Romania Market Overview

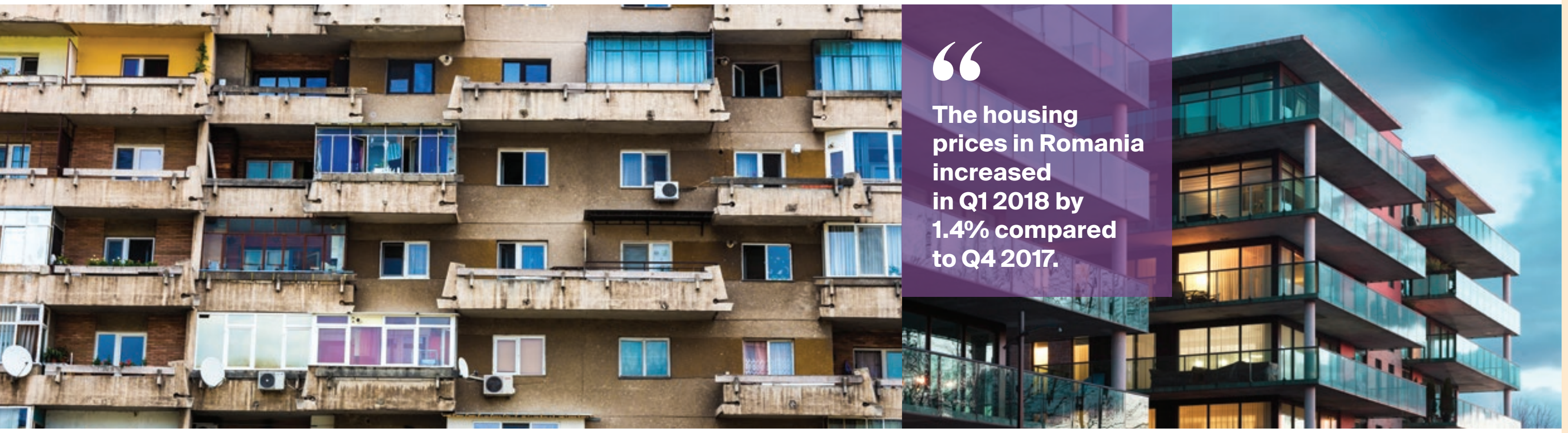
Real Estate Highlights

H1 2018


In Romania YoY dynamics of the economy decelerated from 6.7% in 4Q2017 to 4% YoY in 1Q2018, the slowest pace since 3Q2015.
STEFAN CEL MARE


Total stock in Bucharest reached 2.6 million sq m at the end of H1 2018 for class A & B office buildings.


By the end of 2018 approx. 170,000 sq m new retail space are forecast to be delivered.


The housing prices in Romania increased in Q1 2018 by 1.4% compared to Q4 2017.


In H1 2018, the modern industrial stock in Bucharest doubled in comparison with 2015.

Contents

Romanian Economy
The convergence towards potential

Dr. Andrei Radulescu
Director Analiza Macroeconomica
Banca Transilvania

This evolution confirms the maturity phase of the post-crisis cycle, in a context of diminishing convergence among the main economies and accumulation of several macro-financial challenges in the emerging and developing countries.

As regards the supply-side analysis there can be noticed the deceleration of the manufacturing, due to the intensifying global trade tensions. However, the services sector accelerated last quarter (the best dynamics since 3Q2014), given the incorporation of the Digital Revolution.

The US GDP increased by 2.8% YoY in 2Q2018, the highest pace since 2015, being noticed the advance of the fixed investments by 5.5% YoY, an evolution supported by the affordable level of the real financing costs and by the implementation of the fiscal reform.

On the other hand, the Euroland economy continued the deceleration process (2.2% YoY in 2Q2018, the slowest pace since 1Q2017), given the global challenges and the fading out of the impact of the unprecedented expansionary monetary policy.

In China the GDP decelerated to 6.7% YoY in 2Q2018, the weakest growth pace since 3Q2016.

In Romania the YoY dynamics of the economy decelerated from 6.7% in 4Q2017 to 4% YoY in 1Q2018, the slowest pace since 3Q2015. The domestic demand had a contribution of 5.8pp to the growth pace, an evolution supported by the expansionary policy-mix.

There can be noticed the continuity of the investment cycle, with the gross fixed capital formation climbing by 6.3% YoY in 1Q2018, given the influence of several factors: the exports' impulse, the relaunch of the public investments and the affordable level of the real financing costs (the increase of the nominal interest rates was counterbalanced by the acceleration of inflation).

> **"The global economy increased in 2Q2018 by the slowest pace since 3Q2017, according to the PMI Composite indicator computed by JPMorgan and Markit Economics.**

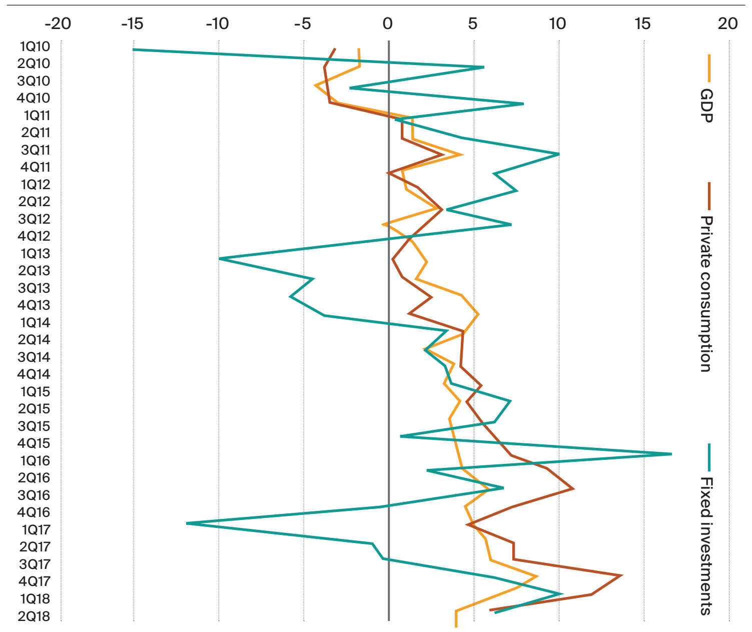
At the same time, the private consumption (the main component of the GDP) climbed by 5.8% YoY in 1Q2018, due to the increase of the real disposable income of the population (the net average real wage rose by 6.6% YoY) and the positive climate in the credit and real estate markets.

We underline that fixed investments climbed by a higher pace compared with the private consumption in 1Q2018, for the first time since 2015, as can be noticed in the figure below. The inventories also contributed by 1.7pp to the GDP growth pace in 1Q2018.

On the other hand, the government consumption adjusted by 3.4% YoY during January–March this year.

Last, but not least, the imports continued to increase by a higher pace compared with the exports in 1Q2018 (11.4% YoY vs. 8.1% YoY).

GDP, private consumption and fixed investments
YoY (%)



Source: Eurostat, AMECO, INS

As regards the supply-side there can be noticed the increase of the primary sector by 6.7% YoY during January–March.

The value added in IT&C also climbed by 5.4% YoY in 1Q2018.

At the same time, the domestic industry advanced by 4.4% YoY, an evolution supported by the exports' impulse and by the relaunch of the public investments.

The cyclical component trade/auto-moto repair/transport and warehousing/HORECA also rose by 3.7% YoY. On the other hand, the construction sector adjusted by 2.1% YoY in 1Q2018.

According to the flash estimates of the National Institute of Statistics the Romanian economy slightly accelerated in 2Q2018 (4.1% YoY) and rose by 4% YoY in 1H2018.

In the core macroeconomic scenario Banca Transilvania forecasts the deceleration of the YoY growth pace from 6.9% in 2017 to 4.3% in 2018, 3.5% in 2019 and 3% in 2020. In other words, we expect the convergence of the growth pace towards potential, with prospects for negative output gap in 2019 and 2020, as can be noticed from the figure below.

This scenario is supported by several factors: the maturity of the global and European post-crisis cycle, the rebalancing of the domestic policy-mix and the deterioration of the leading indicators (the economic confidence indicator diminished to the lowest level since September 2014).

However, we point out that we may upwardly revise the scenario if structural reforms accelerate.

According to BT macroeconomic scenario the investment cycle would continue, given the exports' impulse, the low level of the real financing costs, the relaunch of the public investments, the competitive level of the costs and the geo-strategic position of Romania. In this scenario the fixed investments may increase YoY by 4.9% in 2018, 3.4% in 2019 and 3.5% in 2020.

