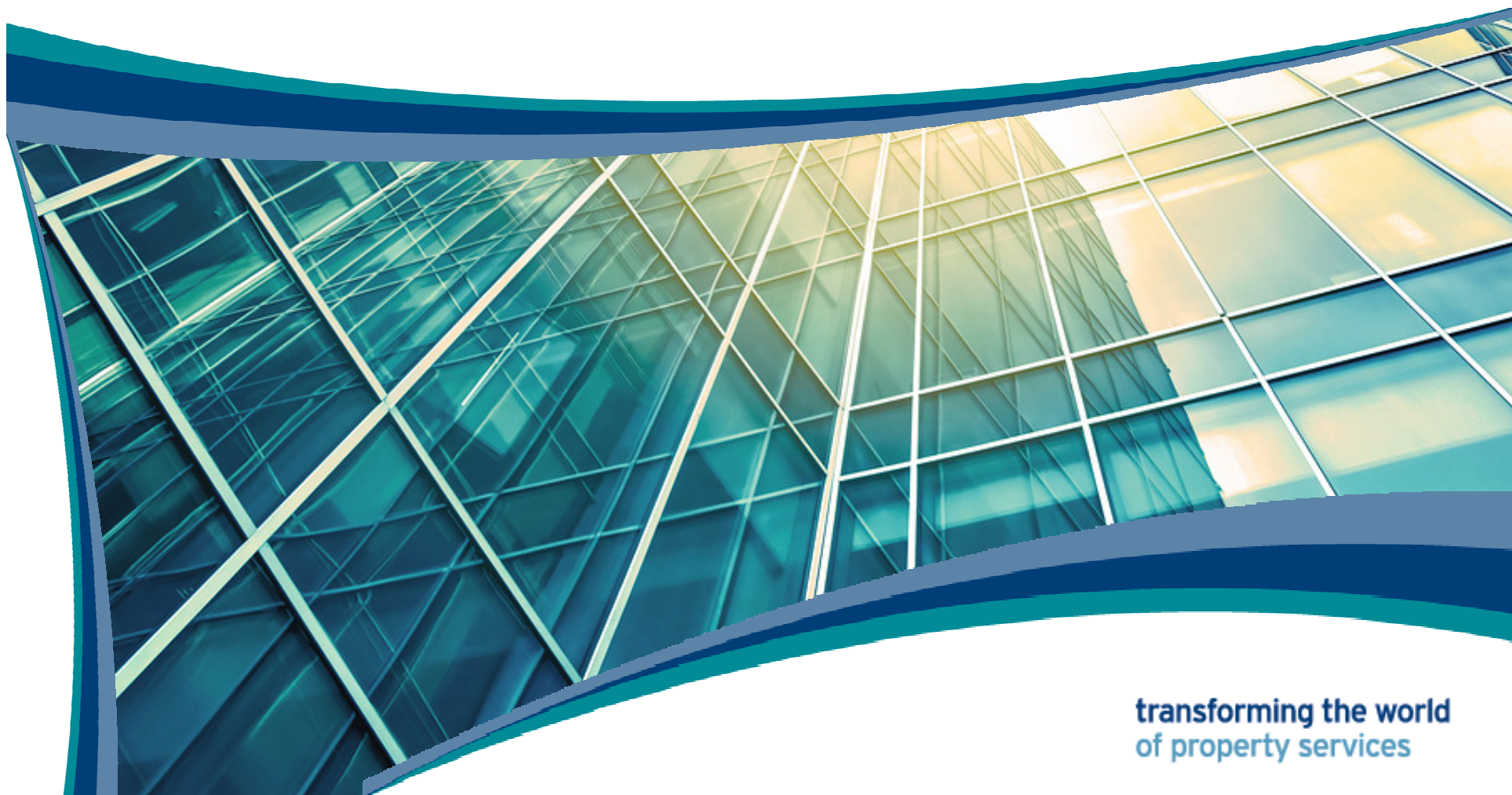


# BUCHAREST OFFICE MARKET

## SUPPLY & DEMAND

SNAPSHOT NOVEMBER 2014



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# BUCHAREST OFFICE MARKET NOVEMBER 2014



