

OFFICE MARKET UPDATE IN THE BEGINNING OF 2013



MAIN TRENDS AT 2012 YEAREND / BEGINNING OF 2013
Trends on the midsize company office market, at the beginning of 2013

Demand	➔
Average budgets	➔
Available stock	➔
Transactions	➔
Rent level	➔

The first semester of 2012 was more dynamic than the first semester of the previous year, being characterized by a higher level of optimism on the office market of midsize companies, whose reaction to the market trends is quicker.

The second semester of 2012 registered a slower evolution, due to the political events (the referendum for changing the president, the Parliament elections).

In 2012, pre-leases increased significantly, reaching 59,255 sqm, approx. 53% more than the previous year.

This increase of pre-leases, together with the need for high quality offices on the market created the context for the emergence of new office projects in 2014-2015, the most easily to start off being medium-sized buildings (up to 10,000 sqm, or the staged projects).

An important category of companies became visible again on the market, i.e. the start-ups (which are generating "new demand"), representing either local entrepreneurship initiatives, or foreign companies which started again to open subsidiaries / representative offices in Romania. According to our estimates, these companies leased approx. 15,000 sqm (representing 9% of the office area transactions in 2012).

SUPPLY: The Competition for High-Quality Office Spaces, with Competitive Budgets Begins

Office Market Indicators	At the Beginning of 2013
New supply of offices in business centres	107,000 sqm

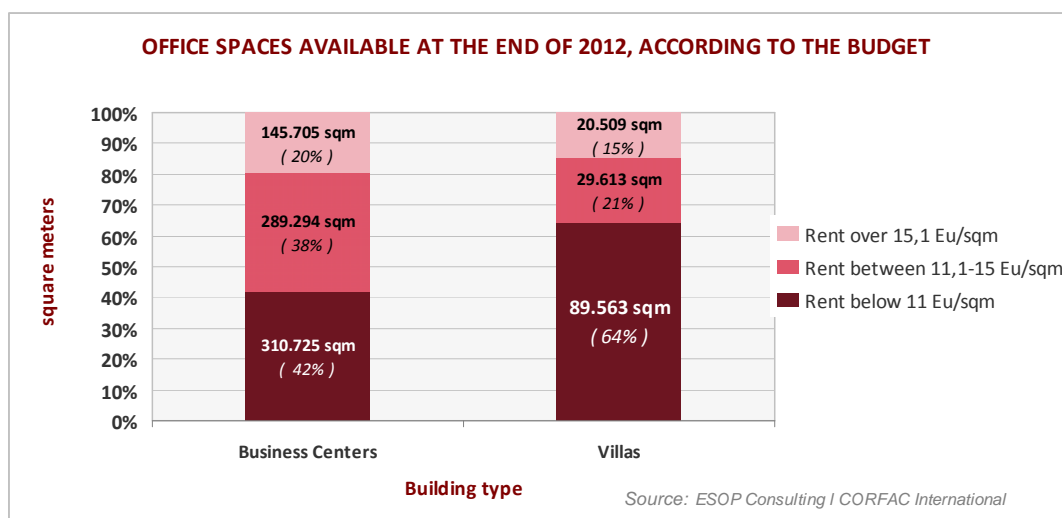
Vacancy Rate	
- In central areas	13 – 15%
- In semi-central areas	17 – 25%

Transactions (sqm)	238,862
Relocations (sqm)	90,482
Pre-leases (sqm)	59,255
Expansions (sqm)	18,637
Renegotiations (sqm)	70,488

Average Rents	EUR / sqm
A Class Office Buildings	16 – 18
B Class Office Buildings	12 – 15
C Class Office Buildings	7 – 10
Villas in central areas	11 – 13
Villas in semi-central areas	7 – 9

OFFICES IN BUSINESS CENTRES. Although the new supply of offices in business centres amounted to merely **107,000 sqm** in 2012, by **approx. 15% less than the previous year**, the total stock of office areas available was maintained at a rather high level in 2012, increasing by 5% at the end of the year, compared to the beginning of the year.

