AVISON YOUNG

2019

ANNUAL MARKET REPORT

ROMANIA

Global Key Stats

1978 Founding Year	**Toronto, Canada** Headquarters	
1,600+ Brokers	**120** Offices	**≈5000** Real Estate Professionals
111 Markets	**20** Countries	**34.1 m sq. m** Under Property Management

Partnership. Performance.

Intelligent Real Estate Solutions:

Sales and Leasing Services
Management Services
Consulting and Advisory Services
Corporate Services
Financing and Mortgage Placement Services
Research and Client Services
Investment Management Services

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Contents

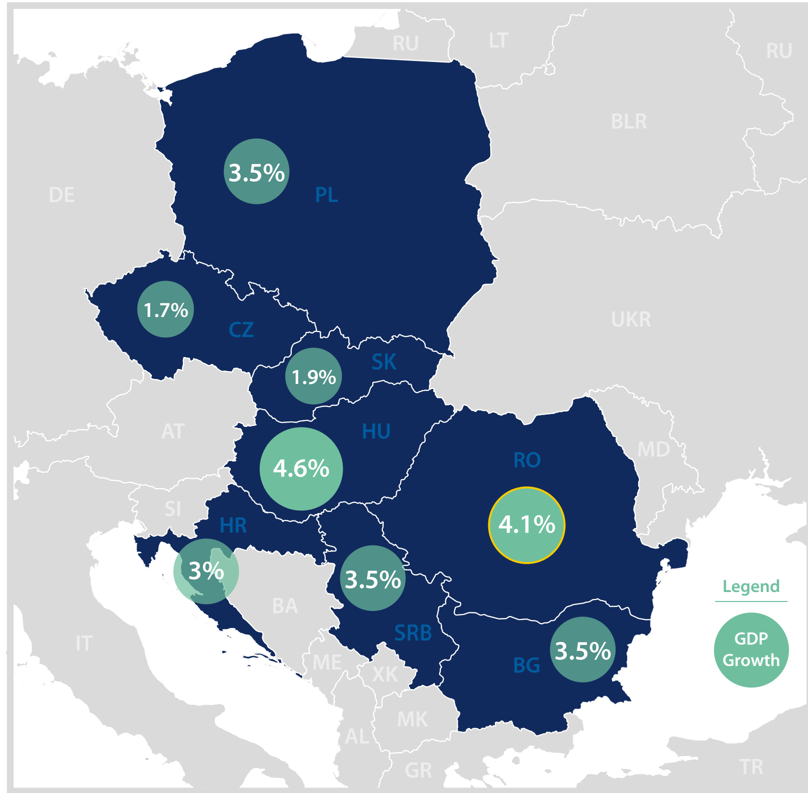
Macroeconomic Overview

ROMANIA

Indicator	2018	2019 (F)	Directional Outlook
GDP Growth Rate (%)	4.4	4.1	→
GDP Per Capita (€)	10,420	11,344	↗
Public Debt as a % of GDP	35*	37.1	↗
Budget Deficit	2.9% of GDP	>4% of GDP	↘
Monetary Policy Rate (%)	2.5	2.5	→
CPI (%)	4.6	3.8	↘
Construction Works Y-o-Y (%)	-5.6	15.5	↘
Retail Sales Y-o-Y (%)	5%	7.1%	↗
Unemployment Rate (%)	3.3	3.2	↘
Average Exchange Rate (€ to RON)	4.6535	4.7450	→

**Forecast; Source: National Commission for Prognosis, Eurostat, National Bank of Romania, National Statistical Institute, Ministry of Finance*

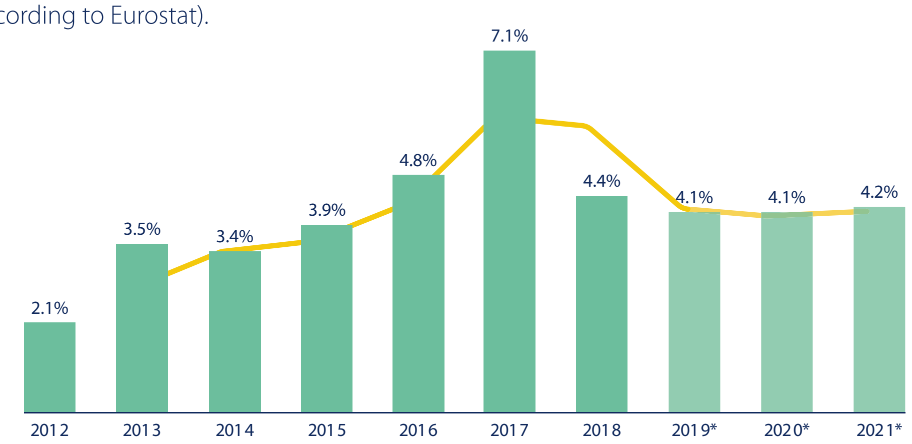
According to the National Statistics Institute, in 2019, Romania's GDP rose by 4.1% compared with 2018, showing the second (to Hungary's 4.6%) largest growth in the European Union. The growth was helped by a surge in investment, in part due to fiscal stimulus.



2019 Indicator	RO	BG	PL	CZ	HU	SRB	SK	HR
Population	**19.4 M**	7 M	38 M	10.6 M	9.8 M	7 M	5.5 M	4.1 M
GDP per Capita	**€ 11,344**	€ 8,499	€ 13,306	€ 20,729	€ 15,594	€ 6,606	€ 17,455	€ 13,349
Unemployment Rate	**3.2%**	4.9%	3.8%	2.2%	3.5%	13.1%	6.0%	9.0%
Avg. Net Salary	**€ 638**	€ 495	€ 859	€ 1,087	€ 721	€ 479	€ 894	€ 871

Sources: International Monetary Fund, Eurostat, Worldbank, Romanian National Statistics Institute, Romanian National Comission for Prognosis, Hungarian Central Statistical Office

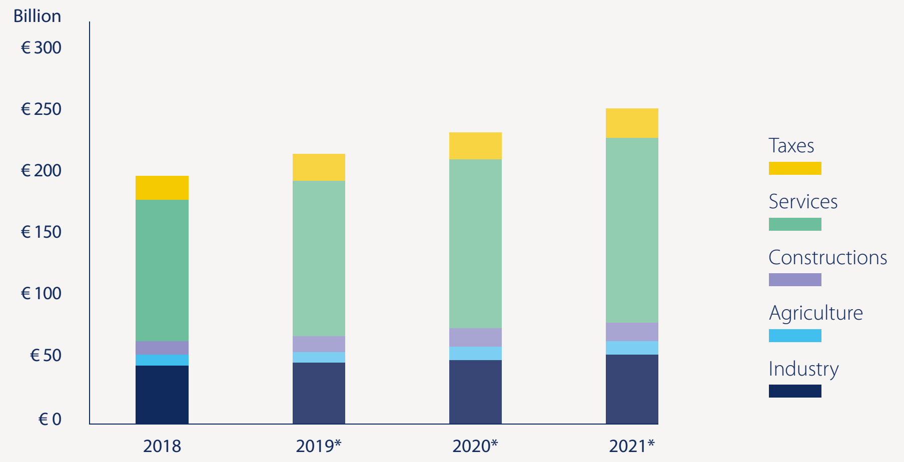
This is the 9th consecutive year of growth, a performance which equals the streak from 2000-2008. The growth is slowing down after an impressive 2017 with 7.1% growth and 2018 with 4.4%, however it is way above the European average (EU28) - 1.1% in 2019 (according to Eurostat).



GDP GROWTH (%)

**Forecast by the National Commission for Prognosis*
Source: National Statistics Insitute, National Commission for Prognosis, International Monetary Fund

Romanian GDP per capita increased by 9%, from 10,420 euro in 2018 to 11,344 euro in 2019. The net average monthly wage registered in November 2019 a 14% increase compared to the same period of 2018, while the highest salaries continue to be earned in the IT sector.



GDP DISTRIBUTION BY SECTORS 2018 - 2021F (€ BN)

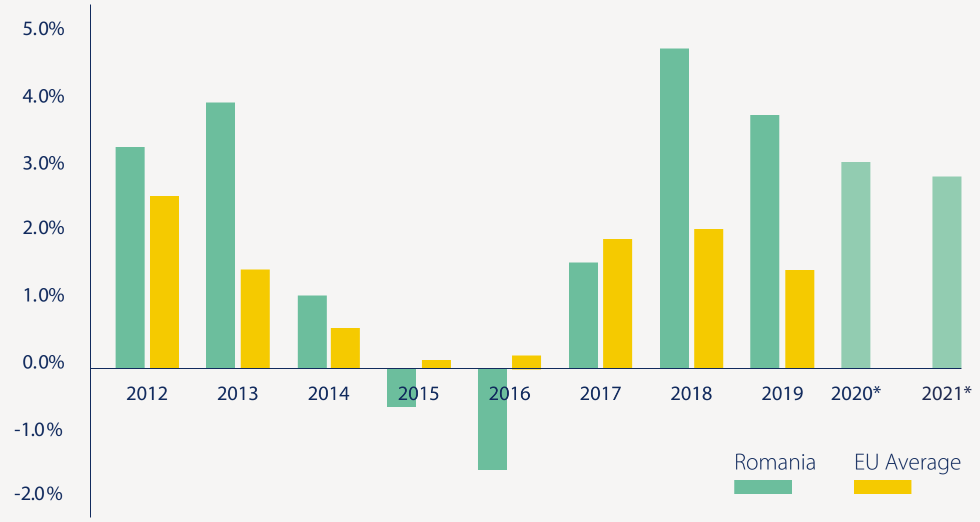
**Forecast; Source: National Commission for Prognosis*

The Foreign Direct Investment in Romania shows promising signs, recording a volume of 5.3 billion euro in 2019 (as reported by the National Bank of Romania), compared to 5.27 billion euro in 2018.

As of November 2019, the trade deficit improved to 1.5 billion euro, as exports rose by 1% and imports decreased by 0.1%. Main exported goods were transport vehicles and equipment (47% from the total). Overall 77% of the exports were to the Euro Area.

INFLATION

The Consumer Price Index was of 3.8% in Q4 2019 – with the largest increase in food (4.7%), followed by services with 3.9% and non-food goods (3.2%). According to the National Bank of Romania, the higher-than-expected inflation is due to oil prices and also to high prices for some agricultural products such as fresh fruits, which need to be imported due to unfavourable weather conditions recorded throughout 2019.



