

ROMANIA

BUCHAREST OFFICES

QUARTER 3 | 2019



DEMAND

- The third quarter continued in the same vein as the recent past, painting a mixed bag picture, with gross demand almost flat in the third quarter in year-on-year terms, at 74,800 sqm, but up by c.18% in the January-September period (to around 263,000 sqm), on track to print a full year figure similar or even above 2016's record figure of c.350,000 sqm; consequently, we see a big probability for the 2019 full year results to be above our revised call of 320,000 sqm

- Still, said earlier, there are some less rosy aspects, like the fact that net take-up is still down some 20% in the first 3 quarters of 2019, to 83,600 sqm, with a decent third quarter partly compensating for a weaker first semester; this is more or less in line with the average for this economic cycle, but below the peak seen in the 2017-2018 period

- The overall structure of demand is somewhat lackluster as well, with over 100,000 sqm of leasing transactions generated by relocations from competitive stock, on track for an all-time high this year; around two thirds of these deals are pre-leases, meaning that their impact is yet to be felt on the vacancy rate, which remains in a market neutral-area of c.10%

- The IT&C segment was by far the star of the show, generating close to 58% of the total market demand (and the bulk of the net take-up as well), followed at a great distance by the financial and professional services segments, both with a market share of around 11%

- In terms of locations, take-up focused both on active submarkets in terms of new deliveries and also established markets amid renewals, with Center West taking the biggest share of the pie (almost 20% of gross take-up in the first three quarters of the year), followed by 5 other submarkets with a share of between 10 and 14% of total demand each

- Thus far, 2019 saw a limited number of entries on the Bucharest office market, aside from a couple of co-working operators (WeWork, New Work Offices)

- Nationwide labour market indicators are in line with the softer new demand seen in Bucharest: hiring intentions from service companies have dipped compared to early 2018 highs, though remain above the historic average (indicating a market which is still expanding)

