Knight Frank

ROMANIA MARKET OVERVIEW

REFRESHED REAL-ESTATE PERSPECTIVES

2016–2017

HIGHLIGHTS

OFFICE MARKET

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.

RESIDENTIAL MARKET

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.

PROJECT MANAGEMENT

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

INVESTMENT MARKET

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.

INDUSTRIAL MARKET

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 85% increase compared with 2015, and a record year.

LAND MARKET

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.

RETAIL MARKET

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

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ROMANIAN ECONOMY – HIGHER INTEREST RATES AHEAD

by dr. Andrei Radulescu, Senior Economist
Banca Transilvania

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.

FIGURE 1
Romanian economy outlook
(%, YoY)

Source: Eurostat and Statistics Office estimates, Banca Transilvania forecasts

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.

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.

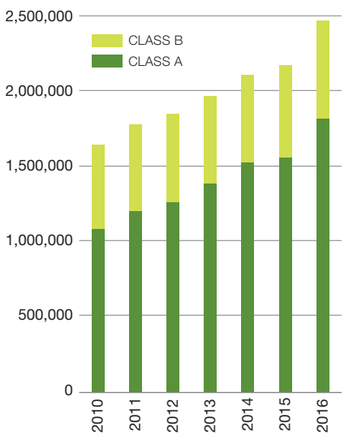
The year brought a significant volume of new deliveries – approximately 300,000 sq m – although 2009 remains the high point of the last 10 years with 400,000 sq m delivered.

Demand in 2016 was 50% higher than in the boom years, with the Center-West being the main focus with take-up of 123,490 sq m.

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

In 2017, demand is expected to flourish in the Center-West, CBD and even Expozitiei.

FIGURE 2
Modern office stock
Annual evolution (sq m)



Source: Knight Frank

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.

Supply

In 2016, the Bucharest market saw its largest ever volume of new class A & B offices – over 293,000 sq m spread across almost all major business districts, especially Calea Floreasca/Barbu Vacarescu (123,000 sq m), Dimitrie Pompeiu (75,000 sq m) and Center-West (56,500 sq m). The high volume of deliveries compensated for to the low levels in 2015, especially as some of the projects that had been scheduled for delivery in Q4 2015 were postponed to H1 2016.

The total office stock of Bucharest reached a record level of 2.5 million sq m, of which 75% is class A office space. The stock figure is getting close to that of other developed CEE capitals such as Budapest or Prague. The most important office buildings delivered to the market were: **Globalworth Tower** (51,000 sq m), **AFI Park 4 & 5** (32,000 sq m), **Hermes Business Campus II** (24,900 sq m) **& III** (29,100 sq m), **Oregon Park B** (24,600 sq m) and **The Landmark** (21,000 sq m). Among the new deliveries, there was only one refurbishment – **Valeriu Braniste** (approx. 4,800 sq m). By submarket, 42% of new supply was delivered in the Calea Floreasca/Barbu Vacarescu area, 25% in Dimitrie Pompeiu and the remaining 33% in popular central areas (CBD, Center and Center-West).

At a national level, the most important deliveries were recorded in Timisoara – **United Business Center 2** (18,000 sq m) and part of the Openville project; and Iasi – **United Business Center 5** (15,000 sq m) **& 6** (9,300 sq m).

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 Pompeiu 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

FIGURE 3
Demand by leased area
2016

Source: Knight Frank

FIGURE 4
Demand by type of transaction
2016

Source: Knight Frank

FIGURE 5
Demand by submarket
2016

Source: Knight Frank

FIGURE 6
Demand by tenant sector
2016

Source: Knight Frank

FIGURE 7
Office stock by submarket
2016

Source: Knight Frank

FIGURE 8
Vacancy rates
Class A&B offices, 2016

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 **Telekom** 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.

