Colliers International is handling the letting of Sjølyst Plass 4 for Sparebank 1 Liv

Full steam ahead

Colliers International AS have in 2014 seen a tremendous development within our brokerage/advisory business. Last year ended with transaction level (both sales and purchase advisory) of around NOK 3.8 billion in Colliers International AS. In 2014 we hope to see transaction levels around NOK 4.5 to 5 billion.

A majority of our transactions are cross border, meaning helping international investors investing in Norway, or Norwegian investors investing abroad. All these deals will be in close partnership with our international colleagues in Colliers.

We also see a continued focus within our Retail department, where we have a strong focus on representing chains opening stores in Norway. This year we have also increased our client base into restaurants as well. Today we represent 8 different chains in Norway, hoping to start up more than 40 different outlets in 2014.

We also see that we continue to win better and larger mandates in our letting department, and will continue our growth there with one more employee in 2014. As of 2014 we have also started with tenant advisory business, closely linked with our international Corporate Solutions department.

But Colliers in Norway is not just our brokerage/advisory business. It is equally important with the business we have in property and asset management, including our 42% stake in Entura AS. Entura is developing into a very good facility management company, with more than 15 employees at the moment. A large part of the business is now also construction management on behalf of our clients.

This August we will also arrange Colliers Summer Summit, a real estate conference with more than 100 participants. We will have speakers from different parts of Colliers in Europe, talking about interesting themes as internet trade, how will this inflect on both retail properties and logistics.

So it is really full steam ahead for Colliers in 2014

Thor Bjørdal
CEO
TRENDS

Macro economy: For the time being, Norway is experiencing a quite strong GDP growth that was unexpected at the start of the year. If the latest trend as of August continues, we will see a quite strong GDP growth going forward.

Transactions: Foreign investors are becoming more and more significant investors and are increasing their shares of the total transaction volume.

Office: We are currently experiencing a slightly increasing vacancy rate as well as increasing rents.

Logistics: There has been increased activity in the logistics transaction market. Syndicates and foreign investors has an appetite in this market.

Retail: Decrease in the transaction volume. Not the large portfolio deals we have seen in previous years.

Residential: Prices are increasing and are at an all time high. Supply is at the moment relatively high in most large cities.

PROGNOSIS

Macro economy: We expect an improved macro economic situation going forward as the situation improves for key trading partners and positive figures lately.

Transactions: We expect a very strong finish to 2014 and high activity in 2015.

Office: We expect decreasing office vacancy going forward due to high demand and little new supply on the market in the next couple of years.

Logistics: Foreign buyers and syndicates with cheap capital will increase the activity in this sector.

Retail: Encouraging retail numbers are positive for retailers. Concerning the transaction volume of retail properties we expect a quite poor year compared to the past two years.

Residential: The residential market is gathering pace and we expect a strong finish to 2014. We expect much of the same in 2015.
The Norwegian macro economy is currently performing well and arguably better compared to forecasts given a year ago. GDP growth in 2014 is currently being estimated to 1.9% (Statistics Norway) which is in line with forecasts for 2015 and 2016. However, the estimate is slightly down compared to estimates given some months ago and Norway is still located in what Statistics Norway label as a “moderate economic downturn”.

Two of the most important factors have been that we have not seen the forecasted increase in unemployment and the downturn in residential prices proved to be short lived. The unemployment rate as of 01.08.14 remains at approximately 3.5%. This is happening despite a continued increase in population and as such we see that employment levels remains at roughly 70%. The Norwegian economy has thus far proven to be surprisingly adaptable to the large influx of foreign labour that has been experienced over the past years. Furthermore, we have seen export levels and trade increase over the past year as a consequence of a weaker NOK and fiscal contributions. There is also a strong expectation that the recuperating European economy will eventually help bolster the growth in the Norwegian economy as well. Several of Norway’s main trading such as the United Kingdom, Germany and Sweden are indeed all performing well and have increased economic activity compared to 2012 and 2013 which in turn should contribute to Norway’s economy as well going forward.

The low NOK has however also contributed to an increased CPI rate in the past year and the CPI-JAE rate has been operating close to Norges Bank’s inflationary goal of 2.5% for much of the past year. However, the NOK has strengthened slightly in the last couple of months, and Statistics Norway anticipates that this will contribute to a decreased CPI rate going forward. Additionally, the electric prices are likely to be quite cheaper compare to last year which makes Statistics Norway anticipate a CPI rate of approximately 2% in 2014.

Household consumption increased significantly in Q1 of 2014 after very modest increases in the three quarters prior which might help aid the retail sector of commercial property going forward. Public consumption increased even further and these factor were important for the production development in the last quarter.

The base rent from Norges Bank is at the moment at 1.5%. On average, the interest rate on mortgages is roughly 3.5%, meaning Norwegian banks are still requiring quite high margins. We are seeing a strong tendency that mortgage rates are decreasing and most bank customers should be able to get a 3 year fixed rate at approximately 3% which would indicate that this trend is forecasted to continue. The fiscal policy is anticipated to be relatively expansive going forward.
**Sweden**

**ECONOMY**

According to most forecasts, Sweden will have a GDP growth of 2.4 % in 2014 and 2.9 % in 2015. This can be compared to forecasts for the Eurozone with growth of 0.9 % in 2014 and 1.2 % in 2015. The unemployment rate will remain low in Sweden (7.5 %) compared to the Eurozone (12.1 %) or the EU (10.9 %). The election in September 2014 may have an impact on decisions affecting the economy.