## SUPPLY

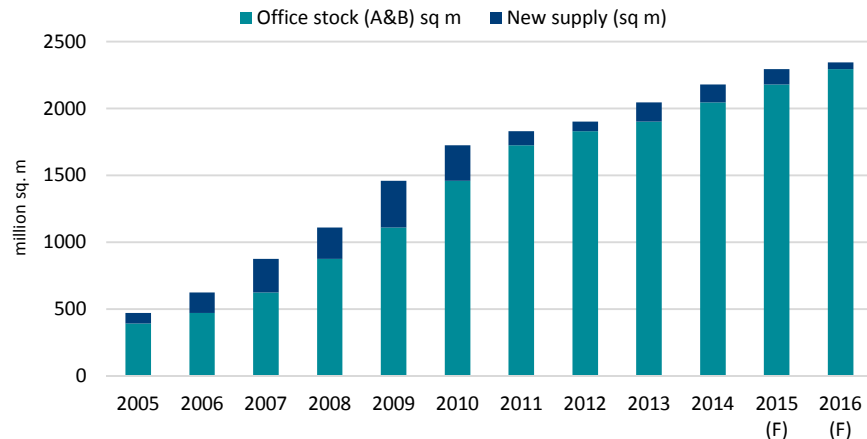
Throughout the first three quarters of 2014, Bucharest office market has registered positive evolutions. The pre-lease activity has demonstrated consistency, new demand's share in total take-up has gained importance and the rental level continued to be considered attractive by most office occupiers .

As a direct consequence, during Q1 – Q3 2014, the general vacancy rate for class A & B office space has decreased from 16.7% to 14.5%. More than that, during the 3<sup>rd</sup> quarter of 2014, the vacancy rate has fallen in all sub-markets. Finding Bucharest's office market conditions interesting, developers are already announcing new projects. Most of them are investors with a proven track record in delivering office projects in Bucharest, are familiar with the needs of the office occupiers and thus have the experience and the knowledge necessary in order to attract tenant's interest towards new office projects.

Currently under construction with an estimated delivery date for the next two years are 166,000 sq. m. Additionally, more than 500,000 sq. m of office space located all over Bucharest are in different stages of planning. However, only projects with a solid pre-lease agreement in place are likely to get financing.

Figure 1

### Evolution of the modern office stock in Bucharest 2005 – 2016 (F)



Source: DTZ Research November 2014

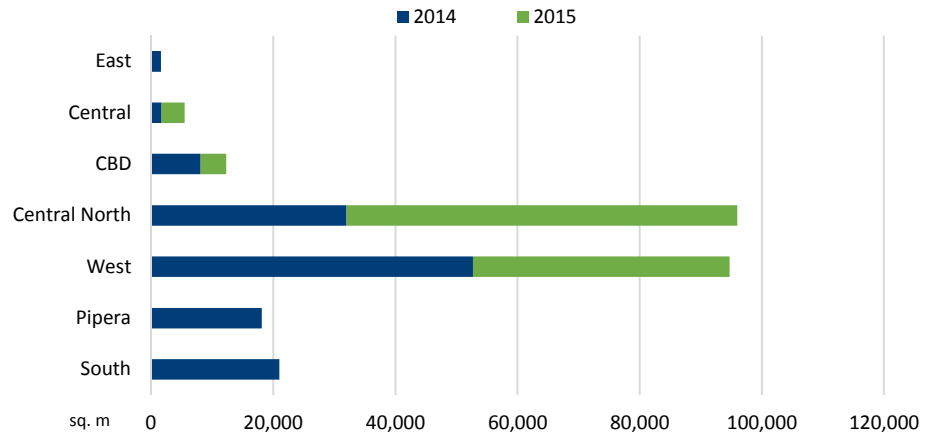
Between Q1 – Q3 2014 eight office buildings were delivered, increasing Bucharest's office stock with 4%. At the end of Q3, modern office stock in Bucharest was of 2.12 million sq. m and is estimated to reach by the end of the year approximately 2.18 million sq. m. Approximately 72% of 2014's new supply is already under a lease agreement.

