ROMANIA MARKET OVERVIEW
REFRESHED REAL-STATE PERSPECTIVES
2016–2017
The total investment volume reached €705 million in 2016, almost 16% higher than 2015. Foreign funds accounted for more than 99% of the total activity.

2016 was a record year for the Bucharest office market, with take-up reaching almost 350,000 sq m, 41% higher than in 2015. The year brought a significant volume of new deliveries – approximately 300,000 sq m. Demand in 2016 was 50% higher than in the boom years.

It takes approximately 10 years for a typical Bucharester to buy a new two-room apartment. There were approximately 10,000 residential transactions for new apartments in 2016 in Bucharest and surrounding areas.

Industrial take-up across the country in 2016 reached record levels with 410,000 sq m of space absorbed. In Bucharest, total take-up in 2016 was close to 280,000 sq m, which was approximately 65% increase compared with 2015, and a record year.

The key players on the industrial market are looking to secure new land plots for development and their interest has moved to the northern areas: the DN1–A3 and A2–A3 city ring segments have land plots with all utilities in place and ready to start construction work.

Fashion retailers maintained a competitive pace in 2016, supported by the opening of new malls and the expansion of existing ones.

Office space goes back to nature, where human beings feel most at home and can reach their most efficient and effective states.

2016 was a record year for the Bucharest office market, with take-up reaching almost 350,000 sq m, 41% higher than in 2015. The year brought a significant volume of new deliveries – approximately 300,000 sq m. Demand in 2016 was 50% higher than in the boom years.

The key players on the industrial market are looking to secure new land plots for development and their interest has moved to the northern areas: the DN1–A3 and A2–A3 city ring segments have land plots with all utilities in place and ready to start construction work.

Fashion retailers maintained a competitive pace in 2016, supported by the opening of new malls and the expansion of existing ones.

Office space goes back to nature, where human beings feel most at home and can reach their most efficient and effective states.
The global economy seems to be gradually improving, after GDP growth slowed down to 3.1% in 2016, (the worst performance since 2009), according to IMF estimates.

In the United States, leading indicators have recently improved, pointing to an acceleration in H1 2017, as the Trump administration has signaled the implementation of expansionary fiscal policy measures.

The dynamics of the Euro Area (the main economic partner of Romania) are consolidating, with the accommodative monetary policy of the European Central Bank counterbalancing the accumulation of challenges, including the political tensions associated with upcoming elections in Germany, France and the Netherlands.

The Romanian economy grew by 4.8% in 2016 (the highest pace since 2008), as domestic demand accelerated. This trend was supported by the expansionary policy mix: the central bank (NBR) kept the monetary policy rate at the record low level of 1.75%, while the government cut VAT and increased public wages.

Fixed investments rose for the third year in a row, but the year-on-year pace slowed in H2 2016, before several new measures came into force: the elimination of the special construction tax and the VAT cut (from 20% to 19%) from 1 January 2017. There was an increase in foreign direct investment, by over 30% year-on-year to €3.9 bn, the highest level since 2008.

At the same time, private consumption accelerated in 2016, an evolution supported by the increased real disposable income of the population and by the recovery of the RON credit markets.

On the other hand, net foreign demand continued to provide a negative contribution to GDP growth in 2016. Confidence indicators have recently converged on pre-crisis levels, but political tensions have contributed to volatility in risk perception, which is reflected by the evolution of financing costs and of the FX markets.

In our core macroeconomic scenario we forecast that the domestic economy will slow down in the medium term, given global economic circumstances and the sluggish structural reforms in Romania. We expect annual GDP growth of 4.3% in 2017, 3.9% in 2018 and 3.2% in 2019, a scenario supported by the recent dynamics of leading indicators.

In this scenario, fixed investments would gradually accelerate, towards a 5% annual pace of growth in 2017-2019, an evolution supported by both exports and private consumption. The progression of the investment cycle would create a positive climate in the labor market, with the annual average unemployment rate converging to 5.3% in 2019.

The improvement of labor market sentiment (diminishing unemployment and increasing wages) together with the positive climate for credit markets would support private consumption. In our scenario, private consumption, the main component of GDP, is forecast to increase on average by 4.7% YoY during 2017-2019.

On the other hand, net foreign demand will present a negative contribution to GDP growth in the medium term, but we expect a gradual convergence of exports and imports’ dynamics.

With regard to the financial side of the economy, we forecast that the annual rate of inflation will converge on the NBR target in the following quarters. In our scenario, the annual average rate of inflation (measured on HICP) would increase from 1.8% in 2017 to 2.7% in 2018 and 2.6% in 2019.

In this context, we expect the NBR to start a new monetary cycle in the short term, a reaction that would counterbalance expansionary fiscal and income policies and the sluggishness of structural reforms, in a context of intensifying geo-economic and geo-political challenges.

For sovereign financing costs (the yield on 10-year bonds), we forecast that the recent upward trend will continue in the medium term, an evolution determined by the Fed monetary cycle in the US and by the growth prospects for the nominal GDP in Romania. According to our forecasts, the 10-year yield on sovereign bonds (annual average) would increase from 3.3% in 2016 to 3.9% in 2017, 4.2% in 2018 and 4.1% in 2019.

