Intelligent Investment

Market Outlook 2023

REPORT

NORWAY

REAL ESTATE

CBRE RESEARCH

Contents

01

Economy

Economic growth to fall but remain in positive territory for the year.

Key Takeaways - Economy

01

NORWEGIAN ECONOMY SURPRISED POSITIVELY IN 2022

GDP increased by 3.4% last year and is expected to stay in positive territory in 2023.

02

HIGH INFLATION AND TIGHTER MONETARY POLICY WILL SLOW THE ECONOMY IN 2023

KPR was raised by 225 ppts in 2022 and the central bank is signaling at least one additional hike.

03

STRONG LABOR MARKET

Labor market has remained strong as unemployment rate reached all-time low levels in 2022.

04

CONSUMER CONFIDENCE AND BUSINESS INDICATORS WEAKENING

CCI at all-time low levels as growth in private consumption is expected to fall. Household economy under pressure from several directions.

Economy

Economic activity and inflation to come down

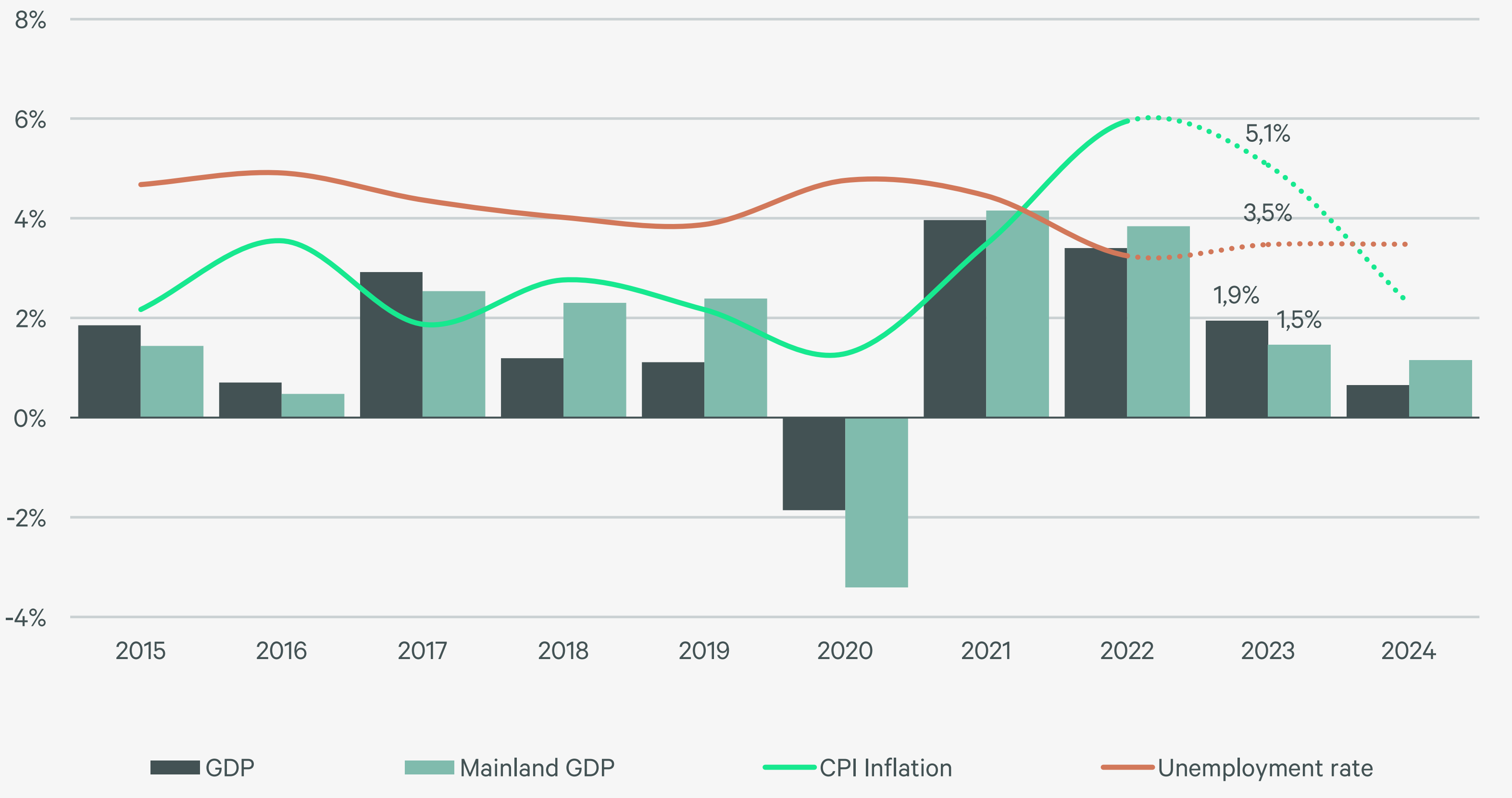
The Norwegian economy has been more resilient than expected and surprised positively in the latter half of 2022. In total, real GDP grew by 3.4% and the unemployment rate averaged 3.2%.

CPI inflation reached a peak of 7.5% in October, before falling to 5.9% in December, but would have been at 7.1% without the household electricity bill scheme from the Norwegian government. Gas prices have come down significantly in the last months, which has pushed electricity prices downwards, lightening the inflation outlook for 2023. We expect inflation to remain elevated in the coming quarters before falling towards the end of the year, averaging 3.3% in Q4.

The key policy rate (KPR) was raised by 225 ppts in 2022, to the current of 2.75%. We have started to see some effects of the tightened monetary policy, and the central bank opted for no change in KPR at the latest January meeting. The central bank has indicated an additional hike in March and the possibility for additional tightening before summer.

The Norwegian economy will experience a challenging start to 2023. High inflation and decreasing consumer demand and business activity will put economic growth under pressure. GDP is expected to grow by 1.9% and mainland GDP by 1.5%. The unemployment rate is expected to increase to 3.5%, a level that is still historically low.

Figure 1. GDP growth, CPI inflation, and unemployment rate in Norway



Source: CBRE Research, CBRE House view, January 2023

Economy

Figure 2. Business indicators, Norway

Source: Statistics Norway – Business tendency survey, Norges Bank – Regional Network

Weaker indicator trends

Norwegian industrial leaders have a pessimistic outlook for the first quarter of 2023, as the latest industrial confidence indicator was -3.9%. Weak demand and fierce competition have contributed to a reduction in upcoming investment plans.

Labor shortage was reported as one of the main challenges in the first quarters of 2022, but fewer businesses are now struggling to find qualified employees. Norwegian business expects a rise in costs in 2023, and that activity will fall. Construction activity has been stable due to strong order reserves. The businesses are expecting a drop in activity due to fewer public projects and the weaker supply of new projects last year.

The Norwegian consumer confidence index reacted quickly as energy prices started to rocket at the end of 2021. The indicator reached an all-time low in October and the consumer outlook remained at low levels in January. Household economy is under pressure from increased interest rates, energy prices, and inflation in most services and goods. Hence, growth in private consumption is expected to fall, especially at the beginning of the year.

Figure 3. Norwegian consumer confidence

Source: Opinion

02

Investment

Real estate investment volumes accumulated to NOK 111.7 billion in 2022, down 30.6 % YoY. We expect activity to remain slow in the coming months before new price discovery lifts the transaction market in the second half of the year.

Key Takeaways - Investment

01

STRONG START TO THE YEAR

Transaction volume in the first half of 2022 nearly matched the exceptional 2021, before the marked slowed down in the second half.

02

OFFICE REMAINS LARGEST SECTOR, WITH I&L AND RETAIL CLOSING IN

Office, I%L and Retail accounted for close to 70% of the total transaction volume in 2022.

03

RISING INTEREST RATES AND COST OF FINANCING PUSHING YIELDS UPWARDS

Prime yields softened by 30-100 bps in 2022, and further yield expansion is expected.

04

SUSTAINABILITY REMAINS IN FOCUS FOR INVESTORS

CBRE investor intentions survey 2023 highlights investors' interest in ESG-friendly assets.

Record first half of 2022 propelled real estate investment

A year of two halves for Norwegian real estate investments

Activity in the Norwegian CRE investment market started the year on a high with momentum from an exceptional 2021. In H1, transaction volumes were NOK 68.2 billion, only 5% lower than the year before.

