

PROPERTY TIMES

Tight supply is keeping vacancy stable

Oslo Offices Q4 2016

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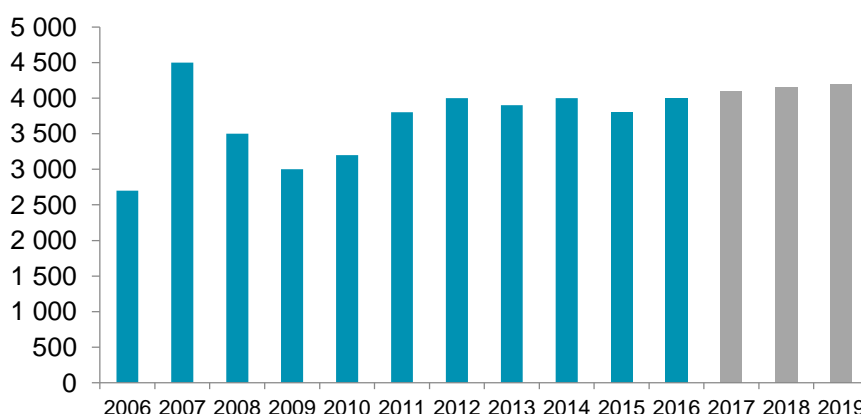
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- The overall Norwegian economy did not experience GDP growth in Q3 2016, whilst mainland GDP growth was at modest 0.4%, and on track to reach the forecast consensus of SSB, Norges Bank and DNB for the year at 0.9%.
- The consensus of economic forecasters expects mainland GDP to grow by an annual rate of 2% over the next 3 years. Likewise, total employment is estimated to increase by 1% per year over same period.
- The Norwegian krone appreciated against the EUR and USD in Q3 by 1.9% and 2.7% respectively. Impact on export-oriented activities is expected to be moderate, but might be a concern further ahead if strengthening continues.
- Strong demand for prime offices and low availability of top quality space has increased the prime office rent to 4 000 NOK/m². However, completion will pick-up over the next couple years and prevent further accelerations in rents.
- We expect an increase in conversion of obsolete or low quality commercial space to residential buildings due to strong continuous price hike in Oslo residential. Net new office stock will therefore be limited.
- Vacancy now stands at around 8.5% of total stock in the Oslo market which we expect to remain relatively stable over the next year.
- The occupier market is reasonable balanced, but much differentiated. Processes must be well planned and executed in order to benefit from the opportunities that the market offers.

Figure 1

Prime office rent, Oslo, NOK/m²/year



Source: DTZ Realkapital Research

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Kongens gate 6 (Sjøfartsbygningen), Kvadraturen. DTZ has assisted many of the largest tenants at their relocation to Kongens gate 6, including Kreftforeningen, Group M, and Arvato.

Economic Overview

As expected, Norges Bank's Executive Board decided to leave the key policy rate unchanged at 0.50%. Among the reasons cited is inflation level and residential prices, which have in recent months developed more aggressively than anticipated. By further lowering the policy rate, Norges Bank is concerned it may further accelerate house prices and thus increase vulnerability of the financial system. The Governor of Norges Bank indicated likelihood of key policy rate to remain unchanged over next few years.

The North Sea Brent oil price has stabilised and been above 40 USD per barrel the past six months. Mainland GDP rose by 0.4% between the first and second quarter, somewhat higher than what Norges Bank expected in June.

On a less positive note, the unemployment rate for July rose to 5.0% or 139 000 people (SSB, 21 September 2016) which represent an increase by 4 000 people from June. However, compared to our neighbouring Nordic countries, Norway remains the country with lowest unemployment rate. Norges Bank's forecast suggests unemployment will decrease once mainland GDP starts picking up from 2017.

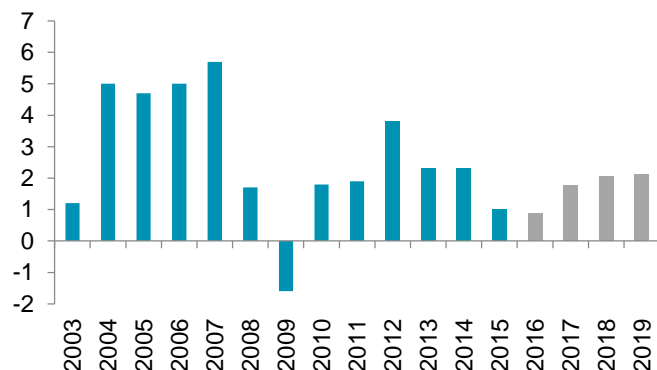
Despite weaker economic sentiment, population growth in Oslo remains among the highest in Europe and the forecast for 2016 is 1.7%. Oslo's population has increased by 4 197 people during the last six months, birth surplus stood for 62% of increase, while net migration from overseas accounted for the remaining 38%.

