

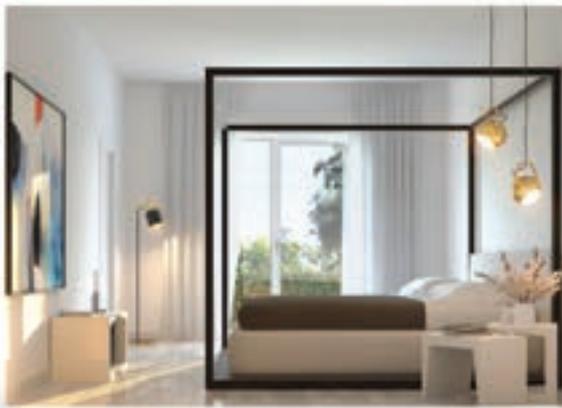
 AFI TECH PARK 1

REAL ESTATE Guide

Key insights into the local
real estate market in H1 2017

A GUIDE PUBLISHED BY

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EDITORIAL



On the right track and hoping for the best

SIMONA BAZAVAN
DEPUTY EDITOR-IN-CHIEF

The first half of 2017 has been a positive one for the local real estate market. Perhaps the most important news was the acquisition of AFI Europe's AFI Park office project by Romanian businessmen Dragos and Adrian Paval. The emergence of major domestic capital is a welcome sign of maturity for the local real estate market, and there is more good news to go around. Demand for office space remains on an upward trend, while new logistics and industrial space deliveries are projected to hit a post-crisis high this year.

In the meantime, economic growth and income increases are fueling retailers' optimism, while on the housing market prices are on the rise – albeit here there are concerns about potential market overheating.

All this hints at a positive outlook for the entire year and the industry representatives BR talked to for this edition of its real estate supplement confirm the upward trend. This is welcome news – not only for the real estate market, but for the economy as a whole. However, despite the rosy picture that developers and consultants often paint, there are also reasons for concern looking further into the future.

In the previous edition of BR's real estate supplement, we looked at external factors as the main threat to the market's positive evolution. This time around the risks lie within. The government's intention to meddle with the Fiscal Code has gotten the local business community on edge and for good reason. By the time BR went to print, it was still unclear what the final changes will look like, when they could come into force and even if there will be any changes at all. Nevertheless, the negative signal is already out there. Instability of any kind, and in particular fiscal, is never good news for existing players or potential new investors.

Hopefully, the real estate market's maturing and consistent growth over the past couple of years is good news that will travel faster than the bad. This should keep Romania on the radar for new expansions and new investments, despite the recent fiscal stammering.

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ASKING PRICES FOR HOMES RISE IN H1, SAYS IMOBILIARE.RO

BR SIMONA BAZAVAN

The average national asking price on the residential market stood at EUR 1,120/sqm this June, up by 6.7 percent compared to the end of December 2016, according to data from real estate platform Imobiliare.ro. Throughout the country, asking prices for new housing units posted a sharper increase, according to the same source.

In the capital Bucharest, sellers increased their price expectations by 5.4 percent throughout the first semester. The average asking price for old apartments – meaning mainly properties built before 1990 – was EUR 1,144/sqm this June, up by 5 percent compared

to the end of last year. By comparison, on the primary market, average asking prices stood at EUR 1,254/sqm, a 7 percent rise, indicate Imobiliare.ro data. However, the

reaching an average level of EUR 1,372/sqm. As elsewhere, the growth rate was stronger on the primary market than on the secondary market. While the average



asking price for old apartments reached EUR 1,402/sqm, up by 9.6 percent since the end of last year, that of new apartments increased by 12.3 percent to EUR 1,330/sqm. Asking prices saw increases in all the other main regional cities throughout the country, Imobiliare.ro data suggest. The average hike

steepest price increases this first semester were posted outside Bucharest, with Cluj-Napoca leading the ranking. In the western city, asking prices went up by 10 percent,

stood at 9.6 percent in Iasi (reaching EUR 936/sqm in June), 8.2 percent in Timisoara (EUR 1,111), 7.3 percent in Constanta (EUR 1,044), and 6.2 percent in Brasov (EUR 956).

LOCAL FOOD & BEVERAGE SECTOR POSTS SECOND HIGHEST GROWTH RATE IN REGION, SAYS C&W ECHINOX

BR SIMONA BAZAVAN

Romania ranks second in Europe for both the growth rate and growth potential of its food and beverage (F&B) sector, according to data from real estate consultancy, C&W Echinix, which has included in its analysis units such as restaurants, fast-food outlets, cafes and tea houses.

The F&B sector reported a EUR 798 million turnover last year in Europe, posting an average annual growth rate of about 4.2 percent over the past decade. Spain, the UK, Italy, Germany and France boast the five largest markets; however,

it is countries in Central and Eastern Europe, such as Turkey, Romania, Bulgaria, Poland and Ukraine, that are notching up the highest annual growth rates, the same data indicate. Over the past ten years, Romania has recorded an annual expansion of about 7.2 percent, behind Turkey. It also ranks second for growth potential with an annual projected growth rate of 8.8 percent.

“There has been a paradigm shift, including in Romania. While a few years back we used to go out to buy clothing and eat at home, lately we have started

to buy more, including clothing, online, and dine out. In dynamic markets such as Romania, with record economic growth and an annual salary increase of over 10 percent, young consumers adopt these trends fast and restaurant and café operators are benefiting from this positive context,” said Cristi Moga, research consultant with C&W Echinix.

The ten largest shopping malls in Romania host about 250 F&B units covering some 40,000 sqm. These represent about 6 percent of these malls’ gross leasable area, according to C&W Echinix data.

LAND DEALS TO REACH SOME EUR 100 MILLION IN 2017, SAYS JLL ROMANIA

BR SIMONA BAZAVAN

Land transactions are expected to reach about EUR 100 million in 2017, according to data from real estate consultancy JLL Romania. This is considerably below the EUR 400 million reported in 2007, before the onset of the crisis, according to Attila Peli, head of land and development at JLL Romania.

The drop has to do with the fact that nowadays there are fewer than a quarter of players active on the market than ten years ago, he adds. It also takes considerably longer to conclude a transaction, not least because of red tape. This makes the sale process more complex, and more often than not, the responsibility for securing all the necessary paperwork, including authorizations, falls increasingly on

the seller. Altogether, it takes on average about 18 months to conclude a land sale today, compared to 2007 when the average time was three months. Ten years ago land was also seen as an investment in itself as prices went up by as approximately

ment potential, especially for office and residential developments. "The years prior to the crisis were a time when retail developers bought land to secure strategic locations. This also happened during the first years of crisis when liquidity

was low. Most of the land meant for retail developments was bought before the end of the crisis, and today there are very few such transactions," said Peli.

"Now one no longer buys land for the sake of buying land. Plots with good infrastructure access and a special location are the ones catching the interest of potential buyers. Investors tend

to ignore the rest," notes Peli, adding that right now on the market land plots are either highly sought after or completely ignored.



50 percent per year. Nowadays land prices are relatively stable and a 10 percent price increase is considered moderate, he adds.

A plot's value is given by its develop-

LOCAL CONSTRUCTION FIRMS HIT BY LACK OF INFRASTRUCTURE PROJECTS

BR SIMONA BAZAVAN

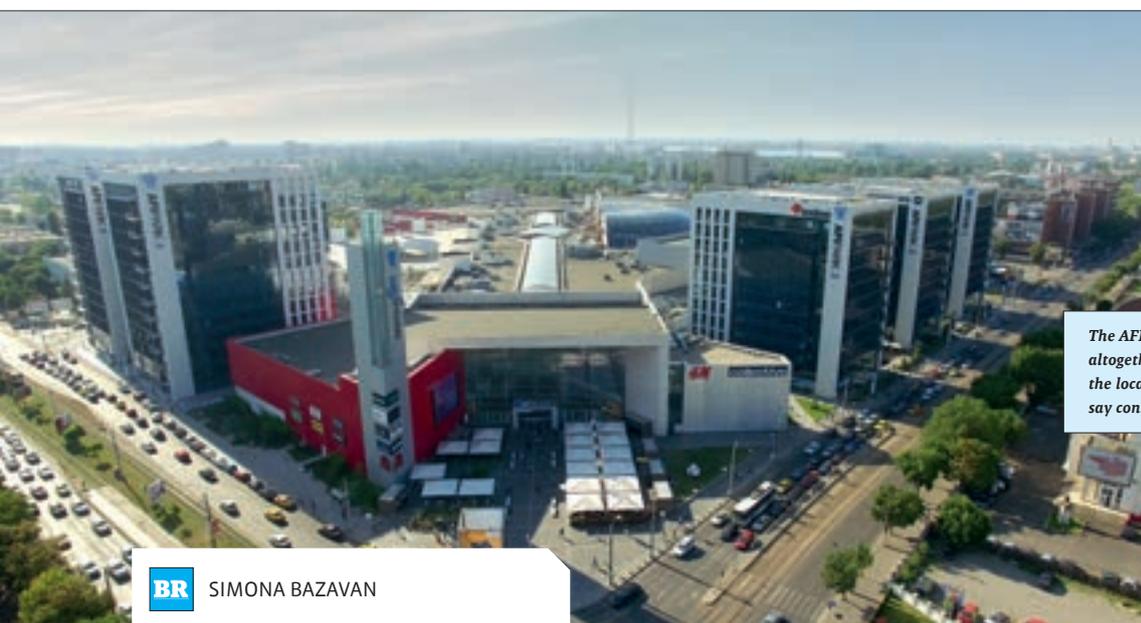
Romanian construction firms posted in 2016 their highest debt level since 2008, according to Coface data. They also faced issues with debt recovery and have reduced their long-term investments, as the sector continues to be affected by a lack of

infrastructure projects, according to the same source. Overall, indebtedness levels in the construction sector rose from 73 percent in 2008 to 86 percent in 2013, 2014 and 2015, and to 88 percent in 2016. Moreover, companies went into debt as a means to cover short-term needs, the same data sug-

gests. The average duration for collecting receivables also increased from 115 days in 2008 to 195 days last year, as state arrears have gone up. Coface data also reveal that general profitability remains sluggish, down to some 2.5 percent in 2016, compared to 8 percent in 2008.

LANDMARK DEALS SHAKE UP INVESTMENT MARKET IN H1

The first half of the year saw several major transactions involving properties both in Bucharest and outside the capital being announced. Consultants are confident that the overall real estate investment volume will go beyond 2016 levels and new names will join existing players in the months to come.



The AFI Park deal marks altogether a turning point for the local investment market, say consultants

BR SIMONA BAZAVAN

In early June it was confirmed that Romanian businessmen Dragos and Adrian Paval, who control the EUR 1 billion DIY retailer Dedeman, will buy the first three buildings of AFI Europe's office park in the Cotroceni area of Bucharest in a landmark transaction for the local real estate market. The Paval brothers could finally end up with the entire 70,000 sqm of office park for about EUR 164 million if they reach an agreement with the Israeli owner for the remaining AFI Park 4-5.

Only two weeks later news broke that Romanian real estate developer Iulius Group had reached a 50/50 joint venture with South African newcomer Atterbury Europe for its four existing Iulius Mall shopping centers, the development of the mixed-use project Openville Timisoara, as

well as future development projects.

"The deal between Iulius and Atterbury represents one of the most interesting and positive developments of the retail segment in recent years. Moreover, investors' growing interest in assets outside Bucharest is welcome," Mihai Patrulescu, head of strategic analysis at Colliers International Romania, tells BR.

Overall, the first semester saw a number of important transactions on all segments of the real estate market, he adds. Recent developments suggest a new investor profile shaping up, be it from investors that are already present in Romania and are now targeting new segments such as Globalworth, local newcomers such as Dedeman or international newcomers like Atterbury, he explains. "One of the most in-

teresting changes this year is the fact that the individual value of transactions will be higher than in 2016. On the office segment the AFI Park-Dedeman transaction could become the largest ever recorded and this shows there is improved liquidity," adds Patrulescu.

This deal marks altogether a turning point for the local investment market, consultants agree. "The fact that real estate buyers in Romania are mainly foreign players is a problem for us. One reason for that is that it looks bad. When you're trying to convince a new investor to come to Romania one of the first questions they ask is what is Romanian money invested in. We are very happy about this transaction," says Silvana Petre Badea, managing director at JLL Romania. Having a high-profile

Romanian real estate investor is also good for the market in terms of liquidity and adds more stability in times of crisis when foreign players are usually the first to pack and leave, she adds.

