ROMANIA MARKET OVERVIEW

COLORING INSIGHTS

Q1–Q3 2017

It is my pleasure to invite you to read the highlights of the Romanian real-estate market in Q1–Q3 of 2017, especially that we are experiencing growth and an ever-maturing industry, which makes me particularly thrilled.

As we are approaching the end of the year, many numbers might seem easy to predict, but future is difficult to prepare in a world where the surprising routinely occurs.

We, at Knight Frank Romania, experience everyday demands and discussions in which quality has become a trending concept and principle.

Holidays are approaching and it's the time of the year when we make plans, we prepare for an end and a new beginning, we might be tired because it is ending or excited for what's coming, whatever the case, I invite you to take off a few minutes and feel free to take stress off your shoulders while coloring our report. Create your own shades of reality, in an already grounded one!

As the world's largest independent property consultancy, our pledge to clients is to remain a constant in an unpredictable world and to provide you with expert advice and exceptional service.

Please feel free to reach out to us in case you would like to discuss property matters. We will be delighted to help you!

HORATIU FLORESCU
Chairman & CEO
Knight Frank Romania

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HIGHLIGHTS

The first nine months of 2017 saw a take-up for class A & B offices of over 225,000 sq m, very close to the same period last year, but the average transaction grew from around 1,600 sq m to 1,900 sq m.

Prime rent level remains stable at €18.5/sq m/month.

Total stock on the Bucharest office market reached 2,51 mil sq m at the end of the first nine months of 2017 of class A & B office buildings.

OFFICE MARKET

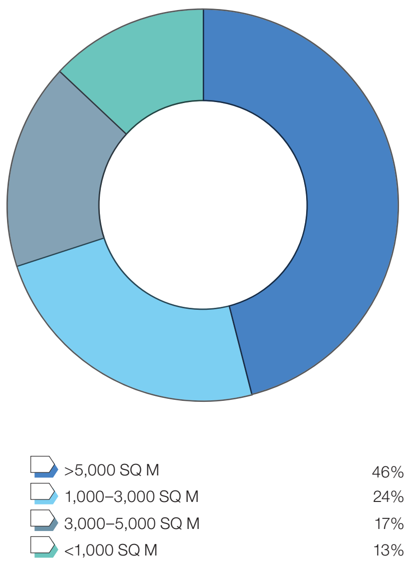
Overview

Bucharest's office sector witnessed a strong performance in the last months, proved by the vigorous take-up standing already at 70% of the entire last year level.

The most sought after submarkets in Q1-Q3 2017 were Calea Floreasca/ Barbu Vacarescu and CBD (Central Business District) with an impressive leased area of 85,000 sq m, representing almost 40% of the total transactions. If we compare these facts with the same period of last year, we can notice the difference in the areas that were in high demand: over 76,500 sq m in Center-West and over 40,000 sq m in Dimitrie Pompeiu.

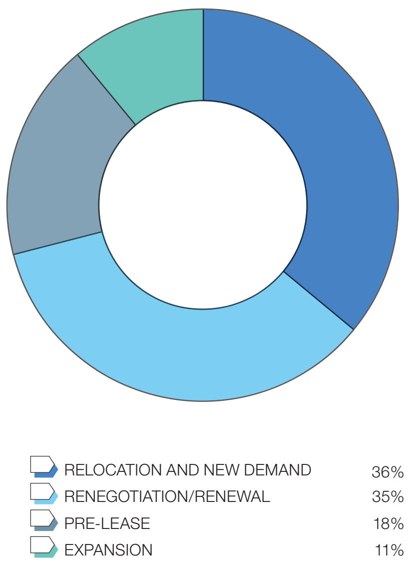
As expected, the IT&C sector still covers most of the demand on the market, occupying approximately 125,000 sq m (56% of the entire take up of the analized period), compared to the 40% of Q1–Q3 in 2016.

FIGURE 1
Demand by leased area
Q1–Q3 2017



Source: Knight Frank

FIGURE 2
Demand by type of transaction
Q1–Q3 2017



Source: Knight Frank

Supply

First nine months of 2017 welcomed 41,550 sq m new office space, few in number compared to last year's record deliveries, but it's interesting to follow the maturing rhythm of the market: new deliveries in new office sub-markets of the city, where tenants pay more for a premium location (NEPI's 7,250 sq m Aviatorilor 8 building) with additional amenities or even go to a completely new area for offices (Timpuri Noi Square of Vastint, 32,000 sq m). Another project delivered, in CBD, in 2017 was Dorobantilor 33 of Downtown Center (2,300 sq m).

In terms of stock by submarkets, at the end of Q3 2017, Calea Floreasca/ Barbu Vacareascu stays on top with a total modern office stock of approx. 430,000 sq m, followed closely by CBD with almost 400,000 sq m and Dimitrie Pompeiu with approx. 350,000 sq m.

Demand

Total take-up of Q1–Q3 of 2017 in Bucharest reached 225,000 sq m for class A & B office space. This volume is very close to the total take up of the same period in 2016, of 232,000 sq m, but the average transaction grew from 1,600 sq m in 2016 to 1,900 sq m in the analized period.

In terms of the size, larger transactions of over 5,000 sq m were again dominant, their total area accounting for a 46% share of the take-up, a slight increase from the previous record year (40% in 2016).

In terms of locations, the highest demand was registered on the traditional Calea Floreasca/Barbu Vacarescu submarket with a 43,000 sq m (19% out of total take up). An exceptional result was reached by the CBD, who underscored in the previous year and this time is sharing the podium with 41,650 sq m. Of particular notice in the CBD is the transactions at The Landmark, the only office park in the CBD, that has been leased 70% in only 7 months. Dimitrie Pompeiu attracted

MAP 1
Class A&B office buildings
Q1–Q3 2017

TABLE 1
Vacancy rates

Submarket	(%)
Pipera	23
Center	15
Baneasa	10
Center-West	8
Presei Libere Square	7
Dimitrie Pompeiu	6
South	6
Calea Floreasca/Barbu Vacarescu	4
CBD	4
West	0

TABLE 2
Prime headline rents

Submarket	(€/sq m/month)
CBD	16–18
Presei Libere Square	14–16
Calea Floreasca/Barbu Vacarescu	14–17
Center-West	13–15
Baneasa	12–14
East	11–13
Dimitrie Pompeiu	11–13
West	11–12
South	10–11
Pipera	8–10

Source: Knight Frank

17% of the total take-up, closely followed by the Center (12%), Center-West (12%) and Pipera (10%).

