

TRENDS AND INNOVATIONS IN TODAY'S ROMANIAN CONSTRUCTION MARKET: VITALIS AT DANFOSS CONFERENCE



Sustainability has become a priority for the Romanian construction market and one of the real estate best practices over the last years, developers, constructors and consultants being all focused on developing or adopting modern technologies and improving working processes in order to make possible in the future obtaining maximum result with minimum resources.

On 10th of October Florin Popa, Managing Partner of Vitalis Consulting attended Danfoss conference, a great event where subjects of sustainability and innovation in the Romanian construction market were mainly discussed.

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Sustainable buildings and maintenance solutions are concerned with emphasizing long-term benefits such as quality, efficiency and safety, buildings proving their energy efficiency through LEED or BREEAM Certifications. Among the projects coordinated by Vitalis that are benefiting from green certifications are: The Bridge I and II (LEED Platinum), Globalworth Tower (LEED Platinum), The Light office building (BREEAM Excellent), Stefan cel mare Office Building (BREEAM Excellent). Moreover, among the construction projects under construction that are designed to obtain LEED or BREEAM certifications, there are One Tower office building, One Cotroceni Park and others.

Another important trend of the Romanian construction market stays in developing more mixed-use buildings with both commercial and residential destinations. A few examples of mixed-use projects coordinated by Vitalis are: One Verdi Plaza (office and residential components), One Cotroceni Park (office, retail and residential). A new way of creating synergy between mixed destination projects is through bringing residential buildings near office buildings and offices near well-developed residential neighborhoods. For example, New Point Villas is a new residential compound under construction coordinated by Vitalis in Pipera, one of the most developed office centers in Bucharest.

Other trends that can be observed in today's Romanian construction market are: the integration of wellness concept in real estate developments, the development of new technologies and automation for intelligent buildings, innovative construction techniques and new criteria for choosing best construction materials in terms of quality, resistance, safety, environmental and human health impact.

Florin Popa

OVER 500,000 SQ. M ARE ADDED TO THE CAPITAL'S OFFICE STOCK IN 2019 AND 2020



Bucharest's modern office stock increases with over 500,000 sq. m in 2019 and 2020. These dynamics of the office market could generate variations in the office buildings' market values of plus or minus 5% during the indicated period. To measure these possible changes, three factors were considered: the average vacancy rate, the level of the incentives packages that owners offer to tenants and yield compression.

The first half of 2019 recorded modern office spaces deliveries of 185,000 sq. m in Bucharest, with another 150,000 sq. m of offices in the pipeline for the second half of the year and with over 230,000 sq. m for 2020. Under these circumstances, the 10% vacancy rate registered at the end of June 2019 could gradually increase to 13% at the end of 2020. Such an evolution of the vacancy rate could impact the value of the office buildings to decrease by approximately 3-5% in the indicated period.

In order to keep the vacancy rate at the lowest levels possible for their own projects, the owners resort to various solutions, from refurbishments or certifications to more advantageous incentives packages (e.g. rent-free months and fit-out costs). These measures, too, can have a major impact in the value of the project.

According to real estate specialists, to keep up with newer, higher quality, LEED, BREEAM or even WELL certified projects, landlords of office buildings built between 2007 and 2008 will have to make an additional effort in refurbishing their spaces. On the other hand, the large volume of relocations from competitive stock (86,000 sq. m only in the first half of 2019) and the intention to maintain the headline rent determines the owners of modern buildings to keep and attract tenants by offering incentives packages. According to market estimations, if the period in which the tenants enjoy these benefits increases by 3-6 months, the market value of the office projects could decrease by almost 1-3%.

At the other end of the spectrum, investor demand could bring an increase in the value of office buildings. The interest in offices in Romania has been quite high in the first semester of the year, as office transactions accounted for 62% of the total transaction volume. For the remainder of the year, is estimated that this two-thirds ratio of the office segments will be maintained.

(Source: www2.colliers.com)

