

OFFICE MARKET HIGHLIGHTS

OFFICE SUPPLY IN THE BEGINNING OF 2015		TRANSACTIONS COMPLETED IN 2014		2014 vs. 2013
Office buildings (A, B and C class)	878,000 sqm	Take-Up	233,133 sqm	+ 28%
<i>(From which offices delivered in 2014</i>	<i>156,000 sqm)</i>	Renewals	72,802 sqm	-35%
Office buildings with delivery 2015-2016	380,000 sqm	Total Leasing Activity	305,935 sqm	+4%

- In 2014 Total Leasing Activity (which includes both Take-up, and transactions for Premises Renewal), **was maintained at a relatively constant level, recording even a slight increase (by 4%).**
- Structurally, there has been a **significant modification** within it, namely an **increase in the percentage of Take-up**, which in 2014 represents 76% of the Leasing Cctivity, and a decrease in the percentage of Premises Renewal at 24% (decrease from 38% in 2013).
- Take-up - which includes rents in existing buildings, Pre-leases and Expansions - recorded this significant growth in the context in which the **component Pre-leases recorded a level of approx. 73,000 sqm, 200% more than the previous year, and the highest level in the last 5 years.** Three major mobile operators have completed pre-lease contracts that amounted 55,000 sqm.
- Overall, the IT&C domain remains in 2014 too the engine of offices market, accounting for 40% of the Total Leasing Activity (increase by 8% compared to the previous year).
- **Office transactions** in the country continue the evolution on the upward trend in 2014, with a **new record level of 37,000 sqm, 60% higher** than the level recorded the previous year.

SUPPLY

OVERVIEW

At the beginning of 2015, **the supply of office spaces available in Bucharest** (located both in class A, B or C business centers and in villas) reaches the level of **approx. 1,025,000 sqm**, 7% higher compared to the beginning of the last year.

(Note: In this amount are not included the buildings under construction, mentioned below in the section on Pre-lease office spaces.)

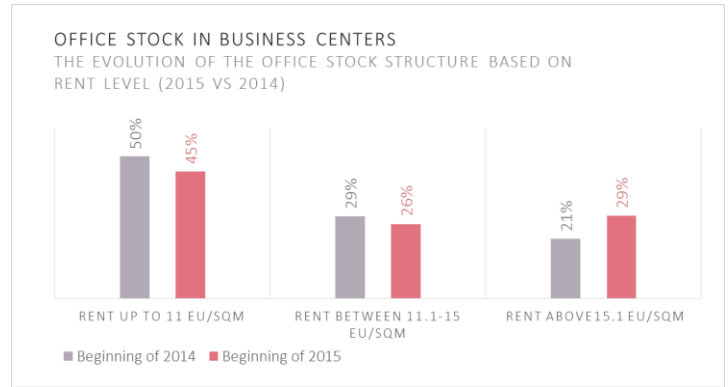
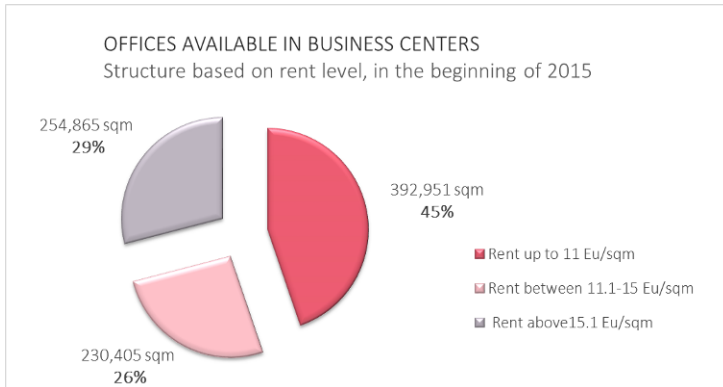
Of this stock, **86% is represented by spaces in business centers**, the remaining **14% by spaces in villas**.

