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Romanian real estate market H1 2023

Innovative work is moving us into an era of new
opportunity and strategic optimism





We explore 10 key trends for 2023

Looking at how inflation, climate change and technology are among a host of factors impacting the development, investment and occupation of real estate.

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Read our
10 trends for 2023 report

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Investment market

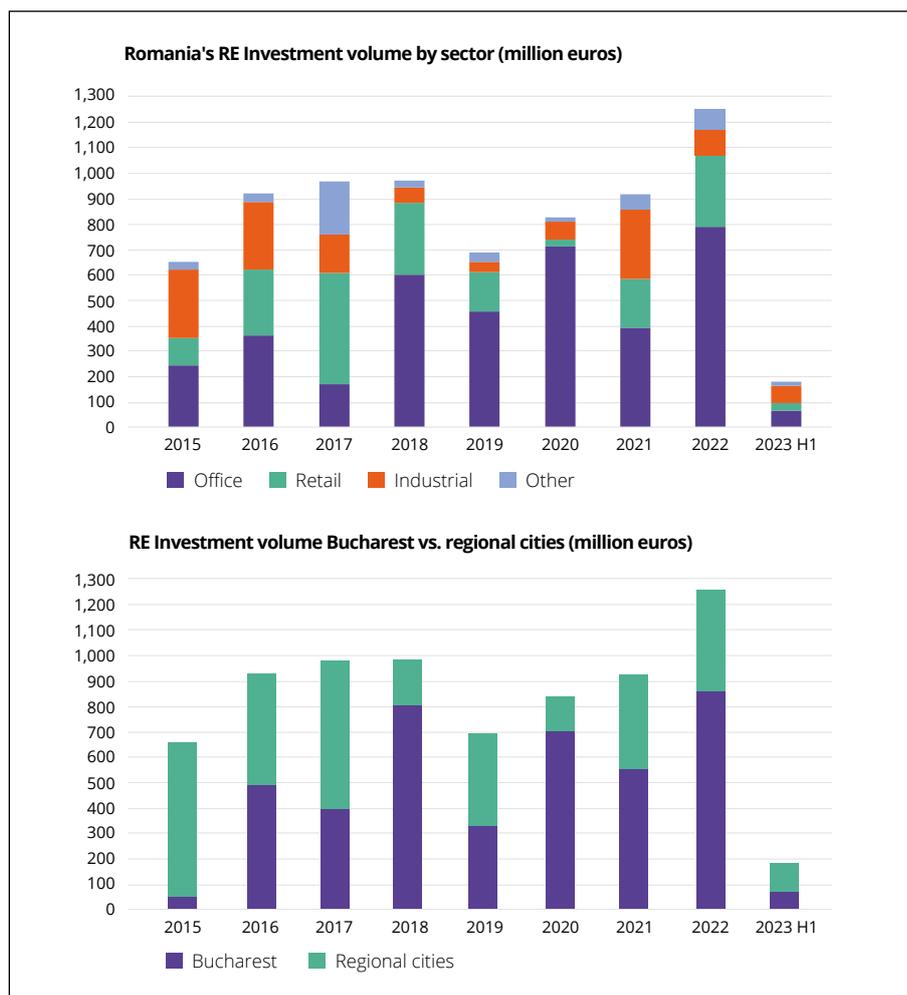
Investment volume

Investment activity slowed down in H1 2023, with cca €180 million transacted in assets throughout Romania, representing a cca 40% decrease compared to the similar period of last year. Even though 2022 has ended exceptionally in terms of transacted volumes, the decline of the market had already been forecasted and the decline was further accelerated by the current global economic downturn. In previous years, the second half of the year has typically exhibited stronger performance, and it is anticipated that this trend will continue in 2023. Accordingly, the full year investment volume is expected to reach €600-700 million, with the retail sector being the engine of the investment market.

To date, both office and industrial sectors, each generated 36% of the semester's volume, while the retail sector contributed with only 18%. The

difference was captured in transactions recorded in the hospitality sector. Approximately 18 investment transactions were completed in Romania in H1 2023, with an average transaction value of around €13 million. The largest investment transaction is represented by the sale & lease back of FM Logistic portfolio, with a combined GLA of cca 100,000 sqm, for an amount ranging between €60-70 million.

Unlike last year, Bucharest generated only 38% of the investment volume. This trend is expected to continue in H2 2023 and is even anticipated to intensify, with a significant increase in transactions involving retail parks, most of which developed outside the capital city. Moving forward, investors may consider transactions with retail and industrial assets outside Bucharest, while the capital city may further generate investment volumes involving office premises.



H1 2023 investment volume (million)

180



Largest investment transaction

FM Logistic



Average transaction value in Romania in H1 2023

€13 million

Transactional performance

The sale & lease back transaction of the three FM logistic parks, totaling cca 100,000 sqm of existing industrial space by FM Logistic to CTP, represents the largest investment transaction recorded in the first six months of 2023. Two of these industrial parks are developed along A1 highway to Pitesti (Dragomiresti and Petresti), while the third one is in the industrial area of Timisoara (DN 1, Duestii Noi). The transaction is estimated between €60-70 million and also includes vacant land for additional development.

