An International Associate of Savills

Romanian Real Estate Market

H1 2022

MACROECONOMIC CONTEXT

5.8%

GDP growth, H1

15.1%

Inflation rate, June

5.3%

Unemployment rate, June

801€

Net average wages, June

7.97%

ROBOR 3M, June

2.65%

IRCC, Q1

The fairly optimistic forecasts in the beginning of the year regarding the economic growth in Romania and the CEE have been suddenly affected by the Russia-Ukraine conflict and the staggering rise in inflation. The European Commission has issued a more tempered-down Spring Forecast in which Romania's GDP is expected to record a 2.6% growth by the end of the year (-1.6% from their initial estimation in February) and a 3.6% expansion in 2023 (0.9% lower than the growth projected in their Winter Forecast). Inflation projections from the EC, of 8.9% for 2022 and 5.1% for 2023, while still high, are however milder than the ones from the National Bank of Romania, which expects a 12.7% rise in inflation for the end of this year and a 6.7% one for year end 2023.
With Central and Eastern Europe being the area most affected by the ongoing war, similar inflation rates were recorded in June all throughout the CEE (12.6% in Hungary, 16.6% in the Czech Republic, 14.2% in Poland, 14.8% in Bulgaria and 15.1% in Romania). Yet, the forecasts regarding the economic growth of other CEE countries have not been revised downward, the main reason for Romania's decline in the GDP growth estimate being the set of social policies recently implemented by the Government.

INVESTMENT MARKET

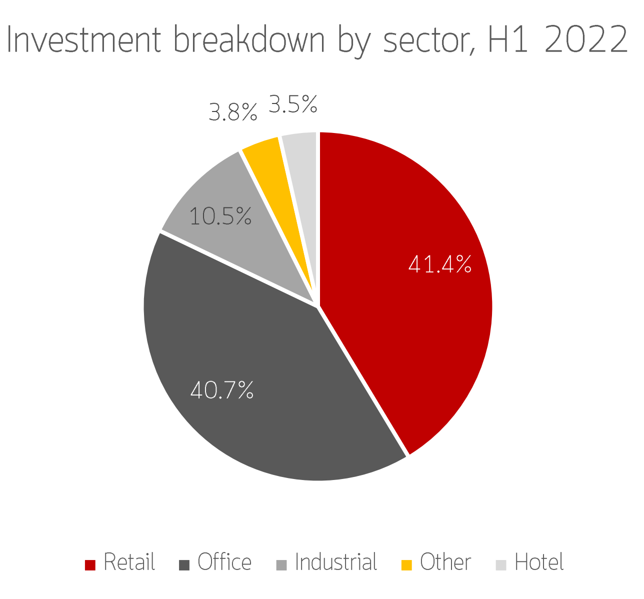
Despite worries regarding the increasing probability of an economic downturn, aggravated by the Russia-Ukraine conflict, the socio-economic changes did not seem to deter investors in 2022. Romania has recorded a 518M EUR investment volume in the first half of the year, not only a 44% yoy advance but also a record for the post 2008 financial crisis period, with investment volumes of under 450M EUR recorded in the first half of the year for the last 12 years.

Although the retail and office segments had an almost equal share in total investments, office transactions included a variety of products of different sizes, while the retail segment recorded one single large transaction, the acquisition of PKM Real Estate's retail portfolio by MAS Real Estate, estimated at 197.3 M EUR.

Half of the recorded investment volume was attracted by the capital city, with Cluj-Napoca as the second investor destination.

Cross-border transactions have continued to dominate the investment market, with EU contries making up for 49% of the invested capital. The share of domestic investments in total activity stood at about 8% of the total investment volume in H1 2022, local players focusing only on small-sized projects.

Following the trend observed in the previous year, the public sector was also present on the investment market in the first half of this year, with the acquisition of Onix hotel in Cluj-Napoca by Babes-Bolyai University and Carol Davila University's purchase of an office building located in central Bucharest.



