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Norwegian Real Estate
A Land of the Midnight Sun

International Real Estate Institute

Dr. M.A. Hines

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Introduction

In the land of the midnight sun, the prospective investors and analysts of Norwegian real estate opportunities have plenty of daily hours in the summer to observe possible investment properties, but little daylight every 24 hours in the winter months to pursue such real property observation. During summer months -even between midnight and two o'clock in the morning - daylight is still present to a small degree. In the northern part of Norway within the Arctic Circle, these sunlit conditions are particularly accentuated.

The length of Norway from its northern boundary within the Arctic Circle to its southern tip near the town of Mandal on the coast of the North Sea is a wonder to any prospective investor. The length of this major country may be better described in the following way: If Norway were stretched out to the south with its top in Oslo, the country would stretch as far south in continental Europe as Rome in Italy.

The Beauty of Norway

The prospective investor cannot fail to see the beauty in this far north country that is part of what we call Scandinavia, an important part of Europe. The sources of this spectacular scenic beauty may be traced to the exceptional views of mountain tops, waterfalls, wide mountain valleys through which streams flow, ocean fronts, fjords with their steeply rising mountain walls extending upward from the deep water courses, and the charming multi-colored buildings whose roofs are generally clad with red or black tiles. The scenic beauty also originates from the prosperous, hearty, and hospitable people who build and maintain the properties that serve business, industry, and households. The relatively high per capita incomes and prosperous companies that are associated with the well-maintained properties attribute most of their economic success to the Norwegian oil and gas business and the good private and public management of the revenues derived from these natural resources.

The Use of Color in Structural Covering

The Norwegians use color to differentiate their houses and some of their commercial buildings. But not all colors are used for exterior facades. The colors for the painted wood frame coverings tend to center on reddish brown, light grey, white, light and darker yellow, and light and darker orange. A few buildings are painted medium blue or black. The window and door trims are painted contrasting blue, orange, and yellow shades; sometimes white is used for house trim.

Norwegian Ancestors of Many Real Property Investors

Norwegian Vikings traveled great distances in small oar-propelled seafaring boats in earlier centuries to trade and pillage many ports of call that enhanced the personal incomes of the Vikings and, at the same time, the economy of Norway. Vikings repeatedly returned to Norway to their home bases before contemplating additional voyages to new trade destinations. Some Vikings remained permanently in European port cities. Some Europeans were attracted to Norway. Some Norwegian sailors, for example, took home as brides women from the Netherlands. Since transportation through the inner portions of Norway was difficult before the construction of the cross-country railroads, Norwegians were long accustomed to ocean and fjord travel. Longer distance travel via the reconstructed Viking ships was feasible.

The economic and medical crises of Norway have also resulted in emigration. Some economically depressed periods caused Norwegians to flee to better employment opportunities in continental Europe and the United States, the new world of great opportunities. The Black Plague obliterated a large part of the Norwegian population in the early centuries of the Industrial Age. The presence of many cases of leprosy also caused flight to areas of less medical trauma. Various periods of economic and medical crises have created conditions for emigration. Therefore, the overseas travel patterns, the economic downturns, and medical crises have created conditions for Norwegian emigration.

The economic prosperity of Norway has attracted immigrants from Western and Eastern Europe and other parts of the world. At present, a critical work force shortage has prompted government and private actions to persuade desired workers of other nationalities to immigrate to Norway to fill the job vacancies created by the thriving and expanding economy. Recently Swedes and Pakistanis, in particular, have been attracted to fill some of the construction jobs that exist in the essentially full employment economy. It is said by knowledgeable Norwegian business people that Swedes may be attracted to Norway at times because the business cycle of Sweden may be reverse the business cycle of Norway. The Norwegians and the Swedes understand each other's languages more readily than, say, the Norwegians and the Danes.

Many potential Norwegian property investors have Norwegian family ties for the above reasons. It is said that "there are more Norwegians living in the United States than in Norway." Many Norwegians emigrated to the United States during the days of Norwegian economic downturns. Their family developments in the United States have resulted in a great numbers of U.S. citizens of Norwegian ancestry living in the upper Midwest region primarily - in Minnesota, Wisconsin, and Iowa primarily. The total population of the country of Norway today approximates 4.4 million. Therefore, many U.S. investors that analyze Norwegian real property investment potential have Norwegian ancestors.

Why Norwegian Real Estate Is Important to Investors

Current and prospective investors in Norwegian real estate who seek property portfolio additions of moderate value may find lower risk associated with the expected real estate investment yields. The overall economy usually moves on a low-oscillation cyclical basis where relatively high business and personal incomes are enjoyed. Even though the economy is significantly impacted by the rise and fall of oil and gas prices, there is some business and industrial diversification. The economic diversification including small business and entrepreneurial enterprises is being encouraged actively by economic development agencies, such as the Norwegian Industrial and Regional Development Fund. The well-organized real estate business represents good infrastructure for the prospective investor. Real estate investment is honored highly by Norwegian people. For example, a high portion of Norwegians own their own homes. Home ownership is expected and an honored tradition.

Since Norwegian citizens have again voted against adoption of the euro currency in the late 1990s, investment in an European country that uses the Norwegian kroner rather than the euro provides currency diversification. The Central Bank of Norway operates independently of the European Union's Central Bank even though it is greatly influenced by the financial condition of the country's major trading partners.

Norway represents a country of moderate size and moderately valued real properties. The prospective investor who wishes to place a particularly large sum such as U.S.$200 million or more - or the equivalent in terms of another currency -for a short or longer period may find difficulty placing such a sum. The economy of 4.4 million individuals exhibits office buildings of new or older, more traditional architecture where structures normally do not exceed eight floors. Market values tend to move upward slowly thus discouraging foreign investment of large sums for a short-term gain.

The foreign investor may find healthy competition from Norwegian and other Scandinavian investors when a large prime commercial property is scrutinized. Local and Scandinavian institutional investors constantly keep an eye on investment opportunities in Oslo, the national capital and primary business and industrial center. The second, third, and fourth largest cities Bergen, Trondheim, and Stavanger - usually do not attract the attention of major investors who seek prime office, retail, and other properties. One reason these markets are less attractive to major investors is the absence of good ground transportation links for each of these secondary cities to other parts of Norway during the winter. These coastal cities rely on air and ship transportation during a large part of each year where Oslo has better connections with the interior portions of Norway and with the other Scandinavian countries, the United Kingdom, and continental Europe.

Which Investors Value Norwegian Real Estate Potential?

