

# ROMANIAN REAL ESTATE MARKET

# 2019



# Macroeconomic Outlook

19.4M

POPULATION

Negative growth

4.6%

of GDP

BUDGET DEFICIT

Exceeding EU imposed  
limit of 3%

4.1%

GDP GROWTH  
RATE

5th highest in EU

699 €

NET AVERAGE  
WAGE

265 € net minimum  
wage, 2019

3.8%

INFLATION RATE

From negative in 2016

36.1%

PUBLIC DEBT  
TO GDP

\*as of October 2019

2.97%

UNEMPLOYMENT  
RATE

1.28% in Bucharest

42,541

**RESIDENTIAL  
BUILDING PERMITS**

Constant

3.39%

**INTEREST RATE  
(12 M ROBOR)**

0.04% decrease in 2019  
Replaced in May 2019 with RICC  
for consumer loans in lei, 2.36%,  
Q3 2019

123.57

**INDEX POINTS  
HOUSING INDEX,  
Q3 2019**

Base year 2009

+23.1%

**CONSTRUCTION  
OUTPUT**

yoy, December  
2019/2018

96%

**HOME OWNERSHIP  
RATE**

Largest in the EU

Following a period of considerable growth, Romania's economic evolution has continued on the same trend in 2019, although at a slower pace. Preliminary data from the National Institute of Statistics shows a 4.1% GDP growth rate for 2019, 2% higher than the European Commission's forecast and similar to the one registered in 2018. For the next two years Romania is expected to become the second fastest growing economy in the EU, with a 3.8% GDP growth in 2020 and a 3.5% GDP growth in 2021. Furthermore, both inflation and unemployment rates were lower compared to 2018 levels. However, aspects such as the nearly doubling budget deficit are casting a negative light over Romania's economic stability. The construction sector had a relatively stable progression, with a similar contribution to the GDP (6.1% in 2019 versus 5.4% in 2018) and a constant number of residential building permits.



# Romanian Investment Market





# Romanian Investment Market

## Overview

2019 registered a total investment volume of 608.85 M EUR, a 41% decrease yoy. However, a few major transactions initiated in 2019 are set to close in the first half of 2020. Furthermore, a record number of quality products, valued at over 500 M EUR, is available on the market this year and new investors are showing their interest in Romania.

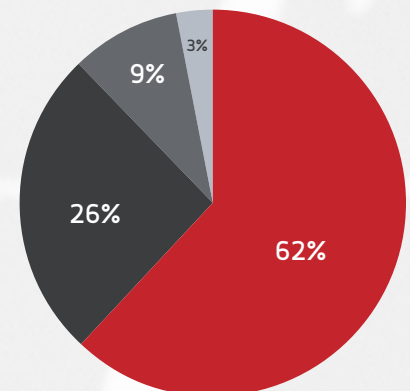
The largest recorded transaction was the sale of The Office project in Cluj-Napoca, owned by South-African investment fund NEPI Rockcastle, to Dragos and Adrian Paval for almost 130M EUR.

Romanian investors have been the most active players in 2019, with a 35% share in the total investment volume, followed by South-African and US investors, with a 19% and 18% share respectively. The accelerating confidence of the national investors is a further proof of the stability of the Romanian market and its sustained evolution in the past years.

Similar to previous years, the office sector continues to dominate the investment market, both in Bucharest and regional cities. An interesting aspect observed in 2019 is the fact that regional markets have attracted an important share of the office investments (32%), a sign that cities like Cluj-Napoca are turning into competitive alternatives for the capital city.

## 2019 investments by sector\*

\*Values are estimated



Office	377.85 M€
Retail	158 M€
Industrial	52.5 M€
Hotel	20.5 M€

**608.85 M€ Total**

## Prime yields

Although on a slight decline, prime yields continue to be among the highest in Europe. The CEE region has had the strongest yield compression this year but yields in Romania are still around 7% or higher in all market sectors.

**6.75-7%**

Office  
Prime Yield

**6.75-7%**

Retail  
Prime Yield

**8%**

Industrial  
Prime Yield

## Forecast

Even though Romania's economic growth is expected to slow down in the following period, the real estate market will likely continue its positive development. Nonetheless, based on the market data, there are no indications that the investment volume in 2020 will rise to the levels registered in the past three years.

608.85  
M€ 2019 investment volume

## Top investment transactions 2019

Quarter	Sector	Name	Location	Seller	Buyer	Price (M€)
Q2	Office	The Office	Cluj-Napoca	NEPI/Ovidiu Sandor	Dragos & Adrian Paval	129.8
Q1	Retail	Retail portfolio	Countrywide	PKM Developments	MAS Real Estate Inc.	113
Q3	Office	America House	Bucharest	AEW Europe	Morgan Stanley	77
Q3	Retail	Promenada Mall	Targu Mures	AEW Europe	Indotek	45
Q2	Industrial	A1 Logistics Park	Bucharest	Vabeld Group	CTP	40
Q3	Office	Liberty Technology Park	Cluj-Napoca	Fribourg Capital	White Star Real Estate	35
Q4	Office	Day Tower	Bucharest	Day Group	Corporate Finance House	34

Values are estimated

# Bucharest Office Market





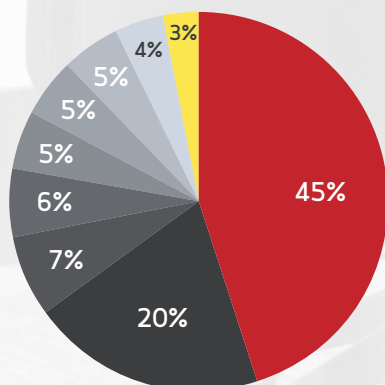
# Bucharest Office Market

## Demand

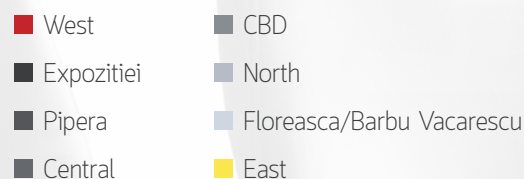
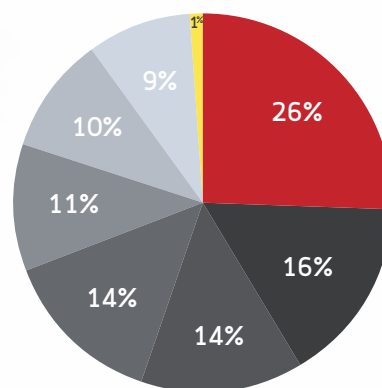
The total take-up in 2019 amounted to almost 377,000 sqm, 5% more than in 2018. Most of the demand (26%) was concentrated in the West/Central-West areas. As a consequence of the emergence of Expozitiei as an office hub in the past three years, the area reached the second place in the take-up top, with a 16% share.