FIGURE 1:
NET TAKE-UP
SLOWING TO TREND
LEVEL, WITH
RELOCATIONS SWELLING
TO RECORD HIGH

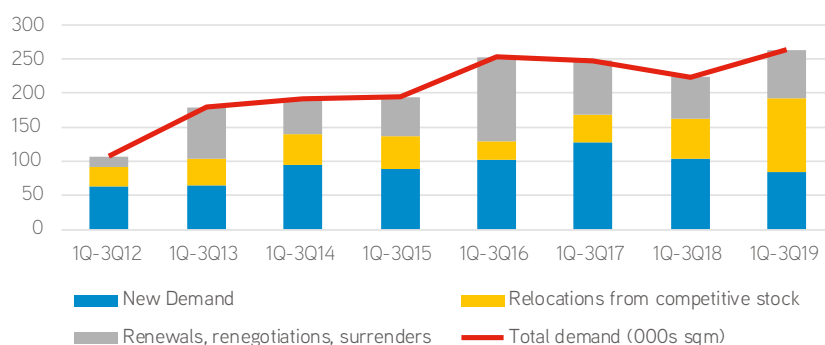


FIGURE 2:
**TAKE-UP BY BUSINESS
SECTOR IN 1Q-3Q19
PERIOD (% OF TOTAL)**

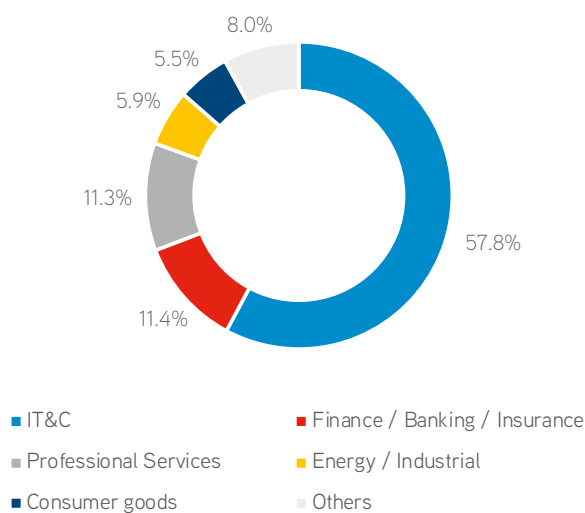


FIGURE 3:
**TAKE-UP BY LOCATION IN
1Q-3Q19 PERIOD (% OF
TOTAL)**

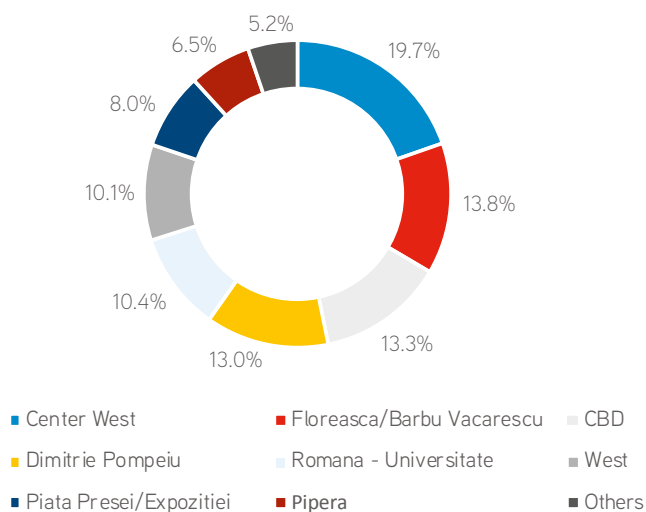
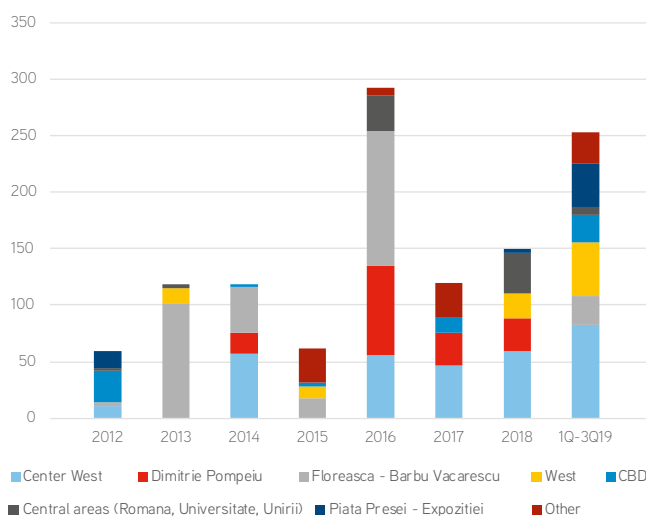


FIGURE 4:
**DELIVERIES BY
SUBMARKET (000S SQM)**



SUPPLY

- Some 66,000 sqm in new modern office buildings came online in the third quarter, generated by 3 projects – Expo Business Park in the Expozitiei area (c.38,400 sqm), The Light in Center West submarket (c.21,700 sqm) and Eminescu Office near Romana Square (c.6,300 sqm), thus taking the grand total for deliveries this year to over 250,000 sqm in the first three quarters of the year
- There are big chances to break the 300,000 sqm threshold in terms of deliveries in whole of 2019, but as usual, there is always the danger that one or more projects may get delayed into 2020

MARKET STATE & OUTLOOK

- We hold onto to our view that Bucharest is gradually turning into a tenant market overall (likely to become more visible in 2020), which may lead to pressures on the aggregate headline rate, though some submarkets or even highly sought-after buildings within some submarkets may still reward landlords with a stronger position in negotiations; developers becoming a bit more generous on incentives is indicative of this trend
- Vacancy will likely continue to inch higher, so we hold onto our call for a vacancy rate in the 13% fairly soon, maybe not this year though, as a large part of the relocations from competitive stock are pre-leases and have yet to actually take place; economic literature suggests that at this vacancy level, aggregate market conditions begin to be geared towards tenants
- The higher vacancy will likely support a more thorough segmentation of the market, between prime assets located in the CBD or in very good locations and those in peripheral areas or those with poor transport connectivity; we believe that the rent spread between these two categories of offices is likely to increase over the medium term (largely amid downward pressures on the latter rents) due to infrastructure discrepancies – in fact, the higher rent may be perceived as a temporal premium based on how much time it would take an employee to move from different areas of the city to the workplace
- It is noteworthy that for some tertiary sector segments, like computer programming, Romania still has a much less tight labour market than EU-peers, so the general issue with the cooling hiring intentions compared to a few years ago may be rather strongly influenced by the general context, especially the heightened (global) uncertainties which cloud the longer-term outlook
- Otherwise, high-frequency indicators suggest that the very near-term outlook remains largely good for the Bucharest office market, with demand still likely in line with the trend seen this economic cycle

FIGURE 5:
HIRING INTENTIONS
STILL UPWARD OF THE
HISTORIC AVERAGE,
POINTING TO A
MARKET THAT IS STILL
EXPANDING...

