AVISON YOUNG

2022

Romanian real estate market overview

Avison Young identifies 10 key trends impacting commercial real estate in 2023

Inflation, experiential real estate and alternative sectors, friend-shoring and metaverse among 10 global trends to watch in 2023

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UniCredit

Macroeconomic and strategic analysis

Macroeconomic data and forecasts

	2020	2021	2022E	2023F	2024F
GDP (€bn)	220.5	240.2	282.7	305.4	332.8
Population (million)	19.3	19.2	19.1	19.1	19.1
GDP per capita (€)	11,410	12,520	14,773	15,982	17,447
Real economy change (%)					
GDP	-3.7	5.1	4.7	1.3	3.9
Exports	-9.5	12.5	9.8	4.5	3.8
Imports	-5.2	14.6	10.4	4.2	4.8
Monthly wage, nominal (€)	1,116	1,175	1,316	1,448	1,563
Real wage, change (%)	3.6	2.0	-1.3	-2.0	2.4
Unemployment rate (%)	6.0	5.6	5.6	5.4	5.4
Fiscal accounts (% of GDP)					
Budget balance	-9.4	-7.7	-5.7	-4.0	-3.5
Public debt	46.9	48.8	48.1	49.5	49.1
External accounts					
Net FDI (% of GDP)	1.3	3.0	3.1	3.0	2.9
Inflation/Monetary/FX					
CPI (period average)	2.7	5.0	13.7	12.3	5.1
Central bank reference rate (end of period)	1.50	1.75	6.75	7.00	5.00
3M money market rate (December avg.)	2.04	2.83	7.66	7.50	5.77
USD/RON (period avg.)	4.24	4.16	4.70	4.59	4.47
EUR/RON (period avg.)	4.84	4.92	4.93	4.99	5.09

Outlook

We expect Romania's economy to undergo a technical recession this winter and to recover in H2 2023. We forecast GDP growth at 1.3% in 2023 and 3.9% in 2024. Gradual fiscal tightening might stop in 2024, which is an election year, with the budget deficit expected to amount to 4% of GDP in 2023 and 3.7% of GDP in 2024. We forecast that inflation will peak in Q1 2023 around 17%, falling below 9% by year-end and to around 4.5% a year later. The NBR could keep the policy rate to 7% this year and cut it to 5% in 2024. We expect Romania to report a negative EBB in 2024-25, with EUR-RON depreciating to the 5.00-5.10 range once disinflation accelerates.

Gradual adjustment

Despite strong growth of around 4.7% in 2022, we expect Romania's economy to undergo a shallow technical recession in Q4 2022–Q1 2023, with private consumption driving the slowdown. Having exhausted in H1 2022 precautionary savings built up during the pandemic, Romanian households' purchasing power fell last year, with real wages expected to fall also in 2023. In addition, financial conditions will continue to tighten because the variable interest rate applied to loan contracts is adjusted with a delay of two quarters and will remain high throughout 2023.

We forecast that inflation will fall below 9% by year-end and to around 4.5% a year later.

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 2023.

The outlook for investment is mixed. We expect capex and house purchases to slow in line with economic activity and tightening financial conditions. In our view, house prices could fall slightly in secondary cities where they have outpaced household income in recent years. However, we do not forecast a significant correction in house prices at a national level. Unlike in Visegrád countries, the Romanian government does not pursue an FDI strategy. This makes confirmed and planned investment in electric mobility even more impressive. However, most projects are likely to start after the European economy recovers from its current slump. In contrast, we expect public investment to outpace that in neighboring countries owing to good planning and management of EU-fund absorption and to RRF inflows. Romania has fallen behind in its RRF reform agenda, managing to receive one disbursement in 2022. Slow progress in 2023 might unlock additional funding worth around 1% of GDP, compared to zero in Czechia, Hungary and Poland. Road and energy infrastructure works are advancing slowly but are geopolitical priorities and, thus, unlikely to be crowded out, in our view.

The big hurdle for the disbursement of additional RRF funds is pension reform. With four rounds of elections looming in 2024[1], the Romanian government will have to reform special pensions[2], despite that their recipients vote overwhelmingly for the Social Democrats (PSD) and the Liberals (PNL), the two main coalition partners. According to current arrangements, the PSD should inherit the PM position from the PNL in mid-2023. Instead of cutting special pensions, PSD President Marcel Ciolacu, who will probably be the next PM, would like to replace the flat income-tax rate with a progressive system and raise taxation on companies. European authorities might accept either solution, although, in our view, aligning special pensions with regular ones would be better on the long term, as Romania's population is projected to age faster than those of most EU countries in the next few decades.

Budget deficit

We expect a gradual fiscal adjustment, with the budget deficit falling from 5.9% of GDP in 2022 to 4% of GDP in 2023 and to 3.7% of GDP in election year 2024. Energy subsidies will be kept in place until March 2025, being fully funded by extra taxes on the energy sector. Before the 2022-23 winter, natural-gas consumption fell below domestic production (seasonally adjusted), which means Romania could be self-sufficient in the coming years at the cost of output scarring in several energy-intensive sectors, such as producers of fertilizers and nonferrous metals. Unlike its regional peers, Romania continues to run a structural trade deficit with goods ranging from consumer staples to electricity. The latter can be addressed in the coming decade by expanding nuclear power capacity and domestic gas production. The former hinges on structural reforms (removing red tape, promoting digitalization and ensuring a predictable tax system), for which political appetite remains low. Even if economic activity rebounds in 2024, pre-election spending would reduce the negative fiscal impulse vs. 2023.

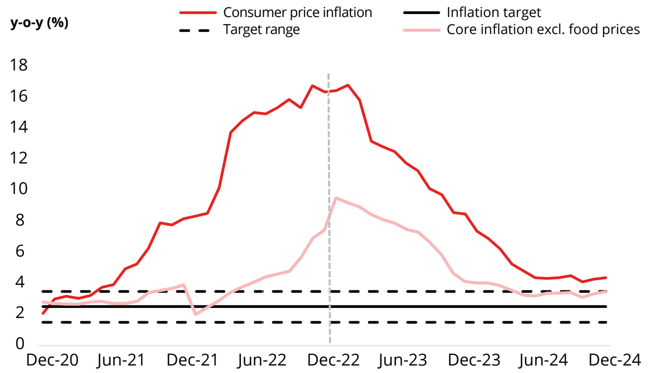
[1]Chronologically, local and European in spring, parliamentary and presidential in 4Q24

[2]The main recipients are former employees in defense, the police and the secret services, followed by former magistrates and other state employees. Employees in all these categories can retire in their 40s and receive a full pension that is several times higher than the average pension, despite incomplete contributions.

Inflation

We forecast that inflation will peak at around 17% yoy in Q1 2023, with the headline rate falling below 9% by year-end. The weighting of food prices in Romania's CPI basket (a CEE-topping 35%) will keep headline inflation close to regional levels, while core inflation excluding food might decline to around 4% in 2023, the lowest in Central Europe. We forecast that headline inflation will reach 4.5% by the end of 2024, with core inflation, excluding food, around 3%.

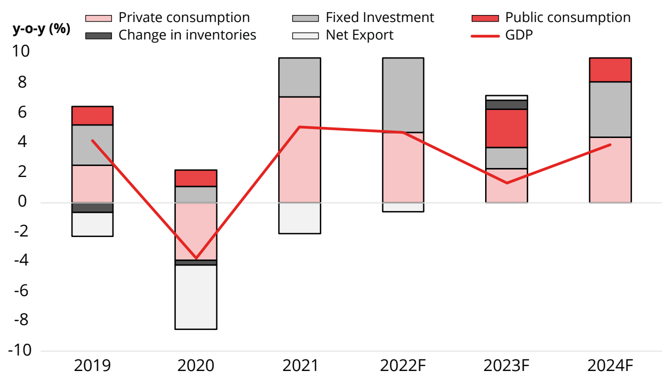
Inflation will peak in Q1 2023



GDP growth

Given our outlook for strong public investment, moderate tightening in financial and fiscal conditions and a short and shallow recession in Europe, we forecast GDP at 1.3% this year and 3.9% in 2024. A longer and/or deeper recession in Europe poses the main risk to our forecast.

1.3% GDP growth is expected in 2023



Current account deficit

Even if the C/A deficit narrows gradually from 9.2% of GDP in 2022 to 7.3% of GDP in 2023 and to 5.6% of GDP in 2024, the EBB will remain negative. We expect stable FDI to be dominated by intercompany lending, as multinationals take advantage of the interest differential between Romania and the eurozone. We also assume that EU-fund inflows will remain larger than in Visegrád countries, as Romania continues its slow catch-up in road infrastructure.

Monetary policy

The NBR hiked rates to 7% in early 2023 and could keep it there this year. We expect cuts to 5% in 2024, if inflation declines in line with our forecast. The NBR could let EUR-RON move to the 5.00–5.10 range once disinflation accelerates in the summer.

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Investment market

Investment volume

The last quarter of 2022 culminated with the largest investment transaction recorded to date in Romania, represented by the sale of CA IMMO's portfolio, consisting of 7 assets totaling 165,000 sqm, for an amount of €377 million. Through this transaction last quarter's activity slightly overpassed half a billion of euros, contributing with cca 40% to the yearly investment activity. This major acquisition elevated 2022's volume to €1,25 billion, which is the highest annual investment volume recorded in a decade. In 2022 the investment activity has recorded an increase of approximately 35% compared to the 10% increase recorded in 2021.

