Romania Market Overview
Real Estate Year Round Highlights 2018–2019
ABOUT THE GROUP

At Knight Frank we build long-term relationships, which allow us to provide personalised, clear and considered advice on all areas of property in all key markets. We believe personal interaction is a crucial part of ensuring every client is matched to the property that suits their needs best – be it commercial or residential.

Operating in locations where our clients need us to be, we provide a worldwide service that’s locally expert and globally connected.

We believe that inspired teams naturally provide excellent and dedicated client service. Therefore, we’ve created a workplace where opinions are respected, where everyone is invited to contribute to the success of our business, and where they’re rewarded for excellence. The result is that our people are more motivated, ensuring your experience with us is the best that it can be.
According to the PMI Composite indicator, the global growth pace decelerated last year since the autumn of 2018 in January.

In USA the GDP accelerated last year on the back of the fixed investments, supported by the expansionary policy mix. During January–September 2018 the GDP advanced by 2.8% YoY, as the fixed investments and the private consumption rose by 5.9% YoY and 2.6% YoY, respectively.

On the other hand, in the Eurozone the GDP decelerated last year (1.8% YoY, the slowest pace since 2014), converging towards a potential, an evolution influenced by the global trade tensions, the fading-out of the global trade potential, an evolution influenced by the global trade tensions and the global trade potential.

As regards the private consumption the main component of the GDP, we forecast YoY growth paces of 4% in 2019 and 5% in 2020, due to the normalisation of the real disposable income and to the deterioration of the credit markets.

The public consumption would consolidate in 2019, while a growth by 1.1% YoY is expected in 2020, in our scenario.

On the other hand, the exports would continue to underperform compared with the imports, in the short and mid-term, but a narrowing of the differential dynamics seems likely this year, due to the depreciation of the RON.

For 2021 we expect the acceleration of the GDP growth pace to 3.7% YoY on the back of the improvement of the investment climate: the fixed investments are forecasted to climb by 3.9% YoY, the best pace since 2015.

The acceleration of the fixed investments and the prospects for gradual improvement of the credit markets would determine an increase of the private consumption by 5.3% YoY in 2021.

At the same time, the public consumption is forecasted to advance by 1.5% YoY in 2021. As regards the net foreign demand we expect both exports and imports to accelerate in 2021, to 6.8% YoY and 8.1% YoY, respectively.

Last, but not least, in our scenario the trend on the labour market would change in the short-run, given the expected negative output gap and the increasing cost pressures. On the other hand, we forecast the deceleration of the average annual inflation (HICP basis) from 4.3% in 2018 to 3.1% in 2019 and 2.6% in 2020, due to the slowing down of the growth pace and to the rebalancing of the economic policy. However, inflation would accelerate to 2.9% in 2021 in our scenario.

The slowing-down of the real growth pace and the prospects for inflation (fiscal expansion within the target of the central bank) express a high probability for the consolidation of the monetary policy in the following quarters.

In other words, the National Bank of Romania (NBR) would keep the policy rate at 2.5% in 2019 and 2020. However, we do not exclude the central bank to relaunch the process of convergence of M3 measures towards the Eurozone level in a gradual manner.

On the other hand, we forecast the increase of the sovereign financing costs in the short-run, due to the challenges in terms of public finance and macro-financial stability. In our scenario, the annual average yield for the 10YR bonds (a barometer for the financing cost in the economy) would increase from 4.7% in 2018 to 5.5% in 2019. An adjustment towards 4.7% in 2020 and 2021 is likely, given the prospects for the implementation of fiscal consolidation measures.

For the EUR/RON we expect the continuity of the upward trend in the short and mid-run, towards average annual levels of 4.7% in 2019, 4.7% in 2020 and 4.82 in 2021. This scenario is supported by the expected volatility on the global financial markets and the economic challenges in terms of macroeconomic equilibrium.

In our view the main risk factors for the evolution of the Romanian economy (real and financial sides) in the following quarters are: the macro-financial climate (global/European), the EU challenges (Brexit), the domestic policy mix (the electoral year (including the state intervention in the economy and the fragile stance of the public finance); the regional geopolitical climate.

The global economy has recently continued the deceleration process, an evolution mainly determined by the global trade tensions and the maturity of the investment cycle. The government climbed by 5.5% YoY, due to the expansionary fiscal policy and the increase of the wages in the public sector.

Furthermore, the inventories of the companies had an important contribution to the YoY growth pace of the economy during January–September 2018, as the gross capital formation climbed by 12.7% YoY, while the fixed investments contracted by 1.1% YoY. The decline of the investments was determined by the maturity of the post-crisis production cycle and the economic challenges in terms of macroeconomic equilibrium.

As regards the net foreign demand the imports continued to increase by a higher pace compared with the exports during 9M2018: 9.1% YoY vs. 5.8% YoY.

In Romania the economic growth pace decelerated last year, due to the normalisation of the private consumption and to the deterioration of the net foreign demand.

In our core macroeconomic scenario the YoY growth of the Romanian economy would decelerate from 7% in 2017 to 4% in 2018 and 2.8% in 2019, due to the maturity of the cycle in Eurozone and to the domestic factors: the aggressive state intervention with impact for the investments climate in a context of high level of macroeconomic disequilibria.

However, the GDP may accelerate to 3.5% YoY in 2020.

For the fixed investments we expect a slow growth pace (2.5% YoY in 2019 and 2020), given the twin deficits and the low manoeuvre room of the policy mix.

