

# MARKETBEAT

Q1 2017 NORWAY







Cushman & Wakefield Realkapital assisted  
Realkapital Corporate Finance in the purchase of  
Grønland 34, Drammen

# ECONOMIC OVERVIEW

Norges Bank's Executive Board has decided to keep the key policy rate unchanged at 0.50%. Among the reasons cited is inflation level and residential prices, which have increased more aggressively than anticipated. The statement made by the Governor of the Central Bank of Norway suggest that the key policy rate is likely to stay at the current level going forward.

Mainland GDP growth for 2016 ended at 0.7%, resulting in the lowest growth since the global financial crisis in 2009. However, the consensus of Statistics Norway, Norges Bank and DNB for following year is more optimistic and expect growth rate at 1.5% for the full year.

Latest unemployment figures suggest it has "bottomed out" and shows a positive trend. On a national level unemployment has decreased by 0.2% from our last publication (Sept 2016) and currently stands at 4.8% (SSB, 11 Dec 2017). The level of unemployed (AKU) in Oslo and Akershus have also demonstrated strength and currently stands at 2.9% and 2.2% respectively.

The drop in the oil prices lead to huge cost saving exercise and mass redundancies. Although Oslo was relatively mildly hurt, it still saw increase in office availability by around one percentage point in 2015. The North Sea Brent oil price now stand at 55 USD per barrel, the highest since July 2016, mainly due to OPEC's agreement to cut oil production (Nov 2016) which lead to immediate price hike.

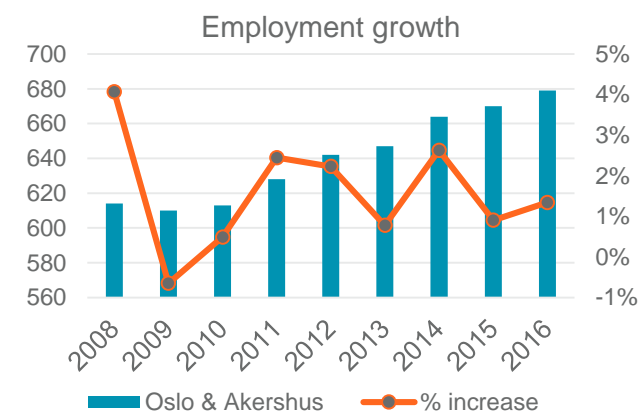
Despite weaker economic sentiment during the last two years, Oslo along with London remain Europe's fastest growing capitals. Population growth was 1.7% in 2016 and further growth of 2% annually over next couple years is expected (SSB).

Total inflation (KPI) was up 3.5%, which is considerably above the inflation target. A key contributing factor is the weak Krone: although recently it has been slightly stronger, the currency remains around NOK9/€1.

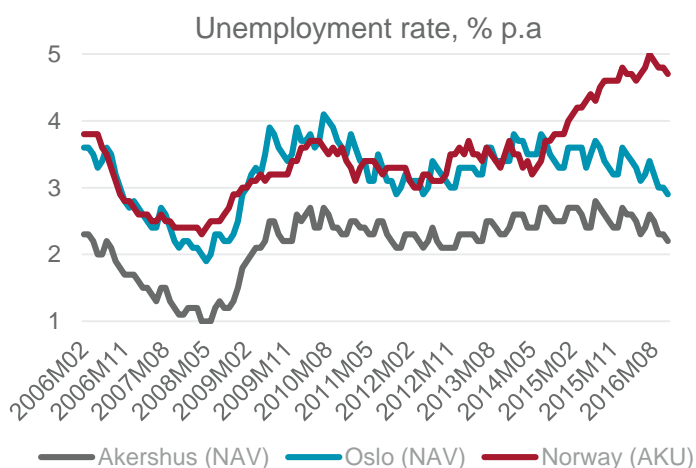
In sum, few would believe back in 2014, as oil prices plummeted, that the coming 2 years would be characterized by record high activity in the commercial real estate market. Going forward, the current macro-economic factors and economic consensus continue to deliver supportive environment for Norwegian real estate.



Source: Statistics Norway, DNB, Norges Bank



Source: Statistics Norway



Source: Statistics Norway, NAV





Cushman & Wakefield Realkapital assisted NHST Media Group in their negotiations to renew their lease in Christian Krohgs gate 16

# DEMAND

Tender volume for office space in Greater Oslo reached 350 000 m2 in 2016, the highest volume since 2010. There were similar number of tenders in 2015, but the average size per tender was 60% larger in 2016. It is worth to mention that the 10 largest tenders, whom are seeking new headquarter, contributed for more than 50% of the total volume and 7 out of the top 10 were public companies. The largest tenders will most likely trigger the new build activity from 2019 and onwards.

