Romanian real estate market H1 2022

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2021 ESG report

There is a vital role for our sector to create healthy, productive workplaces for employees, cities that are centres of prosperity for their citizens, and built spaces and places that create a net benefit to the economy, the environment and the community.

In the 2021 ESG report, we reflect on our achievements, and share our strategy and commitments for the future.

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2021 ESG report

Contents

Investment market

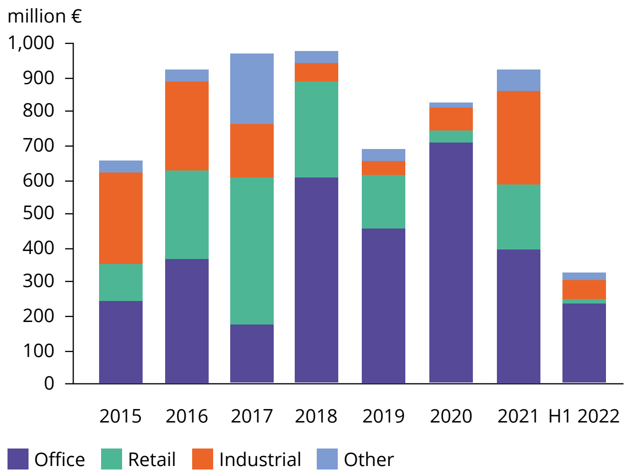
Investment volume

With an investment volume in H1 2022 close to €320 million, last year's scenario is about to be replicated in Romania in 2022, as numerous investment transactions are being postponed from H1 into H2. This creates an investment environment in which FY volume might reach again a level close to the €1bn threshold.

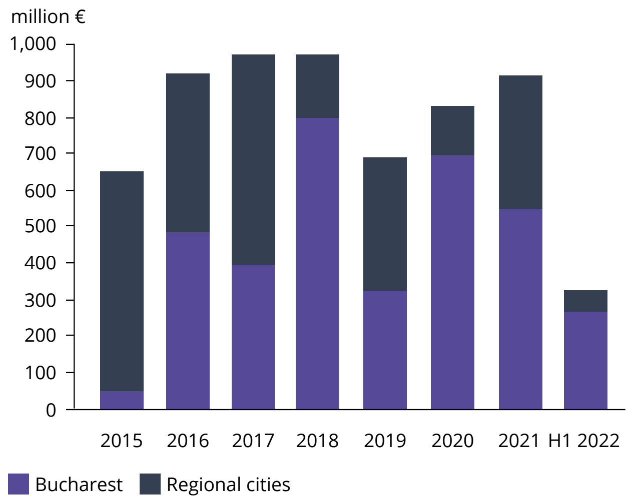
The office assets remain the most appealing investment product, as they attracted ca 70% of the H1 2022 investment volume, followed by industrial parks which attracted 17% of the semester's activity. Accordingly, the local market has recorded 8 transactions with office assets, the largest being represented by the sale of Expo Business Park, a renowned business park anchored by ING Bank's headquarter in Romania.

The investor's interest remains for assets located in Bucharest, where close to 80% of the capital was attracted. This is slightly higher than the level in 2021 (72%) due to availability in Bucharest of office buildings either well-tenanted or well-located compared to other top regional cities.

Romanian real estate investment volume by sector



Romanian real estate investment volume Bucharest vs. regional cities



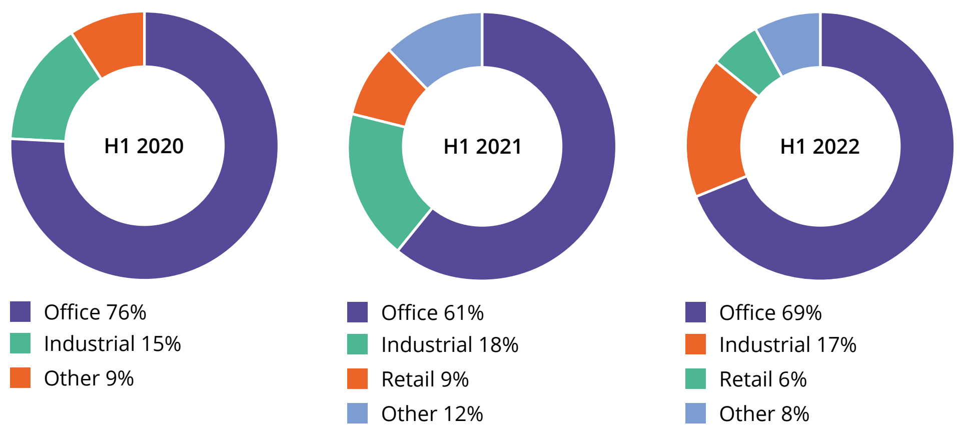
H1 2022 investment volume (million) **320**

