OBOS Forretningsbygg

Issuer profile

OBOS Forretningsbygg (OFB/company) is 100% owned by OBOS BBL (OBOS). The company develops, owns and operates commercial properties in Oslo and other major cities in Norway. The property portfolio of OFB consists of 71 fully owned properties, in addition to nine properties owned by its subsidiaries; in total 644,000 sq. metres of commercial property area. OFB's acquisition of the 214,000 sq. metres Ulven area in Oslo last year paves the way for an extensive and long-term development project that will escalate the financial dimension of the company. Additionally, OFB will be exposed to both the commercial property and homebuilding segments at Ulven. Overall, we believe that OFB's outstanding bonds should trade inside our BBB index curve.

Embarking on extensive new development project

OFB's business profile remains strong through its geographical reach within central areas in major cities. The vacancy ratio in OFB was as low as 2.5% by the end of 2016. If we include the Ulven properties, the vacancy ratio stood at 3.1%. The company has been able to deliver stable revenues and margins over the past few years, and the average leverage ratio (net debt/EBITDA) has also been c.10x over the period 2013-15. However, the acquisition of Ulven has currently elevated the leverage in the company, with our estimated pro forma leverage ratio being c.12x in 2016.

The financial performance of OFB in the coming years will, to a high degree, depend on the total development costs, revenue and margin contributions from the Ulven project. We believe that the company will have a solid liquidity position also in the future, with sufficient cash holdings and operational cash flows to redeem maturing debt and develop the Ulven properties gradually over the next 15 years. Although OFB has two bonds maturing in 2018-19, the refinancing risk is immaterial in our view. The secured bondholders' recovery is also encouraging in our stress tests. From a ratings perspective, this implies a higher bond rating than that of the company.

Key figures

NOKm	PF 2015E	PF 2016E	2017E	2018E	2019E
Total revenues	712	825	842	1,823	1,989
EBITDA	464	527	547	915	1,039
Net income	712	1,407	1,249	1,461	1,370
Investment properties	8,859	10,941	12,416	13,746	14,667
Total interest-bearing debt	3,454	6,491	6,301	6,301	6,301
Ratios	**PF 2015E**	**PF 2016E**	**2017E**	**2018E**	**2019E**
LTV (incl. minorities)	34%	53%	44%	42%	38%
EBITDA margin	65%	64%	65%	50%	52%
EBITDA interest coverage	3.3	2.4	2.8	4.5	5.0
Net debt / EBITDA	7.1	12.1	10.9	6.8	5.7
Total debt / Total capital	39%	49%	45%	41%	38%

Source: Company data, Danske Bank Markets estimates
Figures for 2015 and 2016 include financials from Ulven on pro-forma basis

Danske Bank Markets has been appointed Joint Lead Manager in connection with a contemplated offering of debt instruments by OBOS Forretningsbygg.
NOT FOR DISTRIBUTION IN THE US

FACTS

Sector: Real estate

Corporate ticker: OBFB

Equity ticker: N/A

Ratings:
S&P: NR / NR
Moody's: NR / NR
Fitch: NR / NR

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Key credit issues

Strengths

- Stable financial performance historically
- Centrally located properties with low vacancy ratio
- Sound liquidity position.
- Has a strong owner in OBOS BBL

Challenges

- Development risk, in particular at Ulven
- Overall profitability set to decline on the back of homebuilding at Ulven
- Fairly high leverage and uncertainty as to the future leverage profile
- Free cash flow profile has historically been under pressure

Source: Company data, Danske Bank Markets estimates

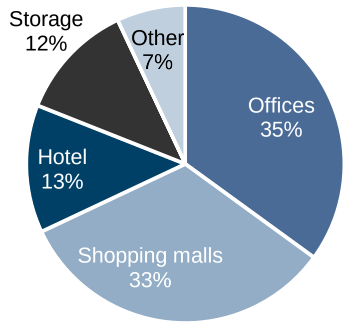
Business profile

OBOS Forretningsbygg – a brief description

OBOS Forretningsbygg provides rental, operational and management services of commercial properties. This segment, which is the second largest in the OBOS group, accounts for around 17% of the OBOS group revenues, with the letting part of the segment contributing 83% of the segment revenues.

As in the other main segments of the OBOS group, the growth in OFB can to a significant degree be attributed to non-organic growth, with new projects pushing up the activity level and revenues. The opening of Scandic Ørnen Hotel in 2014, the new Oslo hospital at Mortensrud in 2015 and the Oslo Cancer Cluster Innovation Park (OCCI) in 2015 are all examples of the strong engagement OFB has in prominent commercial property projects. Last year, the company also commenced its building project in Lillestrøm outside Oslo, where it is building residential units, a hotel, offices, and car parking. OFB is set to complete the project in 2017, with an expected investment cost of NOK1.6bn.

Chart 1. Revenues by segment (NOKm)

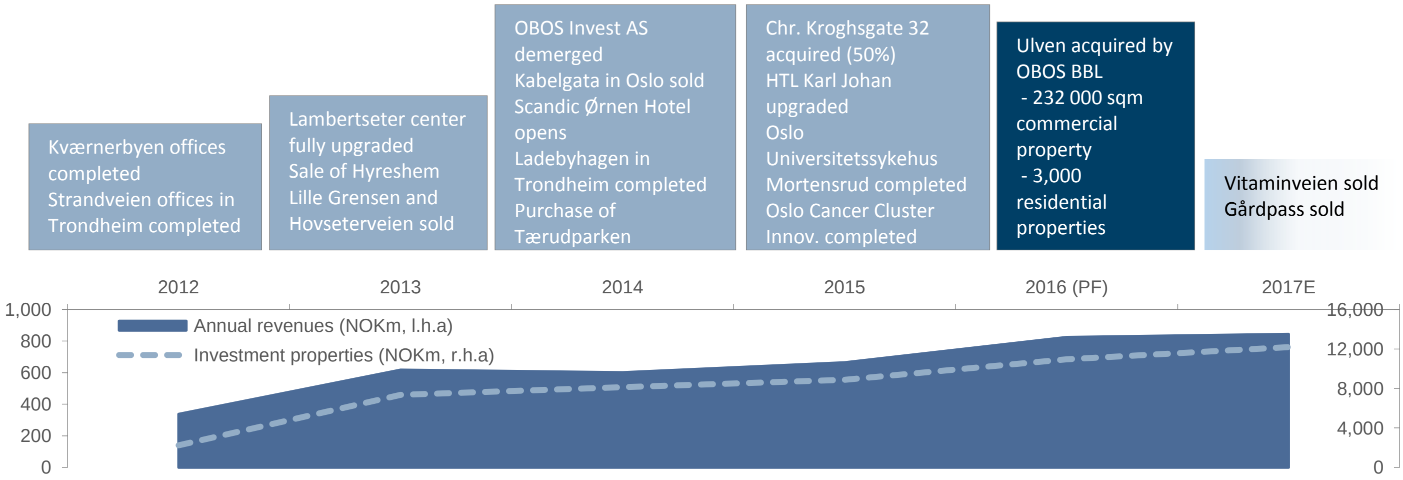


Source: Company data, Danske Bank Markets

Commercial property portfolio

By year-end 2016, the property portfolio of OFB consisted of 71 properties, in addition to nine properties owned by its subsidiaries. The buildings in the OFB group comprise 160,000 sq. metres of shopping centres, 108,000 sq. meters of offices, 26,000 sq. metres of hotels, 166,000 of storage, and 25,000 sq. metres of garage and parking area. The acquisition of Ulven has provided the company with 232,000 sq. meters of additional land to be developed for homebuilding and new commercial property purposes.

Chart 2. Historical events and developments in annual revenues and investment properties (NOKm)



Source: Company data, Danske Bank Markets

Shopping centre exposure

OFB is also exposed to the shopping centre segment, through its ownership in six shopping centres, of which three centres (Lambertseter, Tveita, Manglerud) are among the 60 largest shopping centres in Norway. Revenues in OFB's seven shopping centres amounted to NOK3.8bn in 2016, which was 4% higher than the previous year. Although the market conditions in Stavanger are harsh on the back of the depressed oil prices, Tasta Senter in Stavanger increased its revenues by 1.4%. OFB's shopping centres are located near populated areas with good access to public transport.

Hotel operations

OFB is also to some degree exposed to the hotel market, through its hotels Scandic Byparken and Ørnen Hotel in Bergen, as well as HTL Karl Johan in Oslo. The occupancy ratio in these three hotels was 73%, 62% and 53% in 2015, respectively. We believe that the company is able to raise the occupancy ratio further, especially when we take account of some renovation projects that previously have curbed the occupancy in HTL Karl Johan. Despite the diversification the hotel operations provide, this segment is relatively small and an immaterial part of the OFB group.

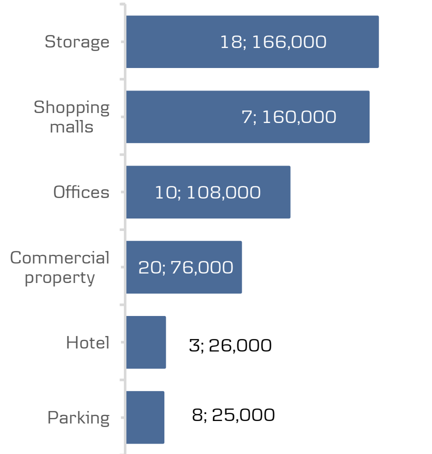
Low vacancy in the property portfolio

In total, the vacancy ratio in OFB was 4.1% at year-end 2015, down from 4.8% the previous year. The vacancy ratio improved further to 2.5% by the end of 2016. If we include the Ulven properties, the vacancy stood at 3.1%. Looking at the group as a whole, the vacancy ratio was 4.0% in 2015. We consider the vacancy ratio to be at a sufficiently low level, and we are especially pleased to see the strong improvement last year. OFB's shopping units are almost entirely let out and we continue to be optimistic about the strong demand from tenants in OFB's shopping centres.

