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2020 FORECAST

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ROMANIA

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Ten trends you need to know about for 2020



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#1 Lower for longer

LIVING WITH LOW INTEREST RATES

With inflation seemingly nailed to the floor across most of the western world, there are few signs that interest rates are set to rise any time soon¹. “Lower for (even) longer” remains the mantra for investors.

On the surface it’s a great environment for property investing; low interest rates offer a warm bath for real estate, keeping it competitive against other asset classes². Capital continues to flow into the sector, as investors seek out the unique combination of income return and capital preservation that real estate offers over time³.

But with the real estate cycle slipping into its second decade, the uncertainty felt by many investors about whether current pricing is sustainable seems justified. Real estate might be enjoying an extended period of popularity, but in large part this is due to the backdrop of economic weakness (hence low interest rates) and heightened political uncertainty across the globe – issues which also bring risks for the property sector.

A slowing global economy, with few signs of a sustained pickup in global trade, will impact occupier demand. Productivity growth has been low and while unemployment levels have fallen sharply in many countries, inflation has not risen meaningfully⁴.

Central banks currently have little ability to raise interest rates, robbing them of room to manoeuvre if – or more likely when – a slowdown turns into a recession⁵. With governments seemingly devoid of effective policy initiatives, the impact on rental income in the event of a protracted recession could be significant and prolonged.

So, what’s the answer for real estate? Avoid investing at these historically high prices? We think not, for several reasons.

First, while risks are apparent, a significant recession does not look imminent. Downturns are most often triggered by interest rate rises, following a bout of inflation due to excessive growth, which is hardly the case at present⁶. Shocks are always a possibility – but the risk of an all-out trade war seems to be receding. Markets may fluctuate, but a huge pool of Asian capital lies waiting to invest in good quality assets when the opportunity arises, which will help provide a floor for values⁷. Conditions hardly appear “set fair” but the external drivers pushing investors towards real estate are likely to remain in place for a while yet. Second, in most markets there are few signs of overbuilding or “irrational exuberance” in the structuring and financing of real estate transactions. The triggers for the periodic self-destruction that characterised many previous real estate cycles are largely absent. Real estate remains vulnerable to economic and political events, globally and at home, but the same is true of other asset classes. Income is king, so investors should go “back to basics” with a laser focus on managing properties and tenants well, and stress-testing their financing against future turmoil in the credit markets.

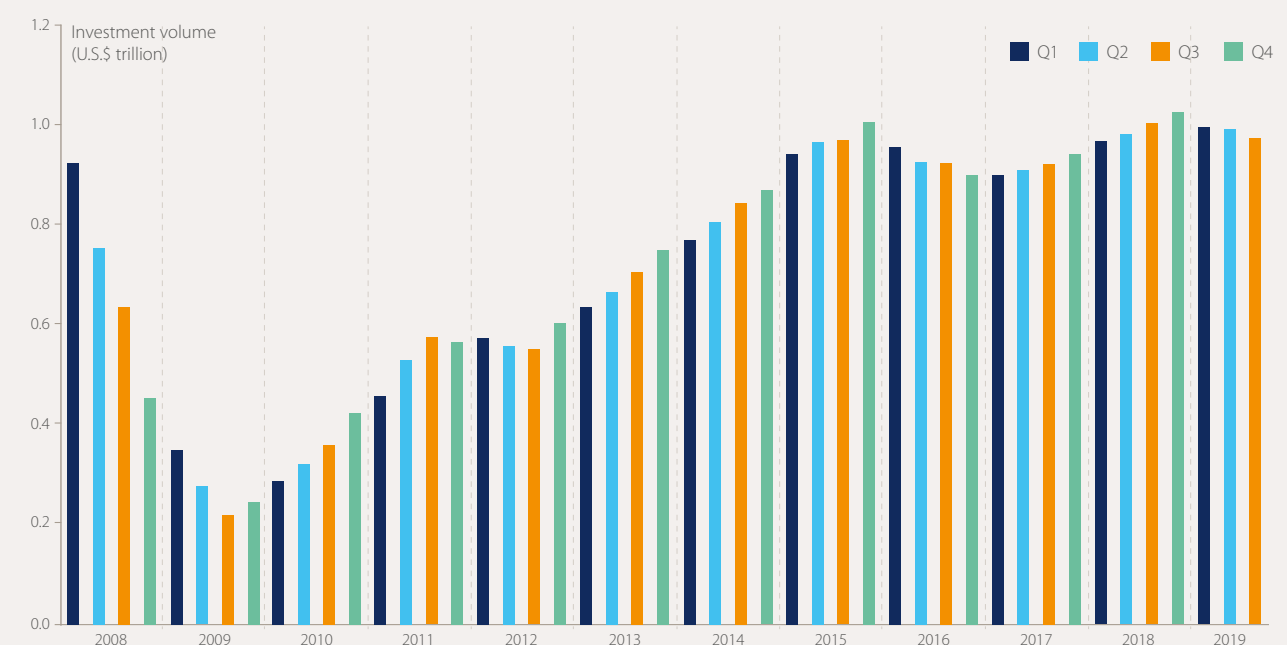
Third, savvy investors are seeking out new channels of opportunity. Climate change, impact investing, placemaking, the technological revolution and a host of other issues are reshaping our economies and cities.

They bring new challenges, but also new opportunities to create sustainable long-term value in the built environment⁸. Those who accurately detect the current shifting of the tides, and swim with the stream rather than against it, will prosper.

The search for yield continues. Indeed, further yield compression is expected on secure, long-duration assets that still look attractively priced relative to fixed income. But investors need to enter the market with their eyes wide open to the potential downsides, and with clear strategies in place to weather the turbulence that may be lurking over the horizon.

On the surface it’s a great environment for property investing; low interest rates offer a warm bath for real estate, keeping it competitive against other asset classes

12 MONTH ROLLING GLOBAL INVESTMENT VOLUME



Source: Real Capital Analytics



#2

Power to the people

HOW POPULISM IS CHANGING THE WORLD

With the U.S. in election mode, Britain still struggling with Brexit negotiations and discontent still rife across huge swathes of the global political landscape, 2020 will be another year when the fallout from populism will be distracting governments from attending to some of its root causes.

When the Developed World Populism Index concluded in 2017 that populism was at its highest levels since the late 1930s¹, many feared an impending avalanche of political extremism. The successes of U.S. President Trump and Nigel Farage, leader of the U.K.'s Brexit Party, gave new impetus to the populist coalitions emerging across a range of countries – but a series of subsequent national elections failed to deliver the dramatic changes of government that once looked likely². Europe, in particular, breathed a sigh of relief.

The sense that a bullet had been dodged was, and remains, misplaced. The underlying issues which drove populist movements haven't gone away – quite the opposite. Populist politicians typically prosper during periods of general discontent by focussing on one or two key issues that resonate most strongly with the electorate: big business, big government, immigration, regional independence, climate change... whatever happens to be the issue du jour³.

This explains why populism often creates coalitions which transcend conventional political divides; the far Right and far Left coalesce around something they have in common, albeit for different reasons – politics does indeed make strange bedfellows. If anything, the range and strength of populist groups is increasing.

The fact that such movements rarely end up forming a national government misses the point. Mainstream parties are scrambling to claw back support, and thus the populist agenda becomes incorporated into mainstream manifestos. The objectives may be watered down a little to appeal to a broader cross-section of the electorate, but the populists are succeeding in changing the focus of the political agenda.

Where the shift in position is measured, thoughtful and strategic in nature, this process should be welcomed. However unpalatable the rhetoric may be to some, this is democracy in action: politicians responding to the “will of the people”. But problems can arise when knee-jerk policies are introduced to tackle specific issues, not recognizing – or wilfully ignoring – the unintended consequences that may follow.

Real estate often finds itself caught up in this process, which is increasingly playing out on the local rather than national stage. City authorities are stepping in where central governments fear to tread. Housing affordability is a case in point: Berlin has already announced a residential rent freeze for five years and New York has expanded its housing rent controls to cover around one million units⁴. In London, Mayor Sadiq Khan intends to make rent controls a cornerstone of his 2020 re-election campaign⁵.

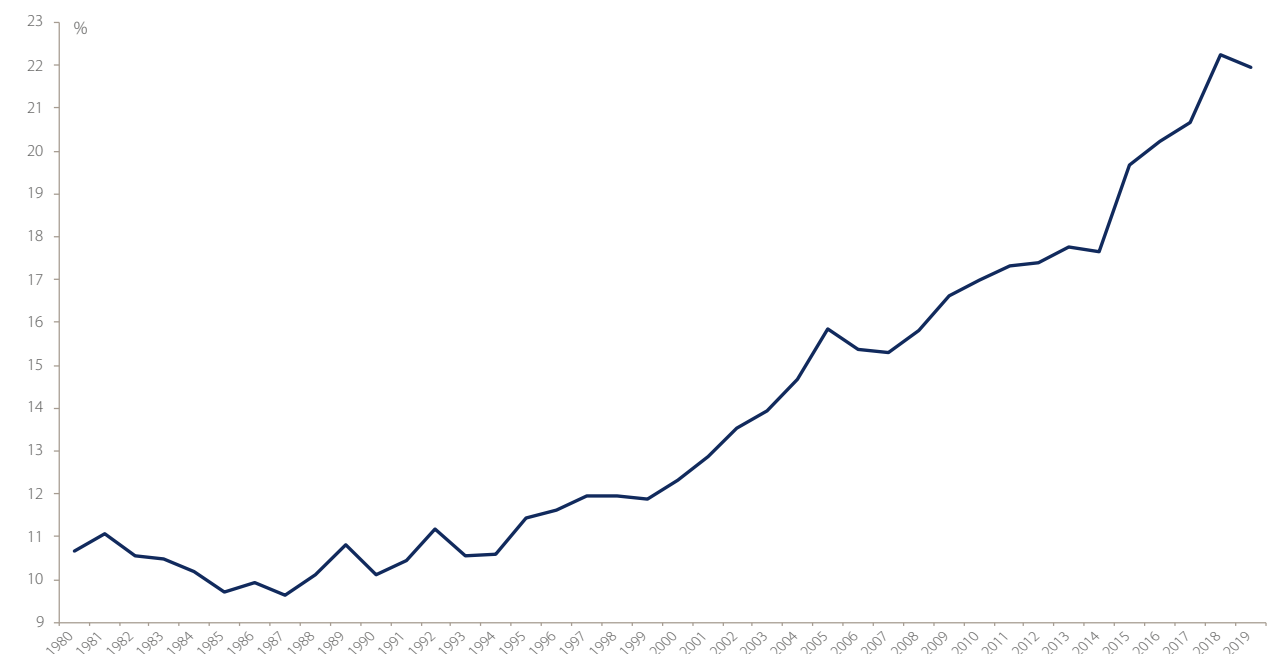
Economists may continue to debate the effectiveness of such measures – the research evidence is mixed⁶ – but landlords are left dealing with the immediate impact on the market.

Cities will also continue to take the lead on climate change, bypassing central government inertia on the topic. CDP, a non-profit organization, which supports environmental reporting by cities and corporates, notes that five cities including Paris, San Francisco and Canberra have set 100% renewable energy targets city-wide, while thirteen cities including Boston and Sydney plan to be climate or carbon neutral by 2050⁷.

