

OFFICE MARKET IN THE BEGINNING OF 2014

Annual Report



1 . MARKET CONTEXT

Office market trend at the beginning of 2014

| | |
|--------------|---|
| Demand | ↑ |
| Supply | ↑ |
| Transactions | ↑ |
| Rent level | → |

Office market benchmarks (in 2013)

| SUPPLY: | |
|---|--------------------|
| Office buildings deliveries in 2013 | 125,000 sqm |
| Office building (A, B and C class) available at the beginning of 2014 | 784,000 sqm |
| LEASING ACTIVITY IN 2013: | |
| Take-up | 181,683 sqm |
| Renewals | 112,181 sqm |
| Total Leasing Activity | 293,864 sqm |

- Probably the most remarkable aspect is the fact that, in 2013, the **Total Leasing Activity** (including both Take-up and Renewal & Renegotiation) was slightly revitalized, this trend being also anticipated by the increase of the relocation intentions in 2012. Thus, the Total Leasing Activity exceeded 293,000 sqm, i.e. 23% higher than the previous year, and also the highest volume for the past 5 years.
- **Take-up**, the market's dynamic main indicator (including leasing, pre-leasing and expansion transactions) have registered a volume of 181,683 sqm, with 8% higher than in 2012. **Renewals** have set a record level in 2013, of 112.181 sqm, the largest one in the last 5 years
- Most of this leasing volume, more specifically over 32% of the areas, was generated by the **IT & C companies**.
- Although the market activity is still generated by the **existing customers**, which are driven by the need to optimize their price/quality ratio, in 2013 **approx. 32% of the Take-up** was represented by the **new demand in the market**. For now, such demand came mainly from companies which were already present on the Romanian market, expanding their operations, and to a lower extent, from companies recently entering the Romanian market.
- **There is still a certain gap between the tenants' expectations and the owners' ones**. Such gap is reflected by (1) the 59% drop in the volume of pre-leases, in 2013 (compared to the previous year), despite the existence of certain important projects whose construction is in progress, and by (2) the increase in the volume of renewal contracts (coincidentally, also by 59%).
- A new trend emerged in 2013: **the reconversion in office spaces** of four real estate projects, having a total area of more than 45,000 sqm, from an initial purpose of retail or hotel spaces.
- The vacancy rate at the level of the entire market dropped slightly, with significant value differences from one area to another. Thus, the lowest vacancy rate was in the Central-West area (less than 5%), while the North (Baneasa, Pipera-Tunari) still had a higher vacancy rate, of approx. 24%.
- In 2013, **the office leasing activity in the main cities outside Bucharest reached 23,218 sqm**, a record level also in the last 5 years. Most of the companies opening offices in these cities came from the IT&C sector (57%), followed by the Professional Services and Financial Services sectors, with a total of approximately 20% of the transactions.

2 . SUPPLY

OVERVIEW.

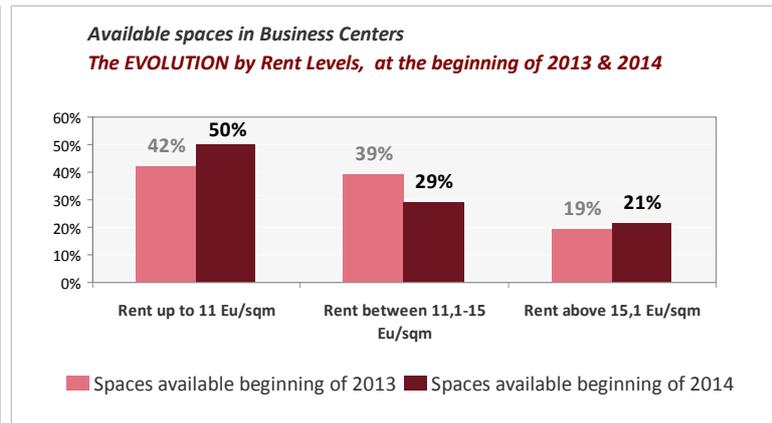
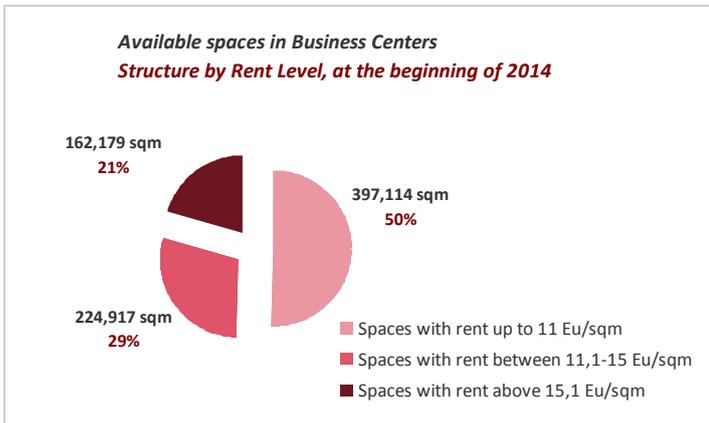
In Bucharest, the office areas **available** at the beginning of 2014 (total areas available in class A, B and C business centers and also in villas) reached the level of **956,000 sqm**, i.e. 8% higher compared to the beginning of 2013.

