



At a glance **H1 2017**

BUCHAREST OFFICE MARKET REVIEW



3.1M m²
Total office stock



157,000 m²
Office take up in H1 2017



9%
Vacancy rate



€17.50-18.50
Rent range, prime office schemes (m²/month)

➤ THE BUCHAREST OFFICE MARKET CONTINUES TO ENJOY A STEADY GROWTH OF OCCUPIER ACTIVITY ON SOLID JOB CREATION AND EXCEPTIONAL ECONOMIC GROWTH

During the past 6 months, the preference of tenants for high standard of offices concentrated the development activity on class A segment. Development activity added only 72,000 sq m during H1 2017 while approximately 50,000 sq m are proposed to be delivered in H2 2017. Thus, at the end of H1 2017, the total office stock in Bucharest stood at 3.1M sq m.

The pattern of market development is likely to change in the near future as the newly emerging central western area will add approximately 200,000 sq m during the next 2-3 years.

Although new buildings will be completed, class A vacancy is expected to have a further reduction triggering a similar evolution for the overall vacancy and a change in the negotiation power of the tenants. When the overall vacancy is going to decrease below 7-8%, the office segment will experience a landlord market.

Completed office buildings in H1 2017

Building	GLA (m ²)	Subzone	Developer
Dorobanti 33	2,800	Central	Platinum
Aviatorilor 8A	8,000	Central	NEPI
Timpuri Noi Square 1&II	33,000	Central-South	Vastint
Globalworth Campus	28,000	North	Globalworth

Source: BNP Paribas Real Estate

Proposed office buildings to be completed in H2 2017-2018 (selection)

Year planned	Building	GLA (m ²)	Subzone	Developer
2017	The Bridge	37,000	Central-West	Forte Partners
2018	AFI Tech	52,000	Central-West	AFI Europe
2018	Orhideea Towers	37,000	Central-West	Immofinanz
2018	The Mark	20,000	Central	S Immo
2018	Unirii View	24,000	Central	C&I Building

Source: BNP Paribas Real Estate

➤ SEVERAL NEW DEVELOPMENTS WILL BE FULLY LEASED BEFORE COMPLETION

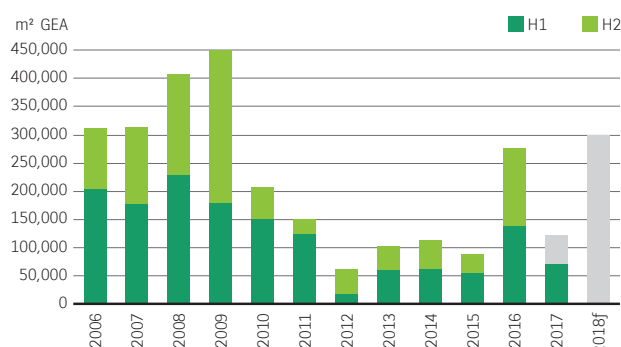
The most noteworthy factor in H1 2017 has been the significant drop of vacancy rate from 13% at the end of 2016 to approximately 9% at the end of H1 2017, as a result of the combination of rising demand and limited supply, especially on class A segment. While the level of completions between 2015 and H1 2017 was 435,000 sq m, the level of take-up was approximately 680,000 sq m, literally absorbing the existing supply and creating also pressure in the future due to the effect of pre-leases on the proposed supply. As a result, some new developments will be fully leased before the completion.

The lowest vacancy rates are recorded by the most sought after areas, such as central (Universitatii-Victoriei), central-northern (Aviatorilor-BarbuVacărescu-Floreasca) and western areas.

The large number of projects initiated or currently under-construction is fueling the fierce competition creating difficulties for non-competitive properties vacated by tenants. On the long term, class B segment will be the main contributor to the total vacancy rate as an effect of relocations.

Owners of class B offices located in prime locations are expected to carry out refurbishment works of their buildings as a response to the expectations of tenants. In a very competitive environment, the success of these buildings will depend on the application of modern technical and architectural solutions. This tendency is already anticipated by investors that are actively prospecting the market for the identification of properties with redevelopment potential.