The dominant industry remains the IT&C sector, weighing a 45% in the total take-up. Another particularity of the market activity is that 44% of the leases in 2019 were relocations, the main driver of demand for the new deliveries. Furthermore, pre-leases account for 35% of the rented space. While tenants are searching for the newest and best spaces, encouraged by the increasing stock, it is expected that this will build pressure on rents in older buildings in order to maintain occupancy and increase retention, as well as to increase capex to match the newest features and trends in office buildings. For example, the large majority of office projects delivered in the past years, both in Bucharest and regional cities, have green building certifications. The market is set to keep expanding and green buildings will most likely become a norm in the following years.

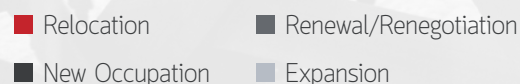
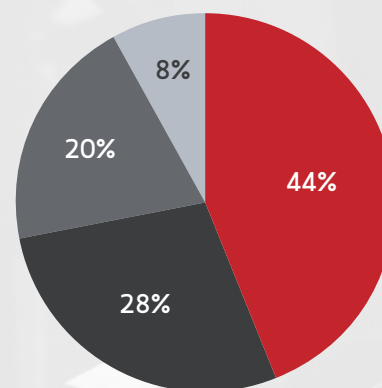
## Breakdown by industry



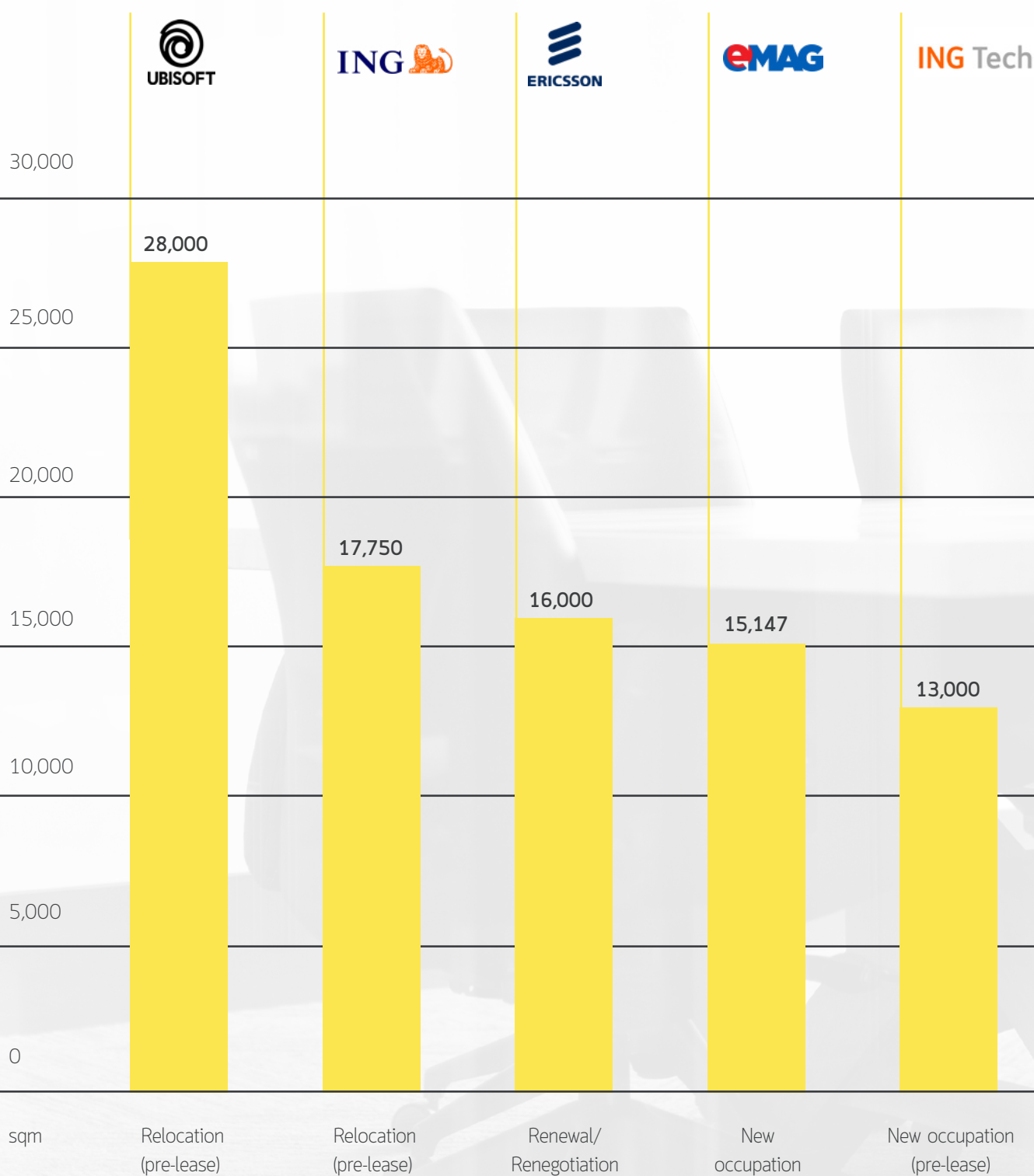
## Breakdown by area



## Breakdown by operation type



## Top office leases, 2019



## Stock & supply

Over 288,000 sqm of new office space have been delivered in 2019. Thus, the total office stock in Bucharest has reached 3.19 million sqm.

