

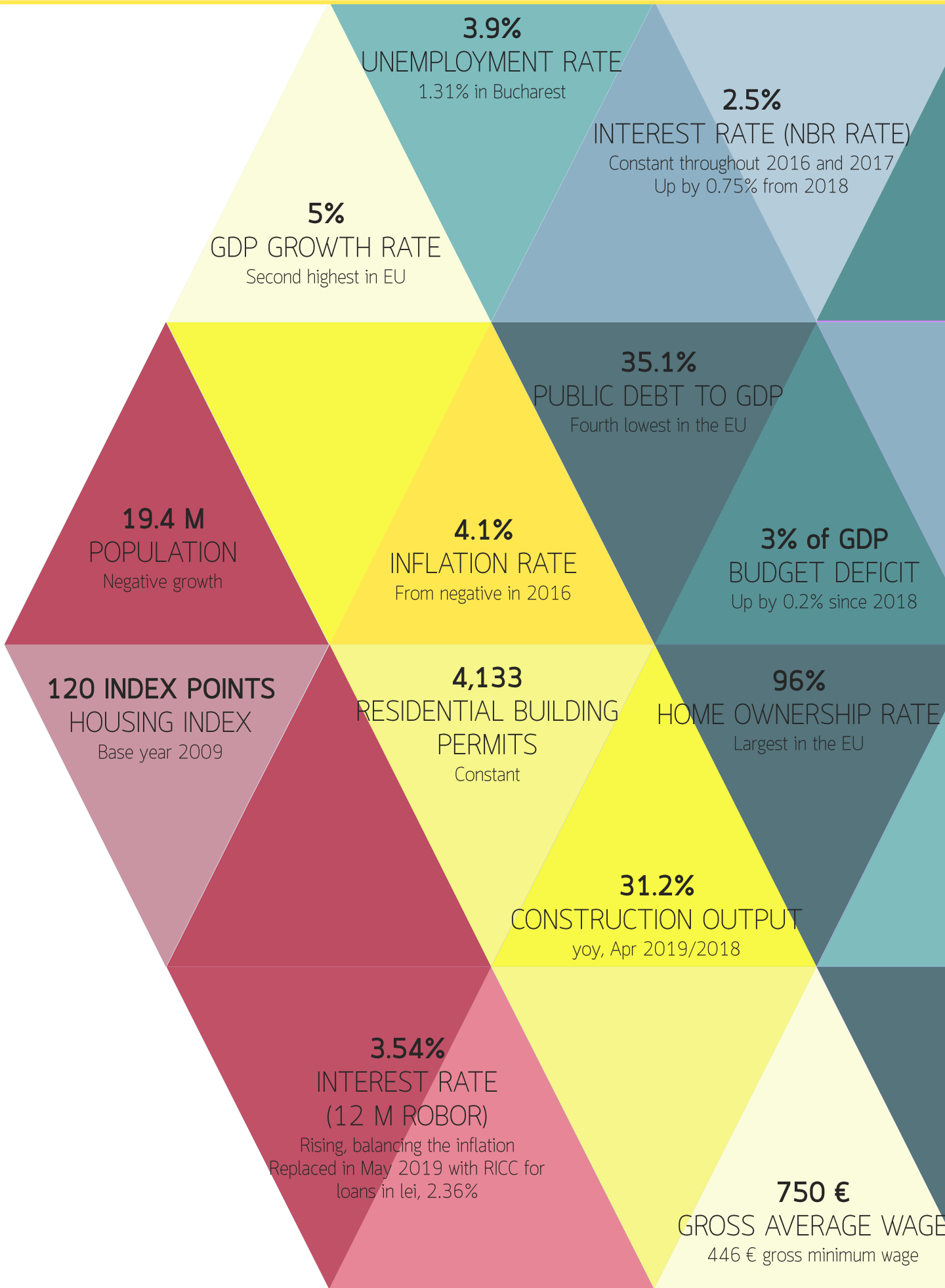


SPOTLIGHT

Crosspoint Research

Market Spotlight H1 2019





Romanian investment market

Overview

The first half of 2019 registered a total investment volume of a little over 340 M EUR. Despite a 20% drop in investments compared to the same period of 2018, the market feeling is optimistic, as there is a significant number of pending deals due to close in H2 2019. Furthermore, there is a record number of quality products available on the market this year and new investors are showing their interest in Romania.

