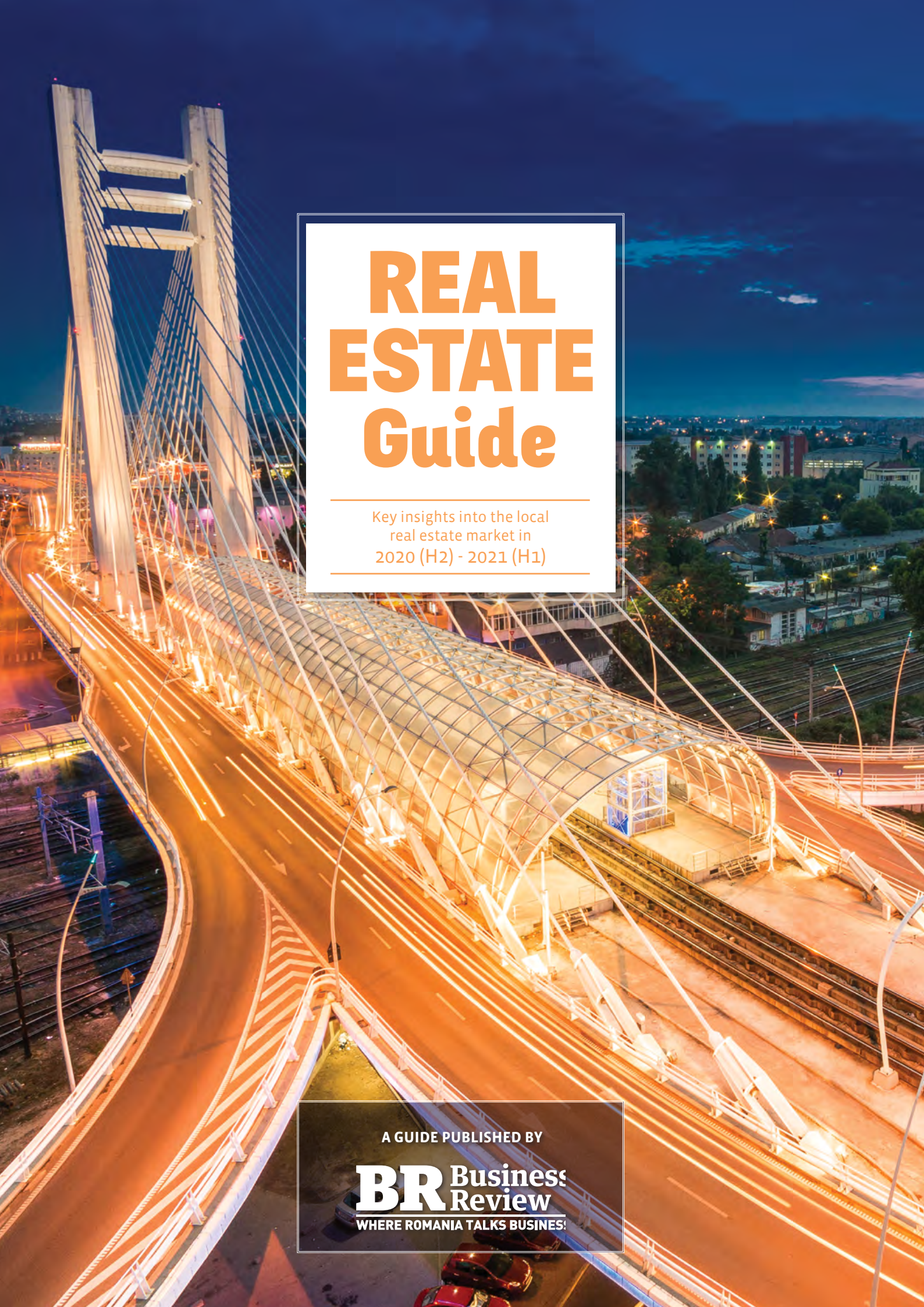

REAL ESTATE Guide

Key insights into the local real estate market in
2020 (H2) - 2021 (H1)

A GUIDE PUBLISHED BY

BR Business Review
WHERE ROMANIA TALKS BUSINESS

EDITORIAL

Adapt or else

OVIDIU NICOLAE POSIRCA
CONTRIBUTING EDITOR

We have gone through the biggest work from home exercise in the history of the labour market, and the results are in. Yes, professionals still need offices, but they might opt for more flexible arrangements that were already starting to creep onto the local property market. In last year's guide, I wrote that working from home for one day every week was becoming an acceptable practice among large companies. Now, a year later, we are wondering whether some employees will ever come back to their offices, as we've found out that "Zooming" can get things done just as well.

While companies could measure things such as their employees' productivity and affinity to corporate values, landlords are working to redesign workspaces with more focus on ergonomics and wellbeing, which is not something new, as some of the newly-delivered office projects were designed this way from the beginning.

Owners of large retail centres are already drawing up strategies to attract Romanian shoppers back to the stores by using tech-based solutions to boost shopping experiences. For some retailers, e-commerce was what kept them afloat while shopping malls were shut down for about 2 months. On the industrial and logistics market, investment activity was unabated thanks to the fact that more companies are boosting their digital sales operations. The health crisis has reinforced some of the trends that had been marking the commercial real estate sector for years. Local startups are providing platforms that can help real estate professionals do their jobs in a more restrictive environment. On the residential market, developers are paying close attention to new forms of demand which have popped up this year and more premium projects could get co-working spaces or improved design solutions to help residents create an office at home. Leadership on the part of real estate executives matters more than ever in these uncertain times and a crisis of this magnitude could further upend the ways in which we work, shop, and live. As Airbnb CEO Brian Chesky said this fall: "I didn't know that I would make 10 years' worth of decisions in 10 weeks."

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OFFICES EMBRACING FLEXIBILITY TO FACE THE FUTURE OF WORK

Owners of office buildings must now adapt to new demands from employees who have spent several months working from home and are gradually rediscovering their offices. Providing a boost to wellness and experiences, as well as creating a more dynamic office setting, are some of the business requirements of the post-COVID-19 era. No matter how working conditions are established going forward, the office space is here to stay, but in a slightly adjusted form.

Scenarios for resuming activity at the office include social distancing floor plans

BR OVIDIU POSIRCA

Companies that are occupying office space need to account for several types of work, including full time remote, part time remote, and full time on-site, says Ovidiu Sandor, the CEO of Mulberry Development, who is currently working on a mixed-use project that includes offices in Timisoara.

"This means that companies will need to be able to handle one main office and hundreds of home offices (internet, computers, printers, supplies, etc.). Ensuring data security, including GDPR-related matters, will be a tricky issue for sure. While companies initially imagined that work from home would save money, in the longer run I think costs will be similar if not higher," Sandor argues.

Occupiers of office spaces are planning to increase investments in technology to support remote working, according to a survey carried out by real estate firm CBRE which highlights some of the strategic changes being anticipated by companies.

If remote working was on companies' minds during the health crisis, in the aftermath of the pandemic we might witness a shift towards the fluid workplace and improved wellness facilities at the office.

On the Romanian market, one choice for companies would be to keep their current office space and ask employees to come back into the office in shifts.

"For people working in the office, physical distance will be ensured according to the safety standards imposed by local authorities, but companies will still encourage face to face collaboration and communication," says Marius Scuta, head of the office department ⊖ tenant representation at real estate consultancy firm JLL Romania.

Companies with the technical capacity and know-how to boost remote work are also generating demand in the office segment. For instance, firms in the tech and financial sector have been the most active players on the Bucharest office leasing market. Sandor thinks we might see a relocation of more office-based activities from more expensive countries to Romania.

"We expect this to accelerate in the next 12 months, especially in areas like IT, engineering, research and development,"

4 mln sqm

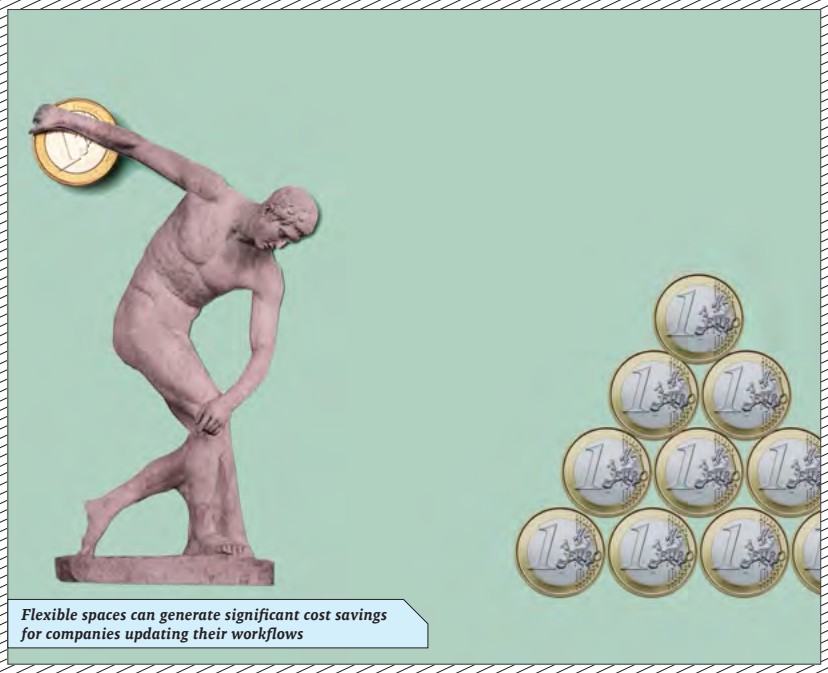
ROMANIA'S OFFICE STOCK AT THE START OF 2020

106

THE NUMBER OF COWORKING AND SHARED OFFICES IN ROMANIA, ACCORDING TO CROSSPOINT REAL ESTATE

FLEXIBLE WORKSPACES: THE SAFE AND COST-EFFECTIVE SOLUTION

Flex space could help companies cut their costs by up to 60 percent. Firms in Bucharest can save hundreds of thousands of euros, which could be invested in further business development. That's very significant in such a financially challenging time. Instead of resorting to gambling, there's now an algorithm you can use to better understand your office space investment risk.



Flexible spaces can generate significant cost savings for companies updating their workflows

Fifty percent of workplaces will have to engage in the ultimate balancing act: combining traditional office spaces with work-from-home and third-party solutions. On every continent, a perplexing question is being asked by HR teams, CEOs, and employees alike: How can we go back to work after months of telecommuting and what will it look like?

At Mindspace, the workplaces have always been hybrid and flexible. For most companies, the answer will not be an all-or-nothing solution, but rather something balanced. We will go back to the office because it represents more than the work we do at our desks. But we won't have to go back to the same old ways, either: we've learned that life and business carry on even when we stay at home.

But what's more cost-effective for employers? Bringing everyone back to the office, keeping them at home or something in between? There's a way to know for sure.

At Mindspace, we thrive among assumptions. We know that creativity, originality, and functionality happen when we share both space and ideas. We've been in the shared office space industry for years and now we've created an algorithm, in the form of a calculator, to show businesses how many thousands of euros they can save by shifting to flexible workspaces. It's easy to use: enter the specifics and the workplace benefits will be calculated in clear amounts.

Nowadays, flexibility and cost-effectiveness are the best weapons, especially in the short term. To grow their business and keep things flexible, employers must think about possible ways to cut costs. Why pay 24/7 for that conference room that's only getting used once or twice a week? What about the lounge? The lobby? The restrooms? Those costs can be split and spread out. In turn, the business can be strengthened and steadied.

Here's an example: our calculator estimates savings of roughly EUR 179,000 over three years for a company of 25 people when choosing a flexible office over a traditional office in Bucharest. The amount saved depends on specific parameters, but the savings come from slashing costs related to cleaning, maintenance, internet, equipment, and insurance. Our thinking is clear: split the cost of these services with other companies instead of spending your time planning them out and taking on the full costs.

Switching to flex space could save up to 60 percent of costs, which can translate into an investment, a potential building block. The right business decisions are worth more than ever right now. The right data is what drives those decisions. And we're here to offer support.

says the executive. Property consultants suggest that the hybrid approach to work might be the right option for tenants and office project administrators as the economic outlook is still uncertain.

Silviu Pop, Colliers International

Marius Scuta, JLL Romania

The fact that Bucharest and Romania in general have a lower share of office space per capita compared to other countries could shelter the market from a drop in leasing demand. However, "there may be some pain in store for office landlords in the next few years," says Silviu Pop, head of research at real estate consultancy firm Colliers International Romania.

Scenarios for resuming activity at the office include social distancing floor plans, rotational occupancy plans, and furniture reconfiguration.

"The very notion of the office will change. From a place where normally you would go to sit at a desk, the office will turn into a hub that will allow the company's employees to meet, work together, and socialize. Things that can be done alone in front of the computer will for some move to their homes. But working together, coordinating, brain-storming, meeting in critical moments during projects or when projects are under time pressure, as well as all the activities related to socializing, building, and maintaining will all need a physical space, and the office layout will change to accommodate those functions," says the CEO of Mulberry Development.

In the meantime, developers are continuing to work on large office projects on the market. Between mid-2020 and the end of 2021, a total of 325,000 sqm of modern office spaces are expected in Bucharest and some 206,000 sqm in the big regional cities (Cluj-Napoca, Timisoara, Iasi, and Brasov).

"This is a fairly robust supply, but a big chunk of these new surfaces are already pre-let, with a major share of the demand coming from relocations from competitive stock, unfortunately," says Pop.

STRATEGIC CHANGES ANTICIPATED BY OCCUPIERS

	Increase	No change	Decrease
Adoption of home or remote working	93%	6%	-
Investment in technology to support remote working	88%	12%	-
Review of locational footprint (offshoring, re-shoring)	40%	58%	2%
Use of coworking space or serviced offices	24%	53%	24%

Source: CBRE survey among European occupiers of office spaceforecast

FLEXIBLE WORKSPACES COULD GAIN GROUND

The market for coworking and flexible spaces could see a resurgence as companies are exploring different work arrangements that don't raise any health risks for their employees. Flexible office spaces are mostly occupied by younger generations (18 to 34 years old), according to a survey commissioned by Crosspoint Real Estate.

