RESEARCH

Knight Frank

ROMANIA MARKET OVERVIEW

FLOURISHING ACTIVITY ON ALL MARKET SEGMENTS

2015/2016

THE EMERGENCE OF NEW OFFICE HUBS

LAND TRANSACTIONS IN THE SPOTLIGHT AGAIN

INCREASED DEVELOPMENT ACTIVITY ON ALL MARKET SEGMENTS

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HIGHLIGHTS

The short-term outlook for private investments is positive, due to a combination of monetary easing in the past, stronger household consumption and a modest increase in external demand from the Eurozone.

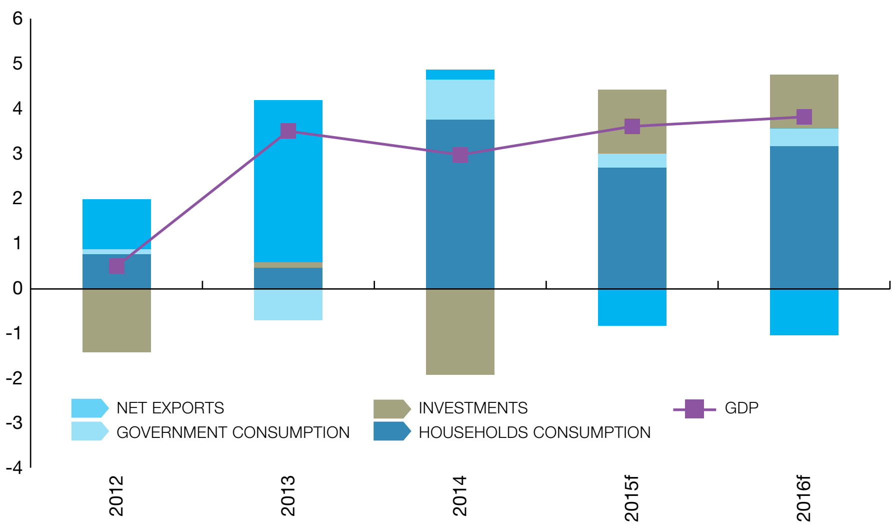
HAVE INVESTMENTS FINALLY ENTERED A DURABLE GROWTH TREND?

by Eugen Sinca, Senior Analyst
BCR

After being driven by household consumption and net exports between 2012 and 2014, Romania's economic growth has begun to receive the support of investments in recent quarters. Under these circumstances, a natural question arises: How durable is the recovery of investments? Gross fixed capital formation is still 40% below the level recorded in 4Q07 in real terms, while household consumption has exceeded the pre-crisis level by almost 10%. If investments finally manage to return to pre-crisis levels in real terms, this would boost potential GDP, facilitate the creation of additional jobs and improve the external competitiveness of the Romanian economy.

The most recent data presented by the National Institute of Statistics shows that new investments increased by 4.5% y/y in the first nine months of 2015, driven by new construction work (+7.6%), while the acquisition of equipment (including means of transportation) was slower, but still positive at 3.5%. Monthly data on the construction sector confirms this positive trend, with construction work already growing during the past year at an annual rate close to 10%. Private sector investments in the residential and commercial segments have been the main growth drivers, while public investments in infrastructure lagged behind until the summer months, when they made a tentative recovery. However, public investments remained at very low levels in 2015, due to the scarce public funding available for CAPEX in the context of more generous government social and personnel spending. Public investments (local + external financing) stood at 3.7% of GDP

FIGURE 1
Contribution to real GDP growth
(pp)



Source: National Institute of Statistics, BCR Research in January–November 2015, roughly the same level as in the corresponding period in 2014 and the lowest in 8 years.

The number of construction licenses issued for residential buildings has been on an upward trend in 2015, indication new investments in this sector in the coming quarters. Interest rates for new mortgage loans in local currency fell in the wake of the NBR's monetary easing and played an important role in boosting demand for new houses and apartments. The data presented by the European Central Bank for the entire banking system shows that the average interest rate for new mortgage loans in local currency averaged 4.3% in Romania in the first eleven months of 2015, below that in Hungary (6%) or Poland (4.6%). The labor market improved further in 2015, with nominal wage growth close to 8% towards the end of the year and the average number of new jobs created in the economy at around 120,000. Looking at the supply side of the residential market, the decision of entrepreneurs to start developing new projects might be explained by the diminishing stock of new houses and apartments built during the economic boom years of 2006-08 and a gradual recovery of corporate lending. Confidence in the Romanian construction sector measured by a survey carried out by the European Commission among 1,630 companies brightened in the second half of 2015 and exceeded its long-term average.

Local production of capital goods grew 4.6% y/y in the first ten months of 2015, faster than overall manufacturing, which rose 3.5% y/y. The trade balance for capital goods (except transport equipment) recorded a deficit during all of this time, pointing to the bigger volumes of capital goods absorbed by the domestic market compared to the previous year.

On a less positive note for investments, the fiscal stimulus package implemented by the government in 2016, along with hikes in public wages and the minimum wage, should only have a direct influence on household consumption, which is already growing fast. Investments could benefit indirectly from strengthening household consumption, but a lot depends on the ability of local companies to meet higher demand from consumers in 2016. Otherwise, stronger household consumption would translate into higher imports of consumer goods, with negative effects on Romania's trade deficit.

The short-term outlook for private investments is positive, due to a combination of monetary easing in the past, stronger household consumption and a modest increase in external demand from the Eurozone. The perspective for the medium and long terms is nevertheless surrounded by risks, as a significant departure from the fiscal targets previously agreed with the European Commission increases the chances of compensatory fiscal measures after 2016, which could weigh on private businesses. The NBR could start hiking rates in 4Q16 to counterbalance inflationary pressures from rapidly growing domestic demand, which could add upward pressure to interest rates in the coming years. The future developments of public investments are clouded by the social bias of the state budget, which leaves few domestic resources available for new projects and limited progress in PPP investments

HIGHLIGHTS

Office take-up in Bucharest reached 247,000 sq m in 2015 representing an 11% decrease from the previous year.

Similar to 2014, IT&Communication was the dominant sector accounting for 48% of the total demand while Dimitrie Pompeiu was the most sought-after submarket (28% of the total demand).

Vacancy rates dropped, although they are expected to increase due to the significant volume of office space planned for delivery in the short term.

The level of new supply due for completion in 2016 will peak similar to the levels reached in 2009.

OFFICE MARKET

Overview

The completion date for several large projects changed from Q4 2015 to H1 2016 resulting in lower levels of supply entering the market during 2015. In total 60,000 sq m was delivered across five buildings.

Total take-up for Class A and B offices reached 247,000 sq m. The ***IT&C*** sector once again was the largest contributor generating half of the total demand. Two significant pre-lease deals of over 20,000 sq m in Bucharest brokered by Knight Frank (Oracle and Genpact) are indications that the market is buoyant.

Despite the significant volume of new supply (400,000 sq m) that is planned to be delivered to the market the sentiment for 2016 remains positive. In addition to the established hubs, new office hubs emerging are Orhideea and Timpuri Noi.

Supply

New supply in 2015 totaled approximately 60,000 sq m in five buildings, which was the lowest recorded in the Bucharest office market over the last five years and less than half the levels achieved in 2014. New supply brought the total office stock to 2.17 million sq m. The lower volume was the result of the postponement of the delivery of numerous buildings that are now due for completion in the first half of 2016.