TABLE 1
Prime headline rents
2016–2017

SUBMARKET	PRIME HEADLINE RENT (€/sq m/month)
CBD	16–18
Presei Libere Square	14–16
Calea Floreasca -Barbu Vacarescu	14–17
Center-West	13–15
Baneasa	12–14
East	14.5
Dimitrie Pompeiu	11–13
West	11–12
South	10–11
Pipera	8–10
Center	13–17

Source: Knight Frank

TABLE 2
Top 10 office transactions in Bucharest
2016

TENANT	SUBMARKET	TYPE OF DEAL	LEASED AREA (sq m)
Renault	Center West	Pre-lease	39,000
BCR	Center West	Pre-lease	20,000
Telekom	Presei Libere Square	Renegotiation/Renewal	13,000
Teamnet	Center West	Renegotiation/Renewal	11,000
Hadassah Hospital	Dimitrie Pompeiu	Relocation	11,000
Oracle	Calea Floreasca/Barbu Vacarescu	Renegotiation/Renewal	10,400
IT (Confidential)	Center West	Renegotiation/Renewal	10,000
Antena 1	Dimitrie Pompeiu	Relocation	8,000
Misys	Center West	Pre-lease	8,000
Adobe	Center West	Renegotiation/Renewal	6,500

Source: Knight Frank

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 Piata Presei Libere, CBD and Dimitrie Pompeiu.

We expect the vacancy rate to stabilize or slightly decrease in the coming years, as it is anticipated that the pace of new deliveries will slow in comparison with 2016 but that demand will continue to grow.

Forecast

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 Iasi, 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 Iasi. Important new deliveries in these cities include the 5th phase of United Business Center in Iasi (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).

The Landmark

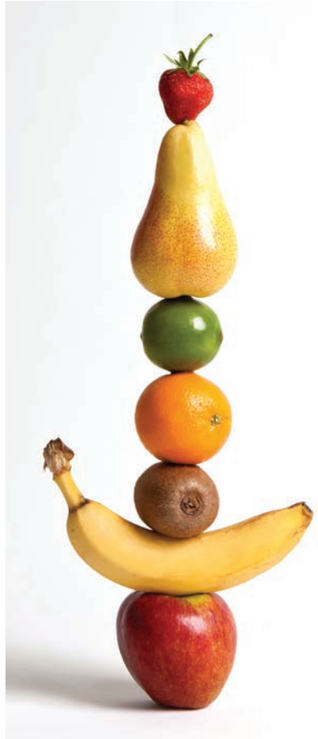
HIGHLIGHTS

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.



INVESTMENT MARKET

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 environment 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 sq m 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 sq m building at Piata Presei Libere) 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.

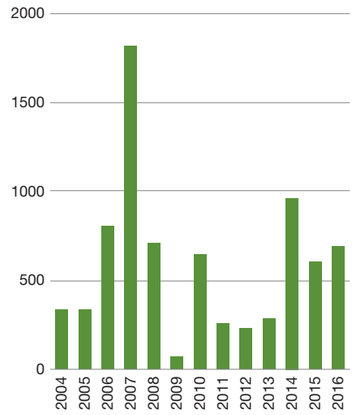
Therefore, sentiment remains positive and market activity is expected to improve over the coming years.

TABLE 3
Bucharest prime yields
2016–2017 (%)

OFFICE	RETAIL	INDUSTRIAL
7.5	7.25	8.75
➡	⬇	➡

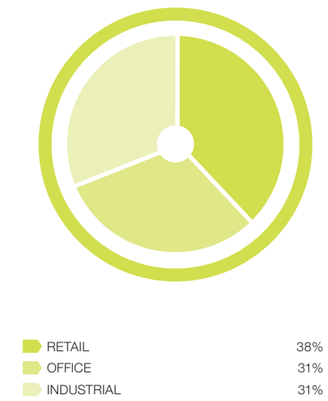
Source: Knight Frank

FIGURE 9
Romania investment transaction volumes
Annual evolution (€mn)



Source: Knight Frank

FIGURE 10
Transaction distribution by property type
2016



Source: Knight Frank

Hermes Business Campus

RETAIL MARKET
SHOPPING CENTERS

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, Motiko, 4F, Lanidor, 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
Retail schemes delivered in 2016

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

Source: Knight Frank

TABLE 5
Projects announced to be delivered in 2017 and 2018

PROJECT	CITY	DEVELOPER	GLA (sq m)	DELIVERY
AFI Cotroceni extension	Bucharest	AFI Europe	8,000	2017
Ramnicul Valcea Mall	Ramnicul Valcea	NEPI	28,000	2017
Satu Mare Mall	Satu Mare	NEPI	17,400	2017
Shopping City Sibiu extension	Sibiu	NEPI	n.a.	2017
Shopping City Galati extension	Galati	NEPI	n.a.	2017
AFI Palace Brasov	Brasov	AFI Europe	45,000	2018
Timisoara Plaza	Timisoara	Plaza Centers	39,800	2018

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 remained 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 Primaverii, 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.