Whatever their views on the issues concerned or the effectiveness of particular policies, landlords, developers and occupiers need to pay increasing attention to local political activism, as today's street protests increasingly signal tomorrow's policy initiatives.

Landlords, developers and occupiers need to pay increasing attention to local political activism, as today's street protests increasingly signal tomorrow's policy initiatives

AVERAGE VOTE SHARE OF POPULIST PARTIES IN ELECTIONS ACROSS EUROPE



Source: Timbro Authoritarian Populism Index (2019)

#3 (De) globalization

A PARADIGM SHIFT?

Globalization's most significant impact on the real estate sector has been the rapid growth in cross border flows of capital into investment markets around the world¹. While they may fluctuate in the short term, these flows are set to accelerate over the coming years as rising wealth in Asia targets investment grade real estate in the west.

Occupational markets have also been transformed. Globalization has been the defining feature of the business environment of the last 50 years, as corporates have expanded into new markets, production and back-office functions have been offshored and supply chains have internationalized. Here, however, the longer-term trend may be shifting. Heading into 2020, multinational companies are rethinking global footprints to find a new balance between cost-efficiency and business effectiveness². Consumer demands for greater social and environmental awareness from the companies they buy from are encouraging a shift in priorities³.

On average, affluence and living standards have benefitted hugely from the rapid internationalization of almost every aspect of trade and commerce⁴. But averages can be misleading. Many parts of Western Europe and North America continue to struggle with the impacts of de-industrialization. The benefits of economic growth have not been uniform; perceived inequality has risen sharply⁵ and the financial crisis has left lasting scars.

Reactions against the "globalization of culture" used to be viewed as a distinctly xenophobic phenomenon – yet consumers across the globe are seeking out authentic local products and pushing back against the uniform array of multinational brands that typify many shopping centers. The frustration of dealing with a call center halfway round the world is felt by many.

Even from a purely economic standpoint, globalization feels past its peak⁶. The world has already wrung most of the "quick wins" from expanding the reach of World Trade Organization (WTO) rules. The same can be said of the efficiencies to be gained from off-shoring manufacturing and streamlining global supply chains⁷.



Political calls to "bring home our manufacturing" play well to a populist audience, but they echo thinking already taking place in many boardrooms⁸. The fact that those new facilities may house more robots than traditional employees gets less publicity. But global companies who are seen as destroying jobs in their home country, unfairly avoiding taxes or ignoring the carbon footprint of their activities are damaging their brand in the eyes of a new generation of customers.

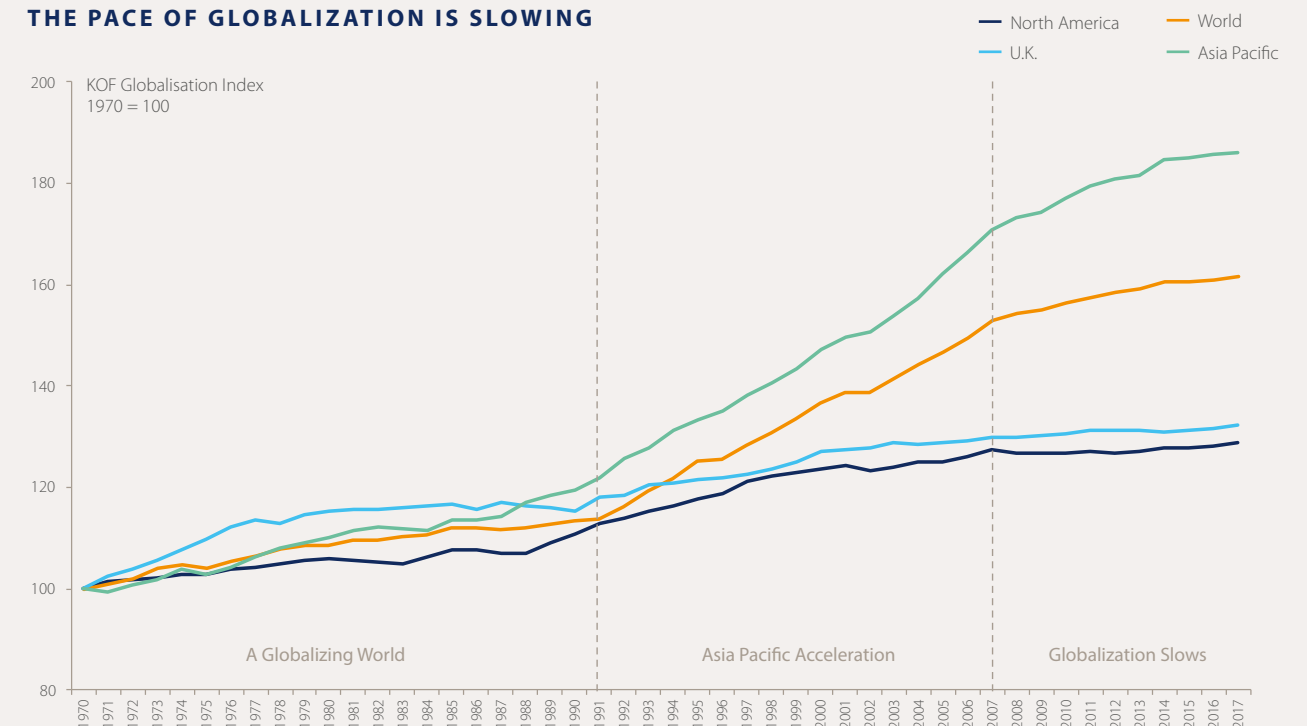
The resulting shift in favor of localization – or at least regionalization – of activities may only be evident at the margins for now, but it is gathering pace. Nearshoring has a commercial imperative; it enables shorter delivery times and greater localization of products, allowing companies to meet consumer demands and react to trends more quickly.

The implications for real estate are profound. Manufacturing facilities (if not necessarily employment) will see renewed demand. Logistics networks will focus more on integrating local and regional hubs, rather than simply connecting efficiently to major ports that are the gateways from Asia. Shopping centers offering a wider range of locally sourced food and beverage, products and services will be differentiated from their competitors, breathing new life into a retail sector desperately in need of reinvigoration.

Globalization is not dead, but it is changing. Investment capital will continue to flow around the globe. But for occupiers, integrating operations in different parts of the world will focus on maximizing quality, access to talent and innovation rather than solely on cost reduction⁹.

Nearshoring has a commercial imperative; it enables shorter delivery times and greater localization of products, allowing companies to meet consumer demands and react to trends more quickly

THE PACE OF GLOBALIZATION IS SLOWING



KOF Globalisation Index¹⁰, Avison Young

#4 Building resilience

CITY RESPONSES TO CLIMATE CHANGE

As warning signs of an ongoing climate emergency are becoming more dire and harder to ignore, it is no longer just the scientific community sounding the alarm. Radicalized social protest movements, climate activists young and old and even municipal politicians and bureaucrats are joining the vast majority of the world's climate scientists in reaching a consensus and understanding of the potential social and economic costs of climate change.

The demand for a response is growing, and cities around the globe are developing urban resilience strategies to ensure economic, social and environmental sustainability. They are recognizing their responsibility to mitigate the impacts of extreme weather events on local people, property and infrastructure. By 2030, according to the UN, unless there is significant investment to make cities more resilient, natural disasters may cost cities worldwide \$314 billion annually and climate change could push up to 77 million more city residents into poverty¹; lower income groups tend to be worst affected by climate change, and least able to recover from the effects².

Urban authorities also need to adopt meaningful regulation to compel more sustainable development, and to champion the use of technology to measure and reduce energy consumption and emissions from buildings.

Cities have started working together on the issue. The C40 Cities Climate Leadership Group, comprising 94 cities around the world that represent a quarter of the global economy and 70% of the global CO₂ emissions³, is one such powerful agent for change. Canadian cities including Montreal, Toronto, Vancouver and Calgary have appointed chief resilience officers (CROs) and are developing localized strategies thanks to their involvement in the 100 Resilient Cities Network⁴.

The World Green Building Council and the International Energy Agency have highlighted the need for the built-environment sector to significantly reduce its carbon footprint and emissions⁵. New York City's Climate Mobilization Act, which was passed in April 2019, could prove a game changer for North America. It sets a carbon emissions limit for large NYC buildings, and will provide a model for other global cities to emulate⁶. In 2019, the U.K. became the first major economy in the world to pass laws mandating net zero greenhouse gas (GHG) emissions by 2050 and cities such as Nottingham, Bristol, Oxford, Cambridge and Manchester all have ambitions to reach net zero GHG emissions through more localized initiatives⁷.

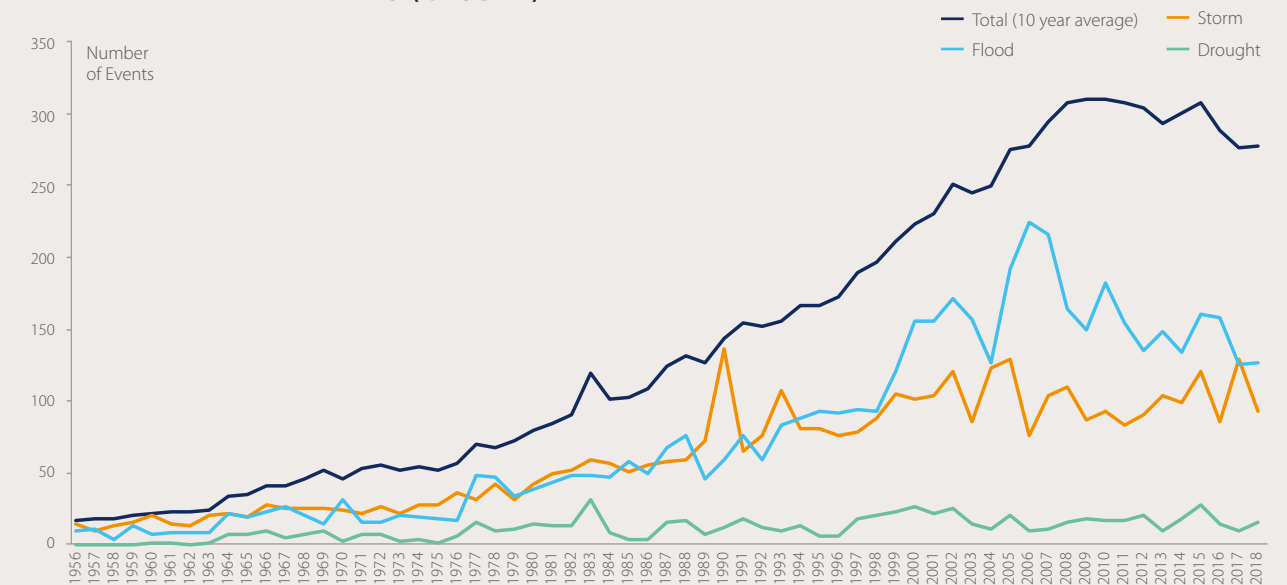
Adopting urban resilience strategies represents a fundamental shift in how we build cities. It will require substantial funding from both the public and private sector, creating significant finance and investment opportunities for private and institutional real estate investors.

