AVISON YOUNG

2023

# Romanian real estate market overview

# Contents

# Macroeconomic and strategic analysis

| | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| GDP (€bn) | 241.7 | 286.6 | 322.9 | 350.7 | 372.7 |
| Population (million) | 19.2 | 19.1 | 19.1 | 19.1 | 19.0 |
| GDP per capita (€) | 12,596 | 14,979 | 16,902 | 18,386 | 19,566 |
| **Real economy change (%)** | | | | | |
| GDP | 5.7 | 4.6 | 1.4 | 3.0 | 1.6 |
| Private Consumption | 7.2 | 6.9 | 2.6 | 2.6 | 0.3 |
| Fixed Investment | 2.9 | 5.6 | 9.7 | 4.8 | 2.1 |
| Public Consuption | 1.8 | 3.1 | 1.0 | 1.9 | -0.2 |
| Export | 12.6 | 9.6 | -0.4 | 3.7 | 4.7 |
| Imports | 14.8 | 9.9 | -2.2 | 3.8 | 2.4 |
| Monthly wage, nominal (€) | 1,175 | 1,303 | 1,481 | 1,670 | 1,756 |
| Real wage, change (%) | 2.0 | -2.2 | 3.1 | 7.6 | 1.9 |
| Unemployment rate (%) | 5.6 | 5.6 | 5.4 | 5.4 | 5.5 |
| **Fiscal accounts (% of GDP)** | | | | | |
| Budget balance | -7.1 | -6.2 | -6.3 | -6.0 | -4.6 |
| Primary balance | -5.6 | -4.2 | -4.2 | -3.9 | -2.4 |
| Public debt | 48.5 | 47.2 | 49.3 | 50.9 | 52.2 |
| **External accounts** | | | | | |
| Current account balance (EUR bn) | -17.5 | -26.6 | -20.8 | -18.2 | -16.5 |
| Current account balance/GDP (%) | -7.2 | -9.3 | -6.4 | -5.2 | -4.4 |
| Extended basic balance/GDP (%) | -1.4 | -3.6 | -2.3 | -1.3 | -0.5 |
| Net FDI (% of GDP) | 3.7 | 3.7 | 2.3 | 2.0 | 2.0 |
| Gross foreign debt (% of GDP) | 56.5 | 50.4 | 52.1 | 49.6 | 49.9 |
| FX reserves (EUR bn) | 40.5 | 46.6 | 59.8 | 58.6 | 63.4 |
| Months of imports, goods& services | 4.3 | 4.0 | 5.0 | 4.7 | 4.8 |
| **Inflation/Monetary/FX** | | | | | |
| CPI (period average) | 5.0 | 13.7 | 10.5 | 6.3 | 4.9 |
| CPI (end of period) | 8.2 | 16.4 | 6.6 | 6.0 | 3.9 |
| Central Bank target | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Central bank reference rate (end of period) | 1.75 | 6.75 | 7.00 | 6.00 | 4.00 |
| 3M money market rate (December avg.) | 3.01 | 7.57 | 6.22 | 5.32 | 3.93 |
| USD/RON (end of period) | 4.37 | 4.64 | 4.56 | 4.51 | 4.56 |
| EUR/RON (end of period) | 4.95 | 4.95 | 4.97 | 5.05 | 5.15 |
| USD/RON (period avg.) | 4.16 | 4.68 | 4.57 | 4.45 | 4.40 |
| EUR/RON (period avg.) | 4.92 | 4.93 | 4.95 | 5.02 | 5.10 |

## Outlook

We expect the economy to grow by 3% in 2024 and by 1.6% in 2025, with the government tightening fiscal policy only after the elections scheduled for 2024. Domestic demand will drive growth this year, with exports likely to play a more important role in 2025. We expect inflation to miss the target in 2024-25, with the NBR cutting rates to 6% in 2024 and 4% in 2025. We see EUR-RON moving to a 5.00-5.10 range in 1Q24. The wide C/A deficit will remain fully funded by FDI, EU transfers and sovereign debt issuance abroad. We expect the current governing coalition to remain in power after this year's elections.

## Policy inaction in election year

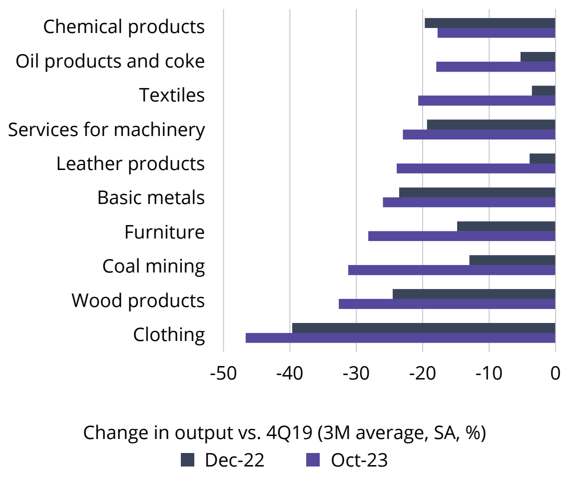
2024 will be a busy political year, with elections for the EP (9 June), local administrations (no later than 22 September), president (probably before the end of November, maybe with local elections) and parliament (after 6 December). The timing of elections will be extremely important. The Liberals (PNL) wish to hold local elections with those for parliament or president to leverage on their popular mayors. Their senior coalition partner, the Social Democrats (PSD), seem to be heading for a clear win in parliamentary elections, according to opinion polls.

The Romanian Prime Minister ruled out any tax increase in 2024, but presented two options for raising tax receipts from 2025 onwards. The first assumes that the flat personal income tax of 10% will be replaced with a progressive tax system. The second assumes that all taxes will be unified at 16%. This would imply higher taxes on incomes, microenterprises and authorized individuals, thus closing tax loopholes that past PSD administrations opened in 2016-19. We see a combination of both plans as more likely to reduce the budget deficit below 3% of GDP. Thus, we expect progressive tax levels for income and profits, the further closing of tax loopholes for microenterprises and authorized individuals, as well as higher taxes on property and commodity extraction. Excise duties on fuels, tobacco and alcohol are likely to be raised every year, while the price cap on electricity and natural gas might be removed in 2025. These measures would allow to reduce the budget deficit towards 3% of GDP by 2027 and stabilize public debt by 2026.

## GDP growth

We expect the economy to grow by 3% this year, boosted by fast real-income growth and public spending. Building projects could gradually add to infrastructure works in boosting value added, as financial conditions are likely to ease further, especially in 2H24. We see industry and exports lagging in 2024 due to weak foreign demand, scarring in energy-intensive sectors and poor price competitiveness in low value-added sectors. In 2025, we forecast domestic demand to grow at a much slower pace due to tax increases, with GDP advancing by just 1.6%. Better foreign demand could limit the damage, without offsetting the loss of purchasing power we expect from higher taxes on the middle class.

**Scarring and low competitiveness affect industry**

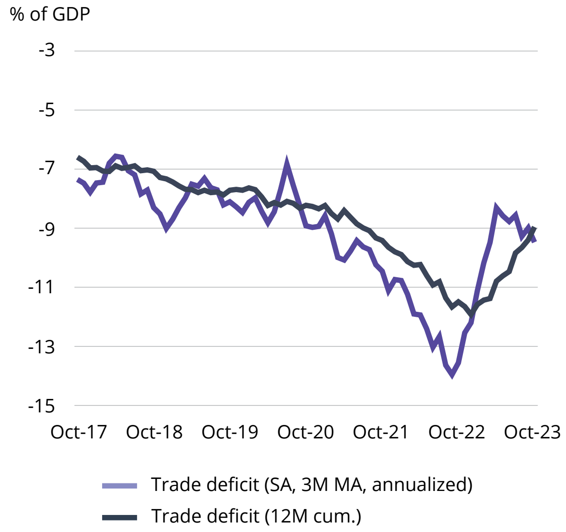



**The information contained in this report represents UniCredit Group's view upon Romania, as of 8 February 2024.**

# Inflation

We do not see inflation returning inside the target range in 2024 (6.0%) because of strong consumer demand and higher taxes, nor in 2025 (3.9%) because of higher indirect taxes. The NBR could start rate cuts in 2H24 only if the budget deficit can be financed without pressure on yields and the RON. We still expect 1pp in cuts to 6% this year, but the scope is narrowing. Even if the NBR starts cutting later than its regional peers, financial conditions will not be tighter because the Romanian central bank allowed interbank rates to fall close to the overnight deposit rate of 6% by leaving excess liquidity in the interbank market. We expect rate cuts to 4% in 2025, when the budget deficit will tighten faster.

**Widening trade deficit after correction in energy**




# Budget deficit

While Prime Minister Marcel Ciolacu hopes to keep the budget deficit below 5% of GDP in 2024, we think this goal is unattainable, given insufficient offsetting measures. As always, the government committed to improve tax collection, although this never happened in an election year. It also aims to reduce public spending by streamlining employment in administration. We see at least three more risks that could keep this year's budget deficit close to 6% of GDP:

1. **Higher spending** for goods and services due to the cost of organizing up to five election rounds and to covering the funding gap of local administrations.

2. **Lower indirect-tax revenues** (in percent of GDP) due to poor tax compliance in rural retail stores and for custom duties, which tend to worsen in election years.

3. **Arrears accumulated in 2023 and paid this year.** While some of them will be assigned to the 2023 budget (wages and compensations of public employees), some could be carried over to 2024 (e.g., in the health sector, public procurement and investment).

# Exchange rate

In 2024, the NBR could allow EUR-RON to move into a 5.00-5.10 range, returning to 0.1 RON depreciation per year. This will only slow the RON's real appreciation. Romania's structural C/A deficit has widened to more than 5% of GDP, but a strong currency is not the most important culprit: a volatile tax and regulatory system, and poor infrastructure have undermined foreign and domestic investment into productive capacities, with aggregate supply lagging aggregate demand.

The NBR can do little to offset this imbalance, but the economy would benefit from a gradual move to a more loosely managed exchange rate.