Around 260,000 sqm in 13 projects are expected to be delivered in 2020. The delivery of some projects due for Q4 2019 has been postponed for the first half of 2020.

## Trends

Due to the high availability of quality office products delivered in the past two years, as well as the large pipeline of new projects due for delivery in 2020-2021, the gap between vacancy rates is expected to widen. There is a tendency for companies to relocate to the newest, most modern office buildings located in well-connected areas. This tendency is likely to lead to a rise in vacancy rates in older buildings. The main choices of the owners of these buildings will be to upgrade their products in order to keep up with the increasingly competitive market or to consider rent downgrades. As the co-working industry continues its expansion and as more established office areas in the city are becoming progressively crowded, the solution for some of these buildings to remain on the market might be to operate as flexible spaces. This applies especially in large residential areas with poor public transport connections.

Developments in infrastructure, such as the opening of the new M5 | Drumul Taberei-Pantelimon metro line, will create a favorable context for the emergence of new office hubs in Bucharest.

## Prime rents and vacancy rates

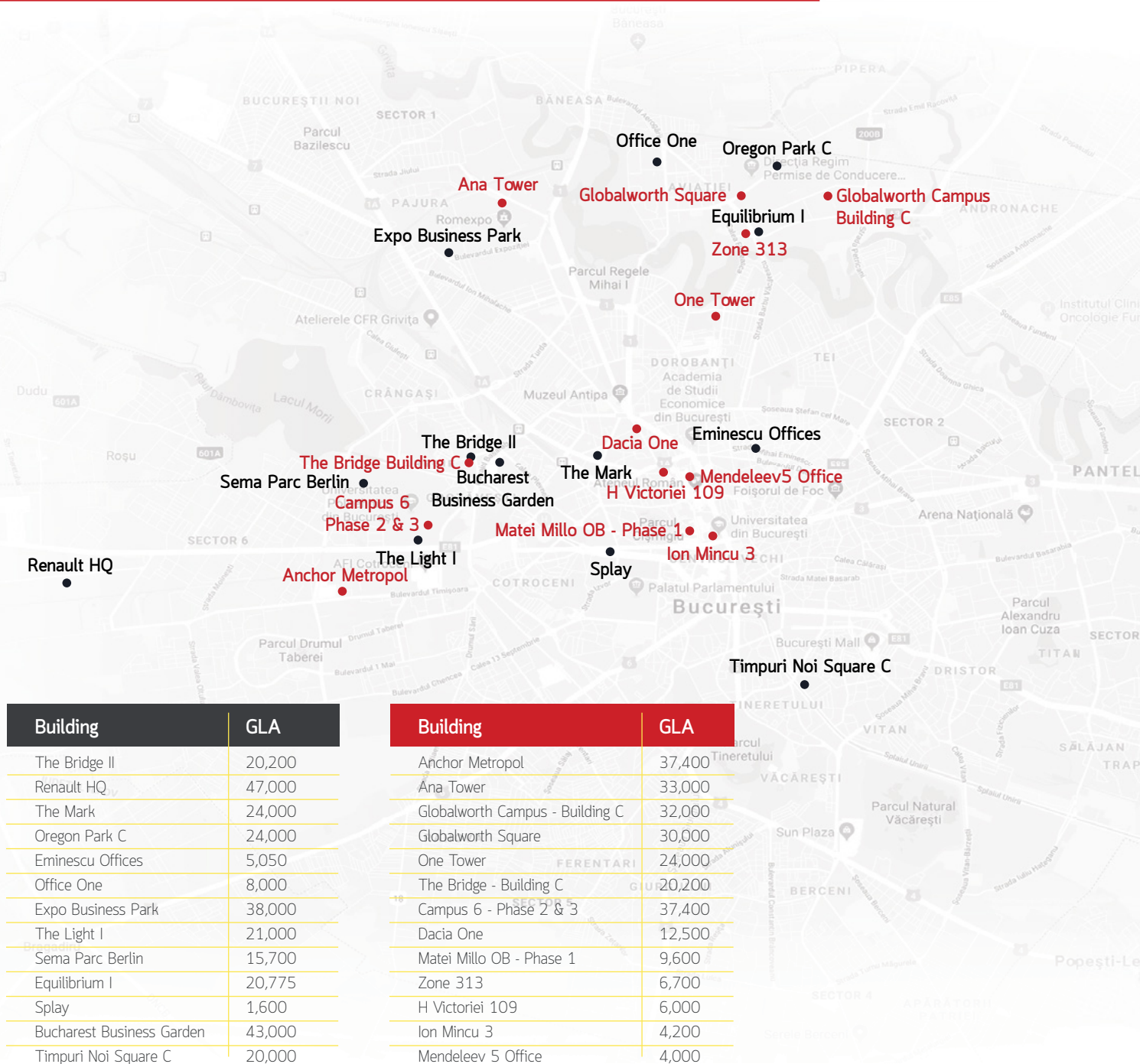
The office vacancy rate in Bucharest has increased to 9% at the end of 2019. The areas where the vacancy rate registers the lowest levels are Floreasca/ Barbu Vacarescu with under 2% and CBD with around 3%. The record deliveries of new products announced for 2020 and 2021 will likely cause a further increase in vacancy rates.

The prime rents remain unchanged at 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 the following period.