EVOLUTION OF INFLATION IN ROMANIA AND THE EU (%)

**Forecast; Source: National Commission for Prognosis*

The private consumption maintains a strong growth rate of 4.9% in 2019 y-on-y, slowly cooling down from the 10% increase recorded in 2017 and 5.2% in 2018.

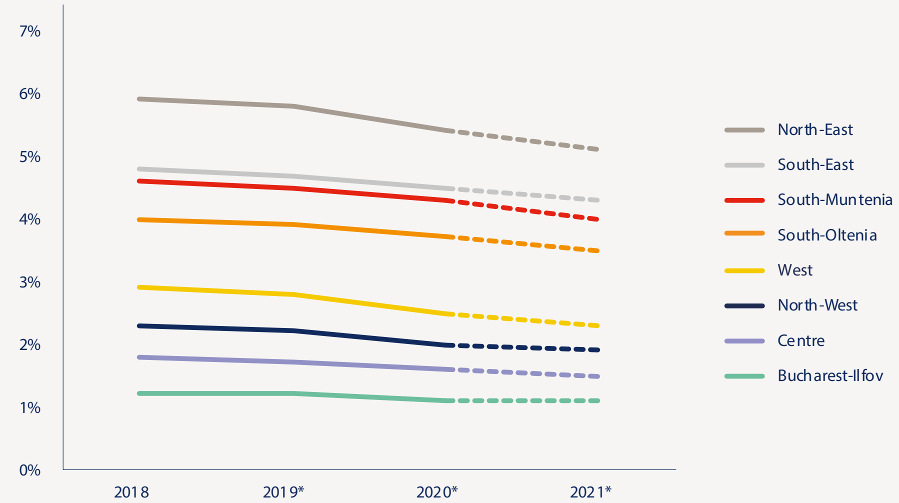
The National Bank of Romania monetary policy rate remained stable at 2.5% in 2019, although on an ascending trend since 2017. As inflation is still relatively high (compared to the maximum projected by the National Bank of Romania at 3.5%), the monetary policy rate is expected to remain stable in 2020 as well.

VAT

The main VAT rate is still at 19% - one of the lowest in the EU, 9% for certain aliments, liquids and pharmaceutical products, and 5% for social housing and certain cultural and entertainment types.

UNEMPLOYMENT

The unemployment rate across Romania in 2019 was at the historic lowest level of 3.2%, and one of the lowest in the EU, stagnant from 3.3% registered in 2018.



UNEMPLOYMENT RATE BY REGION 2018 - 2021F **Forecast; Source: National Commission for Prognosis*

2020 Forecast

The National Commission for Prognosis forecasted a further GDP increase of 4.1% in 2020, which will bring Romania on an unprecedented 10-years of growth streak. Domestic demand will continue to be the main driver of growth, being mostly stimulated by real income increase and the low percentage rate in unemployment.

Some analysts saw the possibility of a crisis similar to that of 2008 in 2020. However, we believe that this will most likely not be the case - mainly due to the slight slowdown recorded in 2019 (see GDP and private consumption), which shows that the economy is adjusting and stabilising in a calmer manner, and this slowdown does not have the abruptness that we witnessed in 2008-2011. Investors, as well as consumers, have now learned the lesson and have a more prudent approach, which prevents an unsustainable bubble to take shape.

In terms of possible Brexit impact on Romania's economy, it is expected to be minimal, as UK was not one of the major trade partners of Romania (as at 2018, the UK received ~4% of Romania's exports and accounted for ~2% of Romania's imports).

Why You Should Invest in the Romanian Construction Labour Market

pwc

The Romanian construction sector has now the most generous tax incentives. Starting 1st of January 2019 and until 2028, Romanian companies with most of their total turnover being generated mainly from construction activities are subject to a series of tax exceptions that apply to both employers and employees.

Based on PwC research in other 7 CEE countries (i.e. Bulgaria, Croatia, Czech Republic, Hungary, Poland, Serbia, Slovakia), Romania is the only country that introduced **tax incentives for the construction sector workers**. So, if your investment plans include the real estate sector, **Romania is the place and now is the time!**

The new regulation attempts to respond to employers' demands for tax incentives that could sustain higher net income and thereby make the sector more attractive and discourage outmigration. The deficit of workers was estimated at more than 70 thousand and may increase in the near future, as all the media reported, because a large number of workers have migrated to third countries for better paid jobs. Ranking the third among all economic sectors (after retail and manufacturing), construction has lost a significant number of workers in recent years and has accumulated a high proportion of unqualified workers on the minimum wage. That was the context in which the Romanian Government and the Federation of Employers activating in the Construction Sector (FPSC) reached an agreement, which set the construction sector as one of the priority sectors for the Romanian economy for ten years from now. Government emergency ordinance no 114/2018, which was amended subsequently, transposed the agreement on paper and approved the tax incentives for the employers and employees in the construction sector.

More specifically, the **key conditions** for the tax incentive are the following:

Gross salary & assimilated income:
RON 3,000-30,000/month

Employer's activity:
Romanian construction sector

Turnover condition:
Annual turnover from specifically codified construction activities is at least 80% of the total turnover

If these conditions are met, the tax incentives consist of several exemptions/reductions:

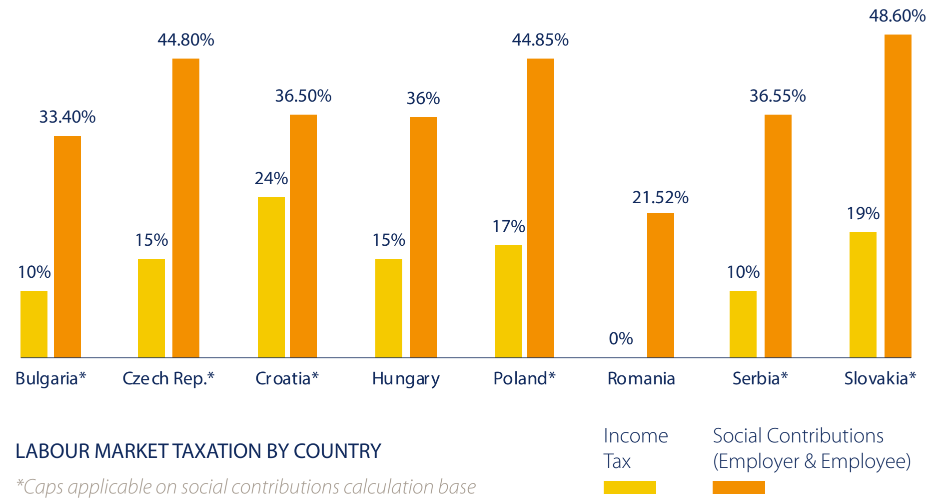
- Full **10%** income tax exemption;
- Full **10%** employee health insurance contribution exemption (individuals continue to be insured in the health insurance system, even if the contribution is not paid);
- 3.75% saving for the employee social insurance contribution (reduced from 25%);
- Social insurance contribution exemption for employers, for work performed under special or difficult work conditions (if relevant state aid provisions are in place);
- 1.98% saving for employer's work insurance contribution (reduced from 2,25% to the contribution which is wired to the Salary Payment Guarantee Fund – currently 0,27%), if relevant state aid provisions are in place.

Additionally, until 31 December 2028, the minimum gross monthly salary for the constructions sector, excluding bonuses and other additions will be 73% higher than the net minimum salary for employees performing in business sectors, for an average monthly work schedule of 167.3 hours, compared with the national gross minimum salary which is set at RON 2,230 for the year.

The incentives, addressing a wide range of income, are expected to attract skilled labor force and, eventually, to discourage avoidance strategies for paying higher wages. While the tax incentives were generally welcomed, the high level of the minimum wage, along with the restricted eligibility for tax exemptions, has been triggering discontent among some employers. The law has been criticized for disadvantaging companies that, due to lower revenues from construction relative to their total turnover, do not qualify for the tax incentives, but having to comply with the regulations regarding the higher sectoral minimum wage. Also, the law brings a significant social cost for the employees, as lower pension contributions prevent the accumulation of pension entitlements in the statutory funded component.

PwC research in some CEE countries shows that Romania is the only country introducing tax incentives for construction sector workers. A comparative overview of the labour market taxation is depicted in the graph below . Although not directed for this sector, tax incentives schemes were also introduced in Poland where the employees under 26 years may benefit from special tax relief, namely their employment income is exempt from income tax up to a given threshold. Also, a 2% decrease of social contributions might be implemented in Hungary starting July 2020.

Official statistics is not yet available to measure the impact of the construction sector tax incentives one year after their introduction. However, expectations for employment stimulation in the construction sector are high, judging based on other successful incentives, such as the famous IT sector tax incentive scheme. To this end, Romania seems the most attractive country from a salary cost perspective out of the 7 tested CEE peers, based at this stage on this long-term tax incentive designed for the construction business.



