PROPERTY TIMES

More opportunities for tenants

Oslo Offices Q3 2015

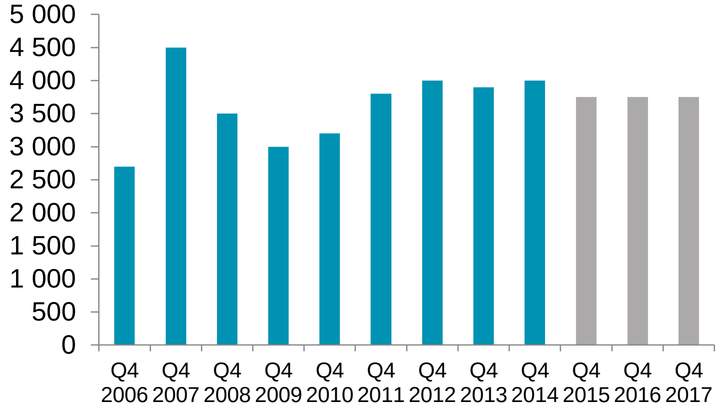
16 July 2015

Contents

- The Norwegian economy grew 0.2% in Q1 2015, whilst onshore GDP growth was 0.5%. Growth in the offshore economy (oil and gas production and shipping) was negative at -0.7%.
- The negative sentiment in the oil and gas sector gained momentum in Q2. According to a survey by DNB Markets, total job reductions in the sector was 10.000 in February; then 15.000 and May, and by end-June, the figure had reached more than 20.000.
- The Norwegian krone depreciated slightly against the Euro in Q2, but appreciated slightly against the USD. Impact on export-oriented activities is expected to be moderate.
- Oslo remains one of Europe’s fastest growing cities, with 2.1% increase in population during 2014. However, the growth rate is sensitive to net immigration, which could decline in an environment of weaker growth. In Q1, Oslo’s population increased by “only” 0.3%.
- Following a year of moderate construction activity in 2014, more than 150.000 sqm of office space will be completed in 2015. This is above the long term average for Oslo.
- With relatively high supply of new stock expected in 2015, moderate sentiment among employers, a low rate of upcoming contract expiries, increased sub-letting activity, and increased cost focus in both private and public sectors, our outlook for 2015 is fairly cautious, and we expect negative rental growth in most sub-markets.
- 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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Aker Brygge, Oslo. DTZ has assisted many of the largest tenants at the location, including Kluge, DLA Piper, Grieg Group, Protector, DNO and Carnegie (occupier services), and Wiersholm (development supervision).

Economic Overview

Oil and gas prices hit the front pages throughout H2 2014 and into 2015, with prices falling from over 100 US$/bbl in June 2014 to below 50 US$/bbl in March, 2015. The decline in prices was particularly pronounced in Q4 2014. By end-June, the price had recovered slightly to 63 US$/bbl.

Prices in the futures market indicate a moderate recovery, to a level of 70-80 US$/bbl, from 2016-23. However, 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.

Most of the nation-wide negotiations between the labour unions and employer unions took place in April. As expected, the parties were able to agree on fairly moderate salary adjustments.

The right-wing coalition government has been in power for 1.5 years. Policy adjustments have been implemented towards moderate tax reforms, mainly within the regime for personal taxes. Total government spending has not been reduced, though the coalition remains committed to realigning the spending profile towards more infrastructure investments.

Oslo is currently Europe's fastest growing capital. Population growth reached 2.1% in 2014. Further growth is expected, though a weaker economic sentiment could reduce net immigration, which currently contributes around three quarters of the population increase. In Q1, population growth was 0.3%. However, it is too early to conclude that this indicates lower annualized growth.