The relocation activity was very close to that of renewals, the first reaching a volume of 79,570 sq. m and the second 77,800 sq m, in the nine months of the year.

Similar to previous years, the main demand driver was the **IT&C** industry accounting for 56% of the total take-up. Seven of the top ten transactions were deals in this sector, and there was a diverse range of transaction types including renewals and pre-leases. The energy/manufacturing and automotive sectors came in second and third each with 9% of the total demand, followed by professional services and FMCG.

Rents

Rents stayed similar to previous years. Prime headline rents remained unchanged and were reported at around €18–18.50/sq m/month.

Service charges have followed the same stable trend, ranging between €3.50–4.50/sq m/month.

Vacancy

The vacancy rate for Class A and B office buildings is registering a new record: due to the high demand and few deliveries in the first nine months, the market is experiencing a vacancy of 8.3%.

The highest vacancy rate in Bucharest was recorded in Pipera, above 20%. At the opposite end, the West has 0% vacancy, while Calea Floreasca/Barbu Vacarescu and the CBD had the vacancy rate below 5%.

We are expecting vacancy rates to stay low throughout the year, due to the continuous strong demand and few deliveries announced until the end of year.

Forecast

Q4 2017 is expecting to see 95,000 sq m of class A offices being delivered on the market, in five projects: **Globalworth Campus I** (29,400 sq m), **The Bridge Building A** (28,850 sq m), **Sema Parc Office 3** (26,700 sq m), **BASP Victoria** (5,000 sq m), **Rahmaninov** (4,800 sq m) this summing up the total deliveries of 2017 to approximately 136,000 sq m.

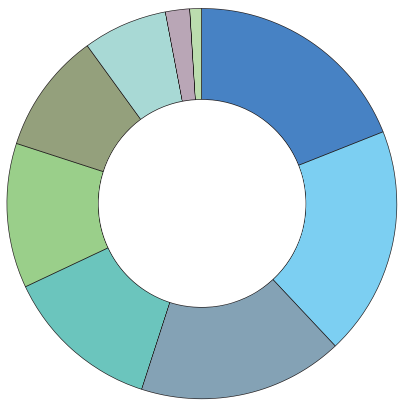
This rather small number of deliveries in 2017 will create low vacancy towards the end of the year and prepares us for the higher deliveries next year.

2018 is expected to see the delivery of approximately 330,000 sq m, another record year, which will increase the total stock up to 2,85 mil. sq m. Noteworthy schemes include: **Business Garden Vastint** (41,300 sq m), **Orhideea Towers** (36,900 sq m), **Anchor Plaza Metropol** (36,600 sq m), **AFI Tech Park II** (30,000 sq m), **Globalworth Campus II** (29,400 sq m), **Oregon Park C** (25,000 sq m). Over 50% of the projects will be delivered in the Center-West, where vacancy rate is at 8%, whereas the rest of 50% will be spread in some of the consolidated office sub-markets: Calea Floreasca/Barbu Vacarescu (over 45,000 sq m), Dimitrie Pompeiu, Center and CBD.

Despite the fact that a significant amount of new supply is planned for delivery, sentiment is positive in terms of demand. Relocations and new demand on the market are expected to be the main drivers of office take-up, as tenants will be looking to move their headquarters/back offices or consolidate their operations into new premises and new players will be coming to the market.

Headline rents are expected to remain stable over the next year.

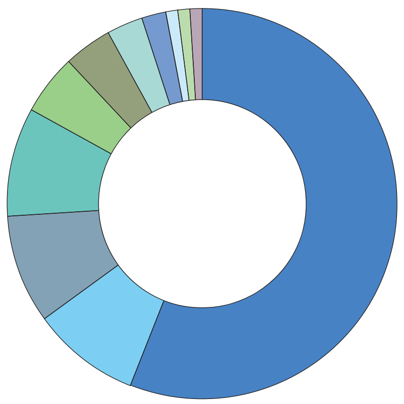
FIGURE 3
Demand by submarket
Q1–Q3 2017



CALEA FLOREASCA/BARBU VACARESCU	19%
CBD	19%
DIMITRIE POMPEIU	17%
CENTER	13%
CENTER-WEST	12%
PIPERA	10%
PRESEI LIBERE SQUARE	7%
BANEASA	2%
EAST	1%

