

Bucharest

City Report
Q2 2019



JLL

*Achieve
Ambitions*

Business Garden Bucharest
Vasint

Economy & Investment

4.0%



GDP Growth
2019 y-o-y

3.84%



Inflation
June 2019 y-o-y

3.9%



Unemployment rate
May 2019

€651



Net average wage
May 2019

5.7%



Retail Sales,
Q2 2019 y-o-y

0.4%



Industrial production,
Jan. - May, 2019 y-o-y

Investment Market

The Q2 2019 property investment volume for Romania is estimated at circa €218.65 million, a value almost 72% higher than the one registered in the same period in 2018 (€127.3 million). Moreover, there are a number of transactions in different stages of negotiations that will most likely be concluded during the remainder of 2019. In comparison with H1 2018, the number of transactions doubled, however, the average deal size remained the same, standing at approximately €24 million. Bucharest accounted for approximately 40% of the total investment volume, mainly due to a very large office transaction in Q2 in Cluj-Napoca. Market volumes were dominated by office transactions (almost 77%), while industrial accounted for 19% and the rest were hotel transactions.

The largest transaction registered in the second quarter of 2019 was the acquisition of The Office project in Cluj-Napoca, with a GLA of roughly 61,000 sq m, by Dedeman from NEPI Rockcastle and Ovidiu Sandor. This is the second office project bought by Dedeman, after acquiring The Bridge project in Bucharest last year.

The macro-economic forecast for Romania continues to be positive, despite some recent growth revisions. On the financing side, terms and conditions are getting closer to what can be expected in the core CEE markets. Consequently, sentiment is strong, with a total volume for 2019 estimated to surpass the €1 billion mark.

Prime office yields are at 7.25%, prime retail yields at 7.0%, while prime industrial yields stand at 8.00%. Yields for retail are at the same level as 12 months ago, while office yields compressed by 25 bps and industrial yields decreased by 50 bps over the year. There is a very soft downward pressure on yields, however, in 2019 we do not expect any significant compression due to the lack of prime product transactions.

Prime Yields

7.00%



Shopping Centre

7.25%



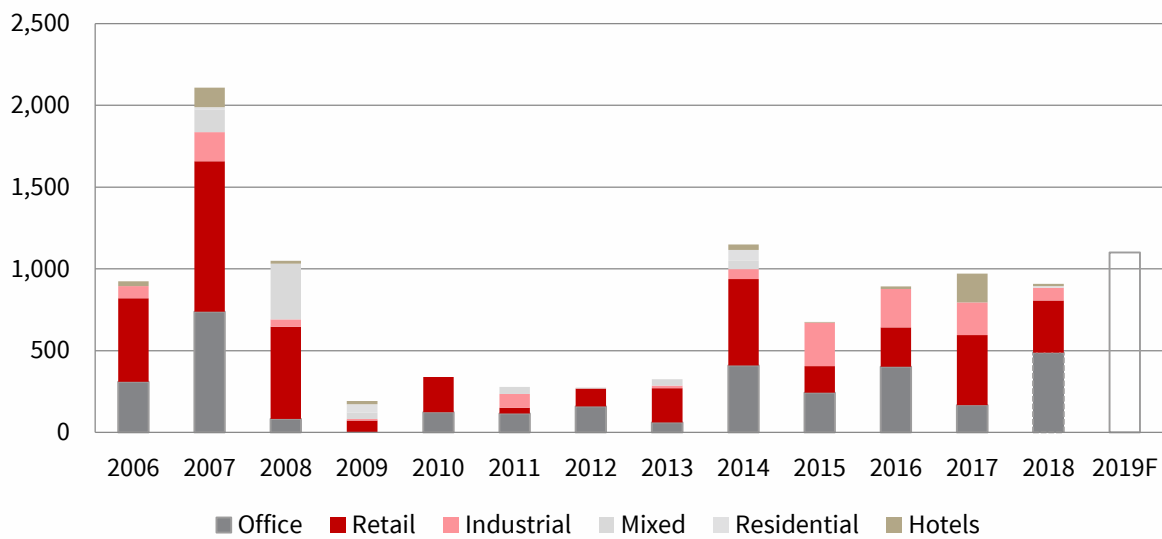
Office

8.00%



Industrial

Romania Investment Volumes (€ million)



Key Investment Transactions in Q2 2019

| Sector | Property | Market | Est. Price (€ million) | Seller | Buyer |
|------------|-------------------------|-------------|------------------------|-----------------------------------|---------|
| Office | The Office | Cluj-Napoca | 125 | NEPI Rockcastle and Ovidiu Sandor | Dedeman |
| Industrial | A1 Bucharest Park | Bucharest | 40 | Vabeld | CTP |
| Office | First Bank headquarters | Bucharest | 20 | First Bank | Local |

Office Market

Demand

The second quarter reconfirmed the strong interest for renting office spaces in Bucharest. Total gross transaction volume reached over 108,000 sq m during this period, compared to only 65,600 sq m in Q2 2018.