Manageable counterparty risk

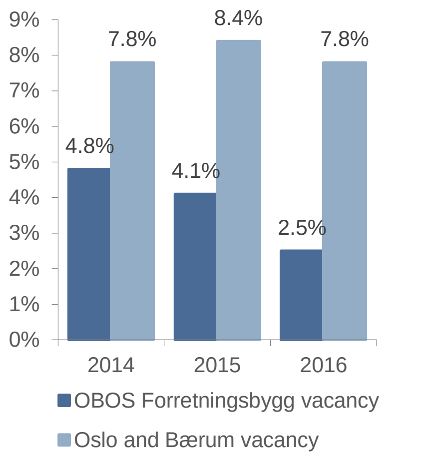
OFB typically develops and tailor makes properties for its customers, be it health institutions as in Oslo Cancer Cluster Innovasjonspark (OCCI) and Distriktspsykiatrisk Senter (DPS), schools as in Ullen videregående skole and Westerdals School of Communication, or other customer groups. Due to the specialised development projects, we assess the counterparty risk as satisfactorily low, where many tenants sign long-term contracts with OFB. A significant portion (17%) of OFB's tenants are also public companies. Average contract length for new contracts was around six years by the end of 2016. During 2015, OFB signed 183 new contracts for a total lease area of c.53,000 sq. meters and a total value of NOK95m. Of these contracts, c.29.400 sq. meters were new contracts, while the remaining were renewals of existing contracts.

Chart 3. Segments by area (amount; sq m)



Source: Company data

Chart 4. OBF Vacancy and Oslo vacancy



Source: Company data, Union

Chart 5. Property portfolio as at December 2015

OBOS Forretningsbygg AS

Eiendommer 100% eiet

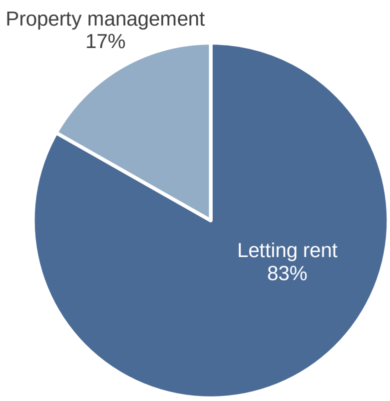
Lambertseter Senter
Tveita Senter
Manglerud Senter
Tasta Senter
Hammersborg Torg 1
Storo Kontorbygg
Ørnene Eiendom AS
KB Næring AS
Christies gate 5-7
Hammersborg Torg 3
Oslogarasjene AS
Sandaker Senter
Holmlia Senter
Møllergata 39
Chr. Krohgs gate 10-12
Strandveien 43 KS
Bogerud Senter
Arbeidergata 4
Kjøttbasaren Bergen AS
Haugenstua Senter AS
Oppsal Senter AS
Cecilie Thoresens Vei 5-7
Plogveien 31
Ellingsrudåsen Senter
Haakon VII gate 7 AS
Trosterud Senter
Holmliaveien 10
Etterstadsletta 3 AS
Hospitalet AS
Mogaten 5
Kjelsveien 7
OBOS Vetlandsveien 68 AS
OBOS Langbølgen 39 AS
Hallagerbakken 106-108
Nylænde
Heimdalsgata 19-21
Nordåsveien 72
Etterstadgata 2
Etterstadgata 4 AS
Christian Krohgs gate 35-37 AS
Tærudparken AS
Freserveien 1 AS
Open House Production AB
Jernbanegata Lillestrøm AS
Portalen Forretning
Portalen Jernbanegata

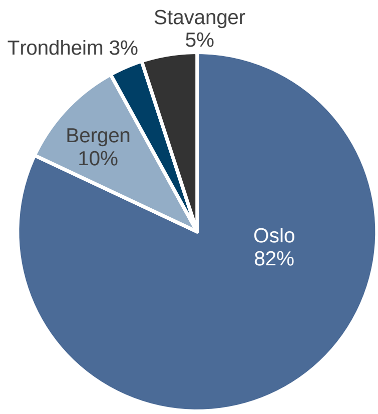
Driftselskaper

OBOS Eiendomsdrift AS
Gårdpass AS

Tilknyttede selskaper

Aasegården AS	50 %
Østre Aker Vei 33 AS	50 %
Telefonfabrikken AS	50 %
Hotell 33 AS	50 %
Oxenøen Bruk AS	50 %
Utstillingsplassen AS	38 %
Nyhavna Utvikling AS	25 %
Oslo Cancer Cluster	27 %
Youngstorget Eiendom AS	25 %
Youngstorget Parkeringshus AS	21 %
Christian Krohgs gate 32 AS	50 %
AS Etterstadgarasjene	34 %





Since 2015, the company's property portfolio has changed. Amongst others, Hotell 33, Yongstorget Eiendom Gårdpass AS have been sold, and numerous Ulven properties have been included.

Source: Company data

Financial risk profile

Prudent financial strategy

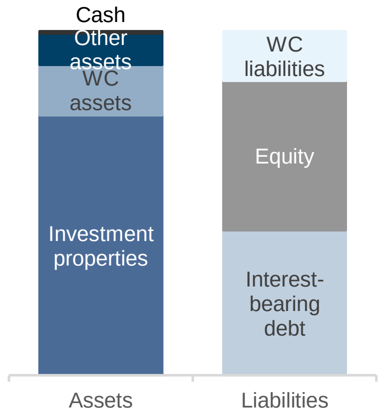
In order for OFB to follow its aggressive growth strategy, the company is reliant on both short-term and long-term funding. According to management, the company will continue to raise debt through both bank and market-based funding.

The OBOS group issues debt in the funding markets through four different entities: OBOS BBL, OBOS Forretningsbygg, OBOS-banken and OBOS Boligkreditt. The group has an explicit goal to resemble an investment grade rating company and it appears to be determined to control its credit profile in order to maintain that.

None of OFB's three outstanding bonds are being amortised. In our opinion, OFB has a sound debt structure and maturity profile. Although the refinancing risk is higher in 2018-19, the company's ability to refinance its debt is strong and hence we do not assign much risk to the prospective maturity walls.

As at year-end 2016, NOK600m of the company's interest-bearing debt was hedged through interest rate swaps, and fixed rate debt accounted for 22% of the total debt at that time. The average interest rate on total debt was c.3.5% in 2016.

Chart 6. Balance end of year 2016



Source: Company data, Danske Bank Markets

Table 1. Outstanding bonds

ISIN	Ticker	Amount outstanding NOK	Interest	Interest	Rank	Disbursement	Maturity
NO0010564883	OBFB01 PRO	450,000,000	3.0%	Fixed	Sr. Secured	Feb-10	Oct-19
NO0010671001	OBFB02 PRO	356,000,000	1.7%	FRN	Sr. Secured	Feb-13	Feb-18
NO0010708480	OBFB03 PRO	475,000,000	4.5%	Fixed	Sr. Secured	Apr-14	Apr-24

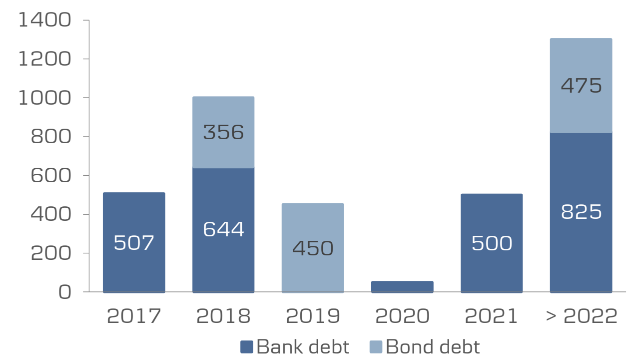
Source: Stamdata, Danske Bank Markets

Table 2. Security and covenants of outstanding bonds

	OBFB01 PRO	OBFB02 PRO	OBFB03 PRO
Security	Numerous Oslo properties	Tasta Senter Stavanger	Lambertseter Senter Nord Oslo
Covenant			
Equity ratio	>= 20%	>= 20%	>= 20%
Change of control if parent ownership	<100%, put option at par	<90%, put option at par	<90%, put option at par
Carve out in default	NOK10m or 1% of book equity		

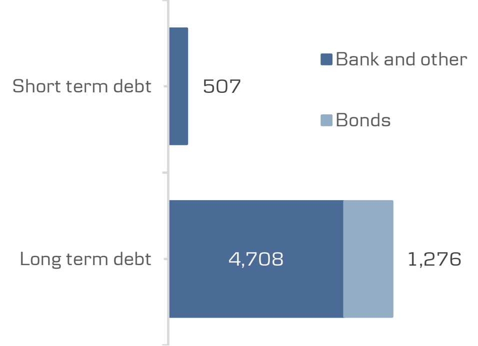
Source: Stamdata, Danske Bank Markets

Chart 7. Maturity profile (NOKm)



Source: Company data, Danske Bank Markets

Chart 8. Interest-bearing debt 2016 overview (NOKm)



Source: Company data, Danske Bank Markets

Ulven – the new 'wolf' in town

Last year, OBOS acquired Ulven AS in Oslo, with Storebrand and Fabritius as the selling parties. The acquisition had a price of NOK2.9bn and became effective on 1 February 2016, providing OBOS with a land area of 214,000 square metres. Through the Ulven project, OBOS aims to develop a new residential area with up to 3,000 units and commercial properties employing approximately 5,000 people. In our opinion, the Ulven acquisition acts as proof of the company's strong long-term growth ambitions. OBOS intends to develop the Ulven area gradually over the coming 15-20 years.