Last, but not least, the EUR/RON exchange rate would consolidate in the short term and may gradually decrease in the medium term, an evolution supported by the outlook for the real economy and the increasing interest rate gap (Romania vs. Euro Zone).

Among the main risk factors for our scenario we mention: the macro-financial dynamics (including the policy mix) in the US and China; the economic and political climate in the Euro Area; the return of the twin deficits, the expansionary fiscal and income policies and the delay of structural reforms in Romania; and the regional geo-political climate.
OFFICE MARKET

Overview

Bucharest’s office market experienced its most active year in the last decade, with the delivery of 15 new buildings in 12 projects, so that the new supply of class A and B offices reached over 293,000 sq m. This compensated for the low delivery volume of 2015, when only approximately 60,000 sq m were delivered, and we foresee that the market will now resume its normal growth rate, in line with the trend of the past 10 years, of between 150,000–200,000 sq m each year.

We also see a growing trend of companies consolidating the operations of multiple offices into one single location, especially when relocating. The relocation of BCR to The Bridge, Forte Partners’ project, which Knight Frank consulted, is a significant example.

The IT&C sector was the most important demand driver in 2016, dominating the market in H1, but its share of annual take-up decreased from 2015, when it accounted for half of activity, to 35% in 2016. Our forecast for 2017 is positive, with approximately 200,000 sq m of new space due to be delivered and vacancy rates of existing buildings expected to fall. Activity is expected to be increasingly oriented towards the Center-West and the CBD, as well as the traditional northern business hubs.

Demand

Bucharest office take-up for 2016 reached almost 350,000 sq m of class A and B office space. This volume was 41% higher than 2015, which was itself a good year for office demand. The largest transactions of 2016 were Renault in the Renault Office Building (39,000 sq m) and BCR in The Bridge (20,000 sq m), in the West and Center-West areas.

31% of the leasing activity was contract renewals/renegotiations but there was also continued growth in the volume of pre-leases, which almost doubled in 2016 compared with 2015 and included the two largest transactions of the year. The Renault pre-lease was the biggest ever office transaction in Bucharest, and was larger than any deals completed during 2016 in the more developed CEE markets of Budapest, Prague or Warsaw.

By location, almost 70% of the total take-up was in Center-West, Dimitrie Pompeu and Calea Floreasca-Barbu Vacarescu. While the last two areas have been the most sought-after locations in the past six years, demand is now

HIGHLIGHTS

2016 was a record year for the Bucharest office market, with take-up reaching almost 350,000 sq m, 41% higher than in 2015.

The year brought a significant volume of new deliveries – approximately 300,000 sq m – although 2009 remains the high point of the last 10 years with 450,000 sq m delivered.

Demand in 2016 was 50% higher than in the boom years, with the Center-West being the main focus with take-up of 123,480 sq m.

The IT sector dominated demand in 2016, albeit with a 14% decrease in take-up demand in 2016, compared with 2015.

In 2017, demand is expected to flourish in the Center-West, CBD and even Exopolitii.
ROMANIA MARKET OVERVIEW 2016–2017

TABLE 1
Prime headline rents 2016–2017 (€/sq m/month)

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th>HEADLINE RENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>16–18</td>
</tr>
<tr>
<td>Presei libre Square</td>
<td>14–16</td>
</tr>
<tr>
<td>Calea Floreasca</td>
<td>14–17</td>
</tr>
<tr>
<td>Center-West</td>
<td>13–15</td>
</tr>
<tr>
<td>Baneasa</td>
<td>12–14</td>
</tr>
<tr>
<td>East</td>
<td>14.5</td>
</tr>
<tr>
<td>Dimitrie Pompeiu</td>
<td>11–13</td>
</tr>
<tr>
<td>West</td>
<td>11–12</td>
</tr>
<tr>
<td>South</td>
<td>10–11</td>
</tr>
<tr>
<td>Pipera</td>
<td>8–10</td>
</tr>
<tr>
<td>Center</td>
<td>13–17</td>
</tr>
</tbody>
</table>

Source: Knight Frank

TABLE 2
Top 10 office transactions in Bucharest 2016

<table>
<thead>
<tr>
<th>TENANT</th>
<th>SUBMARKET</th>
<th>TYPE OF DEAL</th>
<th>LEASED AREA (sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renault</td>
<td>Center West</td>
<td>Pre-lease</td>
<td>39,000</td>
</tr>
<tr>
<td>BCR</td>
<td>Center West</td>
<td>Pre-lease</td>
<td>20,000</td>
</tr>
<tr>
<td>Telemont</td>
<td>Preseli libre Square</td>
<td>Renegotiation/Renewal</td>
<td>13,000</td>
</tr>
<tr>
<td>Teamnet</td>
<td>Center West</td>
<td>Renegotiation/Renewal</td>
<td>11,000</td>
</tr>
<tr>
<td>Hadassah Hospital</td>
<td>Dimitrie Pompeiu</td>
<td>Relocation</td>
<td>11,000</td>
</tr>
<tr>
<td>Oracle</td>
<td>Calea Floreasca/Barbu Vacarescu</td>
<td>Renegotiation/Renewal</td>
<td>10,400</td>
</tr>
<tr>
<td>IT (Confidential)</td>
<td>Center West</td>
<td>Renegotiation/Renewal</td>
<td>10,000</td>
</tr>
<tr>
<td>Antena 1</td>
<td>Dimitrie Pompeiu</td>
<td>Relocation</td>
<td>8,000</td>
</tr>
<tr>
<td>Misys</td>
<td>Center West</td>
<td>Pre-lease</td>
<td>8,000</td>
</tr>
<tr>
<td>Adobe</td>
<td>Center West</td>
<td>Renegotiation/Renewal</td>
<td>6,500</td>
</tr>
</tbody>
</table>

Source: Knight Frank

growing for the Center-West and CBD. In 2016, office requirements in the Center-West area were 75% higher than in 2015.

