Q3 2019

Cushwake Investor Confidence Index

– Norway

CUSHMAN & WAKEFIELD | Realkapital

61%

of all investors have an objective to be net buyers in the coming six months while only 7 percent are sellers

The Cushwake Investor Confidence Index includes survey responses from around **50** investment professionals together representing around NOK **350 - 400bn** worth of Norwegian CRE. The index monitors expectations for the next six months.

The survey’s broad coverage reflects the interest for non-biased analysis and increased transparency. Furthermore, the degree of coverage ensures the findings are representative reflections of current investor confidence in the Norwegian CRE market.

We will continue to conduct the survey bi-annually, allowing us to track changes in confidence, to interpret what they mean for the market and to determine how best to respond when making investment decisions.

Thanks to all participants!

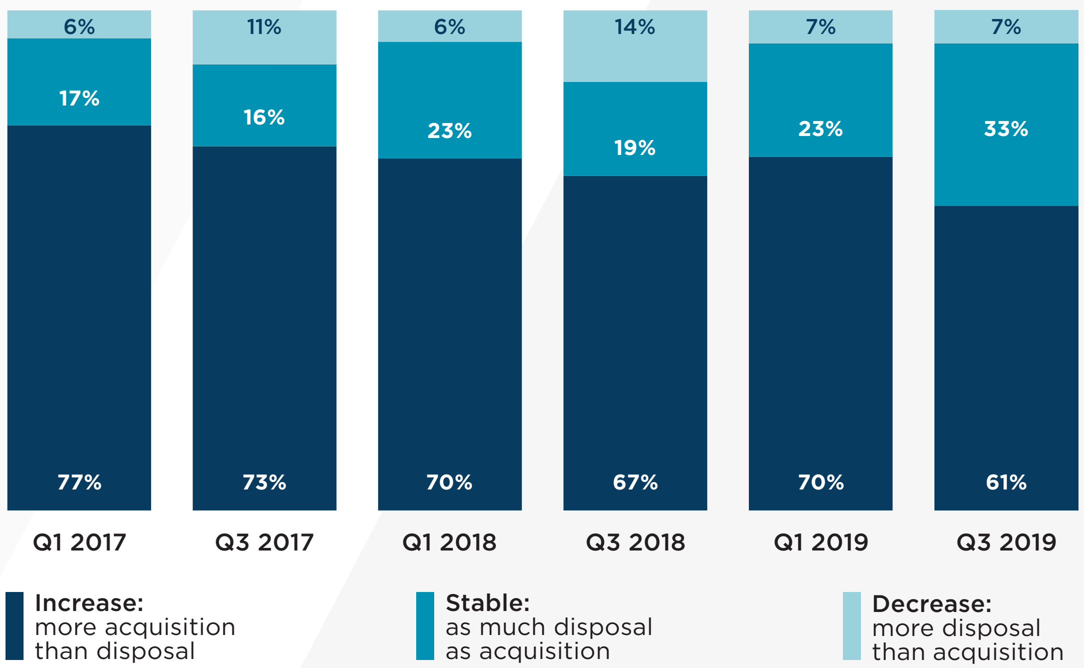
Persistent strong investor demand

Still majority of market participants are buyers

This can definitely be described as an extended property cycle as we continue to see a wall of capital targeting real estate. Even if the numbers are down from Q1, we still see 61 percent of all investors have an objective to be net buyers in the coming six months, heavily encouraged by persistent strong demand from office occupiers and a consequent rise in asset values. This finding continues to reinforce consistently strong results going back to the index's inception in Q1 2017.

Core real estate strategies remain attractive but demand continues to outstrip supply. This keeps yields under pressure and challenges investors to deploy capital and achieve their desired returns. Unable to source core assets, investors have been forced to accept additional risk in terms of location, letting, development and/or redevelopment risks. As a consequence the stakes are rising.

What is your objective with regard to the size of your portfolio during the next 6 months?