82% of this stock is represented by areas located in business centers, and approx. 18% in villas.

OFFICES IN BUSINESS CENTERS

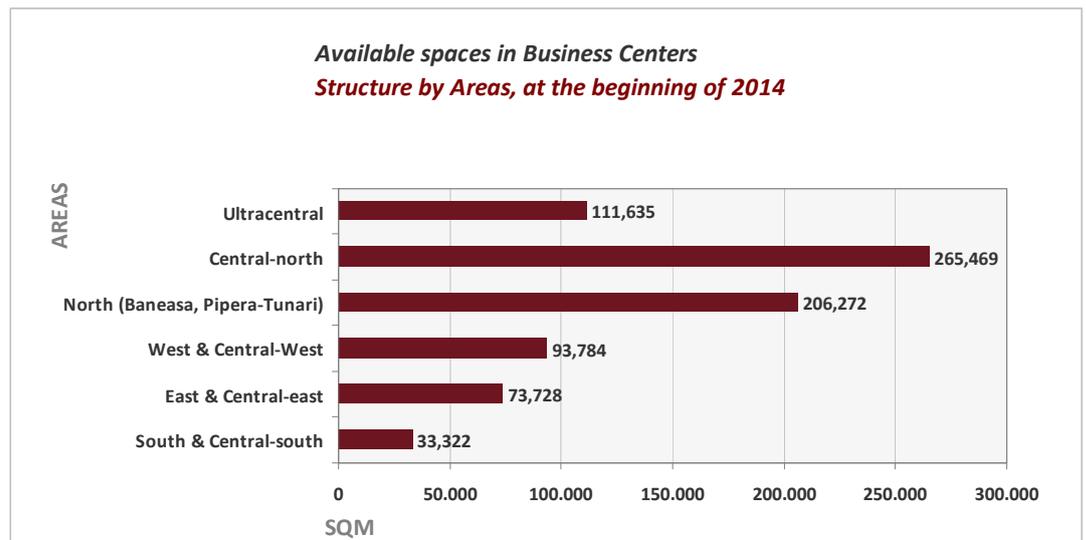
At the beginning of 2014, the volume of office spaces **available** in business centers reaches the level of **784,000 sqm**, *i.e.* **5% higher** compared to the same period of the previous year.

Approx. 125,000 sqm of these are represented by deliveries of new projects (completed during 2013), most of them being higher class projects (A or B+), feeding primarily the segment of spaces with rent over EUR 15/sqm. This market segment currently represents 21% of all available spaces.



In addition to the existing buildings with space available for leasing, there is a supply of office spaces for pre-leasing, represented by projects to be delivered in 2014 or in 2015 (taking into consideration only those buildings whose works have already started and with a firm delivery term). The total volume of the additional supply in pipeline reaches approx. 180,000 sqm.

