

Bucharest

City Report

Q3 2020



Romania during the COVID-19 pandemic

267,088

COVID-19 cases reported
as of November 4th 2020

€219 bn.

2020 GDP
August 2020 forecast

471,000

Total unemployed
September 2020

Source: National Institute of Statistics; National Commission for Strategy and Prognosis

Macroeconomic overview

The second wave of the COVID-19 pandemic hit Europe and Romania hard towards the end of Q3. The economic impact was seen in a drastic reduction of the official GDP growth prognosis, from -1.9% in April, to **-3.8%** in August, according to the National Commission for Strategy and Prognosis.

The latest prognosis issued by the World Bank, in October, is even more pessimistic, estimating the country's economic growth for 2020 to **-5.7%**. This is to be followed by a 4.9% growth rate in 2021.

Also in October, the **International Monetary Fund** expected Romania's real GDP growth rate to fall to **-4.8%** in 2020.

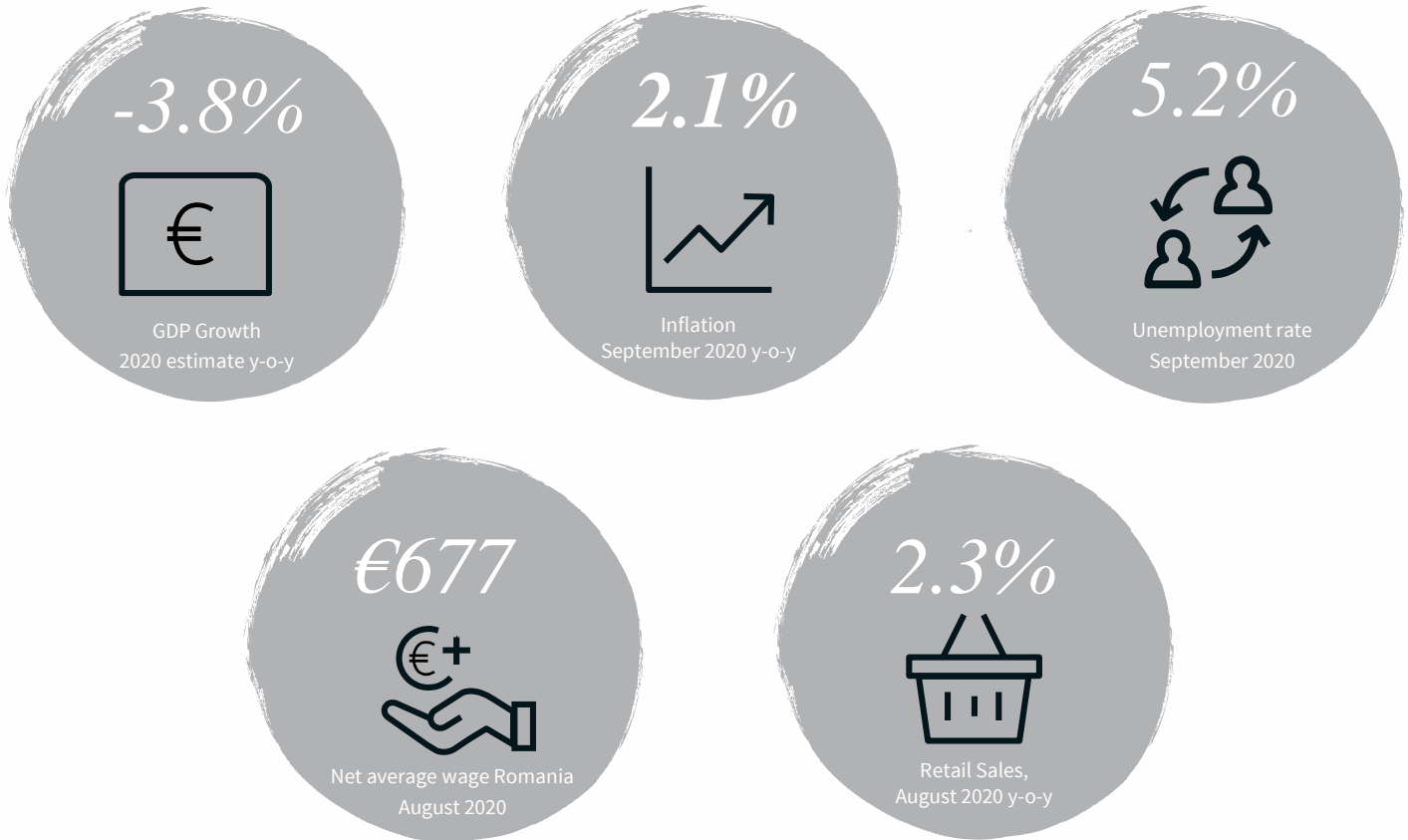
The **EU Commission's** Summer 2020 Economic Forecast, released in July, estimates for Romania a GDP contraction of **-6%** in 2020, followed by a **4%** recovery in 2021.

Unemployment

Before the COVID-19 outbreak, the National Institute of Statistics reported for February 2020 a **3.9% unemployment** rate in the country, which rapidly increased to **5.2%** in May, accounting for a total of 463,000 unemployed, as many businesses slowed down their activity because of the pandemic. Thus, the number of unemployed people grew by **111,000** between February and May.

The unemployment rate reached as high as 5.4% in July, accounting for 484,000 unemployed people. Afterwards it started to decrease to 5.3% in August and to 5.2% in September, when the total number of unemployed people was 471,000.

Economy & Investment



Source: National Institute of Statistics; National Commission for Strategy and Prognosis

Investment Market

Q3 2020 property investment volume for Romania is estimated at €408 million, a value approximately 68% higher than the one registered in the same period in 2019. For the first nine months of 2020, transactions volume reached **€816 million**.