Record year

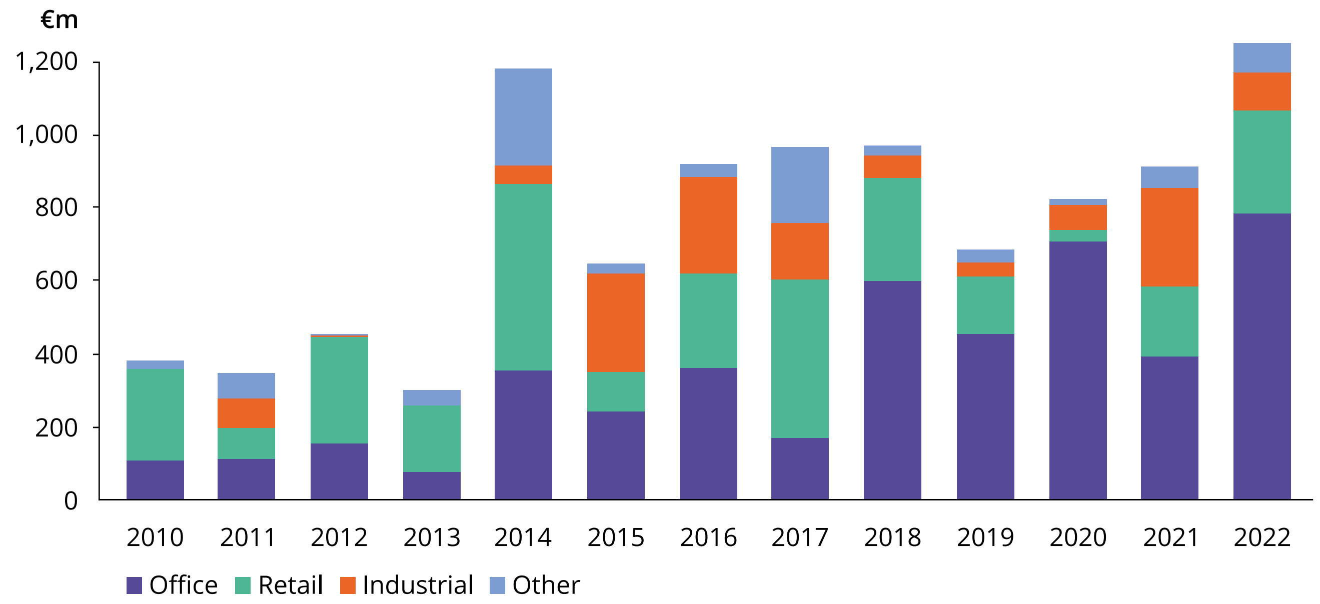
35% y-o-y increase

€1.25bn volume

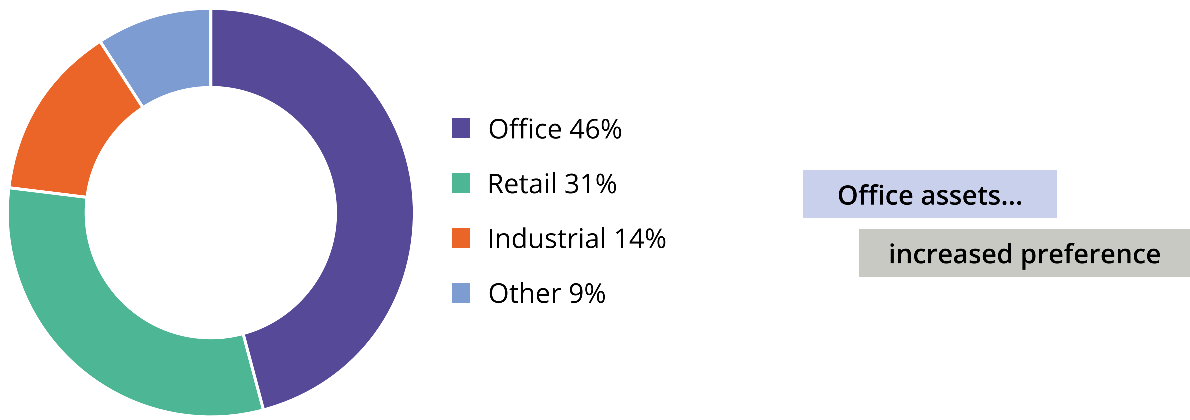
The office asset transactions have remained of high preference as they generated cca 63% of the volume, followed by retail assets which contributed with 22%, while industrial assets contributed with only 8%. In addition, 2022 recorded various small transactions with hotel units, which altogether generated 5% of the annual volume. As in the previous year, the sales of retail asset portfolios have helped the emergence of this category in the annual volume, a process which we believe that will be replicated as well in the years to come due to the increased appetite of investors for the Romanian retail parks.

Geographically, Bucharest is a highly effervescent investment market, generating cca 70% of the yearly volume, to which office assets contributed with over 87%, with a total of 15 deals. In contrast, in regional cities, the retail assets have generated cca 65% of the investment volume, followed by the industrial sector which added 16% to the yearly activity. In 2022, cities like Cluj-Napoca, Ploiesti, Constanta have remained very active, while other regional cities, mainly tertiary cities came to light through the sale of various retail park portfolios.

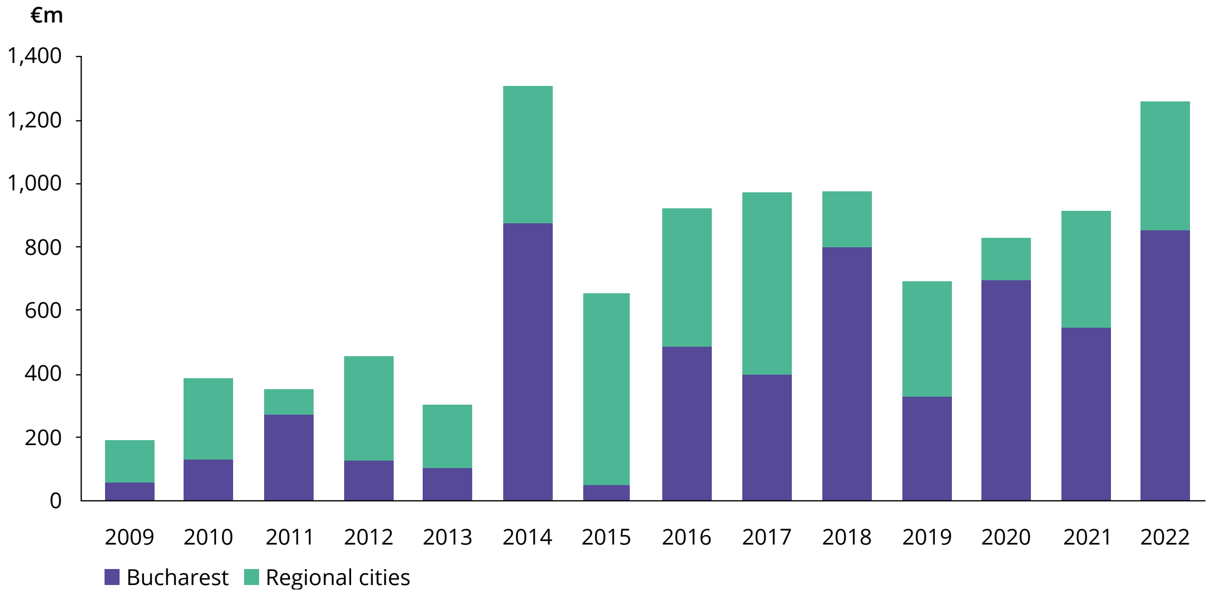
Investment volume evolution by type of properties (million euros)



Investment volume evolution by type of properties 2010–2022 (million euros)



Investment volume Bucharest versus regional cities (million euros)



Transactional performance

The Romanian investor DEDEMAN/Paval Holding has set another milestone in the local investment market as they have signed the largest investment transaction through the acquisition of the CA Immo office portfolio, for an estimated amount of €377m, totaling 165,000 sqm spanned over seven buildings, becoming the second largest office space owner in Bucharest. Each of the seven office assets has a major differentiator in the office market, altogether creating one of the most attractive and diversified office portfolios built by CA IMMO during their 20 years of activity in Romania. The list of office buildings includes: Opera Center (1&2), Europe House, Bucharest Business Park, Riverplace, Campus 6.1 and Orhideea Towers (listed by year of completion). Also in Q4 2022, Paval Holding has purchased from Forte Partners the first phase of U-Center for an estimated amount of €90M, a recently completed office project with a 32,000 sqm GLA, showing over 90% occupancy rate at the transaction date. The Romanian investor is in pole position for securing the second phase of U-Center office complex, with completion expected in Q3 2023.

