PROPERTY TIMES

East outperforms west

Oslo Offices Q2 2016

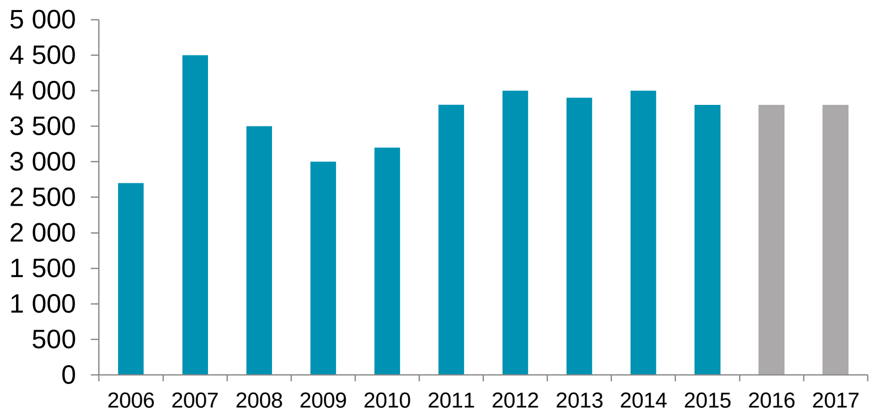
Date 06 April 2016

Contents

- Cushman & Wakefield estimates that around 90,000 m2 of office space will be completed in 2016. On the other hand, around 50,000 m2 m will be converted from office to residential space, and around 20,000 m2 will be converted to temporary accommodation for refugees. The net stock increase in 2016 will therefore be marginal.
- We have estimated the impact of reduced activity in the oil and gas sector to around 85,000 m2, of which more than 90% is in the Western corridor.
- Taking into account these factors and the reletting status of stock where tenants moving into the new buildings currently reside, and the pre-letting ratio of the new buildings, we estimate that net absorption must reach 75,000 m2 to avoid increased vacancy. This corresponds to a net office hiring of around 3,000 – 4,000 workers. Whilst the Oslo economy is fairly resilient, we are not certain that net hiring will reach this magnitude and vacancy is therefore likely to rise. However, vacancy mainly confined to the areas west of Skøyen.
- 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 1.7% increase in population during 2015. However, the growth rate is sensitive to net immigration, which could decline in an environment of weaker growth.
- 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/m2/year)



Source: Cushman & Wakefield Research

Author

Emilio Azar
Analyst
+ 47 948 44 517
emilio.azar@dtz.no

Contacts

Nikolai Staubo
Analyst
+ 47 930 27 540
nikolai.staubo@dtz.no

Jørn Høistad
Partner; Analysis & Research
+ 47 928 28 437
jorn.hoistad@dtz.no

Magali Marton
Head of EMEA Research
+ 33 61217 1894
Magali.marton@cushwake.com

Cushman & Wakefield assisted TV2 in their relocation to Diagonale in Bjørvika.

Oslo Offices Q2 2016

Economic Overview

Oslo is currently Europe's fastest growing capital. Population growth reached 1.7% in 2015. Further growth is expected, though a weaker economic sentiment could reduce net immigration, which currently contributes around three quarters of the population increase. Population growth fell from 2.1% in 2014 to 1.7% in 2015. It is too early to conclude that this indicates lower annualized growth (not counting the large influx of refugees, which has limited impact on office demand).

Unemployment remains comparatively low by European standards, in fact only Germany with 4.5% has lower unemployment. However, unlike most European countries which have seen a downward trend, unemployment is increasing in Norway and now stands at 127,000 persons or 4.6% of the workforce. The rate has increased from 3.5% in Q1 2015.

The confidence indicators among production managers and employers improved towards the end of 2015. 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. By February 2016, employment PMI had recovered to 46.1; the highest since April 2015.The North Sea Brent price has risen to almost 40 USD per barrel, the highest price since December. Even with the mass layoff in the oil and gas sector and the current price, three four of the North Sea oil fields are financially viable. It is obvious that the Norwegian economy must adapt 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. Further turmoil was caused by the announcement from the Norwegian government that it tapped into its sovereign-wealth fund to cover its expenses, for the first time since the fund was established in 1996.

