

Market Report

2 / 2014

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- The rental market recovered

Norway's mature economy

The Norwegian economy has shown resilience in the wake of the Great Recession which continues to engulf much of continental Europe. However, over time new vulnerabilities in the form of lost competitiveness have been developing as the crisis ridden economies of Europe have restructured and implemented new reforms. Vulnerabilities, some of which are unique to Norway and some the country has in common with other commodity based economies.

Norway's economy has many exceptional attributes. It is a AAA rated economy which remains at close to full employment, with one of the world's largest sovereign wealth funds to boot. A fund which is likely to double in size over the next 20 years. Just spending the real returns of this fund, will give domestic demand a unique tailwind for many years to come.

It is precisely this advantageous position that has left the economy with structural weaknesses. At times the currency has been a safe haven for foreign investors. The economy has cost structures that are well suited for the profitable energy industries, but much too high for traditional manufacturing.

With Norway's free labour market, able and well educated workers from neighbouring countries migrated to Norway, pushing the locals out of the work force. Yes, Norway has unusually low unemployment, but there are fewer Norwegians employed today than there were in the summer of 2008. This despite the fact that oil money has been flowing in to the economy at an ever increasing pace. Interest rates are also presently much lower than in the days before Lehman Brothers went bankrupt.

The last eighteen months the Norwegian economy has been stuck in a low growth trajectory. With annualized GDP growth of around 2 pct. Low economic growth have naturally affected property markets, with flat to falling prices in many areas. Worst hit are areas where builders have anticipated stronger demand than came through.

Presently Norway's building sector is cooling off, but offset by a boom in infrastructure projects. The rental markets are decidedly mixed, with new offices, shops and hotels taking market share from older establishments.

Over the medium term Norway's economic prospects are still bright. Four aspects should be noted:

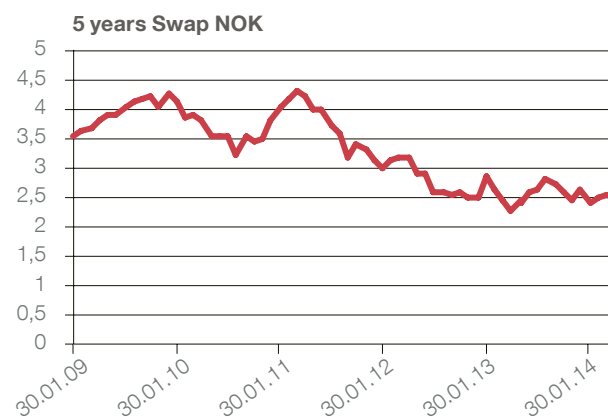
1. Fiscal policy will remain loose with ever more oil money flowing into the domestic economy.
2. Interest rates are likely to remain low for as long as Europe maintains its minimal rate policy. The currency is likely to retain safe haven status. Weak in good times, strong whenever doubts about the Euro's sustainability reemerge.
3. Population growth will remain string as net immigration continues.
4. Oil investments will remain high, although well below the historical peak of 2013.

The forecasts are from Statistics Norway's mid-year update. They seem to have a little higher interest rate forecast than the

central bank presented later in the month. Both institutions however, paint a picture of slightly lower than trend growth in a scenario where Europa muddles through the coming years. Inflationary pressures should be well contained.

Prognoses Norwegian economy	2014	2015	2016	2017
GDP Mainland Norway	2	2,2	3,1	3,1
Unemployment	3,6	3,8	3,8	3,6
CPI / Inflation	2	1,7	1,7	2,2
Yearly income	3,6	3,5	3,7	3,8
3 months NIBOR	1,7	1,7	2,1	2,6
House price index	-0,9	2,7	2,8	2,5
Investments ML Norway	0,9	2,5	4,3	4,4
Investments in oil extraction and pipeline transportation	2,5	-0,7	0,7	-2

SSB June 2014



Key figures macro June 2014

Central Bank of Norway – key policy rate	1,5 %
CPI – inflation last 12 months	1,8 %
Construction cost index last 12 months	3,6 %
House price index	2,1 %
Unemployment	3,3 %
Private consumption – estimate 2014	2,1 %
GDP – estimate 2014	2,1 %



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Transaction

Market Report

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The spring solution

After a rather slow beginning of the year, turnover so far in 2014 shows a significant increase in activity during spring. The market got a slow start in Q1 – but in Q2 we have seen many transactions completed and new initiatives commenced.

