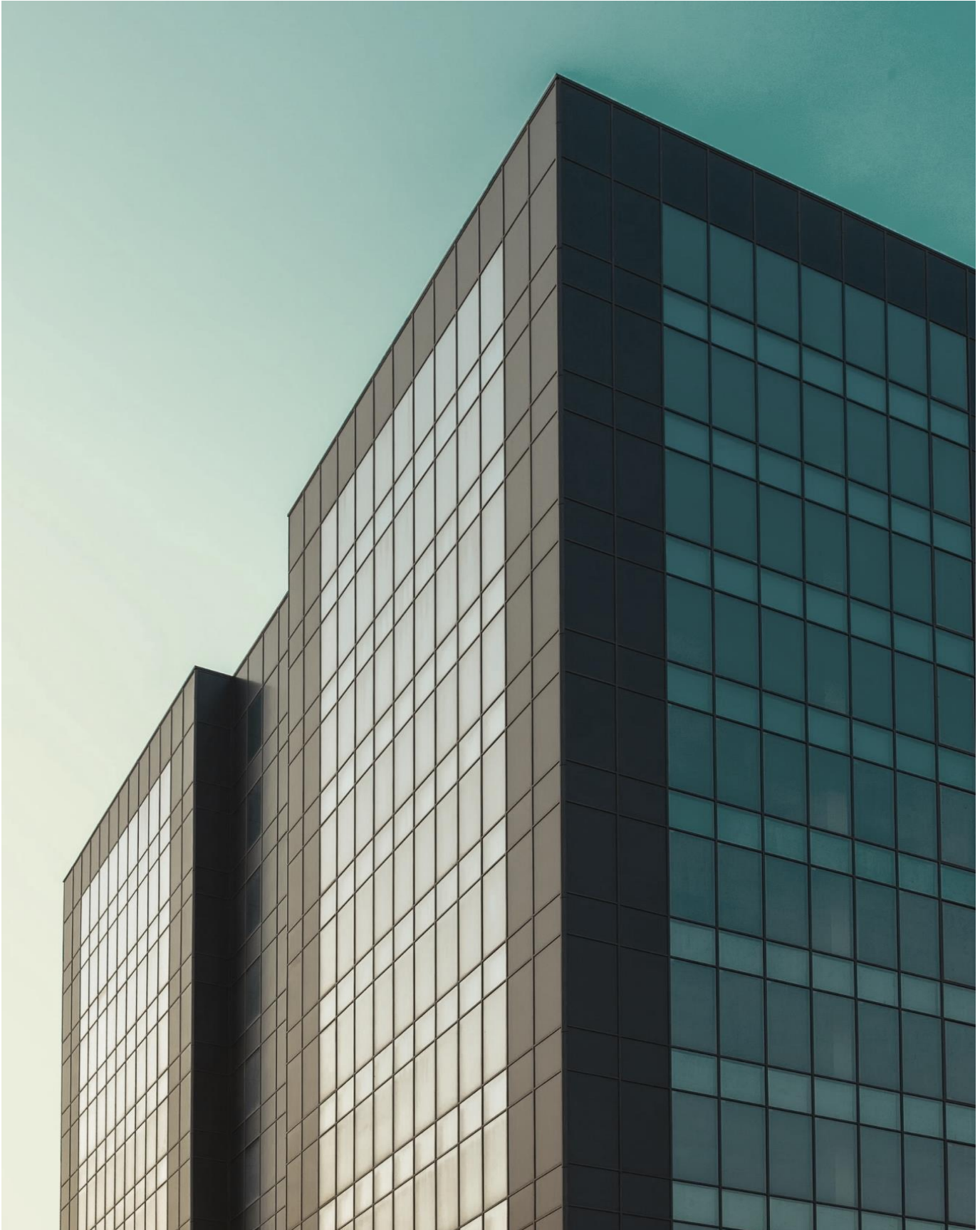




SPOTLIGHT

H1 2020

Romanian real estate market



Overview

2.4%

yoy GDP growth
Q1 2020

5.2%

Unemployment rate Q1
2020
Up from 3.9% in 2019

2.6%

Inflation rate
June 2020

3,294 RON

Net average wages

14,081

Residential building permits
January-May 2020

2.35%

12M ROBOR
From 3.31% in
December 2019

With the hit of the COVID 19 pandemic on the global economy, the first 6 months of 2020 have registered a steep decline in economic growth. The data available for Q1 2020 shows a 0.3% growth in Romania's GDP compared to the previous quarter and a 2.4% growth yoy.