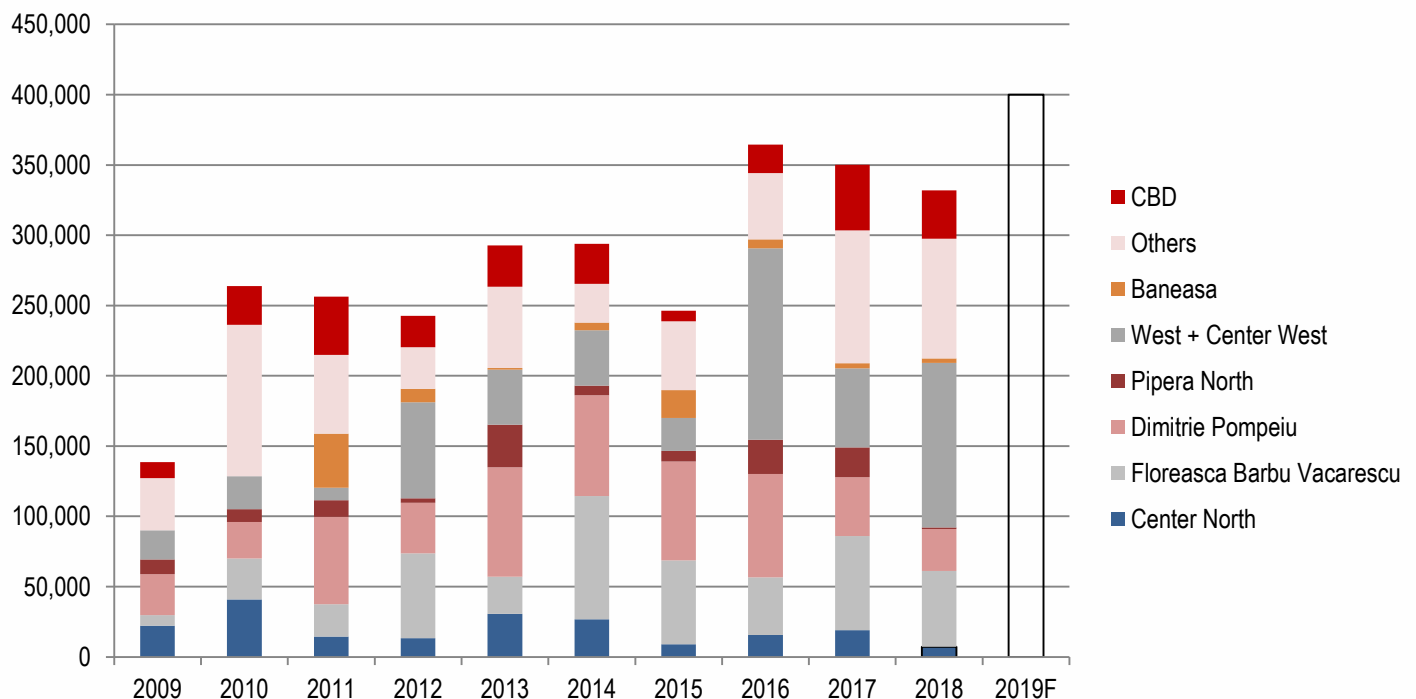
In total, during the first half of 2019, over 218,000 sq m of offices spaces were leased, compared to approximately 137,000 sq. m in the same period of 2018.

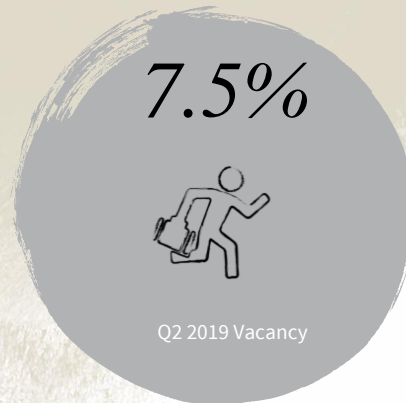
JLL registered the largest office transaction in Q2 2019, the renewal of eMAG's contract for 15,100 sq m in Swan Office Park. In Q2 were concluded in total 4 large transactions, of over 5,000 sq m. The average transaction size was around 1,700 sq m.

Q2 experienced a slight decrease in the vacancy rate, to 7.5%, from 8% in the previous quarter. The reason behind this decrease is that although important deliveries brought new office space on the market, demand was strong, with a slight increase in net take-up.

The office market is going through a favorable period, with many multinational companies opening new offices or expanding their existing offices in Bucharest. Tenants are looking for high quality buildings, in good locations, offering A+ conditions and the possibility to increase their space in the future.