Even though expectations for Q3 were not very high, considering the emergence of the second wave of the COVID-19 pandemic, the investment volume was boosted by the closing of one of the largest deals ever signed in Romania, the acquisition of the NEPI Rockcastle's office portfolio by AFI Europe, a deal worth approximately **€307 million**, which includes several properties in Bucharest and one in Timisoara, with a total GLA of almost 120,000 m².

The second largest deal closed during Q3 was the sale of the 37,500 m² GLA office complex Floreasca Park in Bucharest. The project was sold by GLL to Resolution Property Investment Management and Zeus Capital for an estimated €101 million.

Although the road ahead is marked by uncertainty, considering the persistence of the COVID-19 pandemic and the restrictions associated with it, there is a consistent pipeline of deals which could be closed in the near future and throughout 2021.

Both prime office and retail yields were resilient in Q3, standing at 7%, while prime industrial yields remained at 8%. Prime assets with WAULT (Weighted Average Unexpired Lease Term) significantly longer than the market average can achieve yields below those quoted as prime. The impact of the medical emergency in Romania as well as in the rest of Europe on yields will probably be seen towards the end of the year and especially in 2021. Product quality will make a big difference in terms of achievable yields.

Prime Yields in Q3 2020

7.00%



Shopping Centre

7.00%



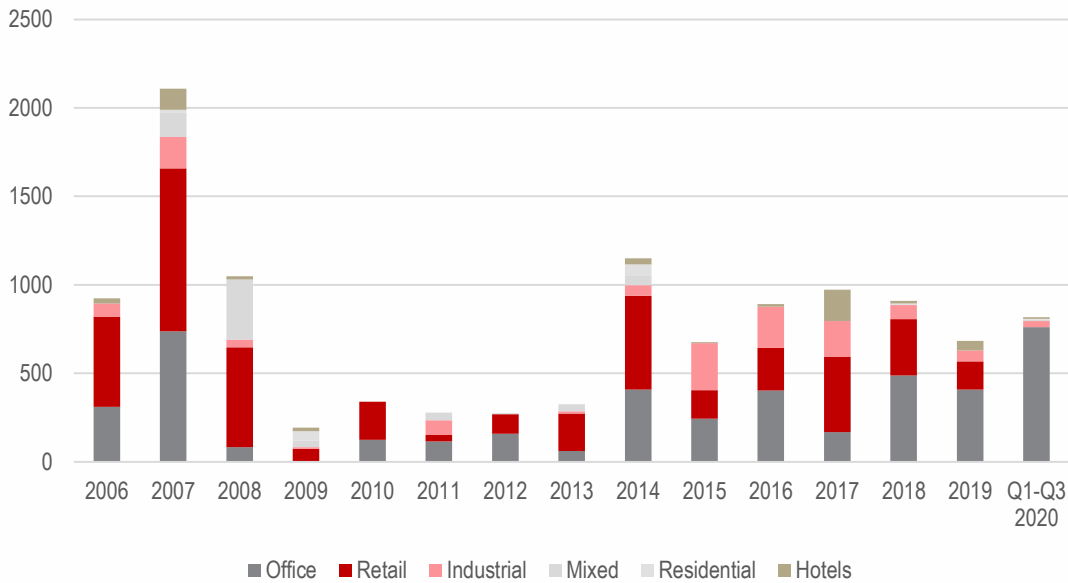
Office

8.00%



Industrial

Romania Investment Volumes (€ million)



Key Investment Transactions in Q3 2020

Sector	Property	Market	Est. Price (€ million)	Seller	Buyer
Office	NEPI Office portfolio	Bucharest, Timisoara	307	NEPI Rockcastle	AFI Europe
Office	Floreasca Park	Bucharest	101	GLL	Resolution Property Investment Management and Zeus Capital

Office Market

Demand

After total office demand suffered an almost 55% drop during the first half of 2020 compared to H1 2019, the trend was finally reversed in Q3. Total gross transaction volume reached approx. **63,100 m²**. That is almost the same volume as the one recorded in Q3 2019, of 62,800 m².

