

INVESTMENT MARKET UPDATE

All time high

Norway Q1 2015

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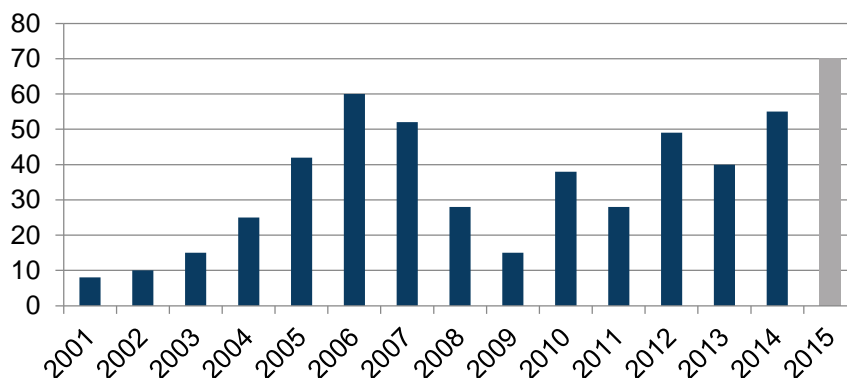
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- The Norwegian real estate market hit all-time high in 2014 with 84 billion NOK in transaction volume, of which 55 billion NOK occurred in the direct market, 26 billion NOK with the privatisation of Entra Eiendom ASA in October, and 3 billion NOK in the purchase and de-listing of BWG Homes ASA by OBOS BBL.
- Transaction activity has remained high in Q1 2015. A total of 41 transactions, with a total value of 18 billion NOK, were executed. This makes 2015 the most active first quarter on record.
- Partners Group of Switzerland made the largest acquisition, buying 30 properties from Storebrand Eiendomsfond AS for 3.7 billion NOK.
- Hemfosa Fastigheter AB of Sweden made their debut in the Norwegian market in Q1, and made two purchases (from Entra Eiendom and a Pareto investor syndicate) for a total of 2.1 billion NOK. This marks the first major Swedish purchase in Norway for several years.
- International investors represented 37% of acquisitions, and only 3% of the sales, in Q1.
- The Central Bank reduced the policy rate by 25 bps, to 1.25%, in December in a move that surprised some analysts. The Bank has guided on an interval between 0.75% - 1.75% going forward.
- Bank margins have continued to compress, albeit not at the same pace as seen in the last two quarters. Margins of 140-150 bps are achieved for premium projects; implying that total borrowing cost has reached 3.0%.
- Prime office yield stands at around 4.5%.

Figure 1

Commercial Real Estate Transaction Volumes, Norway (bNOK)



Source: DTZ Research

Norway Q1 2015

The capital market

Cost of Capital

European interest rates are at an historical low. As of mid-March, Government bond yields are negative in seven Western European countries. Denmark, Germany and Switzerland have negative 5-year yields, and Switzerland has negative 10-year yield. This unprecedented interest rate market has caused asset inflation throughout Europe's real estate industry.

In Norway, the Central Bank reduced the policy rate by 25 bps, to 1.25%, in December 2014, in a move that surprised some analysts. The Bank has guided on an interval between 0.75% - 1.75% going forward. The Norwegian policy rate is still the highest among its main trading partners, and with a weaker macro sentiment, many factors could indicate a further reduction in the Bank's next meeting. The key argument against a reduction is the risk of overheating the residential market, where prices had grown 8% year-on-year by February.

Borrowing terms

Bank margins as low as 100 bps have been reported in exceptional cases, but in DTZ's experience, the going spread ranges from 130-150 bps for high-quality projects. With the 5-year NOK SWAP rate at 1.35% in mid-March, this means that borrowers can achieve a borrowing cost at 3.0% or lower.

In the bond market, Olav Thon has achieved margins as low as 50-60 bps. However, the bond market is highly dependent on the issuer and the market for high yield bonds is not active at all.

In the Central Bank's quarterly survey of bank's lending policies, bank's report that they have eased lending policy towards real estate during the last quarters, while overall credit policy has been neutral.