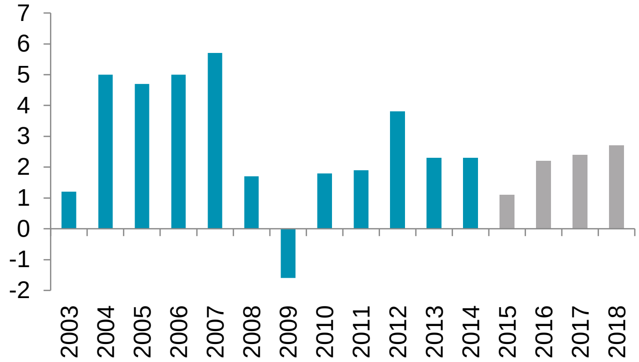
Unemployment remains comparatively low, at around 114.000 persons or 4.1% of the workforce. The rate has increased from 3.5% last quarter. The confidence indicators among production managers and employers has eroded further during Q2. Employment PMI has been negative (i.e., below 50) in most months since the beginning of 2014, and stood at 45 in May.

Core inflation (KPI-JAE) reached 2.4% in 2014, up from 1.6% in 2013. Going forward, lower energy prices but higher import costs may cause total inflation (KPI) to remain around 2.0%; 50 bps below the Central Bank's 2.5% p.a. KPI inflation target. By May, 2015 prices had increased 1.2%.

On 18 June, the Central Bank reduced the policy rate by 25 bps, to 1.00%. The Central Bank guided on a possibility for further reductions this fall.

Figure 2

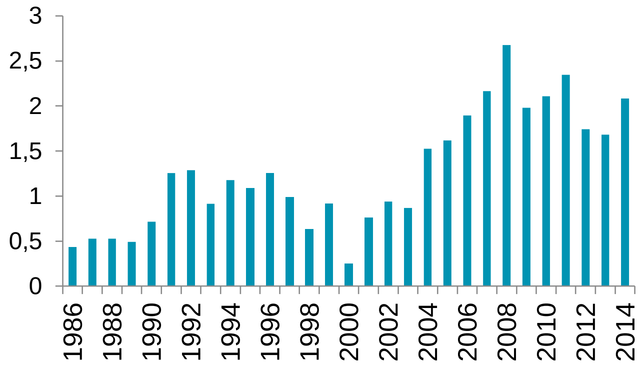
Onshore GDP growth, % p.a.



Source: Statistics Norway

Figure 3

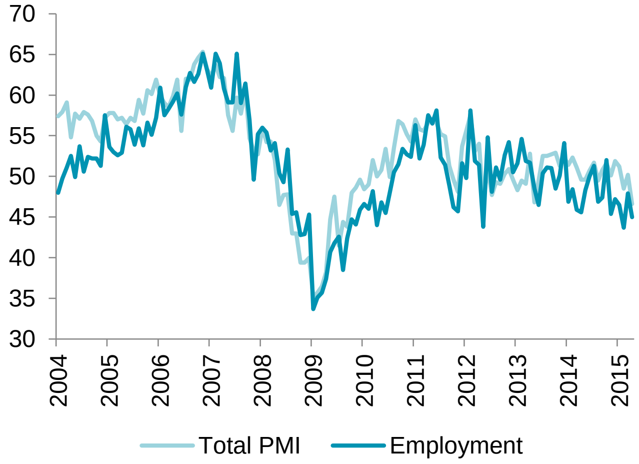
Population growth, Oslo, % p.a.



Source: Statistics Norway

Figure 4

Confidence indicators, Norway



Source: NIMA

Demand

The rental market's response to lower oil and gas prices still appears largely unresolved. Certain segments outside Oslo municipality, such as Stavanger, southern Bergen, Fornebu and Asker, have already experienced weaker demand. However, while rent prices in Oslo have been fairly stable during the last quarters, several factors indicate an emerging trend line towards a more restrained market.

Manpower's Employer Outlook Survey (MEOS) for Q3 was suprisingly strong, and indicates that in Greater Oslo, employers intending to increase staff outnumber employers intending to reduce staff by 10%. This is the strongest response since Q3 2010, and a remarkable improvement since Q2. Greater Oslo was the only region with a positive trend.