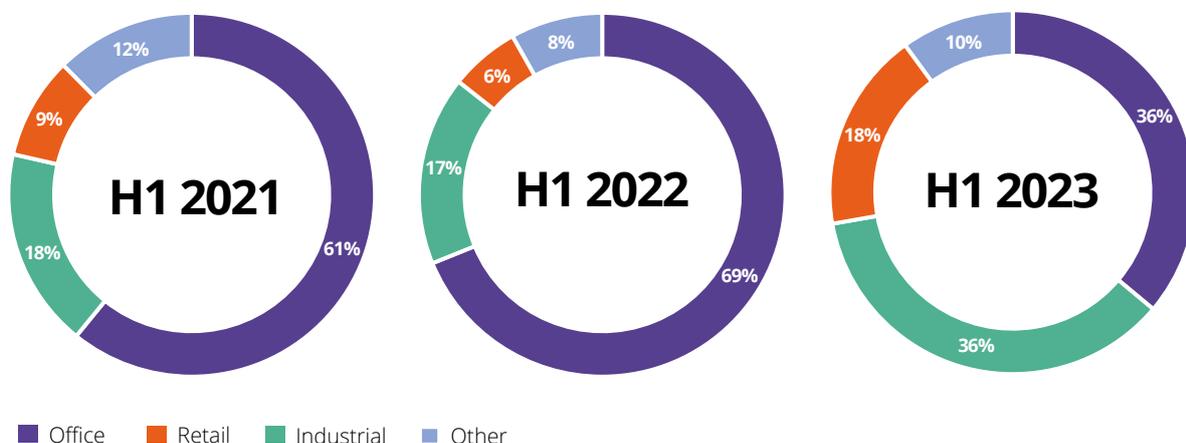
One sale that is worth mentioning is that of One Herastrau Offices (former Office 1) for an amount of €21 million by One United Properties to a non-institutional investor. The building, with a GLA of 8,074 sqm, was purchased by One United Properties almost two years ago and since then, the investor has secured 100% occupancy of the office building.

During the first half of 2023, local capital has experienced an increased significance, accounting for approximately 50% of the total investment volume. This rise in importance can be attributed to transactions involving small to medium-sized assets, which typically involve relatively smaller amounts of capital.

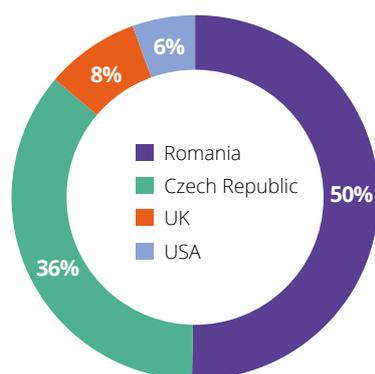
If the transacted office buildings represent value add transactions, the ones involving retail and industrial projects are mainly income generating assets type of investments. There is a notable sense of optimism for the second half of the year, as it is forecasted that transactions exceeding €500 million will be concluded. These transactions will encompass both retail and office assets, for which the marketing process has commenced over 12 months ago. Furthermore, there is an expectation that local capital will continue to maintain interest in real estate assets, a fact that might urge the selling process and contribute to the investment market performing at a level of at least 60-70% compared to the previous year.

The residential market, particularly in the high-end sector, continues to present ongoing opportunities. This is supported by the presence of a robust pipeline of residential projects in the northern areas of Bucharest, including neighborhoods such as Kiseleff, Primaveraii, Aviatorilor, Floreasca, and several others. This investment direction will lead to the development of PRS (private to rental sector) both in Bucharest and top regional cities, especially Cluj Napoca, a Transylvanian city which already outperformed Bucharest in term of average selling prices.

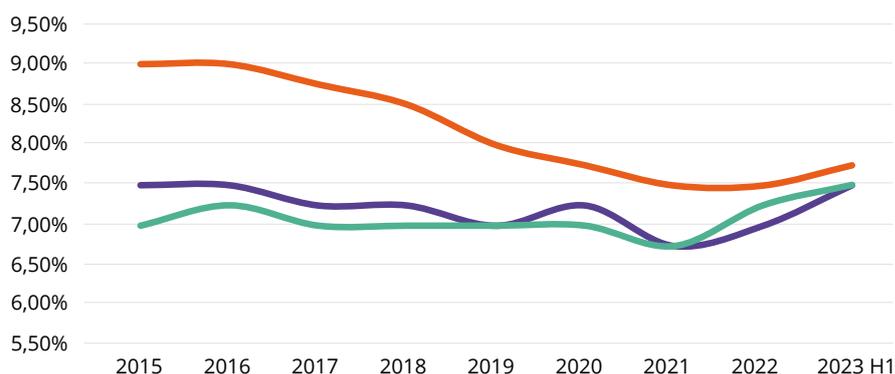
Real estate investment volume by type of properties: H1 2021 vs H1 2023



Investment volume by source of capital in H1 2023



Prime yields evolution 2015 - H1 2023



Prime yields

Despite the lack of evidence, yields have increased by at least 25-50 bps for all commercial properties. The process has started in Q1 and remained unchanged in Q2, as there were very few institutional transactions in Romania throughout H1 2023. Accordingly, prime office yields are in the region of 7.50%, while industrial yields are quoted at 7.75%.



Office
7.50%



Retail
7.50%



Industrial
7.75%

Forecast

As the office pipeline in Bucharest is scarce, office investors may turn their attention towards the top regional cities, where they could find a more diversified offer, including brand new office developments. If the interest in the capital city continues, there could be potential opportunities for acquiring office assets that have not completed a full investment cycle, especially those involving local capital. Additionally, there are still opportunities in the retail sector, particularly in retail parks, as well as in sale and leaseback transactions within both the retail and industrial sectors but may not occur at the same scale as previously anticipated in recent times.

Nevertheless, optimism persists in the Romanian investment sector due to the ongoing infrastructure projects. These projects are expected to stimulate the development of East Romania, making it a region that will increasingly attract investors' attention in the coming years.

