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ROMANIAN REAL ESTATE MARKET H1 2024

Macroeconomic context • Investment • Office
• Industrial • Residential • Land



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Macroeconomic context



0.7%

GDP growth H1 2024

-1% y-o-y

5.5%

**Unemployment rate,
June 2024**

+0.1% y-o-y

6.01%

ROBOR 3m

June 2024

**Inflation rate,
June 2024**

-5.5% y-o-y

4.9%

**Net average
salary**

+13% y-o-y

June 2024

1,040€

IRCC Q3

Q1 2024

5.86%



GDP growth H1 2024

Romania's GDP saw a modest increase of 0.7% in the first half of 2024, falling short of initial expectations. Despite this underperformance, the country's economy is still projected to grow between 2.8% and 3.3% for the year, making it one of the fastest-growing economies in the EU, where GDP growth for 2024 is anticipated to be around 1%.

0.7%
-1% y-o-y

Inflation rate, June 2024

The inflation rate decreased to 4.9% in June, down from 7.41% at the start of the year. Despite this decline, it continues to be one of the highest in the EU and is expected to remain elevated relative to the EU average for the rest of the year. The National Bank of Romania forecasts that inflation will fall to 4% by the end of 2024, with a more optimistic outlook suggesting it could drop below 4% in 2025 and the first half of 2026.

4.9%
-5.5% y-o-y

ROBOR 3m

6.01%
June 2024

IRCC

5.86%
Q1 2024

With inflation remaining well above target, the Romanian National Bank has cautiously implemented a series of small downward adjustments to the reference interest rates. Despite forecasts for lower inflation, the annual interest rate is not expected to fall below 6% until 2025.

Unemployment rate, June 2024

The unemployment rate held steady at 5.5% during the first half of 2024, remaining 0.5% below the EU average. However, job vacancy rates are declining across Europe, with Romania's rate at 0.7% in Q1 2024, down 0.2% from June 2023. The cooling labor market might have further negative implications for economic growth, potentially leading to decreased consumer spending, lower wage growth, and increased pressure on social safety nets as job opportunities become scarcer.

5.5%
+0.1% y-o-y

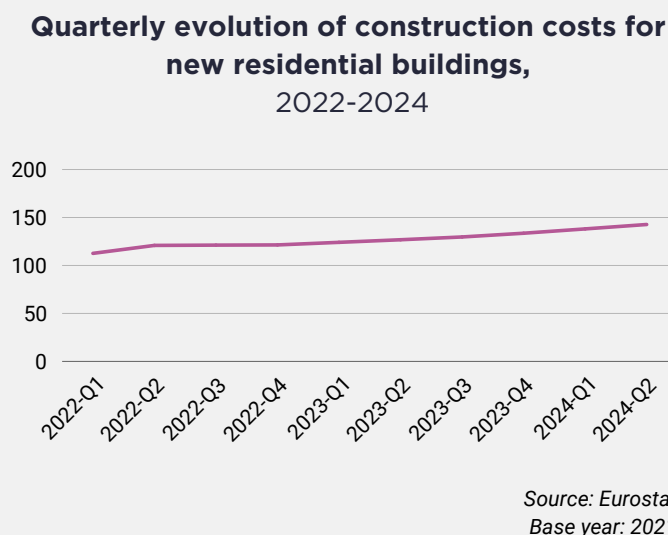
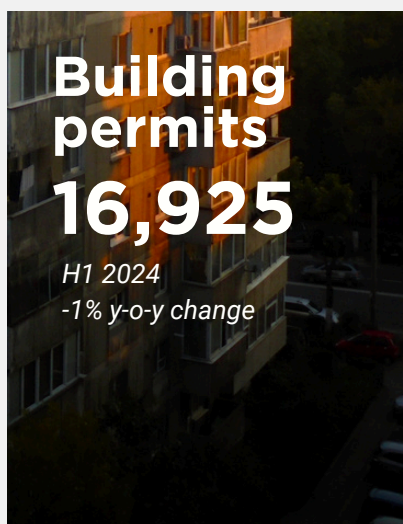
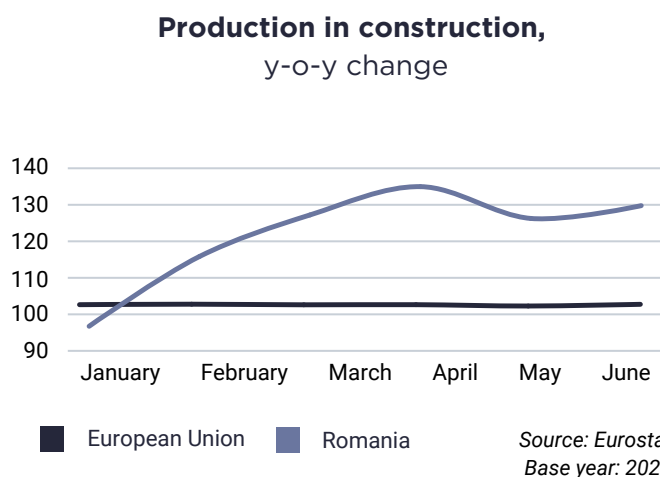
1,040 €

+13% y-o-y
June 2024

Net average salary

The average wages recorded a 13% yearly increase in H1 2024, while the minimum wage was raised to 475 € starting July 1st 2024.

Romanian Construction Sector, H1 2024



Romanian Investment Market



Total investment volume

€417 M

+150% y-o-y

Largest transaction value

€168.2 M

Average deal value

€27.8 M

15 transactions

Total cross-border investment

€309.5M



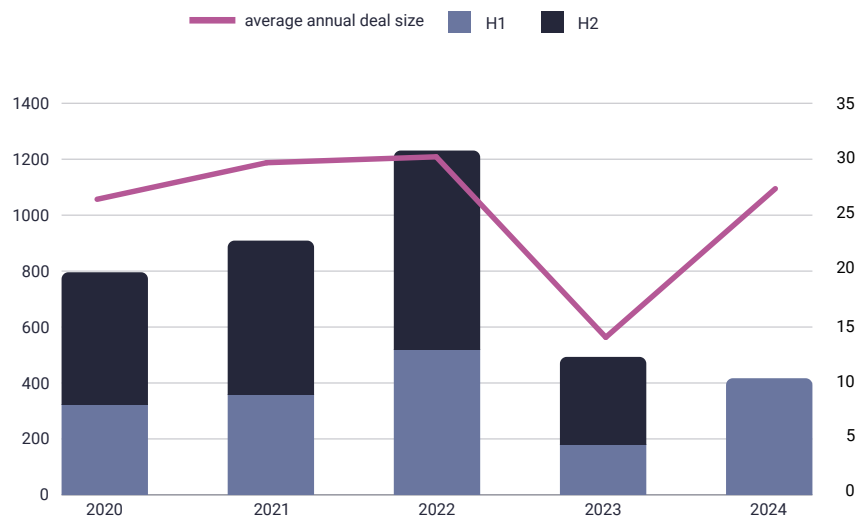
Globally, the real estate investment market continues to grapple with the same challenges it faced last year. Both buyers and sellers remain hesitant to compromise, resulting in a stagnant market with limited investment opportunities and delayed transactions. Significantly impacted by high inflation and the subsequent rise in interest rates, investor activity has been subdued but is anticipated to gain momentum in the near future.