Office occupiers' market stays strong

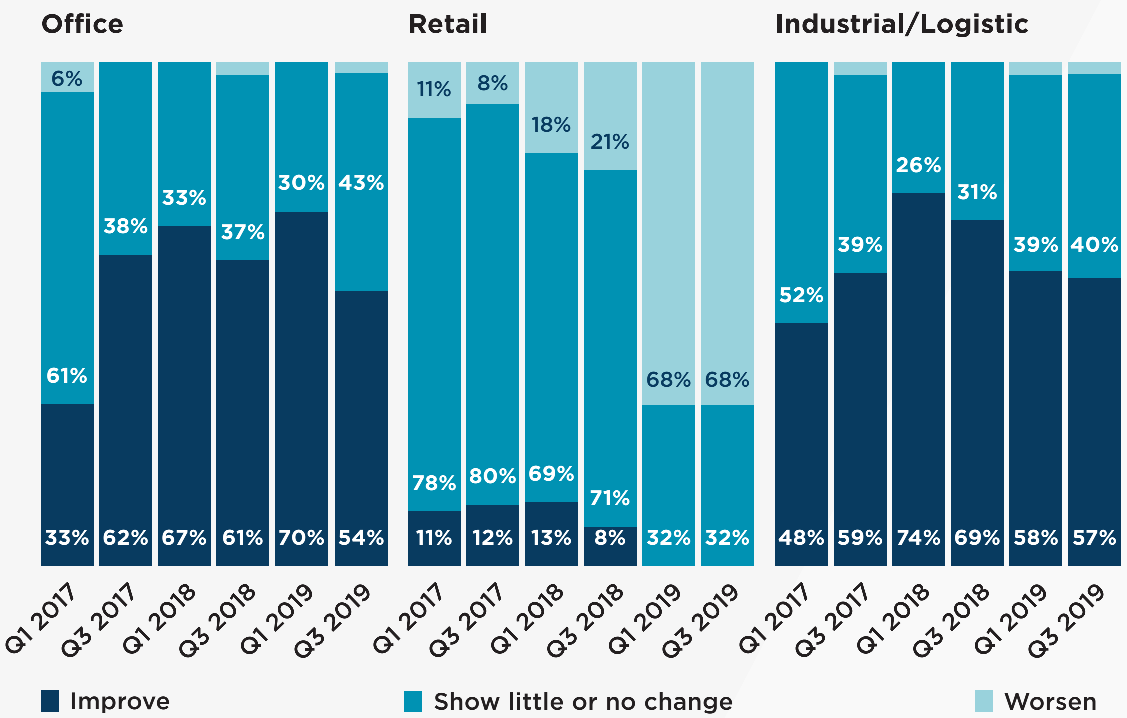
...while expectations for retail demand remain weak

54 percent of all investors expect improved demand from office occupiers in the coming six months. This is significantly down from Q1 but still very healthy expectations from already strong results observed over the past 2 years. Sound economic growth, limited development and occupiers' continued belief in offices' strategic importance in sum support a positive short to mid-term outlook. However, there might be questions to address on a long-term view given a combination of potential development catch-up, greater adoption of agile- and co-working, the switch from manpower to technology and increased utilisation of office space.

Regarding retail, investors views are very different from the office sector and we have seen a dramatic shift over the last year in investors expecting occupier demand to weaken. This is driven by a series of poor figures, negative headlines, lower share prices and an increased number of bankruptcies amongst retailers. Physical retail will continue to play a very important role also in the future, but there are concerns about tenants' ability to pay premium rents and the fact that space requirements may be reduced.

The industrial and logistics sector continues its strong run and the majority of investors still expect to see a continued rise in demand for logistics space.