The largest recorded transaction was the sale of The Office project in Cluj-Napoca to Dragos and Adrian Paval for almost 130 M EUR., followed by the acquisition of PKM Development’s retail portfolio by MAI REI for 113 M EUR.

National investors have been the most active players so far in 2019, both in terms of investment volumes (48% in total investment value) and number of deals.

Office buildings remain the preferred target for investors but alternative assets like hotels have started to become more appealing lately as a few small products in Bucharest and Iasi have been sold this semester.

Project	Sector	Location	Seller	Buyer	Value (M€)
The Office	Office	Cluj-Napoca	NEPI/Ovidiu Sandor	Dragos& Adrian Paval	129.8
PKM Portfolio	Retail	Nationwide	PKM Developments	MAS REI	113
A1 Park	Industrial	Bucharest	CTP	Vabeld Group	40
K+K	Hotel	Bucharest	Goldman Sachs	InterGlobe	11

Top investment transactions H1 2019
Values are estimated

Yields

Prime yields have registered a slight decline in the first semester of 2019. As the market becomes more liquid further yield compression is expected in the following period.

Forecast

With over 1.5 B EUR worth of assets available on the market, 2019 is set to achieve similar investment volumes to the previous years.

340.5M€ H1 2019 investment volume

Prime yields



OFFICE

7%-7.25%



RETAIL

7%



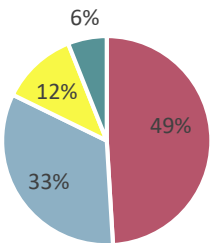
INDUSTRIAL

8%

H1 2019 transactions by sector*:

Office: 167 M€
Retail: 113 M€
Industrial: 40 M€
Hotel: 20.5 M€

*Values are estimated



■ Office ■ Retail ■ Industrial ■ Hotel

Bucharest office market

Demand

The total take-up in the first semester of 2019 amounted to 188,302 sqm, 15% more than in H1 2018.

The CBD and western area were the most sought after, followed by the central area. As we have noticed in the previous years, the demand has dropped significantly in areas like Pipera while vacancy rates have reached minimum levels in areas like Floreasca/Barbu Vacarescu, CBD and City Centre.

The IT&C industry keeps on being the most active, followed by the Financial sector.

The significant number of new deliveries in the office market is reflected in the fact that 36% of the leases in H1 2019 have been relocations. Furthermore, pre-leases account for 41% of the of the space rented in H1. As tenants are searching for the newest and best spaces, owners of older buildings will be compelled to diminish their rents or to upgrade their spaces in order to keep up with the increasingly dynamic market.

Stock & supply

133,250 sqm of new office space have been delivered in the first half of 2019: phase 2 of The Bridge (20,200 sqm), Renault HQ (47,000 sqm) and The Mark (24,000 sqm), Oregon Park C (24,000 sqm), Eminescu Offices (5,050 sqm) and Office One (13,000). Thus, the total office stock in Bucharest has exceeded 3 million sqm.