OFFICES IN BUSINESS CENTERS

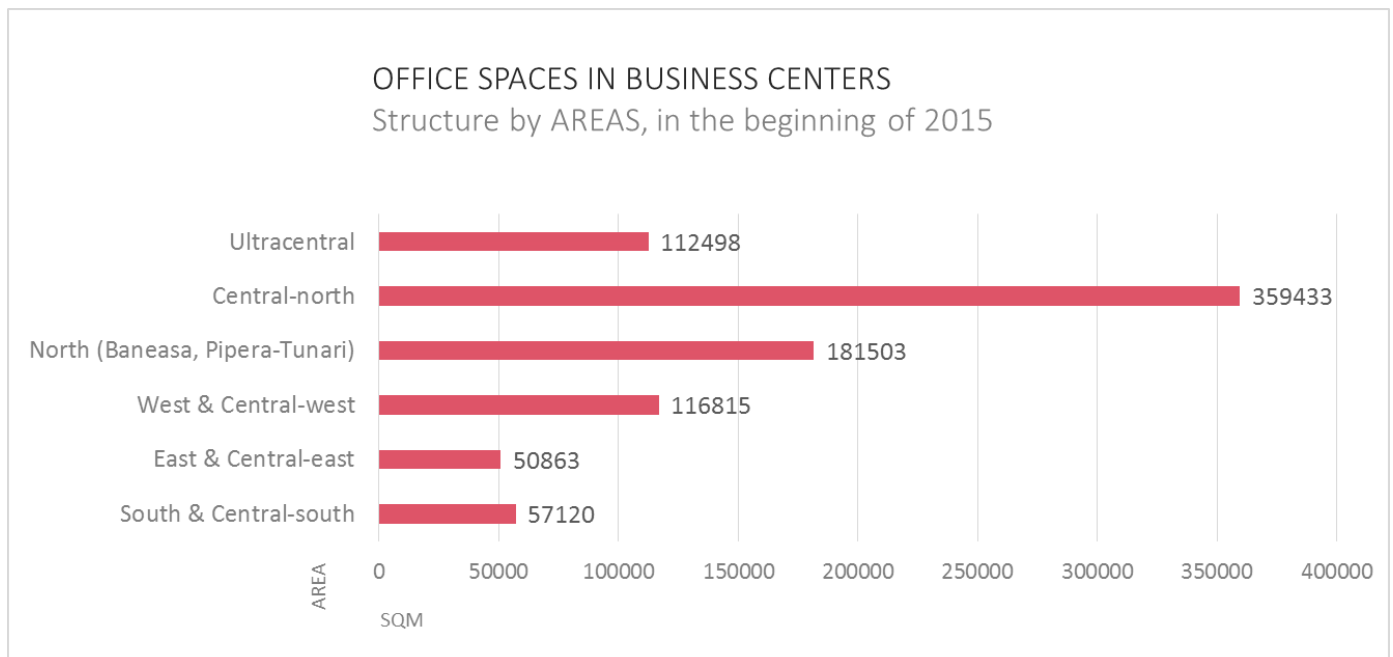
The volume of office spaces available in business centers (class A, B and C) at the beginning of 2015 is approx. **878,000 sqm, 12% higher** compared to the beginning of 2014.

156,000 sqm of this total area are represented by office spaces in class A and B buildings delivered in 2014, year in which there was an increase of ~ 25% of deliveries of new buildings compared to 2013.

In this context, *in terms of rent level*, the supply in business centers at the beginning of 2015 reflects a slight modification. Specifically, there is an increase of 8% of the percentage of buildings with rents above 15 Euro / sqm (from 21% at the beginning of 2014 to 29% at the beginning of 2015), buildings thus reaching to represent approx. one third of the total amount of available spaces. Also, there is a decrease by 5% in the total amount of available spaces of buildings with rents up to 11 Euro / sqm (from 50% at the beginning of 2014 to 45% at the beginning of 2015).



In terms of location, the offices in business centers available at the beginning of 2015 are dominantly located, approx. 41% in the Central North area, area delineated by the developments during the last 3-5 years as the main pole of development of the office market. North Area (Baneasa, Pipera-Tunari) remains the second largest concentration area of available office spaces, and although the vacancy rate in this area remains the highest in Bucharest, during 2014 the stock of available spaces in the area has decreased by approximately 25,000 sqm (from 206,000 sqm at the beginning of 2014 to 181,000 sqm at the beginning of 2014).