We need to consider this question from at least three viewpoints: (1) Origins of major trading partners, (2) Domicile of the investor, and (3) source of investment funds. The major trading partners of Norway are the most involved in Norwegian business and probably are the most knowledgeable about real estate investment in the country. The major trading partner is also conscious of the presence or absence of currency risks in Norwegian business dealings. The domicile of the

trading partner determines the investor's home currency. That national currency may be the euro, the U.S. dollar, the Danish krone, or the Swedish krone since Norway's chief trading partners are Sweden, Germany, the United States, and the other countries of Scandinavia, in this order of financial importance to Norwegian trade volume. The trading partner may have net receipts from Norwegian business each year that could be used for additional Norwegian real estate investment without incurring additional currency risk.

By investor domicile, potential investors from the other Scandinavian countries have natural affinities for investment in Norwegian real estate. Since the trade of Scandinavia in general is closely intertwined among the countries of Sweden, Denmark, Finland, and Norway, the prospective investor can check the closeness of currency movements between the home currency and the Norwegian krone. The currencies may track closely; the currencies may be highly correlated due to the closely associated economies. Highly correlated currencies may enhance investment outcomes if all the economies are prosperous as they have been since 1993.

Germany and the United States are also domiciles of major trading partners. In 2001 Germany started to use both the coins and the paper currency associated with the euro as a member of the 14-country European Union. Norway may or may not adopt the euro as its currency in the future; it may or may not become a member of the European Union. It has considered adoption of the euro in two referendums, but it has never considered adoption of the United States dollar as its currency.

German and U.S. investors often hold international portfolios of assets that are denominated in numerous currencies. Both the euro and the U.S. dollar are strong currencies in comparison with the weak currencies of Latin America and Asia. The weaker Norwegian krone bodes well historically for trade with businesses from stronger currency countries such as Germany, the United Kingdom, a neighboring country, and the United States. Investment in Norwegian assets, such as real estate, provides more diversification for the Germany and U.S. investment portfolios. Currency diversification associated with countries whose economies may not be closely related may represent a favorable feature to the investment manager.

The investor domicile may determine the cultural and language affinities associated with Norwegian real estate investment. The cultures of Sweden and Denmark are similar to that of Norway due to geographical proximity, climate, topography, and national development. The royal families of Norway have always been interrelated with the royal families of Sweden and Denmark over the long histories of the three Scandinavian countries. Finland's culture, social preferences, and language usage has been impacted more by its proximity to and occupation during World War II by the previous Union of Soviet Social Republics. The Finnish people tended to adopt the social patterns and preferences and language of Russia, its next door neighbor and long-term occupying power. For example, Swedes and Norwegians can generally understand each others languages; some Danes may also understand and speak the Norwegian language but, as a whole, Danes do not. (Note: Two forms of the Norwegian language are spoken in Norway. One is a modem form; the other is more traditional from earlier centuries.) The Finnish investors do not tend to understand and speak the Norwegian language easily. Language and culture are investment impediments, to an extent, even within Scandinavia.

By source of investment funds, we may note from earlier periods of world financial history that major real estate investment is highly associated with larger local and international investment sources. The owners of major commercial properties of Norway have historically been pension funds, life insurance companies, and large local groups such as housing cooperative associations. Life insurance companies have long managed the real estate investments of the government pension funds. Internationally we find many pension funds, life insurance companies, and venture capital funds that hold international real estate portfolios. While the pension funds and life insurance companies may have long-term holding period objectives, the venture capital funds in recent years have displayed short-term investment objectives. Since commercial property values of Norway tend to move upward slowly over time, the investment market tends to attract longer term investment by pension funds and life insurance companies. Short-term capital gains have recently been attracting the large international venture capital funds to dynamic marketplaces such as Italy.

The Investment Environment

Let us review briefly the general economy of Norway and its trends, the on-going privatization program, real estate finance, tax regulations, construction conditions and their trends, and infrastructure trends.

The General Economy and Trends

Since the good fortunes of Norway are linked strategically to the single revenue source - oil and gas - the government and private interests began some years ago to contemplate the country's position when those natural resources are exhausted and to contemplate needed changes to perpetuate the country's good fortunes. Even though the oil and gas reserves are expected to last long into the foreseeable future, one of the questions that has arisen is: Should Norway join the European Union (often abbreviated the "EU") with the associated adoption of the currency of the EU, the euro? Within the last decade or two, the Norwegian electorate has turned down twice, with a substantial interval between the votes, the proposition of EU membership and adoption of the euro. The electorate has chosen, at this time, not to make this change for the long run future of the country. Since Norway is a member of the European Economic Area (often abbreviated "EEA"), they are subject to some of the EU regulations through this association. At the present time, the proposed acquisition of Storebrand, Norway's largest insurance group, by Sampo, a banking-insurance group from Finland, is opposed by Norway's Banking, Insurance, and Securities Commission, but is subject to review, also, by the EU Commission and must conform with EEA law on the free movement of capital.

Mining - particularly the mining of iron ore - farming, fishing, and manufacturing supplement the rendering of services in the financial, government, retail, wholesale, and tourism areas. Even though the service sector has been expanding, the development of computer and telecommunications software and the construction of computers and telecommunications equipment has represented only a small portion of the gross domestic product. The dramatic economic downtrend of the high technology sector worldwide has, therefore, had less of an impact on the Norwegian economy than it has had in the United States, Japan, and the Republic of Ireland.

The trends in some of the key economic indicators tell us some things about the status of the Norwegian economy. According to Cushman-Wakefield/Healey & Baker in March 2001, The real estate GDP growth rate dropped from 4.0 percent and 3.3 percent in 1997 and 1998, respectively, to 1.8 percent and 1.5 percent in 2000 and forecasted for 2001, respectively. The Norwegian economy has slowed down since the latter part of the 1990s, and more reduction in economic growth was expected for 2001. Inflation, as shown by the Consumer Price Index, rose measurably between 1999 (2.3 percent) and the start of the millennium to 3.1 percent; but inflation was expected to fall to 2.6 percent in 2001. Norwegian short-term interest rates were very volatile in the late 1990s and early 2000s. The short-term rates doubled from 3.9 percent in 1997 to 8.0 in 1998, then dropped to 5.9 in 1999. In 2000 short-term rates increased to 7.4 percent and then were expected to decline to 7.0 percent in 2001. The unemployment rate remained relatively low - a little over 3 percent - during the period 1997 to 2001.

The On-Going Privatization Program

The Nordic governments as a group have entered into privatization programs. Norway's program is slowly moving forward; the government seeks not to alienate the electorate with its sale of state-owned assets. According to a 1999 Financial Times article, Norway's government had the equivalent of U.S.$19 billion tied up in government-owned assets. Its annual revenues from those assets was the equivalent of U.S.$32 billion. The Nordic governments have started their privatization program with partial sales of state-owned companies. Norway started with partial privatization of Telenor, their major telecommunications company that has international business.