Real Estate Yields

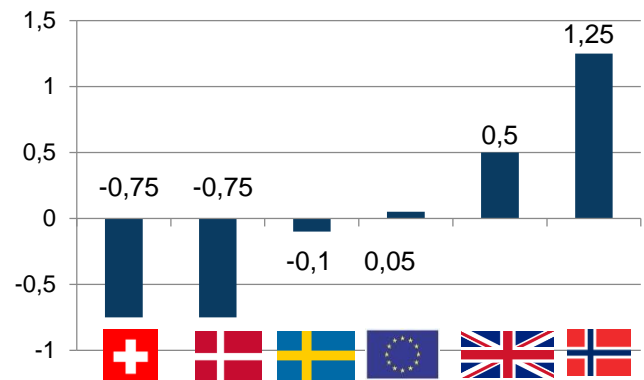
In November 2014, Bolette Brygge 1 at Tjuvholmen was sold for a yield around 4.5%. At the same time, KLP acquired Schweigaardsgt 21-23 for a yield around 4.75%, a property with very good tenant quality and technical standard, but slightly off the prime "CBD 2" in Bjørvika. These deals, and other processes known by DTZ, indicate that prime yield currently stands at 4.5%.

Equity market

Norwegian real estate stocks has performed very well during Q1. Olav Thon, NPRO and Entra have increased their share prices by 32.3%, 7.4%, and 9.2%, respectively, albeit at low volumes. The second hand market for shares in property funds has been much less active, and prices are virtually unchanged at very low volumes.

Figure 2

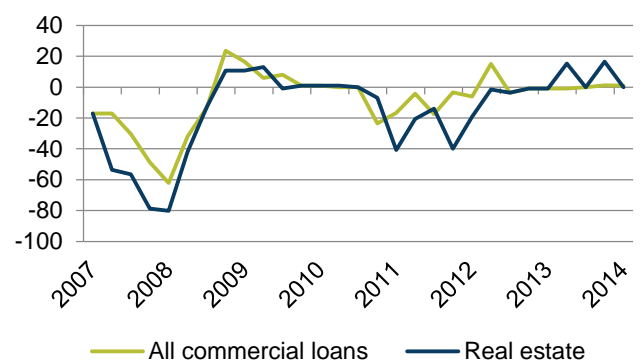
Central Bank policy rates (% p.a.)



Source: Central Bank

Figure 3

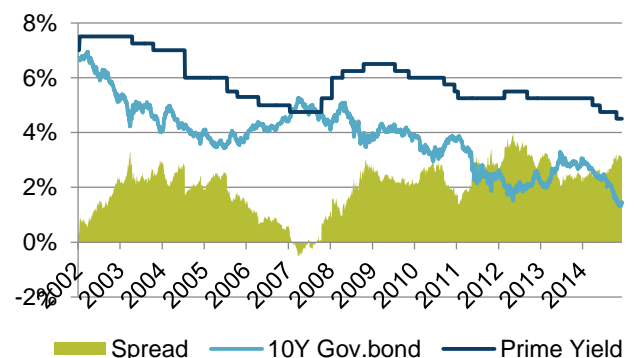
Banks' lending policy towards commercial real estate



Source: Central Bank

Figure 4

Yield spread



Source: SEB, Central Bank, DTZResearch

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Activity in Q1

Q1 2015 picked up on the high transaction frequency seen at the end of 2014. A total of 18 billion NOK had been registered at the end of March.

The largest transaction was Partners Group of Switzerland's purchase of 30 properties from Storebrand Eiendomsfond AS, for 3.7 billion NOK. The seller is a fund comprising 40 properties, and it intends to divest the remaining 10 properties, valued at 1.65 billion NOK, during 2015. Partners Group has previously acquired four Norwegian shopping centers in co-operation with Sektor Gruppen, and now holds assets of 5.3 billion NOK in Norway.

Q1 marked the debut of Swedish investor Hemfosa Fastigheter AB in the Norwegian market. In January, they acquired two properties in Lillestrøm, two properties in Moss, and two properties in Fredrikstad, from Entra ASA, for mNOK 1375. In February, Hemfosa acquired Sannergata 2, in Oslo, from a Pareto investor syndicate for mNOK 725. The property has an eight-year lease from the Norwegian welfare institute NAV.

In March, Oslo Pensjonsforsikring acquired a set of assets located around the national football stadium, Ullevål. The assets includes retail space, offices, and a hotel. The football field itself is not included in the deal. The purchase price is estimated at around 1.1 billion NOK. The vendor was DNB.

Storebrand Eiendomsfond Norge KS has acquired Lysaker Polaris for 785 million NOK from NCC, who had developed the property from green-field. The BREEAM "Very Good" building will be completed in June 2015, and is fully let to Technip.

