Real Estate Report

Romania *Market Overview*

Elevate

H1 2022

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Contents

BANCA TRANSILVANIA®

Economic Overview

The accumulation of adjustment signals in the economy

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In the recent months the macroeconomic climate deteriorated, given the high level of the inflationary pressures and the consequences of the crisis in Ukraine, in a context dominated by the normalisation of the monetary policy and persistence of uncertainty.

According to the PMI Composite indicator (computed by Markit Economics and JPMorgan) the global economy contracted in August (for the first time since the Summer of 2020), an evolution determined by the decline of the services sector and the slowing-down of the manufacturing.

In USA (the largest economy of the world, with a nominal GDP of around USD 24.9tn in 1H) the contraction of the labour productivity by 2.4% YoY in 2Q (a record pace in the post-World War period) expresses prospects for the continuity of the adjustment process in the short-run (after the decline in 1Q and 2Q).

In Romania there can be noticed the accumulation of the adjustment signals (after the economic growth of 5.8% YoY in 1H).

At the same time, the economy of China (the second largest of the world, with a nominal GDP of around USD 18.2bn in 2Q) decelerated in August, according to the PMI Composite indicator.

Across the Eurozone (the main economic partner of Romania) the macroeconomic climate deteriorated recently, given the high level of the inflationary pressures (the consumer prices rose by 9.1% YoY in August, a record level) and the consequences of the crisis in Ukraine (especially given the high level of the dependency on the imports of oil & gas from Russia).

In Romania there can be noticed the accumulation of the adjustment signals (after the economic growth of 5.8% YoY in 1H), given the deterioration of the real disposable income of the population, the slowing-down of the Euroland economy and the lack of manoeuvre room for the economic policy.

Across the financial side of the economy one can notice the increase of the nominal interest rates on the money and bonds markets, as well as the high level of the volatility on the stock market, as the Federal Reserve signalled the continuity of the normalisation cycle to counter the inflationary pressures, despite the deterioration of the macroeconomic climate (also reflected by the increase of the unemployment rate in August).

In Romania the post-pandemic economic recovery continued in 2Q, but by a slowing-down pace to 5.3% YoY, an evolution determined by the deterioration of the contribution of the net foreign demand.

However, there can be noticed the increase of the fixed investments by an accelerating YoY pace to 2.5% in 2Q, an evolution supported by the affordable level of the real financing costs and the implementation of the EU programs.

In 1H2022 the national economy rose by 5.8% YoY, given the reopening process, the low level of the real financing costs and the recovery of the Euroland economy, factors that counterbalanced the accumulation of the inflationary pressures and the deterioration of the risk perception, in the context of the Ukrainian crisis.

The advance of the gross fixed capital formation by 2.2% YoY confirms the resilience of the economy in the context of the overlapping supply-side shocks and the consequences of the crisis in Ukraine. At the same time, the private consumption rose by 7.6% YoY, an evolution strongly supported by the reopening process and the improvement of the labour market climate.

The change in inventories had a contribution of 4.2pps to the YoY dynamics of the GDP during January-June 2022.

On the other hand, the net foreign demand had a negative contribution to the YoY pace of the GDP (-3.9pps) in 1H, given the increase of the imports by 14.3% YoY, a stronger pace compared to that of the exports (7.7% YoY).

From the supply-side perspective there can be noticed the increase of the IT&C by 23.9% YoY during January-June 2022, in the context of the acceleration of the Digital Revolution.

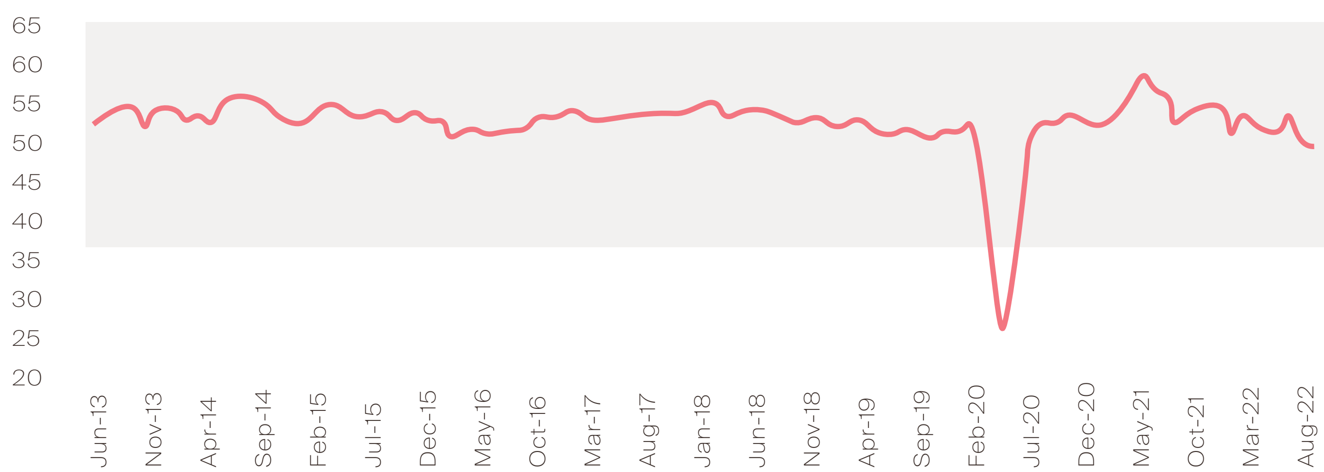
According to the core macroeconomic scenario of Banca Transilvania the economic climate would deteriorate in the coming quarters (a dynamics below potential), given the adjustment of the Euroland economy, the high level of inflation (with negative impact for the real disposable income of the population) and of the risk perception.

In our core macroeconomic scenario, the Romanian economy would increase by YoY paces of 4.4% in 2022, 2.4% in 2023 and 4.6% in 2024.

We point out the positive prospects for the fixed investments in the mid-run, given the affordable level of the real financing costs, the implementation of the EU programs and the development potential. The gross fixed capital formation would advance by YoY paces of 2.7% in 2022, 4.5% in 2023 and 5.4% in 2024.

For the private consumption (the main component of the GDP) the forecasts recently updated by BT point to the increase by 6% YoY in 2022, 4.4% in 2023 and 6% in 2024.

Figure 1. *The dynamics of the Global PMI Composite indicator (points)*



Source: *Bloomberg*

Among the main risk factors for the evolution of the Romanian economy in the short-run we mention the persistence of a tough global and European macro-financial climate, the domestic policy-mix, and the geo-political tensions.

As regards the public consumption BT forecasts YoY growth paces of 2.8% in 2022 and 3.5% in 2023 and 2024.

Across the net foreign demand, we expect the total exports and the total imports to climb by YoY average paces of 7.1% and 9.8% during 2022 – 2024. For the consumer prices (HICP basis) the recent forecasts point to an increase by YoY average annual pace slowing down from 11.2% in 2022 to 6.5% in 2023 and 3.8% in 2024.