As regards the private consumption (the main component of the GDP) we forecast YoY growth paces of 4% in 2019 and 5% in 2020, due to the normalisation of the real disposable income and to the deterioration of the credit markets.

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Office Market

The Bucharest office market recorded leasing transactions of approximately 322,000 sq m during 2018, a 3.5% increase compared to the previous year, indicating that demand remains strong.

The number of transactions concluded in 2018 was 213, representing a 20% increase compared to the previous year. However, the average transaction decreased from 1,850 sq m in 2017 to 1,500 sq m in 2018. Larger transactions of over 5,000 sq m were again dominant, accounting for a 43% share of the total take-up. This was followed by transactions between 1,000 sq m and 3,000 sq m with a 29% share. When looking at deals by number, the most numerous were those below 1,000 sq m, accounting for almost 58% of the total take-up, followed by transactions between 1,000 sq m and 3,000 sq m with 29%.

The most sought after submarkets in 2018 were Center-West, which saw almost 100,000 sq m of leasing activity (31% of total take up) and Center, where 54,000 sq m of space was leased (17% of total take up), followed closely by Calea Floreasca/Barbu Vacarescu with 51,000 sq m (16% of total take up). Looking at transaction types, relocations and new demand remain the most prominent drivers of tenant activity, accounting for approximately 50% of the total take-up, followed by relettings and renewals, with a 27% of the total take-up. Pre-leases came third with a 14% share, albeit 50% lower than the previous year’s volume.

IT & Communication and Professional Services remain the main drivers of demand, accounting for 35% of the total take-up (~113,000 sq m) and 18% (~39,000 sq m) respectively.

Prime rental levels remain stable at €18.50/sq m/month.

Vacancy

The vacancy rate for Class A and B offices witnessed a slight increase to 9.5%, due to the substantial amount of new supply delivered during 2018.

The highest vacancy rate in Bucharest is still found in the Pipera submarket, at over 30%. At the opposite end, the West has 0% vacancy, while Calea Floreasca/Barbu Vacarescu and the CBD registered a vacancy rate below 3%.

Forecast

In 2019, the delivery of new office space is expected to peak, with projects adding roughly 333,000 sq m of stock, including schemes such as Business Garden Vastint (~40,000 sq m), Expo Business Park (~38,000 sq m), Anchor Plaza Metropolis (~36,000 sq m), Globalworth Campus III (~30,000 sq m), The Bridge Building B (~25,000 sq m), Oregon Park C (~25,000), Campus 61 (~22,000 sq m), The Light (~21,000 sq m), Equilibrium First Phase (~20,000 sq m) and Tampuri Noi Square III (~20,000 sq m). Half of these projects are delivered on time, the total stock of class A and B office space will exceed the threshold of 3 million sq m at the end of 2019.

Although large amounts of new supply will be delivered, tenant demand shows a positive outlook, having seen an increase of 3.5% in 2018 compared to 2017. In our view, the relocations and new demand will remain the main driver of the market. Headline rents are expected to remain stable over the next year.

Overview

Bucharest’s office market experienced healthy growth following the positive results recorded in 2017. Both supply and demand remained at high levels, with supply registering a 5% increase compared to the previous year, while demand slightly increased with 3.5%.

The Center-West area confirmed its new hub status by closing the year ahead, both in terms of supply and take-up. In 2018, the delivery of new space in this area was close to 75,000 sq m, while take-up was almost 100,000 sq m.

In terms of tenant profile, the IT & Communication sector still makes up the largest share of demand, accounting for 35% of the total take-up.

Supply

2018 saw class A and B supply reach approximately 168,000 sq m, a 5% increase compared to the year prior, driving the stock to 2.74 million sq m.

Among the schemes, Oridhecea Towers is the largest (~70,000 sq m), followed by Globalworth Campus III (~29,000 sq m), The Mack (~25,000 sq m) and All Tech Park I (~22,000 sq m).

The submarket with the highest modern office stock is Calea Floreasca/Barbu Vacarescu (400,000 sq m), followed by Central Business District (~420,000 sq m) and Dimitrie Pompei (408,000 sq m).

Demand

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Demand by tenant activity sector 2018

A: 35% IT & Communication
B: 18% Professional Services
C: 12% Manufacturing & Engineering
D: 11% Interbanking & Insurance
E: 6% Media & Internet
F: 5% Medical & Pharma
G: 4% Transportation & Logistics
H: 4% Marketing & Advertising
I: 1% Software & Services
J: 1% Construction & Real Estate
K: 1% Information & Consultancy

Source: Knight Frank

Demand by submarket 2018

A: 31% Center West
B: 17% Center
C: 16% Baneasa
D: 13% West
E: 9% Pipera
F: 7% Pipera
G: 4% West
H: 1% Baneasa
I: 1% Center

Source: Knight Frank

Stock by submarket 2018

A: 16% Baneasa
B: 15% CBD
C: 15% Drainulei
D: 14% West
E: 12% Pipera
F: 7% Pipera
G: 7% West
H: 5% CBD
I: 3% West
J: 3% CBD
K: 2% West
L: 1% Baneasa

Source: Knight Frank

Demand by leased area 2018

A: 58% <1,000 sq m
B: 29% 1,000 sq m–3,000 sq m
C: 17% 3,000 sq m–5,000 sq m
D: 8% >5,000 sq m

Source: Knight Frank

Demand by type of transactions 2018

A: 51% Relocation and new demand
B: 27% Expansion
C: 17% Pre-lease
D: 8% Pre-lease

