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Romanian Real Estate Market: challenges in a trend of consolidation and maturation

Compared to previous years, 2018 was a fairly quiet year for real estate. Players in the industry estimate that in 2019 the market will continue to stabilize, reaching maturity.

The residential sector was the most active and dynamic in 2018, being heavily influenced by external factor, influence which will be also reflected in 2019. According to a study conducted by Re / Max Romania in partnership with Imobiliare.ro (gathering statistical data from the survey conducted on a sample of 300 respondents from 30 cities, over 50% of them being real estate agents or agency owners), the factors perceived as having the greatest influence on the domestic residential real estate market in 2018 were the Romanian Interbank Offer Rate evolution (ROBOR) and the Level of Indebtedness imposed by the National Bank of Romania (BNR). ROBOR at three months stood at 3.09% at the end of November (compared with 3.31% at its beginning), while ROBOR at six months fell to 3.36% (versus 3.49%), consolidating the market along with the increased demand for housing, as well as a slight increase in prices. Another factor that significantly influenced the market at the end of 2018 was the lowering of the Level of Indebtedness. At the end of October, the BNR reduced the Level of Indebtedness from 70% to 30% for LEI loans and 15% for variable rate euro loans. For the *First Home Loan*, the debt ratio was reduced to 45% and for other housing loans to 40%.

Towards the end of 2018, there was a decline in the market due to BNR's decision and because of uncertainty, but it is expected that this decline will stabilize and the market will rise in the first quarter of 2019. As far as housing demand is concerned, the perspective of market players is that it is generally growing. It is worth mentioning that, according to Imobiliare.ro, the interest for purchases is, at least at the level of the country's big regional centers, very close to last year (a 2% decrease in Q3 2018 compared to Q3 2017). The positive perception of this indicator can be fueled by the fact that it is still significantly above the level recorded three years ago (when the residential market was already on an ascending trajectory). Thus, in the country’s six major regional centers, interest in the acquisition of residential property is now 29% higher. The favourable outlook for the demand in the market is also reflected by the number of building permits issued at the national level: in the

first seven months of the year 24,950 permits were issued for residential buildings, up 7.6% compared to the previous year, according to the official data published by the National Institute of Statistics (INS). A moderate price increase was also registered, with the differences from 2017 being in all major cities under the 10% threshold.

Regarding the Office Sector, Colliers International estimates that around 360,000 sqm of office space will be delivered in 2019, with 65% of the space being already pre-leased, and these percentages are projected to grow to 75-80%. As a result of 25% growth in stocks over a 24-month period, an increase in the vacancy rate is expected, estimated at 9-13%, according to Colliers International.

In the Retail Sector, 2019 and 2020 will bring the increase of the stock, new retail deliveries, according to Colliers estimated to be 500,000 square meters, double that of 2017-2018, the latter being the best year after the crisis from almost all points of view. Romania had the largest private consumption growth in Central and Eastern Europe, 6%, confirmed by the steady increase in consumption over the last 6-7 years. 2018 was not a year with too many deliveries, with approximately 135,000 square meters delivered. An increase in rent is estimated to be around 10%.

The Industrial and Logistics sector is expected to expand from the West and Center Romania towards economic nodes such as Iasi, Constanta and Ploiesti. However, without heavy investment in light and heavy industry in those areas, the development of those regions is uncertain. This uncertainty is also a direct result of Western and Central markets, where heavy competition generates very attractive opportunities. According to Colliers, it is estimated that the industrial market will continue to grow, being heavily influenced by logistical pressures.

The Investment Market remained active and it is expected to continue to do so. The volume of real estate transactions in 2018 was over EUR 900 million, and ongoing transactions for office buildings in 2019 will be over EUR 500 million, according to Colliers, with office space yields at 7%.

As for the land market, market liquidity in 2018 increased by 15-20%, to over EUR 400 million, and it is expected that new demand for land in 2019 will be below that of previous years, which is why the market expects a slight decrease, including in pricing.

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