ROMANIA
R.E. Shaped

2021

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Macroeconomics Romania

Year	2016	2017	2018	2019	2020	2021
GDP € bn.	170	188	205	223	215	232
GDP growth % y-o-y	4.7	7.3	4.5	4.1	-3.9	4.3(f)
Inflation rate % y-o-y	-1.5	1.3	4.6	3.8	2.6 (f)	2.4 (f)
Average net wage €	455	512	568	629	653	679 (f)
Unemployment rate %	5.9	4.9	4.2	3.9	5.0	4.5 (f)
Retail sales % y-o-y	13.5	10.7	5.7	7.2	2.1	-

Sources: JLL Research, National Institute of Statistics, National Commission for Strategy and Prognosis

Office Market for rent Bucharest (A & B class)

Year	2016	2017	2018	2019	2020
Stock m²	2,226,700	2,369,000	2,514,100	2,800,500	2,955,700
Annual deliveries m²	291,700	142,300	145,100	286,400	155,200
Gross take-up m²	374,000	353,100	334,500	388,500	217,500
Net take-up m²	161,400	173,400	124,100	203,800	71,400
Prime rent €/m²/mth	18.5	18.5	18.5	18.5	18.5
Prime yield %	7.50	7.50	7.25	7.00	7.00

Industrial Market for rent Romania

Year	2016	2017	2018	2019	2020
Stock m²	2,872,800	3,230,100	3,814,100	4,464,100	5,052,000
Annual deliveries m²	330,000	357,300	584,000	650,000	587,900
Gross take-up m²	475,200	519,800	514,200	550,900	695,200
Net take-up m²	356,500	423,200	385,100	490,400	525,100
Prime rent €/m²/mth	4.25	4.25	4.25	4.10	4.00
Prime yield %	9.00	8.50	8.25	8.00	8.00

Retail Market Romania (shopping centers & retail parks over 5,000 m²)

Year	2016	2017	2018	2019	2020
Stock m²	3,250,300	3,380,300	3,410,300	3,582,500	3,724,700
Annual deliveries m²	235,000	130,000	30,000	172,200	142,200
Prime rent €/m²/mth Shopping centers	75	75	75	75	73,5
Prime rent €/m²/mth Retail parks	8.5	9.5	9.5	8.5	8.5
Prime yield % Shopping centers	7.25	7.25	7.00	7.00	7.25
Prime yield % Retail parks	8.25	8.00	7.75	7.75	7.75

Sources: JLL Research

Editorial

By Silviana Petre Badea

Romania RE-shaped

We are excited to present you the already third edition of Romania REShaped and we are extremely happy to see it become a staple of JLL Romania's publications. This year's release marks a new important milestone for us – the first bi-lingual publication of this type to come out both in Romanian and English.

After a 2020 that made us all think and reconsider our own priorities, 2021 is the beginning of a new era – a time of innovation, of reinventing one's self and one's business, of looking at mundane things (office space, travel, our living spaces, our work habits, our commute) differently – a period of redesigning our entire environment.

In this time of unprecedented flux and conditions, my colleagues and I have compiled for you in this post Covid -19 edition of Romania RE Shaped, the best of JLL's local and global research and insight into the way we will be doing things differently in real estate, areas to watch in office, retail, industrial, capital flows orresidential and Private Rental Sector (PRS) as well as the opportunities Romania has to offer in 2021.

The golden thread that goes across this entire edition and, indeed, JLL's strategy going forward is sustainable development and management. JLL is committed to do its part to reduce the impact the real estate has on the environment, from the building we occupy to the ones we lease and sell on behalf of our clients or the ones we fit-out for our corporates. To this end, we are active in areas such as renewable energy, retrofitting buildings for low carbon emissions, supporting green financing etc.

We hope you will enjoy the read and please contact any of us for details. As always, we are happy to receive your feedback and comments.

Silviana

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Real estate accounts for nearly 40% of total carbon emission, so what are we doing about it?

We have asked **Denise Michela Sofia**, EMEA Sustainability Officer JLL how the sustainability strategy is positively impacts not only JLL and our clients, but also brings segnificant benefits to all our stakeholders.

By Cristina Lupașcu

1. Why sustainability is now very important? How sustainability can improve our lives and, ultimately, our businesses?

Sustainability is about taking actions that create positive impact not only today, but also in the future. There is a strong and direct correlation between our environmental, social and governance performance and the long-term health and success of our business. We address this by putting into action our sustainability strategy, Building a Better Tomorrow, which delivers transformative changes for our business, our people, our clients, our communities and our planet.

2. How sustainability is impacting the real estate market?

Buildings account for approximately 36% of global final energy consumption and nearly 40% of total direct and indirect CO2 emissions. With the global trend towards urbanization and ever-increasing demands for building stock, these numbers are only set to rise. As well as a challenge, there is significant opportunity, UNEP estimates that the building sector has the greatest opportunity to reduce greenhouse gas emissions compared to other sectors, with potential savings estimated to be as much as eighty-five Gt of CO_2 and energy savings of 50% or more by 2050. All this puts JLL in a strong position to create a significant impact through the work we do with our clients and people as well as in our workplaces and communities.

3. Why are investors turning towards sustainability?

Interest and engagement in environmental, social and corporate governance (ESG) within the investor community continues to grow. This is due to several reasons:

- Companies with the highest ESG ratings outperformed the lowest-rated firms
- Asset owners funds are increasingly demanding sustainable investing strategies from their asset managers
- Risk mitigation
- ESG activism by investors

4. What are JLL approach and concerns regarding sustainability?

Our purpose, We shape the future of real estate for a better world, has strong and deep roots in our identity and history. During 2019 we set JLL's organizational purpose into a short and memorable phrase, endorsed by our Global Executive Board and Board of Directors. We shape the future of real estate for a better world by partnering with our stakeholders to drive disruptive, impactful and sustainable change. We do this by embedding sustainability into everything we do through the four Pillars of Building a Better Tomorrow: Clients, People, Workplaces and Communities.

