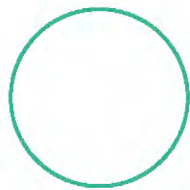


20
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Romanian real estate market overview



AVISON
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10 Trends for 2021

As we head into 2021, we set out our thoughts on ten issues that have the potential to profoundly influence our world and the role of real estate within it.



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01

Macroeconomic analysis



5

Looking for normality

UniCredit Bank Research

INDICATOR	'18	'19	'20E	'21F	'22F
GDP (€ bn)	204.5	223.3	212.5	225.8	242.6
Population (million)	19.5	19.4	19.3	19.2	19.2
GDP per capita (€)	10,470	11,504	10,998	11,736	12,645
REAL ECONOMY, CHANGE (%)					
GDP	4.5	4.2	-5.5	3.7	5.0
Exports	5.3	4.0	-11.5	4.9	7.9
Imports	8.6	6.5	-6.5	5.2	6.6
Monthly wage, nominal (EUR)	965	1,069	1,114	1,161	1,209
Real wage, change (%)	29.7	8.9	3.4	3.4	3.6
Unemployment rate (%)	4.2	3.9	5.1	5.6	5.3
FISCAL ACCOUNTS (% OF GDP)					
Budget balance	-2.9	-4.3	-9.8	-7.0	-4.0
Public debt	34.7	35.3	46.8	49.4	49.9
EXTERNAL ACCOUNTS					
Net FDI (% of GDP)	2.4	2.2	1.0	1.3	1.3
INFLATION/MONETARY/FX					
CPI (period average)	4.6	3.8	2.7	2.8	2.6
Central bank reference rate (end of period)	2.50	2.50	1.50	1.00	1.00
3M money market rate (December average)	3.05	3.12	2.04	1.29	1.24
USDRON (period average)	3.94	4.24	4.24	3.96	3.87
EURRON (period average)	4.65	4.75	4.84	4.93	5.03

Data Source: Eurostat, NSI, NBR, Ministry of Public Finance, UniCredit Research

The information contained in this report represents UniCredit Group's view upon Romania, as it was included in the CEE Quarterly report, distributed in January 2021, and is subject to the disclaimer therein, including <https://www.unicreditresearch.eu/index.php?id=disclaimer>.

01 Outlook

We expect the Romanian economy to return to pre-COVID levels by 1H22, with GDP growth at around 3.7% in 2021 and 5.0% in 2022 after a decline of around 5.5% in 2020. Private consumption will recover from 2Q21 onwards if unemployment peaks in 1Q21. Investment will be dominated by infrastructure spending, helped by higher inflows from the EU that are likely to cover the C/A deficit. We expect a decrease of the budget deficit to around 7% of GDP in 2021 and 4% of GDP in 2022, with public debt peaking below 50% of GDP in 2022 and the country preserving its investment grade. EUR-RON could shift to a 4.90-5.00 range in 2021.

Pandemic containment & economic recovery are top priority

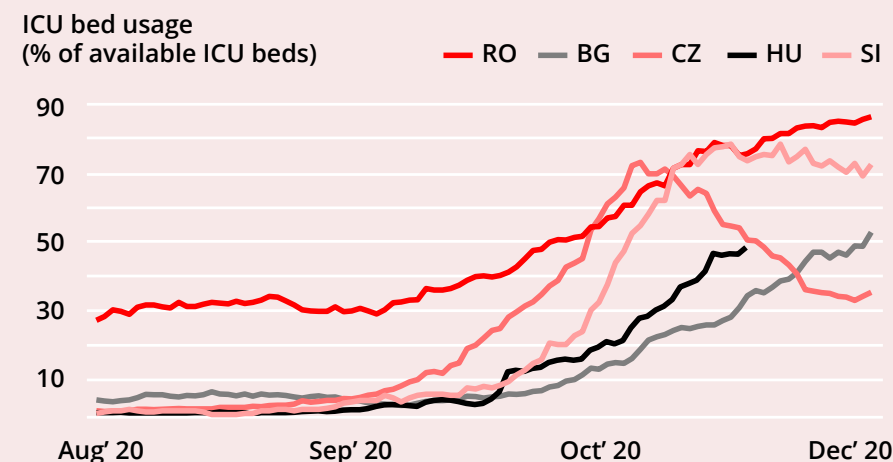
Top priorities

The top priorities of the new government are the containment of the pandemic and economic recovery. More testing and better contact-tracing are needed to lower the pressure on intensive care units (ICU) and allow for the easing of restrictions. Vaccines are unlikely to provide a fast way out due to lack of capacities and personnel, and mistrust among the population. To support immunization, official communication must improve.

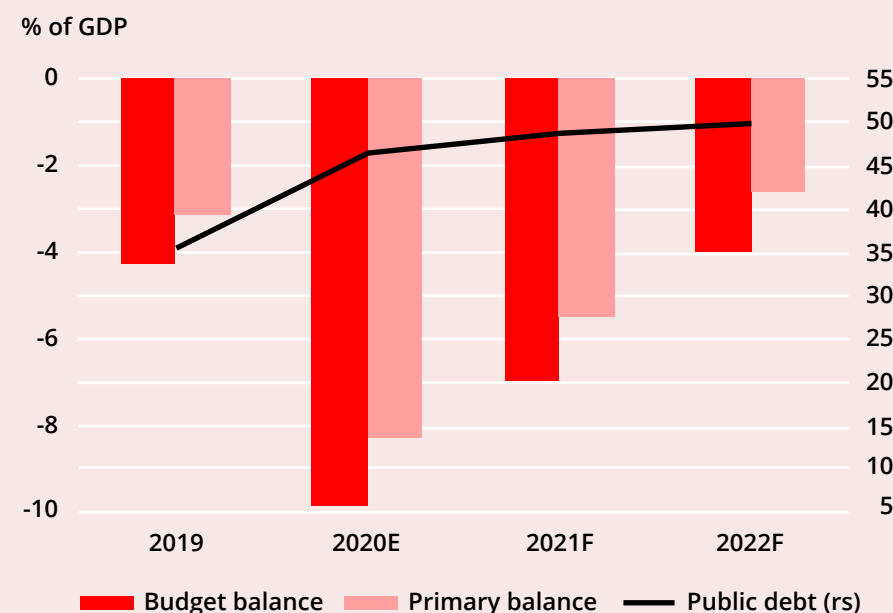
In 2021, direct and indirect anti-crisis support could fall to 3.1% of GDP from around 5.7% of GDP in 2020. Despite furlough and part-time support being maintained, we expect unemployment

to peak above 6% in 2021, with a second wave of layoffs likely in 1Q21. This could delay the recovery in consumption to 2Q21. Nevertheless, pent-up consumer demand remains strong, as shown by borrowing intentions measured by banks. Thus, private consumption could recover to pre-crisis levels by 4Q21. High leverage could limit the scope for further guaranteed lending to SMEs, which reached 1.7% of GDP, with long-delayed grants likely to have a bigger impact. In contrast, companies with turnover of more than RON 20mn could benefit from the government's guarantee scheme of almost 0.4% of GDP.

More restrictions likely if ICU usage remains high



Public debt could peak close to 50% of GDP in 2022



Source:
Oxford University,
Governments,
Ministry of Finance,
NSI, UniCredit Research

Investment

Another priority of the government is investment. Judging by 2020 performance, a rise in infrastructure spending co-financed with EU funds is very likely. Delayed EU transfers from the 2014-20 EU budget and grants from the NGEU, expected to arrive from 2H21 onwards, will spur economic growth while being neutral for the budget deficit. The government's shortfall is likely to shrink from around 9.8% of GDP in

2020 to around 7% of GDP in 2021, with a further reduction to around 4% of GDP in 2022. Risks are skewed to lower, rather than higher budget deficits in 2021-22 if the economy recovers faster. As a result, public debt could peak just below 50% of GDP in 2022, falling thereafter and remaining below the BBB median. Thus, we expect the rating agencies to keep Romania's sovereign rating at investment grade.

Infrastructure spending to benefit from higher inflows from the EU

Economic growth

We expect economic growth at 3.7% in 2021 and 5.0% in 2022 after a contraction of 5.5% in 2020, with a return to pre-COVID GDP levels by 1H22. A quicker recovery may be delayed by weakness in exports and manufacturing, the negative fiscal impulse in 2021, and little contribution from credit growth, despite easier financial conditions. This is especially true for corporate investment loans, as capex is likely to lag behind the economic recovery. The outperformer could be mortgage loans, as housing prices have adjusted little during the COVID-19 crisis, affordability ratios have remained high, and the *Noua Casă* guarantee program supports a wide range of new buyers by having a very high ceiling at EUR 140,000.

GDP growth

3.7% 5.0%

2021

2022

Monetary policy

Short-term interest rates could fall below 1.50% if the NBR cuts the policy rate to 1% and the spread between ROBOR rates and the policy rate narrows from around 0.35pp currently. Tighter fiscal policy and inflation inside the target range could support loose monetary conditions in 2021-22. As happens every year, the NBR could let the market shift the EUR-RON range higher around the February policy rate meeting to reduce some of the currency's overvaluation. A new range of EUR-RON 4.90-5.00 could be defended at both ends to ensure exchange rate stability. We see no threat to FX reserves, as EU transfers and loans, and FDI are able to cover the C/A deficit, while net ROMANI issuance will remain positive.

ROBOR rates could fall below 1.5%

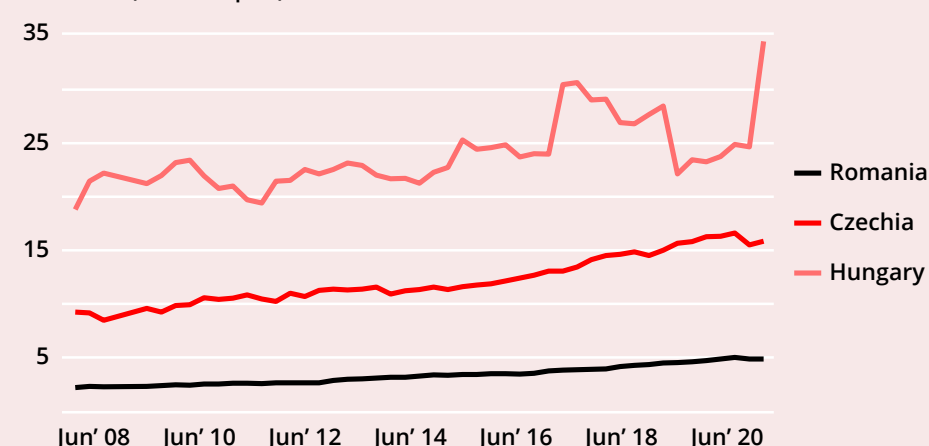
Inflation

In 2021, the biggest inflationary risk will come from the liberalization of the electricity market. In March, retail prices could increase by around 15% for legacy contracts, if consumers do not switch. An increase of at least 10% could push inflation temporarily outside the target range.

EUR-RON to move to 4.90-5.00 range

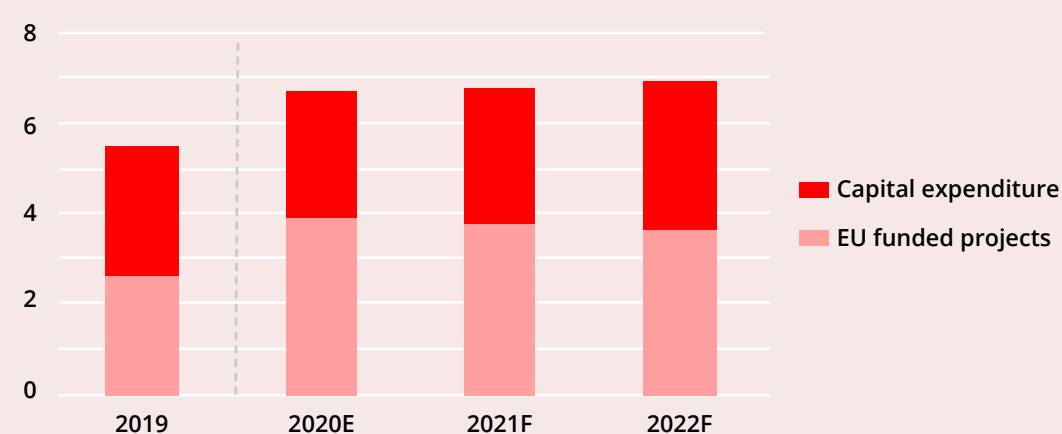
FDI stock in Romania lagging and falling recently

FDI stock ('000 €/capita)



Public investment could rise amid higher EU funds

Public investment
% of GDP



Source: Eurostat, NSI, Ministry of Finance, UniCredit Research

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02

Real estate investment market



2020 Key highlights

Romanian investment market



Total investment volume
€826 million



Largest office investment deal ever recoded
€307 million
AFI Group acquisition of NEPI's office portfolio



Most traded type of property
Office buildings



Most active location for real estate transactions
Bucharest (84% of investment volume)