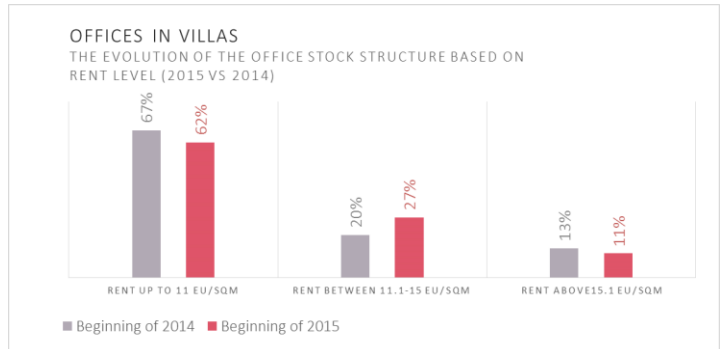
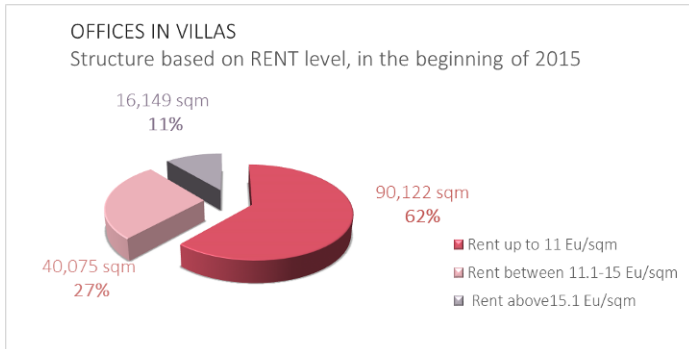


OFFICE SPACES FOR PRE-LEASE

In addition to the existing business centers, that have spaces available for leasing, there is a consistent supply of pre-lease office spaces, consisting of projects to be delivered in 2015 or 2016. Considering only the projects where works have started and there is a relatively exact delivery date, the total volume of this additional supply of spaces amounts to approx. 380,000 sqm.

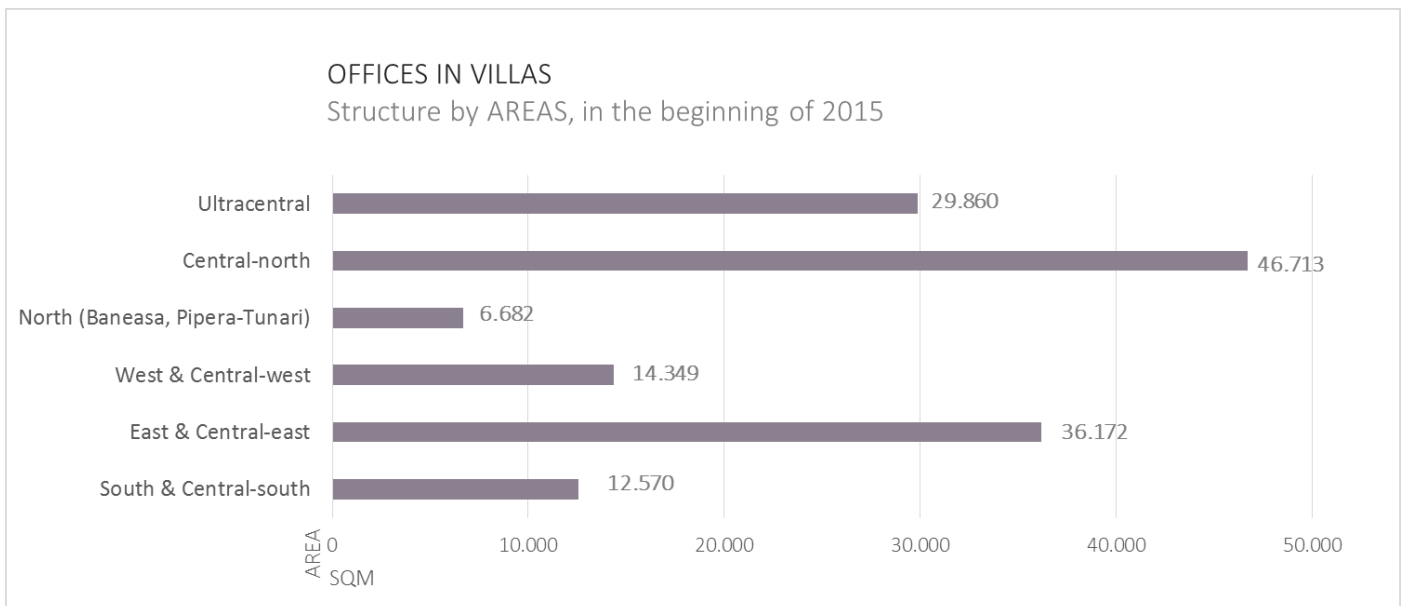
The stock of office spaces in villas at the beginning of 2015 reached 146,400 sqm, which marks a 15% decrease compared to the same period of 2014, in the context of a relatively stable leasing rate, and of a stiffer and / or less supply of new spaces in villas.

