MARKET REPORT

1. half-year 2016

Østensjøveien 16
Letting assignment on behalf of Ferd Eiendom

DNB NÆRINGSMEGLING AS

DNB

ACKNOWLEDGEMENT

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DNB NÆRINGSMEGLING

We are Norway's leading commercial real estate agent. Our aim is to be your preferred partner and provide support with analysis, valuation, advice, letting and the purchase/sale of commercial property. Our employees have long experience and broad expertise, and are dedicated to finding the best solution for you as client.

TRANSACTIONS

Our expert team has conducted transactions for more than NOK 23 billion in the last two years. We provide support throughout the entire process of buying or selling commercial property, adapted to our clients' preferences. We have very good knowledge of the investor market in commercial property.

LETTING

Our brokers find the best solution for clients and tenants. We focus on letting office premises, warehouse and combination properties and some retail premises. We find good, value-creating solutions for clients and tenants.

ANALYSIS

Whether you are planning to develop, purchase/sell or let commercial property, substantial values are involved. We offer high quality advice and analysis, which considerably increases the likelihood of success. Since our establishment in 2003 we have closely followed the market and built up detailed knowledge and a comprehensive set of databases. This report has been prepared by our Analysis Department.

VALUATION

In a steadily more professional property market there is an increasing need for external valuations of property. We have long experience of undertaking valuations for portfolios, individual properties and development projects. We have seen significant growth in the number of our assignments and are one of the largest and most recognised market participants.

Cover and this page:
Østensjøveien 16, Helsfyr/Bryn
Letting assignment on behalf of Ferd Eiendom. Illustrations: SJ Architects

CEO'S INTRODUCTION

"It's the supply side, stupid," commented DNB Markets' eminent oil analyst last autumn, about the oil market. After a record level of activity on the transaction side in 2015, and with continuing pressure from the investor side, it will be interesting to see how activity in 2016 actually develops and whether there will be sufficient property for sale. In the rental market the tenants appears as winners in 2015 with an increasing number of options and several elements to negotiate on.

2015 was a record year in many ways, led by record low interest rates, a transaction market that reached new heights and a wall of foreign capital. All this in spite of uncertainty around the oil sector and developments in the Norwegian economy. The appetite for commercial property has not waned - there are still investors, Norwegian and international, pension funds and property companies, seeking investment property. Although there are clouds on the horizon, the commercial property market is generally healthy and the yield gap is attractive. The conditions should therefore be in place for a good level of activity in the current year as well, even if credit margins increase. When this is said investors must have a reason for selling - in addition to profits this is also about, among other things, reinvestment opportunities.

2015 was also a record year for DNB Næringsmegling with turnover of NOK 135 million. During the last three years we have sold commercial property with a value of around NOK 30 billion, arranged leases for an aggregate area of more than 600,000 m² and carried out valuations of properties with a value in excess of NOK 200 billion. A lot is "going right" for us and we are solving increasingly more complex assignments. It is important that we adapt to a market that is steadily changing, where competition is becoming tougher, which is increasingly financially oriented and more professional and where real estate brokers are moving more towards the field of corporate finance.

The background to the closure of the four regional offices is not geographically motivated but more based on a rationale that we must focus and work on the right assignments. It is important to point out that the four regional offices that are affected have delivered results and have a very good standing in their local markets. We are in the process of finding solutions for the employees who have been affected, among other ways in assisting individual employees to start their own businesses so that the portfolios can be continued. Most of the transaction market is centred around the largest cities. Our offices in Oslo, Trondheim, Bergen and Stavanger will work closely together, particularly on the transaction side. We have good examples over the last year of how cooperation works in practice: for example Trondheimsporten was sold to Entra and Solheimsviken in Bergen was sold to Storebrand. Both transactions are good examples where both local and national expertise was used. We are convinced that by focusing the business we will also constitute a more relevant advisor for our customers.

A lot of work is put into the market report and we hope that it will be useful! In DNB Næringsmegling we look forward to presenting our market view in various fora in the coming period and, where necessary, going into greater detail. Among other things we will be able to present our view on how the market would be affected if oil prices remain low, a question that international investors, among others, are very concerned about.

In DNB Næringsmegling we have started a new journey and look forward to an exciting 2016 with our clients and partners. Good reading!

The management group, Oslo
From the left: Gunnar Selbyg, analysis and valuations, Morten Roland, transactions, Anne Helene Mortensen, CEO and Jørn Skovly, letting.

SUMMARY

The economic situation and effects for commercial property
DNB Markets forecast from January indicates that any upturn in growth has been delayed by a year and that we will have low economic growth for the next three years. With regard to the return on commercial property the forecasts mean that growth in demand for space will be lower and rental income will be more exposed to risk. Two macro factors that will contribute to keeping values and returns up are continuing low interest rates (downward adjustments in interest forecasts) and good CPI growth (particularly in the short term). Prospects of a weaker development in the economy also lead to the likelihood of low interest rates, which themselves indicate that commercial property with secure rental income becomes even more attractive relative to other low-risk investments.

Office market in Oslo
Since the autumn office vacancy has fallen to 8.7%. In the way the office and housing markets have developed the financial logic of conversion has only grown stronger. We expect a low level of new building and a high rate of conversion, so that office vacancy will fall further to 7.3% by the end of 2018. We find that it is still a tenant's market but expect that market rent levels will bottom out this year. Compared with last autumn we now expect that it will take longer before demands picks up again. We therefore do not expect any growth in market rent levels before 2017. Our forecasts mean that market rent levels will develop more unevenly than in an ordinary market. Central areas and the eastern clusters will see moderate growth from next year while the market will use more time to absorb surplus supply in the western corridor.

Other letting markets
There was generally good growth in consumption last year and shopping centres increased turnover by 5.3%. With respect to turnover-based rent growth per square metre however was only 2.3%. Similarly in the hotel sector the key figures were weakened by capacity increases. Oslo saw the strongest growth, while the key figures developed negatively on the west coast. In the warehouse segment in the Oslo area we are seeing good demand and contracts are being signed for all sizes of building. There have also been lease signings for new buildings. Otherwise new buildings are now being offered at a lower rent as the fall in yields means that developers can achieve the same return with a lower rent level.

Loan financing
Loan capital has become more selective and credit margins and equity requirements are on an upward trend. However there is an even clearer likelihood of low interest rates for several more years. DNB Markets expects that the key policy rate will be cut on two occasions this year and in total by 50 basis points. In such a case the floating interest rate (3-month NIBOR) will fall considerably, and several investors are now choosing more often to use a floating interest rate or alternatively to fix the interest rate for 10 years plus. DNB Markets' forecast indicates that floating interest rates will fall to 0.5% in 2017 against an average level of 1.13% in Q4 2015, and that the 10-year swap rate for the coming years will be flat at 2.0%. Bond financing represents an important supplement to ordinary bank loans and the most solid borrowers can now lock in a borrowing cost over 10 years of around 3.25% with a 60-65% LTV. Overall we expect that the loan market will function well but that for example SPV companies will to an even greater extent be dependent on having solid investors in controlling ownership positions in order to obtain satisfactory loan financing conditions.

Yield development for offices in Oslo
We consider the prime yield to be in the range 4.00 to 4.25%, but closer to 4.00%. On page 24 we present a number of arguments why the prime yield may both fall and rise. We expect no change in the level in the short term. The best properties will almost always achieve good prices but we expect that the prime yield will tend to rise slightly when the Norwegian economy picks up and alternative low risk investments become more attractive. The yield for ordinary office property in Oslo could rise marginally in 2016 as a result of an upward trend in credit margins and equity capital requirements at the same time as the letting market becomes steadily more challenging. In time we expect however that the level will fall when the letting risk diminishes. The present high yield gap for ordinary office property will in other words normalise in time. Properties with long and secure leases in the office clusters along the Outer Ring Road have fallen considerably and are now around 5.25% +/- 25 basis points, while the lowest yield at Skøyen is in the high 4's.

Property tax in Oslo
In the transaction markets we find that investors are expecting that property tax will amount to 30 to 60% of full market value. On page 28 we illustrate the possible reduction in value as a consequence of the property tax. The basis for the property tax has not yet been clarified, but for many Oslo properties the fall in the yield and good CPI growth last year had a greater positive effect than the expected negative effect of the introduction of property tax.

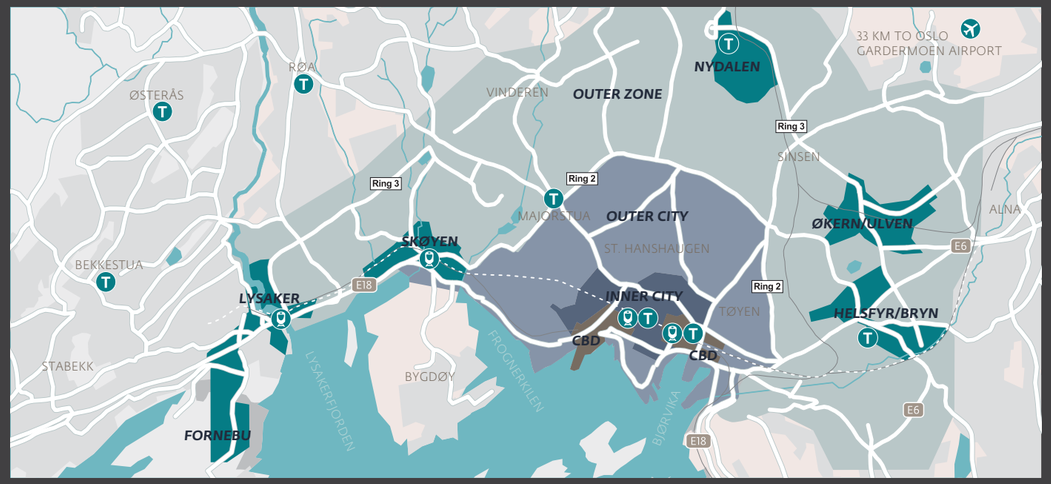
Editorial team
From the left: Ida Louise Wæraas, Market coordinator/graphic designer. Gunnar Selbyg, Director analysis og valuation. Ingrid Elisabeth Moe, Analyst. Magnus Havikbotn Jacobsen, Analyst.

Transaction market
2015 was an outstanding transaction year with record high turnover of commercial property, record low yields and many new purchasers from within Norway and abroad. All the main segments and main cities achieved a transaction volume above NOK 4 billion and in total we recorded 253 transactions. A particular feature of the market was the extraordinarily high number of individual properties with excellent locations and/or long leases that were offered for sale. As many as 44 transactions last year had yields of 5.5% or lower. In addition the market was characterised by a number of major portfolio transactions that primarily related to the sale or partial sale of property companies and property funds. International investors bought commercial property for close to NOK 50 billion, while many property companies, private investors and developers used the market to take profits on low risk property. Perhaps the biggest surprise last year was that life insurance and pension companies were net sellers of commercial property for more than NOK 12 billion. It would be natural for the transaction volume to fall after last year's record turnover, but on page 20 we argue why we expect a continued high rate of transactions and a well functioning market.

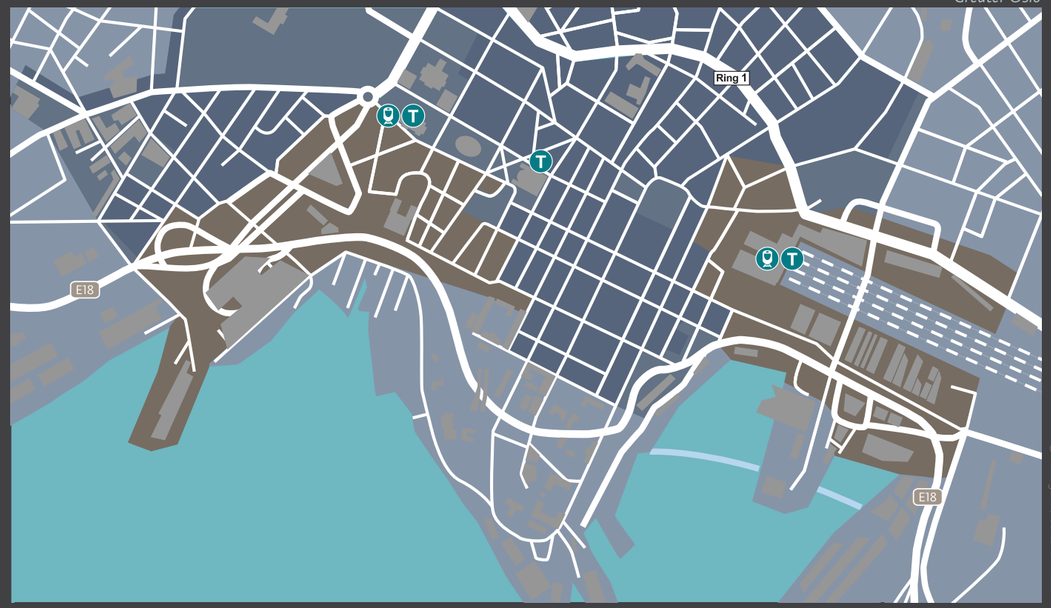
Other main cities
Transaction volumes were at record high levels in Bergen, Trondheim and Stavanger and properties were sold at very low yields. We are seeing increased interest from both international and new national investors and several of these have also bought large individual properties. A good example of this, where DNB Næringsmegling was sales advisor, was the bidding round related to the sale of the DNB Building in Solheimsviken, which was probably the largest single transaction in Bergen to date. At the same time we see that letting markets are characterised by high vacancy levels and office vacancy in all three cities is now close to 10%. Stavanger and Bergen are still affected by high vacancy in the oil and offshore-related areas, while Trondheim is showing an increase in vacancy due, among other things, to a large amount of new building. It is worth pointing out that vacancy varies considerably from area to area and from segment to segment.

OSLO

CBD · Inner City · Outer city · Outer zone · Other office areas



Greater Oslo



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CBD and Inner City

THE LETTING MARKET, STATUS AND FUTURE

- Vacancy down 24,000 m² over the last half year to 8.7%
- Low level of new building and high level of conversion is "saving" the office market
- Increased use of rent-free periods – rise in rents delayed till 2017

General

For the first time in 3 1/2 years vacancy in the office market is on the way down. Since last autumn vacancy has been reduced by 24,000 m² to 840,000 m², which corresponds to 8.7% (9.0%). This is in spite of the fact that a number of large buildings have been included in the count for the first time.

The main reason why vacancy is showing a falling trend, is that the level of new building is very low this year and next. As a result there is a very little vacated space that is included in the count. At the same time the volume of conversions is high, helped by demanding office tenants and high house prices. We have also seen conversion to other uses such as refugee reception centres.

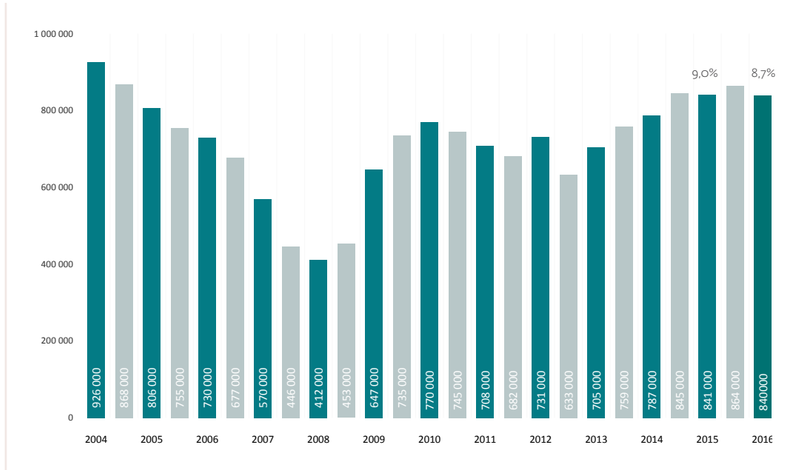
There is good activity in the letting market in many areas, with underlying demand from many other sectors than the troubled oil industry. At the same time vacancy in relative terms is at a high level and this results in a "tenants' market".