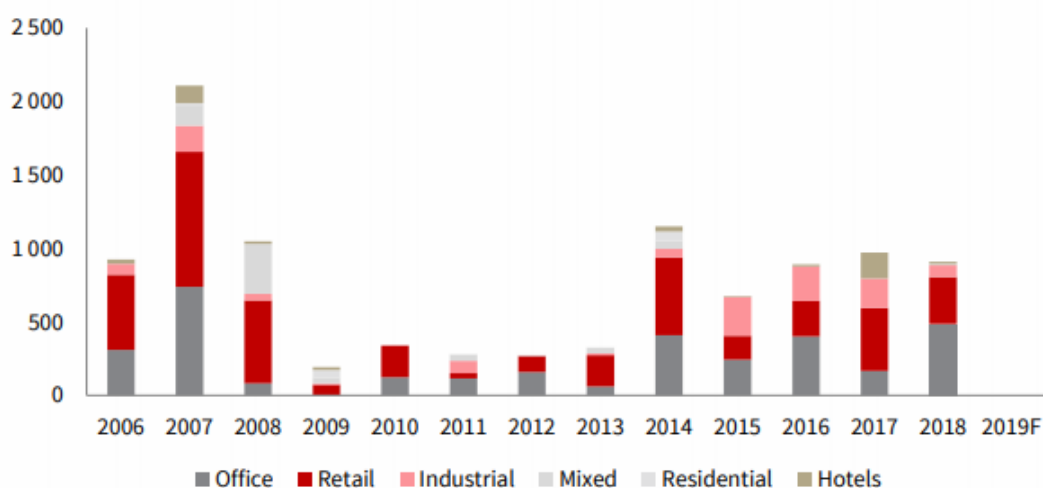
ROMANIAN INVESTMENT MARKET IN Q1 2019

The Q1 2019 property investment volume for Romania is estimated at circa €119.5 million, a value almost three times the one registered in the same period of 2018 (€44 million).

Moreover, there are a number of transactions in different stages of negotiations that will most likely be concluded during the remainder of 2019. In comparison with Q1 2018, the number of transactions decreased, however, the average deal size increased, standing at approximately €40 million.

Bucharest accounted for less than 4% of the total investment volume, mainly due to a very large retail portfolio transaction that closed during Q1 in various regional cities. Market volumes were dominated by retail transactions (almost 95%), while office accounted for less than 4%.

Romania Investment Volumes (€ million)



The largest transaction registered in the first quarter of 2019 was the acquisition of a retail portfolio, comprising 9 shopping centers totalling 68,000 sq. m in the regional cities of Romania.

The macro-economic forecast for Romania continues to be positive, despite some recent concerns. On the financing side, terms and conditions are getting closer to what can be expected in the core CEE markets. Consequently, sentiment is strong, with a total volume for 2019 estimated to surpass to the €1.1 billion mark.

Prime office yields are at 7.25%, prime retail yields at 7.00%, while prime industrial yields are at 8.25%. Yields for retail are at the same level as 12 months ago, while office and industrial yields have compressed by 25 bps over the year. There is a very soft downward pressure on yields, however, in 2019 we do not expect any compression due to the lack of prime product transactions.

7.00%



Shopping Centre

7.25%



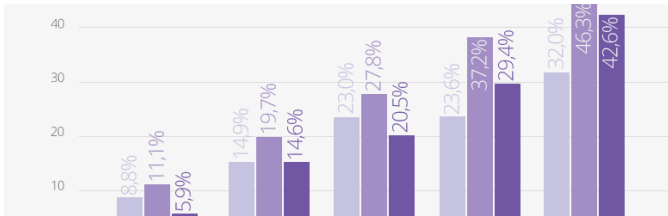
Office

8.25%



Industrial

CHECK OUT OUR LATEST UPDATES ON LINKEDIN AND JOIN OUR ONLINE COMMUNITY FOR MORE!

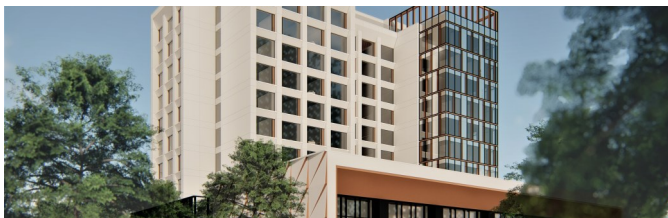


How much have the construction costs increased over the past 5 years in Romania? The total construction costs have increased with 36% since 2015 and the hourly labor costs in the Romanian construction sector in 2019 have registered the highest growth from the EU area. Find out all about the evolution of costs in construction, building materials and labor force, in our latest news release!

Building a team is not only about working together. It's about exceeding our limits every single time! Well done Vitalis team for never giving up, both in working and running!

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Hotel Sport, one of the oldest buildings in hospitality sector in Cluj-Napoca, is about to become the fourth Radisson Blu Hotel in Romania! Vitalis Consulting team is proudly coordinating the refurbishment and modernization process of the building! Learn more about the project and the construction works' progress in our latest news release!

Are you interested in buying a property, but you are not entirely sure about the viability of this investment? When purchasing a property, either it's a building or a plot land, many risks are waiting aside. Find out how TDD services can help you identify and manage the risks involved in purchasing a land and why a professional TDD report can be the best financial planning tool for your business.

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