Macroeconomic indicators recorded over 2013-2016 reflect the steady improvement of the economic environment. The latest figures provided by the National Institute of Statistics (NIS) show an annual growth of the Romanian economy by 4.8% in 2016.

The most important source of growth was domestic demand, also reflected by increasing retail sales. They grew by 13.5% y/y in 2016 resulting from an increase in salaries and reduction of VAT.

According to economic forecasts, over the next three years Romanian economy will fluctuate around 4.0% as a result of strong domestic demand supported by the increase in salaries and relaxing of fiscal policy.

The global economic recovery has also positively influenced Romania. Foreign direct investments (FDI) reached €4.08 billion in 2016, 34% higher compared to 2015.

According to NIS, the average unemployment rate fluctuated during 2016 around 4.75%. The unemployment rate slightly decreased from 5.50% in January 2015 to 4.77% in December 2016.

Average salary showed an increasing trend during 2016. The net average monthly salary grew from 1,943 RON (€429) in January 2016 to 2,354 RON (€521) in December 2016. The increase resulted from the growth in the public sector.

During 2016 the inflation rate had a noticeable declining trend reaching a negative level of -3.46% in May 2016. This was the effect of a decrease of VAT from 24% to 20%. The average rate of CPI over 2016 stood at -1.5% y/y. From 2017 the inflation rate is expected to become positive.

Aiming to generate financial stability in medium term, the National Bank of Romania (NBR) maintained the base rate at 1.75%, a level recorded from June 2015. Another reason for the NBR’s policy is to encourage lending in national currency.
The office market in Bucharest remains a tenants’ market offering opportunities to improve the quality of occupied spaces and/or achieving lower occupancy costs by relocating or renewing lease contracts. Developers are however encouraged by the sustained level of demand, coming from both existing tenants as well as new entrances on the market. These trends are underpinned by the positive economic indicators.

New supply is currently adjusting to demand levels and preferences of tenants with new large projects being started within the most sought after areas of Bucharest. The re-boost of the development activity was also sustained by pre-leases that increased the confidence of developers in the capacity of the market to absorb new schemes.

The office market is witnessing a surge in supply with approximately 275,000 sq m completed in 2016 representing the highest new stock since the peak over 2008-2009. New completions are dominated by class A developments to fit the demand.

The largest contributor is the northern submarket with 70% of all newly added stock, particularly the area along Barbu Vacarescu – Dimitrie Pompeiu Boulevards. The western submarket is the main alternative location to the northern area offering a good balance between accessibility, quality of buildings and costs of occupancy. This submarket will record completion of large developments in 2017-2018. Currently the existing supply is very limited in this zone.

As at the end of 2016, total office stock in Bucharest stood at 3 million sq m, of which around 45% is Class-A premises. The weight of class A offices will increase in the next 2 years after the completion of large projects in the western (The Bridge, Orhideea Towers etc) and northern (Oregon Park C) submarkets.

The impact of newly completed stock on the general availability of office space is partially diminished by pre-lease transactions concluded in 2015-2016 where approximately 45% of the newly added stock is already preleased. However the secondary supply is about to grow due to relocations of tenants. Occupiers looking for class B offices have a larger number of options compared to 2015.
LARGE PRE-LEASES SIGNIFICANTLY INFLUENCED TAKE-UP

2016 recorded the highest level of take-up since the crisis began. Overall, 321,000 sq m of office leases were secured during 2016, a 55% increase compared to 2015. This increase is mainly generated by 3 large pre-leases: Misys (8,000 sq m) in Orhideea Towers, BCR-Erste Group (20,000) in The Bridge and Renault (47,500 sq m).

The absorption of Class A offices (238,000 sq m) versus Class B developments (71,000 sq m) in 2016 clearly shows occupiers appetite for buildings of high quality and efficiency. Demand is shaped at the moment by the relocation and consolidation of companies in newly completed modern office buildings. Compared to previous years, the criteria of occupancy costs is not the most important factor with the balance between the quality of space and costs being the aspect that motivate tenants to relocate.

The most active tenants were companies from industry (26%), IT&C (20%) and financial services (19%). The high ratio of industry in the structure of take-up was generated by a large pre-lease concluded by Renault.

During 2016 leasing activity was well-balanced between the northern and western submarkets. The western submarket attracted a larger part of demand compared to previous years becoming the main alternative of tenants to the northern areas. However, the northern segment still attracted the majority of take-up (48%) followed by the central-western and western sub-market (35%).

Renewals and renegotiation totalled approximately 84,000 sq m being 24% higher compared to 2015. The option to renegotiate and renew leasing terms is still attractive especially for large tenants that encounter difficulties in identifying proper office spaces in their area of interest, especially within central areas or central-northern areas. In addition, a renegotiation generally results in more favorable lease terms for the tenant.