The following chart presents the structure of the supply, according to the rent level, at the end of 2012:



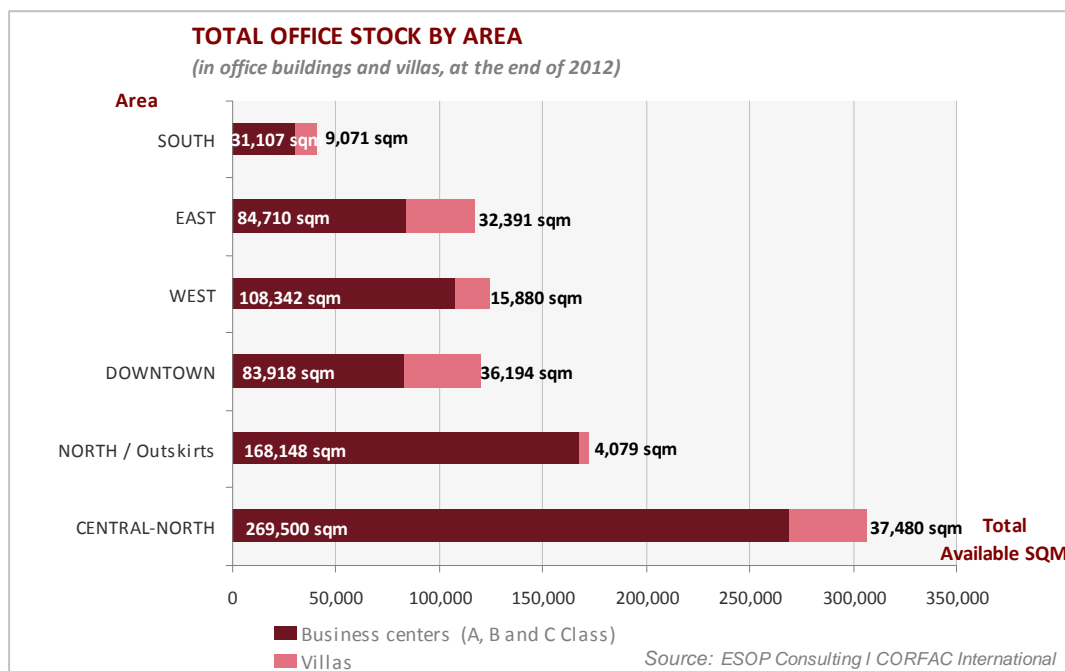
**BUSINESS CENTRES
DELIVERED IN 2012**

PROPERTY NAME	AREA (GLA)
Bucharest Tower Center International	29,000
Art 6	19,000
Crystal Tower	15,300
West Gate 5	15,000
Unicredit Expozitiei	14,000
AFI Cotroceni Business Park - Phase I	10,800
DV24	8,200
Magheru One	3,900
Aviatorilor Business Plaza	3,100
BVO	3,000
Monolit Square	2,500
Italiana OB	1,100

VILLAS. The stock of office spaces in villas also increased significantly in 2012 compared to 2011, by approx. 35%. Most of these are not new buildings, but spaces remaining vacant after companies' relocations to business centre offices, in particular. The villas are assessed in the light of two major criteria: (1) the **location**, and implicitly, accessibility to the underground, and (2) the **quality level** of the space. The most wanted locations are those situated in central areas or down-town, such as *Aviatorilor, Victoriei, Domenii, Romana, Universitate, Cotroceni*, and the adjacent areas. If the building location is an aspect which may not be changed, the second aspect, *i.e.* the quality level, can be improved. On an increasingly competitive market, villa owners are recommended to consider regular real estate renovations.

In 2012, patrimony and inter-war villas (with a properly preserved or restored architecture) were the most wanted among villa offices.

The structure of the available office areas, **by areas** (both in business centres, and in villas), at the end of 2012, is as follows:



TRENDS. For those companies looking for new offices, 2013 is expected to be a year of **competition for identifying and securing a high quality office.**

In this sense, favourable circumstances are being created for the owners, **for launching new projects and pre-leases.** However, taking into consideration the relatively fragile economic stability, both in Romania and in Europe, and the moderate degree of absorption of the new office areas, we believe that the safest projects will be those **medium-seized** (up to 10,000 sqm), **or projects developed in phases.**

PREMIERE: BUSINESS CENTRES DEDICATED TO SMEs ARE EMERGING, FINANCED FROM EUROPEAN FUNDS

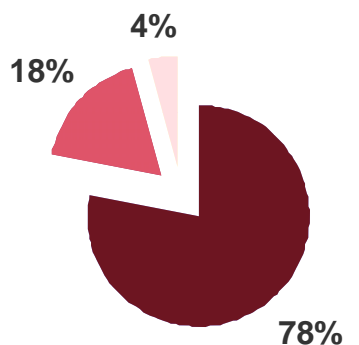
In 2012, business centres financed from European funds began to be launched, dedicated primarily to the lease of office areas to small and medium-sized companies, including start-ups. Such business centres are intended to be **business incubators**, dynamic and efficient environments for the start up, development and growth of companies. This type of projects have obtained financing through the European funds, **Priority Axis 4 "Strengthening the regional and local business environment"**. The long term objective of these programmes is to strengthen the investment environment, to increase the number of sustainable economic activities, and to reduce the unemployment rate.