With regard to the occupier market during the next 6 months, demand will:



Prolonged low yield expectations for office

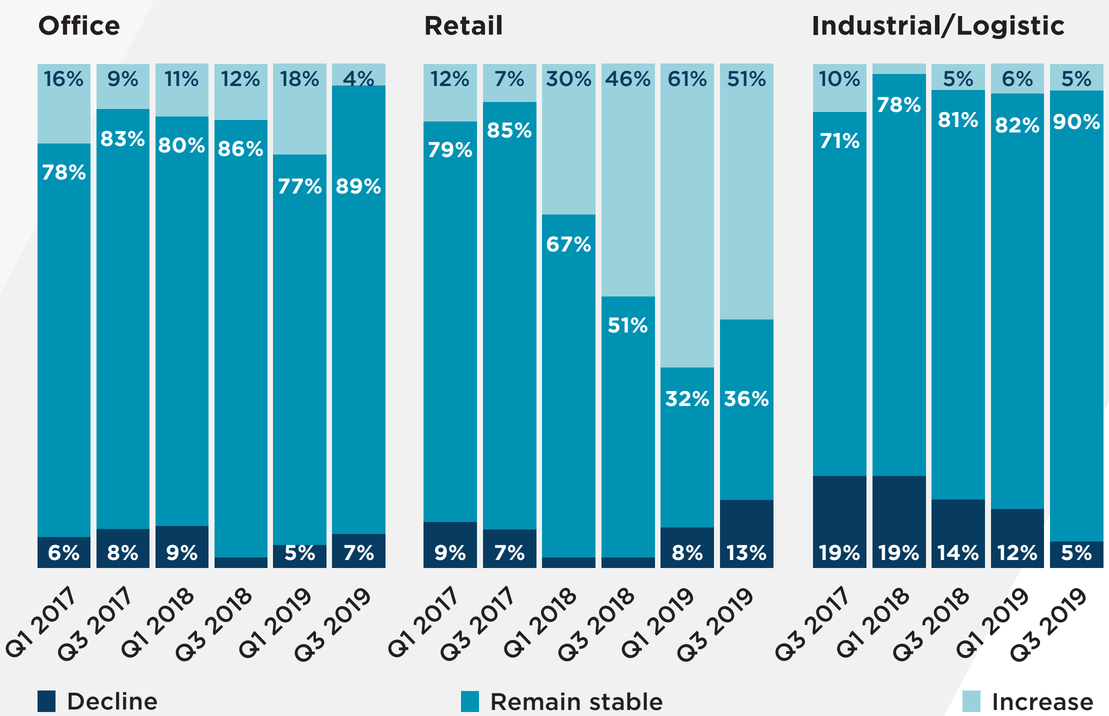
...and have concerns over retail yields bottomed out?

Most investors believe office yields have levelled out and will be unchanged in the near future. The minority that have been spooked by the prospect of rising office yields have nearly disappeared. Yet, very few believe office yields will compress further. These findings echo what has been recorded over the last few years as the “lower for (even) longer” scenario.

“Lower for (even) longer” is also largely reflected within the logistics sector, where only a small and shrinking minority still expect a further decline in yields.

On the other hand, we continue to see concerns over a negative shift in retail where 51 percent of all investors expect a further increase in retail yields during the next 6 months. However, this is markedly better than the grimmer view from Q1, possibly due to corrections that have already happened. The concerns are not surprising given the negative view on retail occupiers’ demand, but one should also pay close attention going forward to understand if the improved numbers since Q1 suggest concerns have started to bottom out.

With regard to the development of market yields during the next 6 months, they will:



