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Romanian Real Estate Market H1 2023

Table of contents

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MACROECONOMIC CONTEXT

GDP growth

1.7%

Inflation rate

10.3%

ROBOR 3m
6.5%

IRCC Q1
5.94%

Unemployment rate
5.4%

Net average salary
918 EUR

Go back

MACROECONOMIC CONTEXT

1.7%
GDP growth, H1 2023

During the initial six months of 2023, the GDP expanded by 1.7%, aligning with forecasts from both domestic and European sources. While the European Commission's Spring Forecast anticipated a 3.2% growth rate by year-end, The National Bank of Romania's projections are more restrained, foreseeing an annual GDP growth of below 2% for 2023. Despite this modest trajectory in comparison to previous years, Romania's economic performance is still anticipated to be among the strongest in the EU for 2023. This is particularly noteworthy as, during the second quarter, three EU member states (Hungary, Estonia, The Netherlands) have slipped into recession.

Experiencing a modest decrease from December 2022, the inflation rate is projected to sustain its ongoing 10.3% expansion by year-end, according to assessments by the Romanian National Bank. Forecasts at the EU level exhibit a somewhat brighter outlook, with the EC's spring forecast indicating a 9.3% annual inflation rate for Romania in 2023. Nonetheless, both Romania and its counterparts in Central and Eastern Europe are documenting the highest inflation rates across Europe, mirroring the figures from the preceding year.

10.3%
Inflation rate, June 2023

6.5%
ROBOR 3m
5.94%
IRCC Q1

Due to the slow decline in the inflation rate, interest rates remained at a high level and the outlook for the second half of the year indicates a continuation of this level for both ROBOR and IRCC.

The unemployment rate remained relatively steady since Q4 2022, at 5.4%, under the EU average of 5.9%. However, a concerning development relates to the escalation of the youth unemployment rate in Romania. Based on the most recent data from Eurostat, Romania ranks fifth among EU countries with the highest unemployment rate among individuals under the age of 25, standing at 23%. Moreover, the employment rate among recent graduates (holding a bachelor’s degree or higher) in Romania ranked as the third lowest within the EU, resting at 70%.

5.4%
Unemployment rate

918 EUR
Net average salary

The sluggish increase in average wages in Romania failed to offset the inflationary trends during the initial six months of the year. Legislative modifications tied to the upcoming rise in the minimum wage during the latter half of the year are poised to provide assistance to over 30% of the workforce in Romania.

+ 15.3%

Construction output
June 2023, m-o-m

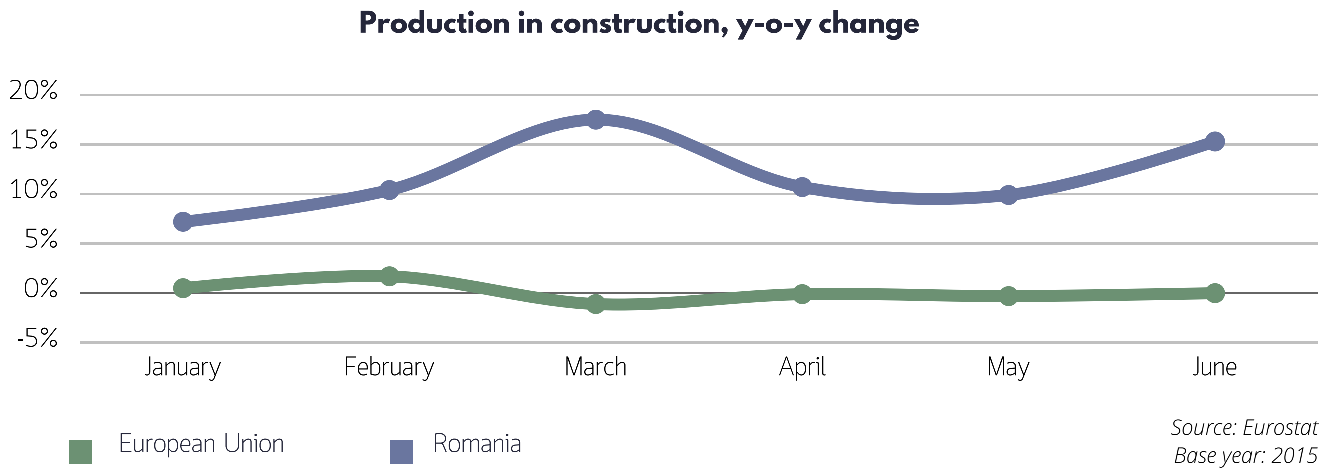
94.8%

Home ownership rate
2022

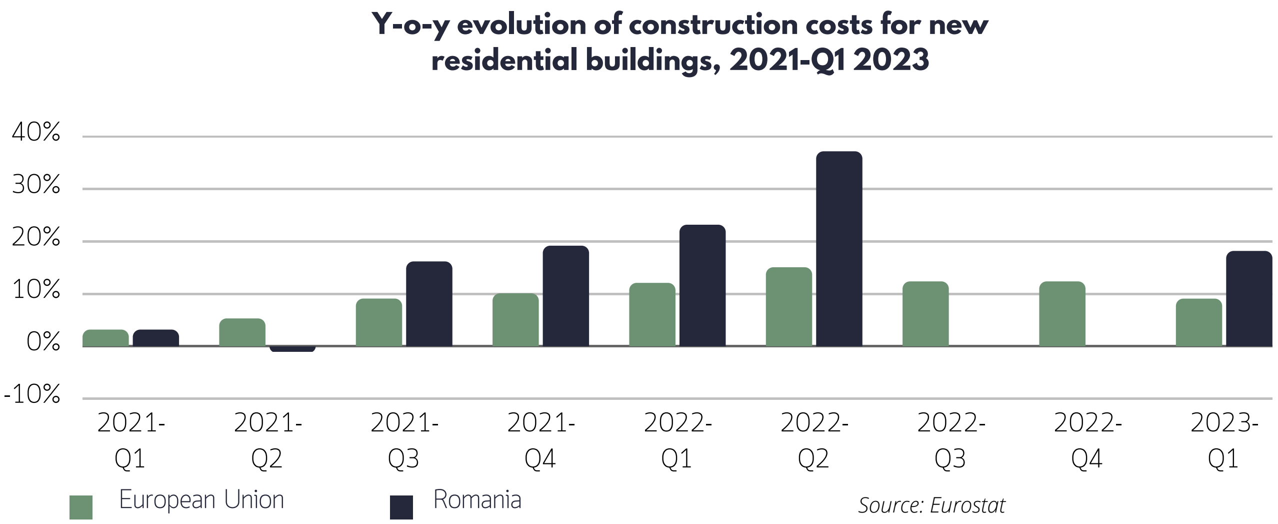
146.28
Housing Index
Q1 2023

17,140
Building permits
H1 2023,
▼ 25% y-o-y

15,329
New dwellings
Q1 2023,
▼ 4% y-o-y



Source: Eurostat
Base year: 2015



Source: Eurostat
Romania data not available for Q3 & Q4 2022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ALL QUIET ON THE INVESTMENT FRONT