Unemployment has risen by 1.3% in the first quarter alone. The decrease in inflation rate is most likely temporary - a 0.3% rise in inflation has already been registered in June compared to the previous month.

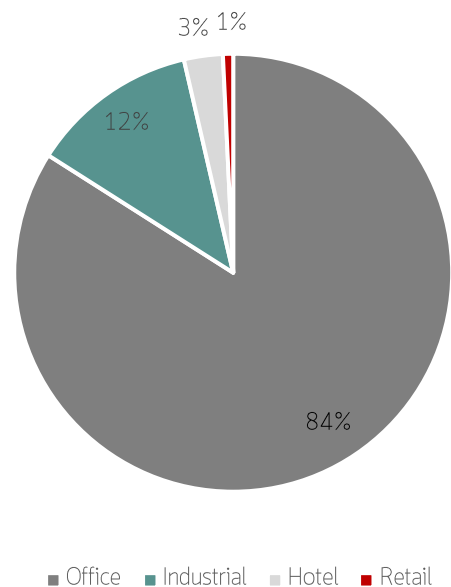
Even though uncertainty still surrounds the local and global economies, it is unlikely that the fall registered in the first half of 2020 will be balanced out in the following period, no matter how fast a recovery would happen.

Although a few large investment transactions have been put on hold in light of the current situation, the Romanian investment market seems to continue at a similar pace to previous years. The total investment volume in H1 2020 stood at a little over 330M €, a small, 4% drop compared to H1 2019.

With an 84% share in the total investment activity, the office sector continued to dominate the market, despite the uncertainty surrounding the future of this segment. Investors have been active predominantly on the Bucharest market.

| Sector | Value (M€) | Share |
|--------------|--------------|-------|
| Office | 278.4 | 84% |
| Industrial | 41 | 12% |
| Hotel | 9.5 | 3% |
| Retail | 2.5 | 1% |
| TOTAL | 331.4 | |

Total investment by sector, H1 2020



| Project | Sector | Location | Seller | Buyer | Value (M€) |
|------------------------------------|------------|-----------|--------------------------|---------------------|------------|
| 61.5% GTC shares | Office | Bucharest | Lone Star | Optimum Ventures PE | 126 |
| Global City Business Park | Office | Bucharest | Global Finance | Arion Green | 55 |
| 50% of Renault Business Connect | Office | Bucharest | Elgan Group | Globalworth | 38 |
| Equest Logistic Center | Industrial | Bucharest | Equest Balkan Properties | CTP | 30 |
| 30% of One Floreasca Towers shares | Office | Bucharest | One United Properties | Ionut Dumitrescu | 20 |

*Top investment transactions H1 2020
Values are estimated*

Prime yields

Prime yields in Romania are still around 7% or higher in all market sectors, among the highest in Europe. Capitalization rates registered in the first half of 2020 have maintained the same levels from last year. There are still transactions under discussion under 7% and properties listed between 6 and 7%; however, apart from the sale of Day Tower at 6.7% last year, there has been no transaction in 2020 to support this.



Office prime yield: 7%



Retail prime yield: 6.75%-7%



Industrial prime yield: 8%

Forecast

Taking into consideration the uncommon circumstances we are in, it is difficult to estimate the evolution of the investment market for the remainder of the year. It is however clear that, at least for the following period, the interest for retail and alternative assets such as hotels will drop significantly, with investors' focus shifting to core+office products (good location, long leases, strong tenants). With a diverse range of products available on the market, high liquidity and new players showing an active interest in Romania, the investment volume in 2020 is not expected to register a significant drop compared to last year.

331.4 M€

total investment volume, H1 2020

Stock & supply

While at the beginning of the year over 250,000 sqm of new office space were expected for delivery in the next 12 months, some projects have been postponed for 2021 in light of the current situation, with approximately 200,000 sqm due for delivery by the end of this year. The current office stock in Bucharest stands at 3.3 M sqm.

