

Market Development

	Change from	
	Q3 09	Q4 08
Prime Yield	↓	→
Prime Rent	→	↓

Hot topics

- CBD Prime rent was stable in Q4 2009
- The general vacancy has increased to 7.2%
- Prime office yield has declined to 6.75% and are still declining.
- The unemployment rate increases less than expected
- The mainland GDP has been in positive terrain for two quarters
- The transaction volume increased significantly in Q4 2009, and is expected to increase in 2010.

Summary

The yield compression has started

- We expect that the yield on prime office properties in Oslo will decrease from 6.75% to 6.25% by the end of 2010.
- Our models indicate that the yield on prime office properties in Oslo will continue to decrease in 2011. We expect the prime yield to decrease towards 6.00% by the end of 2011.

The prime rent was stable in the fourth quarter

- Prime CBD rent was stable at about 3000 NOK per m² during the fourth quarter of 2009.
- Our models indicate that prime rent in CBD still has a downside risk of 10% in 2010.

The office vacancy continues to increase

- The general office vacancy increased to 7.2% during the fourth quarter.
- The office vacancy in Oslo and Asker/Bærum is expected to increase towards 8% by the end of 2010.

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Increase in GDP for Mainland Norway

Preliminary figures for Q3 show that the gross national product (GDP) for Mainland Norway increased by 0.5%. The production increased in the construction business for the first time after several quarters of reduction. Total GDP increased by 0.9% in Q3 as a consequence of the increased production of crude oil and gas. GDP for Mainland Norway is expected to land on -1.1% in 2009. However, the Mainland GDP is expected to increase by 2.2% in 2010 and by 2.7% in 2011.

The unemployment increases less than expected

During the last few months of 2009, the growth in the unemployment rate has weakened. At the close of the year, the unemployment rate was at a lower level than many had expected at the start of 2009. The number of new persons seeking employment has had a downward trend during 2009 and at the same time the inflow of new jobs has levelled out and stabilized during the last few months of 2009.

At the close of December, 69,600 individuals were registered as totally unemployed. This equals 2.7% of the workforce and constitutes an increase of 39% since December 2008. The average unemployment rate for 2009 landed on about 2.7%, whereas it is expected to increase to an average of 3.1% in 2010.

The development in the interest rates

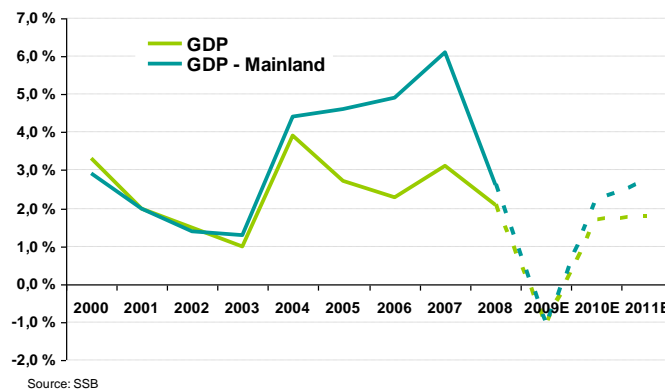
During the course of Q4, the Central Bank had two interest rate meetings and decided to increase the key policy rate with 0.25% in both. At the close of the 4th quarter, the interest rate from the Central Bank was 1.75%. Norges Bank explained the increase with increased activity in the Norwegian economy and a price inflation close to the inflation target of 2.5%. The key policy rate is now expected to be around 2.75% at the close of 2010.

The long interest rates have been relatively stable through Q4. The interest rate on 10 year government bonds decreased from 4.19% at the close of Q3 to 4.15% at the close of Q4. 10 years' SWAP increased marginally from 4.70% to 4.73% in the same period.

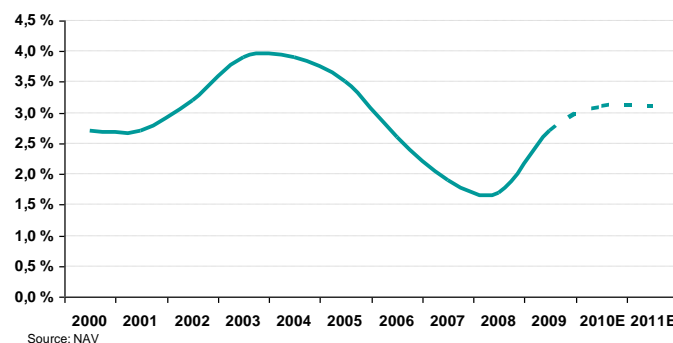
NOK strengthened marginally

During the course of Q4, the Norwegian Krone strengthened marginally relative to both EUR and USD. The USD/NOK ratio was 5.7767 and the EUR/NOK ratio was 8.3150 at the close of Q4. With a Central Bank in interest rate increase mode, it is expected that the strengthening of the NOK will continue through 2010. Factors such as strong activity in the Norwegian economy and continued high oil price are factors that may contribute further.

