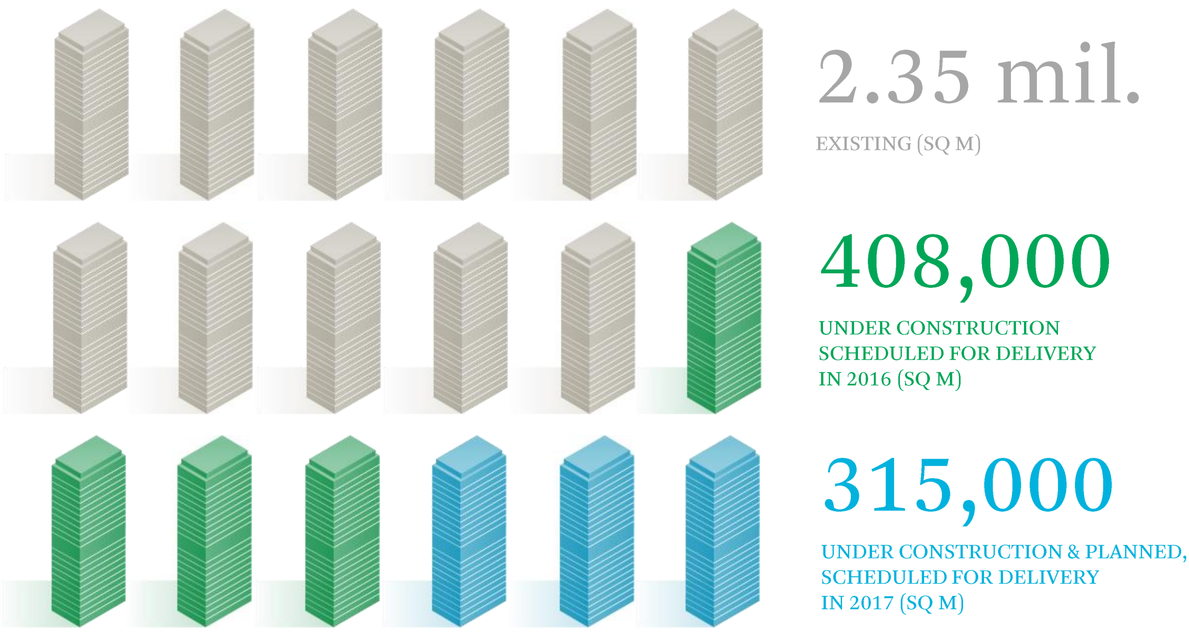
Bucharest Office, Q4 2015

While Total Leasing Activity went down, the volume of new demand is double compared to 2013

TLA	Vacancy Rate	Prime Rent	Prime Yield
20%	11.9%	18.5 €/sq m	7.5 %

*Arrows indicate change from the corresponding quarter in the previous year.

Figure 1: Bucharest Office Stock



Source: CBRE Research

KEY POINTS

- Pre-leases and new demand deals take the lead in terms of transaction type, representing 44% of Total Leasing Activity (TLA).
- More than 73% of Total Leasing Activity in 2015 occurred in North and Pipera sub-markets.
- 2015 was dominated by transactions performed by tenants from the IT&C sector (51% from the Total Leasing Activity), followed by professional sector with 12%.
- The overall rate of vacancy decreased to 11.9%.
- The current stock of 2.35 million sq m should increase by approx. 723,000 sq m by the end of 2017.
- Prime rent level remains stable at 18.5 € /sq m/ month.

Leasing Activity

240,000 sq m of office spaces was leased throughout 2015; the total leasing activity (TLA) was lower than in the previous year, by 20%.

In Q4 2015 the TLA reached 37,000 sq m, out of which take-up, excluding renewal/ renegotiation, accounted for 82%.

The decline of the TLA in 2015 represented the result of the market situation in 2009 – 2010, when significantly fewer lease agreements were signed. Due to the fact that the typical office lease agreements are signed for 5 years, the number of contracts expiring in 2015 was relatively smaller.

For 2016, the tenant activity is expected to return to a growth path, based on a substantial number of medium and large size active mandates, to be closed in the following 9 – 12 months.

