

A large white number "1" is positioned on the left side of the page. To its right is a large white circular graphic composed of ten segments, resembling a donut chart. The text "Top 10 Predictions" is centered within the circle, with "Romania" and "2023" below it. The background of the entire page is a night-time photograph of a city street with light trails from cars and various buildings.

# Top 10 Predictions

Romania

2023



# 1

## Top 10 Predictions

2022 was surprising in many ways and 2023 promises to bring more of the same in terms of uncertainties, though new challenges and opportunities are shaping up on the horizon. Geopolitical issues boiled over last year and we have yet to see the full impact that these will have on the global economy, let alone Romania. The same goes for wide-ranging effects of monetary policy tightening in major Western economies. That said, confidence in Romania's longer-term prospects remains intact, as evidenced by foreign direct investments hitting an all-time high in nominal terms; coupled with upcoming hefty public/EU investments in vital infrastructure projects, irrespective of how 2023 may turn out to be (though we remain cautiously optimistic about this year as well), the decade sounds very rosy for Romania.



### 1 Economic slowdown in 2023, thankfully no recession is in sight for Romania

While acknowledging the elevated risks that stand before us and that there is a lot of room for negative surprises, the Romanian economy seems decently positioned at the start of 2023 if you balance everything out. With the number of employees in the economy at multi-decade highs and companies still set to expand (assuming that Western European economies will not see a sharp correction, as they will likely escape a recession), consumer spending should remain decent as a tight labour market will fuel wage growth, alongside a hefty bump in the minimum wage. So, a 3-4% GDP expansion rate for 2023 looks feasible at the current junction, but we need to point out that the war in Ukraine and the full effects of monetary tightening in the Eurozone and the US has yet to be fully felt.



### 2 Making sense of a new global reality

As the global spheres of influences are being reshaped, the CEE region has become one of the more important regions. Reputed commentator George Friedman said that amid the war in Ukraine, the center of Europe has moved North-East, referring to Poland and the Baltic states; we assume that Romania, being in the same area, is also that much more relevant, particularly when taking into account that it is a fairly large country, while also being a NATO and EU member state. Keeping in mind its economic advantages as well (like the wide gap between labour costs and output), this should open the door for strong long-term growth for the country. "Friend-shoring" was more of a buzz word in 2022, we expect it to become more of a reality starting 2023.



### 3 Romanian politics taking center stage in 2023

2024 will be quite eventful for Romania, as the country will see four different elections: presidential, general, local and for EU parliament. This means several things. Firstly, there is a lot of room for increased political noise and increased uncertainties on this front. More importantly, the impetus to pursue meaningful reforms, particularly painful ones on the fiscal side, might vanish altogether, as politicians will try rather to woo voters with promises and potential populist measures. This is of particular relevance over the medium term, as the EU aid established post-pandemic is both significant and dependent on the adoption of certain reforms.



### 4 Green/efficient buildings becoming even hotter topics

Before the pandemic period, adopting ESG criteria was a somewhat slow process, although it was at least moving forward. The 2020 European Green Deal accelerated the process, while the sharp increase in energy prices we saw in 2022 put things into overdrive. This is because staying in a green and energy efficient building as a tenant has become much more than a simple checkmark that companies and investors include in their reports to shareholders, it can yield actual (and quite significant) financial benefits. Consequently, we expect to see a greater differentiation for the rent/value of a building based on how green/efficient it is. This should apply to all real estate sectors but particularly offices and industrial.



## 5 Material shift towards a landlord office market?

Unless the overall economic outlook turns particularly bad (and this is not at all a scenario which we could exclude) both abroad and in Romania and companies keep expanding, the demand for office spaces should remain good. Even amid hybrid work, as it looks like a lot of companies still want to hang onto a sizeable office. Taken together with a quite limited pipeline of deliveries (just a handful of sizeable office buildings are due in 2023, with the delivery calendar for 2024 virtually empty) and a quite limited vacancy for good/modern office buildings (already in single digits in Bucharest), we could start seeing material signs, including a more generalized increase in rents, of a landlords' market. On the flipside, there are still big tenants that have yet to take any decision regarding their office space which could alleviate the supply concerns if they reduce their office footprint substantially.



## 6 Investment rebalancing after an exceptional year

The limited office pipeline delivery calendar is of particular relevance to the investment scene, which relied on such projects to boost the market turnover; so unless some major assets (maybe from the retail sector) exchange hands in 2023, we could see overall turnover halving from 2022's 1.2 billion Euros. While we retain a very bullish long-term view about Romania's real estate scene, the short-term outlook looks even more challenging when taking into account the period of price discovery which has also started. This suggests that neither buyers, nor sellers, nor banks will want to enter a deal at a price level that could prove vastly wrong by short-term changes. Lastly, it looks like yields may rise a bit more into 2023, but for now, the correction does not look particularly deep.



## 7 Industrial market remains in overdrive

Consumption has remained strong in recent years, thanks to a robust labour market, while retailers have expanded their footprint throughout the country. This means that the already stretched modern warehouse supply remains far too low in comparison to potential long-term demand. That said, construction costs have made expanding the network challenging without a material rent increase, which has started to take place as of 2022 and could continue throughout 2023. We also note quite a lot of interest and announcements with regards to new production facilities; these are likely emerging news of the re-shoring story from Asia/Russia taking place. We are also watching out if promises of major infrastructure improvements will play out.