Significant investment transactions in H1 2023

City	Sector	Property	Purchaser	Vendor	Price (€ million)
Bucharest&2 Regional cities	Industrial	FM Logistic Parks	CTP	FM Logistic	60-70
Bucharest	Office	One Herastrau Offices	Private Investor	One Unites Properties	21
Bucharest	Office	Olympia Tower	Yellow Tree	Bluehouse Capital	15
Iasi	Big Box Retail	Brico Depot	Radacini Group	Grivalia	8,5
Bucharest	Office	One North Gate Small	Element Invest Partners	One Unites Properties	6

* Estimated selling prices



One Herastrau



Bucharest office market

Supply

With only one building completed in Q2 2023, respectively the second phase of @Expo project, the modern office stock in Bucharest stands at cca 3.52 M sqm. Approximately 70,000 square meters were added to the stock during the first half of 2023 through the completion of three projects, as outlined below: additional phase of One Cotroceni Park in the Center West, Muse and @Expo Building A in the North area. The stock is also changing over the quarter through the exclusion of some existing buildings from the stock, most commonly through the conversion of unoccupied or obsolete office buildings to residential use. In the second half of the year, two other projects will be completed, the second phase of U-Center and Argezi 4, both of which are expected to be fully leased upon their completion dates.

The recent delivery of office projects in the Center West sub-market confirmed the leading position of this office district,



Modern office stock (million sqm)

3.52



Largest transaction/renewal (sqm)

24,000

followed by the Floreasca-BV and Pipera South office sub-markets. The forecast indicates that this top-ranking order is expected to remain unchanged in the foreseeable future, especially considering the projects announced for development in the upcoming years within the capital city. The emergence and rapid development of the Center West office sub-

market can be attributed to several key factors.

First and foremost, the completion of the Basarab underpass over a decade ago played a significant role in facilitating better connectivity and accessibility to the area. Additionally, the availability of former brownfields, along with well-served public transportation facilities and the presence of numerous technical faculties and dedicated students' dormitories, which have ensured a readily available and qualified workforce, have further encouraged businesses to establish themselves in this sub-market.

Office supply and pipeline 2023

Developer	Project	GLA (*)	Submarket	Delivery
One United Properties	One Cotroceni Park Ph 2	34,500	Center West	Q1 2023
Primavera Development	Muse	7,500	North	Q1 2023
Atenor	@Expo	28,000	North	Q2 2023
Forte Partners	U-Center Ph 2	32,500	Center	Q3 2023
Strabag	Arghezi 4	7,000	Center	Q3 2023

(*) - estimated GLA

Selection of projects 2024-2026

Developer	Project	GLA (*)	Submarket
NEPI&Rockcastle	Promenada Extension	27,500	Floreasca-BV
PPF	ARC	30,000	Center West
Jupiter	Cina Project	3,500	Center
CPI/Immofinanz	myhive Victoriei	24,000	Center
AFI Europe	AFI Loft Project	16,000	Center West

