Romanian real estate market overview

2021

AVISON YOUNG

10 trends
for a zero carbon world

Across the world we are seeing Environmental, Social and Governance (ESG) issues exercising a great influence throughout our economy, society and built environment. As world leaders prepare to reaffirm their pledges on tackling climate change at COP26, our team looks at what the journey to net zero carbon means for real estate.

Read our
***10 trends* research report**

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Macroeconomic analysis

UniCredit Bank

Reforms for money

INDICATOR	'19	'20	'21	'22F	'23F
GDP (€ bn)	223.2	218.2	241.4	262.0	276.4
Population (million)	19.4	19.3	19.2	19.1	19.1
GDP per capita (€)	11,488	11,290	12,581	13,690	14,469
REAL ECONOMY, CHANGE (%)					
GDP	4.2	-3.9	6.4	3.7	3.5
Exports	5.4	-9.7	11.9	7.3	6.0
Imports	8.6	-5.1	13.5	5.4	5.0
Monthly wage, nominal (EUR)	1,069	1,119	1,174	1,230	1,281
Real wage, change (%)	8.9	3.6	1.9	-0.4	2.0
Unemployment rate (%)	3.9	5.0	5.5	4.7	4.0
FISCAL ACCOUNTS (% OF GDP)					
Budget balance	-4.4	-9.4	-8.0	-6.2	-4.4
Public debt	35.3	47.4	49.1	51.2	53.1
EXTERNAL ACCOUNTS					
Net FDI (% of GDP)	2.2	1.4	3.4	3.5	3.5
INFLATION/MONETARY/FX					
CPI (period average)	3.8	2.7	5.0	7.7	3.9
Central bank reference rate (end of period)	2.50	1.50	1.75	3.00	3.00
3M money market rate (December average)	3.12	2.04	2.83	3.86	3.84
USD/RON (period average)	4.24	4.24	4.16	4.53	4.73
EUR/RON (period average)	4.75	4.84	4.92	5.04	5.12

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 2022. The report includes updates as of the date of the publication.

Outlook

We expect GDP to grow by 3.7% in 2022 and by 3.5% in 2023, with downside risks. Private consumption should be the main growth driver in 1H22, with investment taking over if Romania receives loans and grants from NGEU equivalent to more than 2% of GDP and if building construction remains buoyant. High food and energy prices could keep inflation around 6% at the end of 2022 but loss of purchasing power is likely to slow consumption and inflation in 2023. We expect the NBR to hike its key rate to 3% and to keep implied interest rates above 4% for most of 2022. EUR-RON is likely to move to a 5.00-5.10 range in 2022.

GDP growth

3.7%
2022

3.5%
2023

Investment

Productive investment could be curtailed by tighter monetary conditions and by Romania's uncertain tax environment. The government might impose as of 2022 a solidarity tax on companies with a turnover of more than €100 million. This could drive away potential foreign investors, in our view. The most pressing investment for Romania's economic stability is in offshore gas fields. State-owned Romgaz is buying Exxon's rights to Black Sea gas fields, but extraction could be delayed for years due to a lack of legislation. In 2023, the contribution from investment to GDP growth could decline further if the country falls behind in its reform schedule and fails to receive all RRF funds.

Uncertain legislative outlook could curtail CAPEX

Private consumption

Private consumption could slow once pent-up demand is exhausted, probably in 1H22. Thereafter, labor-market conditions will be unfavorable for a fast rise in real income and pensions will increase less than living costs in 2022. Employment in manufacturing with low added value could decline further as high commodity prices and rising minimum wages eat into margins, which will have already been affected by the strong RON. In addition, real wage growth is unlikely to match inflation in 2022 if small wage increases in manufacturing and the administration offset higher indexation in leisure services and IT.

Household income could be affected by falling employment and low wage growth

Inflation

If household incomes fall in real terms in 2022, inflation could ease in 2023. Until then, Romania may be confronted with very fast food-price growth, which we expect to end 2022 close to 10%. This would explain half of headline inflation and more than two-thirds of core inflation. With wholesale prices more than doubling in 2021 compared to 2020, bakery, dairy and imported-food prices could add to higher fuel and energy prices, slowing disinflation to around 6% by end-2022. Stronger disinflation could be prompted by lowering the price cap level for electricity prices and a 40% compensation for natural gas, approved at the time of writing this report. Inflation could return to the target range in 2023 if supply shocks subside.

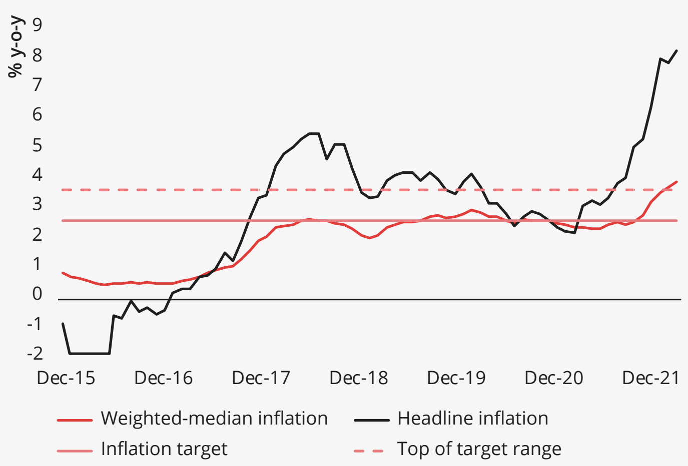
Inflation could end 2022 around 6% and return to its target range in 2023

Monetary policy

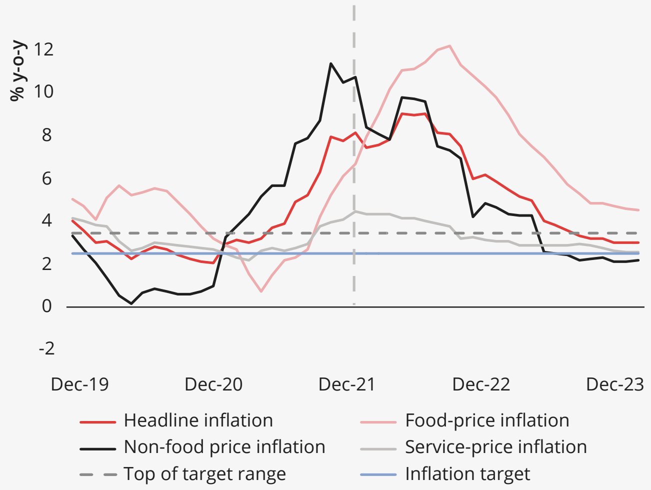
The NBR's November inflation report suggests a similar inflation outlook. As a result, we expect rate hikes to stop around 3% in 2022, with liquidity sterilization and FX interventions pushing implied interest rates above 4% whenever there is pressure on the RON. The NBR could let EUR-RON move to a 5.00-5.10 range in 1Q22, which would be insufficient to offset a further loss of external competitiveness. The RON is the most expensive EU currency, and this is reflected in Romania's C/A deficit, which is likely to remain above 6% of GDP in 2022-23. The negative extended basic balance could be covered by RRF loans, at least in 2022.

We expect rate hikes to 3% and implied interest rates to be >4% in 2022.

Romania is the only EU-CEE country where underlying inflation is inside the target range



Supply shocks will remain the main drivers of inflation



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Investment Market

FY Investment volume
€910 m

Industrial assets of high interest
30%
of total investment volume

Prime office yield
6.75%
>50 bps y-o-y compression

Largest transaction
€150 m
Adventum purchased Hermes Business Campus

Prime industrial yield
7.5%
25 bps y-o-y compression

New investor
Adventum for Quartum
part of Adventum Group

+10% y-o-y

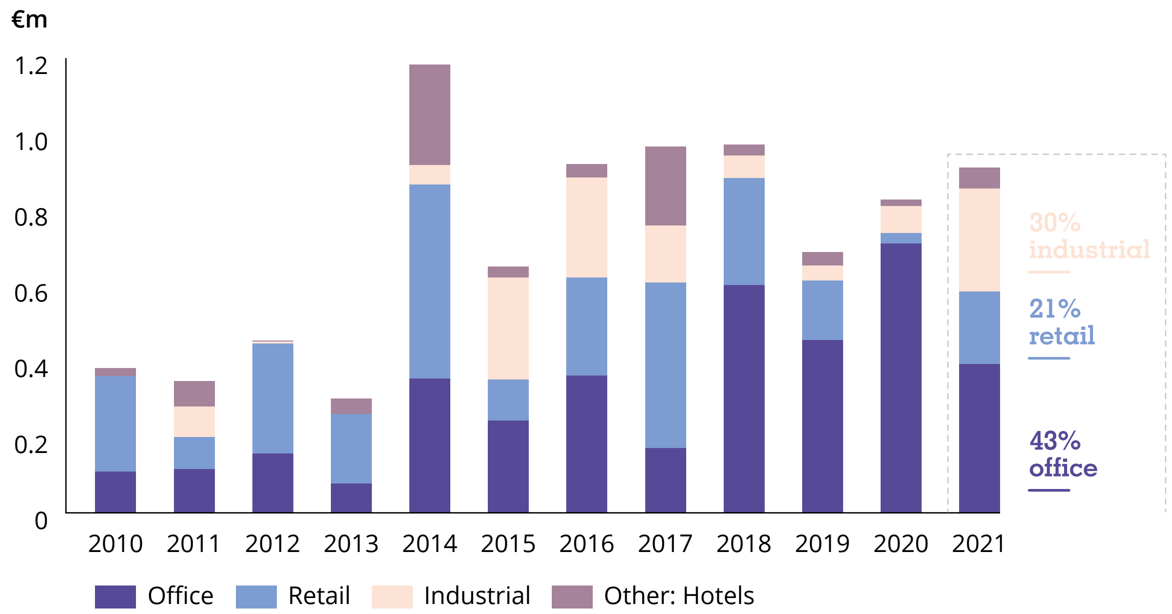
Investment volume

In the last quarter of 2021, an approximate volume of €340 million in assets was transacted, which elevated the annual investment volume to ca €910 million, representing 10% y-o-y increase. The local investment activity was boosted by several high-profile transactions concluded throughout the year. Despite the pandemic, the investment volume reached in 2021 is one of the highest in the past 10 years. This proves again the attractiveness of Romanian assets which can generate better returns.

