



Deloitte Romania Commercial Real Estate Survey 2021

Taking the long view in times of crisis

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Key messages



Romanian players in commercial real estate are reluctant when it comes to new investments, as more than half of the respondents underline that they need to reconsider new investments in the context of COVID-19 pandemic.

Despite this reluctance, players remain optimistic regarding the appetite for financing new investments in the sector, as almost half of the respondents believe that financiers' interest for these initiatives is above average.



In a post-pandemic scenario, leaders in commercial real estate need to be equipped accordingly in order to answer to tenants and end users' needs, such as shorter contract periods and space adjustments.



The fluctuations of prices and occupancy rates will vary depending on the type of property, considering that the vast majority of respondents said that the price and the occupancy rate may increase or decrease depending on the type of the commercial property. This may be an indication that sub-market segment and location will continue to be extremely important.



Liquidity will continue to be a challenge focus area for the Romanian commercial real estate sector, as 80% of the respondents consider the availability of resources to meet cash needs as one of the most important attributes, even when the health crisis would have ended.



The necessity of technology usage, including trends like proptech, will long outlive the COVID-19 pandemic, as 80% of respondents believe technology to be the first and most important capability that needs to be developed even when the health crisis would have ended.

Real estate companies need to create a digital connection with the online consumer, as almost half of respondents mentioned that the rise of e-commerce will be a challenge for their business.





The effects of the COVID-19 pandemic

The state of the commercial real estate market

One year ago, the world faced an unprecedented event, reshaping many aspects of our public and private lives. In 2021, the health crisis remains a hot topic on governments' and private companies' agenda, as they continue to tackle uncertainty and difficulties. Since the beginning of the outbreak, like many other industries, the real estate sector faced various **strategic and operational risks**, forcing both property developers and owners to find solutions and respond quickly to an array of challenges, first the safety of the spaces and of the people using those spaces. Second,

liquidity was high on their agenda. Players in the commercial real estate market have generally focused on addressing short-term liquidity issues, caused by relief measures granted to tenants, by suspending payments to shareholders¹. On the long run, including in a post-pandemic scenario, it is expected that companies active in commercial real estate will continue to grant careful consideration to this matter, as liquidity is an important piece of puzzle for the entire recovery cycle.

Today's investments will influence the next 12 months

While liquidity management may be seen as a short-term tactic during times of crisis, **investments** are definitely strategic and require long-term vision. Similar to other industries, present **investments in technology** could be an important advantage for those businesses that seek to thrive. Increasing tenant and end users engagement by optimizing real-time updates about facilities and developing a sense of community using mobile apps should be one of the top priorities of commercial real estate companies in a time when social distancing is

making the rules. However, companies feel reluctant when it comes to investments in technology, as only 45% plan to increase their investments in cloud, robotic process automation (RPA), artificial intelligence (AI) and digital channels². This sense of containment is also present among companies in Romania, as more than half of the respondent companies underline that they need to reconsider new investments in the context of COVID-19 pandemic.

Moderate interest in financing new investments

Even if the number of non-residential buildings in 2020, compared to 2019, increased by more than 10%³, the net investments in construction slightly decreased by 2.6%, during the first nine months of 2020, compared to the same period of 2019⁴. Locally, with a shaking landscape governed by downward trends, the companies in

commercial real estate remain optimistic regarding the appetite for financing new investments in the sector, as 40% of the respondents believe that financiers' interest for these initiatives is more than moderate.



