2019 Dunwell Market Report

INDUSTRIAL REAL ESTATE IN ROMANIA

Connecting the Dots to 2020

Logistics real estate has remained at the forefront of the market throughout the year thanks to a compelling story of fast pacing e-commerce growth and overall consumer confidence. On the road to 2020 three major trends emerged in 2017, two of which were reinforced over the past year.

Back to the City

Inner city logistics continued to steadily gain ground as ever more savvy online buyers have continued to look for higher and higher level of services. The gold standard for consumers seems to be consolidating around fast delivery, variety and easily available stock, which in turn impacts greatly the industrial formats and locations. Unfortunately, we have yet to see deliveries that target this market segment so far. We believe Bucharest East to be one of the best places of action for any developer looking to break the ice in the area, and make the most of its untapped potential. The area ranks high in terms of available workforce, access to public transportation (subway included), and lack of competition in the logistic segment.

Is the Developer Segment Getting Congested?

Consolidation of operations, both regionally and locally, seemed to have closed the development doors for new players back in 2017. This turned out not to be so, as several new developers (both local and international) threw their hat in the ring in 2018, encouraging competition and bringing about better terms for tenants.

Looking East or West?

The national industrial map continued to expand, developers still exploring off the beaten track locations. Nevertheless, their interest for the traditional logistics and production areas has not dwindled, but their appetite for risk has been steadily building up over the last few years.

Technology Will Shape the Future

Looking forward, the sector is likely to undergo significant transformation as environmental and consumer pressures escalate. Alternative fuels, drone delivery, intelligence embedded supply chains are just a few of the ideas around the segment's reformation. Developers need to remain at the forefront of change, taking advantage of structural upgrades, multimodal distribution systems and technological leaps.

Supply

Last year we estimated that roughly 500,000 m^2 will enter the market putting the national class A stock at roughly 3.5 million m^2. 2018's deliveries amounted to 450,000 m^2 marking a 30% year on year increase.

Market leader CTP further advanced its hold of the segment with 60% of all new supply being delivered by the Czech company.

If CTP was no. 1 in terms of actual deliveries in 2018, WDP was no. 1 in term of new (pre)leases. The deliveries pertaining to these new deals are expected to come to fruition over the next 1 or 2 years, doubling the WDP portfolio in Romania, from around 450,000 m^2 built across the country, to almost 1 million m^2 in 2020.

P3 also took a stand and announced their 2nd industrial park in Romania, nevertheless playing it safe and remaining in Bucharest. Their new location confirms the interest for new project investments in the Dragomiresti-Chitila area, which is situated near A1 Highway – NW of ring road. VGP and Zacaria were active as well this year, in the regional cities: Timisoara, Brasov, Sibiu and Craiova.

Bucharest took the lion's share in terms of new deliveries followed by the already traditional Western submarkets (Oradea, Timisoara, Sibiu). The capital city witnessed a major switch from the A1-23km sweet spot to Chitila and Stefanestii de Jos. Despite lower rent levels on the Bucuresti – Pitesti Highway, improved infrastructure of the ring road and better accessibility have driven new tenants (and consequently new stock) to the up and coming area of northern Bucharest.

Developers' land banks continued to consolidate throughout the year, companies securing properties both in Bucharest and in other cities.

Public authorities failed to deliver yet again the promised improvements to infrastructure. Although 130 km of new highway have been announced in the beginning of 2018, 101 were delivered by the end of last year, out of which only 60 km were actually usable.

One of the most expected deliveries was the 6.5 km of the A3 Highway, connecting the Ring Road to the Northern part of Bucharest - Pipera / Petricani area. This segment is now open to traffic, having taken more than six years to connect the highway to Ploieşti to the capital city. This is particularly important for the dynamics of the Northern Industrial Area as accessibility is key for the shrinking available workforce.

