Property Times
Bucharest Office H1 2014
New demand on the upswing

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- In the first half of 2014 five office buildings were delivered, with a total rentable area of 68,500 sq. m. Approximately 66% have been completed in Q2. At the end of H1 2014 Bucharest's modern office stock reached 2.114 million sq. m. By the end of the year we expect another 63,500 sq. m of new supply in office projects such as Green Court I, AFI Business Park III, Ethos House or City Offices.

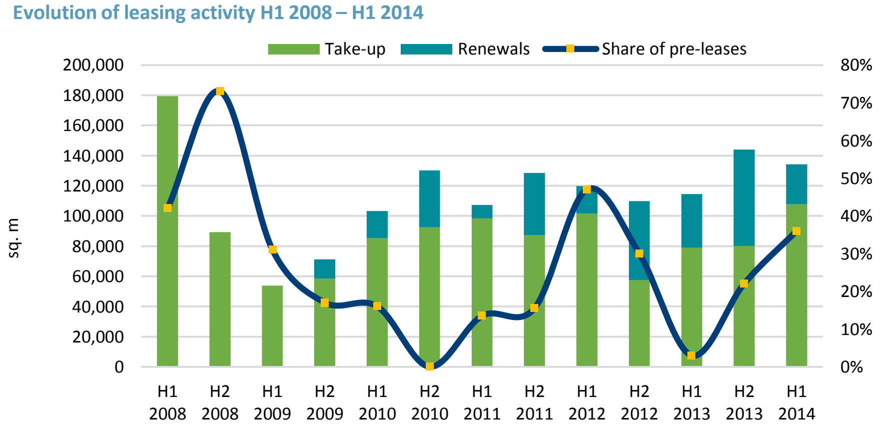
- Take-up figure in H1 2014 is of 108,000 sq. m, being the highest take-up figure registered in a semester since 2008. Approximately 72% is represented by relocation transactions, half of these being pre-lease deals. New demand – expansions and new entries – represents 28%. Another 26,500 sq. m were subject of renegotiation and renewal.

- Bucharest's general vacancy rate decreased by 100 bps q-on-q and is situated at 15.7%. In total there are 333,000 sq. m of vacant office space class A and B. Pipera continues to account for more than 30% of the vacant space in Bucharest. However, sub-market's vacancy rate decreased q-on-q with 4%, recording the highest decrease in vacancy when compared with other sub-markets.

- Prime office headline rent in Bucharest remained unchanged throughout the first half of the year and is situated at € 18 / sq. m/ month. Net effective rents continue to be lower with 10 – 20%.

Figure 1

Evolution of leasing activity H1 2008 – H1 2014



Source: DTZ Research

Bucharest Office H1 2014

Office supply

At the end of H1 2014 Bucharest's modern office stock stands at 2.114 million sq. m, approximately 3% being represented by new office supply. Overall five office buildings were completed in H1, having a total rentable area of 68,500 sq. m. Most of the new supply delivered throughout the first two quarters of 2014 is located in West sub-market and more than 65% was completed in Q2 – 45,100 sq. m. The office projects delivered during H1 are: Hermes Business Campus phase I and Metropolis Bravo in Q1, AFI Business Park phase II, Green Gate and Floreasca Cube in Q2.

Table 1

H1 2014 Office deliveries

Project	GLA (sq. m)	Sub-market	Developer
Hermes Business Campus I	18,100	Pipera	Atenor Group
Metropolis Bravo	5,300	CBD	Soravia
Green Gate	27,500	West	S Group Holding
AFI Business Park II	12,600	West	AFI Group
Floreasca Cube	5,000	Central North	Chandler International

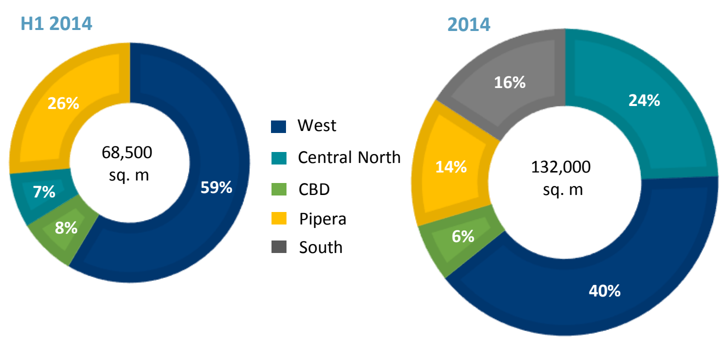
Source: DTZ Research

By the end of 2014 we expect the completion of another 63,500 sq. m in office projects like Green Court phase I, Ethos House, City Offices, AFI Business Park phase III or HBC Dorobanti.

