

# Bucharest

## City Report

Q1 2020



# Romania during the COVID-19 pandemic

13,837

COVID-19 cases reported as of May 5<sup>th</sup>

€223.6 bn.

2020 GDP  
April 2020 forecast of the National Commission for Strategy and Prognosis

-1.9%

2020 Real GDP growth rate  
April 2020 forecast of the National Commission for Strategy and Prognosis

925,000

Furloughed employment contracts May 7<sup>th</sup> 2020

325,500

Terminated employment contracts May 7<sup>th</sup> 2020

## Macroeconomic overview

Following the onset of the COVID-19 crisis in Romania in March, the economic growth prognosis for 2020 suffered drastic corrections. There are different estimations issued by several institutions (from -6% to 0.3%), all showing decreases from previous estimates, however two showing also a quick recovery in 2021 (3.9% or 4.2%, depending on the source).

If in February 2020 the **National Commission for Strategy and Prognosis** forecasted a **4.1% real GDP growth rate** for 2020, the same as in 2019, in **April** this estimate was already negatively adjusted to **-1.9%**. During the same month, the **World Bank** reduced the country's economic growth outlook for 2020 from 3.8% to **0.3%**. Also in April, the **International Monetary Fund** expected Romania's real GDP growth rate to fall to **-5%** in 2020, from 3.5%, as estimated in October 2019. However, the IMF also predicted that the recession will not last, as the 5% decline will be followed by a **3.9% economic growth in 2021**. The **EU Commission's** Spring 2020 Economic Forecast, released in May, estimates for Romania a GDP contraction of **-6%** in 2020 (from 3.6% in the Autumn forecast), followed by a quick recovery to **4.2%** 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 in March to **4.6%**, as many businesses suspended or slowed down their activity. Thus, the number of unemployed people **grew by 58,000 in only one month**, to 410,000.

Starting with April 1<sup>st</sup>, the Ministry of Labor provides a daily situation on both suspended and closed individual employment contracts since the state of emergency was enforced, on March 16<sup>th</sup>. In April 1<sup>st</sup> there were already over **795,000 furloughed contracts** and almost **156,000 terminated contracts**. By May 7<sup>th</sup> the number of furloughed contracts increased by 16%, to over **925,000**. Moreover, the number of terminated contract more than doubled during the period, reaching over **325,500**.

# Romania during the COVID-19 pandemic

## COVID-19 restrictions during the state of emergency

The first COVID-19 case in Romania was officially reported on February 26<sup>th</sup> 2020. That same day, the Ministry of Health issued an order enforcing a 14 days quarantine for all the people entering the country from certain areas experiencing extended community transmission of the virus.

Starting with March 8<sup>th</sup> all commercial flights to and from Italy were suspended for two weeks by the National Commission for Emergency Situation. This measure was later extended and applied to flights from other countries affected by the COVID-19.

As the number of active cases in Romania started to increase, to counter the spread of the COVID-19 virus, the Romanian Presidency decreed the **state of emergency** on **March 16<sup>th</sup> 2020**. The decree had an initial 30 days validity but was subsequently prolonged for another month, thus taking effect up until **May 15<sup>th</sup> 2020**.

The decree suspended the activity of all public schools, but also enabled for additional urgent measurements to be gradually taken in an effort to contain the spread of the virus. Those measurements were enforced through a **series of military ordinances** issued by the Ministry of Internal Affairs, the **first one** on **March 18<sup>th</sup>**. Among other things, it forbade conducting any public events with more than 100 participants and also suspended the activity of all restaurants and cafes.

**A second ordinance** effectively closed all units inside shopping centers starting with **March 22<sup>nd</sup>** with the exception of food stores, pharmacies and laundry services and restricted free movement during night hours.

**The third military ordinance**, in March 24<sup>th</sup>, restricted all movements of people outside their residences unless for specific, justified reasons (including work). In order to enforce this, all people were required to present to law enforcements special statements on their own responsibility to justify them leaving the residence. Fines were imposed for those who did not comply. **7 other military ordinances** followed up until April 27<sup>th</sup>.

However, at the beginning of May, the Romanian authorities announced that the **state of emergency will no longer be prolonged after May 15<sup>th</sup>**. Moreover, the **restrictions were to be gradually lifted** starting this date.

## Schemes to support the economy

The Romanian authorities launched several instruments and facilities to support both companies and citizens to cope with the restrictions enforced during the state of emergency and to maintain cashflow:

- For the furloughed employees during the state of emergency, the Romanian state **covers 75% of the gross salary**, but no more than 75% of the average gross salary used to substantiate the state social insurance budget.
- For small and medium size enterprises the Government launched in April 2020 the IMM INVEST program, through which the Romanian states **guarantees for up to 80% of the investment loans** of up to 10 million lei (€4.2 million) and working capital loans of up to 5 million lei (€1.05 million).
- Persons affected by the COVID-19 can request until May 14<sup>th</sup> to **suspend the payment of installments**, interests and commissions related to mortgage loans for up to 9 months.
- Companies that paid their **corporate income tax** for the first quarter of 2020 in the legal term (April 25<sup>th</sup>) received a **5%** reduction (if the case of large taxpayers), or **10%** (for the rest).
- The term by which the taxpayers could pay local land and building taxes benefiting from a 10% reduction was extended from March 31<sup>st</sup> to June 30<sup>th</sup>.
- Taxes owed by the companies to the state budget (**VAT, excises, income tax, profit tax**) and those owed to the social insurance budgets (pensions, health) can be paid without penalties up to 30 days after the date the state of emergency is lifted.

Another proposed facility, allowing to **defer the payment of the building rent**, adopted by the Romania Parliament, was pending approval by the Presidency as of May 5<sup>th</sup> 2020. If the law passes in this form, individuals, economic operators, practitioners of liberal professions and legal entities under private law, whose activity has been discontinued or whose income or revenue has decreased by at least 15% in March 2020 compared to the average of the last calendar year, may defer, upon request, without the payment of interest and penalties, the payment of rent for the use of buildings registered as offices, work points or housing for the duration of the state of emergency and for the following month once the state of emergency has ceased.

# Romania during the COVID-19 pandemic

## How companies coped with the COVID-19 limitations

Not surprisingly, the economic sectors which were hardest hit by the COVID-19 crisis and especially the movement restrictions imposed to contain the spread of the virus were **Manufacturing, Retail, Hotel and restaurants**, which together accounted at the beginning of May for **60%** of the total number of furloughed employment contracts. The **Construction** sector was also significantly affected, accounting for **14%** of all the terminated employment contracts in the economy.