In terms of the supply structure **depending on the rent level**, in 2015 it also remains dominant as percentage the segment of spaces with rents up to 11 Euro / sqm, segment which records 62% of the total amount of available spaces, a decrease of 5 percentages compared to the beginning of 2014. This evolution, in conjunction with the structure depending on the demand price, proves that also during 2014 the main leasing area was up to 11 euro / sqm. The evolution slightly downward (minus 2 percentages) of the segment of villas with rent above 15 euro / sqm shows an attempt to align the supply closer to clients' expectations, whose budgets for such spaces rarely exceed 11-13 Euro / sqm.



In terms of the **structure by areas**, the spaces available in villas are distributed as follows:

On the ultracentral area, the most actively leased on the segment of spaces in villas, there can be noticed a decrease of the stock of available spaces of approx. 20%, from 37,507 sqm at the beginning of 2014, to 29,860 sqm in 2015.



DEMAND AND VOLUME OF TRANSACTIONS

2014 confirmed that the quality office spaces available for pre-lease in 2014 will revive the transactioning activity. During 2014, the demand for office spaces has remained on a slight increasing tendency. Large and medium-sized multinational companies continued their pursuits of optimizing both the office quality, but also of expanding office surface, or merging offices.

The end of 2014 marked a stable moment on the office market. Thus, the **Total Leasing Activity** (including, additional to the Take-up, the Renewal of leases), amounted **305,935 sqm** (with only 4% higher than the level registered in 2013).

An interesting change in Total Leasing Activity's structure produced, namely the increase of Take-up percentage, in Renewal segment's detriment.

Compared with the previous year volume, the **Take-up** (including the *Leasing, Pre-leasing and Expansion transactions*) amounted approx. **233,000 sqm**, representing an increase by 28%, while the Renewals have decreased by 35%.

The IT&C industry remained in 2014 the leading field within the Total Leasing Activity, reaching 40% of its volume.

Transaction type	2010	2011	2012	2013	2014	2014 vs. 2013 (%)
Leases	169,821	158,989	90,482	137,652	130,779	- 5%
Pre-leases	17,219	38,805	59,255	24,430	73,274	+ 200%
Expansions	11,908	13,713	18,637	19,601	29,080	+ 48%
Total Take-up	198,948	211,507	168,374	181,683	233,133	+ 28%
Renewals	59,511	51,910	70,488	112,181	72,802	- 35%
Total Leasing Activity	258,458	263,417	238,862	293,864	305,935	+ 4%

