

TAKING OFF

Positive real estate implications from strong air traffic results

The connection between the aviation industry and overall business activity has been widely covered by economic literature. While the elasticity between air traffic and GDP growth rates is seen to be quite elevated (of around 1.5-2.0x, depending on the study/country sample), things look even more impressive for an emerging economy like Romania. Indeed, mirroring the strong GDP expansion in 2017 (7%), airport traffic in Romania saw the strongest expansion in the EU, by 23.5%, nearly 5 times faster than the average in the 28-member states. We believe the results recorded by the biggest airports in Romania – please see next page – tell the economic development story quite well; as a separate observation, some smaller cities saw well bigger jumps, but these are caused by one-offs like reopening the airport after a renovation or being included on an airline's radar.

It is difficult to disentangle between correlation and causality with regards to air traffic data and other indicators. Still, it is safe to assume that the robust figures are a tell-tale sign of current underlying strength in economic activity, particularly as two in three foreigners visiting Romania do so for business purposes.

Main channels of influence and upshots for real estate:



– this one is the most obvious answer as a higher number of passengers entails increased activity for the hospitality segment (which has, incidentally, just had a banner year in 2017).

Major real estate beneficiaries:
Hotels, High Street



– distance is an actual barrier to trade. A PwC study for the Airports Commission in the UK suggested that a 10% growth in seat capacity could improve trade by a couple to over 6%, with a higher impact on the trade in services. For Romania, the impact is lower, but we expect things to change as Eurozone convergence continues.

Major real estate beneficiaries:
Office, Industrial, Investment, Retail



– better air connectivity was found to have a significant correlation with increased inflows of foreign direct investments. The argument is simple: more passengers suggest more persons traveling for business purposes, also highlighting a more dynamic domestic economy.

Major real estate beneficiaries:
Office, Industrial, Retail, Investment



– this might not be as tangible as the others, but for a country like Romania, FDIs can be associated with greatly improved productivity as foreign companies usually bring established processes and know-how. Furthermore, air connectivity also allows for a better allocation of labour resources throughout the country.

