

BUCHAREST OFFICE MARKET



Q1 2018



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Demand

Office leasing activity in Bucharest nearly halved in the first quarter of the 2018, though, admittedly, 1Q17 was one of the strongest quarters we have seen this cycle. Still, 1Q18's gross take-up in modern office spaces of over 68,000 sqm (-43% YoY) and net take-up of almost 38,000 sqm (-26% YoY) are a bit below the recent trend and in tune with our expectations of the market gradually cooling down over the medium term.

The softer activity numbers were achieved amid few big transactions, with deals smaller than 3,000 sqm generating the lion's share of the market in 1Q18. The highlights in terms of office leasing deals were a confidential 11,500 sqm transaction in the Unirii and the 5,500 sqm UPC deal at The Bridge.

Leasing activity is mirroring the growing attention from developers towards central areas, Center West or Piata Presei/Expozitiei at the expense of the established northern part of Bucharest.

This time, the industrial and energy segment accounted for the biggest share of leasing activity, coming in at nearly 37% of total activity. The IT&C segment accounted for close to a quarter of total (23.6%), which is some ways below last year's exceptional result (44% of total leasing activity). No notable new entries were recorded in the first quarter.

With unemployment at all-time lows and major regional office markets in Romania rising in importance, we retain our view for new demand slowing in the Bucharest modern office market some 10% in 2018, to 135,000 sqm. Given the growing challenges, we would still consider this as a fairly robust result after 2017's excellent print.

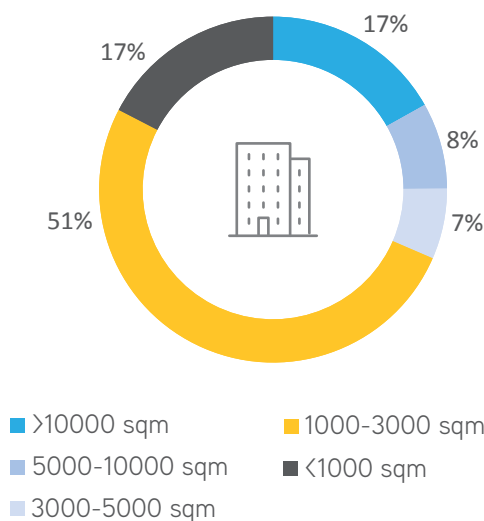
Top leasing deals in 1Q18

Tenant	Building	Area (sqm)
Confidential	Building in Unirii area	11,500
UPC Romania	The Bridge	5,500
Schlumberger	The Bridge	4,500
E.ON	City Gate	2,800
BRD	West Gate Park	2,600

Q1 Total take-up

68,200 sqm ↓ y-o-y -43,4%

Transactions by deal size



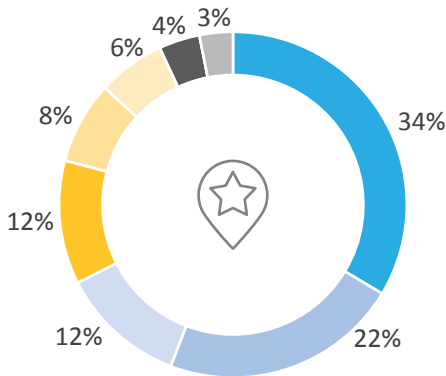
Source: Colliers International, Bucharest Research Forum





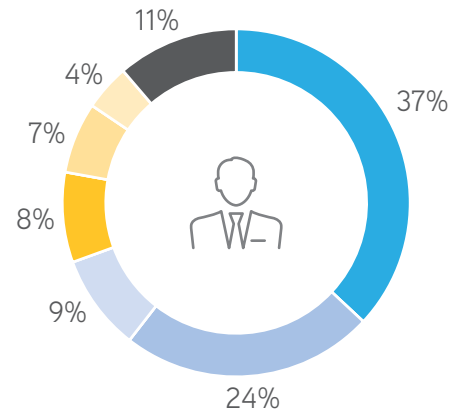
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Leasing activity by sub-markets



- CBD
- Center West
- West
- Piata Presei/Expozitiei
- Timpuri Noi
- Floreasca/Barbu Vacarescu
- Baneasa
- Other

Transactions by company activity



- Energy, industrial
- IT&C
- Finance, banking, insurance
- Professional services
- Media, marketing
- Pharma
- Other

Source: Colliers International, Bucharest Research Forum

Deliveries

- Bucharest is set to receive around 185,000 sqm in new office spaces in 2018, with most during the second part of the year. **Center-West is expected to remain the most active submarket, accounting for 40% of this year's pipeline**, while the CBD is set to receive around a third of the total. Given the labour market issues for the construction segment as well as the expected slowdown in leasing activity, there are risks for some projects to be delayed into 2019.
- **The vacancy rate decreased towards 9% in 1Q18.** Market conditions remain overall largely neutral, though skewed a bit towards a tenant market given ample developer plans for the subsequent years.

Green certifications

- The market for green certifications accelerated in the first quarter, with office projects of over 100,000 sqm covered, an increase of over 10% compared to 1Q17. **Two office buildings received LEED Platinum, the highest certifications on this scale** – Forte Partner's The Bridge (the first phase) and Vastint's Timpuri Noi Square (the first two buildings). Atenor Group's Hermes Business Campus (the third building) and NEPI Rockcastle's Aviatorilor 8 were both awarded BREEAM Excellent. It is interesting to note that **green certifications started as of 2017 will be based on stricter manuals** and the challenge is to see if the new office projects will manage to score as highly as we have seen in recent years.