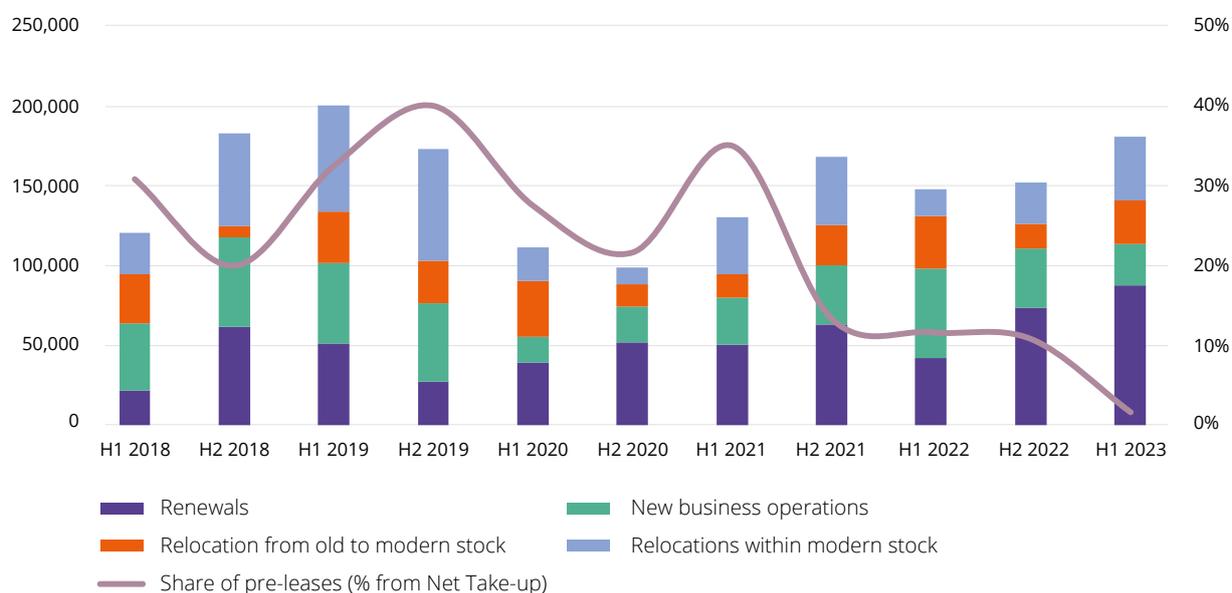
(*) - estimated GLA

Demand

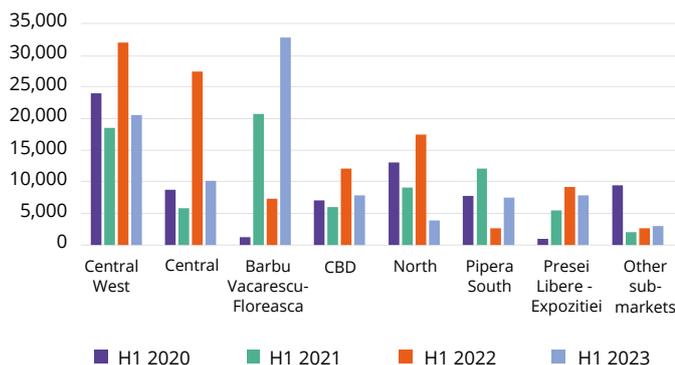
The total leasing activity in Bucharest has reached 180,000 sqm in H1 2023, which represents an increase by 20% compared to the similar period of last year. Notable large renewals have been concluded in the first semester, which altogether contributed with cca 48% to the semester's leasing activity. Renewals are a common characteristic of the Bucharest office market, but their prevalence gained momentum due to various factors, such as the scarcity of projects (under construction) and uncertainties surrounding the traditional office work strategy and the return of occupiers to their offices. Geographically, three submarkets stood out in generating the leasing activity, contributing to 64% of the total, in the first six months of 2023. These submarkets are Pipera South (29%), Floreasca - BV (23%), and Center West (12%). Regarding industries, the Computer Hi-Tech and Manufacturing & Energy sectors played a significant role, generating around 60% of the total demand.

In Q2 2023, the Bucharest office market witnessed several noteworthy large transactions. Among these transactions, two stand out: the relocation of eMag (10,000 sqm) and of Coca-Cola HBC Romania (4,500 sqm) from the Pipera North sub-market to the neighboring sub-markets, Floreasca-BV respectively Pipera South. Both locations have better accessibility and public transportation options and occupiers are accommodated in newer buildings compared to those previously occupied. In Q2 2023, the list of notable lease renewals also featured other significant transactions. Honeywell extended its lease contract for 24,000 sqm in Upground, Harman extended its lease period for 5,300 sqm in Metrooffice, and Vodafone extended its lease for 6,000 sqm in City Offices, to name just a few of the largest lease renewals during this period.

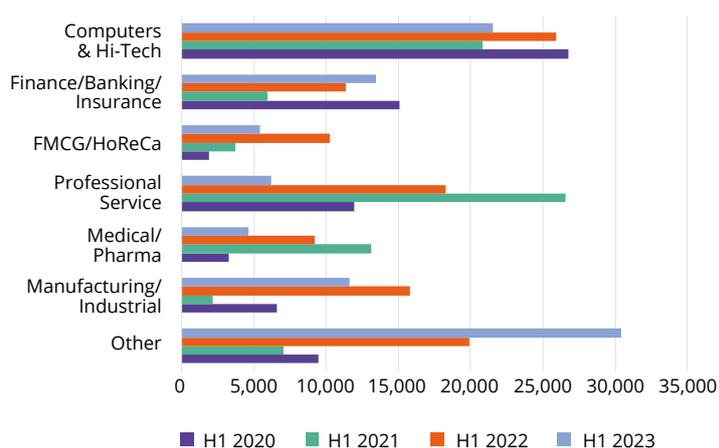
Office leasing activity evolution between H1 2018-H1 2023 (sqm)



Net take-up by submarket (sqm)



Net take-up by business sector (sqm)



Vacancy

The average vacancy rate for the modern office stock (Class A&B) has risen to 14-15%, primarily due to some sub-leased spaces being marketed directly by the Landlords, adding to the pressure on the vacancy rate.

Additionally, certain lease renewals concluded in H1 2023 resulted in an average reduction of occupied space by 20-30%. Among the active office sub-markets, the lowest vacancy rate can be found in the CBD (9.0%) and Center (9.8%), while the Center West, Floreasca-BV and Pipera South have recorded increases up to 16.0%, 12.7% respectively 10.6%.

The sub-lease stock has decreased to cca 80,000 sqm, but further reductions are anticipated, as large occupiers are reaching the end of their lease cycles, leading to the return of office spaces to the Landlords, as mentioned above. Fortunately, for the upcoming 12-24 months, the sub-lease stock will offset the lack of office pipeline.

Forecast

Ongoing negotiations in the leasing sector indicate that the year 2023 is on track to achieve volumes similar to those seen in pre-pandemic years. However, it is anticipated that lease renewals will play a more substantial role in the total leasing activity. This is not surprising given the uncertainties at the local authority level and the challenges in obtaining new building permits. Though construction activity in the office sector is at a historical low, both investors and developers are maintaining a strong