The level of new supply for 2014 is of 132,000 sq. m, approximately 60% being already under a lease agreement. Although beginning 2014, the new supply for the entire year was estimated at 124,000 sq. m, by the end of H1, the figure slightly changed. The completion announcement of two small office buildings added to year's new supply figure another 8,000 sq. m. The first office building was recently delivered in the Central North sub-market, having a GLA of 5,000 sq. m, the second is due to be completed in Q4 and is located in the CBD.

Figure 2

Office new supply by sub-market



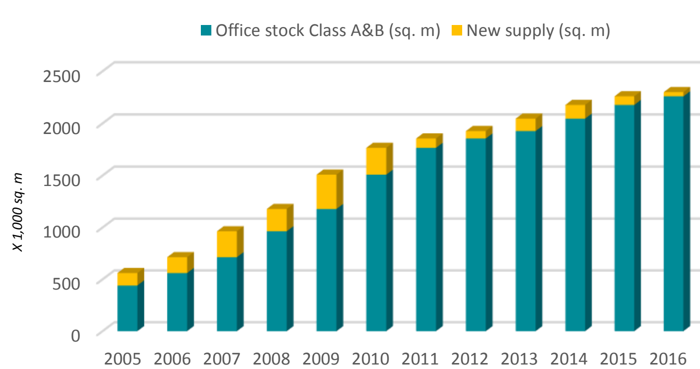
Source: DTZ Research

In terms of office construction starting works, in Q1 Global Worth started Bucharest One, office building located in Central North sub-market, having a GLA of 46,000 sq. m and planned for delivery in Q4 2015. In Q2, Proiect Bucuresti started The Landmark, three office buildings with a total GLA of 24,000 sq. m, located in CBD and planned for delivery in Q1 2016.

Overall under construction, with an estimated delivery date for 2015, there are around 82,500 sq. m of office space, more than 30% being already pre-leased. Most of the office projects due to be delivered next year are located in Central North sub-market and account for 90% of 2015's pipeline: Bucharest One, Green Court phase II, Monolit Plaza and Floreasca 1.

Figure 3

Bucharest's modern office stock 2005 - 2016



Source: DTZ Research

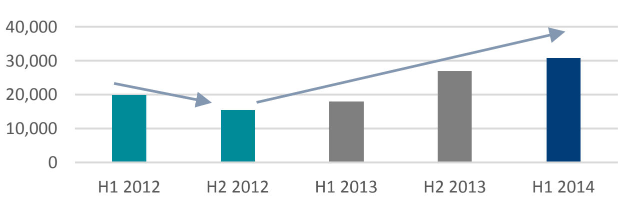
Bucharest Office H1 2014

Demand

Take-up in the first six months of 2014 amounted 108,000 sq. m, being with 25% higher when compared with H1 2013. This represents the highest take-up figure recorded in a semester since 2008, without considering Petrom's consolidation into its own office property in 2010. Relocations continue to dominate the market and account 72% from total take-up, with pre-leases representing half of the relocation activity. New demand – expansions and new entries – is with 40% higher when compared with the same period last year and represents 28% from total take-up.

Figure 4

New demand evolution (sq. m) H1 2012 – H1 2014



Source: DTZ Research

Another 26,500 sq. m were the subject of renegotiation and renewal in H1 2014, 60% taking place in Central North sub-market . Overall, the renegotiation and renewal activity decreased by 25% when compared with the same period last year and with 60% compared with H2 2013.

The largest transactions in terms of area are represented by pre-lease deals. Vodafone pre-leased 16,000 sq. m in Bucharest One and Orange will relocate its back office activities from Iride Business Park to Green Court phase I where the company will be occupying 14,000 sq. m. Both pre-lease transactions closed in Barbu Vacarescu – Floreasca (Central North sub – market).