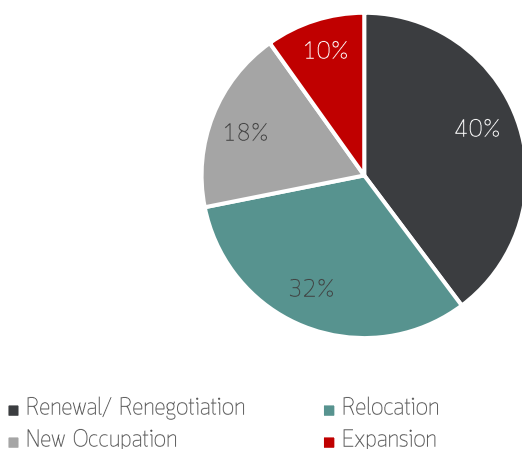
| Project | GLA | Area | Delivery |
|----------------------|--------|---------------------------|----------|
| Ana Tower | 33,000 | Expozitiei | Q1 |
| Globalworth Campus C | 32,000 | Pipera | Q1 |
| H Victoriei 109 | 6,000 | CBD | Q1 |
| Mendeleev 5 | 4,500 | Central | Q1 |
| The Bridge III | 21,200 | Central-West | Q2 |
| Zone 313 | 6,700 | Floreasca-Barbu Vacarescu | Q2 |

Office deliveries in Bucharest, H1 2020

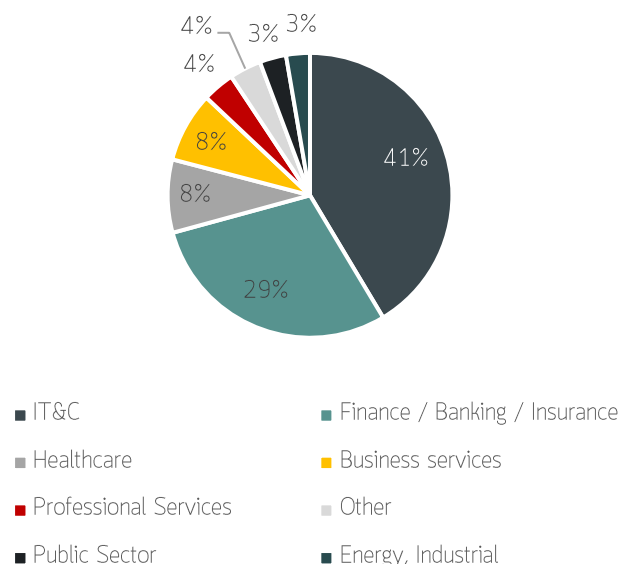
Demand

Around 100,000 sqm of office space were leased in Bucharest in the first half of 2020, an almost 50% fall in demand yoy. Given the record volume of leases in 2019, the drop in demand was already expected and the current situation is adding a further pressure on tenants and owners alike. In a market where a large number of companies have adopted working from home at least until the end of the year and expansion/ relocation plans have been put on hold, 40% of the leasing contracts signed in H1 2020 were renewals and renegotiations. Due to the large number of new deliveries, relocations still make up for a large portion of the leasing activity - 32%, while pre-leases account for 15% of the leases. The IT&C sector is still the main source of demand for office spaces ((41%), followed by the Finance/ Banking/ Insurance sector (29%). Office spaces in the West/ Central-West, Expozitiei and Central areas were the most sought after in H1 2020.

