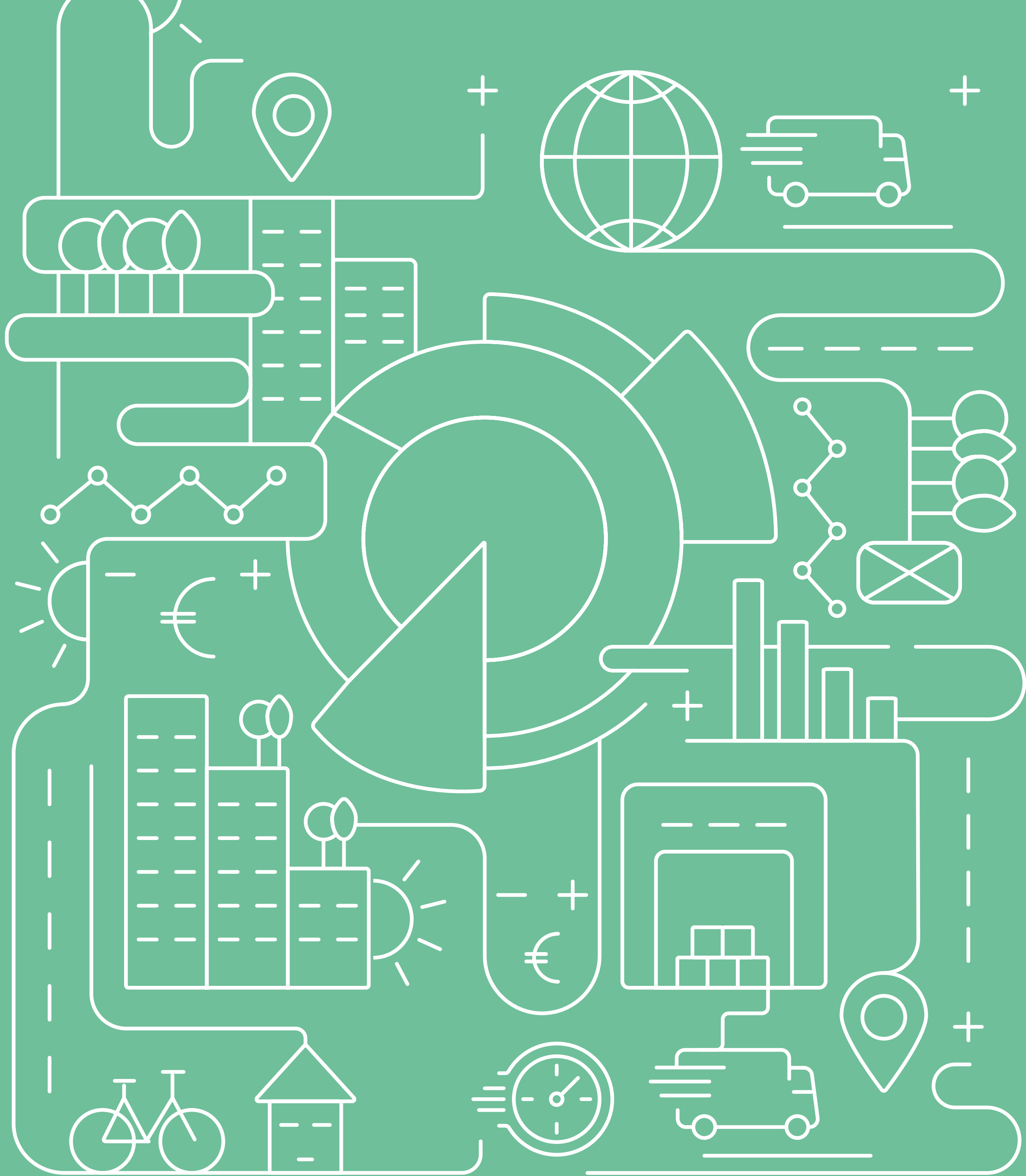
AVISON YOUNG

Market Report
H1 2020



About Us

1978 Founding Year	Toronto, Canada Headquarters	
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111 Markets	20 Countries	34.1 m sq. m Under Property Management

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Contents

UniCredit Bank

Little Room for Error

MACROECONOMIC AND STRATEGIC ANALYSIS

UniCredit Bank Research

Indicator	2017	2018	2019	2020F	2021F
GDP (€bn)	187.8	204.7	223.3	**211.7**	229.7
Population (million)	19.6	19.5	19.4	**19.4**	19.3
GDP per capita (€)	9,560	10,479	11,504	**10,938**	11,917
Real economy, change (%)					
GDP	7.1	4.4	4.1	**-7.9**	7.5
Private Consumption	10.0	7.3	5.9	**-6.0**	7.8
Exports	7.6	6.2	4.6	**-18.2**	16.6
Imports	10.8	9.1	8.0	**-11.4**	13.0
Monthly wage, nominal (€)	724	965	1,069	**1,080**	1,134
Real wage, change (%)	13.0	29.7	8.9	**-0.2**	3.8
Unemployment rate (%)	4.9	4.2	3.9	**5.3**	5.6
Fiscal accounts (% of GDP)					
Budget balance	-2.6	-2.9	-4.3	**-8.0**	-4.3
Public debt	35.1	34.7	35.2	**44.8**	44.8
External accounts					
Net FDI (% of GDP)	2.6	2.4	2.4	**0.8**	1.4

Indicator	2017	2018	2019	2020F	2021F
Inflation/Monetary/FX					
CPI (period average)	1.3	4.6	3.8	**3.0**	3.1
Central Bank reference rate (end of period)	1.75	2.50	2.50	**1.00**	1.00
3M money market rate (December average)	2.13	3.05	3.12	**1.40**	1.48
USDRON (period average)	4.05	3.94	4.24	**4.31**	4.21
EURRON (period average)	4.57	4.65	4.75	**4.83**	4.92

Data source: Eurostat, NBR, NSI, Ministry of Public Finance, UniCredit Research

OUTLOOK

GDP could fall by almost 8% in 2020, with a partial recovery of more than 7% expected in 2021. After widening to around 8% of GDP this year, the budget deficit will have to fall towards 4% of GDP next year to preserve the investment grade rating. This means a 10% pension increase this year (rather than 40%) and further spending cuts in the coming years. The fiscal package of around 3% of GDP in direct support and 3% of GDP in guarantees could prevent a sharp rise in unemployment. Nevertheless, labour market conditions will loosen, pushing core inflation below target and allowing the NBR to cut the policy rate to 1%.

Direct fiscal support package of around 3% of GDP

At around 3% of GDP, the direct support package for the economy is one of the smallest in the EU but is well diversified, including:

Support for furloughed and returning workers

50% of wages for three months for new employees aged below 29 and over 50

Tax holidays for SMEs and a nine-month moratorium on loan repayments for SMEs and mortgage borrowers

The economic slowdown will take an additional toll on budget revenues.

1

Indirect tax receipts are likely to lag last year's revenues due to a partial recovery in retail sales and leisure services

2

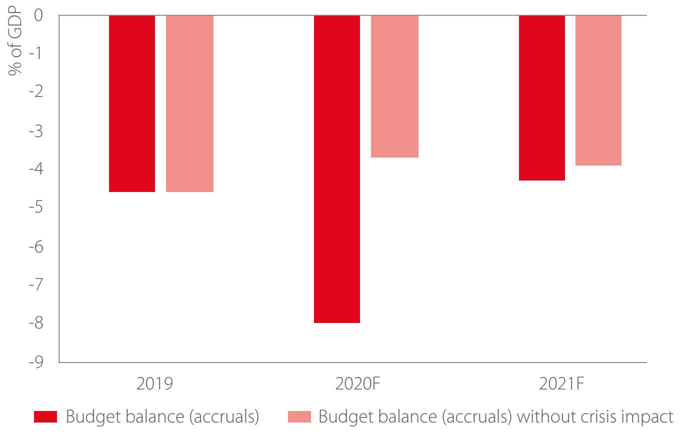
Not all firms that benefited from differed tax payments will survive to pay those taxes

3

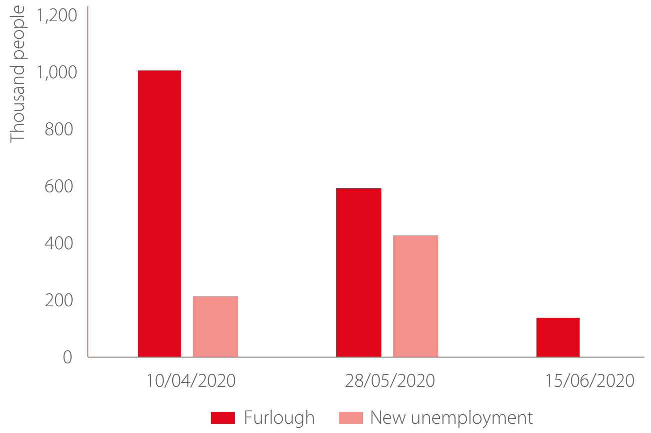
Social security contributions will fall as unemployment rises

The number of furloughed workers peaked at around 1.1 million at the height of the lockdown but halved by late May. Out of the reduction, half of the employees returned to work and half where made redundant. In July, the number of furloughed workers dropped to around 100,000. At the same time, the number of newly unemployed swelled to around 430,000 (8.7% of pre-crisis employment) since the start of the COVID-19 induced lockdown. Yet the numbers could have been far worse had Romania not offered the fourth most-generous furlough support in CEE of up to 75% of wages. We expect the unemployment rate to peak above 6% in 2020 and fall to 4.5% by end-2021.