It will also need specialized construction and project management expertise to tackle new technologies, building codes and materials⁸. Existing assets will need to be refurbished and retrofitted to meet updated emissions targets. All this will drive demand for new service offerings; from benchmarking of new technology and construction standards to educating the investment industry on which assets will not only deliver strong returns but contribute to the sustainability and health of our built environment.

The introduction of new policies and regulations may be a challenge for the unprepared. However, the real estate industry is perfectly placed to lead a major component of our response to the climate emergency. Around 70% of the global population will live in cities by 2050⁹, yet 60% of that new urban settlement has yet to be built¹⁰. The challenge is also a huge opportunity.

The demand for a response is growing, and cities around the globe are developing urban resilience strategies to ensure economic, social and environmental sustainability

EXTREME WEATHER EVENTS (GLOBAL)



Source: The Emergency Events Database (2019)



#5 (Place)making an impact

SOCIALLY RESPONSIBLE INVESTING

In recent years, we've seen growing recognition of the power of good placemaking in creating vibrant and successful developments and neighborhoods. In 2020 the focus on "place" will increase, accelerated by an emerging priority amongst institutional investors: impact investing.

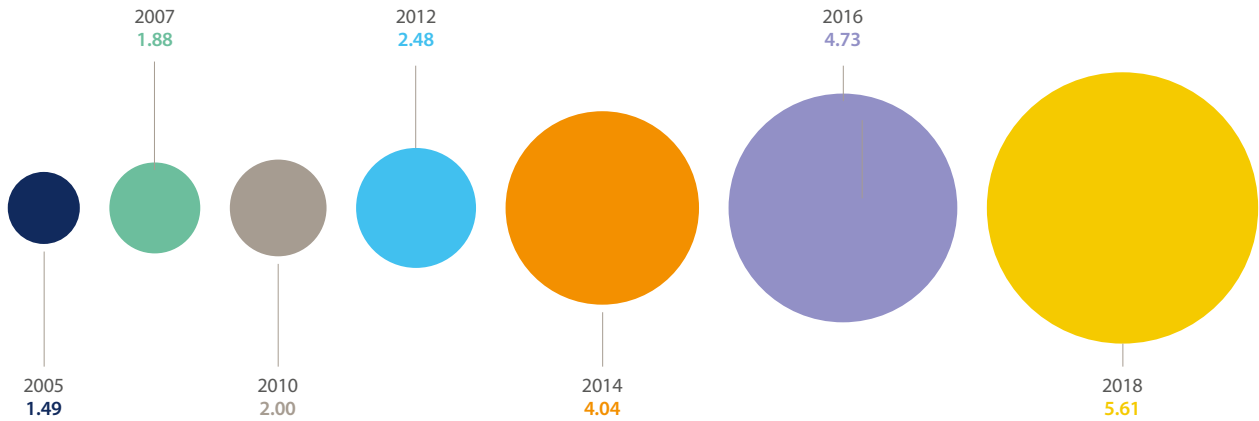
Successful placemaking requires a deeply considered, multi-dimensional response to the factors that come together to create liveable, sustainable and vibrant neighborhoods that are embodied by – and rooted in – the built environment¹.

Mixed-use schemes have long sought to capitalise on the potential benefits of combining multiple occupational uses within a single development. Contemporary thinking now recognizes that a new property development offers opportunities to go further in providing a local response to issues of growing community concern².

They can address concerns such as the environment and climate change; housing affordability and social exclusion; and a pushback by corporate occupiers and individuals against inauthentic, sterile environments with no "sense of place".

Private sector recognition that this can enhance rather than detract from return on investment parallels a shift in government policymaking on both sides of the Atlantic. In the U.S., the government is encouraging investors to consider social impact by offering tax breaks for development in 8,700 "opportunity zones" to support underserved communities³.

ASSETS MANAGED UNDER ESG* CRITERIA BY U.S. INSTITUTIONS (U.S.\$ TRILLION)



Source: US SIF Forum for Sustainable Investing (2018)

*ESG: Environmental, Social, Governance

In the U.K., the Social Value Act commands the public sector to deliver social, economic and environmental benefits with each project⁴. As a major client and partner for placemaking and regeneration projects, the public sector is beginning to influence the delivery of social outcomes at scale.

More broadly, we are seeing a societal shift in attitudes towards the very nature of capitalism. The ongoing aftermath of the financial crisis coupled with rising concern over climate change and social equality are fuelling a surge in populist politics that is challenging conventional free-market economics⁵. Consumers, clients and employees – particularly from younger generations – increasingly demand that the organizations they deal with recognize their wider obligations to society⁶. Companies that have a "sense of purpose" embedded in their culture will increasingly be at an advantage. Last year, over 180 top U.S. CEOs signed up to a new Statement on the Purpose of a Corporation, committing their companies to operate not just for their shareholders, but for the benefit of all stakeholders – including customers, employees, suppliers, and communities⁷. Corporate attitudes are clearly changing.

Interestingly, this parallels a shift which is starting to occur within the real estate investment community. The growing interest in socially responsible investing is now being focused on "impact investing" – investment undertaken in order to generate specific social or environmental benefits in addition to financial gains⁸. At present, investors seeking such opportunities are leaning into sectors such as later living, affordable housing and healthcare, all of which have obvious social outcomes but are still within the traditional sphere of investing.

More individuals are now focussing on the SRI credentials of the funds and organizations they choose to invest their savings and pensions with. As the level and sophistication of scrutiny increases, institutional investors seeking to tap into this growing pool of funds will have to make genuine efforts to balance social outcomes with financial ones.

The interests of various players therefore seem to be converging. Schemes and neighborhoods where placemaking has created positive environments, combining multiple uses and respecting local communities, are likely to be more commercially successful^{9,10}. Where they are also seen as socially and environmentally responsive, they will be doubly attractive to the talent occupiers are competing for. They therefore offer the kind of investments that tick multiple boxes for institutional investors desperately searching for yield in a market short on opportunities.

Impact investors seeking to capitalise on a growing pool of socially-aware investors could soon become the champions of social and environmental change in our cities.

Companies that have a "sense of purpose" embedded in their culture will increasingly be at an advantage



#6

The rebirth of retail

THE REINVENTION OF THE RETAIL SECTOR

Shopping is no longer just about getting goods into the hands of consumers. Retailing has grown to encompass a fully immersive and integrative experience that invites and holds the public's attention. It stimulates their desire to engage with brands, embark on sponsored journeys of the mind and body and interact with a like-minded community of fellow customers¹.

A reimagining of what retail engagement means for consumers has returned us to the modern equivalent of the traditional town square, a central destination that intentionally blends uses including retail, workspace and leisure with residential space and accessible rapid transit options².

The impersonal and transaction-focused nature of e-commerce, while efficient and appealing to cost-focused customers, has left many shoppers seeking to re-engage with experiential retail in search of a renewed sense of community³. This has sparked a renaissance of what it means to be a retailer in the age of online shopping.



Microsoft's first European store, in London, allows you to sit in a McLaren for a virtual driving experience

Experiential retail is incorporating digital and mobile technologies such as virtual and augmented reality and social media platforms in ways unheard of just five years ago

Experiential retail is incorporating digital and mobile technologies such as virtual and augmented reality and social media platforms in ways unheard of just five years ago⁴. These tools are being used to keep people engaged - specialized showrooms are integrating multiple offers, from food and beverage areas to hands-on opportunities for in-store product personalization. Curating brand experiences that build and reinforce customer loyalty in immersive environs represents a new phase of retailing the public is only now beginning to perceive⁵.

While online activity remains a comparatively small portion of total retail sales⁶, its impact on traditional storefront retail has been dramatic. Vacated shopping centers, high streets, strip malls and big-box power centers serve as highly visible victims of the rapidly evolving retail landscape. Yet many of these assets have appealing characteristics - from site configuration and building construction to proximity to rapid transit lines, arterial roads and high-density residential or employment areas⁷. Much of our former retail space is therefore ideal for adaptive reuse or redevelopment.

While retail generally remains a key component of any reimagining of the local environment, a complete community of complementary uses is required to boost public and consumer engagement. Investments in the public realm and a focus on walkability produce improved returns across the whole spectrum of stakeholders⁸.

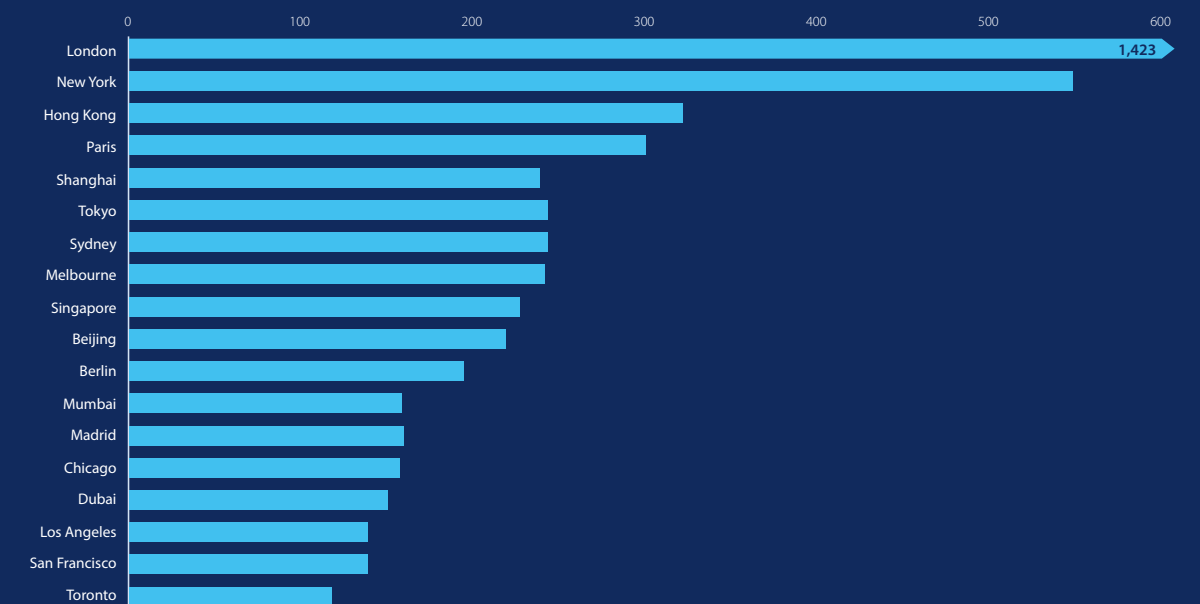
While internet sales will continue to expand, many pure-play online retailers are discovering the need for bricks-and-mortar locations as an essential part of an omni-channel strategy. While unlikely to roll out a traditional large-scale store network, many e-tailers are turning to physical locations as a way to promote and showcase new products, and as a channel for reverse-logistics⁹.

Pop-up stores in a variety of forms are also driving demand for physical retail outlets. Short-term leases provide flexibility, with opportunities to experiment and to exploit unique spaces. Where these are tied to holidays, product launches or celebrity involvement they can attract publicity and boost consumer appeal substantially.

The ongoing evolution of existing retail-focused assets towards more complete communities of activity that better integrate residential and commercial uses will likely be the most influential retail trend for the next five years. Ongoing investment and visionary thinking are being employed to put communities back at the heart of projects in ways that will deliver long-lasting value for a wider range of stakeholders and facilitate the rebirth of retail.