As regards the private consumption we forecast YoY growth paces of 6% in 2018, 5.8% in 2019 and 5.2% in 2020, an evolution supported by the positive labour market climate and by the low level of the real interest rate.

On the other hand, the manoeuvre room of the government consumption is limited unless the Administration implements consolidation measures, given the high level of the public deficit (risk of getting over 3% of GDP).

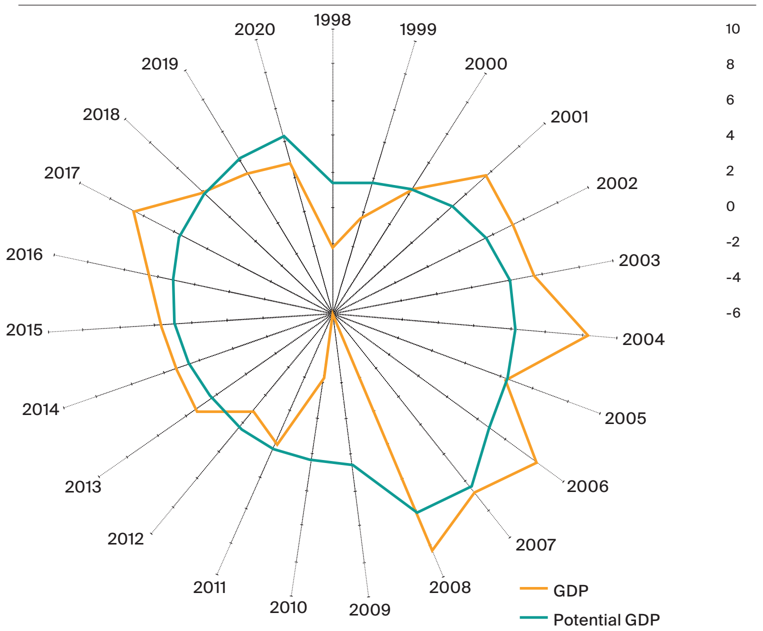
At the same time, we expect the imports to present a better performance compared with the exports during 2018–2020: annual average paces of 8.6% vs. 6.9%.

For the labour market we forecast the change of the trend (from improvement to deterioration) in the following quarters. In this scenario the annual average rate of unemployment (the structural component) may decline to 4.5% in 2018, but would increase to 4.8% in 2019 and 5.4% in 2020.

In our view the main risk factors to the dynamics of the domestic economy in the short and mid-run are: the global and European macro-financial developments, including the evolution of the risk perception on the emerging markets and the global trade tensions; the economic policy-mix, the public tensions, the deterioration of the macroeconomic equilibria and the delay of the structural reforms in Romania; the regional climate.

> **"In Romania YoY dynamics of the economy decelerated from 6.7% in 4Q2017 to 4% YoY in 1Q2018, the slowest pace since 3Q2015.**

GDP vs. potential GDP in Romania
YoY (%)



Source: BT estimates and forecasts based on Eurostat database

Office Market

> "Total stock in Bucharest reached 2.6 million sq m at the end of H1 2018 for class A & B office buildings.

OVERVIEW

Bucharest's office market experienced healthy growth, reflected by a total take-up of 131,000 sq m, representing 40% of last year level.

The most sought after submarkets in the first half of 2018 were Centre-West and Centre with a combined leased area of 78,000 sq m, representing almost 60% of the total transactions. If we compare these with the same period of last year, we notice a shift between the submarkets that were in high demand: over 36,500 sq m in Calea Floreasca/ Barbu Vacarescu area and over 27,000 sq m in the Central Business District (CBD).

As expected, the IT&C sector remains the most in demand, accounting for 35% of the entire take up (approximately 43,000 sq m), compared to the 46% for the same period in 2017.

SUPPLY

In the first half of 2018 we saw a modest increase in class A office stock with just 33,000 sq m delivered in Presei Libere Square and Dimitrie Pompeiu areas. The office space is divided between two projects, the largest being Globalworth's Campus II with 29,400 sq m and BASP Victoria with 3,500 sq m.

From the stock point of view, the submarket with the highest modern office stock is Calea Floreasca/Barbu Vacarescu (430,000 sq m) followed by Dimitre Pompeiu (408,000 sq m) which took the lead over last year's second ranked, CBD (390,000 sq m).

Prime headline rents (€/sq m/month)

Rent	Submarket
16–18.5	CBD
14–16	Presei Libere Square
14–17	Calea Floreasca /Barbu Vacarescu
13–15	Center-West
12–14	Baneasa
11–13	East
11–13	Dimitrie Pompeiu
11–12	West
10–11	South
8–10	Pipera

Source: Knight Frank

DEMAND

Total take-up in Bucharest reached 131,000 sq m for class A & B office space. This volume represents 42% of the total take-up achieved in 2017. The number of transactions concluded in the first six months almost doubled in number compared to the same period of last year, but the average transaction decreased from 2,200 sq m in 2017 to 1,200 sq m in H1 2018.

In terms of size, transactions of less than 1,000 sq m were dominant, their total area accounting for a 60% share of the total take-up, a notable increase from the previous year (45% in 2016).

In terms of locations, the Centre-West submarket registered a significant demand of 47,000 sq m (37% out of total take-up). The Centre area came in as runner-up with 24% of the total take-up, followed by Calea Floreasca/Barbu Vacarescu 13%.

Relocation and new demand were of notable significance, reaching more than 60,000 sq m. Pre-leases also had a strong drive with approx. 40,000 sq m, which, however, represents a mere 25% of the previous year's volume.

Similar to previous years, the main demand driver was the **IT&C** industry accounting for 35% of the total take-up, with the energy/manufacturing and industrial sector coming in second with 24% of the total demand, the largest transaction in the first half, was concluded in this sector.

RENTS

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

VACANCY

The vacancy rate for Class A and B office buildings is on a downwardtrend: the market is experiencing a vacancy of 9%.

The latest vacancy indicators are deciding the most sought after submarkets, as it follows: Calea Floreasca/Barbu Vacarescu with a continuous decrease in vacancy rate, reaching today 2%, and CBD with one of its lowest vacancies in years – 3%.

FORECAST

By the end of the year we are expecting to see another 149,500 sq m of class A offices delivered ver eight projects: Orhideea Towers (36,900 sq m), Sema Parc Berlin (15,700 sq m), Unirii View (18,700 sq m), The Mark (20,500 sq m), AFI Tech Park I (20,000 sq m), Campus 6.1 (20,000 sq m), Day Tower (12,000 sq m), D'OR Project (5,700 sq m). Adding the 33,000 sq m already delivered in the first half of 2018, the market will reach to a total of approx. 183,000 sq m of office space delivered. The higher rate of deliveries is focused on the second half of 2018, hence the rather slow start to the year.

For 2019, the targeted supply will peak, reaching, in total, office deliveries of cca. 323,000 sq m.

Portland only will map 61,000 sq m, comprised of two projects in separate submarkets: Oregon Park C (24,600 sq m and Expo Business Park (36,500 sq m) in the new emerging business hub, Presei Libere Square; following the same number of sq m, Vastint is finalisaing the third building of Timpuri Noi Offices (20,000 sq m) and Business Garden (41,300 sq m). Other large projects such as Anchor Plaza Metropol (36,000 sq m), the third phase of Globalworth Campus (30,000 sq m), Globalworth Square (29,700 sq m), The Bridge B (25,000 sq m), The Light Project (23,000 sq m), Equilibrium I (20,300 sq m), Daniel Danielopolu (7,000 sq m) and Calea Victoriei 109 (6,000 sq m) are contributing to the substantial growth of the expected supply.

Rounding up the projects on the second half of 2018 and 2019 we get a roughly 473,000 of class A office space focused mainly in Center West area (46%) where the current vacancy rate is at 8% and Calea Floreasca/ Barbu Vacarescu area (21 %)with a vacancy of 2%. The remaining 33% of the projects are split between the Centre area (11%), Presei Libere Square (9%) , CBD (7%) and Dimitrie Pompeiu (6%).