Although unemployment has had a positive trend, Manpower's Employer Outlook Survey (MEOS) for Q4 2016 was weak in Greater Oslo, employers intending to increase staff outnumber employers intending to reduce staff by only 2%, yet this is a huge improvement by 8% compared with Q4 2015. On a more positive note, latest figures from Statistics Norway show that there are now 9 000 more employees compared to the same period last year in Oslo and Akershus, which represent an increase by 1.3%.

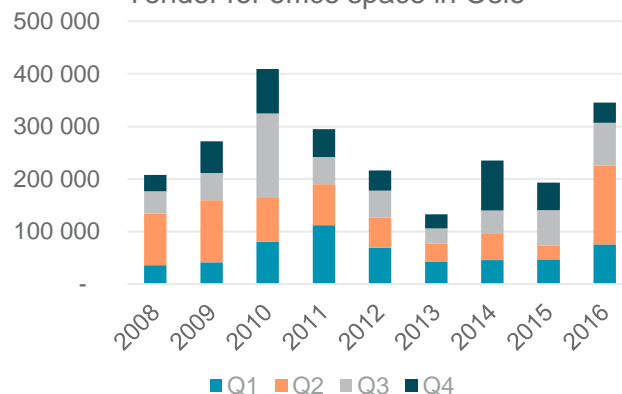
The latest figures from Arealstatistikk show great signs at all parameters for the rental market and broke several records. The number of contracts being entered increased from 157 to 251 between Q3 and Q4 2015. The signing volume reached 247 510 m2 for Q4 2016, the highest volume in any quarter since inception of the statistics in 2007. Furthermore, the average lease level in Oslo increased by 10% between Q3 and Q4 and ended at 2 060 NOK/m2 resulting in another all-time high.

## Largest tenders 2016

Tenant	Desired occupancy	M2	Area
Arbeids- og velferdsdirektoratet	2018/2020	35 000	Oslo
Bane Nor	Q2 2019	35 000	Sandvika/Oslo/Lillestrøm
Skatteetaten	Renegotiated	22 000	Oslo Center and eastern fringe
Visma	Q1 2019	20 000	Skøyen and Lysaker/Førnebu
Helsedirektoratet	Q3 2019	18 000	Oslo
Statens vegvesen, region øst	Q4 2018	15 000	Oslo

Source: Cushman & Wakefield

## Tender for office space in Oslo



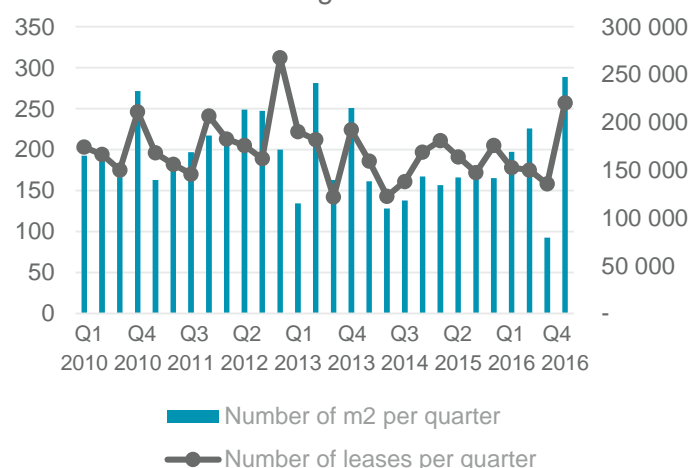
Source: Cushman & Wakefield

## Leasing examples Q4 2016 - YTD

Project name	Tenant	M2	Lessor
Eufemia	Microsoft	9 600	OSU
Akerselva Atrium	NHST	9 000	Scandinavian Property Fund
Tollbugata 1a	Toll- og avgiftsdirektoratet	9 000	Entra
Strømsveien 96	Toll- og avgiftsdirektoratet	8 500	Entra
Sundtkvartalet	IBM	7 300	Entra/Skanska
Lilleakerveien 8	ÅF Gruppen	5 000	Mustad Eiendom
Sundtkvartalet	Know it	4 400	Entra/Skanska
Diagonale	Vinmonopolet	4 000	Thon/Hav Eiendom
Drammensveien 134	Høegh LNG	3 600	Entra
Nydalsveien 18	Ice.net	3 500	Avantor
A14 Bjørvika	Entercard	3 300	Watrium

