Property Times
Bucharest Office Q1 2014
Strong take-up activity

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- In Q1 2014 two office buildings were delivered adding to the total office stock 23,400 sq m. At the end of the quarter, Bucharest's modern office stock reached 2,069,000 sq m. For the reminder of the year another 102,000 sq m are expected to be delivered in office projects like Green Gate, AFI Business Park II & III, City Offices, Green Court or Ethos House.

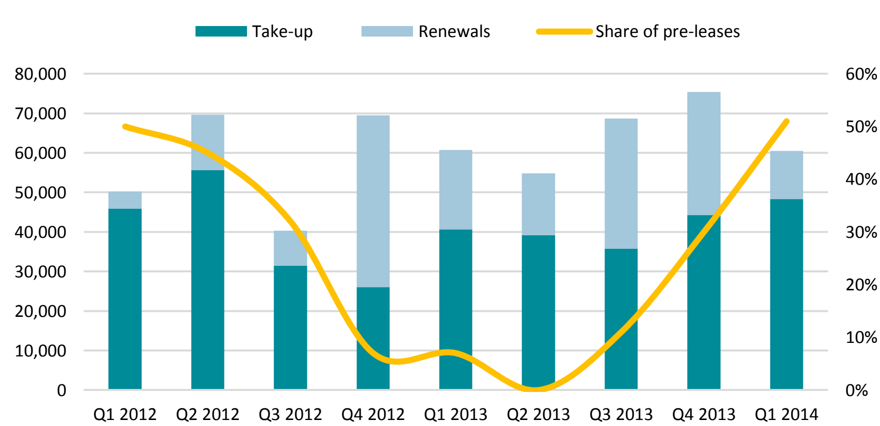
- Total take-up figure this quarter is of 48,500 sq m, the largest share being represented by pre-lease transactions - 51%. This is the strongest take-up figure registered in the last seven quarters. Another 12,000 sq m were subject to renewal and renegotiation transactions.

- The vacancy rate remained flat q-o-q and is situated around 16.7%. In total there are 345,000 sq m of vacant office space class A and B. Approximately 38% is located in Pipera sub-market. Central Business District and West sub-markets continue to register the lowest vacancy rates on Bucharest market.

- There were no changes regarding the rental levels q-o-q. Prime headline rent remained situated around € 18 / sq m/month and will remain so throughout the first half of 2014. Starting H2 2014 a slight increase might occur considering that the vacancy rate in CBD is situated around 8% and no major projects are expected to be delivered in this particular sub-market.

Figure 1

Evolution of leasing activity Q1 2012 – Q1 2014



Source: DTZ Research

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Office supply

The total modern office stock (class A & B) in Q1 2014 increased by 23,400 sq m and reached approximately 2.069 million sq m. Recently completed projects – Metropolis II (Starlight Hotel reconversion) and Hermes Business Campus phase I – are located in CBD and Pipera sub-market. For the reminder of the year we expect the delivery of 102,000 sq m in office projects such as Green Gate, AFI Business Park – phase II & III, City Offices, Green Court – phase I or Ethos House.

Table 1

Office projects with delivery in 2014

Project	GLA (sq m)	Sub-market	Developer
Hermes Business Campus I	18,100	Pipera	Atenor Group
Metropolis II	5,300	CBD	Soravia
Green Gate	27,500	West	S Group Holding
AFI Business Park II & III	25,200	West	AFI Group
Green Court - I	19,200	Central North	Skanska
Ethos House	9,000	Central North	Ethos House
City Offices	21,000	South	Global Worth

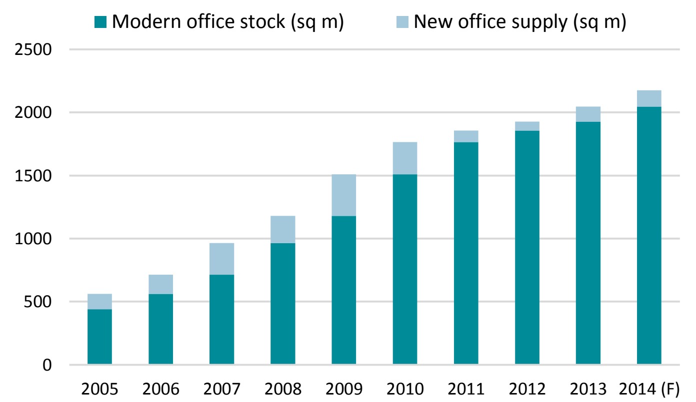
Source: DTZ Research

Overall, the pipeline for 2014 is with 5% higher when compared with 2013. The total office supply this year is of 125,000 sq m, out of which 55% is already pre-leased. The largest office project expected to be delivered in 2014 is located in West sub-market and will have 27,500 sq m GLA.