Statistics Norway's survey of vacant job offers showed fewer job opportunities in Q4 2014 than in any quarter since 2010.In Q1, the situation had improved slightly.

The softening of the employment market occurs at a time when the number of upcoming lease contract expiries is at a record low. According to Arealstatistikk, around 600.000 sqm of leased space will be renegotiated or tendered for alternatives during 2015. DTZ sees increased competition for tenants, particularly in the segment for large tenants.

DTZ have tracked tenders for office space from 2008. In 2014, a total of 300.000 sqm was solicited – an improvement over the 210.000 sqm tendered in 2013, but the trend line has been negative since 2010 when more than 400.000 sqm was requested. Major tenders (>4000 sqm) to date in 2015 include The North Alliance and Indra Navia.

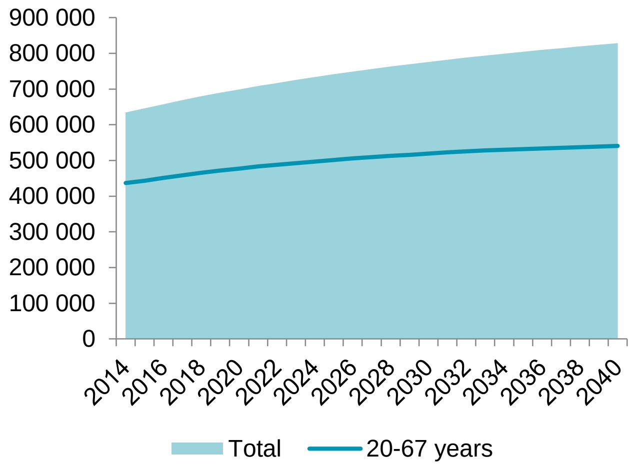
The oil and gas industry has announced job cuts totalling more than 20.000 employees in Norway. This compares with a total number of employed people of 2.65 million, and a total number of unemployed of around 100.000. Most sector analysts expect further cuts. Total investments in the oil sector reached all-time high in 2014, at bNOK 214.3. Forecasts for 2015 range from 190 to 200 bNOK. Despite weaker sentiments, activity level in the sector will remain high due to the long term nature of the projects.

Table 2 – Leasing examples, 2015

Address	Tenant	Sqm	Lessor
Chr Kroghs gt 32	Westerdahls	11.000	AB Nilsen/OBOS
Verkstedveien 1	Helsedirektoratet	7 560	NPRO
Lakkegata 55	Skanska	7.500	Skanska/Entra
Strømsveien 96	Statens Legem.v.	6.500	Entra
Verkstedveien 3	Codan Forsikring	4.800	NPRO
Haakon VIIs gt 10	Kvale	4.500	Storebrand
Drammensveien 288	Bayer	4.400	KLP
Lakkegata 55	Manpower Group	4.200	Skanska/Entra
Wergelandsveien 15	Making Waves	3.400	Utdanningsforb.
Stortorvet 9	Norsk Folkehjelp	2 300	KLP

Figure 5

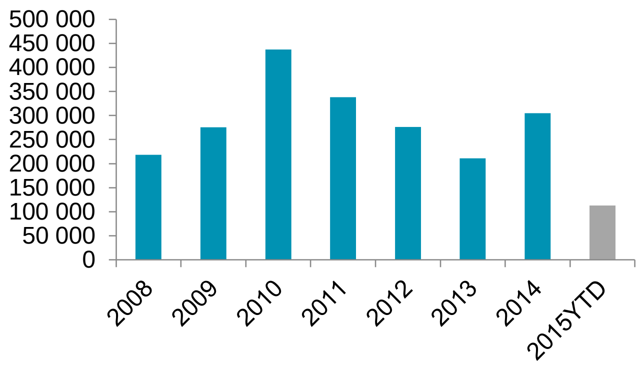
Population and work force forecast, Oslo



