

## PROPERTY TIMES

# More opportunities for tenants

## Oslo Offices Q4 2015

16 October 2015

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- The Norwegian economy had negative growth (-0.1%) in Q2 2015, whilst onshore GDP growth was 0.2%. Growth in the offshore economy (oil and gas production and shipping) was negative at -1.0%. The negative sentiment in the oil and gas sector continued in Q3. Unemployment in Norway reached 120,000 in July; equalling 4.3% of the work force. This is an increase from 93,000 (3.4%) from July 2014.
- Availability now stands at ~9.0% of total stock in the Oslo market.
- The regional elections resulted in a high probability for introduction of property tax in Oslo. Initially, landlords will shoulder the bulk of the tax, which we estimate will be at least 30 – 40 NOK per sq m per year.
- 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 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.
- 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 is cautious, and we expect negative rental growth in all 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



DTZ assisted the leading law firm Wikborg Rein in their negotiation of a 8.500 sq m lease contract for a fully refurbished office location at Dronning Mauds gate 11.

## Economic Overview

The WTI Crude Oil price has now fallen 54%, from 106 to 49 USD per barrel, from June 2014 to October 2015. Prices in the futures market indicate a moderate recovery 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.

Regional elections were held in September, and resulted in a tie between the conservative and left-wing coalitions, with MDG (the Green party) 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.

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 “only” 0.3%. 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).

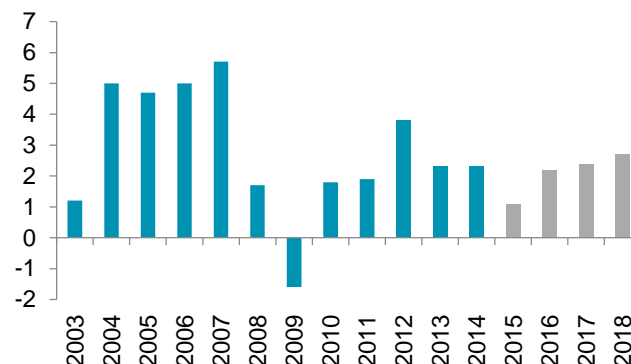
Unemployment remains comparatively low by European standards, but is increasing and now stands at 120.000 persons or 4.3% of the workforce. The rate has increased from 3.5% in Q1. The confidence indicators among production managers and employers has eroded further during Q2. Employment PMI has been negative (i.e., below 50) in most months since the beginning of 2014, and hit 37 in August – the lowest on record since 2008. September figures were more positive.

Core inflation (KPI-JAE) reached 3.1% y-o-y in September, while total inflation (KPI) was up 2.1%. 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.

Figure 2

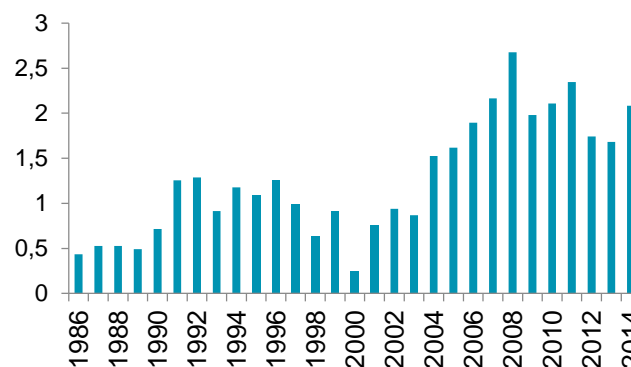
Onshore GDP growth, % p.a.



Source: Statistics Norway

Figure 3

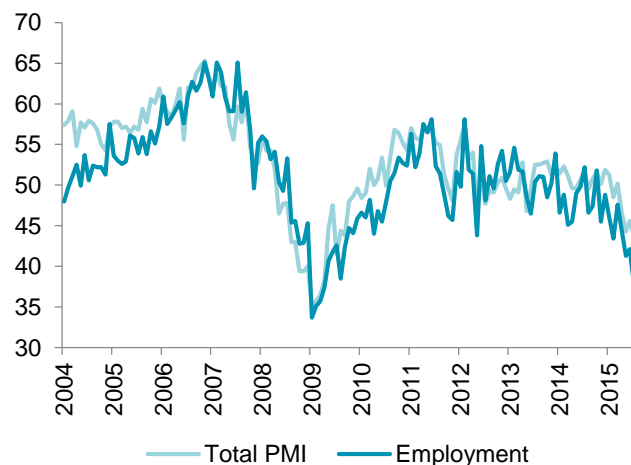
Population growth, Oslo, % p.a.