Real Estate Finance

The current and recent banking-related mergers may have an impact on the financing of Norwegian property in the future. The government encourages the merger of Storebrand, the largest insurance company of Norway, with Den norske Bank, Norway's largest bank rather than the take-over of Storebrand by Sampo Corporation of Finland. At present the government holds only relatively small equity positions in Storebrand and Den norske Bank through the progress of the privatization process, but it exerts pressure on the competing merger offers due to its ownership positions and its preference for Norwegian ownership of Storebrand. Recently the government permitted the acquisition of Norway's Christiana Bank by Nordea Bank which is a pan-Nordic bank with principally Finnish and Swedish owners. Fokus Bank of Norway also has recently been acquired by a foreign, but Nordic bank, Denmarks Den Danske Bank. These mergers may have an effect on residential, commercial, and industrial property financing in Norway.

Various commercial properties have undergone syndication with the use of services of Norwegian firms. At the forefront of real estate syndication service have been Pareto, Fearnely Finans, and Acta companies.

Home mortgages with maturities of at least twenty years and fixed interest rates may be negotiated with commercial and savings banks. The home mortgage rates in mid-2001 ranged from 7.3 to 8.3 percent. The down-payment of the home mortgage loan may be 10 or 20 percent. Many home loans do not exceed the equivalent of U.S.$120,000. Since prospective mortgage borrowers see relatively high loan underwriting charges, they surmise a relatively uncompetitive mortgage lending community for the country's relatively small population.

Large commercial property mortgages may be acquired from the life insurance companies, lending representatives of pension funds, commercial and savings banks. Developers may seek joint ventures with individual lenders and financial institutions. The enabling legislation is present for the enforcement of negotiated terms of joint ventures.

Tax Regulations Affecting Real Estate Investment Directly or Indirectly

Let us review the value-added tax rate and its applicability and the corporate income, capital gains, and dividend tax rates. We may also review the accounting method and maximum rates per asset group permitted for depreciation allowances and the general terms of the tax treaties that may reduce withholding taxes. Property taxes and transfer taxes or stamp duties also affect real estate investment in Norway.

General Terms of Various Tax Treaties. Tax treaties with many countries permit no withholding taxes on interest and royalty payments, but some treaties permit withholding taxes on dividends that range from 5 to 25 percent.

Value-Added Taxes. The value-added tax rate is 23 percent, but it is not levied on sales and rentals of property or on the construction of commercial property. The investment tax is charged on building construction instead.

Rates on Corporate Income and Capital Gains and Shareholder Dividends. According to PricewaterhouseCoopers in January, 2001, the corporate tax rate on corporate income and capital gains is 28 percent. Dividends that are distributed to resident shareholders incur the normal corporate tax rate of 28 percent. Dividends paid to nonresident shareholders are subject to a 25 percent withholding tax unless a special tax treaty has been signed with the investor's national government. The annual tax return is due at the end of February for the accounting year ending in the preceding calendar year. Tax is paid in four installments. Fifty percent of the tax due is normally paid in the first two installments which are due February 15 and April 15, respectively. Income derived from oil and gas production is also subject to a special petroleum tax of 50 percent. Shipping companies who qualify may elect a deferred tax regime instead of a regular tax regime. If the shipping company elects a deferred tax system, its dividend distributions may be taxed at a rate approximating 39 percent.

Depreciation Allowances. The acquisition costs of land, improved sites, and buildings used for dwelling or housing purposes are not depreciable for tax purposes. Other buildings that are depreciable may be depreciated by the declining balance method. The maximum depreciation rates are: (1) 2 or 4 percent for office buildings, (2) 5 or 10 percent for industrial buildings, hotels, rooming houses, restaurants and similar buildings, and electronic equipment in power stations, (3) 30 percent for office equipment and similar items, and (4) 20 percent for vehicles, movable and other machines, equipment, furniture, and fixtures. When a range of maximum depreciation rates is given, the higher rate is usually reserved for business properties located in rural areas and where the assets have short lifetimes. According to Jones Lang LaSalle, in its Spring 2001 Nordic City Report, an important international real estate consulting firm headquartered in the United States with an important Nordic office in Stockholm, the latest tax law has eliminated depreciation provisions for office buildings and reduced the depreciation rate for industrial and warehouse buildings from 4 percent to 2 percent.

Property Taxation. A municipal tax may be levied on the owner of property. If the tax is levied, the rate varies between 0.2 percent and 0.7 percent, and the tax is levied on the gross taxable value of the property. Generally, this tax may only be levied on property in urban areas including industrial estates.

Transfer Taxes. When a property is sold or otherwise transferred, the property owner must pay a stamp duty or transfer tax of 2.5 percent of the property's value. This stamp duty does not apply to sale of shares in property companies and partnerships.

Investment Taxes. When commercial property is developed and built, its owner is subject to an investment tax of 7 percent rather than value-added taxes. The Norwegian government added a further 10 percent investment tax construction projects to increase tax revenue, but backed down and did not enforce the proposal after the property sector with the construction companies threatened to postpone many projects that would have created thousands of job losses.

Capital or Net Wealth Taxes. Non-resident owners of Norwegian property are liable for the payment of capital tax or net wealth tax. The maximum rate for the capital tax is 1.1 percent. Debts related to property acquisition and property maintenance are deductible when calculating the tax due. Non-resident jointstock companies and similar corporations are not subject to the capital taxation, according to PricewaterhouseCoopers in January, 2001.

Construction Conditions and Trends

Let us consider the general level of construction cost, construction needs, and indiginous and imported building materials. The mountainous nature of a large portion of Norway suggests that this is an important topic.

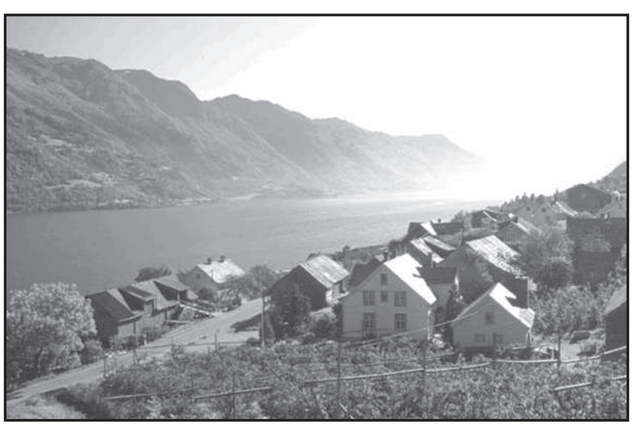
Construction Costs. Construction costs reflect the relatively high European construction worker compensation, the scarcity of adequate numbers of construction engineers and construction workers, and the importation of granite and marble construction materials for large commercial and government buildings. Recently, as inflation has been reported at three percent, construction costs have reportedly have risen ten percent during the last 12 months. The Bureau of Statistics follows, in their data series, the trend of various categories of construction costs. For example, the construction cost index for residential buildings for the period June 2000 - June 2001 rose 5.1 percent. The material cost index associated with detached houses of wood and multi-dwelling houses increased by 4.6 percent in the same period.