> "**Prime rental levels remain stable at 18.5 €/sq m/ month.**

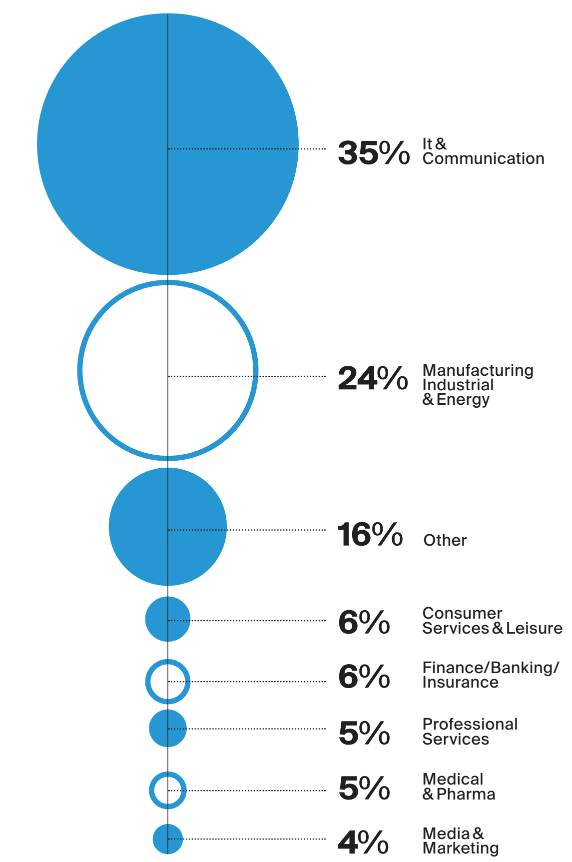
In mid 2018, there were cca.
1 million sq m
speculatively to be delivered by the end of 2022

SUPPLY IN H2 2018

At the other end of the spectrum, demand registered a 14% decrease in the first half of 2018 compared to the same period of 2017. Following last year's trend, the main focus will be on relocations and new demand. Headline rents are expected to remain stable over the next year.

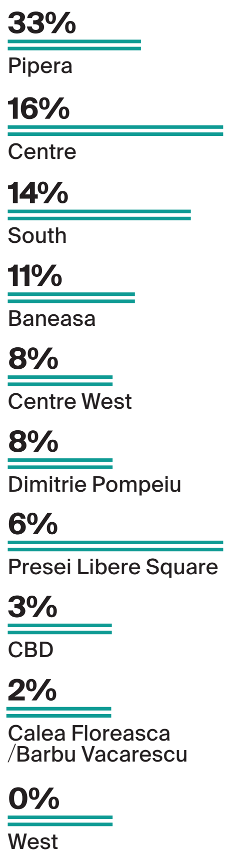
Service charge levels followed the same stable trend, ranging between €3.50–4.50/sq m/month.

Demand by tenant activity sector
H1 2018



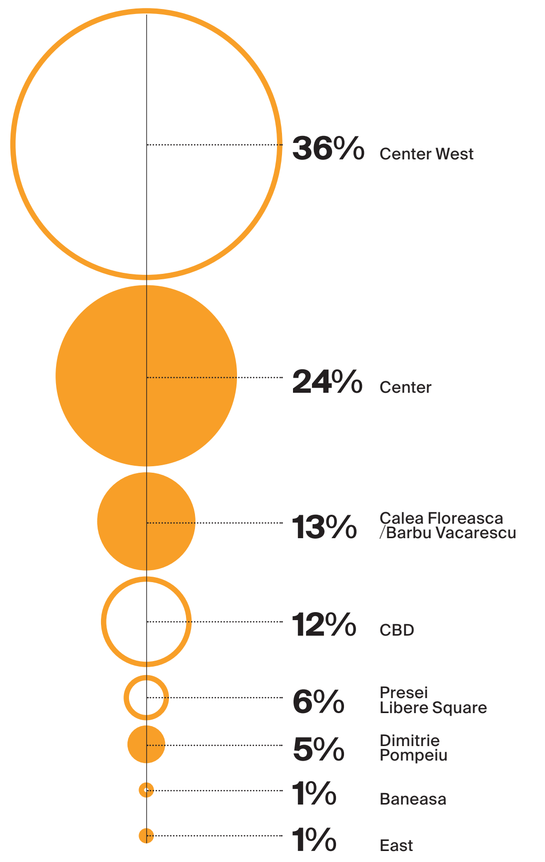
Source: Knight Frank

Vacancy rates



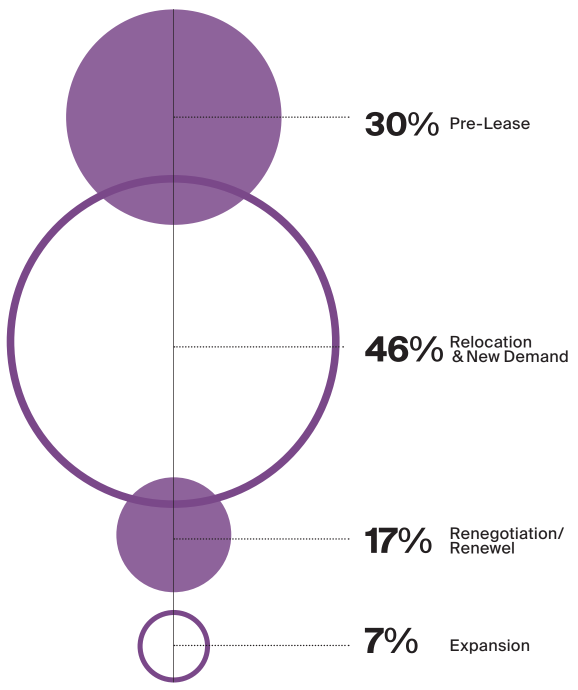
Source: Knight Frank

Demand by submarket
H1 2018



Source: Knight Frank

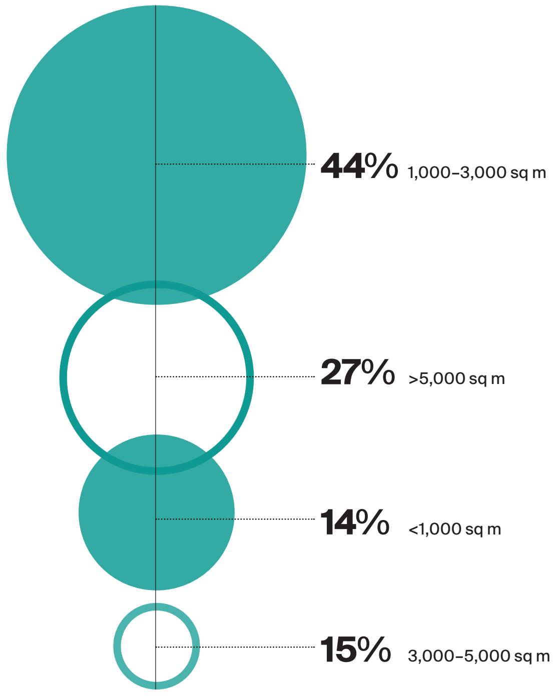
Demand by type of transaction
H1 2018



Source: Knight Frank

“The first half of 2018 recorded a total take-up for class A & B offices of over 131,000 sq m, a 16% decrease compared to the same period last year.