In terms of **location**, the offices in business centers are structured by areas as follows:



2013 registered also rent level decreases for a range of properties, yet this happened in specific situations, generally (1) for the properties located in certain areas, farther from the center and less accessible, or (2) for certain buildings, which had been vacant for long periods of time.

PREMIERE. Four large-size reconversion projects started in 2013, involving properties initially designed as retail spaces or hotels. These properties, having a total area of approx. 45,000 sqm are listed in the table below.

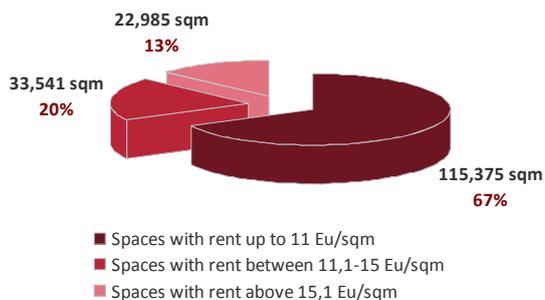
| Project Name | Initial Purpose | Rentable Areas (sqmp) | Estimated date of completion |
|--|---|-----------------------|------------------------------|
| City Offices | Shopping areas / mall (City Mall) | 25,000 sqm | Q3 2014 |
| Anchor Plaza Offices (partial building) | Shopping areas / mall (Plaza Mall) | 10,500 sqm | Q3 2014 |
| Grand Hotel du Boulevard | Hotel (Hotel Grand Hotel du Boulevard) | 4,520 sqm | Q3 2013 |
| Metropolis II | Hotel (Hotel Starlight Suites) | 4,500 sqm | Q1 2014 |

OFFICES IN VILLAS

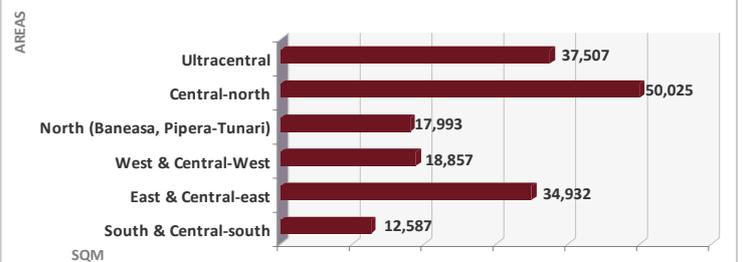
The stock of office spaces located in villas increased by 23% at the beginning of 2014 (compared to the same period of last year), reaching the level of **171,900 sqm**. In terms of structure, the dominant segment remains that of the villas with rent up to EUR 11/sqm, which represent 67% of the total volume (3% higher than the previous year).

In ESOP's portfolio, the highest leasing activity with villas was in the **Aviatorilor – Primaverii - Dorobanti** area, followed by **Universitate-Romana** area.

Available spaces in Villas
Structure by Rent Level, at the beginning of 2014



Available spaces in Villas
Structure by Areas, at the beginning of 2014



3 . DEMAND and TRANSACTIONS

2013 continued the increase of the relocation intentions within the context of *re-launching the expansion plans within certain industries, in particular in IT & C field, or continuing the comfort and price optimization, as the case for other industries.*

By the end of the year, these intentions materialized into **Take-up of 181,683 sqm** represented by lease, pre-lease and expansion transactions, *i.e.* 8% higher compared to the previous year. The **Total Leasing Activity** (including besides the Take-up also the Renewals) reached a level of **293,864 sqm**.

Average leased area, by transaction types

| Transaction type | Average transaction area |
|-----------------------------|--------------------------|
| Leases | 744 sqm |
| Pre-leases | 2,035 sqm |
| Expansions | 1,781 sqm |
| Renegotiations/ Renewals | 3,031 sqm |