New buildings accounted for 56% of the total new supply, represented by four Class A office buildings. The largest scheme delivered to the Bucharest market was ***Green Court Building B*** (17,686 sq m). Reconversions accounted for a further 44% of the space delivered, represented by the reconversion and refurbishment of ***City Offices*** (25,800 sq m) from an old shopping center. In terms of submarkets, 52% of new supply was delivered in the southern area, followed by Calea Floreasca-Barbu Vacarescu at 30%.

At a national level, the most significant deliveries were in Cluj-Napoca, representing the second phase of existing projects: ***Liberty Technology Park II*** (11,250 sq m) and ***Cluj Business Center II*** (11,000 sq m).

Demand

Total take-up for 2015 reached 247,000 sq m for Class A and B office space. This volume is 11% lower compared with 2014, which represented a peak in terms of demand.

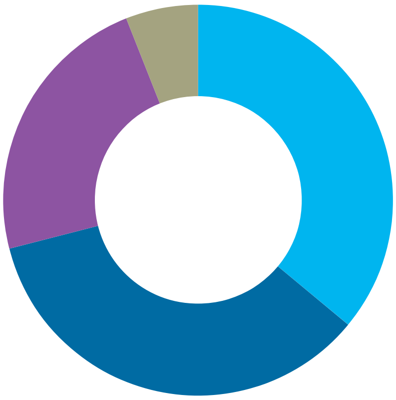
Of particular significance was the strong pre-leasing activity which began in 2014 and was maintained during the course of 2015, reaching a volume of 52,000 sq m. Two transactions were the main contributors, in the Calea Floreasca-Barbu Vacarescu and Dimitrie Pompeiu areas totalling 42,000 sq m.

The total number of transactions concluded in the Bucharest market was comparable to the previous year, however the average size of transactions slightly decreased to 1,250 sq m from 1,500 sq m in 2014. Larger transactions of over 5,000 sq m were again dominant accounting for a 36% share of the total take-up, an increase from 2014 (32% share), but lower than 2013 (41% share).

In terms of locations, Dimitrie Pompeiu (with a 28% market share) was the forerunner in 2015 and Calea Floreasca-Barbu Vacarescu closely followed (with a 25% market share). These two submarkets have attracted the highest demand in the last six years. Among other locations, the Baneasa submarket was the third most active submarket at 9%, followed by the Center at 8%, while the Presei Libere Square and Center-West submarkets both achieved market shares of around 7%.

Over the last six years, demand for offices in Calea Floreasca-Barbu Vacarescu and Dimitrie Pompeiu has been similar, with these areas accounting for 20% and 19% respectively of total take-up. Although the CBD underperformed in 2015, it has

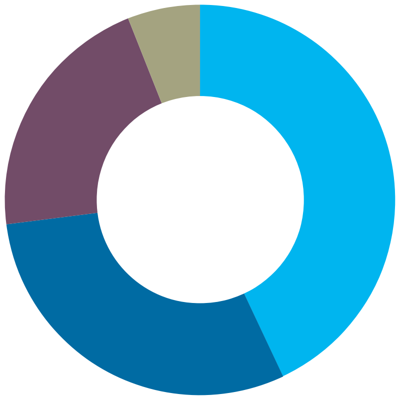
FIGURE 2
Demand by leased area
2015



>5,000 SQ M	36%
1,000–3,000 SQ M	35%
<1,000 SQ M	23%
3,000–5,000 SQ M	6%

Source: Knight Frank

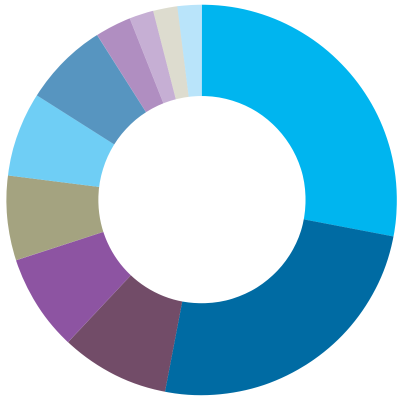
FIGURE 3
Demand by type of transaction
2015



RELOCATION	43%
RENEGOTIATION/RENEWAL	30%
PRE-LEASE	21%
EXPANSION	6%

Source: Knight Frank

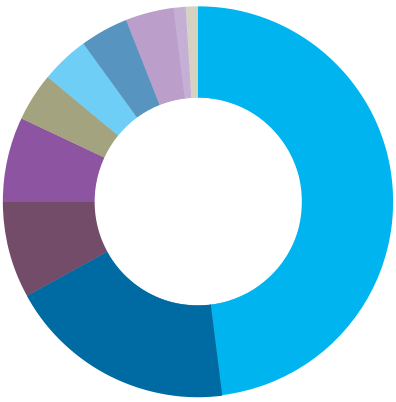
FIGURE 4
Demand by submarket
2015



DIMITRIE POMPEIU	28%
CALEA FLOREASCA –BARBU VACARESCU	25%
BANEASA	9%
CENTER	8%
CBD	7%
PRESEI LIBERE SQUARE	7%
CENTER-WEST	7%
PIPERA	3%
SOUTH	2%
EAST	2%
WEST	2%

Source: Knight Frank

FIGURE 5
Demand by tenant activity sector
2015



IT & COMMUNICATION	48%
PROFESSIONAL SERVICES	19%
MEDICAL &PHARMA	8%
RETAIL	7%
FINANCE/BANKING/INSURANCE	4%
MANUFACTURING INDUSTRIAL & ENERGY	4%
OTHER	4%
FMCG	4%
MEDIA &MARKETING	1%
AGRICULTURE	1%

Source: Knight Frank

The Bridge

accounted for around 15% of the total take-up in the last six years.

Major transactions in 2015 included Genpact's pre-lease in ***Hermes Business Campus III*** (Dimitrie Pompeiu submarket) of 22,000 sq m and Oracle's pre-lease of 20,000 sq m in ***Oregon Park***, ***Building A***. Other notable transactions are Oracle's new demand in ***Sky Tower*** of 10,400 sq m, Carrefour's relocation in ***Green Court Building B*** (6,300 sq m), KPMG's renewal in ***Victoria Park*** (5,700 sq m) and NNDKP's pre-lease of 5,700 sq m in ***Bucharest One***.

Similar to previous years, the main demand driver was the ***IT&C*** industry accounting for 48% of the total take-up. This share exceeded 2014, when the sector accounted for a 43% share. Seven of the top ten transactions were deals in this sector, and there was a diverse range of transaction types including pre-leases, renewals and new demand. The professional services sector came in second with 19% of the total demand, followed by medical & pharmaceutical and retail at 8% and 7% respectively.

An analysis of the 2010–2015 period demonstrates that the IT&C sector is a strongly developing industry, as it has accounted for 35% of the total take-up during this period. This is almost three times higher than that of the finance/banking/insurance and professional services sectors, which both accounted for 12% of the total.

Rents

Rents were similar to previous years. Prime headline rents remained unchanged and were reported at around €18-18.50/sq m/month.

Service charges have followed the same stable trend, ranging between €3.50–4.50/sq m/month.

Vacancy

The vacancy rate for Class A and B office buildings declined from 15.8% at the end of 2014 to 11.7% at the close of 2015. Furthermore the availability for Class A office space fell significantly to 9.9% from 12.5% in Q4 2014.

The highest vacancy rates in Bucharest were recorded in the South, Pipera and Baneasa areas, with vacancy above 25%. At the opposite end, the West, Dimitrie Pompeiu and Calea Floreasca-Barbu Vacarescu had low vacancy rates below 5%.

Despite continuing strong demand, significant supply additions are expected to lead to an increase in the vacancy rate over the coming months.