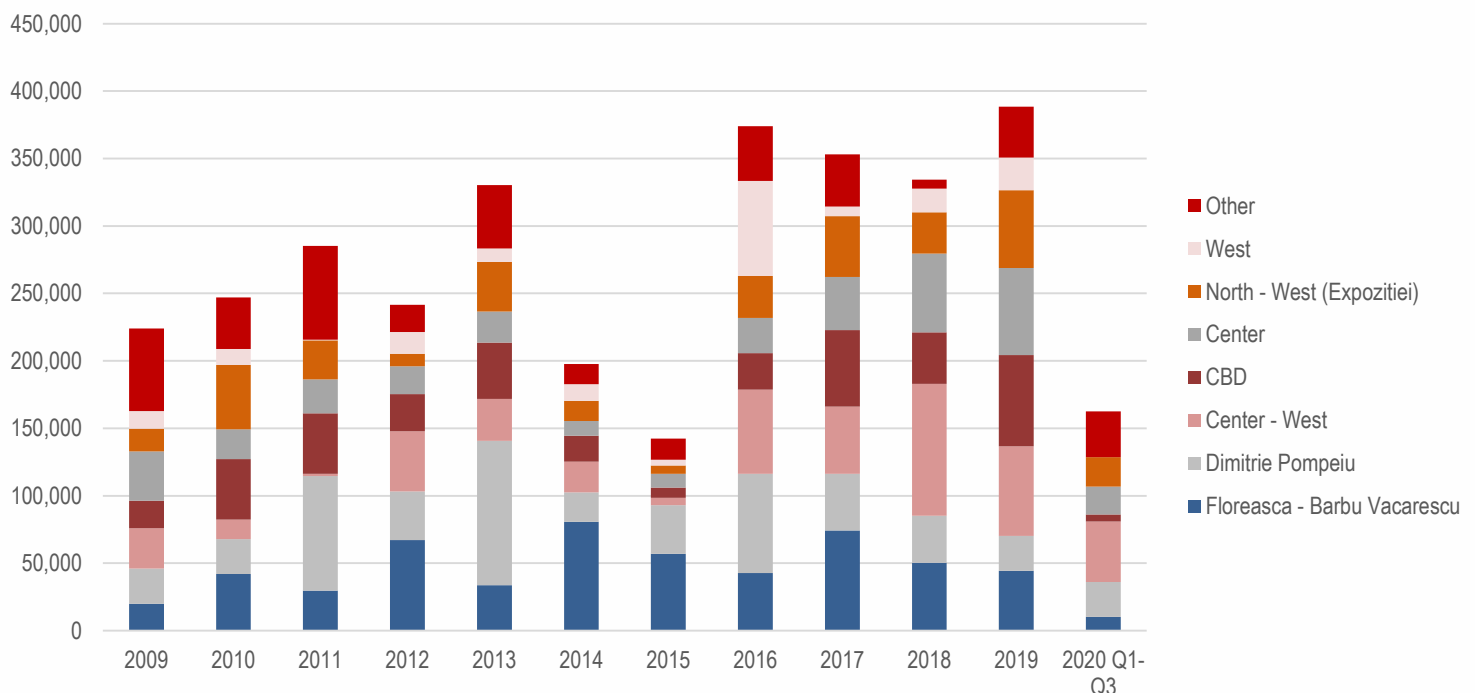
Compared to the previous quarter, in Q3 2020 **gross take up** registered an **over 40% increase**. The average transaction size in Q3 2020 was approx. 1,800 m².

However, even though gross take up was similar to the previous year, net take up in Q3 2020 accounted for only **14,500 m²**, or 23% of gross take, compared to 40,200 m², or almost 70% of gross demand during the same period of 2019. By far, **renewals** had the largest share in total transactions in Q3 2020, with **over 50%**.

This comes at no surprise, considering that during Q3 the whole of Europe was hit by the second wave of the COVID-19 pandemic. Many companies exerted cautiousness and postponed their decisions regarding new office space, while reassessing their overall strategies to cope with the follow out of the pandemic. We don't foresee any major change in market sentiment for Q4.

In terms of vacancy, Q3 experienced a **significant increase**, from 9.3% in Q2, to approximately **10.9%**.

Evolution of Gross Take-up (m²), 2009 – Q3 2020





Deliveries in Q3 2020

Property	Submarket	Size (m ²)	Developer
Campus 6.3	Center-West	17,600	Skanska

Key Leasing Transactions in Q3 2020

Property	Occupier	Contract type	Deal size (m ²)
Miro	KPMG	Pre-lease	8,500
Iride Business Park	P&G	Renewal	6,000
Global City Business Park	Altex	Renewal	5,150
AFI Park	Veeam Software	Renewal	5,000
BOC Upground	Nestle	Renewal	3,700
Willbrook Platinum Business & Convention Center	Samsung	Renewal	3,000
AFI Park	Electronic Arts	Expansion	2,300
The Light	Vego Holdings	Relocation	2,100
Crystal Tower	Reckitt Benckiser	Relocation	2,000

Pipeline for Q4 2020

Property	Submarket	Size (m ²)	Developer
One Tower	Floreasca – Barbu Vacarescu	23,600	One United Properties
Politehnica Business Tower	Center-West	8,000	Politehnica Business Tower
Mincu Offices	Center	4,200	Private local

Office Market

Deliveries

After an increase of the office stock by 106,100 m² during the first half of 2020, only one building was delivered in Q3, Campus 6.3, developed by Skanska in the Center-West sub-market, adding approx. **17,600 m² GLA**.

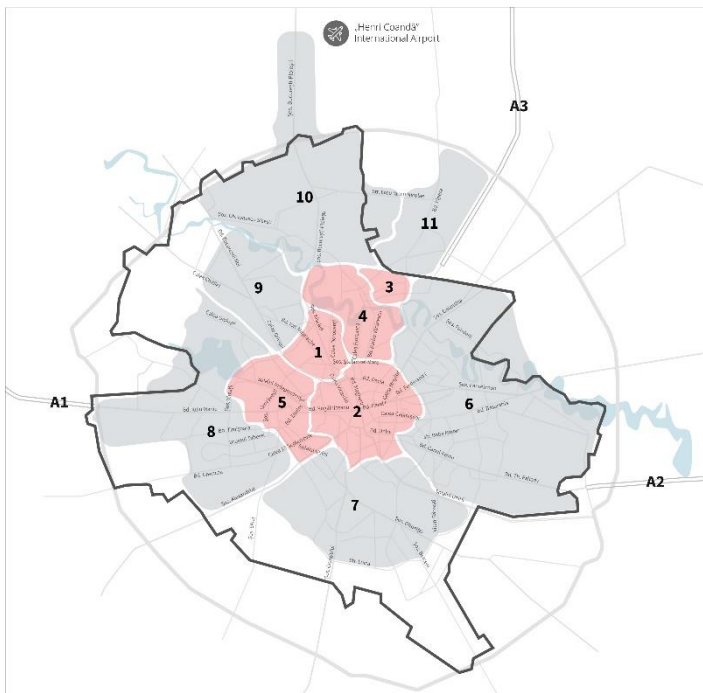
Thus, office deliveries in the first nine months of 2020 totaled 123,700 m², representing approximately 50% of the volume recorded in the same period of 2019, when almost 250,000 m² were added to the market.