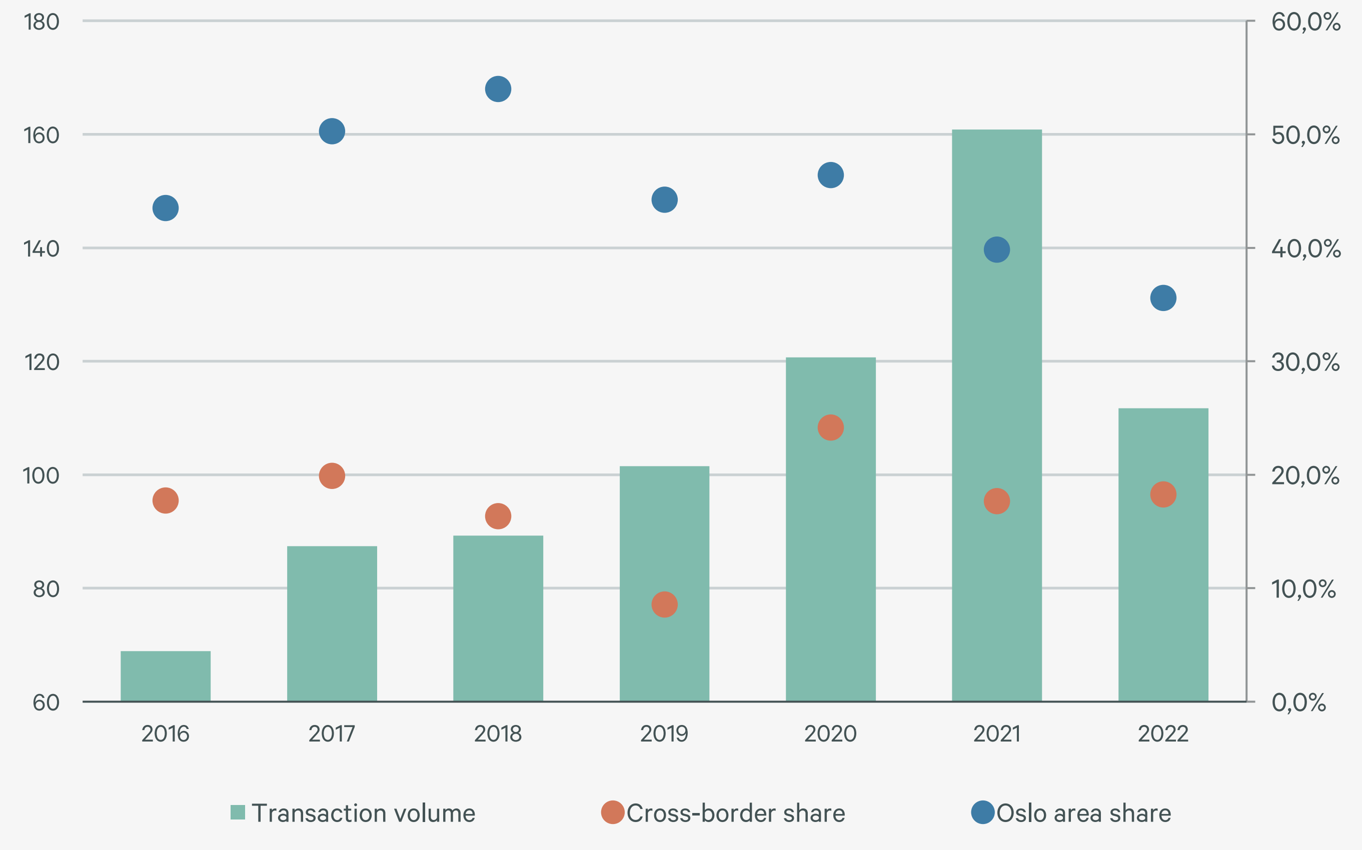
However, marked conditions changed as interest rates climbed rapidly as a result of soaring inflation and increased uncertainty. Increasingly, investors took on a wait-and-see approach and became more cautious. Several ongoing deals failed or suffered a drop in pricing. Transaction volume in H2 measured up to NOK 43.5 billion, down 51.1% YoY.

Cross-border capital to increase in Norway

Cross-border investment activity has averaged 18% since 2016, and we are observing increased interest from international investors in the last quarters. Norway has macroeconomic and political stability few countries can compete with, a high population forecast, and a sovereign wealth fund to smooth out economic cycles.

The Norwegian currency has been one of the main hurdles for international investors as hedging costs have consumed a great part of the capital. However, as foreign interest rates are catching up, the hedging cost is disappearing. We expect interest in Norwegian CRE to intensify and that the cross-border share will increase in the coming years.

Figure 4. Norwegian CRE investment volume (NOK bn), cross-border share (%), and Oslo area share (%)



Source: CBRE Research

Office remains the largest sector, with Industrial and Retail closing in

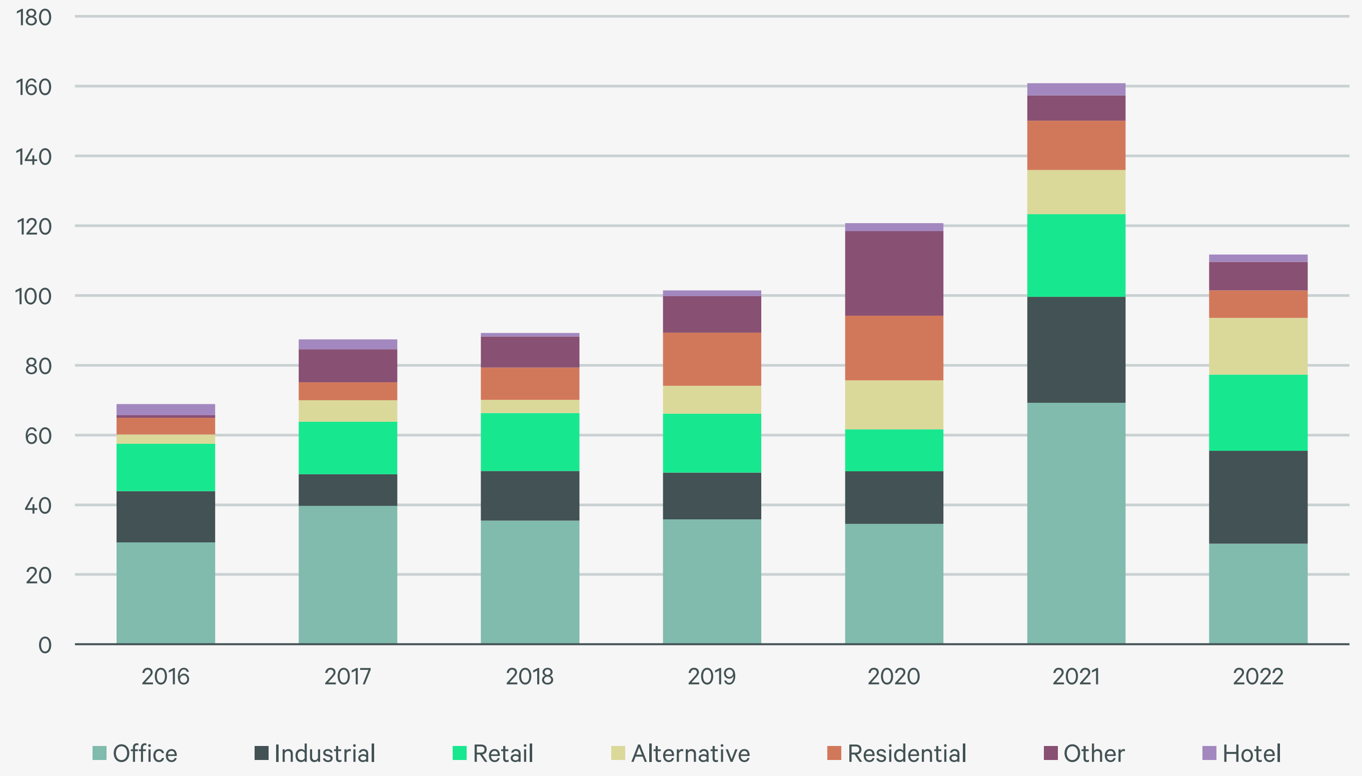
Sector allocation evening out

Office remains the most popular sector in Norway with a total investment volume of NOK 28.9 billion (25.8%), closely followed by Industrial (NOK 26.6 billion, 23.8%) and Retail (NOK 21.9 billion, 19.6%). In total, these three sectors account for close to 70% of the total investment volume in 2022.

The alternative sector was boosted by Brookfield's acquisition of 49% of SSB EduCo, a portfolio of social infrastructure like schools and kindergartens. In total, alternative investments amounted to NOK 16.2 billion (14.5%). Residential is still a minor sector as most Norwegians own their own home. A substantial part of residential investments in Norway is linked to development projects. Total residential investments accumulated to NOK 7.9 billion in 2022 (7.1%).

The Oslo area is still the focal point for investment activity, although the share of total investments has trended a bit down in the last few years, to 36% in 2022.

Figure 5. Investment volumes by sector (NOK bn)



Source: CBRE Research

Prime yields softening across all sectors

Yield decompression continues

The increased market uncertainty is evident from the prime yield movements from Q2 2022, onwards. The Norwegian 10-year government bond rose to 4% in October, before changing momentum and ending the year at 3.2%. Industrial & logistics prime yield has had the largest increase by 100 bps, to 4.8%.