Source: Knight Frank

Demand by number of transactions 2018

A: 58% <1,000 sq m
B: 29% 1,000 sq m–3,000 sq m
C: 17% 3,000 sq m–5,000 sq m
D: 8% >5,000 sq m

Source: Knight Frank

Baneasa
- Stock: 203,000 sq m
- Vacancy: 12%
- Headline rent: 12–14 €/sq m/month

Dimitrie Pompeiu
- Stock: 408,000 sq m
- Vacancy: 8%
- Headline rent: 13–15 €/sq m/month

CF/BV
- Stock: 130,000 sq m
- Vacancy: 7%
- Headline rent: 14–17 €/sq m/month

CBD
- Stock: 430,000 sq m
- Vacancy: 3.5%
- Headline rent: 15–18 €/sq m/month

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

Center West
- Stock: 380,000 sq m
- Vacancy: 10%
- Headline rent: 13–15 €/sq m/month

Pipera
- Stock: 185,000 sq m
- Vacancy: 6%
- Headline rent: 14–18 €/sq m/month

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

Source: Knight Frank
In 2018, commercial property investment reached €973 million, a decade-high. A significant part of the total transaction volume was generated from new investors that have entered the market. However, established players familiar with the market also expanded their portfolio by acquiring income-producing assets.

### Annual Evolution (€ mn)

**2018**

- 0
- 200
- 400
- 600
- 800
- 1,200
- 1,400
- 1,600
- 1,800

### Office vs Total

- 1,000
- 1,500
- 2,000

### Romania Investment Transaction Volumes

**Annual Evolution (€ mn)**

- **2004:** 0
- **2005:** 0
- **2006:** 0
- **2007:** 0
- **2008:** 0
- **2009:** 0
- **2010:** 0
- **2011:** 0
- **2012:** 0
- **2013:** 0
- **2014:** 0
- **2015:** 0
- **2016:** 0
- **2017:** 0
- **2018:** 0

### Capital Markets

**OVERVIEW**

In 2018, commercial property investment reached €973 million, a decade-high. A significant part of the total transaction volume was generated from new investors that have entered the market. However, established players familiar with the market also expanded their portfolio by acquiring income-producing assets.

### Supply

The number of assets brought to market was modest, however the size of available assets increased (the average deal size rose to €27 million from €24 million in the same period of last year).

The office segment is experiencing a shortage of product available for sale as a significant share of existing landlords are trying to consolidate their position on the local market and are not interested in selling. This is reflected in the increasing number of forward purchases, which are seen as a way to secure good quality properties from developers.

Retail assets remain in demand from both existing and new investors. In 2018, established developers and investors were active and this additional liquidity is likely to further encourage other investors to enter the market or consolidate their existing portfolios.

**Transaction Distribution by Country of Origin 2018**

- **Foreign:** 73%
- **Romanian:** 27%

**Prime Yields 2018 [bps]**

- **Office:** 7.25
- **Retail:** 8.25
- **Industrial:** 7.25

### Transaction Distribution by Property Type 2018

- **Office:** 65%
- **Retail:** 15%
- **Industrial:** 17%
- **Hotel:** 3%

Local investors accounted for approximately 27% of the total activity in the market.

### Moderate Yield Compression is Expected in the Short to Medium Term, However the Risk Adjusted Returns are still Attractive compared with other Regional Markets.

The industrial and logistics sector reported investment of €169 million. The largest investor in the market was WDP who bought an industrial park of around 20,000 sq m in Chibab from P&G as tenant. They also purchased another 32,000 sq m warehouse in Timisoara (where P&G is the tenant) and a 33,000 sq m warehouse in Cluj (with Penny as tenant).

Retail assets, which represented 65% of the total investment volume, were followed by retail with 15% and then industrial with 17% and retail with 15%.

### Demand

A significant part of the total transaction volume was generated from new investors that have entered the market. However, established players familiar with the market also expanded their portfolio by acquiring income-producing assets.

In 2018, investor interest mainly focused on the office sector, which represented 65% of the total investment volume. It was followed by industrial with 17% and retail with 15%.

The most significant office transaction was the sale of The Bridge (almost 80,000 sq m, out of which only the first building is already delivered) to Dedeman. This was followed by the sale of Oregon Park, almost 45,000 sq m GLA developed by Portland Trust to the new entrant Lion’s Head and the sale of the first building of the Campus 6 project (almost 22,000 sq m GLA) developed by Skanska which was sold to CA IMMO.

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The retail sector accounted for 15% of total investment. 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 were registered in Brasov and 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.

Oraidă also registered an important transaction, the sale of Oraidă Shopping City to Sapiens Center Orașe.

As in recent years, foreign investment was the main driver of activity, accounting for more than 73% of the total investment volume although local capital is becoming more active.

### Yields

Given the improved levels of activity registered in 2018 compared with 2017, yields have decreased slightly in the office and industrial sectors. Nevertheless, there remains downward pressure on yields, and we predict a further yield compression may be seen this year.

The gap between the local market and the leading markets in the region (Prague and Warsaw) is still above 150–200 bps.

### Forecast

The increased activity in the office and industrial investment markets indicates a growing confidence in Romania’s top quality assets. Both the office and industrial segments are expected to witness a significant number of new developments that will be delivered in the coming years, and we expect that this in itself will act as a boost to transaction volumes.