Total investment volume
€180M
▼65% y-o-y

Total cross-border investment
€133.2M

Largest transaction value
€65M

Average deal value
€15M
▼ 60% y-o-y

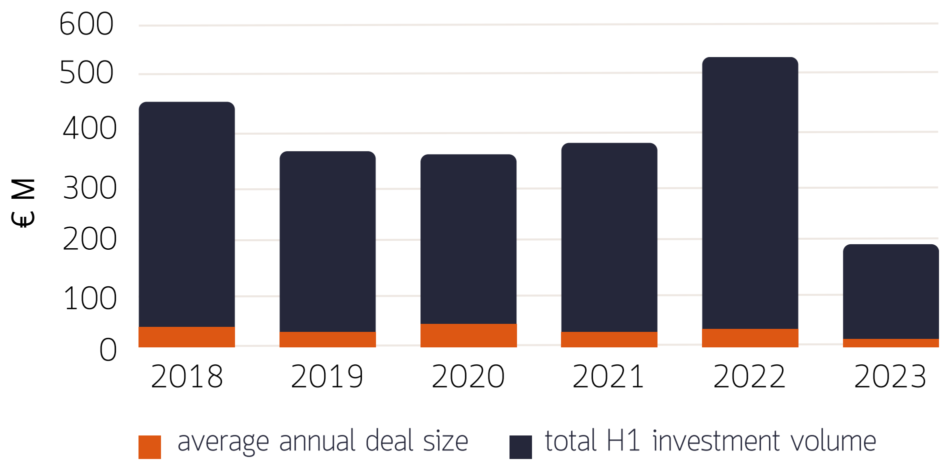
Go back

Following its most successful year in history, the Romanian investment market experienced a sharp fall in the first half of 2023. While signs of a significant slowdown in investor activity were obvious in Western Europe throughout 2022, the CEE markets' reaction to the economic pressure was delayed but the shockwave finally hit in 2023. Substantial decreases in investment volumes were recorded in Poland (-72%), Hungary (-64%) and the Czech Republic (-43%). In H1 2023, Romania witnessed a 65% y-o-y drop in investments, to €180 M.

The rising demand for ESG compliant assets with green certifications is creating a divergent office market

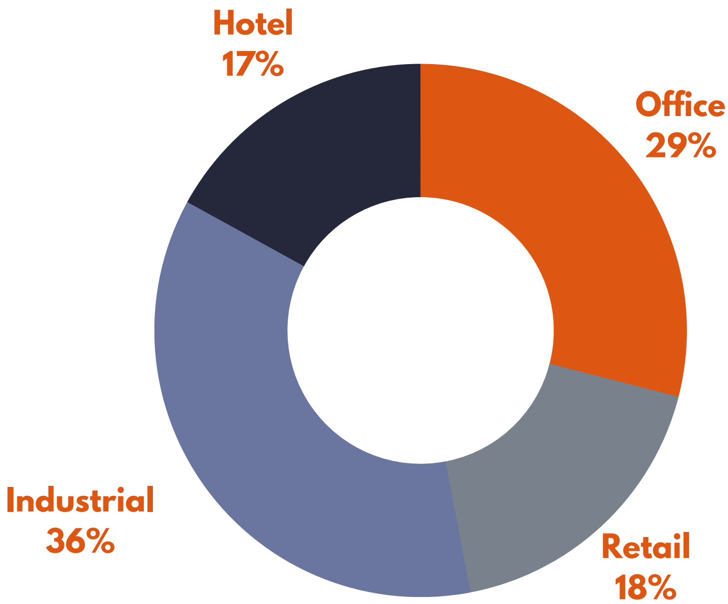
The global transition towards electric vehicles will create the need for battery gigafactories

Total H1 investment volumes and average annual deal size, 2018-H1 2023



After a promising first quarter, investor activity stalled, with the second quarter recording only five small-sized transactions, of under € 15 M each. With only a handful of large transactions pending for the remainder of the year, the Romanian investment market seems to have caved under the pressure of the various factors affecting it since 2022: high inflation rates, increase in interest rates and low availability of financing, the Russia-Ukraine conflict and the shift towards hybrid work.

Investment breakdown by market sector, H1 2023



The resilience of the retail sector in Romania is drawing attention from new players

The latter may be the reason why the industrial sector has overtaken the office segment as a share of total investments in the first six months of this year. The challenges that the office market is going through will certainly be reflected in the reorientation of investors towards other asset classes.

However, given the limited availability of industrial products and the structure of the industrial market in Romania, where a relatively small number of owners hold an overwhelming majority of the total stock, it is unlikely that the volume of industrial transactions will be significantly larger than the office transaction volume at the end of the year. In the medium to long term, investor interest will shift towards alternative assets such as hotels or data centers, but until products in these segments emerge, the investment market will go though a period of stagnation.

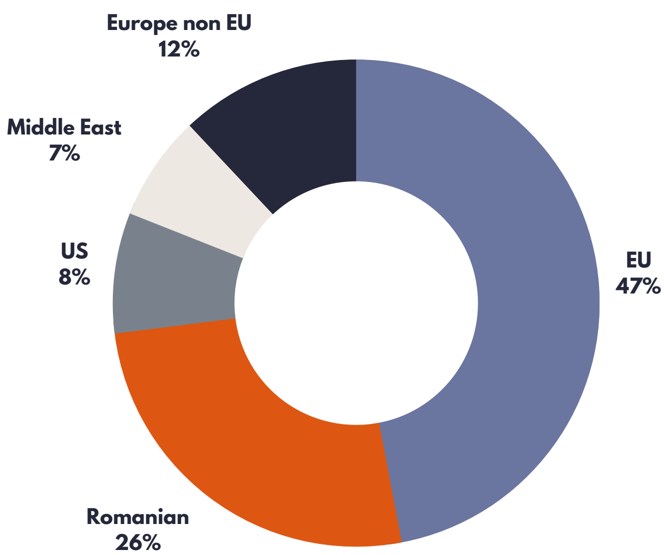
SECTOR	PROPERTY NAME	SIZE	LOCATION	VALUE (€ M)	VENDOR	BUYER
Industrial	FM Logistic portfolio	98,000	Bucharest, Pitesti, Timisoara	65	FM Logistic	CTP
Office	ONE Herastrau Office 66% shares	8,074	Bucharest	21	One United Properties	Private
Office	Olympia Tower	9,555	Bucharest	15	Bluehouse Capital	Yellow Tree
Retail	50% of Family Market retail chain	12,500	Iasi	14	Iulius Holding	Private
Hotel	Rex Mamaia	102 rooms	Constanta	13.2	Private	Hagag Development Europe

Top investment transactions, H1 2023
Values are estimated

Bucharest remained the first investor destination, with a 40% share in total investments, followed by Timisoara (18%), Iasi (13%) and Constanta (12%).

Half of the transactions in H1 2023 involved domestic buyers. However, they focused on small assets, with values under €15 M. An increased level of cautiousness towards Romania from international institutional investors has been observed both in 2022 and H1 2023, likely a consequence of the Russia-Ukraine war and Romania's proximity to the conflict zone. The majority of cross-border transactions involved investors familiar with the Romanian market, while new entrants were small to medium-sized players who made single-asset acquisitions. Still, the conflict in the region is only one of the many factors that have negatively influenced the real estate investment market, given that globally, the level of cross-border transactions fell by 48% y-o-y in H1 2023.

Investment breakdown by purchaser source of capital, H1 2023



While no prime transactions were recorded in H1 2023 several factors have driven capitalization rates upwards, with slim chances of stabilizing anytime this year:

Factor	Office	Industrial	Retail
Risk profile	Rising, investors require higher risk premiums	Limited rise mostly due to instability in the CEE region	Low, because of the sector's rapid post-pandemic recovery. Online retail continues to gain ground
Rents	Stable. Further price increases would put some downward pressure on yields but are highly unlikely in the current climate	Rising, balancing the inflation	Slightly rising
Supply	Limited, constricted by local factors as well as low demand	Stable, expected to reach previous levels	A significant number of new deliveries after a period of stagnation
Demand	Low, with limited growth perspectives	Stable	A series of new entries in strategic locations, expansion of existing brands
Financing	Rising interest rates creating concerns over maturing debt	Rising interest rates creating concerns over maturing debt	Rising interest rates creating concerns over maturing debt

Prime Office Yield
7 - 7.25%

Prime Industrial Yield
7.75%

Prime Retail Yield
7.25%

Photo credit: Madalin on Unsplash

THE GLOOM STILL LINGERS

Total office stock	Total leasing activity	Net take-up	Average deal size
3.77 M sqm	169,581 sqm	86,982 sqm	1,379 sqm
	▲ 12% y-o-y	▼ 22% y-o-y	▲ 29% y-o-y

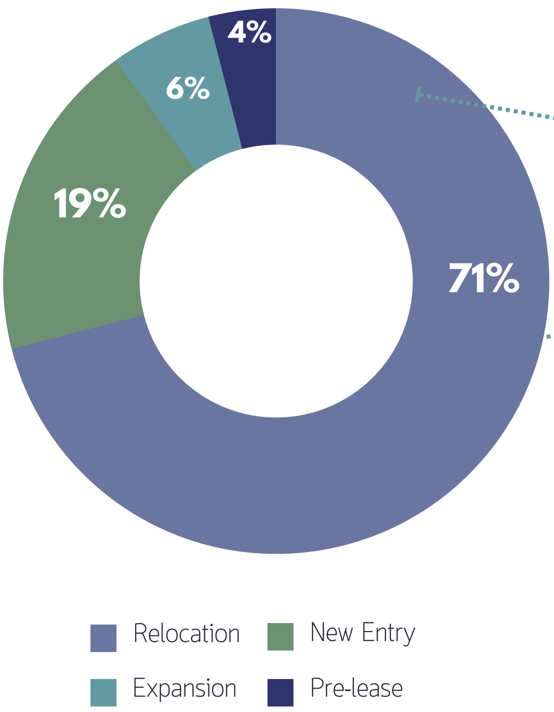
Go back

From mass adoption of hybrid work to operational cost increases due to high inflation, the pressure on the office sector does not show any signs of tempering down anytime soon. Fulltime workplace attendance has dropped below 50% in the first half of 2023 while hybrid work has gained more ground than ever. Flexible office hours and spaces have made their way even in the strictest multinational companies, occupiers of some of the largest office spaces. The divergence between the best assets and underperforming office projects has been widening in the first months of 2023 and continues to have a dramatic effect.

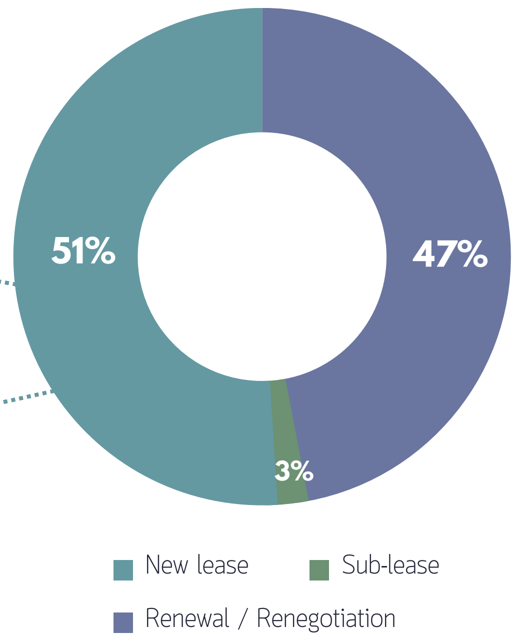
Most of the larger-than-average relocations came with space contractions

After a first quarter that indicated a decline in demand for office space, tenant interest appeared to have picked up pace in Q2. The total leasing activity on the office market reached over 169,000 sqm in the first six months of this year, a 12% advance compared to the same period last year. However, the proportion between renewals/renegotiations/subleases and new leases was almost equal, taking the net take-up some 22% below the H1 2022 level.

New leases
by transaction type



Demand structure
by contract type



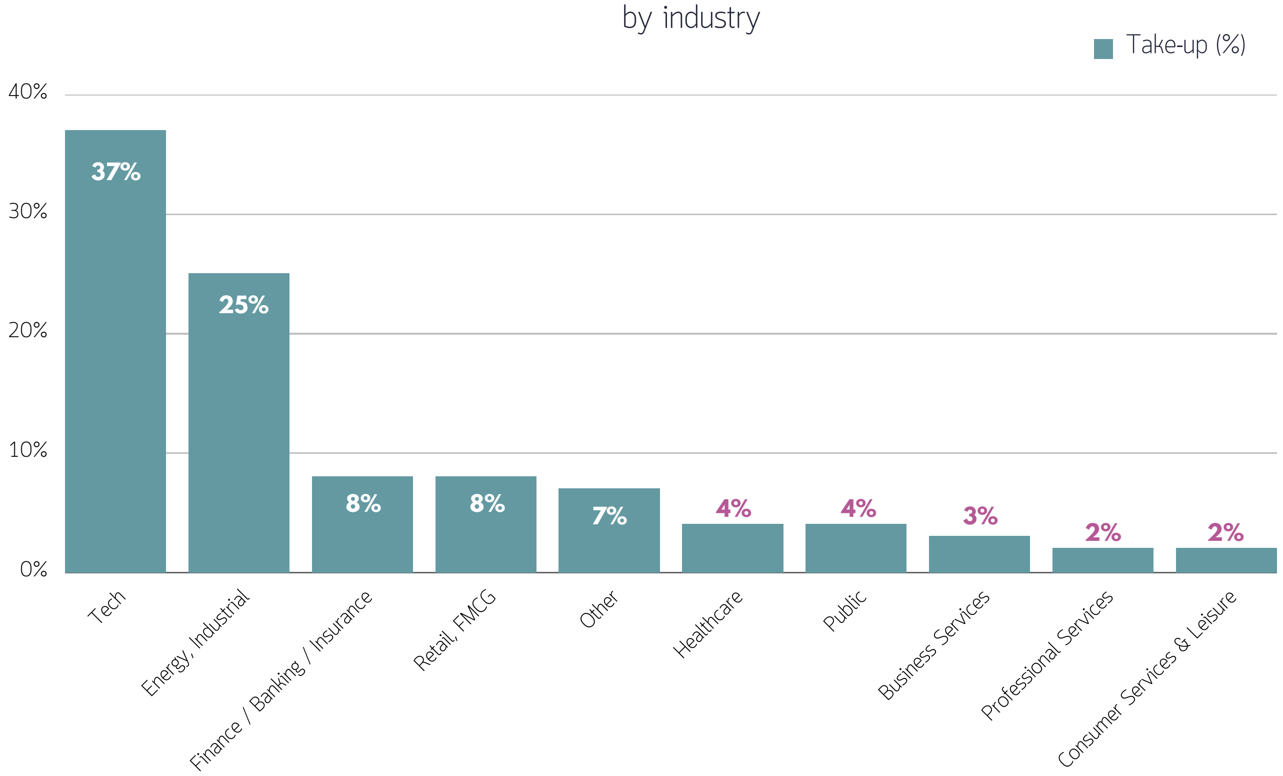
The tide of tech layoffs is still rising, with AI rapidly becoming the biggest threat to employees and especially tech professionals. Earlier this year, IBM announced it will replace 7,800 jobs with AI and estimates that within five years, over 30% of non-customer-facing roles will be fully automated. According to layoffs.fyi, in the first half of 2023 alone some 225,000 tech employees were laid off globally, including 40,000 in Europe.

While Romania also experienced staff reductions in the tech sector, the number of affected employees was merely a few hundred, significantly lower than the scale observed in America, Asia or Western Europe. The fact that in Bucharest the majority of demand (37%) continued to originate from the tech sector serves as evidence of the moderate impact of this phenomenon on the Romanian market.

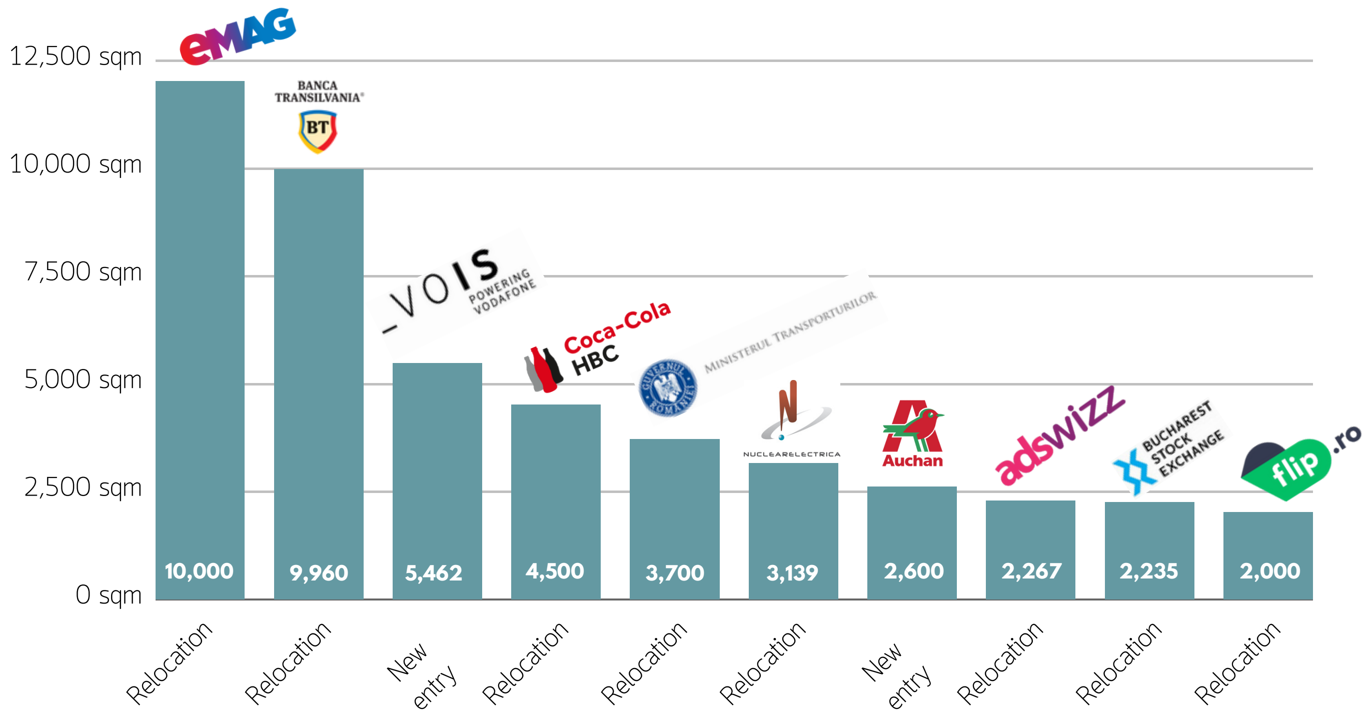
As inflation is believed to have reached its peak in 2022 and is expected to go further down by the end of the year, a turning point for the office sector might come no earlier than mid-year 2024.

