



SPOTLIGHT

Q3 2020



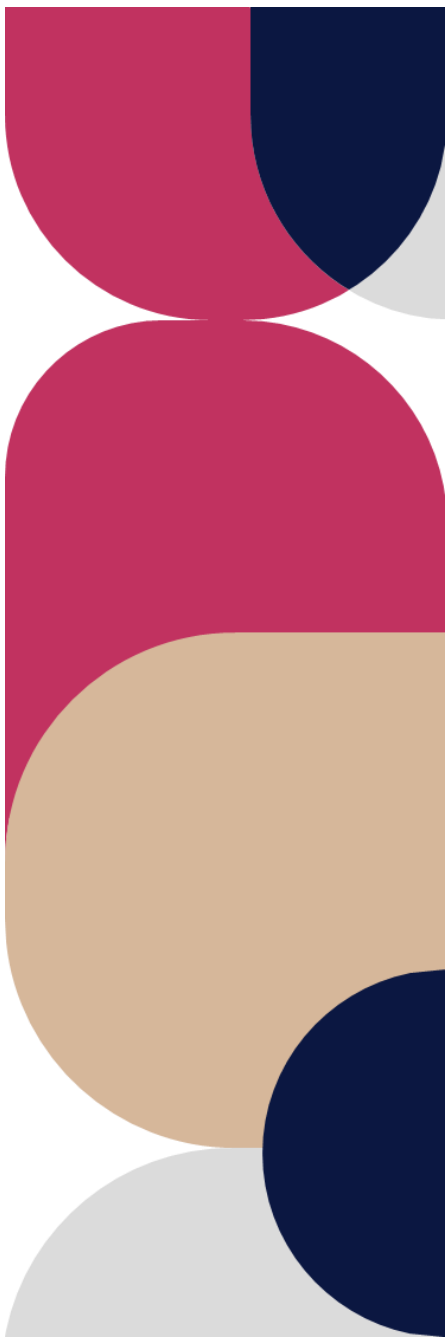
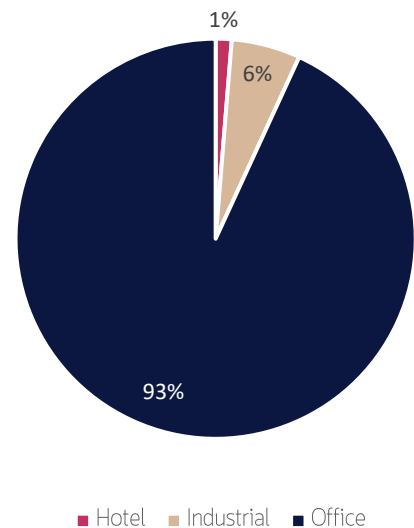
# Romanian real estate market

*With the end of the year approaching, the impact of the COVID-19 crisis on the global and local economies has become clearer. The most recent available data for Romania shows a 3.9% yoy decline in GDP but a steady inflation rate of 2.6% in H1 2020 and a drop in the unemployment rate to 3.5% in August. The European Commission's forecast of a 6% drop in the Romanian economy for 2020 may be affected negatively by the increasing number of infections and the possibility of a second lockdown.*

Despite of the unprecedented situation we are in and the strong blow it dealt to the economy, the Romanian investment market has performed better in the first three quarters of 2020 than in the whole 12 months of 2019. Although this is mainly due to the postponement of the largest transaction - the 307M € acquisition of NEPI's office portfolio by AFI Europe, initiated in late 2019 - the market seems to be very little affected by the crisis, at least for the remainder of the year. The total investment volume in the first nine months of 2020 stood at over 738M €, a 31% rise yoy. Investors have focused almost exclusively on office projects (93% in total investment volume) and have been active predominantly on the Bucharest market (85% in total investment volume).

Sector	Value (M€)	Share
Office	685.4	93%
Industrial	41	6%
Hotel	9.5	1%
Retail	2.5	0.3%
<b>TOTAL</b>	<b>738.4</b>	

Total investment by sector, 9m 2020



Project	Sector	Location	Seller	Buyer	Value (M€)
NEPI Office portfolio	Office	Bucharest, Timisoara	NEPI	AFI Europe	307
61.5% GTC shares	Office	Bucharest	Lone Star	Optimum Ventures PE	126
Floreasca Park	Office	Bucharest	GLL	Fosun/Resolution Property	100
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

*Top investment transactions 9m 2020  
Values are estimated*

### Prime yields

Prime yields in Romania have remained stable throughout 2020 and continue to be the highest in Europe. They are expected to remain relatively stable, at least for the remainder of the year.