In Oslo a property tax of 0.3% was implemented in January 2017. 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.

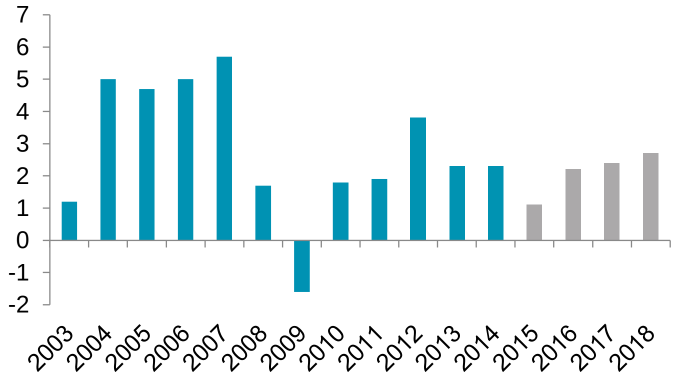
The right-wing coalition government has been in power for two years. Policy adjustments have been implemented towards moderate tax reforms, mainly within the regime for personal taxes. The draft budget, for 2016 was launched as an expansive effort, with total expenditure reaching 1,329 bNOK – a nominal 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.

Core inflation (KPI-JAE) reached 3.4% y-o-y in February, while total inflation (KPI) was up 3.1%. The weaker currency is among the causes of increased inflation.

On 24th September, the Central Bank reduced the policy rate by 25 bps, to 0.75%. This was the lowest policy rate ever. The Central Bank held a meeting on 17th March and concluded to reduce the policy rate by 25 bps once again, to 0.50%.

Figure 2

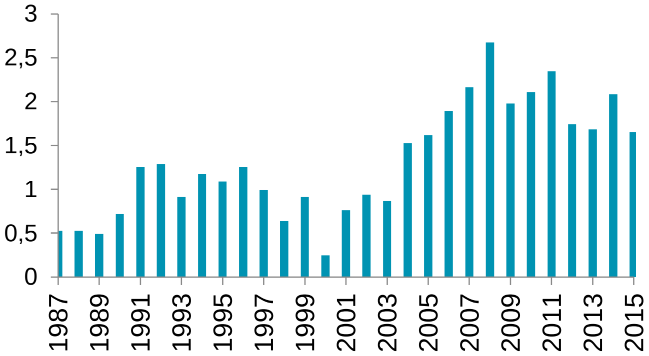
Onshore GDP growth (% p.a.)



Source: Statistics Norway

Figure 3

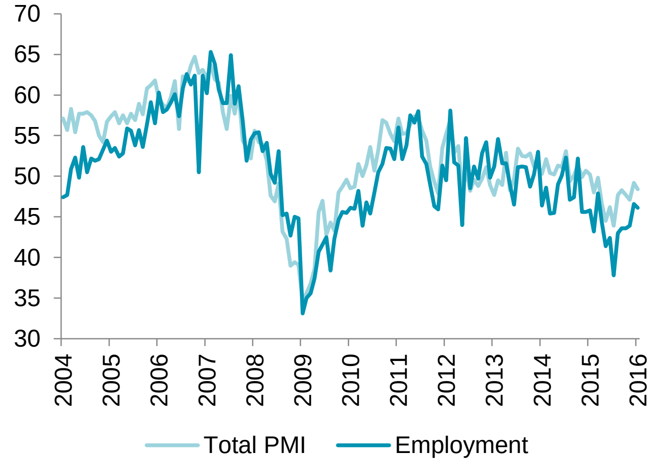
Population growth, Oslo (% p.a.)



