Real Estate Report

Knight Frank

Romania Market Overview

Properties of Progress

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Contents

Office Market

Supply

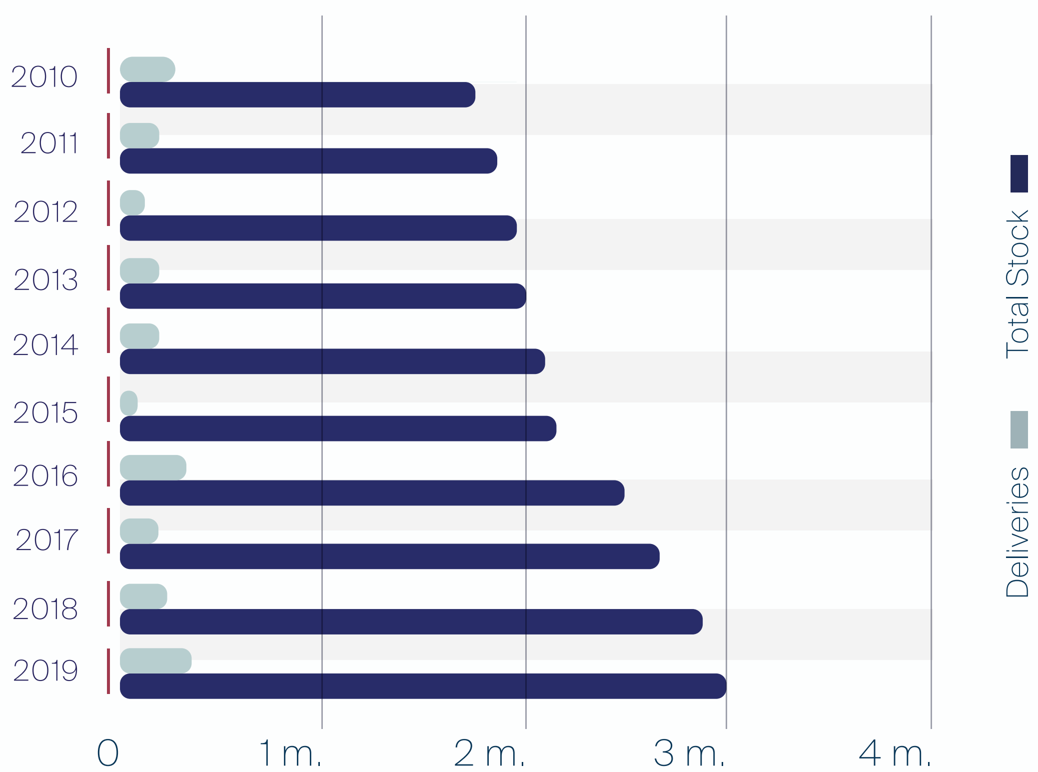
288,000 sq m

2019 saw class A and B supply reach approximately **288,000 sq m, a 80% increase compared to the year prior**, driving the stock to 3.025 million sq m.

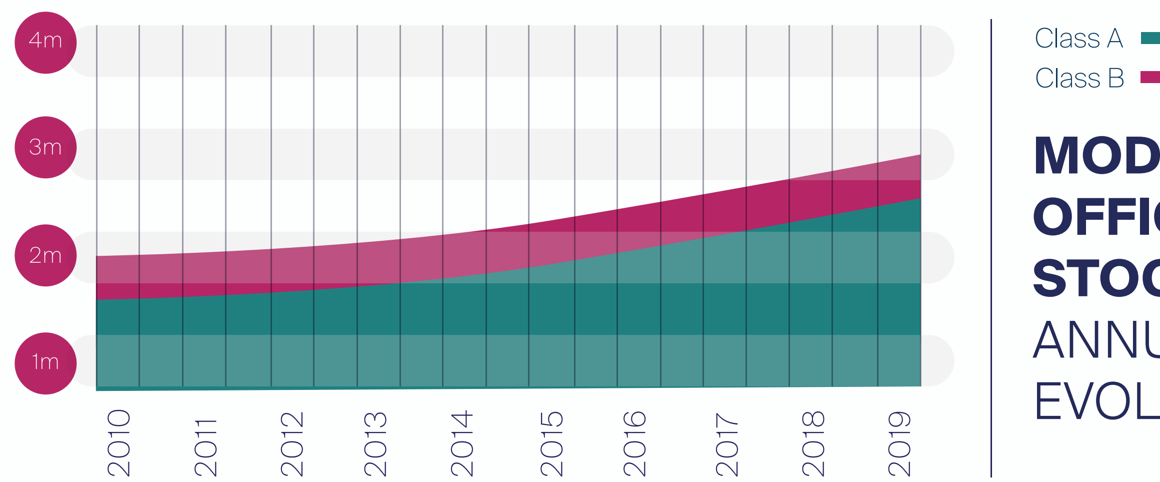
Stock

3.025 m /sq m

The submarket with **the highest modern office stock is Center West area** (495,000 sqm) followed by Calea Floreasca/Barbu Vacarescu (483,000 sq m) and Central Business District (430,000 sq m).

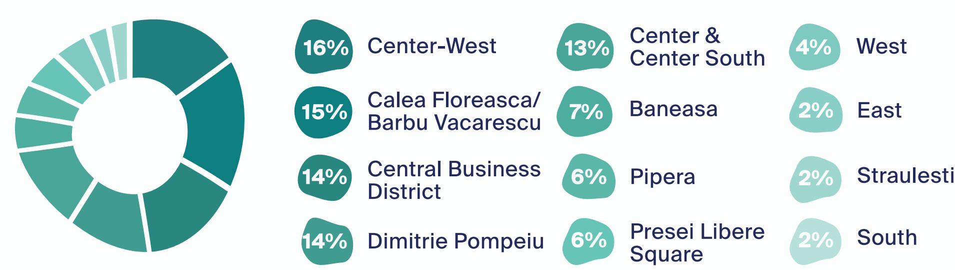


DELIVERIES VS.
TOTAL STOCK



MODERN OFFICE STOCK ANNUAL EVOLUTION

STOCK BY SUBMARKET (CLASS A&B)



Rents

18.5 EUR

Rents remained broadly unchanged during the year, **confirming the stability of the market.** Prime headline rents were reported at €18-18.50/sq m/month.

Demand

388,000 sq m

2019 witnessed a total take-up for class A and B offices of approximately 388,000 sq m, **a 20% increase** compared to the previous year and a record amount for the last 10 years. **Presei Libere Square area confirmed its new hub status by closing the year with a total take up of ~57,000 sqm**, compared to 21,000 sqm in 2018, the largest increase on the market registered in a business area in 2019. IT & Communication sector still makes up the largest share of demand, accounting for 54% of the total take-up.

DEMAND BY LEASED AREA

2019

- 47% > 5,000 sq m
- 24% 1,000 - 3,000 sq m
- 15% < 1,000 sq m
- 13% 2,000 - 5,000 sq m

DEMAND BY TYPE OF TRANSACTION

2019

- 46% Relocation and new demand
- 26% Pre-lease
- 20% Renegotiation /Renewal
- 8% Expansion

DEMAND BY NUMBER OF TRANSACTIONS

2019

- 47% > 1,000 sq m
- 24% 1,000 - 3,000 sq m
- 15% > 5,000 sq m
- 13% 3,000 - 5,000 sq m

Vacancy

10.5%

The vacancy rate for Class A and B offices witnessed a **slight increase to 10.5% from 9.5% the year prior**, due to the substantial amount of new supply delivered during 2019.

