

ROMANIA
10
year challenge

Romania Real Estate
Market Overview
H1 2019
#10yearchallenge

OUR TIMELINE

few highlights

Photograph by Central Aerophoto Co., Ltd., courtesy National Geographic



1915

Cecil Chubb buys Stonehenge through Knight Frank & Rutley for £6,600 as a present for his wife. She gifts it to the nation three years later.

2009

Knight Frank enters the Romanian market through The Advisers, firm set-up by Horatiu Florescu.

2011

Launch of Project Management Division.

1896

Knight Frank & Rutley is founded as a valuations, surveying and auctions business.

1922

The firm sells Winston Churchill's house and sells Chartwell to him.

The Shard, Wikipedia



2010

Knight Frank is appointed on London's new skyscraper, The Shard, set to be the tallest landmark building in Europe.

Sale of Floreasca Park's land plot (20,000 sq m) to Portland Trust.

2012

ORACLE's pre-lease of 25,000 sq m in Floreasca Park.

2013

CDG Plaza (11,300 sq m) fully leased – exclusive office leasing mandate.



2014

Floreasca Park (37,000 sq m) fully leased – exclusive office mandate.

AFI Park I, II, III. – exclusive office mandate.

2015

Pre-lease of Genpact, 22,000 sq m in Hermes Business Campus III.

Pre-lease of Oracle, 20,000 sq m in Oregon Park.

Office lease of Oracle, 10,400 sq m, in Sky Tower.



2017

2016

Biggest profit in the market out of all real estate consultancy firms.

Pre-lease of BCR, 17,000 sq m, in The Bridge.

Hermes Business Campus (72,000 sq m) fully leased – exclusive office leasing mandate.

Sale of Dacia One's land plot (5,000 sq m) to Atenor.

2018

Residential Sales Team is set-up.

Expands the European network with the opening of the Hungarian office, managed by Knight Frank Romania.

Oregon Park (75,000 sq m) fully leased – exclusive office leasing mandate.

The Landmark (21,000 sq m) fully leased – exclusive office leasing mandate.

Expansion of Deloitte Technology (reaching a total of ~10,000 sq m) in Oregon Park.

Office lease of 70% of The Mark (Deloitte – ~9,000 sq m, WPP – 6,000 sq m, Dentons – 1,100 sq m, eSky – 800 sq m).

Project Management of UiPath offices in Bucharest.

Pre-lease of PwC, 8,000 sq m, in Ana Tower.

Office lease of Stefanini, 7,000 sq m, in Globalworth Campus.

Sale of @Expo Campus land plot (11,600 sq m) to Atenor.

2019

10 year anniversary Knight Frank Romania.

THE GLOBAL TRADE TENSIONS AND THE DOMESTIC TWIN DEFICITS

Dr. Andrei Radulescu
Director Macroeconomic Analysis
Banca Transilvania

The global economic growth pace slightly improved in July, as the acceleration of the services counterbalanced the decline of the manufacturing for the third month in a row, given the intensifying economic tensions (US–China).

However, the PMI Composite indicator computed by JPMorgan and Markit Economics continued close to the lowest level since 2016, as can be noticed in the following chart.

GLOBAL PMI COMPOSITE INDICATOR (POINTS)



Source: Bloomberg

According to the recent forecasts of the International Monetary Fund (IMF) the dynamics of the global economy would slowdown from 3.6% in 2018 to 3.2% in 2019, but may accelerate to 3.5% in 2020.

The US GDP grew by 2.3% YoY in Q2 2019 (the slowest pace since 2017), given the deceleration of the fixed investments and the deterioration of the net foreign demand. In H1 2019 the largest economy of the world climbed by 2.5% YoY.

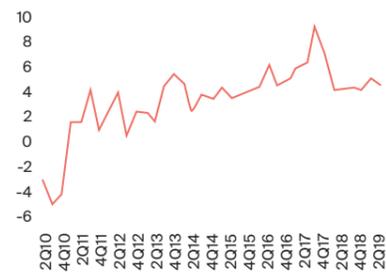
On the other hand, the output gap continued negative in the Eurozone (the main economic partner of Romania), for the third quarter in a row in Q2. The GDP rose by 0.2% QoQ and by 1.1% YoY past quarter, according to the preliminary estimates of Eurostat.

The deceleration process continued in China in 2Q, the GDP advanced by only 6.2% YoY (the slowest pace of the past 27 years), an evolution influenced by the global trade tensions.

In Romania the YoY dynamics of the GDP decelerated from 5% in Q1 to 4.4% in Q2 (the weakest pace since Q4 2018), according to the flash estimate of the National Institute of Statistics (NIS).

In our view this evolution was influenced by the foreign factors (the global trade tensions and the negative output gap in Euroland) and domestic issues (the challenges in terms of macroeconomic equilibria).

ROMANIAN GDP (% YoY)



Source: National Institute of Statistics (NIS)

According to the supply-side analysis the economic slowdown during Q2 was determined by the deterioration of the retail sales and manufacturing.

On the one hand, the retail sales (a proxy for the private consumption, the main component of the GDP) grew by only 5.4% YoY in Q2 (decelerating from 8.5% YoY in Q1), the weakest pace since Q3 2018. This evolution corroborated with the upward trend for the real disposable income of the population and the affordable level of the real financing costs express a prudent attitude of the consumers.

Furthermore, the domestic industry contracted by 1.7% YoY in Q2 (the most severe decline since 2009), given the global trade tensions and the deceleration across Eurozone.

However, the constructions accelerated from 11.7% YoY in Q1 to 31.3% YoY in Q2.

During H1 2019 the Romanian economy grew by 4.7% YoY.

The performance of the construction sector and the significant increase of the FDIs during January–June confirm the relaunch of the fixed investments, despite the deterioration of the macroeconomic climate in Euroland and the widening twin deficits in Romania (in H1 their weight in GDP stood at the highest level since 2010).

At the same time, the private consumption continued to increase by a strong pace in H1 2019, an evolution supported by the positive climate across labour and credit markets.

Furthermore, the public consumption was recently supported by the expansionary fiscal and income policies.

On the other hand, the net foreign demand deteriorated during January–June, given the global trade tensions and the unfavourable dynamics of the international competitiveness.

According to the core macroeconomic scenario of Banca Transilvania the Romanian economy would increase by YoY paces of 3.8% in 2019, 3.3% in 2020 and 3.7% in 2021.

In this scenario the private consumption may advance YoY by 6.3% in 2019, 5% in 2020 and 5.2% in 2021, an evolution determined by the low level of the unemployment rate and the affordable level of the real financing costs.

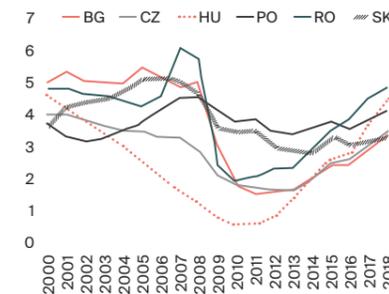
At the same time, we forecast the increase of the gross fixed capital formation by 3.6% YoY on average during 2019–2021, given the positive credit market climate, the organisation of the Euro 2020 and the mid-run favourable outlook for the Romanian economy (also supported by the prospects to enter OECD and Euroland).

In this context we emphasize that the YoY dynamics of potential output is higher in Romania compared with the other EU countries in the region, according to our recent econometric estimates.