IT&C remained the most active sector in 2016, but it generated 14% less leasing activity in comparison with 2015. Of the ten largest transactions of 2016, six were from the IT&C sector, with the biggest of these being the renewal of Telemont in City Gate (13,000 sq m). In 2015 there were also six leasing transactions in the IT&C sector, but with bigger leased areas – Genpact (22,000 sq m) and Oracle (20,000 sq m), both being intermediated by Knight Frank. The finance sector was the next most active, with 16% of the total leasing activity, followed very closely by the automotive sector with 12%, while the professional services and pharmaceutical sectors dropped to fourth and fifth places in the ranking.

While approximately 46% of the total take-up came from deals of more than 5,000 sq m, the average size of transactions was 1,800 sq m and the average of renewals/renegotiations was over 2,300 sq m.

Rents
Even though there was a record volume of new deliveries in 2016, rents were similar to previous years. Prime headline rents remained stable at around €18–18.50/sq m/month, but incentive packages are expected to be impacted by the large number of new office buildings.

Service charges were also unchanged, ranging between €3.50–4.50/sq m/month. The prime yield for office properties remained stable at 7.5%.

Vacancy
The vacancy rate at the end of 2016 was 15% for class A & B buildings, compared with 11.7% at the end of 2015. The increase was primarily due to the record level of new deliveries, which brought vacancy rates of 14% for class A and 17% for class B offices. Even though nearly 300,000 sq m office space was delivered to the market in 2016, only 34% of it is vacant, which demonstrates that the market is on the path of rapid growth.

The highest vacancy rates are still in the South, Pipera and Baneasa areas, while at the opposite end are the West with 0% vacancy and other areas with less than 10% vacancy including Plata Presei Liber, CBD and Dimitrie Pompeiu.

Forexpect
It is forecast that 350,000 sq m in 16 projects will be delivered to the market in 2017–2018 in Bucharest. Some of the most significant projects include: Globalworth Campus I & II (29,400 sq m & 29,400 sq m), Anchor Plaza Metropol (36,500 sq m), The Bridge (Building A 28,850 sq m), Timpuri Noi Project I & II (32,550 sq m) and Sema Parc Office 3 (A1 + A2 = 26,700 sq m).

The Bucharest market will continue on an upward trend in 2017, with the Center-West, CBD and Presei Libere Square areas remaining major focal points for activity. 50% of the deliveries announced for 2017 are in the Center-West.

Bucharest’s Northern-Central region remains the preferred area for headquarters and BPO companies, while Central-West has a similar tenant mix.

Demand is growing in the CBD and The Landmark office project (21,000 sq m) was delivered to meet this demand, while further new CBD developments are expected.

Leasing activity is increasing in secondary cities such as Timisoara, Cluj and lasi, as well as tertiary cities like Craiova and Targu Mures, with demand mainly driven by the BPO sector and IT sectors.

Outside of Bucharest, the most active development pipelines are in Cluj, Timisoara and lasi. Important new deliveries in these cities include the 5th phase of United Business Center in lasi (approx. 15,000 sq m), Alcatel HQ in Timisoara (approx. 15,000 sq m) and Coresi Business Park in Brasov (the 1st building of the 2nd phase of Coresi Business Park with approx. 8,300 sq m).
Demand was mainly generated by established investors expanding their real estate portfolios but new entrants also accounted for a significant share of the investment volume.

The total investment volume reached €705 million in 2016, almost 16% higher than 2015.

Foreign funds accounted for more than 99% of the total activity.

Yields had only a moderate compression in 2016 and this trend is expected to continue in the following 12 months.

Overview

After a rather slow start to the year, 2016 brought an overall increase in transaction volumes compared with 2015, with a total of €705 million invested in the Romanian market. The largest transactions were in the industrial sector with the acquisition of the P3 Logistic Parks for a consideration of approximately €190 million, followed by the retail sector with NEPI’s acquisitions of a minority share in Mega Mall Shopping Centre and Sibiu Shopping City which together totaled slightly more than €170 million.

Overall, 2016 relied heavily on the retail sector but the office and industrial sectors also reported significant levels of activity to drive up total investment volumes. Established players familiar with the market expanded their portfolios by acquiring income-producing assets and new entrants made their first acquisitions, mainly income-producing assets but also some investments with value-add potential. 2017 has already seen several other transactions, with new players showing interest in the Romanian market as demand continues to be boosted by the favorable economic conditions and very competitive risk-adjusted returns.