After a long period of hesitation, the Swedish National Bank decided in December 2013 to cut the repo rate to 0.75 %. This implies that the 3-month STIBOR rate quotes below 1%. As lenders’ margins have continued to ease, major property companies can revise their budgets for short-term loans down to 2-3 % and expected loan-to-value up to 60-70 %.

**INVESTMENT**

In 2013, the total transaction volume amounted to approx. SEK 97bn compared to just over SEK 105bn in 2012. Despite a slight decrease in 2013, investor interest is high, and the access to financing is good. The decrease is mainly due to the lack of investment vehicles in the market.

Like previous years, Stockholm account for just over 40 % of the transaction volume in 2013, while Gothenburg, the second largest city, only accounted for approximately 11 %. University cities have become more attractive and accounted for almost 20 % of the total transaction volume compared to 14 % in 2012.

The investments have been more evenly distributed between the different segments in 2013 compared to the two previous years, when offices alone accounted for over 40 %. The residential segment was the most prominent segment in 2013 with nearly 30 %, followed by the office segment with 27 %. The industrial and logistics segment accounted for 15 % and the retail segment for 14 %.

Foreign investors only invested SEK 10bn in the Swedish property market in 2013, mainly in the Stockholm region, which is a 50 % decrease compared to 2012. This is not due to lack of interest, but rather the strong Swedish Krona, which has made it difficult for foreign investors to compete with domestic investors, as well as a lack of core office products.

Core properties in good locations will continue to attract investors in 2014. However, transactions with properties in secondary locations and properties with a high risk profile will also increase. This is mainly due to a reduced gap between the sellers’ and the buyers’ price expectations combined with improved financing. Furthermore, investors are more optimistic and are willing to take higher risks.

**Denmark**

**ECONOMY**

The GDP growth in Denmark was approximately 0.5 % in Denmark in 2014. Most of the economic analyses suggest a growth of close to 1.5 % a year in 2014 and 2015. The years since the financial crisis have been characterized by very moderate growth rather than high growth which we have seen after some of the previous economic recessions.

A major reason for the growth being so relatively modest is that the growth in private consumption has been rather limited despite tax cuts, low inflation and higher consumer confidence.

Inflation has been at a record low level in 2013, partly due to low wage pressures, tax cuts and a decline in prices of energy. At a level of 0.8 %, these price increases are the lowest since 1953. It is expected that inflation will rise again in 2014.

The housing market shows very modest growth, which is distributed very unevenly geographically with increases in the prices of owner-occupied apartments in the large cities and a decline or stagnation of the house prices in many parts of Denmark. The labour market is improving with an increase in employment and a drop in the seasonally adjusted gross unemployment. Exports are healthy, which has helped drive the economic growth that we, in spite of everything, have seen since 2008.

**INVESTMENT**

There is strong investor demand for residential rental properties. The segment is popular, among others, due to low vacancy rates, expected low risk, ready financing etc. Demand is strongest in the large cities where the population is growing faster than in Denmark as a whole. It is also here where it is easiest to obtain financing.

The investor group demanding residential properties is very heterogeneous. The foreign investors and the Danish institutional investors typically buy large properties, portfolios and projects mostly in the large cities. Small property companies and private investors also buy residential properties, but it is often small properties in a wide variety of Danish cities.

Retail properties, for example in high streets, are very popular among investors. There have been a number of transactions in central Copenhagen within the latter year. The investors are also demanding office properties and logistics properties on prime locations, but the supply is limited, which limits the number of transactions.
Finland

ECONOMY

Finnish GDP declined in the first half of 2014 and returned to a moderate growth path in the latter half of the year. Still, Finnish GDP declined by 1% in 2013. The modest growth will continue in 2014 and 2015, indicating annual GDP growth of 0.6% and 1.7% respectively.

The Finnish exports will start to increase in 2014, as the global investments are forecasted to start growing. The increase is forecasted to accelerate in 2015. The same pattern applies to domestic industrial investments. However, private consumption will not start growing until 2015 due to consumer uncertainty and unstable employment market. The unemployment rate is currently approximately 8% and is forecasted to remain unchanged in 2014. The potential growth in unemployment due to sluggish GDP growth will be offset by a decreasing labour force. The accelerating growth in the economy in 2015 is forecasted to decrease the unemployment by close to 0.5%.

INVESTMENT

The second half of 2013 was very active within property transactions in Finland. The total transaction volume for 2013 was €2.4bn, showing a fair growth on the 2012 figure of EUR 2bn. The transactions are focused on prime properties in the Helsinki metropolitan area, which has been the case since the 2008 credit crunch. The price gap between buyers and sellers still prevails as for secondary assets. A few transactions of distressed assets were recorded in 2013.

The transaction volume increased significantly in the residential and health care segments, where several residential apartment and health care/nursing home property portfolios were transacted. The office segment remained the most traded asset class, while the proportion of logistics property transactions continued to decrease.