Major real estate beneficiaries:
All

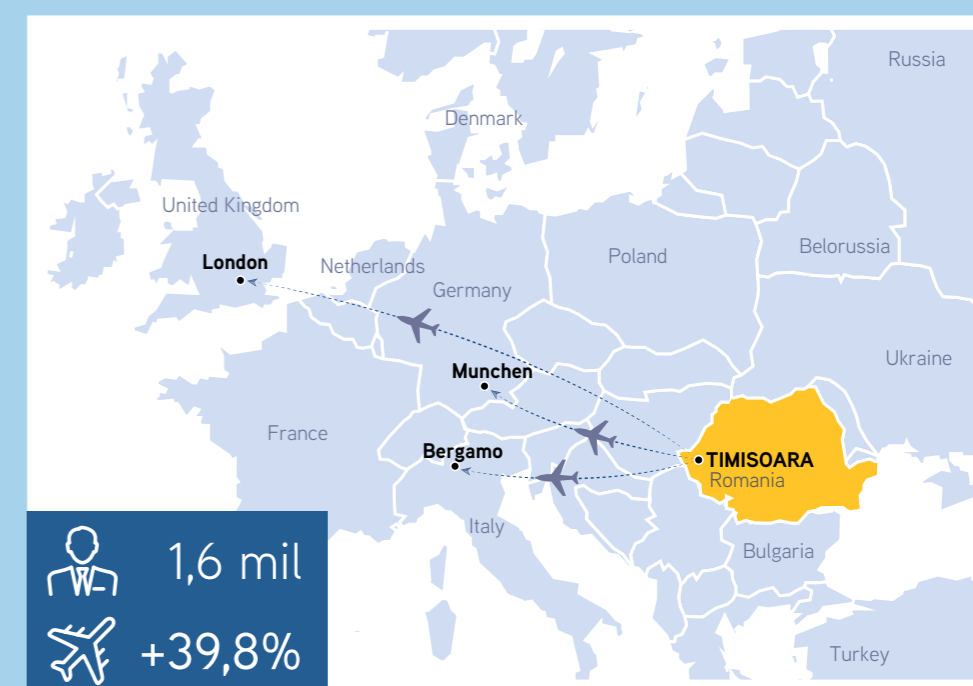
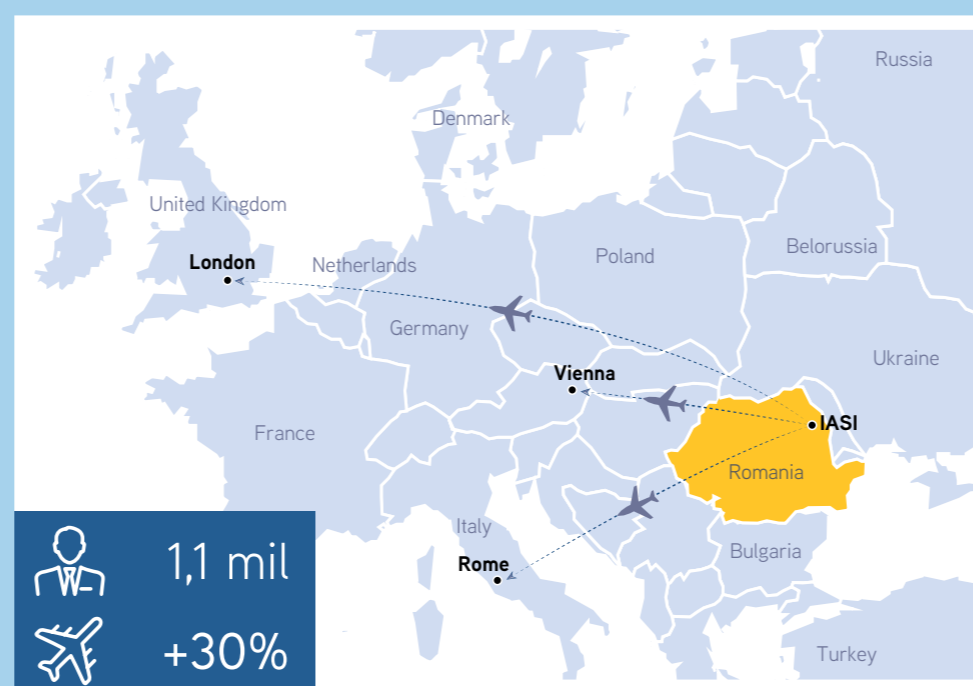
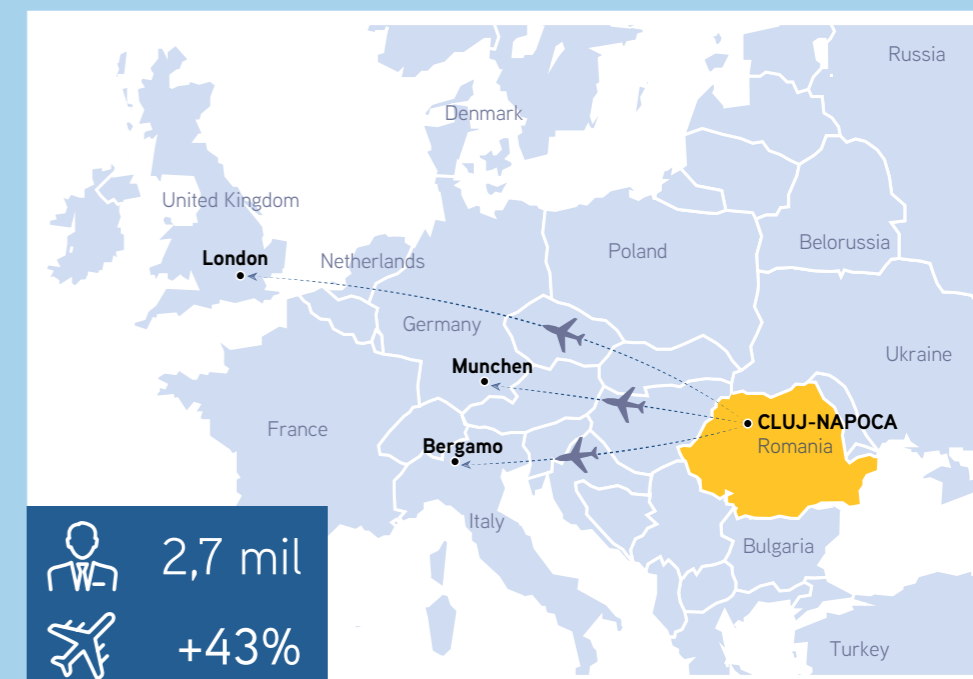
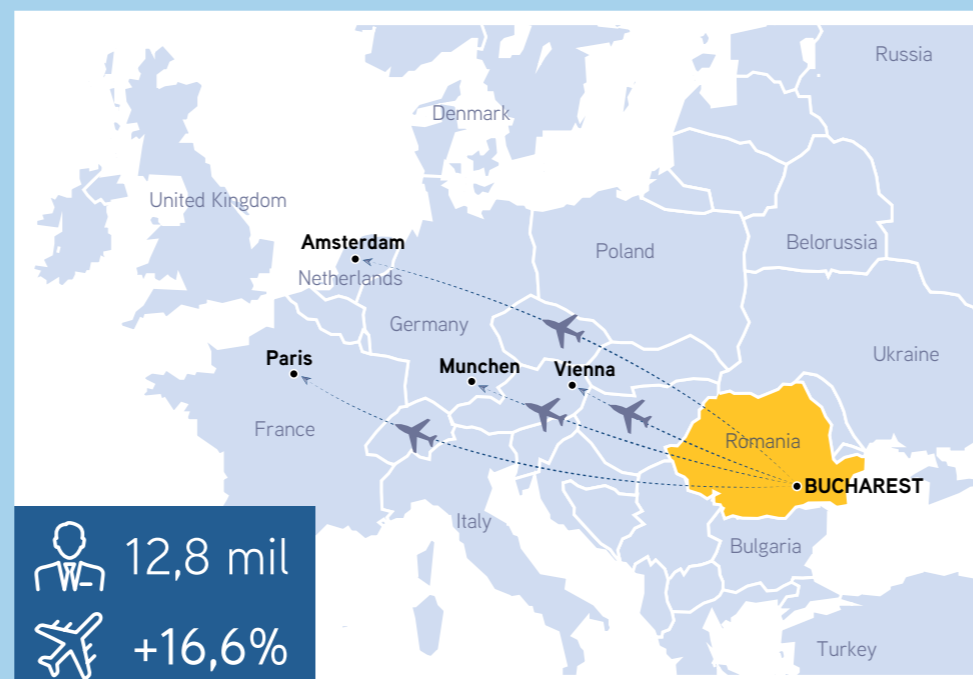
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2017 air traffic and major external destinations

