

# Norwegian real estate faces uncertain operating conditions

Prime yields set to be affected by  
higher financing costs.

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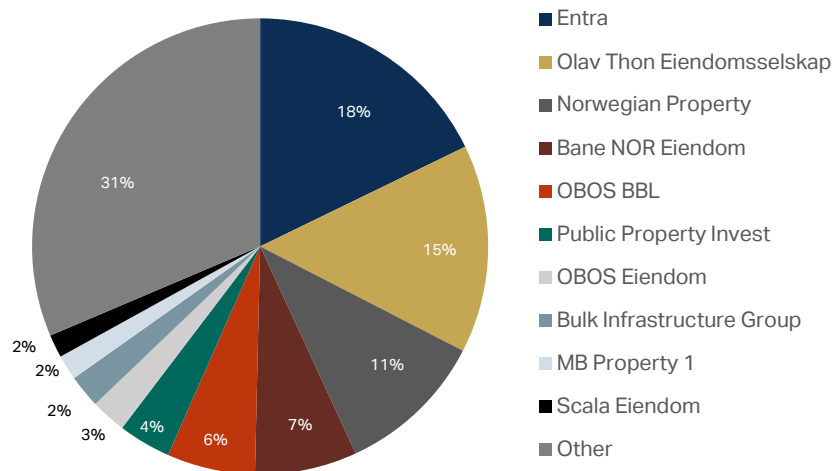
# Overview of Norwegian real estate market

## Market highlights and current ratings in NCR's portfolio

### Market highlights

- Solid operational performance and limited supply of new builds bolster demand for existing properties.
- High share of secured funding from capital markets in Norway compared to other Nordic markets, driven by syndicates<sup>1)</sup>.
- Financing costs nearing their peak, and bank financing spreads tightening.
- Yield gap is narrower in Norway than in other Nordic markets, particularly for prime offices in the capital.

### Largest issuers by outstanding volume, Q1 2025



### NCR rates three Norwegian real-estate issuers<sup>2)</sup>

- Of the three, two are property managers.
- Bane Nor Eiendom AS, Obos Eiendom AS and Obos BBL are some of Norway's largest capital market issuers, with outstanding volumes totalling NOK 17.1bn, approximately 16% of total outstanding volume among Norwegian real-estate issuers, as of Q1 2025.

### Rating scorecard

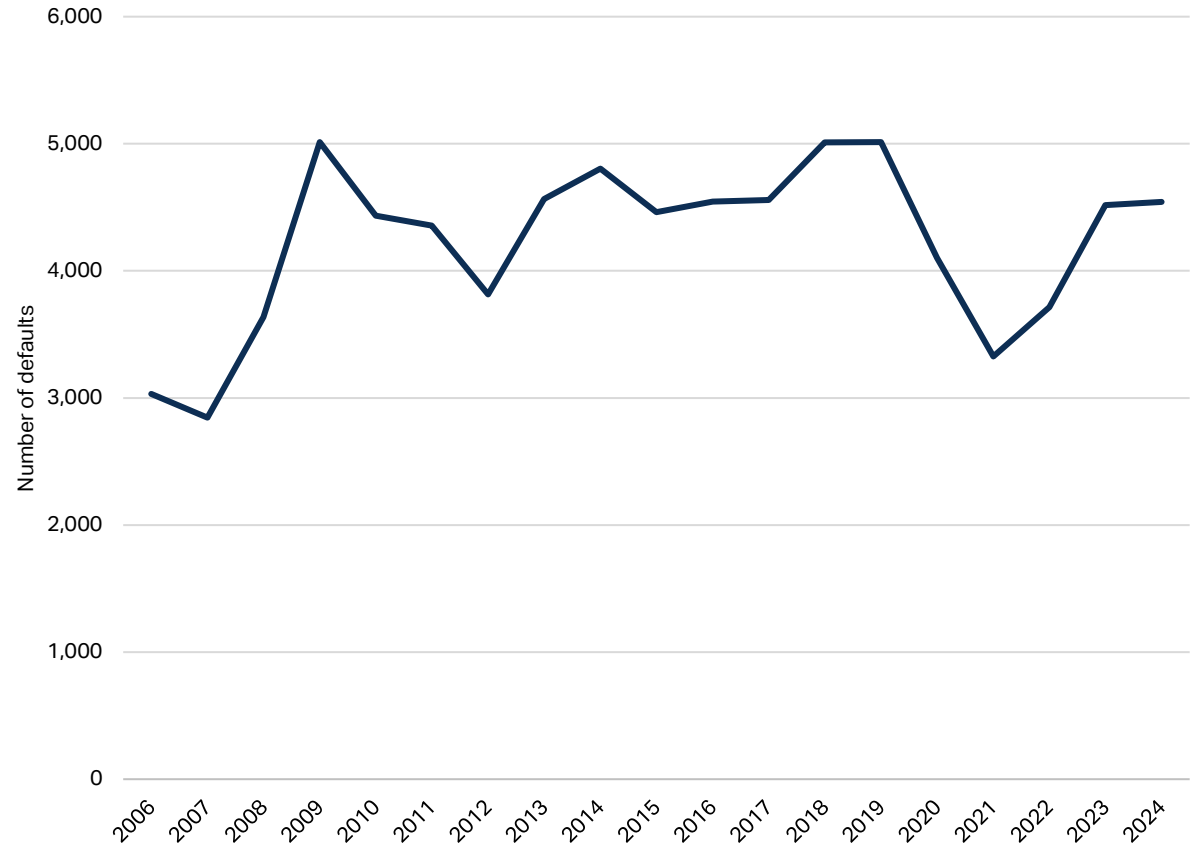
Subfactor	Bane Nor Eiendom	OBOS Eiendom
Operating environment	bbb+	bb+
Market position, size and diversification	a-	bb
Portfolio assessment	a-	bbb-
Operating efficiency	bbb+	bbb
<b>Business risk assessment</b>	<b>bbb+</b>	<b>bb+</b>
Ratio analysis	bbb-	bb
Risk appetite	bbb+	bbb-
<b>Financial risk assessment</b>	<b>bbb</b>	<b>bb+</b>
Support analysis	+2	+1
<b>Issuer rating</b>	<b>A</b>	<b>BBB-</b>