Prime office yields
7.25%
+0.25pps vs. 2019



New entry on the office investment market
Fosun International



Average investment deal size
€46 million
19% higher y-o-y



Prime industrial yields
7.75%
Prospects of compression

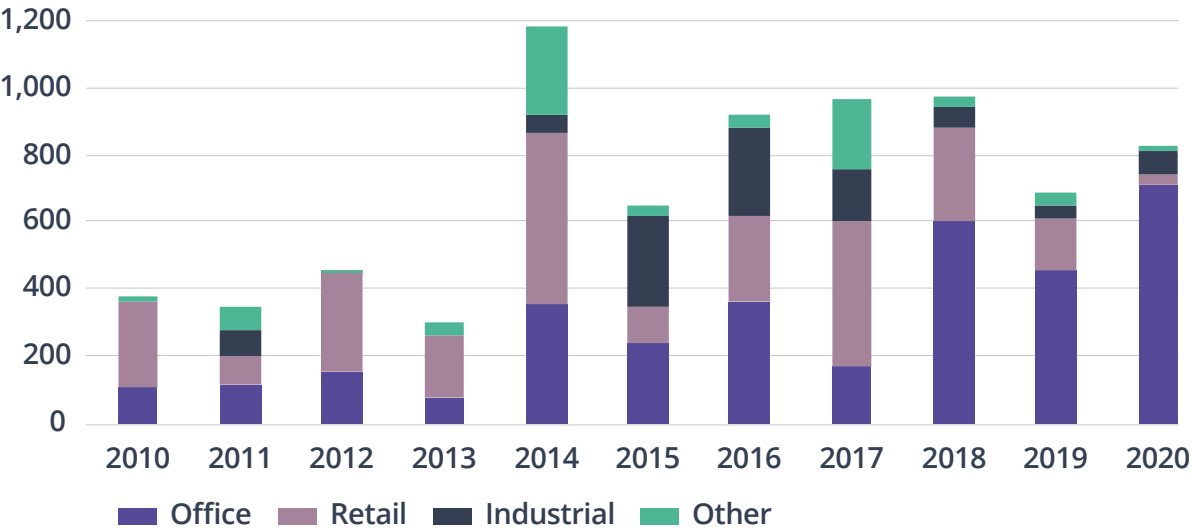
Investment market

Investment value



At the end of Q4 2020 the entire real estate investment value recorded in Romania amounts approx. 826 million euros and compared with what was recorded in 2019 it is higher by 20%. Although throughout the first six months of 2020 investors' activity was slightly disrupted by the outbreak of COVID-19, starting the second half of the year their level of confidence widened, which lead to investment deals totaling over 625 million euros.

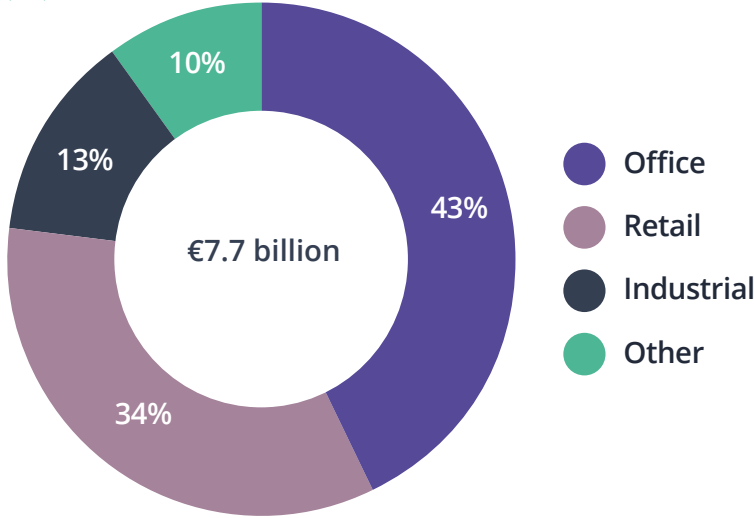
Real estate investment value by sector 2010 - 2020 (million €)



As in 2018 and 2019, the office sector attracted the most interest. Transactions involving office properties represented 86% of the total investment value, followed by the industrial sector with 8.5%. Investors' interest in retail properties was limited. That led to retail

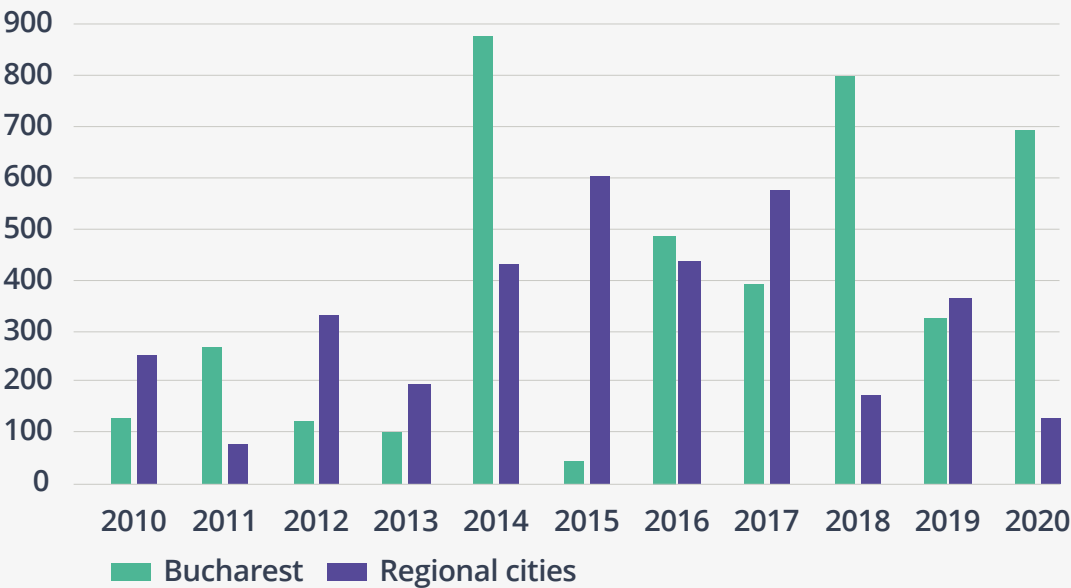
investment deals representing a share of only 4% of the investment value recorded in 2020. When analyzing the investment volume tracked over the last ten years, out of 7.7 billion euros recorded, transactions with office assets have a share of approx. 44%, followed by retail properties with 34%.

Real estate investment value by type of properties 2010 - 2020 (%)



Bucharest was by far the most active region in Romania for real estate investment transactions, with 84% of the investment value, whilst outside the capital city regional locations such as Timisoara, Oradea and Brasov attracted 16% of the total investment value, representing an amount of approx. 131.5 million euros.

Real estate investment value Bucharest vs. regional cities 2010 - 2020 (million €)



Transactional performance

In 2020 the most important investment deal in terms of price was performed by the Israeli investor AFI Group who acquired four office projects with a gross leasable area of 118,500 sq. m from the South African investment fund NEPI. The total transaction value was 307 million euros, this being the highest price registered for a deal involving office properties located in Romania. By selling its office assets to AFI Group, NEPI has strengthened its position as the largest institutional retail investor present on the local market, while AFI has extended its office portfolio, becoming the second largest office owner in Romania, after Globalworth.

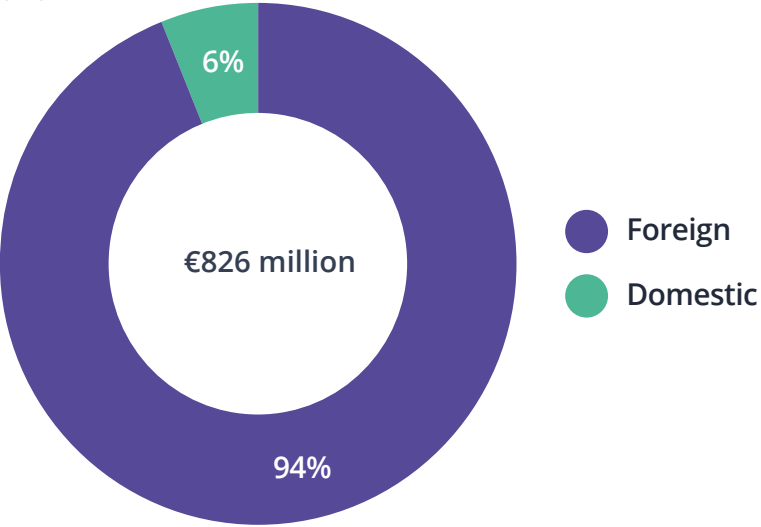
The Chinese investor Fosun has entered the local market by acquiring the office project Floreasca Park from the German fund GLL Real Estate Partners. The property is located in Bucharest, in the Barbu Vacarescu - Floreasca submarket and has a gross leasable area of approx. 38,000 sq. m. Another important office investment

deal concluded in 2020 was the sale of the Global City office project by Global Finance to the Greek investor Arion Green Felix. The value of this transaction is estimated around 60 million euros.

Regarding the industrial sector the most active buyer was CTP. The Dutch investor has acquired three logistics projects located in Bucharest, the total transactional value exceeding 70 million euros. These properties are: Equest Logistics Center, A1 Bucharest Park and Mobexpert Logistics Center.

Overall international investors were by far the most active buyers, while domestic players' appetite for investing in real estate assets has fallen to a minimum level. The average investment deal size was of 46 million euros, 19% higher y-o-y. Office properties were traded on average for 2,200 euros per sq. m, while logistics properties were sold on average for a price of 375 euros per sq. m.

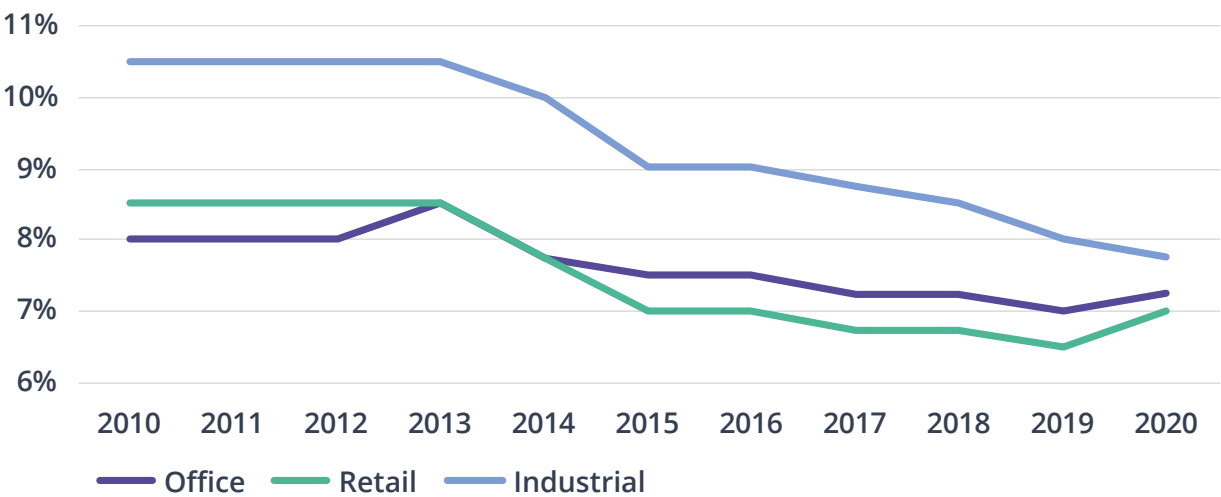
2020 Investment volume by the source of capital (%)



Prime yields

In 2020 there were no major variations regarding the evolution of prime yields for office properties. Compared to other investment destinations in the CEE region, Romania continues to have attractive returns. Prime office properties achieve yields of around 7.25%. For prime industrial properties, the yield stands at 7.75% and is expected to compress as investors' appetite for logistic products is on the rise. Prime yields for prime shopping centers have slightly decompressed compared with 2019 and at the end of Q4 2020 stand around 7%.

Prime yields evolution 2010 - 2020 (%)



Forecast

strong interest further on

The situation caused by the outbreak of Covid-19 had a low impact on investors' appetite for acquiring income generating properties located in Romania. Although the office sector activity was experiencing some changes, which were mainly related to the newly implemented "work from home policies", office properties were the most traded assets for the third year in a row. Considering the pipeline of ongoing transactions, the office segment is projected to attract strong interest in 2021 as well.

The industrial and logistics sector exceeded expectations both in terms of leasing and development activity throughout 2020. Given that the prime rental levels for such properties are stable, the general vacancy rate is below 10% and demand is on the rise, this particular real estate segment is expected to generate a much higher investment volume in 2021 than it did in 2020.