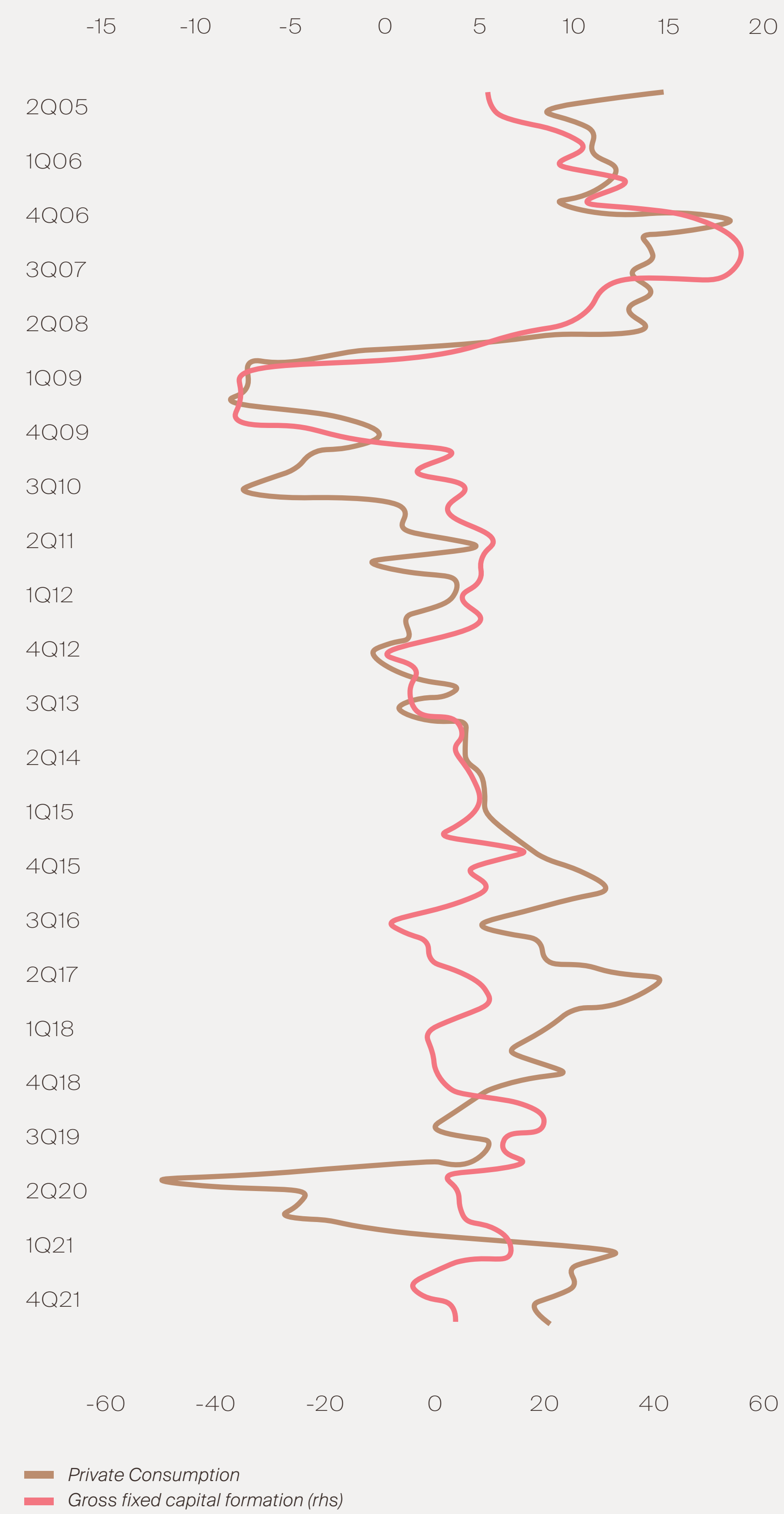
In this context (negative output gap and change of the trend for inflation in the coming months) the central bank may increase the policy rate to 6% in 2022 but would cut the reference rate to 4.50% in 2023 and 4.25% in 2024, in our view.

For the average annual yield on 10YR Bonds (a benchmark for the financing costs in the economy) our recent forecasts point to levels of 7.6% in 2022, 5.7% in 2023 and 5.1% in 2024.

Last, but not least, in the BT scenario the average annual EUR/RON would increase from 4.92 in 2021 to 4.94 in 2022, 4.98 in 2023 and 5.02 in 2024.

Among the main risk factors for the evolution of the Romanian economy in the short-run we mention the persistence of a tough global and European macro-financial climate, the domestic policy-mix, and the geo-political tensions.

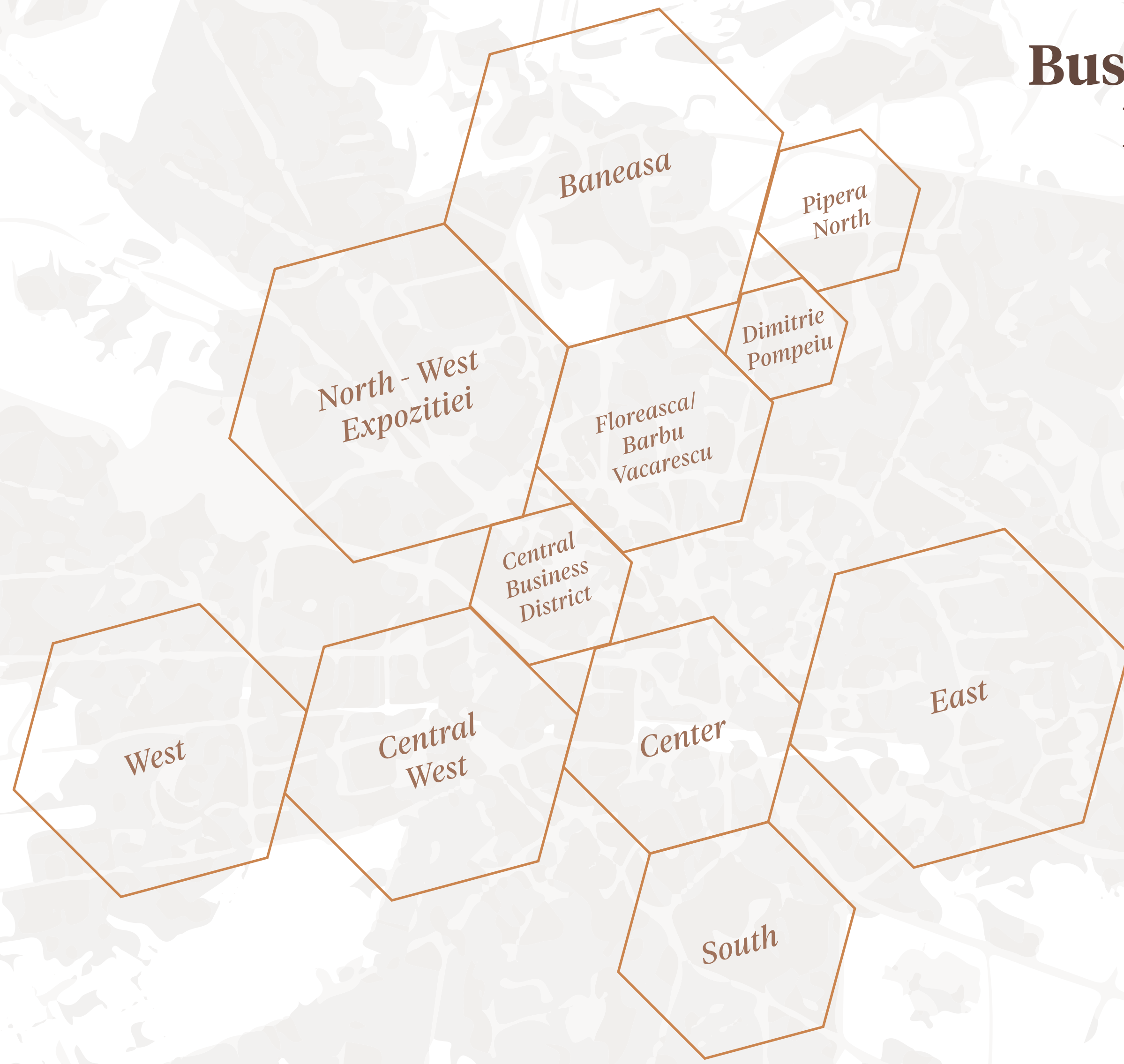
Figure 3. *The gross fixed capital formation vs. the private consumption in Romania*