The latest PMI data for Norway show some positive signs. The confidence indicators among production managers and employers have improved and been above 50 since May. Prior to May, employment PMI had been below 50 for twelve consecutive months.

Core inflation (KPI-JAE) reached 3.3% y-o-y in August, while total inflation (KPI) was up 4.0%, 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.

Figure 2

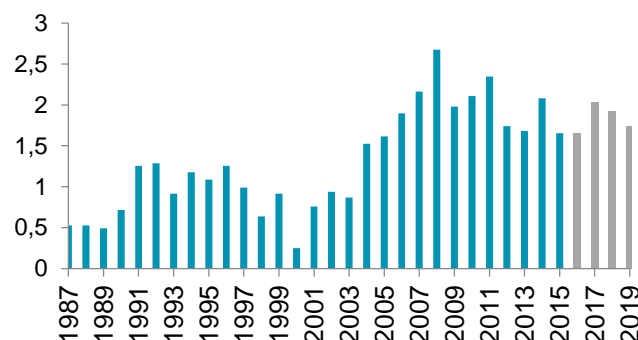
Onshore GDP growth, % p.a.



Sources: Statistics Norway, DNB, Norges Bank

Figure 3

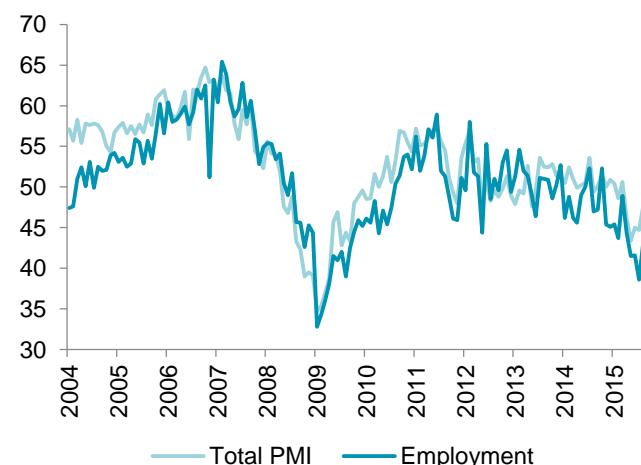
Population growth, Oslo, % p.a.



Source: Statistics Norway

Figure 4

Confidence indicators, Norway



Source: NIMA

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Demand

Tender volume for office space year to date has already surpassed 2015 full year volumes. We have seen fewer searches compared to the same period last year but the average size per search has increased by over 60%. With the current development and considering tenders underway, 2016 is set to experience the highest volume since 2010. The development can be explained due to the high number of contracts expiring within next few years, particular in 2019.

The single largest office lease agreement in Q3 is between Norwegian Property and Bydel Frogner and NAV Stat at Drammensveien 60, which include the entire property comprising approximately 11 000 m2. Final approval of the lease agreements will be made by the City Council in Q4. DTZ Realkapital advised Bydel Frogner and NAV Stat in their relocation.

As mentioned, the latest unemployment data from SSB reveals national unemployment rate has increased at country level. However, the employment market in Oslo seems to have a positive trend. According to NAV the number of registered unemployed in Oslo has decreased from 3.4% to 3.2% between July and August. While the number has decreased by 40 bps compared to same period last year.

The latest Manpower Employment Outlook Survey (MEOS) shows more or less the same picture from the previous report. Among the 751 companies, 8% report that they will increase the number of employees in the next quarter and 4% report that they will reduce the workforce. Furthermore, there are 86% who are not expecting any change (2% don't know). Manufacturing employees report the most pessimistic outlook, while public & social has the highest positive outlook.

Finally, consistently with decreasing unemployment the number of employed people in Oslo has increased by 4 000 people between Q2 2016 and Q2 2015. Bring this together with population growth and strong tender volumes, fundamentals paint a positive outlook for the commercial real estate market in Oslo.