However, the IT and service sectors were to a lesser extent affected by the medical crisis as many employees managed to continue their activity by **working from home** during the movement restrictions.

At the same time, several industrial producers started to resume their activity in stages. For example, the Dacia Renault car manufacturer, one of the main exporters in Romania, gradually resumed production activity starting from April 21<sup>st</sup>, following a month in which the workers were technical unemployed.

Furloughed employment contracts			
Economic sector	April 1 <sup>st</sup> 2020	May 7 <sup>th</sup> 2020	% change
Manufacturing	207,688	278,472	34.1
Retail	156,361	166,060	6.2
Hotels and restaurants	110,667	112,873	2.0
Economy total	795,291	925,075	16.3
Terminated employment contracts			
Economic sector	April 1 <sup>st</sup> 2020	May 7 <sup>th</sup> 2020	% change
Retail	30,873	58,837	90.6
Manufacturing	27,174	57,073	110.0
Construction	19,254	46,264	140.3
Economy total	155,675	325,526	109.1

Based on data from the Ministry of Labor

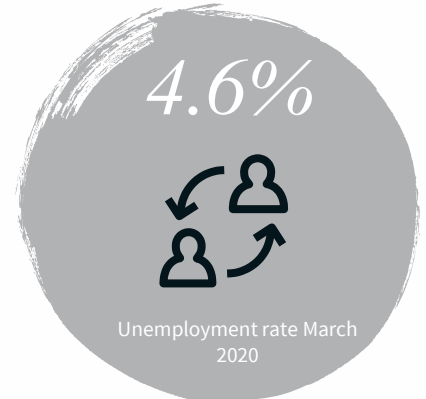
On the other hand, the COVID-19 also produced some winners, most notably those companies focused on online sales. Their business got an unexpected big boost, the growth rate of internet sales quadrupled in March 2020 in comparison with the average growth rate of the same month during 2009-2019. Supermarkets also performed well during the crisis, unlike other retail formats, such as department stores, which had much to suffer.

### Retail trade volumes growth rates compared with the previous month (%)

	Total retail		Supermarkets		Department stores		Internet	
	Average March 2009-2019	March 2020	Average March 2009-2019	March 2020	Average March 2009-2019	March 2020	Average March 2009-2019	March 2020
Romania	0.9	-3.6	0.4	2.6	2.4	-4.5	1.2	4.8
EU	0.3	-10.4	0.2	4.4	0.2	-17.8	0.7	2.2

Based on data from Eurostat

# Economy & Investment



## Investment Market

Q1 2020 property investment volume for Romania is estimated at approximately **€145 million**, a value over 21% higher than the one registered in the same period in 2019. For the whole of 2019, transactions volume reached € 683 million.

Expectations for Q1 were much higher, as two large transactions with a combined value of over €400 million should have been concluded in Q1 including the sale of NEPI Rockcastle's office portfolio in Romania. However, none of these were closed in the end.

The **average deal size decreased by almost 40%**, from €23.6 million in Q4 2019 to approx. €14.5 million in Q1 2020. Bucharest accounted for approx. 63% of the total investment volume in Q1 2020, or almost 91.5 million due to several office transactions (mainly a 50% stake in Renault Bucharest Connected, sold by Elgan Group to Globalworth) and the sale of Equest Logistic Park by Forum Serdika to CTP.

Overall, market volumes in Q1 were dominated by office transactions (approx. 54%), while industrial accounted for almost 31%, the rest being small mixed use, hotels and residential properties.

The largest transaction registered in Q1 2020 was the acquisition of the 50% stake in Renault Bucharest Connected, an office property with a GLA of 47,000 m<sup>2</sup>, by Globalworth, the latter thus becoming the sole owner of the property

The end of Q1 marked the onset of the COVID-19 medical emergency in Europe and Romania. The measures taken to limit the spread of the virus have caused significant uncertainty with a strong impact on the investment market so far, postponing many of the ongoing transactions. At this time, the total investment volume for 2020 cannot be accurately estimated, as the global medical COVID-19 emergency is ongoing, and many restrictions are still in place. Emergency measures are to be lifted in Romania mid-May, so we expect to have a better understanding on the extent of the impact of the new virus for the economy and the real estate market at the end of Q2.

Both prime office and retail yields at the end of Q1 remained at 7.00%, while prime industrial yield was 8.00%. 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, if any, will probably be seen during the second quarter of the year. As the market has become more complex, there are large yield differences between prime and secondary properties.

### Prime Yields

7.00%



Shopping Centre

7.00%



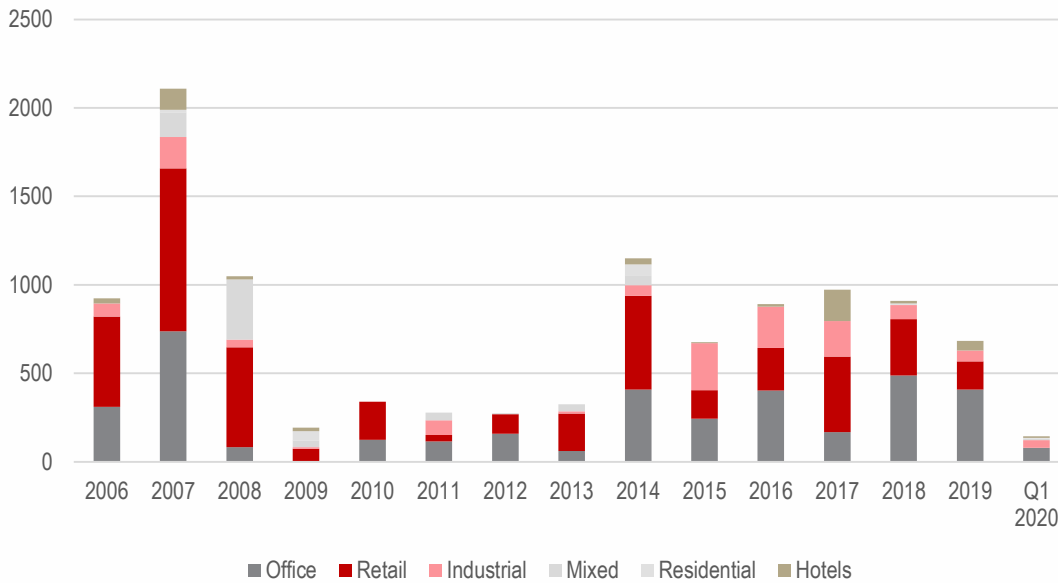
Office

8.00%



Industrial

### Romania Investment Volumes (€ million)



### Key Investment Transactions in Q1 2020

Sector	Property	Market	Est. Price (€ million)	Seller	Buyer
Office	50% in Renault Bucharest Connected	Bucharest	>35	Elgan Group	Globalworth
Office	3 office buildings portfolio	Cluj-Napoca	30	Hexagon	Ideal Projects Services
Industrial	Equest Logistic Park	Bucharest	30	Forum Serdika	CTP
Office	Astoria Office Building	Bucharest	8	Bluehouse Capital	Confidential

# Office Market

## Demand

After the strong demand in the last quarter of 2019, Q1 experienced an almost 50% crunch in the demand for office spaces in Bucharest. Total gross transaction volume reached approx. **55,000 m<sup>2</sup>**. That is nearly half the volume recorded in Q4 2019, as well as in Q1 2019. The average transaction size in Q1 2020 was almost 1,500 m<sup>2</sup>.