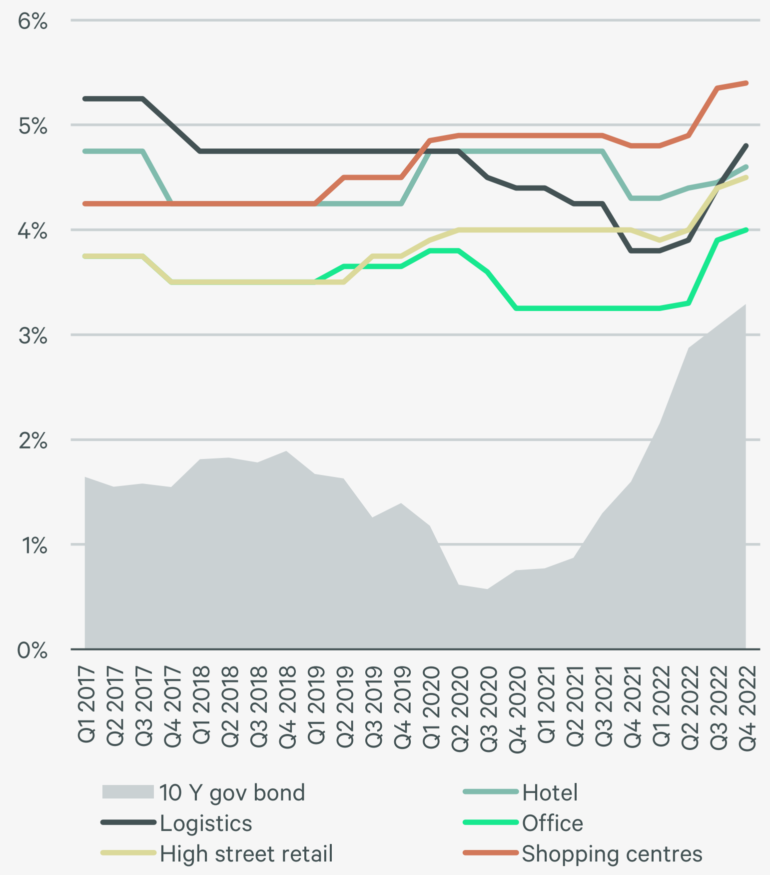
Office prime yield has moved out by 75 bps to 4.0%, while both high street retail and shopping centres prime yields have decompressed by 60 bps and are currently standing at 4.50% and 5.40%, respectively. After a challenging pandemic, hotels are looking more attractive. Prime hotel yield has increased by 30 bps, to 4.6 at the end of 2022.

CBRE Investor Intentions survey

CBRE Investor Intentions Survey 2023 highlights price discrepancies between buyer and seller, a shift in credit availability and loan terms, and fear of recession as the greatest challenges for investors in 2023.

About half of the respondents are planning to retain or increase purchasing activity in 2023, with the stand-out factor being potential opportunities given price adjustments. Price discounts are expected across all sectors, yet the largest discounts are expected in retail and value-add offices. Close to 30 percent expect a discount greater than 30% when investing in shopping centres, while the number for grade A offices is just above 10%.

Figure 6. Prime yields and 10Y gov bond



Source: CBRE Research.

Hence, we need to see further yield movement before investors' pricing expectations are met. Opportunistic and distressed strategies are favored by an increasing share of investors, in the hunt for attractive yields.

A third of investors responded that they are willing to pay premiums for ESG-friendly assets, with more than half of them willing to pay premiums above 20% to acquire these.

Opportunities as pricing stabilize

CBRE forecasts that 2023 European investment volume will fall by 5-10% compared to 2022 levels. The same downward trend is expected in Norway. The yield gap point to further yield softening in the coming months, across all sectors.

Refinancing processes will be an important topic in 2023, as opportunistic investors seek to capitalize on distressed assets. The current market conditions will present opportunities as pricing expectations are expected to stabilize, which could lay the foundation for a recovery in the second half of the year.

Development in economic activity and tenant demand will be key in 2023, along with inflation and the availability/cost of financing. Although investment activity has been reduced in the latter half of 2022, many investors have dry powder to be used if the right opportunity is presented.

03

Sustainability

ESG is the new normal in the Nordics 75% of investors have already adopted ESG criteria in the decision-making process. In 2023, the focus on sustainability issues will intensify.

Key Takeaways - Sustainability

01

The changed energy price environment is set to continue throughout 2023. High prices will create strong incentives to improve energy efficiency. Sustained higher electricity prices will make onsite renewable energy sources more attractive.

02

A better understanding of the value of sustainability features will be established as sustainability data is increasingly integrated into asset valuations. This will allow increasingly accurate measurement of how green features can protect against value depreciation and insulate assets from transition risks.

03

Rental premiums[1] for sustainable buildings, currently only measured in the office sector, will appear in other sectors as tenants and end-users start to demand higher levels of environmental performance.

04

Greater scrutiny of net zero buildings will occur as demand increases and more come to market in 2023. Despite net zero guidelines, there is a lack of transparency and verification for net zero assets and currently no formalized certification process

[1] Source: CBRE Research, Is Sustainability Certification in Real Estate worth it?, November 2022

The need to act on sustainability will become more urgent

In the context of dramatically increasing energy prices and ongoing climate change, sustainability concerns have never been as salient an issue as in 2023. Investors and occupiers alike are continuing to showcase their demand for the most sustainable stock through hefty premiums, causing significant divergence in pricing between primary and secondary assets which shows no sign of abating. This will continue to influence real estate decisions into the future.

Looking ahead

Sustainability and ESG concerns more generally will continue to exert significant pressure on investment committees and corporate decision-making in 2023. These pressures are compounded by an increasing need for investors to incorporate or pre-empt future sustainability policy into asset allocation decisions.

Companies and policymakers will contend with a number of new or impending directives in 2023 including:

- The implications of 2030 net-zero (or carbon reduction) targets,
- The European Union's Sustainable Finance Disclosure Regulation (SFDR),
- Corporate Sustainability Reporting Directive (CSRD).

While green premiums are difficult to disaggregate and precisely measure, the existence of such premiums is clearly apparent in some sectors and the demand for stock with the highest sustainability ratings is clearly more robust[1].

Contrary to narratives regarding the "stranding" of secondary assets, CBRE believes that 2023 will bring significant opportunities for "brown-to-green" refurbishment, particularly in offices, as falling secondary prices significantly increase the viability and potential returns of such projects.

[1]Source: CBRE Research, Is Sustainability Certification in Real Estate worth it?, November 2022

04

Offices

Slow development of new stock, low vacancy, and high tenant demand pushed office rents up by 11.4% YoY. Office transaction volume took a hit of 58.3 % YoY.

Key Takeaways - Office

01

OFFICE INVESTMENT PLUNGES

Office investments volume dropped as transaction market freezed up in the second half of the year

02

OFFICE DEMAND TO FALL

Vacancy fell to 5.3% in 2022 due to strong tenant demand and low development activity. Forecasted office-based employment growth will lead to declining demand

03

RECORD-HIGH LEASING ACTIVITY

Demand is highest for environmentally certified offices as investors have set ambitious sustainability targets and are keeping high standards for new office investments.

04

THE WORKPLACE IS CHANGING

CBRE Global Workplace & Occupancy Insights show a 25% YoY decrease in private office space as collaboration space and wellness-features are becoming important to attract employees back to the office

The positive trend for offices starting to turn

Office investment plunges in 2022

Office investment volume closed at NOK 28.9 billion in 2022, a drop of 58.3% YoY. The Oslo area was once again the core of investment activity as more than half of the total investment volume deployed in the capitol.

For many years, office assets have been the dominating investment sector in Norwegian CRE. We entered 2022 with a prime office yield of 3.25%. As interest rates escalated, the yield gap tightened and was at times negative, thus there was no surprise that investment activity scaled down and prime yield expanded. Prime office yield is currently at 4.0%

The largest office transactions in 2022 include NIAM's purchase of the 26,000 sqm centrally located Gullhaug Torg 4 at Nydalen from Kim Erla's City Finansiering, Reitan Eiendom's acquisition of 50% of Fridtjof Nansens vei 17/19 and Essendropsgate 3 from Furuholmen Eiendom, and CapMan's investment in the KPMG building at Majorstuen from Entra.

There is an increasing focus on assets with environmental certifications as investors prioritize ESG and sustainability. Investors are setting ambitious sustainability goals, resulting in higher standards for green credentials in both current portfolios and new investments.