The downturn in the oil industry, and uncertainty regarding its knock-on effects for the economy in general, has created increased uncertainty among companies. Several are now cautious with regard to their own growth and future space requirements, and want a large degree of flexibility when entering into new leases, not only in terms of duration but also possibilities to reduce space.

The use of rent-free periods has been increasing throughout the year, and now for longer periods than we have previously seen. We also see an increasing amount of subletting, which is negative for the market. Premises for subletting are often offered at a very discounted price, but with a disadvantage: the tenant has only small possibilities to adapt the premises to its own use. For users that do not have high requirements in this respect it is however possible to obtain premises in most areas at a good discounted rent.

Our definition of vacancy includes office premises that are vacant today or are ready for occupation within the next 12 months.

Office vacancies in Oslo, Asker and Bærum (sqm, %) | 1. quarter · 3. quarter



Demand
In the last 10 years employment in office occupations has risen more than employment in general in Norway. In addition office employment in Oslo, Asker and Bærum, which probably represents a third of the office employment in Norway, has risen more than office employment in the country in general. We now believe this picture is changing. According to DNB Markets employment in office occupations will probably rise less than employment overall in the next three years. The reason is that growth in employment is predicted to come in sectors that are not office intensive, such as health, social care and education. Growth in space demand for office intensive sectors such as the oil industry, banking and media is expected to be reduced compared with earlier years.

In the case of Greater Oslo we believe that the development in future will be more marked than for the country as a whole as the oil downturn has first and foremost affected southern and western Norway until now. This effect is expected to reverse and affect the country more broadly, including Greater Oslo. Southern and western Norway have been through changes that we have not been forced to make in Oslo. In addition history shows that the movement of people to Oslo slows in periods of low economic growth due to fewer available jobs.

In DNB Næringsmegling we find that so far there is good activity in the office market, with good interest from tenants in both the governmental and semi- governmental sector as well as private companies outside the oil industry. The downturn has so far been oil specific, and the big question is how large the knock-on effects will be on other sectors. Oil investments are expected to continue to fall in future. They fell 15% last year and currently several developments are ongoing that are expected to be completed in the next couple of years. With few new projects being commenced it is likely that there will be a significant downward adjustment in the level of investment over time. We estimate a new 15% reduction in oil investments in 2016 and a further 10% in 2017. These forecasts are based on DNB Markets main scenario where the oil price rises this year and next up to USD 70 per barrel in 2018. With these assumptions we estimate a weak but positive demand for space in 2016 and a gradual improvement in 2017 and 2018.

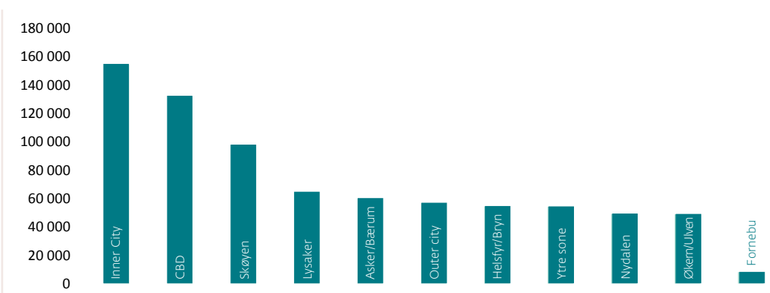
We have previously described the consequences for the office letting market in Oslo, Asker and Bærum if the oil industry sublets 20% of its space. One can read more on this in the Market Report for the second half of 2015.

Expiries and searches
The volume of leases that expires this year and next is low, particularly large leases over 5,000 m². This is contributing to few leases being signed for new buildings and a low volume of new building. The study from Arealstatistikk of future expiries shows however that expiry volumes improve in 2019.

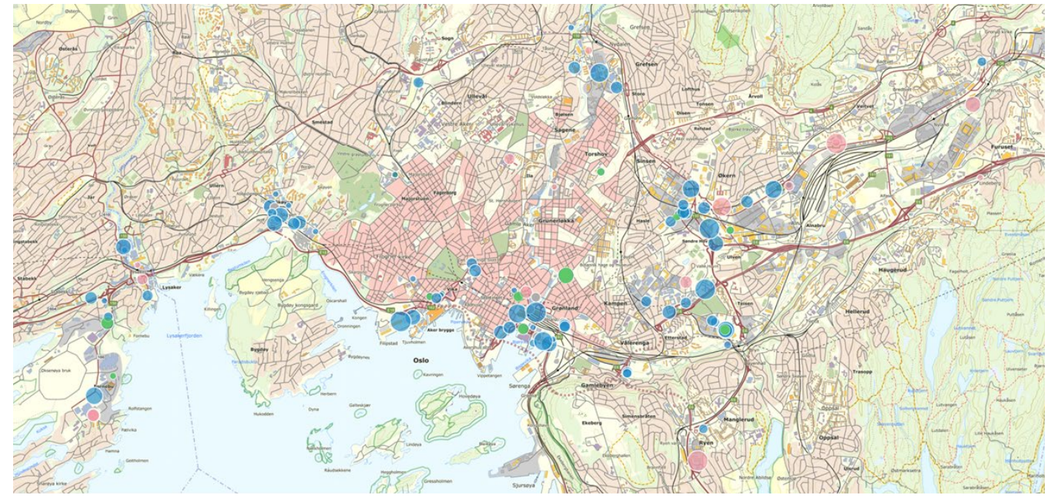
In a period such as now, with increased uncertainty, we are recording an increasing number of renegotiations. Several companies are uncertain as to their own future growth, and are adopting a cautious attitude involving renegotiating current premises on short leases. For other companies, however, now may present good opportunities to secure space in attractive areas at a reduced price compared to what one would have had to pay 18 months ago.

Most major tenants announce their lease searches in market channels to which the property sector has access. When studying both publicised searches, and unpublished ones that DNB Næringsmegling has on its own databases, we see an increasing proportion of tenants are looking in the city centre and that proximity to the railway/airport express is considered particularly attractive.

Tenants search for new property 2013- YTD | By desired location (sqm)



New building, potential 2015-2020 — *confirmed* · *potential* · *uncertain*



Conversion
Demanding office users and an oversupply of office space mean that certain properties are no longer sufficiently attractive as office properties and get a new life through conversion to other uses. Most often these are outside the established office clusters because the location is considered to be not very attractive for office users, e.g. because it is a long way to the nearest public transport hub or that the space layout is not appropriate. Such obsolete office properties are then converted to housing, or to kindergartens or schools. In the last half-year we have also seen office property converted to refugee reception centres. This was the case at Philip Pedersens vei 20 at Lysaker, where we have assisted Oslo Areal to lease 7,500 m² to a temporary refugee reception centre for 2–3 years.

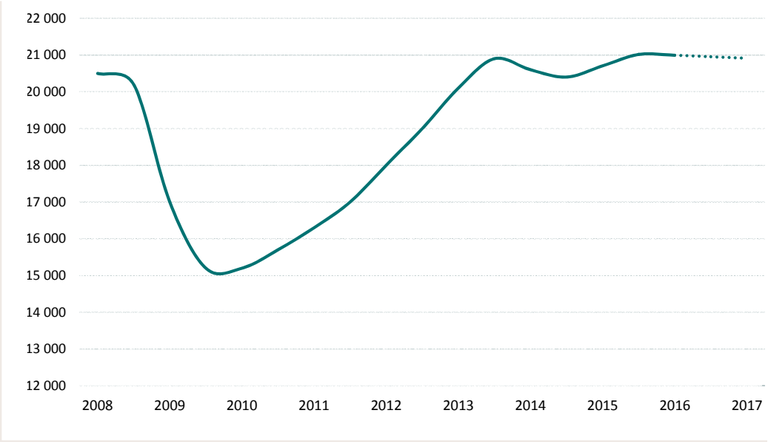
A high level of competition and overcapacity in the office market will probably lead to a high volume of conversion in future as well. Record high house prices and record sales of new houses also support this. We believe that there will be continued good sales of new housing in future, as the conditions to support this are in place as long as new house prices are not significantly higher than the prices of recently built houses in secondary sales.

New building
New building volumes fluctuate considerably from year to year and this affects office vacancy levels. Fortunately at a time when the economic situation is uncertain, new building volumes are now low. It is rare for developers to commence a new building speculatively.

After a low volume of new building in 2014, volume increased in 2015 to approximately 150,000 m². In the current year and next year we expect low volumes of respectively 70 and 60,000 m² and this will largely "save" the office market. With the current situation – with high office vacancy on one side and uncertainty and falling space demand on the other side – vacancy could be very high if new building volumes were also high. The situation today though is that vacancy has fallen due to the low level of new building and high proportion of conversion, and we actually expect a negative net supply of space in the next two years.

New building activity in the immediate future will for the most part be centred around the Hasle/Økern/Ulven area and in the eastern part of the city centre. In the latter area there will be new space in connection with the Riksrevisjonen's move to Olav Thon's building in Storgata and Entra and Skanska's new building in Sundtkvartalet. In addition OSU has a smaller new building under construction on speculation in Bjørvika. On the western side there is also construction but this time not for oil companies as we have seen much of in recent years. Skatt Øst is moving into a new building in Sandvika in the autumn of 2016, and in Asker Ferd Eiendom is building new offices for Indra Navia that will be ready next year. Somewhat further into the future there are greater possibilities for new buildings in virtually all areas, but here leases must be signed before construction commences. We believe that the volume of new building will increase from 2018-19 in line with an economic upturn and the fact that there will be more lease expiries.

Building cost for offices excl. VAT (NOK pr. sqm.) | Forecast based on discussions with major contractors



Building costs
The level of commercial new building, combined with high house building volumes, means there is a good balance in the construction market. Building contractors have capacity to take on new projects and we see that building costs are now levelling out. A continued low volume of new office building in 2016 and 2017 suggests zero growth in building costs going forward.

Our price estimates are based on buildings of a normal good standard on simple ground conditions. Difficult ground conditions and a higher standard affect the price by an addition of up to 20%. The trend is generally towards building to a higher standard with more environmentally friendly solutions, which are more expensive. Continuing low interest rates mean developers can nevertheless offer new buildings at competitive rents.

Future developments
The combination of high conversion and low new building volumes has contributed to a fall in vacancy over the last half-year. We believe that this effect will continue, and even though demand is falling compared with last year, the negative net new building will mean that office vacancy is further reduced in future. Our estimate is that vacancy will fall from the current level of 8.7% to 8.4% at the end of 2016 and further to 7.9% in 2017 and 7.3% in 2018.

During 2015 we noted increasing differences in the market. Not only as before: between attractive properties close to communication hubs against properties with long distances to such hubs, but also to an increasing extent between the western axis and the rest of Oslo. In Oslo vacancy has fallen in most areas with the exception of the Outer centre, where we have included Sundtkvartalet for the first time with its 17,000 m² of available space. The oil sector has much greater importance for the western axis and vacancy is now especially high at Lysaker, Fornebu and in Asker and Bærum. The western axis is also to a lesser extent a natural location for the many governmental and semi-governmental operations that are looking for premises in connection with the capital, but at the same time we are recording relatively good activity in the central parts of Asker and Sandvika due to the fact that these municipalities are growing despite the oil downturn.

Competition in the letting market is in any case high, irrespective of area. It has seldom been more important to take good care of one's tenants than it is today. "As is" rents have been under pressure for 18 months now. A renegotiation of a lease to a moderate rent is to be preferred rather than continue a high level of vacancy.

Rents have corrected downwards in most areas, but to a varying extent. The price varies with the tenant's requirements as to standard. We are now experiencing however that tenants are more cautious and less exacting than previously, and that more prioritise flexibility in the form of short contracts. This means that property owners cannot justify expensive redecoration. As a result redecoration is frequently at more moderate levels than previously, with a shorter lease. The use of rent-free periods has also been increasing during the last year and in some cases with exemptions up to one and two years, something that was unusual during the upturn in 2010-2014.

As one can see from our rent chart, we find that the areas are now developing more differently. We believe that much of the correction has been taken out in the most attractive areas and that price growth will come more quickly in the centre then along the western axis, where more vacancy must be absorbed before the market returns to balance. Discounts in the form of rent-free periods etc. must also be reduced before we see a lift in rents.

As mentioned our forecasts are based on an increase in the oil price. But what will happen if the price does not rise, but remains low over time? We have recently made some calculations that show the consequences in such a situation. Get in touch with us if you would like more information on this.

Galleriet
Prospect from Scwheigaardsgate 14
Letting assignment on behalf of Oslo Areal

Developments by area

Vacancy in **CBD West** has fallen by almost 5,000 m² to 51,000 m². The biggest reduction has taken place in Storebrand's building in Ruseløkkveien 26, where last autumn 11,900 m² was put on the market after Wiersholm at a discounted rent. Parts of this have been let and the rest withdrawn from the market as there is little time before rebuilding starts.

In addition almost 3,000 m² has come onto the market after Kvale in Fridtjof Nansens plass 4, which is moving to Haakon VIIs gate 10, and we also see that there are several sub-lettings in the area. Several big contracts were signed in CBD West in 2015. Among the most recent is the letting to Carnegie at Fjordalléen 16 on Aker Brygge where we assisted DNB Næringseiendom. The broking firm is to take 2,500 m² at the end of 2016. In future space will become available following Carnegie, Steenstrup Stordrange, Wikborg Rein and Manpower with the latter moving out of the area.

Average rents in CBD West have had a correction since the peak in 2014. For high standard buildings we believe the range is from NOK 2,850 to NOK 4,000 per m². The top rents for small amounts of space have remained stable at even higher levels than this. We believe that rents in the area have now made up most of the correction and that prices will level out for a period before rising again from the start of 2017.

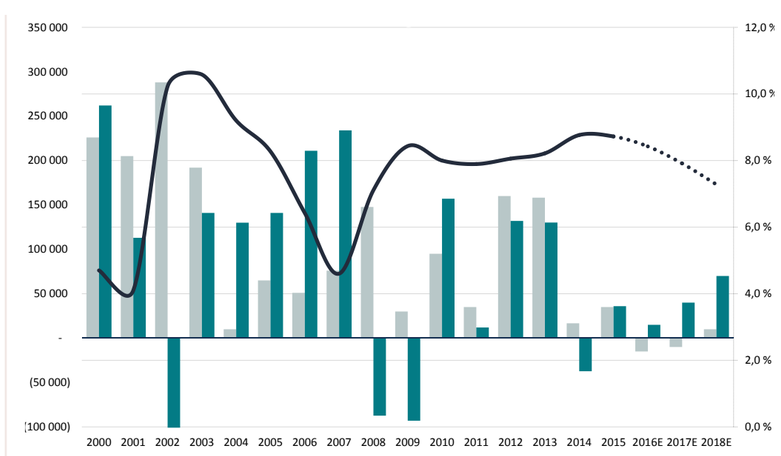
In **CBD East** there is still a very low vacancy level, only a slight increase of 1,600 m² to 15,000 m². Most vacancies are in the new building Dronning Eufemias gate 42 where 4,200 m² are under construction without any signed leases at the moment. In addition 2,700 m² is still vacant in KLP's building Byporten and there is some sublet space in Dronning Eufemias gate 16 and some new vacancy in Galleriet in Schweigaards gate, among others after Westerdahls. The main news in this area is TV2'signature of a lease on 6,000 m² in the new building Diagonale which will be ready in two years. Several new buildings are being planned such as Fiskebrygga and Eufemias. Rents in CBD East have proved to be relatively stable but the tough competition to get the larger tenants has led to adjustments here as well. With the exception of special top floors, prices for high standard buildings are between NOK 2,500 - 3,000 per m².