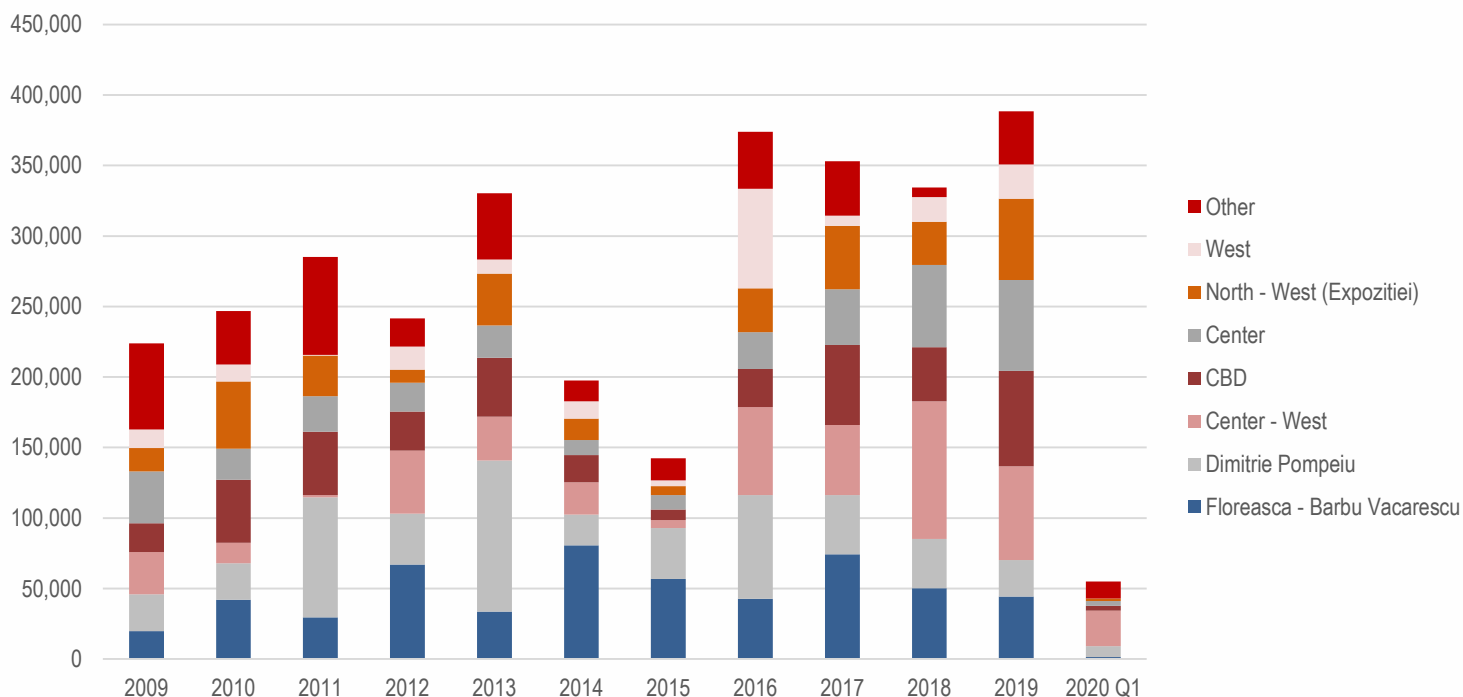
Net take up accounted for **19,200 m<sup>2</sup>**, or 35% of gross take up during the period. Compared with net take up Q1 2019, it stood at 46%.

Although expectations were high at the start of the year, following a strong 2019, the onset of the COVID-19 pandemic in Europe towards the end of Q1 abruptly decreased the momentum, also seen in lower transaction volumes.

As the medical emergency unfolds, we can expect a further decrease in demand during Q2. At this time, it is difficult to estimate take up volumes for 2020, as there are many unknown factors and uncertainties related to COVID-19.

In terms of vacancy rate, Q1 experienced a **slight increase**, from 7.7% in Q4, to **8.7%**, after strong deliveries in Q1.

### Evolution of Gross Take-up (m<sup>2</sup>), 2009 – Q1 2020



*In Q1 2020 the office sub-markets have been updated. All historical data has been adjusted accordingly.*

€18.5



Prime rents (€/m<sup>2</sup>/month)

55,000



Gross take-up Q1 2020 (m<sup>2</sup>)

19,200



Net take-up Q1 2020 (m<sup>2</sup>)

8.7%



Vacancy Q1 2020

### Deliveries in Q1 2020

Property	Submarket	Size (m <sup>2</sup> )	Developer
Ana Tower	North-West Expozitiiei	34,700	Ana Holding
Victoriei 109	Center	7,000	Hagag
Mendeleev Office 5	Center	4,500	Akcent Development

### Pipeline for 2020 (selection)

Property	Submarket	Size (m <sup>2</sup> )	Developer
One United Tower	Floreasca – Barbu Vacarescu	23,600	One United Properties
The Bridge ph. 3	Center-West	20,200	Forte Partners
Campus 6.2 & 6.3	Center-West	36,900	Skanska

### Key Leasing Transactions in Q1 2020

Property	Occupier	Contract type	Deal size (m <sup>2</sup> )
AFI Park 2	EA Games	Renewal	11,900
City Offices	BRD – Societe Generale	Relocation /consolidation	9,000
BOC	Honeywell	Expansion	4,400
One Cotroceni Park	SII Romania	Pre-lease	3,800
The Light 1	MindGeek	New lease	2,900
Globalworth Campus A	Dell Services	Expansion	2,300
One Cotroceni Park	Deutsche Bahn	Pre-lease	2,200
Campus 6.3	Societe Generale (EBS)	Expansion	1,700
Orhideea Towers	MassMutual	New lease	1,300
Expo Business Park	Cargo Partners	New lease	1,000



