PROPERTY TIMES

East outperforms west

Oslo Offices Q1 2016

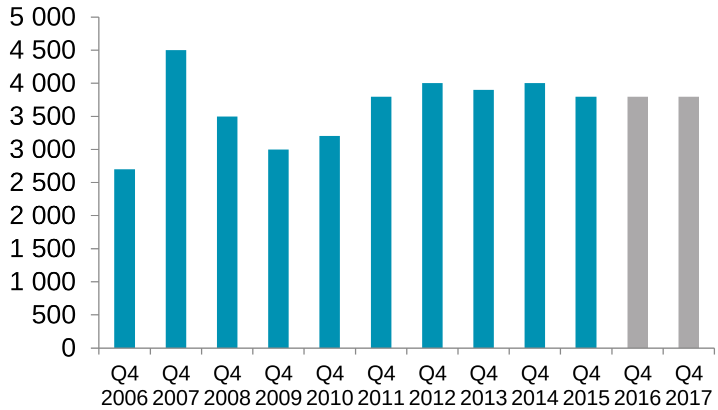
16 October 2015

Contents

- DTZ estimates that around 90.000 sq m of office space will be completed in 2016. On the other hand, around 50.000 sq m will be converted from office to residential space, and around 20.000 sq m will be converted to temporary accommodation for refugees. The net stock increase in 2016 will therefore be marginal.
- We have estimated the impact of reduced activity in the oil and gas sector to around 80.000 sq m, of which more than 90% is in the Western corridor.
- Taking into account these factors and the reletting status of stock where tenants moving into the new buildings currently reside, and the pre-letting ratio of the new buildings, we estimate that net absorption must reach 70.000 sq m to avoid increased vacancy. This corresponds to a net office hiring of around 3.000 – 4.000. Whilst the Oslo economy is fairly resilient, we do not expect net hiring to this magnitude and vacancy is therefore likely to rise. However, this is mainly confined to the areas west of Skøyen.
- The left-wing coalition has also proposed to ban private vehicles within the city centre. We believe retail and the office properties within Kvadraturen will be hardest hit by the reform. Details are yet to be sketched out, however.
- Oslo remains one of Europe’s fastest growing cities, with 1.7% increase in population during 2015. However, the growth rate is sensitive to net immigration, which could decline in an environment of weaker growth.
- The market is favourable for tenants, but very 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/sqm/year



Source: DTZ Research

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DTZ assisted TV2 in their relocation to Diagonale in Bjørvika.

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Economic Overview

Oslo is currently Europe's fastest growing capital. Population growth reached 1.7% in 2015. Further growth is expected, though a weaker economic sentiment could reduce net immigration, which currently contributes around three quarters of the population increase. Population growth fell from 2.1% in 2014 to 1.7% in 2015. It is too early to conclude that this indicates lower annualized growth (not counting the large influx of refugees, which has limited impact on the office market).

Unemployment remains comparatively low by European standards, but is increasing and now stands at 127.000 persons or 4.6% of the workforce. The rate has increased from 3.5% in Q1 2015.

The confidence indicators among production managers and employers improved towards the end of 2015. Employment PMI has been negative (i.e., below 50) in most months since the beginning of 2014, and hit 37 in August – the lowest on record since 2008. By January 2016, employment PMI had recovered to 46.6; the highest since April 2015.

The North Sea Brent price has now fallen to 33 USD per barrel. At this price, none of the future North Sea oil fields are financially viable. it is obvious that the Norwegian economy must adopt to a regime of lower oil and gas activity, and of lower profitability in this sector. This will have direct impact on the oil and gas related industry as well as indirect impact via reduced stimuli for the onshore economy.

Regional elections were held in September, and resulted in a tie between the conservative and left-wing coalitions, with MDG the Green part) as a scale-tipper. Most expect MDG to cooperate with the left wing coalition, which intends to introduce a 0.2% property tax in Oslo.

The standard Norwegian lease agreement lets property tax be shouldered by the landlord and in most cases, the standard clause has been applied. However, as contracts are up for renewal, there will be pressure towards allocating property tax to the tenant, either directly or via rent increases.