In the **Inner City** vacancy is down by 6,000 m² to 140,000 m². The largest vacant space is in Kirkegata 15 where large parts of the property are being refurbished and will be ready within 12 months. A new vacancy of 5,400 m² has arisen at Fram Eiendom in Rådhusgata 5. In addition there is still 9,500 m² available in Henrik Ibsens gate 60. The centre is attractive for most businesses, including the public sector. Rents have undergone a minor correction, but we believe that prices will be stable in future and that the area will be among the first to see an upturn from early 2017.

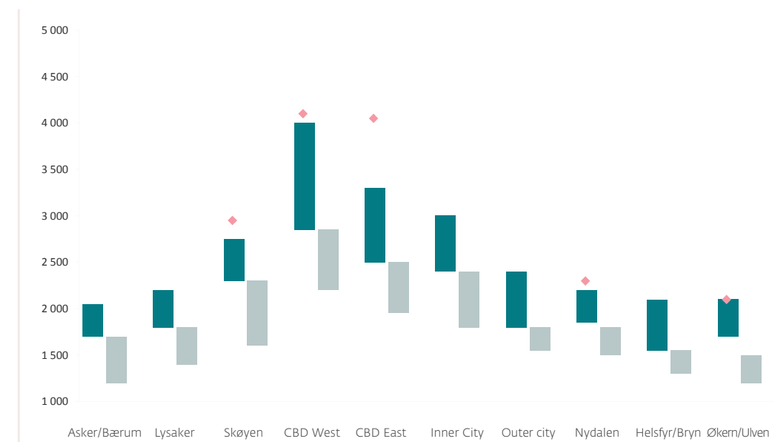
At **Skøyen** vacancy is virtually unchanged, up 1,200 m² to 61,000 m². There is new vacant space at Sjølyst plass 1-3 where Moteforum is being divided up and several of the occupants are moving to the Telenor centre. In addition we have ourselves been involved in a letting of almost 4,000 m² in Karenslyst Allé 6 in the last half-year to, among others, Veidekke, as well as the letting of 3,800 m² in Drammensveien 147 to Hafslund and Multiconsult.

Market rent levels at Skøyen have undergone a clear correction. Much sub-letting in the area has led to average rents falling. The attractiveness of Skøyen is however so high that we believe the area will be among those that see a price increase first.

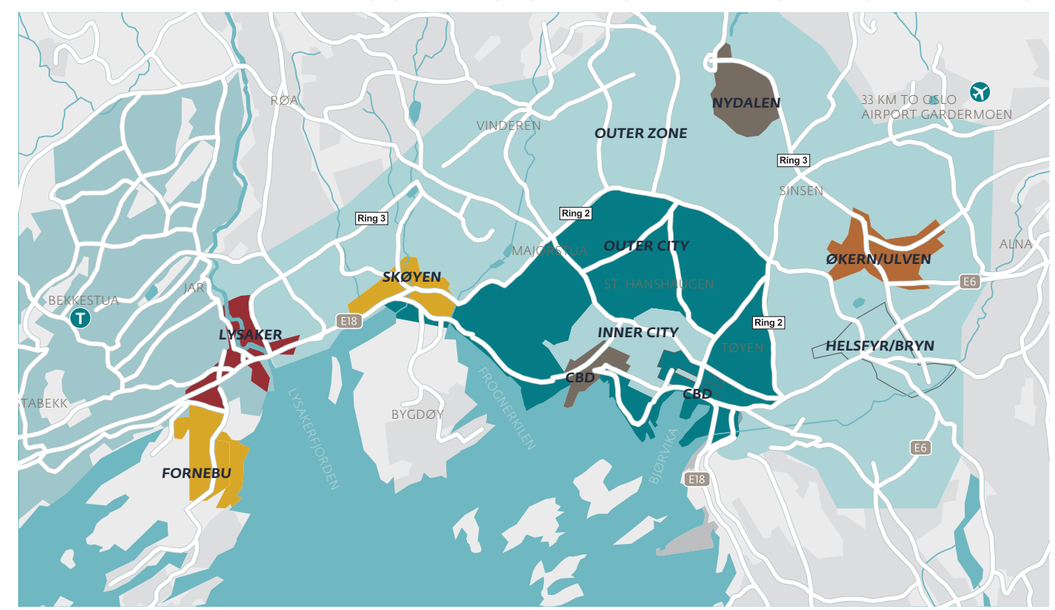
Supply, demand and vacancy (sqm, %) | *New office building, net* *Absorption* *Vacancy%*



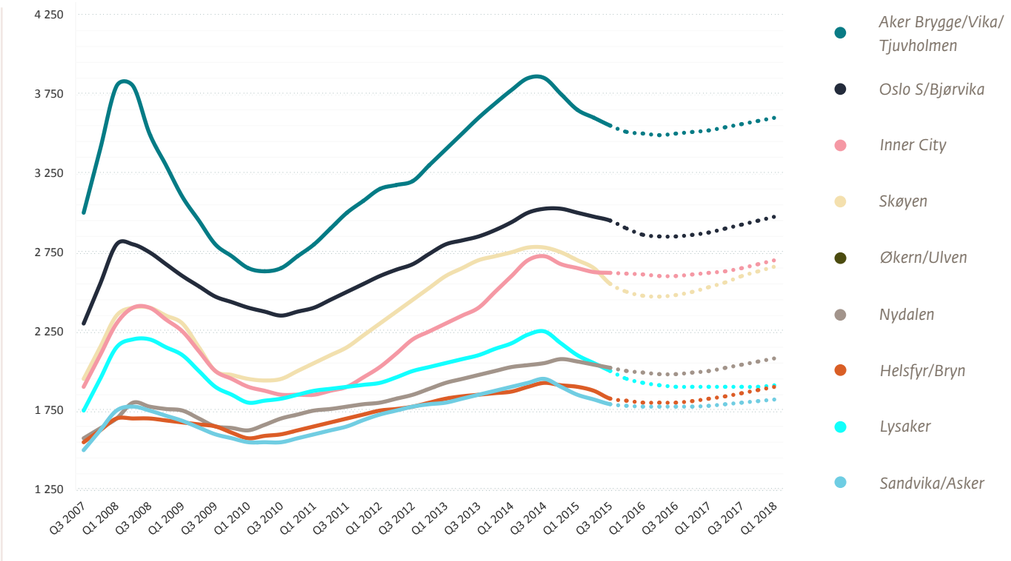
Rent levels per area (NOK per sqm) | *High standard* *Good standard* *Top level*



Vacancy in various areas *2,5 - 5% %* *5 - 7,5 %* *7,5 - 10 %* *10 - 15 %* *15 - 20 %* *20 - 25 %*



Rent trends by area 2007 til 2018 | High standard, nominal price. - (NOK per sqm per year)



Vacancy is still high at **Lysaker** but has been slightly reduced since the last report. Vacancy is now down 5,000 m² to 116,000 m². The largest reduction has been the removal of 7,500 m² in Philip Pedersens vei 20, which has been converted to a refugee reception centre.

In Fornebuveien 7-13 vacancy has been reduced by close to 3,000 m² due to lettings to Implenia and Widerøe and in Vollsveien 6 vacancy has been reduced by approximately 2000 m². In Lysaker Torg 25 vacancy is increasing by 3,500 m² due to internal relocations. Otherwise there are few big changes at Lysaker.

The high level of vacancy has naturally led to a correction in rents. The market at Lysaker falls into two parts: rents are holding up well at the most central locations close to the rail station, while prices are falling the further the walking distance to the rail station. The market is tough for the less central properties at Lysaker. We note that substantial rent-free periods are being given to attract tenants to sign a contract.

At **Fornebu** vacancy is increasing by 11,200 m² to 58,000 m². Two big changes have occurred here. In the summer of 2016 large parts of Aker Hus will be vacated even though the lease runs until the summer of 2019. The space could thus be available for sub-letting and we include this in our vacancy count.

At Statoil a sub-letting of 7,750 m² has been withdrawn from the market. At Telenor there is still 15,000 m² available in spite of Moteforum taking a large amount of space.

In **Nydalen** vacancy is falling by 5,700 m² to 31,000 m². 6,000 m² has been let in Avantor's newly refurbished building Nydalsveien 28 during the last half year to, among others, Statnett and Itera. There is a new amount of sub-letting space in Gjerdrums vei 4, but apart from this there have been few changes in Nydalen in the last half-year.

We find Nydalen is attractive to many tenants and that many remain in the area after the expiry of their leases. The development in retail and restaurant facilities around Torgbygget is contributing to increasing the area's attractiveness.

Rents in Nydalen have experienced a slight correction and are expected to see a rise when activity in the letting market picks up again in 2017. There is however much competition from Økern/Ulven/ Hasle and Helsfyr/Bryn, which is likely to restrict any price rises.

In the **Outer City** vacancy is increasing by 10,000 m² to 54,000 m². The increase is caused by Entra and Skanska's project Sundtkvartalet being included in the count for the first time as it will be ready at the end of 2016. Skanska and Manpower have signed for space but there is still 17,000 m² available at the present time. At Majorstua we have recorded that 4,500 m² metres is available for the first time, in the refurbishment project Sørkedalsveien 8, which was recently bought by Oslo Pensjons-forsikring. In Holbergs gate 21 Eiendomsspar has let 3,000 m² to, among others, SiO Athletica and 3,000 m² has also been let in Christian Krohgs gate 1, to UDI.

The Outer City has moderate rents compared with the CBD and Inner Centre but nevertheless offers many of the same benefits that one finds in the Inner Centre. And even though the location is not necessarily close to a rail station there is good accessibility with other forms of public transport. Several new buildings in the area with a high standard contribute to drawing up the average compared with the previous situation.

At **Helsfyr/Bryn** vacancy is unchanged at 55,000 m². Little has happened here over the last half-year within our twelve-month perspective, but in the longer term a lot of new building is planned at Valle, Grenseveien 90, Østensjøveien 16 and 40-52. We expect that there will be price pressure on the existing high standard buildings in the area when they have to compete with new buildings for the larger tenants, but that the new buildings will achieve good rent levels. There is a low level of net relocation to the area but many tenants remain in the area on expiry of their leases. Helsfyr and Bryn are well placed with regard to communications but lack a centre offering other facilities as one finds, for example, in Nydalen.

At **Økern/Ulven** vacancy is falling slightly by 1,700 m² to 43,000 m². The new Torgbygget in Ulvenveien 90 C is included in the count for the first time – here there is currently 3,200 m² available on floors 5 and 6. In addition 3,700 m² is vacant in Bymiljøetaten's new building at Hasle, as well as 2,700 m² in Cowi's neighbouring building.

Økern/Ulven is a very divided market with rapid development of new buildings on the one hand and, on the other hand, many older buildings of a less good quality. Thus rent levels are also split, with one level for the new buildings and a much lower level for the older buildings. Increased competition between the new buildings in the area means that prices are levelling out.

In **Asker and Bærum** vacancy is increasing by 4,600 m² to 100,000 m². Among the main changes vacancy in the new development Sandvika Business Center has now been reduced by 3,000 m². In Kjørboveien there is now 11,500 m² available in Entra's building, an increase of roughly 4,000 m² from the last report. Vacancy has also increased in Eivind Lyches vei 10 where GE Oil & Gas has reduced its space significantly. For the first time we are including 8,000 m² of vacant space after Varner in Bergerveien 5, but this is a building that may be converted to other uses in the future.

The area has been affected by the downturn in the oil sector, as many oil companies are located along the E 18 motorway towards Asker. In the central areas in Asker and Sandvika we are seeing higher activity, characterised by the fact that these municipalities are growing, in spite of the oil downturn. Here the most attractive areas are those close to the rail station, where there is a good range of available services. High and increasing vacancy in the rest of the area has led to a substantial correction in rents at locations outside the most attractive areas.

Fiskebrygga
Letting assignment on behalf of HAV Eiendom
Illustration: Alliance Arkitekter and Mir Arkitekter. The project is under planning and the illustration is preliminary.

THE TRANSACTION MARKET

- A record transaction market in 2015
- Still an attractive yield gap and a lot of capital is looking for commercial property
- High return on property in 2015, but weakened prospects going forward

2015 in summary – a record transaction market

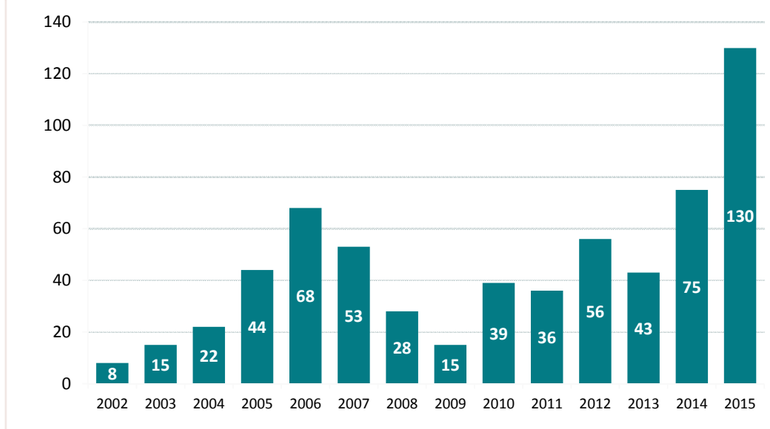
Last year's transaction market was particularly affected by two factors that became clear in 2014. The return on commercial property had become more attractive relative to other low risk investments as a result of the fall in interest rates, together with the fact that many international investors were confident enough about Norway to make purchases. These factors contributed to the transaction year 2015 being characterised by generally high excess demand, record low yields, large portfolio transactions and many new buyers. International investors were the largest net buyers and many property companies and private investors and developers used the market to take gains through the sale of low-risk property. There were sales of large individual properties in all of the four largest cities and in all building segments. In total we recorded 253 transactions with a minimum value of NOK 50 million and an aggregate volume of NOK 130 billion last year. If the volume in 2014 is added, the total exceeds NOK 200 billion. In order to put the volume of transactions in the last two years into perspective, this roughly corresponds to all the office properties in Oslo being sold or the equivalent of office buildings for 350,000 people, and is actually the same as the transaction volume for the previous six years in aggregate. We registered a total of 29 transactions in excess of NOK 1 billion in 2015, which in total represented 55% of the volume measured by value. Among these large sales were 12 portfolio transactions, primarily in the form of sales or partial sales of property companies and property funds. These portfolio transactions amounted to 1/3 of the aggregate turnover volume in 2015. Last year was also characterised by an extraordinary number of individual properties being offered in structured sale processes, but it is also clear that many of the large transactions, both in relation to the portfolios and individual properties, followed an initiative from the buyer side.

After last year's record volume it will be natural for a lower volume of commercial property to be traded this year. Last year, as mentioned, offered many extraordinary opportunities, and many of the potential sale candidates that the market has talked about for several years (for example the Yara building) were sold. In addition loan capital has become more selective. It is not certain how great these effects will be, and the outcome range for this year's transaction volume is naturally large.