Figure 7. Office investment volume (NOK bn) and Oslo share (%)

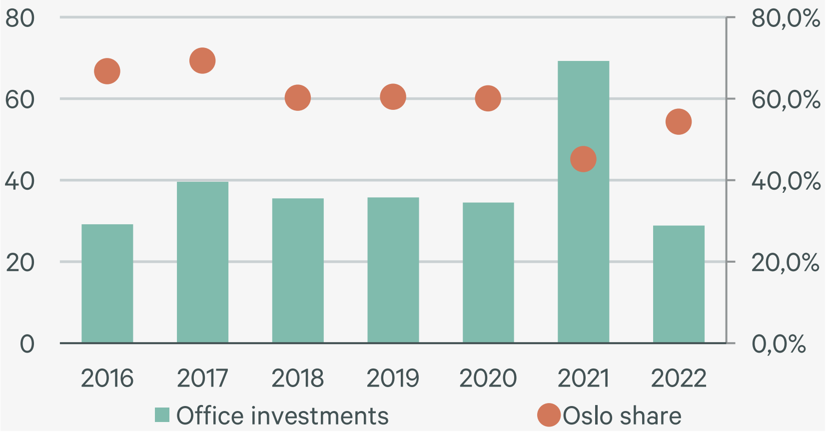
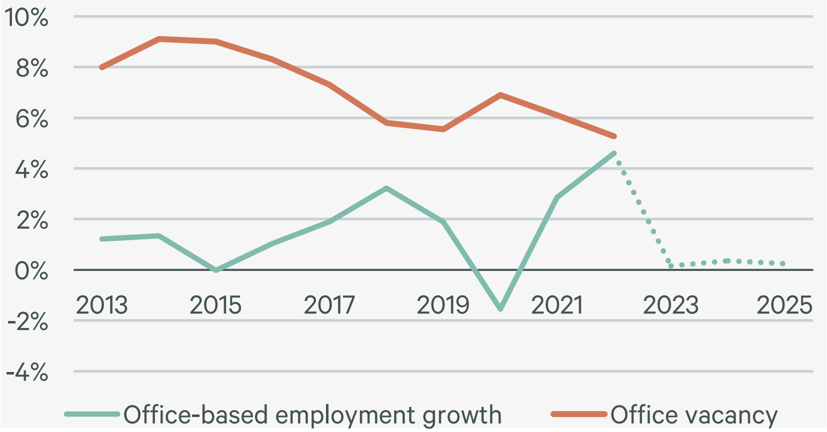


Figure 8. Oslo office-based empl. growth (%) and vacancy (%)



Source: CBRE Research

Office demand under pressure

Vacancy in the Oslo office market declined for five consecutive quarters, after reaching a peak of 7.06 percent in Q2 2021. In Q4 2022, the trend turned as vacancy increased by 23 bps and is currently measured at 5.3 percent.

Office-based employment growth has historically been a reasonable indicator of office vacancy as it predicts future office demand. CBRE forecast that office-based employment growth will fall from 4.6% in 2022 to 0.2% in 2023. In case of a recession, cost reduction will be on the agenda We expect 2023 to be tough for many companies and that cost reduction will be on the agenda, leading to decreasing office space demand.

The hybrid workplace, where employees are flexible in terms of where work is done has been a hot topic since the outbreak of the pandemic. While global surveys show an explosion in remote working, Opinion reports that about a fifth of employees in Norway mainly work from home as of September 2022.

Development activity is moving slowly as a mere 27,700 sqm of new office developments were completed in 2022. This year we expect 53,200 sqm. Low supply of new office space will ease the upward pressure on vacancy from falling demand.

All-time high office take-up in Oslo

Leasing activity remain strong

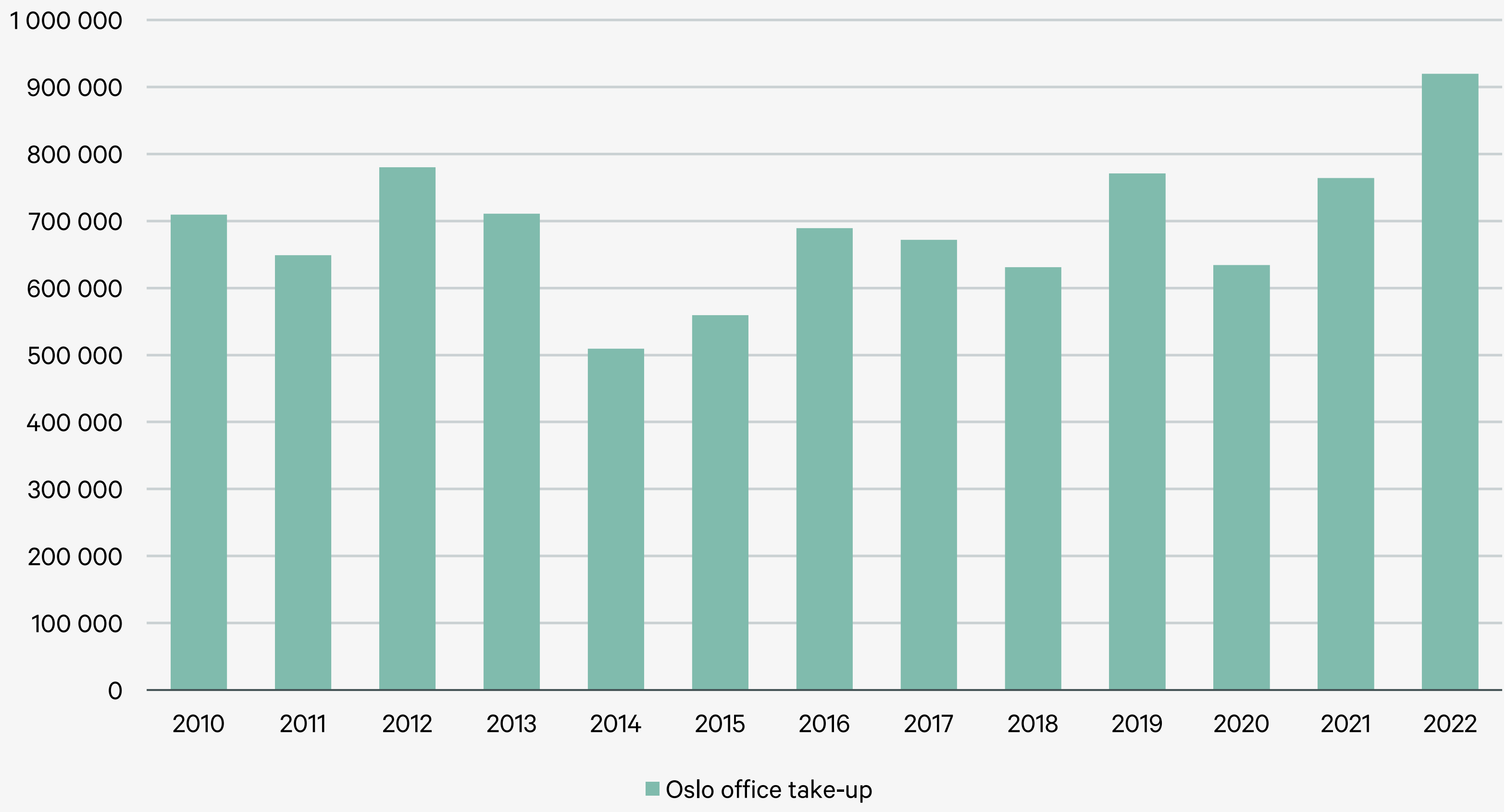
Office leasing market saw positive development in 2022. Especially Q4 was remarkable as take-up of 338,000 sqm was the highest ever recorded in a quarter, by a margin of 36%. In total, Take-up in 2022 grew by 20% YoY. High demand after increased post-pandemic economic activity and slow development of new offices also put pressure on rental levels, that on average increased by 11.4 YoY.

CBRE's latest Global Workplace & Occupancy Insights show a 25% YoY decrease in private office space. Creating more collaborating spaces and amenities is important to attract people back to the office, as the main reason for returning is physically meeting our coworkers.

Proximity to the workplace is becoming an important factor in the return to the office. After discovering the benefits of working from home, employees are less inclined to take on long commutes every day. Hence, centrally located office space will continue to be sought after in 2022.

Leasing levels should reflect a weaker economic outlook as focus on cost management is expected to increase. Flight to quality is expected to continue with a growing polarization of available space. Leasing will remain strong, although a fall in activity is to be expected.

Figure 9 – Oslo office take-up (sqm)



Sources: CBRE Research, Arealstatistikk.

05

Retail

Retail sales recovered to pre-pandemic levels in 2022 as retail activity balanced out from the pandemic shock and consumers remained active in retail locations despite worsening consumer confidence and cost crunch from inflation.

Key Takeaways - Retail

01

RESILIENT RETAIL TRANSACTION MARKET

While the total CRE transaction market fell by 30% YoY, retail transactions only contracted 7.5% and is closing the gap to office and I&L.

