

Office market

The office stock increased with approximately 110.000 sq m in 2013, being obviously higher compared with 2012. The increase in the development activity was generated by the completion of large buildings, such as Sky Tower (41.200 sq m) and Floreasca Park (37.600 sq m). Although the number of completed buildings dropped significantly compared to 2012, the total added stock was generated by the completion of the above mentioned office buildings. Developers have anticipated the exigencies of demand and started new developments that benefit of high absorption rates, even recorded pre-lease transactions.

During 2014, the completion rates remains comparative with those recorded in 2013. If the level of demand sustained by new comer companies does not record an increase, it is expected that the vacancy rate will increase. The competition generated by other local markets (Timisoara, Cluj-Napoca, Iasi) will influence more evidently the Bucharest market, the demand coming from new companies (call centers, BPO's) being focused also towards regional cities. In addition, the availability of offices will increase as the relocations of tenants will generate vacant spaces within buildings with a low level of marketability. This expected increase of vacant areas should not be considered a premise for rent reductions, in these particular cases, the particular situation of each property should be considered.

The northern (Barbu Vacarescu-Floreasca) and central-western areas (AFI Business Park) will record buoyant development activity. Development activity within the central area will be very limited, despite a number of proposed office projects. The lack of available office spaces within the central area will determine the tenants to shift their demand towards central-northern and northern submarkets, where Green Court and Hermes Business Park will be completed. During 2014, a number of new projects are expected to be initiated, such as AFI Park IV and V, Bucharest One.

The vacancy rate remained high with fluctuations between 14% and 15% in 2013, but the number of buildings that meet the characteristics of demand has diminished. The largest vacant areas are within buildings located in the peripheral areas of Bucharest, as well as within the buildings located in the secondary areas, but with a low attraction for tenants.

Tenants have become more demanding, trying to obtain a more robust equilibrium between location, quality of the space and total occupancy costs. A low occupancy costs do not represent the main decision factor that influence the behavior of the tenant.

The level of take-up in 2013 is lower compared with 2012, totaling approximately 200.000 sq m. This level exclusively represents new contracts, excluding renewals and renegotiations. By including these categories of transactions, the total level of take up reached 300.000 sq m.

During 2013, demand was mainly sustained by relocations. The decision of tenants to relocate their activities is not exclusively based on the intension to reduce costs, concomitantly with an improvement in the quality of occupied space. This decisional criterion is specific to small tenants for which the maintenance of a low level of occupancy costs is essential for the general activity of the companies.

In case of large tenants, the relocations are generated by the consolidation of the occupied space and optimization of the occupancy costs that do not limit to the level of the rent. The willingness of the tenants to obtain a better equilibrium between the quality of the occupied space and the occupancy costs is another factor that generates relocations. This equilibrium does not necessary imply a reduction of the occupied costs.

The relocations generated by the intension of tenants to optimize the occupied space, more precisely, the relocation of all activities within one building, have generated extensions of some tenants, especially, those that already occupied large spaces. Among the expansions recorded in 2013, should be mentioned Procter & Gamble in Iride Business Park, Societe Generale (2.500 sq m) in West Gate, UniCredit Business Integrated Solutions (2.500 sq m) in Novo Park. These expansions were recorded within large office parks located in the northern and western Bucharest, developed on the former industrial platforms. Usually, the expansion of the occupied spaces was doubled by the prolongation of the lease contracts.

The reduction of the development activity corroborated with a sustained demand for quality spaces generated a decrease in the availability of class A offices. This decrease of the vacancy rate generates significant difficulties for tenants that are looking for leasing large office areas. As a consequence, the option considered by this type of tenants is represented by pre-lease transactions that offer the advantage of lower rents. In 2013, the most important pre-lease transactions have been concluded by Electronic Arts (11.700 sq m) in AFI Park 2, Avira Soft (1.650 sq m) in Armand Business Center.

The first quarter of 2014 recorded a similar evolution with 2013, being revealed the willingness of tenants to occupy quality spaces, but they are encountering difficulties due to the lack of completed projects. Thus, the local market already recorded pre-lease transactions concluded by Vodafone (16.000 sq m) in Bucharest One, Endava (4.500 sq m) in AFI Park 3 and Schneider Electric (3.100 sq m) in Green Court.

Renewals are preferred by large tenants being determined to adopt this option due to lack of large office alternatives to relocate and incentives granted by landlords. In addition, relocations imply significant moving costs that cannot be compensated by potential reduction of the occupancy costs. In 2013, the most significant renewal contracts have been concluded by HP (26.000 sq m), Honeywell (11.000 sq m), Garanti Bank (7.200 sq m), WNS (2.500 sq m), Webhelp (1.500 sq m).