► **MORE TO FOLLOW**

More Romanian players could join Dedeman's ranks in the near future, albeit not at the same scale, believes Andrei Vacaru, associate director of capital markets, at JLL Romania. "Having a group of Romanian investors taking shape is very important, but on the other hand I don't think there is anybody else with the same means as Dedeman's founders. There aren't any other Romanian entrepreneurs to match their financial might. So yes, we will see more Romanian entrepreneurs investing in real estate but not at the same level," he predicts.

In the meantime, the emergence of major domestic capital remains a sign of maturity for the market and more foreign investors are expected to set up local bases as well, Tim Wilkinson, partner, capital markets, with C&W Echinox, tells BR. Transactions closed between January and June amount to some EUR 600 million

Hungary and Slovakia). The main reasons are the further diversification of portfolios and better priced opportunities compared to the lower yields of the other markets," outlines Wilkinson. The following months will not see a sudden flood of new capital, but rather a "healthy and steady increase heading into 2018. The profile of these new funds is more driven by strong cash flow over a longer term rather than opportunistic groups," he adds.

Talking about yields, while the finance

office, industrial, retail and development land transactions in progress presently, although it is too early to say what the overall composition will be by yearend, he adds. Nevertheless, retail assets will once more take center stage in terms of investment volumes, closely followed by offices, matching last year's trend, according to Wilkinson. He also expects hotel investment volumes to play an important part in total volumes.

Last but definitely not least, the re-

PRIME YIELDS IN Q1 2017			
Prime yields	Retail	Office	Logistic
Bucharest	6.75%	7.25%	8.75%
Budapest	6%	6.25%	8%
Prague	4.25%	4.6%	6%
Warsaw	4.75%	5.25%	6.75%

Source: C&W Echinox

spread has narrowed, yield gaps with locations further west, most noticeably Hungary, have actually widened, Robert Paulson, head of investment properties

mainder of the year could see some more landmark transactions, given that several other high-profile assets are up for sale, including America House in downtown

MAJOR DEALS IN H1				
Buyer	Seller	Transaction	Type of asset	Value
Dedeman	AFI Europe	AFI Park 1-3 + option for AFI Park 4-5	office	EUR 164 mln
Atterbury Europe	Iulius Group	50% of Iulius Group	retail	N/A
Mitiska REIM	11 retail parks	Alpha Property Development	retail	N/A
China Investment Corporation	Logicor	Logicor (including local portfolio)	industrial	N/A
Globalworth	Elgan Group	Dacia Logistic Center	industrial	EUR 42.5 mln
Globalworth	Skanska	Building C of Green Court Bucharest	office	EUR 38 mln
Hili Properties	FBC Exclusiv Company	ART Business Centre	office	EUR 30 mln

Source: BR, based on consultants' data

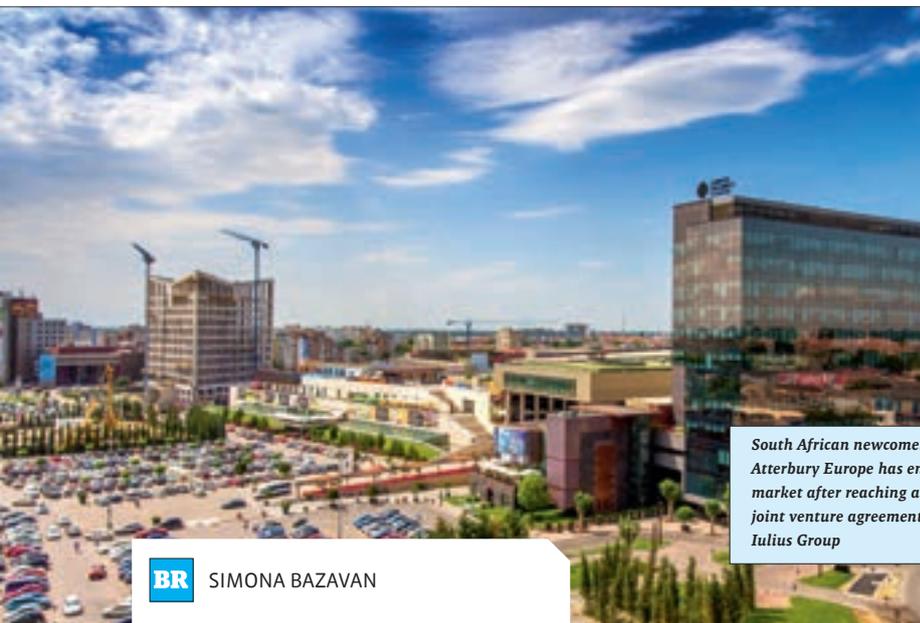
and volumes are on track to reach or even exceed EUR 1 billion, he adds. This would be an increase of about 20 percent on last year. "Romania is once again hitting the radar of more funds that have typically only invested in the four main markets of CEE to date (Poland, the Czech Republic,

with CBRE Romania, tells BR. "It demonstrates increased relative value. A lack of core transactions has seen retail and office yields relatively stable while ongoing transactions are likely to evidence further compression in the industrial sector," he notes. There are significant

Bucharest. Should real estate investor AEW Europe reach an agreement to sell it this year, the transaction could represent a new benchmark for the local market in terms of yield, just as it did in 2007 when its present owner bought it from Globe Trade Centre (GTC) for EUR 120.3 million.

HIGHLY CAPE-ABLE: MORE SOUTH AFRICAN INVESTORS EYE LOCAL MARKET

Atterbury Europe is the latest South African developer and investor to set up shop in Romania. More are expected to join its ranks in the near future, further consolidating the already strong South African presence on the local market.



South African newcomer Atterbury Europe has entered the market after reaching a 50/50 joint venture agreement with Iulius Group

BR SIMONA BAZAVAN

This June news broke that South African newcomer Atterbury Europe had reached a 50/50 joint venture agreement with Romanian real estate developer Iulius Group for its existing four Iulius Mall shopping centers and the development of future projects, including that of the Openville Timisoara mixed-use project.

Atterbury Europe is only the latest South African real estate developer and investor to enter the Romanian market. In fact, over the past couple of years South African companies have come to control some of the largest real estate players on the local market. Globalworth and New Europe Property Investments (NEPI), which own the largest office space and shopping center, respectively, on the local market, are both controlled by South African com-

panies. This happened after Growthpoint became the main shareholder in Globalworth last year. Also last year, NEPI announced that it would merge with another South African fund, Rockcastle.

In time, new South African players will most likely be joining their ranks, states Andrei Vacaru, associate director, capital markets, at JLL Romania. "There have been other South African groups looking at Romania for some time now. The assets they are interested in are not always easy to find, because when they decide to enter a market they are not looking at small transactions. If they decide to make a move so far away from home they want to close a significant deal from the start, which is why many wait a year or two for the right opportunity to come along. But there will definitely be more transactions

involving other South African groups than those already present," he stresses.

Whereas so far, South African investments in Romania have been almost entirely synonymous with retail, newcomers are looking at all segments of the market, including office and industrial, adds Vacaru. What could be different about future South African investors will most likely be the fact that they will be smaller players than those seen so far, notes Silvana Petre Badea, managing director of JLL Romania.

Why come to Romania in the first place? One reason is the difficult political situation in South Africa, which is reflected in the economy and which motivates companies to look outside their domestic market, explains Vacaru. Secondly, there is the perception they have of Romania. "For companies coming from South Africa, Romania holds a lot of opportunities and they see the risks as being manageable. This is a slightly different approach from that of many Western groups who continue to see a lot of risks in Romania," he says.

And it is not only Romania that is on their radar. South African funds have invested throughout the region, including in countries such as Poland, Bulgaria, FYR Macedonia, Montenegro and Serbia, where they represent by far the largest foreign investors, notes Vacaru. Although their presence in Poland is stronger than their local footprint, Romania remains a favored destination, one reason being that for some of them it was the gateway to the region, argue JLL Romania representatives.

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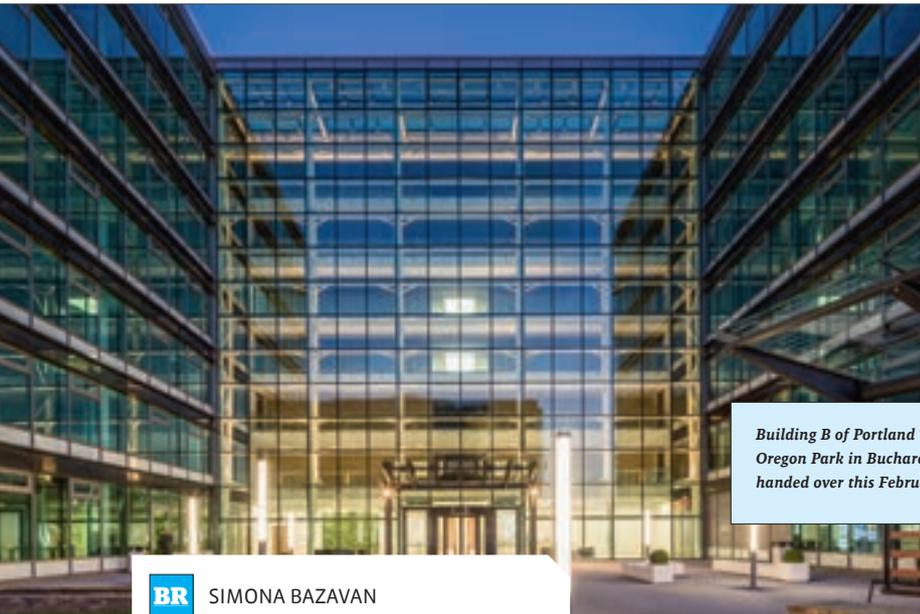
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BUILDING BLOCKS: OFFICE RISES UPON HEALTHY DEMAND

The average vacancy rate for Bucharest offices is dropping, as less than half as much new office space will be delivered by yearend compared to 2016. Nevertheless, demand remains high and consultants are confident that leasing activity will remain similar or even manage to surpass last year's level.



Building B of Portland Trust's Oregon Park in Bucharest was handed over this February

BR SIMONA BAZAVAN

The first half of 2017 saw the office market maintain a healthy upward trend, say consultants.

One important development is that the average vacancy rate for office properties in Bucharest hit 9.5 percent as early as the first quarter, marking the lowest level in nine years, according to data from real estate consultancy CBRE. For class A office buildings the average vacancy rate was even lower at 7.1 percent, according to the same source.

One reason for that is that fewer new deliveries are scheduled this year. Some 150,000 sqm of new office space is expected to come on the market by the end of 2017 in Bucharest, significantly less than the previous year's volume. The most important projects to be delivered this year

include first phases of The Bridge, Timpuri Noi Square, and Globalworth Campus. "An interesting development is that 2017 will be the first year when there will be no new delivery in Barbu-Vacarescu Floreasca, Bucharest's most dynamic sub-market over the past five years," Bogdan Bogatu, senior broker in the office agency at C@W Echinox, tells BR.

CBRE data indicate that of the 150,000 sqm of new office space to be delivered in 2017 in Bucharest, 40 percent is located in the western part of the city and 31 percent downtown, Mihai Paduroiu MRICS, head of advisory & transaction services at the investor leasing office with CBRE Romania, tells BR.

Barbu Vacarescu remains Bucharest's most sought after area for offices, with a

vacancy rate of only 2-3 percent, followed by Center-West - Orhideea with a vacancy rate of less than 5 percent. However, there is also growing interest in downtown Unirii and Timpuri Noi following the kick start of developments such as Timpuri Noi, Unirii View and Day Tower, adds Bogatu.

Approximately 72,000 sqm of new office space is estimated to have been delivered by the end of H1 2017, about 37 percent of which is thought to have been vacant at that point. The share is similar to that reported during the same semester last year, with the only difference being that almost twice as much new space was delivered in H1 2016, CBRE data indicate.

Nevertheless, consultants say that overall demand remains high. "For the whole of 2017, we estimate demand for office space will be similar or even higher than in 2016, when some 412,000 sqm was leased. New demand and expansions will represent a significant share, which shows that new deliveries are being absorbed and that demand is constantly growing. We expect this to be maintained over the next period," outlines Paduroiu.

Given that some 110,000 sqm was leased in the first quarter alone, overall leasing activity should go up this year, agrees Bogatu. By comparison, over 375,000 sqm was leased last year, half of which was represented by new tenants and extensions, while the rest was made up of renegotiations and relocations, he adds, citing C@W Echinox data. Important deals signed so far this year include

IBM preleasing 18,000 sqm in The Bridge, Renault renegotiating a 20,000 sqm lease in North Gate and Rompetrol renegotiating 10,000 sqm in City Gate, he notes.

