



Bucharest Office Market

Q1 2009

INCREASING AVAILABLE OFFICE SPACES

Many of the challenges emerged in the last semester of 2008 have become more evident at the beginning of this year, in the context of the softening of rental market fundamentals and also, the significant constraints that developers and institutional investors are facing. The beginning of 2009 brought the increase of the available office space, due to the decreasing demand and increasing volume of supply. The current offer consists in the available spaces inside recently finalized office buildings and the offices offered for sub-letting by the current tenants which pre-leased the spaces in 2008.

At the end of Q1 2009 the total available office area inside finalized buildings was around 115,000 sq m (GEA), from a total of 1.95 million sq m (GEA). Approximately 45,000 sq m of offices (GEA) were finalized in Q1 2009, of which around 80% are placed in two buildings with areas exceeding 14,000 sq m each (GEA). The office area finalized in Q1 2009 is 25% smaller compared to the similar period of 2008, due to the delay with several months of several projects proposed for delivery in this period.

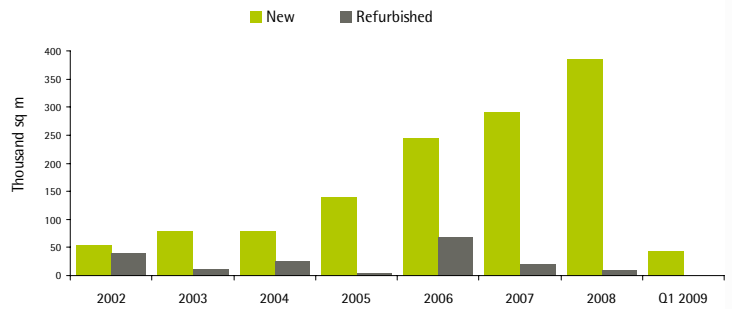
RELOCATIONS – THE MAIN DRIVING FORCE OF DEMAND

Compared to the last period of 2008, demand has known the most substantial change, as it no longer manifests actively, but needs to be created and developed for tenants already present on the market. Due to the increase of the available office spaces, some tenants consider the alternative of relocating in better quality buildings or in more attractive areas, if they benefit from substantial savings in operational costs and more favorable contractual clauses. In these conditions the pro-active approach of owners and real estate consultants contributes to creating opportunities for tenants who are looking for possible relocation options. However, the first option remains the rent renegotiation for the currently occupied spaces, tenants hoping to obtain discounts taking in consideration the current market conditions and their specific context.

Another aspect worth mentioning is the new exclusive preference of tenants for securing completed office premises, in the detriment of pre-leases. Pre-leases are no longer an option in the case of office buildings in early construction phases or with no other signed pre-leasing contracts. Tenants are generally looking for new office premises located in central areas, with a leasing option for maximum 3 years.

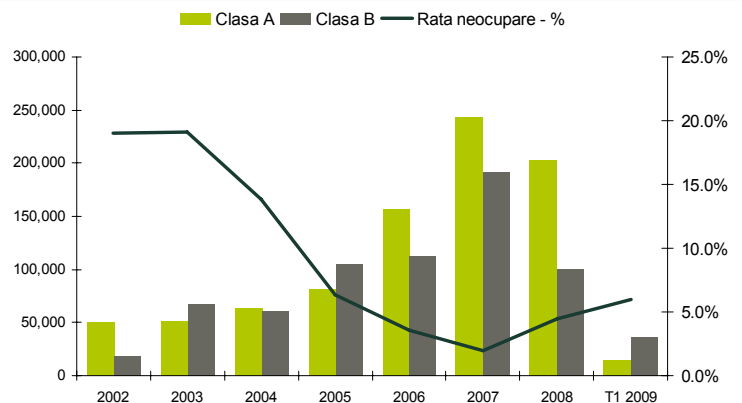
Relocations represent the main driving force of the leasing activity, the active demand coming from small and medium companies activating in public utility services, private medical services and consulting. The office area leased in Q1 2009 (around 51,000 sq m) is 35% smaller compared with the level recorded in the similar period of 2008, continuing the descending trend initiated in the second half of 2008. As a result, the total vacancy rate increased from 4.5% in Q4 2008 to 6% at the end of Q1 2009. For class A buildings the vacancy rate is 2.5%.

