

PROPERTY TIMES

Demand peaks while new supply remains limited

Romania Industrial 2014

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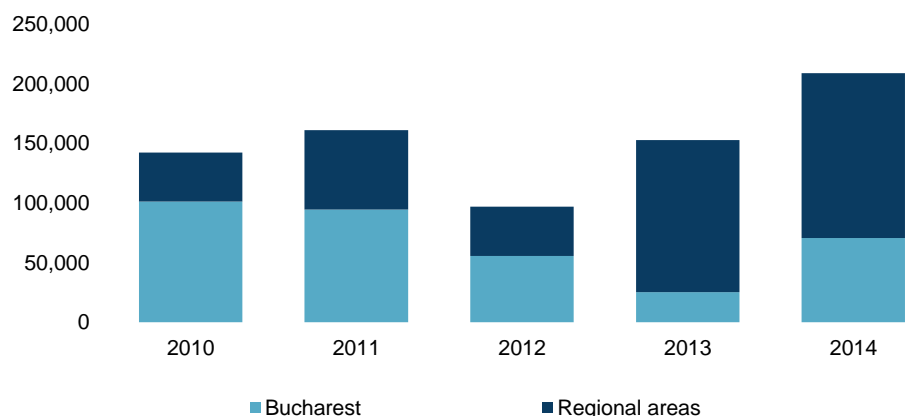
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- Romania's total stock of modern industrial and logistics spaces at the end of 2014 continues to be of 1.8 million sq. m. Bucharest accounts for 53%, with 950,000 sq. m. New supply was minimum and was recorded mostly outside Bucharest. For this year, we expect the delivery of ~ 220,000 sq. m, which will boost the stock of modern industrial spaces by 12%.
- Last year a record level of take-up was registered, with 209,000 sq. m transacted. Compared with 2013, take-up figure has increased by 37%, being also the highest in the last five years. Another 97,000 sq. m of industrial and logistics spaces were subject to renegotiation and renewal. The most active companies were from automotive sector, followed by logistics & distribution, retail and manufacturing & industry.
- Having no major deliveries recorded last year, the general vacancy rate has been on a downward trend. At the end of 2014, the vacancy rate for industrial and logistics spaces in Romania is of 7%. In Bucharest, the vacancy rate has followed the same trend and currently stands below 8%, while outside Bucharest the vacancy rate is of 5%.
- There were no major changes regarding the rental level during 2014. Prime headline rents for modern logistics warehouses are situated between € 3.6 –3.9 /sq. m/ month. The net effective rental level continues to be lower by 10 –20%.

Figure 1

Take-up evolution Bucharest vs. regional areas (sq. m)



Source: DTZ Research

Romania Industrial 2014

Supply

At the end of 2014 the total modern stock of industrial spaces across Romania was of 1.8 million sq. m. Bucharest accounts for 53%, with 950,000 sq. m of modern industrial spaces. With no major deliveries registered during 2014, Bucharest's logistics and industrial portfolio remains unchanged y-on-y.

Last year new supply was recorded outside Bucharest, with VGP delivering the 2nd phase of VGP Park Timisoara, a 7,000 sq. m warehouse and with Immofinanz converting into industrial space 7,000 sq. m in Armonia Arad Shopping Center.

For 2015 new supply of modern industrial and logistics spaces is estimated to be of ~ 220,000 sq. m. Most of the space will be delivered in Bucharest, Timisoara and Ploiesti. In Bucharest, new supply is expected to be of 80,000 sq. m, in Timisoara of 82,000 sq. m and in Ploiesti of approximately 22,000 sq. m. By the end of 2015, Romania's modern industrial and logistics stock will exceed 2 million sq. m, while in Bucharest will surpass 1 million sq. m.

Demand

Total take-up last year was of 209,000 sq. m, being higher by 37% y-o-y and the highest level registered in the last five years. Bucharest accounts for 34%, with 71,000 sq. m, while the highest share in take-up was recorded in Timisoara, with approximately 100,000 sq. m transacted.

Another 97,000 sq. m were subject to renegotiation and renewal, thus in 2014 the total leasing activity of industrial and logistics spaces throughout Romania exceeded 300,000 sq. m.