NUMBER OF FLEXIBLE OFFICE CENTERS BY CITY



Source: The Instant Group (2019) Instant Insight.

#7 Let's talk about flex

THE FUTURE OF FLEXIBILITY

Forget anything you've read in the newspapers, flexible offices are here to stay and will remain one of real estate's hottest growth areas in 2020. The world is in the early stages of a transformational period as the technological revolution takes over from globalization as the primary driver of business change. For all sorts of reasons, workplace flexibility is at the forefront of occupiers' minds.

As a market disruptor, it's not surprising that WeWork received disproportionate levels of attention for cancelling its public offering. But we all know its instincts are correct. With shorter business cycles, innovation at a premium, and talent expecting workplaces that more seamlessly integrate with their lives, how office space is being used is in a major state of flux¹.

Flexible offerings currently account for up to 5% of space across most major office markets². Within ten years, this is expected to make a transformative leap to 15-30%. That's because this is no longer just about freelancers and start-ups, this is smart thinking across all businesses. For occupiers and institutional owners, the future is the core-and-flex combo.

The talented individuals that employers want to target are increasingly drawn from the Millennial and Gen Z cohorts³. Like it or not, this talent is making new demands for, amongst other things, work/life integration and a more dynamic work environment⁴. Occupiers are having to respond by securing the right types of spaces in the right places, then managing them effectively to create the environments, plural, that the best employees are looking for. Cellular offices, cubicles, open-plan desks and quiet meeting spaces are not mutually exclusive; each is suited to a particular type of work¹. Staff are looking to employers to provide the type of space they need, when and where they need it⁵.

There is also a growing need for occupiers to flex in and out of space to react to economic cycles, to reconfigure it to drive efficiencies and to remain nimble by adapting space to special projects or assignments⁶. Integrating short-term solutions into their portfolio mix will generate efficiency savings, facilitate business responsiveness to new opportunities, fuel growth and reduce operational risks. Occupiers are willing to pay a premium for space that helps put this strategy into practice.

For institutional owners, the threat is not that core leases will be consigned to history, but that the market is now more nuanced; 'space as a service' requires a combination of offerings – not just in terms of lease length, but in the level of landlord servicing provided⁷. A string of major owners including Tishman Speyer, British Land, EQ office, WashREIT, Landsec, Irvine Companies, Boston Properties and Hines have already turned over parts of their portfolios to flexible offices, and more will follow⁸.

We think owners will eventually commit up to 20% of their portfolios to flexible space, and at these levels the capital markets don't currently think it materially impacts valuations. Certain institutional owners will push deeper than others into the sector; those that get it right can expect to reap the rewards. New products, operating models and partnerships are evolving to support diverse business needs and provide differentiation around factors such as workplace experience, branding and security. While the lease arbitrage model at scale might have been called into question, new management/partnership agreements are likely to smooth the way for future opportunities. Additionally, we predict more operators will look to own the real estate.

Flexible office providers already account for more space take-up than any other sector in every major market around the globe. At some point, consolidation is inevitable. During 2020, this transformation of the office sector will continue apace.

Flexible offices are here to stay and will remain one of real estate's hottest growth areas in 2020

#8 AI

AUGMENTED INTELLIGENCE?

Get ready to make new friends in 2020 - your cobot will soon be on its way. Robotic process automation (RPA) won't – necessarily - take your job, but it will transform it. A collaborative robot will make your life easier, helping you work quicker and smarter by willingly taking on those lower-value tasks clogging up your working day.

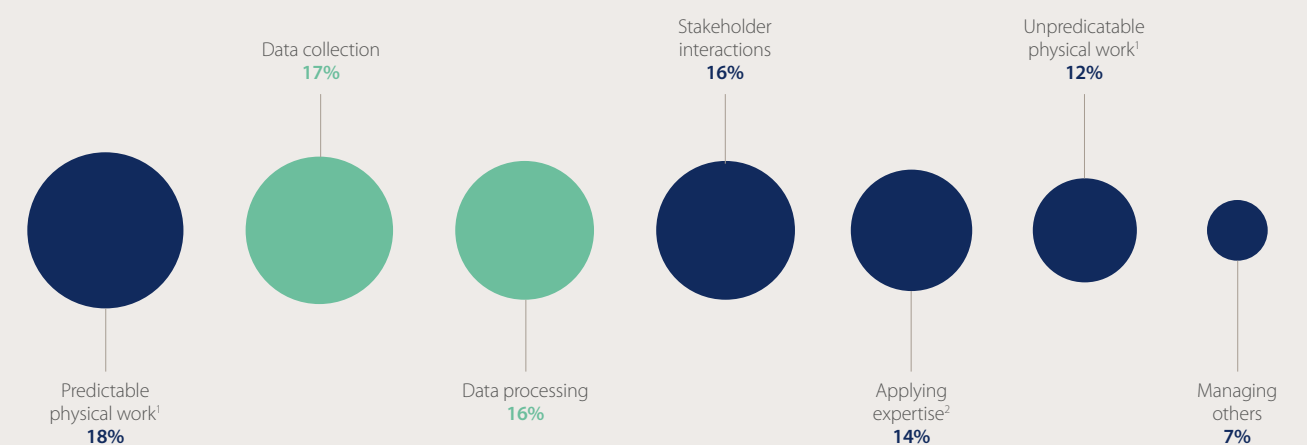
Disappointingly, not everyone will be sitting next to their very own C-3PO or BB-8. There will be some physical automation, akin to the robots we already see in warehousing and manufacturing. But for workers who focus on knowledge rather than products, most RPA is likely to be software or app based, enabling you to automate workflows across multiple interfaces¹. Either way it's near future now... RPA is getting cheaper, more efficient and more embedded in cutting-edge organizations with every passing year.

RPA adoption is a fast-emerging trend that crosses all industries², with major real estate implications due to the cumulative effect on the type and number of jobs required across different businesses. The McKinsey Global Institute estimates about 30% of the activities in 60% of all occupations could be automated³.

Back-office functions, which tend to be clustered in more cost-effective secondary and tertiary cities around the world, will be significantly affected; think of the routine information processing that goes on within banking, insurance and accounting⁴. Hot-bed offshoring locations will also be substantially impacted; offshoring is not going away, but robotics will replace some elements of human behavior and activities.

Less obvious is the impact on organizations, or individual jobs, where such processing is currently intertwined with more client-facing tasks. Separating the wheat from the intellectual chaff of everyday work will boost productivity and creativity, with as yet unforeseeable implications for organizational structures and working practices.

TIME SPENT IN ALL U.S. OCCUPATIONS



¹Unpredictable physical work (physical activities and the operation of machinery) is performed in unpredictable environments, while in predictable physical work, the environments are predictable.

²Applying expertise to decision making, planning and creative tasks.

Source: McKinsey & Co (2016)

A collaborative robot will make your life easier, helping you work quicker and smarter by willingly taking on those lower-value tasks clogging up your working day

For real estate in particular, the scope and pace of these advances should cause us to focus on the processes embedded in our industry. From research and investment decision-making to project management and building engineering, our use of technology and automation to process and manage information is in its infancy⁵. That's in addition to staple company activities where opportunities to deploy RPA abound - such as financial management, invoicing, recruitment and HR. One of the big four management consultancies already uses RPA in the onboarding of thousands of new employees each year⁶.

Before the real estate sector can benefit from the transformative efficiencies and profitability improvements that RPA and AI will deliver, there is some less glamorous blocking and tackling required. As an industry we need to be much better at collecting and taking back control of the data we have access to, and combining it with third party sources in order to unite the currently fragmented real estate data landscape.

Technology will help, but the first step is a change in mindset.

Transparency of data about our urban environment has a long way to go. As an industry, we don't yet have clarity over what meaningful information we have and what other data potential strategic partners within real estate might own. The increasing availability of such data has seen prices fall, and the current focus on Smart Cities is rapidly accelerating the range of public and private providers⁷.

If the industry is going to optimize its use of automation and artificial intelligences, it needs to start assessing its data needs and acting on them. Within those organizations that are already doing so, the cobots are coming...

#9 Wishing well

THE NEW FRONT IN THE WAR FOR TALENT

This is how it used to work just a few years ago: the real estate industry provided the building, the tenant provided the people to put in it every day. The office was a shell within which people got on with their jobs. At the end of the day the workers went home – maybe via the gym, depending on their personal choice. Coffee machines and on-site canteens helped reduce time “wasted” away from the desk. Hours worked was the unofficial metric of employee commitment¹. Employers were concerned about absence, but mainly in the context of productivity and efficiency.

Not anymore. In recent years, revolutions in working practices have driven a radical shake-up in office design and fitout, forging new relationships between landlord and tenant². Changes in technology and the rise of the sharing economy have transformed our thinking about the nature of work and the workplace. “Space as a service” is now in common parlance³, but most often thought of in the context of flexible lease terms. In truth, offices are now a joint venture partnership within which owners and occupiers collaborate to provide workspace as a service to their most important customer: the employee.

As the “war for talent” heats up, wellness has become the new frontier for HR departments around the world. Property managers and landlords are becoming their key allies. Employees generally, and younger generations in particular, are becoming more health conscious. The global wellness market has expanded to be worth U.S.\$4.2 trillion⁴.

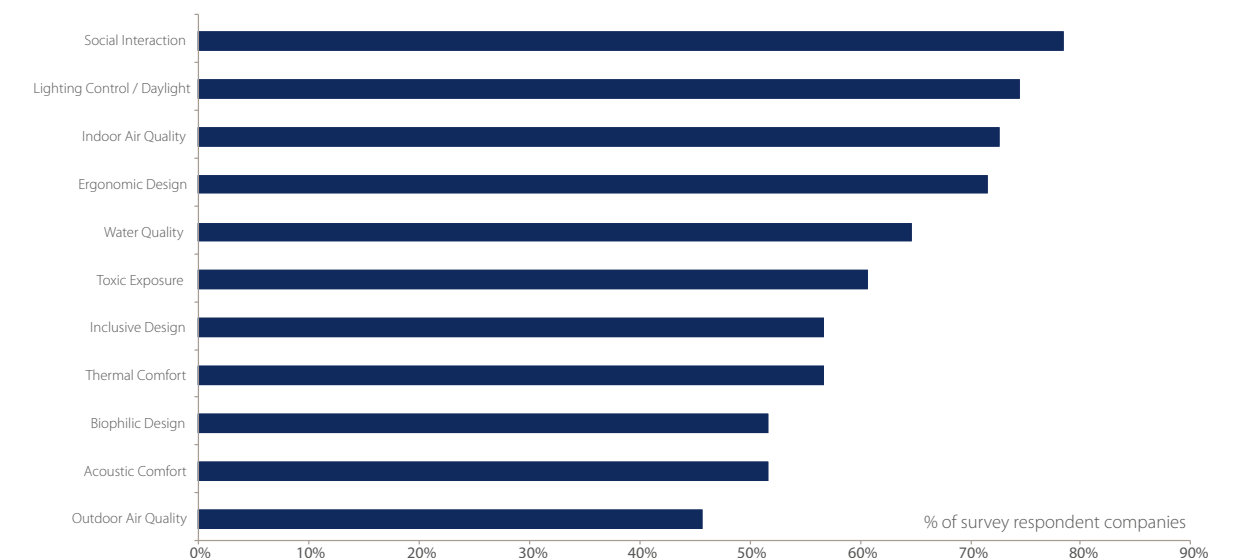
Lifestyle, diet, exercise and work-life balance are recognized as key contributors to mental as well as physical health.