THE BUDGET DEFICIT COULD SWELL ABOVE 8% OF GDP



FURLOUGH REDUCED THE SPIKE IN UNEMPLOYMENT



Source: Ministry of Finance, NSI, Ministry of Labour, UniCredit Research

The government may have to support the economy in 2021 as well

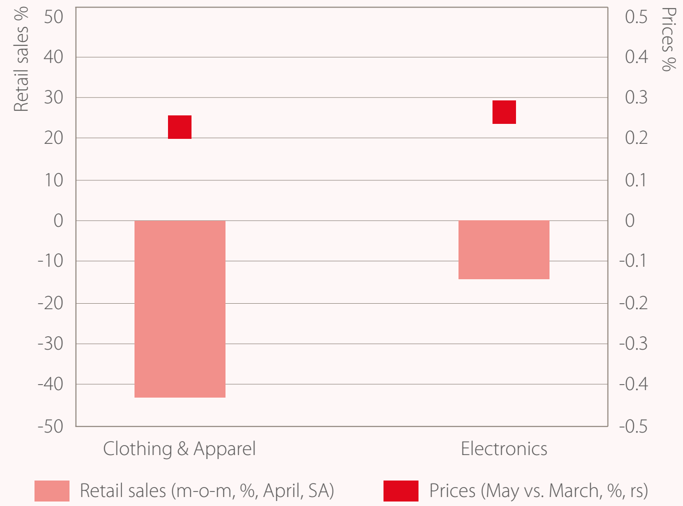
Despite public support, we expect GDP to fall by around 8% this year, with the trough in Q2 2020 as suggested by high-frequency labour, energy and mobility indicators. The ensuing recovery is likely to be gradual and uneven due to both domestic and external factors. International supply chains remain disrupted and many Romanian companies that restarted activity had to scale it back due to missing supplies or poor foreign demand. These issues could persist in H2 2020, especially in car, textile, footwear, chemical and rubber manufacturing, which account for 39% of employment in manufacturing. Domestic supply chains are affected as well, with liquidity shortfalls being only partly mitigated by public support, probably explaining why jobs lost in manufacturing outnumber those in other sectors. The prevalence of trade credit, three times larger than bank lending, leaves the economy vulnerable to solvency risks. Thus, the government may have to extend fiscal support into 2021 to support the recovery.

Next year's recovery will be slowed by fiscal adjustment

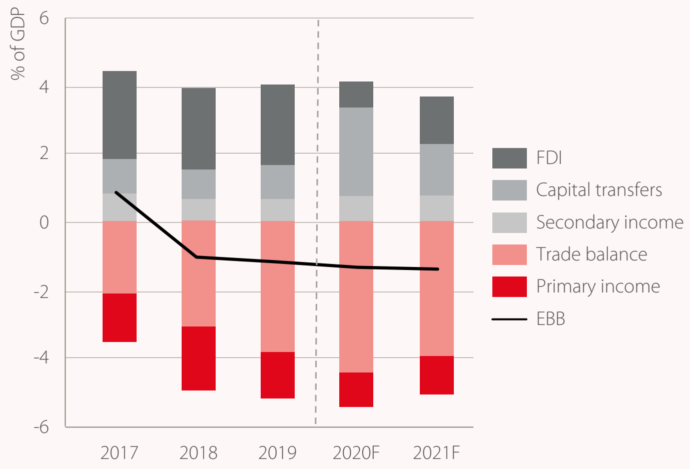
Despite trouble in the labour market, we expect consumer demand to see a stronger rebound than investment and exports. Public consumption is likely to fall next year as the government tries to contain the budget deficit. We expect the public shortfall to decline towards 4% of GDP in 2021, with the economy unlikely to recover this year's losses. A potential second wave of the pandemic is unlikely to trigger comparable restrictions to those from March-May 2020 but will further slow the recovery.

With real wage growth coming to a standstill this year and the negative output gap likely to persist until late 2022, we expect core inflation to fall below target this year. Discrepancies between retail sales and prices for clothing and durable goods suggest that current inflation may be overestimated. Supply shocks could turn mostly inflationary from H2 2020 onwards, with food prices rising due to a poor 2020 harvest and fuel prices recouping some of the losses from H1 2020. As a result, headline inflation could climb back above 3% later this year and in 2021, without exiting the target range. Nevertheless, second-round effects from supply shocks may not be strong enough to push core inflation higher, in line with the headline rate.

DISCREPANCY BETWEEN RETAIL SALES AND INFLATION



EBB HELPED BY CAPITAL TRANSFERS AND SERVICES



Source: EC, Eurostat, NBR, NSI, UniCredit Research

The NBR's bleak outlook for the economy leaves room to cut the policy rate to 1% before year-end. Otherwise, monetary conditions would tighten too much at the end of 2020, once the government stops paying the interest on IMM Invest loans and the moratorium on other SME and mortgage loans ends.

The NBR could cut the policy rate to 1% this year

Concerns about the RON could be temporarily alleviated after Romania avoided the downgrade to junk and the central bank concluded a €4.5bn repo line with the ECB. Yet pressure on the currency and FX interventions are likely to continue as the C/A deficit could remain above 4% of GDP in 2020-21. The wider trade deficit with goods is offset by higher exports of IT services and lower imports of tourism services and transfers of income from investment. The external shortfall will be only partly financed by FDI and EU funds, although Romania already tapped the EU's anti-crisis funds for €1.7bn to cover costs related to furlough, the health care sector, and one million people living in poverty. Inflows are likely to continue, helping to narrow the extended basic balance.

Pressure on the currency is manageable

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Romanian Investment Market

INVESTMENT ACTIVITY

In H1 2020 the total value invested in commercial property in Romania amounted around 200 million euros and compared with the same period of 2019 it is lower by 46%. As in the last two years the office sector continued to be dominant and attracted 72% of the total invested value, followed by the industrial sector with 15%.

Bucharest was the most active location in Romania for real estate investment transactions, whilst outside the capital city one investment deal was recorded with an estimated value of 7.5 million euros.

Office products continue to be the most traded properties

Compared to H1 2019

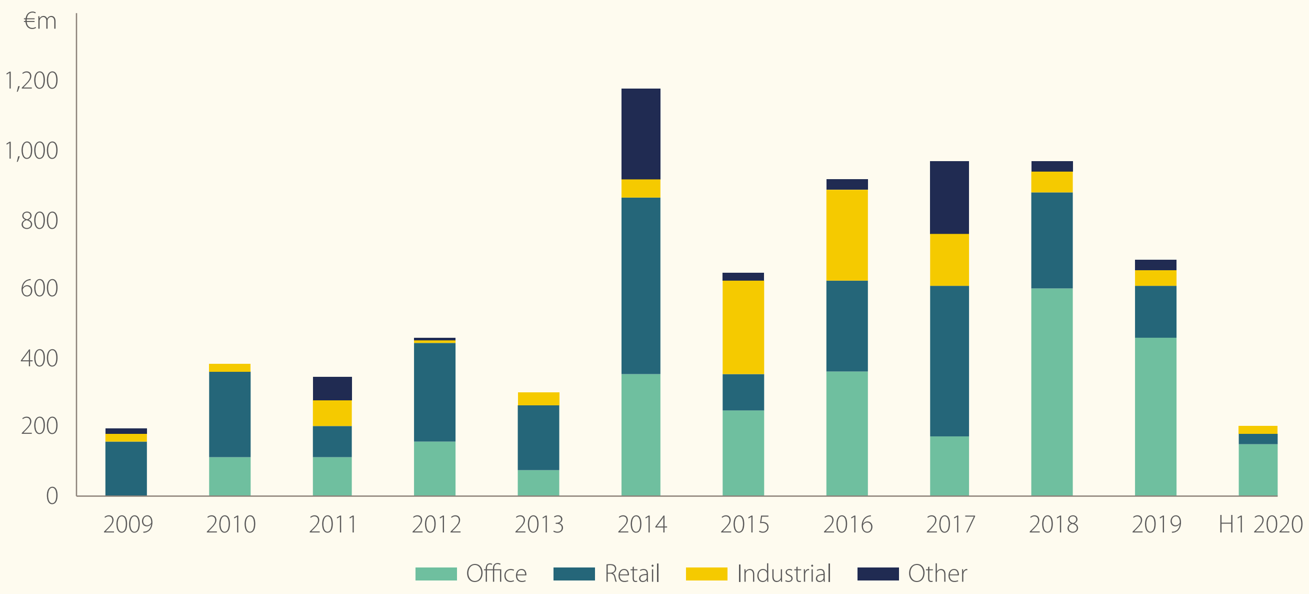
↓46% Investment volume

7% Prime yield office

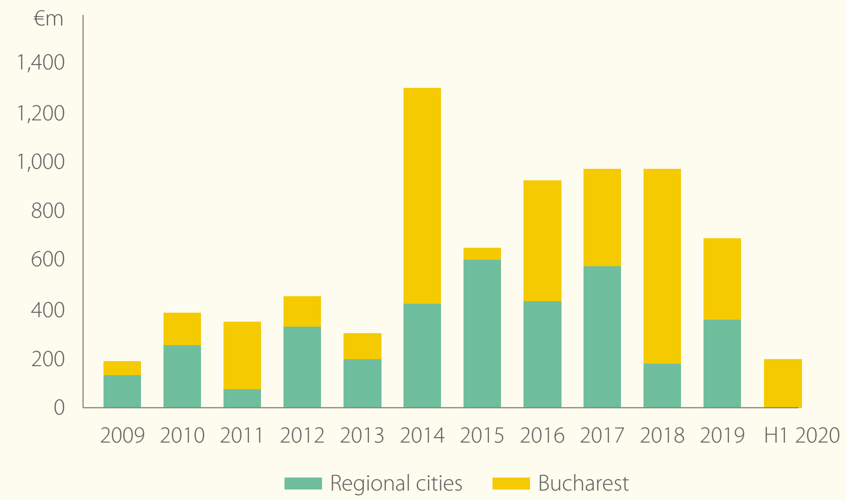
8% Prime yield industrial

6.75 - 7% Prime yield retail

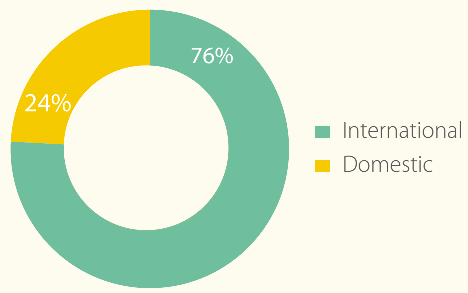
INVESTMENT VALUE BY SECTOR



INVESTMENT VALUE BUCHAREST VS. REGIONAL CITIES



INVESTMENT VALUE BY THE SOURCE OF CAPITAL



In H1 2020 the most important investment deal in terms of price was the sale of the Global City office project by Global Finance to the Greek investor Arion Green Felix. Global City comprises two Class A office buildings, with a gross leasable area of 55,000 square metres and the value of the deal is estimated at around 60 million euros.