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# Investment market

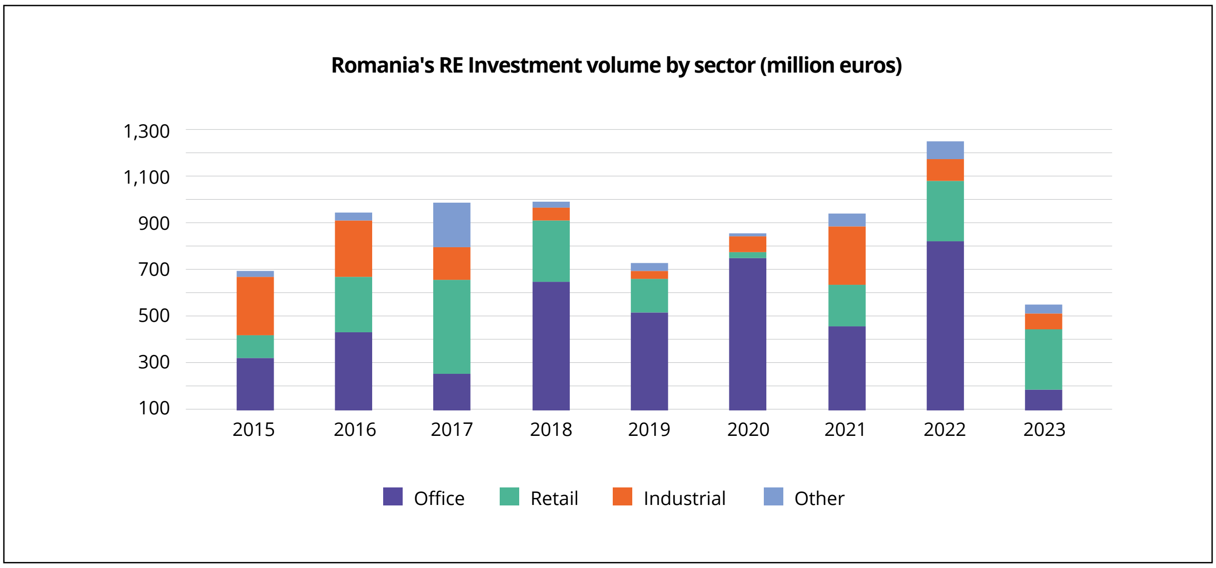
## Investment volume

Similar to the previous year, the largest transaction of 2023 was concluded in the final months of the year. This transaction nearly doubled the investment volume recorded in the preceding nine months. Consequently, the total investment volume for the year barely reached €497M in 2023, marking a decrease of approximately 60% compared to the previous year, despite the optimistic expectations of market players to close the year with a volume reaching at least 50% of that recorded in 2022.

Nevertheless, the optimism persisted until the year's conclusion when a highly anticipated office investment transaction was unexpectedly put on hold after months of negotiations. Despite the lackluster performance of the investment market in 2023, the sale of the Mitiska Retail portfolio stands out as one of the top investment transactions ever recorded in Romania. It follows the CA Immo portfolio sale in 2022 (€377M) and the NEPI office portfolio sale in 2020 (€307M).

anticipated to remain attractive in the coming years for both local and institutional investors. The Romanian market presents numerous opportunities for the disposal of retail parks portfolios, which are spread throughout the country.

In terms of geography, the capital city and its immediate surroundings accounted for only 30% of the investment volume, with the remaining 70% attributed to various regional cities. This includes prominent cities such as Timisoara, Brasov, Iasi, and Oradea, as well as smaller cities in terms of population, which are part of the retail parks portfolio. While office assets play a significant role in contributing to the investment volume in Bucharest, regional cities display a diverse mix of asset types, with retail assets predominating. This shift in the distribution of the annual investment volume is a recurring pattern in Romania, characterized by alternating prominence between Bucharest and regional cities approximately once every 4-5 years.




In 2023, retail assets constituted the majority, contributing 58% to the overall investment volume, followed by office assets at 19% and industrial assets at 14%. The remaining 9% comprised assets from the hospitality sector, health, or entertainment. The primary source of the retail investment volume was retail parks and this category of assets is

Investment 2023 volume (million)

**€497**

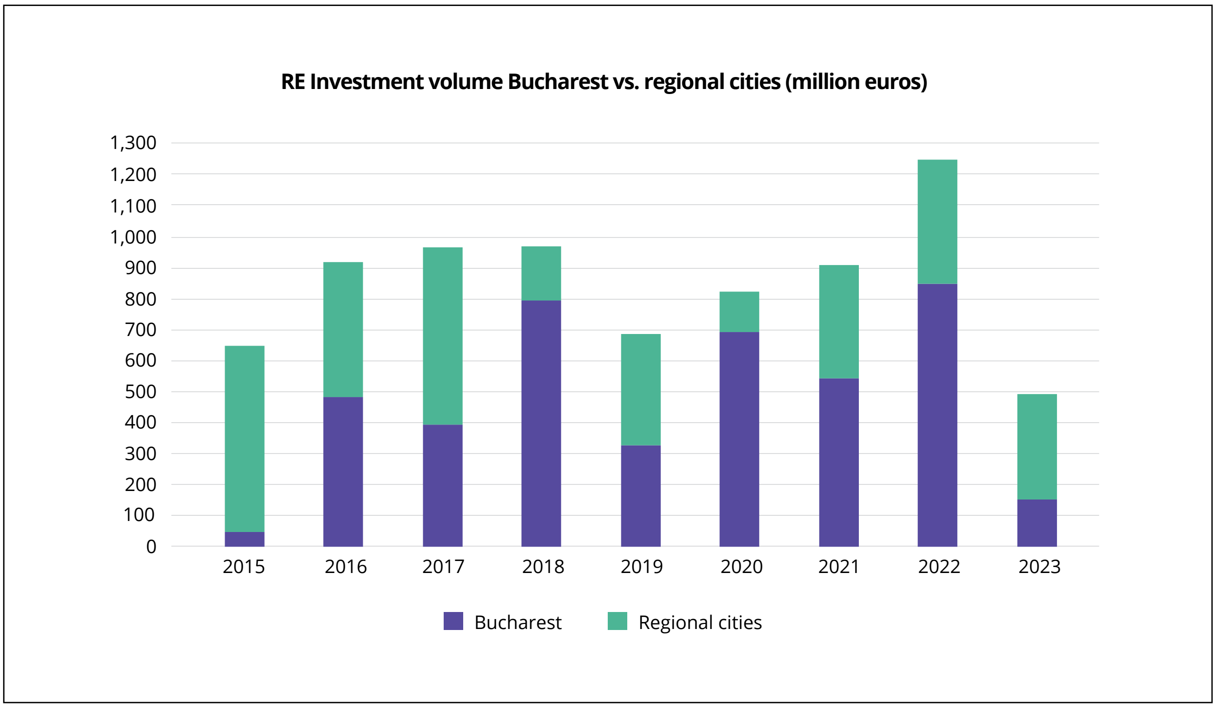
Largest investment transaction

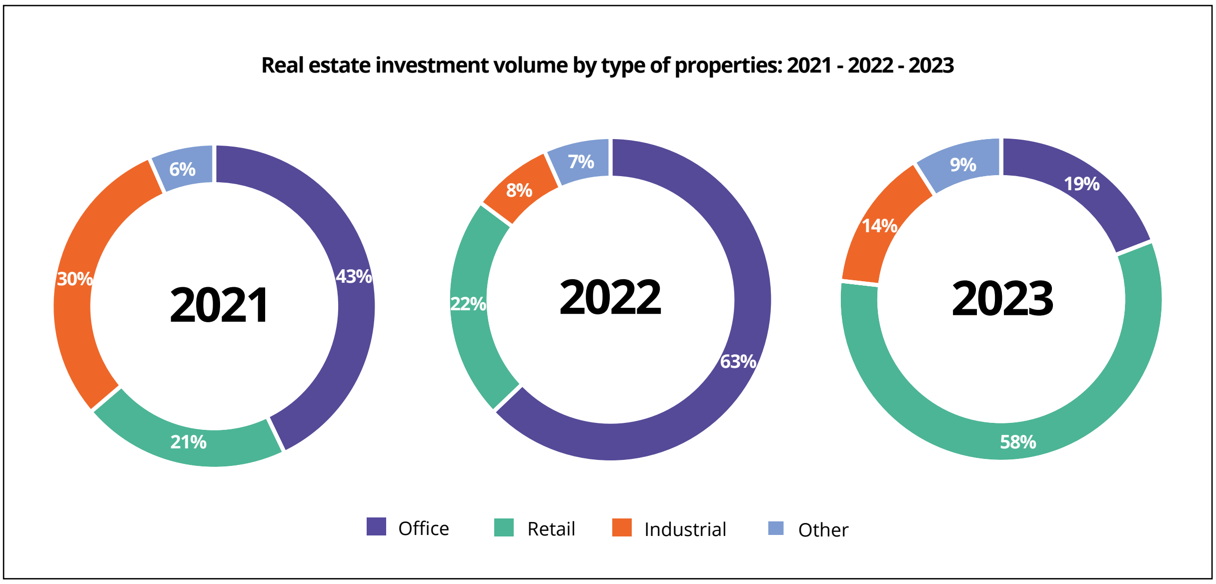
**Mitiska REIM**

# Transactional performance

The largest recorded transaction in Romania for the year 2023 was the sale of the Mitiska REIM retail park portfolio to M Core, a UK-based entity affiliated with the LCP Group, for an amount of €219M. This portfolio comprised 25 retail parks situated in 24 cities across Romania, including 2 in Bucharest. These retail parks were strategically located throughout the country and featured well-known international retailers such as Kaufland, Lidl, C&A, Pepco, Deichman, and H&M, among others, as anchor tenants. It is noteworthy that the total GLA of the Mitiska portfolio, approximately 133,560 sqm, was developed over the past decade in collaboration with its Romanian partner, Square 7 Properties. In terms of sustainability, the entire portfolio has been recognized with "Very Good" BREEAM certifications for Asset Performance, in accordance with Mitiska REIM's statement.

The second-largest investment transaction documented in Romania for the year 2023 pertains to industrial assets and is exemplified by the sale and leaseback of the FM Logistics industrial park to CTP, for an estimated amount of €60M.