LABOUR MARKET TAXATION BY COUNTRY

**Caps applicable on social contributions calculation base*

Diana Roșu
Tax Senior Manager, PwC

Bogdan Cârpă-Veche
Tax Senior Manager, PwC

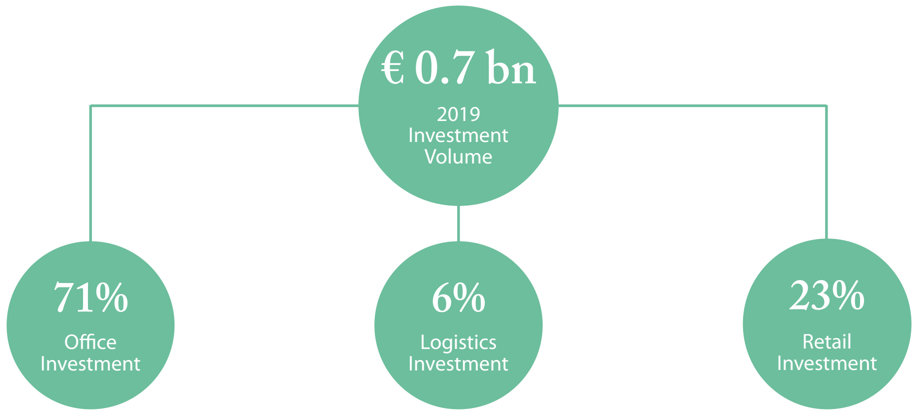
Iulia Pușcașu
Tax Senior Consultant, PwC

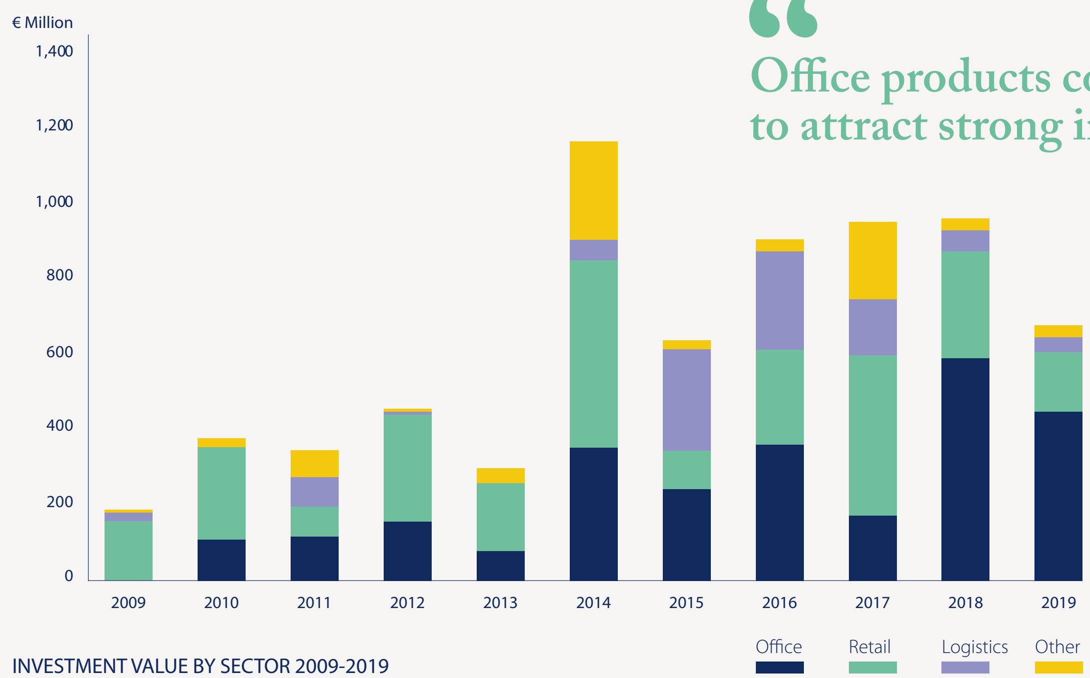
Investment Market in Romania

SUMMARY OF 2019

INVESTMENT ACTIVITY

In Romania the investment volume recorded throughout 2019 amounted around 0.7 billion euros. As in 2018 the office sector was dominant attracting 71%, followed by the retail sector with 23%. The investment transactional activity targeting industrial and logistics properties remained relatively stable y-on-y.

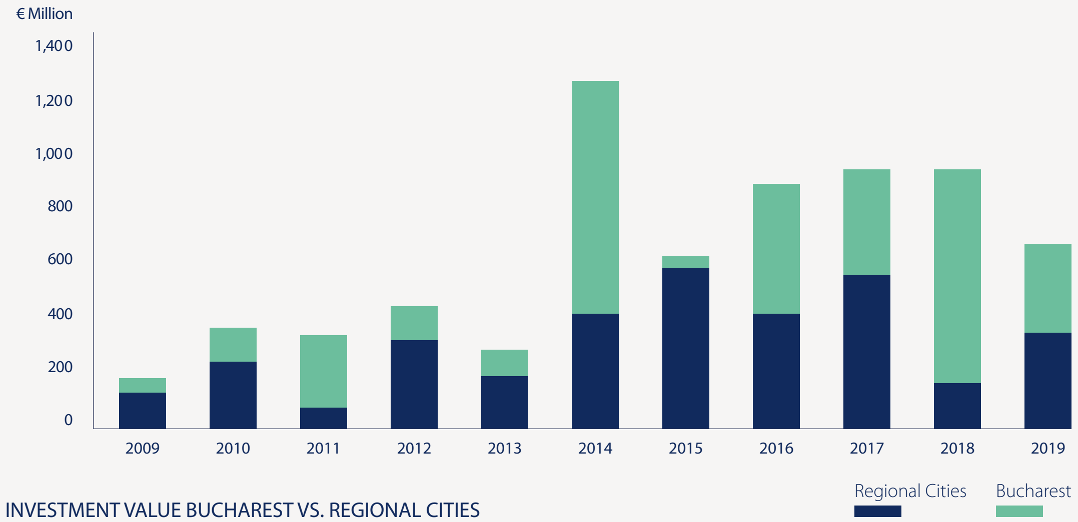




INVESTMENT VALUE BY SECTOR 2009-2019

> "Office products continue to attract strong interest

Overall regional cities have attracted an investment volume higher by 6% compared with what was registered in the capital city. Across Romania the most active locations in terms of investment activity was Bucharest, with 47% of the total investment value, followed by Cluj Napoca with 30%.



INVESTMENT VALUE BUCHAREST VS. REGIONAL CITIES

The most notable investment deal in terms of price was registered in Cluj-Napoca, which has become the most important real estate market located outside Bucharest. The Office (64,000 sq. m GLA), the largest office project in Cluj, was acquired by the Pavel Family, who are the owners of the Romanian DIY retailer Dedeman. The scheme had been developed by a joint venture between NEPI Rockcastle and Mulberry Development and it is fully occupied by tenants such as Ernst & Young, Yonder, Bosch, Deloitte or 3Pillar Global. Also in Cluj-Napoca, in the last quarter of 2019, two other office investment deals were recorded. Liberty Technology Park (18,000 sq. m GLA) was sold by Fribourg Development to White Star Real Estate and three office buildings with a GLA of 20,000 sq. m were sold by Hexagon Group to Ideal Project Services.

> "For the second year, the largest investment deal was performed by a local investor

	The Office Cluj-Napoca	The Bridge Bucharest
Transaction Year	2019	2018
Type	Office Park	Office Park
GLA (sq. m)	64,000	80,000
Price (€million)	130	200
Buyer	Dedeman	Dedeman

LARGEST INVESTMENT DEALS 2019, 2018

Source: Avison Young

In Bucharest, the French investment fund AEW has sold the 28,000 sq. m America House office building located in Victoriei Square (CBD) to Morgan Stanley Real Estate Investing and David Hay, the former CEO of AFI Europe Romania. The transaction has an estimated value of ~ 77 million euro and marks the entrance in Romania of one of the leading global investment banks.

> "2019 recorded yield compression as competition for Core CBD assets increased

Another office building transacted was Day Tower located in the Central submarket of Bucharest. The office building has a GLA of ~ 12,000 sq. m, was completed in Q4 2018 and it is fully occupied by ENEL. The value of this deal is estimated to be over 30 million euro, transactional yield being under 7%.

Lion's Head Investments, a joint-venture between Old Mutual and AG Capital acquired the third office building of Oregon Park, project developed by Portland Trust in Barbu Vacarescu – Floreasca office submarket.

> "Barbu Vacarescu – Floreasca and CBD continue to catch investors' attention

Regarding the retail sector, the South African investment fund MAS Real Estate acquired from Prime Kapital nine commercial centers located across Romania. With a total GLA of 68,000 sq. m, the assets are expected to deliver 8.15 million euro of net operating income per year. Another investment deal involving retail properties was AEW selling Promenada Mall shopping center located in Targu Mures to Indotek, a group of investment management entities owned by American and Hungarian shareholders.

> "International investors continue to target acquisitions of retail parks

MAJOR INVESTMENT TRANSACTIONS, 2019

City	Sector	Property	Purchaser	Vendor	Price (€ m)
Cluj Napoca	Office	The Office	Dedeman	NEPI & Mulberry Dev.	130*
Tertiary Cities	Retail	9 Commercial Centers	MAS Real Estate	Prime Kapital	113
Bucharest	Office	America House	Morgan Stanley RE Investing	AEW	77*
Bucharest	Office	Oregon Park Building C	Lion's Head Investments	Portland Trust	60*
Cluj Napoca	Office	Liberty Technology Park	White Star RE & Investment Fund of a major US University	Fribourg Development	45
Bucharest	Industrial	A1 Bucharest Park	CTP	Vebald Group	40

Source: Avison Young **Estimated*

PRIME YIELDS

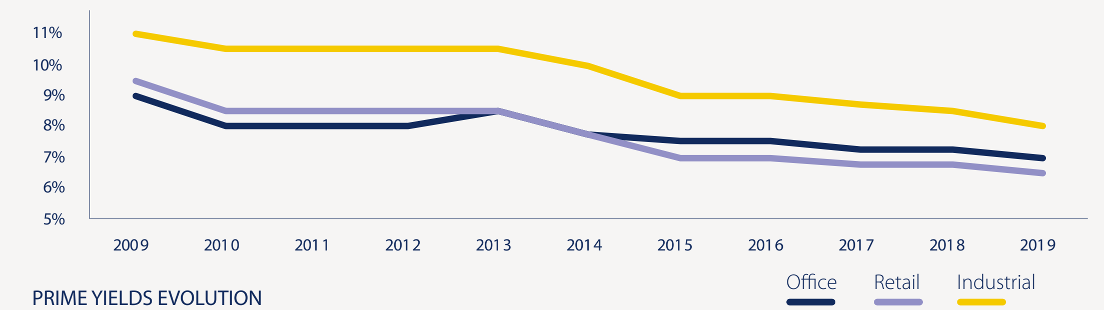
As in all European markets, yield compression has been observed in Romania as well. Still, the country continues to have attractive returns when compared with other CEE countries, like Poland or Czech Republic. Industrial and logistics properties located in Romania continue to have the most competitive yields, with prime yield standing at 8%. Prime office properties located in Bucharest achieve yields of app. 7%, while yields for prime shopping centers are at 6.5%.