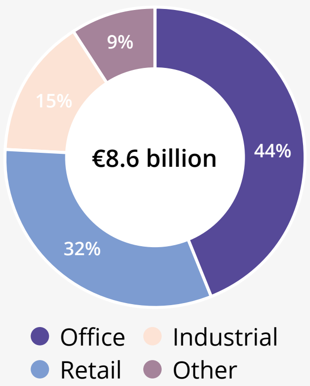
Office assets represented 43% of the annual volume, while industrial projects attracted 30% of the volume. Retail projects secured 21% due to the completion of a significant sale & lease back transaction in the last quarter. In 2021, the successful emergence of industrial leasing sector was reflected in the investment sector, too. Well-positioned industrial parks with good tenants' covenant were excellently transacted in a rather short time frame.

Bucharest has remained a very active investment market, with high preference of investors for office products. The capital city secured ca 60% of the country investment volume, driven by 5 main office transactions which all contributed with 71% to the city's annual investment volume. In contrast, in regional cities transactions with industrial parks contributed with ca 60-65% to the annual investment volume. Compared to previous years, 2021 has registered a more diversified pool of regional Romanian cities in which transactional activity has occurred.

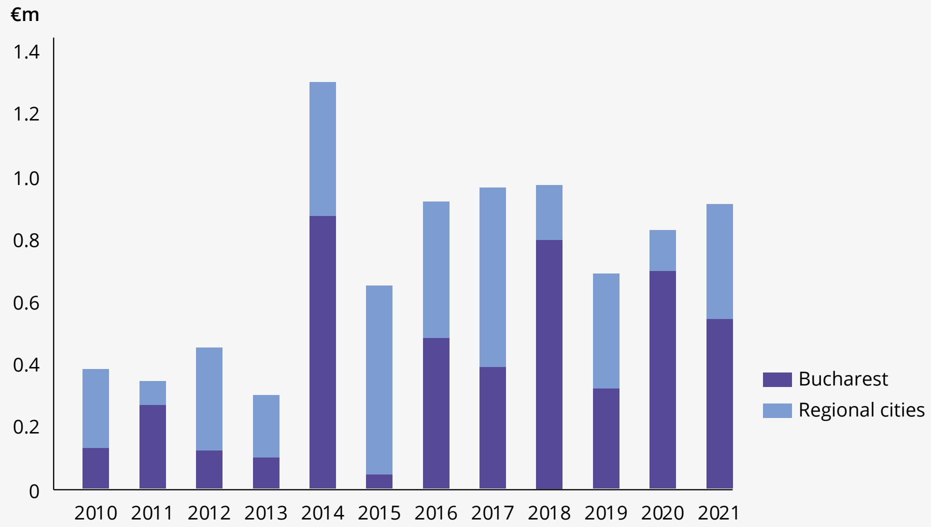
Real estate investment value by sector 2010 – 2021 (million euro)



Real estate investment value by type of properties 2010 – 2021 (million euro)



Real estate investment value Bucharest vs. regional cities 2010 – 2021 (million euro)



Transactional performance

Office sector recorded few large investment transactions with assets located in Bucharest. The largest transaction signed in 2021 was represented by the sale of Hermes Business Campus, an office complex with a GLA of 70,000 sq m located in Pipera South submarket, to Hungarian investment fund Adventum Group for an amount of ca €150 million. The property was developed by Belgian company, Atenor.

The sale of Campus 6.2&6.3 by Skanska to S Immo AG for an amount of €97 million is considered the second largest transaction recorded in 2021 with an office asset. Although the process was lengthier than expected, the sale price remained in the limits expected by the seller.

A new milestone was set by the sale of Dacia One, by Atenor to DEDEMAN, as the centrally located office building with a GLA of 15,600 sq m was sold for an estimated amount of €50 million.

Supposedly, the transaction was sealed for a yield in the region of ca 6%, which will be difficult to replicate for other buildings in Bucharest, due to its unique location and exceptionally well lease agreement relative to the rest of the market.

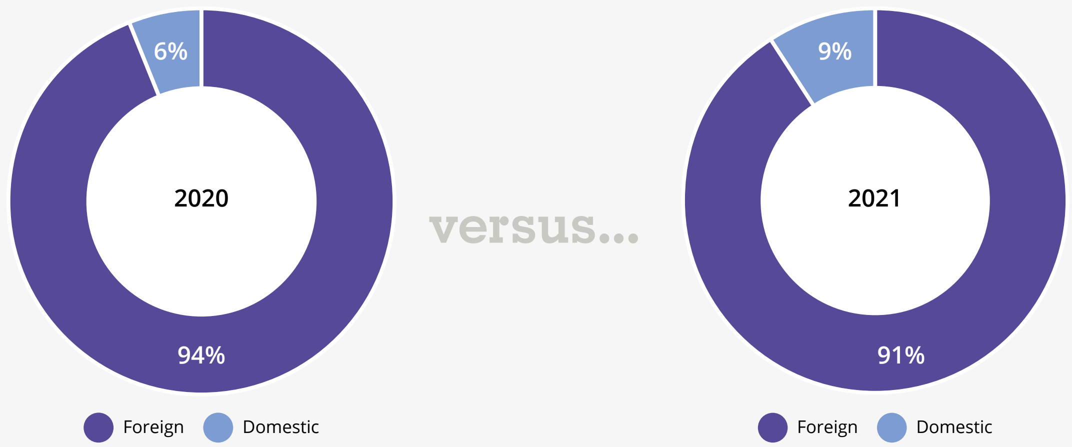
Industrial market increased its share in the annual investment volume. CTP emerged as the most active investor, in addition to its developer role. During 2021, CTP has secured industrial parks located throughout the country. The largest industrial transactions concluded by CTP are represented by the acquisition of Zacaria Industrial Parks consisting in 112,000 sq m spread in 4 regional cities (Craiova, Sibiu, Arad, Oradea) for an amount of €60 million as well as the purchase of Helios Properties portfolio for an amount of €75 million.

A noteworthy event is the sale of Eli Park 1 by Element Industrial and Paval Holding to Fortress, one of the largest real estate investments trusts

(REITs) in South Africa for an amount of €30 million. Eli Park 1 is a newly developed industrial park with a GLA of 50,000 sq m located in one of the emerging industrial locations of Bucharest. Thus, this is the first direct acquisition of Fortress in Romania, the fund is well present in Romania through NEPI Rockcastle, in which it is the main shareholder.

Registered in the last quarter, there is the sale & lease back agreement for six Cora hypermarkets by the Austrian fund Supernova for an estimated amount of €150 million. In addition, investors such as Portico, One United Properties or Scallier increased the annual investment volume with retail assets to 21%.

2020 versus 2021 Investment volume by source of capital



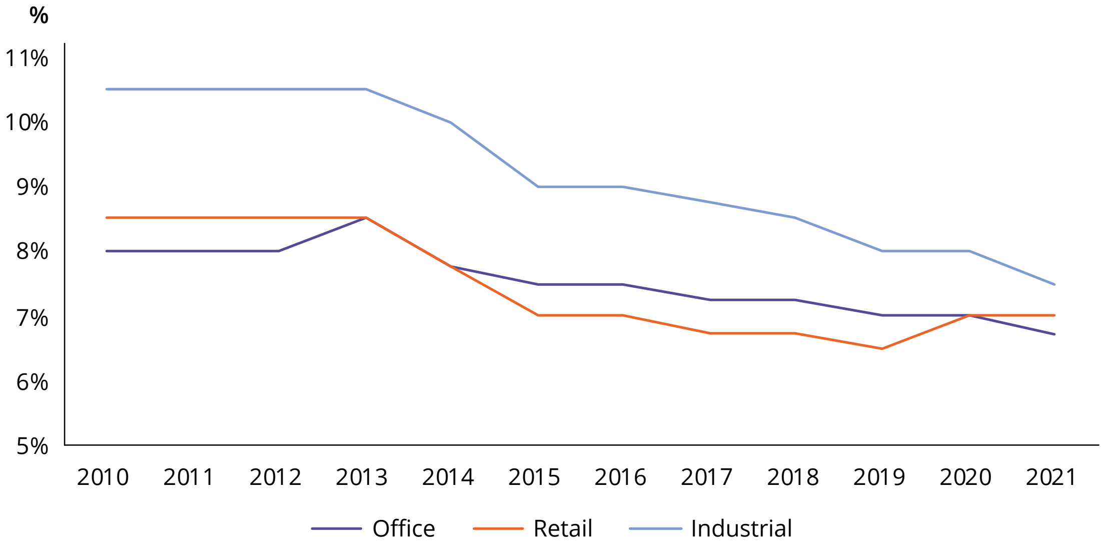
50–75 bps compression

Prime yields

Compression across all commercial sectors is the trend that describes the yields evolution in Romania in 2021. Prime office yields are considered at ca. 6.75%, while industrial yields stood at 7.5%. The recorded yield compression is estimated between 50–75 bps. Although, in 2021 local market has not witnessed any transaction involving a prime shopping center, prime yield is estimated in the region of 7%.

In top regional Romanian cities, yield gap with capital city exceeds 50-75 bps for each commercial sector. Despite this competitive advantage, investment activity in regional cities is subdued and involves equally domestic and international investors.

Prime yield evolution 2010 – 2021 (%)



Forecast

The outlook for 2022 is optimistic. Considering the interest of investors for currently marketed assets coupled with the availability of domestic and foreign capital, it is forecasted that the investment market will outperform in the upcoming years. The focus will remain on office and industrial assets but the expectation is to witness an increase of the importance of sale & lease back agreements involving industrial parks, production facilities, office buildings, etc.