Source: Statistics Norway

Figure 6

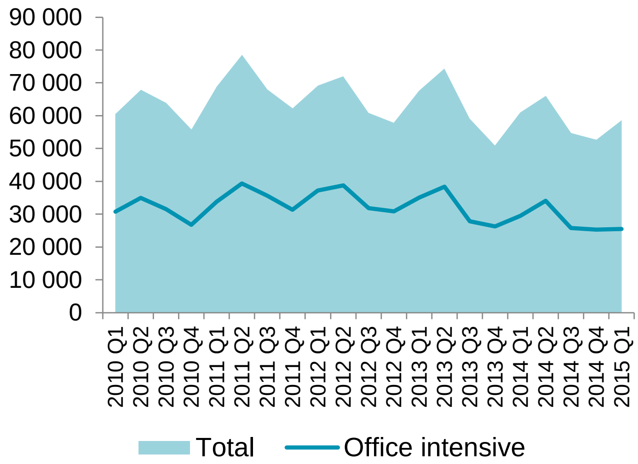
Tenders for office space, sqm



Source: DTZ Research

Figure 7

Vacant jobs



Source: Statistics Norway

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Supply

Only four major office projects, with a combined area of 55.000 sqm, were completed during 2014.

The largest project was Selvaag's Silurveien 2 (18.500 sqm) near Ullernchausseen. Selvaag Gruppen and Xellia Pharmaceuticals have signed up for 5.500 and 2.000 sqm, respectively. There is still some available space in the building. Early in 2014, Statistics Norway moved into their new headquarter at Akersveien 26 (16.500 sqm). This project was developed by Hovedstaden Utvikling AS and later sold to Pareto on the back of a 15-year lease. At Hasle Linje, the first office building was completed in Q4 with Aller Media moving into Karvesvingen 1 (10.000 sqm). Aller Holding AS will own the building. The fourth project was Berner Gruppen's new headquarter for Yara ASA at Drammensveien 131 (10.800 sqm).

The 2014 completion rate – around 55.000 sqm – was the lowest since 2009 and well below the 1990-to-date average of around 125.000 sqm per year. Oslo has seen a comparatively high construction activity; for example, the average completion rate in Stockholm has been around 100.000 sqm during the same period.

Going forward, completion will increase to just over 150.000 sqm in 2015, while we expect a slight slowdown to around 125.000 sqm in 2016.

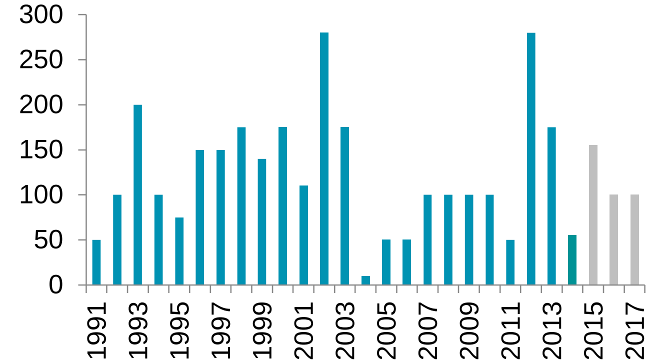
Norwegian Property ASA has signed leases with Statens Pensjonskasse, Sektor Eiendom and PA Consulting at Verkstedveien 1. The project will be completed during H1 2015. Aker's Fornebuporten will be developed in two steps at 25.000 sqm of office each, the first of which – Building B - will be completed in June 2015. Kværner have signed a 12year lease . Aker will invest a total of 2.5 bNOK in Building A and B, which also comprise some retail space. NCC have signed a lease contract with Technip for Lysaker Polaris, and have sold the building to Storebrand Eiendomsfond Norge. Karvesvingen 3 is a Breeam Excellent project by Hasle Linje, for Bymiljøetaten. Entra's Schweigaardsgt 16 is the new headquarter of Statoil Fuel & Retail.