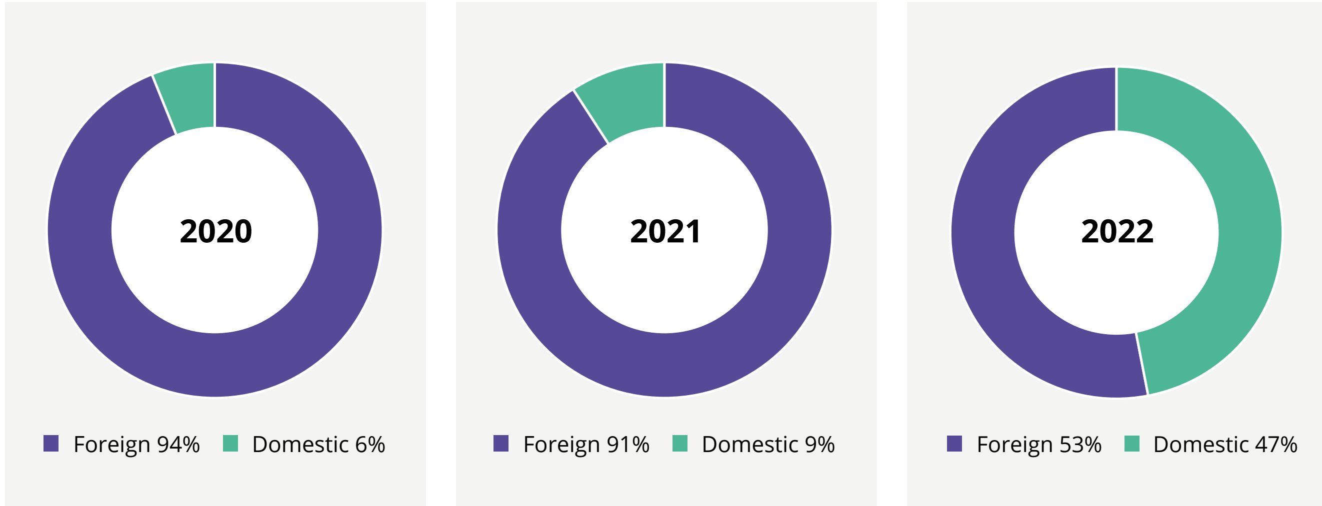
The sale of six retail parks (60% of the portfolio) by Prime Kapital to their partner MAS RE for an estimated amount of €192m is considered this year's second largest transaction. The assets are located throughout Romania, having a combined GLA of 132,000 sqm developed in Ploiesti, Zalau, Sf. Gheorghe, Barlad, Targoviste and Balotesti.

The top is completed by the sale of Expo Business Campus by Portland Trust to S Immo AG for an amount of €114M. The project completed in 2019, with an estimated GLA of 41,500 sqm was sold only in 2022 as the sale process was delayed by the pandemic months.

In 2022, the Belgium developer Speedwell was very active and sold their recently developed projects, Record Park – developed in Cluj Napoca and Miro – developed in North Bucharest. While Record Park (17,000 sqm GLA) was sold to AYA Properties for an amount of €35M, 75% of Miro (23,000 sqm GLA) was sold to the Maltese group Hili Ventures for an amount of €45M, with an option to complete the full acquisition in two years.

Romanian capital was enriched by the contribution of One United Properties, which during 2022 generated investments slightly exceeding €50M, through the acquisition of a single tenant, CBD-located office building, which is the current headquarters of First Bank and of Eliade Tower, considered a natural addition to the mixed-use project One Floreasca City, as well as several assets located in the very center of Bucharest, as a continuation of an acquisition process of assets located in the historical center of the capital city.

Investment volume by source of capital (%)

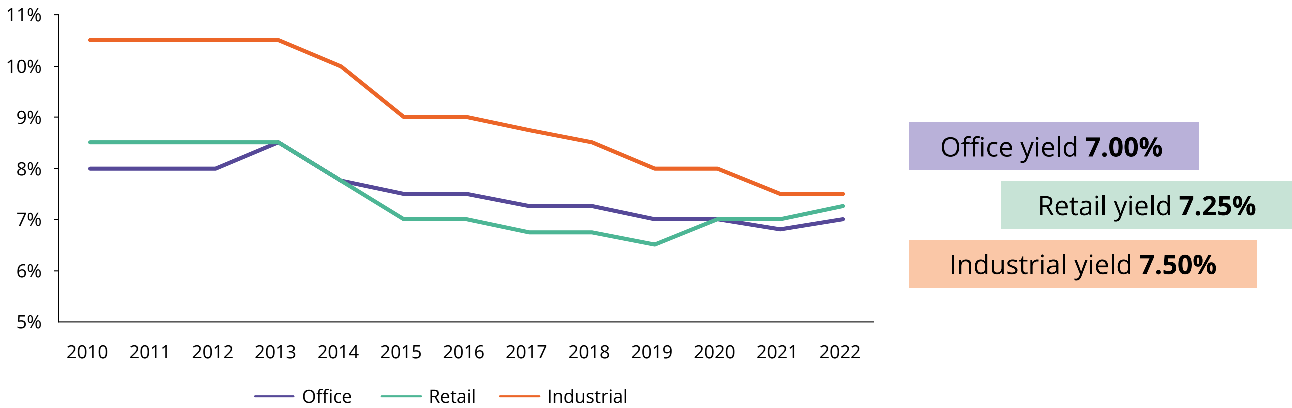


Prime yields

Although the annual investment volume is at a historical high, with the exception of office assets, the prime yields were stagnant at the end of 2022. Prime office yields have decompressed over the quarter, from 6.75% to 7.00%, while the industrial and retail assets are considered at 7.50%, respectively 7.25-7.50%.

Regional cities have increased the gap with the capital city in the range of 100-150 bps, while in 2022 the availability of institutional grade products in these cities has become very scarce. In regional cities, transactions with retail parks have maintained the pace while office buildings hardly reached 10%.

Prime yields evolution (%)



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Investment market forecast

There are promising indications that 2023 can generate investment volume in the range of €700-800m, considering the pool of assets currently marketed for sale, as well as projects with high probability to start the sale process soon. Furthermore, Bucharest and office buildings will be the biggest contributors, but we expect to witness a further increase of sale & leaseback transactions with commercial assets throughout Romania.

Local capital will keep momentum and will compete with the foreign capital for the Romanian assets, a proof of maturity of the local investment market, which started to rely on a more diverse and balanced pool of local and international investors.

Depending on the development of the global economic environment, social and political stability within the EU and at its eastern border, the real estate market may witness certain setbacks across all sectors. Tight financing conditions may contribute further to these factors and generate additional delays in concluding various investment transactions. However, the exceptional results recorded in the Romanian real estate market in 2022, offer a good working framework for the upcoming 12-24 months.

Local capital...

to keep up the momentum

2022 Main investment transaction (selection)

Project name	Area (sqm)	Selling price (€m)	Buyer	Seller	City
CA Immo Office portfolio (7 assets)	164,557	377	Dedeman/ Pavăl Holding	CA IMMO	Bucharest
Retail park portfolio (6 assets)	132,000	192	MAS RE	Prime Kapital	Various regional cities
Expo Business Park	41,500	114	S Immo	Portland Trust	Bucharest
U-Center 1	32,000	90	Dedeman/ Pavăl Holding	Forte Partners	Bucharest
Ploiesti Shopping City	N/A	55	NEPI Rockcastle	Carrefour Property Romania	Ploiesti
Miro	23,000	45	Hili Ventures	Speedwell	Bucharest
Metav Business Park	75,000	37	Alinso Group	Metav	Bucharest
Record Park	17,000	35	Aya Properties	Speedwell & Baltissimo	Cluj Napoca
One Victoriei Plaza	12,000	28	One United Properties	Dorin Mateiu	Bucharest
One Victoriei Center	12,000	25	Indotek Group	One Dorobanti Properties	Bucharest
Arad Industrial Park	42,000	20	WDP	Alpha Bank	Arad
Vitantis Retail Park	35,750	16	Praktiker Real Estate	Revetas Capital	Bucharest
Baneasa Business Center	10,000	15	Indotek Group	Adval Asset Management	Bucharest
Vienna House Easy Airport	N/A	15	HR Group	Vienna House Capital	Bucharest

Office market

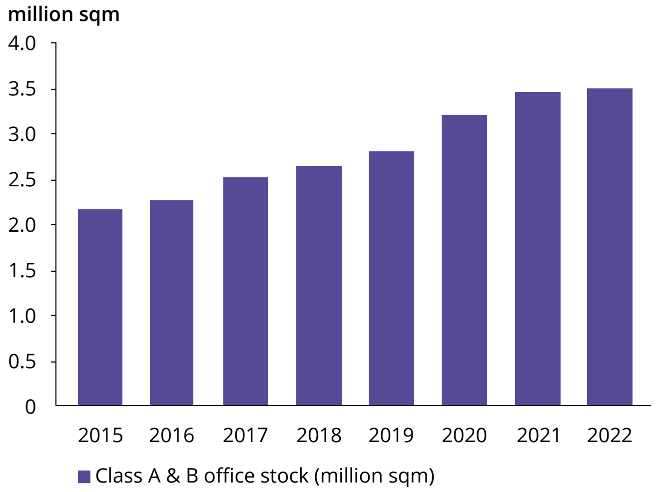
Supply

In 2022, we have seen the completion of seven buildings, increasing the modern office stock with 124,000 sqm and representing only 42% of the supply completed a year ago. There isn't a singular reason for having such a low level of deliveries in Bucharest, as the decision of developers to put on hold some office projects or to postpone others was influenced by the prolonged work from home strategy, which in case of large occupiers is still in place, the uncertainty around the hybrid working model, construction cost fluctuations, the global economic environment, just to list a few reasons.