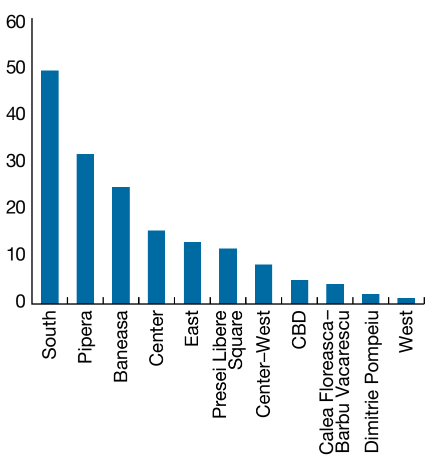
Forecast

More than 400,000 sq m of stock across 17 projects is expected to be delivered to the market in 2016. Noteworthy schemes include ***Globalworth Campus Phases I&II*** (55,000 sq m), ***Hermes Business Campus Phases II&III*** (53,000 sq m), ***Bucharest One*** (51,000 sq m), ***1st phase of Oregon Park*** (45,000 sq m), ***Anchor Metropol*** (36,500 sq m), ***AFI Park 4&5*** (32,000 sqm) and ***The Landmark*** (20,956 sq m). Dimitrie Pompeiu is expected to come in top with 36% of the total new supply, followed by Calea Floreasca-Barbu Vacarescu with 30% and Center-West with 23%.

As a significant amount of new supply is planned for delivery, sentiment is positive in terms of demand. Relocations are expected to be the main driver of office take-up, as tenants will be looking to move their headquarters/back offices or consolidate their operations into new premises.

Headline rents are expected to remain stable over the next year, however net effective rents may decline as developers will need to attract tenants into their new projects. Given that take-up has ranged between 200,000 sq m and 280,000 sq m over the last six years, the expected delivery of over 400,000 sq m in 2016 is anticipated to lead to an increase in the overall vacancy rate over the short term, but it should correct itself in the medium and long term.

FIGURE 6
Class A vacancy rate by submarkets
2015 (%)



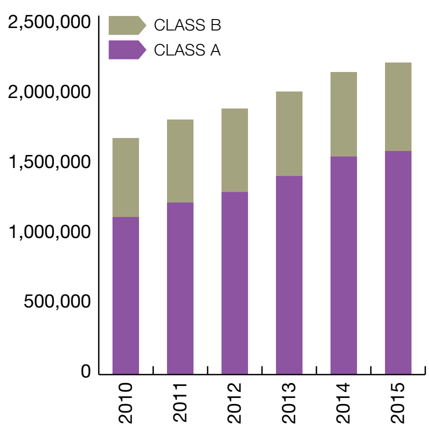
Source: Knight Frank

TABLE 1
Prime headline rent by submarkets
(€/sq m/month)

CBD	16–18
Presei Libere Square	14–16
Calea Floreasca -Barbu Vacarescu	14–16
Center-West	13–15
Baneasa	12–14
East	11–13
Dimitrie Pompeiu	11–13
West	11–12
South	10–11
Pipera	8–10

Source: Knight Frank

FIGURE 7
Modern office stock
Annual evolution and forecast
(sq m)



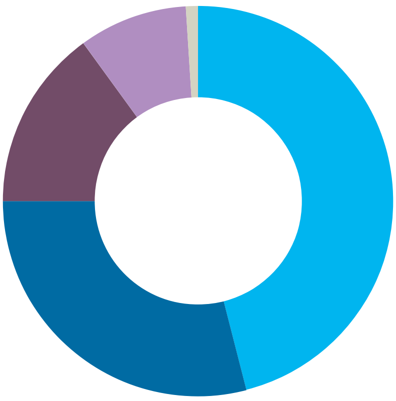
Source: Knight Frank

Infrastructure works have been announced in the Center-North area of Bucharest, among which the extension of Fabrica de Glucoza Road on two lanes each way and a series of roundabouts will allow better vehicular access to the A3 highway and therefore improve the overall traffic movement in the area. Accessibility in the Pipera area will also be aided by the extension of the road with two lanes each way.

At a national level, Cluj-Napoca remains the most active city in terms of development, with the delivery expected of around 26,500 sq m, representing the second phase of United Business Center by the end of 2016. It is followed by Iasi with approximately 22,500 sq m (buildings 5&6 of United Business Center), Timisoara with 15,000 sq m (Alcatel HQ) and Brasov with 6,400 sq m (the 1st building of the 2nd phase in Coresi Business Park).


Hermes Business Campus III

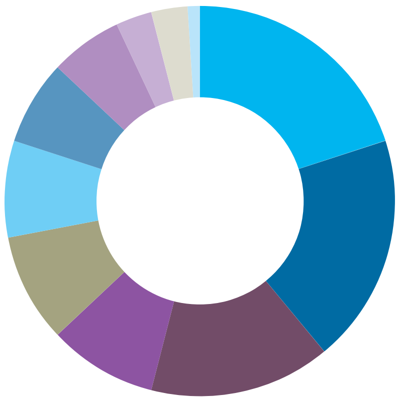
FIGURE 8
Demand by type of transaction
2010–2015



RELOCATION	46%
RENEGOTIATION/RENEWAL	29%
PRE-LEASE	15%
EXPANSION	9%
SUB-LEASE	1%

Source: Knight Frank

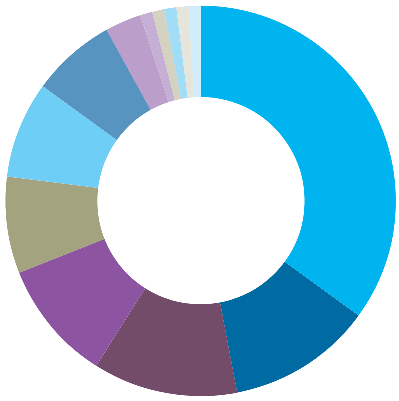
FIGURE 9
Demand by submarket
2010–2015



CALEA FLOREASCA –BARBU VACARESCU	20%
DIMITRIE POMPEIU	19%
CBD	15%
PRESEI LIBERE SQUARE	9%
CENTER-WEST	9%
BANEASA	8%
CENTER	7%
PIPERA	6%
WEST	3%
EAST	3%
SOUTH	1%

Source: Knight Frank

FIGURE 10
Demand by tenant activity sector
2010–2015



IT & COMMUNICATION	35%
PROFESSIONAL SERVICES	12%
FINANCE/BANKING/INSURANCE	12%
MEDICAL &PHARMA	10%
FMCG	8%
MANUFACTURING INDUSTRIAL & ENERGY	8%
OTHER	7%
AUTOMOTIVE	3%
RETAIL	1%
CONSUMER SERVICES &LEISURE	1%
CONSTRUCTION &REAL ESTATE	1%
MEDIA &MARKETING	1%

Source: Knight Frank

HIGHLIGHTS

Demand was mainly generated by established investors expanding their real estate portfolios.

The total investment volume reached €608 million in 2015, a 37% decrease compared with 2014.

Foreign funds accounted for more than 95% of the total activity.

Yields were stable in the second half of 2015 and are expected to see moderate compression in 2016.

INVESTMENT MARKET

Overview

After a rather slow start to the year, the second half of 2015 brought a substantial increase in transaction volumes, with a total of €608 million invested in the Romanian market by the year-end. The largest transactions were the sale of the Floreasca Park office buildings to the German fund GLL and the sale of the Iris Titan shopping center to the South African fund NEPI, together totalling nearly €200 million.

Overall, 2015 relied heavily on the office and the industrial sectors to drive up investment volumes, and established players familiar with the market expanded their portfolios by acquiring income-producing assets. The first half of 2016 announces several transactions, with new players showing interest in the Romanian market. Investor demand has been boosted by the favorable economic environment and new fiscal regulations, including the drop in the VAT rate from 24% to 20%.