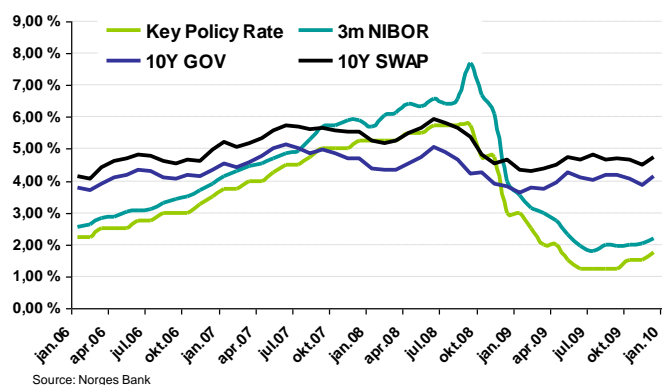
GDP – annual growth



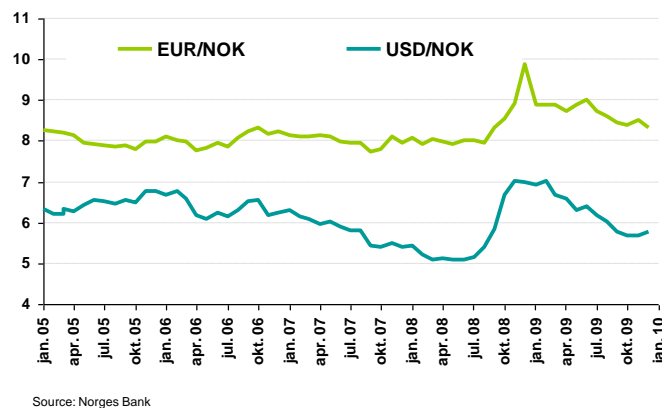
Unemployment rate – annual average



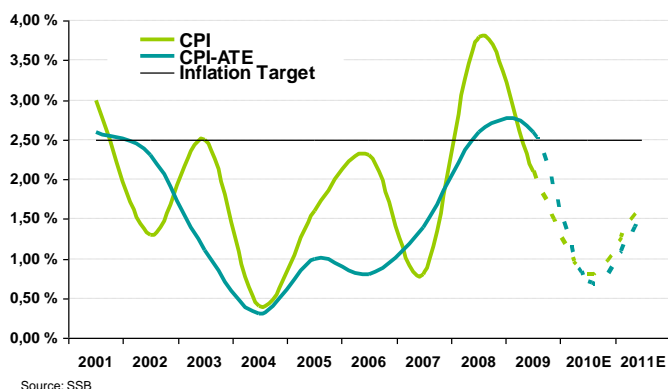
Interest rates - monthly



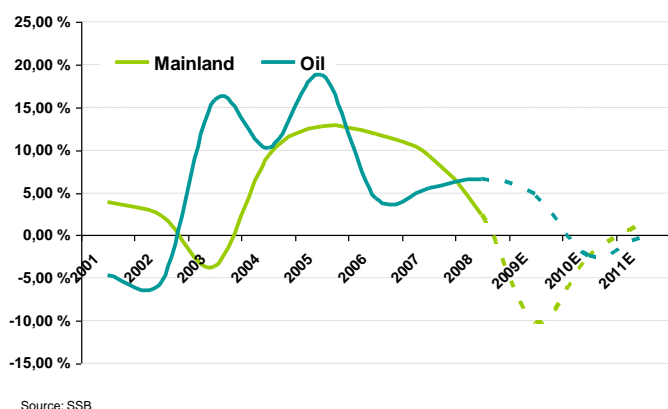
Foreign exchange



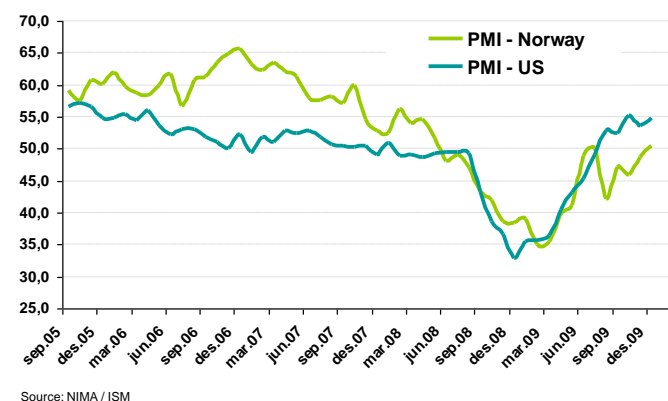
Inflation – annual growth



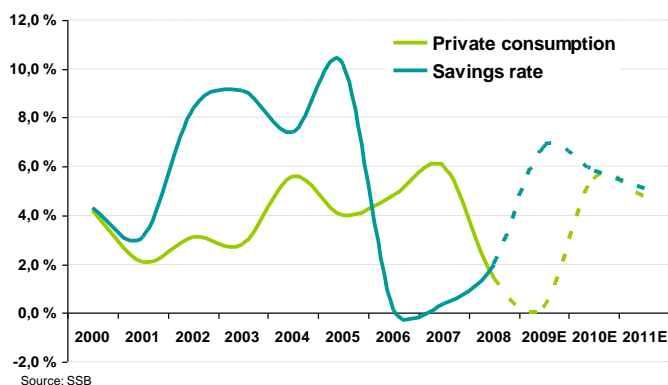
Gross fixed investments



Business confidence Indicators



Consumption and savings rate – annual growth



Increasing inflation

The growth in CPI fell in October, but increased in both November and December. The annual CPI growth was 2.1% in 2009, but the annual growth in CPI-ATE was 2.5%. The price of energy goods and food contributed mostly to the increase in 2009. The inflation is currently very close to the Central Bank's inflation target of 2.5% and therefore an increase in the interest rate is expected at the next interest meeting in March. CPI and CPI-ATE are expected to land on 0.8% and 0.7% respectively for 2010.

Investments counteract

Both the oil investments and the investments on the mainland are decisive for the development in the Norwegian economy. Statistics of Norway (SSB) stated in December that the investments in the oil industry for 2009 would increase by 4.7% compared to 2008. Even if the reduction of the mainland investments had been considerable, the oil investments, together with increased public spending contributed to reducing the downward trend in 2009.

When it comes to the prognosis for 2010, it is expected that the offshore investments will fall by 2.5%, whereas the mainland investments are expected to fall by 2.4%. In 2011, one expects a near to zero growth in the investments in both the oil industry as well as on the mainland.

Indicators – PMI above 50 again