SECTOR	PROPERTY NAME	AREA (sqm)	LOCATION	SALE PRICE (M€)**	VENDOR	PURCHASER
Retail	Retail portfolio (6 shopping centers)*	132,000	Targoviste, Balotesti, Ploiesti, Zalau, Sf. Gheorghe, Barlad	197.3	PKM Developments	MAS Real Estate
Office	Expo Business Park	40,600	Bucharest	115	Portland Trust	S Immo
Industrial	Metav	76,000	Bucharest	42	Gabriel Popoviciu	Alinso
Office	Record Park Offices	15,000	Cluj-Napoca	35	Speedwell/Baltissimo	AYA Properties Fund
Office	One Victoriei Center	11,700	Bucharest	24	One United Properties	Indotek
Retail	Vitantis Shopping Center	38,000	Bucharest	17	Revetas Capital	Omer Susli
Office	Baneasa Business Center	9,700	Bucharest	15	Adval Asset Management	Indotek

Top investment transactions, H1 2022
**Deal signed, closing due by August*
***Values are estimated*

While office and retail prime yields have remained constant, at 6.5% and 7% respectively, the increasingly high demand for logistics space in the past two years has put a downward pressure on industrial yields, currently at 7.5%.

The outlook on the Romanian investment market for the remainder of the year is highly optimistic. Ongoing transactions, coupled with the CA Immo's intention of exiting the Romanian market and the subsequent sale of their 400+ M EUR portfolio, are set to take the total investment volume for 2022 at over 1B EUR.

Sector	Value (M€)
Retail	214
Office	211
Industrial	55
Other	20
Hotel	18

518 M EUR

TOTAL INVESTMENT VOLUME

6.5%
office prime yield

7%
retail prime yield

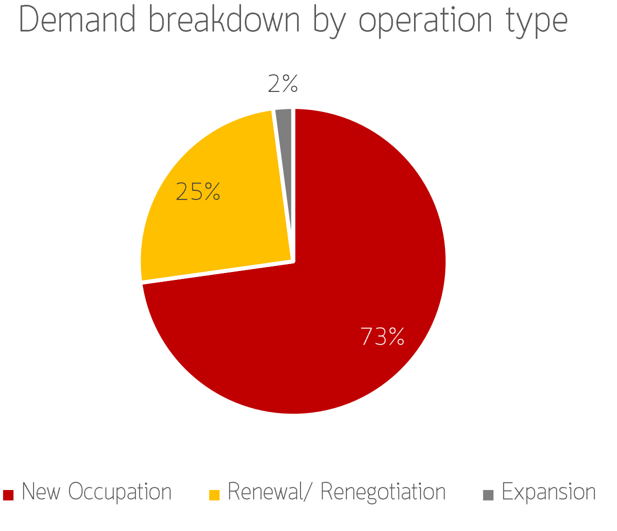
7.5%
industrial prime yield

OFFICE MARKET

Demand

Following a year which marked a quick rebound of the office market, the first half of 2022 is pointing towards a further evolution towards pre-pandemic levels demand-wise, with a total leasing activity of nearly 151,000 sqm, a 6% advance compared to H1 2021, but still 22% lower than the same period of 2019.