Demand structure

by industry



Top H1 2023 new leases



In terms of delivery of new office buildings, 3 out of the 5 new projects announced for this year were delivered in the first semester: phases II of One Cotroceni Park and @Expo and the Muse office building with a total leasable area of 69,950 sqm. Thus, Bucharest's total office stock reached 3.77 million sqm at the end of June this year.

The vacancy rate remains high, close to 12%, but supply has quickly adapted to the diminishing demand, with a limited pipeline for the next 18 months. Consequently, should tenant interest remain constant in the near future, the vacancy rate is expected to drop by the second half of next year.

The decline in both unemployment and job vacancy rates all throughout Europe correlated with record low job vacancy rates should lead to rising office occupancy levels, even in the current climate.

Demand for office space in H1 2023 was concentrated in the metro-serviced northern part of the city, with Pipera and Floreasca/Barbu Văcărescu areas accounting for 53% of the total rental volume, followed by the city centre (18%) and the central-west area (15%). The increase in demand was also reflected in the average deal size, of almost 1,400 sqm, after falling below 1,000 sqm in the first quarter.

After a slight increase in 2022 of around 5%, the rent level for modern office space in Bucharest remained constant in the first 6 months of 2023. Nonetheless, the gap between the best assets located in strategic areas and second-tier office projects located in poorly serviced areas continues to widen. Given the constricted demand and the expected inflationary ease it is unlikely that rents have any more room to grow anytime soon. This will add further downward pressure on the rent levels of underperforming buildings and subsequently on their values.

Main office areas of Bucharest

H1 2023 ROMANIAN INDUSTRIAL MARKET

SMOOTH AS CALM SEAS

Total industrial stock	Total take-up	New deliveries	H2 2023 pipeline
6,7 M sqm	346,000 sqm ▼ 15% y-o-y	342,500 sqm ▲ 42% y-o-y	170,000 sqm

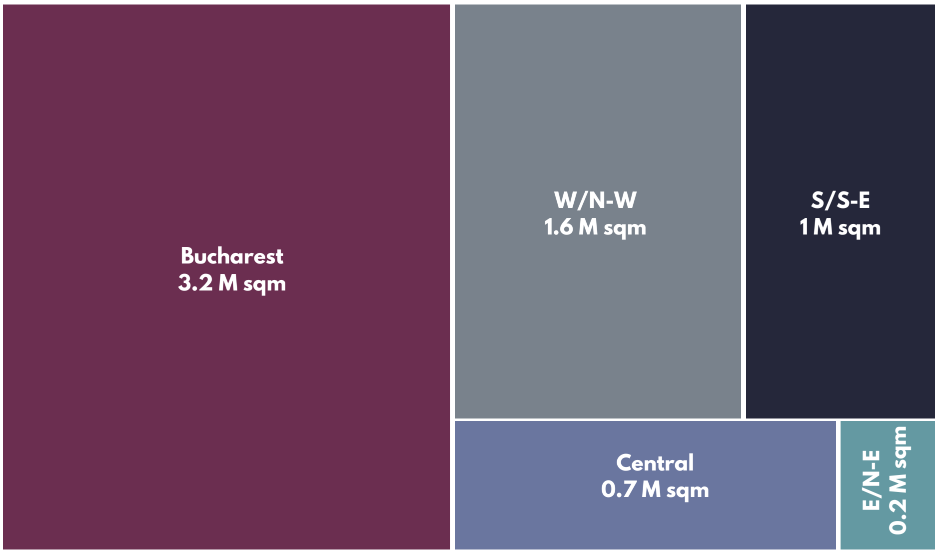
Go back

While the economic backdrop, both on a global and national scale, has contributed to a deceleration in the logistics sector's growth rate, it remains the most resilient segment within the real estate landscape at the moment. The pressure on income has not deterred consumers in a significant way: retail sales recorded a 3.3% y-o-y advance in the first five months of the year and e-commerce continues to gain a larger portion of the market. Additionally, the accelerated shift towards renewable energy is creating multiple opportunities on the industrial market.

Stock & supply

Romania's industrial stock reached 6.7 million sqm at the end of H1 2023, with over 340,000 sqm added in the first six months of the year, out of which over 30% delivered on the Bucharest market, followed by the West/North-West market (26%).

Stock distribution by area



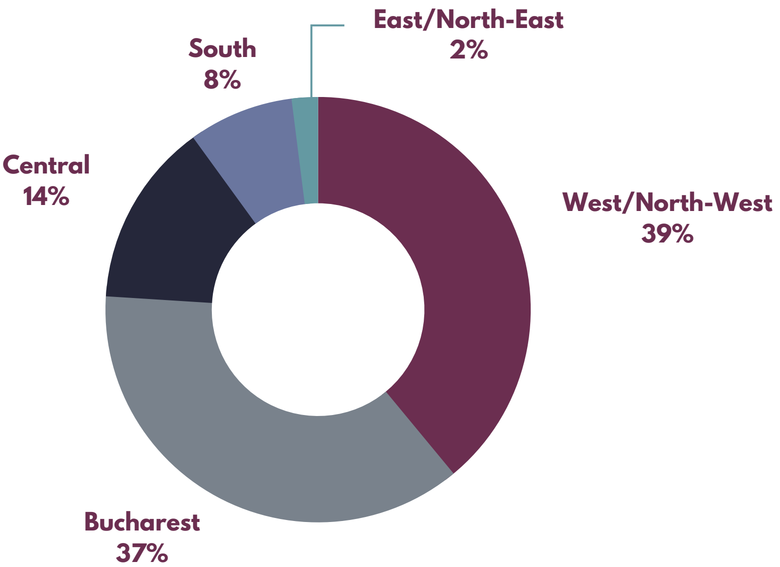
Demand

346,000 sqm of industrial space were leased in the first half of 2023. The West/North-West area attracted most of the demand, slightly surpassing Bucharest, with a 39% share in total take-up. Although the demand recorded a 15% drop compared to H1 2022, the average deal size increased by almost 2,000 sqm in H1 2023, to 8,240 sqm.