Evolution of Gross Take-up (sq m), 2009-2019F





Deliveries in Q2 2019

| Property | Submarket | Size (sq m) | Developer |
|---------------------------|---------------------------|-------------|----------------|
| Business Garden Bucharest | Center West | 41,000 | Vastint |
| Oregon Park C | Floreasca Barbu Vacarescu | 24,500 | Portland Trust |
| Timpuri Noi Square 3 | Center South | 20,000 | Vastint |

Pipeline 2019 (Selection)

| Property | Submarket | Size (sq m) | Developer |
|----------------------|---------------------------|-------------|-------------------|
| Expo Business Park | North Expozitiei | 38,000 | Portland Trust |
| Ana Tower | North Expozitiei | 34,700 | Ana Holding |
| The Light, phase 1 | Center West | 21,600 | River Development |
| Equilibrium, phase 1 | Floreasca Barbu Vacarescu | 20,600 | Skanska |

Key Leasing Transactions in Q2 2019

| Property | Occupier | Contract type | Deal size (sq m) |
|------------------------|--------------|---------------|------------------|
| Swan Office Park | eMAG | Renewal | 15,150 |
| Dacia 1 | ING Tech | Pre-lease | 13,000 |
| Confidential | Confidential | New lease | 12,000 |
| S-Park | ING Tech | Renewal | 5,500 |
| TCI | Tradeshift | New lease | 4,000 |
| S-Park | ING Tech | Expansion | 3,250 |
| Conect I Business Park | NTT Data | Renewal | 3,200 |

Office Market

Deliveries

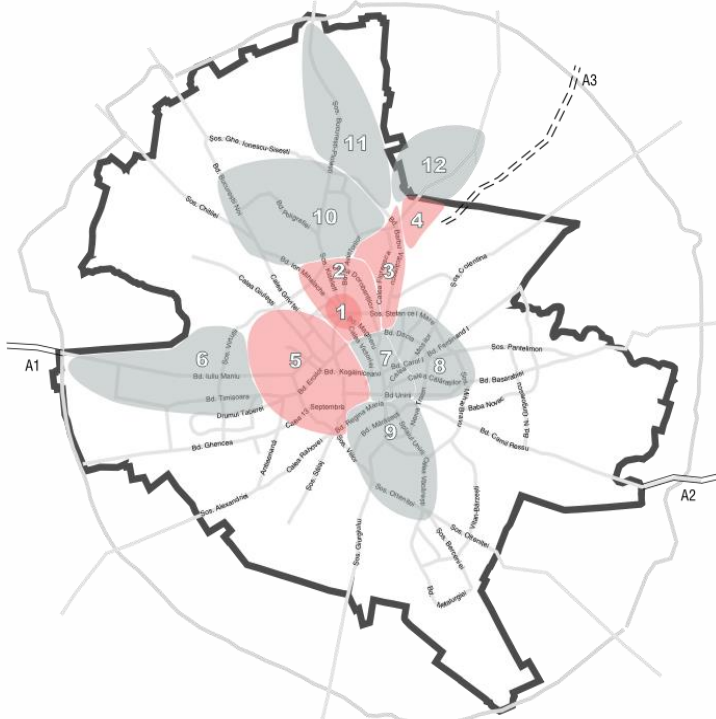
2019 will be a record year in terms of new office projects in Bucharest, with over 150,000 sq m expected to be delivered in H2, bringing the total deliveries to 333,500 sq m.

Although there were strong new deliveries both in Q2 and Q1, vacancy decreased slightly from roughly 8% in Q1 to 7.5% at the end of Q2. This is because by the time the buildings were delivered they had 80 to 90% occupancy, or even 100% in some cases, such as Renault Bucharest Connected and The Mark. Therefore, the new buildings did not add up much to the overall vacancy rate. On the other hand, demand was also strong during the first half and there were almost no major relocations in the market during this period, except for Renault, who moved from Pipera North to the western part of the city in the new project Renault Bucharest Connected, build on demand.

Pipeline

Significant office deliveries, of over 150,000 sq m, are also expected for the second half of 2019, the largest projects being Expo Business Park, Ana Tower, The Light (first phase) and Equilibrium (first phase). Therefore, the vacancy rate might slightly increase to around 8%. However, even though at the end of Q2 the projects under construction, to be delivered in H2, had a pre-lease rate of roughly 40% on average, with significant differences from case to case, considering that there are several large transactions pending, if those will be concluded in time, the occupancy rate will also go much higher by the time the buildings will be completed. Therefore, new deliveries are not expected to add much to the overall vacancy rate in H2.

