Colliers International Romania Mid-Year Market Update

Accelerating success.

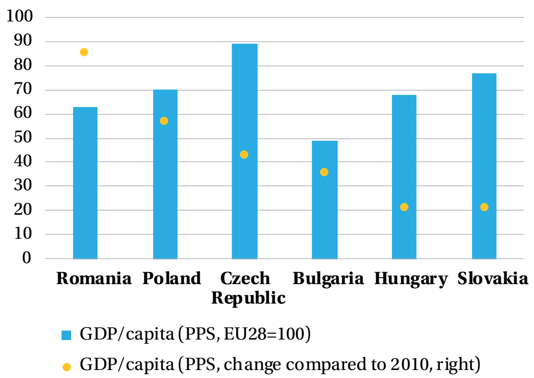
Content

Romania macro update

In the post-crisis period, Romania has been the most successful economic convergence story this part of Europe. In fact, if the service-led growth continues at a pace similar to the post-crisis period, Romania is likely to surpass Hungary by end-2022 and catch up to Slovakia by end-2028 in terms of GDP per capita, adjusted to purchasing power standards (this indicator is widely used as a proxy for living standards).

Moving on to the current backdrop, as we (and other analysts) have been saying, the c.7% GDP growth rate we saw last year cannot be maintained and the anticipated slowdown is upon us. Some transitory factors weighed on GDP, leading to quasi-flat GDP readings in quarter-on-quarter terms in 4Q17 and 1Q18, which is not something we considered. The important note here is that due to the way economic growth is calculated and the statistical relevance of these quarters, it is looking nigh impossible to achieve an expansion rate above 5% in 2018 (barring any exceptional past data revisions) and we would look for something along the lines of 3.5-4% for this year. That said, we would consider any print around the 4% mark as the country's "cruising speed" (similar to the so-called potential GDP growth rate), so still quite respectable and above the vast majority of EU states.

Fastest converging economy in the CEE in the post-crisis period



Source: Eurostat, Colliers International

The sharp ongoing monetary policy tightening (starting late 2017, with money market rates well over 2ppt higher since then), increased political noise and uncertainties about fiscal policy likely weighed on consumer sentiment and contributed to the soft start of the year, alongside sluggish external demand. Still, as we said a bit earlier, we believe that this soft patch will not last too long as the main puzzle piece of Romania's growth story remains more or less in place: the wage expansion rate is lingering in double digit territory (nearly 15% YoY in April 2018); in spite of inflation spiking to 5% in the first half of the year, a real wage growth of 9-10% is still quite respectable and likely to support decent private consumption going forward. In fact, retail sales have recovered nicely in April and May.

The major challenges for the Romanian economy going forward remain structural in nature (so more difficult to tackle), like building highways, cutting back red tape or corruption, increasing population activity rates and improving education. Take the labour market for instance: employers are finding it ever harder to fill in positions (both for white- and blue-collar positions), with unemployment near record lows of 4.4%. But the potential is there. For instance, by simply converging the activity rates and employment in agriculture to levels around EU averages, we estimate that more than two million people would enter the workforce, which would mean a huge boost given that Romania has around 6.4 million employees (including in the grey economy). This untapped reservoir is one of the reasons we would feel quite bullish about the medium to longer term outlook of the economy.

As in the past, there are some potential headwinds on the horizon that could disturb the economy and are worth monitoring. Externally, this means the major central banks' monetary policy tightening (the Federal Reserve is moving forward with this and the European Central Bank could signal higher rates starting 2019), alongside uncertainties fueled by US policies (either related to a global trade war or geopolitics), as well as the eternal headaches generated by Eurozone politics. Internally, we are closely watching for developments on the fiscal front (slippages risks), as well as for potential flare-ups in political noise.

Real estate, shifting gears

The real estate market runs on a slightly different clock than the macro cycle given the time required to actually develop projects, so 2018 is likely to remain a solid year despite the slightly worse macro picture. Meanwhile, some submarkets are showing signs of cooling a bit. That said, even if a recession were to come soon (maybe due to one of the risks we listed previously, but this is not something we expect), we do not see a potential meltdown of the real estate market similar to the one in the immediate aftermath of the global financial crisis. This is mostly thanks to the fact that asset valuations are pretty far from pre-crisis levels, while economic fundamentals also look more solid than they did back then, so a correction would be well milder.

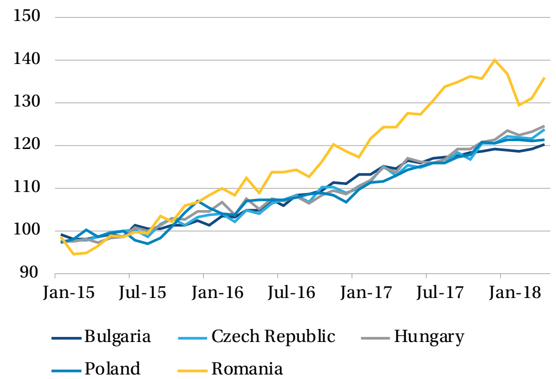
Overall, the real estate market is a bit nuanced. For retail, 2018-2019 look set to be some of the best years in the post-crisis period, as several factors are aligning for landlords. Domestic sales of non-food items have consistently outperformed regional peers by a significant margin, while large parts of the country still have a subpar coverage of modern retail schemes. Meanwhile, the increased purchasing power also means more emphasis on better quality products and services.

The office segment is likely to start feeling the pinch of the tighter labour market, as employers are finding it increasingly difficult to find talent. For Bucharest, this might mean scaling back on the generous pipeline for the next couple of years and bringing to market the projects with better chances for success or which are already garnering interest from prospective tenants. As the regional cities are the new frontier and very much underdeveloped, there is still some room to build there.