Looking at the profile of the most active tenants, CBRE data indicate that companies doing business in the manufacturing, industrial & energy, and computers & hi-tech sectors accounted for some 71 percent of the total office take-up in the first quarter, and the trend will continue in the second quarter as well, predicts Paduroiu.

As for the overall evolution of the vacancy rate, Bogatu forecasts that it will be significantly

lower at the end of 2017 than at the beginning of the year, while rents will be on an upward trend throughout the city.

Further on, new projects should be announced by the end of 2017 to be delivered over the coming years, "as future deliveries are closely linked to the overall area being leased," says Paduroiu. A large number of projects either under construction or being announced has overall led to an increase in pre-lease transactions, he adds.

► MORE TO FOLLOW

Overall, Bucharest's office market has matured over the past couple of years, aside from the evolution of new deliveries, which

continues to depend on factors such as the availability of land for new developments, the activity of new tenants and developers' risk appetite, according to Marius Scuta, national director, head of the office & tenant representation department, with JLL Romania. However, there are once again speculative developments, unlike the situation after 2008 and 2009 when these were very limited, he adds.

JLL data suggest that there remains considerable potential for further development. Bucharest has grown to the point where it is catching up with regional com-

submarkets, yet the west of the capital will host the largest share, with an estimated 59 percent.

Depending on the development of the subway infrastructure, northern Bucharest could follow. Should the authorities manage to actually begin works on a new subway line that would connect Gara de Nord with Otopeni International Airport (subway line 6) the Expozitiei and Baneasa areas could become new hotspots for office developments, consultants predict.

Outside Bucharest, some 87,000 sqm of new office space could be delivered this

year in cities such as Cluj-Napoca, Timisoara, and Iasi, according to previously released information from Colliers

OFFICE PROJECTS TO BE DELIVERED IN 2017			
Project	Developer	Location	GLA
1st phase of Timpuri Noi Square	Vastint Romania	Center	50,000 sqm
1st phase of The Bridge	Forte Partners	Grozavesti	52,000 sqm
1st phase of Globalworth Campus	Globalworth	Pipera	57,000 sqm
Aviatorilor 8	NEPI	Piata Victoriei	8,400 sqm

Source: BR, based on consultants' data

petitor Warsaw in terms of several indicators – except for its office stock. "Bucharest has less than half of Warsaw's stock, and this despite the fact that the two cities are similar in size and prime rent levels are relatively similar," says Scuta.

Looking further into the future, western Bucharest will remain an attractive area for new office developments. CBRE data from the first quarter indicate that there are 13 projects with a gross leasable area totaling 300,000 sqm under construction and scheduled for delivery in 2018. This is distributed throughout Bucharest's office

International. Although Romania's main regional cities have seen an influx of new companies either setting up offices or expanding their presence – such as Accenture, Xerox, Amazon, and Oracle in Iasi, Continental, Huawei and HP in Timisoara, and Tata, Continental and Siemens in Brasov – there remain obstacles to further growth, say Colliers representatives. Cluj-Napoca and Iasi could see their office markets expand by 50,000 sqm annually, should they address issues such as increasing their technically educated workforce, they add.

BUCHAREST'S OFFICE MARKET IN A CEE CONTEXT

City	Inhabitants (mln)	Office stock 2017	Q1 demand 2017	Vacancy rate	Rent
Bucharest	1.88	2.4 mln. sqm	124,000 sqm	12.3 %	18.5 EUR/sqm/month
Warsaw	1.72	5.4 mln. sqm	193,900 sqm	14 %	20.5 – 23.5 EUR/sqm/month
Budapest	1.73	3.4 mln. sqm	66,990 sqm	9.2 %	22 EUR/sqm/month
Prague	1.24	3.3 mln. sqm	90,000 sqm	9.4 %	19 – 20 EUR/sqm/month
Bratislava	0.41	1.7 mln. sqm	30,000 sqm	7.04 %	13.5 – 15 EUR/sqm/month

Source: JLL Romania

AFI EUROPE ROMANIA PUSHES THE PEDAL ON EXPANSION

BR SIMONA BAZAVAN



Tal Roma, development manager at AFI Europe Romania, talks to BR about the developer's EUR 200 million expansion plans on the local market, after it reached an agreement for the sale of its AFI Park office project in Bucharest earlier this year.

GIVEN THE OVERALL CONTEXT OF THE LOCAL REAL ESTATE MARKET IN 2017, WHICH OF ITS MAIN SEGMENTS – OFFICE, RETAIL OR RESIDENTIAL – DO YOU THINK WILL PERFORM BEST THIS YEAR AND WHY?

All of the above! 2017 is a promising year for Romania, and the real estate market will continue to grow at least as strongly

as last year. Bucharest and other large cities in Romania will continue to attract significant investments, mainly in office and residential projects, but retail will also find its share of new or expansion developments.

With regard to the office segment, last year demand jumped to a new record, both in Bucharest and outside the capital. The high demand was mainly fueled by the economic growth and continuous expansion of IT@C companies, call centers, BPO and shared service centers. Given the currently favorable economic context, we expect the IT sector to continue to develop and other new companies to enter the market or expand their businesses locally. Companies will continue to expand, especially in class A buildings, in search of modern spaces that integrate facilities and benefits for the increasingly sophisticated employees' preferences: restaurants, coffee shops, fitness @ sports, entertainment and relaxation areas.

Also, interest in buying apartments is on the rise, due to a good market environment, including rising salaries, low interest rates and legislative incentives, such as the "First Home" program and "Legea Darii in Plata" (e.n. debt discharge law) that caused banks to reduce the deposit requirements.

The retail market also had an excellent year in 2016, with retailers increasing their sales by an average of 10 percent and opening new units. The forecast is that the market will post a positive evolution this year as well, stimulated especially by the income growth and tax reductions. However, rather than the development of new large projects, we believe that the focus will be on the expansion of existing schemes, the development of new neigh-

neighborhood shopping centers and retail parks.

WHAT IS THE STATUS OF THE AFI PARK TRANSACTION?

AFI Europe recently signed a pre-agreement to sell the AFI Park 1-3 office buildings to Dedeman, the leading company in Romania in the DIY retail segment, which was our first sale transaction in Romania and the largest office deal in the history of the local investment market. The agreement also includes an option to sell AFI Park 4&5.

ARE YOU LOOKING TO SELL OTHER ASSETS THAT YOU OWN LOCALLY?

The answer to this question is no, but we continue to maintain our interest in new opportunities, whether they are developments of new shopping centers or office projects.

WHAT IS THE STATUS OF THE PROJECT YOU ARE PLANNING IN BRASOV, AND WHAT IS ITS OVERALL TIMELINE?

AFI Brasov represents a milestone in the company's development strategy. The project consists of a 45,000 sqm GLA shopping mall (AFI Brasov) and 25,000 sqm GLA office project, both developed to be LEED Gold certified as "green" buildings. Works started at the beginning of this year and we estimate the shopping center will be opened in Q4 2018. The project is located in downtown Brasov, connecting the main boulevard to all parts of the city and the exit to Bucharest, with access to public transportation.

WHAT ABOUT AFI TECH PARK?

AFI Tech Park is being developed around our new office concept of bringing business centers closer to residential neighborhoods. This enables us to be more environmentally friendly, as people no longer have to drive across town to get to work. Moreover, with AFI Tech Park we aim to answer the expanding needs of IT@C, BPO and shared services companies in

Romania, by offering a suitable space in terms of technical specifications accompanied by required expansion options at a reasonable rent. The project will be built in three phases: phase A @ B will each feature a 22,000 sqm GLA eight-floor building, with two underground levels, and retail areas hosting a supermarket, fitness club, restaurant and coffee shop. Phase C will comprise a 14-floor office building. The first 20,000 sqm GLA will be delivered in the first quarter of next year. We are now examining the option to add a tennis and basketball court, which will certify the project as the most innovative one in terms of sports facilities for the companies and employees working in the park.

The project is being developed as a 56,000 sqm GLA Class A office park – a campus style environment in an urban complex with ample green areas, providing high-tech specifications similar to all AFI projects. Furthermore, through its strategic positioning, at the intersection between downtown Bucharest and three major residential neighborhoods, we aim to answer the companies' needs in terms of time lost each day on the way to or from the office, and minimize it as much as possible.

HAVE WORKS ON AFI CITY STARTED, AND HOW MANY APARTMENTS WILL YOU DELIVER IN THE FIRST PHASE?

Works on our residential project AFI City will begin in the coming weeks. The project will be developed on a plot of land in the Bucurestii Noi neighborhood of the capital and will consist of a gated complex, green areas, sports facilities as well as a commercial center, served by a metro station at the entrance to the project.

As part of the first development phase, two residential buildings consisting of 190 apartments, meaning 16,000 sqm of built-up area, are planned to be developed.

WHY HAVE YOU DECIDED NOW TO KICK-START YOUR FIRST INVESTMENT IN A RESIDENTIAL PROJECT

ON THE LOCAL MARKET?

We purchased the plot ten years ago and now, finally, as the residential market has recovered from the crisis, we have decided to enter this market segment and invest in our first residential project in Romania. Patience always pays off in real estate. The group has significant experience on the residential area, given its 2,000 homes developed and 1,000 units currently under development.

Given the fact that the IT industry in Romania accelerated its growth and the level of salaries in this area is now above average, we believe the employees in this sector can be among our main buyers.

WHAT ARE YOUR TARGETS FOR THIS YEAR, BOTH FOR YOUR EXISTING PROJECTS AND THE NEW DEVELOPMENTS?

This year, we will focus on our three most important projects: AFI Tech Park campus, the AFI Brasov mixed-use project and the AFI City residential project. At the same time, we continue to keep an eye on new opportunities, whether they are office or retail projects.

The leasing campaign in AFI Tech Park has commenced and currently 9,000 sqm is under negotiation for pre-leases. In AFI Brasov too the leasing is well advanced.

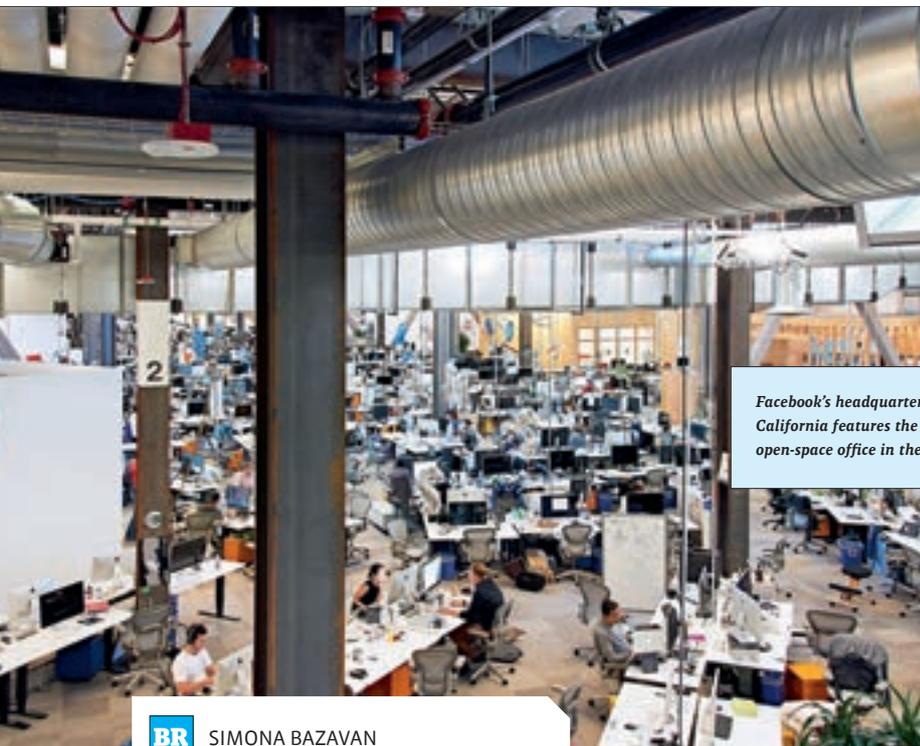
Also, works on the expansion by 6,500 sqm of the gross leasable area of AFI Cotroceni in Bucharest are almost completed. Once finished, the shopping center will reach a total of almost 90,000 sqm GLA.

WHAT IS THE OVERALL INVESTMENT IN THE NEW PROJECTS AND HOW DO YOU PLAN TO FINANCE THEM?

