

PROPERTY TIMES

Surprisingly strong Oslo Offices Q3 2016

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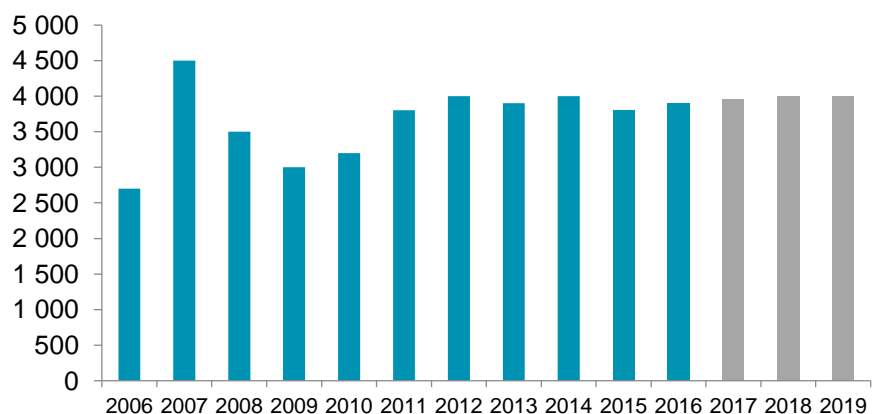
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- The Norwegian economy grew at 1% in Q1 2016, whilst onshore GDP growth was 0.3%. Growth in the offshore economy (oil and gas production and shipping) was up 1.5%.
- Unemployment in Norway has stabilised at 128 000; equalling 4.6% of the work force (Labour Force Survey, LFS).
- Our estimates show that the vacancy rate now stands at ~ 9.0% of total stock in the Oslo office market. Among the reasons for low vacancy rate is high rate of conversion from office to residential buildings and low office construction in 2016.
- Oslo remains one of Europe's fastest growing cities, with 1.70% increase in population during 2015 and a forecast at 1.65% for 2016. However, the growth rate is sensitive to net immigration, which could decline if low economic growth continues.
- Tenants have become more selective in the search for new premises, making proximity to public transportation more important. A growing number of tenants are seeking activity based offices.
- Rent levels can vary significantly between buildings within the same area.
- Landlords continue the use of rent-free periods to attract tenants.
- Large tenders from the public sector will probably generate the need for new buildings in the years to come.

Figure 1

Prime office rent, Oslo, NOK/m2



Source: DTZ Research



DTZ assisted Skatteetaten/Skatt Øst in negotiations to renew their lease in Schweigaardsgate 17-19

Economic Overview

The North Sea Brent price has increased significantly from our last publication and now stands around 50 USD per barrel. Even with the higher oil prices, growth in the Norwegian economy is expected to be weak in the near future. Onshore GDP prognosis is based on average forecasts from Statistics Norway, DNB and Bank of Norway. The combined estimate for mainland GDP growth is 0.85% in 2016, 1.75% in 2017, 2.15%, in 2018 and 2.25% in 2019. We have seen that the forecasts have been downgraded significantly from our last publication and 2016 is on course to experience even less growth than we had in 2015.

Even though the mainland GDP growth has not increased as much as first anticipated, it has not stopped the population growth. The population growth in Oslo reached 1.7% in 2015. Birth surplus accounted for 51% of the population growth, while net migration, which accounts for both immigration and emigration from inland and from overseas stood for 49%. According to Oxford economics, Oslo and London are expected to have the strongest population growth among European capitals and Statistics Norway expected the population in Oslo to grow by 2% in 2016.

According to NAV's latest Business survey, the number of registered unemployed nationwide is 80 342, which is an increase of 7% compared to the same period last year. Although nationwide have seen an increase, Oslo and Akershus have seen a decrease in unemployment with respectively 5 and 3 percent. Furthermore, out of the 10 600 companies that answered the survey, 21% report that they will increase the number of employees, while 12% report they will reduce the workforce, and 67% are not expecting any change.

The Norwegian Central Bank had an interest rate decision on the 23 June, and decided to keep the key policy rate at 0.50%. Governor Øystein Olsen stated in the press release; "The key policy rate forecast is little changed since the March Monetary Policy Report." The next Norges Bank Interest Rate Decision will be held on 22 September and Governor Olsen will not rule out to further decrease the key policy rate and made it clear with his statement; "There are still prospects that the key policy rate may be reduced in the course of the year".

Core inflation (KPI-JAE) reached 3.2% y-o-y in June, while total inflation (KPI) was up 3.4%, which is considerably higher than the Central Bank's 2.5% p.a. KPI inflation target. The weaker currency is among the reasons for increased inflation, while the weaker wage growth and slightly stronger currency might slow down inflation going forward.