As interest rates begin to decline, price stabilization is expected, which should encourage more investor engagement. This shift could lead to increased market liquidity and a more dynamic investment landscape, as investors regain confidence and seek to capitalize on emerging opportunities in a more predictable economic environment. The anticipated stabilization in prices, coupled with lower borrowing costs, may also attract new entrants to the market, further fueling activity.

On a European level, preliminary data indicates that investment volumes in H1 2024 were almost identical to those in H1 2023, and still roughly half of the 2017-2022 average. In contrast, the CEE region outperformed the previous year, with investment increases ranging from 16% in Hungary to 150% in Romania.

In the first half of 2024, the Romanian real estate market recorded a total investment volume of just over €417 million, marking a substantial increase compared to the previous year. This figure not only represents significant growth but also surpasses the levels seen in H1 2020 and H1 2021.

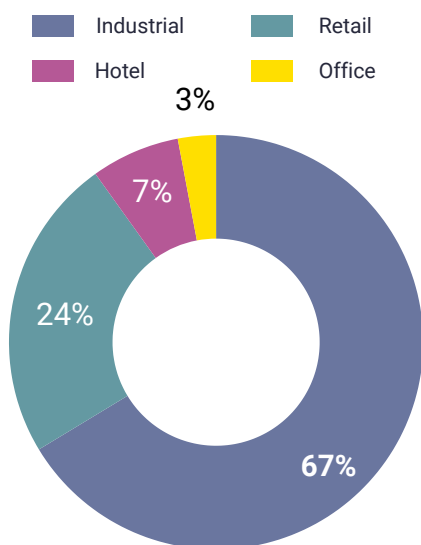
**Total investment volume and average deal size (€M),
2020-2024**



Source: Crosspoint research based on market information

The recovery was also visible on the **average deal size, which increased to €27.8 million** from €15.2 in H1 2023. Investor sentiment however remains cautious and, as a result, there is limited anticipation for the closing of any major “surprise” deals in the second half of the year. The market is bracing for a steady continuation of planned transactions, with little expectation of significant deviations from the current trajectory. Still, given this predictability related to upcoming transactions, the total volume of investments for 2024 will most likely surpass that of 2023.

Investment breakdown by market sector, H1 2024



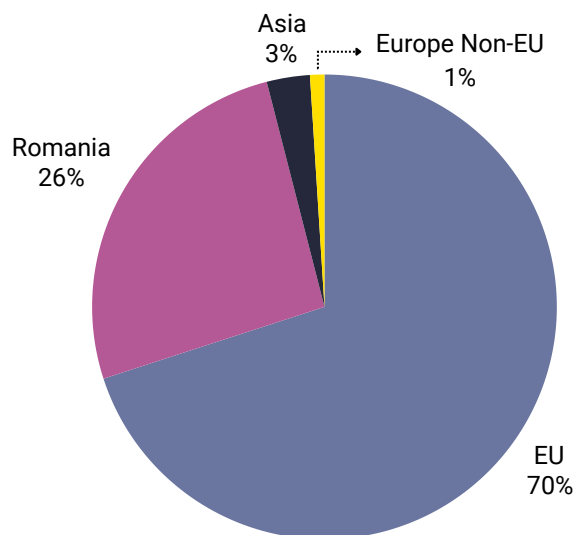
Source: Crosspoint research based on market information

Investors continued to limit their exposure to office products during the first half of 2024. Across Europe, the office sector’s share of total investment volume has dropped to 21%, down from over 35% in the pre-pandemic era and between 25% and 30% during 2020-2023. In the Romanian market, only one small office transaction was recorded, placing the office sector at the bottom of investors’ preferences. The vast majority of capital, totaling €279 million, was directed toward industrial assets, while retail came in second with just under €100 million, driven by several small-to-average-sized deals in regional and secondary markets. Although the remainder of the year is set to record a series of significant office transactions, it is evident that the office sector is no longer an investor favorite.

Cross-border investments were predominantly driven by European institutional buyers with established knowledge of the Romanian market.

Domestic investment activity primarily targeted the retail sector, attracting a diverse range of buyers, including developers, institutional investors, and local business owners who had limited previous experience in the real estate market. Bucharest captured a smaller-than-usual share of investments, totaling 34%, mainly because the largest recorded transaction – the sale of Globalworth’s industrial portfolio – included a significant number of properties located in regional and secondary markets.

Investment breakdown by purchaser source of capital, H1 2024

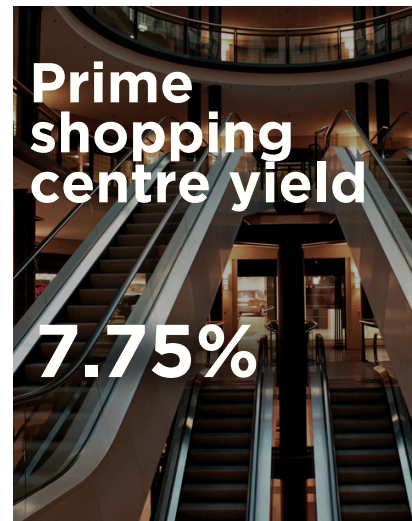
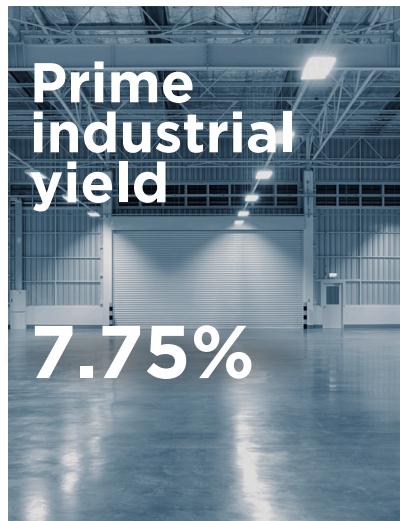


Source: Crosspoint research based on market information

PROPERTY NAME	AREA (sqm)	CITY	MARKET	SALE PRICE	VENDOR	BUYER
Globalworth portfolio	391,200	Timisoara, Arad, Oradea, Pitesti, Bucharest	Nationwide	€168,200,000	Globalworth/Global Vision	CTP
Expo Market Doraly	100,000	Bucharest	Bucharest	€90,000,000	50% Private (Iaciu family) 50% HSBC	WDP
Era Shopping Park	64,700	Oradea	West	€25,000,000	Argo Real Estate Oportunities Fund	Prima Development Group
Retail Portfolio	19,549	Cluj-Napoca	Centre-West	€24,300,000	SIFI Cluj Retail SA Bucuresti	Sapient Center SA
Hotel Ambassador 4*	209	Bucharest	Bucharest	€20,000,000	Private shareholders (companies and individuals)	Julius Meinl Living

Top investment transactions, H1 2024
Values are estimated

The capitalization rate for prime office properties saw a 0.25% rise in the first half of 2024, whereas retail and industrial yields stayed steady until the end of 2023. **Yield compressions are anticipated to be recorded from Q1 2024-Q1 2025.**




The hotel sector recorded a key acquisition from a new international entrant, signaling **positive prospects for future growth**. Interest for hotel products grew globally in 2024, as **investors shifted focus away from office properties**. In Europe, **hotel investments rose to 13% of the total market in H1 2024**, up from less than 10% in previous years.