The competition for the same pool of products will put further pressure on yields which are expected to further compress. Aggressive yields may create opportunities to new investors, that are assessing the country but are not yet confident about Romania's long-term opportunities. The current economic environment can also attract opportunistic investors interested in value-add properties, that are well tenanted, have good technical specifications but are developed in less established business locations. Medium to long term is expected to witness the rise of the local capital in Bucharest and top regional cities, not only for residential projects but commercial projects as well.

Major investment transactions in 2021

Asset	Area (GLA in sq m)	Volume (€million)	Buyer	Seller	City
Hermes Business Campus	75,000	150	Adventum	Atenor	Bucharest
Cora Hypermarkets (6 units)	ca. 140,000	150	Supernova	Louis Delhaize	3*Bucharest, Bacau, Constanta, Dr. Turnu Severin
Campus 6.2 & 6.3	38,000	97	S Immo AG	Skanska	Bucharest
Olympian Parks	153,000	80	CTP	Helios Properties	Brasov, Timisoara, Bucharest
Zacaria Industrial	112,000	60	CTP	Zacaria	Craiova, Sibiu, Arad, Oradea
The Light One	21,653	54	Uniqa REM	River Development	Bucharest
Dacia One	15,200	50	DEDEMAN	Atenor	Bucharest
Bucharest Financial Plaza	35,000	36	Immofinanz	Erste Group	Bucharest
Eli Park 1 Chitila	50,000	30	Fortress	Element Industrial & Paval Holding	Bucharest
IPW Arad & IPW Oradea	27,000	18	Globalworth	Global Vision	Arad & Oradea
Ramada Bucharest Majestic	111 rooms	12	Vision Apartments	Private individuals	Bucharest
Arc Industrial Park	20,000	12	WDP	Arc Park Dej	Dej, Cluj County
Mobexpert Park	25,000	10	CTP	Mobexpert	Targu Mures

Bucharest Office Market

Class A&B office stock
3.48m sq m

Gross take-up
297,000 sq m

Vacancy rate
11.5%

Active office submarkets
Barbu Vacarescu & Center West

Pre-lese activity
17%

Prime rent
for 3 years in a row
€19 /sq m/month

Recovery of the demand reflected in 40% year-on-year increase in annual gross take-up. Hybrid work model on the rise in the foreseeable future.

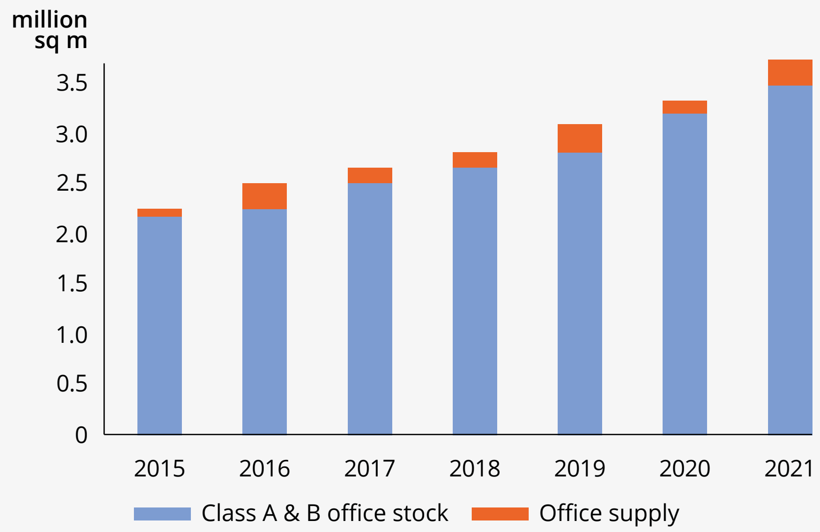
+8% y-o-y

Supply

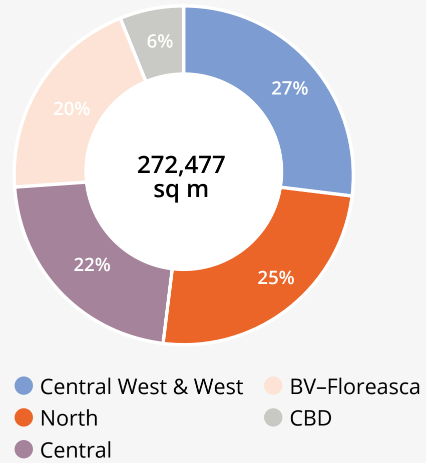
It is estimated that over 270,000 sq m in 13 buildings were completed in 2021, which is the largest office supply delivered in Bucharest in the past 5 years. Accordingly, the revised and updated modern office stock currently stands at ca. 3,48 million sq m, to which Class A stock contributes with 72%. In 2021, the largest supply was completed in Central West (27%), North (25%) and Central submarket (22%) while Barbu Vacarescu-Floreasca generated 19% of the supply.

Notable are the completions of large office buildings and business parks such as: J8 Office Park (GLA: 46,100 sq m), One Cotroceni Park Ph 1 (GLA: 46,000 sq m), U-Center Ph 1 (GLA: 32,800 sq m), Globalworth Square (GLA: 29,100 sq m), to list but a few. Regarding the office projects completed in 2021, 70% of them were already pre-leased and did not exert further pressure on the overall vacancy rate.

Modern office stock evolution 2015 – 2021 (million sq m)



Office completions by submarket in 2021



Office buildings completed in 2021, by delivery date

Project	Area (GLA in sq m)	Developer	Quarter
Matei Millo Office	9,700	Forte Partners	Q1 2021
Campus 6.2	19,800	Skanska	Q1 2021
One Tower Eliade	24,000	One United Properties	Q1 2021
Tiriac Tower	16,800	Tiriac Imobiliare	Q2 2021
Politehnica Tower	8,700	Pedro Company	Q3 2021
Dacia One	15,200	Atenor Group	Q3 2021
Globalworth Square	29,100	Globalworth	Q3 2021
U-Center Phase 1	32,800	Forte Partners	Q3 2021
J8 Office Park	46,127	Portland & ARES	Q3 2021
One Cotroceni Park Ph 1	46,000	One United Properties	Q4 2021
Miro Offices	23,000	Speedwell	Q4 2021

Source: Avison Young Research

decrease y-o-y

Pipeline

The unpredictability generated by the work models coupled with difficulties in authorizing real estate projects caused a significant drop in the office pipeline. However, the 2022 pipeline stands at 150,000 sq m, while the 2023 pipeline is estimated at ca 93,000 sq m. Currently, the pipeline consists of additional phases of completed projects (eg U Center, One Cotroceni Park, Equilibrium) or stand-alone project such as Centreville, Arghezi 4 or Tandem developed in central locations of Bucharest. By geography, the majority of 2022's pipeline is located in Central and Central-West office submarkets, while 2023's pipeline is spread along Northern locations such as Barbu Vacarescu Floreasca and Expozitiei hubs.

Office buildings to be completed in 2022 – 2023, by announced completion

Project	Area (GLA in sq m)	Developer	Quarter
Sema London	21,347	River Invest	Q1 2022
Sema Oslo	10,177	River Invest	Q1 2022
@expo B1 & B2	21,000	Atenor	Q1–Q2 2022
Tandem	20,980	Forte Partners	Q2 2022
Centreville Offices	6,000	Hagag	Q2 2022
AFI Tech Park II	24,000	AFI Europe	Q3 2022
One Cotroceni Park Ph 2	35,000	One United Properties	Q4 2022
Equilibrium 2	19,400	Skanska	Q1 2023
U-Center Phase 2	32,000	Forte Partners	2023
Muse Project	7,500	Primavera Development	2023

