

PROPERTY TIMES

Office occupiers on expansion mode

Bucharest Office 2014

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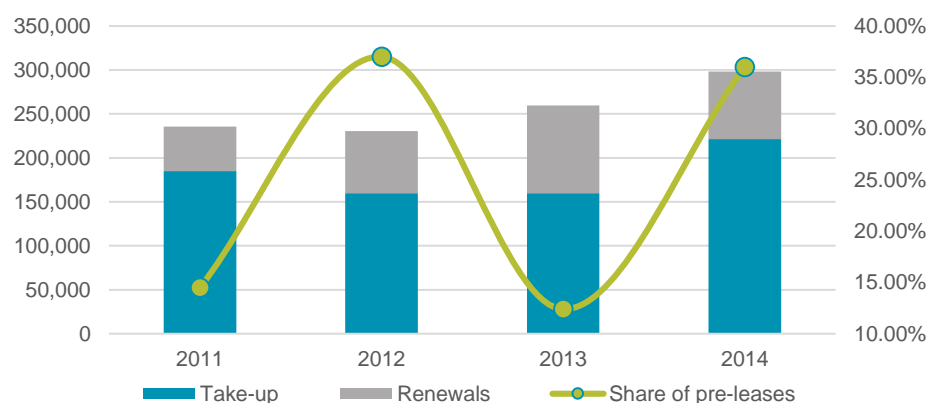
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- In 2014, Bucharest's modern office stock reached 2.16 million sq. m, being with 6% higher when compared with 2013. Twelve office buildings have been delivered last year, with a total rentable area of 117,000 sq. m. For 2015, we expect the delivery of 154,000 sq. m of office space located in projects such as Bucharest One, Green Court – B, AFI Business Park 4&5 or Sema Office 3.
- Office leasing activity in 2014 was of 298,000 sq. m. Take-up for 2014 exceeds 221,000 sq. m, being the highest take-up figure registered since 2008. New demand has increased by 60% compared with 2013. Renegotiation and renewal activity has been on a downward trend and amounted 77,000 sq. m. Companies from Technology & Telecommunication, Manufacturing / Industrial and Professional Services were the most active office occupiers.
- Between Q1 – Q4 2014, Bucharest's general vacancy rate for class A & B office space decreased from 16.7% to 13.3%. The lowest vacancy rate is registered in CBD, followed by West and Pipera South (Dimitrie Pompeiu area).
- Prime headline rent has been stable throughout the first three quarters of 2014. A slight increase of € 0.5 was recorded in Q4. At the end of 2014, prime headline rent is situated at € 18.5 /sq. m/month. Net effective rents continue to be lower by 10 – 20%.

Figure 1

Bucharest's office leasing activity 2011 – 2014 (sq. m)



Source: DTZ Research

Bucharest Office 2014

Supply

At the end of 2014, Bucharest's modern office stock stands at 2.16 million sq. m. Compared with 2013, the office stock in Bucharest has increased by 6%. Twelve office buildings have been finalised in 2014, amounting 117,000 sq. m. Among the office projects delivered are: Green Gate, AFI Business Park II & III, Green Court – A, Ethos House and Hermes Business Campus – B. Most of the new supply was completed in the West sub-market, followed by Central North and Pipera South.

Compared with 2014, the level of new supply for 2015 is expected to be higher with 30%. A total of 154,000 sq. m of office space are scheduled for completion this year, out of which 28% is already under a lease agreement. As in 2014, most of 2015's new supply will be delivered in Central North (Barbu Vacarescu – Floreasca area) and West.

Demand

Total leasing activity last year was of 298,000 sq. m. Take-up was of 221,000 sq. m, being with 38% higher when compared with 2013. This represents the highest take-up figure recorded since 2008.

Relocations within the modern office stock amounted 108,000 sq. m, with pre-leases representing 61%. Relocations from old stock to class A&B office space were of 40,000 sq. m, while the volume of expansions and new entries was of 74,000 sq. m, out of which 15% was pre-leased.

Last year new demand's share in total take-up was more than 50%. Represented by expansions, relocations from old stock to class A & B office space, existing tenants opening new operations or new companies entering the market, new demand has increased by 60% compared with 2013.

Most of the take-up was recorded in Central North submarket – 42%, followed by Pipera South – 24% and West – 13%.