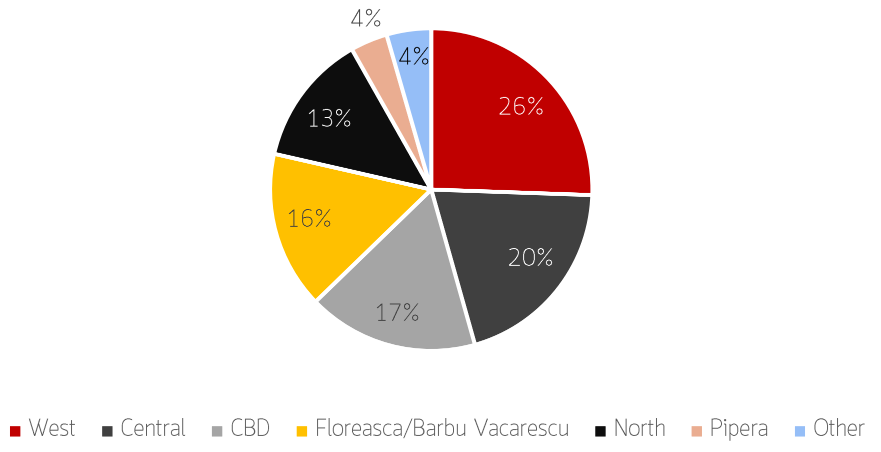
Employers' efforts to increase office attendance following two years of pandemic-related restrictions have reflected in the increased demand for the best office spaces. Over 70% of the total leased office space were new demands, with relocations making up for 18% of the leasing activity in Bucharest. However, hybrid work has led to a decreased number of expansions. The average deal size is also on a declining trend compared to pre-pandemic years, down to 1,070 sqm from ~1,500 sqm.



The search for new, high-quality office space has further shifted the demand towards well-serviced areas: 2022 is shaping up to be the second year in which tenant focus is transfered towards the Center-West area of Bucharest (26%), leaving behind poorly accessible areas such as Pipera North, despite the low rent levels offered by the latter.

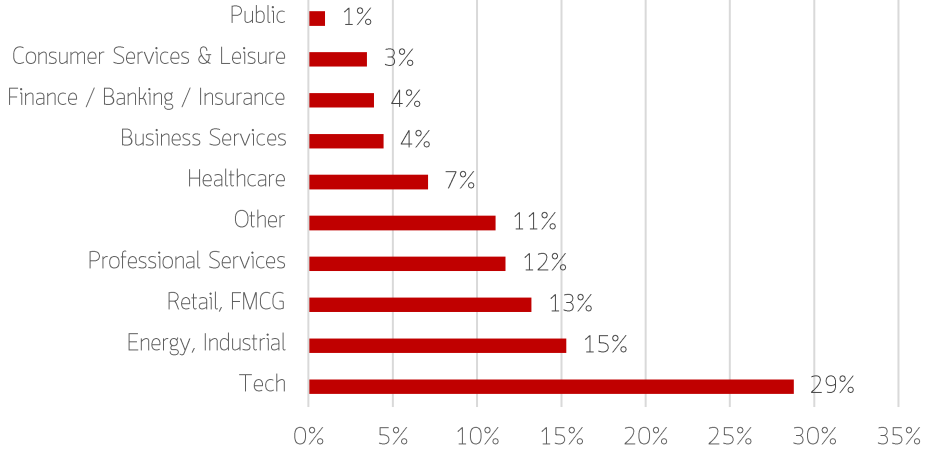
An almost equal share in demand was recorded in the city centre, CBD and Floreasca/Barbu Vacarescu office hubs. As the Tech sector continues to be the largest occupier of office space in Bucharest and with Center-West becoming the city's tech hub, the area is likely to maintain its first place in the top of the most desired office destinations in the upcoming years, especially since most of the deliveries this year as well as a fair amount of the pipeline for 2023-2024 will ensure a sizeable stock of high-quality office buildings in the area.