Demand breakdown by operation type



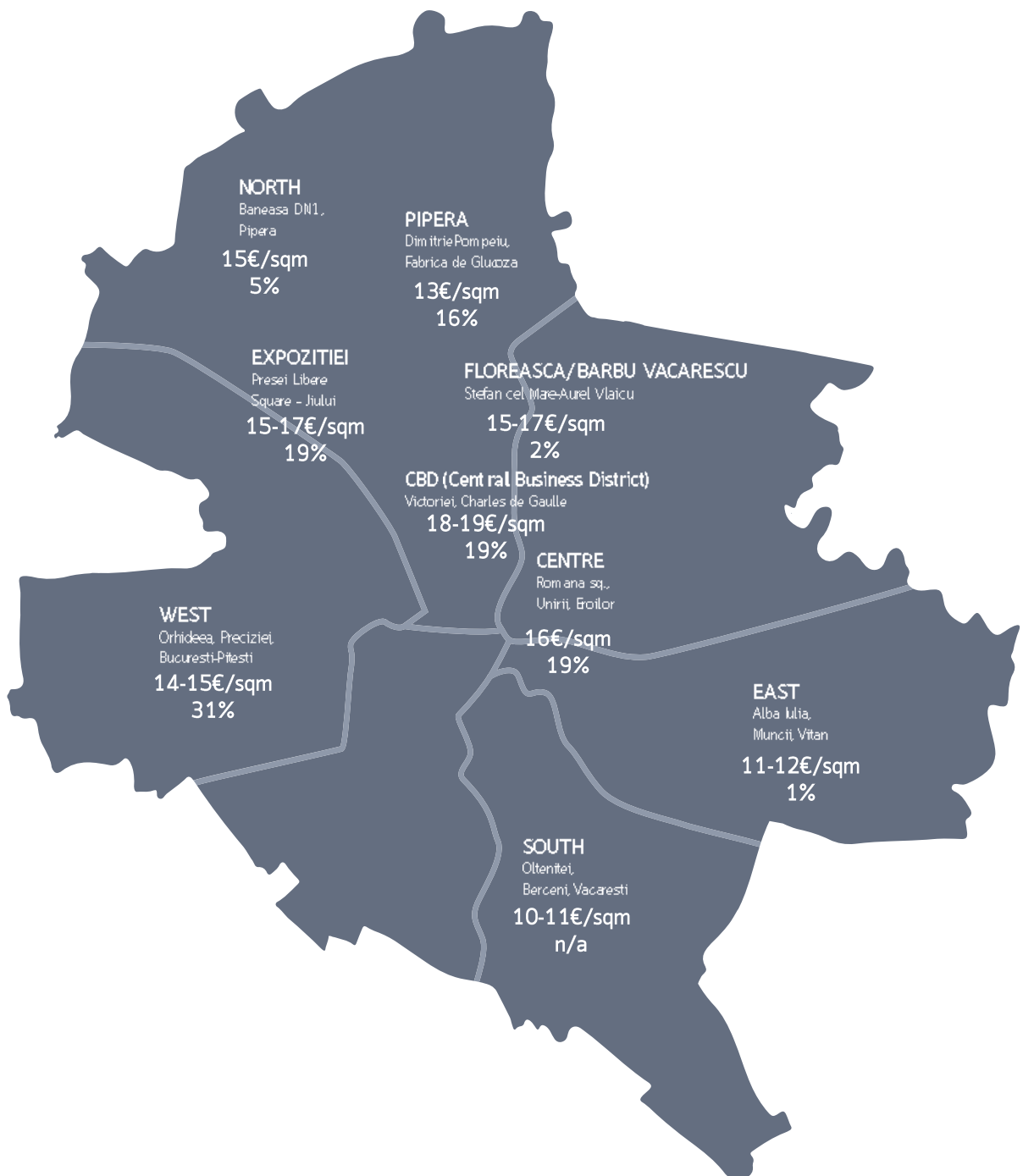
Demand breakdown by industry



Rent levels

Asking rents have remained roughly unchanged, although the majority of landlords are open to negotiate flexible conditions for their tenants. Depending on the further development of the current crisis, some areas/ buildings might experience a downward pressure on rents.

The record number of deliveries registered in 2019 has influenced the increase in the vacancy rate in Bucharest to over 10% at the end of H1 2020.



Map of Bucharest office areas
 Rent level
 Take-up share, H1 2020 (Total take-up=100,298 sqm)

Stock & supply

Romania’s industrial stock currently stands at around 4.7 million sqm. Over 150,000 sqm of new industrial space have been delivered in 2020, mainly in the capital city. Bucharest continues to be the largest market, with a stock of a little over 2 million sqm (46%), with the West and North-West areas accounting for 40% of the total stock.

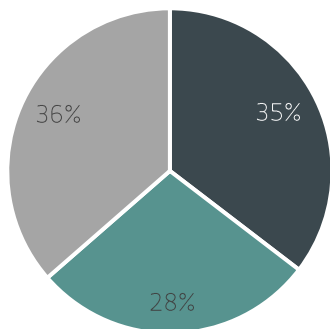
Demand

The industrial leasing activity in H1 2020 amounted to around 250,000 sqm, with a 35%-65% split between Bucharest and the rest of the country. For the time being, the industrial sector is the only sector positively influenced by the COVID 19 pandemic. The boost of e-commerce, the birth of strategic industries such as the manufacturing of protective equipment as well as the need for urban logistics have created a rise in demand.

| TENANT | SURFACE RENTED (sq m) | PROJECT | CITY |
|---------------------------------|-----------------------|--------------------------|--------------------|
| Profi | 115,500 | WDP | Craiova, Timisoara |
| General Electric Power Services | 16,000 | Soseaua Berceni Property | Bucharest |
| Rosti | 11,300 | WDP | Ploiesti |
| Logistic E Van Wijk | 10,400 | P3 | Bucharest |
| DSV | 10,000 | CTP Stefanesti | Bucharest |

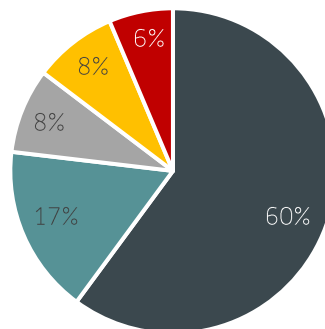
Top industrial leases, H1 2020

Demand breakdown by location



■ Bucharest ■ South ■ West

Breakdown by activity



■ Distribution ■ Production ■ Logistics ■ Other ■ Storage

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 remain low. Nationwide, the vacancy rate is around 6%, while in Bucharest the vacancy rate reached a little under 7%.