The TLA in 2015 was definitely driven by IT&C companies reaching a share of 51%. Companies like: Luxoft, Siveco, Genpact, and Oracle had signed agreements totalling almost 72,000 sq m.

In the last 3 years, over 330,000 sq m were leased by IT&C companies, representing 40% of the TLA.

Pipera and North sub-markets continue to be the most sought after areas by tenants, with 73% of TLA in the entire year, while in Q4 2015 attracted over 50% of TLA.

Tenants' activity is forecasted to increase in 2016 as a result of the new demand (new entries or expansion with new divisions). In 2015 the volume of such transactions was double compared with 2013.

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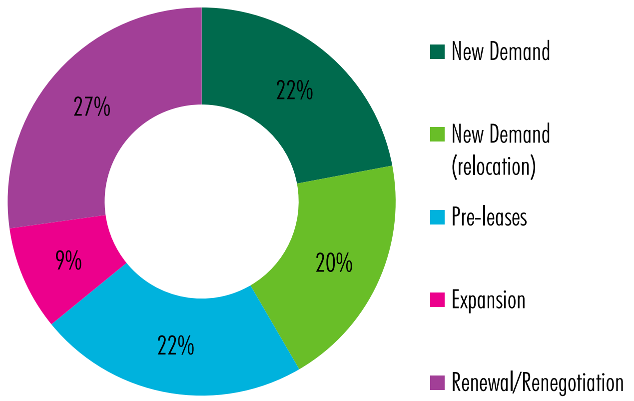
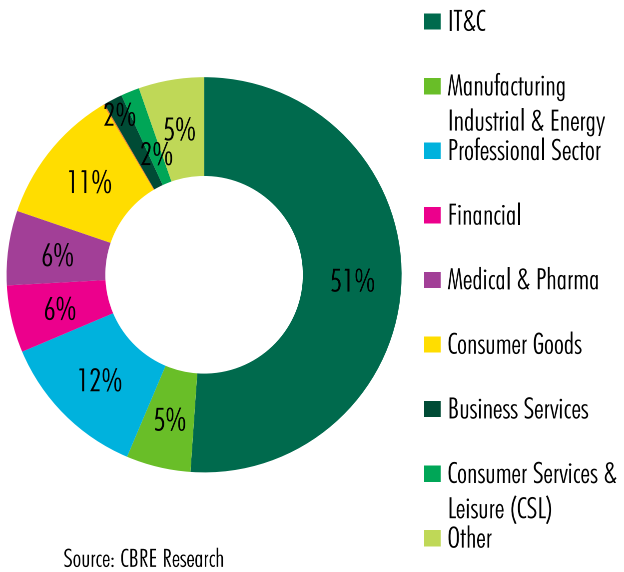
Chart 1: Split of TLA 2015



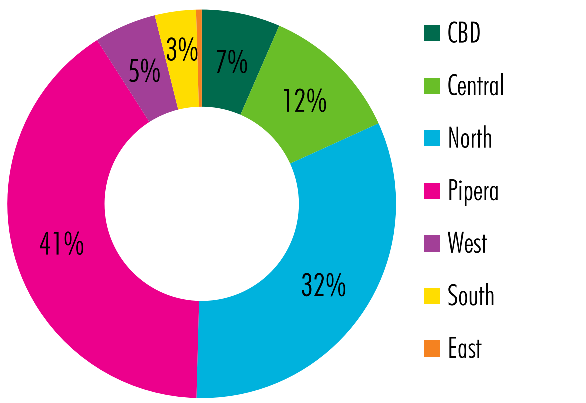
Source: CBRE Research

Chart 2: TLA 2015 by Tenant Domain of Activity



Source: CBRE Research

Chart 3: TLA 2015 by sub-market



Source: CBRE Research

Office Stock and Pipeline

Currently, Bucharest's modern office stock stands at 2.35 mil. sq m, with another 408,000 sq m under construction in the pipeline to be delivered in 2016. Over 72,500 sq m of office space has been delivered in 2015. The office stock in Bucharest could increase by 30% in 2016 and 2017.