# Operations

## Limited operational headwinds in cyclical segments

### Fewer new builds bolster demand for existing properties, although an economic slowdown could reduce rents

- Number of corporate defaults in Norway has increased since 2021, but despite rising interest rates and softening domestic demand, remain lower than 2013–2019.
- Construction, restaurant and retail sectors facing greatest challenges - collectively accounting for 38% of defaults.
- We expect fewer new builds due to high construction costs, supporting demand for existing properties. The grocery segment is one of the few areas where new construction is economically viable.
- Rental growth has been robust in recent years, driven by lease indexations with limited operational challenges.
- Vacancies in several Norwegian office markets have remained stable and, in some cases, decreased. We believe that an economic slowdown could lead to increased vacancies and slower rental growth in more cyclical subsegments.



# Interest rates

Interest rate cuts of about 110bps by end-2026 are priced in

## We expect steeper interest rate cuts due to geopolitical uncertainty and worries about economic activity

- The Norwegian central bank has increased interest rates by 400bps since end-2021 and maintained restrictive levels from August 2023.
- The five-year NOK swap rate is lower than current market interest rates, offering minimal benefits to financing costs by fixing interest rates.
- Market pricing of interest rates has varied considerably over the last few weeks following higher geopolitical uncertainty and weakening economic prospects. About a month ago, market prices indicated interest rates of 3.8% by end-2026 compared with 3.4% currently. The weakening of the Norwegian krone may affect inflation and where interest rates stabilise.
- We expect average interest costs to rise after the expiration of low-interest swaps. Although bank margins are tightening, the expected all-in financing cost is slightly higher than that currently reflected in company accounts.
- Hedging enhances financial flexibility and resilience against unexpected events, reducing overall financial risk.