8% Industrial & Logistics

7% Bucharest Offices

6.5% Retail

> "Logistics properties have the most competitive yields in the CEE region



PRIME YIELDS EVOLUTION

> "The office segment forecasted to dominate

2020 Forecast

In 2020 the real estate investment volume in Romania is expected to surpass 2019's value. At the end of Q4 2019 AFI Europe announced the signing of a non-binding letter of intent for the purchase of NEPI's existing office portfolio, comprising four office projects - three located in Bucharest and one in Timisoara. The transactional value is around 300 million euro. When finalized, it will be the largest office transaction recorded on the Romanian market.

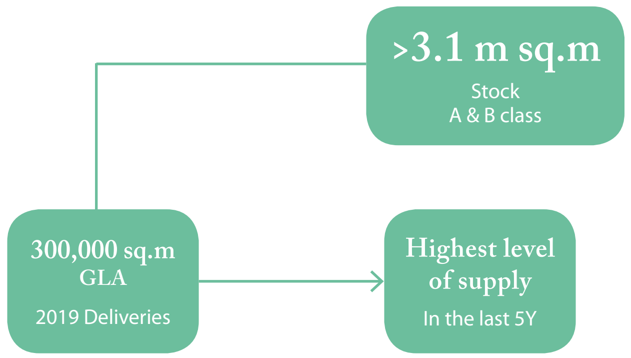
Given that a series of quality class A office properties with high occupancy rates are currently on the market for sale, the office segment is projected to dominate for the third year in a row. Private domestic investors will continue to compete for value investments. The evolution of Family Office investments in commercial real estate is a clear trend. In most cases such investors are seeking to make acquisitions with an average lot size of 10 million euro, but in the event that more leverage becomes available, it can be expected that the appetite for larger tickets will evolve. Eventually, as in other CEE markets, such private capital pools may lead to the establishment of the first domestic real estate institutions.

Office Market in Bucharest

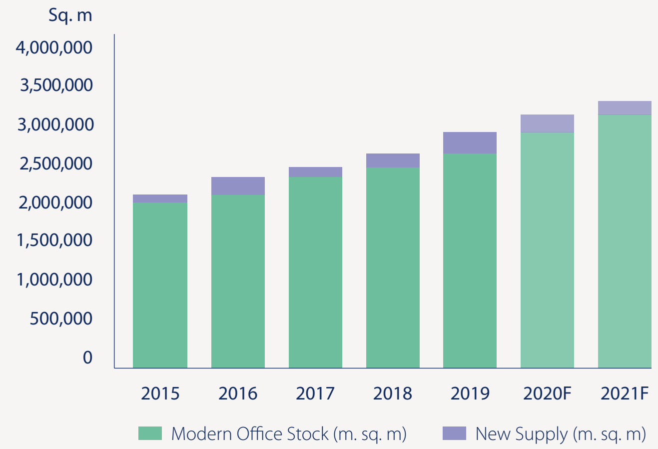
SUMMARY OF 2019

SUPPLY

Throughout 2019 the modern office stock in Bucharest increased by 11%. At the end of December existing class A and B office space exceeded 3.1 million sq. m. Fourteen office projects were delivered, having a total GLA of ~ 300,000 sq. m. This represents the highest level of supply delivered in the last five years. The most active office submarkets in terms of completions were Central West, followed by West, Barbu Vacarescu – Floreasca and Presei Libere Sq. – Expozitiei area.

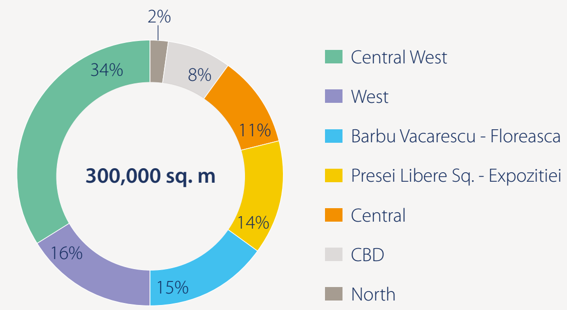


> Class A and B office space surpassed 3 million sq. m



BUCHAREST'S MODERN OFFICE STOCK EVOLUTION

Source: Avison Young

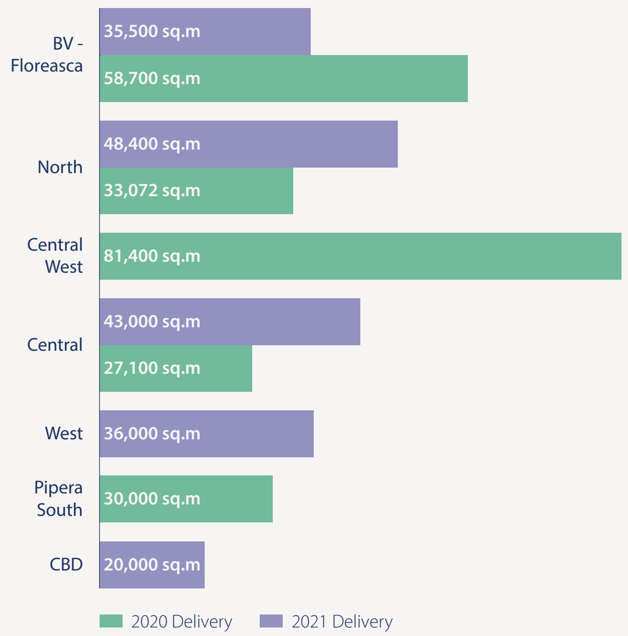


NEW SUPPLY DISTRIBUTION BY SUBMARKET IN 2019

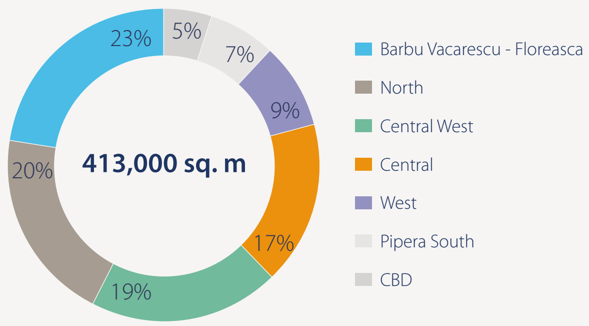
The largest office developments delivered were Renault Bucharest Connected developed by Globalworth for Renault with a GLA of 47,500 sq. m, Business Garden developed by Vastint in the Central West area with a GLA of 43,000 sq. m and Expo Business Park developed by Portland Trust in Presei Libere Sq. – Expozitiei submarket, office project with a total rentable area of 42,000 sq. m.

> 3.5 million sq. m of modern office spaces by the end of 2021

Currently there are over 400,000 sq. m of office spaces under construction scheduled for delivery in the next two years, with 66% due to be completed this year. The most active submarkets in terms of office construction activity are Barbu – Vacarescu Floreasca with 23% of the office spaces under construction, followed by North (20%) and Central West areas (19%).



OFFICE SPACES UNDER CONSTRUCTION BY DELIVERY YEAR (SQ. M)

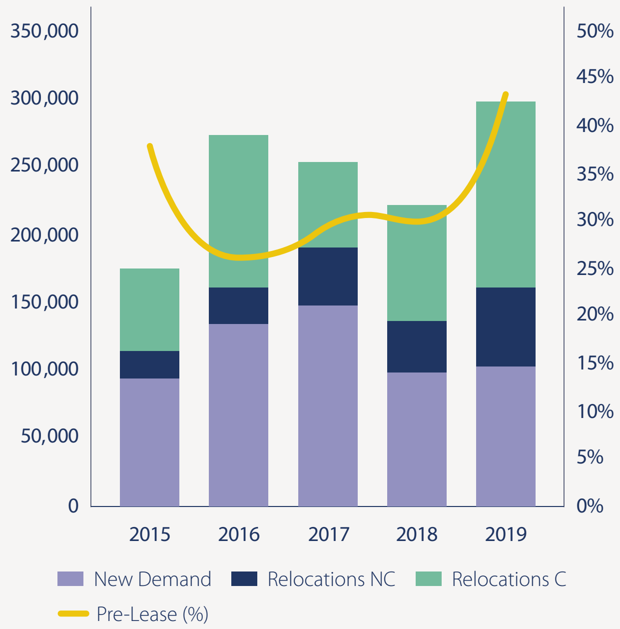


OFFICE SPACES UNDER CONSTRUCTION BY SUBMARKET

DEMAND

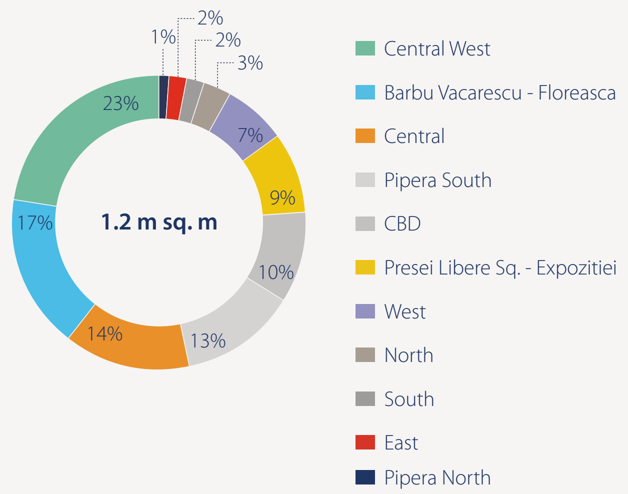
In Bucharest, office leasing activity recorded throughout 2019 is of 370,000 sq. m and it is higher by 22% when compared with the previous year. Net take-up represents more than 80%, with 297,000 sq. m transacted and is divided between new demand (54%) and relocations within class A and B office stock (46%). Compared with 2018, net take-up is higher by 34%, with new demand increasing y-o-y by ~ 17%. Most of the net take-up was recorded in the Central West submarket (28%), followed by Central (23%) and CBD (9%). Overall, when reviewing the net take-up evolution in the last five years, the areas that have attracted tenants' attention the most are Central West submarket, followed by Barbu Vacarescu – Floreasca and the Central area.