## Bucharest office deliveries 2019 and 2020 pipeline

● 2019 deliveries ● 2020 pipeline



## Bucharest rent levels by area



9%

Vacancy rate

288,325

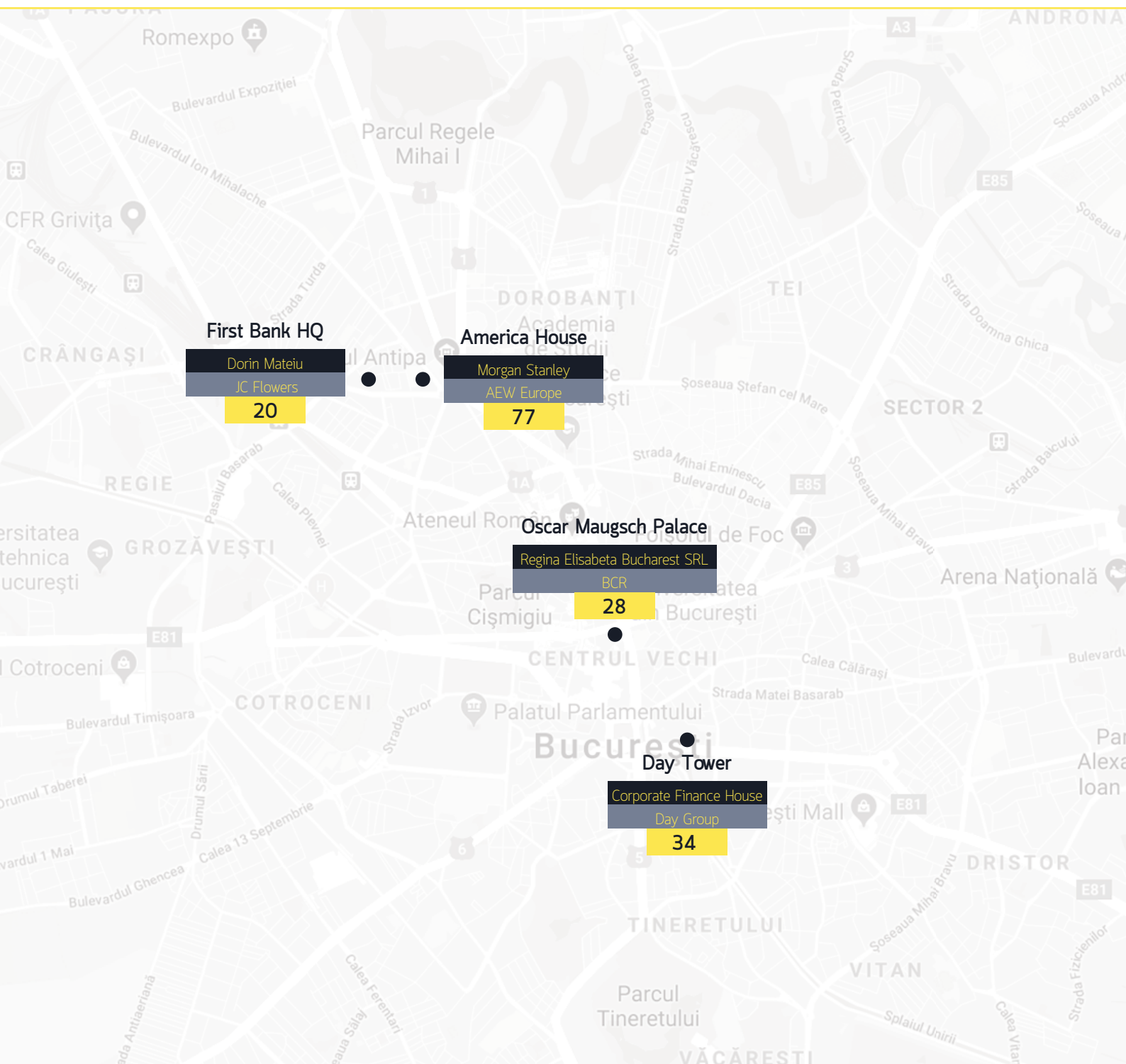
sqm delivered  
in 2019

257,000

sqm pipeline  
in 2020

## Bucharest office investment market

Buyer      Seller      Price (M EUR)





# Romanian Industrial Market



# Romanian Industrial Market

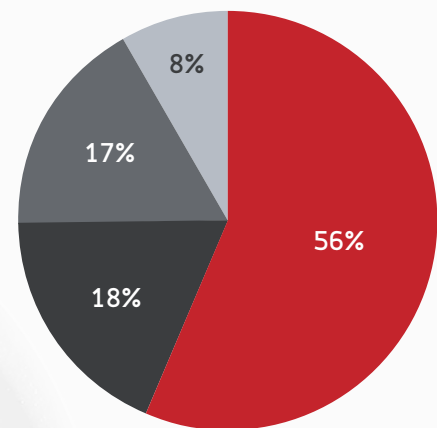
## Stock & Supply

Romania's industrial stock currently stands at around 4.6 million sqm. Over 500,000 sqm of new industrial space have been delivered in 2019, which is an impressive 13% addition on the previous levels. 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.

## Demand

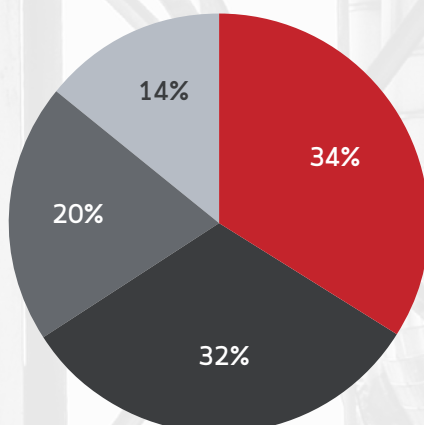
The leasing activity in 2019 amounted to 457,230 sqm, with Bucharest remaining the most dynamic market, with a 56% share. Compared to the same period last year, the leasing activity has dropped by 9%. This decrease may be attributed to the fact that a significant number of businesses are moving into self-built facilities. Another reason might be that, taking into consideration the fact that 2015 was the benchmark for the delivery of modern industrial spaces, we will see a boost in relocations starting with 2020.