Most appealing investment product **Office**

Largest investment transaction **Expo** Business Park

Most attractive location **Bucharest**

Real estate investment volume by type of properties: H1 2020 vs H1 2021 vs H1 2022



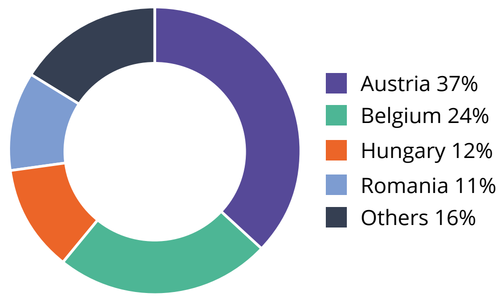
Transactional performance

The sale of Expo Business Park for an amount estimated between €110–120M, the largest transaction of the semester reconfirms the appetite of foreign investors for Romanian assets. The sale of the asset followed the perfect scenario, involving a proven developer, excellent tenant mix covenant as well as an active buyer.

Worth mentioning is the sale of Record Park in Cluj Napoca, developed by Speedwell and purchased by Aya Properties Fund for an amount estimated at €35M, in a transaction involving Belgium partners.

Foreign capital dominates the local investment market, generating ca. 89% of the capital flow. Although the local capital is still low, it registered a year-on-year increase from 8% to 11%. With very few exceptions, local investors are rather looking to value add investment opportunities and increase value by retrofitting the assets rather than purchasing income producing assets.

Real estate investment volume by the source of capital H1 2022



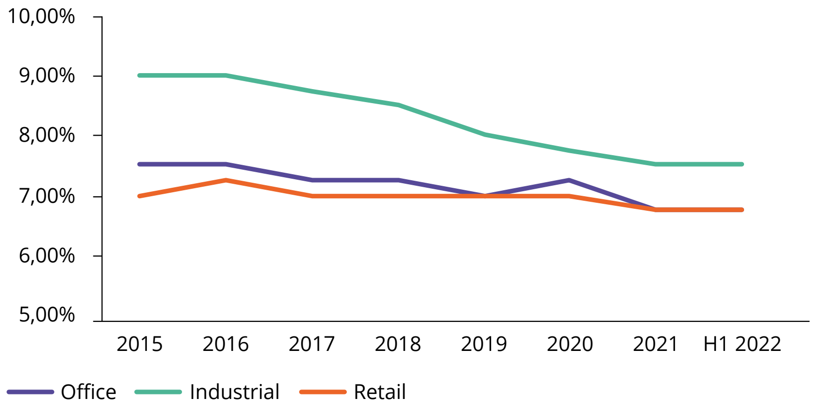
Looking forward, in the second half of the year, we are expecting the completion of transactions that will elevate the volume to a level close to €1bn, consisting either in the sale of various existing assets such as office buildings, retail and industrial parks or shares in various portfolios held by major CEE investment funds.

Untapped opportunities reside in the residential sector. With a few exceptions, such as Revetas which expressed interest in buying the residential portfolio of the local developer Maurer Group, there are very few institutional transactions in the Romanian residential market. Once the market will evolve into a renting residential market we should expect to see more buy-to-let investors in Romania, too.

Prime yields

Yields have remained unchanged over the last semester but yield compression might be generated by availability and transaction of prime assets. Prime office yields are in the region of 6.75%, while prime industrial yield stands at around 7.50%

Prime yields evolution 2015 – H1 2022



Prime yields H1 2022

Office
6.75%

Industrial
7.50%

Retail
6.75%

Forecast

The Romanian investment market is expected to accelerate in the second part of the year, due to ongoing negotiations, with some assets located in Bucharest but also portfolios with assets spread throughout the country. In addition, the market might witness some sale & leaseback transactions with both office buildings and industrial parks, as a continuation of the trend emerged at the end of last year. Apart from the transactions monitored in Bucharest, regional cities are actively targeted by domestic investors which we expect to increase further the contribution to the annual investment volume.

Significant investment transactions in H1 2022

City	Sector	Property	Purchaser	Vendor	Price (€ million)
Bucharest	Office	Expo Business Park	S Immo AG	Portland Trust	110–120
Bucharest	Industrial	Metav Business	Alinso Group	Metav S.A.	35–37
Cluj Napoca	Office	Record Park	AYA Properties	Speedwell	35
Bucharest	Office	One Victoriei	Indotek	One United	25
Bucharest	Retail	Vitantis Retail Park	Praktiker Real Estate	Revetas	16

