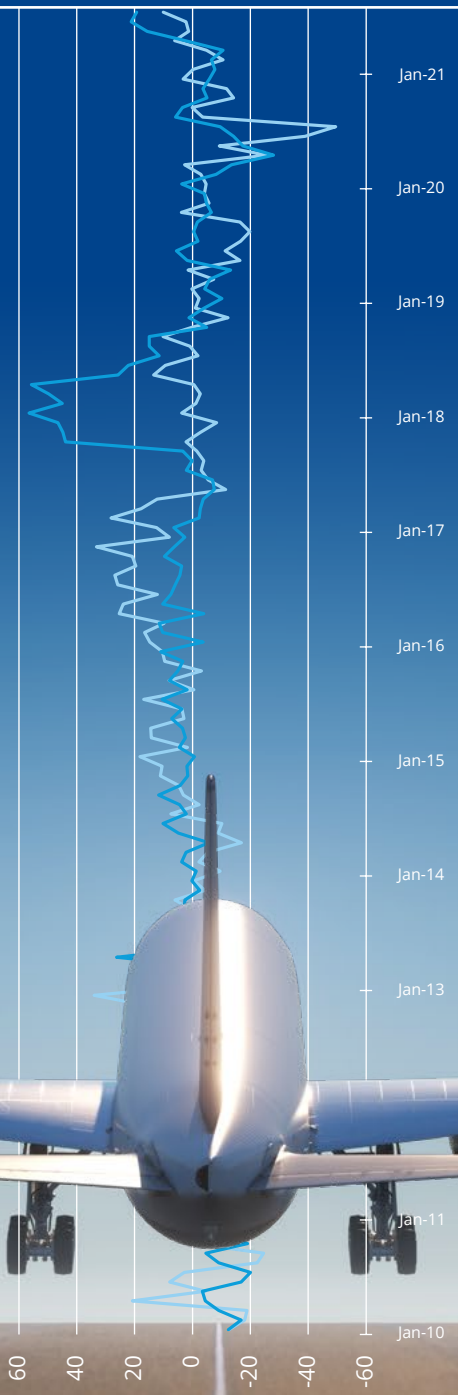
Colliers

Taking off,
but mind the head winds

REPORT H1 2021 | ROMANIA

Research & Forecast | Colliers



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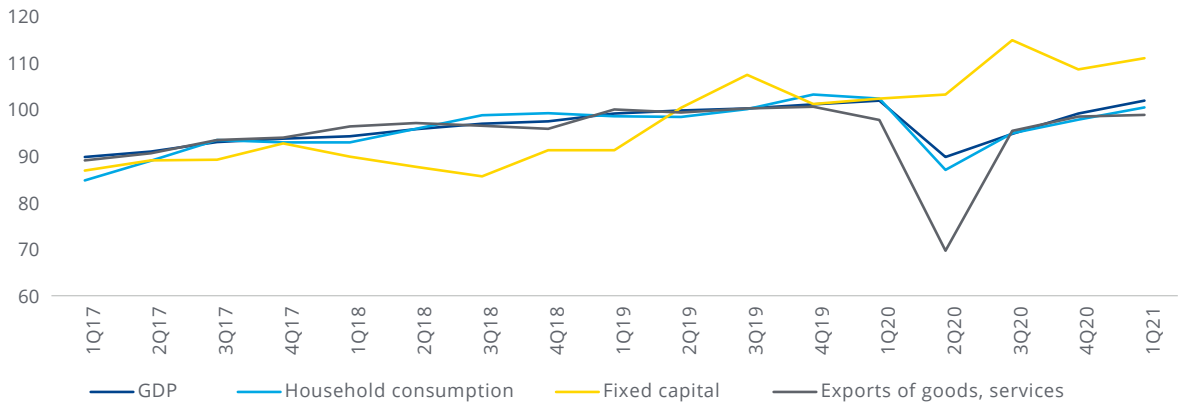
Romania Macroeconomic Review

2021: So far, so good...

As we published last year's mid-year report, when we were a few months in the pandemic, we believed that Romania would stand to outperform its European peers, see a decent run in 2021 and recover its pre-pandemic level of activity by the end of 2022. Even though these expectations seemed quite optimistic at that time, we were (thankfully) wrong: Romania has already finalized its recovery as of first quarter of 2021, when its GDP reached, in real terms, pre-pandemic levels. Of course, the economy is drastically different than how it was a year and a half ago and a lot of things will never be the same – from the way we work to how companies are faring from sector to sector. One of the recurring themes for this recovery is its uneven character, with some sectors barely blinking throughout the last year and a half and others teetering, unsure how long their recovery would last, though it may not come for some.

That said, the Romanian economy has been driven in its recovery by a wide array of sectors. One of these is, of course, consumption, which, in turn, was buoyed by the resilient labour market. Not only did Romania lose far fewer jobs during the 2020 downturn than during the 2009-2010 recession (some 100,000 between the peak level of employment and the trough, a figure 7 times smaller than after the previous recession), but the recovery is already more than halfway completed as of Spring 2021 and for many economic sectors, near-term hiring intentions look reasonable or even comparable to their 2016-2019 peak. As such, private sector wage growth is already back in double-digit territory and stood at c.13% in May 2021 in YoY terms, according to our estimates. As a sidenote, we want to emphasize that not all consumption components have been behaving the same way, as big ticket purchases (like cars) and some categories of goods and services (holidays, clothing) remain below 2019 highs; consequently, on an aggregate basis, private consumption had recovered just around 80% of its pre-pandemic peak level as of Q1 2021, though the very visible retail sales index sits comfortably above 2019 levels.

Investment-led recovery (real terms, index, 2019 = 100)