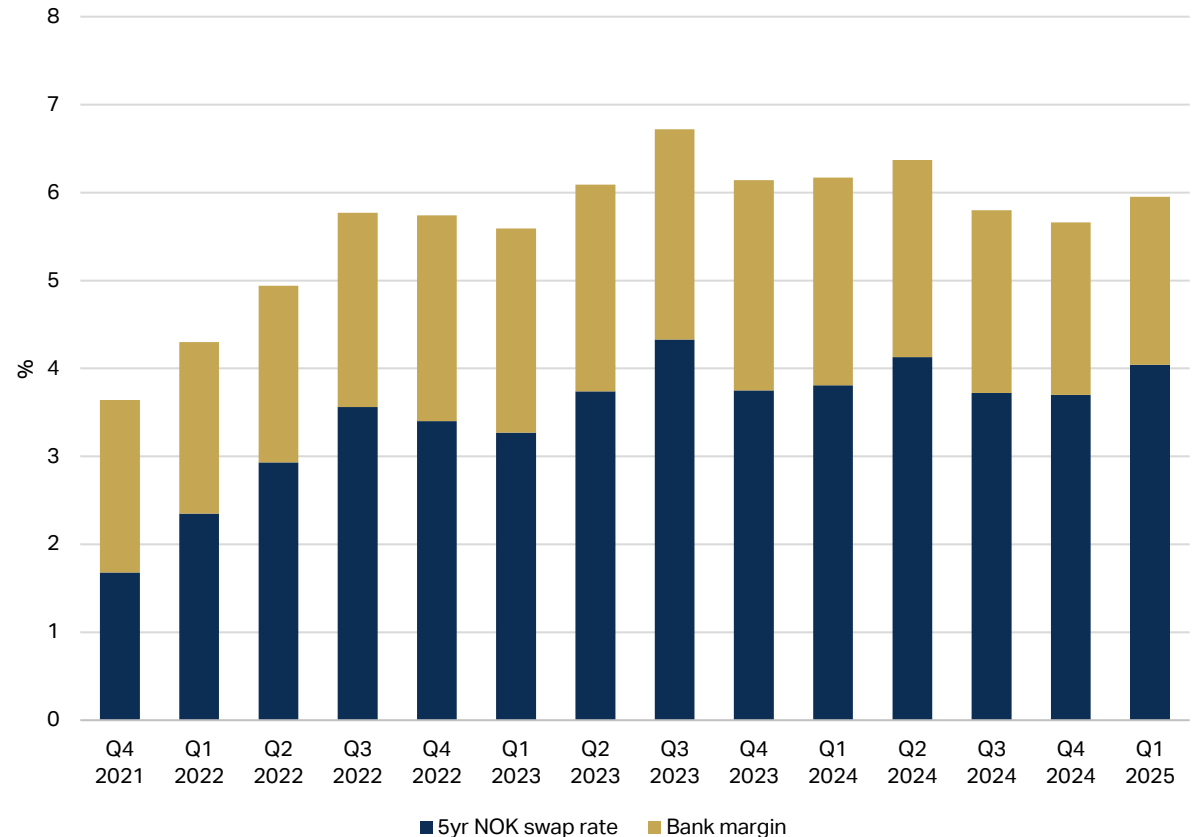


# Interest rates

We expect all-in financing costs to stay at 5–6% unless inflation increases

## Bank margins have tightened, yet the overall financing cost is higher than we initially expected

- Bank financing costs for Norwegian real estate firms have increased to nearly 6% as of Q1 2025 from about 3.5% at end-2021.
- Financing costs peaked in Q3 2024, and the market began to price in interest rate cuts, leading to a decrease in the five-year swap rate.
- Credit spreads on bank loan have tightened compared with pre-2022 levels, yet overall financing costs remain higher
- Five-year NOK swap rate increased in 2025 due to geopolitical tensions and uncertainty, leading to higher financing costs in Q1 compared with Q4 2024. The swap rate has, however, declined since Q1.
- We believe all-in financing costs will stay at 5–6% unless inflation increases or the economy weakens more than we currently expect.
- In our sample of nine Norwegian real estate issuers, the average interest-fixing period is about three years. Interest hedging has offset financing costs, which were at 4.5% in Q4 2024. We expect interest costs to rise when swaps expire.