In other words, the growth pace in Romania would be higher compared with the countries in the region during the following cycle, a scenario dependent on the acceleration of the structural reforms (including



THE POTENTIAL OUTPUT (% YoY)



Source: BT, using Eurostat database

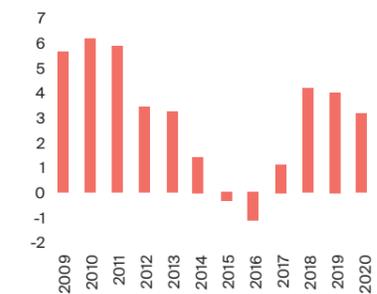
investments in infrastructure, the incorporation of the Digital Revolution and the increase of R&D) and the adjustment of the twin deficits (a crucial aspect for the macro-financial stability).

For the public consumption we forecast a deceleration from 2% YoY in 2019 to 1.4% YoY in 2020 and 1.3% YoY in 2021, given the challenges in terms of public finance (the widening of the budget deficit).

In our view the Administration would implement fiscal consolidation measures in the short-run, in order to keep the budget deficit below 3% of GDP.

As regards the net foreign demand we expect the narrowing of the gap between exports and imports (in terms

ANNUAL AVERAGE INFLATION (%)



Source: BT, using Eurostat database

of YoY dynamics), due to the end of the global post-crisis cycle and the domestic factors (a prudent attitude of the consumers, the gradual increase of the real financing costs and the prospects for the depreciation of the RON real effective exchange rate).

For the annual average rate of unemployment we forecast an increase from 4.1% in 2019 (the minimum since early 1990s) to 4.2% in 2020 and 4.6% in 2021, as we expect the output gap to turn negative.

Crossing to the financial side of the economy we revised the forecasts for the average annual inflation (HICP basis), to 4% in 2019, 3.1% in 2020 and 3.4% in 2021.

In other words, inflation would gradually converge towards the target of the central bank in the following quarters, an evolution influenced by the end of the post-crisis cycle (global, European) and the expected rebalancing of the domestic policy-mix.

The deceleration of inflation corroborated with the monetary policy outlook in US, Euroland and CEE are factors that express a high probability for the consolidation of the reference interest rate in Romania in the following quarters.

However, the central bank would be active with other instruments to counter the inflationary pressures and the challenges in terms of macro-financial stability, in our view.

In this context, we expect the central bank to take into account several factors for the calibration of the monetary policy in the short-run: the evolution of the inflationary expectations, the dynamics of the fixed investments, the twin deficits and the global/Eurozone/regional macro-financial climate.

Last, but not least, we forecast an increase of the sovereign financing costs and the gradual appreciation of the €/RON in the following quarters.

For the yield on 10YR TBonds (annual average) we see an increase from 4.7% in 2018 to 4.8% in 2019 and 5.1% in 2020, given the challenges in terms of public finance (the increasing risks to breach the Stability and Growth Pact). However, an adjustment to 4.7% is expected in 2021.

As regards the €/RON (annual average) the new forecasts indicate a gradual increase, from 4.65 in 2018 to 4.75 in 2019, 4.81 in 2020 and 4.88 in 2021, a scenario supported by the high level of the twin deficits (divergent trend compared with the countries in the region) and the slow dynamics of the structural reforms.

Among the main risk factors for the evolution of the Romanian economy in the short and mid-run we mention: the global and European macro-financial dynamics (including the US-China economic war and Brexit); the domestic policy-mix in an electoral context and the deterioration of macroeconomic equilibria; the global and regional geopolitical climate.

OFFICE MARKET



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Our very survival depends on our ability to stay awake, to adjust to new ideas, to remain vigilant and to face the challenge of change.
 MARTIN LUTHER KING JR.

OVERVIEW

The first half of 2019 welcomed a considerable improvement in the occupier's sentiment, registering a take up of 196,000 sq m – compared with its correspondent in 2018 (131,000 sq m).

Prime rent level remained stable at 18.5 €/sq m/month.

Total stock on the Bucharest office market reached 2.93 mil sq m at the end of H1 2019 for class A&B office buildings.

SUPPLY

The Bucharest office market registered in its first six months a large amount of deliveries (191,000 sq m), overcoming deliveries per entire 2018 with 14%. 68% of the supply was delivered in the center-west and west area, mainly from Q1 deliveries, Renault Business Connected developed by Globalworth being the largest one (47,000 sq m). Among the schemes delivered in Q2 2019 Business Garden, developed by Vastint, is the largest (41,300 sq m), followed by the Oregon Park C (24,600 sq m) and Timpuri Noi Square third building (20,000 sq m).

In terms of stock by submarkets, at the end of H1 2019, Center West area comes out on top with a total modern office stock of approx. 466,000 sq m, followed closely by Calea Floreasca/Barbu Vacarescu with 461,600 sq m and Central Business District with approx. 442,000 sq m.

DEMAND

In Bucharest's office sector there was a solid performance in the last few months, proved by the dynamic take-up standing already at 60% of the entire last year level.

Total take-up in Bucharest reached 196,000 sq m for class A&B office space. This volume already represents 60% out of the total take up in 2018. The total number of transactions concluded in the first six months (110) was comparable to the same period of

last year (108), while the average size of transactions increased to 1,700 sq m (from 1,250 sq m in 2018). In terms of size, larger transactions of over 5,000 sq m were again dominant, their total area accounting for a 48% share of the take-up. In terms of the number of transactions, most numerous were the ones below 1,000 sq m, which accounted for almost 58% of the total take-up.

In terms of submarket activity, Center Business District area was the market leader, with 22% of the total leasing activity. Center/Center South and Center West came next with 21% and respectively 15%.

The relocation and new demand activity was of particular significance, reaching a volume of 78,000 sq m in H1 (40% of the total take up). Renegotiations/Renewals came second with a 27% market share while pre-leases came third with 25% of the total leasing activity.

As expected, the IT&C sector covered most of the demand of the market, occupying approximately 106,000 sq m (54% of the entire take up in H1 2019).

This share exceeded 2018, when the sector accounted for a 35% share. Eight of the top ten transactions were deals in this sector, and there was a diverse range of transaction types including pre-leases and renewals. The retail came in second with 9% of the total demand, followed by finance and banking sector and Manufacturing Industrial&Energy with 8% each.

RENTS

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

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

VACANCY

The vacancy rate for Class A and B offices witnessed a slight increase to 9.7%, due to the substantial amount of new supply delivered during H1 2019.

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

FORECAST

By the end of 2019, it is expected the more than 178,000 sq m of stock to be delivered across 12 projects in the Bucharest office market. Center West will be the main supply generator, with 35% of the class A office space planned for delivery, followed by Presei Libere Square with 22%. If all office buildings scheduled for completion are delivered, total stock of class A&B will exceed the threshold of 3 million sq m.

In the next three years there are expectations to see 915,000 sq m being delivered on the office market. Center West area is hosting 35% of the future deliveries, with

projects like **One Cotroceni Park** phase I (33,000 sq m), **AFI Tech Park** phases II and III (20,000 sq m and 14,000 sq m respectively), **Campus 6.3 building**, **The Light** phase II (24,700 sq m), etc. Noteworthy schemes in other areas include **@Expo Campus** (49,000 sq m), **Fabrica de Paine** (45,000 sq m), **Ana Tower** (32,000 sq m), **Globalworth Square** (29,700 sq m), etc.