Notable office investment transactions recorded in Bucharest were performed also by local investors. One United Properties has acquired an office building located in the North submarket developed by Conarg, with a rentable area of 7,500 sq. m. The total deal value was of 15 million euros. Ionut Dumitrescu has purchased 30% of One Floreasca Tower for 20 million euros and 20% from One North Gate for 5 million euros. Both office properties are developed by One United Properties. Outside Bucharest the local investor Lotus Center has acquired Oradea Center, a mixed-use commercial property comprising offices and retail spaces.

Regarding the industrial sector, CTP acquired Equest Logistics Center from the British company Equest Balkan Properties. for 30 million euros. The logistic property is located at km13 on A1 highway and has an occupancy rate close to 95%.

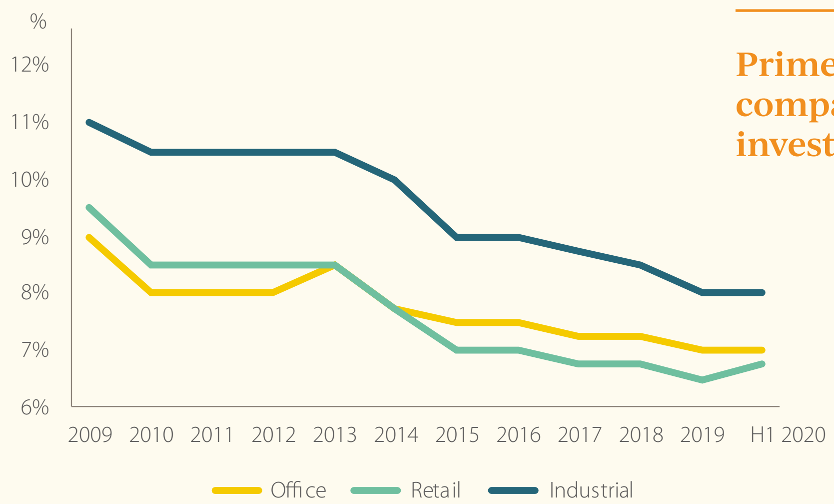
The largest investment deal was performed by an international investor

Local investors continued to be active, with 24% of the investment volume recorded in H1 2020

PRIME YIELDS

Throughout H1 2020 there were no major changes regarding the prime yields evolution for office and industrial properties. Compared to other investment destinations in the CEE region, Romania continues to have attractive returns. Prime office properties achieve yields of around 7%. For prime industrial properties, the yield is standing strong at 8% with prospects of compression as investors' appetite for logistic product is increasing. Prime yields for prime shopping centers have slightly increased and are standing at 6.75 - 7%.

PRIME YIELDS EVOLUTION



Prime yields remain attractive compared with other CEE investment destinations

MAJOR INVESTMENT TRANSACTIONS, H1 2020

City	Sector	Property	Purchaser	Vendor	Price (€m)
Bucharest	Office	Global City	Arion Green Felic	Global Finance	60*
Bucharest	Office	Office 1	One United Properties	Conarg	15
Bucharest	Office	One Floreasca Tower	Local investor	One United Properties	20**
Bucharest	Industrial	Equest Logistics Center	CTP	Equest Balkan Properties	30
Oradea	Mixt	Oradea Center	Lotus Center	Portico Investments Ro	7.5

**Estimated; **30% of the office project*
Source: Avison Young

Forecast

Considering the unprecedented situation caused by COVID-19 pandemic, a series of investment deals with a value exceeding 500 million euros have been put on hold throughout the first six months of 2020. This includes also the investment transaction between AFI Europe and NEPI involving NEPI's office portfolio in Romania, transactional value being of around 300 million euros. Nevertheless, discussions have recently resumed and by the end of the year the two investors might reach a new agreement.

By the end of 2020 retail's contribution to the total investment value is forecasted to remain limited. Office properties will continue to attract investors' interest and overall these will have a major contribution on 2020s investment transactional activity. The industrial and logistics sector, which was the least impacted by the current pandemic situation, is forecasted to catch investors' attention and to be one of the engines that will drive the local investment market going forward.

A Project Manager's Look on the COVID-19's Impact on Real Estate Developments

The information below is the result of a non-exhaustive analysis conducted by Optim Project Management regarding the impact of COVID-19 on the development of various real estate projects from several sectors, in different stages of their progress.

Office

The office development sector was the less impacted by COVID-19 and has shown a more positive trend, with a limited number of projects being stopped or paused. The initial predictions on the market have foreseen less office space to be needed due to the increasing trend of employees working from home and the high level of work-life balance which, companies have determined, improves productivity. In light of the social distancing rules, the balance inclined towards the need for more space, thus for "de-densification". In addition, referring back to the basic social needs of people and the need for belonging, as defined by Maslow, it can now be seen that employees are desiring to find balance between working from home and working remotely, therefore contradicting the expected, radical trend of working solely from home and offering investors more stability.

Warehousing & Industrial

The warehousing and logistics sector was subject to much debate in the period following the COVID-19 pandemic, with e-commerce on a rise. The predictions were that there will be large demand for logistics facilities coming from retailers. During the pandemic lockdown it was noticed that this additional demand determined by the shift in retailing was mainly focused on short-term leases, averaging for periods of 6 months, which developers have translated as speculative building and have decided to respond to it by providing existing storage spaces, instead of raising investment, due to the short term character of the demand. Long-term leasing, on the other hand, was shown to keep stability regardless of the context, with numerous contracts being secured.

As for the industrial and manufacturing sector, although most of the ongoing developments serving for basic goods production have continued, the automotive sector has registered a decrease, with existing facilities being closed down and planned investments development being put on hold. Nevertheless, we are now looking at industrial and manufacturing facilities' investment beginning to recover, with factories being reopened and with new developments being planned throughout the country.

Retail & Leisure

Looking back at the way in which the retail and leisure sector was impacted by the COVID-19 pandemic, specifically due to the fact that the authorities have closed down large indoor facilities, it can be noticed that there was a delay in investors continuing or starting new, large, developments due to the inability to allow for their functionality to the larger public. However, with smaller scale retail being on the rise, the pandemic seemed to have determined an increased need for supermarkets, which are now showing an ascending trend. Nevertheless, once the restrictions were lifted the overall retail and leisure sector seems to get back on the original trend, with investors continuing their planned developments.

Hospitality

The hospitality sector was expected to be the most impacted one considering the fall in demand, but also due to the fact that during the pre COVID-19 period Hotels were on the rise. This fall in demand for hospitality services was shown due to: *National and International travel restrictions, Governments closing down hotels and unclear means of mitigating risks due to high level of uncertainty*.

All of the factors above influenced some investors to pause future developments in the pre-construction phases. It was noticed that investors have used this time to reanalyse the functionality of their intended projects, unable to make any firm decision due to the overall uncertainty impacting all sectors. Hotel operators have determined that an occupancy rate of around 40% will keep the hospitality industry operational, but have not seen the possibility of sustaining any future developments, leading to a disruption rate of 43%.

Residential

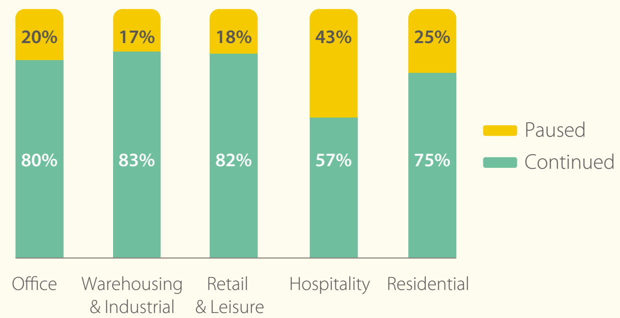
The residential sector was on an ascending trend in the pre COVID-19 period and, once the restrictions were imposed, a decrease in demand for housing units was expected due to the negative impact on the labour market and the reduced possibility for people to secure loans from banks. Looking at the numbers, it can be noticed that most developers have continued their investments, as most of the residential units that were under construction during the pandemic were already secured through pre-selling. The majority of the impact taken by the residential sector was mainly due to smaller investors deciding to pause. Additionally, larger investors have decided to partially pause the development of large residential compounds by limiting the number of buildings to be continued, having focused mainly on the delivery of the units which were already pre-sold.

Conclusions:

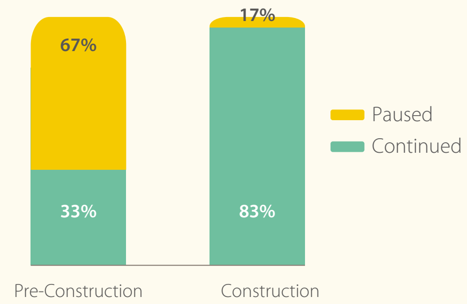
We are still looking at the short-term effects of the Coronavirus pandemic and, considering the past months, we notice that there is a more confident trend of investments picking up from where they left off in March 2020. Although the factors that influenced investors to slow down were: uncertainty, financial insecurity and shifts in industries dynamics, not all construction projects were impacted by the Coronavirus.

On a positive note, we can conclude that most of the investments that had already begun at the date of the pandemic continued at a rate of 95% throughout H1 2020. Regarding prospective projects in pre-construction phases, they were affected at a continuation rate of 33%, securing mid-term development. With the construction sector not being closed down by the authorities, we can confidently state that it has been an engine of coping for the national economy.

PROJECTS EVOLUTION PER REAL ESTATE SECTOR



PROJECTS EVOLUTION BY DEVELOPMENT STATUS



Bucharest Office Market

SUPPLY

Throughout the first 6 months of 2020 class A and B office stock increased by 3% and now stands at 3.22 million sq. m. Six office projects have been completed with a GLA of approx. 107,000 sq. m. Compared with the same period in 2019, new office supply is lower by 50%. The largest office developments delivered in H1 2020 are: Ana Tower located in the North submarket, Globalworth Campus building C in Pipera South and the 3rd building of the office project The Bridge, located in Central West.

Over the second half of the year 94,000 sq. m of modern office spaces are scheduled for completion, with Barbu Vacarescu – Floreasca and Central West being the most active submarkets in terms of construction works.

