

PROPERTY TIMES

Demand boosts office development

Bucharest Office H1 2015

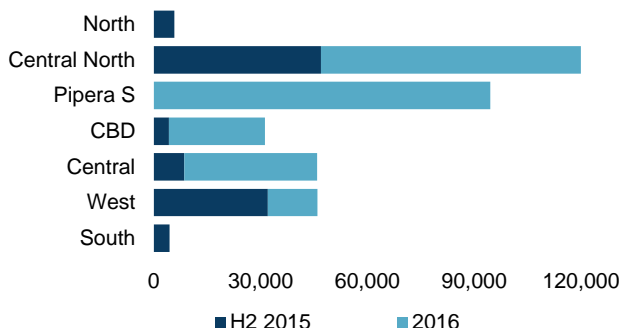
Supply

Starting 2015 modern office stock in Bucharest increased by 2.5%. At the end of June existing class A and B office space surpassed 2.21 million sq. m. Three office buildings were delivered, having a total GLA of 54,000 sq. m: City Offices, Auchan Tricodava and Green Court – building B.

Currently under construction with delivery date by year's end are 100,000 sq. m of modern office space. Approx. 50% is concentrated in one project - Bucharest One, located in Central North submarket.

Figure 1

Office space UC by submarket, delivery date H2 2015 & 2016



Source: DTZ Research

Demand

In Bucharest office leasing activity recorded throughout H1 2015 is of 135,000 sq. m, no changes being registered y-o-y. Net take-up represents more than 80%, with 112,000 sq. m transacted and is divided between relocations within A and B class – 44% and new demand – 56%. Compared to the same period last year, net take-up is higher by 3.5% and the ratio between relocations within modern office stock and new demand has reversed. Overall, new demand (relocations from old stock, expansions and new operations) has increased y-o-y by ~ 35%.

Pre-lease activity has improved by 50% compared to H1 2014. Approximately 59,000 sq. m were pre-leased in the first six months of 2015, representing 52% of net take-up. Moreover, pre-lease transactions were the largest deals in terms of area (e.g. Genpact – 22,000 sq. m, Oracle – 20,000 sq. m, Carrefour – ~7,000 sq. m, NNDKP – ~6,000 sq. m).

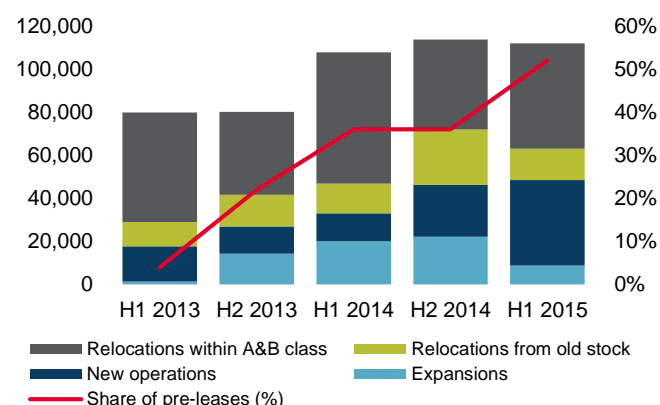
Another 23,000 sq. m were the subject of renegotiation and renewal transactions, 40% being concluded in Pipera.

Most of the net take-up was recorded in Central North submarket – 52%, followed by Pipera South – 27% and West – 7%.

Technology & Telecommunication (T&T) companies were the most active office occupiers, with 64% net take-up, followed by Professional Services companies, with 14% and companies active in the Retail sector, with 9%. Comparing demand by business sector with what was registered in the same period last year, office area leased by T&T occupiers has increased by 11%.

Figure 2

Net take-up structure H1 2013 – H1 2015



Source: DTZ Research

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Vacancy

Bucharest's general vacancy rate for class A & B office space varied throughout the first six months of 2015. Experiencing a slight increase in Q1, the vacancy rate has started to follow a downward trend in Q2 and at the end of June stands at 13.5%. In total there are 300,000 sq. m of modern office space vacant, the largest amount being located in Pipera North (26%) and North area (17%).

Looking at submarkets performance, the lowest vacancy rates are in CBD (Victoriei – Aviatorilor) – 5%, West – 5% and Central North – 9%. The vacancy rate in Pipera South has remained stable q-o-q and at the end of June stands at 11%. Barbu Vacarescu – Floreasca, part of Central North, with an office stock of 295,000 sq. m has at the end of June a vacancy rate of 8.5%.

Rents

No major changes regarding the rental levels. Prime headline rent stands 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 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 € 8 –11 / sq. m / month.

Table 1

Bucharest office market	H1 2015	H2 2015 Directional outlook
New supply (sq. m)	54,000	↑
Vacancy rate (%)	13.5	↓
Take-up (sq. m)	112,000	→
Prime headline rent (€/ sq. m/ month)	18.5	→

Source: DTZ Research

Outlook

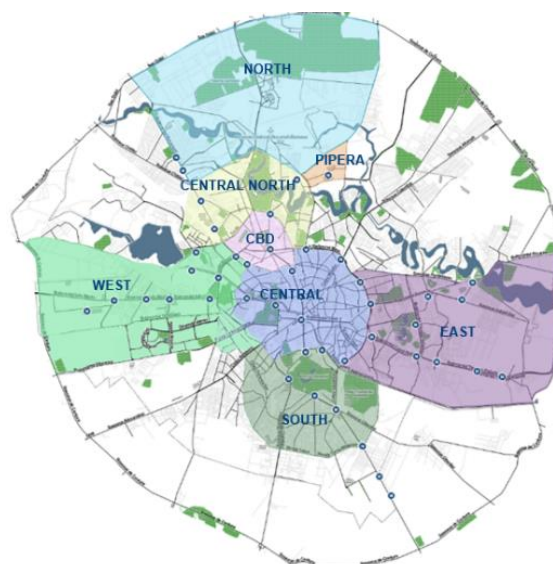
In the next 18 months 345,000 sq. m of office space will be completed in Bucharest. More than 70% will be delivered next year. Overall the level of new supply in 2016 is forecasted to become the highest in the last five years.

Rental levels are not expected to increase. However, the difference between headline and net effective rents will reduce in areas that have attracted occupiers' interest in the last two years and are constantly recording low vacancy rates.

Based on DTZ's calculations, analysing absorption, vacancy and pipeline, general vacancy rate is projected to decrease in the upcoming quarters. At the end of Q4 2015 Bucharest's vacancy rate might reach a level situated around 12%.

Map 1

Bucharest's office submarkets



Source: DTZ Research

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