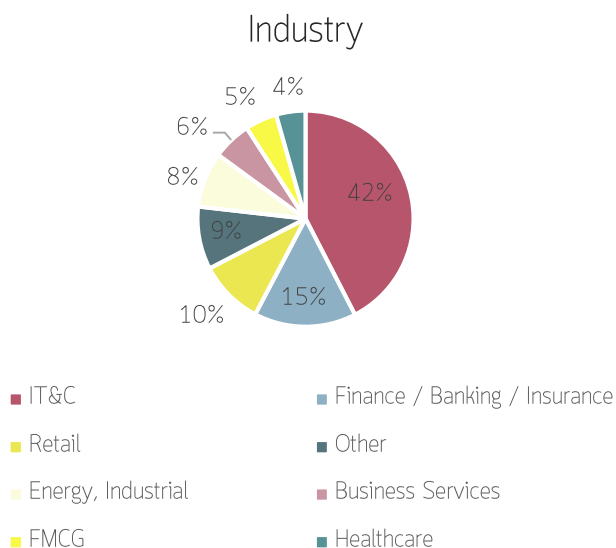
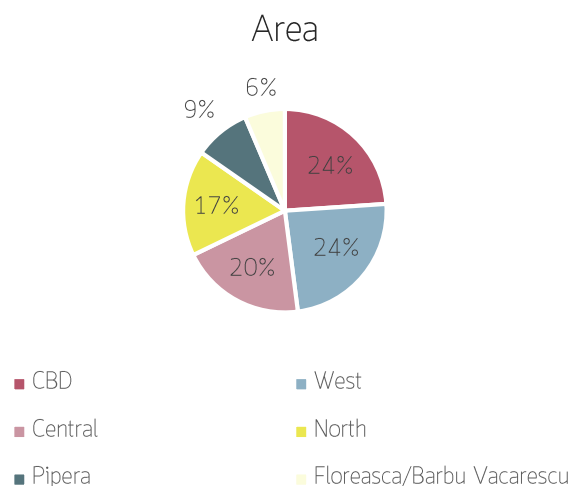
Over 175,000 sqm in 10 projects are expected to be delivered by the end of the year.

Prime rents and vacancy rates

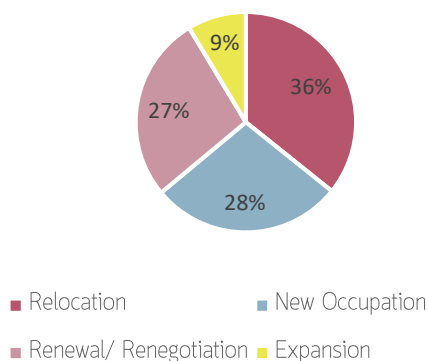
The office vacancy rates in Bucharest remain low, around 8%. The areas where the vacancy rate registers the lowest levels are Floreasca/Barbu Vacarescu and the Central-North areas with under 1%, the central area with around 3% and CBD with around 3.7%. The record delivery of new projects is set to increase the vacancy rate by the end of the year.

The prime rents remain unchanged, reaching 18-19 EUR/sqm in CBD 16 EUR/sqm in the city centre, 13-15 EUR/sqm in the West and North and 10-11 EUR/sqm in the South and East. Because of the high demand for prime spaces in areas with low vacancy rates, we may see a slight increase in the rent levels in some areas at the end of the year.