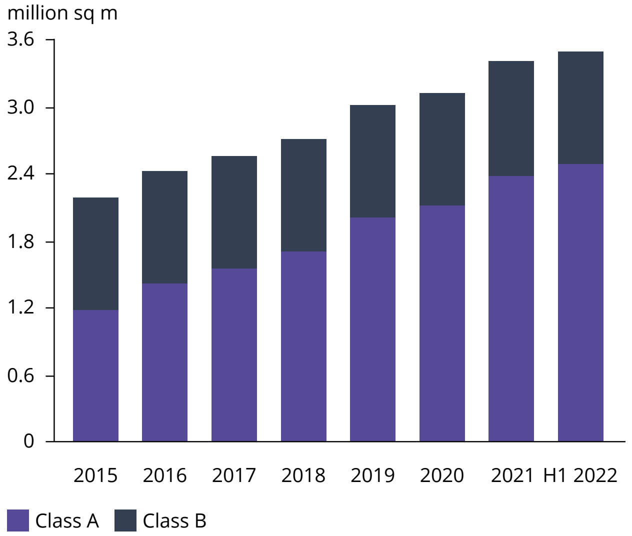
Bucharest office market

Supply

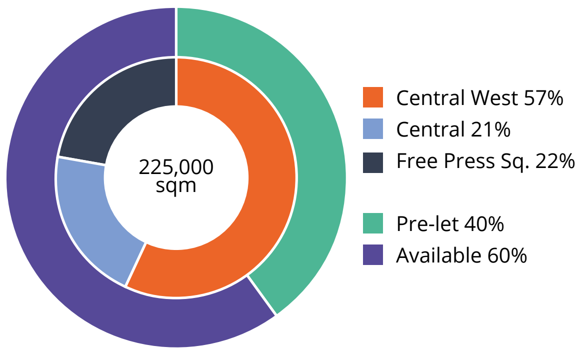
Five buildings were delivered in H1 2022, representing the majority of 2022's supply, which increased the modern office stock with ca. 98,000 sq m. Therefore, the modern office stock in Bucharest is estimated at 3.5 million sq m with Class A buildings contributing with 72%. For the remainder of the year, we are expecting the completion of one building, centrally located which will increase the supply marginally with only 4,600 sq m. Although only 40% of the office supply was pre-let at completion, negotiations are ongoing for the rest of the space, as occupiers are aware of the scarce pipeline in the upcoming years.

By geography, in the Central West submarket, 3 buildings were completed, representing 57% of the H1 2022 supply. Worth mentioning is the resumed interest of occupiers for Central locations, as recently completed buildings such as Matei Millo Offices, Tandem, U-Center Ph 1, were either fully pre-let or occupied soon after completion, despite the lack of business clusters, like the one in Victoriei Square, which is the city's CBD.

Cumulative modern office stock



H1 2022 Office supply by submarket and pre-leasing status



Modern office stock (million sq m)
3.5

H1 2022 Office supply (sq m)
98,000

Office buildings pre-let at completion
40%

Submarket with most deliveries
Central West

2022 Supply

Developer	Project	GLA	Submarket	Delivery
Forte Partners	Tandem	21,000	Central	Q1 2022
River Development	Sema Oslo	10,000	Central West	Q1 2022
River Development	Sema London	21,350	Central West	Q1 2022
Atenor	@Expo B1-B2	21,000	Free Press Sq	Q1 2022
AFI Europe	AFI Tech Park II	24,500	Central West	Q2 2022

2022–2032 Pipeline

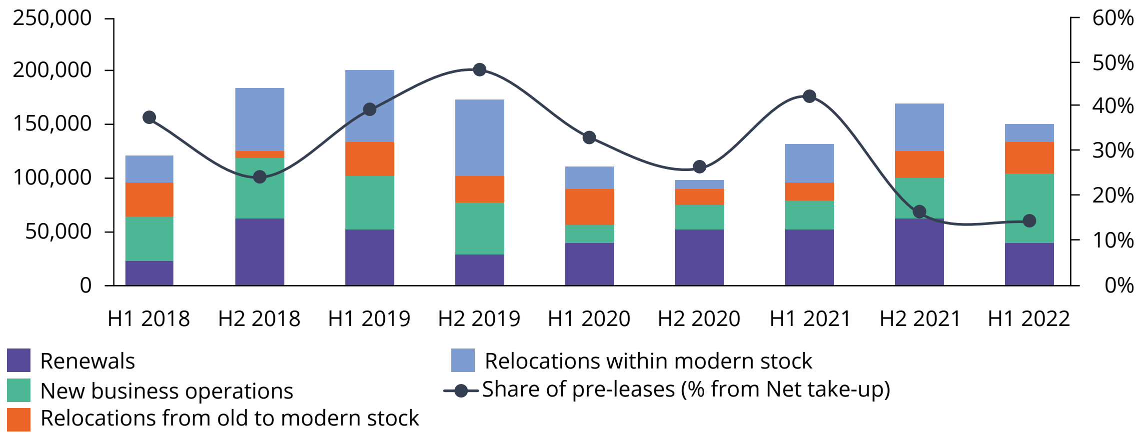
Developer	Project	GLA	Submarket	Delivery
Hagag Development Europe	H Tudor Arghezi 21	4,600	Central	Q3 2022
One Properties	One Cotroceni Park Ph II	34,000	Central West	2023
Skanska	Equilibrium II	19,500	Floreasca-BV	2023
Atenor	@Expo A-C	27,000	Free Press Sq.	2023
Primavera Development	Muse	7,500	North	2023
Forte Partners	U-Center Ph II	32,000	Central	2023
Strabag	Tudor Arghezi 4	7,000	Central	2023