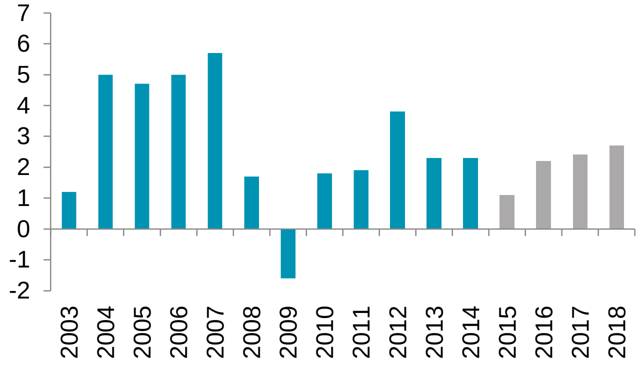
The right-wing coalition government has been in power for two years. Policy adjustments have been implemented towards moderate tax reforms, mainly within the regime for personal taxes. The draft budget, for 2016 was launched as an expansive effort, with total expenditure reaching 1329 bNOK – a nominal increase of 4.5% from 2014. The budget "structural deficit" (i.e., before use of NBIM proceeds) is 174 bNOK. Around 13% of the budget is funded by NBIM proceeds.

Core inflation (KPI-JAE) reached 3.0% y-o-y in December, while total inflation (KPI) was up 2.3%. The weaker currency is among the causes of increased inflation.

On 18 June, the Central Bank reduced the policy rate by 25 bps, to 1.00%. On 25 September, a further reduction to 0.75% was announced. This is the lowest policy rate ever. The next Central Bank meeting will be held on 17 March.

Figure 2

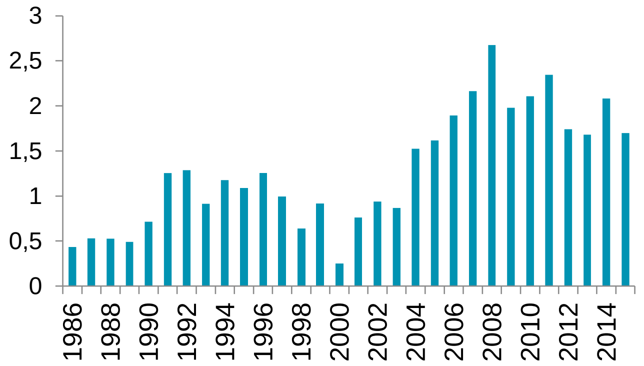
Onshore GDP growth, % p.a.



Source: Statistics Norway

Figure 3

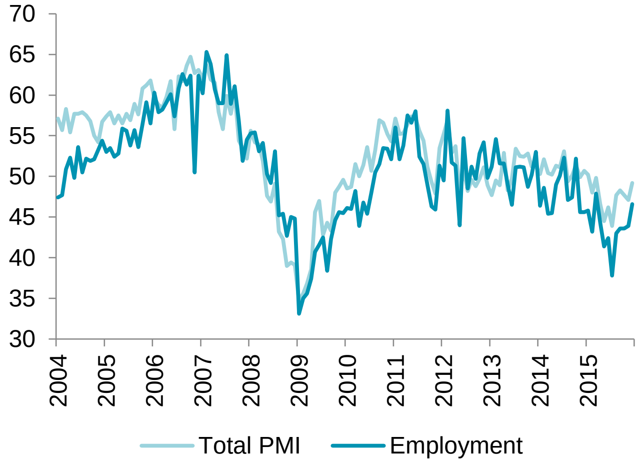
Population growth, Oslo, % p.a.



Source: Statistics Norway

Figure 4

Confidence indicators, Norway



Source: NIMA

Demand

The impact of lower oil prices varies significantly within Oslo. We have identified seven properties where availability will be directly related to lower activity in the offshore sector. The total impact on availability is around 80,000 sq m, as shown below;

Table 1 – Examples of offshore & oil impacts

Property	Tenant	Sqm	Impact
Aker Hus	Aker Solutions	~40,000	To be sublet
Drammensv. 264	Kværner	~13,000	Reduced space
Lensmannslia 4	FMC Technologies	~8,500	Reduced space
M. Linges vei 33	Statoil	7,750	Sublet offered
P. Pedersensv. 7	Technip	4,412	Sublet offered
Fjordalleen 16	Aker Solutions	~4,000	Skanska/Entra

As can be seen, the majority of properties impacted by lower oil prices is located at Lysaker, Fornebu and Asker. Some of this space may well have become available even with higher oil prices. In particular, Aker Solutions and Kværner had already signed leases at Fornebuporten before the oil price moved.

The demand/supply balance in Oslo currently sees a wider spread between geographical segments than at almost any time before. The situation in the Western Corridor remains very strained, with vacancy at Lysaker close to 20%. By contrast, the city centre and central eastern parts have vacancy rates that do not differ from normal frictional availability.

Arealstatistikk reports that total Oslo rents declined 4% year-on-year in Q4 2015. Rents at Lysaker were down 7%, while segments such as Nydalen and the inner city had positive rental growth. The average, area-weighted lease price for Oslo was 2220 NOK per sq m.