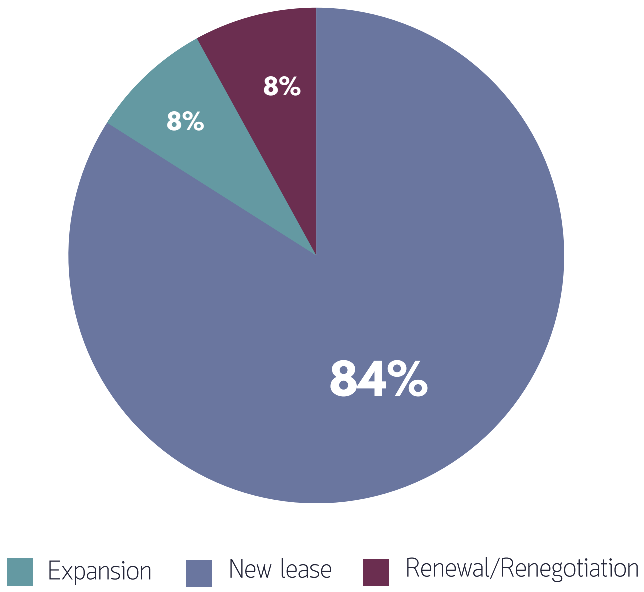
New demand remained at the high level recorded by the Romanian industrial market previous years, accounting for 84% of total transactions. Relocations made up 14% of the total leasing activity, while pre-leases accounted for 19% of total leases

The growth of the logistics industry in the eastern/northeastern region, in conjunction with the progress of the A7 motorway, will harmonize Romania's industrial landscape and foster the development of the area.

Demand structure
by area



Demand structure
by transaction type



TENANT	SURFACE RENTED (sqm)	PROJECT	CITY	TYPE OF TRANSACTION
FM Logistics	50,000	CTP (sale and leaseback)	Timisoara	New lease
InterCars	47,000	VGP Park Brasov	Brasov	New Lease
FM Logistics	28,000	CTP (sale and leaseback)	Petresti	New lease
IB Cargo	25,000	CTP Bucharest West	Bucharest	Expansion
FM Logistics	20,000	CTP (sale and leaseback)	Bucharest	New lease
EKR Elektrokontakt	12,600	Mures City Logistics	Targu Mures	New Lease
Dr. Max	10,000	Logicor	Mogosoaia	Renewal/Renegotiation

Top industrial leases, H1 2023

Rents

During the first half of 2023, there were small upticks observed in prime rents, reaching 4.5 €/sqm in Bucharest and ranging from 4.25 to 4.5 €/sqm in regional centers. The upward trajectory of future rent escalations, spanning at least the coming year, will be shaped by inflationary influences and consistent demand.

Vacancy

The consistent ratio between demand and new deliveries has kept a steady vacancy rate, of 5%, both in Bucharest and on a national level. Given the limited supply for the remaining six months, it is likely that the overall vacancy will drop to under 4% by the end of the year.

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Photo credit: Elvis Ray on Unsplash

STRUCK BY THE STORM

Apartment transactions	Building permits	Average price for new units	New dwellings, Q1 2023
19,584	1,688	1,890 €/sqm	4,666
▼ 27% y-o-y	▼ 43% y-o-y		

Go back

The multiple factors putting pressure on the residential market in 2022, from rising interest rates, shortages in labour force and high costs of materials, to the blockage in urban zoning plans in Bucharest had consequences that snowballed throughout 2023, causing a slowdown in the sector's growth.

Moreover, Eurostat reported a 17.7% yearly raise in construction costs for new residential buildings in Romania for Q1 2023, double the EU average of 8.5%.

The still high but declining inflation rate (10.3% in June) and a stable exchange rate (4.9335 RON/EUR 2023 average) were not enough to counter the fall of the Romanian residential market in H1 2023. Even though price increases for new dwellings in the first half 2023 have been mild compared to previous years, demand has fallen sharply, both on a national level and in Bucharest and main regional cities.

Another indicator of the decrease in buyers' interest is the fact that, while in previous years the New Home funds were nearly exhausted by the beginning of the second half, only 10% of the 1.5 B RON budget was granted so far.

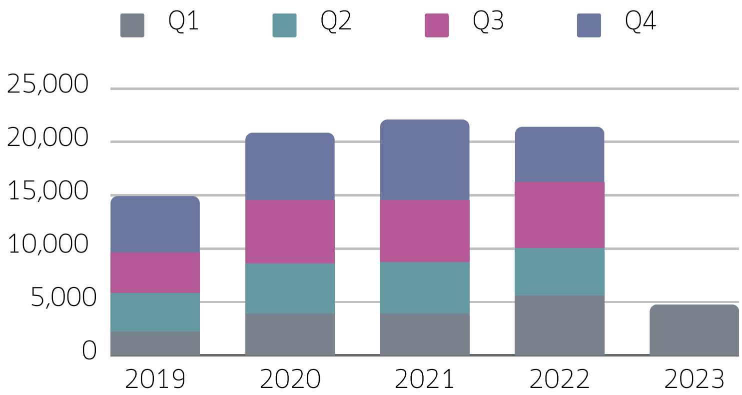
It is possible that, in the current context, the blocking of zoning plans is unintentionally beneficial for the residential market in Bucharest: limiting deliveries, at least for the next 12-18 months, mitigates the impact of the decrease in demand, thus avoiding a potential crisis and a residential overstock.

Supply

Although Bucharest had anticipated the completion of more than 160 residential projects in 2023, the progress of construction has been hindered by interruptions caused by cancellations or suspensions of urban zoning plans. Currently, there appears to be a lack of concentrated efforts towards resolving this impasse, making it quite probable that a significant number of these projects will experience delays in their expected delivery timelines.

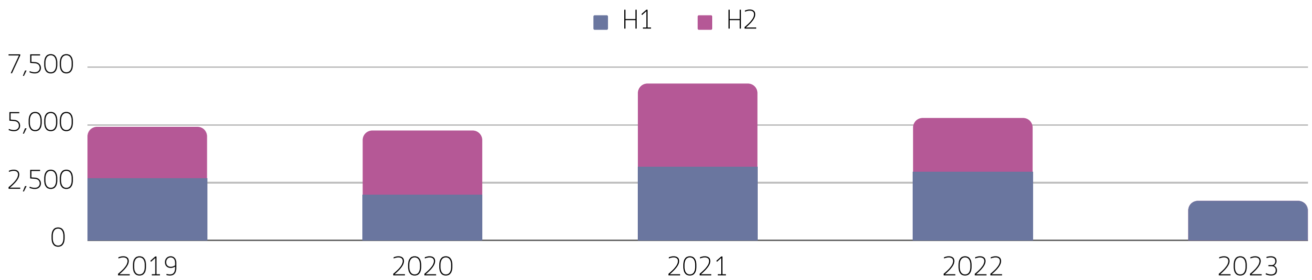
In terms of raw figures, the first quarter of 2023 saw the completion of 4,666 new residential units in Bucharest, reflecting a 16% y-o-y decline. Additionally, during the initial half of 2023, there has been a substantial drop in the issuance of building permits, totaling 1,688 permits, which marks a decrease of 43% compared to H1 2022.