Demand

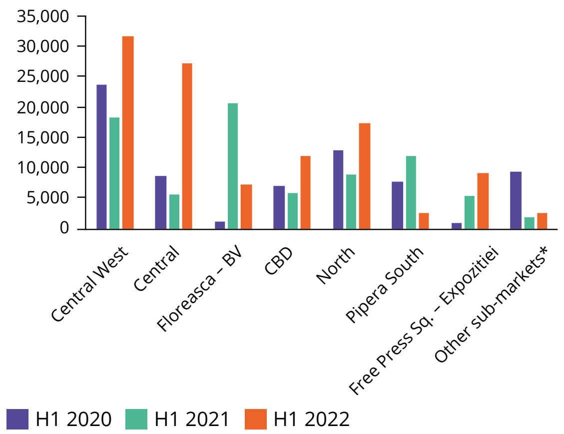
The leasing activity in Bucharest in H1 2022, is estimated at ca 150,000 sq m, placing this semester's activity above the 4-year average and 15% higher than the equivalent period in 2021. The recovery of leasing activity is reflected not only in the gross take-up, characterized by a decrease of renewals from 40% in 2021 to only 26% in 2022, but also in the composition of the new take-up. Despite the political instability at the Eastern boarder of the country, at the beginning of 2022 the office market has witnessed the entrance of new operations of existing international companies (eg Booking, Ford, Siemens Energy). These companies have committed for large surfaces, in new projects which met the latest technical specifications for green buildings and were located at a short walking distance from the closest metro station.

Interestingly, Medical & Pharma industry (8%) became one of the constant contributors to net take-up due to large leases signed by private healthcare units. Unlike other semesters, there are several industries which contribute to the net leasing activity such as Computer Hi-Tech (23%), Financial Sector (10%), Consumer Goods (9%), Professional Services (16%) in contrast to previous years when 2-3 industries were generating almost half of the demand.

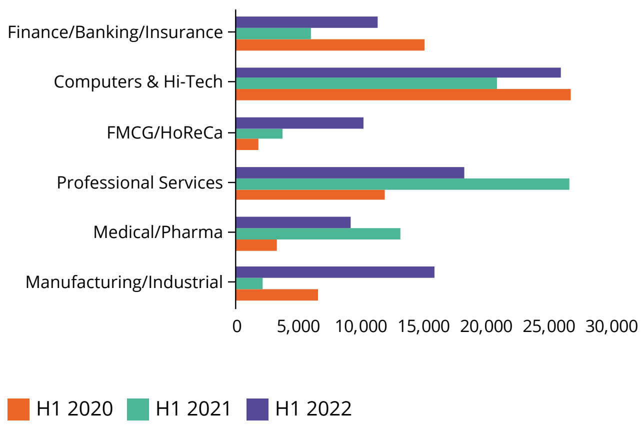
Office leasing activity evolution H1 2018 – H2 2022



Net take-up by submarket (sq m)



Net take-up by business sector (sq m)



Vacancy

The recent market statistics show an overall vacancy rate of 11.2%, a decrease with 180bps compared to Q1 2022, due to lease transactions executed within the existing stock in the detriment of pre-lease contracts. The lowest vacancy rates are recorded in Floreasca-BV corridor (5.9%), CBD (7,4%) and Central areas (8.2%). Worth noting that the low vacancy rate in Floreasca-BV corridor is currently offset by office space available for sub-lease, which exceeds 20,000 sqm. Once the lease contracts will reach the maturity in the following 2-3 quarters, part of the sub-lease space is expected to have additional impact on the vacancy level in Floreasca–Barbu-Vacarescu.

Rents

Prime office rents stand at €18.5-19/sq m/month. While headline rent has no major fluctuations, a tightening of the incentive packages was noticed, which lead to a narrower band between headline and net effective rent. In less central areas, rents remained unchanged but the incentive packages are still very generous, similar to previous months.