The four Pillars of Building a Better Tomorrow are underpinned by three Foundations: our commitment to the highest standards of corporate governance, our efforts to develop and drive thought leadership in this area and our commitment to deploying innovative, forward thinking solutions for ourselves and our clients. We believe these are the fundamental elements to the success of Building a Better Tomorrow and the achievement of the UN Sustainable Development Goals. Implementation of Building a Better Tomorrow across JLL is supported by a global governance structure for sustainability that is reflective of all parts of the business.

Throughout 2019, implementation was focused on JLL's operation and services in eight key JLL markets: the U.S., the U.K., Australia, France, Germany, Greater China, India and Japan. They will lead the way in driving meaningful change in our operations around the world. In 2020, JLL will begin formal engagement with the next tranche of countries, twelve in total, to roll-out Building a Better Tomorrow. Overseen by our three regional CEOs, the relevant country CEOs are responsible for overseeing the successful implementation of Building a Better Tomorrow in our key markets, including appointment of further resources as required.

By driving all our sustainability and corporate responsibility activities through Building a Better Tomorrow, we aim to deliver consistency, best practice and direction globally across the four Pillars of the program, as well as the underpinning Foundations. In so doing, we will come closer to our ambition of embedding sustainability throughout our organization.

To demonstrate our commitment to a sustainable future, we have set a science-based target, an ambitious emissions reduction goal that is in line with climate science and the aims of the Paris Agreement. We have also signed up globally to the World Green Building Council's Net Zero Carbon Buildings Commitment.

Details on JLL's sustainability targets can be found in our Global Sustainability Report.

5. How can JLL help clients to meet their sustainability ambitions?

Through industry-leading strategies, tools and technologies, we help our clients achieve their sustainability goals. Increasingly, they require innovative and consistent solutions across all regions. In response to this demand and to further drive the development of value-based services and products, in 2019 we expanded our focus on energy and sustainability capabilities with the intent of providing a broader complement of globally scalable, consistent and profitable services. The initial scope of these offerings will be directed to our Corporate Solutions clients.

Our vision is that this will ultimately form the basis of enterprise-wide delivery. Further supporting this strategy is our commitment to training and upskilling our professionals on sustainability-related topics, including climate risk, green building certifications, health and well-being, sustainable cities and more.

7 questions real estate investors are asking of their portfolios

Investors are re-evaluating the strengths and weaknesses of their portfolios at a time of heightened uncertainty.

By JLL

Investors are facing a huge challenge stemming from the lack of economic clarity due to the new coronavirus outbreak. The need to assess current portfolios is becoming increasingly important for investment managers with low liquidity, for listed real estate companies with discounts to their net asset value (NAV), as well as for private equity investors with positions in operating companies.

"Housekeeping is by far the main focus for investors faced with the impact of COVID-19 and consequent uncertainty," says Matthew Richards, head of EMEA Capital Markets at JLL. "And while it means quite different things to REITs, private equity funds and investment managers, there's a lot of common ground in the types of issues being raised."

1. How can I assess the current risk?

When interpretations of pricing and valuations are so fluid, it's a challenge to evaluate the relative strengths of current portfolios, says Richards. But investors are carrying out deeper analysis of their existing assets.

"There's undoubtedly a reassessment of risk to be done," he says. "When Europe is currently faced with such contrasting fallout from COVID-19, investors want to know the ups and downsides of owning assets in a particular sector or micro-location. "Where is income most stable and occupation most dense?"

2. How could rent-free periods affect me?

Real estate underwriting and data teams with asset mapping methodology are in demand as all investors look to assess and model portfolio behavior at a time of increased discussion around rent-free periods.

"Landlords across all sectors are asking themselves what leasing events there are across my portfolio in the next six months?" says David Sawdey, director of business intelligence at JLL. "Where are the renewals, what's turning over in the next six months and who's got a lease expiration coming up?"

3. Do my operators have enough cashflow?

For the many private equity firms who have taken positions in operating companies, the focus has turned quickly to business continuity and immediate cashflow.

"Many, particularly those with large portfolios, will be now looking to see if their operators have enough cashflow," Richards says. "They're asking which parts of their portfolios have the most operational risk?" While not the sole source of recapitalization for operating companies and listed sector players with limited credit lines, private equity could play a part, he adds.

4. How liquid are my funds?

For fund managers, the housekeeping task varies; in the UK open-ended property funds were swiftly gated (the move was not dissimilar to that made following the UK's vote three years ago to leave the European Union). So far, however, a repetition of the handful of 2016's quickfire sales has not followed.

In Germany, major fund managers are well-placed. That's partly due to rules put in place after the global financial crisis to keep outflows in check via redemption limits, as well as low use of leverage.

"High liquidity among German open-ended funds means they remain focused on the task of meeting return expectations, usually from core assets," says Richards.

Likewise, major fund managers who have undeployed capital and no seed assets may find that allows time and space to consider, and in some cases, alter their strategies to a different market, he adds.

"Perception of liquidity was and remains an issue in Romania with low investment volumes raising concerns to investors regarding the ability to recycle capital or to have relatively short hold periods", comments Alina Cojocaru, Head of Valuation and Consultancy JLL Romania.
Access to high yielding core assets with underlying strong growth attributes is attractive but as growth is muted by the pandemic and yields increase elsewhere the appeal to Western European capital may reduce.

"However, most capital invested in Romania in recent years comes from other areas (such as CEE, Middle East, South Africa as well as domestic) and for these investors the positive difference Romania offers compared to other markets remains motivating", she adds.

5. Am I using the right analytics?

For all investor types taking stock, a wider range of data analytics are now on offer than was the case after the global financial crisis of 2008, says Sawdey.

"The kinds of tools investors and occupiers have at their disposal today simply did not exist in 2008," he says. "The access to data simply wasn't there back then – and when it was, the cost was significantly higher. "The maturity of data analytics has come a long way."

6. How will I be impacted by the reforms in organizing workplaces and change of shopping and travel habits?

One of the short to medium term consequences of COVID-19 was the accelerated rearrangement of the population's way of life. "The effects of the high pace of change might be polarized between a bigger burden for existing properties as landlords have to dig deeper into their pockets to adapt to present times and a lower stress for the pipeline properties that can adapt inexpensively", commenrs Radu Podașcă, senior valuer JLL Romania. Convenience retail, neighborhood schemes and open retail such as Retail Parks will continue to perform well whilst the challenge for enclosed city centre retail will be how to entice customers back in the same numbers whilst offering a safe environment.

7. Should I change the contract type for new leases or renewals?

At present, it is very difficult to analyze individual businesses and to decide the amount of tenant incentives you are willing to offer. "In the retail sector the sharing of the profitability through Turnover Rent may well be an equitable and transparent manner to build trust with your clients. However, this is not a model that is appropriate in other sectors such as Offices or Logistics", says Radu Podașcă.

One thing is clear however, shorter and more flexible leases are required to adapt to rapidly changing markets. How this impacts on fit-out costs and who pays will become a more crucial consideration for both owners and occupiers.

Longer-term change

More broadly, a move to more regular portfolio valuation and reporting may be needed. And it could come quicker than expected, says Richards.

"There's broad discussion over the long-term implications and outcomes of this current pandemic," he says. "We may perhaps see more regular valuation reporting become a mainstay feature. More investors are realizing the importance of good data in the current climate. Its use can and will only accelerate."

Romania will offer interesting opportunities across the board in the next 18 months

Investors and owners are certainly prudent in these turbulent times, most of them continue to be active and searching for the best opportunities to fit their strategies, said Andrei Văcaru, head of Capital Markets JLL Romania. More about property investment market you can find in the interview below:

By Cristina Lupașcu

Almost 900 million market investment volume registered in 2020 in Romania. The figure is unexpected if we consider the challenging times. What are the main trends that you observed in the last year on the Romanian property investment market?

Indeed, transaction volumes in Romania in 2020 will be higher than those registered in 2019 which is atypical if we look at the rest of the world. This is a sign of the confidence that investors place in the country's fundamentals and medium to long term perspectives. Most transactions that started before the Covid-19 pandemic have either been closed or continue to advance. However, less projects have been launched in the second part of the year as everyone became more cautious. With a solution to the medical crisis on the horizon as of November, I expect liquidity in 2021 will remain in line with the last 5-year average.

What is the mood of the investors / owners with whom you are currently discussing possible transactions?

The mood is quite different depending on the asset class. Hotels continue to be seriously impacted so there is tension within that industry. On the other hand, the logistic segment is animated as it has seen little if any negative impact. I would say that overall, although investors and owners are certainly prudent in these turbulent times, most of them continue to be active and searching for the best opportunities to fit their strategies.

What do you think are the main challenges that the property investment market will face in the next 12 months?

The uncertainty related to the evolution of the pandemic is understandably the main challenge now.

But once there will be more clarity and predictability in this respect, it will be interesting to observe what structural changes will be left behind. Will people return to shopping centers or will the shift to online shopping become permanent? To what extent will they continue to work from home instead of going to the office and communicate over online platforms instead of traveling?
Access to financing could also be a challenge, especially in the retail and hospitality segments.

What are the opportunities you see on the property investment market in the next 18 months?

I believe the Romanian real estate market will offer interesting opportunities across the board in the next 18 months. From core assets enabling returns far higher than anything with a comparably low risk profile to value-add propositions which are likely to be very profitable in the context of a strong economic bounce back of the country.

What was the biggest win for JLL Capital Markets team in the last year?

We are especially proud to have advised on the largest office transaction – AFI's acquisition of the former NEPI portfolio - and the largest logistics deal in 2020 - the sale of the A1 Business Park.
We continue to offer the most complete set of services in the market with the support of a solid team with vast experience and a wide range of skills including important differentiators such as Debt Advisory and Living.

Raising capital from corporate real estate

Corporates and owner-occupiers are looking more and more to unlock the value of their property portfolios through sale and leaseback transactions and this trend is also reaching Romania.

By Andrei Văcaru & Viorel Opaiț

In these transactions, properties are sold to landlords in return for the company taking an occupational lease.

The ongoing global Covid-19 crisis presents enterprise-wide challenges for all businesses, regardless of their size, sector or geography.

At a time when debt markets and other sources of capital are significantly constrained, businesses are increasingly looking at the different routes available to generate liquidity from their properties. Disposals remain an attractive route to releasing capital – not only because they can allow for considerable operational flexibility, but also because investors are becoming more aligned with the needs of corporates.

2019 was a record year for corporate disposals of owned real estate across a wide range of industries. In the EMEA region alone, disposals of corporate and owner-occupied real estate raised a record €23.1bn across more than 460 transactions, up sharply from €17.4bn in 2018.

Offices, retail and industrial continued to be the most active sectors for corporate and owner-occupied disposals in 2019, accounting for 76% of the total value of disposals in EMEA.

Corporate disposals of retail and leisure properties grew sharply in 2019, with €6bn of transactions taking place - compared with €3.7bn in 2018. Industrial and logistics disposals have grown markedly over the past few years. In fact, €17.4bn took place between 2015 and 2019, compared with €7.4bn between 2010 and 2014.

Furthermore, 2019 saw the total value of corporate disposals reach €5.7bn, up more than 50% on 2018 and only narrowly behind activity in the office and retail sectors.

The UK, Germany and France were the most active markets for corporate disposals in 2019, accounting for 69% of the total value of transactions in EMEA. In the UK, the value of corporate and owner-occupied disposals almost doubled in 2019, with €7bn worth of corporate disposals taking place.