Annual Office Supply



Source: BNP Paribas Real Estate, f - forecast

LAST YEARS' PRE-LEASES AFFECT THE CURRENT AVAILABILITY

Major office transactions completed during H1 2017 (selection)

No	Tenant	Sector	Building	Area (m²)	Subzone
1	IBM*	IT&C	The Bridge	12,000	Central-West
2	Huawei	IT&C	Globalworth Tower	6,700	North
3	CASMB	Public	PC Center II	5,600	North
4	Kruk	Financial	Timpuri Noi Square	4,000	Central-South
5	WIPRO	Services	Globalworth Tower	3,900	North
6	Amoma	Services	Globalworth Plaza	2,300	North
7	Impact Hub	Services	Timpuri Noi Square	1,700	Central-South

Source: BNP Paribas Real Estate, Bucharest Research Forum

*Transacted by BNP Paribas Real Estate.

Annual office take-up



Source: BNP Paribas Real Estate

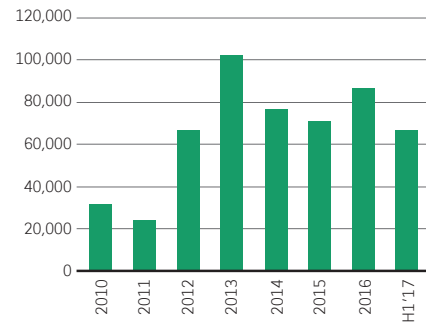
The level of take up was 157,000 sq m in H1 2017, being in line with the figures (150,000 sq m) recorded for similar period of 2016. The structure of the transactions clearly shows the occupiers appetite for quality buildings, take-up of class A offices being three times higher compared to the level recorded for class B offices.

New companies in the IT&C, call center and shared service sectors are actively prospecting the market, large transactions being already anticipated till the end of the year.

The take-up level was sustained by strong demand coming from companies that decided to relocate. Total occupancy costs per sq m and employee are still the main criteria for the decisions of the tenants, but the qualitative factors (architecture, finishes, technologies, additional amenities/facilities) are becoming more important not only for brand value enhancement, but essentially for employee retention.

Renewals and renegotiation totalled approximately 67,000 sq m being almost similar to the annual levels recorded in the last 3 years. Limited relocation opportunities and achievement of more favourable lease terms for tenant make the renewal option attractive, especially for large tenants.

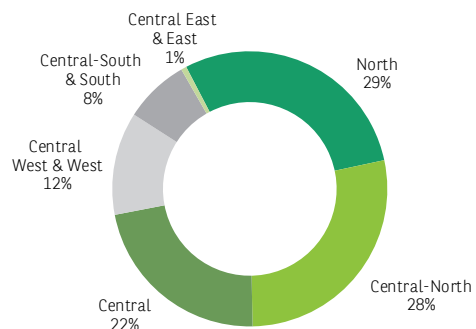
Evolution of renewals



Source: BNP Paribas Real Estate

Northern and central-northern areas attracted the majority of transactions totaling 57% of the total take-up as presently this area is able to offer a good balance between the quality spaces and total occupation costs. It is anticipated that the western submarket will counterbalance the current geographic pattern of demand after the completions of the proposed supply.

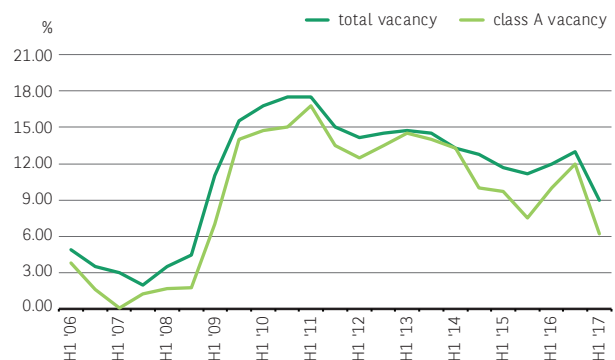
Geographic pattern of take-up in H1 2017



Source: BNP Paribas Real Estate

Although the transactions between 1,000 and 3,000 sq m totaled 46% of the leased areas, the largest number of transactions involved areas up to 1,000 sq m.

