New Usual in Business

Market Outlook H1 2022

REPORT

Romania

REAL ESTATE

CBRE RESEARCH

Contents

01

Macroeconomics

Navigating Challenges

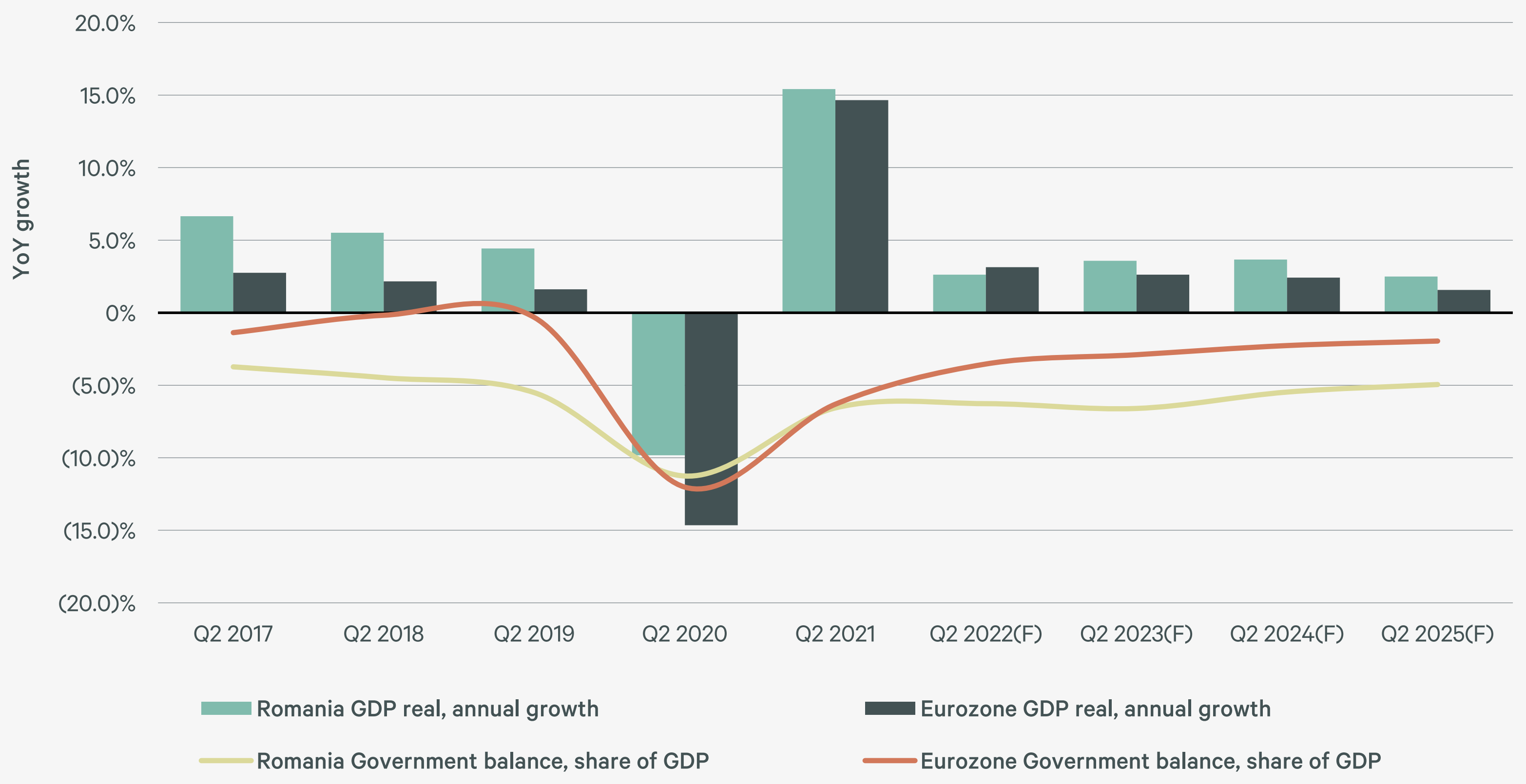
Mid-year main macroeconomics indicators reveal a steady but at a slower pace economic rebound at two years after the 2020 economic decline. With annual growths ranging between 6.7% in Q2 2017 and 4.4% in Q2 2019, Romania's GDP marked significant annual fluctuations in 2020 and 2021, respectively the lowest and the highest peaks in the selected time frame. The government's response and subsequent measures to the health and economic crisis, put Romania on an upward economic trend, that can be seen in the data estimated for the second quarter of 2022 and the forecasts on short to medium term. At Q2 2023, the country's GDP is forecasted to increase with +3.6% YoY and with +3.7% and +2.5% in the following two years. Even if compared with Eurozone area, the GDP growth at Q2 2022 is lower with 0.5 pps for Romania, the forecasted annual growths until Q2 2025 reveal differences up to 1.2 pps.

The wide budget deficit created in Q2 2020, managed be narrowed in Q2 2021, government balance (share of GDP) reaching from -11.3% at -6.6%. The fiscal deficit is forecasted to be reduced with 0.3 pps at Q2 2022, and to bounce back at -6.6% in Q2 2023 before improving to -5.5% in Q2 2024 and -5.0% in Q2 2025.

In May the government announced the launch of a new package of social and economic measures "Support for Romania", worth EUR 1.1 bln., that includes financial support for pensioners and citizens with low income and the postponement for nine months of bank rates for people and companies facing financial difficulties. The new measures will be effective from July and, at the same time, the Government will take measures for fiscal consolidation and compliance with public deficit commitment such as, but not limited to, reduction of budget expenditures by at least 10%, except for those with investments, salaries, pensions, social assistance.

On a downward path compared with the last two years, the unemployment rate at Q2 2022 is estimated at 5.6%, value marginally higher compared with the one registered in the second quarter of 2021, respectively 5.5%. The prognosis is optimistic for the unemployment evolution, a rate of 4.7% being estimated for Q2 2023 and 4.5% for 2024 and 2025. Analysed against the Eurozone area average, Romania’s unemployment rate was lower with up to 3.1 pps (in Q2 2017) and the prognosis indicates a similar dynamic on the short to medium term, the Euro area value being higher up to 2.5 pps (in Q2 of 2024 and 2025).

Figure 1: GDP (real) & Government balance (share of GDP) Evolution



Source: Oxford Economics, CBRE Research

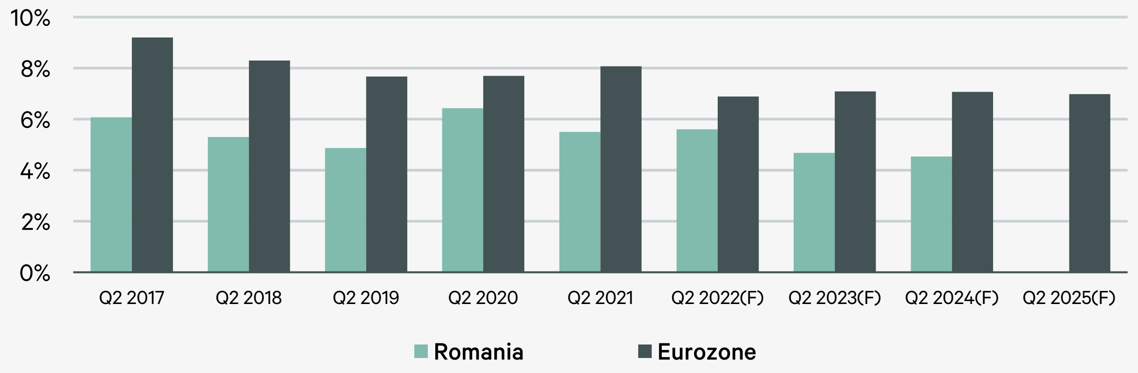
After a dramatic drop in Q2 2020, private consumption embarked on an ascending trend starting with 2021, registering a 10.8% YoY growth, and an estimated positive growth of 8.9% for Q2 2022. For the next three years, private consumption is expected to maintain on the upward trend but with a more tempered appetite for consumption, being forecasted YoY growths of 3.6% at the second quarters of 2023 and 2024 and 2.6% in Q2 2025. The sentiment of a much-desired normality and mobility as well as the presence of an increased number of additional consumers such as foreigners are amongst the factors that contributed to the rise of private consumption.

In the second quarter of the year, the National Bank of Romania increased the monetary policy rate to 3.75% from 3.00%. Nevertheless, the Bank's commitment to maintain firm control over money market liquidity continues to be its main priorities.

The CPI inflation estimated for Q2 2022 is with 10.5 pps higher compared with the same period of the previous year when a value of 3.6% was registered. The accentuated growth of CPI inflation was determined by the effects of large increases in commodity quotations and increased energy and transportation costs, along with the influences of blockages in production chains.

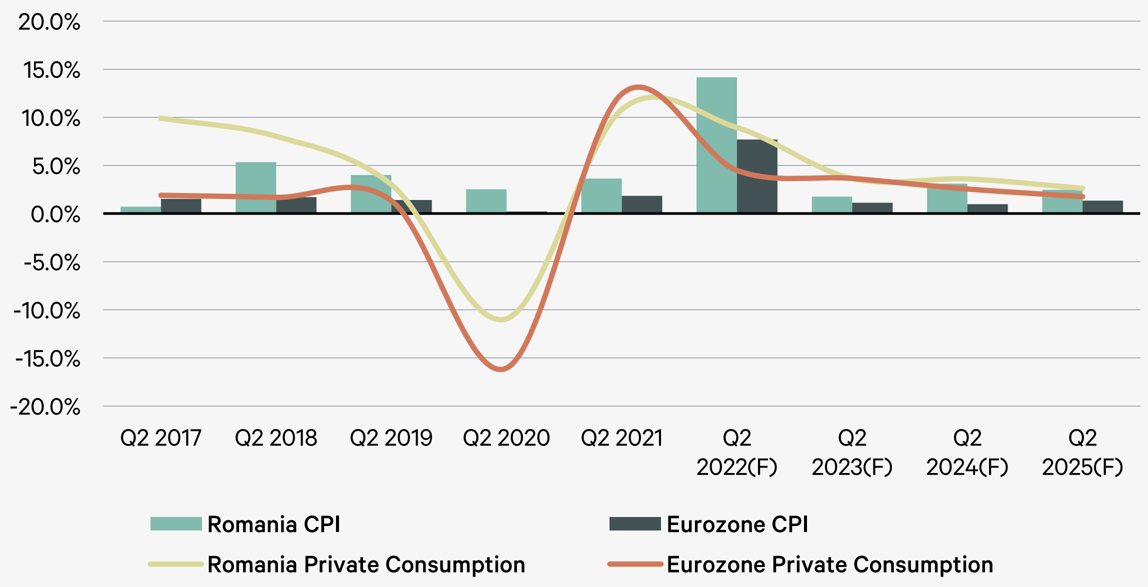
On a positive note, the Ministry of European Investments and Projects (MIPE) stated that all targets and markers have been met for the first half of 2022 and that Romania is ready to apply for funding for the next tranche of the PNRR.

Figure 2: Unemployment Rate Evolution



Source: Oxford Economics, CBRE Research

Figure 3: Consumer Price Index & Private Consumption Evolution



Source: Oxford Economics, CBRE Research

> The smaller but still existing economic growth with GDP and private consumption estimated annual increases of 3.6% at the second quarter of next year, indicates the country's resilience to both internal and external turmoil. Main macroeconomic indicators forecast disruptions only on short term, public authorities already addressing issues with multiple supportive measures meant to outcome better economic results.