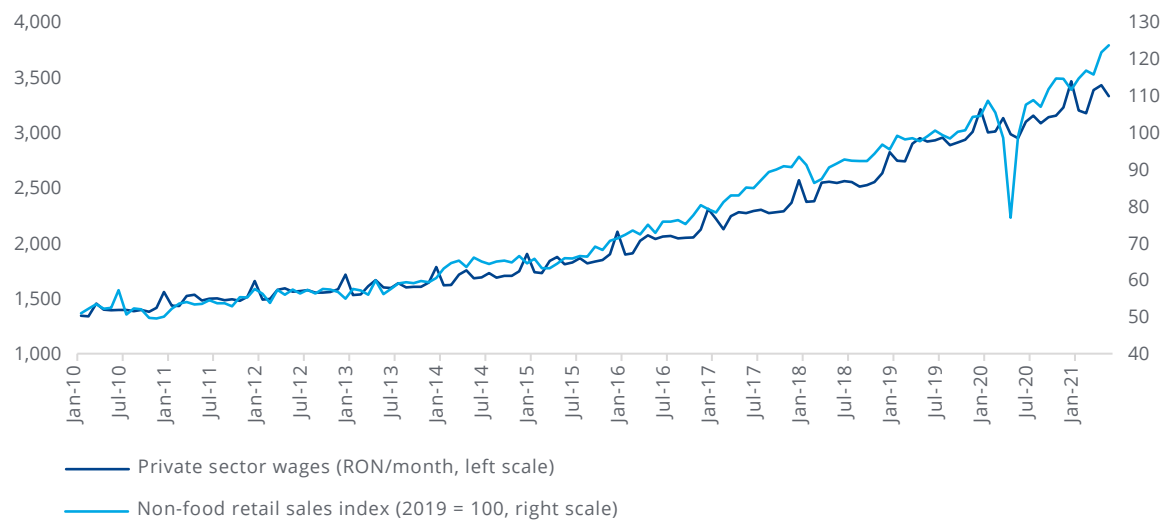
Source: Colliers, Eurostat

Even more positive is the fact that investments are a vital component of the recovery, which should support job creation and wages down the road, which in turn drive the GDP, making the overall growth much more sustainable. In fact, in real terms (i.e. at constant prices), capital expenditures stood at post-2008 highs in Q3 2020 and Q1 2021. Meanwhile, exports of goods and services at constant prices are now just some 2% below pre-pandemic highs, after plunging nearly 30% in Q2 2020 versus Q1 2020.

On a sectorial basis, the recovery has been quite heterogenous, but most sectors are back in black. It is important to single out manufacturing, construction and certain services (like IT&C) as drivers behind this growth spurt.

We can also report some improvements with regards to Romania's fundamentals. For instance, Romania's fiscal balance was forecasted for 2021 at a level of c.7% of GDP after nearly 10% of GDP in 2020, both of which are some of the worst levels in the EU. The budget program foresaw a 4.7% deficit at the end of the first half of 2021, but managed to end with a gap of c.3% thanks to the overperforming economy, quite encouraging in terms of the fiscal consolidation.

Wages, not loans, driving consumption growth



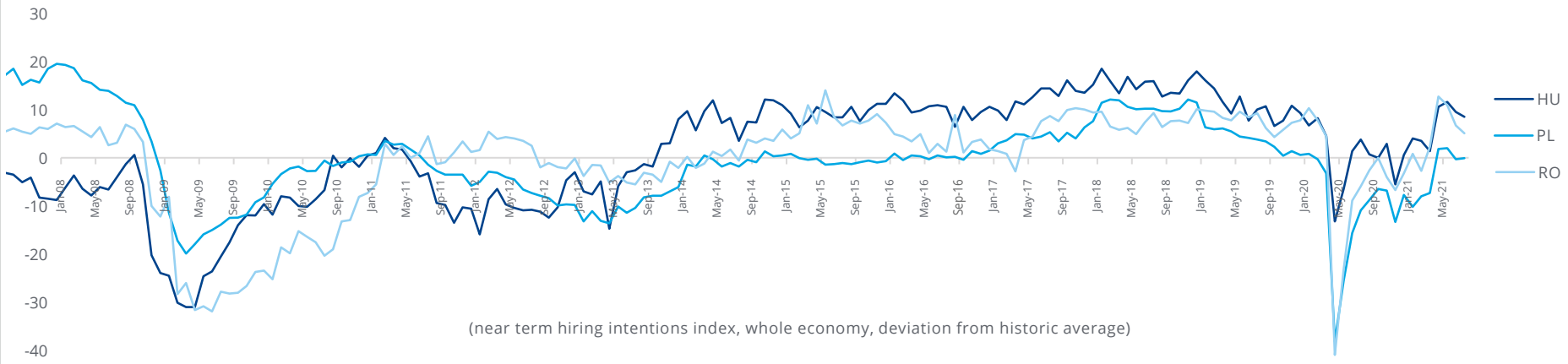
Source: Colliers, NIS

Where to from now?

While we started the year with a GDP growth call for 2021 around 4%, as the good economic numbers kept coming in, this estimate has gradually crept up. More recently, the summer forecast from the European Commission for Romania stood at 7.4%, the best figure in the European Union; some, including the prime minister, argue that even this may be surpassed in the end, even mentioning a figure of at least 10%. Still, this reopening bonanza is likely to cool off going into 2022, though upcoming major investments should keep things lively. That is, as long as politics do not get in the way, though there is a risk that this may happen, with all 3 parties in the ruling coalition constantly rocking the boat and taking jabs at one another.

Romania still has some untapped growth resources; for instance, the percentage of manufacturing and services companies saying they cannot find employees is far smaller than in most other CEE economies, though, of course, workforce shortages localized in certain economic sectors (IT&C) or regions of the country are a reality, but they are not as bad as for some neighbours; still, as a sidenote, sharp ups and downs are quite possible in this period, as Romania's own hiring index has pulled back quite a lot after nearing decade highs back in April 2021. Furthermore, we are moderately optimistic that ongoing investments set in motion by the government will lead to unlocking some growth potential down the road (for instance, even without counting upcoming EU funds, investments in highways have increased several times compared to 2018 or 2019); on the flipside, much more needs to be done in the education sector.

Near-term hiring intentions offer reason for optimism, Romania looking to grow faster than some European peers



Source: Eurostat, Colliers

It's not all sunshine and rainbows beyond the big headline numbers, as Romania's fundamentals are still pretty weak compared to regional peers (Romania's fiscal and current account deficits are the widest among eastern EU member states). And if something were to happen to the accommodative conditions in the global financial markets, Romania would suffer more than the likes of Poland or Czechia. There are also quite a lot of things that can go wrong. For instance, Romania lags greatly most western European countries in terms of its vaccination campaign and the delta variant of the coronavirus could spell quite a bit of trouble come autumn. Also, there is the lingering question of inflation globally: is the higher inflation (in the US, core CPI is at its highest level since the early '90s) transitory and will largely dissipate by this time next year or is it here to stay? Because if it's the latter scenario, it means that interest rates in developed economies will have to increase faster and sooner than markets are anticipating and this would lead to quite negative consequences for emerging economies like Romania, notably a higher sovereign risk cost. Lastly, there are some concerns that the reopening boom taking place in the large economies will peter out eventually, with some emerging signs from the US and Eurozone backing up this view to a certain extent.

Summing up, there are still more reasons to cheer and be optimistic for the near-term outlook while the longer term picture still suggests Romania will remain an outlier in terms of growth, but there are also quite a lot of things to remain wary, which can turn the global economy 180 degrees on a dime.

