

Colliers: The local land market continues to see significant interest, but investors' demand slowed amid the uncertain backdrop for residential sales

The land market remained very active in 2022, maintaining trends seen in the past couple of years which marked the best levels since 2007, but dropped by around 45% in volume of deals closed, reaching a turnover of around 450 million euros, according to the 2022 Annual Report released by Colliers. Many contracts are on hold, with their closing depending mostly on urbanism-related conditions, which are being fulfilled at an extremely lower pace, especially for Bucharest, and, in some instances, on economic developments, certain buyers expecting to see how the residential market is coping with the softer economy and higher interest rates. Colliers consultants also highlighted that, compared to previous years, another interesting aspect was that 2022 saw an increase in the number of land plots, including quite large ones, being auctioned off.

The year's biggest deal saw One United securing a large land plot (3.7 hectares) in the northern part of Bucharest (Poligrafiei Boulevard) for around 60 million euro (estimate for the more complex deal structure). It was followed by the former tobacco factory in the Center-West part of Bucharest, sold off in an auction for well over 30 million euro to SIF Banat-Crisana. Other major deals were concluded by big players in cities like Galati, Timisoara and Cluj-Napoca.

“The first 8-9 months of 2022, with a brief pause period when the war started, were quite active and rather continued the strong market from 2021. Starting early autumn, things changed and many buyers, especially those focused on residential and mixed-use projects, shifted gears quite dramatically in terms of their strategy. This translated into a decline in interest for new deals, although those in quite advanced stages moved on ahead. In the office sector, developers would not have missed good opportunities if any had come up. But such land plots are usually without zoning permits and no developer would want to remain locked over the longer term. In addition, many of them already have land banks that would allow for future developments if the office leasing market were to justify it”, explains **Sinziana Oprea**, *Director Land Agency at Colliers Romania*.

Some two thirds of the overall volume traded came from Bucharest, with the bulk of deals in the Capital (three quarters) stemming from residential developers. Colliers consultants explain that this is no surprise, given the robust sales that the sector has seen in recent years, with the number of apartments per capita still showing that Bucharest remains massively undersupplied compared to other regional capitals, let alone Western European capital cities.

“In 2022, the most active areas in Bucharest were those in the North/Center North, submarkets with established track records for investors, that yielded good results until now, like Straulesti, Sisesti, Poligrafiei, Pipera, Fabrica de Glucoza/Barbu Vacarescu, but also the Centre-West region of the Capital. We also estimate that some 5% of the Bucharest volume came from deals involving future in-city logistics schemes. These are the only kind of industrial projects we included in the overall turnover, as these developers often clash with other types of investors for land plots within the city limits. The demand for such schemes appeared amid the sharp increase in e-commerce as of the last several years. The rest of the share of the volume for Bucharest was generated in almost equal shares by retail and office developers”, adds Sinziana Oprea.

Regarding prices, last year saw things remaining more or less unchanged. After the war started, the market just did not seem to have enough momentum to carry forward with any increase, as buyers became more cautious amid continued uncertainties (even though deals were nevertheless closed). Then as summer and autumn came around, the higher interest rates began to have an impact, acting as an even stronger argument for buyers to remain cautious.

Outside Bucharest, the bulk of closed transactions came from retail developers, with food operators, including discounters, DIY and furniture retailers being the most active. Both large and small/medium sized cities were targeted, with the latter category mostly by retail park developers, as many of these towns had poor or no coverage of modern retail schemes.

Last year, investors were more interested in the rest of the country than in Bucharest, meaning that in the future regional cities are likely to have a much higher share in the overall volume of closed deals. Colliers consultants believe this reflects the fact that Bucharest faces major uncertainties over the medium term with regards to zoning, so some developers would rather look into alternatives than be stuck in a pre-contract for several years.

Supply remains decent, throughout most of the country, with both large industrial platforms/land plots and medium-sized plots that can accommodate different types of real estate projects. Meanwhile, some investors are looking into acquiring strategic locations that would likely see long-term demand irrespective of what happens with the economy in the short term and which also acts as a good hedge against inflation.

An interesting trend, according to the Colliers' director, is the increased use of different types of associations, joint ventures or transactions that allow for payment via installments. However, given the woes regarding the residential market, there are some concerns for those seeking such deal structures. Regarding Bucharest, there is still some supply of plots with building permits in place (in a good location, these could fetch 30-40% more than a similar plot with no zoning), but investor demand has already been dwindling amid the shaky backdrop for residential sales.

“The outlook for 2023 is a bit clouded, as many market participants have become increasingly prudent, but we do not expect significant price declines. As well, many sellers seem to have a better financial situation, meaning that they should not be pressured to sell, but if economic conditions remain soft, they will need to adjust their price expectations accordingly in order to conclude any deal. Otherwise, much fewer real estate projects have actually started in 2022 than in the past amid increased construction costs. Coupled with the fact that many developers have adequate land banks, this will lead to lower demand for land plots in the near future, as many buyers may become quite opportunistic. Overall, we regard these as signs of a mature market, which offers a measure of reserved optimism at the start of a highly uncertain year like 2023”, concludes Sinziana Oprea.