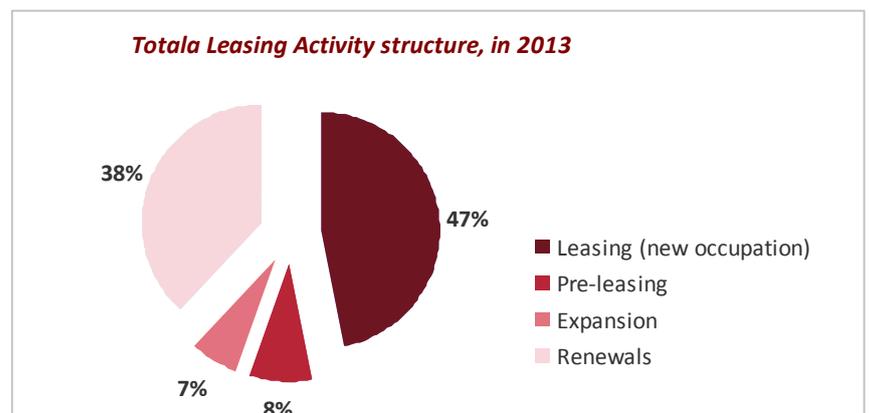
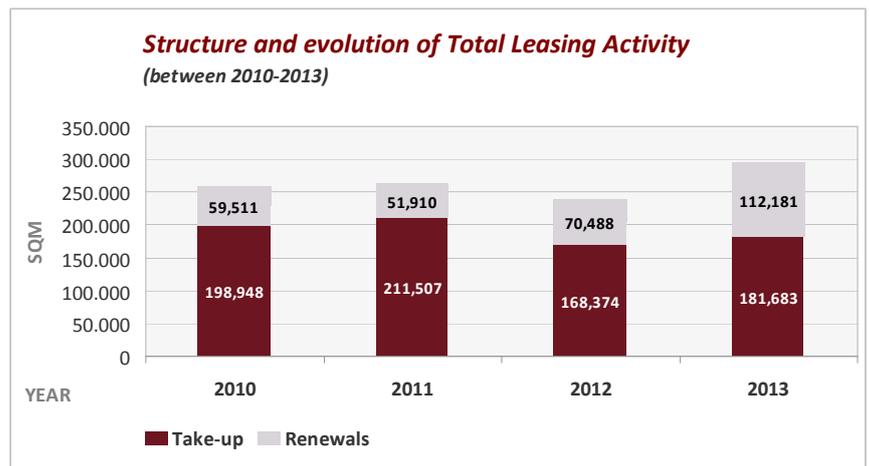
| Transaction type | 2010 | 2011 | 2012 | 2013 | 2013 vs. 2012 (%) |
|-------------------------------|----------------|----------------|----------------|----------------|-------------------|
| Leases | 169,821 | 158,989 | 90,482 | 137,652 | + 52% |
| Pre-leases | 17,219 | 38,805 | 59,255 | 24,430 | -59% |
| Expansions | 11,908 | 13,713 | 18,637 | 19,601 | + 5% |
| Total Take-up | 198,948 | 211,507 | 168,374 | 181,683 | + 8% |
| Renewals & Renegotiations | 59,511 | 51,910 | 70,488 | 112,181 | + 59% |
| Total Leasing Activity | 258,458 | 263,417 | 238,862 | 293,864 | + 23% |

