INVESTMENT REPORTS

REAL ESTATE IN ROMANIA & POLAND 2021

Comparative Market Evolution
Office, Retail, Industrial & Residential
Financing & Legal Aspects
Construction & Services

INVESTMENT REPORTS

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Dear Reader,

Welcome to the 2021 edition of ***"Real Estate in Romania & Poland"***. This report is the result of over six months of research and interviews with more than one hundred investors, developers, consultants and key service providers, many a friendly face on the now extremely familiar Zoom or MS platforms, and some smiling from behind a mask, across a conference table. We witnessed the full range of pandemic emotions during our research, from quiet lockdown patience, to cabin fever-ish anticipation, and eventually regained hope and gratitude for a return to (almost full) freedom. There is one sentiment, however, that prevailed throughout, and helped anchor people and maintain their drive: confidence in their field of work, in both Poland & Romania's resilient and rapidly developing real estate segments.

The following pages will give you a bird's eye view over the two countries' potential across the office, retail, industrial and residential segments. Three decades after the fall of communism, and with a mosaic like architecture, Poland and Romania are still rebuilding, reshaping and modernizing their infrastructure to keep up with increasingly sophisticated demands from their populations.

Generous yields (well above those of Western Europe), coupled with economic and wage rises, make both countries enviable investment destinations. From this comparative analysis, Poland's headstart does emerge (and is visible enough through its skyline that will boast Europe's tallest office building as of this year), offering a mirror into Romania's future. But the latter also stands out as a hidden gem, previous weaknesses surfacing now as clear strengths.

Enjoy the report!

Irina Negoita
Co-Founder & Director

Sorina Dumitru
Co-Founder & Lead Editor

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MARKET EVOLUTION

INVESTMENT & FINANCING

DEVEOPLMENT & INVESTMENT

Despite the global pandemic, the Real Estate markets of Poland and Romania continue to offer enviable returns across all sectors.
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CONSTRUCTION & SERVICES

Poland and Romania host world class construction giants, a full array of service providers and generous workforce.
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INTRODUCTION

Referring specifically to Romania and Poland, we are extremely selective when it comes to our investment decisions and we always make a thorough assessment of risks and opportunities when starting a new venture. Because these two countries have the biggest and fastest developing markets in CEE, it was a natural decision to run business here.

If you factor in the "country risk", both Romania and Poland are not yet at the safety level of Western European countries, however, property investments have a special profile here. All CEE countries are ahead of other European states from a growth potential point of view because the workforce is not as expensive. In addition, since they are slightly underdeveloped technology wise, we can turn this challenge into an opportunity and build from zero state-of-the-art projects that meet the highest ecological standards (e.g., photovoltaics, use of rainwater, etc.)

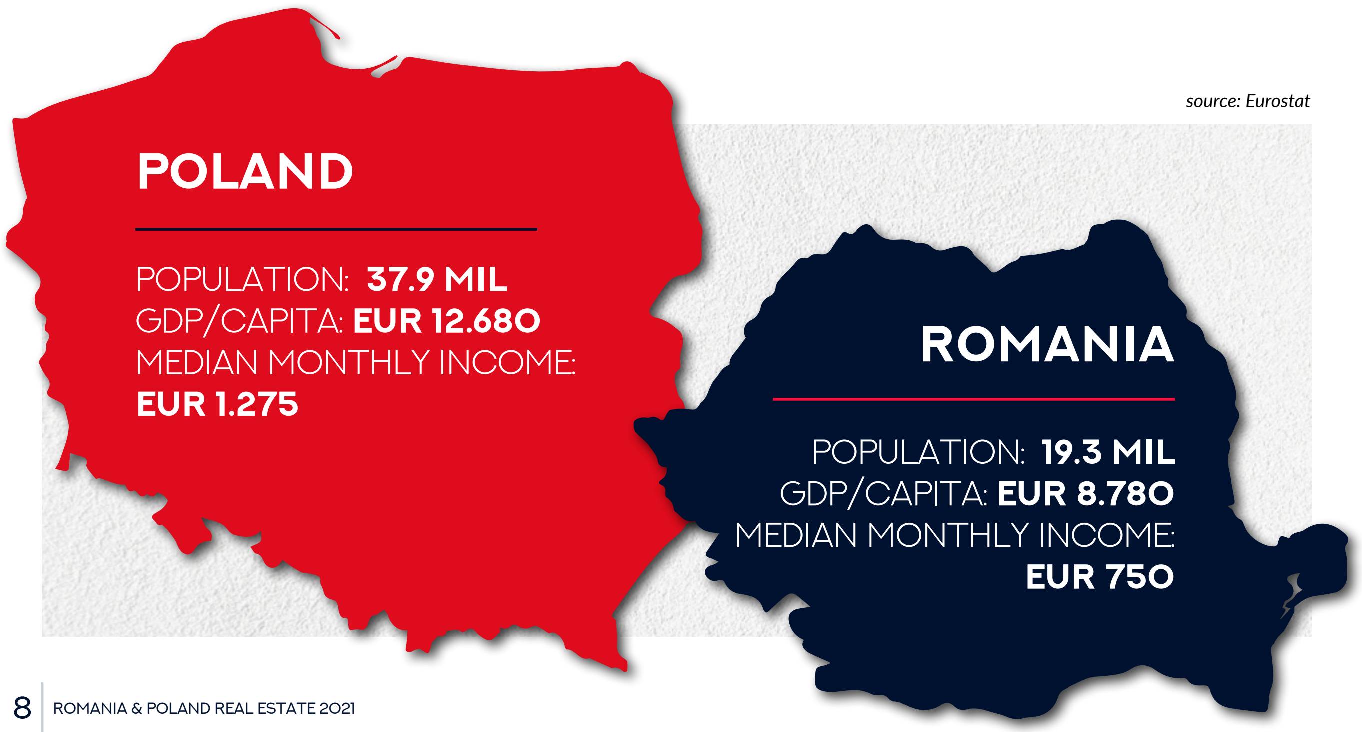
Maciej TUSZYNSKI
Managing Director Europe
Fortress REIT

left: Bucharest Atheneum, © Pelayo Arbues
right: Palace of Science and Cultue Warsaw, ©Valik Chernetscki

A TALE OF TWO COUNTRIES

The year 2019, or the last year of the "before times", marked 100 years since Poland and Romania officially established diplomatic relations. Poland was the first state to recognize the unification with Transylvania, making the two Central and Eastern Europe's largest population pools. And what a century it has been! Both countries have rich histories, spanning feudal societies, monarchies shattered and reborn, several decades under the iron first of communism, all culminating with the modern post 1989 era of democratic rule and gradual internationalization. All these historical shifts left a cookie trail of architectural and infrastructure influences, resulting in a true mosaic of the countries' respective real estate industries.

source: Eurostat



Allow us to take you on a brief walking tour of the two countries' capitals and fast growing secondary cities, as part of the present business assessment study that looks over the residential, retail, industrial and office segments alike. The pandemic that we are all still navigating naturally had wildly differing effects on them, that are still rippling through the industry segments, but by and large after a few months of "wait and see" businesses forged ahead, even thriving in areas such as residential and industrial. Poland has been in the limelight more than Romania, however, by speaking to over 100 savvy developers, investors and key service providers, our conclusions clearly show that both countries' property markets are still investment-wise diamonds in the rough, with demand increasingly outstripping supply.

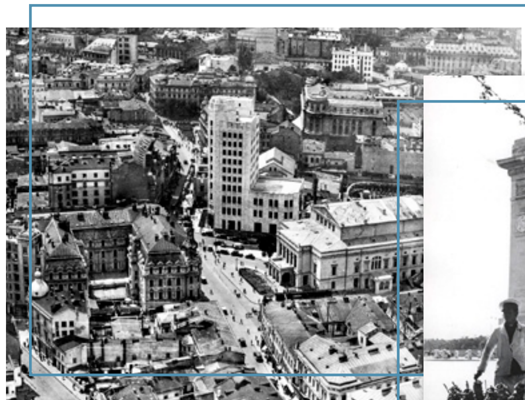
THE TWO MOST POPULOUS COUNTRIES IN CEE

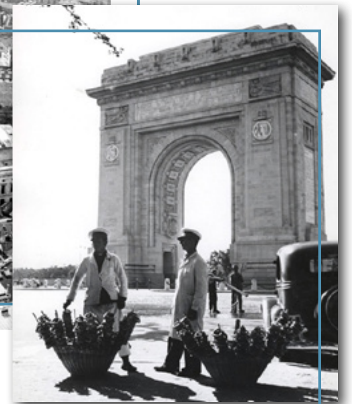
In order to understand Poland's and Romania's property and infrastructure evolution, let's take a quick look at their main real estate hubs - their capital cities. From a bird's eye view Bucharest and Warsaw can have a similar vibe with their large communist style boulevards and grey-tinted, imposing buildings, mixed with historical and patrimony ones, meandering streets and roundabouts. But upon entering Warsaw one is immediately hit by the city's impressive, US reminiscent skyline, testament to the country's swift economic overhaul of the past three decades, well ahead of Romania's that in certain ways looks at Poland as a mirror to the future. This is mainly due to the latter's success in attracting foreign capital, absorbing EU funding and developing a robust Central Business District and dynamic industrial ecosystem.

BUCHAREST

A CITY OF CONTRASTS

Bucharest went through a flourishing period in the 19th century, when Western style influences combining romanticism and neoclassical elements earned it the “Little Paris” label, boasting its very own Arch of Triumph. Emblematic buildings such as the Atheneum, Cantacuzino Palace, Cotroceni Palace (current presidential abode) or the Palace of Justice were erected during this period. The city kept developing in the interwar period, with Art Deco buildings such as the Telephone Palace and functionalist ones like the Bucharest North Railway station or the National Bank of Romania taking shape.



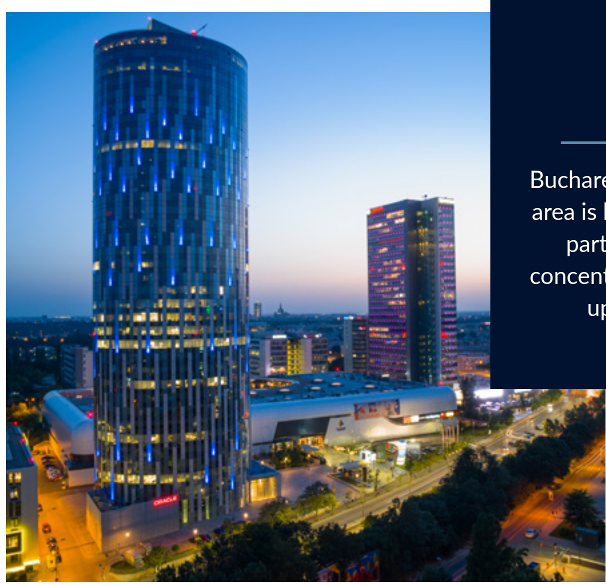


***top:** Bucharest, City Center, 1930*
© Alex Gâlmeanu, Muzeul de Fotografie
***right:** Pretzel vendors in uniform in front of the Arch of Triumph, 1950, © Nicolae Ionescu*

Bucharest, Palace Hall, 1960, postcard

The second half of the 20th century bore the mark of Ceaușescu’s communist ideals, building up residential neighbourhoods to accommodate the cities’ fast paced industrialization and igniting a wave of urban migration. His visits to North Korea and China birthed ambitions of wide boulevards and buildings such as the grandiose Palace of Parliament, to this date the largest administrative building in the world after the Pentagon, for which many of Southern Bucharest’s historical buildings and center had to be demolished and much of the city rebuilt. The main feature of this epoch, however, are the dull, solemn and cramped blocks of flats, whose future is boggling the minds of present day urban planners.

The post communist era spanning the past three decades witnessed the rise of glass and steel architecture and the (slow, initially Wild West style in the 1990s) rise of office buildings, malls and retails centers, modern residential buildings, and more recently industrial and logistics centers in the city’s outskirts. This is a period marked by heavy privatization and foreign investment, accelerated by the country’s joining of the EU in 2007. The saying goes that out of chaos beauty is born - and as poetic as that sounds, Bucharest’s story finds us in 2021 in the midst of a jumble of eager, not always well integrated construction projects, and authorities that bear on their shoulders the mission of rethinking the city’s overall urban development future.



SkyTower,
the tallest building in Bucharest (137m)

BUCHAREST BUSINESS DISTRICT

Bucharest’s dominant business area is located in the Northern part of the city. The district concentrates most of the city’s upcoming developments.

INVESTMENT REPORTS

INTRODUCTION

WARSAW

THE INDESTRUCTIBLE PHOENIX

Warsaw, 1890
“Varsovie Le Chateau de Vilanov”, © Monovisions Photo Magazine

Warsaw is notable among Europe’s capital cities not so much for its size, its age, or its beauty but for its indestructibility. It is a phoenix that has risen repeatedly from the ashes of war.

Warsaw and Poland’s urban landscape went through a swathe of historical phases, with the capital city harboring a number of stories and styles including gothic, renaissance, baroque, and neoclassical. St. John’s Cathedral from the 14th century is one of many remarkable places of worship, and baroque style beauties such as Wilanow Palace or Kazimierz Church stand as remnants of the Polish-Lithuanian kingdom.

The city went through an enlargement phase in 1916 when many housing estates popped up, housing workers, writers and army officials alike. By and large, however, Warsaw is not all that meets the eye - it suffered great losses during WWII when most of the city was bombed, and had to be rebuilt from the ashes, at times respecting buildings’ original designs, at others bending some according to socialist realist architecture.

***top:** Warsaw City Center, 1955, © Warsaw Institute*

***left:** Warsaw, Stary Rynek Market Square, 1945, © ilovepoland.net*

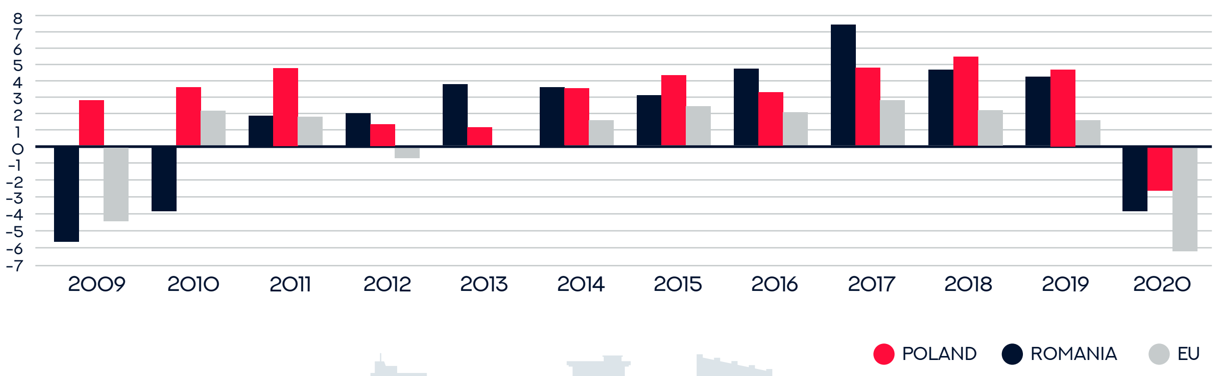
WARSAW BUSINESS DISTRICT

The Palace of Science and Culture, the tallest building in Warsaw (230 m) is now surrounded by modern skyscrapers.

© The New York Times

Warsaw’s tallest building remains the (in)famous 1950s Palace of Science and Culture, a so-called Communist skyscraper that used to tower over an otherwise mostly flat city with its 230 m. The city also makes one stop and stare at the Stalinist style large boulevards and brutalist buildings. Starting with the 1990s however, the city slowly developed its own skyline, to rival that of London, Paris or Frankfurt in height and modernity. The Palace of Science and Culture’s dominance will be overthrown in 2021, when Varso Tower’s whooping 310 m will make it not only Poland’s but the entire EU’s tallest building.

GDP GROWTH RATE - VOLUME %



source: Eurostat

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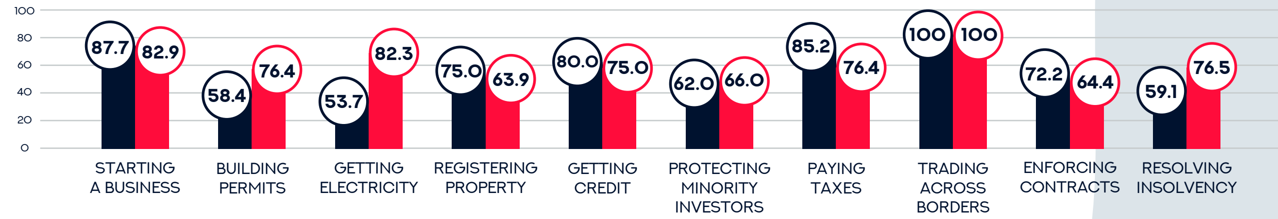
EASE OF DOING BUSINESS



source: World Bank Group

40 DB RANK | **76.4** DB SCORE

POLAND

Scores lowest on:
Registering property (63.9) - **135 days**
Protecting minority investors (score 66.0)

Scores highest on:
Trading across borders (score 100)
Starting a business (score 82.9) - **37 days**

55 DB RANK | **73.3** DB SCORE

ROMANIA

Scores lowest on:
Getting electricity (score 53.7)
Dealing with construction permits (score 58.4)
24 different procedures and 260 days.

Scores highest on:
Trading across borders (score 100)
Starting a business (87.7) - less than **30 days**

KEY FIGURES

LEU (RON)
EUR – RON 4,92

ZŁOTY (PLN)
EUR – PLN 4,54

CORRUPTION INDEX

ROMANIA
RANK: 69/180
SCORE: 44/100

POLAND
RANK: 45/180
SCORE: 56/100

Source: Transparency International
The Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption, according to experts and business people.

COVID-19 VACCINATIONS
(AS OF JUNE 2021)

ROMANIA
8.9 MIL
23% OF POPULATION

POLAND
28.9 MIL
38% OF POPULATION

source: Reuters

ABSORPTION OF EU FUNDS BY 2020
(OUT OF THE 2014-2020 MULTIANNUAL FINANCIAL FRAMEWORK)

ROMANIA
29%

POLAND
43.5%

EU AVERAGE
37.7%

SHARE IN EU POPULATION (%)
RO : 4.3
PL : 8.5

POPULATION EVOLUTION (2020, PER THOUSAND)
RO : -5.0
PL : -0.4

POPULATION PROJECTION (2050, APPROX.)
RO : 16.2 MIL
PL : 33.8 MIL

UNEMPLOYEMENT RATE (Q1 2021)
RO : 6.1 %
PL : 6.3 %

source: Eurostat

INFLATION RATE

Inflation in the eurozone rose sharply in May 2021 to 2% - just above the European Central Bank's target. As economies recover from the pandemic-driven downturn, inflation is climbing.

ROMANIA
3.5% (Q2 2021)
National Bank of Romania (NBR)

POLAND
3.1% (MARCH 2021)
National Bank of Poland (NBP)

EUROZONE
2% (MAY 2021)
European Central Bank (ECB)

ROMANIA

POLAND

INVESTMENT TURNOVER 2020

The office segment represented **EUR 770 MILLION** an all-time record for this market segment.

OVERALL : EUR 892.5 MILLION

The industrial segment accounted for **EUR 2.7 BILLION** becoming the most traded asset class for the first time in history.

OVERALL : EUR 5,6 BILLION

	ROMANIA	POLAND
OFFICE & RETAIL – BUCHAREST SQM (Q1 2021) / WARSAW SQM (Q1 2021)		
Office	2.99 MIL	6 MIL
Retail	1.17 MIL	1.98 MIL
INDUSTRIAL – NATIONWIDE SQM (Q1 2021)	5.08 MIL	21.4 MIL

YIELDS (%) - Q4 2020

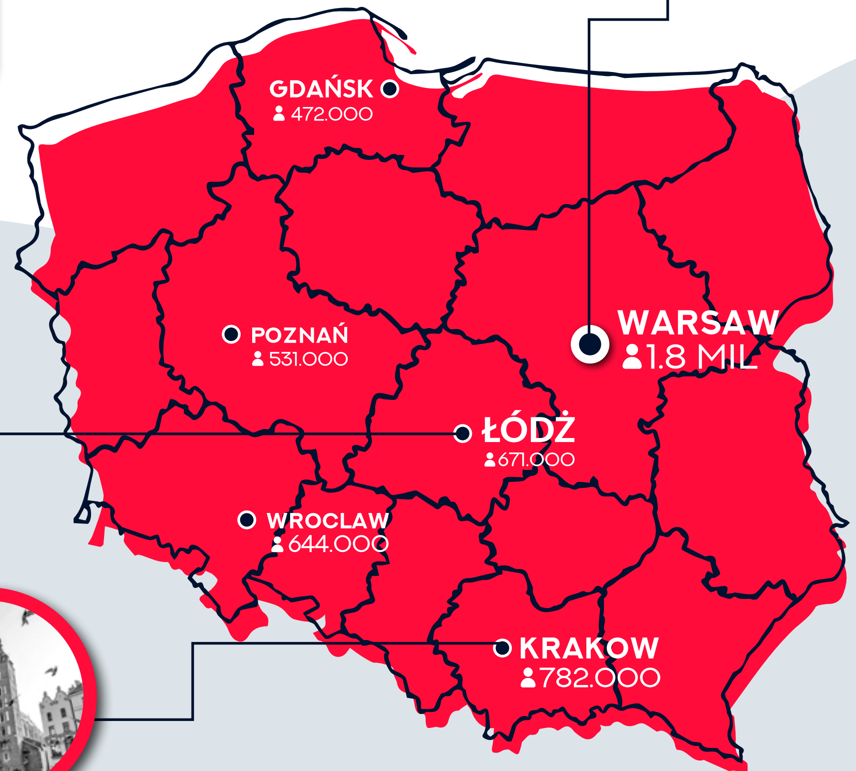
	ROMANIA	POLAND
Office	7.00	4.50
Retail	7.25	5.25
Industrial	8.00	5.75

€ ≈ 1.500
PRICE PER SQM
IN BUCHAREST
(RESIDENTIAL, Q1 2021)

ROMANIA'S yields stand well above the European average, presenting a very appealing investment prospect. The business community is mainly concentrated around Bucharest (it hosts for instance 3 million of the country's total 4 million sqm of office space), however, this is rapidly changing with cities such as Iasi, Cluj-Napoca, Timisoara or Brasov offering expansion alternatives for companies.

€ ≈ 2.500
PRICE PER SQM
IN WARSAW
(RESIDENTIAL, Q1 2021)

POLAND accounted for more than half of the total volume transacted across CEE in 2020 (EUR 5,9 bn out of a total of EUR 9,7 bn). Despite being a point of interest for investors for many years now, the country keeps leading most charts in the region, with intense activity taking place in Warsaw but also its already highly developed secondary markets.



Antoanela **COMȘA**

President
AREI

AREI (The Association of Real Estate Investors in Romania) represents the voice of all four sectors: office, residential, industrial and retail – in relationship with the national authorities.

Voichița **LEFTER**

Secretary General
AREI

As Romania's leading association dedicated to real estate, what is the driving force pushing you forward and overarching mission?

A.C.: AREI's main purpose is to defend the rights of its members and advance an equitable and just legal environment. It is our mission to "lead by example" – while remembering that real estate industry players are after all a vital part of urban development across all its sectors, putting together the offices we work in, the houses we live in, and the establishments where we shop and go for entertainment.

V.L.: One focal point in AREI's mission is to build a transparent and comprehensive perception of the real estate industry, emphasizing the business value and moral code that our members already follow. We do see outside of our association examples in the market that do not play by the book and, unfortunately, any sideslip of a real estate developer reflects upon our association and the industry itself.

What are the most ardent legislation issues AREI aims to solve, and solutions that could help level the real estate market?

A.C.: In the past few months, we focused on Law 114 - a 1996 piece of legislation regarding housing standards and norms. Law 114 suffers from a great deal of gaps that result in mixed interpretations from the authorities. During the period affected by the pandemic, we worked on and advanced some important initiatives such as: AREI guidelines on workforce re-entry measures for offices; Legislative initiative on the postponement of rent payments, instead of exemption for both retail and offices, during the state of emergency; and contributed with our expertise to endorse the Government initiative on the state aid scheme for partial payment of rents for retail. We also had a very constructive dialogue with the Government that was conducive to the re-opening of the large shopping centers after the lockdown period. Likewise, Law 50 regarding building permits should be more flexible regarding the time frame developers have to obtain all the documents needed for utilities connection (water, electricity, sewage, etc.) since providers usually act after their own internal laws.

> *Bottom line, the main issue is the lack of procedure and consistency. The most recent legislative proposal is to put all real estate laws under a single roof, known as the Construction Code.*

We were present when the draft was conceived and we fully support a set of updated laws and regulations, much needed by the rapidly evolving real estate sector.

Regarding the discussions you had with authorities - what are some of your most important wins and are there any notable standstills?

A.C.: The bright side is that during our discussions with central authorities we were always met with respect and they showed genuine interest towards solving the problems we were raising. For example, the inspectorate for emergencies immediately took note and understood our deadlocks that rose from the daily implementations of the pieces of legislation under review. By contrast, local authorities (especially Bucharest's City Hall) are more rigid and it's hard to establish a clear cut relationship with them.

V.L.: Indeed, we're bumping into the reluctant attitude of some local mayors, but sometimes the day is saved by counselors who are eager to find solutions. Following the Municipal Mayor's decision to suspend zonal urban plans (ZUPs), we were pleasantly surprised by the openness of mayors in Districts 2 and 6 towards working together to find a solution to the urgent urbanism problem.

What is your vision for how the Bucharest of the future should look?

A.C.: First and foremost, Bucharest should have better planned integrated projects that give the urban scenery a smoother, more consistent look. Developers alongside authorities must acknowledge that the city is already busy enough and there are areas where you simply cannot build anymore. Reducing traffic is a top priority and by following European solutions (bigger taxes, no parking on main streets, etc.), one that should be easy enough to solve.

V.L.: I would like to see more green areas and bicycle lanes in Bucharest, there are still very few compared to what could, and hopefully will be. This is in line with what all industries nowadays are focusing on, namely more sustainable business practices.

From your professional perspective how does the Romanian real estate market compare to other markets of CEE, and what trends should international investors keep an eye out for?

A.C.: From a bird's eye view, in Romania it is in fact much easier and faster to obtain a building permit than in Western European countries. For instance in Spain it can take up to seven years. Similarly, in other countries it's mandatory to design the entire infrastructure of the project before applying for the building permit. If you are a law-abiding investor, Romania has a market full of opportunities, especially in the residential sector where there is a stock of over 50% ageing apartments in need of a makeover. Regardless of all the challenges mentioned before, the Romanian market is a lot more lenient and welcoming than other countries in CEE.

V.L.: From my point of view, Romania has a fast maturing market that is more than open to savvy investors. At the moment we are curating an incipient legislative project that will impact REITs (Real Estate Investment Trusts). This piece of legislation should put Romania on the map alongside other EU countries. Also, green projects are becoming a priority, with dedicated laws for parking spots for electric vehicles, the revitalization of national railways, among many other shifts.

AREI
Association of Real Estate Investors

AREI
ASSOCIATION
OF REAL ESTATE
INVESTORS

The most significant community of real estate investors in Romania.
www.arei.ro

Paweł **TOŃSKI**

President of the Management Board
PINK Association

PINK Association (The Polish Chamber of Commercial Properties) brings together developers, investors and commercial service providers. The main goal of the association is to influence the legislative action that directly affect its members.

Would you say that, nowadays, the level of taxation is encouraging to real estate businesses in Poland?

Certainly, in the past there were less regulations strictly focused on real estate and for the last four years, we have been trying to close the gap regarding the special income tax. The main goal is to make the rules well balanced from the industry's perspective, but some of the regulations are still too burdensome for the players, creating a certain level of uncertainty in the market.

> *The level of taxation is not as dire as it used to be, but we still have to explain to the authorities that the uncertainty of "how much" and "when" needs to completely disappear in order for transactions to work smoothly.*

Are there any specific pieces of legislation that you are fighting for at this point in time, to improve upon?