Demand breakdown by location

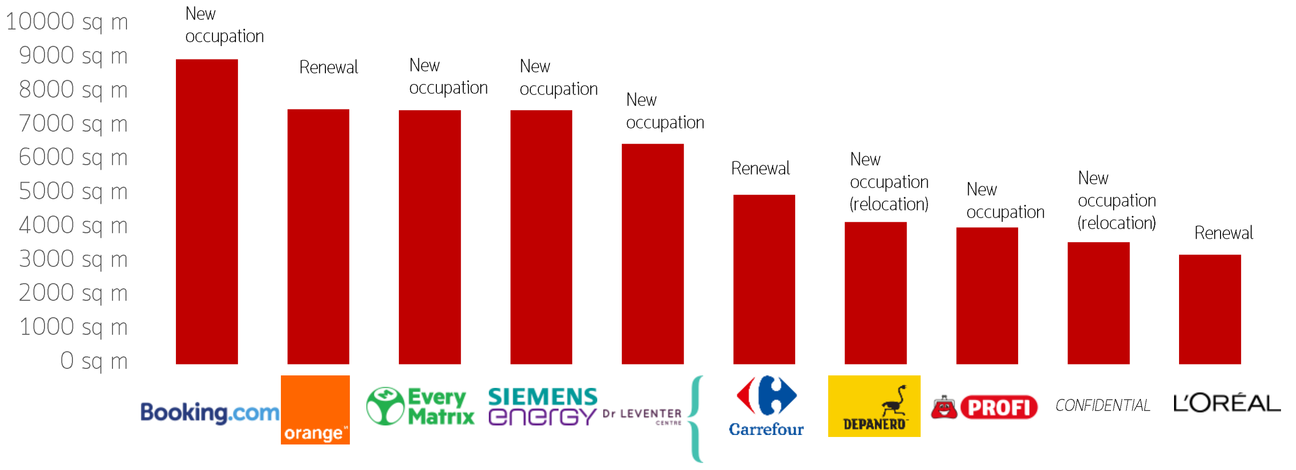


Similar to previous years, most of the demand for office space in H1 2022 came from the Tech sector (29% in total leasing activity), followed by companies in the Energy&Industrial sectors (15%) and Retail&FMCG (13%). The shockwave of the COVID-19 pandemic is still rippling through the office market, with the private healthcare sector making up for 7% of the total demand for office space, although the share is mainly given by one single large transaction, the full lease of an office building in Immofinanz' Victoria Business Park by the future Leventer Hospital.

Demand breakdown by industry



Top office leases



Supply

96,577 sqm of new office space in 5 projects were delivered in Bucharest in H1 2022. Over 41,000 sqm are expected to be added to the 3.68M sqm stock by the end of the year. Given the drop in demand compared to pre-pandemic years, together with the increase in construction costs, developers are taking a more cautious approach, with some built-to-suit projects announced for the next two years and some postponements in deliveries for 2023-2024.

Project	GLA (sqm)	Area
Tandem	19,600	Central
@Expo Phase 1	21,000	Expozitiei
AFI Tech Park 2	24,500	Central-West
Sema Oslo	10,177	Central-West
Sema London	21,300	Central-West
H Tudor Arghezi 21	6,975	Central
One Cotroceni Park Phase 2	34,450	Central-West
TOTAL	**138,002**	

2022 office deliveries

Vacancy

The office vacancy rate remains at one of the highest levels post the 2008 financial crisis, at 11%. The limited pipeline for the next two years, along with the positive sentiment on the leasing market, is expected to lead to a drop in the vacancy rate by mid-year 2023.

Main office areas of Bucharest
Rent levels

Rent levels

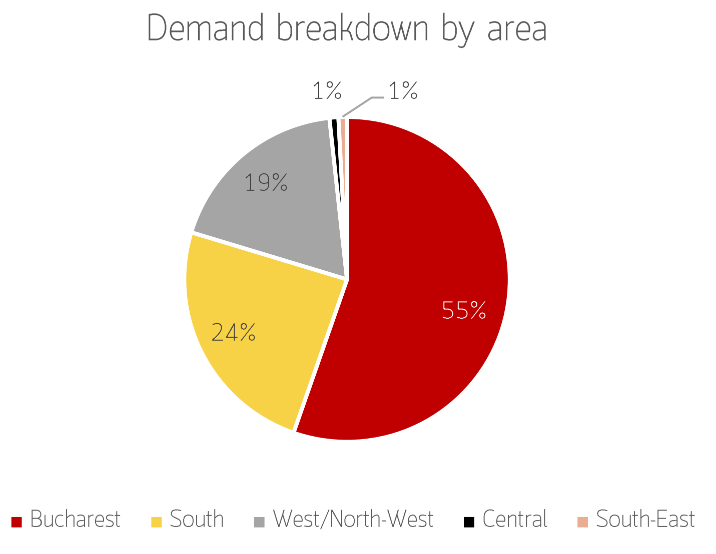
While rents have remained unchanged from the previous years, the surging inflation has put pressure on operational costs which has led to a rise of service charges by 15-20%. Further inflationary pressure might affect base rents in the following period.