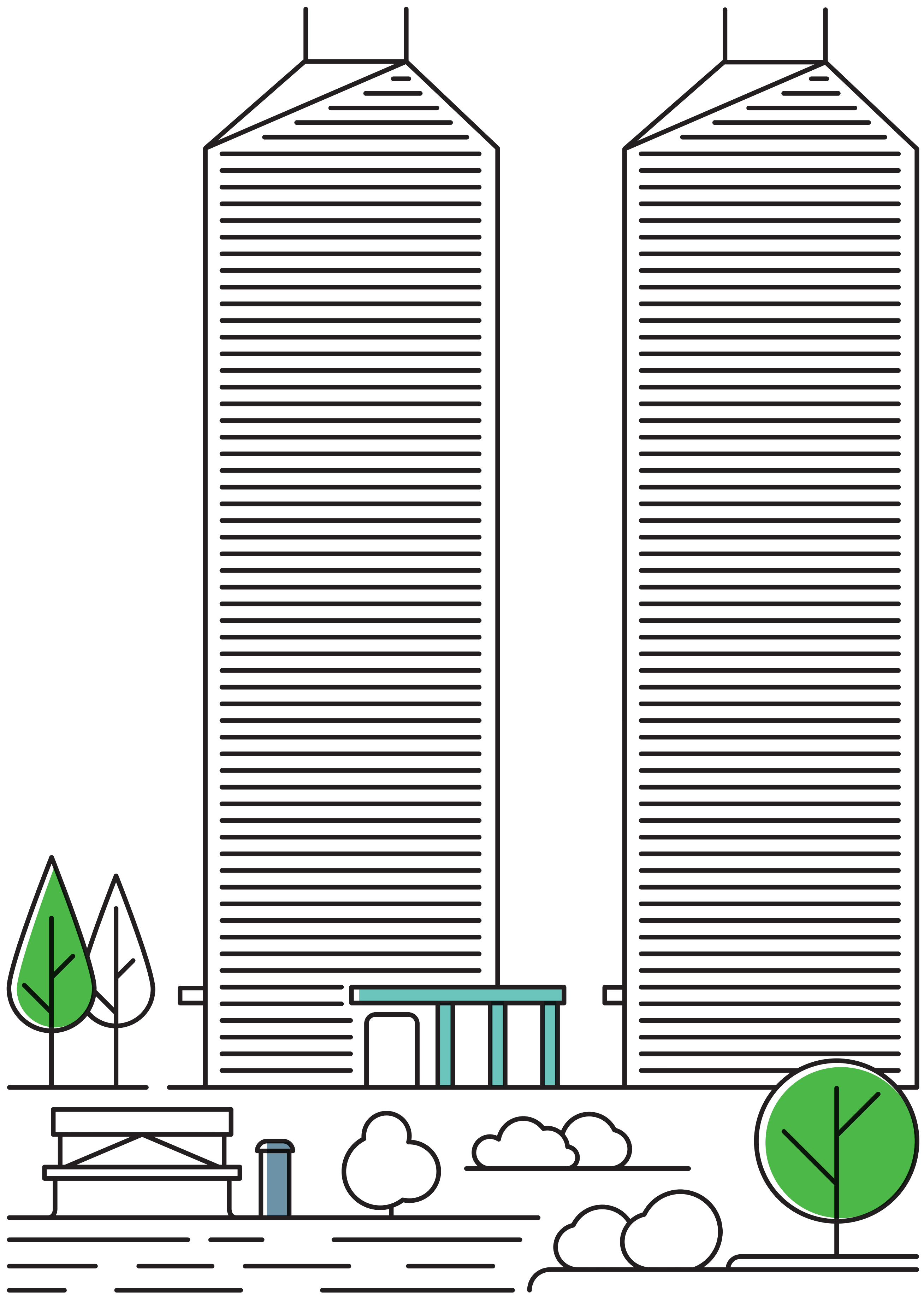
Source: Knight Frank

FIGURE 4
Demand by tenant activity sector
Q1–Q3 2017



IT&COMMUNICATION	56%
MANUFACTURING INDUSTRIAL & ENERGY	9%
AUTOMOTIVE	9%
PROFESSIONAL SERVICES	9%
FMCG	5%
FINANCE/BANKING/INSURANCE	4%
MEDIA & MARKETING	3%
MEDICAL & PHARMA	2%
OTHER	1%
RETAIL	1%
CONSUMER SERVICES & LEISURE	1%

Source: Knight Frank



HIGHLIGHTS

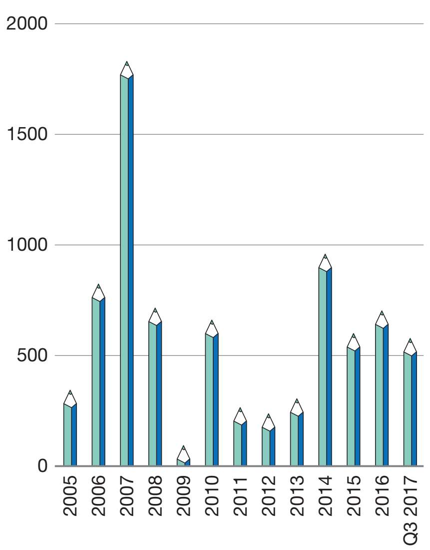
Demand was mainly generated by new investors looking for existing platforms but established investors have also accounted for a significant weight of the investment volume.

The total investment volume reached €585 million in the first three quarters of 2017, with potential to reach 900–1,000 million by end of the year.

Foreign funds accounted for more than 99% of the total activity but local capital is also actively looking for investment opportunities and might become more active on the short term.

Yields on the industrial segment had only a moderate compression in Q1–Q3 2017 and the trend is expected to continue on the short term for all market segments.

FIGURE 5
Romania investment transaction volume (annual evolution, €mn)



Source: Knight Frank

INVESTMENT MARKET

Overview

In the first three quarters of 2017 there was a significant volume of transactions reported on the market which reached an overall level of almost €585 million. The largest transactions were in the retail and office sectors with the partial acquisition of Iulis Group followed by a portfolio of 11 retail parks sold by Alpha Property Development and also the sale of Coresi Business Park in Brasov.

Overall, Q1–Q3 2017 relied mainly on the retail and office segments but the industrial sectors also reported significant levels to drive up investment volumes. Established players familiar with the market expanded their portfolios by acquiring income-producing assets and new entrants made their first acquisitions mainly in income producing assets but also some investments with value-add potential. 2017 also announces several other transactions, with new players showing interest in the Romanian market as demand continues to be boosted by the favorable economic environment and very competitive risk adjusted returns.

Supply

In 2016 there was a significant level of supply compared with previous year, the office market being the most active in terms of new deliveries (new office space delivered on the market was 5 times higher compared with 2015). Banks have become more willing to provide financing for both development and acquisitions in most of the market sectors and the investment market now features a wide range of opportunities for investors, including income producing, value-add or distressed assets.

Also the industrial and logistics segment is reporting a strong growth potential and there are a significant number of developments which will be delivered in the following period hence it is likely that in the following years we will witness a significant number of transactions in this segment.

Retail assets were still the most sought-after asset type, followed by prime office projects and industrial assets. The strongest demand came from new investors which are likely to also be looking for new opportunities in the following period. Nevertheless, in 2017 established developers/investors were also very active and the additional liquidity is likely to further encourage other investors to enter the market or consolidate their existing portfolio.

Demand

The total investment volume reported in the first three quarters of 2017 of ~€585 million mainly driven by the retail and office sectors but also with a significant volume of transactions in the industrial and logistics sector.

Considering the ongoing transactions which are likely to close by the end of the year (eg. America House) it is expected that the total investment volumes in 2017 will be in the range of €900–1,000 million which will mean that we will see the largest volume of transactions in the past 10 years.

The retail sector was the main driver of activity in 2017 as the local **entrepreneur Iulian Dascalu sold 50% of several mixed properties** (retail and office) located in Cluj, Iasi, Timisoara and Suceava to the new entrant South African fund Atterbury Europe. Also with the acquisition of the **Praktiker shops and the portfolio of 11 retail parks** (acquired by KingFisher and Mitiska REIM respectively) coupled with several smaller transactions, **the retail sector had a market share slightly above 27% from the total investment market** (excluding the share of the retail part from Iulius Group).

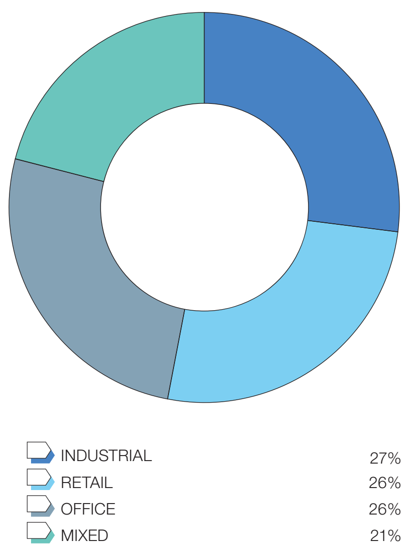
The office sector came in second, with ~26% of the total investment volume. Major transactions concluded were the acquisition of **Coresi Business Park** in Brasov by **Immochan** and also the acquisition of the third **Green Court** building developed by **Skanska** which was acquired by **Globalworth** who also acquired the first two buildings from the project. The third most significant transaction was represented by the acquisition of **ART Business Center 7** which was acquired by the Maltese fund **Hili Properties**.