02

SHOPPING CENTRE SEGMENT ACTIVE

45% of retail transactions volumes related to shopping centres as the segment accounted for five out of the six largest retail transactions in 2022.

03

RETAILERS CONSIDERING DOWNSIZING

According to Virke's latest member survey, more than half have stated or are considering to reduce their number of employees.

04

VISITING NUMBERS AND SALES IN SHOPPING CENTRES RECOVERED IN 2022

Overall shopping centre sales raised by 4.4% in 2022, while visiting numbers increased by 9.3%.

Retail transaction volume robust

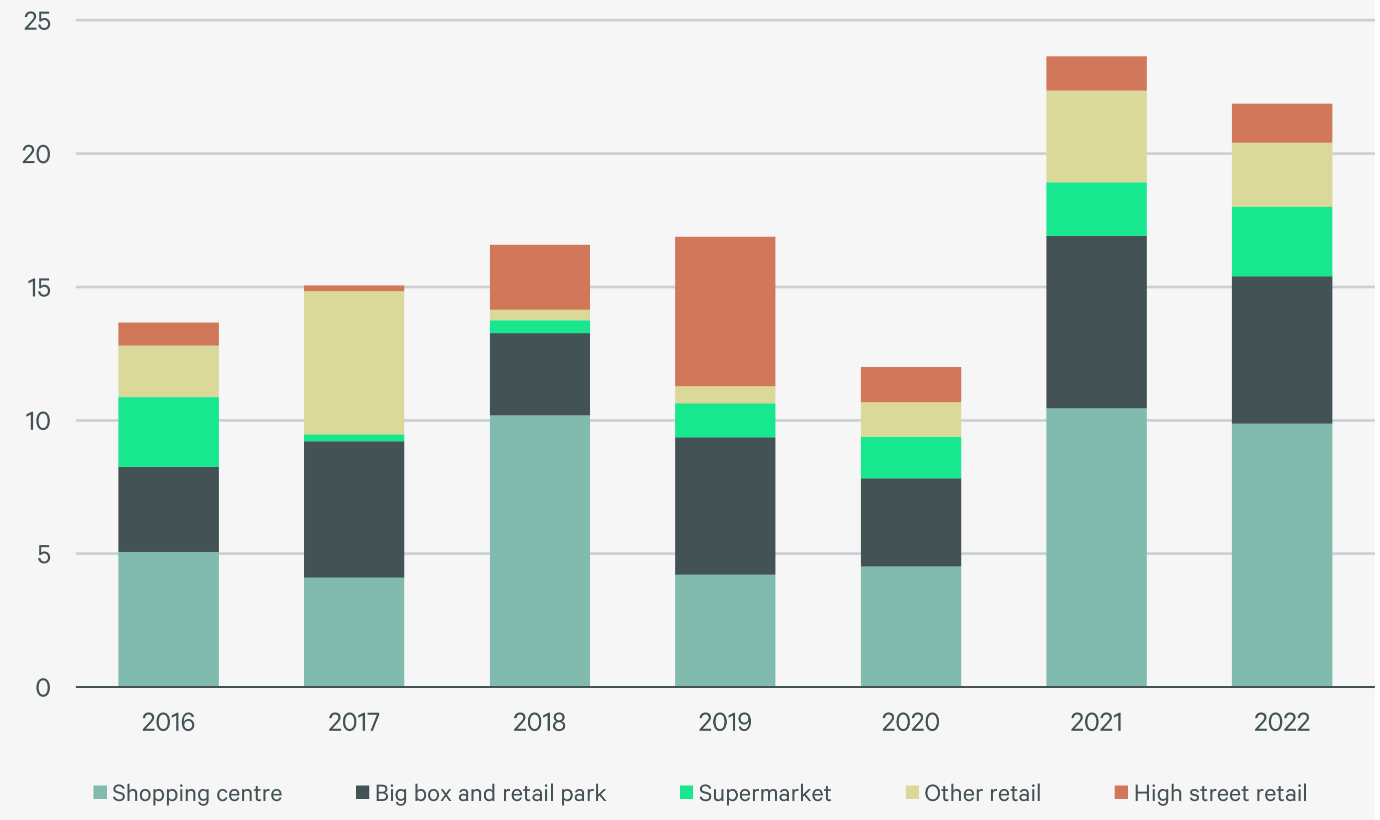
Large-scale shopping centre transactions boosted retail activity

Compared to the rest of the market, transaction activity in retail fared quite well in 2022. With an investment volume of NOK 21.9 billion, the fall from 2021 was only 7.5%. Retail maintained the position of the third largest sector, slightly behind Office and Industrial.

Retail investment volume was elevated by several large deals, especially within shopping centres. Aurora Eiendom's acquisition of Gulskogen shopping centre in Drammen, Arkaden shopping centre in Stavanger and 25% of Maxi shopping centre in Hamar from Steen & Strøm for NOK 2.6 billion was the largest retail deal in 2022. Another noteworthy transaction was Slate Asset Management's purchase of a portfolio of 36 grocery-anchored properties from MTP Gruppen for NOK 1.6 billion.

Although Slate Asset Management made one of the largest acquisitions of 2022, retail investments are dominated by domestic investors, with only 9.7% of transaction volume being cross-border. On the vendor side, international investors were more active, with a share of 17.8%. Citycon was the most active international vendor as four shopping centres were sold.

Figure 10. Annual transaction volume in retail sub-sectors (NOK bn)



Source: CBRE Research

Retail to feel the effects of tighter household economy

Retailers to trim staff

The trade and service industry organization, Virke, highlights in its latest member survey that more than half of the members have started, or are considering downsizing. Price of goods and energy are the main concerns, along with a fear of reduced consumer purchase power.

A tight labor market, the government's support scheme for household electricity bills, and the use of excess pandemic savings have kept up private consumption in 2022, which is expected to have increased by close to 7%. CBRE currently expects private consumption to drop to about 2% in 2023, with the main risk being on the downside.

Shopping centre activity

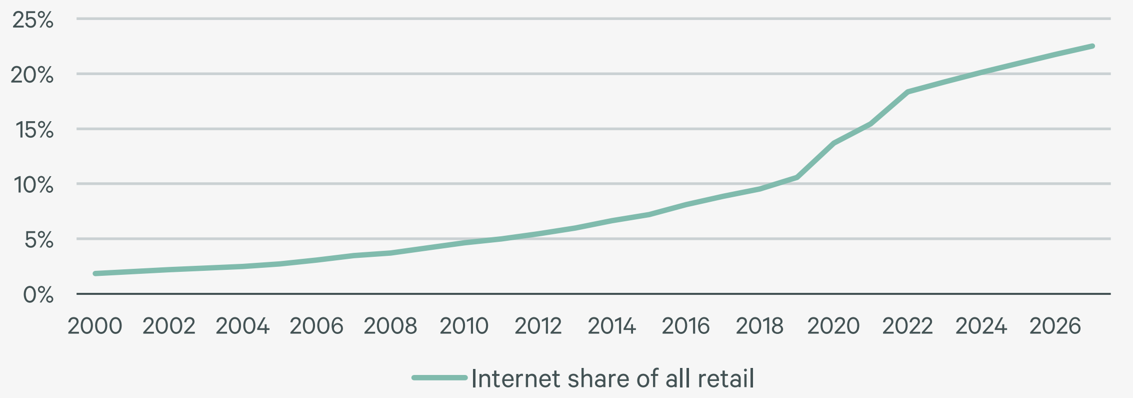
The only sector with negative YoY sales growth in Norwegian shopping centres in 2022 was grocery stores. Overall shopping centre sales were up 4.4 percent YoY, according to Kvarud Analyse. The sales numbers indicated a shift after summer as the turnover growth was negative in all parts of the country in Q3, but strong Christmas shopping numbers kept YoY growth in positive territory.

Shopping centres visiting numbers increased by 9.3% in 2022, however, visiting numbers were 0.9% lower than in 2019. While visiting numbers were up, the average basket size decreased by 5.1% YoY.

Figure 11. YoY change in Norwegian shopping centres

Type of store	
Groceries	-4.6%
Clothing, shoes and travel effects	11.3%
Special stores	4.7%
Home appliances	1.6%
Services	24.4%
Food & beverage	30.9%
Other retail	15.8%
Other business	14.2%
Overall	4.4%

Figure 12. Norway's e-commerce share of all retail (%)



Sources: CBRE Research, Kvarud Analyse

06

Industrial & Logistics

Industrial and logistics sector continues strong growth in 2022. Propelled by growth in e-commerce and an imbalance between supply and demand, prime rents have increased to NOK 1,800 per sqm per year.