Compared with 2013, renewal and renegotiation activity has been lower by 23%. Mainly, the decision to stay put has been preferred only by office occupiers that had the possibility to extend their premises and were entirely satisfied with their current location. The vast majority of renegotiation and renewal transactions have been concluded in Central North, followed by CBD and Central sub-market.

Table 1

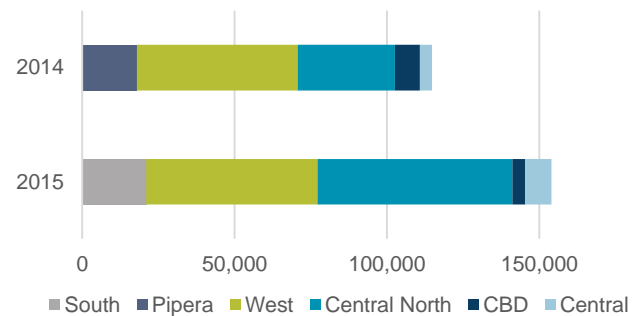
2015 Major office deliveries

Project	GLA (sq. m)	Developer	Submarket
AFI Business Park IV&V	32,000	AFI Group	West
Sema Office 3	14,000	Sema Parc	West
Bucharest One	47,000	Globalworth	Central North
Green Court - B	17,000	Skanska	Central North

Source: DTZ Research

Figure 2

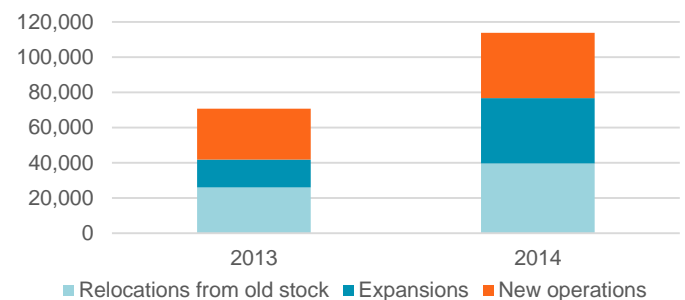
New supply by sub-market 2014 - 2015 (sq. m)



Source: DTZ Research

Figure 3

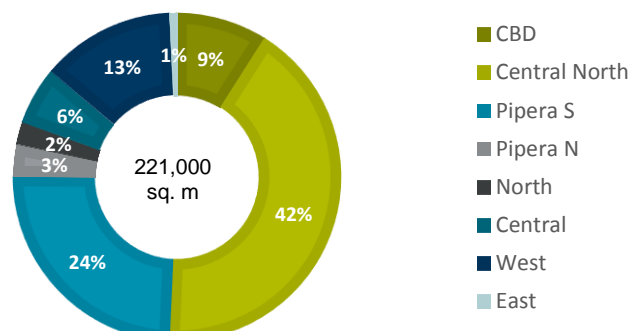
New demand 2013 – 2014 (sq. m)



Source: DTZ Research

Figure 4

2014 Take-up by submarket



Bucharest Office 2014

Pre-leases, along with one substantial renegotiation deal, have been the largest transactions by size in 2014. Considering that a significant pre-lease transaction has been registered every quarter last year, 2014 becomes a reference year in terms of pre-lease activity.

Technology & Telecommunication companies have been the most active office occupiers, with 46% from total leasing activity. Other active business sectors in terms of office leasing activity were Manufacturing / Industrial, followed by Professional Services.

Vacancy

Bucharest's general vacancy rate for class A & B office space decreased by 340 bps throughout 2014, being situated at the end of Q4 at 13.3%. In total there are 288,000 sq. m of vacant office space, divided between Bucharest's submarkets. Pipera submarket continues to account more than 35% from the total vacant space. However, the difference between Pipera South (Dimitrie Pompeiu Blvd.) and Pipera North remains significant.

The lowest vacancy rate is registered in CBD (Victoriei – Aviatorilor) – 5%, followed by Pipera South and West submarket, with 7% each.

Central North submarket has a general vacancy rate of 12%. Barbu Vacarescu – Floreasca, part of Central North submarket, with an office stock of approximately 280,000 sq. m has at the end of 2014 a vacancy rate of 11%.