For 2016, under construction are 20 other properties, totalling approximately 408,000 sq m. North and Pipera sub-markets continue to be a target destination for new developments, representing 64% of the new supply for the upcoming years.

After 6 years, one big office project will be delivered in Central sub-market. The developer of the business park, Timpuri Noi Square, is Vastint Group. The project will have 50,000 sq m in two phases.

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Commercial Terms

In Q4 2015 the prime headline remains stable at 18.5 €/sq m/month (CBD sub-market).

The net effective rent which takes into account a range of incentives offered to tenants is estimated at 92%-94% of the headline rent for typical requirements. The net effective for anchor tenants is estimated at 80% - 85%. The positive sentiment of the market, coupled with a good economic background of tenants, resulted in interest in longer lease terms for large anchor tenants. An increasing number of transactions for a term of 7 to 10 years are expected to be closed during 2016.

The yield for prime properties remains stable at 7.5%. These factors are: strong macro-economic performance, fiscal relaxation, strong levels of office space demand (including for pre-leases), coupled with substantial interest from investors to inject capital into prime income-generating properties.

Chart 4: Rent Evolution

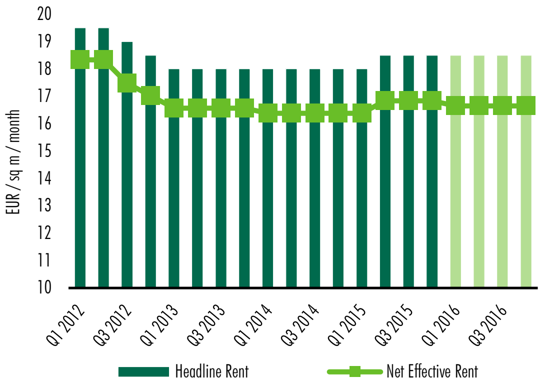


Table 1: Top of office projects with delivery in H1 2016

Project	Gross Leasable Area (sq m)
Bucharest One	50,000
Oregon Park – Phase 1	45,000
AFI Park 4&5	32,000
Hermes Business Campus – Building B	24,000
Green Court Bucharest – Building C	15,670

Source: CBRE Research

Vacancy

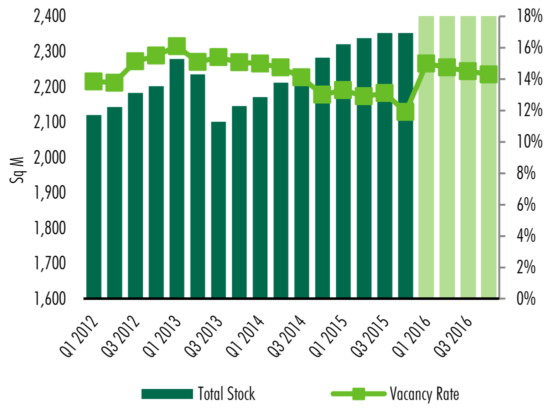
As a result of the low level of new deliveries in 2015 and stable take-up numbers, the total vacancy rate decreased to 11.9% in Q4 2015.

However, due to a relatively large amount of office space under construction, it is predicted that the vacancy rate will return to a growth path during the next few quarters.

Class A vacancy level decreased to 5.3%, as 58% of the transactions were signed in Class A office buildings. Tenants can achieve significantly attractive financial conditions and improve the technical standards of their offices at the same time, by relocating to a newly completed building.

The vacancy rate for Class B is estimated at 15.9%.

Chart 5: Forecast Evolution Stock and Vacancy Rate

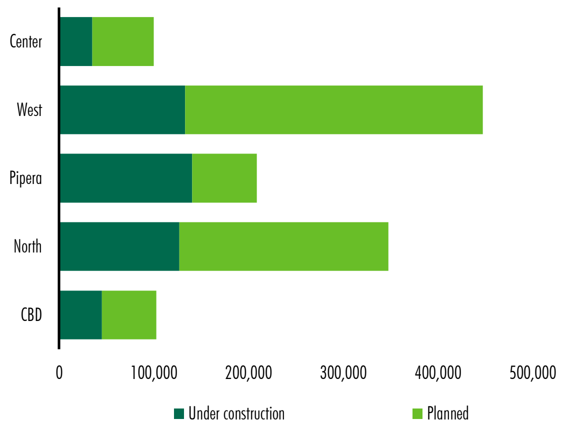


Source: CBRE Research

Forecast

If all proposed schemes, are delivered on time, at the end of 2017 the office stock will have reached 3.07 mil. sq m. The most relevant change between the specific sub-markets in terms of new supply is to be noted for West, where 53% of the total new supply in 2017 is expected for delivery.

