

Overview

In Q1 2017 the office market in Bucharest experienced a cautious start in terms of supply, with only 11,000 sq.m being completed. Although the number of office projects currently under construction is high, no major pre-lease deal has been recorded. Office leasing activity continued to be strong, with new demand representing more than 75% of the net take-up. Renewal and renegotiation deals have been the largest transactions by size.

Occupier focus

Demand for office space located in Bucharest amounted over 110,000 sq.m, with net take-up representing 50%. As the pipeline continues to be consistent, the competition between existing landlords and active developers has led to a high level of renegotiation and renewal deals. No major pre-lease transaction has been concluded throughout Q1 2017. The most dynamic office occupiers were companies from Technology & Telecommunication, Financial and Manufacturing/Industrial sectors.

Investment focus

Office segment attracted around 11% from the total investment value recorded in the first quarter. The most important deal concluded was the sale of Polona 68, office building located in the Central submarket. Since a series of prime office projects are currently on the market for sale, it is estimated that in 2017 the value invested in office properties will continue to be strong. Prime yields have remained stable and stand at 7.25%.

Outlook

New supply in 2017 is forecasted to be around 150,000 sq.m, with West submarket accounting for over 40%. A series of office projects have been postponed for 2018, thus the pipeline for next year exceeds 300,000 sq.m. Given the competition between existing landlords and active developers, rental levels are not expected to increase going forward.

MARKET INDICATORS

Market Outlook

Prime Rents:	With multiple options available to occupiers, prime rents will remain stable.	▶
Prime Yields:	A slight compression is forecasted as investor interest increases.	▶
Supply:	The level of new supply for 2017 is projected to be lower compared to the previous year	◀
Demand:	Leasing activity continues to be strong, with expansions and new operations representing the largest share in net take-up.	▶

Prime Office rents – March 2017

LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Bucharest (Centre)	18.50	222	22.4	0.0	-1.0
Timisoara	14.00	168	17.0	0.0	1.5
Cluj-Napoca	14.00	168	17.0	0.0	-2.6
Brasov	12.50	150	15.2	0.0	4.6

Prime Office yields – March 2017

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Bucharest (Centre)	7.25	7.25	7.50	10.00	5.60
Timisoara	8.00	8.00	8.25	11.00	7.50
Cluj-Napoca	8.00	8.00	8.25	10.50	8.00
Brasov	8.00	8.00	8.50	11.00	7.50

NOTE: * 6 year record

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance