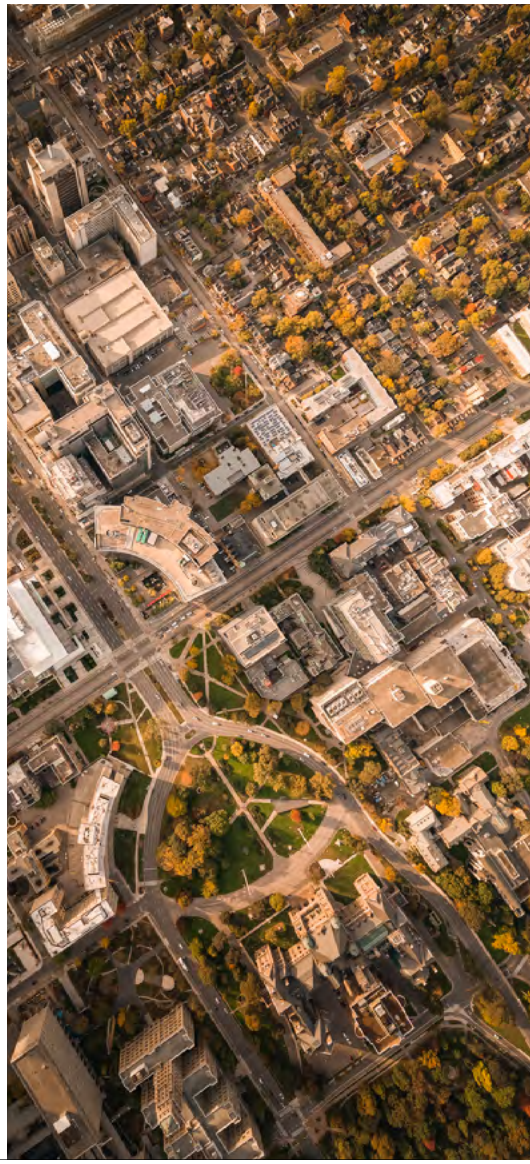
Healthcare disposals in the UK raised €2.2bn alone in 2019, more than any other sector. Disposals in Germany also increased markedly in 2019, reaching €5.8bn. Industrial and logistics assets continued to represent a higher share of corporate disposals in Germany than in other major European markets. Slightly more than half of German corporate disposals in 2019 were of industrial properties, raising almost €1.7bn. France saw €3.2bn of corporate disposals in 2019, a slight increase on the previous year.

In this context, we have seen the first attempt at a landmark sale and leaseback transaction in Romania in 2019. However, despite high investor interest, the transaction was not concluded.

2020 has brought to market an interesting portfolio and more are likely to come in 2021.

The security provided by the strength of the occupier and the structure of the lease can outweigh the geography, so we should see investors that are new to Romania interested in such products and record-breaking yields for the country.

Corporates are starting to consider such disposals and are demonstrating high degrees of creativity in how they structure sale and leasebacks to minimize operating expenditure, rather than focusing exclusively on maximizing capital value. For instance, some corporates asked prospective buyers to bid their lowest rent against a fixed capital price.



What can a real estate consultant bring to a corporate client's business strategy

By Maria Florea

Client's expectations changed in line with the real estate market. Property sector is dominated now by professional players, tenants or landlords, more demanding and much more careful when it comes to real estate issues.

JLL has adapted and responded to these changes by re (imagining) the services offered to clients into solutions and creating a "Solution driven approach" rather than a service driven approach.

When I started working in the real estate industry - in the office department, in 2005, some people even called us "well-paid taxi drivers". Basically in 2005 we had 3 new buildings, some office projects under construction and a car with which we taxied CEOs around town to identify the closest office location to their current accommodation. We were preparing a simple presentation with plans and the tenant had to choose between the few options available. I rarely met any Real Estate Managers in the region.
Now, 15 years down the line, the tenant gets to choose their future office space based on a 5-10 years cash flow analysis, a traffic analysis and a technical comparison made by the project management team between the fit-out costs to bring each space to the standard desired, among others. Add to this the analysis made by the HR department on how one project or another will bring them a competitive advantage on the labor market, as well as increase attrition rates and you have a full- scale business consultancy piece that needs to be coordinated, understood and scored. And this is only the tip of the iceberg.
We have evolved, we have specialized, we have become business consultants with real estate expertise, with knowledge and understanding of business models and HR policies of more than one industry and our clients are beginning to appreciate more and more the customized and complex services we are able to offer.

The question is **what is next?**
Since I took on the role of Key Client Director with JLL Romania 3 years ago, I had the opportunity and pleasure to work with clients who understood the value of a trained, experienced Real Estate advisory team concentrated on their needs and desired outcomes. The simple fact that we all live in real estate and have acquired or rented our own flats or houses does not automatically make us all Real Estate experts. It is this type of understanding that allows the largest and most successful occupiers to navigate profitably the flow of their Real Estate needs be it offices, industrial, retail, land development or residential.
In Germany, England or France this article may seem strange, as more mature markets have evolved into a sort of outsourcers of the real estate function long before Romania has. However, even for them, as well as for us, there is now a growing need for:

- **Integrated services** - from a simple case in which you are looking for an office and you need someone to calculate how many square meters you might need, to making a study of your existing teams and workflow in order to accommodate the employees in the space, to helping you negotiate the best terms of the lease, to supporting with the design and fit-out of the space to match your corporate culture, to reinventing existing space to create the hub for productivity that offices will remain depending however on how much we work from home, to managing such space for you – ideally. You should be able to outsource all that to one provider that would offer you a dedicated account manager, a single point of contact that understands your needs and can coordinate the solution to its full implementation.
- **Drafting the appropriate real estate strategy** - companies that have a completely different core businesses face real estate problems like any other but might not have real estate expertise in-house. A seasoned real estate advisor can help them make the most of their ambitions by proposing, translating in business terms and implementing a coherent strategy that fits within their wider goals. Analyses like buy vs. rent vs. built are common and just a small part of a typical strategy that you, as a client, might need.
- **Communication and Change Management** - in processes that involve real estate, the potential for disruption is immense (sometimes leading to more than 30% of staff being disenfranchised) while it is also emotional and time consuming for the management. Having a senior businessperson collecting, understanding and implementing the strategy on their behalf helps mitigate these two major threats. This allows management and staff to concentrate on core business and have the certainty that the real estate is dealt with at the highest standards.
- **Relationship based on trust** - none of the above examples can be achieved without creating a relationship of trust with the person you work with. As their outsourced "real estate partner", you are part of their team, you are the binder that helps them be more profitable, better, more competitive, have an edge over the competition.