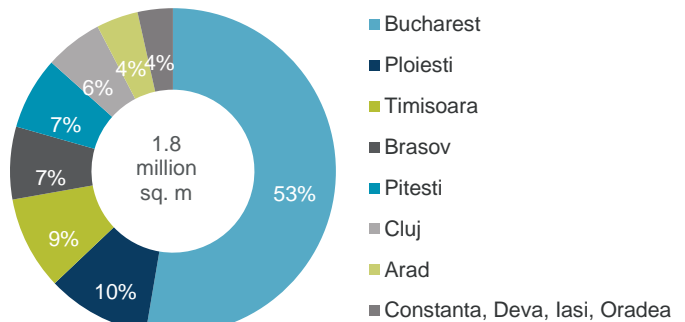
Pre-lease activity last year was of 95,000 sq. m, representing 45% from total take-up and was registered outside Bucharest. As a direct consequence, the level of new supply for 2015 has increased considerably.

The largest transactions in terms of area were recorded in Timisoara, Bucharest and Ploiesti. In Timisoara Continental pre-leased 45,000 sq. m in Timisoara Airport Park, while TT Electronics signed for an extension of 20,000 sq. m in Olympian Park. In Bucharest Rhenus Logistics rented 14,000 sq. m in Mercury Logistics Park. In Ploiesti Lidl leased ~11,000 sq. m in Ploiesti West Park.

Overall, the average space requirement was of 4,000 sq. m, confirming once more that industrial and logistics occupiers continued to be cautious when it comes to expansion strategies, preferring a phased accommodation.

Figure 2

Romania's modern industrial & logistics stock by region



Source: DTZ Research

Table 1

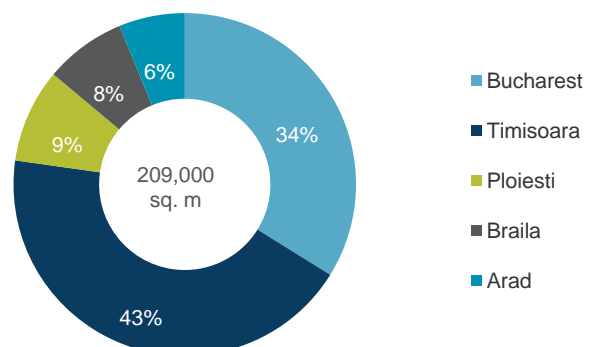
2015 Major deliveries

Project	GLA (sq. m)	City
P3 Logistics Park	40,000	Bucharest
Log Center Mogosoaia	40,000	Bucharest
Timisoara Airport Park	52,000	Timisoara
Olympian Park	20,000	Timisoara
VGP Park	10,000	Timisoara
Ploiesti West Park	22,000	Ploiesti

Source: DTZ Research

Figure 3

Take-up split by area



Source: DTZ Research

Romania Industrial 2014

In the last two years industrial production had a significant contribution to Romania's economic growth, representing approximately 30% of country's GDP. Industrial production has been mainly driven by new investments that were targeting the automotive industry. In 2014 Bosh opened in Cluj a new unit of 38,000 sq. m which produces electrical components for cars, total investment value being of € 70 million. TRW Automotive opened in Neamt (northeastern part of the country) its 7th automotive production facility in Romania, investment value being of ~ € 14 million. CML Innovative Technologies, owned by Grupo Antolin, developed in Sibiu a production facility of circa 13,000 sq. m, investment value being of € 12.5 million.

Private investments in production facilities targeting the automotive industry will continue going forward, companies such as Continental, Leoni, Dräxlmaier, Kimball Electronics or Michelin announcing their plans either to open new production units, either to expand in current locations.

Vacancy

With new supply remaining limited throughout 2014, vacancy rate has followed a downward trend both in Bucharest and regional areas. At the end of 2014 the average vacancy rate for modern industrial and logistics spaces in Romania is of 7%, while in Bucharest the vacancy rate is around 8%.

Outside Bucharest, the average vacancy rate is around 5%. Areas such as Cluj, Pitesti, Brasov or Oradea register a null vacancy rate at the end of 2014.

Ploiesti and Timisoara, 2nd and 3rd largest cities after Bucharest in terms of industrial and logistics spaces, have a vacancy rate below 5% at the end of 2014.

