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Romania

Bucharest Office Market Update

May 2021

Labour market recovery in full swing

The demand for future office spaces will be the function of two aspects: 1. The companies' remote work policy (which may or may not lead to a lower GLA, depending on how it views the office's place) and 2. Hiring. We will touch on the former as well, but it is important to note for now, the latter is no longer a negative issue. We looked at surveys undertaken by the European Commission with regards to local companies' short-term hiring intentions (next 3 months) in a variety of officeable sectors. And the news is mostly good, sometimes very good. We want to also note that such charts should be interpreted as giving signals rather than looking at absolute levels of one index or another compared to recent levels.

In (almost) all instances, near term hiring intentions are at or above the long-term averages (suggesting either stagnation or an expanding labour force), with the return to the respective historic average taking place in about roughly one year versus two years in most cases following the 2008 Global Financial Crisis.

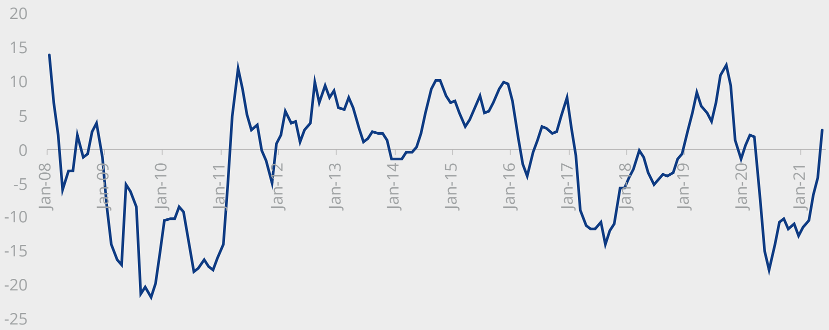
Besides the much speedier recovery, we are also pleasantly surprised by the fact that most of the sectors we looked have already surpassed 2019 levels, not just the historic average. For instance, for companies dealing with employment activities (which should act as a useful proxy for overall optimism in the labour market), hiring is comfortably above 2019 and even 2018 levels. So is that for computer programming. Yes, levels are usually quite a long way off from the record highs set in the previous business cycle, but the fact that the recovery is taking place so fast is encouraging enough.

A different survey from Eurostat also highlights that nearly two in three local service companies (c.64%) state in Q2 2021 that they saw no major factors limiting their business, with the share nearly doubling from a year ago (33% in Q1 2020); while this is not yet comparable to the pre-crisis levels (75% in Q2 2019), it is not worlds apart either. This means that fairly soon, companies not expanding will not be a downside factor in terms of demand for office spaces, rather the contrary, which means that the major force to drive demand will be the companies' approach to the hybrid work regime. For now, quite a lot of business sectors, not just the officeable ones, will themselves in a predicament similar to 2019 rather than a recession year: finding it difficult to fill in positions and to hold on to talent.

In (almost) all instances, near term hiring intentions are at or above the long-term averages

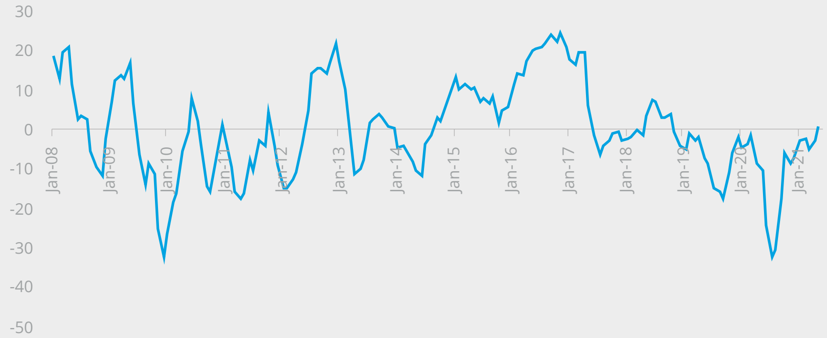
Employment expectations in the next 3 months (index, deviation from historic average, 3 month moving average)