The most active parties in the investment market are Finnish pension funds and foreign funds, especially German and Swedish property funds. Two new foreign investors, Hemsö and Redito, entered the Finnish market in 2014. The foreign investors completed approximately 30% of the transactions. The most active foreign investor was Union Investment Real Estate.
After a slow start to 2014 during Q1, the Norwegian transaction market has boomed lately after a slow start to 2014 and we believe that it is likely we will see the highest transaction volume since 2006.

One essential factor that is contributing heavily to the high transaction volume is the return of the foreign investors in to the Norwegian property markets. There is currently a lot of unrest globally, with investors reluctant to invest in several places such as the Middle East, Russia and South East Asia due to a complicated political climate. Contrary to these areas, Norway is perceived as a very safe marked with stable market conditions which are key for several investors. Government bonds and bank interest rates are at all time low levels prompting investors to find alternative outlets for their capital. Consequently, we see that foreign investors, especially German investors are currently much more aggressive in the Norwegian market compared to previous years showing interest in buildings at yield levels far lower compared what they have requested in the past. Furthermore, British and North American players are also keenly looking to Norway, and there has been several transactions involving these nationalities already in 2013 and 2014 where especially Madison and lately WP Carey have been active. Our registry shows that foreign investors account for roughly 20 % of the transaction volume in 2014, primarily focusing on the office and retail sector. There is interest for logistics property as well, and we believe that interest for this sector will increase going forward.

As an example, the twin buildings in Schweigaards gate owned by Rom Eiendom are currently on the market and are reported to have attracted strong foreign interest. It is rumoured that Rom Eiendom wants a yield close to or slightly below 5 % for this development which previously would likely scare many foreign buyers. We also know of several other properties that are currently experiencing strong interest from potential foreign buyers and might materialize during the fall. We believe that it is highly likely that the share of property bought by foreign investors will increase during the second half of 2014.

Additionally, primary financial providers, especially the larger banks such as DnB and Nordea are increasing their exposure towards commercial real estate significantly compared to only a couple of years ago. Furthermore, the margins taken for providing finance is also steadily decreasing and as a consequence, the price of finance has been lowered considerably compared to only a short while ago.

The current climate is such that it is significantly more challenging to locate a willing seller compared to a willing buyer for prime buildings. For most good to prime buildings there are buyers readily available, however, they might find it difficult in this sellers market. Consequently, yield levels are going to come down moving forward. There have not been office transactions in the CBD area conducted on market terms in quite some time, and it is our belief that such a transaction would provide yield levels that has not been seen this decade without the building having significant upside potential in rent.

At present, the transaction volume tally is approximately NOK 21 bn compared to NOK 39 bn during the entire year of 2013. There is every indication that this volume will be surpassed in 2014. There are currently several large deals in our close to the final stages of the transaction process and also several developments that are in the transaction pipeline. Offices are accountable for roughly 49 % of the total turnover. In the other sectors it is currently very close with the sectors retail, others, development, and hotel each accounting for between 10 – 12 % of the turnover. We believe that the logistics volume is likely to increase in the second half of 2014. Oslo is again the dominant city with close to 60 % of all transactions being conducted in the capital area. Due to some portfolio deals the area “Others” are the second largest market with the other 4 large cities showing only small differences between them. We have currently registered 66 transactions in excess of NOK 50,- million this far this year.

In our neighbouring countries we are also seeing a lot of investment activity. In Sweden, the transaction volume is mirroring that of the record years of 2006 and 2007. According to Colliers in Sweden, we might be end up close to a record volume in the Swedish commercial property market in 2014. As of August the Swedish transaction volume was approximately SEK 65 bn. Colliers Denmark is also reporting an increased transaction volume in Danish markets. 2012 and 2013 provided quite low numbers in a historical context. However, indications are that 2014 will provide the highest transaction volume in years which coincides with an upturn in the general economy as well.
The office sector is currently performing very well in terms of transaction volume. At present, the office sector is responsible for close to 50% of the total turnover of this year’s commercial property transactions. Currently, we have registered 33 office transactions for approximately NOK 10.2 billion. Although we have had quite a high number of office transactions in the first part of 2014, we have yet to see any large single office building transactions, in excess of NOK 1 bn, thus far this year. We do however that this will change during the course of the second half of 2014. Some of the larger office transactions so far this year include:

- Munkedamsveien 62B in Oslo purchased by Ragde Eiendom
- Noreveien 22-24 in Oslo purchased by JM
- Finnestadveien 44 in Stavanger purchased by WP Carey
- Strandveien 13-15 in Lysaker (Oslo) purchased by Momentus Eiendom

Recently, Schweigaards gate 21 and 23 has hit the market. These two properties owned by Rom Eiendom is certain to attract domestic as well as foreign buyers and it is rumoured that the seller is anticipating a yield of around and below 5% which would mean approximately NOK 1.7 bn.

Yield levels have decreased steadily during the course of recent years. We have recently adjusted our yield levels for prime office real estate in the Oslo region down from 5.2% to 5%. This is a consequence from moves made in the market which strongly indicates that yield levels have decreased. Admittedly, we would be far from surprised to see transactions on prime buildings on market terms below 5% going forward, possibly prior the years’ end.

There is a lot of positivity and demand currently in the market and supply is currently limited which is contributing significantly to the decreasing yield. There are willing buyers for most core properties in the central Oslo area, however, finding willing sellers are currently one of the main issues. If current market conditions are maintained, this will cause the yield level to drop even more going forward.