### Key Investment Transactions 2018

<table>
<thead>
<tr>
<th>Type</th>
<th>City</th>
<th>Byer</th>
<th>Seller</th>
<th>Building Description</th>
<th>Area (sq m)</th>
<th>Price (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>Bucharest</td>
<td>Lion’s Head Investments</td>
<td>Portland Trust Real Estate Limited</td>
<td>The Bridge</td>
<td>80,000</td>
<td>200,000,000</td>
</tr>
<tr>
<td>Office</td>
<td>Bucharest</td>
<td>MAS Real Estate</td>
<td>Atrium European Real Estate Limited</td>
<td>Oregon Park</td>
<td>45,000</td>
<td>165,000,000</td>
</tr>
<tr>
<td>Retail</td>
<td>Bucharest</td>
<td>CA IMMO</td>
<td>Militari Shopping Center</td>
<td>Campus 6 – first building</td>
<td>54,100</td>
<td>95,000,000</td>
</tr>
<tr>
<td>Office</td>
<td>Bucharest</td>
<td>PPF Real Estate</td>
<td>Search Corporation</td>
<td>Crystal Tower</td>
<td>16,000</td>
<td>40,000,000</td>
</tr>
<tr>
<td>Retail</td>
<td>Brasov</td>
<td>Mitiska REIM</td>
<td>Praktiker Brasov</td>
<td></td>
<td>21,000</td>
<td>23,000,000</td>
</tr>
<tr>
<td>Industrial</td>
<td>Timisoara</td>
<td>WDP</td>
<td>Dunca Imobiliare</td>
<td></td>
<td>37,000</td>
<td>21,000,000</td>
</tr>
<tr>
<td>Office</td>
<td>Bucharest</td>
<td>One United</td>
<td>Dunca Imobiliare</td>
<td></td>
<td>11,672</td>
<td>19,000,000</td>
</tr>
<tr>
<td>Industrial</td>
<td>Cluj</td>
<td>WDP</td>
<td>CTP</td>
<td></td>
<td>33,000</td>
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</tbody>
</table>
Retail Market

Due to the strong performance of malls in Bucharest, developers are heading for expansion, both in terms of new space completed and future pipeline.

SUPPLY
The new supply delivered in 2018 totalled approximately 115,000 sq m across the entire country. Only 11,000 sq m of the new supply was in Bucharest, covered by the extension of Sun Plaza in Bucharest owned by Slimmo. The most active developer was Prime Kapital/MAS REI with new space delivered in four cities: Focsani, Baia Mare, Roman and Slobozia. NEPI also registered an important completion, a shopping centre in Satu Mare of approximately 29,000 sq m GLA.

The commercial gallery and Carrefour hypermarket within Bucharest’s Vitantis Shopping Center were closed at the beginning of 2018, an anticipated scenario for the underperforming scheme, located in a very competitive area of the city.

DEMAND
The development of new retail stock in recent years has coincided with rising occupational demand. Retailer interest remains high and vacancy rates low.

Recent new entrants were represented by brands such as Vitapur and TAG Heuer in Bucharest (in Mega Mall and Baneasa Shopping City respectively), while Kik opened 2 stores in Oradea and Piatra Neamţ and Under Armour opened their first store outside Bucharest, in Timisoara.

RENTS
Rental levels remained broadly unchanged in 2018, as the market was able to absorb the newly released supply in retail centres. 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/month in the secondary cities.

FORECAST
Developers plan to add another 250,000 sq m to the map of the Romanian malls in the next 18 months. Nearly 60% of the spaces scheduled to be delivered during this period are extensions of the existing centres and, with the exception of three expansions, totalling 48,000 sq m — Veranda Mall, Colloseum Retail Park and Baneasa Shopping City, investment is flowing to secondary and tertiary cities.

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

HIGH STREET RETAIL MARKET
2018 market activity remained broadly stable in the high street sector.

New supply was mainly represented by spaces located at the groundfloor of new office buildings, targeting catering and services, or residential compounds targeting mainly services (supermarkets, laundry, etc.).

New developments gave tenants the opportunity to open in areas they would not otherwise have considered. Such an example is the Tempuri Not Square office project where during 2018 Fratelli Group opened Băutul Downtown, Carnivale Food Market and Fratellini Bistro. Another active player in this type of space is Starbucks, who opened in Day Tower and Campus 6 office buildings.

In the luxury high street sector, the most significant opening was Hugo Boss, returning to Calea Victoriei, but this time in a different location, namely at the ground floor of Radisson Blu Hotel.

The traditional well-established retail areas from the residential neighborhoods remain the focus of food retailers, pharmacies, betting shops and casinos.

The Old City Center has evolved into a tourist area with a focus on leisure and hospitality and catering. The fashion sector is not performing well in this location — H&M, one of the most important fashion anchors, closed their store located on Lipscani street.

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However we anticipate a revival of the area amid the large number of residential accommodation announced in the next years.

PLANNED COMPLETIONS OVER THE FOLLOWING 18 MONTHS

<table>
<thead>
<tr>
<th>Project</th>
<th>Developer</th>
<th>Type</th>
<th>GLA (sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Openville Timisoara</td>
<td>Iulius Group</td>
<td>Extension</td>
<td>47,000</td>
</tr>
<tr>
<td>AFI Palace Barasov</td>
<td>AF Europe</td>
<td>New project</td>
<td>45,000</td>
</tr>
<tr>
<td>Festival Shopping Center</td>
<td>NEPI Rockcastle</td>
<td>New Project</td>
<td>40,000</td>
</tr>
<tr>
<td>Shopping City Targu Mures</td>
<td>NEPI Rockcastle</td>
<td>New Project</td>
<td>33,000</td>
</tr>
<tr>
<td>ERA Park Iasi</td>
<td>Prime Kapital</td>
<td>Extension</td>
<td>30,000</td>
</tr>
<tr>
<td>Baneasa Shopping City</td>
<td>BaneasaDevelopments</td>
<td>Extension</td>
<td>25,000</td>
</tr>
<tr>
<td>Coloseum Retail Park</td>
<td>Nova Imobiliare</td>
<td>Extension</td>
<td>16,500</td>
</tr>
<tr>
<td>Iulius Mall Timisoara</td>
<td>Iulius Group</td>
<td>Extension</td>
<td>10,000</td>
</tr>
<tr>
<td>Veranda</td>
<td>ProdplastImobiliare</td>
<td>Extension</td>
<td>6,000</td>
</tr>
</tbody>
</table>