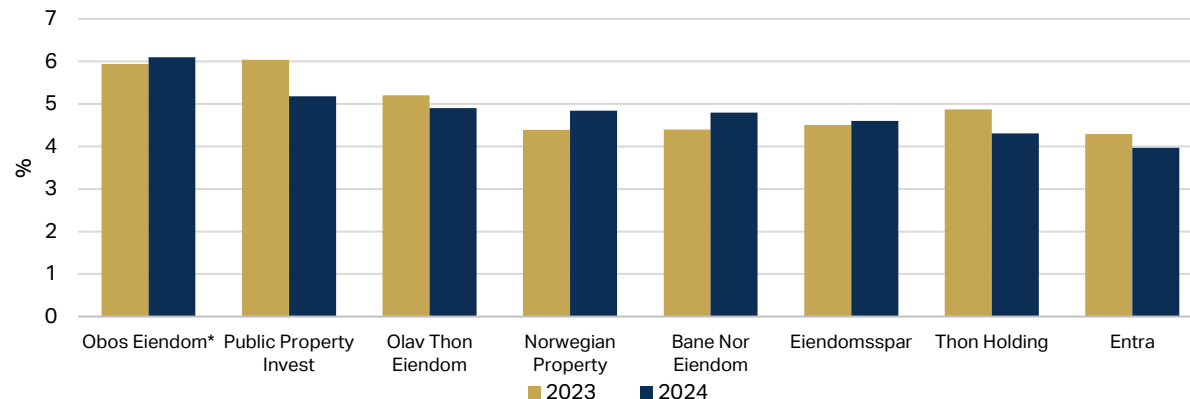
# Interest rates

Interest rate hikes are not fully reflected in companies' average interest rates

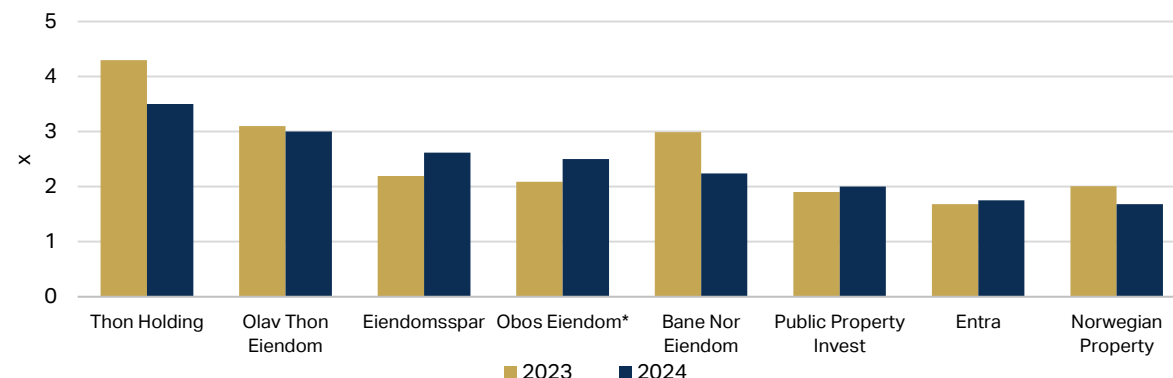
## Interest coverage bottoming out

- The average interest rate for our sample was 4.5% at end-2024 compared to approximately 3% in Q2 2022.
- Obos Eiendom, rated by NCR, experienced an increase in average interest rate to 6.1% in first-half 2024 from 5.1% in first-half 2023.
- Many issuers in our sample have average interest coverage below current all-in financing costs. Their interest-fixing arrangements have provided some relief to interest coverage.
- Entra experienced a slight decrease in average interest rate through 2024 due to divestments and repayment of its highest cost debt. Lower financing costs led to a marginal rebound in the company's interest coverage.
- Unless the companies in our sample experience a material increase in vacancies, their interest coverage will be modestly affected when swaps entered into at lower interest rates expire, as rental growth may offset the impact of higher interest costs on interest coverage.