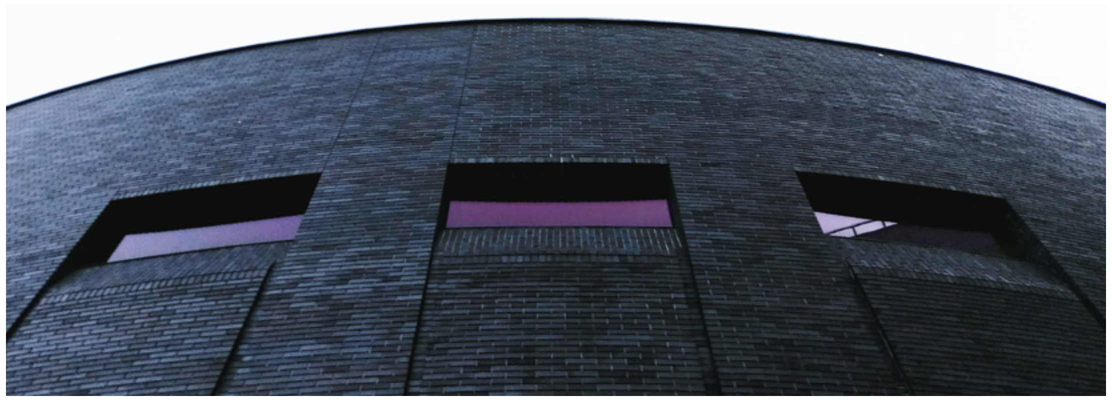
We started working with the government on the REITs regime (again) because this was an ardent issue for members and we wanted to solve it. The authorities put together an inter-ministerial technical team that will introduce the new regulations in the near future, this being a positive signal from their part. A slightly smaller, but still troubling issue of the industry is represented by the new set of rules that allow telecommunication providers to enter buildings without owners' approval. While we understand the need for direct access, this regulation is detrimental, to say the least.

In Poland, the real estate market is dominated by international investors (more than 90%) - why do you think this trend exists and is there a blockage that prevents local companies from investing?

15 years ago, in Poland there was not enough local capital and we don't have a regime which allows the creation of vehicles for private investors (like a REIT). As the market matured, it naturally became a place for international players because the investments were too significant for local ones. The current real estate market is the result of a historical lack of Polish capital coupled with defective institutional laws. There is also a psychological reason behind this trend, since, in the past, Polish individual investors preferred the residential sector because they couldn't grasp the particularities of the commercial market.

What would be some of the challenges the pandemic posed to your members and how did you help mitigate them?

PINK has joined forces with developers and office investors to promote the importance of office activities and how they are vital in a well-functioning society. Even though working from home is a perfectly adapted solution to the current context, we want to also emphasize on the benefits of working from an office. Retail owners have suffered a lot during the pandemic and we continually tried to sustain our members, though the authorities need to also play their part.



The Polish Association of Developers is a nationwide industry organization operating for 18 years and associating over 200 development companies from all over the country.

Konrad **PŁOCHOCKI**

Managing Director
Polish Association of Developers (PAD)

You have been at the helm of the Polish Association of Real Estate Developers for over nine years, how have you been supporting your members throughout this time?

Lobbying activities are a natural part of our value proposition, but not the only one. Training and lobbying each make up for around 40%, whereas PR and marketing count for around 20% of PAD's activities. We issue 10 to 15 reports a year as a reference source for the government and our members. For example, a hot topic in 2020 was how to reach energy efficiency in buildings. For this job we joined forces with top professionals like universities, law firms and other associations.

We are successful in getting people to work together by giving them something first. We share information which we know has problem-solving potential in the present as well as the immediate future. Typically, people reciprocate and trust is formed.

> *Every year we put our mark on some 25-30 legislative projects that affect real estate. I am proud to say that our opinions are considered in almost 80% of the cases, a clear sign that we should carry on.*

Could you highlight two or three main challenges the industry is facing, and ways in which you are trying to address them?

Our number one challenge is going green. Balance must be found so that neither the environment nor the end user suffers. Poland doesn't have a legal environmental standard for real estate developers to abide by. However, we don't wait for regulators to tell us what to do. Instead, we created an internal culture of sustainability among our members by training them on how to contribute to reforestation. Our second main challenge lies in achieving fairness in taxation by convincing the authorities to charge end users on a number of bought sqm basis.

Poland is a mature market that is drawing much attention but it only has so many sqm...

That would be our third challenge: the lack of investment plots. Short supply in this area impacts developers' future planning and profitability, considering that we are getting less in terms of spatial development plans and zoning decisions. In the last five years, the average price for an investment industrial plot went up by 80%. This affects industrial more than other real estate sectors, as warehousing facilities created a steady demand during the pandemic.

What are PAD's top priorities for the next two to three years?

I want to establish our association as a knowledge hub and a platform for coming up with environmentally friendly development solutions. Business knowledge in terms of past mistakes, proposed solutions, or projections is essential for developers to seek and be able to find. Last but not least, we will invite more local and governmental representatives to our thematic groups, hoping to achieve a critical mass able to spread awareness and join efforts to solve the problems that developers are facing today in Poland.

WHAT WILL 2021 BRING FOR ROMANIA'S REAL ESTATE MARKET?

by Alexandra Smedoiu, Tax Partner and Real Estate Industry Leader, Deloitte Romania, and Irina Dimitriu, Partner, Reff & Associates, Deloitte Legal

Romania's real estate market has evolved beyond expectations in 2020 and the prospects for 2021 are moderately optimistic, given the strong connections between this sector and the industries it serves. The economy rebounded by 5.8% in Q3 and by 4.8% in Q4, after a 12.2% contraction in the second quarter of 2020. Private consumption, the main driver of last year's growth, is expected to recover strongly from the second half of 2021 as the rollout of vaccinations should allow for a gradual lifting of restrictions and investment is set to remain strong over the next years, supported by the construction sector.

As a general remark, 2020 was not a bad year for the Romanian real estate market. In fact, strictly from the transactions' perspective, it was one of the best years of the last decade, with a volume rising close to the benchmark of EUR 1 billion. Even though most of the deals closed last year were started before March 2020, and the total volume was significantly influenced by one or two large transactions, the signals received earlier this year show an increase in investor confidence in the Romanian real estate market.

Mature investors are certainly prudent in these turbulent times, but are, at the same time, looking at the big picture before taking any major business decisions. This is the reason why prices for attractive projects have not dropped, COVID-19 related issues have very cautiously and wisely been brought to the negotiation table and deals that were frozen during the first months of the national lockdown are now being revived.

It may appear as a surprise that the re-shaping of investment plans performed last year has attracted more focus on real estate, in the sense that players with successful businesses in other fields are looking to invest their profits in quality projects (office, residential and logistic), while traditional real estate developers became more inclined to capitalize on their operating assets (via sale-purchase or joint venture) and use the proceeds for financing their on-going projects.

All the above have generated new (and somehow unexpected) opportunities. On the one hand, players have become more creative and showed flexibility in conceiving deal structures meant to accommodate silent partners and generally joint ventures. On the other hand, once the lockdown was over, it was generally accepted that the pandemic challenge cannot and should not stop the transactions.

2020 SAW REAL ESTATE TRANSACTIONS NEAR THE EUR 1 BIL MARK

ROMANIA S ECONOMY REBOUNDED BY 5.8% IN Q3 BY 4.8% IN Q4 2020.

Where parties put their trust in resilient projects, price adjustment mechanisms were negotiated (i.e. additional amounts received by the seller in several years, to the extent to which the project met certain key performance indicators).

Mixed Feelings on Commercial RE

Since the beginning of the COVID-19 pandemic, commercial real estate players in Romania faced various strategic and operational risks, with notable differences between market segments. In the following years, they need to pay attention to tenants' and final users' needs and respond accordingly. Most of the owners, developers and investors in this field consider contractual adjustments and flexibility to be the main attributes that will count for tenants and end-users when the health crisis ends.

In conclusion, the real estate market can still yield surprises, but it looks like, with both ups and downs, it managed to navigate the pandemic year and come out in relatively good shape.

Deloitte is the largest integrated professional services organization, and conducted the very first audit in the world. Real estate is a key industry sector, and in collaboration with their legal branch Reff & Associates, Deloitte assisted some of the country's largest real estate transactions.

Alexandru **REFF**

Country Managing Partner
Deloitte Romania

What was the idea behind setting up Reff & Associates? How does it complement Deloitte's work?

Deloitte has been widely diversifying, it's not uncommon, and a legal add-on just made sense. We set up Reff & Associates in 2006 as a separate entity, that works in alliance with Deloitte to serve clients who more often than not also need legal counseling, and that also works as an independent law house.

One side of the practice we have been focused intently on is digitalization under the umbrella of what we call legal management consulting. Tech is opening up a new world, so we are assisting clients to optimize their internal processes and embrace new technologies. This involves using solutions like RPA (robotic process automation) and other tools, some specifically tailored to certain industries (retail, property, financial services).

For instance, we digitized compliance with regulatory requirements applicable to commercial property owners and retailers, based on a comprehensive inventory of existing regulations and automated features such as self-review, remedial project management and updates based on new legislation, expiration or changes in requirements for permits etc.

Other than the digital tools, what are the main services you provide to the real estate sector?

We are particularly passionate about real estate, no doubt about it and we approach it through a multidisciplinary dedicated team coordinated by Alexandra Smedoiu, Tax Partner at Deloitte Romania and our real estate industry leader. We advise developments and transactions alike.

The fiscal practice is focused on direct and indirect taxation for real estate transactions. In Financial Advisory, we have two teams relevant for real estate, a transaction services team focused on due diligence and advice on sales contracts, and a corporate finance team who are rather "deal makers" and take overall responsibility for structured transaction processes.

In management consulting we also support clients in various ways – one interesting segment is comprised of non specialized real estate owners, such as state institutions or other legacy companies, who own property but need advice on how to strategize around it. There are many very valuable property portfolios (central buildings or lands), breaking even or even incurring losses. The military or utilities companies, for example, have buildings with immense potential provided they find the right investors to repurpose them.

What are some of the main challenges to the sector, if fiscal policy is not among them?

I think it is fair to say that Romania's fiscal environment has all in all been advantageous to investors, despite some occasional hiccups. Rather, the problem has been one of political credibility and perceived corruption. This is linked to the infamous infrastructure challenges, a hurdle to investments across the board. Likewise, the country has had a hard time attracting capital, be it private, European funds and so on, and access to capital markets is weaker than in Western Europe.

On the other hand competition is lower than in investor-crowded Poland or Czech Republic, for instance, and yields are significantly higher. We have clients who want to liquidate Western European assets in order to invest more in Romania.

MARKET EVOLUTION

In each crisis we have a letter tracing the line of recovery; 2008's was W and now K is being used to mirror the divergent paths varying industries are taking, creating multiple crossroads. The retail and office segments are clearly affected in the short to medium term, while residential and logistics are on the rise. But beyond this, there will be successful and unsuccessful players and projects within each of the four segments, based on their respective fundamentals, so I expect divergence within, not just between segments of the industry.

Alexandru REFF
Country Managing Partner
Deloitte Romania

photo: Bucharest from above

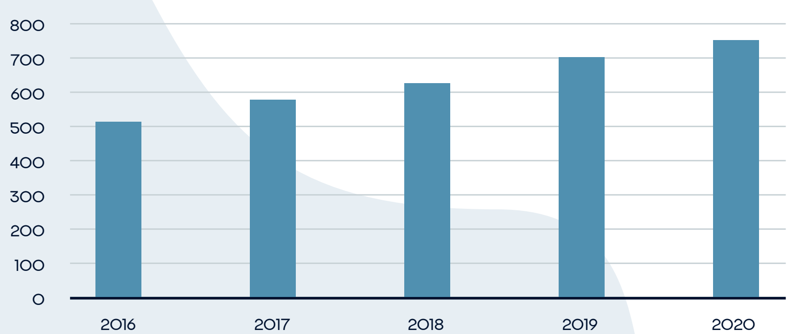
ROMANIA

LOW RISK, HIGH REWARD

by Alexandru David, Head of Research, JLL Romania

Romania is a rapidly developing country, and an established EU and NATO member. In 2019, the World Bank promoted Romania in the High-income group of countries, with a gross national income (GNI) per capita of EUR 10,600. For 2021, the European Commission projects that Romania will enjoy the third highest GDP growth rate in the EU, of 5.1%. This trend is most likely to continue in the medium term, considering that Romania will benefit during 2021-2027 from almost EUR 80 billion worth of EU investments from the Multiannual Financial Framework and the Recovery and Resilience Fund.

AVERAGE NET WAGES ROMANIA (EUR/MONTH)



***source:** JLL Research, based on data from the National Institute of Statistics*

Economic development was also reflected in the purchasing power of the local population. Between 2016 and 2020 the average net wages in the country have increased by almost 43%, from approximately EUR 525 to EUR 750. International companies opening offices in Romania or establishing production facilities here had an important role to play in this.

In 2019, the World Bank promoted Romania in the HIGH-INCOME GROUP OF COUNTRIES with a gross national income (GNI) PER CAPITA OF EUR 10.600

ROMANIA REAL ESTATE MARKET OVERVIEW

Aurelia LUCA
Executive VP Operations
Hungary & Romania
Skanska

The pandemic brought to light how important it is to work outside of our homes from a mental health point of view, but also from a community and socializing one. The offices of the future will have a strong accent on wellbeing, safety and human connection through larger common spaces, leisure rooms and top-notch facilities. During the pandemic we introduced the Care for Life Office Concept, focused on tenants' safety and wellbeing.

The Romanian commercial real estate market provides opportunities in all segments, both in terms of development and investment. Historically, the market has been driven mainly by local or regional developers, but, especially in the last seven years, we have seen increasing interest from international institutional players. Some of the international office developers with a track record in Romania are: Globalworth, Skanska, AFI Europe, GTC, IMMOFINANZ, CA Immo. In the retail sector, NEPI, AFI Europe, Sonae Sierra, S IMMO or IMMOFINANZ have been active. The industrial sector has been shaped by developers such as CTP, P3, WDP, VGP and Alinso Group.

The main office developments are located in Bucharest and the top secondary cities with strong university centers that can offer the relevant labour force with higher education. Retail developers have targeted most of the 42 county capitals in Romania, focusing mainly on those with a high population density and high disposable incomes. There are industrial projects throughout the country, however access to good infrastructure and proximity to either Bucharest or, CEE and the rest of Europe, has directed investors interest mainly towards the Western part of the country (Timișoara, Arad, Cluj-Napoca, Sibiu) or to the Central-South (Bucharest Greater Area, Ploiești, Pitești) and more recently towards the East, namely Bacău and Iași to cover the Moldavian part of the country.

OFFICES

Multinational companies are increasingly targeting Romania due to the country's human capital, with strong foreign language skills, as well as the availability of quality office products at competitive pricing. Romania currently has a total modern (A and B class) office stock to lease of approx. 4 million sqm, including Bucharest and the four major regional cities of Cluj-Napoca, Timișoara, Iași and Brașov. However, Bucharest alone accounts for almost 3 million sqm of modern offices.

44%
drop in total office demand in 2020

OFFICE BUILDINGS DELIVERED IN BUCHAREST (SQM GLA)

source: *JLL Research*

During the last five years, approx. 1 million sqm GLA of offices were delivered in Bucharest, marking a 50% increase of the office stock. Another 256,000 sqm are expected to be delivered in 2021.

Many international companies have chosen Bucharest in recognition of its extended infrastructure and due to the availability of skilled workforce. In particular, high office space demand comes from IT&C companies, such as Microsoft, IBM, HP, Oracle, Intel, Adobe or Siemens, amongst others.

Bucharest experienced a strong demand for office spaces during 2016-2019, on average over 360,000 sqm being leased in total on a yearly basis. However, the COVID-19 pandemic had a detrimental impact for the local economy and for office space demand. 2020 marked a 44% drop in total demand compared to the previous year. At the same time, the vacancy rate increased from 7.7% at the end of 2019, prior to the onset of the pandemic, to 11.3% at the end of 2020.

Antoniu PANAIT
Managing Director
VASTINT Romania

Vastint is an international real estate organization spanning 30 years. Present in Romania since 2008, they developed emblematic projects, such as Business Garden Bucharest.

Few realize just how much Bucharest has grown, 2.5 million people including the outskirts, meaning that fighting congestion has become a priority for the authorities and people alike. When we presented the "Timpuri Noi Square" concept to potential tenants we wanted to keep it short and sweet – Timpuri Noi is connected to Bucharest's two main metro lines, which gets you within 30 minutes just about anywhere. It is also one of the city's main residential areas, and if you want to be successful you build your office not close to the GM's house, but to where most of your employees live. People have started valuing family time over commutes, even over company allegiance or salary grade.

Timpuri Noi Square is now nearly 100% leased, and Orhideea is at 75% after NTT's recent addition. The quality speaks for itself, as even this year we were able to sign nearly 10,000 sqm. That being said, of course the pandemic has hit everyone, ourselves included. But make no mistake, the pandemic will not mark the end of the office era. We are deeply rooted social beings, we need to work together and feel that sense of "normalcy" and purpose.

Market rents in Bucharest were stable during the last 5 years, at around EUR 12.5 per sqm per month in the non-central areas, EUR 15 per sqm per month in the semi-central areas, and EUR 18.5 per sqm per month in the Central Business District (CBD) of the city.

Currently, the office market in Bucharest is in a recovery process, as companies return to normal and reassess their strategies following the pandemic.

One important event for the office market in 2020 was the EU's decision to locate in Bucharest the headquarters of the future European Cybersecurity Industrial, Technology and Research Competence Center. This move is expected to stimulate technological research and innovation and to consolidate the cybersecurity within the Union. Moreover, the Center will become the main EU body to manage the European funds dedicated to research in the field of cybersecurity, available through two EU financing programs, Digital Europe and Horizon Europe. In terms of office demand, this will likely attract to Bucharest IT and cybersecurity companies from all over Europe in the short and medium term. We expect to see more growth in the upcoming years also in the 4 regional cities of Cluj-Napoca, Timisoara, Iasi and Brasov, currently concentrating around one million sqm of modern offices in total and providing expansion alternatives for companies.

2020 marked an important milestone for the regional markets, when the American giant Amazon pre-leased over 30,000 sqm GLA in Iași. This is the largest historical deal recorded in the regional cities and the second largest in Romania overall.

MARKET RENTS
(Bucharest, sqm/month)

EUR 12.5
non central areas

EUR 15
semi-central areas

EUR 18.5
central business district

Daniela
BĂDULESCU
Country Manager RO
S IMMO AG

Friedrich
WACHERNIG
Group COO
S IMMO AG

How relevant is the business you do in Romania within the company's international portfolio?

FW: Approximately one third of our portfolio is based in CEE and the remaining two thirds in Germany & Austria. Since it's still in a transition process, the Romanian market has massive room to catch up with western standards and this is why it occupies a special place in our portfolio.

The office sector is suffering from some disruptions on the background of the global pandemic. How are these impacting you?

DB: At the beginning of the pandemic we braced for impact and we were happy to find out that the occupation rate dropped only by 10%. We expect it to grow back by 3-4% in the near future - some companies will be pressured to reduce their costs, but overall we managed to bite the bullet and mitigate most of our losses.

What is the number one issue that keeps you up at night when doing business here?

F.W.: First of all, I have been doing business in Romania for many years now and I sleep quite well. Even though there's still a long way to go, a lot of things have improved since 1996, when I first arrived here. Problems are easily solved through communication and palpable examples of how things can be done better. For example, infrastructure was a notorious problem of the Romanian real estate market, but fortunately the odds have been changing in the past few years.

DB: Looking back at how the real estate market looked like 10-20 years ago, important improvements have been achieved. The bureaucracy is less convoluted, infrastructure develops at a fast and steady pace and the relationship with local authorities has become more open. However, predictability is still an aspect that needs to be addressed.

During the past few years CA Immo exited several CEE markets (Bulgaria, Croatia, Slovakia, etc.) - how does Romania fit into the company's portfolio?

Romania is a core market that kept steady, amounting to about 7-8% of the total global portfolio of CA Immo. At the moment, we are consolidating the projects that are on the roll, since 2020 was such a challenging year for everyone. Signing new leasing contracts was difficult, as in most other global jurisdictions, but we registered a very good appetite for renewals. Overall, Romania's turnover fared well and was at the same level as in 2019.

The plan is to stay on the Romanian market for the long-run. We have numerous projects with zero vacancy over the last decade and we are proud to say that many tenants have been with us since the delivery of the building and have been telling us it is an ideal work environment for their activities ever since.

Bucharest's office sector is continually expanding and changing - can new development opportunities still be found here?

Looking at the big picture, the market potential is immense and in the following years the only limitation will be represented by the available workforce. The equation is simple: more employees in the work field require more office spaces. Besides Bucharest, Cluj-Napoca, Iași and Timișoara are strong university centers and their pool of talented graduates will lead to more job creation, in turn rising the demand for office spaces.

Are you considering expanding beyond Bucharest to capture these growing opportunities?

We are most interested in liquid markets and this aspect is not as strongly represented in other cities as it is, at this point, in Bucharest. A dynamic environment where exits are commonplace is attractive both for local and foreign investors because they can be sure their investment will not be blocked in a stationary market.

Marian
ROMAN
Managing Director
CA Immo

Globalworth employs a long term, here-to-stay vision so it is all the more important how you choose your markets. Why Romania and Poland, and how do they contrast in your view?

Romania is pure legacy, Globalworth's founder Ioannis Papalekas was already in business here since 2001 and saw a market opportunity again in 2012-2013, when I also joined him from London. Poland was also an obvious choice for us, as the largest and most sophisticated market in CEE, we were confident we could compete there. Both countries also have key geo-political positions.

As for the differences, some are quite visible – starting with infrastructure, from airports, motorways, rail, where Romania still lags considerably behind. One of the reasons we entered Poland was to overcome some of the hurdles we met in Romania, and gain access to new forms of capital.

Romania's biggest problem is branding – we have had so many partners, clients, investors coming here and not believing their eyes, as they have been negatively predisposed by a number of stereotypes and clichés. It is a shame to suffer from this unfair perception.

Globalworth Square is one of the most technologically advanced buildings in the country, which I am sure does not come cheap – why prioritize this?

People have been talking about smart buildings for some time now, and real estate has honestly speaking been a dinosaur in terms of embracing technological progress. Strange, given that it is one of the world's dominant industries, with high pressure to evolve. The coronavirus pandemic has accelerated the way people think about this topic and turned thoughts into action.

As an example, at Globalworth Square we have touchless access into the building, a simple yet key aspect. And last but not least, tech is closely interwoven with sustainability by helping us build more energy efficient buildings, from lower emissions to car charging stations. At Globalworth Square we are also producing our own energy through rooftop PV panels.

How badly has the pandemic hit your office business and how does that contrast to your other assets, in the industrial space for instance?

Yes, the office model is currently being questioned, it sits somewhere in the middle between the badly hit retail/hotels and the thriving logistics spheres. The impact for us has not been too significant so far, however we needed to have many discussions with our tenants and mitigate risks together. This is where our model helped us, the long term relationships helped negotiate and find common ground.

Dimitris
RAPTIS

CEO
Globalworth Group

Globalworth is a publicly listed leading real estate company operating across Romania and Poland, that acquires, develops and manages commercial properties, mainly in the office segment.

In some cases we had to offer "rent holidays", concessions, deferrals in exchange for extensions for the future. Some of the smaller tenants we simply helped out. And at the end of the day we stayed robust.

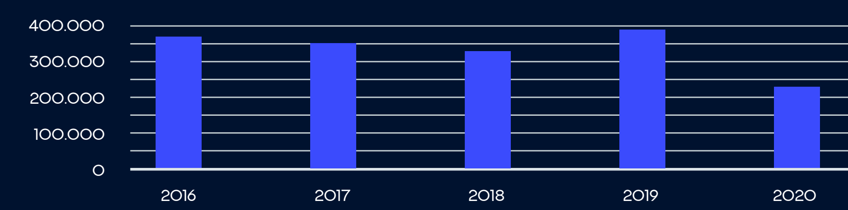
Logistics is a different ball game – we have three locations across Romania and we are seeing great demand, broadly from two industries – e-commerce and F&B retailing. There is also some pharma but the bulk of the demand comes from the automotive industry. Renault recently extended their lease in their facility outside of Bucharest, thanks to its strategic location close to their main factory.

Mihai PĂDUROIU
CEO
One United Properties (Office Division)

From a historical perspective, the Romanian real estate market evolved in a highly positive way and past challenges (e.g., infrastructure) that seemed insurmountable are now mere distractions along the way. All in all, from our perspective the office market shows great maturity and stability.

Investors that make direct contact with the Romanian market are instantly seduced by the opportunities found here. Bucharest presents competitive advantages that cannot be found anywhere else - the biggest talent pool and the most advantageous tax levels - which makes it by far one of the most attractive destinations for investment in Europe. This view is backed by the impressive number of big players (both investors and tenants) that do business here.

TOTAL VOLUME OF OFFICE TRANSACTIONS IN BUCHAREST (SQM GLA)



***source:** JLL Research*

We hold about 15-20% of the office market in Bucharest and, at present, we are developing 90,000 sqm of spaces. Ever since we started Forte, our main goal was to bring a breath of fresh air to the urban landscape because I firmly believe that developers have the responsibility to shape the city in the most aesthetically pleasing way possible.

Moreover, part of the strategy was to reconsider the commute time spent by our tenants and therefore our focus went on to shorten the time spent in traffic. As a result, we placed most of our office buildings near the neighborhoods where 80% of the employees reside. In this way, not only the North of the city benefits from office buildings, but also the South and the West.

Geo MĂRGESCU
Co-founder & CEO
Forte Partners

Didier
BALCAEN

CEO & Co-founder
Speedwell

Speedwell is a real estate developer that specializes in mixed-use, residential, office and retail projects. They put their mark on state-of-the-art buildings like MIRO Office, The Ivy Residential and Record Park, etc.

Jan
DEMEYERE

Architect & Co-founder
Speedwell

You describe yourselves as "atypical developers", what sets you apart from the crowd more specifically?

When evaluating a plot of land we always create a masterplan design that shows how the finished product will fit into the area. Only when we feel it is going to be a suitable project we move into the financial phase, so we have a backwards method, different from other developers, that first do the math and then start designing. In the end, we build less, but of a much higher quality hence benefitting both the users of our projects as our profitability, and this approach helped us especially during the pandemic. This mindset is starting to spread throughout the market and many of our colleagues are embracing it.

You work in various sectors: residential, office and retail - how do each of them contribute to your wider portfolio?

The goal is to have a mix, but from a financial point of view the foundation is definitely the residential sector (60-70% of the portfolio) because the product is the least dependent on macro-economic factors (yields) in the long-term, given that Romania is a market of primary buyers (buying to live, not to invest). We do concentrate our attention on projects with functions that add to the existing mix, but always keep a safe foundation based on residential buildings.

Interestingly, your work in Romania expands well beyond the capital city. What drew you towards regional markets?

We didn't actually conduct any in-depth studies, but acted on our instincts and when we identified a good plot of land, we simply went for it - in Cluj-Napoca, Timisoara or wherever it was located. Since in Romania regional cities are smaller than in Poland, for example, liquidity for commercial projects remains a point of attention, but if you develop a good product you can always lease and sell it at a good price.

Sustainability is a big trend nowadays, what motivates you to pursue this direction and how do you see it reflecting in the local market?

Sustainability is more than marketing for us, because we seek to invest only in projects that bring quality of life, adding measures of sustainability that are actually useful to the users. In residential, it is still challenging to implement these measures because people are not yet prepared to pay for them even though they are highly interested in using all the facilities that come as a result. On the other hand, offices are following international standards because they cater to multinational companies, so it's common practice to develop sustainable projects in that sector.

Do you have a final message about the Romanian real estate market based on your experience here?

Our MIRO office project, demonstrates that the market offers a Western-grade A-class office project with Triple-A tenants such as KPMG at much higher yields than Western or even other Eastern-European capitals. Therefore investors get a prime asset with the best tenants at an unbeatable price. Overlooking the Romanian market is therefore no less than a professional error if you're an (institutional) investor.

"Unknown is Unloved" applies to Romania. Many investors and bankers not familiar with the market often classify it as risky and stay away, without even looking deeper if there is an objective reason for the "risk" perception.

ARGO

Argo Real Estate Opportunities Fund (AREOF)

IS ONE OF THE LARGEST FOREIGN COMMERCIAL REAL ESTATE INVESTORS

in Romania & Ukraine

SHOPPING CITY SUCEAVA

Shopping City Suceava opened in 2008. It is one of the city's main retail developments.

GLA 47,000 sqm, 106 retailers (98% occupancy rate), 1500 parking units.

SHOPPING CITY SUCEAVA

ERA PARK ORADEA

Era Shopping Park opened in 2009. It is the largest retail park in Oradea.

GLA 64,000 sqm, 90 retailers (96% occupancy rate), 2000 parking units.

ERA SHOPPING PARK

RETAIL

The modern retail market has been developing in Romania over the years. However, in the case of large retail formats, including here shopping centers and retail parks, the expansion pace has been tempered by the limited purchasing power of the local population.