Source: Knight Frank
Supply

Bucharest’s and other secondary cities’ major land supply comes from former factories, located in semi-central areas.

In Bucharest, the few remaining prime plots located in central, high end, residential areas are also sought after by residential constructors and developers.

Investors are more interested in land that have already acquired development documents, including the essential PUZ permit, rather than incur two year delays for approvals.

Demand

Demand trends remained positive in 2018, with high volumes of activity across all market segments. Well known developers have secured new sites for future developments.

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

Globalworth acquired two adjoining land plots in order to develop two office buildings, in the Curtea Herastau-Barbu Vacarescu area, near the Green Court office development. Globalworth also bought a land plot of 30 ha in Timisoara, near the TAP development.

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

Hagag Development invested in two land plots and two buildings in Bucharest this year. One plot was on Eliade Street and one in Pipera, both for residential developments. The end of 2018 was marked by important transactions in all segments:

- Portland Trust secured a new site for a future office development, through the acquisition of a 56,000 sq m land plot located in the Pipera area.
- ATENOR, in a transaction intermediated by Knight Frank, bought a 7,150 sq m plot in Floreasca, which represented their entrance into the local residential market.
- Mitiska REIM concluded the acquisition of the former Helinote plant in the Colentina area, and are planning to develop it into a retail unit.
- Local developer One United bought the 53,000 sq m Ventilatorul site, which was a former industrial platform located in the Razoare area. They now look to develop it into a mixed use project.

Prices

Prices remained at a constant level throughout 2018.

Forecast

We expect the increase in demand for land plots suitable for residential and office use to continue, with developers actively searching to secure the best available sites. There will be high demand for land with all authorizations in place, as the process of obtaining all the documents needed for a development is lengthy.

Relevant Land Transactions 2018

<table>
<thead>
<tr>
<th>City</th>
<th>Buyer</th>
<th>Location (area)</th>
<th>Use</th>
<th>Size (sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bucharest</td>
<td>AFI Europe</td>
<td>Politehnica</td>
<td>Mixed</td>
<td>43,000</td>
</tr>
<tr>
<td>Bucharest</td>
<td>One United</td>
<td>Floreasca</td>
<td>Office</td>
<td>26,000</td>
</tr>
<tr>
<td>Bucharest</td>
<td>Portland Trust</td>
<td>Pajura</td>
<td>Office</td>
<td>16,000</td>
</tr>
<tr>
<td>Bucharest</td>
<td>Globalworth</td>
<td>Barbu/Vacarescu</td>
<td>Office</td>
<td>13,000</td>
</tr>
<tr>
<td>Bucharest</td>
<td>Forte Partners</td>
<td>Orhideea</td>
<td>Office</td>
<td>5,500</td>
</tr>
<tr>
<td>Bucharest</td>
<td>One United</td>
<td>Razoare</td>
<td>Mixed</td>
<td>53,000</td>
</tr>
<tr>
<td>Bucharest</td>
<td>Speedwell</td>
<td>Jandarmeriei</td>
<td>Residential</td>
<td>50,000</td>
</tr>
<tr>
<td>Bucharest</td>
<td>21 Residence</td>
<td>Pipera</td>
<td>Residential</td>
<td>20,000</td>
</tr>
<tr>
<td>Bucharest</td>
<td>Metropolitan Residence</td>
<td>Jandarmeriei</td>
<td>Residential</td>
<td>7,500</td>
</tr>
<tr>
<td>Bucharest</td>
<td>Atenor</td>
<td>Floreasca</td>
<td>Residential</td>
<td>7,150</td>
</tr>
<tr>
<td>Stefanesti de Jos</td>
<td>WDP</td>
<td>Stefanesti de Jos</td>
<td>Industrial</td>
<td>440,000</td>
</tr>
<tr>
<td>Timisoara</td>
<td>Globalworth</td>
<td>Timisoara</td>
<td>Industrial</td>
<td>300,000</td>
</tr>
<tr>
<td>Brasov</td>
<td>VGP</td>
<td>Brasov</td>
<td>Industrial</td>
<td>230,000</td>
</tr>
<tr>
<td>Bucharest</td>
<td>Mitiska REIM</td>
<td>Colentina</td>
<td>Retail</td>
<td>90,000</td>
</tr>
</tbody>
</table>

Source: Knight Frank

Land Market

**Most Active Developers**

- AFI Europe
- Globalworth
- Forte Partners
- Hagag Development
- Portland Trust
- ATENOR
- Mitiska REIM

**Relevant Land Transactions 2018**

- ATENOR entered the residential segment with its first project, Up-Site, through an acquisition of a plot of land in Floreasca, which was intermediated by Knight Frank.
Industrial Market

**SUPPLY**
The level of deliveries on a country level in 2018 was around 550,000 sq m, bringing Romania’s stock to nearly 3.5 million. 54% of the new supply was in Bucharest, followed by Pitesti (19%) and Timisoara (12%). CTP and WDP were amongst the main contributors to industrial space in 2018.