TABLE 6
Relevant land transaction
(ha, sq m)

LOCATION	BUYER	SIZE	USE
Sisesti	Vastint	48 ha	Residential
Grozavesti	Hanner Holding	1.1 ha	Mixed
Barbu Vacarescu	One United Properties	8,400 sq m	Residential
Verzisori	Developer	7,300 sq m	Residential
Aviatiei	One United Properties	5,300 sq m	Mixed
Tudor Arghezi	Developer	1,800 sq m	Hotel

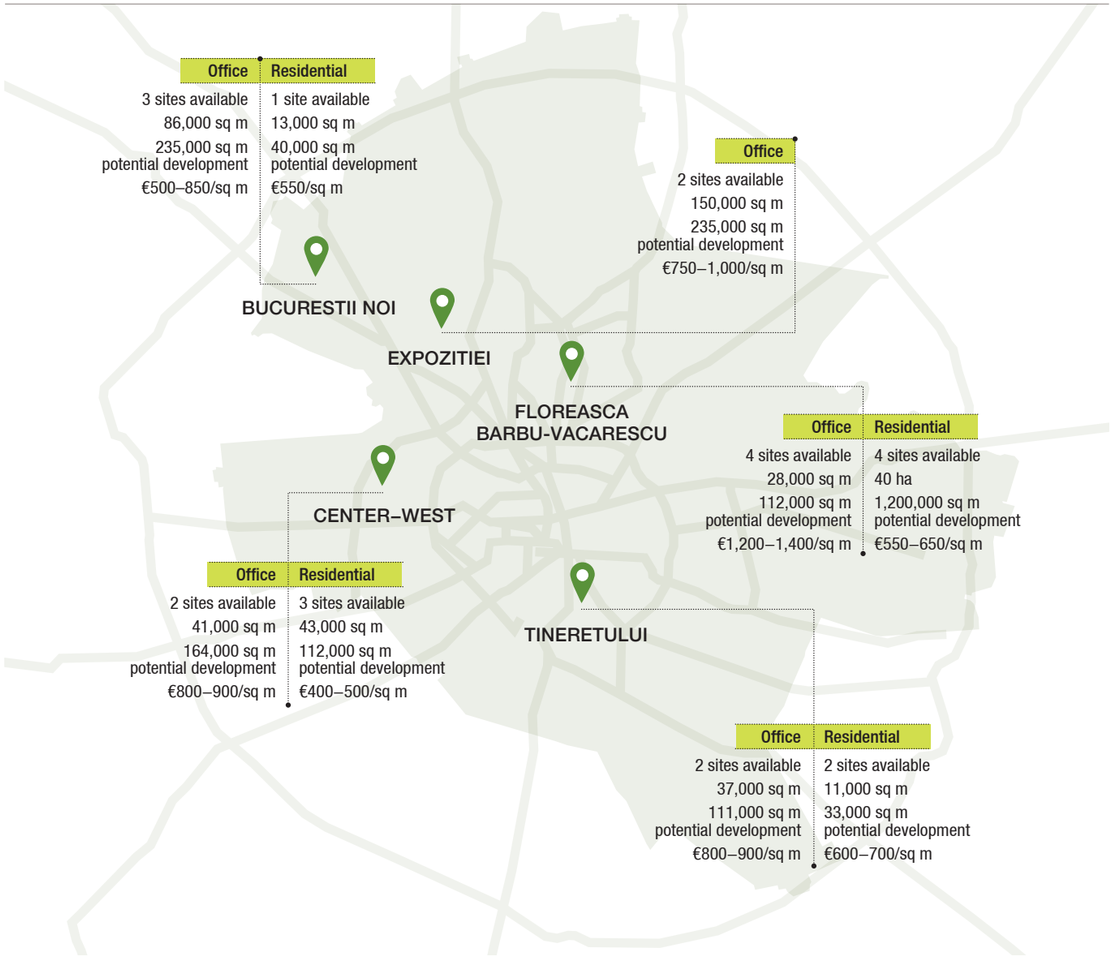
Source: Knight Frank

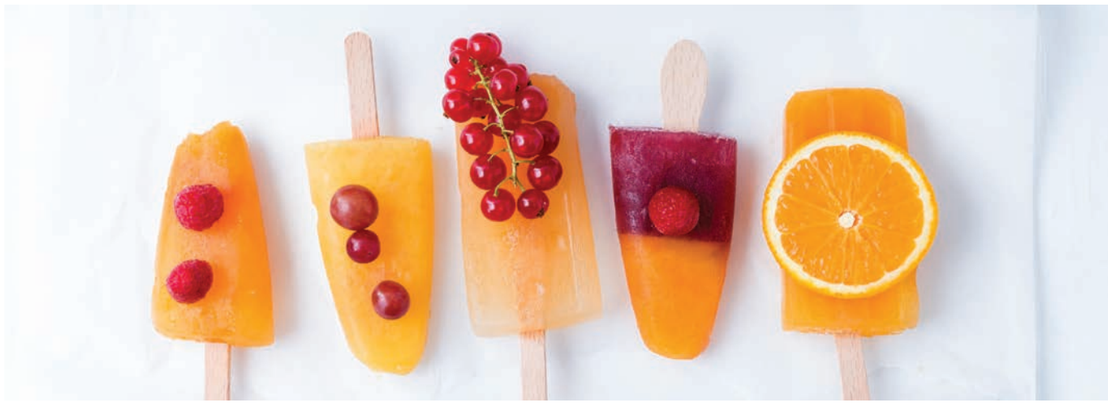
TABLE 7
Land plot prices by use
(€/sq m)

OFFICE	Barbu Vacarescu/ Floreasca	1,000
	Center-West	700–900
RESIDENTIAL	Prime areas	1,000–1,200