Office Market

Supply

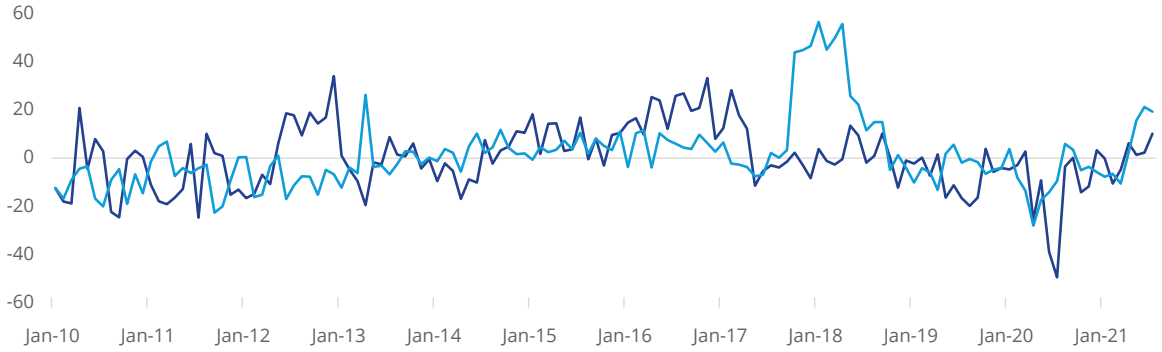
Out of the c.260,000 sqm of new modern offices expected for 2021, just 36,000 sqm have been delivered thus far into 2021, with the completion of Skanska's Campus 6.2 (close to 19,800 sqm) and Tiriac Imobiliare's Tiriac Tower (16,500 sqm) being the major additions. These additions finally took Bucharest's modern office stock above the 3 million sqm handle. Overall, quite a busy second half is setting up, though some of the upcoming deliveries may very well end up being finalized in the first part of 2022 rather than the final months of this year.

Demand

Market activity remains subdued with limited signs of perking up to pre-pandemic levels, mostly on account of still elevated uncertainties. Companies continue to have no clarity on when they would be returning to their offices with most employees. This is due to fresh concerns about a new coronavirus wave, particularly amid the fact that Romania could be hit harder than most countries in the region, on account of a much lower vaccination rate; consequently, in general, between 10 and 20% of employees are back in office on a constant basis and the long-awaited return to offices for at least 50% of employees will likely have to wait at least a couple of quarters.

In this backdrop, gross demand for modern office spaces contracted by nearly 10% in the first semester of 2021 (112,000 sqm) versus a year ago, with new demand (c.38,000 sqm) down by in excess of 15%. Still, in comparison to a very good period, like the first half of 2018, new demand is down by 54%. Both figures are at odds with the fact that the labour market is going from strength to strength, with near term hiring intentions (from IT&C to various other professional services) already at or close to pre-pandemic levels. But, as managers are still exploring/designing their new model for post-pandemic work (with the mix between office and remote work being decided on a case-by-case basis/from company to company), companies are tackling their real estate needs with caution and some are seeing a need for a lower office footprint in the future due to the hybrid work model. However, this labour market strength should protect the office market to some extent and particularly the prime office buildings, which have solid blue-chip companies likely seeing good returns.

Hiring intentions already at robust levels



Source: Eurostat, Colliers

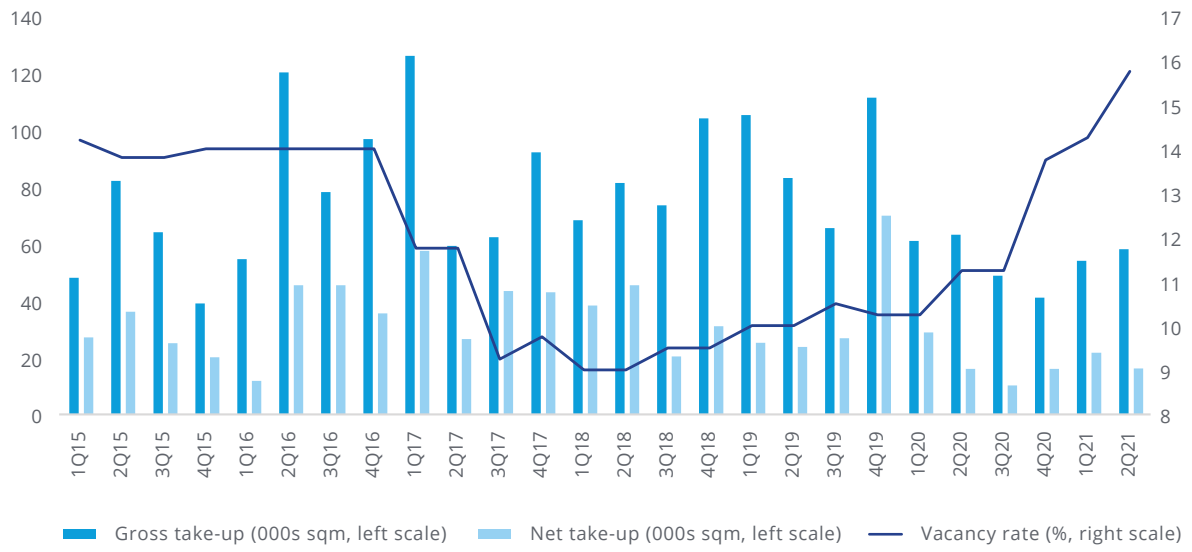
Otherwise, on a sectorial basis, there's no big change in the fact that IT&C remains the driver of the market, with nearly half of the reported transactions, but with quite a lot of input from industrial and other professional services.

Rents & Vacancy

Vacancy has climbed to a 7-year high of 15.75% at the end of the first semester, up from 11.25% a year ago (and 10% mid-2019). One aspect to keep in mind is that the market is much more developed than when vacancy was at such levels, in 2014, as the modern office stock back then stood at roughly 1.7 million sqm versus just over 3 million sqm presently. As another observation, newer/more qualitative buildings tend to perform much better in terms of overall occupancy, thanks to their appeal as well as rock-solid tenant companies, quite a lot of which continue to expand.

Overall, we are/find ourselves, very clearly, in a tenant market and as such, we have been noticing pressures on the aggregate rent level, though maybe on net effective levels rather than headline rents. We can also note that while the average net effective rent for Bucharest is probably some 10% lower than before the pandemic, this is mostly due to older and less qualitative buildings, which had to offer more incentives to attract or retain tenants than newer buildings; the sublease stock (of at least 80,000 sqm by our own measurements, likely an underestimated figure), which offer good fitted-out alternatives for very attractive rents, pressure even more the less competitive office spaces. In the case of new buildings, up to par with modern standards in developed markets in Western Europe or the USA, things have not and will, most likely, not change rent-wise.