## Average interest rate, 2023–2024



## Interest coverage ratio, 2023–2024



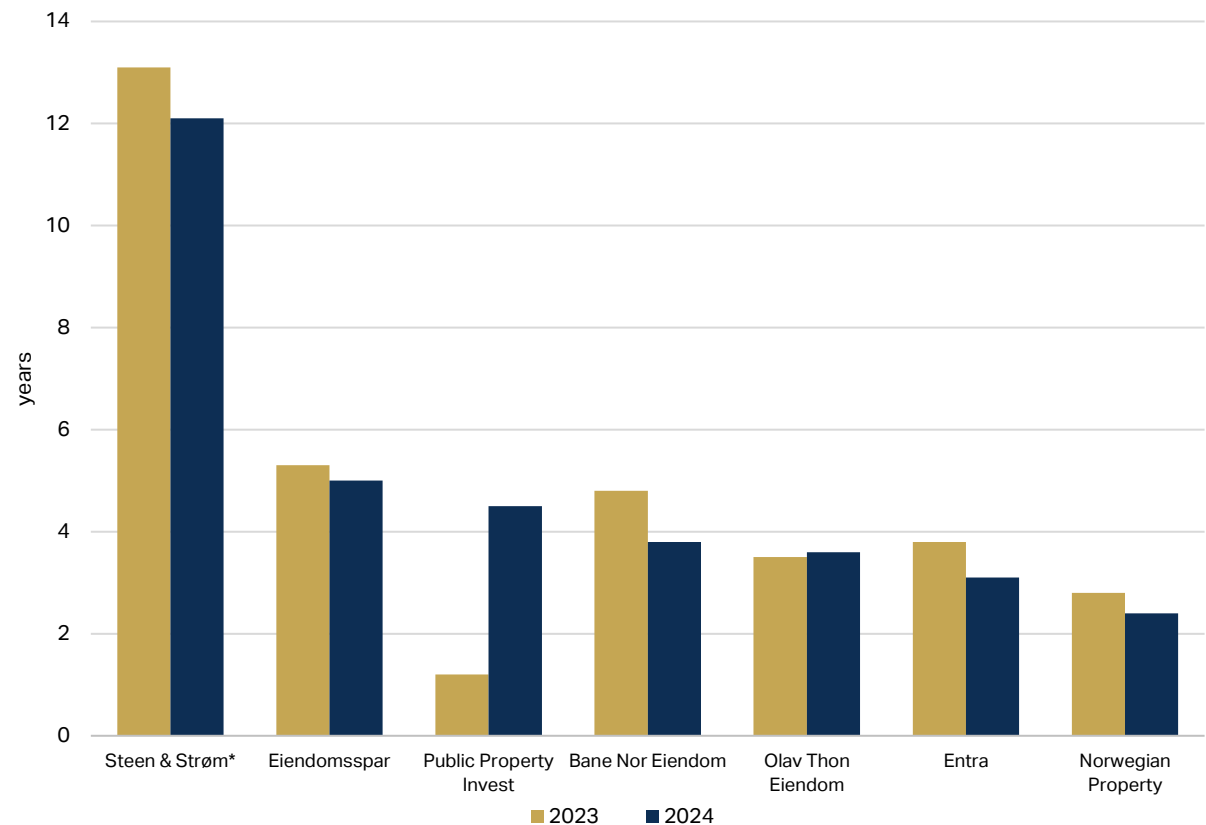
# Capital structure

Rebound in average debt maturity likely as credit margins tighten

## Moderately short debt maturities

- The average debt maturity profile in our sample decreased to 3.7 years at end-2024 from 4.0 years mid-2022. This reflects a higher proportion of shorter-dated debt as widening credit margins made longer-dated debt unattractive.
- Availability of bank financing for tenors longer than three years typically comes with steep pricing in the Nordic real estate sector, resulting in comparatively short debt maturity profiles.
- Steen & Strøm's average remaining debt maturity of approximately 12 years is unusual in the Nordic real estate sector, leading to notable credit margin stability and robust liquidity with limited refinancing needs.
- Public Property Invest significantly lengthened its debt maturity profile following a bond issue of EUR 300m in Q4 2024.
- For the rest of our sample, we anticipate refinancing with longer debt maturities as spreads tighten, making financing with longer tenors more accessible.

## Average debt maturity profile, 2023–2024



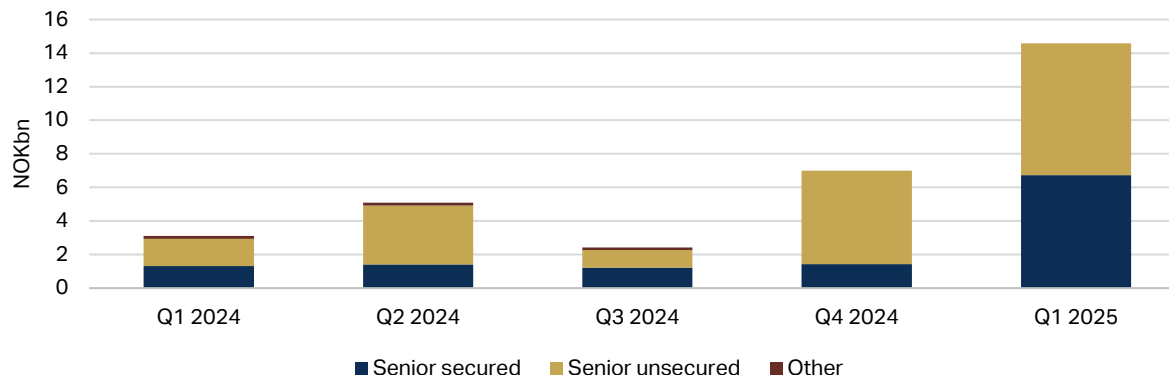
# Capital market financing

## High proportion of secured financing from capital markets in Norway

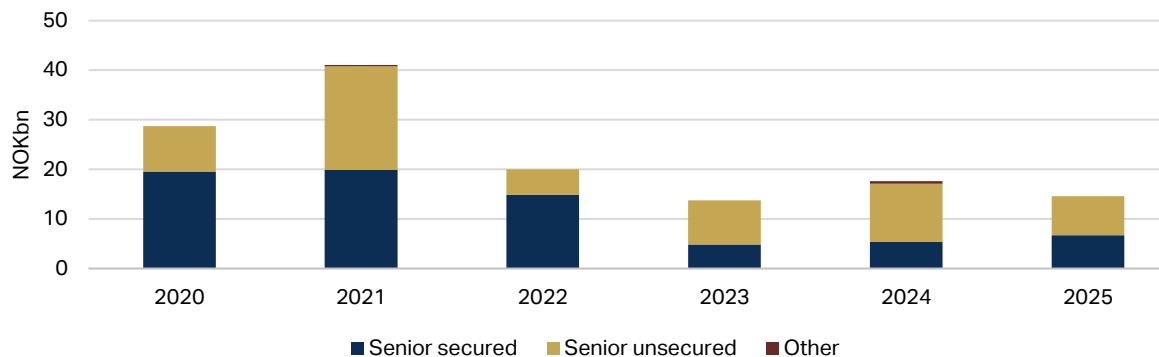
### Shortening of debt maturities

- Issued debt by Norwegian real estate firms has been relatively low in recent years due to higher financing costs compared to pre-2022 levels. Consequently, bond maturities have shortened, with a relative increase in three-year tenors.
- Bond issuance rebounded in Q1 2025. Over 50% of volumes were issued by Entra, Bane Nor Eiendom, and Norwegian Property.
- Senior secured bonds represent a significant portion of issued volumes in Norway, reflecting a relatively high proportion of syndicates and asset financing. This contrasts with Sweden and Finland, where senior unsecured bonds dominate.
- The proportion of senior unsecured bonds issued in Norway has risen in recent years. However, we expect the issuance of senior secured bonds to remain significant.
- We expect that many of the companies choosing to issue senior secured bonds carry higher risk compared to those issuing senior unsecured bonds, as investors require additional transaction security.

