THE UP-AND-COMING HEAVYWEIGHTS

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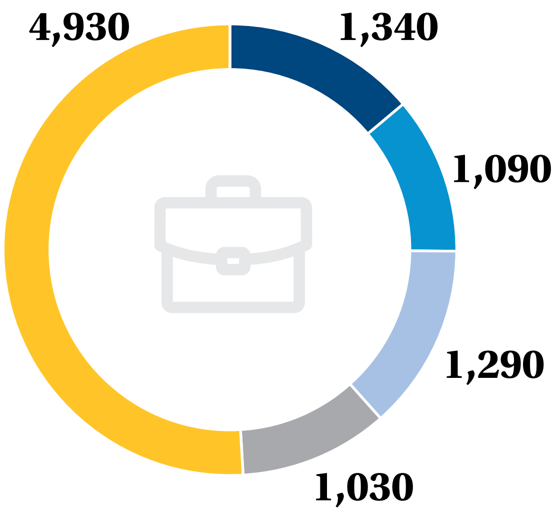
With **job creation** in the private services field **cooling down** (+56k net job gains on a 12-month rolling basis in March 2018, almost half the pace seen at the start of 2017), we see even more merit behind the idea of Romania's regional office hubs accelerating activity relative to Bucharest. Without trying to sound pretentious by using big words, we think that the stage is set for a **tremendous (and accelerated) development of the regional office markets**. The nearby charts show the strong growth potential for the office office markets in parts of Romania, which should bode well for other real estate segments, like residential or retail. We want to underscore again that we do not see Bucharest suffering as these trends will unfold, just that its relative economic share will shrink as it will grow at a slower pace that other cities.

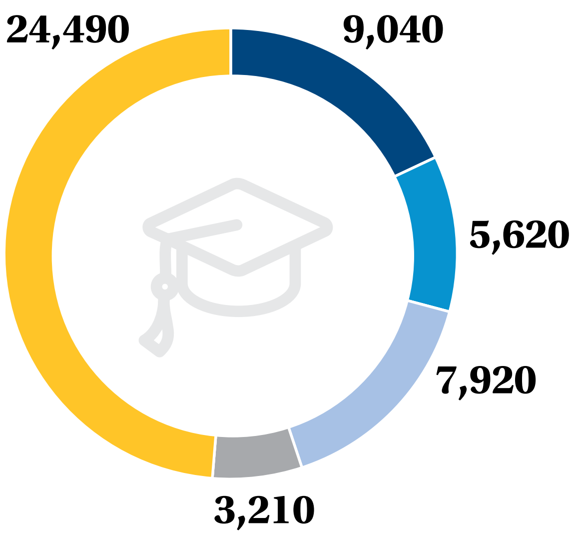
JOB OPENINGS FROM POTENTIAL OFFICE TENANTS

(IT&C, BPO/SSC, FINANCIALS AS OF MAY 2018)



NUMBER OF BACHELOR GRADUATES PER YEAR

(COUNTY-LEVEL)



Cluj-Napoca | Timisoara | Iasi | Brasov | Bucharest

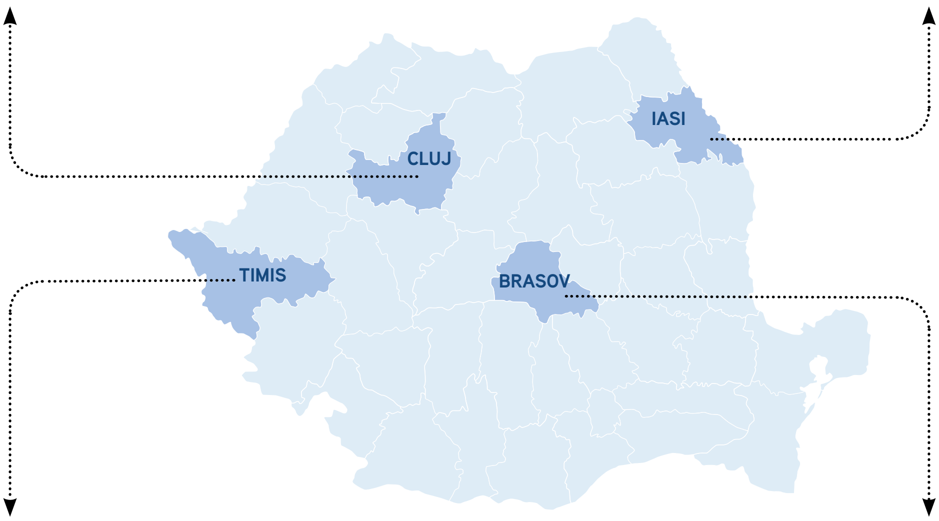
Data sources: Colliers International Romania, National Institute of Statistics, ejobs.ro, World Bank, Eurostat

CLUJ-NAPOCA

Ought to remain the star of the show, being the biggest university hub outside the capital (and having the largest student density in the country, at over 200 students per 1,000 inhabitants, more than twice that of Bucharest's). It is also the fastest growing region in Europe for hi-tech services, as per the Milken's Institute analysis.