On 24 June 2016, the Brexit was announced with 51.9% voting no to continue the EU membership. However, it is too early to predict how or even if Brexit will impact the Norwegian commercial real estate market and economy in general.

Figure 2

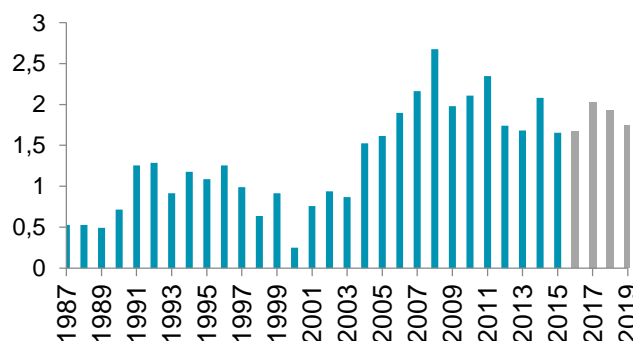
Onshore GDP growth, % p.a.



Source: Statistics Norway

Figure 3

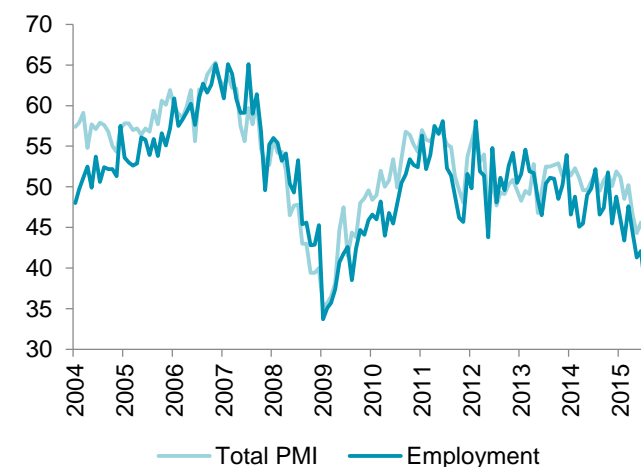
Population growth, Oslo, % p.a.



Source: Statistics Norway

Figure 4

Confidence indicators, Norway



Source: NIMA

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Demand

We last reported how the oil price had impacted the rental market, and identified eight properties totalling 90 000 m² where the availability was directly related to the offshore and oil industry. Since then, we have not seen any increase in office availability due to the offshore sector. There are many indications that the downturn in the Norwegian economy may have reached bottom. The rise in unemployment has flattened out, mainland GDP, which makes out 86% of the total GDP is expected to reach its lowest in 2016 before picking up and increase to above 2% in 2018. Even with the low oil prices and reduced economic activity, Oslo still remains one of Europe's fastest growing cities.

DTZ have tracked tenders for office space since 2008, and never have we recorded as many tenders for office space as we have in 2016. We have recorded 135 000 m² from searches for office space in Q2 2016, making the combined total of 232 000 m² for 2016. This is an increase of 114 000 m² from the same period in 2015. Among the reasons for the high number of tenders is the large number of contracts that are expiring within the next 3 years. Another reason is simply coincidences, there are many large public tenants such as Arbeids- og velferdsdirektoratet (35 000 m²), Helsedirektoratet (18 000 m²), Bydel Frogner (10 000 m²) and Omsorgsbygg (8 000 m²), which usually sign 10 years contracts. DTZ is currently advising the last two of the above mentioned tenants.

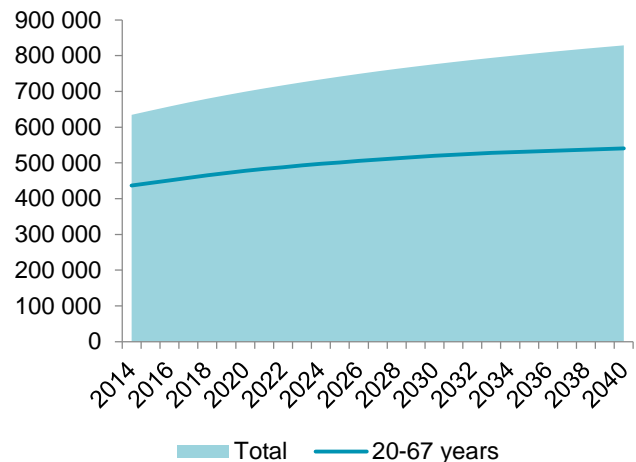
Summing up all of the points above, we believe that rental market is stronger than first anticipated and although few are expecting a strong economic upturn, growth is likely to be high enough in order to see a gradual improvement in the office rental market.