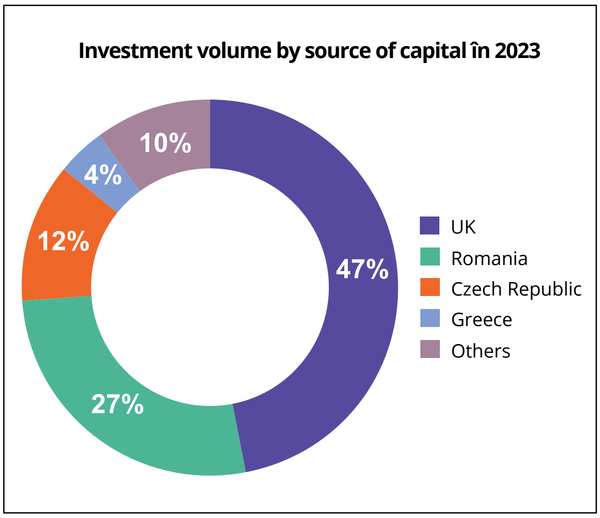


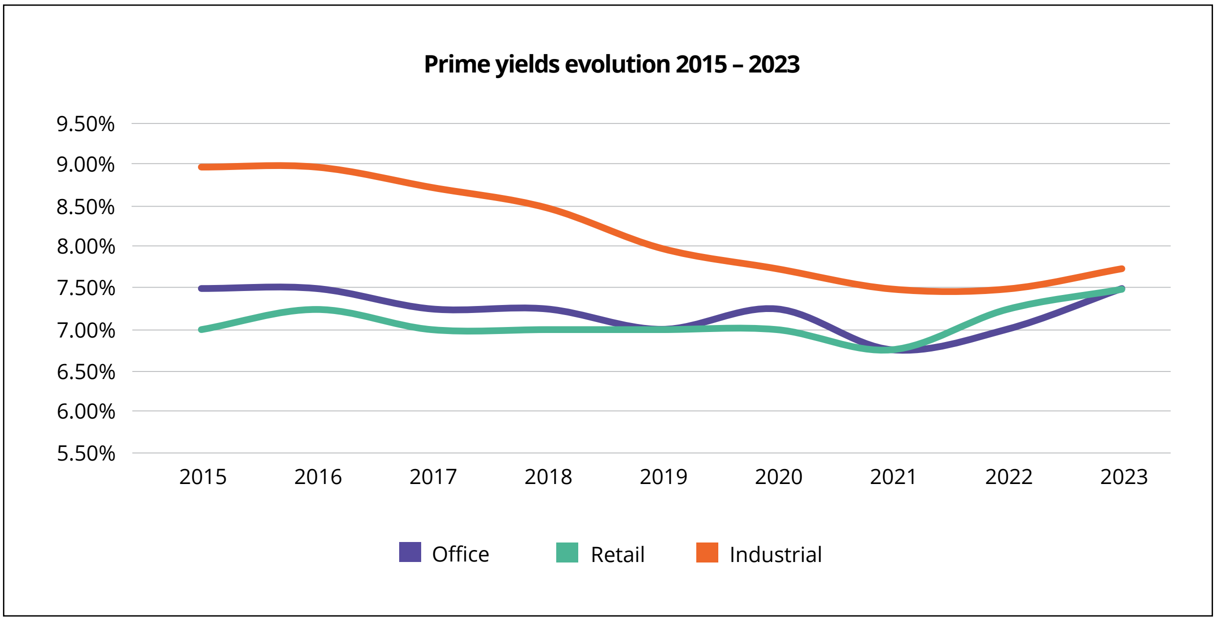
The French company, operating in Romania since 2003, disposed three of its industrial parks situated in Timisoara, Dambovita, and Dragomiresti, collectively amounting to over 100,000 sqm of warehousing space.

The most significant office building transaction in 2023 was the sale of One Herastrau Office for €21M by One United Properties to a private investor, Mikalai Vaskaboinikau. Other notable transactions involving office buildings include the sale of Olympia Tower by Bluehouse to Yellow Tree (€15M), the sale of Avrig Office Building and Quest Center to the University of Medicine "Carol Davila" for €10M, and €7M, respectively. Additionally, Construdava was sold to the Ministry of Internal Affairs for €12M, with the intention of establishing the newest Department of Emergency Situations (IGSU).

When evaluating the investment transactions concluded in 2023, it was observed that, in addition to established and highly institutional transactions, there was an emergence of new entrants, particularly family-type investors. Additionally, there was an increase in the involvement of public institutions acquiring modern office buildings for diverse purposes. Although engaging with public entities or institutions involves a protracted and extensively documented process, this buyer category has begun to make its presence felt in various prominent Romanian cities such as Bucharest, Cluj Napoca, and Sibiu. This trend is expected to gain momentum in the upcoming years, as a significant portion of the buildings occupied by public institutions is aging and requires substantial retrofitting to meet contemporary standards for the work environment.




In 2023, only 27% of the annual investment volume originated from local capital, primarily concentrated in Bucharest. This marks a decline compared to the previous year, aligning with the growth trajectory observed in 2020 and 2021. Despite the drastic drop, local investors are expected to retain their significance as a capital source in Romania.
The resurgence of local investors is anticipated when the global economic environment stabilizes, and financing becomes, if not "cheap", at least more affordable, making long-term investments in Romanian real estate more attractive.




Office yield **7.50%** Retail yield **7.50%** Industrial yield **7.75%**

## Prime yields

Several factors, including the elevated costs associated with financing and refinancing, along with the limited availability of prime assets in both Bucharest and other leading regional cities, have intensified pressure on prime yields. Despite these challenges, the absence of transactions involving prime assets makes it difficult to precisely determine accurate yields. As of the last quarter, however, prime yields are reported to be consistent with previous levels, standing at 7.5% for office assets and 7.75% for industrial assets. Regional cities continue to maintain a gap with the capital city, ranging between 100-150 bps.

## Forecast

Considering the ongoing investment transactions, the volume for 2024 is anticipated to be on a comparable scale to that recorded in 2023. Postponed transactions involving diverse assets such as office buildings, retail park portfolios, and industrial parks from the past couple of years, may see increased potential for conclusion in 2024. The sustained interest in these transactions suggests that the bridge between involved parties can be closed, resulting in mutually beneficial outcomes.

Looking ahead, there is an expectation that sale and leaseback transactions will attract additional interest, particularly in the realm of industrial parks featuring production facilities or distribution centers. Additionally, the development of data centers in Romania presents an opportunity to draw a new wave of investors, thereby diversifying the current investor pool.

Nevertheless, 2024 may bring additional uncertainties and delays, primarily due to the numerous scheduled elections in Romania. The political landscape during elections often involves promises, announcements of infrastructure projects, but the actual implementation may undergo revisions after the formation of the new ruling coalition and the establishment of its governmental program. Moreover, the global economic and social stability stands out as another crucial factor that should be considered when projecting the future growth of the real estate market in Bucharest and Romania as a whole.

**2023 Main investment transactions (selection)**

| City | Sector | Property | Purchaser | Vendor | Price* (€ million) |
|---|---|---|---|---|---|
| Regional & Capital | Retail | Retail Parks Portfolio | M Core | Mitiska REIM | 219 |
| Regional | Industrial | FM Logistic Parks | CTP | FM Logistic | 60 |
| Capital | Office | One Hersatrau Offices | Private Investor | One United Properties | 21 |
| Capital | Retail | Liberty Center | Jumbo | Alpha Bank, Bank of Cyprus, Eurobank | 20 |
| Capital | Office | Olympia Tower | Yellow Tree | Bluehouse | 15 |
| Voluntari | Office | Construdava | IGSU | Adam Europe | 12 |
| Regional | Medical | Amethyst Radiotherapy Centers | BT Property | Amethyst Group | 12 |
| Capital | Office | Avrig Business Center | UMF "Carol Davila” | Nanette Bucharest Properties | 10 |
| Regional | Industrial | SFC Solutions Automotive | WDP | SFC Solutions Automotive | 10 |
| Regional | Office | Multinvest Business Center | Romar | Multinvest | 6 |

* Estimated selling prices

myhive S-Park

# Office market

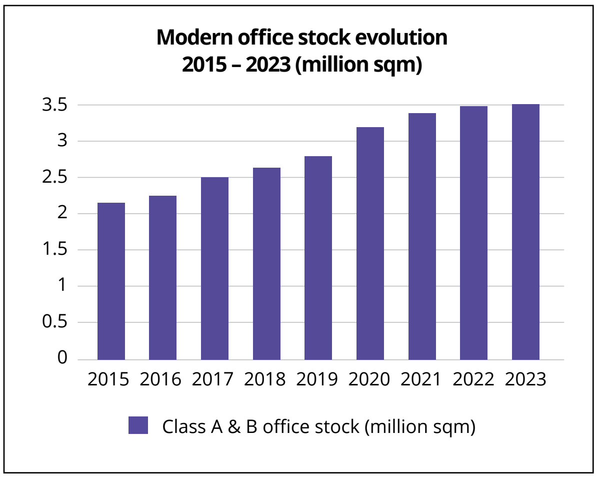
## Supply and stock

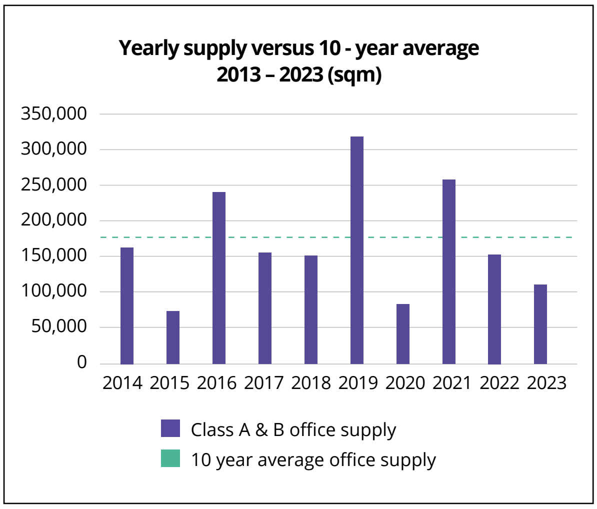
There was a further decline in supply observed in Bucharest, where only 113,000 sqm across five buildings were completed in 2023. This represents a 9% decrease compared to the previous year and a 34% decrease compared to the 10-year average. Out of the five buildings completed in 2023, only Arghezi 4 was fully occupied at the time of completion, while the remaining delivered projects projects were partially occupied. Consequently, at the end of 2023, the modern office stock stood at 3.53M sqm. Additionally, one building, Avrig 3-5 Business Center, was removed from the stock as it was acquired by the Medicine University "Carol Davila," and it is highly likely that the use of the office building will be altered.

To compensate for the limited supply completed in 2023, landlords have seen the return of qualitative and fully fitted-out office spaces through various lease renewals. Noteworthy instances of space surrenders were observed in the market throughout 2023. These lease surrenders resulted in an increase of Class A vacant space, consequently reducing the availability of space for subleasing. Occupiers returned to their landlords' spaces that had been unoccupied since the onset of the pandemic.