In the housing sector, we note higher cost construction associated with houses cantilevered from hillsides and mountainsides where housing space is scarce in the coastal urban areas. The rooms of the cantilevered space must be supported by steel beams. The foundations of houses and other buildings found on hill and mountain sides and on hill and mountain tops must penetrate the underlying granite; such foundations usually prove costly.

Construction Needs. Shelter from the cold is important in a climate that is cold a large part of the year. The country lies far north of the Equator; part of Norway lies within the Arctic Circle. The cool weather of the late spring and early fall is complemented by cold weather of the long winter and the moderately warm weather of the short summer - the months of June and July primarily.

The cool summer periods are associated with the vast mountainous areas of the country. Like Japan, Norway has a limited amount of land for agricultural purposes, The mountains, foothills, fiords, lakes, and rivers crowd out the portion that remains for large farm cultivation. Small farms dot the mountain sides because wide, long river valleys of fertile land are in small supply.

Therefore, land development and construction are associated with relatively dense city buildings for commercial, residential, and institutional use and widely scattered small farm buildings and houses in mountainous and hilly areas. But the urban buildings do not tend to exceed 10 stories even in the capital city of Oslo. The earlier national capital, Bergen, exhibits urban buildings that rarely exceed even 8 stories.



Construction Materials. The developers of larger commercial buildings tend to use the native granite for their building facades. Some brick produced closeby is used for commercial building facades as is metal. The facades of smaller commercial buildings reflect the use of locally cast concrete, locally produced brick, and metal that may be provided by Norwegian steel companies. These Norwegian-produced building materials reduce the costs of importation of expensive building materials from other countries such as the other Scandinavian countries that represent relatively high-cost goods in general.

The vast amount of Norwegian timber provides the mainstay for housing production: the facades are usually wood and the building studs and roof beams and supports are usually wood. The steel mills of northern Norway may provide the steel for beams and studs for internal walls and flooring of single- and multi-story commercial and industrial buildings. These same steel mills may provide the basic materials for the production of off-shore oil platforms that are moved when finished into place in the North Sea where they are needed. One of these oil rig production plants is located southwest of Oslo in the town that is considered the oldest of Norway.

Infrastructure Trends

In many respects the infrastructure of Norway is ample for real estate development and operation. Let us briefly observe basic relationships associated with Norwegian water, natural gas, oil, electricity, phone, and cable television provision. The management of the company resources is so well developed that Norwegian companies continue to operate overseas.

Ample supplies of water come from mountain streams, waterfalls, fjords, and the North Sea on the western and southern coasts. Municipal water districts include water treatment plants. Large supplies of natural gas and oil come from North Sea pools through the operation of off-shore drilling and pumping rigs. Electricity is primarily generated by hydroelectric plants, but natural gas and oil are plentiful for electricity generation by natural gas- or oil-powered thermoelectric plants. Power generation through existing hydroelectric plants is far less expensive normally than energy creation through oil- and gas-fired plants. Hydroelectric production is ample for the widespread population, the few large-size urban centers, and the limited large-scale industrial plants. Nuclear energy production is unnecessary at this stage of the country's development. The distribution of power is complicated by the wide dispersion of the 4.4 million population. Many second homes are located in remote internal, mountainous areas; distribution of power is more costly to isolated single-building locations.

The same cost consideration is true for water, telephone, and cable television distribution. Cellular phones and satellite television service are popular as supplementary services to the wired and optical cable phone and television service.

The Marketing of Norwegian Real Estate

Real estate agents usually market property placed on the market for sale. They may solicit bids which are binding upon the bidder. After one or more bid rounds, a bid is accepted. The first bid round may be open; the second bid round may be closed where the details of the bids are not available to the other bidders. When the bid is accepted, a binding contract will exist. But a purchase contract with more details will be entered into shortly thereafter. The Sale of Property Act of 1992 (Avhendingsloven) regulates the sale of property.

Payment of Agent Commissions

On the sale of property, the seller will usually pay the commission to his real estate agent. The agent's commission varies according to the agent, the type and value of the property, and the strength of the market. Fees normally range from 1 to 2 1/2 percent of the sale price and 8 to 15 percent of the first years lease amount. If a prospective buyer hires a real estate agent to find him or her an appropriate property, the buyer will also pay the agent a commission or share the commission owed to the sellers agent. The commissions are negotiable and will be payable if a binding contract is signed, but are not dependent on the completion of the sale or purchase. The agent may receive a commission even though he or she may not have introduced the buyer to the seller. Exclusive agency is common.

Statutory and Licensing Requirements for Real Estate Agents

Norwegian real estate agents and real estate brokerage firms are subject to statutory requirements including licensing requirements. The Estate Agents Act of 1984 is the principal statutory act that addresses itself to the regulation of estate agents. The Norway Association of Real Estate Agents is the principal trade association that provides lobbying, professional services needed by the agents, and education concerning legislative and other current changes impacting the estate agent business. This important trade association can be contacted via Executive Director, Inkognitogt, 12, Oslo 0258, Norway, Telephone: 47-22-54-20-80, Facsimile: 47-22-55-31-06, Web address: www.nettvik.no/naeringsparken/net/, Internet address: firmapost@net.no. To obtain a real estate brokers license, the applicant must obtain two years' full time education at the School of Economics in Oslo and also have two year's work experience at a licensed real estate brokerage firm. The license is granted to qualified applicant by Kreditt-tilsynet, an economics department of the government.

Local and Foreign Company Marketing of Real Property Interests

International marketing people work with local Norwegian marketing people in serving local and foreign investors. Colliers, the international real estate marketing firm, may be contacted for service as Colliers Bjordal Partners AS in Norway, as Colliers HBV in Sweden, and as Colliers Hans Vestergaard A/S in Denmark. Timely marketing reports on Norwegian property market trends are compiled, written, and distributed by Catella Eiendoms-Consult in Norway in conjunction with Segal Quince Wicksteed Ltd. in Cambridge, England. Orkla Securities, a subsidiary of Orkla Finans ASA, works with Steen & Strong ASA, the largest Norwegian owner of shopping centers, Victor Eiendom ASA, an major Norwegian real estate owner and part owner of Eiendomsspar, and Eiendomsspar, a major Norwegian real estate company, to publish real estate sector reports including ones covering Norwegian real estate. Healey & Baker of London, which is affiliated with Cushman & Wakefield of New York, collaborates with Ibsen Eiendom of Oslo to publish Norwegian real estate sector reports for international real estate investors and analysts. Recently, Ibsen Eiendom has contributed market information to Healey & Baker international publications that are focused on the retail real estate and the distribution real estate sectors. The many local and foreign marketing firms actively use electronic mail and internet sites to communicate with their various constituents.