OFFICE COMPLETIONS



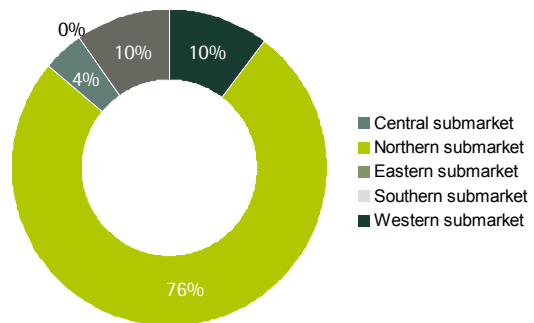
Source: BNP Paribas Real Estate

OFFICE TAKE-UP AND VACANCY RATE



Source: BNP Paribas Real Estate

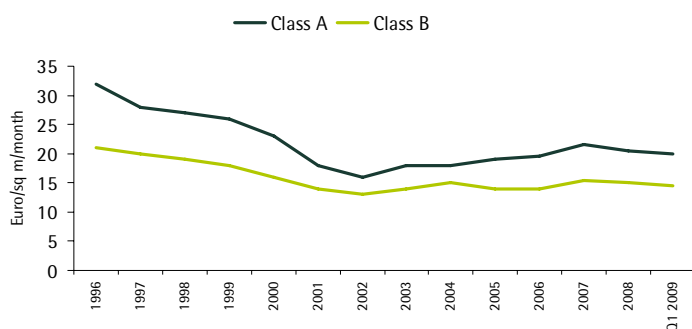
TRANSACTIONS CONCLUDED IN Q1 2009 BY SUBMARKET



Source: BNP Paribas Real Estate

Bucharest Office Market Q1 2009 (cont.)

OFFICE RENTS



Source: BNP Paribas Real Estate

PROPOSED OFFICE SUPPLY FOR 2009 - 2010



Source: BNP Paribas Real Estate

OFFICE SPACES TO BE COMPLETED IN Q2-Q4 2009

Q.	Building	Location	GEA (sq m)	Pre-leased (%)
2	Metropolis Center	Central	12,800	85
2	Excelsior BC	Central	12,000	100
2	River Side Tower	West	13,000	0
3	Olympia Tower	Central-East	9,500	70
4	Anchor Plaza	West	55,000	10

Source: BNP Paribas Real Estate

INCREASING LANDLORD FLEXIBILITY

Landlords have become aware of the fierce competition for attracting a limited number of tenants and have adapted their offer to the tenants' requirements. The owners of older buildings with inferior technical standards or developers of new buildings with low pre-lease rates, located in less attractive areas, have become the most flexible in negotiations.

The owners' flexibility materialized in more favorable options and rights for the tenants. In the case of tenants which are looking for large office areas for long periods of time, owners can take into consideration the granting of an up-to 6 months rent-free period. Also, bonuses such as the contribution of the landlord to the space fit-out have become current practice.

Even if some owners are reluctant to leasing periods shorter than 5 years, the 3-year leases have become an adequate option for developers who anticipate the market revitalization and an increase of rental levels in the near future. The leasing periods up to 3 years are specific for sub-lettings and contract renewals, which have become more common due to the difficulties of the companies in predicting the evolution of their activity.

THE RENTAL LEVEL CONTINUES THE DOWNWARD TREND

In 2009 the office market continues the decreasing trend in rents recorded in S2 2008, due to the context of an accentuated demand contraction and the increase of available offices offered on the market. The decrease of rent levels with 5-10% was recorded for all types of office buildings and in all areas of the city. In Q1 2009 the average rent level for class-A offices located in the center of the city varied between 20-21 Euro/sq m/month. For class-B properties located in attractive areas rents range between 14-16 Euro/sq m/month, while for class-B offices in secondary areas rents range between 12-15 Euro/sq m/month. In peripheral areas rents vary between 9-11 Euro/sq m/month.

Service charges remained stable, fluctuating around 3.5-4.0 Euro/sq m/month for "triple net leases", while for class-B buildings they range between 2.5-3.5 Euro/sq m/month. In the central area the rent for parking was 100-130 Euro/space/month for underground spaces. In secondary areas the rent varied between 90-100 Euro/space/month for underground parking and between 60-80 Euro/space/month for parking above ground.

TREND - THE DOWNWARD PRESSURE ON RENTS IS MAINTAINED

The decrease in demand and the proposed completion in 2009 of 400,000 sq m of new offices (GEA) will maintain the downward pressure on the rent levels, but the decrease pace will be lower compared to 2008 due to owners' resistance and the reaching of the profitability limit for their investment. However, the above-mentioned figure regarding the proposed stock should be treated with caution, as a number of projects are temporarily stopped or witnessing slow construction works progress. In addition, the high level of uncertainty on the market is discouraging other developers from undertaking new developments, mainly affecting the supply for 2010-2011.