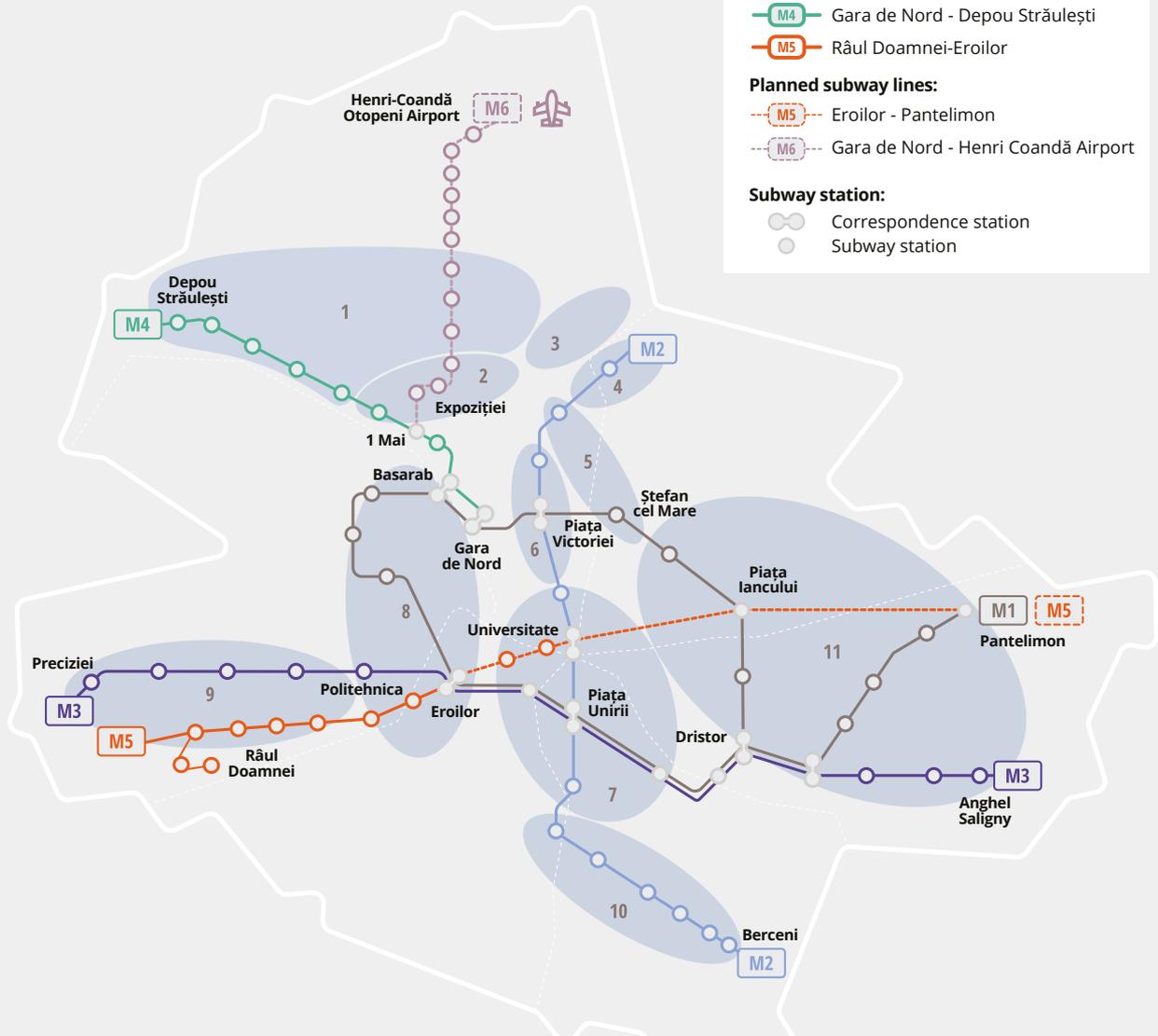
Rents

As of Q2 2023, the growth of prime office rents has come to a halt, and they are currently ranging between €21-22/sqm/month.

The incentive package, which includes in rent-free periods and fit-out contributions, has remained unchanged over the quarter. However, for larger leases with longer terms (exceeding 5 years), there is a high degree of flexibility offered by the Landlord. Along with office rents, underground parking rents have increased, with an average rise of 10-15% compared to the same period in the previous year. At the beginning of 2023, service charge costs increased due to the yearly reconciliation process. This increase was driven by utility costs, workforce expenses, as well as inflationary pressures experienced across all EU countries, including EMU countries. On average, Class A office buildings have a monthly service charge ranging between €4-4.5/sqm, though exceptions can be found in both city center and decentralized office locations.

interest in the local market and have continued the acquisition of lands for further development, either for office buildings or mixed-use projects. Construction activity is expected to resume, starting with 2025, most likely with new phases of existing projects, which will offer expansion possibilities to their occupiers. On the other hand, new projects will probably be developed in the most active office sub-markets, such as Center West, Floreasca-BV and Center Area.

Office submarkets, headline rents and modern stock



No.	Q2 2023	Class A&B stock (sqm)	Headline rent class A (€/sqm/month)
8	South	52,164	€9-12
5	East	105,385	€9-12
4	West	173,600	€11-13
7	Pipera North	185,246	€8-10
6	Free Press Square	256,672	€15-16.5
1	North	356,187	€13-15
2	CBD	359,535	€18-22
3	Central	400,679	€15-17
9	Pipera South	467,868	€12-14
11	Floreasca-BV	548,806	€15-18
10	Central West	618,864	€15-16

Industrial market

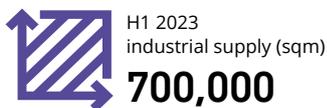
Stock

There were around 700,000 sqm class A new industrial supply delivered in the first half of 2023, a figure equal to the new supply for the whole year 2022, which, in turn was a historic record year for class A industrial deliveries.

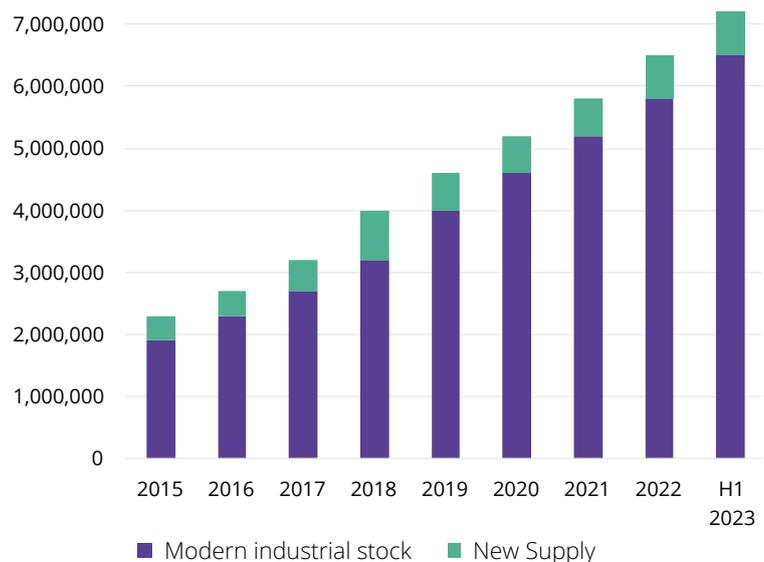
The developers keep investing in industrial in Romania, and there is also a very high interest for securing suitable land plots for future industrial developments – generally near highway entrance points. Out of the new supply in the first half of 2023,