Bucharest Office Market



Total office stock

3.8 M
sqm

Vacancy rate

11%

Net take-up

81,930
sqm
-6% y-o-y

Total leases

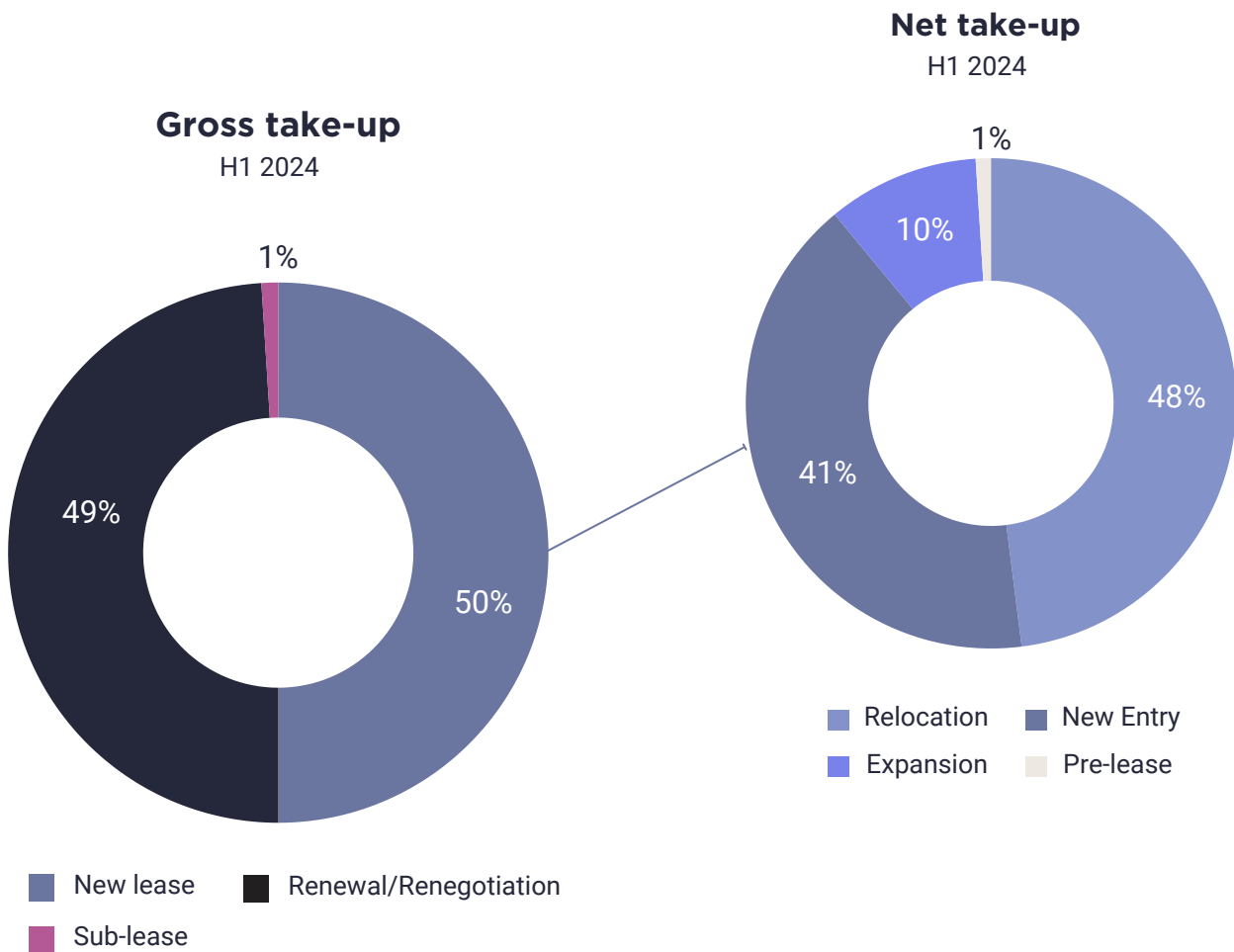
163,504
sqm
-4% y-o-y



Demand

In the first half of 2024, the European office market saw a take-up of 3.7 million square meters, marking a 5% increase compared to the same period in 2023. However, this figure remains 7% below the five-year average, reflecting ongoing challenges in the sector, such as the growing hybridization of work, tenants' increasing preference for prime locations, and significant layoffs in the tech sector. These factors continue to shape the landscape of office occupancy across the world.

The Bucharest office market in H1 2024 mirrored the performance of the same period in 2023, with over 160,000 square meters leased. The split between new leases and renewals remained evenly balanced and the average deal size was nearly the same as in H1 2023, at 1,386 sqm, but under the yearly average recorded in 2023. An improvement was however observed in the net take-up, with new entries doubling their share in H1 2024 compared to the first half of 2023.



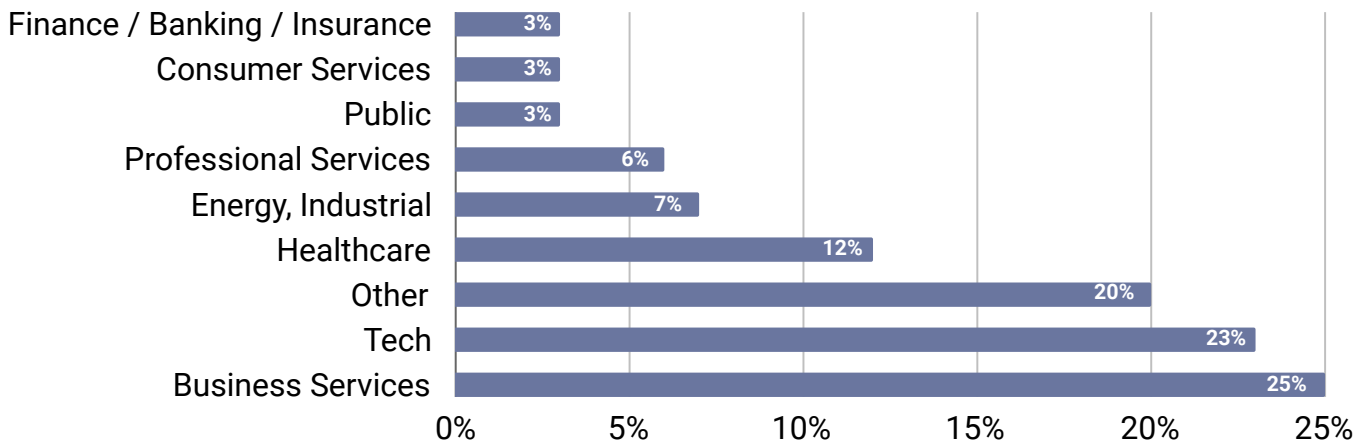


In the first half of 2024, the Business Services and Tech sectors dominated the leasing activity, making up nearly half of all transactions. However, it's important to note that over 80% of these leases were renewals rather than new agreements. This trend highlights a cautious approach from companies within these sectors, opting to extend existing leases rather than commit to new spaces amid ongoing economic uncertainties and industry-specific challenges.