Major investment transactions 2020

City	Sector	Property	Purchaser	Vendor	Price (€m)
Bucharest, Timisoara	Office	Lakeview, Floreasca 169A, Victoriei Office, City Business Center	AFI Group	NEPI	307
Bucharest	Office	Floreasca Park	Fosun	GLL Real Estate Partners	101.5
Bucharest	Office	Global City	Arion Green	Global Finance	60
Bucharest	Office	One Floreasca Tower	Local Investor	One United Properties	20*
Bucharest	Industrial	Equest Logistics Center	CTP	Equest Balkan Properties	30
Bucharest	Industrial	Mobexpert Logistics Center	CTP	Mobexpert	15.5**
Pitesti	Retail	Jupiter City	Supernova	Jupiter Group	23***

*30% of the office project

**Avison Young Romania represented the vendor

***Estimated

Source: Avison Young



Novelties in the Romanian fiscal landscape

Towards predictability & simplicity



After almost one year since the pandemic started, Romanian companies are still facing challenging times, including in terms of local tax regulations. Further to systematic requests of the business environment in Romania in the latest years, finally at the end of 2020, the Romanian tax authorities came up with a series of new fiscal regulations and amendments to existing ones, which

were widely welcomed by the local business community. These covered various areas and, in the following, we present some measures which for sure will have an impact in the long run for the real estate sector, even as fiscal opportunities or potential challenges in how the players in the real estate sector will structure their businesses going forward.



Fiscal consolidation for corporate income tax purposes

This facility entails the possibility of Romanian groups of companies to consolidate their corporate income tax (CIT) positions, so to offset fiscal losses in one entity with fiscal profits in another entity and pay tax at consolidated level.

As many Romanian real estate groups have considered an operational structure whereby, broadly, every investment is kept in one separate company and all investments are overseen by a management company, there is without doubt that real estate players will also welcome this tax measure. According to it, property companies with investments in early development stages, when often a fiscal loss position is incurred, will be allowed to form a fiscal group for CIT purposes with other companies in the group (e.g. property investments which became operational, management company) in a fiscal profit position and pay CIT at consolidated level. Basically, the facility gives the possibility to use the fiscal losses in the period they are incurred.

The main aspects & conditions for applying the facility are as follows:

- 1** Period of application is of 5 years, members can exit only if conditions are not fulfilled.
- 2** Designated leader consolidates, pays, declares CIT for all members. *Ownership condition – 75% for at least 1 year prior to applying the consolidation system.*
- 3** Consolidated taxable profit offsets group's taxable losses. *Fiscal losses incurred by a member prior to applying the system cannot be compensated for at group level, but are recovered at member's level.*
- 4** Fiscal losses recorded during the consolidation system and not recovered, can be further recovered only by the designated leader.
- 5** Each member has to prepare a transfer pricing file for transactions with group members.
- 6** CIT is recalculated at the member and group levels – if the respective member does not fulfill the conditions anymore. *Members should be CIT payers (micro-enterprises are excluded), with the same tax year and the same CIT system.*

Local tax for buildings owned by companies



To benefit from the standard rates provided under the fiscal legislation for buildings tax, companies have to present to tax authorities a valuation report prepared by an authorized appraiser which determines the taxable value of the buildings. Otherwise, an increase tax rate of 5% is applied for buildings tax purposes.

So far, companies had to update the valuation report every 3 years. A measure clearly in favour of companies owning buildings was to extend this deadline to 5 years. The valuation report should be presented to tax authorities until the first deadline of paying the buildings tax for the reference year.

Based on a clarification of the Ministry of Public Works, Development and Administration at the end of January 2021, the new 5 years term seems to apply starting with the buildings tax due for 2021. This would mean that companies for which the latest valuation of the taxable value of the buildings was carried out in 2018 can postpone the reassessment of the taxable value used for buildings tax computation until 2023. However, the effective date of the applicability of the 5 years term is still unclear, as local authorities are in some cases considering that the 3 years terms apply for buildings tax purposes for 2021. Hopefully, the Ministry of Finance will soon clarify which effective date should be considered by taxpayers.

Redefining the place of effective management (POEM)

The Romanian tax authorities amended, effective January 2021, the definition of the place of effective management so to better caught cases whereby, although a company is incorporated abroad, it is effectively managed from Romania and it should then be subject to taxation in Romania.

Furthermore, a specific procedure was introduced for establishing the tax residency of a company incorporated abroad based on POEM, which supposes that the foreign company will have to submit to tax authorities a questionnaire for establishing the tax residency (a similar questionnaire already exists for private individuals), together with other documents specified in the legislation.

The new definition of POEM is clearly in consensus with the international fiscal landscape on aligning taxing rights with economic substance and its aim is at targeting artificial arrangements, which use companies established abroad but effectively managed in Romania, to create opportunities for non-taxation or lower taxation in Romania. Groups in the real estate sector, with investment structures using holding companies established abroad, which have significant operations and decision making-persons in Romania, will thus need to reassess the effective tax residency of the foreign holdings so to manage any potential risks in view of the new POEM provisions.

POEM of the foreign company in Romania

Previous definition

Place where the economic-strategic decisions for the management of the foreign company are taken;

AND/OR

Place of activity of the directors.

New definition

Place where operations which correspond to economic, real and of substance purposes are undertaken and where:

The economic-strategic decisions for the management of the foreign company are taken

OR

At least 50% of the directors are tax resident



04

Bucharest
office market





2020 Key highlights

Bucharest office market



Class A&B stock
3.24 million sq. m



Hotspot office location
Politehnica University;
North submarket rising in importance

Vacancy rate



10%



Pre-leases of 2021' new supply
Over 50% signed



Relocations from old to modern space
>40% of the net take-up



Location of largest completed office
North submarket



Most active occupiers
Pharma & Medical companies leased 3x more office space than in 2019

Prime rental level

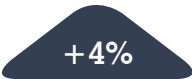


€19
Stable

04 Bucharest office market

Office leasing activity highly influenced by the new ways of working that tenants implemented in 2020.

Supply

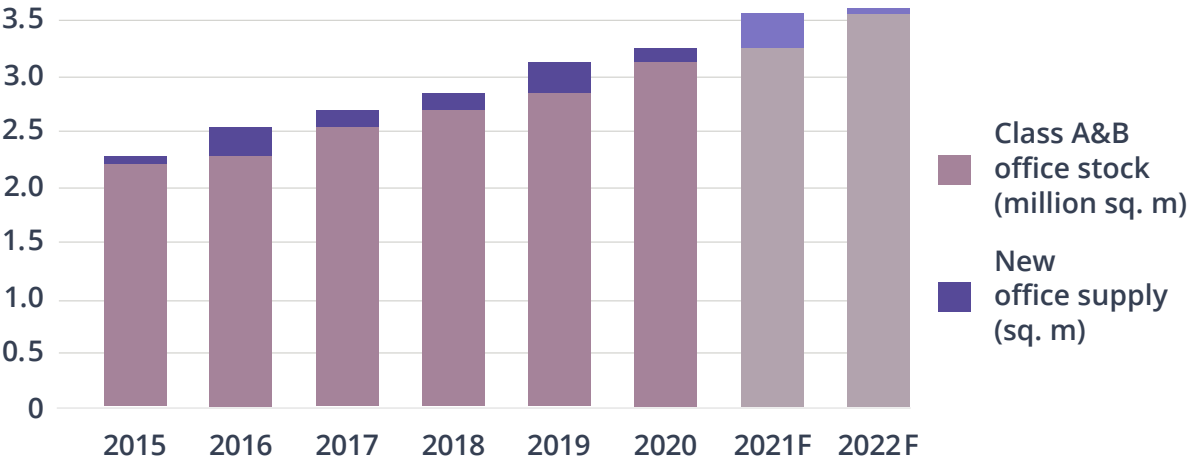


Last year the modern office stock in Bucharest increased by 4%, standing at 3.24 million sq. m at the end of Q4 2020. Approx. 128,000 sq. m of office spaces were delivered in 2020 across the city's submarkets. Most of the new supply was completed in the Central West submarket – 32%, followed by the North area – 27% and Pipera South office hub – 24%.

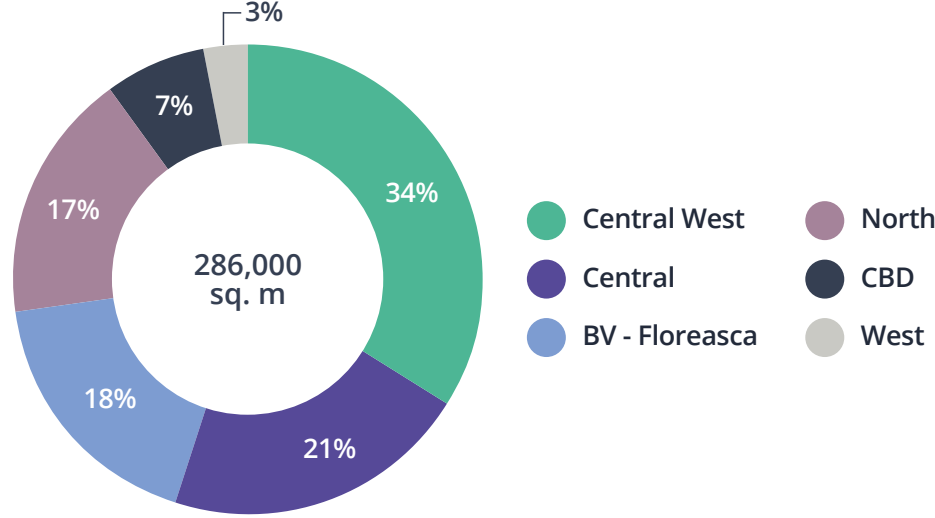
The largest office projects completed in 2020 were: Ana Tower located in the North submarket, with 33,000 sq. m GLA (gross leasable area), Globalworth Campus building A in Pipera South, with 30,000 sq. m GLA, and the third office building of the project The Bridge, with 24,000 sq. m GLA, located in the Central West submarket.

In 2021 new office supply is forecasted to be around 286,000 sq. m, out of which 58% is currently pre-leased. The Central West submarket accounts for 34% of this year's deliveries, followed by the Central area – 21% and Barbu Vacarescu - Floreasca submarket – 18%. The largest office project to be completed this year is J8 Office Park developed by Portland Trust in the North submarket, having as anchor tenant the French video game company Ubisoft, with 30,000 sq. m.

Modern office stock evolution, including forecast until 2022 (million sq. m)



Office supply by submarket in 2021 (%)



Largest office projects forecasted to be completed in 2021

Developer	Office project	Submarket	GLA (sq. m)	Delivery
Portland Trust	J8 Office Park A & B	North	48,000	Q3 2021
One United Properties	One Cotroceni Park Phase I	Central West	45,000	Q4 2021
Forte Partners	U Center Campus I	Central	30,000	Q3 2021
Globalworth	Globalworth Square	BV - Floreasca	28,000	Q2 2021
One United Properties	One Floreasca Tower	BV - Floreasca	24,000	Q1 2021

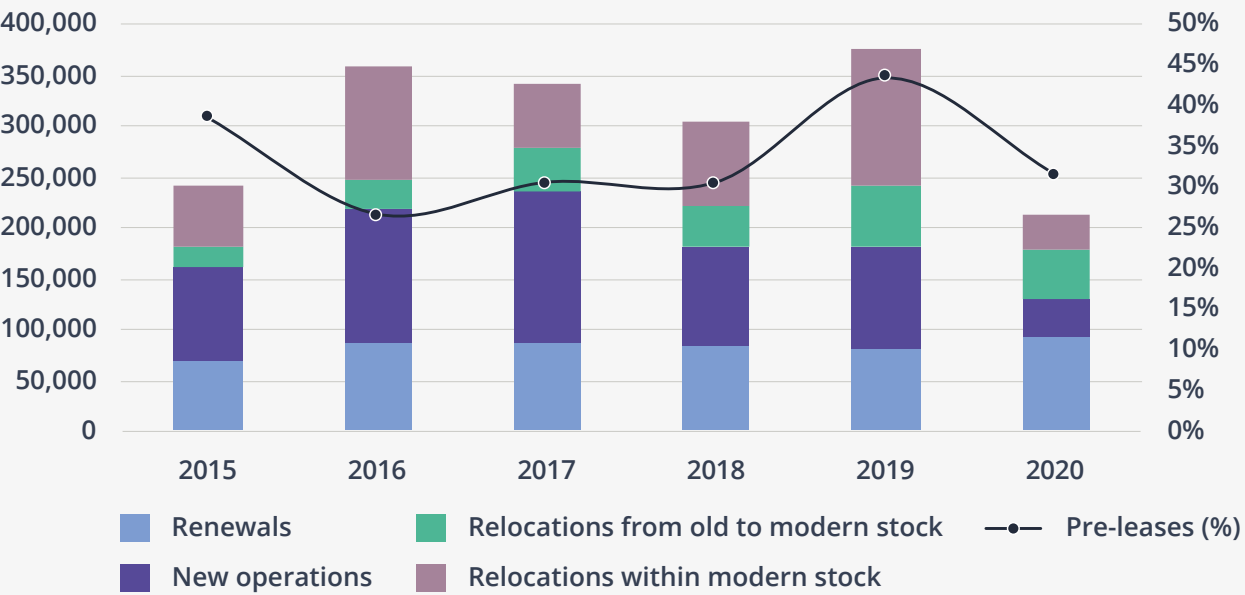
Demand

-44%

In 2020 the office leasing activity in Bucharest amounted a little over one-fifth of a million sq. m, with 212,000 sq. m of office spaces transacted. Net take-up, meaning new operations and relocations, represents 57% and it is split between relocations from old to modern office stock – 41%, new operations – 32% and relocations within class A&B office spaces - 28%. As in previous years, pre-lease transactions were recorded in 2020 as well and are representing around one third of net take-up.