So far in the 1st half year, volume is slightly behind last year's volume at the same time, but the outlook is good for several reasons. Funding is available - the banks operate with increased level of ltv and decreased margins, leading to high activity as we reach the completion of Q2. The bank interest rate as well as real estate bonds are down with 30-40 basis points since the beginning of the year. With multiple opportunities opening up for property buyers, we expect new investors and players to enter the market.

A healthy rental market in balance provides the investor market with positive impulses in addition to the other favorable conditions.

In 2014 syndicates and foreigners will probably be net buyers. Private investors and Norwegian funds are expected to be net sellers.

There is still a «lack of products» in Oslo CBD and in the most attractive areas.

There are several reports of large ongoing processes – many of which will probably be solved prior to summer vacation. Lately NAI FirstPartners have secured multiple transactions (as mentioned on page 6), in addition to ongoing processes that will materialize in Q3.

We estimate prime yield to stay at a level of 5,25 %, however more aggressive pricing of some objects in near future would not be surprising.

Foreign investors

The presence of foreign investors searching for investments in Norway is increasing, with a particular focus on office property in Oslo and possibly also on the three other larger cities. The retail segment is also of interest to the foreigners. Regardless it not likely that the relatively larger portion of property investments as indicated by the numbers for Q1 will continue, as we observed foreign investors to constitute a high percentage in Q1 due to low volume. In Q1 + Q2 combined with normalized volume, foreigners share of investments constitute approx. 12-13 %, about the same as in 2013.

Recent transactions

The Oslo Area	Approx. sqm	Type of contract	Seller	Buyer	Price NOK mill.	Yield
Kakkelovnskroken 1	3.700	Kombibyg	Christ Eiendom	Munkenes Næringseiendom	n.a	7
Sporveisgaten 20	4.700	Kontorbygg	Munkenes Næringseiendom	Merkantilbygg Holding	n.a	6,5
Storgata 8	2.900	Kontorbygg	Storgaten 8 DA	Eiendomsspar	n.a	6,4
50% av utviklingsprosjekt Hasle	55.000	Tomt/utviklingsprosjekt	Høegh Eiendom	AF Gruppen	300	
Akersbakken 27	14.800	Utviklingsprosjekt bolig	Oslo Sanitetsforening	Olav Thon Gruppen	270	
Enebakkveien 135	2.300	Utvikling	Stor-Oslo Eiendom	Oslo Eiendomssenter	n.a	
Lilletorget 1	14.000	Kontorbygg	Fellesforbundet	Entra Eiendom	~300	
Colosseum Park Nord, Essendropgate 7	5.124	Handel	Salto Eiendom	Pembroke Real Estate	185	
Kabelgaten 6	16.383	Industri	OBOS Forretningsbygg / Aspelin Ramm Eiendom	Bauda	273,5	6,5
Hoffsveien 70 c	6.500	Kontorbygg	Nordea Liv	NRP Finans	171,3	
Hoffsveien 70 b	8.450	Kontorbygg	Nordea Liv	NRP Finans	220,9	
Porteføljesalg		Handel	Braathen Eiendom	Ragde Eiendom	215	
Snarøyveien 20 / Quality Hotel Expo		Hotell	Aker Solutions	Pareto Prosjekt Finans	473	
Frysjavn. 50 / Kjelsåsavn.172		Tomt boligutvikling	Lier Eiendom	OBOS Nye Hjem	n.a	
Norway excl. Oslo	Approx. sqm	Type of contract	Seller	Buyer	Price NOK mill.	Yield
Kaigaten 4/8, Bergen	8.000	Kontorbygg	Sparebanken Vest	MNG Holding	n.a	
Nedre Korskirkealmemming, Bergen	6.000	Kontorbygg	Sparebanken Vest	AB Eiendommer	n.a	
Liamyrane 8, Bergen	11.200	Handel	Union Eiendomsinvest	n.a	147,2	7
Ulmågvegen 6,7,8 mv., Bergen	13.000	Kombi / utvikling	Stortorget Midttun AS	Midgard Gruppen	100	
50% av joint-venture UP Entra AS, Hamar		Kontorbygg	Entra Eiendom	Utstillingsplassen Eiendom	400	
Olrud Handelpark, Hamar	26.000	Handel	Olrudgruppen	Salto Eiendom	~400	
Maskinveien 9, Forus-Stavanger	5.636	Industri	Sand Eiendom og Viking Eiendom	NRP Finans	98,3	7,7
Skippergaten 1- 7, Tromsø	4.500	Kontor / handel	Gefa Eiendom	Fire selskaper m/ 25% hver	61	
Arken Langnes, Alkeveien 1, Tromsø	8.425	Handel	Togo Holding	R. Kjeldsberg og E.A. Smith	~70	
Brevika nord, Stakkevoldvn., Tromsø	17,7 daa	Tomt for ind. og plasskrevende handel	Tromsø havn	n.a	30	
Spannaveien 148, Haugesund	8.400	Handel	Solist Investor	Roald Holding	157,3	7
Håndverksveien 11, Langhus	20.000	Kombi	Anthon B. Nilsen Eiendom	Pareto Securities	355,2	6,8
Røykenveien 142 C, Asker	21.000	Handel	Røykenveien 142 AS	NorgesGruppen	100	