	Periphery	200–250
RETAIL	Bucharest	350–500
	Countryside	100–250

Source: Knight Frank

MAP 1
Land opportunities





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 Mogosoaia (45,000 sq m) and the extension of CTPark Bucharest West (30,000 sq m).

Demand

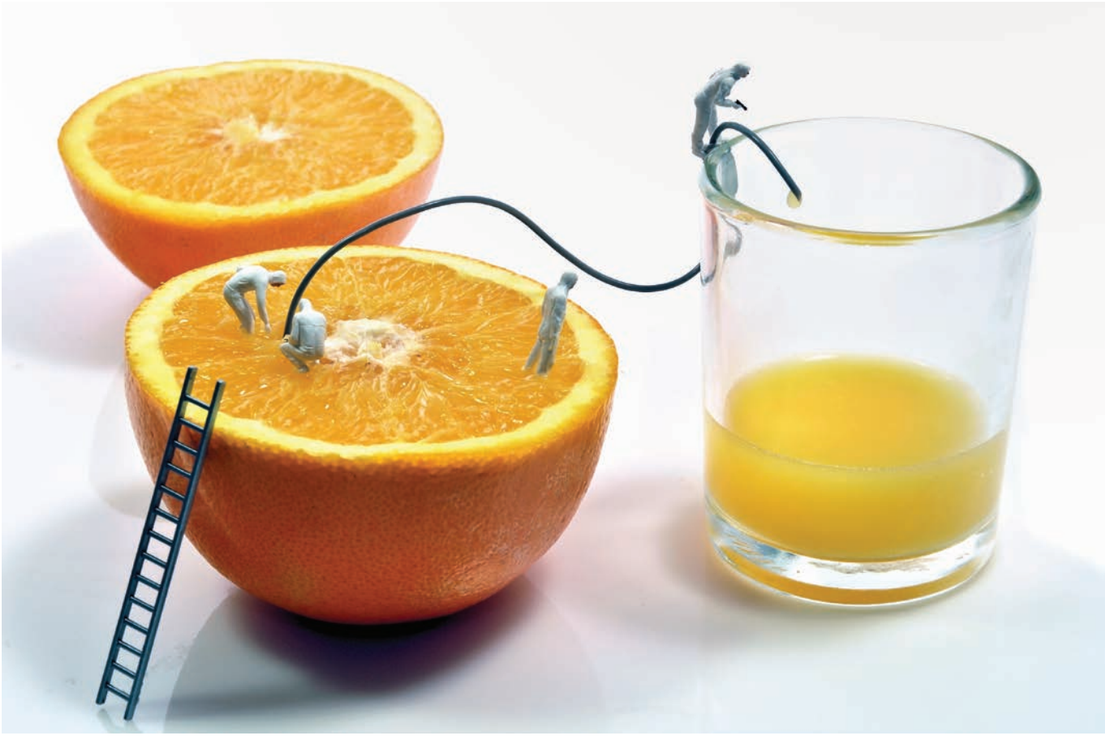
Industrial take-up across the country in 2016 reached record levels with 415,000 sq m of space absorbed. In Bucharest, total take-up in 2016 was close to 280,000 sq m, which was approximately an 85% increase compared with 2015, and a record year.