**Office prime yield: 7%**



**Retail prime yield: 6.75%-7%**



**Industrial prime yield: 8%**

### Forecast

Although offices remain the preferred option for investors, the sector is going through drastic changes, with a lot of uncertainty surrounding the recovery to pre-pandemic levels. Given that while badly hit, the retail sector has seen a speedier recovery than expected, its capacity to bounce back might attract future investors. The COVID-19 crisis might also mark the turning point for the residential market, an asset class that has not yet been considered by investors in Romania.

# 738.4 M€

total investment volume, 9m 2020

### Stock & supply

With the delay of several projects due for delivery this year, the current stock stands at around 3.3 M sqm. 120,000 sqm of new office space have been delivered in Q1-Q3 2020, with over 40,000 sqm expected to be delivered by the end of the year.

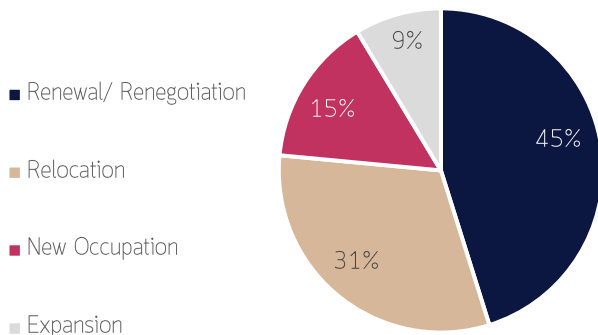
Project	GLA (sqm)	Area	Delivery
Ana Tower	33,000	Expozitiei	Q1
Globalworth Campus C	32,000	Pipera	Q1
H Victoriei 109	6,000	CBD	Q1
Mendeleev 5	4,500	Central	Q1
The Bridge III	21,200	Central-West	Q2
Zone 313	6,700	Floreasca-Barbu Vacarescu	Q2
Campus 6.3	17,581	Central-West	Q3

Office deliveries in Bucharest, 9m 2020

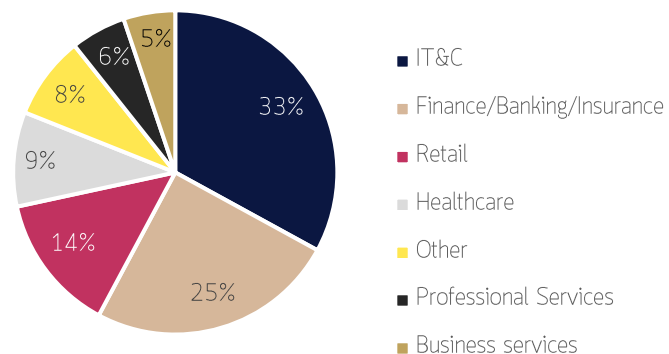
### Demand

A little over 160,000 sqm of office space were leased in Bucharest in the first nine months of 2020, a 40% fall in demand yoy. Furthermore, most of the take-up (45%) consists in renewals and renegotiations. This might be a sign that, while headline rents have remained stable, contracts are being heavily negotiated right now and the incentives offered by owners are far larger than before the COVID-19 crisis (longer rent-free periods, larger owner contributions to fit-out costs). Many companies, especially those operating in the IT&C sector, the main driver of demand for office space in Bucharest, are still adopting work from home and planning to do so at least until the end of the year, with some tenants planning a comeback later in 2021. Relocations still hold a large share of the market (30%) and pre-leases have maintained at 16%. IT&C and the financial sectors have remained the top occupiers, while the Center-West area still registers the highest demand.