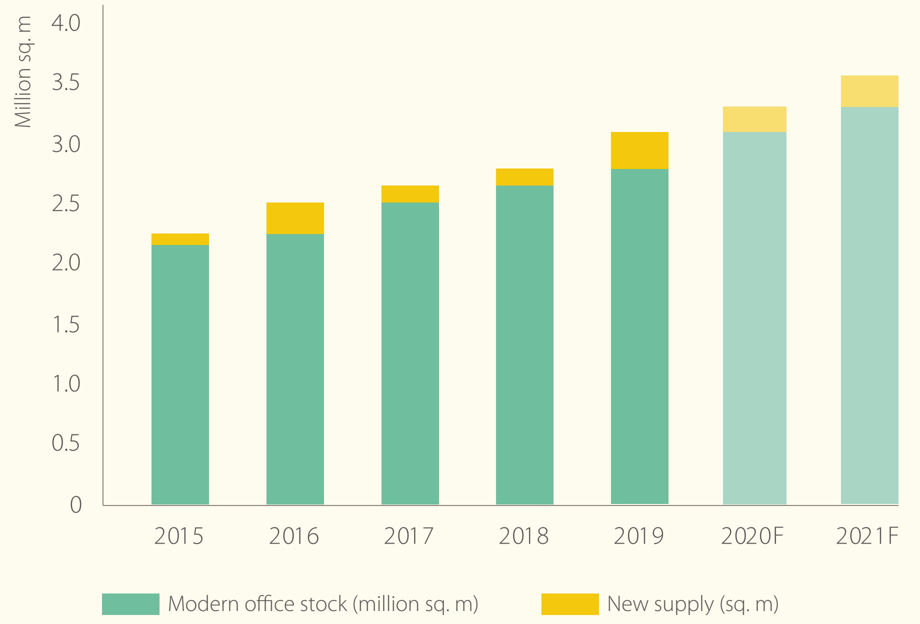
Currently under construction with delivery for 2021 there are approx. 250,000 sq. m of office spaces, 50% being located in the Central submarket and Barbu Vacarescu – Floreasca office hub.

Over 100,000 sq. m of new office space delivered in Bucharest in H1 2020

Compared to H1 2019

↑3%	↓50%	↓45%	↓80%	↑80 bps	€
Class A&B stock	New office supply	Office demand	New operations	Vacancy Rate	Stable Rent

BUCHAREST MODERN OFFICE STOCK EVOLUTION

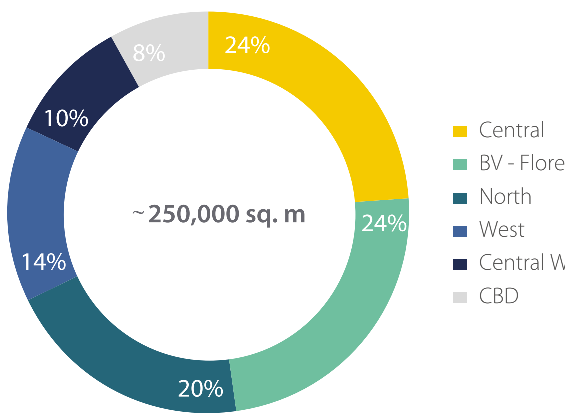


3.3 million sq. m of class A & B office space by the end of 2020

OFFICE SUPPLY H2 2020

Developer	Office Project	Submarket	GLA (sq. m)	Delivery Date
Skanska	Campus 6.2 & 6.3	Central West	~20,000 & 18,000	Q3 2020
One United Properties	One Tower	Barbu Vacarescu-Floreasca	24,000	Q3 2020
Local Developer	Mincu Offices	CBD	4,200	Q3 2020
Globalworth	Globalworth Square	Barbu Vacarescu-Floreasca	28,000	Q4 2020

OFFICE SPACES UC WITH DELIVERY IN 2021, BY SUBMARKET



Half of 2021s office supply is being developed in the Central submarket and in BV – Floreasca area

DEMAND

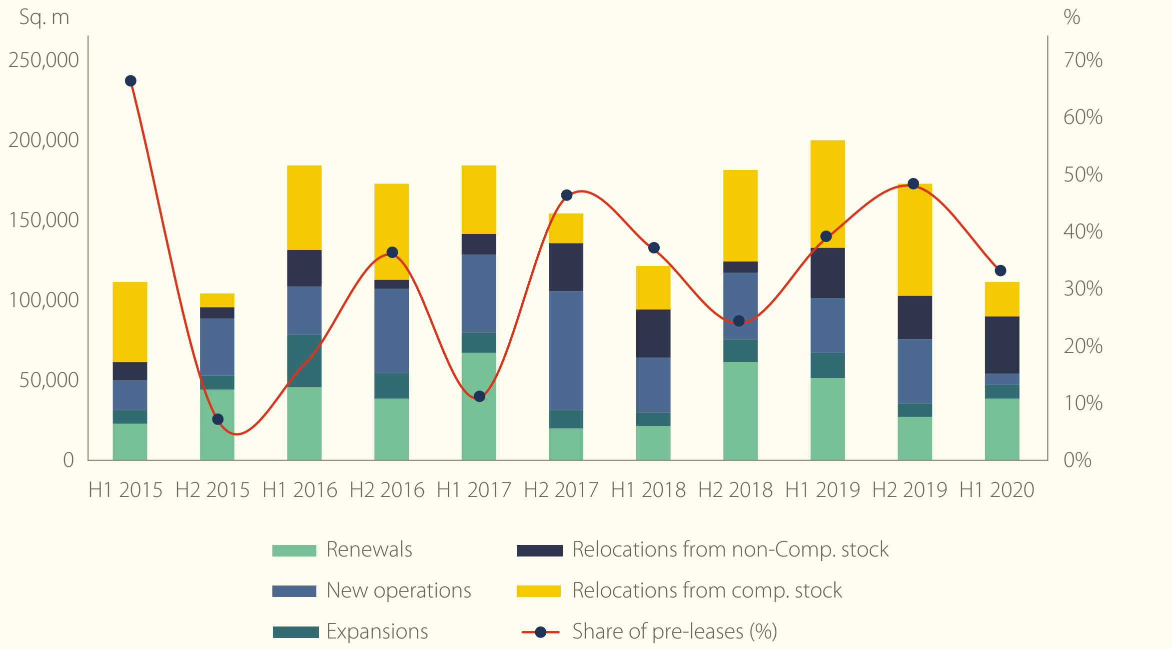
In H1 2020 Bucharest's office demand summed around 112,000 sq. m and compared with the same period of 2019 is lower by 45%. Net take-up represents ~65% with 72,000 sq. m transacted and is divided between new demand (71%) and relocations within modern office stock (29%).

Analysing the structure of H1 2020s new office demand in comparison with what was recorded in H1 2019, the number of sq. m transacted for new operations has dropped by 80%, whilst the relocations from old stock to class A and B office space have increased by 9%.

New demand represents 71% of the net take-up

Relocations from old stock to modern office space increased by 9% y-o-y

OFFICE LEASING ACTIVITY H1 2015 – H1 2020



Most of the net take-up was recorded in Central West - 33%, followed by the North area with 18% and South, with 13% of the net take-up.

Given that Bucharest is quite active in terms of office construction works, with projects being developed across several submarkets, pre-lease activity represents 33% of the net take-up recorded between January and June 2020.

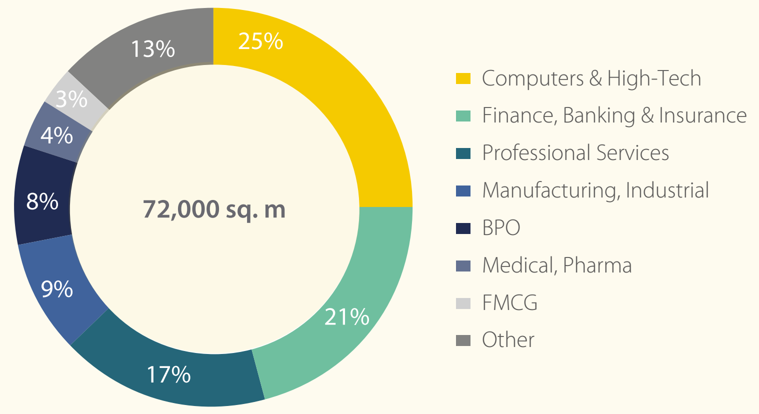
The most active office occupiers were Computers Hi Tech companies, with 25% of net take-up, followed by tenants active in Finance/ Banking/ Insurance (21%) and Professional Services companies (17%). The largest deals concluded in H1 2020 are represented by renewals.

1/3 of net take-up is represented by pre-leases

Tenants' appetite for renewing and renegotiating decreased by 25% y-o-y

Office demand from Professional Services on the rise, while Computers Hi-Tech companies remain the most dynamic tenants

NET TAKE-UP BY BUSINESS SECTOR



VACANCY

At the end of H1 2020 the general vacancy rate in Bucharest stands at 9.8% and compared with the end of 2019 has increased by 80 bps. Around 315,000 sq. m of office spaces are vacant across the city, with Pipera North accounting for 23%.

Analysing the vacancy rate by submarket, the lowest figures are recorded in Barbu Vacarescu – Floreasca (3%), followed by the West area (3.8%) and Presei Libere – Expozitiei (6%). The South submarket has a vacancy rate close to zero, while in the Central West the vacancy rate stands around 13%.

General vacancy rate remains below 10%

RENTS

Throughout H1 2020 there were no major changes regarding the occupancy costs. Prime headline rent continues to stand at 19 euro per sq. m per month.

In CBD headline rents for A class office spaces are between 17 – 19 euro per sq. m per month, while in Barbu Vacarescu – Floreasca submarket are in the range of 15 – 17.5 euro per sq. m per month. In semi-central locations the headline rents for prime projects are around 13 –15 euro per sq. m per month, while in peripheral areas A class office space is transacted between 9 –12 euro per sq. m per month.

