

Overview

Strong market performance recorded in Q4 has led the total office space transacted in Bucharest in 2016 to be of ~ 400,000 sq. m. As business confidence is high and occupancy costs continue to be attractive, the office market draws the interest of different types of occupiers, while office construction works are following the same positive trend.

Occupier focus

Leasing activity in Bucharest continued to be strong with net take-up in Q4 in excess of 100,000 sq. m. Approx. 50% is represented by expansions and new requirements. Pre-lease activity continued to be strong, the largest transaction closed being Renault pre-letting 47,500 sq. m. Technology & Telecommunication companies continue to be active. However, this quarter companies from Manufacturing / Industrial sector were the most dynamic office occupiers.

Bucharest's modern office stock stands at 2.52 million sq. m. Over the quarter, in excess of 100,000 sq. m of new supply were delivered, the majority of which was in the Pipera South submarket (Dimitrie Pompeiu office hub). This has not had an impact on the vacancy rate, which compared with the previous quarter remained relatively stable at around 11.2%. West submarket is recording the lowest vacancy rate (4.6%), followed by Pipera South (7.8%).

Investment focus

After a dry quarter, investment into the Romanian office market was peaking up in Q4, reaching €283 million. Among the most notable investment deals were the purchase of Metropolis office building by PPF Real Estate for an estimated value of ~ € 50 million and the acquisition of ~ 27% of Globalworth's portfolio by the South African investment fund Growthpoint Properties. Prime yields continue to stand at 7.25%.

Outlook

New supply in 2017 is forecasted to exceed 250,000 sq. m, with West submarket accounting for over a quarter. Rental levels are not expected to increase going forward, given the competition between existing landlords and active developers. 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.

MARKET INDICATORS

Market Outlook

Prime Rents:	With multiple options available to occupiers, prime rents remain stable.	▶
Prime Yields:	A slight compression is forecasted as investor interest increases.	▶
Supply:	The amount of sq. m under construction continues to be high, developers being driven by occupiers' increasing interest.	▶
Demand:	Demand exceeds expectations, with expansions and new operations taking the largest share.	▶

Prime Office rents – December 2016

LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Bucharest (Centre)	18.50	222	21.8	0.0	-0.5
Timisoara	14.00	168	16.5	0.0	2.3
Cluj-Napoca	14.00	168	16.5	-3.4	-2.0
Brasov	12.50	150	14.7	4.2	4.6

Prime Office yields – December 2016

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	8.50	11.00	7.50
Cluj-Napoca	8.00	8.00	8.50	10.50	8.00
Brasov	8.00	8.25	8.75	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