The majority of office space currently under construction in Bucharest is due to be delivered in 2015 – 114,000 sq. m, out of which 25% has been already pre-leased. As in 2014, most of 2015's new supply is concentrated in Central North and West, areas that in the recent years have attracted the interest of some of the largest office occupiers present on Bucharest market. Among the office projects due to be completed next year are: AFI Business Park IV&V, Green Court – phase II, Bucharest One and Mincu Offices.

In terms of office starting construction works, between Q1 – Q3 2014 four office projects have been started, all four located in areas that were registering at the end of Q3 2014 vacancy rates below city's average: Bucharest One in Central North area (13.5% vacancy rate), The Landmark in CBD (8% vacancy rate), Hermes Business Campus – building C in Pipera South (7% vacancy rate) and AFI Business Park – IV&V phases in West (8% vacancy rate).

Figure 2

### 2014 – 2016 New supply by sub-market



Source: DTZ Research November 2014

# BUCHAREST OFFICE MARKET NOVEMBER 2014



Table 1

## Major office projects 2012 - 2014

SUBMARKET	DEVELOPER	OFFICE PROJECT	GLA (sq. m)	SURFACE LEASED IN PRE-CONSTRUCTION PHASE	YEAR OF DELIVERY	OCCUPANCY RATE Q3 2014
West	AFI Group	AFI Business Park - phase I	12,600	0%	2012	100%
West	AFI Group	AFI Business Park - phase II	12,600	100%	2014	100%
West	S Group Holding	Green Gate	27,500	33%	2014	70%
Central North	RPHI	Sky Tower	41,000	17%	2013	65%
Central North	Portland Trust	Floreasca Park	37,000	54%	2013	100%
Central North	Skanska	Green Court - Phase I	19,000	0%	2014	95%
Pipera S (Dimitrie Pompeiu)	Atenor Group	Hermes Business Campus - Phase B	18,000	4%	2014	100%

Source: DTZ Research November 2014

Table 2

## 2014 Office construction starting works

DEVELOPER	OFFICE PROJECT	GLA (sq. m)	SURFACE LEASED IN PRE-CONSTRUCTION PHASE	YEAR OF DELIVERY	SUBMARKET	VACANCY RATE END OF Q3 2014
Globalworth	Bucharest One	46,000	40%	2015	Central North	13.5%
Proiect Bucuresti	The Landmark	24,000	0%	2016	CBD	8%
Atenor Group	Hermes Business Campus - Phase C	25,000	16%	2016	Pipera S (Dimitrie Pompeiu)	7%
AFI Group	AFI Business Park IV&V	32,000	0%	2015	West	8%

Source: DTZ Research November 2014

# BUCHAREST OFFICE MARKET NOVEMBER 2014



## DEMAND

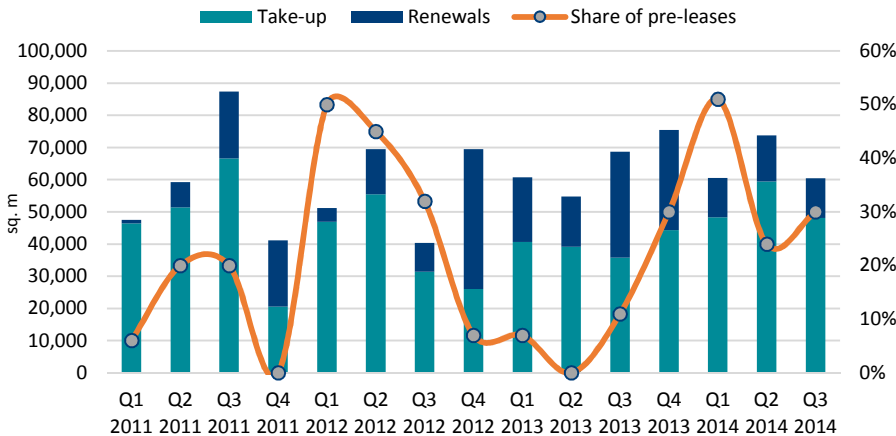
Bucharest's office leasing activity during Q1 – Q3 2014 is of 195,000 sq. m. Take-up represents 80%, with 156,000 sq. m transacted and compared with the similar period of 2013 is with 25% higher. Relocations within class A & B account 47% from total take-up – 73,000 sq. m, with pre-lease transactions representing 55% of the relocation activity. New demand accounts 53% from total take-up - 83,000 sq. m, out of which 16% are pre-lease transactions.

Renewal and renegotiation activity during Q1 – Q3 2014 is of 39,000 sq. m. This type of leasing activity has been on a downward trend this year and compared with the same period last year is with 43% lower. However, the option to renegotiate and renew the current leasing terms continues to be attractive for some of Bucharest's largest office occupiers. Renault, one of the main tenants on the local market, occupying approximately 20,000 sq. m, has recently announced its decision to remain in the current location for another four years.

During Q1 – Q3 2014 pre-lease transactions have been the largest deals in terms of area. Considering that for the office project that Globalworth is planning to develop in Pipera South, a pre-lease deal of 25,000 sq. m has been recently signed, 2014 will be the first since 2008 to register large pre-lease transactions throughout all quarters.

Figure 3

### Structure of the leasing activity Q1 2011 – Q3 2014



Source: DTZ Research November 2014

This year, new demand's share in total take-up has gained importance. Represented by expansions, relocations from noncompetitive stock to class A & B office space, existing tenants opening new operations or new companies entering the market, new demand has increased considerably during the first nine months of 2014.

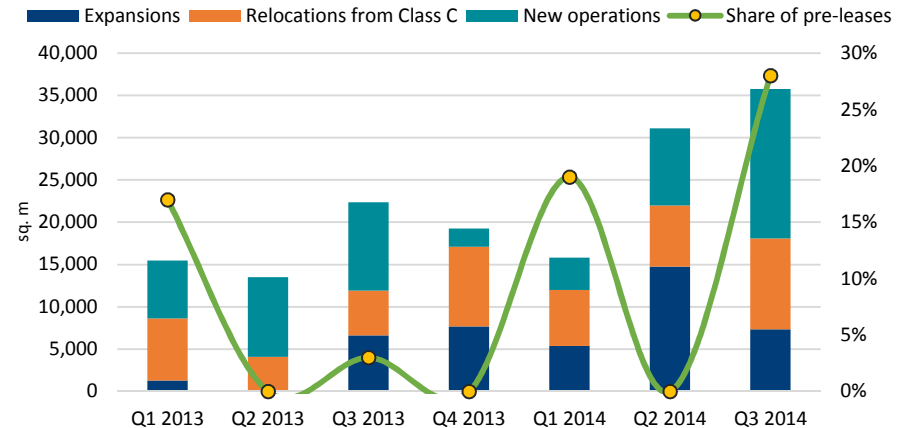
Compared with the similar period of 2013, new demand is with approximately 40% higher. This represents one of the most important factors that lead towards a gradually decrease in vacancy during 2014.

Pre-lease transactions continue to be the main driver for development however, considering that most are postponed relocations, new demand or simply put, pure take-up, is revealing the status of the business environment and the attractiveness of the office market conditions.

Technology & Telecom companies were the most active office occupiers during Q1 – Q3 2014, with 47% from the leasing activity registered. Not surprisingly, since the largest deals were signed by tenants active in this sector – Vodafone, Orange, Microsoft, Endava, Telus. Another active business sector this year was the Manufacturing & Industrial sector, with 16% share in leasing activity, followed closely by Professional Services, with 14%.