However, the development of more flexible office spaces has been rather limited, and this segment had only 84,000 sqm of operational spaces spread across 106 centers at the end of 2019. By comparison, the total office stock in Romania stood at more than 4 million sqm in Bucharest and the main regional cities. Almost two thirds of the total surface of coworking spaces were open in the Romanian capital. Aside from Bucharest, coworking centers were present in 17 cities, including Timisoara, Iasi, and Cluj-Napoca.

In the current context, smaller could turn out to be better on the office market, and flexible spaces might gain market share, according to specialists. Before the pandemic, flexible offices would target professionals and entrepreneurs who were building their own companies. In the meantime, the funding opportunities in the local startup ecosystem have become more challenging and entrepreneurs might look for different options in order to reduce their cash burn. Nonetheless, flexibility will be on the agenda of large companies that are exploring new ways to use their current office spaces, and this could also generate new business opportunities for the coworking niche.

VASTINT: OUR OFFICES CAN ADAPT TO ACCOMODATE A SAFE WORK ENVIRONMENT

BR OVIDIU POSIRCA

*The development of safe work environments has been on Vastint's agenda ever since its first office project in Romania. As companies explore new ways to bring their employees back to work safely, Vastint Romania managing director **Antoniu Panait** says the company's offices can be adapted for a mix activity.*

WHAT ARE SOME OF THE FACILITIES VASTINT PROVIDES IN ITS OFFICES THAT CAN ENHANCE HEALTH PROTECTION FOR EMPLOYEES WORKING IN THESE BUILDINGS?

From the first moments when the virus was detected in our country, our team started to establish clear procedures to maintain high sanitary safety inside our projects, implementing all required and available measures to make everyone feel safe in our common spaces, lobbies, and elevators. Sanitisation measures included more frequent cleaning and disinfection of all common areas, changing air filters or adding sanitiser dispensers. At the same time, social distancing measures meant limiting elevator access to no more than 4 people at a time, allowing a single person to go through revolving doors, applying sleeves on door handles and special foils on door contact areas which are manufactured in a way that does not allow the transfer of micro-particles on hands, installing transparent screens at reception desks to limit contact, establishing a new delivery collection point to a singular space, and many more actions that could ensure the safety of our tenants.

The Vastint standard applied at both Timpuri Noi Square and Business Garden Bucharest was designed to keep our tenants' employees safe even before the pandemic started. These were the first projects to obtain the Safe Guard certification from Bureau Veritas, so tenants knew that their work environment was safe from the very beginning. Technical standards are the highest on the market, as confirmed by the LEED Platinum certifications. Details such as the 3-metre clear floor height, superior ventilation using HVAC systems with 100 percent fresh air supply, windows that can be opened to increase the air supply if needed, combined with the new safety measures taken in each building, all maintain a safe environment for the employees who have returned to the office.

CAN VASTINT'S OFFICES ACCOMMODATE A MIX OF WORKING CONDITIONS THAT PARTIALLY INCLUDES WORK FROM HOME?

In our vision, office development can accommodate both regular daily business activity which takes place under the same roof, whether in open spaces or in individual offices depending on the fit out of the space. Coordinated with each company's procedures, the office can fit the complete number of employees inside the same space, and may also adapt to any other flexible scenario or routine.

WHAT ARE YOUR PROPERTY DEVELOPMENT PLANS FOR BUCHAREST IN THE NEXT PERIOD?

While 2019 was by far the best year for Vastint Romania, as we delivered 63,000 square meters which are fully operational and equipped with the latest technologies – Timpuri Noi Square is 95 percent leased and Business Garden Bucharest is at over 75 percent – we are focusing on existing projects and tenants and on leasing vacant premises, and we are always ready to develop new projects if there is demand.

FUTURE OF SHOPPING MALLS TO BRING INNOVATIVE APPROACHES TO CUSTOMER EXPERIENCE

Providing a mix of retail, hospitality, and entertainment, shopping malls in Romania have been diversified in recent years to offer a wider array of services to shoppers. Now, mall owners' job is to bring people back to their centres, to improve the customer journey, which is more focused than ever on health safety, and to further integrate the omnichannel approach for an upgraded shopping experience.

Transformation of retail "is now in fifth gear", say consultants

BR OVIDIU POSIRCA

The health crisis has dealt a mighty blow to the retail sector, and especially to shopping malls, which had to close down for almost two months.

"Retailers from all around the world, and that certainly includes Romania, also are feeling a huge pressure on their businesses with a double hit of low consumer confidence and reduced in-store traffic. If you add the even older enemy of retail centres – the e-commerce industry – you'll paint a nearly apocalyptic picture," says Ionut Stan, associate director at real estate consultancy Crosspoint Real Estate.

Until now, no shopping malls have been closed in Romania for financial reasons, and the delivery of new projects has stayed on track. Two new shopping malls have opened in Targu Mures and Targoviste, and the biggest one, with a leasable area of 45,000 square meters, will be opened by AFI Europe in Brasov this fall.

▸▸ HIGHER PROFITS FOR SHOPPING MALLS IN 2019

In 2019, the Romanians' increased appetite for shopping led to an 8.7 percent increase in the revenues of shopping malls to over EUR 620 million, according to data compiled by profit.ro. This includes the rent collected by 69 malls from brands that had stores in their centres.

"Currently, traffic in shopping centres has more or less returned to normal for this time of year, but it is clear that any spikes in coronavirus cases that may lead to authorities taking new measures could also impact the retail scene over the short term (the next year or so). After this, the big question will be how much of the migration to online sales that we have seen in the last few months will continue indefinitely; so shopping centers and their tenants ought to focus that much more on the overall experience, as well as on a mix between e-commerce and the 'traditional' brick-and-mortar channel," says Silviu Pop, head of research at Colliers International Romania, the real estate consultancy.

Up to the onset of the pandemic, the biggest mall developers had invested in

leisure areas and food & beverage facilities. Considering the new social distancing requirements, we may see fewer people browsing through stores as a leisure activity and overall stays in indoor centres being much shorter.

"I believe that we are yet to see a clear impact that the virus and its economic and mental consequences have had on consumer behaviour. We do expect though that once there is an approved vaccine for COVID-19 and immunity rates increase, the consumer response will be positive with a short but sharp rise in activity and sales, but the longer-term economic ramifications are likely to be observed for some time to come," says Alina Cojocaru, head of valuation advisory at real estate consultancy JLL Romania.

The volume of retail trade in Romania surged by 17.2 percent in May after falling by 21.9 percent in the previous month, according to Eurostat, the statistics office of the European Union. The single-digit growth continued through the start of the summer.

E-COMMERCE MARKET CONTINUES GROWTH SPRINT

Consultants at real estate firm CBRE Romania suggested that the transformation of retail "is now in fifth gear." Some projects that had seemed to be "bulletproof" were hit by reduced footfall and overall turnover, while others have already outperformed last year's results. "Looking into the near future, the trends we see today will shape development tomorrow – retail parks have emerged as some of the best retail asset classes for consumers, developers, and investors. For modern shopping centres, being associated with residential or office developments (mixed-use schemes) is key to capturing the synergies of smaller, but more loyal communities. While online will continue to grow (estimation from CBRE is that the share of internet sales out of the total will double by 2024) the power of choice and omnichannel will prove relevant, as no single option fits all," said Carmen Ravon, head of advisory & transaction retail and land at CBRE Romania.

Large tenants in shopping malls have already developed online platforms to boost sales and they might opt to fine tune omnichannel in the next period. This means that they may need to invest more in technology to adapt their omnichannel communications. Nowadays, customers use multiple channels during their shopping journey. This means that they might search a product online and head to a store to buy it, or they might put their hands on a gadget in a store and order it online later. Retailers can use omnichannel to notify their customers about personalised discounts, for instance, by using SMS, email or mobile app notifications. In a survey published by CBRE Romania, 67 percent of respondents mentioned the need to increase investments in online retailing and delivery apps, while 60 percent said they would expand their usage of social media and livestreaming. The post-COVID-19 business strategy will include operating fewer stores, according to 40 percent of respondents.

"Developing omnichannel platforms by combining online and offline operations will be one of the biggest challenges for retailers in the near future and will result in increased brand awareness," according to CBRE Romania's research.

Meanwhile, the e-commerce sector went through a growth spurt during the lockdown period as more people than ever stayed home and ordered anything from books to medical supplies, groceries, and meals online. The sector was already on an expansion path, having posted a 20 percent year-on-year growth to EUR 4.3 billion in 2019, according to estimates by the Romanian Online Shops Association (ARMO).

EUR 620 MLN

RENT REVENUE OF ROMANIAN SHOPPING CENTERS IN 2019

EUR 4.3 BLN

SIZE OF ROMANIA'S E-COMMERCE SECTOR IN 2019, ACCORDING TO ROMANIAN ONLINE SHOPS ASSOCIATION (ARMO)

VOLUME OF RETAIL TRADE*

	Mar-20	Apr-20	May-20	Jun-20
EU	-9.6%	-11.3%	18.3%	5.2%
Romania	-3.4%	-21.9%	17.2%	6.3%

*compared to previous month

Source: Eurostat

PROPTECH STARTUPS MAKING THEIR WAY INTO ROMANIAN REAL ESTATE MARKET

Startups providing innovative technology keep emerging on the Romanian real estate market, whose investment potential could go north of EUR 1 billion per year. Proptechs can help developers sell their properties more quickly and aid Romanians in renting or buying a home.

At present there are few proptech solutions on the Romanian market

BR OVIDIU POSIRCA

Globally, proptech startups have raised over USD 43 billion since 2012, according to a Deloitte study. The future of the proptech sector is promising, considering that the field has the same funding size as the fintech sector did in 2013, having registered a compound annual growth rate of 44.8 percent since then.

In the first eight months of 2020, funding to real estate tech companies reached USD 5.3 billion, already lower than last year due to the ongoing coronavirus pandemic, according to data by CB Insights.

"We are probably seeing a limited number of such firms in the Romanian economy because the return on investment and profit margins are limited. Another factor influencing the number of startups in the property sector is that the process of acquiring or selling properties is complicated and involves the interaction of multiple parties, including state institutions," says Vladimir Aninoiu, technology director within the consulting practice at professional services firm Deloitte Romania.

TECH-ENABLED STEADY GROWTH FOR COMMERCIAL REAL ESTATE

Having just entered the local property market, Czech startup Realpad has already inked deals with two developers. The company provides a platform which residential developers can use to make their sales process more efficient.

Jakub Licak, business development manager at Realpad, says that the market potential is significant as there are more than 250 active residential projects in Bucharest alone.

"I can see clear signs that developers are starting to realise that innovation can – and will – play a significant role in their future. COVID-19 has shown us that innovative companies with digitalized processes had a much better response to the crisis and many developers are now starting to source new technologies," says Licak.

Technology is already embedded into the new stock of office and high-end residential buildings on the market. Developers have invested in new solutions to make their buildings green and have implemented digital tools to more easily manage the consumption of energy and other resources in their projects. Interaction with buildings is facilitated by smart interfaces and a growing number of Romanians want their homes to be fitted with smart kits that allow them to control security or heating systems remotely.

In the past few months, real estate professionals have become more accustomed to digital tools that enable virtual tours as well as other platforms that provide location intelligence for new investments.

USD 43 bln

FUNDING RAISED BY PROPTECH STARTUPS SINCE 2012, ACCORDING TO DELOITTE

EUR 294 mln

THE BIGGEST OFFICE DEAL CLOSED IN 2020 IN ROMANIA

IULIUS: OUR URBAN REGENERATION PROJECTS ARE BASED ON THE CONCEPT OF WELLBEING

Real estate developer IULIUS is investing EUR 120 million in Palas Campus, which will add 60,000 sqm premium offices and it will consolidate the regional business hub created in the city centre via Palas Iasi. The project will be based on the principles of wellbeing and will highlight the economic and social role of mixed-use schemes on the Romanian market.

Iulius Town Timisoara

HOW CAN MIXED-USE PROJECTS SUPPORT THE REGENERATION OF SOME URBAN AREAS?

IULIUS specialises in developing mixed-use projects and was the first to make such an investment in Romania, namely in Palas Iasi (opened in 2012). Last year we opened Iulius Town Timisoara, our second mixed-use project, while Iulius Mall Cluj-Napoca was supplemented with mixed-use elements. We are the only company developing urban regeneration projects that are so complex in terms of both their magnitude and their positive impact on communities.

Our projects go beyond their functional role to become genuine poles of urban attraction. Aside from revitalising underserved or underdeveloped areas, giving them back to the community, and reintegrating them into the urban landscape, our investments are regional and have the ability to attract new opportunities for economic growth and better living. The mixed-use projects developed by IULIUS are successful thanks to their unique concept, where office, retail, and entertainment uses gravitate around public gardens. These sustainable projects are organically integrated into community life, activating the economy in their respective areas and acting as regional business hubs, supporting local entrepreneurship, and providing residents with an open venue for socialising and leisure activities.

WHAT IS YOUR OUTLOOK ON THE LOCAL REAL ESTATE SECTOR FOLLOWING THE INITIAL IMPACT OF THE MEDICAL CRISIS?

The current context is obviously very challenging. We have experienced equally difficult times before and learned that adaptability is crucial. The IULIUS projects are envisioned as open-air districts marking the ground zero of their respective cities, which make life easier and provide multiple experiences and services within a single venue. They have been reconfirmed as destinations of choice for a diverse audience even during the pandemic. Mixed-use projects are consolidating their economic and social roles via their signature flexibility that includes open venues, outdoor terraces, and parks accommodating cultural and artistic events in major cities, as well as through the complementarity of their uses.

WHAT ARE YOUR DEVELOPMENT PLANS IN THE MIXED-USE SEGMENT GOING INTO 2021 AND WHAT DOES IT MEAN IN TERMS OF NEW INVESTMENT VOLUMES?

Our developments address real demand, which is what prompted us to continue developing the business segment in Iasi via the Palas Campus extension. Despite the pandemic, this summer we started construction works for the EUR 120 million extension, a mixed-use project in itself that repurposes an undeveloped central area and accommodates the largest premium office building in Romania (60,000 sqm). Based on the wellbeing concept, the project is adapted to the new context and includes ample outdoor coworking spaces (a first in the region), a new food market concept, a medical hub, a new park, and a service area promoting local producers.

Upon its completion (around 2022), Iasi and the entire region will gain an extended business district generating 5,000+ jobs, as well as a larger, modern, dynamic, and easily accessible city centre.