Pipeline

Relatively few deliveries are expected for the last quarter of 2020, totaling approximately **35,800 m²**. By far the largest is One Tower, with **23,600 m² GLA**, in the Floreasca – Barbu Vacarescu sub-market, followed by Politehnica Business Tower, with another 8,000 m² GLA in the Center-West sub-market.

Considering that an end for the COVID-19 pandemic is not foreseeable in the near future, combined with a low take-up of office space and new buildings expected to be delivered on the market, we estimate that the vacancy rate will continue to increase during Q4.

Bucharest Office Sub-markets



Sub-market	Stock (m ²)	Average rent (Euro/m ² /mth)	Vacancy %
1. CBD	320,400	16 – 18.5	8.2
2. Center	342,000	15 – 17	7.6
3. Dimitrie Pompeiu	440,700	11 – 13	8.8
4. Floreasca – BV	520,200	15 – 16	9.2
5. Center – West	457,300	14 – 16	13.2
6. East	51,100	12 – 14	15.0
7. South	41,800	10 – 12	0
8. West	157,900	10 – 12.5	0
9. North – West (Expozitie)	222,800	14.5 – 17	6.5
10. Baneasa - Otopeni	159,800	10 – 14	13.0
11. Pipera North	210,500	9 - 11	35.7
TOTAL	2,924,500		10.9

*The updated stock include buildings Class A&B, built after 2000

Retail Market

The retail sector faces challenging times during the pandemic, especially because of the restrictions imposed to contain the spread of the COVID-19 virus.

Overall, retail sale volumes in Romania **decreased** in August by **1.6%** compared to the previous month, but on the other hand showed a small increase by 2.3% when compared to August 2019 (National Institute of Statistics).

Deliveries

No new shopping centers were delivered in Bucharest during Q3. Therefore, the total modern retail stock in Bucharest stood at **1.176 million m²** of GLA at the end of Q3.

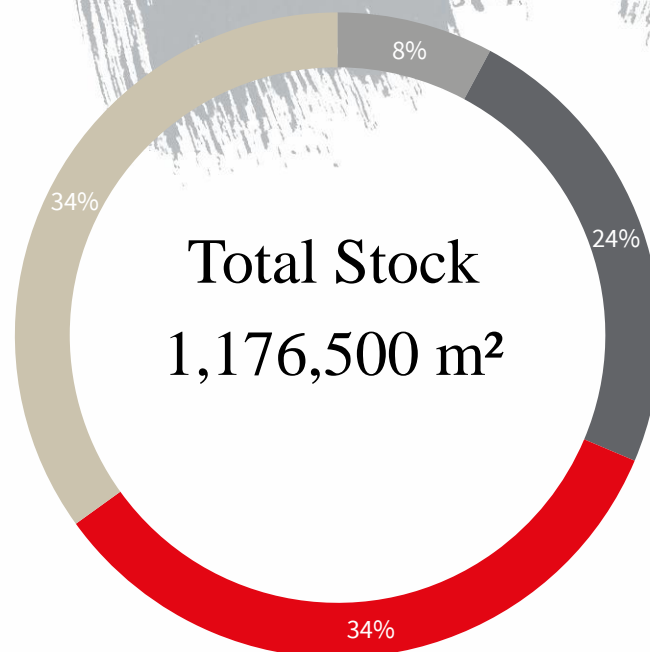
The lack of new projects in the capital was compensated by three new important deliveries in regional cities.

The largest of them was Shopping City Targu Mures, with 39,800 m² GLA. The shopping center was opened by NEPI Rockcastle in July.

The second largest delivery during Q3 was Dambovita Mall in Targoviste, adding 33,000 m² to the regional stock. The project was launched by Prime Kapital in August.

A smaller retail park was delivered in August in Oradea by RC Europe. NEST Oradea added 6,400 m² GLA to the local stock.

Retail Projects in Bucharest by Size



■ Small (5,000 - 19,999 m²) ■ Medium (20,000 - 39,999 m²) ■ Large (40,000 - 59,999 m²) ■ Very Large (>60,000 m²)

*Including all retail formats

Retail Market

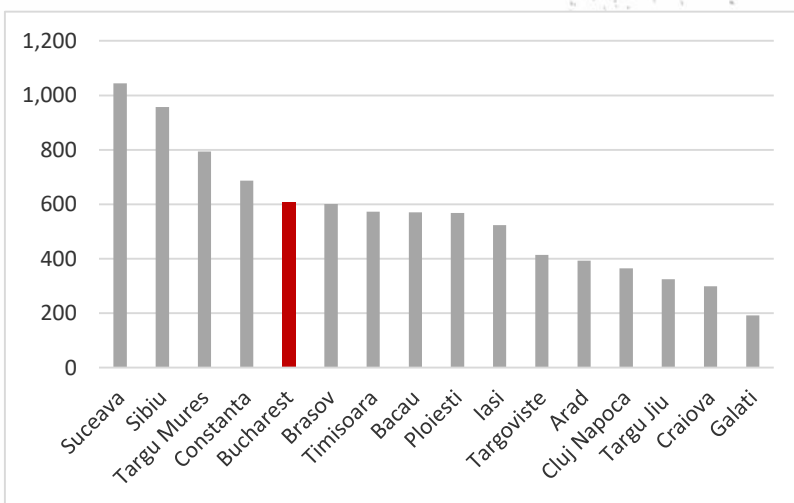
Pipeline for 2020

After 112,200 m² of GLA were completed during the first nine months of 2020, an extra 45,000 m² of GLA will be added in Q4 (AFI Palace Brasov), bringing the annual supply to **157,200 m²** of GLA by the end of the year. This represents a small 8.7% decrease when compared to 2019, when 172,200 m² were completed. All but 6,000 m² (the extension of Veranda Mall in Bucharest) of this year's deliveries are represented by schemes in regional cities.