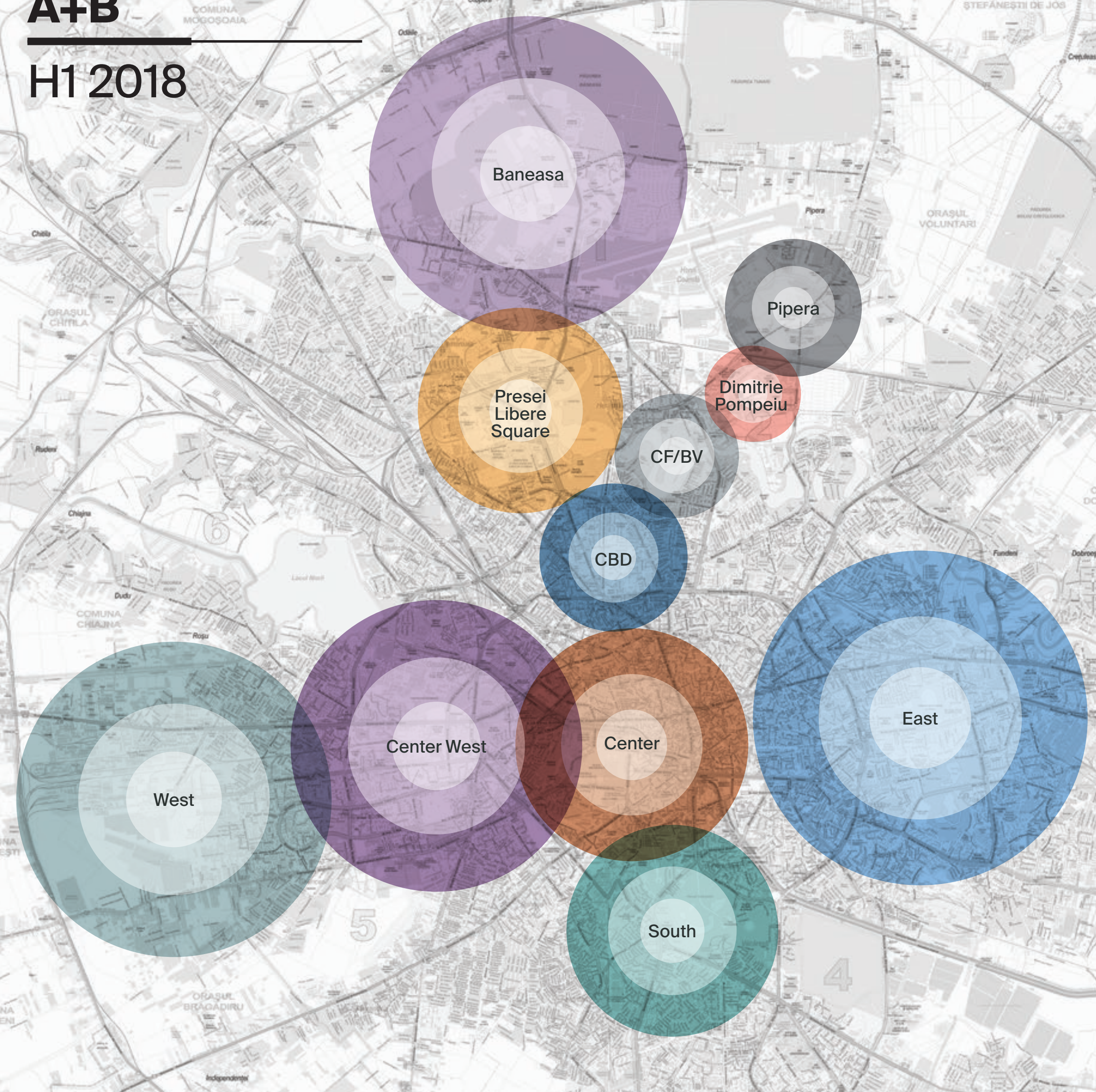
Demand by leased area
H1 2018



Source: Knight Frank

MAIN OFFICE HUBS IN BUCHAREST A+B

H1 2018



Baneasa	
Stock	230,000 sq m
Vacancy	11%
Headline rent	12–14 €/sq m/month

Pipera	
Stock	187,000 sq m
Vacancy	33%
Headline rent	8–10 €/sq m/month

Presei Libere Square	
Stock	136,000 sq m
Vacancy	6%
Headline rent	14–16 €/sq m/month

Dimitrie Pompeiu	
Stock	408,000 sq m
Vacancy	8%
Headline rent	11–13 €/sq m/month

CF/BV	
Stock	430,000 sq m
Vacancy	2%
Headline rent	14–17 €/sq m/month

Center West	
Stock	315,000 sq m
Vacancy	8%
Headline rent	13–15 €/sq m/month

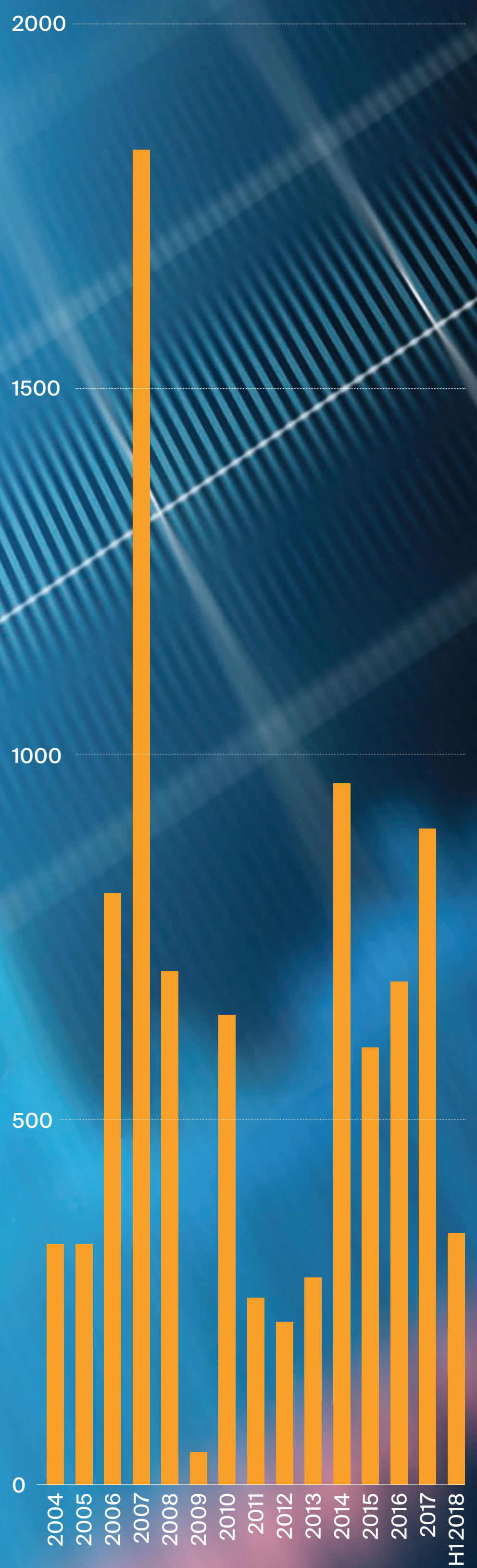
CBD	
Stock	390,000 sq m
Vacancy	3%
Headline rent	16–18 €/sq m/month

West	
Stock	76,000 sq m
Vacancy	0%
Headline rent	11–12 €/sq m/month

Center	
Stock	295,000 sq m
Vacancy	16%
Headline rent	13–17 €/sq m/month

Capital Markets

Romania investment transaction volumes
Annual evolution (€mn)



Source: Knight Frank

> **Demand was mainly generated by new investors looking for high quality income generating assets but established investors have also accounted for a significant weight of the investment volume.**

> **The total investment volume reached almost €360 million in the first two quarters of 2018, with potential to reach more than €1 billion by end of the year.**

Prime yields
2018 (%)

7.5
Office

7.25
Retail

8.5
Industrial

Source: Knight Frank

OVERVIEW

In the first half of 2018 the commercial property volumes reached €360 million. Despite the relatively low activity in the first quarter, in the second quarter with we saw 3 large transactions which accounted for more than 80% of the total volume reported in this period.

Overall, H1 2018 relied mainly on the office and retail segments while the industrial sector has not reported significant activity. A significant part of the total transactions volume was generated from new players that have entered the market, however established players familiar with the market expanded their portfolios by acquiring income-producing assets. New players are showing interest in the Romanian market as demand continues to be boosted by the favourable economic environment and very competitive risk adjusted returns.

SUPPLY

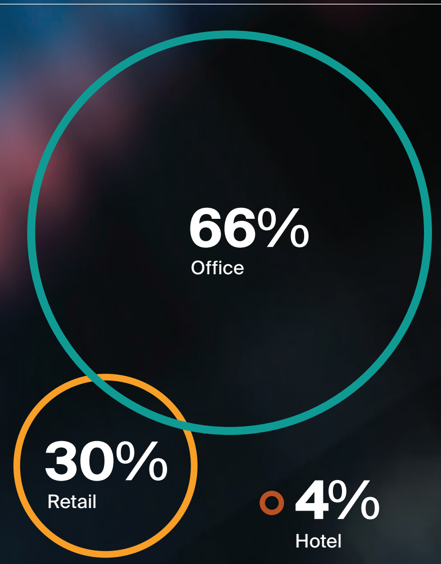
The level of supply was not significant in terms of products sold or availability, however the size of available products increased significantly (the average deal size increased to €45 million from €17 million in the same period of last year).

The office segment is experiencing a shortage of product available for sale as a significant part of the existing landlords are trying to consolidate their position on the local market and are not interested in selling. This fact is also reflected by the increasing interest in forward purchases as a way to secure good quality properties which are delivered by developers who are normally not holding their properties.

Retail assets are still of high interest to existing and new investors who are looking for new opportunities in the following period. Nevertheless, in 2018 established developers and investors were also active and the additional liquidity is likely to further encourage other investors to enter the market or consolidate their existing portfolios.

Also the industrial and logistics segment maintains a strong growth potential and there are a significant number of developments which will be delivered in the upcoming years. It is therefore likely that in the following years we will witness a significant number of transactions in this segment as well.