Table 2

H1 2014 Major transactions

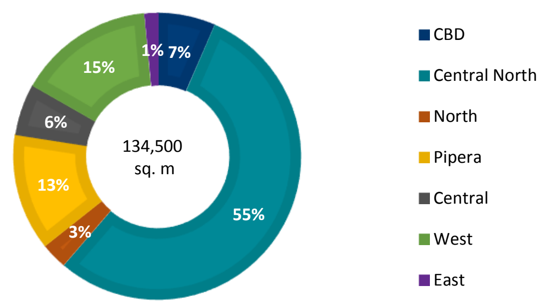
Tenant	Leased surface (sq. m)	Project	Location	Transaction Type
Vodafone	16,000	Bucharest One	Central North	Pre-lease
Orange	14,000	Green Court I	Central North	Pre-lease
Ericcson	4,000	West Gate	West	Expansion
Allianz	3,500	Floreasca Park	Central North	New occupation
Intesa Sanpaolo	3,500	ART BC 6	Central North	Relocation

Source: DTZ Research

Looking at sub-markets leasing performance, Central North continues to be the most active. Approximately 55% of the surface transacted in H1 occurred in this area, followed by West with 15% and Pipera area with 13%. In CBD the average deal was of 500 sq. m, the majority of transactions being concluded in Q1.

Figure 5

H1 2014 Total leasing activity by sub-market

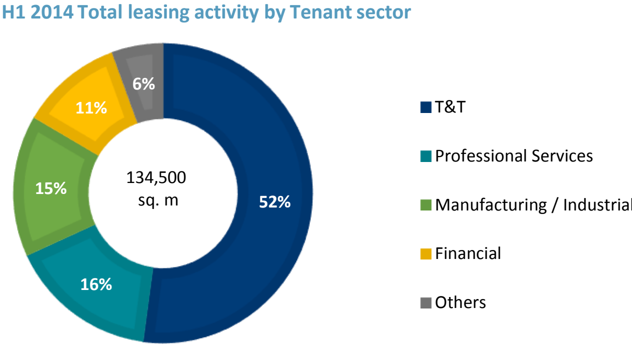


Source: DTZ Research

Most active office occupiers in H1 come from Technology & Telecom sector (e.g. Vodafone, Orange, Ericsson, WNS) with 52% from total leasing activity registered in H1. Other tenants active were from Manufacturing / Industrial sector (e.g. Schneider Electric, Kellogg's, Lenovo) with 15% and from Professional Services (e.g. Peli Filip, Lavalin, TNT) with 16% from total leasing activity.

Figure 6

H1 2014 Total leasing activity by Tenant sector



Source: DTZ Research

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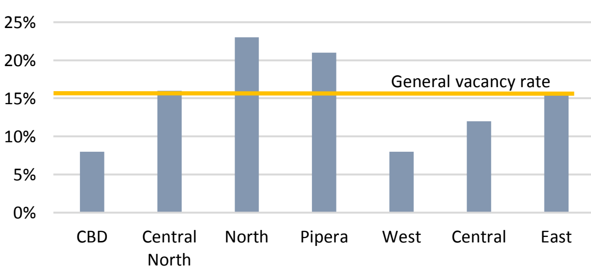
Vacancy

Bucharest's general vacancy rate decreased with 100 bps q-on-q being situated at the end of H1 2014 at 15.7%. In total there are 333,000 sq. m of vacant office space, divided between Bucharest's sub-markets. Pipera area accounts for 30% from total vacant space. However, q-on-q this area registered the highest drop in vacancy when compared with other sub-markets – 4% - and at the end of H1 has a vacancy rate of 21%. Pipera South (Dimitrie Pompei St.) has a vacancy rate of 8.5%, while CBD and West sub-market continue to register the lowest vacancy rates, with 8% each.

Central North sub-market has a general vacancy rate of 16%. Barbu Vacarescu – Floreasca, part of Central North sub-market, with an office stock of approximately 254,000 sq. m registers at the end of H1 a vacancy rate of 14%.

Figure 7

H1 2014 Vacancy rate by sub-market



Source: DTZ Research

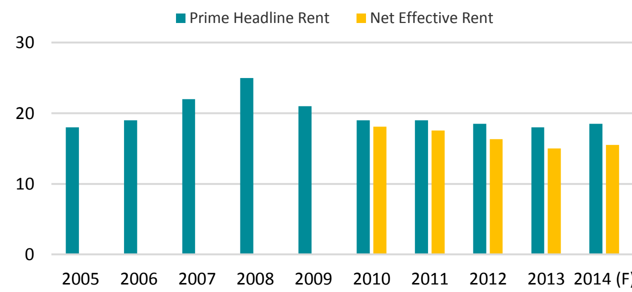
Occupancy costs

There were no changes regarding the occupancy costs during H1. Prime headline rent in Bucharest remained stable throughout the first six month of 2014, being situated at € 18 / sq. m/ month. In CBD headline rents for class A office space are between € 16 – 18 / sq. m / month, while in Central North sub-market are in the range of € 15 – 17 / sq. m / month. In semi-central locations the headline rents for prime projects are around € 12 – 15 / sq. m / month, while in peripheral areas class A office space is transacted between € 9 – 12 / sq. m / month.

