CUSHMAN & WAKEFIELD | Realkapital

Q1 2020

CUSHWAKE INVESTOR CONFIDENCE INDEX

78%

OF ALL INVESTORS HAVE AN OBJECTIVE TO BE NET BUYERS IN THE COMING SIX MONTHS WHILE ONLY 6 PERCENT ARE NET SELLERS

The Cushwake Investor Confidence Index includes survey responses from around **50** investment professionals together representing around **NOK 400–450bn** worth of Norwegian CRE. The index monitors expectations for the next six months. The survey's broad coverage reflects the interest for non-biased analysis and increased transparency. Furthermore, the degree of coverage ensures the findings are representative reflections of current investor confidence in the Norwegian CRE market. We will continue to conduct the survey bi-annually, allowing us to track changes in confidence, to interpret what they mean for the market and to determine how best to respond when making investment decisions.

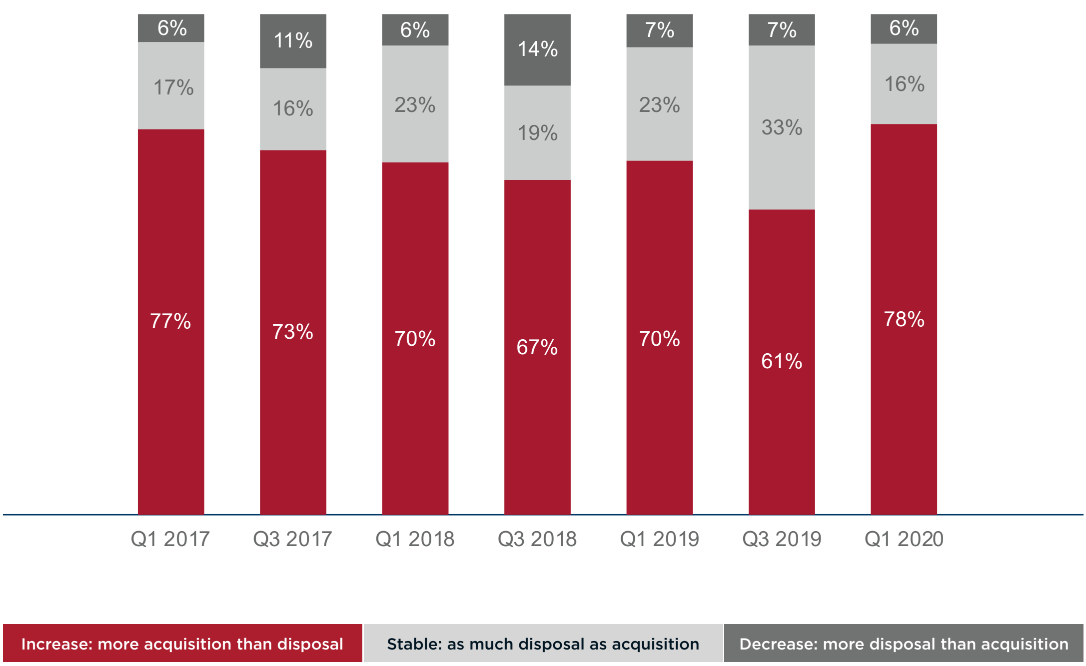
Persistent strong investor demand

Almost all net buyers and hardly any net sellers

This cycle continues to see an extraordinary level of capital targeting real estate. A record high 78 percent of all investors have an objective to be net buyers in the coming six months, heavily encouraged by persistent strong demand from office occupiers and a consequent rise in asset values. This finding continues to reinforce consistently strong results going back to the index's inception in Q1 2017.

Core real estate strategies remain attractive but demand continues to outstrip supply. This keeps yields under pressure and makes it challenging for investors to deploy capital and achieve their desired returns. With very few core assets available, investors have been forced to accept additional risk in terms of location, letting, development and/or redevelopment risks. As a consequence the stakes are rising.