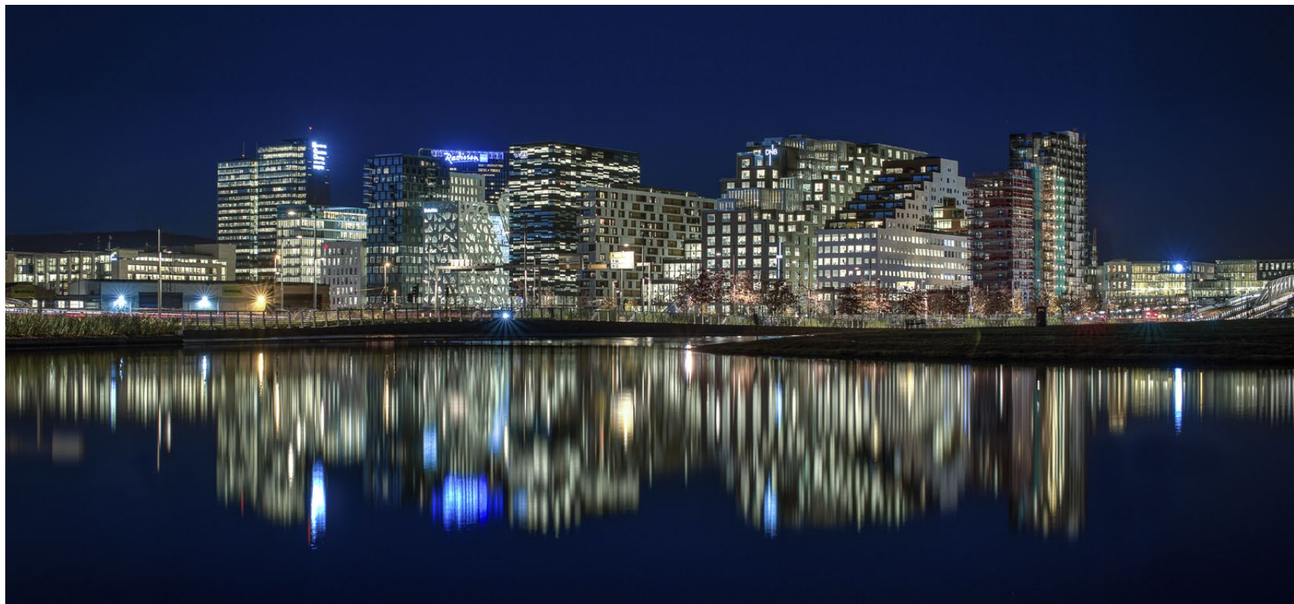
In general we expect however a well functioning transaction market with many buying opportunities because several trends are contributing to a high number of sales.

- Many property companies, private investors and developers are selling on the basis of a wish to take gains on fully developed properties. Such sales often trigger new sales because the market participants look to reinvest the gains in property with a greater potential for creating value through development. Alternatively they can invest in properties in their own portfolio that in time may become new sale candidates.
- Many market participants in several investor categories are also selling based on a wish to concentrate their property portfolios, a trend we expect will continue.
- In the last couple of years there has also been a clear trend involving more sales of syndicate properties.
- The current market also means that many property users can release capital through sale lease-back transactions at attractive prices.
- We also believe that the high transaction volume in recent years relates to the fact that the market is more flexible than previously. As an example, last year Hemfosa bought a portfolio of properties that previously had two different owners. The trend involving advisors and arrangers creating many transactions is important for both flexibility and liquidity in the market. We are also seeing many transactions linked to new cooperative constellations.
- In line with the above point, the greater professionalism in the market, the large number of arranged investments, increased market flexibility etc. is generally contributing to properties on average being sold more frequently. In years with high demand and good prices more properties are sold that have recently been purchased, in addition to the fact that more properties are sold that were apparently locked into long-term ownership.
- In recent years there have also been more transactions related to property used for education, culture, kindergartens and healthcare.

Annual transaction volume in Norway (NOK bn.) | (Transactions valued NOK 50 mill. and above)



DNB Mid-building, Bjørvika
DNB Næringsmegling was sales adviser on behalf of DNB Næringseiendom



2015: International investors largest net buyers – property companies took gains

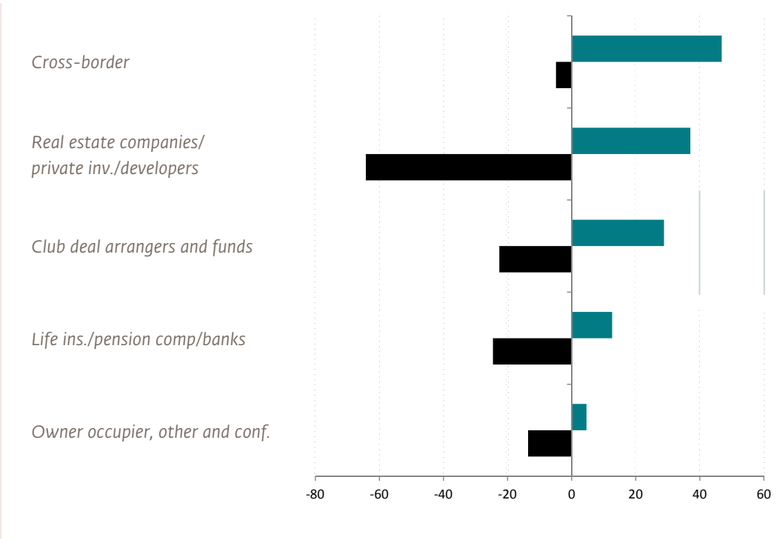
Many wish to obtain exposure to commercial property and we recorded a total of 126 different market participants/groupings on the buyer side last year. Among the well-known arrangers and property companies many names appeared more than once and, for example, Ragde Eiendom was involved in at least 23 transactions with a minimum value of NOK 50 million last year.

Life, pension and insurance companies, led by DNB, were perhaps the biggest surprise last year with net sales of more than NOK 12 billion. Note that participants here that sold down in commercial property tended to increase their positions in various forms of commercial property lending. In addition Storebrand's sale of the Ulven area and Gjensidige's sale of 50% in Oslo Areal contributed significantly. Otherwise several sales related to refinement of portfolios: where owners typically sold properties with more risky locations or smaller properties that did not naturally belong in the portfolio. One can generally say that life, pension and insurance companies and their funds continue to tend towards building portfolios with large individual properties in the best locations.

The category "Property companies, private investors and developers" usually represents the largest investor group on both the purchase and sale side. They tend to a greater extent than other investor categories to buy development property and sell developed property, and as a result sell at lower yields than those at which they buy. Last year they were involved in 147 sales and 116 purchases, with net sales totalling as much as NOK 27.2 billion. In addition there is their participation in arranged investments where they represented most of the equity capital. In 2015 there were many in this investor category that used the market to take gains on low risk property and at least 24 sales took place on yields of 5.5% or lower.

International investors have made gross purchases of Norwegian commercial property for around NOK 100 billion since 2006, of which NOK 46.8 billion was last year. There has been considerable breadth in what foreign investors are buying and last year they invested in properties that include shopping centres, high-street shops, supermarkets, hotels, offices, fund portfolios as well as property used for kindergartens, healthcare and education. Offices and shopping centres accounted, however, for approximately 76% of the volume

Transaction volume by investor categories in 2015. (NOK bn.) | ● *Divestment* ● *Investment*



measured by value. Last year Meyer Bergman bought a portfolio of retail properties in the centre of Oslo for NOK 5.3 billion, while Deka and Hines (Bayerische Versorgunskammer) bought office properties in the low yield segment in Oslo. W. P. Carey, AMF, and NREP represent examples of other international investors that have acquired property in the Oslo region. Citycon, Blackstone, Partners Group, HIG Capital and Hemfosa represent examples of foreign investors that have bought portfolios of property with geographically spread locations. International investors also bought individual properties in the other main cities, including Colony Capital and 90 North in Stavanger, EQT in Bergen and Midstar Hotels in Trondheim. We are increasingly finding that new international investors are showing interest in Norway and looking further ahead than the current downturn in the oil price. A large number of international investors such as Starwood Capital and Technopolis have clearly stated that they have a long-term perspective with their investments in Norway and are building portfolios. International investors are also participating in Norwegian property indirectly through arranged investments such as DNB Scandinavian Property Fund, as well as listed property companies.

In the years following the financial crisis club deals arrangers and funds was the largest net buyer through many investments and few sales. In the last two years this category have sold more property. Their reporting to us shows a total of 72 purchases for NOK 28.8 billion and 50 sales for NOK 22 .6 billion. Individual investors in club deals can trigger sales and several took profits on low risk properties through sales to other arrangers. Last year, for example, there were 15 transactions with arrangers on both sides of the table. These transactions had on average roughly 11 years outstanding on their leases and an average yield below 6%. The arrangers' reporting to us shows that DNB Markets, Aberdeen, Arctic, Clarksons Platou, Fearnley, NRP, Pareto and Union all completed purchases for more than NOK 1 billion and in total for NOK 26.7 billion.

If we include all forms of purchase advice, such as the transactions with Sektor and Promenaden, the volume increases considerably and Arctic comes out with the highest purchase volume in 2015. If we ignore this type of advice the reporting shows that Pareto had the highest purchase volume, and if we take the total number of purchases the reporting shows that Clarksons Platou came out on top in 2015. The arrangers do not only purchase low yield properties and at least 19 of the purchases last year had a direct return of 7.0% or higher. We expect that the arrangers will set up many club deals in future, but that they will to an even greater extent be dependent on solid individual investors in controlling positions in order to obtain satisfactory loan financing conditions.

Among other investor categories we find a large number of different participants, but property users led by Statoil were noticeable last year with sales of more than NOK 10 billion. Not surprisingly many of the property users' sales were based on long leases, and many of the properties achieved yields of +/-5.5%.

Forskningsparken
Gaustadalléen 21, Forskningsparken. Sold on behalf of Niva, Nibr, Nilu

Yield development for offices in Oslo
- record low yields but yield gap still attractive

We consider the prime yield for offices in Oslo to be in the range 4.00% to 4.25%, but closer to 4%. Certain transactions in central Oslo have had a yield starting with the figure three based on current rent, but the common feature on these sales is that there is likely upside on rental income, admittedly with some risk relating to costs and letting. Some of the uncertainty with regard to the yield level now is due to the fact that one has to make a guess as to the values that will form the basis for the future property tax. It is challenging to evaluate how low a return investors are willing to accept in the future, but the development in 2015 shows that buyers in the low yield segment are a complex group. If we look at office sales in Oslo with a yield below 5% last year we find international investors that purchased with a moderate level of debt, as well as not only Norwegian investors who bought with 100% equity but also those with a high level of debt through bond financing.

The main reasons why the prime yield may fall further:

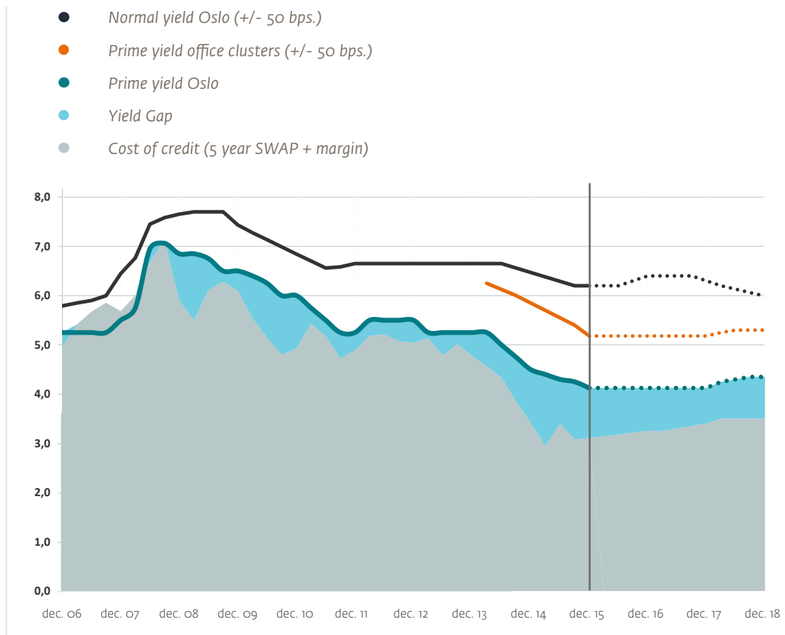
- Updated forecasts for the Norwegian economy mean that the return prospects for bonds and bank deposits, as well as large parts of Norwegian industry, have been weakened. From such a perspective the prime yield may fall well down to the figure three. If we take as a starting point an investor with an aggregate borrowing cost of 3.15% the yield gap is approximately 100 points and double the corresponding average for the period 2010–2013 (however the calculations for the internal rate of return are not particularly attractive if one includes a yield rise of, for example, 75 points).
- With bond loans it is more normal without instalment repayments, something which itself gives a higher current return. At the time of writing the most solid borrowers in the bond market could lock in a borrowing cost including margin for 10 years down towards 3.25% for a loan ratio of 60 to 65%. With no instalments and a long lease this can give a satisfactory current return even at yield levels below 4%.
- DNB Markets expects that the key policy rate will be cut on two occasions in 2016 by a total of 50 basis points. The forecasts indicate that the floating rate (3-month NIBOR) will fall to 0.5% in 2017 against an average of 1.13% in Q4 2015. Recently several investors have chosen to a greater extent to use a floating rate or, alternatively, fix the interest rate for 10 years plus.
- Given an expectation that there will be fewer prime properties for sale in future the battle to get these properties will be very fierce.
- Expectations of good growth in inflation.

The main arguments why the prime yield may rise in future:

- Rising credit margins. Since the summer credit margins for bank and bond loans have increased by approximately 50 to 75 basis points.
- An increased letting risk as macro forecasts show weaker growth than previously, and an increased likelihood of an intensified downturn in the oil sector.
- An increased letting risk may make Norway less attractive relative to other countries and contribute to weakening demand.
- High costs for keeping this type of property as top standard.

There are also good arguments why the prime yield may both fall and rise. Our forecasts indicate that the level will remain in the range 4.00 to 4.25 %, with a greater likelihood of a rise than a fall. The best properties will almost always achieve good prices, but over time we expect that the prime yield will trend slightly upwards because alternative investments will probably have better return prospects. As a result surplus demand for prime property could be dampened somewhat. In addition the 10-year swap rate is expected to be around 35 points higher than today.

Yield development 2006-2018 (%)



The figure above shows the development in yields for different categories of offices in Oslo, together with the development in borrowing costs in grey for an ordinary 5-year loan. The borrowing cost is based on the 5-year swap rate and margin data from DNB. The turquoise line shows the prime yield and the light blue field illustrates the yield gap. The yield gap may be a little higher for the most solid investors due to particularly favourable credit margins. In general credit margins and equity requirements are tending to rise.

The orange line shows that the lowest yield for the office clusters along the Outer Ring Road has been reduced by 75-100 points since the autumn of 2014. We assume here long leases and last autumn assessed the level at 5.50% +/-50 basis points depending on location along the Ring Road. We now consider the level to be 5.25% +/-25 basis points. The development indicates that excess demand for secure cash flows has shifted even more to the office clusters that circle the city centre. Specific transactions with long leases in the fourth quarter last year confirmed the falling yield for this type of location. The forecast largely reflects the same arguments as for the prime yield.

The black line is intended to illustrate the development in yields for normal property. We have defined this as office property with 5 years remaining on the lease, of a normal good standard, normal secure private companies as tenants and with an acceptable location in one of the established office clusters along the Outer Ring Road. As it is a tenant's market in the city's office market the fall in yield has been less. We consider the level to be in the range 6.25% +/-50 basis points depending on the office cluster. The yield gap is thus +/-3.0%. There is also good demand for this type of property, but a continuing surplus of supply in the office letting market, as well as a rising trend for both credit margins and equity requirements, may lead to a marginal increase during 2016. Our expectations for the office market involve an improvement during 2018 and, as last autumn, we expect a falling yield trend for this type of property when the letting risk decreases. The yield gap will then be less, something that reflects a normalisation.

Our market view is based on economic forecasts that assume rising oil prices. We note that international investors are concerned as to the consequences for commercial property if, to the contrary, we have continuing low prices. DNB Markets has prepared a scenario for the Norwegian economy with continuing low prices oil prices. We have analysed the consequences for the letting and transaction markets. Get in touch with us if you would like more information on this.