the majority were build-to-suit / delivered fully let, and all of them were over 50% leased at delivery. The new units host mainly eCommerce companies, automotive, from food industry, and logistic companies. Almost half of the deliveries were around Bucharest area.

With the massive deliveries in the first half of 2023, the modern industrial stock in Romania overpassed the 7 million sqm mark, standing currently at around 7.2 million sqm.



Modern industrial stock evolution in Romania (sqm)

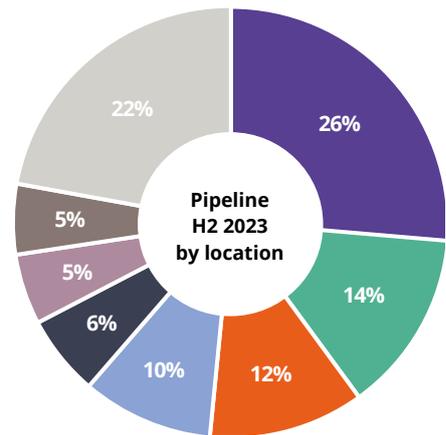


Pipeline

And the developers' plans do not stop here for 2023 – which will be a second consecutive historic record year in terms of new industrial supply.

For the remainder of the year, another ~380,000 sqm of modern industrial space is planned to be delivered. Thus, we can expect a total stock in excess of 7.5 million sqm at the end of 2023.

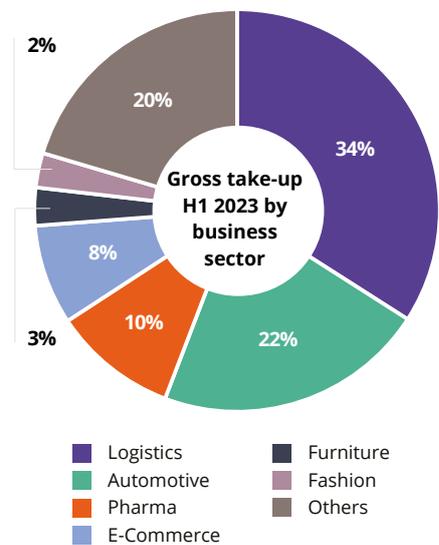
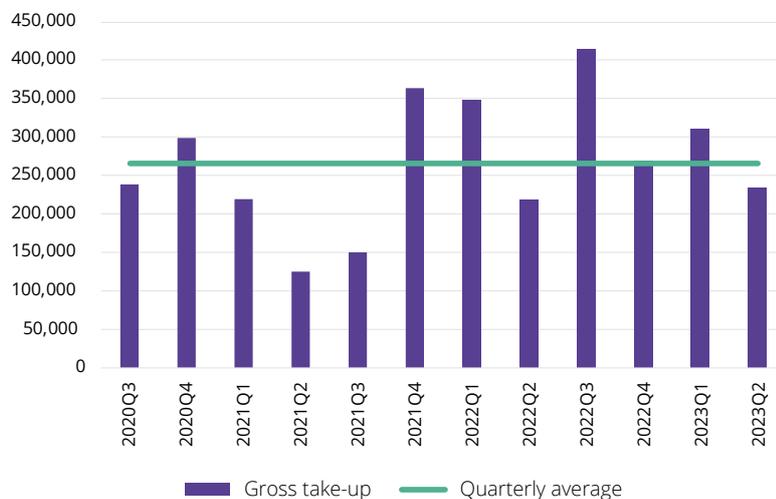
Only around a quarter of the planned deliveries are in the Bucharest area, the developers are showing interest for expanding in other, more uncharted areas of the country, including emerging industrial hubs like Turda, Bacau and Constanta.



Demand

After the record year 2022, when ~1.2 million sqm were leased, the demand remains strong in the first half of 2023. There were ~235,000 sqm leased in the second quarter of 2023, thus bringing the gross take-up in the first half of 2023 at around 545,000 sqm – on course to reaching a gross take-up at least similar to 2022 at the end of the year.

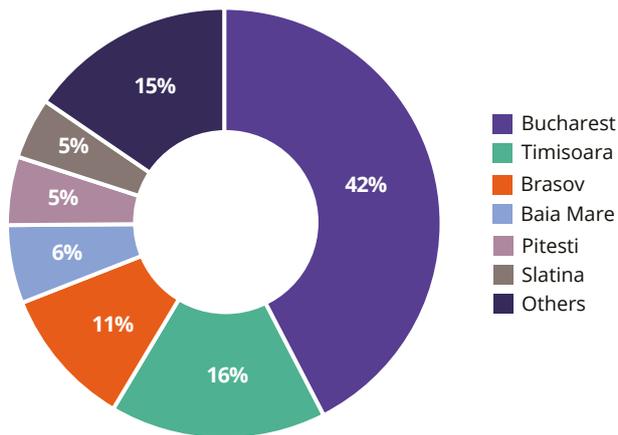
Gross take-up by quarter compared with average (sqm)



The logistic and automotive sectors generated most of the demand in the first half of 2023.