Prime headline rent stable at 19 euros per sq. m per month

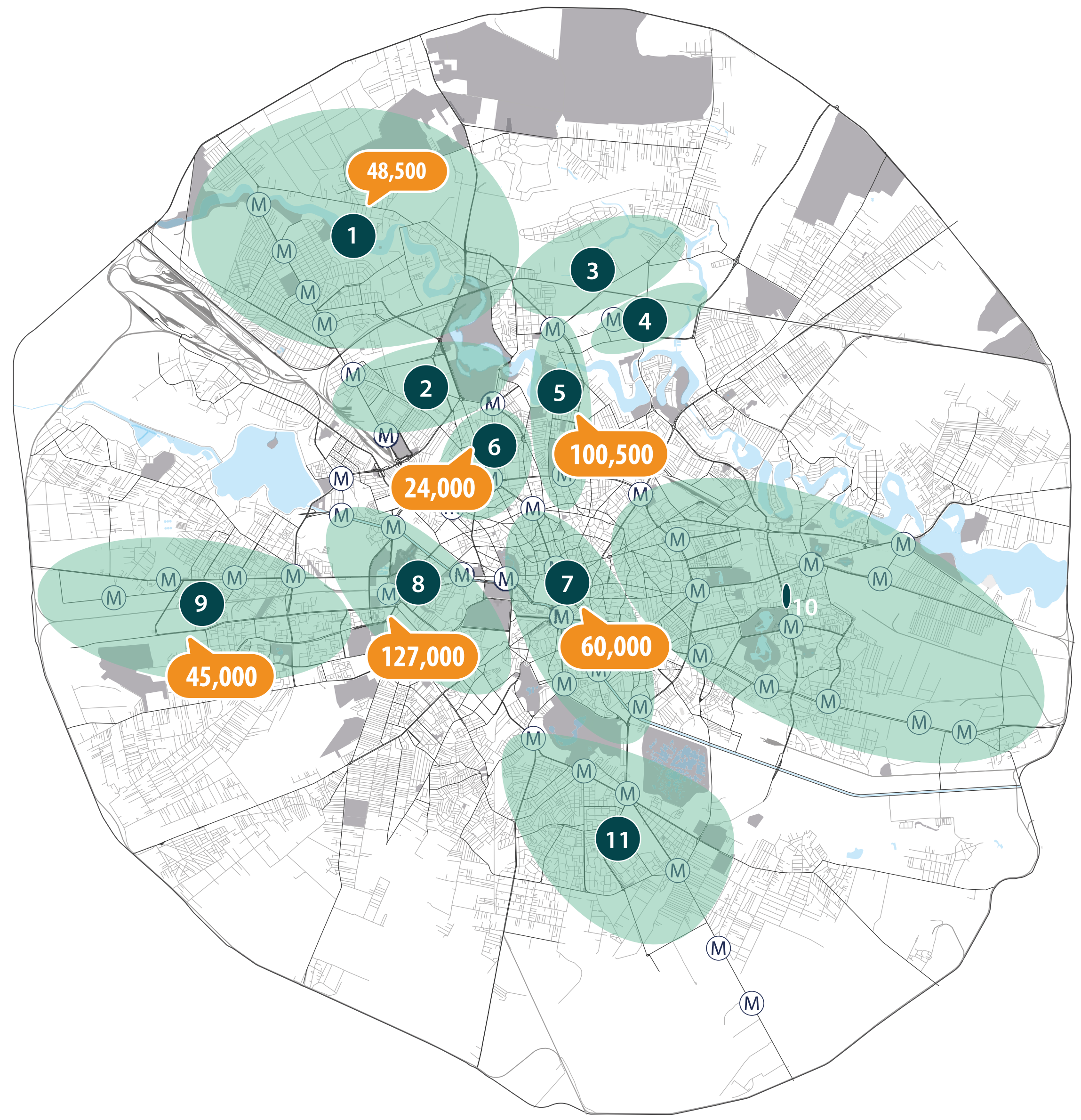
Forecast

Work from home policies and new safety regulations to shape the office market going forward.

Given the unprecedented times we are experiencing due to the outbreak of COVID-19, it is clear that the change in how office tenants operate will definitely have an impact on how the office market will look like going forward. The work from home concept, tested by just a few companies prior the current pandemic, has become very popular this year. Although tenants still analyse the effects of implementing this concept, two main views have emerged: that companies will require the same or less space due to WFH or they will need the same or more space for physical distancing.

Thus being said, landlords and developers will need to adapt their projects to meet the changes imposed by the new safety regulations and by occupiers' future requirements related to WFH policies. Whilst non-central office locations might benefit from major occupiers' plans to de-densify and distribute their workforce in satellite offices, large office hubs will continue to attract tenants' attention due to the quality of the office stock and their good infrastructure connectivity to the rest of the city.

The office general vacancy rate in Bucharest might continue to follow an upward trend, if we consider that currently there are ~ 345,000 sq. m of under construction office spaces scheduled for completion by the end of 2021.



Legend

- Pipeline Under Construction (sq. m)
- M Metro Station
- 1 North-Baneasa
- 2 Expozitiei
- 3 North-Pipera
- 4 South-Pipera
- 5 Floreasca-Barbu Vacarescu
- 6 CBD
- 7 Central
- 8 Center-West
- 9 West
- 10 East
- 11 South

BUCHAREST OFFICE SUBMARKETS MAP

Source: Avison Young

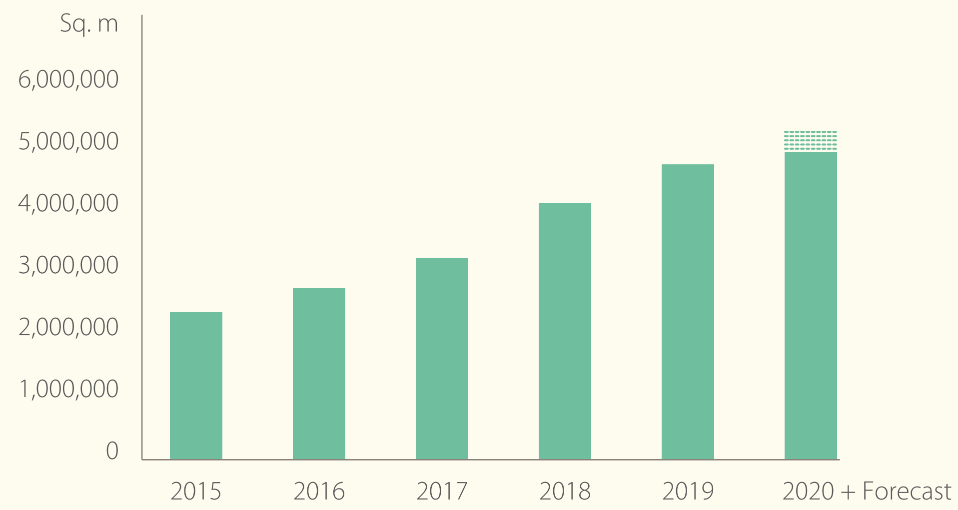
Industrial & Logistics Market

Despite the challenges raised by the COVID-19 pandemic, the industrial and logistics sector had a positive evolution in the first half of 2020. This was due mainly to the following factors:

- **The upward trend from last year continued in the first half of 2020, unaffected by the pandemic**
- **The boost in eCommerce led to an increased storage demand from this type of tenants**
- **Demand from food and FMCG retailers remained solid**
- **Logistics are a key element in ensuring operations continuity because, irrespective of the way they are purchased, all products that reach the population pass through a warehouse**

The growth of eCommerce during the pandemic led to an increased demand for storage spaces

Developers' plans were not hindered by the pandemic



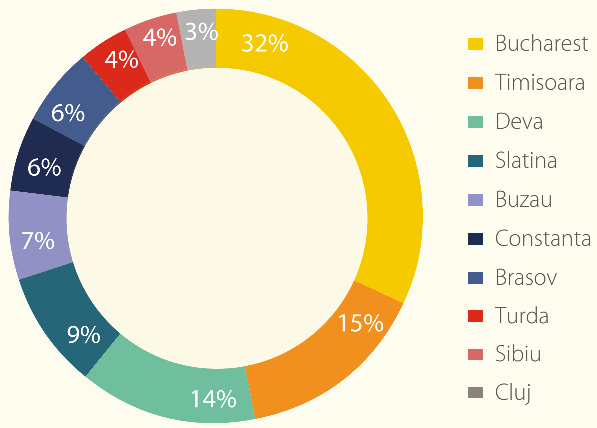
MODERN INDUSTRIAL STOCK EVOLUTION, ROMANIA

SUPPLY

Around 216,000 sq. m Class A logistics/industrial spaces were delivered in the first half of 2020, bringing the total stock in Romania to more than 4.8 million sq. m. Although it increased significantly in the last years, there is still plenty of growth potential – for example, in Czech Republic – a smaller country, the industrial stock exceeds 8 million sq. m.

For the second half of 2020 over 300,000 sq. m are planned for delivery, which should bring the total stock to over 5.1 million sq. m at the end of 2020. As a general overview, the development of industrial and logistics spaces was not hindered by the pandemic. A few (mostly speculative) projects were postponed; however, this was compensated by new demand, which led to build-to-suit developments.

PIPELINE BY GEOGRAPHY, H2 2020

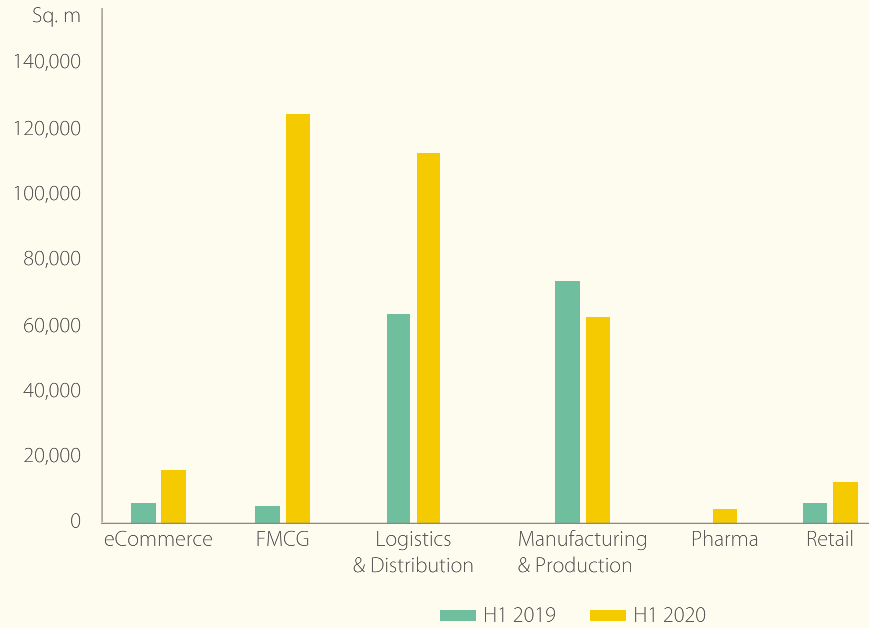


Although Bucharest remains the main market for development of industrial and logistics spaces, developers have directed their attention to regional cities as well, with secondary and tertiary markets becoming more active in terms of new deliveries.