**DEMAND**
Total take-up in 2018 was approximately 443,000 sq m nationally. As the country’s main industrial hub, Bucharest recorded 68% of total demand, followed by Timisoara and Deva, each with 10% of the total take-up. For Romania, this was 2% lower than the previous year, while in Bucharest the total take-up increased by 17%.

Retail was the main generator of demand both nationally and in Bucharest, accounting for 48% and 53% of the total demand, respectively. Logistics followed with 18% of the share in both Romania and Bucharest. FMCG equated to 13% of Bucharest’s total demand and 16% of Romania’s demand.

New demand was the main driver both nationally and in Bucharest, accounting for 48% and 53% of the total demand, respectively. As a new trend, two of the major local retailers, eMag and Alter, invested in their own logistic facilities, developing approximately 200,000 sq m of logistic space located near Bucharest.

Rent for prime industrial and logistics space remained stable in 2018, both in Bucharest and in the other regions across the country. In Bucharest, prime rents for modern warehouses were approximately €4.0–4.2/ sq m/month.

**FORECAST**
Developers seem to be confident and determined to keep up with tenant’s needs, as new extensions have been announced for well performing projects in the coming months. 2019 is expected to register a similar amount of new supply as 2018, with 70% of the space being located in Bucharest.

Demand remains on a positive trend, with both retail and logistics companies having expansion plans. Although a large amount of new supply is anticipated for the coming period, rents are expected to register no change.

The level of deliveries on a country level in 2018 was around 550,000 sq m, bringing Romania’s stock to nearly 3.5 million. 54% of the new supply was in Bucharest, followed by Pitesti (19%) and Timisoara (12%). CTP and WDP were amongst the main contributors to industrial space in 2018.
SUPPLY
Signs of market maturity will surface this year. In 2019, we expect 20 new projects to be delivered in the residential segment, compared with 50 new developments delivered in 2018. However, this is unlikely to impact prices as the pace of new deliveries will be sustained by projects previously started.

Within the high-end market, the most significant delivery in 2018 was One Charles de Gaulle, with 33 apartments. By the delivery date, 90% of the units were already sold.

In December 2018, ATENOR took its first steps towards the high-end residential market in Bucharest, by acquiring a plot of 67,650 m² in the Floreasca/Bucătarii area. The site is ideally located between the recently redeveloped lake Floreasca area and the underground station Aurel Vlaicu, which is in close proximity to a very well-known shopping center in Bucharest. This acquisition fits into ATENOR’s development strategy, which aims to promote projects with high architectural and environmental quality across European cities with strong economic fundamentals. ATENOR aims to make this one of its flagship developments in Romania. In 2018 there were a larger number of mid-sized segment projects announced, mostly in the north area of Bucharest. Notable announcements include the Cloud 9 Residence with around 800 apartments, Aviatiei Towers with around 150 apartments and Aviatiei apartments, Aviatiei Towers with Cloud 9 Residence with around 800 apartments, and Dorobanti residences with around 176 apartments. The greatest demand was for 1 and 3 bedroom apartments, especially those on top floor with panoramic views of Floreasca Lake.

One United saw an average 4.5 units sold per month between July 2018 and January 2019. Significant interest was registered in One Floreasca City’s 1 and 2 bedroom apartments. This mixed use project with 236 apartments, is expected in 2021.

We expect the same level of interest in the high end market, as similar levels of high quality projects from experienced developers remain.

With increasingly fewer land plots available in high end areas, such as the case in markets including London and Paris, older buildings situated downtown are being converted into high-end boutique projects. For example, Hargáig launched H Victory 139, which provided 33 high-end apartments in Calea Victoriei. High rise towers, providing excellent city views have also been popular with high end developers as a response to the lack of available land in the city.

PRICES

At the beginning of 2018, it was expected that apartment prices would continue to witness price growth, as seen in 2017. Cluj County saw the greatest price increase in early 2017, with prices rising by 16.6% compared to autumn 2016 and by 46.9% compared to autumn 2016. For instance, there was a continual increase in prices which had been unstable in hotel accommodation provided by the company. The second most common requests were from mid-management and executives with requirements for modern 2–3 bedroom homes with proximity to parks and leisure areas near their offices.

Special requirements for top management (CEO, CFO, COO) are usually announced - 4 months in advance and the relocation process often synchronises with the international school’s schedule. For large families, a villa with 4–5 bedrooms in the North area is preferred, while for couples or smaller families, large apartments in high-end residential projects are chosen.

CORPORATE RESIDENTIAL LETTINGS

In Q4 2018, rental levels for apartments did not fluctuate in the major cities of Romania, including Bucharest. Rent levels were more stable in terms of growth, compared to the sales market, which witnessed sustained price rises in the past couple of years. In Q4 2018, rents remained at the same level with the previous three quarters of the same year.

In our analysis period, the level of rents in the cities with major university centers, including Lasi and Timisoara, have remained constant. Here, there was greater demand for 1 bedroom units for both students and young executives.

Important changes occurred in terms of the supply of properties built before 2000. In the last quarter of 2018, the number of these properties declined by approximately 30%. This is expected considering the large number of new delivered projects.

In Q4 2018, the majority of corporate requirements were 1–2 bedroom apartments in residential parks, replacing hotels, for short-term expat relocations. For example, one of our clients has relocated 31 employees to residential parks, which previously would have stayed in hotel accommodation provided by the company.