## Breakdown by location



■ Bucharest      ■ South  
■ Transilvania      ■ Moldova

## Breakdown by activity



■ Distribution      ■ Storage  
■ Production      ■ Other (incl. logistics)



## Top industrial leasing transactions, 2019

Tenant	Rented Surface (sqm)	Project	City
Pirelli	62,000	WDP Slatina	Slatina
Profi	57,000	CTPark Bucharest West	Bucharest
Somaco Grup Prefabricate	35,000	WDP Neamt	Neamt
Arctic	20,000	Eli Park	Bucharest
Honeywell Garrett	17,000	Equest Logistic Center	Bucharest

### Rent levels

Prime industrial rents have remained unchanged from last year, 3.8-4.0 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

Industrial vacancy rates have reached higher levels than those registered in previous years. Nationwide, the vacancy rate is around 6.5%, while in Bucharest the vacancy rate reached a little over 8%.



# Romanian Industrial Market

## Investment

The industrial investment market followed last year's dynamics, with only one relevant transaction, the acquisition of A1 Business Park by CTP for 40 M€. As the market is relatively equally split between the big players, new entrants will be interested in buying large assets or portfolios in order to make a profitable investment.

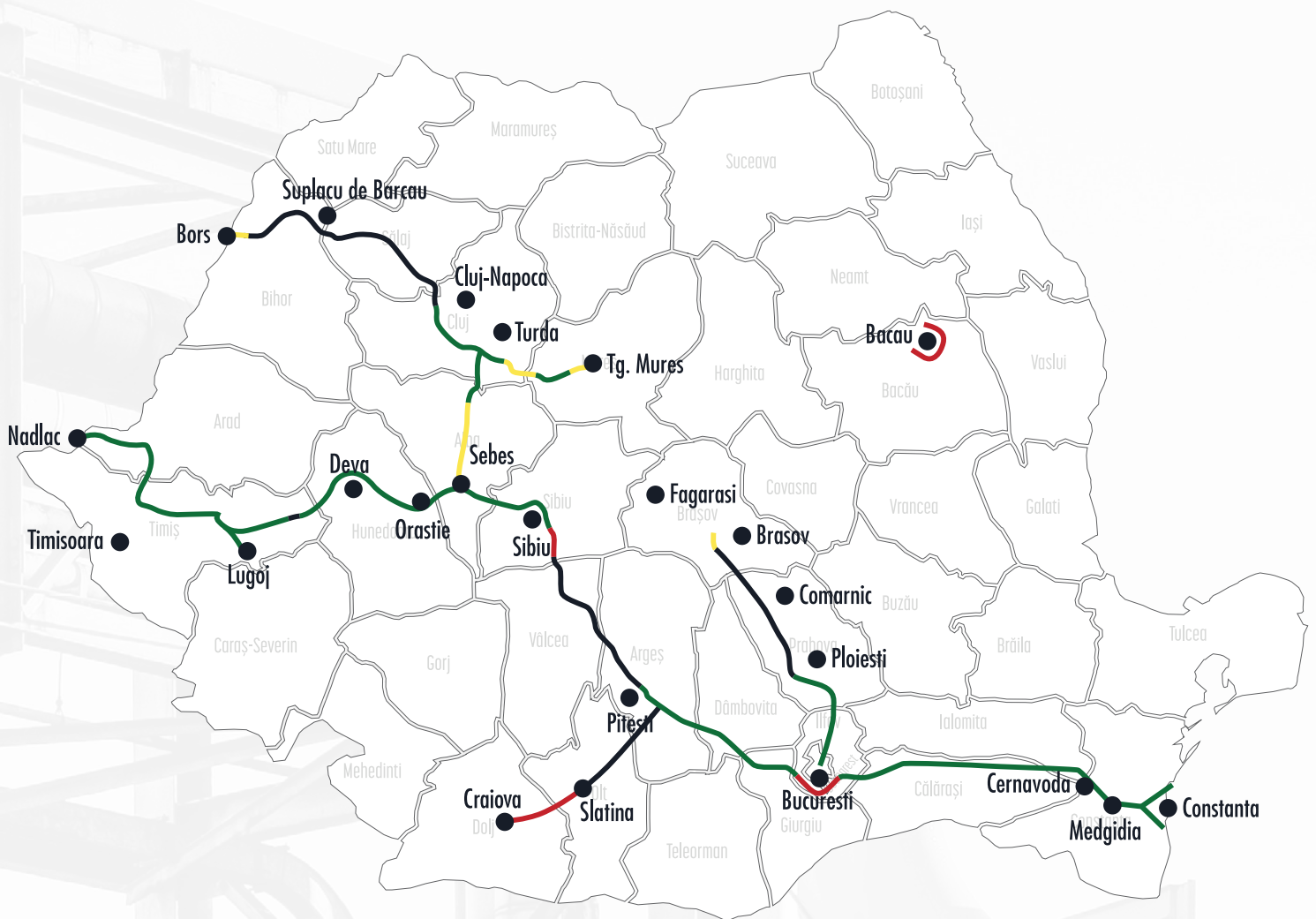
## Forecast

In the following years it is likely that new areas will be developed, such as Constanta or Craiova. Along with record deliveries of modern spaces, we expect to see a large number of relocations from older facilities, as 2020 marks the end of lease contracts for a large number of occupiers of modern industrial facilities. Production companies will choose to expand by building smaller, satellite facilities around their larger compounds. In the north-eastern part of the country, logistics companies will seek to open smaller hubs which can be supported by the existing infrastructure. 2020 will mark the development of industrial facilities in untapped areas - for example, the first A class industrial facilities will be built in Bacau this year.

## Infrastructure

43.28 km of new highway have been delivered in 2019, despite the official estimation of over 100 km at the beginning of the year. The start of several infrastructure works, such as the express road from Pitesti to Craiova and the completion of the access road from Vama Bors to Oradea, as well as the entry into service of two highway segments connecting Cluj-Napoca to Sebes are announced for 2020. Overall, over 90 km are planned for delivery in 2020.

# Romanian Industrial Market



- Existing
- Under construction: delivery 2020
- Under construction: delivery 2021-2023
- Planned



# Bucharest Residential Market



# Bucharest Residential Market

## Overview

2019 has witnessed a series of macroeconomic changes: from a 3.8% rise in the inflation rate and an average exchange rate of 4.74 RON/EUR, to the introduction of the Consumer Credit Reference Index (IRCC) replacing ROBOR for consumer loans in RON.