Delivered residential units, Bucharest-Ilfov 2019-Q1 2023



Source: INS

Building permits, Bucharest, 2019-H1 2023



Source: INS

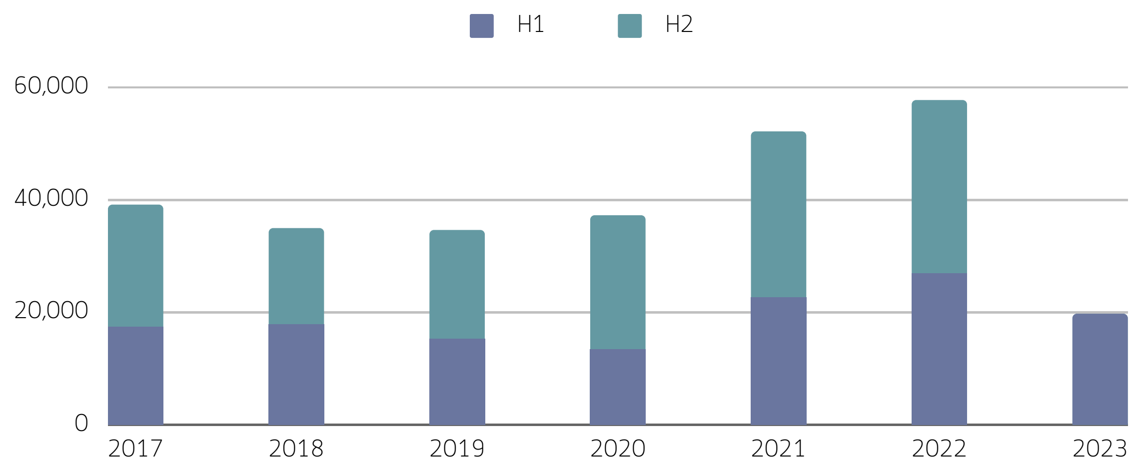
Demand

The number of apartment transactions recorded a 27% decline in Bucharest, to 19,584 units for the first six months of 2023. The contraction was similar on a national level, where the number of transactions fell by 22% to 66,497 units, with only a handful of counties (Alba, Arges, Calarasi, Maramures, Prahova and Valcea) recording some mild rises in apartment sales.

This decrease is not necessarily disquieting, considering that we are comparing the demand recorded in H1 2023 to 2021 and 2022, years which recorded an accelerated increase in apartment transactions, typical of the circumstances created by the COVID-19 pandemic. Compared to the pre-pandemic period, the number of transactions recorded is still above average.

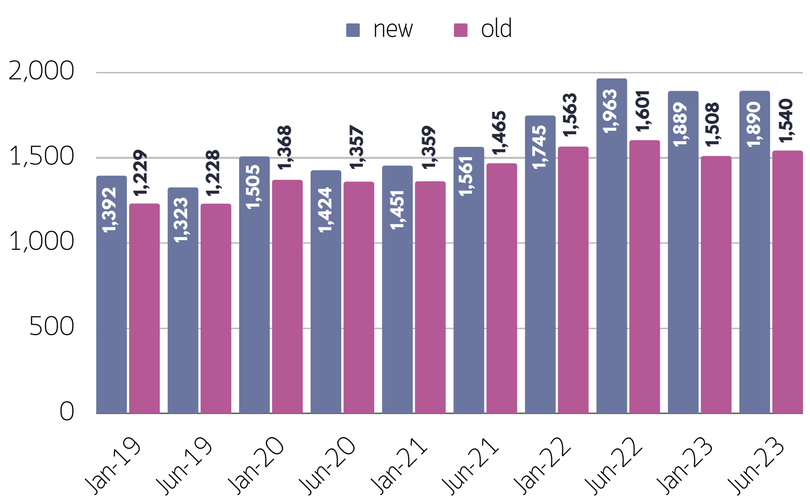
The introduction of a transfer tax and increases in VAT for affordable housing are expected to discourage buyers and investors.