Supply

In 2016, there was a significant level of new supply compared with the previous year, with the office market being the most active in terms of new deliveries (new office space delivered on the market was five times higher compared with 2015). Banks have become more willing to provide financing for both development and acquisitions in most sectors and the investment market now features a wide range of opportunities for investors, including income-producing, value-add and distressed assets.

Retail assets were the most sought-after asset type in 2016, followed by prime office projects and industrial assets. The strongest demand came from established investors with expansion plans, which are also likely to be looking for new opportunities in the next few years. Nevertheless, 2016 also saw new entrants to the market, while some established investors that have not been very active in recent years made acquisitions in the industrial and office sectors.

Demand

The total investment volume of €705 million in 2016 represented approximately a 16% increase compared with 2015. Despite a rather slow start to 2016, investment activity subsequently increased with several large deals closed in the last three quarters of the year.

In 2017, it is expected that investor sentiment will remain positive, mainly due to the favorable economic conditions and competitive risk-adjusted returns.

The retail sector was the main driver of activity in 2016 with approximately a 37% market share. Major transactions in this sector included the sale of Sibiu Shopping City (79,000 sq m) by Argo Group and the 30% equity share owned by Real4You in the Mega Mall shopping center (75,000 sqm), which were both acquired by the South African fund NEPI for a combined total of over €170 million.

The office sector came in second, with 31% of the total investment volume. Major transactions concluded were the acquisition of Metropolis Center (a building of approximately 19,000 sqm located very close to Piata Victoriei) by the Czech fund PPF Real Estate and the acquisition of a minority stake in City Gate (41.1% shareholding in the approximately 46,000 sqm building at Piata Presse Liberă) by GTC from Bluehouse Capital.

Despite the slow start in the first half of the year, investment activity in the industrial sector recovered significantly towards the end of the year and accounted for approximately 30% of total investment in 2016. The main transaction was the sale of the P3 Logistic Parks to a new market entrant, the Singaporean sovereign wealth fund GIC.

Analyzing the above, increased demand stemmed from several investors expanding their portfolios, including investors that have been both active and inactive in the market in recent years. Additionally, some new companies entered the Romanian market by making significant acquisitions. As in recent years, foreign investment was the main driver of activity, accounting for almost 99% of the investment volume.

Yields

Despite the improved levels of activity registered in 2016 compared with 2015, there was no significant hardening of prime yields. However, a general trend of yield compression appears to have been maintained.

The gap between the local market and the leading markets in the region (Prague and Warsaw) is still above 200 bps, indicating that moderate yield compression might be expected in 2017, especially in the office and industrial sectors.

Forecast

The increased activity in the Romanian real estate investment market indicates the growing confidence in Romania’s macroeconomic environment. In 2016, investor demand remained focused on top quality assets. New investors entered the market in 2016 and other already established investors have resumed acquisitions thus sending positive signals to other potential investors who were reluctant to enter the market.

Therefore, sentiment remains positive and market activity is expected to improve over the coming years.
Overview
Fashion retailers remained on the offensive in 2016, supported by the opening of new malls and the expansion of existing ones.

Supply
2016 had the greatest volume of new deliveries since 2009, with 229,000 sq m of new space, a 40% increase on 2015. About 40% of this volume was in Bucharest, where the shopping center stock reached approximately 1.16 million sq m.

The Bucharest market saw two new deliveries: ParkLake Plaza (70,000 sq m) and Veranda Mall (25,000 sq m), while two others were relaunched after being redesigned and reconfigured: Bucharest Mall and Plaza Romania.

In the rest of the country, NEPI opened the second phase of Timisoara Shopping City (40,500 sq m), extension in City Park Constanta (19,500 sq m) and new malls in Piatra Neamt – Shopping City (28,000 sq m) and in Satu Mare – Satu Mare Shopping Plaza (12,500 sq m).

In addition, the refurbishment of Mercur Craiova (20,000 sq m) has been completed while Coresi Shopping City in Brasov was extended with a leasable area of 13,500 sq m.

Demand
Occupier demand continued to be generated by well-known food and fashion brands in 2016. New deliveries such as ParkLake Plaza and Veranda Mall brought new brands to the market. The mass-market brands that have opened their first stores in Romania in these projects include Forever 21, which opened its first store in ParkLake Plaza and Tati, a French brand that launched in Veranda Mall. Other new market entrants include Pupa Milano, Tezenis, Takumi, Moletto, 4F, Landor, Play Park, Lynne and Bulgarini.

Premium brands choosing to open their first stores in Romania in 2016 also targeted shopping centers such as Baneasa Shopping City (except for COS which chose to open on Calea Victoriei). Among the premium brands which entered the market in Romania in 2016 were Max & Co, Chopard and Boggi.

Rents
In 2016, prime rents for the leading schemes remained relatively stable. For 100 sq m units, rents were around €60/sq m/month in shopping centers in Bucharest and between €25–35/sq m/month throughout the rest of the country.

Forecast
In 2017, the focus will be directed to secondary and tertiary cities where there are either no modern retail schemes or an undersupply of space.

Developers are turning to retail park projects, which are more suited to smaller cities. The delivery of such projects is scheduled for next year in cities like Satu Mare.

Considering the good results announced by the brands active in the local market which have closed 2016 with estimated sales growth of between 20% and 30%, we expect they will continue their expansion in the upcoming period.