AFI Europe has excellent relations with the banks for financing projects, as was seen even during the crisis years when we still managed to receive development loans. AFI Romania has already invested over EUR 500 million in the country and an additional close to EUR 200 million is earmarked for investments in the coming years.

COMING SOON TO AN OFFICE NEAR YOU

Looking at how companies are innovating their office buildings in more mature markets offers clues about how people might work in a not-so-distant future in Romania, as well.



Facebook's headquarters in California features the largest open-space office in the world

BR SIMONA BAZAVAN

Back in the 1990s, tech companies were the first to challenge the traditional office environment by introducing perks to their employees, such as game rooms and free lunches. Nowadays, they are once more at the forefront of altogether more profound changes. The way such companies shape their headquarters in the US or Western Europe signal what sort of innovations may be in the pipeline for everyone else.

Why tech players are driving these changes is easy to see. For one, the competition to attract and secure valuable talent is perhaps highest for IT companies. They are also the most likely candidates to innovate and come up with disruptive practices

which, one way or the other, also end up reflecting in their office spaces.

The end game for such tech players, and other companies as well, is to craft an office that provides both an attractive and productive environment, while at the same time conveying the company's brand to employees and consumers.

► **BUMPING INTO ONE ANOTHER**

Some of the more recent office developments in the west – many of them belonging to IT companies – boast novelties in both external and internal layouts. Open-office workspaces and the so-called “hot-desking”, where employees no longer

have an assigned desk or seating area, are nothing new. Having employees work both together and individually in different spots around the office, rather than having a fixed desk, or creating working areas whose functions overlap, creates an open, fluid and informal working environment, say employers.

Such office spaces encourage people to be mobile and better interact with one another, sometimes solely as the result of serendipitous encounters. This interaction, in turn, improves communication and spurs creativity, they argue. Last but certainly not least, such schemes also allow companies to better optimize space without leaving employees feeling too squeezed, points out *The Economist*.

Some of the most recent office developments, however, are taking practices such as open-office workspaces, hot-desking and overlapping working areas to a new level.

When it comes to open-office workspaces, Facebook's headquarters in Menlo Park, California, is an example worth showcasing. It features the largest such open-space office in the world, bringing within the same walls some 2,800 employees, including the giant's founder, Mark Zuckerberg. The use of laptops encourages mobility, while those looking for privacy can use conference rooms or, so-called libraries, with dedicated quiet spaces. To make sure productivity doesn't suffer, each desk is provided with 27-inch monitors, which block out visual distractions, and noise cancelling headphones, according to a company employee cited by

Inc.com. Moreover, employees also enjoy flexible working hours, according to the same source. Elsewhere, American cloud computing company Salesforce will open its new headquarters later this year, in a 62-floor skyscraper in San Francisco whose top floors will be used as a lounge and open space area for employees and the general public alike, rather than as traditional corner offices for executives, writes *The Economist*.

Apple's colossal new headquarter in Cupertino, California, is another example of an office that is designed and managed with the self-declared purpose of being "a space for creativity and collaboration." The circular building the size of the Pentagon, which opened this April, comes with a park at its center, which is meant to create an open environment for people "to create, collaborate and work together," they add. The parklands offer two miles of walking and running paths for employees, plus an orchard, meadow and pond within the ring's interior grounds.

► **NO MORE OFFICE-LIKE ATMOSPHERE**

For all the changes technology has brought to the way we work, achieving a work-life balance has not become easier. And since most people spend a good chunk of their weekdays in the office, why not make the office feel like home? Or perhaps even better than home?

Unconventional yet comfy office settings help both distinguish a company's brand and give staff a reason to come into the office, rather than work from home. And there are plenty of companies following suit. In Google's Zurich offices, employees work inside vintage alpine ski-lifts, and as in any other Google office, they enjoy three free meals every day. Airbnb's headquarters conference rooms are designed according to the company's rental listings, including a Bedouin tent from Morocco, according to *The Economist*.

Increasingly more, the trend for new

office developments focuses on amenities that help employees save time, say industry representatives. This might include concierge services such as picking up laundry or ordering groceries that wait to be picked up from a fridge in the building's basement, as is the case for Deloitte's employees headquartered in The Edge, the company's Amsterdam office. Other companies are offering their employees on-site wellness services, including healthcare services, or free shuttle services, which is something particularly popular among millennial workers, they add.

Technology is also widely being used for the self-declared purpose of making employee's life easier. The result is the

justs environmental factors such as light and temperature according to individual preferences.

The building was delivered in September 2014 and it is one of the smartest and greenest office buildings in the world, Stefania Baldovinescu, senior partner, real estate management services with Colliers International tells BR. Such perks will most likely become common place over the next years, albeit there are also fears about privacy and how this could all backfire against those they are supposed to help by creating a surveilled environment where employees are constantly being monitored.



At Deloitte's The Edge headquarters in Amsterdam, an app notifies employees about their schedule as they arrive

so-called smart office, which is both user- and environment-friendly. American chip manufacturer Nvidia, for example, is planning to install cameras to recognize what food people are taking from the cafeteria, thus eliminating the need for a queue and cashier, according to *The Economist*. It also plans to have a self-driving shuttle to connect its various buildings and monitor when employees arrive and leave in order to adjust the building's heating and cooling systems.

Such practices are already available closer to home. At Deloitte's The Edge headquarters in Amsterdam, an app notifies employees about their schedule as they arrive, guides them to a reserved parking spot and an available desk and ad-

► **MEANWHILE, BACK HOME...**

Back in Romania, office buildings are undergoing changes too, and employees are the ones dictating the change, real estate consultants tell BR. "We will see over the next years the first building in Romania to have a rooftop running track. Things are moving forward fast," say JLL representatives.

The trend is for offices to evolve from places where people exclusively work, to places where they also spend their free time and live, Gabriel Balaban, MRICS, head of building consultancy at CBRE Romania tells BR. Offices are fast turning into a hybrid between physical space and digital space add JLL representatives, and new

technologies are being used increasingly more by local developers. Companies are adapting to new ways of working and the first to undergo such changes are generally those with a large number of employees, adds Balaban. “Therefore, we expect to see tracking systems for employees being set up and more apps managed by the owners of the office buildings which will help employees save time,” he forecasts.

It might seem difficult to talk about smart buildings in Romania at this point in time, given that the local office market is relatively young, however, local real-ty catches up with trends set abroad,

believes Baldovinescu. The majority of office buildings are already equipped with heat pumps, radiant ceilings, gray water systems, charging stations for electric cars, car plate recognition systems and bike parking spaces, she points out. Others already boast improved environmental features that range

from interactive areas, community spaces, squares between buildings and Wi-Fi in campuses to running paths and common areas sensors. “The future is even brighter considering the fact that more and more ongoing projects include innovative technologies, such as: virtual reception with check-in and access control for visitors, dashboards at the lobby lift areas showing consumption per tenant/floor and building dedicated smart phone apps, in-building restaurant, car and bike sharing as well as other partnerships,” she explains.

There is already a considerable difference between the office buildings being developed today and projects which are already 10 or 15 years old, Eduard Turcoman, senior broker office agency C&W Echinox tells BR. “Today, we have buildings whose elevators store breaking energy, led lighting solutions are becoming wide spread and ventilation systems are increasingly more employee-friendly. Also, electric car

chargers, bicycle parking and showers have become standard for established developers such as Skanska, Globalworth, Vastint or AFI Europe,” according to him.

Moreover, developers are considering other office upgrades that can be seen on more mature office markets, but there is also the matter of costs, he points out. “Innovations come with costs that are later reflected in the rent. This is why developers will always pay attention to their tenants’ requirements and will avoid unnecessary gimmicks,” explains Turcoman.

Developers themselves agree that there are new trends taking shape and that new

change for the local office market is the fact that many of the companies active in Bucharest are local subsidiaries of large international companies Sorin Visoianu, country manager operations Romania at Immofinanz tells BR. “It is natural that they expect the same quality level from all their headquarters around the world. Tenants’ demands have certainly contributed to increasing the standards of the local office space offer, as premium developers continuously invest in their properties,” he point out, stressing that many of the latest office trends are already visible, in various degrees, on the Romanian market.

“I am personally looking forward to welcoming a building like The Edge in the Romanian market. I think the future of real estate development will blend real green attributes with smart IT features and hot-desking spaces with interactive, welcoming, hotel-type common areas”

Stefania Baldovinescu, Colliers International

office projects are evolving. Ovidiu Sandor, the developer behind the EUR 130 million ISHO project in Timisoara, tells BR that one change is that energy efficiency and securing green certificates have become a must. Another important trend is the growing relevance of an office building’s social function, believes the businessman.

A new office project being developed in 2017 goes beyond being simply an office building, he explains. First and foremost, it needs to be employee-centric. “All this means is that a project which is being developed in 2017 must have an aspirational component, co-working spaces on all levels, flexible spaces and a mix of office and teleworking hours. Spaces are being adapted to present working patterns with short meetings, many of which take place in very creative areas or standing. Spaces that are increasingly more public are becoming part of office projects,” explains Sandor. An important driver of

An example in this sense is the company’s international office brand, myhive, which it has already rolled-out in both western European (Germany, Austria) and CEE countries (Romania, Poland, Hungary, Czech Republic), points out Visoianu.

All these innovations hint at even more profound changes for the local office market in the years to come, but exactly how those changes will look remains to be seen. “I am personally looking forward to welcoming a building like The Edge in the Romanian market. I think the future of real estate development will blend real green attributes with smart IT features and hot-desking spaces with interactive, welcoming, hotel-type common areas. But until then, I leave you with a question: are you ready for buildings that are so technologically advanced that they know everything you do, or do you consider it is too much of an invasion of privacy and personal intimacy?” concludes Baldovinescu.

OFFICE INTERIOR DESIGN GOES GREEN, CHILLS OUT

The office is increasingly becoming a tool for attracting and retaining valuable employees as well as conveying company identity. But how exactly are local firms using interior design to reach these goals and what new trends are shaping up?

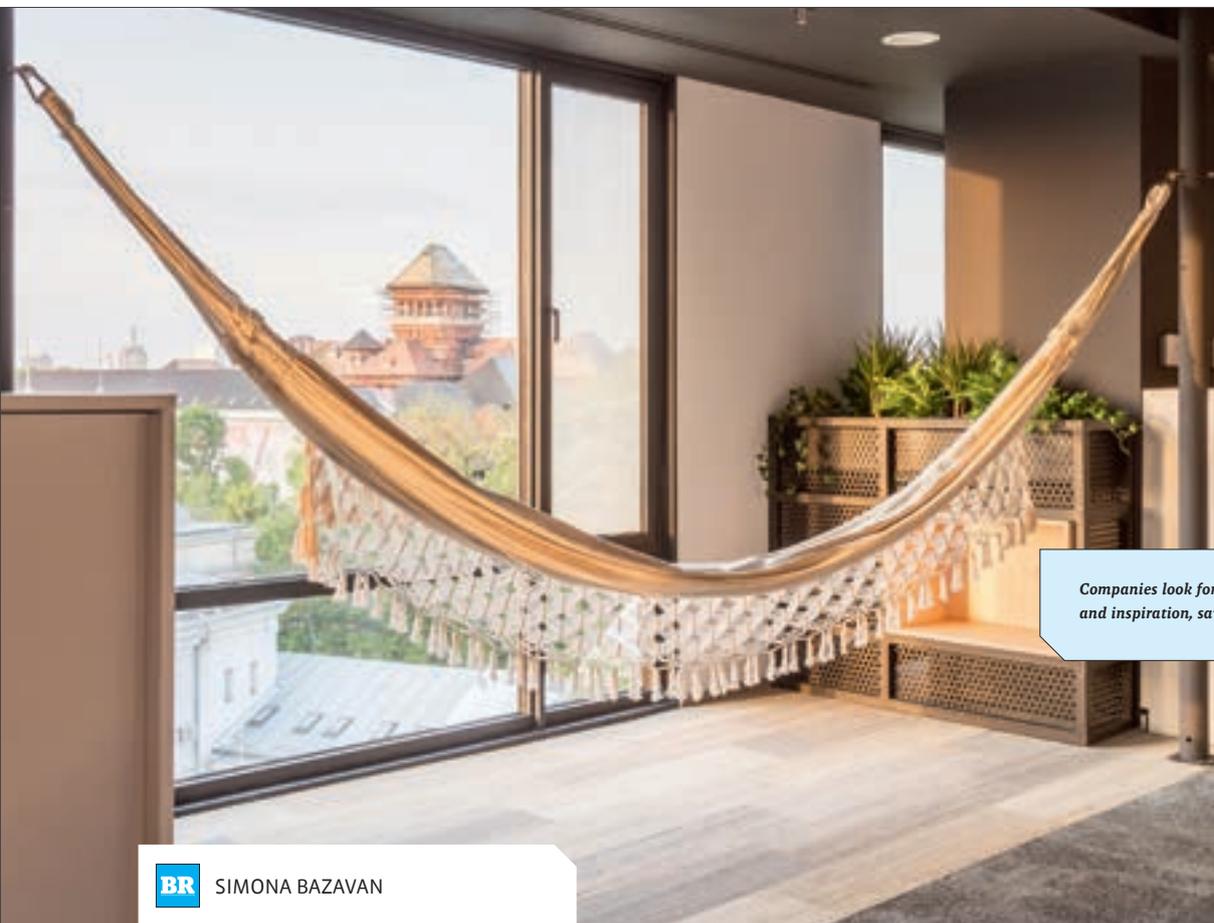


Photo: COS

Companies look for offices that spur creativity and inspiration, say consultants

BR SIMONA BAZAVAN

The office environment is changing, and how it is doing so has to do with more profound shifts in the way people live and work, say real estate representatives. The office building concept as we know it is transforming under the influence of new generations, new lifestyles and the new jobs being created, Ovidiu Sandor, the developer behind the EUR 130 million ISHO project in Timisoara, tells BR. “The traditional working environ-

ment is being improved and integrated. There already is flexibility and there will be even more when it comes to the actual time spent at the office or the work schedule, which will directly impact the concept of an office building itself,” he says.