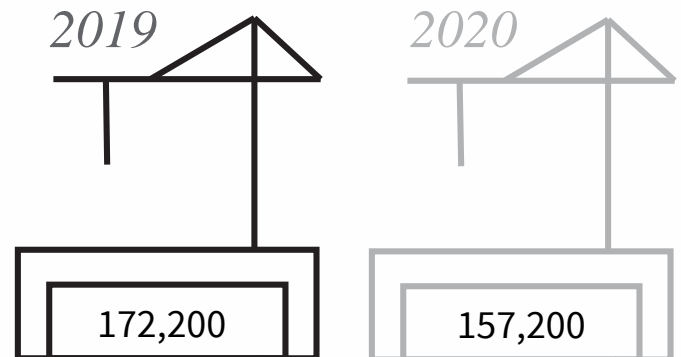
The only major retail project to be delivered in Q4 2020 is AFI Palace Brasov. The 45,000 m² of GLA shopping center is being developed by AFI Europe, who also owns two other major schemes in Romania, AFI Palace Cotroceni in Bucharest and AFI Palace Ploiesti.

Although over 350,000 m² of shopping centers are in the pipeline across Romania, given the current evolution of the pandemic it is not yet clear how many of them will be opened in 2021 and how many will be completed later on, expecting an improvement in market conditions.

Shopping Centre Density (m²) per 1,000 Inhabitants*



Deliveries / Pipeline Romania (m²)



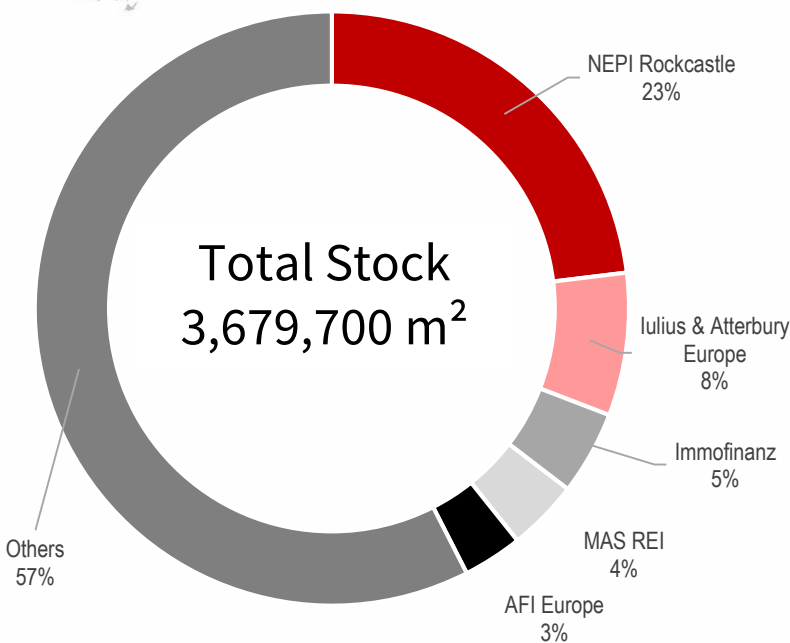
*Including all retail formats

Retail Market

Schemes announced for Q4 2020 – 2021 in Romania (>10,000 m²)

Property	Format	Developer	Size (m ²)
AFI Palace Brasov	New Project	AFI Europe	45,000
Sepsi Value Center Sf. Gheorghe	New Project	Prime Kapital	16,700
Colosseum Mall Bucharest	New Project	Colosseum Mall	16,500
Fashion House Outlet Center Cernica	New Project	Liebrecht & wood	13,000

Largest Owners of Retail Space in Romania



Prime rents (€/m²/month)



*Prime rents relate to a well located 100 m² unit shop from the fashion and accessories category. The unit is part of leading retail assets in the capital city (for retail parks – 2,000 m² units).

Industrial Market

Demand

In Q3 total rental demand for modern industrial and logistics spaces in Romania summed to approx. **123,600 m²**. Net take-up accounted for 84% of the total, or approximately 104,000 m².

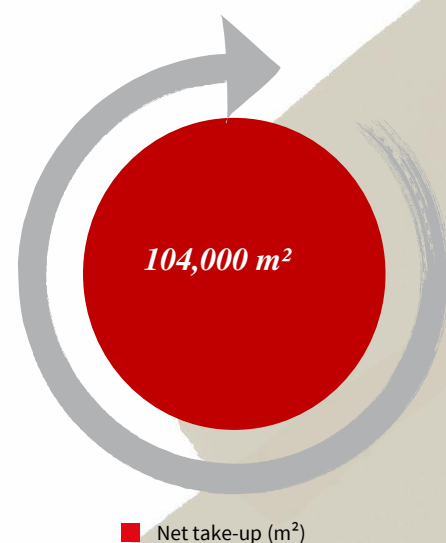
Bucharest had by far the largest share of total demand for industrial and logistics spaces in Q3, respectively 82% (approx. **101,000 m²**), followed by Constanta, with a 8.3% share (**10,300 m²**) and Timisoara, with an over 6% share (**7,600 m²**).

The FMCG sector was the most active during Q3, accounting for 35% of total demand, or **43,600 m²**, followed by the logistics sectors, with almost 22% or 26,800 m².