Many extraordinary purchase opportunities and low yield transactions in Oslo/Akershus in 2015

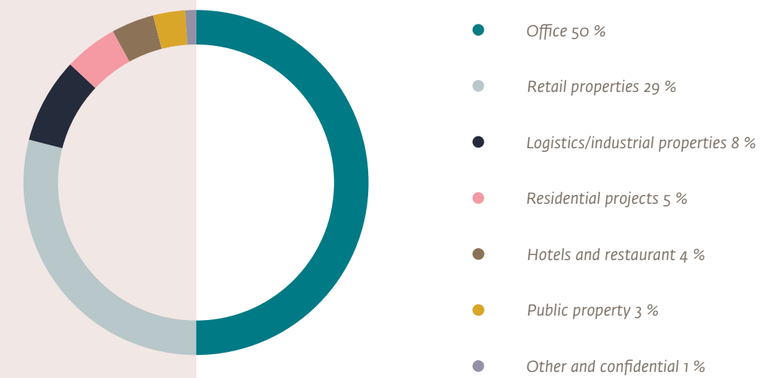
There were many extraordinary purchase opportunities in Oslo last year - for example DNB's Mid-Building (size), Sjømannskolen (long public sector lease) Hieronymus Heyerdahls gate 1 (location). In addition to these transactions there were very many large individual properties that were sold following an initiative from the buyer's side. We registered a total of 137 transactions in Oslo/ Akershus for a total of NOK 65 billion. The region thus accounted for 50% of the total but the percentage rises if one includes the area's share of geographically diversified portfolios. Last year there were nine international investors and a total of at least 69 different buyers of commercial property in Oslo/ Akershus. The yields on last year's transactions vary from just 4.0% and upwards to 9.5% for a logistics property in Akershus. There were particularly many low risk properties that were sold last year and the average yield was 5.95% against 6.5% in 2014. A total of 21 properties were sold with square metre prices above NOK 50,000 and 17 properties with a yield below 5.0%. There was a considerable volume of transactions within all building segments, but measured by value office transactions accounted for roughly half of the total volume. After last year's extraordinary market it would be natural for the volume of transactions to fall. We nevertheless expect a high rate of sales in 2016 because the Oslo market is characterised by many transactions being created by the adviser and buyer side, because the current high prices encourage more sales and because Oslo furthermore has a moderate exposure to the oil sector. In addition more long-term driving forces such as portfolio refinement, new cooperation constellations and the completion of property developments normally give room for new sales.

All the segments and main cities had transaction volumes in excess of NOK 4 billion last year

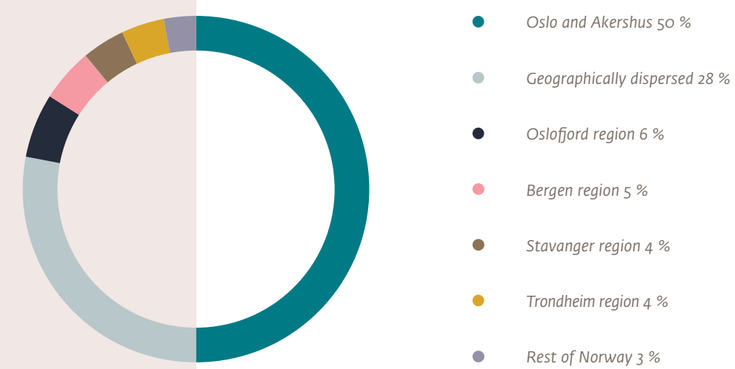
By public property we mean property used for purposes within health, education, culture, as well as kindergartens etc. In this category we recorded 14 transactions for a total NOK 4.3 billion. Furthermore properties sold in this segment had on average roughly 18 years left on their leases. Last year 6% of the transaction volume related to housing. This was largely due to the purchase by OBOS of Ulven (this transaction could also be categorised under offices and be recorded as 2016), a sale of 22 apartment buildings in Oslo as well as the sale of the B6 site in Bjørvika. In addition portfolio sales contributed to high shares for offices and retail.

A feature of 2015 was that several major transactions were carried out with portfolios of property located in different parts of the country. We registered 20 such transactions with an aggregate value of NOK 36.2 billion. If one looks at the volume excluding these portfolios, Oslo/ Akershus accounted for 69% and the four largest city regions 87% of the volume. It is reasonable to assume that we pick up a lower proportion of sales outside the main city regions, but viewed against population patterns we can nevertheless maintain that the transaction market is extremely concentrated on the four largest city regions.

Transaction volume 2015 in value by segment



Transaction volume in 2015 in value by geography



Good return in 2015, in future the return will depend more on operations

2015 was generally a good return year for commercial property and much better than looked likely at the beginning of the year. The fall in yields which continued through 2015 for properties with the best location and secure rental income contributed to good growth in value for many portfolios. In addition the CPI adjustment in November was as much as 2.8%. Falling interest rates last year also contributed to lower ongoing costs for many investors. In addition many premises saw a lift in rent levels in connection with renegotiations/new leases in spite of generally falling market rent levels in several segments. Looking forward though we do not see further yield reductions and the return will primarily depend on rental income and operations. Looking at the most important macro factors for the return at the portfolio level suggests an overall lower return compared with 2014 and 2015. Lower growth in GDP and employment as well as less business optimism suggests weaker demand for space in future. In other words the direct return and rental income will be more exposed to risk. Two macro factors that have a positive outlook and which are important for the return are interest rates and inflation. DNB Markets expects that the consumer price index will rise by as much as 2.7% in the current year. Secondly continuing low interest rates, including falling short-term rates, could contribute to holding property values up. In conclusion we thus expect a lower return in future because the period of falling yields appears to be over. The return on property at the portfolio level will primarily be decided by the development in rental income.

Positive value growth for many Oslo properties in spite of the election result leading to the introduction of property tax

The municipal election results last autumn will lead to the introduction of tax on commercial property in Oslo. The tax rate is set at 0.2% with effect from 2017 and then 0.3% from 2018. National legislation provides that the property tax as a maximum can be set at 0.7%. It is still unclear what will be the valuation base for property tax. From transactions carried out we find that investors have used 30 to 60% of the full market value as the tax base. In common with what investors have assumed in transactions in the fourth quarter we find it likely that the authorities will proceed on the basis of conservative tax base values. It has been indicated that the coming valuation will apply for 10 years and that the tax value will not exceed the expected sale value. As one knows values can vary a lot during 10 years. In addition it is been stated that the property tax base is not to be higher than the general valuation level in the municipality indicates. The high base deduction for housing also indicates that conservative values will be used as the basis for the property tax in Oslo. If we take as a starting point that the property tax base is set at 50% of the full market value (the municipality nevertheless has ambitious income goals) and a tax rate of 0.3%, we have calculated that a property with a yield of 4.25% will have a reduction in value of around 3.5%, while a property with a yield of 6.25% will have a value reduction of around 2.4%. The actual movement in the market with regard to property values has nevertheless been clearly positive in 2015 and, as mentioned, is largely due to the fall in interest rates and the general excess demand. If we take as a starting point a property that now has a yield 4.25% and assume that the yield for property fell by 35 basis points last year, and that rental income was CPI adjusted by 2.8%, these two effects viewed in isolation gave a value increase of 11.3%. If one deducts the tax effect of 3.5%, one comes out with positive nominal value growth of 7.8%. If one takes in the same way as a starting point a property which now has a yield of 6.25% and assumes that the yield fell by 20 basis points last year, this property has positive net value growth of 3.7% as a result of these three effects (yield fall, CPI and tax) based on the assumptions that we have set. In conclusion many Oslo properties thus saw growth in value in spite of the election results leading to the introduction of property tax.

Sjømannsskolen
Sold on behalf of Avantor

REGIONS

Trondheimsporten
Sold on behalf of Prora Næringsprosjekter AS

TRONDHEIM

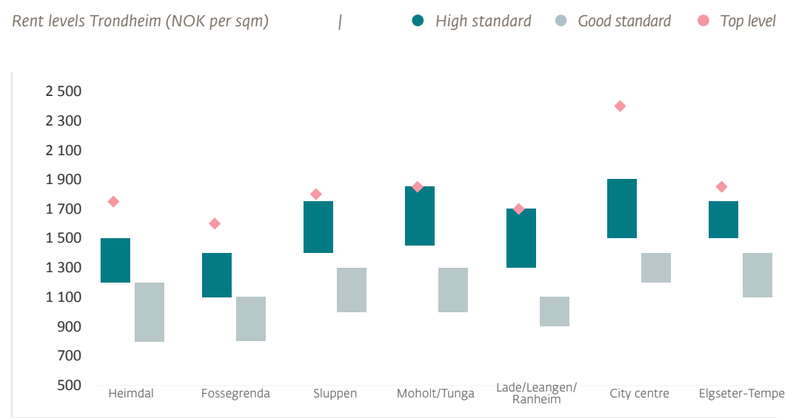
- Record high transaction volume
- Significant public and private sector leases signed
- Office vacancy increased to 10%, but positive development in rents

General
The transaction volume in Trondheim in 2015 was again very high and transactions were recorded for a total of NOK 7.1 billion, of which around NOK 2.6 billion relates to countrywide portfolio sales. Considerably greater interest was experienced during the year in investing in property in Trondheim from both national and international funds and property investors. Nevertheless it was still local investors that represented the largest share of the net buyers. A much greater quantity of new and larger buildings was traded over the year in relation to 2014, when the total volume was NOK 3.6 billion.

The letting marketing in Trondheim will gain more than 150,000 m² of new office space in the period from 2015 to 2018 through new buildings that have been completed or are under construction.

The region has not created or contributed to the need for so much new office space, and the owners of the new buildings have partly moved tenants from within their own portfolios so that vacancy arises at other places. The office projects are geographically spread throughout the city. Two new office buildings were completed in the centre in 2015, Ferjemannsveien 10 (Adressa building) and Bassengbakken 4.

There has not been much conversion of office buildings to other purposes so that the total market has increased considerably. One exception with respect to conversion is the Lade area where there is a major housing development taking place. Buildings that are being taken out of the market are largely older and less efficient warehouse/logistics buildings.



Let space
We have recorded a large volume of let space in the second half of 2015 as well. In aggregate we have registered 66,897 m² divided between 202 leases that were signed in the second half-year. In the whole of 2015 147,927 m² were let.

- Offices: 49,500 m², 159 leases in the second half-year, a total of 97,500 m² for the whole year
- Retail: 8,300 m², 15 leases in the second half-year, a total of 22,300 m² for the whole year
- Warehouses: 9,200 m², 28 leases in the second half-year, a total of 28,200 m² for the whole year.

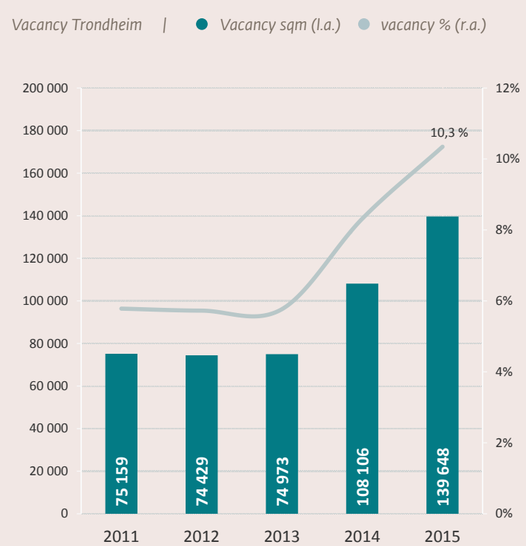
The space let for offices has been evenly divided over the year, while both retail and warehousing had a greater volume in the first half-year

Examples of new contracts, second-half year 2015:
Trondheim Municipality: 20,000 m², Trondheimsporten.
Norsk Helsenett, Hemit and others: 10,000 m², Abels Hus.
HIST: 14,000 m², E.C Dahls quarter.
Norway Royal Salmon, Sportradar and others: 4,500 m², Adressa building, Ferjemannsveien 10.
Rambøll: 5,000 m², Dora.

Rent levels
We are recording a greater spread in rents compared with previously. The stretch from the city centre to Elgeseter/Tempe and Sluppen and Moholt-Tunga are maintaining a high rent level due to the fact that many of the new projects are located in this area.

The average office rent at the end of 2015 was NOK 1,472 per m². The average rent has fallen from the previous quarter, which showed NOK 1,582 per m². For offices in the city centre the average rent was NOK 1,577 per m². Rent levels in the peripheral zone were considerably lower in the second half-year compared to the first half-year.

Vacancy
The total amount of vacant space in Trondheim at the end of 2015 was 194,500 m², an increase of 17,000 m² in the second half year and as much as 30,000 m² for the year is the whole. The increase in vacancy was only within offices, while there were only small changes for retail and warehousing. The development in vacancy in the area Sluppen is positive with a reduction of 6% since the previous measurement. The Heimdal area had the greatest increase in vacancy, up 4% to 48,000 m². A further 100,000 m² of space will be completed in the period 2016-2018. Tenants that move to new buildings will leave behind premises that will maintain the high vacancy figures. The development in vacancy affects the rate of building in the letting market so there are now fewer new office projects under planning compared with the last 2–3 years.



Transactions
The transaction volume ended at a full NOK 7.1 billion, divided between 23 transactions in excess of NOK 50 million. The first half of 2015 began with quite a high level of activity in which sales corresponding to NOK 3.1 billion were registered. Included in this count, among others, are properties such as Solsiden, Tillertorget, the Telenor building and the portfolio sales by Aberdeen Eiendomsfond Norge II, Sector, Storebrand Eiendomsfond and Fortin. The portfolio volume ended at around NOK 2.6 billion for 2015.

The biggest transaction in 2015 was Statoil's sale of two buildings in respectively Trondheim and Stjørdal for an aggregate amount of NOK 1.75 billion. Among others there were six large transactions in the centre of Trondheim with a value of NOK 1.14 billion. The Residence quarter was sold for close to NOK 370 million to Aberdeen, KLP put an entire quarter consisting of nine buildings on the market which EC Dahl Eiendom bought often two bidding rounds. Two hotels were sold – the old established Britannia Hotel (50%) and Grand Hotel Olav.

Towards the end of the year Entra purchased the planned new building "Trondheimsporten" at Sorgenfri for an estimated property value corresponding to NOK 680 million. Trondheim municipality and NAV signed leases earlier in 2015 for close to 20,000 m² in this building, which will total around 26,000 m².

Even though we are coming into a tougher financing market the prime yield is between 5-5.25% for new property with a central location, good long leases and solid tenants. The yield for normal properties with a usual standard, located on communication routes and with short/medium-term leases will typically today be in the range 6.75-7.75%

Yield levels
Even though interest in commercial property in Trondheim has increased in 2015 we find the market continues to be selective with regard to property and location. In addition there are still owners that have too high price expectations in relation to, among other things, location, rising vacancy and the tenant mix/solidity. Due to the fact that DNB Næringsmegling handled a large part of the largest transactions in 2015, we have a very good overview of both the buying and selling side going into 2016.

We believe that the transaction market will continue to be active in 2016 even though the banks are tightening on lending. At the time of writing (February) DNB Næringsmegling has already completed negotiations on a centrally located property transaction in excess of NOK 250 million. Several large newer buildings may be sold even if most of the properties are between NOK 20-70 million. Both local and national investors are in any event indicating interest in buying more property in our region

Krambukvartalet
Sold on behalf of KLP

BERGEN

- Record turnover in Hordaland
- New buyers in Bergen/Hordaland
- Higher office vacancy in the south

General
2015 was a very active year for the transaction market in Bergen, and the record volume seen on a national basis was also reflected in Bergen/Hordaland. It is primarily the values on the three largest transactions that had the most impact on volume, with a virtual doubling from 2014. In the letting market the highest office vacancy is still in the south of Bergen in the business districts Kokstad and Sandsli, but we are seeing increased interest for high standard office premises in the centre of Bergen.

Letting market
Our calculations show that the total volume of office premises in our market area is estimated at around 2.1 million m². Our count of vacant office space shows an increase in 2015 to approximately 207,000 m², corresponding to office vacancy of around 9.8%.