Source: Statistics Norway

Figure 4

Confidence indicators, Norway



Source: NIMA

Oslo Offices Q2 2016

Demand

The impact of lower oil prices varies significantly within Oslo. We have identified eight properties where availability will be directly related to lower activity in the offshore sector. The total impact on availability is around 90,000 m2, as shown below;

Table 1

Examples of offshore & oil impacts

Property	Tenant	m2	Impact
Aker Hus	Aker Solutions	~40,000	To be sublet
Drammensv. 264	Kværner	~13,000	Reduced space
E. Lychesv 10	GE Oil & Gas	~10,000	Reduced space
Lensmannslia 4	FMC Technologies	~8,500	Reduced space
M. Linges vei 33	Statoil	7,750	Sublet withdrawn
P. Pedersensv. 7	Technip	4,412	Sublet offered
Fjordalleen 16	Aker Solutions	~4,000	Sublet offered
Lilleakerv. 2	EMAS	3,219	Sublet offered
Strandveien 8	Lundin	1,881	Sublet offered

As can be seen, the majority of properties impacted by lower oil prices are located at Lysaker, Fornebu and Asker, and partly at Skøyen (e.g., AGR). Some of this space may well have become available even with higher oil prices. In particular, Aker Solutions and Kværner had already signed leases at Fornebuporten before the oil price moved. In addition to the properties listed in Table 1, subletting could occur in the K2 building at Fornebu where Aker has signed a long lease.

The demand/supply balance in Oslo currently sees a wider spread between geographical segments than at almost any time before. The situation in the Western Corridor remains very strained, with vacancy at Lysaker close to 20%. By contrast, the city centre and central eastern parts have vacancy rates that do not differ from normal frictional availability.

Arealstatistikk reports that Oslo rents on average declined with 4% year-on-year in Q4 2015. Rents at Lysaker were down 7%, while segments such as Nydalen and the inner city had positive rental growth. The average, area-weighted lease price for Oslo was 2,220 NOK per m2.

Manpower's Employer Outlook Survey (MEOS) for Q1/16 was weak, and indicates that in Greater Oslo, employers intending to increase staff outnumber employers intending to reduce staff by only 1%. However, this was an improvement over Q4, and the national Norwegian average (+5%) was on par with the result for Sweden in the same quarter (also +5).

Cushman & Wakefield has tracked tenders for office space from 2008. In 2015, a total of 275,000 were tendered. The trend line has been negative since 2010 when more than 400,000 m2 was requested. The largest tender announced in Q1 2016 was Skatteetaten, which is advised by Cushman & Wakefield. Others include Hjort law firm, and Rystad Energy. Whereas in the beginning of last year there were 35 search for new premises, we are this year already up to 39 search for office space. In number of m2 there has been an increase from 55,000 m2 last year to 96,000 m2.

Table 2

Leasing examples, last six months

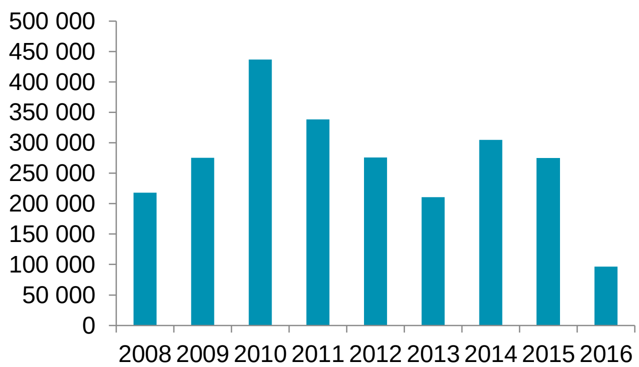
Address	Tenant	m2	Lessor
Snarøyvn. 30	Norsk Moteforum	10,000	Telenor Eiendom
Bygdøy Alle 2	NORAD	8,800	Hydro Pensjonsk
Dr. Maudsgt 11	Wikborg Rein	8,500	Vestre Vika DA
Asker-TEK	Indra Navia	6,600	Ferd
Cort Adelers gt 33	Steenstr.Stordrange	6,300	Winta
Diagonale	TV2	6,100	HAV/Thon
Haakon VIIs gt 10	Kvale	4,500	Storebrand
Lakkegata 55	Manpower Group	4,200	Skanska/Entra
Kongens gt 22	Campus Christiania	4,000	RevCap
Fr. Selmers v 4	Skattedirektoratet	3,700	Entra
Chr. Kroghsgt. 2	Oslo Røde Kors	3,500	Oslo Areal
Wergelandsveien 15	Making Waves	3,400	Utdanningsforb.
Mølleparken 4	Noroff Education	3,400	Syndicate
Støperigaten 1	GIEK	3,000	Storebrand
Drammensv. 145	IKEA	3,000	Schage
Fjordalleen 16	Carnegie	2,500	DNB

One of the largest lease contracts during the last six months was Norsk Moteforum, This is a membership organization which currently resides at Sjølyst Plass, Skøyen. It is not yet clear how many members will move to the Telenor centre at Fornebu; 10-15,000 m2 has been estimated.