Supply

Relatively few prime assets were delivered in 2015, and this was a major reason for the lower volume of transactions compared with 2014. Banks are still cautious and hesitant before financing a project. However, the investment market nonetheless features a wide range of opportunities for investors, including income producing, value-add or distressed assets.

Prime industrial assets were the most sought-after asset type, followed by prime office projects. The strongest demand came from established investors with expansion plans, which are likely to be looking for new opportunities in the next few years.

Demand

The total investment volume of €608 million in 2015 represented a 37% decrease compared to 2014. After a slow start to 2015, the market became more active, as several transactions that were initiated in H1 were concluded by the year-end.

A total of €439 million was invested in H2 2015, representing more than 70% of the total volume for the year. However, this was a 30% decrease compared with H2 2014.

Investment activity in 2014 represented a market peak and even though volumes in 2015 were below expectations, investor sentiment remains positive, mainly due to the favorable economic conditions and the fiscal regulations introduced by the new government.

The industrial sector was the main driver of activity in 2015, with a 42% market share. Major transactions in this sector were the sale of ***Europolis Logistics Park*** (215,000 sq m) by CA IMMO to P3 (part of a regional transaction) for €120 million, the sale of ***Bucharest West*** (130,000 sq m) by Portland Trust to CTP for €60 million and the disposal of ***Prologis Park Bucharest A1*** (108,000 sq m) by Prologis also to CTP for about €40 million.

The office sector came in second, with 38% of the total investment volume. Major transactions concluded were the disposal of ***Floreasca Park*** (37,000 sq m) by Portland Trust to the German fund GLL and the sale of ***Green Court Building B*** (17,686 sq m) by Skanska Group to Globalworth Group.

The retail sector came in third, with 18% of the total volume. The main transaction was the sale of Iris Titan (44,730 sq m) by Aberdeen Asset Management to the South African fund NEPI.

Analysing the above, increased demand stemmed from several investors expanding their portfolios, including investors that have been both active and inactive in the market in recent years. However, some companies also exited the Romanian market. As in recent years, foreign investment was the main driver of activity, accounting for more than 95% of the investment volume.

TABLE 2

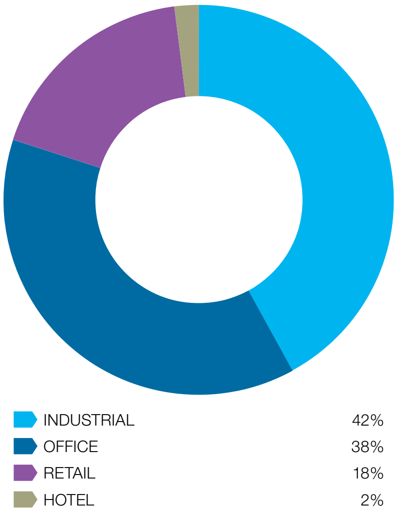
Bucharest prime yields 2015

(%)

Office	Retail	Industrial
7.5	7.75	9.00
↓	↓	↓

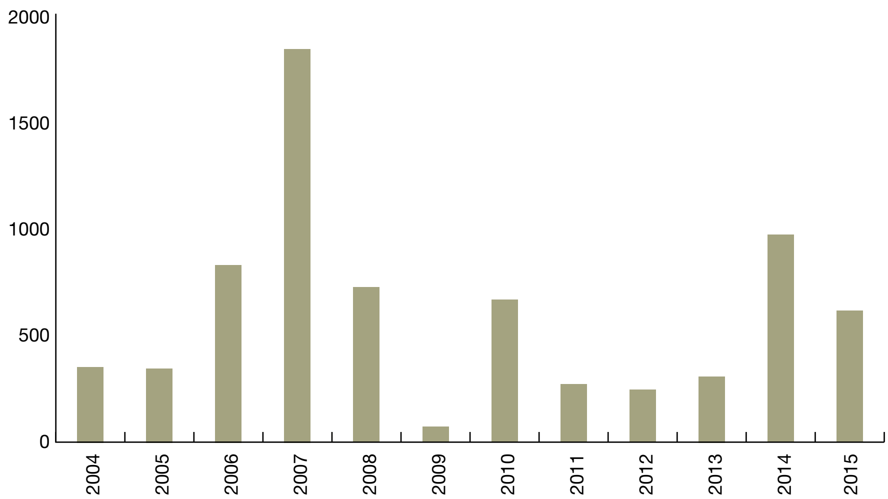
Source: Knight Frank

FIGURE 11
Transaction distribution by property type in 2015



Source: Knight Frank

FIGURE 12
Romania investment transaction volumes
Annual evolution (€mn)



Source: Knight Frank

Yields

Despite the improved levels of activity, yields remained stable during the second half of 2015 for all sectors. Moderate yield compression is expected in 2016, especially in the office sector.

The Romanian market has become more attractive, which is demonstrated by the closing of the gap between prime yields in Bucharest and Warsaw, the leading market in the CEE region. With Warsaw prime office yields at 6.00%, the margin has fallen to 150 basis points.

Forecast

The increased activity in the industrial and office investment markets indicates the growing confidence in Romania's macroeconomic environment. In 2016, investor demand is expected to remain focused on top quality assets. New investors may remain reluctant to enter the market, as a result of the precariousness of previous fiscal policies and the wider political backdrop. However, established investors will continue to seek to expand their portfolios, using their own equity or with the help of external partners.

Therefore, with sentiment remaining positive, we expect to see improved market activity over the coming years.

Floreasca Park, Bucharest

HIGHLIGHTS

Following a period in which low levels of supply entered the market, 2015 saw at least 11 projects at different stages of development, all of which will be delivered over the next two years.

RETAIL MARKET
SHOPPING CENTERS

Overview

After a low level of supply entered the market in 2014, there was a significant increase in new deliveries in 2015, not only in Bucharest but throughout the country. Several major projects were also added to the development pipeline. At the same time, retailers reconsidered their cautious expansion plans for Romania and the market witnessed a number of new entries.

Supply

While the first half of the year saw the delivery of two new shopping center schemes, Mega Mall (72,700 sq m) in Bucharest and Coresi Shopping Resort (45,000 sq m) in Brasov, the second half of 2015 witnessed mainly the extensions of existing malls. NEPI was the most active developer during this period, opening the extensions of the Deva Shopping Center (10,000 sq m) and Severin Shopping Center (10,000 sq m). The South African fund also delivered phase one of Timisoara Shopping City (70,000 sq m), with the rest of the project scheduled to complete in Q1 2016.

Demand

Occupier demand in 2015 continued to be generated by well-known food and fashion brands. Some reconsidered their expansion plans after a brief pause, including Inditex, which opened ten new stores in Mega Mall and Coresi Shopping Resort. H&M are also expanding their presence in the Romanian retail market, following the announcement of their new brand COS.

There were several important new market entrants in 2015, including retailers that opened stores in the newly delivered malls. Marks & Spencer Food, Sport Vision, Buzz, Debenhams, Sportisimo, English Home, Roche Bobois and Casa Convenienza all occupied units during the first half of the year, while the second half saw Tally Weijl open a store in AFI Palace Cotroceni. By contrast, electronics retailer Domo decided to close all of its existing stores to operate an online-only business.

FIGURE 13
Bucharest shopping center stock and pipeline
(sq m)

Source: Knight Frank

Rents

In 2015, rents for the leading schemes were on a par with the levels seen in 2014. For 100 sq m units, rents were in the region of €60/sq m/month in shopping centers in Bucharest and between €25–35/sq m/month throughout the rest of the country.