During 2016 the overall vacancy rate increased to 13% from 11.50% at the end of 2015. Major changes have occurred in Class A segment due to the completion of large office developments that moved the vacancy level up to 12%.

### MAJOR OFFICE TRANSACTIONS COMPLETED DURING 2016 (SELECTION)

<table>
<thead>
<tr>
<th>TENANT</th>
<th>BUILDING</th>
<th>AREA (SQ M)</th>
<th>SUBZONE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renault</td>
<td>N/A</td>
<td>47,500</td>
<td>West</td>
</tr>
<tr>
<td>BCR</td>
<td>The Bridge</td>
<td>20,000</td>
<td>West</td>
</tr>
<tr>
<td>Antena TV Group</td>
<td>Iride Business Park</td>
<td>9,000</td>
<td>North</td>
</tr>
<tr>
<td>Mysis</td>
<td>Orhideea Towers</td>
<td>8,000</td>
<td>West</td>
</tr>
<tr>
<td>ADP</td>
<td>Gara Herastrau</td>
<td>6,100</td>
<td>North</td>
</tr>
<tr>
<td>Mega Image</td>
<td>Plaza Romania Offices</td>
<td>3,630</td>
<td>West</td>
</tr>
<tr>
<td>Deutsche Bank</td>
<td>BOB</td>
<td>3,100</td>
<td>North</td>
</tr>
<tr>
<td>Telus</td>
<td>AFI 4&amp;5</td>
<td>3,000</td>
<td>West</td>
</tr>
<tr>
<td>Ringier</td>
<td>Iride</td>
<td>3,000</td>
<td>West</td>
</tr>
<tr>
<td>Ericsson</td>
<td>Green Court B</td>
<td>1,910</td>
<td>North</td>
</tr>
<tr>
<td>Capgemini</td>
<td>Green Court C</td>
<td>1,120</td>
<td>North</td>
</tr>
</tbody>
</table>

Source: BNP Paribas, Bucharest Research Forum

### ANNUAL OFFICE TAKE-UP

![Bar chart showing annual office take-up in thousand sq m for class A and class B.](chart.png)

Source: BNP Paribas Real Estate

### EVOLUTION OF VACANCY RATE

![Line chart showing the evolution of vacancy rate in % from H1 2006 to H1 2016.](chart.png)

Source: BNP Paribas Real Estate

321,000 m²

LEASED IN 2016
RENTS REMAINED STABLE AND INCENTIVES STRONG ENOUGH TO MOTIVATE TENANTS

Headline rents remained stable throughout 2016 in all submarkets despite the increase in the availability of spaces. Pre-leases sealed over 2015 and 2016 and sustained demand stabilised rents.

By the end of 2016 average headline rents for downtown prime offices varied between 17.50-18.50 Euro/sq m/month, while for class B offices located in attractive areas rents were between 12-14 Euro/sq m/month. In secondary areas rental levels for class A offices generally ranged between Euro 13.50-16.00/sq m/month in northern areas, respectively, between Euro 14.50-16.00/sq m/month for offices located in the western market. High standard buildings located in peripheral areas with poor accessibility and a high concentration of office projects, the headline rent varied between 9-11 Euro/sq m/month.

In the central submarket, monthly parking rents are currently Euro 100-125/space for underground parking. For underground parking spaces in non-central locations, rental levels are in the region of Euro 75-100/space/month, whilst off-street parking is leased at Euro 60-75/space/month. Service charges for class A offices varied between 3.5-4.5 Euro/sq m/month, while for class B projects service charges varied between 2.5-3.5 Euro/sq m/month.

As Bucharest remained a tenants’ market the owners continued to offer incentives to retain or attract occupiers. The most common practice is offering rent free periods and bearing partially fit-out costs.

Newly proposed pipeline office developments will drive down net effective rent as landlords are forced to offer more attractive incentives to occupiers, especially in submarkets with high availability of offices.

GOOD SIGNS FOR PROSPECTIVE TENANTS IN THE COMING YEARS

An additional of 150,000 sq m is currently under construction and will be delivered by the end of 2017 and a peak of 400,000 sq m is expected in 2018.

After years of limited developments, the central market will record completions of large projects especially during 2018 including The Mark (21,000 sq m), Day Tower (19,000 sq m), Unirii View (17,900 sq m). This is a response of developers for the demand of tenants that are looking for centrally located offices but at an attractive rental levels.

In the short to medium term new completions are likely to increase the availability of class A offices. Demand will continue to be driven by tenants looking to improve the balance between the quality of space and occupancy costs. Vacancy rates are forecast to increase for class B offices on long term. Newly completed offices will create good opportunities for large tenants that intend to consolidate the office space in a single building.