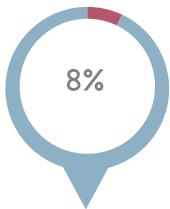
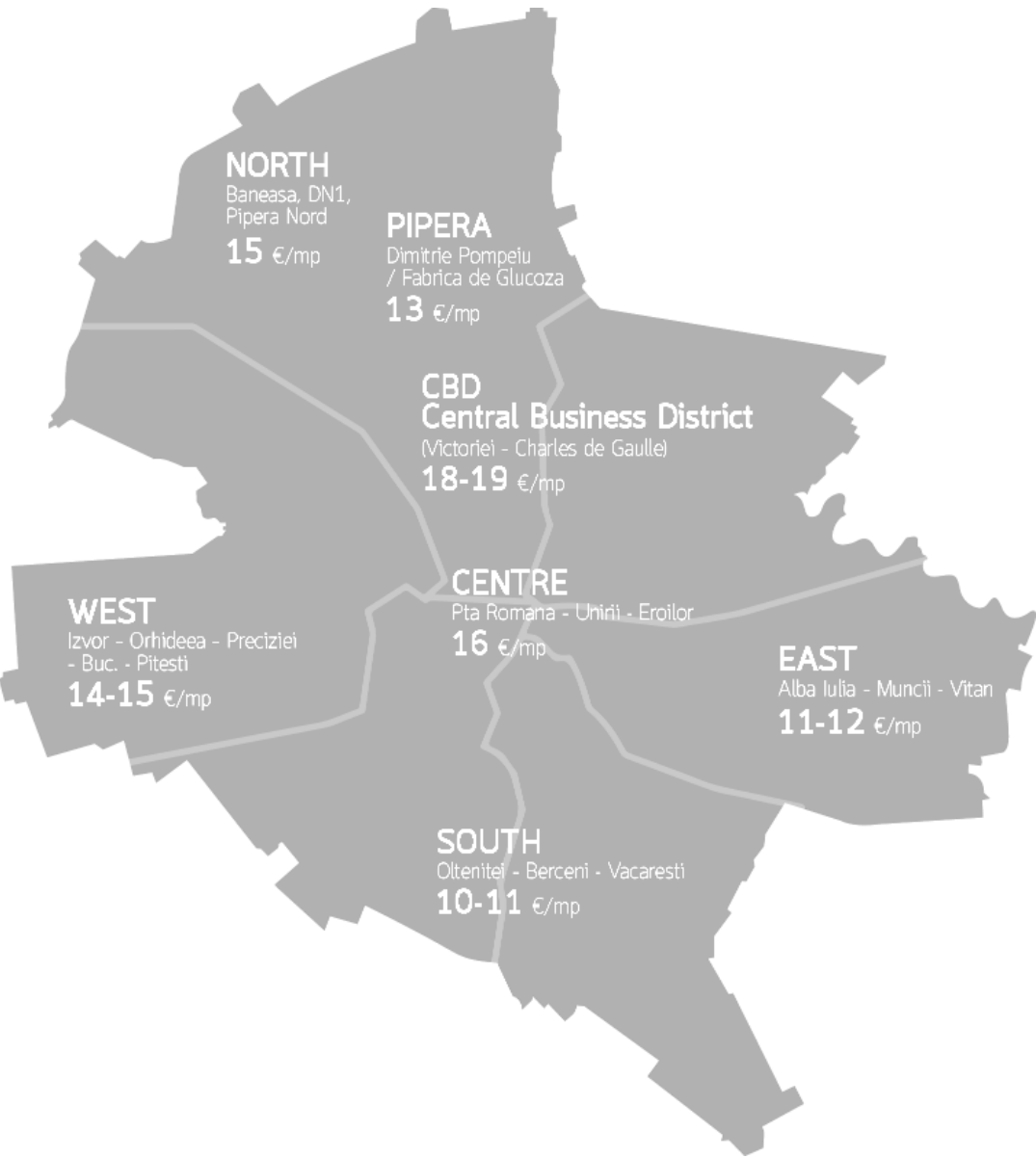
Demand breakdown



Transaction type



Bucharest rent levels by area



Vacancy rate



133,250 sqm
Delivered in H1 2019



177,000 sqm
H2 2019 Pipeline

Romanian industrial market

Supply

Romania’s industrial stock currently stands at around 4.1 million sqm. Over 350,000 sqm are planned to be delivered by the end of 2019, out of which around 30,000 in the capital city. Bucharest continues to be the largest market, with a stock of a little over 2 million sqm (50%), with the West and North-west areas accounting for 40% of the total stock. 352,000 sqm of new industrial facilities were delivered in the first half of 2019.

Demand

The leasing activity in H1 2019 amounted to around 123,519 sqm, with Bucharest remaining the most dynamic market, with a 70% share, followed by Timisoara, with an 18% share.

Tenant	Project	Location	Sqm rented
Confidential	Confidential	Bucharest	20,000
Honeywell Garrett	Equest	Bucharest	17,000
NDB Logistics	TAP 2	Timisoara	11,885
Confidential	WDP	Ploiesti	10,000