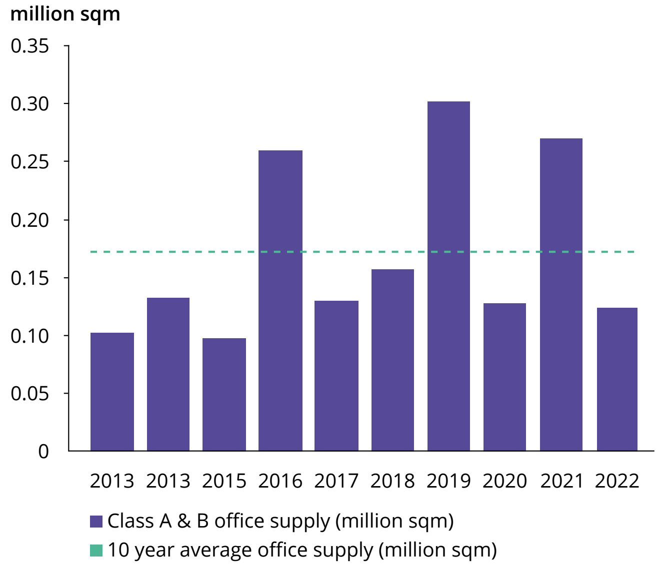
At the end of Q4 2022, modern office stock in Bucharest reached 3.5m sqm, a stock that includes Class A and B office buildings, with completion recorded since the early 90s. As office stock started to get older or outdated, some notable office buildings went through a retrofitting and upgrading process such as America House, City Gate and S-Park or are about to be fully refurbished as in the case of myhive Victoriei (former Bucharest Financial Plaza). Modern stock will record both increases and decreases, as we expect to further record change of use of the office premises into residential or co-working/co-living projects, mainly in the case of buildings which remained unoccupied for multiple quarters due to their location at the edge of the business districts or fierce competition with nearby projects.

In 2022, the Central West submarket generated 45% of the supply and remained the main office submarket in terms of stock, supply and take-up activity. Buildings completed in Center West include Sema Park Oslo & London and AFI Teck Park Ph 2, which altogether increased the stock with cca 56,000 sqm. In the Central area, two buildings were completed: Tandem, a brand-new development, with a GLA of cca 21,000 sqm and H Tudor Arghezi 21, a refurbishment with a GLA of cca 6,800 sqm. The remaining office supply consists of other two large projects completed in the northern half of the city, the first phase of @Expo in Q1 2022, as well as the completion of the second phase of the Equilibrium project in Q4 2022.

Modern office stock evolution 2015 – 2022 (million sqm)



Yearly supply versus 10-year average 2013 – 2022 (sqm)



Office buildings completed in 2022, by quarter

Project name	Area (sqm)	Developer	Quarter	Submarket
Sema Park London	21,347	River Invest	Q1 2022	Center West
Sema Park Oslo	10,177	River Invest	Q1 2022	Center West
@Expo B1&B2	21,000	Atenor	Q1 2022	Free Press Sq
Tandem	20,980	Forte Partners	Q1 2022	Center
AFI Tech Park Phase 2	24,500	AFI Europe	Q2 2022	Center West
H Tudor Arghezi 21	6,800	Hagag	Q3 2022	Center
Equilibrium Phase 2	19,400	Skanska	Q4 2022	Floreasca-Barbu Vacarescu

Pipeline

As already forecasted, office pipeline shrank heavily, with cca 110,000 sqm to be completed during 2023, out of which only 30% is pre-let. Unlike other CEE or West European office markets, Bucharest is facing a major setback due to continuous uncertainty at the local administration level, as suspension or cancellation of the Coordinating PUZs (Zonal Urban Planning) has been ongoing for more than 12 months, during which very few building permits were easily obtained. Thus, for the 2024–2026 time horizon, several office projects were announced, with increased probability of completion for medium sized office projects, while in the case of larger projects, with gross leasable area exceeding 20,000 sqm, the forecasted completion extends over a couple of years. Accordingly, we are expecting the return of pre-leases for 2024+ office projects, which can accommodate larger requirements at nowadays ESG standards of multinational occupiers.

Office buildings to be completed in 2023

Project name	Submarket	Developer	Area (sqm)	Quarter
One Cotroceni Park Phase 2	Center West	One United Properties	34,450	Q1 2023
Muse	North	Primavera Development	7,000	Q1 2023
@Expo A-C	Free Press Sq.	Atenor	27,000	Q2 2023
Argezi 4 Project	Center	Strabag Real Estate	7,500	Q3 2023
U Center Ph 2	Center	Forte Partners	33,000	Q3 2023

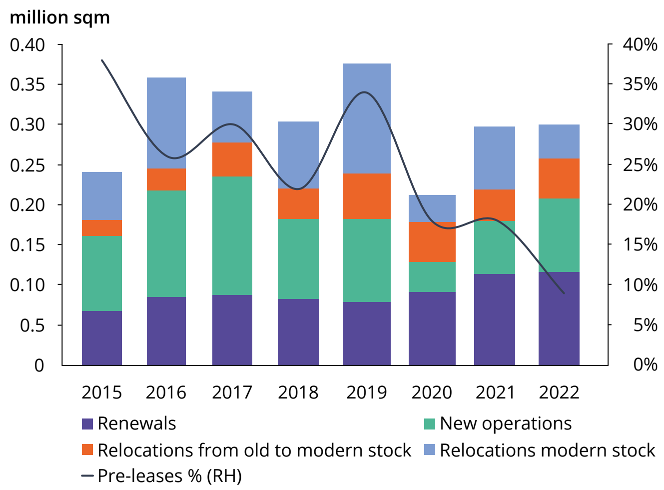
Selection of projects under construction or announced (2024 onwards)

Project name	Submarket	Developer	Area (sqm)
Promenada Office Project	Floreasca BV	Nepi Rockcastle	5,500
Promenada Mixed Use	Floreasca BV	Nepi Rockcastle	27,500
CINA Project	Center	Jupiter Group	3,400
One Gallery - Hala Ford Project	Floreasca BV	One United Properties	5,500
nmyhive Victoriei	Center	CPI Property Group	27,700
ARC	Center West	PPF	30,000
The Light Two	Center West	River Invest	28,600
Campus 6.4	Center West	Skanska	22,000
One Cotroceni Park Phase 3	Center West	One United Properties	30,000
Nusco City	Pipera South	Nusco Imobiliara	38,000

Demand

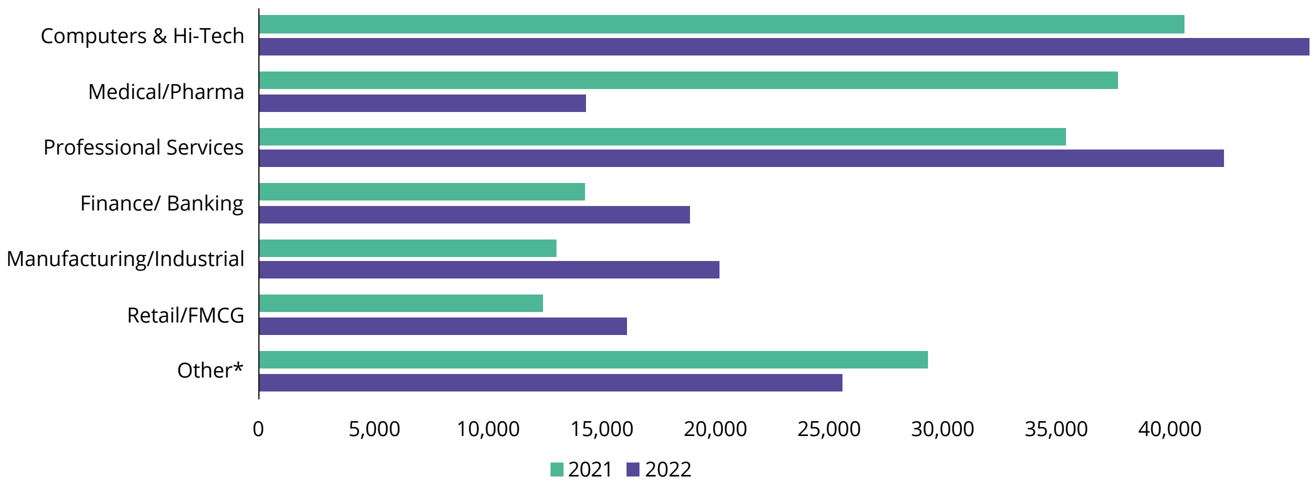
The hard statistical data shows numerous similarities between the post-pandemic years, 2021-2022. The gross take-up in both years reached cca 300,000 sqm with the last quarter contributing in each year with cca 84–85,000 sqm. Renewals contributed in each of the assessed years with cca 38–39%, while the pre-leases were historically low, estimated at 9% for the entire 2022, a decrease from 18% recorded the year before. Relocations from both competing and non-competing stock accounted for 30% of the gross take-up activity, while new demand consisting of new entry companies, expansions or new leases generated by existing occupiers, added 31% to the annual total leasing activity.