Source: Cushman & Wakefield

## Number of lease agreements and volume





# SUPPLY

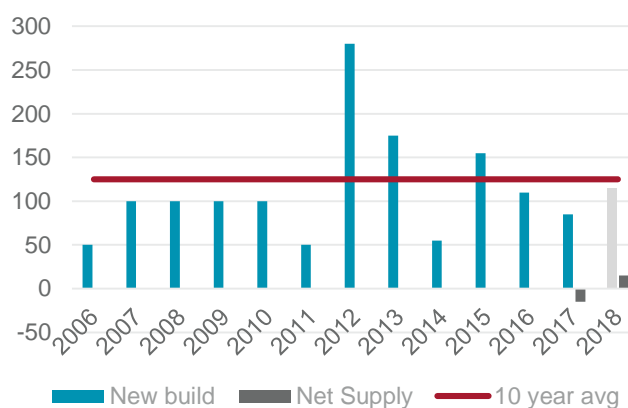
There are few new office buildings in the pipeline for the current year. We expect around 85 000 m2 of office space to be completed in 2017, with another 115 000 m2 confirmed so far in 2018. However, with the large amount of tenders, shown on the previous page, as well as the relatively large amount contracts expiring between 2018-2019, we expect the new build activity to pick up from 2019 and onwards.

The largest project Sundtkvartalet, was completed in January 2017. Sundtkvartalet had signed leases with Manpower and Skanska, and more recently with Knowit, Tidal and IBM with 4 400 m2, 1 700 m2 and 7 300 m2 respectively. The second largest project is Nydalsveien 18 and 24, more commonly known as Spikerverket, which is almost fully-let having pre-let agreement with Kemnerkontoret, Elkjøp and Ice.net.

Few buildings have been built on speculation (not pre-let) during the last few years, but we currently see a more bullish behavior from landlords and some speculative projects are in the pipeline and we expect approximately 70 000 m2 to be built on speculation within the next 3 years. The most notable project is Skanska's «Workplace Oo» located at Nydalen/Storo, at 25 000 m2, which is estimated to be completed by autumn 2018.

Residential prices in Oslo have increased aggressively during the past couple of years and is showing no sign of slowing down. Subsequently, we expect around 100 000 m2 annually to be converted from office space to mainly residential use over the next three years. The net office stock for 2017 will therefore be net negative and turn marginally positive in 2018. However, the office space that is converted, is generally of a lower quality than new build so addition of quality space stays net positive. Regardless, there is strong demand for office space and limited supply resulting in a drop in vacancy and putting upwards pressure on rent levels.

Completed office stock, Oslo, 1000 m2



Source: Cushman & Wakefield

Office projects 2017

Project name	Main tenant	M2	Developer	Let
Sundtkvartalet	Skanska, Manpower, IBM	31 000	Entra/Skanska	91%
Nydalsveien 18	Elkjøp, Ice.net	13 000	Avantor	80%
Sørkedalsveien 8	Bouvet	9 300	Stor Oslo	58%
Ulvenveien 90	Obos, Abygg	8 300	OBOS	58%
Nils Hansens vei 25	Kripos	8 200	Pecunia	100%
Nydalsveien 24	Kemnerkontoret	7 800	Avantor	90%
Cort Adelers gt. 33	Steenstrup Stordrange	6 300	Winta Eiendom	82%
A14 Bjørvika	Entercard	4 300	Watrium	76%

Source: Cushman & Wakefield

Speculative projects

Project name	M2	Completion	Developer
Kongens gate 21	25 000	2019	Tristan Capital Partners
Vitaminveien 1	24 000	2018	Skanska
Hoffsveien 17	8 000	2018	Fram
Valle wood	6 700	2018	NCC
A14 Bjørvika	4 300	2017	Watrium

Source: Cushman & Wakefield



Area	CBD	CBD 2	Center W	Center	Center E	Majorstuen	Skøyen	Lysaker	Fornebu	Nydalen	Helsfyr/Bryn	Hasle-Økern
Prime NOK/m2	➡ 4 100	➡ 3 200	➡ 2 700	➡ 2 900	➡ 2 650	➡ 2 600	➡ 2 700	➡ 2 100	➡ 2 000	➡ 2 200	➡ 2 150	➡ 2 150
Vacancy	➡ 8%	➡ 3%	➡ 6%	➡ 10%	➡ 4%	➡ 4%	➡ 7%	➡ 14%	➡ 13%	➡ 6%	➡ 12%	➡ 11%



Cushman & Wakefield Realkapital assisted Bydel Frogner and NAV Stat with their relocation to Drammensveien 60, the largest lease agreement in Q3 2016.