Transaction distribution by property type
2018



Source: Knight Frank

> **Foreign funds accounted for more than 99% of the total activity but local capital is also actively looking for investment opportunities and might become more active on the short term.**

DEMAND

The total investment volume reported in H1 2018 was almost of €360 million which is significantly higher than the volume reported in the same period of last year.

The office segment was the main driver in terms of volume with transactions exceeding €230 million (slightly more than 65% of the total market volume). Two major transactions were concluded in the first half of the year both involving projects still partly in a construction phase. The most significant transaction was the sale of Oregon Park (almost 70,000 sqm GLA) by Portland Trust to the new entrant Lion's Head followed by the sale of the first building from the Campus 6 project (almost 22,000 sqm GLA) developed by Skanska which was sold to CA IMMO.

The retail sector also reported a significant volume accounting for slightly more than 30% of the total investment volume. The main transaction reported was the sale of Militari Shopping Center which was acquired by MAS Real Estate from Atrium Real Estate Europe Limited. Other transactions involved the sale of Magnolia Shopping Center and one Praktiker shop sold by Miller Development and Ballymore Group respectively to two private individuals and Mitiska REIM respectively.

The industrial and logistics sector reported very low volumes with only one transaction announced in this period (established player WDP bought an industrial park in Ghimbav from Flenco East Europe in a sale and lease-back transaction). Although this segment only accounted for approximately 3% of the total investment volume, the interest in this segment remains high although it is not expected to report significant transactions as most of the existing owners are more interested in further expanding their portfolio and consequently it will likely be a scarcity of available products.

Analysing the above, **increased demand stemmed from several new investors looking for high quality income producing assets**. However investors that have been both active and inactive in the market in recent years have also reported significant activity. **As in recent years, foreign investment was the main driver of activity, accounting for more than 99% of the total investment volume** although local capital is becoming more active and several high net worth individuals are actively seeking investments opportunities on the local market (eg. Paval family was last year in an advanced negotiation process to acquire the first three buildings from AFI Park developed by AFI Europe but the transaction was not finalized).

Considering the ongoing transactions which are likely to close by the end of the year it is expected that the total investment volumes in 2018 will be above €1 billion which will mean that we will see the largest volume of transactions in the past 10 years.

> **Moderate yield compression is expected in the short to medium term, however the risk adjusted returns are still attractive compared with other regional markets.**

YIELDS

Despite the improved levels of activity registered in 2018 compared with 2017, yields have not registered a decline in the office and retail sectors. Nevertheless the overall compression trend seems to be maintained and we might witness a compression in yields in the following years.

The gap between the local market and the leading markets in the region (Prague and Warsow) is still above 150-200 bps indicating that a moderate yield compression might be expected towards the end of the year or early in 2019, especially in the office sector.

FORECAST

2018 will likely be a record year in terms of investment volumes. In the first two quarters investment activity increased significantly in the Romanian real estate investment market indicating the growing confidence in Romania's macroeconomic environment and real estate market.

Also investor demand remained focused on top quality assets and some new investors have entered the market while other already established investors continued acquisitions thus sending positive signals to other potential investors who are still reluctant to enter the market.

Therefore, the sentiment remains positive, and an improved market activity is expected over the coming years.

Retail Market
Shopping Centers

MOST ACTIVE DEVELOPERS

NEPI Rockcastle

Mitiska Reim

Prime Capital

SUPPLY

The first half of the year saw the delivery of approx. 25,000 sq m of modern retail space across three projects. Almost half of the new supply is covered by the extension of Sun Plaza in Bucharest owned by S Immo. The new space of 11,000 sq m GLA was inaugurated at the beginning of this year.

Another two projects were delivered in the first half of the year, but this time out of Bucharest: Bistrita Retail Park developed by Element Development, with 7,850 sq m GLA, and Focsani Value Center with 6,400 sq m GLA, developed by Prime Kapital/MAS REI.

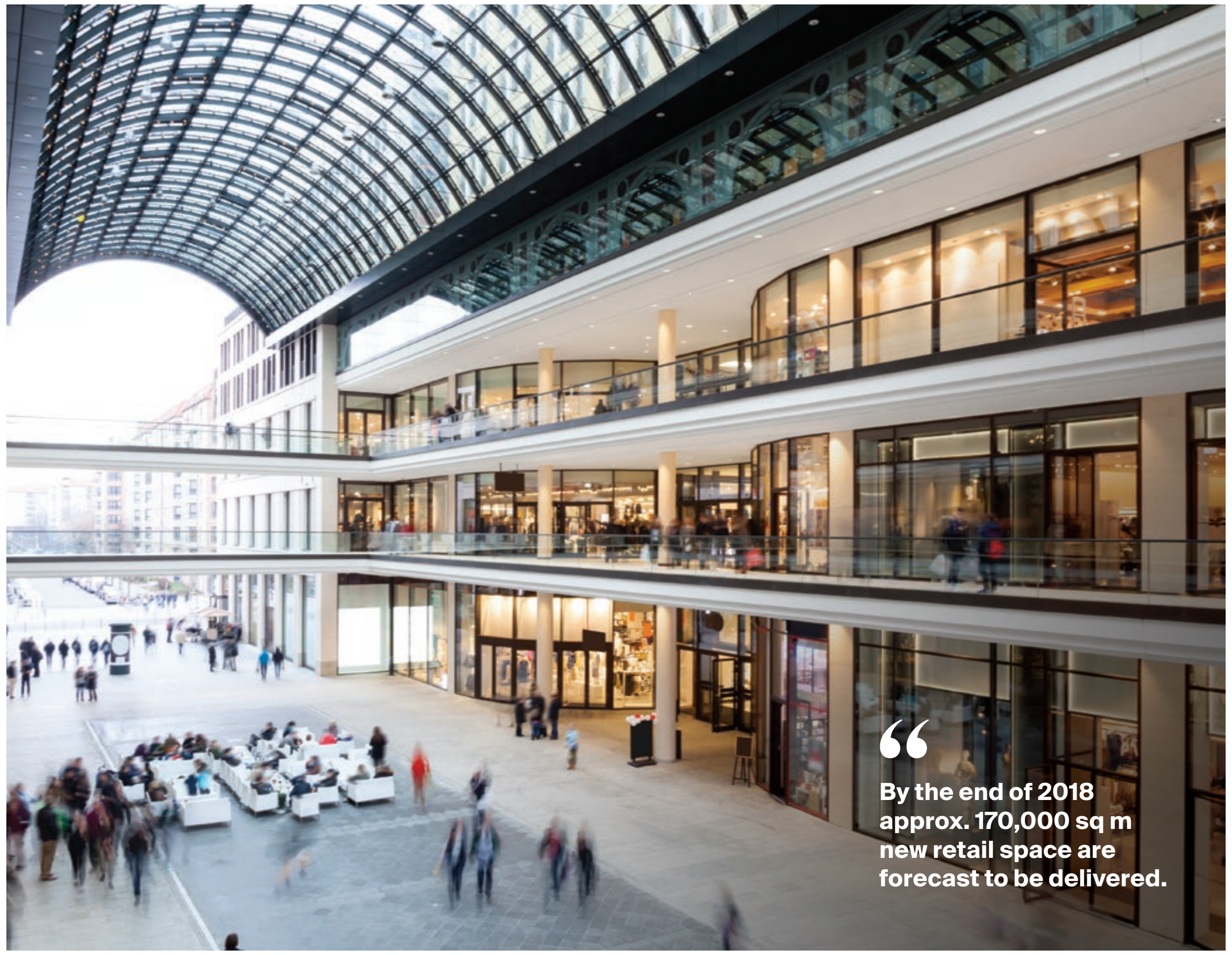
Another notable retail movement in the first half of the year was the closure of Carrefour hypermarket and gallery from Vitan Shopping Centre in Bucharest. The shopping centre remained with 16,000 sq m GLA after Carrefour exit, almost half of the previous area.

Also, the acquisition of the Militari Shopping Center by MAS Real Estate for €95m is due to complete buy the end of 2018.

DEMAND

The development of the retail segment from the past years encouraged the growth of the demand. Retailers interest remained high and vacancy rates low. In Bucharest, shopping centre players are lined up to enter the market, given the low vacancy in the prime commercial units.

It is also important to note the shopping centre as an "experience", the most significant magnets being the entertainment tools. People are enjoying the shopping, but mostly the experience given by the cinema, coffee shops, food courts, social areas, etc. Thus, even with the growth of ecommerce the shopping centre still plays an important role and will continue to grow in the following years.