New brands from other countries in the region are looking to expand in Romania over the next year as the country benefits from strong financial indicators and the outlook for growth is very promising. Retailers from countries such as Poland and Turkey are targeting Romania in an effort to diversify their portfolio and spread the risk in other markets.

**Table 4**

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>CITY</th>
<th>DEVELOPER</th>
<th>GLA (sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ParkLake Plaza</td>
<td>Bucharest</td>
<td>Sonae Sara/Caelum Development</td>
<td>70,000</td>
</tr>
<tr>
<td>Veranda Mall</td>
<td>Bucharest</td>
<td>Prodplast</td>
<td>25,000</td>
</tr>
<tr>
<td>Timisoara Shopping City (II)</td>
<td>Timisoara</td>
<td>NEPI</td>
<td>40,500</td>
</tr>
<tr>
<td>Mercur (refurbishment)</td>
<td>Craiova</td>
<td>local company</td>
<td>20,000</td>
</tr>
<tr>
<td>City Park extension</td>
<td>Constanta</td>
<td>NEPI</td>
<td>19,500</td>
</tr>
<tr>
<td>Coresi Shopping City (II)</td>
<td>Brasov</td>
<td>Immochan</td>
<td>13,500</td>
</tr>
<tr>
<td>Shopping City Piatra Neamt</td>
<td>Piatra Neamt</td>
<td>NEPI</td>
<td>28,000</td>
</tr>
<tr>
<td>Satu Mare Shopping Plaza</td>
<td>Satu Mare</td>
<td>NEPI</td>
<td>12,500</td>
</tr>
</tbody>
</table>

**Table 5**

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>CITY</th>
<th>DEVELOPER</th>
<th>GLA (sq m)</th>
<th>DELIVERY</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFI Cotroceni extension</td>
<td>Bucharest</td>
<td>AFI Europe</td>
<td>8,000</td>
<td>2017</td>
</tr>
<tr>
<td>Ramnicul Valcea Mall</td>
<td>Ramnicul Valcea</td>
<td>NEPI</td>
<td>28,000</td>
<td>2017</td>
</tr>
<tr>
<td>Satu Mare Mall</td>
<td>Satu Mare</td>
<td>NEPI</td>
<td>17,400</td>
<td>2017</td>
</tr>
<tr>
<td>Shopping City Sibiu extension</td>
<td>Sibiu</td>
<td>NEPI</td>
<td>n.a.</td>
<td>2017</td>
</tr>
<tr>
<td>Shopping City Galati extension</td>
<td>Galati</td>
<td>NEPI</td>
<td>n.a.</td>
<td>2017</td>
</tr>
<tr>
<td>AFI Palacul Brasov</td>
<td>Brasov</td>
<td>AFI Europe</td>
<td>45,000</td>
<td>2018</td>
</tr>
<tr>
<td>Timisoara Plaza</td>
<td>Timisoara</td>
<td>Plaza Centers</td>
<td>39,800</td>
<td>2018</td>
</tr>
</tbody>
</table>

Source: Knight Frank
LAND MARKET

Overview
2016 maintained the dynamic pace of the previous year, with several key transactions concluded for future mixed developments.

Supply
There were no notable changes to land supply, however we have identified several opportunities that show the potential of the market – data is included in the map below. Banks’ offers are less attractive as they remain only with some low quality products after selling NPLs in small packages of properties. Companies that bought this type of assets are not yet visible on the market with good offers. There are also some developers that own large land portfolios who want to sell them as package deals.

Demand
In 2016, demand trends were positive, with high volumes of activity witnessed across all market segments. The office and residential sectors were still the main drivers of demand for land for development, while companies were the most active buyers.

In the residential sector, interest is high for land plots located close to the new office hubs, suitable for mid-market projects in areas such as Calea Floreasca, Barbu Vacarescu, Aviatiei and for low-to-mid market projects in the Center-West area. For these types of developments, the most suitable size of land plots is between 1,000 sq m and 5,000 sq m. For high-end projects, interest remains positive in areas such as Primaveri, Kiseleff and ultra-central areas of Bucharest.

Demand for land plots suitable for office development is still an important part of total market activity. Even if well-known developers already own appropriate land plots and their focus is now on developing them, they are still interested in land opportunities located in the CBD or northern area, suitable for smaller office projects of 10,000–15,000 sq m, which are currently in high demand.

The key players on the industrial market are looking to secure new land plots for development and their interest has moved to the northern areas: the DN1–A3 and A2–A3 city ring segments have land plots with all utilities in place and ready to start construction work.

Two of the highlights of 2016 were acquisitions announced by Vastint Romania and Hanner Holding. The first of these was the purchase of a 48 ha site in Sisesti by Vastint Romania, as part of a strategic long-term investment, with a view to build a mixed-use development (predominantly residential).

Hanner Holding expanded its presence in the local market by acquiring an 11,000 sq m land plot from Forte Partners located in the Grozavesti area, close to Grozavesti and Basarab metro stations. This transaction marks Hanner’s entrance into the Romanian office sector, and highlights its continued growth plans following the success of its residential developments – The Park, Carol Park Residence and City Center.

Knight Frank Romania intermediated the €5 million transaction.

Prices
Prices were unaffected by the increased demand for residential and office land plots, and remained at stable levels throughout 2016.