Daniela Gavril
Head of Research,
CBRE Romania

02

Investment

Transactional Activity Resumed

Mid - 2022, the investment volume in Romania amounted EUR 323 mln., 6% higher compared with the amount transacted in the same period of the previous year. 79% of the year-to-date volume was concluded during the second quarter of the year. The largest transaction of the year to date was signed in the second quarter of the year, with the purchase of Expo Business Park by S Immo from Portland Trust.

€323 M

investment volume in Romania, H1 2022

6%

higher compared with the amount transacted in the same period of 2021.

Figure 4: Investment Volume Evolution

Source: CBRE Research

Although the investment volume is higher compared with the first half of 2021, the number of transactions is with three deals less, meaning that fourteen transactions were registered in H1 2022. Moreover, ten transactions involved real estate properties located in Bucharest and claimed the largest share of the total investment volume. Only 20% of the total investment was directed towards regional cities out of which Cluj – Napoca emerged as the most sought-after regional location.

With 62% share from the H1 2022 overall country investment volume, office properties cement their position of the most appreciated local type of properties by investors. Industrial and retail properties claim 15% and 12% from the total volume, while hotel and mixed – use properties have a joint share of 11%.

10

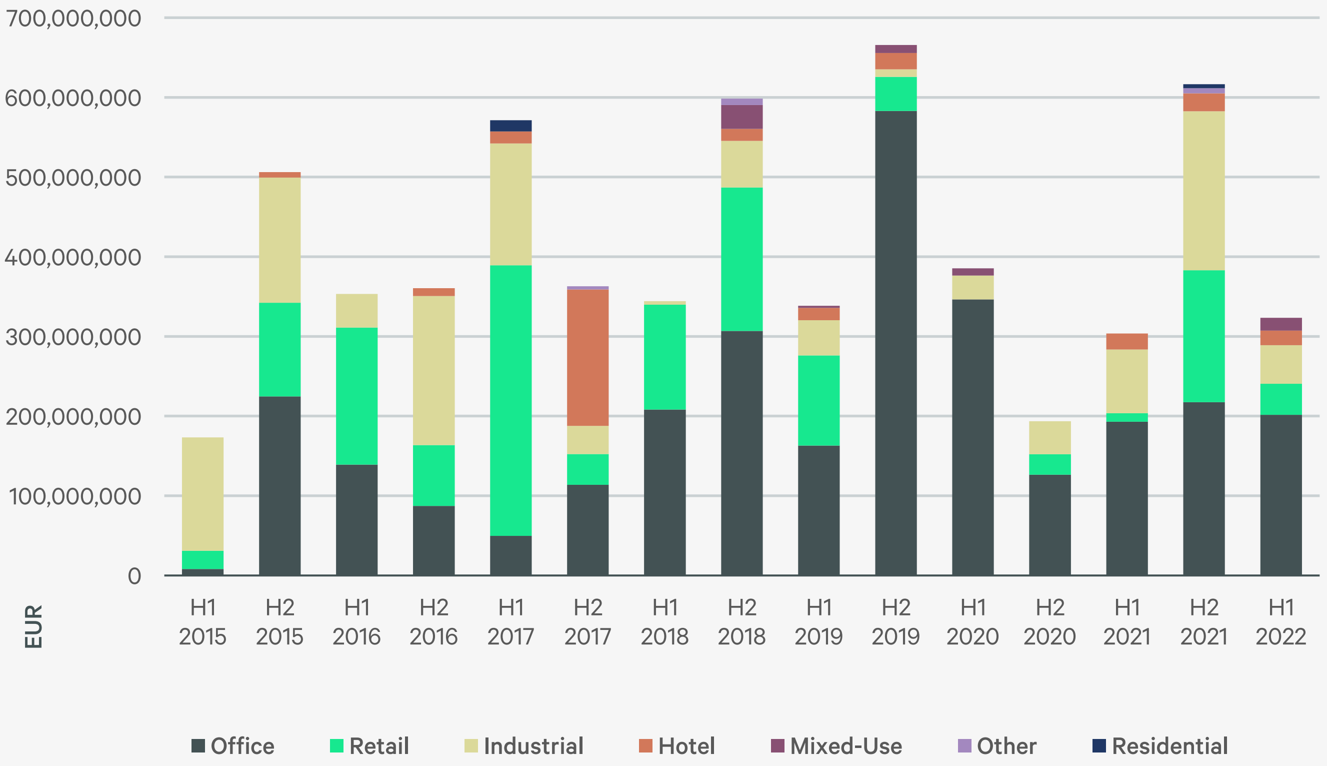
transactions involved real estate properties located in Bucharest

62%

Office properties share in investment volume

The new trend that shaped on the office leasing market, where office projects lease large spaces to hospitals, respectively tenants with a history of long-term lease agreements, can only positively contribute to office products WAULT's and to the attractivity in the investors' eyes.

Figure 5: Investment Volume Evolution by Sector

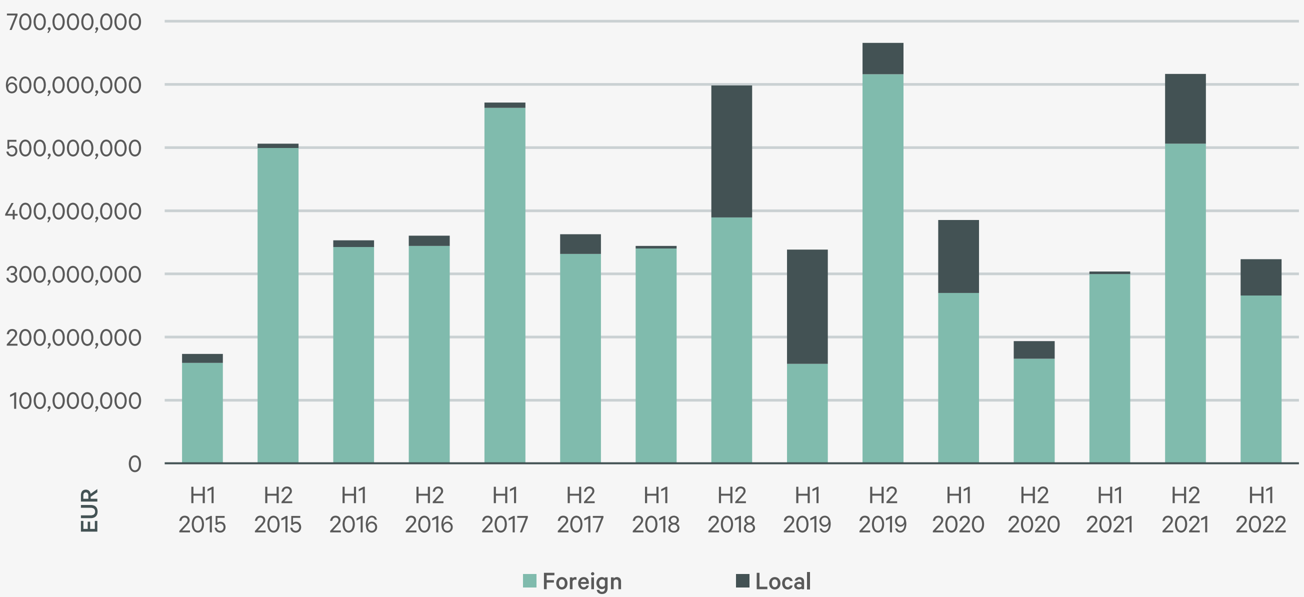


Source: CBRE Research

Starting with the second half of 2018, local source of capital started to claim higher shares from the semestrial investment volume, the highest percentage being recorded in the first part of 2019, respectively 53% from the H1 2019 investment volume. One representative deal sealed in Q2 2019 by a local investor is the transaction of The Office, an office building in Cluj - Napoca bought by Dedeman from NEPI Rockcastle and businessman Ovidiu Sandor for an estimated value of EUR 129 mln.

In the last two semesters, Romanian investors generated 18% of the total investment capital. During H1 2022, Austrian investors were the main source of investment capital in Romania. Even though the source of capital was exclusively foreign in the first quarter of the year, Romanian investors managed to close several deals in Q2. Thus, with a percentage of 18% local investors made the top three main sources of capital in Romania, after Austrians and Belgians which claimed shares of 37% and 22% from the total investment volume.

Figure 6: Investment Volume Evolution by Source of Capital



Source: CBRE Research

In the first half of the year, prime yields didn't register any fluctuations and maintained stable from the last quarter of 2021, respectively at 7.00% for retail market, 6.75% for the office market and 7.25% for the industrial market.

Already overpassing the previous year' s investment volume when comparing the same period and with the investment deals pipeline quite consistent, the year's total investment volume contours to reach if not to surpass the 2021 traded volume. The pipeline of investment deals will be shaped by the leasing market, combined with the ongoing outlook for financial conditions in the broader monetary markets.

> Transactions with class A rated office properties in Bucharest and main regional cities of the country, boost our confidence that investment volume could reach values similar with the ones registered in pre-pandemic years. Considering the spectacular results obtained by the industrial sector in terms of new supply, leasing and transactional activity, makes us believe that an important share of the year's transactional volume will be claimed by industrial properties.

Mihai Pătrulescu
Head of Investment Properties,
CBRE Romania

03

Office

Leasing Activity Resumed but with a Twist

Stock

Bucharest modern office stock gathers 3.30 mln. sq m at the end of first half of 2022 after four office projects summing almost 100,000 leasable sq m were delivered since the beginning of the year. The total new supply was distributed mainly in the Center – West sub-market, respectively 57% of the total area in two buildings, while the Center and North – West sub-markets equally sharing the remaining share of 43% and each welcoming one office project.

The Center – West office sub-market added to its stock Sema Park II - Oslo & London office building of 31,500 leasable sq m developed by River Development in Q1 2022 and AFI Tech Park 2 with a GLA of 24,500 sq m developed by AFI Europe and the only building delivered in Q2. The Center and North – West sub-markets new deliveries are represented by Tandem a Forte Partner’s development and the first phase of @Expo developed by Atenor Group in the first three months of the year.

