Bucharest Office Market Status

Q3 2020

AVISON YOUNG

Supply ↑ 4%

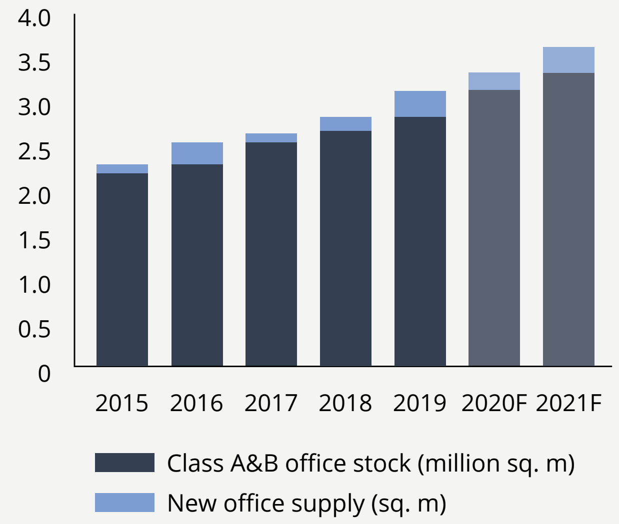
In the first three quarters of 2020 class A and B office stock in Bucharest increased by 4% and currently stands at 3.24 million sq. m. The office space delivered so far this year amounts 124,000 sq. m. Looking at submarkets' performance in terms of completions, Central West area stands out with 31%, followed by the North submarket - 27% and Pipera South - 24%.

Analyzing the development pipeline there are approx. 400,000 sq. m of office spaces under construction. Around 18% is expected to be delivered by the end of the year. The most active areas in terms of office construction works are the Central West submarket, with 27%, followed by Barbu Vacarescu – Floreasca with 22%.

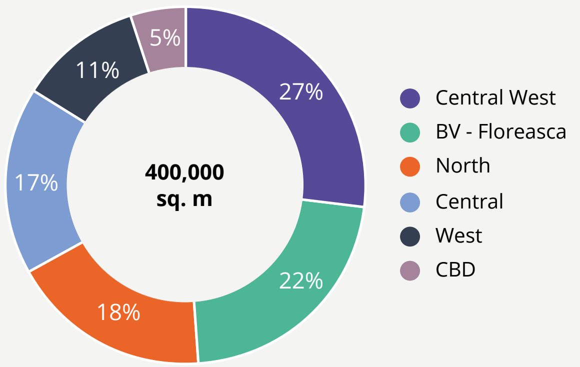
Bucharest's office stock reached 3.24 million sq. m at the end of September 2020

400,000 sq. m of office spaces under construction with delivery by the end of 2022

Bucharest modern office stock evolution



Office space under construction by sub-market with delivery by the end of 2022



Largest office projects under construction

Office Project	GLA (sq. m)	Developer	Submarket	Delivery Date
One Cotroceni Park	65,000	One United	Central West	2022
J8 Office Park A&B	56,000	Portland Trust	North	2021
U Center Campus 1	30,000	Forte Partners	Central	2021
Globalworth Square	28,000	Globalworth	BV-Floreasca	Q4 2020
One Tower	24,000	One United	BV-Floreasca	Q4 2020

Demand ↓ 36%

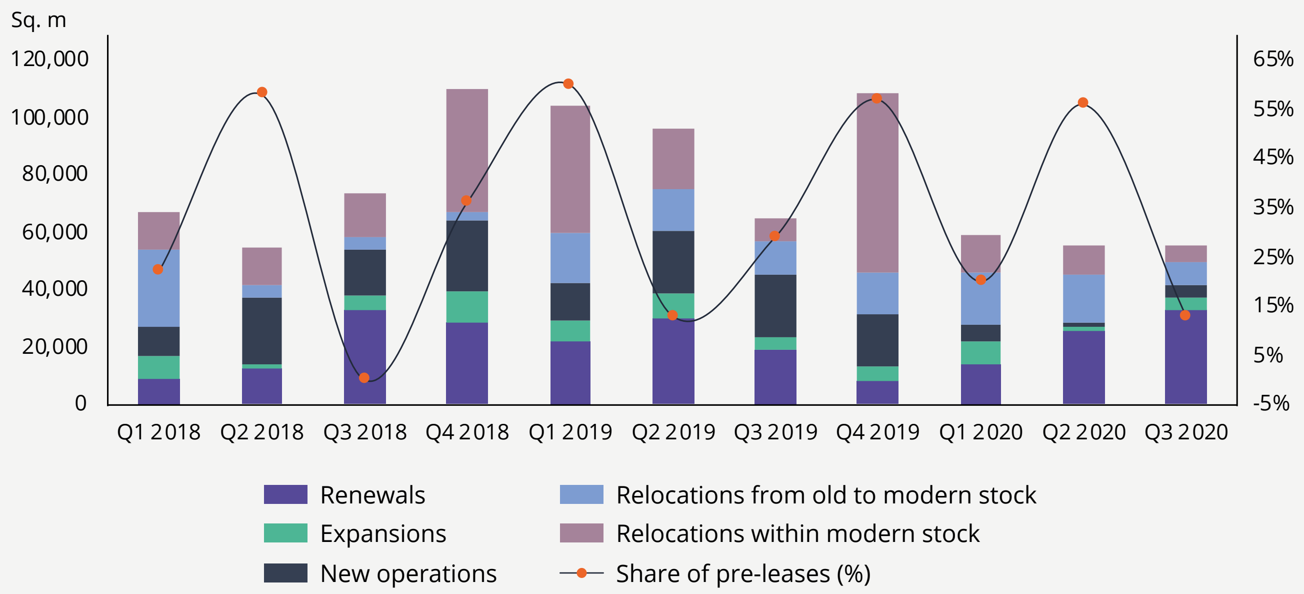
Gross office take-up recorded throughout the first three quarters of 2020 is around 170,000 sq. m and compared with the similar period of 2019 it is lower by 36%. With 96,000 sq. m transacted net take-up represents 57% of the office leasing activity and is divided between new demand (70%) and relocations within modern office stock (30%). The largest share in net take-up was recorded in the Central West submarket – 35%, followed by the North and Central areas.