> “Strong demand fuels development activity



NET TAKE-UP EVOLUTION BETWEEN 2015 - 2019 (SQ. M)

> “Central West submarket attracted most of the net take-up tracked in the last 5 years



NET TAKE-UP EVOLUTION BY SUBMARKET BETWEEN 2015 - 2019 (SQ. M)

Pre-lease activity has increased considerably in 2019. Approximately 128,000 sq. m were pre-rented last year, representing 43% from net take-up. This is the largest pre-leased office area recorded over the last decade. The highest activity in terms of pre-leases was recorded in Presei Libere – Expozitiei submarket, with 36% of the area pre-leased throughout 2019, followed by Central West (29%) and Central area (26%). As in previous years, pre-lease transactions were among the most important deals in terms of surface (e.g. Ubisoft – 28,000 sq. m, BCR – 14,000 sq. m, Societe Generale - ~10,000 sq. m).

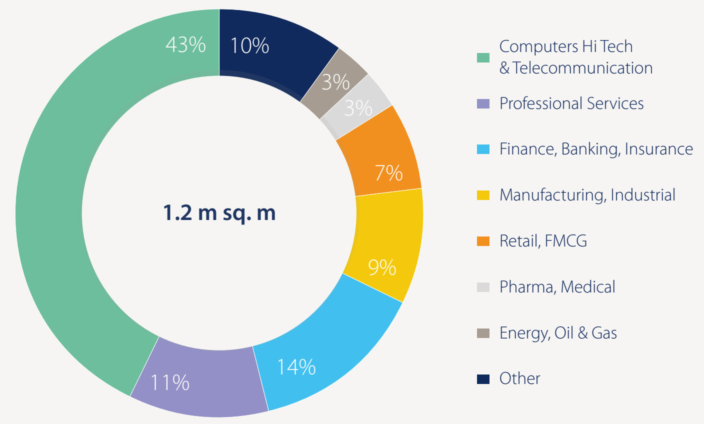
> “Tenants located in central locations, occupying modern spaces tend to renew their lease

Another 74,000 sq. m were the subject of renegotiation and renewal transactions, ~ 30% being concluded in Barbu Vacarescu – Floreasca submarket, followed by West and Pipera North. In general, the higher the landlord's flexibility in terms of rents and contractual term, the higher the chances a tenant decides towards renewal. Given that occupiers have clear regulation policies related to the premises they lease, this trend applies for modern office buildings, with high technical specifications.

> “Pre-lease activity reached the highest level registered in the last 10 years

Throughout 2019 Computers Hi Tech & Telecommunication companies were again the most active office occupiers, with 41% of the net take-up, followed by Financial, Banking & Insurance businesses with 16% and tenants active in Professional Services, with 11%. Analysing the net take-up recorded over the past five years, Computers Hi Tech & Telecommunication tenants have rented in Bucharest over half a million sq. m.

> “Computers Hi Tech & Telecommunication companies rented over half million sq. min the last 5 years



NET TAKE-UP EVOLUTION BETWEEN 2015 - 2019, DIVIDED BY BUSINESS SECTOR (SQ. M)

VACANCY

Bucharest's general vacancy rate for class A and B office space at the end of 2019 stands at 9% and compared with the last quarter of 2018 it is slightly higher. In total there are ~ 280,000 sq. m of modern office spaces vacant across all submarkets. The largest amount is located in Pipera North (24%), followed by the North area (18%).

Looking at submarkets performance, the lowest vacancy rates are in Barbu Vacarescu – Floreasca area (< 1.5%) and Presei Libere Sq. – Expozitiei (5%), followed by CBD (Victoriei – Aviatorilor) – 5.7%. The vacancy rate in Pipera South is around 7%, while in the Central West submarket stands at ~ 10%.

OCCUPANCY COSTS

Over the course of 2019 prime headline rent slightly increased and currently stands at 19 euro per sq. m per month. In CBD headline rents for A class office space are between 17 – 19 euro per sq. m per month, while in Barbu Vacarescu – Floreasca submarket are in the range of 15 – 17.5 euro per sq. m per month. In semi-central locations the headline rents for prime projects are around 13 –15 euro per sq. m per month, while in peripheral areas A class office space is transacted between 9 –12 euro per sq. m per month. Net effective rents are lower by 10 – 15%. Incentives offered to tenants are usually months of free rent and a budget for fit out works.

> “Given the short availability of office space in Core CBD, prime rental level has slightly increased

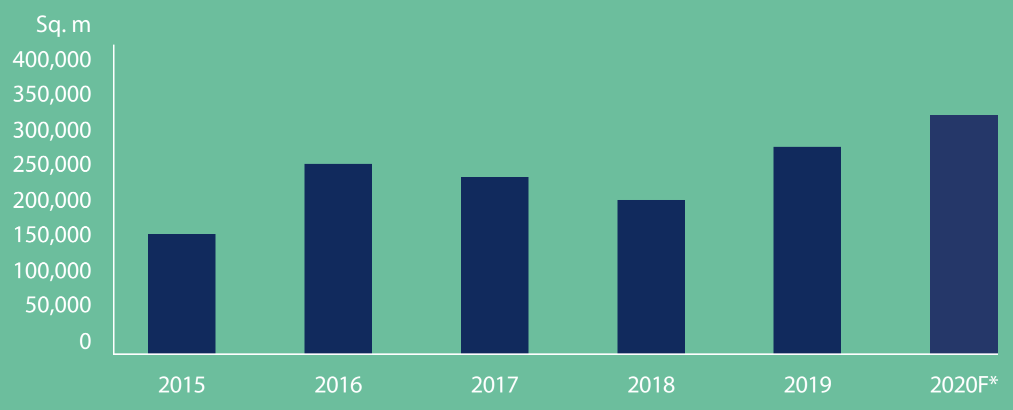
2020 Forecast

"Demand for office space in Bucharest is expected to reach record heights

Given that the net take-up recorded four years ago exceeds 270,000 sq. m, the average level of new demand over the last five years is ~ 75,000 sq. m per year and having in mind the standard lease length practice, demand for office space in Bucharest is projected to reach record heights in 2020.

Throughout 2019 relocations from old stock have increased considerably, accounting for more than 35% out of the total level of new demand. For tenants located in villas or old buildings, the availability of quality office stock at affordable occupancy costs has become more attractive and it is anticipated that this trend will continue in 2020 as well.

Over the next two years 400,000 sq. m of office space is projected to be completed, while another 300,000 sq. m are planned to be delivered by the end of 2022. Given that, the rental levels are expected to remain stable going forward.

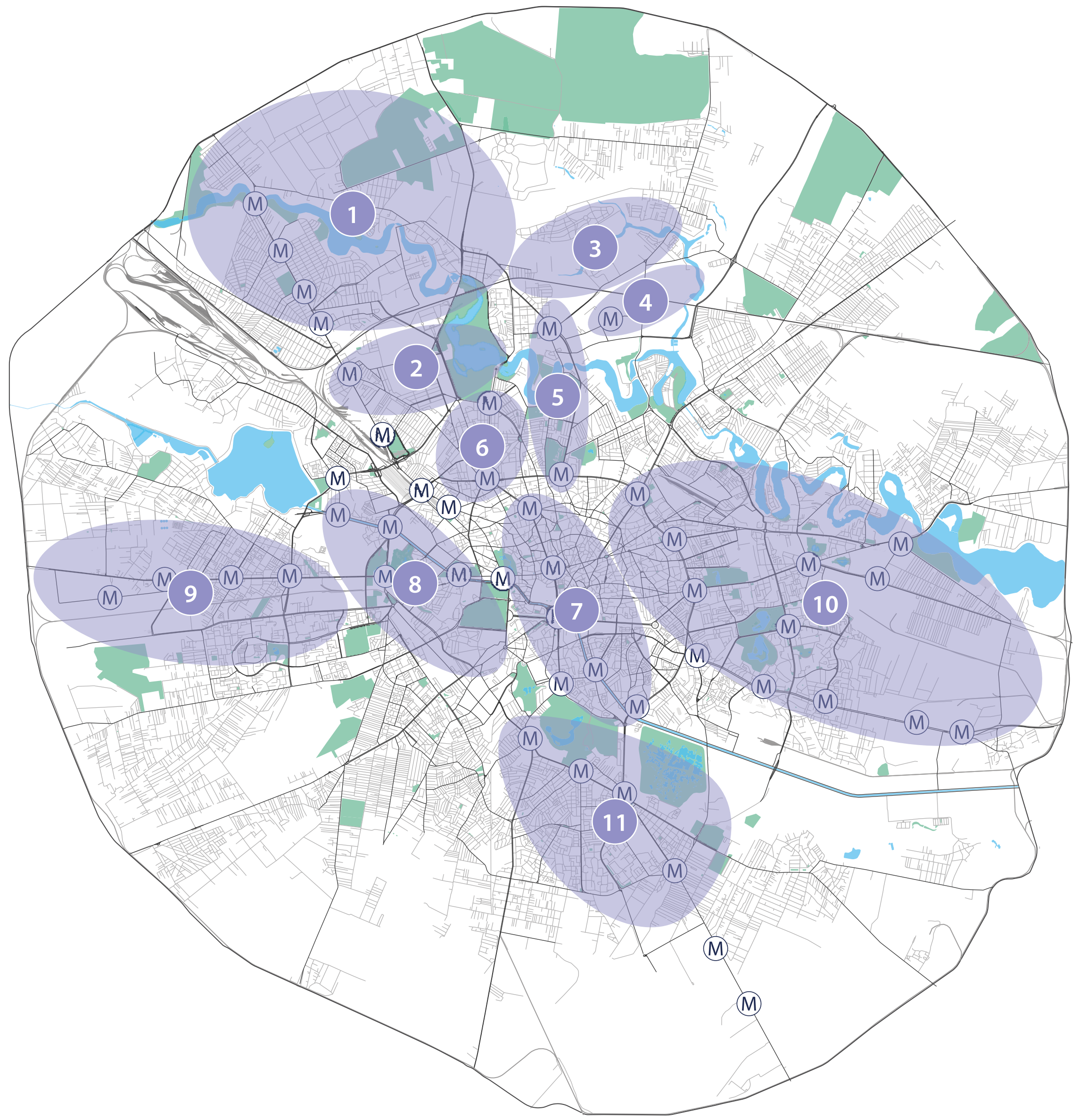


NET TAKE-UP EVOLUTION BETWEEN 2015 - 2020F

Net Take-Up (sq. m)

*Considering 2016's net take-up (pre-leases excluded), the average level of new demand and the average pre-leased area per year over the last five years

Source: Avison Young



Legend

- Ⓜ Metro Station
- 1 North-Baneasa Submarket
- 2 Expozitiei Submarket
- 3 North-Pipera Submarket
- 4 South-Pipera Submarket
- 5 Floreasca-Barbu Vacarescu Submarket
- 6 CBD Submarket
- 7 Central Submarket
- 8 Center-West Submarket
- 9 West Submarket
- 10 East Submarket
- 11 South Submarket

BUCHAREST OFFICE SUBMARKETS

Source: Avison Young

The Evolution of Construction Costs Over the Past Five Years

Over the past five years, the Romanian construction market registered important growth both in residential and commercial developments, new projects being started or delivered for all sectors, and new opportunities rising in Bucharest as well as in major regional cities.