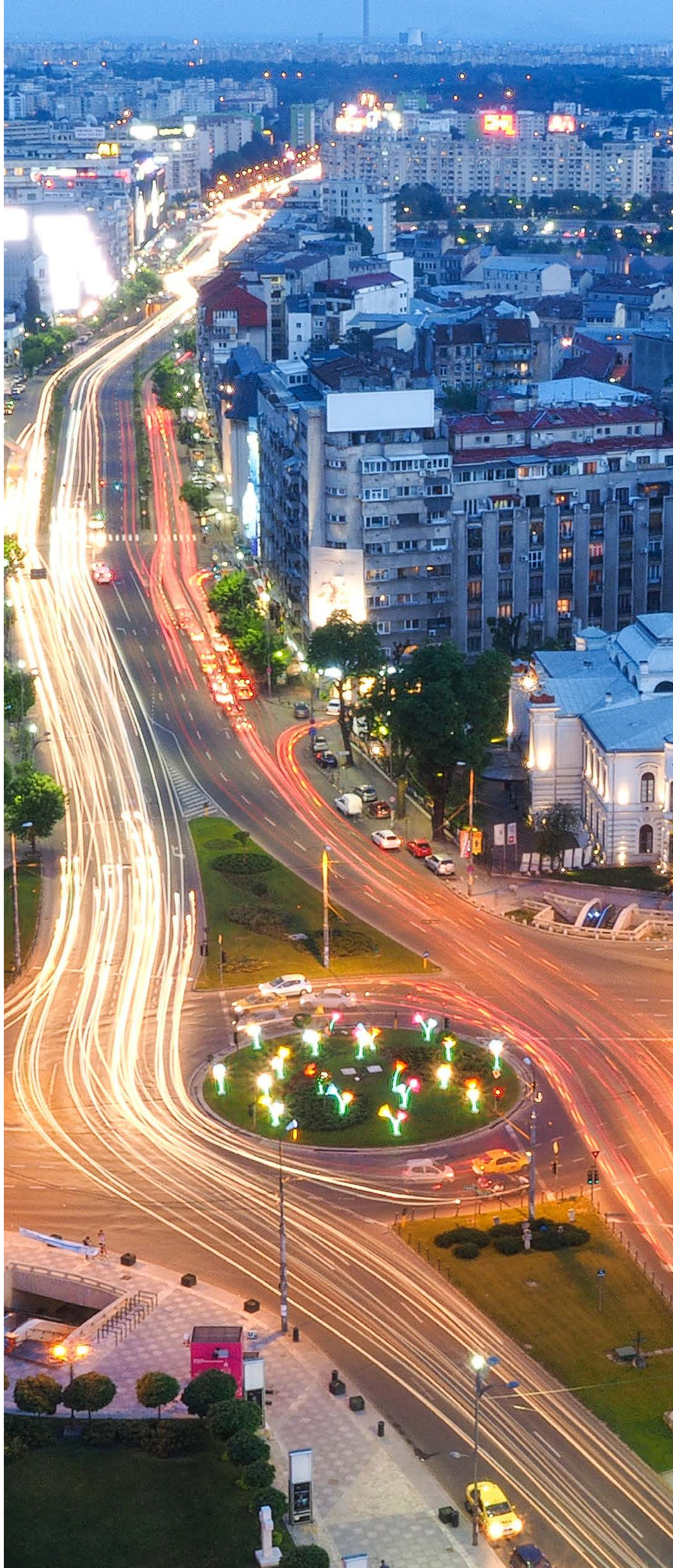
Meanwhile, for the industrial market, there is reasonable space to grow as retail companies improve country-wide coverage and over the medium term, the sharp growth of e-commerce also supports a steady demand of storages. Workforce constrains in some areas of the country and rising developer costs continue to be challenges, particularly for manufacturing activities.

Given the solid path for office, retail and leasing, we expect both land and investment activity to do well in 2018.

Retail sales for non-food items (index, 2015 = 100)