The most common requests were from mid-management and executives with requirements for modern 2–3 bedroom homes with proximity to parks and leisure areas near their offices.

BUCHESTI RENT PRICE

<table>
<thead>
<tr>
<th>Area</th>
<th>2 rooms/month</th>
<th>3 rooms/month</th>
<th>4 rooms/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>av min</td>
<td>av max</td>
<td>av min</td>
<td>av max</td>
</tr>
<tr>
<td>Primaverii</td>
<td>650</td>
<td>1000</td>
<td>1200</td>
</tr>
<tr>
<td>Aviatorilor</td>
<td>700</td>
<td>1300</td>
<td>1100</td>
</tr>
<tr>
<td>Herastrau</td>
<td>900</td>
<td>2300</td>
<td>1000</td>
</tr>
<tr>
<td>Floreasca</td>
<td>550</td>
<td>1100</td>
<td>1500</td>
</tr>
<tr>
<td>Dorobanti</td>
<td>700</td>
<td>900</td>
<td>1000</td>
</tr>
<tr>
<td>Kiseleff</td>
<td>700</td>
<td>1000</td>
<td>1500</td>
</tr>
<tr>
<td>Baneasa</td>
<td>500</td>
<td>700</td>
<td>900</td>
</tr>
<tr>
<td>Pipera</td>
<td>500</td>
<td>600</td>
<td>800</td>
</tr>
<tr>
<td>Central</td>
<td>400</td>
<td>600</td>
<td>800</td>
</tr>
<tr>
<td>Aviatel</td>
<td>500</td>
<td>700</td>
<td>1200</td>
</tr>
<tr>
<td>Donații</td>
<td>500</td>
<td>700</td>
<td>1000</td>
</tr>
<tr>
<td>Dorobanti/Capitale</td>
<td>500</td>
<td>700</td>
<td>1500</td>
</tr>
<tr>
<td>Tei</td>
<td>500</td>
<td>600</td>
<td>700</td>
</tr>
</tbody>
</table>

Source: Knight Frank

Due to a large number of new units delivered in 2018 and a healthy economic environment, new residential units are preferred to those built before 2000. Over 60% of residential transactions in Bucharest involved new properties, for example.
The evolution of space-as-a-service

One of the often-heard critiques of the space-as-a-service model is that it has yet to be exposed to recessionary market conditions. Cynics point to the troubled experiences of the service-oriented sector in the late 1990s and the buy-long, sell-short characteristics associated with early co-working activity. There are three key points in response to such concerns.

First, given the rapid proliferation of co-working operators over recent years, it is inevitable that some will fly too close to the sun and fail, particularly in more challenging economic circumstances. Yet operational failures do not equate to the failings of those principles that underpin space-as-a-service.

Second, drawing direct comparison between traditional serviced-office models and co-working points to an ignorance of the clear distinctions between the two. As noted, space-as-a-service is far broader than the provision of workstations on a flexible basis.

Finally, the critique typically paints space-as-a-service as a static phenomenon when, in fact, it is evolving rapidly and in ways that may well serve to offer some protection in the event of a market downturn. Some of the most notable features of this evolutionary path are:

01 Operators shifting to ownership

Well-capitalised operators are increasingly competing with conventional investors for prime assets with key cities in order to build global platforms.

02 Market consolidation through acquisition

The proliferation of space-as-a-service operators, combined with strong capitalisation and desire for scale will bring consolidation within the market, as exemplified by WeWork’s recent acquisition of Naked Hub.

03 Scale-up and repositioning of traditional brands

Some traditional brands that have strong market presence will undergo a brand and service refresh. One example is IWG, owner of Regus, who is riding out their Spaces brand and have recently acquired The Engine Room in Battersea Power Station for their new concept, No18.

04 Differentiation through specialisation

As the space-as-a-service market matures, it is inevitable that operators will seek to specialise and appeal to niche markets defined by industry sector or business function, or differentiate through a particular service offering or member experience.

05 Enterprise and managed solutions evolve

Operators are targeting larger corporate occupiers either to house special project teams within co-working environments or by offering fully-fledged, managed solutions to corporates on a floor or building level. The former approach seeks to position flexible space alongside core corporate real estate, providing the occupier with a mix of longer-term and flexible accommodation that better suits changing business circumstances.

The latter approach provides an end-to-end solution to occupiers and creates more secure but innovative environments.

06 The rise of alternative spaces

Space-as-a-service is not narrowly restricted to office space. There are growing examples of retailers, leisure operators and hoteliers all utilising their spaces to create touch-free spaces for transient workers.

Space-as-a-service models are very much in their infancy and there is a long process of evolution ahead. While there may be false starts and dead-ends for some operators, the principles of the model will hold firm and will become an essential component of the supply side of global real estate markets.

We had a lot 2018 until the very year-end and the heat is just not stopping. The Good, the Bad and the Ugly off with a memorable start for channeling the money to real estate investors’ accounts and state budgets alike. Ascertain the rules and effect of some groundbreaking changes in 2019 so that you manage your portfolio with sound budgeting, and tax planning.

The Good news is that 2019 has brought two changes to the real estate sector as briefly presented below.