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 for clients contracting a "First Home" type of credit reached 45%, higher than in the previous years. The rate is also higher than that of clients who acquire other types of mortgages, with an average indebtedness rate of 42%. Banks as well as developers offer alternative, less restrictive lending products that take into account other sources of income on top of salaries.

The main causes for the increase in the price of new dwellings remain the high material costs - which have registered a 30% increase yoy in 2019 - and the lack of qualified workforce. Furthermore, the raise in the minimum wages has led to a 25% increase in the workforce costs for developers.

## Supply

According to the National Institute of Statistics, over 15,000\* new units have been delivered in Bucharest in 2019, an all-time record in the Romanian residential market. While the southern area remains the largest market for affordable dwellings, western Bucharest is seeing a surge in prices and the North is becoming a mixed mid-class to upper-class area.

\*New unit deliveries Q1-Q3 2019.

Source: INS. Deliveries for Q4 2019 are based on projections

Area	Project	No. of units
West	21 Residence	1,500
West	Gran Via Park	1,100
North	Arbo Residence Mogosoaia	1,000
North	Arcadia Apartments Domenii	800
South	Cartierul Solar	390
West	Timisoara 58 Apartments	246
Semicentral	Cotroceni Smart Residence	240
Semicentral	Soho Unirii	236
West	West Garden	200
North	One Herastrau Plaza	156
North	New Point 2	136

# Bucharest Residential Market

## Forecast

Changes in legislation which introduce new obligations for developers will affect the construction sector in 2020. As a consequence, prices for residential units are estimated to register further increases of up to 15%. The "First Home" programme will be continued in 2020, with the same budget (2 billion lei) but the rise in prices casts a serious shadow of doubt on its appropriateness.

142 new residential projects are expected to be delivered in 2020 in Bucharest and Ilfov. In Bucharest, the 1st and 6th Districts expect most of the deliveries.

District	No. of units
District 1	23
District 2	19
District 3	23
District 4	10
District 5	6
District 6	21
Ilfov	40
<b>Total</b>	<b>142</b>

Number of residential projects to be delivered in Bucharest and Ilfov, 2020

Area	Project	No. of units
South	Metalurgiei Park Residence	5,000
North	Onix Park	2,000
North	Belvedere Residences	1,556
North	Cosmopolis	1,500
West	Moghioros Park Residence	1,300
West	Rotar Park Residence	1,300
West	Sema City	1,200
North	Greenfield Residence	886
North	Avalon Estate	733
North	Luxuria Domenii Residence	630
North	Parcului 20	469
North	Ivory Residence	420
Semicentral	Baba Novac Residence	363
Semicentral	Central Apartments	350
North	102 The Address	273
Semicentral	One Mircea Eliade	247
Semicentral	RoKa Residence	223
East	Triama Residence	200
North	AFI City	190
Semicentral	New Times Residence	146
North	New Point	136
East	Vivenda Residencias	143

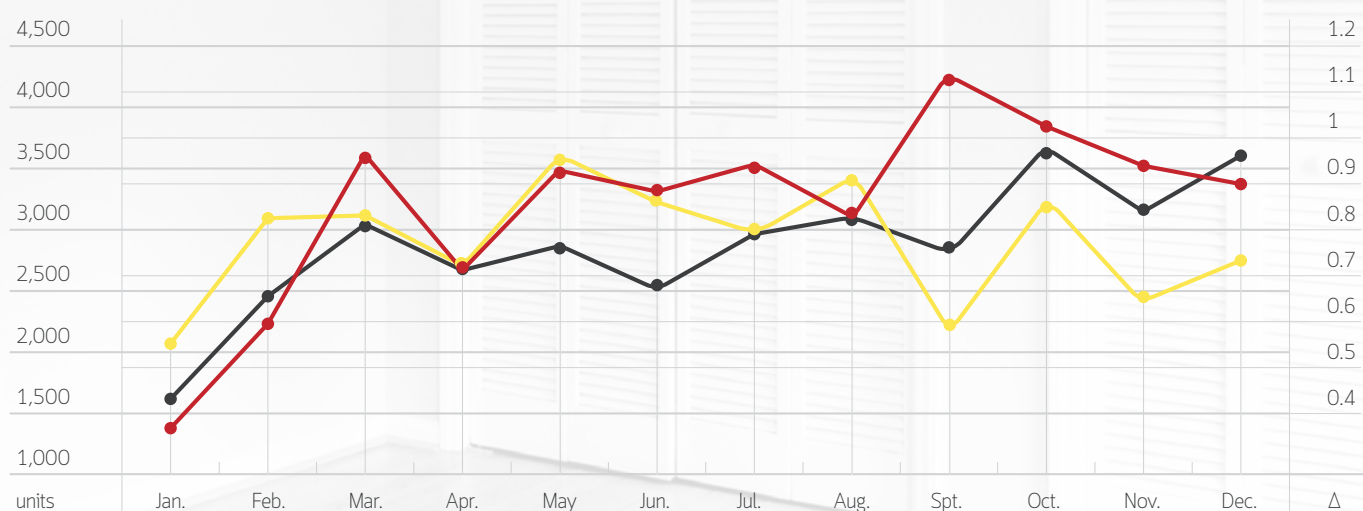
Top residential projects to be delivered in Bucharest in 2020

# Bucharest Residential Market

## Demand

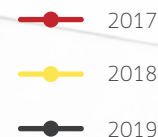
Apartment sales have dropped by 1% in Bucharest in 2019 compared to 2018, while at a national level, sales have registered a 9% decrease yoy. The decline in demand started at the end of 2018, continued in the first eight months of 2019, but has been balanced out by a significant rise in the last four months.

The Bucharest residential market continues to record the highest demand in the country, with over 70% of the newly built apartments sold in the pre-construction phase.