Source: Eurostat



Industrial Market

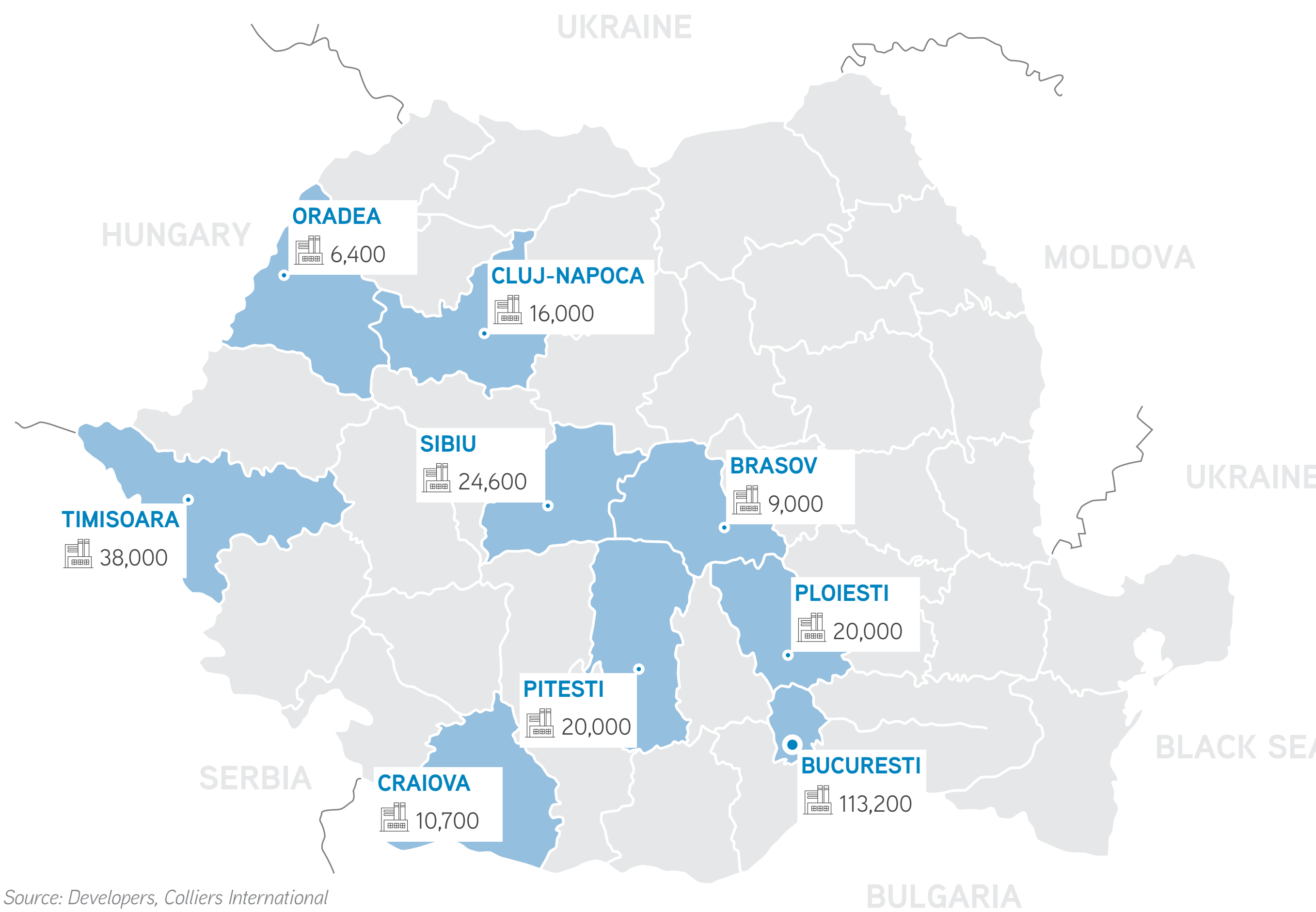
Supply

We estimate that at least 330,000 sqm in modern warehouse spaces were delivered in H1 2018, more than double the level in H1 2017. This figure was calculated only based on information provided by major developers, though other smaller/independent players may have also added storage spaces. The first part of 2018 has led to an interesting shift, as Bucharest accounted for little over a third of the total compared to around half for the whole 2017; in the capital, interest continues to be heavily geared towards western and northern areas, while the various cities in Transylvania nearly add up to the overall deliveries in Bucharest; Pitesti and Ploiesti are also high up on the list. This dynamic is in tune with the general trend of regional cities outpacing the capital in terms of economic growth over the medium term as migration patterns and business interest shift towards other parts of the country.

In terms of developers, CTP was the biggest supplier of new storage spaces in H1 – almost half of total, but WDP, VGP, Alinso Group and Transilvania Constructii also expanded their portfolio quite significantly.

As another important aspect, the delivery figures do not include self-developed warehouse spaces (by retailers or manufacturing players, for instance), but these are seeing a lot of interest as companies seem to have enough faith in the general economy and believe that their long-term interests will be better served this way than as a paying tenant in a warehouse.

Warehouse spaces delivered in selected cities in H1 (sqm)



Source: Developers, Colliers International

Demand

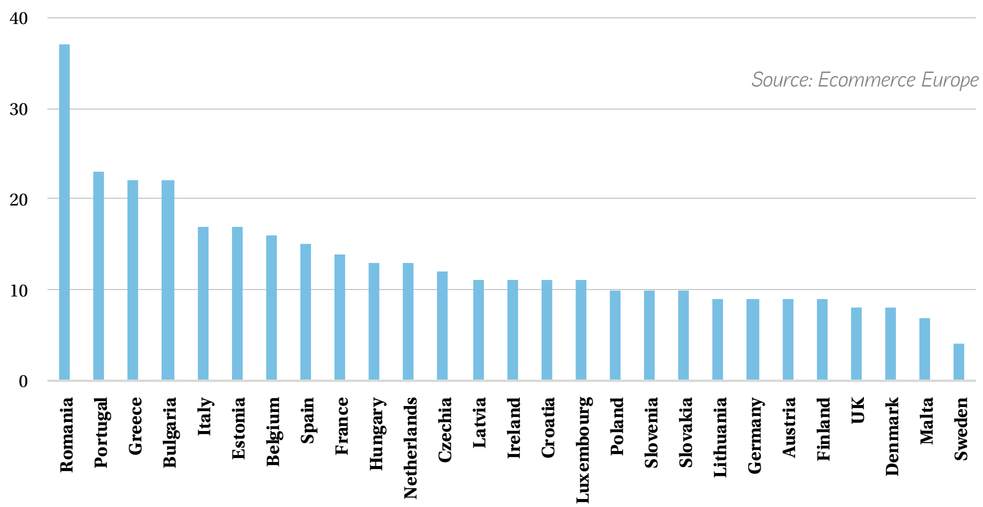
In an apparent contrast with the strong supply-side numbers, leasing seems to be skipping a beat, with reported transactions (by the major real estate agencies in the market) at a bit under 110,000 sqm in H1 2018, some two thirds below 2017's same period. We say "seems" because we do not believe that demand is poor. On the contrary. Our own experience and pipeline suggest that quite a significant number of transactions ought to be closed in the second half of the year. On the other hand, given that the market balance is heavily tilted in favour of developers, it is likely that direct (and unreported) transactions and built-to-suit make up a significant part of the market. Otherwise, vacancy remains in low single digits nationwide, while near Bucharest, it is quite difficult for a client to find right away a respectable surface (say, over 10,000 sqm).

