International investing in Norway

Midt-Norsk Eiendomskonferanse 2016
Nick Laird
International investors:

Are they here to stay?

Will they invest beyond Oslo?
Are international investors here to stay?
International investing in Norway
The first 200 years

- 2005-2007: NPRO goes public. Investors lose 90%+
- 2014:
International investing in Norway
The past few years

Source: Akershus Eiendom, Newsec
Extreme interest in Europe as well
International share of transactions

Source: Real Capital Analytics
The hunt for yield
Earning a 7.5% return

Source: Callan Associates, WSJ
Emergence of global funds
Large funds getting larger

Average closed real estate fund size by year ($bn)

- 2013: $1.8bn
- 2014: $2.4bn
- 2015: $2.7bn

Source: IREI Fund Tracker
Investors seeking increased risk
% allocated to opportunistic strategies
(vs. core, value-add)

Source: FPL Consulting
Giant pools of sophisticated capital looking for relative real estate returns

2013-2015
Research

2014-2016
Decision

2014-2016
Dealmaking
This time it is different
Funds are committed, global and long-term

Opportunistic, highly leveraged trades

Long-term, patient capital building expertise/platforms

Source: Real Capital Analytics
EIENDOM

Tror prisene skal stige mer

– Om oljeprisen fortsetter å falle, vil utlendingene som allerede er her antagelig fortsette å investere som før, sier Nick Laird
Will international investors go beyond Oslo?
International investors require:

- Size
- Data
- Trusted local partners
- A path to liquidity
Deal size creates focus

> NOK 5bn

> NOK 250m

> NOK 1bn
Tom Barrack
Founder/CEO of Colony Capital
Acquired Statoil Forus in 2015

The information you have is not the information you want
The information you want is not the information you need
The information you need is not the information you can get
The information you can get everyone already has
Real estate investing is not:

1. Buying 10-year leases and ignoring residual values
2. Waiting for yield compression
3. Using low interest rates to generate cash flow
4. Turning bad office buildings into apartments at all-time high prices
A real property
Syndicated 4 times in past 6 years

Transaction Yield

- 7.20%
- 6.10%
- 5.60%
- 4.90%
- 21% IRR to exiting investors
- 38% IRR to exiting investors
- 50% IRR to exiting investors
- 9% Projected IRR for new investors..
Low rates will end at some point

Norwegian Long Bond
Conversions based on non-sustainable price growth
Real estate investing is **not**: 

1. Buying 10-year leases and ignoring residual values 
2. Waiting for yield compression 
3. Using low interest rates to generate cash flow 
4. Turning bad office buildings into apartments at all-time high prices 

Real estate investing is **is**: 

1. Buying vacant space and leasing it 
2. Anticipating demand and developing for it 
3. Finding alternative use for obsolete properties 
4. Managing expenses intensively 
5. Investing capital to increase rents, expand leaseable area and attract higher quality tenants 
6. Anticipating new locations 
7. Exiting (if ever) when all the above have been completed (or at least attempted) 

2017: The year real estate investing begins ... and speculating ends
Only one thing scares international investors about Norway...

OIL
U.S. is good at some things
Bad at others
But excellent at marketing
Here's an example
Norwegians are good at many things
But really **bad** at marketing
Recent headlines

Norway Announces Massive Withdrawals From Sovereign Wealth Fund To Cover Deficits

Oslo ruffles feathers as it taps Norway’s oil fund
First withdrawal in decades stirs debate over fund’s future and how much level of risk it should take on

$5.5bn
Oslo’s withdrawals from oil fund in first half

Norway’s $5.5bn oil fund has been hit by the low price of crude and the effect of Brexit on its UK property portfolio.

This year will prove to be a watershed for the world’s largest sovereign wealth fund as, for the first time in two decades, Norway’s $1.2trn oil fund will have money taken out by the government in Oslo.
Norway after oil is...

... Sweden

GDP per Capital ($)

- **Norway**: $61,255
- **Norway ex Oil**: $51,481
- **Sweden**: $46,702
- **EU**: $37,800

Source: SSB
How risky is Norway “after oil”? 
Compared to what?

Europe after “Brexit”? 
U.S. after Donald Trump? 
China after deleveraging?
Real estate is driven by growth
Norway has it, Europe doesn't


- Oslo: 29.7%
- Bergen: 29.2%
- Stavanger*: 25.9%
- Kristiansand: 22.2%
- Tromsø: 24.2%
- Drammen: 23.9%
- EU-27: 4.4%


- Oslo: 10.0%
- Bergen: 22.7%
- Stavanger*: 34.3%
- Kristiansand: 25.2%
- Tromsø: 20.1%
- Drammen: 15.4%
- EU-27: 8.7%

Source: Statistics Norway, Eurostat
Trondheim investment returns
Relatively better than Oslo

**Typical Returns**

<table>
<thead>
<tr>
<th>Location</th>
<th>IRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oslo – Prime:</td>
<td>14.5%</td>
</tr>
<tr>
<td>Trondheim – Prime:</td>
<td>15.1%</td>
</tr>
<tr>
<td>Trondheim – Normal:</td>
<td>17.3%</td>
</tr>
</tbody>
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*Assumes 65% LTV loan and 3 year hold
One final word on Trondheim...

Oil is the past

Engineering and technology are the future
## World’s Largest Companies (by Market Cap)

1. AT&T: $30bn
2. IBM: $20bn
3. GM: $19bn
4. Standard Oil: $14bn
5. Kodak: $10bn

Silicon Valley - 1966
Silicon Valley - 2016

World’s Largest Companies (by Market Cap)

1. Apple: $613bn
2. Google: $542bn
3. Microsoft: $448bn
4. Amazon: $402bn
5. Facebook: $369bn
Among many unforgivable flaws

He’s a bad real estate investor
Trump’s “Empire”
Let’s make real estate investing great again!
Thank you!

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