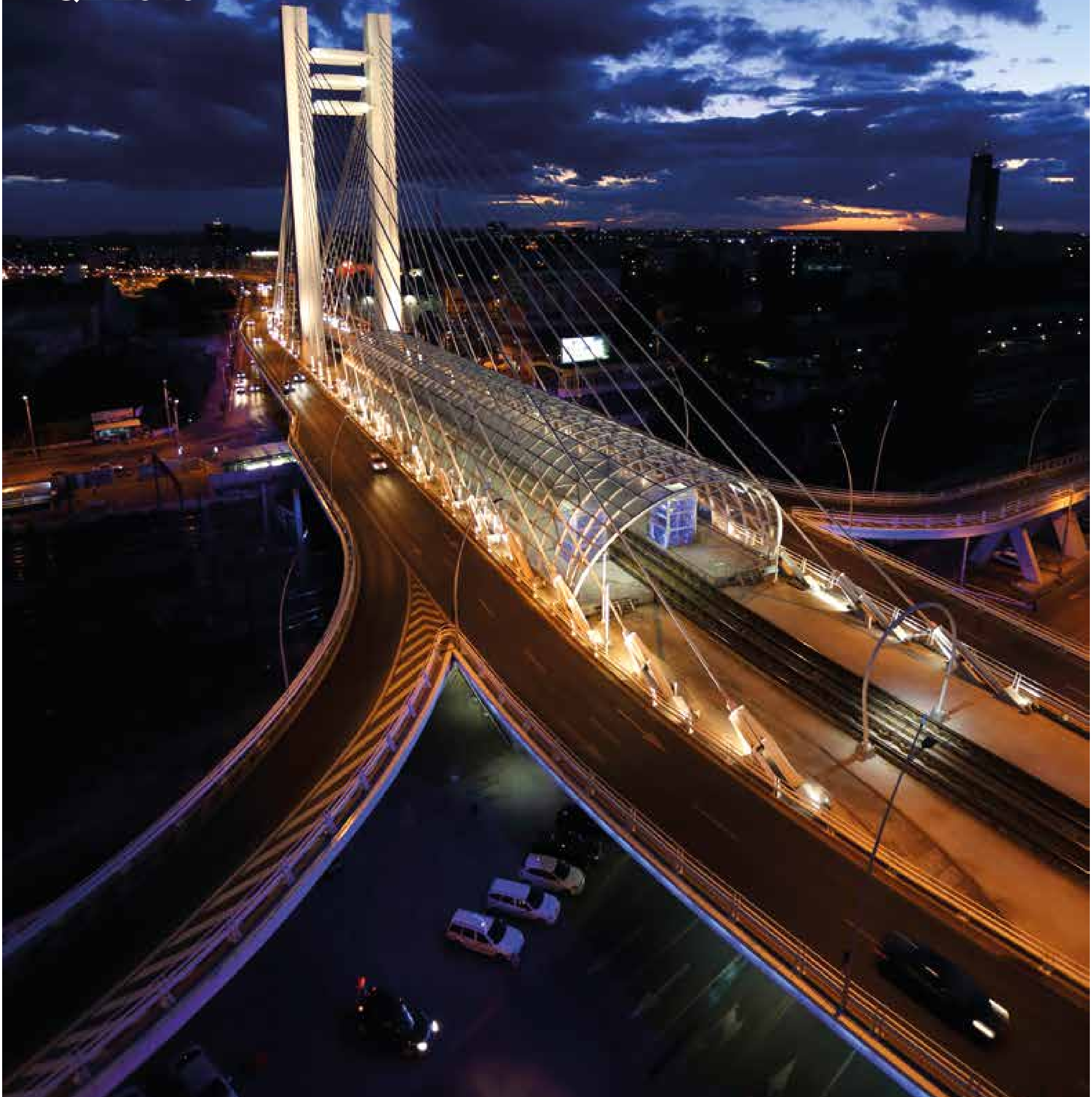
RESEARCH

BUCHAREST
OFFICE MARKET OUTLOOK
Q2 2016



OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

Romania was one of the best performing economies in the EU in 2015, recording its fifth consecutive year of GDP growth at 3.7%.