Key Takeaways - Industrial & Logistics

01

SECOND-HIGHEST I&L VOLUME ON RECORD

Investment volumes in industrial and logistics sector reached NOK 26.6 billion in 2022, down 12.6% YoY.

02

THE MAJORITY OF NEW STOCK ARE LARGE BUILD-TO-SUIT PROPERTIES

Five buildings accounts for more than half of supply in 2022.

03

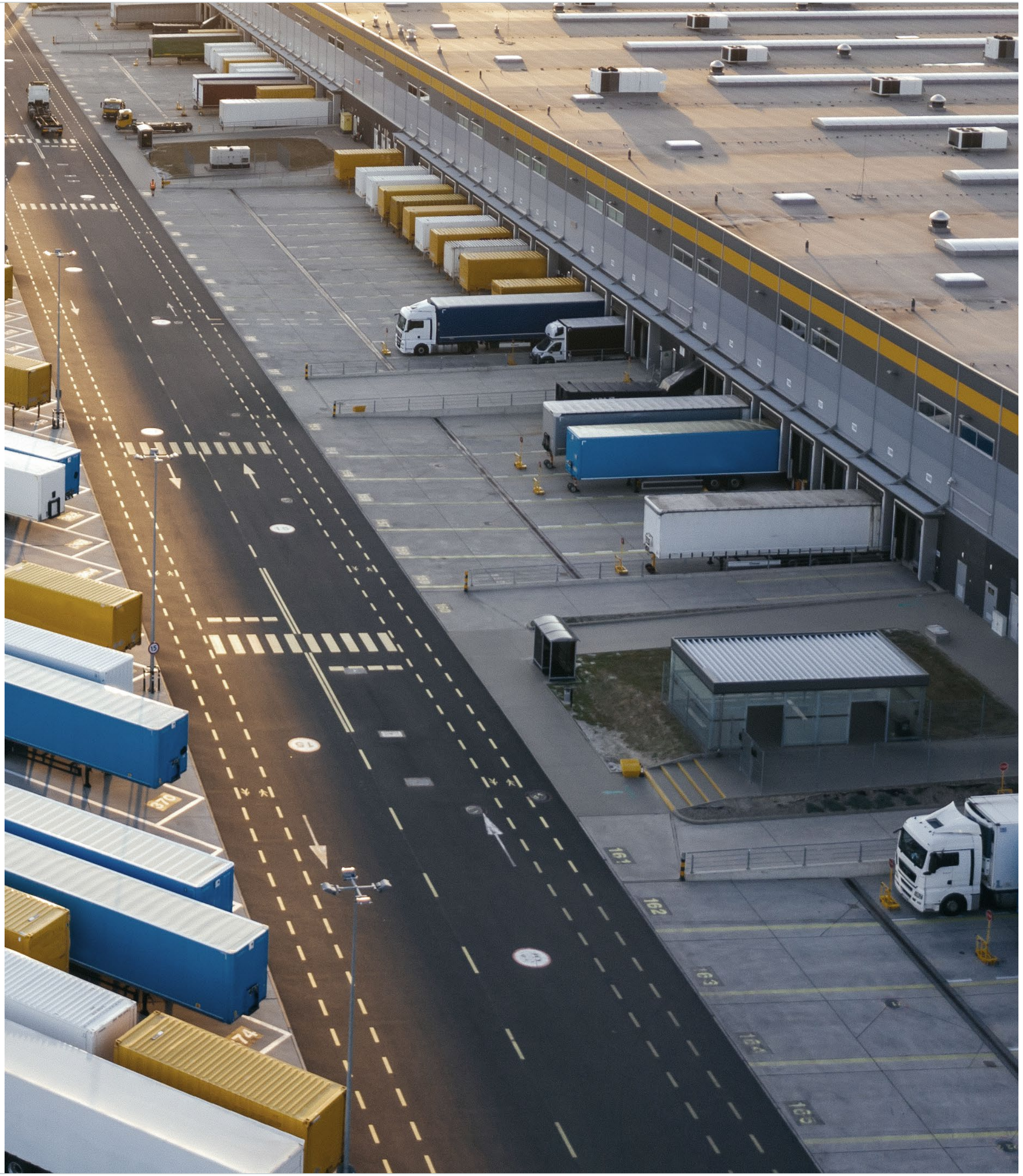
NEW DEVELOPMENT PIPELINE FOCUSED ON THE OUTSKIRTS OF OSLO

A scarcity of prime locations has pushed building activity to new locations. About 40% of completed stock in 2022 were located in Vestby, about 40 minutes south of the capitol.

04

SUPPLY-DEMAND IMBALANCE PUSHING RENTS UP

Prime rent has increased by 50% in four years. E-commerce boomed during the pandemics and is expected to continue to grow, albeit at a slower pace.



Industrial and logistics sector growth continues

Rising investment volume for industrial and logistics

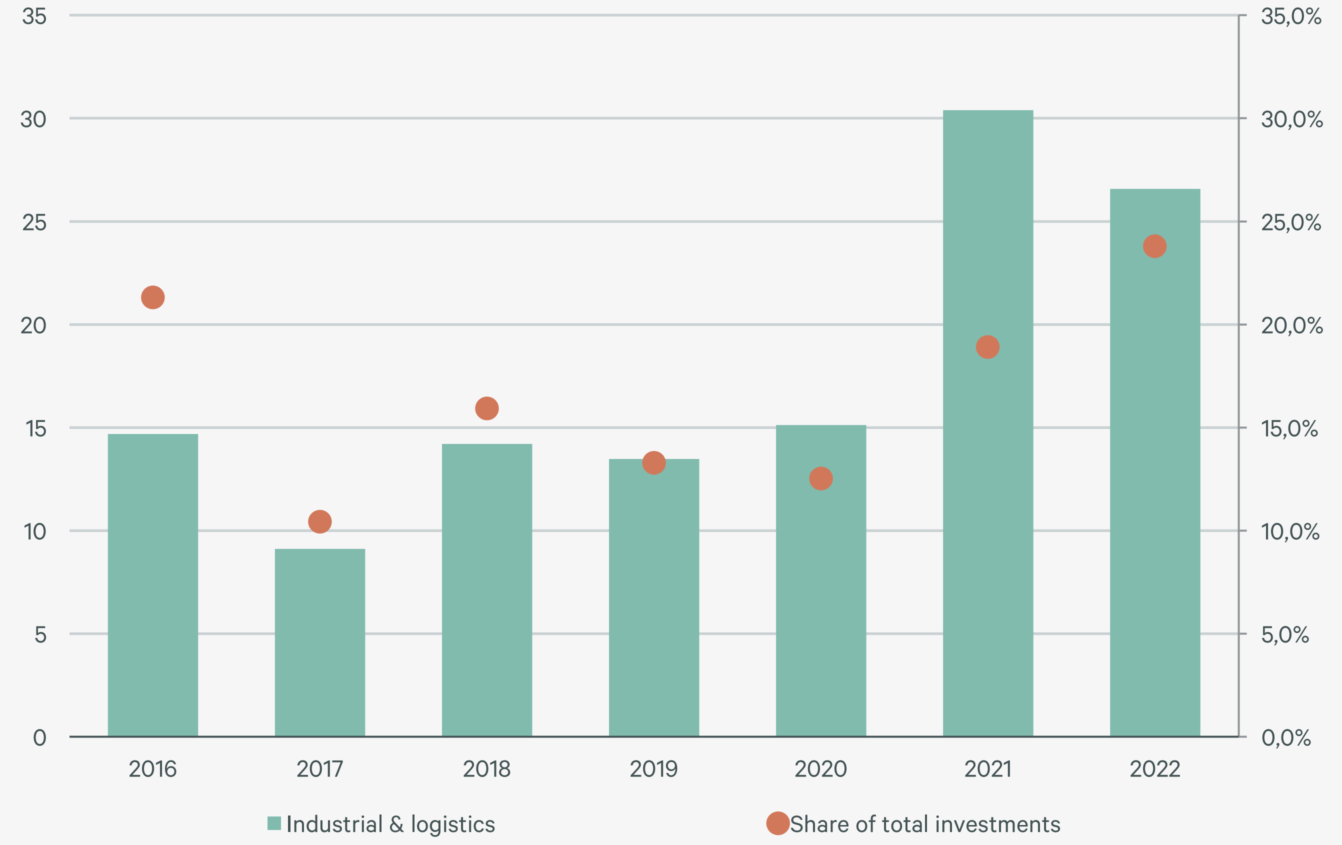
The Industrial and logistics (I&L) sector has increased in investor popularity as the share of total investments nearly doubled from 12.5% in 2019 to 23.8% in 2022. Total I&L investment volume reached NOK 26.6 billion. While volume decreased by 12.6% YoY, 2022 saw the second-highest I&L volume on record. The most notable transaction was Partners Group's acquisition of 50% of the last-mile logistic giant LogCap with a total property value of NOK 4.3 billion. I&L volume was characterized by a lot of medium to small transactions. Of the 150 transactions registered, only 28 were larger than NOK 200 million.