Around 73,000 sq. m of office spaces were the subject of renegotiation and renewal deals, ~ 24% being transacted in the Central – West submarket, followed by Presei Libere Sq. – Expozitiei and Pipera South. The most active tenants were Computers Hi-Tech companies, with 22% of the net take-up, followed by occupiers active in Professional Services. The largest office deals in terms of area are represented by renewals and renegotiation deals (e.g. Unicredit – 15,000 sq. m, EA Games – 12,000 sq. m).

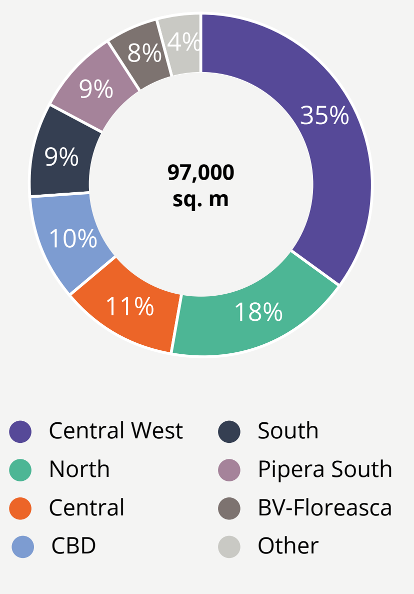
Office leasing activity highly influenced by the new ways of working that tenants implemented this year

Large office occupiers are more inclined to renegotiate their leasing terms

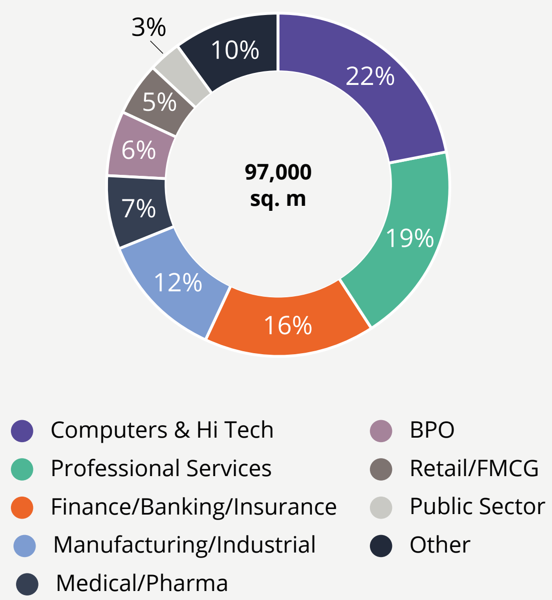
Office leasing activity Q1 2018 - Q3 2020



Net take-up by submarket Q1-Q3 2020



Net take-up by business sector Q1-Q3 2020



Vacancy ↓ 90bps

At the end of Q3 2020 the general office vacancy rate in Bucharest stands at 8.9% and compared with the previous quarter has decreased by 90 bps. Looking at submarkets performance, the lowest vacancy rate is recorded in the West area (~2%), followed by Barbu Vacarescu – Floreasca (4.5%) and Central submarket (5.4%).

The CBD has a vacancy rate close to 6.5%, while in the Central West submarket the vacancy rate stands at 11%. The largest amount of office space available for renting continues to be recorded in Pipera North.

Rental levels Stable

Overall the asking rents for class A office space located in Bucharest have remained stable this year. At the end of Q3 2020 prime headline rent in Bucharest is situated around 19 euro per sq. m per month, while in CBD headline rents for A class office spaces are in the range of 17 – 19 euro per sq. m per month.

In semi-central locations the headline rents for prime projects are around 13 –15 euro per sq. m per month, while in peripheral areas class A office space is transacted between 9 –12 euro per sq. m per month.