Currently, the modern stock of shopping centers and retail parks in Romania totals almost 3.7 million sqm, out of which approximately 1.2 million sqm are situated in Bucharest. During the last five years 720,00 sqm of new shopping centers and retail parks were delivered in total throughout the country, out of which 80% in regional cities, and 20% in the capital.

The retail sector was significantly impacted by the COVID-19 outbreak. For most of the second quarter of 2020 shopping centers in Romania were almost completely closed, except for the hypermarkets, pharmacies, and laundry services. Footfall levels in shopping centers started to gradually recover during the second half of the year, but that could not compensate for the weak start of the year.

3.7 MILLION SQM
total modern stock of shopping centers & retail parks

1.2 MILLION SQM
are situated in Bucharest

2020 also marked a shift in the types of projects preferred by developers, from mostly shopping centers towards smaller retail parks in secondary and even smaller cities. If shopping centers accounted for 80% of deliveries in 2020 in terms of GLA, for 2021 there are no new shopping centers in the pipeline, their place being taken over by retail parks and smaller extensions of existing schemes.

On the other hand, major food retail chains pursued a rapid expansion strategy, opening over 400 supermarkets and hypermarkets during 2020, showing a clear sign that they were not discouraged by the pandemic.

Dennis **SELINAS**

CEO
Argo Capital Management Property

What are Argo's plans for the Romanian market presently?

Over the course of the past few years, we have been in exit mode, and still managing for the time being the shopping centers in Odessa, Suceava and Oradea. We exited Sibiu to NEPI and Iasi to Prime Kapital and are now preparing to wind down the other two assets in Romania as soon as market conditions are favorable. We will turn our attention towards the residential and office segments for our next investments.

How do you define favorable market conditions for your exits?

It boils down to two main factors: on the one hand yields have compressed to a level that I think represents current risk. I do not expect much more compression as likely. On the other hand, there is the income side, where we might see some improvement with international tenants expanding fairly aggressively, despite the COVID-19 epidemic. That being said, much of this is on the back of favorable terms from landlords, so we do not expect a lot of growth from an income stance either.

I estimate 6-12 months before we can have Suceava and Oradea in exit ready positions, after some needed improvements and restructuring of our debt. In Oradea we were considering adding a cinema, which I think will still be in demand post COVID-19, with so many of us longing to go back to that.

> ***"Our fund's opportunistic nature translates into high returns for our shareholders, hard to find in mature markets – there has to be an angle to it, and that is what we are currently keeping an eye out for in Romania.***

Fulga DINU
Country Manager Operations
IMMOFINANZ Romania

On the retail side, many countries in the IMMOFINANZ Group (Serbia, Croatia etc.) expanded throughout 2020. What is the situation in Romania?

We have two brands in this segment: "VIVO!" for shopping centers and "STOP SHOP" for retail parks. We have seen a fast recovery in visitors with our shopping centers each time COVID-related restrictions softened. People do have an appetite to go back to shopping, especially now that they travelled less and have reserves left as a result. We are getting ready to refurbish VIVO! Baia Mare - the fact that we have made this commitment speaks about the confidence we hold in this segment of the market.

On the other side, our retail parks have proven to be crisis resilient. Firstly, because they remained open and offered convenience products with a good value for money. Another reason was the fact that visitors could access each shop separately from the street, minimizing contact points during COVID times. With this success in mind, sooner rather than later, we will expand the portfolio for STOP SHOP in Romania as well.

Looking at the Romanian market at large, do you think now is a good moment to invest here? Why?

Oh yes, I have been saying this for the past 20 years! Romania is a country full of potential and I am very much in love with it, with all the pros and cons it entails. From a yield perspective Romania offers much better returns than other countries in CEE. In addition, the market is nowhere near saturation - overall, both when it comes to offices and shopping centers, there is room to grow.

Alex **MORAR**

CEO

NEPI Rockcastle

The pandemic clearly had a toll on this figure and on your operations overall, how bad was the hit?

In broad strokes, we registered a decrease in earnings of around 30% since people were wary of traveling or going shopping. When the pandemic started, we focused on safety (disinfection, Covid compliant certifications) and social distancing - in order to keep malls safe. We needed to learn how to do more with less. From our perspective, retail continues to prove itself a strong and long-term credible business.

How does the sale of your office division fit into your current portfolio strategy?

The pandemic acted like a catalyst and simply sped up the already existing trends, such as online shopping. There were changes regarding the credit market, so we needed an adaptive strategy to help us keep the retail ecosystem as balanced as possible. We have a varied portfolio from a geographical standpoint, so our decision to exit the offices sector, first agreed on at the end of 2019, was made in order to reinvest that revenue in the residential market and continue enhancing our assets.

How easy is it for companies like NEPI Rockcastle to access financing on the regional market?

As a smart guy once said: everything is relative. Many years ago, all we used was bank secured financing, but as the business grew, it became difficult to attract enough money from CEE banks, so we were forced to access depth capital markets. The pandemic had a negative impact because banks think e-commerce will cannibalize the retail sector and render it unable to pay loans. The result is a vicious cycle where credits became more expensive, and we turned wary to access them.

How does Romania fare as part of the overall development portfolio?

Romania was and still is a market with immense potential, especially in contrast with Portugal, France, Spain with much more maturity in the sector. At first we focused on the potential for shopping centers and visitors have been happy with our project (ParkLake). We knew we wanted a form of continuity.

After analyzing the market fundamentals and demographics, residential emerged as the clear way forward and we decided to explore this complementary use. By 2023 we are planning to build roughly 240 boutique apartments. This will be a mid to high range product and we want the differentiator to be quality, given the ever more sophisticated client base.

We also have an extensive portfolio of project development and management for third parties. As an example, we own 27 shopping centers but are responsible for the management and/or leasing of 77 real estate assets. Providing services has been a focus for over 5 years and something we plan to prioritize going forward.

What was the number one challenge you encountered, specific to the local market?

From a developer's point of view the biggest challenges are the licensing and permitting. Processes can be lengthy and strenuous but things do happen and we are hopeful for improvements in the near future. After all, everyone needs projects to move forward, authorities included, and historically we have seen an evolution and an awareness of the business environment. We have also been pretty successful with our project, hence the optimism, and expectation to have all permits obtained by the end of 2021.

Cristóvão **ROCHA**

Manager Development & Expansion

Sonae Sierra

Doron **KLEIN**

CEO

AFI Europe, Romania & Czech Rep.

In 2020 you finalized the largest ever transaction on the Romanian office market and opened a new mall in Brașov. What made you believe this is still the right way to move forward considering the global pandemic?

The office deal was initially signed in December 2019 and was interesting to us from the very beginning - the buildings are well located, well occupied and the yields fitted to our business model. We looked at this investment bearing in mind the long term and considered various scenarios and risk factors. Of course, a global pandemic was not something we anticipated but I still believe in the office market for the long term, especially for good locations (each and every property in the portfolio we acquired meets this criteria).

As for the mall in Brasov, I am very happy and very proud that we managed to open the mall under the current circumstances. Finalizing the construction was difficult generally speaking, and especially during COVID time. We opened the mall in October 2020 with almost full occupancy (97%) not just by signed contracts , but full operating stores. This is a great sign of confidence expressed by the tenants in the project, in the location and also in the developer. They were ready to invest and open their shops for business even during very difficult times.

What exciting developments do you have in store for the coming period?

About two years ago we made a strategic decision not to act as a pure developer, that exits after the project is ready. Instead, we want to grow our income generating portfolio be it retail, offices or residential (and in particular residential-for-rent).

Location wise, you have been focusing your efforts in major cities of Romania, however, not the capital. Why did you think this was the better route?

We focus on cities where we already have a presence, all of them relevant financial and educational centers. The reason is that these cities possess all elements needed for a successful investment and they carry a great potential for growth. Palas Campus for instance is presently our biggest project and also the biggest office center in Romania. It's an ambitious endeavor that will revitalize an underdeveloped central area of Iasi City. When finished, we expect it to generate around five thousand new employment opportunities for people based in this region.

The project includes retail parts as well – a food market, service hub, and a place for local entrepreneurs. A garden is also being built like we're used to doing with all our assignments, and we plan to integrate it into the city through major investments in the area's road infrastructure.

Seeing that you are active in the office and retail segments, how did the global pandemic impact your business and what did you do to maintain a good balance?

Our activities were affected, of course, but we managed to keep things in check by discussing openly with our partners and tenants. This way we were able to figure out ways so that we all remain stable. On our side, we supported tenants by reducing taxes, offering marketing materials needed during these times and by reducing running costs. Overall we managed to close 2020 with a 1% vacancy rate for our five projects, which is extraordinary.

Emilian **GROSU**

CEO

Iulius Group

INDUSTRIAL

The industrial real estate market in Romania experienced a period of rapid growth during the last 5 years, the modern stock to lease increasing by an impressive 2.5 million sqm, reaching over 5 million sqm at the end of 2020.

Beside the stock for lease there is also a significant modern owner-occupied stock, especially production facilities. This adds over 4 million sqm to the modern industrial stock, thus totaling over 9 million sqm.

9 MIL SQM
total modern industrial stock
5 MIL SQM
modern industrial stock to lease

Jeroen BIERMANS
Country Manager RO
WDP

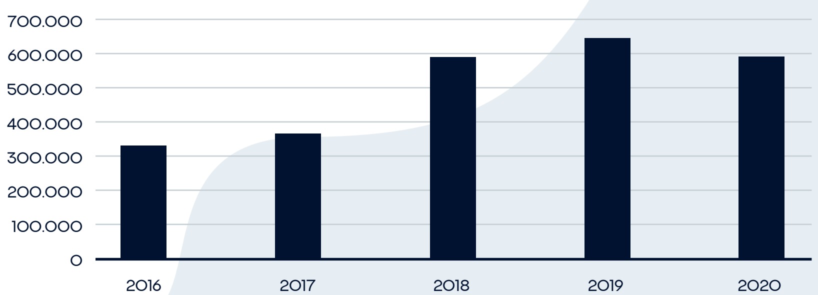
Territory wise, Romania is as big as Benelux, which has 30 million sqm of logistics spaces, while in Romania there are only 5 million sqm. Romania's risk assessment seems to have been exaggerated, and frankly speaking yields are at 7,5% here compared to Germany's 3%, so it is worth it, although the big gap is not justified in my humble opinion and the difference will continue to retract in case the country continues to stay politically stable as is more and more the case.

Usually, the industrial and logistics developments closely follow transport infrastructure improvements, granting accessibility to suppliers, clients, and export markets. Considering that plenty of EU money will be available to Romania between 2021-2027, including over EUR 8 billion for large transport infrastructure projects alone, the industrial real estate markets will surely benefit.

The automotive industry has been one of the stars of the Romanian economy, especially in terms of exports, the number of people employed, but also in terms of demand for new industrial space. Currently, Romania hosts two major car manufacturers, Renault – Dacia in the city of Pitesti, some 120 km west of Bucharest, and Ford in Craiova, further to the west. Together, on average they've delivered around 500,000 units per year during 2016-2020. But, just as important is the car parts production, from tires, car seats and airbags, to engines, cables and electronics, supplying major markets across Europe.

Some of the largest automotive companies worldwide operate production facilities in Romania, including Star Assembly (Daimler), Continental, Autoliv, Robert Bosch, Michelin, Hella, Pirelli, Delphi, Aptiv, TRW and Lear Corporation, just to name a few.

DELIVERIES OF INDUSTRIAL SPACE TO LEASE (SQM)



source: *JLL Research*

Demand for industrial and logistics space in Romania was high during the last five years, with an average of 550,000 sqm leased on a yearly basis. Despite the pandemic, 2020 marked a spike in demand, reaching approximately 700,000 sqm.

Rents for modern industrial and logistics spaces vary between EUR 3.6 and EUR 4/sqm/month in Bucharest and its vicinity, and between EUR 3 and EUR 4/sqm/month in other regions of Romania. The pandemic did not have a significant effect on the industrial rents and the industrial real estate market overall.

MARKET RENTS
(sqm/month)
EUR 3.6 – 4
in Bucharest & vicinity
EUR 3 – 4
in other regions of Romania

The perception of how vital this sector is will definitely persist, even after the pandemic is over. E-commerce growth was accelerated by last year's events to the point that we are not talking anymore about a niche segment, but of mainstream. Online commerce as a dominant trend will, too, transcend this period and will greatly favor the logistics and industrial sector because online shopping requires 3-4 times more warehouse space than traditional retail.

Sînziana PARDHAN
Managing Director
P3 Logistic Parks Romania

Ana
DUMITRACHE
Country Head
CTP

There is general agreement that now is an amazing time to be in the industrial & logistics game. How have you experienced this period first hand?

It's been interesting for sure. For a long time the industrial & logistics segment has been the Cinderella of real estate but nowadays it is Cinderella at the ball. The main benefit I see is that our segment gained better recognition - we all learnt that it is vital for our lives and the overall economy.

2020 was an excellent year for CTP: you delivered the largest logistic building in Romania and also secured the largest transaction in the market. Where are you focusing your efforts nowadays?

We are now getting ready to welcome Maersk/IB Cargo in this largest building in Romania, and in the region in fact as it has a surface of 140.000 sqm. We obviously rejoice in the idea that we hold this record, but what we are really proud of is that the building has received an Excellent BREEAM certification, which means a high energy efficiency, and it is top notch from a technical perspective. In parallel we are working on a 85,000 sqm building whose keys must be handed over to Kingfisher and Quehenberger on October 1st. It is their biggest one-roof warehouse so we're thrilled they chose us as a partner.

Would you say that securing land in Romania is a challenge at this point in time?

Not really, we have a land bank that amounts to 3,200,000 sqm currently in Romania. More than enough to double our portfolio, even if we assume only 50% occupancy. Generally speaking, Romania is still in an intermediary phase of development so there is still enough land available for everyone.

VGP has a strong footprint across Europe - how does Romania fare in the larger vision of the group?

At the moment Germany takes the central spot in our group - around 60% of the entire portfolio. In Romania, one year ago VGP was present with an industrial park in Timișoara, another one in Sibiu and several plots of land. Since then, we inaugurated a first warehouse in VGP Park Brașov and are about to start three more located in Arad, Bucharest & Brașov again. At the moment we have 165,000 sqm in use. In five months' time, we will have five fully functional and up for business parks, and in three years' time we aim to expand our local portfolio towards the mark of 1 million sqm GLA.

What are some of the main differences between class A sustainable warehouses and their class B or C counterparts?

Compared to Class B premises, a modern Class A fairly large sized logistic & semi-industrial park offers benefits of a collaborative nature (common pool of workforce, joint utilities network, commute options, park amenities). Add to this a higher free height inside the building that offers more storage space per sqm of footprint & improved technical specifications, and what you get are reduced maintenance and operational expenses. Access to these buildings is more streamlined, there are no bottlenecks in operations thanks to appropriate access infrastructure and operating docks ratio already in place. Class B or C warehouses, many still under operation on our market, will turn obsolete at a higher pace than before.

Demand is on a roll, 2021 will likely be a record year driven by retail, pharma, e-commerce & courier activities. With the upcoming nearshoring of production facilities from overseas to the SE border of the EU we expect an extra wave for semi-industrial spaces.

Adrian
CRIZBĂȘIANU
Country Manager
VGP Romania

Codrin MATEI
Managing Partner
Crosspoint Real Estate

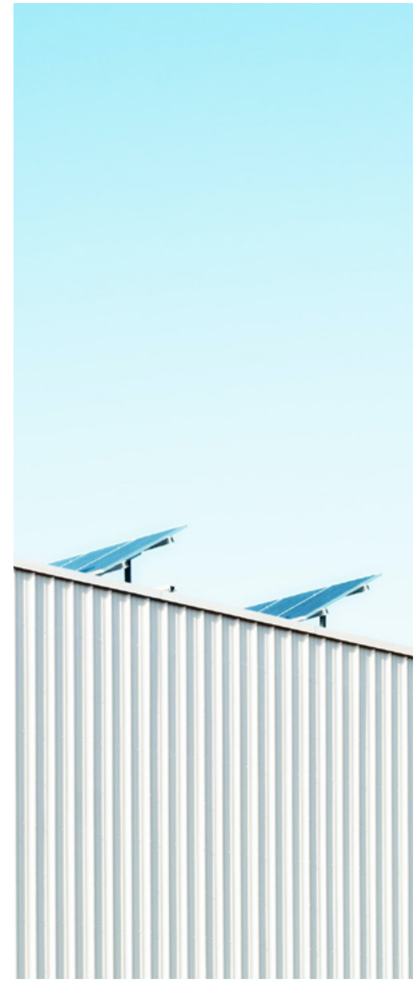
Unlike in the United States, for instance, where no transaction takes place in the absence of an expert broker, in Romania we are talking more of a Wild West scenario. The legislation does not require real estate brokers to get a license, which means there are all kinds of practitioners on the market, from extremely to not very professional. The goal is to be a deal maker not a deal breaker and go beyond merely showing a property and drafting a basic contract. There is also a psychological skill often required when intermediating real estate transactions, as we need to account for people's egos, which can get in the way of rational decision making.

Alexandra POPA
CFO
Element Group

Regardless of its segment, real estate revolves around three main parameters that one must get right: location, access and reputation of the developer. For our logistics division, Element Industrial, we are targeting land parcels able to suit 20.000 up to 70.000 sqm development projects, in areas with optimal transport infrastructure, easy access to workforce and less engaged competition.

PWP Bucharest North near Ploiesti is one of the biggest business parks in SEE. It is an ideal location close to Bucharest (60 km), well connected infrastructure wise and a good spot to serve the domestic market from – around the wider Bucharest metropolitan area alone there are around 4 million people.

Ivan Lokere
CEO
Alinso Group



© Scott Webb

In Romania, 90% of warehouse spaces are leased to distribution and retail companies. Production is concentrated in the Western part of the country, closer to the border, for easy access into the EU. During the past three years, the market matured harmoniously and Romania still has an incredibly varied offer of land plots that are not that hard to get ahold of.

Marian ORZU
Managing Partner
Dunwell

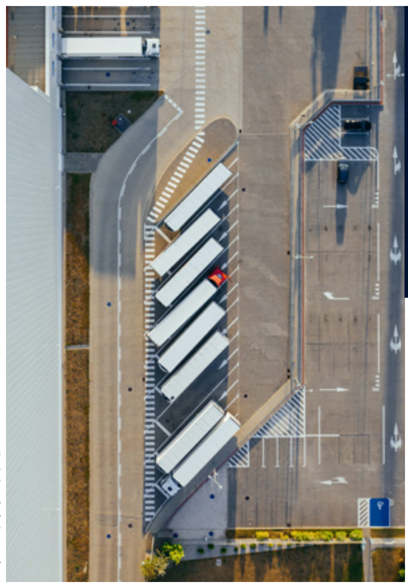
THE STAR OF THE SHOW: LOGISTICS & INDUSTRIAL

by Emilian Podaru, MRICS, Head of Industrial & Logistics, Crosspoint Real Estate

Several drivers are pushing the industrial and logistics market to develop at a very fast pace. E-commerce is the most visible one, as the segment saw a 30% increase in 2020. Likewise, the larger logistics segment (i.e. 3PL's, retailers and distributors), is experiencing significant increase in volumes due to consumption growth.

The last decade was characterized by important climate changes and environmental disequilibria that obliged consumers to acknowledge the importance of environmental protection for the future well being of the human race. Buildings are one of the main environmental polluters and take up a massive chunk of overall energy consumption – BUT – the building sector is also one of the easiest to transform so as to reduce the pollution volumes, raising the bar, and the expectations, for the adaptability of the real estate industry.

Construction standards that include provisions related to minimizing the environmental impact came as a natural step forward. Presently, EU regulation includes specific requirements for the minimal standards to be respected for new builds (that need to be Near-Zero Energy Buildings), as well as for refurbishments meant to upgrade older ones to a superior environmental class by diminishing energy and water consumption, using less-polluting materials and offering features that allow users to limit their environmental impact – efficient waste management systems, plug-in stations etc.



© Maciej Jozwiac

80%

Share of logistics in the demand for modern warehouse space. This sector will remain the main driver in the coming years.

Most spaces are developed on demand, so the availability remains limited. Additionally, this sector is still in an early development stage especially if we look at similar markets, such as Poland or the Czech Republic. Apart from the already established logistics hubs (that will continue to grow), there are large areas across the country without significant modern parks.

Most of the logistic stock in Romania was built in the last 5-7 years and includes modern concepts and amenities. This means that they will maintain their functionality and value for many years to come. An important point that deserves to be underlined is that most developers in this space are focusing on sustainable projects that benefit from green financing, and the segment leads the charts in terms of green certifications among all real estate market players.

Furthermore, large industrial players are changing their approach as far as supply is concerned, which is giving way to new opportunities. Up until 2020, just-in-time was the main approach of their supply chains, but over the course of the past twelve months, shortages and delays forced companies to consider nearshoring and just-in-case approaches. For Romania, this translates into a direct demand rise for industrial facilities in the near future. From an investment perspective the market is not very dynamic - there are little to no modern properties on the market as most developers prefer to maintain their investments on the long term. Some opportunities might appear in the form of sale-leasebacks of production facilities but few properties will qualify for this type of investment.

A MARKET THAT'S ALWAYS HOT: LAND DEVELOPMENT

by Ionut Stan, Associate Director, Land Development, Crosspoint Real Estate

The past year has left its mark on the European residential market, and recently we have seen a higher demand for land plots and houses in less crowded areas outside the city centers. Romania finds itself in a particularly good position to take advantage of this trend. The country has achieved impressive success in real estate development over the past decade, with an average growth rate of 3%, one of the highest in the EU. However, it is also one of the countries with the highest overcrowding issues, leaving plenty of room for bigger, brighter living spaces.

SHARE OF POPULATION LIVING IN AN URBAN ENVIRONMENT

40%
ROMANIA

60%
POLAND

65%
EUROPEAN AVERAGE

In the past years Romania's price to income ratio for housing has declined from the highest in CEE to the second lowest, due to both a rise in wages and a decrease in apartments prices. This led to better housing affordability, turning Romania from a speculative market before the 2008 crisis, to a stable one, built on strong foundations. That being said, Romania still faces numerous challenges: productivity growth is not aligned with the wage increase, foreign investment is volatile, and amid an ageing population, around 20% of the labor force is estimated to be living and working abroad.

10-15%

expected price rise per year for well connected plots

If things will work out as planned with infrastructure development, we will continue to see a fast development of metropolitan hubs. One significant growth engine for this is the migration of people from rural areas to the cities. According to a recent World Bank study, Romania's urban population makes up for about 40% of total population, compared to the rest of Europe where the same figure reaches 65%. Bucharest has reached productivity levels comparable to those of other EU capitals, already exceeding the EU average income per capita, and secondary cities are likely to follow this path in the coming years.As the data shows, the capital city and the seven largest metropolitan areas - Cluj-Napoca, Constanța, Brasov, Craiova, Iași, Ploiești and Timișoara - concentrate 50 percent of Romania's population and generate 75 percent of firm revenues. Without strong cities, we cannot have strong regions and a strong national economy.

Another trend that has been shaping Europe's property market recently is making its way into Romania. The institutional investment into Europe's residential market hit a new record in 2020, with around 30% of total acquisition activity. That represents a huge jump from a rate of 10% just five years earlier. Mixed-use developments are also growing in popularity, bringing the best of residential and commercial architecture together and creating community environments. People have a desire to be connected and this kind of developments are a good solution those living in the cities that have problems with the traffic & poor infrastructure. Bucharest and the secondary cities in Romania have the legacy of former communist developments and many obsolete factories will be reshaped into mixed-use projects in the future.

All these trends can put added pressure on the price of land plots. We expect to see an average rise of 10-15% per year in the coming three years for plots with good connections to the cities, suitable for housing or industrial development.

Adriana **PĂLĂȘAN**

President

ARILOG (Romanian Logistics Association)

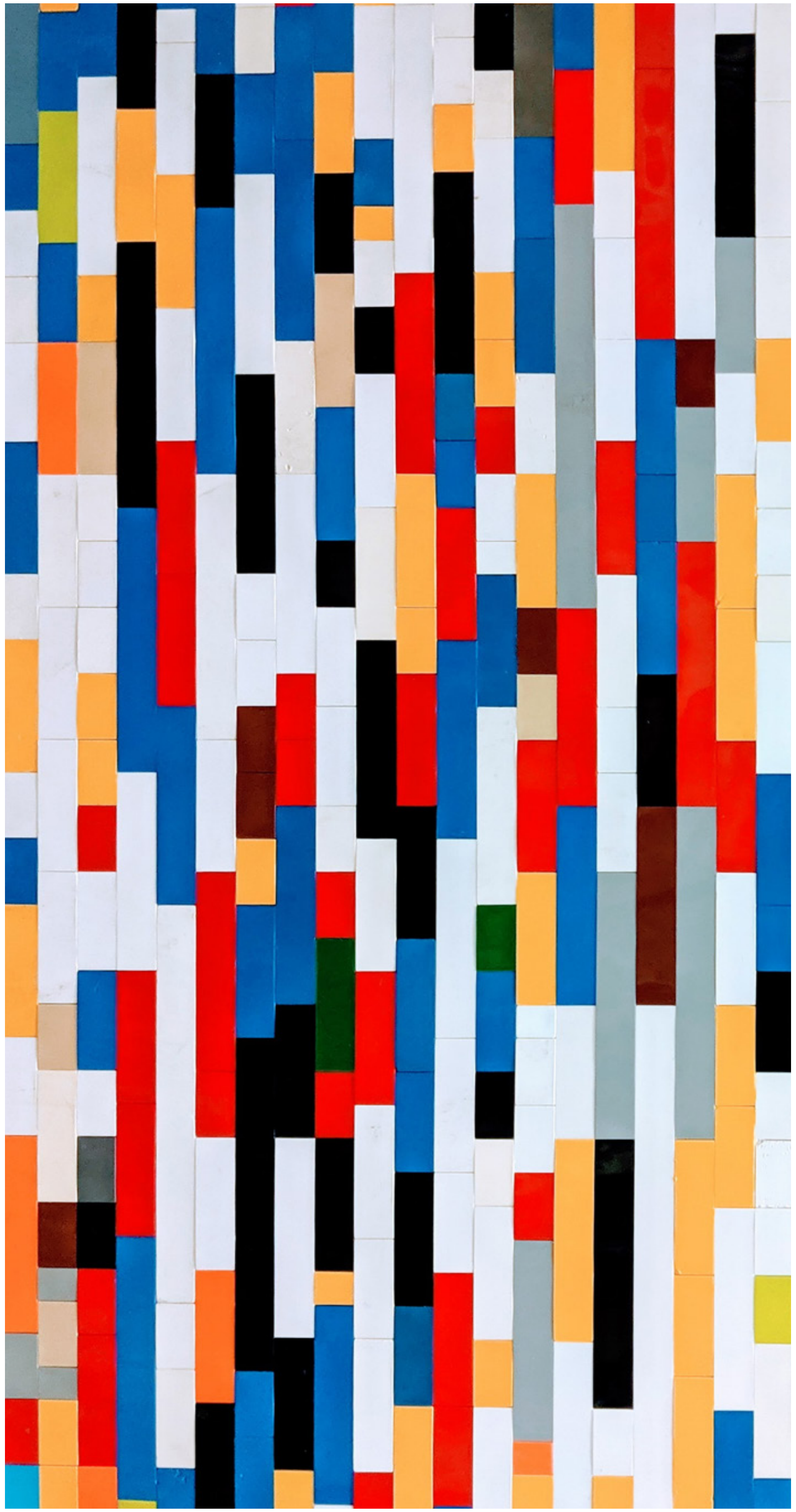
Logistics & industrial spaces are expected to keep growing at a rapid pace in the following years across the board, what is driving this?

True, the market is on a roll! We've seen a migration from obsolete spaces to technologized ones. This evolution is divided into three branches: companies that expanded so much they need logistics spaces with a different structure; companies with small improper spaces that have evolved and taken the place of the prior category; and captive companies that want to have their private warehousing property even though this might be restricting them from further evolution.

What are some of the specific challenges faced by logistics companies across Romania and how do you recommend they get handled?

One specific challenge would be the lack of workforce in the vicinity of industrial parks, meaning that people need to be transported on a daily basis from as far as 150 km away. And, of course, the main pain point: infrastructure! There are so many areas in Romania that show tremendous potential for industrial parks, but are impaired by the lack of adequate infrastructure.

As far as solutions go, in theory, a consortium of experts alongside local authorities could easily design a plan. From our point of view, an efficient infrastructure could be achieved by establishing logistical areas around cities and implementing a dedicated transportation network. There are situations where the authorities were flexible and such an initiative was implemented. The result is higher quality of life for the locals, better retail access and more taxes for the local budget.