Considering also the Iulius Group transaction, **the retail and the office sector had a cumulated market share of almost 79% from the total investment market**.

The industrial and logistics sector also reported good volumes and new entrants have closed the first two largest transactions. **China Investment Corporation** acquired several logistics parks from **Blackstone**, while **Globalworth** which traditionally was mainly active on the office market, acquired the **Dacia Logistic Center** in Pitesti from **Elgan Group**. Overall, the industrial and logistics sector had a total market share of approx. 21% from the total investment volume.

Analyzing the above, **increased demand stemmed from several new investors looking mostly for existing platforms/portfolios**. However investors that have been both active and inactive in the market in recent years have also reported significant activity. **As in recent years, foreign investment was the main driver of activity, accounting for almost 99% of the investment volume**, although local capital is becoming more active and several high net worth individuals are actively seeking investment opportunities on the local market (eg. Paval family was in an advanced negotiation process to acquire the first three buildings from AFI Park, developed by AFI Europe but the transaction was not finalized).

FIGURE 6
Transaction distribution by property type (Q1–Q3 2017)



Source: Knight Frank

Yields

Despite the improved levels of activity registered in 2017 compared with 2016, yields have not registered a decline in the office and retail sectors but nevertheless the overall compression trend seems to be maintained and yields in the industrial sectors decreased slightly.

The gap between the local market and the leading markets in the region (Prague and Warsaw) is still above 150–200 bps, indicating that a moderate yield compression might be expected towards the end of the year or early in 2018, especially in the office and industrial sectors.

Forecast

2017 will likely be a record year in terms of investment volumes. In the first three quarters there was a significantly increased activity in the Romanian real estate investment market indicating the growing confidence in Romania's macroeconomic environment.

Also investor demand remained focused on top quality assets and some new investors have entered the market while other already established investors continued acquisitions thus sending positive signals to other potential investors who are still reluctant to enter the market.

Therefore, the sentiment remains positive, and an improved market activity is expected over the coming years.

TABLE 3
Bucharest prime yields
(2016–Q1–Q3 2017, %)

Office	Retail	Industrial
7.5	7.25	8.5
→	→	↓

RETAIL MARKET
SHOPPING CENTERS & HIGH STREET MARKET

Overview

Retail sales have recorded a growth of 7,3%, while retailers continue their expansion plans. Among the most active retailers were discounters and the food retailers who developed their networks especially on the supermarket segment.

Activity on High Street maintains a similar level with the previous years and is dominated by food retailers as well as by the Horeca segment.

Supply

During the first half of 2017 the number of deliveries was limited, with only 10,000 sq m completed in Oradea (Prima Shopping Center phase I) and Brasov.

In Bucharest the modern retail stock remains unchanged since no major retail scheme was completed.

As for the High Street segment there is new supply coming from the office developments in town which offer retail space on the ground floor as part of the developers' strategy to provide better services to their office tenants.

As a result of the enforcement of the laws regarding fire and earthquake safety, The Old City Center is going through a period in which a lot of building are being refurbished or consolidated. At the same time it does affect the sales of retailers in the area which have decreased in the past year.

Demand

Retailers' expansion plans were influenced by the limited number of completions. However, the retail sales in Romania were recording substantial growth, throughout H1 2017 retail sales increased by 7.3% yoy, according to the National Institute of Statistics.

Brands that recently entered the Romanian market:

UTERQÜE
BOGGI MILANO
COS
Kiehl's SINCE 1851
SPORTLOFT
LONGCHAMP PARIS
LANIDOR

As the consumption increases in Romania so does the Horeca sector which caters for most of the demand on High Street, together with the food retailers. As in the past years demand from the fashion retailers is scarce on High street due to the lack of a proper pedestrian area in Bucharest which can provide buildings suitable for modern retail. There is still a lack of new names or powerful retailers in the market which, at the momet, still target shopping centers in Romania.

Rents

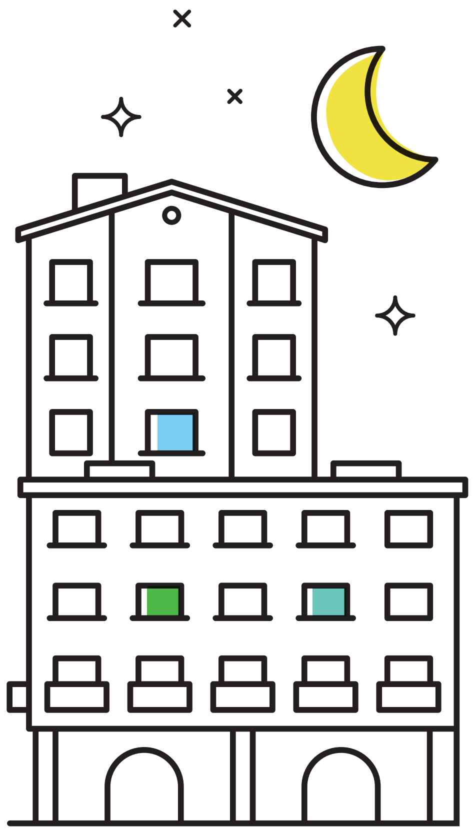
In H1 2017, prime rents for the leading schemes remained relatively stable. For 100 sq m units, rents were in the region of €65–70/sq m/month in shopping centers in Bucharest and between €25–35/sq m/month throughout the rest of the country.

On High Street level overall rents are mostly stable. There is a slight increase in vacancy in the most expensive areas in the city, such as Romana Square, which will lead to a decrease in rents in these areas.

Forecast

At the end of 2017 the focus will be directed to secondary and tertiary cities where there is no modern retail component or it is underrepresented. In H2 2017 approximately 70,000 sq m of new retail spaces are schedule to be delivered outside Bucharest, while the capital city will register the completion of two extension of existing shopping mall: AFI Palace Cotroceni (6,500 sq m) and Sun Plaza (11,000 sq m). Due to the fact that there weren't deliveries in Bucharest, we expect pressure on costs of the prime spaces in shopping centers.