INDUSTRIAL MARKET

Demand

Over 400,000 sqm of industrial space were leased in the first half of 2022, a 51% yoy increase in demand. Furthermore, the total leasing volume more than doubled compared to pre-pandemic levels.

Bucharest and surrounding areas have attracted most of the demand (55%), followed by the South (24%) and North-West (19%) areas. Logistics and storage continue to hold the largest share in activity, at over 60%, with production facilities taking up less than 10%.



TENANT	SURFACE RENTED (sq m)	PROJECT	CITY
Confidential	87,628	Confidential	Ploiesti
Modivo/Epantofi	37,000	WDP Stefanestii De Jos	BUCHAREST
Confidential	17,538	CTPark Bucharest West	Bucharest
Confidential	16,000	Eli Park 3	Buftea
Modivo/Epantofi	16,000	WDP Stefanestii De Jos	BUCHAREST
Confidential	12,256	CTPark Bucharest West	Bucharest
Leoni	11,400	Aliro Biofunghi	Beius
Confidential	10,451	CTPark Turda	Turda
Profi	10,400	CTPark Bucharest West	Bucharest
Confidential	10,251	CTPark Chitila	Bucharest
SLS	10,000	P3 Bucharest A1	Bucharest

Top industrial leases, H1 2022

Supply

The total industrial stock in Romania reached almost 6M sqm at the end of June 2022, of which over 200,000 sqm were added in 2022.

Most of the newly delivered industrial space is located in Bucharest, taking the capital city's stock to over 2.9 million sqm, with the West and North-West areas of the country accounting for 40% of the total stock.

270,000 sqm are expected for delivery in the second half of the year, with another 500,000 sqm to be added to the modern industrial stock by the end of 2023.

Rents

Average prime industrial rents have remained relatively unchanged from last year, with rents in Bucharest recording a slight increase from 3.8 to 3.9 EUR/sqm/month in Bucharest and a constant level of 3.5 EUR/sqm/month in the remaining major industrial areas.

The spike in energy and construction material prices will most likely affect industrial rents in the upcoming period, putting a further downward pressure on yields.

VACANCY

Industrial vacancy rates have dropped compared to those registered in previous years. Nationwide, the vacancy rate is around 4.5%, while in Bucharest the vacancy rate reached 5.5% at the end of June 2022.

