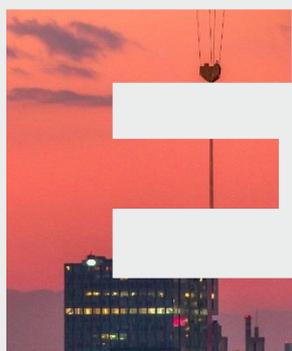


# Bucharest City Report

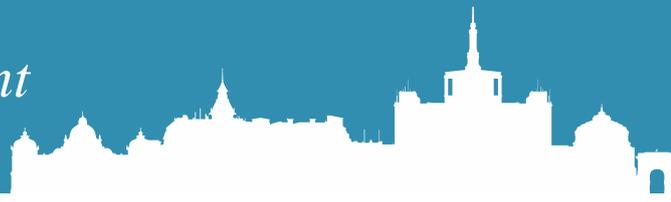
Q3 2016



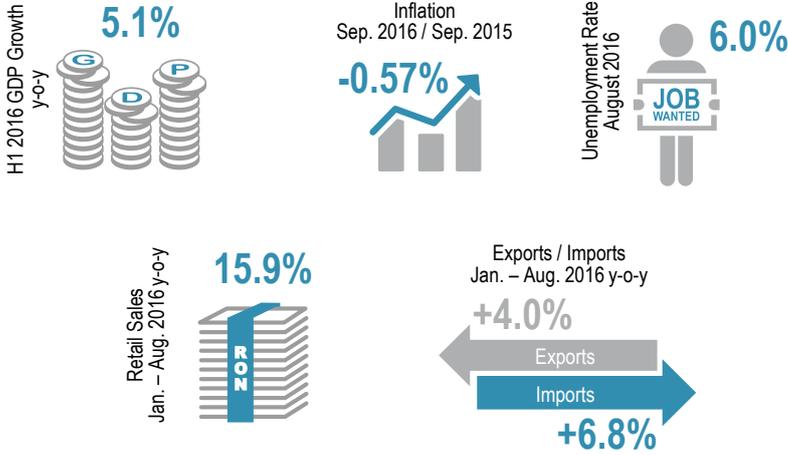
years of



*City  
Reports*



## Economy



## Macroeconomic Overview

Entering its sixth year of economic growth, Romania registered a GDP increase of 5.1% in the first half of 2016, the highest in the European Union. Retail sales, which are still registering two digit growth, continue to be the main driver of the economy, as fiscal easing, deflation, increase in public wages, VAT cuts and low oil prices help real disposable incomes to grow.

The National Bank of Romania maintained its policy rate at a record low of 1.75% after the August meeting, supporting the growth momentum and remaining cautious of the uncertainty in Europe following the Brexit vote. The earliest move to gradually tighten the monetary policy is expected in the second half of 2017, in order to prevent overheating.

Prospects for the local economy are influenced by the EU's performance. Provided that the Eurozone will not suffer any major shocks in the next two years, the macro-economic forecast for Romania looks positive. The country is expected to be one of Europe's top performers in 2016 with GDP growth holding at 5.1%, which will, however, be followed by a slowdown in 2017, according to Oxford Economics.

## Investment Market

The property investment volume in the first 9 months of 2016 is estimated at €425 million, a value 13% higher than the one registered in the same period of 2015.

Bucharest accounted for close to 42% of the total investment volume, a significant decrease of its share year on year, signaling that investors have started to show more interest in cities outside the capital. Hence, Sibiu accounted for 24% of the total volume and Craiova for 14%.

Retail was the most liquid investment product, with retail transactions representing 54% of total market volumes. Offices followed with 30%, with the rest being industrial and transactions involving mixed-use properties.

The largest transactions registered in 2016 were the acquisitions of Sibiu Shopping City by NEPI from ARGO for a total of €100 million followed by the acquisition of Electroputere Mall by Catinvest from Belrom. The most notable office transaction so far in 2016 was the consolidation of GTC's position in City Gate through the acquisition of Bluehouse's 40% stake. The most active buyers in 2016, so far, were NEPI and GTC, each of the two investors concluding two transactions.