Sources: *National Institute of Statistics (NIS)*

Bucharest Office *Market*

Main
Business Hubs
h1 2021



CENTER-WEST
Stock: **587K sq m**
Headline Rent: 13-15.5 €/sq m/month

FLOREASCA/BARBU VACARESCU
Stock: **570K sq m**
Headline Rent: 15-17 €/sq m/month

DIMITRIE POMPEIU
Stock: **441K sq m**
Headline Rent: 11-13 €/sq m/month

CENTER
Stock: **406K sq m**
Headline Rent: 13-15.5 €/sq m/month

CENTRAL BUSINESS DISTRICT
Stock: **359K sq m**
Headline Rent: 16-19 €/sq m/month

NORTH-WEST EXPOZITIEI
Stock: **290K sq m**
Headline Rent: 14-16 €/sq m/month

PIPERA NORTH
Stock: **211K sq m**
Headline Rent: 8-10 €/sq m/month

BANEASA
Stock: **182K sq m**
Headline Rent: 12-14 €/sq m/month

WEST
Stock: **158K sq m**
Headline Rent: 12-14 €/sq m/month

Stock
3.296 K SQ M

Supply
~98K SQ M

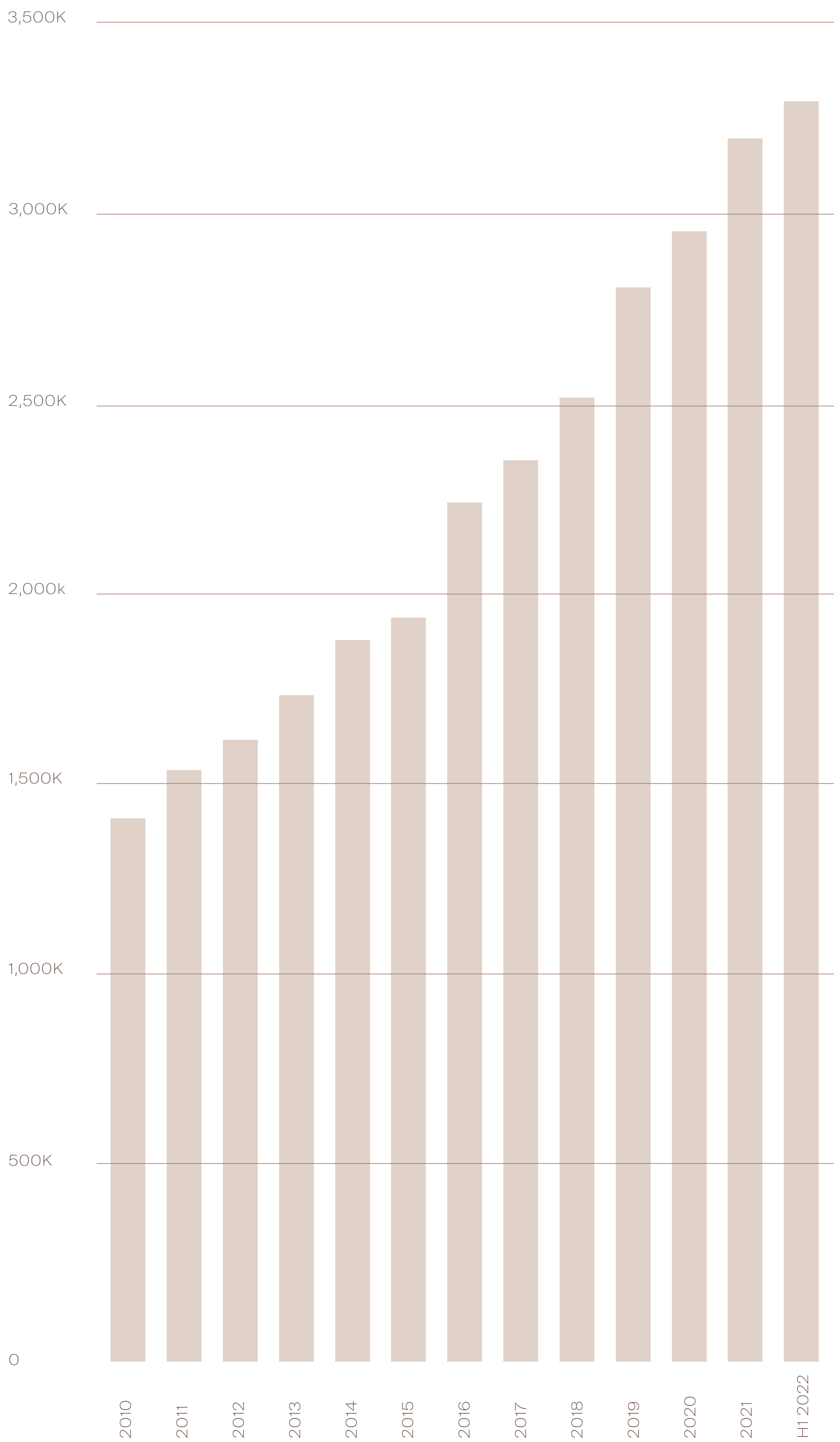
Pipeline
H2 2022 35K SQ M

Demand
~151 K SQ M

Transactions
130

Bucharest modern office stock

Annual evolution (sq m)



Supply

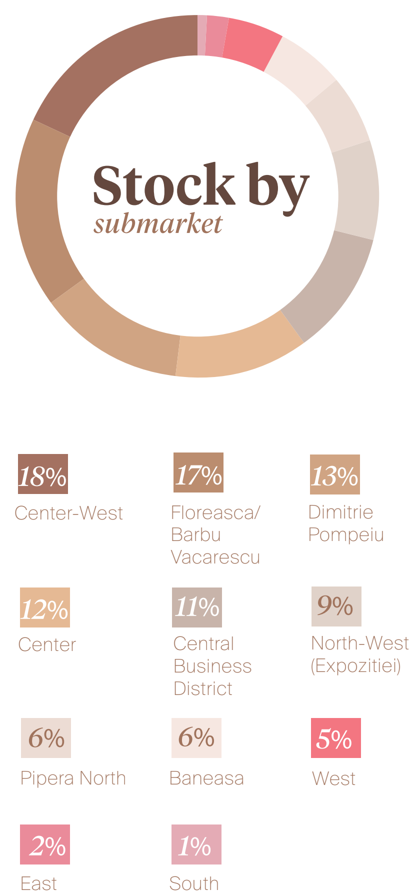
98,000 sq m

In H1 2022 the supply reach approximately 98,000 sq m, representing a double amount compared to same period last year. Among the schemes, AFI Tech Park II is the largest (~24,500 sq m), followed by @Expo (~21,000 sq m) and Tandem (~21,000 sq m).

Stock

3.3 mil sq m

The submarket with the highest modern office stock is Center West area (587,000 sq m) followed by Calea Floreasca / Barbu Vacarescu (570,000 sq m) and Dimitrie Pompeiu (441,000 sq m).



Demand

151,000 sq m

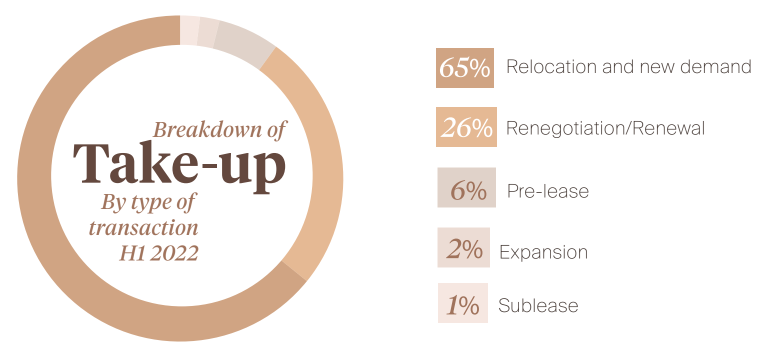
Almost 79,000 sq m were leased in Q2 2022 after 72,000 sq m in the 1st quarter, bringing take-up to almost 151,000 sq m for the 1st half of 2022, an increase of 20% compared to the same period of last year. 130 transactions were signed in H1 2022, compared to 100 in H1 2021.

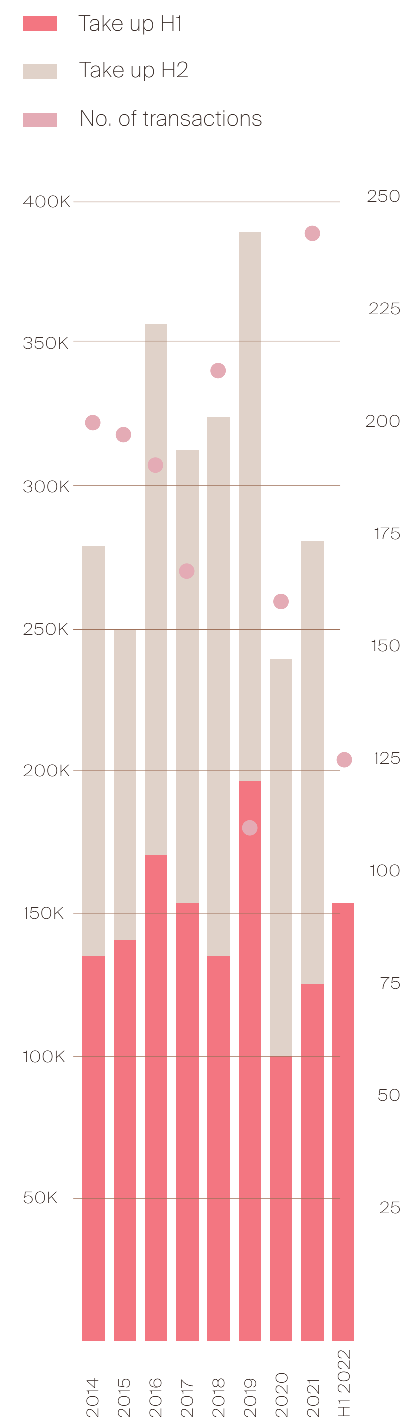
Recent transactions already show a trend towards a reduction in the average size of leased space from 1,500 sq m in H1 2020 and 1,250 sq m in H1 2021 to 1,100 sq m since the beginning of 2022.