Net effective rents are lower by 10 – 20 %. As incentives landlords are offering a rent free period and a fit-out contribution. The typical lease term continues to be of five years. However, a break option after three is becoming more frequent.

Figure 8

Prime headline rent vs. Net effective rent (€/sq. m/month)



Source: DTZ Research

Forecast

Demand for office space has increased gradually in H1 2014 and it is forecasted to follow the same trend going forward. The preferred option among tenants will continue to remain relocation and with large office occupiers looking for options to consolidate, pre-lease activity is expected to continue at a steady pace.

In H1 2014 several companies opened new business operations in Bucharest, while others decided to strengthen their exposure by renting additional space. Overall, new demand has increased considerably compared with the same period last year and is forecasted to demonstrate consistency in the upcoming quarters.

Bucharest's general vacancy rate has decreased gradually and while demand for office space is getting stronger, it will continue to follow the same trend. This prediction is also based on the fact that approximately 50% of the office space scheduled for delivery in the second half of 2014 is already under a lease agreement.

Regarding the rental level, no major changes are expected. However, by year's end a slight increase in the prime headline rent level might occur. Overall, this year Bucharest's occupancy costs will continue to remain attractive for tenants looking for new office space.

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Bucharest's office areas

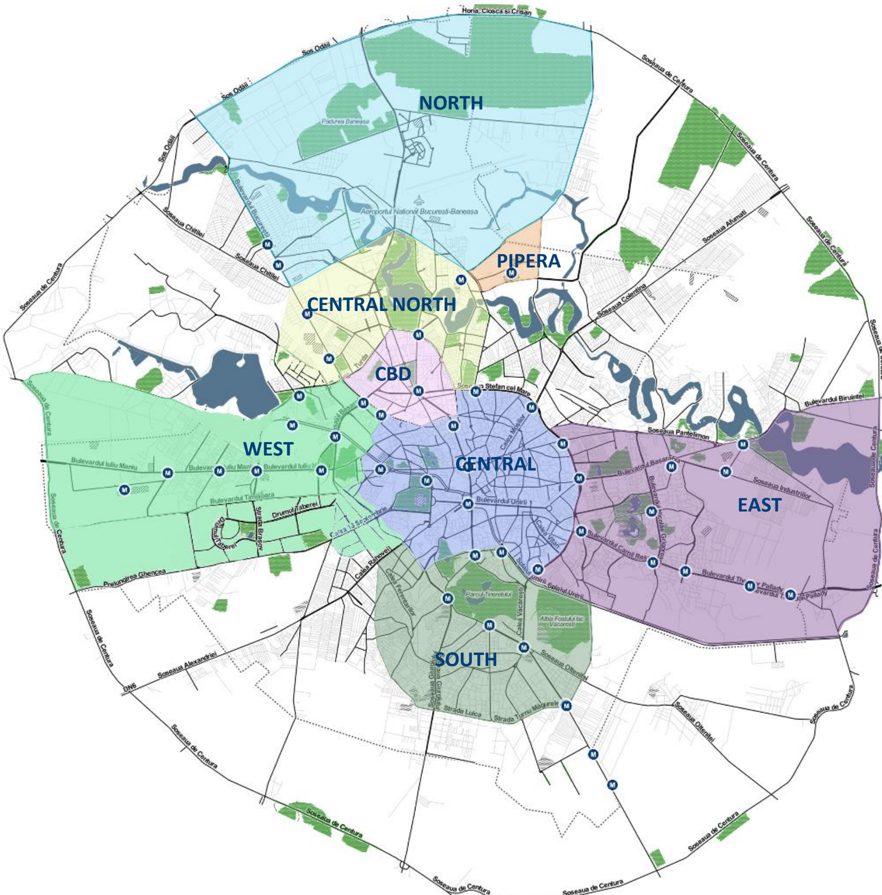

Table 3

H1 2014 Major indicators

Bucharest office market	H1 2014
Office stock Class A & B (mil. sq. m)	2.114
New supply (sq. m)	68,500
Vacancy rate (%)	15.7
Total leasing activity (sq. m)	134,500
Take-up (sq. m)	108,000
Prime headline rent (€/sq. m/month)	18

Source: DTZ Research

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 H1 2014

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