Bucharest office market: demand versus vacancy



Source: Eurostat, Colliers

Outlook

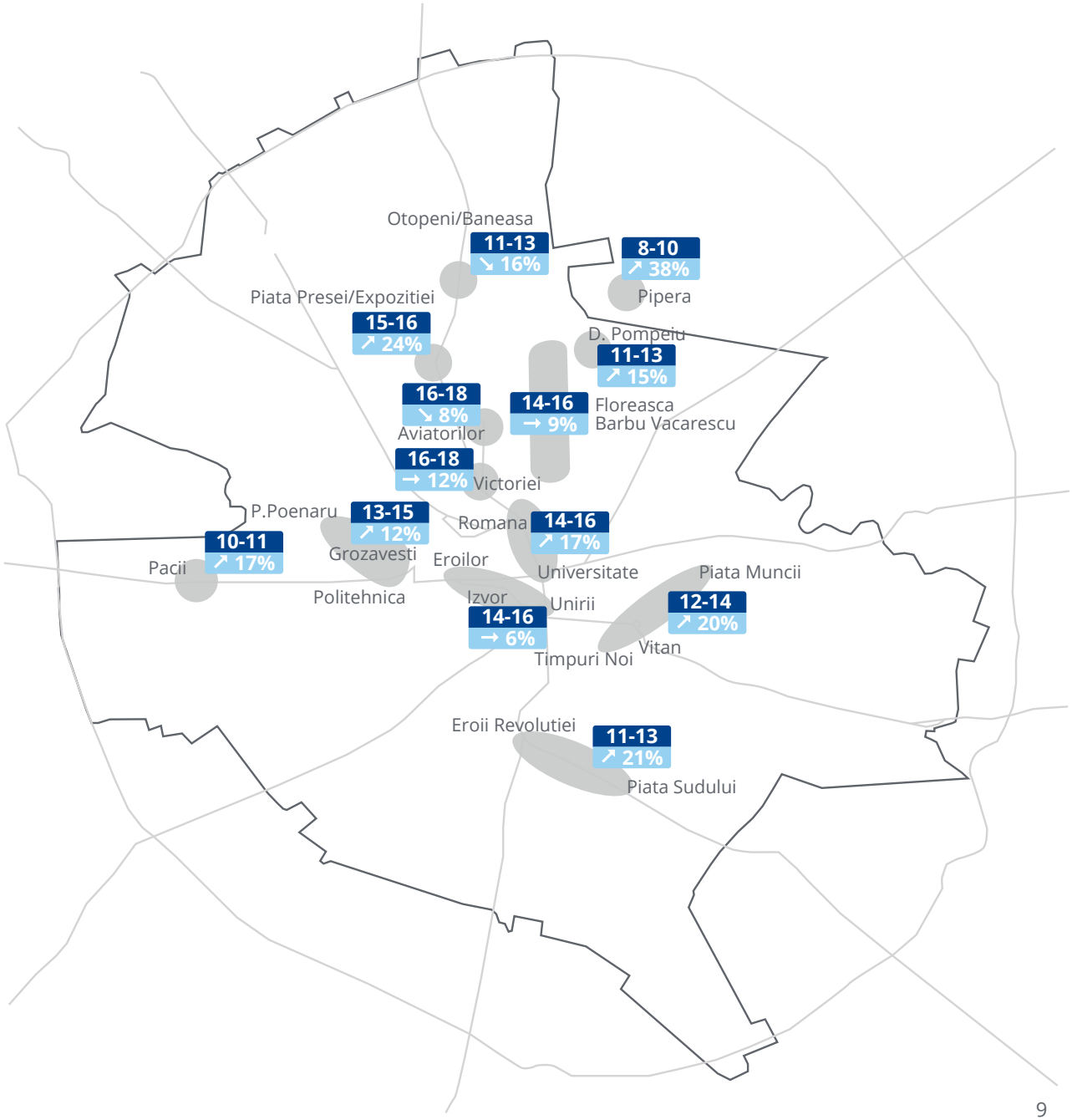
The Bucharest office market is in a bit of a difficult spot, but as we have previously stated, the damage has not been even; in fact, it is noteworthy that two of Bucharest's newest additions (Skanska's Campus 6.2 and 6.3) were sold to an Austrian investor for a post-2008 record yield of 6.75%. So, for some, the next years will be business as usual, while others will suffer. The gap between old/less qualitative projects and new/up-to-par older buildings will likely widen on all fronts.

On the flipside, this difficult market plus the much higher construction costs will likely dampen enthusiasm for new developments (deliveries in 2022 and beyond are likely to remain below 100,000 sqm/year), which should quicken the eventual recovery of the local office market. We continuously bring this figure up, but it is even more relevant in this context: the office stock/capita is several times smaller in Bucharest than in most other Western European capitals.

Bucharest Office Rents

- Rents H1 2021 (€/sqm/month)
- Vacancy Rate H1 2021

Source: Colliers



Questions about the future remain and unfortunately, there is still little clarity to be handed out. As a purely empirical observation, we noticed (including in concluded deals) that quite a few companies seem to be thinking that, after the pandemic, they may not have more than 50-60% of their employees at the office at a given moment in time. So, this, together with a usual buffer of 10-15% to account for potential future rises of staff, means that they would need to cut back their presently occupied office space by 20-30% at renewal. Still, this is far from being a rule and as we stressed earlier, decisions are taken on a case-by-case basis, as companies which have been expanding quite a lot recently (like IT&C firms) may very well end up keeping their presently occupied surface at contract renewal, as the reduced need for offices due to a hybrid work model would be balanced out by the higher employment.

Industrial Market

Supply

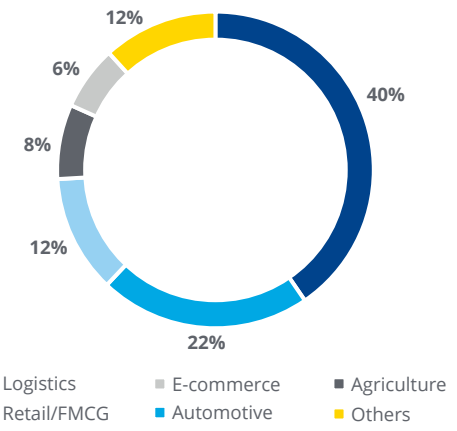
With demand rock-solid, Romania is closing in on deliveries in excess of 800,000 sqm of new modern warehouses based on what the major developers are promising, which should take the overall stock towards the 6 million sqm level. Deliveries continue to be mostly around the Bucharest area, but not only, as quite a lot of regions in Transylvania remain attractive and some others in southern Romania are also on the map. While household names such as like CTP, WDP and more recently Globalworth/Global Vision remain the companies expanding the most, others (Element Industrial, for example) are also ramping up their investments; what is even more important is that the appeal of the I&L market continues to attract new names from other areas of the real estate scene, like residential or office (Speedwell, for instance). It is also important to note that besides the over half a million sqm being delivered by established landlords, other companies (mostly FMCGs, but also quite a few manufacturing companies) continue to develop/ expand their own network of warehouses.

Demand

Thanks to two sizeable direct deals and the year's biggest deals – CTP's 102,000 sqm built-to-suit project for Quehenberger Logistics near Bucharest and automobile manufacturer's Dacia 10-year renewal of its 69,000 sqm Globalworth-owned warehouse in Pitesti - the first half of 2021 looks exceptional. In total, nearly 394,000 sqm of modern storage spaces have been traded, up from close to 289,000 sqm and, though this year may not top 2020 as a whole (as 2020's second semester saw nearly half a million of sqm leased), it is still on par to be one of the best in Romania's history. The bulk of transactions took place in Bucharest – close to 69%, followed at a great distance by Pitesti (c.20%).