EUROPEAN REAL ESTATE SECTOR COUNTING ON STRONG RECOVERY IN 2021

Investment returns in the real estate sector will bounce back next year after having gone into red territory this year as major economies across the European Union contracted due to the health crisis.

Eurozone economies have rebounded during Q3, but economic activity remains below pre-pandemic levels

BR OVIDIU POSIRCA

This year, prime total returns in the real estate sector will fall by 2.2 percent on average in Europe, according to a report by BNP Paribas Real Estate. However, compounded returns will average 4.2 percent over a 5-year forecast period. Meanwhile, investment volumes in Europe already fell by 6 percent to EUR 102.1 billion in the first half of 2020 compared to the same period of last year.

MEDICAL CRISIS BOOSTING EXISTING TRENDS ON PROPERTY MARKET

Aggregate European commercial real estate investment is to fall by 30-40 percent year-on-year in 2020, according to an estimate by real estate consultancy firm CBRE. Investment activity could return to pre-pandemic levels by 2022, if occupier markets do not worsen even further.

"By their very nature, real estate investors tend to view property as a long-term investment, so they are not likely to have a

kneejerk reaction to the current environment. Investors who do not need to transact will wait for better time to do so," say representatives of consultancy firm BNP Paribas Real Estate.

The property market was significantly hit by the lockdown that was enforced this spring to contain the spread of the COVID-19 infection.

"The coronavirus seems to have pushed into overdrive quite a lot of the changes that were already taking place, like the shift to working remotely or the growth of e-commerce. This, of course, means that future revenue streams are fraught with many more questions than usual, leading to investment decisions being more carefully analyzed. While this would suggest a negative impact for the wider CEE region and Romania in particular (as a country with less liquidity in terms of real estate investments), we believe that an even greater force might act as a counter: the abundant liquidity in global financial markets that might look for more attractive yields," says Silviu Pop, head of research at Colliers International Romania.

With stocks trading at high prices and a depressed environment for bond yields, we might see more investors looking to bigger profits in the real estate sector, and Romania might stand to benefit, Pop suggests.

The health crisis has blurred the lines between work and personal spaces, as a huge number of people have set up their own offices at home. For the past few months, the e-commerce market has also accelerated as people have been ordering a wide array of products online, ranging from groceries to clothes, gadgets, and medical supplies.

The real estate sector is dealing with uncertainty related to user demand and consumer approach, says Maxime Otto, capital markets consultant at JLL Romania. He adds that core products would still be of interest for investors and that the impact shouldn't be different on the local market versus those in the wider Central and Eastern Europe area.

GDP EXPECTATIONS FOR MONETARY BLOCKS AND SELECTED EUROPEAN COUNTRIES

	2020	2021
World	-3,7%	5.6%
United States	-4.9%	4.8%
Eurozone	-9%	5.8%
Japan	-4.8%	2.1%
China	2.5%	8.1%
India	-4.7%	9.5%
Russia	-6.5%	3.5%
Brazil	-7%	4%

Source: BNP Paribas Global Outlook & Eco Perspectives (July 2020)

GDP FORECAST FOR CEE COUNTRIES

Country	2020	2021
Poland	-3%	3.5%
Hungary	-4%	4.5%
Czech Republic	-6.5%	5%
Romania	-5%	4.9%

Source: BNP Paribas Global Outlook & Eco Perspectives (July 2020)

RECOVERY PACKAGE WORTH EUR 1.8 TRILLION FOR EU ECONOMIES

After the European GDP fell by 13.9 percent in the second quarter against the same period of 2019, EU leaders approved a massive spending package worth EUR 1.8 trillion to support the economic recovery. This includes a regular budget of EUR 1.07 trillion as well as another EUR 750 billion pandemic recovery fund based on grants and loans. Of this total amount, Romania will get EUR 80 billion between 2020 and 2027.

Ionut Stan, associate director at real estate consultancy Crosspoint Real Estate, suggests that the biggest concerns for the European property sector – aside form Brexit and COVID-19 – are the international political instability and the environmental impact of investments.

"The more institutional the money source, the greater the pressure. We estimate that a few years from now, the big players will have zero non-environmentally labeled real estate assets in their portfolio. The CEE region and Romania will follow the same trends," Stan believes.

Economists forecast a "U" shaped recovery for the European economy by the end of 2021 and a similar scenario is envisaged for the biggest economies across the

world. While the Eurozone is expected to grow by 5.8 percent in 2021 following a 9 percent contraction this year, the US economy is to expand by 4.8 percent after a fall of 4.9 percent in 2020. Romania's economic output will fall by 5 percent this year, while in 2021 it should grow by 4.9 percent, according to BNP Paribas Global Outlook ∂ Eco Perspectives. Global GDP will contract by 3.7 percent in 2020 and recover sharply to 5.6 percent in 2021.

Meanwhile, the EU is dealing with an unemployment rate that stood at 7.2 percent in July compared to 6.7 percent in the same month of 2019. Some 15.1 million Europeans were out of work and member states enforced support measures to save jobs. The recovery of the labour market will also impact the future development of the commercial property sector.

"Ultimately, the coming months will be crucial for the global economy, and household confidence will be one of the key drivers. If all the measures put in place either by central banks or by governments end up creating inflation, the final impact of the COVID-19 crisis on private consumption is still difficult to estimate," say analysts at BNP Paribas Real Estate.

Eurozone economies have rebounded in the third quarter, but economic activity remains below pre-pandemic levels.

Philip R. Lane, a member of the Executive Board of the European Central Bank (ECB), noted in a blog post that the recovery of the manufacturing sector is further advanced than that of the services sector, which is most sensitive to infection fears and social distancing restrictions. Meanwhile, the economy will only return to pre-pandemic levels of activity in late 2022, according to a baseline scenario of the ECB.

"Although consumer spending has increased over the summer, many households are likely to continue to be cautious, especially in view of the elevated uncertainty about future employment and wage dynamics," Lane wrote.

-13.9 percent

CONTRACTION OF THE EU ECONOMY IN Q2 2020 VS Q2 2019, ACCORDING TO EUROSTAT

Furthermore, the inflation rate is projected to reach 0.3 percent this year and climb to 1 percent in 2021 and 1.3 percent in 2022. Analysts pin this year's low inflation on a weakening labour market, lower demand, falling energy prices, and temporary cuts to VAT.

7.2 percent

UNEMPLOYMENT RATE AS OF JULY 2020, ACCORDING TO EUROSTAT

CBRE analysts point out that lower for longer interest rates, weaker inflation, and significant asset purchases mean that long-term interest rates will remain at historically low levels, which is good news for real estate.

▸▸ *MIXED VIEW OF CEE-BASED REAL ESTATE MARKETS*

The investment market in CEE had grown by 15 percent in Q1 2020 to EUR 2.3 billion compared to Q1 2019, but the onset of the global pandemic dealt a blow to cross-border investments. Going forward, investors might be more domestically focused, with cross-border activity remaining limited, according to BNP Paribas Real Estate analysts. "In this regard we think the CEE region will see relatively higher levels of yield increases, leading to a meaningful fall in capital values. Total return over the forecast period will be backloaded, with the next two years returning an average of -4.8 percent per annum (p.a.) across sectors in the region. The average over the five-year forecast period (+1.4 percent p.a.) remains weak," analysts note. Romania is set to record some of the highest returns on the commercial real estate market out of all CEE markets towards the middle of this decade. In the Romanian offices segment, the 2020-2024 average total return will stand at 4.3 percent p.a., while in the logistics sector it will reach 8.1 percent. If we take a regional view, Romania had the smallest volume of property investment in 2019. The country got EUR 1 billion, below Hungary (EUR 1.7 billion), the Czech Republic (3.1 billion), and Poland (EUR 7.2 billion). However, estimates show that by 2021, Romania, the Czech Republic, and Hungary will be competing for lower investment volumes that run in the EUR 1-2 billion interval, while Poland's real estate market will continue to dominate the CEE in terms of fresh investment deals.

CONCELEX RECORDS GROWTH IN CHALLENGING YEAR FOR CONSTRUCTION

Concelex has built Steaua's new football stadium in Bucharest

Local construction group Concelex has eased the impact of the health crisis on its operations by taking part in several public tenders to make up for the falling business in some sectors. Following this strategic move, the company grew its turnover by 28 percent year-on-year in the first semester; in 2019, the overall turnover came close to RON 400 million.

BR OVIDIU POSIRCA

Concelex is currently working on three residential compounds in Bucharest and it is also building the new Steaua and Rapid football stadiums. In the housing segment, the company is developing Arbo Residence Mogosoaia – a 1,000-apartment projects with a built area of 100,000 sqm, as well as Colina Lac, which will comprise 400 houses in northern Bucharest. The firm also built the first phase of the Parcului20 residential compound.

Furthermore, the group has obtained a construction contract for the Cernavoda Nuclear Power Plant and it is also working on thermal rehabilitation for apartments in three districts of Bucharest. Internationally, Concelex has ongoing construction projects in Germany, including the Orthodox Cathedral in Munich, and Austria.

"The company has focused on diversifying its customer portfolio and increasing the number of tenders in order to neutralise inconsistency in certain sectors," says Radu Piturlea, Concelex Principal. There has been much more focus on tender-based projects in the past 12 months, according to the company representative.

▸▸ OVER 350,000 WORKERS NEEDED FOR ROMANIA'S BUILDING SITES

Aside from working as general contractor for residential developers, the group has made its own investments in the real estate sector. As a family-run business, Concelex has been investing in large-scale real estate projects for more than 15 years.

The overall market value of the residential compounds completed or currently being developed by the group's real estate companies reaches EUR 350 million, according to Piturlea.

The company's representative says that one the market challenges is the lack of skilled workers, arguing that it is important to convince Romanian workers to come back from abroad. He suggested that more than 350,000 construction workers would be needed to complete ongoing projects on the Romanian market. The coronavirus crisis, which has battered parts of the commercial property sector, has also had am impact on the construction industry.

The first half of the year was a challenge for Concelex, which had to adapt to restrictive conditions both on construction sites as well as in its headquarters.

"Some clients have cut down their investment budgets, which is why we decided to take part in several tenders in order to compensate for market downgrade in some sectors. However, we should only consider the emergency period to have been a sensitive one. Currently, the industry is functioning as normal, while observing sanitary limitations," says Piturlea.

In the past 5 years, Concelex has delivered projects with various levels of complexity in the energy, education, and research fields. This includes the construction of a 60-metre cooling tower for a thermoelectrical power plant as well as construction and upgrades worth around EUR 33 million for various educational institutions in Bucharest and other Romanian cities.

REAL ESTATE SECTOR TO PROP UP ROMANIA'S ECONOMIC RECOVERY UNTIL 2022

Romania's economy is forecast to return to accelerated growth next year, with investments in the property sector set to make an important contribution to the economic development despite the challenging context for commercial real estate players, who have been indirectly impacted by the health crisis.

Romania's economic downfall recorded in 2020 will be fully recovered by 2022, say economists

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As Romanian authorities imposed lockdown measures for two months to contain the spread of the coronavirus, the economy fell by 12.3 percent in the second quarter compared to the first three months of the year. The country's GDP contraction was slightly higher than the EU average drop of 11.4 percent versus Q1.

The local economy shrank by 3.9 percent in the first half of 2020 compared to the same period of 2019, according to a flash estimate from the National Institute of Statistics (INS) based on seasonally adjusted data.

Estimates from the World Bank show that Romania's output will fall by 5.7 percent this year and that the country should post a growth rate of 5.4 percent in 2021. The economic downfall recorded in 2020 will be fully recovered by 2022, according to economists, mirroring a trend that will be observed in all the major economies that went in the red this year.

The country has secured an EUR 80 billion spending package from the European Union, which will be spread over a seven-year period. The funding will back the country's efforts to restart its economy after the health crisis.

DIFFERENT OUTCOMES FOR THE MAIN REAL ESTATE MARKETS

However, the return to growth is a different story for the real estate sector, depending on market segment. The coronavirus crisis has reinforced some of the trends that were already shaping the future of work and shopping.

"Each sector of the real estate market has been affected differently, therefore the COVID-19 crisis will have different outcomes. The industrial sector has experienced smooth sailing through the current situation and, provided that the optimistic scenario of the CEE region becoming Europe's logistics hub comes true, it will most likely benefit from the medical crisis in the long term. The office market is highly dependent on companies deciding to come back to the traditional way of working, but many of them have chosen to work from home until the end of the year or even until mid-2021. Retail still has a long road ahead to recovery and its success strongly relies on macroeconomic factors such as the unemployment rate or inflation," says Ilinca Timofte, research analyst at Crosspoint Real Estate.

In terms of development plans, no major project has been cancelled so far and the transaction market remains dynamic. NEPI Rockcastle sold its office portfolio in Romania to AFI Europe Romania in a deal worth around EUR 300 million, while the land segment saw two major deals. Industrial and logistics developer VGP bought 39 hectares of land near Arad, while in

ROMANIAN ECONOMY OUTLOOK

Year	Growth rate*
2020	–5.7%
2021	+5.4%

**forecast*
Source: World Bank

Maxime Otto, JLL Romania

Ilinca Timofte, Crosspoint Real Estate

southern Bucharest, SIF Banat-Crisana bought former industrial platform IMGB, which covers 540,000 square meters.

These deals have provided a boost to the investment market, which has been relatively muted for several months as the COVID-19 crisis has broadened.

"Short-term prospects remain mostly influenced by coronavirus-related developments (i.e. somewhat negative), though over the medium term, things should start turning positive as long as our view holds out. New development projects with ongoing construction are continuing more or less unchanged, as pre-let ratios for office buildings, for instance, are quite decent, while retail schemes have tended to target quite a lot of towns with lower modern retail coverage," says Silviu Pop, head of research at Colliers International Romania. He says that developers are currently reassessing projects due in 2022 or later, where construction has not yet begun. However, final decisions for these future developments depend on the way in which the economy pans out.

The beginning of the year saw the commercial property sector consolidating the growth it had experienced on the local market for at least 5 years in terms of development activity and new investments, with a value that came close to EUR 1 billion in 2019. Banks have taken a more cautious approach in the past few months when it came to the real estate sector, but deals haven't dried up completely. For instance, AFI Europe secured funding from a consortium of three banks to buy four office buildings from NEPI Rockcastle.

"Investors' focus has shifted towards core assets enjoying strong cash flow, meaning lower risk – lower return," says Maxime Otto, capital markets consultant at JLL Romania.