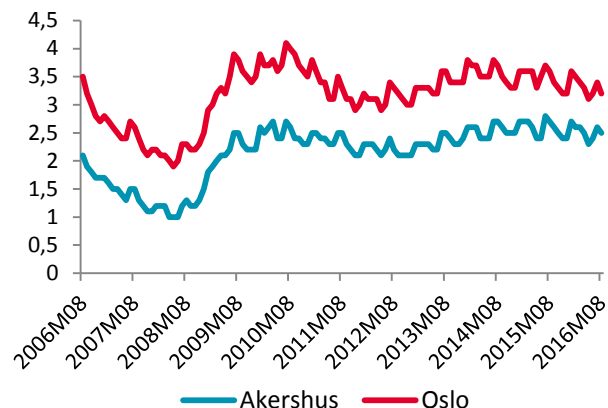
Table 1

Leasing examples, 2016

Address	Tenant	M2	Lessor
Schweigaardsgt.17-19	Skatt Øst	22 000	KLP
Kristian Augusts gt 15	Universitetet i Oslo	20 000	Entra
Nydalsveien 18	Elkjøp	13 000	Avantor
Drammensveien 60	Bydel Frogner	11 000	NPRO
Eufemia	PWC	9 500	BraathenEiendom
Nydalsveien 24	Oslo Kemnerkontor	6 700	Avantor
Tordenskiolds gt. 2	MESH	5 800	SpareBank 1
Sundtkvartalet	Knowit	4 400	Entra/Skanska
Langkaia 1	Bisnode	3 250	Entra

Figure 5

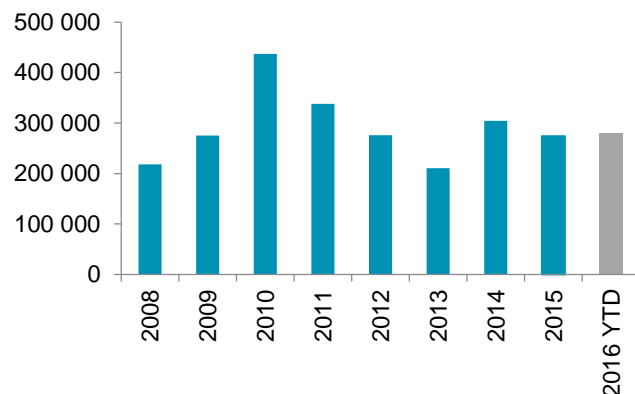
NAV Completely unemployed, % p.a.



Source: NAV

Figure 6

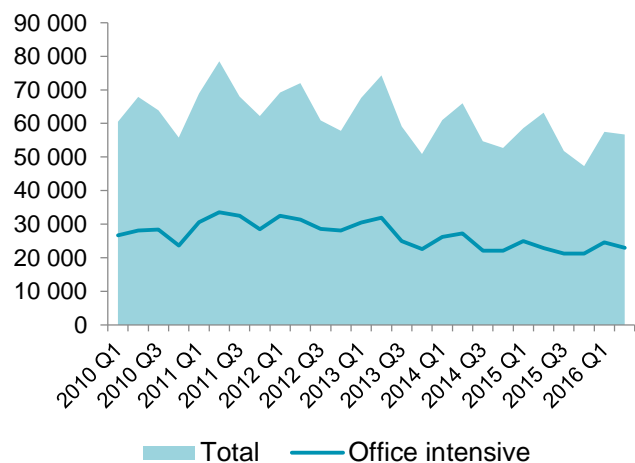
Tenders for office space, m2



Source: DTZ Realkapital Research

Figure 7

Vacant jobs



Source: Statistics Norway

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Supply

New office completion volumes are rather volatile between years and we expect around 90 000 m2 of office space to be completed by year-end, down from 150 000 m2 in 2015. The largest project for the year is Sundtkvartalet with approximately half of the space pre-let to Manpower and Skanska. Knowit and Tidal are the most recent tenants to sign lease agreements with Entra/Skanska with respectively 4 400 m2 and 1 700 m2.

Furthermore, an increasing volume of office space has been absorbed due to conversions. The net stock increase in 2016 is marginal. However, as these are lower-end office spaces the conversions has limited impact on mid to high end rent levels.

There is a strong polarisation between tenants favouring top quality and secondary office space. Central location and proximity to public transport together with physical building and space quality factors continue its importance for employees and in turn tenants, which bring office buildings with less favourable characteristics in many cases attractive conversion projects for developer. Conversions are primary to apartments, but we also see examples of conversion to hotel and education.