The rise of the Romanian real estate investor

The Romanian real estate investment market, which was traditionally dominated by international players, has witnessed, across its 20 years modern history, shining examples of local investors and developers who managed to create and develop business models that can make even the largest of investment funds envious.

By Andrei Drosu

Investment side
Even though in the early stages of the modern real estate, the Romanian investor avoided putting his money into commercial properties, this changed dramatically over the course of the last 3 years. From an average of around 5% of each yearly volume invested in assets in the last decade, 25% of the capital accounted since 2018 is of Romanian origin.
This is mainly due to the new wave of Romanian entrepreneurs who are eager to spread their acquired wealth into different industries, with real estate being one of the top targets due to its significant returns when compared with deposits, bonds or other forms of financial investments.

The best example is that of Dedeman, the investing arm of the second richest family in Romania. The company which owns the largest DIY chain in Romania made its first acquisition in 2018 - The Office, the largest office park in Cluj-Napoca and continued by buying all 3 phases of The Bridge, an office project in Bucharest. Moreover, through a partnership with Element Development, another very active local investor, Dedeman became active on the industrial / logistics market. Besides the now traditional players such as Tiriac Imobiliare, One United, Forte Partners or the 2 above mentioned parties, several other local investors, mainly high net worth individuals are buying or are considering acquiring smaller properties, from all 3 main sectors – office, industrial or retail, but with prices no larger than €20 million.

There are solid signs that this trend will continue for the years to come, as more and more Romanian nationals are gaining capital which needs to provide more than a low interest from a deposit in a bank. Moreover, the implementation of Real Estate Investment Trusts vehicles and the legalization of the pension funds to invest in real estate will open a new market for local investors to place their money.

Development side
Similarly, to other post-communist countries, modern commercial real estate developments started to emerge in Romania in the mid to late 1990's, first in Bucharest and then in the large cities across Romania, such as Cluj, Timişoara, Iaşi, Constanţa or Braşov. Traditionally, the first developers were international groups which brought to Romania their experience in other countries in Europe or across the world. This track record resulted in the first shopping centers (Bucureşti Mall and Plaza Romania) and the early forms of office buildings (World Trade Center or Opera Center) in Romania. The success of such assets inspired a wave of local developers which became more active towards the second half of 2000's and after 2010. In offices, developers such as Genesis Development, River Development, Iulius Group, Forte Partners or Mulberry Development targeted sub-markets which were previously ignored by the large international groups in a move which proved to be very inspired. Large projects, such as Novo Park , West Gate, Sema Park, The Office and all the different phases of United Business Center and Iulius offices became landmarks in their various locations. Genesis Development and the Iulius Group became so big, that now they are in the top 10 Romanian owners of office buildings in the country, proving that local developers can be as successful, if not more successful, than international companies which have the support of pension funds and years of experience behind them.

In retail, the target of the domestic developers were mostly large secondary cities, with one hugely successful example – that of Iulius Group, which developed one of the most renowned shopping centers in Cluj-Napoca, Timişoara and Iaşi. Past examples encouraged new local entrepreneurs to become developers and the traditional players to continue their expansion plans, a trend that is reflected in an increasing number of projects in various stages of development that will be financed purely with 100% Romanian money.

Romania offers an attractive environment for new occupiers

Tenants must start thinking about the moment when their employees will come back in the office, said **Marius Șcuta**, Head of Tenant Representation and Office Agency JLL Romania. He told us also how the office market reacted to Covid-19.

By Cristina Lupașcu

How the pandemic has changed the Romanian office market?

Unfortunately, all these changes came at a lightning speed, and all major market indicators dramatically decreased, compared with what all local experts predicted for 2020 and compared with every single quarter of 2019. Gross and net demand dropped with more than 50%, with all companies sending their employees to work from home and the majority putting all their occupancy plans on hold. Several projects were strategically delayed and moved to 2021. The share of office stock available for sublease increased exponentially, putting a lot of pressure on landlords with vacant units. The vacancy also increased at close to 11% and based on our estimation, will continue to increase with 100 to 300 bps.

There are voices that in the context of the increase of "work from home" are talking about "the end" of the office spaces. What is your opinion about that?

Unlike others, I don't believe that the office market will die, and I'm not just saying this because I'm working in this business. There are several simple reasons that support my affirmation: the increasing mental struggle created by the isolation who forced employees to work more individually, the lack of WFH infrastructure (not all employees can physically work from home due to lack of space, the lack of proper furniture, children at home, pestering pets eager to be part of any video call, low speed internet, etc.), increased inefficiency at different tasks required at work, difficulty in retaining and training talent, etc.

The WFH risks to suffocate the creativity and it will keep people away from new experiences. The capacity of creative thinking is diminished by this required isolation. All informal discussions that happen inside the office are many times, more useful than all the formal meetings.

But don't get me wrong – personally, I don't necessarily miss the commute to work, but I do miss human interaction. I feel losing work relationships, random discussions with great potential of finding new ideas, listening to other people outside my team of people, with their different experiences. All these losses will increase over time and will matter more than spending time in daily traffic. We will all lose important social capital, during which any creative ideas or brainstorming will be insignificant.

In my opinion, all these examples are only some logical reasons to see that companies will still need physical office spaces.

Which are the main challenges for the Romanian office market in the next 12 months?

For tenants, the main challenges will remain their internal organization and space management. Most of the tenants still believe that no harm is coming with the WFH situation and even for the companies who already adapted to a hybrid model, they still don't realize that the previous fit-out/design of their offices will not be able to sustain the new ways of working. Those who are already acting to adapt to the new way of life will gain an important advantage in front of the others, which will reflect in the retention and attraction of talent. For some landlords, the main challenges will be to fill their empty spaces, considering many companies put their expansion or relocation plans on hold, due to pandemic. Other landlords will have to work with their tenants and find business solutions to pass this period which could help both parties.