-3.9 percent

DROP IN ROMANIA'S GDP IN H1 2020 VS H1 2019, ACCORDING TO INS FLASH ESTIMATE

5.4 percent

ROMANIA'S PROJECTED ECONOMIC GROWTH IN 2021, ACCORDING TO WORLD BANK

DEVELOPERS REMAIN COMMITTED TO LOCAL MARKET

Although the delivery of some projects has been delayed, especially in the retail segment, the development pipeline remains strong in Bucharest and some of the large regional cities. At the end of the first half of the year, 538,000 sqm of logistics spaces were under construction nationwide and set to be delivered by the end of 2021, while the Bucharest office market had 367,000 sqm of modern stock under construction and planned by the end of next year, says Daniela Gavril, head of research at CBRE Romania. As the retail sector was the hardest hit, developers were constrained to postpone the inauguration of their ongoing projects – adding up to 180,000 sqm across the country – to the end of the year.

"It is our opinion that nowadays, both lenders and developers are taking a cautious approach to Romanian investment prospects, trying to overcome the wait-and-see types of strategies and search for the great opportunities that are starting to take shape during these uncertain times," Gavril argues.

Meanwhile, deliveries of new residential units jumped 17 percent to 14,919 homes in the first quarter of 2020 compared to the same period of last year, according to INS data. In the first half of the year, property sales including houses, apartments, and land dropped by just 1 percent compared to the same period of last year, to 239,109 units, according to real estate portal imobiliare.ro.

Once lockdown restrictions were removed, the demand for homes started to gradually grow, while construction sites for new apartment complexes continued to operate, as they were deemed to be essential businesses. The main question among investors in the residential segment will be the outlook for housing prices. Consultants say that high-end housing projects will prove more resilient as potential buyers have more disposable income. In the lower income bracket, the evolution of the unemployment rate and the overall economic recovery will play a pivotal role for home buyers.

OFFICE MARKET CONTINUES EXPANSION IN BUCHAREST AND REGIONAL CITIES

The development pipeline for office projects remains strong, with more than 12 projects with a combined leasable area of around 320,000 square meters scheduled to be delivered in Bucharest and some of the most dynamic regional cities in 2021. With employees starting to gradually return to work, owners of office buildings are adapting their spaces to a new reality in the labour market, which might bring a mix of remote and on-site work.

Total demand for office spaces in 2020 will amount to 200,000 sqm in Bucharest

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All the office space that is currently under development have pre-lease deals already signed and their development remains on track.

One or two projects are expected to have a slight delay in delivery (2-3 months), possibly moving the official delivery date to the first quarter of 2021, says Marius Scuta, head of the office department & tenant representation at real estate consultancy firm JLL Romania.

"This is something to be seen in real numbers, but so far, it is clear that demand collapsed in 2020 compared to 2019. On one hand, we have companies whose current leases are due to expire, and they need to take action by signing a renewal or by relocating to a new project that should be green and well-prepared for pandemic times. On the other hand, we have been seeing more and more companies trying to sublet parts of their spaces, which will put pressure on landlords with current or future vacancies, as well on the level of basic rents or incentives that will be offered by current and future projects," Scuta says.

For instance, local investor Liviu Tudor, the biggest Romanian owner of office spaces, said he was planning to convert one of his office buildings into a co-loving space. Office project Novo Park would thus be turned into a mixed project once the reconfiguration is complete, he told local business daily ZF.

Elsewhere, Renault Groupe was looking to sublet some of the space in its new HQ in western Bucharest, which covers 58,000 sqm. The firm realized that it needed less space as more of its employees had started to work remotely.

"Currently, most employees are still working from home, with quite a lot of large companies offering employees this alternative at least until the end of the year (with some going towards mid-2021). What this means is that companies that are not being pressured into making a decision on a location are in wait-and-see mode, so we expect demand to be skimpy until the market can get a clear grasp on where things are going," says Silviu Pop, head of research at real estate consultancy firm Colliers International Romania.

▸▸ *HALF A MILLION SQM OF NEW OFFICE SPACES TO BE DELIVERED IN ROMANIA BY THE END OF 2021*

In Bucharest, total demand for office spaces in 2020 will amount to 200,000 sqm. In the first half of the year, office leasing activity totaled 95,500 sqm, down 53 percent compared to the same period of 2019, according to data from CBRE Romania.

"If in recent years we had grown accus-

OFFICE PIPELINE FOR 2021 IN BUCHAREST AND REGIONAL CITIES

Project	City	Developer	Surface (sqm)
J8 Office Park	Bucharest	Portland Trust	46,000
One Cotroceni Park – phase 1	Bucharest	One United	44,000
Sema Offices London, Oslo buildings	Bucharest	River Development	31,500
U-Center Campus – phase 1	Bucharest	Forte Partners	30,500
Miro	Bucharest	Speedwell	23,300
Tiriac Tower	Bucharest	Tiriac Imobiliare	20,000
AFI Tech Park – phase 2	Bucharest	AFI Europe	20,000
Dacia 1	Bucharest	Atenor	13,000
Tandem	Bucharest	Forte Partners	10,000
United Business Center 0	Timisoara	Iulius Group & Atterbury Europe	52,000
ISHO phase 3	Timisoara	Mulberry Development	19,700
Coresi Business Campus U1	Brasov	Ceetrus	10,500

Source: JLL, C&W Echinox

tomed to a net demand of 25-30 percent from TLA, this year, the share might grow and vary between 35-40 percent," says Tudor Ionescu, head of A&T Services, Offices at CBRE Romania.

Take-up deals averaged 1,300 sqm in the Romanian capital, while renewals and renegotiations increased the average to 4,500 sqm from 3,600 sqm in H1 2019.

By the end of 2021, office projects with a total leasable area of 500,000 sqm are slated for delivery in Bucharest and regional markets. This is a figure that hasn't changed since the start of the COVID-19 crisis, says Ilinca Timofte, research analyst at Crosspoint Real Estate.

In the second half of this year, six new office buildings will be delivered in Bucharest with a combined leasable area of 96,300 sqm. This will push the total modern stock of offices in the city to 3.39 million sqm. More than half of the new stock will be located in northern Bucharest, which has one of the lowest vacancy rates. The three sub-markets that integrated most of the new office supply in H1 were in northern Bucharest, the Pipera area, and the western part of the city. The rental market has remained stable with the biggest monthly price of EUR 18.75 per sqm recorded in the central business district (CBD) area.

VACANCY AND RENT COSTS FOR OFFICES IN BUCHAREST

Sub-market	Vacancy rate	Prime rent (EUR/sqm/month)
CBD	6.20%	18.75
Center	8.60%	16.00
North	7.80%	16.50
Pipera	16.60%	13.50
West	10.40%	14.50
South	2.70%	10.00
East	13.30%	10.00
Total	10.20%	18.75

Source: CBRE Romania

Next year, the biggest office project in Bucharest will be delivered by Portland Trust. The company will complete development works for J8 Office Park, which has a total leasable area of 46,000 sqm.

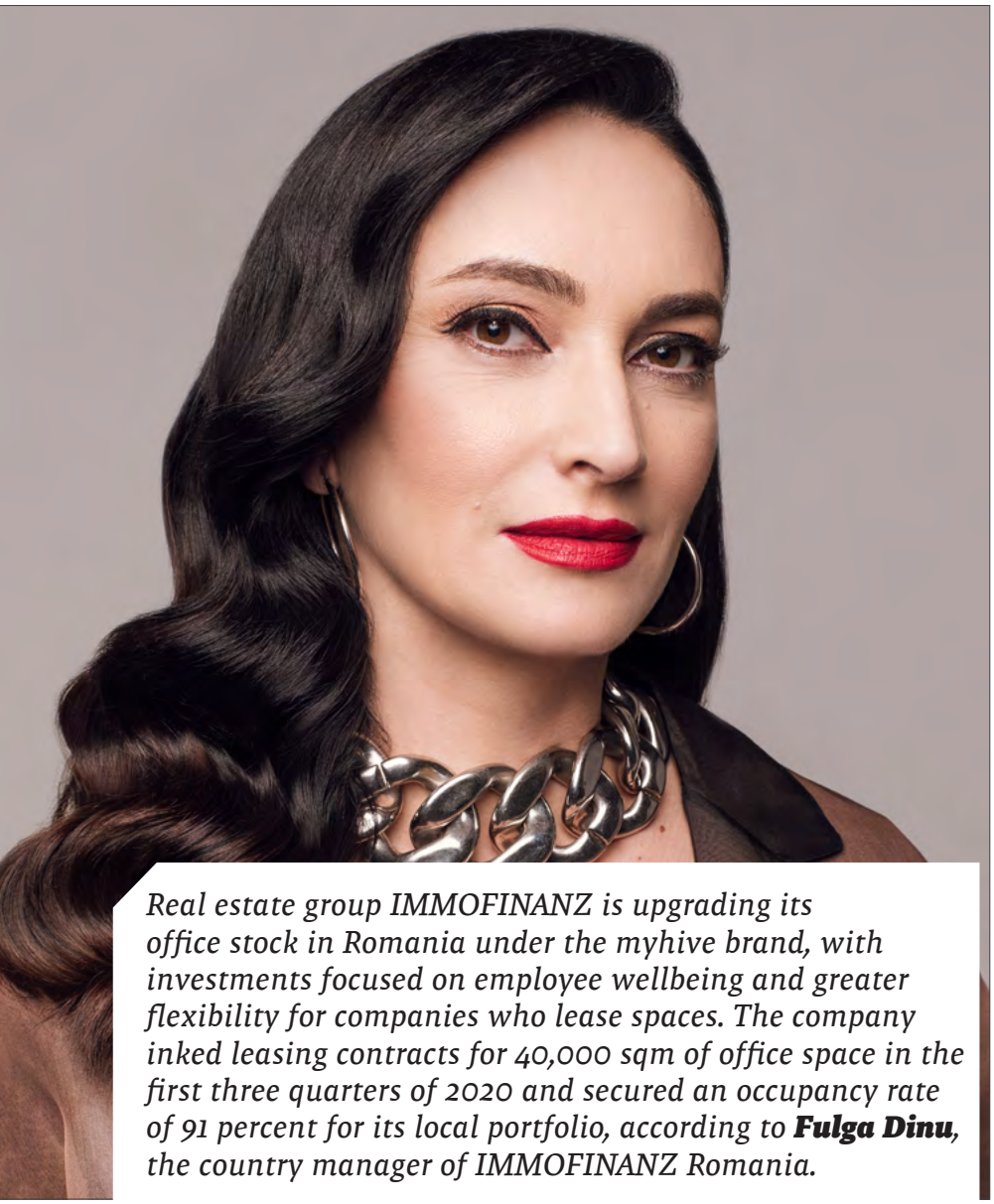
On the regional market, the biggest delivery expected next year is the United Business Center 0 building in Timisoara, which will have a total leasable area of 52,000 sqm. The office building will be integrated into the Openville Timisoara mixed-use project, which is jointly developed by Iulius Group and Atterbury Europe. In the same city, real estate entrepreneur Ovidiu Sandor will deliver the third phase of the ISHO mixed-use project, which will include 19,700 sqm of new office space.

"While the expansion of offices will not continue as it would have in the absence of the pandemic, we do foresee positive development in the coming years as the stock of proper quality offices in major regional cities remains at a relatively low level," says Sandor.

In Brasov, CEETRUS is planning to deliver a new office building with a leasable area of 10,500 sqm in its business campus.

FULGA DINU, IMMOFINANZ: MYHIVE BRAND TO BE ROLLED OUT TO MORE OFFICE BUILDINGS

BR OVIDIU POSIRCA



Real estate group IMMOFINANZ is upgrading its office stock in Romania under the myhive brand, with investments focused on employee wellbeing and greater flexibility for companies who lease spaces. The company inked leasing contracts for 40,000 sqm of office space in the first three quarters of 2020 and secured an occupancy rate of 91 percent for its local portfolio, according to ***Fulga Dinu****, the country manager of IMMOFINANZ Romania.*

WHAT IS YOUR DEVELOPMENT STRATEGY FOR MYHIVE IN ROMANIA?

myhive is the office concept that sets a trend in the segment, having been created with one main goal in mind: to support successful companies in all their needs. As the workplace is evolving, there is a growing trend towards more spacious areas featuring lounge spaces, fitness and bicycle rooms, event areas, and conference rooms. We are now in the process of rolling out this brand to two additional office buildings, namely myhive IRIDE | eighteen and myhive | IRIDE nineteen, which are to be re-opened soon. The investment projects bring an extra leasable space of approximately 28,000 square meters and a significant share of the new areas has already been leased.

The two buildings have gone through a full upgrade process. The refurbishment included a redesign of the main lobby areas to allow plenty of natural light and the implementation of an attractive and warm architectural design. This contributes to employees' positive mood and it stimulates creativity, which is crucial for business development.

WHAT IS THE FEEDBACK FROM TENANTS CURRENTLY OPERATING IN OFFICE BUILDINGS UNDER THE MYHIVE BRAND?

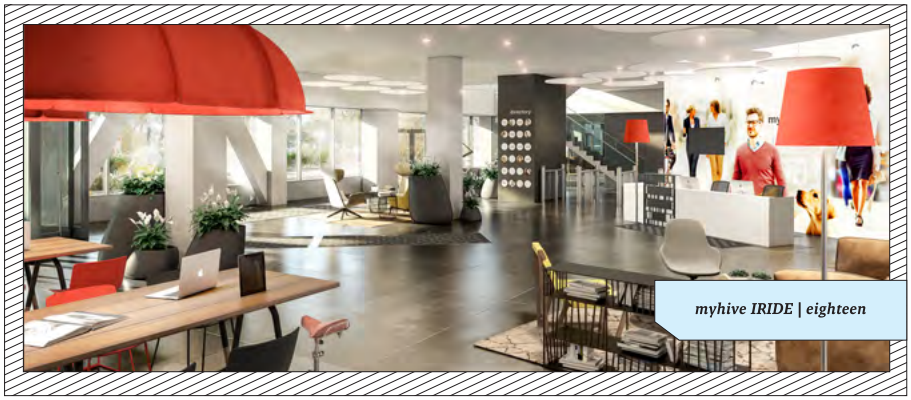
Reactions from employees and tenants have been good. Occupancy rate figures in our office buildings are very important indicators in this regard. We have eight operational office properties and two office buildings currently undergoing a modernisation process in Bucharest and Voluntari with a 91 percent occupancy rate.