The beginning of 2014 is already marked by the contract concluded by Procter & Gamble (6.000 sq m) in Iride Business Park. The similar tendency will be recorded throughout the entire year, considering that the option that large tenants have remained limited, while the potential savings that might be generated by the decrease in the total occupancy costs do not justify the relocation that implies a high total cost.

Considering other characteristics of the leasing activity, this remained comparative to 2012. The leasing activity was concentrated in the central and central-northern areas, as well in the western area. Thus, the leasing transactions followed the geographic pattern of the development activity recorded during 2011-2013. The leasing activity was concentrated in Floreasca-Pipera-Dimitrie Pompeiu areas, central and western areas, Politehnica and Industriilor.

During 2014 the lease activity is expected to remain focused on the northern segment, where a number of class A office buildings is under-construction and others are proposed to be initiated during this year.

Considering the economic activities carried out by tenants, demand was mainly sustained by IT&C companies followed by industrial companies.

Selection of transactions – new contracts

Tenant	Economic sector	Building	Area – sq m
Electronic Arts	IT&C	AFI Park 2	11.700
Ernst&Young	Service	Tower Center	4.500
Ministerul Fondurilor Europene	Public	Tower Center	4.000
Bitdefender	IT&C	Delea Veche 24 Offices	3.820
Exim Bank	Financial	Kiseleff	3.800
Michelin	Industrial	Global City Business Park	3.450
Mercedes-Benz Romania	Industrial	Swan Office & Technology Park	3.000
Sodexo	Service	Novo Park	2.700
Cegeka	IT&C	Tower Center	2.500
Huawei	IT&C	Tower Center	2.500
Lafarge	Industrial	CDG Plaza	2.000
Elohim Net	Service	Barba Center	1.800
Tinmar-Ind	Industrial	Sky Tower	1.200

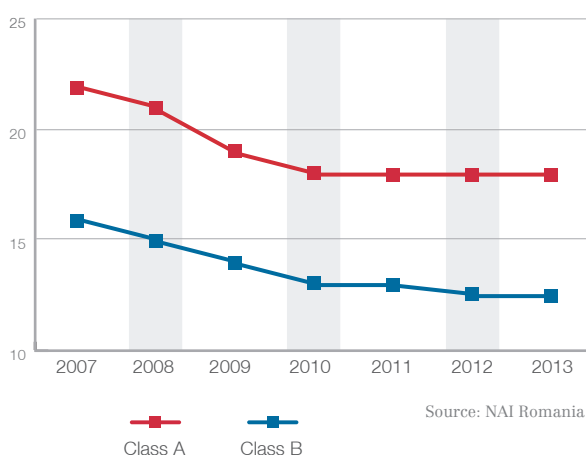
Demand was concentrated on quality buildings that benefit of great accessibility. The take-up recorded in 2013 was dominated by class A offices. The buildings that attracted large tenants in 2013 were CDG Plaza (central-north), Tower Center (central), Westgate (west), Greengate (central-south), AFI Park (central-west).

Considering the leasing period, the leasing contracts were generally concluded for periods of 3-5 years or longer for larger tenants. Even some contracts were concluded for longer periods (over 5 years), tenants benefit of the right to break the contracts without penalties.

Leasing activity will remained comparable with the level recorded in 2013. Although tenants that already end the 5 year lease cycle within buildings completed in 2008-2009 are prospecting the market, the probability of large relocations is getting lower. Alternatively, the office market will encounter a large number of renewals that will not influence the evolution of other market indicators (vacancy rate, rental levels etc). Even if large tenants are willing to relocate, there will be no completed office buildings comparable with the properties developed during the period of market boom. This context creates the grounds for an increase in the number of pre-lease transactions.

Base rents did not record fluctuations compared to 2012, these fluctuating between Euro 16-18/sq m/month for centrally located class A offices that benefit of the proximity of metro network. Class B offices located within the central area are quoted at approximately 10-14 Euro/sq m/month, while the rents for offices located in the peripheral areas range between 7 and 9 Euro/sq m/month.

Evolution of rents - Euro/sq m/month



During the first half of 2014, the rents remains stable, but the grounds of a potential increase in the central areas occur starting with the second semester, if demand continues to be primarily focused on the central Bucharest. This pressure will be higher if the construction works for the proposed projects situated in the central area (Romana Square, Universitate, Unirii) do not start. Concomitantly, old buildings situated within areas with strong development activity (Floreasca-Pipera-Caramfil) will be put under a downward pressure in terms of rents, if tenants prefer to relocate in newly completed buildings.