### Issued volumes Norwegian real estate 2024–Q1 2025



### Issuance volumes Norwegian real estate, 2020–Q1 2025





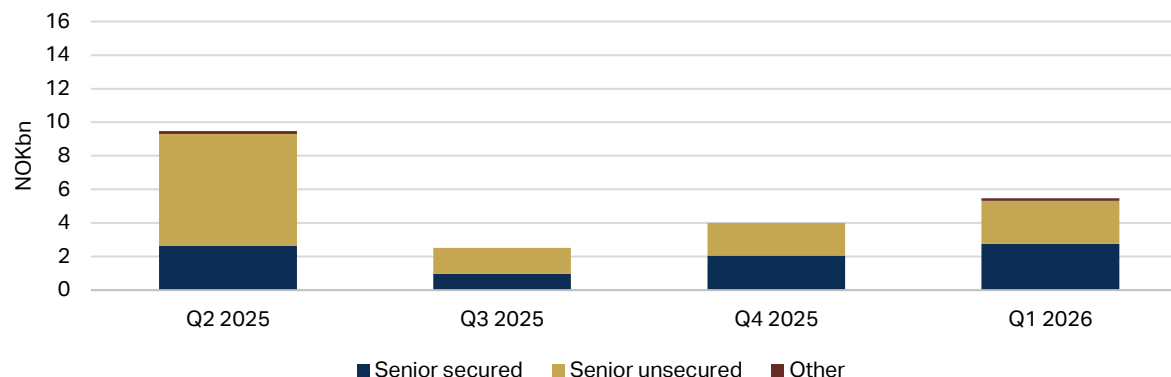
# Capital market financing

Refinancing challenges may lead to syndicates being forced to sell

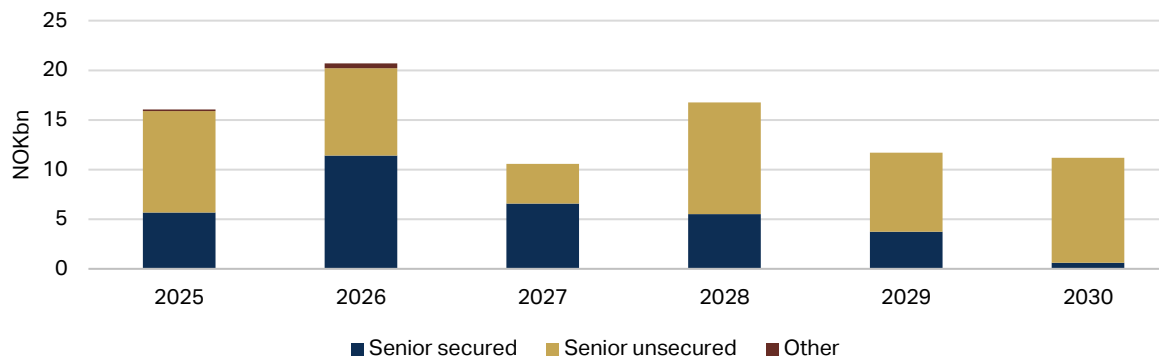
## Front-loaded debt maturities

- Norwegian real estate issuers face about NOK 48bn in maturing debt from capital markets over the next three years.
- Approximately NOK 16bn is due in 2025, with the majority maturing in second quarter.
- Capital market maturities for Norwegian real estate companies are relatively front-loaded, yet more evenly distributed than the Swedish real estate market.
- We believe capital markets will remain accessible for most issuers; however, geopolitical events may worsen financing conditions and reduce risk sentiment.
- A significant portion of senior secured financing matures in 2026. We expect some syndicates will be forced to sell due to refinancing difficulties in capital markets since asset values have declined and willingness to lend is lower. Failure to divest assets may lead to distressed exchanges.
- We anticipate that the majority of senior unsecured debt refinancing will occur in debt capital markets, provided these markets offer attractive spreads.