Despite the pandemic, we signed contracts for more than 40,000 sqm during the first nine months of 2020. These included contract extensions and expansions as well as new tenants joining our office buildings.

As every aspect of the workplace needs to be taken into account – from a lively lobby to attractive outdoor spaces – myhive buildings have receptions and lobbies inspired by luxury hotels where our supportive staff make employees feel like home. The lively indoor and outdoor lounge areas are inviting spaces for tenants to use for networking during events and special activations organised by the myhive community manager for our community members, based on their wishes and needs (all employees working in myhive buildings

are members of the myhive community). The buildings also include restaurants and cafeterias, conference and event facilities, fitness rooms for classes with instructors, bike rooms, showers, and lockers.

Office buildings nowadays must offer much more than simple workspaces; they're more like living spaces, with employees' wellbeing becoming a priority. This will be the essence of the office experience and we expect this trend to continue in the future as office landlords pay more attention to the needs of their modern customers.



myhive IRIDE | eighteen

Flexible working and the home office will be in even greater demand, but home offices will never completely replace the office workstation. We are convinced that the social aspect and personal interaction are crucial for innovation and productivity in companies. Therefore, we will continue to see demand for high-quality office spaces with benefits. In the medium to long term, there may of course be changes in the space requirements of individual tenants. Again, it is very important to focus on the needs of the customer: flexibility and community play a central role here.

This includes flexible rental space, for example. We're already relying on this as part of the myhive concept. Large areas can be rented on a long-term basis and small areas can be added or disposed of at short notice as desired. In addition, we will have a membership service with monthly rates covering all services, including short-term booking of meeting rooms. We thus offer a mix of high-quality co-working space with the advantages of a modern headquarters, such as generous space, all-inclusive service, and excellent infrastructure.

HOW ARE YOU ADAPTING YOUR VIVO! SHOPPING CENTRE NETWORK TO THE ONGOING HEALTH CRISIS?

The safety of all our visitors and employees in our shopping centres is a top priority.

In all VIVO! shopping centers in the country (Pitesti, Constanta, Cluj-Napoca, and Baia Mare), the cleaning staff is always working to sanitise and disinfect all common spaces (halls, toilets, elevators, locks, handles, tables in the food court area). We carry out disinfection by nebulisation with broad-spectrum biocides, both in common areas as well as through the ventilation system. We have disabled air recirculation in our centres to bring in 100 percent fresh air. We communicate safety shopping measures and instructions for proper hand washing and sanitisation across our centres on audio, digital, and print media.

We have installed hand sanitiser dispensers at entrances and close to toilets and restaurants. We have established one-way traffic in corridors to maintain the required 2-metre distance between visitors. In addition, we work closely with every shop and restaurant to ensure safety.

ARE ROMANIANS EXCITED TO RESUME SHOPPING IN LARGE STORES?

VIVO! shopping centres in Romania are operating with an average occupancy rate of 98 percent. The average footfall is recovering, as customers want to resume their usual activities.

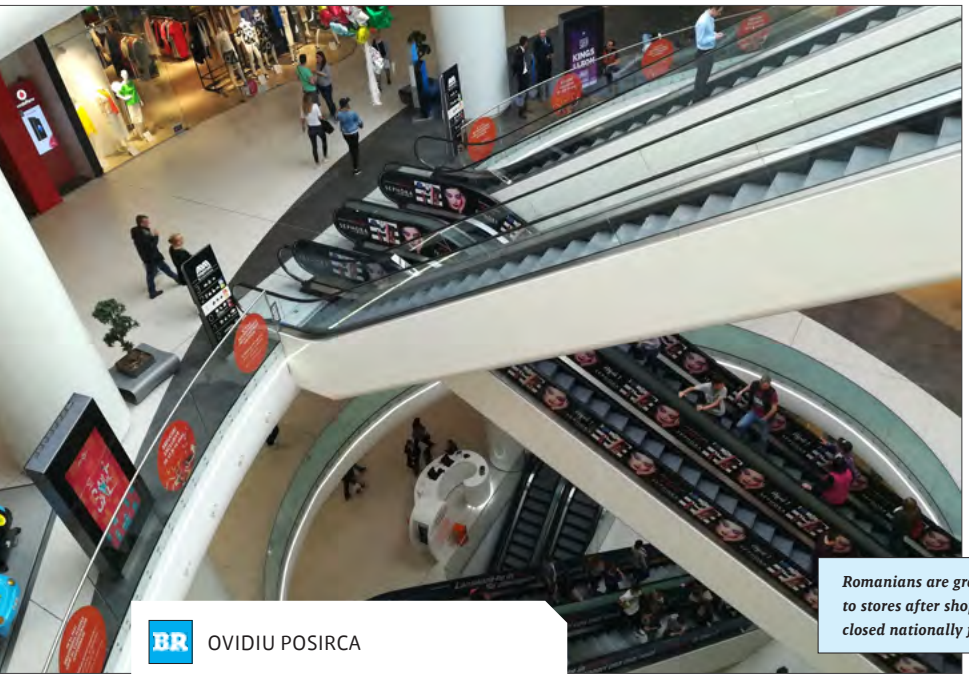
The pandemic has had a significant impact on purchasing behaviour and at least for a while, customers will continue to go shopping with specific goals in mind. Time spent in stores decreases as protective and preventive measures come first.

IS IMMOFINANZ PLANNING TO BUY OR SELL ANY REAL ESTATE ASSETS IN ROMANIA THIS YEAR?

On the one hand, we are rolling out our myhive brand to additional office buildings – myhive IRIDE | eighteen and myhive IRIDE | nineteen – soon to be re-opened under the new brand. However, we are always open to new investment opportunities.

myhive IRIDE | nineteen

RETAIL INVESTMENTS FOCUSING ON SMALLER CITIES



With Bucharest expected to add just 6,000 square meters of new retail spaces this year, major players are set to deliver various retail schemes with a total surface of nearly 180,000 sqm in regional cities and smaller markets across the country. Although retail was among the sectors most affected by the lockdown, sales accelerated online, while deliveries of new shopping centres will continue and will provide an upgraded experience to consumers.

Romanians are gradually returning to stores after shopping centres were closed nationally for nearly 2 months

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The opening of AFI Palace Brasov, the biggest shopping centre in the country due for delivery this year, was postponed until the fall after the COVID-19 crisis forced AFI Europe to reconsider its plans to open it last spring. The project has a total leasable area of 45,000 sqm and is part of a mixed-use scheme that also includes office spaces. On the Bucharest market, Nova Imobiliare rescheduled the opening of Colosseum Mall for 2021. Initially, the developer had planned to deliver the 16,500-sqm extension to the existing retail project by the end of this year.

In the past few months, NEPI Rockcastle delivered Shopping City Targu Mures with a size of 39,800 sqm, while Prime Kapital opened Dambovita Mall Targoviste, which has a total leasable area of 33,000 sqm.

"On top of what has already been announced in terms of projects outside of Bucharest, I believe that we are still going to see some retail schemes being developed in undersupplied cities in terms of retail, where the catchment area and purchasing power will be enough to support new developments. However, our expectations are rather for small developments (5,000-19,999 sqm GLA) and medium schemes (20,000-39,999 sqm), but the latter to a more limited extent," says Alina Cojocaru, head of valuation advisory at real estate consultancy JLL Romania.

3.75 mln sqm

ROMANIA'S MODERN RETAIL STOCK AS OF H1 2020, ACCORDING TO CBRE

Other smaller projects that may be delivered in 2021 include Prime Kapital's Sepsi Value Centre in Sfantu Gheorghe, with a size of 16,300 sqm. Two more projects with 10,000-15,000 sqm GLA are under development by Oasis Retail Development & Consulting in Timisoara and Sibiu (first phase).

"It is difficult to precisely assess right now which cities will see new shopping centre developments in the next few years. Given the structural changes the retail sector is facing with online sales increasing, I believe developers will be more cautious when targeting their new investments in brick & mortar," says the JLL representative.

Meanwhile, Ceetrus has announced the development of a shopping centre in Resita, as part of a massive real estate investment in the city over a 15-year period. In the first phase, the company will develop a shop-

ping centre with a total leasable area of 35,000 sqm.

Going forward, we might see more small and medium-sized projects, particularly retail parks that tend to be proximity schemes, suggested Silviu Pop, head of research at Colliers International Romania, the real estate consultancy.

Currently, the city has 10 shopping centres with leasable areas above 30,000 sqm and consultants argue that there is room for at least one new project if we take into account consumers' increased purchasing power compared to other cities. In the long term, a major shopping mall might be developed around the Casa Radio or Romexpo projects, although there is still a lot of uncertainty around investment plans in these areas. As for the market outside the capital, there are 2.59 million sqm available, of which more than 60 percent are retail parks.

For instance, Polish Scallier announced the development of six small retail parks with a joint surface of 40,000 sqm by 2022. The developer says that Romania's market is at the stage where the Polish one was a decade ago.

"This would entail quite a lot of potential in small and mid-sized towns in all regions of the country where there is some industrial activity left, but also in some of the large cities," says Pop. Southern Romania and the Moldova region could see intensified development activity for retail centres in the coming years as more people will move from rural areas into cities, according to analysts.

MAJOR RETAIL SCHEMES ANNOUNCED FOR 2020 IN ROMANIA

Project	Type	Developer	Size (sqm)
AFI Palace Brasov	New Project	AFI Europe	45,000
Shopping City Targu Mures	New Project	NEPI Rockcastle	39,800
Dambovita Mall Targoviste	New Project	Prime Kapital	33,000
Sepesi Value Center	New Project	Prime Kapital	16,700
Prima Shopping Center Sibiu phase 1	New Project	Oasis Retail Development & Consulting	15,000
Prima Shops Timisoara	New Project	Oasis Retail Development & Consulting	10,000

Source: JLL

180,000 sqm

NEW SUPPLY OF RETAIL PROJECTS UNDER DEVELOPMENT AT THE START OF 2020, ACCORDING TO CBRE

MAIN CITIES FOR SHOPPING CENTRES AND RETAIL PARKS

Bucharest's modern retail stock covers 1.15 million sqm, of which 63 percent are shopping centres, while the rest are retail parks.

"Shopping centres will remain the place to be for both retailers and customers in a rapidly-developing market, where retailers have recorded significant profitability and where there is still room to grow," CBRE analysts wrote in a report.

In the meantime, Romanians are gradually returning to stores after shopping centres were closed nationally for nearly 2 months. Aside from grocery stores and other essential services, all brands had to close down their physical units and continue selling online. Romania's retail trade volume jumped 6.3 percent in June compared to May, continuing a recovery drive started in May with trade up 17.2 percent versus April, when volumes had collapsed by 21.9 percent. By comparison, the average fall of retail trade in the EU was 11.3 percent in April, when lockdown measures were imposed in most member states.

By June, retail trade volumes returned to the levels recorded in February 2020, before the start of the containment measures, according to Eurostat, the statistics office of the EU.

The return of shoppers is good news for retailers that had to keep up with rent bills in shopping centres despite the fact that a large share of their sales temporarily vanished. The government said it would cover half the rent for around 3,000 companies who had stores in shopping centres that were under lockdown. Eligible companies will receive the aid for up to 3 months.

By the summer of 2020, monthly prime rents stood at EUR 75/sqm in shopping centres, while high street rent was EUR 50/sqm. For retail parks, companies pay EUR 8.5/sqm, according to JLL data.

RETAILERS DRIVING GROWTH OF LOCAL LOGISTICS SECTOR

Hypermarket chains have developed their own logistics network for improved efficiency and control

Large retail chains operating on the Romanian market have continued to generate demand in the industrial and logistics sector and they are investing in innovative technologies that can improve their own logistics operations to get products to consumers as fast as possible.

BR OVIDIU POSIRCA

Hypermarket chains occupy and operate their own warehouses, a trend also seen among large e-commerce players. Their spaces account for more than 10 percent of the total industrial and logistics stock, which reached 4.7 million sqm in the first half of 2020, consultants say.

"In recent years, food retailers have been a key driver for the logistics market, partially because of the rapid countryside expansion (more stores generating more volumes and hence the need of new DCs to better cover the country), but also due to a trend started few years ago in securing logistics space directly versus through a 3PL (a retailer can sign a longer lease and provide a better guarantee for a landlord, therefore they can generally obtain better rents)," says Viorel Opait, business development director at real estate consultancy JLL Romania. Some of the biggest leasing deals in the logistics segment were signed this year by retailer Profi. The company leased 58,500 sqm of warehouse space in Timisoara and 57,000 sqm in Craiova. Both projects will be developed by WDP. These were some of the key transactions in the second quarter of the year, alongside leasing deals recorded by companies in the distribution and logistics industries. Retailers have been investing in warehouses placed in strategic locations that could help them move freight efficiently despite the insufficient road infrastructure in some regions.

For instance, Kaufland has two warehouses in Ploiesti and Turda, with a total surface of 190,000 sqm, covering all assortments. From these two centres, the retailer supplies 133 stores in Romania. "Transport infrastructure is one of the biggest challenges in Romania. However, we have noticed significant improvements in our distribution KPIs, as several important highways have been completed, such as Bucuresti - Constanta or large parts of Sibiu-Nadlac. Even the Bucuresti-Ploiești highway has had a significant positive impact. In the coming years, other important projects such as the Sebes -Turda and Campia Turzii -Targu-Mures highways as well as parts of the Bucharest Ring Road will also start to generate positive impacts in delivery time and costs, but will also help reduce the carbon footprint," says Valer Hancas, director of communication and corporate affairs at Kaufland Romania. In 2020, the company invested around EUR 2 million to upgrade and maintain its current logistics infrastructure. The company is looking for electric transportation solutions for its distribution fleet in order to reduce the impact of fossil fuel-based transport.

EUR 2 mln

KAUFLAND ROMANIA'S INVESTMENTS IN LOGISTICS INFRASTRUCTURE IN 2020

3-5 percent

ANNUAL GROWTH IN WAREHOUSE AUTOMATION INVESTMENTS, ACCORDING TO MCKINSEY

Elsewhere, Lidl has a network of 278 stores which are serviced by five logistics centres located in Chiajna (near Bucharest), Nedelea (near Ploiesti), Iernut (near Targu Mures), Lugoj, and Roman. The company will invest in another warehouse near Bucharest, in Fundeni, in a bid to streamline distribution operations in southern Romania. Lidl will invest RON 1 billion (around EUR 205 million) in developing its store network and logistics infrastructure. The investment budget is included in the financial year that runs from March 2020 to February 2021.