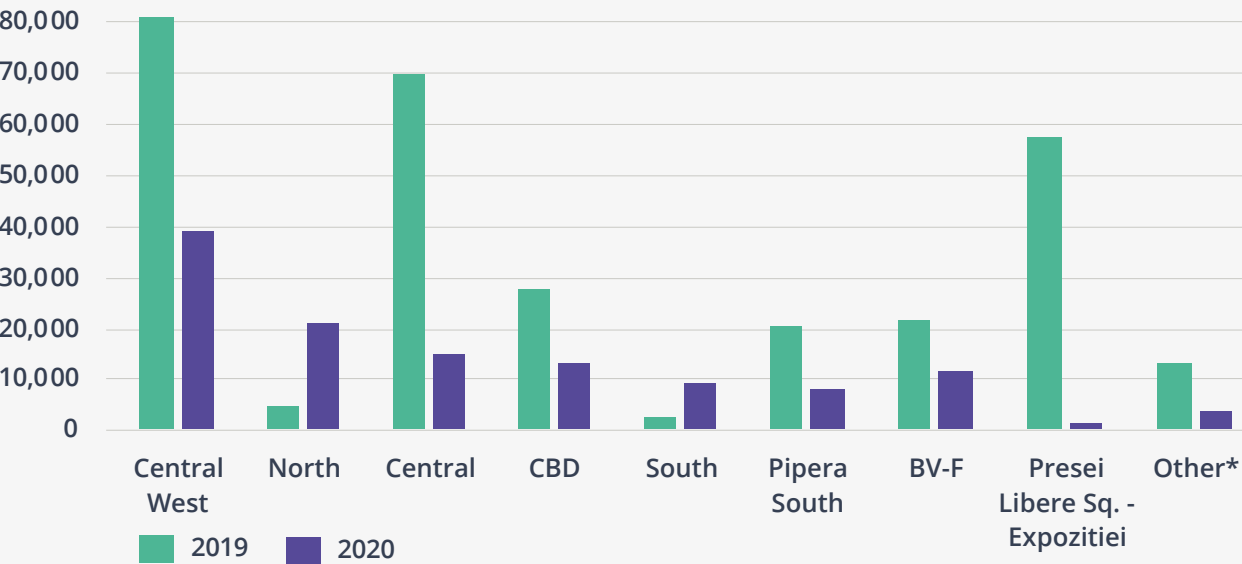
The performance of the office property segment has been highly influenced by the pandemic caused by Covid-19. Overall the total office area transacted throughout 2020 in Bucharest is lower by 44% compared with what was recorded in 2019. While tenants' appetite for renewal and renegotiation has increased by 15% y-o-y, relocations within modern office stock have decreased by 75%.

Office leasing activity evolution 2015 – 2020 (sq. m)



Looking at submarkets leasing performance, Central West attracted approx. one third of the net take-up, followed by the North submarket with 18%, and Central area with around 12% of net take-up.

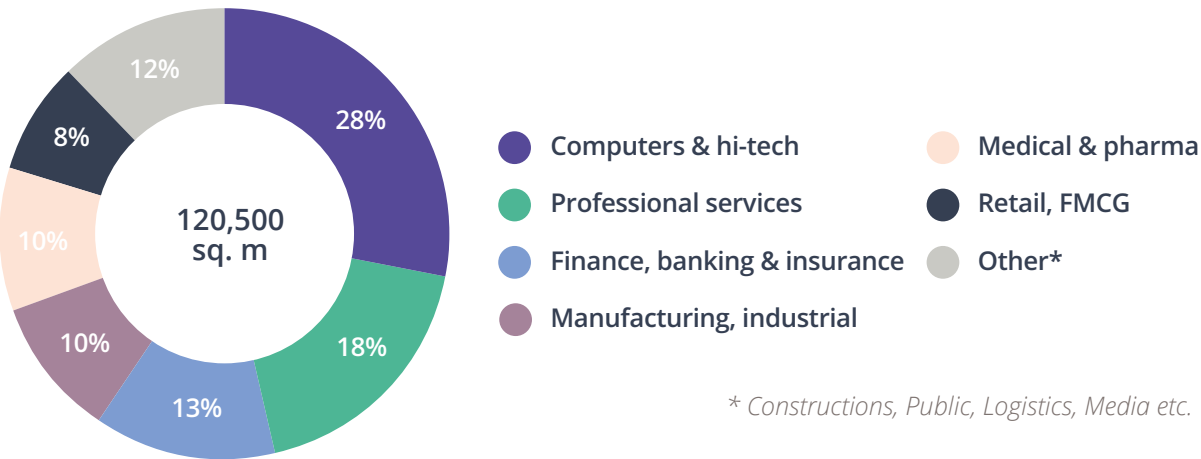
Net take-up evolution by submarket 2019 vs. 2020 (sq. m)



The largest office transactions concluded in Bucharest last year were mostly renewal and renegotiation deals (e.g. Unicredit – 15,500 sq. m, Computers Hi-Tech company – 12,000 sq. m, Manufacturing/industrial company – 6,000 sq. m), while the largest pre-lease transaction was performed by KPMG, which pre-leased an office area of 8,500 sq. m in the North sub-market.

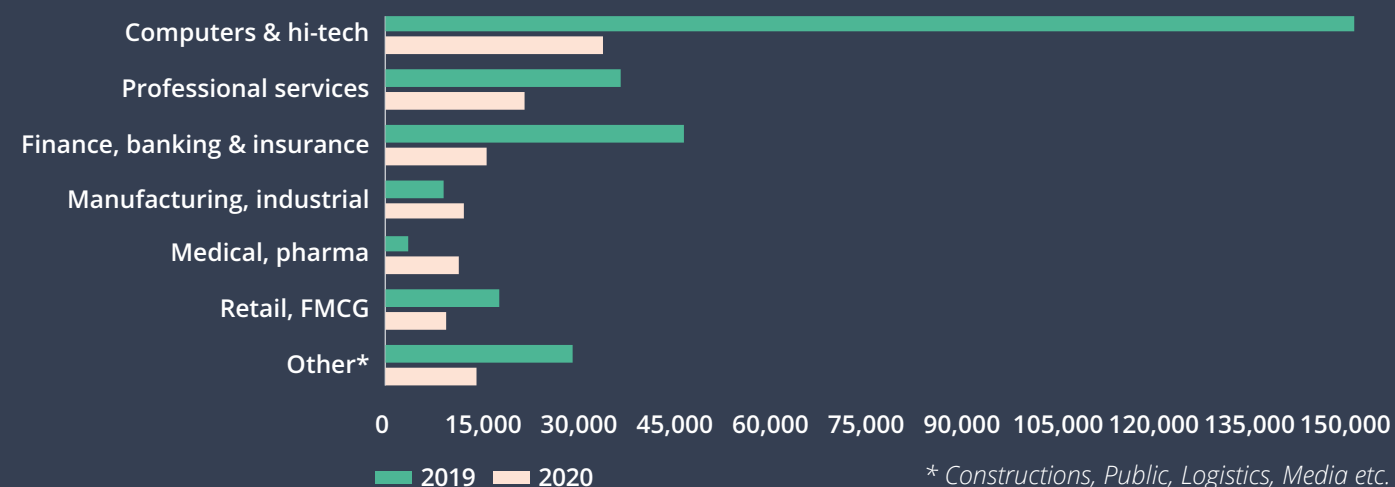
The most active office occupiers were *Computers hi-tech* companies, with 28% of net take-up, followed by tenants active in *Professional services* (18%) and *Finance, banking & insurance* companies (13%). Compared with 2019, business sectors such as *Pharma & medical* or *Manufacturing, industrial* were more active this year in leasing office spaces.

Net take-up by business sector in 2020 (sq. m)



* Constructions, Public, Logistics, Media etc.

Net take-up by business sector 2019 vs. 2020 (sq. m)



Vacancy

+
112 bps

At the end of Q4 2020 the general office vacancy rate in Bucharest stands at 10% and compared with Q3 2020 it has increased by 112 bps. In the Central Business District the vacancy rate for class A and B office spaces is 6%, while in the Central West submarket continues to stay in the range of 11%. Barbu Vacarescu - Floreasca area has an office vacancy rate of 5%, while in Pipera South submarket approx. 9% of the existing office stock is available for renting.

Rents

stable

The asking rents for class A office space located in Bucharest have remained relatively stable throughout 2020. At the end of Q4 2020 prime headline rent in Bucharest was situated around 19 euro per sq. m per month, while in CBD headline rents for A class office spaces are in the range of 17 – 19 euro per sq. m per month. In semi-central locations the headline rents for prime projects are around 13 – 14.5 euro per sq. m per month, while in peripheral areas class A office space is transacted between 9–12 euro per sq. m per month.

Forecast

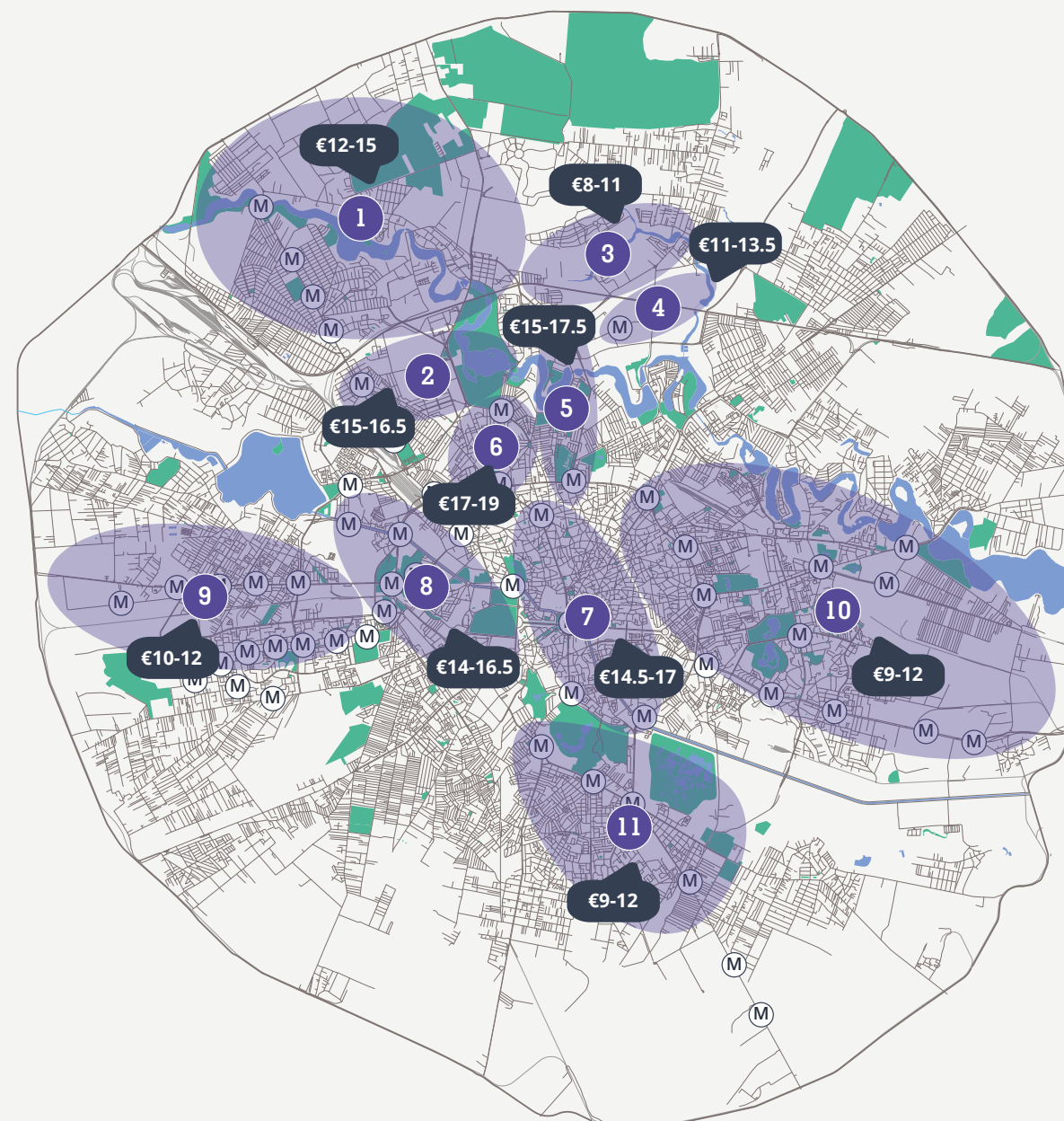
new ways of working

With tenants' activity being disrupted by Covid-19, demand for office space has followed a downward trend in 2020. The uncertainty regarding the evolution of the pandemic and the newly implemented remote work policies have influenced tenants' RE decisions, determining them to adopt a more cautious approach.