Source (tables left and above): ESOP, with Forum data

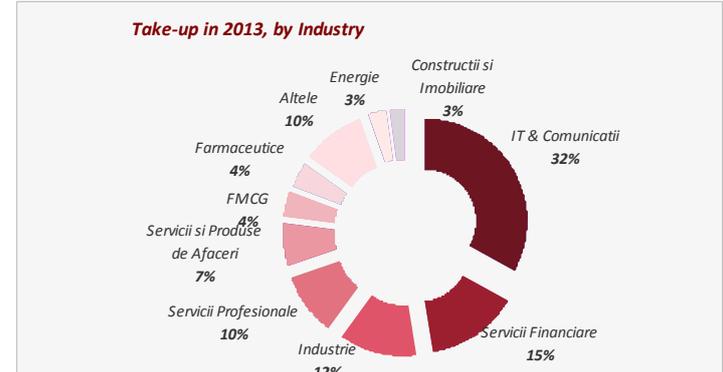
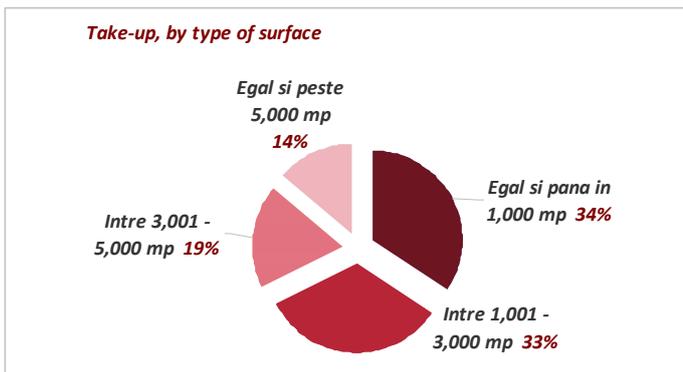
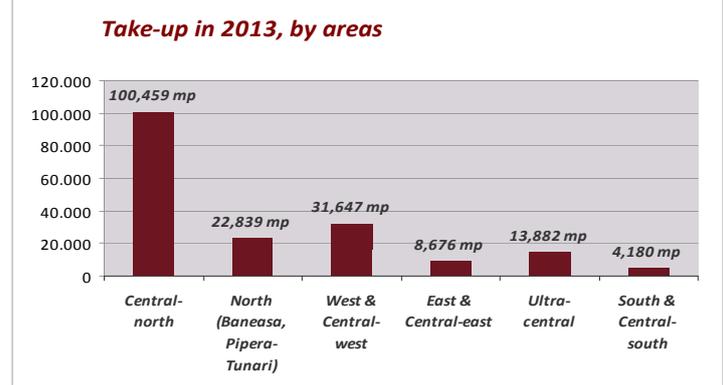
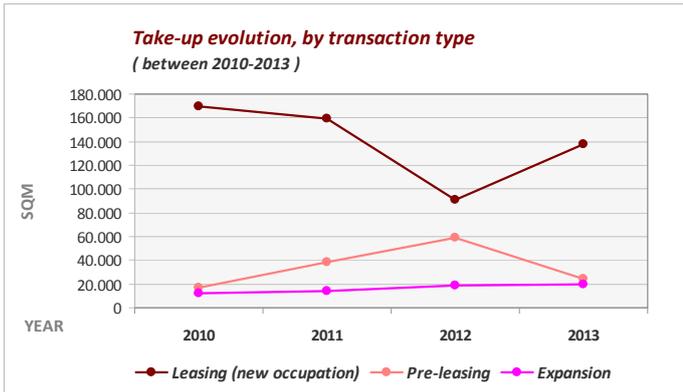
It is remarkable that approx. 32% of the total Take-up, i.e. 58,213 sqm, was represented by a **new demand**, coming both from companies already operating in Romania, and from companies which have recently entered the market. Such new demand was generated by the IT & Communication and Business Services & Products companies (the two industries representing 58% of the total new demand in 2013).

Take-up in 2013, by (detailed) categories of surfaces

| Type of leased area | Trans. No. | Total SQM | % in Total SQM |
|--------------------------|------------|----------------|----------------|
| Over 10,000 sqm | 1 | 12,000 | 7% |
| Between 5,001-10,000 sqm | 2 | 13,375 | 7% |
| Between 3,001-5,000 sqm | 8 | 33,653 | 19% |
| Between 2,001-3,000 sqm | 10 | 26,291 | 14% |
| Between 1,001-2,000 sqm | 24 | 33,755 | 19% |
| Between 501 – 1,000 sqm | 43 | 32,563 | 18% |
| Up to/equal to 500 sqm | 120 | 30,046 | 17% |
| TOTAL TAKE-UP | 208 | 181,683 | 100% |