Between 2011 and 2012, 6 projects were approved in Bucharest, with areas comprised between approx. 1,800 sqm and 15,000 sqm. The implementation stage began for only 5 of these projects (some of them being almost completed), one of the project's financing being terminated. Such business centres **provide a number of advantages to potential tenants**, more specifically, access to a number of facilities (often free of charge), such as: meeting rooms, fully equipped conference rooms, internet services, fully equipped kitchenettes etc.



CSDA Sirlului – For this project, at the end of 2012 ESOP was appointed exclusive broker for the lease of 1,250 sqm.

**MEDIUM-SIZED COMPANIES -
DEMAND STRUCTURE IN 2012**



- Rent over 11 Eu/sqm
- Rent between 11,1-15 Eu/sqm
- Rent below 15,1 Eu/sqm

Source: ESOP Consulting I
CORFAC International

DEMAND: Relocation Intentions Intensify

MIDSIZE COMPANY SEGMENT DEMAND. According to the data analyzed by ESOP, the year 2012 is characterized, especially as far as the midsize company segment is concerned, by an intensification in the relocation intentions, represented by the demand increase by approx. 57%, compared to 2011.

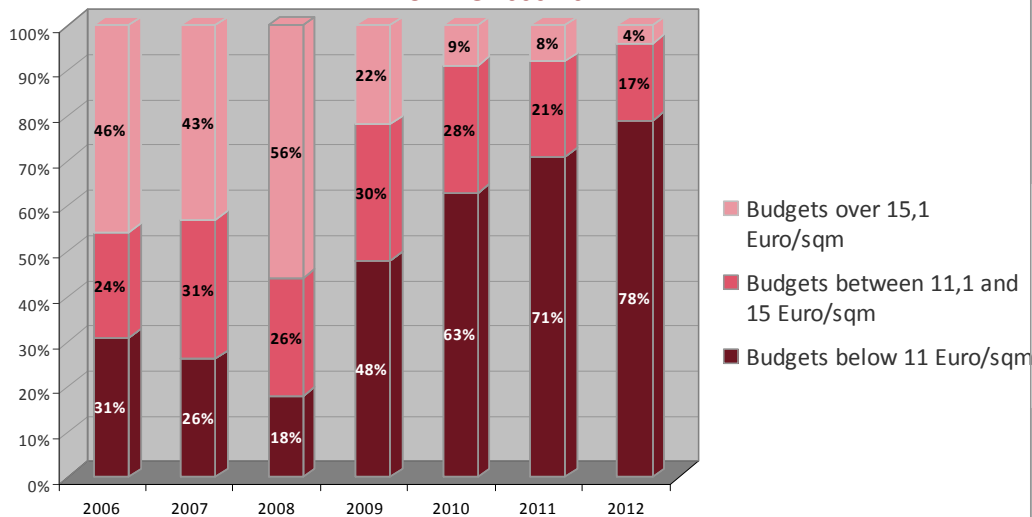
Nevertheless, this demand increase should be interpreted as an intensification of the relocation **intentions**. The higher demand volume was counterbalanced by increased prudence in decision making, due to the economic instability; therefore, only approximately 35% of the relocation intentions materialized in transactions in 2012, the rest of the companies postponing the relocation decision, and extending the lease contracts for the current offices or expanding their offices within the same buildings.

DEMAND STRUCTURE AND EVOLUTION. From a structural point of view, in 2012, compared to 2011, there were no major changes in terms of the budgets announced by the companies looking for offices, the main demand being for offices with budgets within EUR 11/sqm (78% of the total demand).

Regarding the **demand evolution by budget category in 2006-2012**, the lowest variations appeared within the segment of office areas with rents comprised between EUR 11 and 15/sqm; however, this segment weights less within the total demand coming from midsize companies (between 31% and 20% for the analyzed period 2006-2012).