Evolution of vacancy rates



Source: BNP Paribas Real Estate

OCCUPATIONAL COSTS TO SLIGHTLY INCREASE FOR CLASS A OFFICES

Although headline rent continued to harden in all submarkets, the gap between headline rent and net effective rent is diminishing. The effects of balanced equilibrium between tenants and landlords are more visible on the class A submarket.

Despite significant drop in vacancy, the level of the headline rent is not expected to increase, but the level of incentives started to decrease. Currently the incentive package represents 15-20% of headline rent up to 25-30% in case of long term pre-leases for large areas. Generally, landlords offer 1 month rent free period for each year of the contract and bear fit out costs of approximately Euro 60-80/sq m.

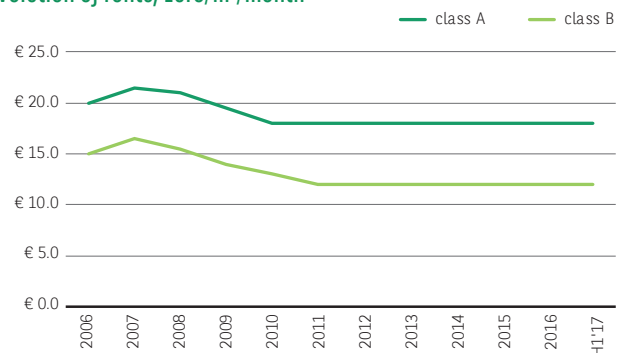
During H1 2017, monthly headline rents for prime office schemes located in the central submarket stabilized at a level of 17.50-18.50 Euro/sq m/month, while for class B offices located in attractive areas rents were between 12-14 Euro/sq m/month. Headline rents for class A offices located in secondary areas fluctuated between Euro 13.50-16.00/sq m/month in northern areas, respectively, between Euro 14.50-16.00/sq m/month for offices located in the western market. The average rent to be paid for one square meter of high standard office space located in peripheral areas with poor transport infrastructure and a high concentration of office projects is at a level of €9-11 per month.

In the central submarket, monthly parking rents are currently Euro 100-125/space for underground parking. For the underground parking spaces in non-central locations, the rental levels are in the region of Euro 75-100/space/month, whilst the off-street parking is leased at Euro 60-75/space/month. Service charges for class A offices varied between 3.5-4.5 Euro/sq m/month, while for class B projects the service charges varied between 2.5-3.5 Euro/sq m/month.

Area	Class A – €/m ²	Class B – €/m ²
Center	18.5	14
Presei Square – Baneasa	16.5	14
Calea Floreasca – Barbu Vacarescu	16	13
Dimitrie Pompeiu	13.5	11
Pipera – periphery	10	8
Central-West	16	12
West	12.5-15	10
Central-South	15	12
South	n/a	8
Central-East	15	12
East	n/a	8