"By the end of 2018 approx. 170,000 sq m new retail space are forecast to be delivered.

RENTS

In the first six months of 2018, prime rents for the leading schemes remained relatively stable. Rents were approx. €65-75/sq m/month for 100 sq m units for shopping centres in Bucharest and between €30-40/sq m/in the secondary cities.

FORECAST

Bucharest will see the delivery of Auchan Drumul Taberei extention, while the rest of the new space will be delivered in the country.

Among the new shopping centre supply, the second half of the year will see the delivery of IKEA Pallady with a total area of 37,000 sq m.

The most active developers in the retail market remain NEPI Rockcastle, Mitiska Reim and Prime Kapital.

Given the volume of new deliveries due in the next two years, we expect to see many new market entrants.

PROJECTS SET TO BE DELIVERED IN 2018

Project	City	Developer	GLA (sq m)
Sun Plaza Bucuresti	Bucharest	S Immo	11,000
Bistrita Retail Parkt	Bistrita	Element Development	7,850
Focsani Value Center	Focsani	Prime Kapital/MAS REI	6,400

Source: Knight Frank

Land Market

SUPPLY

Both Bucharest and the secondary cities major land supply is coming from the former factories platforms, located in semi-central areas.

In Bucharest, the few remaining prime land plots, located in central/high end residential areas, are also sought-after by the residential constructors/developers. Given the large quantity of big residential projects announced or under construction, the small developers focus on central land plots with small boutique projects, with good transportation network.

One essential aspect in selling a land plot is the Building Permit or PUZ. Investors are more interested into land plots with development documents issued, than to lose 2 years for approvals and miss the trend.

DEMAND

Demand trends have remained positive in H1 2018, with high volumes of activity witnessed across all market segments. Demand has been on heights for office land plots.

AFI Europe bought a 43,000 sq m land plot situated in the proximity of AFI Park and AFI Cotroceni, for 23 mil €. The land plot is part of the former industrial platform, UMEB. AFI Europe is planning to develop the commercial mix in the following years.

Globalworth acquired two adjoint land plots in order to develop two office buildings, in Gara Herastrau/Barbu Vacarescu area, near Green Court office development. The transaction was estimated at 16 mil. €. Also, Globalworth bought a land plot of 30 ha for 7.4 mil. € in Timisoara, near TAP development.

Forte Partners bought two land plots in Bucharest: 5,400 sq m land plot from Hercesa and 8,700 sq m from UniCredit.

Hagag Development bought two land plots and two buildings in Bucharest this year. One land plot on Eliade Street and one in Pipera, both for residential developments.

Another notable transaction was the acquisition of the development land Festival Mall in Sibiu, by **NEPI**.

> “
> **More investors are interested into the Romanian market and are decided to buy and develop mixed use projects (office, commercial, residential).**

PRICES

Prices remained at a constant level throughout H1 2018.

FORECAST

We have seen an increase in demand for land plots suitable for residential and office use and we expect the trend to continue in the following months. Mitiska Reim is preparing to acquire a 9 ha land plot in Bucharest from PwC Business Recovery Services (BRS) which is expected to complete by the end of the year.

In the last two years several new office hubs have been shaped in Bucharest such as Grozavesti and Timpuri Noi areas. This new trend comes with the developers' desire to decongest the existing office hubs. We expect other areas to grow in the following period, thus new land transactions are anticipated.

LAND PLOT PRICES BY USE
(€/SQ M)

Office	Barbu Vacarescu/ Calea Floreasca	1,500
	Center-West	700–900
Residential	Prime areas	1,200–1,500
	Periphery	250–300
Retail	Bucharest	350–500
	Countryside	100–250

Source: Knight Frank

RELEVANT LAND TRANSACTIONS
2018

Location	Byer	Size (sq m)	Value (€ Mil.)
Bucharest	AFI Europe	43,000	23,000,000
Sibiu	NEPI	34,000	21,000,000
Bucharest	One United	25,000	20,000,000
Bucharest	Globalworth	16,000	16,000,000
Bucharest	Speedwell	20,000	9,000,000
Timisoara	Globalworth	30 ha	7,400,000
Bucharest	Forte Partners	8,700	7,395,000
Bucharest	Hagag Development	2,000	6,100,000
Bucharest	Akcent Construction Projects	14,548	4,700,000
Bucharest	Forte Partners	5,400	4,590,000
Bucharest	Metropolitan Residence	7,500	1,875,000

Source: Knight Frank

Industrial Market

SUPPLY

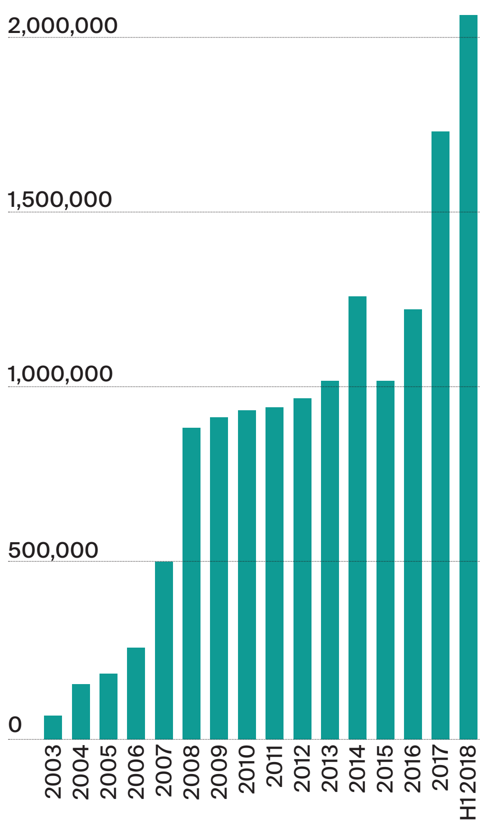
Since 2015, developers' amplified interest for the Romanian industrial market translated into an increased yoy growth of the modern new supply. In H1 2018, the modern industrial stock in Bucharest doubled in comparison with 2015. In the previous years of stagnation, 2008-2015, the stock was around 1 million sq m, while in H1 2018 the stock touched the 2 million sq m threshold.

Bucharest saw a flourishing development period in the first half of the year, adding approx. 330,000 sq m of logistics space to the modern stock. Among the main contributors to the industrial space in the first half of 2018 were CTP, WDP, VGP and Transilvania Constructii.

The biggest influencer of the industrial new supply is the infrastructure. According to 130km.ro analysis, in H1 2018 no deliveries were made to the national highway network. The projects for the new segments of the highway have a slow progress and the delivery terms are postponed.

A notable investment was the sale and leaseback purchase of a 20,000 sq m warehouse in Ghimbav, Brasov County, by WDP from Flenco East Europe Fluid System with a 10 year contract.

Bucharest modern industrial stock
(sq m)



Source: Knight Frank

MAIN CONTRIBUTORS IN H1 2018

- CTP
- WDP
- VGP
- Transilvania Costructii

> **In H1 2018, the modern industrial stock in Bucharest doubled in comparison with 2015**

RELEVANT TRANSACTIONS
H1 2018

Tenant	Area (sq m)	Property	Transaction type
Van Moer	15,000	CTPark Bucharest West	Expansion
NOD	14,000	CTPark Bucharest	New demand
Sarantis	9,800	WDP	Pre-lease
Frankische	7,000	CTPark Turda	Expansion
Mediapost	7,000	LogIQ Mogosoaia	Expansion
360 Co-Packing	6,700	WDP	Expansion
Evobit Information Technology	6,000	Transilvania Constructii	Expansion

Source: Knight Frank

DEMAND

Total take-up in H1 2018 was around 100,000 sq m, reaching approx. 40,000 sq m in the country, respectively in the secondary cities.

Although Bucharest accounted for 60% of total take-up, Cluj was the most sought-after regional location accounting for a further 23% of the total volume.

In general, the main sources of demand were expansions and new demand, accounting for 85% of the total take-up.

At the end of the first half of the year, the vacancy rate remained low nationwide, with figures falling as low as 2% in Bucharest.

RENTS

Rental levels for prime industrial and logistics space remained stable in the first half of 2018, both in Bucharest and in the other regions across the country. In Bucharest, prime rents for modern warehouses are approx. €4.0-4.2/ sq m/month.

FORECAST

New deliveries are expected to come onto the market in the second half of 2018. The most dynamic developers expected to contribute more to the industrial stock are CTP and WDP. On the other hand, vacancy rates are anticipated to grow given the expected deliveries and planned projects.