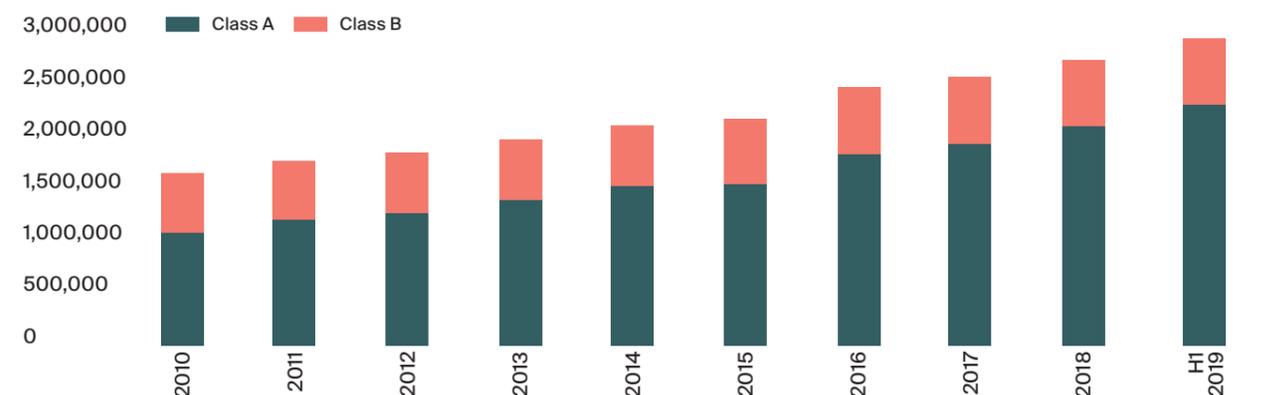
New supply will bring total stock in Center West to 850,000 sq m, in Calea Floreasca/Barbu Vacarescu to 625,000 sq m, whereas Center/Center South area jump directly to top three in term of stock per area with a 13% share from the total stock.

PRIME HEADLINE RENTS (€/SQ M/MONTH)

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

Source: Knight Frank

MODERN OFFICE STOCK ANNUAL EVOLUTION (SQ M)



Source: Knight Frank

DEMAND BY LEASED AREA H1 2019 (%)



Source: Knight Frank

DEMAND BY NUMBER OF TRANSACTIONS H1 2019 (%)



Source: Knight Frank

STOCK BY SUBMARKET
H1 2019 (%)



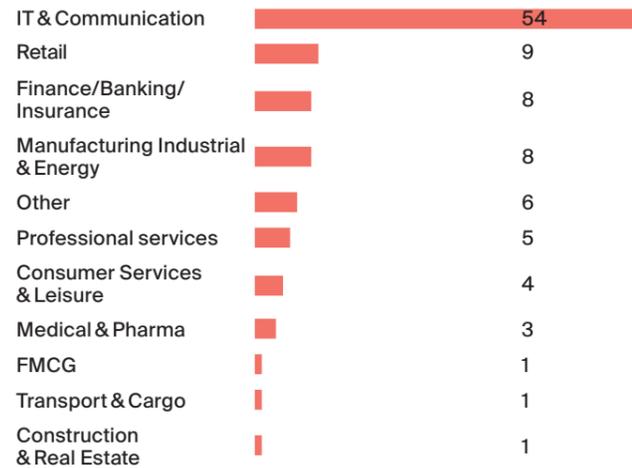
Source: Knight Frank

DELIVERIES BY SUBMARKET
2020-2022 (%)



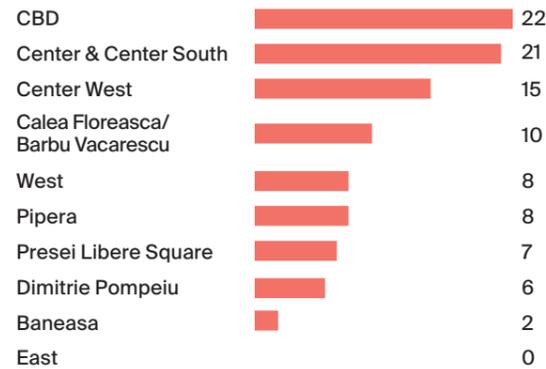
Source: Knight Frank

DEMAND BY TENANT ACTIVITY SECTOR
H1 2019 (%)



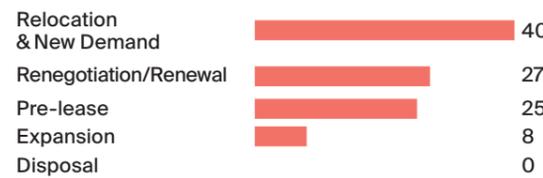
Source: Knight Frank

DEMAND BY SUBMARKET
H1 2019 (%)



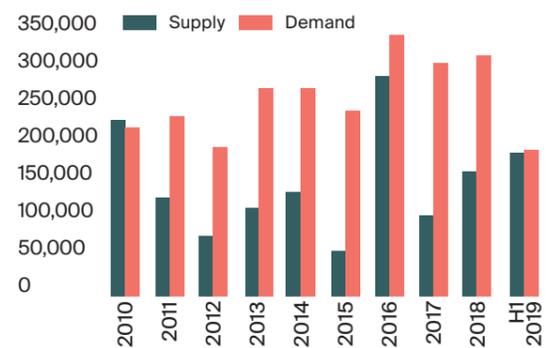
Source: Knight Frank

DEMAND BY TYPE OF TRANSACTION
H1 2019 (%)



Source: Knight Frank

SUPPLY VS DEMAND
H1 2019 (SQ M)



Source: Knight Frank

MAIN OFFICE HUBS IN BUCHAREST A+B

H1 2019



CAPITAL MARKETS

In the first half of 2019 there was a significant volume of transactions reported on the local market which reached an overall level of almost €375 million representing an increase of approximately 5% compared with the first half of 2018.

OVERVIEW

Overall, H1 2019 relied mainly on the office and retail segments while the industrial sector has not reported a significant activity. A significant part of the total transactions volume was generated from already established players (Paval brothers with their acquisition of The Office project in Cluj and MAS Real Estate with their acquisition of Prime Kapital's share in 9 retail parks) – these two transactions accounted for slightly more than €240 million (almost 65% of the total market).

The second half of 2019 also announces several other transactions, with new and existing buyers showing interest in the Romanian market as demand continues to be boosted by the favorable economic environment and very competitive risk adjusted returns but also by the high quality of the products developed and transacted on the market. Overall, 2019 is expected to confirm the upward trend in terms of investment volumes with total volume expected to break the €1 billion threshold along with a very sensible yield compression which is expected in most of the market sectors.

SUPPLY

The level of supply was not significant in terms of products sold or available for sale however the size of the available products increased significantly (the average deal size amounted to €27 million, lower compared with the first half of last year but higher compared with the first half of 2017).

The office segment is expected to provide a significant number of quality products although due to the high demand for this product a lot of these products will most likely be transacted as forward purchases a trend that was identified for a number of months already.

Retail assets are still of high interest to existing and new investors which are likely to also be looking for new opportunities in the following period. Nevertheless, in 2019 established developers/investors were also active and the additional liquidity provided from the transaction between Prime Kapital and MAS Real Estate will allow further development potential.

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 following period hence it is likely that in the following years we will witness a significant number of transactions in this segment as long as there will be a growing interest from large institutional buyers.

DEMAND

The total investment volume reported in H1 2019 was almost of €375 million which is almost 5% higher compared with the volume reported in the same period of last year.