In 2016, Aker will complete building A at Fornebuporten, and Høegh will complete "Portalbygget" at Hasle Linje for COWI. Portalbygget has 1 800 sqm vacant space on the 7^{th} floor. Sundtkvartalet, Skanska's new headquarter, will also be completed. Skanska and co-developer Entra signed an agreement with Manpower Group for 4.200 sqm and are still looking for tenants for the remaining space.

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.

Figure 8

Completed office stock, Oslo, 1000 sqm



Source: DTZ Research

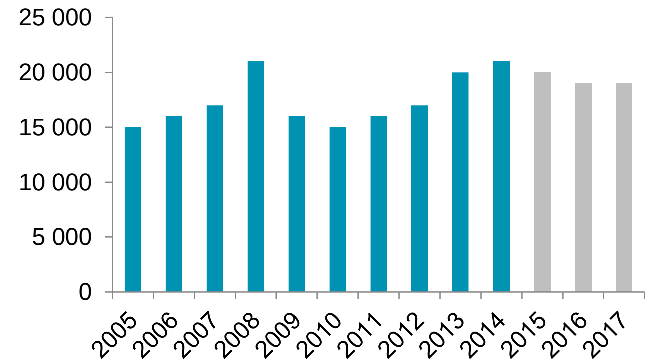
Table 8 – Upcoming office projects, 2015-16

	Project name	Sqm	Developer	Let %
Verkstedveien 1	Monier	26.300	NPRO	73%
Widerøeveien 5	Fornebuporten B	25.000	Aker	80%
Ullernchauss. 56	OCCI	22.600	OCCI	86%
Nesøyvn 4-6	Varner HQ	20.000	Varner	100%
P.Pedersensv 7-9	Lysaker Polaris	18.500	NCC	100%
Karvesvingen 3	Hasle Linje	16.000	Høegh	63%
Schweig.gt 16	SFR HQ	15.300	Entra	80%
Fr Nansensv 16	Police Dept	13.500	FN 16 AS	100%
Huseby	US Embassy	5.000	State Dept.	100%
Munkedamsv 62	RS Platou	5.000	ROM	100%
Vahlsgate 4	Sundtkvartalet	29.342	Skanska/ Entra	72%
Widerøeveien 5	Fornebuporten A	25.000	Aker	100%
Karvesvingen 2	Hasle Linje	15.800	Høegh	62%
Bjørvika B13F	DEG 42	8.500	OSU	0%

Source: DTZ Research

Figure 9

Construction cost for office space, Oslo, NOK/sqm



Source: DTZ Research

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Outlook

Our basic outlook is that negative market impulses outnumber the positive impulses this quarter.

Despite low construction activity, there was a slight increase in vacancy towards the end of 2014. By contrast, 2015 will see above-average construction activity, and while much of the new stock has been let, this is not the case for the space being vacated.

We also expect a weaker employment market, and increased overall cost consciousness in virtually all sectors of the economy.

It is DTZ's opinion that in terms of volumes, activity in the Oslo rental market has shown signs of weakening for some time already. Most landlords have reported longer lead times for rental processes, increased competition for the largest and most solid tenants, and a preference for renegotiation over relocation unless a positive cost impact can be achieved. This trend, which originated mainly among multinational companies with international real estate strategies across markets, has now spread into many of the local organizations as well.

The increased volatility in the Norwegian economy is likely to enhance cautiousness among tenants. The slowdown in demand could therefore now translate into lower rental prices.

On the positive side, the further reduction in interest rates is likely to stimulate activity in certain markets.

Rental prices in the segments with high oil & gas exposure (Stavanger, southern Bergen, and the Fornebu-Asker corridor) will be directly impacted by the lower energy prices, while the impact on most of Oslo will be indirect.

We expect office availability to increase from around 8.0% today to around 9.0% going forward. Subletting will continue to suppress prices in most market segments, but particularly in fringe areas and in the sub-market for larger space.

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 mow frequent, and will continue to increase in prevalence.