DEMAND BY TENANT ACTIVITY

2019

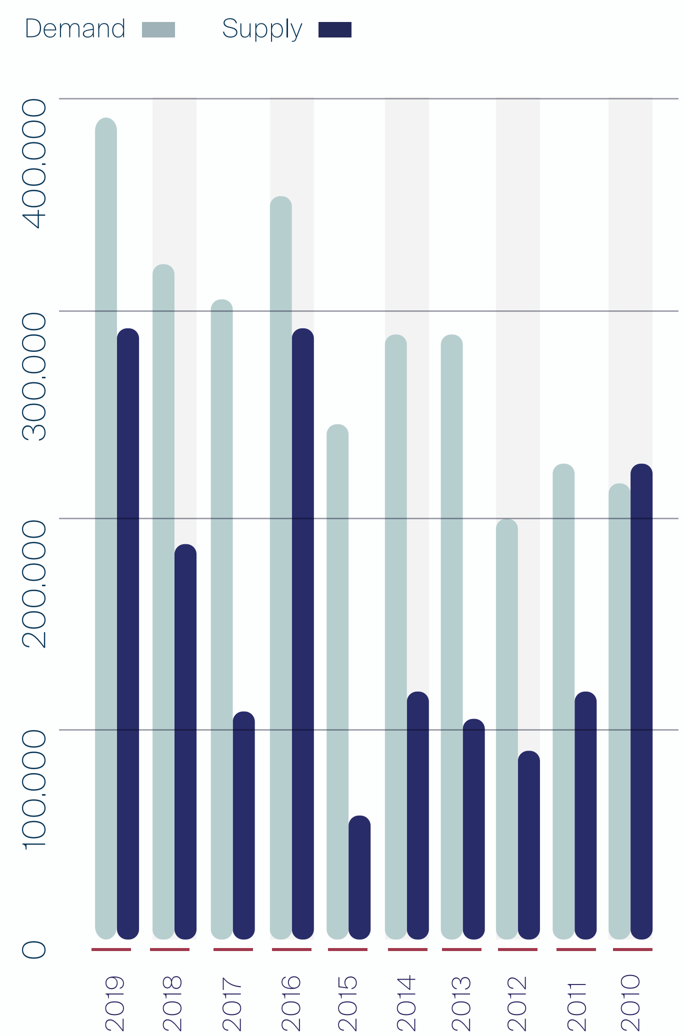
- 54% IT & Communication
- 16% Finance/Banking /Insurance
- 6% Professional services
- 5% Manufacturing /Industrial/Energy
- 4% Retail
- 4% Other
- 4% Consumer Services & Leisure
- 4% Medical & Pharma
- 2% FMCG
- 1% Construction & Real Estate

DEMAND BY SUBMARKET

2019

- 21% Center West
- 15% Presei Libere Square
- 13% Center
- 12% Dimitrie Pompeiu
- 11% CBD
- 11% Calea Floreasca /Barbu Vacarescu
- 9% West
- 6% Pipera
- 1% Baneasa
- 1% East
- 1% South

SUPPLY VS. DEMAND sq m



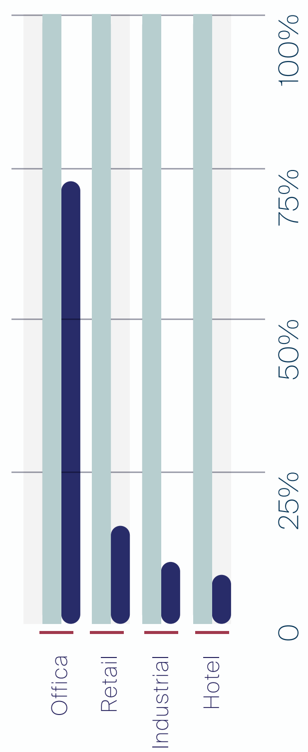
Forecast

225,000 sq m

in the next 12 months

Including schemes such as by: Globalworth Campus III (~35,000 sq m), Ana Tower (~32,000 sq m), Globalworth Square (~30,000 sq m), One Tower (~23,000 sq m), The Bridge Building C (~21,000 sq m), Campus 6.2 (~20,000 sq m), Campus 6.3 (~17,000 sq m) and Tiriac Tower (~16.500 sq m).

Transaction distribution by property type 2019



Capital Markets

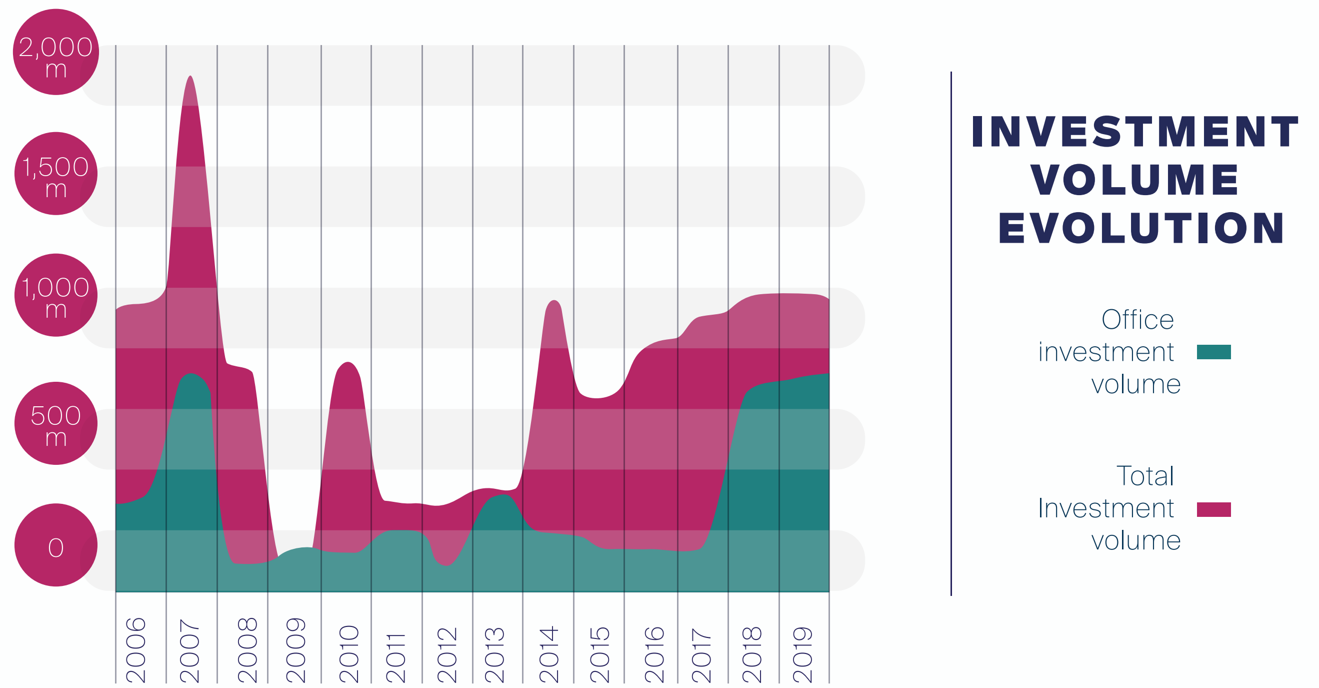
Investment volume 971 m EUR

In 2019 we witnessed a total of **EUR 971 million in transactions signed on the local market** a level which is only slightly below the volume that was reported previous year.