INDUSTRIAL & LOGISTICS MARKET TO REACH NEW DEVELOPMENT MILESTONE IN 2020

Developers of industrial and logistics (I&L) projects have been keeping busy despite the health crisis and have continued to deliver new spaces, sign new leasing deals, and acquire land for future investments. The sector might reach the 5 million square meters milestone this year and it could continue its growth to around 8 million sqm in the coming years.

Romania is building its profile as a logistics hub for Southeastern Europe

BR OVIDIU POSIRCA

The first semester of 2020 ended with 538,000 sqm of logistics spaces under development across the country, with delivery dates up to the second half of next year. Meanwhile, the stock of I&L spaces reached 4.7 million sqm in the first half of this year, according to data from real estate consultancy CBRE Romania. Close to half a million sqm in I&L spaces will be added in the Bucharest-Ilfov area this year, while smaller deliveries are planned for Cluj-Napoca, Brasov, and Sibiu.

Bucharest remains the biggest market in the country, amassing 45 percent of the total stock of spaces, followed by cities in southern, central, and western Romania. Consultants say that the market still has a lot of room for development and the stock that was operational at the start of 2020 could double somewhere around the middle of this decade. "Given that the stock growth rate has been steady in recent years – around 500,000 sqm per year – and that the 5 million sqm benchmark should be reached by the end of this year, the size of the Romanian industrial market could amount to 8 million sqm in 6-7 years. There are, of course, factors such as infrastructure development or the shortening of the Asia-Europe supply chain by moving production facilities into CEE could lead to a more rapid expansion of the segment," says Ilinca Timofte, research analyst at Crosspoint Real Estate. Romania is already building its profile as a logistics hub for Southeastern Europe and the added investments in infrastructure will further enhance the country's regional position in the I&L segment. Many companies are already using distribution centres in Romania to supply countries like Greece, Bulgaria, the former Yugoslavia or Moldova, says Viorel Opait, business development director at real estate consultancy JLL Romania. Going forward, we will see sale & lease-back transactions with buildings which are now owner-occupied and will bring some of these buildings into the modern stock, he adds.

TRANSACTIONS AND RENTS

Romania's industrial space take-up, which covers total leasing activity excluding renewals and renegotiations, amounted to 326,000 sqm in the first half of 2020. This year to date, the biggest transaction in the I&L sector was recorded in west Bucharest. A new IKEA distribution centre, operated by the joint venture between Maersk and IB Cargo, will be developed on 75,000 sqm in a park owned by CTP. "The smaller online retailers are also active, and you can see this either through direct leasing transactions they make or through leases by online logistics companies that have seen good growth lately. Another consequence of the online growth is the expansion of parcel companies, which have generated major transactions as well," says Opait of JLL Romania.

4.7 mln sqm

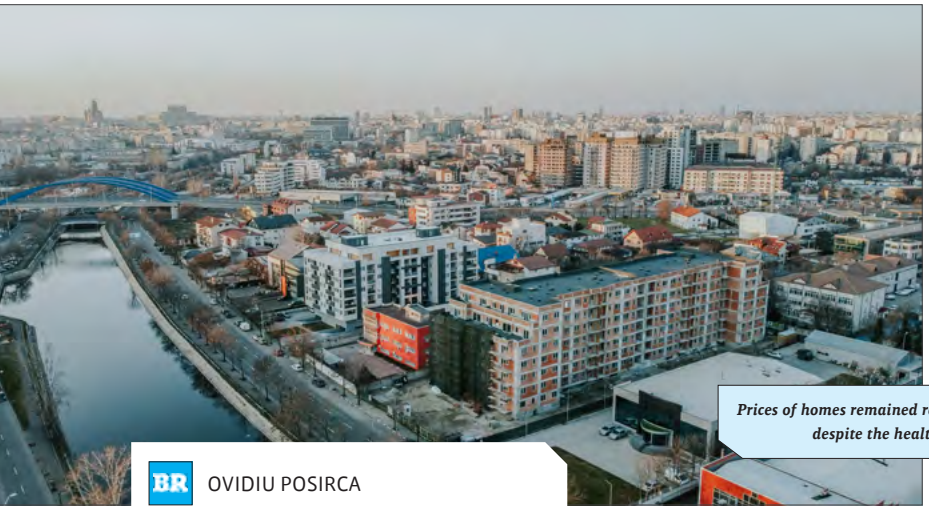
ROMANIA'S INDUSTRIAL STOCK AT END-JUNE 2020, ACCORDING TO CBRE RESEARCH

75,000 sqm

THIS YEAR'S BIGGEST SINGLE PRE-LEASE DEAL SIGNED BY IKEA IN CTPARK BUCHAREST WEST

RESIDENTIAL MARKET LOOKING TO SECURE FUTURE DEMAND

Average prices in the residential sector recorded a slight decrease in the first months of the COVID-19 pandemic, with analysts estimating that the sector had a mixed outlook depending on property selling prices. The new government-backed New Home programme is set to provide an impetus in the segment that includes homes valued up to EUR 150,000, while developers say that the reduction of VAT to 5 percent should be applied for residential transactions that exceed the current limit of RON 450,000 (EUR 92,000).



Prices of homes remained resilient despite the health crisis

BR OVIDIU POSIRCA

Housing prices in Romania were up 8.1 percent in the first quarter compared to the same period of last year, ranking the country eighth among European Union markets, according to Eurostat. Compared to the fourth quarter of 2019, housing prices had grown by 3.3 percent. "Against the background of restrictions on movement imposed during the state of emergency (in effect for a month and a half in Q2 2020), asking prices for residential properties in Romania dropped," analysts say in a report published by AnalizeImobiliare.ro. In Bucharest, the country's biggest residential market, housing prices were down 0.5 percent in the second quarter, compared to a 4.7 percent increase in Q1. In fact, the market has been growing since 2015, with the biggest annual price increase of 10 percent in 2017, according to statistics by JLL Research and AnalizeImobiliare.ro.

HOW THE HEALTH CRISIS IMPACTS DEMAND FOR HOMES

The lower and mid-lower segments, which hold a 64 percent share of the residential stock in Bucharest, will take a hit because of layoffs in sectors which are directly targeted by COVID-19 restrictions. This refers to residential properties with selling prices below EUR 1,300 per square meter, according to a JLL Romania report.

Homes in the EUR 1,300 to EUR 2,000/sqm band will be moderately impacted as potential buyers tend to hold steadier jobs with higher incomes.

"Nevertheless, small investors looking for buy-to-rent opportunities that would be suitable for short term accommodation will step back from this market in the medium term. Moreover, the presence of opportunistic buyers will increase as they will be more actively looking for distressed acquisitions," argue JLL consultants.

Homes in the high-end segment, which have a share of just 6 percent of the total residential stock, will remain on stable footing. In this category, prices start at EUR 2,000/sqm and grow exponentially depending on location, usable surface, and amenities. Despite the health crisis, property sales dropped by only 1 percent

EVOLUTION OF BUCHAREST RESIDENTIAL PRICES

Year	Change (%)
2015	3.1%
2016	7.9%
2017	10%
2018	4%
2019	5.3%
2020 Q1	4.7%
2020 Q2	-0.5%

Source: JLL Research, analizeimobiliare.ro

to 239,109 deals (houses, land plots, and apartments) in H1 2020 compared to H1 2019, says the National Agency for Cadastre and Land Registration (ANCPI).

Meanwhile, new housing deliveries were up 17 percent year-on-year to 14,919 in the first quarter, according to the National Institute of Statistics (INS). Bucharest-Ilfov and north-west Romania were the regions with the highest number of completed homes.

NEW HOME PROGRAMME AND BANKING SECTOR'S EXPOSURE

Roughly 10 years after the initial launch of the first state-guaranteed programme for home buyers called First Home, the government has rolled out an updated version called New Home. Now, the state will partially guarantee loans for new homes with values up to EUR 140,000, which is in the price range for 2 or 3-bedroom apartments. For new homes that cost up to EUR 70,000, the buyer will have to provide a 5 percent down payment on the bank loan they need to make the acquisition. For homes worth between EUR 70,001 and EUR 140,000, the down payment is 15 percent.

Consultants say that the new programme should support the acquisition of bigger homes in better locations, but the VAT for residential sales represents a challenge. For properties with a maximum price of RON 450,000 (around EUR 92,600), the payable VAT is 5 percent, while for those priced above this threshold the applicable VAT rate is 19 percent.

"The current limit for the application of the 5 percent VAT leads to a low living quality, which translates into small surfaces and lower-quality materials for construction works," writes Antoanela Comsa, president of the Association of Real Estate Investors in Romania, in an editorial published by AnalizeImobiliare.ro.

The help to buy scheme for homes continues to play a strategic role in the bank loan market. By March 2020, mortgage loans with state guarantees had a share of 43 percent in the housing loan portfolio of the banking system, according to the National Bank of Romania (BNR). Furthermore, the exposure of the banking system in the real estate sector was 8 percent higher in April 2020 compared to the same period of last year, reaching RON 96 billion (close to EUR 20 billion).

8.1 percent

HOUSE PRICE INDEX ANNUAL GROWTH RATE IN ROMANIA IN Q1 2020, ACCORDING TO EUROSTAT

RON 96 bln

BANKING SECTOR EXPOSURE IN RESIDENTIAL MARKET, ACCORDING TO BNR

CLUJ-NAPOCA: THE MOST EXPENSIVE HOUSING MARKET IN ROMANIA

In the 12 months to June, the asking price for apartments in Cluj-Napoca grew 14.3 percent to a median price of EUR 1,800 per sqm. The western Romanian city currently has the most expensive residential market in the country due to a combination of increased demand and limited supply. Despite the lockdown imposed nationally last spring, prices continued to grow in this city, by 2.2 percent. By comparison, the price growth for Bucharest apartments stood at 10.8 percent for a 12-month interval. Other cities with apartments priced above EUR 1,000 were Timisoara (EUR 1,270/sqm), Constanta (EUR 1,240/sqm), Brasov (EUR 1,200 /sqm), Craiova (EUR 1,150/sqm), Iasi (EUR 1,060/sqm), and Oradea (EUR 1,050 /sqm).

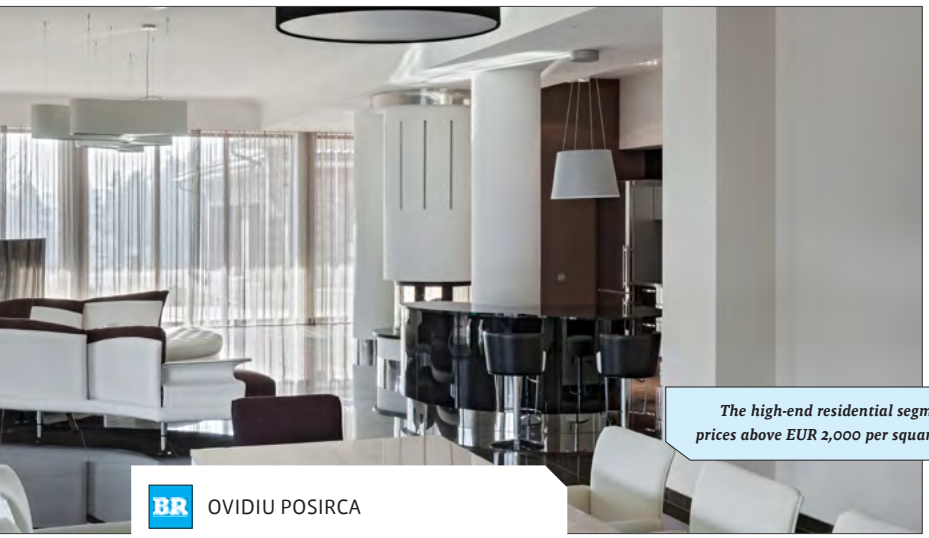
PRICE TRENDS IN THE MAIN CITIES – APARTMENTS FOR SALE IN Q2 2020

City	Median price per sqm (euro)	Price change over 12 months
Cluj-Napoca	1,800	14.3%
Bucharest	1,450	10.8%
Timisoara	1,270	5%
Constanta	1,240	8.9%
Brasov	1,200	7.4%

Source: Analize Imobiliare and Imobiliare.ro

LUXURY RESIDENTIAL SEGMENT PROVES RESILIENT IN UNCERTAIN TIMES

Romania's premium and luxury homes niche has weathered the tough economic conditions of the past few months, with a stable demand outlook as potential buyers are looking at great locations with attractive facilities.



The high-end residential segment has prices above EUR 2,000 per square meter

BR OVIDIU POSIRCA

The high-end segment accounts for approximately 6 percent of the total number of residential units on the Bucharest market and has prices above EUR 2,000 per square meter, according to JLL, the real estate consultancy firm. The agency points out that that luxury homes were the least impacted by the COVID-19 crisis.

"We don't foresee a change in the potential buyers' appetite for luxury residential properties, and demand is expected to remain stable," the consultants wrote in a report.

DEVELOPERS: HEALTH CRISIS HAD LITTLE IMPACT ON DEMAND

The stock of premium homes in Bucharest is mainly located in the central and northern part of the city, close to landmarks such as Universitatii Square or Charles the Gaulle Square. Furthermore, development has accelerated in areas with easy access to Herastrau Park.

"I firmly believe that the medical crisis will not impact demand for the high-end segment. Customers will more carefully analyse all the details of a residential project, and they will want their homes to be better, more comfortable, and more beautiful. If you asked me, I would say that clients are the ones who will take the concept of high-end to one of higher-end," says Cristian Pascu, the CEO of PSC Contractor & Developer. His company is currently developing WIN Herastrau, a luxury compound of 252 apartments valued at EUR 60 million.

Elsewhere, representatives of IMPACT Developer & Contractor say that the premium residential segment has proven its resilience during the pandemic as high-income individuals have continued to explore the market's potential and to invest in the best opportunities.

"We have a growing share of buyers who express interest in buying an apartment as an investment in one of the best areas of Bucharest. The yields generated by residential assets are in the 6-7 percent range and can generate bigger returns compared to investments in other financial instruments. Establishing a steady rental income helps investors build a solid financial base, especially if they acquire several apartments in a compound," say the company's representatives.