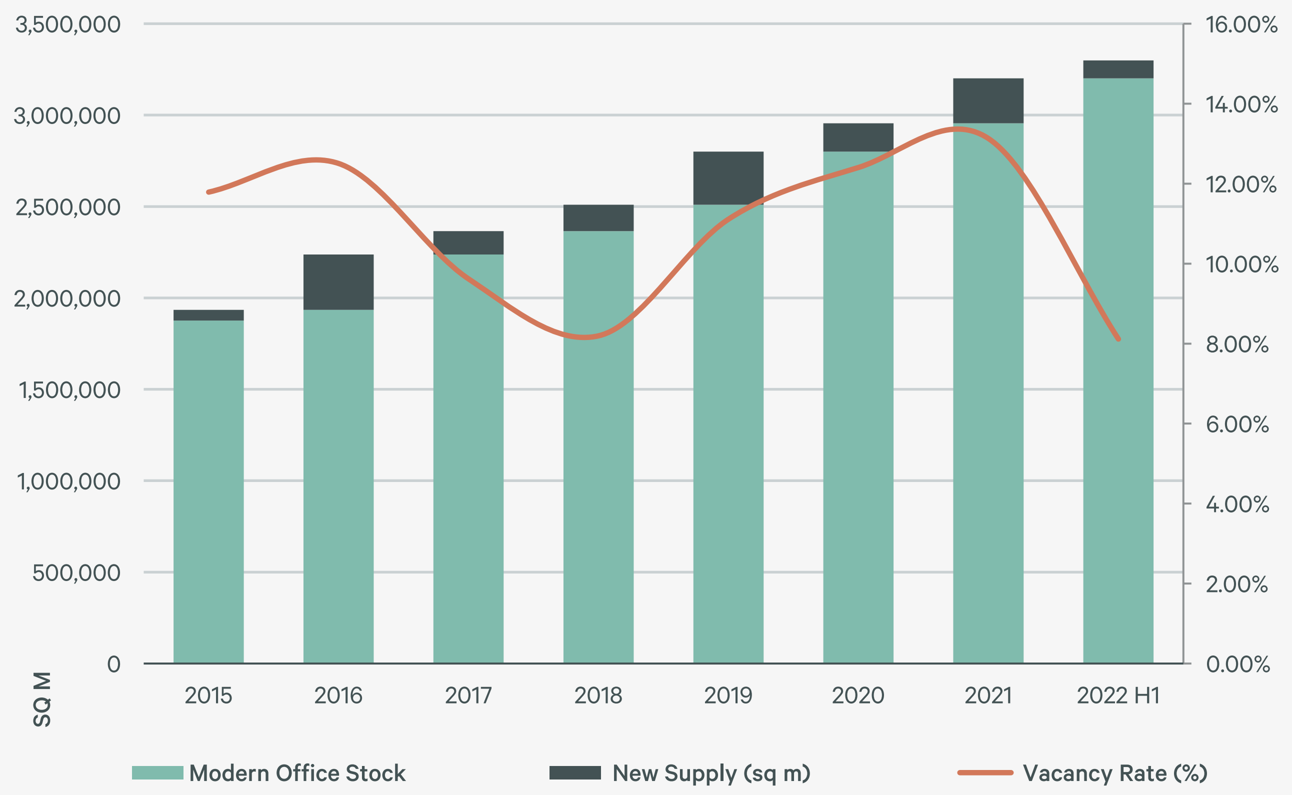
3.30 M

sq m Bucharest modern office stock by the end of H1 2022

four

office projects were delivered in H1 2022, (~100,000 sqm)

Figure 7: Modern Office Stock Evolution (New Supply I Vacancy)



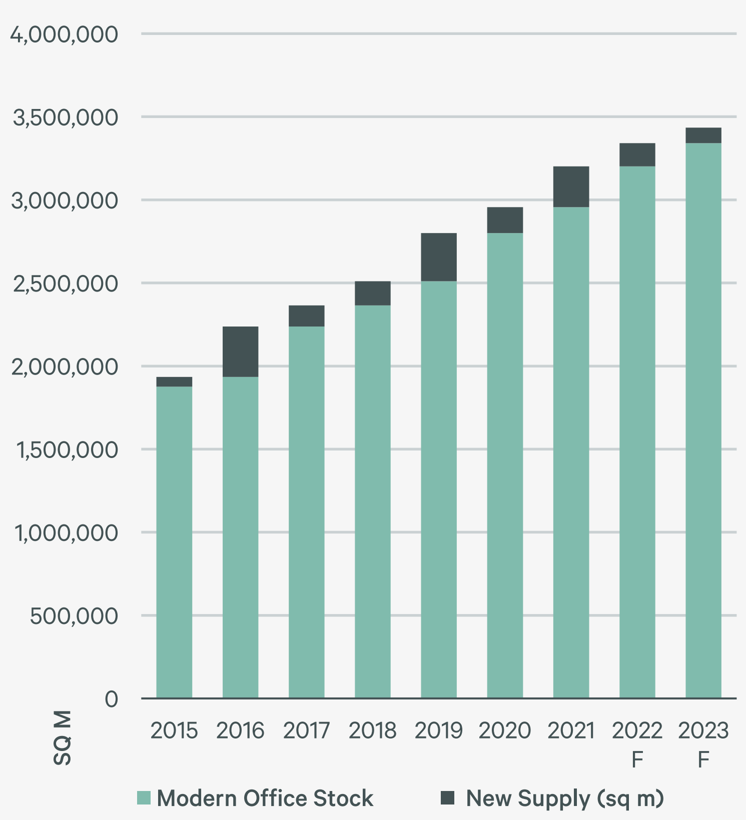
Source: CBRE Research

Pipeline

By the end of 2022, circa 41,400 sq m in two office buildings will be added to modern stock:

- 83% of the total area to be delivered will be added to the Center – West area’s stock, in one building, namely One Cotroceni – phase 2 with a GLA of 34,500 sq m developed by One United;
- the remaining 17% is claimed by Center sub-marketwhich will welcome Tudor Arghezi office scheme, a 7,000 leasable sq m project developed by Hagag.

Figure 8: Modern Office Stock Evolution Including Under Construction Projects (2022 & 2023)



Source: CBRE Research

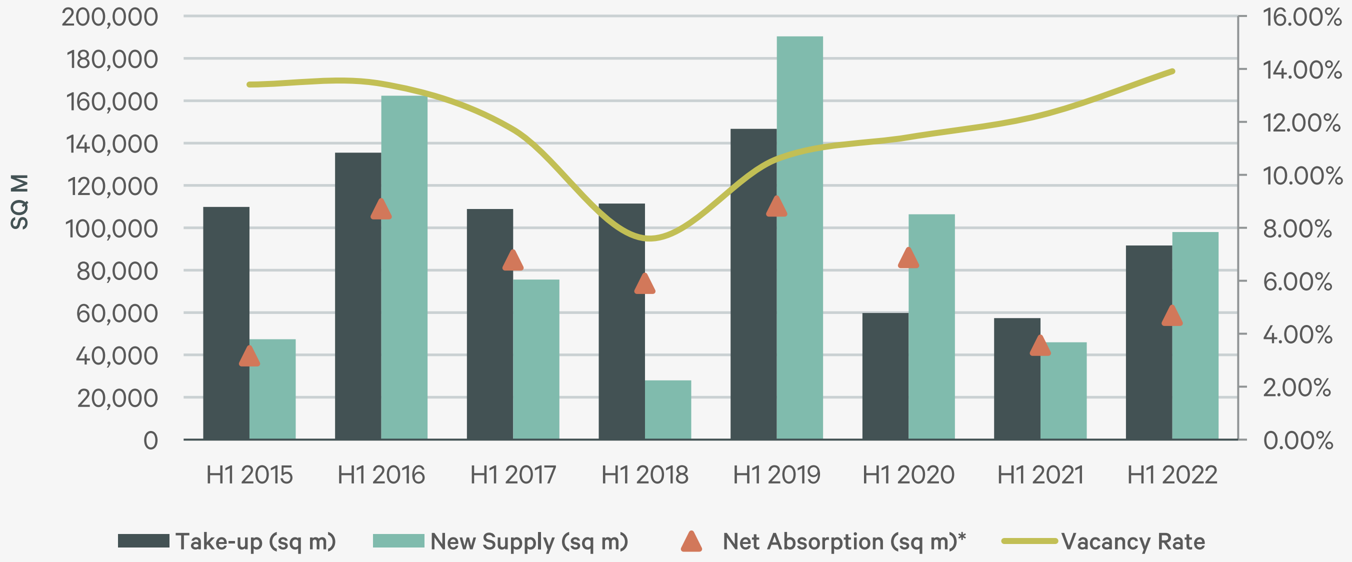
Moreover, another approx. 94,000 sq m are forecasted to be added at the capital city’s modern office stock by the end of next year. Representing 45% of the future new supply, the Center sub-market is expected to welcome the second phase comprising 35,000 leasable sq m of U-Center Campus developed by Forte Partners and Arghezi 4 project with a GLA of 7,500 sq m developed by Strabag with an occupancy of 100%.

Two under – construction schemes to be delivered in North – West sub-market make 34% of the future new supply and are represented by the second phase of @Expo which comprises a leasable area of 25,000 sq m and Muse Project, a 7,000 sq m office building developed by ACMS Primavera. With a share of 21% of the 2023 pipeline Floreasca / Barbu Vacarescu, will enlarge its modern stock with Equilibrium – Building B having 19,400 leasable sq m developed by Skanska.

Total Leasing Activity

In the first half of 2022, the total office leasing activity in Bucharest amounted 132,500 sq m, value with 18% higher compared with the same period of the previous year. Take-up (total transactions excluding renewal/renegotiation) represented 69% of the total leasing activity (TLA) and was with 60% higher compared with the one from H1 2021. The impressive YoY difference in take-up might translate into a sentiment of confidence for office tenants which want to secure a new office space.

Figure 9: New Supply Vs Demand & Vacancy Rate Evolution



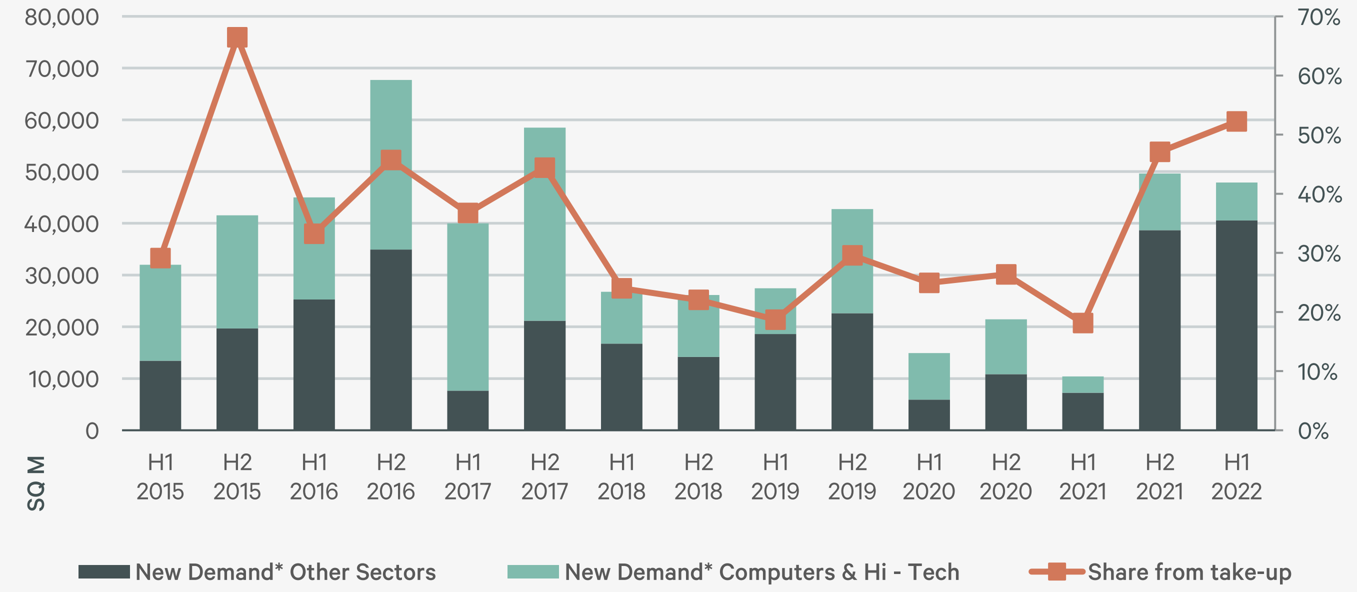
Source: CBRE Research

The largest transaction signed in the first part of the year was concluded by Booking Holdings, a new entry on the Romanian market which leased 9,000 sq m in U-Center Campus phase 1 developed by Forte Partners. Another transaction worth mentioning is the lease of circa 6,500 sq m in Immofinanz's office building, Victoria Park by Leventer Hospital. Securing large areas from an office scheme by hospitals can only benefit to the property's WAULT, as such tenants are known to agree on long term leases. Demand generated by private health operators, seemed to be shaping as a new trend on the office leasing market since the second part of last year when Medicover secured 15,000 sq m in Multigalaxy BC 1 office building, investing in a new hospital in Bucharest.

