has fallen by 0.9 percentage points to eight per cent over the past six months, and is 1.7 percentage points lower than at the same time last year.

The first construction stage of the major Valle Wood development at Valle, covering 7 700 m^2, is almost fully leased. A lease for 16 000 m^2 has also been awarded to the UDI in the second stage, known as Valle View. This building will provide 23 000 m^2 in all. A third construction stage of roughly 27 000 m^2 is also planned, so that the project will increase office space in the district by 60 000 m^2 in all.

Helsfyr has attracted many public-sector tenants in recent years. Outstanding new and totally refurbished buildings at favourable rents in an area with good public transport coverage appeal to these tenants. However, much space is still available in buildings under construction or at the planning stage in the eastern fringe area, which will help to keep rents by and large stable in the time to come.

In **Outer North and East**, office vacancy is 6.4 per cent and has risen by 0.4 percentage points over the past six months. This area is characterised by a number of logistics buildings with associated office space leased "as is". Competition from new and modern office premises with better public transport provision in Økern, Bryn and Helsfyr also affects rent developments in the area.

Office vacancy in **Outer South** is 4.2 per cent after rising 0.6 percentage points over the past six months. The office market in this area is very fragmented, and covers a building inventory with many smaller premises and properties with varying technical standards. At the moment, only one office space over 1 000 m^2 is being advertised as vacant.

[1] Including Hasle, Løren and Ulven.

→ **Lease**
UNION is offering Økernveien 94
to let on behalf of Møller Eiendom

Area: 10 500 m²

↓ **Lease**
UNION has handled the letting of
Grensen 17 on behalf of Canica.

Area: 1 500 m²

↑ **Sale**
Kirkeveien 59 at Majorstuen (Vinkelgården).
UNION has handled the sale on behalf of
Nordea Liv Eiendom.

Area: 2 135 m²

← **Sale**
Røykenveien 70 in Asker. UNION has
handled the sale on behalf of NMB Bolig.

Area: 7 264 m²

← **Project Valle**
Acquired by UNION Real Estate Fund II

↓ **Karl Johans gate 13**
Acquired by UNION Core Real Estate Fund

← **Stortorvet 5**
Acquired by UNION Core Real Estate Fund

↓ **Pilestredet 35**
Acquired by UNION Core Plus Fund

UNION Gruppen AS
CEO Øystein A. Landvik

Research

UNION Norsk Næringsmegling
Frithjof Foss

UNION Eiendomskapital
Johan Hamre

Transactions

Leasing

Investment management

Property management

A complete property house

UNION Gruppen is a leading independent operator in the Norwegian commercial property market. Our services include commercial property brokerage, consultation, market research and valuations and asset management. The company is 100 per cent owned by four active partners and has a total of 52 employees.

We create value from property

UNION

UNION GRUPPEN