The current vacancy rate is in our latest vacancy survey from August of 2014 is currently 7.41% which is an increase of 0.7% from our previous report in November of 2013. This had caught us somewhat by surprise as we expected vacancy levels to remain stable and decrease rather than increase. It is surprising due to the low level of office completions taking place in 2014 and 2015. It is however possible that the large additions of office space that the Greater Oslo area experienced in 2011-2013, although it was well absorbed, not all the holes left by the tenants was subsequently filled by new tenants.
The CBD area has seen quite a lot of change during the past couple of years, mainly due to Norwegian Property’s transformation of Aker Brygge. Prior to this, we had the large development of Tjuvholmen as well which is now well completed and fully let. The renovated properties at Aker Brygge are also close to fully let and there are currently no more advertised space for Straaden 1-5. These buildings have collectively received premium rents and have arguably cemented Aker Brygge’s stature as one of the foremost prime locations in Oslo. Not including the high profile contracts for DNO and Kistefos, there has been several contracts signed in at Aker Brygge close to our estimate for prime buildings at NOK 4 300,- per m².

All the while the NPRO buildings have in most part been let, the vacancy rate in this area has increased slightly compared to our previous vacancy count in November of 2013. In August of 2014 we found the current vacancy in the CBD area to be 3.94 %, an increase from 3.52 %. This has happened on the back of the fact that the market rather quickly absorbed the new developments that has taken place in the area as of late.

According to Arealstatistikkk 33 contracts has been signed in the CBD area in 2014. What we also see is that the duration of the contracts are increasing, with the average length of signed contracts in this area now at 5.9 years which is a considerable increase compared to yesteryears.

There are currently 45 369 m² that is vacant in the CBD area. This serves as a decrease of roughly 3 000 m² compared to our previous market, meaning that there are more long term possibilities in the market compared to 8 months ago.

As the Tjuvholmen and Aker Brygge area is close to fully let, there is little new development taking place in the CBD area in the short term. There are some properties that will receive some renovation going forward, however, these will not heavily affect the CBD area as a whole.

Our current experience is that demand for office space in the CBD area is strong while the supply appears more or less constant. The constant supply is however at a very low level which consequently is putting pressure on the rents. As well as strong demand for the area, several prospective tenants expects high quality premises and is prepared to pay what it costs. We have revised our estimate for prime property in the CBD area from NOK 4 000,- per m² to NOK 4 300,- per m² which is an increase of 7.5 %.

The Sentrum area is the largest in Oslo and includes roughly 4/5 of the total volume of office space. There is also a lot of diversity in the area from large sprawling office premises in the newly developed Bjørvika area to smaller, more confined offices in the Kvadraturen area to the west and the tenant mix is quite varied depending on which area you are in. Compared to every other office area in the city, what characterizes Sentrum as an area is that there are a lot of smaller premises in the market and currently there are over 202 000 m² of advertised office space on the market divided on 148 properties. This marks quite a substantial increase from our previous report with 40 000 more advertised square meters of office space. Furthermore, it is also an increase of 10 properties since November 2013.

The Barcode development is Bjørvika is nearly complete and the main passage way in this area, Dronning Eufemias gate opened this past spring. The entire project is almost fully let, there are a few smaller premises still available in some of the buildings. As of yet, there are very few service amenities currently located in the area. The developers have previously stated that they were looking to 2014 as the year for these locations to open. The progress has been slightly delayed, however, are reported to be in the process. There are a couple of new office developments in the area which will hopefully become shovel ready during the course of 2015.

There are some buildings which currently has substantial vacancy such as such as Kongens gate 6 and Kongens gate 11 which between them has in excess of 15 000 square meters available. Outside of these, there are fewer premises than the last couple of years, larger than 5 000 sqm that are available for tenants within 6 months.

The vacancy rate has been very stable during the course of the past 8 months. As of August 2014 the vacancy rate in Sentrum had declined marginally from 6.22 % in November of 2013 to 6.04 % at present. As the area is so diverse, there is naturally a quite large differential in rental prices. The highest rental prices are found in the Bjørvika area. We have increased our prime estimate in this area to NOK 3 500,- per sqm which is a substantial increase from our previous estimate of NOK 3 200,- per sqm. This indicates an increase of close to 10 %.

We expect that demand will remain strong going forward. The Sentrum area offers the best communication links in the city, and is one of the primary reasons for its’ continued popularity among tenants.
SKØYEN

The area of Skøyen generally consists of newer development and consequentially larger office buildings and premises. One of the advantages of the Skøyen area is its’ good communication links as well as the proximity to the city centre. The area attracts a quite mixed tenant profile with large insurance, IT and grocery companies examples of large tenants in the area.

There are a few new development projects at Skøyen. One prime example is found at Verkstedveien 1 / Drammensveien 134, where NPRO is rebuilding a 26,000 sqm large office building. Statens Pensjonskasse has already signed a contract for 10,000 sqm here.

Other large properties with current vacancy are Karenslyst Allé 6 and Hoffsveien 1c which combined has in excess of 17,000 sqm of vacant office space. In August of 2014 there were 33 vacant properties in the Skøyen area that was advertised. This is a decrease from 38 in November of 2013. The vacancy rate in the Skøyen area today stands at 11.27 % which is down from 13.78 % in November of 2013. Furthermore, the total advertised office space is currently 73,295 sqm which is a sharp decrease from 91,418 in November of 2013 which adds to the perception of decreased vacancy at Skøyen.

