Cushman & Wakefield Echinox: The majority of real estate investors and developers active in Romania are looking to expand their portfolios in the next few years

Real estate investors and developers active in Romania argue that inflation, the increasing financing costs, the geopolitical situation and also the increasing construction costs are the main macroeconomic factors which may impact the Romanian real estate market, as these factors are expected to put pressure both on demand and on the rental levels. However, despite all the above-mentioned issues, investors remain positive and their expansion plans in Romania are mostly intact, according to the first edition of the Cushman & Wakefield Echinox "Real Estate Investors Sentiment Barometer".

Cushman & Wakefield Echinox surveyed the top management of 45 local, regional and global investors with a combined real estate portfolio in Romania of more than EUR 10 billion, investors with a share of approximately 50% of the local real estate market. The survey was conducted between October 1 – November 1.

Inflation has almost unanimously (93%) been indicated as the main macroeconomic risk which may impact the Romanian real estate market, a market which will also be influenced by increasing financing costs (86% of responses) and by the geopolitical situation (76%).

Despite the challenges faced by the market, a clear majority of the responding investors (71%) are looking to expand their portfolios. The remaining 29% aim to maintain their current portfolios in the following three years. No respondent has indicated expectations of downsizing their activity.

Cristi Moga, *Head of Capital Markets Cushman & Wakefield Echinox*: ”The results of the survey conducted among real estate investors and developers in Romania reveal the level of maturity the local market reached, as the vast majority of players, both local and foreign, are making long-term plans, fully understanding the cyclical evolution of the market. The year 2022 is likely to record a transaction volume of more than 1.2 billion euros, despite the fact that a number of investors have decided to be more cautious in a highly volatile context. 2023 will be influenced by the evolution of inflation and also of the financing costs which, once entering a downward trajectory, will bring back the appetite for real estate investments to high levels."

Bucharest remains the preferred destination for future real estate investments, while the secondary markets (cities with a population >250,000) are also considered a place to be by many investors and developers.
Therefore, 63% of respondents indicate Bucharest as their main location for new investments, while only 20% are actively targeting tertiary locations (cities with less than 250,000 inhabitants). Almost 50% of the investors consider secondary cities an attractive destination to invest.

In terms of the market segment which will attract new investments in the next 12 months, only 5% of respondents expect more development activity in the office market. The low apetite for this particular segment can be explained by the bureaucratic issues in Bucharest and the uncertainty surrounding the authorisation proccess pertaining to new projects. A special mention also goes to the Private Rented Sector (PRS) which is forecasted to see more investments than the office sector in 2023.

A vast majority (64%) foresee more developments in the industrial segment, while 18% expect new investments in retail projects.

Over 50% of respondents predict an upward movement for the office (58%) and industrial (55%) rents, while the share of those indicating a rental level growth for retail assets was of only 38%.

Inflation (86%) and construction costs (79%) are the main factors which may influence the rental levels, according to most respondents. Other factors indicated were the level of competition on the market and the lack of new supply for the office sector in particular.

Answering the question regarding the evolution of demand, most investors forecast a medium-term stability for all types of spaces. On the other hand, 30% of the interviewed companies have indicated a worsening occupier demand in the office market, while the expectations are more optimistic when it comes to the industrial and retail spaces.

The top five factors that may influence (in a positive or negative way) the evolution of demand are the overall inflation, geopolitical situation, e-commerce growth, the emergence of new companies on the market and the lifting of the pandemic related restrictions. A number of investors are also concerned by the deterioration of economic activity/recession and also by the unclear return to work status.

Capital Markets (including bonds) remains a minor source of capital for the local real estate market, thus investors and developers rely mainly on their own funds, intra-group loans and bank financing. The increased cost of money directly impacts almost 70% of respondents.

Most investors believe their portfolio values will remain unchanged in the following 12 months. In regards to the asset class, 30% of respondents estimate an increase in value for the retail properties, while 23% of them also indicate a further appreciation of the industrial and office projects.

In terms of general business environment conditions in Romania, the most appreciated are the quality of the IT infrastructure, the labor market, the taxation framework and also the macroeconomic stability. The least appreciated aspects relate to the quality of the transport infrastructure followed by bureaucracy.

The investors are quite positive when it comes to the Romanian economy and its short-term evolution, with 45% of participants expecting the GDP to increase, 38% predicting a stagnation and 17% a decrease.