The record transaction that was reported on the market is the **NEPI office portfolio which was sold to AFI for an amount in excess of EUR 300 million** and due to the complex nature of the transaction the closing was postponed for the first part of 2020.

Office segment generated almost 73% of the total volume.

As in the previous year, a significant part of the investment volume was generated by the **office segment which accounted for almost 73%** of the total volume followed by the **retail segment with 15%** and the **industrial/ logistics segment with 10%**.



Yields

Downward pressure < 7%

In 2019 there was a sustained pressure on the yields reported in all segments of the market but especially in the office segment where we've seen **transactions either closed or negotiated at yields below 7%.** On the other segments, the yields have also compressed but nevertheless they remained at a very competitive level compared to other regional markets.

Forecast

in 2020 1bn eur

Judging by the existing pipeline of projects that are currently on sale on the market it is expected that in 2020 we will have at least the **same volume of transactions** with an **upside potential to exceed the EUR 1 billion threshold.**

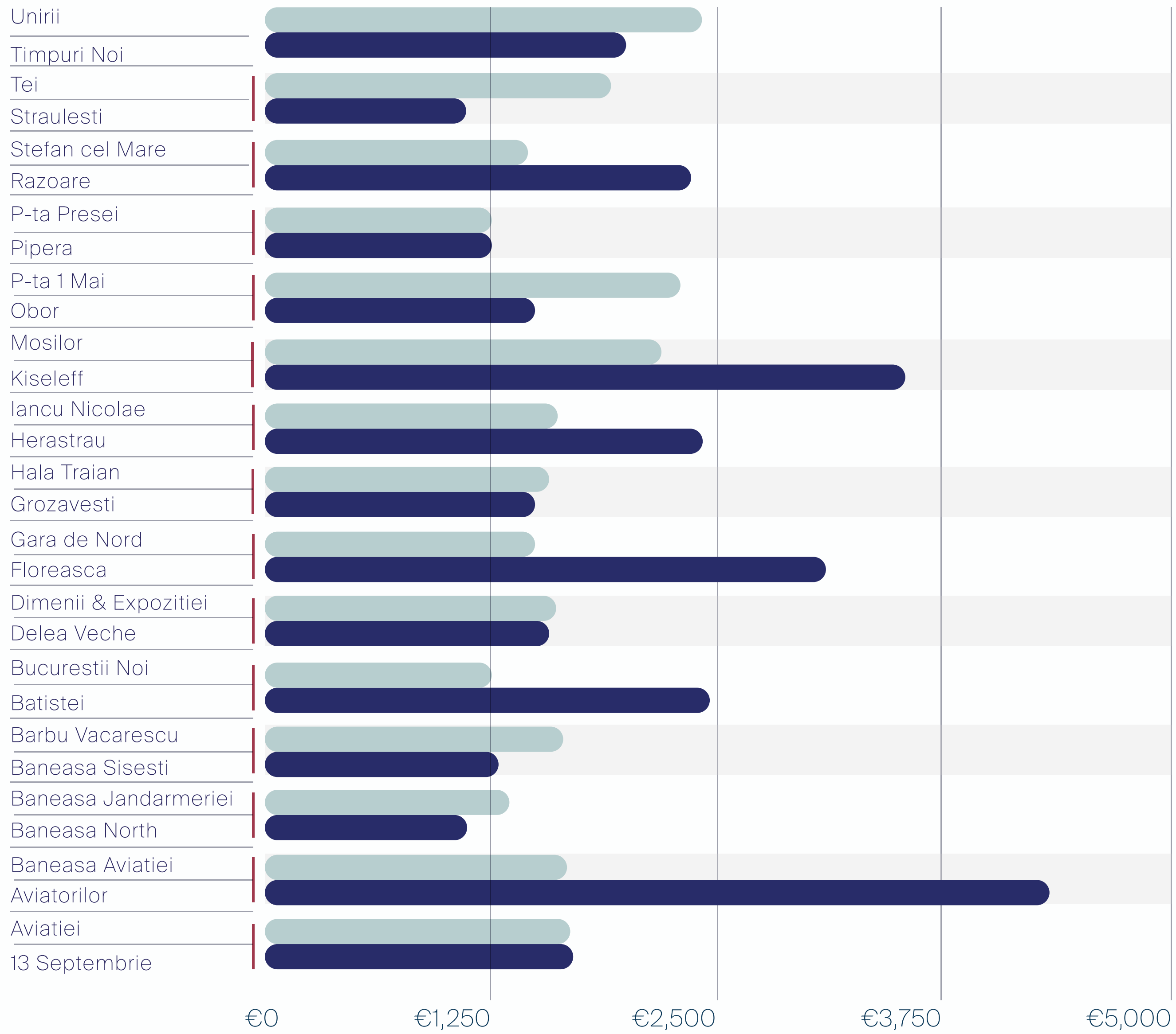
Office	Retail	Industrial
7%	6.75%	8.25%

Residential Market

Demand
29,000 apartments

On the residential market, **demand remained constant**, with aprox 29,000 apartments sold in 2019 in Bucharest, according to the National Agency for Cadastre and Real Estate Advertising. The volume of loans for housing granted to the population at national level **increased by about 10% within one year**, according to the data of the National Bank of Romania (BNR).

MEDIUM PRICE /BUILT. sq m



Supply

New homes in Bucharest **14,000**

35,000 New homes in Romania

Bucharest received almost 14,000 new homes in 2019, **with 30% more than previous year** and it's the first year when the middle market segment holds the majority share of the total housing.

Prices

The average price asked for residential properties in the Capital registered a 5.5% growth over the last 12 months, due to **the increased demand, cost of construction and inflation.** The price increase for the newly built apartments was not more than 4% while the old housing reached an increase of 7%, due to the lack of supply for the latter.

5.5%
increase on average on Bucharest market

7%
increase on average in Romania

Corporate Lettings

The workforce migration influenced the real estate lettings market. A lot of companies are offering among other incentives, relocation in the proximity of the office space for executives and not only. If 5 years ago the HR departments were only concerned on the top management relocation (CEO, CFO, COO, etc.) in exclusivist areas, in 2020 **more employees receive housing benefits in new modern flats.**

Forecast

20,000 apartments

new homes are under construction in Bucharest

New premium projects are expected to be launched in Floreasca, Barbu Vacarescu, Fabrica de Glucoza and Herastrau area.

Up-Site, the first residential project for **Atenor** in Bucharest will feature 270 apartments in two residential high-rise buildings of 12 and 25 floors, ideally located in Floreasca Area, near the highest modern office stock in Bucharest and few minutes away from Floreasca Park and Herastrau Park.

Belgian owned **Speedwell** acquired two land plots of 50,000 sqm in Jandarmeriei area which will host a state of the art residential project of ±800 apartments with studios, 1 – 3-bedroom units and private green areas.

For H2 2020, **Solid Development** announced the launch of **Nord Quartier**, a new development in Barbu Vacarescu – Fabrica de Glucoza area that brings a new standard to the residential market. With ~625 premium apartments, the developer is set to deliver the first phase by Q1-Q2 2021.

Land Market

Supply

The offer of land has been constant, in the trend of the last 3-4 years. Well-known developers are always in search of land for future projects and obviously, they want the best options in this regard, which "accumulate" as many of the strengths of a successful future project: **proximity to the subway and / or others means of public transport, proximity to a mall or an office hub.**

Demand

over **150m** EUR transactions

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

Well known developers bought new sites to secure their pipeline. **In Bucharest the area of land traded amounts to 50 ha,** the value of the transactions being estimated at 150 million euros.