Bucharest Office Sub-markets



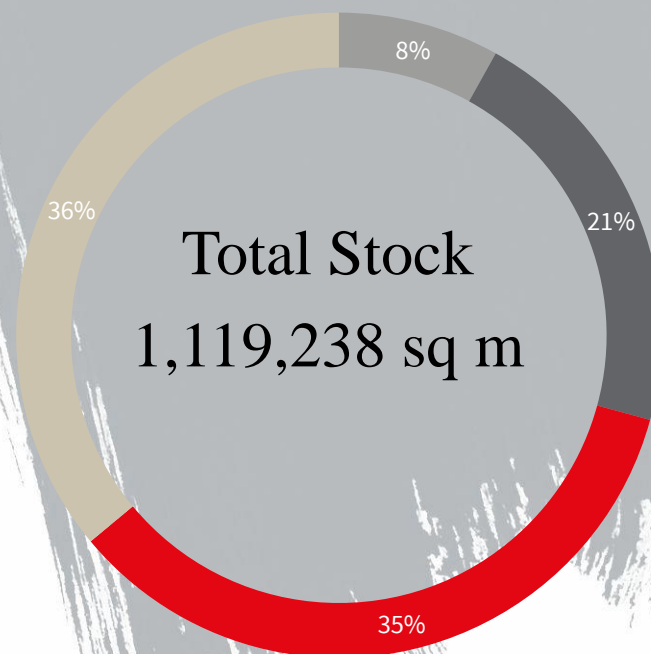
| Sub-market | Stock (sq m) | Average rent (Euro/sq m/mth) | Vacancy % |
|------------------------|------------------|------------------------------|------------|
| 1. CBD | 274,622 | 16 – 18.5 | 4.15 |
| 2. Center – North | 127,303 | 15 – 17 | 0 |
| 3. Floreasca – BV | 515,615 | 15 – 16 | 1.5 |
| 4. Dimitrie Pompeiu | 415,567 | 12 – 14 | 5.8 |
| 5. Center – West | 380,141 | 14 – 16 | 7.13 |
| 6. West | 150,900 | 10 – 13 | 1 |
| 7. Center | 200,504 | 15 – 17 | 3.3 |
| 8. East | 88,283 | 12 – 14 | 18.4 |
| 9. Center - South | 173,803 | 10 – 12 | 16.6 |
| 10. North - Expozitiei | 191,190 | 15 – 17 | 1.7 |
| 11. Baneasa - Otopeni | 147,182 | 11 – 13 | 8.9 |
| 12. Pipera North | 177,600 | 7 – 10 | 40.8 |
| TOTAL | 2,842,710 | | 7.5 |

*The updated stock include buildings Class A&B, built after 2000

Retail Market

Following the same trend as in Q1, there were no new major shopping centers or retail parks delivered in Q2 2019. However, during the period, NEPI Rockcastle finished the new 10,000 sq m expansion of Shopping City Sibiu. Almost all major deliveries for 2019 will concentrate in the second half, with close to 166,000 sq m expected to be completed, compensating for the lack of new projects during the first half of the year.

Retail Projects in Bucharest by Size



■ Small (5,000 - 19,999 sq m) ■ Medium (20,000 - 39,999 sq m) ■ Large (40,000 - 59,999 sq m) ■ Very Large (>60,000 sq m)

*Including all retail formats

Demand

Tenant interest is quite high in 2019, with new retailers entering the Romanian market, including brands like Topshop, who opened the first unit in Bucuresti Mall, and Watch Shop, who launched a unit under his own brand in AFI Palace Cotroceni. Also, Xiaomi Mi Store, inaugurated its first unit in Mega Mall.

Moreover, the fast food chain Burger King announced its intensions to relaunch its business in Romania, currently operating only one unit in the terminal of Henri Coanda - Otopeni International Airport.

On the other hand, the fashion brand Victoria's Secret is expected to launch by the end of the year its first unit in a shopping center, in Baneasa Shopping City. Currently the brand operates only one store locally, inside the terminal of Henri Coanda - Otopeni International Airport.

Retail Market

Deliveries

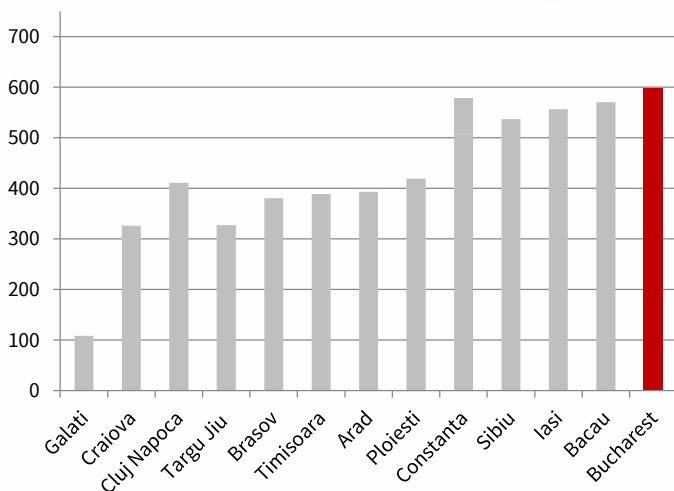
2019 will be characterized by a considerable number of extensions and to a lesser extent by new projects. The largest new project expected to be delivered by the end of this year is Festival Shopping Center in Sibiu. The 42,200 sq m GLA shopping center is developed by NEPI Rockcastle, the largest shopping center developer and owner in Romania.