Chart 6: Space Under Development, by status of development



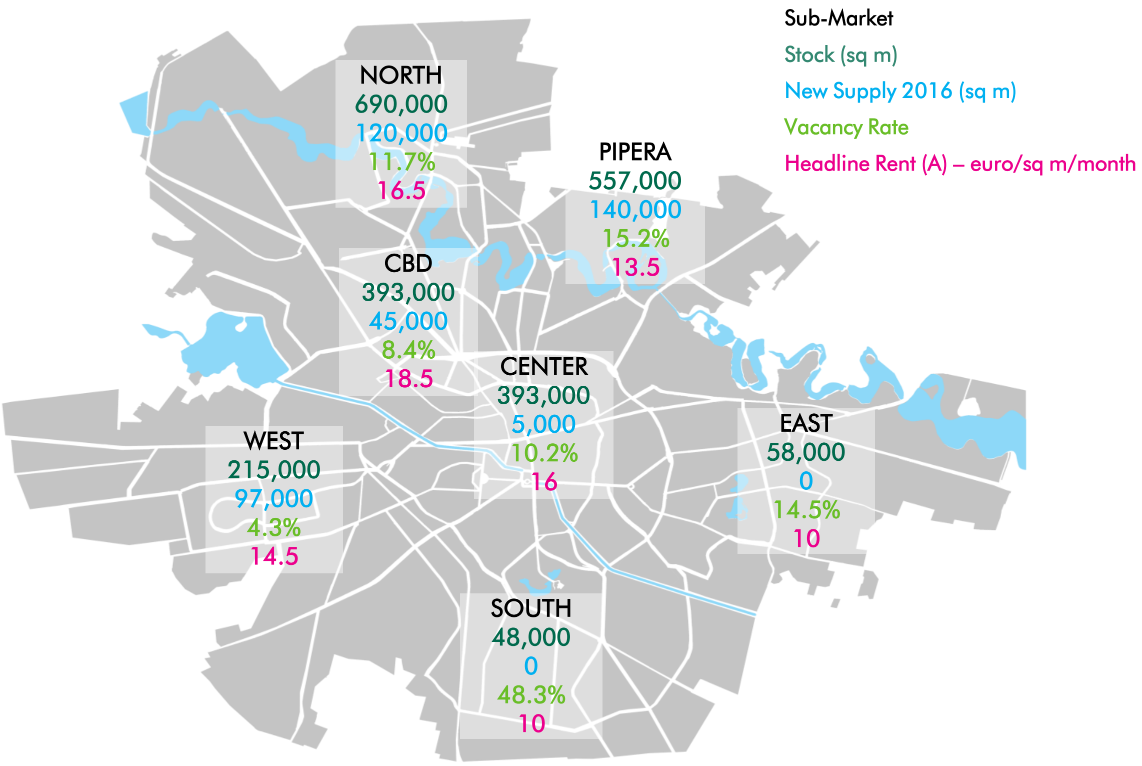
Source: CBRE Research

Table 2: Major Office Transactions Q4 2015

Tenant	Surface (sq m)	Building	Type of deal	CBRE Advisory
Veeam	3,000	AFI Park 4&5	Pre-lease	
Altex	2,800	Global City	New Demand (Relocation)	
Luxoft	2,500	Hermes Business Campus - B	New Demand	✓
Regus	2,500	Rosetti Business Center	Renewal/Renegotiation	✓
Vodafone	2,325	City Office	Expansion	
Pfizer	2,100	Platinum Business & CC	Renewal/Renegotiation	✓

Source: CBRE Research as per Bucharest Research Forum

Figure 2: Map Bucharest Office Sub-Markets – Main Indicators



Source: CBRE Research

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