The office segment was the main driver in terms of volume with transactions slightly exceeding €200 million (more than 50% of the total market volume). The largest transaction reported on the market was the acquisition of The Office project in Cluj which set a record in terms of acquisitions in regional cities as the total value was around €130 million. The Paval brothers who acquired the property from NEPI and the local developer Ovidiu Sandor have steadily increased their real estate holdings on the local market and they appear to be interested in other long term investments which will provide additional liquidity and also a likely downward pressure on yields.

The retail sector also reported a significant volume accounting for slightly more than 30% of the total investment volume. The single

large transaction reported was the acquisition of Prime Kapital's stake in 9 retail developments by MAS Real Estate for more than €110 million.

The industrial and logistics sector rather low volumes compared with other periods with only one transaction announced in this period (established player CTP acquired A1 Bucharest Park from Vabeld Group for an estimate of €40 million). Although this segment only accounted for almost 11 % of the total investment volume, the interest in this segment remains very high even though on a short term 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 the scarcity of available products for sale will continue.

Considering the ongoing transactions which are likely to close by the end of the year it is expected that the total investment volumes in 2019 will be above €1 billion which will mean that we will see the largest volume of transactions in the past 10 years.

YIELDS

Given the only slightly improved levels of activity registered in the first part of 2019 compared with 2018, yields have not registered a significant decline but 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 Warsaw) is still above 150–200 bps indicating that a moderate yield compression might be expected towards the end of the year or early in 2020, especially in the office sector.

FORECAST

2019 will likely be a record year in terms of investment volumes. In the first two quarters there was an increased activity 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 already established investors continued acquisitions while a significant number of new



#10yearchallenge

I don't run away from a challenge because I am afraid. Instead, I run towards it because the only way to escape fear is to trample it beneath your foot. NADIA COMANECI

players are actively looking for acquisitions thus sending positive signals to the overall market.

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

Demand was mainly generated by already established investors looking for high quality income generating assets.

The total investment volume reached almost €375 million in the first two quarters of 2019, with potential to reach more than €1 billion by end of the year.

Local capital accounted for more than 50% of the total activity but it is expected that the weight of foreign capital will increase towards the end of the year.

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

PRIME YIELDS H1 2019 (%)

7.25
Office

7
Retail

8.25
Industrial

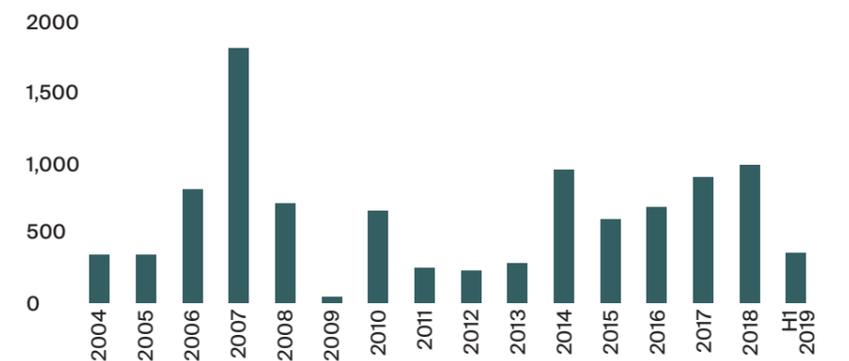
Source: Knight Frank

TRANSACTION DISTRIBUTION BY PROPERTY TYPE H1 2019 (%)

Office	54
Retail	30
Industrial	11
Hotels & Residential	5

Source: Knight Frank

ROMANIA INVESTMENT TRANSACTION VOLUMES ANNUAL EVOLUTION (€MN)



Source: Knight Frank



RETAIL MARKET SHOPPING CENTERS

OVERVIEW

In the first six months of 2019, the modern retail stock in Romania increased by approx. 63,500 sq m while several major projects outside Bucharest remained in the pipeline for the next two years.

The increase in consumption and consumer confidence have provided a strong incentive for retailers to continue their expansion plans, especially in the countryside where the deliveries were registered.

SUPPLY

During the first half of this year there was a delivery of approx. 63,500 sq m in three projects, all of them located outside Bucharest. All three were represented by extensions of existing projects: Iulius Town in Timisoara (47,000 sq m), Shopping City Buzau (6,000 sq m) and Shopping City Sibiu (10,600 sq m).

DEMAND

Occupier demand in H1 2019 continued to be generated by well-known food and fashion brands. Continuing the trend of last years, many new entries were also registered in the first six months of 2019: Babylon Style, Victoria's Secret, Atelier Cologne, Topshop, Xiaomi Mi, Freestyle Motion.

#10yearchallenge

Being challenged in life is inevitable, being defeated is optional.

ROGER CRAWFORD

RENTS

In the first six months of 2019, prime rents for the leading schemes remained relatively constant. For 100 sq m units, rents were around €65-75/sq m/month in shopping centers in Bucharest and between €30-40/sq m/month throughout the rest of the country, in secondary cities.

FORECAST

By the end of 2019 another 34,000 sq m will be opened in Bucharest, in two projects: extension of Veranda (6,000 sq m) and DN 1 Balotesti (28,000 sq m) developed by Prime Kapital.

The developers plan to put another 275,000 sq m on the map of the Romanian malls in the next 18 months. Nearly 90% of the spaces scheduled to be delivered during this period of time are new projects and, with the exception of one new project (DN1 Balotesti) and an extension (Veranda Mall), totalling 34,000 sq m, investments will go towards secondary and tertiary cities. The most active developers will remain NEPI Rockcastle and MAS-Real Estate-Prime Kapital.

PROJECTS ANNOUNCED TO BE DELIVERED

H2 2019 & 2020



10 LAND MARKET



#10yearchallenge
The greater the obstacle,
the more glory in overcoming it.
MOLIÈRE

OVERVIEW

The first half of 2019 maintained the dynamic rhythm from last year, with several key transactions concluded for future mixed developments.

SUPPLY

There were no notable changes to land supply, both Bucharest and the secondary cities major land supply is coming from the former factories' platforms, located in semi-central areas.

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

In H1 2019, demand for land continued the positive trend from last year with high volumes of activity witnessed across all market segments.

Nationwide the regional cities witnessed some important transactions, mainly with former industrial sites. Well known developers secured new sites for future developments.

Speedwell concluded the acquisition of the former Fabrica de Palarii factory, in **Timisoara**, and are planning to develop a mixed project, their first one in the city.

NEPI bought a 170,000 sq m land plot in Craiova for a future retail development. **Craiova** witnessed also some transactions destined to industrial developments: **Element Industrial** acquired a 12 ha land plot and **P3** also secured some plots there.

In Bucharest, the new emerging area in north west part of the city (Expozitiei - Bucurestii Noi) remained of interest to developers in their attempt to decongest the existing office hubs - residential constructions are becoming more and more frequent in the area after more office projects

announced in the past years are already under development.

PRICES

Prices remained mainly at a constant level as the previous period although in some area in Bucharest where interest proved to be high and availability low, some small increase in price were normal.

FORECAST

The supply of land plots suitable for good projects is expected to decrease, with developers actively searching to secure the best available sites, primarily land plots located in close proximity to metro stations that have development and planning approval in place, given the lengthy process of obtaining building permits.