High investor demand and expectations of fast-growing rents pushed the logistics prime yield rapidly down from 4.75% in Q2 2020 to 3.80% at the end of 2021. As future rent growth expectations decreased, and the cost of capital shoot up in 2022, prime yield surged by 100 bps to the current level of 4.80%.

In 2022, 270,000 sqm of logistics stock were completed in the larger Oslo region, in total 74 buildings. However, five large buildings make up more than half of the volume. In excess of 40% of the new stock is located in Vestby, about 40 minutes south of Oslo. The larger buildings are built-to-suit, like Oda's 32,000 sqm logistics property in Lier.

The large logistics properties also dominate the building permit statistics. Of 328,000 sqm current permits in the larger Oslo region, 208,000 sqm relates to 6 buildings larger than 20,000 sqm.

Figure 13. Annual I&L transaction volume (NOK bn) and share of total investments (%)



Source: CBRE Research

I&L leasing market continues to grow

E-commerce to keep growing

The pandemic shutdowns supercharged online sales volumes. The e-commerce share of all retail sales increased from 10.6% in 2019 to 18.4% in 2022 and is expected to continue to grow by 0.8 ppts annually over the next five years.

Total vacancy is currently at 2.6%, however, vacancy in modern properties completed after 2010 is as low as 0.6%. The supply-demand imbalance and scarcity of prime locations have driven an average rent increase of 30% in the last four years, while prime rent has increased by 50% to the current level of NOK 1,800 per sqm per year. We expect rental growth to moderate but remain above inflation. Search for available land will continue to push logistics locations to less established locations.

Sustainability in logistics

CBRE research indicates a 25 bps 5Y median valuation premium for European BREEAM-certified logistics stock. Norwegian BREEAM certifications on I&L properties are very limited so far, but as sustainability is becoming an increasingly important investment decision factor, we expect certification to increase. CBRE's European Logistics survey 2022 also found that 63% of occupiers are willing to pay a green premium over market rent for certified facilities. So far, European rental premiums are not significant but observable through lower void periods, higher liquidity, and easier (re)letting.

Figure 14. Greater Oslo region logistics net supply (sqm) and total stock (sqm)

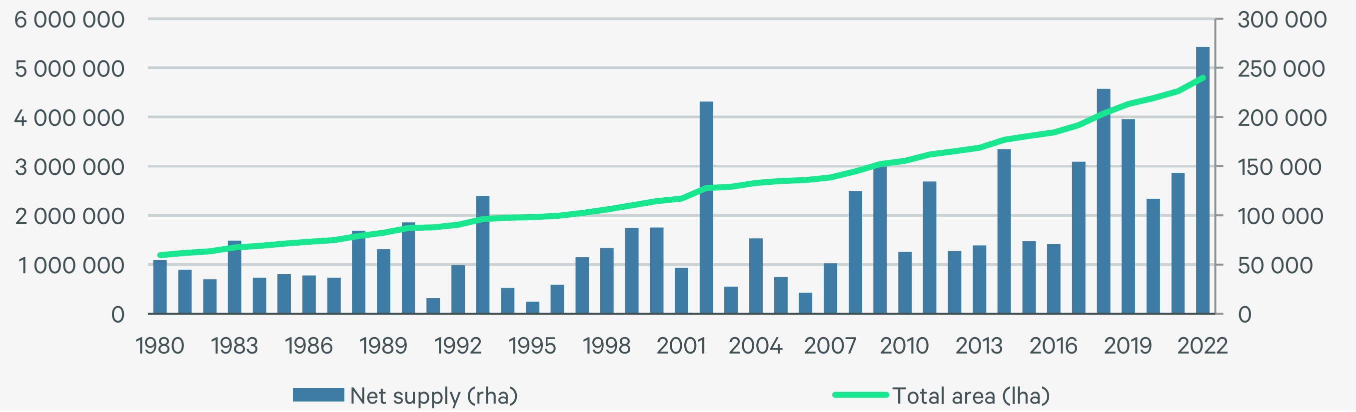
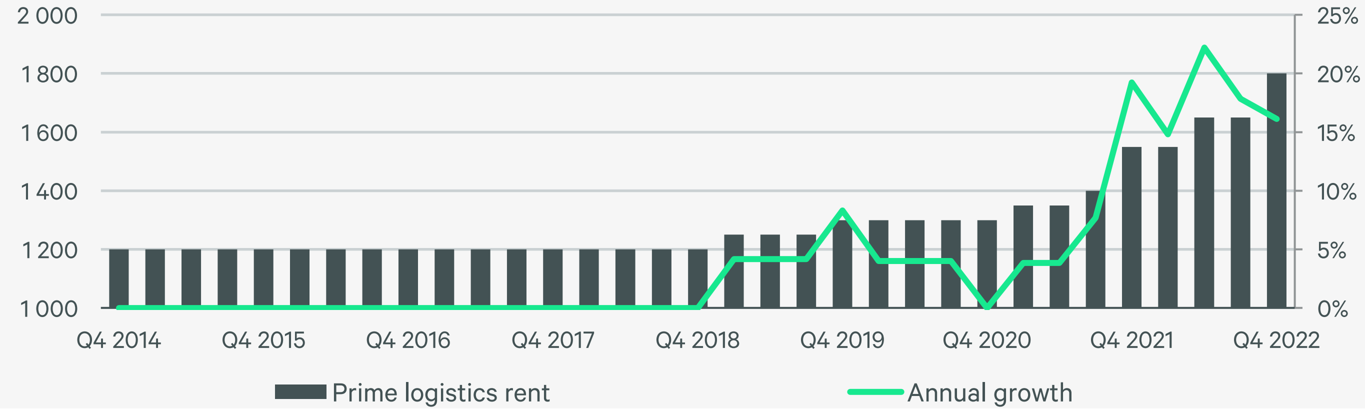


Figure 15. Prime logistics rent (NOK/sqm/year) and annual growth (%)



Sources: CBRE Research, Create Solutions

07

Residential

Residential investments almost halved in 2022, but the stability of the multifamily product will be an attractive investment alternative in 2023.

Key Takeaways - Multifamily

01

RESIDENTIAL TRANSACTIONS REDUCED

Strong investment demand drove multifamily to third highest level recorded in Finnish market, as investment volumes reached €2.1 billion in 2022.

02

CONSTRUCTION ACTIVITY SLOWING DOWN

Elevated construction costs and lower access to financing is followed up by a 50% drop in new home sales in December. Construction activity is expected to remain at low levels.

03

RENTAL LEVELS RISING

The share of Norwegian households who own thier of dwelling is slowly reducing. Residential rents increased by 4.9% in Norway in 2022.

04

STUDENT HOUSING SOUGHT-AFTER

Investor interest remains strong, but activity is limited by few investment and development opportunities.

Residential

Investment activity and pricing under pressure

Residential investment volume dropped by 44% YoY to NOK 7.9 billion in 2022. Once again, land plots for development were the dominating sub-sector. The largest residential transaction was Obos' NOK 818.6 million acquisition of 25% of Solon Eiendom from Samhällsbyggnadsbolaget i Norden (SBB).

The low-interest regime during the pandemic boosted residential pricing. However, rising interest rates have become a challenge for homeowners, landlords, and developers, reducing sales activity. Residential prices started to fall toward the end of 2022 and are expected to continue downwards in 2023.

Construction activity slowing down

Supply remains tight as development activity has decreased from already low levels. With access to development financing increasingly challenging and elevated construction costs, this is not likely to change in short term. The Association of Housing developers (Boligprodusentenes Forening) reported a 50% YoY fall in sales of new developments in December, which will also put a damper on development activity going forward.