Figure 1: Computer programming



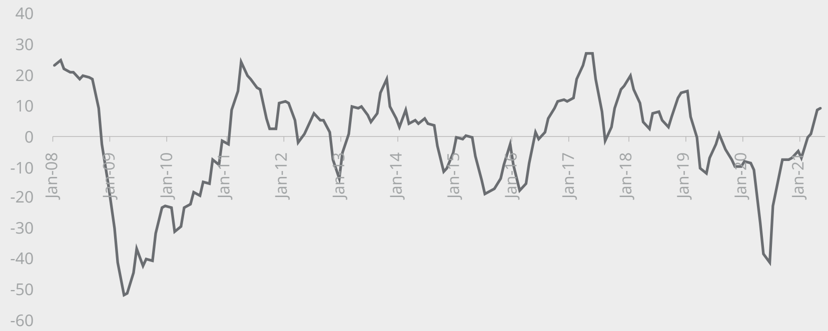
Sources: : Colliers

Figure 2: Information service activities



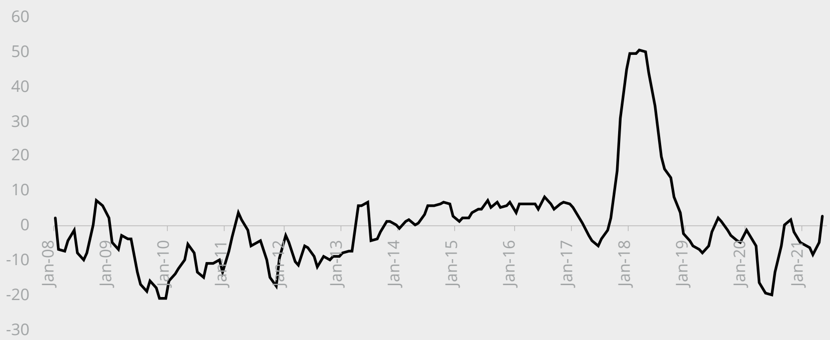
Sources: : Colliers

Figure 3: HR, recruitment activities



Sources: : Colliers

Figure 4: Office administrative, office support activities



Sources: : Colliers

Bucharest office market update

Demand

Total demand stood at a bit over 54,000 sqm of leasing activity in the first quarter of 2021, which, while still down compared to last year's first quarter (61,000 sqm), it is still on par with the quarterly average of the whole 2020. Furthermore, we excluded a sizeable chunk of deals from the gross demand figure (some 7,700 sqm of leasing deals) as these were concluded in office buildings not included in the overall stock. So maybe the overall quarter was a bit on the soft side, but certainly marked an improving trend. Wipro Technologies accounted for the quarter's biggest deal, of around 11,000 sqm.

New demand stood at 21,700 sqm, largely thanks to a sizeable relocation from a non-competitive building (Superbet – c.8,200 sqm). This is nevertheless a somewhat soft figure, as it is still below last year's 29,000 sqm, as well as the pre-pandemic trend of a quarterly average around 35,000 sqm. And back then we also frequently had new entries on the market, which cannot be said for the last year. Media reports for the weeks that have passed since the end of the first quarter suggest no significant improvements in these trends.

IT&C companies accounted for almost half of take-up (c.50%) a slight increase in market share over the previous years, with the second and third place quite a long way behind, namely the financial and professional services sectors (both around 13%).

With market activity around one third below pre-crisis trend, this suggests that quite a lot of tenants remain in wait-and-see mode, primarily because of two aspects: 1. to know when and how the vaccination campaign will reach its goals of providing the target of herd immunity and 2. there is still not a clear consensus on how the hybrid work regime will unfold from here on. As per the Colliers Romania survey we undertook in late 2020, with nearly 80 participating companies, tenants were mostly looking to offer their employees around 2-3 workdays of remote work per week.

Given the high uncertainty environment, some tenants and landlords are moving forward with short-term renewals of contracts, if the need arises, so as to guarantee that a decision can be made with all the necessary info. Others are not so patient and are seeking to optimize their occupied office space – particularly large tenants. The sublease offering, currently in excess of 80,000 sqm based on our monitoring (and this likely undercuts the actual figure), is just a precursor of future space optimizations from large occupiers as rental contracts mature. This creates an opportunity of some soft for the local office market, as it can gradually absorb future vacant spaces as contracts will reach maturity over several years.