Pre-leases represented 16% from the take-up, percent that allows new demand to be accommodated immediately. The largest pre-lease deal was concluded during the first quarter of the year by the iGaming software supplier, EveryMatrix which secured 7,500 sq m in Arghezi 4 project developed by Strabag in the Center office sub-market. Renewal/renegotiation transactions accounted for 38,100 sq m, with 16,600 sq m less than the amount renegotiated during the same period of 2021.

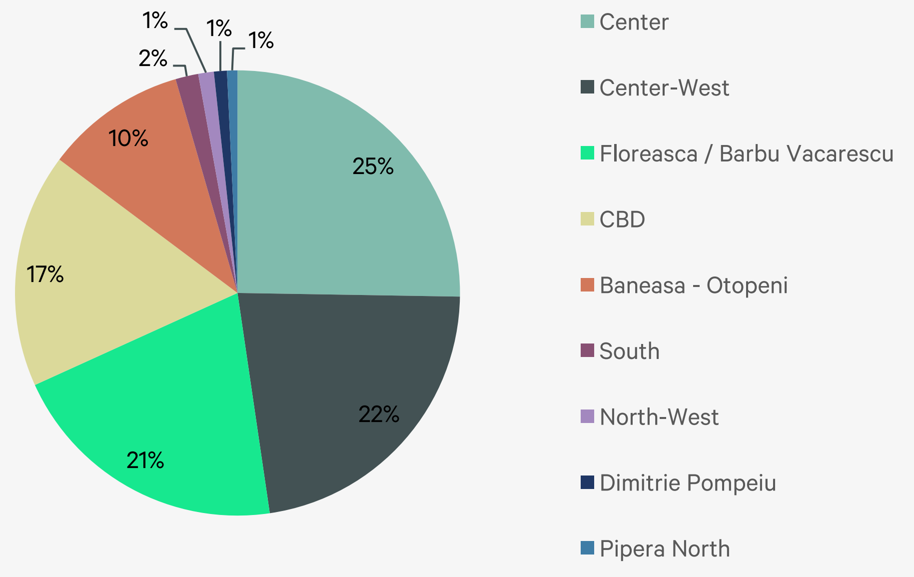
If we look exclusively at new demand generated by new demand (new lease) and expansion type of transactions per semester from H1 2015 onwards, it represented half of the take-up during the last two semesters. Such strong new demand was achieved in the pre-pandemic period, the largest share being recorded in H2 2015, respectively 66%, followed by 46% in H2 2016 and 44% in H2 2017. Between H1 2020 and H1 2021, percentages below 30% could be achieved indicating a state of market freeze, when companies were addressing to the maximum the health and safety protocols imposed at that time. Starting with H1 2022 we observed an increase up to 47% of the new demand. The new demand from the first half of 2022 could generate almost 5,000 new jobs in Bucharest and going further back from the second half of 2021, almost 10,000 new working places were generated by companies which secured new spaces in the capital city.

Figure 10: New Demand Evolution Computers & Hi-tech Focus



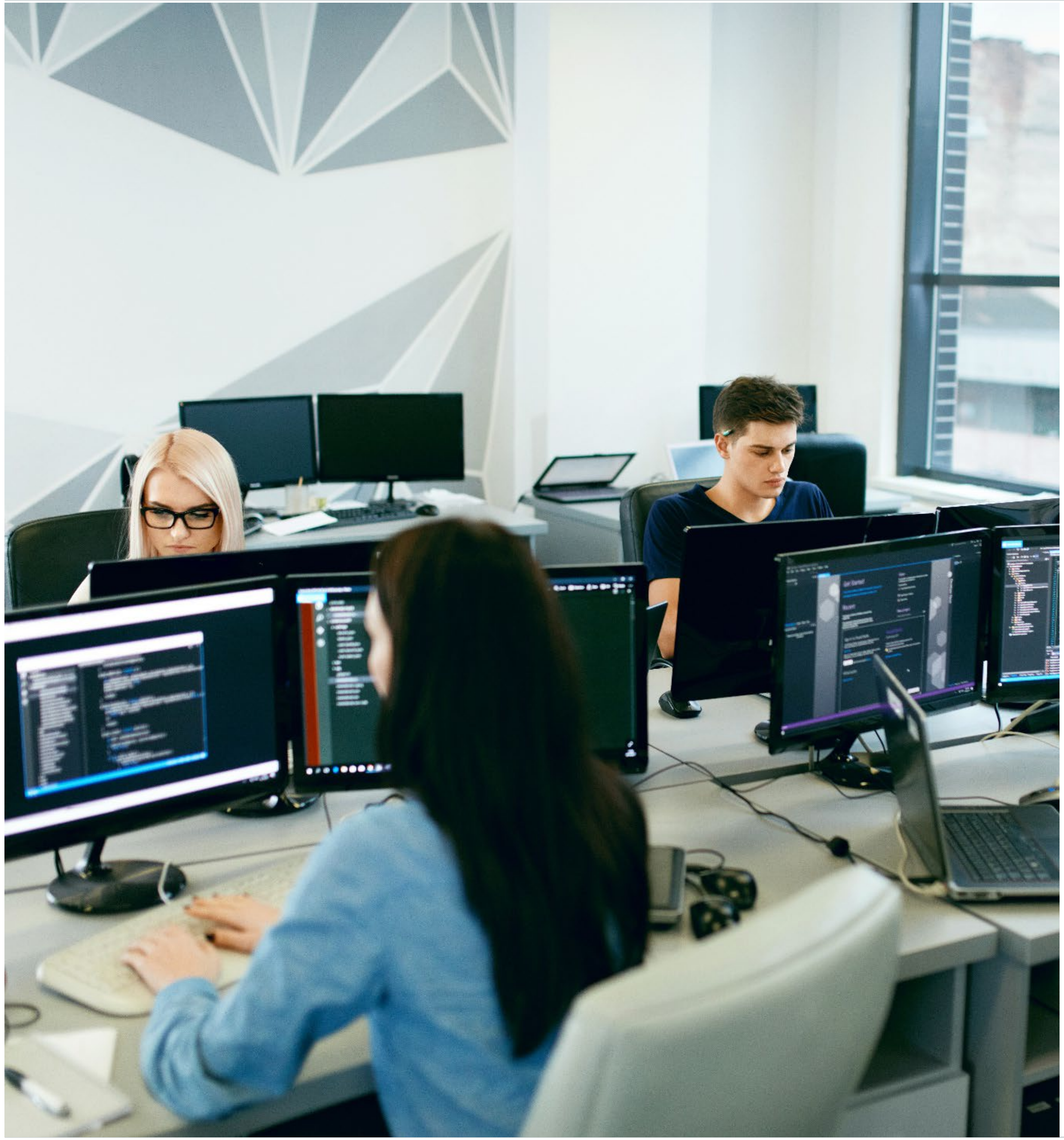
Source: CBRE Research

Figure 11: H1 2022 Total Leasing Activity by Sub-market



Source: CBRE Research

Center, Center – West and Floreasca / Barbu Vacarescu are the top three office sub-markets which attracted the largest shares of leased area, respectively 25%, 22% and 21%, followed by CBD sub-markets with a percentage of 17% and Baneasa – Otopeni, South, North – West, Dimitrie Pompeiu and Pipera North office areas jointly claimed the remaining share of 15% from TLA.



Computers & Hi-Tech companies are the engine for office spaces' demand with 32% of the total leased area in the first six months of 2021, followed by Consumer Services & Leisure and Professional sectors which claimed 16% and 15% from the transacted area. As the most effervescent sector with reverberations in the real estate market as well, the office new demand generated by Computers & Hi-Tech companies makes this domain of activity one of the largest employers, creating in average almost 1,700 new jobs per semester during the analysed period (H1 2015 – H1 2022).

Figure 12: H1 2022 Total Leasing Activity by Domain of Activity

32% Computers & Hi-Tech

16% Consumer Services & Leisure

15% Professional Sector

15% Other Sectors

13% Manufacturing & Energy Sector

5% Financial Sector

4% Business Services Sector

Source: CBRE Research

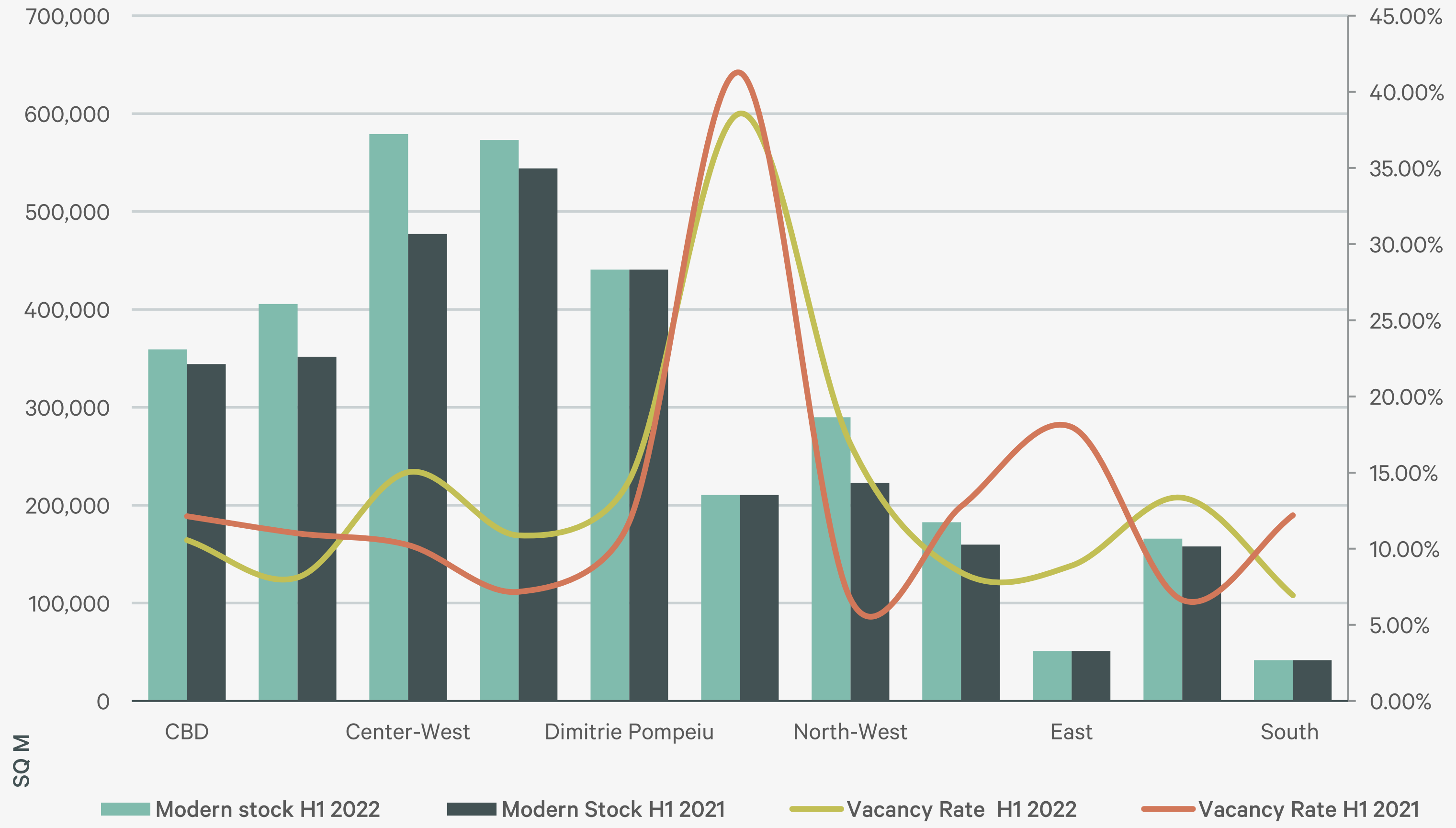
At the end of Q2, Bucharest modern office stock recorded a vacancy rate of 13.9%, similar with the vacancy from the end of the previous quarter and with 1.7 pps higher compared with the one registered at the end of Q2 2021. When analyzing exclusively class A office schemes, the vacancy rate drops at 11.7% at H1 2022.