Table 3. Ulven property facts

Sellers of property	Storebrand, Fabritius
Time of acquisition	1 February 2016
Price of acquisition	NOK2.9bn
External valuation	NOK3.8bn
Planned residential units	3 000 apartments
Size of property	214 000 sqm
Planned time of project	15-20 years

Source: Company data

A new dimension post Ulven

The intragroup transfer of Ulven also heavily increases the size of OFB's balance sheet and growth potential in the P/L. Ulven already comes with a revenue contribution from the existing properties in the area. Using pro forma figures for 2016 with full-year contribution from Ulven in OFB, revenues increase by NOK120m and profit before tax moves up by NOK77m. Likewise, investment properties jumped from c.NOK8.9bn to c.NOK10.9bn post the acquisition. As the development at Ulven will be executed both for commercial property and homebuilding purposes, about half of the land investment cost of NOK3.1bn is recognised as investment properties (commercial property) and half as inventories (homebuilding). The increase in inventories of c.NOK1.5bn from 2015 to 2016 can entirely be attributed to the land within the homebuilding part.

Table 4. Underlying assumptions relevant to our forecast of the Ulven project

	2017	2018	2019	2020
Capex share	100%	100%	100%	100%
House price growth	11%	7%	5%	5%
Yield on cost	6.0%	6.2%	6.4%	6.6%

Avg. size of residential properties	65 sqm
Avg. homebuilding cost per sqm. (NOK)	23,000
Avg. com. prop. dev. cost per sqm. (NOK)	45,000
Avg. sales price of homes per sqm. (NOK)	65,000

Source: Danske Bank Markets estimates

Walking on the development path alone

During 2016, OBOS tried to get a partner involved in this project, one that could take 50% ownership in the development. However, we are not surprised that OBOS chose to cease the plans of engaging an investment partner at Ulven, since very few other companies carry the same long-term approach as OBOS and because there is uncertainty attached to the total capex required in this project. Moreover, not all companies have the capability to expose themselves to such a substantial development before the tenants have signed up for a lease. Although OFB normally secures a lease ratio of at least 50% before building commences, it can more easily withstand development of unlet properties due to its strong ownership model and significant presence in the market.

Sale of assets mitigated the development risk at Ulven

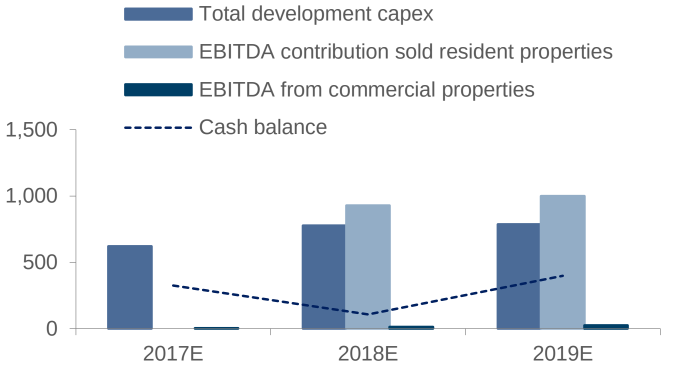
To mitigate the development and capex commitment following a sole engagement at Ulven, OFB is likely to sell other commercial properties in order to release some cash. The sale of Vitaminveien in Q1 17 for NOK523m serves as a good example of such strategic reallocation of the property portfolio. Vitaminveien was sold at a yield of 5.3%, which we consider to be in line with market yield in the central non-prime Oslo area. In the same vein, it is worth mentioning the sale of Gårdpass as a measure that both releases cash and narrows the company strategic focus on the core segments. Gårdpass undertakes various custodian services which do not necessarily appeal to OFB's core strategic scope.

During the Ulven project, we would not rule out that OFB might sell some of the developed properties to other parties in order to alleviate the overall capex and development pressure. However, we have assumed in our model that the company will develop Ulven on a sole basis.

Chart 9. Vitaminveien, Oslo

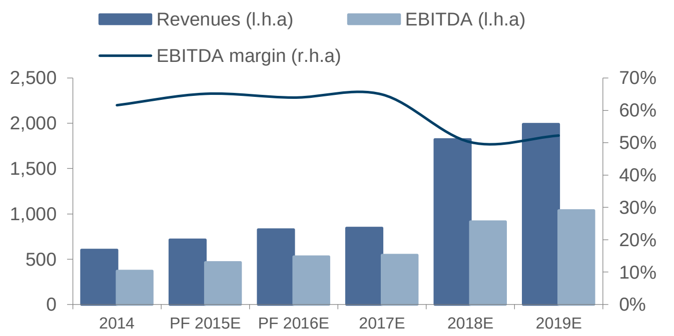
Source: Google

Chart 10. Anticipated capex and EBITDA contribution from the Ulven project (NOKm)



Source: Danske Bank Markets estimates

Chart 11. Anticipated change in profitability with the Ulven project (NOKm)



Source: Danske Bank Markets estimates

Homebuilding to scale down the overall margins

Within the homebuilding segment in OBOS group, EBITDA margin has been around 20% on average historically. We project that OFB will achieve c.40% EBITDA margins annually on sales of its homebuilding projects at Ulven, whereas we pencil in 70% margins within the commercial properties operations in that area. As at the end of 2016, pro forma EBITDA margins in OFB were 64%, compared to 70% on average during 2013-15. As homebuilding at Ulven is set to account for a more significant portion of OFB's revenues in the longer run, we have assumed that the overall EBITDA margins in OFB will converge to c.50% by the end of 2021. However, we recognise that the profitability level could be elevated towards 70% again if homebuilding is taken out from OFB at a later stage.

Investment properties

Investment properties at year-end 2016 amounted to c.NOK11bn, including the recognised value of Ulven land and properties. This corresponds to almost 90% of the total assets. We estimate that fair value changes were c.NOK800m in 2016, almost 9% of the investment property value at the beginning of the year. On the back of our positive view on the real estate market (see Appendix), we forecast positive fair value changes in investment properties to prevail, but at a more limited level.

In our forecasts, we assume that development capex of commercial properties at Ulven lies in the range of c.NOK360m annually, which adds to the investment properties. Development costs related to homebuilding will be recognised as inventory in the balance sheet, and we expect these costs to be in the range of c.NOK600m per year.

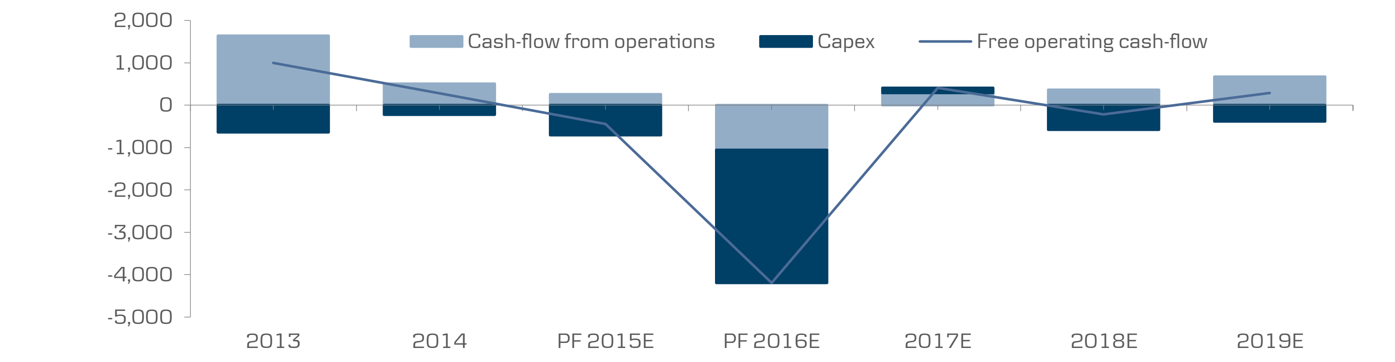
In March 2017, OFB is also set to start on its development project in Freserveien at Kværnerbyen in Oslo. This project will raise 39,000 sq. metres (incl. parking) of office area, with a total capex (excl. land) of NOK1bn. The company expects to have NOK74m in annual revenues, and although no tenant is in place at this stage, we are confident that OFB will manage to sign a lease contract by the time of project completion in mid-2019. In our forecasts, we have assumed full revenue contribution as of Q3 19 in Freserveien.

Free cash flow position weakened by investments

In our view, OFB's future free cash flow (FCF) profile relies on the extent to which the company develops its property portfolio at Ulven going forward and the timing of sales of residential units. In line with IFRS, revenues related to sales of properties and corresponding development costs are being recognised in the P/L at the time of property delivery. On the back of the Ulven acquisition, we estimate that the pro forma FCF in 2016 turns negative. However, we have projected that revenue contribution from development of commercial and residential properties at Ulven alleviates the pressure on the FCF profile, bringing annual FCF into positive range.

Due to the fact that the homebuilding portion at the Ulven land property is recognised as inventory and working capital, the cash from operations (CFO) is negative in 2016. However, we do not assign much emphasis on the figure, knowing that the company did not have any homebuilding inventories prior to the Ulven acquisition.