Despite rental increases during the last couple of years, Skøyen has also had a quite constant vacancy rate in excess of 10 %. As such, it is rather natural that the rents increase has stagnated as of late. One other contributing factor may be that several of the prime buildings in this area have been let during the past couple of years. Our current estimate for prime property in this area remains unchanged from our previous report at NOK 3,000,- per sqm.

It is our expectation that the Skøyen area will continue to perform well. However, in the short term, we expect less of a rental increase in this area compared to the CBD and Sentrum areas, in part due to the larger, relative supply of office space found at Skøyen.

LYSAKER OG FORNEBU

The Lysaker and Fornebu areas are located just west for the Oslo city boarder in the municipality of Bærum. This area proven itself to be vastly popular for large petroleum and IT companies in particular and larger companies in general with companies such as Statoil, Telenor and Aker locating to the area rather recently. Communication is also at Lysaker & Fornebu significant for the popularity of the area as well as the possibility to build larger developments. Much of the office stock is of newer build and especially at Fornebu the development has taken place after the turn of the Millennia.

There are currently 34 advertised properties in this area compared to 38 in November of yesteryear. Of these 34 properties, 9 are larger than 4,000 sqm. According to Arealstatistikk, 29 contracts have been signed in Lysaker & Fornebu in 2014 as of July with an average length of 5.5 years. The length is, as we see in most other areas in Oslo a considerable increase compared to the status only a few years ago. The total advertised office space in this area is currently roughly 119,000 sqm, quite a large decrease from 143,000 sqm 8 months ago.

However, we experience that the actual vacancy rate has increased somewhat. The current vacancy rate in the Lysaker & Fornebu area is 8.64 % which is an increase of roughly 2 percentage points since November of 2013. We believe that this level is still quite competitive and the demand for office space in Lysaker & Fornebu is quite high. Our prime estimate for office space in this area remains for the time being at NOK 2,400,- per sqm. There has been a slow down in the activity in the Norwegian petroleum sector as of late. However, we do believe that Lysaker & Fornebu will have a positive development in the short term, and we expect to revise our rental estimate in the not too distant future.

### Skøyen - Rent per M²

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Source: Colliers International

### Lysaker og Fornebu - Rent per M²

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Source: Colliers International

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Source: Colliers International
OSLO INNER WEST

The Oslo Inner West area is a quite diverse area from large office developments mainly in the Majorstuen area to smaller office villas in the area of Frognerseteren. As a generalization the area is located in the most expensive residential area in Oslo. Tenants however, generally appreciate the good communication links and more relaxed pace in the area. The proximity to the city centre is also beneficial.

One large building in this area which have yet to have its fate decided is the current headquarter for Statoil Fuel & Retail in Slekadalveien 8. There is still uncertainty as to whether the premises will become a hotel or a renovated office, possibly combined with residential units when Statoil vacates the premises for Schweigaards gate 16 in 2015. If it is decided that the building will be converted in to a hotel, the Oslo West area will lose over 5 % of its total office space.

The current unemployment rate in the Inner West area is 7.61 % which is a marginal decrease from 7.91 % in November of 2013 and is very stable at the moment. We admittedly include some areas in Oslo Inner West, primarily around Pilestredet which is likely adding to our vacancy estimate compared to our competitors. The vacancy rate is based on 48 advertised vacancies and the total vacant m² was 49 833.

We have revised our prime rent estimate to NOK 2 400,- per m² from NOK 2 300,- per m² on the basis of recent deals signed especially in the Majorstuen area. The demand for premises in this area appears quite constant and we believe this will continue going forward.

OUTER WEST

There is still some vacancy remaining in Silurveien 2. However, the advertised area is roughly 50 % of what it was 8 months ago after Selvaag Gruppen chose to relocate to this location as well as Xelija Pharmaceuticals renting 2 000 m². However, there is now 8 500 m² vacant in Slemdalsveien 37 which is contributing heavily to a sharp increase in office vacancy in this area. Outer West is the smallest of our designated areas and a large letting such as the one in Slemdalsveien 37 will affect the vacancy level quite drastically.

The current office vacancy in Outer West is 10.87 %, which is an increase of approximately 7 percentage points and indicates how sensitive this area is to large lettings. The vacancy rate is based on 9 advertised premises. The total advertised office space was 17 758, an increase of approximately 3 000 from our previous survey. This constitutes an increase of close to 20 %.

OUTER EAST

The Outer East of Norway consists of quite a few combination buildings with both logistics and office units and in many cases it generally a logistics building. In these buildings, we do exclude the logistics share of the building and include the office sections although these are most likely to be let to logistics occupiers. This to ensure as much office space as possible is counted and added to the sample.

Buildings with significant vacancy currently include Svalikoavlveien 65 and Verkeiser Furulundsvei 34 which combined account for approximately 8 000 sqm. The current vacancy rate in the Outer East is 10 % which is an increase of approximately 2 % compared to November of 2013. Our latest survey included 54 properties and a total of 65 945 sqm of office space which is both an increase from our previous vacancy survey.