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INVESTMENT REPORTS
MARKET EVOLUTION - ROMANIA

Cosmin **Cârstea**

CEO

DP World Constanța

The Port of Constanța has been kept in the shadows, wherein would you say lies its true potential as a logistics hub?

It is true that Romania harbors significant untapped potential through its maritime channels. Even though the country's GDP has been steadily growing for the past decade, this is not reflected in our distribution and trade numbers. Our estimations suggest that only 4% of the GDP is transited through Constanța Port at the moment, leaving ample room for improvement and growth. It is, after all, the best equipped port in the Black Sea. We also have the largest capacity for development and expansion of the port platform (4,000 ha of land that can be expanded) that investors can capitalize on.

The geographic positioning is unique, as we are connected to Europe via the Danube-Black Sea canal, as well as through railway and highways across the country. This means that service providers can offer multimodal transport solutions. Additionally, more and more retail and logistics companies are moving to Constanța, meaning more needs to cater to and a greater chance of building a local industrial hub.

The pandemic has affected shipping, logistics and real estate disproportionately, what has been your own experience?

A lot of our customers have suffered during the pandemic and we have tried to provide them with as much flexibility as possible. Of course, we were affected as well. March 2020 was particularly hard as we saw a sharp 20% business decrease from one day to another. But there is a flip side to everything. The situation accelerated some of our digitalization, pushed us to restructure, to become more efficient and more aware of market demands. We adapted our service offer to better fit the needs of the industry and invested in our infrastructure.

RESIDENTIAL

The residential market continued to grow during the last 5 years, mainly due to the positive economic trends, the decline in the unemployment rate, especially in major cities, and the general average wage increase throughout the country.

The preference for home ownership in Romania is still very strong, as an owned home is viewed as more socially secure. Almost 96% of Romanians lived in owner-occupied homes as of 2019, which was the highest rate in the EU, far surpassing the EU average of 69.8%, according to Eurostat.

96%

of Romanians live in owner-occupied homes as of 2019, the highest rate in the EU

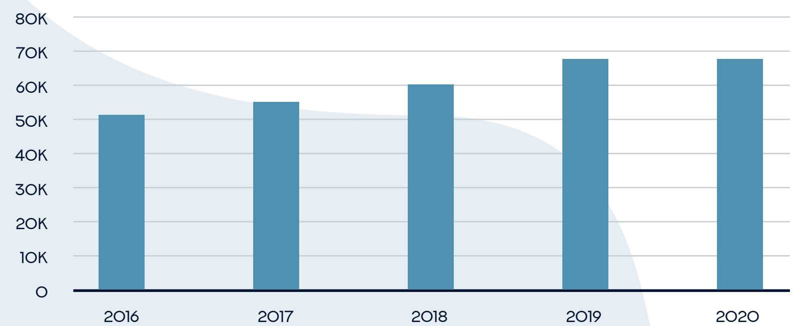
Considering the very high home ownership rate in Romania it is likely that this rate will start to decrease in the long term and get closer to the EU average. Institutional investors have already started prospecting the market with the intention to acquire residential portfolios to rent, especially in Bucharest.

During the past 5 years, approximately 300,000 new residential units were delivered in Romania, with an average of 60,000 per year. Close to 68,000 were delivered in 2020 alone, slightly above (+0.5%) when compared to the previous year. Therefore, the pandemic had no effect on deliveries so far.

Laurențiu AFRASINE
CEO
Akcent Development

Some clients bought from us because they saw it as a good business opportunity. The units are located in the Northern part of the city, in the vicinity of big office buildings, the Manhattan of Bucharest if you wish. For instance, we closed deals with a few investment funds who bought 15-20 apartments and rented them out. A two-bedroom apartment started at EUR 93,000 (we were lucky to be at the limit of the 5% VAT) and can easily be rented out for EUR 800/month, which makes it very attractive.

NUMBER OF RESIDENTIAL UNITS DELIVERED IN ROMANIA



source: *JLL Research, based on data from the National Institute of Statistics*

The beginning of 2020 found the residential market in a good shape, allowing the developers to quickly adapt their operations to the new market conditions. In terms of supply, 2020 performed very well despite the general uncertainty caused by the pandemic. In Bucharest alone, approximately 10,000 new units were brought to the market in 2020, plus another 3,600 units in the neighboring Ilfov County. Residential prices in Bucharest registered a 3.5% increase in 2020, reaching EUR 1,465 per sqm, continuing the ascending trend started in 2015.

Alex SKOURAS
Managing Partner
Alesonor

Amber Gardens is the first housing project in Romania certified Green Home. By integrating bioclimatic design and technologies such as water collecting systems and photovoltaic panels among other key construction principles, our homes consume 90% less energy than a similar home. It is a five hectares project that we successfully developed and sold (I've also bought a house here), with playgrounds, tennis and basketball court, near the forest. Through it we observed how the market craves this type of intelligent, sustainable residential projects.

Products with green home certifications also benefit from green mortgages that have a reduced interest rate. Banks trust that clients will be able to pay their loans thanks to reduced monthly bills and the overall stability and satisfaction of the client living in such a house.

Tinu
SEBEȘANU

CEO
Impact Developer & Contractor SA

IMPACT was established in 1991 and specializes in qualitative and sustainable residential projects. They focus on large scale developments, having landmark projects such as Luxuria Residence or Greenfield Băneasa.

You recently became CEO of IMPACT - what is your vision for the company on the Romanian market?

This year we celebrate 30 years of experience and during all this time we have completed several successful residential projects. IMPACT does not simply build apartments and houses, but rather creates communities, being the first real estate developer to put together a residential neighborhood after 1989 in Romania. My personal ambition is to double the company's value in four years, through careful nurturing and by creating the capability to triple the number of projects we can simultaneously develop.The pandemic shifted clients' interest towards higher quality, integrated homes. Our main advantage is the large land bank of over 750,000 sqm. In ten years we want to build 1 million sqm.

Building state-of-the-art apartments can be a risky move, in a market that is still finding its feet, is demand keeping up at a fast enough pace?

In general, our clients are young families with children who are drawn to spacious apartments situated in safe neighborhoods, with generous green spaces around them and nearby facilities. We developed two main concepts: Greenfield - on the outskirts of the city, close to nature, and Luxuria – an urban, compact project with underground parking, gym, reception, private park etc. The idea is to build a community around the project. And yes, demand is keeping up, this client profile is on the rise, and fast.

You mentioned Greenfield and Luxuria, both in Bucharest - do you have plans to develop projects in other secondary cities?

Of course! 2021 will in fact mark two secondary city projects. One of them is Greenfield Copou in Iasi where we are now building 1,100 apartments. We see great potential here thanks to the universities that deliver a future qualified workforce, the city still benefiting from extensive space to develop. And a second project called Boreal Plus in Constanta, where we just delivered the first set of independent houses and we are now working on the apartment buildings. Timisoara is on our list as well, and we also want to start cross-border projects.

What are the main challenges you have faced on the Romanian real estate market and how do you mitigate them?

There is an array of general challenges that every company bumps into along the way. One of them is the relationship with local and central authorities, mainly regarding the timeframe needed to obtain building permits. Another ardent 30-year-old issue is the lack of predictability - laws get cancelled with as little notice, which greatly affects project planning. Sparse workforce and an increased price of raw materials are also recent challenges that are starting to gain speed. Making worst-case scenario plans and having a flexible margin of error are vital and lifesaving tips in any real estate development. Ideally, authorities should offer the infrastructure and help developers fulfill their projects, not the other way around.

Sustainability has become a buzz word among developers – are you seeing genuine appetite for it when it comes to residential demand?

Close-by facilities, good infrastructure, smaller monthly bills, and a higher quality of life are the main advantages of sustainable housing. Besides, we can look at it from a simple money perspective - developers who ignore the sustainability trend will definitely have a hard time accessing funds (especially green bonds) in the future.

Sustainability is not just a buzz word in Romania anymore, I believe it is already a standard by which clients decide whether to invest in a project or not.

Beatrice DUMITRAȘCU
CEO
One United Properties (Residential Division)

The global pandemic pushed forward a vision we already had in place. We dealt with a blockage in March (natural, given the shocking circumstances), but we went back to the same flux of customers quickly. In April we made transactions worth EUR 5 million and in July we sold three penthouses with a cumulative value of EUR 10 million. By mid-summer we had sold a total of 43 apartments. Granted, we received some requests for discounts, but our pricing policy and strategy remained the same.

It's true that we hold an advantage, which is that we have the financial resources internally to carry a project all the way through. We also can afford to finish a property and rent it out - in Romania we don't really have a market for rentals yet, culturally speaking people want to own property, but the new generation is much more dynamic and is starting to create opportunity in this space.

Another aspect is that we work in a niche that benefits from medium plus and high income, so the approach is different. Our clients' thinking was that in times like these it makes most sense to invest in real estate, rather than keep the money in their pockets and risk inflation.

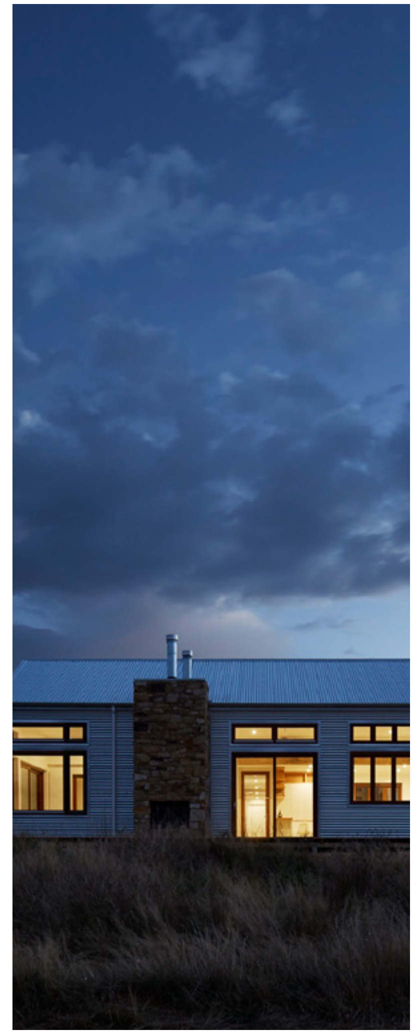


photo: pixbay.com

Before officially accessing the Romanian market in 2015, we conducted a rigorous market prospection and extensive research on the assets available here and what best caught our attention was this very own market segment we are currently focusing on: developing and growing downtown Bucharest – urban renewal through the reconversion of old buildings with historical value.

All in all Romania has been seeing a decrease in previously significant drawbacks such as bureaucracy, corruption, legislative instability and poor infrastructure. As a still emerging market of course there is some risk here, which we mitigate by choosing high level, well located properties that will never depreciate over time, regardless of any future crises. There is the infamous infrastructure issue, however I am noticing authorities making some progress here.

One very specific challenge in the realm of taxation was the one year delay of the 5% VAT limit for units up to EUR 140,000. I believe that, aside from making life easier for the buyers, this measure would boost the sector's performance. This is a necessary change that will stimulate new unit transactions in the context of currency developments, rise in construction prices and personnel costs and would mean finally adapting to the current socio-economic reality.

Yitzhak HAGAG
Co-founder
Hagag Development Europe

photo: Varso Tower and Warsaw Skyline

POLAND

TALLER BY THE DAY

by Alexandru David, Head of Research, JLL Romania

CEE's most prominent real estate market has not lost its lustre with the passage of time. Poland saw its highest transaction volume in 2020 and the capital, as well as secondary cities, are developing at a very swift pace. Warsaw's consistent purchasing power growth (currently sitting at ~ EUR 11,600 per capita) keeps raising the bar in terms of residential and retail demand. Office yields are positioned at 4,5% and industrial at 5,75%, below Romania but well above Western European figures.

420.000 SQM
currently being built in Warsaw, the lowest volume in 11 years

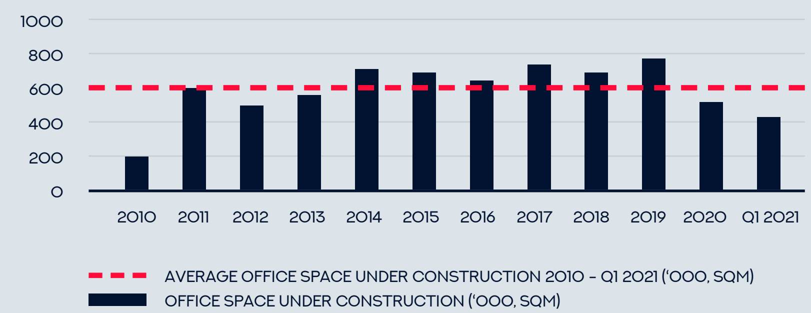
EVOLUTION OF OFFICE STOCK IN WARSAW (MIL, SQM)

OFFICES

The first three months of 2021 have again proven challenging for both the economy and the real estate market, including the office sector. Following the announcement of another lockdown in March of this year, the vast majority of companies have once more adopted a remote working mode, while others have been forced to significantly increase health and safety measures against COVID-19. As a result of further unexpected changes, office market dynamics have altered considerably.

This is reflected both in the activity of developers, with 420,000 sqm currently under construction - the lowest volume in 11 years - and in the lowest demand for office space on a quarterly basis since 2010. In addition, the vacancy rate, which was expected to rise even before the pandemic, hit 11.4%, the highest rate since 2017. However, the limited pipeline for the next few years may positively offset the vacancy rate growth.

OFFICE SPACES UNDER CONSTRUCTION IN WARSAW (2010 – Q1 2021 / '000, SQM)



source: JLL, Q1 2021

Q1 2021
saw a demand of 109,300 sqm
20% LESS
than the volume of tenant activity recorded in the same period in 2020

A trend that emerged both during the global financial crisis of 2008-2009 and the ongoing pandemic is the increased supply of space for subleases because of tenants' attempts to reduce their office size. The last few months, however, have seen a slight slowdown in the growth of such spaces. Currently, there are over 120,000 sqm for sublease in Warsaw – 10,000 sqm less than at the end of last year. Such a solution is an alternative for companies operating in the city. It offers the possibility of signing a contract for a shorter period than in the case of a traditional lease agreement. However, there are certain stipulations connected to the subleasing of office space, i.e., in terms of fit-out and lease terms. Therefore, subleases are an option for a narrow group of companies. Flexible space solutions are another opportunity for companies which are turning away from the traditional, long-term lease.

Many tenants who have opted for a full or partial home office due to the pandemic are increasingly bold in their plans to return to the office, with H2 2021 as their realistic deadline. Some tenants, especially smaller ones, often opt for flex offices due to uncertain times. Similarly, large companies use them as a temporary solution while deciding on their target office, for recruitment processes or as a viable alternative to traditional contracts, understanding the premium they must pay for flexibility. Currently, the occupancy of flexible offices in the central districts of Warsaw remains at a stable, but reasonably high level. At the beginning of the pandemic, a strong turbulence in the flex sector could be observed, which translated into dynamic changes in the rates per workstation. Currently, the flex market is in a phase of price stabilization, and it can be assumed that the worst is now over.

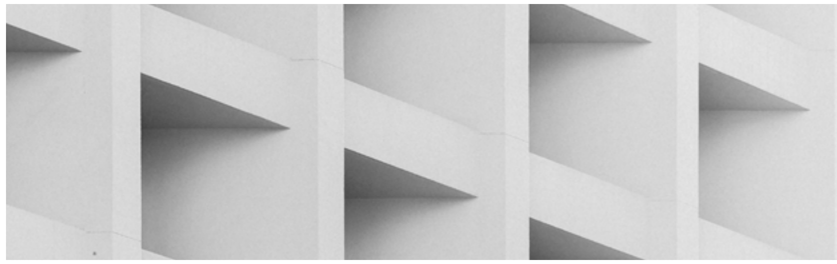
In terms of demand for traditional offices in Warsaw in Q1 2021, the total was 109,300 sqm - 20% less than the volume of tenant activity recorded in the same period in 2020. Such relatively low levels were caused by uncertainty about the size of the office after a return to the "new normal".

photo: Warsaw Spire, © Adam Borowski

MARKET RENTS
(Warsaw, sqm/month)

EUR 18 – 24
Warsaw city center

EUR 16
outside the city center



Currently, tenants are, often, choosing to extend their lease for a short period, and wait for things to return to normal before making long-term commitments. The flexibility associated with both expansion and reduction of leased space is extremely important. This type of security is exercised in the case of signing contracts for large offices, while with smaller companies, landlords are less inclined to reserve additional space. It is worth noting, however, that a slowdown in office take-up dynamics on a quarterly basis does not necessarily mean that this will continue on an annual basis. Ongoing processes, together with companies from the business services sector increasingly interested in the Warsaw market, may have a positive impact on the volume of lease transactions in the following months.

The highest transaction rents for prime properties in the city center are stable at EUR 18 to EUR 24/ sqm/ month, and outside the center stand at EUR 16/ sqm/ month. Over the next few months, we can expect current rates for prime office spaces to be maintained. Rents in some B-class properties will remain under downward pressure.

The continuous economic growth is one of the main factors that make Poland so attractive. Moreover, it is the biggest market in CEE and has a 20-year history of real estate capital markets. The fact that new opportunities arise every day is contributing to the overall excellent reputation of the country as it converges with the Western European standards. There are some temporary political hiccups, but fortunately the economy keeps going forward and the market remains stable enough so that advantages overcome challenges.

Jacek WACHOWICZ
CEO
Warsaw Property Partners (WPP)

Mike HAPOIANU
General Manager
Mindspace Romania & Poland

The concept of "flexible offices" fares well in CEE; we even had waiting lists of companies interested in exploring this novel concept. Traditional offices usually offer long term contracts between 5 to 10 years, whereas at Mindspace the commitment starts from one month upwards, and as of recently we also have more on-demand solutions offering entries for as little as a day or week. Overall, we saw a slight decrease in occupancy in Romania, but in Poland we managed to register the same performances as before the pandemic.

Olivier
THIEL

Managing Director
Immobel Poland

Immobel is one of the most prominent real estate developers in Europe. They are specialized in mixed-use buildings and are committed to sustainable development. In Poland, they are present in the country's largest cities where they revitalize strategically located buildings in the city centers.

Looking at your international presence, it's interesting to see Poland sitting alongside markets like Germany, Luxembourg or France. What called Immobel's attention here?

Historically, one of the main shareholders of Immobel was Polish, a family office that owned almost 30% of the company. This was the initial link and how we got involved with Poland. It is also a strategic point, geographically speaking, because we can go from the north of Poland to all the countries where we have business in: Germany, Belgium Luxembourg, France and Spain.

The political situation in Poland is sometimes perceived as a tough environment to conduct business in, but this is just the picture the press paints. In reality the situation itself is quite good and I can attest to it. So far we grew by about 4% every year and we have reasons to believe this trend will continue.

You have several segments that you work in: office, residential and retail. Can you tell us how each of these contribute to the business you have in Poland?

Just now we are executing an office building in Warsaw (Central Point) that will be ready by summer time. As for the residential market, we have one of the biggest projects ever in the city center of Gdansk, with 515 apartments, a big parking lot, a hotel and a retail section on the ground floor. This pandemic made people shift towards investing in a secure asset class so these apartments will be exactly this economical "refuge" they search for.

The residential sector was not as influenced by Covid so Gdansk was Immobel's best performing project in the whole of Europe last year. Also, the hotel business will definitely pick up after this global crisis and we expect an impressive wave of tourists to come. I think in Gdansk we are strategically positioned for success.

Your business often talks about "offices 2.0" or "cities of tomorrow", how do you go about imagining what people will want 20-30 years from now?

We've put in place a think tank about the offices of tomorrow, and by "tomorrow" we really mean the near future. One of the approaches is "circularity" which means we don't demolish the old buildings but instead we repurpose them. Also, we are thinking about an increased flexibility, so in 20 or 30 years from now we may be able to transform an office building into an apartment building, for example.

Being ever adaptable, thinking out of the box and working with the best professionals is the recipe of success. For example, 80% of the quality of a building is represented by the façade and our Central Point building has by far the most efficient and energy intelligent façade there is.

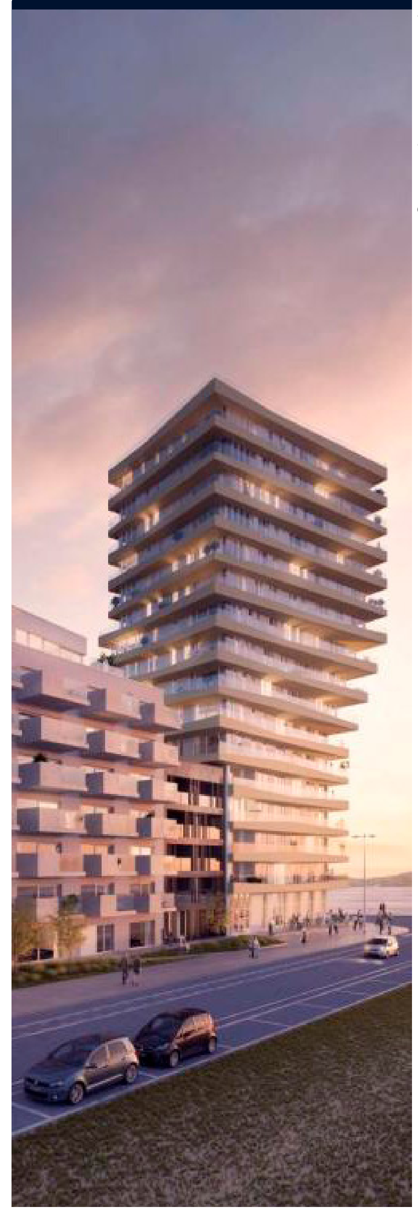


photo: O'Sea Project, Belgium

RETAIL

The retail market in Poland has transformed vastly over recent years; many new trends and processes have evolved along with the challenging retail environment, which has also been affected by the outbreak of the COVID-19 pandemic. Shopping centers formed the basis for the development of the retail market in Poland; however, interest in other formats has increased noticeably with time.

Back in the 1990s, the prevailing retail schemes were hypermarket-driven shopping centers and the few small shops in the attached galleries were merely side note additions. As competition increased and consumer preferences changed, the offering of such galleries was substantially expanded and enriched by entertainment, gastronomy, and leisure facilities. Shortly after the first shopping centers appeared, big-box retail warehouses and retail parks began to expand, mostly adjacent to already existing shopping centers located on the outskirts of Poland's major agglomerations.

Over time, developers discovered opportunities in regional cities and later in medium-size towns, adapting concepts and offerings to the needs of local markets. As a result, the share of major agglomerations in shopping centers and retail park stock decreased and that of the smallest cities increased.

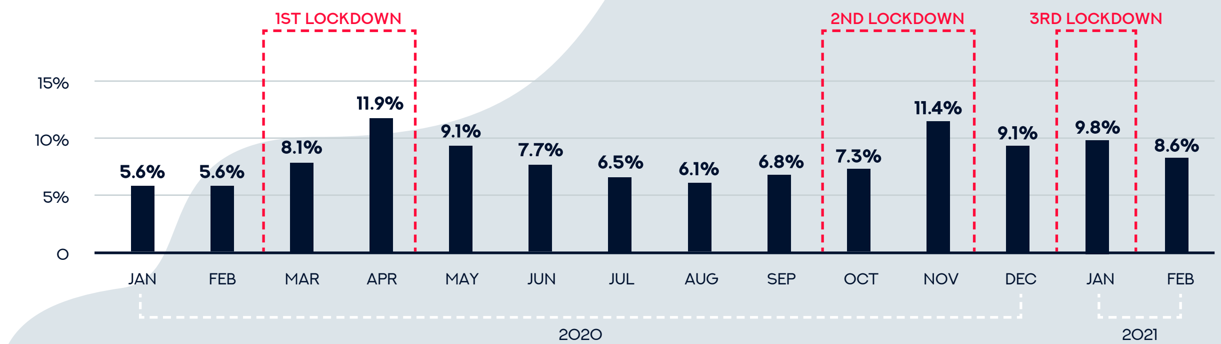
The outbreak of the COVID-19 pandemic has certainly slowed construction activity in Poland. Nevertheless, developers here completed nearly 148,000 sqm of modern retail space in large scale projects (GLA>5,000 sqm) in the first half of 2020. Of that new supply, 67% was delivered in eight new retail parks and three extensions of existing schemes. 449,000 sqm of GLA is still under construction with initial completion dates set for 2020 and 2021. Retail parks account for nearly 26% of that volume. In parallel, the market for smaller, convenience-based assets in Poland is doing very well. In H1 2020 alone, convenience center stock grew by nearly 39,000 sqm of GLA in 13 new schemes.

The retail market is constantly evolving. Purchasing power growth (on average 4% p.a. over the last five years) and increasing retail spending (although temporarily disturbed by the COVID-19 pandemic), coupled with changing expectations of customers regarding quick and convenient shopping, are the key drivers for the further development of the retail market in Poland. In an era when time is often of a greater value than material things, the appetite for quick shopping increases. This trend is reflected in the growing share of online sales and the increasing popularity of smaller, convenience-based assets. A progressive increase in e-commerce sales has been noted in Poland for several years. The dynamic changes to the retail environment have been accelerated by the pandemic and the closing of shopping centers has resulted in e-commerce growth ballooning. The share of online sales in total retail sales reached a peak at 11.9% in April 2020, which was largely due to COVID-19 restrictions being introduced in physical stores. As limitations in those stores eased, e-commerce fell back to 9.1% in May, 7.7% in June and to 6.5% in July, proving that traditional retailing is still resilient. Nevertheless, omni-channel retailing is gaining importance; challenging physical stores, embracing the digital transformation, and forcing them to evolve.

EUR 11.663
PER CAPITA / YEAR
purchasing power in Warsaw Agglomeration

158%
compared to national average

SHARE OF E-COMMERCE IN TOTAL RETAIL SALES IN POLAND (%)



source: JLL, Q1 2021

One of the most visible trends, which has manifested itself to a greater extent during the pandemic, is market polarization between large shopping & leisure centers and small, convenience-based retail assets. COVID-19 has temporarily weakened the position of the biggest (and usually most crowded) shopping centers, at the same time highlighting the attractiveness of smaller projects, where consumers are able to satisfy their basic needs quickly and with limited social exposure. Locked at home, consumers turned to local options. Some have rediscovered their neighbourhoods and begun to appreciate small family-run businesses and local products.

© Gil Ribeiro

Tomasz
TRZÓSLO

CEO
EPP Group

EPP is the largest owner of retail real estate in Poland. The company's current portfolio consists of 29 shopping centers, 6 office locations and 1 development project, with a total value that amounts to approx. EUR 2 billion and a leasable area of over one million sqm.

What were the first ideas you turned to in order to stabilize the business in the short term after the pandemic?

As background, it is worth mentioning that in 2020 the Polish government passed a law to release retail tenants from paying rent and service charges if they had been forced to close, without compensation to landlords. It was obviously a one-sided support to tenants.

Even so, we made a decision to provide additional discounts to tenants who, based on their turnovers and financial situations, required some support. But we did so in return for meaningful extensions of their leases. So we accepted that something atypical was going on and financial results will be impacted, but we kept in mind a long term, strategic view.

Looking at EPP's business more broadly, considering of course the present circumstances, what is the vision you are proposing?

My vision for EPP is to remain a retail-focused company because we are talking about a field that involves a lot of specialization and very specific skills (marketing, interacting with local communities, focus on end customers not just tenants, etc.). The fact that we already hold this know-how is extremely valuable.

But this doesn't mean we don't want to invest a portion of our funds in other assets classes. We have offices and we are open to new elements such as residential projects.

Poland does not have a REIT model implemented despite efforts that have been made in this direction. We know that EPP is a REIT-like company, what attracts you to this model?

Correct, the government has been working on this legislation but the process has been protracted. There was an effort last year, stopped by the pandemic, but the idea is now back on the decision makers' table. If the right legislation is passed this is an area we will be looking at in terms of a possible second listing in Warsaw, in addition to our primary listing in Johannesburg. It would open up the possibility for people to invest via the Warsaw Stock Exchange so we are looking at this closely.

Switching our focus to the future, what are some key objectives you are pursuing? Where do you expect growth to come from?

Where we see most opportunity is with big dominant shopping centers that offer sufficient leisure elements, so places where people can shop but also spend their time. In the long term I simply don't believe that people can be happy sitting at home, working digitally, ordering food online and watching Netflix in the evening. Even in a nice, comfortable apartment you are still restricted to the same space and I'm absolutely sure, as soon as people feel safe, there will be a big social bounce back for restaurants, cinemas, theaters etc. As a business we want to be ready for this comeback.

My take is that if managed well, shopping centers will continue to attract. Maybe more marketing functions will be required but their importance will remain strong.

What about the market at large, are you optimistic about its evolution in the coming 2-3 years?

