

## Quick Stats

	Change from	
	Q4 2009	Q1 2010
Take-up	↑	↑
Prime Rents	→	→

## Hot Topics

- Take-up levels in Q2 2010 increased by 8% compared to Q1 2010 and by 145% compared to Q2 2009.
- New office space delivered – 77,300 sq m, half of which is class A.
- Prime rent & yield remain stable, as demand has increased, while vacancy rate for prime locations has remained rather stable.

## OVERVIEW

### •Increase of Take-up and Total Leasing Activity (TLA)

During the second quarter of 2010, total take-up registered a level of 49,650 sq m, which represents a small increase (8%) compared to take-up for Q1 2010 – 45,700 sq m, but an increase by more 145% compared to the same period of last year. Total leasing activity (which includes take-up and renewal transactions and transactions in non-competitive stock) was of 62,950 sq m – an increase by more than 22% compared to Q1 2010.

### •New Completions

The quarter brought the delivery of 77,300 sq m of new office space – out of which half is represented by class A office buildings. In general developers are looking to offer within all office buildings, regardless of location, technical and construction facilities worthy of class A classification. This comes as a consequence from the tenants desire for very efficient office spaces, efficiency translated into lower costs with service charges. With these new completions, the total stock of modern office space in Bucharest reached 1,891,000 sq m, out of which around 17,9% is vacant.

### •Prime Rent & Prime Yield

This is the third quarter in which prime rent & prime yield remain at stable levels: EUR 19.5 / sq m / month, respectively 9.5%. Prime rent is invariably linked to the demand for top, class A office spaces, demand which has certainly increased in the past months, compared to H1 2009. Another factor which might affect prime rent is the vacancy rate for top locations, which during this quarter has remained stable or slightly increased (under 1% increase). In terms of prime yield, considering the overall evolution at a CEE region level, we might expect a compression of the yield by 25 bps, by the end of the year. Certainly, the lack of comparables in terms of office transactions, makes the forecast of prime yield very volatile.

[Key indicators Office Market – Bucharest Q2 2010](#)

Office Indicator	Q2 2010
Modern office stock	1,891,000 sq m
New office supply in Q2 2010	77,300 sq m
Forecast Completions Q3 – Q4 2010	191,000 sq m
Take-up in Q2 2010	49,650 sq m
Vacancy rate (end Q2 2010)	17.9%
Prime rent (end Q2 2010)	19.5 €/ sq m/ month
Prime yield (end Q2 2010)	9.5%

**NEW SUPPLY**

The level of new supply to the market, of 77,300 sq m, is comparable to the one registered during the last quarter, but a decrease by 42% compared to Q2 2009. Among the buildings delivered this quarter: LakeView, Sevastopol 9 (leased completely to Sanador), Victory Business Center, EKA Business Center IV, Filipescu OB.

The market was dominated by the deliveries in the North area (41% of total new completions), followed by CBD (25%) and West area (20%). It certainly seems that North Area, with all its advantages (close connection to airports, good infrastructure, available large plots of land, satisfactory level of public transport) is becoming a close competitor to the Central-North area for the title of Central Business District (CBD).

**DEMAND**

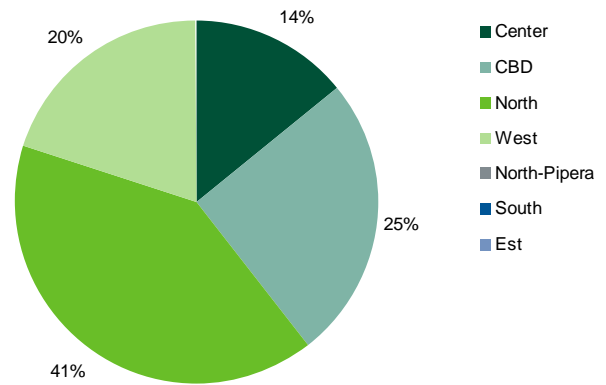
The level of demand registered in Q2 2010 (49,650 sq m) – higher than both the previous quarter and compared to Q2 of last year - is one of the most encouraging signs. Indeed, almost a third of demand comes from a pre-construction lease from Unicredit, who wants to consolidate its headquarters in one built-to-suit building in the North area. In total pre-leases for this quarter accounted for almost 35% of total take-up, the highest level of pre-leases since Q1 2009.