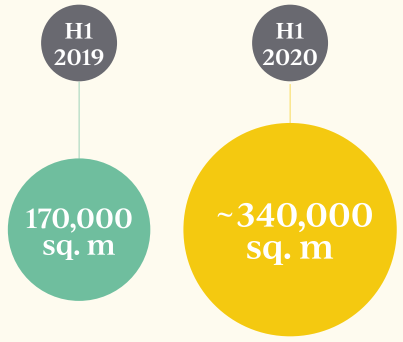
DEMAND

There were ~340.000 sq. m leased during the first half of 2020, that is approximately double volume compared to the same period in 2019. During the pandemic, the demand coming from FMCG, eCommerce and logistics kept the upward trend, since large retailers continued their major expansion plans.

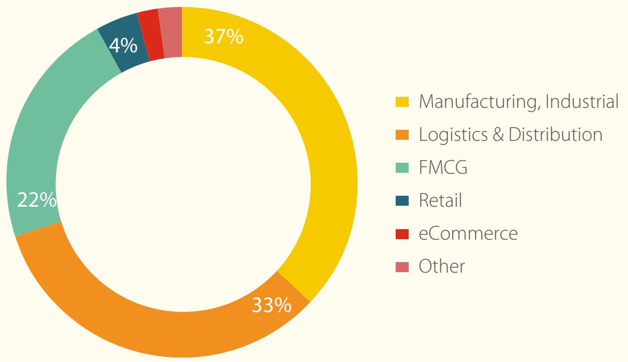
EVOLUTION OF DEMAND BY BUSINESS SECTOR



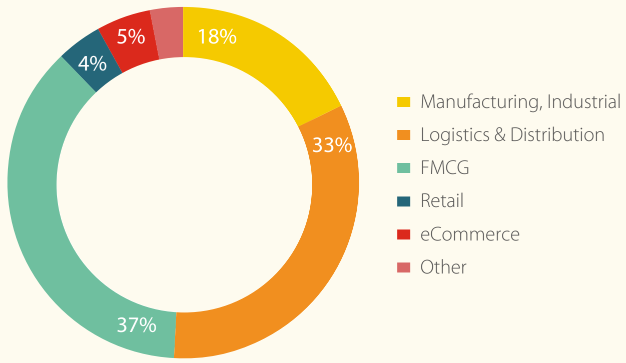
TOTAL LEASING ACTIVITY



EVOLUTION OF DEMAND BY BUSINESS SECTOR



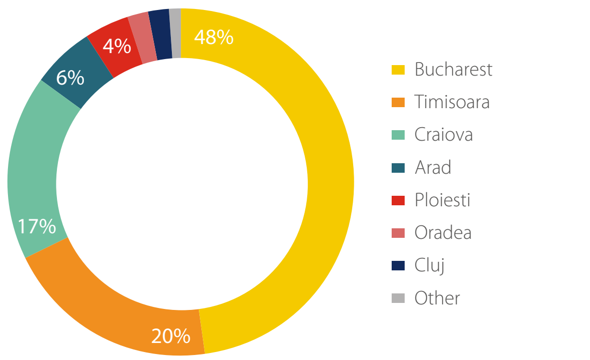
2019



H1 2020

Comparing the structure of the demand in 2019 to the first half of 2020, the main difference is the increase of the FMCG proportion and decrease of the manufacturing and industrial share.

Bucharest attracted approximately 50% of the demand recorded in H1 2020, followed by Timisoara (20%) and Craiova (17%).



STRUCTURE OF TAKE-UP BY GEOGRAPHY, H2 2020

During the pandemic, tenants' appetite for short-term leases (up to 6 -12 months) has been observed, as a reaction to uncertainty regarding market evolution and need for temporary stocks. However, this type of lease has a marginal share, the spaces are rented without additional fit-out, and at a higher price.

During the pandemic, tenants' appetite for short-term leases has been observed

VACANCY

Most of the lease contracts in place were signed for long term period, and there were no contract breaks due to incapacity of payment or other defaults during the pandemic. At the same time, the market was backed by a solid demand coming from eCommerce and FMCG. As a result, there was no increase in vacancy and, at the end of H1 2020, it remains in the area of 7% at country level.

RENTS

The headline prime rent for 5,000 sq. m of Class A logistic space in Bucharest and main regional cities (such as Cluj or Timisoara) remained at €4 per sq. m per month while in secondary cities such as Oradea or Craiova, it is between €3.5 and €3.8 per sq. m per month. Service charges are between €0.6 and €1 per sq. m per month. Like before the pandemic, incentives such as rent-free months and fit-out contribution, accounting for 10-20% of the headline rent, are granted.

Rental levels continued to be stable in H1 2020

Trends

As stated in our 2019 report, the interest for in-city (or last-mile) logistic units (smaller warehouses located inside the city limits which can ensure fast deliveries) is growing, accelerated by the evolution of eCommerce and, implicitly, of package delivery services.

We also notice that demand for temperature-controlled spaces (for food or data centres) is on the rise.

Retailers are looking to create a cross-docking network at national level, which leads to an increased demand for this type of units in secondary and tertiary cities.

Forecast

We expect the trend that we saw – of more demand coming from the eCommerce sector - to be just the tip of the iceberg and to continue in the coming years, on the back of accelerated transition from traditional to online shopping.

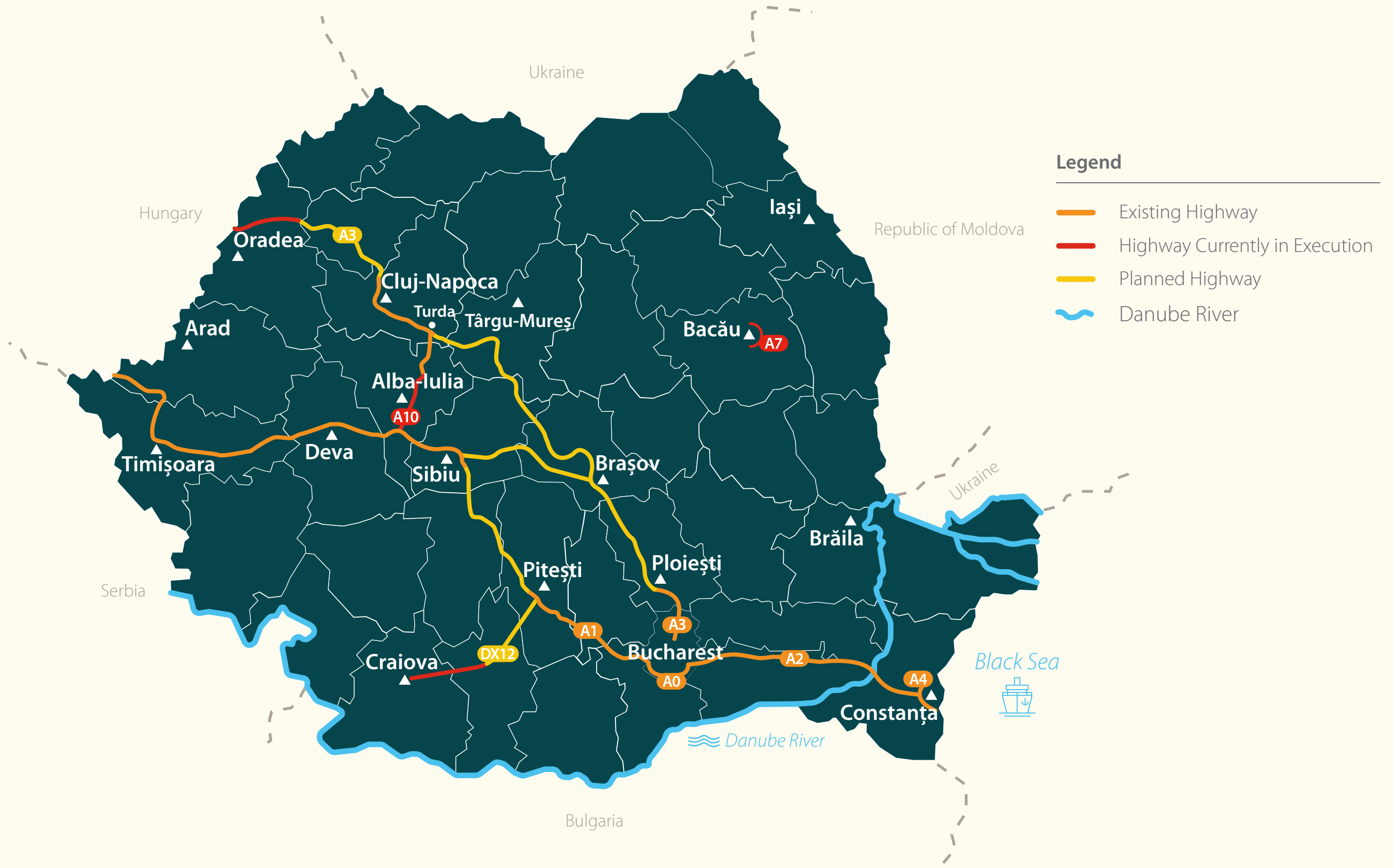
We also see a tendency for retailers to decentralise their logistic networks – which leads to more demand for logistic hubs in regional cities, or in cities that so far were not even on the logistic map. For example, in April, Lidl opened a 45,000 sq. m logistic centre in Roman, and Profi will open in 2021 an important logistic hub of 58,000 sq. m in Craiova.