LAND TRANSACTIONS (SELECTION) H2 2019

CITY	BUYER	LOCATION - AREA -	SIZE (SQ M)	USE
Bucharest	H4L	Pipera	45,000	Residential
Bucharest	London Partners	Expozitiei	28,700	Residential
Bucharest	Skanska	Bucurestii Noi	26,000	Office
Bucharest	Strabag	Casa Manu	5,000	Office
Bucharest	S+B	Doamnei	±5,000	Office

Prices

As long as there is demand, **prices will be kept at least at the same level or will experience the usual 5-10% / year growth.** However, in areas already developed and with projects delivered, we find only one or two lands available and suitable for a new project. Thus, in these areas it is normal for the price to rise even **by 30-40%** compared to the last transactions of 1-2 years ago. The areas Barbu Vacarescu-Floreasca, Grozavesti or, recently, Bucurestii Noi come to confirm this trend.

LAND PLOT PRICES BY USE Euro/sq m

OFFICE	Baru Vacarescu/ Floreasca	2,000
	Center-West	700-900
RESIDENTIAL	Prime areas	1,500-2,000
	Periphery	250-300
RETAIL	Bucharest	350-500
	Country side	100-250

Forecast

By 2020 the volume of transactions will remain constant, if it will be a more dynamic year than 2019, it will depend very much on the pace at which it will work in relation to the authorities on the approval/authorization side. Many transactions happen only after obtaining PUZ or AC for the land, at least the institutional developers pay the final price only after completing these stages. Until then, the transactions only take place at the pre-contract level.

Industrial and Logistics Market

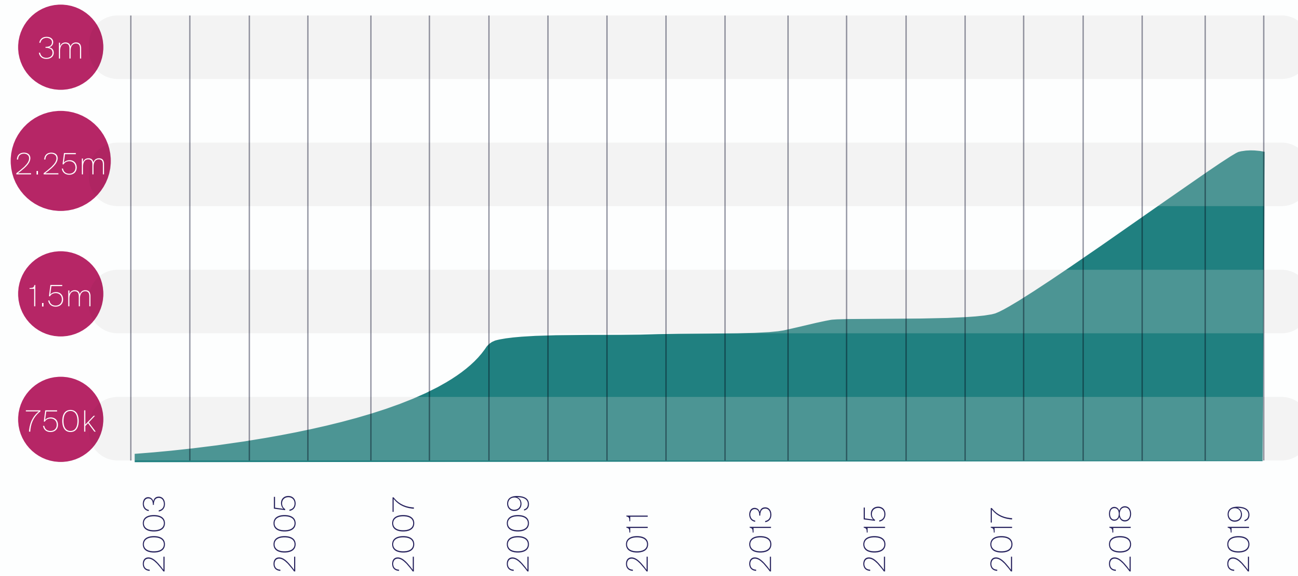
Supply
470,000 sq m

The level of deliveries in 2019 was around 470,000 sq m, bringing the **nationwide stock to nearly 4.2 million.** Around 40% of the new supply was in Bucharest.

Demand
257,000 sq m

In Bucharest, total take up in 2019 was **~257,000 sq m, while nationwide the take up reached approx. 431,000 sq m of space** absorbed, representing a small decrease of 3% compared to last year.

BUCHAREST MODERN INDUSTRIAL STOCK sq m
ANNUAL EVOLUTION



Vacancy
6%

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
4 EUR/sqm/month

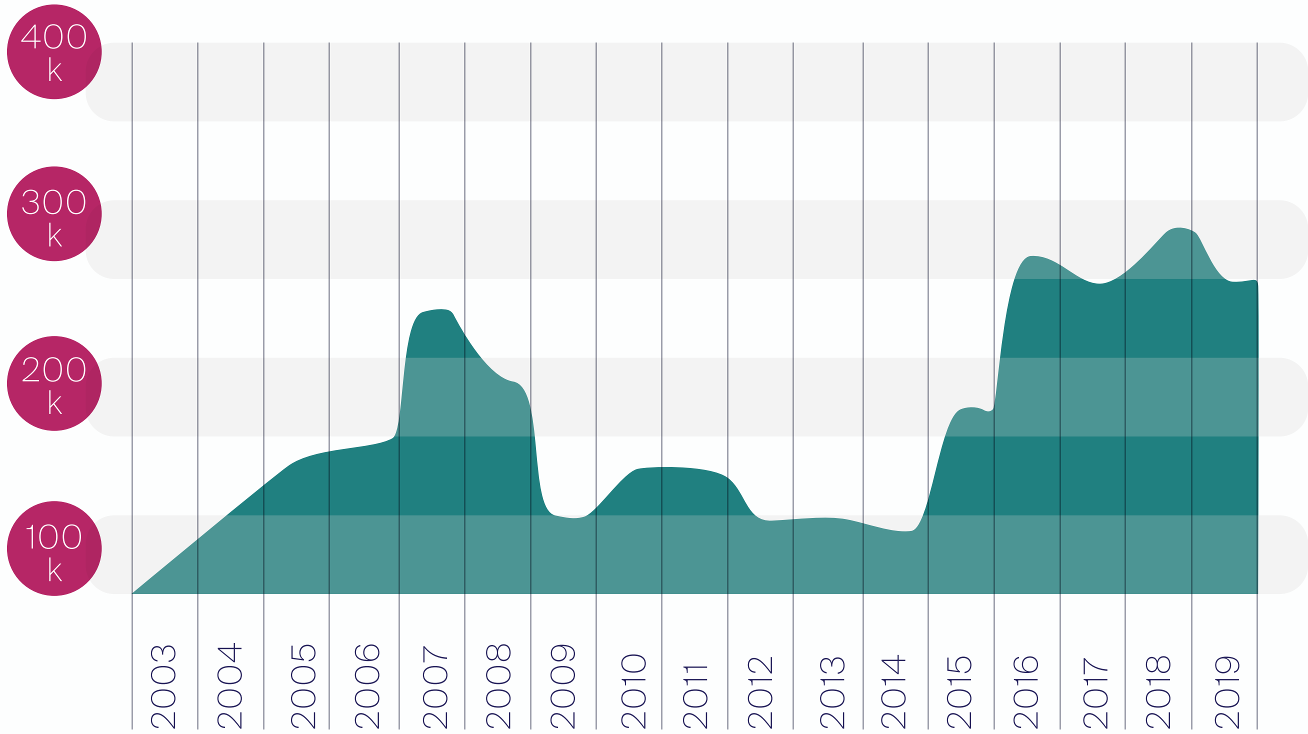
Rental levels for prime industrial and logistics space **remained stable in 2019**, both in Bucharest and in the other regions across the country.