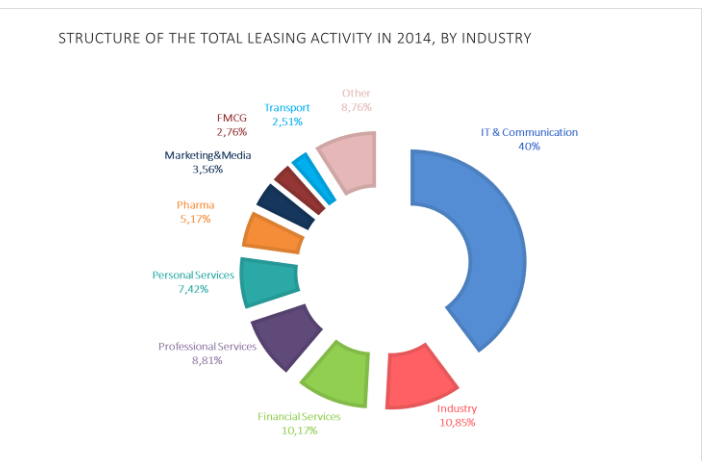
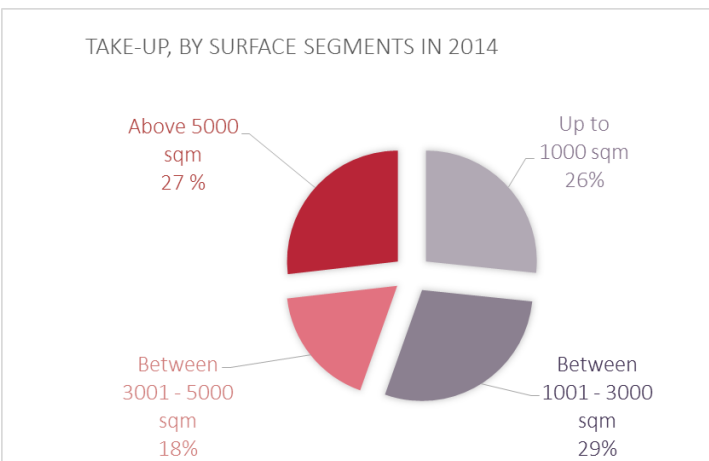
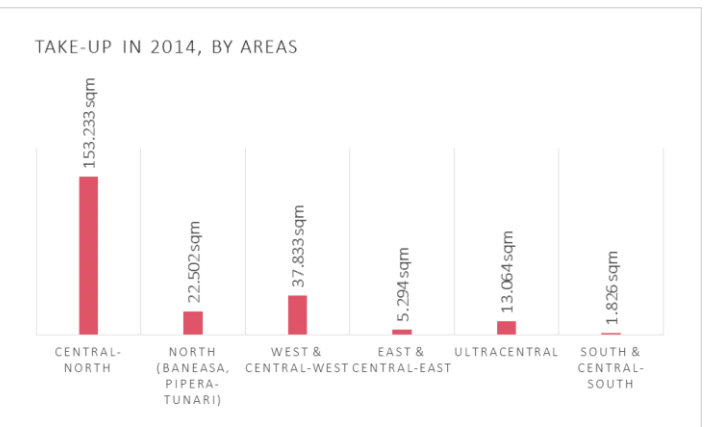
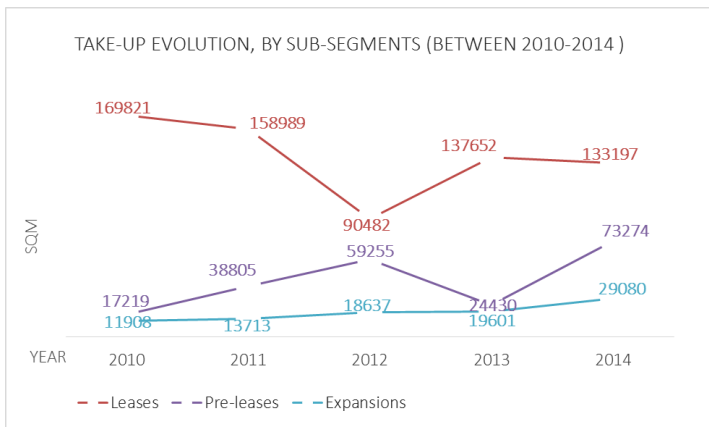
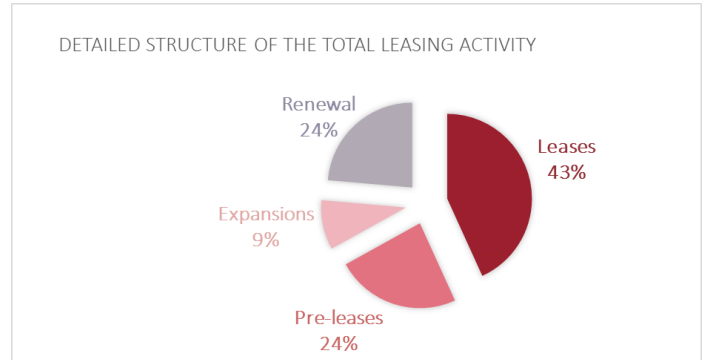
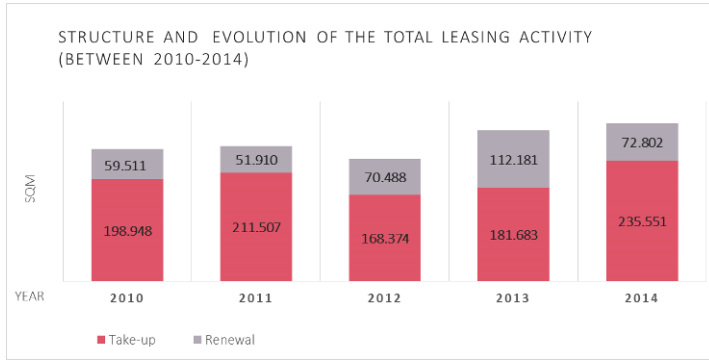
Source: ESOP, with Forum data