Demand continues to come from varied sectors, from retail to FMCG and industrial, storage and logistics. The underlying supportive factor is mostly related to the robust private consumption we have seen in recent years. A special notice should be given to e-commerce, which has been seeing rock-solid double-digit growth rates for quite a few years.

Rents

The ultra-low vacancy rate and steady rise in overall costs in recent years – related to construction and wage costs, alongside potential delays in bringing projects to market due to the tight labour market – continue to pressure rents. 21% of construction companies report labour shortages (a post-crisis high), up from less than 10% a year and a half ago. For a modern warehouse space in the Bucharest area, the starting point is around 4.1-4.2 EUR/sqm, some 10% higher than a year ago. In the past, in other parts of the country, rents started a bit below this level for the best storage facilities, but now we see these as being on par with Bucharest's.

E-commerce sales (%, 2017/2016)



Forecast

We hold onto our call to see deliveries in 2018 of around 750,000 sqm versus 2017's level of c.500,000 sqm. Just the major developers expect to deliver nearly 630,000 sqm, but new storage spaces will also come from smaller players and also the companies which self-develop their own warehouses. For instance, eMAG.ro (the largest online retailer in Romania) is expected to finish this year a 120,000 sqm warehouse near Bucharest and a significant part of this could be sub-leased for a period of time, offering direct competition to the traditional landlords. Overall, these self-built/-owned storage spaces from just the major companies (ranging from industrial to FMCG to retailers), per public information, add up to over 300,000 sqm just for this year.

The medium-term outlook remains favourable. With the modern warehouses stock set to surpass the 4 million sqm mark by end-2018, Romania is still lagging regional peers in terms of development. Meanwhile, as companies like retailers expand their national footprint and seek to optimize their logistic flows, the need for warehouse spaces will still exist. Furthermore, the rise in e-commerce is also likely to generate a healthy demand for storage spaces, especially as Romanian online sales are expected to grow sharply in the next years. This aspect could also lead to improved attractiveness of last-mile warehousing.

We expect the developer market to shift towards a more balanced stance by end-2019 for a couple of major reasons: the self-developed warehouse spaces (with some companies moving out of the developer-owned spaces into their own and even sub-leasing some surfaces) and increased incentives for landlords to start developing speculatively. This still means that rents are likely to remain under some upside pressures at least for the next year provided no adverse economic shocks.

Retail Market

Supply

The first half of 2018 saw the delivery of just a couple of new modern retail schemes (Bistrita Retail Park - 15,000 sqm; Focsani Value Center - 6,400 sqm), though the second half of the year should be much more prolific, with nearly 168,000 sqm in new GLA. Altogether, these add up to around 189,000 sqm for the whole 2018; while one of the bigger projects slated for this year (DN1 Balotesti retail park near Bucharest) was bumped to 2019, we included a large completion in Timisoara in the Openville mixed-use project (containing an extension of Iulius Mall). We also acknowledge that as several projects have estimated deliveries towards the year end, there is a potential to see slight delays as development is a bit under strain (contractors are facing higher labour costs and increased difficulties to fill in job openings, alongside more expensive building materials). Otherwise, a large part of the supply continues to come mostly from a handful of players (largely NEPI and Prime Kapital/MAS REI, which add up to around two thirds of 2018's pipeline).

Meanwhile, as the competition stiffens and consumers become ever more demanding, developers continue to invest in their own schemes via refurbishments, focusing mostly on the entertainment and food court components, but also by adding new fashion tenants (Auchan Drumul Taberei, Mega Mall, Sun Plaza in Bucharest). Also, as proximity continues to play a major role, refurbishments are likely to focus on drawing in the biggest categories of potential clients in the catchment area (for example, gearing up entertainment to be family friendly if this is the major type of client).

Demand

The consumer was under increased strain in the last 2-3 quarters: higher interest rates and softening RON, both weighing on sentiment and disposable income alongside increased political noise; that said, real wage growth remains firmly in positive territory even with inflation at multi-year highs thanks to earnings rising robustly. We are optimistic that the jitters we saw at the start of 2018 will be weathered out and consumption will recover as the purchasing power of the average wage has increased by over three quarters in the last decade; indeed, non-food retail sales in April and May were sharply up.

Otherwise, as Romania has been host to the fastest growing retail scene in the CEE region in recent years, brands continue to be lining up to enter, with a special focus from the upper-middle segment or even luxury. This has kept vacancy almost non-existent for good retail schemes (it is difficult for a tenant to find 300 sqm or more); new players continue to be fairly diverse: Pinko, Tumi, Sizeer, Obsentum, Karaka. A notable re-entry is that of Hugo Boss, which set up shop in the luxury high street area of Radisson Blu Hotel. Another interesting entry was that of Momax, which did not adhere to the „standard practice" of Bucharest first, expand later to other cities; instead, it opened its first store in Timisoara. Romanian brands (like S-karp, Gerovital, Bebe Tei, Cartofisserie) are also expanding, though Polish and Turkish retailers seem a bit more aggressive. Otherwise, thanks to the strong residential market, DIY, furniture and home deco stores have performed admirably. As another trend to look out for, as proximity continues to play a key role, retailers operating in big formats (for instance, DIY, furniture) should come forward with smaller formats that they can fit into a shopping center so they can be closer to densely populated areas.