# Office Market

## Deliveries

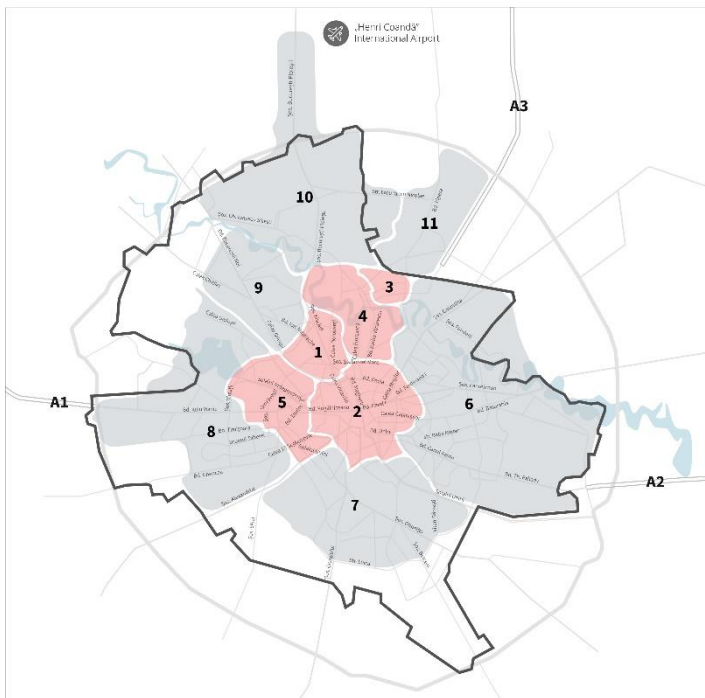
After strong deliveries during 2019, the same pace was kept in Q1, the office buildings completed during the period adding **78,200 m<sup>2</sup>** to the modern office stock in Bucharest. The largest projects completed in Q1 were Ana Tower, in the North-West Expozitiei sub-market, with **34,700 m<sup>2</sup>** GLA and the third building of Globalworth Campus, in the Dimitrie Pompeiu sub-market, adding **32,000 m<sup>2</sup>** GLA. Deliveries in Q1 2020 represent approximately 84% of the volume recorded in Q1 2019, when 92,800 m<sup>2</sup> were added to the market.

## Pipeline

Several important deliveries are awaited for the next three quarters of 2020, totaling 105,000 m<sup>2</sup>. Among these is for example One United Tower, adding **23,600 m<sup>2</sup>** to the Floreasca – Barbu Vacarescu sub-market, plus the third building in The Bridge projects and the second and third buildings in Campus 6, all in the Center – West sub-market, totaling **over 57,000 m<sup>2</sup>**.

Considering the ongoing COVID-19 pandemic, combined with significant new deliveries in the market, we estimate that the vacancy rate is likely to increase in 2020.

### Bucharest Office Sub-markets



Sub-market	Stock (m <sup>2</sup> )	Average rent (Euro/m <sup>2</sup> /mth)	Vacancy %
1. CBD	325,235	16 – 18.5	5.5
2. Center	357,777	15 – 17	6.7
3. Dimitrie Pompeiu	459,567	12 – 14	7.7
4. Floreasca – BV	533,245	15 – 16	3.7
5. Center – West	431,341	14 – 16	11.5
6. East	36,300	12 – 14	25.8
7. South	42,000	10 – 12	0
8. West	142,500	10 – 13	0
9. North – West (Expozitiei)	198,866	15 - 17	6.5
10. Baneasa - Otopeni	143,982	15 – 17	9.7
11. Pipera North	174,900	11 – 13	37.6
<b>TOTAL</b>	<b>2,845,713</b>		<b>8.7</b>

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

*During Q1 2020 the office sub-markets were updated.*

*During Q1 2020 the office database was updated. Thus, approximately 200,000 m<sup>2</sup> of office space were removed. These included owner occupied buildings and small buildings, below 2,000 m<sup>2</sup> GLA.*

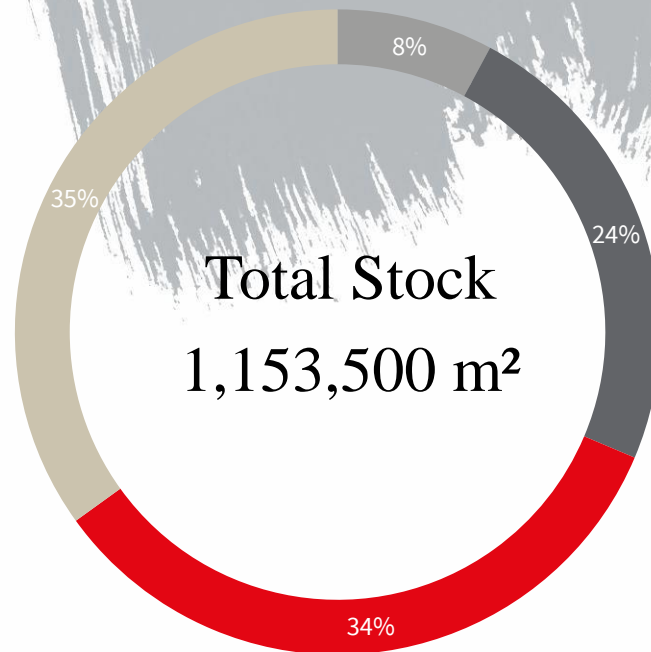
# Retail Market

The retail sector was one of the main impacted by the COVID-19 outbreak. All units inside shopping centers with the exception of food stores, pharmacies and laundry services were closed following the state of emergency decree. Overall retail sales decreased, however online sales volumes were approximately 4 times higher in March 2020 in comparison with the average growth rate of the same month during 2009-2019.

On the supply side, after only 28,300 m<sup>2</sup> delivered in 2019 in major retail schemes in Bucharest, no new retail projects were completed during Q1 2020. However, during this period the roughly 6,000 m<sup>2</sup> extension of Veranda Mall, was opened, also including a multiplex cinema. Therefore, the total modern retail stock in Bucharest reached almost **1.154 million m<sup>2</sup>** of GLA at the end of Q1.

During Q1 there were no new major retail schemes delivered in secondary cities. This follows strong deliveries in the previous quarter, of approximately 110,000 m<sup>2</sup> of GLA nationwide.

## Retail Projects in Bucharest by Size



■ Small (5,000 - 19,999 m<sup>2</sup>) ■ Medium (20,000 - 39,999 m<sup>2</sup>) ■ Large (40,000 - 59,999 m<sup>2</sup>) ■ Very Large (>60,000 m<sup>2</sup>)

\*Including all retail formats

# Retail Market

## Pipeline for 2020

For the whole of 2020, in total **183,500 m<sup>2</sup>** of GLA are expected to be delivered in major retail schemes in Romania, almost 88% of which situated in secondary cities. This represents a small 6.5% increase when compared to 2019, when 172,200 m<sup>2</sup> were completed.