## Bond maturities Norwegian real estate, Q2 2025–Q1 2026



## Bond maturities Norwegian real estate, Q1 2025–2030



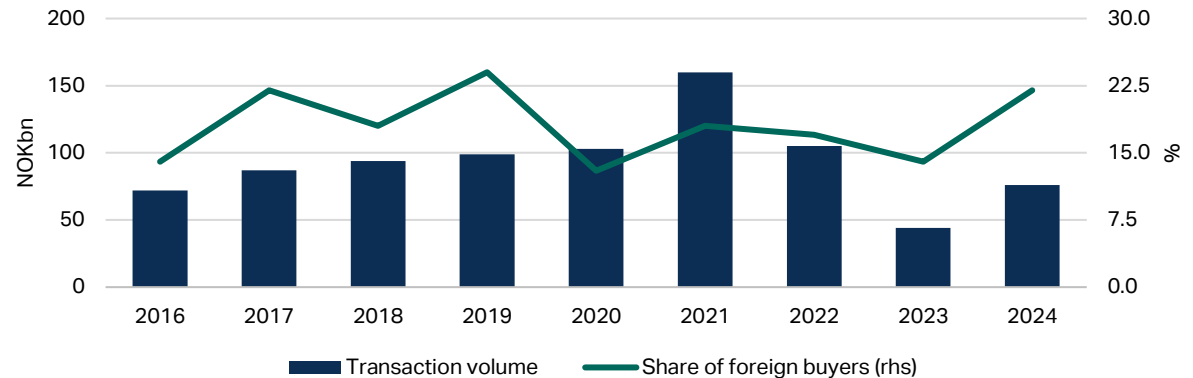
# Transaction market

Oslo prime office yields affected by limited supply of prime assets

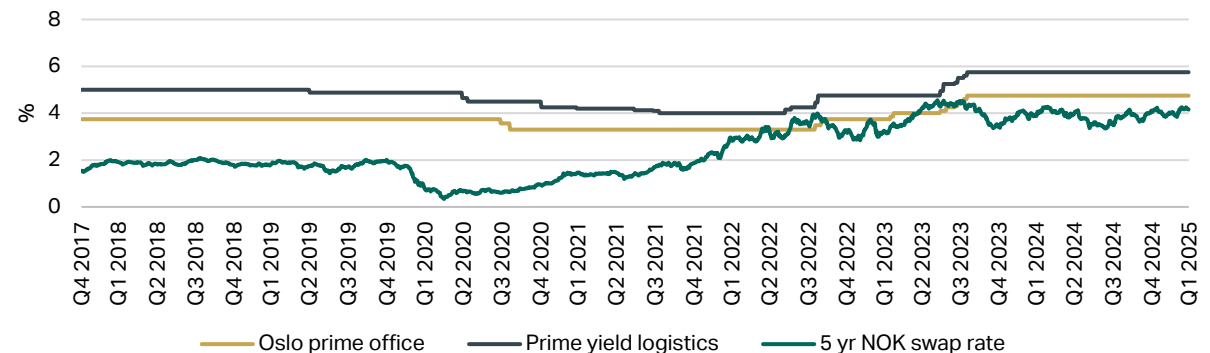
## Low share of foreign buyers

- Since 2016, the average transaction volume in the Norwegian property market has been about NOK 93bn annually, with foreign buyers accounting for about 18%.
- The Norwegian property market is relatively illiquid, with lower turnover and a smaller proportion of foreign buyers compared to other Nordic markets.
- Before 2022, the average yield gap between Oslo prime office yields and the five-year NOK swap rate was approximately 2.1%. Since then, the yield gap has compressed by about 60bps.
- The yield gap for logistics has shown a similar, but relatively lower, development to that of prime offices.
- The yield gap for prime assets does not support debt-financed transactions at current rates and the market has been dominated by all-equity buyers. We anticipate the yield gap will need to widen for transaction activity to increase among other buyers.