Residential Market

SUPPLY

Cap Nord is one of the most awaited boutique residential projects located in the northern area of Bucharest. In H1 2019, the private developer will deliver 28 apartments in the Jandarmeriei area. With approximate 5,000 sq m, the new project will be remarkable for the unique finishes and outstanding technical specifications. The view to the forest and green surroundings, with easy access to the city centre and office hubs, make this project an attractive investment.

Developer **One United Properties** has launched a new project that will include a residential component, **One Mircea Eliade** alongside **One Tower Office Building** with 24,000 sq m GLA. The €100 milion investment includes 236 exclusive design apartments in 3 towers (GF+15F, GF+15F, GF+20F), together with One Tower office building, a food hall concept, restaurants, gym with pool, all bordering Floreasca Park. One Floreasca City, a mixed-use project, will be built on a 2.8 ha plot of land, 30% of which will be green spaces.

> “
> **The housing prices in Romania increased in Q1 2018 by 1.4% compared to Q4 2017**

The Israeli developer **Hagag Development Europe** will deliver two residential projects designed for high-end customers. The total investment from the group in Romania reached €150 million, including H Pipera Lake, a project with 1,350 apartments in Pipera area and Calea Victoriei 109 office project with 7,036 sq m GLA. **Calea Victoriei 139** brings a rare product to the high-end residential market by transforming an old block of flats into a modern boutique residential building. The delivery date is H1 2019 and the project is summing 40 apartments, totalling 6,000 square meters. The luxury residential market meets new standards as **H Eliade 9** is announced for 2020. The project will include 35 apartments summing up a total area of approximately 6,000 sq m. Located in the best rated residential area of the Romanian capital, H Eliade 9 has all the odds of a successful project.

In Floreasca, one of the most important projects under construction is **Rahmaninov 38**. The local developer of the project has an impressive track record on the high-end residential market and will deliver 32 luxury apartments with 1, 2 and 3 bedrooms, topped by a unique penthouse with uninterrupted views.

DEMAND

Since H2 2017, the residential market has entered a new phase of gradual slowdown in price rises. Thus, the annual evolution registered in the second quarter of 2017 declined in the first quarter of this year. Moreover, the market data indicates a price increase in Q1 2018 compared to Q4 2017, of 1.4% – an advance below the quarterly growth average recorded in 2017 of 2.2%.

Demand for apartments and houses for sale is still strong; last year we talked about the insufficiency of the offer on the residential market in relation to the new delivered properties.

Also, demand for inexpensive housing has a high volatility dictated by the First House (Prima Casa) program, the volume o offer in this segment is continuously decreasing, and the new constructions fail to cover the differences in the market.

Over the last four years, there has been a tendency to increase the sale period of the residential real estate. For apartments, the growth is slower from 2 months in 2014 to 3 months in 2018, and the period of sale for houses will double from 4 months in 2014 to 8 months in 2018. Both sellers and buyers have a prudent attitude and are more informed.

Although the increase rate of the prices slowed in the first quarter of this year, we are facing a continuous appreciation behaviour of the apartments based on the increase of the demand and lack of the offer. A sustainable growth in the value of the real estate should be supported by investments in infrastructure, utilities and quality social services accessible to communities in the new residential complexes.

Regarding the type of housing sought by the potential buyers, new builds (apartments and houses completed after year 2000) are still favoured. The preference for the new housing units can be found in Cluj-Napoca, Iasi and Bucharest. In Timisoara, Constanta and Brasov older apartments are still more popular.

PRICES

The housing prices in Romania increased in Q1 2018 by 1.4% compared to Q4 2017; a relatively small figure considering the increases recorded in the recent years. The level of the seller's claims is 6.4% higher in Q1 2018 compared to Q4 2017, however the same indicator was 12.9%, one year ago.

The evolution of the average prices per square metres of the apartments over the past 10 years shows that the localities in the western half of the country have recovered the most from the price drops caused by the economic crisis. Compared to the first quarter of 2008, Cluj-Napoca is the only city in Romania that not only recovered the price drop, but even reached an average price per square meter 15.2% higher than 10 years ago. The capital is among the cities with the largest decline, having to recover 41.8% of the level of the average price of 2008.

CORPORATE RESIDENTIAL LETTINGS

Although foreign investors continue to see potential in Romania and the appetite for high end residential properties is growing among expats, Romanian buyers are showing equal interest in investing in high end properties.

Residential complexes that provide high levels of privacy and security continue to be the top pick for diplomats and foreign executives from multinational companies. Kiseleff, Aviatorilor, Dorobanti, Primaverii and Floreasca areas are highly valued for their proximity to parks and green areas.

Among the criteria underlying tenants' preferences when choosing their new home, we identified the following: stylish atmosphere, secure community, green open areas, good transport access, unobstructed views.

The Baneasa-Pipera area is popular among families that appreciate its proximity to international schools and kindergartens, maintaining high standards of living outside the urban bustle. Herastrau and Aviatiei are favoured by young couples and young professionals who prefer being close to the office hubs and with easy access downtown.

FORECAST

Although the increase rate of the prices slowed in the first quarter of this year, we are facing a continuous appreciation behaviour of the apartments based on the increase in demand and the lack of offer.

After a very good 2017 which saw significant increases in investments and prices, the residential market looks set to maintain similar trends in 2018.

Project Management

Spaces designed to promote shared activities increase the likelihood of interactions and the data repeatedly demonstrate that more interactions create positive outcomes:

The content of interactions doesn't matter; when interactions occur, regardless of their content, improvement typically follows;

Sometimes circulating, exploring, engaging, and increasing the number of people's collisions is more important than individual productivity or creativity;

For example, a worker finds a better way to do their job but never tells anyone else doing the same job what they have discovered. They have improved their performance but no one else's. If the worker takes time out of their day to tell others about what has been learned, their own productivity drops, but group productivity has increased;

In some cases even a 5% drop in personal productivity can have a positive outcome on group performance.

Campus

Greater than workplace!

Office is not self-contained but very much connects with and spills over into a mix of other uses, turning a work location into a place of choice. It has borrowed themes from other sectors:

01
Office as a tallent hub

A place that attracts young talent, where the sense of belonging and camaraderie is like that experienced in the *education* sector by today's generation of students - tomorrow's workers - on a university campus.

02
Office as a destination

Not just in the sense of its location in an urban setting but offering staff, partners and visitors alike a welcoming space for co-creation and partnership. Such is the Crick Institute.A place for encounter that borrows its aesthetics and functionality from the *hospitality* sector.

03
Office as a brand

Borrowing from the *retail* sector, where it is all about communicating and enhancing the brand. As employees are measured by their sense of initiative and the quality of the output they produce, it becomes increasingly important to display this.

04
Office as an event

This is about the experience of work and maximising its potential as it spills into life as part of a 14 hour day cycle. It borrows its themes from the *media* sector and brings together local businesses, large or small, and communities around shared experiences, that become the talk of town

"The essence of *workplace as an experience* is where all the elements of work – the physical, the virtual and the behavioural – are carefully orchestrated to inspire employees.

"Engaging people with their work, connecting them to the business vision and creating a great workplace experience.

The 2018 tax revolutions turn 1 year old

Diana Rosu
Senior Tax Manager
PwC Romania

2018 can be referred to as the "fiscal revolution" year and any investor on the Romanian market should be aware of at least five changes of the tax system. Nevertheless, the "revolution" continues and is heading towards 2019, with the objective of improving the monitoring activity of taxpayers' conduct and easing their tax burden.

Some key aspects have been selected and presented below, to enable an informed planning and management of the real estate investment decisions.

Assignment of non-performing assets

A limited deduction rule was introduced at the end of 2017 for assignment of receivables and was effective as of 1 January 2018, with another turnaround in March 2018. Namely, only 30% of losses that are incurred upon assignment of receivables may be deducted for profit tax purposes. This rule has impacted mainly banks and leasing companies, but also utilities and telecommunications companies in an equal manner.

Nevertheless, real estate investors should also look out for the effects of this rule. Most real estate collateralized loans, which used to be sold as distressed assets with significant haircuts during restructuring transactions or bankruptcy procedures, may become scarce or may not be performed at all due to the significant tax impact, which may exceed in some circumstances even the transaction price. Such tax costs may translate into higher financing costs prospectively or bigger appeal for share deals. Distressed real estate rich companies with sufficient fiscal losses, that would otherwise be lost, could potentially absorb the potential tax impact and keep the assignment of bad debts alive for some time.