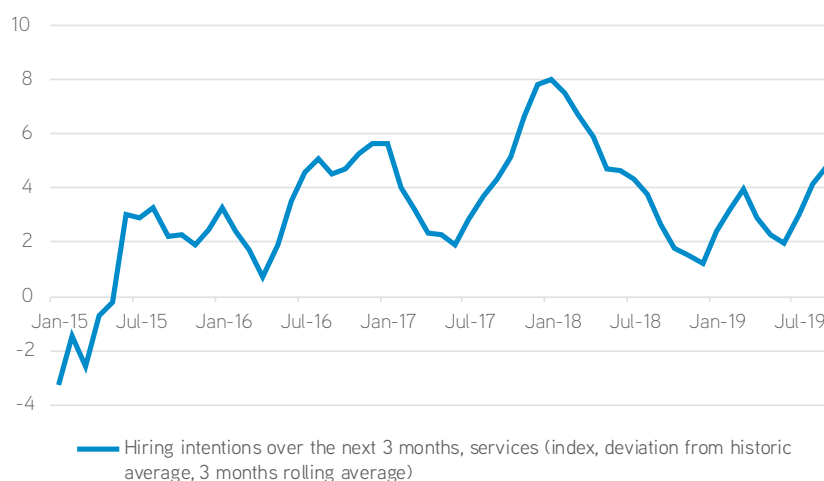


FIGURE 6:
... THOUGH ROMANIA'S
LABOUR MARKET HAS
COOLED SIGNIFICANTLY
OVER THE LAST YEAR
AND A HALF

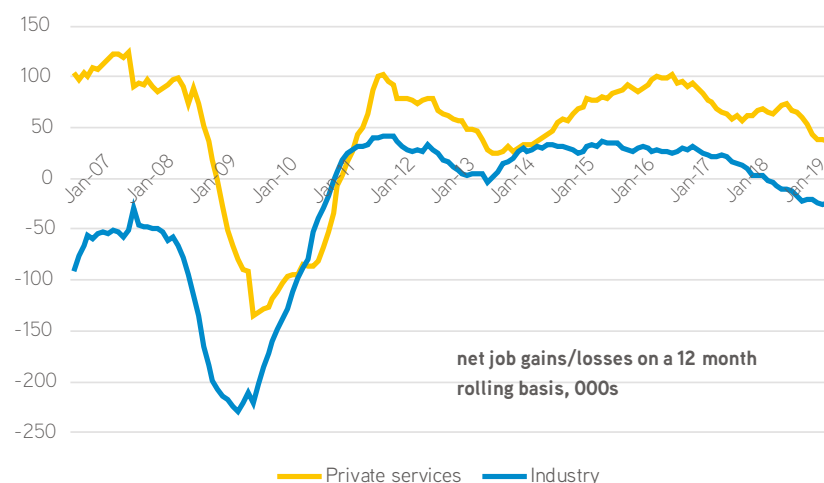
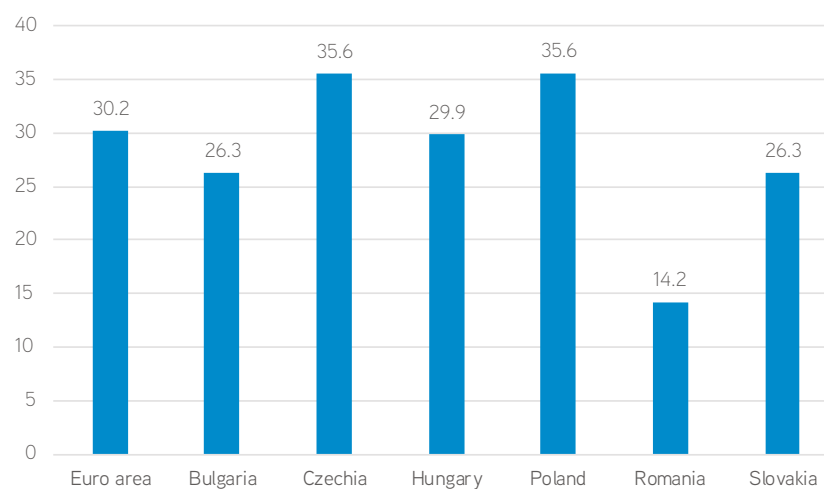


FIGURE 7:
% OF COMPUTER
PROGRAMMING
COMPANIES STATING THAT
EMPLOYEE AVAILABILITY
IS IMPAIRING GROWTH
(4Q18-3Q19 AVERAGE)



FOR MORE INFORMATION

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