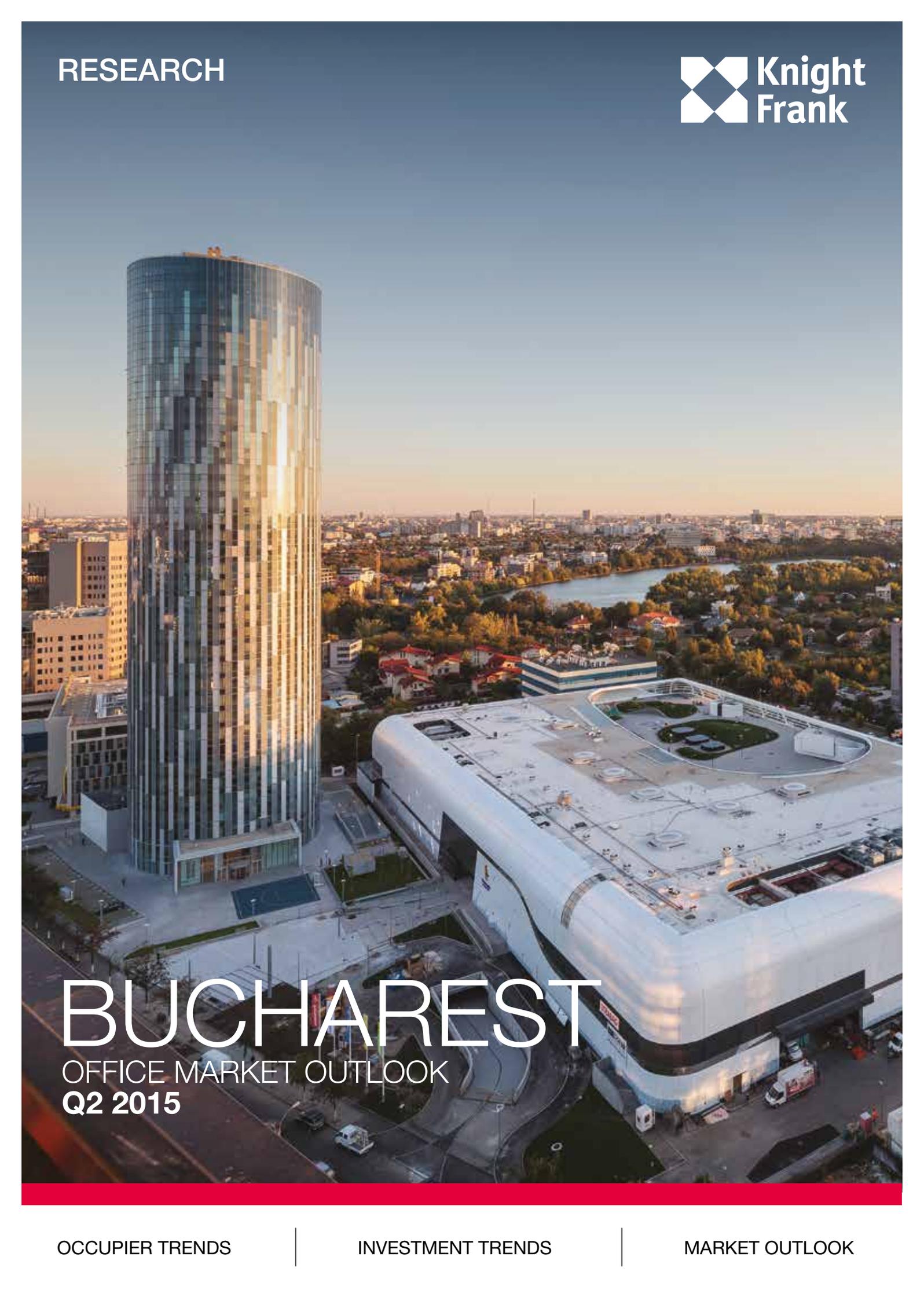


RESEARCH

An aerial photograph of Bucharest, Romania, featuring a prominent cylindrical glass skyscraper on the left and a large, modern white building with a flat roof on the right. The cityscape and a river are visible in the background under a clear sky.