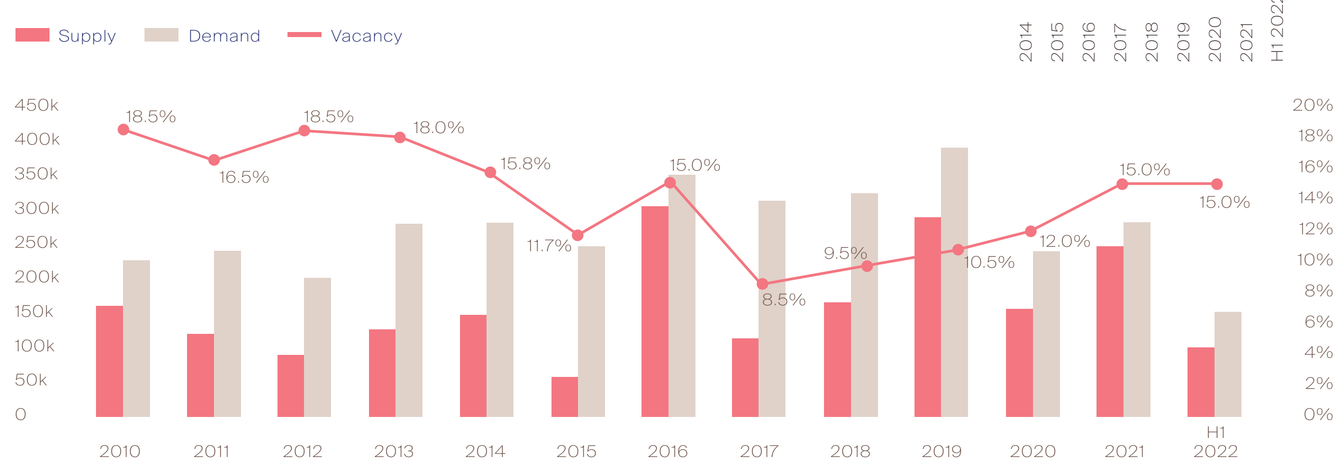
Out of 151,000 sq m, 40% were new demand, 26% renewals, 25% relocations while pre-lease were 6%.

The most sought after submarkets in H1 2022 were Center-West area, which saw ~40,000 sq m of leasing activity (26% of total take up) and Center area, where ~30,000 sq m of space was leased (20% of total take up), followed closely by Floreasca/Barbu Vacarescu with 19% of total take up each.

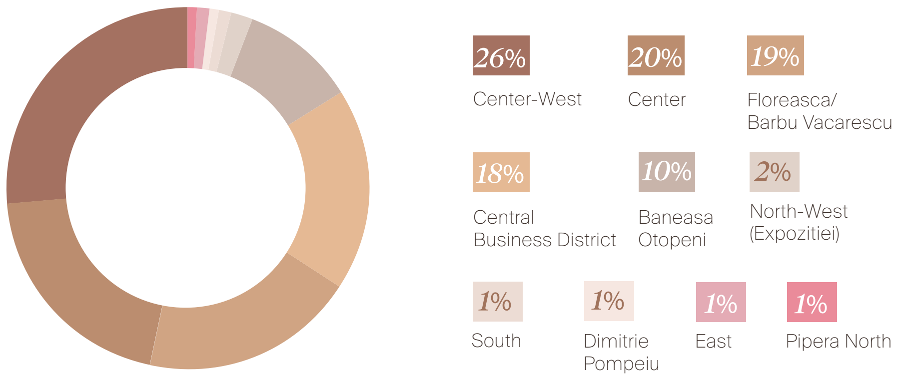
IT & Communication sector still makes up the largest share of demand, accounting for almost 30% of the total take-up, followed by professional services companies with 13% share.



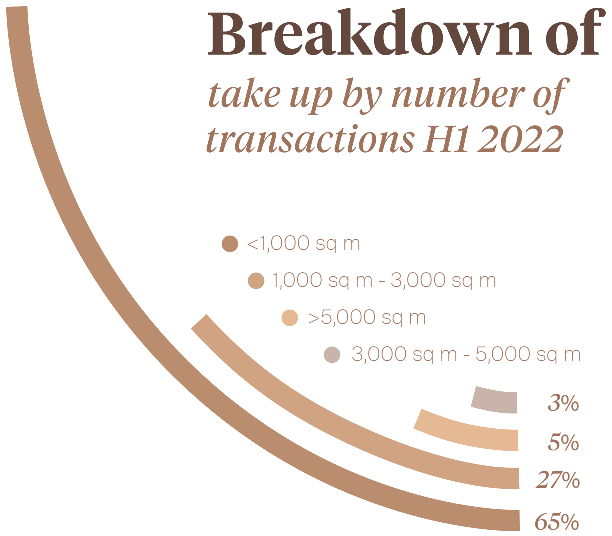




Geographic
Breakdown
of take up H1 2022



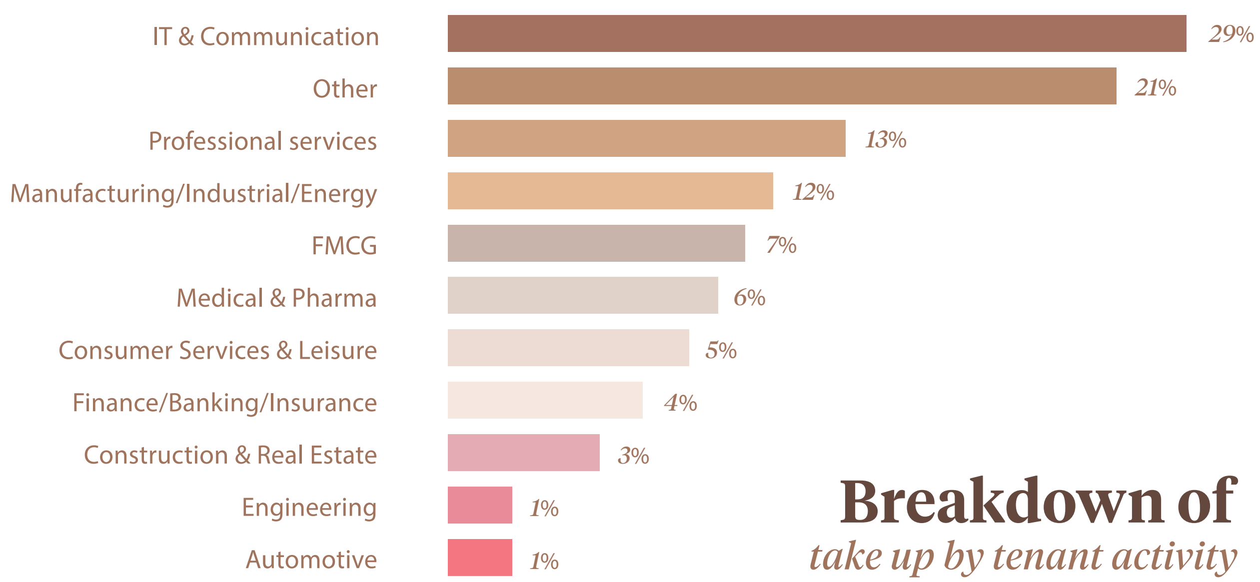
Breakdown of
take up by number of transactions H1 2022



Rents

Several factors including a smaller number of new projects in the pipeline and higher construction costs led to an increase in average gross rents in the good quality buildings that are due to be delivered.

The average rents for prime offices in prime locations were situated at 18.5 EUR/sq m/month.