Top industrial leases, H1 2019

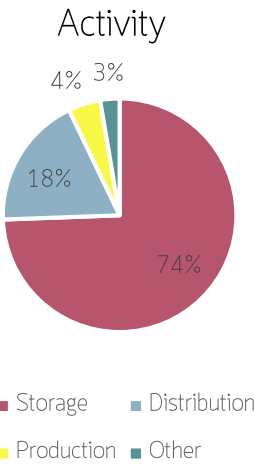
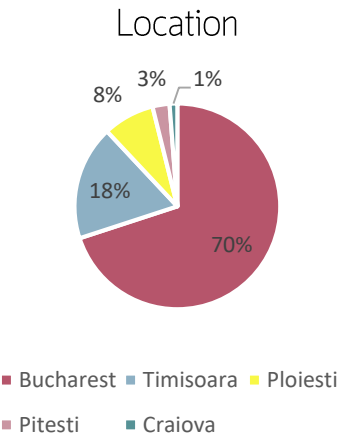
Rent levels

Prime industrial rents have remained roughly unchanged from last year, 3.8-4 EUR/sqm/month in Bucharest and 3.5 EUR/sqm/month in the major regional cities. Additional costs include property tax and insurance, security and maintenance and range from 0.5 EUR/sqm/month to 0.9 EUR/sqm/month.

Vacancy rates

The industrial vacancy rates remain low, over 5% nationwide, with Bucharest’s vacancy level at 5%, a 2% increase since the end of 2018. However, taking into account the large number of deliveries announced for this year and the developers’ step further from the safe, built-to-suit option, will most probably lead to a rise in vacancy rates.

Demand breakdown



Romanian residential market

Overview

The first half of 2019 has so far witnessed a series of macroeconomic changes: from a 4.1% rise in the inflation rate, an average exchange rate of 4.74 RON/EUR, to the introduction of the Consumer Credit Reference Index (IRCC) replacing ROBOR.

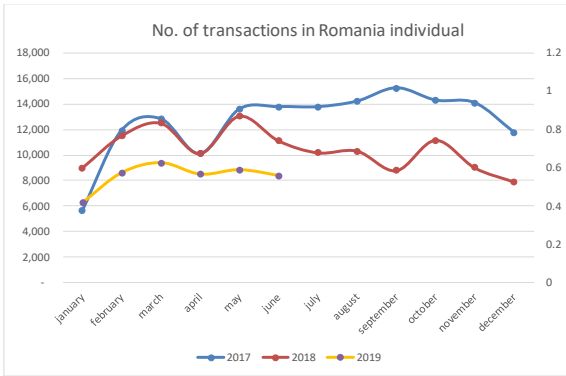
Despite government declarations regarding changes in the “First Home” programme, the lending conditions remained unchanged, with the same budget allocated in 2019 as the previous year (2 billion RON). According to the National Bank of Romania, the indebtedness rate of clients for clients contracting a "First home" type of credit reached 44%, 5% higher than in the previous years. The rate is also higher than that of clients who acquire other types of mortgages, who's average indebtedness rate is 42%. Banks as well as developers offer alternative, less restrictive lending products that take into account other types of income, not only salaries.

The main causes for the increase in the price of new dwellings remain the high material costs and the lack of qualified workforce.

However, in the first semester of this year, the residential market has not registered a significant raise in prices. On a national level, there was a 4.5% price evolution compared to the same period last year.

The demand in the residential segment has decreased by 25% in H1 2019 compared to H1 2018 on a country level, following the descending trend started in the second half of last year.

Property type	City				
individual	Romania				
Month	2017	2018	2018/2017	2019	2019/2018
january	5,620	8,990	60%	6,264	-30%
february	11,911	11,488	-4%	8,629	-25%
march	12,825	12,473	-3%	9,421	-24%
april	10,085	10,117	0%	8,517	-16%
may	13,586	13,021	-4%	8,868	-32%
june	13,772	11,102	-19.39%	8,401	-24%
july	13,767	10,173	-26.11%		
august	14,205	10,310	-27.42%		
september	15,250	8,785	-42.39%		
october	14,283	11,148	-21.95%		
november	14,080	9,002	-36.07%		
december	11,760	7,909	-32.75%		
jan-dec	151,144	124,518	-18%	50,100	-25%
Monthly average	12,595	10,377		8,350	



No. of individual transactions in Romania 2017, 2018, H12019. Source: ANCPPI

Bucharest residential market

Demand

In the first semester of this year apartment sales in Bucharest have dropped by 15% compared to H1 2018, from 17,809 to 15,183 sold units. Yet, the demand continues to be high in the capital city, and the introduction of a VAT rate of 5% for apartments under 120 sqm will further stimulate its upturn.