Sector-wise, while last year belonged to FMCGs (and retail in general), this year, it was logistics' turn to rank up nearly 40% of total leasing deals. Still, since most of these deals are indirectly tied to household spending (for instance, the player behind the year's biggest deal handles the logistics for Brico Depot, one of the country's major DIY players), it is still safe to say that the consumer-related sectors continue to drive, either directly or indirectly, the demand for warehousing. The second spot belongs to automotive (22%) and then retail/FMCG (12%).

Gross take-up of I&L spaces by sector in 1H21



Source: Colliers, Bucharest Research Forum

Overall, there are some signs that there may be more activity to come on the production front, not just on logistics, but a lot of things are dependant on infrastructure improving enough to unlock new regions of the country with abundant and relatively cheap labour. Thankfully, if things continue to evolve like this, infrastructure looks set to improve rapidly.

In the first six months of 2021, state capex on road infrastructure (without EU funds) topped RON 2.1bn, which is a figure several times higher than any other first semester of the previous years. Together with the billions of euros set to come via EU funds, Romania's I&L map might look quite different in a few years, with much more hotspots in the northern part of the country or in the region of Moldova.

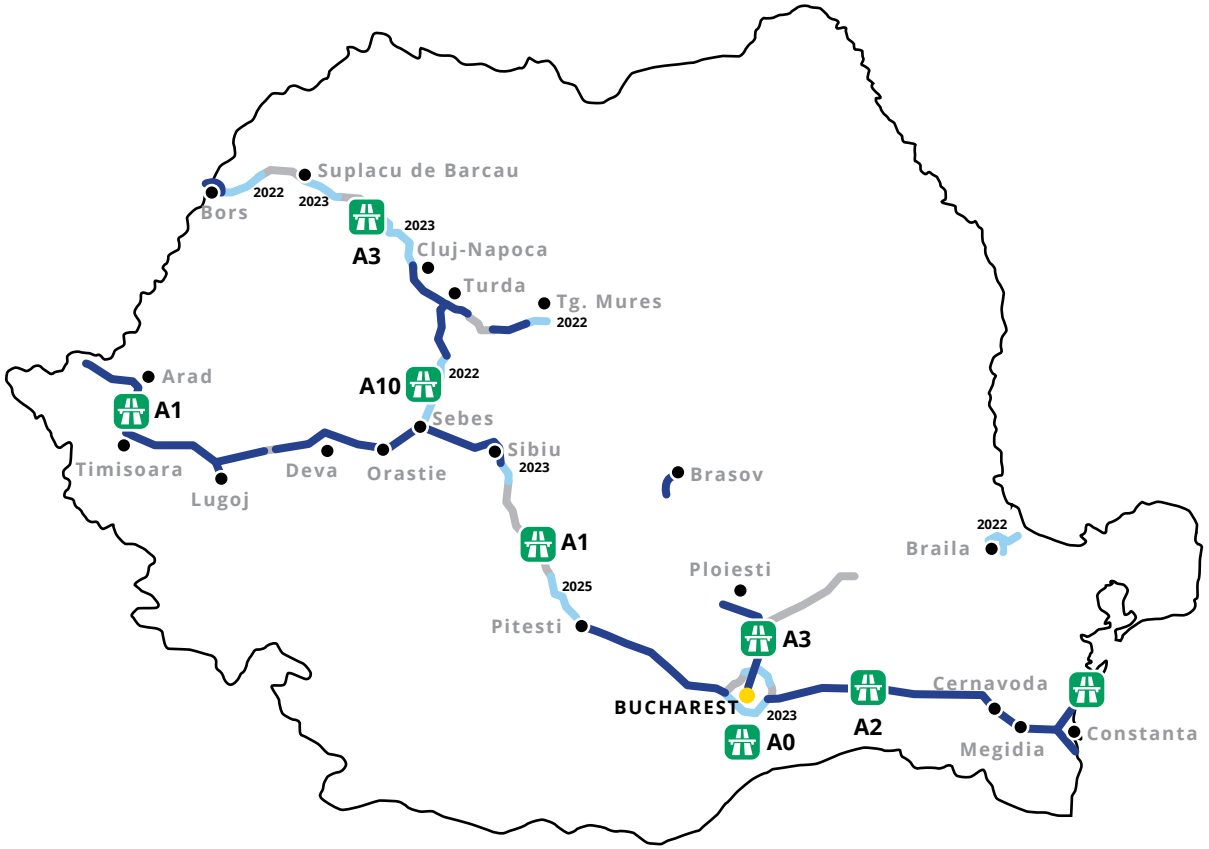
We continue to emphasize e-commerce as a major driver of future demand for I&L spaces, as e-sales have increased exponentially in recent years: EUR 5.6bn in 2020 versus EUR 1.4bn in 2015. So, a four-fold increase in just half a decade. For logistics operations dedicated to e-sales, areas around Bucharest remain the most attractive, as its residents generate close to one quarter of the country's total wages earned, plus it holds most of the wealthier individuals which have a propensity to purchase online.

Rents & Vacancy

While vacancy remains in single-digits, mostly around 7-8% on average (including Bucharest), rents have also remained quite static in recent years, on account of robust competition on the supply side (3.8-3.9 EUR/sqm for prime properties around Bucharest and a whisker lower in most other parts of the country which feature as active destinations). That said, the surge we've been seeing in construction prices (with some construction material costs increasing two-fold or three-fold) for more than a year now is likely to pressure rents in the end, as developers are unlikely to shoulder such an increase in costs. Still, in the end, it is the market that regulates prices, not the costs, and competition on the supply side should limit the increase in rents to a certain extent.

Hefty investments lead to hope for quite a lot of new highways/express roads by the turn of this decade

(future highways in Eastern region of the country not formally launched yet, currently under feasibility studies)



Existing | Planned | Under construction (Opening year)

Source: Romanian Government

Outlook

The dynamic of the I&L is incredible by any measure: just CTP, WDP and Globalworth/Global Vision have announced plans to develop over/more than half a million sqm of new modern warehouses in 2021, which would likely cost in excess of EUR 400mn to develop. To put this into perspective, the market for investment deals (i.e. transactions with existing commercial real estate assets) stood at around the same level during the first half of this year. With Romania's I&L stock at barely half of Poland's level on a per capita basis and similar levels of consumption, we expect this dynamic to hold over the medium term and the market will likely analyze how things are when it may near the 10 million sqm mark of warehouses sometime by the end of this decade.

Besides the large developers, we continue to see quite a lot of interest for this market from all types of real estate developers (active on other segments) seeking diversification and even private individuals lookingto park excess liquidity into an asset class on the rise. Meanwhile, this rising interest is also likely to lead to some sale-and-leasebacks down the line, as some companies may seek to take advantage of this market, divest their warehouse portfolios to free up some cash and expand their main/core businesses.