Limitation of financing options

There is no distinction anymore between the tax regime of intra-group or bank financing, irrespective of the company capitalization or its debt to equity ratio, since the tax deduction rule has been normalized for all investors and all financing sources. Briefly, an "excess borrowing cost" rule applies currently, which means that a company that seeks financing solutions for either investment purposes, working capital needs or finance hedge will deduct only €200,000 plus 10% of a tax-adjusted EBITDA. The non-deductible excess borrowing cost is carried forward and may be deducted in subsequent years (subject to applying the same cap annually). The excess borrowing costs include net interest expenses and net foreign exchange losses.

Equally important is that the above cap affects also all historical interest and net foreign exchange losses, which have accrued and were not deducted during development stages. Deduction of these costs may be postponed indefinitely or taken in immaterial amounts annually, depending on the company profitability.

Consequently, all real estate vehicles that become operational further to the investment stage or that undergo group buy-outs should update their medium to long-term budget simulations and consider their financing mechanisms or capital structures, to make sure that their deferred tax asset may be realized. Such tax costs may translate into higher cost of debt related to either inter-company, external bank lending or private equity funds.

There have been constant debates on increasing the deduction thresholds to level partially or fully the European thresholds, which are set at €3 million and 30% of EBITDA. This is something to watch closely in 2019, as well.

Interim dividend distributions – short-term financing solution

A short-term solution to the aforementioned predicament of long-term financing costs may be found in a recent amendment of the Company law and Accounting law. Starting July 2018, optional quarterly profit distributions were introduced, with an annual setoff between quarterly and annual profit levels. The intermediary profits may be paid out to shareholders up to realised quarterly profits, retained profits and reserves (conditions).

Interim dividend distributions are typical to most holding jurisdictions and the local amendment may qualify as a step forward in attracting and keeping investment vehicles in Romania, altogether with a low 5% or zero (in some cases) dividend tax. At the same time, this new rule enables more efficient short-term liquidity access to immediate shareholders, but with certain compliance costs and time-consuming procedures, since quarterly financial statements must be audited.

The new rules are, indeed, a step forward, but are still work in progress, as potential developments are needed and further impact in 2019 should be expected – accounting, legal and tax wise.

All real estate investors should analyse their solvency and capital structures, to identify opportunities for liquidity placement and releasing short tax-free reserves.

Automatic exchange of information – cross-border arrangements

An European Directive (typically referred to as DAC 6) was approved in March 2018 with a potential material tax impact on reportable cross-border arrangements. Romania has not implemented the Directive yet, but this is mandatory to happen by 31 December 2019.

Based on DAC6, intermediaries (e.g. accountants, advisors, even company directors) must disclose in certain conditions information on certain cross-border arrangements that occurred starting 25 June 2018, such as selling loss-making companies to reduce tax liability, conversion of income into lower-taxed revenue streams, circular transactions, etc.

The key message is that all real estate structures should perform an internal health check of their intercompany transactions and holding substance requirements to identify in due time any potential reporting obligation.

In conclusion, albeit the continued significant tax impact of the above tax rules, the real estatAe sector should continue to check their realistically available options by prioritizing the tax function and simulating their capital and solvency structures against their medium to long-term budget plans.

C/M/S/ Law . Tax

Real Estate Pre-SPAs
Tips for the seller

Roxana Fratila
Head of Real Estate
Alex Dumitrescu
Associate
CMS Cameron McKenna

We will refer here to a typical, simple, straightforward real estate transaction, between two non-professionals, with no complications or negotiations for warranties or indemnities and (as it often happens in practice) without any legal assistance involved on seller's side.

In practice, once a seller of real estate has finally found its buyer, the usual avenue is two-folded:

(i) the conclusion of a pre-sale agreement (in Romanian *antecontract de vânzare*) (the "Pre-SPA") in front of a public notary, when the buyer also pays an non-refundable advance payment (e.g. 10% of the purchase price) and

(ii) a final sale agreement (in Romanian *contract de vânzare*), to be concluded within a term specified in the Pre-SPA, in notarized form, the latest on the expiry date of the Pre-SPA. The typical condition for the conclusion of the final sale agreement is the buyer finding sufficient funding for the deal. If the buyer does not succeed in finding the money, the deal is off and the seller keeps the advance payment.

HOW THE PRE-SPA CAN BECOME A TRAP FOR THE SELLER?

Parties usually go to a notary, without seeking legal assistance, assuming that such a simple deal cannot go wrong. In recent practice, unfortunately, a notary will rarely explain to the seller that, once concluded, the Pre-SPA will be registered in the land book (in Romanian *cartea funciară*) of the real estate, thus blocking the real estate from a sale to a third party until expiry of the Pre-SPA. One could argue that this is common sense. Sure, but the notary **might also fail to explain that an expired Pre-SPA is not deregistered automatically from the land book of the real estate once the Pre-SPA expired**.

Why is this important? An expired Pre-SPA, even registered with the Land Book, would no longer block the owner to sell the asset to any third party. Agreed, but, in practice, any non-experienced buyer would be very uncomfortable having a Pre-SPA hanging over the real estate it wants to buy. It would take much time and effort for the seller to convince such potential buyer that in fact, there is no substantial hidden legal issue and the matter is only a technicality (as further explained below).

And, most importantly, after a failed deal, finding a new buyer is hard and volatile enough to risk having loose ends; therefore, the seller wants its land book cleaned, quickly, to start over the search for a new customer.

To enable such quick deregistration, the notary **must** take the following steps when notarizing the Pre-SPA:

(i) insert specific wording in **the Pre-SPA that the Pre-Sale is automatically terminated if the buyer fails to meet the deadline**. Despite what one would expect, the legal effects of the above wording are not implicit, therefore they do not exist unless the wording is expressly written in the Pre-SPA; and

(ii) register such wording in the land book of the real estate, **together with the Pre-SPA**.

If these two simple steps are observed, assuming that the deal fails because the buyer did not to find financing in due time, the seller would simply show before the notary, on the expiry date of the Pre-SPA and ask the notary to certify that the buyer did not fulfil its end of the bargain and, therefore, the Pre-SPA is terminated. In this case, the notary would issue a *certification resolution* (in Romanian *incheiere de certificare fapte*), based on which the seller (or the notary) can deregister the Pre-SPA from the land book, immediately after expiry of the Pre-SPA, without any loose ends.

Otherwise, the Pre-SPA can only be deregistered based on (a) the notarized waiver of the buyer or (b) a court resolution. Because a court resolution could take years to obtain, this practical glitch gives an unfair advantage to a bad faith buyer who can e.g. ask the advance payment back or create any other nuisance to the seller, on a case-by-case basis.

HOW CAN A NOTARY MISS THIS?

It might be surprising how legal professionals, like the notaries, can make such an easy mistake and not insert the above wording. And even assuming that the notary is negligent, how can the law not protect a seller in such a simple, straightforward case and why is this natural protection so dependent on the notary inserting or not a certain a specific wording? The matter seems counterintuitive and, as briefly explained below, it is.

In fairness, the underlying problem is an inconsistency between the provisions of several laws applicable in the case. Without going into detail, when these laws initially came into force, they were correlated. So the matter described above could not have happen and a notary could not have made such a simple yet, costly mistake for the seller, even if they did not insert the respective wording. But when the respective laws were further amended, the legislator failed to keep them correlated and some of the notaries failed to make up for such lack of coherence, by adapting their practice in favour of serving their customers in a balanced manner.

Therefore, to avoid complications, specifically mention the above two steps to the notary and make sure they implement them. Read the Pre-SPA carefully, before signing it, and then make sure that both the Pre-SPA and the mentioned wording are registered with the Land Book of the real estate you are trying to sell.

KNIGHTFRANK.COM.RO

KNIGHT FRANK BUCHAREST

Horatiu Florescu
Chairman & CEO
T: +40 21 380 85 85
E: horatiu.florescu@ro.knightfrank.com

Roxana Bencze
COO
T: +40 21 380 85 85
E: roxana.bencze@ro.knightfrank.com

Natalia Gross
Head of Marketing and Communications
T: +40 21 380 85 85
E: natalia.gross@ro.knightfrank.com

EUROPEAN RESEARCH

Alice Marwick
Associate International Research
T: +44 2038 667 84
E: alice.marwick@knightfrank.com

RECENT MARKET RESEARCH PUBLICATIONS

The Wealth Report 2018

Romania Market Overview 2017-2018

Global Cities 2018

Knight Frank Research Reports are available at KnightFrank.com/Research

Newmark Knight Frank Global