Apartment sales, Bucharest, 2017-H1 2023



Source: ANCPI

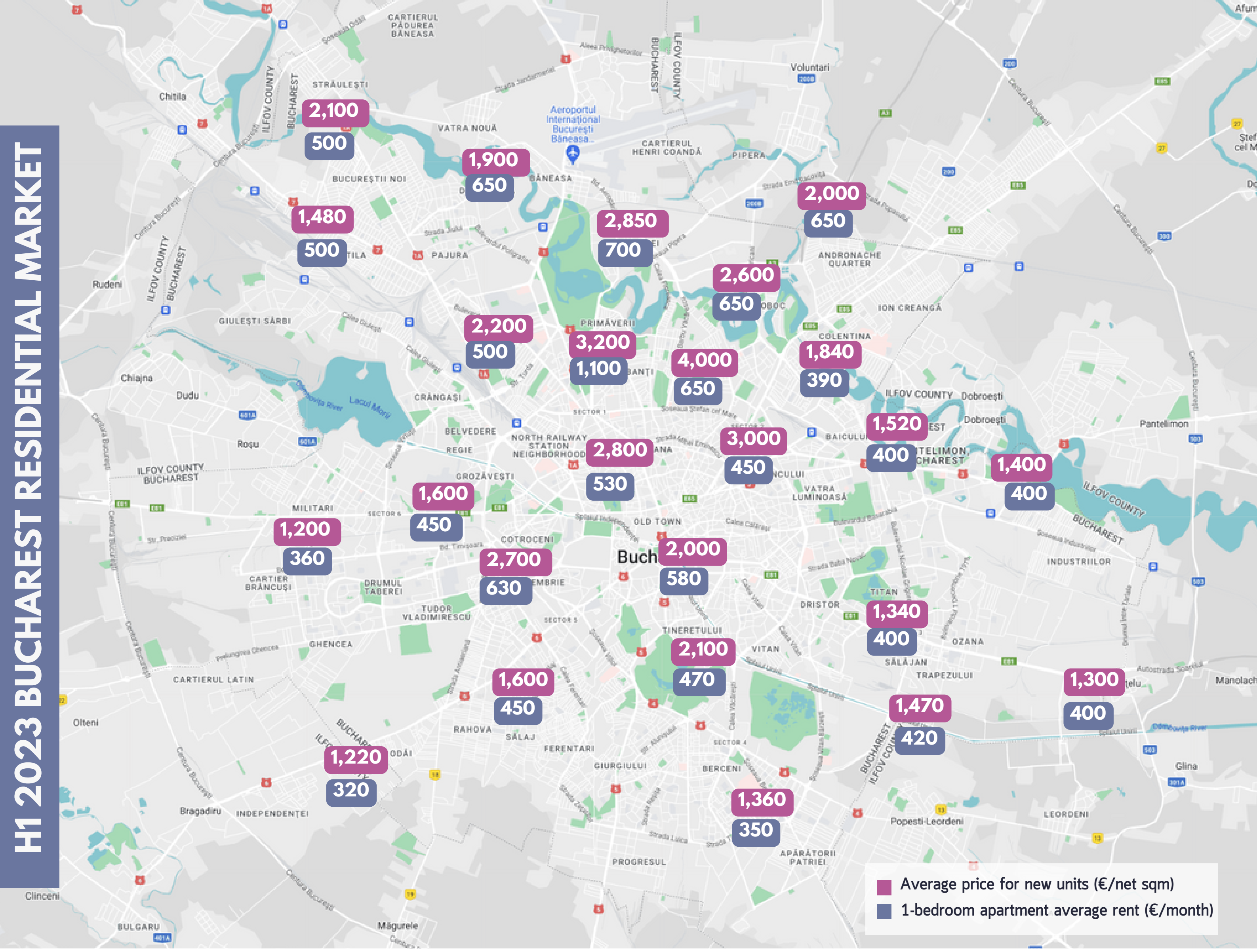
Price evolution, 2019-H1 2023



Source: Crosspoint research based on market information

Prices

As expected, apartment prices in Bucharest were relatively stagnant in the first six months of 2023. Compared to December 2022, prices for new units recorded a modest increase, of 2.2%, to an average of €1,890/net sqm, while the average price of old apartments fell by 3%, to €1,540/net sqm.



Source: Crosspoint research based on market information

The price gap between peripheral areas in the South and West and the northern areas continued to widen: the lowest prices are still found in areas like Militari and Berceni, where the average price per net square meter stands at €1,200, while areas like Floreasca/Barbu Vacarescu recorded an average price of over €4,000/net sqm at the end of June 2023.

For the remainder of the year, prices are expected to remain fairly constant. While a drop in buyers' interested is imminent, especially given the potential tax changes (the introduction of a 5% transfer tax and the VAT increase from 5% to 9% for properties under 600,000 RON), demand is likely to stay healthy in the second half of 2023, but below the levels recorded in the previous two years.

Taking into account the uncertainty surrounding the consequences of various changes, from additional taxation and a slowdown in economic growth to the freeze in new developments in Bucharest, any type of forecast regarding the residential market's evolution in 2024 would be premature. Still, expectations are tempered and both investors/buyers and developers approach the near future with restrained optimism.

Rents

Tightening credit conditions further created an opportunity for the residential rental segment. Heightened demand has led to an average increase in rents of 15-20% compared to the same period last year. The advance in rent levels softened in the second quarter but is expected to accelerate with the start of the academic year, with the end of the year bringing slight downwards corrections on the Bucharest residential rental market. Closely linked to the evolution of sales in the residential sector, the rental market will continue to maintain its advantage at least for the next 12 months.

Opportunities on the rise for the PRS sector

H1 2023 BUCHAREST LAND MARKET

Photo credit: Voicu Apostol on Unsplash

FADING INTO THE BACKGROUND

Major land deals total volume, Bucharest

€ 103.9 M

No. of land transactions, Romania

69,943

▼ 25% y-o-y

No. of land transactions, Bucharest

13,898

▼ 40% y-o-y

Largest land deal

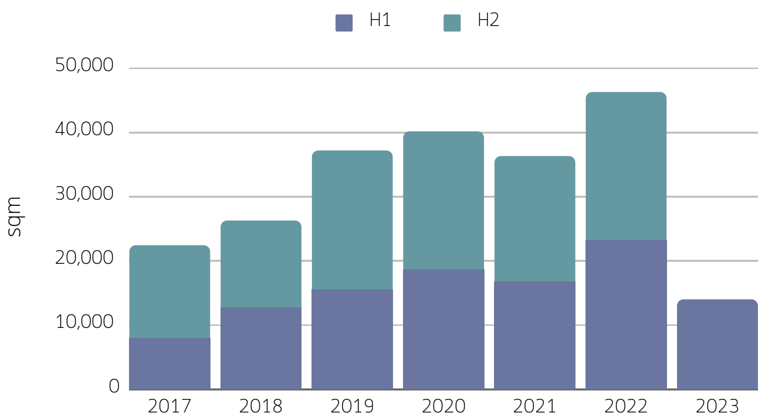
€ 35 M

Go back

The economic uncertainty has driven investors away from the land market in H1 2023, most of them shifting their focus on income producing assets for the time being. Additionally, issues with urban planning in Bucharest and regional cities have intensified the decrease in interest for land acquisition. Thus, the number of land transactions has fallen by 25% y-o-y on a national level and by 40% in Bucharest. Closely linked to the evolution of the residential sector, land deals in Ilfov county dropped by 29% compared to H1 2022.

The growing opportunity for data centre development in Romania might reawaken investors' interest in land acquisition

No. of land transactions, Bucharest, 2017-H1 2023



Source: ANCPI

The recorded large-sized transactions involved established players and despite its shortcomings, residential still remains the main destination for the development of the purchased land plots. Buyers maintain their attraction to speculative transactions but are also displaying a readiness to extend their patience in pursuit of favorable opportunities.

LOCATION	SIZE (SQM)	VENDOR	BUYER	DESTINATION
District 5	44,863	Private (Adriean Videanu)	One United Properties	Mixed-use
District 1	44,000	Private	Redport Capital & Mobexpert	Residential
District 4	7,974	REDS (Ellaktor)	Vastint	Mixed-use
District 1	28,500	Atlas Corporation	Speedwell	Mixed-use

Key land transactions (over €10 M) in Bucharest, H1 2023

Given the restricted activity on the land market and the decline in demand for residential, prices remained constant throughout 2023 and no significant price fluctuations are expected in the following 12-18 months.

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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 2.29 billion in revenues in 2022.

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