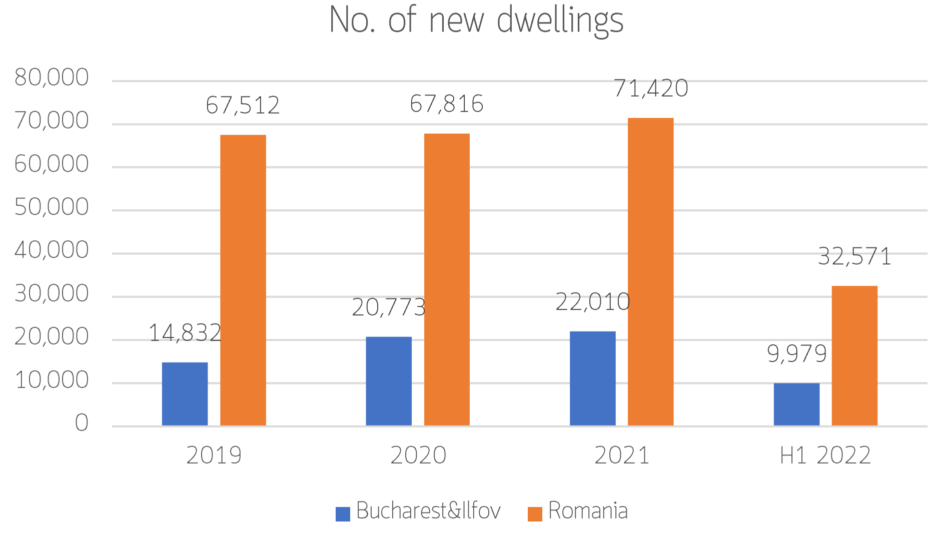
RESIDENTIAL MARKET

After a successful 2021, the beginning of 2022 came with high hopes for the residential market. The long-awaited extension of the 5% VAT rate for dwellings of up to 700,000 RON (approximately 140,000 EUR) was finally passed into law. However, this positive change alone was unable to make up for the surging prices. The growing inflation rate, which reached 15.1% at the end of June, caused an increase in interest rates, of 7.97% for 3M ROBOR and 2.65% for IRCC. Furthermore, the rise in the costs of construction materials continued, with supply chains further affected by the Russia-Ukraine conflict. The war also put additional pressure on consumer behavior, similar (although not as strong) to the first months of the COVID-19 pandemic, when potential buyers adopted a wait-and-see approach.

Furthermore, the postponements in urban zoning plans in Bucharest have caused uncertainty among developers and will lead to delays in deliveries in the upcoming years.

Supply

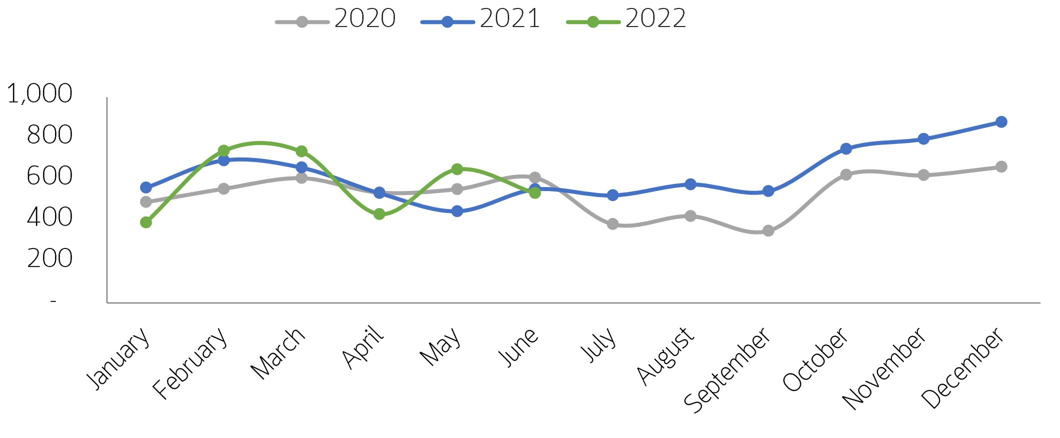
32,571 new dwellings were delivered nationwide in the first quarter of this year, with 9,979 new units delivered in Bucharest and Ilfov, a 15% yoy increase.
Approximately 90 residential projects are due for delivery by the end of the year, totaling over 20,000 units. Most of the projects are located in Districts 1 and 6, while in Ilfov, Voluntari expects most of the deliveries. However, given the aforementioned issues on the capital city's residential market, reflected by the low number of deliveries in Q2 compared to Q1, it is highly probable that a fair amount of deliveries will be postponed for 2023.



Demand

Fortunately, the uncertainty regarding the geopolitical situation has faded away rather quickly and demand has kept a healthy level throughout the first half of 2022. An increase in demand compared to the previous year has however been noticed mainly on the Bucharest market, where sales have recorded a 19% yoy advance in H1 2022 compared to H1 2021. On a national level, the advance was modest, at 3.25%, with larger regional markets such as Timis and Brasov recording an increase in the number of transactions of 7.72% and 2.73% respectively, while Cluj recorded a notable 11.34% drop in demand.