Considering the high volume of construction activity, the rental market in Bucharest looks set to remain a tenant’s market for the short to medium term. The large number of projects initiated or currently under-construction is fueling fierce competition creating also difficulties for non-competitive properties being vacated by tenants. These trends in demand will create opportunities for low budget tenants that might benefit from better accommodation conditions for similar occupancy costs.
The institutional property investment market attracted around Euro 715 million during 2016. Interest in the office sector has remained strong, with approximately 45% of investment, while retail and industrial accounted for approximately 26% of total transacted volume. International investors are targeting investment opportunities both in Bucharest and regional cities.

The largest transaction concluded in 2016 was the subscription (186.4 million Euro) of Growthpoint Properties Limited, a South African REIT for ordinary shares in Globalworth Real Estate Investments Limited that resulted in a shareholding stake of 26.88%. The industrial investment segment was dominated by the acquisition of P3 Logistic Parks by GIC, the Singapore sovereign wealth fund, through the pan-European acquisition of P3 at a volume of ca. 2.4 billion Euro.

The most important retail transaction in 2016 and the largest single asset transaction concluded outside of Bucharest since the economic crisis is the acquisition of Sibiu Shopping City by NEPI from ARGO for a total of 100 million Euro (8.20% yield).

The majority of transactions have been concluded by foreign investment funds that consolidate their portfolios acquired during previous years, such as NEPI, Catinvest, GTC.

In 2016, the local market recorded the entry of several new names either through the purchase of regional portfolios (GIC, Growthpoint, Logicor) or individual assets (PPF, AdamAmerica).

Prime yields are presently under downward pressure. Prime office yields have sharpened from 7.75-8.00% in 2015 to approximately 7.25-7.75%. A similar trend has been recorded by retail and industrial properties yields which decreased by 25-75 bps, currently ranging between 7.25-7.50% and 8.50-8.75% respectively.

The yield spread between Romania and other CEE countries attracted the interest of investors. However, vendors were found to hold some investments and look for higher and unachievable pricing. Prospects for 2017 remain positive due to solid market fundamentals, improved financing conditions and the remaining yield gap between Romania and the rest of CEE countries.

It is expected that a number of transactions involving new investors will be completed soon as several projects are in the advanced stage of negotiation, especially in the office and retail sectors.

Source: BNP Paribas Real Estate
ABOUT BNP PARIBAS REAL ESTATE

BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management.

BNP Paribas Real Estate has local expertise on a global scale through its presence in 36 countries with approximately 180 offices and 3,900 employees. BNP Paribas Real Estate is a subsidiary of BNP Paribas.

6 BUSINESS LINES in Europe
A 360° vision

Main locations*

EUROPE

FRANCE
Headquarters
187, Quai de la Bataille
de Stalingrad
92867 Issy-les-Moulineaux
Tel.: +33 1 55 65 20 04

BELGIUM
Avenue Louise 235
1000 Brussels
Tel.: +32 2 290 59 59

CZECH REPUBLIC
Pobřežní 620/3
180 00 Prague 8
Tel.: +420 224 835 000

GERMANY
Goetheplatz 4
60311 Frankfurt
Tel.: +49 69 2 98 99 0

HUNGARY
117-119 Vaci ut.
A Building
1123 Budapest,
Tel.: +36 1 487 5501

IRELAND
20 Merrion Road,
Ballsbridge, Dublin 4
Tel.: +353 1 66 11 233

ITALY
Via Carlo Re, 11
20143 Milan
Tel.: +39 02 58 33 141

JERSEY
3 Floor, Dialogue House
2 – 6 Angle Street
St Helier, Jersey, JE4 8RR
Tel.: +44 (0)1 534 629 001

LUXEMBOURG
Avenue F. Kennedy 44
1655 Luxembourg
Tel.: +352 24 94 84
Investment Management
Tel.: +352 26 26 06 06

NETHERLANDS
Antonio Vivaldistraat 54
1083 HP Amsterdam
Tel.: +31 20 305 97 20

POLAND
Al. Jana Pawła II 25
Atrium Tower
00-054 Warsaw
Tel.: +48 22 653 44 00

ROMANIA
Blahul Antonache Street n°40-44
Bucharest 031665
Tel.: +40 21 312 7000

SPAIN
C/ Génova 17
28004 Madrid
Tel.: +34 91 454 96 00

UNITED KINGDOM
5 Aldermanbury Square
London EC2V 7BP
Tel.: +44 20 7338 4000

MIDDLE EAST / ASIA

DUBAI
Emaar Square
Building n° 1, 7th Floor
P. O. Box 7233, Dubai
Tel.: +971 44 248 277

HONG KONG
25 f Three Exchange
Square,
8 Connaught Place, Central,
Hong Kong
Tel.: +852 2909 2806

Alliances*

ALGERIA
NORWAY
AUSTRIA
PORTUGAL
CYPRUS
SERBIA
DENMARK
SWEDEN
ESTONIA
SWITZERLAND
FINLAND
TUNISIA
GREECE
USA

© BNP Paribas Real Estate 2017, R-17-1-C&R

www.realestate.bnpparibas.fr