Rents

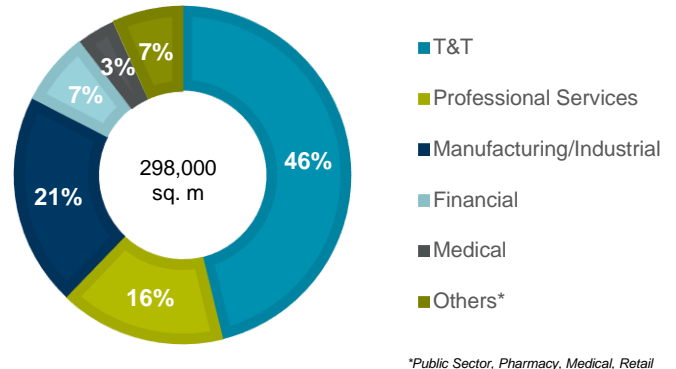
Prime headline rent has been stable throughout the first three quarters of 2014. In Q4 has increased by € 0.5, reaching a level situated at € 18.5 /sq. m/month.

In CBD headline rents for A class office space are between € 15 –18.5 / 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 A class office space is transacted between € 9 –12 / sq. m / month.

Net effective rents are lower by 10 –20 %. Tenants' position is strengthened based on a larger amount of leased space and a longer lease length. As incentives landlords are offering a rent free period and a fit-out contribution.

Figure 5

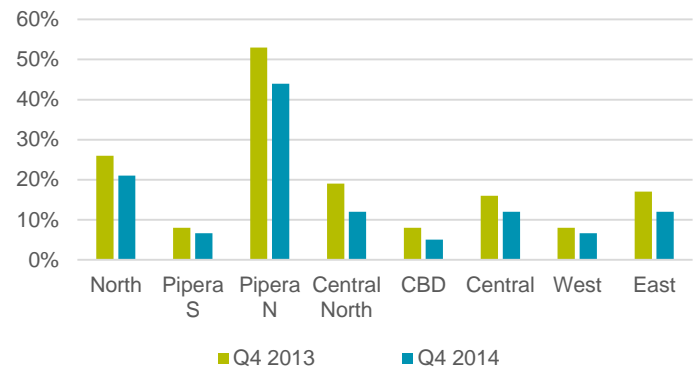
2014 Leasing activity by business sector



Source: DTZ Research

Figure 6

Vacancy rate by submarket Q4 2013 vs. Q4 2014



Source: DTZ Research

Table 2

2014 Major indicators

Bucharest office market	End of Q4 2014
Office stock class A & B (million sq. m)	2.16
New supply (sq. m)	117,000
Vacancy rate (%)	13.3
Total leasing activity (sq. m)	298,000
Take-up (sq. m)	221,000
Prime headline rent (€/ sq. m/ month)	18.5

Source: DTZ Research

Bucharest Office 2014

Outlook

Last year, pre-lease activity proved to be consistent, outlining that office occupiers have started to be more confident in signing a pre-lease agreement. In 2014, some of Bucharest's tenants have already decided towards pre-letting (e.g. Vodafone, Orange, Telekom, Sanofi, Schneider Electric, Telus), while others are currently in the process of evaluating which options are the best fit for their business needs.

Encouraged by tenants' positive attitude towards pre-letting, developers are announcing new office schemes. Most of the projects are being planned in areas that attracted office occupiers' interest in the last three years. This submarkets (CBD, West, Pipera South, Barbu Vacarescu – Floreasca) are currently registering the lowest vacancy rates. Given the context, pre-lease activity is expected to continue going forward.

In 2014 several companies opened new business operations in Bucharest, while others decided to strengthen their exposure by renting additional space. As consequence, new entries and expansions share in total take-up was of 34%.

According to PWC's latest study "Saratoga 2014" regarding employees' profitability, Romanian employee's profitability grew by 4 pct. y-on-y, being with 16 percent higher than the European average and above the averages of Central and East European countries. Given that Bucharest is the most advanced office market in Romania and continues to be competitive in the CEE region in terms of office occupancy costs and workforce productivity, it is estimated that expansions and new entries will continue to follow the same positive trend going forward.

2014's average net absorption rate was of 50,000 sq. m, confirming once more that demand for office space has been on the upswing. As result, the general vacancy rate swiftly decreased, reaching the lowest level since 2008. Although Bucharest office market continues to be tenant driven, the preconditions towards a more stable office market are starting to be outlined. However, matching supply to demand remains imperative.