On High Street segment we expect to see increased demand following the positive outlook of the economy in Romania. On the long term, the Old City Center will develop into the most sought after tourist destination in Bucharest not only for leisure but also for accommodation, as more and more hotels are being finalized.



MAP 2
Food anchors – hypermarkets in Bucharest
Q1–Q3 2017

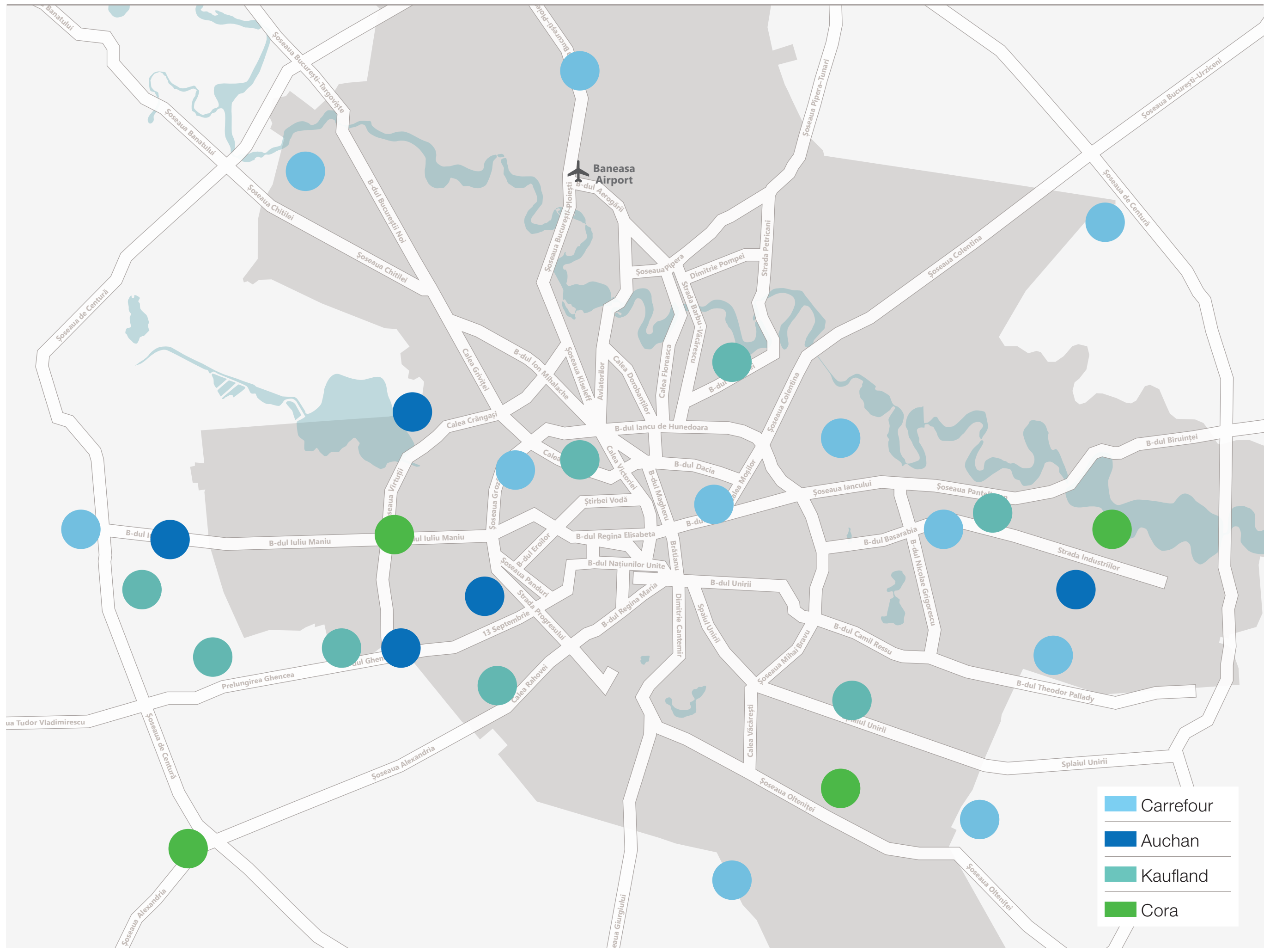


TABLE 4
Projects announced to be delivered in H2 2017 and 2018

Project	City	Developer	GLA (sq m)	Delivery
Ramnicul Valcea Mall	Ramnicul Valcea	NEPI	28,000	H2 2017
Shopping City Sibiu (extension)	Sibiu	NEPI	17,000	H2 2017
Shopping City Galati (extension)	Galati	NEPI	n.a.	H2 2017
Bistrita Mall	Bistrita	Element Development	15,000	H2 2017
Platinia Shopping Center	Cluj-Napoca	Platinia	13,000	H2 2017
Sun Plaza (extension)	Bucharest	S-Immo	11,000	H2 2017
AFI Palace Cotroceni (extension)	Bucharest	AFI Europe	6,500	H2 2017
AFI Palace Brasov	Brasov	AFI Europe	45,000	2018
Promenada Mall (extension)	Bucharest	NEPI	34,000	2018
Timisoara Centrum	Timisoara	Alpha Group Investments	70,000	on hold

Source: Knight Frank

LAND MARKET

Overview

Q1–Q3 2017 maintained the dynamic pace of the previous year, with several key transactions concluded for future mixed developments.

Supply

There were no notable changes to land supply although some areas have come to the forefront of the developers' attention due to infrastructure projects that have been announced.

There are available land plots in all Bucharest' outskirts, suitable mainly for residential development. Valuable lands, which are a major interest for developers, are available but in a lower level of supply in Calea Floreasca/ Barbu Vacarescu area, Expozitiei area, Bucurestii Noi, Baneasa and Sisesti. Kiseleff and Primaverii neighborhoods, which are the most expensive land plots in Bucharest, have a total of only three land plots available.

Besides these, the central and semi-central areas offer many options for the development of small and medium-sized land, suitable for various functions, from offices or hotels to commercial or residential areas.

Demand

In 2017, demand trends were positive, with high volumes of activity witnessed across all market segments. Office and residential segments stay the main drivers of demand in terms of land for development, while the most active buyers were companies.

In terms of demand per area, it is worth mentioning the Expozitiei area which has recorded most of the transactions in the last period.