Two new retail parks are to be delivered by the end of the year by Prime Kapital and MAS REI in Zalau, the 19,000 sq m GLA Zalau Value Center and to the north of Bucharest, the 28,500 sq m GLA DN1 Value Center in Balotesti. Also, Ceetrus is expected to deliver in H2 the 9,000 sq m GLA retail park Aushopping Satu Mare.

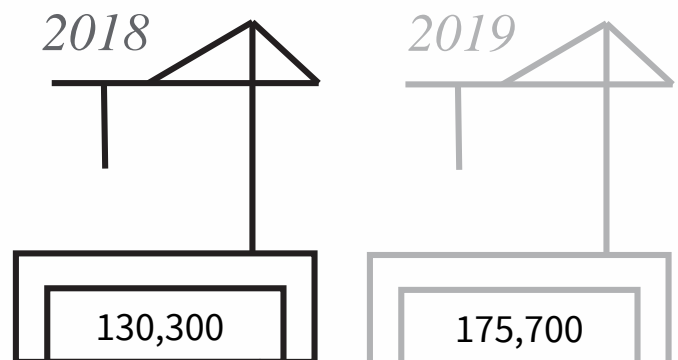
In terms of extensions, in Q3 are pending completion the new 47,000 sq m GLA extension of the retail component in the mixed use project Iulius Town Timisoara and the 6,000 sq m GLA extension of Shopping City Buzau.

In Bucharest, there are no new shopping centers to be delivered this year. However, the extension of Veranda Mall in Obor is nearing completion. This will add another 6,000 sq m GLA, to the scheme, including a cinema.

Shopping Centre Density (sq m) per 1,000 Inhabitants*



Deliveries / Pipeline Romania (sq m)



*Including all retail formats

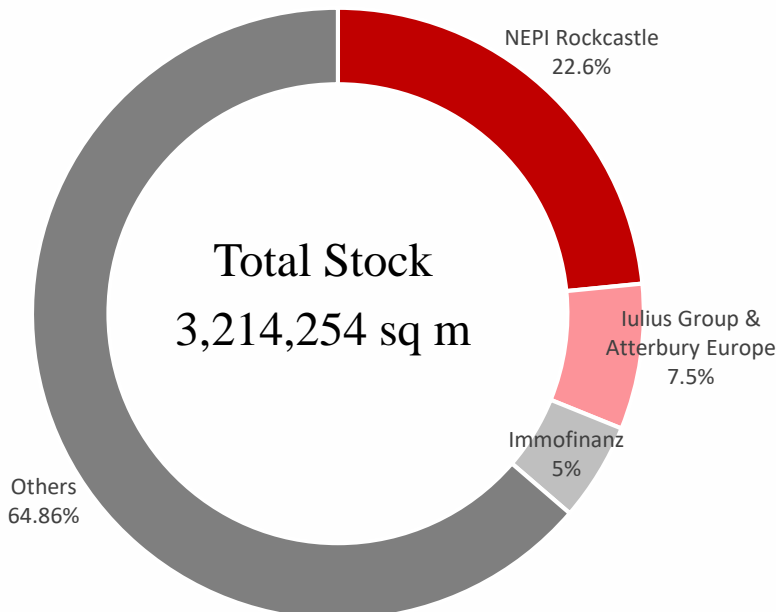
Retail Market

Schemes Announced for 2019 – 2020 in Romania (>10,000 sq m)

| Property | Format | Developer | Size (sq m) |
|--------------------------------|-------------|-----------------|-------------|
| Iulius Town Timisoara | Extension | Iulius Group | 47,000 |
| AFI Palace Brasov | New Project | AFI Europe | 45,000 |
| Festival Shopping Center Sibiu | New Project | NEPI Rockcastle | 42,000 |
| Shopping City Targu Mures | New Project | NEPI Rockcastle | 33,000 |
| Dambovita Mall | New Project | Prime Kapital | 33,000 |
| Mall Moldova | Extension | Prime Kapital | 30,000 |
| DN1 Balotesti | Extension | Prime Kapital | 28,300 |
| Colosseum Center* | Extension | Colosseum Mall | 16,500 |

*Colosseum Center includes Colosseum Retail Park and the new 16,500 sq m development Colosseum Mall

Largest Owners of Retail Space in Romania



Prime rents (€/sq m/month)



*Prime rents relate to a well located 100 sq m unit shop from the fashion and accessories category. The unit is part of leading retail assets in the capital city (for retail parks – 2,000 sq m units).

