

# PROPERTY TIMES

## Strong demand confirms developers' confidence

### Bucharest Office H1 2016

#### Supply

Throughout H1 2016 Bucharest's modern office stock increased by 6%. At the end of June, existing class A and B office space amounts 2.39 million sq. m. Overall, 6 office buildings were delivered, having a total GLA of 135,000 sq. m. Given that new office deliveries last year amounted 85,000 sq. m, in H1 2016 new supply was higher by 60%.

For the second half of 2016, another 185,000 sq. m of office space are expected to be completed. Compared with H1 2016, when most of the new supply was delivered in Barbu Vacarescu – Floreasca (Central North submarket), in H2 2016 the highest level of new supply will be recorded in Pipera South – 25%.

Figure 1

**Bucharest's modern office stock evolution (sq. m)**



Source: DTZ Research

#### Demand

In Bucharest gross take-up recorded throughout H1 2016 exceeds 190,000 sq. m. Net take-up represents more than 68%, with 130,000 sq. m transacted and is divided between relocations within A and B class – 25% and new demand – 75%. Compared to the same period last year, net take-up is higher by 16%. Moreover, new demand (relocations from old stock, expansions and new operations) has increased by 50% y-o-y. The largest contribution to the level of new demand was represented by expansions and new operations (new companies entering the market and existing occupiers opening new businesses).

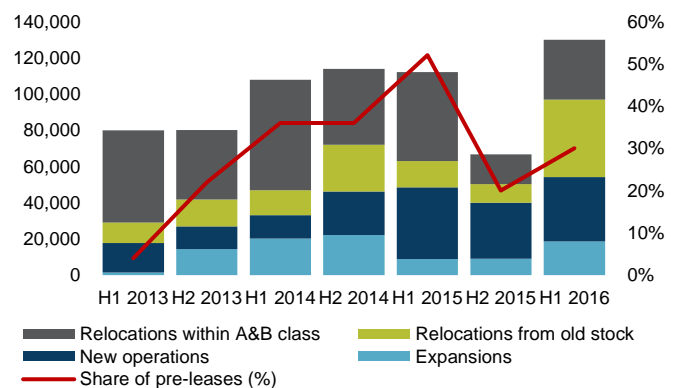
More than 60,000 sq. m were the subject of renegotiation and renewal transactions in H1 2016. Compared with the same period in 2014 and 2015, this type of leasing activity has increased. Overall, the decision to stay put has been preferred by office occupiers that were entirely satisfied by location and financial terms. The vast majority of renegotiation and renewal transactions have been concluded in areas that have attracted occupiers' interest in the last two years, areas such as Pipera South, West, CBD or Central North.

Pre-leases and renegotiation deals have been the largest transactions by size in H1 2016 (e.g. pre-leases: BCR – 20,000 sq. m, Mysis – 8,000 sq. m, ADP – 6,000 sq. m; e.g. renewals: Telekom – 13,000 sq. m, IBM – 10,000 sq. m; Infinion Technologies – 6,000 sq. m).

Most of the net take-up was recorded in the West submarket – 42%, followed by Central North – 20% and Pipera South – 12%. The most active office occupiers continued to be Technology & Telecommunication companies, with 38% of net take-up, followed by Professional Services companies, with 21% and companies active in Financial, with 20%. Comparing net take-up by business sector with what was registered in the same period last year, office area leased by Professional Services occupiers is four times higher.

Figure 2

**Net take-up structure H1 2013 – H1 2016 (sq. m)**



Source: DTZ Research

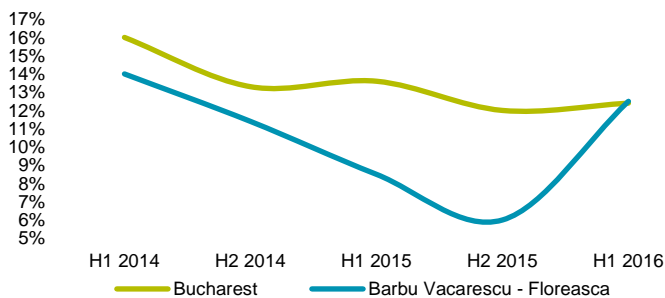
## Vacancy

At the end of H1 2016, Bucharest's general vacancy rate for class A & B office space stands at 12.4%. In total there are 295,000 sq. m of modern office spaces vacant. Approximately 24% are located in Pipera North, area which is followed in terms of availability by the North submarket, with 16% of the total vacant office space.

The lowest vacancy rates are recorded in CBD – 3% and Pipera South – 6%. Regarding Barbu Vacarescu – Floreasca (area part of the Central North submarket), given that throughout the first half of the year most of the new supply was completed in this particular location, the vacancy rate of this office hub stands at 12.5%.

Figure 3

### Bucharest & Barbu Vacarescu – Floreasca area Vacancy rate evolution



Source: DTZ Research

## Rents

In H1 2016 the prime headline rent has been stable remaining at € 18.5 /sq. m /month. In CBD headline rents for A class office space are between € 17 – 18.5 / sq. m / month, while in Central North are in the range of € 15 – 16.5 / 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.

## Outlook

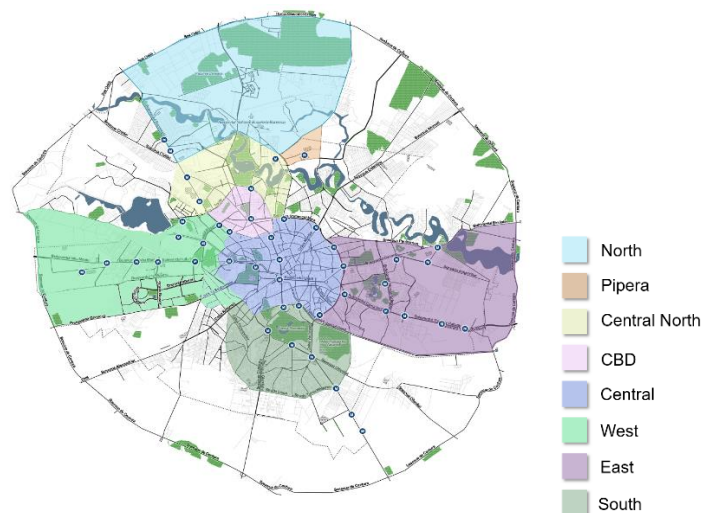
In Bucharest currently under construction there are 450,000 sq. m of office space. Approximately 40% are due to be completed by the end of the year. In Q4 2016, the modern office stock in Bucharest will exceed 2.55 million sq. m.

Based on DTZ's calculations, analysing absorption, vacancy and pipeline, general vacancy rate is projected to reach in Q4 2016 the same level recorded at the end of June – 12.5%.

Rental levels are not expected to increase going forward. However, in CBD the difference between headline rents and net effective rents is forecasted to reduce, given that the availability of A class office space is quite limited.

Map 1

### Bucharest's office submarkets



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