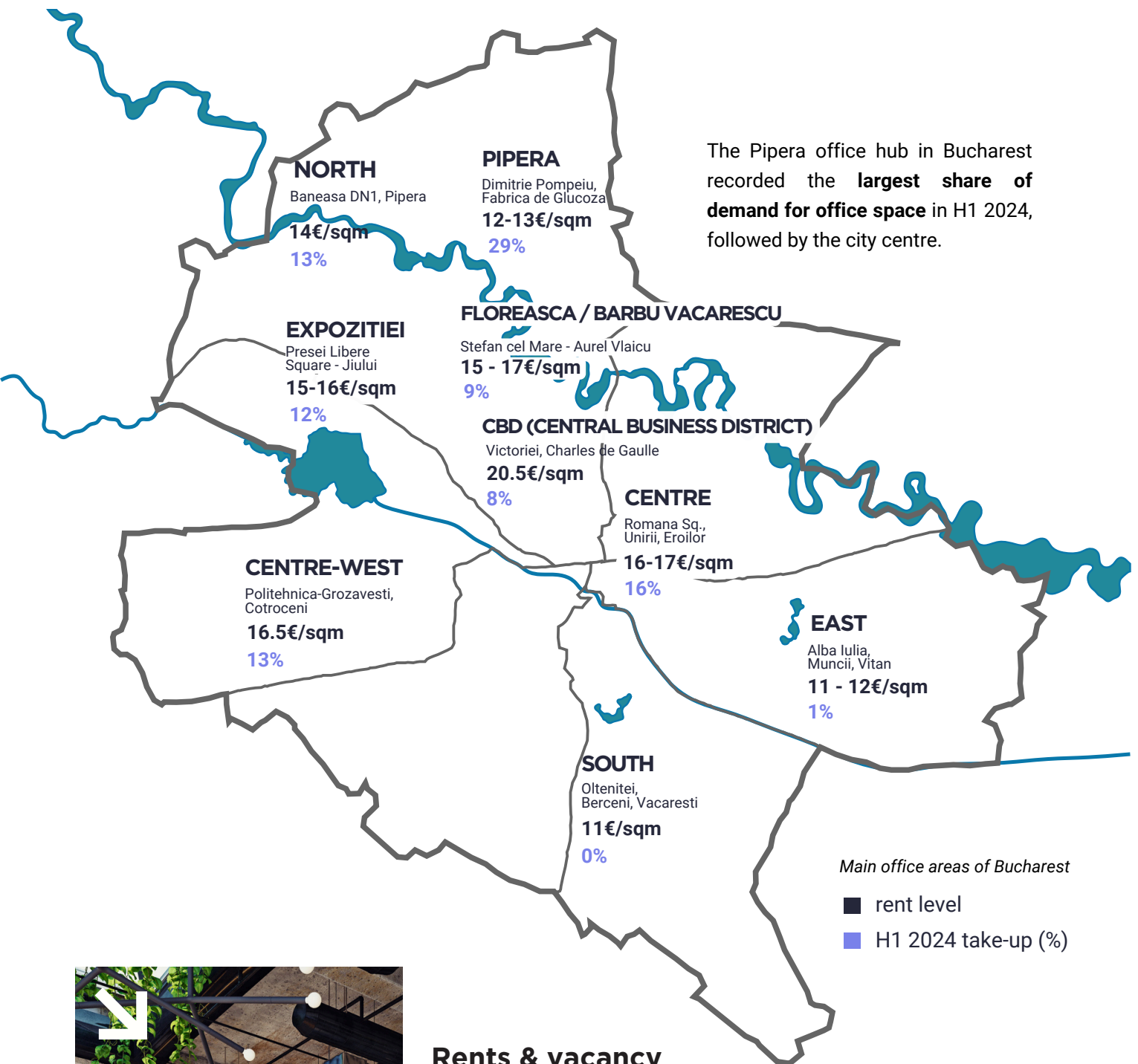
Demand structure

by sector

■ Take-up (%)



The private education sector played a significant role in the office market during the first half of 2024, securing over 14,000 sqm of leased space (9% in total leasing activity). This substantial uptake underscores the sector's growing demand for office spaces, likely driven by the expansion of private educational institutions and the increasing need for administrative and operational facilities.



Rents & vacancy

In the first half of 2024, rents increased in the most sought-after areas of the city, while they remained stable in locations with poor accessibility or older building stock. With an unchanged **office stock** of 3.8 million sqm, the overall **vacancy rate dropped** by 2% from the end of 2023, settling at 11%. However, vacancy rates varied significantly across the city.

The city center and CBD experienced the lowest vacancy rates at around 6%, whereas the northern areas, particularly those without metro service, maintained the high vacancy rates, exceeding 15%. Proximity to a metro station continues to be a crucial factor for tenants when selecting office space, with 64% of total leases and 53% of new leases occurring in buildings located within 500 meters of a metro station.