Manpower's Employer Outlook Survey (MEOS) for Q1/16 was weak, and indicates that in Greater Oslo, employers intending to increase staff outnumber employers intending to reduce staff by only 1%. However, this was an improvement over Q4, and the national Norwegian average (+5%) was on par with the result for Sweden in the same quarter (also +5).

DTZ has tracked tenders for office space from 2008. In 2015, a total of 275.000 was tendered. The trend line has been negative since 2010 when more than 400.000 sqm was requested. The largest tenders announced in Q4 2015 was Oslo Municipality Frogner, which is advised by DTZ. Others include Bosch, Hjort law firm, and Rystad Energy.

Table 2 – Leasing examples, last six months

Address	Tenant	Sqm	Lessor
Snarøyvn. 30	Norsk Moteforum	10.000	Telenor Eiendom
Bygdøy Alle 2	NORAD	8.800	Hydro Pensjonsk
Dr. Maudsgt 11	Wikborg Rein	8.500	Vestre Vika DA
Asker-TEK	Indra Navia	6.600	Ferd
Cort Adelers gt 33	Steenstr.Stordrange	6.300	Winta
Diagonale	TV2	6.100	HAV/Thon
Haakon VIIs gt 10	Kvale	4.500	Storebrand
Lakkegata 55	Manpower Group	4.200	Skanska/Entra
Kongens gt 22	Campus Christiania	4.000	RevCap
Fr. Selmers v 4	Skattedirektoratet	3.700	Entra
Chr. Kroghsgt. 2	Oslo Røde Kors	3.500	Oslo Areal
Wergelandsveien 15	Making Waves	3.400	Utdanningsforb.
Mølleparken 4	Noroff Education	3 400	Syndicate
Støperigaten 1	GIEK	3 000	Storebrand
Fjordalleen 16	Carnegie	2 500	DNB

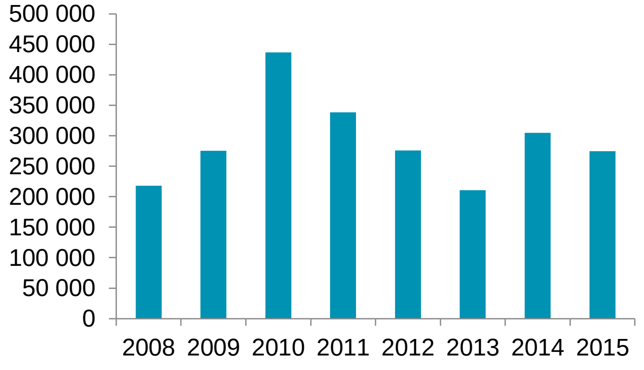
One of the largest lease contracts during the last six months was Norsk Moteforum, This is a membership organization which currently resides at Sjølyst Plass, Skøyen. It is not yet clear how many members will move to the Telenor senter at Fornebu; 10-15,000 sqm has been estimated.

NORAD will move from Storebrand's House of Oslo to Bygdøy Alle 2. Storebrand has extensive rehabilitation plans for the property.

DTZ advised on Wikborg Rein's relocation to Dronning Mauds gt 11; the largest contract in the CBD in 2015.

Figure 5

Tenders for office space, sqm



Source: DTZ Research

Supply

We expect that around 90,000 sq m of office space will be completed in 2016. This compares with around 150,000 sq m in 2015, and 55,000 sq m in 2014.

The two largest projects are Sundtkvartalet and Fornebuporten A. Sundtkvartalet has signed leases with Manpower and Skanska. Fornebuporten is fully leased to Frontica Business Solutions, which is owned by Akastor and subleases to the space to Aker Solutions.

Among the buildings vacated by companies moving into the 2016 projects, only Pilestredet 42 has yet found alternative use (it will be used by Oslo and Akershus College of Applied Sciences).

The total of around 70,000 sq m to be vacated by Manpower, Skanska, Aker Solutions, COWI and the U.S. State Department during 2016 will be offered in the market. In addition, the new buildings still have total of around 30,000 sq m of available space, bringing the gross impact of construction activity to around 100,000 sq m. The net impact, however, will be only around 40,000 sqm, as we expect around 60,000 sq m to be converted from office to residential space. A further 20.000 sq m will be made available for refugee accommodation.