Limited labour force availability remains an issue in certain parts of the country, but then again, this is not endemic to Romania and the country does seem to fare better than others in the region in this aspect. For now, as long as the favourable economic trends hold and infrastructure investment promises are met, the outlook for the industrial and logistics market in Romania is as rosy as it can get.

Labour shortages exist in certain areas, but the country still looks much better than others overall

Companies stating labour force availability is a problem to business growth (%, warehousing, support activities for transportation, 2Q21)

Source: Eurostat, Colliers

Retail Market

Supply

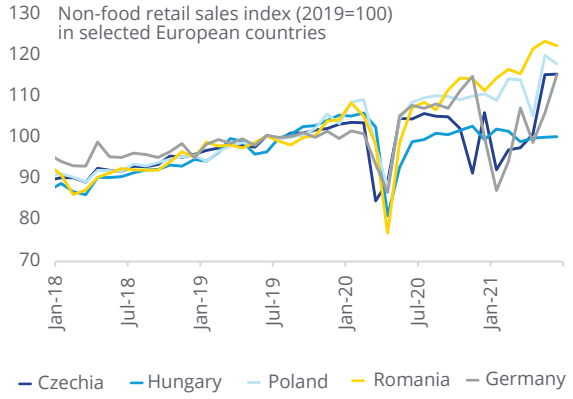
The first part of 2021 saw limited deliveries, as the pandemic context triggered delays in the construction process. Also, prices of building materials have soared over the last six months, which led to a slowdown of the planned retail developments, quite a few medium-large schemes being set to be opened in the second part of the year. Overall, out of the c. 121,000 sqm of new retail schemes under construction, 62% are small structures, mainly retail parks.

An important inauguration in the first half of the year was marked by Fashion House Pallady, the second outlet center in Romania - after Fashion House Militari - as a response to the desire of Bucharest residents for famous brands at super-affordable prices. Also, the first semester saw the completion of the project carried out by Prime Kapital in Sfantu Gheorghe, Covasna county - Sepsi Value Center -which has 16,300 sqm and is the first modern retail park in the region.

Demand

As we highlighted in our main market report earlier this year, retail sales have seen a clear V-shaped recovery and have been going from strength to strength in Romania, mostly thanks to a robust labour market (private sector wage growth is back in double-digit territory in year-on-year terms) and good hiring intentions. The growth in online spending is a major contributing factor to this, but it has not at all been an even growth picture. The sports, DIYs and home improvement industries have been experiencing unprecedented growth and high demand for a distinct assortment of products; in general, it was discounters or retailers with prices at the lower end of the spectrum that capitalized most of the returns, as is the case usually in times of economic adversity.

Retail sales picked-up much faster in Romania despite steeper drop in 2020 amid lockdowns



Source: Eurostat, Colliers

In terms of novelties, the Romanian retail scene embraced new brand entries in 2021, marked by the Spanish outlet concept Numero Uno and the Russian jewelry brand Sokolov, the latter having already had store openings in Bucuresti, Iasi and Cluj Napoca. Further, we expect to see other new names on the market, especially among Polish and Irish brands.

At the opposite pole, the French fashion retailer Camaieu has shut its stores in Romania, as well as in other overseas locations, as it focuses on its domestic market; some other fashion retailers fairly close to exiting the market as well.

Despite the normal increases in long term vacancy in general for retail schemes, in a world currently dominated by post COVID-19 reminiscence, retail parks have become that much more appealing. With large stores favorable to social distancing (entry directly from outside), parking facilities and the ability to accommodate drive-through occupiers, these locations have a new advantage in the context of new consumer habits. Consequently, quite a lot of retail park landlords have barely blinked.

Also, opportunistic investors with smaller portfolios may see this as a time to expand, with developments to be made on newly available regional cities areas they may have not considered opening previously and where the demand for retail parks is very attractive. Interested buyers are seeking out-of-town retail parks, as they assume customers will still want to shop at open-air locations that are reachable by car even after pandemic measures/restrictions are eased. Moreover, the dynamic of the foot traffic in retail parks was less impacted compared with big dominant shopping centers, with consumers willing to spend when visiting the site.

While the pandemic may have super-charged the shift to online and smart retail shopping solutions, 'click-and-mortar' could be one of the retail industry's most successful models to bridge the online and offline retail ecosystems. The large dominant centres in big towns, outlet shopping centres and retail parks in small-and mid-sized cities have been the less affected by declines in the footfall/revenues. Thus, based on the sustained urbanization trend, the flexibility of traditional shops along with predictions of landowners becoming more open to negotiations, we believe that there is confidence in particular for the key shopping centers and strip malls of major Romanian cities to tap into contemporary trends and suggest personalized concepts, experiences and services.

Rents & Vacancy

Vacancy rates across all location types increased in H1 2021, with non-dominant shopping centres seeing the most significant increase of c. 5 -7%, due to high exposure to fashion retail and casual dining.

Burdens on rents via renegotiations could remain in place during 2021, at least until tenants will get their finances fit again. As foot traffic and consumption recovered, rents have broadly stabilized, but it may take some years to reach pre-pandemic levels on an aggregate basis.

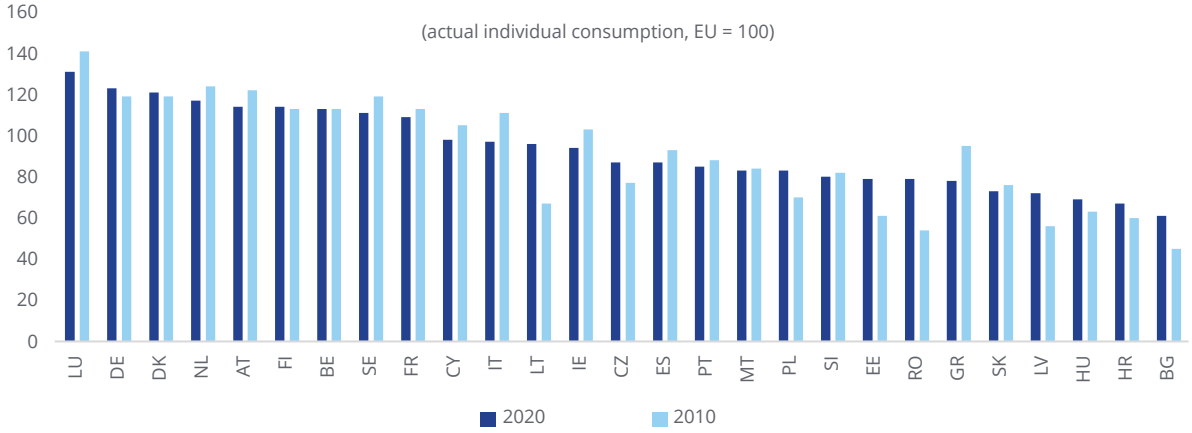
Outlook

Certainly, the pandemic accelerated trends that had already been established. The sustained migration of spend to online is not a new movement, but with consumers restraining all non-essential travel due to the pandemic context, shoppers have progressively turned to digital retail channels.

