TOP 10 PREDICTIONS

ROMANIA

2021

Colliers INTERNATIONAL

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Our traditional (by now) top 10 predictions face a much more difficult task this year in anticipating what may be, as certainties are few to spare at the beginning of 2021 following one of the rockiest years we have seen in a while. We will try to do our best to remain relevant, but as far as we're concerned, the general atmosphere right now could be summarized in: if it is good, it will be a great year, if it's bad, it may turn out terrible, so lower chances for a mid-ground scenario.

1 Uneven, but fairly swift economic recovery

Romania should recover most of last year's losses in economic activity by end-2021, but the path is still fraught with many uncertainties (like in the vaccines' ability to return everyday life more or less back to normal or if monetary policy will start tightening a bit, with deep ramifications in the global economy). Furthermore, the recovery will be quite uneven. Some economic sectors (e-commerce, construction, certain IT&C subsectors) have not blinked at all during the crisis, some should recover by end-2021 (retail trade and professional services in general), some may take years (if ever) to crawl back to a decent activity level (aviation, automotive or tourism). We look for GDP growth in the 4% region in 2021 after a decrease of c.5% last year.

2 Laying the groundwork for future economic breakthroughs

Romania is nearing a decade and a half as an EU member state and it should have gotten the hang of how to bring in EU money. The new pandemic package from the European Commission and the potential for somewhat improved flexibility from the European authorities suggest that we may start seeing some results soon. Romania could attract as much as EUR 80bn in extra capital in the next years, one third of the country's GDP, which should have a much greater impact than in neighbouring countries if correctly utilized. We will carefully look out for signs of breakthroughs with regards to reforms and changes that could greatly accelerate economic development over the medium-term and we are moderately optimistic with respect to this.

3 The pandemic won't be the same, but some things will seem déjà vu

The emergence of coronavirus vaccines and their deployment in many developed countries as of late 2020/early 2021 means that the economies and particularly impacted sectors (like tourism and entertainment) ought to see the light at the end of the tunnel, particularly in the second half of the year. Reaching a reasonable threshold of immunity be challenging in some countries like Romania, which face a bigger percentage of popular skepticism towards vaccination, but it is still doable. We also expect tourism to become more local and more frequent as things return to normal. Then again, 2021 will seem like a déjà vu from some aspects, as the pandemic will still influence things greatly, for instance, in canceling/delaying certain events, bringing ups and downs to economic activity.

4 Remote work to become a new normal

One of the biggest changes to come out of the COVID-19 pandemic, with deep ramifications for various real estate sectors, is the rise of remote work for wide categories of employees. It may be tempting to jump on a bandwagon prophesying something like the end of offices or of big cities as people move to suburbs, but when the dust will have settled, the overall context may end up not that dramatically different. Yes, remote work will become a permanent fixture, but we believe that companies will also want to bring their employees at least 3 days a week in the office in order to foster teamwork and corporate culture. A more significant return to offices of employees is expected around the middle of 2021, with buildings located in residential areas at the forefront, benefiting from a reduced commuting time.

5 Office tenants reign supreme

A robust office delivery calendar is in store, with around 260,000 sqm of modern offices due to be delivered in Bucharest. With a rapidly rising secondary market of sublease alternatives (low range estimates place it at over 2% of current stock at present) and a vacancy rate in excess of 10%, tenants reign supreme. Consequently, it may be a good time for tenants to lock in more favourable leasing terms over the longer run, as we expect that office market conditions should return to neutral in the first half of this decade. As for 2021, things may look worse for landlords before they look better (vacancy set to increase sharply, to c.15-16%, with risks skewed to the upside), though in line with recent trends, good modern buildings are still set to outperform.

6 The I&L boom is far from over

The industrial and logistics market did not blink as the pandemic hit the global economy in 2020, ending its strongest year in history for Romania. 2021 should be no different as recent trends supportive for the development of warehouses remain in place: the rise of e-commerce in a competitive landscape, the need to cater to a rapid expansion of modern retail schemes nationwide, the need to replace the old and uncompetitive stock (including from a safety standpoint). There is also some potential for business amid Brexit and the overhauling of relations between the EU/US and China, but this theme would become viable rather over the medium term. A good pace in infrastructure development (including Bucharest's external ring road) would unlock new markets/locations.

7 Retail under pressure, but there are silver linings

Retail sales have seen a fast V-shaped recovery, but not everybody benefited from this. The growth in e-sales greatly outperformed that of traditional brick-and-mortar stores through 2020 and this trend should hold in the new year. That said, we believe that some retail schemes ought to still do good post-pandemic: the large dominant shopping centers (as these remain major destinations), small proximity schemes and retail parks in towns which have limited modern retail coverage. Rents and vacancy should remain under pressure through 2021 and may not recover until 2022 or even 2023. That said, Romania's higher profitability for retailers and the low stock of leasable modern retail spaces per capita should insulate the market from any major negative news and lead to a good subsequent recovery of losses.

8 Investment deals to dip, but market not soft at all

2020 did not turn out to be a bad year at all; in fact, strictly from a volume perspective, it was one of the better years this past decade, but there is a lot of inertia at play as a new investment deal may take years to be completed. So, 2021 investment market may see a dip in activity from around EUR900mn to around EUR500-600mn. Some buyers may remain on the sidelines amid a lack of clarity about future revenues (particularly regarding better positioned assets in sectors like offices and hotels); on the flipside, we should see much more in terms of distressed assets or properties with a value add angle, which may offer a more attractive proposition for buyers.

9 Diverse opportunities in the land market

Given the considerable number of deals initiated in the recent period (including in 2020), the land market looks set for a good year. Retail (including big box operators) and residential developers will remain the driving force. Demand for land plots for offices and hotels will remain soft and we would not expect things to change too much given elevated uncertainties with regards to the leasing/revenue side. More clarity the latter could help unlock some deals frozen at the start of the pandemic. Pricewise, we expect to see a small downward adjustment on average, which is normal given that there is a lag between economic developments and the real estate scene, though some segments/areas may escape altogether a negative price change.

10 Breather year for residential

One of the bigger surprises of 2020 was the fact that despite the adverse economic reality, the residential market still saw strong demand and modest price gains (on average). This was due to the labour market remaining quite robust, but things look a bit different for 2021. Barring any second-round aftershocks from the pandemic, wage growth has ground to a halt in the private sector and it may take some time to start rising again, while civil servant wages are frozen amid fiscal consolidation. Hence, 2021 should be a bit softer than 2020 for the local residential market. Otherwise, the dynamic cities from an economic standpoint and their outskirts remain attractive in the longer run given Romania's overcrowding problem.

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