Source: Avison Young Research

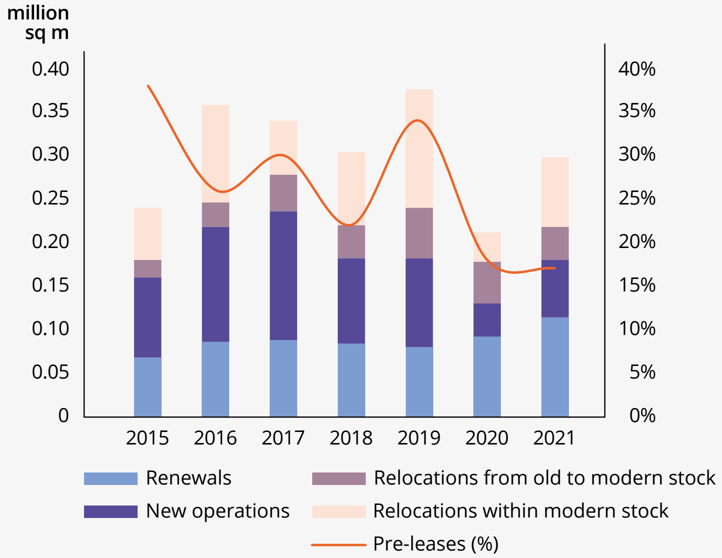
2022 pipeline
ca. 150,000 sq m

2023 pipeline
ca. 93,000 sq m

Demand +40% y-o-y

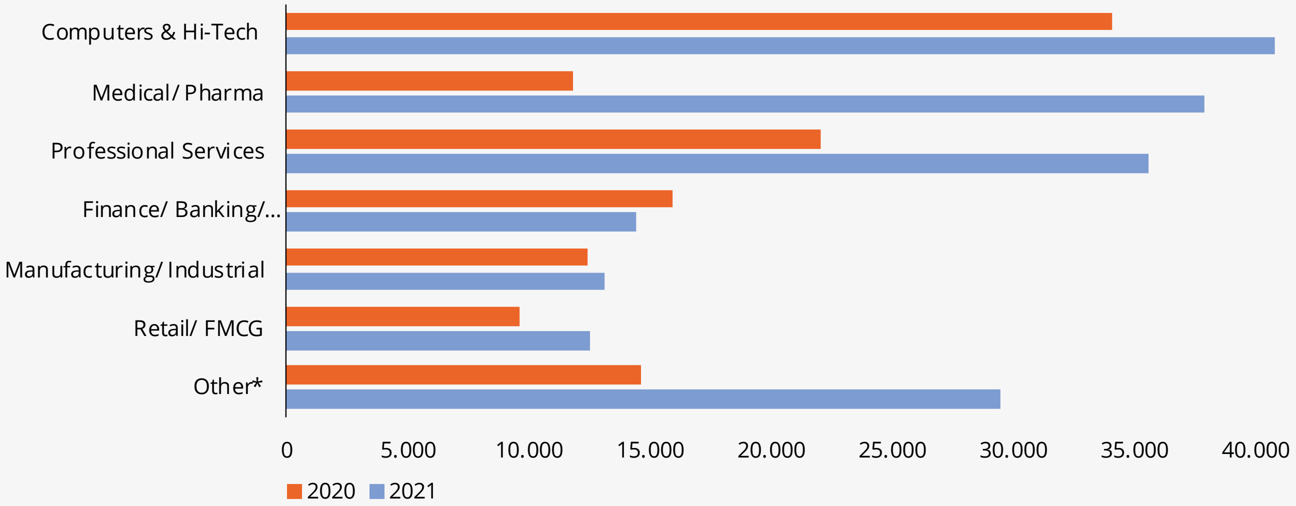
With around 85,000 sq m transacted in Q4 2021 only, the annual total leasing activity in Bucharest stands at ca 297,000 sq m. Renewals accounted for approximately 38% of the annual activity and pre-leases contributed with only 17%. Year-on-year, the weight of renewals decreased in 2021, while pre-lease weight remained unchanged. Relocations captured the remaining of the total leasing activity, with 13% representing the relocations from non-competitive stock and 12% relocations within competitive stock.

Gross office leasing activity evolution 2015 – 2021 (million sq m)

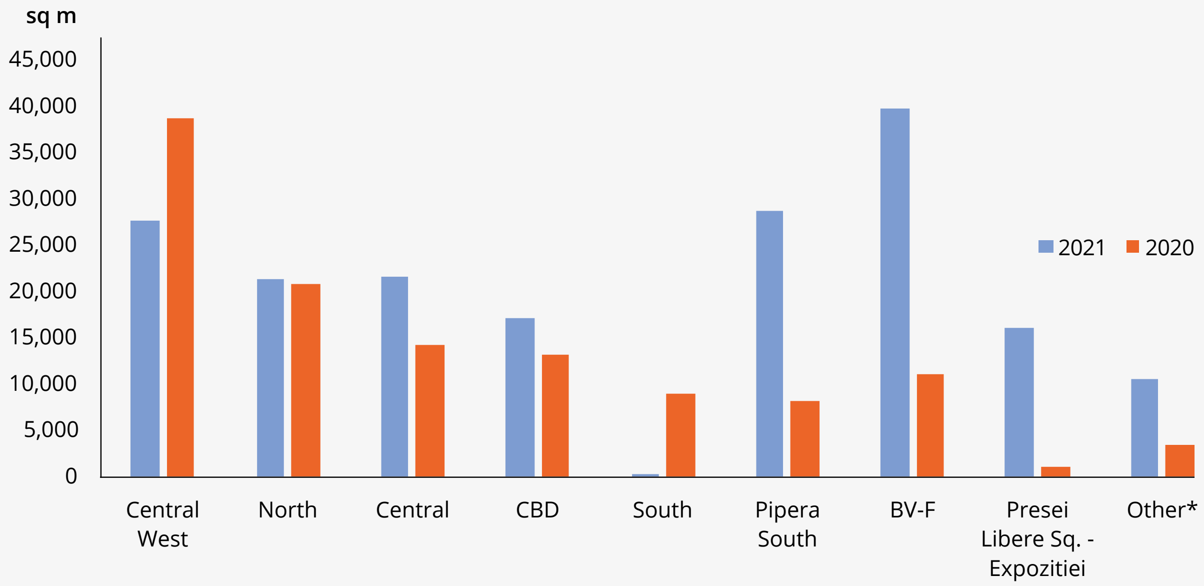


After almost 2 years of pandemic outbreak, larger occupiers did not yet return to their physical offices. However, small steps have been made, with hybrid work model being the winner after months of uncertainty. Corporations are preparing the premises to welcome their occupiers in less dense spaces, which will enhance networking, socializing and the wellbeing of employees. In 2021 companies were either maintaining their occupied space through renewals or even increasing their footprint mainly through relocations. Accordingly, the total leasing activity increased year-on year with ca 40% but still 20% below pre-pandemic levels. The office market recovery is continuing its pace, with further increase forecasted in the next couple of years with occupiers targeting new projects which will implement the latest green building features in line with their latest ESG policies.

Net take-up by business sector 2020 vs. 2021



Net take-up by submarket 2020 vs. 2021



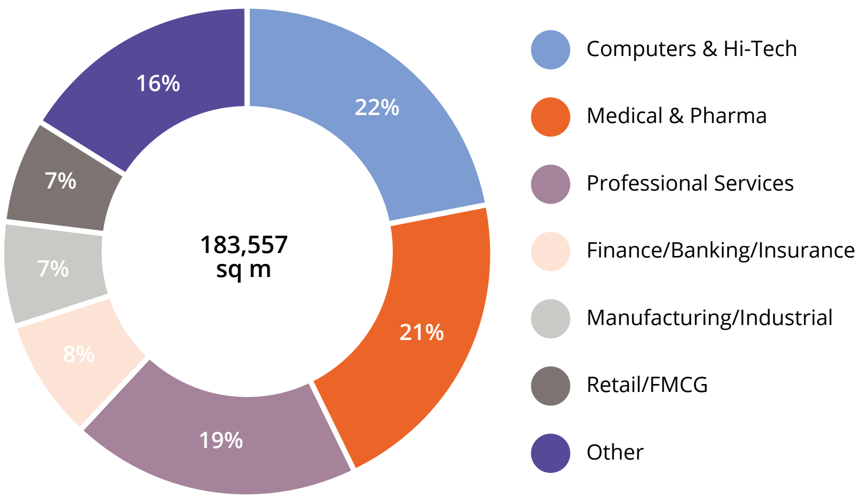
Companies operating in the healthcare sector have signed some of the largest transactions in 2021, involving the conversion of existing office buildings into private healthcare units (Medicover leased ca 14,000 sq m and Provita leased 11,000 sq m, both of them in buildings located in Pipera South submarket). The largest pre-leases were signed by companies active in the Computers Hi-Tech sector, for projects located in the northern half of Bucharest (Wipro pre-leased 11,000 sq m in Globalworth Square, while Telekom Romania Mobile Communication pre-leased 4,500 sq m in @Expo). The largest renewals were signed by KMG Petrom in City Gate for a surface of ca 9,500 sq m and by Adobe for a surface of 9,000 sq m in Anchor Plaza.

In 2021 the net leasing activity, excluding renewals, was driven by 3-4 main economic sectors, which generated ca 70% of the demand. Computers hi-tech reached 22% of the demand, medical & pharma contributed with 21%, while professional and financial sectors added further 25% to the annual activity. In addition, ca 10 sub-leases were concluded in 2021 for an approximate area of 7,500 sq m, which led to a decrease by ca 10% in the office sub-lease stock. However, a further decrease of the sub-lease stock was registered due to various space surrenders occurring throughout 2021.

Companies operating in the healthcare sector have signed some of the largest transactions in 2021.

Net leasing activity was 70% driven by the following sectors: Computers hi-tech, Medical & pharma and Professional & financial services.

Net take-up by business sector 2021



+115 bps y-o-y

Vacancy

Year-end average vacancy rate stood at 11.5%, a y–o–y increase of 115-bps. The evolution of vacancy rate in 2021 was below the forecast, as the new supply was largely pre-leased before completion and numerous leases were signed in the existing buildings/stock. Worth noting the decrease of the vacancy rates, below two-digits, in Barbu Vacarescu-Floreasca corridor and city business district (CBD), as well as the increase recorded in Central West and North sub-markets. At the end of the year Class A vacancy rate stood at ca 9.5%, with CBD vacancy rate estimated at 8.6%.

Rents stable

Prime headline office rent remained stable over 2021, being quoted at 19€/sq m/month. Moreover, the prime headline rent was stable over the past 3 years, although a couple of office buildings located in CBD are commanding headline rents above market statistics. In the sought-after office submarkets, such as Central West and Barbu Vacarescu & Pipera, Class A headline office rent ranges between 14–16€/sq m/month, respectively 14-17€/sq m/month. Incentive packages discount the headline rent by at least 15-20%, or even greater in case of larger pre-leases or larger lease renewals.

Forecast

In contrast to the previous year, in 2021 companies have advanced in planning their return, identifying the most appropriate hybrid work model, and implementing the protocols clearly for the employees. In addition, it was observed that companies opened up the offices for their employees but work on-site is still optional conditioned by the desk occupancy ratio, which cannot exceed 5-15% in case of large corporations while in case of local companies or small corporations the ratio can go as high as 50-60% on average.

Moving forward, on the occupancy side there is a high level of optimism. There are several large RFP's in the market and landlords willing to accommodate them at competitive financial terms. On the other hand, 2022-2023 pipeline is scarce, and furthermore authorization process still unclear. On the upside of these market conditions, there is the potential decrease of the vacancy rate throughout the city, the increase of the occupancy rate of the Class A stock, as well as the return of pre-leases.

Bucharest office submarket (headline rents and vacancy rates)

Map Index	Sub-market	Headline Rent Class A (€/sq m/month)	Vacancy Rate Class A & B (%)
1	North	€12–15	15.2%
2	Free Press Square	€15–16.5	21.3%
3	Pipera North	€8–10	24.8%
4	Pipera South	€11–13	7.0%
5	BV–Floreasca	€14–17	7.2%
6	CBD	€17–19	8.1%
7	Central	€14.5–16.5	14.4%
8	Central West	€14–16	11.9%
9	West	€11–13	3.9%
10	South	€9–12	6.7%
11	East	€9–12	12.0%

Source: Avison Young Research

Workplace Trends

Do we still need offices ?