Figure 16. Investment volume (NOK bn) and new dev (1,000 sqm)

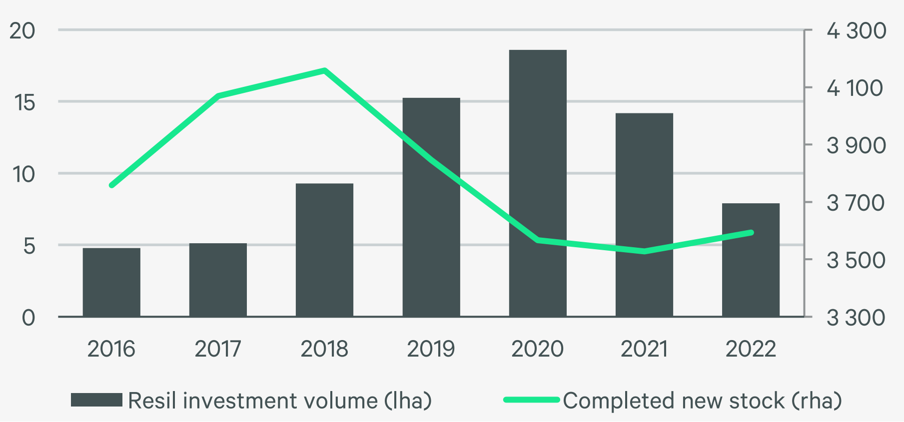
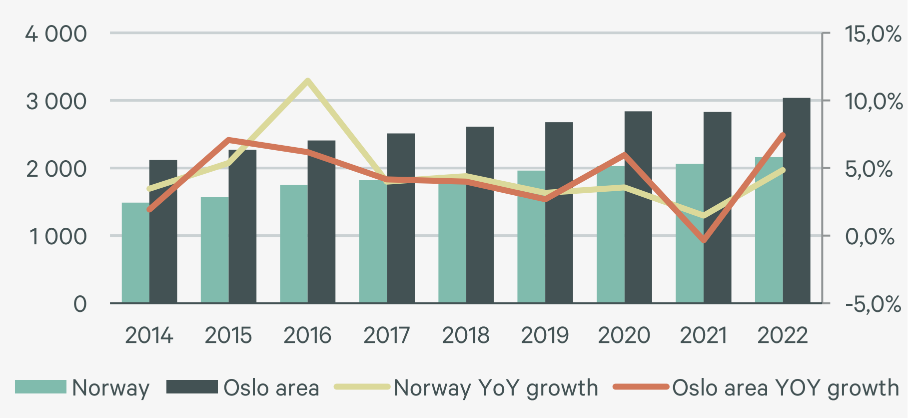


Figure 17. Average annual rent (NOK/sqm), 3-room dwelling



Sources: CBRE Research, Statistics Norway

Student accommodation

Student housing in Norway is primarily offered by student associations. However, there is a general lack of student housing supply in most locations. In fact, the national public student housing coverage stands at merely 14.6 percent.

The students have relied on private housing for many years, but private investors have increased their focus on purpose-built student accommodations in the last decade. CBRE advised on the two largest student accommodation transactions in 2022, the sales of Studenten in Gjøvik and a portfolio of four properties in Ålesund. Investor sentiment remains strong, but activity is being constrained by limited investment and development opportunities.

Outlook for Residential in 2023

Rising mortgage costs and banks' lending constraints could lead more households into the rental market. As of 2022, 76.4% of Norwegian households own their own dwelling, but the share is slowly decreasing in the last few years.

Rental levels (3-room dwelling) in 2022 increased by 4.9 % nationally and 7.4% in the Oslo area. Rents are expected to continue upward, driven by the low supply and elevated inflation. The stability of the multifamily product will be an attractive investment alternative in 2023.

08

Hotels

Attractively located hotels with solid operators will remain a good investment product.

Key Takeaways - Hotels

01

Hotel room rates (ADR) have increased markedly, In some cities they now average between 20 - 30 percent higher than pre-pandemic levels. It is unclear how long Norwegian consumers and corporates will prioritise experiential travel over increasingly dearer necessities.

02

Norway's currency remains cheap when compared to the US dollar and Euro, and most of the hotel industry is optimistic that international travellers, including the Chinese, will arrive in droves in 2023.

03

Hotel properties still offer investors better than average inflation hedging, as rents tend to be turnover linked and ADRs can be adjusted frequently. This attractiveness as standing investments will limit the supply of hotel properties suited for institutional investors.

04

We expect more liquidity in transactions for trading properties, including trading platforms with multiple leases or owned assets.

05

In spite of some short-term choppiness in the world economy, property developers and hotel operators remain bullish about long-term development projects in cities as well as resort markets.

Comeback for hotels

2022 has been lauded as the best year on record for several Nordic hotel chains, as higher ADRs have converted to greater profitability due to more efficient operations. Demand growth, however, remains low or absent in most cities, and 2023 is likely to see a changing dynamic as non-essential travel is cut.

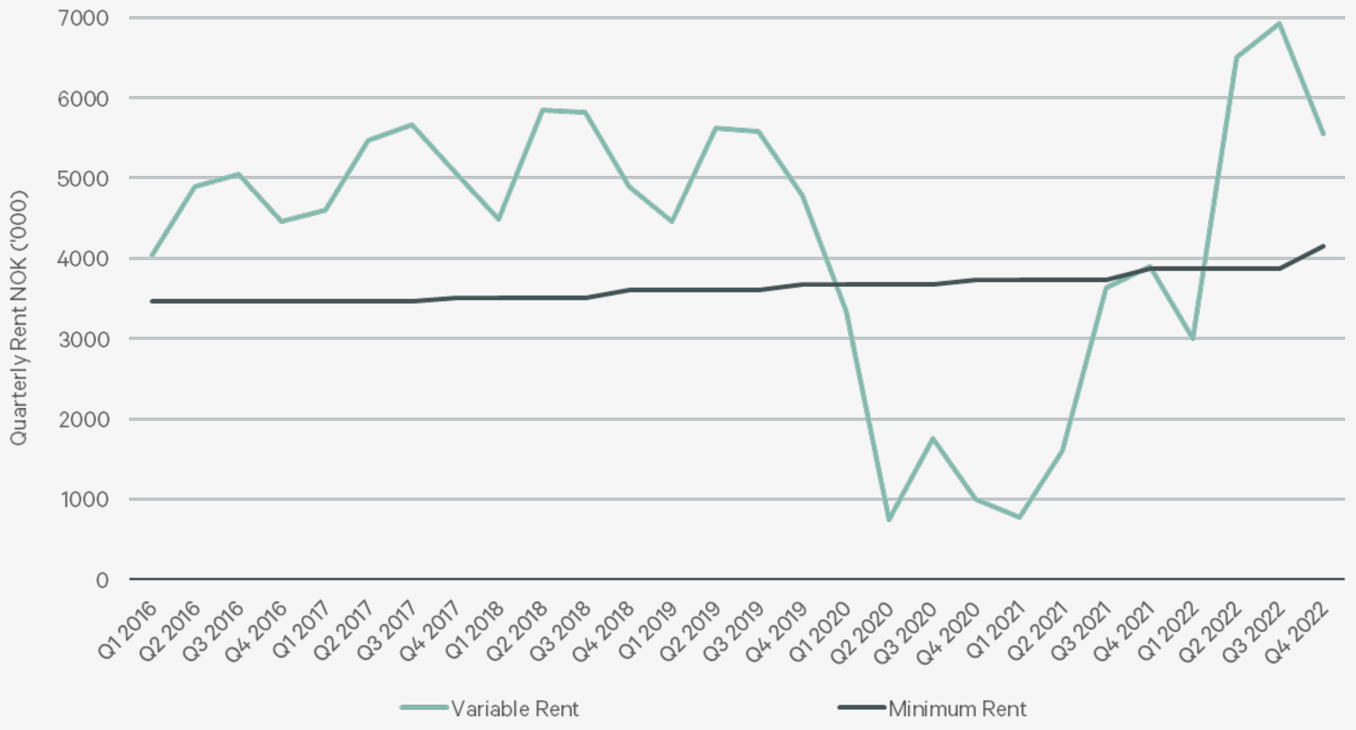
As the graphic on this page illustrates, the nature of hotel leases in the Nordic region provides investors with downside protection during tough times (e.g., a pandemic) and upside potential during growth periods. Leased hotels with solid operators in good locations should remain an attractive investment product, with an element of additional inflation hedging built in.

A significant gap remains between the price expectations of sellers and buyers of hotel assets, but we expect more transactions to be completed in 2023 as interest rates plateau and some owners succumb to fatigue. Operating a hotel has been a tough undertaking for the past three years, with pandemic challenges, lack of personnel, galloping energy prices, and inflation impacting many owner-operators.

There is increasing interest in hybrid hotel products, catering especially to tech-savvy millennials hunting for authentic experiences. We expect more conversion opportunities and the entry of new brands and concepts to fill the gaps.

Transaction activity for hotels accumulated to NOK 2.5 billion in 2022, a decline of 41.9% YoY. 2022 saw 7 hotel transactions, with Malling & Co Eiendomsfond's purchase of Comfort Hotel Xpress Central Station as the most notable. Prime yield increased by 30 bps and is measured at 4.60%.

Figure 18. Variable and Minimum Rent – Example of a 200-Room Hotel in Oslo



Assumptions: 200-room hotel in Oslo with a 70% / 30% revenue split between rooms and other revenue performing in line with historical benchmarks. Variable rent at 35% of rooms revenue and 10% of other revenue. Minimum rent at 75% of total variable rent with 2016 as the base year and annual CPI indexations in October each year.

Sources: CBRE Research, Statistics Norway, Benchmarking Alliance.

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