A greater focus on the environment and sustainability, the changes brought about by technological advances, the increase in the retirement age, and some opting for lower pay in favor of a set of “soft values”

that have to do with enjoying day-to-day life are other factors impacting the office environment, adds Mirona Craciun, brand manager of interior workspace solutions provider Kinnarps Romania. “All this dictates a holistic approach to the working environment, encouraging employers to create spaces where their employees are not simple pawns, but members of a community where they feel important and useful,” she tells BR.

Most importantly, perhaps, is the fact that offices are increasingly used as a tool to attract and retain valuable talent. This is particularly the case for industries such as shared services, outsourcing, IT, and banking, Christophe Weller, managing partner of workplace consultancy @ design firm Corporate Office Solutions (COS), tells BR. "Finding skilled talent in key cities such as Bucharest, Cluj, Timisoara and Iasi is becoming ever more challenging, so smart-thinking organizations are taking a much deeper look at their office design and budget, unlike five years ago when it wasn't such an issue," he outlines.

The objectives clients mostly have in mind when planning a relocation or redesign project are boosting communication and collaboration among various teams, increasing productivity by generating new working processes or accelerating old ones, and raising employee satisfaction with the working environment and the company in general, Diana Calfa, managing partner with architecture and interior

both internally to employees but also externally to clients. Creative office design can also obviously act as a differentiation factor," she notes.

►► **OPEN SPACE WITH A TWIST**

The latest trends in interior design stem from the challenge of putting in place attraction and retention initiatives, while at the same time managing the open-space model now very common in most organizations, Andrei Angelescu, architect and manager of the architecture and design department at COS, tells BR. "With this comes the need for increased privacy, better management of noise, increased need for collaborative spaces and areas where employees can rejuvenate during their working day," he comments. New interior design trends for office spaces are dictated particularly by the needs of Generation Y, for whom the working environment matters considerably, points out Calfa. Be it a coffee shop or reading room at the

incorporated into office design projects," adds the managing partner. All this means that open-space working environments will remain a widespread approach to interior design. "They stem from democratic and collaborative principles to which companies are increasingly committing. Open informal spaces thus eliminate, figuratively and literally, communication barriers between team members. More and more, even meeting rooms and gaming or social kitchens are turning into open and friendly spaces that spur employee creativity, inspire them and boost socializing among them," reveals Calfa.

Another important trend catching on in Romania as well is hot desking, a practice where an employee no longer has a fixed work station but is encouraged to work from more informal areas, such as meeting rooms and even in relaxation areas such as the cafeteria, adds Calfa. It is a way firms make sure that for their employees, no one day is like any other, she explains.

All in all, innovation is the word to best describe the way local companies are approaching their offices, and some of the projects of local firms offering interior design solutions and other connected services for office spaces reflect that, say market representatives. "It is fair to say that Romanians' enthusiasm for creativity and inspiration has enabled us to be part of some unique designs and concepts that have now become the envy of many large organizations' sister companies in other parts of Europe. Romania is pioneering office space and the requirements include an open license to innovate, inspire, differentiate and encourage improved productivity and entrepreneurship," asserts Angelescu.

Some of the projects COS has recently completed have been defined by adopting the company's innovative approach and translating that to a highly customized office environment such as the new OLX



Photo: COS

design company Morphoza, tells BR. The end game for all that is to increase employee attraction and retention, she adds. "Besides all the benefits strictly related to working processes and productivity, lately employees also see office design as a tool that transmits organizational values,

office, such details can end up making the difference in the retention process.

As they become aware of this, Romanian companies are aligning themselves to international office design trends. "Principles such as flexibility, communication and technological power are thus

offices, he explains. Elsewhere, such as in the case of designing the Euromaster offices, it was about “ensuring office space is more than a desk and meeting rooms, but an innovative way of approaching the typical office open plan,” says Angelescu.

One example of an innovative project that Morphoza was involved in was designing NTT Data Romania’s office space in Cluj-Napoca. “In this particular case the client wanted an inspiring design that would stimulate its employees’ creativity and innovation capacity. The solution was to turn an entire floor into a spaceship boardroom. We later replicated this ‘into the future’ theme on all the other floors through various elements. Perhaps the most remarkable were two functional robots which were later included in the company’s communication campaign,” she comments.

Kinnarps, on the other hand, says that a more unusual requirement for an office design project they came across was that of creating an unconventional relaxation area based on nature. “We came up with the idea of a central garden directly linked to the open space area. In order to visually separate the relaxation areas from the formal space, we had the idea of a suspended modular wooden structure from where plants can be hung. This turned into a suspended garden that left beneath a generous and flexible area that can be furnished according to the client’s needs,” recalls Craciun.

►► **LOOSER PURSE STRINGS**

Not only do companies understand the benefits of upgrading their office environment, but they are also willing to loosen the purse strings for such investments. An adequate office design project requires extensive human, financial and time resources, but it still comes at a lower

cost than working in a dysfunctional space. Costs start from EUR 350/sqm and can go beyond EUR 600/sqm,” says Calfa. COS works for both large corporations as well smaller, local companies, its value of projects thus ranging from about EUR 30,000 to well over EUR 1 million, says the company’s managing partner.

living and working lifestyle is truer than ever,” he concludes.

“Office spaces are already part of value creation, helping to recruit, enforce the brand and provide visible sustainability credentials, and the trend will continue,” Sorin Visoianu, country manager operations Romania with Immofinanz, tells BR.



Unconventional spaces are all the rage

Photo: Kinnarps

►► **DEVELOPERS CHIME IN**

Office buildings are changing both on the inside and the outside, note developers.

“The most recent office projects focus on having more shared space, on connectivity and interactivity. This is based on a mixed concept that just like an ecosystem brings together in a harmonious and complementary manner various functions – working and living, a service mix that matches a certain lifestyle and meets the demands of active people of the 21st century,” says Sandor

The now traditional service mix of restaurants, cafés, banks and so on is being upgraded, he adds. Fitness and cultural services are being added, which contribute to and help define a modern way of life. “In other words, new office buildings are adapting to a contemporary lifestyle, and the fact that a developer doesn’t deliver square meters but an environment that creates, enhances or facilitates a certain

Given that the needs and wellbeing of their employees has become crucial to companies and office spaces are a key element in that, it is no longer enough for a developer to have a building located in a very good area, with good transport connections, he notes.

Nowadays many top-line company headquarters include relaxation and gaming rooms, social hubs, well-furnished, modern lunch areas and workplaces that provide an airy and nature-like environment and so on, adds Visoianu. “As such, the support and availability of the landlord is essential for companies to be able to implement these facilities,” he says.

As part of all this, Immofinanz has transformed five of its local office buildings based on an international office concept it calls myhive. The idea behind it is to offer tenants what it calls a desirable social space rather than a simple workplace.

CORESI AVANTGARDEN – GENERATOR OF URBAN HAPPINESS IN BRASOV

The world is changing and the future belongs to mixed real estate projects that combine the residential with the retail or office component and provide a complete ecosystem. This is the principle that guided the developers of the largest urban regeneration project in Romania - Immochan and Avantgarden Invest.



Coresi Avantgarden, started in 2016, is part of the Coresi revitalisation project of almost 8% of the usable area of Brasov.

The quality of the urban space is given by the harmonious joining of different architectural and landscapes elements, but also by the proximity with Coresi Shopping Resort's commercial area and all the facilities of spending leisure time, that provide a high living standard for the customers.

Coresi Avantgarden is built out of the best materials and offers clients the alternative for a sustainable residential investment. The residential facility gives dwellers high comfort in a space designed

in a contemporary and functional architectural concept. In the first 18 months from the beginning of the sales launch, over 80% of the apartments have been contracted at the project stage. 570 apartments are going to be built in the first phase and in the second one another 430 units.

The client will move into an ecosystem defined by the quality of green spaces, the quality of the environment, the services provided and the variety of commercial spaces located on the ground floor of the blocks. Dental or notary cabinets will be opened, services that the residents of a neighbourhood need and which complement Coresi Shopping Resort's commercial

The residential complex Coresi Avantgarden is the place where a new community comes to life. We bring solutions, services and animated moments to fulfil our promise: "Life lived to the fullest". Coresi Avantgarden aims to offer its clients the joy of living in a community full of energy, a place where neighbours have all the facilities to live and socialize in a harmonious and dynamic environment.

offer. The developer has set aside spaces for special utilities, from roads to education units, that are going to be built in partnership with local authorities. The total investment represents 100 million euros.

Coresi Avantgarden, having more than 2.200 homes, was selected **Project of the Year** at the 12th edition of the Europa Property SEE Gala Awards, which took place in Bucharest in April 2017. It was nominated at **The Residential project of the Year category**, next to residential complexes from Romania and Bulgaria, and it was chosen as winner. Also, the two associates involved in the development of the project - Immochan and Avantgarden Invest - received the award for the category **Residential Developer of the Year**.

www.coresi-avantgarden.ro
www.immochan.ro

SAFE AS HOUSES: RESIDENTIAL MARKET MARKS SECURE 2017

The residential market looks set to maintain a sustainable growth pace this year, as developers push the pedal on new projects, while price increases are expected to remain in the one-digit range.



With its new project on the grounds of the former Grivita Brewery, Hanner is targeting what it calls the growing mid-market segment

BR SIMONA BAZAVAN

Getting on the property ladder is easier today than it has been in years, real estate consultants and developers suggest. It currently takes a would-be homeowner 114 average monthly salaries, or less than nine and a half years, to buy a new apartment of about 50 sqm in Bucharest, according to Coldwell Banker's affordability index. This is lower than the 119 salaries required last year and considerably below the 395 average salaries or over 32 years needed to buy the same property in 2008, the year when the local residential market peaked. "This

is the best level in the history of the modern Romanian residential market," Gabriel Voicu, head of the new homes division at Coldwell Banker Romania, tells BR.

All this indicates that after several years of constant, and some also contend sustainable growth, the market will remain on this positive trend in 2017 as well. There are several arguments in favor of this, market representatives say.

The first is the fact that incomes have been going up over recent years, especially in Bucharest. "There is real demand in the market because we can see an increas-

ingly active middle class taking shape. In Bucharest there is constant growth in the number of highly trained employees," Silviu Grigorescu, general director of Hanner Romania, tells BR. This includes people working for various outsourcing companies and also IT specialists whose average salary exceeds EUR 1,200 per month and whose number went up by 20 percent in 2016 alone, he adds. The developer says that more than a third of those who have moved into The Park Apartments, the project it has developed in Bucharest, work in the IT industry.

Additional good news comes from the fact that banks are adopting a more and more relaxed mortgage lending policy, as well as the continuation of the government-guaranteed mortgage lending program Prima Casa for the next five years, Bartosz Puzdrowski, CEO of Impact Developer @ Contractor, tells BR. This provides some much needed stability for both buyers and developers, he adds.