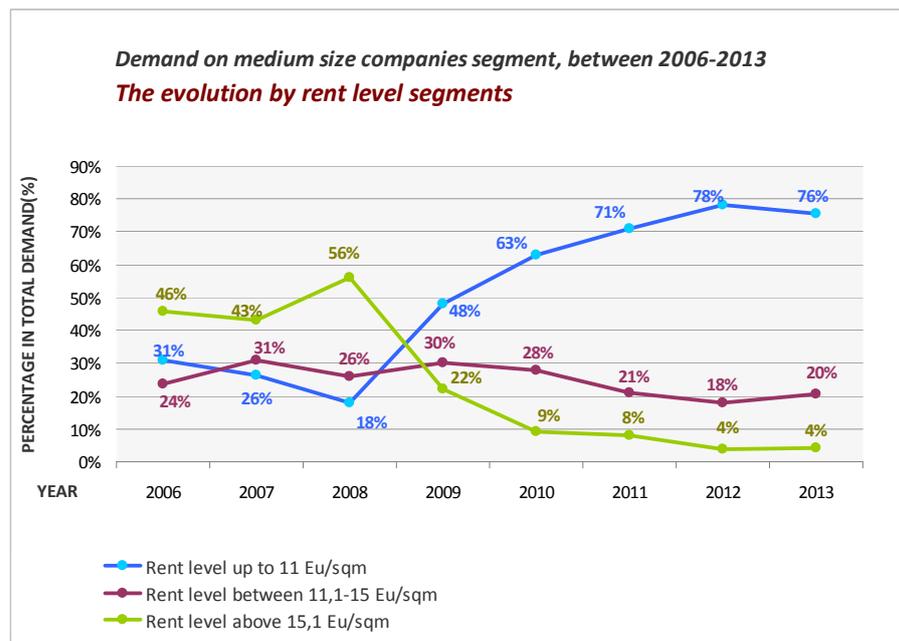
Source (table left and charts above): ESOP, with Forum data



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DEMAND ON MEDIUM SIZE COMPANIES SEGMENT.

The demand on the medium size companies segment increased by approx. 22% in 2013, compared to 2012. There were minor, but positive changes in the structure of the demand, by company budgets. Thus, 2% of the companies migrated from the category of rent budgets up to EUR 11/sqm, to rent budgets of EUR 11.1-15/sqm.



The medium size companies' demand was characterized by a **clear preference for spaces located in business centers (67%)**, to the detriment of the villas, which represented only approx. 33% of the demand.

Transactions in 2013 in cities around the country

| City | Leased area (sqm) |
|-------------|-------------------|
| Cluj-Napoca | 9.609 |
| Iași | 5.020 |
| Sibiu | 4.400 |
| Timișoara | 3.989 |
| Brașov | 200 |

OFFICE TRANSACTIONS IN OTHER MAIN CITIES

In 2013, outside the Capital, the total leased area of office spaces was **23,218 sqm**, *i.e.* more than four times higher than in 2012 (when the total leased area was approx. 5,000 sqm) and two times more than in 2011 (when the previous record was reached, with 10,572 sqm).

The tenants, most of them from the IT&C industry, preferred recently built, high standard buildings.

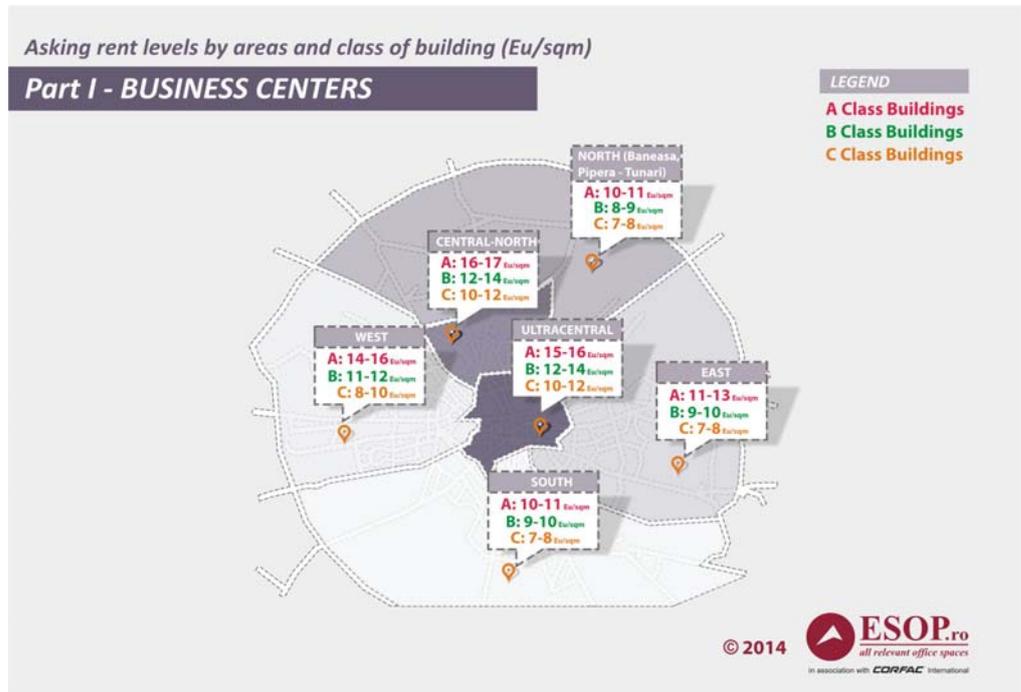
The increase in the number and volume of transactions concluded outside the Capital is due, on one hand, to the personnel recruitment limitations that the IT&C companies face in their expansion plans on the Bucharest market and also, to the supply of high quality office spaces in the big cities.