Local newspapers, magazines, and the internet are used for real estate marketing. Major commercial properties tend to be advertised in the Aftenposten, a major newspaper of Oslo. Properties are also advertised in the two commercial real estate magazines, Naerings-Eiendom and Ledig-lokaler, and in financial papers such as DN and Finansavisen.

Valuation Methods and Practices

Norwegian real property valuers have served property owners, prospective investors, and financial institutions for centuries. The first evidence of valuations -a valuation of farmland - is dated November 14, 1969. The basic duties of the valuer were defined by law in 1821. Norwegian valuers are still expected to provide documentation of their valuations for clients along with descriptions of the subject property's technical condition. Due to the nature of property valuations, the valuer performs the role of an arbitrator because the valuer is expected to appraise property value as an impartial analyst. In this capacity, the valuer is often called as an expert witness in various court cases where the valuer's professional opinion may be valuable. The valuer's role is particularly significant when real estate values are declining; lenders are particularly sensitive to property valuations when they seek to reduce their risks from financial losses from potential bad loans.

The Development of the Valuation Profession

Real estate valuation in Norway is a part of the overall asset valuation profession in Norway as a whole. Clients may need real property valuations alone or clients may need real property valuations as part of company valuations that encompass valuations of equipment and vehicles. Many valuers can perform valuations of multiple types of assets including real property assets similar to the appraisers in the United States who are members of the American Society of Appraisers.

There is no licensing of valuers or real estate appraisers in Norway. Property valuation work is often accomplished by engineers, architects, and real estate consultants.

The Norwegian Surveyors Association (Takstmannsskolen trinn I og trinn II), a nationwide trade association, is comprised of valuers of many types of assets including real estate, vehicles, ma-

chinery and construction equipment, and boats of all sizes. Real property valuers predominate. The term, “surveyor,” is commonly used for valuers or appraisers of many kinds of assets in the United Kingdom. The world renown U.K.-based valuation society is even known as The Royal Institute of Chartered Surveyors.

In the mid-1990s, there were approximately 700 members of which about 150 ware full-time valuers. Even though the Norwegian Surveyors Association is not a profession that is recognized by the government such as medicine, law, and architecture, the association has its own by-laws, code of ethics, and educational program that trains valuers in the approved valuation methods and documentation practices through correspondence and seminar methods of instruction. According to the editors and authors of the book, EUROPEAN VALUATION PRACTICE: Theory and Technique (page 189), the Norwegian Surveyors Association seek to (1) encourage reliable and objective valuation in accordance with existing laws and bylaws, (2) further the valuer’s proficiency, (3) further the utilization of experienced valuers, (4) ensure adequate recruitment to the profession in accordance with the demand for valuation services, (5) further members’ interests and affiliation, and (6) preserve the profession’s ethical obligations in accordance with the association’s code of ethics. Valuer membership in the association is not required by law or government regulation; therefore, some practicing valuers are not members of the association and there are no standards for valuation on a national basis. But the Surveyors Association has distributed to the major users of valuations its HANDBOOK FOR VALUERS (Takseringshandboken), first published in 1993, that contains all the basic rules of valuation. Since the rules applicable to all Association members are incorporated to some extent into the limited liability insurance programs, the rules set the standards for all who practise valuation whether or not they are members. Personal liability insurance became a necessity for valuers during the decade between the mid-1980s and the mid-1990s due to the marked increase in the number of lawsuits filed against valuers. (Note: As the property values moved upward in the mid-1990s through the end of the decade, the frequency of the filing of lawsuits against valuers diminished greatly.) The basic rules of the Association extend to the area measurement methods. Guidelines for the valuation of residences, office space, retail space, and industrial property, but do not extend to hotels and leisure or recreational properties.

In Norway no single office performs property appraisal, estate agency or real estate brokerage, and property financing. Most property finance companies are required to get third-party valuations before making mortgage loans. These finance companies expect the commissioned valuer to provide, from a thorough property inspection, the client the propertys state of repair, its usefulness, the technical installations, and the building materials used. The valuation is increasingly focused on the economic analysis of income and costs and derivation of appropriate capitalization rates. The financial institution usually requires at least two independent valuations for each commercial building considered for financing. The exceptions are the valuations of hotels and industrial complexes which usually are associated with the requirement for three independent valuations.

Valuer Compensation

Valuers generally charge fees based on (1) payment per hour, (2) fixed rates, or (3) tendered prices. Tendered prices are generally associated with the bidding for valuation contracts from public offices. Overall, appraisal fees vary from assignment to assignment.

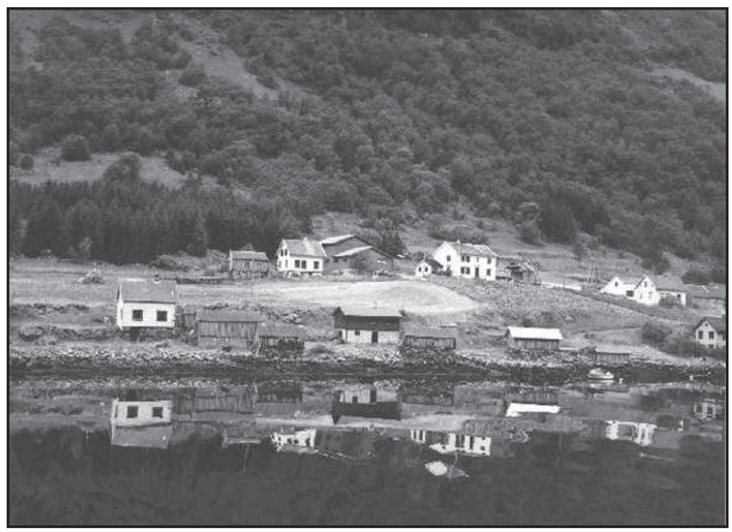
Methods of Property Valuation

The most commonly used valuation methods include (1) depreciated replacement cost method (teknisk verdi or technical value), (2) market value method that is separated into (a) normal market value (normal salgsverdi) and (b) long-term lending value (laneverdi), and (3) capitalized income method. The technical value or value from the cost approach adds the depreciated replacement cost of the building to the value of the land. Deductions from the replacement cost new may represent the loss of value due to age, functionality, usage, and physical determination. The land value includes the raw land value, municipal government costs for roads, water, and sewer hookups, on-site costs for access, water, and sewer lines, municipal connection charges for the utility services, costs for preparatory building works, and site preparation costs. The normal market value is represented by the amount that the property will bring if sold on the day of the valuation. The lending value is the market value derived from both the normal market value and the capitalized income value that reflects a carefully estimated market value for long-term loans.