The structure of the Polish economy provides good prospects for recovery. Manufacturing is strong and there are also numerous global BPO/SSC players that are presently employing about 350,000 people in Poland. The messages we hear from these companies is that they are looking to add even more jobs to their Polish base, shifting them from places like India which proved too distant under the recent travel restrictions.

> ***"Referring specifically to our industry, in the short term rents are under pressure and owners have debt that typically increased during the pandemic, so the pressure on revenues is higher. It will take some time, a few years maybe, to rebuild and regain the same financial position. But overall the fundamentals are strong and recovery is just a matter of time. We have to be patient.***

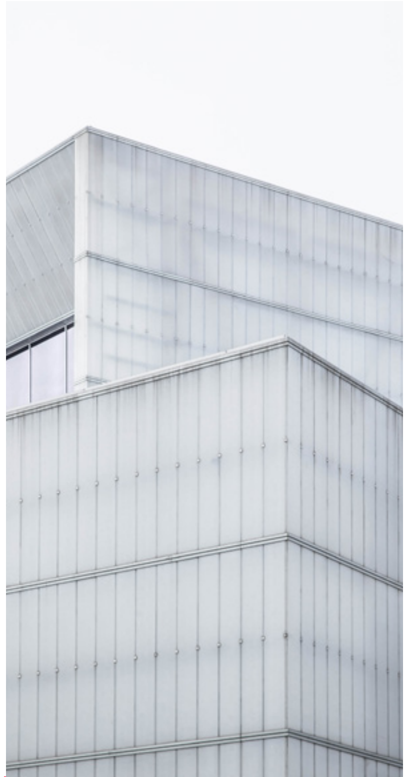
INDUSTRIAL

At the end of March 2021, total existing stock in Poland stood at 21.4 million sqm. The 'Big Five' markets still account for over 80% of total stock. The Tri-City market is gaining in significance and should cross the 1 million sqm threshold in the coming months, further illustrating the increasing attractiveness of northern Poland and the Baltic seaports.

21.4 MIL SQM
total industrial stock

2.3 MIL SQM
under-construction pipeline

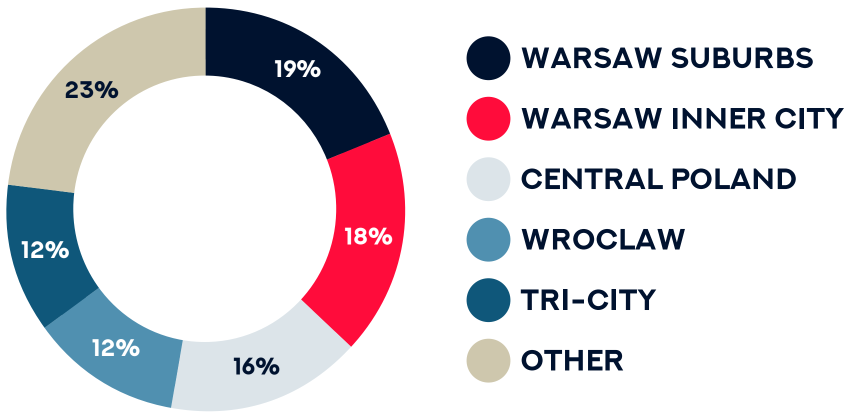
The robust demand for industrial space and positive expectations have been driving a construction frenzy in Poland. The market is powering ahead with a total under-construction pipeline of 2.3 million sqm at various stages of development. It means that in the first quarter alone, developers launched new projects totaling 1.2 million sqm. Almost 70% of total constructed space had already been secured with pre-let contracts, which augurs well for future vacancy rates. The coming months will see a strengthening of the 'Big Five' markets, as almost 70% of currently constructed space will supply these locations. Given its extraordinary demand, Poznań is the unquestionable leader in terms of construction pipeline – 430,000 sqm were being built in this market at the end of March.



© Joel Filipe

Rents have remained relatively stable. Warsaw Inner City and other urban locations are the most expensive markets in Poland. In Warsaw, headline rents range from EUR 4.3 to EUR 5.25 /sqm/month. The most attractive rents for big-box units are still to be found in out-of-town locations in Central Poland (EUR 2.6 to EUR 3.5 / sqm / month).

INDUSTRIAL STOCK (SQM)



source: JLL, Q1 2021

The record-breaking number of investments in the industrial sector, seen in 2020, prove that this segment is one of the "winners" against the backdrop of the pandemic. Activity has remained high in 2021. Investment turnover totaled EUR 391 million and was the second best-ever result for a first quarter. The largest transaction was the acquisition of a cross-country portfolio by Ares Group from Panattoni. Regarding single asset deals, one of the most significant was the purchase of BTS Castorama in Stryków, sold for EUR 65.5 million by Tritax to Savills Investment Management.

At the end of Q1 2021, prime warehouse yields for multi-tenant schemes with 5 year lease agreements, are considered at around 5.25% (Warsaw Suburbs, Wrocław). The ongoing Warsaw Inner City projects stands at approx. 5%. However, there is a lack of transactional evidence for such compressed yields yet. Assets with longer agreements (10 years) are trading at sub 4.50%, nevertheless, exceptionally long leased assets (15 years or longer) can be at around 4% with further compression on the horizon.

MARKET RENTS
(sqm/month)

EUR 4.3 - 5.2
Warsaw

EUR 2.6 - 3.5
Central Poland

Radoslaw KROCHTA
President & CEO
MLP Group

Our main goal is to grow our presence across Germany and Austria until we reach a 50/50 market share with Poland. The target for Germany is 1 million sqm by 2023, paired with an additional 500,000 sqm in Poland and 100,000 sqm in Romania – we are talking of a total of over 2 million sqm overall.

I sincerely believe logistics is the best real estate sector for anyone to be in, with projected market growth somewhere around 10%. Again, I prefer to be "neutrally optimistic" and not blow things out of proportion, but the business fundamentals are all there. Near-shoring will also bring manufacturing facilities back to Europe in the coming 5-10 years, and COVID-19 only accelerated this trend.

We have a significant presence in the CE region, with 4,2 million sqm spread across 217 buildings and 22% of the overall market share. Poland is by far our largest market in CE, and we see the greatest potential for further growth here too. Our strategy is to focus around large urban agglomerations, and Poland has the biggest ones: Warsaw, Central Poland, Poznan, and Silesia.

Rental levels in Poland are incredibly low compared to the rest of Europe (they are almost 30% lower in Poland than in the Czech Republic and Hungary). This is a positive for customers, of course – but if this trend continues, investors might run into profitability issues in the near future.

Pawel SAPEK
SVP, Regional Head CE & Country Manager Poland
Prologis

Maciej
TUSZYNSKI

Managing Director Europe
Fortress REIT

Fortress REIT is a JSE listed Real Estate Investment Trust that owns, manages and creates commercial spaces. It was founded in 2009 in South Africa and is present in the logistics sector of the Romanian and Polish real estate markets.

To start off, could you introduce Fortress REIT's footprint and interest in the CEE region, especially Romania and Poland?

We are keen on establishing a strong footprint in Europe with a focus on the CEE area where the market is continually growing and we can evolve together with it. We are the third largest real estate REIT in South Africa but we managed to secure first place in the logistics sector. Through NEPI Rockcastle we provide convenience retail services in CEE so we are directly pursuing only logistics investments here, in order to avoid unnecessary self-competition.

Referring specifically to Romania and Poland, we are extremely selective when it comes to our investment decisions and we always make a thorough assessment of risks and opportunities when starting a new venture. Because these two countries have the biggest and fastest developing markets in CEE, it was a natural decision to run business here. Furthermore, we have an eye for early stages projects and it was quite easy to find such opportunities in these emerging markets.

How welcoming would you say the financing climate is in these countries, especially since you function under a REIT model?

The reason we entered both countries is because we perceived the climate as being welcoming enough and we actually didn't bump into any noticeable challenges. REIT legislation would, however, provide us with new opportunities - either real estate projects or other REITS (e.g., NEPI Rockcastle). Local REITs are exposed to more diversified segments of the market and this could represent an investment option for us as well. I am a strong believer of the fact that REIT legislation brings higher liquidity to the market (real estate lacking it) and this aspect is important for us even though we are long term holders.

Given the attractiveness of their yields, Poland and especially Romania are often considered higher risk markets - do you agree?

If you factor in the "country risk", both Romania and Poland are not yet at the safety level of Western European countries, however, property investments have a special profile here. All CEE countries are ahead of other European states from a growth potential point of view because the workforce is not as expensive. In addition, since they are slightly underdeveloped technology wise, we can turn this challenge into an opportunity and build from zero state-of-the-art projects that meet the highest ecological standards (e.g., photovoltaics, use of rainwater, etc.)

SEGRO is an international real estate company that owns, develops and manages warehouse and industrial properties for hundreds of customers in the UK and Continental Europe. The company has been present in Poland since 2005.

Magdalena
SZULC

Managing Director
Central Europe
SEGRO

Please tell us about yourself, what brought you to SEGRO and what is your vision for the footprint in Central and Eastern Europe?

I have been with the company since 2005, since SEGRO first opened its business in the region through the acquisition of a Dutch company where I had been working. Industrial in particular was far from popular back in the day, and it was at times surprising to my peers to see a woman managing a company operating in this arena. The sentiment is entirely changed at this point not only because warehouses are now better designed, equipped and technologically advanced, but also because market fundamentals themselves have shifted in such a way that the industrial real estate branch is absolutely essential to day to day activity.

How much of SEGRO's 8.8 mil sqm footprint is in Poland, and what type of facilities are in highest demand currently?

We manage 1.4 million sqm of logistics and industrial spaces in Poland, a significant chunk of our portfolio, which makes us the 3rd largest industrial space owner in the country. Most of our facilities are situated within cities and at city borders. Placing them in these areas is beneficial for consumers, making e-commerce, logistics or production run smoothly and cutting delivery times. Demand is split among a wide array of customers, from SMEs looking for flexible spaces to larger logistics, research, automotive or pharmaceutical companies, to name but a few.

How does Poland compare in terms of scope of opportunity with the rest of the region you oversee?

Poland is the biggest market in CEE, and with the right market fundamentals to keep us confident in its ongoing potential – we are here to stay, and in fact plan on expanding. We also intend to expand into the Czech Republic, specifically in Prague, but finding good land there is proving to be a challenge. Land is a craved commodity everywhere, and in this sense Poland is a victim of its own success – there are many developers flocking to the region and competing for the best land plots.

The EU is tightening the grip on regulations surrounding carbon emissions, how is this affecting your operations?

We started a program to achieve carbon neutrality by 2030, and we are implementing a series of upgrades on our buildings that will have a significant positive impact on sustainability and the environment. We are planning to install PV panels on our warehouses, alongside the electric car chargers that can now be found alongside each of our facilities in Poland.

Like all countries in CEE, Poland emerged out of communism with a shaky infrastructure and preparedness for global business.
But in recent years, our GDP started growing significantly, Poland became a hub for several manufacturing industries, and the need for industrial spaces skyrocketed.

RESIDENTIAL

EUR 260 MILLION

residential investment volume (5% of the total investment volume in 2020)

The Polish living sector is currently experiencing an interesting phase, as it approaches another major stage in market institutionalization. The vast majority of housing stock in Poland is still privately owned. The institutional part of the real estate sector for rent is relatively small and is concentrated in the large cities. Yet, the number of rental assets owned by institutional players grows dynamically every year.

Social changes serve this development to a large extent. The generational shift and associated changes in attitudes towards renting real estate make the symbolic need for ownership less and less convincing, while the rationale of higher mobility and more financial liquidity becomes more apparent. At the same time, investors noticed the potential of an equally growing “generation rent” in Poland, i.e. people that cannot anymore afford to purchase a flat for owner-occupation.

For these reasons, we are in a very interesting momentum on the market. The growing interest in housing projects for rent by institutional investors is becoming more and more visible. The living sector covers the entire range of premises for rent – flats, student and senior premises. Despite the impact of the COVID-19 pandemic, the scale of investment in rental housing, student accommodation and retirement homes has increased significantly.

Poland offers scalable business, based on its polycentric city structure which offers investment opportunities in more than just one central city. Investors can count on higher initial profitability than in Western and Southern Europe or the Nordics. The Polish market has a high potential for growth in rents and capital values. Moreover, investors count on yield compression over the next years.

Michal MELANIUK
CEO
Cordia Poland

The buyer’s profile remained unchanged and we are essentially dealing with two types: those who are investing their hard-earned money in residential real estate and others who want to change their living circumstances.

Warsaw, Krakow, Poznań or Gdansk are all equal in terms of opportunities. People move to the biggest cities for jobs and highly ranked schools, so it is normal for the demand to concentrate there. This adds to the fact that people are becoming increasingly affluent, which creates demand for new residential real estate products as well as upgrading the existing ones.

Ron Ben
SHAHAR

CEO
Angel Group Poland

Angel Group is a leading developer, operator and service provider in Poland’s luxury residential segment (hotels & housing communities), headquartered in Krakow and employing over 300 people.

As demand grew, how has the product itself evolved, what do people expect from your facilities?

What started off as innovative now became the norm, and grew ever more sophisticated since – things such as gyms, spas, playgrounds, concierge services etc. are very much expected now, and brought to increasingly higher standards. The population has also been getting increasingly wealthier, Poland leads the charts in terms of new millionaires/ annum in Europe, banks are more open to giving out mortgages and the general economy boomed, so we evolved in tandem.

But if you are asking about what you can expect, we have one very exciting project we are working on – My Tower by Angel Group is our response to an industry in dire need of digitization and higher end technology. We developed it through a JV with a tech company from Israel and are launching it all over Europe. The idea is converting standard, old fashioned buildings, which are sadly still the norm, into truly smart enterprises, controlled through an app on people’s phones. You can park your car simply by approaching the gate, book spots in the gym and other communal areas, announce guests to the concierge or have parcels delivered and groceries bought automatically, all registered/ traced and with zero physical contact. The pandemic has also accelerated the need for such solutions, and our tech also has the ability of checking people’s temperature.

What does the future have in stock for you, looking at your priorities for the coming years?

In Wroclaw we have three projects being finalized, of which Angel Park will be a fully smart building, ready this June. In Krakow we are in the final stages of building Stradom House, a top class hotel and residence, as well as Angel Green which is our green neighborhood. As more people are working from home, they are appreciating ever more the value of a high quality residence, the ability to have a study for instance, and we are clearly seeing a demand for this.

FOUR MAJOR TRENDS IN REAL ESTATE

photo: Gdansk, © Krzysztof Kowalik

Throughout their evolution, the real estate markets of Poland and Romania have borrowed elements from various cultures, brought along by international investors, but also responded to specific needs prompted by the local landscape. Urban regeneration, resi-for-rent, sustainability and an increased adoption of technology are the key trends that have taken the spotlight in 2021.

Despina PONOMARENCO
Executive Director
Bucharest Real Estate Club

The tendency in Bucharest is towards urban regeneration projects, which will facilitate a "work near home" system. The beauty of these projects is that we are talking about abandoned areas which are converted into valuable assets and are also, in this way, returned to the community. Besides, they already have in place good infrastructure, transportation means, and allow retail spaces to be integrated. This is important to note because I don't expect to see new, large malls developed from scratch in Bucharest any time soon.

URBAN REGENERATION & MIXED USE PROJECTS

Like most other countries in the world, Poland and Romania both have pockets of land inside their cities that are underused or rundown, which diminish the quality of life as well as the general urban landscape. Most often they are a sign of natural evolution and growth, but also of successive and non-harmonized developments.

"Urban regeneration" is the concept that has been employed by many states to bring such areas back to life, often with strong support from public authorities. While governments in Romania and Poland have made steps in this direction it is overwhelmingly the industry that pushes the trend forward. Successful urban regeneration projects combine various uses (live - work - shop) so you will hear many developers here gearing their strategy towards "mixed-use" projects. This is further stimulated by the "15 minute city" concept which means everyone in the community is able to meet their basic needs within the range of a short walk or bike ride.

In Romania, and more notably in Bucharest, many factories inside the city became abandoned after the 1990s, leaving behind locations that did not have much utility or aesthetical value. At the same time, an overwhelming number of developers were lured by the Northern part of the capital which bloomed through the developments of offices, residences and commercial spaces. This created a circumstance of intense traffic and difficult commutes.

The trend towards urban regeneration and mixed use projects addresses both these shortcomings, by beautifying certain areas while also bringing work spaces and shopping experiences near people's homes. Some notable projects have been developed by Vastint (Timpuri Noi Square built on the site of a former factory specialized in compressors, pumps and installation materials) and One United Properties (One Floreasca City was built on the former Ford factory).

Nicklas LINDBERG
CEO
Echo Investment

Bringing together historical buildings with our new complexes first off means working closely with local authorities to make sure we are preserving the cultural potential while bringing forgotten parts of the cities back to life. Another important aspect is to include as many green spaces as possible, as a way of bringing back nature into the city. Our philosophy is based on self-sufficiency: the residential or commercial centers contain all the necessary facilities to keep you entertained and content 24/7.

Revitalization of Widzewska Manufaktura in Łódź, Poland
© Visualizations by Cavatina Holding

Warsaw on the other hand offers limited brownfields as the city was virtually destroyed in the aftermath of WWII. While the capital has seen a few notable projects (eg. the former Warsaw Vodka Distillery was revitalized by BBI Development and turned into a beautiful multifunctional lifestyle center) it generally lacks old post-industrial sites and buildings that could be subjected to urban regeneration. The trend is most visible in secondary markets, for instance the city of Łódź, where Widzewska Manufaktura, a textile factory with a history of 140 years, will be transformed into a vibrant mixed use complex.

RESI-FOR-RENT

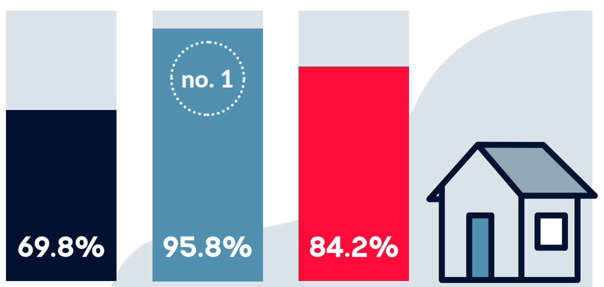
Home ownership is still prevalent across the EU with roughly 70% of the population living in a household they own. A strong sense of property is particularly visible in Romania which ranks first among EU members with an impressive 95.8% share of ownership, but Poland follows closely with a rate of 84.2%.

This is to a large extent a legacy of communist times when, one way or another, everyone had access to a free or very affordable home, which got passed down through the generations. It makes it all the more interesting then, that real estate investors in both countries are now placing their bets on resi-for-rent.

Developers argue that the continuous migration towards large cities in search for better wages also leads to a better affordability of rent, which is sometimes easier to manage than the substantial down payments needed to buy a new house. Housing prices have been on an ascending trend in both countries and, while salaries increased, they haven't fully kept up the pace. In addition, Romania and Poland alike are experiencing a cultural shift driven by younger generations who show a preference towards a certain type of flexibility that allows them to move around with ease. The product proposed by developers in this space includes a range of services and amenities that can't be found easily in today's rental market: gyms, dry cleaning, coffee shops etc.

Poland is several steps ahead with many commercial developers turning their attention to resi-for-rent, lured by the fast rising rental prices. In 2020 Poland's rental markets grew by 10-12% on the new builds and 6% on the secondary market, trumped only by Luxembourg.

HOME OWNERSHIP VS RENTING (2019)



source: Eurostat

SUSTAINABILITY FROM BUZZWORD TO MARKET REALITY

There are several drivers for this not-so-new trend, starting with a general heightened care for the environment within the two countries' population. Whether the result of a genuine commitment to the planet and environment, and people's health and wellbeing, or a smart PR move, adding sustainable features to buildings ultimately translates into a win for local communities. The trend is also driven to a large extent by national and EU regulations. Among them is the European Green Deal which targets a carbon free continent by 2050. The European Commission noted that buildings are responsible for 40% of the energy consumed as well as 36% of energy-related greenhouse gas emissions. Roughly 75% of buildings in the EU presently do not meet the requirements of energy efficiency, yet 85-95% of today's buildings will still be in use by 2050. Revamping them is essential in order to reduce emissions and, of course, all new developments must be aligned to these objectives. And thirdly, in cases where developers are not motivated by a desire to support the environment, they are still swayed in this direction by their need to obtain financing, as banks are more easily convinced by projects that are sustainable and in this way promise to remain attractive for the long term.

75%

OF BUILDINGS IN THE EU PRESENTLY DO NOT MEET THE REQUIREMENTS OF ENERGY EFFICIENCY

85-95%

OF EXISTING BUILDINGS WILL STILL BE IN USE IN 2050

source: European Commission

In practice, buildings get their "green light" through a series of certifications (BREEAM, WELL, LEED etc.) that developers seek out and for which they need to check a multitude of features, depending on the rating they wish to obtain.

Adrian POP
General Manager
ADP Green Building

One of our recent projects was awarded the most sustainable building in CEE at BREEAM Awards 2021. It has PV panels on 40% of its roof and the rest is used for vegetation and solar tubes that bring natural light in the sales area. We also set in place a system that captures and stores rainwater, which can be later used for irrigation purposes and in the store's bathrooms. These features made the building's value rise, and the cost of running it decreased.

Skanska's target is to totally eliminate its carbon emissions by 2045, and to achieve this we try to recycle building materials, rain water is recirculated, Equilibrium 1 uses 100% energy from renewable energy sources, etc. The green spaces around our office buildings are open to neighboring residents, there are charging stations for electric scooters and cars and Campus 6 has the first 280m-long rooftop running track in Romania.

Aurelia LUCA
Executive VP Operations
Hungary & Romania
Skanska

Ștefan TUDOS
Vicepresident
Genesis Property

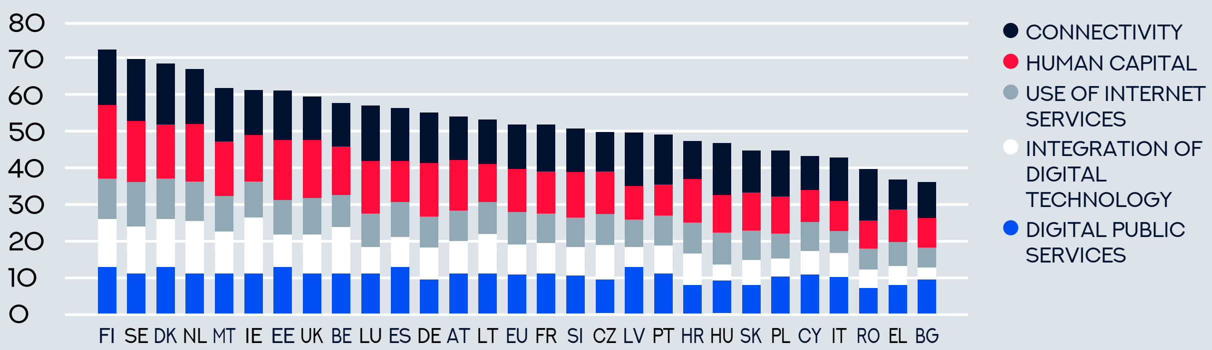
The IMMUNE Building Standard consists of approx. 120 measures that must be implemented in a building - once done, an evaluator checks the level of implementation and certifies it on three levels of performance: strong, resilient or powerful. Similar to a hotel rating. Many aspects are considered including innovative ones like having an "IMMUNE Steward" - a person who knows the standard by heart and continuously ensures that requirements are in check.

REAL ESTATE DINOSAURS IN THE DIGITAL ERA

The global pandemic fueled many existing trends and the move towards digital sits atop of the list. Whether we are talking about team collaboration, location scouting or permitting procedures, people were challenged by the restrictions imposed and prompted the real estate industry to reconsider its investment priorities.

Broadly speaking, market players in Romania and Poland have been relatively slow in adopting new, modern tools. Looking at the economy overall, both countries rank low among their European peers in terms of digitalization. It is most often the high (perceived) costs, and the discomfort of change vs. the comfort of methods that have worked well in the past, that hold back transformation.

DIGITAL ECONOMY AND SOCIETY INDEX, 2020



__source:__ DESI 2020, European Commission

Even so, throughout our research and discussions with companies that are active in all segments of the real estate markets in Romania and Poland it has become clear that the appetite for technology is on an uptrend. One advantage that both countries hold is an excellent IT talent pool. So far, these resources have been employed mainly to execute ideas proposed by international giants but there is also a vigorous start-up scene taking shape. The solutions they propose range from ways to streamline internal processes to innovative ways of buying, renting and using properties. To come full circle public authorities will also need to step up - while paperwork is still the norm, the pandemic has shown that many procedures can be dealt with online.

Alex BOGHIU
CEO
The Mavers

In a nutshell, we came up with a smart framework that makes it easy for real estate companies to digitalize their processes, and we also build products which bring great value to the industry, such as a platform that aggregates public information (traffic reports, real estate listings, air quality reports, etc.) to generate market reports. Clients usually turn to us because they want to know what would be feasible to build on a particular plot of land. We provide them with the location analysis: pricing, potential competition in the area, traffic density intervals, air quality, etc.

Siemens is a global tech powerhouse. The company focuses on smart infrastructure for buildings & distributed energy systems, as well as automation and digitalization in the manufacturing industries.

Cristian **SECOȘAN**

CEO
Siemens Romania & Moldova

How do you assess the appetite for technology in the real estate market?

We offer a cutting-edge portfolio for smart buildings dedicated both for residential and business developments. 15 years ago, there was almost no market for high-end products in Romania. The situation has significantly improved, and the real estate market grew and continues to have tremendous potential.

Overall the market is fairly stable but at a relatively low level. Sure, there are many buildings that are marked as A class but that does not guarantee that the technology used is the most innovative. It is an issue directly linked to maximizing profit and the level of economic development. The goal is to keep production costs low so that demotivates developers from choosing high-end equipment. I would argue that's not the best move though because cheaper technical solutions tend to incur additional costs, related to usage, maintenance etc. That is why companies are now demanding green buildings, with lower long-term costs and a carbon-free footprint, as a part of the corporate image strategy.

In the residential space the situation is different, Romania has new residential buildings, with high quality equipment and occupied by people who expect the best.

Everybody seems to agree that the global pandemic has accelerated the road to a digital world. What did it mean for you as a technology provider?

It didn't necessarily generate significant business opportunities, although it might in the medium term. What happened is that it accelerated the transition towards work from anywhere. If you have a stable internet connection, pretty much all tools can be accessed online - this does raise some security issues, but it also creates a certain comfort for employees, and step by step also for employers.

The future office should offer safe spaces to work both individually and as a team. Technology will support in better managing the space and working conditions. It is all about #CreatingPerfectPlaces where people are productive and connected.

Bogdan
NICOARĂ

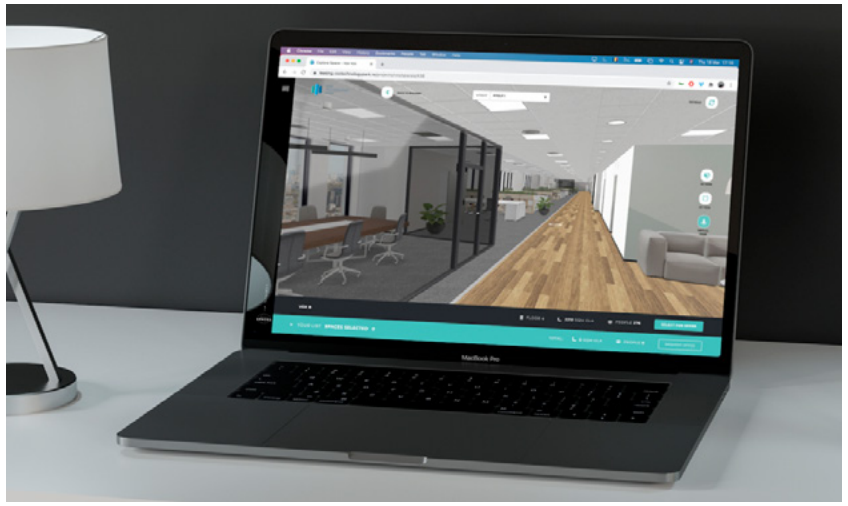
Co-founder & CEO
Bright Spaces

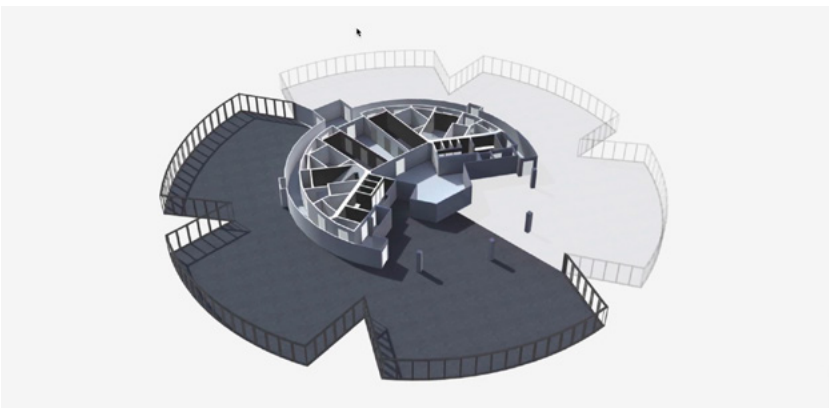
Bright Spaces is a Romanian start-up, founded in 2019. The company developed an innovative digital solution that makes it easier to virtually visit and lease commercial spaces worldwide.