2019
DELIVERIES
(SELECTION)

PROJECT	CITY	DEVELOPER	AREA
CTPart Bucharest I	Bucharest	CTP	40,000
Southern Industrial Park	Craiova	Zacaria	30,000
MLP	Bucharest	MLP Chitila	23,000
ELI Park I	Bucharest	Chitila	20,000
Global Vision	Timisoara	Global Vision Timisoara	20,000
VGP Sibiu	Sibiu	VGP	15,000

BUCHAREST MODERN TAKE-UP
ANNUAL EVOLUTION

sq m



A total of **65 leasing transactions were recorded nationwide in 2019** with an average lease size of 6,500 sq m and only 7 transactions were larger than 15,000 sq m.

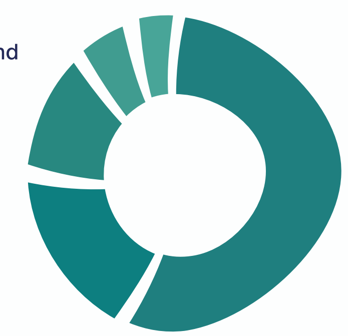
Although Bucharest accounted for 60% of total take-up, **Slatina and Oradea were the most sought-after regional locations accounting** for a further 14% and respectively 9%of the total volume.

On the whole, the main source of demand was the new demand **accounting for 56% from the total take-up.**

In terms of tenant profile, **the automotive sector was the most active,** accounting for 30% of the total demand nationwide followed by retail with 23%

TAKE-UP 2019 BY REGION

TAKE-UP 2019 TYPE OF TRANSACTION



TAKE-UP BY TENANT ACTIVITY SECTOR
ROMANIA 2019

Forecast 450,000 sq m

60% 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.

PIPELINE 2020
(SELECTION)

PROJECT	CITY	DEVELOPER	GLA (SQ M)
WDP	Bucharest	WDP Stefanesti	135,000
CTPark Bucharest I	Bucharest	CTP	120,000
WDP	Slatina	WDP	62,000
WDP	Deva	WDP	45,000
WDP	Oradea	WDP	34,000
Global Vision	Chitila	Global Vision	23,000
WDP	Paulesti	WDP	10,500
Southern Industrial Park	Craiova	Zacaria	10,000

Retail Market

Shopping Centers and High Street Market

Deliveries by type:

Supply

48%

2019 supply registered a **48% increase** compared to the year prior, adding to the stock approximately 171,000 sqm, out of which **40% were represented by extensions of existing schemes.**

Demand

11 new entries

Continuing the trend of last years, many **new entries** were also **registered in 2019**: Victoria's Secret, Topshop, Babylon Style, Atelier Cologne, Xiaomi Mi Store, Freestyle Motion, Camicissima, Falconeri, Marc O'Polo, Longines, Burger King.

Rents

Rents remained broadly unchanged during the year. Rents for prime units:

Shopping centers:
65 EUR/sqm/month.

Hight Street:
60 EUR/sqm/month

Retail Parks:
8-15 EUR/sqm/month

PROJECTS DELIEVERED in 2019

PROJECT	CITY	DEVELOPER	GLA (SQ M)	TYPE
Iulius Town	Timisoara	Iulius Group	47,000	Extension
Promenada	Sibiu	NEPI	42,000	New Project
DN 1 Balotesti	Bucharest	Prime Capital	28,000	New Project
Zalau Value Center	Zalau	Prime Capital	19,000	New Project
Shopping City Sibiu	Sibiu	NEPI	9,600	Extension
Mitiska Braila	Braila	Mitiska Prime & Square 7	7,500	New Project
Veranda	Bucharest	Prodplast Imobiliare	6,000	Extension
Shopping City Buzau	Buzau	NEPI	6,000	Extension
Mitiska Drobeta	Drobeta	Mitiska REIM	3,600	New Project
Mitiska Bacau	Bacau	Mitiska REIM	2,000	New Project

Forecast 200,000 sq m in next 12 months

The developers plan to put another **200,000 sq m on the map of the Romanian malls** in the next 12 months. Nearly 90% of the spaces scheduled to be delivered during this period of time are new projects and, with the exception of an extension (Colloseum Mall 16,500 sq m), **investments will go towards secondary and tertiary cities.**

New projects

in 2020 TO BE DELIEVERED (SELECTION)

PROJECT	CITY	DEVELOPER	GLA (SQ M)	TYPE
Afi Palace Brasov	Brasov	Afi Europe	45,000	Shopping Center
Shopping City Targu Mures	Targu Mures	NEPI	41,000	Shopping Center
Dambovita Mall	Targoviste	Prime Capital	33,000	Shopping Center
Prima Shopping Center - phase 1	Sibiu	Oasis Retail & Supernova	15,000	Retail Park
Colloseum Mall	Bucharest	Nova Imobiliare	16,500	Shopping Center
Sepsi Value Center	Sfantu Gheorghe	Prime Kapital	16,000	Retail Park
Prima Shopping Center	Timisoara	Oasis Retail & Supernova	10,000	Retail Park

"Never make predictions especially about the future"

- Casey Stengel, Author

Workplace Predictions for the New Twenties Decade

As the new decade is born, we ask ourselves what will be the transformations that we will see in our workplaces over the next ten years?

Change is often quite gradual and it is only when we look back that we see how far we have come, so before we go forward let's review the changes that have occurred over the last five decades.

Future Predictions for the Twenties

What will the future hold for us in the workplace over the next decade? Well, our Consulting team spread across Europe, with hundreds of years of workplace consulting experience between them, and backgrounds in psychology, tech, economics, finance, design and change management have come up with the following for you to consider:

Robot assistants will be in attendance in meeting spaces to take notes, manage the AV, and bring the coffee.

If regulation clears the way **drones** will be seen cleaning windows, maintaining the exterior of offices, providing security and delivering parcels or even pizza...

Wellbeing and **sustainability** will be fully integrated into the workplace.

Ties and formal dress wear will be back in vogue not by mandate but choice. The new generation will want to **dress smart**, whilst Gen Z execs will not understand this new crazed formal attire

Sensors and IOT will make our buildings so smart that they will be able to personalise our spaces – lighting, temperature, humidity, scent – to our individual preferences and for specific activities. Work Space will become Your Space.

Human well-being in the office is already topical but we anticipate the physical, emotional, spiritual, intellectual and social wellness will all become increasingly important in the next few years.

Wearable tech and **IOT** will become more integrated enabling all sorts of unimaginable connections in the office –back sensors will alert you to correct your body posture, hydration wearables when you need water, ear 'buds' will enable you to tune into conference calls, music or even translate colleagues foreign language jokes so they will no longer be lost in translation.

Office buildings will have **large battery cells** in the basement which will be charged up overnight and power buildings by the day, smoothing the peaks and troughs of energy demand, enabling greater reliance on renewables and dramatically reducing the reliance on fossil fuels.