Source: Statistics Norway

Figure 4

Confidence indicators, Norway



Source: NIMA

# Oslo Offices Q4 2015

## Demand

The rental market's response to lower oil and gas prices becomes more and more pronounced, especially in the fringe areas of Oslo (Lysaker, Fornebu, and Asker). Certain segments outside greater Oslo, such as Stavanger (Forus), southern Bergen (Kokstad, Sandsli) also experience 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 Q4 was weak, and indicates that in Greater Oslo, employers intending to reduce staff outnumber employers intending to increase staff by 8%.

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 has tracked tenders for office space from 2008. In 2014, a total of 300.000 sqm was solicited – an improvement over 2013, but the trend line has been negative since 2010 when more than 400.000 sqm was requested. Major tenders (>3000 sqm) announced in Q3 2015 include Oslo Kemnerkontor, Bisnode, Carnegie, Staples, and the Montessori school. DTZ advises on the three former tenders.

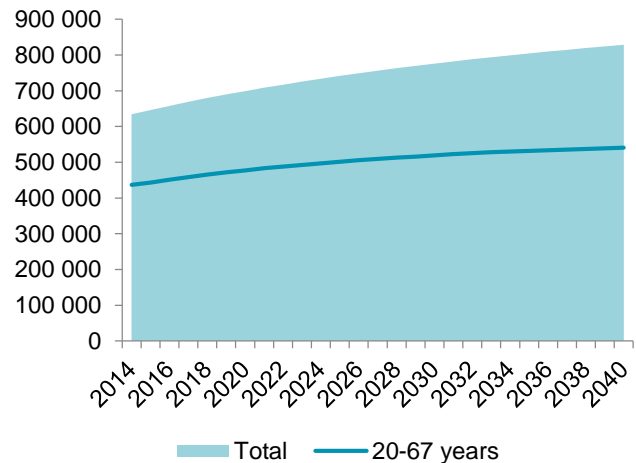
The oil and gas industry has announced job cuts totalling more than 23.000 employees in Norway. This compares with a total number of employed people of 2.65 million, and a total number of unemployed of around 120.000.

Table 1 – Leasing examples, 2015

Address	Tenant	Sqm	Lessor
Chr Kroghs gt 32	Westerdahls	11.000	AB Nilsen/OBOS
Bygdø Alle 2	NORAD	8.800	Hydro Pensjonsk
Dr. Maudsgt 11	Wikborg Rein	8.500	Vestre Viken DA
Verkstedveien 1	Helsedirektoratet	7 560	NPRO
Lakkegata 55	Skanska	7.500	Skanska/Entra
Strømsveien 96	Statens Legem.v.	6.500	Entra
Cort Adelers gt 33	Steenstr.Stordrange	6.300	Winta
Verkstedveien 3	Codan Forsikring	4.800	NPRO
Haakon VII's gt 10	Kvale	4.500	Storebrand
Drammensveien 288	Bayer	4.400	KLP
Lakkegata 55	Manpower Group	4.200	Skanska/Entra
Fr. Selmers v 4	Skattedirektoratet	3.700	Entra
Wergelandsveien 15	Making Waves	3.400	Utdanningsforb.
Mølleparken 4	Noroff Education	3 400	Syndicate
Folkeuniversitetet	R. Wickstrømsv. 15	3 700	Abereen
Filipstad Brygge 1	GIEK	3 000	Storebrand
Stortorvet 9	Norsk Folkehjelp	2 631	KLP

Figure 5

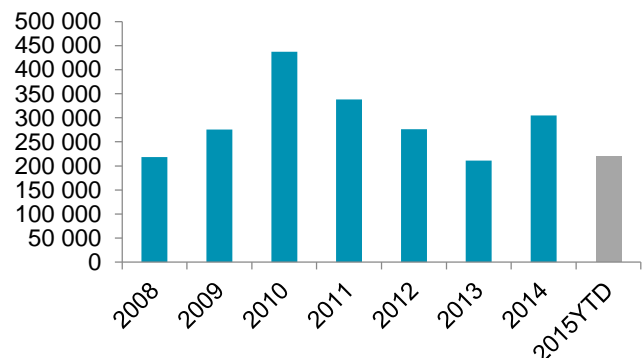
Population and work force forecast, Oslo