However, given that vaccination programs are currently being implemented all over the world, companies are now expected to start returning to office in 2021. As most of them have understood that remote work is here to stay, adopting a personalized hybrid work model is becoming a trend more and more popular between office occupiers. This is especially true for tech companies, which are among the largest office tenants in Bucharest. Going forward, the hybrid work model is forecasted to reshape the way offices are being used and developed, accelerating innovation so that creative collaborations and knowledge sharing can thrive.



Bucharest office submarkets



Legend

- | | | |
|-----------------------------------|----------------|----------------|
| Headline Rent Class A (€/sq. m/m) | 4 South-Pipera | 8 Central West |
| Metro Station | 5 Floreasca-BV | 9 West |
| 1 North-Baneasa | 6 CBD | 10 East |
| 2 Expozitiei | 7 Central | 11 South |
| 3 North-Pipera | | |

Source: Avison Young Research

05 The Romanian art market in 2020

The year 2020 followed the upward trend on which the Romanian art market embarked a few years ago. Continuing the spectacular growth recorded in previous years, 2020 was a year in which players in the art market focused on setting new records and saw unexpected market growth. In works of art, players have found an alternative market in which to secure their money and preserve the value of savings. Works of art can be an extremely stable - and satisfying - manner of achieving this when compared, for example, with banks. In this very challenging year Romanians have developed greater empathy with culture and have embraced the opportunities of the Romanian market for works of art with much greater openness, opting for the fundamental and sustainable values of art, cultural identity, national history and - last but not least - charity.

// 2020 set new records on the Romanian art market

The main segment of auctions of works of art remained the heritage sector, especially the works of artists of national importance in Romania. Their works still boast the highest market values and 2020 saw a new record for the market in Romanian art: Nicolae Grigorescu's "Țărăncuță cu fuior

// The Romanian national painter Nicolae Grigorescu led the best selling Romanian works of art in 2020

pe cale" (Peasant Woman with distaff) was sold at auction for €220,000. This national painter is followed by the great masters Ștefan Luchian and Nicolae Tonitza, whose works "Vas cu garoafe" (Vase with carnations) and "Irina" were sold at auction for €125,000 and €120,000 respectively.



Nicolae Grigorescu, "Țărăncuță cu fuior pe cale"
(Peasant Woman with distaff)



Romanians have continued to buy works of art because not only do they appreciate their cultural value, but they also appreciate that works of art are repositories of financial value

Partial and provisional calculations of total market volume for 2020 show an increase of about 20% in the number and value of auction transactions, by comparison with 2019.

What could be the cause of this market growth? On the one hand, the emergence of two new auction houses in the second half of 2019. On the other hand, perhaps counter-intuitively, the increase in demand for works of art: more Romanians had more time available in 2020 to search online and discover Romanian works of art which are still available at extremely accessible prices in the developing Romanian market.

At the same time, Romanians continued to buy works of art because not only do they see their inherent cultural value, but they also appreciate that works of art are repositories of financial value in which they can keep their wealth during a period of uncertainty, regardless of political, social or cultural events happening globally and

locally. Through collecting works of art you expect that, at the end of a period of crisis, you will be able to realise at least the same amount which you paid for those works of art. Collecting works of art is therefore a way of securing yourself by ensuring the preservation of wealth over a period of time, particularly for many years to come. If secured properly, increases in value usually follow naturally.



Nicolae Tonitza, "Irina"

2020 saw spectacular developments in the Romanian art market

The triumph of technology

10,000

Online accounts on the online auction platform A10 by Artmark Auction House.

In the first years of activity, only few buyers of works of art opted for live auctions through the online platform (2-5%) but by the end of 2019, 50% of the auctions were held electronically. Because auctions of works of art have had to move online in 2020, lovers of art and history who in the past preferred the atmosphere of a physical auction room have needed to open online accounts to be able to continue to invest in their passions.

The most charitable auctions

No fewer than six charitable auctions were held in 2020: "Frumusețea salvează lumea" (Beauty saves the world), a charity section dedicated to the Red Cross on July 2nd, charity sections dedicated to the Association of Military Veterans and Disabled Veterans and Hospice Casa Speranței on November 11th, a section dedicated to supporting the Union of Visual Artists in Romania on November 12th, a charity auction of the Christmas Tree Festival for the benefit of Save The Children Romania on December 10th, as well as the charity section to support the Doina Cornea Memorial House on December 16th - were part of approximately forty commercial auctions held by A10 by Artmark in 2020.

Further, 5% of the proceeds of commercial auctions held during the months of the state of emergency (March, April and May 2020) were donated to medical associations and foundations involved in responding to the pandemic or chronic medical conditions.

The longest auction in the history of the A10 online platform by Artmark Auction House

8h 17m

This longest year also saw the longest auction - in the online environment, of course. The longest auction of 2019 (itself beating a long-standing record in the Romanian market for works of art) was the A10 Winter Auction, which lasted 6 hours and 55 minutes. In 2020, perhaps due also to the growing number of online participants, the A10 Winter Auction (including the charity section to support the Doina Cornea Memorial House) lasted more than eight hours (i.e. 8h and 17m).



Romanians have developed greater cultural empathy in 2020

Together with the doubling of charitable auctions in the year that disoriented, disheartened and challenged, but which also saw an increase of 20% in commercial transactions in works of art and collectibles (possibly counter-intuitively, for most of us) - we can conclude that many Romanians have clearly opted for fundamental and sustainable values such as art, cultural identity, national history and - last but not least - charity. Summarizing the figures, we can say that in 2020 the average Romanian has become (or proved to be) 30% more empathetic and more culturally refined.

An alternative investment market

In 2020 art came down from its pedestal and moved online - the only way to bring it to the public's attention nowadays. Never before have people been so connected to the art world as they are now, thanks to the expansion of social media and online communication. In 2020, A10 by Artmark Auction House opened up new opportunities for art lovers, collectors and investors, through new ways to access an alternative market where they can safely invest their money. Whilst we still hope for normality to return, given the different nature of online auctions and the balanced mix of pieces which we make available to purchase - heritage art, sacred art, jewellery, precious metals, diamonds, silver, gold or even wines - we expect many participants in our auctions, having the possibility to view the lots in our online exhibitions and on social media platforms.



Ștefan Luchian, "Vas cu garoafe" (Vase with carnations)

Spectacular records

A chess table that belonged to Nicolae Ceaușescu recorded the largest increase in an auction, through 42 rounds of bidding over 16 minutes and 25 seconds. This piece had a starting price of only €250 and was sold for €16,000.

A record for contemporary art – “Untitled” (“Memory”), signed by the most sought-after contemporary Romanian artist worldwide, Adrian Ghenie, went through 27 rounds of bidding over 10 minutes and 42 seconds, from a starting price of €20,000 and was eventually sold for €110,000.

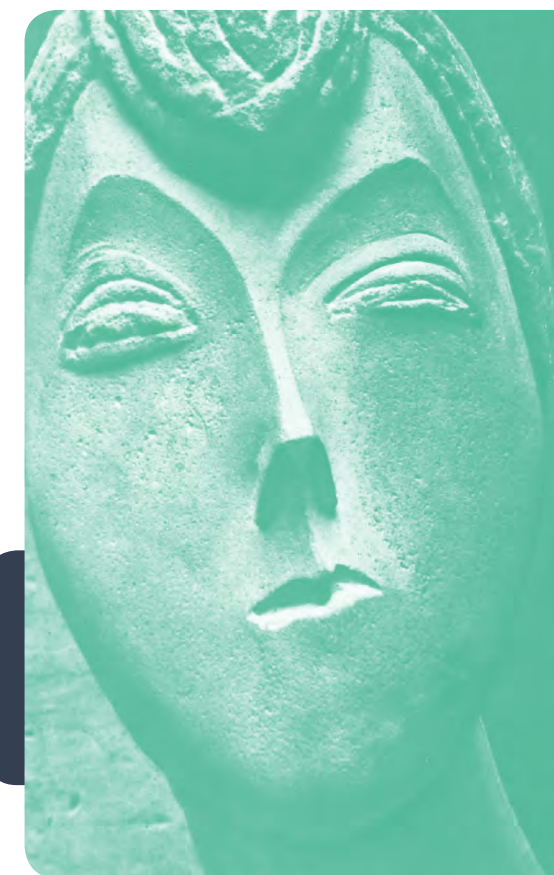
The price record for the theme of feminine elegance, €32,500, was achieved in December for an exceptional Hermes “Constance 24” bag made of crocodile skin, Rose Scheherazade colour (in the A10 Christmas Auction - Bags and Collection Wines, December 8th).

At the same time, a beautiful katana (Japanese samurai sword) made in 1563 by a well-known Japanese swordsmith, Bishu Osafune Kiyomitsu, recently broke the record in the sword category, being sold for €14,000 (A10 Swords and Carpets Auction, November 17th).

2020 was also the year that marked the Romanian record for a photograph. The photograph taken by Constantin Brâncuși of his sculpture representing a stylised portrait of Baroness Renée Franchon, dated 1908, was sold at auction for €16,000 (A10 Auction of the Collection of a Contemporary Art Gallery, September 29th). In second place is the €14,000 paid for a photograph of Constantin Brâncuși, with his dog Polaire, taken by his friend the American artist Man Ray (A10 Auction of an Avant-Garde Collection, part II, October 27th).

New entry: among the auctions of 2020, an unexpectedly significant place was taken by auctions of important, unique, vintage or limited-edition watches. Rare thanks to their antiquity or being contemporary, yet collectible, limited editions, they represented the investment of 2020 in the Romanian art market. This was possibly also due to their intrinsic precious metal content, as well as the active international market for these items. A10 by Artmark held three auctions of watches in May, November and December, which resulted in sales totalling approximately €2.5 million.

*We are
confident
that art and
beauty will
save the
world.*



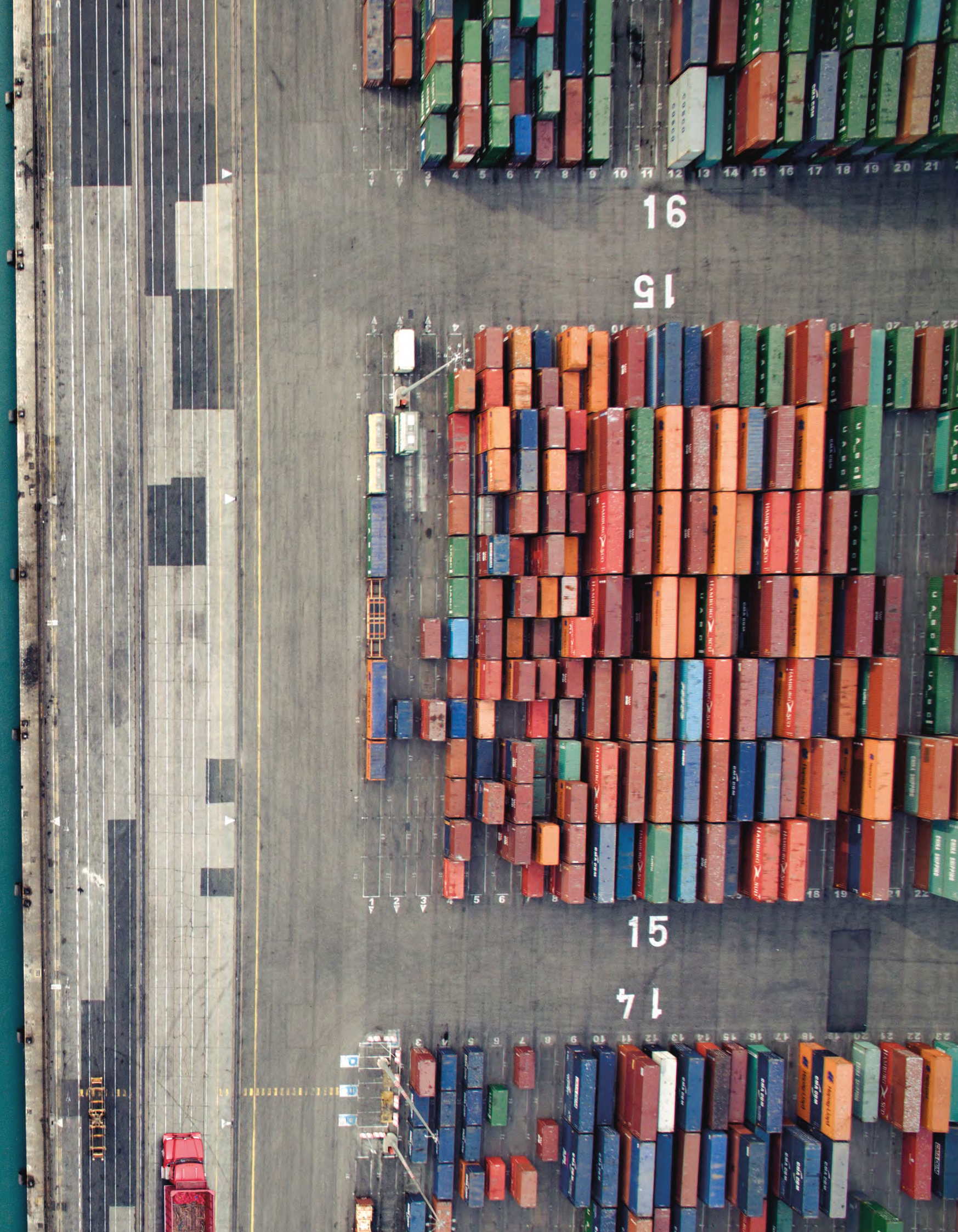
Constantin Brâncuși, Portrait de femme
(La Baronne Renée Franchon)