It is important to note that vacancy remains low and interest from retailers high despite the fact that Romania saw the biggest jump in e-commerce in the EU in 2017 (up by 37%, some three times faster than the European average pace). This might also be due to the fact that retailers are turning their shops and showrooms into a tool for overall sales with the help of on-line convenience: for instance, one could order an item of clothing and change it instantly in a shop if it doesn't fit.

Retail schemes with 2018 delivery date

Project	Shopping City Satu Mare
Developer	NEPI Rockcastle
GLA sqm	29,000

Project	Baia Mare Value Centre
Developer	Prime Kapital/MAS REI
GLA sqm	22,500

Project	Bistrita Retail Park
Developer	Element Development
GLA sqm	15,000

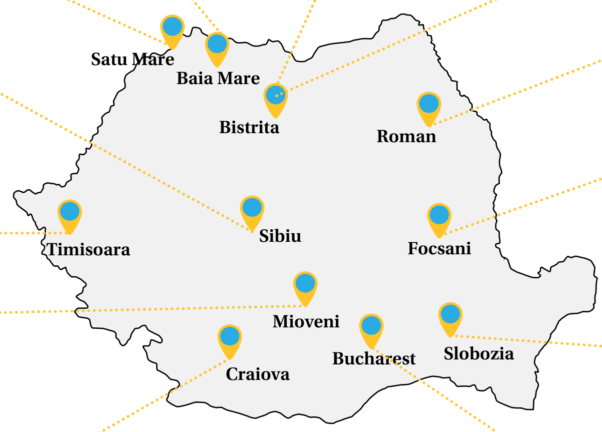
Project	B1 Shopping Bistrita (extension)
Developer	Mitiska
GLA sqm	1,100

Project	Shopping City Sibiu (extension)
Developer	NEPI Rockcastle
GLA sqm	9,700

Project	Openville
Developer	Iulius Group
GLA sqm	47,000

Project	Mioveni Comercial Centre
Developer	Mitiska REIM
GLA sqm	8,800

Project	Electroputere Craiova (extension)
Developer	Catinvest
GLA sqm	21,200



Project	Roman Value Centre
Developer	Prime Kapital/MAS REI
GLA sqm	19,000

Project	Focsani Value Centre
Developer	Prime Kapital/MAS REI
GLA sqm	6,400

Project	Slobozia Value Centre
Developer	Prime Kapital/MAS REI
GLA sqm	7,000

Project	Auchan Tricodava (extension)
Developer	Immochan
GLA sqm	2,400

Source: Colliers International

Rents

We are noting an upward move in base rents for well-performing malls for new contracts, both in Bucharest and in other large cities. Still, in some instances, such upward pressures on rents surface in renegotiations. This increase is coming on top of the variable component of rents, which has been moving north for some years now thanks to the robust consumption. On the other hand, rents paid in the best schemes outside the capital are comparable with Bucharest.

Forecast

The development cycle in real estate (retail sector included) tends to lag economic activity indicators as most companies are re-active rather than pro-active. Coming after one of the best growth periods since in modern history, this means that – unless nothing exceptional happens – the next 2-3 years should see a strong development pipeline for retail. Take 2019 for instance: we could see around 250,000 sqm in new retail spaces versus 2018's forecasted 189,000 sqm and we would not exclude any new announcements related to significant projects/extensions. Otherwise, developers continue to focus mostly on regional/secondary cities, including smaller towns (with 50,000 inhabitants or less). Another focal point remains the entertainment component, as shopping centers strive to be actual destinations to spend one's free time.

Office Market

Deals over 5,000 sqm in H1

COMPANY	BUILDING	SIZE (SQM)
Mindspace	Multiple Globalworth buildings	12,000
Confidential	Building in Unirii area	11,500
Huawei	Lakeview	6,300
Confidential	The Bridge	6,000
Siemens	West Gate	5,700
UPC	The Bridge	5,500
Thales Group	Orhideea Towers	5,300

Supply

The first half of the year was fairly modest in terms of deliveries on the Bucharest office market, with just 33,000 sqm in new office spaces in H1 2018 (29,000 sqm coming from the second building of Globalworth's Campus). Still, the second half of the year will more than make up for this, as it could see deliveries of little over 150,000 sqm, by our estimates. New spaces continue to be mostly geared towards the Center West and central submarkets, which have seen interest both from developers in the last couple of years (thanks to availability of land, for instance) and tenants (offering an alternative to the crowded northern part of the city, as well as proximity to some of the major universities in Romania); in total around 60,000 sqm will be delivered this year in the central areas, which is similar to the total for Center West.

As an interesting note, regional cities were much more active than Bucharest, with Timisoara and Cluj-Napoca adding some 72,000 sqm in new modern office spaces in H1, with the four big regional office markets (Cluj-Napoca, Timisoara, Iasi and Brasov) look set to expand at a similar pace during H2.

Demand

Bucharest leasing activity remained on the strong side during the first half of the year. On the surface, things might not look as great, with gross take-up of modern office spaces decreasing, as we expected, some 19% in H1, to just under 150,000 sqm. Still, when stripping renewals and relocations from other modern office buildings, we come up a net take-up figure of over 84,000 sqm, marginally higher than 2017's level and a new post-crisis high.

Leasing activity followed supply in the first half of the year, with Center West and central submarkets accounting for between 28% and 26% respectively of gross take-up of modern office spaces. As such, the vacancy in areas of high interest is very low (it is quite difficult for a tenant to find a respectable surface right now), but this situation is likely to be temporary, as new buildings come online later this year or in 2019.