In Q3 2020 there were 3 transactions reported of at least 10,000 m², the average transaction size being roughly 5,000 m².

Total demand during the first nine months of 2020 reached almost **392,300 m²**, approximately **16%** above the 337,000 m² recorded during the same period of 2019.

Demand in Q3 2020



Key Transactions in Q3 2020

Tenant	Property	Size (m ²)	Deal Type	Sector
LPP	WDP Stefanesti II P3	21,800	Expansion	FMCG
SLS	Bucharest A1	15,500	Relocation	Logistics
eMag	Chitila Logistics Park	12,000	New lease	E-commerce
Bebe Tei	Metav	9,500	Pre-lease	FMCG
Notino	CTPark Bucharest	7,200	New lease	E-commerce
PepsiCo	Constanta Business Park	6,500	New lease	FMCG
Parmafood	WDP Dragomiresti	6,500	New lease	Distribution

Pipeline for Q4 2020 (Selection)

Project	Location	Size (m ²)	Type
CTPark Bucharest West	Bucharest	90,000	Expansion
CTPark Bucharest	Bucharest	30,000	Expansion
CTPark Bucharest North	Bucharest	20,000	New project
General Industrial Park	Sibiu	8,160	Expansion
Network Industrial Park	Sibiu	7,400	Expansion
Olympian Park	Brasov	7,000	Expansion
Imperial Industrial Park	Sibiu	5,350	Expansion

Industrial Market

Deliveries

Approximately **108,500 m²** of new industrial and logistic spaces were delivered during Q3, slightly above the previous quarter.

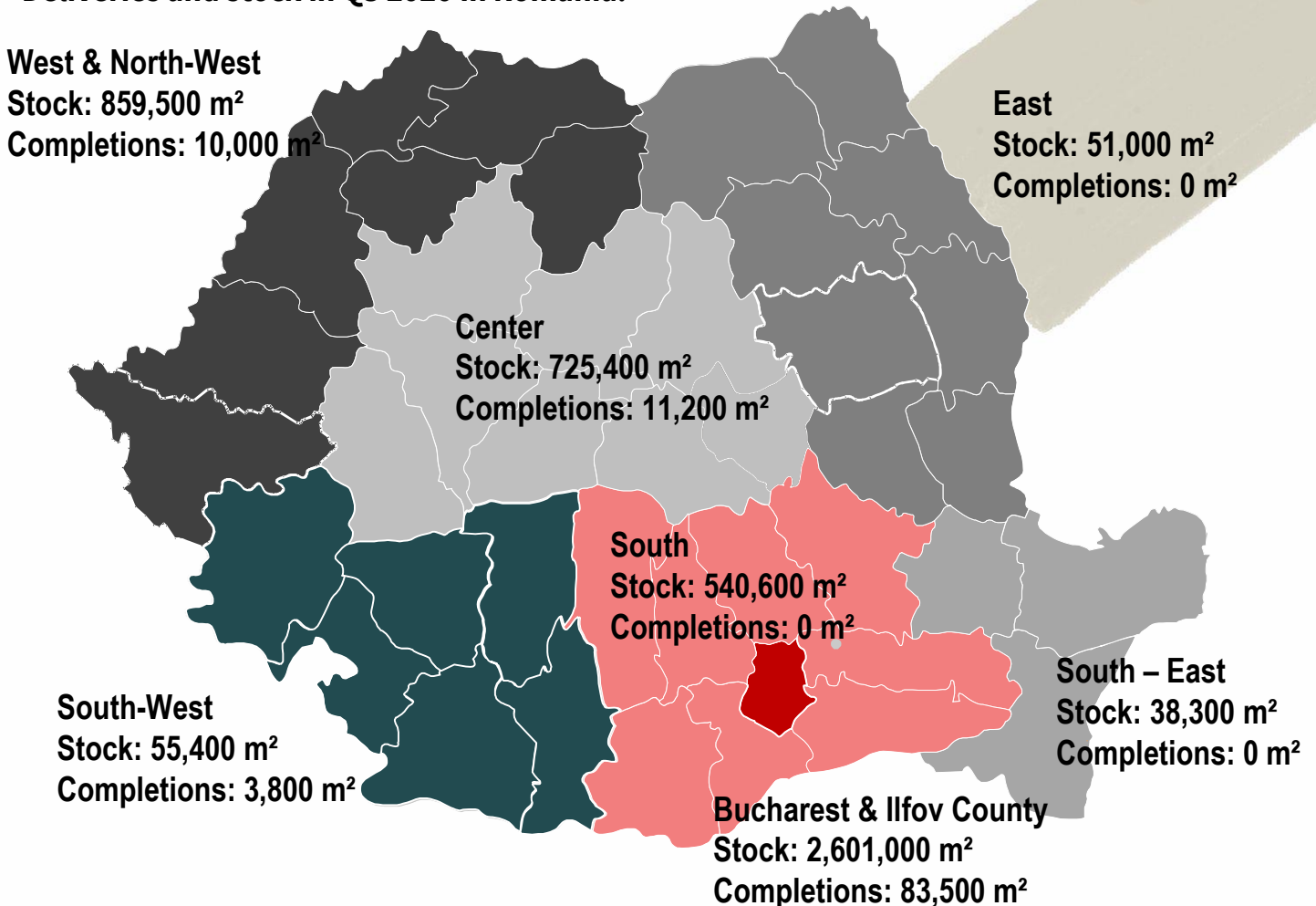
Bucharest & Ilfov accounted for most of the new space, with over 83,500 m², or close to **77% of total deliveries**. The rest was represented by the Center region, with approximately 11,200 m², West & North-West, with 10,000 and South-West, adding another 3,800 m².

