Real Estate Report

Romania Market Overview

2020 - 2021
Inside -Out

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Contents

Positive *prospects*

for the economic year 2021

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The recent macro-financial developments (global, European, and domestic) point out the entry of the real economy into the post-pandemic cycle, an evolution supported by the launch of the vaccination campaign and by the implementation of an unprecedented expansionary policy-mix.

THE DYNAMICS OF THE
GLOBAL PMI INDICATORS

According to the PMI Composite indicator the world economy increased for the sixth month in a row in December, as the persistence of the health crisis was counterbalanced by the unprecedented expansionary policy-mix.

There can be noticed the advance of the manufacturing (the engine of the economy), an evolution confirming the entry into a new cycle. On the other hand, the services decelerated in December, due to the persistence of the pandemic in Europe and North America. The recent developments of the global PMI indicators are represented in the following figure.

Sources:
Markit Economics and Bloomberg

The USA economy (the largest of the world) increased for the seventh month in a row in December, with an accelerating pace, according to the ISM (Institute for Supply Management) indicators, an evolution supported by the optimism induced by the start of the vaccination campaign and by the policy-mix prospects (the implementation of additional stimulus, as signalled by the incoming Biden Administration).

On the other hand, the economy of Euroland (the main economic partner of Romania) contracted in December, according to the dynamic of the PMI indicators. This evolution was determined by the adjustment of the services sector, due to the restrictions implemented to counter the persistence of the pandemic.

However, there can be noticed the increase of the Chinese GDP (the second largest economy of the world) by 2.3% YoY in 2020, slowing down from 6.1% YoY in 2019, the slowest pace since 1976.

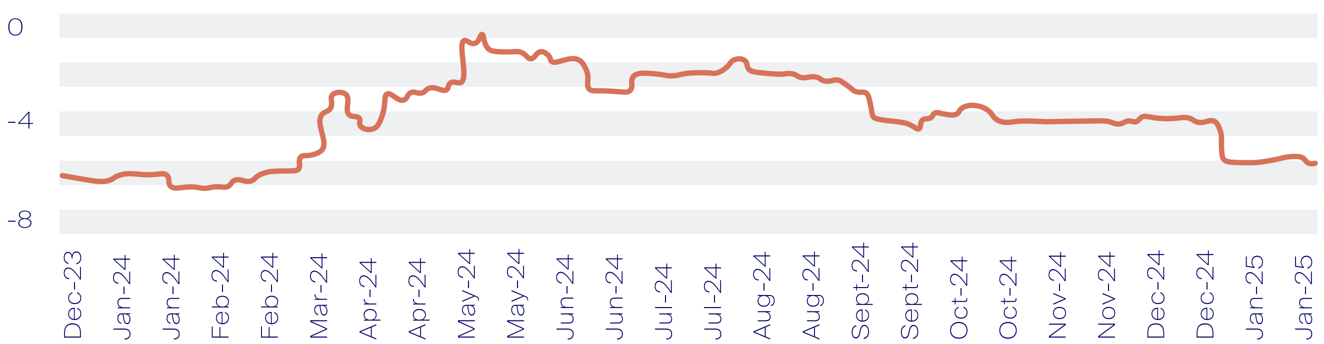
In Romania the economic confidence and the risk perception improved at the end of 2020 and at beginning of 2021, as can be noticed from the following graph (representing the dynamic of the CDS indicator for the 5 YR maturity).

THE YOY DYNAMICS OF **THE GDP IN CHINA** %

Sources: *Bloomberg*

5 YR **CDS ROMANIA**

Sources: *Bloomberg*

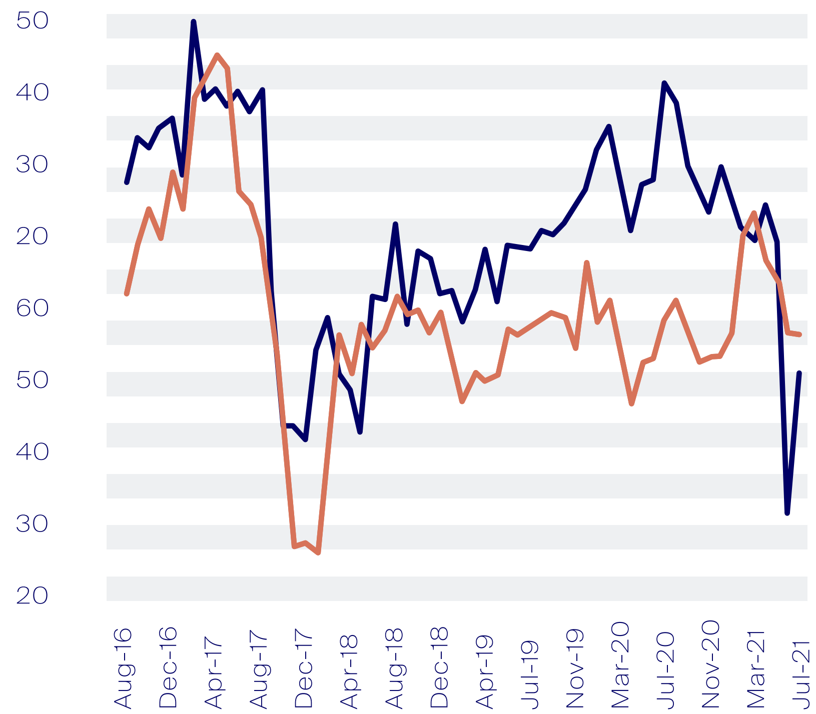


The positive climate on the international financial markets has recently consolidated (the stock indices at record high levels in USA and Germany), evolutions that express positive prospects for the dynamics of the real economy in the coming quarters. We underline the fact that the volume of the IPOs hit record high level in 2020, as the incidence of the pandemic and the consequences of this exogenous shock were counterbalanced by the implementation of an unprecedented expansionary policy-mix.

In Romania the economy declined by 5% YoY during January-September 2020, a better evolution compared with that of Euroland (decline by over 7% YoY). We underline the fact that Romania was the only one country of the European Union reporting a positive YoY pace for the gross fixed capital formation in 1Q, 2Q and 3Q of 2020. This evolution expresses positive prospects for the quick transition from the post-crisis cycle towards a new cycle.

DYNAMICS THE GROSS FIXED **CAPITAL FORMATION AND PRIVATE CONSUMPTION IN ROMANIA**

Sources: *Bloomberg*



According to the core macroeconomic scenario of Banca Transilvania (recently updated) the Romanian economy may increase by an average annual pace of 2.5% during 2020-2022. In this scenario the adjustment during 2020 (determined by the outbreak of the pandemic and its consequences) would be counterbalanced by the expected strong dynamics in 2021 and 2022.

This perspective is supported by the positive prospects for the gross fixed capital formation, given the following factors: the favourable development during 2020 (despite the adjustment of the economy in the context of the pandemic); the persistence of the real financing costs at a low/affordable level; the implementation of the programs launched by European Union in 2020 (including the Next Generation and the multiannual financial framework 2021-2027).

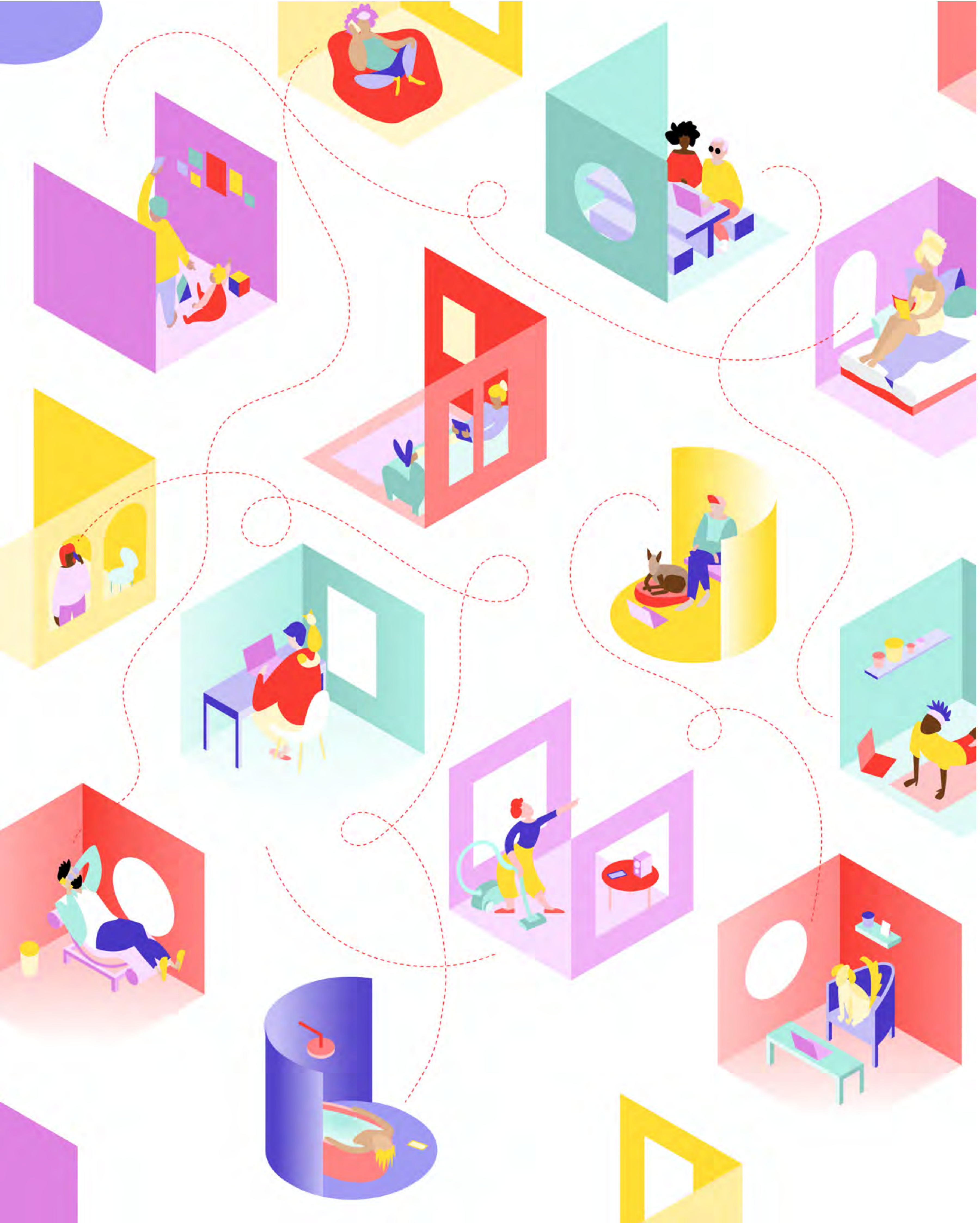
We forecast the increase of the gross fixed capital formation by an average annual pace above 6% during 2020-2022, with spill-over impact for the other components of the GDP.