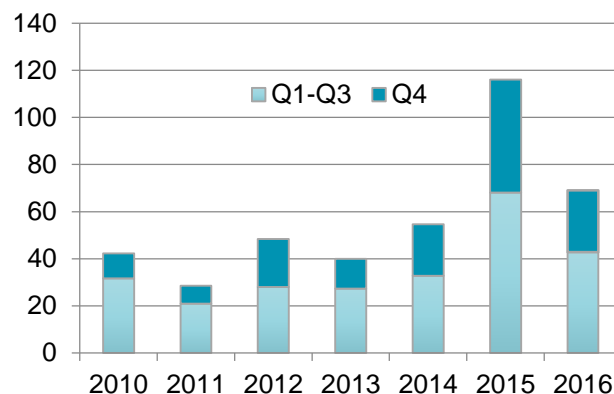
# TRANSACTIONS ACTIVITY IN 2016

In 2016 we logged transactions worth close to NOK 70bn, exciding expectations for the year. Office was naturally the most transacted sector, given the composition of the overall market, followed by retail. However, also industrial & logistics saw healthy transaction volumes putting corresponding yields under pressure. International investors presence represented 15% and 13% of the buy and sale side accordingly, undershooting volumes from recent years. However, international investors were in the bidding process in most major transactions which confirms a remained interest and attractiveness of Norwegian real estate.

Supply side was the limiting factor in 2016, putting real estate yields on pressure. Particularly assets with favourable tenant structures (long lease, solid counter parts) in non-prime locations saw declining yields and rising values over the course of the year.

With the absence of large portfolios coming under play, as in 2015, the largest transactions in 2016 were Arctic Securities' syndicate purchase of the Statoil building at Fornebu, Entra's purchase of NPRO's Skøyen portfolio and the ICA portfolio. They were transacted at approximately NOK 3.9bn, NOK 2.5bn and NOK 2.1bn, respectively. Compared to 2015, which had 10 transactions above NOK 2bn, 2016 only had 3. On the other hand, the number of transactions in 2016 exceeded the number in 2015.

Total volume and Q4 volume since 2010



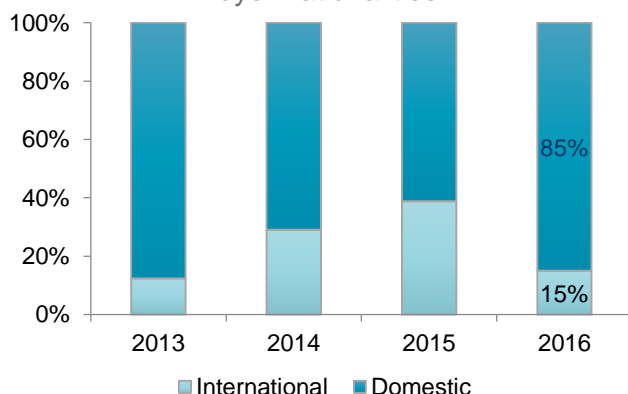
Source: Cushman & Wakefield

Selected transactions 2016

Asset	Purchaser	Vendor	mNOK	Type
Statoil Fornebu Skøyen portfolio	Arctic Securities	Madison International Realty	3 900	Office
ICA Eiendom Norge portfolio	Entra ASA	NPRO ASA	2 529	Office
Åsane storsenter	UNION Real estate fund II	ICA Fastigheter AB	2 100	Retail
Risavika Havn	Olav Thon Eiendoms-selskap ASA	Nordea Liv / Steen & Strøm	1 928	Shopping centre
	Stavanger-regionen	NorSea Eiendom		
	Havn IKS	Tananger et.al	1 800	Industrial
Total transaction volume Q4			26 200	
Total transaction volume 2016			69 000	