78% of the medium-sized companies have established lease budgets of up to EUR 11/sqm

**MEDIUM SIZED COMPANIES - EVOLUTION OF DEMAND BY BUDGETS
DURING 2006-2012**



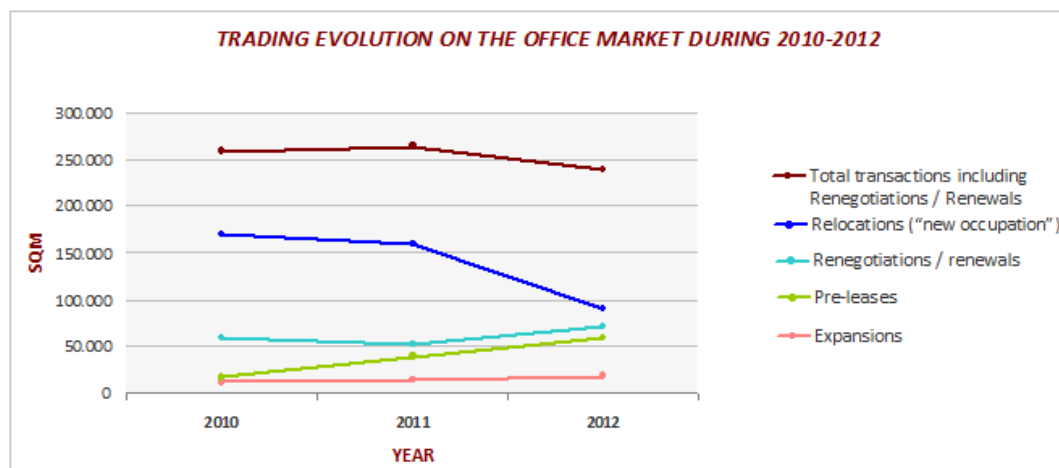
Sursa: ESOP Consulting I CORFAC International

TRANSACTION VOLUME ON THE MARKET

In 2012, the transaction volume was lower at the level of the entire market. Compared to 2011, the decrease was by approx. 20.4%, and 15.4% respectively, compared to 2010, taking into consideration exclusively the relocation, pre-lease and expansion transactions, which influence the dynamics of the Romanian business environment.

Transaction Type	2010	2011	2012
Expansions	11,908	13,713	18,637
Relocations ("new occupation")	169,821	158,989	90,482
Pre-leases	17,219	38,805	59,255
Total transactions	198,948	211,507	168,374
Renegotiations / Renewals	59,511	51,910	70,488
Total transactions, including Renegotiations / Renewals	258,458	263,417	238,862

Type of Leased Area	Trans. No. 2012	Total SQM 2012
Over 10,000 sqm	2	42,946
Between 5,000-10,000 sqm	1	8,300
Between 3,000-5,000 sqm	5	16,607
Between 1,500-3,000 sqm	10	20,774
Between 800-1,500 sqm	32	33,273
Between 500-800 sqm	35	21,107
Up to 500 sqm	99	25,367



Note: The data are obtained from the information summarisation made by the Forum of the main real estate brokers on the office market, to which ESOP is affiliated

In 2012, the most significant drop in the transaction structure, by approx. 43% compared to the previous year, was related to the relocation segment (leasing of an existing office area/completed real estate).

However, this trend is partly justified and offset by a significant growth in the level of pre-leases, of up to 59,255 sqm (consisting of 8 transactions, with areas comprised between 640 sqm (minimum) and 20,000 sqm (maximum)).

The increase by 36% in the office areas expansion also indicates a favourable evolution on the office market (although it also indicates a certain degree of prudence on behalf of the companies, which, although gradually increasing the number of their employees, prefer to accommodate these increases with their current offices).

Midsize Companies Preferred Business Centres in 2012

While the first years of the crisis brought the office areas within villas to the companies' attention, such areas being more flexible in terms of the financial and contractual conditions, in 2012 we noticed the companies' tendency to go back to business centre offices, taking into consideration that many of these real estates became more attractive, by aligning their commercial terms to the companies' requests. Thus, approx. 75% of the transactions made by ESOP were related to business centre offices, and only 25% to villas.