Forecast

The coming years are set to be remarkably active in terms of new supply, with approximately 400,000 sq m expected to be delivered throughout the country in 2016 and 2017. In Bucharest, two important schemes are due to complete in 2016, namely the ParkLake Plaza (70,000 sq m) and Veranda Mall (25,000 sq m). In the rest of the country, Timisoara has captured the strongest interest of investors and developers, with almost 40% of the total announced supply.

Looking specifically at developers, NEPI remains an active player, accounting for approximately 32% of the total area of the pipeline projects. AFI Europe also has plans to develop a shopping center in Brasov with a GLA of 45,000 sq m, which is due to be delivered in the second half of 2017 and is expected to be the main competitor to the newly opened Coresi Shopping Resort. Plans have also been put in motion to develop Timisoara Centrum, a shopping center with a GLA of 65,000 sq m by the second half of 2017, in a joint venture by Alpha Group Investments (an investment vehicle affiliate of Alpha Bank) and a well-known consultant on the retail market.

Given the volume of new deliveries due in the next two years, we expect to see many new market entrants. Aside from those already announced, Forever21 will be opening their first shop in ParkLake Plaza.

AFI Palace, Brasov

TABLE 3

Projects announced to be delivered in 2016 and 2017

Project	City	Developer	GLA (sq m)	Delivery
ParkLake Plaza	Bucharest	Caelum Development/Sonae Sierra	70,000	2016
Timisoara Shopping City	Timisoara	NEPI	55,900	2016
Mega Mall Satu Mare	Satu Mare	NEPI	27,000	2016
Veranda Mall Obor	Bucharest	Prodplast Imobiliare	25,000	2016
Piatra Neamt Shopping City	Piatra Neamt	NEPI	25,000	2016
City Park (extension)	Constanta	NEPI	20,500	2016
Platinia Shopping Center	Cluj - Napoca	Platinia	13,000	2016
Mercur (refurbishment)	Craiova	Local company	20,000	2016
Timisoara Centrum	Timisoara	Alpha Group Investments	65,000	2017
AFI Palace Brasov	Brasov	AFI Europe	45,000	2017
Timisoara Plaza	Timisoara	Plaza Centers	39,800	2017

Source: Knight Frank

HIGHLIGHTS

Food operators, banks and pharmacies were the main drivers of demand.

FIGURE 14

High street prime rents evolution

(€/sq m/month)

Source: Knight Frank

HIGH STREET

Mega Image Concept Store, Baneasa

Overview

In 2015, the evolution of the high street market remained broadly in line with the trends noted in 2014, with food operators continuing to drive demand. The new security and safety regulations adopted by the municipality of Bucharest in the second half of the year resulted in several closures and relocations of stores. Nevertheless, prime rents for 100 sq m spaces were unaffected and remained fairly stable at €50–60/sq m/month.

Supply

The changes to the security and safety regulations for retail space caused a slight decrease in supply in the second half of 2015, the first time a reduction of space has been seen in the market. Restaurants located in the Old City Center area were particularly affected, as were retail units located on the ground floors of older buildings with seismic risk, with many forced to close and relocate.

Demand

As per the trends of previous years, food retailers continued to be the main drivers of demand. Opening a total of 92 new units in 2015, Profi was the most active in the market, followed by Mega Image with approximately 60 units. Towards the end of the year, Mega Image opened its biggest concept store near the new Decathlon unit, expanding its presence in the Baneasa area.

New space enquiries also came from banks, with a handful opening units, and from pharmacies. Brands such as Catena chose to open new pharmacies, while others like Help Net, who took over part of the Centrofarm network, mainly units located in Shopping Centers, opted to buy existing stores.

The first half of 2015 saw Nespresso opening on Calea Dorobantilor as a new market entrant together with luxury fashion brand Michael Kors, which opened its first shop in JW Mariott's The Grand Gallery. The second half of the year saw the announcement of another market entrant – H&M group's new brand COS will open its first store in early 2016.

Rents

Continuing the trend seen in 2014, prime high street rents in Bucharest were stable in the range of €50–60/sq m/month throughout 2015.

Forecast

The area from Unirii to Muncii Square was recently renovated, and this infrastructure upgrade may lead to potential new supply for retailers.

Two of the most active retail areas of the city (Old City Center and Calea Victoriei) will continue to be affected by the new regulations in the short term. The owners of retail properties in these locations are likely to commence works in order to comply with the new rules, allowing units to return to the market in a timely manner.

LAND MARKET

Overview

In 2015, land market activity was buoyant, with several key transactions concluded for future office, retail and residential developments.

Supply

There were no notable changes to land supply, which was in contrast to previous years when major banks and insolvency companies advertised substantial land plots as distressed properties.

Demand

In 2015, demand for land continued to increase with high volumes of activity witnessed across all market segments.

Retailers continued to be active in the market, with several transactions recorded in Bucharest, including those involving ***IKEA*** (10.8 ha in the Theodor Pallady area) and ***Dedeman*** (5 ha in the Pantelimon area). Transactions in the rest of the country included acquisitions by ***Lidl*** and ***Dedeman*** in Iasi.

Office developers were also looking to secure locations for their future projects. During the second half of the year, ***Skanska*** finalised two key transactions acquiring former industrial sites in the Center-West part of the city – Pumac site (2.1 ha) and in the Barbu Vacarescu area – Romanel site (1.3 ha).

Other notable transactions of 2015 involved land plots for residential development (Metalurgiei Park, 50 ha in the Berceni area) and for industrial development (Policolor, 2.5 ha in the western part of Bucharest).

Prices

Prices were unaffected by the increased demand for residential and office land plots, and remained at a constant level throughout 2015.

Forecast

In the short term we expect several land plots to transact, particularly in the office sector. We believe Barbu Vacarescu-Floreasca will become less congested and will remain an area of interest to well-known developers and landlords, while areas such as Orhideea and Timpuri Noi will become the focus for new office hubs. Vastint has already started construction works for the Timpuri Noi Square project, and other developers are also looking at this area before land prices increase significantly. Orhideea and the Center-West area are also key locations where developers have acquired land plots, the latest being Skanska. Some developers are currently considering construction works even without pre-leases, highlighting the significant potential of the area.

Residential developers will remain active in the market and primarily seek land plots located in close proximity to metro stations that have development and planning approval in place, given the lengthy and arduous process of obtaining building permits.

The rest of the country will experience continued demand from big box retailers.

HIGHLIGHTS

The Center-West part of Bucharest has confirmed its status as a new office hub and witnessed the entry of Skanska through its acquisition of the old Pumac site.

TABLE 4
Relevant land transactions
(ha, sq m)

Location	Buyer	Size	Use
Pumac site Bucharest	Skanska	2.1 ha	Office
Romanel site Bucharest	Skanska	1.3 ha	Office
Theodor Pallady Bucharest	IKEA	10.8 ha	Retail
Pantelimon Bucharest	Dedeman	5 ha	Retail
Western Bucharest	Policolor	2.5 ha	Industrial
Berceni Bucharest	Metalurgiei Park Residence	50 ha	Residential
Unirii Bucharest	Unirii View	2,700 sq m	Office
Iasi	Lidl and Dedeman	4.6 ha	Retail

Source: Knight Frank

TABLE 5
Land plot prices by use
(€/sq m)

Office	Calea Floreasca -Barbu Vacarescu	1,000
	Center-West	700–900
Residential	Prime areas	1,000–1,200
	Periphery	200–250
Retail	Bucharest	350–500
	Countryside	100–250

Source: Knight Frank

HIGHLIGHTS

Developers still prefer to deliver built-to-suit units rather than speculative development, and to expand existing projects rather than commit to the delivery of new schemes.