PMI fell in October, but increased in both November and December. In December, the seasonally adjusted PMI was 50.4, up from 48.7 in November. This is the highest level since May 2008, and thus the index was above 50 for the first time since July 2009. PMI indicates that the industrial activity will increase in the time to come.

The SSB economic barometer also showed positive development in Q4. The industry managers' assessment of the general outlook on short term moved from negative to neutral in Q4. This indicates a levelling of the cyclical course.

Increased consumption and savings rate

The households' consumption increased sharply in October (2.7%) before the consumption fell in November (-1.5%). In December, the consumption increased sharply again by 2.1% according to seasonally adjusted figures. The growth in private consumption is expected to be as high as 5.5% in 2010, whereas an increase of 4.7% is expected in 2011.

The savings rate in Q3 was as high as 8%, up from 7.2% in Q2. The strong increase we have seen in consumption and savings rate is a result of the cuts in interest rate, increased wages and pensions which have contributed to a considerable growth in the households' real disposable income.

The credit market

The annual growth in the total gross debt was reduced to 4.3% in October, a fact that is due to the decline in both foreign and domestic sources of credit. In November, the trend turned again and increased to an annual growth of 5.8%. This time, the rise came from foreign credit sources.

Norges Bank's lending survey for Q4 2009 shows improvement in that the banks continued to ease their credit practice on towards enterprises, whereas the credit practice towards the households was unchanged. The banks reported increased demand for credit from the households and enterprises in Q4 2009. In the time to come, the banks expect unchanged practice towards non-financial enterprises, but certain industries with weak prospects will experience strict credit practice.