The near-shoring trend, which was present also before the pandemic (due to cost, taxes and transport time considerations) is now accelerated. In order to shorten the supply chain and to bring production closer to the consumer markets, the companies are changing their strategies and will look at the most attractive areas in Europe for relocation of their production units. As Romania is one of the most cost-efficient countries in the European Union, also in the context of the returning workforce from Western Europe, we expect it to attract significant investments, which will also put pressure on accelerating infrastructure developments. Romania was granted significant EU-funds for infrastructure developments in the interval 2021-2027.

Going forward, it is expected that industrial will remain one of the most attractive and least affected real estate sectors.

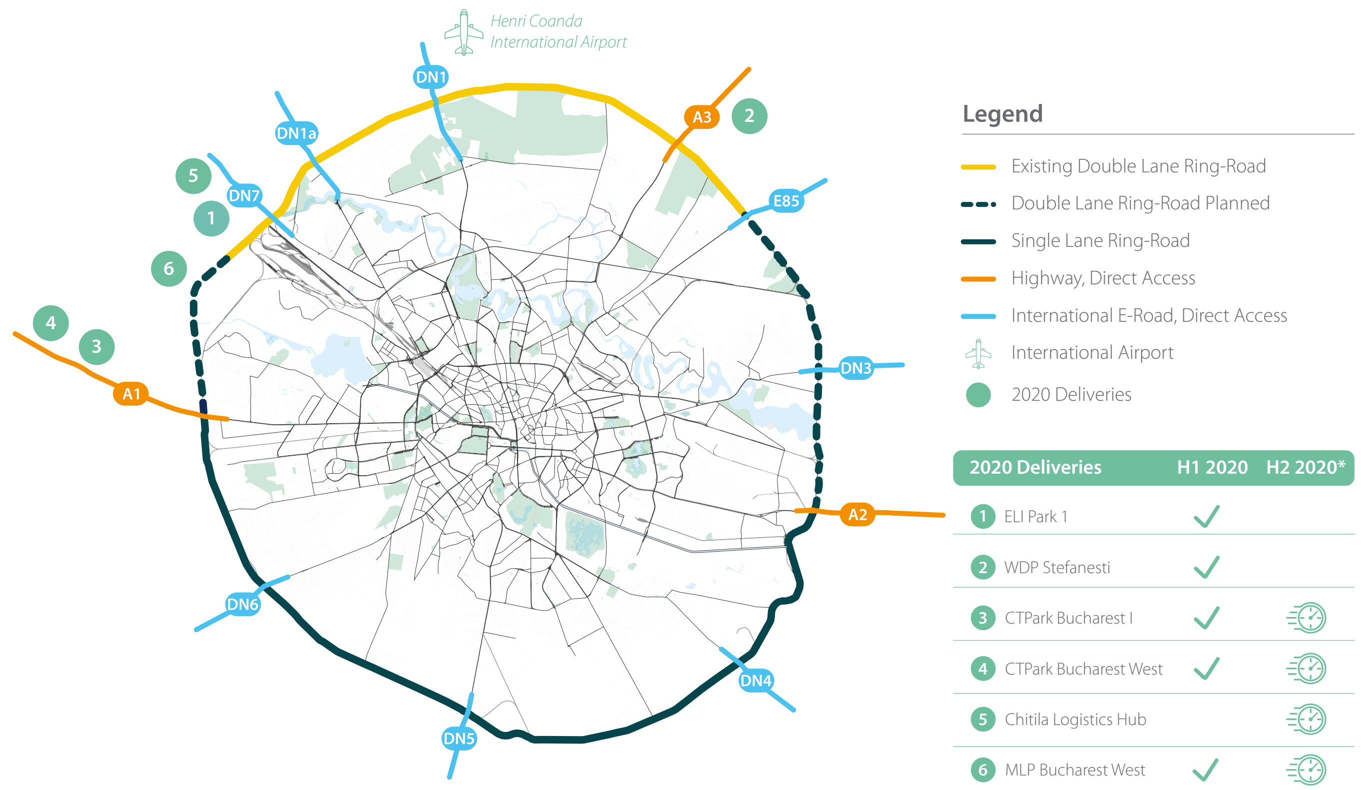
Retailers are looking for options to decentralise their logistic networks

Romania may attract investments due to relocation of production units from Asia



HIGHWAYS AND REGIONAL INDUSTRIAL & LOGISTICS HUBS, ROMANIA

Source: National Company for the Management of Road Infrastructure



2020 Deliveries	H1 2020	H2 2020*
1 ELI Park 1	✓	
2 WDP Stefanesti	✓	
3 CTPark Bucharest I	✓	⏱
4 CTPark Bucharest West	✓	⏱
5 Chitila Logistics Hub		⏱
6 MLP Bucharest West	✓	⏱

*Planned

ACCESS TO INTERNATIONAL E-ROADS & HIGHWAYS, BUCHAREST

The Romanian Real Estate Sector as the Crisis Unfolds – An Insight Into Tax Support Measures

By Oana Corniciuc, Tax Senior Manager, PwC Romania

Taking the pulse

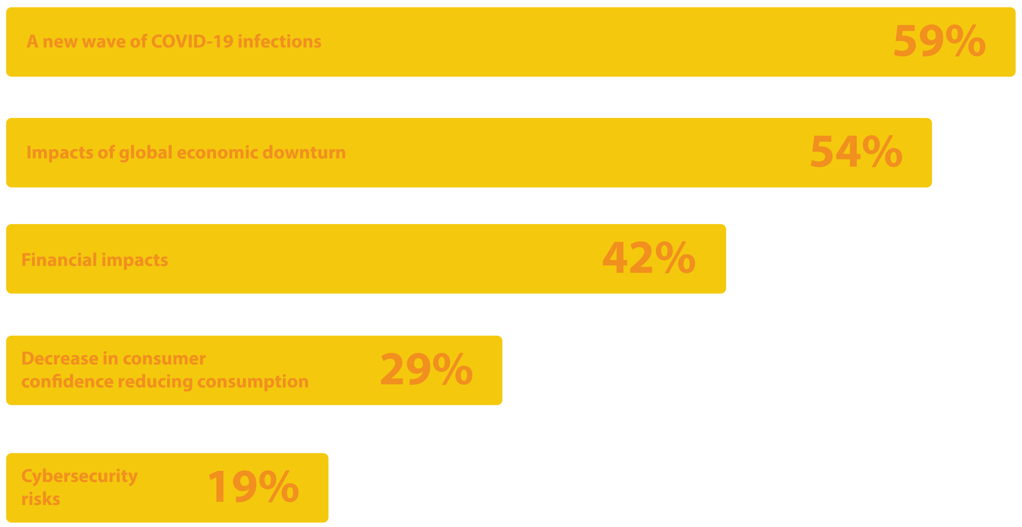
Economies are increasingly interconnected and global shocks such as the COVID-19 pandemic rapidly spread across borders and sectors. In the current context, almost every industry is facing changes in its operational model, with some industries being more affected than others. Businesses struggle to quickly adapt and respond to the new reality, while remaining cautious about crisis development and subsequent recovery.

A survey undertaken by PwC US at the beginning of June 2020 on the views of 330 US CFOs from all industries as regards the COVID-19 crisis revealed some interesting findings (the survey can be found here):

PwC SURVEY

It seems that worries about a new wave of COVID-19 pandemic is the main threat to business recovery for 59% of the questioned CFOs and that 42% of them are concerned about the financial impact of the COVID-19 crisis, including its effects on results of operations, future periods and liquidity and capital resources.

Q What are your top-three concerns with respect to COVID-19/returning to the workplace and operating in a changed business environment?

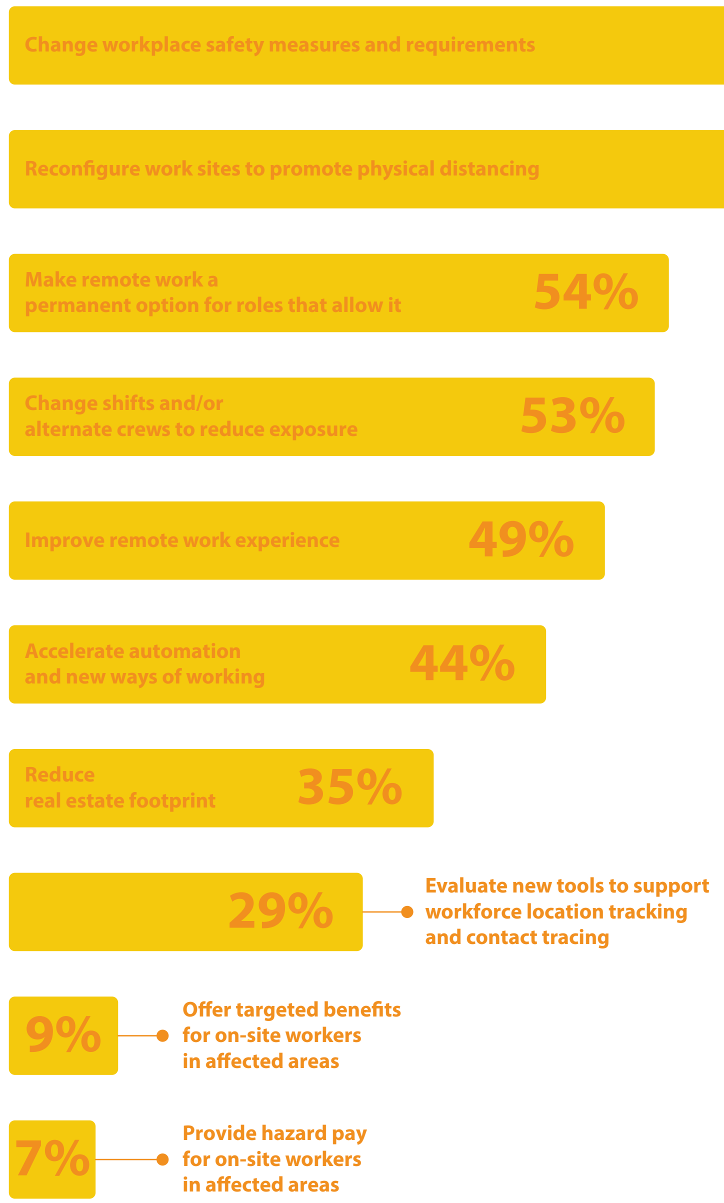


Source: PwC US CFO Pulse Survey June 11, 2020, base of 330

Findings indicate that the virus continues to set the pace for growth plans and risks outlook amongst US companies. Investors tend to be cautious and people are at a stand-by waiting for the economy to bounce back which leads to a stagnation of the investment market and to a reduction of transactions in all sectors.