Trading up, where an owner sells one property to buy a better located and/or larger one, thus ensuring cash liquidity in the market, is another growth factor, adds Voicu. "I think there is a market shaping up of former Prima Casa buyers who now want to trade up. They are young people who bought an apartment five to eight years ago and who have in the meantime evolved professionally, or their families have grown," notes Grigorescu.

Given the need for new housing in Bucharest, growth should continue in the years to come, Cristian Mercioniu, GM of New Residence, tells BR.

"There is a shortage of some 300,000 homes. Therefore, even if some 15,000 new units are to be delivered this year according to estimations, this is still not enough to cover the existing need, which leads us to anticipate constant growth for the market over the coming years," he says.

Last and definitely not least is the fact that on the supply side developers themselves are pushing the pedal on new investments. The number of apartments to be delivered this year will hit the highest level since 2009, Ahmet Buyukhanli, CEO of Vision Land Development, the developer of the Cosmopolis residential project in Bucharest, tells BR. "The residential market in Bucharest will go up and this is something we can all see because of the

high number of projects presently being developed," he predicts.

According to a survey carried out by online real estate platform Imobiliare.ro, in Bucharest alone 76 more residential projects are being developed, in various stages, than six months ago. Outside the capital the outlook is equally positive with 25 more projects in Cluj-Napoca and 37 in Iasi to name just two regional cities. "In Bucharest we estimate that 350 projects in various stages are currently being developed, not counting those that have been fully sold. In Cluj-Napoca there are 110, the same number in Timisoara, and 120 in Iasi. These are projects with at least 30 housing units each, Adrian Erimescu, co-founder and CEO of Imobiliare.ro, tells BR. This reflects the overall higher interest coming

year before. More importantly, this trend is expected to continue, as new projects are being developed in the vicinity of office hubs such as Barbu Vacarescu-Floreasca and Politehnica-Grozavesti. This is underpinned by both bigger budgets and more demanding buyers, market representatives say.

"Buyers' demands and expectations are high because they have become more and more educated with regards to the residential market. This is the consumer behavior of an educated buyer who knows exactly what he or she wants," outlines Buyukhanli.

All this translates into an increasing preference for new apartments over so-called "old" ones built before 1990, as more and more new projects are being

developed and in more desirable areas. There is also a shift towards larger homes. "We're seeing interest in two-bedroom apartments catching up with one-bedroom apartments which up until now have dominated



from potential buyers. The online platform reported a 40 percent increase in searches during the first quarter compared to the same quarter a year ago, according to company data.

Coldwell Banker data indicate that some 12,000 homes are scheduled for delivery this year in Bucharest and its surrounding areas, compared to 10,000 last year. "One should note that another 1,800 units were scheduled for last year but they got postponed until 2017," notes Voicu.

► **THE MIDDLE WAY**

A developing trend, he adds, is the growth of the mid-market, reaching 39 percent of last year's supply against 32 percent a

demand," said Erimescu. Developers confirm this. "In 2016, in our project Greenfield Baneasa, two-bedroom apartment acquisitions increased to 44 percent, and three-bedroom ones to 16 percent," says Puzdrowski.

Similar trends can be observed outside Bucharest as well. Romanian real estate developer Ovidiu Sandor, who has kick-started a EUR 130 million investment in a mixed residential and office development in Timisoara, western Romania, expects to deliver and sell the project's 1,200 apartments in three years' time. "The feedback we have been given is very positive, which is proof that the market has grown more mature and that buyers appreciate a more complex project such as ISHO, even

in secondary cities like Timisoara. Buyers pay attention and ask very specific questions about the quality of the construction itself, the materials used, and they often drop over with their homework done," he tells BR. He too speaks of an interest in larger apartments as well as a developing local trend of people who already own properties in the suburbs moving downtown.

Will all this buzz on the local residential market also translate into price increases by the end of the year? "Apartment prices will go up this year, in fact, they have been on an upward trend for the past 12 months. The highest growth rates are reported in Cluj-Napoca and Timisoara but in Bucharest too they vary between 6 and 7 percent," says Erimescu. In fact, all players talk about price increases of about 3 to 10 percent by the end of 2017 given the current market conditions. Any rise, however, must be coupled with an overall increase in average income in order to be sustainable, notes Grigorescu. "I think the market is currently balanced with regard to demand and supply. There is a chance on the short term that supply will slightly outstrip demand, but we aren't there yet," he says.

Developers' forecasts are backed by good results posted last year, they say. Impact Developer @ Contractor sold or pre-sold 563 apartments in Greenfield Baneasa, the developer's flagship project, which was up by 15 percent y-o-y. This year the developer aims to maintain and even surpass this growth rate, says Puzdrowski.

The developer of Cosmopolis has set the same target. "Our objective is to maintain last year's sales level and even mark a slight increase by reaching 540 units. Last year we sold 470 homes worth a total EUR 30 million, which was up by 10 percent against 2015," says the CEO of Vision Land Development

Hanner Romania sold 50 percent more apartments in 2016 than the previous year

and expects to sell the remaining units of its The Park Apartments this year. The next step will be to start work on its second residential project on the local market in the second half of this year, contingent on securing all the building permits, adds the firm's GM. The project will be located on

partner at the residential agency Cushman @ Wakefield Echinox, tells BR. "There is however interest from those who have an immediate need for such properties, this demand stemming from a lack of new projects being developed between 2009 and 2015 as well as a relatively low appetite for

"We're seeing interest in two-bedroom apartments catching up with one-bedroom apartments which up until now have dominated demand"

Adrian Erimescu, Imobiliare.ro

the grounds of the former Grivita brewery.

Elsewhere, some 30 percent of the housing units being developed in the New Residence project were sold last year, despite the fact that it was in its early development phase. "This year we expect to double the monthly sales figures given that works are advancing, and by the end of the year we estimate that we will reach the 90 percent threshold," comments Mercioniu.

►► **DES RESES ADVANCE MORE SLOWLY**

The high-end segment is also expected to post growth this year, although the buzz here is not as great as across the overall residential market. "There isn't the same effervescence and that can never happen, but there are encouraging signs. The reasons for this are mainly financial – the fact that there is liquidity in the market and access to it – and there is also an adequate supply. In both senses, the market looks encouraging," Andreea Comsa, managing director of Premier Estate Management, tells BR.

Buyers are mostly prospective owner-occupiers, as the rental yield (the ratio between a luxury apartment's value of acquisition versus the rent it generates) is unattractive to investors, Mihaela Pana,

such properties during the same period," she outlines.

There is also demand for homes with a prime location which don't necessarily qualify as luxury, but rather premium, adds Comsa. "We have in our portfolio volume projects that qualify as upper-middle and high-end without being considered luxury, where a 150 sqm penthouse sells for between EUR 300,000 and EUR 400,000. This is a clear sign that there is room for growth on the premium segment. On the luxury segment a penthouse often goes for beyond EUR 1million," she says.

Prices of high-end properties seem to have stabilized between EUR 2,500 and EUR 3,500 per built sqm, according to Pana, who adds that she doesn't expect any changes to that in the foreseeable future. "There will several products up for sale which, because of their unique location, will reach EUR 4,000 per sqm, but these will be an exception," she notes.

The growth potential is also confirmed by the new projects being developed, say consultants. "Although land suitable for such developments is becoming rarer and securing the building permits is becoming equally hard, one can see that there are quite a lot of construction sites and others will start up over the coming period," says Pana.

HANNER TIME: LITHUANIANS TOAST NEW MIXED-USE CONCEPT ON FORMER BREWERY SITE

BR SIMONA BAZAVAN



Mindaugas Valuckas, CEO of Hanner Holding, talks to BR about the Lithuanian developer's plans for its next project on the local market, a mixed-use residential and office project on the grounds of the former Grivita Brewery in central-west Bucharest.

WHAT IS THE STATUS OF WORKS ON THE SITE AND WHEN DO YOU PLAN TO DELIVER THE FIRST APARTMENTS AND OFFICES?

We haven't started work yet, but we are hoping to start by the end of the year. We are now working on finalizing the concept and applying for the various permits. Because the project involves refurbishing three historical buildings on site we need to work with the Commission for Monuments; this process is more complex but so far everything has gone smoothly. The

first deliveries will probably be in early 2019. We've been considering splitting the project into two or three phases, but judging from how active the market has been recently it might also be that we deliver it all at once.

WHAT IS YOUR EXPERIENCE WITH MIXED-USE DEVELOPMENTS ELSEWHERE IN EUROPE?

We have a lot of experience with mixed-use projects. The first one we did was ten years ago in downtown Vilnius and it was

a 100,000 sqm retail, office and residential project located near some municipal and governmental offices. It was a good example of how such a project can help regenerate and completely change the face of a once derelict neighborhood into a vibrant central business district. Since then most of our projects have been mixed-use. Of course there can be complications with such projects and it takes a lot of knowledge to get the right mix, but I think we will see more and more of these over the coming years. When I was looking for new projects to do in Bucharest, one of the things I had in mind was to mix residential with offices because it makes so much sense, especially if you consider the infrastructure.

DO YOU THINK THAT SUCH MIXED-USE PROJECTS ARE SUITED TO A CITY LIKE BUCHAREST?

Yes, most definitely. I think they fit in any city, especially when there is an imbalance between residential and office. This is what has happened in Warsaw for example. There is this key office district in the city similar to Bucharest's Barbu Vacareascu area, and the mayor of that district was very much promoting offices and allowed very few residential developments. Now there is a huge problem because it is such a nightmare to cross the city to get there, especially as it has no subway access, and they are trying to convert office developments into residential. This is what happens at a bigger scale, but even if you look at it from a smaller scale, such projects still make sense. A mixed-use project promotes sustainability because it enables several

synergies, for example the sharing of parking spaces. Such projects make sense and I expect more people and developers to be more and more open to this. Elsewhere, like in London, there are even mixed-use buildings such as The Shard, which in addition to offices also features a hotel and residential units. Planning such a project can be a problem sometimes, but this is not the case in Bucharest where the zoning is overall flexible and allows office and residential developments together.

HOW DO YOU PLAN TO MIX TOGETHER THE RESIDENTIAL AND OFFICE PARTS OF THE PROJECT YOU'RE DOING ON THE GROUNDS OF THE FORMER GRIVITA BREWERY?

We are still working on the final concept which is a little different from the initial plans. In the beginning we considered allocating office a bigger share, but now there are already so many offices under development nearby, whereas the demand for residential has gone up. So it makes sense to build more apartments than we initially planned. The share between the two will be roughly 50/50. What I can say at this point is that the existing buildings that we are refurbishing will feature lofts as well as office space, while the part of the project that will be entirely newly built will consist of apartments and new offices.

WHAT KIND OF TENANTS ARE YOU SEEKING FOR THE OFFICES?

We are looking at a different concept for the offices, especially for those located on the grounds of the refurbished buildings of the former Grivita Brewery. Basically, we are not looking at bringing in big companies, but rather small and medium ones. We don't usually work with big anchor tenants and we try to make sure that we have no tenant occupying more than 5 percent of an office project. The reason for that is that big companies are very much driven by price, whereas we have more of a boutique approach and we focus on the

experience we offer those working in our projects.

This is why we see that it is much easier and much more reasonable to do business with the medium to small companies as they are more flexible and more human-centered. Another element that sets us apart is that we focus on giving our offices a social component. For example, in a recent project we did in Riga, rather than using the top floor for a restaurant, we allocated the entire space to a communal kitchen, lounge, co-working spaces and an open-air terrace for all the people working there. It was something of an experiment, but the people loved it and we got excellent feedback. Tenants that were initially skeptical now use this as a selling point to attract prospective new employees.

YOU'VE SAID THE OFFICES WILL ALSO FEATURE CO-WORKING SPACES. HOW WILL THIS WORK AND HOW MUCH SPACE WILL YOU ALLOCATE TO THIS?

What we are targeting with our co-working spaces is corporate clients and entrepreneurs, rather than what is available right now on the market, which targets almost exclusively freelancers.

Nowadays companies are looking to attract and secure talent, and in doing that they realize they need a fresh approach. Yet they are not ready for that in all of their offices.

What we have found works really well is having a combination of conventional offices and co-working spaces, offering access to co-working areas for a day, a week, or having one department try out such spaces for a set period of time. Once they do it they all love it, even those who were skeptical about the concept at first. There are many reasons for that, but the main argument is that these are activity-based spaces where work stations actually take up less than half of the space and the rest is common use premises. The idea is that you have an area where you can work quietly and concentrate and then you move

around to various other places throughout the day, such as the kitchen or the lounge. If you want to talk on the phone or Skype there are special booths for that. These are full-serviced offices with a boutique feel.