Financing of commercial properties

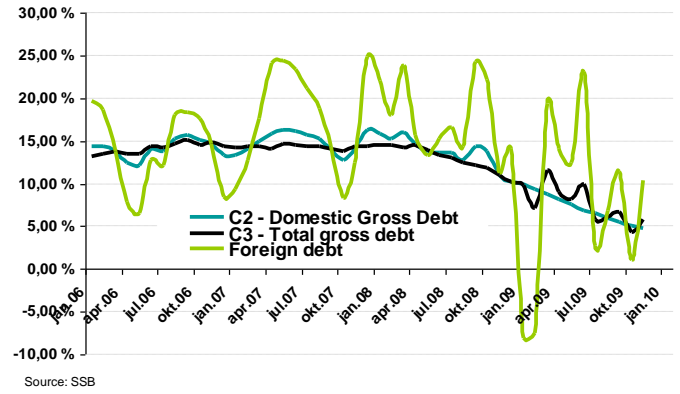
If we look specifically on the lending opportunities from commercial properties, the situation has gradually improved during the autumn of 2009. From a general equity requirement of 40% in Q2, the banks are currently more differentiated and require an equity ratio of about 30%. The margin mark-up has also dropped gradually from +/- 225 basis points to +/- 160 basis points. We expect that this margin will be further reduced in 2010. In order to obtain the best conditions, long contracts with solid tenants are still required. We have seen a gradual improvement of the lending conditions during the course of the autumn, even though there is still some distance until we are down at the market terms that were applicable before the financial crisis.

Prime Yield: the yield is declining

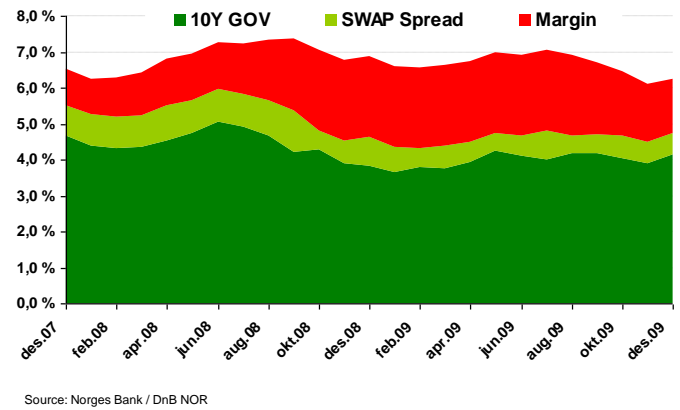
Prime office yield topped at about 7% during Q2 and Q3 2009. In Q3 and Q4, the lending opportunities improved gradually and put prime yield under pressure. There are still few reference transactions and the market actors disagree to some extent as to how big the fall in prime yield was in Q4. CBRE estimated the decline to 25BP from 7.00% to 6.75%. We have seen further decreased in the beginning of 2010. Based on the development in long-term interest rates and the improvement in the credit market since the previous market report, our yield prognosis has changed somewhat. We expect that prime yield will continue to decline down to about 6.25% during the course of 2010. In 2011, prime yield is expected to decline further, but at a somewhat lower pace. Our estimate is that the end of 2011, the prime yield is about 6.0%.

The difference between prime office yield and the interest rate on 10 year government bonds provide an image of the market's pricing of risk in property investments. During the last ten years, this difference has in average been about 2.2%. At the close of 2009, it was about 2.6% and we expect a gradual reduction through the next two years to just above 1%.