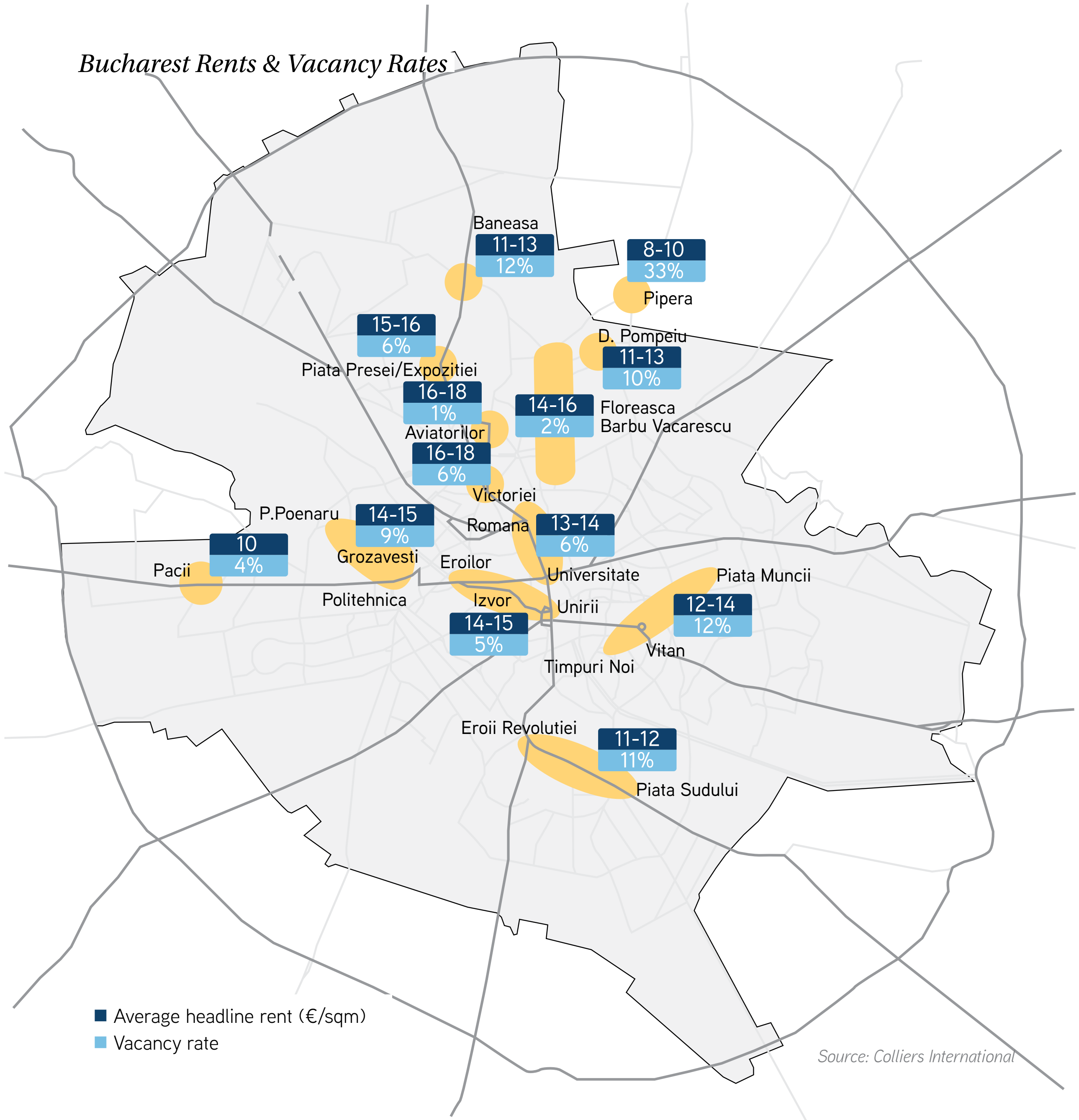
In terms of the sectorial distribution, the IT&C sector continues to hold the crown, generating over a quarter of total take-up, though this is a smaller figure than the over 40% share for the whole of 2017; this could highlight the growing difficulty that companies face when trying to hire white collar workers, especially information technology specialists. Returning to office leasing numbers, the IT&C sector is closely followed by companies from the energy and industrial sector (also with around 25% of gross take-up). As an interesting note, companies active in the co-working scene rented a record 16,800 sqm (with the biggest surfaces coming from two important entries on the domestic market – Mindspace, with 12,000 sqm, and Spaces, with 3,000 sqm). Over a longer period of time, the unique advantages of shared workspaces over more "traditional" offices ("cool" factor, mangnet for young talents, proximity factor for employees, contract flexibility) will continue to fuel such demand as Romania follows global trends.

Rents & Vacancy

Headline rents have remained more or less unchanged compared to last year, but we are noting some upward pressures on a case-by-case basis in the most active submarkets or in buildings with very high occupancy. This might not mean a higher headline rent, rather that landlords are not as generous as they were in the past with incentives, for example.

Otherwise, vacancy continued to move lower, ending H1 at just under 9% from around 9.75% end-2017. This is quite an improvement from the aggregate vacancy rate of around 12% a year earlier. Still, the much heavier pipeline planned for H2 2018 (and the medium term, for that matter) suggests some upward pressures on the vacancy rate should arise.

Bucharest Rents & Vacancy Rates



Forecast

We expect to see 185,000 sqm in new modern office spaces to be added in Bucharest in 2018, taking the total stock to 2.4 million sqm. The overly ambitious developers' plans for the next couple of years (around 650,000 sqm announced for 2019 and 2020) are likely to be tested soon, as tenants are finding it ever more difficult to fill job openings, with unemployment for white collar workers near all-time lows (around 2%). A significant part of this supply for 2019 and 2020 (nearly half of total) has not seen construction works actually start and as such, development could be delayed to adapt to a potentially slower market. To make matters worse for companies (and prospective office tenants), they often have to compete with the state for employees, which already offers much more generous wages and increased job security. Admittedly, the percentage of companies that see workforce availability as an issue is well smaller in Romania than in regional peers like Poland and Hungary, as per European Commission surveys. Still, in this context, tenants are likely to hold a bit more bargaining power over the medium term, but we do not see rents as in danger of falling on an aggregate level; however, we expect the vacancy rate to return to double digit territory by mid-2019.