Ten year projections are usually employed when the capitalization income method is used. In the use of the cost approach, the economic life of buildings without renovation may be considered 60 to 70 years. In some instances, the valuer may assume a normal property life span of 70 to 100 years. This economic life must be adjusted for building materials used, the nature of use of the building, and the state of repair of the building. The terminal or sale value of the building is calculated taking the income of the year following the assumed sale and capitalizing this income into the end value.

Sources of Valuation Data

The capitalized income method utilizes published values for the capitalization rates, disseminated by a permanent Expert Committee of the Norwegian Surveyors Association, to be used for the various assets to be appraised. The Expert Committee defines the capitalization rate for each type of subject property as the difference between the nominal interest rate and the rate of inflation (otherwise often labeled the real rate of interest) plus a risk factor that depends on the characteristics associated with the subject property. The risk factor includes the marketability of the subject property and other factors that contribute to the property owner's risk. The total risk percentage may vary widely, say from 2.0 to 8.0 percent, over and above the real rate of interest. Minimum capitalization rates are published by the Expert Committee that may range widely for the various types of properties, for example, from 7.5 to 22.5 percent. A single rate may be published for residences; a range of rates may be given for commercial buildings, industrial properties, and hotels. Since hotels are normally the highest overall risk category of income-producing property, the highest rates are normally assigned for hotel income capitalization. The Expert Committee estimates minimum



capitalization rates primarily for the purpose of finding lending value. They may recommend that the capitalization rate for normal market value be the capitalization rate for lending value reduced by perhaps 1.5 to 2.0 percent. Therefore, the income multiplier for normal market value will be higher than the income multiplier for lending value.

Construction costs and comparative price information are acquired from the valuer's current knowledge of the marketplace, construction companies, and government statistics. The Bureau of Statistics (Statistisk Sentralbyra) compiles many indices associated with real estate. Various groups within the construction industry provide statistical data regarding construction costs. Construction costs vary little among the various Norwegian property

locations. For commercial buildings, valuation is performed on a nationwide basis. Local valuers cooperate with nonlocal valuers in their appraisal assignments.

A government-maintained register, the Ground Book (the Grunnboka) contains information about the ownership, mortgages, and easements of all properties, which are given exclusive registration numbers. The data from the Eiendomsregisteret is published on a private basis for some of the major municipalities but only residential property is included.

The Content of Valuation Reports

There is a more or less standardized layout for the appraisal report. The report generally includes (1) nature of the assignment including purpose of the valuation, (2) a listing of the underlying documents with the reference dates with a short commentary on the use of each, (3) description of the property location and area, (4) description of the buildings including a schedule of actual floor space, (5) the official regulations related to the property and its surrounding area, (6) reference to any planned developments for the area, (7) a summary of the valuation methods employed, (8) any limitations and conditions to which the valuation is subject, (9) supporting exhibits, such as photographs, maps, development plans, extracts from the property register.

Property Law in Brief

There is a single legal system for Norway: a civil code that some knowledgeable real estate market participants say is fashioned to some degree on the German civil code. The legal system that covers affairs of mainland Norway and Spitzbergen and other Norwegian possessions in the Arctic and Antarctica is based on the statutes and precedents that are derived from the decisions of the higher courts such as the Supreme Court (Hoyesterett). Norwegian property law is based on the Land Registration Act of 1935 (Tinglysingsloven). Finnmark County that is bounded on the north by the Arctic Ocean, on the northeast by the Barents Sea, on the south by the Swedish border, and on the east by the Russian border is permitted a great deal of governmental autonomy. The rest of the counties are represented in the Parliament that transacts the government of the people with observation of the separate roles of the monarch.

Absolute ownership is the main form of land ownership. This is similar to fee simple absolute under the common law. Ninety percent of homes are owned. This compares with a 65 percent of home ownership in the United States.

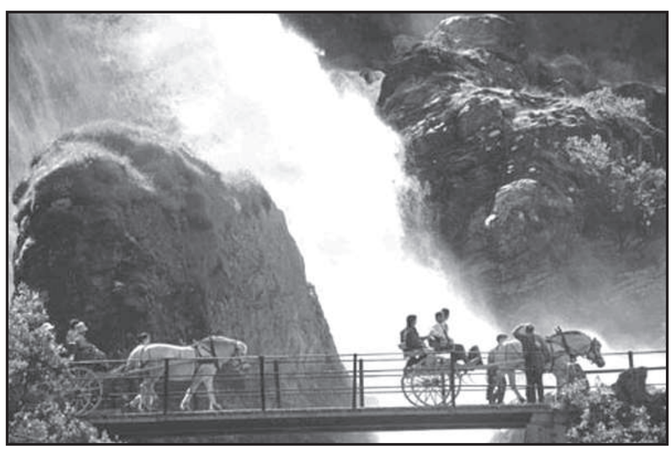
Land may be owned jointly by two or more persons and/or companies under the Coownership Act of 1965 (Sameieloven) where co-owners own shares in the entire property and not separate parts of the total property. Any number of co-owners have be involved in this form of joint ownership.

Condominium ownership of property is possible under an Act of 1983 (Eierseksjonsloven). The building may be divided into several parts where the coowners hold the land and building as co-owners. Each owner has an exclusive right to use of his separate part of the building. All co-owners have rights of access to the common areas such as hallways and gardens.

Less than absolute ownership or rights of possession may be conferred in the form of positive servitudes (positive servitutter) and negative servitudes (negative servitutter), Positive servitudes include rights similar to the common law concepts of easements. Restrictive or negative servitudes include mortgages, rent charges (grunnbyrder), and options.

Business Organizational Forms Available for Use

The real estate investor faces a variety of business organizational forms that may be used for an investor. The term "company" is used for a business entity that is formalized by an agreement among the members including limited companies. Before a business starts operation, the business entity must be registered in register for business enterprises. Branches of non-Norwegian companies that do business in Norway from a fixed place or on a permanent basis must also be registered. The provisions for limited companies are set forth by the Joint Stock Companies Act of 1976 and later amendments. Most limited companies are private in nature rather than public entities. Partnership provisions are set forth by the Partnership Act of 1985 and succeeding amendments. Both general (ansvarlig selskap, ANS) and limited partnerships (kommandittselskap, KS) are available for use. Silent or internal partnerships are discouraged and are not considered to be separate legal entities. In addition to limited and unlimited partnership, the joint venture may also be used for real estate development and investment. If disputes arise or relationships among owners must be sorted out, the joint venture agreement, the partnership agreement, or the shareholders agreement will govern the situation.