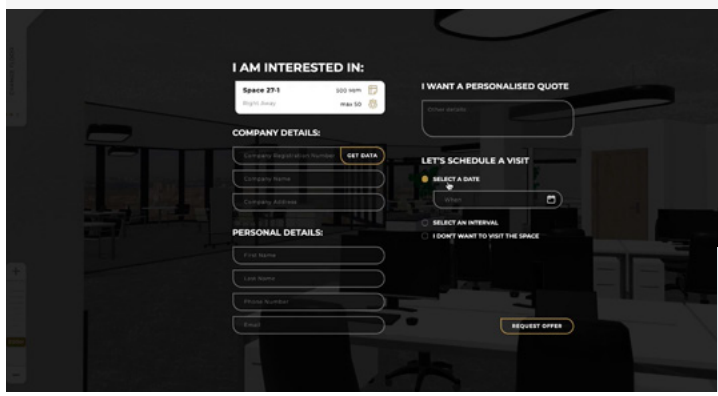
The basis for Bright Spaces was set in 2019 after winning a local hackathon. What set you apart from other competing start-ups?

One thing that set us apart was the fact that start-ups typically select a very small, niched problem and solve it proficiently - we chose a riskier road, less traveled, by creating a multi-feature product, easily customizable for different types of potential clients. The solution itself does something that is relatively simple but incredibly useful. Namely, it digitizes day to day processes of the commercial real estate market, helping landlords lease their spaces faster and easier.

Allow me to provide an example: today, owners keep their data about vacant spaces in a basic excel and this is how they send information to their brokers (alongside some pdf presentations, maybe a website and at most, a basic virtual tour). By contrast, we make it possible to send all this information via a simple link, where information is quick to access and permanently up to date.







Do you already have studies to show how much time brokers save by using your solution instead of classic methods?

Our first project was launched last October for Skanska's Equilibrium building in Bucharest. Since then we launched 13 buildings and the results are encouraging. There are tens or even hundreds of views on every virtual building and also we saw closed deals on spaces that were showcased and managed through Bright Spaces. Regarding the time optimized by our solution, we are seeing that at least 25% of the time allocated in the leasing process on manual or repetitive tasks is now saved and we believe in time we can get to more than 50%.

3D INTERACTIVE TOUR AND AVAILABILITY PLAN THROUGH THE BRIGHT SPACES PLATFORM

Sixense Group is a service, French born company, that supports real estate, energy and transport infrastructure clients, through digital solutions dedicated to preserving their projects' structural health.

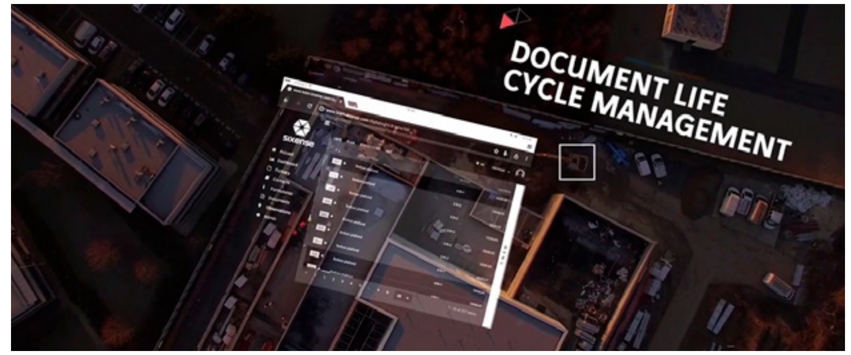
Mariana
GARȘTEA

CEO
Sixense Romania

What type of solutions do you make available for the real estate sector?

From monitoring a construction site to monitoring all proximity buildings near a site to monitoring complex real estate projects in operation, we work with tools that radically transform the traditional (manual) monitoring and make it more accurate, efficient and accessible.

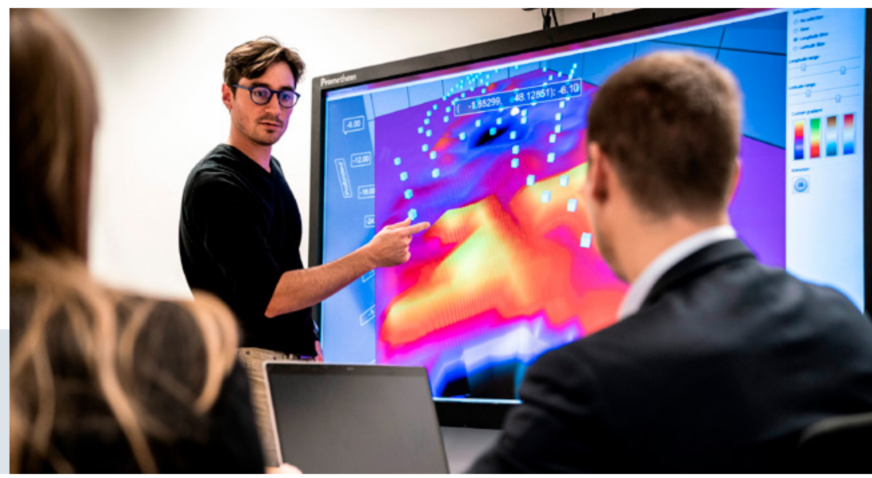
Our innovative solutions can go as far as making a digital replica of a building, based on which we can clearly see how the building behaves in time, in the context of the building's natural aging process, but also as a reaction to external factors (vibrations, environmental conditions and others). It is almost like the building can tell us what parts of the structure need our attention, where risks need to be taken into immediate consideration and what our priorities should be.



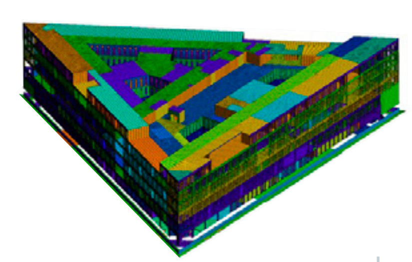
What are some reasons an investor would embrace this digital shift?

The most obvious gain is in efficiency, as all participants in a building project are literally on the same page. Then, transparency and accountability come into play whenever players know that their delivery or rhythm can be scrutinized by others. Finally, the expenditure curve steeps downwards to almost reaching the axis as technology is put to work and contributes to cost reductions. Think of all the flaws or errors being detected and removed as early as the design phase!

We should also not discard the pressure coming from the business and social environment, such as the smart city concept, IoT, tenants or owners in need of instant reaction from public or private service providers. It all connects the basic aspects of life to technology into a relation that becomes natural and organic.



DIGITAL REPLICA OF REAL ESTATE ASSET FROM THE "BEYOND" PLATFORM



THE GRASS IS GREENER ON THE OTHER SIDE

by Andrei Botiș, CEO NAI Romania & Moldova and President ROGBC

There is no greater urgency in the real estate market than that with which companies and real estate buildings are becoming greener and more energy efficient.

The last decade was characterized by important climate changes and environmental disequilibria that obliged consumers to acknowledge the importance of environmental protection for the future well being of the human race. Buildings are one of the main environmental polluters and take up a massive chunk of overall energy consumption – BUT – the building sector is also one of the easiest to transform so as to reduce the pollution volumes, raising the bar, and the expectations, for the adaptability of the real estate industry.

Construction standards that include provisions related to minimizing the environmental impact came as a natural step forward. Presently, EU regulation includes specific requirements for the minimal standards to be respected for new builds (that need to be Near-Zero Energy Buildings), as well as for refurbishments meant to upgrade older ones to a superior environmental class by diminishing energy and water consumption, using less-polluting materials and offering features that allow users to limit their environmental impact – efficient waste management systems, plug-in stations etc.

The most profitable investment projects in the years to come are green complex big-scale integrated projects, including infrastructure developments and a wide range of facilities. They have the major advantage of an integrated green architecture starting with the design phase, that allows the highest efficiency possible by including optimizations right from the project phase.

Moreover, the EU put in place a complex policy that turned the green objective into its principal growth vector. It involves public financing for developing the adequate infrastructure for improving the environmental performance of the built areas, as well as favourable financing. One objective is to create the institutional mechanism that assigns an “adequate” financing cost to the green performance of the objectives to be financed, with banks playing a key role.

The Romanian Green Business Council (ROGBC) has a prodigious activity in this field, by creating an integrative framework for gathering and sustaining green building initiatives. It involves a long-term systematic dissemination activity meant to increase consumers and investors’ awareness of the benefits of a green building, creating a wide network of investors and suppliers of green materials, and becoming an important partner of the regulatory authorities in terms of implementing green building policies. Examples of initiatives include green home financing alongside main commercial banks, liaising with the authorities in the quest towards fiscal reductions for green buildings. It is also recognized as an expert body, acting as consultative partner or issuing recommendations regarding the implementation of green building policies in CEE.

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The shift is palpable. Communities are becoming ever more aware and public authorities are developing policies for ensuring macroeconomic growth through green initiatives. If ten or five years ago, analysts began to emphasize the benefits of green buildings in terms of reduced exploitation costs, better brand image and bigger comfort in utilization, now the green standard is the norm. The changes in market preferences are rapid. The green advantage is gradually replaced in consumers’ culture by a brown discount for conventional buildings. In time, the conventional buildings will be associated with higher uncertainty related to quicker depreciation.

The non-residential segment is already strongly oriented towards building green, especially when talking about new projects. This trend is correlated to an increase in big companies’ demand for green facilities due to their brand management constraints.

In Poland the preoccupation for high quality efficiency standards also increased as a result of European policies, with progress especially in the non-residential sector, where new projects align to the new criteria in order to secure higher rent and better preservation of the value of the buildings.

They are currently bringing all their data together and have recently signed a partnership with ROGBC to monitor this segment more accurately and push it in the right direction.

The residential segment notes a steady increase in the percentage of green projects. However, an important part of the residential stock remains old and with a low green standard. Regulatory initiatives have been put in place, i.e. that any important refurbishment must also lead to an improvement of the efficiency class. Progress has been slow though, as the cost-benefit analysis does not always prompt a green revamp for older buildings. One potential solution could lie in offering financial incentives for green refurbishment of individual residential units on a perennial basis.

The EU included them in its development axes and dedicated financial products can be used to put them in place. The costs are not low, but the results certain and the stakes high. We are talking about securing the future of Europe’s real estate market and green is a competitive advantage vector, particularly across CEE countries that need it the most.

To conclude, I would say that future of buildings is green and it is only getting greener. The pandemic and EU’s public policies to mitigate its effects shaped irrevocably consumers’ preferences for green projects. And make to mistake, this is not an evolution restricted to the EU – the United States, Middle East, and the world at large are laying the foundations of better, more sustainable buildings of the future.

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Warsaw Business Center

INVESTMENT & FINANCING

With patience and a thorough due diligence, it's easy to find profitable assets in CEE – but having the flexibility to time your exits is of utmost importance and key to a successful venture. In the past, we did face instances with legal complexities related to ownership titles, permitting and availability of credit. The situation gradually improved over time as the legislative and business environment continue to evolve and credit is becoming more available and flexible, considering that more foreign banks have entered the market.

Demetris PANAYI
CFO
Zeus Capital Management

© Pat Whelen

STAYING THE COURSE

THE PROPERTY FINANCING MARKET

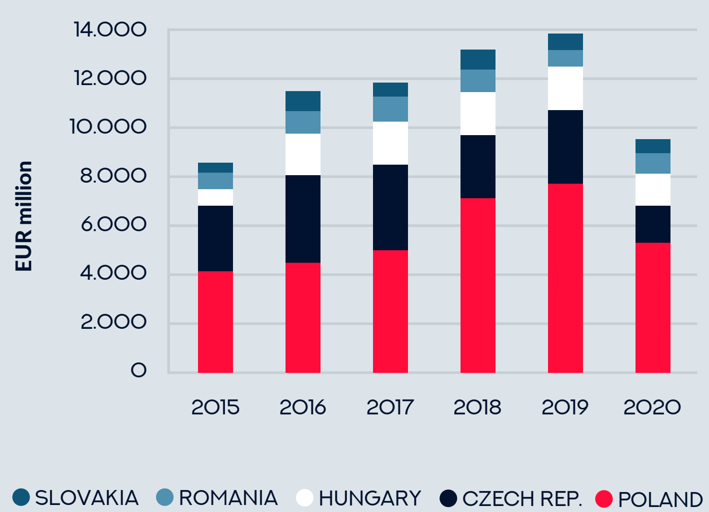
by Maxime Otto, Senior Consultant Capital Markets JLL Romania

In the context of the COVID-19 pandemic, global debt markets saw increased activity and heightened competition in Q1 of 2021 as the lender pool expanded for the second consecutive quarter. Despite inflationary pressures and increasing interest rates in the U.S. in recent months, thanks to sustained vaccination efforts and optimism across various economic indicators, global debt markets remain firmly in a favorable, historically low interest rate environment.

2020 will undoubtedly go down as one of the most memorable years for all the wrong reasons. The arrival of the COVID-19 pandemic in March 2020 has impacted the CEE real estate market across all sectors. Some with positive gains, such as in the logistics sector, but others with a clear negative impact, such as retail and tourism.

There is a continuing debate around the impact onto the office occupational markets where we have seen falling demand and increasing vacancy rates and an increase in sub-leasing activity. It is expected that the office sector will start to recover as we go back to our office workplaces following the successful roll-out of the vaccination program through 2021. Even with these challenges, the CEE markets continue to attract strong interest from investors, both international and domestic. However, with a shortage of available products and the impact of COVID-19, there have been volumes declines across nearly all markets.

CEE INVESTMENT VOLUMES
(2015 – 2020, EUR MILLION)



source: JLL

ROMANIA

was the only country in the region to show an increase in transaction volume in 2020, driven mainly by AFI's acquisition of NEPI Rockcastle's office portfolio.

EUR 73.5 MIL
PROPERTY INVESTMENT VOLUME FOR ROMANIA Q1, 2021

EUR 700 MIL
PIPELINE OF DEALS FOR 2021

In Romania, 2020 started with a large pipeline of transactions; several high-profile office deals were in advanced stages of negotiation. While the outbreak of COVID-19 had a significant impact on the investment market, the total transaction volumes for 2020 represented a significant increase from 2019. The only country in the region to show an increase, driven mainly by the large NEPI/Rockcastle portfolio acquired by AFI. Q1 2021 property investment volumes for Romania are estimated at EUR 73.5 million, a value approximately 50% lower than the one registered in the same period in 2020. This comes on the back of a relatively healthy 2020, when transaction volumes reached EUR 892.5 million.

In Q1 2021 offices represented almost 50% of total investment volumes, followed by hotels, with 32% and industrial, with the remainder 19%. This is a trend that started with the beginning of the COVID-19 pandemic, when the only transactions that advanced were mostly offices and small industrial properties, which were not affected by the crisis to the same extent as the other types of commercial properties.

Despite general uncertainty regarding the conclusion of the COVID-19 pandemic, there is a consistent pipeline of deals which might close during 2021, estimated at over EUR 700 million. The office sector continues to show liquidity, with approximately 50% of the potential pipeline volume. Local capital is starting to play an increasing role in the Romanian investment market. Romanian buyers accounted for 28% of the transaction volume in 2019 and over 15% in 2020, from levels close to 5% until 2017.

SHARE OF TOTAL INVESTMENT VOLUMES
(%, Q1 2021)

49%	32%	19%
OFFICE	HOTELS	INDUSTRIAL

Bucharest is still working on fixing a twisted higher risk perception from international investors. My personal opinion is that this perception is influenced by the faulty political decisions made in the '90s. Against the backdrop of the 2008 financial crisis, this negative perception grew even deeper due to opportunistic investors who destabilized the real estate market. However, nowadays this discrepancy is only artificial.

If you look at it without false prejudice, the Romanian real estate market packs in great value. For more than 20 years, Portland Trust has successfully operated in this bountiful economic environment, so other tier one investors can do the same.

Florin FURDUI
Country Manager RO
Portland Trust

Gabriela
DRĂGULIN

Head of Real Estate Finance
UniCredit Bank

How did the global pandemic affect your activity and appetite to finance projects in real estate?

In 2020 we had to look at how we could help our clients, following Government Emergency Ordinance measures and other regulations meant to mitigate clients' losses as much as possible. We analyzed all the demands that were asking for a grace period (negotiated interest, banking fees) and offered additional support if needed.

Fortunately, we have a healthy portfolio and we didn't encounter situations where clients weren't able to pay their loans. In fact, some of them even thrived and used the extra capital to pay their installments in advance.

What are some of the most notable common risks you consider when financing a real estate project?

The nature of risk depends on the development phase of each project - in an incipient stage there is a chance to go over budget or miss the deadline. It's vital that developers are able to cover their part of the cost, but also help the project in case some of the risks mentioned before do happen. In order to mitigate these issues, we always pay attention to the experience of the construction companies (and project managers) involved and we hire a third-party observer that analyses all the specific details and reports back to us. Finalized projects pose a specific challenge regarding the capacity to generate future income and new ventures are more cautiously analyzed because they have no history on the market. As a result, we do our best to assess if the concept will bode well with the trends, so that the project generates enough cash to repay the debt and insure the expected returns for the owners.

We kept close to our clients and didn't change our attitude towards the market in any shape or form. We didn't block or postpone projects, rather we continued our day-to-day tasks as per usual, so we managed to maintain an excellent transaction level.

Since our portfolio is based on high quality projects, we suffered only a minor impact caused by the pandemic, very few of our properties being marginally affected. Only a small number of our clients accessed the benefits offered through the Government Emergency Ordinance. Retail, entertainment and office sectors will slowly but surely recover in the coming months because, ultimately, peoples' innate need for socialization prevails.

Cătălin JALOBA
Head of Real Estate Financing
BCR

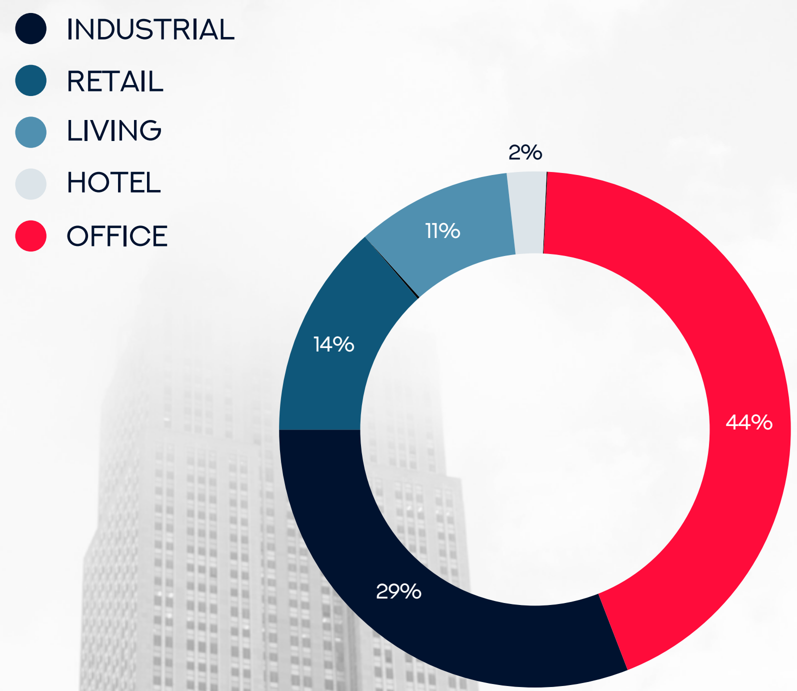
EUR 1.4 BN

TRANSACTION VOLUME IN Q1 2021
THE THIRD-BEST OPENING OF THE YEAR IN HISTORY

POLAND

continued its dominance with 57% of total CEE volume in 2020 and notably a strong year in logistics.

INVESTMENT VOLUMES BY SECTOR (Q1, 2021)



source: JLL

The Polish investment market started off 2021 in good shape on the back of robust activity in the office sector. The total transaction volume reached almost EUR 1.4 billion in Q1, which translates into the third-best opening of the year in history (surpassed only by Q1 2020 - EUR 1.9 billion and Q1 2018 - EUR 2.1 billion).

Good market results in Q1 were mainly influenced by the activity of office investors, committing EUR 605 million. It is noteworthy that the majority of this volume was invested outside Warsaw. Warehouses were the second-best performing asset class, representing 29% of the total turnover and proving the continuous interest of the industrial sector. The retail segment, with 14% share, registered a portfolio deal for over EUR 100 million (the first so significant since the outbreak of the Covid-19 pandemic), while the living sector, recognized as a rising star, was responsible for another 11%. The remaining 2% belonged to hotels, which have seen the first transaction since the end of 2019.

The yields are considerably more attractive in Poland than in the West, for instance prime office yields are at around 4.6%, compared to 3% and below 3% in Western Europe. From the office segment perspective, most buildings are class A and of the highest quality, and there is a diversified tenant base from international corporations and local businesses alike. Of course, the impact of COVID-19 was felt in Poland as well as everywhere else, but even from this angle the country proved to be quite resilient.

One important legislative change that the industry is pushing for is the introduction of REIT (real estate investments trusts) structures on the national market, let's see how this pans out. It is important to note that the commercial real estate sector was neglected by decision makers for a long time and the government is now trying to address the inequality affecting local investors.

Daniel BIENIAS
Managing Director
CBRE Poland

REITs ARE MAKING THEIR WAY TO POLAND & ROMANIA

Real estate plays a critical role in all aspects of our everyday lives. Listed property companies and Real Estate Investment Trusts (REITs) serve businesses and the society by actively developing, managing, maintaining and improving the built environment - where we all live, work, shop and relax. Furthermore, they play a crucial part in providing retirement security to millions of people, by offering pension funds and insurance companies stable and competitive assets to invest in.

Dominique MOERENHOUT
CEO
EPRA (European Public Real Estate Association)

REITs can act as guardians to our cities' assets, covering everything from offices to retail, and increasingly healthcare and retirement facilities. They represent hundreds of thousands of European jobs and are notable contributors to GDPs. REITs allow anyone, from retail to large institutional investors, to place money in real estate held by publicly quoted companies, the same way as investing in other industries through purchasing shares. Instead of investing in individual properties, investors in a REIT are able to earn part of the income produced by the underlying bricks and mortar.

Recognizing that the purpose of a REIT is to allow collective investment in real estate, the profit generated is not taxed at a corporate level, but at a shareholder level, when the dividend is paid. Legally, a REIT is obliged to distribute on average 90% of its taxable income as dividends. A robust regulatory framework of EU legislation, national parliamentary supervision and local financial markets regulators, is governing the sector for this purpose. In addition, most companies are internally managed by professionals who are directly accountable to the shareholders by way of reporting and performance metrics.

With this longstanding and successful concept, REITs represent a liquid, transparent and professionally managed asset class which allows for diversified exposure to real estate returns over the medium to long-term and high cash dividends. The total market cap of European REITs in the sector's gold standard, the FTSE EPRA Nareit Developed Europe index, accounts for over EUR 132 bn - representing a five-fold increase since 2008.

History shows that the implementation of REIT regimes has supported the expansion of property markets around the world and REITs have become a key component of the listed real estate markets. Having all this in mind, we are welcoming the fact that more countries in Europe are considering the introduction of a national REIT legislation.

14 EUROPEAN COUNTRIES

have introduced national REIT legislation. They now represent **78%** of the entire listed real estate market in Europe.

EUR 132 BN
EUROPEAN REITs MARKET CAP
(five fold increase since 2008)

WHERE DOES POLAND STAND?

Małgorzata KOSIŃSKA
President
REIT Polska Association

The commercial real estate market in Poland is one of the most significant and attractive in Europe. For the past 30 years it has been developing dynamically but with minimal participation from Polish investors. It is estimated that local capital is less than 5% of the overall investment volume here, whereas the share of domestic capital on the commercial real estate market in CEE countries ranges from 20% to 40%.

According to various resources, an estimated EUR 64 bn has been invested in commercial real estate in Poland over the last two decades, and the Polish commercial real estate market is dominated by foreign capital, including pension and investment funds as well as foreign REITs. This confirms the attractiveness of the Polish market and its macro scale stability. To date, fund structures in Poland limit the ability of Polish investors to invest in the real estate sector. This is further reinforced by low interest rates causing a faster outflow of savings from banks. Polish REITs could help retain capital of Polish investors in Poland and serve to build Polish capital and increase its share in the real estate market.

Proposed legislation creating the possibility to invest in REIT-type funds is therefore a new instrument allowing people previously excluded from this market due to the required capital commitment to invest in commercial real estate. Such a way of managing individuals' savings also serves the sustainable economic development of a country, builds civic participation and complements the basic pension system.

The development of REIT legislation in Poland has been ongoing since 2016. As of 2021 the Ministry of Development Labor and Technology, in cooperation with the Ministry of Finance, has been leading the process. The PM has issued ORDER No 41 of 26 April 2021, appointing an Inter-Ministerial Team to develop regulations for REIT entities. The Team will consist of a group of representatives from leading ministries, financial institutions, supervisory authorities and advisors.

WHERE DOES ROMANIA STAND?

Voichița LEFTER
Secretary General, ***AREI***
Policy & Changemaking Partner, ***Matei-Borbely & Partners***

The Romanian market has been trembling for years in the direction of REITS. The local investors' vibe is: ready, steady, go! After an attempt catered from outside the real estate industry, which unfortunately didn't turn out as expected, the Association of Real Estate Investors in Romania has now initiated an exercise to carefully curate this legislative initiative. This is done alongside international and local reputed consulting companies with extensive experience and knowledge in the industry, that were part of the driving force team that made it possible for this piece of legislation to be implemented in other countries.

The curation of the project relies on a vast amount of resources and knowledge currently invested in this first stage of nurturing the political will. This first step is a crucial one, that determines how easy the entire process will be in the long run. We are happy to say that the current political alliance that is governing Romania includes people with stamina and knowledge to understand the benefits for the entire market, if such structures are implemented. The immediate goal is to have an inter-ministerial committee in place to develop the REIT legislation, which will consist of ministries, financial institutions, pensions funds, the stock exchange, supervisory authorities and advisors.

For Romania this mechanism will make it possible to attract foreign capital, as well as retain local capital here by directing it towards Romanian REITs rather than going outside. A friendly legislation may sway REITs with property outside of Romania to become listed here, which will translate into taxes and benefits for the Romanian budget. The market believes Romania is ready to welcome REITs and we are looking forward to announcing further steps on the initiative.

Demetris
PANAYI
CFO
Zeus Capital Management

Floreasca Park was one of the VIP transactions on the Romanian market. What is your process in selecting which assets are worth investing in?

Romania is generally overlooked by large international investors, being an emerging market with less liquidity compared to Poland, but the yields in Romania are higher. Investing in prime offices here, such as Floreasca Park, allows you to secure yields at least 200 basis points higher than investing in a similar project in Poland. You can also capture a significant upside potential, even on core assets, as the yields in Romania are expected to converge with the rest of the CEE markets. This was the main driver that underpinned our acquisition of Floreasca Park. We joined forces with Resolution Property to acquire this asset, which also marked Resolution's entry in the Romanian real estate market.

When selecting an asset we place special emphasis on location, focusing on areas that can sustain liquidity during market downturns.

Do you think Romania will continue to offer higher yields in the coming years?

As more investors of scale place Romania on their radar screen, more yield compression will happen in the coming years. The pandemic slowed down the processes, but prior to this crisis, Romania was registering one of the fastest GDP growth rates in the EU, had under 4% unemployment rate and attracted blue chip tenants. There is still good business to be done here in residential, as well as in the logistics and office sector.

The evolution of the real estate market and of the property investment market has changed banks' behavior over the last 18 months.

In Romania, banks have become more cautious when it comes to real estate acquisitions financing. Lenders are focusing on core assets enjoying a solid track record and cash flow. Also, there is a very careful selection process when it comes to office and retail assets (excluding convenience parks which performed very well during the pandemic and for which banks still have appetite). Almost no financing goes for hospitality, for obvious reasons. Instead, we see strong appetite for logistics and residential, which are considered more resilient by banks.