## Investment Transactions Q3 2016



Property	Price	Seller	Buyer
Electroputere Mall	Confidential	Belrom	Catinvest
Leroy Merlin Colloseum	Approx. €20 million	Nova Imobiliare	Leroy Merlin
Hala Centrala Iasi	<€5 million	Piraeus Bank	Private Local

## Prime Yields



## Investment Trends

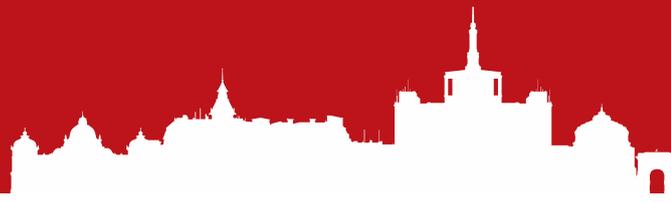
Investor interest has increased due to solid market fundamentals and the significant yield spread of around 225–250 bps between Romania and Poland or the Czech Republic.

Financing conditions have improved consistently and the appetite from banks for good product and serious sponsors has increased to the highest levels since the crisis. This offers good re-financing opportunities for current owners.

Liquidity is limited both by supply and by the difference in pricing expectations between buyers and sellers.

Prime products offered in structured sales processes are rare, while vendors' expectations that yields in Romania will soon compress closer to those from the core CEE markets, could lead to a pricing gap.

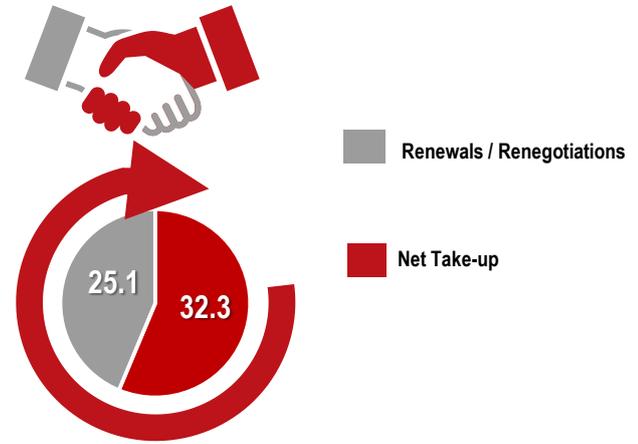
Prime yields are expected to remain stable till the end of the year, with 7.25% for retail, 7.50% for office and industrial at 9.00%. Yields for offices and industrial remained unchanged over the year while retail has compressed 25 bps.



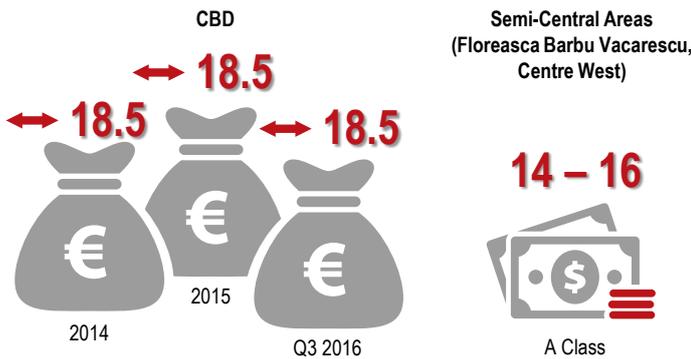
## Q3 2016 Supply

Property	Submarket	Size (sq m)	Developer
Oregon Park Ph.1	Floreasca Barbu Vacarescu	22,000	Portland Trust
The Landmark	CBD	22,000	Proiect Bucuresti
Plaza Romania Offices	Center West	10,500	Anchor Group
Stefan cel Mare OB	Center North	7,850	Forte Partners