Table 1 – Leasing examples last 3 months, 2016

Address	Tenant	M2	Lessor	Advisor
Schweigaardsgate 17 - 19	Skatt Øst	22 000	KLP	DTZ
Kristian Augusts gate 15	Universitetet i Oslo	20 000	Entra	NN
Nydalsveien 18	Elkjøp	13 000	Avantor	Colliers
Eufemia	PWC	9 500	Braathen Eiendom	NN
Nydalsveien 24	Oslo Kemnerkontor	6 700	Avantor	DTZ
Langkaia 1	Bisnode	3 250	Entra	DTZ
Filipstad Brygge 1	CSC Norge	2 328	DnB	Akershus Eiendom
Nydalsveien 28	Itera	2 500	Avantor	Realia
Nydalsveien 28	Statnett	2 000	Avantor	NN
Sundtkvartalet	Mattilsynet	1 705	Entra/ Skanska	NN
Langkaia 1	Hurtigruten	1 671	Entra	DTZ

Figure 5

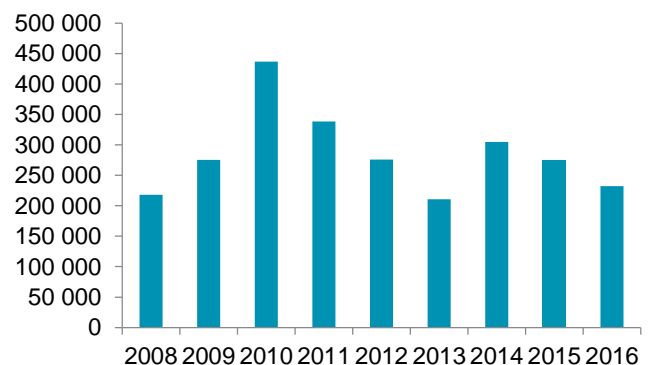
Population and work force forecast, Oslo



Source: Statistics Norway

Figure 6

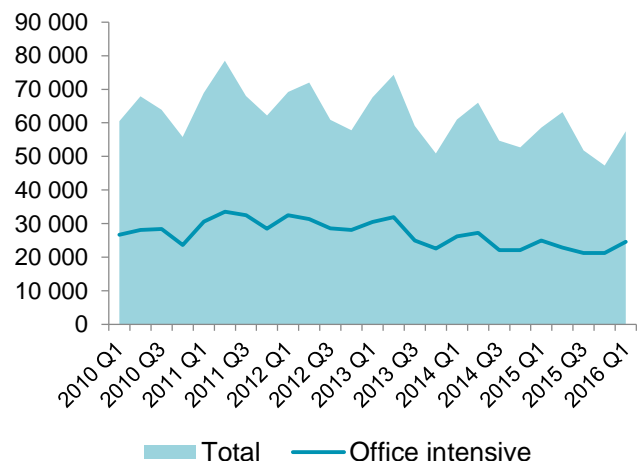
Tenders for office space, m²



Source: DTZ Research

Figure 7

Vacant jobs



Source: Statistics Norway

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Supply

Currently, we see a lot of activity in Nydalen, with Oslo Kemnerkontor and Elkøp signing two of the largest contracts with Avantor and will therefore start the construction of Nydalsveien 18 and 24. Furthermore, we believe Nydalen is one of the few functioning office areas with mix of office, residential, academic, and student housing.

We have estimated that around 115 000 m² of office space will be constructed within the year, and we expect the construction to increase to 120 000 m² in 2017 and 150 000 m² in 2018.

Looking at Figure 8, construction of new buildings can vary significantly from year to year. Only in very few circumstances do developers build without a lease contract, and since very few large tenants have decided to move, there has not been any need for new buildings. However, since there have been many tenders from large tenants it will trigger construction of more office space in the years to come.

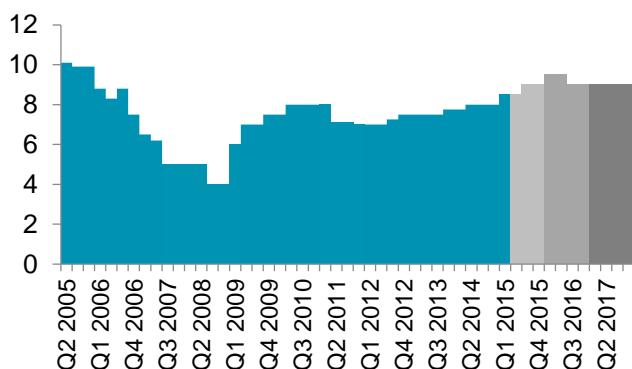
Low borrowing costs have contributed positively to the increase in the Norwegian real estate prices. This has led to more conversion from office to residential real estate and other use. We estimate that around 50 000 m² will be converted to residential use. The large influx of refugees, have further decreased the net surplus of office space to 20 000 m².