Lately, clients have become more informed on aspects regarding the residential market and pay more attention to the quality of the new residential projects and the area facilities and are searching for green buildings or smart homes. The demand is concentrated mainly on medium sized dwellings, in areas with good connectivity to public transport, especially in the vicinity of metro stations.

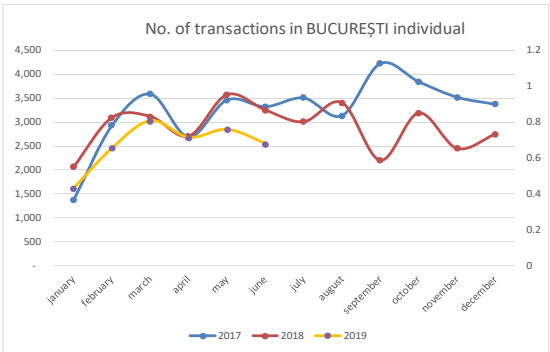
Trends

The residential market in Bucharest continues to register the largest demand in the country. Last year over 70% of the apartments in new buildings have been sold in the pre-delivery phase.

The demand for homes in Bucharest will continue to be high. Newly built projects will be more sought after than the old residential buildings because of the small price difference and the high quality of the dwellings in most of the newly built projects. New areas suitable for residential development, such as Expozitiei, will appear.

A large number of residential projects are depending on the delivery of the M5 and M6 metro lines. Once these lines will be functional, the demand for residential developments in the adjacent areas will increase. For the moment, these projects are ideal for investment keeping in mind that the delivery of these two lines might be delayed.

Property type	City				
individual	BUCUREȘTI				
Month	2017	2018	2018/2017	2019	2019/2018
january	1,380	2,070	50%	1,619	-22%
february	2,932	3,094	6%	2,457	-21%
march	3,587	3,117	-13%	3,030	-3%
april	2,693	2,707	1%	2,680	-1%
may	3,465	3,571	3%	2,849	-20%
june	3,324	3,250	-2.23%	2,548	-22%
july	3,506	3,006	-14.26%		
august	3,137	3,404	8.51%		
september	4,223	2,205	-47.79%		
october	3,844	3,188	-17.07%		
november	3,522	2,452	-30.38%		
december	3,373	2,749	-18.50%		
jan-dec	38,986	34,813	-11%	15,183	-15%
Monthly average	3,249	2,901		2,531	



No. of individual transactions in Bucharest, 2017, 2018, H12019. Source: ANCP

Bucharest residential market

Supply

According to the National Institute of statistics, 11,272 new units have been delivered in Bucharest in 2018, an all-time record in the Romanian residential market. Currently there are over 20,000 apartments in new residential projects under construction, 70% of which are set to be delivered by the end of the year.

Trends

For 2019-2020 the City Hall has planned a series of infrastructure development projects, the most important one being the completion of AO Beltway. Other projects include expansions or enlargements of main roads and the construction of underpasses in areas of high traffic. As long as the planned methods for diminishing the high traffic will be implemented, it is expected that these measures will help boost the residential market in these areas.

Along with the ventilated facades, green roofs or charging stations for electric vehicles, the "smart home" type of dwelling will appear more and more on the Romanian market in the next few years. The attention that new generations give to the environment, the continuous development of technology as well as a strong competition on the residential market are some of the causes that influence the development of such projects. The "Green Mortgage" programme, a products that offers low interest rates on mortgages for green homes, will attract both the developers and the potential buyers.