Chart 12. Free cash-flow summary (NOKm)

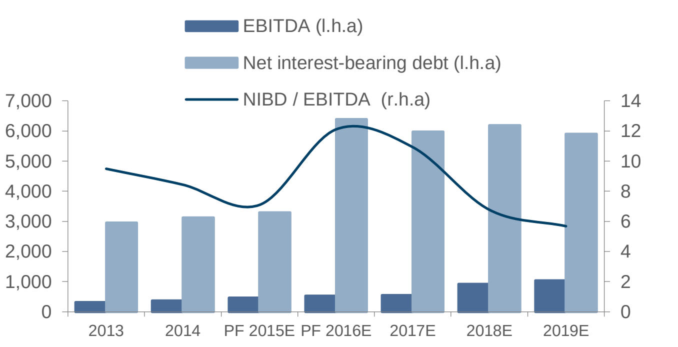


Cash-flow from 2013 and 2014 is based on Danske Bank Markets estimates.
Cash-flow for 2015 and 2016 is based on balance sheet figures, which include Ulven financials on a pro-forma basis
Sources: Company data, Danske Bank Markets estimates

Debt-funded growth – although at controlled levels

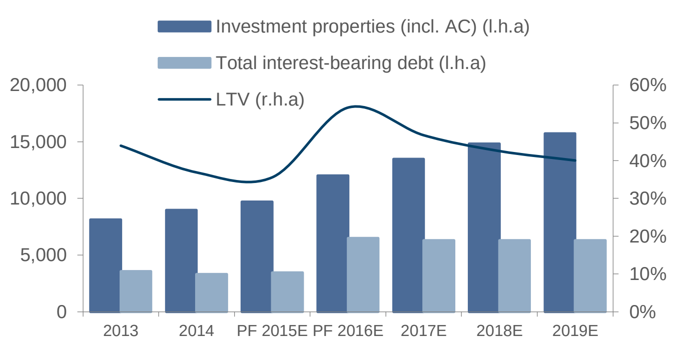
In order to finance the growth at Ulven, we anticipate that the company rolls forward the amount of debt that is about to mature in the coming years. We estimate pro forma debt/EBITDA and net debt/EBITDA in 2016 to be c.12x. Debt raised in connection with OFB's acquisition of the Ulven land property is initially being intragroup funded from OBOS BBL (NOK2.9bn at year-end 2016), but a high portion of this is already replaced by external funding (NOK1.35bn external funding in February 2017). The NOK523m sale of Vitaminveien has reduced the internal debt further, and we expect the new bond issue to redeem most of the remaining intragroup debt. As revenue contribution from the Ulven portfolio kicks in, we estimate that the company's leverage ratio could dip materially over the coming years.

Chart 13. Leverage profile (NIBD/EBITDA) (NOKm)



Source: Source: Company data, Danske Bank Markets estimates

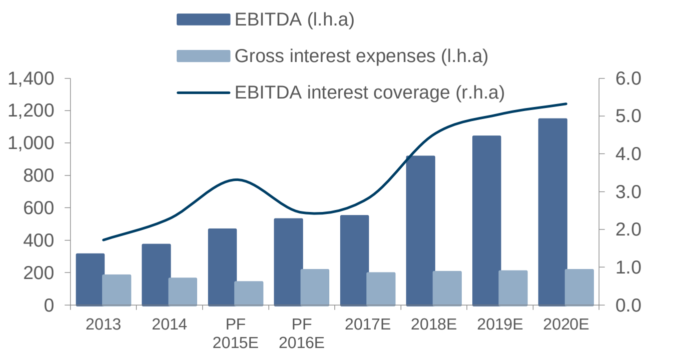
Chart 14. Loan-to-value (TIBD/Invest. Prop*) (NOKm)



** We include book values of associated companies in the calculation of LTV*
Source: Company data, Danske Bank Markets estimates

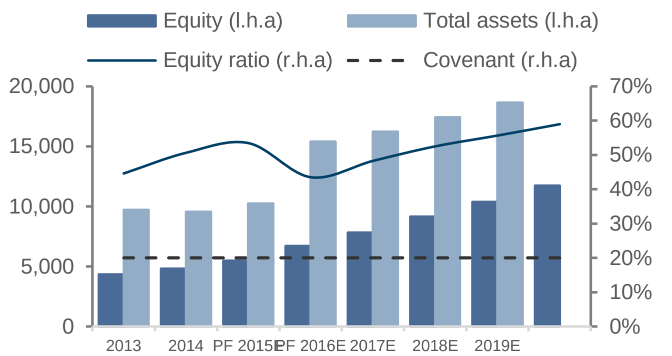
Average annual pro forma LTV in 2016 was 54%, materially higher than an average LTV of c.40% in 2013-15 (excluding Ulven). We expect that the company would be able to maintain the overall LTV below 65%, which is also the maximum LTV level to comply with in a new secured bond debt.

Chart 15. EBITDA interest coverage (NOKm)



Source: Source: Company data, Danske Bank Markets estimates

Chart 16. Equity ratio and covenant (NOKm)



Source: Source: Company data, Danske Bank Markets estimates

The liquidity position

Total undrawn revolving credit facilities at the company's disposal stood at NOK300m at year-end. We estimate that the outstanding short-term debt amounts to c. NOK507m in 2016. This is somewhat higher than the undrawn RCF, but we assume that the company will be in good shape to refinance its debt through its good access to both the bond market as well as bank funding.

In our forecasts, we estimate that OFB maintains a stable liquidity position, with its cash holdings increasing substantially going forward. Despite a growth programme with timing and capex risk on development, we consider the company's liquidity position to be satisfactory.

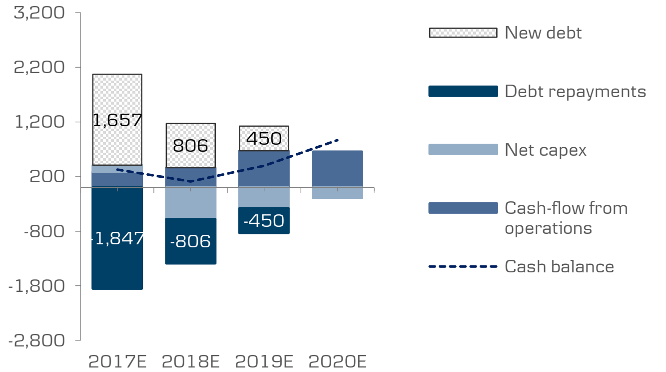
Scenario analysis

Liquidity position dependent on future refinancing

Despite significant cash-generation of the homebuilding segment, we estimate that the extensive capex requirements of the Ulven project will not allow the company to fully repay the outstanding bonds maturing in 2018 and 2019 with cash, without taking up more debt.

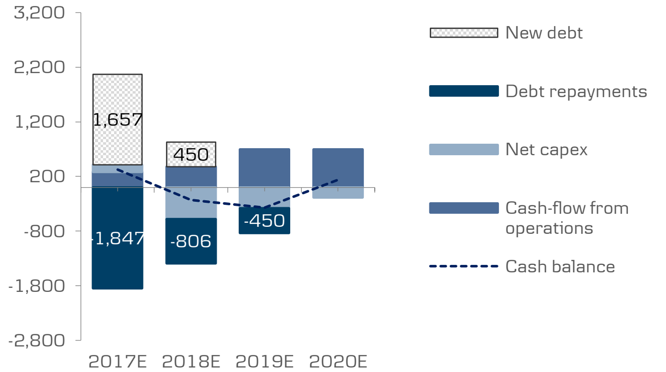
Without refinancing maturing bond debt 2018 and 2019, we estimate a funding shortage of approximately NOK600m in total over these years. In our base case, we assume that the company will refinance maturing bond debt at a 100% level, securing an adequate cash-balance over the next three years, at least. All maturing bank debt is assumed fully refinanced.

Chart 17. Cash balance with bond refinancing (NOKm)



Source: Danske Bank Markets estimates

Chart 18. Cash balance without bond refinancing (NOKm)



Source: Danske Bank Markets estimates

Recovery analysis

Solid asset base

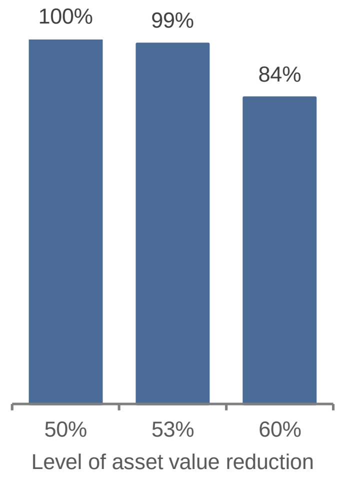
OFB has an extensive and valuable asset base, which provides comfort to bondholders in terms of sufficient recovery under normal circumstances. We use our estimated balance sheet figures of investment properties, land/buildings/inventory and associates/subsidiaries at the end of 2016 to calculate the value of the asset base, which amounts to c.NOK14bn.

Outcome of the stress test

Banks and secured bondholders rank *pari passu* in a default scenario. We conduct a stress test in which we simulate a scenario with a dramatic downturn in the Norwegian real estate and commercial property market. We apply various haircuts on the asset value, ranging from 10% to 60%, and subsequently estimate the recovery of the creditors. As can be seen from the recovery table and chart, more than 80% of secured creditors' claims are recovered in at 60% haircut scenario.

From a ratings perspective, the encouraging recovery results imply that the secured bond rating would have been notched up compared to the company rating.

Chart 19. Recovery for secured bondholders



Source: Danske Bank Markets estimates

Credit profile with different outcomes of the Ulven project

The successful completion of the Ulven project is, amongst other factors, dependent on Oslo house prices, yield and the company's share of the capital expenditures. In reviewing the company's credit profile, we estimate how its NIBD/EBITDA and EBITDA interest coverage develops in multiple scenarios where the aforementioned factors differ.

In all scenarios we assume 100% refinancing of maturing debt. We base all scenarios on a conservative view of future Oslo house prices, with our base case being the least conservative. Scenario 1 is our base case, while scenario 2 and 3 represent different levels of distressed fundamental factors, as displayed in Table 5.