The Rental Market

The market has picked up

The rental market got a slow start in 2014. In Q1 activity was below expectations and signings were stretched out in time. This can be seen in association with the slower growth in Norwegian economy as a whole and tenants awaiting the situation.

Activity did not accelerate until Q2 and at the moment we are experiencing high activity. To a certain extent this can be contributed to some lag from Q1, but primarily there are new demands in the market to be met. Studies show optimism among business managers concerning the future of their companies – this implicates an increase in employment rather than a decrease. The macro numbers show that the employment level continues to rise, although not as strong as before. At the same time we observe a considerably lower growth in both oil and housing investments. The question remains how much this slows down the general growth in Norwegian economy.

The rental market in Oslo is in balance.

Tenant demand and expectations

The demand for centrally located and high standard office properties in close proximity to hubs is as relevant as ever – and supply is still limited in the short term market.

Average sqm in new lease contracts has increased and is now touching on 1.000 sqm per user. At the same time we observe an increase in average lease time from 4,4 years to 5,3 years. In addition to ensure the revenue on the investments in general, this is also caused by the landlords requirement to cover extra refurbishments and adaptations in the premises according to the tenants requirements.

Growth in rent levels

Top rent in CBD has now touched NOK 4.500 pr. sqm, with an average level of approx. NOK 3.250 pr. sqm a year.

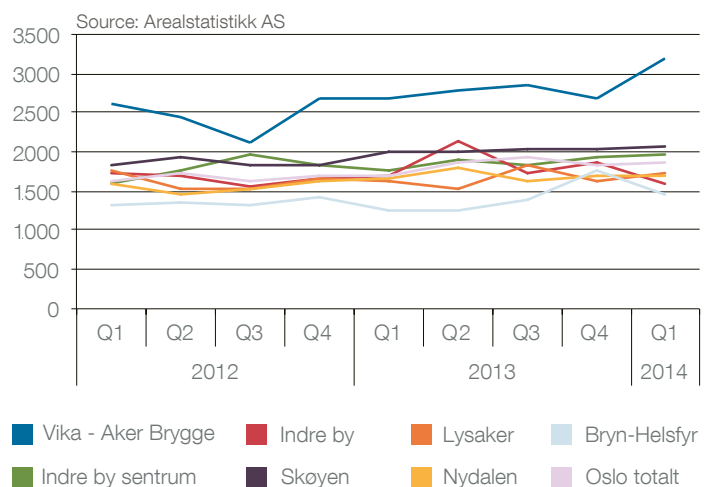
The rent level of the newer buildings in CBD and the city center in general (high standard) is between 2.500 pr. sqm

a year and NOK 2.900 pr. sqm a year.