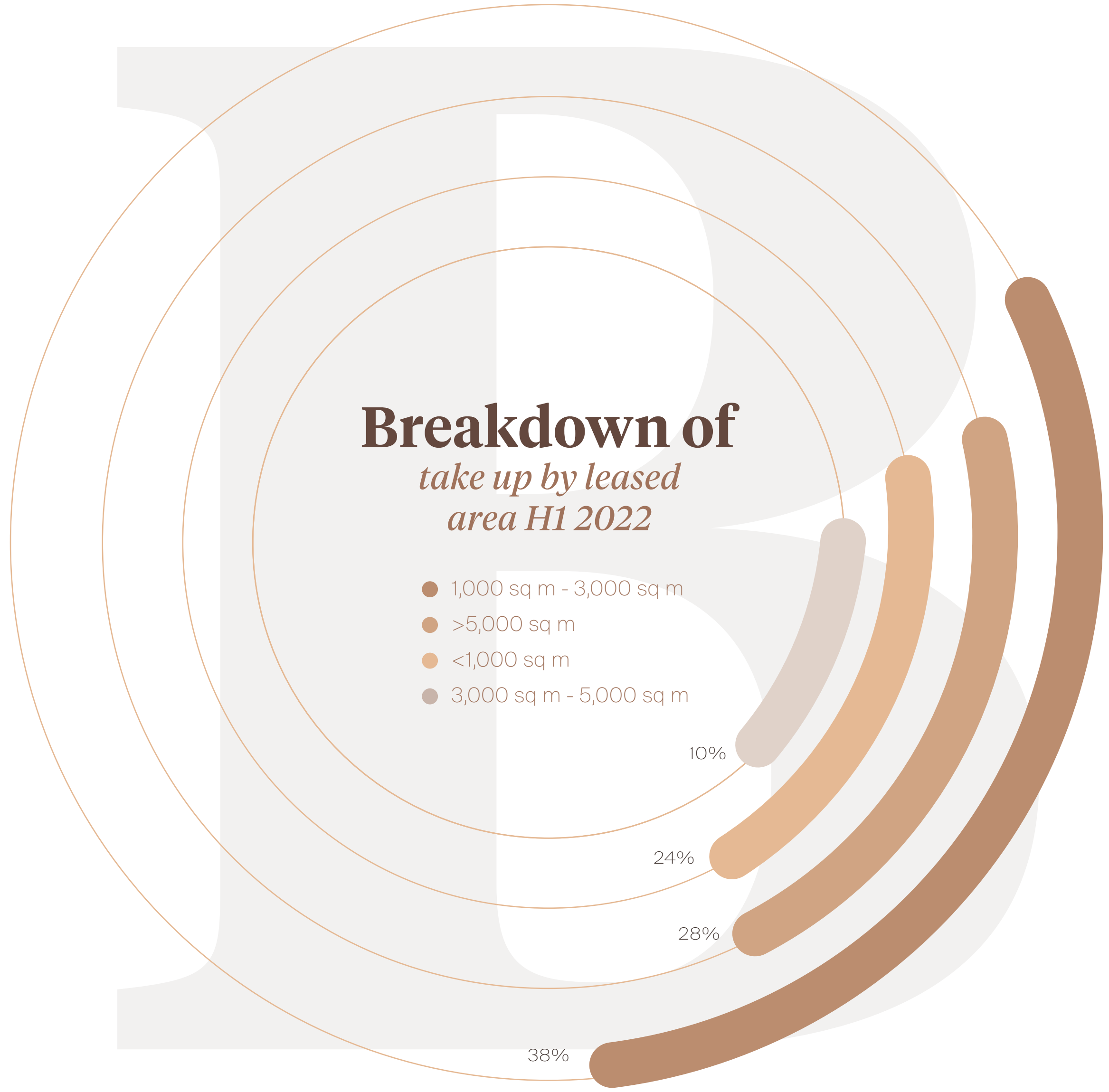


Breakdown of
take up by tenant activity

The vacancy rate remained constant at a level of 15%.

Vacancy
15%

Breakdown of
take up by leased area H1 2022



~40,000 sq m until end of 2022
Forecast / *Pipeline*

Including schemes such as: One Cotrceni Park II (~35,000 sq m and Tudor Arghezi by Strabag (~7,500 sq m).

Amid the lack of approvals of new building permits we estimate a smaller number of projects will be delivered in the next few years. This means the Bucharest office leasing market will likely change to a landlord market, which will put further upward pressure on rents.

Residential Overview Bucharest in focus

The investment market increased in the H1 of 2022 with approximately 13% above the level of H1 of the last year.

Demand

Real estate transactions H1

Total transactions in H1 2022: 85,464 units, with an

3%

from last year

~26,871

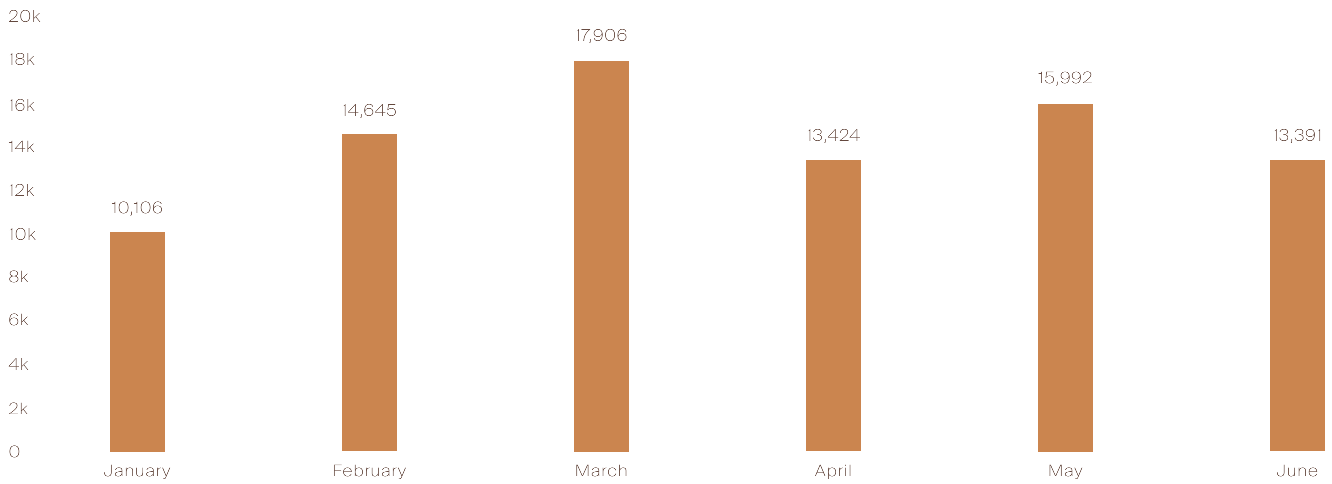
transactions in Bucharest in H1 2022

Number of homes sold in Bucharest and Ilfov increased annually by

~16.6%

~19%

transactions increase in Bucharest compared with the same period in 2021



Prices

~1,745

eur / sq m Average price in Romania

+ 12%

~1,720

eur / sq m Average price in Bucharest

+ 7.5%

We estimate an upward trend for the asking selling price, following the same trend of prices for construction materials, fuels & credits.

Supply

Residential deliveries have not kept up the pace with the high demand. Q1 2022 – 11% increase in the number of built housing units nationwide compared to the same period last year.