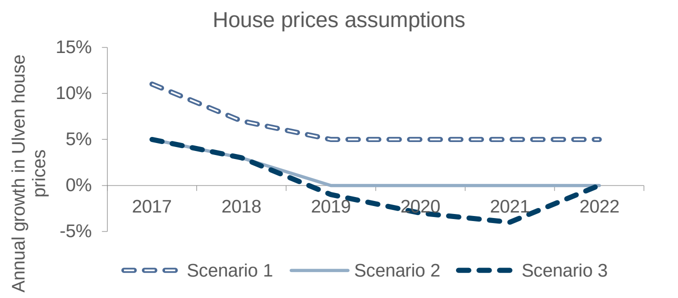
We conclude that with a drastic fall in Oslo house prices, an increase in yield and a longer time for revenues to materialise, the company may not be able to maintain an adequate cash balance, and might require additional financing. This could compromise the company's ability to repay the issued bond at maturity. We note, however, that in the scenarios with modest or flat house price growth from 2019 and onwards, the company's credit profile remains satisfactory.

Table 5. Scenario assumptions

	Scenario 1	Scenario 2	Scenario 3
Avg. 5yr house price growth	6.3%	1.3%	0%
Change in yield	+1.1%	+2.5%	+2.5
Capex share	100%	100%	87%
Cost-profit lag (quarters)	3	3	4

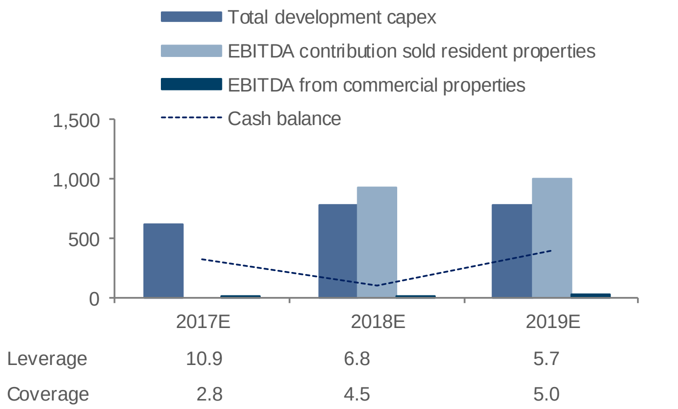
Source: Danske Bank Markets estimates

Chart 20. Assumption: estimated house prices



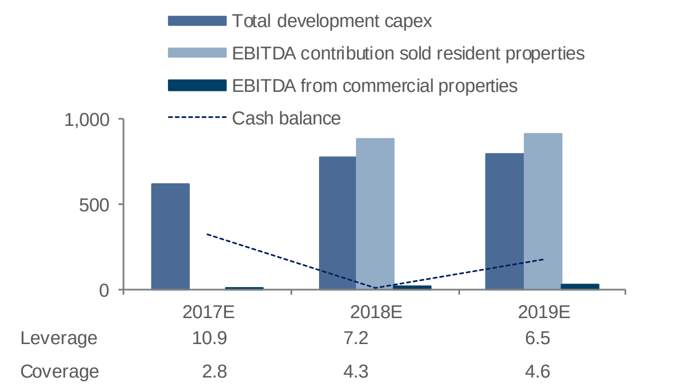
Source: Danske Bank Markets estimates

Chart 21. Ulven pipeline – Scenario 1 (Base) (NOKm)



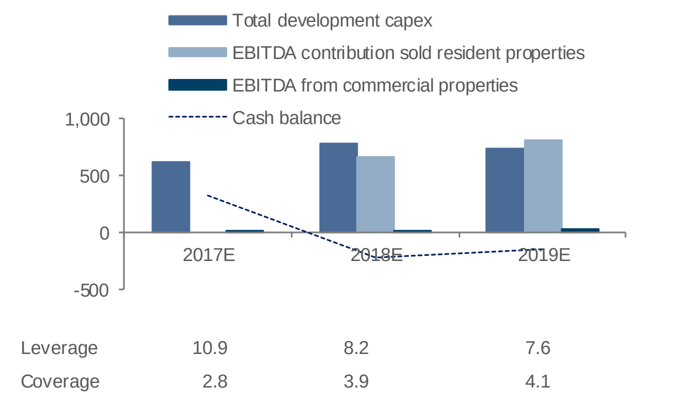
Leverage ratio (NIBD/EBITDA) and EBITDA interest coverage (x).
Source: Danske Bank Markets estimates

Chart 22. Ulven pipeline – Scenario 2 (NOKm)



Leverage ratio (NIBD/EBITDA) and EBITDA interest coverage (x).
Source: Danske Bank Markets estimates

Chart 23. Ulven pipeline – Scenario 3 (NOKm)



Leverage ratio (NIBD/EBITDA) and EBITDA interest coverage (x).
Source: Danske Bank Markets estimates

Peer analysis

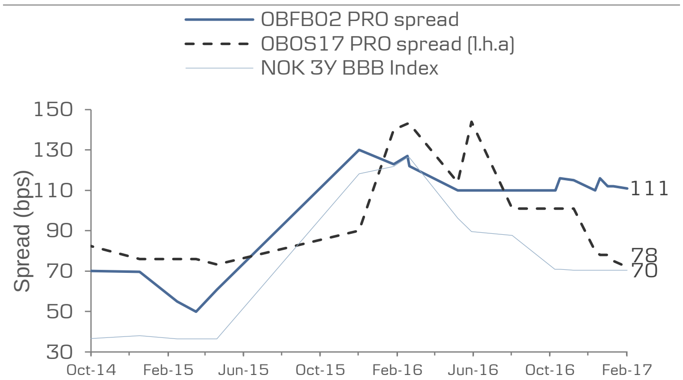
Table 6. Peer comparison table

	OBOS Forretningsbygg	OBOS BBL	Entra	Steen & Strøm	Olav Thon Eiendomsselskap	Thon Holding	Norwegian Property
Indicative spread on 5yr secured (bp)	n.a	106 (unsec)	82 (unsec)	95	85	87	130
BB 5-year default probability	n.a	n.a	1.4%	1.4%	0.6%	2.3%	2.8%
BB default risk	n.a	n.a	IG7	IG7	IG5	IG9	IG10
Three-year average ratios and figures*							
Total revenues (NOKm)	777	8,454	2,268	1,787	3,284	5,925	833
EBITDA (NOKm)	496	808	1,486	1,378	1,953	1,507	643
Investment properties (NOKm)	10,941	21,710	35,629	32,206	47,690	19,502	14,025
Total assets (NOKm)	15,396	30,252	38,890	38,750	52,585	21,910	14,331
Performance ratios							
Total revenue growth	8%	20%	10%	4%	11%	5%	6%
EBITDA margin	65%	8%	69%	80%	61%	26%	77%
EBIT margin	63%	22%	146%	177%	141%	18%	114%
Net margin	125%	21%	103%	125%	95%	10%	60%
ROA	7%	4%	6%	6%	7%	3%	4%
Debt payback ratios							
FFO / TIBD	5%	9%	6%	8%	5%	11%	3%
FFO / NIBD	5%	10%	6%	9%	5%	12%	3%
OCF / TIBD	-1%	5%	6%	8%	3%	10%	2%
FOCF / TIBD	-24%	-16%	-5%	5%	-9%	-5%	13%
Payment ratios							
EBITDA gross interest coverage (x)	2.9	1.5	2.5	2.2	2.8	3.9	1.8
EBIT interest coverage (x)	6.6	4.0	5.4	4.8	6.5	2.8	2.6
FFO gross interest coverage (x)	1.2	2.3	1.5	1.8	1.3	2.8	65%
FFO gross capex coverage (%)	27%	67%	164%	382%	40%	103%	49%
FFO payout ratio	0%	0%	75%	0%	29%	1%	27%
Dividend payout ratio (%)	0%	0%	35%	0%	9%	3%	11%
Leverage ratios							
TIBD / Property Value (LTV)	45%	52%	50%	48%	45%	55%	52%
LTV (w/ minorities))	44%	47%	47%	42%	42%	55%	52%
TIBD / EBITDA (x)	10.4	15.7	10.5	10.3	9.5	6.6	11.6
NIBD / EBITDA (x)	10.0	13.8	10.2	9.8	9.4	6.2	11.5
TIBD/ (Equity + TIBD)	44%	46%	54%	43%	50%	55%	55%
TIBD / total assets	38%	38%	46%	38%	40%	49%	51%
Total equity / total assets	48%	45%	39%	50%	41%	40%	42%
Cash and cash eq. / TIBD	4s%	12%	3%	2%	1%	6%	1%

**All financial figures are based on average annual figures of 2015-2017E, except for "Total assets" and "Investment properties", which are based on 2016 figures.*

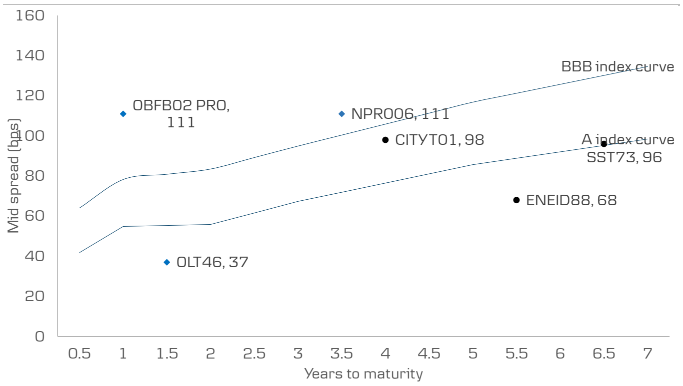
Source: Bloomberg, Danske Bank Markets estimates

Chart 24. OBFB02 PRO traded spreads (bp)



Source: Oslo Børs, Danske Bank Markets

Chart 25. Traded spreads of real estate bonds (February)