A10
by Artmark

06



Romanian
industrial market



2020 Key highlights

Romanian industrial market



Modern stock
>5.2 million sq. m



Leasing activity
876,000 sq. m –
2x than in 2019

Vacancy rate



6.7%



Popular delivery destination
Bucharest has attracted
2/3 of the total deliveries



2021 Pipeline industrial & logistics modern space
>700,000 sq. m



Popular leasing destinations
Bucharest (72% of leasing activity), Timisoara & Craiova



Most dynamic occupiers
Pharma, Retail,
E-commerce & FMCG

Prime headline rent



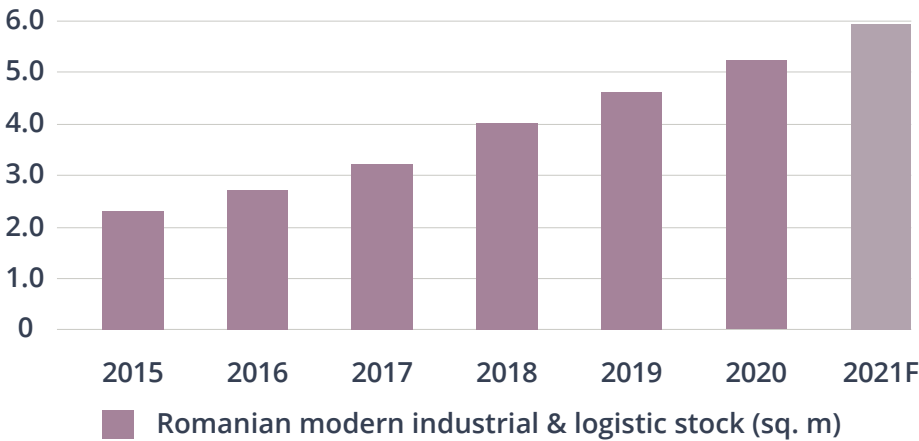
€3.85

06 Romanian industrial market

The worldwide pandemic which marked the year 2020 **did not negatively impact** the logistic and industrial market in Romania. Quite the contrary – as deliveries of different types of goods became an essential tool for coping with lockdowns, distancing and isolations, the logistic operations also gained importance, and more logistic space was needed. Consumption needs to be sustained as well, so the production must go on.

Stock **+13%**

Romanian modern industrial stock evolution, including forecast until 2021 (million sq. m)



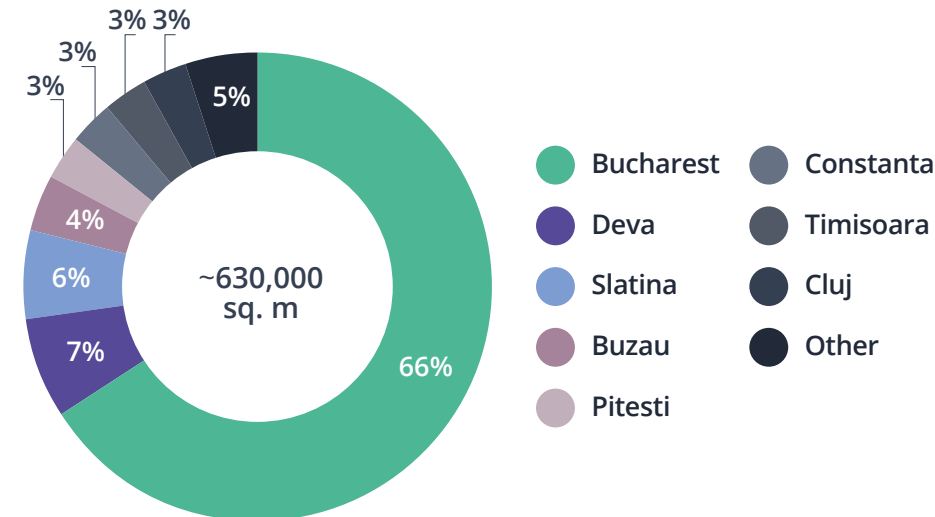
With ~630,000 sq. m delivered in 2020, the modern industrial stock in Romania exceeded 5.2 million sq. m. This accounts for an impressive evolution – in only 5 years, it more than doubled.

The Bucharest area attracted 2/3 of the total deliveries in 2020 and the modern industrial stock in Bucharest reached 2.4 million sq. m. The rehabilitation of the northern ring-road made also Bucharest's Northern area

attractive for developers – for now especially the Stefanesti area, however the interest will expand to Otopeni, Pantelimon, etc.

Following Bucharest in terms of total deliveries, the next 3 positions are relatively new cities on the logistic/industrial map – Deva, Slatina and Buzau – showing an increased appetite of the developers to expand also to tertiary cities, where labour is more readily-available and cost-efficient.

Deliveries of modern industrial units in 2020 (%)

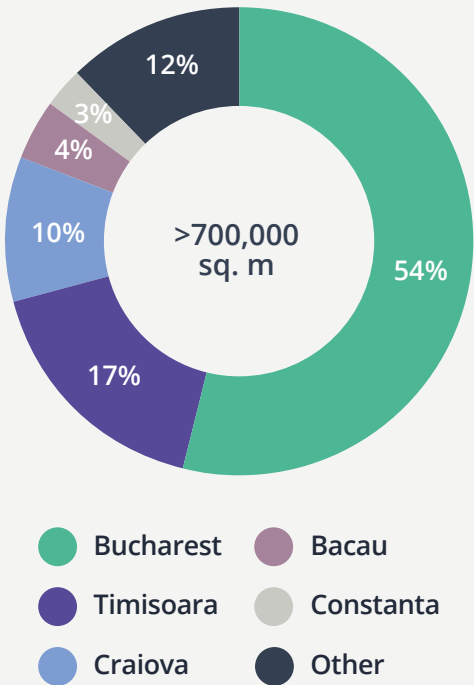


Pipeline



For 2021, the developers have planned the construction of over 700,000 sq. m of modern industrial and logistic spaces to be delivered. Again, more than 50% of the new developments should occur in the Bucharest area, where the stock should increase with ~390,000 sq. m, however, important developments are announced also for Timisoara & Craiova. And another relatively new city appears on the logistic map: Bacau. Bacau was a point of interest for developers for a long time, however, 2021 is the first year when firm plans are announced.

2021 Pipeline of modern industrial units (%)

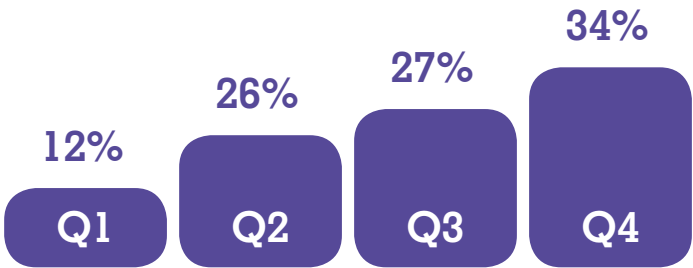


Demand

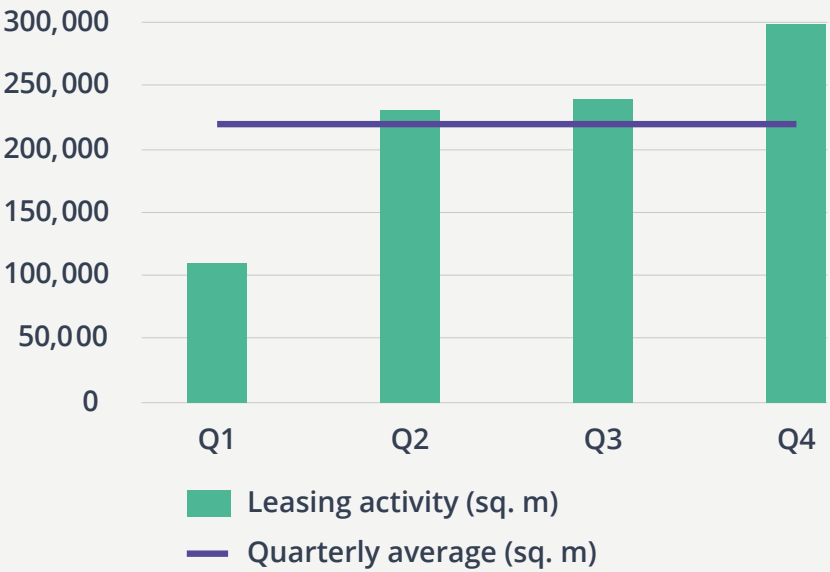


The total leasing activity volume in 2020 reached a record figure of 876,000 sq. m. (~109,000 sq. m transacted in the first quarter, ~230,000 sq. m in the second, ~239,000 sq. m in the third and ~298,000 sq. m in the fourth quarter). This large figure comprised renewal of existing contracts, new demand - which was met by the developers with construction of new buildings, and also covered a part of the existing vacancy. It also reflects the fact that a relatively large volume of contracts signed 3-5 years ago (when the industrial market started to grow) reached maturity. The net take-up (excluding renewals and renegotiations) comprised ~76% of the total volume (~670,000 sq. m).

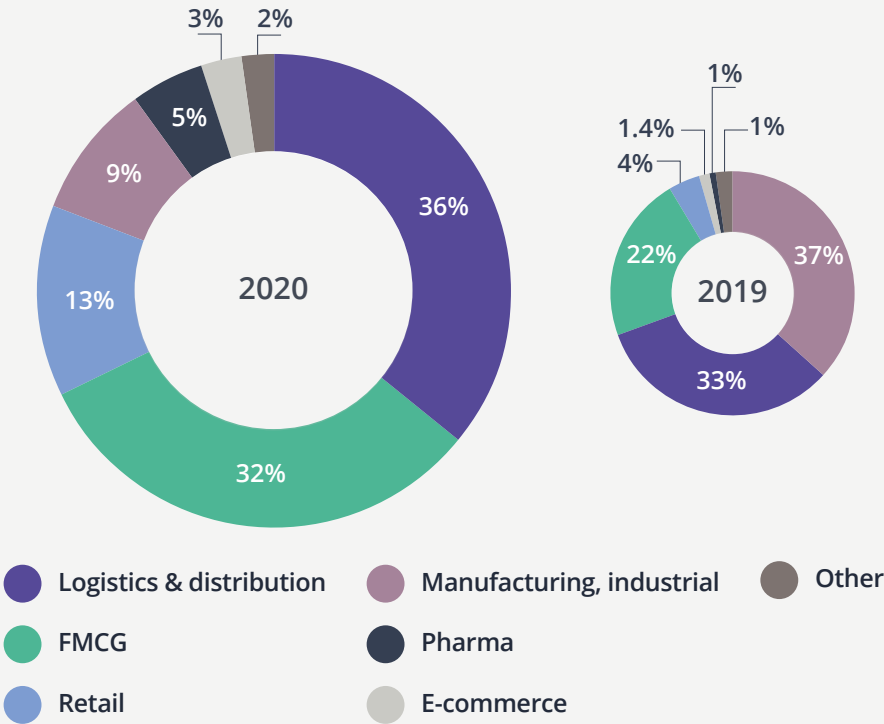
2020 Record leasing activity...
876,000 sq. m



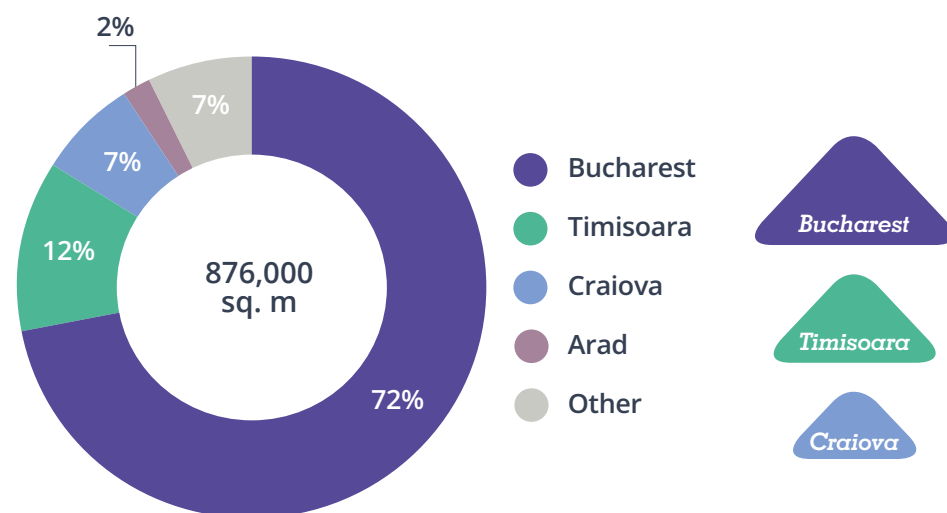
2020 Romanian industrial leasing activity by quarter, compared with quarterly average (sq. m)