Another key finding is that adapting to remote work will become the norm for many as it is no longer viewed as a productivity drain, but as a viable alternative. More than half of the questioned CFOs (54%) plan to make remote work a permanent option for roles that allow it. On the other hand, where physical presence is needed, 78% of CFOs plan to reconfigure work sites once they start to transition back to on-site work in order to promote physical distancing.

Q Which of the following is your company planning to implement once you start to transition back to on-site work? (Select all that apply)



Source: PwC US CFO Pulse Survey June 11, 2020, base of 330

As they reinvent their businesses, nearly one-third of CFOs (32%) look to tech-driven products and services. Also, 56% of the companies consider that investments in technology will make their company better in the long run.

When it comes to the real estate sector, including the one in Romania, migrating online could lead to reduced demand for certain types of commercial buildings (e.g. office venues, shopping malls) and thus, to declining rent prices and property values. At the same time, concerning the businesses that do need their employees at work, increased rented surfaces might be needed to ensure proper physical distance.

Net cashflows from rental or sale of commercial real estate property are uncertain and an adverse shift in the market liquidity is expected, at least in the short run, as investors prefer to remain cautious and postpone new investments. What is for sure is that we will assist to a changing commercial real estate market in the way to recovery post COVID-19. The key to success for companies is being agile in tailoring their business model to the new reality.

Tax support measures

As of 16 March 2020, the state of emergency was introduced in Romania as a result of the COVID-19 pandemic. Several lockdown measures have followed including closing of shopping centers, closing of bars and restaurants, closing of indoor activities, restriction of outdoor activities and travel ban. The state of emergency ended on 14 May 2020, and since then, Romania is still under the state of alert.

The government in Romania, as in many other countries across the globe, has a hard role to play against the COVID-19 crisis. On one hand, there is the sanitary crisis to be managed and this implies several restrictions which adversely impact the economy, on another hand, there is the need for comprehensive financial and tax measures to be introduced to support the economic recovery. In the following, we present some tax facilities of relevance for the Romanian real estate sector which were adopted in the context of the COVID-19 crisis:

Reduction of up to 50% of the annual building tax for non-residential buildings

Maybe the most important measure adopted to alleviate, at least partially, the tax burden of real estate companies was the reduction with up to 50% of the annual tax due on non-residential buildings (measure introduced through Government Emergency Ordinance (GEO) no. 69/2020).

The measure only applies to non-residential buildings (e.g. commercial centers, office buildings); thus, owners of residential buildings and land seem to not be able to benefit of it.

Local councils can decide whether to grant taxpayers the building tax facility and its amount through decision adopted by 14 August 2020. In practice, local councils from several cities (e.g. Timisoara, Brasov, Sibiu) have already adopted this decision offering the maximum rate of reduction (50%), while in other areas the proposal is under discussion at the level of local councils.

The facility can be applied if the owner/ tenant partially or totally interrupted its activity during the state of emergency. However, it seems that the reduction would be granted only to those owners of non-residential buildings who reduced the rent to their tenants by at least 50 % during the state of emergency; thus, landlords who have resorted to such renegotiations/rent reduction after the end of the emergency period very likely will no longer be able to benefit from the facility.

Amendments brought in the text of GEO 69/2020 during the legislative approval process clarified that the building tax reduction applies for the duration of the state of emergency, of the state of alert and for the period after the state of alert until the end of the fiscal year 2020.

Owners that have already paid the building tax within the legal deadline (i.e. 30 June 2020, for the first half of this year, deadline extended from 31 March 2020 under an earlier tax support measure), may request a refund of the tax difference already paid to local budgets. In addition, the reduction of up to 10% for payment in full of the annual building tax until 30 June 2020 can still be benefited of.

Rent relief

Small and medium-sized enterprises that partially or fully interrupted their activity during the state of emergency and held an Emergency Situation Certificate issued by the Romanian Ministry of Economy, Energy and Business Environment could benefit of the rent payment deferral for the buildings destined for registered offices and secondary offices. (measure introduced through Government Emergency Ordinance (GEO) no. 29/2020).

Tenants (including companies) could request deferral of rent payment, without any interest or similar penalties being calculated, for those buildings destinated for registered offices or working points, as per Law 62 of 20 May 2020. The rent deferral facility can be applied for the period of the state of emergency and one month after the cessation of the state of emergency (i.e. 16 March - 14 June 2020).

Conditions for the application of the facility include the interruption of tenant's activity or the decrease in revenue/ collections by at least 15% in March 2020 as compared to the average revenue/ collections of the previous calendar year. The rent will be paid to the landlords by the relevant tax authorities. The tenant will then repay the rent to the tax authorities in equal instalments, after the rent deferral period ends but no later than 31 December 2020.

For landlords, Law 62 of 20 May 2020 provides that revenues derived from rental agreements are taxable for profits tax purposes / micro-enterprise revenue tax only at 80% from their value.

Conditions for the application of the facility include the reduction of rent charged to tenants during 2020 by at least 20% as compared to the rent level charged in February 2020. Landlords can apply the facility for the period for which the rent was reduced, but no later than 31 December 2020.

Other tax related facilities adopted in the context of COVID-19 crisis

Postponement of deadline for payment of building and land tax from 31 March 2020 until 30 June 2020. Taxpayers could still benefit of the up to 10% reduction for payment in full of the annual property tax by 30 June 2020.

Reduction of 10% granted to taxpayers for payment of the tax quarterly due (corporate income tax, regardless of the declaration and payment system, or micro-enterprise revenue tax) by the due dates of 27 July 2020 (for quarter II) and of 26 October 2020 (for quarter III).

Postponement by 6 months of DAC 6 reporting obligations – intermediaries or relevant taxpayers shall file with the Romanian tax authorities the information on reportable cross-border tax arrangements by (a) 28 February 2021 for reportable arrangements the first step of which was implemented between 25 June 2018 and 30 June 2020, and by (b) 31 January 2021 for reportable arrangements initiated between 1 July 2020 and 31 December 2020.

Tax amnesty for interest and late payment interest in relation to principal tax liabilities outstanding as at 31 March 2020. The mechanism of the annulment of accessories covers all situations that Romanian taxpayers may face, and the principle behind is the full payment of the principal tax liabilities outstanding as at 31 March 2020 in the period after the cessation of the state of emergency, but not later than 15 December 2020, in conjunction with the correct declaration of the tax liabilities at the time of requesting the tax amnesty for the accessories.

Also, various employment support measures were undertaken, e.g. exemption from payment of mandatory social contributions for incentives or bonuses granted by employers to employees during the state of emergency for activities that involve direct contact with citizens and are at risk of infection with SARS-CoV-2.

On the way to recovery

All of the described tax support measures adopted in the context of the COVID-19 crisis are welcomed, although we do not expect it to have a major impact in supporting the recovery of the Romanian real estate sector, as the latter mainly depends on how the overall economy bounces back.

Financial analysts globally have different views on the outcome of the COVID-19 crisis and possible scenarios include recovery in the form of V, U or L. The V shape is the best case scenario where there is no reduction in the investment and consumption area, the U Shape is the measured recovery where the impairment of performance and growth lasts at least two years and the L Shape is the prolonged event where the return of economy to pre-COVID-19 level is not foreseeable at the moment.

So, in this difficult context, what to focus on? Our answer:
Build trust, be open, be innovative and first and foremost, be prepared.

#shortHRquiz

HR Challenges Related to Remote Work in the Context of COVID-19

THE DIGITALIZATION LEVEL OF THE COMPANY IN WHICH YOU WORK IS...

HR CHALLENGES WHILE IMPLEMENTING REMOTE WORK

www.myhrlab.ro

CHALLENGES RELATED TO COMMUNICATION WHEN PERFORMING ACTIVITIES

50%
Communicating within the organization the different changes that occur

24%
Communicating with the employees who have children and stay with them at home

18%
Communicating with state institutions

17%
Communicating with the hiring manager

16%
Communicating with the board members

15%
Communicating with the employees who will become technically unemployed

MAIN CHALLENGES RELATED TO THE ACTIVITY OF THE HR DEPARTMENT

Maintaining the engagement between team members

Induction/ onboarding new colleagues

Managing requirements from employees who work remotely

Managing the interaction with the candidates

Managing the relations with employees that are working at headquarters

Providing a safe working environment for employees that work at headquarters

103 professionals involved in human resources processes responded to My HR Lab's #shortHRquiz; 42% of them work in IT&C, 12% are employed in companies active in the field of professional services, 8% in outsourcing, 8% in retail, 6% in production, 5% in the financial sector, while 18% work in other industries. Regarding the type of the company, 65% work in multinationals, 24% in local companies and 8% mixt businesses. Also, 55% are seniors (>7 years of experience), 31% are specialists (3 - 7 years of experience) and 14% are juniors (1 – 3 years of experience). The quiz was promoted in April 2020 on My HR Lab's website and on the company's Facebook, LinkedIn and Instagram pages.

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WE'RE DIFFERENT

We are an integrated full-service commercial real estate service provider with a unique model, culture and approach. The Avison Young difference translates into intelligent solutions that deliver a better client experience – and better results. Our approach is based on partnership, with our clients and across our company. The firm's equity is in the hands of a broad base of principals, a unique ownership structure that creates the incentive for internal collaboration and aligns our solutions, first and foremost, with client objectives. Our principal-led structure places the priority on relationships, not just transactions; on longterm performance, not just the current quarter.

1978
Founding Year

Formed by the union of **Graeme Young & Associates** (Alberta) and **Avison & Associates** (Ontario and British Columbia).

5,000
Real Estate Professionals

Largely due to our principalled culture, we've achieved **Canada's Best Managed Companies** designation for eight consecutive years.

108
Office Locations

Before our expansion in 2008, Avison Young had 11 offices – we've **added nearly 100 locations across 14 countries** since then.

1,600
Brokerage Professionals

More and more of the industry's best real estate professionals **are joining their businesses with ours** and becoming Principals.

34.1 m sq. m
Under Management

LEED-AP management will **implement sustainability strategies** that improve an asset's long-term performance – as well as its bottom line.

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