FLAGSHIP LAND TRANSACTIONS IN 2018

DEVELOPER	LOCATION	LAND SIZE
WDP	Stefanesti (Ilfov)	44 ha
VGP	Brasov	23 ha
MLP	Chitila (Ilfov)	18 ha
P3	Dragomiresti (Ilfov)	16 ha
WDP	Buzau	10 ha

Demand

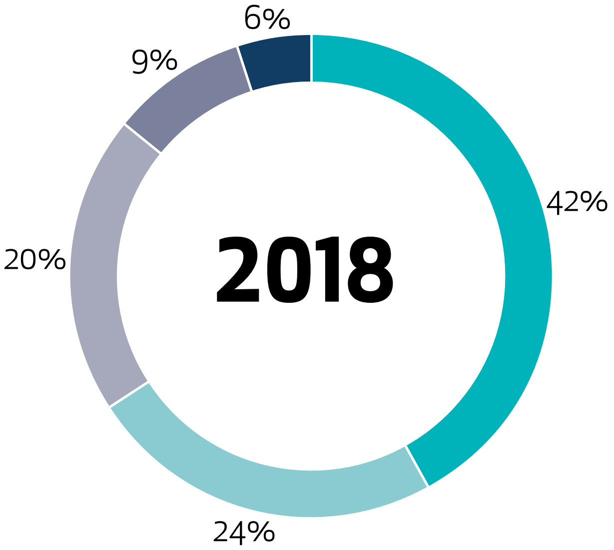
Demand levels remained elevated throughout 2018, coming short of the 0.7 million m^2. Only 22% of all market activity were renewals and renegotiations, most transactions being closed for new premises.

In line with deliveries, demand was concentrated in the country's capital city (60%), with Timisoara and Deva coming in second and third at a fairly safe distance.

Retailers were the stars of industrial segment in 2018, accounting for half of all market transactions. Metro Cash and Carry and hypermarkets Auchan and Carrefour were the year's largest deals (almost 40% of all market activity). 3PL companies came in second with almost a quarter of the transactions.

One notable transaction which made the headlines in 2018 was eMAG's decision to build its own premises.
The 126,000 m^2 e-commerce warehouse built on A1 Highway is meant to ease deliveries to the city, further reinforcing the trend to reach end users faster.

TAKE-UP BREAKDOWN IN 2018



Retail	42%
Logistics	24%
FMCG	20%
Automotive	9%
Others	6%

Rents & Vacancy Levels

Record deliveries over the last two years led to only a minor spike in vacancy levels indicating a voracious appetite for industrial spaces. 2018 closed with a 5% vacancy in a capital city and only slightly higher in the rest of the country. Announced new stock in 2019 will likely increase the gap between demand and supply, nevertheless, still keeping it at healthy levels.

Average rents saw little upward movement despite the influx of new spaces. Average headline rent in Bucharest stands at 4 €/m² and 3.8 €/m² in the regional cities. Moving forward, developers will have to mitigate already increasing construction costs (+15%), labor force shortage and pressure coming from competing projects.

Competitive rent levels, more flexibility or incentives are expected to characterize the 2019 leasing market.

Capital Markets

Despite stellar performances in leasing, the industrial segment took a back seat in terms of asset transactions in 2018. The market was dominated by core office and retail tickets north of the € 100mn mark, while the logistics segment's flagship transactions gravitating around € 20 mn.

Prime yields are estimated at roughly 8.25 – 8.5% but super core assets are expected to obtain better terms.

PRIME YIELDS ARE ESTIMATED AT ROUGHLY

8.25 - 8.5%

Forecast

The supply could expand by an additional 750,000 m² in 2019 if demand requires it. Less than half (300,000 m²) are actively under construction though, over a third of the surface being located in Bucharest. We are likely to witness new projects appearing in Craiova, Constanta and even Iasi as developers cast a larger net trying to capture as much of the demand as possible.

Projects started in 2018 by new players to the market will come to fruition in 2019 and we expect to see more activity from them in the following years. Similar to retail smaller formats will be at the forefront of developers' plans in the next few months.

Increasing vacancy and higher competition is expected to put pressure on rents throughout the year, whilst yields are likely to stand above the 8.25% mark.

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