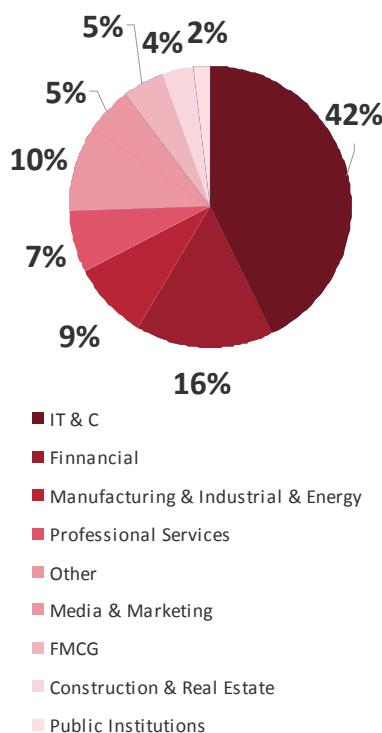
The average area transacted at the level of the entire market (big and medium-sized companies) was approx. 1,040 sqm, and 420 sqm within the segment of midsize companies.

POSITIVE SIGNS:

Two types of demand reappeared in 2012, being favourable indicators for the economic environment and the office market.

First, the demand from local or foreign start-ups, many of them operating in the field of **IT & C**. We estimate that the volume of the transactions in which newly established companies were involved was approx. 15,000 sqm, representing 9% of the total transactions on the market (except for renegotiations).

TRANSACTIONS VOLUME IN 2012, BY FIELD OF ACTIVITY

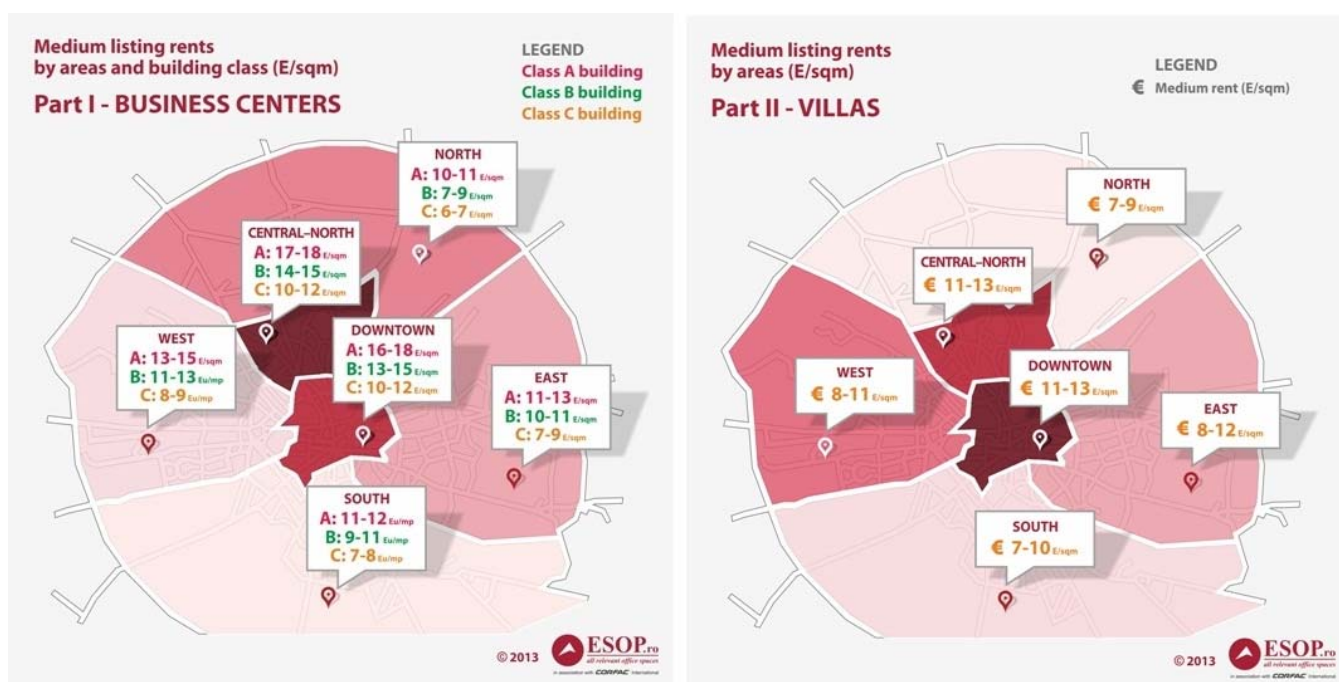


Second, the companies interested in relocation reappeared in 2012, aiming at optimizing their employees' comfort or improving the company's image, and less at rent optimization, as in the previous years. Nevertheless, due to the absence of the emergency factor from these transactions, unlike the relocations for cost reduction purposes, the demand existing on the market in 2012 had a transaction conclusion term of 2 to 4 months longer than in 2009-2011 (when the average transaction term was 3-4 months).