In the former Grivita Brewery project we plan to start with between 1,000 and 2,000 sqm and see how it works. Such spaces should start at about 100 plus people and you can go as high as 500-600, but I don't know if Bucharest is ready for that yet. We have talked to a lot of people and a lot of companies and I wouldn't be surprised if we allocate more to the co-working component after this pilot project.

WHAT SEGMENT OF THE RESIDENTIAL MARKET ARE YOU TARGETING WITH YOUR HOMES?

The project will feature some lofts in the refurbished buildings as well as apartments in the newly constructed buildings. Our initial plan was to fit into the EUR 100,000 price range in order to qualify for the 5 percent VAT limit because that makes sense. But we now also see that there is quite a demand for higher value and higher priced apartments, meaning somewhere between EUR 100,000 and EUR 200,000. There are many people who bought an apartment a few years back and now want to upgrade, not only to a larger one but a quality apartment in a good location. Right now there is almost nothing available in the market for such buyers, even if we take the secondary market into consideration. When we first started The Park residential project there were some saying that we were spending too much money and that no one would buy. But we proved that people do care about the quality of the housing they buy. I expect this medium segment to grow even further. We are talking about people willing to pay around EUR 100,000 or more for a three-room apartment. And I think it is very sustainable because this segment is not driven by incentives from the government. It will continue to grow even further as this is linked to the IT industry, which remains on an upward trend.

MALL INCLUSIVE: SHOPPING CENTER BATTLE GOES NATIONWIDE

With new shopping center deliveries set to drop by about 60 percent in 2017 compared to the previous year, owners and retailers are focusing on consolidation and refurbishments. In the meantime, the new battleground for expansions is moving to secondary and even tertiary cities, say consultants.



BR SIMONA BAZAVAN

Romania's stock of retail space is set to go beyond 3 million sqm by year-end, marking an increase of about 300 percent compared to ten years ago, data from JLL Romania indicate.

While this year the volume of new deliveries will fall by over 50 percent compared to the relatively high volume in 2016, the overall market remains on an upward trend, say consultants.

"2017 will be relatively poor in terms of new deliveries, with most of the new developments being part of existing schemes where owners plan to expand, refurbish or improve the existing tenant mix. New openings include Platina Cluj this April, and towards the end of the year, NEPI will open its project in Ramnicu Valcea,

Bogdan Marcu, partner within the retail agency of C@W Echinox, tells BR. He adds that overall the new stock will drop by 60 percent this year compared to 2016, when it amounted to 237,000 sqm.

With the stock of retail space going up constantly over the past few years, developers are now focusing on expanding and in many cases even refurbishing their existing projects, data suggest. About ten projects, whose owners include S Immo, Immofinanz and NEPI, are presently undergoing refurbishment and expansion works, according to Carmen Ravon, head of retail leasing with CBRE Romania. At present, 63,000 sqm is under construction to be delivered by yearend, and there is a chance that another 56,000 sqm could be

added to that. "So overall, 2017 looks set to be another good year," she says.

A closer analysis of what is about to be delivered this year and in 2018 reveals that the focus is shifting from Bucharest to secondary and even tertiary cities throughout the country, comments Corina Stamate, center manager with JLL Romania. "In Bucharest, there are only two expansions – Promenada Mall and Sun Plaza – whereas outside the capital there is AFI Palas Brasov, Festival Shopping Center Sibiu, Ramnicu Valcea Mall and next year NEPI is delivering a shopping center in Satu Mare," she outlines.

Retailers' interest in expansion remains as high as it was in 2016, but given that there are relatively few new

shopping centers being delivered this year compared to a year ago, retailers too are looking to secondary and tertiary cities to meet their expansion targets, says Marcu.

Despite the fact that there remains high interest in expansion, retailers aren't getting ahead of themselves. "Expansion directors and even owners sometimes go into a mall personally, monitor traffic for days at a time, assess the competition, and talk to other retailers present there in order to be sure that they're making the right decision," says Ravon. Rents are thoroughly negotiated and most retailers consider

factors such as the state of the economy in three or four years' time, she adds. This indicates that overall the retail market has become more professional, and

expansion decisions are backed by solid business criteria, she concludes.

Among the retailers pushing the pedal on expansion are food retailers and international players such as Jysk and Decathlon, says Ravon. Discounters show the greatest appetite for expansion, be it supermarket or fashion, footwear, or sports operators, adds the C@W Echinox representative.

The expansion of the last few years has been buoyed by the positive evolution of consumption. According to Colliers International data, retail sales were up by 13.3 percent last year in Romania, the second largest hike in the EU and considerably above the 2.8 percent European average. Looking at 2017, sales maintained an upward trend this first semester too, yet

the growth rate has been slowing and has dropped below 2016 levels, says Marcu.

As the market is growing and competition intensifies, shopping center owners are now focusing on consolidating their position and attracting shoppers who nowadays have more options than ever. Developers are paying more attention to the shopping experience they offer visitors, especially as they are placing greater value on the food and entertainment options available in a mall, compared to a few years ago when the fashion offer was the main driver, comments Stamate.

includes putting in place mobile apps to boost communication with shoppers and constantly inform them about special offers, sales and events taking place in their shopping centers. "There is also a focus on improving the overall shopping experience and available options for spending free time, by expanding food & beverage and entertainment areas," he stresses.

►► **STRIP MALLS ARE HERE TO STAY**

Retail space deliveries are expected to reach 180,000 sqm in 2017, and strip malls

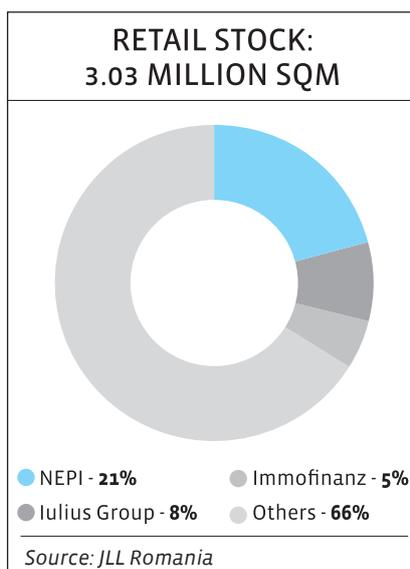
will represent the bulk of this new stock, according to commercial real estate consultancy Colliers International. Such projects are best suited to secondary and

tertiary cities which are retailers' new expansion ground, according to the same source.

"Over the next five years, we expect the number of strip malls delivered each year to surpass that of shopping centers such as malls. For example, this year at least six strip malls will be delivered in cities and towns such as Bistrita Nasaud, Dorohoi, Mioveni, Oradea, Pascani and Targoviste," says Daniela Popescu, associate director in the retail department of Colliers International.

Previous data from Colliers International indicate that 180,000 sqm of new retail stock is scheduled for delivery this year, and should be leased relatively easily, given the increase in private consumption over the past year.

PROJECTS UNDER DEVELOPMENT 2017 – 2018			
Project	Format	Owner	Size (sqm)
AFI Palace Brasov	Shopping Center	AFI Europe	45,000
Festival Shopping Center	Shopping Center	Primavera Development	42,000
Promenada Mall	Extension	NEPI	34,000
ERA Park Iasi	Extension	Argo	30,000
Shopping City Satu Mare	Shopping Center	NEPI	28,700
Ramnicu Valcea Mall	Shopping Center	NEPI	28,000
Shopping City Galati	Extension	NEPI	21,000
Platinia Cluj	Mixed-use Development	Drusal Construct	13,000
Sun Plaza	Extension	S Immo	11,000
Sibiu Shopping City	Extension	NEPI	11,000
Source: JLL Romania			



As a result of shifting shopping patterns and more mature consumers, owners' strategies now increasingly feature a digital component, says Marcu. This

ALL IN THE MIX: MIXED-USE REAL ESTATE PROJECTS CONSOLIDATE ON LOCAL MARKET

Mixed-use real estate projects provide a solution for overcrowded cities and also cater to the growing demographic of Millennials, which means this developing trend is set to grow further in the years to come.



Palas Iasi, Iulius Group's first mixed-use project, was opened in 2012 following a EUR 265 million investment

BR SIMONA BAZAVAN

Working and shopping within walking distance from home sounds like a dream come true for any Bucharester stuck in traffic or crammed into overcrowded subway trains at rush hour. Mixed-use real estate projects that bring together office and retail, or even office, retail and residential components under the same roof, provide a solution to overstretched city infrastructure – one that local developers are increasingly open to investing in.

“Romania is starting to develop some of the characteristics that led to the large-scale adoption of the mixed-use project concept in the Western and Asian real estate markets,” Stefania Baldovinescu,

senior partner at Colliers International, told BR. These include rapid growth and urbanization, the increasing cost of land, which in turn determines a need for more intense land use, growing competition between developers which leads to greater interest in more differentiated and innovative projects, and the development of suburban office districts combined with ever growing traffic, she outlined.

The synergy resulting from combining office, residential and retail spaces has been confirmed over the past decades and is not totally new for the local market either, Oana Iliescu, managing director at Cushman & Wakefield Echinoc, told BR.

Some of the first such projects on the

local market include Upground in Pipera, which is made up of two office buildings as well as more than 500 apartments, and the Plaza Romania shopping mall next to which Anchor built the Anchor Plaza office building more than a decade ago, she added. The combination of retail and office has been replicated on a larger scale by AFI Europe, which has built 70,000 sqm of office space next to the AFI Cotroceni shopping mall.

Similar projects can be found outside Bucharest as well. Iulius Group has invested in a mixed retail and office project in Iasi and is now replicating that model in Timisoara. Local businessman Ovidiu Sandor is betting on a residential and office project in the same city after having previously invested exclusively in office developments. In Brasov, Immochan is looking at adding a housing component to its shopping mall, while AFI Europe has announced a retail and office project of its own. Similar schemes can be found in Cluj-Napoca and Oradea.

Notably, some of the first projects of this kind were not initially designed as mixed-use developments but rather as retail projects, for example, Anchor Plaza, AFI Park, Iulius Mall Timisoara and Palas Iasi, notes Marius Scuta, national director and head of the office department and tenant representation at JLL.

“The opportunity to build office space next to these projects arose later with the boom of the IT, BPO and call center industries. The amenities provided by the existence of a shopping mall, plus its location, have become a magnet for many

companies. Yes, we can say that all of these projects have been and continue to be successful," he told BR. Which is why developers are now considering mixed-use projects from the start.

► **DEVELOPERS SHOW NO MIXED FEELINGS**

One such developer is Vastint Romania, currently developing a mixed-use real estate project in the Timpuri Noi area of Bucharest, which it says will bring together offices, retail and housing under the same roof.

Antoni Panait, managing director of Vastint Romania, told BR, "When done well, mixed-use development sections work together and complement each other to benefit the

people, no matter the combination." Offering the "full package" is one of the main advantages behind this type of development, he adds.

Not only is Vastint Romania venturing into a part of Bucharest so far left largely untouched by developers, but it is also including a residential component in its Timpuri Noi Square, something local players have been reluctant to do so far. "The residential component is currently planned as the last phase of the project, following 100,000 sqm GLA of modern class A office, commercial and retail services already on their way with the first two buildings and a plaza," he told BR.

Elsewhere, Immofinanz Romania says that the various segments of the real estate market are becoming less distinct as developers tune into the needs of a changing consumer. "As Immofinanz's strategic focus revolves around the office and

retail sectors, we have seen how the lines between these areas can become blurred. Thanks to an optimum and varied tenant mix, all our office properties in Bucharest provide the employees working there with a wide range of retail offers, right in the buildings," Sorin Visoianu, country manager of operations for Romania, tells BR. He adds that there is a big potential for this type of mixed-use building in Bucharest, particularly as the local economy develops and the market matures.

This is what the company also has in mind for its future Iride City project in Bucharest, which will be built around its existing Metrooffice office project.

Outside Bucharest too, there are several mixed-use real estate projects pres-

ently underway. Local real estate investor Ovidiu Sandor has recently started works at a residential and office mixed-use project in Timisoara, western Romania, after having previously invested exclusively in office.

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"In real estate the land often dictates what is built on it," he told BR. The developer's target was to secure the plot of land Isho is now being built on because of its location. Mixing office with residential later became a natural option given that there is demand in the city both for a new generation of office buildings and new apartments," he adds.

Nonetheless, he stresses that there is not only potential for further such projects to be developed but that they meet a real need as long as the developer secures the

right land. "The most interesting part of such large-scale projects is coming up with the mix. The resulting projects have the potential to become neighborhoods or actual small-scale towns based on their complementary amenities," said Sandor.