Vacancy rate
11.2%

Prime office rents (€/sq m/m)
18.5–19

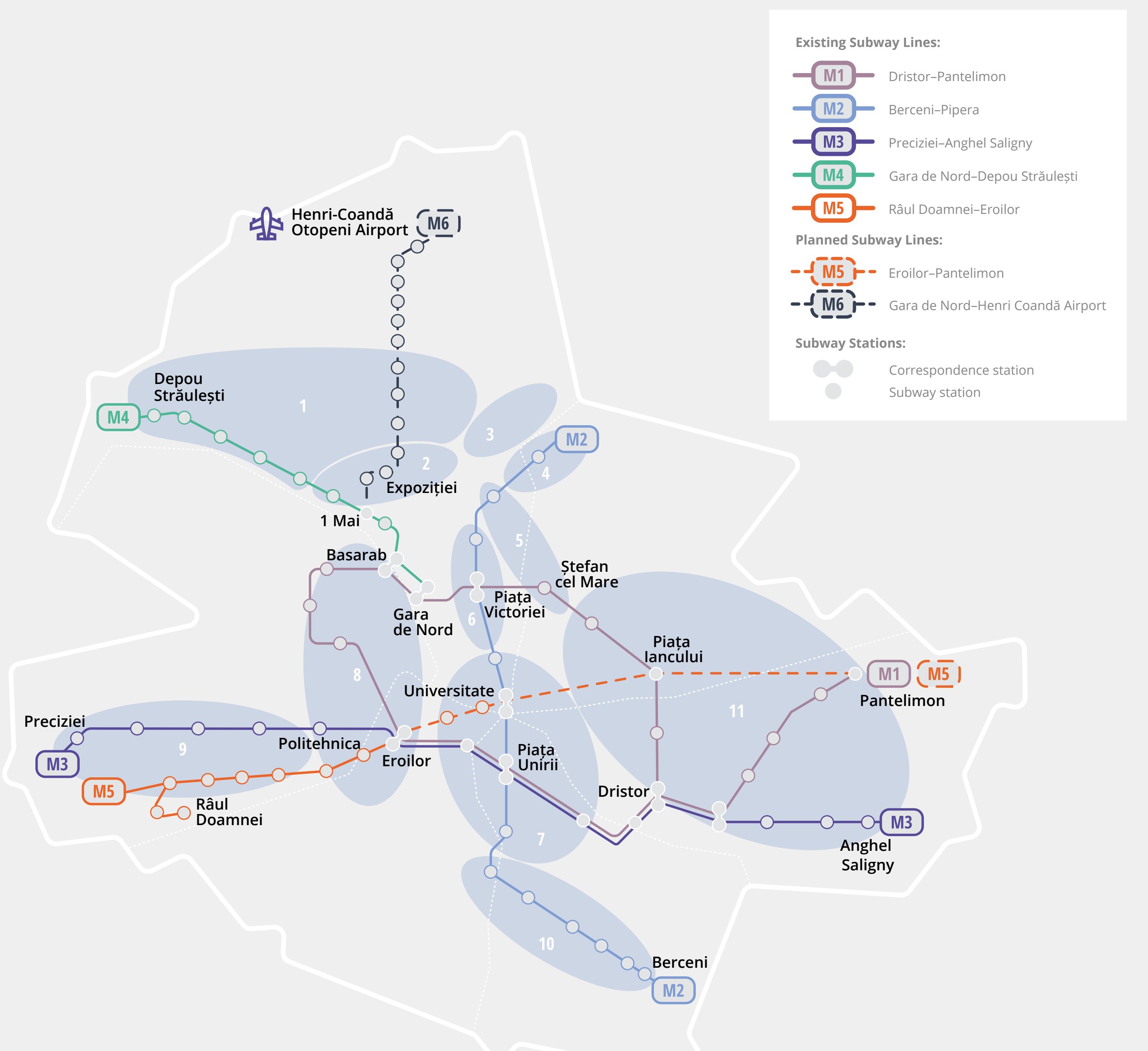
Forecast

The good results on the demand side might be under pressure in the coming 1-2 years due to a limited number of projects currently under construction or under authorization. The uncertainty at the city hall levels which has been ongoing for more than 12 months, is reflected in a scarce office pipeline starting with 2023-2024 and consequently, pre-lease discussions are undergoing for projects with delivery in 2025-2026.

Nevertheless, the healthy vacancy rate still offers relocation opportunities throughout the city, at historical rents, but once vacancy rate will decrease further in the desired office submarkets, we foresee an increase of headline rent by at least 10%. The increase of rents is forecasted for the pipeline too, a protective measure amid lack of cost control of construction materials and inflationary pressure.

The decision-making process is longer, as occupiers are forced to assess projects with completion in 3-4 years' time and to better adapt their business growth to the office market constraints.