In terms of geography, the Central West submarket continues to hold the leading position in the modern office stock, boasting approximately 619,000 sqm of Class A&B office space. More than 60% of this submarket has been completed in the last 5-6 years. Following closely is the Floreasca-Barbu Vacarescu submarket, offering around 550,000 sqm of modern office stock and ranking high in occupiers' preferences in 2023. Notably, the Pipera South submarket stood out in 2023 with the significant completion of the second phase of Yunity Park transformation (formerly known as Novo Park). This phase features an urban forest spanning 1,000 sqm, an open-air amphitheater, pedestrian pathways, and a tiered promenade.

Looking ahead, the upcoming months are anticipated to see upgrades to other reputable buildings as landlords express interest in enhancing the energy efficiency of their owned assets. This initiative also extends to improving common areas to to enrich well-being and encourage a return to physical offices. Notable buildings in the pipeline for these improvements include Crystal Tower in the CBD, Riverplace in the Central West, Floreasca Park in Floreasca-BV and Hermes Business Campus in Pipera South.




Modern office stock (million sqm)

**3.53**

## Pipeline

Bucharest is currently facing a substantial shortage of projects in the pipeline, as only a handful of developments are either under construction, have secured a building permit within the last 12 months, or are in the advanced stages of obtaining a building permit. On a positive note, over the past couple of years, established developers have acquired sizable land parcels with the intention of introducing mixed-use projects to the market. These endeavors are designed to contribute to the well-being of the entire community.

Returning to the pipeline discussion, the sole project with confirmed delivery for 2024 is AFI Loft, encompassing a GLA of 15,000 sqm in the Central West, with completion expected in Q4 2024. Outside of this certainty, there is room for speculation regarding the completion of smaller projects, such as NEPI's compact office building along Barbu Vacarescu Blvd. Construction progress for ongoing projects could accelerate in the event of substantial pre-leases, although the completion of such projects may only be viable starting with 2025-2026.

Until now, the primary reason for the week pipeline has been the cancellation of Coordinating PUZs. However, the current tight financing conditions present another obstacle to pipeline development. Factors such as an elevated percentage of necessary preleases demanded by financing banks (reaching approximately 50%) and the anticipation of higher headline rents to counterbalance the rise in construction materials costs contribute to the ongoing weakness in the pipeline for the next 24 months.

**Office projects completed in 2023**

| Developer | Project | GLA (*) | Submarket | Delivery |
|---|---|---|---|---|
| One United Properties | One Cotroceni Park Ph 2 | 34,450 | Central West | Q1 2023 |
| Primavera Development | Muse | 7,500 | North | Q1 2023 |
| Atenor | @Expo A-C | 28,000 | Free Press Sq | Q2 2023 |
| Forte Partners | U Center Ph 2 | 35,000 | Center | Q3 2023 |
| Strabag Real Estate | Arghezi 4 | 8,000 | Center | Q4 2023 |

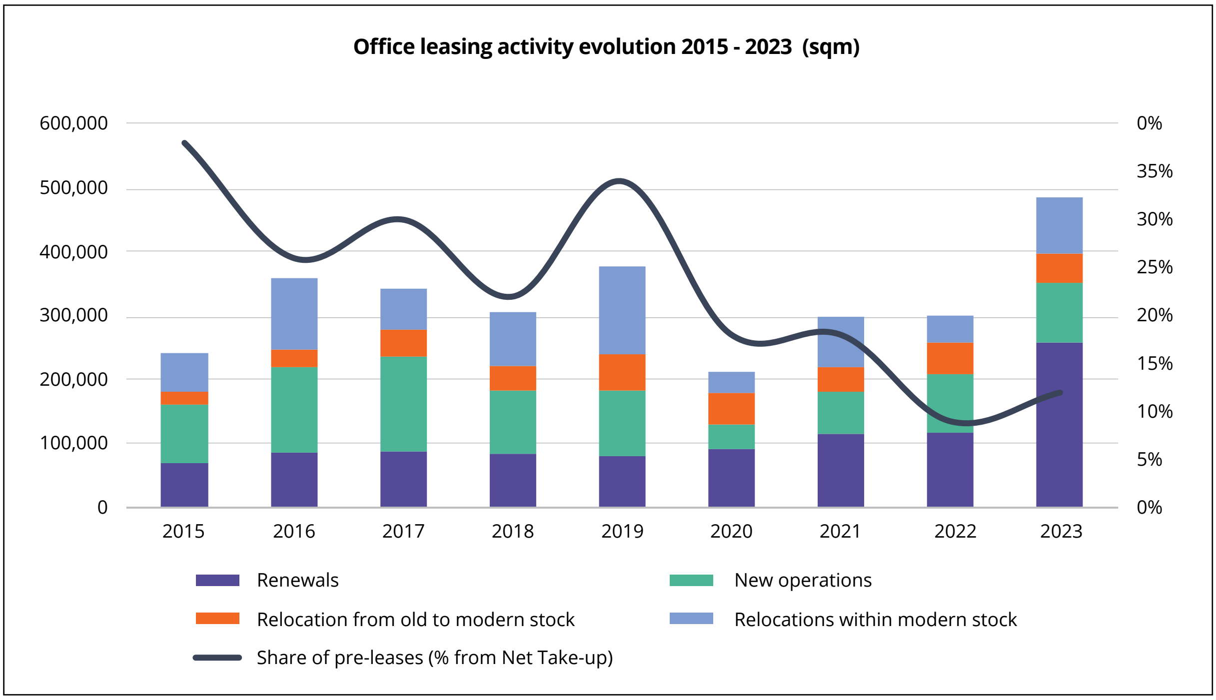
(*) - estimated GLA

**Pipeline 2024 -onwards, under construction and announced (Selection)**

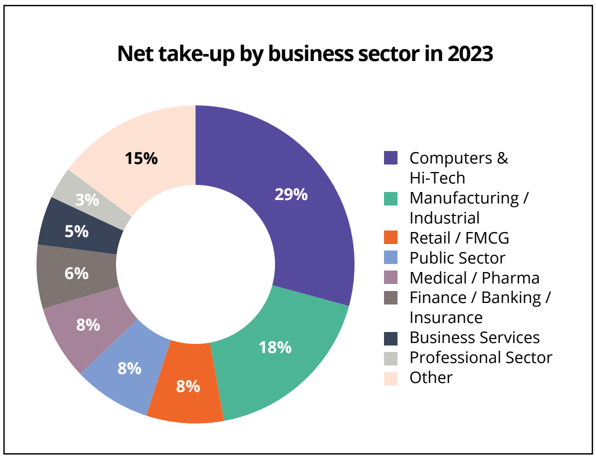
| Project | Est Area (GLA in sqm) | Developer | Sub-market |
|---|---|---|---|
| AFI Loft | 15,000 | AFI Europe | Central West |
| Promenada Office Project (**) | 5,500 | Nepi Rockcastle | Floreasca BV |
| Promenada Mixed Use | 27,500 | Nepi Rockcastle | Floreasca BV |
| CINA Project | 3,400 | Jupiter Group | Center |
| One Gallery - Hala Ford Project (*) | 12,000 | One United Properties | Floreasca BV |
| nmyhive Victoriei | 24,000 | CPI Property Group | Center |
| ARC | 30,000 | PPF | Central West |
| The Light Two | 28,600 | River Invest | Central West |
| Campus 6.4 | 21,000 | Skanska | Central West |
| One Cotroceni Park Ph 3 | 30,000 | One United Properties | Central West |