LAND PLOT PRICES BY USE (€/SQ M)

Use	Location	Price (€/SQ M)
Office	Barbu Vacarescu/Calea Floreasca	2,000
	Center-West	700-900
Residential	Prime areas	1,500-2,000
	Central Area	900-1,200
	Periphery	250-300
Retail	Bucharest	350-500
	Countryside	100-250

Source: Knight Frank

LAND TRANSACTIONS

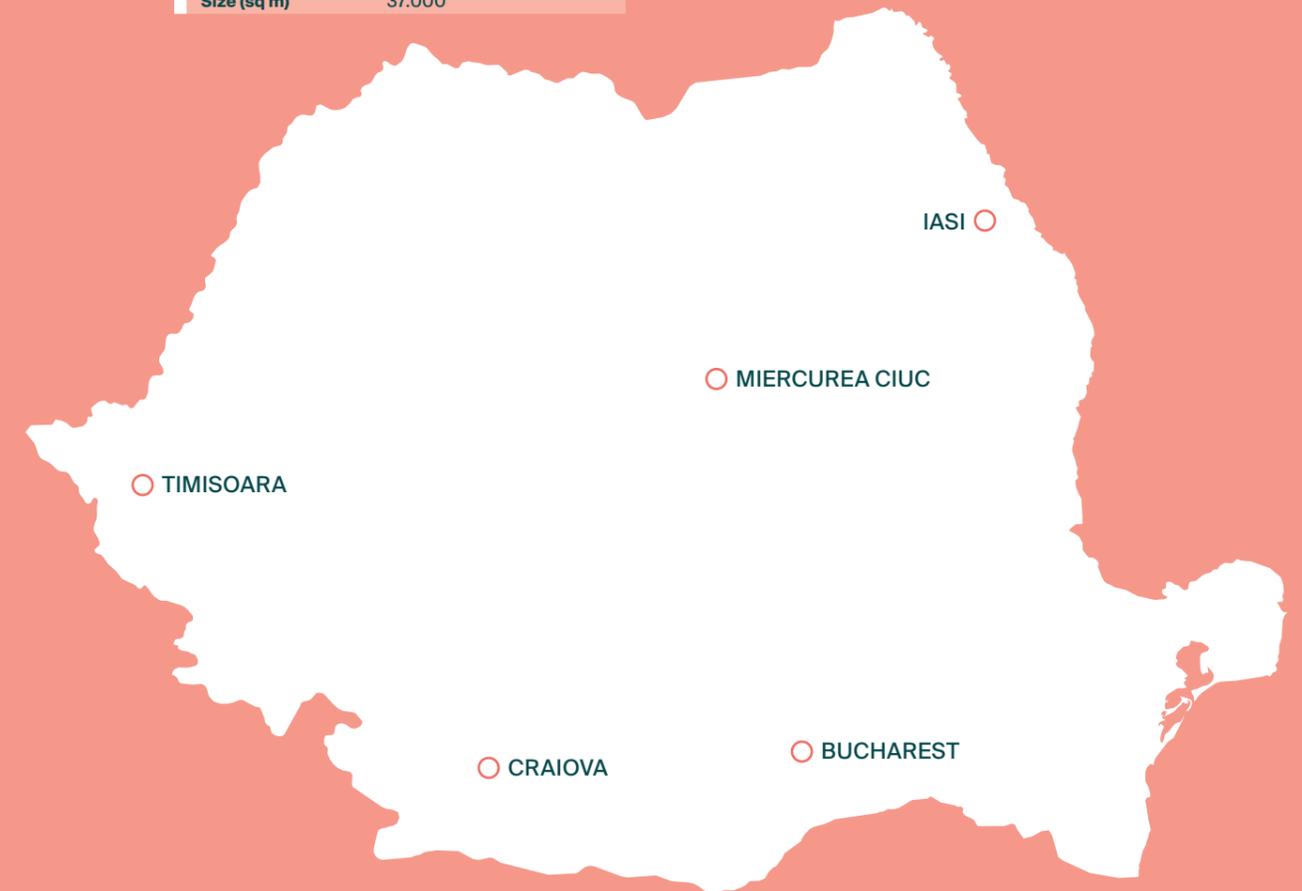
H1 2019 (SELECTION)

MIERCUREA CIUC

Buyer	RC Europe
Location (area)	
Use	Retail
Size (sq m)	37.000

IASI

Buyer	Private individual
Location (area)	Nicolina former factory site
Use	Residential
Size (sq m)	240.000



TIMISOARA

Buyer	Speedwell
Location (area)	Fabrica de palarii Paltim
Use	Mixed
Size (sq m)	15.430

CRAIOVA

Buyer	Element Industrial
Location (area)	Craiova
Use	Industrial
Size (sq m)	120.000

Buyer	NEPI
Location (area)	Craiova
Use	Retail
Size (sq m)	170.000

BUCHAREST

Buyer	AFI
Location (area)	Bldv. Timisoara
Use	Mixed
Size (sq m)	19.200

Buyer	Global Logistics
Location (area)	Chitila
Use	Industrial
Size (sq m)	140.000

Buyer	Cordia
Location (area)	Laminorului
Use	Residential
Size (sq m)	33.500

INDUSTRIAL & LOGISTICS MARKET

The first half of 2019 witnessed a strong activity in terms of take-up in Bucharest, reaching approx. 100,000 sq m whereas the vacancy levels continues to remain at low level.

SUPPLY

The level of deliveries in H1 2019 was around 200,000 sq m, bringing the nationwide stock to nearly 3.75 million. Around half of the new supply was in Bucharest.

DEMAND

In Bucharest, total take up in H1 2019 was close to 100,000 sq m, representing a 38% increase compared to the same period of last year, while nationwide the take up reached approx. 214,000 sq m of space absorbed, representing 48% of the amount recorded in the similar period of last year.

A total of 25 leasing transactions were recorded nationwide in H1 2019 with an average lease size of 8,500 sq m and only 4 transactions

were larger than 15,000 sq m. During the first half of this year, notable transactions included the built to suit signed by Pirelli with WDP in Slatina (62,000 sq m) and the pre-lease signed by Arctic in Eli Park (20,000 sq m).

Although Bucharest accounted for 38% of total take-up, Slatina and Oradea were the most sought-after regional locations accounting for a further 29% and respectively 16% of the total volume.

On the whole, the main source of demand was the new demand accounting for 78% from the total take-up. The other types of transactions were rather evenly distributed with expansions and pre-lease registering 11% and respectively 9% of the overall leasing volume.

TAKE-UP BY TYPE OF TRANSACTION H1 2019, ROMANIA (%)

New Demand	78
Expansion	11
Pre-lease	9
Renewal/ Renegotiation	2
Relocation	0

Source: Knight Frank

TAKE-UP BY TYPE OF TRANSACTION H1 2019, BUCHAREST (%)

New Demand	48
Expansion	27
Pre-lease	25
Relocation	0
Renewal/ Renegotiation	0

Source: Knight Frank

TAKE-UP BY TENANT ACTIVITY SECTOR H1 2019, ROMANIA (%)

Automotive	59
Logistics	10
Retail	10
Storage	7
Production	6
Distribution	5
FMCG	3

Source: Knight Frank

TAKE-UP BY TENANT ACTIVITY SECTOR H1 2019, BUCHAREST (%)

Automotive	37
Retail	26
Production	13
Logistics	12
FMCG	5
Storage	4
Distribution	3

Source: Knight Frank

In terms of tenant profile, the automotive sector was the most active, accounting for 59% of the total demand nationwide followed by logistics and retail with 10% on each side.