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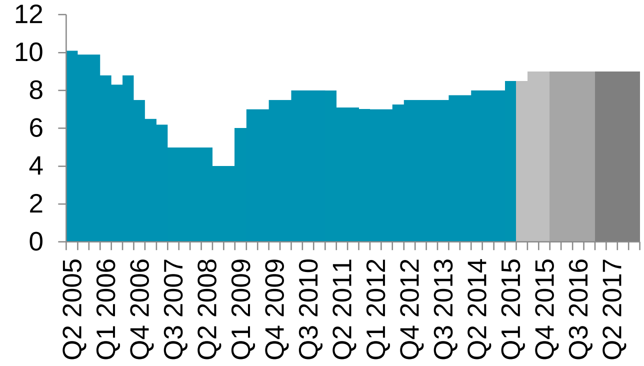
Office availability, Oslo, % of stock

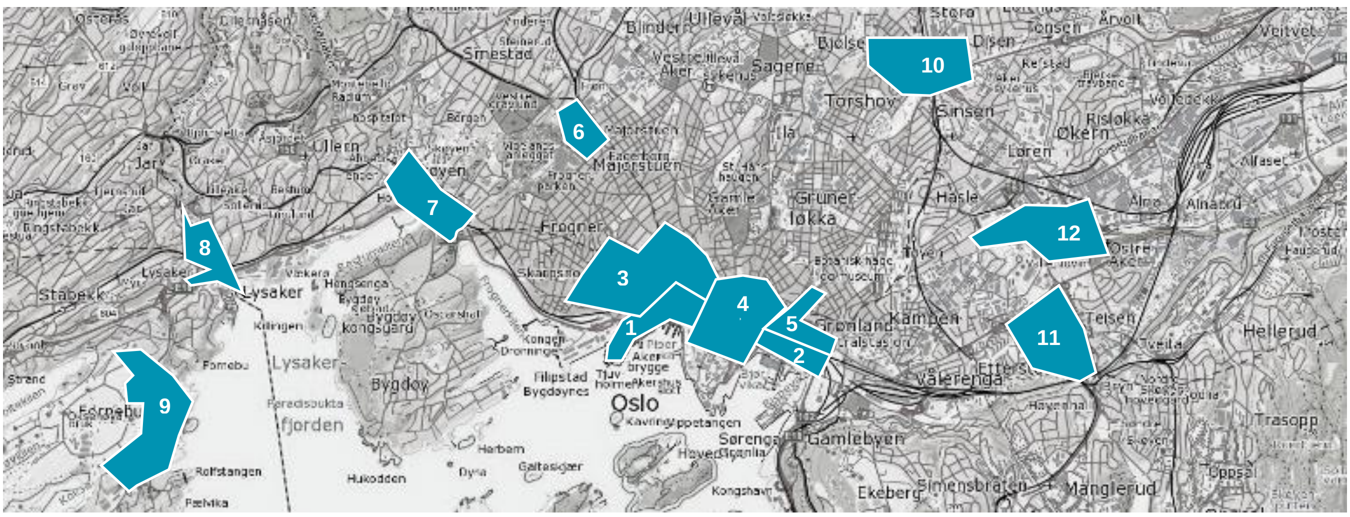


Source: DTZ Research

Table 3 – Current lease levels and forecasts by segment

	Address	Low	Mid-tier	Prime	Trend
1	CBD 1	2.500	3.100	4.000	▼
2	CBD 2	1.900	2.600	3.000	▼
3	Center West	1.700	2.200	2.800	▼
4	Center	1.700	2.300	2.700	▼
5	Center East	1.100	1.750	2.500	▼
6	Majorstuen	1.400	2.100	2.600	▼
7	Skøyen	1.550	2.250	2.800	▼
8	Lysaker	1.400	1.700	2.000	▼
9	Fornebu	1.100	1.400	1.900	▼
10	Nydalen	1.350	1.650	2.100	▼
11	Helsfyr-Bryn-Ensjø	1.350	1.650	2.000	▼
12	Hasle-Økern	1.200	1.400	2.000	▼

Source: DTZ Research

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