(*) - office & retail
(**) - GBA

# Demand

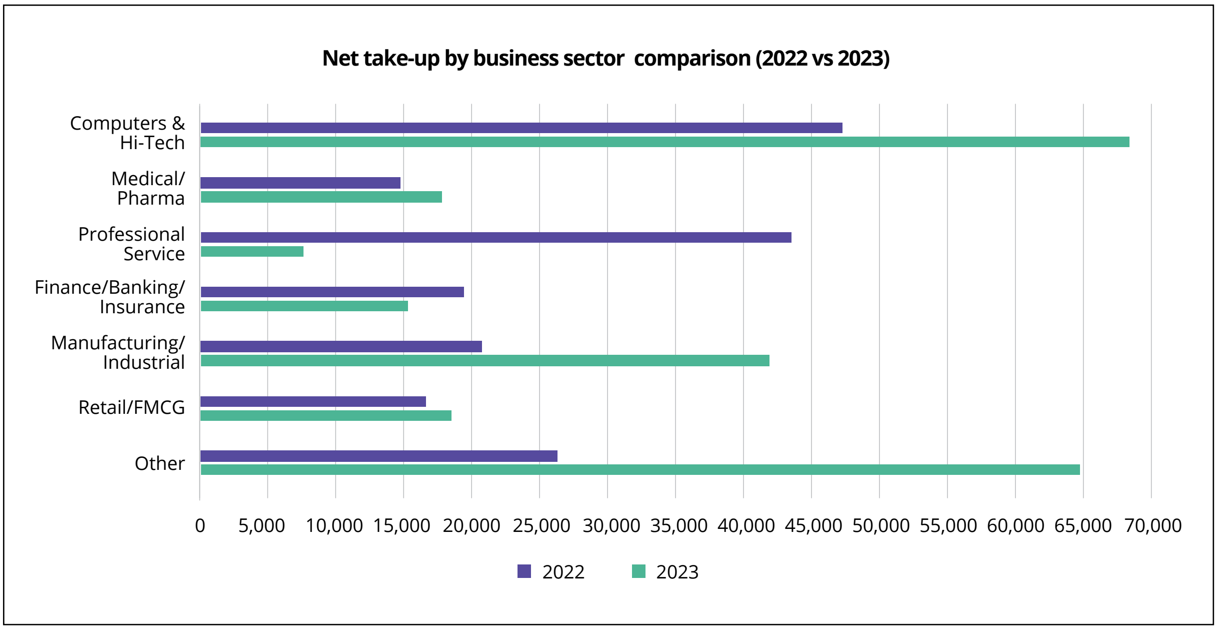


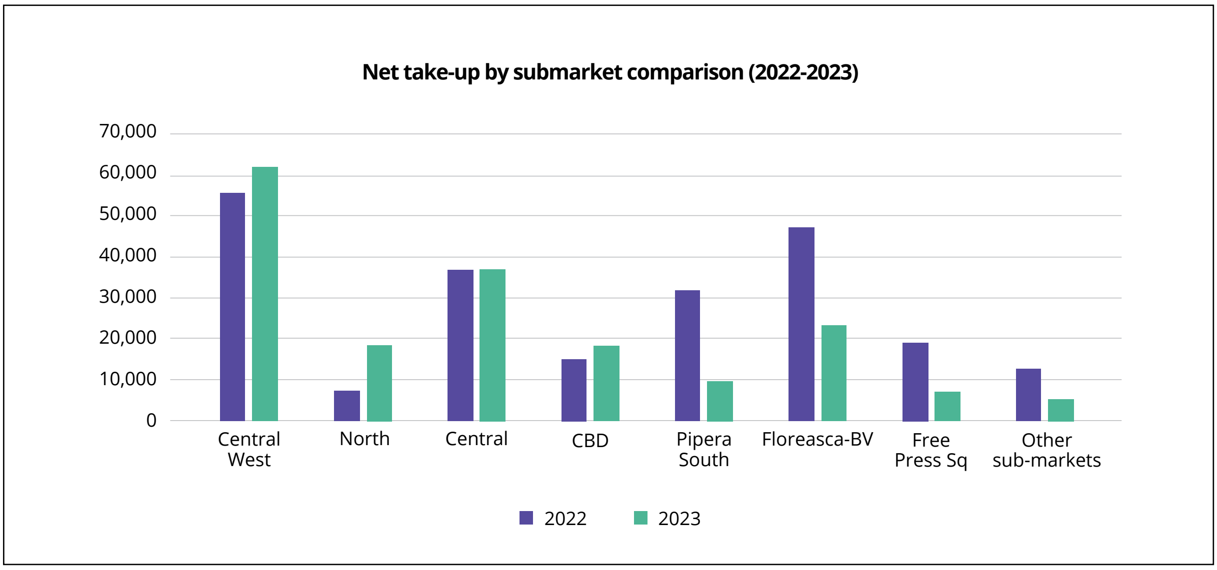

The year 2023 will go down in the history of Bucharest's office market as having the highest yearly gross office take-up.




The record-breaking leased area of approximately 490,000 sqm comprises around 53% renewal contracts, marking an increase from the 39% recorded in the previous year. The substantial office area covered by renewals and the significant share of renewals in the overall leasing activity can be attributed, on one hand, to the extensive supply completed five years ago, exceeding 320,000 sqm.

On the other hand, it is influenced by the unpredictable office pipeline in the coming years and the preference of occupiers to stay in their current locations. It is crucial to note that multinational occupiers are still in the process of implementing hybrid working models and exercise caution in surrendering larger office spaces.




This cautious approach serves as a safeguard against any potential shortage of office space accommodation in the event of employees returning to their physical offices.

Relocations from both old and modern office spaces constituted 28% of the total gross take-up, while new demand arising from the opening of new locations or expansion reached 19%. Although these percentages may not seem promising, the net office leasing activity in 2023 reached 230,000 sqm. This was driven by significant relocations to buildings such as U-Center 2, Green Court and several others.

It is noteworthy that in several lease renewal cases, the leased area has seen a reduction ranging from 20-30%, and occupiers have further plans for space reduction. This strategic downsizing has contributed to a reduction in total occupancy costs, as in the past couple of years, rents have increased more than the average historical growth rate through indexation.

The most substantial transaction concluded in 2023 was the renewal signed by Honeywell in BOB Upground business park for an area of 24,000 sqm. This was followed by renewals signed by Oracle in Oregon Park for 20,000 sqm and BCR in The Bridge 1 for 18,000 sqm. Other notable renewals included Unicredit (15,000 sqm) for their current headquarters in the Free Press Square area, DB Technology (12,700 sqm) in BOB Upground, Deloitte in Oregon Park (12,500 sqm), and Huawei (12,000 sqm) in Globalworth Tower.

Significant among the transactions is the pre-lease agreement signed by Infineon Technologies for an area of 20,000 sqm in a built-to-suit project, One Technology District, developed by the local company One United Properties in the Pipera South submarket, opposite to Pipera Metro station.

Other notable large relocations in 2023 include Adobe in U-Center 2 (17,500 sqm, including an expansion of operations), eMag in Globalworth Square for 10,000 sqm, and Banca Transilvania in Green Court A for 9,960 sqm.

Closing in on half a million square meters transacted in 2023, the notable transactions list exhibits a diverse array compared to previous years.

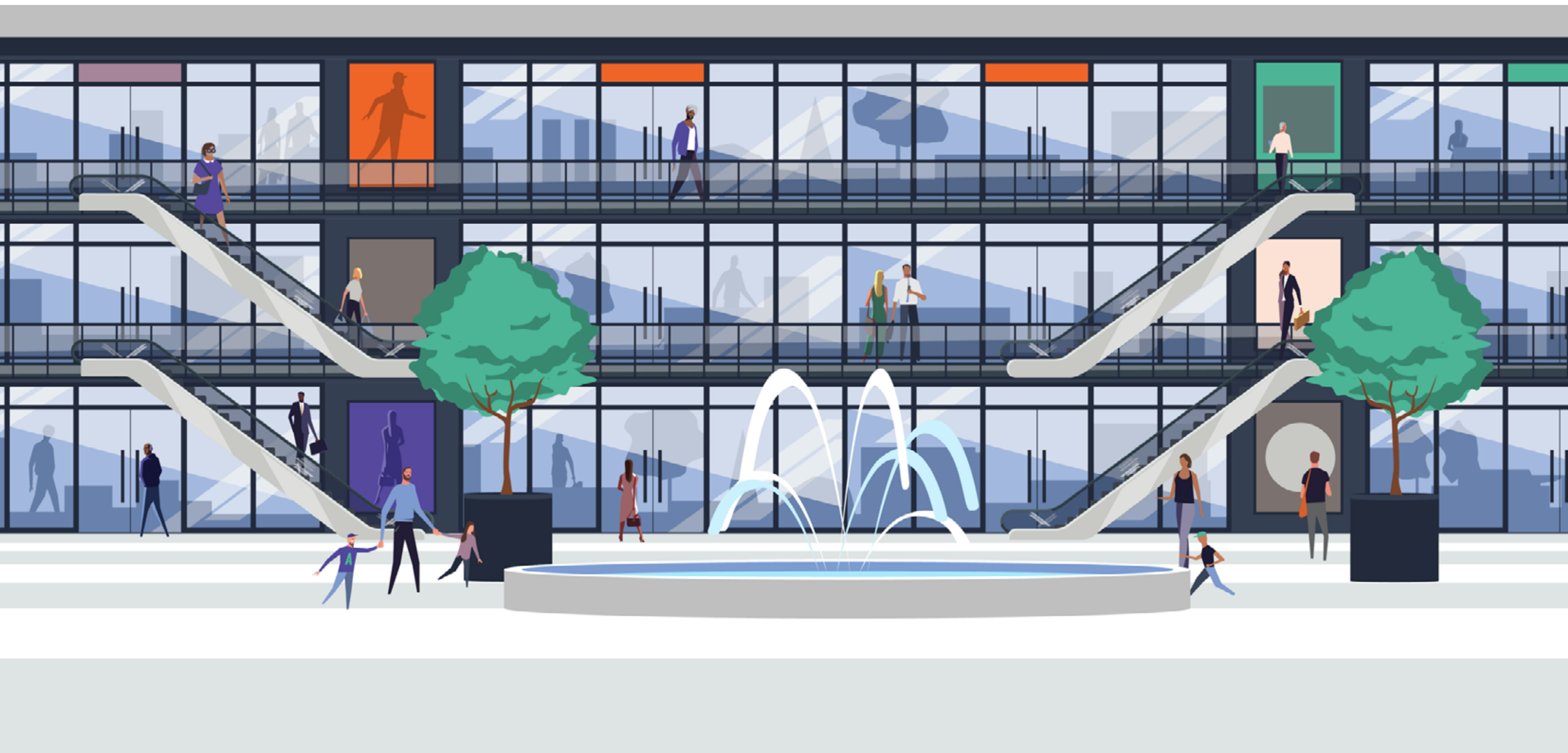
The average leased area, including renewals, was in the region of 1,750 sqm. However, the average for renewals alone exceeded 3,400 sqm, due to large leases signed during previous cycles in a thriving global economy.

The Computer Hi-tech sector remained the leading industry, contributing 29% to the net leasing activity, followed by manufacturing at 18%. Additionally, the medical and pharma, as well as the public sector, each accounted for 8% of the net leasing, while the financial and insurance sector decreased to 6%. Throughout 2023, nine sub-leases were concluded, totaling over 17,000 sqm (for a sub-lease contract of 11,000 sqm additional confirmation is expected from the involved parties).

## Rents

Prime office rents have maintained stability over the last six months, quoting between €21-€22/sqm/month. Nevertheless, a slight increase was observed over the quarter, particularly in active office submarkets where frequent offers are issued, and available spaces are in high demand due to locations or existing technical specifications. This increase primarily impacted the lower range of the headline rent, resulting in an average rise of €0.5-0.75/sqm/month. Consequently, it narrowed the rent band for the subject office buildings, leaving minimal room for negotiation on the main commercial terms. This represents an additional increase compared to a year ago, indicating a slight shift in the market in favor of landlords.

While the incentive package in terms of rent-free periods remains unchanged, fit-out contribution packages are negotiated on a case-by-case basis. Notably, the fit-out level of spaces does not typically start from a base build standard in the current market scenario, as majority of spaces are already fitted out.



## Vacancy

As of the end of Q4 2023, the average vacancy rate stood at 13.3%. Among the active office submarkets, the CBD and Central are exhibiting single-digit vacancies of 8.8% and 9.8%, respectively, while Floreasca-Barbu Vacarescu's vacancy rate increased to 11.7%, and the Central West submarket is at approximately 17%. The change in vacancy in the most active office submarkets during the last quarter was driven by recent space surrenders upon lease renewals. However, the overall vacancy rate is anticipated to decrease citywide as new leases are expected to be signed for spaces within the existing modern stock. This trend is projected to persist over the next 12-18 months, during which new office projects may secure building permits with pre-leases in place.