IASI

Is probably the youngest large city in Romania, which itself should lend a strong argument for a bright future. Indeed, it has a well smaller student population than the other two large regional magnets – Cluj-Napoca and Timisoara, but Iasi makes up for this with a better labour force availability than the other two as well as smaller wages.



TIMISOARA

Is also an interesting proposal; its western position has made it a magnet for industrial developments.
At the same time, the relevant foreign language skills and a high number of university graduates with technical background have created a strong demand from more industrial corporates than in most other parts of the country, which can co-exist with the actual manufacturing facilities in the region.

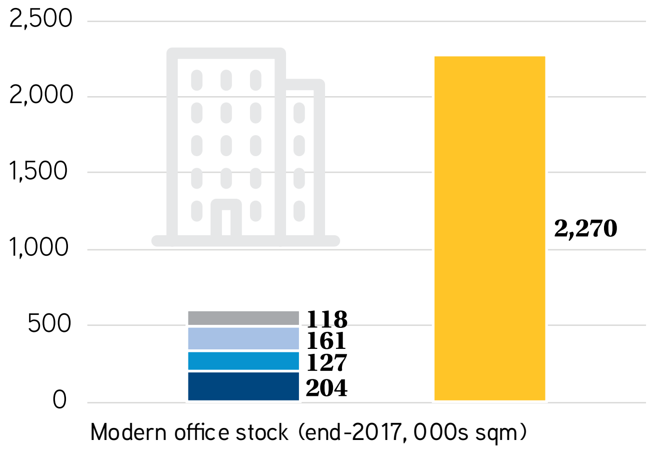
BRASOV

Has been held back by the lack of an international airport, though public authorities are working on one. Like Timisoara, it offers an interesting mix of graduates with an engineering backdrop with strong language skills, meaning that this can be both an option for manufacturing or office operations.

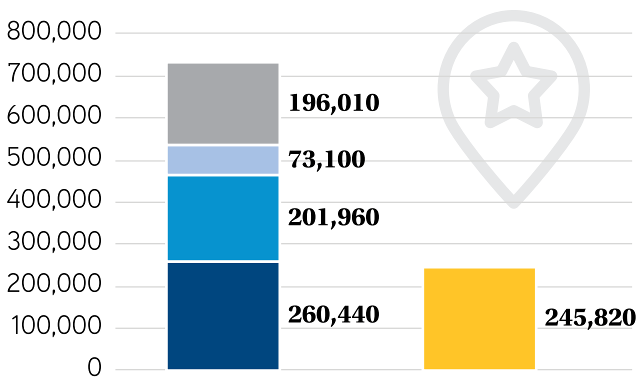
We see several arguments supporting our expectations. Based on figures from the biggest job search website in the country, we surmise that the current number of job openings in Bucharest from potential office tenants is about the same as Cluj-Napoca, Timisoara, Iasi and Brasov put together (as per Ejobs.ro data). Meanwhile, **these four cities deliver slightly more graduates per year than Bucharest and offer more than two times as many IT&C graduates,** with the latter being one of the biggest prizes for employers. Moreover, since Bucharest has become quite overcrowded and wages offered by multinationals are no longer significantly lower elsewhere in the country, people are seeing diminishing returns from leaving their home town and heading to the capital. Last, but not least, the number of people that could **relocate to one of these four towns** in the near future, as suggested by a World Bank survey published last year, stands at a staggering **731,000**, some 3 times more than those forecasted for Bucharest; such a migration trend would also be in tune with Zipf's law, which sees an inversely proportional relation between a country's biggest town and subsequent size brackets.

All of these changes create significant opportunities for office developers and given that the current supply in these four regional hubs is nearly 4 times lower than Bucharest's (and has not kept up in recent years), there is room for a material acceleration of the pipeline.

MODERN OFFICE STOCK
(END-2017, 000S SQM)



NUMBER OF POTENTIAL MIGRANTS IN THE PROXIMATE FUTURE



Cluj-Napoca Timisoara Iasi Brasov Bucharest

Data sources: Colliers International Romania, National Institute of Statistics, ejobs.ro, World Bank, Eurostat