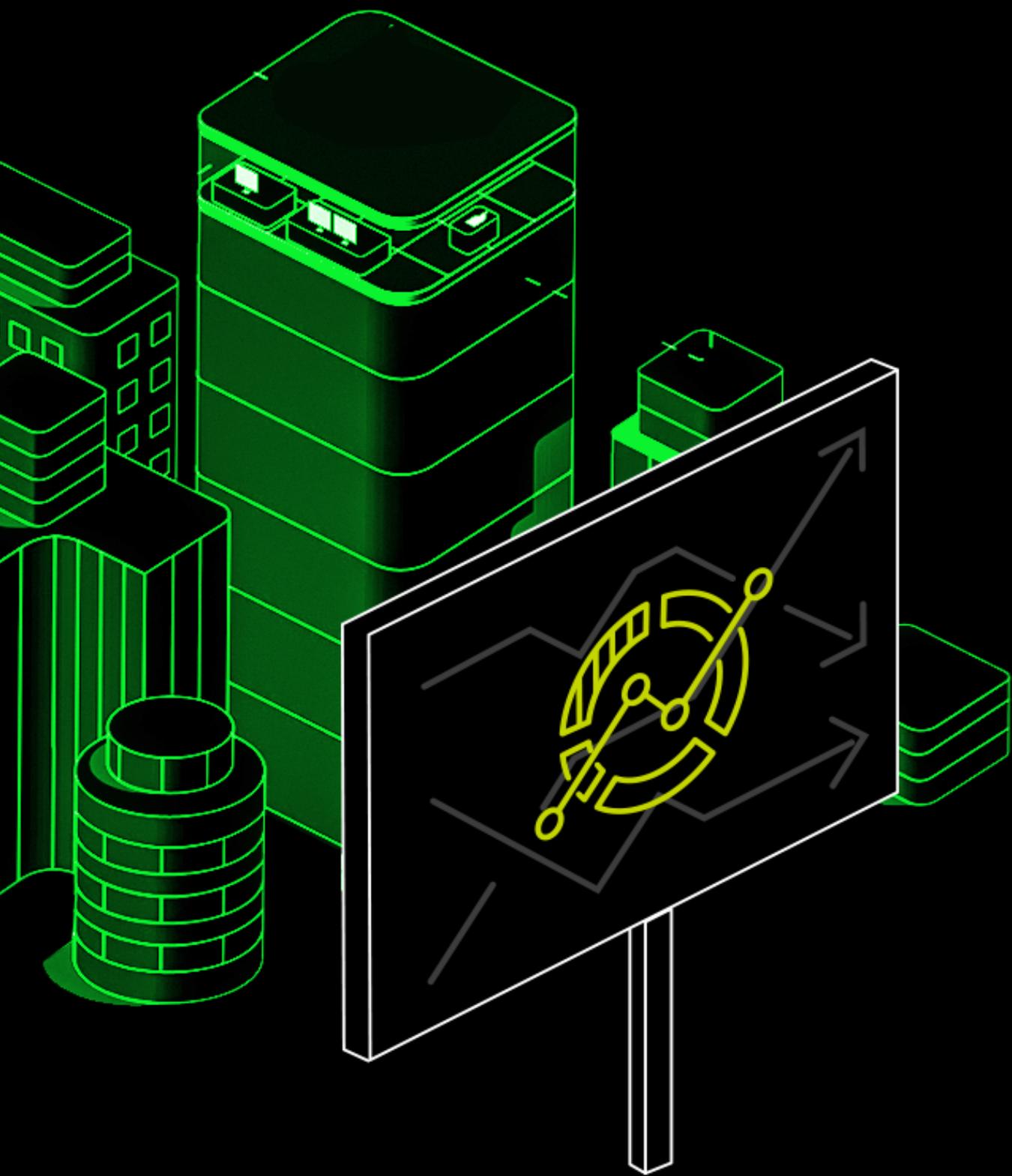
Business predictions for 2021

The fluctuations of prices & occupancy rate will depend on the types of commercial properties

The impact on rental growth and vacancy levels varies widely across property types in the next 12 months, according to the findings of Deloitte Commercial Real Estate Outlook 2021. The local findings are in line with the global ones, as the vast majority of respondents said that the price (86%) and the occupancy rate (71%) will increase or decrease depending on the type of the commercial property.

In 2021, hope builds up in the wake of a COVID-19 vaccine and of a vaccination campaign, which will contribute to a graduate return of people in the offices and a reopening of hotels and commercial spaces⁵. The campaign will represent a highly monitored activity, shaping the industry in the year that lays ahead of us. In the next period, most likely **prices will grow** for certain types of commercial properties, such as warehouses and logistic parks, considering the rapid grow of e-commerce, as the global spending intent of consumers is on the rise for the online shopping of household goods, groceries, electronics and furnishings⁶.

For other types of commercial properties, such as offices, the occupancy rate will continue to be led by demand below the usual level and offer, most likely on a downward trend until employees return to the offices, but on the long run with fairly good prospects of returning to pre-COVID-19 level. However, the future of the office market will remain under the sign of various uncertainties, which were not only triggered by the COVID-19 pandemic, but were an accumulation of factors caused by the advancement of communication technology.



Long-term trends: **prepare for the “next-normal”**

A shorter contract period & the pursue of incentives

The following period will be marked by the ability to find the correct formula of tactics and strategies, as financial concerns are added to health and safety concerns. How CRE leaders need to be equipped in order to face the “next normal” of the industry? Locally, they will need to be very attentive to tenants’ and final users’ needs and respond accordingly. Tenants will be inclined to conclude contracts that can offer them a **shorter contract period** than

before the pandemic, as almost 80% of respondents stated that contractual adjustments and flexibility are the main attributes that will count for them after the health crisis will end. The tenants and the end users will still **pursue incentives that will offer them the security of rent payment**, as 64% of the respondents mentioned rent adjustments and incentives as the second most important element that will matter for tenants and end users.

Space adjustment according to business conditions

The “next normal” will likely translate into a **reconfiguration of space volume** caused by a shift in the market dynamics, as people remain more cautious when it comes to crowded environments. The way companies will succeed to reposition the value of their spaces will influence the amount of resources that they need in order to recover and thrive in the next period⁷. In the context of the COVID-19 pandemic, commercial real estate companies in Romania are strongly considering the new requirements of the market and of their tenants in terms of space configuration, as almost three thirds (71%) of respondents believe that the reconfiguration of spaces will be more and more frequent in the next period.

Additionally, they anticipate a **reconfiguration of the rental models**, as 64% of the respondents highlight that barter contracts and exchange agreements could emerge in the “next normal” for the industry.