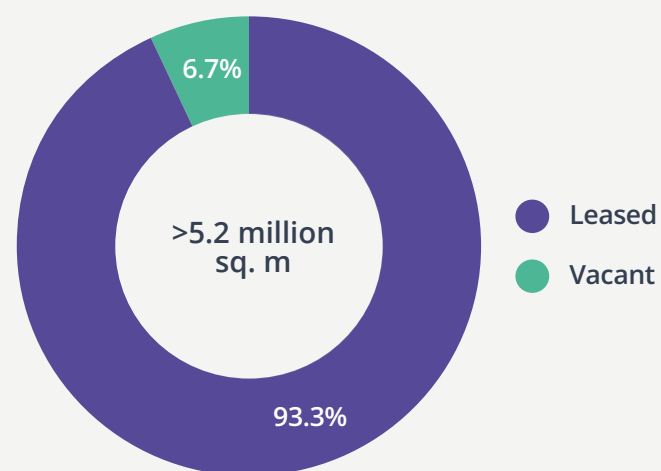
Evolution of demand by business sector, 2020 vs. 2019 (%)



2020 Leasing activity by geography (sq. m)



2020 Romanian vacancy rate for modern industrial & logistics units



Country level
vacancy rate for
modern industrial
& logistics units,
end of 2020
6.7%

Occupancy costs & market practice

Base rent

Headline rent

€3.85
Bucharest,
Cluj, Timisoara

€3.5-€3.8
Other cities

Incentives (10-15%)

Rent-free months,
personalised
fit-out, early
access, etc.

+

Service charges

€0.7-€1.0
Building
maintenance,
property tax,
building
insurance

Lease length



Logistic
activities
3-5 years

Manufacturing/
BTS units
5-10 years

Forecast

We expect that industrial leasing activity and modern industrial stock evolution will continue going strong in the next 5 years, and the stock will reach 8 million sq. m. The main growth drivers are as follows:



The Coronavirus crisis made many companies re-assess their supply chain strategy and consider near-shoring – bringing the production units closer to the consumer markets (especially from Asia).



In the following years we are expecting also a trend of Chinese companies relocating part of the production to Europe, in order to adapt to the international context.



Romania is an important logistic hub for Bulgaria and Moldova, due to the short transit time and low transport cost.



The available speculative developments are making Class A buildings more affordable to tenants from improper units.



Development of local distribution centres for international eCommerce companies due to increasing of the online shopping behaviour.



With other real estate sectors (retail, office, HoReCa) being impacted by the pandemic, the industrial/logistic sector is beginning to look attractive for developers/investors.



We expect the already contracted/started infrastructure developments to finalise in the next 5 years. This includes the Pan-European Corridor IV Nuremberg-Thessaloniki (in Romania linking Constanta with the Hungarian border) and the development of the capacity of the Constanta Harbour.



**In the next 5 years
the modern industrial
and logistic stock will
reach 8 million sq. m**

1

We estimate that Bucharest will continue to attract over 40% of the industrial developments in the next few years, and afterwards the regional cities will catch up.

2

The full rehabilitation of the existing ring-road in Bucharest (on its full length) will make East and South areas more attractive, and with the construction of the larger ring-road (A0), the industrial area around Bucharest will expand.

3

It is expected that important international developers, which at the moment are not present in Romania, will enter the market.

4

With the growth and institutionalisation of couriers' activity, the need for standardisation arises, which translates into the real estate industrial sector as the emergence throughout Romania of a new industrial product: the courier hub, which has distinct technical specifications: lower height, many docking bays, large exterior areas.

5

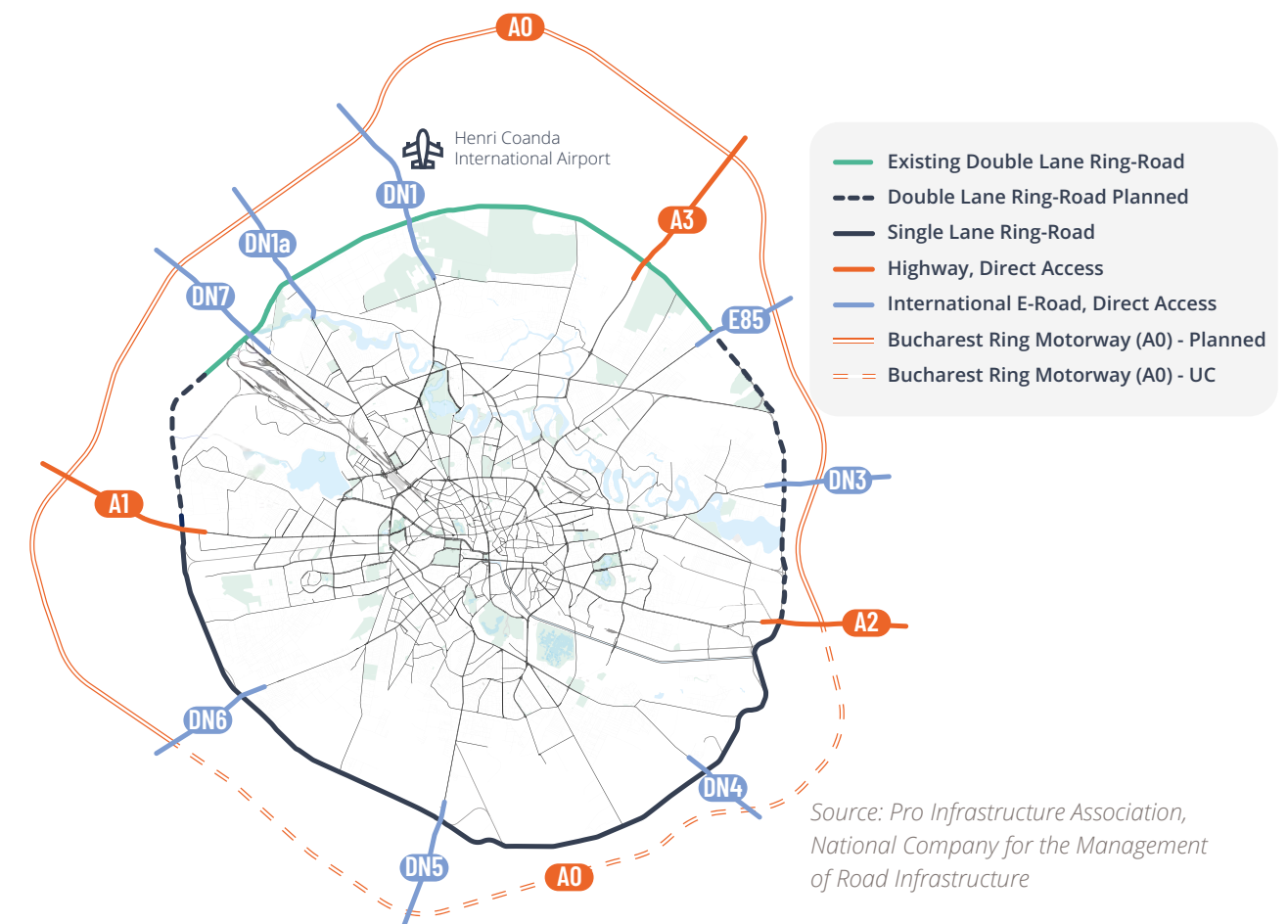
Although Romania is known for the very low infrastructure development speed (which was obvious in previous years), the new context generated by the COVID-19 crisis is putting additional pressure on infrastructure development, and we expect this to show results in the immediate future.

Future trends

Highways and regional industrial & logistics hubs, Romania



Access to international e-roads & highways, Bucharest



Source: Pro Infrastructure Association, National Company for the Management of Road Infrastructure

07

Romanian
residential market



2020 Key highlights

Romanian residential market



New residential units completed in Bucharest

50% increase throughout the first nine months of 2020



Demand in Bucharest

One third of the sales of residential units



Bucharest avg. asking price per sq. m built

Reached the same value as in Q4 2019

Central northern Bucharest



Most active delivery location

Aviatiei (surpassing Pipera)



Availability

60% of the apartments delivered have been sold



New apartments supply

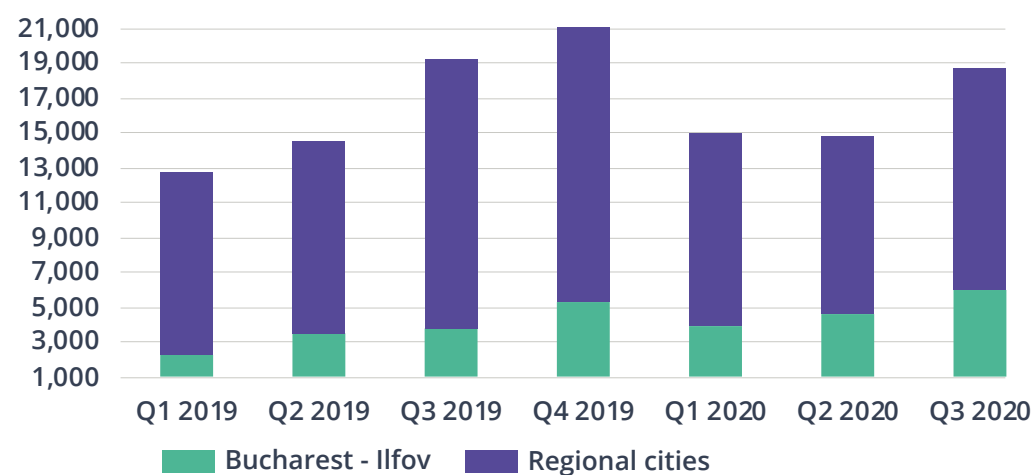
Up by 21% vs. 2019

07 Romanian residential market

Supply

In the first three quarters of 2020 in Bucharest there were completed approx. 14,500 new apartments, a volume equal with what was recorded for the entire 2019 and higher by 52% when measured with what was delivered in the first three quarters of 2019. Outside the Capital city the number of new residential units finalized between Q1 and Q3 2020 was lower by 8% y-o-y and stands at 34,000.

New residential units completed Bucharest vs. Regional cities (sq. m)



Source: Avison Young based on data from the National Institute of Statistics

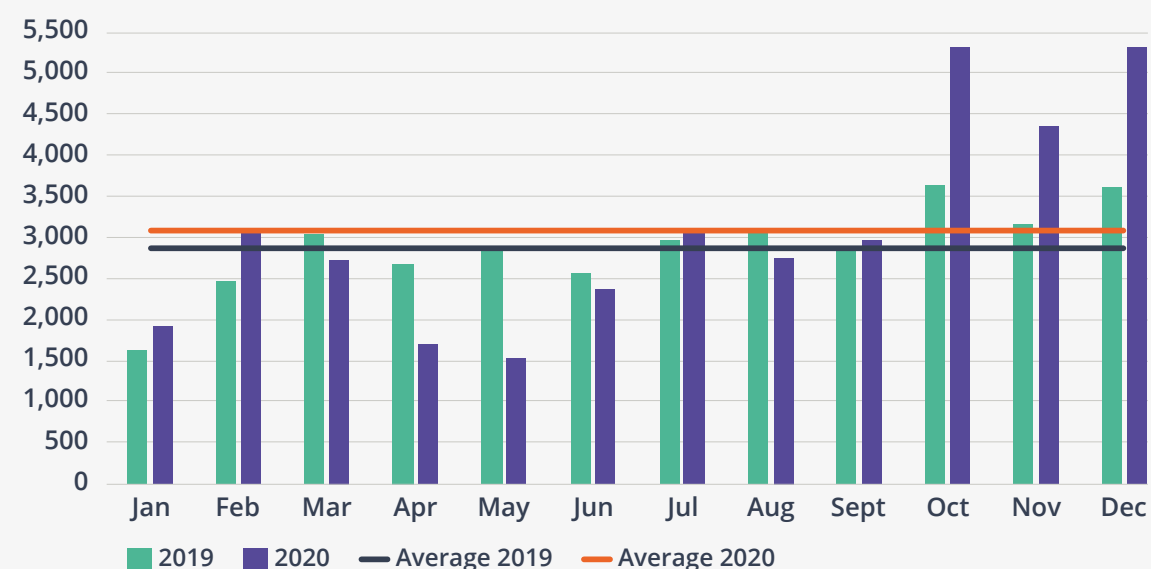
Demand

+8.2%

The sales of residential units located in Romania has increased by 8.2% y-o-y, meaning that around 123,000 housing units were the subject of sales transactions in 2020. Almost a third were concluded in Bucharest, with ~ 37,000 apartments sold, and compared with the previous year demand for residential units located in the Capital city has increased by 7.6%.