Also in the oil and gas sector, Ferd Eiendom has sold its property at Kokstadveien 23, Bergen for 570 million NOK. The building is 17.000 sqm and was completed in 2012 as the workplace for up to 800 employees of Ferd's subsidiary Aibel.

Aberdeen SICAV Pan Nordic has sold Rygge Storsenter, a shopping center outside Moss, to Amfi Eiendom for an undisclosed price. The fund is winding down and now has only two properties left in Norway. With the purchase, Amfi controls all three shopping centers in the Moss region.

Helsfyr Panorama (Innsporten 9) was sold to Bryn Eiendom in March, after some time on the market. The purchaser specialises in properties in the Bryn-Helsfyr area. Catella had owned the property since 2008.

Selvaag Bolig has acquired three properties with the intention of constructing 750 residential units. The sites are Lørenvengen 22 (200 units), Sinselveien 45-49, and another site with capacity for 350 units. Sinselveien 45-49 will be developed 50/50 with Veidekke.

Arctic Securities have compiled an investor syndicate which acquired Gaustadalleen 21 from Oslotech. The vendor is an organisation that operates Oslo Science Park ("Forskningsparken"). Tenants are mainly technological research organisations.

Ragde Eiendom, one of the market's most active buyers in 2014, acquired Collosseum movie theatre in Oslo in March. Oslo Kino, a subsidiary of Egmont, has a long lease on the property.

Table 1 – Selected transactions, Q1 2015

Asset	Purchaser	Vendor	mNOK	Type
Portfolio	Partners Group	Storebrand	3709	Mixed
Portfolio	Hemfosa	Entra	1375	Office
Bulk portfolio	Pareto	Various	1200	Logistics
Ullevål Stadion	OPF	DNB	1100	Mixed
Schibsted print	OBOS	Pareto	1040	Ind.
Lysaker Polaris	Storebrand	NCC	785	Office
Høgskolen i Østfold	Hemfosa	Pareto	695	Educ.
Gaustadalleen 21	Arctic Securities	Oslotech	690	Office
Sannergata 2	Hemfosa	Pareto	670	Office
Aibel-Bergen	Pareto	Ferd	570	Office
Three sites	Selvaag Eiendom	Multiple sellers	550	Dev.
Other & confidential			12400	
Total			18000	

Source: DTZ Research

Figure 5

Buyer categories, Q1 2015

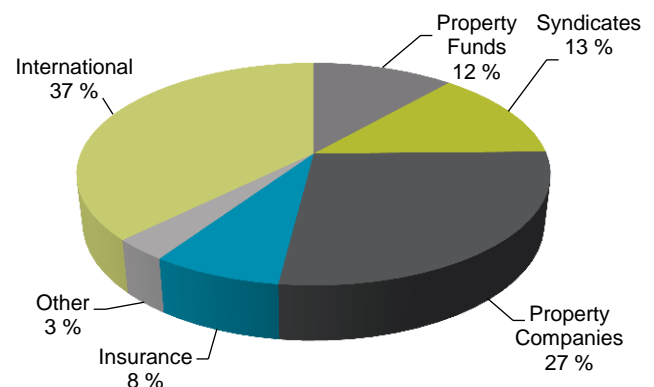
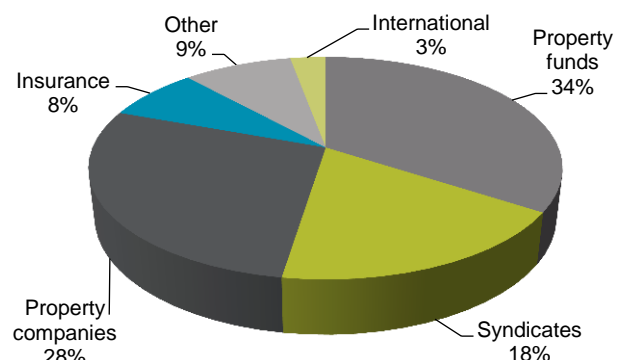


Figure 6

Vendor categories, Q1 2015



Norway Q1 2015

Outlook

Both domestic and international liquidity is very high, and placement of excess liquidity is challenging in an environment of none or negative real return on commercial paper. We expect that further funds will be diverted from other asset classes into real estate, despite the slowing down of the rental market. The spread between prime yield and risk-free interest rates is still relatively generous, as shown in figure 4. At least so far, the market has accepted this spread as a sufficient premium for reduced rents and other real estate risks.

The combined effect of narrower bank margins and low SWAP rates has resulted in a reduction in borrowing cost of at least 150 bps during the last two years. By contrast, prime yield has fallen by around 100 bps during the same period.