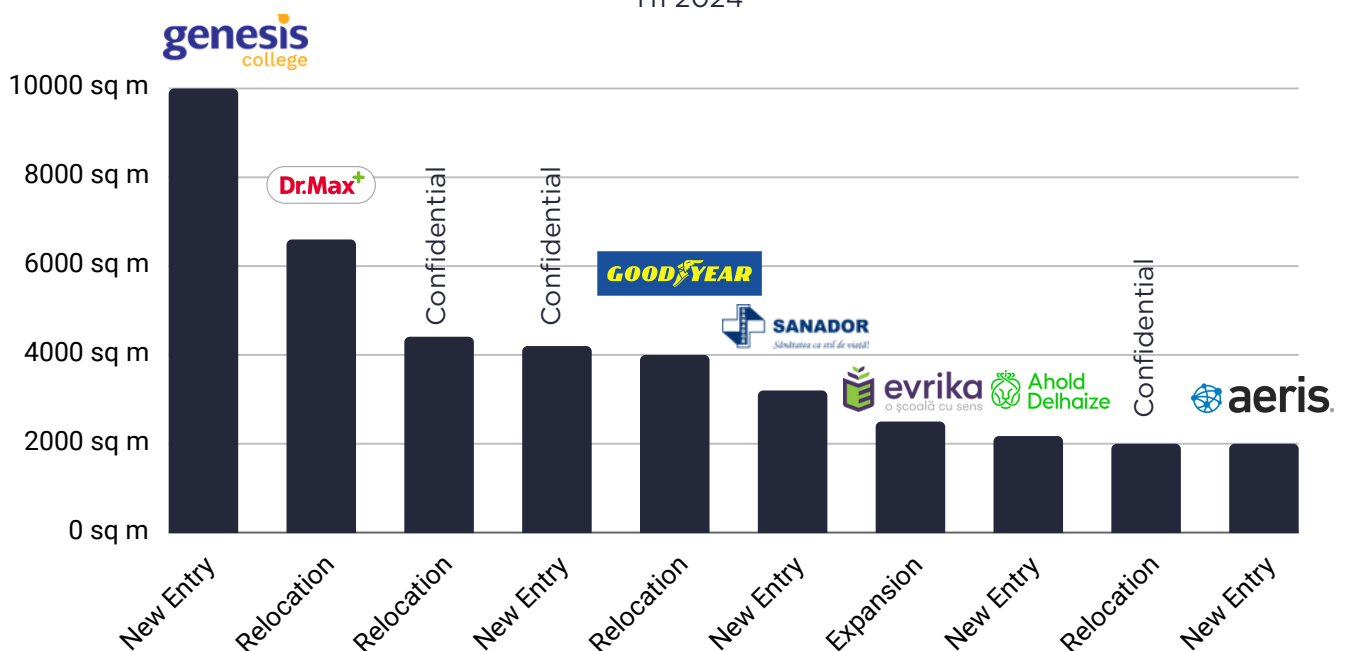


Source: AFI loft, afieurope.ro

The **consistent demand in established business areas**, coupled with a historically low office development pipeline for the remainder of the year and into 2025, is expected to further decrease vacancy rates in the most popular office hubs. This scenario presents an opportunity for landlords and investors to enhance the value of well-located, older properties. This trend is already evident in the global office market. According to Savills' analysis of the supply and demand dynamics in six major global office markets, it is estimated that between 0.7% and 0.9% of the total office stock needs to be repurposed annually to achieve a balanced market by 2033. This insight underscores the potential benefits of investing in and upgrading older office assets in prime locations to meet ongoing demand and market expectations.

In Bucharest, as a result of both the ongoing administrative constraints and the contraction in demand, the market seems to be shifting towards a replacement of speculative office development with built-to-suit projects. For 2024, a single office project is expected to be delivered in the capital city: AFI Europe's 16,000 sqm building, **AFI Loft**, located in the Centre-West.

Top 10 new leases, H1 2024



Romanian Industrial Market



Total industrial stock

7.1 M
sqm

Vacancy rate

5.5%

Total leases

315,400
sqm

-9% y-o-y

New deliveries

218,500
sqm

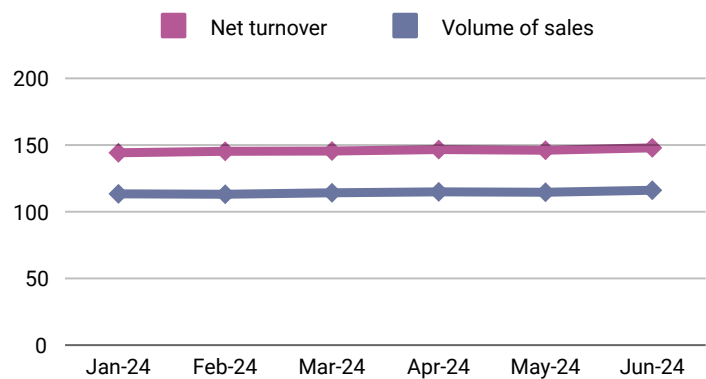
-36% y-o-y



The European economy's slower-than-anticipated growth and persistent trade disruptions have resulted in a downturn in the industrial and logistics sector in the first half of 2024. Across Europe, take-up experienced an 18% decline compared to the same period in 2023, while demand in Romania fell by 9%.

Despite these challenges, the reduction in inflationary pressure compared to 2023 has positively impacted private consumption (up by 5% y-o-y in H1 2024), with retail sales gaining momentum in 2024. This resurgence in consumer spending offers a more optimistic outlook for the future, indicating potential recovery and growth in the broader economic landscape.

Retail sales evolution, H1 2024



Source: Eurostat
2021 = 100

Stock & supply

With nearly 220,000 square meters delivered in the first half of 2024, Romania's industrial stock has grown to 7.1 million square meters, with an additional 260,000 square meters expected to be completed by year-end. The majority of these deliveries (68%) were almost equally divided between Bucharest and the West/North-West markets, which are also the primary destinations for occupiers.

Stock distribution by area

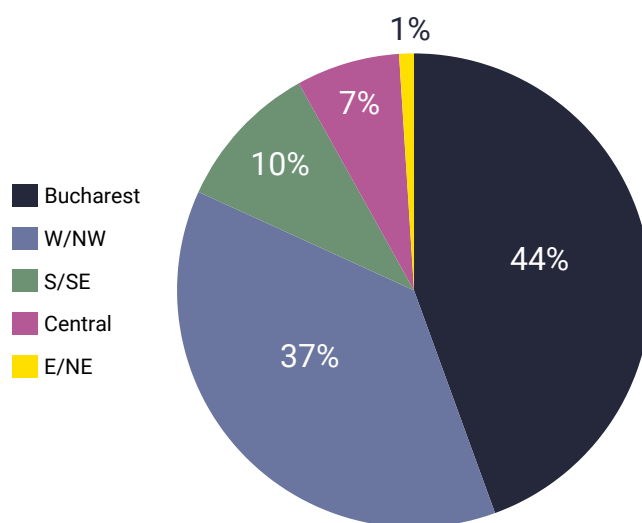


Source: Crosspoint research based on market information

Demand

Total leases in the first half of 2024 amounted to over 315,000 square meters, reflecting a 9% decrease in year-over-year demand. The average deal size also saw a decline, dropping to 5,734 square meters from over 8,000 square meters in H1 2023. Bucharest and the West/North-West markets attracted over 80% of this demand. Production or mixed-use (production and distribution) facilities accounted for 36% of the total demand in H1 2024. This significant share underscores Romania's growing appeal to production companies, As a result, the industrial real estate market is likely to see continued growth and diversification, attracting further investments and fostering economic development.