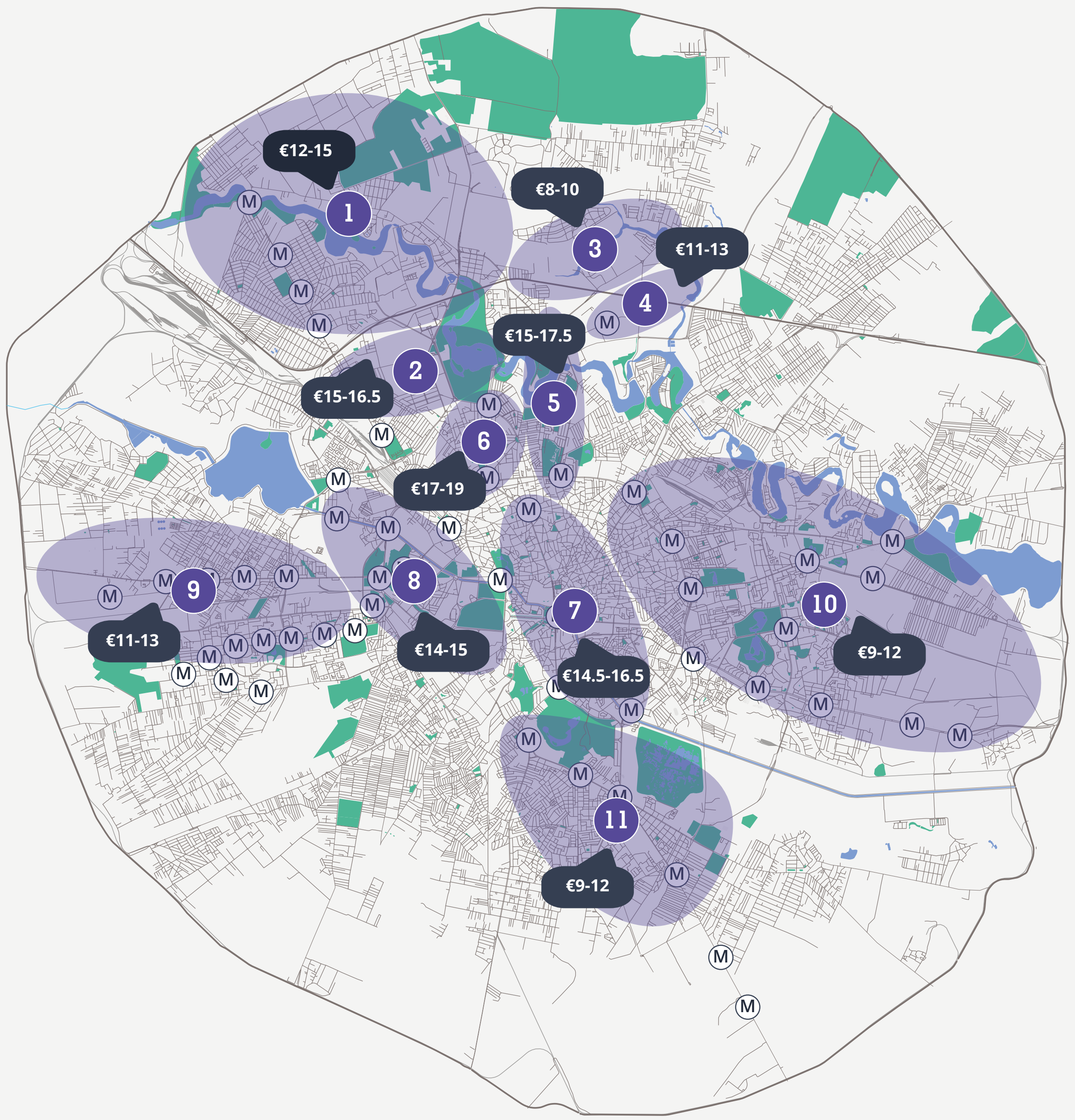
Forecast Signs of rebound

Throughout the first three quarters of 2020 tenants' appetite for leasing office spaces has been significantly lower compared with the same period of last year. While the amount of renegotiated office space has remained stable, relocations have dropped by 40% y-o-y. Starting Q4 2020 however, leasing activity in Bucharest is expected to start showing signs of a rebound considering the quality of the office supply, the city's infrastructure in terms of underground transportation and the overall occupancy costs that continue to be competitive compared with other major office markets in CEE.

Even though WFH policies have been accelerated this year and many companies have postponed their return to the office for 2021, corporate occupiers' needs are now centered around increasing the number of meeting rooms and collaborative areas and reducing the number of desks in order to de-densify the workplace. Throughout the process, the quality of the office space remains imperative. Going forward we believe that tenants' space requirements will be similar to what was recorded prior the pandemic both in terms of area and quality.

Bucharest office submarkets

Source: Avison Young



Legend

- Headline Rent Class A (€/sq. m/m)
- M Metro Station
- 1 North-Baneasa
- 2 Expozitiei
- 3 North-Pipera
- 4 South-Pipera
- 5 Floreasca-BV
- 6 CBD
- 7 Central
- 8 Center-West
- 9 West
- 10 East
- 11 South

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