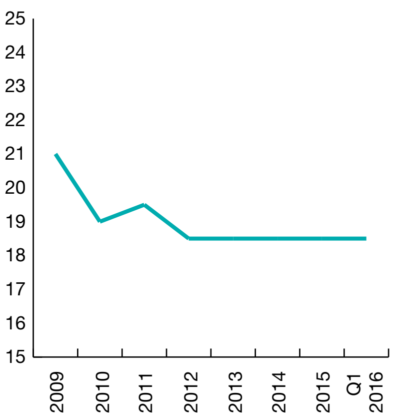
Relocation and renewal has been a prominent theme, with occupiers optimising their space utilisation.

Demand lifted in the IT and Communication sector and was driven by foreign investment from international businesses outsourcing their IT operations.

New stock additions in Q1 2016 compensated for the low volume delivered in 2015, with significant supply due for delivery in 2016-17.

Romania's investment market gathered momentum in the second half of 2015, reaching €608 million, with the growing availability of prime core assets and attractive yields underpinning investor appetite.

FIGURE 1
Prime office rents
€ per sq m per annum



Source: Knight Frank Research

OCCUPIER MARKET

Foreign investment in IT&C has proliferated over the last two years, with demand also extending to cities beyond the capital.

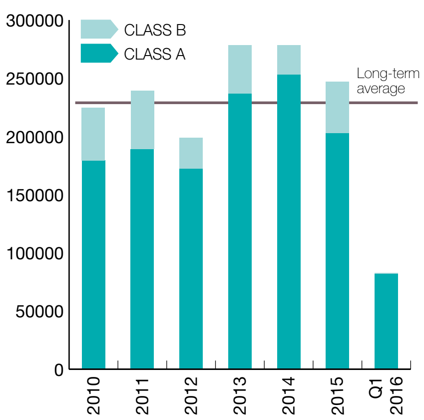
The Bucharest office market experienced another buoyant year. Total annual take-up reached 247,000 sq m in 2015, albeit a little shy of the 2014 peak, while Q1 2016 take-up levels reached 83,000 sq m, indicating a strong start to the year. Analogous to the previous year, the IT and Communication sector was the dominant industry in 2015, accounting for nearly half the total leasing volume. Along with the Commerce sector, these two industries have been the primary forces driving Romania's economy.

Relocation and renewal were the key sources of demand in Bucharest's office market in 2015 (73%). There was a marked increase in tenants' floor space requirements, with 36% of demand generated for areas exceeding 5,000 sq m. As large floor plates are generally atypical of existing stock, developers have been planning new schemes to accommodate changing occupier needs.

Around 60,000 sq m of stock was delivered in 2015; the lowest supply brought to market over the last five years, due to the postponement in completion dates of several large projects. Subsequently, Q1 2016 witnessed new supply almost on par with last year's annual total. Construction has been in full swing, denoting the confidence of developers, with more than 360,000 sq m of stock to be delivered in 2016. As landlords will be competing to secure tenants, occupiers may be in a position to upgrade.

The overall vacancy rate in Bucharest has declined to end Q1 2016 at 11.9%. Over recent years, the two northern submarkets, Dimitrie Pompeiu and Calea Floreasca-Barbu Vacarescu, have had the tightest vacancy. A combination of high amenity and quality stock has attracted businesses to the area. The evolution of rents has also influenced demand in the submarkets. Overall however, prime office rents have remained stable since 2012, at €18.50 per square metre per month.

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



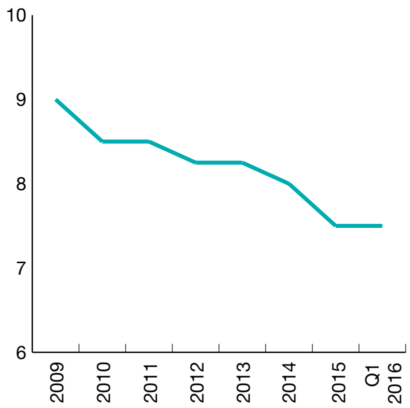
Source: Knight Frank Research

Key recent office leasing transactions

Quarter	Property	Tenant	Sector	Size (sq m)
Q2 2015	Hermes Business Campus III	Genpact	IT & Communication	22,000*
Q2 2015	Oregon Park	Oracle	IT & Communication	20,000*
Q1 2016	City Gate	Telekom	IT & Communication	13,000*
Q1 2015	Sky Tower	Oracle	IT & Communication	10,400*
Q1 2016	Orhideea Towers	Misys	IT & Communication	8,000
Q1 2015	Green Court II	Carrefour	Retail	6,300
Q3 2015	Hermes Business Campus II	Luxoft	IT & Communication	5,500