High conversion and low office construction are the main factors that have contributed to maintaining the vacancy rate stable at 9%. In a time with a lot of uncertainties and low economic growth, the rental market have benefited greatly with the low surplus of office buildings.

Our property development department report that the construction costs have flattened out and expect the construction costs to increase. Even though there has been limited construction of commercial properties, the contractors report of high activity due to conversion and residential construction

Figure 8

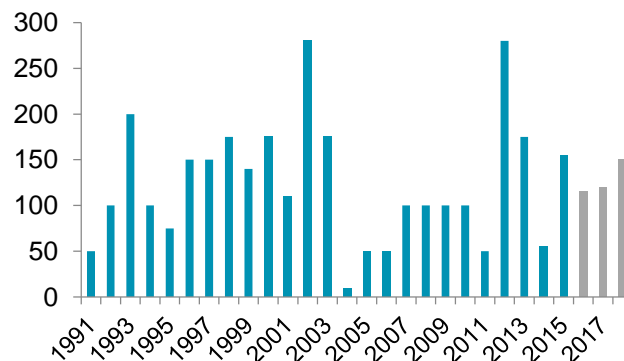
Office availability, Oslo, % of stock



Source: DTZ Research

Figure 9

Completed office stock, Oslo, 1000 sqm



Source: DTZ Research

Table 2

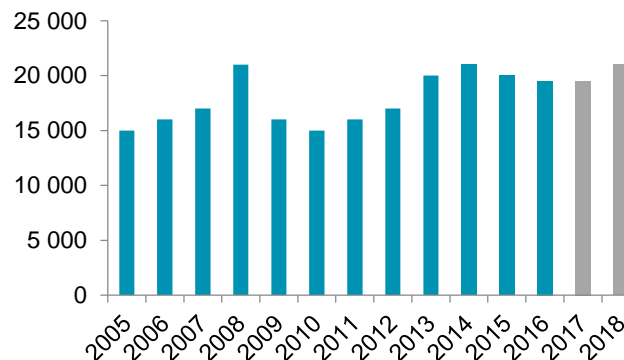
Office projects, 2016

Address	Project name	M2	Developer	Let
Lakkegata 43	Sundtkvartalet	29 000	Entra/Skanska	52%
Oksenøyveien 10	Fornebuporten	25 000	Aker	100%
Nydalsveien 28	Nydalsveien 28	22 000	Avantor	75%
Karvesvingen 2	Portalbygget	12 500	Høegh	78%
Fr. Selmersv 4	Fr. Selmersv 4	7 400	Entra	50%
Storgt. 14 -16	Storgt. 14 -16	8 500	Thon	100%
H. Ibsensgt. 48	US Embassy	6 000	State. Dep	100%
DEG 42	DEG 42	4 200	OSU	0%

Source: DTZ Research

Figure 10

Construction cost for office space, Oslo, NOK/sqm



Source: DTZ Research

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Outlook

We experience that tenants have become more selective and close distance to public stations have become increasingly important and airport express train in particular. As mentioned earlier, DTZ have logged a record number of tenders for office space during the course of the first half of 2016. There are two trends that stand out; many tenants are seeking office space in the city centre, and a large proportion of the tenders are state and public tenants, in fact they stand for 103 000 m2 of the tenders; equaling 45% of the total office tenders so far. While at the same time we can see that rent difference between the city centre and peripheral zones have become considerably high. Many state and public tenants tend to have office space in the city centre, but there is limited potential for new construction in the city centre relative to the need, and with rent levels lower in the outskirt, many may follow the path of Oslo Kemnerkontor and move to the peripheral zones.

Regardless of whether they renew their contract or if they decided to move, we believe that the construction activity will increase significantly from 2018 in order to meet the demand of the large number of tenders. Specifically from public tenants such as Arbeids- og velferdsdirektoratet that are currently seeking 35 000 m2 that have stated that they wish to have offices that are centrally located, but that they will consider the peripheral zones as well. Other large public tenants that will be seeking new office space are Statens vegvesen region Øst with 15 000 m2 and Bufdir, which will be seeking 5 800 m2 from august 2018.