	Passengers (2007)	Passengers (2017)	2017/2016 (%)
Bucuresti - Henri Coanda	4,938,000	12,804,000	17%
Cluj-Napoca	390,000	2,689,000	43%
Timisoara	837,000	1,622,000	40%
Iasi	124,000	1,147,000	30%
Sibiu	106,000	504,000	37%
Craiova	5,000	448,000	101%
Bacau	113,000	426,000	3%
Suceava	21,000	262,000	358%
Oradea	39,000*	163,000	289%
Constanta	42,000	121,000	28%

*2008



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Summing up, there are a couple of aspects we want to highlight:

- The fast-growing pace of air traffic in parts of the country feeds into our view – also expressed in the recently released Market Report – that economic and real estate activity are bound to accelerate in the major regional hubs (Cluj-Napoca, Timisoara, Iasi), outperforming Bucharest. While the former are likely to host some of the fastest growing airports in the EU in their size category, Bucharest's was also in the top 5 best performing in Europe for the 10-25 million passengers/year bracket.
- Looking at the data through a different lens, these are concurrent with quite robust short-term economic momentum in the major regional cities, as passenger numbers have doubled in the last 2-3 years; indeed, the World Bank sees the GDP expansion pace of these cities as faster than Singapore's in its heyday during the 1970's.
- The big absent from the list is Brasov, which we believe should blossom once its airport is finished. That said, the current 2020 deadline for its completion has come under question from some local observers/media.
- The size difference in air traffic compared to neighbouring countries (between 15 and 16 million passengers for the main airports in Warsaw and Prague) is in line with Romania's shallower real estate market. Still, the vibrancy found in macroeconomic indicators and parts of the real estate space (like the industrial segment) suggest that the catching-up process should take place in strides.