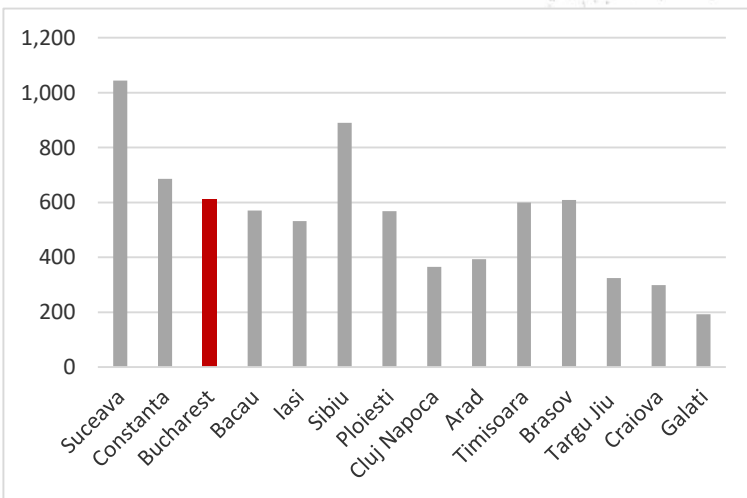
Only 12.4% of all deliveries will be in Bucharest, the main announced opening for 2020 being Colosseum Mall in Bucurestii Noi neighborhood, adding 16,500 m<sup>2</sup> of GLA to the stock.

The rest of the expected deliveries are located outside the capital, with the largest new project announced to be opened by the end of 2020 being AFI Palace Brasov. The 45,000 m<sup>2</sup> 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.

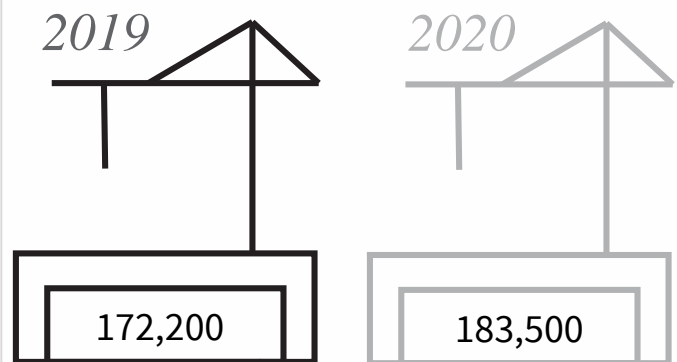
Another large retail project, Shopping City Targu Mures, is expected to be delivered by NEPI Rockcastle during Q2, adding 41,300 m<sup>2</sup> of GLA to the stock.

A 33,000 m<sup>2</sup> of GLA shopping centre, Dambovitza Mall, is expected to be delivered by Prime Kapital in Targoviste, also in Q2 2020.

**Shopping Centre Density (m<sup>2</sup>) per 1,000 Inhabitants\***



**Deliveries / Pipeline Romania (m<sup>2</sup>)**



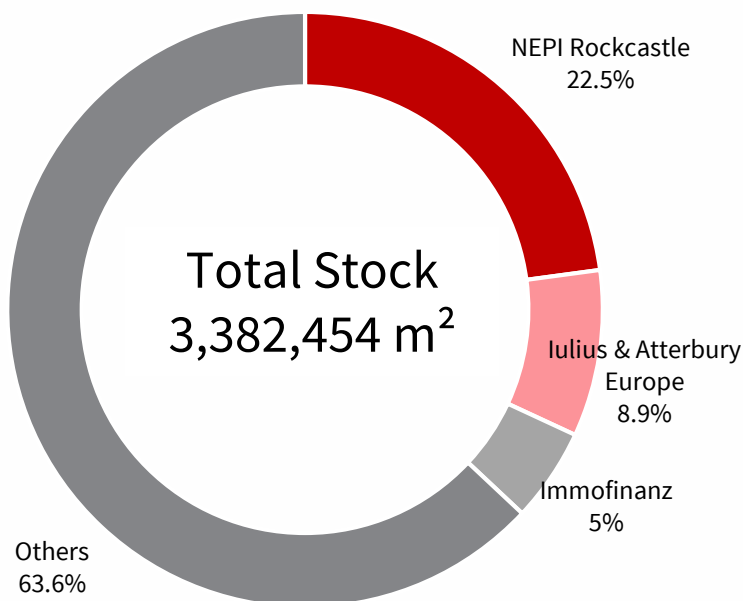
\*Including all retail formats

# Retail Market

## Schemes announced for 2020 in Romania (>10,000 m<sup>2</sup>)

Property	Format	Developer	Size (m <sup>2</sup> )
AFI Palace Brasov	New Project	AFI Europe	45,000
Shopping City Targu Mures	New Project	NEPI Rockcastle	41,300
Dambovita Mall Targoviste	New Project	Prime Kapital	33,000
Sepsi Value Center	New Project	Prime Kapital	16,700
Colosseum Mall Bucharest	New Project	Colosseum Mall	16,500
Prima Shopping Center Sibiu ph. 1	New Project	Oasis Retail Development & Consulting and Supernova	15,000
Prima Shops Timisoara	New Project	Oasis Retail Development & Consulting	10,000

### Largest Owners of Retail Space in Romania



### Prime rents (€/m<sup>2</sup>/month)



\*Prime rents relate to a well located 100 m<sup>2</sup> 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 m<sup>2</sup> units).

# Industrial Market

## Demand

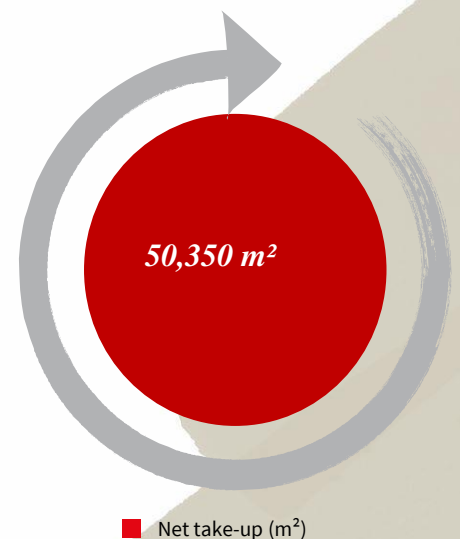
In Q1, total rental demand for modern industrial and logistics spaces in Romania summed up approx. **66,400 m<sup>2</sup>**. Net take-up accounted for 76% of the total.