Forecast
The supply of land plots suited to good development projects is expected to decrease, while demand is growing for land plots suitable for residential and office use, and as a result, we expect some upward pressure on prices.

Taking into consideration the deliveries to the office sector, and also the fact that companies need to expand in secondary cities, office developers will look to buy land and develop in cities where their tenants want to expand and open new offices, such as Timisoara, Cluj and Iasi.
INDUSTRIAL & LOGISTICS MARKET

Overview
A brief review of the final statistics for 2016 reveals the significant growth of the industrial sector compared with previous years. Supply additions came both from new phases of existing developments and from new entries. In terms of demand, 2016 continued to be dominated by retailers, followed closely by logistics companies.

Supply
During 2016, new deliveries amounted to 350,000 sq m, of which 60% were in Bucharest. Thus, the current modern stock located in and around the capital increased to over 1.2 million sq m. The largest projects completed in 2016 include the extension of P3 Bucharest Logistic Park (90,000 sq m), Log Center Mogoșoaia (45,000 sq m) and the extension of CTPark Bucharest West (30,000 sq m).

Demand
Industrial take-up across the country in 2016 reached record levels with 415,000 sq m of space absorbed. In Bucharest, total take-up in 2016 was close to 280,000 sq m, which was approximately an 85% increase compared with 2015, and a record year. A total of 45 leasing transactions were recorded in 2016 with an average lease size of 9,500 sq m and only seven transactions were larger than 15,000 sq m. During 2016 notable transactions included the lease renewals and pre-leases signed by Carrefour in P3 Bucharest Logistic Park (75,000 sq m overall), the expansion signed by Yazaki in Braila (39,000 sq m) and the renewal signed by eMag in Ruukki Building (25,000 sq m).

While Bucharest accounted for 68% of total take-up, Timisoara and Cluj were the most sought-after regional locations accounting for a further 14% and 7% respectively of the total volume.

In general, the main sources of demand were pre-leases and renewals/ renegotiations, accounting for 37% and 38% respectively of the total take-up.

In terms of tenant profile, the retail sector was the most active, accounting for 37% of total demand followed by logistics with 23% and automotive with 16%.

Vacancy
As of end of 2016, the vacancy rate was estimated at below 5% in Bucharest and below 10% in the rest of the country.

Rents
Due to growing demand and the decrease in space availability, rental levels registered a small increase.

Forecast
Assuming that the positive economic conditions prevail, we expect that demand for industrial space will continue the same positive trend as in 2016. The total stock of industrial space is expected to increase by approximately 500,000 sq m by the end of 2017.

Supply
Due to growing demand and the decrease in space availability, rental levels registered a small increase.

Forecast
Assuming that the positive economic conditions prevail, we expect that demand for industrial space will continue the same positive trend as in 2016. The total stock of industrial space is expected to increase by approximately 500,000 sq m by the end of 2017.

Supply
Due to growing demand and the decrease in space availability, rental levels registered a small increase.

Forecast
Assuming that the positive economic conditions prevail, we expect that demand for industrial space will continue the same positive trend as in 2016. The total stock of industrial space is expected to increase by approximately 500,000 sq m by the end of 2017.
RESIDENTIAL MARKET

Supply

2016 was the best year in terms of residential market performance in the past 10 years, continuing a trend that began in 2015, when the market showed clear signs of revival. This was based on the number of new deliveries, stabilizing prices and very good financing solutions. The enactment of the Commissioning payment law (Legea darii in plata) helped to significantly increase demand for Prima Casa loans, and 2016 was a record year since the scheme’s commencement in 2009. Even though most banks registered a decrease in the number of mortgages, because of the aforementioned law, they revised their strategies towards the end of the year, as the law did not have the very negative side effects that some had expected.

The apartment supply in Bucharest has decreased to 7,000–8,000 units, 35% lower than in 2015, and most of this is represented by projects finalized before 2015. There was a 20% increase in deliveries in 2016; however, an even higher number of apartments had been announced by developers for the year, but almost 10% of these were not delivered due to miscalculations by developers, decreasing demand because of Legea darii in plata and the rapid exhaustion of the first Prima Casa funds, which created a material shortage for developers, especially at the beginning of the year.

The increased buying power of residents encouraged the delivery of more mid-market apartments, with approximately 5,000 units delivered, but there was also an increase on the premium/high-end market, with approximately 1,000 new apartments. Most of the capital’s areas have the potential to absorb new residential developments, but the largest volumes of new projects are in the Center-West (Grozavesti, Politehnica) and Northern/Semi-central areas (Barbu Văcărescu, Pipera Sud), as more people are moving to these neighborhoods in order to be close to their workplaces. The Southern and Central areas remain active, while the East is the least dynamic for new deliveries.