The rise of plants and **biophilic design** will surge as employees will not be as easy to convince that working in buildings, away from nature and often away from natural light is not harmful to their physical and mental state.

Employees will want to be focused on **meaningfulness** and **causes**, not just reward and applause.

- ***Diana Roșu***, *tax senior manager PwC*
- ***Ioana Rusu***, *tax senior consultant PwC*

A sneak peek into Romania's 2020 tax certainties

Real estate investors will need to mind not only doing their business, but also being increasingly wary of how their cross- border transactions are taxed not only in Romania, but also abroad.

2020 is yet another prolific year from a tax transparency standpoint, as the European wave reached the Romanian borders and **new legislation has been enacted to create a fairer environment for businesses.** Such a dynamic Romanian tax environment sparks a shift in requirements for real estate investors. The tax function in their companies and groups of companies must become as important as the strategic management decisions, so that the business may remain attractive while adapting to the recent regulations.

This is a brief insight into some of the latest European proposed measures, that were recently fully implemented into the Romanian domestic law and whose provision will enable investors to streamline their business modus operandi.

Hybrid devices may turn into transaction deal breakers

As of 31th of January 2020, Romania ransposed nto its Tax Code the provisions of another EU directive, called the Anti-Tax Avoidance Directive II (ATAD II). If country officials and business men were concerned 100 years ago that cross-border investments could be deterred by multiplied taxation of the same contract in each country where the business expanded, the main concern today is double or multiple non-taxation of the same business flow.

Thus, this new Directive addresses cases in which, due to conflicting tax rules between EU Member States and third countries, the so-called "hybrid devices", the same payment is deducted twice for tax purposes, or is deducted by the payer in one jurisdiction and not taxed by the recipient in the other. Such tax disparities involving a Romanian investor will be settled based on two different rules, which have a preestablished hierarchy.

According to the primary rule, the payment will not be tax deductible for the payer jurisdiction and pursuant to the linked secondary rule, where the payment is deductible in the payer jurisdiction, the corresponding amount will be included in the net income of the payee jurisdiction, and thus taxed.

For example, a typical real estate investor located in Romania may contract long-term financing from its sole shareholder in Ireland, for real estate development purposes. There are certain types of long-term loans, which are recognized by the Irish legislation as equity contributions, whereas the financing would qualify as mere debt under the Romanian legislation of the beneficiary. In these circumstances, the Romanian investor would pay and deduct interest expenses, while the Irish creditor would receive dividend income that may qualify easily as non-taxable in Ireland. The corrective measure introduced by ATAD II consists in either denying the interest deduction in Romania or allowing the deduction only if the Irish creditor taxes the income in Ireland.

Our key message is that real estate investors will need to mind not only doing their business, but also being increasingly wary of how their cross-border transactions are taxed not only in Romania, but also abroad. This may translate into buying / selling assets, rather than companies, as companies may carry historical tax burdens that may be transferred to new owners, or even into providing comprehensive, objective and verifiable information of their EU and non-EU arrangements to the Romanian tax authorities in order to defend their tax position in Romania.

A new layer of transparency added to cross-border transactions: Come clean, or else!

The implementation of DAC6 into domestic law is, as of 31th of January 2020 a fact. Indeed, the Government's Ordinance for the amendment and the completion of the Law no. 207/2015 regarding the Procedural Fiscal Code has been published.

The new legislation's provisions are closely aligned with DAC6 Directive's scope, hallmarks and reporting requirements. DAC6 means automatic exchange of tax information regarding cross-border transactions. Although not specifically mentioned in the new legislation, the taxes covered are direct taxes (i.e. VAT, customs duties and excise duties are excluded). Furthermore, it refers only to cross-border arrangements, the domestic ones being left outside the scope of this legislation.

DAC6 should be read in conjunction with ATAD II, aiming to enhance transparency (for investors and for tax authorities) and to prevent and counter cross-border aggressive tax planning.

The main takeaway is that this second directive mandates intermediaries (accountants, advisors, lawyers in some cases) and even company directors to disclose some of their cross-border arrangements to the Romanian tax authorities if it turns out that such arrangements decrease or even neutralize the tax bill of the investor.

There are two deadlines to be remembered:

1st July, 2020

This is the start date when eligible **cross-border arrangements** become **reportable to the tax authorities.**

31th August 2020

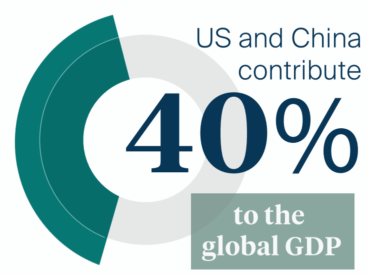
This is the last day when reportable arrangements carried between **25 June 2018 and 30 June 2020** should be disclosed.

To avoid being subject to **penalties of up to RON 100,000** (cca. EUR 20,000) and reputational risks, all real estate investors should **asses the framework of their transactions and implement effective controls in identifying and disclosing reportable arrangements.** The Romanian officials are working on designing practical guidance to help investors interpret how the new legislation applies. Stay tuned!

BANCA TRANSILVANIA®

2020 – the year of fiscal consolidation in Romania

dr. Andrei Radulescu
Director Analiza Macroeconomica



"In 2019 the global economy continued to be confronted with the trade tensions between US and China."

The economic year 2019 was dominated by the US-China trade negotiations, the implementation of expansionary monetary policies across the main economies and the widening gap between the positive climate on the financial markets and the slowing-down of the growth pace of the real economy.

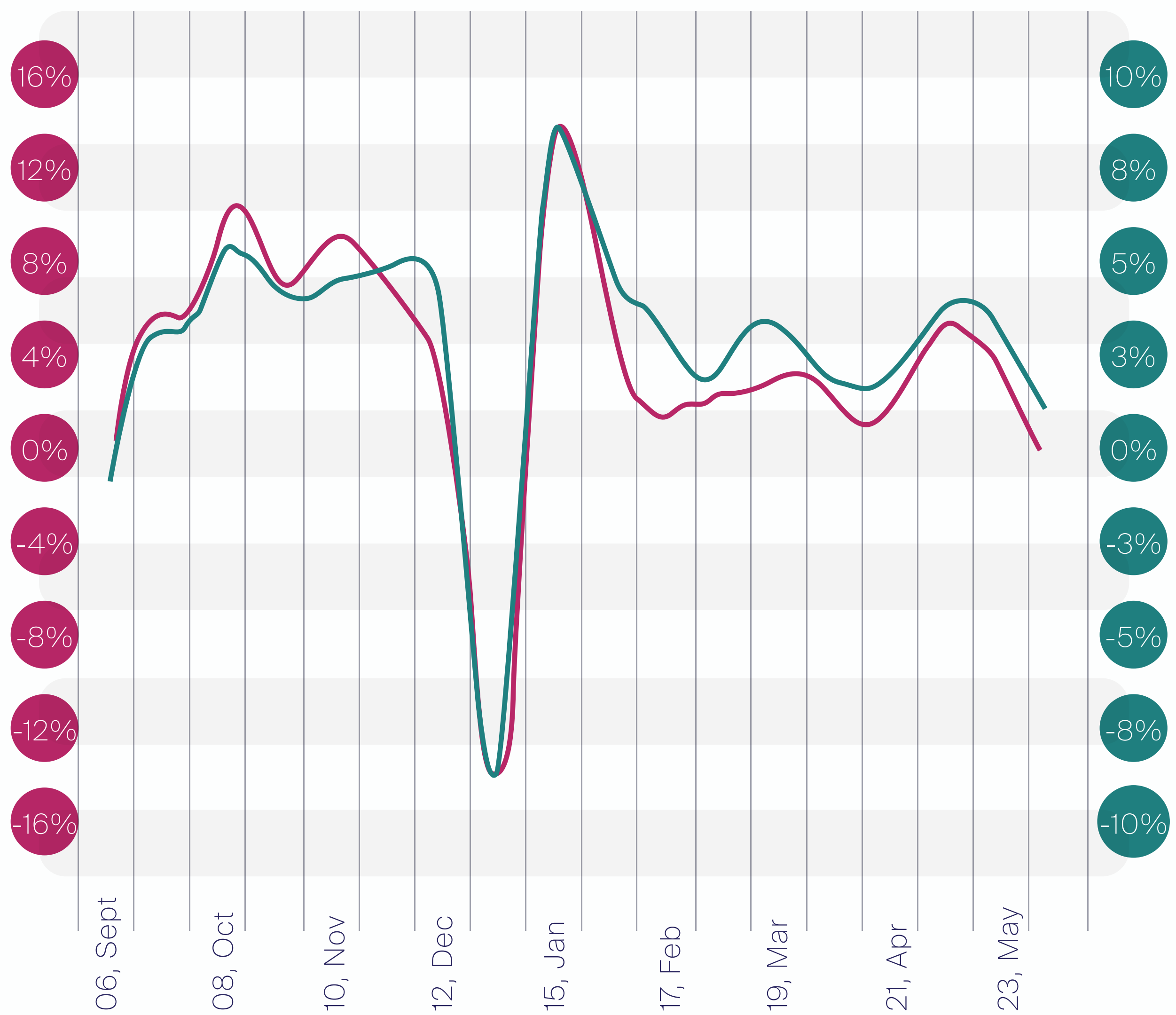
From the nominal perspective in 2019 the GDP of China outpaced the GDP of Euro Zone, a region considered as the equilibrium point of an unbalanced world over the past decades.