INDUSTRIAL & LOGISTICS MARKET

Overview

Regional cities were the only locations to receive supply additions during 2015 mainly in the form of built-to-suit units. Higher take-up during 2015 led to a decline in vacancy levels.

Supply

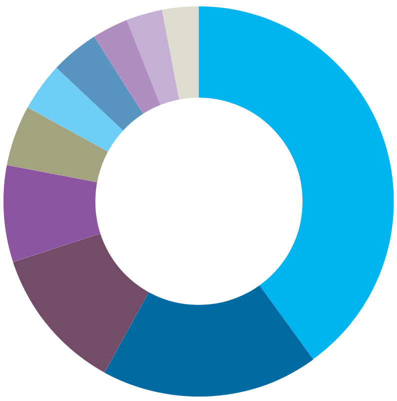
The total stock in Bucharest remained unchanged at just over one million sq m during 2015. In the first half of the year, regional cities were the recipients of almost 90,000 sq m of new supply, comprising 54,500 sq m of built-to-suit units in Timisoara Airport Park, 20,000 sq m in Olympian Timisoara, 10,000 sq m in Transilvania Logistic Park Cluj and 4,000 sq m in CTP Turda. During the second half of the year, new supply was a further 48,000 sq m, including the 16,000 sq m unit built by WDP for Yazaki in Braila, the 13,000 sq m Eni Snamprogetti extension and the 12,000 sq m Federal Mogul extension, both in Ploiesti West Park, and the 7,000 sq m Roquet extension.

Demand

Industrial take-up across the country in 2015 reached record levels with 385,000 sq m of space absorbed, nearly double the previous year's total. In Bucharest, total take-up in 2015 was close to 155,000 sq m, which was almost three times the level of the previous year, but still behind the peak in the boom years.

A total of 66 leasing transactions were recorded in 2015 with an average lease size of 6,000 sq m, and only

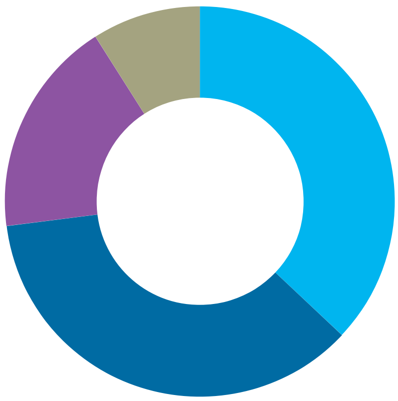
FIGURE 15
Take-up by region
2015



BUCHAREST	40%
TIMISOARA	18%
PLOIESTI	12%
CLUJ	8%
BRASOV	5%
ORADEA	4%
PITESTI	4%
VALCEA	3%
ARAD	3%
SIBIU	3%

Source: Knight Frank

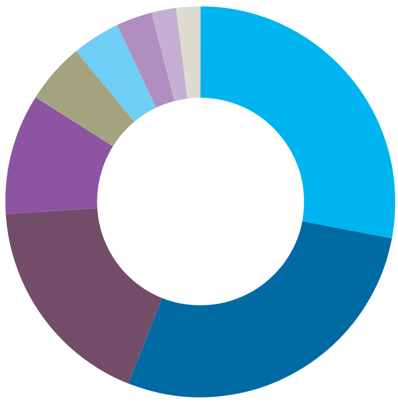
FIGURE 16
Take-up by type of transaction
2015



PRE-LEASE	37%
RELOCATION	36%
RENEWAL/RENEGOTIATION	18%
EXPANSION	9%

Source: Knight Frank

FIGURE 17
Take-up by tenant activity sector
2015



LOGISTICS	28%
RETAIL	28%
AUTOMOTIVE	18%
PRODUCTION	10%
ARCHIVING SERVICES	5%
DISTRIBUTION	4%
OIL&GAS	3%
COURIER	2%
MEDICAL&PHARMA	2%

Source: Knight Frank

15 transactions were larger than 10,000 sq m. During the first half of the year, notable transactions included P&G in Dunca Timisoara (28,000 sq m), Inteva Products in Oradea (16,900 sq m) and Geodis Calberson in Prologis (16,300 sq m). In the second half of the year the most significant leasing deals were Profi in CTPark Cluj (25,000 sq m), Quehenberger Logistics in CTPark Bucharest West (19,450 sq m) and in VGP Timisoara (13,000 sq m), Faurecia in WDP Park Valcea (12,800 sq m) and in CTPark Pitesti (14,000 sq m), and Fashion Days in A1 Business Park (13,700 sq m).

There has been increasing demand for logistics and industrial space in regional cities, as evidenced by leasing transactions in Timisoara, Ploiesti, Cluj and Brasov. Although Bucharest accounted for 40% of total take-up, Timisoara and Ploiesti were the most sought-after regional locations accounting for a further 18% and 12% respectively of the total volume.

The development of retailer logistics hubs is becoming more prominent in regional cities particularly to the west of the country. In regional cities the dominant sectors were automotive and retail, each representing 30% of the total demand while in Bucharest the leader was the logistics sector accounting for 51% of the total demand, followed by retail at 28%. Pre-leases were the most common lease types representing approximately 37% of the total demand.

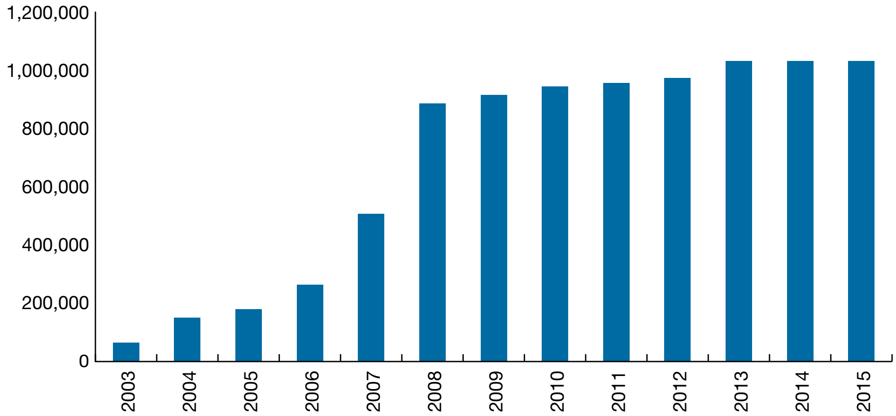
Vacancy

In 2015 the vacancy rate in Bucharest declined due to a combination of no supply additions and the higher take-up. At the end of the year, the vacancy rate was approximately 7%.

Rents

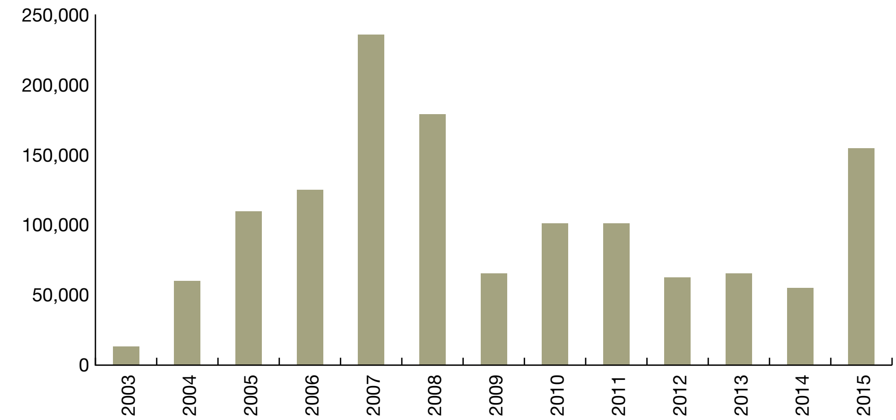
Rental levels for prime industrial and logistics space remained stable in 2015, both in Bucharest and in the other regions across the country.

