

RESEARCH

THE ADVISERS
Pinnacle Property



BUCHAREST

OFFICE MARKET OUTLOOK
Q3 2014



OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

KEY FINDINGS

The Romanian economy is forecast to grow by 2.5% in 2014

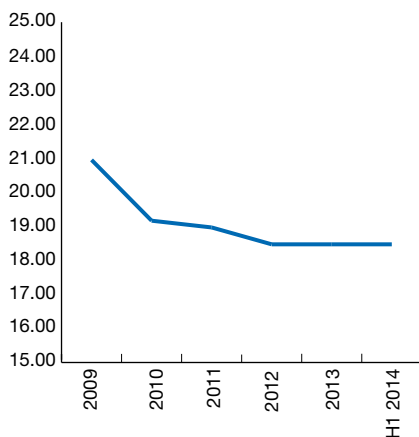
Bucharest is increasingly being considered as a core outsourcing location in Central and Eastern Europe by international firms

Headline rents have remained relatively stable over H1 2014

Investment activity has been largely driven by local investors eager to take advantage of better economic conditions and improving stock

2014 is projected to see a new post-recession record for investment transaction volumes

FIGURE 1
Prime office rents
€ per sq m per month



Source: The Advisers/Knight Frank

OFFICE OCCUPIER MARKET

Leasing activity in Bucharest gradually gained momentum over the first six months of 2014, driven largely by relocations and pre-leases.

The Romanian economy powered ahead in 2013, with GDP growth exceeding expectations, reaching 3.5%. Growth of approximately 2.5% is forecast for 2014. Business sentiment continues to improve, with more international firms considering Bucharest as a major outsourcing location in Central and Eastern Europe.

Office take-up in Bucharest amounted to 132,000 sq m in H1 2014, up by 12% year-on-year. Pre-leases and relocations each accounted for 29% of leasing deals, while renewals represented another 20%. Notably, firm expansions and new market entries are on the rise – representing 22% of activity – supported by strengthening economic conditions.

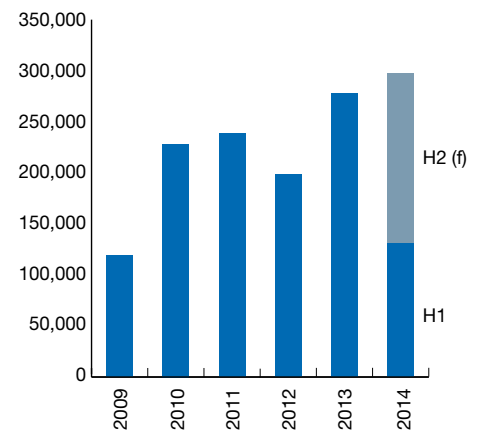
Occupiers in the IT&C sector were the most active players in the first half of 2014, with telecommunication providers Vodafone and Orange signing the two largest deals. Vodafone agreed to pre-lease 16,000 sq m in the Bucharest One project with the option to further expand, while Orange leased 13,700 sq m in Phase One of Skanska's Green Court.

Bucharest has recently seen a rise in development activity, with a total of nine new and refurbished schemes completed in H1 2014, providing 120,000 sq m of Class A space. The development pipeline has also expanded and currently stands at 200,000 sq m; of this, 55,000 sq m is expected to complete over H2 2014.

Despite the increase in new supply, the average vacancy rate for Class A and B stock fell by 6 percentage points year-on-year to 17.4%. This is largely on the back of significant lettings at completed buildings, including the recently delivered Floreasca Park, which was fully leased by The Advisers/Knight Frank.

Over H1 2014, headline rents across all major submarkets remained stable. While headline prime office rents are expected to remain in the range of €18.00 – €18.50 per sq m per month over the second half of the year, incentives are likely to harden slightly.