Office submarkets, headline rents and modern stock



No.	Submarket	Headline Rent Class A (€/sq m/month)	Modern Stock (sq m)
1	North	€12–15	356,000
2	Free Press Square	€15–16.5	221,000
3	Pipera North	€8–10	212,000
4	Pipera South	€11–13	495,000
5	Floreasca-BV	€15–17.5	530,000
6	CBD	€17–19	362,000
7	Central	€14.5–16.5	407,000
8	Central West	€14–15	586,000
9	West	€11-13	173,000
10	South	€9–12	52,000
11	East	€9–12	105,000

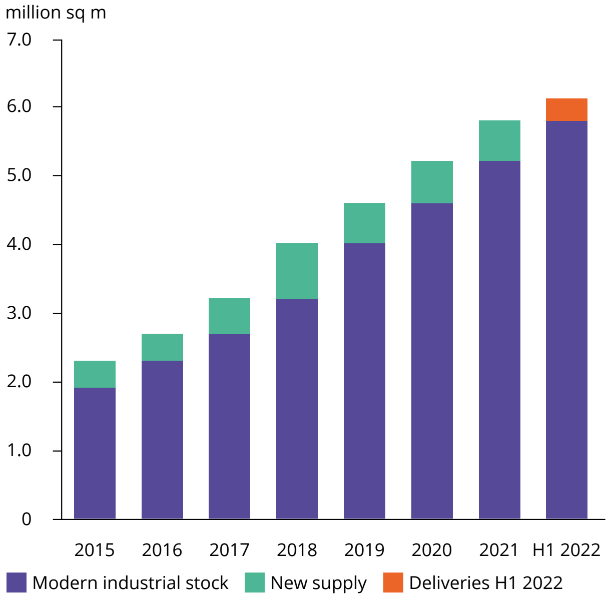
Industrial market

Stock

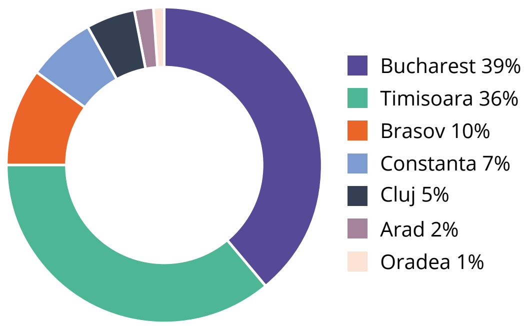
There were around 275,000 sq m class A industrial supply delivered in H1 2022, which elevated the total modern industrial stock in Romania to around 6.1 million sq m.

In the first half of 2022, the industrial hubs in Transylvania and western Romania attracted more than half of developers' interest. Especially Timisoara is gaining momentum, establishing itself as the second most important industrial/logistic hub in Romania (with more than 10% of the total modern industrial stock), after Bucharest (~47% of the stock).

Romania modern industrial stock evolution 2015 – H1 2022



Deliveries of class A industrial units in H1 2022, by geography

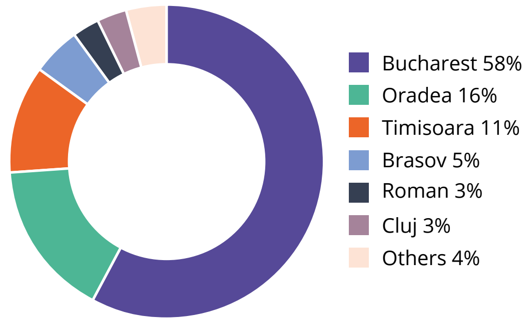


Pipeline

There are another ca. 375,000 sq m class A industrial space planned to be delivered until the end of 2022, which means that 2022 should be consistent with the last 4 years, when ca. 600,000 sq m per year were completed, and the sustained growth of the modern industrial stock in Romania continues. There is also already a significant pipeline for 2023.

The developers' main areas of interest for deliveries of class A industrial buildings in the second half of 2022 remain Bucharest and western Romania, with significant developments planned in the areas of Oradea and Timisoara.

Pipeline by geography in H2 2022

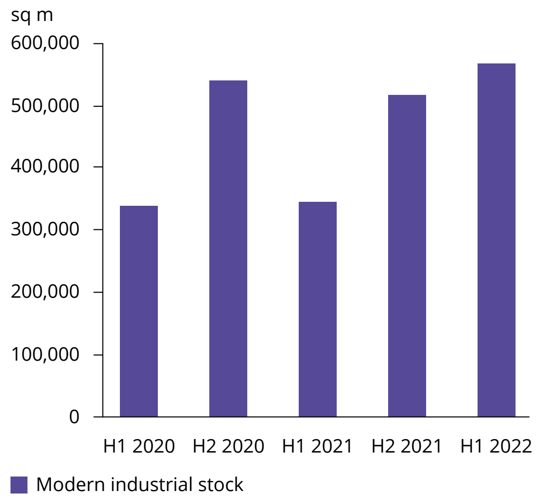


Demand

There were ~565,000 sq m of modern industrial and logistic space leased during the first half of 2022 (excluding short-term leases – less than one year). This is a record first half, as usually the second half of the year witnesses the majority of the leasing activity. In the last 2 years, the leasing activity in the first half of the year did not exceed 400,000 sq m.