FIGURE 18
Bucharest modern industrial stock
Annual evolution (sq m)



Source: Knight Frank

FIGURE 19
Bucharest industrial take-up
Annual evolution (sq m)



Source: Knight Frank

TABLE 6
Prime rental and service charge ranges

Rent €/sq m/ month	Bucharest	Rest of the country
Logistics (<3,000 sq m)	€3.90–€4.20	€3.50–€3.80
Logistics (3,000 –10,000 sq m)	€3.75–€4.00	€3.20–€3.50
Logistics (>10,000 sq m)	€3.30–€3.60	€2.90–€3.20
Manufacturing	€3.50–€4.25	€3.50–€3.75
Service charge	€0.50–€0.95	

Source: Knight Frank

Forecast

Assuming that the positive economic outlook prevails, we expect that demand for industrial space in 2016 will be comparable to 2015. The western part of Bucharest will remain the main logistics and warehouse hub due to its proximity to the A1 Highway.

In terms of supply, the following new additions are expected during 2016: the two planned extensions of P3 Logistic Park (90,000 sq m), the new project for Logicor, Log IQ Mogosoaia (40,000 sq m), the 15,000 sq m extension of Log IQ Ploiesti and the 13,700 sq m units of AIC for Fashion Days in A1 Business Park.

HIGHLIGHTS

Both residential supply and demand are gathering steam as a result of the favourable economic outlook and the newly introduced fiscal regulations.

*NOTE: This analysis only considers new developments with more than 100 announced units, located within the capital's city limits or in sizeable residential projects in satellite locations of Bucharest.

RESIDENTIAL MARKET

Supply

The market in 2015 proved to be more active than 2014 in terms of new supply, with developers reacting to growing demand. The threshold for properties to be eligible for the reduced 5% VAT rate was raised to 450,000 lei on January 1, 2016, and this has also encouraged developers to become more involved in new projects throughout Bucharest. The areas containing the largest new developments activity are in the South (Berceni, Dimitrie Leonida, Piata Sudului) and the West (Grozavesti, Militari). Despite these areas of heightened activity, several projects are also under construction in other areas to address the upmarket demand in addition to the lower and middle markets. Notably during 2015 there was an increase in first time developers in the market and this number is expected to grow in 2016.

In the second half of 2015, One United Properties began construction of ***One Herastrau Park***, located in the northern area of Bucharest. The project will include two towers both comprising 11 floors with a combined total of 106 apartments, expected to be delivered in Q1 2017. One United Properties' portfolio includes One Floreasca Lake (9,000 sq m) and Madrigal Residence (4,000 sq m).

Gafencu 49, a landmark project, is located just a few minutes walk from Herastrau Park and is the tallest residential tower developed in proximity to the park. The tower includes 90 apartments and 210 parking places and is designed to offer the highest standard in quality and facilities. The developer SKV Properties expect the project to be completed in Q1 2016.

Nusco Group are developing a luxury residential tower in downtown Bucharest, named ***Premio Exclusive City Center***. As this developer has previously mainly been involved in the office sector, this project will be only its second residential development. Premio Exclusive City Center will include 32 apartments with 46 parking places across two buildings of eight and six floors. The project is located on 13 Luca Stroici St, near Piata Universitatii, according to Nusco. The developer estimates the project to be delivered in H2 2016.

By H2 2016, an additional 500 units are expected to be delivered in the ***Cosmopolis*** complex.

Impact Development's project Greenfield Residence in Baneasa Forest was successfully received by the market. Sales figures indicate that 465 units were sold out of a total of 504 units delivered during 2015. During 2016, the developer plans to complete and deliver an additional 30 buildings, each comprising 26 units.

Anchor Group are planning to deliver a new building in their already successful project, InCity Residence. The new phase will consist of 18 levels and will offer 12 types of apartments from studios to triplex and penthouses. The delivery date for this project is H2 2016.

Morad Group delivered the first building of Onix Residence in H2 2014, with all apartments under contract before its completion. The second building was delivered in H2 2015 and has also been successful with all units sold. By H2 2016 the developer is expected to deliver the third and fourth buildings of the project, thus bringing the total number of apartments to 430.

Demand

During 2015 there was a significant increase in demand for new residential units. Demand was driven not only by the lower end of the market who focused on peripheral areas, but also by sophisticated investors who bought premium residential units.

Increased demand is also indicated by the number of off plan sales registered in 2015. This trend is expected to continue in 2016 with reputable developers delivering successful projects and selling many apartments off plan.

Prices

Prices* have started to gain momentum, with average values ranging between €700–1,200/built sq m and medium range projects recording an average of €975/built sq m.

FIGURE 20
Average prices
(€/built sq m 1 bedroom apartment)

Source: Knight Frank

Trends

The trends seen in 2015 are expected to continue in 2016 and, as a result, both local and international developers are turning their attention towards the Romanian market and committing to large developments in Bucharest, as well as other major cities.

In Cluj-Napoca, Libra Internet Bank financed the Platinia project with 40 mil lei. The developer is responding to the market and Platinia will be a mixed development, including a shopping mall, office space and 329 apartments. The planned delivery of the apartments is by September 2016, and the commercial component by December 2016.

Corporate Residential Lettings

The corporate lettings market is expanding year on year with demand driven by two sources. The first are families with children who prefer large houses with outdoor space in northern areas such as Pipera, Baneasa and Sisesti. These areas are preferable as most of the international schools are within close proximity.

The second are couples or single occupants who are interested in letting modern apartments containing two or three bedrooms in the Centre-North. They aim to be closer to the city centre and to amenities such as restaurants, fitness centres, metro stations and cultural points of interest.

The city centre is becoming popular with couples and single occupants as the new developments allow people to live amongst beautiful surroundings close to the main attractions of Bucharest.

Forecast

In the major cities of western Romania, rental prices are expected to increase due to new office developments being delivered this year. Several large international companies are relocating to these cities, thus generating higher demand for residential property, which will drive up rental prices. Lettings in Bucharest for 2016 are expected to be rather similar with the 2015 levels.

TABLE 7
Bucharest rental price
(€/month)

Area	2 rooms		3 rooms		4 rooms	
	av Min	av Max	av Min	av Max	av Min	av Max
Primaverii	700	1,000	1,200	2,000	2,000	4,000
Aviatorilor	700	1,000	1,200	2,000	2,000	3,000
Herastrau	1,000	1,500	1,500	2,500	2,000	3,000
Floreasca	700	1,300	2,300	3,000	2,000	3,000
Dorobanti	500	800	1,000	1,500	2,000	2,500
Kiseleff	600	1,000	1,300	2,200	1,000	3,000
Baneasa	500	700	700	900	1,000	1,500
Pipera	500	600	650	900	900	1,500
Center	350	600	650	1,200	850	1,500
Aviatiei	500	800	700	1,300	800	1,300
Domenii	500	750	750	1,000	850	2.000
Capitale	500	650	1,000	2,500	2,000	2,400
Tei	550	600	650	1,200	850	2,800

Source: Knight Frank

HIGHLIGHTS

Transforming an office into an inspiring and enjoyable place to work is now seen as a cost-effective means of retaining staff.

PROJECT MANAGEMENT

Overview

Following the trend of other countries, a growing number of companies in Romania consider their working space environment as another way to incentivise their employees.