NEW TAX INCENTIVES FOR THE REAL ESTATE SECTOR

The first Good news with 2019 is that individuals who earn salary income or assimilated income from construction service employees (e.g. developers, constructors, architects, etc.) with turnover from such activities generating at least 80% of their total turnover may benefit from a set of facilities. Namely, 10% income tax exemption and exemption of reduction of social security charges apply during January 2019 - 31 December 2028. The only contribution that is due is labour insurance contribution of 0.34%. Furthermore, such real estate entities are obliged to pay an increased marginal form of a new tax of RON 100,000 per month for 2019. The key message to real estate entities is to revise their accounting policies and simulate the impact of such new rules, in order to determine the net benefit to their investments.

THE LEVERAGE EFFECT THEORY MAY STILL BE WORTHWHILE

The second Good news with 2019 is that debt financing is finally regaining its territory also when it comes to tax matters, since the already known rules on non-deductible financing charges have been relaxed and started working in favor of investors, as the serviced-office sector in Romania, too. You may remember that European tax rules were stripped from economic distortions in 2000, when all deductible investments were limited to benefiting from lower tax deduction benefit of only €0.2 million (if in a profit position) plus 45% of adjusted tax profits. Starting 2019, Romania has aligned with the EU and increased the tax deduction benefit to €1 million, irrespective of the investment is generating profits or not plus 30% of adjusted tax profits. Any excess over these thresholds is forward rolled and taxable in the future.

In the course of action.

Where does your money go in 2019?

Weich to the first question, deduction of any of these costs may be postponed indefinitely or deferred and used as a carryforward along with the current year financing charges.

Concerning the second question, there is a theory based on which, the excess cost of debt should be assessed even during the investment stage, and any interest that is capitalized in the investment value instead of adding to the interest that would bear tax via a non-deductible expense. There is also another way of realizing the law and claiming both the deduction and the non-deductible financing charges simultaneously once the investment is commissioned. This second question gains increased relevance for real estate investors and the answers may be different, depending on their business team and investment stage. Facts and circumstances, as well as ruling requests to the Ministry of Finance, should decide the course of action.

A NEW TAX ON BANKS Assets, A LINGERING THREAT FOR THE REAL ESTATE Sector

The Bad and the Ugly news that arose close to the end of Christmas past takes the form of a new tax on financial institutions that started applying January 2019. Concisely, banks are liable to a progressive tax rate on certain of their adjusted financial assets stated in their accounts, with the variation depending on the amount by which the three- and six-month LIBOR or EURIBOR 2.5% exceeds. This tax is pegged to the market reference rates, opposed to any other resembling or quasi-comparable tax system in the EU, its impact amounts currently to 1.2% in 2019. Real estate investors should be cautious on the indirect effects of this new tax on their investments, as the CRON exchange rates have not accompanied the tax rate to capitalised it.

In addition, in the event banks may try to transfer the tax cost to their corporate clients, the latter may be potentially affected by the corporate income tax effect of such financing-related costs, should they prove material enough.

To sum up, real estate investors may need to spend time in 2019 equally with designing their business plans and their tax strategies, due to the rapidly evolving Romanian tax environment.
FISCAL INCENTIVES IN CONSTRUCTIONS – GEO 114/2018

On 29 December 2018, the new Government Emergency Ordinance no. 114/2018 (GEO 114/2018) came into effect. The GEO is supposed to have a significant impact in several key industry sectors. One of such many effects is in the construction industry.

TAX EXEMPTIONS FOR EMPLOYEES IN THE CONSTRUCTION SECTOR

Employees hired by employers with business in constructions or in manufacturing construction materials (e.g. construction activities, manufacturing of various construction materials, architecture activities, engineering and technical consultancy services) are exempt of the 10% personal income tax.

The measure is supposed to be a temporary one, applying between 1 January 2019 to 31 December 2028.

The exemption will apply if at least 80% of the employer's turnover results from the above-mentioned activities. The turnover will be determined from the beginning of the year, including the month when the exemption is applied.

To qualify for this exemption, employees must have a gross income of between RON 3,000 (€638) and RON 30,000 (€6,380 at an exchange rate of RON 4.7/€ 1) received through an employment agreement.

Furthermore, for individuals working in the construction sector under an employment agreement from 1 January 2019 to 31 December 2028, the social security contribution rate will be reduced by 3.75%. Also, during the same period, these individuals are exempt from making health insurance contributions.

This law also affects the labour insurance contribution due by the employer, which has been reduced to approximately 0.34%. The above tax incentives for the construction sector apply from January 2019.

BOOST OF THE MINIMUM WAGE

A correlated measure of the Government is setting the level of the minimum wage in the industry to RON 3,000, while the typical minimum wage is between RON 2,080 and RON 2,350.

IS IT OK?

IS IT SUFICIENT?

A similar fiscal incentive had boosted the IT industry in Romania, several years ago. The set of measures was beneficial in various respects and notably the office leasing activity saw a significant growth, not only in Bucharest, but also in other major cities around the country. In the same time, there were also critics for inequalities in levels of labour taxation across the economy, so the Government is publicly aware that there are other sectors with tradition and potential of growth, like the textile industry, who may attempt to get next in line for similar incentives.

For now, like in IT, only time will tell if the new incentives in the construction sector has been actually based on an accurate read of the economy's existing predisposition to a significant growth in this particular industry, as opposed to others. In addition, there may be practical challenges as regards the bureaucracy (both at the level of companies and of the fiscal authorities) around the monthly submission and verification of the statements regarding the fulfillment of the legal criteria for the application of such incentives.

In any case, such measures combined with a potential change in the legislation around “Prima Casa” scheme that seems to be next on the Government agenda may create certain more favourable premises for the further development of residential sector, including in secondary and tertiary cities where there is quite significant potential for growth.