Otherwise, as infrastructure improvements are progressing ever so slowly, the submarkets that offer good public transport infrastructure (like central areas, Center West or Floreasca/Barbu Vacarescu) are likely to remain the most attractive. Uncertainties about the planned expansion of the metro line in northern Bucharest mean that untapped areas will remain out of reach for quite some time; still, the impending completion of a new metro line in 2019 (linking the populous neighbourhoods in south-western Bucharest with central areas) could open new office submarkets and is definitely something to keep an eye on. Last, but not least, we continue to draw attention to a longer-term trend, whereby we see the focus shifting increasingly more to regional cities, an idea supported by both factual and empirical information.

Investment Market

Prime yields (end-2Q18, %)

	Bucharest	Warsaw	Budapest	Prague
Office (CBD)	7.25%	5.00%	6.00%	4.75%
Retail	7.00%	5.25%	6.00%	5.00%
Industrial	8.50%	6.50%	7.75%	6.25%

Source: Colliers International

Transactions

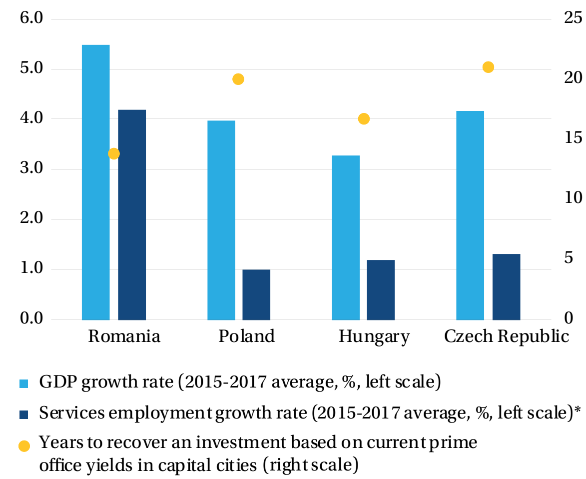
The first half of the year closed with overall investment volumes of EUR 404mn, which is an increase of close to 18% on the first semester of 2017. Given that the whole 2017 was the best in the post-crisis period and several large deals seem to be in closing stages, there are chances that this year could see the EUR 1bn handle exceeded (or at least volumes similar to 2017's EUR 960mn).

The biggest transactions were generated by the office segment (Oregon Park – purchased by Lion's Head from Portland Trust/Ares Management for around EUR 170mn and the first phase of the Campus 6 project – bought by CA Immo from Skanska before its delivery for EUR 53mn), with another big deal for a retail scheme (Militari Shopping Center – bought by the Prime Kapital/MAS REI partnership for EUR 95mn from Atrium). All these large transactions were in Bucharest, but 2018 did mark an interesting transaction – a British fund (First Property) bought an office building in Cluj-Napoca for close to EUR 9mn; up until now, it has been unusual to see institutional investors focusing on office assets in regional cities, but the higher yields and strong growth story lend fundamental support, so we expect to see more similar deals in the future.

The period was also marked by new players entering the market, such as Lion's Head (a joint venture between Old Mutual, one of the largest South African financial services companies and Bulgarian AG Capital), PineBridge Investments, Hagag and Daramis. Other investors (including some of the biggest global institutional investors) are on the prowl and could enter the market.

This increase of the investor base came alongside increased ticket size: the average traded asset in H1 2018 stood at around EUR 40mn versus EUR 25mn a year ago. By our calculations, this is likely the highest average deal size in the last decade, highlighting a maturing market.

Macro indicators supportive for capital appreciation



** includes only segments with potential for office segment, like IT&C, administrative and support activities, financials, professional activities*

Source: Colliers International

Prices

Prime yields during the first half of 2018 marked a slight compression compared to the same period of 2017. With the Romanian economy still going strong in 2018 – despite slowing down, it is likely to outpace most EU member states – and favourable yield differentials compared to neighbouring countries, there is still a strong rationale for investors to enter Romania.

Real estate yields continue to look mispriced when compared to some measures of sovereign risk. For instance, Romania's 10 year Eurobond was trading around 2.60% in the first part of July 2018 while Poland's stood at 1.23%. So, a c.135bp differential compared to a 225bp one between office assets in Bucharest and Warsaw. A liquidity premium is likely in place for Romania, but the strong interest we are seeing means that such concerns might be a bit overdone.

Forecast

In the past, product availability was an issue, but this has changed quite a lot over the past quarters, with quite a lot of big ticket items currently on the market. On the other hand, we noticed that the biggest yield compression events in recent years in CEE markets took place alongside a surge in market turnover. These two arguments support our view for a yield compression to take place over the next year and half, as office investment volumes alone could top EUR 0.5bn this year (some three times larger than 2017). The biggest risks to our call are external in nature and derive mostly from a more aggressive stance from the world's major central banks and various geopolitical risks.

We also expect the investor base to continue expanding, as more names (including large institutional investors) are circling Romanian assets. Furthermore, there is a growing feeling that local investors have more capital that they wish to allocate towards real estate. This is thanks to the fact that companies ran by Romanian entrepreneurs have fully benefited from the GDP expansion from the past years, particularly those active in the retail segment.