Source: Statistics Norway

Figure 6

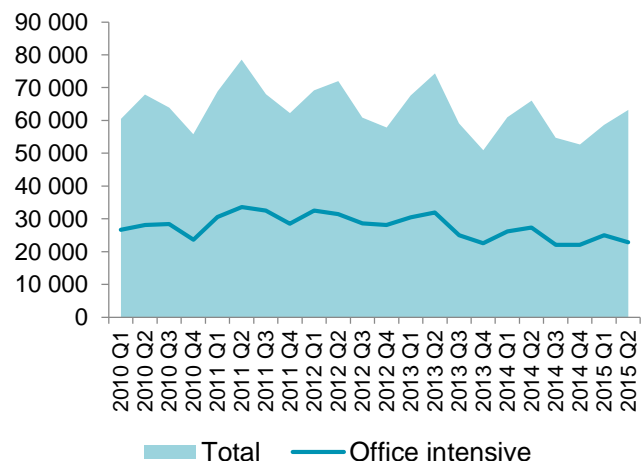
Tenders for office space, sqm



Source: DTZ Research

Figure 7

Vacant jobs



Source: Statistics Norway



# Oslo Offices Q4 2015

## 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 Ullernchaussen. 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.

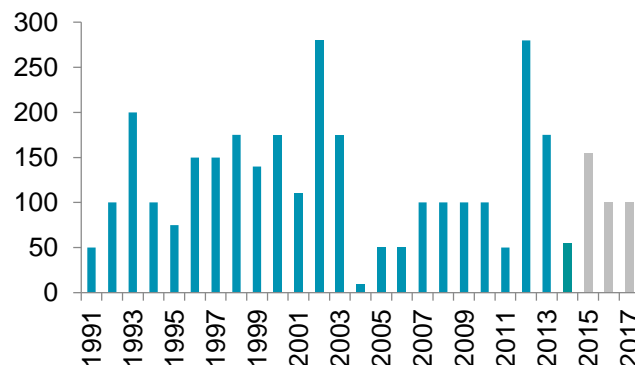
Norwegian Property ASA has signed leases with Statens Pensjonskasse, Sektor Eiendom and PA Consulting at Verkstedveien 1. The project will be completed during H1 2015. Aker's Fornebuporten will be developed in two steps at 25.000 sqm of office each, the first of which – Building B - be opened in June. Kværner have signed a 12 year 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. The three top floors are still available. 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<sup>th</sup> 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

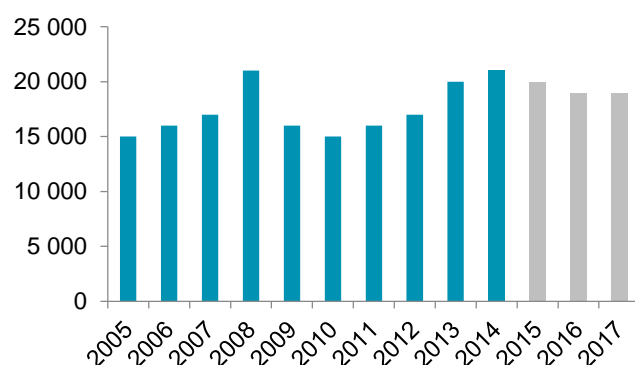
Table 2 –Office projects, 2015-16

Address	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	74%
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%

Source: DTZ Research

Figure 9

Construction cost for office space, Oslo, NOK/sqm



Source: DTZ Research

# Oslo Offices Q4 2015

## Outlook

There has been considerable activity in the CBD area in Q3. One of the CBD's largest tenants, NORAD, will move from Storebrand's property in Munkedamsveien to Yara's former headquarter at Bygdø Alle 2. This has been anticipated, since Storebrand intends to replace the building. Steenstrup Stordrange, a law firm, will move from Haakon VII's gt to a new project in Munkedamsveien which will be an addition to the present CBD. Furthermore, Kvale and GIEK have signed leases with Storebrand, and Wikborg Rein will move to Dronning Mauds gt 11 after nearly 70 years at "Solplassen". These contracts total 31,100 sq m of which 22,300 sq m will be relocations within the CBD. Prices vary significantly, a further sign of a market volatility.