Therefore, at the end of Q3 the modern industrial stock to rent in Romania reached over **4.87 million m²**.

During the first nine months of 2020 almost **410,000 m²** of modern industrial and logistics warehouses were delivered nationwide. Approximately 180,000 m² are expected to be added to the stock in Q4, thus bringing the total deliveries for 2020 to almost **600,000 m²**, a value similar to 2019.

The industrial and logistics sector in Romania proved to be resilient in the face of the COVID-19 pandemic and most real estate developers carry on with their plans.

Deliveries and stock in Q3 2020 in Romania:



Industrial Market

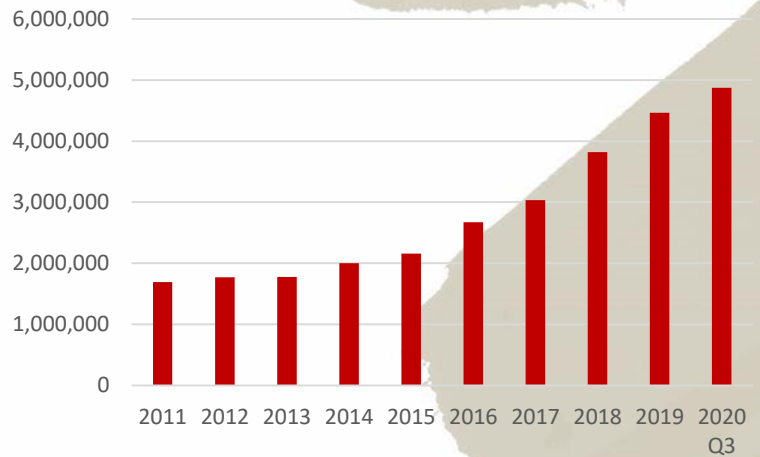
Rents & vacancy

Rents for industrial spaces marginally decreased during Q3 2020, reaching between **€3.6** and **€4.0** /m²/month in Bucharest and its vicinity, and between **€3** and **€4.0** /m²/month in other regions of Romania.

Even though the COVID-19 pandemic is continuing, it is unlikely it will trigger a significant change in market rents for industrial spaces, as demand remains strong.

Vacancy rates **decreased** during Q3 at the national level, from 5.7% in Q2 to approximately **5%**. The same trend was recorded in Bucharest & Ilfov, where vacancy decreased from 6.8% in Q2 to approximately **6%** in Q3.

Total Stock Evolution - Romania (m²)*



Rents by Region

West & North-West
Rents: 3.2 - 4.0 €/m²/month

East
Rents: 3.3 - 3.6 €/m²/month

Center
Rents: 3.5 - 4.0 €/m²/month

South
Rents: 3.2 - 4.0 €/m²/month

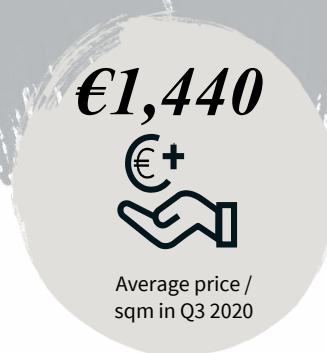
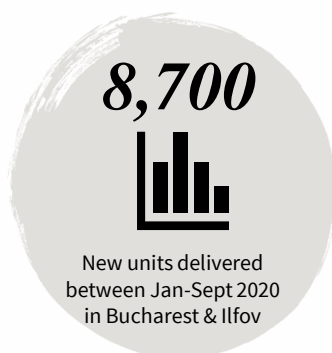
South-West
Rent: 3.0 - 3.7 €/m²/month

South - East
Rents: 3.3 - 3.6 €/m²/month

Bucharest & Ilfov County
Rents: 3.6 - 4.0 €/m²/month

Residential Market

- The third quarter of 2020, marks a more stable market environment, continuing an ascending transactional activity throughout July 2020 (+15%) as in the same period of 2019.
- The last two months of Q3 2020 were not spectacular in terms of transactions volume mainly due to the seasonality and the onset of the second wave of Covid-19 pandemic in Europe.
- Depending on the evolution of the pandemic in the following months and on the possible restrictions that might be imposed we foresee a mild decrease in the demand towards the end of the year.