35,100*

Available units for sale in Bucharest in H1 2022

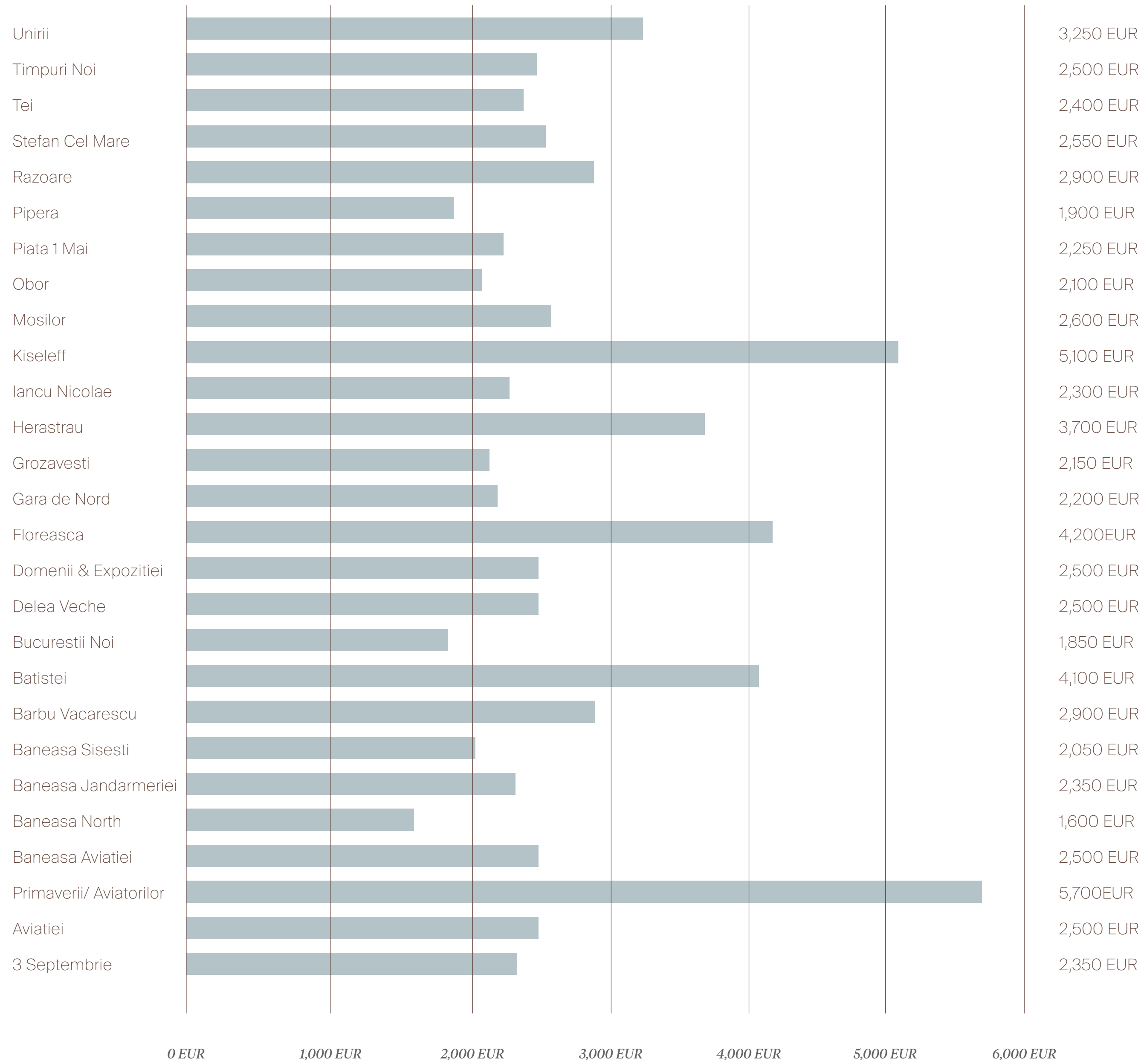
*data from imobiliare.ro

~13%

decrease compared with the same period in 2021

Medium price/usable sq m

Bucharest residential areas



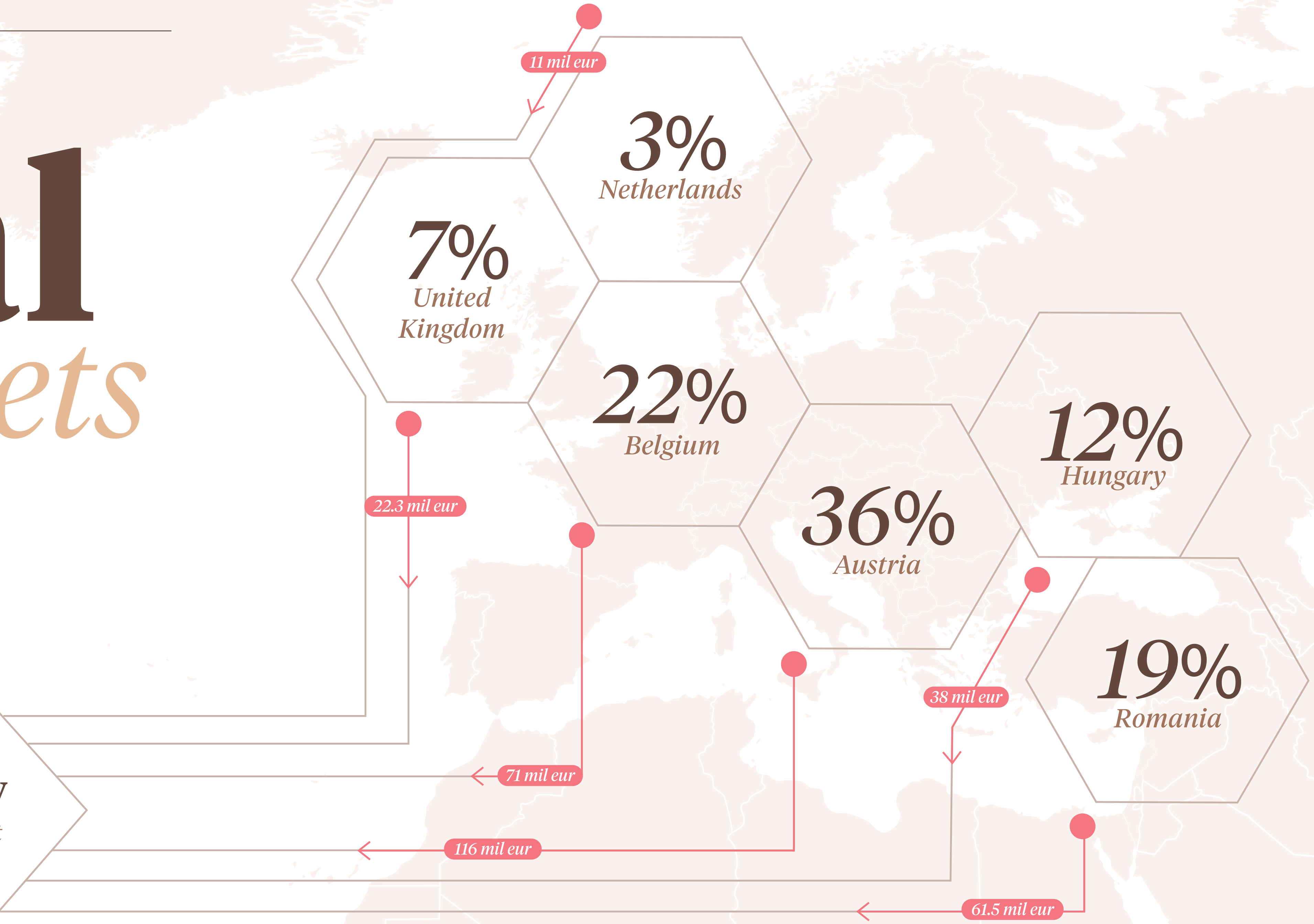
Capital *Markets*

Investment volume
EUR 320 million

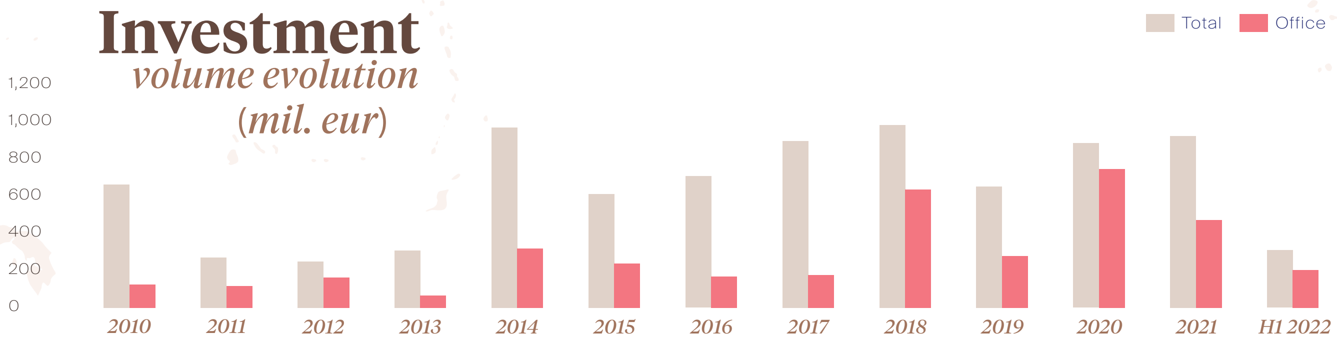
In the first half of 2022 the investment market reached a total volume of EUR 320 million, 20% higher than the amount from H1 2021.

As in the previous year, the office segment was the most significant in terms of volume accounting for more than 65% of the total volume with the remaining volume generated mainly by the industrial segment which accounted for 20% of the total volume.

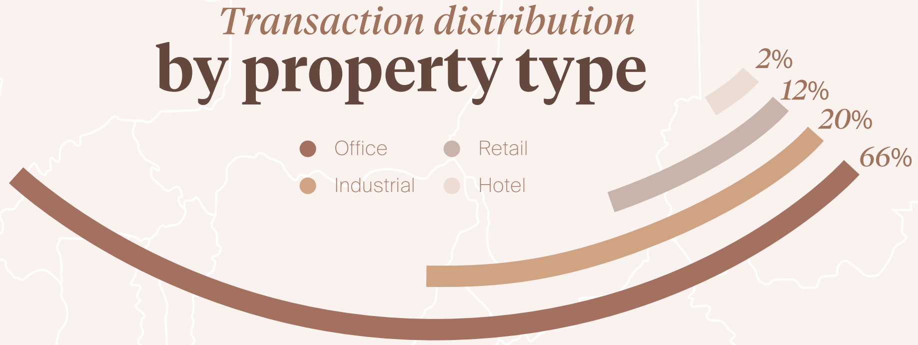
Capital Gravity
Cross-Border Investment



Investment
volume evolution (mil. eur)