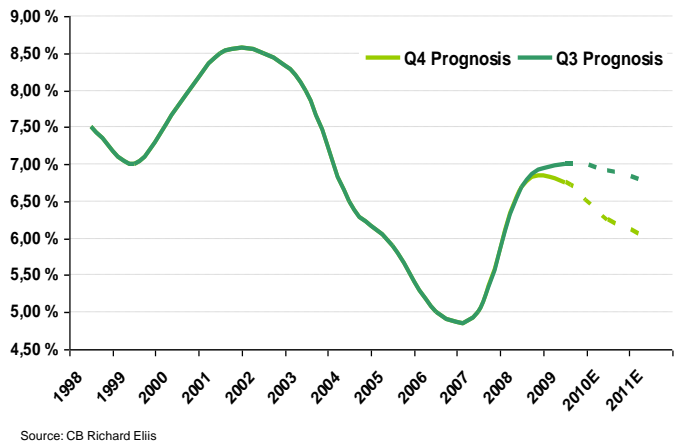
Growth in annual gross debt



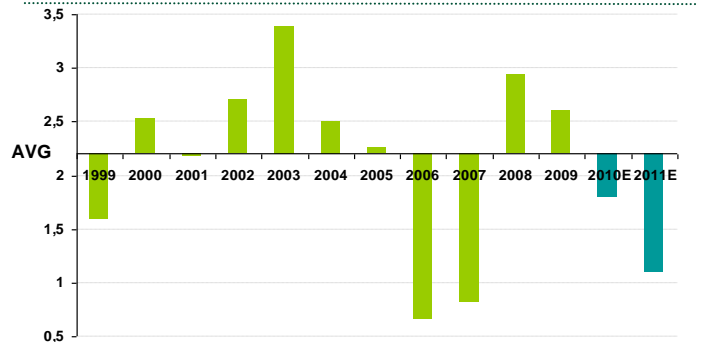
Financing costs



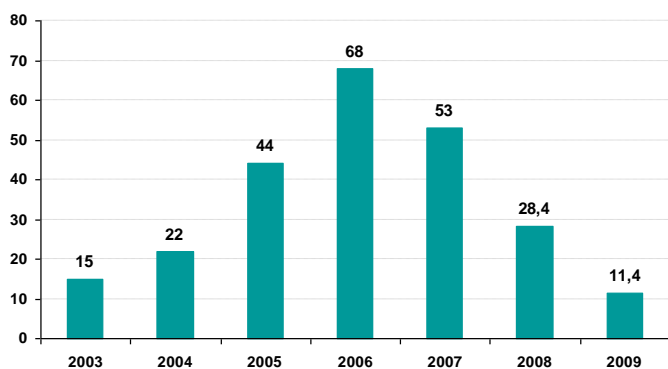
Prime yield - forecast



Spread - 10Y GOV and prime yield

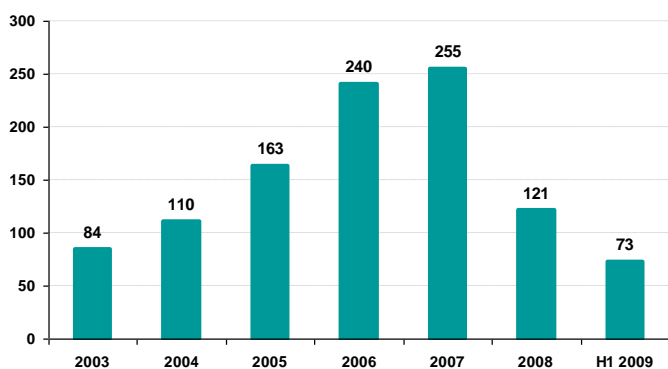


Norwegian transaction volume in bn NOK



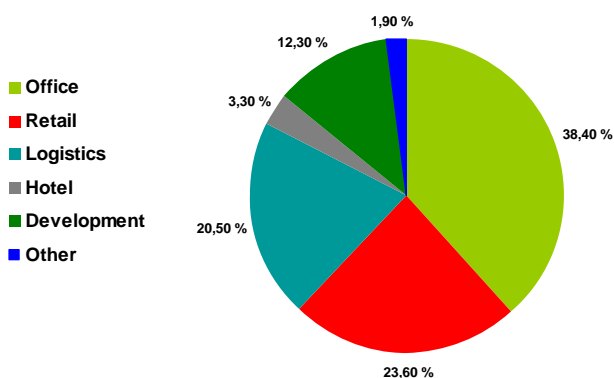
Source: CB Richard Ellis

European transaction volume in bn EUR



Source: CB Richard Ellis

Norwegian transactions in 2009 by sector



Source: CB Richard Ellis

Office transactions in Oslo Q4 2009

Adress	Submarket	mNOK	Yield	M ²	Vendor	Investor
Grensen 5-9	Inner City Centre	445	7,1%	14 400	Storebrand	Genesta
Drammensveien 106	Inner City	400		20 000	BW Gas	Eiendomsspar+
Grini Næringspark	Asker-Bærum	105	6,54%	4 500	Entra	Havila Ariel
Drengsrudhagen 2	Asker-Bærum	112	7,20%	12 000	RBS	Per Waagan

The transaction volume is increasing

The investment market was very slow in Q3, but during Q4, we saw a considerable increase in the activity. Increased interest from both buyers and sellers as well as improvements in the credit market were the main drivers. There are still few properties for sale and combined with increased interest from investors, increased willingness to lend and lower margins from the banks, the properties obtain good prices.