The company is currently working on its first luxury project, called Luxuria Residence, which is located in the Expozitiei area. IMPACT delivered the first 232 apartments last spring and will add 268 new units by the end of this year. Several office and residential developers have flocked into the Expozitiei area, which is gradually turning into the biggest property investment hub in the city. Real estate players say that the area has a long-term growth potential and that the development of transport infrastructure, including a new subway line, is going to generate added value for buildings.

"During the past few months, in spite of the global context, demand for homes in these segments has remained high. It is usually at times like these when people feel a stronger need to invest in something tangible, which not only provides protection from inflation, but also opens up opportunities for medium- and long-term value growth and, if possible, also a significant yield when properties are rented out," says Alexandru Mihai, senior partner at Nordis Group. The company is currently developing two luxury residen-

Alexandru Mihai, Nordis

Lucian Azoitei, Forty Management

tial projects in Mamaia and Sinaia, some of the most popular tourism destinations in the country. Mihai says that only a few penthouses are available for sale in these two locations.

On the other hand, Lucian Azoitei, the CEO of Forty Management, a developer of high-end residential projects, expects demand to fall in the premium segment due to lower interest for renting such projects and the growth of the available stock. He explained that fewer expats have rented premium apartments because of the travel restrictions that made it harder for them to come to Romania. Meanwhile, some of the owners of premium homes have decided to move outside the city, to the mountains or the seaside, which could also generate a drop in prices.

"But the contraction of prices will remain below 10 percent and be generated by those who want to sell quickly. The premium and high-end segment holds a small share of the total property market, so any price changes only have a marginal effect on the larger industry," Azoitei argues.

HOW TO BUILD A PREMIUM LIVING EXPERIENCE

Developers are constantly investing in facilities that can help them compete with other projects in this segment and ultimately to provide the best living experience for property owners. From lobbies with exquisite design and furniture to exclusive private parks, companies are working to meet the demands of potential buyers who have an eye for style and quality.

6 percent

THE SHARE OF NEW RESIDENTIAL UNITS IN BUCHAREST WITH SELLING PRICES ABOVE EUR 2,000 PER SQUARE METRE, ACCORDING TO JLL

6-7 percent

THE INVESTMENT YIELD OF A PREMIUM PROPERTY

"Right now, we are raising awareness about what the BREEAM certification means and about the big advantages brought to residents who choose to live in a building with a BREEAM Excellent rating. Few people know about this high-end building criteria, but all our prospects are curious to find out more and see this as a strong advantage," say IMPACT representatives. The company's project was the first up-scale residential development to receive this certification. They add that amenities such as the fitness centre, extensive green areas, and private parks are appreciated by people living in a premium residential complex. IMPACT's project features 9,650 sqm of green spaces, including a 2,500-sqm park.

Meanwhile, Nordis Group's apart-hotel project in Mamaia includes exclusive amenities such as a SPA which is open all year, themed restaurants and café bars, VIP cinema, shopping gallery with luxury boutique stores, a 10,000-sqm private beach, as well as high-end services like concierge, valet parking, room service, and room cleaning.

Considering the growth of remote work, PSC's project in the Herastrau area might also get a co-working space with all the necessary amenities, for those who still want to get out of their house but not be too far from home. The company will add other facilities to the project, including shopping, education, and leisure.

"I think that the 'all-inclusive' approach will address customers' demands, in addition to the architecture, premium finishes or smart layouts of our apartments," says Pascu.

All the investments made by developers in premium facilities will have to be better reflected by prices, adds Azoitei of Forty Management.

"We believe that the segmentation will be clearer in the future and that premium projects will cost more," says the CEO.

Aside from the available facilities and services for residents, location will remain one of the main selling points for high-end projects. Potential buyers want to be able to get everywhere quickly, especially to the office, shopping, and entertainment hubs that have been developed in the central and northern part of the city.

DEALMAKERS KEEPING BUSY ON REAL ESTATE INVESTMENT MARKET

Property investment volumes in Romania reached EUR 408 million in the first half of 2020 and the market might perform better this year than in 2019, when new investment activity edged towards EUR 700 million. Major deals were closed despite the challenges posed by the coronavirus crisis and current funding conditions could stimulate a new wave of investment as we enter 2021.

Bucharest is one of the core markets for property investment

BR OVIDIU POSIRCA

The average deal size tripled to EUR 45.6 million in the second quarter of 2020 compared to the same period of last year, and the investment market has proven its resilience, according to a report by real estate consultancy JLL Romania. Its specialists suggested that we'd be seeing many transactions coming back and that the total investment figures for 2020 would be higher than last year's total of EUR 683.4 million.

OFFICES MAKE UP THE BULK OF INVESTMENT DEALS

Some of the biggest transactions closed in Q2 include the sale of third phase of office project The Bridge by Forte Partners to Dedeman and the sale of Global City Business Park by Global Finance to Arion Green Investments. Each deal stood at over EUR 50 million. Stepping into the second half of 2020, the biggest transaction was NEPI Rockcastle's exit from the local office market. The company got EUR 294 million from AFI Europe Romania for a portfolio of four office projects located in Bucharest and Timisoara. AFI's office holdings in Romania reached 300,000 square meters following this deal. Another important transaction marked the entry of Resolution Property in Romania. The UK-based fund manager and Zeus Capital Management jointly bought the Floreasca Park office project in northern Bucharest. The offices have a total leasable surface of 40,000 sqm and are occupied by multinational companies. In another property deal, Optima bought from Lone Star a 61.49 percent stake in real estate developer GTC, with a consistent portfolio in Romania. Elsewhere, Globalworth bought the remaining 50 percent stake in the Renault Business Connect office project.

EUR 408 mln

INVESTMENT IN ROMANIA'S COMMERCIAL PROPERTY SECTOR IN H1 2020, ACCORDING TO JLL

EUR 6.4 bln

INVESTMENTS IN CEE-BASED PROPERTY MARKETS IN H1 2020, ACCORDING TO JLL

In the industrial segment, the largest deal was inked in late March, when CTP took over Equest Logistic Park for EUR 30 million. This year's investment volumes will be the highest since 2014 and will mainly be driven by office transactions, says Tim Wilkinson, partner for capital markets at real estate consultancy Cushman & Wakefield Echinox. "This level will be difficult for the market to exceed in 2021, but we expect to see quite a positive activity from a wider range of both existing investors and newcomers. The availability of debt finance will be a defining factor as the debt market is expected to be more selective in 2021," says Wilkinson.

If we look at the origin of the investment capital, 35 percent of acquisitions in the first half of 2020 were made by Romanian buyers. Across Central and Eastern Europe (CEE), investment in the commercial real estate sector reached EUR 6.4 billion. Close to half of the volume was generated in Poland, while the Czech Republic was second with EUR 1.95 billion, according to JLL.

DEVELOPERS MAINTAIN INVESTMENT DRIVE IN MIXED-USE PROJECTS

Mixed-use projects combining different assets such as offices, shopping centres, and apartments have a strong development pipeline and create synergies that can boost the viability of a real estate project. Both Bucharest and regional cities have attractive locations that can make such large-scale projects work in the long run and generate healthy business for investors.

Mixed-use projects act as regeneration engines for certain areas of cities

BR OVIDIU POSIRCA

The development of mixed-use schemes is still new on the Romanian market and only accounted for 1 percent of the total investment volume in 2019 and 2 percent in the first half of 2020, according to representatives of real estate consultancy CBRE Romania.

"Traditionally, such projects were less often developed in the CEE region compared to western markets, due to banks' reluctance to finance them and the fact that many investors had certain sector limitations and hence the buyer pool for a mixed-use project was more limited. Furthermore, the legal framework around different ownership structures was often an obstacle (e.g. residential for sale combined with offices for rent)," say the firm's consultants.

FINDING THE RIGHT INVESTMENT MIX

Investors have gained experience around the development and management of mixed-use projects, so the outlook is favourable. Such projects also act as regeneration engines for certain areas of cities, especially for former industrial plants, where investors have enough space to integrate several components.

For instance, CEETRUS will develop a new mixed-use project in Resita, on 36 hectares of land. The developer said the new investment would replicate its urban regeneration project in Brasov. In Resita, the company will invest in a shopping mall, offices, hotels, and an aquapark. In parallel, they will work on the residential component comprising nearly 600 apartments. The whole development cycle should be completed by 2030.

In Bucharest, One United Properties is working on a mixed-use project in the Cotroceni area. The project will include 80,000 sqm of office spaces, retail areas on 15,000 sqm, and around 800 apartments that will be developed in several phases.

The next location for a mixed-use project could be the Expozitiei area. The location is one of the emerging office hubs in the city and several residential investments are underway. This reflects developers' new approach of clustering projects with various functions in a particular area.

Silviu Pop, head of research at real estate consultancy Colliers International Romania, suggested that it was hard to say whether a mixed-use project is better or more competitive than a single-use one.

Investment volumes for the large multifunctional projects are impressive and costs need to be balanced during the construction period, which stretches up to 5 years in some cases. The Iulius Town Timisoara project was completed last fall following a joint investment of EUR 442 million by Iulius and Atterbury Europe. The total built surface stands at 443,000 sqm, of which retail spaces account for 120,000 sqm, while offices account for 100,000 sqm.

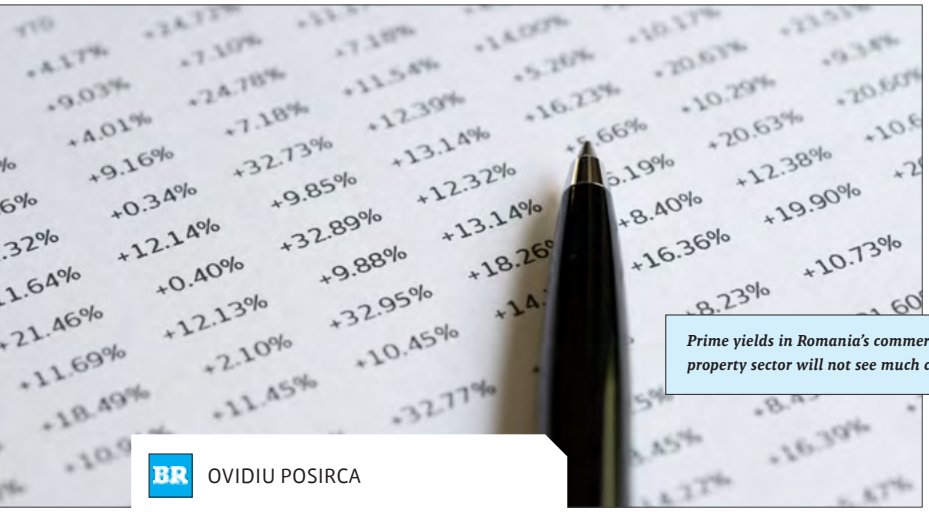
Once completed, the biggest mixed-use project will be delivered in Constanta, near the port, where Globalworth Industrial and Global Vision are jointly developing a business park. The companies will deliver 550,000 square meters of leasable space by 2024, including industrial and logistics warehouses, production and services spaces, as well as office buildings and an intermodal hub. The total investment will exceed EUR 200 million.

550,000 sqm

THE LEASABLE AREA OF THE BIGGEST MIXED-USE PROJECT UNDER DEVELOPMENT IN CONSTANTA

PRIME YIELDS REMAIN HEALTHY AMID MEDICAL CRISIS

Romania's commercial real estate sector continues to register higher yields than other European markets, maintaining a stable outlook despite the challenges posed by the health crisis.



Prime yields in Romania's commercial property sector will not see much change

BR OVIDIU POSIRCA

By the end of the first half of 2020, prime yields in the office segment stood at 7 percent, while retail and industrial projects yielded at 7 and 8 percent, respectively, according to data provided by Crosspoint Real Estate.

Prime yields are unlikely to see much change, suggests Andrei Ianculescu, head of project management at real estate consultancy Cushman & Wakefield Echinox.

"We should watch prime yields in other CEE markets and make sure that the difference Romania offers still makes it an attractive destination. Secondary market yields (non-prime assets) could increase as investor interest slows and debt challenges become apparent," says Ianculescu.

There is limited downward room for yields, and risks are skewed towards a rise in prime yields over the next couple of years, adds Silviu Pop, head of research at real estate consultancy Colliers International Romania. The higher yields might show that the local property sector is not liquid enough or that there aren't enough projects for sale on the market.

"Ultimately, while Romania's yield gap to developed Europe looks tempting and has grown wider compared to a few years ago, the sovereign risk also looks like a much bigger issue than it used to, given the rise in internal imbalances," says Pop.

However, it might take about a year to actually see any impact of the medical crisis on yields. Going forward, the risk-free rate and the cost of debt will remain low, while worries about inflation growth will rise, so there might be higher interest for property as an investment class, suggest representatives of real estate consultancy CBRE Romania.

"For the logistics sector especially, the current strong demand combined with a still limited amount of 'defensive' investment product is expected to prevent yield decompression and for certain assets could even result in yield compression (i.e. price increases). For other asset classes, the evolution of pricing can be better understood at a granular level by type of product – for example, in an overall turbulent retail market, the performance of retail parks suggests that investment interest will be strong, driving stable pricing," says Gijs Klomp, head of investment properties at CBRE Romania.

The outlook for property yields must consider the amount of investment transactions that Romania records yearly. The total investment volume in H1 stood at EUR 331.4 million and the market might post a yearly result similar to last year's, according to a report by Crosspoint Real Estate. Last year, the investment volume stood at around EUR 650 million, and in 2020 the market could end up with a 10 percent year-on-year contraction.

"We do not expect the investment market to undergo a dramatic change in 2021, but rather to follow a similar path to 2020," says Ionut Stan, associate director of Crosspoint Real Estate.

PRIME YIELDS IN H1 2020

Segment	Yield
Office	7%
Retail	6.75% - 7%
Industrial	8%

Source: Crosspoint Real Estate

BANKS STILL THE BACKBONE OF LOCAL REAL ESTATE FUNDING

With a direct loan exposure of nearly EUR 5 billion in the construction and real estate sectors, the local banking system is one of the core funding options for developers of commercial property. The impact of the health crisis has been reflected in the strategies of lenders, who continue to provide money to developers, but on more conservative terms.