Considering also that some of these main cities are also well developed university centers, offering highly qualified work force, including for the IT&C industry, the office markets outside Bucharest will continue to be viable complementary alternatives of growth for the large size corporations.

4 . RENT LEVEL

In 2013, the rents were maintained at a relatively stable level, with slight upwards and downwards adjustments (of up to +/-10%), depending on the area and on certain specific factors, such as the *quality of the space, the vacancy period and the spaces available in similar buildings.*

RENT LEVEL IN BUSINESS CENTERS.



The asking rents mentioned above have a negotiation margin, which varies depending on the location and the quality of the spaces. In general, the negotiation margins practiced at the beginning of 2013 are maintained, *i.e.* 8-15% in the Central-North and Downtown areas, and 10-17% in the other areas.

Highlights of certain interesting evolutions in various Bucharest sub-markets:

- **CENTRAL-NORTH AREA:** The asking rents of the business centers in the Central-North area (especially in the Barbu Vacarescu – Calea Floreasca area) registered a slight decrease (of 0,5-1

Eu/sqm compared to the previous year), in the case of A class buildings, due to the consistent volume of office spaces available on the market and on pipeline. This area is yet the most dynamic area of the city, and the opening of Promenada Mall in end 2013 increased its attractiveness and comfort for the employees of the tenant or potential tenant companies. On medium and long term, it remains open the challenge of a correct adjustment and improvement of the public and road transport infrastructure, on order to be able to service the increasing needs of the area.

- **NORTH AREA:** Pipera area was positively influenced by the infrastructure works completed at the beginning of 2013, more specifically the Pipera Bridge and the Pipera Avenue expansion. Since the vacancy level is still high, there was no improvement in the level of the rents, however the long-term perspectives of the area have to a certain extent improved.
- **WEST AREA:** The limited supply in this area, and the fact that IT & C companies have a preference for this area (industry that generated 32% of the Take-up in 2013), have resulted in the lowest vacancy rate at the level of higher quality spaces (class A and B+), below 5%.
- **SOUTH AND EAST AREAS:** The asking rent level in the case of higher class spaces registered a slight decrease in these areas, from EUR 11-13/sqm, to EUR 10-12/sqm.

SERVICE CHARGES

Higher class business centers (class A and B+): EUR 3.0 – 4.5/sqm/month^{*)}
Class B and C business centers: EUR 2.0 – 3.0/sqm/month^{*)}