The transaction volume for Q4 is still somewhat uncertain as the actors' estimates vary from about NOK 11 to 15 billion. There was great activity in the market around the turn of the year, but how many of the transactions that were finalized and the price of them are uncertain. Currently, we operate with a total volume in Q4 of NOK 4.5 billion, even if the volume may be somewhat higher. This indicates that the total transaction volume compared to our figures for 2009 this far is NOK 1.4 billion, which indicates a reduction from 2008 of nearly 60%.

Local investors are clearly more active than foreign investors, who are still on the sideline. They still show increasing interest and it is expected that they will increase their share in the transaction volume during the course of 2010. Property companies, preferably private ones, and syndication actors were the most active in 2009, whereas the life insurance companies are still expectant.

A comparison of the Norwegian market with the European market shows clear similarities in the development of the transaction volume. The European transaction volume reached €73 billion in 2009, a reduction of 40%. Even if the reduction in Europe was weaker, both markets are back on the 2003 level and has shown increasing activity in Q4 2009.

When it comes to the distribution on sectors, office was the segment with the greatest turnover with 38% of the total turnover in 2009, followed by retail trade with 23.6% and logistics with 20.5% of the total volume. Some development projects and sites were also sold, a fact that may indicate that the start-up of new construction projects may increase somewhat.

Flattening in prime rent, but still downside

After a very slow rental market in Q3, the activity in the rental market for offices in CBD in Q4 increased. The latest rental price statistics for CBD shows that the rental prices on rental contracts starting in Q4 still continued to fall and showed an average of NOK 2570 per m². The rental prices on signed contracts in Q4 increased to NOK 2420 per m².

In Q4, prime rent in CBD kept stable at NOK 3000 per m², even if some of the contracts are signed on levels somewhat above NOK 3000 per m². After Storebrand moved out of 30,000 m² on Filipstad Brygge in December, the vacancy increased by 16.500 m² after First Securities signed a contract on 25% of the area. The vacancy increased therefore sharply and was 8.2% at the start of 2010. This contributes to a situation in which there is still a downside in the development for prime rent in 2010, see the prime rent forecast for further details.

High volatility in other market sections

As mentioned previously the activity increased in Q4, this is also evident in the rental price statistics for Oslo as a whole in Q4. Both volume and average rental price saw a considerable lift. The rental prices on rental contracts starting in Q4 showed an average in Oslo of NOK 1560 per m², and the same was the fact for the rental price on signed contracts in Q4.

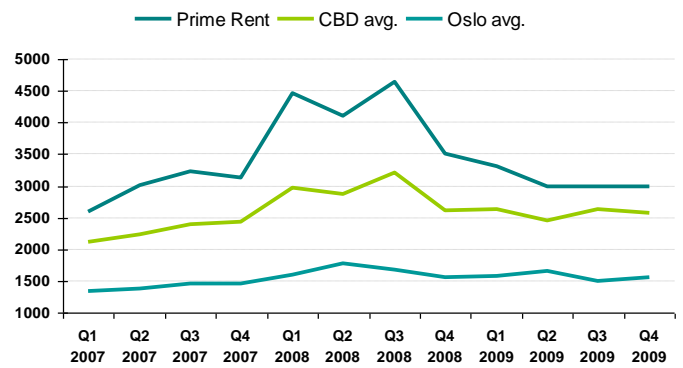
In Q4, we saw the highest number of signed contracts for several years, even if there were many small contracts, so that the total number of square meters still is modest. In addition, many contracts in the most expensive areas were signed, a fact that contributes to the increase in the average market rent. The volatility is still high in the quarterly figures, but if we look at the semi-annual figures, the trend is still somewhat negative even if most areas saw an increase in the quarterly figures for Q4.

Based on signed contracts, the Inner City and the Inner City Centre were two of the areas that saw a negative development in Q4. This may be due to the fact that the areas around CBD still need some time to stabilize. Lysaker and Nydalen also developed well in Q4, due to a high degree of signing on high quality premises.