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%	2,548	-22%
July	3,506	3,006	-14%	2,964	-1%
August	3,137	3,404	9%	3,081	-9%
September	4,223	2,205	-48%	2,856	30%
October	3,844	3,188	-17%	3,625	14%
November	3,522	2,452	-30%	3,164	29%
December	3,373	2,749	-18%	3,605	31%
<b>Jan-Dec</b>	<b>38,986</b>	<b>34,813</b>	<b>-11%</b>	<b>34,478</b>	<b>-1%</b>
<b>Monthly average</b>	<b>3,249</b>	<b>2,901</b>		<b>2,873</b>	

No. of individual transactions in Bucharest, 2017-2019.  
Source: ANCPPI





# Bucharest Residential Market

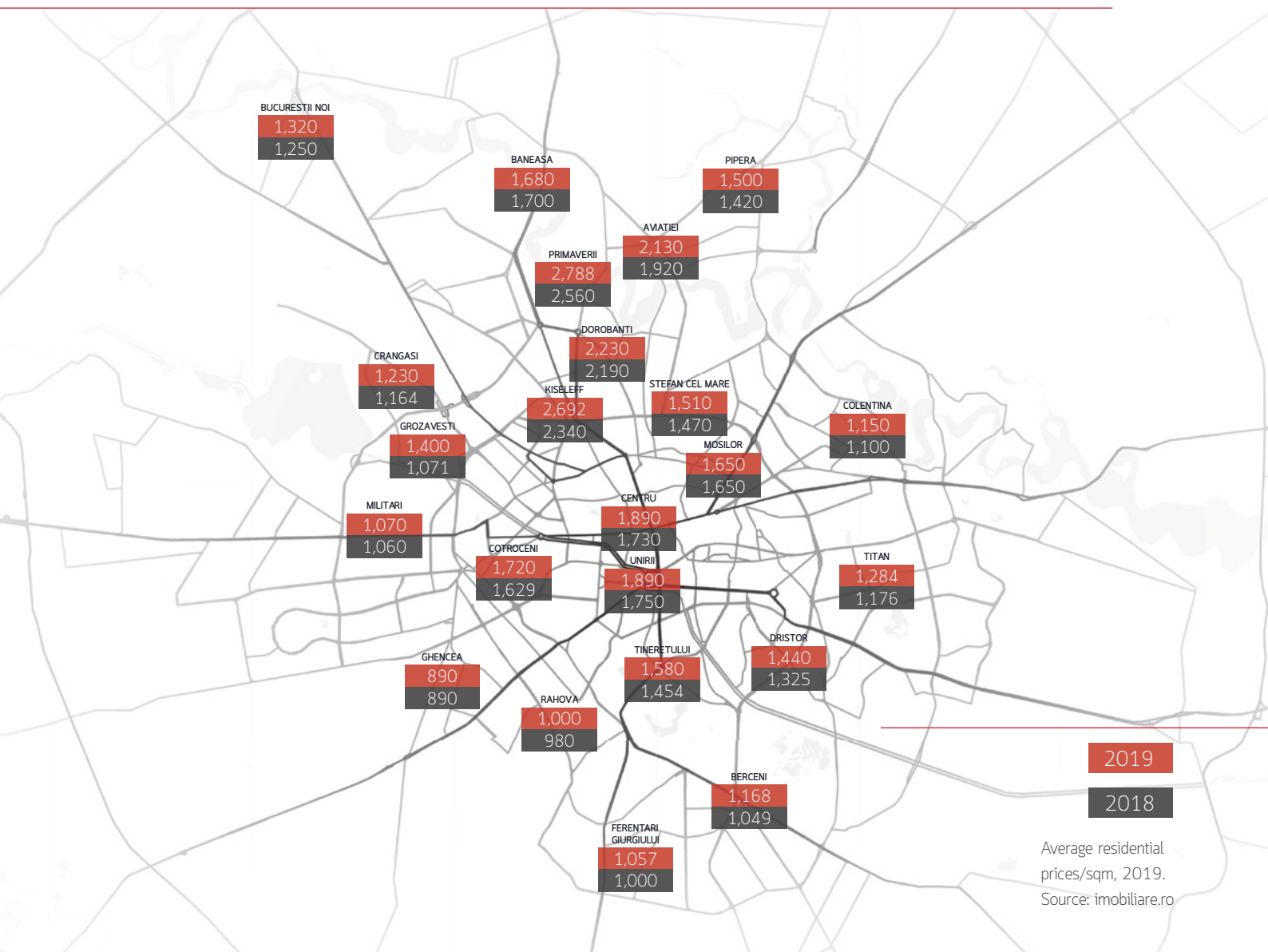
## Trends

The raise in wages, especially in Bucharest, has resulted in a higher demand for residential developments within the city and in established mid to high income areas. Moreover, we can see a shift of demand from one-bedroom apartments to two-bedroom apartments, both because of the clients' higher budgets but also because the rise of construction costs has constrained developers to build smaller units. Another trend that started in 2019 and we expect to continue in the following years is the emergence of clients on the residential segment who acquire apartment packages for investment purposes.

## Prices

The average price for residential units has registered a 7.5% increase in 2019 in Bucharest compared to 2018. The 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 peripheries remain the cheapest (around 1,000 EUR/sqm), while in the Center-North prices continue to exceed 2,000 EUR/sqm.



# Bucharest Residential Market

## Rents

Rents in Bucharest have recorded a 10% growth on average compared to 2018. They vary from 250 EUR/month in areas like Militari and Berceni to over 400 EUR/month in central and northern areas for studios, from 350 EUR/month in West and South, to 600 EUR/month in semi-central areas, to 800 EUR/month in northern Bucharest for a one-bedroom apartment and from 600 EUR/month in West and South, to 900 EUR/month in the city centre and to over 1,600 EUR/month in areas like Primaverii/Herastrau for a two-bedroom apartment.

## Trends

The Bucharest rental market continues to be one of the most profitable in the CEE region. With an average rental yield of around 6% and a price/rent ratio of 17 years, the investment activity in residential real estate in Bucharest is expected to grow. In addition to the traditional rental market, the continuous rise in tourism led to the rapid development of the homestay industry in Romania.