Professional employees expect an inspiring and enjoyable environment rather than just a place to work.

Supply

The modern office is in a state of flux. Many companies are now seeking to change the concept of a traditional office layout and adapt to a new, high quality environment, with a more interactive and collaborative layout.

Looking at projects completed over last few months, every office combines open plan spaces with individual work areas.

Collaborative offices are the real estate equivalent of crowd sourcing, but in the form of a rather cool serviced office. The office space is fitted out with a combination of meeting rooms, hot desks, and lots of activity-based working space (ABW), with sofas and communal tables. The fit-out is often unashamedly targeted towards Millennials, and the tech and creative industries. While collaborative offices first emerged in San Francisco, driven by technology entrepreneur demand, the past few years have seen the format go global.

ABW is based on the following principles:

Light and circulation

ABW offices aim for natural sunlight to reach as many people as logistically possible, via an atrium and minimising the use of partitions. Internal staircases and the absence of blocking lines of desks encourage people to go to speak to their colleagues in person rather than sending emails (a common source of miscommunication).

Interaction areas

Often resembling a branch of Starbucks rather than a traditional office, this area reflects the need to dip in and out of interaction with others and screen time. This fit-out increases the likelihood of chance encounters and conversations overhead, promoting knowledge sharing.

Quiet spaces

These range from one-person booths for those with a report to write, to clusters of desks behind glass partitions for a group project with a tight deadline. Short-stay mini-pods are also dotted around the floor, so people can take that confidential mobile phone call.

Home-in-the-office

As the boundary between work and home blurs, firms want their staff to think of work as home and thus provide an office people want to spend more time in. Locker rooms allow staff to jog or cycle to work, or change before going out in the evening, while free buffets, 1980s-style arcade games, yoga areas and table football all provide an environment in which staff can relax or socialise.

Demand

The success of a project lies in its planning. Productivity is never an accident but always the result of a commitment to excellence, intelligent planning and focussed effort.

Recognising the special requirements of each client will lead to the smart design of the new office as an efficient and more productive place to work.

Companies are outsourcing the management of the details, enabling them to clearly see the strategic objectives of their project.

Independent project management companies also focus entirely on the clients' needs.

PROPERTY TAX COST CHANGES FOR REAL ESTATE OWNERS

by Alexandra Smedoiu, CFA, Director
PricewaterhouseCoopers Romania

As of 1 January 2016, we have a new Fiscal Code. We expect the real estate market to be significantly affected by this new code, ranging from the introduction of reverse VAT taxation for transactions with real estate assets, to less strict capital gains tax requirements and, more importantly, to changes in the property tax regime.

The new building tax rules redefine property taxation by reference to the destination of the building rather than the legal status of its owner. Thus, as of this year, all buildings in Romania will be split between 'residential' and 'non-residential', with 'residential' being defined as buildings used for dwellings and 'non-residential' being all the others. Building owners assign the destination qualification themselves, by presenting relevant information such as construction authorisations, rent agreements or even their own statements. The differences in building tax costs for the two categories can vary up to several times, i.e. from a maximum of 0.2% applied to a fixed amount (varying depending on building characteristics, size and location within the city) to a maximum of 1.3% applied to a taxable value determined based on a valuation report using the replacement cost as the main valuation methodology.

What do these changes actually mean to companies which own real estate? A significant reduction in the property tax cost may be expected for owners of residential complexes. Such companies, although holding the property with the purpose of an economic activity (e.g. for rental or sale), will pay building tax determined as for 'residential' buildings, i.e. a maximum of 0.2% applied to the taxable value of the building. What counts is only the 'final destination' of the building, i.e. what the building is actually used for by the ultimate user. The taxable value should be the value in the valuation report prepared by an independent valuator using the replacement cost.

For owners of 'non-residential' buildings (e.g. office, commercial, industrial), the new rules are not expected to bring a significant reduction of tax liabilities, given that the differences in tax rates (1.3% compared to the previous 1.5%) is negligible. Changes are more likely to come from differences in the taxable base, i.e. replacement cost vs. (formerly) market value.

What these owners need to know is that they are still required to perform a valuation at least every three years, even for residential buildings. The consequence of not performing such revaluations is an increase in the building tax rate to 5%. The three-year period starts from the last revaluation year or from the acquisition/commissioning year. Thus, companies that acquired, commissioned or revalued buildings in 2013 or 2014 are not required to do anything this year (i.e. for 31 December 2015 reference date); however, such companies have the option of performing a valuation, assuming that it would be in their favour. For instance, for well-positioned, high-quality buildings, the replacement cost should be less than the market value determined based on the market or income approach.

Interestingly, such valuations no longer need to be recorded in financial statements and no balance sheets need to be presented to the tax authorities. Companies with revaluation as their accounting policy for fixed assets are invited to reconsider their management assumptions and potentially return to a cost policy. Otherwise, two valuations would need to be prepared in parallel (one for financial statements purposes, one for building tax purposes), with the values expected to differ significantly between the two.

In light of these changes, real estate owners are invited to reconsider their accounting policies and also the potential benefits of having new valuations for their properties.

Starting this year, look out for 'final destination' of buildings to determine the property tax cost

THE TECHNICAL BOOK OF A BUILDING

by Simona Chirica, Ph.D., Partner
and Madalina Mitan, Senior Associate
Schoenherr & Associates SCA

The technical book should be kept and updated constantly during the entire existence of the building.

The technical book is a mandatory document for newly erected buildings contemplating the documentation related to (i) the design, (ii) execution, (iii) handing-over, respectively (iv) the follow up of the exploitation and interventions made to the building.

The investor will be hand over the technical book to the owner on different stages, as follows:

At completion of works:
- The documentation regarding the design;
- The documentation regarding the execution at completion of works

At the final handing over of the building:
- The documentation regarding the handing over;
- The documentation regarding the follow up of the exploitation and interventions made to the buildings.

However, this document should be kept and updated constantly during the entire existence of the building.

After receiving the technical book, the owner of the building has the obligation to keep and complete to date the technical documents on the follow-up on the exploitation and further interventions on the building. The provisions in the technical book related to exploitation of the building should be observed by the building owner as well as by the administrator and the user of the building.

It is mandatory that the interventions on existing buildings are recorded in the technical book. These interventions refer to works of construction, reconstruction, temporary support of damaged elements, partial demolition, consolidation, reparation, modification, extension, thermal rehabilitation, increase of the energy performance, major or complex renovation, change of destination, protection, restoration, preservation, total demolition.

Also, the owner, the administrator and the user of the building must comply with the provisions regarding the exploitation of the building, as comprised in the technical book.

Thus, the owner of the building has the obligation to perform the maintenance and reparation works provided in the technical book and resulted from the follow-up on the building, in accordance with the law and on time. The administrator and the user of the building are obliged to use the building according to the exploitation instructions provided in the technical book.

If there is a transfer of ownership, the technical book must be handed over to the new owner. The latter shall have the obligation to keep it and complete it.

The technical book should be kept during the entire existence of the building until its demolition. Subsequently, the investor shall submit the full copy to the archive of the administrative-territorial units where the building is located.

Failure of the investor to hand over the technical book to the owner, as well as failure to complete and to keep the technical book in accordance with the legal provisions are considered misdemeanors punished by fine amounting from RON 5,000 to RON 10,000.

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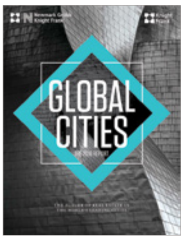

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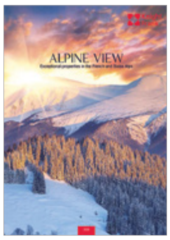

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