Lysaker and Fornebu have high exposure to the offshore sector, and see increasing availability. Availability is likely to increase going forward, i.e. as Aker could offer up to 40,000 sq m of office space in the subletting market when Fornebuporten A is completed next year.

Skøyen still has limited availability. NPRO's "Monier" (Verkstedveien 1) is now 73% let. Proposed projects such as Møller Eiendom's project in Hoffveien, Orkla's and Schage's projects near the station, and Veidekke's plans for Nedre Skøyen Vei (recently acquired from NPRO) still await a "go signal" and do not yet impact market rents.

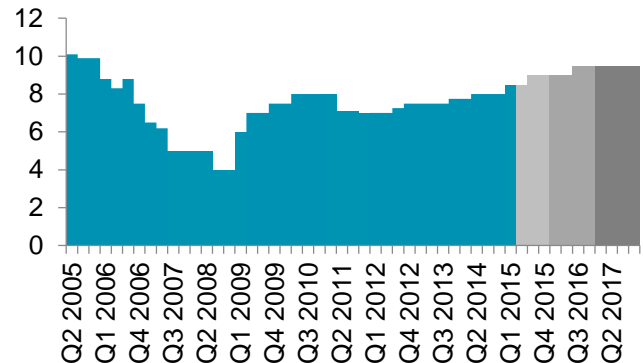
The increased volatility in the Norwegian economy is likely to enhance cautiousness among tenants. The slowdown in demand would therefore translate into lower rental prices. On the positive side, the further reduction in interest rates is likely to stimulate activity in certain markets.

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 dampen the blow, but we believe lower economic activity will have a higher impact.

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 10

Office availability, Oslo, % of stock

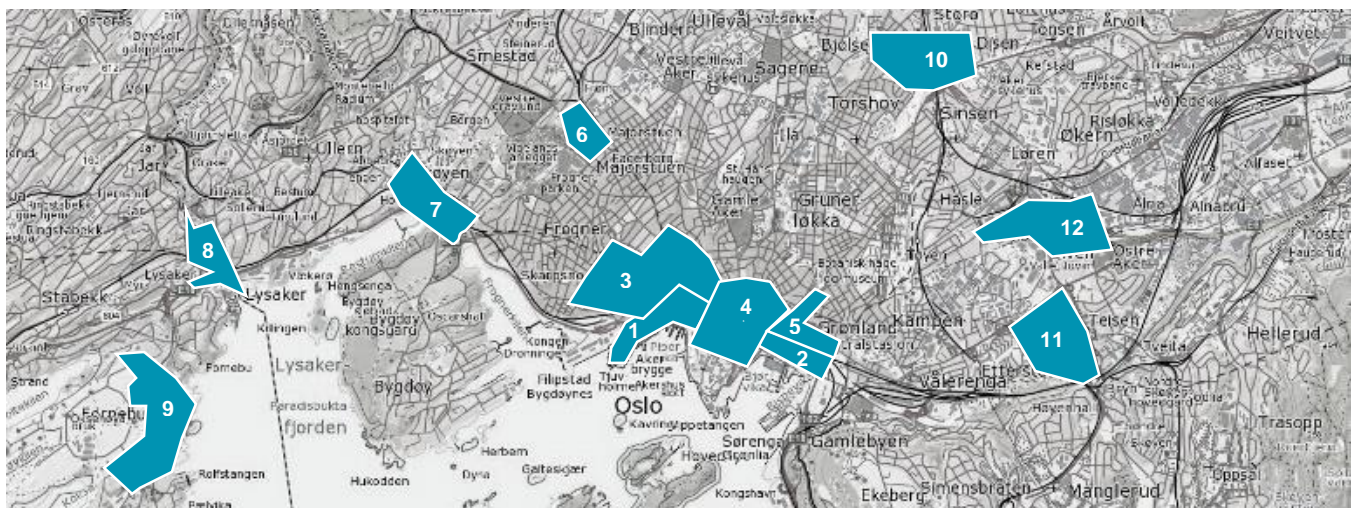


Source: DTZ Research

Table 3 – Current lease levels and forecasts by segment

	Address	Low	Mid-tier	Prime	Trend
1	CBD 1	2.500	3.000	3.900	▼
2	CBD 2	1.900	2.500	3.000	▼
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	2.800	▼
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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