Which are the main opportunities for the Romanian office market – tenants, developers, landlords – that COVID-19 crisis will create?

The first opportunity brought by any type of crisis is clearly an improved commercial package, no matter if we discuss about existing or new office spaces.

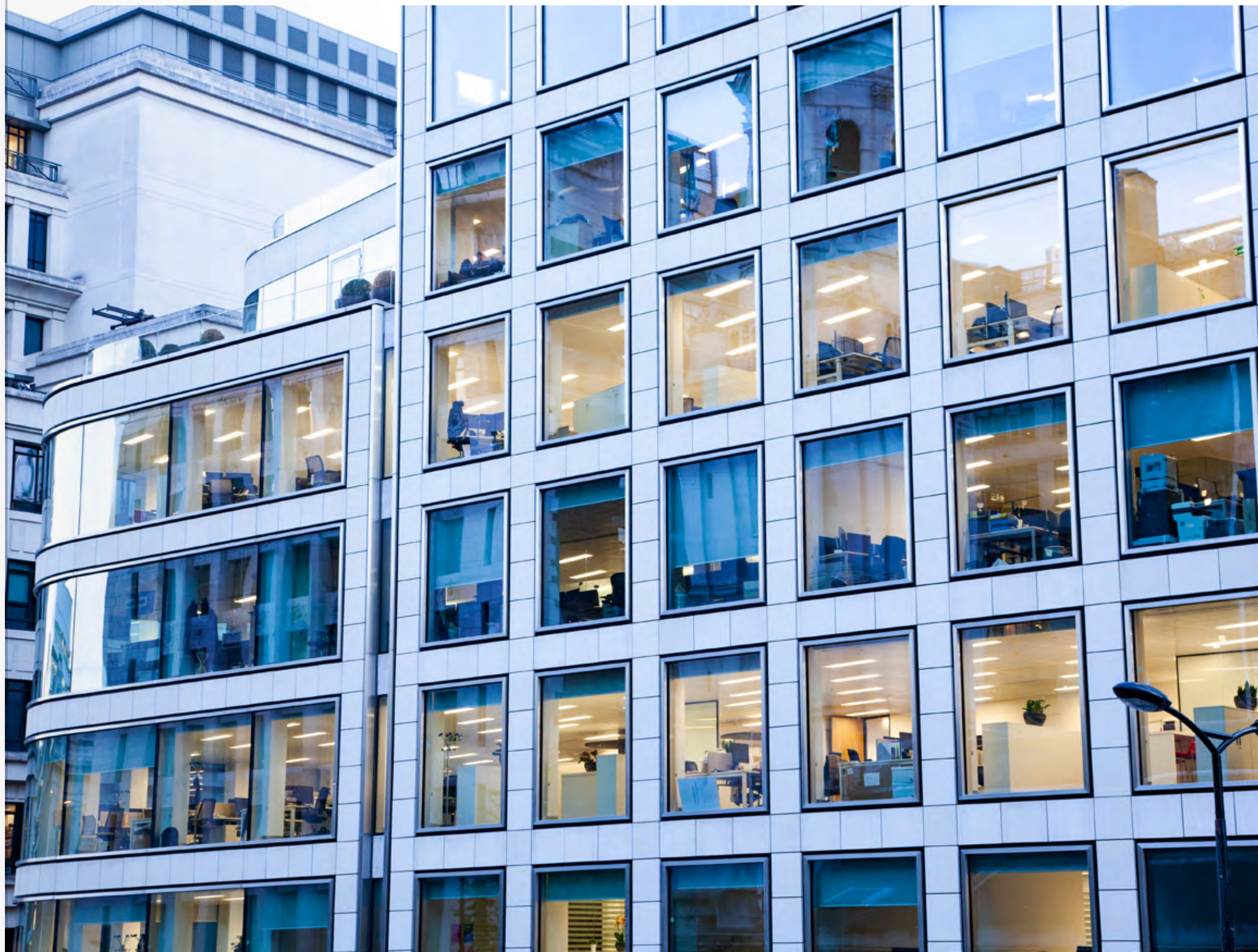
Another opportunity might be the possibility to attract new investment and investors in our country. Pressured by the current and future economic environment to reduce some of the existing costs (wages and real estate), some companies in the Western or Central Europe might decide to relocate some operations in Romania. At the same time, countries that were main support hubs like India, but where the IT infrastructure cannot permit a hybrid work system, will suffer. This could start a change in the call centers approach, focusing on countries where you can work from home, like Romania.

One advice for the landlords:

Invest in systems and equipment that will sustain a healthy and Covid-free life, including certifying your buildings green, well, immune or any other system which will appear. Also, be open to find common solutions with existing tenants to pass this difficult period together and don't use the difficult situation the tenants are passing to force them to accept something that they would have never accepted during normal times.

One advice for the tenants:

Start thinking on how to prepare your office for when people will return, because they will return. Don't act purely on cost savings and cut your office space considerably. If the future of work will be a hybrid model, then for the people who will return, you need to create a healthy space where physical distance must be offered. Also, try to understand the difficulties your landlord might face and all the efforts he is doing in order to provide the maximum support he can possibly do.



The Romanian capital market becomes Emerging Market - a historic moment

For the first time in history, the Romanian capital market is included, starting from September 21st, 2020, in the Emerging Markets indices, according to the classification of the global index provider FTSE Russell. The promotion of Romania to the Emerging Market status after 25 years from the re-establishment of the local stock exchange, a fundamental institution of the Romanian capital market, represents an unprecedented success.

By Cristina Lupașcu

According to the representatives of Bucharest Stock Exchange, the effective promotion to the Emerging Market status will allow the Romanian capital market and economy to absorb new funds in the coming years and sends a strong signal to privately-owned and state-owned companies that they can grow significantly via the stock market.

New investment funds that manage billions of euros will be able to invest in the Romanian companies listed on BVB, which was previously impossible due to the restrictions generated by the country's former Frontier Market status.