Bucharest attracted most of the demand for industrial and logistics spaces in Q1, respectively almost 60% of the total (approx. **39,800 m<sup>2</sup>**), followed by Arad (19,100 m<sup>2</sup>) and Timisoara (7,000 m<sup>2</sup>).

The most active tenants in Q1 were from production companies and secondly from logistics operators

In Q1 2020 there were 7 transactions reported of at least 3,000 m<sup>2</sup>, of which 2 transactions of at least 10,000 m<sup>2</sup>.

Demand in Q1 2020



### Key Transactions in Q1 2020

Tenant	Property	Size (m <sup>2</sup> )	Deal Type	Sector
General Electric Power Services	Berceni road	16,100	Renewal	Production
DSV	CTPark Stefanesti West	10,000	New lease	Distribution
Huf	Industrial Park Arad	9,000	New lease	Production
Ericsson	VGP Timisoara	7,000	New lease	Production
Betty Ice/Unilever	ACT Bucharest	4,200	New lease	Distribution
JMA	P3 Bucharest	3,200	New lease	Distribution

### Pipeline 2020 (Selection)

Project	Location	Size (m <sup>2</sup> )	Type
CTPark Bucharest West	Bucharest	183,000	Extension
WDP Stefanesti + Dragomiresti	Bucharest	74,000	Extension
WDP Craiova	Craiova	58,000	New project
WDP Timisoara	Timisoars	58,000	New project
WDP Deva	Deva	44,000	New project
CTPark Bucharest North	Bucharest	40,000	Extension
VGP Timisoara	Timisoara	30,500	Extension
WDP Slatina	Slatina	30,000	Extension

# Industrial Market

## Deliveries

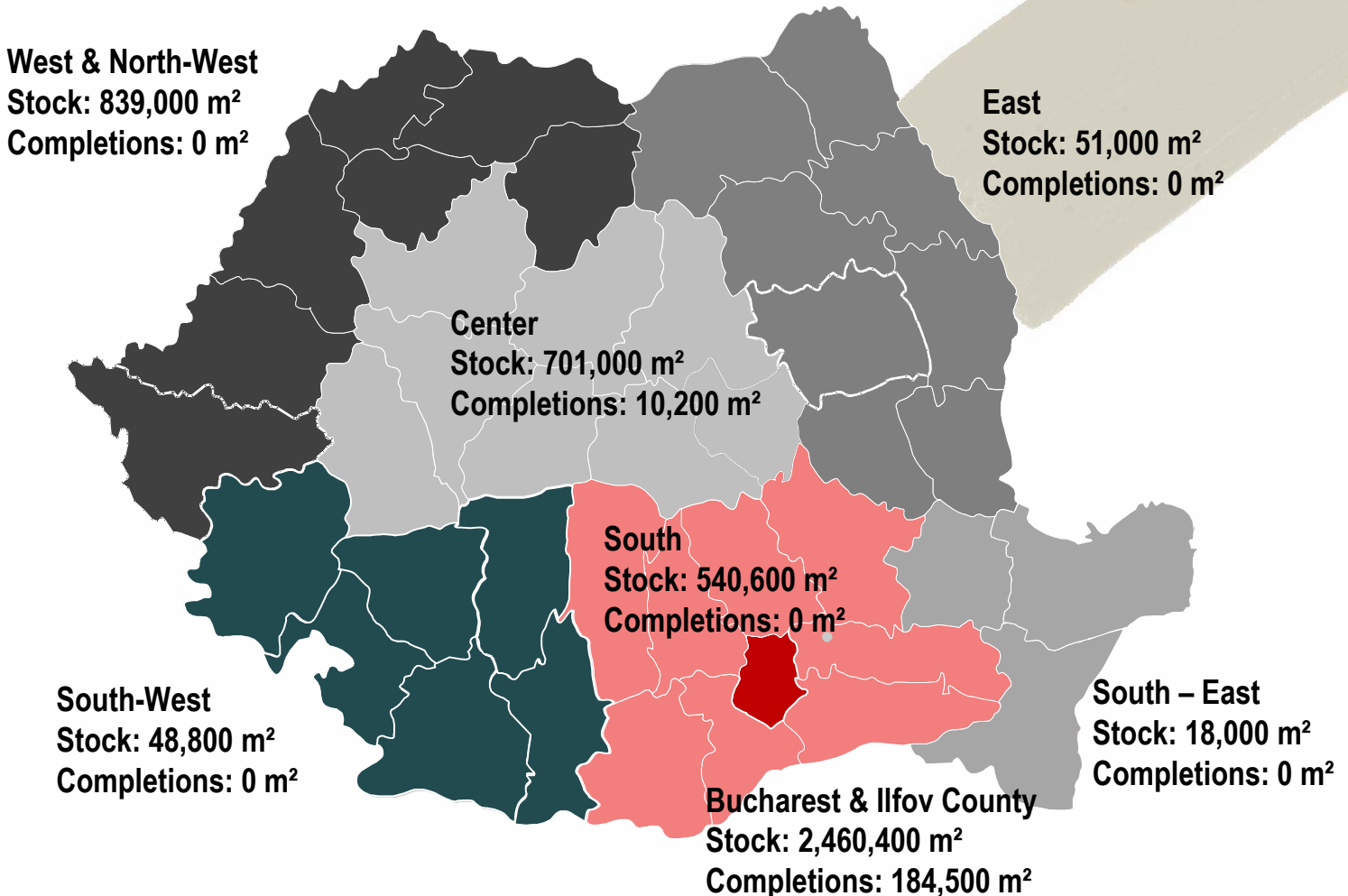
Deliveries of new industrial and logistic spaces were strong in Q1, reaching almost **195,000 m<sup>2</sup>**. However Q1 marked an approximately 30% decrease when compared to the previous quarter.

**Bucharest** accounted for most of the new space, with almost 184,500 m<sup>2</sup>, or close to **95% of total deliveries**. The rest was represented by the Center region, with approximately 10,000 m<sup>2</sup>.

Thus, at the end of Q1, the modern industrial stock in Romania reached **4.66 million m<sup>2</sup>**.

After approx. 650,000 m<sup>2</sup> of modern industrial and logistics warehouses were delivered nationwide in 2019, 2020 looks very promising. So far, the COVID-19 pandemic has not changed much the developers' plans. At least **600,000 m<sup>2</sup>** of new industrial warehouses are expected to be added to the market by the end of the year.