Our prime rent estimate has not been revised since our previous market report and is currently NOK 1 800,- per sqm.
**BRYN/HELSFYR**

The real estate company Pecuria along with partners has recently after several years been given the green light for a development of approximately 100 000 sqm in the Bryn / Helsfyr area. According to plans there will be several new office buildings in this development. The formal address is Østensjøveien 40/52. There is currently a mix of logistics / industry and appurtenant offices at the premises which will be transformed to a commercial hub with emphasis on office premises.

If we disregard the Pecuria project, Strømsveien 96 is currently the largest development in the Bryn / Helsfyr area with close to 13 000 sqm being advertised for let. This development however is not vacant until Q3 of 2015. In our market report 8 months ago we had 8 buildings in this area in excess of 4 000 sqm advertised. In our latest survey there were only 2 such properties.

The current office vacancy rate in this area is 8.25 % which is a decrease of roughly 2 %. We do however see a slight increase the total sqm in the sample while the amount of properties remains the same at 55.

Our current estimate for the prime rent in Bryn / Helsfyr has been revised slightly and is now NOK 2 200,- per sqm which is an increase of NOK 100,- per sqm from our previous estimate. The area has a quite constant demand which has put pressure on the rents as of late.

**SOUTH AND RYEN**

If we disregard the Pecunia project, Strømsveien 96 is currently the largest development in the Bryn / Helsfyr area with close to 13 000 sqm being advertised for let. This development however is not vacant until Q3 of 2015. In our market report 8 months ago we had 8 buildings in this area in excess of 4 000 sqm advertised. In our latest survey there were only 2 such properties.

The current office vacancy rate in this area is 8.25 % which is a decrease of roughly 2 %. We do however see a slight increase the total sqm in the sample while the amount of properties remains the same at 55.

Our current estimate for the prime rent in Bryn / Helsfyr has been revised slightly and is now NOK 2 200,- per sqm which is an increase of NOK 100,- per sqm from our previous estimate. The area has a quite constant demand which has put pressure on the rents as of late.

**NYDALEN**

It has happened quite a lot in Nydalen as of late, especially on the transaction side with the sale of the Storebrand portfolio and other buildings such as NPRP’s sale of Marselisveien 323 recently in August of 2014. However, we have also seen some activity on the leasing side such as for example Digitale Medier 1881 has signed a contract for 1 677 sqm in Rolf Wickstrams vei 15 as well as others.

Although there has been a lot of development in the Nydalen area for the larger part of this millennium, there are still substantial land in the area that is yet to be developed. Avantor, one of the largest landowners in Nydalen claims that they want to develop 500 000 sqm more of commercial property in the area.

The current vacancy rate in Nydalen is at low 5.6 % which illustrates the positive development Nydalen as an area has had during the last couple of years. Furthermore, it is a decrease from our previous survey of roughly 1 % as well. The survey consisted of 34 properties that gave 56 094 sqm of advertised office space.

Our prime rent estimate for Nydalen is currently NOK 2 350,- per sqm which is revised up from NOK 2 200,- per November of 2013. The low vacancy rate is means that demand is quite strong compared to the supply and rents have increased as of late.

**ØKERN, HASLE & LØREN**

This is an area that is currently undertaking heavy development and will look quite different in only a few years time. This is an area that will mature greatly as an office area in coming years and will see a lot of new tenants coming to the area. Companies such as Siemens and Aller Media have already signed their contracts.

The largest vacancies at Økern, Hasle & Laren is two large developments in Østre Aker vei 90 and Østre Aker vei 60 which will not be completed within 6 months. These two developments are currently advertising for a combined 115 000 sqm. Disregarding these two projects there is approximately 45 000 sqm of office space to let such as the 10 000 sqm and large Larenveien 51 and 9500 sqm at Larenfaret 3.

The current vacancy rate in the area is 14.85 % and is an increase of almost 2 % compared to November 2013. The sample size was 30 properties and nearly 160 000 sqm of office space in total.

The prime rent estimate for Økern, Hasle & Laren is currently NOK 2 050,- per sqm. The rent is likely to increase as the developments comes further along and the tenant mix becomes more apparent.

**SOUTH AND RYEN**

The area of Southern Oslo with Ryen is a relatively small office area with some larger developments, especially at Ryen. One large development that is on the horizon in this area is Byggeskje 8 by Obos Forretningsbygg which will be approximately 8 000 sqm. Due to the relatively small size of the area, on large letting may have large effect on the vacancy rate.

The vacancy rate is currently 8.56 % which is a considerable decrease from our previous report from November 2013 where the vacancy rate was 13.31 % meaning that there is a drop in vacancy of nearly 5 % in the area.

In total there were close to 21 000 advertised sqm in our sample based on 17 properties. The advertised office space has dropped significantly and is close to half what it was 8 months ago. However, the sample is admittedly small.

We have been unable to identify enough evidence in the market to alter our prime rent estimate of NOK 1 750,- per sqm. A possible increase is likely to happen if new developments include the amenities and quality that is required by the tenants to locate to this area.
Retail

Within the retail sector we have yet to see any sort of the large scale transactions that took place especially in 2012, but also in 2013. Currently, the retail sector stands for a mere 10 % of the total transaction volume which almost half of how it performed last year and less than 1/3 compared to 2012. What was the driving force in both these years were large shopping centre portfolio deals which we have yet to see in 2014. Given that 2012 was an anomaly, 2013 was arguably more of a “normal” year for the retail sector which still means that the retail sector is currently “under performing”. One might argue after the consolidation of shopping centres onto fewer hands during the past couple of years that there is currently a quite strained supply for larger quality shopping centres.