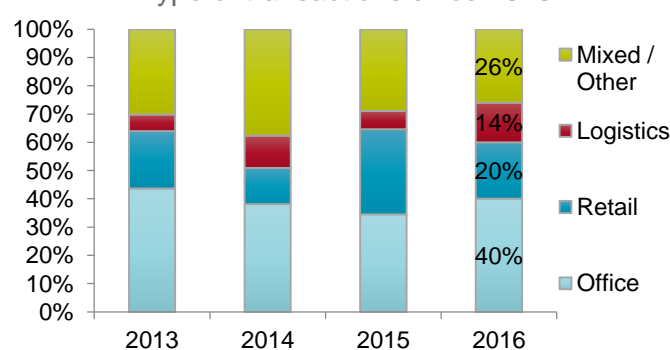
Source: Cushman & Wakefield

Buyer nationalities



Source: Cushman & Wakefield

Type of transactions since 2013



Source: Cushman & Wakefield



# THE CAPITAL MARKET - BORROWING TERMS

The result from Central Bank's latest survey of banks' lending policy indicated again stricter policy compared to previous quarter, yet this time only marginally. The survey measures the banks' attitude towards real estate lending by asking if they are in this quarter more or less strict than in the previous. Results show that banks have become stricter for five consecutive quarters. They are also more selective with investors, exemplified by carefully consider counter-part risk in syndicate structures. This finding is also supported by the Cushman & Wakefield Realkapital Property Investor Confidence Index, where only 10% expect terms to improve.

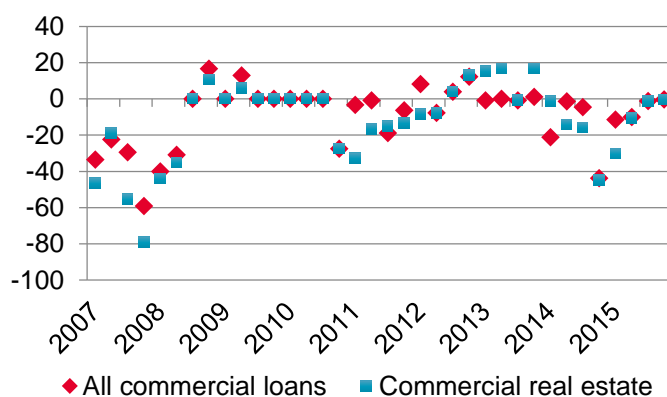
The 5 and 10 years NOK SWAP rates fell steadily from mid-2015 to mid-2016. Since July 2016 until mid-December 2016 SWAP rates increased significantly, impacting pricing of real estate debt structures. However, rates have now somehow stabilized below the mid-December levels.

Our Capital Markets department and Realkapital Corporate Finance are close on the debt providers, banks included, in structuring projects. Experience from Q1 2017 suggests durations are rarely longer than 5 years, most common 2-3 years until refinancing. LTV ratio mainly ranges between 60% and 65% for low risk projects, and fewer banks are offering loans. Bank margins vary significantly between projects and range normally between 200 – 250 bps.

Interestingly, BN Bank has now decided not to exit from lending to commercial real estate as announced in mid-2015. This could lead to a more competitive lending market and could decrease bank margins.

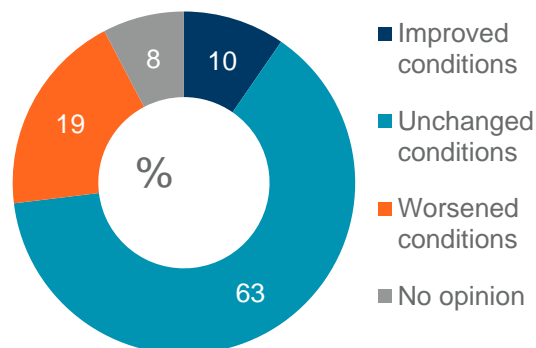
As a result of the challenging bank market, the bond market has become more efficient and continued to increase. From 2015 to 2016 real estate bond issues increased by 35% in total.

Banks' lending policy toward commercial real estate

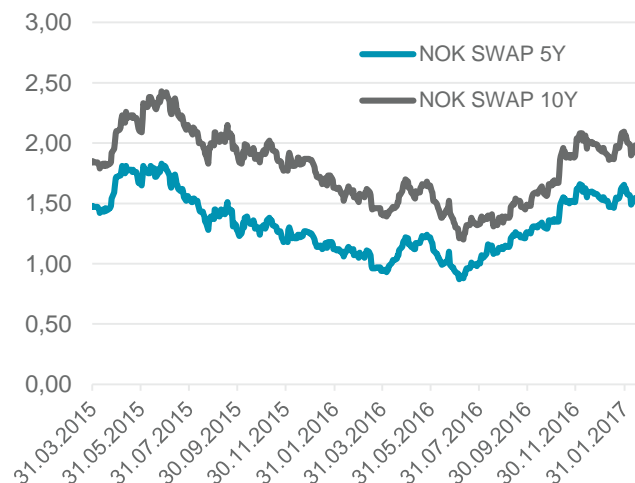


Source: Norges Bank

Investors' outlook on banks' lending policy



Source: Cushman & Wakefield



Source: Nordea Markets





Cushman & Wakefield Realkapital assisted Nordenfjeldske Eiendomskapital in the sale of Spillum Handelspark