As regards the private consumption (the main component of the GDP) we forecast an increase by an average annual pace of 2.1% during 2020-2022, an evolution supported by the prospects for the policy-mix to maintain accommodative.

For the public consumption our forecasts point to an increase by an average annual pace of 4.5% during 2020-2022, given the prospects for the implementation of the EU programs.

In terms of the financial side of the economy we forecast an evolution of the average annual inflation (HICP basis) within the target of the National Bank of Romania (NBR) in the coming quarters. In this context, we expect the central bank to maintain the accommodative approach.

Last, but not least, we forecast the convergence of the financing costs towards the levels in the Eurozone and the gradual appreciation of the EUR/RON from the mid-run perspective.



In our view the main risks for the evolution of the Romanian economy in the coming quarters are: the global/European/regional macro-financial climate, with impact for the allocation of flows towards the emerging markets; the dynamics of the health crisis and the speed of vaccination campaign; the domestic policy-mix; the geo-political climate.

We underline that the outbreak of the pandemic pointed out the development and transformation opportunities, at global, European, and domestic levels.

For instance, Romanian economy presented an evolution around potential when the pandemic hit the country, but with twin deficits and a low manoeuvre room in terms of policy-mix.

On the other hand, the Romanian economy was endowed with domestic resources (human, Digital and financial) when the pandemic hit the economy, a better stance compared with other shocks (especially endogenous).

Immediately after the outbreak of the pandemic the policymakers implemented aggressive expansionary measures, to counter the impact of the health crisis, despite the low level of the manoeuvre room. This was possible due to the change of paradigm in terms of public finance and to the unprecedented expansionary monetary policies implemented by the Federal Reserve in USA and European Central Bank in Euroland and the programs launched by the European Union in the context of the health crisis.

Consequently, Romanian economy presented a better performance at least compared with the dynamics across the Euroland (the main economic partner). Furthermore, the gross fixed capital formation continued to increase YoY in 2Q2020, the quarter with the toughest adjustment of the real economy since the beginning of the 1990s.

In other words, the productive basis of the economy was not hardly hit by the incidence of the pandemic and its consequences.

Last, but not least, we underline the increasing probability for Romania to launch the negotiations to join the OECD (Organisation for Economic Cooperation and Development) in 2021.

We point out that Romania is the favourite on the European continent to join the OECD, a process mainly dependent on the accomplishment of several fundamental criteria, such as: the democratic society, the respect of the rule of Law and of the human rights; the market economy status, with a high level of openness and transparency.

In this context, we underline that in 2019 GDP/capita in Romania represented 65.6% of the level in Eurozone and 69.5% of the OECD level.

On the other hand, we mention the challenges for the sustainable economic development and convergence processes of Romania: the incorporation of the Digital Revolution, the increase of the R&D allocations and the improvement of the tertiary education indicators.

Bucharest Office Market

Demand

sq m 237,500

2020 witnessed a total take-up for class A and B offices of approximately 237,500 sq m, representing only 60% from the amount transacted the year before. 162 transactions were signed in 2020, compared to 232 in 2019.

Larger transactions of over 5,000 sq m were again on top, accounting for a 35% share of the total take-up. This was followed by transactions between 1,000 sq m and 3,000 sq m with a 30% share. When looking at deals by number, the most numerous were those below 1,000 sq m, accounting for almost 60% of the total take-up, followed by transactions between 1,000 sq m and 3,000 sq m with 26%.

The most sought after submarkets in 2020 were Center-West, which saw almost 63,000 sq m of leasing activity (26% of total take up) and Dimitrie Pompeiu, where 37,000 sq m of space was leased (16% of total take up), followed closely by North-West Expozitiei area with ~32,000 sq m (14% of total take up).

Looking at transaction types, renegotiations and renewals were the most prominent drivers of tenant activity, accounting for approximately 45% of the total take-up, as many companies wanted to avoid or to reduce the relocation risks. Although in 2020 pre-leases accounted for a smaller percentage of the total, respectively 16%, it is worth mentioning that the largest pre-lease transaction is in the top 5 transactions signed in 2020, namely KPMG pre-lease of ~8,500 sqm in Miro.

IT & Communication sector still makes up the largest share of demand, accounting for 36% of the total take-up, totaling ~85,000 sqm (200,000 sqm in 2019).

Main Business **Hubs**

What a **decade we had!**

3-year cycles

200k to **250k** sq m

2010 - 2012

250k to **300k** sq m

2013 - 2015

300k to **350k** sq m

2016 - 2018

Before Covid-19

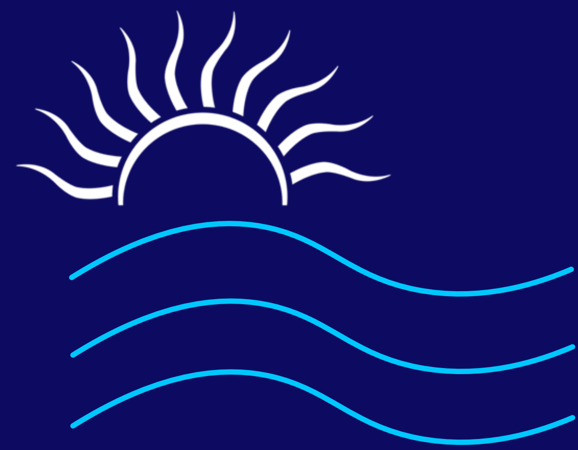
350k to **400k**

After Covid-19

350k to **237k** sq m

2019 - 2021

It is **not worse** than in the **global financial crisis!**



Supply

155,000 sq m

Recovery will be significantly shorter as now **we have the money**!

2020 saw class A and B supply reach approximately 155,000 sq m, **around 50% decrease compared to the year prior**, driving the stock to 2.955 million sq m.

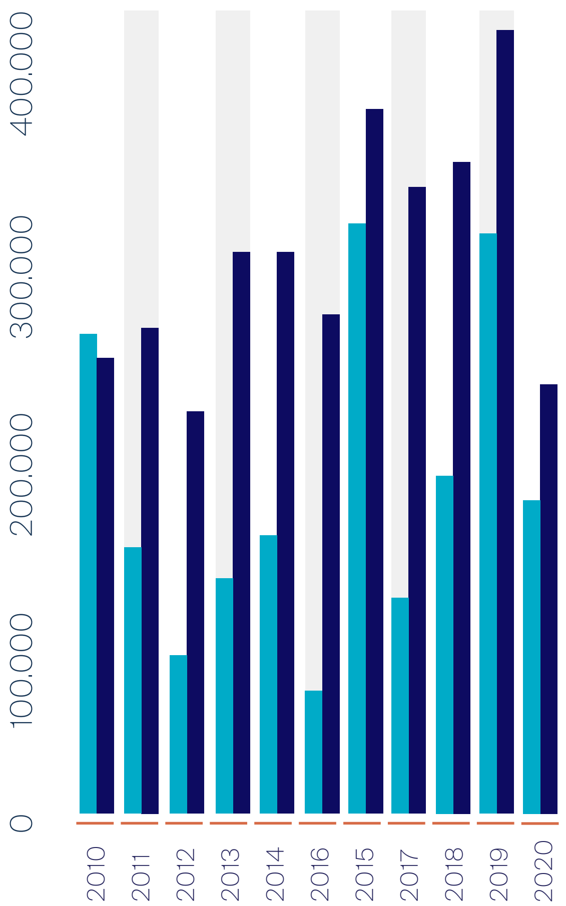
Among the schemes, **Ana Tower is the largest (~34,000 sq m)**, followed by Globalworth Campus III (~33,000 sq m), One Tower (~24,000 sq m) and The Bridge III (~21,000 sq m).