Financing conditions

The banks' appetite for real estate investments remains strong as the fast-growing economy has led to robust rental activity on all submarkets amid cyclically low vacancy rates. Still, with lots of projects that need funding on the table, banks are forced to become pickier when handing out loans given the exposure limits. Margins have remained more or less unchanged after declining compared to previous years (around 250 basis points for prime properties). It is worth underscoring that investors have a wide array of funding alternatives at their disposal, which have been used over the last couple of years (bonds for bigger players like Globalworth or NEPI or equity for smaller players). We have also noticed several joint ventures, as market participants seek to diversify and have space for more acquisitions. Externally, the situation is a bit more nuanced. As the Federal Reserve is in a tightening cycle and the European Central Bank might signal higher rates, potentially starting 2019, the goldilocks backdrop is coming to an end sooner rather than later.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Land Market

Demand

The strong economic growth seen in recent years is lending support to all segments of the real estate market, including land acquisitions. The market had a really good first half of the year, however, most of the deals closed were started at least some quarters ago. Moreover, in some cases, new demand is looking skimpier. This is mostly tied to the residential segment, which is coming to terms with the new reality: ever higher interest rates (the 3 month money market rate is well over 2ppt higher than it was last autumn and has surpassed the 3% handle), talk about the central bank limiting the indebtedness levels of mortgage borrowers and winding down the state mortgage guarantee scheme. As such, developers seem to think that in a year or two, the (almost) "everything goes" approach might not work anymore given the anticipated slower demand and they are more selective in terms of location and transport connectivity, still highly attracted by the office hotspots. Overall, caution is returning to the market. As a special note, we are finally seeing large institutional investors closing deals for large/mixed-use projects in big regional cities.

Meanwhile, for commercial real estate (office and retail), competition for available land plots is intensifying as sometimes all segments (residential included) end up competing with one another. Still, office developers might sooner or later become more mindful about the tight labour market and its negative impact on net take-up. This would mean focusing more on safer projects (development in multiple phases – maybe purchasing smaller land plots, excellent transport connectivity etc.). Outside Bucharest, the office segment has been less present in terms of land deals; in some instances, the heavy pipeline is putting off potential buyers, while in other instances, there are few viable plots.

The retail segment is the one generating most of the new demand, as developers are still seeing many cities with potential for new modern shopping centers or parks. In big regional cities, large international developers sometimes enter bidding wars with smaller developers as well as other interested parties, like big box retailers (DIY, hypermarkets and discounters), with the latter expanding quite aggressively.

Supply

In most cities nationwide, former industrial platforms (some with strategic locations) continue to be the most representative factors on the supply side. Interestingly, some deals closing (or where this moment is near at hand) involve quite large plots which have been on the market for some time now, including in the previous growth cycle before the crisis. They did not sell until now because they were too big or too expensive to be properly used and mixed-use projects offer currently feasible alternatives.

For Bucharest, the supply consists of large former industrial platforms and various portfolios and as noted above, some of the larger plots are clearly of interest. As another source of potential supply, the small and more expensive land plots in ultra-central areas (upwards of 2,000 EUR/sqm) could see demand that would yield boutique projects (office, residential, hotels).

Prices and transactions

We are not seeing generalized price increases, but for areas with very strong interest, potential buyers are paying as much as 10% more than a year ago in order to buy/secure land plots. In terms of market volume, we have registered one of the most prolific first semesters in the post-crisis period, with several noteworthy deals. The biggest three land transactions (concluded by Globalworth, Speedwell and AFI Europe) generated over EUR 50mn in turnover.

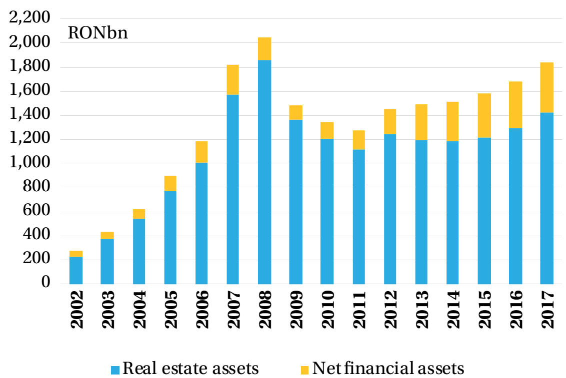
Forecast

Given the premises for a strong second half of the year (traditionally, more deals are closed during this period than in the first semester), we are on our way to see market volumes similar to 2017's post-crisis high, when land deals for real estate projects (residential, office, retail, excluding industrial) totaled around EUR 350mn.

Still, as the momentum from the 2016-2017 economic growth spurt wears off and GDP expansion normalizes, developers will likely turn a bit more cautious. Moreover, in a market with quite significant supply, it is likely that price hikes will not turn generalized in the foreseeable future and remain rather on a case-by-case basis.

Joint ventures remain a viable alternative as a sort of risk hedging strategy for investors.

Value of households' real estate assets is nowhere near pre-crisis peak as prices remain well lower than a decade ago



Source: National Bank of Romania

Land prices intervals for the major cities in Romania (EUR/sqm)

	CENTRAL	SEMI-CENTRAL	PERIPHERY
Bucharest	1,000-3,000	250-1,000	100-400
Cluj-Napoca, Timisoara, Iasi, Brasov	500-1,000	250-500	100-300
200-300k inhabitants	300-800	150-300	50-200
100-200k inhabitants	200-500	100-200	50-150
50-100k inhabitants	150-300	100-200	30-100

Price intervals are indicative and are based on Colliers' transactions and/or market expertise. They highlight the most targeted type of land plots. As usual, the prices are influenced by size, destination, building parameters, status of the permitting process.

Source: Colliers International

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$2.7
billion in
annual revenue

2
billion square feet
under management

15,400
professionals
and staff

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