Nonetheless, we have seen some transactions in this sector, and especially interesting is the new foreign investors which have entered the retail sector. One example is Deka Immobilien which purchased the newly developed Bekkestua Senter from Profier AS, which is scheduled to open in November in the municipality of Bærum. The shopping centre was purchased for an undisclosed fee at a yield close to 6 %. Earlier this year another foreign investor bought Colosseum Park in the Inner West area of Majorstuen. Pembroke Real Estate purchased the 5124 m² property from Salto Eiendom. The yield was reported to be 5.8 % which results in a transaction of NOK 185 million. Furthermore, Aberdeen Property Investors purchased Bogstadveien 2 for an undisclosed fee earlier in the spring of 2014. It is also in Oslo and “Others” part of Norway where we find the largest activity in the retail sector with over 85 % of the transaction volume taking place in these areas. Olrud Handelspark close to the city of Hamar is the 2nd largest retail transaction thus far this year with a transaction sum reported to be NOK 400 million.

So far this year, Colliers International has registered 12 retail transactions for a total of NOK 2.1 bn. We expect that there will be quite a few substantial transactions in the retail market before years end as there are already several ongoing negotiations in the market. After discussions with our retail team we have decided to revise the prime yield for retail property from 5.5 % to 5.25 %. There is strong demand for retail property currently in the market, however, the supply for prime units is severely strained and difficult to obtain.

There is currently a relatively positive outlook for the lettings market within the retail segment, especially after strongly encouraging number related to retail sales being published by Statistics Norway in August of 2014. The most popular shopping centres and high street locations are currently experiencing low or no vacancy. It is still in Karl Johans Gate we find the highest rent levels for retail, and we had recently adjusted our estimate for prime retail units with an increase of NOK 2 000,-, resulting in a prime rent of NOK 22 000,- per sqm. Furthermore, several of the side streets in the upper part of Karl Johans gate around Eger tornet is also very attractive and might achieve rents around NOK 12 000,- per sqm.

The construction and road works that has taken place in Hegdehaugs- and Bogstadveien over the last couple of years is finally approaching completion after several delays in the project. The last estimate is that construction will be completed by early September making the project almost a whole year delayed.

Although we currently see some vacant units in Hegdehaugs- and Bogstadveien which to some extent could be explained by construction works, rents has remained stable for quite some time after negative growth during the last couple of years. There has also been a period where several landlords have discounted the rents for tenants in order to help them through a difficult transition period. However, once the road works is completed by we have a very positive outlook on this area as a prime destination for retail. It is apparent that the streets have received a much needed upgrade and the pavement has become considerably broader making a larger footfall possible in the area.

As of July of 2014, the turnover in Norway’s shopping centres has increased by 2.5 %. In July alone, the increase was as high as 3.5 %. This underlines the positive trend that we have seen in the retail market as of late which is rather surprising considering the grim prospects that the sector was eying at the end of last year.

Online shopping however is where we have seen the most growth during the past year with a 20 % increase in turnover and we find it likely that this trend will continue going forward. Several retailers has specialized in this form of sales providing tailored solutions for the end user in regards to payment, handling of the order, shipping and the return of items. We have spoken with several traditional retailers that are experiencing customers coming in to the shop to see and try out certain items only to purchase the item online afterwards and are as such a growing concern for conventional shops.

With household consumption at stable levels and a continued low base rent along with the most recent retail numbers, we feel quite confident for the retail sector in the short term.

**HOUSEHOLD CONSUMPTION**

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Source: Statistisk Sentralbyrå

**TURNOVER RETAIL BY AREA**

- **Oslo**
- **Drammen**
- **Bergen**
- **Others**

Source: Colliers International

**HOUSEHOLD DISPOSABLE INCOME**

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Source: Statistisk Sentralbyrå

**PRIME RENT PER M²**

- **High street**
- **Shopping centre**
- **Big box**

Source: Colliers International

**SALARY**

|------|------|------|------|------|------|------|------|------|

Source: Statistisk Sentralbyrå
The industrial and logistics sector has for the past couple of years have quite sluggish years in regards to transaction volumes and the current share of the transaction volume is roughly 9% with approximately NOK 1.5,- bn in transaction volume.

We are however aware of strong interest in several properties from both domestic and foreign investors, some of which are already in ongoing processes. Furthermore, especially domestic syndicates are appearing especially eager to find viable projects and logistic property has often been popular with these entities. Baring this in mind we do believe that the logistics sector will increase their share of the transaction volume before years end and that we will see significant movement in this sector.

Of completed logistics transactions, some of the larger ones are:

- Kabelgaten 6 for approximately NOK 277,- million purchased by Bauda As
- Regnbueveien 9 for NOK 115,- million by Blackstone
- Ulsmåsvegen 6-8 purchased by Midgard Gruppen for NOK 100,- million
- Håntverkgaten 11 purchased by Pareto for NOK 350,- million

In total we have registered 9 logistics / industrial property transactions in 2014. The prime yield remains stable at around 6.5%.