When it comes to development financing, banks are even more cautious and are paying special attention to the pre-let/presale ratio as financial institutions aim to limit as much as possible the commercial risk surrounding the respective development. They finance only experienced owners and developers enjoying extensive and proven track records. A common point of Romania and Poland is the focus on logistics and a very selective process for retail and office properties. This is translated into less borrower friendly conditions especially in terms of LTV (60% vs. 65% pre-Covid-19 levels) and pricing (ca. + 25-50 bps vs. pre-Covid-19 levels).

© Christian Wiediger

In comparison with Poland, the financing conditions remain, from a borrower's perspective, less attractive in Romania as banks are willing to provide more flexibility in terms of loan reimbursement while offering lower costs. The Polish market also benefits from a wider market diversity in terms of stock, investors, and lenders, resulting in a higher level of competition between the different stakeholders which is translated into sharper yield and lower cost of funding reflecting the maturity degree of the Polish economy. Reasons might be on one hand the nature of banks and investors (more institutional investors and a greater involvement of Western, mainly German banks) and on the other hand the market's higher resilience during, and after, the 2008 financial crisis.

FINANCING TERMS FOR PRIME REAL ESTATE PROJECTS

	INVESTMENT LOAN	DEVELOPMENT LOAN
LTV/LTC	UP TO 60%	UP TO 60%
MATURITY	UP TO 10 YEARS	2 YEARS
AMORTIZATION	4 - 5% P.A*	-
MARGIN	2.5 - 2.7%	3 - 3.5 %
FRONT FEE	0.5 - 1%	0.5 %

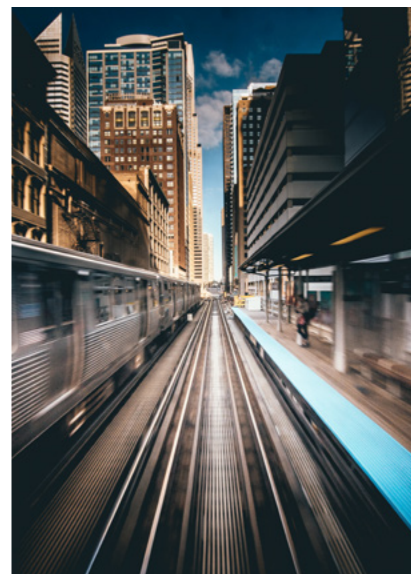
** interest payment can only be considered if LTV below 50%*

source: JLL

That being said, we are seeing more and more interest coming from international banks willing to lend in Romania. The main break is rather the minimum ticket size to be invested, which is usually around EUR 100 mil. Very few assets are suitable as most of them are owned by investors funding themselves directly through the bond market.

In the medium/long term, another type of lender might enter the market as more and more insurance companies/pension funds are lending against real estate assets because of low returns on bond markets and favorable treatment under Solvency II Directive.

Banks are raising more and more green bonds, and, in this respect, they have a very special focus to finance/refinance eco-friendly assets, as green certifications are becoming an increasingly important requirement.



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CLOSER TO A GREEN FINANCING TIPPING POINT

by Ștefan Ionescu, Managing Associate, NNDKP

As the European Union intensifies its goal to promote a low-emissions economy in the finance sector, Romania and Poland have certainly been part of the conversation. At the heart of it lies the very honest question: what does "green financing" really mean?

In simple terms, financing is "green" when it is linked to some form of environmentally sustainable activity. It doesn't necessarily need to be a renewable energy power plant or a recycling venture - it can also be, for instance, a real estate development or a construction material financing, as long as the business itself is conducted in a manner that is environmentally friendly.

What's in It for the Banks?

There is certainly an increasing public relations appeal for financial institutions to expand their sustainable lending portfolios, but it also makes economic sense for them to do so. According to a report by the CNSM, a public Romanian prudential supervisory committee, roughly half of the leading Romanian banks' exposure leans against companies in carbon-intensive sectors, which is likely to affect the returns on such assets in the future.

This means that including environmental and sustainability criteria into lending policies is smart risk management. At a larger scale, greener and more sustainable loans in bank portfolios may contribute to a greater stability of the entire financial system. For this reason, there may even come a time when green elements of bank's portfolio will come with some capital requirements discounts.

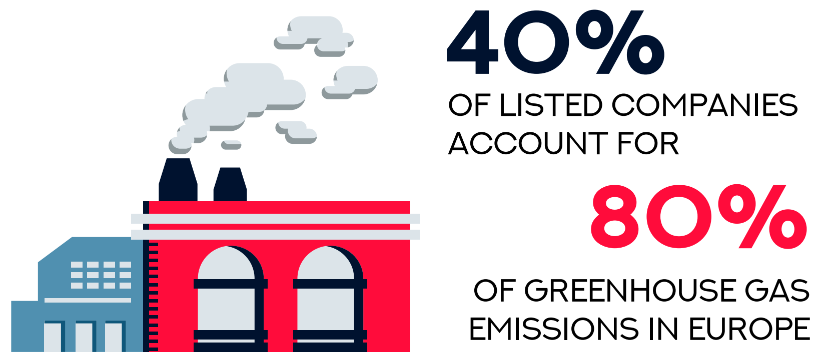
In any case, it is likely that the "green" component of any project in the CEE market will become a feature that raises the lender's appetite to finance. Companies may start to notice that having their business pass for "green" could one day lead to more attractive interest rates, or may even be a prerequisite for financing on more competitive markets.

What Does "Green" Mean in Regulatory Terms?

When it comes to what environmentally sustainable financing means, the devil is in the details. However, the EU regulators tend to love details so there is now a legal answer to that question.

The so called Taxonomy Regulation, which is directly applicable in both Romania and Poland, reflects the EU regulators concerns for developing a common language to identify which economic activities can be considered environmentally sustainable. The regulation also has provisions seeking to prevent financial institutions from labeling financial products as "green" unless certain criteria are met.

The EU Commission was very busy this year, completing the regulatory package with a Delegated Regulation containing detailed and specific guidance and metrics drawing a line between economic activities that are environmentally sustainable and those that are not. This process was not without controversy as some claimed that its goal of being a science-based and objective document was at times curtailed by lobbying from governments or other interest groups. Romania and Poland were actually in the news due to their push to introduce some form of natural gas activities on the environmentally friendly list. Their argument is that natural gas is key to helping these countries transition away from coal. This was in fact reported to be a reason for the Commissions act being delayed from its original release date. In any case, the Commission's regulation was published in April 2021 and - spoiler alert - it doesn't feature natural gas. However the regulation does specify that it will be, at least in some form, covered by a future delegated act.



source: *EU Commission*

What Does This Mean for Companies?

The EU taxonomy is hardly literature to take with you to the beach. But if you want to know what to do in order to make your business eligible for green financing in the future, this is what you should ask your consultants to look into. For instance, if you are a cement manufacturer, the EU taxonomy provides you with concrete objectives (no pun intended!) on what your greenhouse gas emissions should be.

Romania's real estate industry shows that businesses don't necessarily need to wait for lending policies to integrate green financing. Although green loans are still a small part of the bank's lending exposure, the majority of financing that can pass for green is generated by the real estate sector. This is largely due to a visible increase in the investor's desire to develop "green buildings" and advertise real estate projects as being environmentally friendly. Feedback from lenders has been very positive and is likely to encourage the continuation of this trend and contaminate other industries as well.

Lending industry standards are also being developed, as the Loan Market Association (LMA), a leading developer of standards for loan documentation, has published principles and guidance for both green loans and sustainability linked loans. They invite lenders to look at some core components of green financing, like use and management of proceeds, project evaluation and selection and reporting.

This all goes to show that a mix of regulatory and business incentives are changing lending practices and adapting company business along environmental concerns and this is likely to provide an increasing edge in the finance market.

source: *CNSM & EBA*

© Katie Moum

LEGAL ASPECTS

Dealing with the authorities can be a challenge, but certainly not an insurmountable one. What I would like to bring to the industry's attention – and this is rather something we can initiate from within – is the need for a set of standardized norms and good practices in the building and development arenas.

Geo Mărgescu
Co-founder & CEO
Forte Partners

photo: European Parliament

RULES OF THE GAME

LEGISLATION CATCHING UP WITH DEVELOPMENT

After three decades of democracy and multiple waves of rapid industrial development, Romania and Poland have developed stable, business friendly legal frameworks. As is often the case with complex bodies of legislative text - particularly in the face of such a rapidly evolving industry such as real estate - many are dated and both countries are working to modernize and simplify their systems.

© Tingey Injury

ROMANIA'S LEGAL ENVIRONMENT

by Flaviu Nanu, Counsel, Wolf Theiss Romania

Real estate investors continue to manifest an increased interest for Romania and new transactions are reported by the media on a weekly basis. One of the reasons is undoubtedly the nature of the legislative framework. Although it has acquired a reputation (not entirely undeserved) of a country that implements rather numerous legislative changes, Romania has maintained a constant pro-business focus not only at the level of central government, but that of local authorities.

Real estate benefits from few, but well-established, pieces of legislation. Law no. 350/2001 regulates the main principles of urbanism and land planning. In this respect, it is provided that each municipality must approve and update every ten years a general urban plan (GUP), which, together with the ancillary regulations, contains, among others, the identification of the buildable area of the municipality, its partition into various functional zones (administrative and business districts, residential areas, industrial zones, etc.), as well as the general construction requirements for each such zone. The GUP for Bucharest is overdue for an update as the most recent one dates from the year 2000.

At the intermediate level, zonal urban plans (ZUP) provide more detailed regulations for specific areas, such as city centers, historical protected zones, industrial parks, etc. At the lower level, the detailed urban plan (DUP) establishes additional construction requirements for particular real properties (access, architectural consistency, etc.).

Zoning Plans in Bucharest Suspended Until the End of 2021

Romanian municipalities have been open towards the development of urban areas, particularly by allowing the conversion of former in-city industrial platforms inherited from the Communist regime into modern residential, retail and mixed-use areas and encouraging the expansion of real estate developments on the outskirts of urban conglomerates. In this respect, urbanism plans are naturally subject to evolution mirroring communities' need to grow. However, sometimes this needs to be tempered by the necessity to preserve the city's historical heritage or green areas. This is illustrated by the current situation in Bucharest, where zonal urbanism plans of the city districts seeking to amend the existing GUP were suspended by the municipality early in 2021 (for a declared one year time frame), in order to allow stakeholders to consider how they would pan out. This suspension however has not significantly impacted the market, as construction trends continued, with investors relying on existing urbanism parameters.

The authorization and performance of construction works are regulated mainly by Law no. 10/1995 regarding the quality in constructions and Law no. 50/1991

BUILDING PERMITS AT A GLANCE

© Nicole Baster

Building permits are issued by local authorities, depending on the location of the project and local capabilities, based on the following steps: (i) the applicant obtains an urbanism certificate, which mentions the current status of the property and lists the conditions required for the issuance of the building permit; (ii) the applicant may be required to perform a re-zoning via a ZUP, if the planning parameters of the area do not allow direct issuance of the building permit; (iii) preparing the technical documentation and obtaining any prior approvals and endorsements; (iv) application for and issuance of the building permit.

© Daniel Mccullough

Construction regulations have been amended recently in order to streamline the permitting process. Thus, local authorities at the level of counties and main cities are required to organize single point of contacts, allowing them to obtain the necessary prior approvals and permits, required as pre-conditions to the building permits, from various authorities at the request and on behalf of investors.

Following the COVID-19 pandemic, there is a noticeable trend towards reconsidering the role and purpose of office buildings. Certain owners are contemplating the possibility of converting office buildings into residential units, considering that the demand from residential units is increasing and the legal formalities for such operations are not exceedingly cumbersome (it is necessary, as a rule, to obtain a building permit for the envisaged changes, subject to compliance with urbanism parameters).

Voichița LEFTER
Policy & Changemaking Partner/Curator of Women Founded Ventures
Matei-Borbely&Partners

We know that political stability and predictability are highly important for international investors, and while this is still a road to walk, we are doing our part in clarifying the actual context and keeping people updated and focused on the opportunities that matter. We want to lay the foundation for a pioneering Institute of Politics in Romania, modeled on the structure of a similar institution ran by the University of Chicago, that will encourage well educated and talented people in Romania to get more active in the political arena.

David YEARN
Business Development Executive CEE
First European Title Insurance Company Ltd.

The historical background of the CEE region, with its divided ownership and problematic land registry creates an obvious need for title insurance. Poland and Romania in particular suffer from restitution and reprivatization issues, which is why foreign investors sometimes hesitate to place their money here. A title insurance policy can be very reassuring for foreign investors and the arrival of US investors - a country with a hundred year tradition in the field - into the region helped facilitate its use.

The National Plan for Recovery and Resilience Incentivizes the Construction Sector

As far as the construction sector is concerned, it has been given a boost by the implementation of tax facilities. Now it is expected that the sector will receive further incentives under the National Plan for Recovery and Resilience. In this respect, a significant portion of the funds, estimated at EUR 29.2 billion in grants and loans starting with October 2021, is envisaged to support investments in social infrastructure, roads, railways, subway, as well as schools and hospitals, presumably part of these through public-private partnerships, rehabilitation of buildings and construction of green industrial facilities.

New Restrictions on Converting Agricultural Land

Romania has extensive surfaces of land with high agricultural potential, but which could also be converted for development purposes. The year 2020 brought some question marks as the Romanian Parliament passed Law no. 175/2020, which significantly restricted the acquisition of and possibility to convert agricultural lands for other purposes.

Amendments are currently being discussed by the Parliament aimed at bringing a just balance between the necessity to protect and preserve the agricultural potential and the requirements for development and modernization and it is expected that the matter will be solved soon. From this perspective, the demand for suitable land continues to rise, not only for residential, retail and logistics, but also for industrial facilities. The coming period will see a rise of manufacturing plants in Romania, especially in the automotive and renewable energy sectors.

Romania's legislative framework has by and large proven flexible and resilient. Despite inevitable adjustments, it can constitute a reliable basis for foreign investments, which are expected to continue on a positive trend in 2021 and beyond.

Cosmin
SMIGHELSCHI
General Councilor
Bucharest City Hall

The suspension of ZUPs has been seen as an especially tough challenge by industry members - what was the reason behind this decision?

District urban zonal plans (all, except District 1) have been conceived in the past to simulate the update of the city master plan. They have been cancelled by court order because they were considered detrimental to investors that weren't part of the timeframe when these ZUPs were first designed. Moreover, they have been deemed illegal because there were no green spaces included and no traffic studies properly completed.

What I want to note is that the process is not in fact fully blocked at this time, investors can use the city master plan as well as apply for individual ZUPs. By the end of 2021, developers and investors who have important projects should apply for these individual ZUPs that will be analyzed and voted on as soon as they prove to be beneficial for the community. My advice would be to not get influenced by political talk, because the Bucharest real estate market is not in a standstill. Ample, profitable projects will be surely voted and authorized by councilors.

Can developers contribute in any way to make sure these tasks are completed in due time?

Developers could create more green spaces, schools and mixed-use projects with facilities that could decrease overall traffic in Bucharest. On our side, we have tens of projects regarding seismic risk on the roll and we are continuing the consolidation programs that have been started in the past. Unfortunately, the entire center of the city is extremely exposed.

Speaking specifically about real estate, what makes Romania a good place for your business presently?

Most countries nowadays have an issue with identifying land for development. The smaller the country, the more essential the use of land inside the city area becomes. You do not want to increase the footprint of the city too much or convert too much greenfield into land for construction.

Romania, of all countries in Europe, has the most advantageous ratio of "polluted" land divided by the surface of the country. I am referring here to land that has been used in the past but is currently idle because of environmental issues. So the reason why I consider Romania interesting is the huge number of such properties. Just look at Bucharest - developers are building on the outskirts and increasing the footprint of the city, but there are so many pieces of land inside the city that are overlooked. But the ideal scenario is to accelerate brownfield development, and develop those unutilized properties.

There are already a few good examples of projects that are meant to revitalize certain areas of the city...

Indeed, things are moving in the right direction, but there is still so much room for improvement. What holds back progress is a perception that cleaning up brownfields is very costly. Obviously in the case of greenfields remediation costs are not required, which makes it look cheaper at a first glance, but that is not the case.

Take the example of properties developed alongside Bucharest - Pitesti highway. Sure, the land is on the cheaper side, but there is little to no infrastructure, electricity, gas etc. Such costs are often overlooked. Secondly consider how much time it takes for a person working there to get home - there isn't even public transportation available. When you put everything together brownfields inside the city tend to be the better choice.

Martin
DREISEITEL
Managing Partner
F&R Worldwide

photo: Krakow from above, © Sebastian Huber

POLAND'S LEGAL ENVIRONMENT

by Tomasz Stasiak, Partner, Wolf Theiss Poland

As far as business is concerned, the rule of law in Poland is preserved and politics does not overstep any more than in other European countries. While political debates over the status of Polish courts and general compliance with EU standards have taken place they have not constituted ground for investors to shy away.

The legal framework for real estate investors in Poland has remained stable for over fifteen years, with zoning conditions for a property being defined either in a master plan (voted by local councils) or, in the absence of a master plan, in a zoning decision issued based on the principle of continued development (also called "good neighborhood principle") - in a nutshell, the parameters of new developments must follow those of existing buildings, accessible from the same public road. With zoning conditions defined and the environmental impact review passed, the investor can rest assured that the building permit will be issued assuming technical standards set by central law are preserved. The main unknown remains timing as all decisions can be challenged by neighbors and, in case of environmental decisions, by NGOs.

Poland Simplifies the Situations that Require a Building Permit

One noteworthy development in recent years has been the step by step limitation of cases in which a building permit is required. Institutional investors will be happy to hear for instance that, starting with 2021, properties can be repurposed without the need to obtain a building permit, hence without the risk of delayed administrative procedures, as long as their project is compliant with the master plan and doesn't affect the building's outer shape.

One example of a simplified procedure can be found in Poland's retail and logistics markets. Thanks to recent amendments, historical retail projects can now be converted with more ease into retail parks (that have been growing in popularity throughout the pandemic), or redeveloped into last mile logistics.

The dynamic expansion of the logistic sector is somewhat limited by restrictions related to trading agricultural land, which makes it difficult for the newcomers to build substantial land banks. As a consequence, a typical deal structure involves the developer entering into an "option agreement" with the landowner, which gives the developer time to work out the proper zoning plan. The transfer of title occurs only after the land's status is changed to non-agricultural. One positive development happened in 2019, when an amendment to the restrictions on purchasing agricultural land made it possible for companies to buy land not exceeding 1 hectare without consent of the Director of the National Support Center for Agriculture.

The relationship with authorities (planning, zoning, agreements, etc.) is always a challenge - no different to CEE or even the entire world - and you always need to have your troops on the ground to successfully mitigate it. In the future, services like ours are going to be so much sought-after exactly because without a local partner, it's almost impossible to conduct a fruitful real estate business in a foreign market.

Jacek WACHOWICZ
CEO
Warsaw Property Partners (WPP)

THE POLISH DEAL & CHANGES AFFECTING THE RESIDENTIAL MARKET

As of 2018 major residential projects may also be implemented based on a resolution of local council accompanied by urban development agreement between the developer and the local authorities, which may derogate from the zoning conditions provided for in the master plan. The government supports the residential sector through various financial programs directed towards individual buyers. As part of the recently announced "Polish Deal" for instance, the government plans to offer guarantees for mortgage loans taken by individual buyers and in this way make it easier for the young to buy property. The impact on the domestic demand is expected to become visible no earlier than mid-2022.

Residential development for individual buyers is subject to complex sector regulations intended to protect the interest of consumers. This includes an obligation to provide the buyer with comprehensive information on the entire project, prohibition of abusive contractual clauses and ensuring that the buyers' payments for newly developed units are kept on a separate escrow account, administered by a bank and released to the developer in line with progress of the development works. However, the regulations are not perceived to be a major obstacle to development activity. On the other hand, the private rented sector (PRS) requires very careful planning from a tax perspective in order for investors to benefit from the VAT exemption applicable to long-term occupational leases.

As the demand for living spaces keeps rising, one challenge that became apparent in the market is land scarcity for residential. But when there is a will, there is a way. An interesting reaction to this has been real estate development under hotels/services zoning designation, that are intended to be sold as individual units to be rented out by buyers, under the common management of the developer.

Michael MARKART
General Manager
STRABAG Real Estate International

The cultural background of Romania and Poland is similar and the trend towards residential-for-rent is starting to become visible in both. What stands out in Bucharest is that it has a mix between new buildings sitting next to wonderful historic ones, most of them under monument protection for good reason. Warsaw, on the contrary, suffered enormous destruction during WWII, which resulted in space for large new development schemes in or very close to the city center. The growth of last year with 700.000 sqm office space under construction is truly amazing.

On the office side I was impressed by the quantity and quality of office space when I first came to Bucharest, it was exploding in various parts of the city, especially around Floreasca, where our local branch team – earlier under the brand of Raiffeisen Evolution – has realized Promenada Mall and Sky Tower. Even so, in my perception there is a gap of more than a decade between Romania and Poland, the latter being even more advanced than Austria regarding modern stock of offices.

But apart from the cities' different urbanistic starting points, the main difference could be seen from a legislative and administrative point of view. Romanian laws often allow for wider interpretation, which is fairly problematic, whereas the administration in Poland proved more straightforward, with higher awareness for developers' needs such as response qualities in timing, accuracy and bindingness, thus enabling investors to rely on a more stable basis.

photo: Lodz Manufaktura, © Maksym Harbar


© Aleks Marinkovic

CONSTRUCTION & KEY SERVICES

During the last five years, the city's landscape was transformed through various office projects and business hubs developed by investors. 10-15 years ago, skyscrapers were a rare sight, but nowadays they have become a normal piece of the urban puzzle. This evolution is directly linked to better infrastructure, new metro stations, solid investment plans and better predictability. In the past, when five or so buildings were developed in the span of two years, it was considered a "peak", but nowadays this is a constant pattern, thanks to the growing investment potential available in Romania.

Bogdan DOICESCU
Development Manager
Bog'Art

© Scott Blake

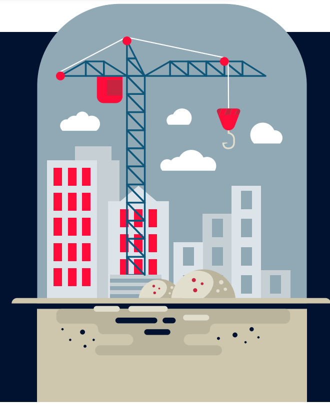
UP AND RUNNING

A POST PANDEMIC CONSTRUCTION HYPE

During the initial haze and folly of March and April 2020 construction volumes in the EU declined to an unprecedented -25.4%. However, they bounced back dynamically and reached an impressive 30.7% growth in April 2021, strongly influenced by the evolution of the French market. Poland's recovery has been slower, with growth rates still negative in April 2021 at -4,9%, while Romania stands at 10,5%.

CONSTRUCTION GROWTH RATES
(APRIL 2021 VS APRIL 2020, %)

+30.7%	EU
+10.5%	ROMANIA
-4.9%	POLAND



The construction sector in both countries had been developing at a fast pace in both countries before the global pandemic. 2019 in particular proved to be a highly productive year, with Romania's construction segment doubling since 2015, and Poland also growing exponentially on the back of continued work on large infrastructure, commercial and residential projects. Romania and Poland both host world-class construction giants, which work alongside an array of small and medium companies in an overall fragmented environment. In a sense this creates a clash between two worlds: on the one hand, construction companies that impose the highest international standards and erect modern, world class office buildings that rival Western skyscrapers, and on the other hand smaller players that operate more or less by their own standards, in a Wild West type environment.

ROMANIA

43.4% VOLUME INDEX PRODUCTION IN THE CONSTRUCTION OF BUILDINGS (2015-2019)

20.9% TURNOVER IN THE BROAD CONSTRUCTION SECTOR (2010-2018)

POLAND

33.5% VOLUME INDEX PRODUCTION IN THE CONSTRUCTION OF BUILDINGS (2015-2019)

25.1% TURNOVER IN THE BROAD CONSTRUCTION SECTOR (2010-2019)

source: *European Commission, European Construction Sector Observatory January 2021*

While 2020 raised a lot of question marks the overall sector in both countries fared well. After some hesitation and considerations of closing down, both governments decided to keep construction sites open so most projects continued according to schedule. In a fortunate turn of events for Romania and Poland, the closing of borders triggered a relevant number of workers to return to their home countries. This was particularly valuable for Romania which has been struggling to meet the demand for qualified workforce for many years now. The cherry on top was the good weather which favored progress and reduced unwanted downtime.

Bogdan DOICESCU
Development Manager
Bog'Art

The momentum carried well into the pandemic and during lockdown many of our sites continued largely unaffected and even managed to get ahead of schedule with greater on-site productivity mainly due to readily available workforce, which was an issue in the past. However, the lagging effect of investment cycles and unexpected surge in commodity prices is definitely a challenge on the construction industry because a half-year 'wait-and-see' period weighs heavily when it comes to re-starting a two-year long average construction time frame.

This year is going to be unpredictable in pricing and decisions on starting new builds due to the postponed decision-making from 2020 combined with massive capital allocated by governments and a flight to real assets by investors. This created a faster-than expected revival of activity which puts high pressure on prices in a period where there is still uncertainty and adjustment in business plans for certain asset classes in the real estate market.

Cristian
NĂSTASE

CEO
Concept Structure

Concept Structure is a leading structural engineering & design company that counts notable projects on the Romanian RE market, such as AFI Mall Brașov, Millo and Tandem Offices, The Bridge Offices, Stejarii Residential Phase 2 etc.

Not everyone on the market calls upon a structural engineering company to aid in their projects – why should they, and what is the added value brought?

Back in the 2000s when projects were on a roll, efficiency was not seen as such a vital concept, but nowadays everyone is keeping a close eye on costs – where we come in is in finding the perfect balance between lower prices and uncompromised quality. For example, we are able to obtain a cost per sqm 30-40% lower than other players. Moreover, we always design projects following all the rules and regulations, with the help of the 10-year-old database we continually update. Materials and installations are always clear costs, but structure asks for efficiency, so we develop projects progressively – starting with special foundations and rafts (mainly in urban areas and specific by every type of soil we build on), continuing with, the most important part from our point of view in seismic design, the ground floor slab (+0.00 level) and the superstructure depending by construction type based on best efficiency consumption ratio between reinforcement/concrete and build areas.

As a strong point in designing a building we aim to obtain maximum 10-12% for unusable areas (stairs and elevator or corridors) based on intelligent solutions in structural design of main elements. (cores, columns, slabs) .

What would be some of the trademark projects you're proud of and how did you end up designing them?

We built our portfolio through recommendations from past clients and this is how we managed 2. to work on top level projects in the country, like Afi City phase I and now phase II, Afi Mall and Offices phase 1 in Brasov , for Afi Europe, Millo Offices, Tandem Offices, and U Center phase 2&3 Offices for Forte Partners, Miro Offices and now The Ivy phase 2 for Speedwell , Stejarii residential phase 2 for Țiriac Imobiliare , Granvia Marina for Granvia Romania, City Point Aviației for Shikun & Binui.

What are some of the main challenges a company like Concept Structure faces on the Romanian market and how can they be mitigated?

First and foremost, a design company in Romania is allocated around 1-3% for all specialties (architecture, MEP, structure, technical assistance on site and as built projects) of a total worth of a project. Meanwhile in Europe the average is 9%, so the value of our work is greatly underappreciated, unfortunately. Building sites pose their specific difficulties because we interact with clients, construction firms and consultants at the same time, and sometimes we have to work on extremely tight deadlines.

What did you make of the authorities' recent suspension of zonal urban plans (ZUPs) and their grand plans for the capital?

It's not a pleasant thing to go through, but in my opinion it was somehow necessary to put a halt to all the prior chaotic development. We have six projects of around 60,000-70,000 sqm each (EUR 2 billion investment) that are now on hold. It has impacted our work directly. We have been in the concept design phase for ten apartment buildings in Bucurestii Noi area that all are blocked due to this decision. This is one of those massive projects that is way too important not to follow urban regulations. Moreover, the pandemic greatly impacted the real estate market, so the ZUP situation came as the cherry on top of the disaster cake. The solution would have been to hire specialized companies that could assess where the issues laid and stop only those projects.

What are the company's main plans for the upcoming two to three years?

One of our most ardent dreams is to expand to international markets (Serbia, Poland, etc.) and this is definitely going to happen, even though now it seems like a difficult task due to the 1% versus 9% issue I mentioned before.5. However most important for us as a team is that all the important clients renew their confidence in our work by awarding us new projects after the old ones are over or during the different stages of development (design, tender, technical assistance on site, etc).