The rise of e-commerce, due to changes in the way we live and shop, as a main driver for logistic demand has been heralded for a while now, however, H1 2022 is the first interval when e-commerce is actually at the top of the sectors generating demand for logistic space (generating 25% of the total demand). Due chiefly to a large transaction by a fashion retailer, fashion also generated a significant share of the demand in the first half of 2022.

Take-up by semester (sq m)



Bucharest attracted ~60% of the demand in H1 2022, a decrease from the 71% in 2021. Ploiesti, Timisoara and Arad also attracted significant demand.

Modern industrial stock (million sq m)
6.1

H1 2022 industrial supply (sq m)
275,000

H1 2022 record leasing activity
~565,000

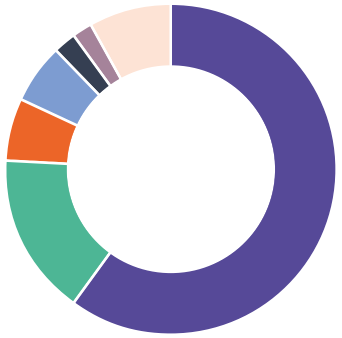
2nd most important logistic hub, after Bucharest
Timisoara

Class A Pipeline until year end (sq m)
375,000

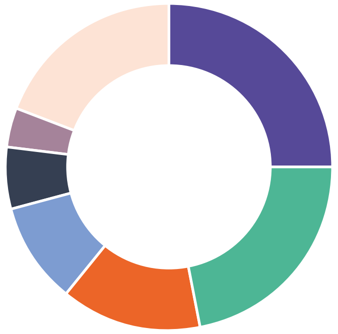
Developers' area of interest
Bucharest and Western Ro

Top generating demand sector
E-commerce

Demand in H1 2022 by geography



Distribution of demand on business sectors in H1 2022



Vacancy

Due to the strong demand, the vacancy rates withstood significant decreases since the beginning of the year (from 4.9% at country level, and especially a significant drop in the Bucharest area – from 5.2%).

Vacancy rate Romania
4.1%

Vacancy rate Bucharest
3.7%

Highways and regional industrial & logistics hubs, Romania

Occupancy cost and market practice

There is a slight increase in headline rents (up to €4 per sqm per month currently). This adjustment was the natural consequence of inflation, and especially increase in construction costs.

Headline rent	− Incentives	+ Service charges	Lease length
€4.00	**(10–15%)** Rent free months, personalised fit-out, early access, etc.	**€0.70–1.00** Building maintenance, property tax, building insurance	**3–5 years** Logistic activities **5–10 years** Manufacturing/BTS units

Forecast

Increasing demand/take-up, estimated to exceed 1 million sq m in 2022.

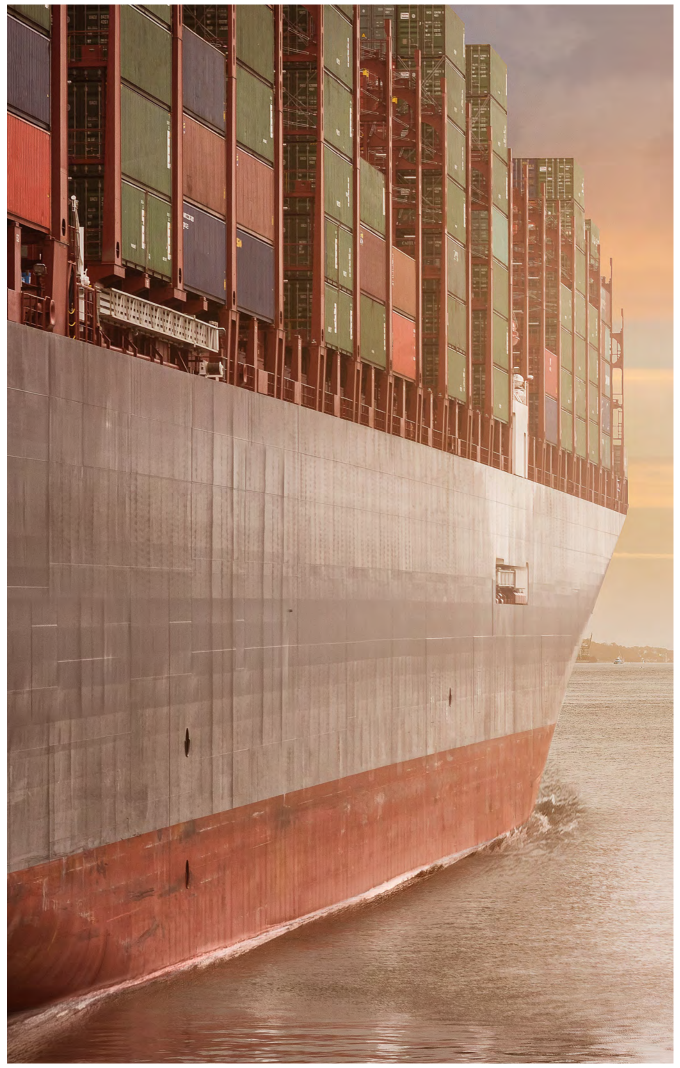
Disruptions in the supply chain are driving a more prudent approach for the occupiers by maintaining buffer-stocks. This is generating increased demand for logistic spaces.