Cushman & Wakefield advised on Wikborg Rein's relocation to Dronning Mauds gt 11; the largest contract in the CBD in 2015.

Figure 5

Tenders for office space (m2)



Source: Cushman & Wakefield Research

Supply

We expect that around 90,000 m2 of office space will be completed in 2016. This compares with around 150,000 m2 in 2015, and 55,000 m2 in 2014.

The two largest projects are Sundtkvartalet and Fornebuporten A. Sundtkvartalet has signed leases with Manpower and Skanska. Fornebuporten is fully let to Frontica Business Solutions, which is owned by Akastor and subleases to the space to Aker Solutions.

Among the buildings vacated by companies moving into the 2016 projects, only Pilestredet 42 has yet found alternative use (it will be used by Oslo and Akershus College of Applied Sciences).

The total of around 70,000 m2 to be vacated by Manpower, Skanska, Aker Solutions, COWI and the U.S. State Department during 2016 will be offered in the market. In addition, the new buildings still have total of around 30,000 m2 of available space, bringing the gross impact of construction activity to around 100,000 m2. The net impact, however, will be only around 30,000 m2, as we expect around 50,000 m2 to be converted from office to residential space. A further 20,000 m2 will be made available for refugee accommodation.

Table 3

Office projects, 2016

Project name	m2	Developer	Let	Tenant(s)	Current location	Current landlord	Current m2	Status
US Embassy	5,000	State Dept.	100%	Embassy	H. Ibsensgt. 48	State Dept.	6,000	Not relet
Sundtkvartalet	29,342	Entra/Skanska	42%	Manpower	Tordenkioldsgt 2	Sparebank1	6,000	Not relet
				Skanska	Drammensvn. 60	NPRO	11,000	Not relet
Fornebuporten A	25,000	Aker	100%	Aker Solutions	Aker Hus	NPRO	40,000	Not relet
Portalbygget	12,500	Høegh	78%	COWI	Grenseveien 88	Gasmann Eiendom	7,000	Not relet
Fr. Selmersv 4	7,400	Entra	50%	Skatteetaten	n.a.	n.a.		n.a.
DEG42	4,257	OSU	0%	None	n.a.	n.a.		n.a.
Storgt. 14-18	8,500	Thon	100%	Riksrevisjonen	Pilestredet 42	KLP		Relet

Source: Cushman & Wakefield Research

Only one project (DEG42) has been started without any pre-letting. This is the easternmost, and last, building in the "Barcode" rack. With relatively small storey sizes, and some distance from public communication, this property has not yet found any tenant despite being marketed for some time.

Some notable leases have also been signed for buildings to be completed in 2017 and beyond. TV2 has signed a lease for 6,000 m2 in Diagonale in Bjørvika, and will move there in early 2018. The project is owned 50/50 by Thongård and HAV Eiendom. The law firm Steenstrup Stordrange will move to 6,300 m2 in Cort Adelers gate 33 (owned by Winta) in 2017. In Asker, Ferd has signed a lease contract for 6,600 m2 with Indra Navia at the "Asker-TEK" project, to be completed in 2017. Asker-TEK has plans for a total of 14,000 m2, but the leasing market in Asker is not supportive at the moment.

We expect construction costs for office space to come down from 21,000 NOK/m2 in 2014 to 20,000 NOK/m2 in 2015 and 19,000 NOK/m2 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.