First transactions announced there were those related to Bluehouse's land. A plot of about 6 hectares, located on Expozitiei Blvd., was divided into three transactions: **Portland Trust**, in joint venture with **Bluehouse Capital** is going to develop an office project on a plot of about 24,000 sq m; **GTC** bought a land plot of 15,000 sqm for approx. €10 million to develop a new office project, while **Impact** bought a 22,000 sq m land plot for €10.6 million to develop a 600 apartment residential project. In an area located closely to the Bluehouse site, **Futureal** bought a 15,000 sq m land plot from Alpha Bank, for €3.7 million, with the aim of developing a 400 apartment project.

Recently, **Atenor** bought a land plot of 10,600 sqm on Expozitiei Blvd. for approx. €11.5 million, going after Portland and GTC, to develop a 44,000 sq m office project.

Prices

Prices were unaffected by the increased demand for residential and office land plots, and remained at a constant level throughout Q1–Q3 2017.

Forecast

The supply of land plots suitable for good development projects is expected to decrease, while demand is growing for land plots appropriate for residential and office use, and as a result, we expect some upward pressure on prices.

Taking into consideration the deliveries on the office sector, and also the fact that companies need to expand in secondary cities, office developers will look to buy land and develop in cities where their tenants want to expand and open new offices, such as Timisoara, Cluj and Iasi.

TABLE 5
Land plot prices by use (€/sq m)

Office	Barbu Vacarescu/ Floreasca	1,000
	Center-West	700–900
Residential	Prime areas	1,000–1,200
	Periphery	200–250
Retail	Bucharest	350–500
	Countryside	100–250

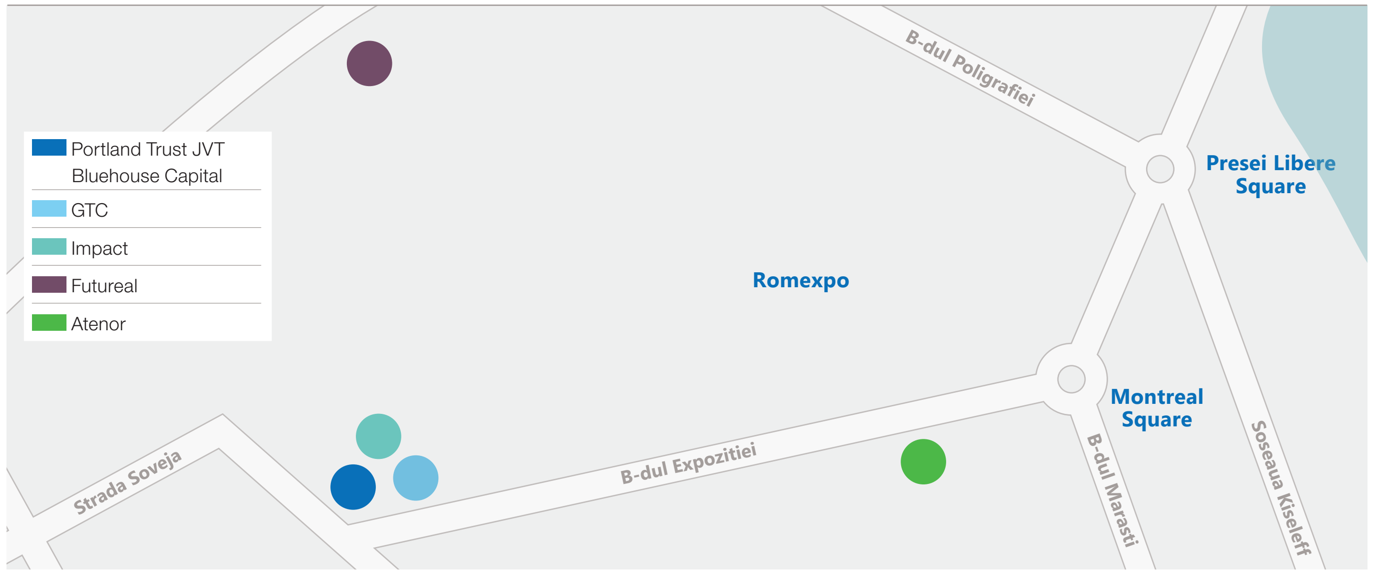
Source: Knight Frank

TABLE 6
Relevant land transactions

Location	Buyer	Size	Value (€ million)
Preciziei	Globalworth	57,000 sq m	8
Pipera	Prime Kapital	70,000 sq m	12
Chitila – Bucurestii Noi	Oscar Development	20,000 sq m	5,5
Marmura	Prime Kapital	10.5 ha	6

Source: Knight Frank

MAP 3
Expozitiei area and the recent land transactions



INDUSTRIAL & LOGISTICS MARKET

Overview

The industrial sector continues its positive trend that began in 2016.Important players on the industrial market, both investors and developers, promise new projects and expansions of the existing spaces in what appears to be a new record for the real estate market. The first three quartersof 2017 were dominated by logistics companies and retailers.

Supply

As a result of a growing demand nationwide, it is estimated that by the end of 2017 new deliveries on the industrial market will reach 480,000 sq m, most of which is already pre-leased or is BTS. Most of the developments are in Bucharest and its surrounding areas. The current modern stock around Bucharest stands at 1.2 million sq m, while on a national level it has reached 2.6 million sq m. The West and North-Western area continues to comprise the largest stock after Bucharest and its surroundings, with 750,000 sq m, followed by the South and South-Eastern area with a total stock of 470,000 sq m. Among the largest projects set for completion in 2017 are: CTPark Bucharest West (68,000 sq m), P3 Logistic Park Bucharest (60,000 sq m) and WDP Otopeni (38,000 sq m).

Demand

Demand for industrial and logistics centers has seen an increase in the first 9 months, with total take-up standing at 367,000 sq m. In Bucharest, total take-up this year has reached approximately 220,000 sq m, which was a 20% increase compared to the same period in 2016.

The main drivers of the demand are the logistics sector – 11%, storage – 7% and retail sector – 6%. The remaining consists of e-commerce, manufacturing, distribution and automotive industries.

A total of 36 leasing transactions were recorded in the first three quarters of 2017, with ten exceeding 10,000 sq m. The top three largest transactions were all concluded in Bucharest: the renewal of DSV in CTPark Bucharest (55,000 sq m), the extension of DSV in CTPark Bucharest West (35,000 sq m) and the new lease of NOD in CTPark Bucharest West (31,000 sq m).

60% of total take-up was registered in Bucharest, and cities such as Timisoara and Pitesti also had notable transactions accounting for 10%, respectively 14% of total volume.

The main source of demand was the acquisition of new lease, taking up to 70% of the total number of transactions.

Vacancy

The industrial market has reached a peak occupancy rate. At the end of the first semester, it is estimated that the vacancy stands at 4% nationwide, which is a new record low for the industry, with figures falling as low as 2% in Bucharest.