### Deliveries and stock in Q1 2020 in Romania:



# Industrial Market

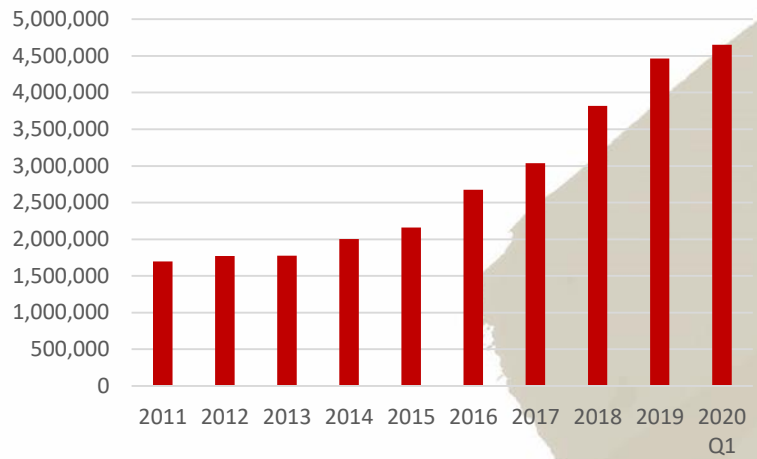
## Rents & vacancy

Rents for industrial spaces remained stable during Q1 2020, continuing the trend of the previous year, between €3.6 and €4.1 per m<sup>2</sup> per month in Bucharest and its vicinity and between €3 and €4.1 in other regions of Romania.

Considering the ongoing medical emergency it cannot be predicted at this time how industrial rents will evolve by the end of the year.

At the national level, vacancy rates remain stable during Q1, with a marginal decrease, from 5.16% in Q4 2019 to 5.05%. Bucharest instead experienced an increase in vacancy rate from 4.9% to 5.84%.

Total Stock Evolution - Romania (m<sup>2</sup>)



## Rents by Region

West & North-West  
Rents: 3.2 – 4.0 €/m<sup>2</sup>/month

East  
Rents: 3.3 – 3.6 €/m<sup>2</sup>/month

Center  
Rents: 3.5 – 4.1 €/m<sup>2</sup>/month

South  
Rents: 3.2 – 4.0 €/m<sup>2</sup>/month

South-West  
Rent: 3.0 – 3.7 €/m<sup>2</sup>/month

South – East  
Rents: 3.3 – 3.6 €/m<sup>2</sup>/month

Bucharest & Ilfov County  
Rents: 3.6 – 4.1 €/m<sup>2</sup>/month

# Residential Market

In the first quarter of 2020 the residential market followed its ascending trend consolidated in the last 5 years, with positive evolution registered for each parameter until March 16th, when the COVID-19 State of Emergency has been officially declared in Romania and the market activity has been significantly diminished.

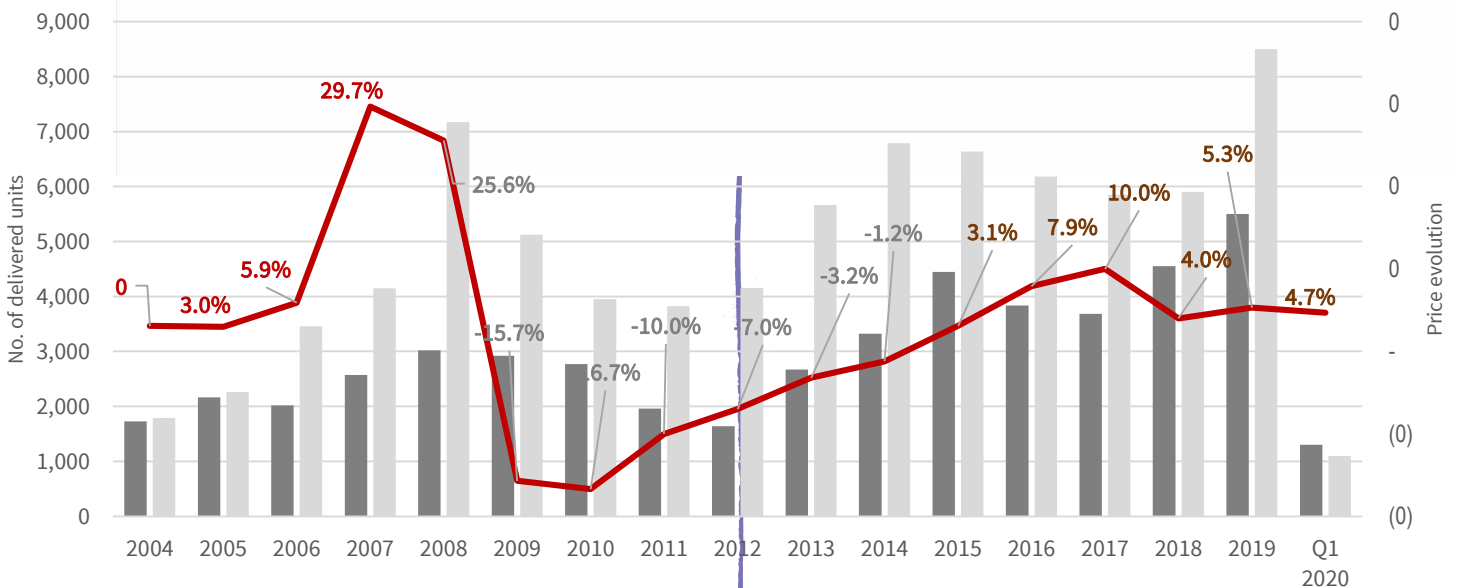
Starting with the second half of March, a high level of uncertainty on the entire economic environment decelerated the residential market dynamics, with developers having their **construction and sales activities slowed down** due to the quarantine measurements, while the **buyers shifted towards a wait-and-see approach**.



## Supply

- The residential supply for Bucharest – Ilfov increased with approximately **2,400 new units** at the end of Q12020. The COVID-19 outbreak initiated in the last two weeks of the first quarter moderately impacted the Q1 2020 new supply. There were no cancellations registered in construction works, although imposed restrictions led to a slowdown of the activity on most sites. As a consequence, an important part of the new projects scheduled for delivery in March 2020 will be postponed for Q2 2020.
- Overall, the new supply in 2020 will remain relatively stable, similar to the 2019 level, even though there might be delays in construction completions. The number of newly supplied apartments could fell by approximately 20% in 2021 reaching approximately **11,000 new units** and continue the downward trend in the next 2 years. Nevertheless, the effects of the current crisis will be clearer on the longer term, when we will be able to evaluate its impact on the projects currently in the planning phase.