VACANCY

As a result of the developer's tendency towards built-to-suit projects the vacancy rate remain at a low level which is estimated around 5%-6%.

RENTS

Considering the low figures for the vacancy rates and the quality of the supply, rental levels for prime industrial and logistics space remained stable in the first half of 2019, 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

The second part of this year is expected to register almost the same level of deliveries as H1 2019 with 40% of them being in the Bucharest area. However the vacancy rate is estimated to remain at low level as most of the future spaces being already pre-leased in BTS transactions.

RENT BUCHAREST REST OF THE COUNTRY

Logistics (<3,000 sq m)	€4-4.20	€3.8-4.00
Logistics (3,000-10,000 sq m)	€3.75-4.00	€3.5-3.8
Logistics (>10,000 sq m)	€3.3-3.75	€3-3.5
Manufacturing	€3.50-4.25	€3.50-4
Service charge	€0.5-0.95	

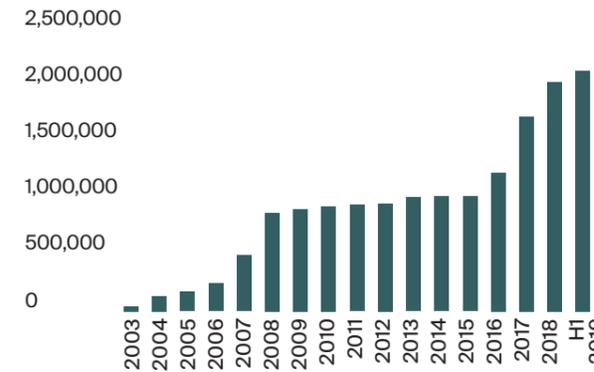
Source: Knight Frank

TAKE-UP BY REGION H1 2019 (%)

Bucharest	38
Slatina	29
Oradea	16
Timisoara	10
Ploiesti	5
Pitesti	1
Craiova	1

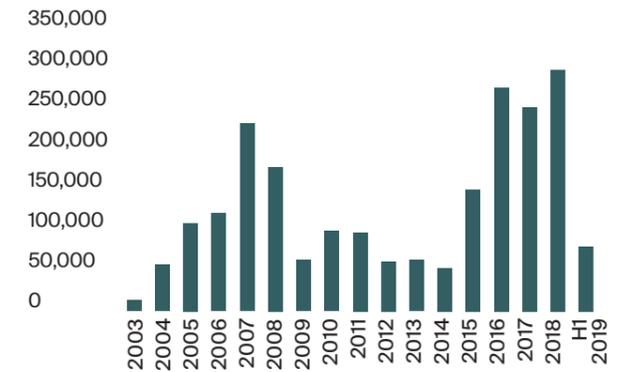
Source: Knight Frank

BUCHAREST MODERN INDUSTRIAL STOCK ANNUAL EVOLUTION (SQ M)



Source: Knight Frank

BUCHAREST MODERN TAKE-UP ANNUAL EVOLUTION (SQ M)



Source: Knight Frank

DELIVERIES H1 2019 (SELECTION)

Location	Developer	Area (sq m)
Timisoara	Global Vision	20,000
Sibiu	VGP	15,000
Craiova	Zacaria	30,000
Chitila	MLP	12,500

Source: Knight Frank

PIPELINE H2 2019 (SELECTION)

City	Project	Developer	Area (sq m)	Estimated delivery
Bucharest	Stefanesti	WDP	24,500	Q3 2019
Sibiu	Sibiu	Zacaria	20,000	Q3 2019
Bucharest	Chitila	Element Development	20,000	Q3 2019
Bucharest	Dragomiresti	WDP	14,000	Q3 2019
Ploiesti	Brazi	WDP	11,000	Q3 2019
Sibiu	Sibiu	WDP	4,000	Q3 2019
Deva	Deva	WDP	45,000	Q4 2019
Oradea	Oradea	WDP	34,000	Q4 2019
Buzau	Buzau	WDP	21,000	Q4 2019
Bucharest	Dragomiresti	WDP	20,000	Q4 2019
Bucharest	Chitila	MLP Chitila	10,000	Q4 2019
Bucharest	Stefanesti	WDP	8,600	Q4 2019

Source: Knight Frank



RESIDENTIAL MARKET

PRICES

In 2019, prices in Romania registered a stable trend with no significant increases, which is normal in a more mature market such as in recent years.

In H1, analysing the newly built properties in Bucharest, the medium price for the central and northern area was approximately €1700/built sqm, starting from €925/built sqm in Northern Baneasa to €4000/built sqm in Aviatorilor as it can be observed in the graphic below.

The ranking of Bucharest neighbourhoods with the most expensive apartments remained essentially unchanged, the leading position being occupied by areas such as Kiseleff, Aviatorilor, Primavera followed by areas such as Floreasca, Dorobanti, Nordului-Herastrau.

Clients continue to be focused on the balance between price and quality and the prices had to line up to the demanded quality, especially for the prime properties where high quality finishes and prime location are two key factors in choosing properties.

Even though some real estate publications were predicting a market correction, for newly built apartments we are witnessing a small increase in prices compared to last year. Although price increases were also recorded in the old housing segment, the most significant increases occurred in the newly built segment. On this segment the increase for Q1 & Q2 2019 was not more than 3-4% and it could be due to the fact that more apartments were delivered this year.

Overall, the price stabilization is going to mark also the next 12 months on the real estate market.

SUPPLY

In Bucharest, compared with 2018 when there were delivered around 11,272 new housing units according to National Institute of Statistics, around 30% more units are set to be delivered by the end of 2019.

In the central and northern area of Bucharest, on the first semester of 2019 there were delivered a great number of apartments in major projects:

Aviatiei Park, located in Aviatiei neighbourhood, developed by Forte Partners delivered 176 apartments from phase one and 195 apartments are scheduled to be delivered in the second phase.

Arcadia Apartments, located in Domenii area, delivered on Q2 2019 193 apartments and are scheduled to deliver more than 300 apartments by the end of this year.

Soho Unirii, developed by London Partners announced that they sold over 70% of the total finalized 236 apartments. The developer is focused on future projects, acquiring land in Expozitiei area and Barbu Vacarescu area.

One Mircea Eliade with its 247 design apartments in 3 towers (GF+15, GF+15, GF+20) and the future residential project of Atenor in Floreasca with its 270 luxurious apartments in 2 towers (GF+12, GF+25) give the start of a new vertical development trend: mix of high end apartments (small and big areas) with amazing views thanks to the glass façades.

The residential market in Bucharest experienced growth and progress, especially from the development perspective. Quality buildings with modern technology and cost optimizing solutions were on the spotlight in H1 2019.

Most developers are focused on energy efficiency and comfort of the occupants, therefore they apply for green certifications and build with the required standards. Projects like Aviatiei Park, One Charles de Gaulle, One Mircea Eliade, Afi City, Central District 4 Elements and others have already obtained green building certification.

Among the trends in H1 2019 for the launched medium-large residential projects, the key features capture the following: gated communities with green spaces and leisure areas, indoor and outdoor playground, integrated plaza, meeting and co-working areas, gym, swimming & spa areas, dry cleaning & concierge services.



#10yearchallenge
Difficulties strengthen the mind, as labor does the body. SENECA

CORPORATE RESIDENTIAL LETTINGS

In comparison to 2018 the 2019 lettings market is very similar. The growth of this segment is very stable in the major cities like Bucharest, Cluj, Constanta or Iasi.