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



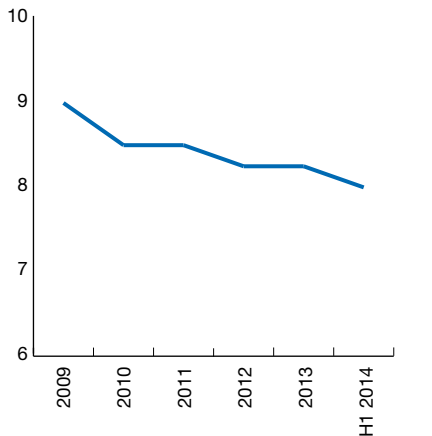
Source: The Advisers/Knight Frank

Key recent office leasing transactions

Quarter	Property	Tenant	Sector	Size (sq m)
Q1 2014	Bucharest One	Vodafone	Telecommunications	16,000
Q2 2014	Green Court 1	Orange	Telecommunications	13,700
Q1 2014	AFI Park 3	Endava	IT&C	4,800
Q2 2014	Floreasca Park	Allianz	Insurance	3,500
Q2 2014	Floreasca Park	Kellogg's	FMCG	2,500

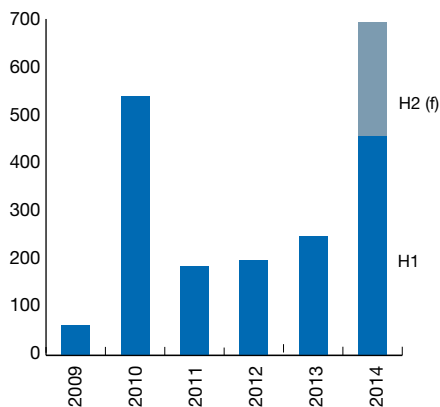
Source: The Advisers/Knight Frank

FIGURE 3
Prime office yields
%



Source: The Advisers/Knight Frank

FIGURE 4
Romania property investment volumes
€ million



Source: The Advisers/Knight Frank

INVESTMENT MARKET

The first half of 2014 saw a marked increase in property investment activity, with total volumes reaching a remarkable €460 million. Investment volumes in 2014 already exceed those of 2013 and, with several prime assets on the market, further major transactions are expected to be completed in the second half of the year. 2014 is on track to surpass the total amount transacted over the last two years, potentially breaking 2010's record of €543 million.

While transaction activity was dominated by domestic restructuring deals, investment demand remains robust, with both domestic and international interest largely focused on office and retail assets in Bucharest.

The largest deal in H1 2014 saw investment fund Globalworth purchase the Upground complex in Pipera from Deutsche Bank's RREEF for some

€200 million. The deal included the sale of a residential compound, as well as both BOC and BOB towers for €110 million and €42 million respectively.

While the current strong economic backdrop is attracting greater investor interest, the limited availability of prime office stock across major markets has proven to be a hindrance to activity. However, this is set to change, as Bucharest's stock of Class A buildings continues to increase, helping to improve office market conditions and offering a wider range of opportunities to international investors.

As a result, prime office yields in Bucharest have seen moderate compression over the last twelve months, hardening by 25bps to stand at 8.00%. Sustained investment demand over the second half of the year is likely to drive prime yields below 8.00%.

Key recent investment transactions

Quarter	Property	Seller	Buyer	Approximate price
Q1 2014	BOC Tower	RREEF	Globalworth Real Estate Investments	€110 million
Q1 2014	Tower Center International	Private investor	Globalworth Real Estate Investments	€58 million
Q1 2014	Upground Towers	RREEF	Globalworth Real Estate Investments	€52 million
Q1 2014	BOB Tower	RREEF	Globalworth Real Estate Investments	€42 million
Q2 2014	Innovations Park	Phoenix Real Estate	Secure Property Development & Investment	€13 million

Source: The Advisers/Knight Frank



Floreasca Park. Fully leased by The Advisers/Knight Frank

KNIGHT FRANK VIEW

Since the global financial crisis, the Bucharest office occupier market has consistently trailed behind more established regional centres such as Warsaw and Prague. However, it continues to show signs of strong improvement as it transforms itself into an increasingly attractive location within the Central and Eastern European office market. Numerous multinational financial and telecommunications firms have opened offices in the main business hubs and more are expected to do so over the coming months.

Interest in the Bucharest commercial investment market is presently being driven by local investors eager to make the most of improved economic conditions and easier access to finance. Until recently, limited availability of quality stock was the primary hurdle for international investors. As commercial stock improves, we can expect to see greater investor diversity. Meanwhile, 2014 is on course to set a new post-recession record for transaction volumes by which future years will be compared.



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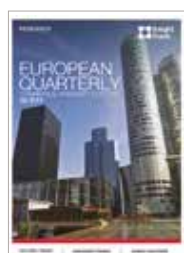
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