Office leasing activity evolution between 2015–2022 (sqm)



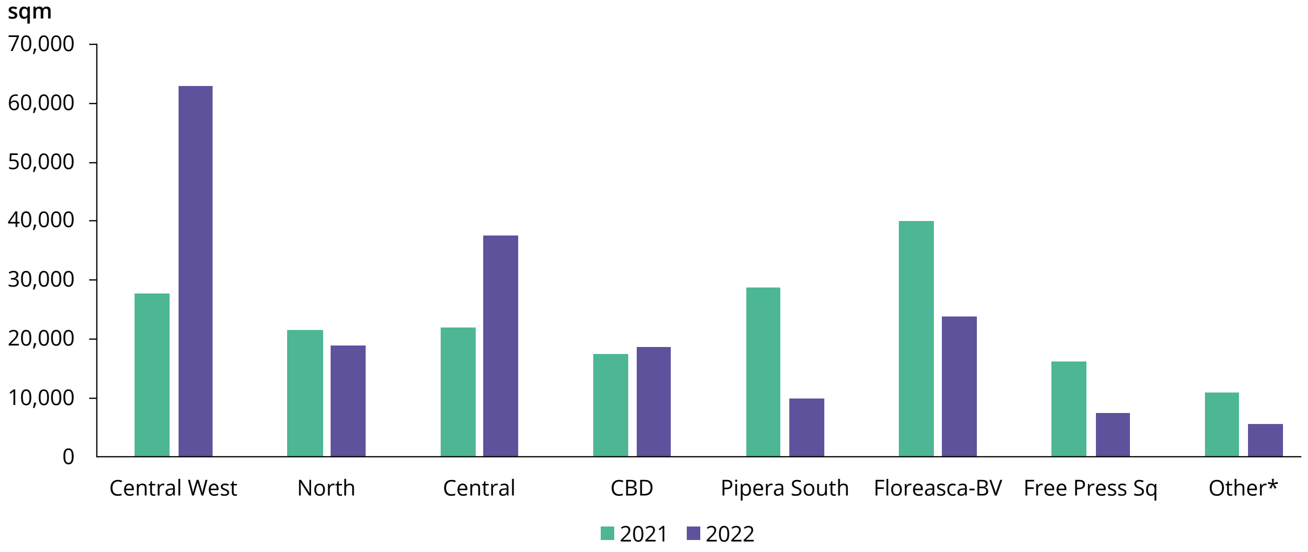
It is worth mentioning that in 2022, through renewals, some of the occupied space was returned to the landlords, which in case of exceptionally well-located office projects was immediately absorbed by the existing occupiers. It is expected to witness more often space surrenders at the end of lease cycles, as large multinational companies, acting especially in the computer hi-tech or banking sectors did not return yet to their physical offices nor finalized the hybrid working strategy. Through surrenders, the occupiers aim to decrease their total occupancy cost as office rents are indexed either with HICP or MUICP, while service charges are reconciled to reflect the current increases generated by the cost of utilities. Up to this point, both WFH and hybrid working did not impact yearly gross take-up figures, but medium to long-term, we are expecting a decrease in the renewed office space across all office submarkets, which in the current market conditions will offset the lack of pipeline in the upcoming 12–18 months.

Net take-up by business sector in post pandemic years (2021 versus 2022)



*Pipera North, East, West, South

Net take-up by submarkets in post-pandemic years (2021 versus 2022)



The largest transaction concluded in 2022 is represented by the pre-lease signed by BAT's Global Business Solutions, which will occupy an area of 10,500 sqm in the second phase of One Cotroceni Park. Siemens Energy also pre-leased an area of cca 7,500 sqm (Ph1&Ph2) in the same project. A similar area of 7,500 sqm was pre-leased by the IT service provider EveryMatrix in Strabag Real Estate's Project, Arghezi 4, located in the center of Bucharest and due to be completed in the second half of 2023. The largest renewals concluded in 2022 were signed by NXP (9,900 sqm), Playtika (8,700 sqm), Infineon (7,500 sqm), Bitdefender (6,600 sqm), just to mention a few. On the other hand, the American company Booking Holdings has leased 9,000 sqm in U-Center Phase 1 for the opening of its excellence center in Bucharest, while the healthcare sector marked another important transaction, of 6,500 sqm, through the lease signed by Dr. Leventer in myHive Victoria Park.

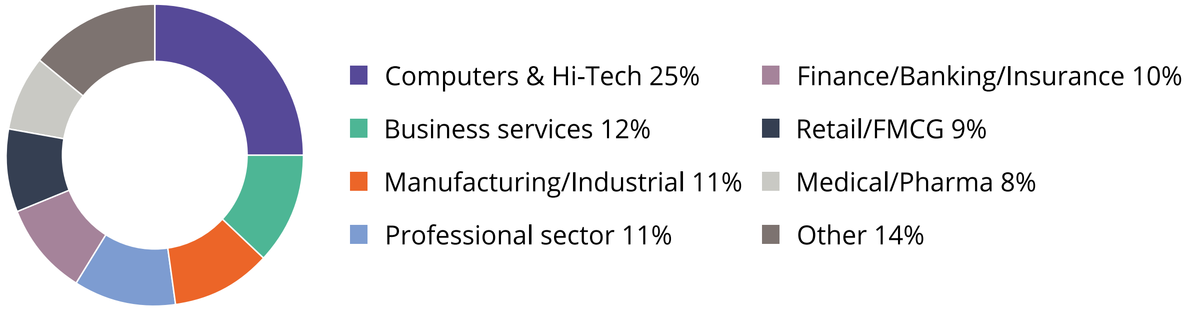
In 2022, net leasing activity reached 185,000 sqm, cca 62% from gross take-up, similarly to the split recorded a year ago. Thus, in 2022 there is a more diverse pool of industries which generated the net take-up, including computer hi-tech (25%), business services (12%), professional and manufacturing sectors (each with 11%) and financial & insurance industry (10%), while medical & pharma decreased to only 8% (compared to 21% recorded in 2021). Only nine sub-leases were reported in 2022, amounting to cca 6,500 sqm, a trend that will decrease in the upcoming 12–18 months, as the occupiers that sub-lease space are reaching the end of their lease period.

Largest leasing transaction...

10,500 sqm

One Cotroceni Park Phase 2

Net take-up by business sector in 2022



Rents

Prime office headline rent increased to €20/sqm/month. This is a marginally increase in average with €1/sqm/month, as there are few buildings located in the CBD commanding higher headline rents, due to the lack of supply in the CBD as well as the inflationary pressure for both Euro and RON currencies. Rent growth was recorded in all active office sub-markets, such as Central West, Central and Floreasca BV, on average with €1/sqm/month, mainly translated in a narrower Class A office band, through the increase of the minimum value (eg from €14-16/sqm/month to €15-16/sqm/month in the Central West, and from €14-17/sqm/month to €15-17/sqm/month in Floreasca Barbu Vacarescu). The incentive package remained unchanged in term of granted rent-free period but the expectation is for an increased fit-out package due to the escalation of construction costs both for manpower and for materials, in 2022.

Vacancy

At the end of Q4 2022, the average vacancy rate stood at 12.5%, an increase with cca 100-bps compared to the vacancy rate recorded in Q4 2021. One digit vacancy rates are recorded in Central (7.8%) and CBD (7.4%) sub-markets, while in the Center-West the vacancy rate stands at 13.7%. An increase to two-digit vacancy rate was captured in Floreasca-Barbu Vacarescu (10.3%) due to recent completion of Equilibrium 2 project. Following the public announcements of large occupiers such as BCR and Oracle, to surrender some of the occupied areas, we expect to see a further increase in vacancy rates in both Central-West and Floreasca–Barbu Vacarescu, fortunately with fully fitted institutional grade office space which can be absorbed easily by the market in the upcoming quarters.

Office market forecast

Even though in post-pandemic years the occupancy of the physical offices remained low, surprisingly, the office market recorded good results in both take-up and investment activity. Also, post-pandemic, the hybrid working model emerged as the new working model, but there is still a long run until its full implementation not only in Romania but also globally. Accordingly, the new assessment of the office space need is far from being finalized and real estate decision, in most cases, is postponed from one quarter to another.