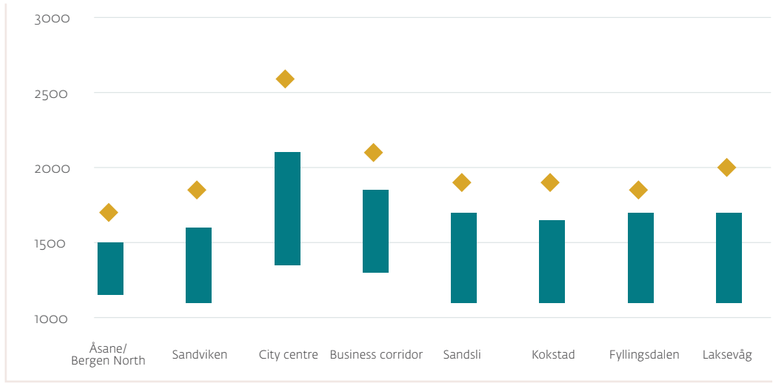
The letting market in 2015 was characterised by a clear division, roughly as we see in the Norwegian economy as a whole. The reduction in staffing by oil and offshore related companies at Kokstad and Sandsli in the south of Bergen led to increased vacancy and pressure on rents. Close to 50% of the vacant office space is located in these areas.

However we are seeing a slight increase in demand for larger office premises in central Bergen, which is leading to a more moderate vacancy rate in the city centre.

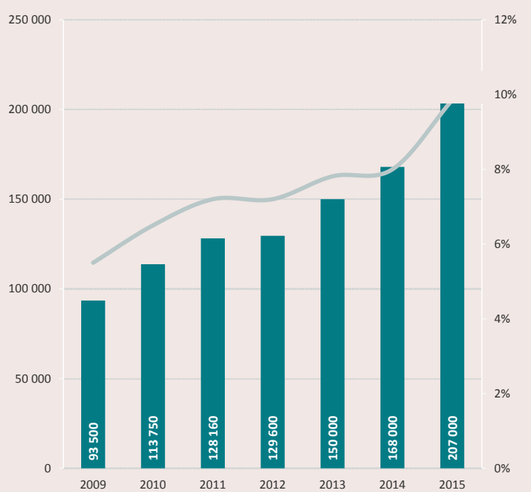
We have few indications that there will be a change in office vacancy in the short term. A continued reduction in staffing is expected in exposed sectors that will affect space use negatively. On the other hand we see that increased conversion to housing, hotels and retail will contribute to absorbing space in the coming years.

Rents still appear to be relatively stable in almost all market areas with the exception of some areas in the south of Bergen where vacancy is high and we are seeing some reduction in rents. Our analyses do not include discounts such as rent-free periods etc., so that there may be reasons to believe that the reduction is greater than our table indicates. We also believe it is likely that rents will rise for premises in the centre as a result of demand for larger high-quality space. There are relatively few buildings in the centre with floor plans that are large enough to provide space efficiency for tenants with many staff.

Rent levels in greater Bergen (NOK per sqm) | *High standard* *Top level*



Vacancy Bergen | *Vacancy sqm (l.a.)* *Vacancy % (r.a.)*



Bergen Business Park, Flesland
Letting assignment on behalf of Bergen Lufthavn Utvikling AS

DNB-building, Solheimsviken
Sold on behalf of GC Rieber Eiendom.

Transactions
2015 was a very active transaction year and we registered a record volume of around NOK 7 billion in Bergen/Hordaland. 20 transactions over NOK 50 million are included in the count. The number of transactions is roughly unchanged from 2014 but the special feature was that there were three transactions with a property value above NOK 1 billion, which is unusual for our region. Among the largest transactions was Sektor's sale of Oasen Shopping Centre (in a portfolio) to Citycon, the sale of Framo Sjøliv (Frank Mohn's head office at Askøy) and not least the sale of Solheimsgaten 7, the "DNB Building", in Solheimsviken for close to NOK 1.5 billion to Storebrand Eiendomsfond KS. The latter transaction is probably the largest individual transaction in Bergen ever and attracted great interest from both Norwegian and inter-national investors. Foreign buyers and new Norwegian investors showed increasing interest in Bergen in 2015 and made purchases in the region.

Yield levels
During last year properties with the best locations, long leases and solid tenants have seen a reduction in yield requirements. We see that the prime yield for offices in Bergen has fallen by 75 points to below 5%.

In particular there has been a continued good development in sale prices for the most centrally located properties in the centre of Bergen. This is particularly the case for Torgalmenningen and the adjacent quarters. Properties achieved very good sale prices with relatively short leases. A good example is Bara Eiendommer AS's sale of Strandgaten 1 for NOK 137 million.

Our forecast for 2016 suggests continued good sale prices and a stable yield, but with a more traditional transaction volume in the range NOK 3-4 billion.

STAVANGER

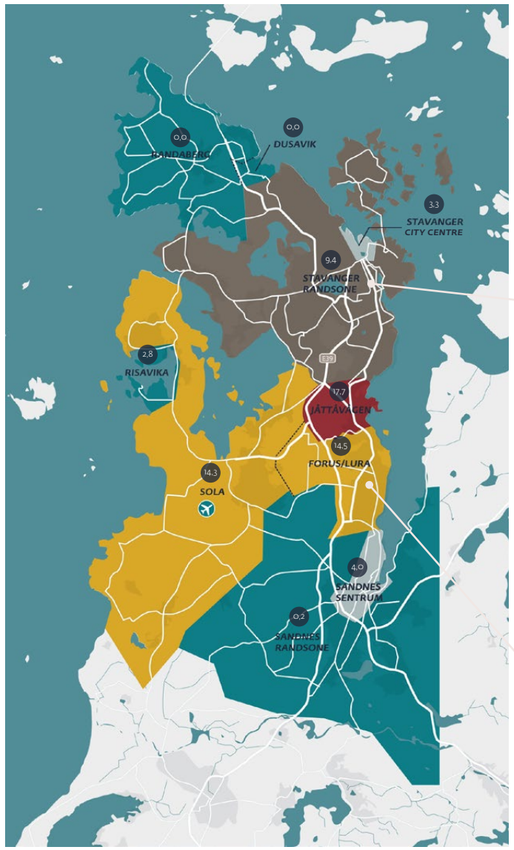
- 2015 a challenging year
- Fall in rents, but unchanged vacancy in last half-year
- Prime property is still attractive

General
2015 was a challenging year for the Stavanger region with significant changes in the operating parameters. This has involved a general focus on costs and associated reductions in staffing, particularly for companies exposed directly and indirectly to the petroleum sector. Our experience is that companies have for the most part taken account of the changes and adapted to a new market situation.

On the transaction side we have registered a total volume of around NOK 5.6 billion (transactions above NOK 50 million) divided between 13 transactions. At first glance this may appear to have been a normalised and well functioning market with a high turnover volume. On a closer look however one sees that in excess of 70% of the transaction volume related to three large transactions: Colony Capital's purchase of Statoil's head office at Forus (NOK 2.5 billion), Wintershall's exercise of a purchase option relating to its new head office at Hinna Park (NOK 700 million) and Statens Hus (NOK 690 million). In other words a majority of the volume was linked to a relatively narrow selection of transactions. As expected at the start of 2015, prime property and the most attractive properties have attracted good interest during the year and we have observed general yield pressure for this type of investment. Further, property in the next risk classes has had an opposite trend with limited interest and slightly increased yield levels.

During the second half of 2015 we experienced good growth in the activity level on the letting side. This mainly related to tenants with small space requirements (200–1,000 m²). In addition we see that sublet space is increasingly leading to some distortion and imbalance in relation to rent levels, in varying degrees from area to area. The flood of refugees has also shown that there are alternative uses for vacant commercial premises in the region, where, among others, Forusbeen 35, with some 22,000 m², and Alstor Hotel are today acting as refugee reception centres. Several other commercial buildings in the region have also been discussed for use for this purpose.

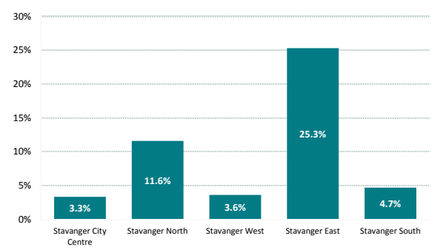
Jåttåvågveien 18
Letting assignment on behalf of Hinna Park



Office vacancy Stavanger region
- Aggregate office vacancy 10,3 %, but significant local variations

< 3 % 3-5 % 5-10 % 10-15 % > 15 %

Office vacancy Stavanger centre and periphery
- Highest office vacancy is in Stavanger East, while the centre is at a stable low



Office vacancy Forus/Lura
Highest office vacancy in Forus East

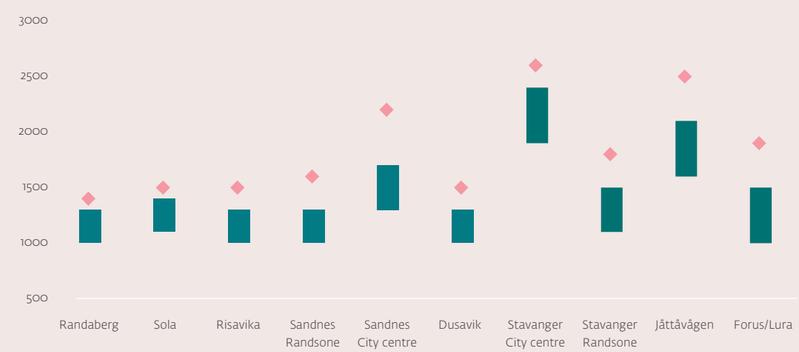
The letting market
The office market was affected during the year by reduced space requirements and limited demand for large floor areas. On the other hand there has been little or no supply of new space but an increase in available sublet space, as mentioned in the introduction, has led to some imbalance with regard to rent levels. Particularly in cases where sublet space is offered at low rents over a longer period we see this affects the general rent level in the area to a greater extent. In the case of tenants that have stronger preferences regarding price in relation to location, standard etc. this forms a good basis to secure long-term and favourable leases. Nevertheless we find that tenants are focusing more and more on space efficiency, operating costs, flexibility etc., where the discussion shifts from rent per square metre to rent per employee.

Rent levels during the year as expected have been on a downward trend for the region as a whole. In the first half of 2015 this was mainly in the areas around Forus and the peripheral zones around both Stavanger and Sandnes. In the last part of the year we also experienced that areas such as Hinna Park and the centre of Stavanger were being affected a little more. The development in retail and production/ workshops/ warehouses was relatively stable during the year, while combination properties with a higher proportion of offices were affected to a greater extent in common with pure office properties.

Vacancy
The previous vacancy count took place in September 2015. Following our latest count at the beginning of February total vacancy for commercial premises in the region was virtually unchanged at 6.3%. Total vacancy for the office segment is slightly down from 11.1% in the previous period to 10.3% where, among others, the previously mentioned Forusbeen 35 accounts for a large part of the reduction. The actual reduction is admittedly marginal as we find that there are some hidden reserves of space that have been taken off the market where there is no public information or where we have not received replies from the lessor on any change in the status of the properties.

In the category combination property we see an increase in vacancy from 3.3% to 4.2%. We believe this is mainly related to vacant office space in combination property. In the retail segment the position is virtually unchanged with aggregate vacancy of 3.6%. In the segment industry/ warehousing we see a marginal reduction in vacancy from 2.6% to 2.4%

Rent levels in greater Stavanger (NOK per sqm) | *High standard* *Top level*



Rents
In the case of rent levels relating to office space we expect that price pressure from 2015 will continue in 2016. As previously we believe the degree will vary from area to area and property to property and that areas with high vacancy and properties that are considered to have a poor location and standard will be affected most. For the segments retail and industry/warehouses we expect more or less stable rent levels in the coming period.

Transactions
Turnover volume as mentioned in the introduction has been high in the region at around NOK 5.6 billion against NOK 5 billion in 2014. It has mainly been prime property/low risk property that has been sold as the volume is divided between relatively few but large transactions. We are seeing continued good interest for properties in this risk class and expect that this will continue into 2016. For more normal properties we have observed somewhat limited interest with few reference transactions in 2015. Local and national investors have been cautious with regard to this type of property as well as high-risk properties. We expect a little more movement in these segments in the coming period, as it seems that both the buyer and seller side have largely taken into account the changes in market conditions. As mentioned there were few reference transactions in these segments last year, but we believe that properties will be traded in these segments and that new reference levels will be established in the coming year.

Yield levels
We expect a continued stable yield for prime and low risk properties in the coming period. Furthermore we expect that during 2016 there will be necessary reference transactions for normal and higher risk properties that will contribute to a more normalised transaction market, where we also believe there will be more interest from both local and national investors.

The prime yield is estimated to be around +/-5.5% and for normal property the yield level is estimated to still be in the range 7.5-8.5%. For properties with a perceived higher risk we expect considerable variation by reference to location, lease(s), standard, etc.

SEGMENTS

Olrud Handelspark and Storhamar centre, Central Norway
Sales assignment on behalf of Salto Eiendom AS.

RETAIL

- Good growth in consumption 2015
- Internet shopping has grown by 50% in three years
- Retail transactions totalled almost NOK 38 billion in 2015

General

Growth in consumption in 2015 is expected to come out at 2.2%. This is slightly higher than 2014 but at the same time we see that growth was gradually reduced during the year. Low interest costs will continue to contribute positively to consumption, but lower employment growth, lower wage growth and higher price growth are expected to reduce growth in consumption slightly in 2016. DNB Markets forecasts growth in 2016 will be reduced to 1.4%, and then subsequently increase gradually to 2.9 % in 2019 in line with falling inflation and increased employment growth.

Shopping centres

The shopping centres in Kvarud's shopping centre index recorded growth in 2015 adjusted for area changes of 2.3% compared with the previous year. The 237 shopping centres in the index had total sales of NOK 146 billion including VAT, which is an increase of almost NOK 7 billion from 2014. Adjusted for area changes the centres in Northern Norway (4.4%) and Akershus (3.9%) had the highest growth, while the regional centres had relatively higher growth than the city and local centres. Turnover growth in the shopping centres in both Oslo (3.4%) and Akershus (3.9%) was above the national average.

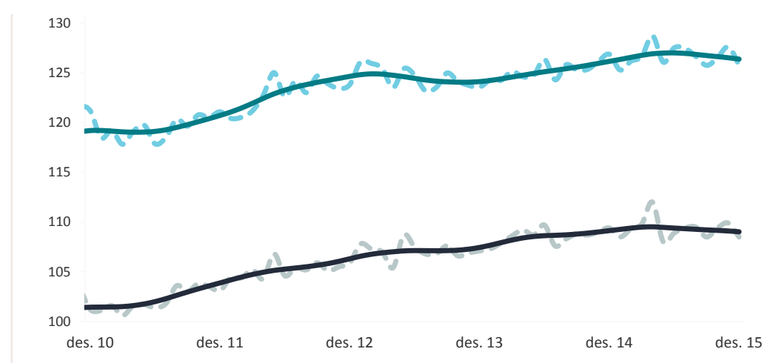
Internet shopping

Figures from DIBS annual e-commerce report show that the Norwegian e-commerce market has grown from NOK 51 billion to an estimated turnover of NOK 78 billion in 2015. In spite of the fact that Internet shopping continues to represent a relatively small part of total retail trade in Norway, it has become a steadily more important part of the Norwegian consumption pattern and steadily more sectors are being challenged by e-commerce solutions. Tablet computers are challenging printed newspapers and magazines, Uber is challenging the taxi sector and services delivering boxes of food and groceries to the door are becoming steadily more popular. Groceries online have an estimated annual turnover today of NOK 1.3 billion but forecasts made by the consultancy companies EY and PA Consulting show that the sector is expected to grow to between NOK 4 and 10 billion before 2020. The sector is thus one of several examples within e-commerce that are expected to take market shares from traditional retailing in the coming years.