Demand structure
by area



Source: Crosspoint research based on market information

TENANT	SURFACE RENTED (sqm)	CITY	TYPE OF TRANSACTION
Confidential	38,000	Timisoara - Dumbravita	Renewal/Renegotiation
VAT	20,900	Arad	New lease
Deichmann	20,000	Bucharest	New lease
Federal Mogul	19,000	Ploiesti	New lease
Kyocera	16,000	Timisoara	New lease
Confidential	15,750	Bucharest - Stefanesti	New lease
Maravet	11,000	Baia Mare	New lease
Drim Daniel Distributie	10,000	Bucharest	New lease

Top industrial leases (> 10,000 sqm), H1 2024

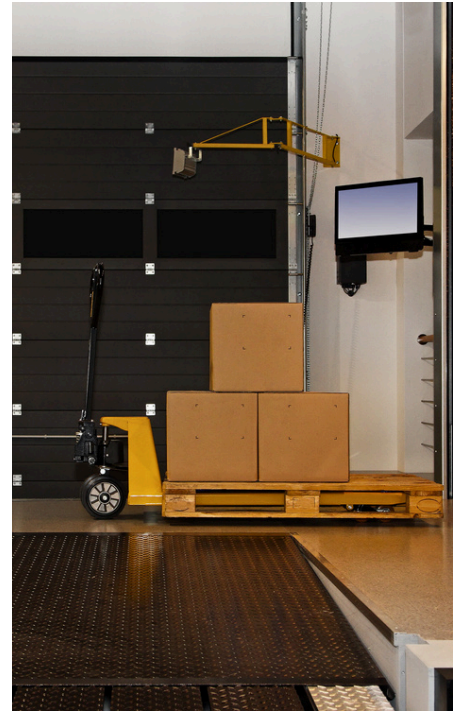


Rents

Prime rents have maintained at 4.5 €/sqm in Bucharest and ranging from 4.25€ to 4.5 €/sqm in regional centers.

Vacancy

The first half of 2024 recorded upticks in vacancy rates, to around 6% in Bucharest and 5.5% nationwide. As demand is anticipated to remain steady in the second half of the year, vacancy rates are likely to increase by approximately 1% by year-end.



The introduction of the **RetuRO** deposit-return system has been a notable driver of demand for industrial spaces since the last quarter of 2023. As of now, the system operates **six regional centers**, leasing **more than 35,000 square meters**. Still in its early stages, the system is anticipated to grow in the coming years to support sustainability and comply with EU standards, thus expected to remain a steady source of demand for industrial space.

Bucharest Residential Market



Apartment transactions
Bucharest

23,861

+22% y-o-y

Average price for new units

1,980 €/sqm

Building permits*

1,829

+8% y-o-y

New dwellings*

7,250

-23% y-o-y

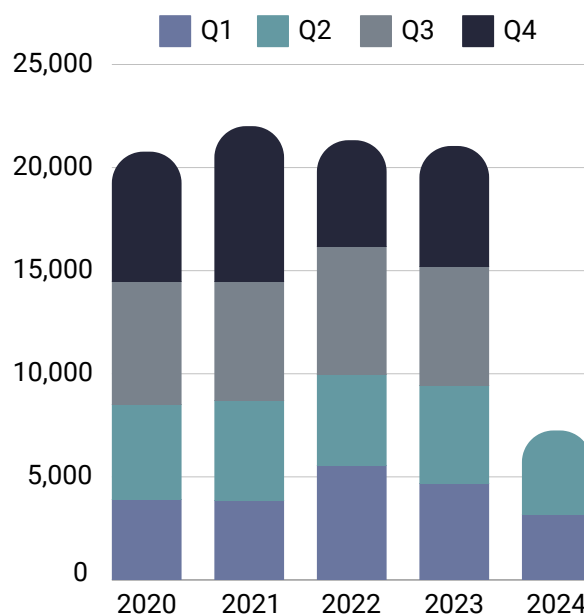
*Bucharest metropolitan area, including Ilfov county

Overview

Despite ongoing challenges extending from the previous year into 2024, the residential market in Bucharest continued its upward trajectory in the first half of 2024. Likely still influenced by tax changes implemented at the beginning of the year, demand remained strong and is expected to maintain its growth trend in the second half of the year. While decreases in prices for some construction materials were recorded throughout 2024, construction costs for new residential buildings were 7% higher at the end of Q2 2024 compared to Q4 2023. Concerns about a slowdown in supply have been prevalent over the past 18 months, and the impact of the urban planning blockage has become evident this year. The number of newly delivered units in the first half of 2024 was the lowest in the past five years. Additionally, although residential building permits issued in the first half of 2024 were slightly higher than in the same period in 2023, they remained significantly below the average. However, considering that both permit and new delivery data include Ilfov county, the decline in deliveries might become more apparent in the coming years as the shift from Bucharest to adjacent areas in Ilfov will be easier to quantify.



New residential units, Bucharest & Ilfov, 2020-H1 2024



Source: INS

The modest reduction in interest rates was somewhat offset by the stable EUR/RON exchange rate, allowing demand for mortgages to remain consistent with previous years. Nevertheless, cash transactions are estimated to account for over 40% of residential purchases in Bucharest, indicating a significant portion of the market continues to favor cash deals over financing options.

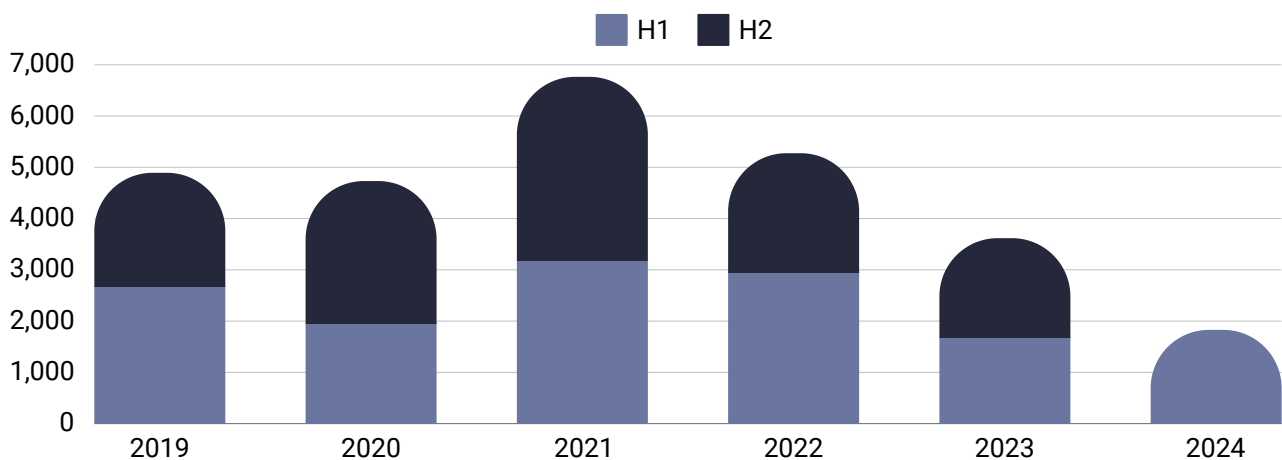
For the remainder of the year, similarly to 2023, developers are likely to put in extra efforts to deliver their projects on schedule, as reduced VAT rates are still applicable for presale agreements signed in 2023 for projects due for delivery by year-end 2024.



Supply

During the first half of 2024, new unit deliveries in the metropolitan area of Bucharest saw a 23% decrease compared to the corresponding period in 2023. Deliveries are expected to remain below average in the coming months. This trend is clear when analyzing the projects available for sale that are scheduled for delivery by the end of the year, which are over 35% fewer than in previous years. The central areas of the city are particularly deficient in new projects, and construction work on the few ongoing developments is progressing slowly due to delays in permit approvals. Looking ahead to the deliveries planned for 2025-2026, we can observe a deepening downward trend in the number of units being delivered. Additionally, there is a noticeable shift towards developments in the outskirts of the city.