Transaction distribution
by property type



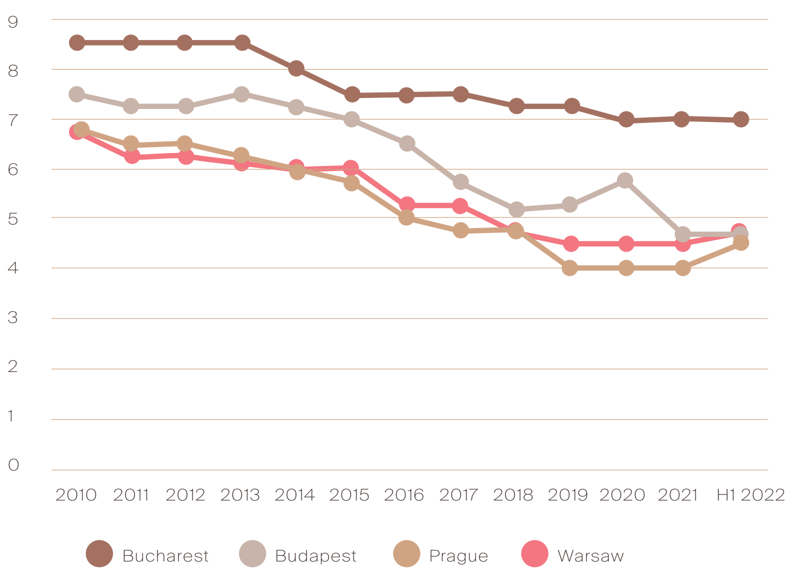
Yelds
stable outlook

In the first half of the year, prime yields didn't register any fluctuations and maintained stable from the last quarter of 2021.

Prime Yields
%H1 2022

Office	Retail	Industrial
7 →	7 →	7.5 →

Yields for *Prime office assets*

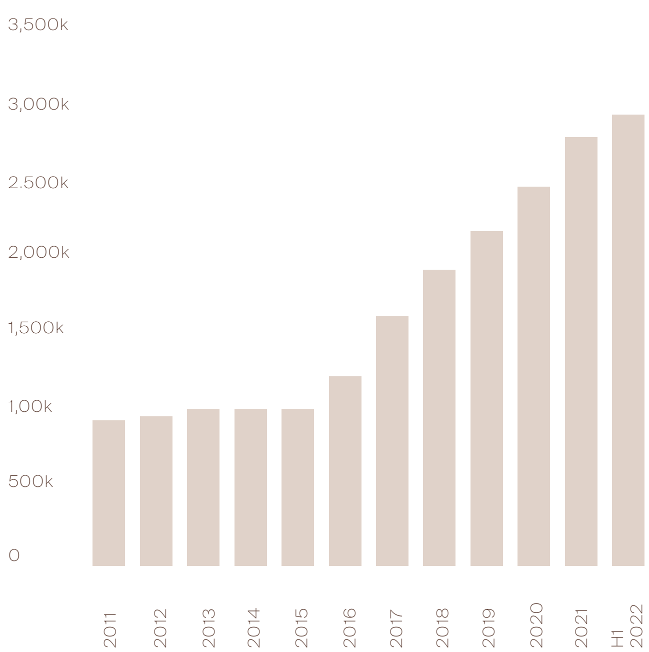


Forecast
0.8 billion EUR in 2022

Judging by the existing pipeline of projects that are currently on sale on the market it is expected that in 2022 we will have a volume of transactions close to the one from 2021.

and Industrial Logistics Market

Bucharest modern industrial stock
Annual evolution (sq m)



Supply

The level of deliveries in H1 2022 was around 300,000 sq m, bringing the nationwide stock to nearly 5.9 million. Around half of the new supply was in Bucharest.

Demand

In Bucharest, total take up registered in H1 2022 was of 234,000 sq m, representing a 15% increase compared to the same period of last year, while nationwide the take up reached approx. 400,000 sq m of space leased, representing 110% of the amount recorded in the similar period of last year.

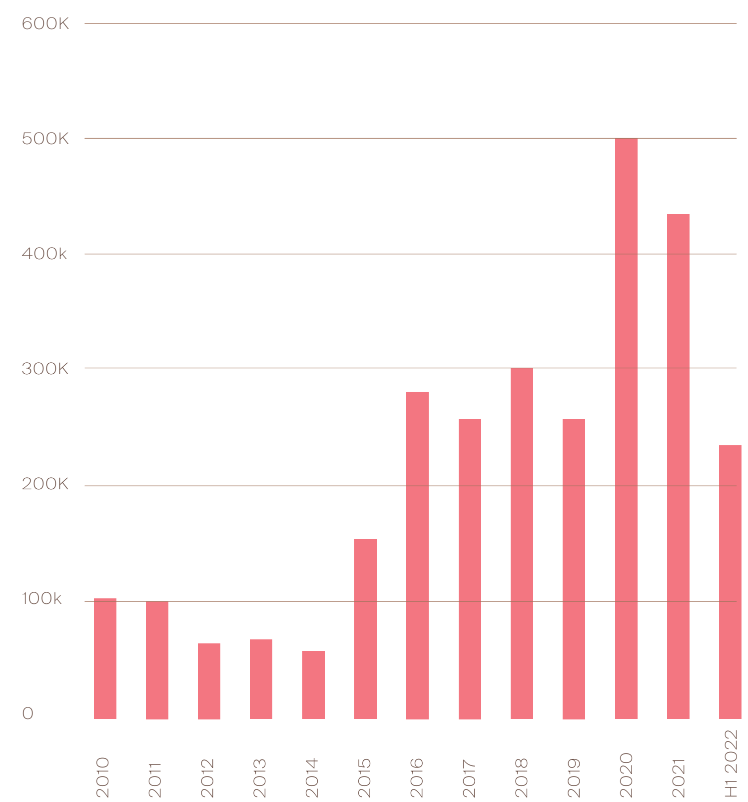
H1 2022, Deliveries
(Selection)

City	Project Name	Developer	Area sq m
Bucharest	CTPark Bucharest North	CTP	55,300
Bucharest	CTPark Mogosoaia	CTP	35,000
Deva (Calan)	WDP Park Calan	WDP	25,000
Bucharest	CTPark Bucharest 14	CTP	23,300
Constanta	Constanta Business Park B	Global Vision	19,900
Timisoara	Timisoara Industrial Park II	Global Vision	19,000
Bucharest	CTPark Bucharest West	CTP	16,400
Timisoara	CTPark Timisoara	CTP	16,300

Bucharest modern take-up
Annual evolution (sq m)

A total of 60 leasing transactions were recorded nationwide in H1 2022 with an average lease size of 7,000 sq m and only 10 transactions larger than 10,000 sq m. During the first half of this year, notable transactions included renewal and expansion signed by Modivo (Epantofi) with WDP in Stefanesti (53,000 sq m) and the pre-lease signed by Ferro Romania in Eli Park 3 (16,000 sq m).

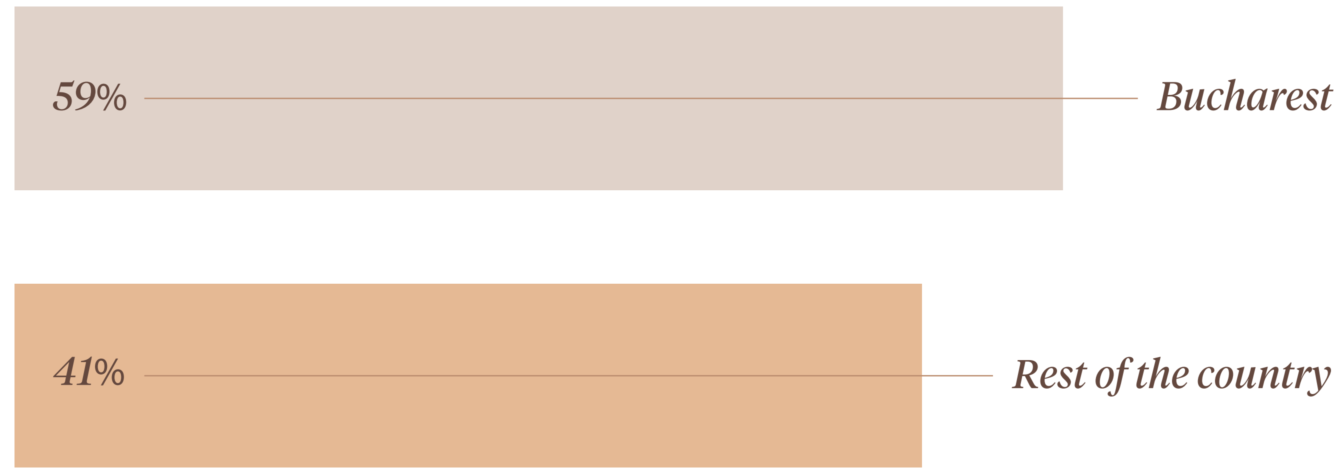
On the whole, the main source of demand was the new demand accounting for 48% from the total take-up, followed by expansion with 28% and renewals with 10% the overall leasing volume.