Of the new projects, Fornebuporten (Building A and building B, which was completed in 2015) has been sold to a Pareto syndicate. The U.S. State Department also intends sell Henrik Ibsens gate 48 when the new embassy is ready, but the process has not yet been launched. We also expect that

Figure 6

Completed office stock, Oslo (1000 m2)

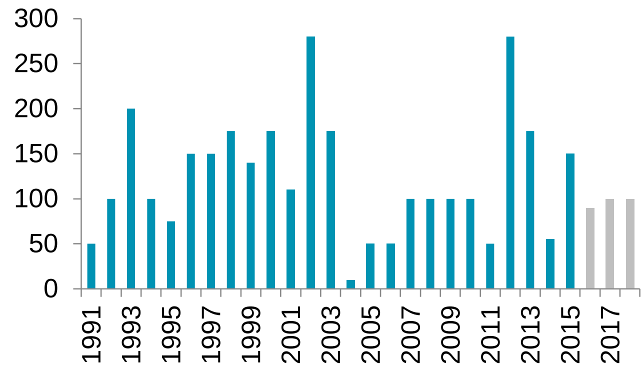


Table 4

Estimated supply balance, 2016

Address	m2
Gross construction, 2016	90,000
Of which pre-let	(60,000)
Vacated by tenants in new buildings (excl. Aker Hus)	30,000
Oil impact (incl. Aker Hus)	85,000
Conversion to residential	(50,000)
Conversion to refugee hostels	(20,000)
Net increase in availability (before net take-up)	**75,000**
Per cent of stock	0.7%

Source: Cushman & Wakefield Research

Oslo Offices Q2 2016

Outlook

2016 has started off with high economic volatility. Oslo Stock Exchange lost 9% of its value during January and increased with 3% between February to March. There is also concern over problems in the credit sector.

As shown in this report, the impact of lower oil prices has had an impact on a (limited) number of properties. All other factors equal, the oil market slump seems to increase Oslo availability by one percentage point.

There is some risk of further increase in vacancy from staff-reducing oil companies. The companies with a presence in Oslo and which have announced staff cuts include Statoil, Aibel, Aker Solutions FMC, Reinertsen, and Kværner. Aibel will perform their Sverdrup Field work from Asker, while most of the others have already been factored into our estimate.

One out of eight in Norway is employment in oil-related activities. Although there has been limited impact from the low oil prices, if the prices continue to stay at the current level the impact will first have major impact in 2017/2018. Going forward, a key issue will therefore be whether the general economy will adapt quickly enough to a future with lower oil prices.

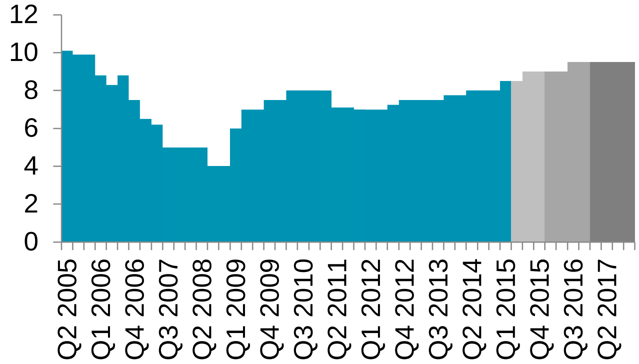
Skøyen still has limited availability. NPRO's "Monier" (Verkstedveien 1) is now 93% let. However, proposed projects such as Møller Eiendom's project in Hoffsveien, Orkla's and Schage's projects near the station, Veidekke's plans for Nedre Skøyen Vei (recently acquired from NPRO) and the vacancy at Sjølyst Plass 3 (after Norsk Moteforum) will impact market rents going forward.

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.

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 7

Office availability, Oslo (% of stock)