In Q1 2019, the rental offer from the big regional centers increased compared to Q4 2018, without changes in the level of the prices requested by the owners.

Also in Q1 2019, the number of older homes (properties completed before 2000) available for rent in the six major cities of the country increased by about 8% compared to the previous quarter. According to the most recent reports, the most consistent offer of rental housing is naturally found in Bucharest.

In the past 6 months, the rental market has remained at a stable level in terms of prices. On this market segment, Cluj-Napoca ranks first place with the highest average prices. A slight decrease in homeowner's claims occurred in Bucharest due to a large supply of new developments.

Corporate tenants with medium to high budgets showed interest in the same areas: Central (Universitate, Victoriei) and North (Herastrau, Aviatiei, Floreasca, Aurel Vlaicu). Among their search criteria, the most required are amenities such as: green areas, gym, supermarkets, coffee shops and proximity to their office.

The most requested solution from the HR departments for the new employees

are the two-bedroom apartments – whether we talk about a single tenant or a young couple. In addition, most request include a terrace or outdoors space, as an alternative to a yard. These two-bedroom apartments can be rented for €600-750, in the up and coming areas and the rent can reach €2300-2700 per month in prime locations.

DEMAND

From the credit institutions point of view, demand registered a marginal increase in the first quarter of 2019, contrary to the expectations from Q4 2018, when a decrease was registered and the purchase decision took longer. For the second quarter of 2019, credit institutions estimated a relatively steady evolution of demand. In addition, the number of residential real estate transactions decreased in the first quarter of 2019 (-26% in Q1 2019 compared to Q1 2018). However, in Q2 and Q3, Romania registered an increase of 23.3% in new development constructions, compared to the same period last year. For example, in July 2019, 50.890 properties were sold nationwide, with 10.683 more than in June.

The number of houses, lands destined for residential developments and apartments sold, nationally, in July this year is 6,460 higher than the similar period of last year. This value is the highest, compared to the other countries of the European

Union. At the same time, due to media speculations regarding a new recession, the enthusiasm of buyers decreased along with the volume of residential construction works (13% decrease between April 2018–March 2019) compared to the same period of the previous year, while the number of homes completed during 2018 was 12% higher than 2017.

The appetite for prime residential properties has not changed and the interest in luxurious homes continued in the same upward trend. Buyers on this segment being less affected by the changes in the real estate market, but more concerned in identifying a unique location and the best views.

TRENDS

By comparing official statistics on trading activity with market demand and supply data, an apparent contradiction can be observed: The number of real estate transactions in Romania is lower than in the same period of last year, but the demand for residential property is higher than 12 months ago. This contradiction is explained by the uncertainties the clients had between the end of 2018 and beginning of 2019, due to media articles insinuating a new recession and political uncertainty.

Therefore, the search phase of a house and the decision of a purchase is a longer waiting period in many cases.

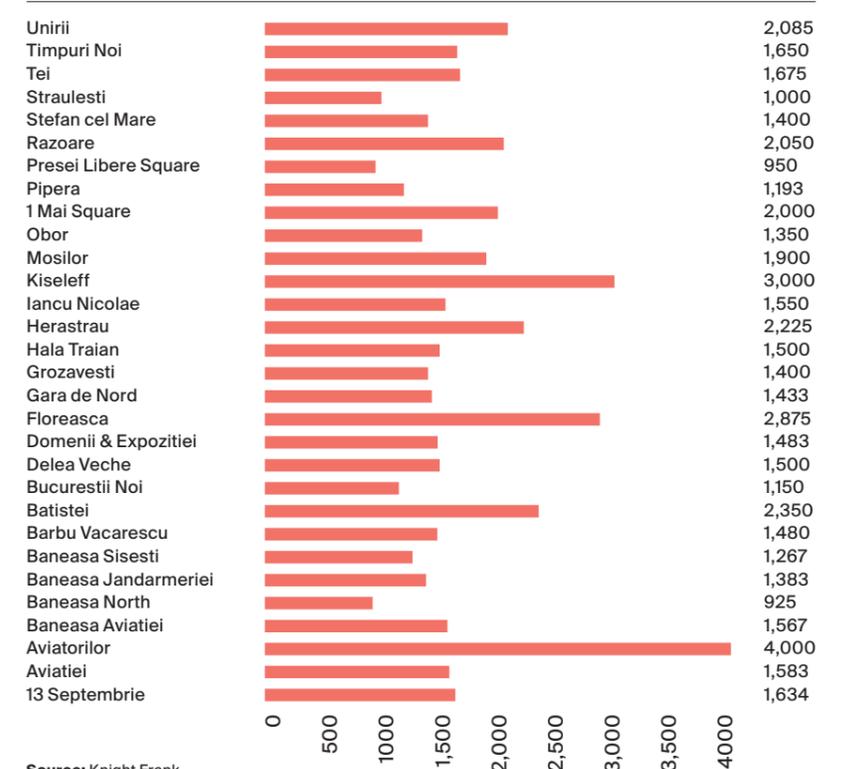
After reaching 1.6% in the last quarter of 2018 and 0.8% in the first three months of 2019, prices growth rate for residential property in Romania halved to 0.4% in the second quarter of this year. In the same time, the annual price growth rate decelerated to 3.5% in Q2 2019, down from 4.6% in the previous quarter.

Lessons learned from 2008?

A sure thing is the fact that prices on residential and commercial sectors haven't exploded like they did ten years ago, and Bucharest's market seems to remain the most balanced, while Cluj-Napoca rather lost its way on housing market where rents and sales prices are higher than Bucharest.

Beyond the state's weak administrative capacity, Romania should continue to grow, as it still benefits from one of the biggest differences in labour productivity and labour costs in Eastern Europe. Internal migration will be another important factor in real estate market trends: the population of cities such as Cluj-Napoca, Timisoara, Iasi, Brasov or Sibiu should increase significantly in the coming years.

MEDIUM PRICE/BUILD SQ M H1 2019 (€)



Source: Knight Frank

PROJECT MANAGEMENT

THE FUTURE OF OFFICES: WHY HOTELS ARE THE UNLIKELY INSPIRATION FOR MODERN OFFICE SPACES

Michael Lewis

Head of Property Asset Management

offers his insight into space as a service. Landlords and corporate occupiers are increasingly aware of the changing needs of modern workers and he says the hospitality industry is the sector to turn to for inspiration.

PROVIDING A BETTER SERVICE FOR MODERN WORKERS

Imagine receiving a warm welcome from the reception staff, taking a refreshing shower shortly after your gym workout and then having your dry cleaning delivered to you all in the comfort of your place of work. Sounds more like a hotel, right?

But, perhaps it could be a new way of working in modern office spaces?

Making strides in this sector is Knight Frank with a range of flexible office spaces with a service that accommodates the lifestyle needs of the modern worker.

According to the Wealth Report 2019,

“as wealthy individuals become more globally connected and more mobile, they are not only planting roots in traditional urban powerhouses but looking for a well-rounded offering.

High quality amenities and support facilitate a transient lifestyle, and so prime, super-prime and ultra-prime developments will become increasingly common – and increasingly sought after.”

In this case, should landlords and corporate occupiers do more to provide better lifestyle amenities to attract businesses to settle in their developments?