According to the National Bank of Romania, in Q3 2020 credit institutions reported an increase of 58% q-o-q in demand for loans destined for the purchase of housing and land, while for the last quarter of 2020 they expect a steady level of demand for such types of credits.

Bucharest no. of residential units sold 2019 vs. 2020 (units)



Source: Avison Young based on data from National Agency for Cadaster & RE Advertising

Prices

stable

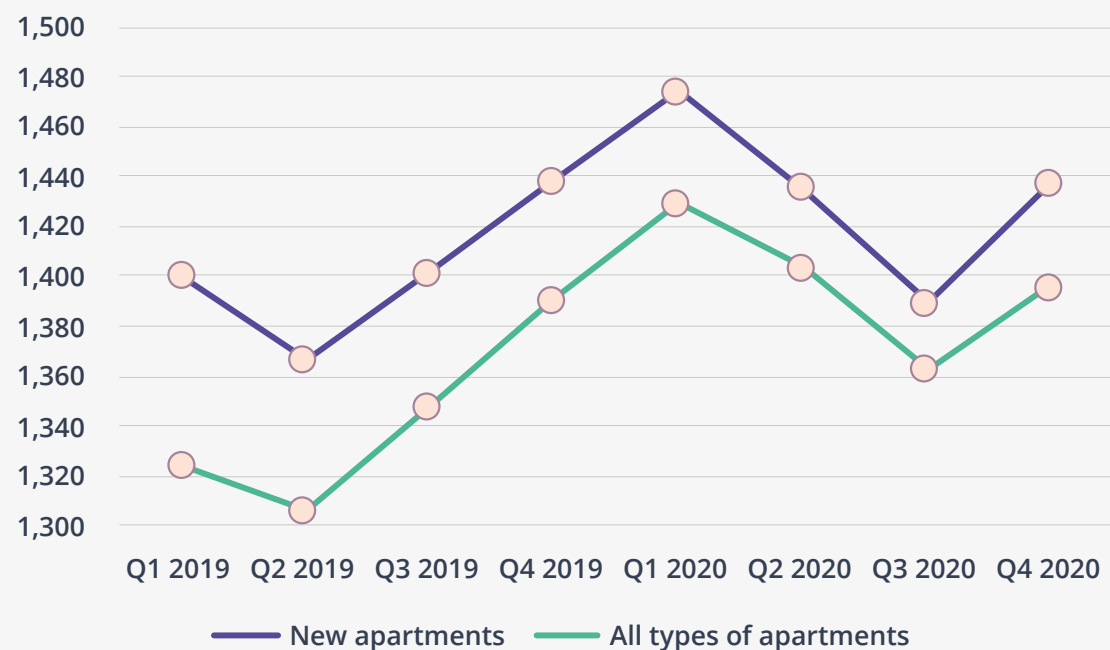
In Q4 2020 the medium price asked per sq. m built for an apartment located in Bucharest has remained unchanged y-o-y. For old apartments, the average asking price was around 1,344 euros per sq. m built, while for new residential units it was approx. 1,439 euros per sq. m built.

Avg. asking price €/sq. m built...

€1,344
old build

€1,439
new build

Average asking price evolution for residential units located in Bucharest (euros per sq. m built)



Source: Avison Young based on data from IMO Bucharest

Although landlords' expectations in terms of pricing were influenced by the Covid-19 situation, towards the end of the year their confidence regarding the overall market performance was mirrored by the increase in the average asking sale prices.

When it comes to the housing price evolution overall Romania, in the third quarter of 2020 45% of banks were of the opinion that it has remained relatively constant q-o-q, while 33% estimated that it has increased to some extent. For the last quarter of 2020 the vast majority of banks were forecasting a stable sale price evolution for the local housing market (source: National Bank of Romania).

Bucharest central northern residential market

According to Avison Young's data last year approx. 3,700 of new residential units were completed across the central northern areas of Bucharest, representing 26% of the total volume of new apartments delivered across the city. The vast majority of newly finalized residential units are studios and apartments with one, two and three bedrooms.

Overall in 2020 the supply of new apartments has increased by 21% compared with 2019. The most active locations in terms of deliveries were Aviatiei, with 30%, followed by Pipera area with 27% and Expozitiei, with 20%.

Features



The highest density of green urban areas such as parks and lakes



Very good connectivity to the public transportation network



15 minutes average driving distance to "Henri Coanda" International Airport



Wide variety of restaurants, bistros and cafes



Hosts exclusive education institutions such as The British School of Bucharest



Has the most performant shopping centers in Romania



Over 50% of the office stock in Bucharest is located here



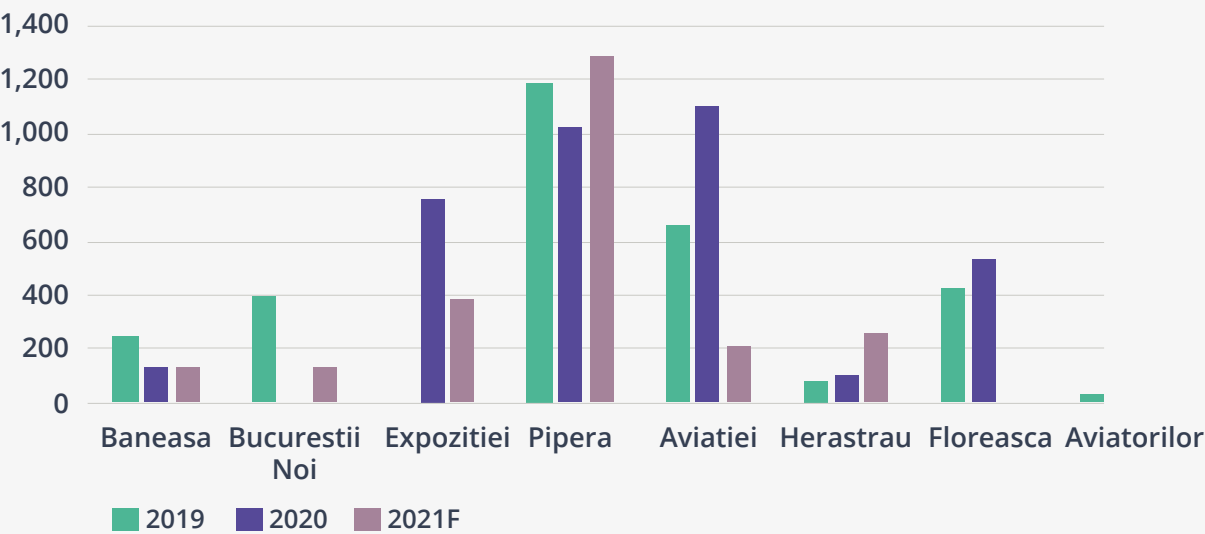
Here are located some of the most expensive apartments in the country



Cloud 9 Residence located in Aviatiei



New residential units completed in the central-northern part of Bucharest (units)



Source: Avison Young

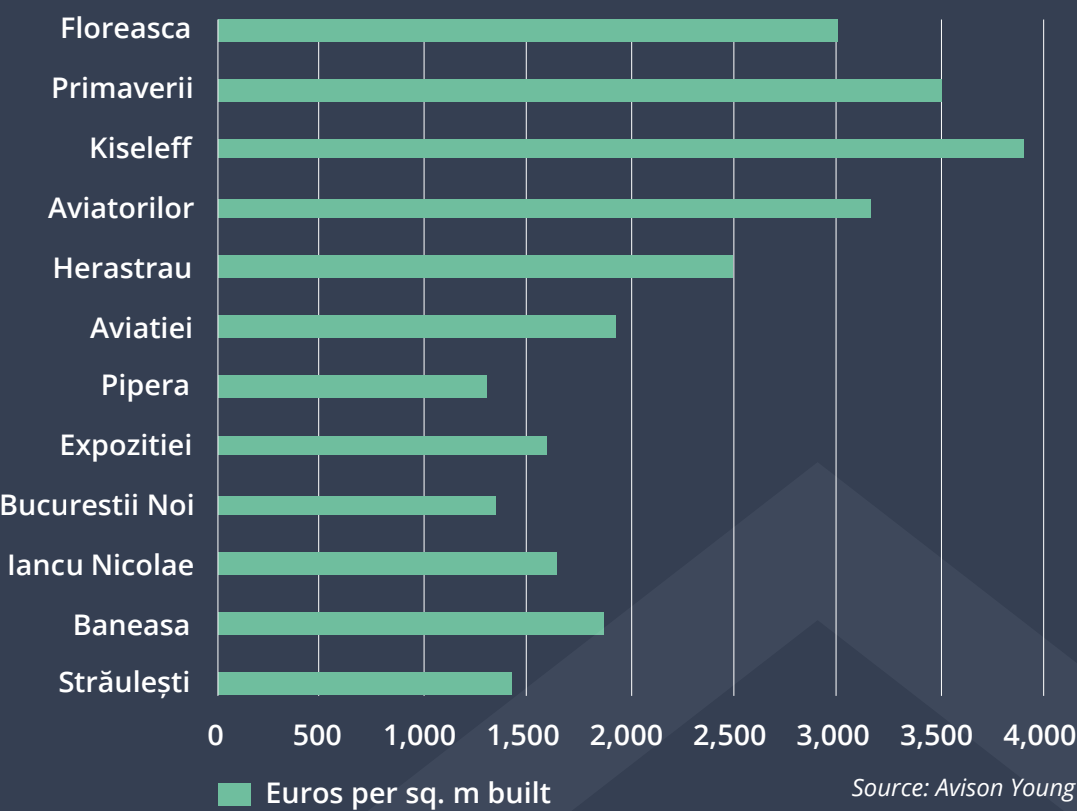
The largest residential projects finalized in 2020 were: Cloud 9 Residence located in Aviatiei, close to Barbu Vacarescu - Floreasca office hub, with 820 apartments, the first phase of Luxuria Residence developed by Impact Group in Expozitiei, which features 500 premium residential units, H Pipera Lake developed by Hagag Development in Pipera, with 300 apartments and One Mircea Eliade with 247 premium residential units, developed by One United in Floreasca area.

At the end of December 2020 there were over 4,500 residential units under construction in the central northern part of Bucharest, out of which almost 70% were available for sale. More than 2,400 apartments are expected to be finalized by the end of this year with around 40% being currently on the market for sale.

Current developments

Among the largest residential developments that are currently under construction we mention: Nusco City developed by Nusco Group in Pipera, Belvedere project developed by London Partners on Fabrica de Glucoza St., One Verdi Park developed by One United in Floreasca area and The Ivy project developed by the Belgian developer Speedweel in Baneasa.

Average asking prices (euros per sq. m built)



Source: Avison Young

Forecast strong pipeline in the central northern Bucharest

Overall the investors' appetite for developing residential units in the central northern part of Bucharest remains strong. Recently the real estate division of the Romanian construction company Bog'Art has acquired two land plots located in Baneasa with the purpose of developing 130 premium apartments. The Israeli developer Hagag Development Europe has received the construction permit for H Eliade 9 Residence, a premium residential project located in Primăverii, designed to offer 35 luxury apartments. Construction works for this project are expected to begin this year. Metropolitan Residence, one of the most active residential developers in Bucharest, will invest 100 million euros in the development of Crown Towers, a new project with 230 apartments, part of a mixed-use property located in Herastrau.

Given that the labor market is currently influenced by the "work from home" policies, that the hybrid working model is starting to make sense for most companies, and keeping in mind that here are over 1.7 million sq. m of modern office spaces, demand for new residential units located in the central northern part of Bucharest is projected to remain consistent and to come from end users with high revenues, for which having a certain life style while living close to a wide variety of facilities is becoming a necessity.



AVISON
YOUNG

1978

founding year

5,000

real estate professionals

100+

offices

15

countries

Real estate with real impact.

**We create economic, social and environmental value
as a global real estate advisor, powered by people.**

THE SERVICE BREADTH TO MEET ANY NEED

Every client needs their own mix of real estate services and expertise. Our teams are equipped to bring insights and advantage to your business needs through advisory and planning, management and financing, investment sales, leasing, and property management services for clients across the office, retail, industrial, multi-family and hospitality sectors.

THE PEOPLE TO MAKE IT HAPPEN

As a growing and innovative challenger in global commercial real estate, we attract the best talent in our industry – planners, advisors, brokers, marketers, support. But being the best isn't just about having the best; it's also about how we work together. Our longstanding culture of collaboration, and the fact we're majority owned by our Principals, means we put the client first. Our Principal-led teams wrap themselves around our clients – driven by shared success. We work together to get it done.

THE VALUES TO MAKE IT MATTER

Founded in 1978 to create a more accountable and nimble real estate company, with legacies dating back more than 200 years, we will never outgrow our values of putting people first in every choice we make. Our purpose is to create net economic, social and environmental gain for our clients and in the communities in which we work.

Putting
people
first.

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