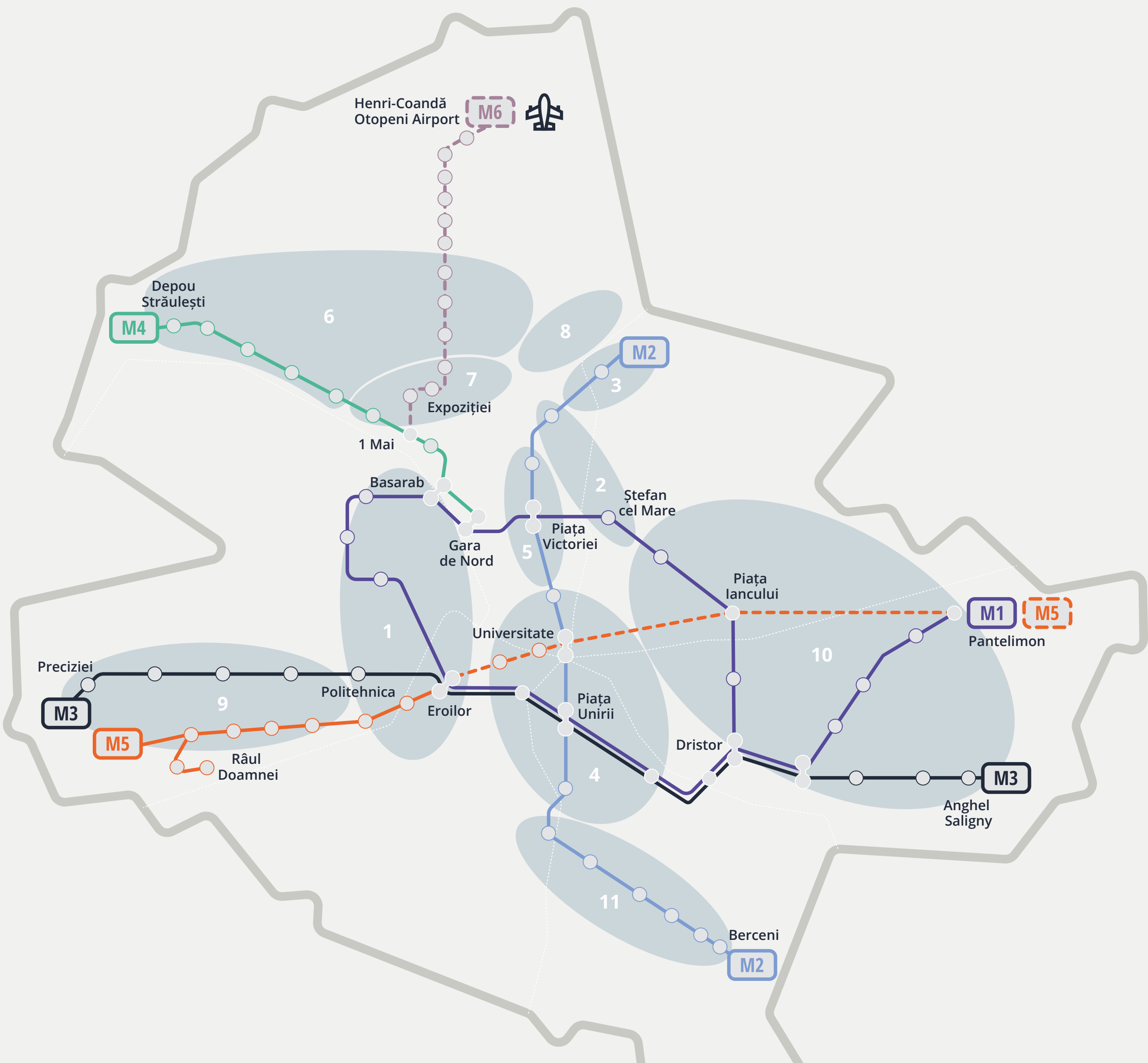
On the other hand, 2022 recorded few large relocations or openings of large new operations, which offered developers and investors alike the opportunity to reassess the market and resume the authorization process for projects which will fall under the pipeline of 2024–2025 and onwards. The uncertainty will remain on the cost side, which will be reflected at a certain extent in the offered financial package, which in average will be 10–15% higher.

The market performance in 2023 will depend on the existing stock but, at the same time, will offer opportunities for the return of the pre-lease market, which will unlock projects, financing and confidence of developers in the local real estate market.

Opportunities...

for the pre-lease market

Bucharest office submarkets (headline rents and vacancy rates)



No.	Submarket	Modern stock (sqm)	Headline rent Class A (€/sqm/m)	Average vacancy rate (Class A&B)
1	Central West	593,000	€15–16	13.7%
2	Floreasca-BV	550,000	€15–17	10.3%
3	Pipera South	495,000	€12–14	10.8%
4	Central	407,000	€15–16.5	7.8%
5	CBD	360,000	€18–20	7.4%
6	North	356,000	€12–14	14.8%
7	Free Press Square	221,000	€15–16.5	17.8%
8	Pipera North	194,000	€8–10	27.4%
9	West	173,000	€11–13	11.5%
10	East	103,000	€9–12	11.9%
11	South	52,000	€9–12	4.8%

Existing Subway Lines:

- M1 Dristor–Pantelimon
- M2 Berceni–Pipera
- M3 Preciziei–Anghel Saligny
- M4 Gara de Nord–Depou Străulești
- M5 Râul Doamnei–Eroilor

Planned Subway Lines:

- M5 Eroilor–Pantelimon
- M6 Gara de Nord–Henri Coandă Airport

Subway Stations:

- Correspondence station
- Subway station

Project management & Construction market

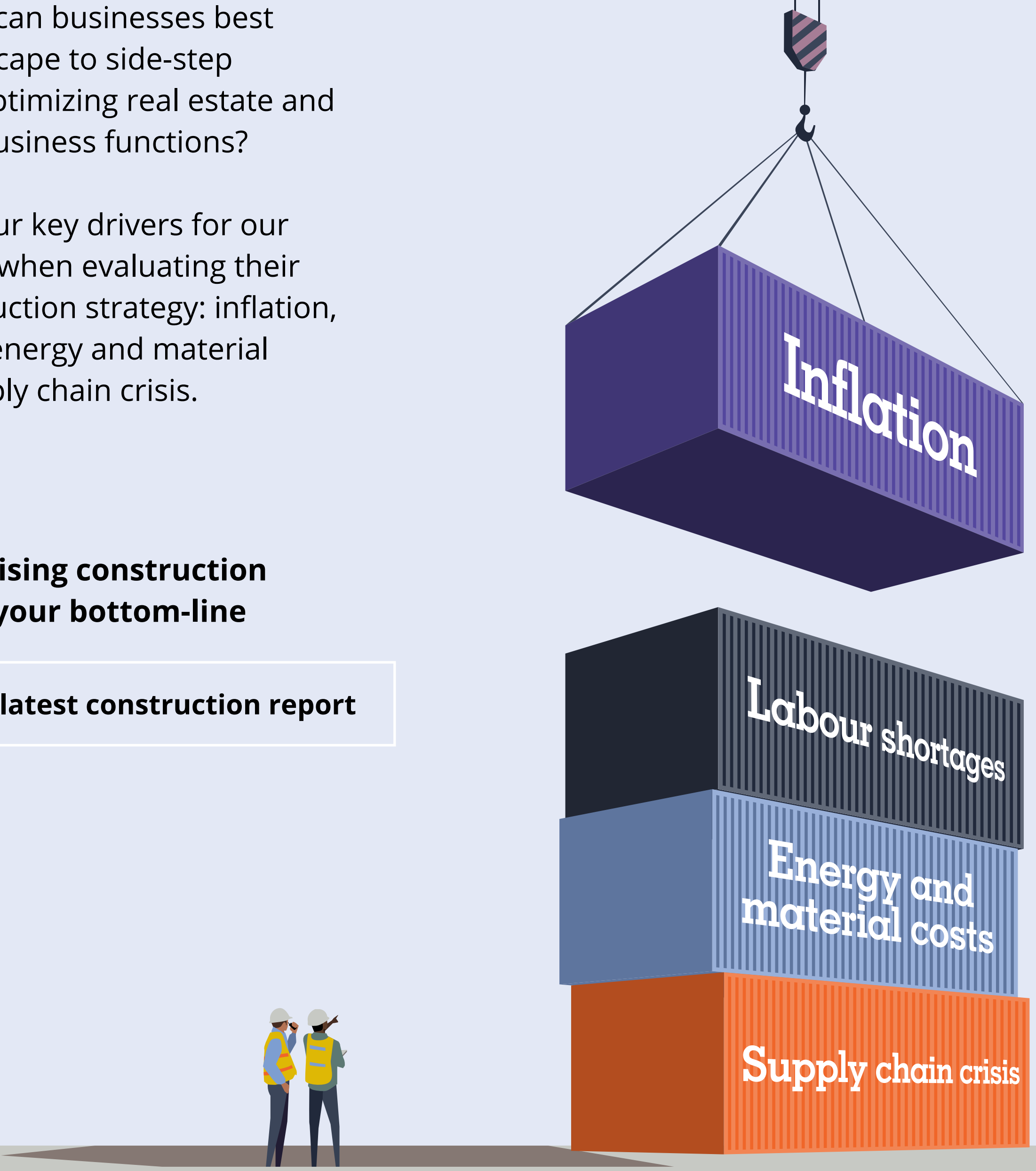
Assessing key drivers behind rising construction costs

So, what exactly is driving these costs upward? And how can businesses best navigate this landscape to side-step challenges while optimizing real estate and focusing on core business functions?

We've identified four key drivers for our clients to consider when evaluating their project and construction strategy: inflation, labour shortages, energy and material costs, and the supply chain crisis.