Industrial Market

Demand

Total rental demand for modern industrial and logistics spaces in Romania was strong during Q2, transactions totaling close to 126,000 sq m, most of which being new leases.

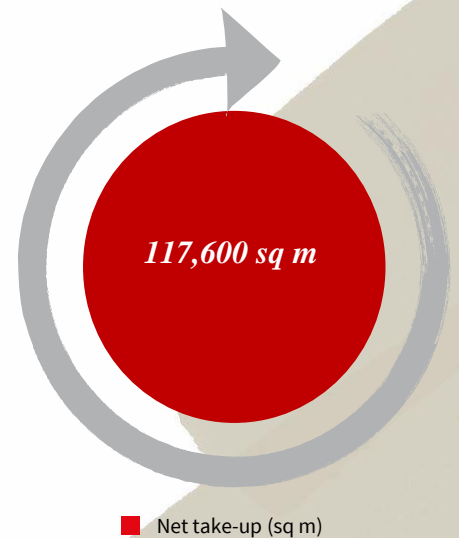
Bucharest attracted most of the demand for industrial and logistics spaces, respectively 41% (approximately 100,400 sq m), followed by Slatina (62,000 sq m), Oradea (34,000 sq m) and Timisoara, with almost 22,300 sq m.

The most active tenants in H1 came from the logistics sector (for example Qeops Logistic, NDB Logistics, Ceva Logistics) and the automotive industry (Pirelli, Sogefi, Mototehnica).

During the first half of 2019, transaction volumes reached over 240,000 sq m, more than double the level recorded in the corresponding period of last year, of approximately 100,800 sq m.

In H1 2019 there were 12 transactions reported of at least 5,000 sq m, compared to 10 transactions of at least 5,000 sq m in H1 2018.

Demand in Q2 2019



Key Transactions in Q2 2019

| Tenant | Property | Size (sq m) | Deal Type | Sector |
|-------------------|---------------------------|-------------|-----------------------|--------------|
| Sogefi | WDP Oradea | 34,000 | Pre-lease | Automotive |
| NDB Logistics | TAP 2 | 11,900 | New lease | Logistics |
| Alcar Wheels | WDP Stefanesti | 9,800 | New lease + expansion | Logistics |
| Marelvi Impex | MLP Bucharest West | 8,400 | New lease | Distribution |
| Qeops Logistics | Varoed – A1 Business Park | 6,400 | New lease | Logistics |
| Romkatel-Kathrein | VGP Timisoara | 5,000 | New lease | Distribution |

Pipeline 2019 (Selection)

| Project | Location | Size (sq m) | Type |
|--------------------------|-----------|-------------|-------------|
| CTPark Bucharest West | Bucharest | 167,000 | Extension |
| WDP Stefanesti | Bucharest | 59,500 | New Project |
| Southern Industrial Park | Craiova | 30,000 | New Project |
| Eli Park 1 Chitila | Bucharest | 20,000 | New Project |
| WDP Buzau | Buzau | 20,000 | New Project |
| MLP Chitila | Bucharest | 20,000 | New Project |
| Global Vision Timisoara | Timisoara | 17,500 | New Project |