Corporate workplaces remain an indispensable tool in maximizing talent.

Supporting a Multiverse of Work will present huge challenges to organizations, not to mention their landlords. It is worth asking the question: Is it really necessary, even if employees want it? Why not save cost by reducing offices to mere skeletons, or eschew them entirely? After all, many workers were surprisingly productive when COVID-19 forced many of them to work entirely remotely for a year or more. CFOs counting the cost of empty offices are asking whether extensive portfolios of prime office space are really needed.

Key findings

Workers want a “Multiverse”

This means both the flexibility to work remotely and a place to gather with coworkers, not either one or the other

Office space is indispensable

Corporate workplaces are uniquely capable of supporting a full range of what workers need to excel

The Multiverse boosts performance

Balancing work across locations is optimal for business outcomes

Workplace quality matters

High-performing workplace attract talent and enable excellence

The Multiverse is a concept not a prescription

But it holds profound implications for the workplace experience

Workplace transformation & change management – main takeaways

Among the things we have learned during the project-meetings and the Workplace Strategy workshops we have perfomed with both local and international organizations:

Strive for well thought and spectacular design of the office environment. The Workplace needs to be an inviting and even exciting place to go. If it’s not, employees might not bother going.

Define the purpose of the workplace (the role of the office) beyond the mere housing of employees. It needs to reflect the company’s value proposition and make that clearly noticeable.

Set up a thoughtful, methodical change management process to help employees though the workplace transition. This should constantly measure and address individual concerns.

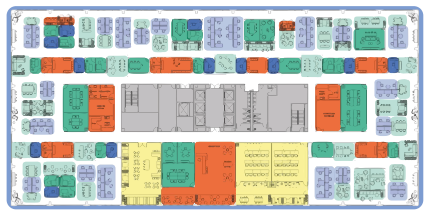
Dynamic & collaborative workplace strategy and concept-design

It has now become essential to deliver flexibility and choice to employees with the implementation of new-ways-of-working and a well thought Change Management process:

Traditional or celular

Open plan

Dynamic work environments



Individual work areas: OPEN | ENCLOSED

Collaborative work areas: OPEN | ENCLOSED

Support spaces: SUPPORT SPACES

Social spaces: SOCIAL SPACES

How does the Multiverse of Work look like?

The multiverse is not a single prescription, but a concept that unleashes the power of flexibility.

Research from a variety of sources shows not only that knowledge workers want access to a Multiverse of Work, and that this helps them perform better. As companies adjust to this reality, what might it look like? The next few years will see a great deal of experimentation with various workplace models. The frequency of remote versus onsite work will vary by industry, function, and geography, not to mention personal circumstance and preference. Some roles will always require more in-person collaboration with others, just as some personalities prefer more or less social interaction. Housing and family situations will still make working from home relatively easier for some people and more difficult for others. Clearly, no one solution will be universally applicable. Even so, there is much we can confidently say about how the multiverse will be implemented.

Offices will remain & will get better

Because offices are uniquely good at supporting certain worker needs, they will continue to function as a vital component of workplace strategy. But while very few companies will eliminate offices entirely, neither will they be the same as they once were. Some pandemic-driven features—such as touchless fixtures and improved air filtration and ventilation—will persist long after COVID fears subside. A renewed focus on physical wellness as a basic need will make offices in the multiverse healthier, more productive working environments.

Employees will get more support for remote work

A great many workers will spend a higher percentage of their time working away from the office than they did prior to 2020. As working remotely becomes mainstream in the multiverse, companies will offer more resources to their employees to make them successful while doing so. These resources will vary widely.

Companies will invest even more in the workplace

Much has been made of the notion that, with fewer employees coming to the office on any given day, corporations will prepare the premises to welcome their occupiers in less dense spaces, which will enhance networking, socializing and the wellbeing of employees. We believe that in the multiverse, successful companies will invest more in the workplace. Many will adjust the size and distribution of their portfolios to some degree – or make greater use of flex space options – both of which were already happening pre-COVID.

Yet this investment will yield a return. As we have seen, working in the multiverse leads to happier, more productive employees who do better work because they are more engaged with their organizations. With more workplace options, companies will have more dimensions to employ in attracting the talented people they need to compete.

Industrial Market

Modern industrial stock
ca. 5.8m sq m

Total take-up
860,000 sq m

Vacancy rate at national level
4.9%

Largest occupiers
Logistics& Distribution, Manufacturing

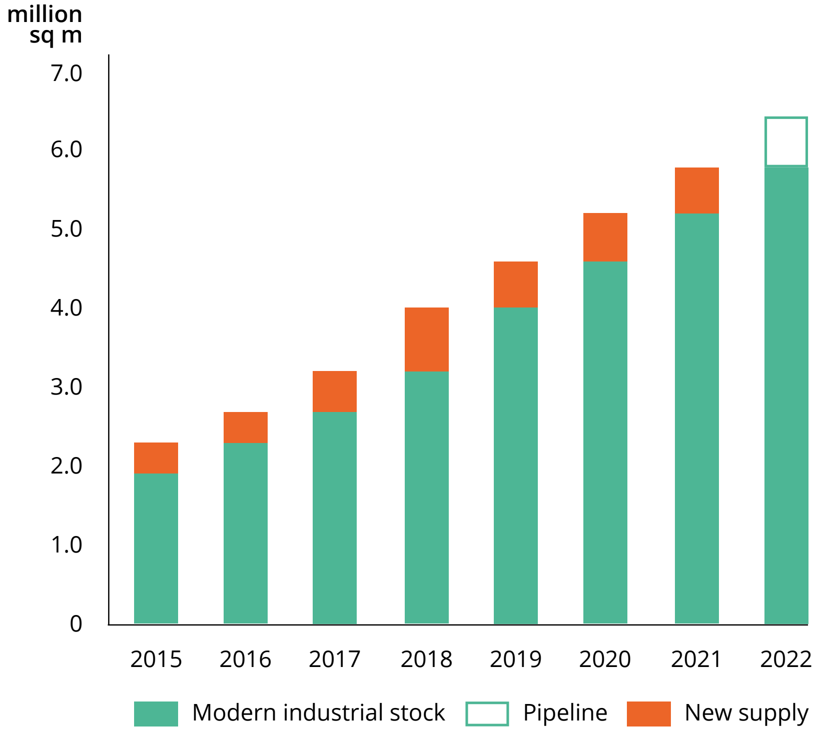
Vacancy rate Bucharest level
5.2%

2022 Pipeline for industrial space
650,000 sq m

Due to affordable labour and embedded growth potential, Romania continued to be an attractive destination for logistics and manufacturing, and the market delivered another strong performance in 2021.

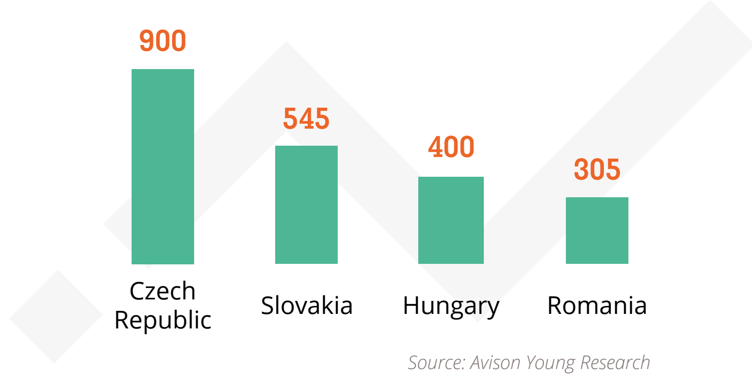
Stock

Romanian modern industrial stock evolution 2015 – 2022 (million sq m)



With 600,000 sq m delivered during the year, the total commercial modern industrial stock (spaces for rent) reached ~5.8 million sq m. The annual Class A deliveries were steady at or above 600,000 sq m for the past 4 years, and there are no reasons to foresee a slowdown in the near future.

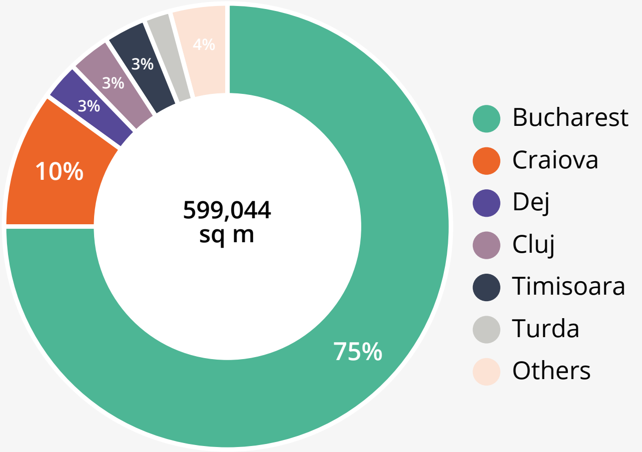
Modern industrial stock sq m per 1,000 inhabitants



Source: Avison Young Research

If we compare the modern industrial stock per 1,000 inhabitants with neighbouring CEE countries, we can notice that there is plenty of growth potential for the industrial stock in Romania.

2021
Industrial deliveries (sq m)



¾ of the deliveries in 2021 occurred in the Bucharest area. Being by far the largest consumer market in the country, many companies see the benefits of maintaining logistic units in its proximity.

