

MARKETBEAT BUCHAREST OFFICE 2016 High development activity reflecting occupiers' demand

Supply

At the end of Q4 2016 modern office stock in Bucharest surpassed 2.5 million sq. m. Throughout the year 275,000 sq. m of office spaces were delivered, this being the highest level recorded since 2009. Most of the new office supply was completed in Barbu Vacarescu – Floreasca (Central North submarket), – 43%, followed by Pipera South – 27%.

For 2017 more than 190,000 sq. m of office space are planned for delivery. The highest level of new supply will be recorded in the West submarket (around 50%).

Figure 1

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



Source: C&W Echinox

Demand

In Bucharest gross take-up recorded during 2016 amounts 375,000 sq. m. Net take-up represents 70%, with approx. 270,000 sq. m transacted and is divided between relocations within A and B class – 35% and new demand – 65%. When compared to the previous year, 2016's net take-up figure is higher by 50%. Demand for office space has increased significantly mainly because the area required by tenants for expansions and new operations (new companies entering the market & existing occupiers opening new businesses) was higher by 42% y-o-y.

Renegotiations and renewal transactions amounted 100,000 sq. m, the vast majority being performed in the West submarket (40%) and Central North area (20%). Generally, the decision to stay put has been preferred by office occupiers that were entirely satisfied by location and financial terms.

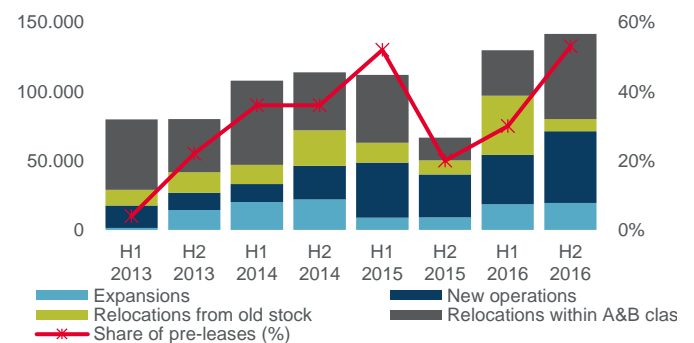
With approx. 90,000 sq. m transacted, pre-lease activity continued to be consistent and represented more than a third of the net take-up recorded in 2016. Compared with the previous years, this is the largest area pre-leased since 2008.

The largest deals by size were pre-leases and renegotiations (e.g. pre-leases: Renault – 47,500 sq. m, 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).

Last year the most active office occupiers were Manufacturing / Industrial companies, with 31% of the net take-up, followed by Technology & Telecommunication companies, with 22% and companies active in Professional Services, with 19%. Comparing net take-up by business sector with what was registered in the previous year, office area leased by T&T tenants was lower by 20%, while the area leased by Manufacturing / Industrial companies was ten times higher.

Figure 2

Net take-up structure H1 2013 – H2 2016 (sq. m)



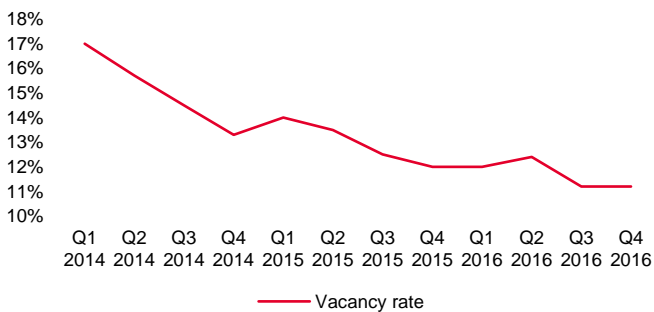
Source: C&W Echinox

Vacancy

At the end of Q4 2016 general vacancy rate in Bucharest is of 11.2%. Looking at submarkets' performance, the lowest vacancy rates are recorded in the West area – 4.6%, followed by Pipera South – 7.8% and Central North submarket – 8%. The highest amount of vacant space is located in Pipera North and represents 25% of the total vacant space existing in Bucharest at the end of 2016.

The office hub Barbu Vacarescu – Floreasca (part of Central North), with a stock of ~420,000 sq. m, has a vacancy rate of 11%.

Figure 3
Bucharest – Vacancy rate evolution



Source: C&W Echinox

Rents

In 2016 the prime headline rent continued to be 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.

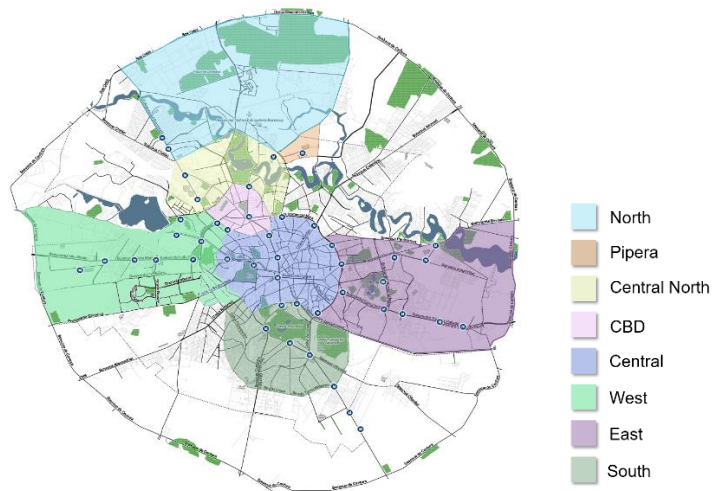
Outlook

Development activity will continue going forward, given that more than 400,000 sq. m of office spaces are planned to be delivered by the end of 2018.

In the last three years, most of the new supply was completed in Barbu – Vacarescu Floreasca and Pipera South. Starting this year, the West submarket will be the most active location in terms of office construction works. Both international and local developers have ongoing projects in this particular area, since it offers good connections to all parts of the city and is organized around the Politehnica University, one of the largest labour pools in Romania for tenants active in Technological & Telecommunication sector.

Since occupiers have multiple options to choose from, prime rents will remain stable. When it comes to office demand, as long as Bucharest continues to be competitive in terms of occupancy costs and workforce productivity, expansions and new requirements are set to follow the same positive trend.

Map 1
Bucharest's office submarkets



Source: C&W Echinox

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