Top residential projects in Bucharest to be delivered in 2019-2020

Area	Projects	No. of units	Year
South	Metalurgiei Park	5,000	2020
North	Onix Park	2,000	2020
North	Belvedere Residence	1,556	2020
North	Cosmopolis	1,500	2020
West	21th Residence	1,500	2019
West	Moghioros Park Residence	1,300	2020
West	Rotar Park Residence	1,300	2020
West	Sema City	1,200	2020
West	Gran Via Park	1,100	2019
North	Arbo Residence Mogosoaia	1,000	2019
North	Greenfield	886	2020
North	Arcadia Apartments Domenii	800	2019
North	Luxuria Domenii Residence	630	2020
North	Parcului 20	469	2020
South	Cartierul Solar	390	2019
Semicentral	Baba Novac Residence	363	2020
North	102 The Address	273	2019
West	Timisoara 58	246	2019
Semicentral	Cotroceni Orhideea Residence	240	2019
Semicentral	Soho Unirii	236	2019
Semicentral	RoKa Residence	223	2020
East	Triama Residence	200	2020
North	AFI City	190	2020
North	One Herastrau Plaza	156	2019
Semicentral	New Times Residence	146	2020

Bucharest residential market

Prices

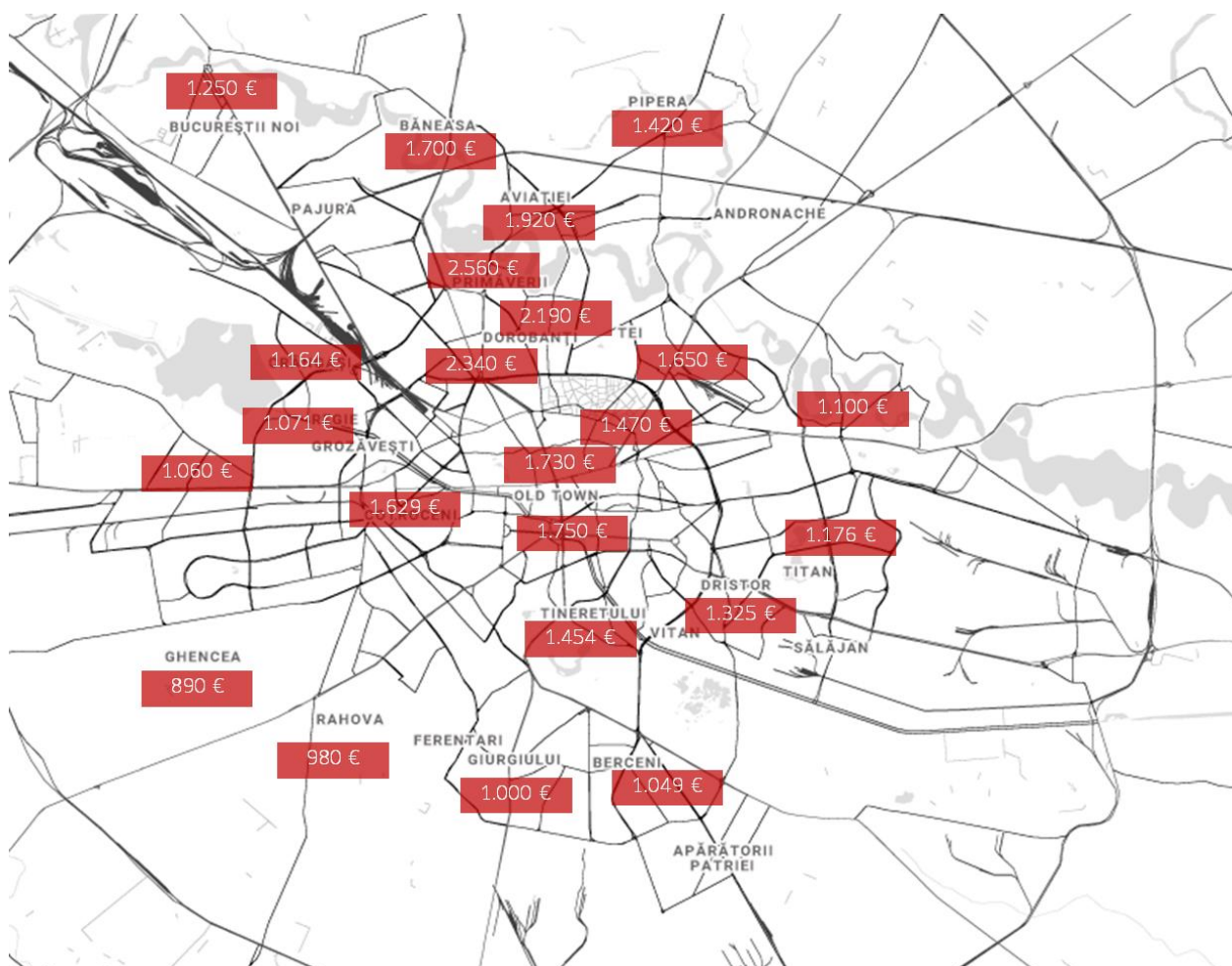
The average price for residential units has registered a 1.8% increase in the first half of 2019 compared to December 2018. The declining growth rate indicates a tendency of the market to mature and an alignment with the European average.