In 2019 the global economy continued to be confronted with the trade tensions between US and China (these economies contribute by around 40% to the global GDP). The contraction of the international trade by 0.5% YoY during January-October 2019 had a negative impact for the global industrial production (up by only 0.8% YoY).

Furthermore, the dynamics of the services sector decelerated in 2019, due to the deterioration of the investment climate, partially counterbalanced by the positive momentum on the labour markets and the continuity of the Digital Revolution.

Figure 1. **Global trade vs. industrial production**
Source: *Bloomberg*

International trade (MA12, %, YoY)
Industrial production (MA12, %, YoY) (rhs)



However, the global economic climate started to improve at the end of 2019, as US and China reached a trade deal, while the financial markets continued the upward trend.

According to the winter forecasts of the International Monetary Fund the growth pace of the global economy would gradually improve, from 2.9% in 2019 (the lowest since 2009) to 3.3% in 2020 and 3.4% in 2021.

In US the economic indicators have recently presented positive dynamics (after the GDP decelerated to 2.3% YoY during 9M2019), expressing acceleration prospects in the short-run, supported by the expansionary policy-mix and the trade agreement with China.

The leading indicators have also recently improved in the Euro Zone, signalling the acceleration of the economy after several quarters with negative output gap.

In China the YoY growth pace decelerated from 6.6% in 2018 to 6.1% in 2019 (the lowest since 1990).

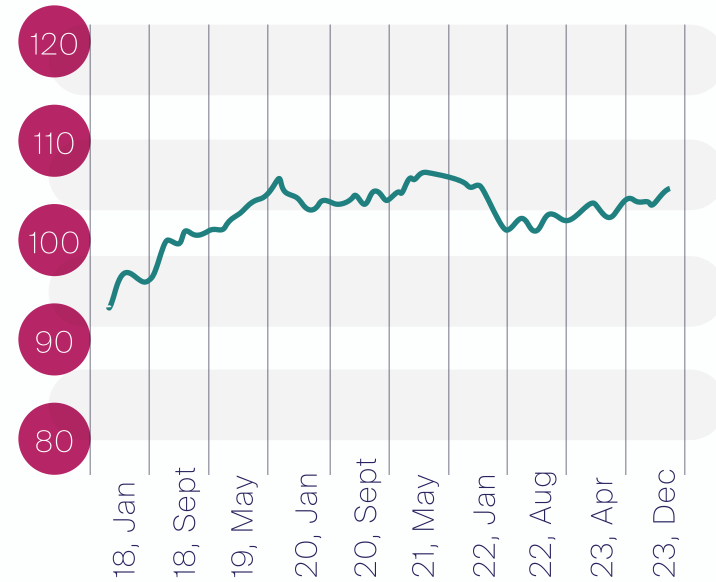
The economic confidence in Romania increased in December towards the highest level since September 2017, an evolution expressing acceleration prospects at the beginning of 2020, after the GDP advanced by only 3% YoY in 3Q2019.

The climate on the global financial markets continued to improve at the beginning of 2020, despite the geo-political tensions in Middle East, an evolution supported by the expansionary policy-mix in US, China and Euroland and the earnings season (4Q 2019).

During January-September 2019 the Romanian GDP advanced by 4% YoY, due to the contribution of the domestic demand, supported by the expansionary policy-mix.

There can be noticed the increase of the gross fixed capital formation by 18.9% YoY (after contracting by 1.2% YoY in 2018), with positive impact for the dynamics of the economy in the mid-run.

Figure 2. **Economic confidence** in Romania
Source: *European Commission*



At the same time, the household consumption rose by 5.4% YoY, an evolution supported by the increase of the real disposable income and the affordable level of the real financing costs.

Furthermore, the collective component of the public consumption increased by 10.5% YoY during 9M2019, due to the implementation of pro-cyclical fiscal and income policies.

On the other hand, the net foreign demand had a negative contribution to the YoY dynamics of the GDP during 9M2019, as the imports advanced by 7.6% YoY, while the exports rose by only 3.6% YoY.

From the supply-side perspective there can be noticed the increase of the constructions by 16.4% YoY and of the IT&C by 8.9% YoY during January-September 2019.

However, the primary sector and the industry adjusted by 4.1% YoY and 1% YoY during 9M2019.

According to our recently revised macroeconomic scenario the growth pace of the Romanian economy would decelerate from 4.4% YoY in 2018 to 4.1% YoY in 2019 and 3.6% YoY in 2020, due to the expected rebalancing of the policy-mix through fiscal consolidation (needed after the budget deficit/GDP ratio breached the 3% limit established by the Stability and Growth Pact).

In this scenario the YoY dynamics of the fixed investments would slow-down from 9.5% in 2019 to 4.7% in 2020, while the growth pace of the private consumption may decelerate from 5.7% in 2019 to 4.8% in 2020.