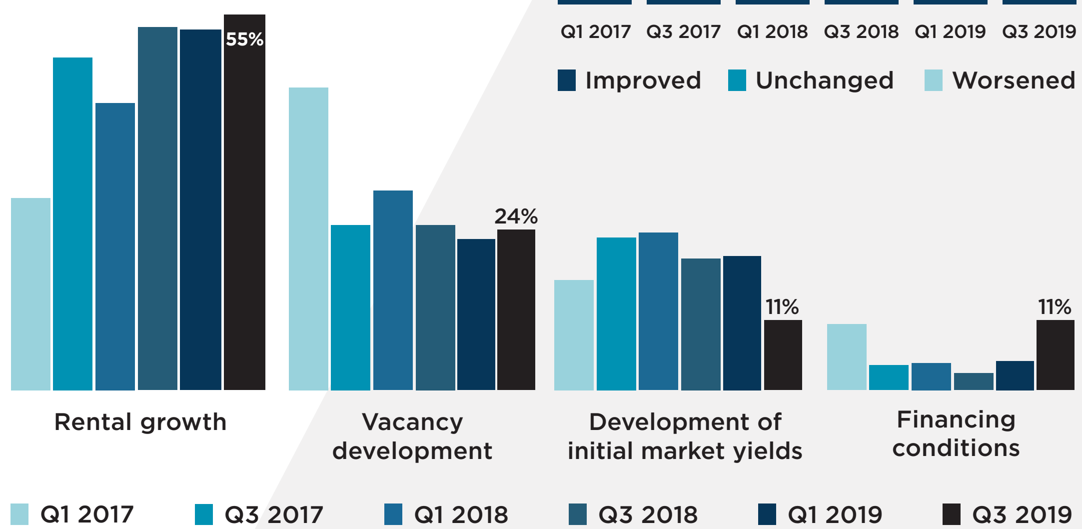
Positive view on own portfolio

Rising rents are the biggest contributor

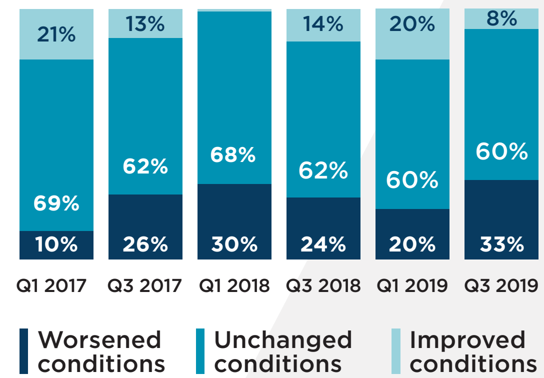
Renewed optimism around financing
The outlook for financing gradually improved throughout 2017 into early 2018 and we saw a growing base of investors believing in improved financing conditions. Over last year this changed and we saw a growing minority concerned over future financing conditions. However, the optimism is now back, and again 1 out of 3 investors expect improved financing conditions for both new acquisitions and refinancing.

Optimistic portfolio outlook
69 percent of investors believe their portfolio will improve in value over the coming six months. This is an improvement from previous observations and indicates continued optimism as to market fundamentals around investors’ own assets. The key drivers for value improvements are expected to be rental growth and a continuing drop in vacancy rates.

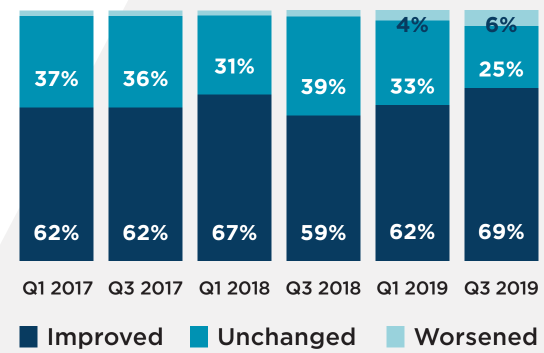
What is the most important factor influencing the development in the value of your portfolio?



What is the outlook for your financing compared with your current financing?



How do you see the value of your portfolio developing during the next 6 months (aside from any acquisition/disposal)?



Contact details

Håvard Bjorå
Head of Research Nordic
Mobile: +47 47 96 96 60
hb@cwrealkapital.com

Hans Petter Skogstad
Head of Research Norway
Mobile: +47 93 86 66 85
hps@cwrealkapital.com

CUSHMAN & WAKEFIELD | Realkapital