The average transaction for competitive stock was of 1,200 sq m, coming from as much as 41 transactions (41% more than in Q1 2010). There were another 10 transactions (with a total figure of 13,300 sq m) to be included in the TLA numbers – these transactions include, renegotiations & renewals and leases in non-competitive stock.

More than 58% of the transactions concluded (take-up level) were for class A office buildings and almost a third of them were relocations from competitive and non-competitive stock. Still the majority of transactions are considered new demand – tenants which expanded their quarters or which entered the market for the first time.

Not surprisingly, taking into account the recent development and the level of new supply, the North area dominated the transaction in competitive stock (almost 36% of take-up being completed here). CBD accounted for more than 23% of transactions, North-Pipera with 20%, while the Center area registered 11% of transactions and West area only 10%.

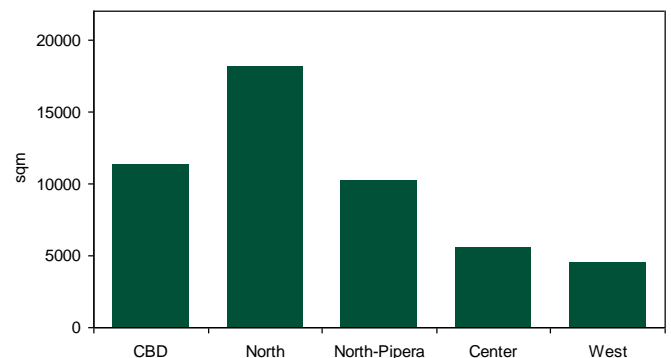
Office new supply in Q2 2010, by area (%)



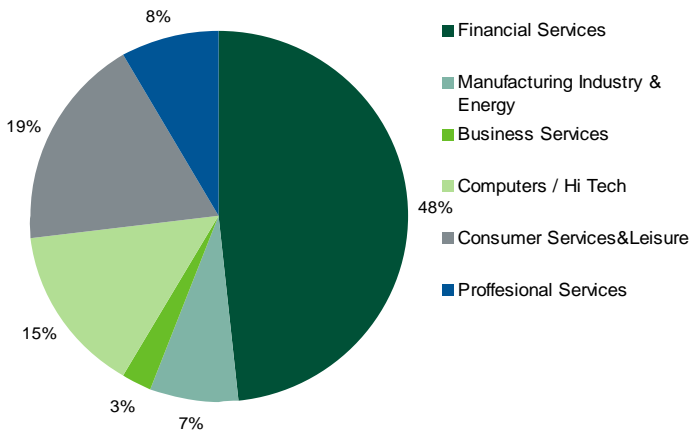
Major transactions Q2 2010 (selection)

Tenant	Office Building	Surface sq m
Unicredit	To be delivered	15,000 (pre-lease)
Embassy	City Gate	550 (lease)
Lidl	Pipera Business Tower	2,850 (lease)
Porr	Pipera Business Tower	950 (lease)
Avon	Euro Tower	1,200 (lease)
Piraeus Bank	Romanitza Center	1,330 (lease)
Lina & Guia	Victoria Center	350 (sub-lease)
Medlife	Porumbaru OB	1,200 (lease – TLA)