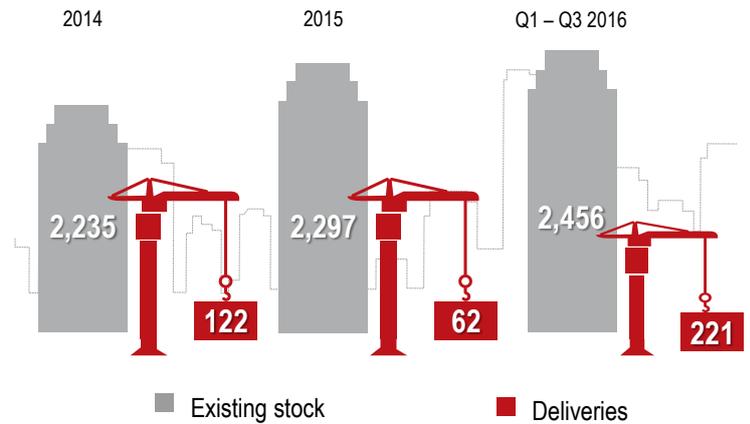
## Q3 2016 Take-up ('000 sq m)



## Rental Levels €/sq m/month



## Existing Stock / Deliveries ('000 sq m)



## Q3 2016 Key Transactions

Occupier	Building	Contract Type	Deal Size (sq m)
TeamNet	Green Gate	Renewal	11,000
Honeywell	BOC	Extension	3,700
Deutsche Bank	BOB	Extension	3,500
Apa Nova	Stefan cel Mare OB	New lease	3,200
Ringier	Iride Business Park	New lease	3,000

## Demand & Vacancy

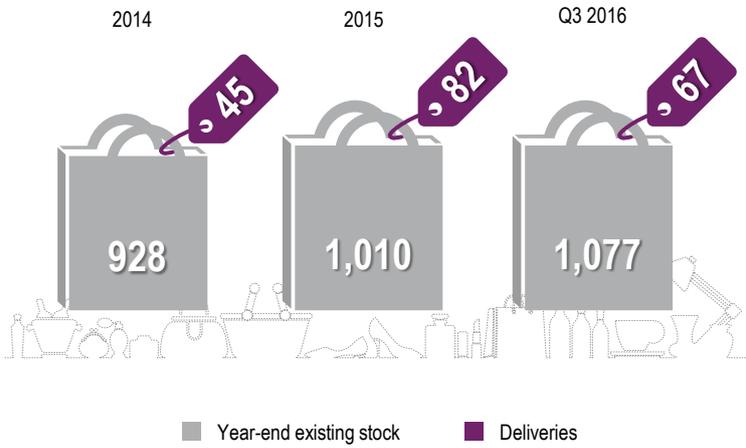
Demand in Bucharest in Q3 2016 was mainly generated by IT and BPO / SSC companies, accounting for over a third of the total volume registered, followed by industrial producers, professional services and insurance and professional services companies. The Center-West sub-market attracted close to 26% of the total take-up, followed by the northern area of Bucharest (Floreasca Barbu Vacarescu and Dimitrie Pompeiu) which together attracted close to 29% of the total take-up and Center North with 14%.

The vacancy rate in Bucharest decreased over the year to 12.9%, 20 bps below the level of Q3 2015. This is mainly due to the relatively strong net take-up and the fact that part of the new supply was partially pre-let. However, vacancy is expected to increase by the end of 2016 and the first half of 2017 due to the higher levels of speculative supply planned. A further 77,500 sq m are announced to be completed by the end of 2016.

Vacancy rates continue to be uneven between sub-markets, which is also reflected in the evolution of the rental levels. While vacancy is above 30% in South and Pipera North, the vacancy rate in Dimitrie Pompeiu, Floreasca Barbu Vacarescu, Center North and West is below 10%.