How to mitigate rising construction costs to improve your bottom-line

Explore our latest construction report



Workplace advisory services
Future proof your workplace to lower impacts in the years to come

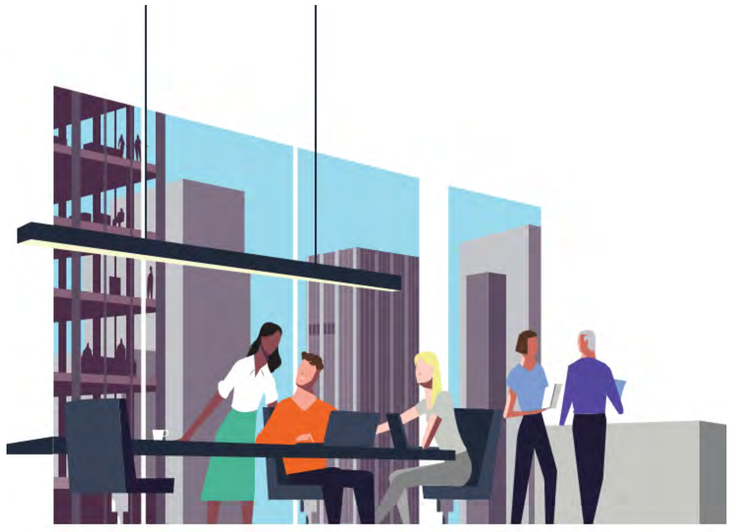
During COVID-19, companies had to quickly embrace remote work models to maintain business operations. This, in turn, has led to innovations in hybrid work models and flex working options. Looking at the data, we recognize that our occupier clients will continue to embrace remote, hybrid and flex work into the next several years. According to Avison Young's surveys of our clients, approximately 52% of companies expect to shrink their office space over the next three years, an increase from 44% a year earlier. Over half of large occupiers have reduced their real estate footprint since the beginning of the pandemic, and 28% aim to reduce their portfolio by up to 10% in the next two years[1].

Clients are reducing their office footprints by approximately 10-30%, on average, as compared to pre-pandemic levels, focusing on optimization strategies in lieu of new fit-out initiatives.

Embracing a hybrid workplace model offer potential benefits in a volatile construction market. When leased space is exceeded by peaks in demand, flowing over into a flex strategy can offer nimble relief without fully committing to a substantial project with increased risks of delays and disruptions.

One size never fits all

If this unusual construction landscape has taught us anything: one size fits all is a myth



[1]https://allwork.space/2021/11/over-half-of-large-firms-have-reduced-their-real-estate-footprint-with-more-following-suit/

Industrial market

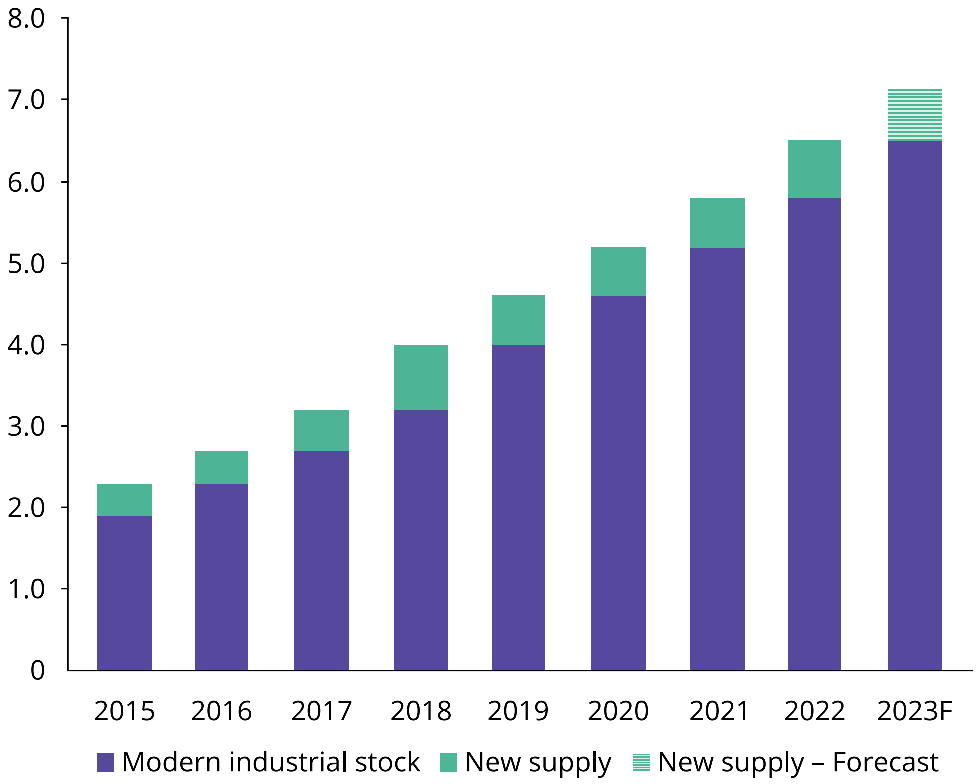
Driven by the country's favourable geographical location, stable environment and low labour costs, the real estate industrial market in Romania keeps breaking record after record. 2022 was another impressive year in terms of leasing activity and also deliveries of modern industrial stock, and 2023 is shaping up to be equally strong. The developers' and occupiers' appetite does not seem to diminish.

Stock

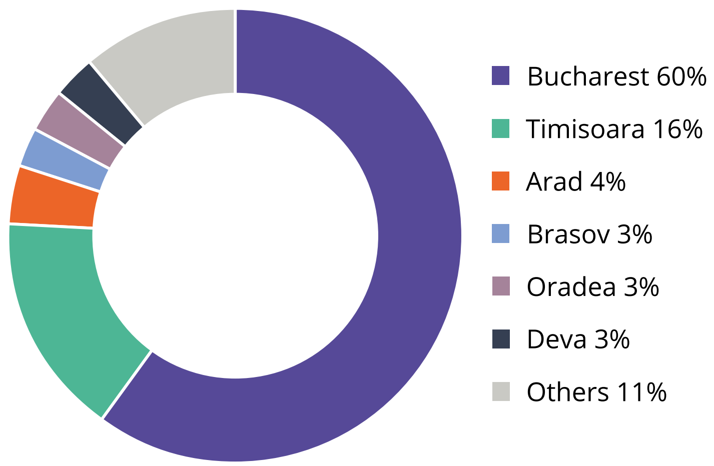
The new industrial supply was in the area of 700,000 sqm in 2022, a record figure since 2018.

The total modern industrial stock in Romania at the end of 2022 reached 6.5m sqm. The stock in the Bucharest area is around 3.2m sqm, representing 49% of the total stock. 60% of the deliveries in 2022 occurred in the Bucharest area, followed by Timisoara with 16% of the deliveries, the latter strengthening its position as the second most important modern industrial hub in the country.

Romanian modern stock evolution



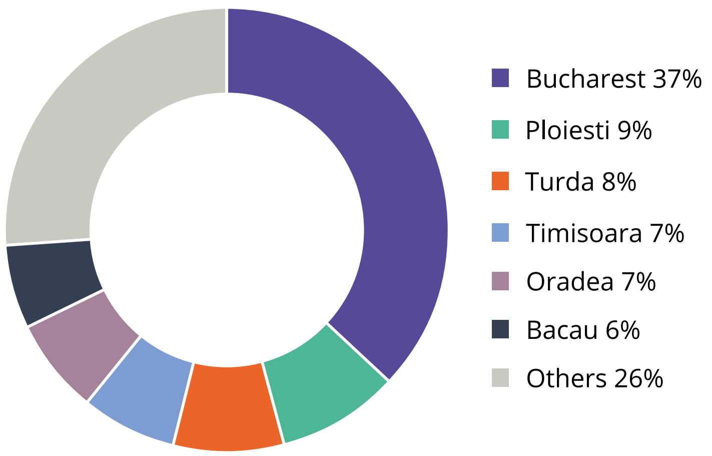
Deliveries of modern industrial space in 2022



Pipeline

For 2023, the developers planned to deliver over 600,000 sqm of modern industrial space, thus bringing the total stock to over 7m sqm by the end of 2023.

Deliveries of 2023 pipeline by geography

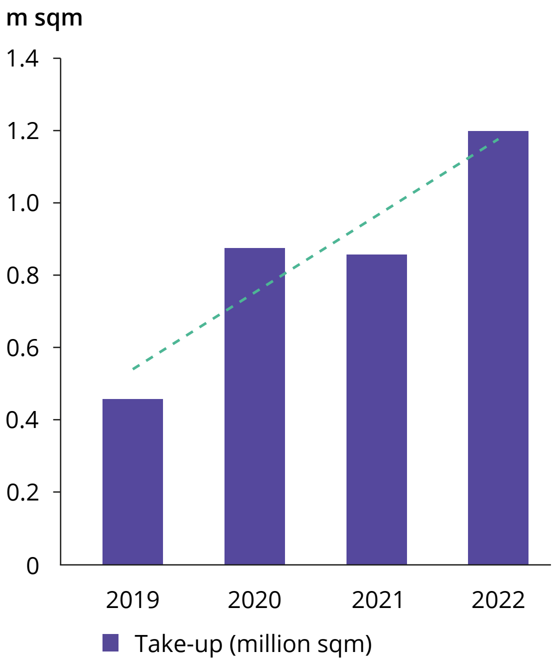


Demand

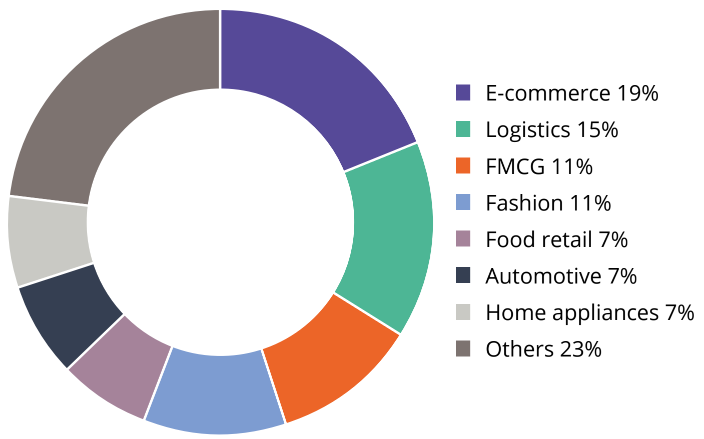
The demand for modern industrial space reached an all-time record in 2022. The total leasing activity was in the area of 1.2m sqm, overtaking for the first time in history the 1 million mark, and reaching an almost triple volume since the pre-pandemic year 2019.