Transactions

In 2015 we recorded as many as 45 retail transactions for an aggregate value of almost NOK 38 billion. In comparison the volume was around NOK 8 billion for the whole of 2014. The high growth mainly relates to foreign investors increasing interest in Norwegian retail property and a number of large portfolio transactions. In 2015 seven retail transactions above NOK 1 billion were recorded, which together represented over 75% of the total transaction volume in retail. Foreign investors are strongly represented in the largest transactions, and alone accounted for more than 60% of the volume in 2015, corresponding to NOK 24 .3 billion. We have registered as many as 13 shopping centre transactions for an aggregate value of around NOK 25 billion. Three of the year's transactions were completed at a yield below 5.3%, while the average yield on the year's shopping centre transactions was around 6%. In comparison the average yield on shopping centre transactions in the period 2011-2014 was about 6.5%. We consider the prime yield in the retail segment to be 4%, which places it close to the best in the office segment. Among the major retail transactions in 2015 we can mention: Citycon's purchase of the Sektor portfolio for more than NOK 12 billion, Steen & Strøm's purchase of Oslo City and Meyer Bergmann's purchase of Promenaden Property from Søylen Eiendom.

Retail sales/goods consumption. Seasonally adjusted volume index | Source: Statistics Norway



WAREHOUSE/LOGISTICS PROPERTY

- Good demand for warehouses and logistics space
- Several large contracts signed in last half-year, especially on new buildings
- New buildings being offered with lower rent due to low interest rates and low yield

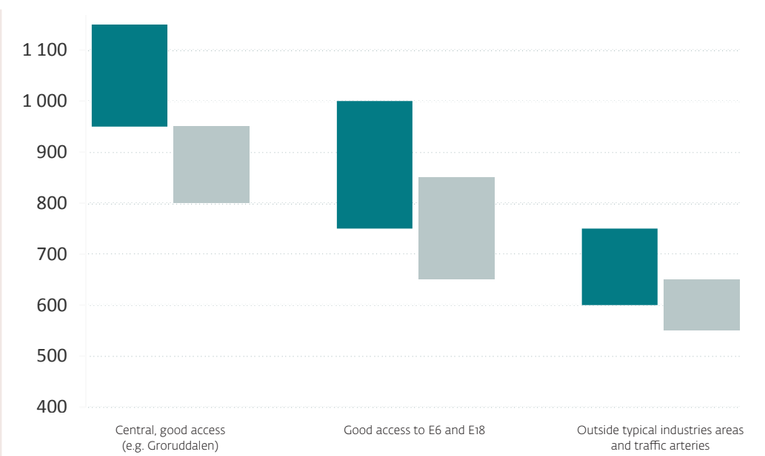
General
There is still good activity in the segment and a good volume of lease signings for all types of space, both in existing buildings and new buildings. During the last half-year there has been continued increased demand for warehouses and logistics property and a number of new leases have been signed for larger buildings, particularly new buildings. Most of the activity relates to buildings up to 2,000 m² but we are also seeing good activity in the segment about 7,000 m².

During the last half-year we have seen a clear trend for new buildings to be priced a little lower than was the case one and two years ago. Directly comparable buildings show a decrease in agreed rental levels of between NOK 100 to 150 per m²/year. This is because the fall in interest rates and yields means that developers can now obtain the same return with a reduced rent. We also see that the trend to separate administration offices and the main warehouse into separate locations has intensified during the last period.

The most attractive areas outside Groruddalen, have traditionally been Langhus and Berger but Lahaugmoen has also grown in popularity in recent years.

Letting market
Rents have remained stable, with a slight upward trend for the best buildings. This relates to the increasing tendency towards price differentiation between good and less good warehouse premises as mentioned in the previous report. In the case of existing buildings there is now greater price pressure for the biggest areas from new building projects that can be completed quickly due to the trend towards lower rents as referred to above. New buildings that previously were priced for example at NOK 1,100 per m²/year are now offered in the market below NOK 1,000. The top rent for warehouses is around NOK 1,200 per m², while most contracts signed are in the range NOK 900 to 1000 per m² for well maintained buildings with good warehouse qualities and attractive locations.

Rent levels for warehouses and logistics premises (NOK per sqm) ● *> 6 m ceiling height* ● *< 6 m ceiling height*



Some examples of signings in the last half-year

- Elektroskandia Norge is moving from Alnabru to Langhus where it has signed for approximately 17,200 m² at Fugleåsen. TECE Norge has also chosen Langhus and has signed a lease at Snipetjernveien 4 for approximately 5,500 m².
- Fabritius Gruppen as signed 2 leases at Fuglesangen - Berger, where Skanska is taking 12,500 m² warehousing/training centre, together with 20,500 m² with land and OneMed is taking just under 10,000 m² of warehousing.
- Home & Cottage has decided to move to Gardermoen with 8,000 m² at Bonntjernmoen.
- Autoringen is leasing more than 2,500 m² in Økernveien 115.
- Accelerator is moving from Rødtvet to Lahaugmoen and is leasing around 2,300 m² of high warehousing
- Akademika has leased a high warehouse in Pottemakerveien 6 in excess of 1,200 m².

Transactions
In 2015 we registered 41 transactions in the segment warehouses and logistics property for an aggregate value of approximately NOK 10 billion, which is a moderate increase from 2014 (NOK 9.5 billion). Among the major transactions we can mention OBOS's purchase of Sandakerveien 121 in Nydalen from Pareto, but also Østre Aker vei 264 which we sold on behalf of COOP for a gross property value in excess of NOK 600 million.

Geographically most transactions have been in and around the main cities. In 2015, for example, 21 of the year's 41 transactions related to Oslo and Akershus. The year's transactions had an average price of NOK 11,250 per m², but pricing is very sensitive to the remaining term on the lease. We see for example that the average price on the year's transactions with long leases (> 10 years) was around 14,000 per m², while the average price on transactions with short leases (<5 years) was around 9,000 per m². Prices over the year varied nevertheless from just NOK 5,000 per m²for certain transactions to over NOK 20,000 per m². We consider the prime yield in warehouses and logistics to be 5.25% for properties with long leases.

If more information is required on the warehouse and logistics segment, DNB Næringsmegling can provide specially prepared analyses. Please get in touch if you require further details.

Deliveien 10, Vestby
Letting assignment on behalf of Union Eiendomskapital AS

© DNB Næringsmegling 1. half-year 2016

HOTELS

- 2015 was a good year for the hotel market in Norway
- ... but with big regional differences
- Strong growth in hotel stays by foreign visitors

Key figures – the regional differences are increasing
On a national basis 2015 was a good year for hotels and the key figures show an all-time high with regard to accommodation sales, prices achieved and REVPAR for the country as a whole. The average room price achieved increased in 2015 by 1.3% to NOK 897, while REVPAR increased by 2.6% to NOK 481. A weak Norwegian krone has been an important contributor to strong growth in the holiday and leisure segment of 13.1% and growth in hotels stays by foreign visitors increased by as much as 11.1% last year.

In spite of good figures on a national basis there are large regional differences. Oslo stands out as one of the big winners in 2015 with record high prices and increased occupancy. The capital has been less affected by the instability in the oil industry than many other large cities and recorded growth in both leisure and business traffic, at the same time as there has been more moderate capacity growth. In Oslo more than three million room days were sold for the first time and accommodation sales increased by as much as 16% compared with the previous year. At the same time we see that several of the other large Norwegian cities are struggling with profitability due to both strong capacity growth and a decrease in business traffic. Both Trondheim and Bergen recorded growth in total room days sold in 2015 but were not able to fully absorb the high capacity growth, which resulted in both lower prices and lower profitability. Stavanger is nevertheless the city experiencing the greatest downtown where REVPAR was reduced by as much as 26% compared to 2014. The combination of capacity growth of 15% and a decrease in business traffic due to staff reductions and cost focus in the oil industry has hit Stavanger hard. In spite of a challenging market it is worth noting that the key figures in the Stavanger area come from very high levels, even though there is considerable uncertainty relating to future developments

New hotel projects and market developments
The increase in capacity in Oslo and Akershus is also expected to be moderate in the coming years, where Oslo for example today has an estimated pipeline of around 2,000 new hotel rooms. Examples of coming projects are: Comfort Hotel Karl Johan (180 rooms) which opens in March 2016, Moxy Hotel at Hellerudsletta (230 rooms) with an expected opening in 2017, Olav Thon's planned hotel at Storo (325 rooms) with an expected opening in 2019 and in addition Scandic Portalen Lillestrøm (220 rooms) with an expected opening in 2018.

In the other main cities such as Bergen, Trondheim and Stavanger a lot of new capacity has come onto the market in the last year and the cities have to some extent varying starting points when it comes to tolerating further capacity increases. We do not exclude certain projects being deferred or reassessed against the background of recent market developments.

Transactions
In 2015 we have recorded hotel transactions with an aggregate volume of approximately NOK 5.1 billion. Among the major transactions we can mention are DNB Liv's sale of Clarion Hotel Royal Christiania to Petter Stordalen and Varner, Avinor's sale of Radisson Blu Gardermoen to O. G. Ottersland AS for NOK 1,580 million and Quality Hotel Expo at Fornebu, which was sold for around NOK 530 million from a Pareto syndicate to DNB Scandinavian Property Fund. DNB Næringsmegling was adviser to the buyer on the last transaction. Four of the years nine registered transactions were completed at a net yield below 5.7% and we consider that the prime yield in hotels is 4.25%.

Conclusions and expectations
On a national basis we believe that there will be a moderately positive development in 2016, but with continued large regional differences. We believe a weak Norwegian krone will be an important contributor to lifting growth in tourist traffic further, but there is considerable uncertainty as to the extent several of the larger cities will be able to absorb capacity increases in a market characterised by much uncertainty. Weaker prospects for the Norwegian economy and business may mean that companies become more cost conscious, which can affect both business traffic and conference demand in the coming period.

Revpar and price per room

Revpar	2014	2015	Percent
Norway	469	481	2,6 %
Oslo	598	663	10,9 %
Bergen	704	631	-10,4 %
Trondheim	501	472	-5,8 %
Stavanger	671	495	-26,2 %

Price per room (NOK)			
Norway	885	897	1,3 %
Oslo	894	956	6,9 %
Bergen	980	943	-3,8 %
Trondheim	813	803	-1,2 %
Stavanger	1055	943	-10,6 %

Capacity increase and number of sold rooms (NOK mill.)

Capacity increase	2014	2015	Percent
Norway	26,73	27,44	2,6 %
Oslo	4,21	4,42	4,8 %
Bergen	1,59	1,76	10,5 %
Trondheim	1,21	1,30	7,5 %
Stavanger	1,03	1,18	15,4 %

Number of sold rooms			
Norway	14,15	14,72	4,0 %
Oslo	2,82	3,06	8,5 %
Bergen	1,14	1,18	2,7 %
Trondheim	0,75	0,77	2,5 %
Stavanger	0,65	0,62	-4,8 %

Source: Statistics Norway

Comfort Hotel Grand Central, Oslo
Valuation on behalf of ROM Eiendom

HOUSING

Krydderhagen and Sørenga, Oslo
DNB Eiendom Nybygg has the sale assignments

Text: Kyrre Aamdal, DNB Markets

HOUSING

- Increased house prices and high turnover so far this year
- Large regional differences
- Higher unemployment will affect house prices

Strong house price growth last year

House prices rose by 7.2% last year, but the monthly rate of growth slowed over the year. The annual growth rate declined from 8.4% in the first-quarter to 5.5% in the fourth quarter and 5.0% in December. In January the growth rate was 5.2%.

Price growth has become more subdued across the whole country. In January this year some areas recorded a price fall from January last year. This was particularly clear in Rogaland where prices in January this year were 3.6% lower than last year. In Stavanger the price fall was 6.0% and in Telemark, outside Skien and Porsgrunn, and Finnmark there have been price falls in recent months. Tromsø had the most marked reduction from price growth of 16.9% in January last year to 4.9% in January this year. Oslo differentiated itself with relatively high price rises over the whole year.

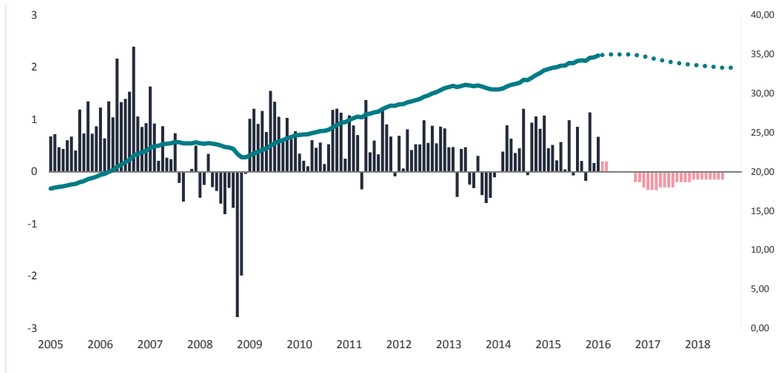
The development in house prices nationally can largely be explained by the development in disposable household income, unemployment, mortgage rates and the housing stock.

A price model with such factors pointed to a much lower rate of house price growth in 2015 than the 7.2 % that was the outcome. The marked increase in LFS unemployment last year was the main reason that the model indicated low price growth. We believe that the difference between the modelled and actual price development first and foremost reflects the fact that the deterioration in the labour market so far has been limited to western and southern Norway, while the rest of the country, including eastern Norway, which has a heavy weighting in the house price index, has been little affected by the weakening in the labour market. It may also be the case that the model excludes some important explanatory factors such as expectations that interest rates will remain low for a long time or more lenient lending practice in the banks, although the latter may be in the process of changing.

Prices levelling out in 2016

In spite of continuing low interest rates, we expect the housing market to continue to cool going forward. Unemployment will gradually increase in other parts of the country including eastern Norway. We still expect some increase in house prices in the first quarter of 2016, followed by a levelling out. From the autumn of 2016, through 2017 and into 2018 we expect a slight fall in house prices. Once the adjustments in the oil sector have been completed and growth in the Norwegian economy picks up again towards the end of the forecast period, we expect that house prices will once again rise. Such a picture gives annual growth in house prices declining from 7.2% last year to 2.0% this year. House prices are expected to fall by around 2% annually in 2017 and 2018 before rising a little in 2019. The fall must be characterised as very modest in light of several decades of strong growth and an unemployment rate that rises to 5.7%. This is due to continued low interest rates and a tight supply side in some central locations, particularly in eastern Norway. In addition some of the increase in unemployment is due to the number of asylum seekers in the years 2015-2017 and not to generally increased uncertainty in the labour market. Asylum seekers who obtain residence permits will gradually need homes and will contribute to dampening the fall in demand. In some areas, such as Oslo, inward relocation and population growth is expected. Expected stagnation in housebuilding will limit the downside for house prices in these areas.

House price development (% and NOK/sqm) | *m/m% (left axis)* *NOK 1000/sqm (right axis)*



MACRO

Kirkegata 4, Oslo
Letting assignment on behalf of Opsahl Gruppen

MACRO

Text Kyrre Aamdal, DNB Markets

- Oil price fall last autumn will intensify oil slowdown
- Employment growth increased in 2014, but is on the way down
- We forecast a slight rise in long interest rates over 2016

Global economy
In spite of both minor and major shocks, ***the global economy*** maintained momentum reasonably well last year. GDP rose by 3.0%, against an average for the last 30 years of 3.6%. The emerging economies contributed three quarters of the growth, and China alone one half of this. The latter clearly shows why economists and investors are notoriously concerned about the state of China's health: if China comes to a halt, global growth will be considerably lower. However our main view is that this will not happen. Growth in China will, quite unavoidably, decline a little, but we believe a collapse will be avoided. Growth will change its character however and become less commodity and energy intensive and thus impact commodity prices and the growth of commodity exporters, as we have already seen. We believe that the oil price will recover, to USD 70 a barrel from 2018, something that will benefit countries such as Norway and Russia, but there is considerable uncertainty. If the oil price remains low, either as result of a new shock on the supply side, or for example a collapse in China, growth prospects for Norway will also be substantially affected.

National accounts figures for the first three quarters and short-term indicators for the last, indicate that ***GDP in the industrialised countries*** rose by 1.8% last year, which is fully in line with growth for the previous year. However the picture is not uniform. Among the major countries, the USA and UK rose by 2.5% while for Japan and the Eurozone growth was respectively just 0.75 and 1.5%. Among the smaller countries the picture varied from zero growth in Finland to around 3% in Sweden and 6% in Ireland. We also believe that growth will remain at roughly the current level in the major countries.