## Bucharest Stock / Deliveries ('000 sq m)



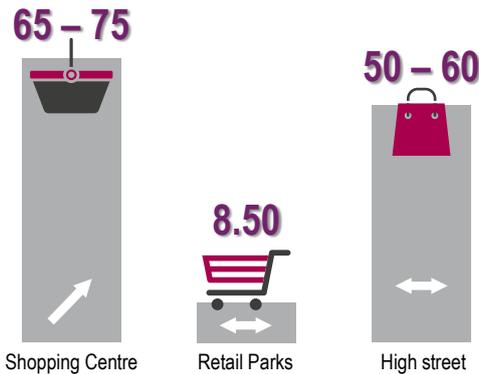
## Romanian Supply and Pipeline

Only one large new retail project was completed in Q3 2016 in Romania. Park Lake was developed by Sonae Sierra and Caellum Development in the east of Bucharest, one of the last areas in the city which was partially not serviced by a large retail scheme. The 67,000 sq m shopping center is almost fully let and is anchored by Carrefour, Inditex, H&M, Reserved and the first units in Romania for Forever 21, Lynne and Lanidor.

In the same quarter, Coresi finished construction works of the 13,500 sq m extension, Street Coresi, which consists of 3 new buildings. New tenants in the project include Jysk, Pepco, LEMs and Animax. Moreover, Unirea Shopping Center in Bucharest is now connected with the adjacent metro station, the busiest in the city, through an access tunnel which provides an extra 1,300 sq m of GLA.

Developers announced close to 70,000 sq m of retail space to be delivered by the end of the year, supported by the strong growth of retail sales and consumer confidence.

## Prime Rents\* (€/sq m/month) & Evolution q-o-q



\* Prime rent represents the top open market net rent that could be expected for a prime position shop in a dominant shopping centre and for units of around 100 sq m

## Total Retail Stock Density in the Greater Bucharest Area

**465 sq m**  
per 1,000 inhabitants



## 2016 Pipeline (selection)

Property	Market	Developer	Type	Size (sq m)
Veranda Mall	Bucharest	Prodplast Imobiliare	New Project	25,500
Shopping City Piatra Neamt	Piatra Neamt	NEPI	New Project	26,900
Platinia Cluj	Cluj-Napoca	Drusal	New Project	13,000
Braila Mall	Braila	NEPI	Extension	2,400

## Occupier Market

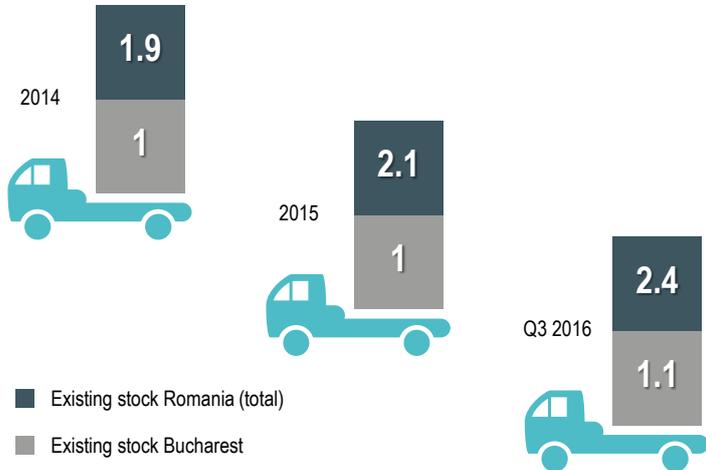
According to the National Institute of Statistics, in the first eight months of 2016, retail sales grew by an impressive 15.9% when compared to the same period of 2015. This is by far the highest growth in the European Union. Combined with strong consumer confidence, this has encouraged retailers to expand. Bucharest is clearly the most attractive retail destination in Romania due to its large population and significantly higher spending power than in the rest of the country.

Over 50 new international brands have opened units in Romania since 2014. Important names include COS in a street unit, Forever 21, Lanidor, Brooks Brothers, Tally Weijl, Liu Jo, Marc Cain, Michael Kors, Debenhams, Armani Jeans, Boggi, Chopard, Hilfiger Denim, Lynne, Decimas, Pepco, Sport Vision, ZOOT, Tous, Bobbi Brown, New Era and Tezenis.