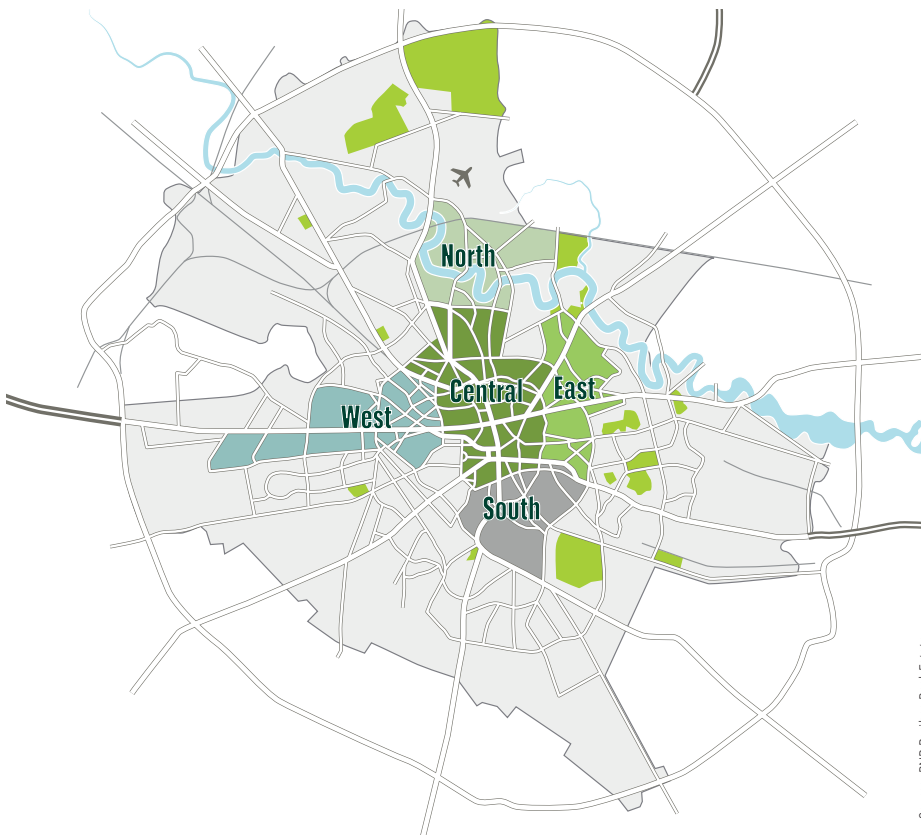
Source: BNP Paribas Real Estate

Evolution of rents, Euro/m²/month



Source: BNP Paribas Real Estate

BUCHAREST OFFICE SUBZONES



Definitions

Total supply/stock – the total office space completed or renovated after 1990 in the private and public sector. It includes owner occupied space.

Annual supply – office space completed in one year.

Pipeline supply – office space under construction or planned (with the building permit in place).

Take-up – the total floor space, excluding renewals and renegotiations, which was let or pre-let, sold or pre-sold to tenants or owner-occupiers.

Vacancy rate – percentage ratio of total vacant space to total supply.

Prime rent – the top open-market rent that could be expected for a unit of standard size, of the highest quality and specification and in the best location in a market at the survey date.

Average rent – the average rent rate counted based upon rents quoted in a representative sample of buildings.

General office market practice*

GENERAL OCCUPANCY COSTS	
Market rent	Quoted in EUR
Frequency	Monthly
VAT on rent	19%
Indexation	Annual Euro CPI
Rent-free period	3 months ⁽¹⁾
Fit-out budget	Depends on lease length and other incentives offered by landlords
Service charge	€2.5-3.5/sqm/month for class B offices and €3.5-4.5/sqm/month for class A offices
Items included in the service charge	Water, security, heating, air-conditioning, cleaning of common areas and all other maintenance and operational costs of the building and common areas, property taxes, building insurance and building security
Items covered by the Tenant per meter	Electricity, telecommunications
Items covered by the Landlord	Structural repairs, repairs to common parts
Guarantee/deposit	Three to six months' rental deposit or bank guarantee
Car parking	€75-125 for parking space depending on location. Paid additionally by the Tenant.

* Exceptions to market practice occur

(1) Depends on lease-length and other incentives offered by the Landlord

LEASE STRUCTURE	
Lease duration	Generally 3-5 years up to 10 years for large tenants
Renewal	Fixed-term leases can include an automatic renewal clause, requesting a 6-12 months' notice
Expansion option	Negotiable
Termination	Fixed-term leases may include a break option, which allows the Tenant to end the lease with a cancellation penalty
Right to sublet	Subleasing is subject to the Landlord's written consent and sometimes restricted
Delay in premise delivery by Landlord	The Tenant pays no rent for the duration of delay, and can terminate the agreement if agreed in the contract
Late holdover by Tenant	Penalty, negotiated and stipulated in the contract
Signage	Signage costs depend on the Landlord's policy
TRANSACTION COSTS	
Agent's fees	New leases/pre-leases: 8.33-25% of annual rent paid by Landlord or Tenant
Legal fees	Each party pays their own lawyers
Notary fees	Optional cost, applies mainly to the acquisition of property

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