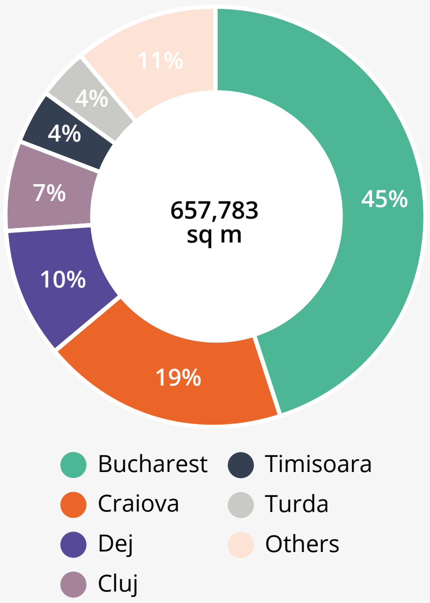
Pipeline

The developers have planned ~650,000 sq m of Class A industrial space to be delivered in 2022, which should elevate the total industrial and logistic stock in the area of the 6.5 million sq m.

In 2022, they are planning to branch out more into regional cities (as only 45% of the planned deliveries are in Bucharest area), especially into Transylvania region (Timisoara, Oradea, Cluj, Brasov, Arad), which accounts for 44% of the pipeline, however, new developments are planned also for Constanta, Pitesti, Roman and Buzau.

Regional cities are especially attractive for production/manufacturing companies, as workforce availability and affordability become more and more important criteria for the selection of the location.

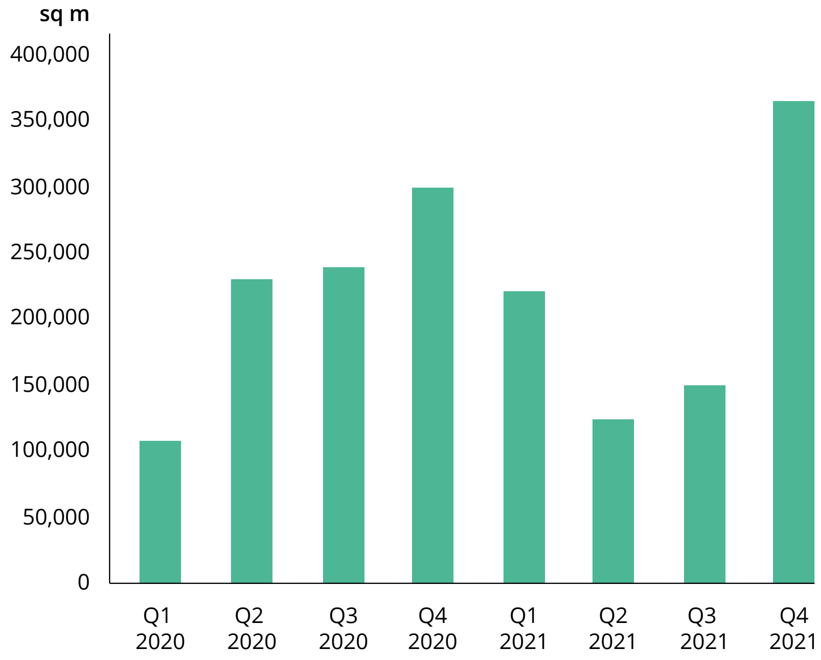
2022
Pipeline (sq m)



Demand

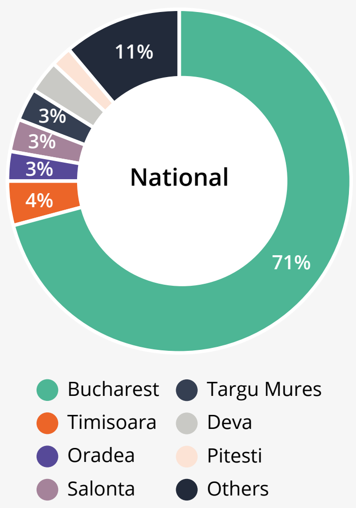
The total take-up reached 860,000 sq m during 2021, fuelled especially by a strong 4th quarter, a performance on-par with the record year 2020 when 876,000 sq m were transacted. Approximately 21% of the transacted area consists in prolongations/renegotiations.

Take-up by quarter (sq m)

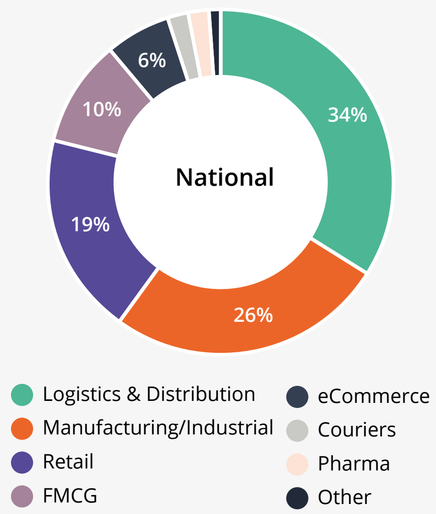


2021 leasing activity...
860,000 sq m

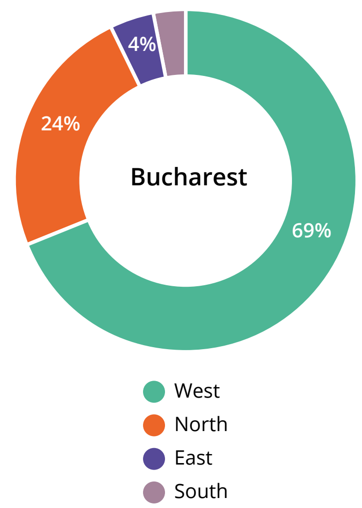
Take-up by city in 2021



Take-up by sector in 2021



Bucharest take-up in 2021



Bucharest continued to attract the most significant share of the demand, similar with 2020, when 72% of the demand was for the area around Bucharest. Similar with the pipeline, the western cities followed, attracting most of the rest of the demand.

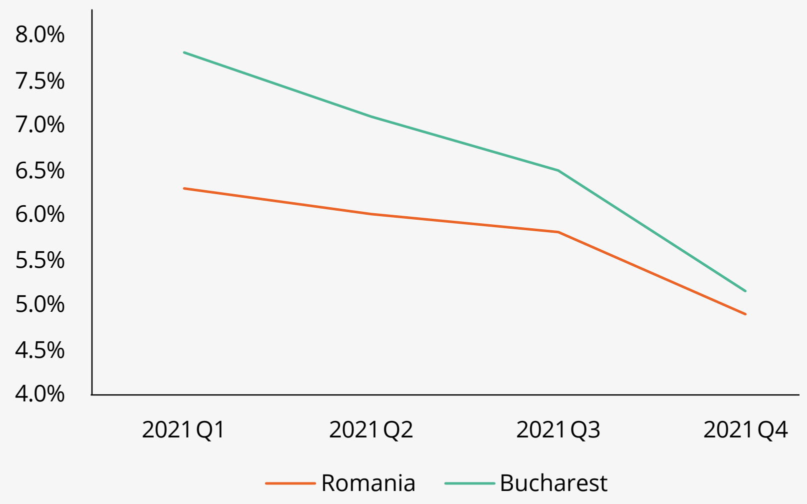
In Bucharest area, the largest share of the leasing activity was in the West submarket, with 69%, followed by the North submarket, with 24%.

The Logistics and Distribution sector continued to generate the largest demand, same as in 2020, followed by the Manufacturing sector.

decrease y-o-y

Vacancy

Vacancy rate evolution during 2021 national level versus Bucharest level



The vacancy rates dropped throughout the year, especially in Q4, due to the high take-up (especially around Bucharest).

National 4.9%

Bucharest 5.2%

Occupancy costs & market practice

RENT Headline rent	Incentives	Service charges	Lease length
€3.85 *Bucharest, Timisoara, Cluj*	**(10–15%)** *Rent free months, personalised fit-out, early access, etc.*	**€0.70–1.00** *Building maintenance, property tax, building insurance*	**3–5 years** *Logistic activities*
€3.50–3.80 *Other cities*			**5–10 years** *Manufacturing/BTS units*

Forecast & trends

The take-up activity is on an ascending trend, and it is likely to hit the 1 million sq m mark in 2022

The eCommerce sector is expected to generate an increasing share of the take-up in the next years

Increased demand for temperature-controlled spaces, fuelled by the expansion of food retailers

It is likely that we will see an increased demand (and developments) for last-mile in-city logistic units. This is due to several factors, including the intensification of courier activity and the advantages of having a production unit easily accessible by public transport/metro

SOLD

As developers and investors are looking to expand quickly, there is a strong appetite for sale-and-lease-back transactions

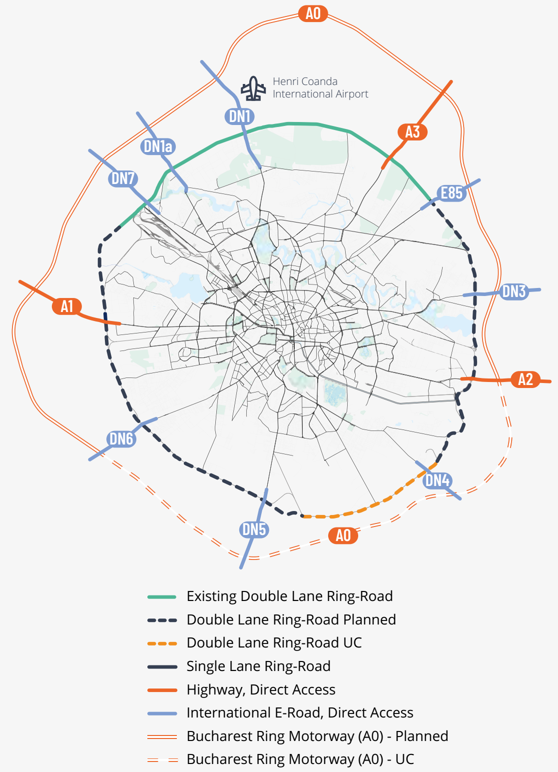
Access to capital, speed of execution and permitted land bank are key factors to unlock growth opportunities

The near-shoring trend (bringing production closer to the consumer market – especially out of Asia) is likely to open opportunities for important manufacturing units in Romania

2022 will continue to see very strong demand for industrial and logistics space as the sector benefits from the fundamental shift in the way we shop, and from constraints in global supply chains