Even though the overall vacancy rate for Bucharest modern office stock motioned on an upward trend when compared with the same quarter of the previous year, there were sub-markets that marked decreases of the vacancy rate. Thus, the CBD, Center, Pipera North, Baneasa – Otopeni, East and South office sub-markets registered vacancy drops ranging between 1.6 and 9.1 pps compared with Q2 2022.

Starting with the first months of the year, prime rent increased with 0.25 EUR / sq m/month, remaining stable at Q2 closing, at 19.00 EUR / sq m/month. Landlords continue to show flexibility when negotiating incentive packages and lease terms, lowering the net effective rent.

Nonetheless, the limited office pipeline for the short – term and the recorded leasing activity recovery which embarked on an upward path, could be the signs that indicate a mild transition towards a landlords' market.

Figure 13: Main Indicators by Sub-market (Modern Office Stock | Vacancy)



Source: CBRE Research

> New entries on the market, new sectors shaping a trend for the leasing market and the limited future new supply, makes the office market to enter a new era of development. The balance between home and office work is still a work in progress for most companies and employees, but this adaptive way of working coupled with the above-mentioned novelties make the office market a reinvented chameleon set on a mission to bring office leasing activity upward trending.

Tudor Ionescu
Head of A&T Services Office,
CBRE Romania

04

Industrial

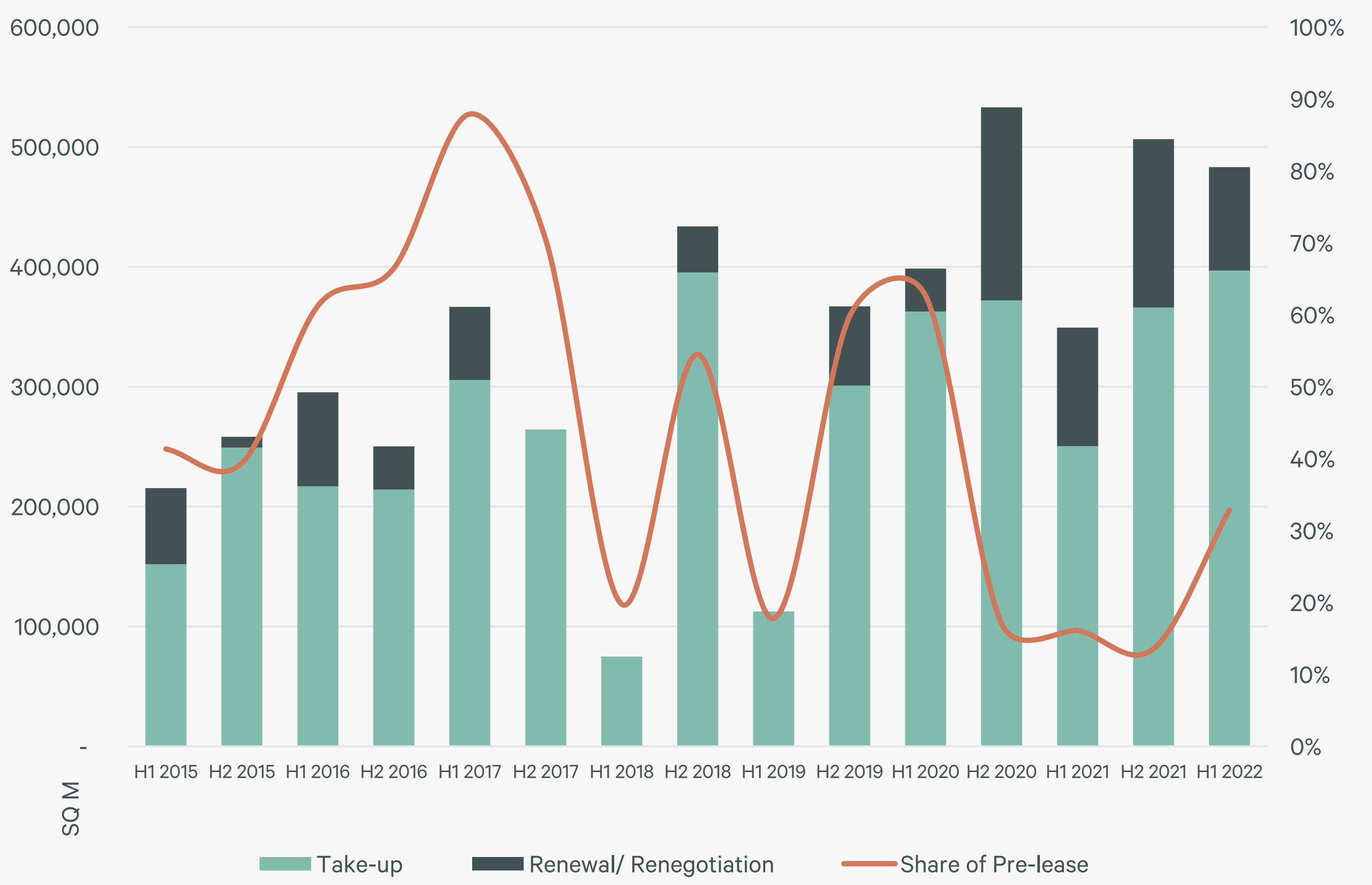
Maintaining the Bar High

Total Leasing Activity

In the first six months of 2022, almost half a million sq m of logistics spaces was leased throughout the country, with 38% more compared with the similar period of 2021. The highest amount concluded in the first part of the year for more than five years in a row, the industrial and logistics leasing market conquers new heights quarter by quarter and continues to build its prosperity on the momentum created in the first part of 2020. Gathering 483,000 sq m, the total leasing activity (TLA) in H1 2022 is more than five times higher than the amount transacted in the first part of 2018 and three times compared with the first half of 2019, the pre-pandemic years that precede the return of the industrial market to the spotlight. Moreover, when compared with record year 2020 when almost 1.0 mln sq m were leased, the total leasing activity from the first half of 2022 represents 52% of the 2020 overall TLA.

Take-up (total leasing activity excluding renewal and renegotiations) represented 82% of the TLA, out of which 130,300 sq m were pre-lease. The take-up also can as well be interpreted by new demand in the market and during the first part of the year, pre-leases claimed a share of 33% from take-up. Looking at the share of pre-leases in take-up signed in the first halves of the years from 2015 onwards, it can be observed that peaks were achieved in H1 2017 (88%), H1 2020 (63%) and after a decline in H1 2021 (16%) the upward trend was reignited in H1 2022 (33%). Such evolution points toward a strong appetence of the tenants for tailored logistics spaces and developers' willingness to address built to suit projects making sure they have the best locations for development with potential for extension and at the same time their reluctance to initiate large speculative developments.

Figure 14: Total Leasing Activity Evolution | Romania



Source: CBRE Research

Moreover, the largest deal signed in the first half of the year was a pre-lease of circa 87,600 leasable sq m secured in the Southern industrial region, in Prahova County.

More than half (59%) of the leases were signed in Bucharest, 22% in the Southern region, 16% in West/North-West, while the remaining 3% was directed towards the Central part of the country.

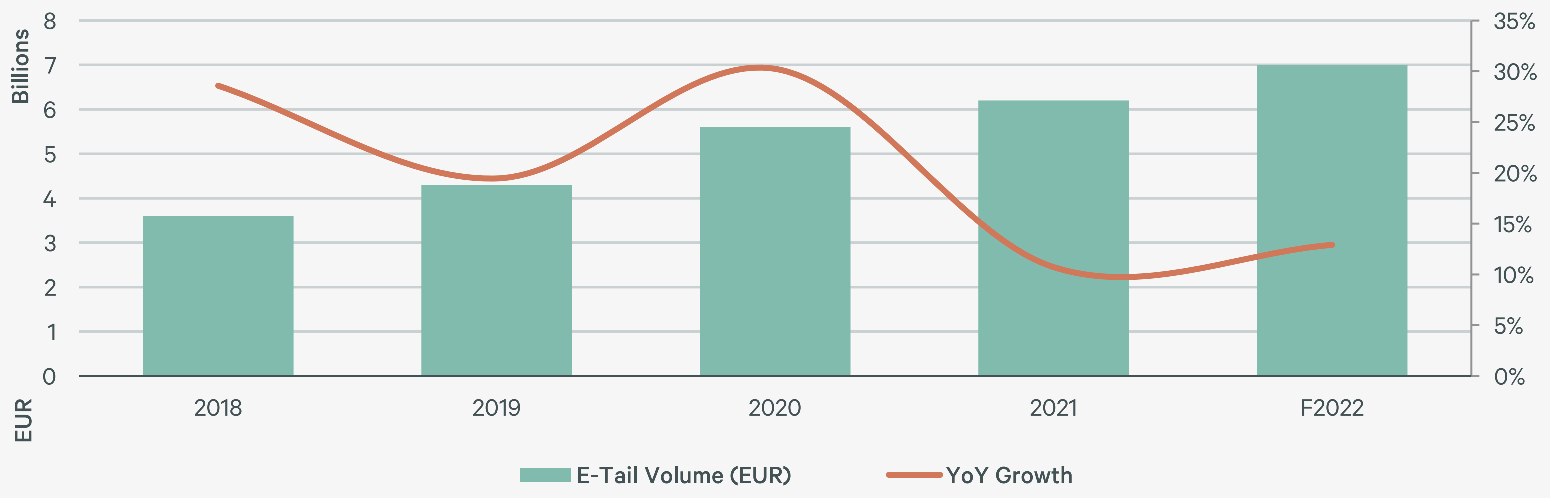
The average deal size in the first part of the year was a bit over 10% higher compared with the same period from 2019 and 2021, but with circa 40% lower compared with the average ticket size from H1 of the peak year 2020.

Over half of the total area was leased for Storage and Logistics purposes. Thus, companies in need for Storage spaces generated 26% of the total requested area while 25% of TLA concerns spaces to be used for Logistics. Distribution and Production purposes equally split the remaining 16% of the total leased area.

As concerns the main source of demand, retailers and logistics players dominated the leasing activity in the first half of the year, the total area leased by these sectors representing almost half of the total leasing activity.

The e-commerce component in the demand generated by retailers continues to be very powerful and the amounts of capital spent in this sector are in a constant growth. After a YoY increase of 30% in 2020, the e-tail volume is forecasted for 2022 to register a 13% YoY growth in Romania. The omnichannel approach initiated by logistics and retail players as a way of adapting to the 2020 atypic demand for industrial spaces, still has an impact on the leasing activity as well as on the modern stock evolution, as each billion spent in e-commerce requires 100,000 sq m of industrial & logistics spaces.