The submarket with the **highest modern office stock is Calea Floreasca / Barbu Vacarescu (544,000 sq m)**, followed by Center West area (457,000 sqm) and Dimitrie Pompeiu (441,000 sq m).

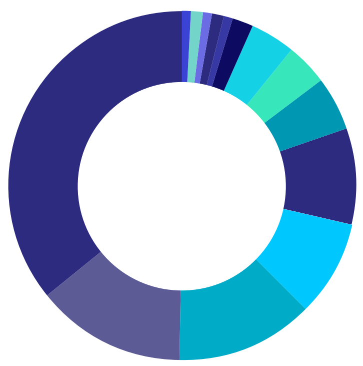
2020 DEMAND BY **LEASED AREA**

YEARS	2008	2009	2019	2020
DEMAND (SQ M)	230k	90k ↓ 61%	388k	237K ↓ 40%
SUPPLY (SQ M)	190K	363K ↑ 48%	287K	155K ↓ 46%

SUPPLY VS. DEMAND sq m



2020 DEMAND BY TENANT ACTIVITY



- 36% IT & Communication
- 14% Finance/Banking/Insurance
- 13% Professional services
- 9% FMCG
- 9% Medical & Pharma
- 5% Other
- 4% Manufacturing/Industrial/Energy
- 4% Retail
- 2% Transport & Cargo
- 1% Administrative
- 1% Consumer Services & Leisure
- 1% Media & Marketing
- 1% Construction & Real Estate
- 1% Agriculture

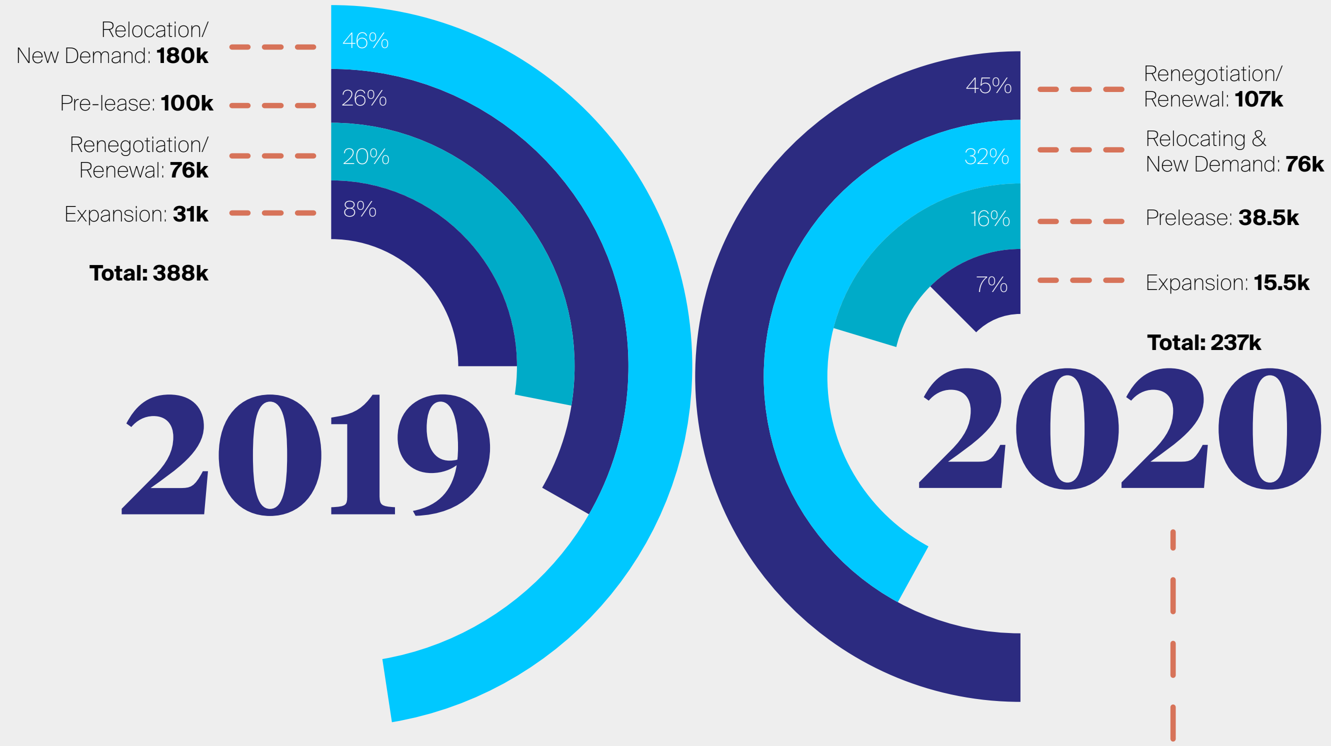
DEMAND BY SUBMARKET 2020

- 26% Center West
- 16% Dimitrie Pompeiu
- 14% North-West (Expozitiei)
- 11% Floreasca/Barbu Vacarescu
- 9% Center
- 7% Baneasa - Otopeni
- 7% Central Business District
- 4% South
- 3% Pipera North
- 2% West
- 1% East

Rents

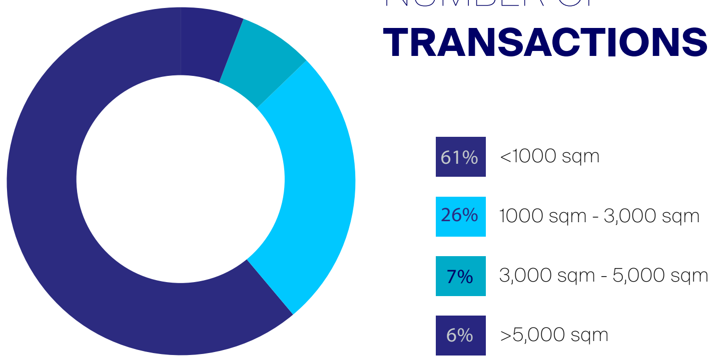
The headline rents are rather at or slightly below pre-COVID levels. The incentive packages have improved slightly in favour of the tenants, especially in case of properties with high vacancy rates where landlords are more flexible and really want to attract new tenants. **Incentive packages are roughly estimated to be ~10-20% higher on short-term**, depending on the vacancy in the respective property, on the size and length of the transaction. In many cases the increase in **incentives was/will be corroborated with a longer lease term.**

sqm DEMAND BY TYPE OF TRANSACTIONS

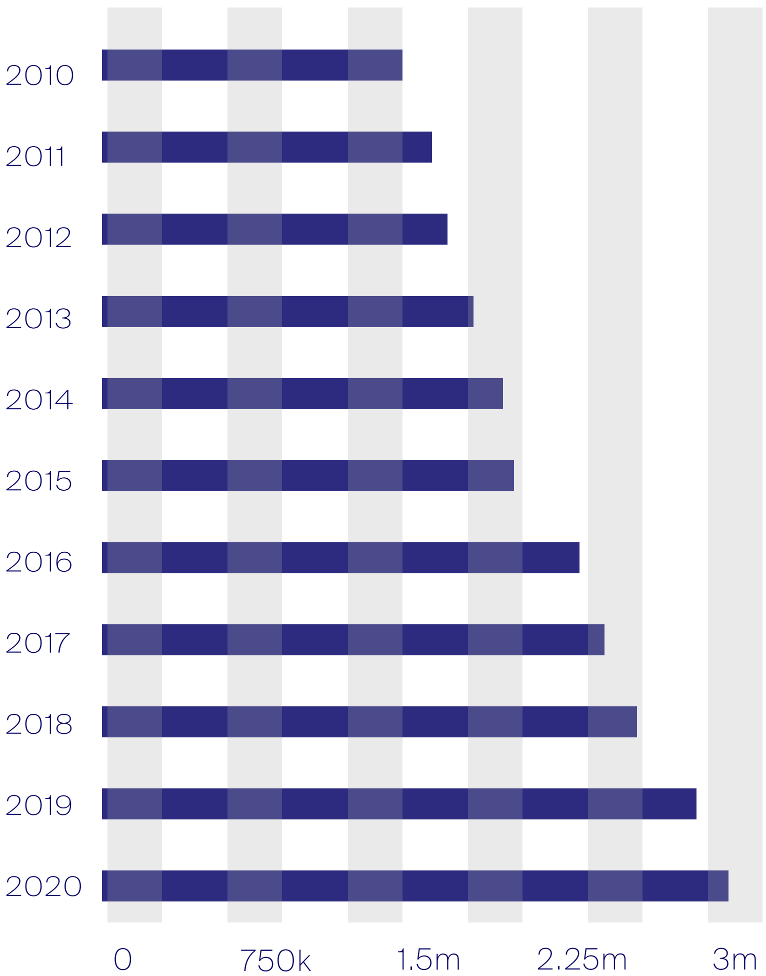


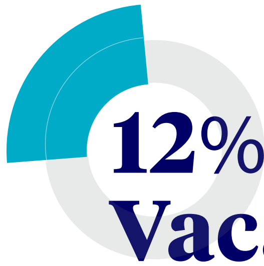
The year of Renegociations/ **renewals** **45%**