Table 3 – Office projects, 2016

Project name	Sq m	Developer	100%	Tenant(s)	Current location	Current landlord	Current sqm	Status
US Embassy	5,000	State Dept.	100%	Embassy	H. Ibsensgt. 48	State Dept	6,000	Not relet
Sundtkvartalet	29,342	Entra/Skanska	72%	Manpower	Tordenkioldsgt 2	Sparebank1	6,000	Not relet
				Skanska	Drammensvn. 60	NPRO	11,000	Not relet
Fornebuporten A	25,000	Aker	100%	Aker Solutions	Aker Hus	NPRO	40,000	Not relet
Portalbygget	12,500	Høegh	78%	COWI	Grenseveien 88	Gasmann Eiendom	7,000	Not relet
Fr. Selmersv 4	7,400	Entra	50%	Skatteetaten	n.a.	n.a.		n.a.
DEG42	4,257	OSU	0%	None	n.a.	n.a.		n.a.
Storgt. 14-18	8,500	Thon	100%	Riksrevisjonen	Pilestredet 42	KLP		Relet

Source: DTZ Research

Only one project (DEG42) has been started without any pre-letting. This is the easternmost, and last, building in the "Barcode" rack.

Some notable leases have also been signed for buildings to be completed in 2017 and beyond. TV2 has signed a lease for 6,000 sq m in Diagonale in Bjørvika, and will move there in early 2018. The project is owned 50/50 by Thongård and HAV Eiendom. The law firm Steenstrup Stordrange will move to 6,300 sq m in Cort Adelers gate 33 (owned by Winta) in 2017. In Asker, Ferd has signed a lease contract for 6,600 sq m with Indra Navia at the "Asker-TEK" project, to be completed in 2017. Asker-TEK has plans for a total of 14,000 sq m, but the leasing market in Asker is not supportive at the moment.

We expect construction costs for office space to come down from 21.000 NOK/sqm in 2014 to 20.000 NOK/sqm in 2015 and 19.000 NOK/sqm in 2016-17 due to lower costs for several key inputs, combined with lagging demand in the private sector as well as lower construction activity in the public sector.

Of the new projects, Fornebuporten (Building A and building B, which was completed in 2015) has been sold to a Pareto syndicate. The U.S. State Department also intends sell Henrik Ibsens gate 48 when the new embassy is ready, but the process has not yet been launched. We also expect that DEG42 will be sold when the leasing process has concluded.

Figure 6

Completed office stock, Oslo, 1000 sqm

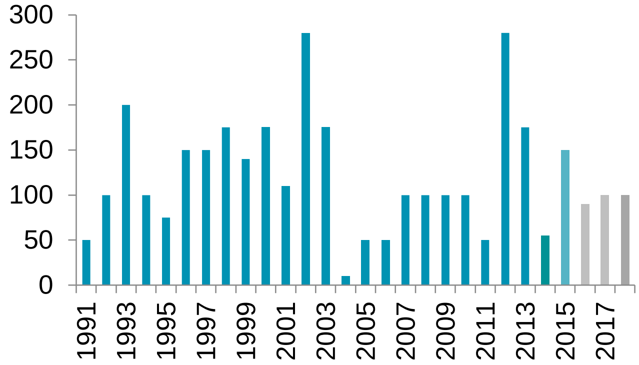


Table 4

Estimated supply balance, 2016

Address	Sq m
Gross construction, 2016	90.000
Of which pre-let	(60.000)
Vacated by tenants in new buildings (excl. Aker Hus)	30.000
Oil impact (incl. Aker Hus)	80.000
Conversion to residential	(50.000)
Conversion to refugee hostels	(20.000)
Net increase in availability (before net take-up)	**70.000**
Per cent of stock	0.7%

Source: DTZ Research

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Outlook

2016 has started off with high economic volatility. Oslo Stock Exchange lost 9% of its value during January, and there is concern over problems in the credit sector.

As shown in this report, the impact of lower oil prices has had an impact on a limited number of properties. All other factors equal, the oil market slump seems to increase Oslo availability by around one percentage point.

We do not see considerable risk of further increase in vacancy from staff-reducing oil companies. The companies with a presence in Oslo and which have announced staff cuts include Statoil, Aibel, Aker Solutions FMC, Reinertsen, and Kværner. Aibel will perform their Sverdrup Field work from Asker, while most of the others have already been factored into our estimate.

Going forward, a key issue will be whether the general economy will see an indirect impact of the lower oil prices.

Skøyen still has limited availability. NPRO's "Monier" (Verkstedveien 1) is now 73% let. However, proposed projects such as Møller Eiendom's project in Hoffsveien, Orkla's and Schage's projects near the station, Veidekke's plans for Nedre Skøyen Vei (recently acquired from NPRO) and the upcoming vacancy at Sjølyst Plass 3 (after Norsk Moteforum) will impact market rents going forward.