As the boundaries between our work and private lives have become more blurred, so we now expect our employers not just to focus on our wellbeing, but to really care about it. The physical structure and location of a building have a huge part to play in helping companies look after their staff. This includes the creation of spaces that support neurodiversity and those with neurological differences or mental health issues⁵.

Good natural light and air quality – preferably using environmentally friendly natural ventilation – are essential⁵. Buildings should also support active lifestyles: an attractive staircase to encourage people away from elevators, cycle racks and showers, maybe a gym⁶.

This is particularly crucial in multi-tenant buildings where occupiers have limited opportunities to tailor space to their needs. Catering outlets that provide a range of healthy products are increasingly valued – either within the building or close by – accommodating individual dietary preferences and sustainably sourced from local suppliers rather than multinational chains.

STRATEGIES TO PROMOTE EMPLOYEE HEALTH AND WELLBEING



Source: Green Health Partnership & GRESB (2019)¹⁰

Community building is also critical⁷. It’s predominantly been mixed-use buildings that have understood that connectivity of people is key to the holistic success of places. But now we see single occupier and multi-let offices striving to create a sense of place and community. Companies want spaces that instil a sense of pride in their workforce and provide an environment in which people thrive⁸.

It is easy to be cynical about corporate initiatives to improve employee wellbeing. But “enlightened self-interest” is a true win-win for both forward-thinking employers and their staff. Happy, healthy employees are more engaged, more productive and less likely to leave⁹. Happy companies are less likely to walk away from a co-operative landlord and a building that supports their efforts. For owners and occupiers alike, a focus on wellness will be increasingly key to maintaining a healthy bottom line.

The physical structure and location of a building have a huge part to play in helping companies look after their staff

#10

Heavy lifting

LOGISTICAL CHALLENGES

Logistics may be the darling of the investment market but, as we all know, it's tough at the top. Viewed superficially, it seems a simple story: booming demand for robot-filled warehouses to support an ever-expanding array of online retailers. The reality is more complex.

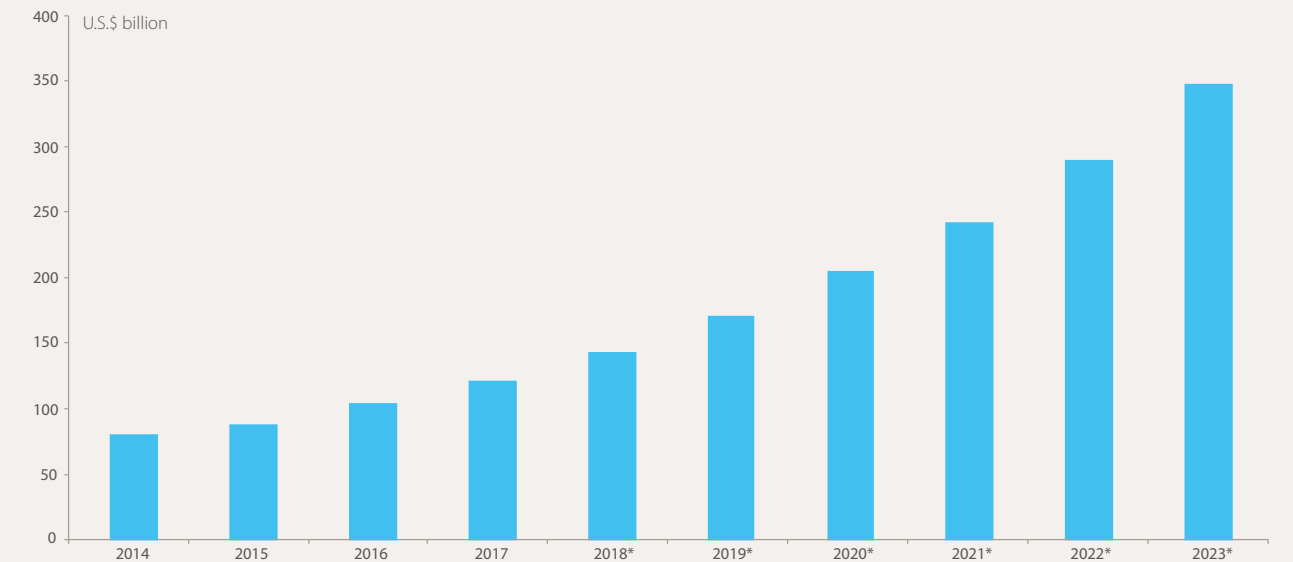
Automation is undoubtedly coming but, for now at least, e-commerce warehousing is a labor-intensive business ... and it's short of people¹. In the U.S., the largest facilities need 2,000 to 3,000 FTE workers, which is difficult to sustain with unemployment at record lows². The U.K. is already short of warehouse workers - and with eastern Europeans making up 15% of the workforce³, this is likely to worsen with immigration levels falling sharply ahead of Brexit⁴.

Alongside "last mile" delivery, the current hot topic is reverse logistics – the process of dealing with unwanted goods returned by online purchasers.

These can run to 40% or more of goods sold in some segments, representing a huge financial and operational headache for retailers⁵.

Some run dedicated warehouses or outsource the process to specialist operators. Reintegrating returns into the supply chain is highly labour-intensive, requiring careful handling of goods that arrive in various conditions and irregular volumes. Where processing costs are simply too high, products can end up being discarded⁶.

VALUE OF U.S. E-COMMERCE PRODUCT RETURNS



Source: Business Insider Reverse Logistics Report (2018)

*estimate/forecast

Retailers are recognizing the problem and starting to take action. Some price the costs into their products or charge for returns, others block customers with a history of "excessive" returns⁷. Consumer sentiment is changing, recognizing the carbon costs associated with deliberate over-ordering of goods – but this will take time to permeate through the population as a whole. Ease of returns is currently a key factor in consumer willingness to shop online, so the problem is likely to get worse in the years ahead.

Logistics companies are addressing their employment problem by shifting their attention to locations offering cheaper and more available labour. The trend of moving to non-prime locations is set to continue, securing access to new labour pools as well as greater pre-let property opportunities. In the U.K., Amazon has been responsible for 20% of all distribution space of over 100,000 sf leased in the past three years, and most of this has been outside core locations⁸.

Companies are also adopting new initiatives to make logistics facilities more attractive places to work. Health and wellbeing may be discussed more often in an office context, but concern has rightly spread to sheds⁹ with many now offering exercise areas such as outdoor gyms and running tracks, and better access to healthier food via in-house restaurants or food trucks¹⁰. In the warehouse environment, there is a growing focus on better ventilation and air quality, in some cases including the use of moss in "living walls" to absorb airborne contamination.

With labour shortages and cost reduction a perennial challenge in an industry where margins are tight, many companies are already looking at investments in automation and robotics. Both technologies are growing fast; the logistics sector accounts for almost two thirds of all robotics units sold globally, a market which is forecast to grow rapidly.

The technology is now easier to install, helped by modular building designs, and continual software advances are rapidly making all forms of automation more effective and energy efficient.

The technology is not yet at a stage where it's materially reducing staff numbers – and the investment required is not small. Further moves towards automation could prompt consolidation as those companies with stronger balance sheets operating at scale develop a competitive advantage. For the time being, the battle to attract and retain the right employees at an acceptable cost continues in the logistics sector just as it does elsewhere.

Reintegrating returns into the retail supply chain is highly labour-intensive

And finally...

One other issue we think it's important to know about going into 2020.

Future growth

THE OPPORTUNITIES AND CHALLENGES OF CANNABIS LEGALIZATION

"Oh, the times they are a-changin' ..."

In March 1992, then U.S. Presidential candidate Bill Clinton created headlines around the world with his admission that he had experimented with cannabis but didn't like it and "didn't inhale".

Fast forward to the U.K. General Election last December and the Liberal Democrats, one of the U.K.'s main political parties, pledged to legalize cannabis and tax it to raise £1.5bn to fight crime². Party leader Jo Swinson admitted smoking the drug at university, saying "and I enjoyed it"³. "The revelation barely rated a mention in the press.

With political and social easing over cannabis leading to policy changes worldwide - in particular for medical use - this presents the real estate industry with a new opportunity in 2020⁴.

Canada kick-started the process back in 2018 when it became the first G20 country to fully legalize cannabis.

Meanwhile, in the U.S., a patchwork of state legislation has resulted in 33 states and the District of Columbia legalizing the drug for medical use. Across the Atlantic, the European Union is considering harmonizing rules around a legalized medical cannabis industry - tipped to be worth €116 billion by 2028⁵.

A whole range of by-products is already filling shelves around the world. Cannabidiol (CBD), a non-psychoactive chemical extracted from the plant, is a popular ingredient in food, drink and beauty products. This market is expected to be worth \$22 billion in the U.S. alone⁶.

The big opportunity for the real estate industry in 2020 is centered on how the expansion of the drug for medical use will open up new markets. National governments are starting to issue licences; Germany agreed three in 2019, which will take the market in the country from €135 million to €1 billion this year⁷.

Where regulation allows, real estate opportunities range from research and development through to cultivation and manufacturing facilities. Science parks are likely to house sophisticated lab space and offices. There will be increased take-up of facilities to support plant growth, product manufacturing and distribution.

Canopy Growth, the world's largest publicly traded cannabis company, is a good example of the real estate potential⁸. It has 5.4 million square feet of operations in Canada, which includes indoor and greenhouse cultivation, as well as processing and manufacturing spaces for products that include vapes, food and beverages⁹.

Potential opportunities are not restricted to those countries that legalize cannabis for use - medical or otherwise.

The U.K. is currently Europe's largest exporter of the plant for medical purposes, despite its existing tough stance on usage¹⁰. Countries such as Malta, Greece, Denmark, Spain, Portugal, Israel, and Australia are expected to emerge as large exporters - but as more licences are issued, there will be more focus on domestic growing and manufacturing.

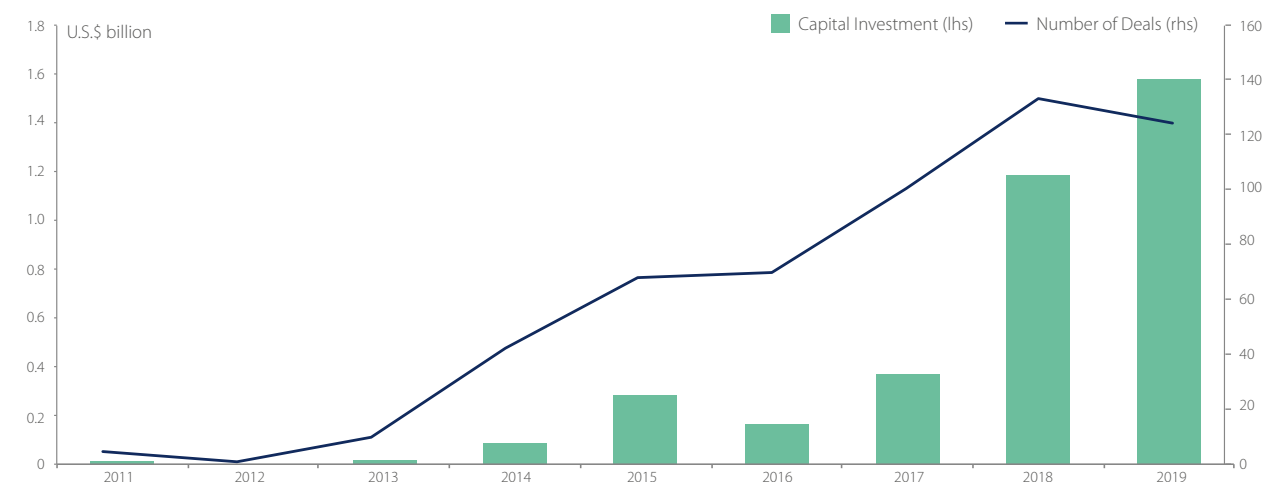
Another sign of the sector's potential is the interest from venture capital. Investments in the U.S. cannabis market hit record levels in the first five months of 2019 when U.S.\$1.6 billion was raised across 126 deals¹¹. Today's venture capital targets tomorrow's institutional investments.