Rents

Due to the low vacancy rate and high demand for class A industrial spaces, the average rent has seen a slight increase, situating itself at approx. €4 sq m/month.

Forecast

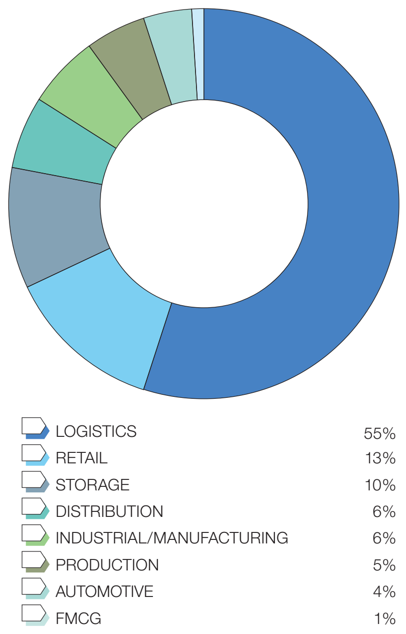
As a result of a favourable economic environment and a growing demand ofcompanies looking for business opportunities, the Romanian industrial and logistics market is expected to continue its positive trend, with new deliveries anticipated to exceed 480,000 sq m by the end of the year. Bucharest is not the only market that will see considerable growth in Q4 2017; as new developments are set to be delivered in Timisoara (45,000 sq m), Cluj Napoca (13,000 sq m) and Roman (32,000 sq m).

TABLE 7
Relevant industrial transactions

Tenant	Area (sq m)	Property	Transaction type
DVS	55,000	CTPaRK Bucharest	Renewal/ Renegotiation
DVS	35,000	CTPark Bucharest West	New lease
NOD	31,000	CTPark Bucharest West	New lease
CEVA LOGISTICS	29,000	WDP Park	Expansion
PROFI	27,000	DP Roman	Built to suit

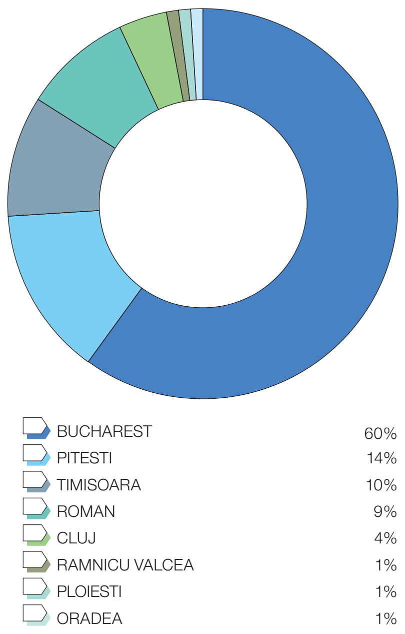
Source: Knight Frank

FIGURE 7
Demand by tenant activity sector
Q1–Q3 2017



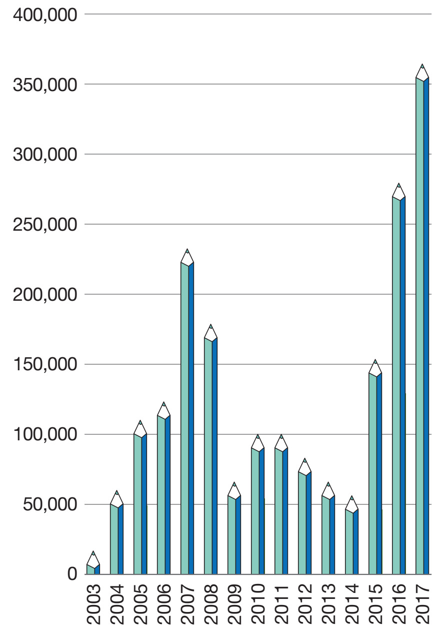
Source: Knight Frank

FIGURE 8
Demand by region
Q1–Q3 2017



Source: Knight Frank

FIGURE 9
Bucharest industrial take-up
Annual evolution (sq m)



Source: Knight Frank

RESIDENTIAL MARKET

Supply

The new M6 metro thoroughfare site is expected to be started this year, moving the spotlight for both residential and office developers from Barbu Vacarescu/ Floreasca and central areas to Expozitiei and Baneasa.

Some of the most important investors announced major projects in Expozitiei area and besides Portland Trust, Atenor or GTC who recently bought land to invest in office projects, Impact Developer & Contractor and Futureal Management will start building residential compounds in the area.

Impact Developer & Contractor is investing €40 million in their project with 600 apartments and plans to synchronize with the office developments announced in the same area.

Futureal Management will develop, through subsidiary Cordia, 400 units on a land of over 15,000 sq m located next to World Trade Center and Romexpo.

The apartments are designed to cover the middle and high end customers needs, starting from 1 bedroom studios to 3 bedroom apartments and penthouses.

Conarg, one of the most important developers in Romania, will deliver by the end of 2017 a new project close to Piata Victoriei area. The building will have two levels of underground parking, ground floor and 8 upper floors.

The project was designed for medium and high end customers and the total investment is of approx. €9 million.

Another sign of the residential market revival is the interest of more and more entrepreneurs from different industries to invest in real estate. Such example is Dan Sucu, owner ofMobexpert, who had some tentatives in the past as well.

In Q3 2017 Dan Sucu, along with Conarg Pitesti, announced Arcadia Apartments in Domenii area, a project with 1,000 apartments on a 3 hectares land. The average targeted price is around €1,300–1,500/sq m. This project is another example of the developers' interest in the Expozitiei area.

Along with the already established developers, the second part of 2017 was marked by small and medium independent entrepreneurs who delivered and announced new projects in the Center West (Politehnica, Grozavesti, Militari, Drumul Taberei) and Center North areas (1 Mai, Domenii, Expozitiei).

The ascending trend witnessed on the market throughout 2017 brought back to light some optimistic ideas that were left behind during the crisis period. Baneasa Development announced an investment of €1,7 bln in the extension of the commercial platform with additional office and residential buildings. Thereby with a 76% share of residential, this would be one of the largest mixed-use projects in Central and Eastern Europe.