It is remarkable the evolution of **pre-leases**, which recorded an increase of **nearly 3 times** compared to the last year: 73,274 sqm in 2014 compared to 24,430 sqm in 2013. **This is the highest recorded level for this type of transactions in the last 5 years**, it being motivated by several exceptional transactions: the decision to relocate the most important telecom operators (Orange, Vodafone and Telekom) which together have leased approx. 55,000 sqm (18% of the Total Leasing Activity).

Take-up in 2014, BY CATEGORIES OF SURFACES			
Total SQM	Total SQM	Total SQM	Percentage
Above 10,000 sqm	3	54.700	24%
Between 5,001-10,000 sqm	1	8.000	3%
Between 3,001-5,000 sqm	11	41.487	18%
Between 2,001-3,000 sqm	8	19.936	9%
Between 1,001-2,000 sqm	32	47.340	20%
Between 501 – 1,000 sqm	52	37.494	16%
Up to/equal to 500 sqm	91	24.176	10%
TOTAL TAKE-UP	198	233.133	100%

AVERAGE LEASED SURFACE, on transaction types		
Transaction type	Average leased surface	2014 vs. 2013
Leases	778 mp	+5%
Pre-leases	5,636 mp	+177%
Expansions	1,616 mp	-9%
Renewals	2,206 mp	-27%

Source: ESOP, with Forum data



Source: ESOP, with Forum data

OFFICE TRANSACTIONS IN THE COUNTRY

In 2014, outside the Capital, the total leased area of office spaces was more than **37,000 sqm, increasing with 60%** compared to 2013. The main cities of interest were Cluj Napoca, Timisoara and Iasi - cities that own and largest stock of class A and B office spaces outside Bucharest.

Compared to 2013, when most transactions were generated by companies in the IT&C domain, 2014 recorded relocations or pre-leases for companies in several industries: energy, automotive, industry, IT&C.

Thus, we can observe the diversity of companies which move their area of interest from the capital to the main cities, in the context of the development of quality projects and of the more accesible labour force.

We estimate that in 2015 the **ascending trend** of office leasing outside Bucharest **will maintain** and will also **diversify**, new cities entering the companies attantion (Sibiu, Craiova, Bacau, Targoviste, Galati etc).