> **What is your objective with regard to the size of your portfolio during the next 6 months?**



Office occupiers' market stays strong

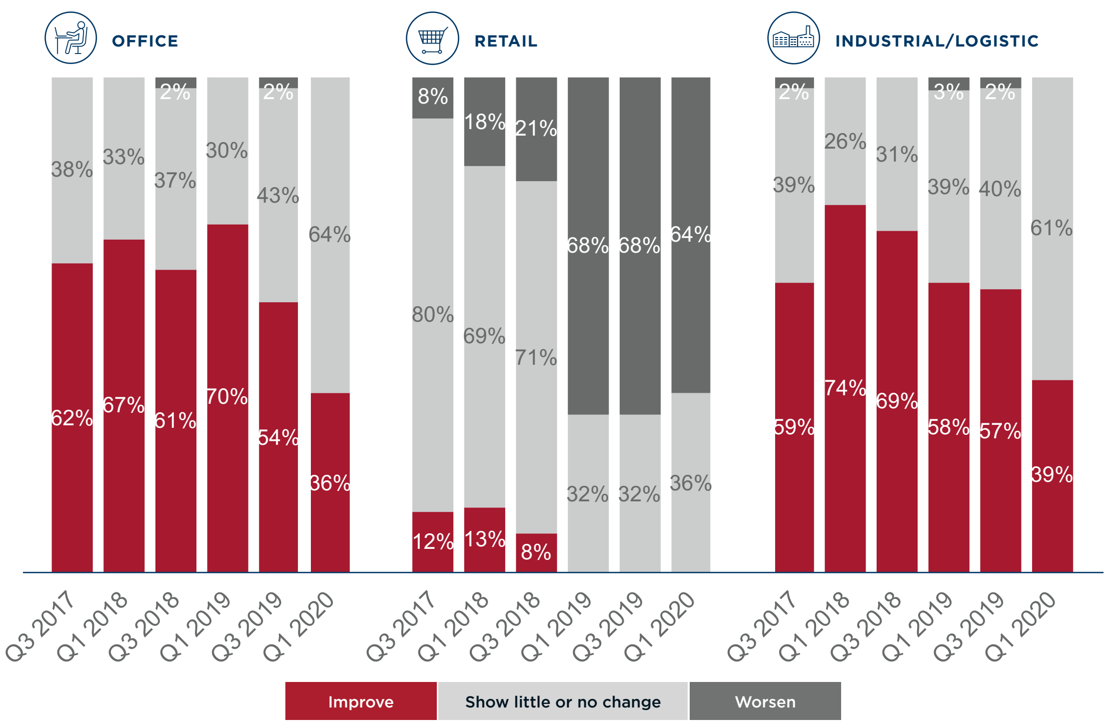
...while expectations for retail demand remain relatively weak

36 percent of all investors expect improved demand from office occupiers in the coming six months. This is significantly down fro Q1 and Q3 2019, but still a healthy figure following already strong results observed over the past 3 years. No investors expect weakened demand. Sound economic growth, limited development activity and occupiers' continued belief in their offices' strategic importance in sum support a positive short to mid-term outlook. However, there might be questions to address on a long-term view given a combination of declining economic growth, potential development catch-up, greater adoption of agile- and co-working, the switch from manpower to technology and increased utilisation of office space.

The industrial and logistics sector continues its strong run and all investors expect to see a continued rise or stable demand for logistics space.

Regarding retail, the increase in the number of investors expecting weakened demand has come to an end. Still, no one is expecting rising demand and investors' views are mostly driven by growing e-commerce and weakening profitability in the sector. We have also observed several bankruptcies in well-known brands and concepts. On the positive side, we note good wage growth, inflation around Norges Bank's target and more stable exchange rates for Norwegian kroner. We also see the Scala and Thon groups report growth (2.5 percent) in sales in their shopping malls in 2019.