Approximately 25% from 2014's new supply is represented by reconversions. Soravia reconverted Starlight Hotel into Metropolis II, office project delivered this quarter, with a total rentable area of 5,300 sq m. Global Worth is in the process of remodeling City Mall into a mixt project with a total rentable office area of 21,000 sq m.

Figure 2

Evolution of modern office stock 2005 - 2014



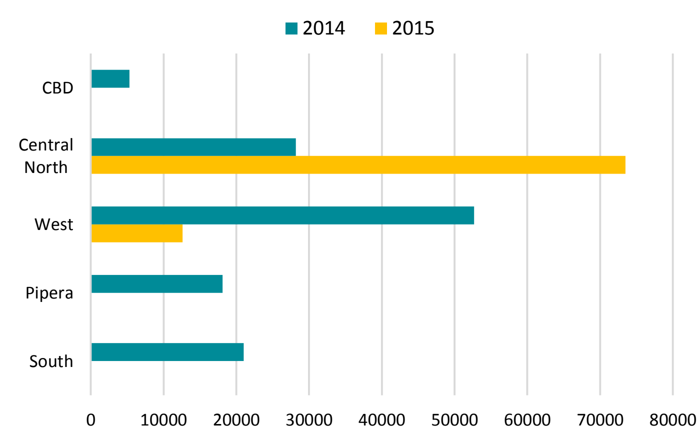
Source: DTZ Research

In terms of office construction starting works, in Q1 2014 Global Worth started Bucharest One, office building located in Central North sub-market. In 2015, upon completion, the project will add to the total office stock 47,000 sq m of rentable area.

Currently under construction, with an estimated delivery date for 2015 are approximately 74,500 sq m, out of which 25% is already pre-leased. Among office projects due to be completed next year are Green Court – phase II, Bucharest One or Monolit Plaza.

Figure 3

2014 – 2015 Office deliveries by sub-market



Source: DTZ Research

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Demand

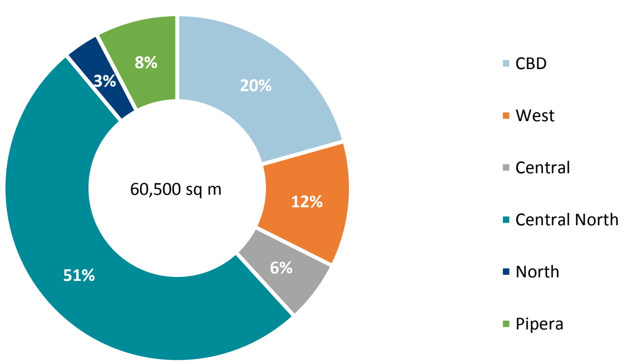
The total leasing activity (take-up and renewals) in Q1 2014 was 60,500 sq m. Take-up represents 80% of transactions (48,500 sq m) being with 16% higher when compared with Q1 2013. This is the strongest take-up figure registered in the last seven quarters.

Take-up was divided between pre-lease transactions (51%), relocations (35%) and expansions (14%). Approximately 12,000 sq m were the subject of renegotiations and renewal deals in Q1 2014, with 67% taking place in CBD.

The majority of office space was transacted in Central North sub-market (51%), followed by CBD (21%) and West sub-market (12%). Overall, there were eleven transactions with areas between 1,000 – 2,000 sq m and seven transactions with areas between 2,400 – 3,500 sq m. The largest transaction in terms of area was Vodafone leasing approximately 16,000 sq m in Bucharest One.

Figure 4

Total leasing activity by Sub-market

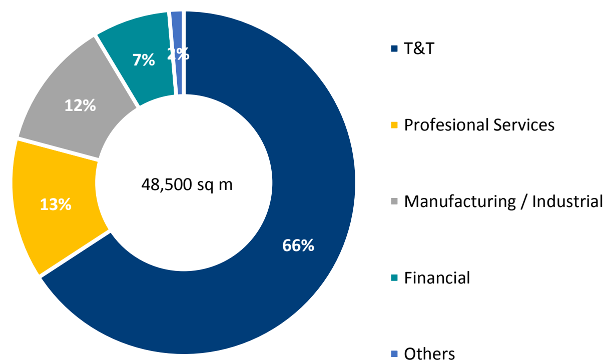


Source: DTZ Research

By far the most active companies during Q1 2014 were from Technology & Telecom sector, with 66% from total take-up. Other companies active this quarter were from Professional Services and Manufacturing / Industrial sectors with 12% and 13% from total take-up.