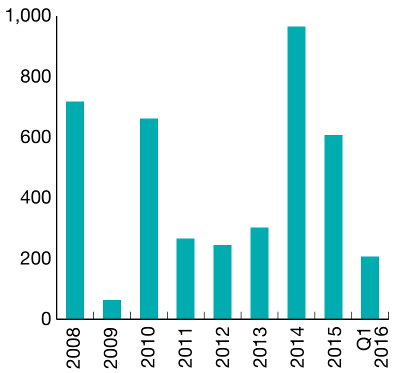
Source: Knight Frank Research (* deal advised by Knight Frank Romania)

FIGURE 3
Prime office yields
%



Source: Knight Frank Research

FIGURE 4
Romania property investment volumes
€ million



Source: Knight Frank Research / Real Capital Analytics

INVESTMENT MARKET

Following a slow start to 2015, investment activity gathered momentum in the second half of the year. Commercial property investment volumes reached €608 million in Romania, coming off the back of a very strong 2014. In contrast to the previous year, when the retail sector dominated, the industrial and office sectors outperformed in 2015, taking a 42% and 38% share of the total investment volume respectively. Although investment volumes were down from the previous year, investor sentiment remains positive, due to favourable economic conditions and the fiscal regulations introduced by government.

Established players familiar with Romania's market dynamics have been the most active and have concentrated on expanding their portfolios. Cross-border investment was significant at 97% of the total transaction volume. The Floreasca Park office premise was the largest transaction, acquired by German fund GLL for ~€100 million. Other market players that featured in Romania's investment market were from the Czech Republic, Austria, South Africa and the UK.

In Q1 2016, prime office yields remained stable at 7.5%. Growing interest in Bucharest's office market has been underpinned by the availability of core assets and the yield differential. However given the strength of the market over recent years, the gap has been closing in Bucharest and Warsaw (the CEE region's premier market). Due to increased investor appetite, moderate yield compression is expected in 2016.

Key recent property investment transactions

Quarter	Property	Seller	Buyer	Approximate price (€)
Q1 2015	Europolis Logistics Park	CA IMMO	P3	120
Q4 2015	Floreasca Park	Portland Trust	GLL	~100
Q3 2015	Iris Titan Shopping Centre	Aberdeen Asset Management	NEPI	86
Q4 2015	Bucharest West	Portland Trust	CTP	60
Q4 2015	Green Court (second phase)	Skanska	Globalworth	47
Q4 2015	Prologis Park Bucharest A1	Prologis	CTP	40

Source: Knight Frank Research

The Floreasca Park building, purchased by GLL in 2015

KNIGHT FRANK VIEW

It's full steam ahead for Romania's economy and there are no signs of waning. Romania has cemented its profile as one of the fastest growing shared-services and outsourcing markets in Central and Eastern Europe, supported by a balance between cost and quality, a thriving technology hub, and a sizeable talented labour pool.

Office demand in Bucharest is expected to increase, and will be driven by the expanding services sector and strengthening labour market. The IT and Communication sector is likely to maintain the lion's share of demand, as offshore firms will continue to perceive Romania as an attractive and opportune business location.

Investor demand is expected to remain focused on core prime assets. While new investors may be reluctant to enter the market due to the precariousness of previous policies and the wider political backdrop, established investors will continue to seek to expand their portfolios, using their own equity or through joint ventures. Thus, with sentiment remaining positive, we expect to see strong market investment over the coming years.

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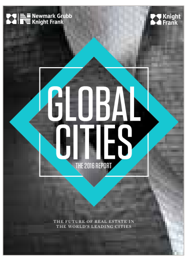

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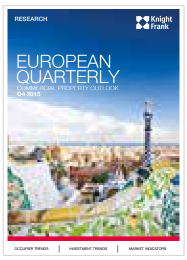

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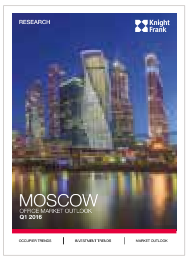
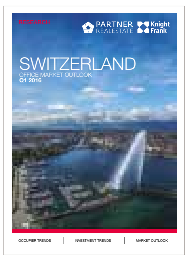


Moscow Office Market Outlook - Q1 2016



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