Funding for local real estate project is split between bank loans and equity

BR OVIDIU POSIRCA

Funding for the real estate sector is decent, consultants say. The market is split between bank loans and equity as the main sources of finance, though there is growing usage of alternative instruments such as bonds and mezzanine funding.

DEVELOPMENT EQUITY IS PARAMOUNT

Industrial projects were used as guarantees for EUR 6 billion worth of bank loans approved in 2019, according to data from the National Bank of Romania (BNR). Retail centres and office buildings backed loans worth EUR 4.5 billion and EUR 2.4 billion, respectively.

EUR 2.4 bln

VOLUME OF LOANS GUARANTEED BY OFFICE BUILDINGS IN 2019, ACCORDING TO BNR

"On a selective basis, banks are still providing financing, despite the current context, but institutions are adopting a more conservative approach which, from the investors' perspective, translates to tighter requirements. As a result of the volatility of financial markets, lending conditions have already seen a widening of the credit spreads resulting in higher costs for borrowers," says Maxime Otto, capital markets consultant at real estate consultancy JLL Romania.

Although lenders are imposing tighter risk management policies, the rate of non-performing loans (NPL) in the property industry has remained in check. The volume of bad loans backed by real estate assets was on a downward trend and had hit 9.9 percent by April 2020, down by 1.1 percentage points compared to the same period of 2019. The overall NPL rate in the real estate industry was 3.4 percent, compared to 20 percent in the construction sector, according to the BNR.

Developers usually supply around 40 percent equity for a new project, while the rest is covered by banks. However, senior debt has become harder to get this year because banks have restricted lending by asking for high pre-leasing ratios and lower loan-to-value ratios, say representatives of real estate consultancy CBRE Romania.

"Furthermore, each project is being evaluated more carefully and depends on the developer and on whether the product type debt is available. There are other funding options such as junior debt, which are currently being discussed as a partial alternative or complementary product. Another choice for a developer is to enter a forward funding type of arrangement, where the future buyer funds part of the development," says Gijs Klomp, head of investment properties at CBRE Romania.

"Of course, these alternatives come at a higher cost than bank financing, which therefore remains the preferred option. Besides asset-based funding as described above, more and more developers are also exploring bond issuances, which can be cheaper than senior debt and provide greater flexibility to the developer," he added.

In the first half of 2020, both office and industrial developers announced that they had secured funding from international banks such as World Bank, EBRD, pbb Deutsche Pfandbriefbank, and Erste Bank/BCR, indicating lenders' sustained desire to finance Romanian commercial real estate.

3.4 percent

RATE OF NON-PERFORMING LOANS IN THE PROPERTY SECTOR BY APRIL 2020, ACCORDING TO BNR

SIGNIFICANT BANK EXPOSURE ON RESIDENTIAL MARKET

The coronavirus pandemic has increased the risks the real estate market poses to financial stability, said the central bank a in report released in June. This was due to a mix of reduced investment and trading volumes coupled with lower demand and higher credit risk for companies in the construction and real estate industries.

Furthermore, companies in these sectors could struggle to contain the effects of the crisis due to a low capitalisation rate, alongside their reliance on external funding and lower capacity to generate liquidity.

Companies in the real estate field had an indebtedness rate of 1.72 percent, compared to the average of 1.5 percent across the economy in June 2019, BNR data show. This rate is computed as the ratio between companies' debts and capital.

However, these risks were partially offset by the temporary postponement of bank instalment payment and other support measures for firms impacted by the lockdown.

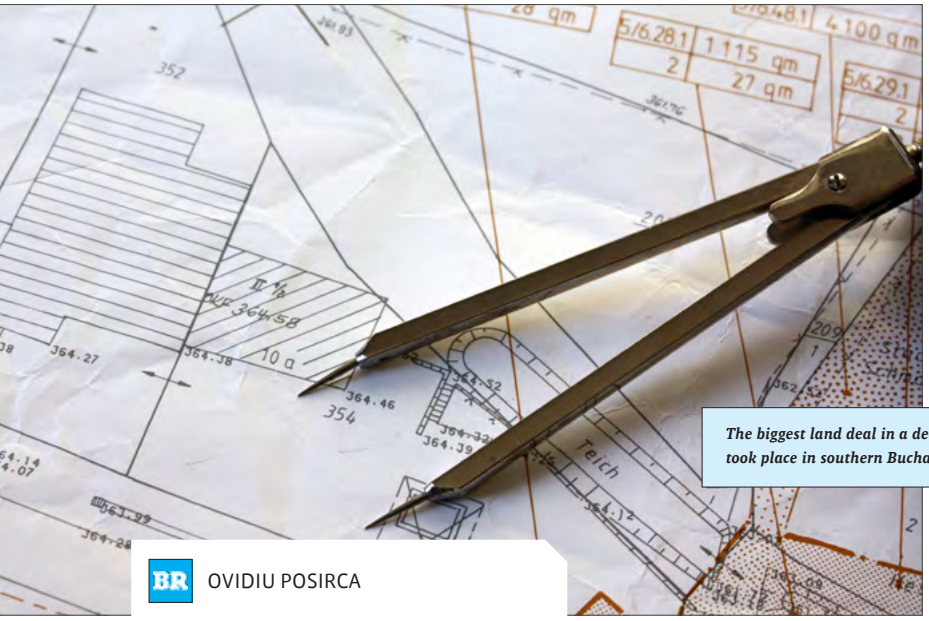
"At the onset of the COVID-19 pandemic, the commercial real estate sector was in the development stage of the cycle, with its evolution supported by the lower interest levels internationally," BNR analysts wrote in a report.

The exposure of the banking sector is significant in the housing market, having reached RON 96 billion (close to EUR 20 billion) by the end of April 2020, up 8 percent year-on-year. The market will further grow as banks expand their loan books under the government-backed New Home scheme for first home buyers.

The New Home programme has two funding thresholds of EUR 70,000 and EUR 140,000, with down-payment requirements of 5 and 15 percent, respectively. The state partially guarantees these loans and it has doubled the maximum amount in a bid to help buyers get access to more spacious homes. Romania's 46.3 percent share of people living in overcrowded households was the biggest in the EU in 2018, according to Eurostat, the statistics office of the EU. It is still too early to assess the impact of the programme on the residential sector, but developers suggested that it would not generate a price increase for the newly built residential stock.

LAND TRANSACTIONS ACCELERATE TO RECOVER LOCKDOWN SLUMP

Deal-making in the land segment was hampered by the coronavirus pandemic, but players across the real estate market have resumed acquisitions of land plots in key locations, with industrial and residential developers recognised as the most active buyers.



The biggest land deal in a decade took place in southern Bucharest

BR OVIDIU POSIRCA

In the first three quarters of 2020, the volume of land transactions reached almost EUR 80 million, but the market is still recovering from the lockdown period, according to consultants.

Ionut Nastase, consultant in the development & land department at real estate consultancy JLL Romania, says that investors are more reluctant to block money in land and that they're postponing new projects.

"From the beginning of this year we've seen more interest for smaller land plots in the city centre which were suitable for the development of boutique offices projects as an alternative to traditional projects," Nastase notes.

Almost a quarter of potential transactions on the land market were skipped this year, and overall land transactions could amount to 85 percent of last year's, adds Ionut Stan, associate director at Crosspoint Real Estate. In Bucharest alone, land transactions totalled over EUR 215 million in 2019, as prices climbed to their highest level since the 2008 crisis, according to a Crosspoint report.

As a result of the health crisis, some transactions which were valued at over EUR 10 million and were supposed to be completed this year have been postponed and might only be ready next year, say analysts at Colliers International Romania, the real estate consultancy.

Retailers are trying to get closer to their customers and seeking the best place to be, while new office and industrial hubs are taking shape across the country, say representatives of real estate firm CBRE Romania.

In H1, the biggest land transaction involved a 90,000 sqm plot that SIFI BH Retail bought in north-eastern Bucharest. The buyer controlled by financial investment firm SIF Banat-Crisana paid more than EUR 18 million for the auctioned land.

Elsewhere, retailer Kaufland paid EUR 14 million for a 64,000 sqm plot in Iasi, while Avocado Development secured a piece of land in Baia Mare, where a new shopping centre is under development.

As for the second half of the year, there were two major deals that could help the market recover faster. Industrial developer VGP bought a 39-hectare plot in Arad and will invest in an industrial and logistics park covering 200,000 sqm.

The biggest land deal in a decade took place on the Bucharest market. SIF Banat-Crisana took over 540,000 sqm of land from Doosan IMGB, the operator of an industrial platform in the south of the city. The seller had shut down industrial production last year and was looking to exit the business.

"What we've also noticed in recent years is the fact that Romanian developers are becoming increasingly capitalised and starting to be good challengers for international investors who are active in our country," says Stan of Crosspoint Real Estate.

In Bucharest, developers of residential projects have remained active on the market and have taken over plots with surfaces ranging from 5,000 sqm to 50,000 sqm. CBRE specialists note in a report that local developers are also active in cities outside Bucharest, looking for plots which are suitable for small to medium schemes that would meet the requirements of potential local clients.

STABLE FISCAL FRAMEWORK COULD SPUR NEW REAL ESTATE INVESTMENTS

Romania's fiscal framework has remained stable for quite some time now and the country's standard profit tax rate of 16 percent is competitive at the European level. This could provide an impetus for investors looking for attractive opportunities on the local real estate market.

Some fiscal updates impacting rental recovery were rolled out in 2020

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Tax consultants say that this year was atypical due to the COVID-19 pandemic and its impact on both the business and fiscal environments.

The government introduced some fiscal measures to alleviate the tax burden on businesses during this period, one of the most important being the option to defer tax payments until October 25, 2020. Another measure that should help taxpayers is the possible fiscal amnesty regarding penalties for tax debts that were outstanding as of 31 March 2020, regardless of whether these debts were identified during tax audits or self-assessed by taxpayers through corrective statements.

"In addition, specifically for the real estate sector, the government has introduced some fiscal incentives in the form of discounting the taxable base for the corporate tax if the lessor grants a discount on rent to its tenants, as well as allowing tenants to obtain funding from the state to cover rent payments, in certain – rather limited – conditions," says Lucian Barbu, tax partner at law firm NNDKP.

Another measure with implications on rental recovery is a recent enactment concerning the leasing market brought by Law 196/2020, which says that starting the enforcement of privately concluded lease agreements is now conditional on a new procedure: registering the agreements in the National Registry for Movable Property Publicity (NRMP), in addition to registering with the Tax Authority (ANAF), adds Roxana Fratila, partner and head of real estate and construction at law firm CMS Romania.

"Landlords must thus register lease agreements with the two mentioned authorities in order to secure the smooth enforcement of rental payments and the handover of the property on the date when the lease agreement expires," she explains.

REAL ESTATE INVESTORS SHOWING INTEREST IN PROJECT ACQUISITION AND DEVELOPMENT

Despite the uncertainties generated by the pandemic, investors have continued to make deals and start new projects in Romania. The legal and fiscal framework in the real estate industry has remained rather stable in the recent period and the market could see a bigger influx of investments stepping into 2021.

"The market response to the pandemic has translated into a need for accelerated changes that were already gathering momentum. We have already seen a reallocation of asset classes where distribution and logistics again take the top spot, with internet shopping replacing much of the high street," says the CMS Romania partner.

Fratila adds that the country needs large-scale projects not only in terms of its long-debated infrastructure (with a focus on highways and irrigation systems), but also in supporting the wider regeneration of cities & communities, and major real estate developments could act as a catalyst for economic revitalisation.

AGRICULTURAL LAND SALE LEGISLATION SEES MAJOR UPDATES IN 2020

The most notable legal change in the property sector this year was the updated regulation for the sale of agricultural land. Specialists say the new amendments impact the volume of transactions on the market and might pose additional challenges for energy and agriculture firms.


Roxana Fratila - CMS Romania


Lucian Barbu, NNDKP

BR OVIDIU POSIRCA

At the beginning of the pandemic, when most transactions were put on hold, land acquisition, agribusiness, and renewables continued to attract investors' interest. In this context, a recent amendment to Law No. 17/2004 on the sale and purchase of agricultural land came as an added hurdle to address before such deals could happen, says Roxana Fratila, partner and head of real estate and construction at law firm CMS Romania.

NEW LEGISLATION COULD DELAY TRANSACTIONS

"The law now imposes significant restrictions on the sale and purchase of extra muros/outside built-up area agricultural land to foreign nationals, with one key amendment being an extension to the list of possible beneficiaries of legal pre-emption rights provided for the sale of agriculture land from four categories (co-owners, tenants, neighbouring owners, and the Romanian state through the State Property Agency) to 13 categories. In addition, new conditions have been set for potential buyers, as the law aims to favour buyers who have had their domicile or residence in Romania for at least five years, as well as buyers who have had farming experience in the country before the sale date," says Fratila.

The updated bill says that the controlling shareholder must have been domiciled in Romania for at least 5 years before the sale offer is published and it aims to discourage successive sales of agricultural land through higher taxes.

The partner adds that the closing of transactions could be delayed as a result of these new requirements.

This law is significant not only for agriculture deals, but it may also have implications for all other projects that entail land being withdrawn from agricultural use to accommodate development, which is a common practice among the renewables and oil & gas sectors, according to Fratila.

She says that in its current form, the amendment does not explicitly repeal nor amend the procedure of withdrawing land from agricultural use. It instates a mandatory procedure to be followed for any investments involving alternative uses for agricultural land. All future legislative changes should be closely monitored for any amendments to secondary legislation.

Meanwhile, the real estate market might be affected by proposed changes to infrastructure works legislation.

"A step forward in terms of legislation supporting the sector is Law 101/2020, which is meant to align internal legislation with European Directives aimed at increasing the energy performance of buildings, so building a sustainable environment seems to remain a key European priority in the long-run, and Romania will benefit accordingly from this trend," says Fratila. The law establishes several obligations for investors, owners, and building managers, such as being required to install self-regulating devices for energy consumption and to equip several categories of buildings with electric vehicle charging points. Aside from amendments to the bill regulating farmland deals, the legislative background for property transactions has been stable throughout 2020, according to Lucian Barbu, tax partner at law firm NNDKP.

"However, the development of legislation in the field of remote working seems to be encouraging more employers to allow their workers to stay outside the office, which will likely put pressure on the office sector," Barbu notes.

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