Demand breakdown by operation type



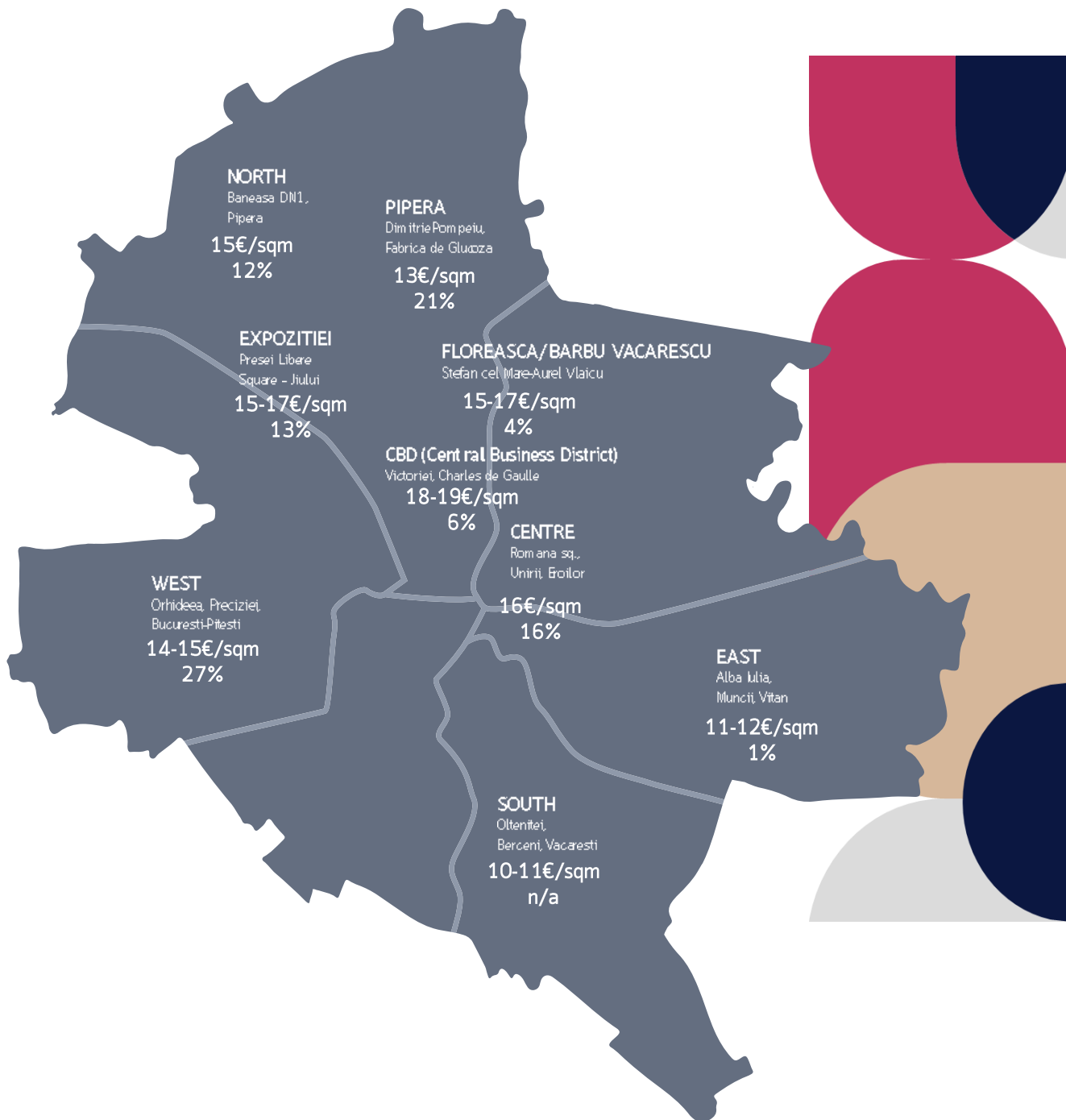
Demand breakdown by industry



Rent levels

Although asking rents have remained roughly the same, the market shows signs of a downward pressure on rents which will probably become more obvious in 2021.

The vacancy rate remains at 10%, the highest level registered in the last 3 years.



Map of Bucharest office areas  
Rent level

Take-up share, 9m 2020 (Total take-up=161,119 sqm)

### Stock & supply

Romania’s industrial stock currently stands at around 4.8 million sqm and planned deliveries for Q4 will likely take the stock up to 5 million sqm. Over 250,000 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.

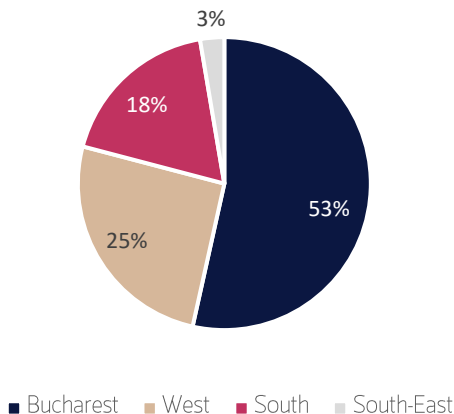
### Demand

The industrial leasing activity in Q1-Q3 2020 amounted to around 388,000 sqm, an 130,000 sqm rise compared to the same period of 2019, with an almost equal split between Bucharest and the rest of the country. The boost of e-commerce, the growth of strategic industries such as the production of medical equipment as well as the need for urban logistics have created a rise in demand. There is also a growing interest for smaller units from local companies.