Although the market is going well in terms of new developments, sectors like modern office buildings, hotels and retail developments being at a higher level than in the past few years, an important issue is affecting the construction process and also the interest of developers for future projects: the continuous increase in construction costs.

The tendency for innovation and sustainability, the new technologies and construction techniques, along with the legislative modifications and labour shortage in the area, led to a massive increase of total construction costs for new developments in Romania over the past five years.

By category of objects, the highest increase in construction costs was registered for non-residential buildings (office buildings, retail and industrial developments, hotels) by 38% over the past five years, followed by a 35.8% increase in residential buildings costs and 35.5% for civil engineering buildings. In the first quarter of 2019 the construction costs of non-residential buildings has increased by 9.9% compared with the last quarter of 2018.

According to Eurostat database and statistics, the total construction costs increased by 36% in the last five years (2015-2019). In the first quarter of 2019, the total construction costs increased by 9% compared with the last quarter of 2018.

In terms of building materials, the situation is somewhat different, as in 2015-2016 the cost for construction materials registered decreases by 9% in 2015 and 3% in 2016. However, over the past five years, the total costs with building materials increased by 17%. In the first quarter of 2019, the costs increased by 6% compared with the last quarter of 2018.

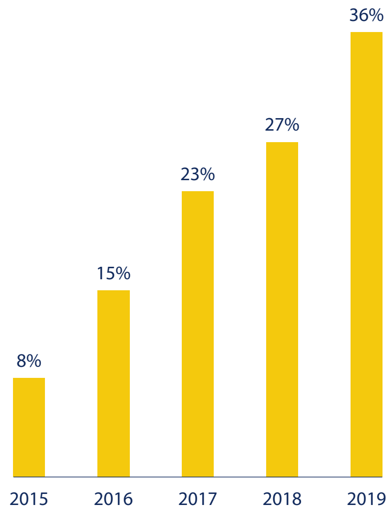
In terms of elements of structure, the highest increase of construction costs in the past five years was registered for capital repair works by 46%, followed by an increase of 43% in construction costs for maintenance and current repair works and 32% increase in new construction works costs.

In terms of labour costs in construction, Romania is facing a prominent lack of both qualified and unqualified personnel which, together with the legislative changes regarding the construction law implemented in the beginning of the year, generated the highest annual increase in hourly labour cost in the European Union for the first quarter of 2019.

Compared with the same quarter of 2018, in Q1 2019 the hourly labour costs for construction in Romania increased by 16,3%. Compared with the last quarter of 2018, in Q1 2019, the labour costs in construction (both wages and salaries and non-wage components) increased by 5,1%.

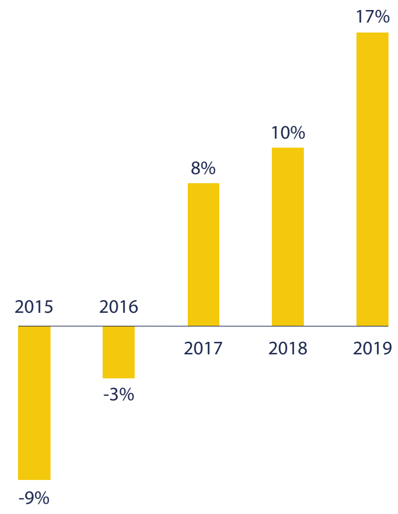
Due to lack of personnel in the construction sector, which is estimated to intensify in the following years, the cost with construction workmanship is also on a growing path, and is likely to double in the next five years, according to latest researches.

Along with the increase in construction and labour costs, the prices for land purchase have also increased over the last few years in Romania, overcoming the growth of rent levels for office and retail spaces, and forcing developers to design more innovative projects that will guarantee large revenues.



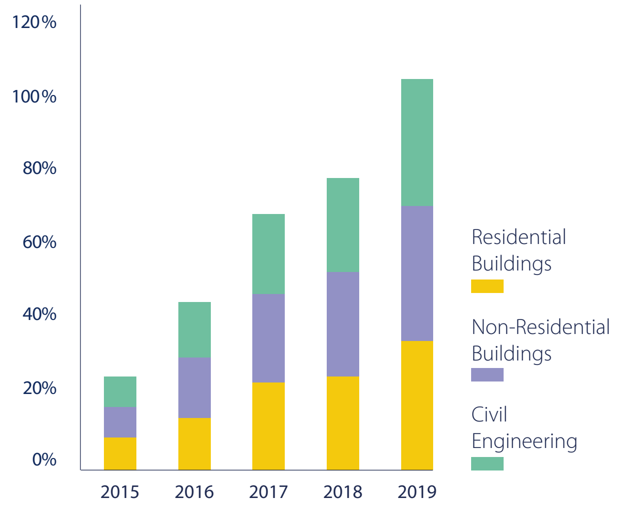
TOTAL CONSTRUCTION COSTS EVOLUTION

Source: Eurostat



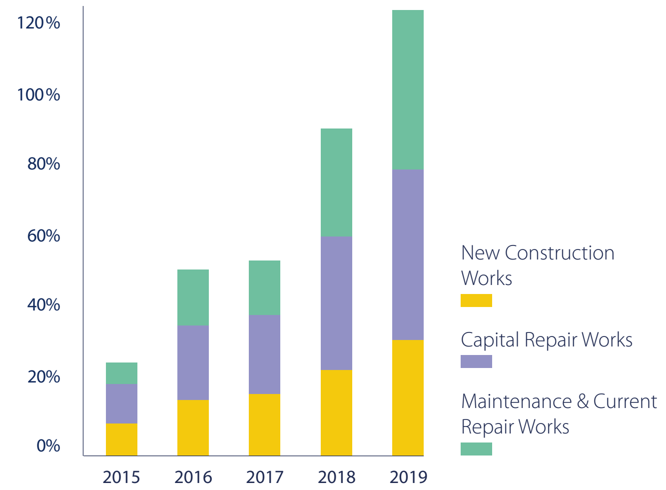
CONSTRUCTION MATERIALS COSTS EVOLUTION

Source: Eurostat



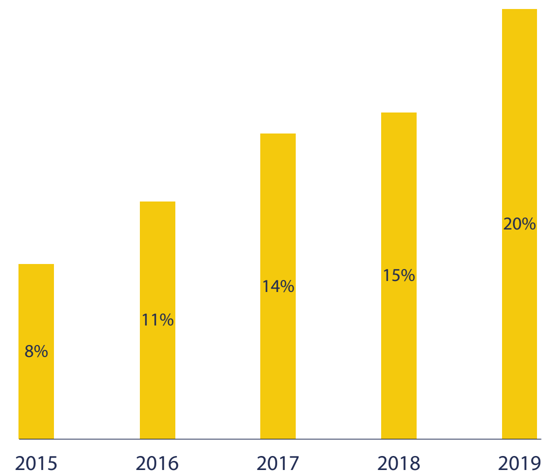
CONSTRUCTION COSTS EVOLUTION BY CATEGORY OF OBJECTS

Source: Eurostat



CONSTRUCTION COSTS EVOLUTION BY ELEMENTS OF STRUCTURE

Source: Eurostat



HOURLY LABOUR COSTS EVOLUTION IN THE CONSTRUCTION SECTOR

Source: Eurostat

Industrial & Logistics Market in Romania

SUMMARY OF 2019

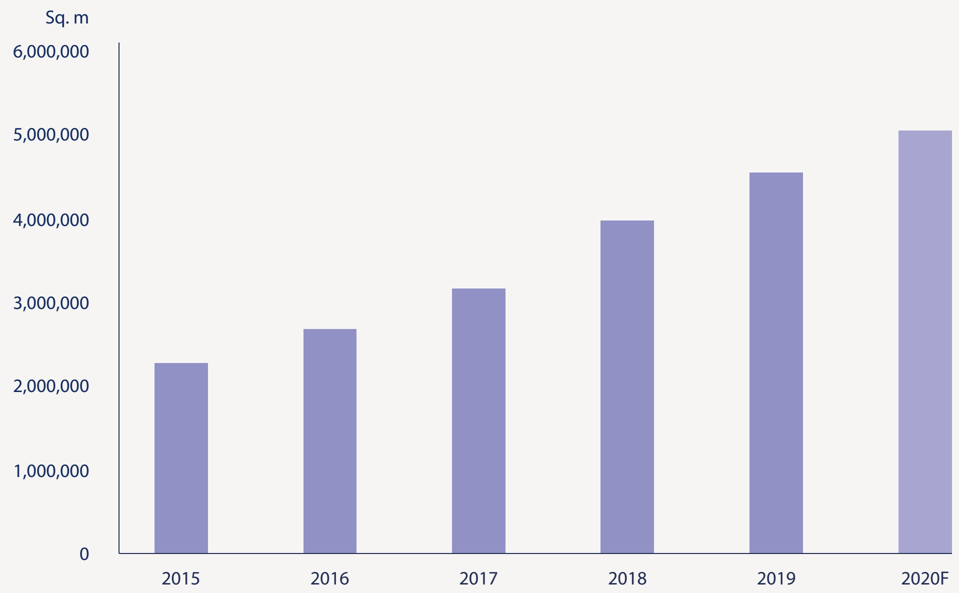
SUPPLY

In recent years the industrial and logistic market in Romania has been following an upward trend, both in terms of supply and demand. Since 2016, the modern industrial and logistic stock developed on a very fast pace, boosted by solid demand coming from retailers, logistic and automotive companies. With 600,000 sq. m of new supply delivered across Romania last year, the logistic and industrial stock stands at 4.6 million sq. m at the end of 2019.