BUCHAREST

OFFICE MARKET OUTLOOK
Q2 2015

OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

KEY FINDINGS

GDP growth for Romania exceeded previous forecasts to reach 2.8% in 2014, with this year expected to be similar

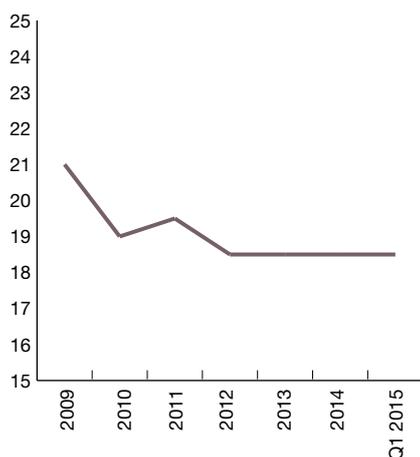
Rising demand for office space in Bucharest resulted in 2014 take-up reaching its highest level since 2009

Prime office rents continue to show relative stability, remaining in the region of €18-€18.50 per sq m per month since 2012

The Romanian investment market had its most active year since the global financial crisis, with investment volumes of €1.15 billion achieved in 2014

On the back of improved market fundamentals, investor interest is to remain strong throughout 2015

FIGURE 1
Prime office rents
€ per sq m per month



Source: Knight Frank Research

OCCUPIER MARKET

The Bucharest office market performed exceptionally well in 2014, with take-up reaching its post-recession peak at 303,000 sq m.

Momentum increased significantly in Q4, which saw class A and B take-up exceed 110,000 sq m, a 37% quarterly increase. The IT and Communications sector continued to show high demand, accounting for 43% of total leasing activity in 2014 – telecommunication providers played an active role, with Vodafone and Orange Romania each pre-leasing space over 10,000 sq m earlier in the year. However, the largest deal of 2014 was Renault Technologie's renewal of 20,000 sq m in the North Gate building. While renewals, pre-leases and relocations all took a share of c. 26% each, there were also a few significant new entries to the market, namely Kellogg's and Allianz.

2015 has begun strongly, with take-up in Q1 reaching approximately 70,000 sq m – although down on figures witnessed in Q4, this remains in line with the quarterly average seen in Q1-Q3 2014. In a deal advised by Knight Frank Romania, Oracle leased 10,400 sq m in the landmark SkyTower building in February 2015, the largest occupier deal of Q1.

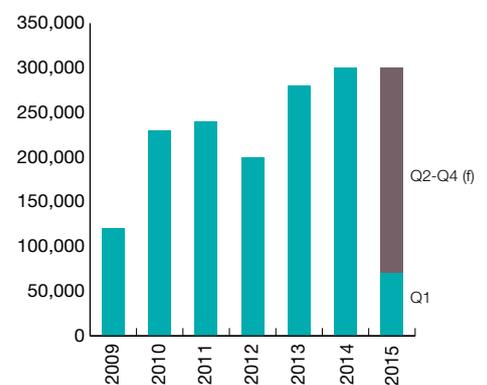
Development activity showed considerable improvement in 2014, with completions increasing by 17% on 2013 to total circa 140,000 sq m. New schemes include the AFI Park (buildings 2 and 3 totalling 24,400 sq m) in the Western region and the Hermes Business Campus 1 (18,000 sq m) in the Dimitrie Pompeiu submarket, both of which are fully occupied. The Hermes Business Campus 3, which is due to complete in late 2016, is almost at full occupancy after Genpact pre-leased

approximately 25,000 sq m in April 2015, in another deal advised by Knight Frank Romania.

No new office buildings were completed in Q1 2015, however, approximately 100,000 sq m is scheduled to enter the market by the end of the year. Bucharest is becoming an increasingly popular choice for firms looking to expand into, or outsource in, Central and Eastern Europe, and although new stock increased in 2014, demand continued to exceed supply. As a result, vacancy rates were pushed down each quarter, from 20% in Q1 2014 to 14.7% in Q1 2015.

Prime office rents in Q1 2015 continued to show stability, and are expected to remain in the region of €18-€18.50 per sq m per month throughout 2015.

FIGURE 2
Class A and B office take-up
sq m



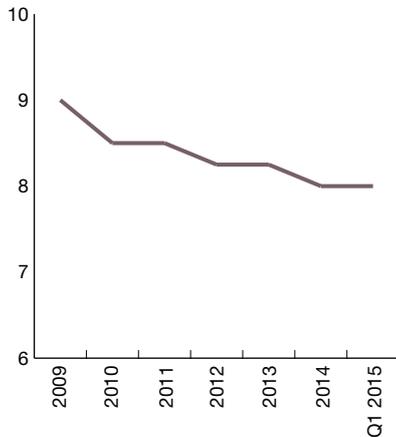
Source: Knight Frank Research

Key recent office leasing transactions

Quarter	Property	Tenant	Sector	Size (sq m)
Q2 2015	Hermes Business Campus 3	Genpact	IT & Communications	25,000*
Q2 2015	Oregon Park	Oracle	IT & Communications	20,000*
Q4 2014	North Gate	Renault	Automotive	20,000
Q1 2015	SkyTower	Oracle	IT & Communications	10,400*
Q4 2014	Art Business Center	Ponderas	Medical & Pharmaceuticals	8,000
Q3 2014	City Gate	Microsoft	IT & Communications	7,000*