Highways and regional industrial & logistics hubs, Romania

Access to international roads and highways, Bucharest



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

Residential
Overall Market

New supply in Bucharest (first 9M of 2021)
ca. 50% increase vs. 2019

Average selling price in Bucharest (old & new buildings)
1,620 €/sq m

Transactions at a national level
50% increase vs. 2020

Units completed in central & northern Bucharest
9,000

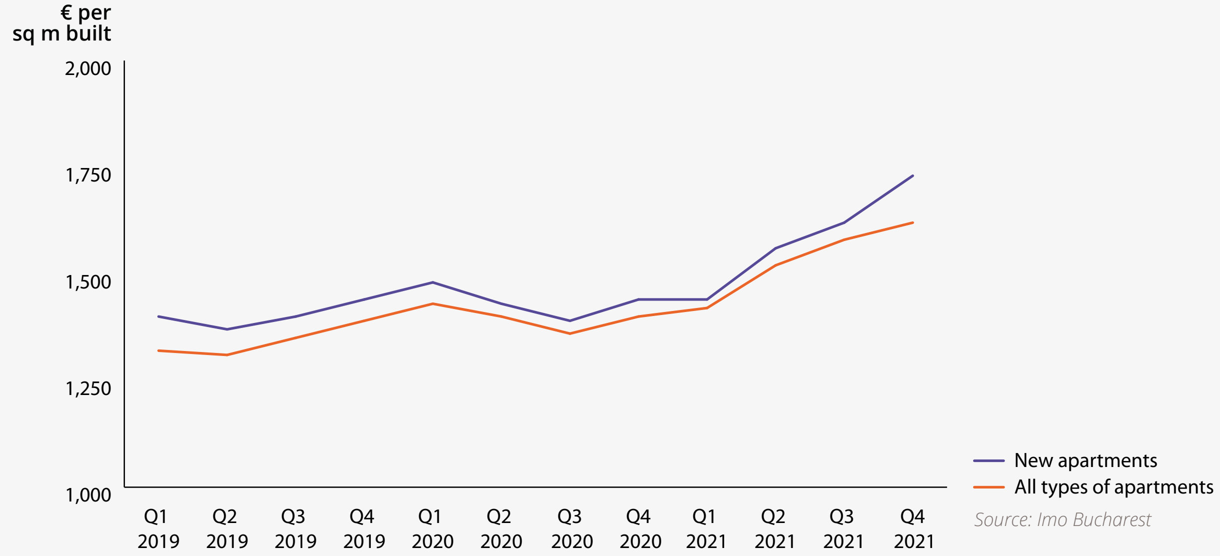
Most active transaction month
December

Units expected to be completed in central & northern Bucharest in 2022
6,500

New supply

According to recent data, issued by the National Institute of Statistics (INS), 14,631 units were completed in Bucharest in the first nine months of 2021. This is similar to the number of units completed last year, but almost 50% higher than 2019. At a national level, in the first nine months of 2021, 49,621 units were completed, which represents an increase of 1,131 units compared to last year. Over the past 2 years, the Bucharest-Ilfov region has increased its contribution to annual supply, from 22% in 2019 to 31% in 2020. During the first nine months of 2021, the Bucharest-Ilfov region had already contributed with 29% to the national residential supply.

Bucharest average asking sale price evolution for residential units (euros per sq m built)



Source: Imo Bucharest

Demand

The new way of work generated a positive impact on the residential market as well. In 2021, ca 183,000 units were sold at a national level, out of which 52,004 units were transacted in Bucharest. According to data issued by ANCPI (National Agency for Cadaster and Real Estate Advertising), 2021 was the most active year, registering an increase of ca 50% compared to the previous year. The previous peak was recorded in 2015, with ca 151,000 units sold/year.

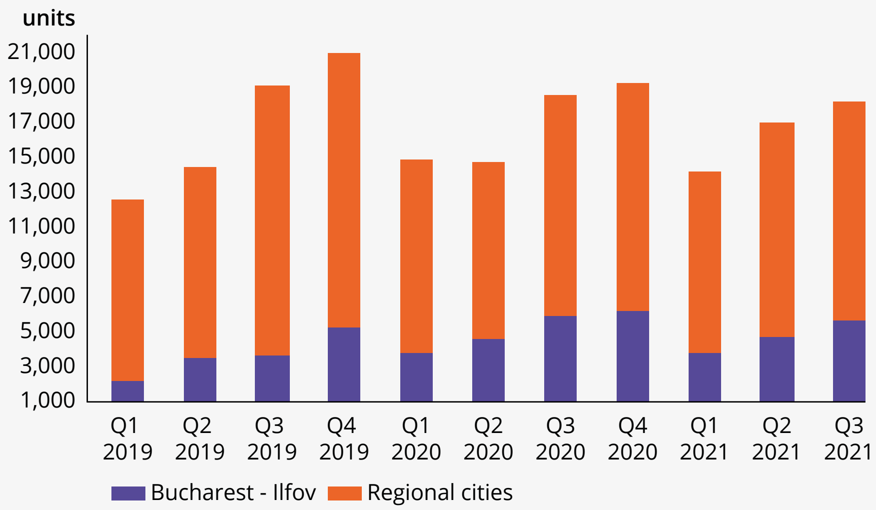
In Bucharest, the most active month of 2021 was December, with 5,792 units sold. The average number of sold units in Bucharest was in the region of 4,300 units, an increase with ca 1,200 units compared to 2020 and ca 1,400 units compared to 2019. The increase in demand is very promising, but on the other hand we are witnessing the effervescence of the pipeline, with numerous residential projects being currently announced or under construction and land being purchased for residential use.

Average asking prices (€/sq m built)

Old stock
16% y-o-y increase

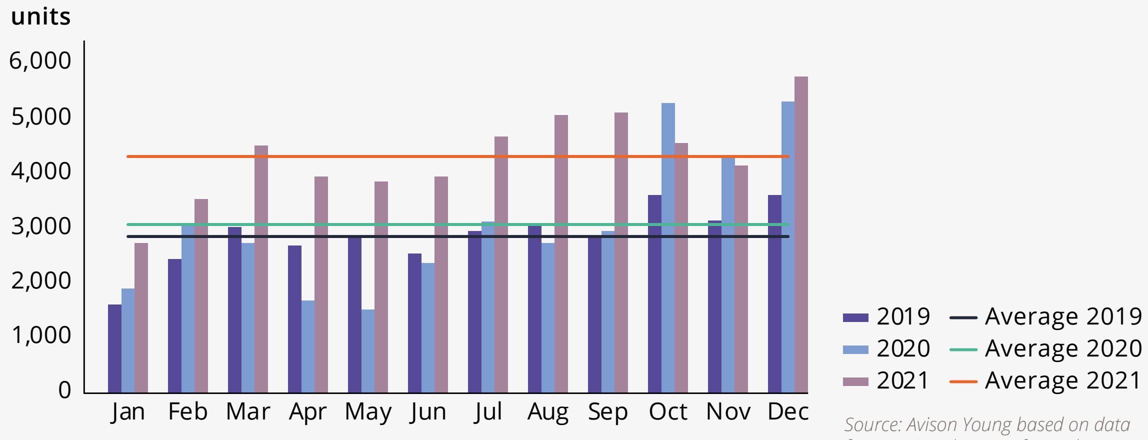
New stock
16.7% y-o-y increase

Number of residential units delivered in Bucharest versus Regional



Source: National Institute of Statistics

Number of residential units sold in Bucharest 2019–2021



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

+ increase y-o-y

Prices

At the end of 2021, the average selling prices in Bucharest for old and new stood at 1,620€/sq m, representing a 13.7% year-on-year increase, according to imobiliare.ro. For older stock, constructed before 1990, the average selling price was estimated at 1,567€/sq m, while for newer stock the average selling price stood at 1,729€/sq m. Furthermore, the recent development of the selling prices is starting to show a polarization between new & old stock.

The increase in selling prices for newer stock or projects was mainly generated by the rising prices of construction materials. For older stock, the increase is generated by inflation on one hand, and on the other, by the Romanian buyers' appetite for the older stock.

In Q3 2021, the market sentiment captured in Central Bank reports, is showing that ca 58% of the commercial banks are of the opinion that selling prices have increased quarter-on-quarter. Furthermore, around 60% of the banks observed a decrease in the appetite of the population for new mortgage loans, while over 87% of the commercial banks estimated that demand for mortgage loan will remain unchanged for the last quarter of 2021. (Source: NBR Report, November 2021).

Bucharest central northern residential market

The Avison Young Residential Department constantly monitors the residential market in central northern neighborhoods of the capital city. In these locations, medium to high-end residential projects are being developed, the demand being generated by end users, as well as domestic and international investors, who are placing their capital in such residential locations.

According to our market research, ca 9,000 residential units in over 60 projects were completed in 2021 in central and northern areas of Bucharest. In bigger residential projects, exceeding 100 units, there is a mix of studios and one/two bedroom apartments, while boutique residential projects are offering sizeable penthouses or ground floor level apartments, with access to private gardens.