Industrial Market

Deliveries

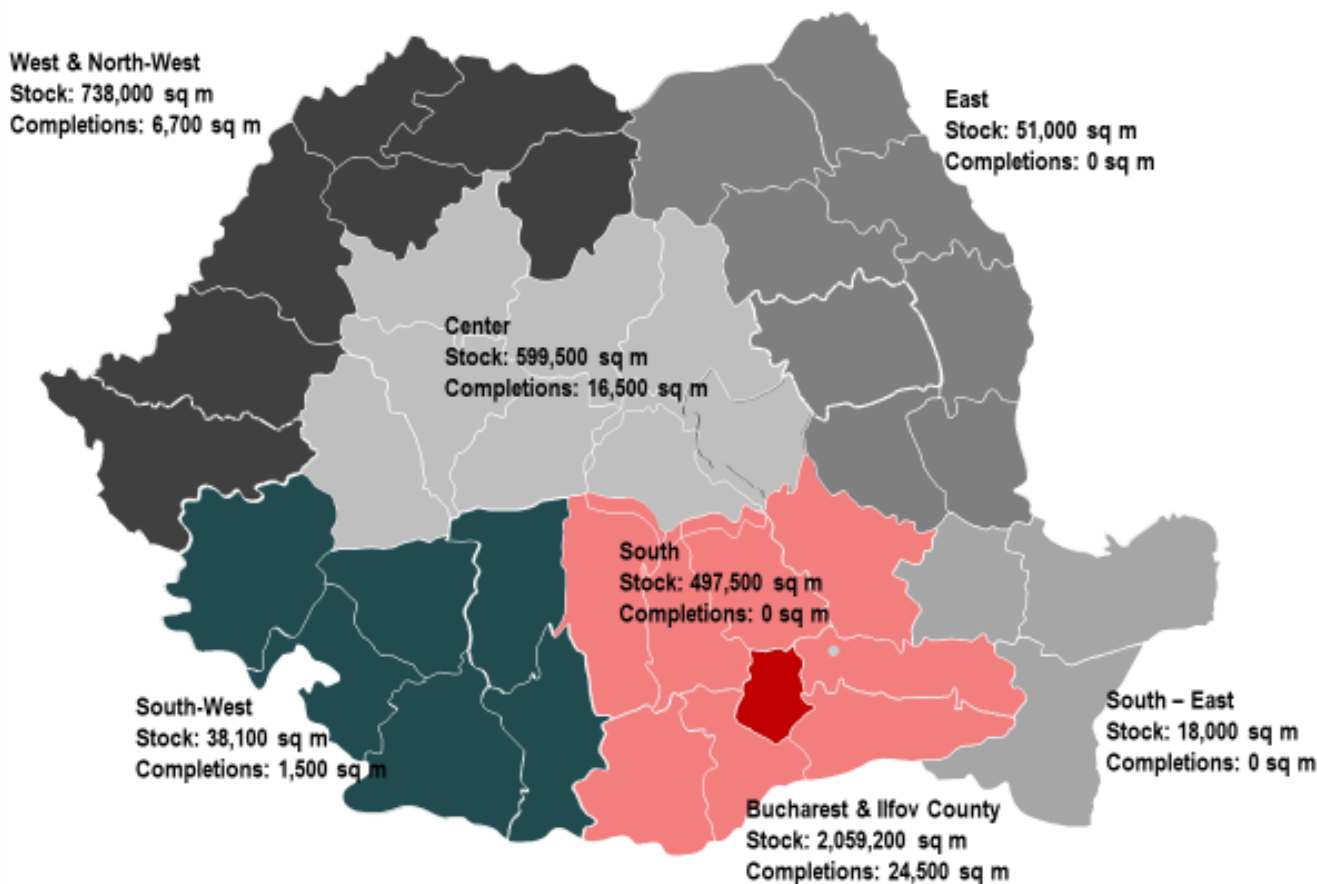
Q2 registered fewer industrial and logistics spaces deliveries compared to Q1, of approximately 49,200 sq m, mainly in Bucharest and Sibiu. That is after strong deliveries of 131,500 sq m in Q1. However, Q2 marked the surpassing of the 4 million sq m mark of modern industrial and logistics spaces in Romania.

For the whole of 2019, some 400,000 sq m of industrial and logistics spaces are expected to be completed. Considering that 180,700 sq m were already delivered in H1 and almost 230,000 sq m are under construction and left to be delivered by the end of the year, the 400,000 sq m mark is not only achievable, but likely to be surpassed.

Taking into account the strong demand and that most of these projects are being developed on request, they will probably be almost fully let by the time they are completed.

Total vacancy rate at the end of H1 stood at 6%, or slightly over 240,000 sq m from the total stock of 4 million sq m.

Deliveries and stock in Q2 2019 in Romania:



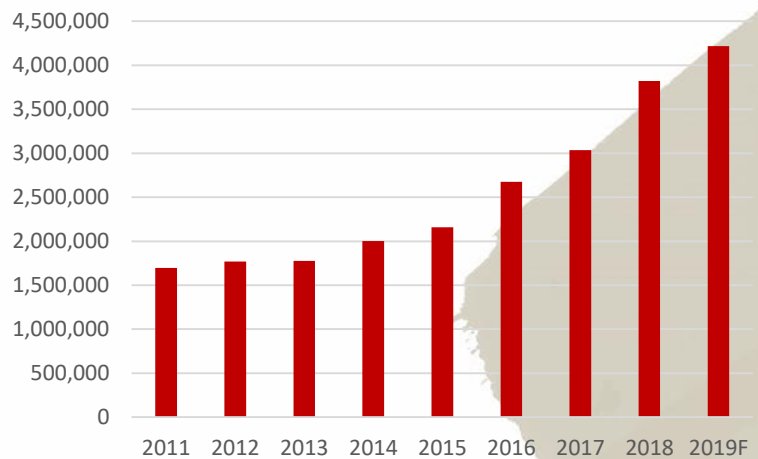
Industrial Market

Stock & rents

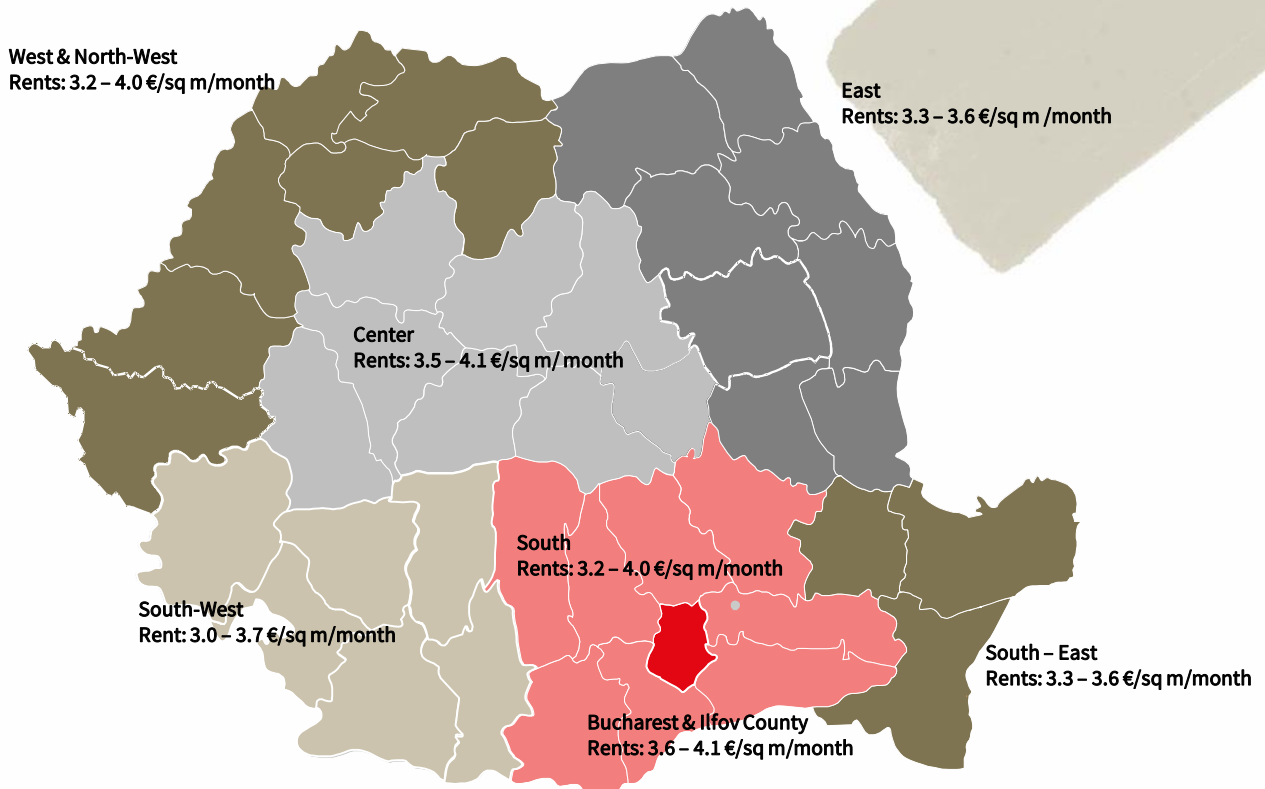
Modern rentable industrial and logistics stock in Romania reached over 4 million sq m at the end of Q2. By the end of the year total modern stock is expected to reach 4.2 – 4.25 million sq m.

Rents remained stable during H1 2019, between €3.6 and €4.1 per sq m per month in and around Bucharest and between €3 and €4.1 in the other regions of Romania. No significant changes in rents are expected by the end of the year.

Total Stock Evolution - Romania (sq m)



Rents by Region



Jones Lang LaSalle Services SRL
Victoria Center
145 Calea Victoriei, 10th Floor
Bucharest, Romania
Tel: +40 (0) 21 302 3400

www.jll.ro
www.jll.com
www.officefinder.ro
www.cautabirouri.ro

Meet the team

Managing Director

Silviana Petre-Badea
silviana.petre-badea@eu.jll.com

Capital Markets

Andrei Văcaru
Head of Capital Markets
andrei.vacaru@eu.jll.com

Retail Agency

Corina Stamate
Center Manager
corina.stamate@eu.jll.com

Business Development

Viorel Opaiț
Business Development Director
viorel.opait@eu.jll.com

Research & Consultancy

Alexandru David
Research Consultant
alexandru.david@eu.jll.com

Office Department & Tenant Representation

Marius Șcuta, MRICS
Head of Office Department & Tenant Representation
marius.scuta@eu.jll.com

Maria Florea
Key Client Director
maria.florea@eu.jll.com

Property Management

Mariana Stamate
Head of Property Management
mariana.stamate@eu.jll.com

Valuation

Alina Cojocaru, MRICS
Head of Valuation Advisory
alina.cojocaru@eu.jll.com

Industrial Agency

Costin Bănică
Head of Industrial Agency
costin.banica@eu.jll.com

Development & Land

Attila Peli
Head of Development & Land
attila.peli@eu.jll.com

Project & Development Services

Cezar Florea
LEED Green Associate & BREEM International Assessor
Head of Project&Development Services
cezar.florea@eu.jll.com

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