2020 DEMAND BY NUMBER OF **TRANSACTIONS**



MODERN OFFICE STOCK sq m ANNUAL EVOLUTION

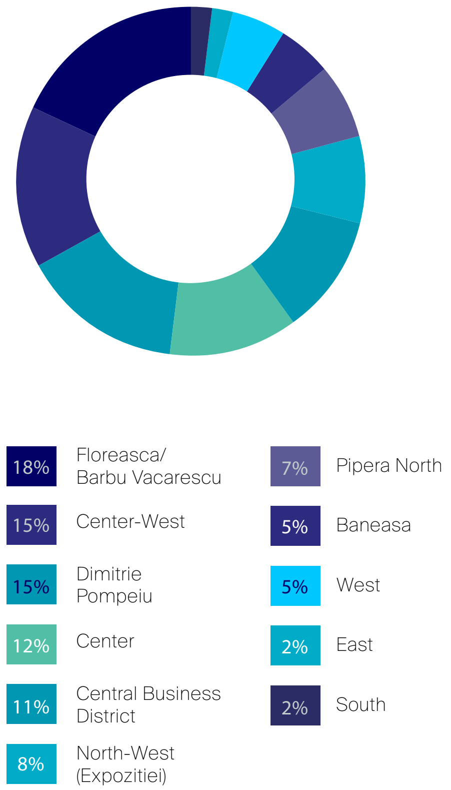




12% Vacancy

At the end of 2020 the vacancy rate reached 12%, a similar level with the one from 2015. Additional to this available space, numerous tenants have expressed the desire to **sub-lease parts of their office space**, part of their strategy to adapt to the new way of work. As a result somewhere around **50,000 sqm are estimated to be available** in sub-lease offers.

STOCK BY SUBMARKET



COVID-19

Many **leasing requirements have been postponed or slowed down** given the uncertainty associated with the medical crisis and its impact on the companies' business.

Since the work from home started more sublease options appeared on the market as companies **are expected to downsize their office space.**

Some of the companies have returned to their offices since the end of the lockdown in the second half of May, with employees coming mainly to the office in shifts (e.g. every other day/ week). Companies with a large number of employees are more reluctant to return to the office given the increased complexity of the returning plan and process, the higher risks (e.g. to have a COVID outbreak within the company) and costs for supplies (e.g. disinfectants, masks). In order to respect the social distancing the preferred approach seems to be **the rotation of the employees coming to the office.**

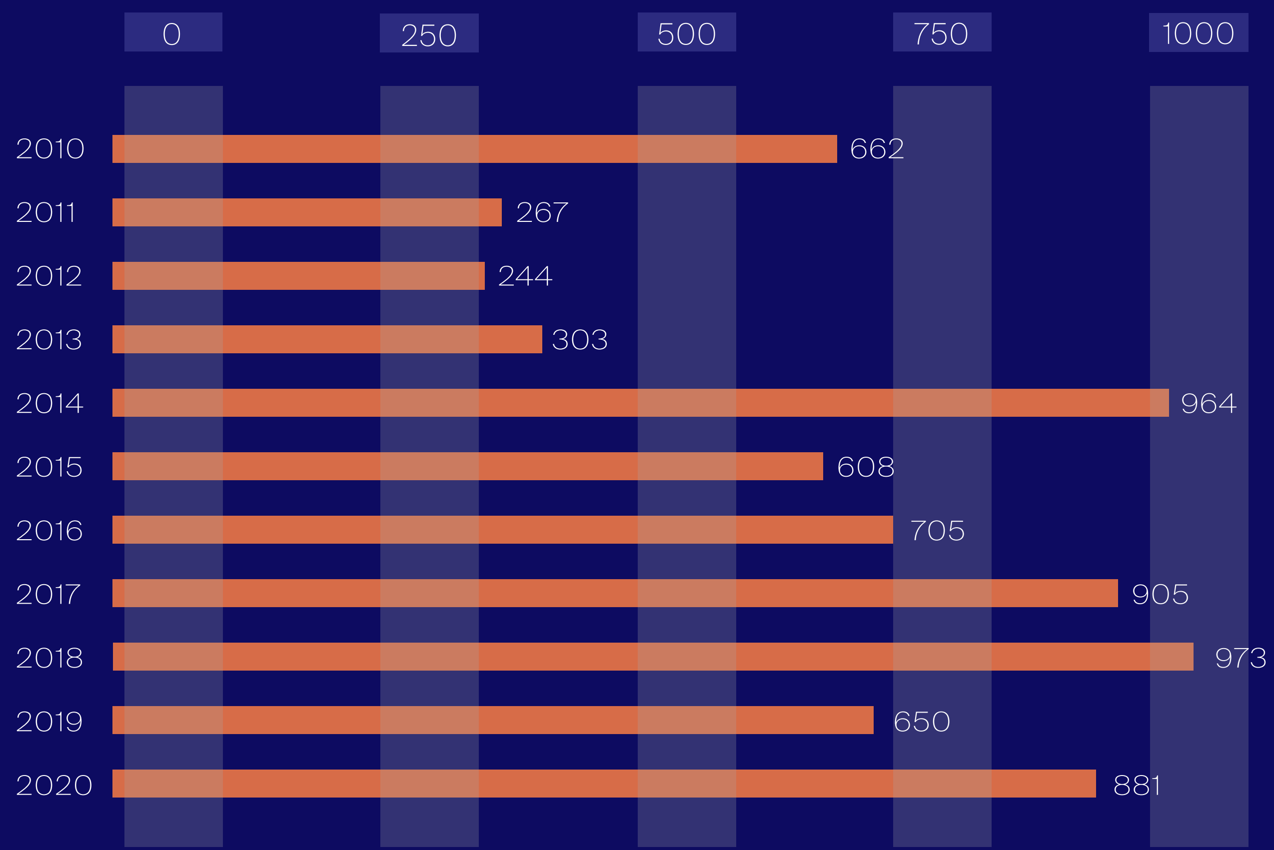
For projects under construction, the owners have started to adapt the installations and equipment to reduce the risks of covid: **provide more fresh air** through the ventilation system and **install better quality filters**, more opening windows, smarter lifts, etc.

Forecast 255,000

sqm in the next 12 months

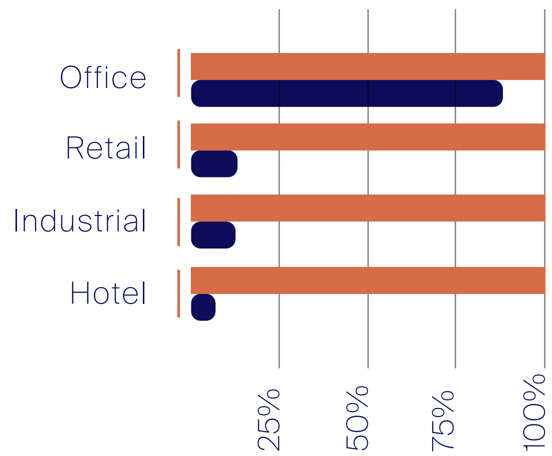
Including schemes such as by: J8 Office Park (~45,000 sq m), @Expo Campus I (~22,000 sq m), Miro Offices (~21,000 sq m), Tiriac Tower (~16.500 sq m), Dacia One (~12,500 sq m), etc.

Capital Markets



ROMANIA INVESTMENT TRANSACTION VOLUMES
ANNUAL EVOLUTION
m. EUR

Transaction distribution by property type 2020



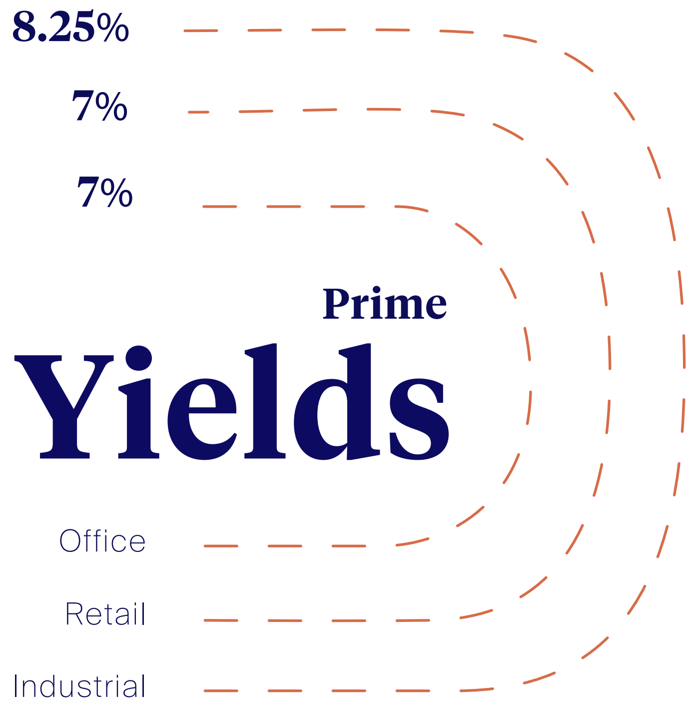
Investment volume

881 m EUR

In 2020 we witnessed a total of EUR 881 million in transactions on the local market a level which is above the volume that was reported previous year and also above the expectations from mid 2020. 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 290 million.** Despite the fact that the pandemic and associated uncertainty led to a significant delay, the closing of this transaction and several other significant transactions confirmed the maturity and attractiveness of the local market.