Foreign Investment Restrictions and Withholding Taxes

There are no restrictions on foreign investment of funds for ownership Of property or on the foreign ownership of property in Norway. There are no exchange controls. There are no restraints on the repatriation of income and sums subject to the deduction of withholding tax payable on receipt of dividends from Norwegian companies. Interest and rental payments are not subject to withholding tax. Relief from double taxation on income derived from and capital gains on the sale of property in Norway may be obtained in the investors home country; many national governments including the United Kingdom, the United States, and the Netherlands have double tax treaties with Norway.

Restrictions on Land Ownership

Property acquisitions require prior approval from the appropriate government authorities under the Concession act of 1974 unless the approval is excluded specifically by statute. The exceptions to this rule include (1) the acquisition of a small residential property (limited to one property per buyer per local authority), (2) land and buildings not exceeding 5,000 square meters (roughly 50,000 square feet), and transactions between family members. Approval for property acquisition is required for property located in designated zones in the most popular holiday resorts. As the local government - usually the local municipality - considers approval of the requested acquisition, it may exercise the right of pre-emption.

Even though land is rarely acquired through adverse possession rights, the title to property may be acquired through this means if the property has been continuously occupied in good faith for over 20 years. Minor changes of borders between properties may be made in this manner though.

If the housing associated with a building society is sold within seven years after the completion of the premises, the selling price is controlled by regulation.

Land Registers

In all urban and rural areas of the country, land registers are maintained by the government. The local court maintains the land register in rural areas, while separate land registry offices are maintained in most urban areas. The land register is divided into two parts: (1) a daily journal (dagboken) where documents for registry are filed when received and (2) a registration book (grunnboken) where the permanent records for various properties are filed. As property titles are transferred, each bill of sale (skjote) is filed in the prescribed at the local land registry. This bill of sale confirms and identifies the new owner. The title is deemed transferred at the time of this filing. The registration may be completed at a later date because there is usually a lag time between the filing and registry completion due to office backlog.

A contract for the sale of property or a lease does not have to be in writing, but registration requires a written contract. Therefore, most contracts are put in written form and are signed by both parties or their agents.

Land registry fees are charged. The flat fees vary with the type of contract. Recently the registry fee for a bill of sale has been NOK 757 and for a mortgage, NOK 1,010. This transaction cost and that of the stamp duty or transfer tax show that Norwegian transaction costs are relatively low in comparison with most other European countries.

Data from Eiendomsregisteret is published on a private basis for only residential properties for some major cities. This register is open to the public, but often there is a time lag of 3 to 6 months before the property data is recorded.

Rent Control

Pre-1940 apartment buildings in cities are subject to rent control. Tenants on leases that have no expiration dates generally have security of tenure; the owner must have reasonable grounds for terminating the tenancy. The owner finds it difficult to convince the courts that he or she has reasonable grounds to evict such tenants when he wishes to reconstruct or release the building.

Leases

Let us review usual terms for both ground and building leases. First, let us review ground leases briefly. Generally ground leases span a time period longer than 10 years. The tenant may renegotiate the contract until the contract runs up to 80 years. There are special legislative controls over ground leases including restrictions on the maximum adjustments to the rent each year.

Unlike ground leases, commercial building leases usually run 3, 5, or 10 years with an annual adjustment in the rent based on the change in the Consumer Price Index that is compiled by the federal government. Office building leases typically run five to ten years. The lessee generally has security of tenure. A break option may be stated in the lease, but it is not a usual lease provision. The tenant pays a service charge for maintenance of the public areas on the basis of the actual area rented by the tenant in relation to the total rented area of the building. The office tenant service charge has been running about 11 percent of the prime gross rent. The office service charge includes ventilation, air conditioning, and electricity in the common areas. The tenant pays for trash pickup and disposal, public area lighting, and the cost of maintenance of the rented area. The tenants total occupancy cost is usually comprised of the rent plus the service charge. The landlord pays the building insurance premiums, the administrative and management cost, the ground lease rent, landlord-associated taxes, and external building maintenance. If property taxes are assessed, the landlord usually pays them.

Leases usually run 1 to 3 years for single-family houses. Leases for flats in apartment buildings usually have no time limitation. Tenant tenure conventions normally mean that landlords have a difficult time evicting tenants. In the case of lawsuits, the courts want to hear substantial reasons for such apartment tenant evictions.

The members of the Norwegian Surveyors Association have agreed to a Norwegian Standard for measurement of rental area in a building. Not all area measurements comply with the Norwegian Standard though. Moving from measurement of the leasable area to spatial quotes for rents and sale prices, we note that sale prices are usually quoted on a square meter basis and rents are usually quoted on a rent per square meter per year basis. Sometimes the rent is quoted on a monthly amount per square meter. It is said that sometimes the rent is quoted on an annual rent per office employee basis,

Investment Properties

Medium-size commercial properties, i.e., 8- to 10-story hotels, 5- to 6-story office buildings with retail space on the ground floors, and 6- to 8-story apartment buildings in the center cities characterize the investment property market.

Investment Yields

Prime properties have generated investment yields in the range of 7 to 7.5 percent for some time regardless of the fluctuations in interest rates. Such yield estimates are usually based on income returns rather than total property returns including expected capital gains. In the Property, Financial Times Survey of the March 9, 2001 Financial Times, FPDSavills, headquartered in London, quotes the total prime property returns of Oslo, for the year ending Quarter 1-2001, 22.3 percent with two thirds of the total return coming from capital growth. Both the non euro-zone property capital values and the rental values have surpassed since 1996 the eurozone property capital values and rental values. Even though both euro-zone values exceeded non euro-zone between 1990 and 1994, the non euro-zone values surpassed the euro-zone values for a long prior period from 1980 to 1990.

Housing

Approximately 80 percent of all Norwegians own their owl homes. They may own their homes on a basis similar to freehold status under the common law; as an alternative they may own their own homes or apartments through a housing cooperative company. Ownership of a home via a building co-operative implies separate and individual ownership of a particular residential unit while jointly owning the common areas of the residential community with the other cooperative apartment owners. Rental housing is generally located in the cities whose population ranks the cities in the following descending population order Oslo (the largest city), Bergen (the second largest city), and Trondheim (the third largest city).