The reconfiguration of space volume and of the rental models might not be enough to keep tenants and end users’ satisfaction to a high degree. In these situations, property management processes might need to speed up, become more cheap and efficient and **technology** could not only be the answer to a momentary issue, but the key to success on the long run.

The latent flame of proptechs

Commonly known as an ecosystem of start-ups and emerging growing companies that offer technology-enabled, innovative products and services, **proptech** addresses both commercial and residential real estate markets. PropTech emerged as the spearhead of a profound digital transformation roadmap for commercial real estate companies, in an industry that has been slowly leveraging technology. The proptech field already raised over \$43 billion in funding worldwide since 2012, according to Deloitte Real Estate Predictions 2020 study. The study also emphasize that the future of proptech is promising considering that the field has the same funding size as

fintech did in 2013, a sector which registered a growth of 44.8% (CAGR) since then.

Even though the proptech sector it is at the early stage in Romania, the COVID-19 pandemic might have also raised the bar for them, as half of the surveyed respondents believed that this is the proper context for the emergence of new business models, including proptech. Proptechs show small return on investment and limited profit margins, therefore their number in Romania is very limited. Additionally, the sale-purchase process is very complex and requires the interaction of several players on the market.

Post-pandemic scenarios: digital transformation and liquidity

Technology might have gotten the deserved attention in the context of the COVID-19 pandemic from commercial real estate, a sector that until recently could have been classified as one where decisions are made not very easily. Nevertheless, key players of the industry quickly turned towards a more opened approach of what **digital transformation** involved and finally towards its adoption, for both a tactical and a strategic approach. Such is the case of one of the largest property developers, which in August 2020 implemented a virtual presentation platform, developed by a **proptech** start-up, aiming to automate the leasing process of one of its most recent projects. For the Romanian market, technology proved to be of great help for CRE companies during the COVID-19 pandemic and it will continue to be in a post-pandemic context, as it is the

first most important capability that needs to be developed in the view of 80% of respondents.

On the same level of importance with technology, **liquidity** issues seem to be a pressing matter for key players of the sector in a post-pandemic scenario. The Romanian real estate sector has a general liquidity indicator standing at 73% in June 2020 compared to 108% of the same month of the previous year, with the duration of the cash conversion cycle being estimated at 915 days on average, compared to 97 days in the economy⁹. These indicators emphasize that liquidity will continue to be a challenge for the Romanian commercial real estate players, as 80% of the respondents consider the availability of resources to meet cash needs an important asset even when the health crisis will come to an end.

Creating a digital connection with the online consumer and redefining commercial real estate footprints

The pandemic shifted consumers' behavior, making them more inclined to shop online, and pave the way to a habit that it will probably have a long-lasting resonance for the sector. In this context, the question is not if commercial areas will still matter in the future or not but in which manner they will need to respond to this shift in order to thrive. When asked what the main threats of their businesses are in a post-pandemic era, almost half of respondents (46%) mentioned that the rise of e-commerce among their first choices. In essence, e-commerce needs to be seen as an opportunity more than a risk in itself and players need to capitalize it by **creating a digital connection with the online consumer**. Offering convenience, new distribution and logistics capacity, enhancing technology in order to achieve digital transformation might just be few of the initiatives that can help companies take the long view of the crisis that the pandemic unfolded and make the transition to the new e-commerce reality.

On the same note, according to leaders, a rising preference for **remote work** might also be one of the trends that could raise concerns for the industry in the post-pandemic context. This is a legitimate concern, as more than 60% of respondents, which participated in Deloitte Global Millennial Survey 2020, say they want the option to work remotely more frequently, even after the pandemic fades. On the long term, players in commercial real estate will need to prepare for the future of work and consider adopting a progressive approach, supporting a hybrid workforce – from home and in the office-, or a more visionary one, in which companies encourage autonomy and remote work. These two scenarios involve **redefining the organizational culture** by maintaining productivity and ensuring a safe working environment for the employees, but also a **reorganization of the workspaces**, which might lead to a decrease in volume of the space used.

Endnotes

¹COVID-19 implications for commercial real estate. Preparing for the “next normal”, Jim Berry. The Deloitte Center for Financial Services. May 1, 2020

²Deloitte Commercial Real Estate Outlook 2021;

³The National Institute of Statistic data on construction works in 2020, available on February 15, 2021;

⁴The National Institute of Statistic data on investments, available on December 10, 2020;

⁵COVID-19 vaccine outlook prompts businesses to dust off return-to-office plans. Peter Grant, The Wall Street Journal, December 29, 2020;

⁶Deloitte State of Consumer Tracker Survey;

⁷Deloitte Commercial Real Estate Outlook 2021;

⁸The Romanian National Bank, Report on the financial stability, June 2020;

⁹Deloitte Commercial Real Estate Outlook 2021;

About Deloitte Romania Commercial Real Estate Survey 2021

In November 2020, Deloitte Romania surveyed executives and board members among Romanian commercial real estate owners, developers and investors through an online questionnaire, which focused on the effects of the COVID-19 pandemic over the industry, the predictions for 2021 and the issues that companies need to focus in order to thrive in a post-pandemic era.

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