Impact

one of the largest residential developers in the Bucharest market, sold over 560 apartments in Greenfield (Baneasa) in 2016, with a total of 433 contracts and 130 pre-contract. The same developer is currently expanding the project with 39 block units in the Plataniar neighborhood, totalling over 900 apartments with two, three and four bedrooms, half of which will be delivered this spring and the rest by the end of 2017. One United Properties will deliver a luxury residential complex located in the Charles de Gaulle area, on the edge of the Primaverii neighborhood. The project, named One Charles de Gaulle, comprises two buildings with a total of 33 apartments, on a land plot of 8,000 sq m. The living space will be 4,000 sq m and the delivery is scheduled for the second half of 2017. The project will be a green one with a high level of energy efficiency. One United Properties also began work last summer on One Herastrau Towers, a project that will bring to the market 106 new apartments. The development is located on Nicolae Caramfil street and will be delivered in March 2017. The same developer has announced a new project, to be started at the beginning of 2017, One Herastrau Towers, which will be delivered in H2 2019. Previous projects of the developer include: Madrigal Residence and One Floreasca Lake totalling 82 apartments.

Belvedere Development will start selling at the beginning of 2017 the apartments of the largest residential project in the Aviatiei, Barbu Văcărescu area, Belvedere Residences. The first phase of the project, consisting of 238 apartments in two buildings, is planned to be delivered at the beginning of 2018. The project is right next to the Pipera metro station and it will bring to the market a total of 1,556 apartments of different types in 13 buildings: double studios, 2-bedrooms and 3-bedrooms. Several other projects, both larger and smaller, were delivered in Bucharest: for example, Nusz Group delivered a luxury residential compound in downtown Bucharest, named Premio

EXCLUSIVE CITY CENTER

This project is the company’s second residential development, as previously it has been mainly active in the office sector. Premio Exclusive City Center will include 32 apartments with 48 parking places spread across two buildings of eight and six floors. In 2016, the Cosmopolis project brought to the market additional 600 units, while Anchor Group delivered a new building in their already-successful development, InCity Residence. The new building consists of 18 levels and will offer 12 types of apartments from studios to triplex and penthouses. Morad Group delivered buildings 3 and 4 of the Onix Residence in 2016, bringing the total number of apartments to 430. In H1 2017 the same developer is expected to deliver the third building of the project. Gatencu 49, a landmark project comprising 90 apartments and 210 parking places designed to offer the highest standards of quality and facilities, is expected to be delivered in H1 2017.

Demand

During 2016 there was a record number of transactions on the residential market, with developers adapting well to market demand. Most demand is still generated through the Prima Casa program, for mass market dwellings, however due to economic improvements and wage growth, there is also an increased demand in the mid-market segment. In addition, in 2016 there was a clear switch of preferences towards new apartments rather than older ones. Second-hand apartments still account for the majority of transactions, as their locations and general infrastructure are often preferable to new apartments and they are generally more affordable. Tenant budgets for projects completed in 2016 varied between €450–600/month for a 2-bedroom apartment in Baneasa to €3,500–5,000/month for a 4 or 5-bedroom apartment in Primaverii or Dorobanti Capitale.

There is an increasing trend towards acquisitions, with more people choosing to buy apartments instead of renting them, taking into consideration that in many cases, especially through some owners decreasing their prices quite substantially, this will influence the market for the upcoming years.
PROJECT MANAGEMENT

Overview

The trend of feeling at home in the office is reaching new heights as the workplace turns simultaneously to nature and technology. Companies want to meet the needs of their employees by providing a space that is fresh and healthy, but also very practical for the tech-savvy times in which we are living; a rather productive well-being approach.

Plants as a must in the office

One doesn’t usually notice plants in an office, but as soon as they are taken away, not only are the visually pleasing effects removed, but an abundance of other benefits are also lost. Plants protect staff against the effects of spending a lot of time indoors and act like natural mini air conditioners. There have been increased requests for greenery and we expect this trend to grow in the upcoming year. Plants help the acoustics of office space, are inexpensive, low-maintenance and help employees to reduce stress and become happier. It’s no surprise to us that even the Color of the Year follows the same path.

Sustainable carpets

Office carpet patterns are inspired by nature – sea waves, grass with earth – and they are made out of recyclable materials instead of petrochemical compounds. This translates into a healthier environment, because the carpet is no longer glued with toxic adhesives, plus it retains dust, allergens and bacteria much better in one place so that they can be more easily removed. Patterns also have decorative rhythm breaks which give them a more natural and human look, it brings the imperfections of nature to office interiors.

Integrated Technology

Wireless charging devices on desks, office furniture with built-in power adapters and multimedia capabilities are going to be the norm. Another logical trend in 2017 is smart modular furniture that allows mobility or provides multi-usage of a space.

Designing strategies

Companies request and acknowledge the need and the added value of strategic project management when it comes to reshaping a new or old office space. Needs are always changing and the challenge is to adapt those needs to the brand values of the company, while integrating the latest developments, for the best market costs and intelligent planning. A well thought-out office space brings results, even in the P&Ls of companies, which is a satisfying result of the strategic and focused efforts towards this objective.

While 2016 brought significant changes to the tax legislation applicable to real estate investments (including VAT simplification measures and changes to the calculation of property tax rates depending on the nature and usage of a property), we try to summarise below additional provisions applicable from 2017 that may impact investment decisions.

To start with, one needs to mention the abolition of construction tax (1% of gross book value of constructions other than buildings – a tax specific to certain capital intensive industries), a measure that was already announced in 2016 and we are happy it is being confirmed in practice.