Some of the most notable residential projects completed in 2021

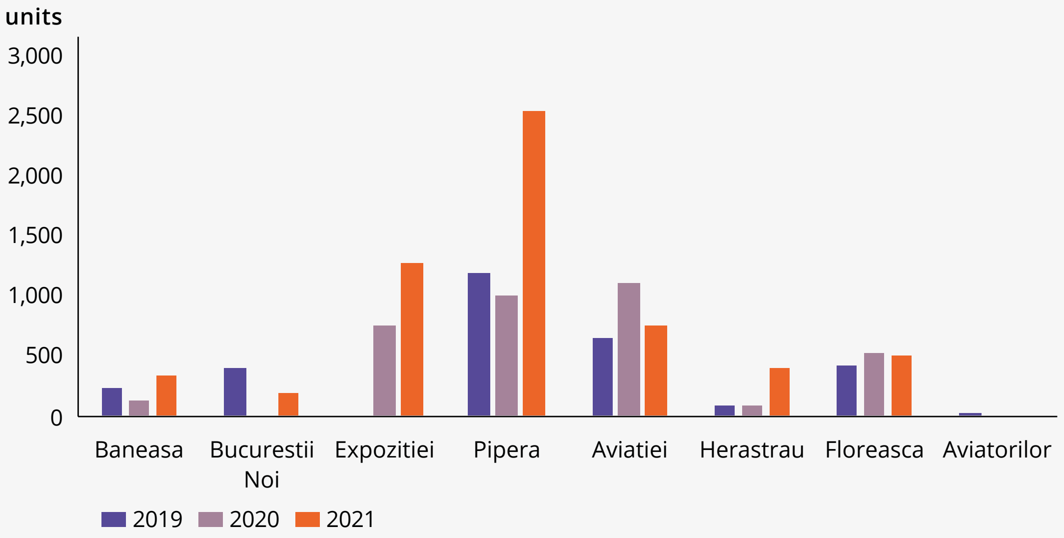
One Mircea Eliade

One Herastrau Towers

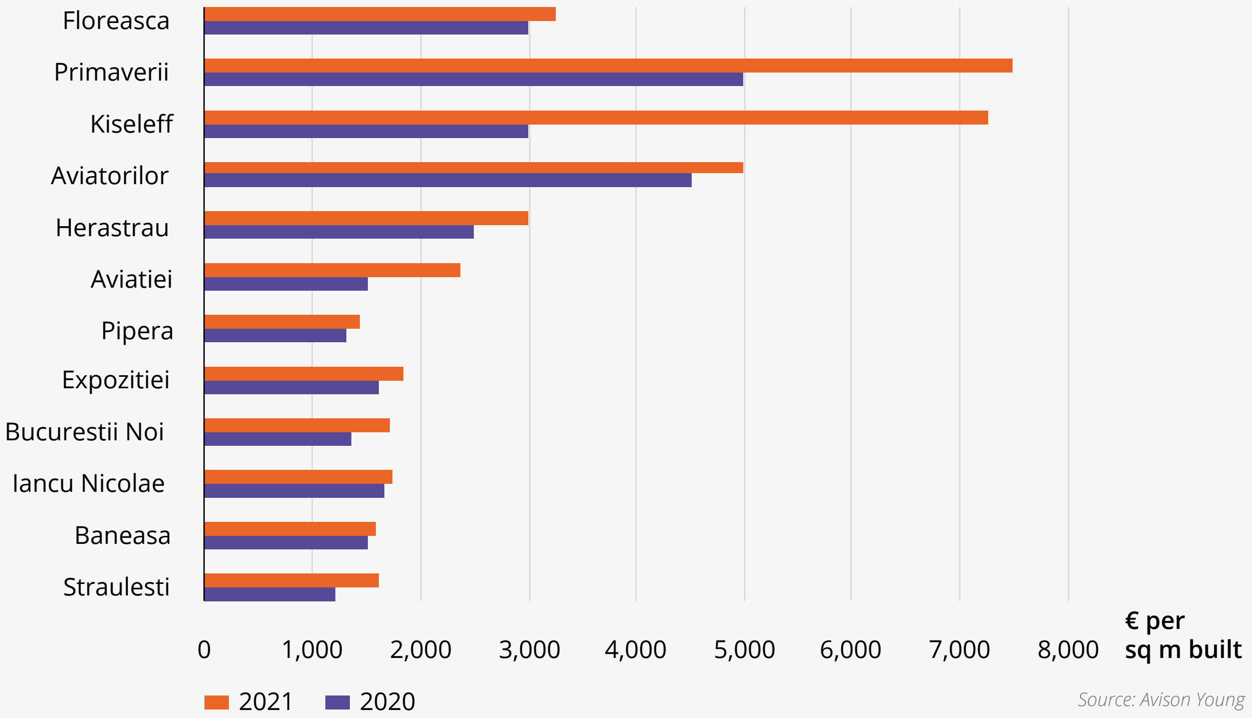
Luxuria Residence

Aviatiei Park

New residential units completed in the central and northern neighbourhoods in Bucharest 2019–2021



Average asking prices in the central and northern neighbourhoods in Bucharest 2020–2021 (€ per sq m built)



Source: Avison Young

The list of the most notable residential projects completed in 2021 includes: One Mircea Eliade, One Herastrau Towers, Luxuria Residence, Aviatiei Park, Arcadia, H Victoriei 139, Urban Spaces, Cortina Academy to list but a few.

The selection of residential projects currently under construction in central northern areas includes: Nusco City Ph II, Up-Site, Nordis View, One Lake Club, Crown Towers Ph I, Aviatiei Tower Ph II. As well, numerous residential projects are currently under construction in the Straulesti–Baneasa area, either new projects or new phases of existing residential projects. The list with residential projects includes the following: The Art City by Bog'Art, The Ivy by Speedwell, Jardins du Nord, The Level, 303 by Radacini. It is estimated that ca 6,500 units are currently under construction and expected to be completed in the center and northern locations during 2022.

Noteworthy are the boutique residential projects developed in Primaverii Area, Aviatorilor and Kiseleff, where selling prices may exceed the expected range for these areas.

Forecast

The newly approved 'Noua Casa' government backed programme has increased the value of a purchased unit to ca €140,000, equivalent to RON. The financing conditions and applicable VAT of 5% remained unchanged, except for the down payment, which for a house with a value of up to €70,000, equivalent to RON, is of 5%, while for units between €70,001-140,000, equivalent to RON, the minimum down payment is of 15%. It is forecasted that developers will meet the new selling prices by increasing the surface of the units as well as the selling prices.

In 2021, developers have continued to show strong interest in central and northern locations of Bucharest, both through the development of new projects and the acquisition of lands for residential use. The selling prices in these locations are expected to further increase as demand is also generated by investors which are aggressively buying off-plan well positioned residential units. Soon, well positioned lands for residential use in these areas will become either scarce or too expensive.

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Our global presence

Legal entities

Canada
United States
Mexico
South Korea
South Africa
United Kingdom
Israel
Austria
France
Czech Republic
Hungary
Poland
Romania
Republic of Ireland
Russia

Planned entities 2022

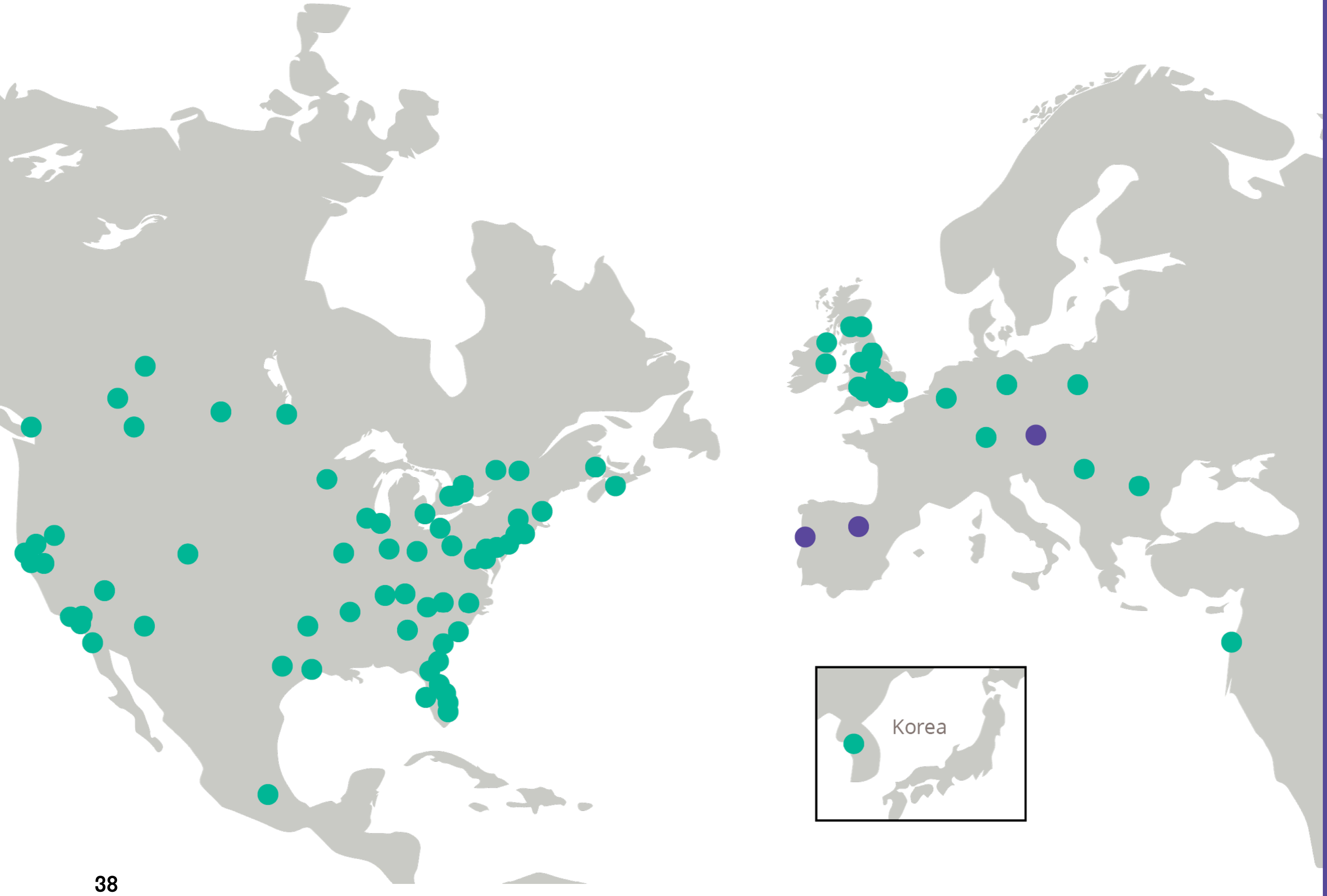
Portugal
Spain

5,000 real estate professionals

17 countries and growing...

100+ global offices

1978 founding year



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