Source: Oslo Børs, Danske Bank Markets

Table 7. Summary financials

	PF 2015E	PF 2016E	2017E	2018E	2019E
Performance ratios					
Total revenue growth	7%	16%	2%	116%	9%
EBITDA margin	65%	64%	65%	50%	52%
EBIT margin	64%	62%	62%	49%	51%
Net margin	91%	151%	133%	72%	62%
ROA	6%	8%	7%	8%	7%
Debt payback ratios					
FFO / TIBD	8%	2%	4%	9%	11%
FFO / NIBD	8%	2%	4%	9%	12%
OCF / TIBD	8%	-16%	5%	6%	11%
FOCF / TIBD	-13%	-65%	7%	-3%	5%
FFO payout ratio	0%	0%	0%	0%	0%
Payment ratios					
EBITDA gross interest coverage (x)	2.9	2.4	2.8	4.5	5.0
EBITDA net interest coverage (x)	3.3	2.4	2.8	4.5	5.0
EBIT interest coverage (x)	5.1	7.3	7.4	8.2	7.7
FFO gross interest coverage (x)	1.9	0.7	1.2	2.8	3.4
FFO gross capex coverage (%)	37%	5%	39%	97%	181%
Leverage ratios					
TIBD / EBITDA (x)	7.4	12.3	11.5	6.9	6.1
NIBD / EBITDA (x)	7.1	12.1	10.9	6.8	5.7
TIBD / Property Value (LTV)	36%	54%	47%	43%	40%
LTV (Incl. minorities)	34%	53%	44%	42%	38%
TIBD/ (Equity + TIBD)	39%	49%	45%	41%	38%
TIBD / total assets	34%	42%	39%	36%	34%
Total equity / total assets	53%	44%	48%	52%	56%
Cash and cash eq. / TIBD	5%	2%	5%	2%	6%

Figures for 2015 and 2016 include financials from Ulven on a pro-forma basis
Source: Company data, Danske Bank Markets estimates

Table 8. Income statement

Income statement (NOKm)	**PF 2015E**	**PF 2016E**	**2017E**	**2018E**	**2019E**
Rental revenues	508	673	842	896	953
Property operations	139	136	0	927	1,000
Other revenues	66	17	0	0	0
Total revenues	**712**	**825**	**842**	**1,823**	**1,989**
Operating costs	-248	-297	-296	-908	-951
EBITDA	**464**	**527**	**547**	**915**	**1,039**
Depreciation and amortisation	-5	-16	-23	-26	-28
Fair value changes investment property	230	790	919	775	566
Profit from associated companies	26	279	0	0	0
EBIT	**715**	**1,581**	**1,443**	**1,663**	**1,576**
Paid dividends	0	16	0	0	0
Loss/profit from sale of shares	117	0	0	0	0
Change in the value of derivative instruments	21	25	0	0	0
Net financial expenses	-140	-215	-194	-203	-206
Profit before tax	**712**	**1,407**	**1,249**	**1,461**	**1,370**
Tax	-62	-163	-125	-146	-137
Profit after tax	**650**	**1,244**	**1,124**	**1,315**	**1,233**

Figures for 2015 and 2016 include financials from Ulven on a pro-forma basis
Source: Company data, Danske Bank Markets estimates

Table 9. Balance sheet

Assets (NOKm)	PF 2015E	PF 2016E	2017E	2018E	2019E
Goodwill	81	51	51	51	51
PP&E	13	196	196	196	196
Investment properties	8,859	10,941	12,416	13,746	14,667
Intergroup loans	16	25	25	25	25
Loans related to associated companies	50	31	31	31	31
Other fixed assets	26	17	17	17	17
Investments in associated companies	851	1,071	1,071	1,071	1,071
Total non-current assets	**9,897**	**12,331**	**13,806**	**15,136**	**16,057**
Inventories	0	1,447	1,889	1,894	1,900
Accounts receivables	13	15	43	94	104
Intergroup receivables	22	669	22	47	52
Other current assets	152	127	127	127	127
Assets held for sale	0	703	0	0	0
Cash and cash equivalents	163	104	325	108	398
Total current assets	349	3,065	2,405	2,270	2,581
Total assets	**10,246**	**15,396**	**16,212**	**17,406**	**18,638**

Equity and liabilities (NOKm)	PF 2015E	PF 2016E	2017E	2018E	2019E
Paid-up equity	372	348	348	348	348
Retained earnings	5,105	6,349	7,473	8,788	10,021
Total equity	**5,477**	**6,698**	**7,821**	**9,136**	**10,369**
Term loan and other debt	2,180	4,708	4,445	4,445	4,445
Bonds and certificates	1,275	1,276	1,500	1,406	1,856
Non-current TIBD	**3,454**	**5,984**	**5,945**	**5,851**	**6,301**
Term loan and other debt	0	507	0	0	0
Current bond debt	0	0	356	450	0
Current TIBD	**0**	**507**	**356**	**450**	**0**
Total interest-bearing debt	**3,454**	**6,491**	**6,301**	**6,301**	**6,301**
Net interest-bearing debt	3,292	6,387	5,977	6,193	5,903
Deferred tax liabilities	44	69	68	64	63
Payables	37	87	67	65	69
Pension liabilities	19	11	24	20	17
Tax provisions	1,119	1,204	1,563	1,407	1,317
Other non-current debt	13	17	20	18	17
Other current debt	83	819	347	394	483
Non-interest-bearing liabilities	**1,315**	**2,207**	**2,089**	**1,968**	**1,967**
Total debt	**4,769**	**8,698**	**8,390**	**8,270**	**8,268**
Total debt and equity	**10,246**	**15,396**	**16,212**	**17,406**	**18,638**

Figures for 2015 and 2016 include financials from Ulven on pro-forma basis

Source: Company data, Danske Bank Markets estimates

Table 10. Cash-flow summary

NOKm	PF 2015E*	PF 2016E*	2017E	2018E	2019E
EBITDA	464	527	547	915	1,039
Taxes paid	-62	-163	-125	-146	-137
Net interest costs	-140	-215	-194	-203	-206
FFO	**262**	**149**	**228**	**566**	**696**
Change WC	0	-1,204	59	-202	-22
CFO	**262**	**-1,055**	**287**	**364**	**674**
Gross capex	-704	-2,785	-579	-581	-384
Sale of assets	0	0	703	0	0
Other investments	0	-353	0	0	0
Paid dividends	0	0	0	0	0
FCF	**-441**	**-4,192**	**411**	**-217**	**290**
New bank debt	121	3,035	1,077	450	0
New bond debt	2	2	580	356	450
Repayment of bank debt	0	0	-1,847	-450	0
Repayment of bond debt	0	0	0	-356	-450
Equity contribution	-15	-24	0	0	0
Other cash flow activities	317	1,120	0	0	0
Change in cash	**-17**	**-59**	**221**	**-217**	**290**
Cash start of period	180	163	104	325	108
Cash end of period	163	104	325	108	398

Cash flow for 2015 and 2016 is based on figures from the balance sheet, which include Ulven financials on pro-forma basis.

**For 2015 and 2016, we have in fact estimated capex on a net basis, i.e. net of acquisitions and sales of fixed assets.*

Source: Danske Bank Markets estimates

Table 11. Outstanding bonds

ISIN	Ticker	Amount outstanding NOK	Interest	Interest	Rank	Disbursement	Maturity
NO0010564883	OBFB01 PRO	450,000,000	3.0%	Fixed	Sr. Secured	Feb-10	Oct-19
NO0010671001	OBFB02 PRO	356,000,000	1.7%	FRN	Sr. Secured	Feb-13	Feb-18
NO0010708480	OBFB03 PRO	475,000,000	4.5%	Fixed	Sr. Secured	Apr-14	Apr-24

Source: Stamdata, Danske Bank Markets

Table 12. Income statement without Ulven pro-forma figures

(NOKm)	2013	2014	2015	2016E
Rental revenues	467	414	510	557
Property operations	133	127	139	142
Other revenues	18	60	16	5
Revenues	**618**	**601**	**665**	**704**
Personnel costs	-83	-80	-75	-81
Property related costs	-50	0	0	-125
Other operating costs	-175	-150	-175	-56
Operating costs	**-307**	**-231**	**-250**	**-263**
EBITDA	**311**	**370**	**414**	**441**
Depreciation and amortization	-114	-6	-5	-16
Operating income (incl. D&A)	**197**	**364**	**409**	**425**
Profit from sales of properties	282	10	50	0
Fair value changes investment property	0	390	230	738
Profit from associated companies	15	53	24	279
EBIT	**494**	**818**	**713**	**1,442**
Paid dividends	0	0	0	16
Profit from shares and dividends	76	0	0	0
Loss/profit from sale of shares	-2	15	117	0
Change in the value of derivative instruments	0	0	0	25
Financial income	26	-2	26	0
Financial expenses	-181	-162	-145	-139
Profit before taxes	**414**	**669**	**711**	**1,344**
Tax	-85	-161	-62	-140
Profit after tax	**329**	**509**	**649**	**1,204**

Source: Company data, Danske Bank Markets estimates

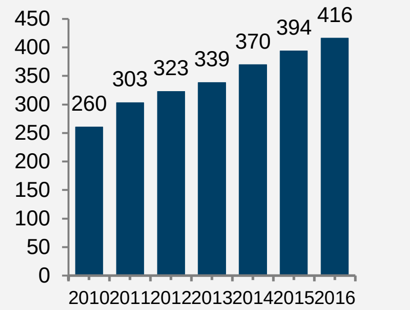
Appendix 1 – OBOS Group view

Description of the group

OBOS is the largest co-operative building association in the Nordic region, owned by its c.400,000 members. It is established in most parts of Norway, with its members scattered through almost all the municipalities. OBOS members have a seniority-based priority option to buy residential units built by the company. The company has grown substantially over the past few years, both organically and through various mergers and acquisitions.