## 8 Brick-and-mortar retail is moving past the e-commerce scare

Last year saw Romanians returning to older habits, including by spending much more money in shopping centers and retail parks. This has meant that turnover rent already surpassed pre-pandemic levels, in spite of e-commerce remaining at much higher levels than before the pandemic. Since Romania has a largely undersupplied retail scene compared to Western European countries, this co-existence will likely remain in place; furthermore, even more "traditional"/brick-and-mortar retailers are incorporating a multi-channel approach while also bringing e-commerce in the mix. Otherwise, developers remain greatly focused on medium/small cities via retail parks, although 2023 will also see one of the biggest shopping centers in the last decade open in Craiova, with a few other big malls on the horizon for the next years. New supply could also be one of the highest in many years.



## 9 Residential, what goes up must come down

... but the title is not necessarily referring to prices, which remain far from bubbly levels if we take into account how residential prices in Romania have lagged the EU over the last decade even as wages had one of the biggest increases during this period. That said, if economic conditions turn particularly nasty, then we would expect prices to dip maybe towards 2018 or 2019 levels. What we do expect to cool down is demand, as higher uncertainties and the increase in mortgage rates make buying apartments a less appealing alternative. That said, the pipeline for deliveries should also quiet down a bit, amid the higher construction costs, particularly coming after a 2022 that was likely a multi-decade high in terms of deliveries of apartments.



## 10 Cautiousness seasoned with diverse opportunities in the land market

After some very strong years, with a limited pipeline of construction projects amid higher construction costs and given the significant uncertainties, developers will likely turn increasingly prudent about the future. Hence, purchases of land plots will become much more opportunistic, meaning they will focus increasingly more on deals involving exceptional land plots or those with an attractive price. Furthermore, the issues with zoning in Bucharest mean that potential buyers will prefer to look past plots with no permits to avoid being tied over the long-term, meaning that the share of Bucharest in overall market volumes will likely shrink. All of this creates a backdrop for some downside pressures on prices, but we would think that this will not apply to the very best land plots, as these will likely still see robust demand.



# Our Results

## ► by Business Lines

### ► Workplace Advisory



- Over 12,500 employees whose feedback was analyzed
- Over 130,000 m<sup>2</sup> optimized and streamlined
- 16 executed projects

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### ► Construction: PjM, Design & Build



- Over 200,000 m<sup>2</sup> of project management in 45 projects
- ~ 10k m<sup>2</sup> designed and built projects in 2022

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### ► ESG Strategic Advisory



- Portfolio of 170 projects and 4.8M m<sup>2</sup> either finalized or in process of certification in Romania
- 12 unique accreditations in the team: LEED AP BD+C, LEED AP ID+C, LEED AP O+M, LEED AP ND, WELL AP, BREEAM New Construction International Assessor, BREEAM In-Use International Assessor, Sites AP, Active Score AP, FitWel Ambassador, EDGE Expert and Access4You Accredited Auditor

#consultancy

### ► Office Leasing



- Almost 50,000 m<sup>2</sup> of office spaces transacted in Bucharest in 2021, a volume that places us at the top nationally
- Almost 100,000 m<sup>2</sup> of leased areas in the last 2 years
- Over 5,000 employees relocated in 2021 in newer, better, healthier offices
- ~ €4.5M saved for clients represented in 2021

#transaction

### ► Business Valuation and Consultancy Services



- Sensitivity/scenario analysis and stress tests based on sales/leasing volumes for existing and ongoing projects on the market developed by main players (e.g. ONE United, Auchan, Square 7, Petrom)
- Purchase Price Allocation analyses for transactions of over EUR 25m net asset
- Impairment tests for fixed assets with fair value of over EUR 60m

#consultancy

### ► Valuation And Advisory Services



- over 5B valuations/year in the last 5 years
- 65% of Bucharest office buildings in Bucharest assessed
- 50% of modern shopping centers assessed

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### ► Land



- ~ 3M m<sup>2</sup> transacted, totalizing ~ €200M in the last 5 years
- ~ 50 transactions in the last 5 years

#transaction

### ► Technical Due Diligence Services



- 1.5M m<sup>2</sup> monitored in all real estate segments
- Portfolio of over 30 projects

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### ► Measurements: BOMA, IPMS etc.



- Measurements of 80 office buildings all over the country
- Portfolio of over 1M m<sup>2</sup> measured

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### ► Investment



- Transactions covering over €1.3B in the last 5 years
- Specialized in sale side mandates

#transaction

### ► Property Management



- 0.7M m<sup>2</sup>: 580,000 m<sup>2</sup> office & 100,000 m<sup>2</sup> industrial
- over 400 tenants in our managed buildings
- €21M/ year service charge budget

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### ► Industrial



- ~ 200,000 m<sup>2</sup> leased in the last 5 years
- 60,000 m<sup>2</sup> leased in 2022
- most recent clients served: Eubowie/Modivo, Faurecia, Havi, LPP, Wurth, Pet Factory, Continental, Nestle etc

#transaction

### ► Project Monitoring



- 2M m<sup>2</sup> monitored in all real estate segments
- Portfolio of over 60 projects

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### ► Residential



- 60% residential mortgage (for banks) appraised
- 100,000 assets (apartments, houses and small land plots) valued per year

#consultancy

### ► Retail



- Leasing for over 20 modern shopping centers, galleries, or retail parks, over the last 3 years
- Leasing for over 10 new projects in our portfolio with delivery dates in 2023-2024
- Over 50 lease agreements signed for tenants in the last 3 years

#transaction

## For more Information

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