Cushman & Wakefield Realkapital assisted Domus Eiendom Holding et. al. in the sale of Rathkes gate 9



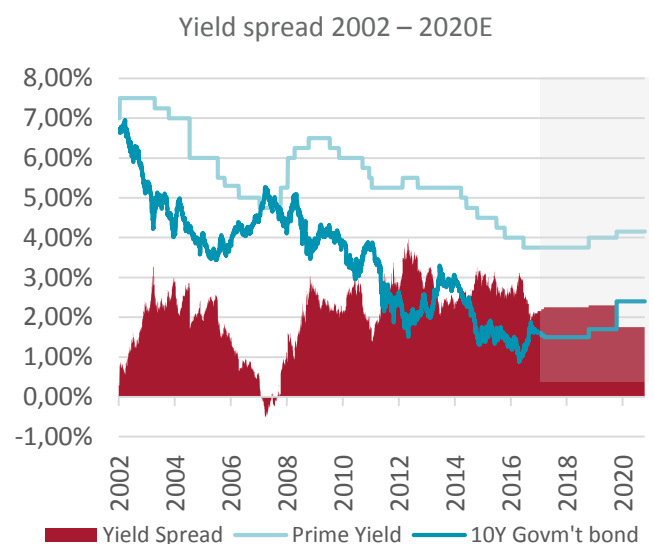
# OUTLOOK

In January 2017, Cushman & Wakefield Realkapital published the Property Investor Confidence Index, a survey including responses from over 50 investment professionals representing around NOK 250bn worth of Norwegian commercial real estate. The index monitors expectations for the next six months and revealed a relatively optimistic view.

For 2017 we expect total transaction volume to reach 60 bNOK, which is down from last year, yet historically a solid year. Survey discovered 75% of all investors intend to be net buyers, confirming there is still a wall of capital seeking placement in the real estate market. Yet, the supply remains limited due to lack of alternative investments. We believe some international investors, which have been active in Norway, have a limited holding period preference, which might lead to some sales this year, considering their activity on the buy side in recent years. Functioning as the property market's equivalent to secure bonds, we expect real estate with favourable tenant structures (long lease with solid counter parts) to be targeted by commercial real estate brokers and purchased by syndication houses going forward. Experience shows, syndication houses have a strong placing power and we would not get surprised if certain objects get transacted at even lower yields than we experienced last year. Still, we keep our prime yield estimate at 3.75%.

Regarding financing we have a uniform view with the participants of the survey that conditions will stay unchanged from today. Oxford Economics reports a relative flat development of long interest rates for the next couple of years, followed by an increase in 2019 which will challenge the yield gap in the long run. Cushman & Wakefield see an upward shift in the prime yield concurrently to this, but with a more gradual slope.

With expectation that yield has flattened out for prime real estate in Oslo, value must come from increase in market rents or active management. Our survey found that the majority of investors have neutral expectations for the rental market and 30% believe demand will improve. Macroeconomic factors such as declining unemployment, GDP, employment growth and population growth supports the view of the 30% with a positive outlook and substantiates demand for office space will continue to be strong. There are few office projects underway for 2017 and with high conversion from office to mainly residential there will be negative net office stock in Oslo. Consequently, we have noted a drop in office vacancy in Oslo during the last quarter. In sum, the supply and demand balance suggest continued upwards pressure on rent levels in short and medium term. Nevertheless, in the long-term construction activity will pick-up as large tenants relocate, and therefore slowing down rental growth as we get closer to 2020.



Source: Nordea Markets

## CONTACT DETAILS

Håvard Bjorå  
Head of Research Nordics  
+47 479 69 660  
[hb@cwrealkapital.com](mailto:hb@cwrealkapital.com)

August Harto  
Analyst  
+47 905 28 002  
[august.harto@cwrealkapital.com](mailto:august.harto@cwrealkapital.com)

Emilio Azar  
Analyst  
+47 948 44 517  
[ea@cwrealkapital.com](mailto:ea@cwrealkapital.com)