For those with an eye on future opportunities, Canadian companies are the ones to watch. In 2019, Canopy Growth bought German medical cannabis company C3, Spanish producer Cafina and U.K. skincare and wellness outfit This Works¹². It also signed up to buy U.S. rival Acreage in a \$3.4 billion deal which will finalize if - or more likely when - cannabis is fully legalized in the U.S.¹³. Also last year, Canadian medical company Tilray set up a Portuguese research and cultivation campus¹⁴ while Canadian producer Aurora took over Portuguese competitor Gaia Pharma and won a tender to produce and distribute cannabis in Germany¹⁵.

They are thinking ahead. Savvy real estate players are doing the same.

Potential opportunities are not restricted to those countries that legalize cannabis for use

VENTURE CAPITAL FUNDING FOR CANNABIS START-UPS



Source: Pitchbook (2019)¹¹

Ten Trends for 2020

Our Ten Trends commentary has been prepared based on the market knowledge and experience of Avison Young professionals around the world, along with the following sources.

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20

NATIONAL OUTLOOK

20

ROMANIA

ROMANIA



EXECUTIVE SUMMARY

- Romania's economy is growing at one of the strongest rates in the EU with 4.1% of GDP growth recorded in 2019, second only to Hungary's 4.6%. Further GDP growth of 4.1% is forecasted for 2020, which would be the 10th consecutive year of growth.
- Healthy leasing activity in Bucharest in 2019 sets the capital up for a strong start to 2020. Pre-leasing activity was particularly strong throughout 2019 accounting for 43% of take-up, the largest annual pre-letting volume in over a decade. Over 400,000 sq.m is currently scheduled for delivery within the next two years.
- Industrial demand fell around 7% in the year to 2019. Regardless, there is increasing demand for smaller logistics spaces located inside City boundaries which can be partitioned into smaller units and which enable both more efficient movement of merchandise and easier employee commutes.
- 2020 total real estate investment volumes in Romania is expected to surpass 2019's 0.7 billion euros. An office portfolio transaction totalling around 300 million euros is expected to transact in 2020. When finalised, it will be the largest office transaction on record in Romania.

ECONOMIC OUTLOOK

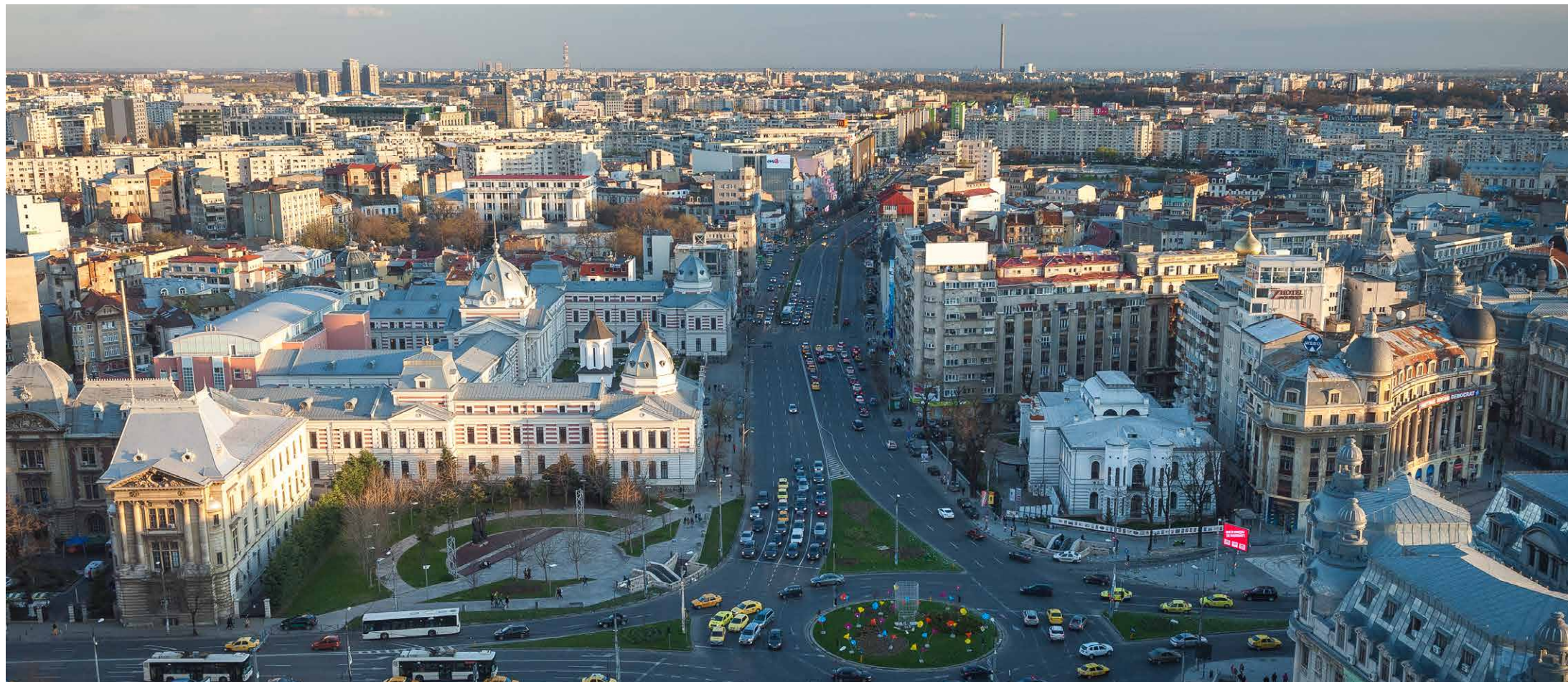
According to the National Statistics Institute, Romania's GDP rose by 4.1% 2019. Behind Hungary's 4.6%, this was the second strongest growth in the European Union. The growth was helped by a surge in investment, in part due to fiscal stimulus.

2019 was the 9th consecutive year of growth, a performance which equals the streak from 2000-2008. The growth is slowing down after an impressive 2017 with 7.1% growth and 2018 with 4.4%, however it is way above the European average (EU28) of 1.1% in 2019 (according to Eurostat).

The National Commission for Prognosis forecasted a further GDP increase of 4.1% in 2020, which will bring Romania on an unprecedented 10-year growth streak. Domestic demand will continue to be the main driver of growth, being mostly stimulated by real income and the low percentage of unemployment. Some analysts saw the possibility of a crisis similar to that of 2008 in 2020. However, we believe that this will most likely not be the case - mainly due to the only marginal slowdown recorded in 2019 which shows that the economy is adjusting and stabilising in a calmer manner, and without the abruptness that we witnessed in 2008-2011.

Investors, as well as consumers, have now learned the lesson and have a more prudent approach, which prevents an unsustainable bubble from taking shape.

The level of Foreign Direct Investment in Romania shows promising signs, recording a volume of 5.3 billion euros in 2019 (as reported by the National Bank of Romania), compared to 5.27 billion euros in 2018. As of November 2019, the trade deficit improved to 1.5 billion euros, as exports rose by 1% and imports decreased by 0.1%. Main exported goods were transport vehicles and equipment (47% of the total). Overall, 77% of the exports were to the Euro Area. The main VAT rate is still at 19% - one of the lowest in the EU, 9% for certain aliments, liquids and pharmaceutical products, and 5% for social housing and certain cultural and entertainment types.



The unemployment rate across Romania in 2019 was at the historic lowest level of 3.2%, and one of the lowest in the EU, stagnant from the 3.3% registered in 2018.

The Romanian unemployment rate in 2019 reached its lowest level on record of 3.2%, one of the lowest in the EU, but stagnant from the 3.3% registered in 2018. Romanian GDP per capita increased by 9%, from 10,420 euro in 2018 to 11,344 euro in 2019. The net average monthly wage registered in November 2019 was a 14% increase compared to the same period in 2018, while the highest salaries continue to be earned in the IT sector.

The Consumer Price Index increased 3.8% in the fourth quarter of 2019 – with the largest increase in food (4.7%), followed by services (3.9%) and non-food goods (3.2%). According to the National Bank of Romania, the higher-than-expected inflation is due to oil prices and also to high prices for some agricultural products such as fresh fruits, which needed to be imported due to unfavourable weather conditions throughout 2019.

MACROECONOMIC OVERVIEW

	2018	2019 (F)	Directional Outlook
GDP Growth rate (%)	4.4	4.1	➡
GDP per capita (€)	€10,420	€11,344	⬆
Public debt as a % of GDP	35*	37.1	⬆
Budget deficit (%)	2.9% of GDP	>4% of GDP	⬇
Monetary policy rate (%)	2.5	2.5	➡
CPI (%)	4.6	3.8	⬇
Construction works y/y (%)	-5.6	15.5	⬇
Retail sales y/y (%)	5%	7.1%	⬆
Unemployment rate (%)	3.3	3.2	⬇
Average exchange rate (1 € to RON)	4.6535	4.7450	➡

The Consumer Price Index increased 3.8% in the fourth quarter of 2019 – with the largest increase in food (4.7%), followed by services (3.9%) and non-food goods (3.2%).

The level of private consumption grew 4.9% in 2019, slowly cooling down from the 10% increase recorded in 2017 and 5.2% in 2018.The National Bank of Romania monetary policy rate remained stable at 2.5% in 2019, although on a rising trend since 2017. As inflation is still relatively high, compared to the maximum projected by the National Bank of Romania at 3.5%, the monetary policy rate is expected to remain stable in 2020 as well.