> **With regard to the occupier market during the next 6 months, demand will...**



Prolonged low yield expectations for office

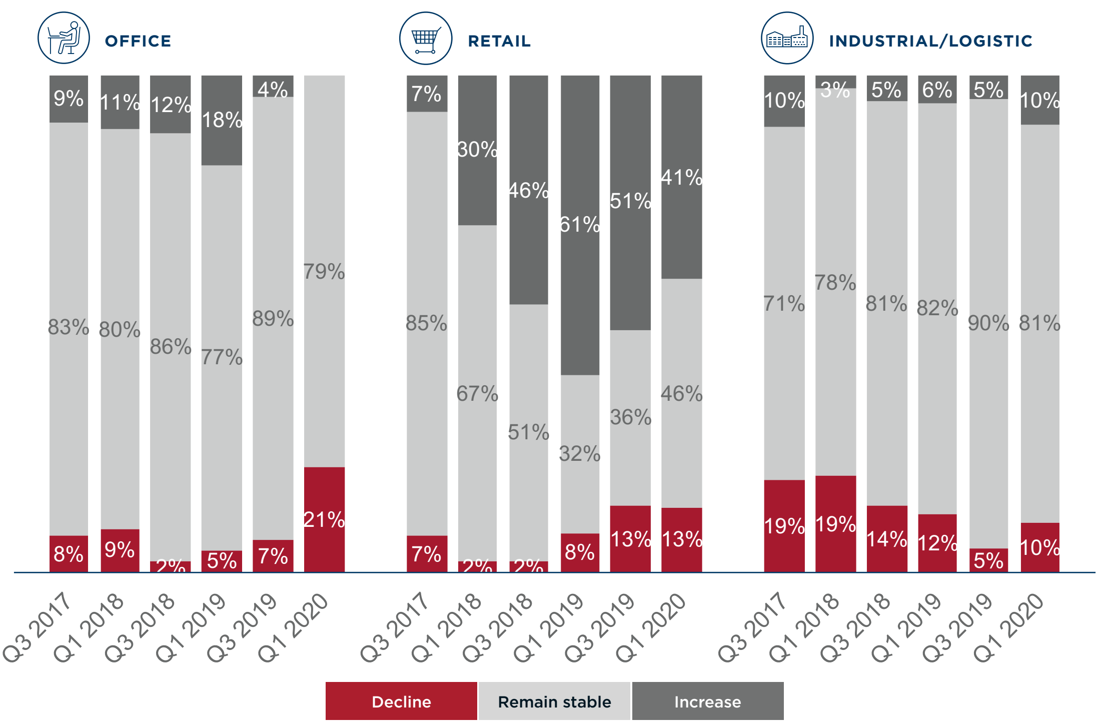
Concerns over retail yields seem to be bottoming out

Most investors believe office yields have levelled out and will be unchanged in the near future. An increasing share now see the possibility for further yield compression and no investors expect yields to rise. This has happened after interest rates on long-term government bonds fell last summer and eventually settled at a slightly lower level. A strong rental market further contributes to confidence.

The logistics market is highly financially driven with long leases and low yields. Only a small minority expect changing yields.

For the first time since Q3 2018, a majority of investors expect unchanged or lower retail yields in the next 6 months. However, this is markedly better than the grimmer view from Q1 and Q3 2019, possibly due to corrections that have already happened. We see greater differentiation in the market and strong interest in commercial properties in the right location. Investors now appear to recognize that retail is far more nuanced and the trend in the figures supports our hypothesis that the value of several retail properties has been written down too much.

> **With regard to the development of market yields during the next 6 months, they will...**