Regarding the average prices by area, the southern and western areas remain the cheapest (under 1,000 EUR/sqm), while in the Center-North area prices continue to exceed 2,000 EUR/sqm.

Trends

The price growth rate registered in the first semester will be constant throughout of the rest of the year. This aspect will put an extra pressure on owners of old dwellings who will be forced by the new conditions in the market to lower their asking price.

Average prices/sqm in main areas of Bucharest, H12019



Bucharest residential market

Rents

The rent levels have remained relatively constant compared to 2018, with small fluctuations of maximum +/-2.5-3%.

In newly built projects, the rental level for a studio starts at 220 EUR/month in areas like Militari and Berceni and reaches 400 EUR/month on the city centre, with a maximum of 450-500 EUR/month in areas like Herastrau and Aviatiei. In old apartment buildings, studio rental levels start at 200 EUR/month and go up to 450 EUR/month.

One-bedroom apartments in new buildings may be rented for 400-450 EUR/month in the southern and western areas, 550-700 EUR/month in the city centre and up to 1,500 EUR/month in the northern area (the average level is of about 800 EUR/month), while rent levels for old one-bedroom apartments start at 300 EUR/month in the West, South and East Bucharest, reach 500 EUR/month in the city centre and up to 650 EUR/month in the North. Rental levels for two-bedroom apartments start at 450 EUR/month on the western, southern and southeastern outskirts of the city, reach 650-700 EUR/month in central Bucharest and are above 1,500 EUR/month in the North. For old dwellings, the asking rent starts at 400 EUR/month in West, South and East, reaches 500 EUR/month in the city centre and go up to 1,000 EUR/month in the northern area.

Trends

Areas like Grozavesti or Militari, with a significant volume of new residential developments located in the vicinity of metro stations, will continue to maintain rent levels close to semi-central areas. This is one of the reasons the western area is sought after especially by investors, because the apartment prices are significantly lower than in other areas where the asking rent is roughly the same. The vicinity to office buildings and universities adds to the advantages of the area.

The northern area will continue to be the preferred residential rental destination for expats, Romanians with high budgets preferring to buy their own home.

The growing presence of investors on the new residential market along with the small differences between the rent levels in new and old buildings, we expect a drop in the asking rent for old buildings, with the exception of central Bucharest, where the limited supply of new products as well as the benefits that the area has to offer will maintain the rents at a constant level.



This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

Please contact us for further information

Research



Cosmin Grecu, MRICS
Head of Valuation & Research
0728.885.540
cosmin.grecu@crosspoint.com.ro



Ilinca Timofte
Research Analyst
0747.021.992
ilina.timofte@crosspoint.com.ro

Founded in 2005, Crosspoint Real Estate offers transactional advice and real estate consultancy, as well as financial solutions needed by international investors for all types of office, retail, industrial, land, hospitality, residential and mixed-use properties. Crosspoint Real Estate is the international associate of Savills in Romania, one of the world's largest real estate advisory companies, established in 1855, with over GBP 1.75 billion in revenues for 2017.