OFFICE TRANSACTIONS IN THE COUNTRY IN 2014

City	Leased Surface
Cluj-Napoca	21,090 sqm
Timișoara	11,452 sqm
Iași	4,100 sqm

RENT LEVEL

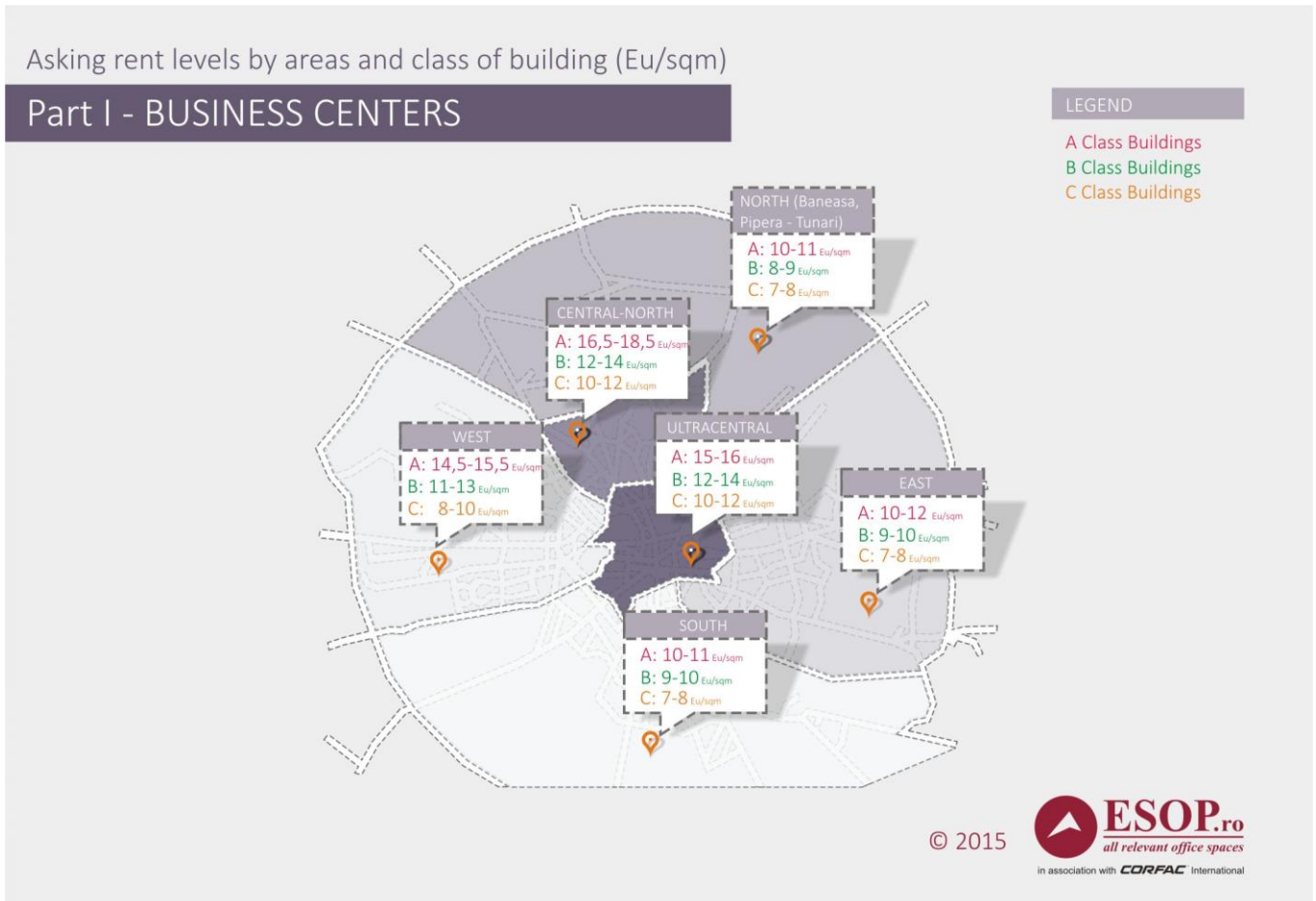
In 2014, the rents have been relatively stable, generally within the previous years level. Further it is maintained the availability of office spaces owners to provide various facilities to motivate tenants: Rent-free months and fit-out budgets. Thus, the significant modification of stock structure recorded at the end of 2014 - more than half of office stock is priced above 11 euro / sqm is due to the rent of cheap spaces and provision of high class projects and prices above 15 euro / sqm and **not to the actual growth of rents on the entire market.**

RENT LEVEL IN BUSINESS CENTERS.