Flight to quality from non-competitive stock to Class A units.

Automation in the warehouse, especially in last-mile units, for fresh food deliveries.

Developers are anticipating the development of cities which are not currently on the Romanian logistic map by securing and authorising land plots for logistic development.

High appetite for investment in industrial/logistic units. With the advent of the pandemic, industrial became a very attractive asset class, hence large amounts of capital are budgeted for industrial investment. This, coupled with the increase in interest rates led to a high appetite for industrial investments, including sale-and-lease-back deals, which are becoming more feasible.



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United States	Republic of Ireland	Czech Republic
Mexico	Austria	Romania
South Korea	France	Bulgaria
South Africa	Germany	
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5,000	**16**	**100+**	**1978**
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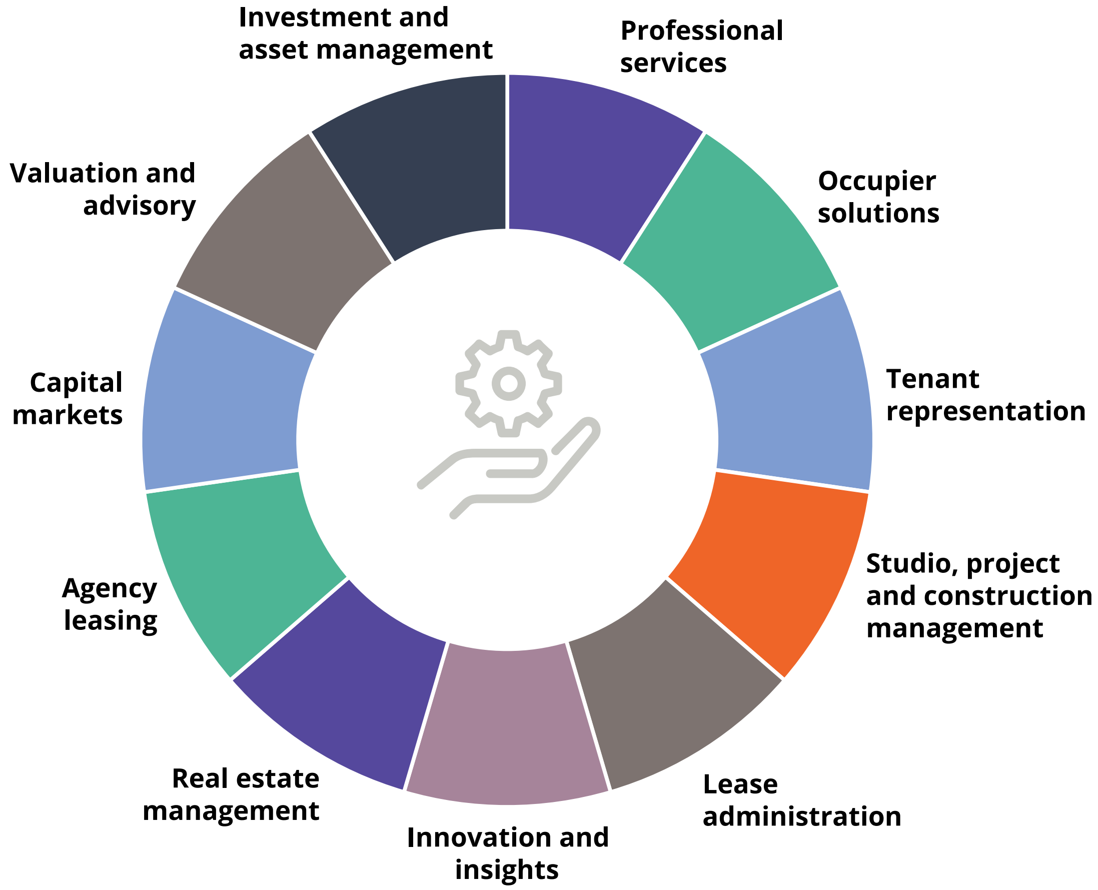

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