Forecast

The industrial and logistics market will be less affected compared to the other real estate segments. However, the dynamics will be lower by the end of the year. Opportunities arising from the current situation, such as the shortening of the Asia-Europe supply chains by moving some of the production facilities into CEE and the increase in local workforce could be advantageous for Romania, provided that investments in the development of infrastructure will be made.

Overview

With a smaller inflation rate (from 3.8% at the end of 2019 to 3.05% in March 2020) but a higher exchange rate of 4.82 RON/EUR, 2020 had a similar debut to the previous years on the residential market. As the global crisis caused by the COVID-19 pandemic just began in March, it is too early to make any predictions on what 2020 will bring. As the most vulnerable real estate sector to economic downturns, the residential sector's success depends on a fast economic recovery in order to keep afloat. However, the overall feeling of both developers and investors does not seem to be a pessimist one, but rather one of standby. For the time being, developers show no signs of backing down and none of the currently started projects have been stopped. Delays in deliveries are however expected due to the lockdown period.

Recent changes in the "First home" programme - renamed "A new home" - such as the raise in the guarantee limit from 70,000 EUR to 140,000 EUR and the elimination of the restrictive conditions for mid to high income clients - have brought a new perspective on the residential market's success following the COVID 19 crisis. According to the National Bank of Romania, in 2019, the indebtedness rate of 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 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. Although in the last months some drops in material costs have been registered, these changes will take some time to have an effect on prices. Most likely unit prices in projects that are close to completion will not reflect this latest decrease in material costs. 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. The southern and western areas of the city are two of the largest markets for affordable residential units, while the northern part of Bucharest, an area generally known for its high-end residential developments, is becoming more of a mixed market, targeting mid to high income buyers. For 2020 there are expected to be delivered some 20,000 units in Bucharest and Ilfov, only in the largest projects.

For the time being, a limited number of projects planned or under construction have been postponed and all construction works have resumed in mid May. On a national level, in the first five months of 2020 a total of 14,081 residential building permits have been issued, an average of 2,816 permits/ month, a slight decrease compared to 2019, when the monthly average was 3,545.

| District | No. of projects |
|--------------|-----------------|
| District 1 | 23 |
| District 2 | 19 |
| District 3 | 23 |
| District 4 | 10 |
| District 5 | 6 |
| District 6 | 21 |
| Ilfov | 40 |
| TOTAL | 142 |