Take-up by area, Q2 2010



Office take-up in Q2 2010, by business sector

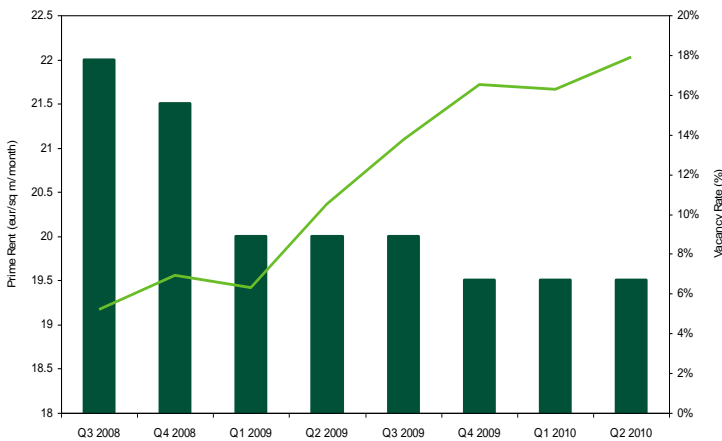


The highest contribution to take-up in Q2 2010 - almost half of transactions - came from companies in the Financial Services, followed by Consumer Services & Leisure (19%), Computers / Hi Tech (15%) and Professional Services (8%). Tenants active in the second quarter of 2010 were predominantly international (almost 80%), after a first quarter when tenants were in equal parts national and international.

VACANCY RATE

The higher delivery of new office space, compared to take-up, has led to an increase in vacancy rate to 17.9%. It should be noted that the vacancy rate is significantly lower in central locations like CBD (13.5%), North area (11.2%) and Center (16%), while in secondary locations like the Pipera, West and East regions, vacancy rates are higher, above 25%. If we exclude the North-Pipera region (the area where more than a quarter of the modern office stock is located) from the calculation, the vacancy rate for Bucharest would be around 15%.

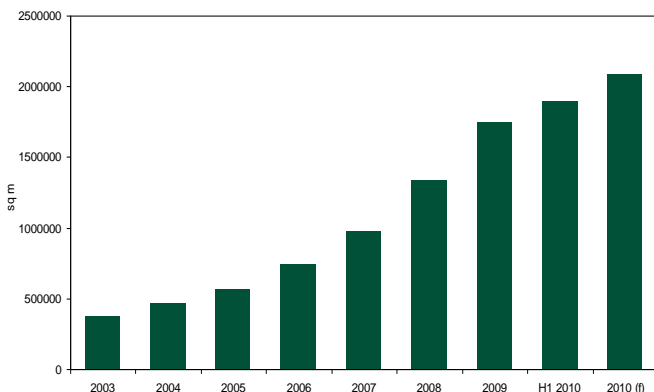
Evolution of prime rent & vacancy rate, Q1 2008 – Q2 2010



RENTS

This is the third consecutive quarter when both prime rent & prime yield are stabilized at the following levels: EUR 19.5 / sq m / month, 9.5% respectively. For Class A office buildings in CBD, rental levels range from between 17.5 – 20 €/ sq m / month, while for class B the space is rented for 14.5 – 17 € / sq m / month. As in other markets, secondary and fringe locations generate little interest from tenants, as they have excellent options within central locations, which were previously too expensive, but now are more affordable. Thus, rents for non-central, periphery locations have reached levels like EUR 10 – 14,5 / sq m.

Evolution of office stock, 2003 – 2010



Net effective rents are generally at lower levels, considering the level of incentives, and especially the number of rent free months awarded (which varies between 2 – 6 months, depending on the duration of lease).

Service charges have remained at the same level since H1 2009: 3.5 – 4 €/ sq m / month. For prime office buildings the service charge can be up to 5 € / sq m / month. Increasingly, tenants are demanding that the service charge is capped at a certain level, rather than an open-book system.

## Bucharest Sub Markets Map



Submarket	Total Stock	Vacancy Rate
North	318,000	11.2%
North-Pipera	506,000	25.1%
CBD	497,000	13.5%
Center	329,000	16.2%
Est	35,000	24.7%
West	170,000	25.5%
South	34,000	10.1%

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