Overall, there are a couple of tendencies which have been ignited by the pandemic and retail developments are set to gravitate around three trends: 1) the growing appetite for retail parks; 2) developers focusing on regional cities that would have not been on the map several years ago; 3) small strip malls near dense residential areas.

A key issue for the near future, plaguing all real estate sectors, is the sharp rise in construction costs, which will likely dampen appeal for some future developments. And, while no big announcements about new very large shopping malls may be exactly on the horizon, there is comforting news that Romania is now on par with Poland (having surpassed Hungary) in terms of consumption per capita, which bodes well for the longer-term outlook of the retail segment.

Big jump in consumption per capita for Romania



Source: Eurostat

Investment Market

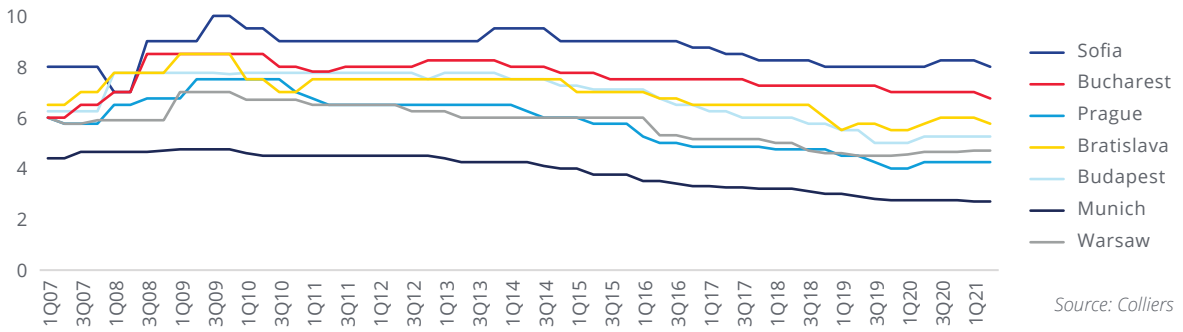
Overview

Investment volumes in Romania printed at nearly EUR 290mn, some 29% below the first semester of 2020, which stood at EUR 408mn. However, the market fundamentals remain strong, with healthy levels of transactions and banks confident in their ability to increase lending to the economy in 2021, offering sureness and encouragement to existing or new potential investors interested to prospect Romania. And so, while 2021 may look like a somewhat soft year in terms of overall volumes compared to some of the previous years, it is not soft if we judge it in terms of investors' interest (including new ones looking at the market) and pricing of core assets. Furthermore, there are presently quite a few large deals in various stages.

Transactions

The first six months of 2021 were particularly marked by safe office acquisitions. The vast majority of these office transactions involved Class A office buildings in reputable locations of Bucharest, with a predominantly international tenant mix. More than half of the volumes invested during the first part of 2021 were focused on 3 large office transactions. In fact, c. 66% of the total volume was generated by office projects, mostly located in Bucharest.

Prime office yields in CEE-6 versus Germany



Source: Colliers

The largest transaction registered in the first half of the year was represented by the sale of Campus 6.2 and 6.3, the second phase of Campus 6 office complex, located in the Center-West area of Bucharest; it was sold by Skanska to S IMMO for EUR 97mn and a record-low yield post-2008 of 6.75%.

Another significant transaction was accomplished by Uniqa Real Estate, which has completed the acquisition of The Light One office building in Bucharest from River Development for EUR 54mn. An additional noteworthy deal was the takeover of the Bucharest Financial Plaza office building in downtown Bucharest by Austria's Immofinanz, in a transaction worth EUR 36mn.

Elsewhere, investment in the industrial sector has accounted for 24% of total investment volume with significant investments in regional cities (CTP and Globalworth were buyers), while the remaining 10% was directed towards the retail and the hotel sectors, marking the entry of two new investors on the local market (Zeus International and Visionapartments), as well as the return of interest in these markets. The lack of supply remains an issue for the I&L sector, which has seen much higher interest thanks to the strong underlying logistics market during the pandemic and its anticipated future strength.

Other such categories of real estate assets which weathered the storm well also saw good interest: retail parks, strip malls with strong anchor tenants, DIYs. There was also good interest for properties at large discounts, though the fast-economic recovery meant that distressed assets have been more or less absent from the menu.

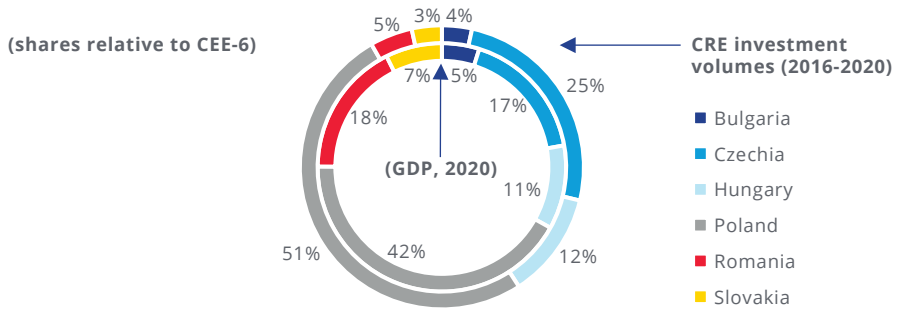
Financing

The banking system has currently enough liquidity and it's eager to offer more flexible and attractive financing terms. Margins have remained unchanged throughout the last couple of years - around 250-275 basis points for prime properties. Still, banks tend to prefer now mostly income-producing assets and would rather focus on the products that continued to fare at least decently throughout the pandemic. An alternative route for developers could be opening, following the successful IPO at the Bucharest stock exchange of one of Romania's leading developers of residential and offices (One United Properties), with very strong interest from retail investors.

Pricing

The sale of Campus 6.2 and 6.3 office buildings by Skanska to S IMMO marked a record low yield on the local market after 2008's Global Financial Crisis, of 6.75%. We more or less expected this to happen and there could still be some room to move lower for exceptional buildings (new projects, long leasing contracts); further positive price action demands some improvements elsewhere, notably rent-wise or with regards to Romania's fundamentals, neither of which are likely at the moment. Based on the signals we are seeing and our knowledge of the market rather than actual benchmark deals, we can also note that prime I&L assets would likely yield around 7.75%; we underscore the lack of deals on this market is due to most investors being long-term holders.

Big contrast between Romania's GDP share in the region and its investment volumes



Source: Eurostat, Colliers

Forecast

Romania's robust long-term economic perspectives means it remains an appealing prospect for investors seeking both high returns and a safe market within the European Union. Romania looks particularly/ notably appealing relative to its neighbouring peers, especially if we take into account the size of the economy. It's share of 18% in the region's GDP dwarfs by more than 3 times the share commercial real estate transactions have had in recent years.