Oslo City Centre and CBD

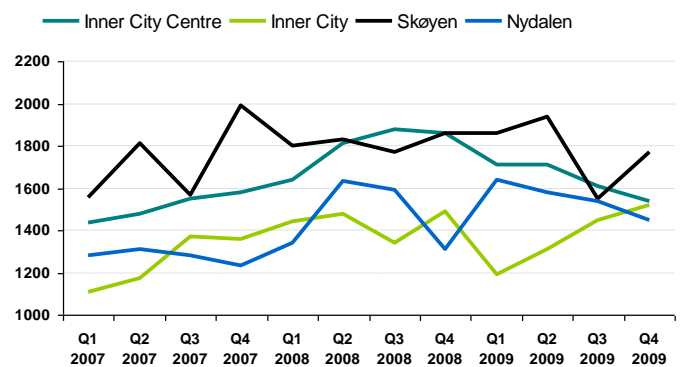


Market rents - NOK/sq m



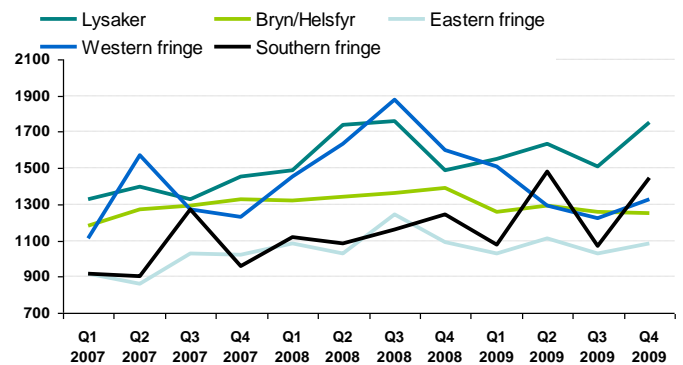
Source: Eiendomsverdi / CB Richard Ellis

Average rent in central locations - NOK/sq m



Source: Eiendomsverdi

Average rents in other areas - NOK/sq m



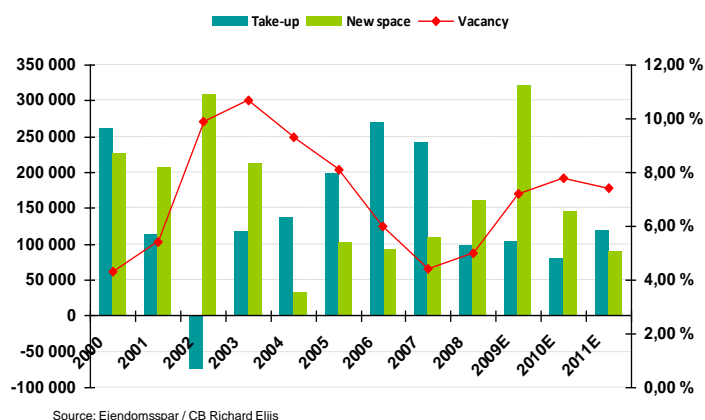
Source: Eiendomsverdi

Lease contract statistics

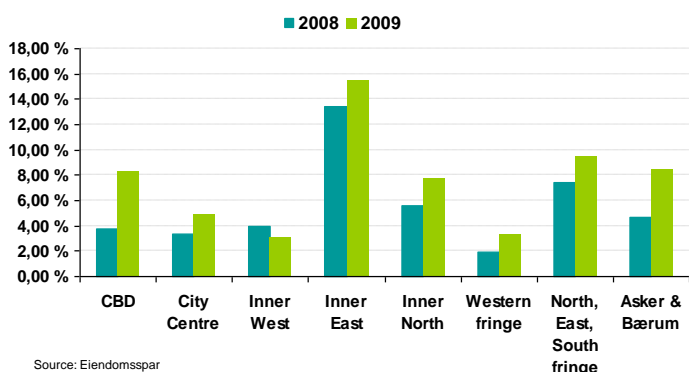
	'06	'07	'08	'09
No of contracts signed	1083	1158	944	809
No of square meters (in thousands)	648	855	734	620
Total contract values (in million NOK)	4606	9383	7907	7541