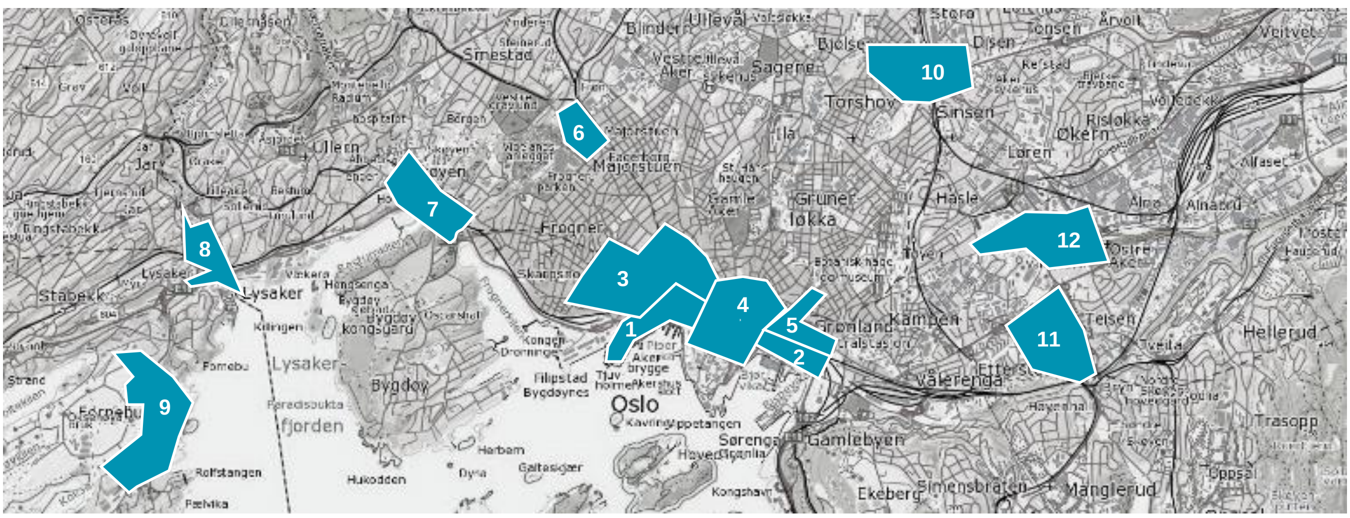
Source: Cushman & Wakefield Research

Table 5

Current lease levels and forecasts (NOK/m2)

	Address	Low	Mid-tier	Prime	Trend
1	CBD 1	2,500	3,000	3,800	▶
2	CBD 2	1,900	2,500	2,800	▶
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	2,700	▼
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: Cushman & Wakefield Research




Kjøkken

Anne Bruun-Olsen
CEO / Partner DTZ Realkapital
Occupier services
+47 91 78 65 15
anne.bruun.olsen@dtz.no

Anders Rennesund
Senior Advisor /Partner
Occupier Services
+47 90 03 91 84
anders.rennesund@dtz.no

Peer Christensen
CEO / head of Capital Markets
Capital Markets
+47 90 91 51 77
peer.christensen@dtz.no

Lars Bruflat
Senior Advisor
Capital Markets
+47 46 92 40 30
lars.bruflat@dtz.no

Tor Svein Brattvåg
Head of Occupier Services
+47 91 55 70 47
tor.svein.brattvag@dtz.no

Arthur Havrevold Lie
Head of Valuation / Partner
+47 90 25 71 08
arthur.lie@dtz.no

Marius G. Dietrichson
Senior Advisor / Partner
Capital Markets
+47 98 65 72 15
marius.dietrichson@dtz.no

Terje Sorteberg
CEO
Realkapital Utvikling
+47 41 55 27 74
terje.sorteberg@rku.no

Maria H. Eriksen
Senior Advisor / Partner
Occupier Services
+47 90 07 75 65
maria.eriksen@dtz.no

Arne TW Eriksen
Senior Advisor
Valuation
+47 95 70 67 30
arne.eriksen@dtz.no

Erik Nic. Ingebrigtsen
Senior Advisor / Partner
Capital Markets
+47 92 82 39 04
erik.ingebrigtsen@dtz.no

Anders Brustad -Nilsen
CEO
DTZ Corporate Finance
+47 95 19 01 78
abn@dtz.no

Disclaimer

This report should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. Whilst facts have been rigorously checked, DTZ can take no responsibility for any damage or loss suffered as a result of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced or referred to without prior approval. Any such reproduction should be credited to DTZ.

To see a full list of all our publications please go to www.cushwake.com/research

Cushman & Wakefield
Munkedamsveien 35
0125 OSLO
NORWAY
Tel: +47 23 11 68 68
Mail: mail@dtz.no
www.dtz.no