## Forecast

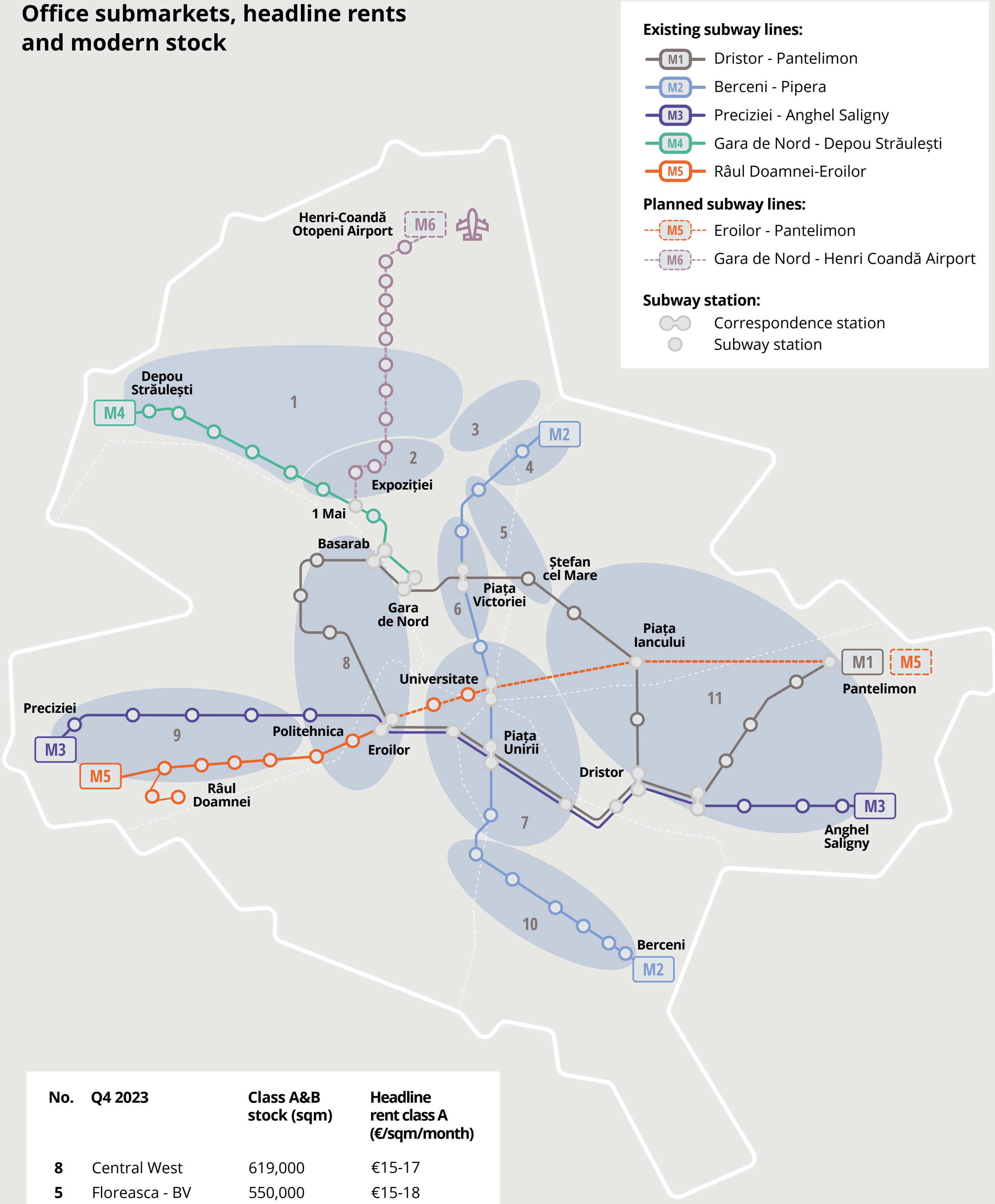
The remarkable leasing activity witnessed in 2023 is challenging to replicate soon, yet it underscores the resilience of the Bucharest real estate market in delivering unexpected results despite global economic trends. Nevertheless, the total leasing activity will reduce in the next two years, with renewals continuing to maintain their share in the gross take-up. Given the scarcity of the pipeline, signing pre-leasing contracts in the upcoming 18-24 months will be challenging, too. However, transactions involving built-to-suit projects, where land is secured and the permitting process is relatively advanced or easy to secure, are expected to continue.

It is anticipated that rents will experience a slight increase across all office submarkets throughout the year. This expectation is driven by the limited pipeline and the financial expectations of owners for recently vacated stock, aligning with their achievements in previous lease cycles.

Vacancy rates are expected to further decrease in all active office submarkets. This trend is likely to extend to decentralized office locations such as Pipera North or North, which are not yet served by metro within walking distance.

Overall, 2024 is expected to pose challenges for all market players. In addition to the constraints within the real estate market, players will need to contend with the rising costs of financing and construction materials and with the uncertainties generated by parliamentary elections scheduled for the end of the year.

## Office submarkets, headline rents and modern stock

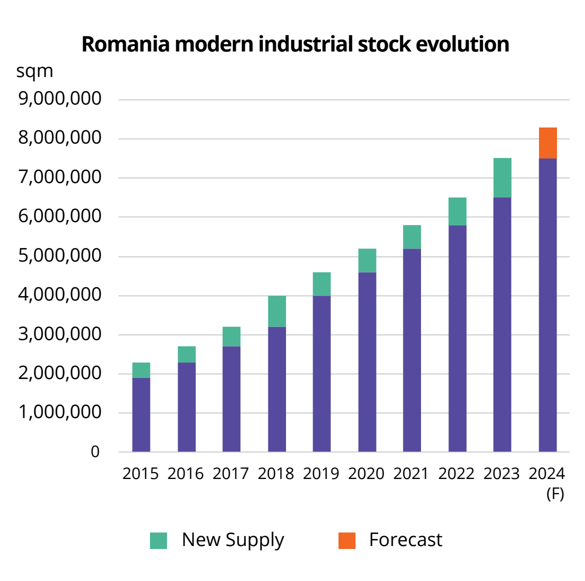


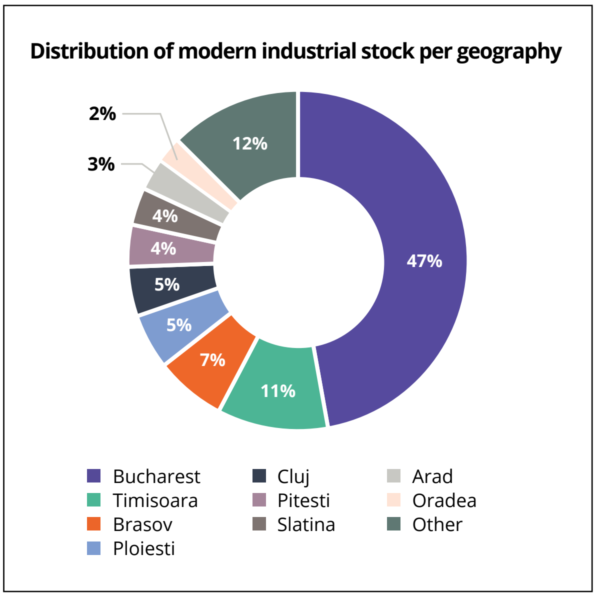

| No. | Q4 2023 | Class A&B stock (sqm) | Headline rent class A (€/sqm/month) |
|---|---|---|---|
| **8** | Central West | 619,000 | €15-17 |
| **5** | Floreasca - BV | 550,000 | €15-18 |
| **4** | Pipera South | 470,000 | €12-14 |
| **7** | Central | 442,000 | €15-17.5 |
| **1** | North | 356,000 | €12-14 |
| **6** | CBD | 353,000 | €21-22 |
| **2** | Free Press Square | 256,000 | €15-17.5 |
| **3** | Pipera North | 185,000 | €8-10 |
| **9** | West | 173,000 | €10-13 |
| **11** | East | 96,000 | € 9-12 |
| **10** | South | 52,000 | € 9-12 |

# Industrial market

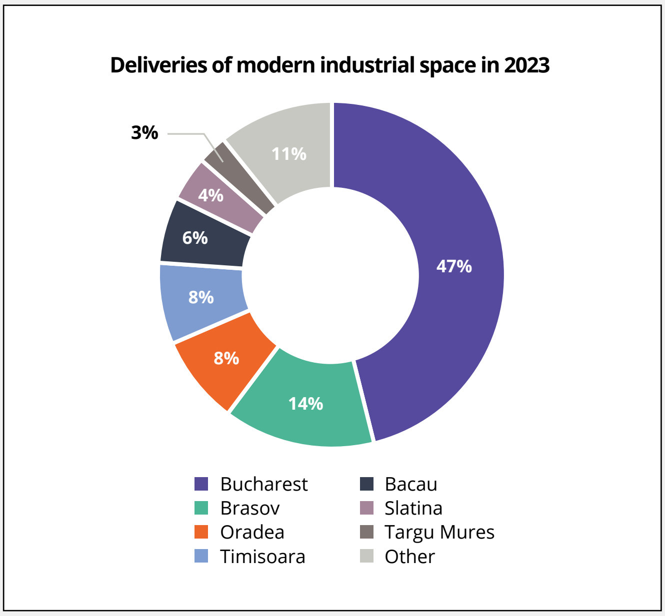
## Supply and stock

If in the previous years, the take-up figure was breaking record after record, this year marks a significant milestone in the annual modern industrial supply, with approximately 1 million sqm delivered in 2023. Compared to previous years, where new supply ranged between 600,000 to 800,000 sqm, this achievement sets a historical record.



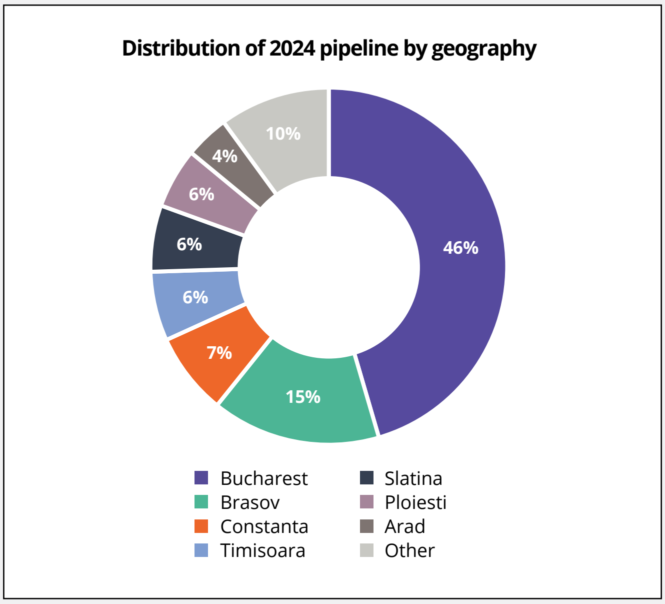




In terms of distribution per geography, the Bucharest area comprises almost one half of the modern industrial stock. The following most important industrial and logistic hubs in Romania are Timisoara (comprising around 11%), Brasov (7%), Ploiesti (5%) and Cluj (also 5%). Bucharest's share remained stable in the last 5 years, ranging between 46% and 50%.