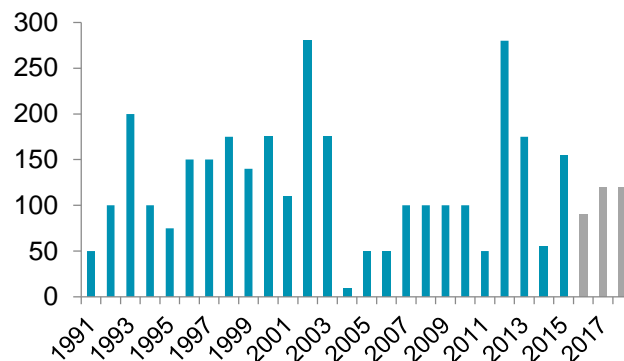
The vacancy rate is naturally closely correlated to construction volume. However, construction activity and increase in completion over the coming years is somewhat counter-balanced by conversion and supply pipeline appears to be supporting a relatively stable vacancy rate around 8.5%.

DTZ Realkapital is currently advising Hafslund ASA and Omsorgsbygg OSLO KF in search for new office premises in Oslo, with respectively up to 9 000 m2 and 8 000 m2. In both cases we received a large number of alternatives. New buildings accounted for approximately 60% of the alternatives, while the remaining were existing buildings and buildings undergoing total refurbishment. The large amount of offers indicates possibility for new constructions and supports the impression of many large contracts expiring over next few years.

Overall, there is a good demand for office space, especially from public tenants which stand for six out of the ten largest tenders in Oslo this year. We also experience a good supply balance. We therefore believe prices will remain stable in the short and medium-term.

Figure 8

Completed office stock, Oslo, 1000 m2



Source: DTZ Realkapital Research

Table 2

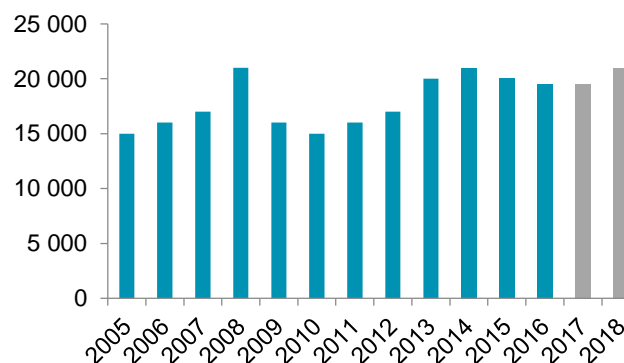
Office projects, 2016-17

Project name	Main tenant	M2	Developer	Let
Sundtkvartalet	Skanska, Manpower	31 000	Entra/Skanska	70%
Fornebuporten	Aker	25 000	Aker	100%
Nydalsveien 28	Statnett, Itera	22 000	Avantor	75%
Portalbygget	COWI	15 000	Høegh	88%
Sørkedalsveien 8	Bouvet	9 300	Stor Oslo	58%
Morgedalsveien	US Embassy	6 000	State. Dep	100%
Cort Adelers gt. 33	Steenstrup Stordrange	6 300	Winta Eiendom	82%
DEG 42	-	4 200	OSU	0%

Source: DTZ Research

Figure 9

Construction cost for office space, Oslo, NOK/m2



Source: DTZ Realkapital Research

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Outlook

Stable demand for prime offices and low availability of top quality space has increased the prime office rent to 4 000 NOK/m². Limited supply of high quality office space suggests that the prime office rate will continue to increase moderately.

The potential for new office building in Oslo is good. New office projects are planned across the city with an emphasis on Skøyen, Økern, Bjørnvika and Helsfyr/Bryn with respectively 119 000 m², 105 000 m², 100 000 m² and 92 000 m² in gross volume. It will take time for many of the projects to be realised, as speculative construction is rare.

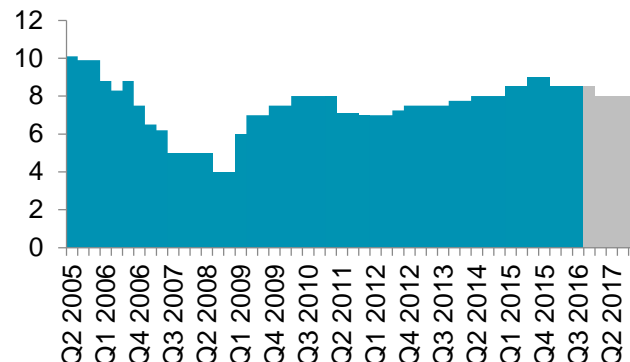
Volume of lease expiration until 2019 is reasonable balanced. However, lease expiration for tenants above 5 000 m² is high (ref. Arealstatistikk) and explains strong increase in tenders for office space. The most notable tenders for office space in Q3 include Bane NOR, Visma, and Hafslund with respectively 35 000 m², 20 000 m², and 9 000 m².