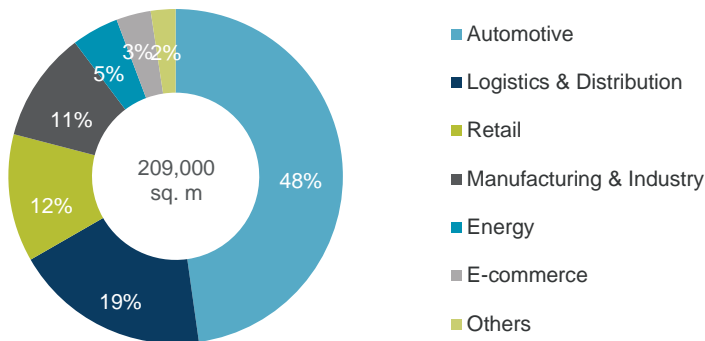
Rents

No changes were recorded in prime rental levels, Romania continuing to be one of the most competitive markets in Europe in terms of industrial occupancy costs. Prime headline rents for A class units of minimum 5,000 sq. m are between € 3.6 – 3.9 /sq. m/ month and are estimated will remain stable by the end of H1 2015. For units with surfaces below 5,000 sq. m, the rental level is marginally above. For B class units, asking rents vary between €2.5 – 3 /sq. m /month.

Net effective rents are lower by 10 – 20%. The typical incentive offer consists of rent free periods, correlated with the lease duration and the size of the surface rented. In addition to the rent, a service charge allowance applies, ranging between € 0.60 – 0.95 / sq. m / month, covering property tax, insurance, exterior security, technical maintenance costs, lightning and cleaning.

Figure 4

Take-up by business sector



Source: DTZ Research

Table 2

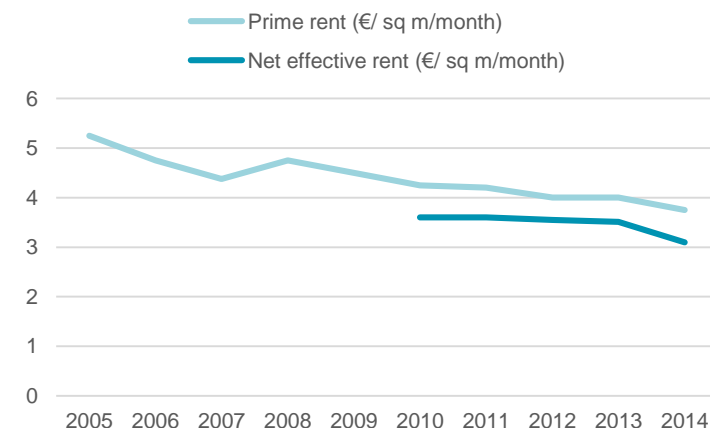
Major private investments

Company	GLA (sq. m)	Type	Area	Total investment (€ million)
Bosh	38,000	Automotive production facility	Cluj	70
Macromex	42,000	Frozen products storage	Cluj	17
CML Innovative Technologies	13,000	Automotive production facility	Sibiu	12.5
TRW Automotive	4,000	Automotive production facility	Neamt	13.6

Source: DTZ Research

Figure 5

Prime rent evolution vs. net effective rent



Source: DTZ Research

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Outlook

Demand for industrial and logistics spaces has been on the upswing during 2014 and is expected to follow the same trend going forward. Considering that Romania has a stable macroeconomic and political environment, skilled labour force, competitive salaries and attractive state aid packages, companies active in various fields of production will continue to be the most dynamic players.

Last year Romania had the second largest increase in retail sales in the European Union and for this year retail sales are projected to continue on the same positive trend. Thus, this year demand is expected to be driven also by logistics and retail players.

Given that the availability of modern industrial and logistics spaces has decreased considerably, we expect the number of pre-designed units to increase in 2015. Also, developers are starting to build on a speculative basis (especially in Bucharest), considering that currently for a company looking to rent an A class unit of 10,000 sq. m, the options are extremely limited.

For 2015 we expect an increased number of land acquisitions generated by production and logistics companies who are looking to consolidate and to have expansion flexibility.