Figure 4

### New demand evolution Q1 2013 – Q3 2014



Source: DTZ Research November 2014

# BUCHAREST OFFICE MARKET NOVEMBER 2014



Table 3

## Major office transactions Q1 – Q3 2014

TENANT	BUSINESS SECTOR	LEASED SURFACE (sq. m)	OFFICE PROJECT	SUB-MARKET	TRANSACTION TYPE
Vodafone	Technology & Telecom	16,000	Bucharest One	Central North	Pre-lease
Orange	Technology & Telecom	14,000	Green Court – phase I	Central North	Pre-lease
Telus	Technology & Telecom	6,000	AFI Business Park - III	West	Pre-lease
Ericsson	Technology & Telecom	4,000	West Gate	West	Expansion
Allianz	Financial	3,500	Floreasca Park	Central North	New occupation
Genpact	Technology & Telecom	3,200	Iride Business Park	Pipera S	Expansion
Schneider Electric	Manufacturing / Industrial	3,100	Green Court – Phase I	Central - North	New occupation
Kellogg's	Manufacturing / Industrial	2,500	Floreasca Park	Central - North	New occupation

Source: DTZ Research November 2014

# BUCHAREST OFFICE MARKET NOVEMBER 2014



## DEMAND & SUPPLY – OUTLOOK

Bucharest office market has registered during the first nine months of 2014 favorable trends. Demand for office space has been on the upswing and, as a result, development has also revived. This demonstrates that investors are starting to have faith that the considerable investment that is required to build new buildings will bring returns.

Throughout 2014, the local market has been driven by relocations. With office buildings that offer high technical specifications, good accessibility and a very competitive rental level, tenants were inclined towards relocation, rather than renegotiate and renew the current leasing terms.

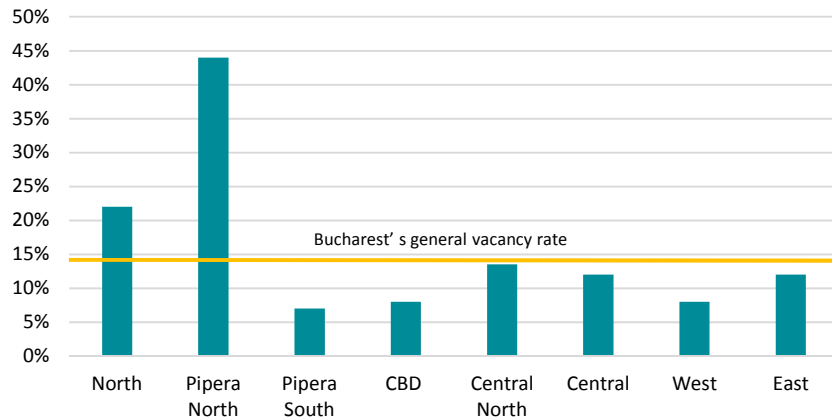
Compared with previous years, when tenants that were committing to a new lease acquisition were also reducing the percentage of occupied space, this year most office occupiers have increased their business premises. Also, companies that were accommodating their operations in business centers that provide serviced office accommodation, have moved their operations by acquiring a considerably larger amount of office space.

With new demand representing an important percentage in the take-up activity, the vacancy rate has been on a downward trend this year.

Considering that 25% of 2015's new supply is already pre-leased, the general vacancy rate is forecasted to continue the same trend going forward. However, keeping in mind that starting next year office tenants that have committed to a pre-lease will start to vacate their current premises, the need to have high demand and strong new prospects on the local market will remain imperative.