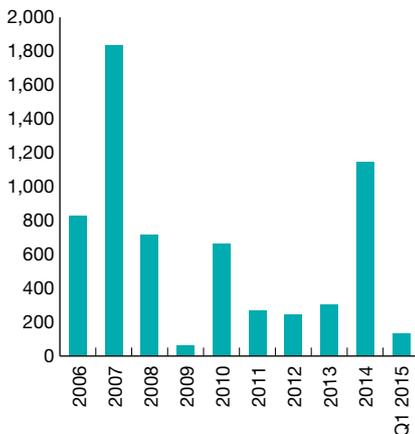
Source: Knight Frank Research (*deal advised by Knight Frank Romania)

FIGURE 3
Prime office yields
%



Source: Knight Frank Research

FIGURE 4
Romania property investment volumes
€ million



Source: Knight Frank Research

INVESTMENT MARKET

Outstanding property investment volumes of €1.15 billion were seen in Romania in 2014 – the highest level since 2007. Retail transactions were most popular, with the largest deal of the year being Groupe Auchan’s purchase of a portfolio of 12 retail assets for €260 million in July 2014. Although retail investments outperformed, taking a 43% market share in 2014, Romania’s office sector followed close behind. The availability of office stock, which historically has held back investment activity in the sector, is improving, thus boosting transaction volumes, with its market share reaching 31% in 2014.

Increased appetite from local investors also improved investment volumes, reducing the cross-border share of activity by 15 percentage points annually to 36% in 2014. Romanian investment fund Globalworth Real Estate Investments

dominated transaction activity, purchasing multiple buildings valued at a total of c. €320 million throughout 2014, and €90 million in Q1 2015. Aside from Globalworth’s contribution, 2015 has started relatively slowly – approximately €150 million was transacted in Romania’s real estate market in Q1, compared to €290 million in the same period last year.

In Q1 2015, prime office yields in Bucharest remained stable at 8%. Low yields of 3.5% (as at May 2015) on long-term government bonds add to the desirability of commercial real estate for domestic buyers. With Romania’s economy showing positive growth, Bucharest continues to strengthen and attract increased investor interest, which could lead to yield compression during the course of the year.

Key recent property investment transactions

Quarter	Property	Seller	Buyer	Approximate price (€)
Q3 2014	Portfolio of 12 retail assets	Metro	Groupe Auchan SA	260,000,000
Q4 2014	Promenada Mall	Raiffeisen Evolution	NEPI	148,000,000
Q3 2014	Europolis Park	CA Immo	PointPark (P3)	120,000,000
Q1 2015	Nusco Tower	Nusco Group	Globalworth REI	46,000,000
Q4 2014	Green Court 1	Skanska AB	Globalworth REI	44,000,000

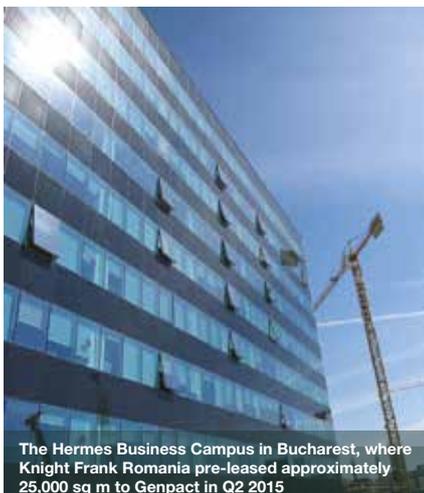
Source: Knight Frank Research

KNIGHT FRANK VIEW

In 2014, the Bucharest office market had its most successful year since the global crisis, and 2015 is expected to follow in a similar vein – full-year take-up in Bucharest is forecast to equal levels seen in 2014. The improved development activity last year was sustained by an increase in pre-leasing – 2014 registered a peak, as the volume of pre-leases tripled on levels achieved in 2013. Though not expected to increase by as large a proportion, pre-leasing is likely to be the most active deal type in 2015, with Knight Frank Romania already advising on c. 45,000 sq m so far this year. This figure will increase further as occupiers

look to lease more of the 100,000 sq m due to enter the market by the end of the year.

Romania’s strengthening economy lifted investment sentiment in 2014, and with GDP forecast to grow by another 2.8% in 2015, the investment market will stay relatively healthy. Although cross-border interest will remain strong, this forecast will again encourage local buyers to invest in Romania. Office properties will continue to be desirable, particularly in Bucharest where the availability of high quality stock has risen, and it is possible that offices will increase their market share further this year to become the most active sector in the country.



The Hermes Business Campus in Bucharest, where Knight Frank Romania pre-leased approximately 25,000 sq m to Genpact in Q2 2015



COMMERCIAL BRIEFING

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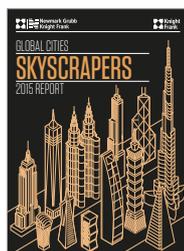
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