As predicted by us in previous reports, the E-Commerce sector asserted a dominant role in the demand for modern industrial spaces, taking the lead position in 2022 with 19% of the total leasing activity (increasing from 6% in 2021), followed by demand coming from logistic companies (15%, decreasing from 34% in 2021) and FMCG (11%, compared to 10% in 2021).

Evolution of take-up in Romania (million sqm)



Distribution of demand in 2022 by business sector

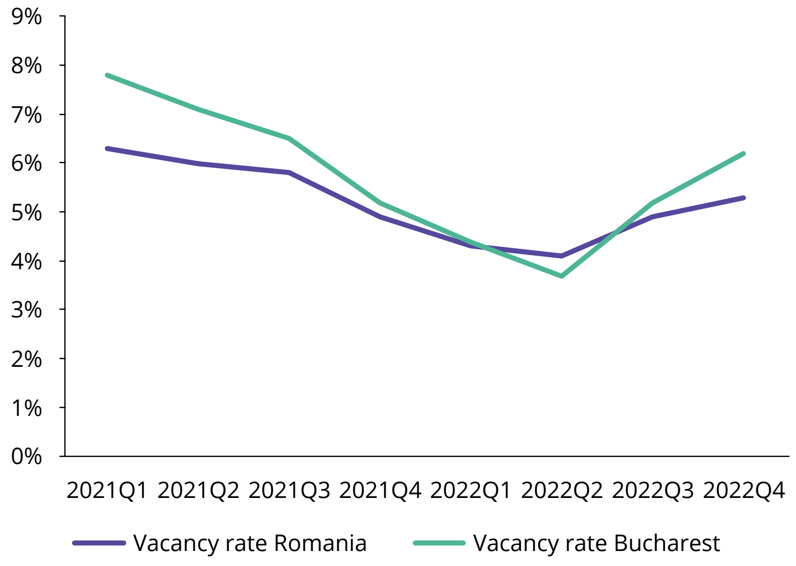


In terms of distribution by geography, Bucharest attracted the most significant part of the demand (58%, decreasing from 71% in 2021), followed by Ploiesti with 12% and Timisoara with 4%.

Vacancy

The vacancy rate in Romania was relatively on a descending trend, with a slight increase towards the end of the year due to a high volume of completed buildings. It currently stands at ~5.3% across Romania, and ~6.2% in the Bucharest area.

Evolution of vacancy rate (%)



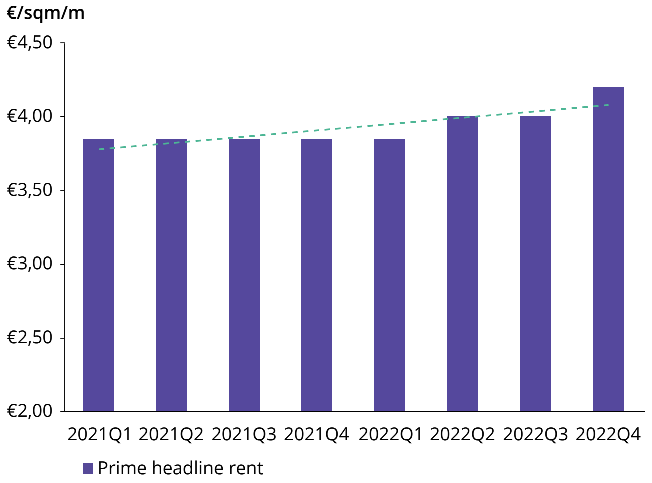
Occupancy cost & market practice

The vacancy rate in Romania was relatively on a descending trend, with a slight increase towards the end of the year due to a high volume of completed buildings. It currently stands at ~5.3% across Romania, and ~6.2% in the Bucharest area.

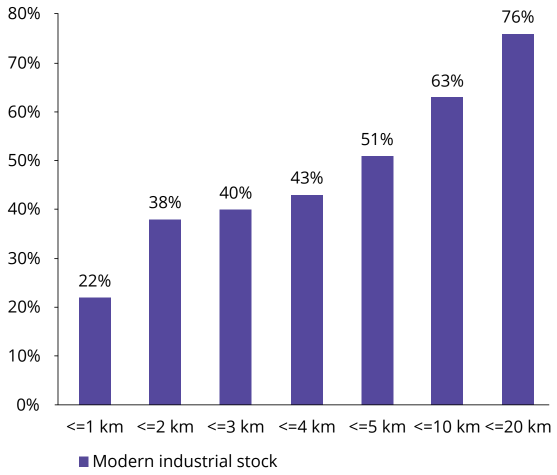
Headline rent	− Incentives	+ Service charges	Lease length
€4.20	**(10–15%)**	**€0.70–1.00**	**3–5 years** *(Logistics)*
	Rent free months, personalised fit-out, early access, etc.	*Building maintenance, property tax, building insurance*	**5–10 years** *(Manufacturing/BTS)*

Due to inflation and rise in construction costs, the prime headline rent withstood a slight increase in 2022, up to €4.2 per sqm per month, and it is expected to continue the upward trend in 2023.

Evolution of prime headline rent (€/sqm/m)

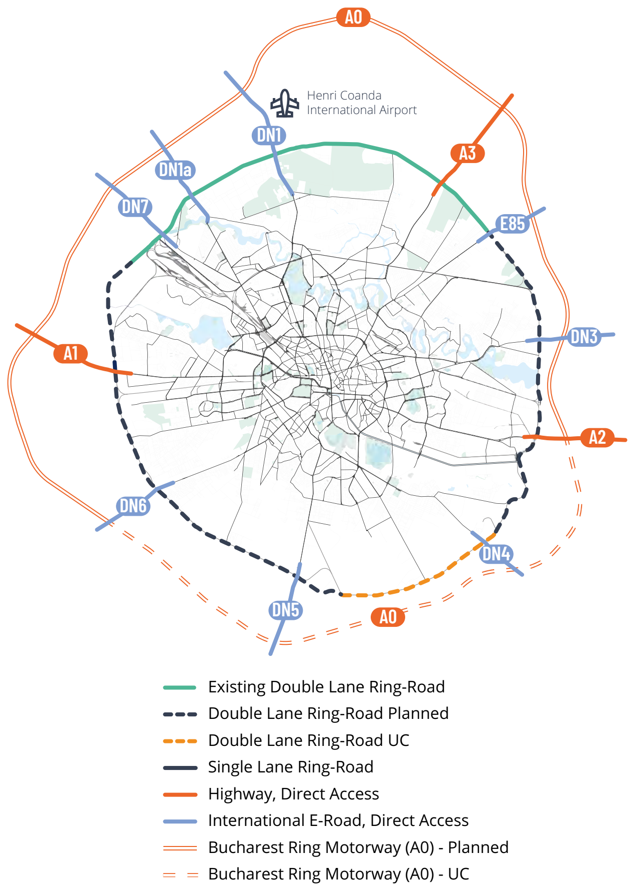


Stock distribution taking into account the distance to a highway entry (% of entire modern stock)



Highways and regional industrial and logistics hubs, Romania

Access to international roads and highways, Bucharest



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

Trends

Flight to quality from non-competitive stock to Class A units.

Romania is well positioned (in terms of geography, skilled workforce, business environment) to attract demand for manufacturing units and distribution centres in the future.

Focus on efficient industrial units and automation in the warehouse.

Increased demand for units with controlled temperature.

Apart from the built-to-suit units, the developments are usually semi-speculative – meaning that landlords wait to secure at least 30-50% of the area in pre-leases before commencing the construction, continuing the leasing process during construction and, upon completion, the vacancy rate is usually below 20%.

Developers are anticipating the development of cities which are not currently fully established logistic hubs by securing and authorising land plots for logistic development. We estimate a strong development in the future for cities such as Iasi, Constanta, Craiova, Roman, Bacau.

The development of modern industrial units remains intimately linked with infrastructure development. The majority of the modern industrial stock is located at less than 5 km distance to a highway entry. We expect this trend to continue and, future infrastructure developments will also bring new industrial and logistic hubs. For example, we expect that the construction of A0 – Bucharest's second ring road, and also A7 – Moldova Highway, to incentivise new supply of modern industrial units in the area.

About Avison Young

Avison Young creates real economic, social and environmental value as a global real estate advisor, powered by people. As a private company, our clients collaborate with an empowered partner who is invested in their success. Our integrated talent realizes the full potential of real estate by using global intelligence platforms that provide clients with insights and advantage.

Our global presence

Legal entities

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

5,000 real estate professionals

16 countries

100+ global offices

1978 founding year

AVISON YOUNG

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