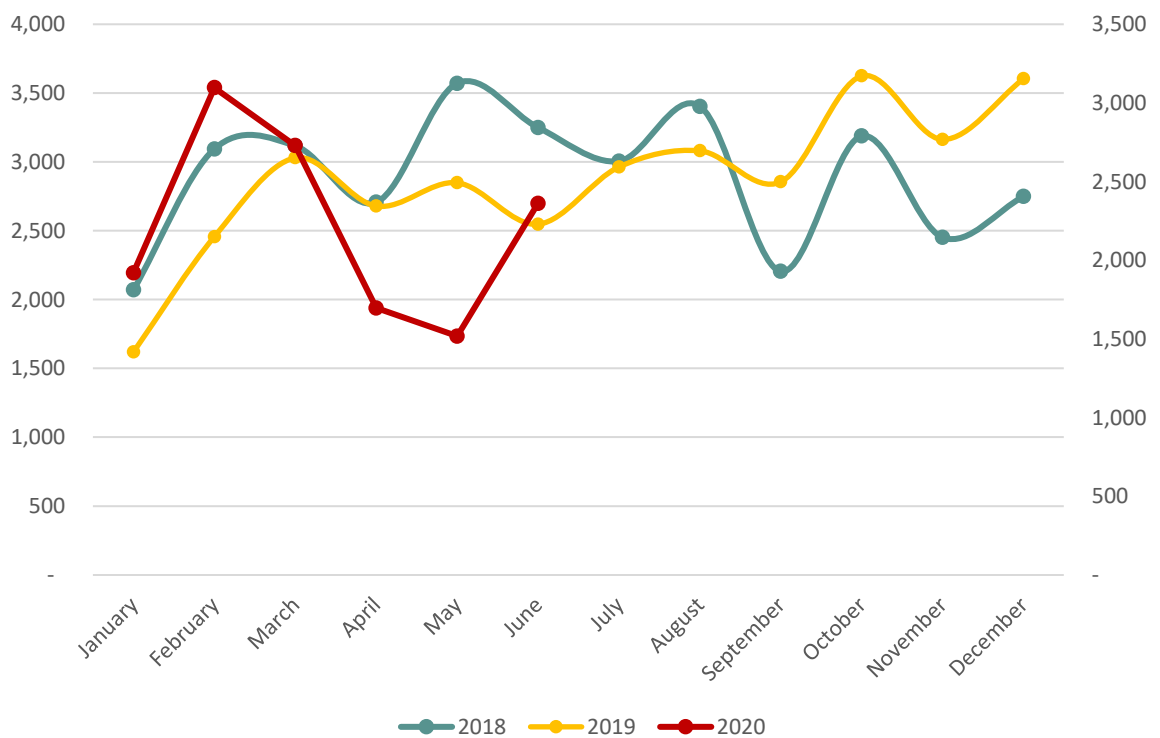
Number of residential projects to be delivered in Bucharest and Ilfov, 2020

Demand

The debut of 2020 followed the same trend as the previous year, with a 24% increase in apartment sales yoy in the first quarter. As expected, the instatement of the emergency situation in March-May has resulted in a drop in transactions but by the end of June the number of sales has increased, with the market slowly bouncing back. Overall, the first 6 months of 2020 have registered a 12% drop in demand on the Bucharest residential market compared to the first half of 2019.

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 | 2018 | 2019 | 19/18 | 2020 | 20/19 |
|-----------------|--------|--------|-------|--------|-------|
| January | 2,070 | 1,619 | -22% | 1,920 | 16% |
| February | 3,094 | 2,457 | -21% | 3,097 | 21% |
| March | 3,117 | 3,030 | -3% | 2,729 | -11% |
| April | 2,707 | 2,680 | -1% | 1,696 | -58% |
| May | 3,571 | 2,849 | -20% | 1,517 | -88% |
| June | 3,250 | 2,548 | -22% | 2,361 | -8% |
| July | 3,006 | 2,964 | -1% | | |
| August | 3,404 | 3,081 | -9% | | |
| September | 2,205 | 2,856 | 30% | | |
| October | 3,188 | 3,625 | 14% | | |
| November | 2,452 | 3,164 | 29% | | |
| December | 2,749 | 3,605 | 31% | | |
| Jan-Jun | 17,809 | 15,183 | -15% | 13,320 | -12% |
| Monthly average | 2,968 | 2,531 | | 2,220 | |



No. of individual transactions in Bucharest, 2018, 2019, H1 2020 Source: ANCP

Prices

Similar to previous years, the average price for residential units has registered an 5% increase in the first three months of 2020 in Bucharest, to around 1,470 EUR/sqm. However, the impact of the COVID-19 pandemic became visible in the second quarter of the year, with the average price/net sqm in Bucharest going down to 1,400 EUR.

Regarding the average prices by area, the southern and western areas remain the cheapest (around 1,000 EUR/sqm), while in the Center-North area prices continue to exceed 2,000 EUR/sqm. Even though potential clients expect serious drops in prices due to the current situation, prices will likely remain constant or continue to decline slightly, at least until the end of the year.

Rents

The impact of the COVID-19 epidemic has been more obvious on rent values. Decreases of up to 10% in rents have been registered in March-May and the supply has risen significantly, due to tenants leaving Bucharest and returning to their hometowns/ country houses. The entry on the long-term rental market of owners of short-term rental properties is also a factor that will determine a further decrease in rent levels on the traditional market.

Residential rent levels vary from 250 EUR/month in areas like Militari and Berceni to over 350 EUR/month in central and northern areas for studios, from 300 EUR/month in West and South, to 500 EUR/month in semi central areas, to 750 EUR/month in northern Bucharest for a one bedroom apartment and from 500 EUR/month in West and South, to 900 EUR/month in the city centre, to over 1,600 EUR/month in areas like Primaverii/Herastrau for a two bedroom apartment.



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