The wider macro-economic context, in conjunction with the increase in the minimum wage as of 2017, will cause the micro-company tax regime to have more far-reaching applicability. In essence, small companies (with a turnover of less than €500,000 per year) pay a 1% turnover tax instead of 16% on corporate profits. The 1% tax is dependent on a company having at least one employee. We note that the turnover tax regime becomes compulsory, which may impact companies that are in the investment stage and accumulating losses, as they would still have to pay tax on their revenues, even if they have not started to generate profits.

To opt out of this regime, the company needs to increase its share capital from the minimum 200 RON to the EUR equivalent of 10,000. Opting in and out of the turnover tax regime should allow the company to carry forward its tax losses from the previous 7 years (even if the count was interrupted by the applicability of a compulsory turnover tax regime). Note that the turnover tax regime, although it may be more cost efficient for entrepreneurs, is still subject to activity restrictions (a micro-company cannot have general management and consultancy as its main activity) and to the risk of reclassification into dependent activity, assimilated to salary. In this case, one needs to carefully assess the specifics of each case to make an informed decision.

In terms of VAT, 2017 brings a change in the registration/re-registration process for VAT payers, which is currently quite burdensome. The detailed form ‘GSB’ (i.e. statement regarding commercial activity intention) has been abolished. In essence however, the procedure remains the same for non-resident shareholders and administrators (i.e. provision of data regarding foreign income etc.). Also, the VAT rate has been decreased to 19%, a measure impacting real estate transactions which do not already benefit from the VAT reverse charge mechanism (supply of buildings and certain types of land), such as construction costs.

Other factors influencing the real estate market include a controversial new law enacted in 2016 which allows debtors in mortgage agreements with banks to return the property to the bank as a means to repay their debts in kind. The Constitutional Court ruled at the end of 2016 that the payment in kind law can be applied retroactively to contracts already signed, but that the right to repay the debt in kind has to be appreciated by its merits on a case by case basis; the mere decrease in value of the mortgaged property does not constitute sufficient evidence of hardship and the bank is thus not obliged to accept the payment in kind. This decision is likely to influence the offer on the residential market.

In terms of real estate investment structures for new investors, the most common structure remains the special purpose vehicle (a limited liability company owning the specific real estate property). Cash can be repaid to shareholders via dividends with a 5% tax cost. As of 1 February 2017, dividend income is not subject to a health contribution (5.5%), assuming the individual has other income. The 5% dividend tax rate is likely to remain in force for the near foreseeable future. Also, sale of property by individuals becomes tax exempt as of 2017 for properties below the RON equivalent of €100,000.

Watch out for the following potential developments in 2017:

Potential exemption from building tax for developers until the first sale of buildings.

Administrative reclassification of cities within Romania, with consequences on building tax values for residential properties.

Potential new substance requirements for foreign holding companies, as a result of the larger context of greater fiscal transparency within the European Union.

Potential renegotiation of the double tax treaty with US (affecting US investors).

Potential introduction of legislation for real estate funds/real estate investment trusts (legislation draft in progress).
In an effort to reduce the bureaucracy of the construction permitting process and support both investors and local authorities, the Romanian parliament enacted Law no. 197/2016, which came into effect on 4 November 2016 and the government issued Government Emergency Ordinance no. 100/2016, which came into effect on 27 December 2016.

A number of useful amendments from these new regulations are expected to overcome the delays and hindrances that have plagued the construction permitting process in Romania. Below, the most notable changes concerning:

**Constructions**

In urgent cases, upon justified request, construction permits can be issued within 15 days, instead of the usual 30 day term. Before the completion of construction works, investors can now request a certificate attesting the stage of execution and current legal status of the construction. The certificate can be used to register the construction with the Land Registry, thus correcting a major shortcoming of the previous provisions which did not allow for the registration of unfinished constructions. This change will make it easier for investors to sell or mortgage a partially constructed building.

**Zoning**

Zoning plans (PUZs) aimed to change the urbanism regime for only one land plot located within city borders will be allowed if the land plot is surrounded by at least three public roads or other natural environment elements. This is intended to restrain the attempts to pass PUZs for individual small plots and rather allow it only if documented for larger areas. Approval of PUZs for land outside of city borders has been limited to parcels of at least 5,000 sq. m. which are already adjacent to land within city borders.

**Increased sanctions and transparency requirements**

Fines for violations of the construction permitting law were significantly increased. Public authorities have until December 2019 to procure the necessary capabilities for receiving documentation for the issuance of planning certificates and building permits online. To fight corruption, guidelines for planning and land-use planning policies must be made public knowledge.

**New powers of the State Inspectorate in Constructions**

To help investment, the concept of “tacit consent” has been eliminated. Now, if the issuers of building permits and underlying endorsements do not respond by the legal deadlines, the State Inspectorate in Construction has the authority to fine them. Furthermore, construction permits will now be valid for up to 24 months, instead of 12 months.

The State Inspectorate in Construction now has the capacity to pursue proceedings against illegal planning or construction permits in court. Previously, only the prefect had such authority, which often led to abuses. Moreover, the Inspectorate is obliged to stop the execution of construction work that does not meet legal requirements. The improvements are part of a broader legislative package launched in 2016, which aims to increase the quality of the construction market in Romania.

We expect further changes, at least to Government Emergency Ordinance no. 100/2016 upon its approval by the recently elected parliament.