Figure 5

Bucharest office Take-up by Tenant sector



Source: DTZ Research

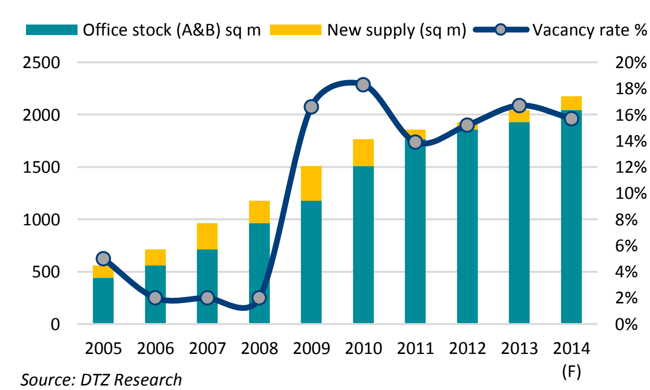
Vacancy

Bucharest's general vacancy rate remained flat q-o-q and is situated around 16.7%. Overall in Bucharest there are 345,000 sq m of vacant office spaces class A and B. About 130,000 sq m are available in Pipera sub-market. However, splitting Pipera into South (Dimitrie Pompei St.) and North (Pipera Tunari St. – Bucharest North / Petricani road), the Northern part accounts 73% from Pipera's total vacant space.

CBD and West sub-markets continue to register the lowest vacancy rates, with 8% and 5%. Central North and Central sub-markets have vacancy rates below city's average, both situated around 15%.

Figure 6

Evolution of Office stock & Vacancy rate 2005 - 2014



Source: DTZ Research

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Occupancy costs

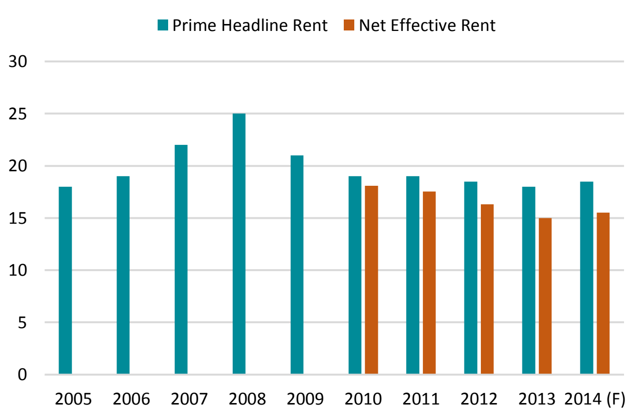
There were no changes regarding the rental levels q-o-q. The prime headline rent continues to be situated around € 18/ sq m/ month and is expected to remain so throughout the first half of the year. Starting H2 2014, a slight increase of the prime rent level might occur, considering that there are no projects due to be delivered in CBD and the area's vacancy rate continues to be one of the lowest on Bucharest market.

Overall, headline rents for class A office space in central locations are situated between € 16 – 18 / sq m/ month, while in semi-central locations are around € 12 – 15 / sq m / month. In peripheral areas the headline rents for prime projects are € 9 – 11 / sq m / month.

Effective rents continue to be with 10 – 20% lower. Typical offers include a rent free period as well as landlord's contribution to fit-out.

Figure 7

Prime headline rent vs. Net effective rent



Source: DTZ Research

The office market's service charge costs are subject to triple net leases. The landlords aim towards a standard level of €4 – 4.5 /sq m /month for prime locations, respectively of €3 – 3.5 /sq m /month for peripheral areas.

2014 Forecast

Table 2

Key market indicators Q1 2014

Bucharest office market	Q1 2014
Modern office stock (sq m)	2,069,000
Total leasing activity (sq m)	60,500
Take-up (sq m)	48,500
New supply (sq m)	23,400
Vacancy rate (%)	16.7
Prime headline rent (€/sq m/month)	18

Source: DTZ Research

2014 started positively both in terms of demand and supply. Overall, the market continues to be dominated by relocation transactions (taking into account that pre-lease deals are in fact postponed relocations), with tenant's appetite for a pre-lease commitment reaching 51% from Q1 total take-up figure. It is estimated that the pre-lease activity will continue to show consistency in the upcoming quarters.