New constructions in these areas are assumed to achieve top rent from NOK 3.300 pr. sqm a year up to NOK 2.900 NOK pr. sqm a year – depending on location, special adaptations and lease time. In the city center in general (with high standard) the market rent level is approx. NOK 2.600 pr. sqm a year.

Rent levels in total are well above the top rent level in 2008, and has since hitting bottom in the 2. half of 2009 increased with approx. 22%. As previously reported we expect a steady increase in the rent levels at 5-8% a year in 2014.

Average nominal rent levels by zone



In the area «Kvadraturen» and the inner city in general where new constructions and the large floors formats are scarce we will experience that only properties undergoing full refurbishment and upgrading will be in demand. There are examples of rent levels at approx. NOK 2.500 pr. sqm a



year, but market level in general is considerably lower.

Outside CBD/city center the Skøyen area is still considered to be the most attractive area. This is reflected in the rent levels. Rent levels of recently signed leases are higher than NOK 3.000 pr. sqm a year. The surrounding areas of Oslo are also in high demand, often from the larger companies. Newly signed leases reach levels of NOK 2.000-2.300 pr. sqm a year.

In the near future space supply will be complemented by new constructions in the office segment in the established clusters around Oslo, and tenants in search will have an array of choices. The development projects in the area of Bjørvika and the other "new locations" close to it, have contributed to give the area in Oslo inner east a higher attraction - becoming an area worth considering, thus developers will take initiative.

We find that 7-10 tenants in the Oslo-area are in search for ~10.000 sqm office space every year. So far in 2014, no more than 3-5 searches have been made for office space at this size, and we assume that more such searches will appear next year based on upcoming contract expiration.

Vacancy

The vacancy rates for Oslo and surrounding areas is still stable at approx. 7%. We expect a slight continued reduction in vacancy rates in 2014. This is primarily caused by the limited supply of new office space, a medium to low area vacancy rate and high demand.

Area supply

The office segment in Oslo was supplemented by numerous of new constructions in both 2012 and 2013 (approx. 295.00 sqm and approx. 216.000 sqm. respectively). The average in the last years has been at approx. 125.000 sqm. In 2014 completed new constructions appears to make up only just over 60.000 sqm – which is very low seen in historical perspective. In 2015 the estimated completion of new constructions make up a total at almost 160.000 sqm.

Oslo

Office	10 % highest	10% lowest	Expected development
CBD	4.500	2.500	▼
Bjørvika	3.500	2.700	►
Sentrum	2.900	1.800	►
Kvadraturen	2.600	1.400	►
Skøyen	3.100	1.900	►
Lysaker	2.300	1.400	►
Nydalen	2.500	1.500	►
Helsfyr/Bryn	2.000	1.300	►
Økern	1.900	1.200	►

Stock	10 % highest	10% lowest	Expected development
Stock - Category A	1.200	800	►

Trade	10 % highest	10% lowest	Expected development
Oslo - Category A	25.000	7.000	►

Tromsø

Office	10 % highest	10% lowest	Expected development
Tromsø	2.100	1.450	▼

Definition:

- 10% highest: High standards and best location
- 10 % lowest: Office space in need of upgrading
- Stock Category A: High standard/buildings within 30 km radius from the city center
- Trade Category A: High quality in the city center – Bogstadveien, Karl Johans gate.



NAI FirstPartners is a leading commercial real estate brokerage and consulting company and was established in 2000. The company is independent and partner owned. Currently we have 16 brokers and advisors.

We create solutions and implement real estate projects for clients across the country. We specialize in investments, sales, lettings, acquisitions and tenant representation as well as valuations, market research, analysis and consultancy.

We add value for our clients through:

- Expertise
- Experience
- A well-developed network of contacts
- Being solutions orientated and fully engaged
- Reliability

Our Goal

It is our goal to be the preferred supplier for our customers - in a trusting, long-term and diverse working relationship

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