Table 3

2014 Major office deals

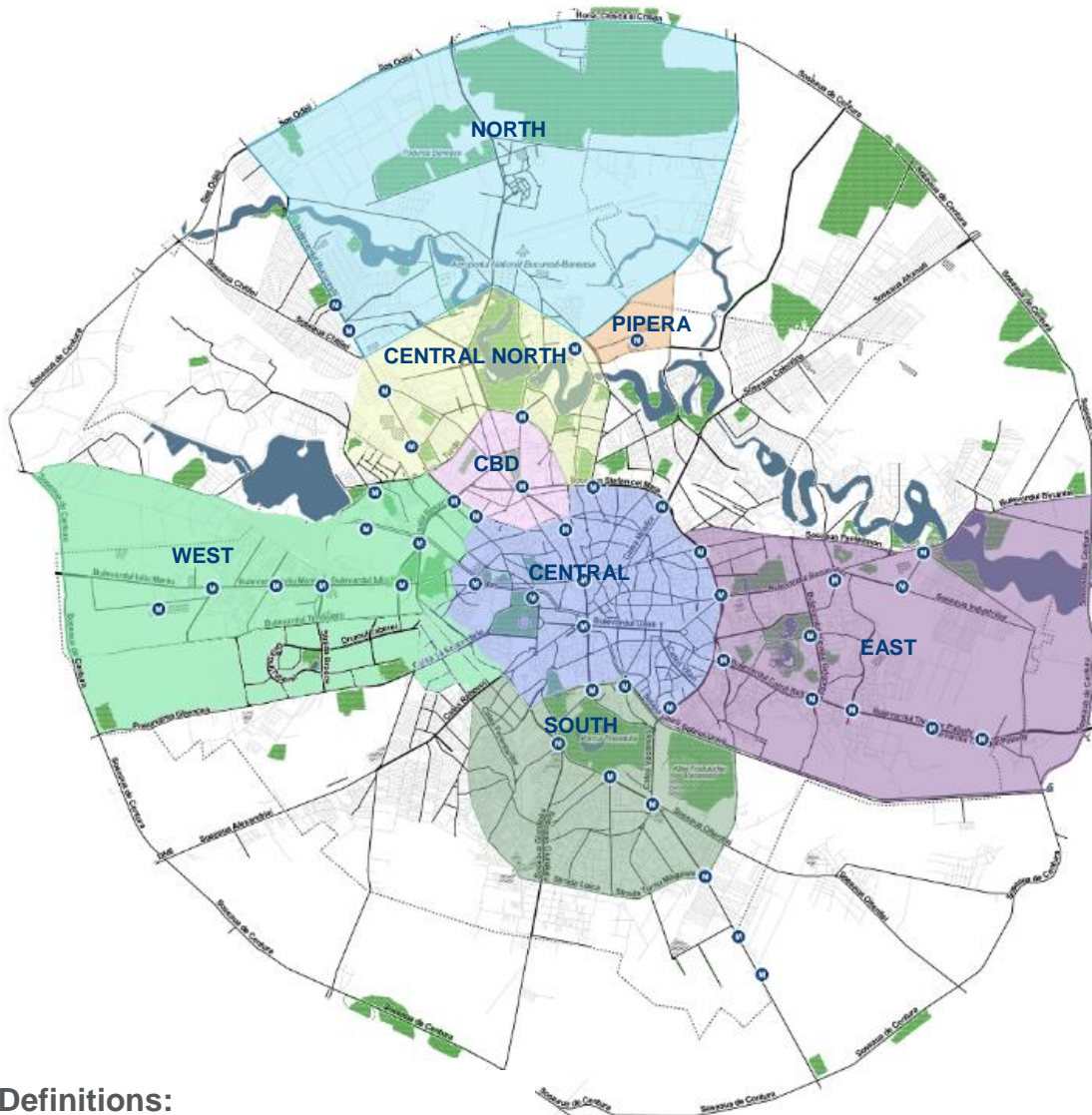
Tenant	Leased surface (sq. m)	Project	Submarket	Transaction type
Telekom	25,000	Globalworth Campus	Pipera S	Pre-lease
Renault	20,000	North Gate	Pipera N	Renewal
Vodafone	16,000	Bucharest One	Central North	Pre-lease
Orange	14,000	Green Court - A	Central North	Pre-lease
Ericsson	9,000	West Gate	West	Expansion
Microsoft	7,000	City Gate	Central North	Renewal & Expansion
Telus	6,000	AFI Business Park III	West	Pre-lease
Allianz	3,500	Floreasca Park	Central North	New occupation
ADP	1,950	Upground - BOC	Pipera S	New occupation

Source: DTZ Research

Bucharest Office 2014

Map 1

Bucharest's office submarkets



Definitions:

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.
New demand	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.
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.

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