

TOP 10 Predictions

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1

Huge uncertainty externally, but CEE will fare better than other EMs

Financial markets in the CEE region weathered the storms of 2016 remarkably well. In fact, most structural metrics indicate that CEE countries are closer to developed economies rather than other Emerging Markets. Romania followed this CEE trend and is poised to show resilience against external shocks in 2017. We consequently expect continued investments in the local market, propping up demand for office and industrial spaces.

2

Investment transactions will reach a post-crisis maximum in 2017

The pipeline for investment transactions in 2017 is already covering >65% of the total volume of transactions from 2016. Liquidity has improved as new investors entered the market in 2016 and as new investors are currently prospecting Romania. Bank lenders will maintain a positive appetite towards real estate projects. In addition, alternative sources of financing such as bonds or mezzanine debt have become more convenient and attainable.

3

IT and BPO/SSC sectors will be the main drivers of office space demand, particularly outside of Bucharest

IT and Outsourcing services have seen a massive development over the past 5 years and will maintain the positive momentum in 2017. We expect these sectors to be the second most important contributor to GDP growth, and to be the key driver of demand for office spaces both in Bucharest as well as the other major cities.

4

Competition on the office market will increase

As deliveries continue to outpace the newly created demand on the Bucharest office market, the vacancy rate is poised to increase over the upcoming period. New buildings which offer good connections to the public transport scheme, Green certifications and an interesting mix of amenities will remain the market favorite and will be able to keep rents around the current levels. Conversely, older buildings with poor metro connections will either have to make additional investments, or risk competing solely on costs.

5

New industrial developments will hit an all-time high

The total stock of industrial spaces is set to increase by 500,000sqm in 2017, marking the highest rate of deliveries/stock in the post-crisis period. Demand will stem primarily from FMCG sector (40% of new deliveries), E-commerce (20% of new deliveries) and IT & Electronics warehousing (10% of new deliveries). New deliveries will remain focused on the Bucharest area (80% of new deliveries), but there is also an increasing interest for other cities.

6

2017 will be a point of inflection for infrastructure

2017 will result in the delivery of 180 new kilometers of highway, which will provide a fast-track connection between the major cities in Transylvania. This should encourage investors to thread further East and will help alleviate some of the workforce shortfalls in the western part of the country. Both factors should result in increased demand for industrial spaces, especially in cities such as Cluj Napoca, Timisoara, Sibiu or Deva.

7

Bucharest shopping center market will aim to increase client catchment; other cities will focus mainly on developments of retail parks

Following the deliveries of the Parklake and Veranda shopping centers in 2016, we expect no more retail developments in Bucharest during 2017-2018. However, the existing shopping centers will focus on consolidating their market position and maximize the client catchment. Deliveries of new shopping centers will be concentrated in secondary and tertiary cities, with a strong focus towards retail parks.

8

New brands will enter the retail market

We believe there is a strong potential for new retail brands to join the Romanian market. Increases in consumer spending coupled with the delivery of new retail spaces provide a strong momentum for the market. Brands from Poland and Turkey may perform particularly well since: i) these brands match the needs of the prospective consumers very well, ii) Romania is the largest market after Poland in the CEE region, and iii) established Polish and Turkish brands have had a very encouraging experience in the recent past.

9

Residential areas will move closer to the recently developed business centers

Substantial investments made in land during 2016 are aimed towards the development of new residential areas in Bucharest, closer to the new office developments in the Northern part of the city. We expect demand for these new residential developments to be supported by the demographics of employees, which are young enough to be looking towards either their first or second home purchase.

10

Land market will be geared towards the retail and residential sectors

We expect the land market to be geared towards the evolving needs of consumers. Residential developments in new areas will remain attractive, as will the expansion of networks for supermarkets, hypermarkets and DIY stores. Buyers will also focus on minimizing time-to-market for developments and will consequently prefer plots with a solid administrative situation (e.g. PUZ, CUT).