TABLE 8
Bucharest rent price

Area	2 rooms/month		3 rooms/month		4 rooms/month	
	av min	av max	av min	av max	av min	av max
Primaverii	700	1200	1200	2200	2000	4000
Aviatorilor	700	1000	1200	2000	2000	3000
Herastrau	900	1400	1300	2500	2000	3000
Floreasca	700	1200	1500	2000	1800	2500
Dorobanti	600	900	1000	1500	1800	2500
Kiseleff	700	1000	1500	2200	2000	3000
Baneasa	500	700	700	900	800	1200
Pipera	500	600	600	800	800	1200
Central	400	600	700	1200	800	1400
Aviatiei	500	700	700	1200	800	1300
Domenii	500	700	700	1200	1000	2000
Dorobanti Capitale	600	700	1500	2500	2500	4000
Tei	500	600	700	900	800	1200

Source: Knight Frank

Corporate Residential Lettings

The ascending trend of the economy continued in 2017 and that was also translated into growth for the real estate lettings market. The foreign investors continue to see potential and therefore Romania becomes more attractive as a new home for numerous expats.

Compared to the beginning of the year, Q3 2017 was characterized by a small decline on the prime residential properties. Despite the numerous new projects delivered in high end areas, the demand exceeded the supply as most of the buildings are for sale.

The Northern area remains the preferred destination for executives and top management employees, as Herastrau Park, the shopping centers and proximity to the airport are the main requirements of the prime residential tenants. However, in the second part of 2017 the demand for the central area has increased as expat tenants expressed an interest of being downtown, "where things happen". The new office projects delivered in the CBD, such as The Landmark, attracted more residential tenants, impressed by outstanding architecture and proximity to the old city center.

While the North is characterized by numerous new modern buildings, the central area offers a smaller stock of new built homes. As for the tenant's requirements in the central area, they prefer a modern apartment with large terrace and overview to city center. Parking is no longer a mandatory requirement thanks to various public transportation solutions, but it still remains a plus.

Prices for the prime residential lettings continued on the same trend of 2016 and we only saw growth in Q3 2017, as the stock was diminished after the busy period of relocations: August and September. For example, in Cortina Residence, the only 2 bedrooms apartment available for rent was listed in September at €1,700/month, compared to July when several units with the same specification were listed and rented at €1,400–1,500/month.

HIGHLIGHTS

Millennials ‘forced’ companies to develop more evolved workspaces in order to keep up with the fast-paced working environment of today and many of these spaces are being specially designed with a focus on their needs.

With the health and well-being of employees being central to design we see a positive impact on health, happiness, and productivity in the workplace. With this comes less staff turnover and decreased employee costs overall, especially it was proven that design really does have an effect on our state of mind.

PROJECT MANAGEMENT

Relocation and redesign of an office resets a business’ image

We are witnessing, for a few years now, how offices are transforming, watching a real revolution of what a workspace used to be in Romania. Sit-stand desks, incorporated technology, phonebooths, lounge areas, sustainable carpets, living walls, modular benching solutions and the list could continue with concepts that were not even heard of 10 years ago in the landscape of Romanian workspaces.

The days when the office was viewed by business leaders as simply a container in which to place people are long gone. Today, the office has become a mechanism through which wider strategic objectives can be advanced.

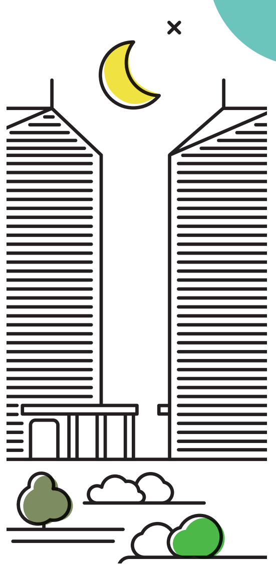
Companies are relocating and redesigning their offices in order to better meet the needs of an ever-changing employee environment, in the fast-paced tech millennia we are living in. Most of the projects of the first nine months of 2017 were relocations, but we also had redesigning of older offices. Nevertheless, in both cases we got the feedback of employee excitement and involvement during and after the process.

Relocation and redesign is becoming a corporate mission for the top management of many companies, for different reasons and needs, but this trend will definitely not slow down, rather further advance, since most industries have already implemented offices of the new era and this creates pressure to follow-suit.

As real estate moves reset businesses and enable strategic objectives to be fulfilled, competitive advantage ensues. This creates pressure for others to follow-suit. On this basis, real estate decisions will forever represent a clear statement of corporate intent.

HIGHLIGHTS Q1–Q3 2017

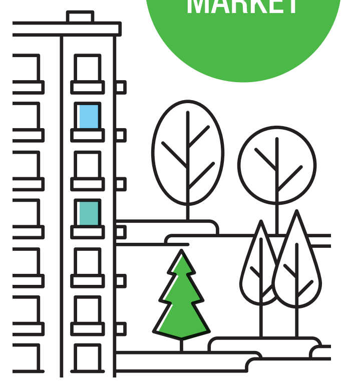
OFFICE MARKET



Bucharest’s office sector witnessed a strong performance in the last months, proved by the vigorous take-up standing already at 70% of the entire last year level.

As expected, the IT&C sector still covers most of the demand on the market, occupying approximately 125,000 sq m (56% of the entire take up of the analized period), compared to the 40% of Q1–Q3 in 2016.

LAND MARKET



2017 maintained the dynamic pace of the previous year, demand trends were positive, with high volumes of activity witnessed across all market segments. Office and residential segments stay the main drivers of demand in terms of land for development.

There are available land plots in all Bucharest’ outskirts, suitable mainly for residential development.

RESIDENTIAL MARKET

Prices for the prime residential lettings continued on the same trend of 2016 and we only saw growth in Q3 2017, as the stock was diminished after the busy period of relocations: August and September.

INDUSTRIAL & LOGISTICS MARKET

Demand for industrial and logistics centers has seen an increase in the first 9 months, with total take-up standing at 367,000 sq m.

In Bucharest, total take–up this year has reached approximately 220,000 sq m, which was a 20% increase compared to the same period in 2016. Due to the low vacancy rate and high demand for class A industrial spaces, the average rent has seen a slight increase to approx. €4 sq m/month.

INVESTMENT MARKET

The total investment volume reached €585 million in the first three quarters from 2017, with potential to reach 900–1,000 million by end of the year.

Demand was mainly generated by new investors looking for existing platforms but established investors have also accounted for a significant weight of the investment volume.

RETAIL MARKET

Retail sales have recorded a growth of 7,3%, while retailers continue their expansion plans. Among the most active retailers were discounters and the food retailers who developed their networks especially on the supermarket segment.

In H2 2017 approximately 70,000 sq m of new retail spaces are scheduled to be delivered outside Bucharest, while the capital city will register the completion of two extension of existing shopping mall: AFI Palace Cotroceni (6,500 sq m) and Sun Plaza (11,000 sq m).

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