In 2023, almost 50% of the completions for class A industrial units occurred in the Bucharest area, compared to 60% in 2022, which shows a desire of the developers to expand and explore new areas of Romania. Other cities with an important delivery share are Brasov, Oradea, Timisoara and Bacau (the latter showing an upcoming trend of development in Moldova region – attractive due to lower labour cost and ongoing infrastructure developments).

## Pipeline

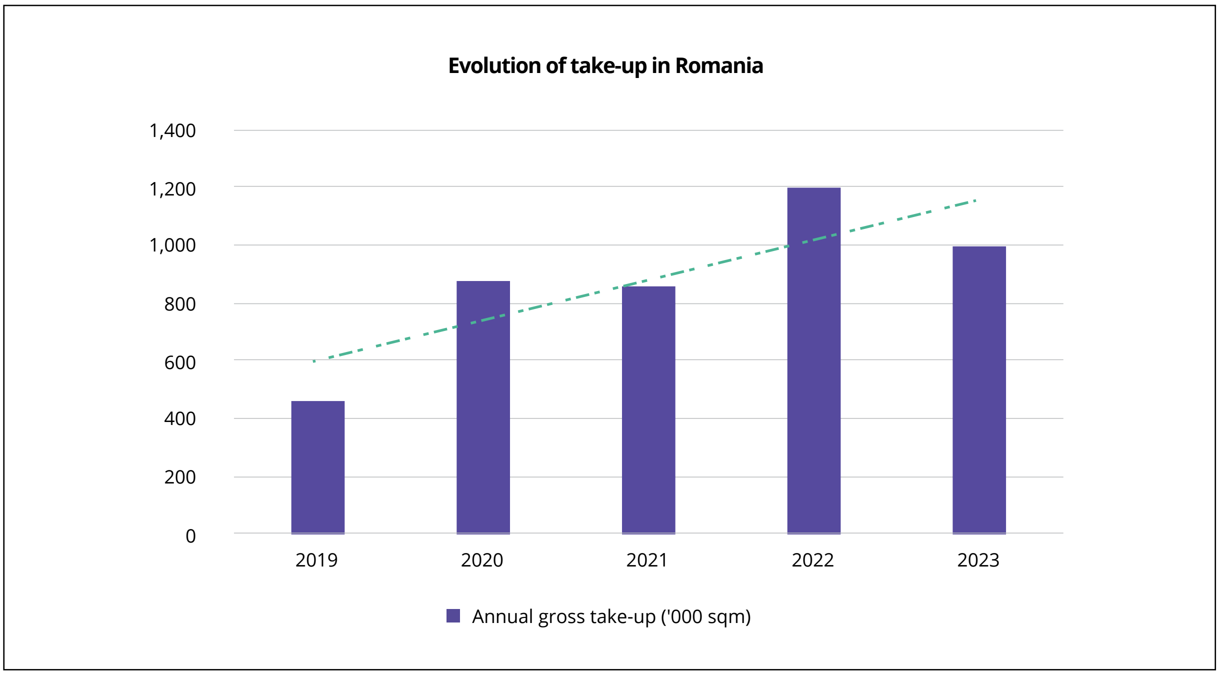



And the record supply in 2023 is just a sign of things to come. Another 800,000 sqm are planned to be delivered in 2024. Bucharest keeps the proportion of 46% in planned completions, whilst other important deliveries are planned for Brasov, Constanta and Timisoara.

The pipeline is generally based on pre-leases signed in 2023, but also speculative. Usually developers are confident to start construction after securing 30-50% occupancy in pre-leases.

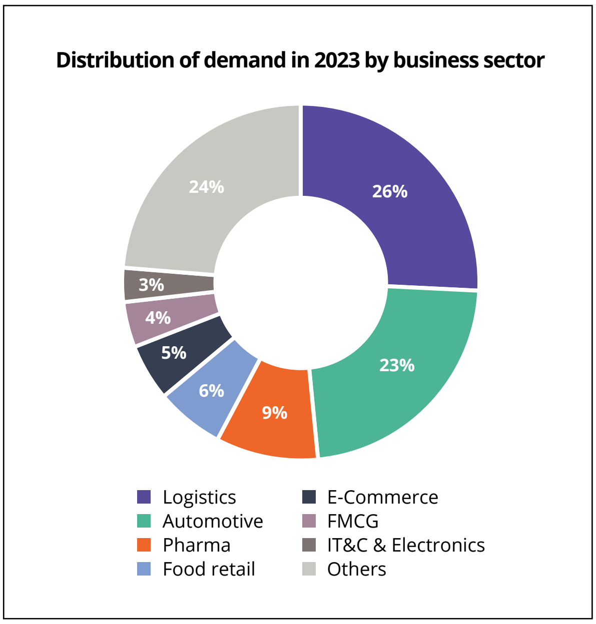
## Demand

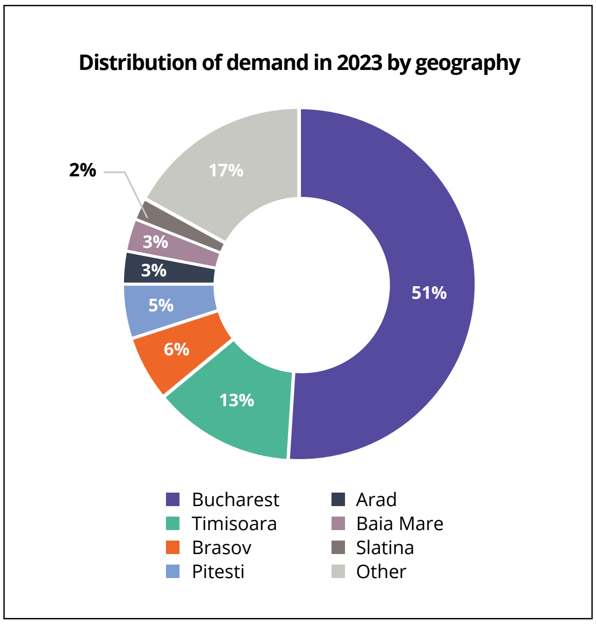
In 2023, the total take-up reached just over 1 million sqm maintaining the upward trajectory from recent years. This figure remains consistent with the trend established after surpassing the 1 million sqm milestone for the first time in history in 2022.




The demand coming from logistic companies was the main take-up driver in 2023, accounting for over one quarter of the total demand (increasing from 15% in 2022). Apart from strengthening Bucharest as a logistic hub (about half of the logistic demand was accommodated in Bucharest area), also Brasov and Cluj attracted significant demand for logistic hubs.

The automotive segment was more prominent this year, making a comeback and increasing from 7% in 2022 to 23%, fuelled by demand coming from auto components companies – regional distribution centre (servicing also neighbouring countries such as Hungary, Moldova, Bulgaria and Greece) in Brasov, tyres manufacturers in Timisoara and Slatina, and also important auto parts manufacturers for the Renault (Pitesti) and Ford (Craiova) factories.
Pharma companies also made a comeback in 2023, accounting for 9% of the total demand.
Most of the demand was accommodated in Class A units with 10m or more clear height, 5t per sqm or more load bearing capacity, on the outskirts of important industrial hubs, in the vicinity of highway entrance points.



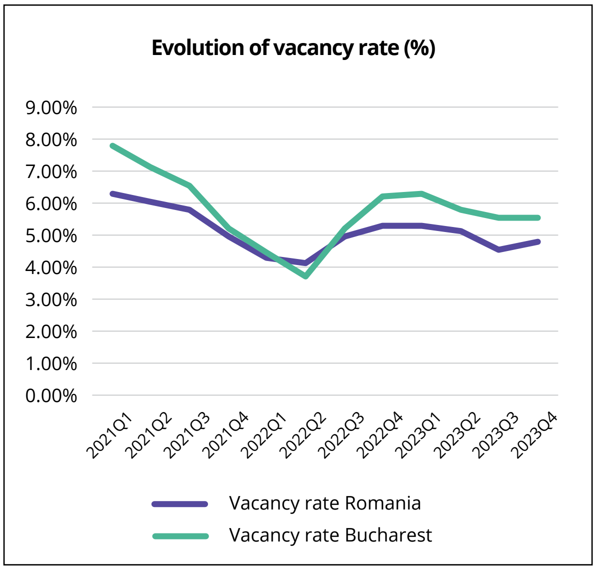



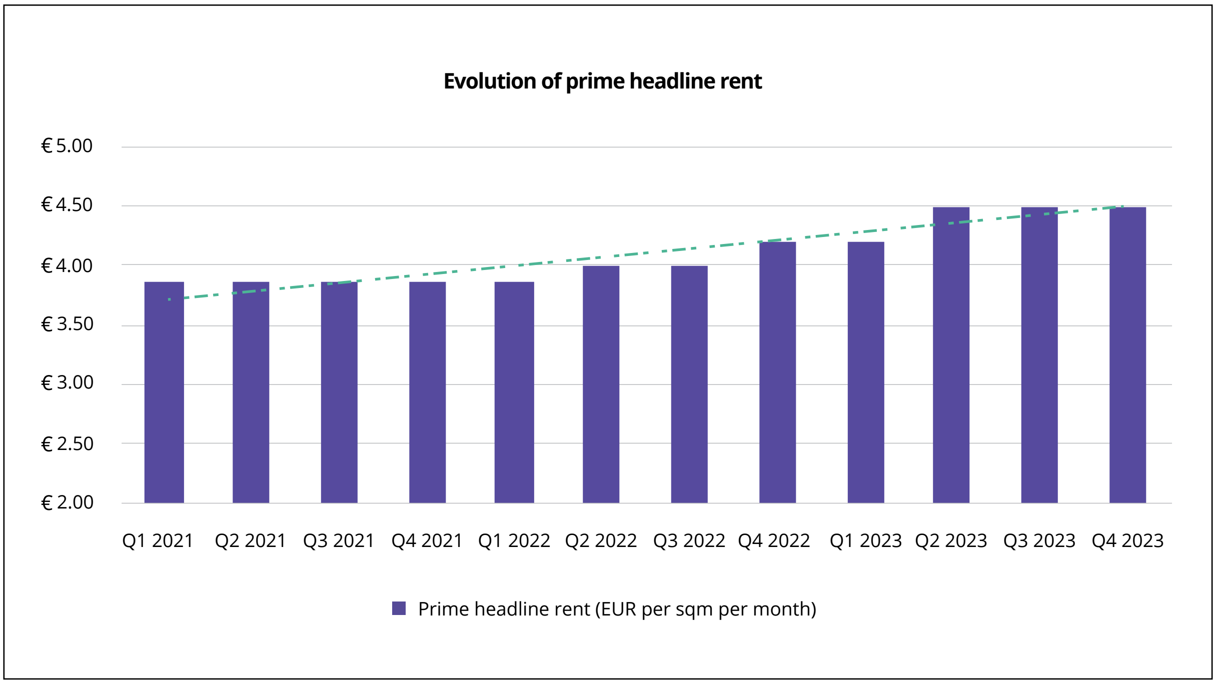

## Vacancy

The vacancy rate currently stands at around 4.8% at country level and 5.5% in Bucharest area. It is on a descending trend, and relatively low for the industry standard and compared to other countries in the region.

