



Significantly increased valuation of Entra's portfolio

9.12.2020 08:00:00 CET | Entra ASA | Inside information

In light of the strategic interest around Entra ASA ("Entra" or "the Company") and the offers presented to the Company and its shareholders, the Board of Entra has, as previously announced, initiated an updated external valuation of the group's property portfolio. The Board's intention is to secure alignment of information with the market.

Entra's properties are valued and updated on a quarterly basis by two external, independent appraisers. The market value of the property portfolio in Entra's balance sheet is based on the average of the appraisers' valuation. Valuation of the management portfolio is performed on a property by property basis, using individual DCF models and taking into account the property's characteristics combined with the external appraiser's estimated return requirements and expectations on future market development. The market value is defined as the external appraiser's estimated transaction value of the individual properties on the valuation date. The project portfolio is valued based on the same principles, but with deduction for remaining investments and perceived risk as of valuation date. The land and development portfolio is valued based on actual zoning.

The updated valuation completed now in December 2020 has, as earlier valuations, been performed by Akershus Eiendom (an affiliate of JLL) and Newsec and has been completed based on the same principles as described above.

The updated valuation increases the value of Entra's property portfolio by 8.1 percent to NOK 56.5 billion, from NOK 51.8 billion as presented in the third quarter report. This represents a value improvement of NOK 23 per share compared to book values as of 30.9.20, adjusted for minority interests and investments in the period. Entra's EPRA NRV was NOK 162 per share as of 30.9.20. The net yield on Entra's portfolio with the updated valuation is around 4.5%.

The significant increase in value is mainly a result of yields contracting significantly over the recent period. The key interest rate in Norway was reduced from 1.5 % to 0 % from January to April. Lower interest rates have contributed to a significant yield compression in the Norwegian market over the past six months, not least in Oslo, where eight of Entra's ten most valuable properties are located. Following the uncertainties from Covid-19, the activity in the transaction market was low during the spring, yields were relatively stable, and the yield gap increased. After the summer, the activity in the transaction market picked up, and a number of transactions of relevance for Entra's portfolio were completed.

The appraisals used in Entra's third quarter results were performed during August and early September, and the significant yield compression was thus only to a limited extent reflected in Entra's reported book values as of 30 September 2020. Prime yield in Oslo has fallen from around 3.60-3.70 percent to 3.25-3.30 percent during the third and fourth quarter of 2020. In addition, the increase in valuation also reflects signed leased contracts and progression on development projects to date.

"The observed transactions have supported the reduction in our prime yield estimate for Oslo CBD office from 3.75% to a record low 3.30% as of November. The central business districts of the secondary cities are also affected by the drop in yields, although this has so far only been seen in actual transactions in Bergen. It appears that non-CBD offices in both Oslo and other cities have not yet seen a similar drop in yields, unless there are government tenants. This highlights the perceived higher risk profile of the economy in general, and the increased importance of the tenant solidity. The decline in office yield seen in Norway is unusual in Europe for 2020, and the main reason is, obviously, the falling Norwegian interest rates. While EU rates have stayed low where they were in early 2020, Norwegian 10-year swap rates declined by 100 basis points in Q1 and have barely risen by 20 basis points since March. This means some of the low-return effects experienced by European investors in 2017-19 have now been affecting the Norwegian markets, motivating more investors to lower their expected return levels for property," says Ragnar Eggen, Head of Research at Akershus Eiendom.

The rationale for the increased values is supported by other leading commercial real estate market analysts in Norway:

"We have seen significant yield compression in the Norwegian commercial real estate investment market since the summer, especially for prime office assets. This is also documented by our quarterly investor survey among active Norwegian investors, supporting our reported prime yield estimate at 3.25 % as of November. This corresponds to a 35 bps yield compression relative to our July estimate, or approximately 11 % increased value for prime office assets since the summer. Investors in our survey, and our research team, are aligned in expecting further yield compression over the coming quarters. The strength of the investment market and the ensuing yield compression has been clearly visible from both observed volume and number of transactions, and the pipeline of projects for 2021 is showing no sign of letting off the pressure in the investment market anytime soon. We will not be surprised if we are seeing prime office yields at 3.00 % within 12 months," says Haakon Ødegaard, Head of Research and Valuation at Mallings & Co.

"The key interest rate reduced to zero, low long-term interest rates, and significant liquidity and interest in commercial properties even after the pandemic has led to record high activity in the transaction market and a downward pressure on yields over the last months. We estimate that prime yield in Oslo has decreased by 35 basis points to 3.25 percent since this summer. Likewise, the lowest office yields in other parts of Oslo, Bergen and Trondheim have been reduced by 25-50 basis points," says Hans Petter Skogstad, Head of Research at Cushman and Wakefield.

Project pipeline

Entra has a significant portfolio of ongoing development projects that is expected to contribute to strong and profitable growth in the coming years. The value potential of these newbuild and redevelopment projects is only partly reflected in the balance sheet of Entra as values are accrued gradually from 1) when zoning is obtained, 2) when a decision to start up a project is made, 3) as the pre-let ratio increase and 4) as remaining construction risk is reduced.

As of today, Entra has the following project pipeline:

- Eight ongoing development projects totaling 113,400 sqm to be finalised during 2021-2022
- Eight development projects that are already zoned and in marketing phase, totaling 129,000 sqm, expected to be completed over the next 2-6 years
- A long-term development pipeline of an estimated 240,000 sqm, securing further growth over the next 5-15 years. This potential is awaiting zoning.

The Company has to the best of its knowledge estimated that the additional value potential in unrisks and nominal terms of the ongoing and zoned projects should represent in the order of magnitude of NOK 20 per share, to be gradually realised within the next five to six years. In addition comes a significant value potential in the 240,000 sqm unzoned, long-term pipeline.

There are inherent risks involved in these projects, but Entra has a long-standing and proven track record of successful zoning, building and letting of new development projects.

"Given the announced and launched offers, the Board is committed to giving Entra's shareholders the best possible foundation for their decisions, and the updated valuation reflecting the changing market conditions is an important part of this. The Board believes that neither the ongoing revaluation in the Norwegian property market nor Entra's strong project development potential is fully reflected in the presented proposals from Castellum and SBB," says Siri Hatlen, Chair of the Board of Entra.

Shareholders are advised to refrain from taking any action in respect of their shares in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the shares of the Company. There can be no certainty that any offer will be made or completed.

The Board will in accordance with statutory law in due time provide a recommendation to the Company's shareholders with reference to the relevant offer(s) for the Company's shares.

Please see the attached presentation for further details.

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Disclaimer

This information is subject to the disclosure requirements pursuant to section 5-12 of the Norwegian Securities Trading Act.

About Entra ASA

Entra is a leading owner, manager and developer of office properties in Norway. Entra owns and manages around 90 buildings totalling approximately 1.3 million square meters, located in Oslo and the surrounding region, Bergen, Stavanger and Trondheim. Entra has a solid customer portfolio with a high proportion of public tenants. The company's strategy is focused on delivering profitable growth, high customer satisfaction and environmental leadership

Attachments

- [Download announcement as PDF.pdf](#)