Building permits, Bucharest & Ilfov,
2020- H1 2024



Source: INS

The situation is somewhat brighter when it comes to the number of residential building permits, which recorded an 8% year-over-year growth, albeit significantly below 2021 and 2022 levels. However, when analyzing the evolution of both supply and demand in the residential market, it's important to consider the atypical nature of the pandemic period within the larger timeframe. The unusually high liquidity of funds and movement restrictions which drove demand and supply during the pandemic no longer apply in the current market conditions. Therefore, the decline in deliveries observed in the past 18 months cannot be attributed solely to administrative constraints.

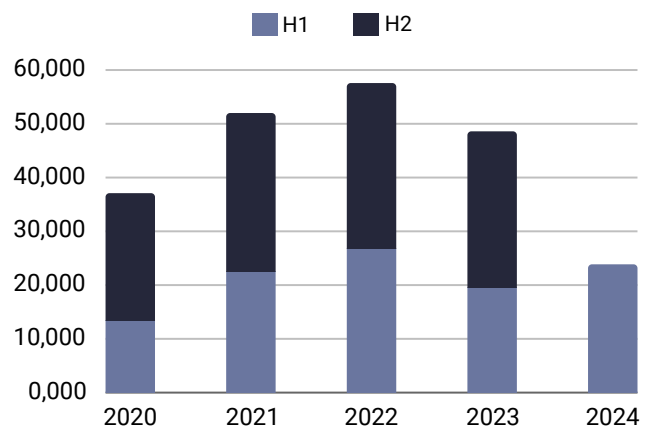


Demand

The number of apartment transactions in Bucharest in the first half of 2024 recorded a 22% year-over-year increase, to 23,861 units, the second-highest demand recorded in the past five years and only some 3,000 units below 2022 levels. Taking into consideration the fact that the number of residential transactions in Ilfov reached a record high of over 4,000 units, translating into a 52% year-on-year increase, in the first half of 2024, it is reasonable to assume that some demand has shifted from inner Bucharest to the peripheral areas in Ilfov county. However, this shift is not, or not yet, significant. Given the mixed housing stock in Bucharest compared to the predominantly new residential stock in Ilfov, it is clear that the demand for new units is on the rise. Nonetheless, there is a distinct difference in buyer profiles, as most clients seeking inner-city residences are not willing to "compromise" by moving to the outskirts of the city. If the decrease in deliveries in Bucharest continues, these two factors combined could lead to significant price increases for both new and old dwellings within the city.

Apartment sales, Bucharest

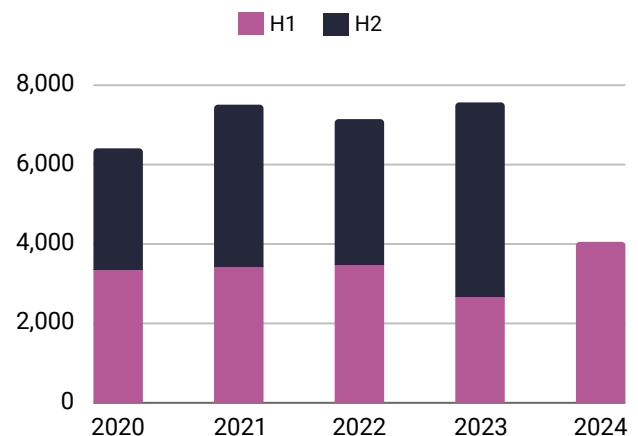
2020- H1 2024



Source: ANCPPI

Apartment sales, Ilfov

2020- H1 2024

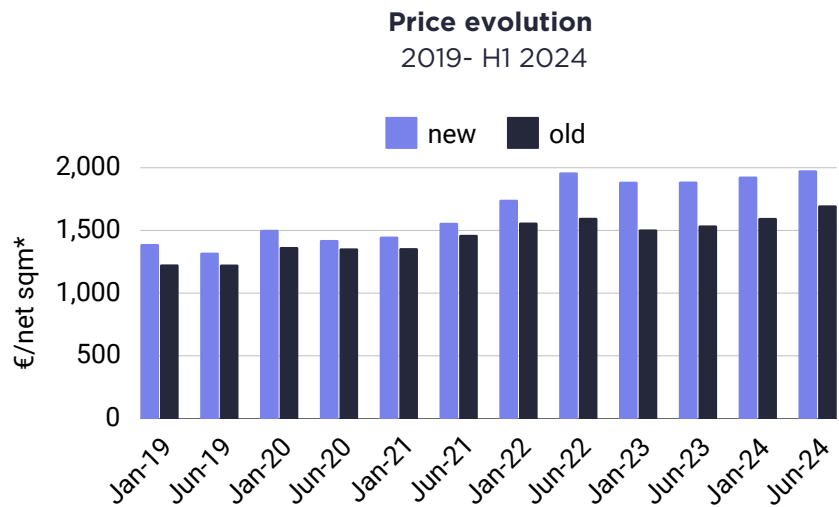


Source: ANCPPI



Prices & rents

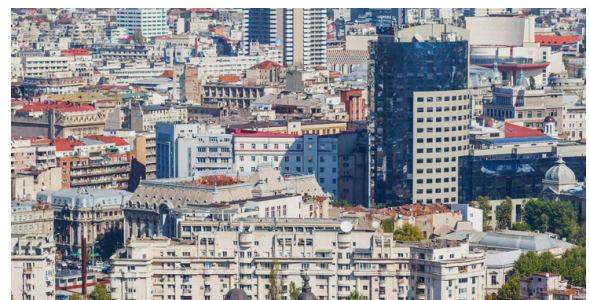
The average price for new units stood at 1,980 €/sqm at the end of June 2024, 3% above the level recorded in December 2023. However, out of the 25 areas analysed, only 11 recorded average prices of under 2,000 €/sqm for new units. Prices for old units grew by 6% over the first half of 2024, to an average of 1,700 €/sqm.



Source: Crosspoint research based on market information
*Net area, excluding balconies/terraces

The situation is somewhat brighter when it comes to the number of residential building permits, which recorded an 8% year-over-year growth, albeit significantly below 2021 and 2022 levels. However, when analyzing the evolution of both supply and demand in the residential market, it's important to consider the atypical nature of the pandemic period within the larger timeframe. The unusually high liquidity of funds and movement restrictions which drove demand and supply during the pandemic no longer apply in the current market conditions. Therefore, the decline in deliveries observed in the past 18 months cannot be attributed solely to administrative constraints.

The highly-anticipated completion of the new General Urban Plan (PUG) is expected to bring some clarity to Bucharest's administrative landscape. The first draft of the General Urban Plan is expected to be published in November. The General Urban Plan is included in the Sustainable Urban Mobility Plan, a project currently in the planning and public consultation phase.