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 (29,000 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 36% 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.

FIGURE 11
Take-up by region
2016

BUCHAREST	68%
TIMISOARA	14%
CLUJ	7%
BRAILA	7%
ARAD	1%
IASI	1%
ORADEA	1%
BRASOV	1%

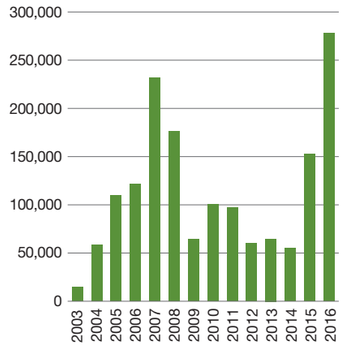
Source: Knight Frank

FIGURE 12
Take-up by tenant activity sector
2016

RETAIL	37%
LOGISTICS	23%
AUTOMOTIVE	16%
STORAGE	13%
PRODUCTION	5%
OTHER	4%
INDUSTRIAL/MANUFACTURING	2%

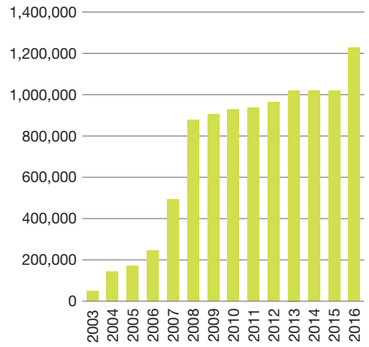
Source: Knight Frank

FIGURE 13
Bucharest modern take-up
Annual evolution (sq m)



Source: Knight Frank

FIGURE 14
Bucharest modern industrial stock
Annual evolution (sq m)



Source: Knight Frank

TABLE 8
Relevant industrial transaction

TENANT	AREA (SQ M)	PROPERTY	TRANSACTION TYPE
Carrefour	75,000	P3 Bucharest Logistic Park	Renewal & Pre-lease
Yazaki	29,000	WDP Braila	Expansion
Decathlon	28,000	WDP Bucharest	Pre-lease
eMag	25,000	Ruukki Building	Renewal
OTZ Logistics	15,000	CTPark Bucharest West	Pre-lease

Source: Knight Frank

TABLE 9
Prime rental and service charge ranges

RENT (€/sq m/ month)	BUCHAREST	REST OF THE COUNTRY
Logistics (<3,000 sq m)	€4.00–4.20	€3.80–4.00
Logistics (3,000 –10,000 sq m)	€3.75–4.00	€3.50–3.80
Logistics (>10,000 sq m)	€3.30–3.75	€3.00–3.50
Manufacturing	€3.50–4.25	€3.50–4.00
Service charge	€0.50–0.95	

Source: Knight Frank

HIGHLIGHTS

It takes approximately 10 years for a typical Bucharester to buy a new two bedroom apartment, considering the medium net salary in the capital and the average square meter price of a new apartment.