4.6m sq.m
Total stock
Industrial & Logistics

0.6m sq. m
2019
New supply

> Industrial still unstoppable

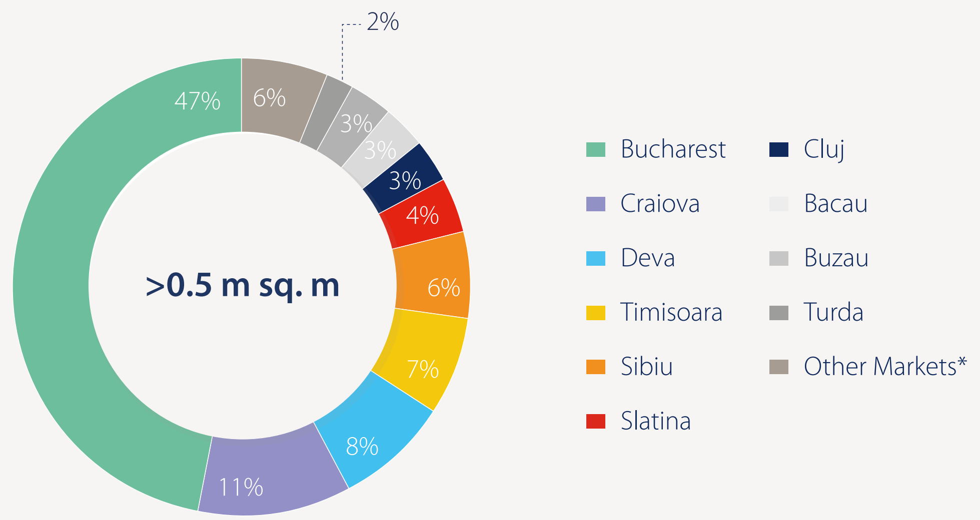


ROMANIA MODERN INDUSTRIAL STOCK EVOLUTION 2015 - 2020F

> Developers are balancing the risks of speculative developments

The newly completed units are both built-to-suit and speculative projects. A practice is becoming common on the local market: units are built partially speculative. Construction works start based on an anchor tenant pre-leasing 25 - 50% of the total rentable surface of the project, while the vacant space is kept unfinished until it is pre-leased. This way, developers save additional costs related to finishing, permitting and taxes and can still accommodate an occupier's demand in a matter of a few months.

Overall, developers are planning to deliver throughout 2020 more than 500,000 sq. m of industrial and logistics spaces. The most active regions in terms of deliveries are expected to be Bucharest, followed by the South-West and West regions. Projects that are due to be completed this year are either relaying fully on pre-leases (built-to-suit units) or are partially built on a speculative basis (have an anchor tenant signed).



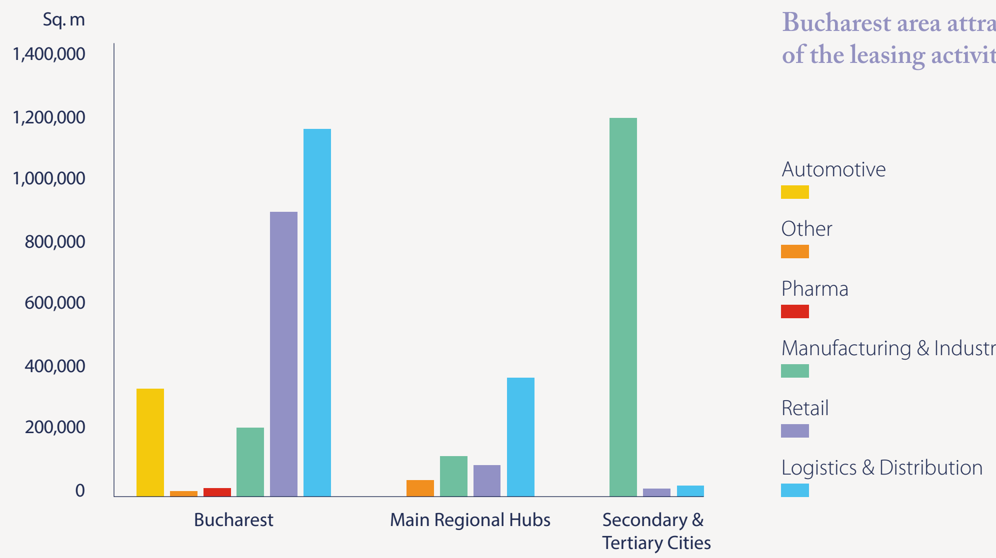
DEVELOPMENT PIPELINE BY REGION (SQ. M), 2019

Buzau, Constanta, Pitesti, Oradea

DEMAND

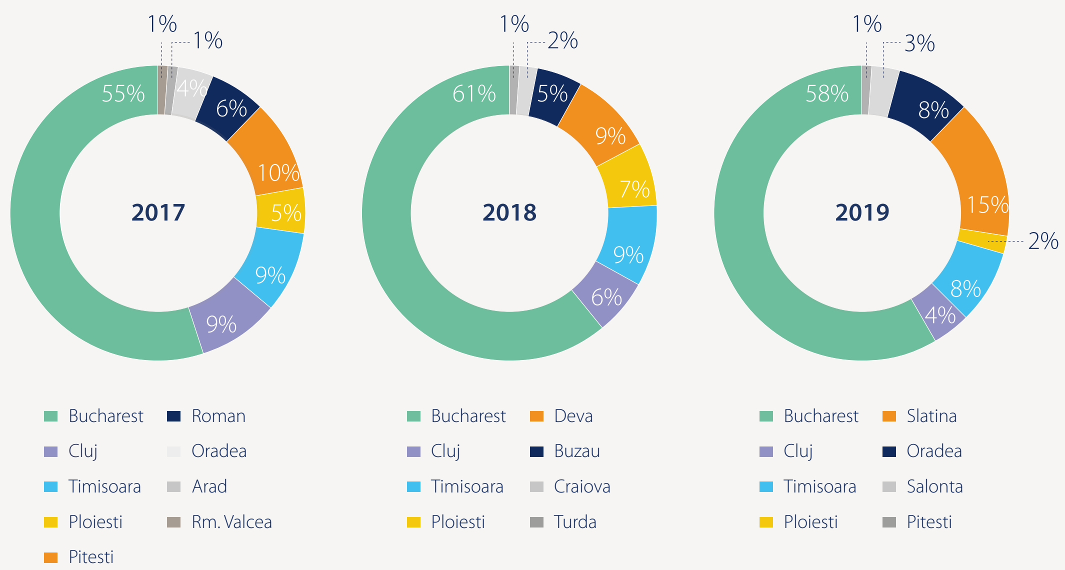
Throughout 2019 approximately 460,000 sq. m of industrial and logistic spaces were transacted, amount lower by approx. 7% y-on-y. In Bucharest, demand for industrial and logistic spaces was of 270,000 sq. m, representing 58% out of the total take up recorded throughout Romania. Regions such as Slatina, Timisoara and Oradea were also in high demand, attracting 32% of the net take up.

> “ Bucharest area attracted 58% of the leasing activity in 2019



TAKE-UP DISTRIBUTION BY BUSINESS SECTOR, 2019

The most dynamic occupiers in 2019 were companies active in Logistics & Distribution and Manufacturing/ Industrial (each with 34% of the net take-up), followed by Retail (22%) and Automotive companies (7%). Bucharest attracted demand coming mostly from logistic companies and retailers. Main regional markets outside Bucharest were attracting tenants active in logistics, while secondary and tertiary cities were markets targeted by Manufacturing/ Industrial companies.



TAKE-UP DISTRIBUTION BY REGION BETWEEN 2017 - 2019 (SQ. M)

Tenant	Business Sector	Leased Area (sq. m)	Project	Landlord	City
Profi	Retail	72,000	CTPark Bucharest West	CTP	Bucharest
Sogefi	Manufacturing/Industrial	34,000	WDP Oradea	WDP	Oradea
Pirelli	Automotive	32,000	WDP Slatina	WDP	Slatina
Arctic	Manufacturing/Industrial	20,000	Eli Park	Element Industrial	Bucharest

Source: Avison Young

Regarding the standard market practice, in 2019 the trend for leases shorter than 3 years was recorded, as occupiers were searching for temporary spaces and landlords were keen to enhance the operating income of their properties. Going forward, it is estimated that this trend will continue to be present.

VACANCY

Fuelled by significant demand, the general vacancy rate for industrial and logistic spaces lowered to unprecedented levels in the last few years. However, as in the last two years the construction of new spaces surpassed demand, it is currently following an upward trend.

At the end of 2019 the general vacancy rate for industrial and logistics stock was around 7% across Romania. Compared to previous years, when the vacancy rate recorded in Bucharest was 50% lower compared with the figure registered in regional markets, now, due to large built-to-suit units with long-term leases existing outside the capital city, the situation reversed and the vacancy rate is slightly higher in Bucharest compared to the rest of the country.

> “ Although on a slight upward trend, the vacancy rate remains low

OCCUPANCY COSTS & CONDITIONS

The prime headline rent for 5,000 sq. m of class A logistics space located in Bucharest is in the area of 4 euro per sq. m per month, while the service charges are between 0.7 and 1 euro per sq. m per month. Incentives offered to tenants, such as rent-free months and personalised fit-out solutions usually apply. Considering that, the net-effective rents are lower by 10 - 20%.

Main regional markets such as Cluj or Timisoara have a rental level similar to Bucharest, while secondary markets such as Oradea or Craiova have a rental level between 3.5 - 3.8 euro per sq. m per month. Standard lease length for logistic activities is around 3 - 5 years, for production between 5 - 10 years, and for units built-to-suit for retailers around 7 - 10 years.

> “ Rents in main regional industrial & logistic hubs are at the same level as in Bucharest

2020 Forecast

“Modern stock expected to surpass 5 million sq. m in 2020

Given that ~ 500,000 sq. m of industrial and logistics spaces are planned to be completed this year, it is estimated that the modern stock in Romania will surpass 5 million sq. m by the end of 2020.

Manufacturing occupiers will continue to be attracted by secondary and tertiary regions (e.g. Iasi, Bacau, Craiova), being driven by the workforce availability. Thanks to good infrastructure, main regional markets such as Timisoara or Cluj-Napoca will gain more attention as logistic hubs, as the necessity for distribution exceeds the point where it can be handled from just one strategic location.