PROPERTY SECTOR OUTLOOK

OFFICE

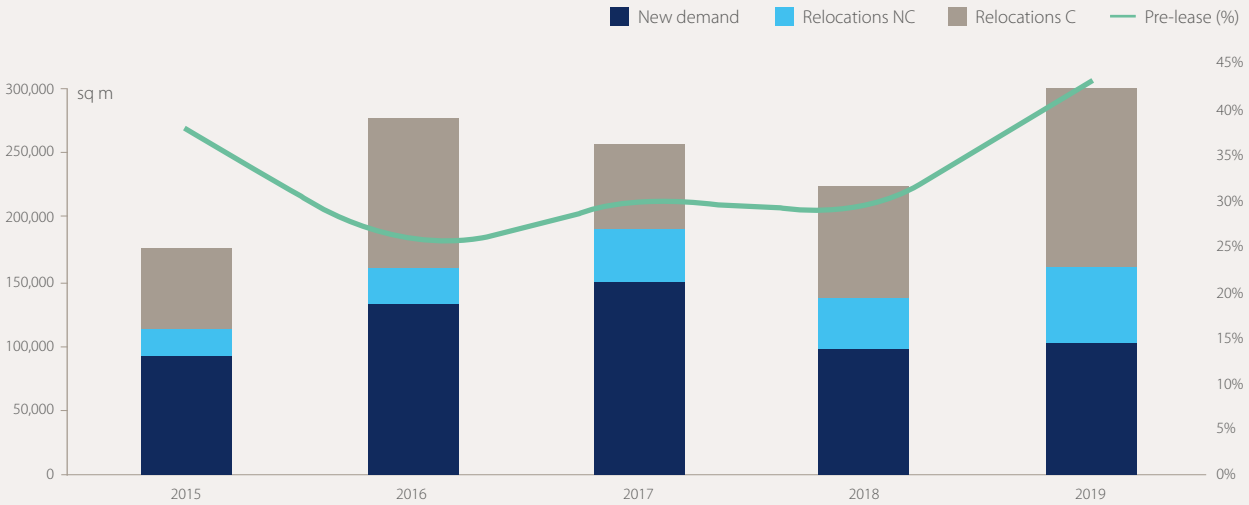
Strong leasing activity in 2019 sets Bucharest up for a strong start to 2020. Bucharest office leasing recorded throughout 2019 reached 370,000 sq. m, higher by 22% when compared with the previous year. Net take-up represents more than 80%, with 297,000 sq. m transacted, and is divided between new demand (54%) and relocations within class A and B office stock (46%). Compared with 2018, net take-up is higher by 34%, with new demand increasing by 17% year-on-year. Most of the net take-up was recorded in the Central West submarket (28%), followed by Central area (23%) and CBD (9%). Overall, when reviewing the net take-up evolution in the last five years, the areas that have attracted the most attention from tenants are Central West, followed by Barbu Vacarescu – Floreasca, and Central area.

Throughout 2019, Computers Hi Tech & Telecommunication companies were again the most active office occupiers, with 41% of the net take-up, followed by Financial, Banking & Insurance businesses with 16% and tenants active in Professional Services with 11%. Analysing the net take-up recorded over the past five years, Computers Hi Tech & Telecommunication tenants have rented over half a million sq. m in Bucharest.

Pre-leasing activity increased considerably in 2019. Approximately 128,000 sq. m was pre-leased last year, representing 43% of net take-up. This is the largest annual pre-letting volume recorded over the last decade. The majority of pre-letting activity in 2019 was recorded in the Presei Libere – Expozitiei submarket, with 36%, followed by Central West (29%) and Central area (26%). As in previous years, pre-leasing transactions were among the most important deals in terms of total area (e.g. Ubisoft – 28,000 sq. m, BCR – 14,000 sq. m, Societe Generale – 10,000 sq. m). Throughout 2019, relocations from old stock have increased considerably accounting for more than 35% of total new demand. For tenants located in villas or old buildings, the availability of quality office stock at affordable occupancy costs has become more attractive and it is anticipated this trend will continue into 2020.

Throughout 2019 the modern office stock in Bucharest increased by 11%. At the end of December existing class A and B office space exceeded 3.1 million sq. m. Fourteen office projects were delivered, a total GLA of around 300,000 sq. m. This represents the largest level of supply delivered in the last five years. The most active office submarkets in terms of completions were Central West, followed by West, Barbu Vacarescu – Floreasca, and Presei Libere Sq. – Expozitiei area.

NET TAKE-UP EVOLUTION



Source: Avison Young



PROPERTY SECTOR OUTLOOK
INDUSTRIAL

Throughout 2019 approximately 460,000 sq. m of industrial and logistic space was transacted in Romania, lower by around 7% y-on-y. In Bucharest, demand of industrial and logistic space was 270,000 sq. m, representing 58% of the total take up recorded throughout Romania. Regions such as Slatina, Timisoara and Oradea were also in high demand, attracting 32% of the net take up.

Manufacturing occupiers will continue to be attracted by secondary and tertiary regions (e.g. Iasi, Bacau, and Craiova), driven by the workforce availability. Due to good infrastructure, main regional markets such as Timisoara and Cluj-Napoca will gain more attention as logistics hubs, as the necessity for distribution exceeds the point where it can be handled from just one strategic location.

In 2019 new markets such as Constanta, Craiova or Bacau emerged. Going forward, these regions are expected to become important industrial and logistics hubs.

The most dynamic occupiers in 2019 were companies active in Logistics & Distribution and Manufacturing & Industrial (each with 34% of the net take-up), followed by Retail (22%) and Automotive companies (7%). Bucharest attracted demand mostly from logistics companies and retailers. Main regional markets outside Bucharest attracted tenants active in logistics, while secondary and tertiary cities targeted Manufacturing & Industrial companies.

MAJOR LEASE TRANSACTIONS SIGNED IN 2019

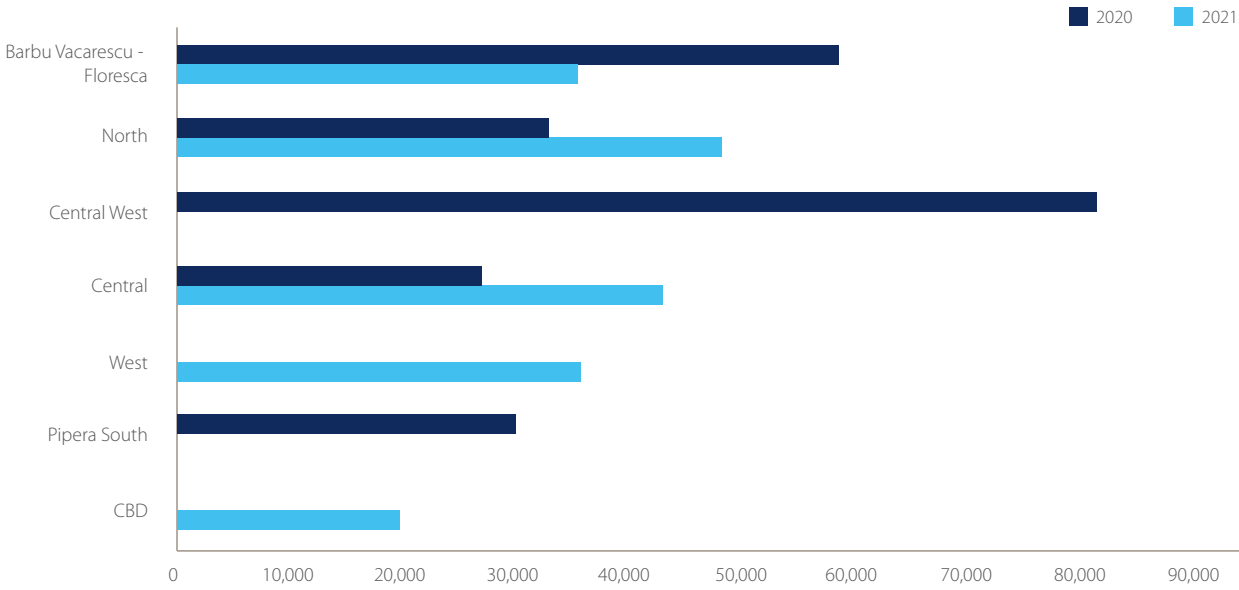
Tenant	Business sector	Leased area (sq. m)	Project	Landlord	City
Profi	Retail	72,000	CTPark Bucharest West	CTP	Bucharest
Sogefi	Manufacturing/ Industrial	34,000	WDP Oradea	WDP	Oradea
Pirelli	Automotive	32,000	WDP Slatina	WDP	Slatina
Arctic	Manufacturing/ Industrial	20,000	Eli Park	Element Industrial	Bucharest

Currently there is over 400,000 sq. m of office space under construction scheduled for delivery in the next two years, with 66% due to be completed this year. Another 300,000 sq. m is due for delivery by year-end 2022. The most active submarkets in terms of office construction activity are Barbu – Vacarescu Floreasca which makes up 23% of the total office space under construction, followed by North (20%) and Central West (19%). The lowest vacancy rates are in Barbu Vacarescu – Floreasca area (< 1.5%) and Presei Libere Sq. – Expozitiei (5%), followed by the CBD Victoriei – Aviatorilor (5.7%). The vacancy rate in Pipera South is around 7%, while in the Central West submarket stands at around 10%.

Over the course of 2019 prime headline rents increased marginally to 19 euros per sq. m per month. In the CBD, headline rents for A class office space are between 17 – 19 euros per sq. m per month, while in Barbu Vacarescu – Floreasca submarket are in the range of 15 – 17.5 euros per sq. m per month. In semi-central locations the headline rents for prime projects are around 13 –15 euros per sq. m per month, while in peripheral areas A class office space is transacted between 9 –12 euros per sq. m per month. Net effective rents are lower by 10 – 15%. Incentives offered to tenants usually include rent free periods and a contribution for fit out works.

Currently there is over 400,000 sq.m of office space under construction scheduled for delivery in the next two years, with 66% due to be completed this year.

BUCHAREST DEVELOPMENT PIPELINE DUE FOR DELIVERY 2020/2021



Source: Avison Young

Tenants are increasingly interested in optimising the space they occupy and their requirements have become more specific in terms of temperature, layout/partitioning and general specifications related to their operations. It is expected that this tendency will continue to have an impact on development activity. Leases shorter than 3 years were recorded in 2019, as occupiers searched for temporary spaces and landlords were keen to enhance the operating income of their properties. Going forward, it is estimated that this trend will continue.

There is also a growing demand for smaller logistics spaces located inside the city’s boundaries. In Bucharest, this occurs in close proximity to peripheral subway stations such as Preciziei or Anghel Saligny. These particular locations allow for quicker movement of merchandise, given the increasing traffic congestion elsewhere, and also enable easier commutes for employees. Demand for this type of space is from small occupiers looking to move from unsuitable spaces to class A facilities. Considering, 2020 may see developers pay closer attention to a new type of product - class A logistics units located at the periphery of the city or inside the city’s boundaries, which can be partitioned into smaller units.

Fuelled by significant demand, the general vacancy rate for industrial and logistics spaces reached unprecedented low levels, under construction stock as an exception is currently over-supplied. At the end of 2019, the general vacancy rate for industrial and logistics stock was around 7% across Romania.

Historically, the vacancy rate recorded in Bucharest was 50% lower compared with the vacancy rates in the regional markets. Recently, however, due to large built-to-suit units with long-term leases existing outside Bucharest, the situation has reversed and the vacancy rate is slightly higher in Bucharest compared to the rest of the country. Given that, around 500,000 sq. m of industrial and logistics space is scheduled for completion this year, it is estimated that the modern stock in Romania will surpass 5 million sq. m by the end of 2020.