Low to mid-market retailers try to cover most of the market from a geographical point of view, while mid to up-market brands are very selective and are only looking at prime centres in Bucharest, and the main secondary cities, and are therefore opening fewer new units.



## Stock - Romania / Bucharest (million sq m)



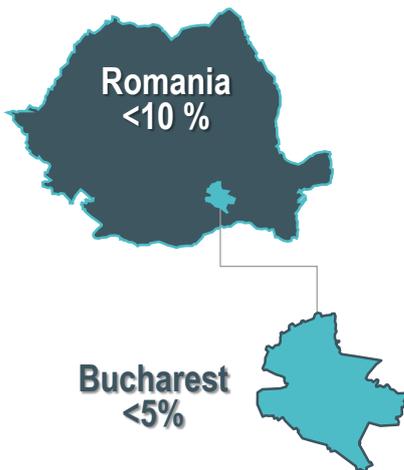
## Romanian Supply and Pipeline

Approximately 118,000 sq m of competitive industrial/logistic space was delivered in Q3 2016 in Romania, with approximately 43,000 sq m being completed in Bucharest. The supply included, the 43,000 sq m speculative extension of P3 Logistics Park in Bucharest, the 25,000 sq m new project of CTP at Cluj for Profi and the inauguration of a 15,000 sq m extension in Industrial Park Brasov.

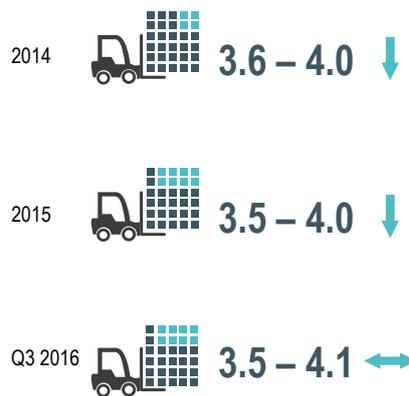
Another 71,000 sq m is due to be delivered until the end of the year, as developers are encouraged by the low vacancy and the record demand to further expand their existing parks or to start new projects. The largest projects estimated to be completed in Q4 are the 30,000 sq m extension of CTPark Bucharest West and the 17,000 sq m speculative extension of VGP in their park in Timisoara.

Concentration of the industrial real estate market in Romania is still very low from a CEE perspective, with the largest player having just over 20% market share (CTP).

## Vacancy



## Prime Rents (€/sq m/month)



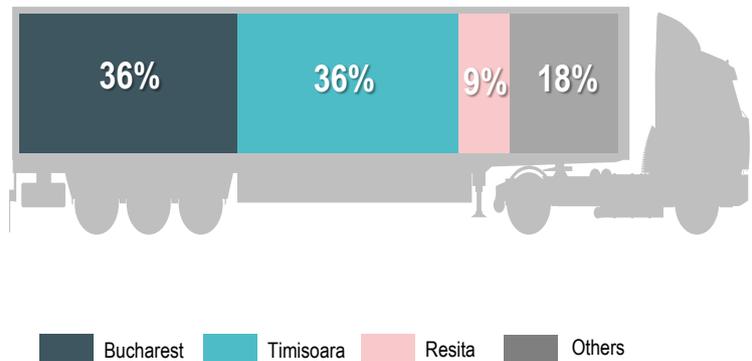
## Q3 2016 Take-up ('000 sq m)



## Q3 2016 Key Transactions

Tenant	Property	Size (sq. m)	Sector / Industry
HeyForm	VGP Timisoara	13,400	Production / Automotive
Antalis	CTPark Bucharest	10,000	Logistics
Delamode	AIC Industrial Park	10,000	Logistics
DB Group	Solvency Timisoara	9,800	Logistics & Production

## Split of Q3 2016 Take-up by City





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