There were approximately 10,000 residential transactions for new apartments in 2016 in Bucharest and surrounding areas.

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-Vacarescu, Pipera Sud), as more people are moving to these neighborhoods in order to be close to their workplaces. The Southern and Central areas are also 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-contracts. The same developer is currently expanding the project with 39 block units in the Platanilor 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 new 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 Park, 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 Vacarescu 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, Nusco 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 46 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 fifth building of the project. **Gafencu 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 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 Prima Casa, the loan instalments are equal to, or sometimes less than, monthly rents.

Projects that had stagnated or been left unfinished because of the crisis are being now bought by developers in order to be finalized. Some examples of this are in the northern part of the capital (Pipera, Barbu Vacarescu) and this indicates an increased appetite for the mid-market and Prima Casa segments.

Prices

Prices started to pick up in Bucharest, especially for old apartments, although prices for new apartments were relatively stable at €800–1,000/usable sq m for mass market apartments and €1,000–1,700/usable sq m for mid-market apartments. Regional markets also experienced price growth with Cluj Napoca currently being the most expensive market for new apartments. Sibiu, Constanta and Brasov each had over 1,500 new apartments delivered in 2016, while Iasi, Timisoara, Oradea and Craiova all had over 750 apartments delivered.

Corporate Residential Lettings

Although rental prices remained broadly stable in 2016, landlords showed greater flexibility towards tenants in the second half of the year, and a premium 3-bedroom apartment in a residential complex that rented for €2,200/month in H1 2016 decreased to €1,800–2,200/month in H2 2016. We are expecting the same trend to continue at the beginning of 2017, especially for properties that have been unoccupied since 2016.

Among residential owners, the most preferred clients are those with diplomatic status and expats working for companies in mid-to-top level management positions. In order to attract such clients, owners are willing to be more flexible than would otherwise be the case. Multinational companies and embassies will calculate their annual rent budgets based on the previous years' contracts and, with some owners decreasing their prices quite substantially, this will influence the market for the upcoming years.

In H2 2016, more corporations requested apartments in residential parks, rather than hotels, for short-term expat relocations (6–9 months).

Forecast

We expect to see prices increase in the mid-market segment, due to wage growth and general improvements in the economy, but also because those who were the first to buy apartments through the Prima Casa scheme can already sell these units and may be in a position to upgrade to better properties. The announced Prima Casa amount for 2017 is 2 billion Lei.

Regional markets are expected to experience growth in both deliveries and prices, with Cluj Napoca, Timisoara, Constanta, Iasi and Brasov leading these trends. Lettings in Bucharest for 2017 are not expected to show a notable increase compared with 2016.

HIGHLIGHTS

Office space goes back to nature, where human beings feel most at home and can reach their most efficient and effective states: natural light, bright colors, intimacy, feeling the sun, seeing green plants (both inside and outside windows) all adapted to the local necessities.

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.

PROPERTY TAXES – HIGHLIGHTS FOR 2017

by Alexandra Smedoiu, CFA, Director
PricewaterhouseCoopers Romania

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% tax 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 '088'** (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).

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NEW REGULATIONS TO IMPROVE QUALITY AND DISCIPLINE IN CONSTRUCTION SECTOR

by Roxana Fratila, Managing Associate, CMS Cameron McKenna

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.

FORECAST 2017

OFFICE MARKET

It is forecast that 350,000 sq m in 16 projects will be delivered to the market in 2017–2018 in Bucharest, 50% of the deliveries announced for 2017 are in the Center-West.

INVESTMENT MARKET

The increased activity in the Romanian real estate investment market indicates the growing confidence in Romania's macroeconomic environment.

LAND MARKET

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.

RETAIL MARKET

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 while developers are turning to retail park projects, which are more suited to smaller cities.

RESIDENTIAL MARKET

We expect to see prices increase in the mid-market segment, due to wage growth and general improvements in the economy.

INDUSTRIAL MARKET

Assuming that the positive economic conditions prevail, we expect that demand for industrial space will continue the same positive trend as in 2016.

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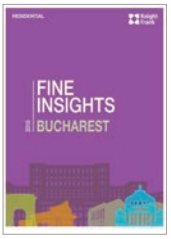

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