Table 3

Major transactions

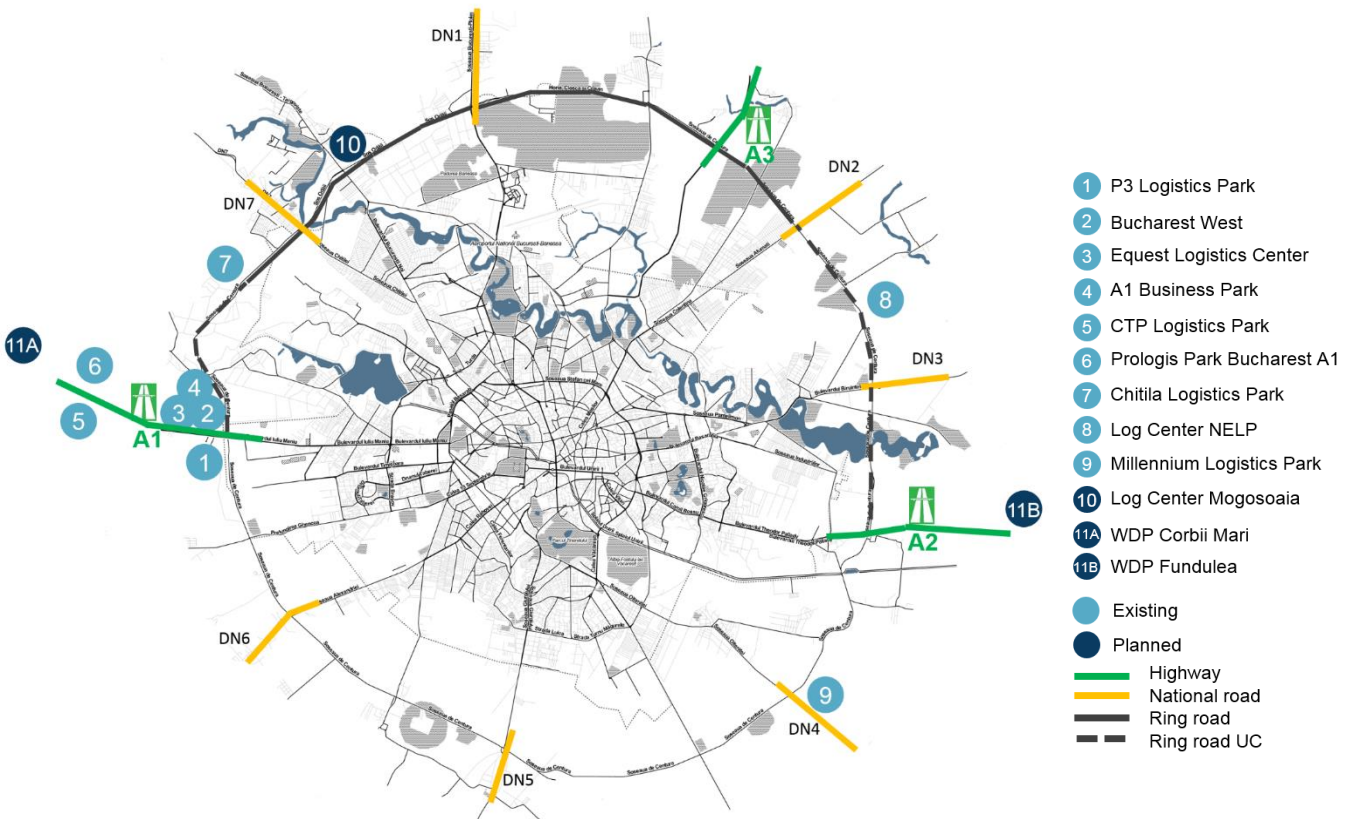
Area	Tenant	Sector	Surface (sq. m)	Project	Transaction type
Timisoara	Continental	Automotive	45,000	Timisoara Airport Park	Pre-lease
Timisoara	TT Electronics	Automotive	20,000	Olympian Park	Expansion (pre-lease)
Bucharest	Rhenus Logistics	Logistics & Distribution	14,000	Mercury Logistics Park	New lease
Ploiesti	Lidl	Retail	11,000	Ploiesti West Park	New lease
Ploiesti	Grupo Industrial Roquet	Manufacturing	7,000	WDP Aricesti	Pre-lease

Source: DTZ Research

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Map 1

Bucharest's major logistics schemes



Definitions:

Modern industrial stock	Total completed modern industrial/logistics space (occupied and vacant) developed since 2004 and offered for lease.
New supply	Completed newly built schemes that obtained a use permit in the given period.
Total leasing activity	The total space known to have been let, pre-let, renewed/renewed or subleased to tenants over a specified period of time.
Take-up	Includes new leases, meaning lease transactions within completed schemes, pre-lease transactions and expansions.
Vacancy rate	Ratio of empty/vacant industrial/logistics space in existing or newly completed schemes on the total stock.
Prime headline rent	Headline rent level achieved in new prime, high specification unit, matching the corporate needs.

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