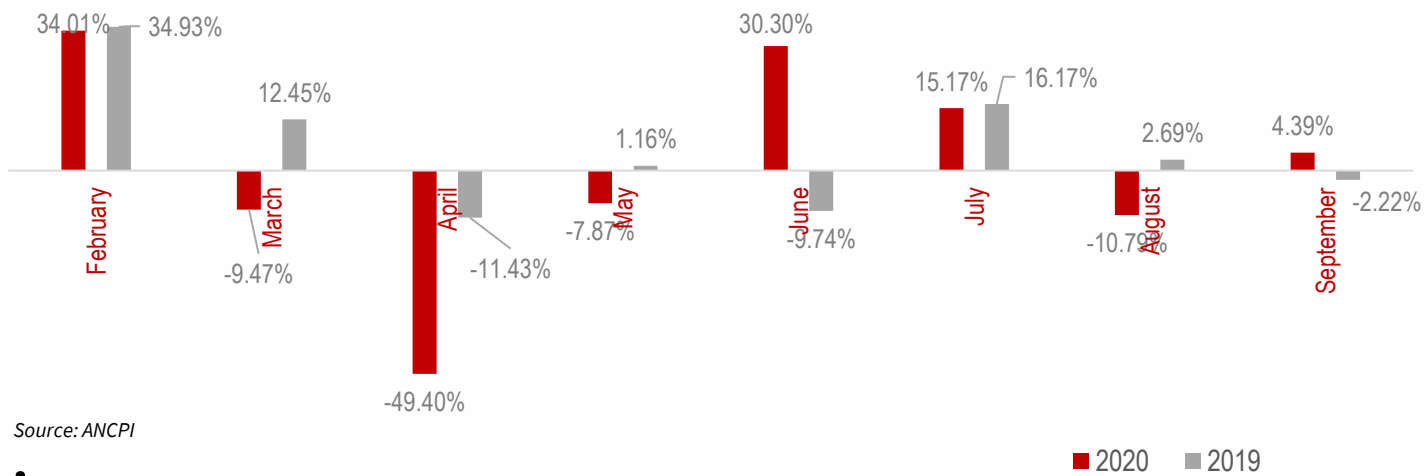
Supply

- The residential supply for Bucharest – Ilfov increased with approximately **8,700 new units** during the first nine months of 2020. **The residential supply in Bucharest was resilient to the pandemic outbreak.** There were no major cancellations registered in construction works, although imposed restrictions led to a slowdown of the activity on most sites in Q2 2020. Moreover, in Q3 2020 we have seen an increased construction activity, as developers launched new phases encouraged by the surprisingly good selling activity. This also motivates them to actively look to secure new lands for future projects.
- After 6 months since the Covid-19 pandemic started, **it is forecasted the new supply in 2020** will not be affected and that it will follow its ascending trend started in 2017. The estimated supply at the end of the year will reach **approximately 15,600 units.** Moreover, given the **delays in construction** completions occurred due to the Pandemic slowdown, the new supply in 2021 will be boosted by an approx. 2,700 more units initially expected for 2020 and moved to the 2021 supply.
- The future residential supply might be increased to some extent by the reconversion of planned office projects into mixed-use projects with a residential component, balancing the development cash flow and providing a sort of safety net during market downturns for commercial properties.
- A new trend is emerging changing the face of the residential products, as more and more developers are introducing a built-to-rent component in their projects or even move towards a fully built-to-rent project. This will set the scene for the foreign institutional investors to place Romania on the multifamily investments map.

Demand

- The level of new units transactions in Q3 2020 was situated somewhere at **5,300 units for Bucharest and 1,050 units for Ilfov**, assuming that 60% of the Bucharest transactions officially registered by the National Agency for Cadastre and Land Registration were with new units, while for Ilfov new sales represent 90% of total transactions.
- This represents a 30% increase as compared to the previous quarter of the year and an 8.8% decrease as compared to Q3 2019.

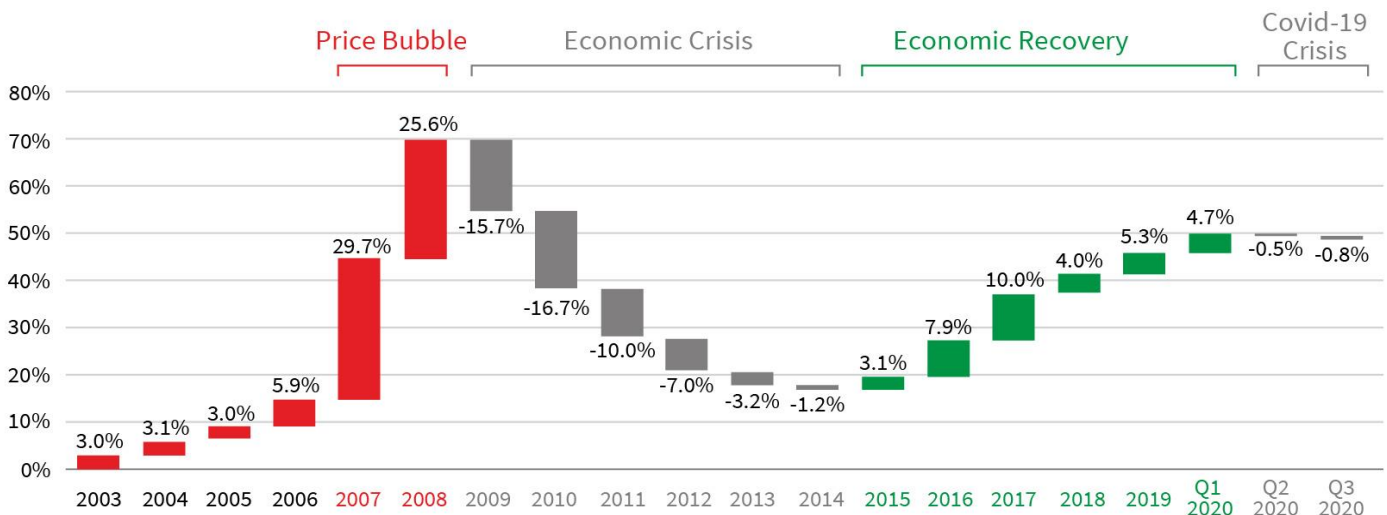
Transactions volume analysis* - monthly evolution y.o.y.



Prices

- Residential prices registered a **0.8% decrease in Q3 2020** as compared to Q2 2020, with an average price of **€1,440/ m²**.
- The market will continue to be **favorable for experienced developers** with a portfolio of apartments already **delivered or in an advanced stage of development**

Evolution of Bucharest Residential Prices (2003 – Q3 2020)



Source: JLL Research, analizeimobiliare.ro

Bucharest Rents and Sale Prices Evolution Q3 2020 vs Q2 2020



*Both rental and selling levels reflect the average asking prices in the market.
*All the properties used in this research are delivered after 2000.

Source: JLL Research, analysis performed in September 2020.

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