Following to the trend from previous years, **the office segment** was the most attractive in terms of transaction volumes, generating **more than 80% of the total market volume.** The **industrial/logistics segment** was the second most active in terms of volume generating **roughly 10% of the total volume**, followed by the **retail segment** which accounted for **almost 5% of the total volume.**

Prime Yields



Stable outlook

2020 started with a clear downward pressure on yields however following the post-lockdown period the yields stabilized and the overall sentiment remains stable for the moment. Consequently, the yields on the local market **remain at very competitive levels** compared with other similar markets in the region and it is expected that these levels will **continue to further attract both local and foreign capital.**

Forecast

0.9bn EUR **in 2021**

Judging by the existing pipeline of projects that are currently on sale on the market it is expected that in 2021 we will have at least the same volume of transactions with an upside potential to get closer to the EUR 1 billion threshold. The maturity of the market and the competitive prices make it a viable destination for the significant amounts of capital that have been raised globally and are expected to be deployed in 2021.

Resi-dential

Market Overview

Demand

27,021 transactions in April

84,000 transactions in October

In 2020, **602,805 properties were sold nationwide**, with 12% more than the previous year, according to ANCPI. The transactions include also land for development, which indicate a **constant demand in 2020 for residential properties**, despite the pandemic.

In April however, at the peak of lockdown, the number of transactions **decreased by 34%, followed by an ascendant trend towards the end of the year.**

Prices

In Q1 2020, prior to lockdown, selling prices prices for residential properties in Romania, registered a **8.1% increase, compared to the same period of 2019**. This growth margin was above the European Union recorded average (+ 5.5%), but also above the Euro zone (+5%).

+40 eur / square meters **average residential price in 2020/Bucharest**

+4.1% **average residential price in 2020/Romania**

Forecast

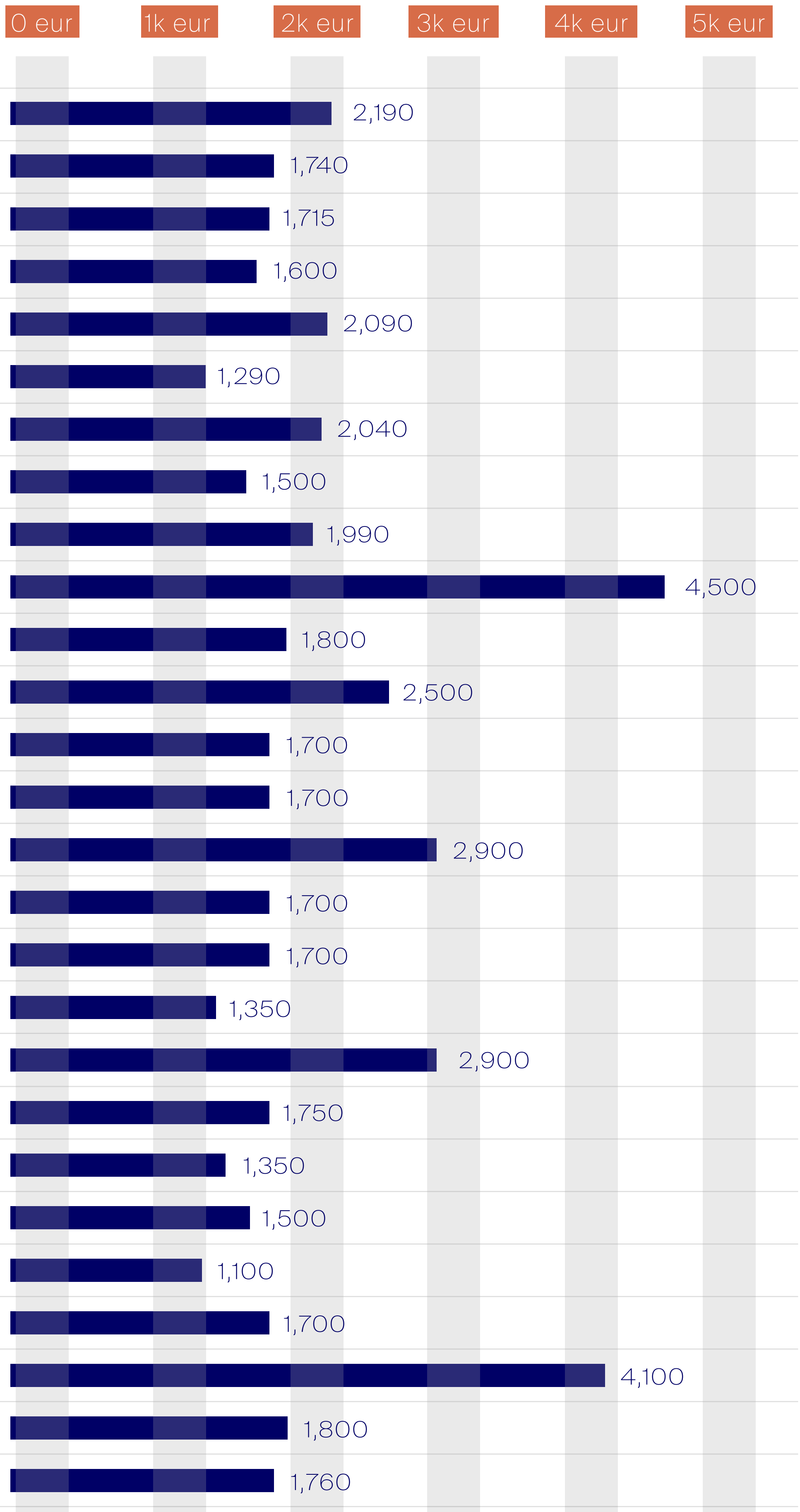
75% apartments sold before delivery in 2021

4% average price increase in 2021 and a decreased take up for homes in new residential projects: 85% sold before delivery in 2020 vs. 75% in 2021.

Rising the maximum pricing threshold for the reduced VAT rate of 5% on residential properties **from 450,000 RON to 140,000 EUR** was postponed by emergency ordinance up to 1st of January 2022. The delayed measure not only surprised few thousand buyers with signed pre-contracts in Q4 2020, but it is expected to slow down the interest in larger apartments for 2021.

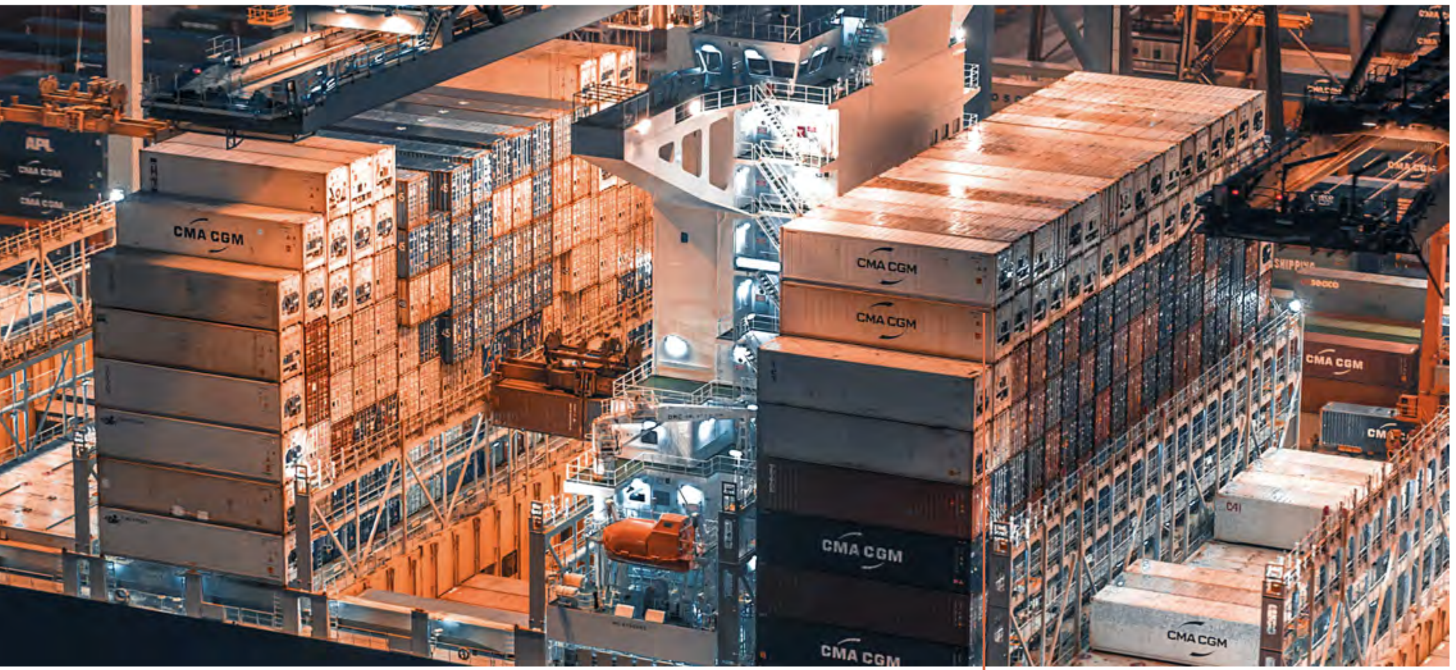
Despite the difficult economic context, the **residential market registered a positive trajectory with mild prices increase in 2020**. With a cap on the wage increases in public sector amid fiscal consolidation and postponed 5% VAT law, in 2021 we are looking at moderate start, followed by increases.