Gross take-up H1 2023 by location



Demand on business sectors in H1 2023

545,000 sqm
first half of 2023

Vacancy

The vacancy rates remain relatively low at 5.1% at country level and 5.8% in Bucharest area, on a slight descending trend since the beginning of the year.

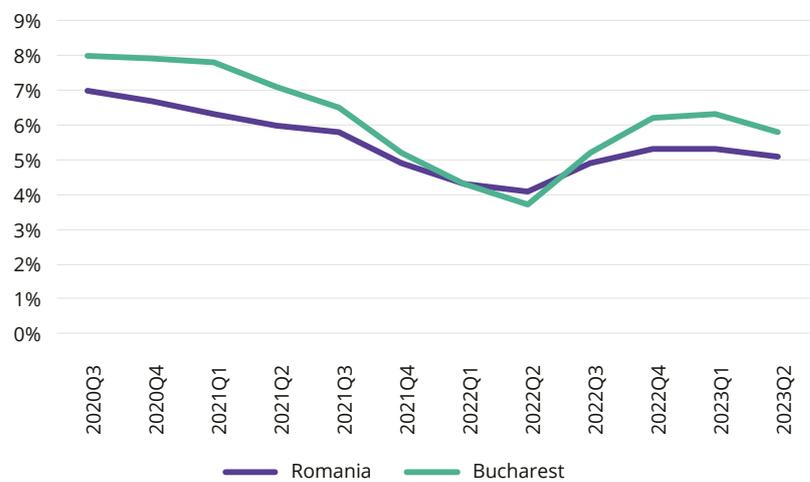


Vacancy rate
Romania
5.1%



Vacancy rate
Bucharest
5.8%

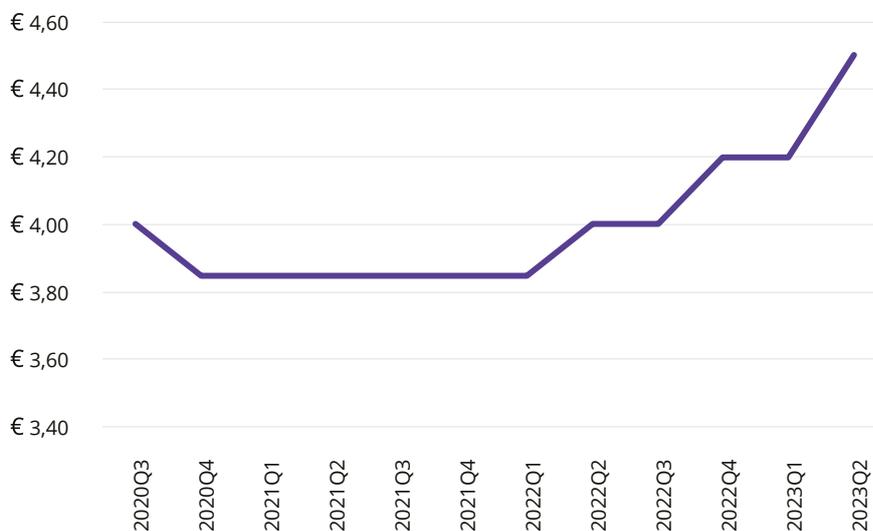
Evolution of vacancy rate



Occupancy costs and market practice

 RENT	Headline rent	− Incentives	+	Service charges	 Lease length
€4.50 euro/sqm/month	(10–15%) Rent free months, personalised fit-out, early access, etc.			€0.70–1.00 Building maintenance, property tax, building insurance	3–10 years Logistic activities
					<small>*for rental of larger areas (~5-10,000 sqm)</small>

Evolution of headline rent



After a long period of stagnation, the headline rent is on an ascending trend. This is due mainly to increase in construction costs and overall inflation.

Looking forward...

The outlook for the Romanian industrial market remains very optimistic. With strong interest coming especially from eCommerce, logistic, as well as manufacturing companies, and from industrial developers to accommodate them, the industrial market is rapidly expanding towards its potential.