Figure 15: Romania E-tail Volume Evolution



Source: CBRE Research, GPeC

Stock

At the end of the H1 2022, Romania's stock overpassed the 6.00 mln. sq m threshold, reaching at 6.03 mln. sq m of modern industrial and logistics spaces. Bucharest region is the most developed in terms of modern stock, hosting half of the total surface, while the other half is distributed towards the other four development regions of the country. With a joint share of 37% from the total modern stock, the West/ North-West and the Southern regions proved to be the developers' main focus outside the capital city.

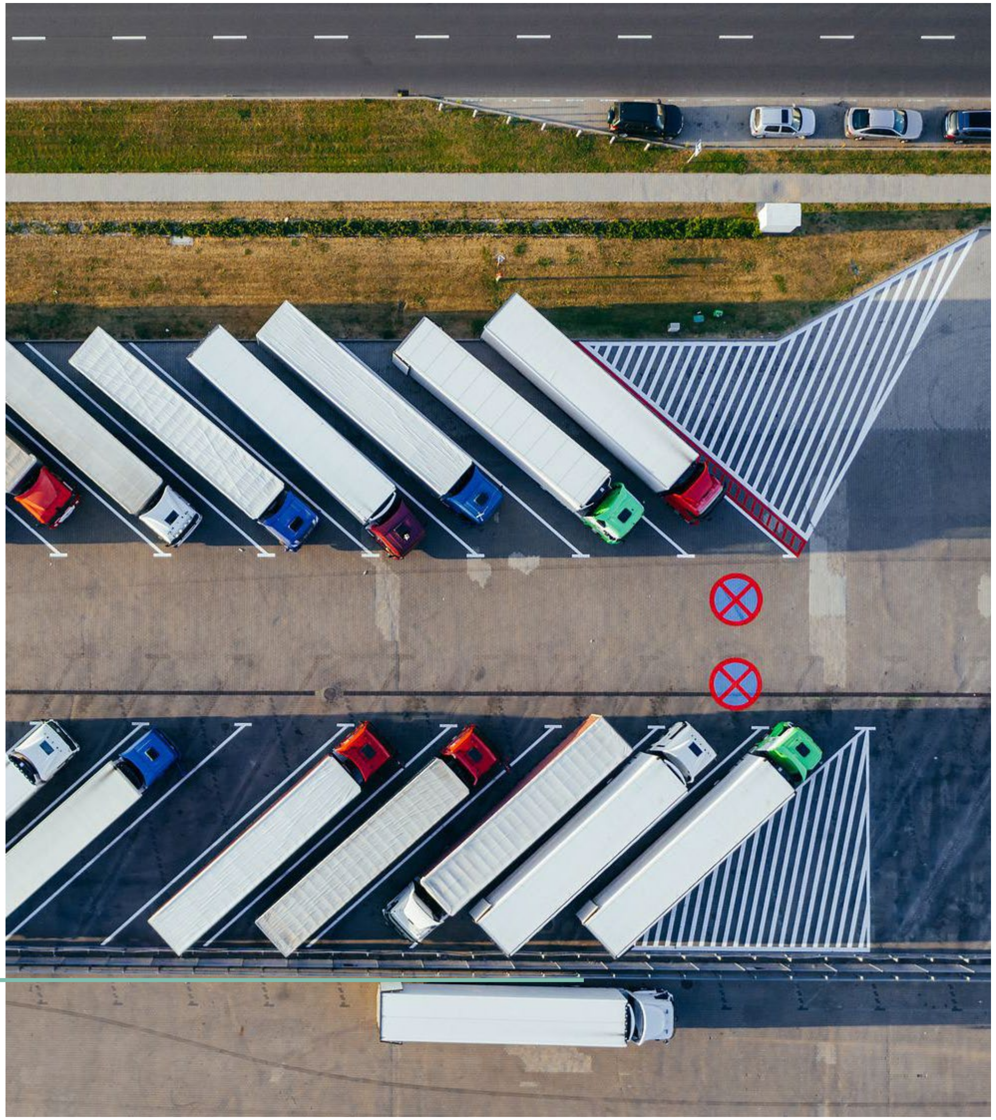
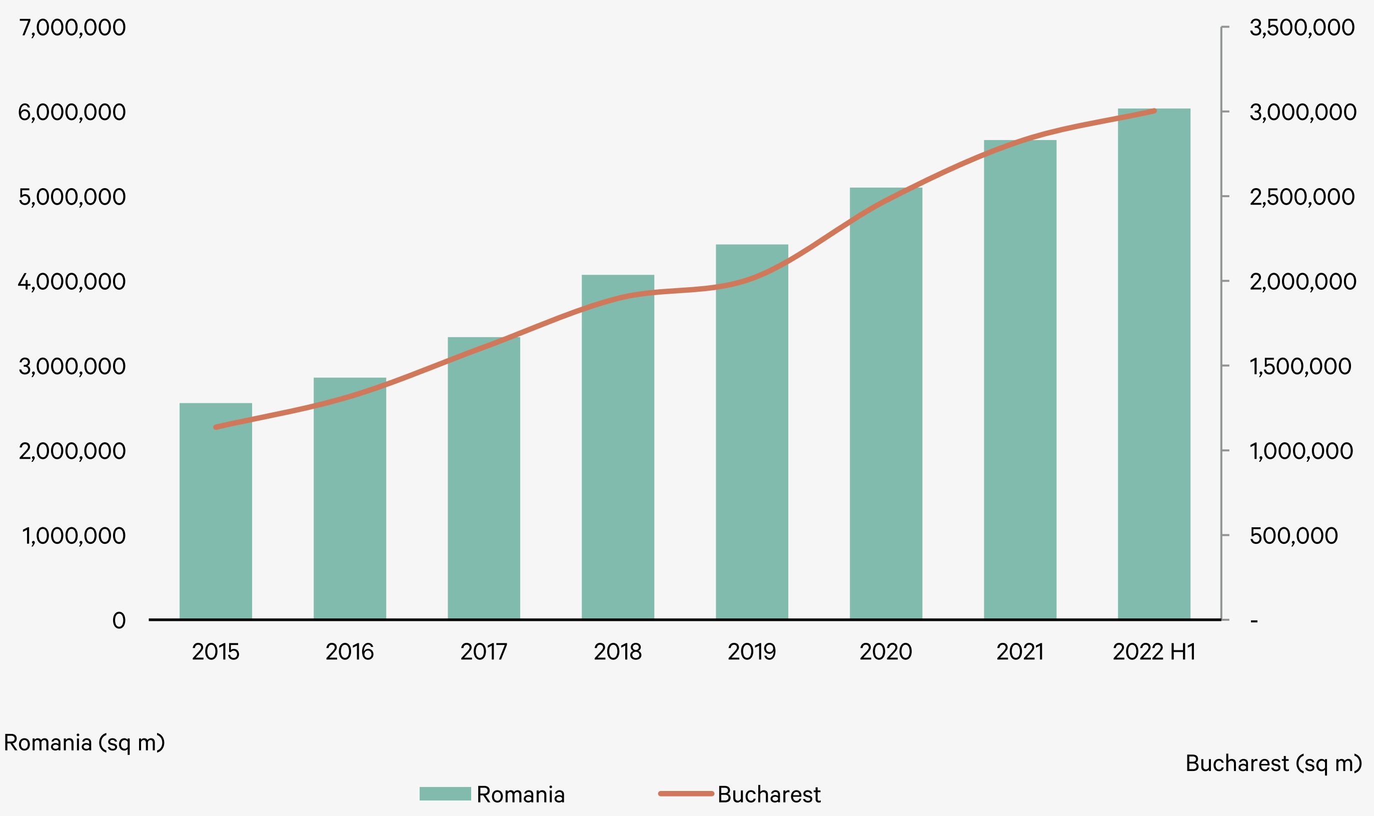


Figure 16: Modern Industrial Stock Evolution



Source: CBRE Research

During the first six months of the year, a new supply of circa 373,000 sq m was added to Romania's modern stock, out of which 48% was concentrated in Bucharest. Nonetheless, at a smaller pace though, all the other industrial regions of the country enlarged their modern stock, respectively with 26% from the year-to-date new supply the West / North West region, with 15% the Central region, with 7% the South and with 4% the East / North East.

The modern stock in Bucharest is subdivided as well in development areas, the Western and the Northern part being the two industrial poles of the capital city where most of the new developments are concentrated and the most attractive for both tenants and landlords. The new supply of almost 180,000 sq m welcomed during H1 2022 in Bucharest was unevenly shared between the development areas, the Northern part proving once again with 43% of the total area to be the new hot spot for developers. The Western and North Western areas together claimed 32% of the YTD's new supply and the Eastern and Southern parts of the city both shared 25% of the new deliveries.

373,000
sq m

new supply added to Romania's modern stock in H1 2022

48%

of the new supply was concentrated only in Bucharest

180,000
sq m

in Bucharest – out of which 43% in the Northern development area

With a pipeline of a bit over half a million sq m that can be found in various construction stages and estimated to be delivered by the end of 2023. On the fast lane to a new threshold, the modern stock is aiming towards 7.0 mln. sq m and a narrower gap between the most developed CEE industrial markets. 87% of the future new supply will be absorbed by Bucharest and West / North-West region, the remaining 13% following to be added to the Central, South and East / North-East modern stock. In addition, there are another almost 1.0 mln. sq m planned by industrial & logistics developers throughout the country, that could accommodate built to suit schemes of different sizes having generous availability for extensions. Either there are continuing development phases of existing projects, or brand-new developments, most of landlords work at their local real estate portfolio and are standing by with secured development land plots and projections / plans of future projects.