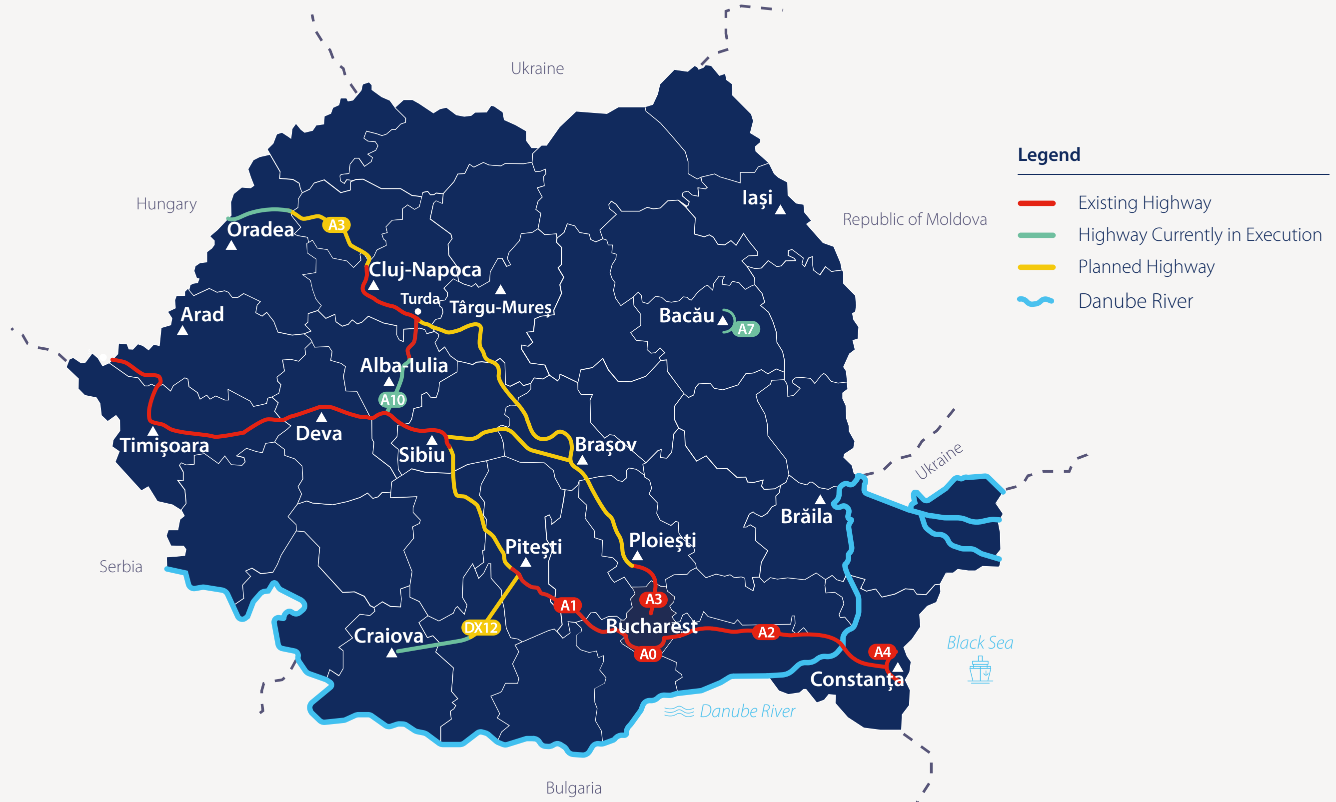
In 2019 new markets such as Constanta, Craiova or Bacau have emerged. Going forward, these regions are expected to become important industrial and logistics hubs.

Tenants are becoming interested in optimising the space they occupy and their requirements have become more specific in terms of temperature, layout/partitioning and general specifications related to their operations. It is expected that this tendency will continue to have an impact on the development activity.

“Growing demand for smaller in-city logistic spaces

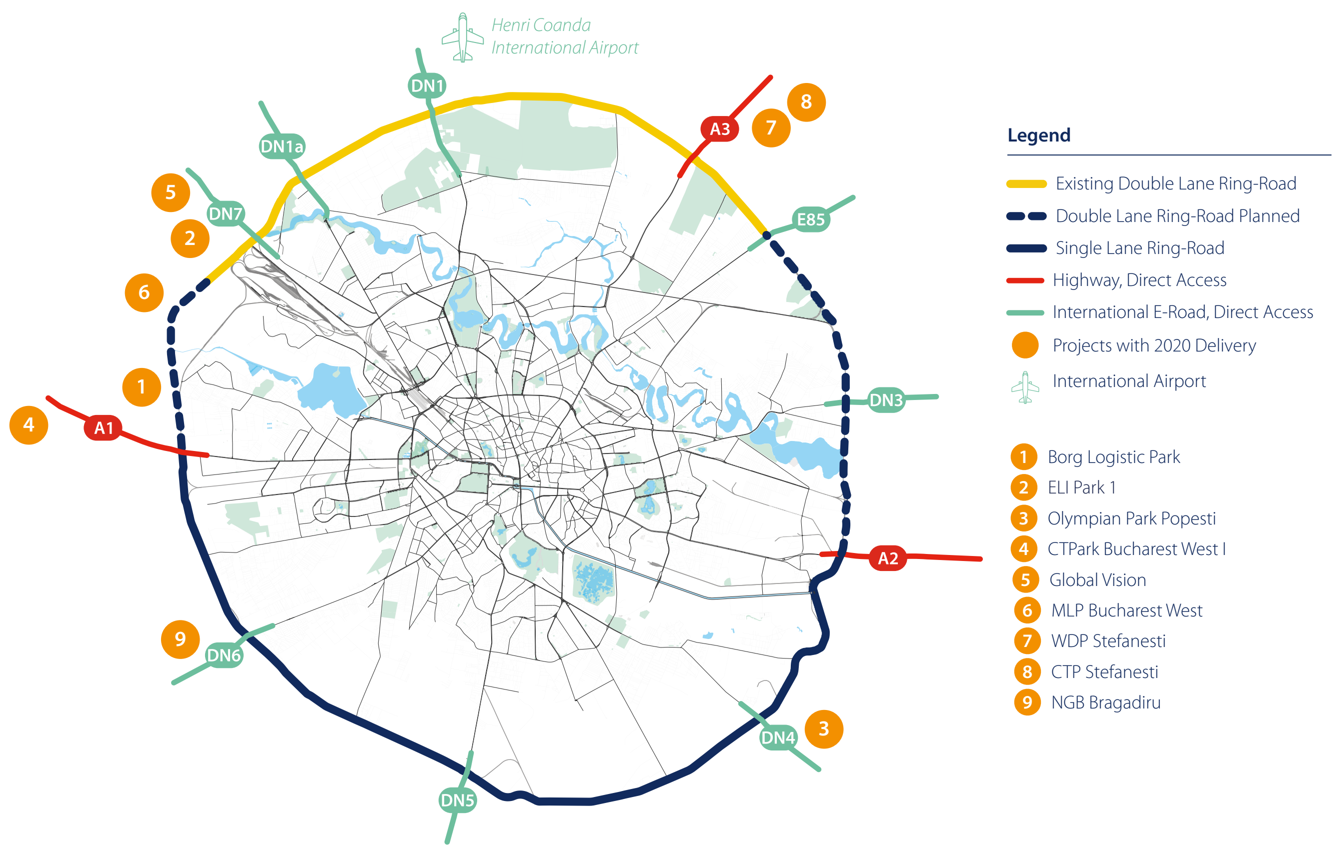
There is a growing demand for smaller logistic spaces located inside the city's boundaries. In Bucharest, this trend is recorded in close proximity to peripheral subway stations such as Preciziei or Anghel Saligny.

These particular locations allow for quicker movement of merchandise, given the increasing traffic congestion and are also friendly in terms of employees' commute. Demand for this type of space is coming from small occupiers looking to move from improper spaces to class A facilities. Considering that, developers might pay attention to a new type of product - class A logistic units located at the periphery of the city or inside the city's boundaries, that can be partitioned into smaller units.



HIGHWAYS AND REGIONAL INDUSTRIAL & LOGISTICS HUBS, ROMANIA

Source: National Company for the Management of Road Infrastructure



ACCESS TO INTERNATIONAL E-ROADS & HIGHWAYS AND 2020 PIPELINE, BUCHAREST

Source: Avison Young, Google Maps

Romania, One Step Closer for Successful Business

Romania is a profitable business destination, ensuring competitive return on investment rates. Some of the biggest players in the world found here a spot on the global investment map for long-term successful businesses.

With ~5 billion euros invested in 2018, Romania is one of the leading inward FDI recipients in the pool, being also "recommended for investment" by some of the major international rating agencies (Moody's and Fitch).

Romania has the **7th lowest gas prices** and the **12th lowest electricity prices** in EU (Eurostat, S1 2019), **a well developed network of 89 industrial parks** spread across the country with both private and public ownership that offers access to utilities & benefits packages according to the investor's focus.

State aid schemes are also offered for supporting the foreign capital influx into the domestic economy. Romania **has lowered the threshold for state aid** meant to help support **industry investments exceeding 1 million euros** (GD 807/2014). This is meant to allow a broader number of companies access to regional markets.

Eligible costs include:

- new building construction
- any rental affiliated costs
- technical installations
- new machinery and equipment, as well as purchasing intellectual rights.

Furthermore, the **GD 332/2014** applies to minimum **10 new jobs/per location investment**. Eligible costs include salary costs registered for a 2 consecutive year period resulted as a direct consequence of the investment. Salary costs are comprised of gross average annual salary plus benefits.

Romania enjoys a competitive fiscal regime with a:

- **19% VAT – standard VAT rate;**
- **16% corporate tax and 0% income tax for employees in IT&C and R&D;**
- **0% tax on reinvested profit on companies investing in new technological equipment and 5% dividend tax rate;**
- **0% for EU shareholders.**

About InvestRomania

InvestRomania is the governmental body responsible with promoting and facilitating foreign direct investment in Romania. InvestRomania, the "one-stop-shop" for foreign investors, is also serving the international business community in the area of project implementation with services that start from scratches until the investment becomes an established sucess story. InvestRomania is also the main interface between foreign companies, central/local authorities and all relevant stakeholders.

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