Figure 5

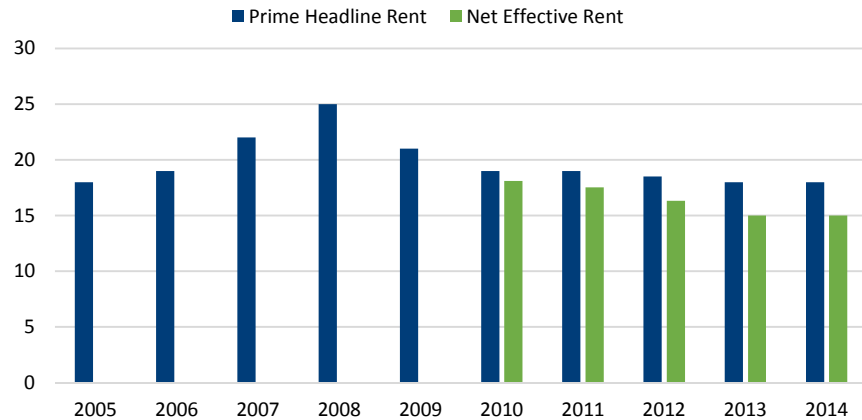
### Vacancy rate by sub-market end of Q3 2014



Source: DTZ Research November 2014

Figure 6

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



Source: DTZ Research November 2014

# BUCHAREST OFFICE MARKET NOVEMBER 2014

● Class A Headline rents (€/sq. m/month) by sub-market

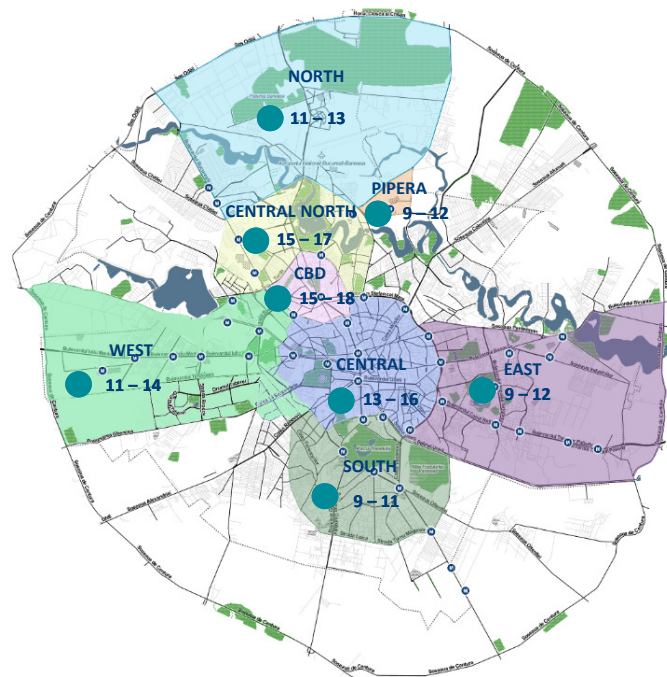


Table 3

## Q1- Q3 2014 Major indicators

Bucharest office market	Q1 – Q3 2014
Office stock Class A & B (mil. sq. m)	2.12
New supply (sq. m)	75,000
Vacancy rate end of Q3 (%)	14.5
Total leasing activity (sq. m)	195,000
Take-up (sq. m)	156,000
Prime headline rent (€/sq. m/month)	18

Source: DTZ Research November 2014

## Definitions

<b>Modern office stock</b>	Total completed or refurbished office space (occupied and vacant), newly built since 1990, A and B class offices, owner occupied and for lease.
<b>New supply</b>	Practical completions (obtaining valid occupancy permits) of new developments in a given time period.
<b>Total leasing activity</b>	The total floor space known to have been let, pre-let, renewed/renegotiated or subleased to tenants over a specified period of time.
<b>Take-up</b>	Includes new leases, meaning lease transactions within completed office schemes, pre-lease transactions and expansions.
<b>New demand</b>	Part of take-up and represented by expansions, relocations from noncompetitive stock to class A & B office space, existing tenants opening new operations or new companies entering the market.
<b>Vacancy rate</b>	Ratio of empty/vacant space in existing or newly completed buildings on the total stock.
<b>Prime headline rent</b>	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.

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