Month	2020	2021	2022	y/y 21/22
January	1,920	2,731	2,885	6%
February	3,097	3,543	4,350	23%
March	2,729	4,517	5,712	26%
April	1,696	3,960	4,653	18%
May	1,517	3,864	5,053	31%
June	2,361	3,969	4,218	6%
July	3,118	4,693		
August	2,738	5,089		
September	2,955	5,138		
October	5,307	4,559		
November	4,343	4,149		
December	5,316	5,792		
Total	37,097	52,004	26,871	19%
monthly average	3,091	4,201	4,479	



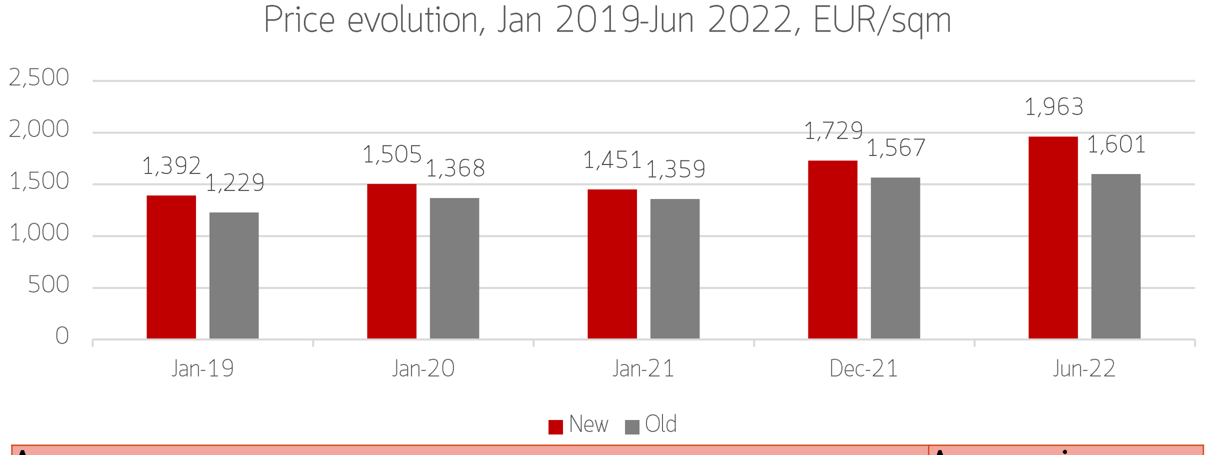
No. of individual transactions in Bucharest, 2020-H1 2022
Source: ANCPI

Prices

While inflationary pressure begun to show its effects on the residential market starting with the second half of last year, prices have started to have a more obvious advance in 2022. In just six months, the average price/sqm for new units has risen by 234 EUR, a growth rate higher than the one recorded between January 2020 and December 2021.

Prices for old units have remained relatively stable compared to December 2021. Although the current price level for new units seems to be sustainable, with demand still high, further increases in prices might determine a clear affordability threshold. As the most expensive city in Romania, with similar wage levels to Bucharest, the drop in demand in Cluj-Napoca could be the canary in the coal mine: at an average price for new units of over 2,600 EUR/sqm, client enthusiasm seems to have faded compared to previous years.

This concern is expressed by both clients and developers in Bucharest, with rising costs causing developers to think twice about starting a new project for fear that future profits might be strongly affected.



Area	Average price
Berceni	1,300
Militari	1,200
Unirii/Timpuri Noi	2,000
Floreasca, Dorobanti	4,500
Stefan cel Mare/Tei	2,200
Cotroceni	2,250
13 Septembrie	2,000
Central	3,100
Colentina, Baicului	1,500
Dristor	1,700
Theodor Pallady	1,250
Drumul Taberei	1,300
Politehnica/Grozavesti	1,600
Baneasa	2,000
Pipera	2,300
Bucurestii Noi	1,850
Chitila	1,600

Average price by area, H1 2022
Source: imobiliare.ro

Images source: unsplash.com ©Mikey Harris, ©Madalin Cosmin

Please contact us for further information

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