In the letting market prices are stable and the prime rent is highest in Oslo in the Groruddalen area around Furuseth and Alnabru with rents as high as NOK 1200 per sqm for storage premises. Ski, Langhus and Vinterbro although outside of city limits is close behind with an estimated NOK 1100,- per sqm for storage premises.

As the rental prices have been stable for so long, we do not anticipate any drastic changes to this picture in the short term.
Residential

Residential real estate has for the past 20 years generally been a very healthy investment in Norway. Disregarding a few smaller corrections, the cost of housing has largely increased during this whole period. However, the residential prices in Norway had a negative year on year growth in 2013 for the first time since 2008. While the prices for residential property increased during the first quarters of the year, it finally began to decrease towards the end of the year. The causes for this were primarily psychological as several economic experts forecasted a drastic correction in the whole market and newspapers happily conveyed the message. However, towards the end of the year the residential prices recuperated after a stagnant autumn and despite of quite a large pool of supply, prices started increasing from the start of 2014.

The last few months have provided quite strong increases in prices and the market has now returned to all time high levels. In the larger cities such as Oslo, Bergen, Trondheim, Stavanger and Tromsø there is quite scarce supply and demand is high. The psychology in the market has turned on its head compared to one year ago and there appears to be a strong feeling that the residential prices will increase in most markets going forward. Interest rates are also at all time low levels and are expected to continue to be so for the foreseeable future.

Residential investments was at an all time high in 2013 until it decreased in Q1 of 2014 after the price correction that the market experienced in the latter stages of 2013. There are expectations that these investments will pick back up going forward, however, the downturn might have contributed to further increase residential prices in the short term.

A good indicator for the temperature in the residential market is to look at how each residential class has performed during the past 3 months in terms of sales. We have looked at how actual sales have been sold under / over their asking price in Oslo in the last 3 months. In November 2013 the market psychology was very negative and most people expected a decrease in housing prices. However, what we see is that although the market appears much more positive and the psychology is turned on its head, the over / under asking price is not all that different. For detached houses, it has actually been a considerable decrease. Apartments and semi detached houses have both experienced minor increase to what we saw in November of 2013.

As the residential market has recuperated, so has the interest for wholesale residential property and Colliers International has sold several such units during the course of 2014 and are expecting to sell and purchase several more before years end.

In the current market conditions, it is also important to note that the smaller the apartment is, the more it is sold above market price. If we do the same exercise with apartments sold smaller than 50 sqm, the average apartment in Oslo has been sold 7.2 % above asking price in the last three months. The number is also significantly higher in central areas such as Frogner and Grunerløkka.

As we saw last year, the residential market is very liable for market psychology. However, at present there are few indications that we will see a drop in prices in central areas in the short term. It is our expectation that the residential prices will increase with up to 5 % this year. At the current rate we expect the same for 2015.

One concerning factor is however the large supply of apartments to let in central areas such as Stavanger, Trondheim and especially Oslo. In recent years there has never been a larger gap between the cost of owning an apartment and the cost of renting an apartment. However, as of August it has been reported of all time high levels in both Stavanger and Oslo where a 1 bedroom apartment on average costs NOK 12 000,- a month in Stavanger and NOK 11500,- in Oslo. Which is 8 % and 4 % higher compared to last year respectively.

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On the transaction side of the hotel sector we have thus far seen six large transactions in 2014 for a total transaction volume of NOK 2.3 bn and currently contribute approximately 10% of the total transaction volume. One of the transactions was a portfolio bought by a company controlled by Petter Stordalen and consisted of 5 hotel properties and is the largest transaction in this sector so far this year. The portfolio was bought for NOK 600 million from DNB Liv. Other notable hotel transactions include Quality Expo Hotel located at Fornebu outside of Oslo and the revered Hotell Norge located in Bergen. Another hotel that is currently in the process of being sold is the G20 hotell at Grensen 20 in Oslo.

Several of the larger cities have during the course of recent years increased the number of hotel beds available, which has contributed to a fairly stable RevPar. Especially in Kristiansand there are several experts that have pointed to possible oversaturation and a tough market. In the Kristiansand area the amount of hotel beds has increased by over 20% since 2006. This is twice the amount of new beds in Bergen in the same time frame. Trondheim has actually achieved an even stronger growth in room capacity, with nearly a 50% increase since 2008. However, the demand has risen in tact with the recent increase in supply and the need for more beds seems stronger her compared to in the Kristiansand area. Also, there are several new hotels opening in Oslo during the course of 2014 and 2015. In the course of these two years, 5 new hotels will open its doors of which three will be located in the Oslo City Centre providing Oslo with more then 700 new hotel beds in total.

Under the year as a whole, the city of Bergen has had the highest occupancy rate in the country followed by Tromsø and Oslo. However, the average day rate it by far the highest in the oil capital Stavanger with day rates at NOK 1090 per night at average. The Revpar is also highest in Stavanger with NOK 720.- followed by Bergen.

Colliers International assisted with the purchase of Gjerdrums vei 21
Colliers in Norway

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- Full-service real estate-house within commercial property.
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Canada: 37
Latin America: 19
Asia Pacific: 201
EMEA: 118

- $1.8 billion in annual revenue
- 116 million sqm under management
- Over 12,500 employees

NORWAY:
Colliers International
Hegdehaugsveien 31
0461 Oslo
Norge
Tel: +47 2206 6280
Fax: +47 2206 6290
EMAIL: colliers@colliers.no

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