Very positive view on own portfolio

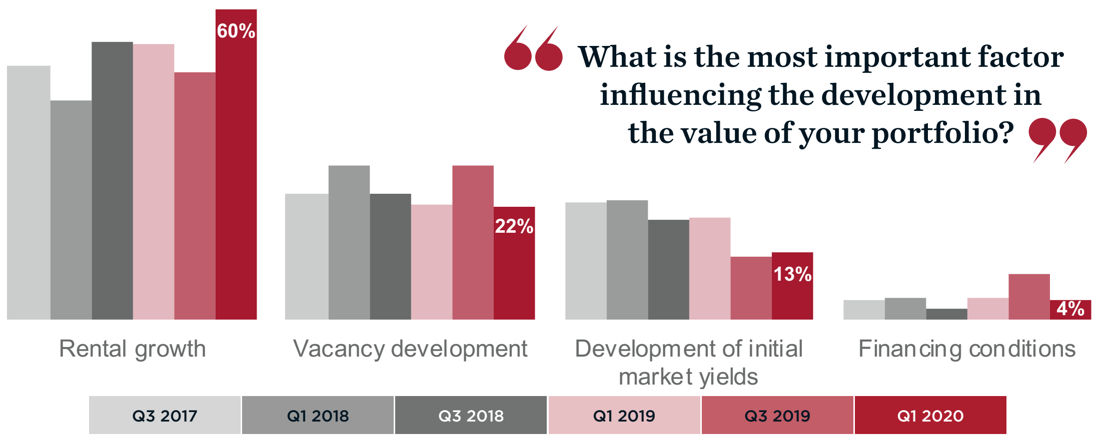
Rising rents is the biggest contributor

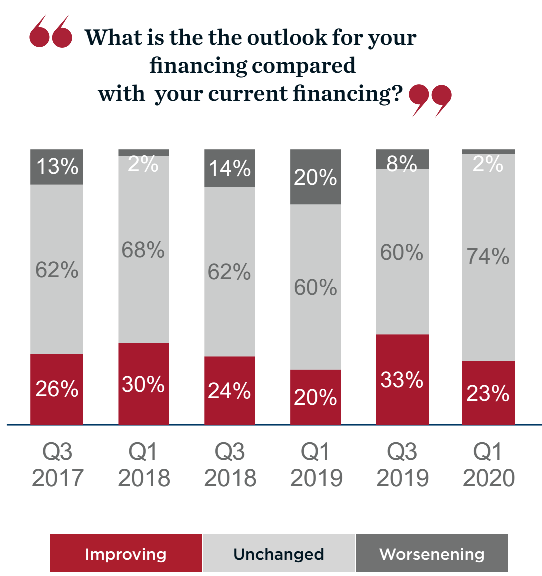
Renewed optimism around financing

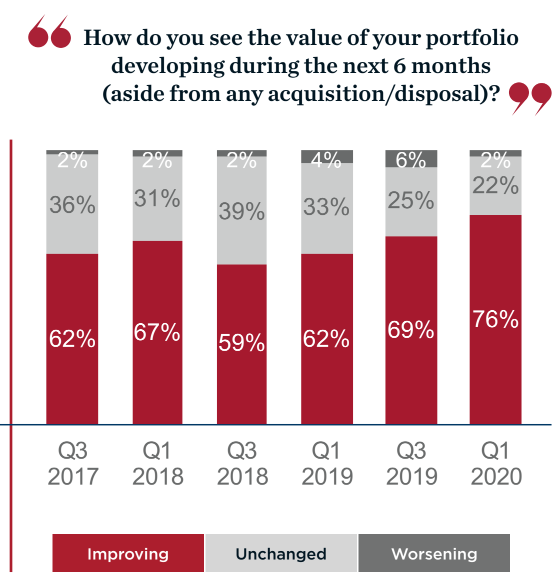
The outlook for financing improved in Q3 2019 after 20 percent expected worsened conditions in Q1 2019. Optimism continued in Q1 2020 and now only 2 percent envisage worsened conditions. 1 out of 4 investors expect improved financing conditions for both new acquisitions and refinancing.

Optimistic portfolio outlook

A record high 76 percent of investors believe their portfolio will improve in value over the coming six months. This is the fourth measurement in a row with rising expectations for the value of own properties. The main driver for value improvements is expected to be rental growth (60 percent). The second is a further drop in vacancy rates (22 percent). In this respect there are likely to be major differences between regional markets. The Oslo market, and especially the city center, have seen a sharp decline in vacancy rates and seen higher rental prices.







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