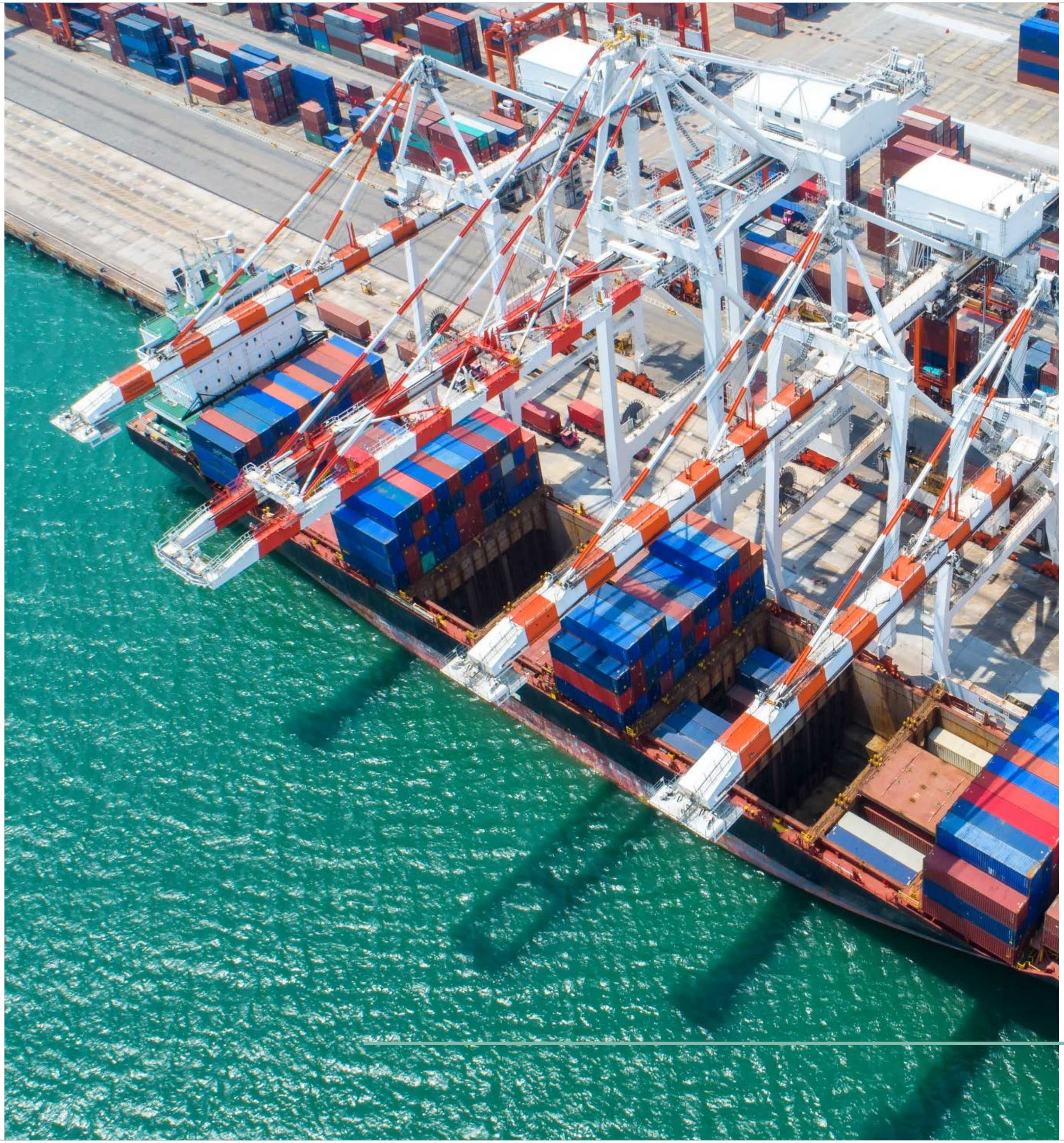
The vacancy rate at the end of H1 2022 estimated for Romania's industrial maintains its descending trend, reaching at 3.1% making it more and more difficult for tenants to lease immediately compact large surfaces. Bucharest registers an even lower vacancy rate, of only 2.8% as a result of an auspicious start of the year for the leasing activity in the country's main industrial hub.

Figure 17: Modern Industrial Stock (Stock I Vacancy Rate)

Source: CBRE Research

Headline rent in logistic parks at the end of H1 still stands at EUR 3.90 sq m/month and the net effective rent remained around the value of EUR 3.5 sq m/month for a 5,000 sq m unit.

Looking further ahead, the upward pressure on headline rent is quite significant, being influenced by the increases in energy, transportation and construction costs, and starting with the third quarter of the year the rent increase will be more visible in the commercial terms presented by logistics landlords.



A new trend in the making that could be observed on the Romanian logistics market are intermodal terminals developed where future logistics hubs have transportation breakages and the infrastructure is not sufficiently developed and could affect the distribution chain. Such projects are already being built in Bihor County (West / North-West industrial region) and Constanta (South industrial region), the stepping stone for a multiple way (air / sea / railroad / road) of cargo management in a single place being set.

Additionally, developers have a new aspect to consider thoroughly for developments in this sector, respectively ESG standards compliance. Green projects weigh heavily for potential tenants and investors, gas emissions, management of toxic waste, and compliance with environmental regulations not being a novelty anymore, but a must. Going further, for the projects built disregarding such aspects, the retrofitting becomes the challenge for those who want to maintain competitive on the market.

> The rapid expansion of the modern stock, the outstanding leasing demand maintained for two and a half years now, and the logistics developers' interest to cover previously untapped areas of the country, confirm that Romania's industrial market succeeds in lining up next to mature CEE markets. The small vacancy rate and the consistent pipeline are markers of continuity on the same path for the industrial market.

Victor Răchită
Head of Industrial & Logistics,
CBRE Romania

05

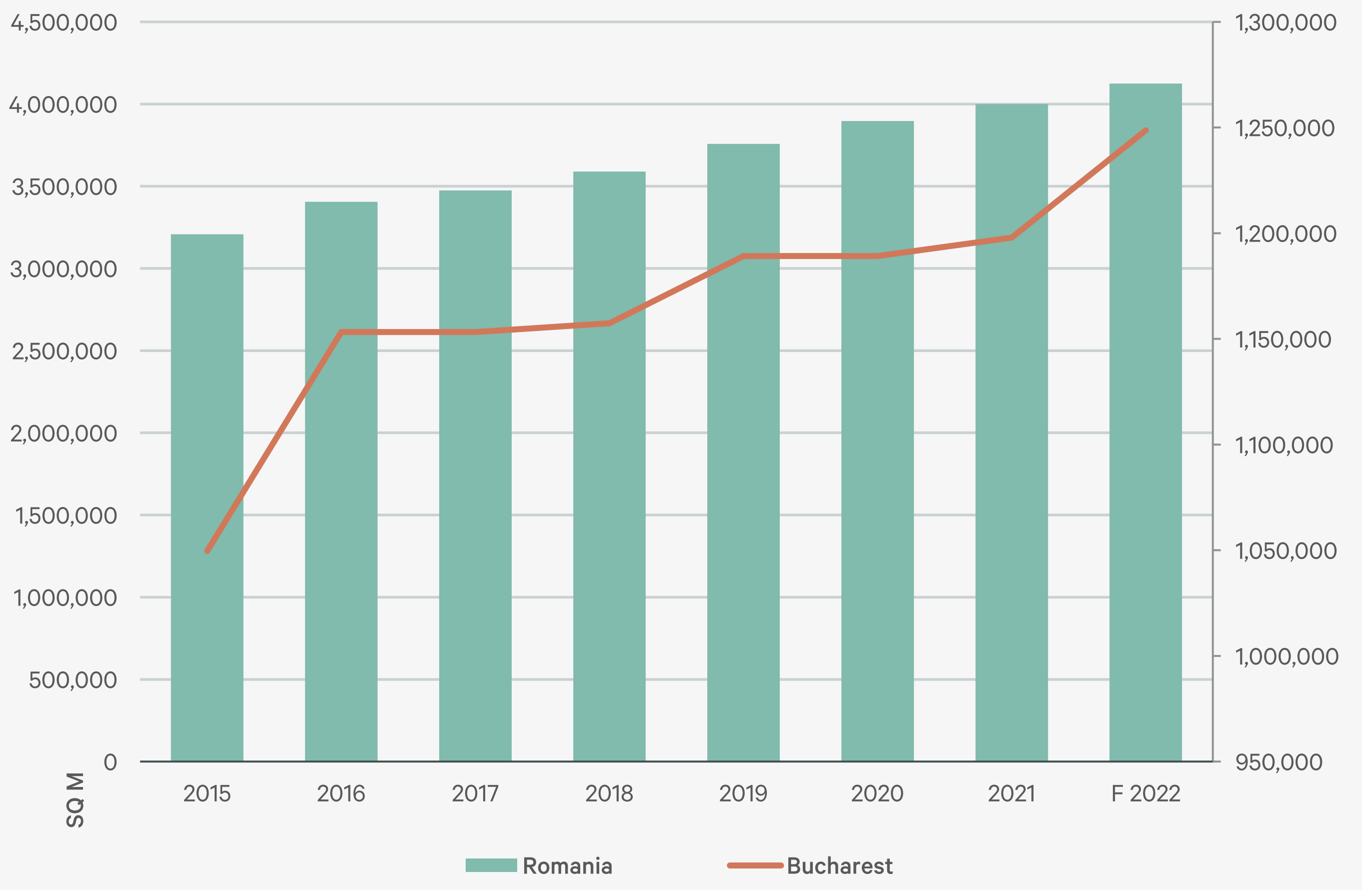
Retail

Adaptive Growth

At the end of the first half of 2022, the modern retail stock in Romania reached 4.03 mln. sq m, after the delivery of 36,500 sq m in four different retail schemes throughout the country. More than half of the total delivered area is claimed by three retail parks located in small sized towns in the vicinity of main regional cities such as Iasi, Timisoara and Craiova. The remaining 45% of the new supply is claimed by shopping centers, through one scheme, respectively the extension of Colosseum Mall in Bucharest.

As concerns the modern stock composition, the majority type of formats developed nationwide is represented by shopping centers, while retail parks claim 37% of the total area. Nonetheless, this ratio is in a continuous transformation, retail parks starting to gain larger shares especially in the last two years, as this format proved to be more versatile and easier to adjust to distance regulations. With 30% from the country's modern stock, Bucharest in the leading retail hub accounting 1.2 mln. sq m out of which 64% in shopping centers.

Figure 18: Modern Retail Stock Evolution | Romania & Bucharest



Source: CBRE Research

4.03M
sq m

modern retail stock in Romania by end of H1

36,500
sq m

delivered in 4 retail schemes in the country

1.20M
sq m

in Bucharest – the leading retail hub

In addition, the under – construction pipeline estimated to be delivered by the end of the year sums approximately 88,000 sq m and 75% of the area is developed as retail parks, the traditional retail format (shopping centers) amounting only 13,000 sq m in three projects mainly extensions. Moreover, for the next year, another 172,000 sq m are expected to be added to the country's modern stock, out of which almost half (47%) as a shopping center format. Considering the H2 2022 and 2023 pipeline, the majority, meaning 87% of the total area will be welcomed in secondary and even tertiary cities mirroring the developers' willingness to be as closer as they can be to their customers.

Figure 19: Romania Retail Stock By Format

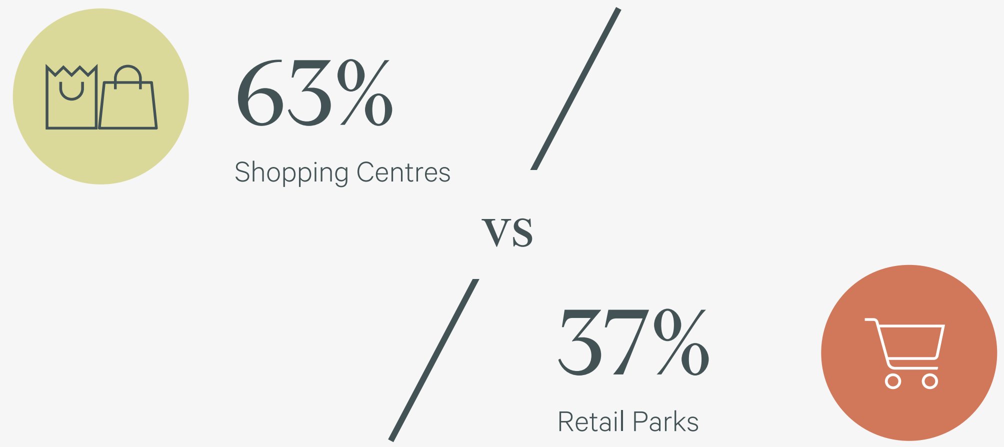
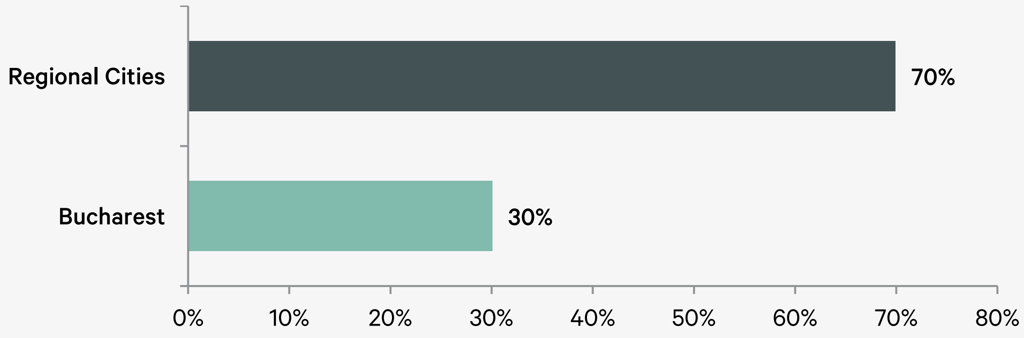


Figure 20: Romania Retail Stock By Location



Source: CBRE Research

Looking at the overall 2022 new supply, delivered and forecasted plus the under-development schemes to be inaugurated in 2023, an increase of 38% in the yearly new supply can be observed as well as a comeback of the traditional retail format with larger shares in future developments.