Central North sub-market, with Barbu Vacarescu – Floreasca area, remains the hottest area, both in terms of demand and supply. The largest pre-lease transactions occurred in this particular sub-market in the last two years (Oracle - 20,000 sq m; Raiffeisen -23,000 sq m) and this year's transactional activity demonstrates that the area continues to attract large office occupiers. Looking at the level of new supply for 2014 and 2015, Central North sub-market stands out with a total level of over 100,000 sq m currently under construction.

Having 45% availability so far from the total year's supply, general vacancy rate will decrease gradually, supported by expansions, new tenants entering the market and relocations from class C to modern office stock. This quarter only, 14% from total take-up represents relocations from noncompetitive stock to class A or B office space. With occupancy costs being attractive when compared with previous years, it is estimated that class C office occupiers will continue to consider as a viable option the relocation into a modern office space.

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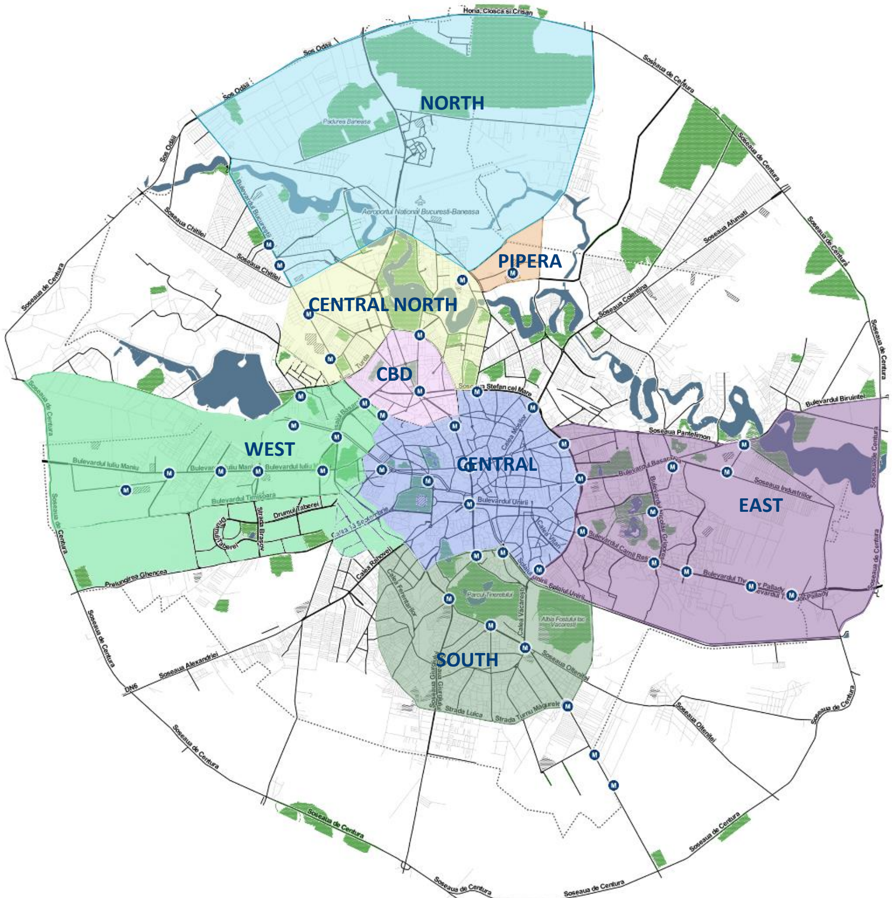
Bucharest's office areas



Definitions

Modern office stock	Total completed or refurbished office space (occupied and vacant), newly built since 1990, A and B class offices, owner occupied and for lease.
New supply	Practical completions (obtaining valid occupancy permits) of new developments in a given time period.
Total leasing activity	The total floor space known to have been let, pre-let, renewed/renegotiated or subleased to tenants over a specified period of time.
Take-up	Includes new leases, meaning lease transactions within completed office schemes, pre-lease transactions and expansions.
Vacancy rate	Ratio of empty/vacant space in existing or newly completed buildings on the total stock.
Prime headline rent	Represents the top open-market tier of rent that could be expected for a unit of standard size commensurate with demand in each location (typically 500-1,000 sq m), of the highest quality and specification (Grade A) in the best location in the market at the survey date.

Bucharest Office Q1 2014

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