Consolidating our team is also on the list of priorities and things have been going really well in this direction, as some of our students hired not that many months ago managed to perform extremely well and that encourages us to keep on evolving on this path.

Mircea
BULBOACĂ

President & Chairman
CON-A Group

CON-A Group was founded in 1990 in Sibiu, growing into a leading large-scale construction company. CON-A has developed its own production factories, know-how in construction and design, building materials supply, covering almost the entire range of services that a company in this field can offer.

CON-A is responsible for many of Romania's flagship buildings, what are the most noteworthy to you and what are you working on currently?

The BTarena (Polyvalent Hall) in Cluj-Napoca or the Craiova Stadium are some of the projects we are most proud of, especially because the costs involved were very low compared to what is being built nowadays. On the industrial side we built factories for Daimler, Bosch, Continental or Pirelli, all remarkable projects. Just now we are building a biofuel factory in Podari, which is actually the first of its kind in Europe.

Foreign investors should know that Romania offers a really good environment, they can develop large-scale projects here, just as they imagine them. As proof to this stands the fact that 50-60% of the factories we built ended up being extended. And the capabilities are outstanding, Romanian factories produce high precision parts, car components fitted to the most demanding cars, Pirelli for instance makes tires for Formula 1 here in Romania.

We are meeting at an unprecedented moment in time, in the midst of a global pandemic. How was the business affected and what are the domains that tend to drive demand?

Regarding the pandemic, I believe the Romanian Government made an appropriate decision to not shut down construction sites, as it happened in other countries. This allowed us to continue work and overall the construction sector in Romania saw an ascending trend, our company included. What I did notice during this period, particularly in the industrial segment, is that investors took a moment to understand what was going on and assessed twice the investments in plan. But since last fall things have started to settle, we have many requests for quotes and things are generally moving forward.

While we are not very connected to the residential sector because our Group is specialized in the industrial sector and large public projects. But as an opinion, the residential segment is growing and changing for the good: living spaces are becoming bigger, people show more interest in houses rather than apartments etc. I think the growth will be even more evident once the 5% VAT is sorted out.

Cornel **DOGARU**

CEO
BTDConstruct & Ambient

BTDConstruct & Ambient SRL was founded in 2013 in Romania and is composed of a strong team of professionals who specialize in construction and interior design services. Some of their most notable projects are: H Pipera Lake, Central, H Victoriei 109 and Luxuria Domenii Residence.

What real estate segment best serves your business presently and what is the general vision for the company?

The residential sector takes up to 95% of our portfolio and we focus mainly on Bucharest market, although we have started prospecting international markets as well. We collaborate with pre-eminent developers such as Speedwell, Accor, Hagag etc., originating from various geographies (from Belgium to Israel to Greece, Spain etc.). In terms of vision, we place a special emphasis on teamwork. This approach carried us through many successful projects, so we want to keep bringing on board specialists that are solution-minded and have an excellent construction background.

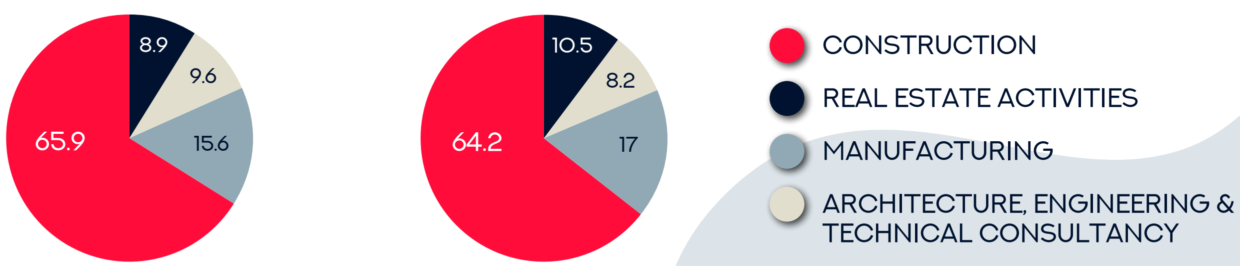
BTD is known for building high quality, cost efficient residential complexes. What is the process you employ when selecting projects?

There are multiple elements considered when deciding which project is worth taking on: we check whether the developer has enough resources to finish the project and thoroughly assess the areas where we're going to build. Bucharest North is for instance a safe zone presently, because the selling price is still high compared to other areas, there is no inflation of projects and it's also a highly sought-after area by investors (including for build-to-rent).

Oftentimes Romania is perceived as a risky destination for investment. Would you say the reality matches the perception?

I disagree actually. Contrary to what some international players might think, it is extremely easy to develop a profitable business here. The market is really effervescent at this point in time and enough demand is generated especially if we talk about Bucharest. Add to this the fact that the economic growth has been substantial in the past few years. It's true that some developers focus on more traditional, low quality projects, but many in turn have realized that this is not the way to go and focus on high-grade, efficient buildings.

PERCENTAGE OF PEOPLE EMPLOYED PER CONSTRUCTION SUB-SECTORS IN ROMANIA & POLAND (2019,%)



ROMANIA

512,995 EMPLOYEES IN THE ROMANIAN BROAD CONSTRUCTION SECTOR **13.2% BELOW** THE 2010 LEVEL.

POLAND

1.686.851 EMPLOYEES IN THE POLISH BROAD CONSTRUCTION SECTOR **18.1% ABOVE** THE 2010 LEVEL.

source: *Eurostat, 2020*

Vladimir **SPIRESCU**

COO
PORR

PORR is present across various CEE jurisdictions - what are some notable differences between the Polish and the Romanian real estate markets?

Poland is a more mature and refined market, not only in Warsaw but across several secondary strong regional development pillars. Romania, however, is catching up fast, so in a few years' time we will probably see the same type of exquisite projects being built here, as well, particularly in the office segment. Seismic risk is a tough topic in Bucharest and many developers had to rethink their projects in order to comply with the regulations - as a side note, this is the main reason why we do not yet have a proper skyline here.

How have you noticed the regional real estate market transform throughout the past decade?

Even though there is a notable trend towards better looking cities, I feel there is still room for improvement inside the industry, from an ethics and quality point of view. In Austria, the first six general contractors hold 40% of the market, while in Romania this percentage is not even held by the first twenty players. We are in an extreme market fragmentation but I am confident that little by little the industry will become more balanced and we will be able to homogenize the real estate environment.

Have you found the search for qualified workforce to be a challenge?

At the moment, the challenge is to consolidate the existing workforce that is spread across multiple small companies or is not legally registered. The construction sector is highly tempting at first glance due to the envisaged high numbers, but with great power comes great responsibility.

How do you envisage the Romanian real estate market to look like in the near future?

Romania can offer profit margins as high as 40-50% while in Poland these are only as high as 20%. This local advantage is generated by constructors' lower fees (but also quality), as well as smaller property taxes. This perspective is starting to shift and the Romanian market will soon catch up with the rest of CEE and WE, and even though the profit margins will decrease, the investment context will become more predictable and secure.

Despite the pandemic, the construction sector thrived last year - what do you think were the catalysts that contributed to this situation?

This incredible growth was influenced by two elements: an important number of projects were rolling since the year before and employees' salaries were increased (from EUR 500 to EUR 800-1000), so migration slowed down. The construction sector became more attractive to young people thanks to automatization and robotization systems that streamline processes. Although the real estate sector is lagging behind digitalization wise, the pandemic will have a positive impact on it, and in the next ten years the construction medium in Romania will look totally different.

What is your final message on the Romanian real estate market?

If the past 15 years were ideal for risk takers that wanted bigger but more unstable profits, the future will reverse this situation and provide smaller, yet safer profit margins. Since it's situated at the convergence of Europe, Asia and Africa, Romania is offering the best investment opportunities in an enviable location.

Cristian **ERBAȘU**

CEO
Construcții Erbașu

A HISTORICAL PRICE SURGE FOR BUILDING MATERIALS

by Claudiu Bisnel, CEO, Brisk Group

CONSTRUCTION MATERIALS PRICE EVOLUTION (DEC 2020 VS MAY 2021, %)

POLYSTYRENE	+ 57%
ELECTRICAL CABLES	+ 75%
RAW CONCRETE STEEL	+ 59%
SHAPED CONCRETE STEEL	+ 46%
PIPE	+ 60%
GYPSUM BOARD	+ 11%
CD PROFILE	+ 30%
AGGREGATES	+ 15%
PVC PIPE	+ 26%

source: *The Employers Federation of Building Companies in Romania (FPSC)*

The pandemic plunged the world into the most revolutionary hybrid work experiment - which proved to be a success. It really shifted companies' mentality, placing employees' health and wellbeing at the heart of the labor market, a premise that could lead to an interesting diversification of the workforce.

Entrepreneurs, including construction companies, are accustomed to adapting quickly and implementing various continuity strategies. This ability to adjust has positioned constructors well during the pandemic and emphasized the crucial role it plays in society, making the industry more accessible and attractive for a greater pool of potential employees. In general, companies that are willing to take on present challenges, and react by developing and adopting new processes and capabilities to protect their workers, minimizing future project disruptions, have an edge in today's current business climate. By complying with government regulations and restrictions, while correctly managing customers and suppliers, they will inevitably become stronger.

Diversification will become increasingly important for the construction industry, and contractors will be more willing to explore how they can work in different industry sub-sectors, especially after the slowdown of the office sectors in the immediate future, and the hard hit taken by retail, leisure and hospitality. Digitalization will also continue to be a strategic pillar for most entrepreneurs, in a quest for higher productivity. Many companies have initiated new working groups to understand the impact of COVID-19 on their business, and have implemented new ways of working.

In the first months of the pandemic, many entrepreneurs were unable to obtain basic materials - sand, cement or bricks, for instance - while also suffering from labor shortages. Prices for construction materials increased by historical highs. According to market information, we are witnessing a 94% rise in the price of copper, a whopping 250% for timber, over 50% for aluminium, 120% for steel, 15% in the case of cement, 20-25 % for brick, about 30% for iron and 10% for paints. The increases are spectacular for at least two reasons: as the pandemic unraveled, production capacities were scaled down, but things picked back up much faster than expected meaning that producers could not keep up anymore.

Milos JOVICIC
Managing Director
Procema

Our strong position on the market is maintained through our rebar fabrication shop where we straighten, bend and cut the steel for specific projects. Prefabricated products are also an important part of our business, welded mesh and pre-assembled steel cages being two popular elements in our portfolio. We are also the sole supplier of FORTEC coupling systems in Romania - a cold forging process that offers a quick and safe bar-to-bar connection. Three years ago, our export was almost non-existent (under 1% from the final turnover), but this year it's probably going to reach 15%-20%, depending on market context.

Romania has been particularly affected because most materials come from imports. Therefore, the wave caused by the pandemic is only now reaching the construction sector, and everyone must brace for tough times ahead, cost wise. Volatility between the RON-EUR or RON-USD exchange rates can further contribute to higher prices for imported materials. Moreover, the increase in the minimum wage has led to a 25-30% increase in labor costs.

All these elements combined will likely further lead to a rise in construction prices. Analysts point out that price increases, fueled by government spending meant to salvage economies from a new economic crisis and encourage a back-to-normal demand, will put added pressure on supply chains.

For many entrepreneurs, early payment to suppliers has proven essential to keep things going and is likely to remain a post-pandemic priority. Smaller subcontractors are often less able to take risks, so paying them in advance can help ease the challenges of cash flow in a changing environment where the ability to mobilize quickly is vital. Practices such as "reverse factoring" - where large companies make arrangements with third-party financiers to pay their suppliers' bills in advance for a fee - may be re-evaluated in the future.

Daniel POPA
Country Manager Romania
Reynaers Aluminium

There are two major opportunities we count on: firstly, the growth of the construction market as indicated by the latest statistics of 5-10% each year, and secondly the qualitative increase of these types of constructions, which is very important for a company like us that offers premium products to its buyers. The Romanian tendency is for better, higher quality materials, products that offer higher longevity.

Nowadays there are also certain norms and standards enforced by EU policies, so we all must follow them. Every building receives a specific class in accordance with the materials and methods used to build it. These classes are getting higher and higher as we progress so better materials are in order, which motivates developers to invest more.

Todor FIDANOV

Managing Director

Etem

Etem was founded in 1971 and is a leader in the aluminum extrusion sector in SEE. It specializes in architectural systems and industrial applications.

What is Etem's footprint in the region and how much of it involves Romania?

Our HQ is in Athens, we have two production plants in Athens and Sofia, and affiliate companies across Romania, Serbia and Ukraine. Etem as a group frequently works in partnership with the automotive sector (BMW, Daimler, Land Rover etc.). The overall turnover is more than EUR 100 million and Etem Romania accounts for roughly EUR 5-6 million of that, though it is a growing segment.

How does aluminum fare in comparison to other materials in the real estate sector?

We consider aluminum a luxury product (long-lasting & eco-friendly) that brings a higher quality to the table, one which investors are starting to appreciate. It is a very popular material and consequently people are psychologically drawn to it, feeling they can rely on it. Secondly, it can be easily shaped into profiles with specific characteristics and it can be painted in a wide array of color nuances. In Sri Lanka we are developing a project (Water Front) that is right on the ocean coast and we guarantee a 20 years lifetime for the colored aluminum profiles used.

Aluminum competes with PVC, which we also offer, and that is also a perfectly good material depending entirely on what the needs and requirements are. One of the main difficulties in the SEE market is putting together an accurate budget at the beginning of every project because we usually rush into production and adjust the figures on the fly. The cost of materials naturally plays into this, and depending on priorities such as durability, insulation and so on the correct choice can be made for each project.

How open are investors to using aluminum solutions? Has the pandemic influenced demand?

The commercial segment is a little bit halted at the moment, however generally speaking aluminum is seen as a pivotal material for offices, both functionally and marketing wise. The residential sector is on the rise, but regardless of the market fluctuations it's still the wisest to invest in it. From what we observed, renovation projects are going to explode this year because people want to make sure their property value is secured, so we expect a rise in demand for high end products. Actually, Romania is leading the way in this sector, in the Balkan region.

© Mikita Yo

Iulian MANGALAGIU

Managing Director

Wienerberger Romania

Wienerberger Group is a global leader in ceramic blocks production, with a history of over 200 years and presence across 30 countries. The company has been present on the Romanian market since 1998 and has seven production factories and over 520 local employees.

How did you fare through the pandemic generally speaking?

In certain respects, 2020 was the best year in the history of Wienerberger Romania, thanks to an excellent conjecture between market demand and internal development projects, that helped us register turnover of over EUR 100 million. Unlike other industries, about 40% of our employees, myself included, continued working from the office, in shifts, because our cornerstone is teamwork.

What motivated the establishment of the company's strong production footprint in Romania?

First and foremost, the market is in full development and this offers a lot of opportunities. Moreover, Romania is in need of innovative solutions and Wienerberger is the perfect player to offer them, since we were the very pioneers of ceramic blocks. Even now, we are importing Western technologies and implementing them in our seven factories in Romania, which is a highly receptive place thanks to its novelty avid market.

You mentioned innovation and intelligent solutions - how do these concepts translate into nowadays' construction materials industry, any examples?

Last year, we invested EUR 3 million in a polished brick prototype that is glued together with a special adhesive rather than the classical mortar aggregate. Using this new brick, we can increase construction speed, reduce workforce, and require a smaller storage space for adhesive tubes. This solution is especially fit for inner city sites, it's cleaner and with a lower carbon footprint. Insulated lintels for doors and windows are another concept that we introduced to the market helping with energy efficiency.

Clients are interested to invest in overall more affordable, faster and ecological solutions, and this is what we are offering. The direction to going green is set clearly by the EU, and Romania is following it, but it's still a long way ahead. Wienerberger is definitely an active part of this journey.

What advantages and challenges characterize the Romanian real estate market?

Eastern European countries were introduced in Wienerberger's portfolio in the last 20-30 years, so the factories here are more up to date compared with other states. Romania was a pioneer regarding digitalization systems, and we are among the first markets embracing change and innovation because the online infrastructure is excellent. For example, all the parameters measured in our Romanian factories can be instantly accessed in Vienna. The most important challenges are population decrease, the global rise in almost all raw material prices and risk associated with growing qualified workforce migration.

SERVICES & EQUIPMENT

Real estate companies will find a full array of service providers in both Romania & Poland, with a growing appetite for companies to outsource non-core business segments. This trend is particularly visible in property and facility management, with ever more players emerging. The pandemic also left its mark in this market space - near empty office buildings and retail centers still needed vital maintenance services to carry on, and new health and safety measures had to be introduced to cater to social distancing and hygiene norms put in place.

Mariana STAMATE
Managing Director
MVGM Romania

Externalizing property management services assures a dose of professionalism that otherwise wouldn't be possible. For example, we had a situation where the owner didn't bond well with the property manager. Things like this happen and from our position it was possible to find a replacement, but it isn't as easy when matters are handled in-house, with a more limited personnel.

Receiving the same quality standard as the companies from other European countries, especially the "four-eye principle" in the financial sector, is yet another advantage companies can benefit from.

In the past, cleaning was seen more as a minor service but in 2020 its importance became evident to all property owners. Disinfection definitely became a central part of all the jobs we did last year: nebulization, temperature control, UV lamps, etc. To better adapt to the clients' needs, we applied in-house methods, but we also collaborated with trustworthy companies in the field.

Technology is definitely important in facility management. The cleaning sector can benefit from robots and machines that make work more efficient, although there are some logistic limitations (such as stairs, small spaces, etc.). Software solutions have become more important as well.

Cora CRISTESCU
General Manager
Atalian Romania

Laimonas LUIZYS
Managing Director
Peikko Romania

I would say that the propensity to adopt innovative solutions is directly linked to individual deciders. There is no specific industry that is more open than the other. For example, CON-A is one of the construction clients we have a good relationship with, and Concept Structure is a design company that resonated well with our solutions. This evolution in mentality is related to the change in generations. The old and conservative generation is being replaced by a younger and more daring pool of engineers.

Rustler Property Services Romania, part of Rustler Gruppe, entered the Romanian real estate market in 2012 to offer property and facility management services. Besides these core activities they provide specialized revisions, project management services, TDD's and WELL certification.

Daniel STATE

Managing Partner
Rustler Romania

How do you assess the Romanian market's current appetite for these services, which segments generate the highest demand?

There is more of a necessity for these services than an appetite per se. A building thrives only if it's well maintained. Even though the legislation requires some compulsory maintenance operations for the vital systems, it is encouraging that owners request additional technical services, necessary for the life cycle and quality standards of their building. Being able to provide the requested specialized services, we are improving the overall standard and experience in their properties.

The retail segment is fertile soil for property management, as well as the office sector, even though the local context is not regulated as well as in other CEE countries. We would like to see improvements in terms of properly aligning the occupational standards, which currently does not reflect/includes all the roles in our field, or legalized minimum service level standards.

The global pandemic created some turbulence among office and retail players - how did this affect your demand and how did you adapt to the new reality?

The lockdown affected the retail sector the most, as shopping centers were obliged to close their doors. Shopping centers and office buildings owners reduced their maintenance contracts in order to reduce operational costs. We, among the rest of the "unseen" contractors, which normally maintain a shopping center alive, were forced to downsize our activity instantly, affecting our revenues. On the upside, industrial and logistics segments registered considerable growth (as well as residential) during the pandemic and thanks to this emerging segment we managed to remain stable and "patch up" the losses from other projects that were affected.

Do you have any specific recommendations as to how developers could increase the quality of final projects from a managing & maintenance point of view?

When developers work with us from early stages of design and our inputs are considered regarding the equipment, systems and installations that are planned to be implemented, the final project is always more reliable and easier to manage both for the owner and the companies that are responsible for its maintenance. Such consultancy activity helps mitigate design flaws and sustain the implementation of user-friendly solutions that contribute to the final quality of the building, and of course to minimize operational expenses.

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Cătălina
DRAGOMIR

Managing Director
KONE ASCENSORUL

KONE is one of the leading global providers of elevators and escalators founded in Finland in 1910 and present on the Romanian market since 2008 as KONE ASCENSORUL.

KONE's portfolio is extremely varied from offices to hotels or retail spaces - what does the company's footprint look like on the Romanian market?

KONE ASCENSORUL was founded in 2008 as a greenfield company (the only one in the region), but we have been operating on the market through our distributors ever since 1990 and before. In fact, an elevator from the control tower in Henri Coanda Airport was manufactured by KONE more than 30 years ago. We currently have around 80 employees and operate across three main business lines: sales, operation and equipment maintenance. We are part of the Balkans-Adriatic-Mediterranean Area (BAM) cluster, together with Croatia, Greece, Cyprus, Bulgaria, Serbia, Montenegro and other neighboring countries. Romania is considered a driver of the region thanks to its profitable economic context and fast developing emerging market behavior.

Taking a look specifically at the real estate industry, wherein lies the opportunity for growth and optimization in your field?

Since the Romanian market is continually expanding, we always find opportunities here that are fit for our business model. Our portfolio includes projects across all real estate sectors all over the country: residential, offices, commercial, infrastructure (metro stations, rail stations, airports), as well as the ever more popular mixed-use projects. Bucharest is the main hub of our activity, with half of our maintenance fleet being deployed here; Cluj-Napoca is the next point of interest followed by Timișoara, Brașov, Constanța and Iași.

In Poland, business has really taken off in secondary cities, are you seeing a similar pattern emerge in Romania?

Secondary cities in Romania are starting to show potential but they are still not a major part of the business portfolio. An improvement in this sense can be observed in smaller towns where local authorities plan energy efficiency projects like hydro-isolation, new waterway systems or modernized elevators in old apartment buildings (Slatina stands out with a noteworthy project for 60 residential buildings). Tier-two cities have a similar pattern when it comes to hospitals, public authorities HQs, historical buildings etc.; in the last year an increased effervescence was registered towards public projects with lots of auctions taking place.

Let's speak innovation - how does your business contribute to building smart cities in specific ways?

Because you can't have smart cities without smart buildings, it's only natural that elevators follow this trend and get more technologically advanced. Even though the general perception is that elevators are mere hardware boxes that take you from floor to floor, we managed to transform this simple box into a "connection". At the end of 2019, we launched our first line of intelligent equipment named KONE DX (Digital Experience). For our region the first project was implemented in Croatia and two weeks later in Romania, while for example more conservative countries like Germany or France adopted it only later on continuing with standard solutions. These new elevators come equipped with open-source connection interfaces which means they can work with any third-party apps preferred by customers, tenants, owners or third party users (useful for residential and offices).

Do you also have your own integrated solutions?

We have proprietary programs, like 24/7 - a proactive maintenance system that connects all the elevators to a cloud and monitors them in real time, providing permanent health checks and identifying any deviations. We first used this system in May 2020 in a residential project in Brașov and I must say people were pleasantly surprised. KONE Residential Flow is a phone app through which users can open doors and call the elevator from the outside of the building, cutting the waiting time while being able to memorize the usual floor the user gets off. The idea behind this project came about from a project in France, where a group of elderly residents needed a way to optimize couriers' access into the building. The solution development evolved bringing innovation for the modern citizen as it enables also welcoming your visitors from distance while being outside from home.

What would be some of the challenges you bumped into while integrating these modern solutions on the (sometimes pretty conservative) Romanian real estate market?

Modernization projects mean a lot of work and it can in fact be challenging to implement new technologies due to limited spacing or specific architecture. You need an out-of-the-box mindset, and some communication skills on top of it, to let people know what is possible. Our products are customizable and scalable, and that makes it easier to integrate them into all kinds of projects, regardless of the initial design. Of course, there are technological restrictions that make us put a halt to projects sometimes and we always follow the "better safe than sorry" rule.

What are the main goals you want to pursue in the next two-three years?

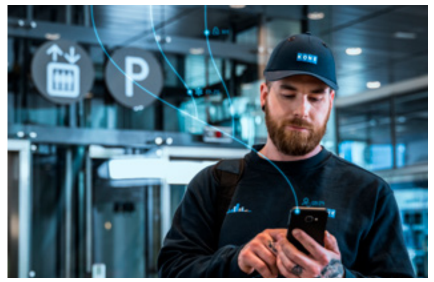
We'll definitely continue developing our organization with a focus on quality and innovation. We plan to implement all of our new features as soon as possible across all segments of the Romanian market. The appetite for digitalization is more significant in CEE than in Western countries and this creates great opportunities for us. In Western Europe we work on many modernization projects, but what is exciting about CEE is the abundance of new projects, for which it is easier to plan from the very start and integrate smarter equipment.

KONE
is a global leader in the elevator & escalator industry

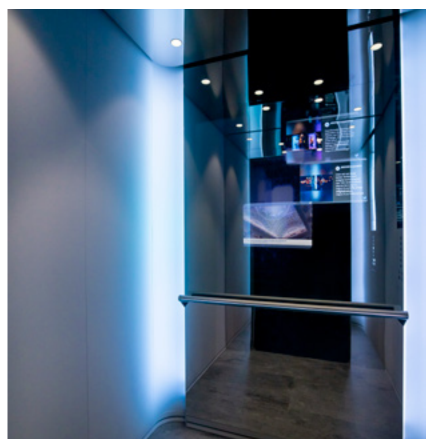
60,000 employees

500,000+ global customers

Dedicated to People Flow™ KONE



Founded in Finland **in 1910**



INNOVATIVE SOLUTIONS

In 1996 the MonoSpace elevator technology was introduced as the world's first machine room-less elevator.

In 2019 KONE introduced the world's first digital elevator series the KONE DX Class with built – in connectivity as standard, that brings a new user experience to life through a combination of design, technology, new materials, apps and services.

We are proud to have excellent solutions that can improve the feeling of smooth, comfortable, enjoyable, reliable and safe People Flow.

FINAL THOUGHTS

Monica BARBU
CEO
Romania Sotheby's International Realty

In our 2018 market report we recorded around 10,000 historical buildings, listed as class A or class B monuments. The majority of them were confiscated aggressively during the communist regime, but after 1990 the restitution process was equally aggressive, so equilibrium was achieved. All of these buildings carry impressive histories with them or were designed by famous architects. Their value does not merely consist in functionality, as living or office spaces - we also have the chance to revive a set of associated values, as a homage to their glorious past.

This is what I see as an opportunity for our generation and also for another 2-3 generations to come: to do things that haven't been done and do so by skipping stages where possible. Skipping stages is in fact enabled by technological advancement and by our natural way of finding opportunities in every situation and I think it is a positive thing to happen, when done correctly.

Tatian DIACONU
CEO
Ceetrus Romania

Andrei VĂCARU
Head of Capital Markets
JLL Romania

Market attractiveness can be looked at through two indicators: transactional volume and prices. Regarding the former, Romania is still well below the level of Poland, Hungary, or the Czech Republic. It is merely a consequence of a few leading players choosing to avoid Romania for (perceived) macro-economic and political reasons. Which in turn leaves the door open to savvy investors who know what to look for.

We are redesigning SkyTower's lobby with a focus on high-tech, such as large LED wall integrated in the access area to elevators, while the space at the mezzanine floor of the building is transformed into a Convention Center that includes a unique medium-sized multifunctional amphitheatre with a capacity of about 60 people, a lounge area and a boardroom.

Leo FORSTNER
Managing Director
RPHI Romania

Mihnea ȘERBĂNESCU
General Manager
Cushman & Wakefield Echinox

Romania has received growing interest, starting with the Greek or Israeli investors, followed by Austria and Western Europe, the United States, Belgium and France. In the mid '00s South Africa started investing and several funds have followed since.

Romania suffers from poor marketing. It is no different from the Polish or Hungarian markets, except in its (false) reputation for being riskier. And with (perceived) higher risk come higher yields, making it a very appealing prospect indeed.

Sebastian METZ
GM & Board Member
German-Romanian Chamber of Commerce

Looking at bilateral relations, 2019 saw a boost of 12% to EUR 33 bn and Germany remains the no. 1 foreign direct investor with over 250,000 direct employees. There is a palpable footprint across many industries, however in real estate there are very few German developers. Why? We believe that there is a lack of promotion and awareness about just how much potential the Romanian real estate market has.

Jonathan Diamantino
CEO
Zacaria Group

The industrial market in Romania still has immense room for growth. The demand is constant, and the supply is, at this time, unable to keep up. Another strong point of the market is the workforce. I have been an employer since I was 21 years old and the loyalty and dedication towards the success of Zacaria that I found among my Romanian colleagues' is simply incredible and something I have only ever experienced in this country.

Lucian AZOIȚEI
Founder & CEO
Forty Management

Our intention is to develop a tower (near Miorita Fountain) that is going to become the tallest and most luxurious residential building in Romania. Once this project comes to life, we are going to concentrate exclusively on implementing the Crystal Lagoons concept, since it's a highly scalable idea. We intend to repeat this pattern in Budapest, Warsaw, Prague, etc.

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THANK YOU!

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