The government subsidizes housing for low-income, handicapped, and other disadvantaged people. Cooperative housing was once subsidized by the government, but is no longer. One of the cooperative housing company whose financing was once subsidized by the government, OBOS Utvikling A/S, now has developed and constructed one third of the housing of Oslo; it provides housing in other parts of Norway, also.

Shopping Centers

According to the Norwegian consulting firm Sentrumutvikling, as of July, 2001, Norway has approximately 500 shopping centers that generate sales of approximately U.S. 10 billion. Of the total national retail sales of approximately U.S.30 billion, shopping centers account for 32 percent of the total. The 50 largest shopping centers account for approximately U.S.5 billion in sales or approximately one half of total shopping centers sales in the country. There are 40 regional centers, approximately 110 suburban centers, 150 city centers, and approximately 200 small local centers with a total area of 2,500 square meters (or approximately 25,000 square feet) or less. The owners have management agreement with both the tenants and the management company. The center manager is responsible for the tenants organization, the common area management, the "technical" management, and the "economic" management, using the terms employed about Sentrumutvikling, the real estate consulting firm.

According to Catella Property Consultants, rents on retail facilities remain high. The major shopping centers take a relatively high portion of total sales volume in rent for space. The principal central business district storeroom rents remain relatively high, but sales remain high. Rents are expected to remain high in all retail sectors for the foreseeable future except for space which requires substantial upgrading to meet current retail trade expectations. Investment yields from retail building ownership has recently ranged from 7 percent to 8 percent.

According to Ibsen Eiendom of Oslo, the largest Norwegian shopping center, Kvadrat Kjopesenter, Oslo, which was built in 1984, contains 40,000 total square meters (roughly 400,000 square feet). The second largest center, S&S Amanda Center, located in Haugesund, Norway, which was built in 1997, contains 37,000 square meters of space (roughly 370,000 square feet). The third and fourth largest centers, S&S Vinterbro of Oslo and S&S Farmandstedet of Toensberg, Norway, built in 1996 and 1989, respectively, both contain 30,000 square meters of space (roughly 300,000 square feet). The oldest of the ten largest shopping centers, Oasen Center in Karmsund, containing 28,000 square meters (roughly 280,000 square feet) was built in 1976. City Syd Center in Trondheim, that was attracted a lot of attention in Norway, is the tenth largest Norwegian center with 23,000 square meters (or 230,000 square feet, roughly) of space. The most recently built shopping center is the Oslo Byport Shopping Center, which is owned by KLP, the insurance company, opened in early 1999.

Shop opening hours are limited by laws that are designed to protect retail workers from being exploited. The restrictions permit any shop to be open between 6 a.m. and 8 p.m. during the week with a 6 p.m. closing time on Saturdays and limited trading hours on Sundays, according to Ibsen Eiendom, a real estate consulting firm of Oslo.

Office Buildings

In comparison with prime office buildings of the other Nordic capital cities, the yield on Oslo quality office buildings has remained the highest over the period 1990-2001. At the same time, Oslo prime office yields have declined from approximately 10 percent in 1990 to the range of 7 to 7.5 percent since 1993 when the Nordic economy turned upward. Even though office vacancy rates have continued relatively low, the 4 percent to 4.2 percent rates of 1998 and 1999 increased to 5 percent in 2000. Prime central business district office building rents in Oslo approximated Euro, 325 per square meter per year in 1990, sank to about Euro 225 in 1993, and have risen steadily

to approximately Euro 500 per square meter per year in 2001. The global business slowdown of the early part of the new millennium, that is impacting Norway and the other Nordic countries, may result in a decline in office rents and perhaps an increase in yields from existing office buildings.

The largest office buildings are generally valued from approximately U.S. 150 million to U.S. 250 million. Recently Citigroup has represented parties associated with the sale of the Storebrand headquarters building in Aker Brygge mixed use area and other large headquarters office buildings and has mentioned such expected sale figures in their news releases. Since the office building vacancy rate of the Oslo central business areas has been miniscule for some time, the yields are relatively low as the prices of the few office building sales have remained high. Construction costs are relatively high due to the scarcity of well-located parcels of land of appropriate size for larger office buildings.

Mixed use developments that are focused on office building space are currently being developed for the tight Oslo office building market. Avantor Company is developing a project for high technology and other companies a short distant north of the Oslo central business district. The construction plans provide for wiring and flooring that accommodates the new work station configurations often now employed by high technology company employees. A subway station is being built by the city close to this inner city project that would accommodate shorter travel time from most homes to the office. OBOS Utvikling A/S is also developing a mixed use project that focuses on office space to fit the needs of high technology and other companies. This project is close to the coastline of the Oslo central business district, close to existing subway stations, and close to the higher income residential areas of Frogner and Majorstuen which fie to the west of the city center. Other mixed use developments are being planned and executed on the previously derelict manufacturing and warehouse space on the AIna River flowing north from the Oslo central business district. These complexes will also accommodate apartment structures.

Industrial Properties

With the increased global emphasis on logistics and distribution due to increased productivity standards, Norway's industrial market has revived since 1996. Rising Oslo rents since 1996 have shown the increasing demand for distribution units in and around Oslo. Part of the demand has been coming from telecommunications companies who have been requesting 1,000 to 5,000 square meters of space for a switch unit. The telecommunications companies have been clustering around Okern which lies about five kilometers (or about three miles) north of the center of Oslo. Avantor Company has developed a project in Nyalen that can serve the special interests of telecommunications and other high technology companies. In the past, industrial and logistics properties were owned by the occupants rather than by outside developers and unrelated owners. This pattern for industrial building ownership may be changing as the expanding high technology companies must be accommodated.

Oslo's prime industrial building rents approximate the equivalent of U.S.$100 per square meter per year. Total occupancy costs generally add a ten percent service charge to the gross rent. In early 2000, investor yields ranged from 9.50 to 10 percent.

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Among her 50 real estate books and monographs and 112 academic and professional real estate and international business articles are four major real estate textbooks and professional books that are published in both the Japanese and the English languages. Dr. Hines was granted her Ph.D. in Business by The Ohio State University Graduate School and her Master's and Bachelor's Degree in Business Education and Mathematics by Indiana University. After being promoted to full professor of finance and real estate by The University of Alabama in 1977, she continued to teach at the doctorally accredited University of Alabama and was a visiting professor of real estate and finance at the doctorally accredited University of Tennessee before accepting Washburn University's Clarence W. King Endowed Chair of Real Estate and Finance in 1982. Dr. Hines was the first woman to become an endowed professor of finance and/or real estate in the United States as she accepted Washburn University's endowed chair appointment in 1982.

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