Construction activity will be triggered by large tenants and we expect the construction volume to stabilise at the long term average of around 120 000 m² per year in the coming years. Since a fairly large amount of office space is and has been taken off the market, the supply pipeline appears to be under control. Along with positive development for the labour market in Oslo, we expect office availability to stay at 8.5% going forward.

In sum, we believe the lease level development paints a fairly accurate picture of how we perceive the market at the moment. The lease levels broadly speaking moved sideways for some time, which indicates that demand does not exceed supply. Going forward, several factors support a positive outlook for Oslo. The number of registered unemployment from NAV has slightly decreased, while SSB report growth in employment. Together with rapid population growth and strong tender volumes, the fundamentals support a positive outlook for the commercial real estate market in Oslo ahead.

Figure 10

Office availability, Oslo, % of stock



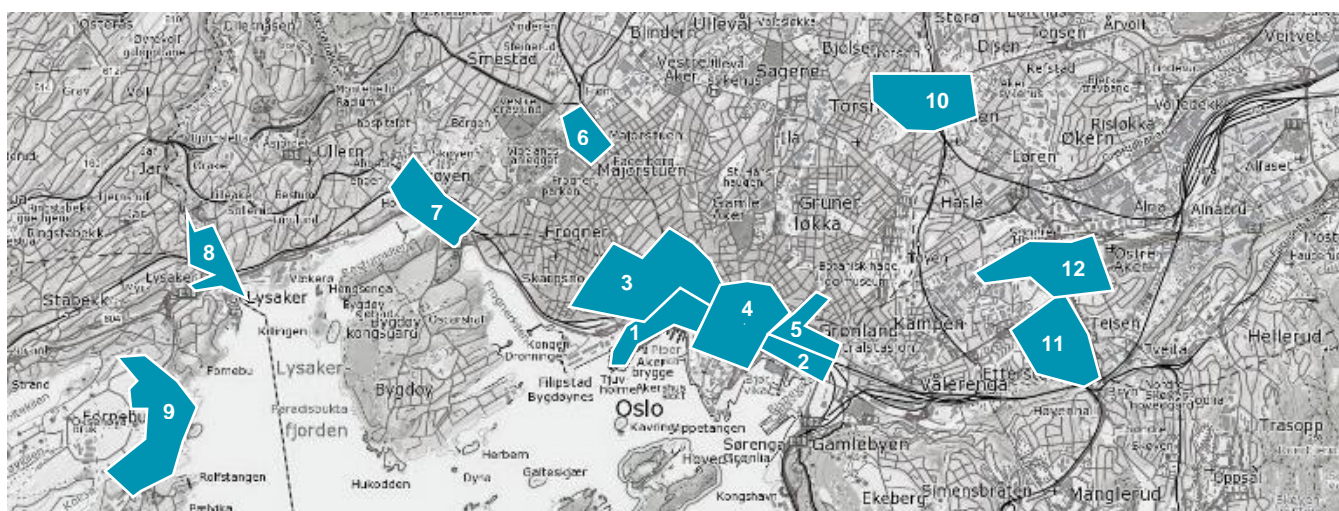
Source: DTZ Realkapital Research

Table 3

Current lease levels and forecasts by segment

	Address	Mid-tier	Trend	Prime	Trend
1	CBD 1	3 000	▶	4 000	▲
2	CBD 2	2 500	▶	2 950	▲
3	Center West	2 200	▶	2 700	▶
4	Center	2 200	▶	2 700	▶
5	Center East	1 750	▶	2 500	▶
6	Majorstuen	2 000	▶	2 600	▶
7	Skøyen	2 150	▶	2 700	▶
8	Lysaker	1 400	▶	2 100	▶
9	Fornebu	1 300	▼	2 000	▶
10	Nydalen	1 600	▶	2 150	▶
11	Helsfyr-Bryn-Ensjø	1 550	▶	2 150	▶
12	Hasle-Økern	1 400	▶	2 150	▶

Source: DTZ Realkapital Research







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