We are confident that OBOS is in good shape to maintain and even increase the number of memberships. With solid annual growth in homebuilding, the company could attract new members through the main incentives embedded in the membership, namely the priority right to buy a property built and developed by OBOS. Currently, each member initially has to contribute NOK300 in capital injection, which comes in addition to a member fee of NOK200 per year.

Chart 26. Paying members (thousands)



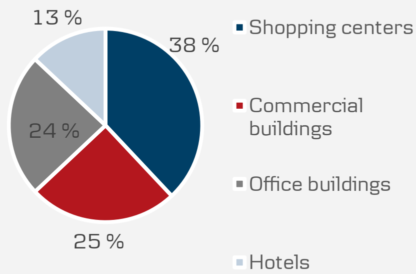
Source: Company data, Danske Bank Markets

Group history and group structure

OBOS BBL traces its roots back to 1929, when the company was granted the role of building organ for the municipality of Oslo. The group has contributed greatly to urban planning in the capital by developing neighbourhoods in areas such as Ensjø, Sagene and Kværnerbyen, as well as satellite towns near the capital, such as Lambertseter. After the Norwegian housing market was deregulated in the 1980s, OBOS changed its role from being a local homebuilder to a competitive player in the Norwegian real estate market

Over the past 85 years, the group has sealed its position as a well-recognised company with a highly solid reputation and we consider OBOS to be a quality brand. Today, the company consists of four main segments: homebuilding, property management and advisory, commercial property and banking and real estate agency (REA. In February 2017, OBOS signed an LOI with Tryg Forsikring A/S to sell its insurance unit OBOS Forsikring AS. The transaction is expected to be closed in H1 17, and Tryg is set to take over the company with accounting effect as of 1 January 2017.

Chart 27. Commercial property revenue breakdown 2015



Source: Company data, Danske Bank Markets

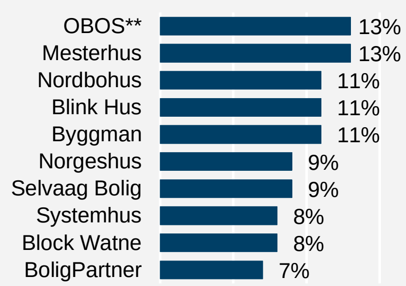
Group business strategy and market position

In OBOS's financial policy, profit is retained within the group and is directed at growth-related projects and corporate social engagements at the members' disposal. Management is very clear on the company's strategy that the contribution through member fees, amounting to NOK80m throughout 2015, should be channelled back to the members through various member advantages in the community.

Diversified geographically…

Despite being a co-operative building association with origins in the Oslo area, OBOS has expanded substantially both geographically and operationally. Oslo and Akershus are still by far the largest geographical segments, with approximately two-thirds of members based in and around the capital city. However, OBOS's footprint in Norway is now spread across several regions. That OBOS has also established a solid basis for its operations through its acquisition of BWG Homes has further credit positive implications for the company.

Chart 28. Market shares March 2016*



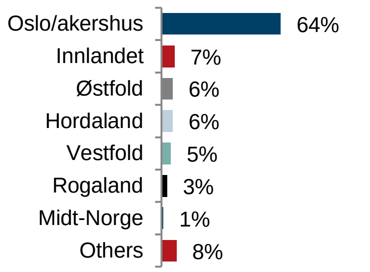
* Measured by properties under development in Norway
** Excluding Block Watne
Source: Boligprodusentenes Forening

...but the core business prevails

The core business in OBOS from the company's inception has been homebuilding. According to management, OBOS aims to sell approximately 4,000 properties each year. Throughout its history, OBOS has expanded its operations widely by offering services affiliated closely to its main business, be it for instance property management and consulting, real estate agency, or banking services to households. Although OBOS offers a variety of services related to homebuilding, the operational diversification is not so strong, as all the affiliated segments are more or less economically interdependent. OBOS-banken can be viewed as the segment most distant from the core business, as the bank also provides loans to non-members. However, the bank accounted for only 1% of group revenues at the end of 2015 and around 77% of the bank's customers are OBOS members. Therefore, we do not assign much weight to the diversification that OBOS-banken provides to the group.

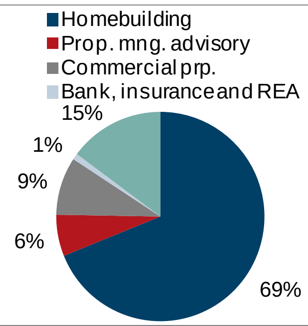
Most of the group's investments and holdings in various companies are also closely related to the main homebuilding and commercial property business, such as the investments in AF Gruppen ASA, Veidekke ASA and Multiconsult ASA.

Chart 29. Revenues by geography (2015)



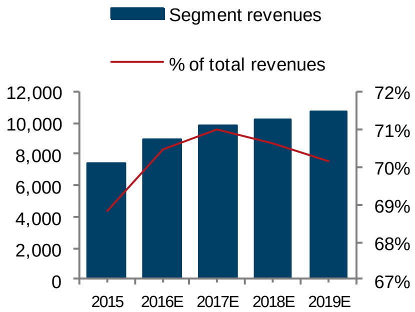
Source: Company data

Chart 30. Revenues by segment (2015)



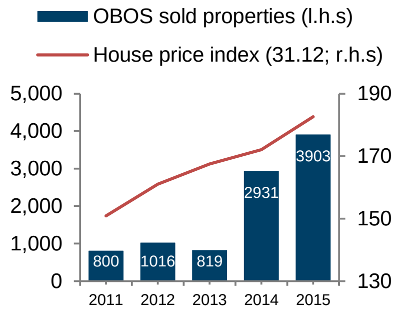
Source: Company data

Chart 31. Homebuilding revenues (NOKm)



Source: Company data, Danske Bank Markets estimates

Chart 32. Apartments sold (amount)



Source: Company data, Danske Bank Markets estimates

Maintaining a high sales ratio

The sales ratio, i.e. the ratio of sold units as a percentage of total homes in production, was 72% at the end of 2015. In line with OBOS's internal policies for homebuilding in Norway, no building projects should be started before the sales ratio is at least 50%. Historically, the sales ratio and the number of unsold properties have been at a more or less stable and low level, which underpins the solid foundation in the homebuilding business.

Appendix 2 - Industry considerations

The macroeconomic framework

Macro-economic parameters such as the unemployment rate, interest rate, housing prices and currency exchange rates will to a large extent shape the performance and outlook in the real estate market. According to Statistics Norway (SSB), GDP in Norway (mainland) increased by 1.1% in 2015. Although the growth in the economy in 2015 was the weakest since the financial crisis in 2009, we believe that the economic conditions in Norway on a general level will continue to facilitate high activity in the real estate market. The low interest rate environment, both from a current and prospective perspective, will maintain the search for yield among investors, who should continue to find commercial property investments attractive.

Regional differences likely to remain

The unemployment rate in Norway increased in 2015, although from a low level. In September 2016, the AKU unemployment rate stood at 4.8%. Due to depressed oil prices, the relatively higher unemployment rate in oil-dependent regions like Stavanger has weakened the development in prices on commercial and residential properties. The unemployment rate in Rogaland is the highest in Norway and we expect the regional differences to persist, as long as oil service companies continue to struggle amid the downturn in the oil service sector.

The housing market is overall a sunshine story

House prices in Norway increased by 3.2% from Q2 16 to Q3 16, with a y/y growth of 8.0% in Q3 16. In the Oslo area, house price growth remains aggressive, with Trondheim also enjoying material growth. However, in Bergen, the house price growth has softened, and Stavanger is still suffering from a relatively dull housing market due to the gloomy conditions in the oil sector. House prices in Stavanger declined by 5.4% from Q3 15 to Q3 16.

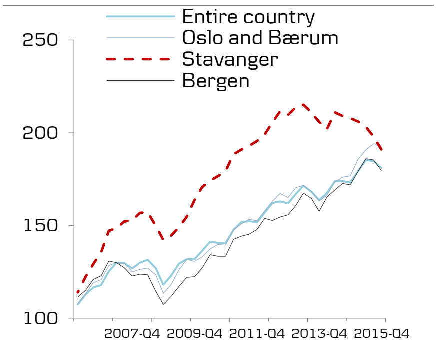
Market imbalance bodes well for house prices

Achieving equilibrium of demand and supply in the Norwegian housing market has been challenging over the past few years. In Oslo, for instance, almost 3,000 homes are built each year, while building activity should stand at 6,000-7,000 in order to cover population growth due to high immigration. The demand for new homes in Oslo being far higher than the supply contributes to inflating house prices. We argue that this mismatch is likely to prevail in coming years. First, we expect population growth in Norway and Sweden to remain high. Over the past five years, the populations of Oslo and Stockholm have increased by 10% and 9.5%, respectively. Norwegian authorities estimate that the population in Oslo will increase further from 650,000 today to 820,000 in 2030. Second, we do not believe that the Norwegian government will be significantly more efficient when it comes to submitting building permissions.

Conversion of office properties in Oslo

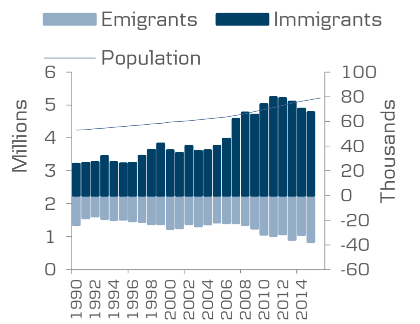
With the persistently high house prices and high sales ratios (sold units as a percentage of total units offered) in the Oslo area, along with higher population growth, we believe we could continue to see a higher conversion of older office buildings into residential units, especially outside the largest office hubs. Such conversions will generally prove more profitable than refurbishing and maintaining office buildings for the same purpose as before. For example, in the fringe areas in north of Oslo, conversion of old land plots previously used for industrial or office purposes has lifted the sales volumes and repricing of residential units in that particular area.