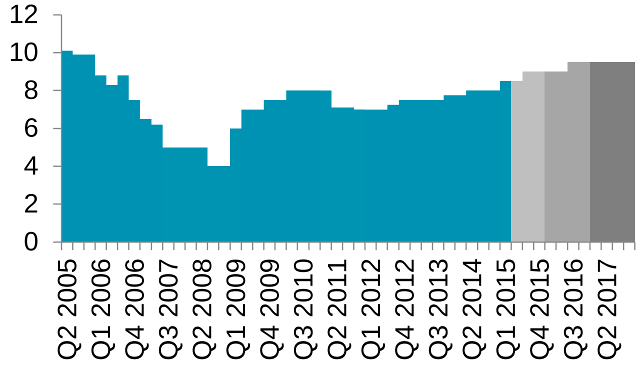
The increased volatility in the Norwegian economy is likely to enhance cautiousness among tenants. The slowdown in demand would therefore translate into lower rental prices. On the positive side, the further reduction in interest rates is likely to stimulate activity in certain markets.

We expect office availability to increase from around 9.0% today to around 9.5-10.0% going forward. Low construction rates, combined with conversion to residential space, could soften the blow.

Rent incentives such as rent-free periods, compensation for remaining lease payments at existing premises, and support for furniture and moving costs have already become more frequent, and will continue to increase in prevalence.

Figure 7

Office availability, Oslo, % of stock

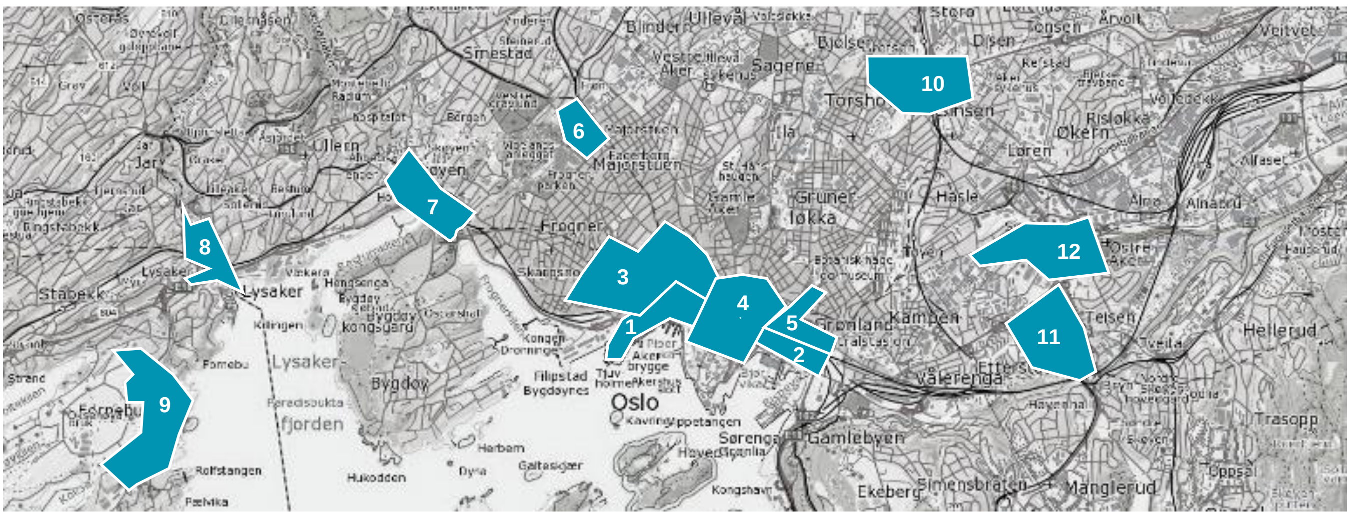


Source: DTZ Research

Table 5 – Current lease levels and forecasts by segment

	Address	Low	Mid-tier	Prime	Trend
1	CBD 1	2.500	3.000	3.800	▶
2	CBD 2	1.900	2.500	2.800	▶
3	Center West	1.700	2.200	2.700	▼
4	Center	1.700	2.200	2.700	▶
5	Center East	1.100	1.750	2.500	▼
6	Majorstuen	1.400	2.000	2.600	▶
7	Skøyen	1.550	2.150	2.700	▼
8	Lysaker	1.400	1.600	1.900	▼
9	Fornebu	1.100	1.400	1.900	▼
10	Nydalen	1.350	1.550	2.100	▶
11	Helsfyr-Bryn-Ensjø	1.350	1.550	2.000	▶
12	Hasle-Økern	1.200	1.400	2.000	▲

Source: DTZ Research

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