

# TOP PREDICTIONS

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## TOP 10 PREDICTIONS

At the start of each year, we find it is a useful exercise to envisage what may lie ahead. And for better or worse, we still find more reasons to be optimistic about the Romanian economy in 2020 than the reverse. Economic growth is still set to outpace that of most EU countries while, at the same time, all real estate segments still display robust growth, albeit a bit mellower than the record-setting paces seen in recent years.



### 1 SLOWER GDP GROWTH, BUT STILL WELL BETTER THAN MOST OF EU

The economy, like an object subjected to the forces of gravity, functions on the basis that what goes up must come down eventually. The Romanian economy is already adapting to the new reality, as expansion cooled to around 4% in 2019 from 4.4% in 2018 and 7.1% in 2017. Gaping fiscal and current account deficits, yielding an increased vulnerability to shifts in external sentiment, suggest GDP risks are skewed to the downside, so no defying gravity in 2020 (growth in the 3% region looks realistic). Still, there are plenty to celebrate: Romania still features one of the best potential growth rates in Europe and major structural reforms (workforce mobility, education) could unlock significant growth down the road with fairly little effort (though 2020 does not look like the magic year amid elections).



### 2 NEUTRAL TO MILDLY POSITIVE EXTERNAL BACKDROP

Given Romania's internal risks, scrutinizing what is happening elsewhere remains key. There are plenty of areas to be worried about due to the uncertainties they bring: Brexit, shifts in US trade policies, geopolitical tensions, longstanding Eurozone issues and Chinese slowdown. Still, various stimulus measures (monetary or economic policies) enacted in the US, Eurozone and China in 2019 should start to yield results and global growth may perk up sooner or later. This pick-up in external trade is a key aspect behind our growth forecast for Romania in 2020, as we would look for a somewhat rosy external backdrop (particularly in the second semester) to partly compensate for the cooldown in internal demand.



### 3 INVESTMENT MARKET TO REMAIN LIVELY

2019 was a good year for the investment market in Romania, with yields moving a bit lower and overall demand at robust levels; as things stand now, at the start of the new year, 2020 may actually be the best year in the post-crisis cycle. There are already over EUR 0.6bn in deals related to several office projects that could close soon (including the EUR 0.3bn from the NEPI Rockcastle portfolio, signed, but not closed in 2019) with several buildings on the market that are asking yields below 7%. And this is just from the office segment, as industrial and retail submarkets are also doing fairly well, though there are some supply-side limitations here. Going forward, we look for the deepening of various submarkets, from pure class A office buildings to those with a value-add angle or reconversions.



### 4 BUCHAREST TO PIVOT TOWARDS A TENANT OFFICE MARKET

With job creation for private services dipping to a 5-year low in 2019 and new office deliveries picking up significantly in the last years, a small storm is brewing and 2020 is likely to showcase this more visibly. As the lagged effects of the relocations feed their way into a higher vacancy rate (upwards towards 12-13% this year from a bit over 10% in 2019), pressures on the aggregate rent in the Bucharest office market will arise. Some 0.7 million sqm in new offices are announced for the next couple of years – around a quarter of the current modern office stock. The increased construction costs are somewhat of a novelty, with a direct influence of whether companies relocate or not, since fit-out costs have increased some 25-30%.



## 5 STILL LOTS OF ROOM TO GROW FOR I&L

Romanian industrial output saw in 2019 its worst performance in the post-crisis period, but things could change in 2020 amid the external backdrop perking up thanks to stimulus measures enacted in major economies. And given Romania's extremely low modern industrial and logistics stock (around 4.6 million sqm, half of Czechia's level and more than 4 times below Poland's), it means that 2020 may be a good year. Demand is likely to remain concentrated around previously established locations; any major infrastructure breakthroughs – not expected this year – would yield significant growth potential. Some 0.5 million sqm in new storage spaces could become available in 2020, with an increasing share of deliveries coming from developers until recently active on other segments (like offices, residential or retail).



## 6 SLOWER, BUT HEALTHIER CONSUMPTION GROWTH

As consumers focused increasingly more on big ticket items like homes or cars in 2019, retail sales grew at a more subdued pace than in recent years, but still enough to outpace all EU countries. Given that wage growth is likely to remain in double-digit territory and inflation is expected to cool down a bit, private consumption still looks rock solid, but below 2017-2018. Landlords will continue to focus on enhancing the customer experience, with a special focus on the leisure segment. Developers will look for synergies: new malls will strive to be attached to an established office area or to add their own office/residential components; including shared office spaces in shopping centres looks attractive as well. The fast expansion of retail schemes in small and medium-sized cities still holds.



## 7 RESIDENTIAL PROPERTY PRICES TO REMAIN INFERIOR TO WAGE DYNAMICS

2019 may have been a record year for the number of new residential units (we will know for sure later in March, when the statistical numbers are out), but this year is unlikely to keep up. There are signs that construction works are slowing a bit at the turn of the year; regardless, while we were a bit too harsh in judging the robustness of demand in 2019, this year looks quite well with respect to demand given the solid wage growth and no material changes expected with regards to monetary policy/lending standards. As long as the economy manages to squeeze a decent growth rate, we would expect prices to accelerate a bit relative to 2019, but remain below the expansion rate of wages. Still, some areas, like parts of northern Bucharest may have a bit too much supply.



## 8 GRADUAL COOLDOWN FOR THE LAND MARKET

Coming after what may have been the best few years for the land market in Romania, it looks like activity is set to cool down gradually, as 2019 already showed some signs of this trend. The pipeline is not as generous as in previous years while, at the same time, we are not seeing as many big deals on the horizon at this current junction. That being said, on the buy side, the general attitude is still quite positive with regards to longer-term prospects of Romania even though for now, a lot of developers have a decent land bank for future projects. Overall, 2020 is shaping up to be a decent year, but unlikely to rival what we have seen in the 2018-2019 period in terms of transaction volumes, though similarly to recent years, it is likely that the good land plots may see their price being bumped up.



## 9 LOOKING BEYOND THE 2020 ELECTION CYCLE FOR SWEEPING REFORMS

After 2019 delivered some major shifts in domestic politics, polls suggest that this year's local and general elections extend on the results seen last year. Regardless of the outcome, what is relevant is the fact that after this year, Romania will have a period of over 3 years without any elections, a somewhat unique opportunity to promote major structural reforms, ranging from enhancing the public health and education systems to big progress in major infrastructure projects. Coupled with the fact that these years are the last ones in the current EU multi-annual budgeting period, with hefty inflows of structural funds expected, it does suggest a rosier internal outlook.



## 10 ENCOURAGING MIGRATION TRENDS

Our special theme for our 2020 market report is about demographical changes in Romania. Normally, meaningful demographic trends span over many years, decades even. Still, there are some changes taking place before our very eyes. Firstly, with varying speeds from one year to another, Romania's major regional cities are still in the fast-track convergence lane. Secondly, another positive trend is shaping up: Romania's external migration balance could be evened out as soon as 2020 – the data will not be out for a couple of years, but the numbers running up to 2018 are encouraging enough, with more and more return migrants and anecdotal evidence also supporting this idea. As long as the economy holds, a lot depends on authorities to swiftly improve the quality of public services.

## FOR MORE INFORMATION

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