The prime headline rent for 5,000 sq. m of class A logistics space located in Bucharest is in the region of 4 euro per sq. m per month, while a standard service charge is between 0.7 and 1 euro per sq. m per month. Incentives offered to tenants, such as rent-free periods and personalised fit-out solutions usually apply. Considering that, the net-effective rents are lower by 10 - 20%. Main regional markets such as Cluj or Timisoara have a rental level similar to Bucharest, while secondary markets such as Oradea or Craiova have a rental level between 3.5 - 3.8 euro per sq. m per month. Standard lease lengths for logistics are around 3 - 5 years, production activities are between 5 - 10 years, and built-to-suit units for retailers are around 7 - 10 years.

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INVESTMENT ACTIVITY

In Romania, investment volumes recorded throughout 2019 amounted to around 0.7 billion euros. As in 2018, the office sector was dominant attracting 71%, followed by the retail sector with 23%. Investment transactional activity targeting industrial and logistics properties remained relatively stable y-on-y. In 2020, total real estate investment volumes in Romania are expected to surpass 2019’s value. At the end of Q4 2019, AFI Europe announced the signing of a non-binding letter of intent for the purchase of NEPI’s existing office portfolio, comprising four office projects - three located in Bucharest and one in Timisoara. The transactional value is around 300 million euros. When finalized, it will be the largest office transaction ever recorded on the Romanian market.

Overall, regional cities have attracted investment volumes higher by 6% compared with what was recorded in the capital city. Across Romania, the most active location in terms of investment activity was Bucharest, accounting for 47% of the total investment volumes, followed by Cluj Napoca with 30%.

The most notable investment deal in terms of price was registered in Cluj-Napoca, which has become the most important real estate market outside Bucharest.

In 2019, The Office (64,000 sq. m GLA), the largest office project in Cluj, was acquired by the Pavel Family who are the owners of the Romanian DIY retailer Dedeman. The scheme had been developed by a joint venture between NEPI Rockcastle and Mulberry Development and it is fully occupied by tenants such as Ernst & Young, Yonder, Bosch, Deloitte and 3Pillar Global. Also in Cluj-Napoca in Q4 2019, two further office investment deals were recorded. Liberty Technology Park (18,000 sq. m GLA) was sold by Fribourg Development to White Star Real Estate and three office buildings with a GLA of 20,000 sq. m were sold by Hexagon Group to Ideal Project Services.

	2019	2018
City	Cluj Napoca	Bucharest
Property	The Office	The Bridge
Type	Office park	Office park
GLA (sq. m)	64,000	80,000
Price (million euros)	130	200
Buyer	Dedeman	Dedeman

MAJOR INVESTMENT TRANSACTIONS 2019

City	Sector	Property	Purchaser	Vendor	Price (million euro)
Cluj Napoca	Office	The Office	Dedeman	NEPI & Mulberry Development	130*
Tertiary cities	Retail	Nine commercia centers	MAS Real Estate	Prime Kapital	113
Bucharest	Office	America House	Morgan Stanley Real Estate Investing	AEW	77*
Bucharest	Office	Oregon Park – building C	Lion’s Head Investments	Portland Trust	60*
Cluj Napoca	Office	Liberty Technology Park	White Star Real Estate & Investment fund of a major US university	Fribourg Development	45
Bucharest	Industrial	A1 Bucharest Park	CTP	Vebald Group	40

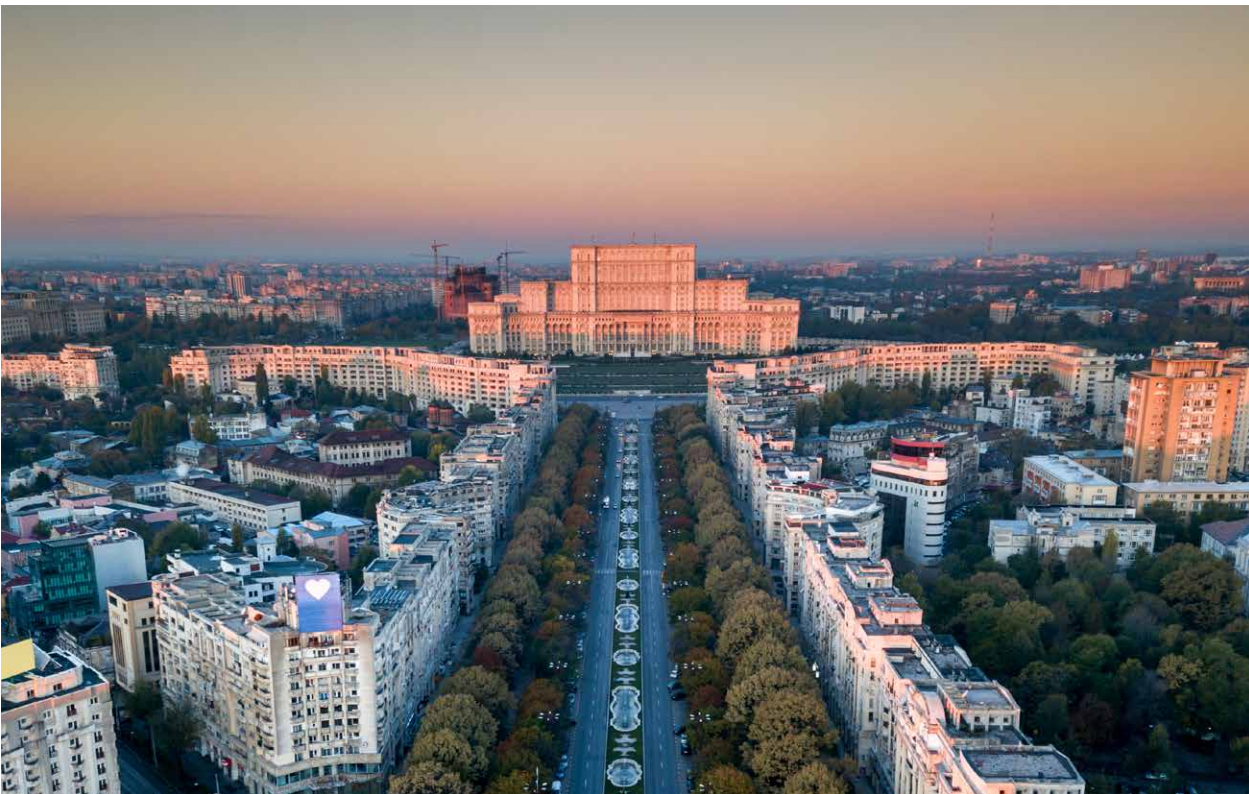
*estimated

Source: Avison Young

In Bucharest, the French investment fund AEW sold the 28,000 sq. m America House office building located in Victoriei Sq. (CBD) to Morgan Stanley Real Estate Investing and David Hay, the former CEO of AFI Europe Romania. The transaction has an estimated value of around 77 million euro and marks the entry to the Romanian market of one of the leading global investment banks. Day Tower, located in the Central area of Bucharest, also transacted. The office building has a GLA of around 12,000 sq. m, was completed in Q4 2018, and is fully occupied by ENEL. The value of this deal is estimated to be over 30 million euro, reflecting a yield of 7%. Lion's Head Investments, a joint-venture between Old Mutual and AG Capital acquired the third office building: Oregon Park, a project developed by Portland Trust in the Barbu Vacarescu – Floreasca office submarket.

Given that a series of quality class A office properties with high occupancy rates are currently on the market for sale, the office segment is projected to dominate in 2020 for the third year in a row. Private domestic investors will continue to compete for value investments; the evolution of Family Office investments in commercial real estate is a clear trend.

The country continues to have attractive returns when compared with other CEE countries, such as Poland or Czech Republic.



In most cases, investors are seeking to make acquisitions with an average lot size of 10 million euros, but in the event that more leverage becomes available, it can be expected that the appetite for larger tickets will evolve. Eventually, as in other CEE markets, private capital pools may lead to the establishment of the first domestic real estate institutions in Romania.

Regarding the retail sector, Prime Kapital sold nine commercial centres located across Romania to the the South African investment fund MAS Real Estate. With a total GLA of 68,000 sq. m, the assets are expected to deliver 8.15 million euro of net operating income per year. Another retail investment deal was AEW's sale of the Promenada Mall shopping centre located in Targu Mures to Indotek, a group of investment management entities owned by American and Hungarian shareholders.

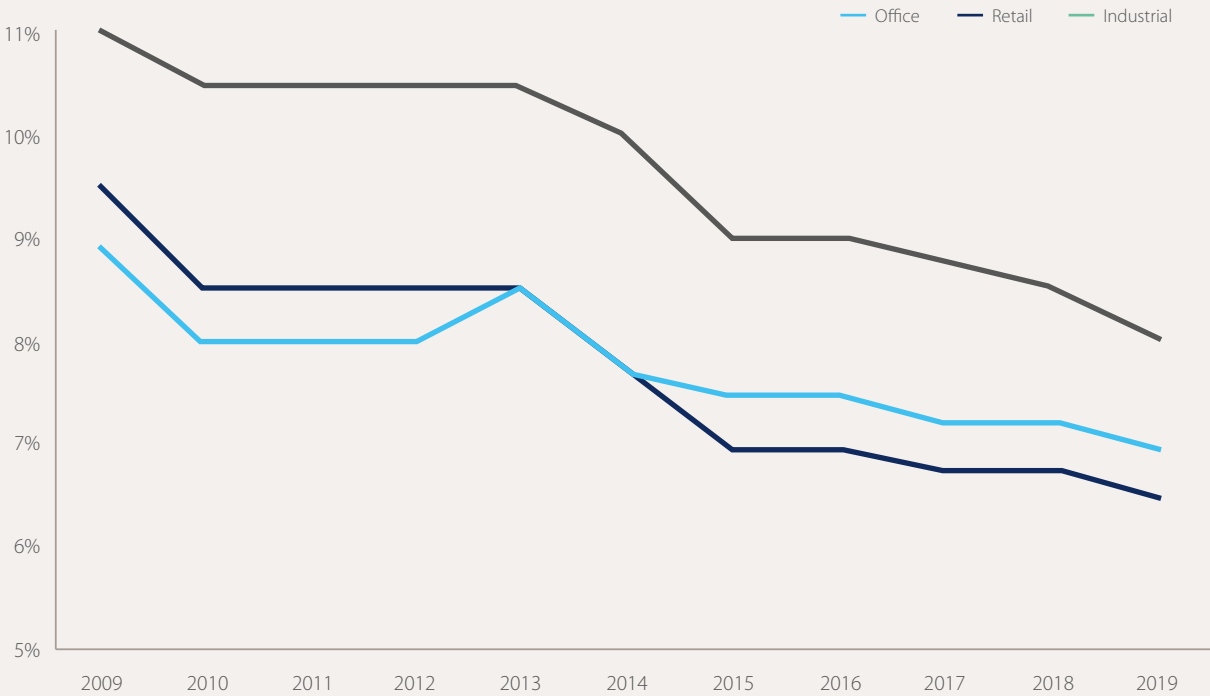
PRIME YIELDS

As in all European markets, yield compression has been observed in Romania as well. Still, the country continues to have attractive returns when compared with other CEE countries, such as Poland or the Czech Republic.

Industrial and logistics properties located in Romania continue to have the most competitive yields, with the prime yield standing at 8%. Prime office properties located in Bucharest achieve yields of around 7%, while yields for prime shopping centres are at 6.5%.

Industrial and logistics properties located in Romania continue to have the most competitive yields, with the prime yield standing at 8%

PRIME YIELDS EVOLUTION



Source: Avison Young

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