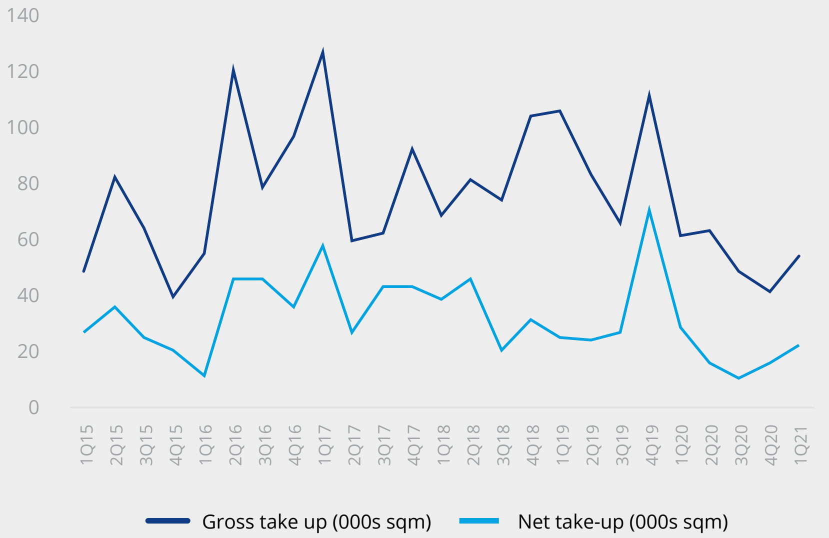
Rents and vacancy

The aggregate rent for the Bucharest office market is down, though the decrease is probably in single digits on average and mostly generated by buildings not up to par with current standards or older buildings (at least 10 years old). That said, all landlords have been forced by the current context to be more flexible and besides more generous incentives, some are also offering more flexibility on the duration of the contracts/with break options after several years.

Outlook

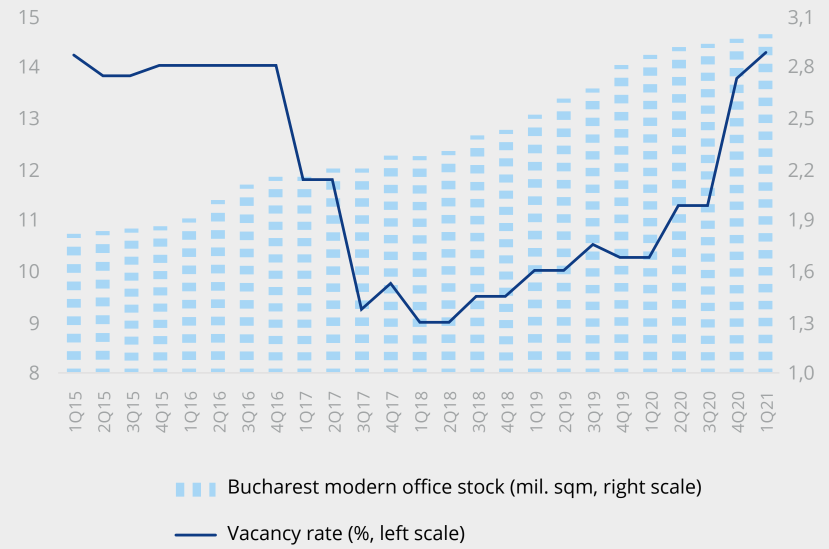
The market is very much in a wait-and-see mode and it is still not clear where tenants might be heading in terms of office occupancy in the future. Our assertion is that while most will reduce their space, they will still hold onto the bulk of this, as the office of the future will feature more GLA per employee amid a much deeper focus on collaboration and creativity, as well as providing a certain amount of back-up space in case physical distancing is required. That said, based on current trends, we hold onto to our view that it may take several years before the market returns to neutral conditions from a tenant-oriented market (maybe 3-4 years); thankfully, labour market trends are more favourable than we would have initially anticipated after an economic downturn like the one suffered in 2020. Until the market returns to a neutral stance, the aggregate net effective rent level for the Bucharest submarket is likely to decrease – though we underscore again that certain buildings will be more or less shielded from this, while at the same time, new developments are likely to progress more slowly until things are back to normal.

Figure 5:
Mild uptick in Bucharest office demand in 1Q21, but market recovery far from advanced



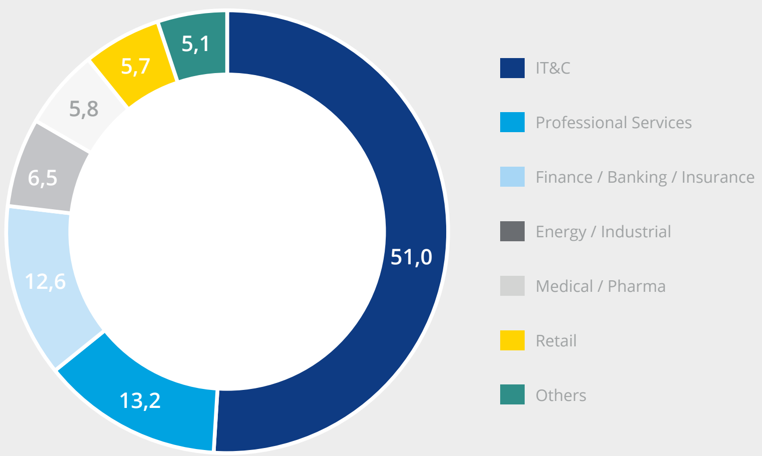
Sources: : Colliers

Figure 6:
Vacancy rate is back at 2015-2016 levels as a %, but stock is up by at least 50% since then



Sources: : Colliers

Figure 7:
Sector demand data still shows IT&C in the drivers seat on the local office market



Sources: : Colliers

For more information

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