Rents

Rent levels were fairly constant throughout the first half of 2024, with higher increases recorded in affordable areas and the northern part of the city compared to central areas. However, price hikes are expected to be recorded in the second half of the year, when demand, driven by the beginning of the academic year, will increase.

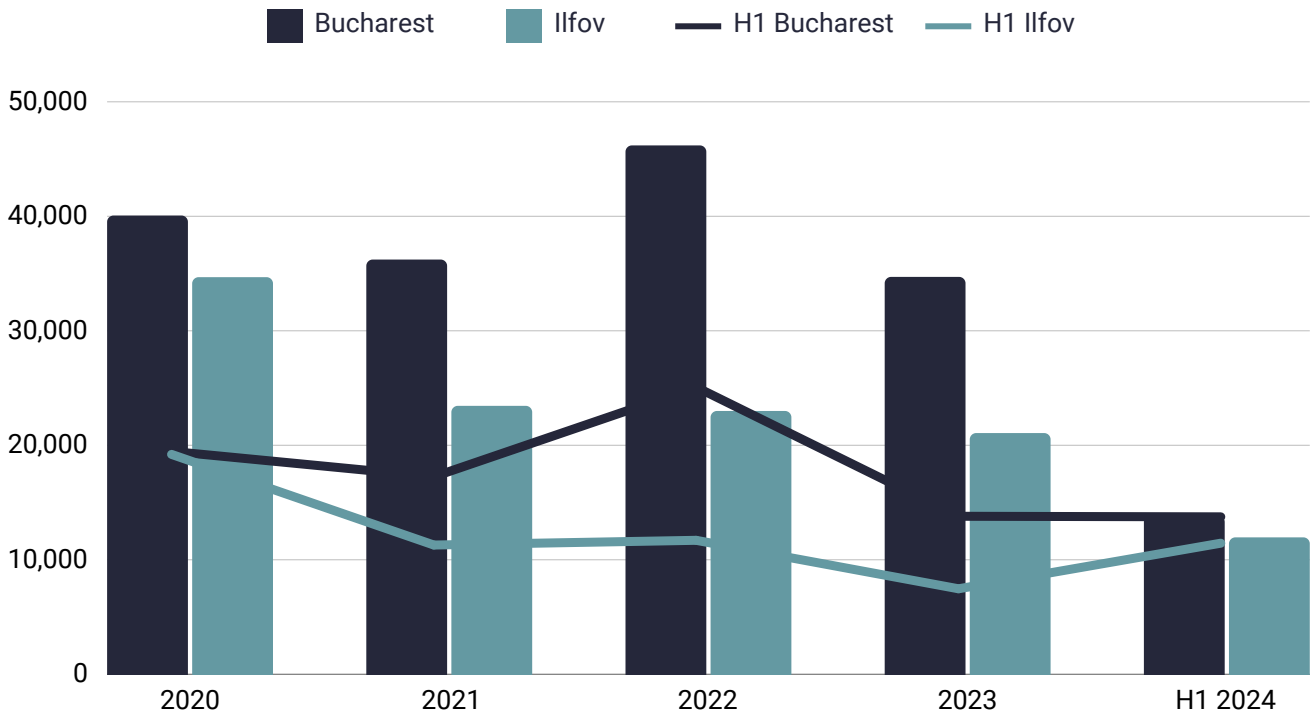
Bucharest Land Market





The number of land transactions in Bucharest recorded no variations compared to H1 2023, with Ilfov county recording a 38% year-over-year rise in demand. Land buyers remained concentrated on the northern areas of Bucharest and Ilfov, with Pipera-Voluntari standing out as their main area of interest.

Land transactions, Bucharest & Ilfov
2020- H1 2024



Source: ANCPI

SIZE (SQM)	SELLER	BUYER	DESTINATION	AREA
210,000	CPI Property Group	One United Properties	Residential	South
15,000	Hidroelectrica	One United Properties	Mixed-use	Baneasa
110,000	Private	Dragos & Adrian Paval	n/a	Pipera
50,000	CPI Property Group	Prima Development Group	Residential	Baneasa

Key land transactions in Bucharest, H1 2024

Compared to previous years, there was a noticeable decline in large transactions, as developers either adopted a wait-and-see approach or concentrated on developing land plots they already owned. Despite this trend, some buyers ventured into unexplored areas of the city, seeking new opportunities.



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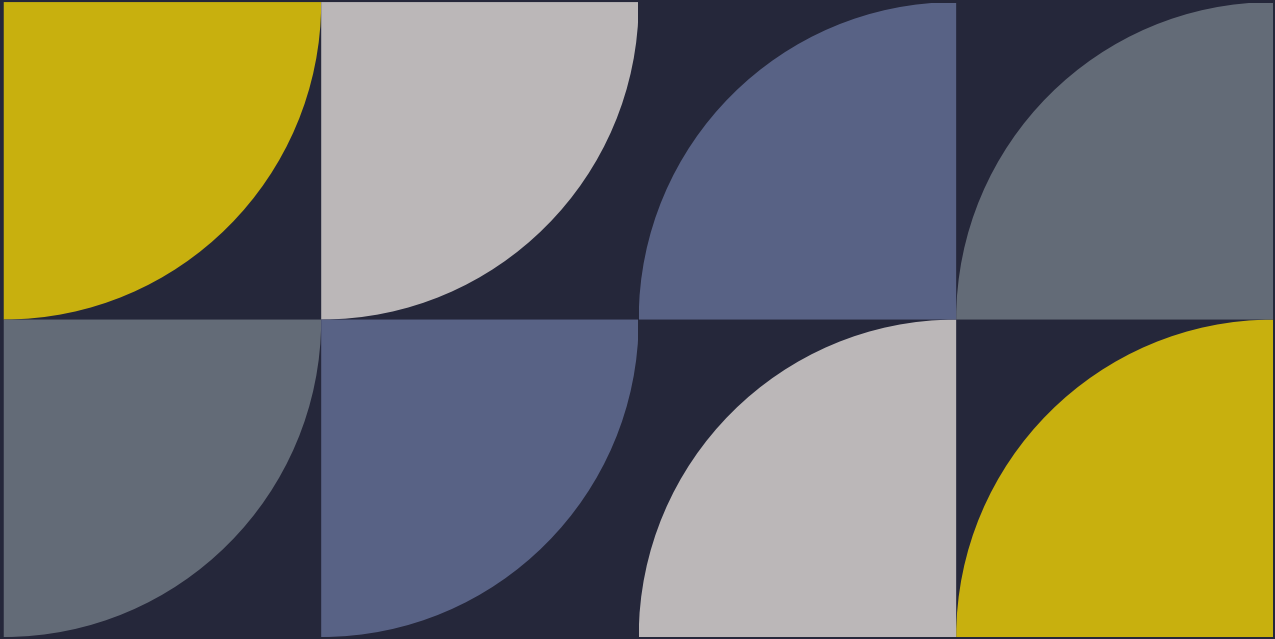
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