Two Romanian companies: outstanding contribution to the new status

Two Romanian companies, Banca Transilvania (TLV) – the most traded stock on the BVB – and Nuclearelectrica (SNN) – a BVB-listed company in which the Romanian state is the majority shareholder – have met the necessary criteria to be included, starting from September 21st, in the All-Cap indices dedicated to Emerging Markets according to the classification of the global index provider FTSE Russell.

The contribution of the two companies was decisive for the upgrade of the entire market, as the promotion considered the presence of companies in the All-Cap indices (which include Large, Medium, and Small Capitalization companies, excluding the Micro-Sector).
Banca Transilvania becomes the first privately-owned Romanian company listed on BVB that is included in the FTSE Russell indices dedicated to Emerging Markets.

Nuclearelectrica becomes the first majority state-owned Romanian company listed on BVB that is included in the FTSE Russell indices dedicated to Emerging Markets.

The first effects

As a result of Romania's upgrade to the Emerging Market status by including the issuers Banca Transilvania and Nuclearelectrica in the FTSE All-Cap indices, which are representative for the upgrade to the new market status, other Romanian companies listed on the Bucharest Stock Exchange can benefit from the inclusion in the Emerging Market indices. According to the FTSE Russell classification, the first Romanian company that benefits from the market upgrade is TeraPlast (stock symbol TRP).

Consequently, starting from September 21st 2020, TeraPlast becomes the first Romanian company included in the FTSE Global Micro-Cap index. The Micro-Sector is not considered by the global index provider in the decision regarding the country upgrade, but the inclusion of the Romanian companies in these indices can contribute not only to enhanced visibility but also to attracting capital from fund managers.

Consolidating the Emerging Market status

"Romania has a new highway that connects us with the whole world, not only with Europe. Following the promotion to Emerging Market status, this highway represented by the capital market will facilitate the circulation of cash flows to and from anywhere in the world. That is why the listing of companies on the stock exchange, whether they are largely state-owned or privately-owned, is the way to the economic and sustainable development of Romania. Continuing the listing process ensures that opportunities are seized and that the capital is accessed in a fast and efficient manner. The main common objective, both in the economic and in the political environment, is the development of Romania", said Radu Hanga, Chairman of the Board, Bucharest Stock Exchange.

Romania's promotion to emerging market status should, theoretically open the Romanian capital market to a new category of investors, namely emerging markets funds. At the same time, it should increase the visibility of the Bucharest Stock Exchange and locally listed companies and help local companies get easier access to financing and more visibility on the radar of foreign investors. This could also lead to better valuations for Romanian companies.

The best is yet to come for regional cities in Romania

Romania is a country opened for business, an established EU member and a source of many opportunities, some still untapped. This is a valid statement not only for the capital, Bucharest, but also for flourishing regional cities, especially Cluj-Napoca, Timişoara, Iaşi and Braşov.

By Claudia Cetăţoiu & Alexandru David

Among the many advantages for Romania is the cost competitiveness. Compared to Poland, or other EU countries in Eastern Europe, it is a well-known fact that Romania enjoys very attractive labor costs. It also offers a large pool of foreign language speakers and skilled workforce. These are the top 3 indicators for a company when looking to open a new location or when reviewing the existing ones.

The office market continues to expand in regional cities

Bucharest has a total modern office space stock of 2,9 mil. sq. m, while the 4 main regional cities mentioned above add another 1 million of sq. m of office space, and new buildings were delivered on the market despite the Covid-19 pandemic. During the first 9 months of 2020, out of the total demand for office spaces in regional cities, the largest share was represented by net take-up.

This shows an increase of the office space occupied by existing tenants and that new players are entering these markets, while for Bucharest, net take-up had a smaller percentage, of only 20% of total demand during the period. This proves that companies prefer to expand to regionals cities, not just in Bucharest, continuing the trend which started approximately 4-5 years ago.
The unemployment rate in the major regional markets (Cluj-Napoca, Timişoara, Iaşi and Braşov) is below the national average rate, or between 1 and 3%, compared to over 5%. Wages tend to be above the national average, but still considerably below Bucharest. This trend will most likely continue for the medium and long term, although the speed of the expansion might be, to some extent, reduced on the short term because of the pandemic.

Regional markets can prove to be very attractive for some companies. For example, there are currently 17,000 IT companies active in the country, out of which only 5,400 are in Bucharest. The rest, with approximately 45,000 employees, are mostly located in the above 4 major markets.

Macroeconomics of the main office markets in Romania

City	Bucharest	Cluj-Napoca	Timişoara	Iaşi	Braşov
*Permanent resident population (July 2019) at municipality level	2,139,439	326,145	326,636	382,767	289,190
*Permanent resident population (July 2019) at county level	2,139,439	734,168	756,218	956,216	635,861
GDP in € bn. at county level (2019)	52.29	10.63	10.40	6.89	7.56
GDP per capita in € bn. at county level (2019)	24,441	14,479	13,753	7,205	11,889
Employees at county level (July 2020)	1,028,308	258,850	250,545	175,416	188,388
Unemployment rate in % at county level (July 2020)	1.3	1.7	1.1	3.0	2.4
Net average wages in € at county level (July 2020)	893	825	703	700	608

Permanent Resident Population represents the number of persons with Romanian citizenship and permanent residence in Romania, delimited by territorial administrative criteria.
Sources: JLL Research, National Institute of Statistics, National Commission for Strategy and Prognosis

The growth pattern

Each of the major cities is of high interest for different types of activities: Cluj-Napoca is a strong IT&C hub in Romania and concentrates many service providers, Timisoara is renowned for the automotive industry and for its SSC and IT sectors, Iasi attracted many BPO and SSC operators in recent years, but also IT companies, while Brasov hosts a wide range of hi-tech providers and pharma and IT&C companies.