Source: Eiendomsverdi

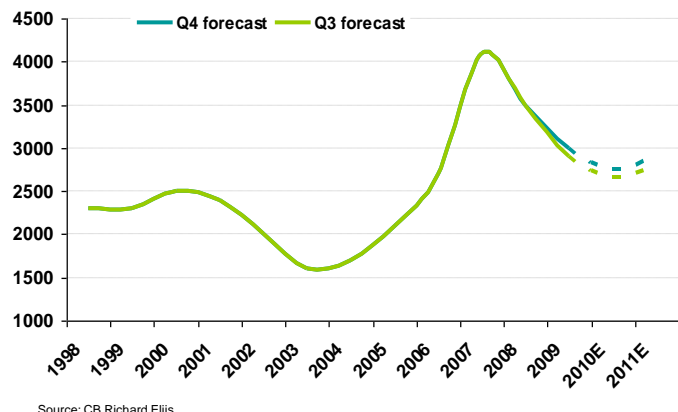
Total vacancy forecasts



Vacancy 2008 and 2009 distributed by submarket



CBD prime rent NOK/sq m – nominal forecast



	2009	2010E	2011E
Prime rent	3000	2750	2900

Vacancy and forecasts

The general vacancy in the office market continued upwards in Q4 and according to Eiendomsspar it was 7.2% at the start of 2010. This equals 670,000 m² and constitutes an increase of 48% or 217,000 m² compared to last year. At that time, the vacancy rate was a moderate 5%, equalling 453,000 m². During 2009, a total of 321,000 m² in the form of new and renovated buildings were completed. The take-up was somewhat stronger than expected and ended at 104,000 m².

If we look into the submarket development through 2009, only CBD and the central areas had a negative take-up. At the same time, these areas has a modest supply of new areas and this the vacancy rate has not increased dramatically. However, the vacancy rate increased considerably in the fringes Asker and Bærum which received the greatest portion of areas in 2009.

The vacancy has thus risen less than expected, but the sky is not cloud free. The labour market still shows a negative development, but on the other hand, the expected completion in 2010 and 2011 is relatively modest. Based on the development in the supply and demand drivers since the last market report, our forecast have changed marginally. We expect that the vacancy rate will rise to near 8% at the close of 2010. However, the vacancy rate is expected to flatten and fall somewhat in 2011.

Prime rent forecast

Our model deals with the expected development in the drivers of supply and demand for rental prices in the office market. Since the previous prognosis which was prepared in Q3, the outlook for several of the drivers have improved somewhat. We still expect that the rental prices will have some downside risk based on continued uncertainty in the labour market, but the bottom is approaching.

Our previous prognosis for prime rent in CBD showed a downside risk in the rents 2750 NOK per m² in 2010; this equals a downside of up to 10% from the present level. We have still the same view on 2010, but we are more positive about 2011 based on the low volume of new office areas that are under construction. The labour market is driving in the negative direction, with a continued expected increase in the unemployment rate.

It is worth noticing that a decline in 2009 appears as a supply driven reduction based on the figures of supply and take-up. The take-up was somewhat better than expected, but was still historically low, only 50% of the average of the last 20 years. With the low number of new construction projects for 2010 and 2011, it seems that the downside risk has to be on the demand side. This indicates that a possible upturn may become powerful when the economic growth increases again, provided that the supply side maintains at a moderate level.

Oslo Info

Population (Greater Oslo)	1.4 Mill
Population (Oslo)	580.229
Area (Oslo) km ²	1.261
GDP per capita (NOK - Oslo)	635.107
Workforce (Oslo)	330.000
Unemployment rate (Oslo)	3.70%

Eiendoms Info

Office space (m ²)	9.4 Mill
Prime Yield	6.75%
Prime Rent NOK/m ²	3.000
Office vacancy	7.2%
Corporate tax rate	28 %
Property tax rate	0.7 %

Oslo Map**Macroeconomics**

	2007	2008	2009E	2010E	2011E
GDP – annual growth	2.7%	1.8%	-1.1%	1.7%	1.8%
Mainland GDP – annual growth	5.6%	2.2%	-1.1%	2.2%	2.7%
Unemployment – annual average	2.5%	2.6%	3.1%	3.5%	3.6%
CPI – annual growth	0.8%	3.8%	2.1%	0.8%	1.7%
CPI-ATE – annual growth	1.4%	2.6%	2.5%	0.7%	1.5%
Private consumption – annual growth	5.4%	1.3%	0.2%	5.5%	4.7%
Saving rate – level	1.5%	3.4%	6.8%	5.8%	5.1%
Mainland investments – annual growth	15.7%	1.0%	-10.3%	-2.4%	1.4%
Oil investments – annual growth	6.3%	3.7%	4.7%	-2.5%	-0.3%

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