MEDIUM PRICE /BUILT sq m



Corporate Lettings

Rent values maintained stable on the premium and luxury market, where properties such as luxurious penthouses and historic villas are in high demand among top executives and diplomatic personnel. On the other hand, t**he prices for the affordable properties decreased due to higher supply versus demand**. A lot of young professionals decided to move back to their home town or rent houses in the rural / mountain areas for the teleworking period.



Industrial and Logistics Market

Supply

sq m 530,000

The level of deliveries in 2020 was around **530,000 sq m, bringing the nationwide stock to 4.7 million**. Around 65% of the new supply was in Bucharest.

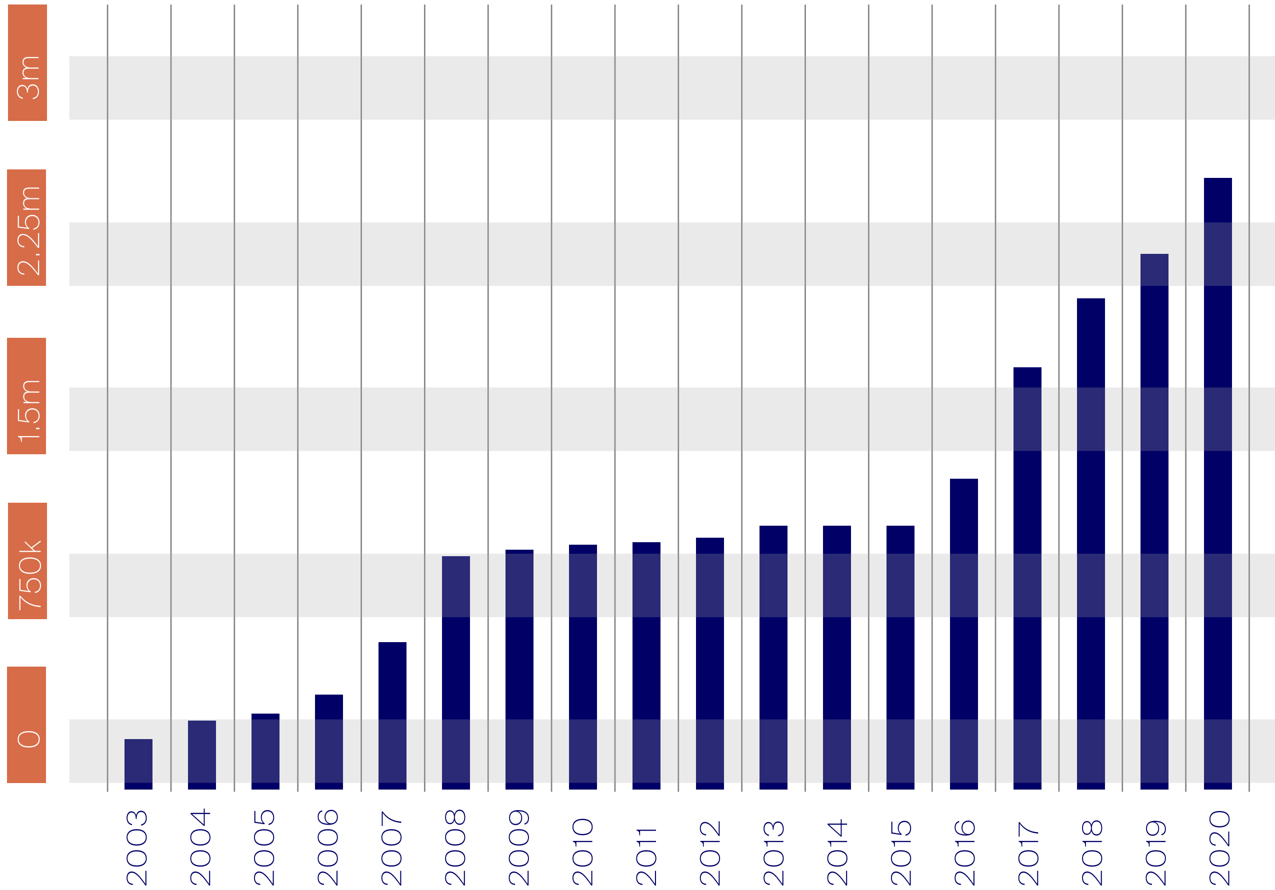
Demand

sq m 722,000

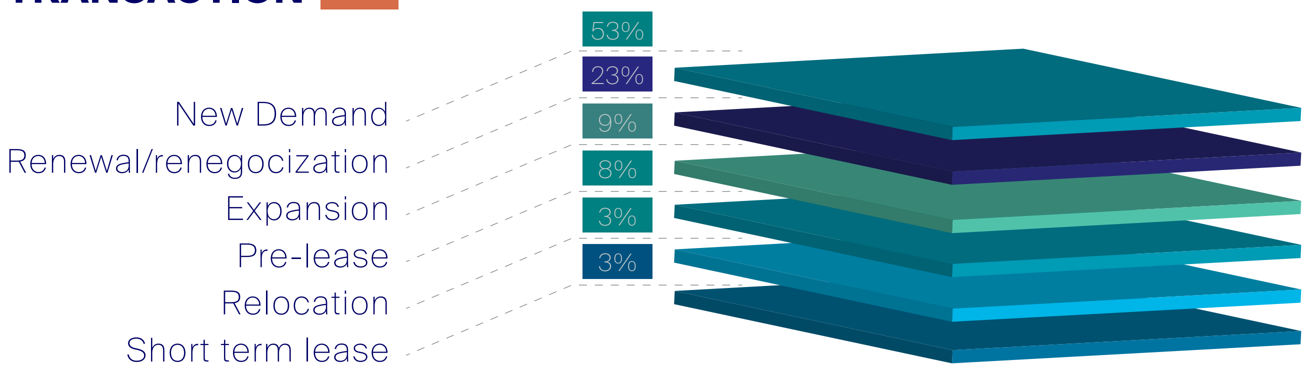
In Bucharest, total take up in 2020 was **~498,000 sq m**, while nationwide the take up reached approx. 722,000 sq m, **a 67% increase compared to the previous year.**