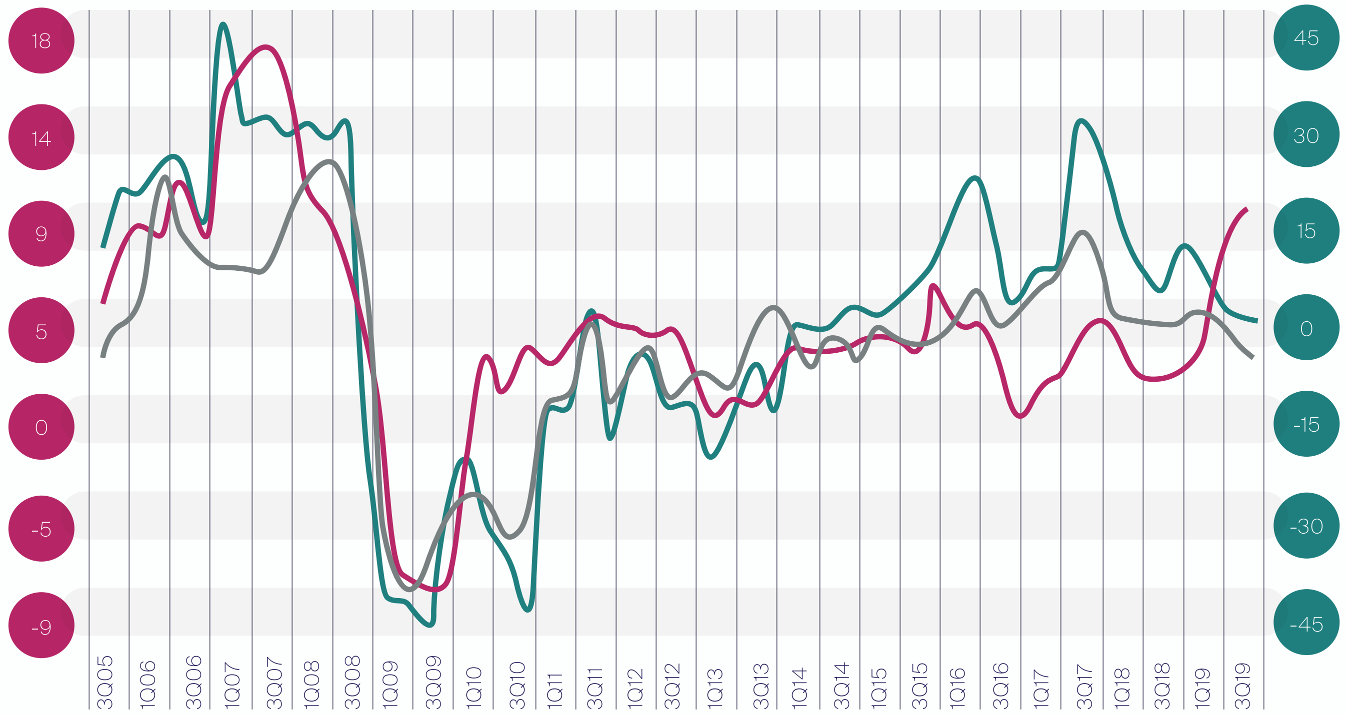
For the public consumption we forecast an acceleration from 2.1% YoY in 2018 to 3.7% YoY in 2019, followed by a slowing-down to 1.8% YoY in 2020.

On the other hand, we expect an improvement of the contribution of the net foreign demand to the growth pace of the economy in 2020, as the exports may accelerate (from 3.6% YoY to 5.5% YoY), while the imports would decelerate (from 8.3% YoY to 6.9% YoY), an evolution also influenced by the depreciation of the RON real effective exchange rate.

In our scenario the Romanian economy would increase by 4.1% YoY in 2021, through the acceleration of the fixed investments (5.5% YoY), with spill-over impact. The public consumption and the private consumption may advance by 1.8% YoY and 5% YoY, respectively.

Figure 3. **GDP, private consumption and fixed investments** in Romania
Source: *Statistics Office, Eurostat*

Fixed investments (%, YoY) (rhs)
Private consumption (%, YoY)
GDP (%, YoY)



Last, but not least, the exports and the imports may increase by 6.6% YoY and 7.2% YoY in 2021.

As regards the financial side of the economy the average annual inflation (on HICP basis) would decelerate from 3.9% in 2019 to 2.9% in 2020 but may accelerate to 3.3% in 2021.

For the monetary policy of the National Bank of Romania (NBR) we expect a consolidation in the following quarters, given the domestic factors (the gradual convergence of inflation towards the target and the forecasted negative output gap in 2020) and foreign outlook (continuity of the expansionary approach in US, Euro Area and the region).

However, the central bank would continue to be very active on MM and FX markets in the short-run in our view, especially if the global risk perception intensifies, given the domestic challenges in terms of macroeconomic equilibria (the high level of the twin deficits).

For the yield on 10YR Bonds (a benchmark for the financing costs in the economy) we forecast a decline of the average annual level from 4.5% in 2019 to 4.4% in 2020 and 4.2% in 2021.

As regards the EUR/RON we expect the continuity of the upward trend in the mid-run: the average annual level would increase from 4.75 in 2019 to 4.83 in 2020 and 4.87 in 2021.

Among the risk factors for the dynamics of the Romanian economy in the short-run we mention: the climate on the international financial markets, with impact for the capital flows addressed to emerging countries; the trade and geo-political tensions in the global economy; Brexit; the economic policy-mix in an electoral context in Romania; the regional climate.

schonherr

Unpermitted construction works no longer make title registration impossible

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The year 2020 brings new legal developments in the Romanian construction sector, clarifying certain practical aspects regarding unpermitted construction works. Introduced by Law no. 7/2020 amending Law no. 50/1991, these measures streamline the possibility for an owner to register title (in the land book) over buildings erected without a building permit. The changes impact unpermitted new buildings, as well as unpermitted construction works aimed at consolidating, modifying, extending, or rehabilitating existing buildings, for which a building permit is mandatory.

Before

The previous legislation set out a specific procedure for owners to restore compliance with the legal provisions (intrarea în legalitate) in the case of buildings that were built or altered without a building permit.

If the building complied with zoning regulations, the relevant public authority would issue a building permit, hence restoring compliance. The issuance of such building permit called for a series of legal requirements to be met, and was also based on the conclusions of a technical report ascertaining whether the current applicable fundamental requirements of quality in constructions had been complied with.

Unless this procedure was strictly adhered to and the requirements fulfilled, the owners of buildings subject to unpermitted construction works were not allowed to register their title with the land book, hence making it impossible for them to exploit it by way of leasing, alienating, or encumbrance.

What's new

The owners of unpermitted buildings can now register their title with the land book, based merely on an ascertaining certificate for construction works issued by the relevant public authority.

To obtain such certificate, the following conditions must be met: (i) the three-year statute of limitations is fulfilled; (ii) a technical report is obtained ascertaining the compliance of the building with the applicable fundamental requirements regarding the quality in constructions, including compliance with the approved zoning regulations.

The relevant authority shall only issue the ascertaining certificate if the technical report emphasises the building's compliance with the fundamental requirements and those regarding zoning regulations. Should the authority refuse to issue the new building permit, the owner's options include starting the demolish of the building in question or appealing such refusal with the competent administrative court.

The new law does not expressly indicate what evidence can be used to prove that the limitation period has lapsed. A set of examples in the law or in jurisprudence would have been useful. Until such clarifications are available, the practice of the authorities and of the courts may vary as there is considerable scope for subjective interpretation.

Outlook

These legal developments are in line with the ones introduced in November 2019 through Law 193/2019 and are part of a strategy aimed at incentivising the development of the Romanian construction sector.

Now that the previously cumbersome process for restoring compliance with the legal provisions has been simplified, we anticipate that the new rules will encourage the owners of buildings erected/modernised without a building permit to register their title with the land book, which in turn will provide the benefit of all rights and privileges of full ownership over such buildings.

Moreover, this new piece of legislation is a constructive solution to the deadlock generated in the last years, which had left owners very few options in the case of unregistered buildings.

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