On the business centers segment, the following trends outline in the beginning of 2015:

- **CENTRAL-NORTH AREA:** Asking rent levels for A class offices in **Victoriei Square – Charles de Gaulle** are between **16.5 to 18.5 Euro / sqm**, due to the relatively low offer, and to the area's excellent access to public transportation. The similar buildings in the other central northern major pole of business, **Barbu Vacarescu-Calea Floreasca**, have rent levels between **15.5 to 17.5 Euro / sqm**. The impact of the large number of projects announced, and of the consistent deliveries from 2014 in this area was offset by the high level of interest from the companies in this perimeter (especially after Promenada Mall's opening in the fall of 2013, that proved to be a real catalyser for the area). In this context, the rent remained in 2014 stable, at least for looks forward to the authorities implementing the recently announced traffic reorganization plan, that will transform both Barbu Vacarescu and Calea Floreasca boulevards into one way streets. It is possible that such measures impact to be a moderated or temporary one, as the area it is further developing, with new projects to be delivered in 2015-2016, projects amounting over 200,000 sqm.
- **NORTH AREA:** In Pipera and Baneasa the vacancy rate is still the highest in the city (approx. 30%), and the prospects are not of significant improvement. The completion of infrastructure works announced the recent months or of those under execution – underground passage from Piata Presei, the start of works for the subway to Otopeni, the widening of Pipera Road and the improvement of sidewalks - could be important factors in bringing again these areas in clients' attention.

- **WEST AREA:** The west area, especially the central-western part, represented in 2014 a hot spot on the office spaces map, drawing a significant segment to the demand for such spaces (approx. 38,000 sqm), so that the rent level for class A and B buildings has remained around 14,5-15,5 Euro / sqm, and for B class ones, between 11 – 13 Euro/sqm.
- **SOUTH AND EAST AREAS:** The rents remained stable in these areas, between 10-12 Euro / sqm for class A buildings, the lowest levels on the office market. The offer is yet limitted, such areas not representing regular office destinations, but rather residential ones (and industrial destinations, towards the periphery).



RENT LEVEL IN VILLAS

Office spaces in villas have maintained a relatively constant rent level, compared to the beginning of 2014, with slight decreases in semi-central areas, or in areas that do not have access to subway.

A rent level update by areas is presented above.

The historical villas remain the main option for many companies acting in consultancy, law, advertising, human resources fields of activity. In 2014, such villas were available on the market with rent levels between 10 -12 Euro/ sqm.

Asking rent levels by areas (Eu/sqm)

Part II - VILLAS



SERVICE CHARGES

In 2014 the office spaces administration costs remained at similar levels as in 2013, the only increases were recorded in the utilities, due to legislative regulations (price increase for natural gas and electricity).

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^{*)}

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

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

^{**)} Maintenance expenses related to the spaces in villas are paid proportionally to the leased surface; the amount specified above also includes the utilities consumptions. This system is also practiced in the case of some of the small size office buildings.

FORECAST

For 2015 it is outlined a slight increase in deliveries of higher quality spaces, at the level of 175,000 sqm deliveries concentrated in a proportion of 36% in Barbu Vacarescu - Dimitrie Pompei – Pipera Road area. Approx. 20% of these spaces were pre-leased.

We estimate that the transactions with office spaces in the country will continue to grow in total volume and number of cities covered by the companies. However, reported at the expectations of local developers and investors, the pace of transactions is still one "perfectible" moderate, a pace closely connected to the degree of development of each community.

Continues to be felt in the medium and long term the need to balance the Capital development by areas. A positive contribution to this end will have the office projects recently announced in the central-west region of the Capital, in the period 2015-2017.

REPRESENTATIVES PROJECTS TO BE DELIVERED in 2015

Building's Name	Surface (sqm)
Bucharest One	48,000 sqm
AFI Business Park – Phase IV & V	33,000 sqm
City Offices	27,000 sqm
Green Court – Building B	16,000 sqm
Sema New Project – Bldg I	12,000 sqm
PC Center II	7,000 sqm
George Enescu BC	5,300 sqm

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