## Norwegian transaction market statistics, 2016–2024



## Norwegian prime yields offices and logistics, 2018–Q1 2025



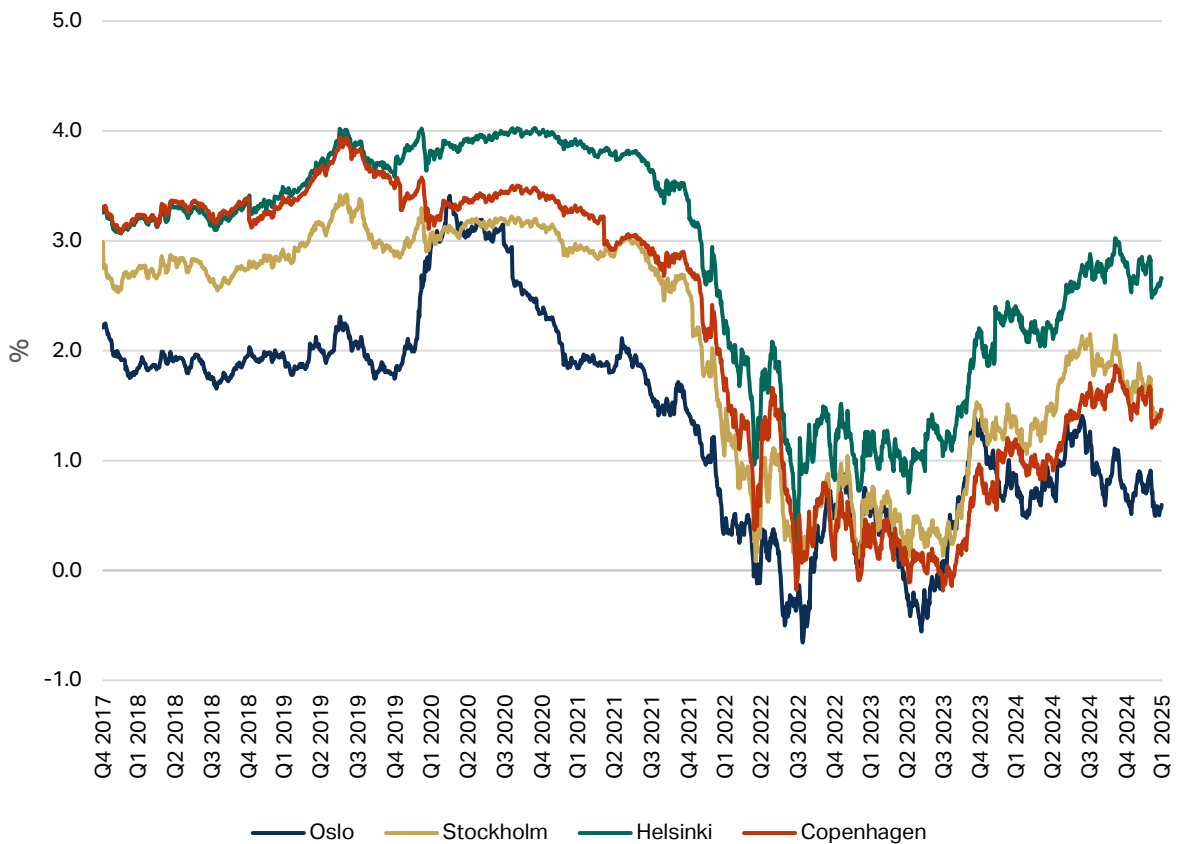
# Transaction market

Oslo has significantly lower yield gap compared with other Nordic capitals

## Yield gap has tightened substantially

- The yield gap has compressed significantly for all Nordic markets since 2018, with some seeing negative yield gaps during brief periods.
- Oslo has the smallest yield gap among Nordic capitals. The yield gap between prime offices in Oslo and Stockholm is currently approximately 90bps, compared to an average of 70bps since 2018. We believe the narrower yield gap reflects a limited supply of, and high demand for, prime assets, influenced by the smaller market size.
- Yield gaps at current levels do not support debt-funded transactions, which has resulted in an increased number of all-equity buyers in Oslo offices.
- Other segments and regions in Norway have also experienced a narrowing yield gap, yet it remains sufficient to support transactions funded by debt.
- We expect the yield gap in prime markets will not remain below 1% over time, with potential yield expansion through 2025. Other subsectors may experience flat yield gap development due to larger distance to financing cost.

## Nordic capitals' prime office yield gap, 2018–Q1 2025



# Rating overview

## Scorecards on NCR-rated Norwegian real estate companies

Subfactor	Impact	Bane Nor Eiendom	OBOS Eiendom <sup>1)</sup>
Operating environment	20%	bbb+	bb+
Market position, size and diversification	12.5%	a-	bb
Portfolio assessment	12.5%	a-	bbb-
Operating efficiency	5%	bbb+	bbb
<b>Business risk assessment</b>	<b>50%</b>	<b>bbb+</b>	<b>bb+</b>
Ratio analysis		bbb-	bb
Risk appetite		bbb+	bbb-
<b>Financial risk assessment</b>	<b>50%</b>	<b>bbb</b>	<b>bb+</b>
<b>Indicative credit assessment</b>		<b>bbb+</b>	<b>bb+</b>
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer Comparison		Neutral	Neutral
<b>Standalone credit assessment</b>		<b>bbb+</b>	<b>bb+</b>
Support analysis		+2	+1
<b>Issuer rating</b>		<b>A</b>	<b>BBB-</b>
Outlook		Stable	Stable
<b>Short-term rating</b>		<b>N2</b>	<b>N3</b>
<b>Senior unsecured issue rating</b>		<b>A</b>	<b>BBB-<sup>2)</sup></b>

# Thank you

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