Chart 33. House price indices (2005=100)



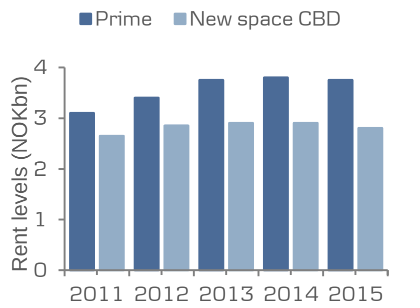
Source: Statistics Norway

Chart 34. Population growth in Norway



Source: Statistics Norway

Chart 35. Year-end rent levels



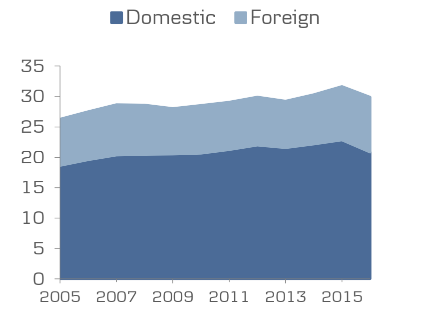
Sources: Akershus Eiendom, Dagens Næringsliv

The retail market is more sustainable

Retail sales in Norway have generally shown a positive growth pattern supported by solid growth in employment and real wages, low interest rates and a strong housing market. Statistics Norway's index for retail sales in Norway shows a rather flat trend development in retail sales since 2014. However, in periods of macroeconomic distress, retail volumes and consumption growth have declined. Revenues for shopping centres are less exposed to macroeconomic cyclicality, curbing the susceptibility to macroeconomic distress.

In the market for Norwegian shopping centres, development has been benign over the past few years. According to Akershus Eiendom, the 230 largest shopping centres account for c.30% of total retail sales in Norway. The Norwegian retail data solution provider Andhøy further reports that the total turnover of Norwegian shopping centres jumped by c.4.6% from 2014 to 2015, which exceeds the SSB figures for retail growth of 3.2% over the same period. The Norwegian retail market has been sustainable despite the headwinds from the weak oil sector.

Chart 36. Annual hotel visitors (m)

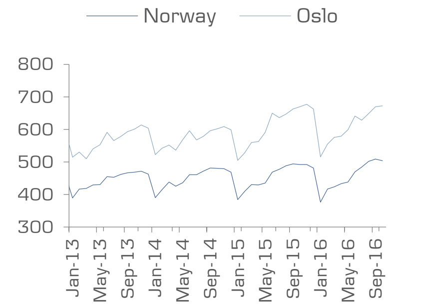


Source: Statistics Norway

Hotel market affected by a weaker NOK

Lower value of the NOK has paved the way for higher tourism to Norway, which in turn has improved the hotel market in the country. Another impact of a weaker NOK value is that travelling abroad has become more expensive for Norwegian citizens. Thus, we cannot rule out that Norwegians also turn to domestic holiday destinations and contribute to higher demand for hotels in Norway. Despite the high activity in the hotel market, there is pressure on the RevPAR (revenue per available room) in numerous new hotels. In October 2016, total RevPAR was NOK504 in Norway and NOK672 if we only take account of the Oslo market.

Chart 37. RevPAR (NOK)



Not seasonally adjusted.
Source: Statistics Norway

Although there was a hotel strike in Norway in 2016 (April-May), total revenue for the market amounted to NOK6.5bn in H1 16, versus close to NOK6.4bn in H1 15. Occupancy rates increased marginally to 51.7% during H1 16. In the Oslo hotel market, occupancy rates were 65.5%, down from 66.9% in the same period the previous year. Total guest nights in Norwegian hotels declined 1.9% from H1 15 to H1 16, but increased 2.7% in Oslo over the same period.

Overall a macro-sensitive hotel industry

In general, we characterise the lodging industry as a medium to high risk asset class due to fluctuating revenue-based rent, subject to daily movements in occupancy and room rates that are sensitive to economic conditions. Moreover, hotel ownership compared with franchising increases the operator's operating leverage and capex commitments and exposes a company to the real estate market as well as the default risk of the franchisee.

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Table 13. Key economic indicators – annual change (%)

	2015 NOKbn	2011	2012	2013	2014	2015	2016E	2017E	2018E
Gross domestic product	3,118	1.0	2.7	1.0	1.9	1.6	0.8	1.6	1.7
GDP mainland Norway	2,620	1.9	3.8	2.3	2.2	1.1	0.9	2.1	2.2
Household consumption	1,272	2.3	3.5	2.7	1.9	2.1	1.9	2.0	2.4
Crude oil export	448	-5.6	0.5	-5.5	2.7	3.2	0.6	-1.0	-1.0
CPI		1.2	0.8	2.1	2.0	2.1	3.4	2.0	2.1
Housing prices		8.0	6.7	4.0	2.7	6.1	7.1	5.4	2.6
Unemployment rate		3.3	3.2	3.5	3.5	4.4	4.7	4.5	4.3
10-year Gov. bond		3.73	2.51	2.13	3.	1.48	1.12	n.a	n.a
3M NIBOR		2.9	2.2	1.8	1.7	1.3	1.0	1.0	1.0

Source: Statistics Norway

Limited supply to keep Oslo office rent levels generally high

In most areas in Oslo, the office rent levels have remained stable over the year, with the exception of the western fringe, in which the office rents have declined somewhat. Rents in other big cities such as Bergen, Trondheim and Stavanger also show a positive trend or stable levels. The downturn in the Norwegian oil industry has had a limited impact on the office rent levels this year compared to 2015.

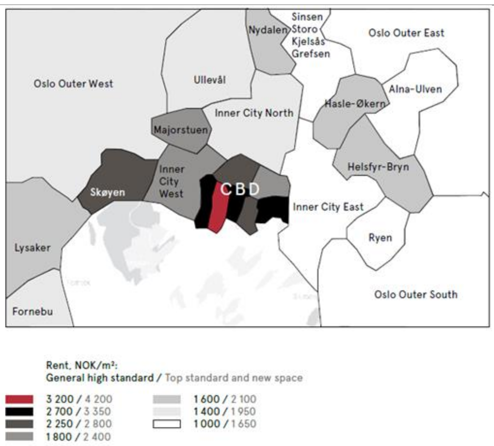
The increased supply of office buildings in the Oslo area should be limited in 2017, both due to our expectation of a conversion of older office buildings and the lack of new development projects. According to Akershus Eiendom projections, the size of completed new development projects for 2017 and 2018 is 45,000 sq metres and 70,000 sq metres, respectively. Along with its estimate of 100,000 sq metres of office area being converted to residential units over the same period, we expect the total supply to shrink and net new office space to be negative in 2017.

Strong demand for new and efficient offices

Demand for new offices is still strong. Government and municipal agencies have more than 120,000 sq metres of leased office area in Oslo that is expiring within the next three years. Hence, we believe market demand for new offices will exceed supply in the medium run, increasing the office rent levels in Oslo area over the coming two years.

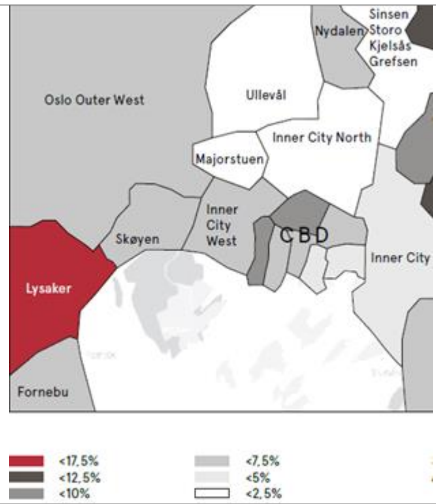
There is a clear efficiency trend among tenants in the commercial property market. The demand for new and efficient offices should consequently remain high and, at the same time, old office area will be released for either refurbishment or conversion to residential units.

Chart 38. Oslo rent levels



Source: Akershus Eiendom

Chart 39. Oslo office vacancy



Source: Akershus Eiendom

Prospects of lower office vacancy

Office vacancy in Oslo currently stands at around 8%, but both expected economic growth and the low level of construction are set to curb the vacancy rate in the coming years. According to estimates from Akershus Eiendom, office vacancy in Oslo will be brought below 6% over 2017 and 2018.

Development activity closely tied to residential buildings

After bottoming out in Q4 15, total construction has increased by c.9%, but when we only restrict these figures to mainly commercial properties, construction has declined by c.5% over the same period. This clearly suggests that the development projects can to a high degree be explained by increased order backlog for new residential buildings, which increased by 25% over the same period.

Undersupply paves the way for more development

According to estimates from Akershus Eiendom, the net supply of new office space is going to be negative in 2016 and 2017, with estimated undersupply of 41,500 and 25,000 sq metres, respectively. Furthermore, they estimate that the net supply will be 30,000 sq metres in 2018.

With lack of good office space and on the back of higher rent levels and generally decent demand, we believe there is a significant potential for higher development and construction activity over the coming to-three years. We expect that the leasing market can continue to be strong and healthy going forward, with continued downward pressure on vacancy.

Average turnkey costs for new office buildings in Oslo amount to NOK20,000 per sq metre and have remained stable over the past couple of years. Although we cannot rule out that increased building activity in future might lead to higher building costs, we assume that these costs are stable in the short to medium run.

Yield compression

In the prime office market in Oslo, there is also significant interest from international players, which contributes to yield compression in the market. Akershus Eiendom estimates that prime yield in Oslo was reduced to 4.0% in Q2 16.

In Stavanger, Bergen and Trondheim, which market players characterise as a secondary category after the Oslo market, sales volumes have been on par with the previous year, with stable or lower yields. The more subdued development in the office rental markets, particularly in the city fringes, also pushes the yield downward.

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