The new challenge for retail landlords is to create an attractive environment, a synergy between what the place and the tenants can offer, in order to deliver the ultimate shopping experience.

The sentiment of recovery for retailers is backed by increases of footfall compared with the amount registered in 2019. The vacancy rate in retail schemes remained very low, prime locations being the most wanted by players active on the market. The new challenge for retail landlords is to create an attractive environment, a synergy between what the place and the tenants can offer, in order to deliver the ultimate shopping experience. In this regard, landlords try to differentiate themselves by attracting new international brands that will create a powerful and diverse tenant mix, which will strengthen their position on the market and attract new buyers.

The revival felt by the market and the positive evolution of consumer retail spending, transmitted good signs that were picked by new retailers which decided to enter the local market. Almost twenty new companies from various sectors such as F&B, Fashion, Sports, Home & Deco and Specialty Retail announced their openings in Romania. Companies that made or are preparing to make their debut this year, chose shopping centers in Bucharest as their first point of presence. For example, retailers such as Primark, Foot Locker, JD Sports, Suwen Lingerie, Bath & Body Works signed or inaugurated stores in shopping centers like: ParkLake, AFI Palace Cotroceni, Mega Mall, Sun Plaza, and Baneasa Shopping City. F&B newcomers such as Popeyes, Poke House, secured spaces in both well-performing shopping centers, mixed-use projects and high-street location. The German retailers like TEDiselling non-food products or Fressnapf, with pet products, oriented towards regional cities and retail park formats.

The impressive rise of e-commerce, especially in the last two years, attracted new players in this field as well, Zalando, one of the leading online fashion and lifestyle platforms in Europe, announcing their expansion on the Romanian market. The Italian furniture manufacturer Interni by Gruppo Euromobil selected both online and physical presence in Bucharest at Baneasa Business & Technology Park.

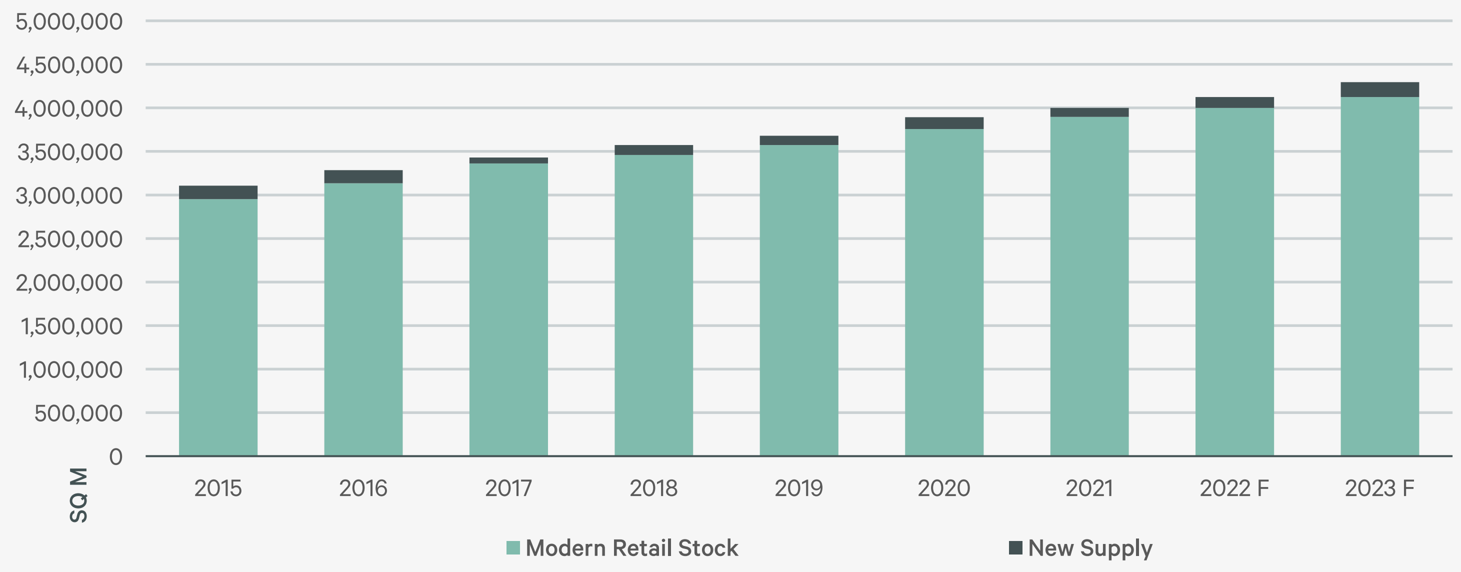
Businesses focusing on omnichannel approach aren't considered anymore a novelty for retailers, the e-commerce component being quickly and strongly integrated in expansion strategies not as a way of surviving but more as a way of growing.

At the end of H1 2022, prime rents maintained at the same level from the end of the previous year for high street location, respectively at 45 EUR/ sq m/month, while shopping centers witnessed a mild increase from 70 to 75 EUR/ sq m/month.

High street retail in the capital and main regional cities continues its upward trend, after a period of reduced mobility for the population. The warm weather, the conversion of major streets into pedestrian areas during weekends, such as Victoriei Avenue in Bucharest, was a tremendous helping hand for the high street retail focused mainly of F&B retailers (specialty restaurants, coffee and ice-cream shops, bars, etc).

With a retail stock forecasted at circa 4.3 mln. sq m to be achieved in a year and a half considering exclusively the under-construction projects, Romania's modern stock founds itself in a continuous change and reposition towards all players either they are developers, investors or tenants proving resilient and flexible in different market contexts.

Figure 21: Modern Retail Stock Evolution | Romania (Forecast)



Source: CBRE Research

> New international companies that entered Romanian retail market, the fast-paced e-commerce progress backed by the thriving private consumption and the omnichannel strategies applied by retailers, contribute to the sentiment of revival of the market. For landlords it is not about only low vacancy rates anymore, but to have the attractive tenant-mix that can bring customers in their premises and have the ultimate shopping session that will make them want to return.

Carmen Ravon
Head of Retail Occupier CEE,
CBRE Romania

06

Land

Scouting never cease

During the first part of 2022, more than 70 hectares of land for development was sold throughout the country.

The largest share of transactions was concluded with properties located in Bucharest and Ilfov County, while regional cities such as Sibiu, Timisoara, Bistrita and Constanta together attracted 24% of the total sold area.

Development land for future residential schemes was the most sought after by developers, the overall surface of land in this type of transactions representing 63% of the total transacted during the first six months of the year.

Land suitable for retail, industrial and mixed-use projects jointly accounted for 35% of the total area. The remaining 2% was claimed by land plots for office and hotel developments.

The small shares of sites dedicated for office developments particularly and shopping centers in retail as well, are a consequence of recent sanitary and economic crisis, which have led to a decrease in investment appetite for these sectors.

Figure 22: Total Land Transactions (sq m) by Type of Use

63% Residential	**14%** Retail	**12%** Industrial
9% Mixed Use	**2%** Office	**0.4%** Hotel

Source: CBRE Research

The largest transaction in 2022 year to date, was signed for circa 24 hectares of land, part of the former Chimopar platform, located in the Western area of Bucharest. The buyer, Edificia Star Construct, intends to build a residential compound on the newly acquired land plot, the developer being already present with such developments in the area.

Nonetheless, Romania's land market continues to offer multiple opportunities in all development sectors, every one of them adjusting to market's new type of demand, shaped by recent events.

As far as the office market is concerned, there are multiple projects that were put on hold, the signing of a large pre-lease being the green light expected by developers to start construction works. Throughout the established office areas in Bucharest, it became much more difficult to find available land plot suitable for office use. However, new areas which have the potential to become important business hubs have been identified, with the great advantage that would lead to a more balanced city in terms of developments and traffic. For example, Bucurestii Noi could successfully fall in this category.

Development land for residential use remained in the top preferences of investors and besides the usual approach buy-develop-sell to end users, a new trend is shaping for this particular investors' business plan. On the medium to long term, the residential market will attract investors not solely for selling apartments but for leasing them, as an increase of rents is forecasted for the residential units. The upward trend of rents corroborated with a decline of purchasing power in the context of rising interest rates and inflation, are envisaging new action strategies for residential developers.

The excellent results registered by the industrial market in the last two and a half years in terms of leasing activity and new supply have increased the demand for land plots suitable for industrial use. The reduced delivery period starting from authorizations to inauguration of the project makes logistics developments very appealing. Even though built-to-suit schemes are preferred, usually landlords secure some additional area for potential extensions.

During the first half of the year, retail developers continued their expansion plans towards secondary and tertiary cities, looking for areas ranging between 2,500 up to 30,000 sq m, showing more flexibility during the negotiation process.

Romania land market constitute an attractive segment of the real estate market, but the investors' appetite to buy and develop is shadowed especially in Bucharest, where public authorities didn't manage to solve the urbanistic plan (PUZ) issues and the approval blockages linked to it. Even though, at present the PUZ impasse is barely noticeable, on the medium to long term, the effects will reverberate in all segments new supply shortage together with price increases.

Nonetheless, until the urbanistic plans in the Capital will not represent an impediment for investors by allocating an indefinite period time when building a project, the focus has shifted towards Bucharest's neighbouring and further on towards regional cities. This approach can be interpreted as a consequence of a change in habits of final consumers which embraced hybrid work that allowed them to migrate towards cities with a lower population density.

Figure 23: Bucharest Asking Selling Price (Range) | Development Land

	Main Use			
	Office	Residential	Retail	Industrial
Prime Location	500 – 800 EUR / CUT* point	700 – 1,000 EUR / CUT* point	700 – 1,000 EUR / sq m	40 – 50 EUR / sq m
Secondary Location	200 – 350 EUR / CUT* point	300 – 600 EUR / CUT* point	300 – 500 EUR / sq m	20 – 35 EUR / sq m

*CUT refers to land use coefficient

Source: CBRE Research

The upward trend of land prices is contained at the moment by the increase of production costs and the steady yields. Thus, we estimate an upward trend for the asking selling price, following the same trend of prices for construction materials and utilities.

Moreover, it could be observed an increased demand for land plots with approved urbanistic plans, developed infrastructure, easy access to utilities and public transport, especially to the Bucharest's subway network. When looking at the infrastructure and public means transport in the vicinity of a particular property, buyers are paying special attention to the future developments as well, especially those with a commencement date in the near future.

"Finding the perfect land plot is proving to be quite challenging for buyers, especially in Bucharest where land plots ready for development are scarce. Residential projects seemed to be on the plans of most developers that acquired land plots in the first half of the year, while other uses placed further apart in the total transacted surface. Permitting obtained or to be obtain for a development site continues to be the game changer for a transaction considering the amount of time to be spent from planning to delivery any type of project."

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