In sum, we expect a continued strong market, both in terms of volume and pricing.

As a word of caution, though, it should be borne in mind that the current boom is mainly a result of poor choice among alternative investments, more than a bet on strong demand for real estate among occupiers. In the medium term, we therefore expect the transaction market and the occupier market to become better aligned, with more modest activity as a result.

Going forward, the transaction market will be influenced by the realisation of assets held by property funds and single-purpose investment vehicles. Many of these owners can now exit their investments at a better price than ever possible since the vehicles were set up, and at the same time, more and more of the costly interest swaps are now closer to expiry.

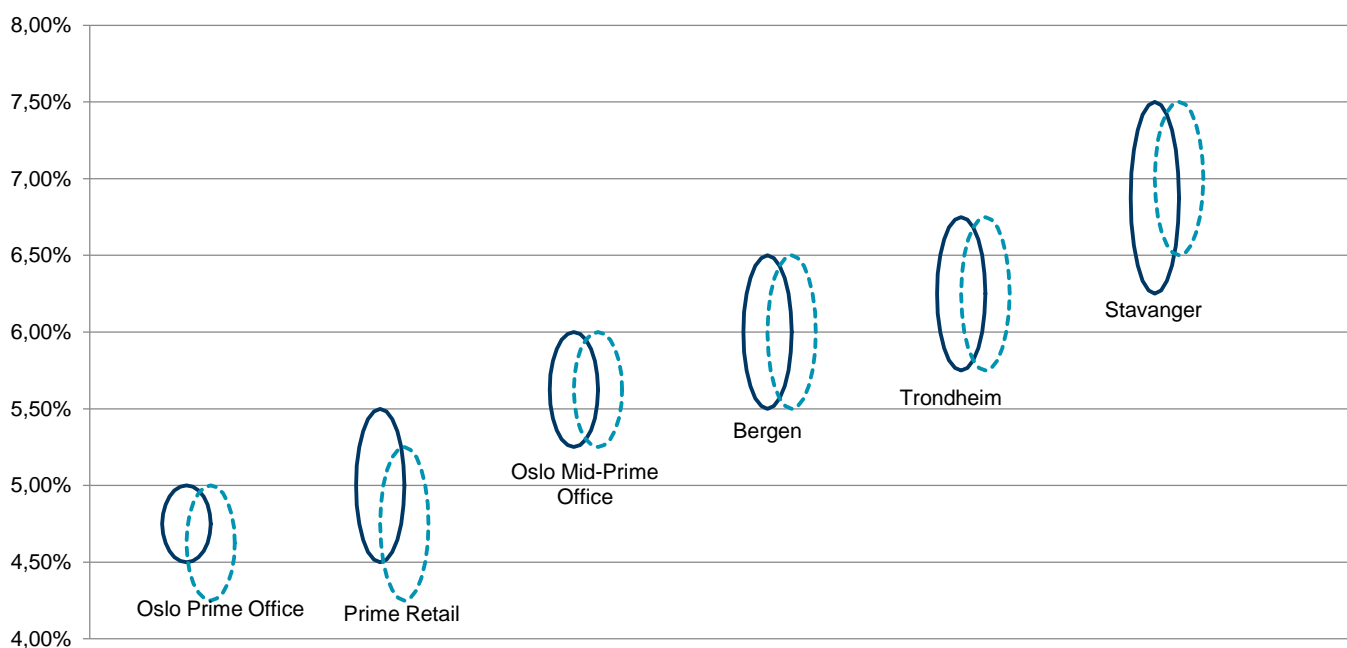
A slower rental market will sharpen investors' appetite for properties with long lease durations, and low reletting risk. We believe that if and when the transaction market recedes, this will first occur in the secondary markets most exposed to rental market volatility, while prime properties would still see low yields due to the low funding costs. If so, the yield spread between prime and secondary properties, which has narrowed in recent months, could widen again.

In the retail sector, activity will be high going forward with at least two upcoming portfolio sales. Schage Eiendom is selling Salto Eiendom, and owner and developer of shopping centers mainly in medium sized towns. Furthermore, following ICA's the approval by the Competition Authority of ICA's sale of its operations to Coop Norge BA, the group will sell its real estate in Norway (real estate was not part of the Coop transaction).

Yields may still come down as interest rates continue to fall, but only on a selective basis and in the most liquid markets.

Figure 6

Yield curve; Q1 (full line) and forward estimate (dotted line)



Source: DTZ Research





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