BUCHAREST MODERN INDUSTRIAL STOCK

ANNUAL EVOLUTION sq m

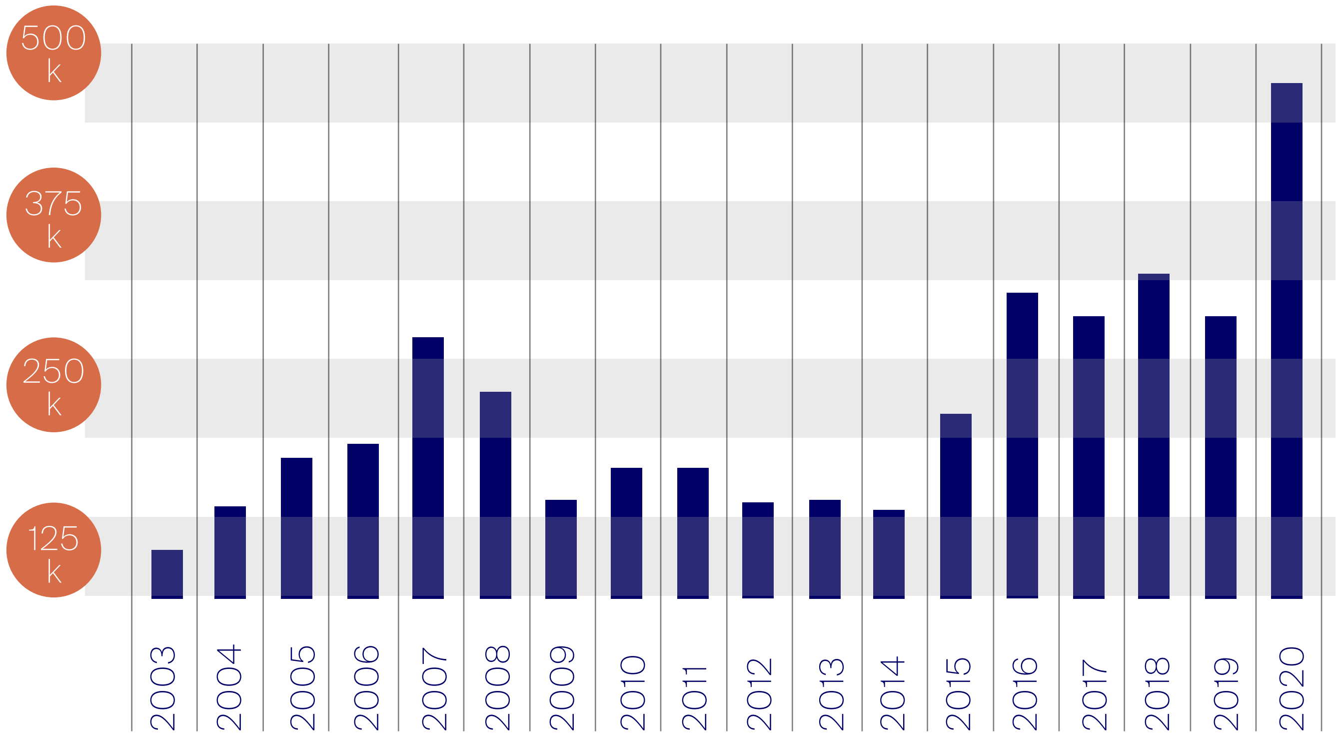


TAKE-UP TYPE OF TRANSACTION 2020



BUCHAREST MODERN TAKE-UP

sq m ANNUAL EVOLUTION

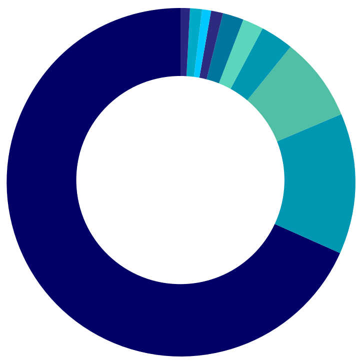


A total of 90 leasing transactions were recorded nationwide in 2020 out of which **22 were larger than 10,000 sq m.**

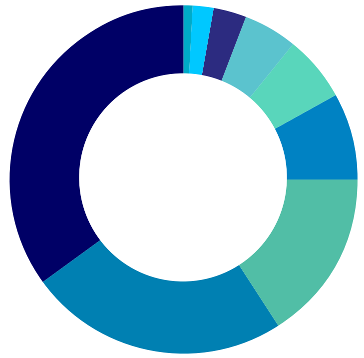
Although Bucharest accounted for 69% of total take-up, Timisoara (~98,000 sqm) and Craiova (~57,000 sqm) were the most sought-after regional locations accounting for **a further 13% and respectively 8%of the total volume.**

The largest volume of demand came from **FMCG & Retail companies, which rented together ~60% of the total volume** recorded in 2020 (~422,000 sqm), companies with activities in the field of logistics (16% and 118,000 sqm, respectively) and production (8%, ~58,000 mp)

2020 TAKE-UP BY REGION



Because of the restrictions imposed by the covdi-19 pandemic, the retail segment turned mostly to the online environment, which led to **an increased activity on the warehousing and logistics market**. Maybe we are even talking about a pandemic winner considering the figures recorded at the highest level ever, far exceeding the maximum previously reached.



2020 TAKE-UP BY TENANT ACTIVITY SECTOR

Vacancy 5%

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%.**

Forecast

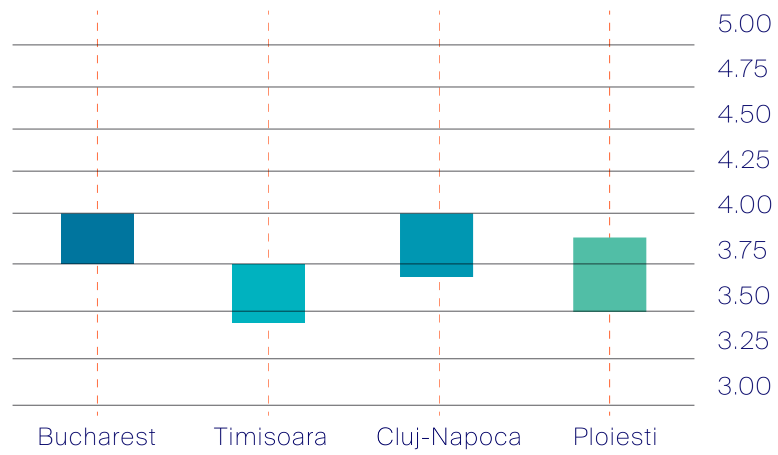
sq m ~400,000

Almost 50% 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.

4 Rents

EUR/sqm/month

Rental levels for prime industrial and logistics space **remained unchanged in 2020**, both in Bucharest and in the other regions across the country.



Land
Market Overview

PRICES

EUR/sqm

LAND PLOT PRICES BY USE

OFFICE	Barbu Vacarescu/ Floreasca	2,000
	Center-West	700-900
RESIDENTIAL	Prime areas	2,000 - 2,500
	Central (Unirii-Piata Victoriei)	850–1,250
	Periphery	250-300
RETAIL	Bucharest	350-500
	Country side	150-300

Forecast

2021 started well and full of hope, due to the vaccine of course, especially for **the residential business, the houses/villas sector, which became attractive in the lockdown periods** when people wanted out in nature. Investors are looking to buy, but everyone is still waiting to see if there are going to be price drops and opportunities, however we don't expect big changes in this sense. There is no big pressure on the costs, even when we watch the way the stock markets react.

Compared to recessions, this time **investors and developers were caught in a strong position,** however sitting on cash is not healthy for the long-term, which is why **we are looking ahead for a more dynamic second year in 2021.**

Overview

After a few very positive years, post crisis, 2015-2019, 2020 came, more exactly March 2020 which blocked our everyday life and also the transactions that we were discussing at the beginning of the year. **Almost all of them stayed in stand-by for the whole year,** due to the uncertainty of the times.

Though the pandemic has challenged certain sectors such as hospitality and retail, it has also proven the resilience of core assets, **driven a surge in online retail** (and by association, benefited the logistics sector), and **accelerated existing trends such as high-end residential.**

Demand

Office developers backed-off from the plans we were having and the residential developers decided to stay in a waiting mode, because they could compare 2018-2019 when they were selling with 50-60% more apartments/month, compared to pandemic times.

However, **at the end of 2020, we saw the biggest land transaction ever signed in Bucharest**, for a mixed-use destination. SIF Banat-Crisana bought the IMGB industrial platform 540,000 sq m from Doosan, for **approximately 40 million euros,** which was a very good price opportunity.

Land for industrial sites was in focus in 2020, due to the conversion to online shopping of the majority, which **we expect to continue to grow, both in Bucharest and other big cities** in Romania (including surroundings).

Flexible working

"The future of work will be flexible – there's no one-size-fits-all model for businesses or employees. Autonomy and variety will drive business performance."

2021 Workplace Trends:

Predictions for the year ahead

Many of the trends will continue to shape our world of work, but the pandemic has also accelerated several others. Here are our predictions for 2021 workplace trends – both accelerated and new.

Working from home will continue

It's safe to say that Covid-19 has accelerated the adoption of flexible working. Several lockdowns have forced many companies to work from home – even those that were reluctant to work anywhere but the office. We believe working from home, as well as other types of flexible working, such as staggered hours and working closer to home, will continue to form a part of our working lives in 2021.

While this partly comes down to our ongoing efforts to contain the pandemic, it's also a consequence of our newfound focus on flexibility as a whole. We're beginning to see the extent to which different people, roles and tasks require different parameters for optimal performance.

To boost employee productivity, engagement and happiness, our world of work will feature a strategic blend of different environments, places, working hours and even agile working setups – such as sit-stand desks, active sitting chairs and even exercise balls.

Office space will continue to be crucial

Undeniably, despite our newfound acceptance of remote working, there is a growing need for businesses to provide office space for their employees to develop their skills, collaborate and learn from one another.

The 'death of the office' narrative that murmured through 2020 wasn't silenced by academic rhetoric, it was silenced by people sincerely missing their office environments – and everything that came with them.

Businesses still want a central hub. In fact, only 8% of employees want to work from home five days a week, and 53% of UK businesses surveyed by Knight Frank said they wanted their offices to feature more collaboration space. So, while the demand for flexibility continues, social capital remains critical.

Health and wellbeing

For most forward-thinking companies, health and wellbeing were firmly embedded into corporate agendas, but Covid-19 has catalysed efforts across the board.

Covid-secure workplaces will prevail

As the first lockdown was lifted, flexible office space providers went to great lengths to create Covid-secure workplaces in order to comply with government guidelines and lower health risks.

They enhanced their cleaning regimes, increased airflow, added hand sanitizer stations throughout all spaces, displayed safety signage, organised one-way systems and redesigned furniture layouts to enable social distancing.