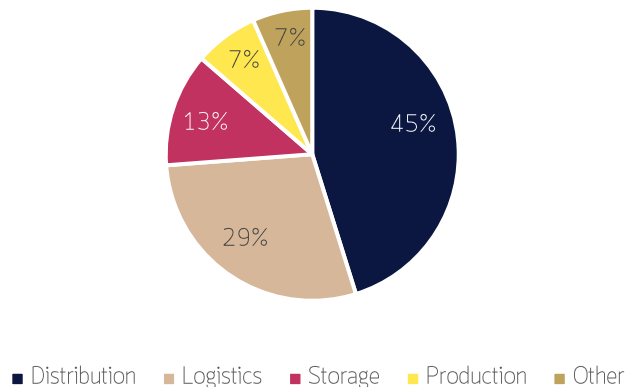
TENANT	SURFACE RENTED (sq m)	PROJECT	CITY
Profi	115,500	WDP	Craiova, Timisoara
Corteva Agriscience	22,550	Aluti	Bucharest
LPP	21,800	WDP Stefanestii de Jos	Bucharest
General Electric Power Services	16,000	Soseaua Berceni Property	Bucharest
SLS	15,500	P3	Bucharest

Top industrial leases, 9m 2020

Demand breakdown by location



Demand breakdown by activity



### 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 is expected 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 2.6% in August 2020) but a higher exchange rate of 4.8698 RON/EUR (September 30th 2020), this year has had a similar debut to the previous years on the residential market. However, the economy is expected to go through a dramatic downturn by the end of the year - the European Commission expects a 6% drop in the Romanian GDP for 2020, with a chance of a 4% raise in 2021 in case the medical crisis is held under control. As the global crisis caused by the COVID-19 pandemic began in March and the lockdown lasted until May, the market has been hit quite seriously in this period. Because of the fact that the residential sector is extremely sensitive to economic downturns, its 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. For the time being, developers show no signs of backing down and none of the currently started projects have been stopped. Furthermore, new projects are being announced and the land market witnesses a high interest from residential developers. Due to the uncertainty surrounding the office market, some office developers have decided to reconvert their projects into residential. Delays in deliveries are however expected due to the lockdown period.

Recent changes in the "First home" programme - renamed "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 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. 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, only in the largest projects, some 20,000 units are expected to be delivered in Bucharest and Ilfov,

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 8 months of 2020 a total of 26,407 residential building permits have been issued, an average of 3,301 permits/month, a slight decrease compared to 2019, when the monthly average was 3,542.

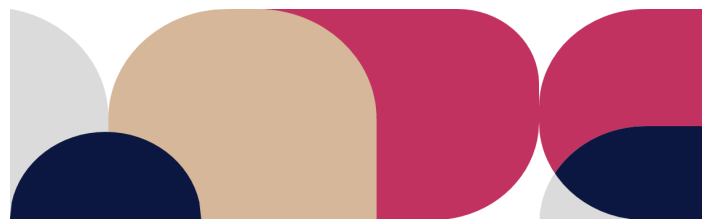
District	No. of projects
District 1	23
District 2	19
District 3	23
District 4	10
District 5	6
District 6	21
Ilfov	40
<b>TOTAL</b>	<b>142</b>