The US economy appears to be in a new, long phase of expansion. The upturn has so far lasted for 6½ years and we believe that it will continue for at least a couple more years. The most important driver is private consumption, which has been lifted by strong job expansion and increased real incomes. In addition housing investment is growing relatively strongly. The upturn has been dampened however by the strong dollar which has held down net exports and thereby industry. We believe that growth will remain above the economy's trend growth rate in the coming years, so that unemployment will fall both this year and next. This will put upward pressure on prices and wages and lead to interest rate increases by the Fed. Recent developments have increased the risk that growth will be weaker than expected and any rise in interest rates delayed.

Economic outlook Norway, Januray 2016 | *Source: Statistics Norway, DNB Markets*

	2014	2015	2016E	2017E	2018E	2019E
GBP Mailand Norway	2,3 %	1,0 %	1,2 %	1,5 %	1,9 %	2,2 %
CPI-adjusted	2,0 %	2,1 %	2,7 %	1,8 %	1,2 %	1,2 %
Private consumption	1,7 %	2,2 %	1,4 %	2,2 %	2,8 %	2,9 %
Traditional exports	2,5 %	5,5 %	3,4 %	3,0 %	2,8 %	3,0 %
Employment	1,2 %	0,9 %	0,5 %	0,4 %	0,7 %	0,8 %
Petroleum investments	-2,9 %	-15,0 %	-15,0 %	-10,0 %	0,0 %	5,0 %
Oil price (USD/bbl)	99	54	55	65	70	70
Secondary house prices	2,3 %	7,2 %	2,0 %	-2,3 %	-1,8 %	0,6 %
Interest rates and FX						
3m NIBOR	1,7	1,3	0,7	0,5	0,5	0,8
10 year swap	2,8	2,0	2,0	2,0	2,0	2,0
EUR/NOK	8,4	8,9	9,2	8,6	8,2	8,2
USD/NOK	6,3	8,1	8,8	8,4	7,5	6,9

Some seven years after the financial crisis the ***Eurozone*** has not yet made up the lost ground. GDP is below the trend growth rate and unemployment above its expected normal level. Growth in activity is modest, and inflation entirely absent. With rising optimism, a gradual reduction in debt and a very expansive monetary policy there are good reasons to believe that the upturn will continue, but a lot of vacant capacity, low trend growth and tight budgets indicate that growth will remain low. As previously we see GDP growth in the range 1–1.5% and thereby only a slight fall in unemployment. This indicates low inflation, low interest rates and continued money printing in any event for the next three years.

The Swedish economy was one of last year's few positive surprises. On average the economy has grown by 1% a quarter for the last four quarters. Many countries struggle to achieve as much in a year. From 2014 to 2015 growth was 3.3%, one percentage point more than we estimated at the start of the year. Much can be attributed to record low interest rates, which were further reduced in February this year. Low unemployment and rising capacity utilisation should have put pressure on inflation, but so far Sweden appears to be affected by the same deflationary forces as other industrialised countries. In practice consumer prices have been unchanged for the last three years. This is the background to the Swedish central bank's more expansive policy: with negative interest rates, money printing after the European model and – recently – very strong signals of forthcoming sales of Swedish krona if the krona should strengthen further and dampen inflation.

Norwegian economy

The mainland economy grew by 1.0% from 2014 to 2015. Growth was therefore more than halved last year, primarily as a result of the fall in demand from the petroleum sector. The declined in the oil price has intensified the fall in petroleum investments, reduced cost growth in the supply industry, dampened optimism among companies and households and led to lower income for both the public and private sector. The development has hit the economy unevenly, both regionally and for business. This year we expect a further fall in petroleum investments and the effects of this will spread through the economy. An expansive financial policy and lower krone exchange rate are moderating the effects and contributing to continued growth in the Norwegian economy. In future the impact from the petroleum sector will be lower at the same time as the stimulatory measures continue.

Oil investments fell by roughly 15% last year. The decrease was partly a result of the marked upturn in the years 2011–2013. High cost growth over the several years, both in price and volume, damaged the oil companies' profitability. A fall in investment was thus already likely before the fall in the oil price through the autumn of 2014. Currently a number of developments are taking place that are expected to be completed in the next two years including Aasta Hansteen, Gina Krog, Ivar Aasen and Martin Linge. With few new projects being commenced it seems likely that there will be a significant downward adjustment in the level of activity in time. The development of the Johan Sverdrup field, where most of the investment will take place in 2018 and 2019, is contributing to holding up investments. We estimate a new 15% decline in petroleum investments in 2016 and a further 10% reduction in 2017. In total we estimate a reduction of 35% from 2014 to 2017. The forecasts are based on the oil price rising this year and continuing to USD 70 per barrel in 2018. If the price should remain at USD 35 per barrel, the fall in oil investments will be greater and growth in the Norwegian economy lower. The effects of a low price will probably be small in 2016, but affect developments in subsequent years considerably. Growth in mainland GDP may then diminish to 0.5% and growth in employment cease.

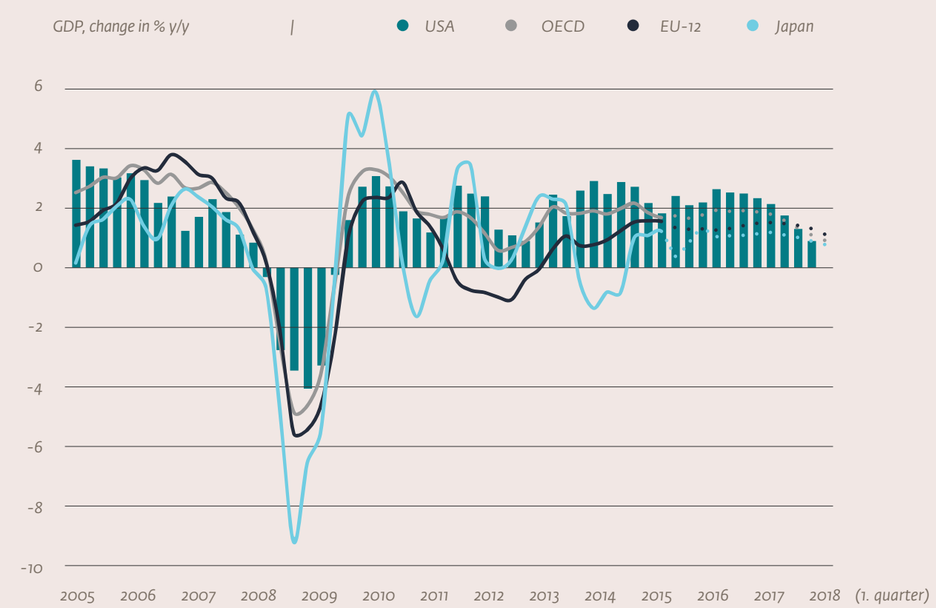
Lower demand from the petroleum sector has naturally enough strongly affected companies delivering goods and services to the petroleum sector: the oil supply industry. Here production decreased throughout 2015 and the oil suppliers expect further falls. The reversal is particularly apparent for the shipyard and mechanical engineering industry. The fall in petroleum investments and the oil price also has more indirect effects. Investment by mainland companies decreased by roughly 1.5% last year and we expect a corresponding drop this year. There are significant variations between different sectors. Industrial investments fell markedly throughout last year but other manufacturing segments, including the power producers, increased investment. Investment by service companies also fell, particularly within transport. The background to the reduction is mixed, but prospects of a weaker growth picture have been important.

Household consumption rose by roughly 2.2% last year. The growth rate was however clearly lower in the second half year than in the first. Growth in household income has weakened and consumer confidence has fallen to very low levels. This suggests weaker growth in consumption in future. Private consumption represents roughly half the demand from mainland Norway. Weaker growth in private consumption will therefore have a significant impact on activity in the economy. Growth in household disposable income in 2015 was roughly as in 2014, but slightly higher price growth contributed to weaken real growth by 0.2 percentage points to 2.8%.

Unemployment rose markedly last year. LFS unemployment rose to 4.6% in the fourth quarter, corresponding to 127,000 people. According to the Norwegian Labour and Welfare Administration (LWA) the number of registered unemployed is smaller and the rise less marked. But here the rise is also clear and the number of unemployed together with persons on labour market measures passed 100,000 in December last year. The increase is particularly clear for employees connected to the petroleum sector. For large parts of the country however unemployment has decreased or been stable. The same distortion is found in other markets: turnover in shopping centres in Rogaland has been significantly lower than in the rest of the country. House prices are falling in Stavanger, while growth is high in Oslo and parts of Akershus.

The weakness of the krone during 2015 will lead to imported price pressure in 2016 but this will be no stronger than last year. Furthermore we believe that the krone will strengthen during 2016, which should contribute to dampening imported price pressure later in the year. Overall we expect that core inflation this year will be, as last year, 2.7% before decreasing to close to 1% in 2018 and 2019. Electricity prices, as measured in the CPI, were at their lowest last year since 2007. This year and in the coming years we expect a moderate increase. The rise of 20% from December to January contributed to an inflation rate of 3.0% in January. We believe this will fall back a little later in the year and that the overall inflation rate will again be 2.7% this year. The wage settlement last year was an intermediate settlement and the agreements signed generally had a limit of 2.7%. This year is a main settlement year and we estimate that the parties will reach agreement on a limit of 2.5%. If wage growth is the same it will be the lowest since 1935. This will lead to a decline in real wages of 0.2% from 2015 to 2016. Furthermore we expect that wage growth in future will be around 2.5% annually, but that lower price inflation will lead to real wage growth picking up.

The interest rate policy of the main industrialised countries largely reflects how far the countries have come in recovering from the financial crisis. Long swap rates rose a little before the summer of last year but nevertheless ended the year quite close to levels at the start of year. With our view that short interest rates are unlikely to increase much any rise in long interest rates will be modest in the coming years. And with the slowdown in the USA and, as a result, other countries as well in 2018-19 they will probably fall a little towards the end of the forecast period. At the start of 2016 long interest rates had decreased in line with a marked downturn in stock markets and rise in yields on corporate bonds. The markets have almost given up the prospect of a rise in interest rates in the USA this year. This financial instability relates, among other things, to concerns as to growth in China, the outflow of capital from emerging economies and the oil price. Instability has also got support from published figures showing lower industrial production and exports in December in many countries. This indicates that currently there is increased downside risk for forecasts on growth, inflation and interest rates.



THE CREDIT MARKET

Text Kristina Solbakken, DNB Markets

- Record volume of property bond issues, despite a turbulent year in the Norwegian bond market
- Bond financing considered relatively more attractive
- We expect high volumes in 2016 as well

2015 was a turbulent year in the Norwegian bond market. The Norwegian high yield segment (HY), where more than half of the outstanding volume is oil-related, fell in line with the oil price. Due to a continuing low oil price it has gradually become clear that the majority of the oil service companies in the Norwegian bond market will have to restructure their debt. Poor future prospects for the sector contributed to a significant fall in the issued volume of HY bonds in 2015. There have however been some openings for HY companies that do not have oil-related businesses, as investors are looking for diversification away from oil.

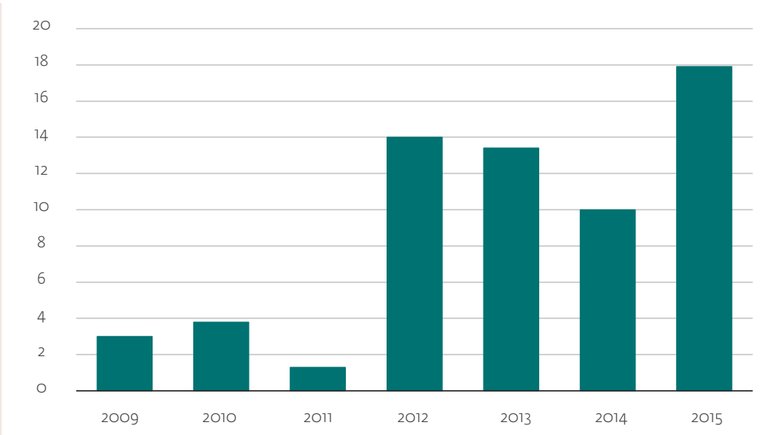
The Norwegian investment grade segment (IG) has experienced almost 3 years with a continuous fall in credit margins. In Q3 2015 however there was a substantial correction and we experienced the largest expansion in credit margins since 2008. The margins have to some extent been due to weaker prospects for the Norwegian economy, but we nevertheless believe that the default risk in these companies is low and the credit quality better then what risk pricing would indicate. There are however a number of other factors that have contributed to the substantial expansion in credit margins: 1) increasing risk aversion globally, where the increase in US interest rates and the build-up of Chinese debt has received a lot of attention, 2) basis swap margins in EUR/ NOK have increased, something that affects Norwegian mortgage companies' borrowing costs, which again affects Norwegian IG margins in general, 3) life insurance companies have made portfolio adjustments in relation to the Solvency II regulations which came into force from 1 January 2016, 4) Kommunalbank has as a result of capital requirements limited its lending capacity and 5) foreign companies have raised finance in the NOK market, which has contributed to reducing liquidity. In addition to the headwind that the market has faced, the IG market is very concentrated and dominated by a few participants. Changes in their behaviour contributed to a further reduction in liquidity, and to a considerable increase in the liquidity premium. We believe that the factors referred to may lead to a further increase in interest margins in the IG market in the first half of 2016. We believe that margins will thereafter normalise as they offer an attractive return relative to the fundamental risk in these companies. Normalisation may however take place at a higher level than before the correction.

**High yield segment (HY)*
= companies with a B+ rating or lower

Investment grade segment (IG)
= companies with a BB- raising or higher

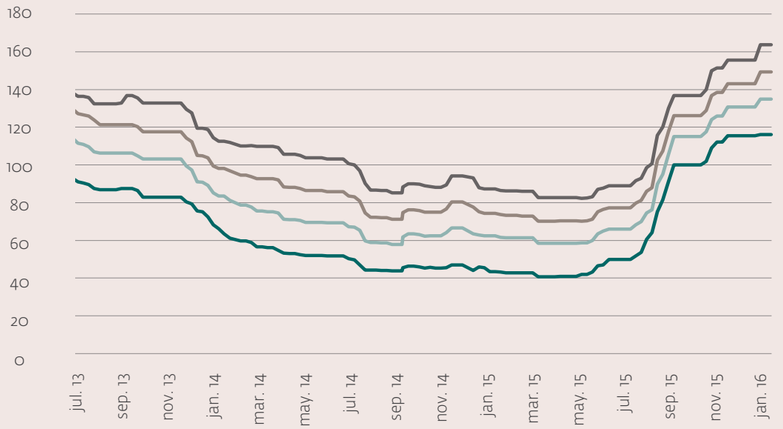
2015 was a record year for transactions in the Norwegian market for commercial property, with a total volume of NOK 130 billion. At the same time bank margins have risen considerably and stricter capital requirements have led to the banks being more restrictive, particularly towards commercial property. This has led to a somewhat different development for property bonds with a record volume of new issues at NOK 17.9 billion, an increase of around NOK 7.9 billion from 2014. We believe that the high volume of property bond issues will continue in 2016. We expect a continued high volume of transactions, (even if not as high as in 2015) and a continued weakening in the availability of bank financing and higher loan margins for property companies. We believe this will make the bond market a relatively more attractive financing source for the major Norwegian property companies. Demand for property bonds may also be higher as secured property loans have a lower weighting (50%) for life insurance companies from 1 January 2016, and will thus be a more attractive investment for this investor group than previously.

Volume of commercial property bonds issued each year | (NOK bn.)



Norwegian bond margin – industrials (including property) | Non-financial Investment-grade companies (bps)

3 years *5 years* *7 years* *10 years* *Source: DNB Markets credit analysis*



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