The properties that are currently being sold at the lowest yields and are most desirable by investors are cash flow properties with long contracts with public tenants. DTZ's CEO Anne Bruun-Olsen believes that public tenants should get their fair share of the value added when they enter into 10 to 20 years contracts.

The Norwegian government is currently not sure how much they pay in yearly rent and estimate that it could be anything between 10 to 20 bNOK a year. Going forward, they have come up with a new strategy and have warned landlords that they will act more professional and pay closer attention to contracts being signed by public tenants. Statsbygg have gotten the green light from the government to create a database modelled on the British «naming and blaming» that will contain a full overview including how much

the public sector is paying in rent and how many square meters they are renting, in order to reveal which public tenants are wasting resources by renting expensive and oversized offices. The department have also set requirements in new buildings of maximum 23 m2 per employee. The goal of the new strategy is to cut costs that could be as much as 10% yearly, as well as have more space effective offices.

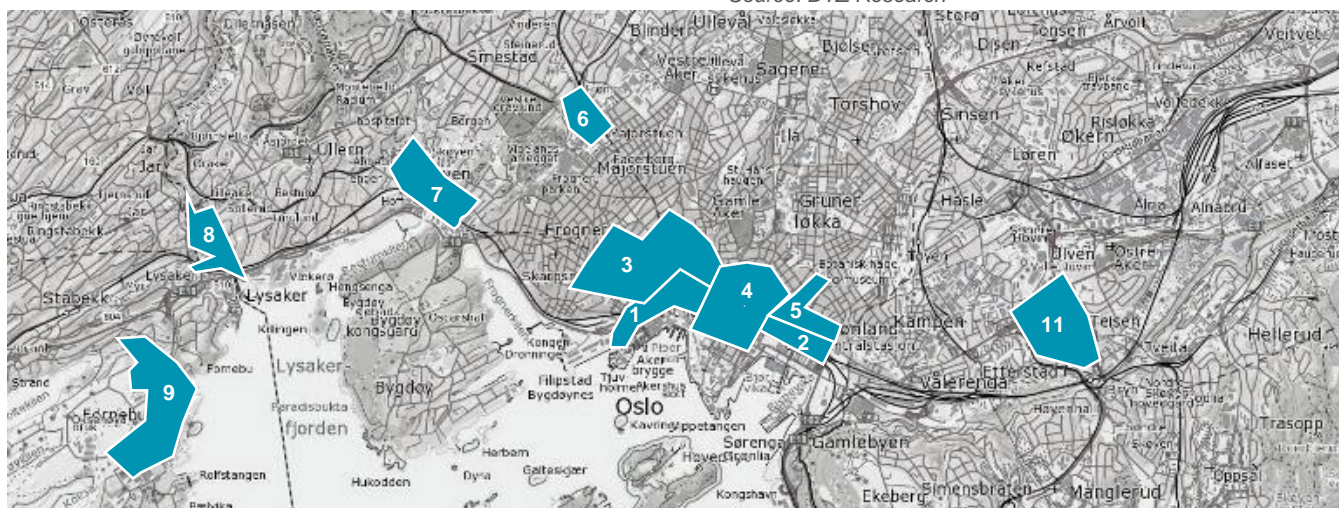
PWC recently announced that they will be moving from Dronning Eufemias gate 8 where they have 14 500 m2 to 9 500 m2 in Eufemia where they will have an activity based office space with fewer floors. It is difficult to predict how office space will be in the future, but the trend moving forward for both the private and public sector is with no or less cellular offices and towards an activity based office space. Activity based offices can foster collaboration, and increase knowledge transfer and engagement. It is worth to mention that in an activity based office it is critical for employees to have places where they can concentrate and work without distraction for heads-down work before regrouping and working in a team again. In sum, it will be much more cost and space effective workplaces, which also promotes innovation and interaction between employees.

Lastly, we would like to take this opportunity to welcome our newest member and Head of Research and Analysis for Norway and the Nordics, Håvard Bjørå.

Table 4 – Current lease levels and forecasts by segment

	Address	Low	Mid-tier	Prime	Trend
1	CBD 1	2.500	3.000	3.900	▶
2	CBD 2	2.500	2.500	2.850	▶
3	Center West	1.600	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	1.500	2.150	2.700	▶
8	Lysaker	1.300	1.600	2.100	▼
9	Fornebu	1.000	1.350	2.000	▼
10	Nydalen	1.300	1.600	2.150	▲
11	Helsfyr-Bryn-Ensjø	1.200	1.550	2.150	▶
12	Hasle-Økern	1.100	1.400	2.150	▶

Source: DTZ Research







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