## Rents

The prime headline rent is on an ascending trend and is currently at €4.5 per sqm per month.
We expect a slight increase in 2024, especially in Bucharest area. For some class A units, already the headline asking rent is in the area of €4.7-4.8 per sqm per month. Deducting from the headline rent, incentives such as rent-free months, early access, fit-out contribution (all in the range of 10-15% from headline rent) usually apply.
Service charges (covering expenses such as building maintenance and insurance and property tax) are in the area of €0.8-1 per sqm per month. The usual lease contract length is 3-5 years for logistic activities, 5-10 years for build-to-suit and manufacturing units and occasionally longer terms, for example for large retailers.






## CEE comparison

In order to better understand the Romanian industrial market in the CEE context, we took a look at the main indicators of the industrial market in neighbouring CEE countries.

| Indicator | Romania | Hungary | Czech Republic | Poland* |
|---|---|---|---|---|
| Population | 19,000,000 | 10,000,000 | 11,000,000 | 38,000,000 |
| Modern industrial stock (sqm) | 7,500,000 | 5,100,000 | 11,700,000 | 31,100,000 |
| Modern industrial stock (sqm) per 1,000 inhabitants | 395 | 510 | 1,064 | 818 |
| New industrial suply in 2023 (sqm) | 1,000,000 | 520,000 | 920,000 | 3,100,000 |
| Yearly industrial stock growth | 13% | 10% | 8% | 10% |
| Vacancy in modern industrial spaces | 4.8% | 8.0% | 1.8% | 7.8% |
| Prime headline monthly rent per sqm | € 4.50 | € 5.75 | € 7.70 | € 4.80 |
| Gross take-up 2023 (sqm) | 1,000,000 | 850,000 | 1,500,000 | 3,700,000 |
| Gross take-up 2023 (sqm) per 1,000 inhabitants | 53 | 85 | 136 | 97 |

*figures as at Q3 2023

According to these findings, Romania has the lowest amount of modern industrial stock (taking into account the size of the country population), the highest annual growth, lowest rental level, and also lowest take-up figure (compared to the population).

## Trends and forecast

We saw that in recent years, both the industrial stock and take-up are on a steep upward trend. We also saw that, comparing to other CEE countries, the market is far from saturated, there is plenty room for growth, and the infrastructure developments such as Bucharest's second ring road (A0) and Moldova Highway (A7) will make room for more development opportunities. In 2023, we exceeded the milestone of 1,000 km of highways.

Occupiers also are seeing the potential in Romania due to infrastructure improvements, affordable labour cost, stable economic and political climate, growing consumer market, access to sea, as well as a strategic geographic location. As a result, we expect the Romanian industrial market to keep growing at a fast pace, fuelled by demand for distribution centres and manufacturing units (with automotive sector playing an important role).

The Class A industrial and logistic stock keeps gaining a larger share in the total Romanian industrial stock (including lower classes and older units), comprising at the moment around 42%.

Due to the increasing demand, the industrial land prices are slowly growing, hence the need for more volume efficiency appeared, and newer logistic developments are generally taller, at up to 12m free height.

## Romania infrastructure

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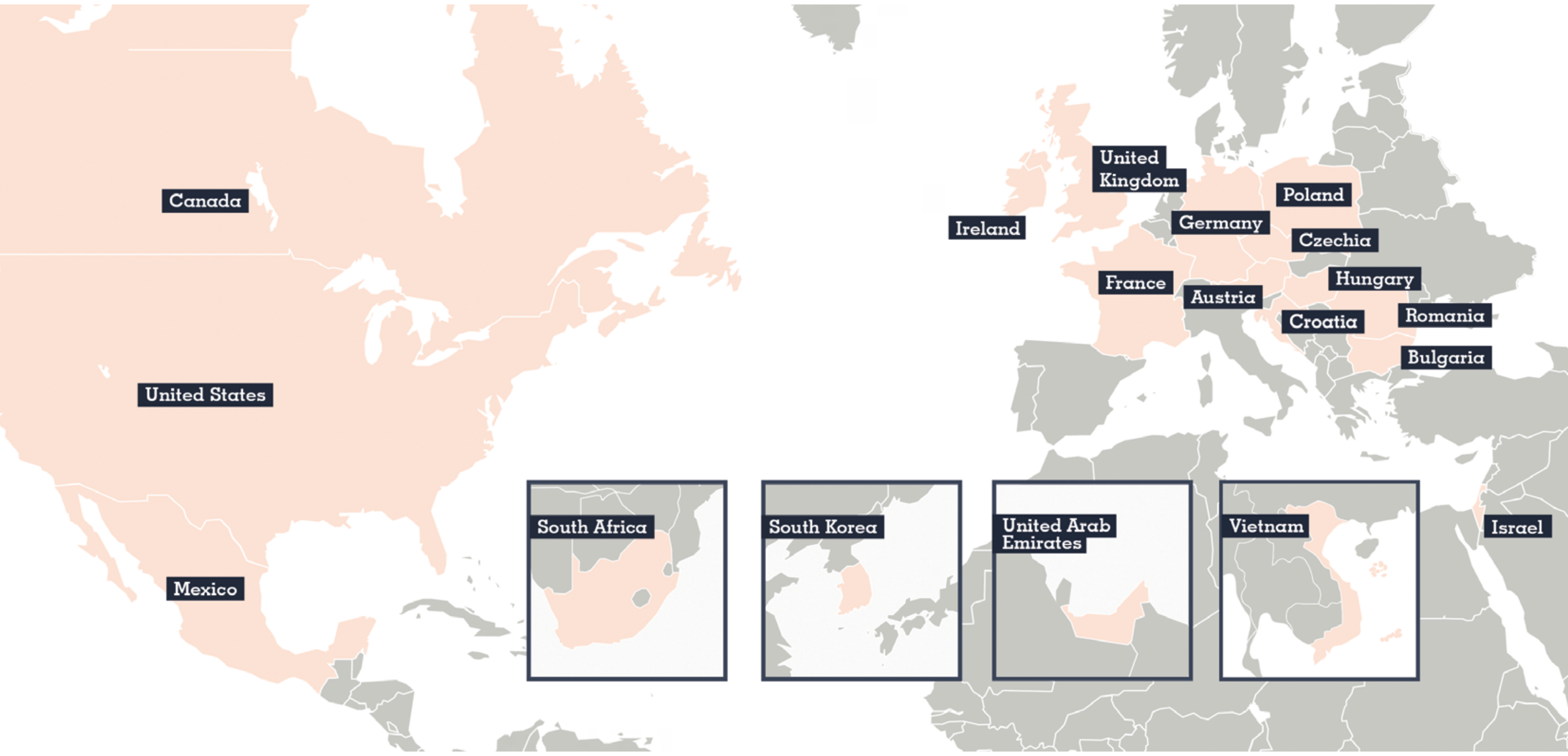

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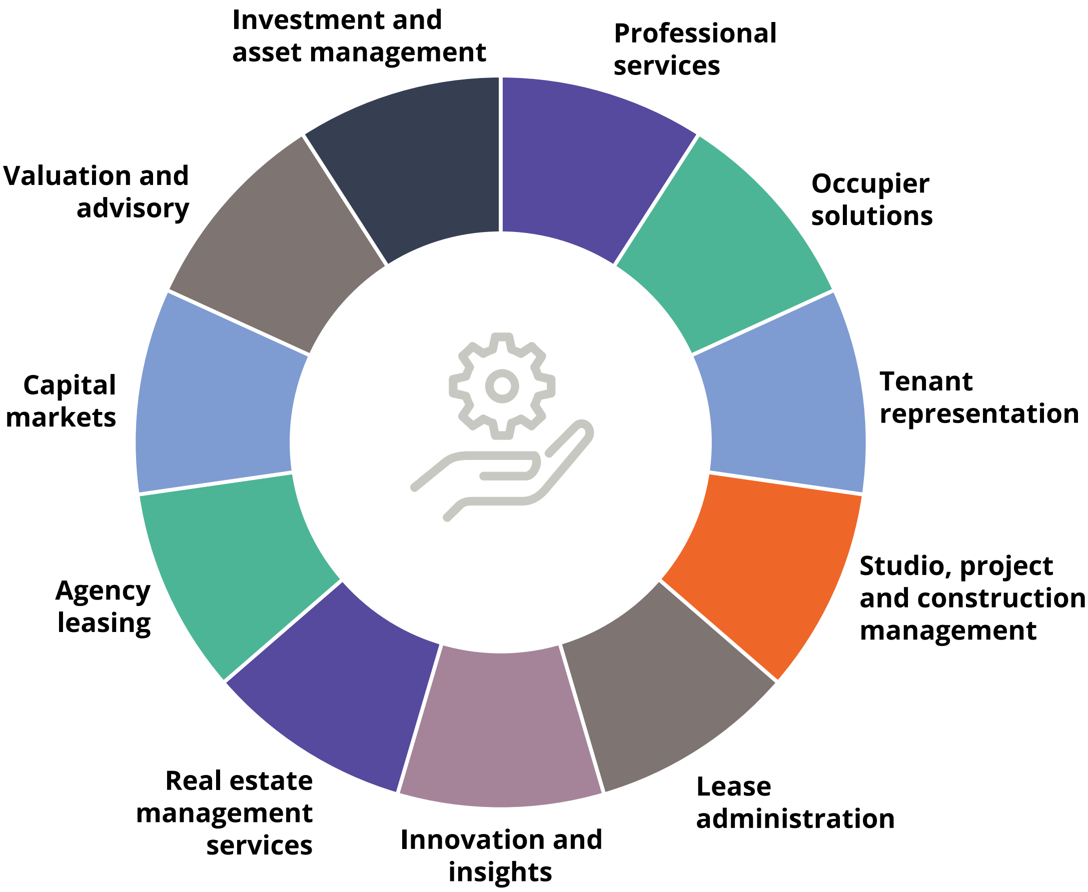

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