Vacancy

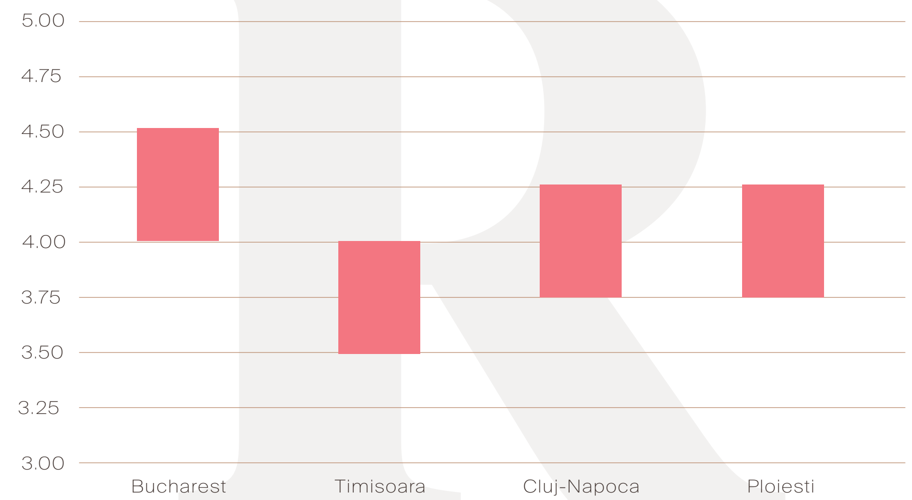
The vacancy rate remains at a low level which is estimated around 5%-6% nationwide and approx. 3 % in Bucharest.

Take-up
by region H1 2022



Rents

Because of the higher construction costs, energy price and transportation costs, an increase in asking rents was registered in H1 2022 both in Bucharest and in the other regions across the country. In Bucharest, prime rents for modern warehouses are approx. €4.0-4.5/ sq m/month.



Forecast

The second part of this year is expected to register almost the same level of deliveries at least enough to bring the level for the whole of 2022 to one similar to last year.

The pressure on the headline rents will be more visible in the next quarters when new increases will be registered.

schonherr

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Going green

Legal issues to consider when installing rooftop photovoltaic panels

In the context of a society that is constantly expanding, not only horizontally but also vertically, development of rooftop photovoltaic projects has a significant socio-economic and legal impact. As the need for more space to develop various projects is obvious, especially in urban areas, it has become imperative to find new ways to use space as efficiently as possible, within the limits of the legal framework.

◇

As a basis for building on an existing construction, the idea of establishing a right of superficies was highlighted in practice.

◇◇

As a basis for building on an existing construction, the idea of establishing a right of superficies was highlighted in practice. This solution was also confirmed by local case-law, courts ruling that there is no impediment in establishing such a right to erect a building on the roof of another building.

A right of superficies (drept de superficie) consists of: (i) the right to have or to erect a building on, under or above the land owned by another person; (ii) the ownership right to the building; and (iii) the right to use the land pertaining to the building (drept de folosință).

The right of superficies allows for delimitation between the ownership to the land and the ownership to the building erected on, under or above the land owned by another person.

In order to build a power plant on the roof of an existing building, specific consents may be required, depending on the ownership structure, as follows:

- ◇ The owner of the land is also the owner of the building. In such a case, only the consent of said owner will be required.
- ◇ The owner of the building is different than the owner of the land, the building being erected based on a right of superficies. In such a case, the consent of both owners will be required, i.e. the owner of the building and the owner of the land.
- ◇ Joint ownership of the land and the building. In this case, the consent of all the owners is required.
- ◇ The building is owned by several owners and the land is owned by a third party. In case of joint ownership in relation to the existing building and a distinct ownership right in relation to the land, the consent of all owners is required.

Foreigners are in no way restricted from directly holding rights of superficies to lands in Romania.

It is worth mentioning that there is no limitation regarding the beneficiary of the right of superficies under Romanian law, so foreigners are in no way restricted from directly holding rights of superficies to lands in Romania.

The Civil Code limits the duration of a right of superficies to a maximum of 99 years, with a prolongation option. A right of superficies may be established by way of an agreement executed in notarised form for validity purposes. Also, registration of the right of superficies with the relevant Land Book is recommended for opposability purposes towards third parties.

the ESG

Why tax is crucial for the ESG conversations and why should we care about it?

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Environmental, Social and Governance (ESG) as a framework is becoming rapidly a clear guideline for drafting an organization's objectives to generate value in a sustainable manner for both internal and external stakeholders. But **ESG is not a philosophy anymore, it becomes steadily both an obligation and a voluntary disclosure tool.**

While there is no hierarchy between the ESG pillars, only two have been in the limelight in the more recent period: **(i)** the **Environmental** one tackling climate risk, renewable energy, greenhouse gas emissions, net zero goals, decarbonization and (ii) the **Social** pillar tackling diversity, workforce and pay equity, privacy and social impact. However, **Governance** should not be forgotten as it tackles complex matters – these are stressed by the legislators, but to some extent, are disregarded by companies.

The Governance pillar focuses on how organizations are governed and aims to align current practices with the ever-changing international frameworks. For example, this pillar focuses on cybersecurity, management and executive structure and remuneration, preventing tax abuse and corruption and anti-money laundering.

While there is increased awareness and companies adopt willingly an ESG view, ESG becomes law. At European Union level, member states formulated sets of action points which, in turn, resulted in the implementation of several EU directives in the national legislations.

For the real estate sector, the Anti-Tax Avoidance Directives **(ATAD I and ATAD II)** should be on the top of the list, as they provide guidelines to reducing base erosion and profit shifting or try to combat the use of hybrid mismatches. **Both ATAD 1 and 2 are part of the Romanian tax legislation.** For example, a **hybrid instrument** may imply a flow of capital which in the source state (at payor level) is treated as debt financing and an interest deduction is granted, whereas in the residence state (at creditor/payee level) it is seen as equity financing and a non-taxable dividend income is recognized. In such case, the

The Unshell Directive would introduce a "minimum substance test" and certain reporting requirements to flag out shell companies, which do not engage in an actual economic activity.

same amount of capital would be used to reduce twice the corporate tax in the two states – this is not allowed anymore from a tax perspective following the adoption of the above legislation.

Draft ATAD III on Shell Companies (or the so called "Unshell Directive") is already on the table, with entry into force proposed for 1 January 2025. This piece of legislation aims to tackle the investment structures, which do not have economic activities and are used merely for aggressive tax planning. The Unshell Directive would introduce a "minimum substance test" and certain reporting requirements to flag out shell companies, which do not engage in an actual economic activity. To determine whether a company may fall under the provisions of this directive, specific "gateways" and "substance indicators" need to be verified:

- Over 75% of revenues in the preceding two tax years represent passive income (e.g., dividends, capital gains on shares, interest, and royalties)
- Over 60% of relevant income is generated from cross-border activities or is passed to foreign entities.
- Day-to-day operations and decision-making actions have been outsourced

If an entity crosses all three gateways, it would be considered "at risk" and subject to reporting obligations related to own premises, bank accounts, directors, and full-time employees. If post-reporting, the entity is determined as being a "shell" entity, additional measures would apply:

- Tax residency certificate would not be granted by local tax authorities.
- The "shell" company would no longer have access to the EU Directives allowing withholding tax exemptions for the outbound flows of dividends, interest, and royalties
- The "shell" company would no longer have access to income tax treaties allowing reduced withholding tax rates for dividends, interest, and royalties
- The tax authorities of the EU member states would exchange information on the "shell" company (this would also apply to entities "at risk" even if they do not fail the substance test).

Takeaway

Risk management and changes: As the draft Unshell Directive has a 2-year lookback period (revenue streams obtained in 2023 and 2024), multinational groups should determine their individual and global effective tax rate and already start an internal audit of their tax function.

Tax transparency and ESG compliant policy: Be open and disclose operating aspects of the worldwide business and promote ESG also as a voluntary compliance tool, thus carving out allegations of potential lack of substance merely based on the existence of material business volumes and international structuring.

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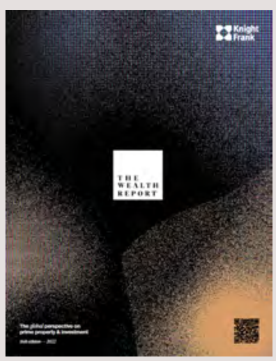

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