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Our global presence

Legal entities

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

5,000

real estate
professionals

17

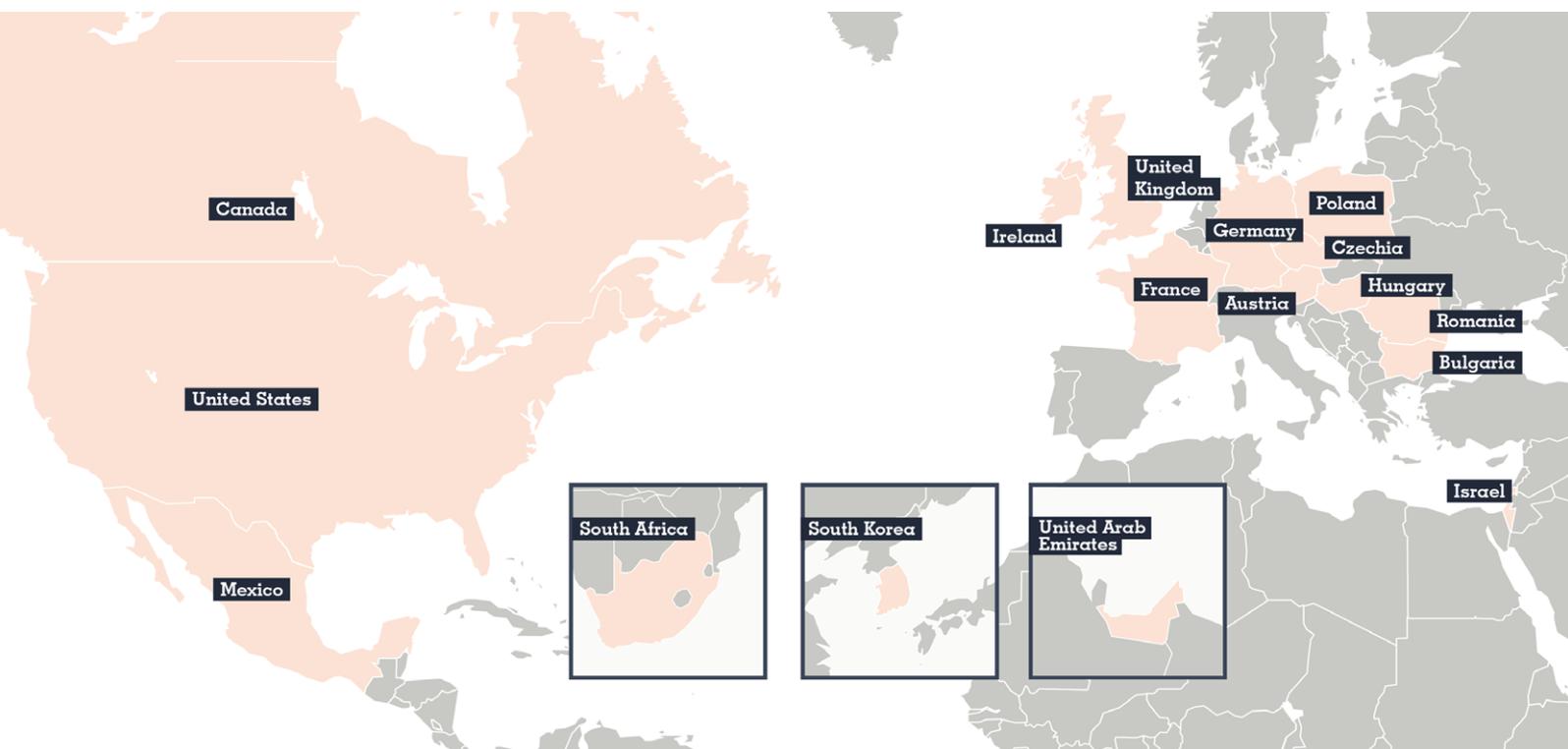
countries

100+

global
offices

1978

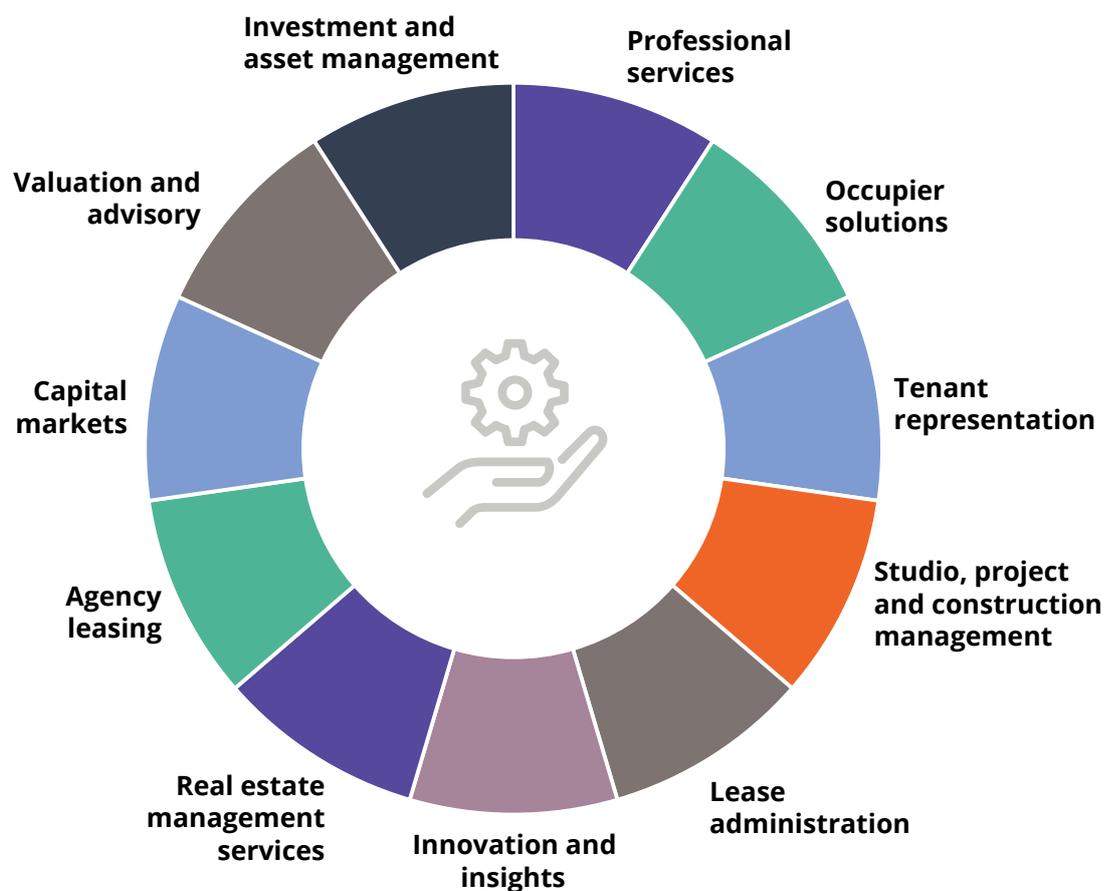
founding
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Our integrated services:





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