RENT LEVEL

In 2012, the rent level stabilized at values close to those recorded in 2011, with slight adjustments of 5-10% at the level of a small number of projects or areas.

OFFICE BUILDING RENTS. The average rent levels asked by the owners (asking rents), at the end of 2012, are shown in the *info graph* below (left side).



The above mentioned asking rents involve a negotiation margin, which varies depending on the area and quality of the spaces. For instance, for buildings in North-Central areas and downtown, the rent may decrease after negotiations by 8% to 13%, while for other areas a decrease in rent level can vary between 10% and 17%.

VILLA RENTS. As far as the villas are concerned, asking rents are as shown in the above mentioned *info graph* (right side).

Patrimony villas. In 2012, patrimony / inter-war villas were highly demanded. This was also due to the existence of this type of real estates on the market, at a rent level of EUR 10-12/sqm.

MAINTENANCE COSTS. These costs stabilized within the limits of 2011.

Upper class business centres (Class A and B+):	EUR 3.5 – 5.0/sqm/month ^{*)}
B and C class business centres:	EUR 2.5 – 3.5/sqm/month ^{*)}
Villas (and small-sized office buildings):	EUR 1.5 – 2.5/sqm/month ^{**)}

^{*)} Significant variations in the cost of maintenance from one building to another must be analyzed in the context of including or excluding the consumption of utilities from these values (most notably electricity and / or gas for space heating and cooling).

^{**)} Paid on a pro-rata invoicing principle, based on the utility providers' bills.

FORECASTS

The delivery of 8 A and B class office buildings has been announced for the next 12 months, with a total leasable area of more than 125,000 sqm. Five of these are in the North-Central area of the capital, more specifically within the Barbu Vacarescu – Pompei perimeter, representing over 90% of the total deliveries of new spaces.

We believe that, in the context of a demand with relative dynamics, the deliveries of new spaces, even if at a considerably lower level compared to 2007-2009, will put real pressure on the existing buildings. For the owners of **properties built before 2007-2008**, which have already hosted two or three generations of tenants, a number of **real estate improvement measures** would be required, in our opinion, as well as an **attractive facility package**, such as:

- tenant attraction by granting **financial contribution to interior arrangements**;
- targeting a **wider and more flexible tenant segment; the smaller the areas** (e.g. 200-300 sqm), the higher the chances to lease the real estate within a shorter period of time;
- adopting adequate commercial terms for this category of companies (more flexible contract terms, realistic securities etc.);
- taking into consideration, in addition to tenants looking for office areas, also clinics, restaurants, schools or, in general, institutions / companies with a distinct profile (whenever possible);
- in some cases, a **re-arrangement** of the reception areas or common areas of the building can be an advantage; nevertheless, such an investment should be carefully analyzed, since it is no guarantee for a rapid transaction, but merely places the real estate on a closer position in the competition to recently built spaces.

As far as the rent level is concerned, we believe it will be relatively stable, with potential specific adjustments in the case of certain areas or buildings with a higher vacancy rate.

2013 will be an year of redefining one's position, both on the tenant market, and the developer market. Each party assesses its opportunities: owners will analyze the possibility of launching new projects, while the tenants will start searching for new offices.

If the international economic situation does not decline unexpectedly, 2013 can be a year of company consolidations in new business centres and expansions within the current buildings occupied or other existing buildings, by relocation transactions.

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ABOUT ESOP Consulting | CORFAC International

ESOP is the real estate consultancy company with **the largest office lease department in Bucharest (18 people)**, with a transacted area or more than **30,000 sqm in 2012**, and more than 250,000 sqm in the 11 years of experience on the office market. In 2012, ESOP was among the first 3 players on the office market in Bucharest, based on the volume of transactions.

Starting with 2013, ESOP operates in association with **CORFAC International - Corporate Facility Advisors** – an alliance of entrepreneurial commercial real estate firms, committed to provide high quality services **at a local, national and international level**. Through the independent affiliates from key-markets from all over the world, and the membership, as Principal Member, within **FIABCI** (The International Real Estate Federation) –CORFAC International provides real estate services **covering 61 locations from North America, and over 65 countries worldwide**. In numbers, **CORFAC International represents – over 8,500 transactions yearly, comprising 55 million sqm and assessed to over \$5.2 billion**.

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