The emergence of such mixed-use real estate projects on the local market is a natural evolution given the speed with which consumers change their demands, adds Laurentiu Manea, manager of office buildings for Openville. Openville is a mixed retail and office project that Iulius Group is developing in Timisoara around its existing shopping mall. This is not the developer's first venture of this kind. In 2012 it opened Palas Iasi, an integrated real estate project

featuring both retail and office. Based on that experience, Manea says that building a successful mixed-use project requires solid

background and expertise in "designing and planning its components, determining their share in the project and the way these synchronize and complete one another, financing, the actual construction and most importantly actually running it," he noted.

Moving onto Brasov, about one year after delivering the Coresi shopping mall, real estate developer Immochan started work last March on adding 13 blocks of flats, consisting of 570 apartments, to the project. The company's long-term plan for its investment has been to develop an entire neighborhood around it, Tatian Diaconu, CEO of Immochan Romania, tells BR. "For this reason, we have left land for the construction of schools, kindergartens and green areas," he says.

MIXED-USE REAL ESTATE PROJECTS PRESENTLY BEING DEVELOPED			
Project	Type	Developer	City
Timpuri Noi Square	office, retail, residential	Vastint Romania	Bucharest
Iride City	office, retail, residential	Immofinanz	Bucharest
ISHO	office, retail	Mulberry Development	Timisoara
Openville	retail, office	Iulius Group	Timisoara
AFI Brasov	retail, office	AFI Europe Romania	Brasov
Coresi	retail, office, residential	Immochan	Brasov
<i>Source: BR, based on consultants' data</i>			

For the construction of the residential component, Immochan has teamed up with another developer, Avantgarden Immo Invest. The first apartments are scheduled for delivery this year and some 95 percent have already been pre-sold, according to company data.

While mixed-use projects offer end-users obvious benefits, there are advantages for developers as well, says the CEO. "They come with a lower risk, as there are several complementary income-generating

those who work in modern office buildings are part of Generation Y, the emergence of mixed-use projects is a normal step," George Didoiu, associate director of the office agency at Colliers International, tells BR.

All in all, this makes office projects that offer a retail and entertainment component, and maybe even residences, attractive to companies looking to lease office space. Mixed-use properties can boast further advantages for developers and

For these reasons, consultants are forecasting that more such projects will be developed on the local market. In Bucharest there is both demand and available land to back this forecast, they note.

According to Colliers International data, over 500 ha of land is available in Bucharest as part of former industrial platforms which are sought after, including for such developments, Sinziana Oprea, associate director, land agency, with the consultancy, told BR. "In some cases, we can even see

developers from different market segments working together in order to secure a certain location," she said.

So far office and retail mixed-use projects have been the most popular combination, and consultants say that this trend will continue.

There are also signs that new types of projects will emerge. On more mature markets the combination between retail and residential is

more common, says Stamate.

Office and residential is another option for the local market. "We expect there to be more mixed-use real estate projects that combine an office and a residential component. People want to be as close as possible to their workplace and spend as little time as possible in their car," added Iorgu.

The coming years should also see the development of projects that bring together office and some light manufacturing component; however, "the most attractive combination will remain the one between office and retail as they both have similar land requirements – large areas in central and semi-central locations with good access to public transportation," commented Iliescu.

Altogether, more such projects are to be expected, especially in cities that are "dynamic urban centers that constantly attract new residents through education and job opportunities. In Romania these are Bucharest, Cluj-Napoca and Timisoara as well as Iasi, Brasov, Sibiu and Oradea," she concluded.

"Romania is starting to develop some of the characteristics that led to the large-scale adoption of the mixed-use project concept in the Western and Asian real estate markets"

Stefania Baldovinescu, Colliers International

functions which belong to a well-defined segment. It also means optimized costs due to integrated services," he outlines.

► **THE PERFECT MIX?**

The advantages that mixed-use real estate projects offer end-users are obvious. Saving time otherwise spent in traffic either by living right across from the office or at least being able to stop for groceries, run errands, hit the gym or grab a bite in a cafe or restaurant on the way home from work count a lot for today's employees. "Recent years have also seen the focus shift to the work-life balance. While a few years back people didn't concern themselves too much about how much time they spent at work, the new generation treasures free time and easy access to the office," Razvan Iorgu, managing director of CBRE, told BR.

This is particularly the case for the so-called Generation Y or Millennials, who are making up an increasingly higher proportion of the occupants of modern office buildings. "We live in a time when 'now, here and close by' have become the norm. If we add the fact that almost half of

commercial tenants alike, consultants add. Combining office, retail and residential in the same project creates synergies, the most common of which include business generation across projects, such as offices providing retail clients and increased exposure and marketability, plus better rents, as office space itself can become more attractive to companies due to the complementary hotel, retail and/or residential facilities, says Baldovinescu. "Additional profit-enhancing benefits also come from cost reductions due to economies of scale, better use of land through higher project densities and faster absorption," she added.

Mariana Stamate, head of property management at JLL, agrees that mixed-use projects can help optimize running and maintenance costs. Such projects can also be more attractive for financing banks given that they offer a diversified risk profile, although banks remain selective when it comes to financing developers and pay close attention to their track record, points out her colleague, Maxime Otto, senior consultant on capital markets.

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INDUSTRIAL AND LOGISTICS MARKET TO SET NEW RECORDS IN 2017

The industrial and logistics market looks poised to surpass new post-crisis records by yearend for the volume of new deliveries and leasing activity. Demand for both logistics and industrial space is on the up and there is plenty of room left for growth in the years to come, say consultants.



Rodica Tarcavu, C&W Echinox



Mihai Escu, CBRE



Laurentiu Duica, Colliers International

BR SIMONA BAZAVAN

Some 500,000 sqm of logistics and industrial space is forecast to be delivered this year in Romania, which is up by 40 percent y-o-y and the highest post-crisis level, according to data from real estate consultancy Colliers International.

The reason for this is that demand is rising for both logistics and industrial space, consultants say. While the former is driven by the increase in private consumption over the past couple of years, the latter is fuelled by manufacturing companies which continue to see Romania as a cost-attractive production market. According to JLL Romania data, the local hourly labor cost is presently around EUR 5.5, compared to an EU average of about EUR 25.4. Despite the fact that Romania posted the highest increase in the cost of labor in the EU last year at around 13 percent, the figure still remains competitive and attractive, they add.

Demand for new logistics and industrial space is coming mainly from businesses growing organically and the higher need for logistics and warehousing spaces, con-

firming Laurentiu Duica, associate director in the industrial agency at Colliers International Romania. "The highest demand is coming from retail and FMCG companies, e-commerce, logistics suppliers and not least from the automotive industry," he tells BR.

In Bucharest in particular, new leases are being signed by third-party logistics (3PL) and retailers, while in the rest of the country demand is split between production and FMCG players, adds Mihai Escu, advisor in industrial services with CBRE Romania. "The dominant branches in production continue to be automotive and electronics. Fiscal measures, the increase in the minimum wage and the reduction of taxes for certain categories of employees have resulted in higher consumption that is the main driver for online and onsite retailers," he adds.

Both Bucharest and the main regional cities throughout the country will see their stock of industrial and logistics space go up this year, say consultants.

Compared to the same period of last year, new deliveries were up by 15 percent

in Bucharest and 20 percent in Cluj-Napoca and Timisoara this first semester. "When it comes to areas of interest, Bucharest is top of the list – especially the northern part of the capital. Other cities that hold a lot of potential over the coming years are Cluj-Napoca, Timisoara, Sibiu, Pitesti, Brasov, Roman and Ramnicu-Valcea," says Duica.

The recent developer-led projects along with a series of owner-occupier developments indicate a growing interest in the northern part of Bucharest, adds Escu. Overall, at least 68,000 sqm and 209,000 sqm are forecast to be delivered in the north and west of Bucharest, respectively, during 2017, according to CBRE Romania data.

What is important to point out is that developers' expansion strategies continue to be based only on pre-commitments, thereby confirming that they are not considering entirely speculative projects, he adds. "Some of these are semi-speculative projects, but no more than 25 percent of the total surface area expected to be delivered this year," says the CBRE representative.

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Overall, Romania's total stock of industrial and logistics space is forecast to reach 2.9 million sqm by yearend, about 30 percent of which is estimated to have been delivered in 2016 and this year. The rate of increase is indeed considerable but also sustainable, according to Costin Banica, head of the industrial agency at JLL Romania. "If we look at an indicator such as the number of square meters of industrial and logistics space available per 1,000 inhabitants, we see Romania registers some 150 sqm, while in other countries in CEE such as Poland, the Czech Republic or Slovakia this stands at 300 sqm, 400 sqm or even 600 sqm. Therefore I would say that there is still plenty of room for growth," he comments. Moreover, most of the 800,000 sqm delivered in 2016 and this year has been based on demand, not speculative developments, he adds. The latter not only makes up a small share in the overall new

"We expect demand to maintain the same trend, and judging from the numbers we have so far it could surpass the previous year, which marked a new record high"

Rodica Tarcavu, C&W Echinox

Most of this was leased in Bucharest, at 90,000 sqm versus 60,000 sqm in the rest of the country, data from the first quarter indicate. "We expect demand to maintain the same trend, and judging from the numbers we have so far it could surpass the previous year, which marked a new record high," says Tarcavu.

Duica too expects take-up levels to go up, especially as 85 percent of the projects presently under construction have pre-lease agreements, speculative developments have a very low share and developers don't want to take on risks yet,

shaped a new hierarchy. Czech real estate company CTP is now market leader after pursuing an aggressive takeover policy for the past two years. "They have a balanced presence both in Bucharest and other key regional cities like Arad, Timisoara, Cluj-Napoca, Pitesti and Sibiu. Their portfolio now includes 600,000 sqm of warehouse space, 400,000 sqm of which is in Bucharest," says Tarcavu. P3's portfolio, on the other hand, consists of 430,000 sqm, all of which is located in the capital.

"Another experienced developer that has grown organically over the past seven

LOCAL INDUSTRIAL AND LOGISTICS MARKET IN A CEE CONTEXT

City	Inhabitants	Stock 2017	Q1 demand 2017	Vacancy rate	Rent
Romania	19 mln	2.9 mln. sqm	180,000 sqm	<5 %	3.3-4.25 EUR/sqm/month
Poland	38 mln	11.7 mln. sqm	885,000 sqm	6 %	2.6-5.3 EUR/sqm/month
Hungary	9.8 mln	7.9 mln. sqm	80,000 sqm	6 %	3-4 EUR/sqm/month
Czech Republic	10.55 mln	6.2 mln. sqm	300,000 sqm	4.7 %	2.8- 5.1 EUR/sqm/month
Slovakia	5.4 mln	1.9 mln. sqm	100,000 sqm	2.4 %	3.3-5.5 EUR/sqm/month

Source: JLL Romania

stock but most often represents existing and established projects, he points out.

Leasing activity has been going up too, and 2017 could set a new record here as well. C&W Echinox data show that demand has been growing constantly since 2013, peaking last year when overall leasing activity reached the record level of 370,000 sqm, Rodica Tarcavu, senior broker in the industrial agency with C&W Echinox, tells BR.

She estimates that about 200,000 sqm was leased in the first half of 2017, which sets a new record for demand. "Just as a comparison, about 250,000 sqm was leased in each of 2007 and 2008," she notes.

he outlines. Looking at other indicators, the vacancy rate remains low, below 5 percent both in Bucharest as well as in most regional cities, show C&W Echinox data. Rents are rising slightly in line with demand. Contractual rents range from EUR 3.75-EUR 4.25/sqm/month, varying according to location, leased area and when the lease was signed. A lower average of about EUR 3.5 /month is registered in Timisoara and Arad, according to the same source.

►► **SHIFTING HIERARCHY**

The last couple of years have seen several important takeovers on the local logistics and industrial market, which in turn have

years is WDP, whose portfolio will surpass 250,000 sqm by yearend," she adds. This makes Belgian WDP the third largest player on the local industrial and logistics market, with properties throughout the country in regional cities such as Ploiesti, Brasov, Cluj-Napoca, Timisoara, Braila, Valcea, and Oradea, but also in Bucharest, show C&W Echinox data.

Another Belgian player, Alinso, ranks fourth with its 160,000 sqm park in Ploiesti, followed by Logisor with about 150,000 sqm and Olympian and VGP each with portfolios of approximately 100,000 sqm, according to the same source.



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