For all workplaces, this safety-first approach will prevail in 2021 and beyond as we continue to mitigate the dangers of Covid-19.

Active commuting will rise

In the months we were encouraged to return to our workplaces, active commuting became a popular way to both avoid public transport and break up a sedentary working day.

It's likely this trend will continue, and as a result, employers will look for offices fit for a cycling commute, which neighbour cycleways and feature showers and secure bike racks.

Businesses will try to prevent remote working loneliness

For some, remote working came with a sense of loneliness and isolation – our innate need for social interaction was barely being met. But for others, it was a dream come true.

Ultimately, 2021 wellbeing strategies will come down to personal choice, flexibility, and an additional integrity in remote environments. What's important is that the conversation continues.

The office experience

Though dull, drab and cubicle-clad offices have been a thing of the past for some time, we're likely to see an increased focus on the office experience in 2021.

Quality and collaboration will centre stage

The office won't be what it's always been. Workplace strategies will feature a flight to quality, a focus on design and an emphasis on collaboration – especially as we try to rebuild our depleted levels of social capital. The office will be a destination that provides experience, connection and choice – with insta-worthy cafés, curated meet-ups that instil a sense of community and belonging, biophilic office design that boosts wellbeing, agile working strategies that encourage mobility and technology that streamlines workflows.

The demand for flexible office space will grow

A focus on the office experience is also likely to boost the demand for flexible office space – which has already witnessed a surge (as monthly rolling contracts acted as a tonic for uncertainty amid lockdowns.

Sustainable commutes will trend

We've already witnessed the rise of active commuting – and in particular – cycling to work, but 2021 is likely to see the sustainability trend reach new heights.

Green, sustainable offices will win the war for talent

There is a growing recognition that younger generations of talent are seeking out businesses that increasingly align with their moral values across environmental, social and governance initiatives. These include efforts to reduce corporate carbon footprints, improve employee wellbeing, and ensure diversity and inclusion.

As businesses continue to view real estate as a strategic device and an investment, choosing to base their teams in green, sustainable offices is a clear way to demonstrate a commitment to the cause (for both employees, clients and competitors).

We're experts in finding you the perfect office space at the best price. Ask us to start your search today – it won't cost you a penny.

WORKPLACE RADICAL CHANGE

<20% of employees **present** in the offices

Smaller companies – **easier to handle** Covid-19 measures

2020 WORK FROM HOME

Large companies **kept their people home**, tech especially.

Rents were collected in **more than 95%** of the cases

2021 & BEYOND HYBRID / FLEXIBLE WORK

HEPA FILTERS

Capturing **up to 99.995%** of microscopic contaminants.

VEHICLE LICENSE PLATE RECOGNITION

Avoiding direct contact with any surface (access cards, buttons etc.)

- **Smarter controlled** elevators;
- Larger **revolving door** at the main entrances.

ULTRAVIOLET GERMICIDAL IRRADIATION

UVGI lamps in the air handling units and elevators as **extra barrier for viruses & bacteria.**

NO RECYCLED AIR

100% fresh air intake

NEW BUILD INGS.

Improved Standards

GREEN CERTIFICATIONS

BREEAM

I. Good
II. Very good
III. Excellent
IV. Outstanding

LEED

I. Silver
II. Gold
III. Platinum

WELL

HOW THE MARKET SHAPES POST

PANDEMIC?

Net impact in size is **incertain**

Safe distances between offices, total amount of space/person could rise

Collaborative **face to face work** still necessary

Organisational culture

2021 & BEYOND HYBRID/ FLEXIBLE WORK

Office **demand to pick up** in 2021

Occupiers to **reduce their size** by 10-20%

Employees will start going back to the office as of Q2 2021, **up to 70-80%** in Q4 2021

Lower office attendance

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Real Estate Taxes

What's new for real estate in Romania

Once upon a time ... when people started preparing for winter holidays, the lawmakers issued the long-expected law (Law 296/2020) to amend the Fiscal Code by introducing some of the business environment's requirements.

And they lived happily ever after ... well, not quite, because the Government Emergency Ordinance (GEO 226/2020) was issued right before New Year's Eve whereby certain measures provisions of the Law 296/2020 were amended or postponed.

As these new amendments made to the Fiscal Code are of impact also for the real estate sector, we briefly present some of them in the next paragraphs.

Corporate income tax consolidation – finally also in Romania

Romanian corporate income taxpayers (exclusively) which are part of the same group (at least 75% directly or indirectly ownership) can form a tax group. One of the members is designated as the responsible legal entity that will calculate, declare and pay the corporate income tax for the group, with the tax determined by summing the individual calculations of each member - thus giving the opportunity to offset the tax profits of companies within the group with the tax losses of others.

Thus, the real estate developers with more entities into their portfolio may consider this facility as to decrease the tax burden at the level of their group.

However, the period of application of the system is five fiscal years, while tax losses recorded by a member of the group before the application of the system cannot be compensated for at group level.

Adjustment of the VAT taxable base

The local rules have been amended to align with the principles of the VAT Directive and recent European case law. Before such provision was introduced, it was not possible to adjust the taxable base in the case of uncollected receivables from individual debtors, but only for receivables against legal entities.

Further to the new introduced rule, if the total or partial value of the goods delivered or services provided was not collected from the beneficiaries represented by individuals within 12 months from the payment deadline set by the parties / from the invoice date of issue, the taxable VAT base may be adjusted. Therefore, the supplier will be in the position to recover from the state budget the amounts paid with its own resources and without being cashed in from its customers.

The adjustment is allowed only if it is proved that commercial measures have been taken for the recovery of claims up to RON 1,000 and that legal proceedings have been undertaken for the recovery of claims higher than RON 1,000.

Such provision will be applicable for invoices that have a payment deadline / date of invoice issuance after the entry into force of the said Ordinance.

5% on the sale of dwellings

Further to the new rules, the threshold for the sale of apartments under the social policy (i.e. the current threshold is of 450,000 RON – approx. 100,000 Euro) has been raised to 140,000 Euro. However, the application of such rule has been postponed to January 1st, 2022.

Tax amnesty

The Emergency Ordinance no. 229/2020 extended the period until which taxpayers that had outstanding tax liabilities at March 31st, 2020 can benefit from the tax amnesty for the annulment of interest and late payment / non-declaration penalties related to such main tax liabilities.

Initially, the Emergency Ordinance no. 69/2020 established as the deadline for submitting the application for annulment of ancillary tax liabilities the date of December 15, 2020, many taxpayers being in a rush to submit documentation by this date, however, the Emergency Ordinance published at the end of 2020 extends this deadline until March 31 2021.

Impairment of receivables

Full deductibility granted for adjustments regarding the impairment of receivables that are uncollected in a period exceeding 270 days from the due date, are not guaranteed and are owed by a non-affiliated person (and not only 30% deductible as in the past). However, GEO 226/2020 postponed this provision for 2022.

Local taxes

In the case of legal entities, the taxable value of the building will be updated every five years on the basis of an evaluation report prepared by an authorised valuator (that term was previously three years).
And there are also other pieces of legislation issued in the last 12 months which impacts the business environment in a positive way: e.g. capitalization incentives, tax amnesty, COVID related facilities etc... but that's another story for another time.

schonherr

How to turn **office space** into **residential units**

Legal challenges

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Schoenherr și Asociații SCA

The COVID-19 pandemic has severely impacted several fields and industries, including the real estate sector. Many office buildings have been vacated as a precaution or because the companies went out of business. Given that the pandemic has triggered a recession on the real estate market and that employers have discovered remote work to be an efficient solution, the demand for office buildings will likely decline. Property owners should therefore look for new ways their buildings can be used to improve rentability.

One of the most appealing options is to convert office buildings into residential units. The rules in this regard are provided mainly by Law No. 50/1991, on the authorisation of construction works, as amended.

According to Law No. 50/1991, owners must first obtain a new town planning certificate for their property indicating all the documents needed to change the building's designation.

As a rule, the conversion of commercial spaces into residential units will require a planning permit. Nevertheless, it may be possible to convert office or commercial space into residential premises even without obtaining a building permit, but only if the construction works do not alter the structure of the building and/or its architectural character. Obviously, if structural partitions are needed, applying for a new building permit will be a must. Before obtaining the building permit to change the use of a building, the local public authorities may also require the owner to prepare a regional urban plan (PUZ) or a detailed urban plan (PUD), if the new designation of the building is incompatible with that provided by the urban local regulations.

Moreover, the use of a building may be changed by obtaining a new building permit, but without needing to prepare technical documentation if the new use of the building is in line with the local urban regulations set by the applicable PUG or PUZ.

Finally, once conversion works are completed and a reception protocol has been issued, the change of use from commercial to residential must be registered with the Land Book Office, based on a new cadastral documentation drawn up for the building.

Besides the funds required to reconvert an office building into residential spaces, the reconversion may also entail a lengthy bureaucratic process. However, given the change from offline to online office work, reconversion will certainly be a viable alternative in some cases. This new business model will create the need for many additional services, such as construction work, technical and professional services, real estate consultancy, brokerage services and others.


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