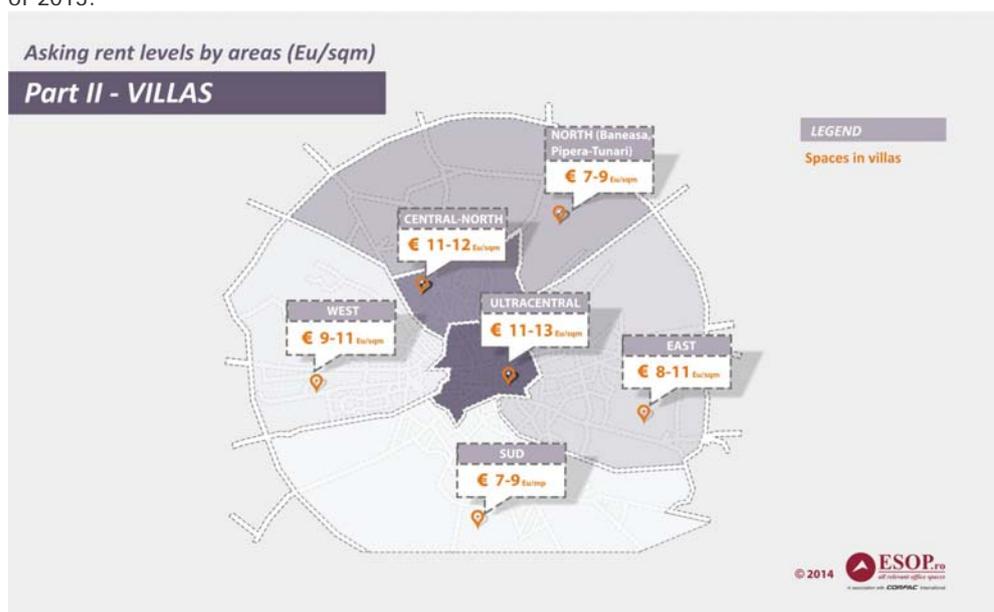
^{*)} In general, the amount does not include utilities expenses (the most significant of which are the heating and air conditioning of the leased space).

Spaces in villas: EUR 2.0 – 3.0/sqm/month^{**)}

^{**)} Maintenance expenses related to the spaces located in villas are paid by re-invoicing the amounts invoiced by the utilities providers. This system is also practiced in the case of some of the small size office buildings.

RENT LEVEL IN VILLAS

Office spaces in villas have maintained a relatively constant rent level, compared to the beginning of 2013.



Historical villas. In 2012, there was a high demand for historical villas/villas dated since the period between the two World Wars. This was also due to the presence of this type of buildings on the market, with a rent of EUR 10-12/sqm.

Representative projects to be delivered in 2014

| Name of the building | Area (sqm) |
|----------------------------------|------------|
| Green Gate | 31,000 |
| City Offices | 27,000 |
| Green Court – Phase 1 | 18,100 |
| Hermes Business Campus – Phase 1 | 18,000 |
| ART BC 6 | 18,000 |
| AFI Business Park – Phase II | 10,700 |
| Plaza Romania Offices | 10,500 |
| Ethos House | 8,000 |

5. FORECASTS

By the end of 2014, 15 office building projects will be completed, with areas comprised between 1,200 sqm and 31,000 sqm, and a total area of approx. **160,000 sqm**. Over 32% of these spaces have been pre-leased, however the remaining volume of spaces is significant (approx. 109,000 sqm), adding to the existing stock of business centers.

The year 2014 shows favorable conditions for the intensification of pre-leases, considering that several important projects are going to be delivered and, therefore, will be motivated to lease a significant part of the available spaces before the completion of the construction works.

For the potential tenants, within the context of a significantly lower number of projects started and estimated to be delivered in 2015, the current year stands out particularly attractive for relocation operations, offering the chance of obtaining good financial packages.

On the medium and long term, there is a need to balance the development of the capital by areas; thus, the most interesting area for future developments appears to be, at a first future stage, the Central-West area.

The public transportation infrastructure modernization works, such as Uranus Boulevard, with its first section (Piata Victoriei-Berzei), commissioned at the beginning of 2014, or the works executed on the 5 subway line, with its first section (Drumul Taberei – Eroilor) scheduled to be completed by the second half of 2016, open a number of opportunities in the neighboring areas.

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ESOP is the real estate consultancy company with **the largest office lease department in Bucharest (18 people)**, and a traded surface of over 280,000 sqm in the 12 years' experience on the office market. In 2013, ESOP mediated the leasing of over **35,000 sqm**, ranking among the **top 2 players** on the Bucharest **office relocation market**.

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