FLEXIBLE WORKING

Improvements in technology and greater access to flexible working means employees don't have to work nine to five at the office. These days, they can work in more flexible environments such as at home, in coffee shops or anywhere with WI-FI access.

So, just how should developers meet the demands of modern workers today?

ROOM FOR CHANGE

To compete in this changing environment, the real estate industry should find new ways to adapt its office spaces. Inspiration can be found in coffee shops, hotels and leisure destinations that are highly successful at attracting people and keeping them there.

If spaces are becoming more popular based on the services they provide, then offices must evolve to be more like hotels in the level of service that they provide. Workers and tenants should be treated as 'guests' who can easily choose an alternative location to spend their time, meet and do business.

More importantly, property operators must also attract new talent from the hospitality sector to meet the new expectations of occupiers and their staff.

Workers have to come to expect a certain level of service from their place of work. On-site amenities such as coffee-making facilities, a friendly reception team, dry cleaning facilities, showers and bike storage are just some of the perks that attract employees to a particular company.

Workers and productivity
Wellness initiatives are also becoming popular with flexible offices. Some co-working operators, for example, offers 'craft on draft' and 'puppy therapy' at its spaces to appeal to the employees of fast-growing SMEs and start-ups.

Employers want their staff to work from dynamic, exciting spaces where they feel welcome, productive, happy and healthy. Property managers must evolve their approach to help landlords meet these requirements, by focusing on people and service.

There's been a boom in flexible and co-working providers in recent years, and many are now increasingly marketing themselves to corporate occupiers, competing with 'traditional' office buildings on long leases. Landlords are responding by launching their own co-working or flexible workspaces.

SHARE TRANSACTIONS AND THE VAT DEDUCTION RIGHT

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The Romanian real estate market might have a record year in 2019, with real estate transactions expected to exceed €1 billion for the first time in five years. Attracted by high yields and the sector's great potential, investors are considering everything from mergers and acquisitions, even share acquisitions, to issuing shares or contracting loans for refinancing or developing new projects. Although the European Court of Justice has provided some clarification regarding share transactions input VAT deduction by holding companies, in practice, the question of whether VAT related to expenses incurred through share transactions is deductible is not always easy to answer.

OPERATIONS WITH SHARES AS AN “ECONOMIC ACTIVITY” OR A “NON-ECONOMIC ACTIVITY”

To establish whether and how the VAT deduction right can be exercised by a

holding company, it is important to look at the nature of its activities.

Specifically, from a VAT perspective, the mere acquisition and holding of shares in other companies (defined as “pure holding”) or the issuance of new shares for the purpose of raising capital for financing the day-to-day business activity do not constitute an economic activity.

Share transactions could be qualified as economic activities, however, in certain circumstances. The CJEU decisions in cases C-4/94 BLP and C-29/08 AB SKF provide some clarity, as they established without any doubt that the sale of shares is an ongoing economic activity. Moreover, any direct or indirect involvement by a holding company in the management of its subsidiaries is also considered an economic activity, under another CJEU decision (case C-320/17 – Marle Participations SARL).

1. ACQUISITION OF SHARES TRANSACTION

A passive holding that does not carry out any economic activity could not be entitled to deduct the related input VAT on the costs related to an acquisition of shares.

The CJEU has stated an important rule, however, according to which a holding company that is actively involved in the management of its subsidiaries becomes an active holding. For such active holdings, the deduction of the VAT related to the acquisition of shares may be allowed, even if the transaction fails (according to case C-249/17 – Ryanair Ltd).

2. SALE OF SHARES

The complexity of the transaction should be analysed for a sale of shares. Depending on the specific characteristics of the transaction and whether it qualifies as economic or non-economic activity, the expenses incurred may be classified as direct costs or as overheads for the holding company, thereby triggering different VAT implications.

According to the CJEU decision stated in the Kretztechnik case (C-465/03), we can draw the conclusion that, even if a share issue is not an economic activity, but it is carried out in order to increase the company's capital for the benefit of its economic activity, the costs of the acquisitions performed should be considered part of the general expenses and, therefore, the company could benefit from the VAT deduction right.

Alternatively, if the expenses are linked to the sale of shares, they will be considered direct costs of a transaction exempt from VAT and, therefore, will not give rise to the corresponding VAT deduction.

If the expenses are treated as holding company overheads, the right to deduct the input VAT depends on the characteristics of the transactions carried out by the taxable person (i.e. VAT-taxable or VAT exempt economic activities or non-economic activities).

Although the CJEU decisions bring more clarity regarding the VAT deduction right, specific situations should be analysed on a case-by-case basis.



DO NOT STEP ON THE GRASS!

A LEGAL VIEW OVER LANDSCAPING OBLIGATIONS IN REAL ESTATE DEVELOPMENT

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Landscaping and real estate development go hand in hand. And we are not talking aesthetics here. We are referring to the legal obligations for owners to ensure green areas upon development of the real estate projects. But what happens if these requirements are not met?

GREEN AREAS IN BUILDING PERMITS

Amongst the elements included in building permits, there is an obligation for the owner to maintain or develop green areas of a certain surface upon construction of a real estate project. The mandatory green area, which is generally expressed as percentage of the total land surface on which the real estate project is built, depends on the destination and size of the construction.

Thus, according to the applicable legal provisions, green areas must occupy at least 10% of the total land plot on which an office building is constructed, 2-5% in the case of commercial buildings, 20% in the case of industrial buildings, 25% in the case of hotels or other tourism units, and 2 sq m/occupant in the case of residential buildings. Other examples of mandatory green areas include 10-15 sq m/patient or child, in the case of health centres or nurseries, or 10-20% of the total land surface in the case of cultural buildings.

SANCTIONS

Failure to meet these requirements until the reception at the completion of the construction works equals to non-fulfilment of the building requirements established under the building permit. This triggers the impossibility for the owner to obtain the required protocol for reception upon completion of the works, and hence to proceed with the lawful registration formalities of its ownership title over the building within the Land Register. This means, the building cannot be used for its

purpose, leased, encumbered, or sold. Until fulfilment, the building must be conserved and cannot be inserted into the civil circuit.

In addition, failure to develop the green areas imposed under the building permit also represents an offence under Law no. 50/1991 and can be sanctioned by fine in amount of RON 50,000 up to RON 100,000. Said sanctions may be applied by the specialised units of local and county councils, or the General Council of Bucharest, respectively.

WHAT TO EXPECT?

Regulated by a 17 years old law and a 23 years old Regulation, the Romanian urbanism legislation is far from reflecting the present market developments. The said legal framework needs to be unified and aligned with the current social, economic, urbanistic and architectural development realities.

While it goes without saying that this legislation needs a major review, such legislative measure continues to be long expected.

In this context, this year the Ministry of Regional Development and Public Administration published a draft Government Decision for the amendment and supplementing of the Government Decision 525/1996 approving the General Urban Planning Regulation. The draft Government Decision also announces the need of consolidating all normative acts that regulate urbanism and construction in Romania.

Among the changes to be introduced by the draft Government Decision there are also provisions regarding the minimum mandatory green area corresponding to certain types of buildings. For example, according to the document published by the Ministry of Regional Development and Public Administration for public debate, a maximum surface of 0.5 sq m/occupant in the case of residential buildings, out of the minimum 2 sq m/occupant, may be developed on green rooftops and green terraces.

It remains to be seen if, when and how these legal amendments will be eventually enacted. Meanwhile, it results that landscaping needs to be considered by investors from the very early stages of their real estate developments.



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