**Bucharest Residential Supply and Prices Evolution (2004 – 2020)**



Source: JLL research

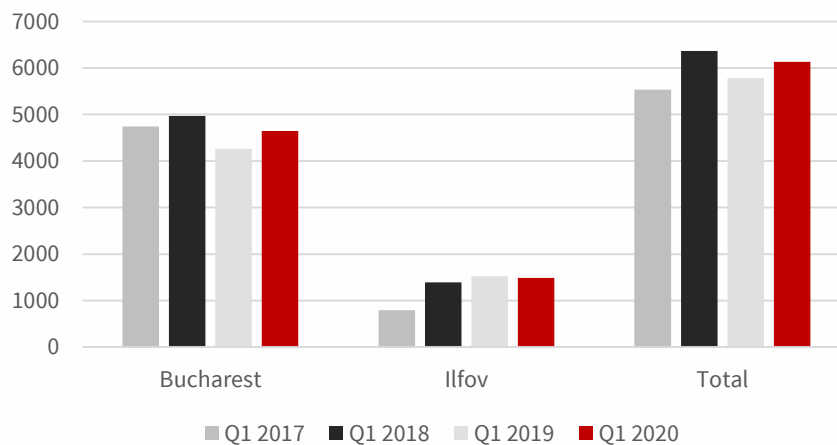
■ Bucharest supply    ■ Ilfov supply    — Price evolution



## Demand

- The demand evolution was relatively stable on a quarter to quarter basis. The level of new units transactions was situated somewhere at **4,600 units for Bucharest and 1,500 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.
- We expect a **short-term abrupt reduction in transactions volume**. This is largely due to people's physical inability to go out and view a potential new home to purchase, alongside a sentiment shock, with people keen to wait and see how the crisis unfolds. Only sales or lettings that were at a sufficiently advanced stage when the state of emergency was decreed are likely to conclude before the restrictions are lifted.
- On the long run, the COVID-19 pandemic will impact the demand for each residential market segment differently, but it is still too early to assess the effects on the number of transactions.

Residential transactions quarterly evolution



Source: National Agency for Cadastre and Land Registration  
 Assumptions: 60% of the total transactions registered in Bucharest are with new units and 90% of the total transactions registered in Ilfov are with new units.

## Prices

- The residential prices registered a stable evolution, continuing their ascending trend in the first quarter of 2020, leveling at an average of **EUR 1,460/sqm**, a **4.7% increase** as compared to the previous quarter.
- After the COVID-19 pandemic outbreak, the larger developers remained in a relatively secure position with solid cash reserves to see them through a short-to-medium term reduction in activity. Once the market will pick up again, the first customers who return to the market may, however, expect discounts and promotions to reward their early renewed confidence. The asking prices will remain stable on the short term, but we will see a **discounting wave with larger margins of negotiation** in order to help sales process.

# Residential Yields

Residential **gross private investment yields vary from 5% to 7%** across Bucharest.

High-end areas, such as Herastrau- Nordului, Kiseleff – Aviatorilor, Dorobanti- Floreasca, Victoriei – Romana – Universitate and Unirii are registering yields of approximately 5% or below.

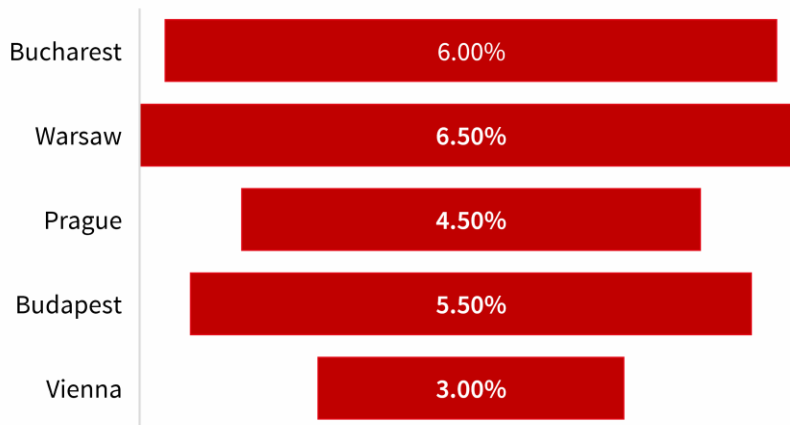
Better return values, averaging above 6.5%, are encountered further away from the city center, in high-density neighborhoods such as Dristor-Vitan, Berceni, Rahova, Crangasi, where market rental values for newly delivered units maintain a high level, while the sales prices are lower on average.

Properties presenting yields of 7% or even slightly above are exceptions and are usually located in areas where the supply - demand ratio is imbalanced, in favor of landlords.

On the other hand, even though lower in return rates, most of the residential investment transactions are registered in high-end areas. A better preserved value in time, stable but constant appreciation of the property’s value and long-term quality tenants create more appealing premises for buy-to-rent scenarios.

Successful investment opportunities in the residential market are emphasized through numerous parameters and thus, the best strategies may not rely solely on the influence of the yield.

## CEE Residential Gross Private Investment Yields



Source: JLL Research

Overall, when assessing future trends of residential investment, we maintain a **reserved-optimistic view**, as the Living sectors have a strong history of **counter-cyclical performance** and investors are unlikely to sell off exposure to the sector.

The star of the Living market will be the **multifamily sector**, which is expected to see the **best performance and minimal changes to occupancy**, as income streams are expected to remain broadly strong for residential assets.

# Bucharest Rents & Sale Prices Levels 2020

5.5  
Militari  
1,050

**Gross average asking rent**  
€/usable sqm/month

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**Average selling price**  
€/usable sqm, excl. VAT



\* Both rental and selling levels reflect the average asking prices on the market.

\* All the properties used in this research are developed after 2000.

Source: JLL Research

## Note:

The Covid-19 pandemic has created a material uncertainty in real estate investment market performance. Across Europe, there is considerable variation in the extent of the human tragedy implications unfolding and its impact on economic activity, including the trajectory, duration and extent of these impacts on all real estate sectors. With varying recent and ongoing policy response across the region and the mitigating implications differing by market and sector, it is too early for us to provide a quantitative and robust assessment of value impact at 31st March, our survey date. In this context, the JLL Q1 2020 real estate performance indices have been held at Q4 2019 values, except where there has been sufficient evidence at sector and market level to make appropriate any reliable adjustments to figures. We will talk to the evolution of the market throughout Q1 in our reporting and will be continually monitoring market movements as the situation evolves, to inform our ongoing view of pricing. We will be updating our forecasts, albeit these will be directional at this time, broadly reflecting any meaningful changes to the underlying fundamentals. Please feel free to contact us if we can assist.

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