Otherwise, market segmentations remain a clear trend likely to be even more valid in the post-pandemic world. Investors would probably place even more emphasis on safe, defensive assets: good income producing projects are expected to remain attractive and may even score lower yields, but for the rest of the market, particularly for struggling assets, things will look differently. In other words, the yield gap between the best and the rest will likely widen.

The mix of old and new stakeholders are on the lookout and should also conclude several significant acquisitions before the end of the year. After staying in the background for the past few years due to fierce competition, domestic investors are starting to place their bids, especially focusing on retail transactions. With pent up requests for properties that generate stable and consistent cash flow characterized by long-term sustainable leases, strong levels of investment are likely to continue throughout 2021, expecting to see the overall capital market at EUR 700-800mn by end of the year.

Land Market

Demand

Continuing the path set out in 2020, the market remained quite active in the first half of 2021 strictly based on buying intentions, but it may be difficult to get an accurate grasp on how things really are volume-wise; so, even though we have a lot of contracts signed, lots of them feature pre-conditions (mostly related to zoning) and may not actually close in 2021. There are also a lot of JVs, which are not the "traditional" type of land deals. Overall, strictly based on the deals activity (closing and signings), 2021 is shaping up to be one of the better years we have seen following the 2008 recession.

Turning to the different sectors, it seems like retail outpaced residential if we were to look nationwide, with the retail segment much more active outside the Capital. We note interest from a wide category of buyers: from various big box developers (stand-alone hypermarkets/supermarkets, DIY, furniture etc.) to different types of retail park developers, from larger schemes to strip malls for small cities or fast-growing residential areas in big cities. It is noteworthy that arguably the most dynamic retail segments are those not tied to the booming e-commerce scene (mostly from the lower end of the price range of goods/ small cities). Given how fast things are moving on the retail side, we note that some dormant investors are returning to the market, while some are just entering the market as they look for diversification of their future projects.

On the residential side, past trends are still holding water: there is a lot of interest from different types of buyers which seek to capture more attractive returns, though the market is becoming a lot more crowded. On the flipside, there is a fairly wide range of sought after land plots: from smaller plots in central areas (targeting all categories of income) to larger plots on the periphery of the city or former industrial platforms (for larger scale projects) to large plots outside the cities (especially for low density projects, including housing). While most interest for residential is tied to Bucharest, there is growing appetite in the dynamic regional cities for residential projects; we especially note that interest is increasing from large investors (including the more institutional-type) for mixed-use schemes outside Bucharest, mostly for the residential-retail mix. Otherwise, the reverse example also applies, as some local investors from different parts of the country are entering the attractive Bucharest residential market, with some of them seeking JVs to minimize their risks.

On the office side, even though the office segment has not reached its peak vacancy, with quite a lot of companies reducing their office footprint to account for the new post-pandemic labour market realities (mostly tied to the hybrid work regime), there is a thawing of some sort. The "build-and-sell" developers active here are starting to look for new projects in Bucharest (particularly in very good positions). Furthermore, some are starting to think that by the time they finalize a project in 3-4 years – if we take into account buying a land plot, getting all the necessary approvals, effectively building it - the office scene in Bucharest will have stabilized and may even face some shortage of spaces given the latest project delays or even postponing of certain projects' start.

Supply

The market remains adequately supplied, but there are some changes. For instance, JVs are much more prevalent as quite a few of the developers (particularly on the residential side) want to share the risk of the new project, while quite a few landowners without big pressure to sell prefer to be involved as partners in the future projects and thus obtain higher returns upon selling the finished real estate products.

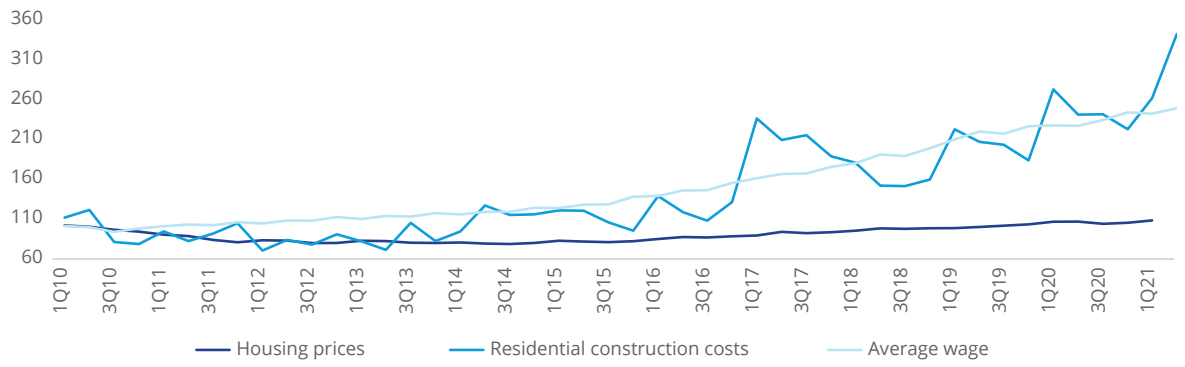
An important aspect impacting the supply as well as the near-term outlook is related to the uncertainties regarding urban development. Amid a change in

political administration and direction in many cities, there have been some blockages (like in naming chief architects in certain cities or freezing the sectors' zoning plans in Bucharest); things are moving for the better/towards more clarity in most cities, except for Bucharest, where progress is slow and leading to a cloudier outlook for the land market.

Prices & Transactions

2021 has seen, so far, fairly few major closings, to our knowledge, but this does not at all highlight a shallow demand, as buyers are simply waiting for clarity on aspects like zoning/authorizations. Prices have been pretty stable compared to the last 1-2 years, in most cases, however, very good land plots with zoning in place (PUD or PUZ) can command a good premium in the current administrative context – up to 15-20% over the last year or so. It is also the case/true that mostly the retailers pay up to secure the best plots of larger platforms. Offices used to also pay a premium, though in these days, it is more difficult to make a business case to shareholders. As a notable exception, we have seen some big platforms which were sold last year being resold now, in 2021, for much higher prices, but we would not call this a new trend, rather an interesting exception generated by some aggressive expansion campaigns of a few retailers.

Wage growth, construction costs dwarf residential prices, room to go higher for house prices?



Source: Colliers, Eurostat, NIS

Outlook

Overall, we cannot add anything much more different to the outlook of the land market than what we already said in our market report published back in February. Prices are likely to remain largely stable, with declines and hikes recorded in exceptional cases. As the general economy has already recovered/ reached its pre-pandemic levels, the market for land transactions looks completely different than it did in 2010-2011, in the aftermath of the recession following the 2008 Global Financial Crisis; in fact, it would be wrong to say that the land sector even saw a crisis to begin with this time. Retail and residential developers are as active as ever, and while others remain on the sidelines expecting more clarity on their revenue stream (notably offices), there is generally a feeling of optimism about the Romanian economy for the next several years – barring any negative external events, of course.

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