# Land Market



## Overview

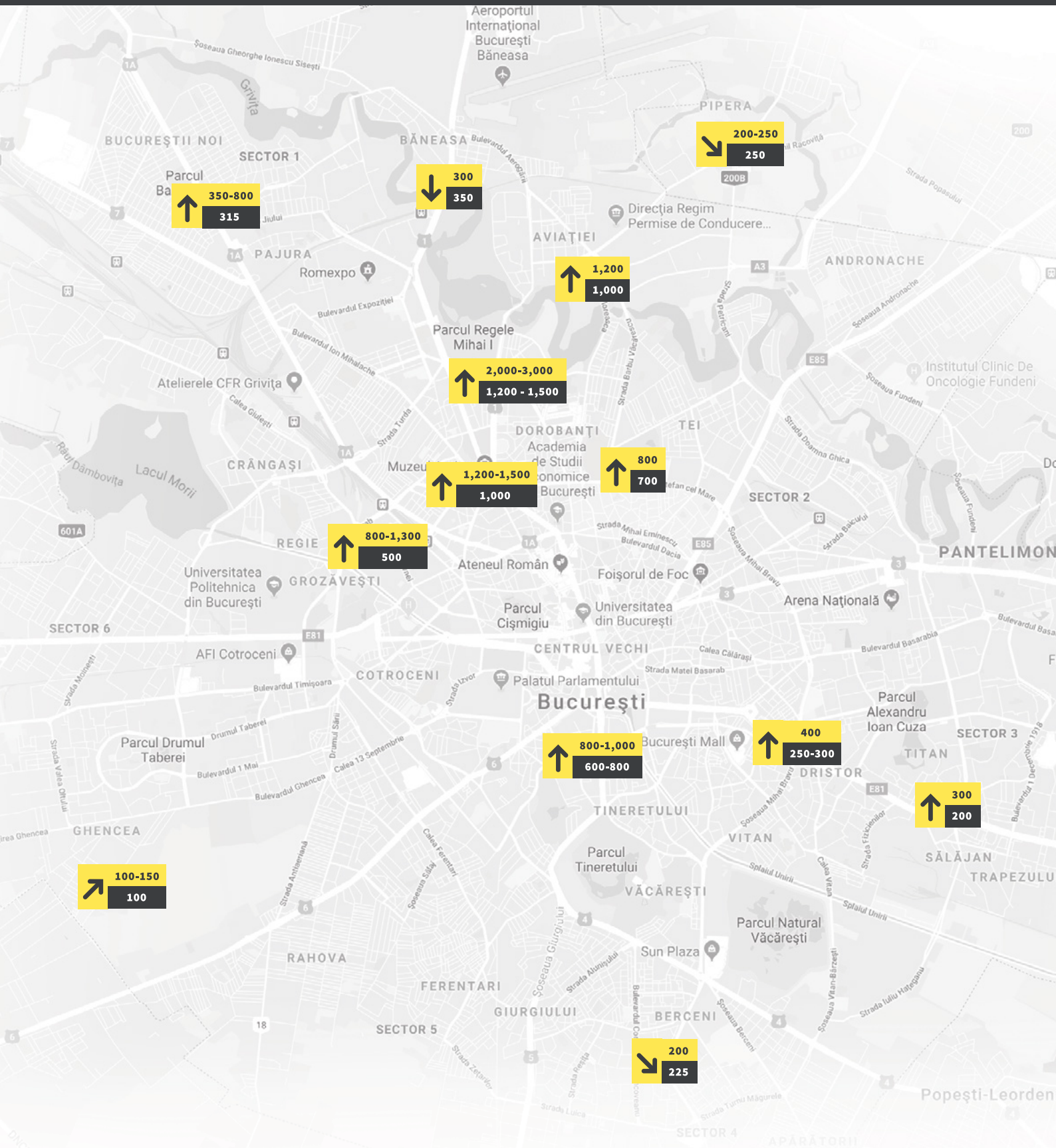
The most important land transactions recorded in Bucharest totaled over 215 M EUR in 2019. Compared to previous years, investors on the land market have been rather cautious, with most of them considering 2019 to be the end of a cycle of sustained economic growth. An indication of the fact that 2019 has marked a peak in the development of the market is the record delivery of residential projects (60,000 units on a national level).

Most of the acquisitions for commercial development (mainly retail) have been registered on regional and secondary markets, whereas Bucharest continued to attract investors on the residential segment, because developers of office projects due for delivery in the following three years have already secured their land plots in the 2016-2018 period.

## Prices

2019 has registered a surge in land prices in most of the areas of the capital city, with land prices reaching the highest values since the 2008 crisis. Due to the fact that available land plots in established areas have become smaller and scarcer, land prices have significantly gone up, nearly doubling in some cases compared to 2018.

# Land Market



YoY land price evolution in main areas of Bucharest, €/sqm  
 Prices vary widely within the same area, depending on location,  
 size or the existence of construction authorizations.

Source: Crosspoint Research

2019 Price (€/sqm)  
 2018 Price (€/sqm)

## Forecast

Given the economic slowdown expected for 2020, land investments, be it for commercial or residential purposes, are expected to be approached with foresight.

Location	Land plot area (sqm)	Seller	Buyer	Destination
Textile Dacia (50%)	26,000	Michael Topolinski	Skanska	Office
Helitube Colentina	89,503	BelRom	SIF Banat Crisana	n/a
Expozitiei	28,700	Private	London Partners	Residential
Lacul Tei 17 (Former Frottierex factory)	19,690	Frottierex	Caba Group	Residential
Casa Manu Victoriei	5,000	Private	Strabag	Residential
Dambovita shoe factory	9,000	Private	Vastint	Residential
Gh. Ionescu Sisesti	49,200	Delorian Group	Prima Residence	Residential
Doamnei 7-11	5,000	Conta Investment	S+B Gruppe	Office/hotel
Stefan cel Mare	14,469	Alpha Bank	SM Development SRL	Residential
Grigore Gafencu	10,000	Metropolitan	Private	n/a

Top land transactions (over 10 M €) in Bucharest, 2019



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