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

2,938

**Residential building permits in Bucharest-Ilfov**  
January-August 2020

**14% decrease compared to January-August 2019**

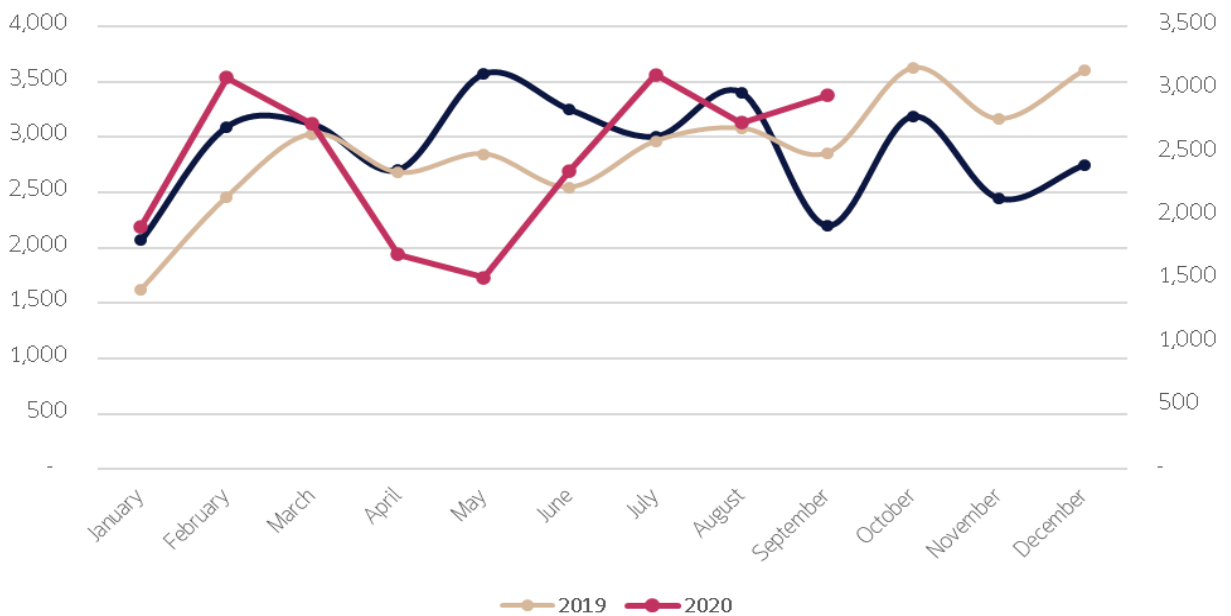


Demand

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 going through a slow rebound. Overall, the first 9 months of 2020 have registered an 8% drop in demand on the Bucharest residential market compared to the first three quarters of 2019, while at a national level the drop in demand was of 6% yoy. Given that in the previous year the largest number of transactions were closed in the period September to December, there is still a possibility that 2020 will close on a positive note.

### No. of individual transactions in Bucharest, Q1-Q3 2020

Month	2018	2019	y/y 19/18	2020	y/y 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%	3,118	5%
August	3,404	3,081	-9%	2,738	-13%
September	2,205	2,856	30%	2,955	3%
October	3,188	3,625	14%		
November	2,452	3,164	29%		
December	2,749	3,605	31%		
Jan-Sep	26,424	24,084	-9%	22,131	-8%
Monthly average	2,936	2,676		2,459	





## Prices

Similar to previous years, the average price for residential units has registered an overall 4% increase in the first 9 months of 2020 in Bucharest. 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. The last months have also witnessed an appreciation in the price of old dwellings, with an average price difference of around 60 EUR/sqm between old and newly built apartments, compared to the same period last year, when the difference was of over 110 EUR/sqm. This may be attributed to the fact that, given the previous experience of the 2008 crisis, clients might feel a lower confidence regarding the completion of new projects. On the other hand, the number of old units available for sale has risen due to the the current unprofitable rental market.

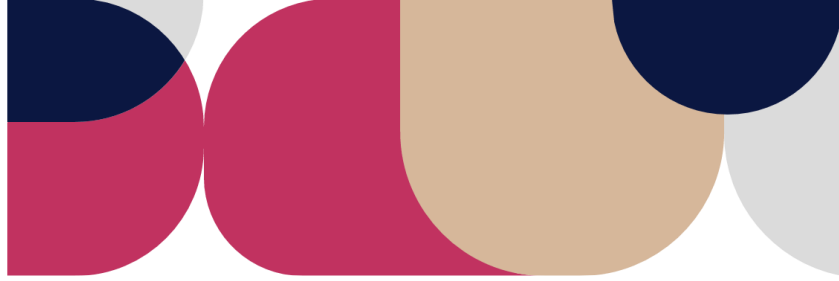
Regarding the average prices by area, the southern and western areas remain the cheapest (around 1,000 EUR/sqm), while in the Center-North area prices continue to exceed 2,000 EUR/sqm. Even though potential clients expect serious drops in prices due to the current situation, prices will likely remain 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 since March and the supply has gone up 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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## Please contact us for further information

### Research



**Cosmin Grecu, MRICS**  
Head of Valuation & Research  
0728.885.540  
[cosmin.grecu@crosspoint.com.ro](mailto:cosmin.grecu@crosspoint.com.ro)



**Ilinca Timofte**  
Research Analyst  
0747.021.992  
[ilina.timofte@crosspoint.com.ro](mailto:ilina.timofte@crosspoint.com.ro)

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