Iaşi and Cluj-Napoca are also well-known as "tech cities of the future", enlisted as such by fDi and TNW's in their most recent study, Tech Cities of the Future for 2020/21. The study collected data for 76 locations and analyzed five main areas: Economic Potential, Innovation and Attractiveness, FDI Performance, Cost-Effectiveness, and Start-up Environment. This study was created with the aim to map cities across Europe with high potential to attract business investments.
The growth pattern of the most successful regional cities in Romania, Cluj-Napoca, Timişoara and Iaşi, is also the result of a mix of favorable factors, such as demographics and economic density, accessibility to major markets, attractive universities and a fast-developing service sector, resulting in a sustainable growth spiral.

On the other hand, there is a totally different story with cities relying primarily on the industrial sectors and with less developed IT, financial, and professional services sectors. Development there has been much more subdued, with those cities attracting fewer new inhabitants and witnessing a slower growth, such as Oradea, Constanţa, Galaţi, Sibiu, Craiova, Bacău and Târgu Mureş.

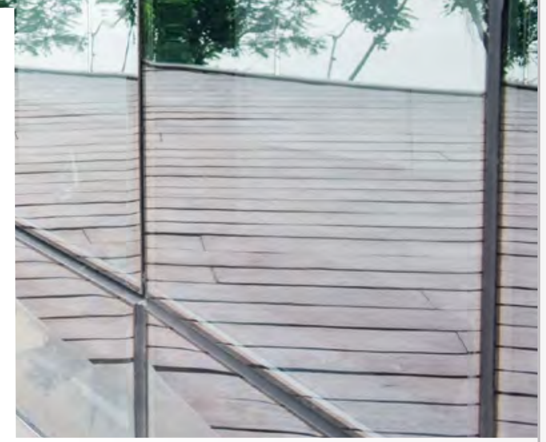
The evolution of the regional office markets in Romania can usually be defined by 3 situations in relation with how companies approached them:

- Companies that were initially present in Bucharest have expanded further into regional cities, such as Endava, Microsoft, SAP, Genpact, IBM.
- Companies which opened their first office in Romania in a regional city and later on entered the Bucharest market, such as the well-known case of Amazon, and local companies, mostly startups in the IT&C sector, which emerged in Iaşi and Cluj-Napoca, became successful on the local market, and then expanded to other cities.
- There are also several companies which started their activity in regional cities and decided not to enter the Bucharest market at all, being confident that regional cities can offer all the conditions for future expansion, from skilled workforce to an adequate working environment. And this trend has been continuing for the last 3 years.

How the future looks like?

At the global level, and in context of the pandemic, companies are reconsidering their costs, strategy and externalization approach. This could become an opportunity for regional cities in Romania, which usually have a very quick response time and adapt more easily to new situations. However, for this to happen, there is also a strong need for partnerships between the business environment and both local and central public authorities. By accomplishing this, Romania could become even more competitive at the regional level.
The COVID-19 pandemic has been an unforeseen and extreme shock to our world, with far-reaching consequences over the short, medium and, most likely, long term. On the short term, there will be an inevitable correction, as the economic impact of the pandemic is felt throughout all areas of corporate activity. However, over the longer term, the office will remain a fundamental part of our corporate culture and will play an essential role in our work, productivity and future growth.

Healthier/sustainable buildings



Since the coronavirus pandemic began, reviews on the job sites have been increasingly focused on the health and safety of workplaces — in addition to the usual discussions about corporate culture. There are two major sectors which will be treated separately below.

By Bogdan Plutariu

The old/existent buildings which require an update of the air handling units in order to improve the quality of the introduced/recirculated fresh air. This can be done by either increasing the capacity of the air volume, replace the AHU filters or avoid to recirculate the interior air through the heat recovers since the eventual Covid-19 particles will be recirculated as well, putting the life of the building occupiers in danger .

For the buildings that are equipped with openable windows, they can be corelated with the HVAC system by implementing contact sensors and automatization, so once the windows are opened (manually or automatically), a command should turn off the HVAC in the controlled area in order to reduce power consumption. Also, procedures and trainings should be provided to the building occupiers, from visitors to permanent occupiers, encouraging the use of the windows to refresh the space and to respect the internal health rules. Of course, these measures are impractical, especially during the summer seasons, when the outside temperature reaches +40 Celsius degrees or in the winter when we can have -10 Celsius degrees or even lower.

There are plenty of solutions which can be implemented to reduce the Covid-19 spreading inside confined spaces, depending on each landlord budget allowance, but in order to remain competitive and attractive in the current market, the above upgrades are becoming a must.

For the future projects or under construction buildings, all the above solutions are recommended as well and should become a market standard. One solution, which is less costly to be implemented than in the old buildings, is defined by implementing air handling units dedicated for each floor. These will reduce any viruses spreading and will allow the tenants to locally control the temperature of the introduced air according to their needs, recirculating only the air volume from the served space comparing with the buildings where the air handling units are centralized and the variation of temperature for the introduced air is limited.

Another solution can be implemented through smart building management systems with air quality control sensors which can allow an accurate, real time control over the introduced/recirculated air, a solution that can be implemented also in existent buildings.

Healthy = sustainable

Retro-commissioning is a process that involves systemic evaluations of a building's HVAC and other systems that can help identify opportunities to improve air quality. This process also has an added benefit: discovering new ways to cut energy consumption and effectively reduce a building's environmental footprint.

In the end, improvements accelerated by the pandemic should ultimately lead to healthier occupants who will be happier and more engaged.

According to specialized studies, an average person spends 90,000 hours at work over a lifetime, one third of our life and this should be the trigger that makes relevant all of the above recommendations, keeping in mind that happier employees equals increased productivity.

The increase of online commerce, a great opportunity for industrial market

The industrial and logistic sector has the highest chances to be the least impacted by the current situation and the tenants must be ready to adapt to the new consumption trends and opportunities, said Costin Bănică, Head of Industrial Department JLL Romania.

By Cristina Lupașcu

Last year, industrial and logistic market has witnessed a good year, if we look at the level of the demand and of the new projects delivered despite the Covid-19 pandemic. What were the main factors that favored the evolution?

Indeed, the aggregated results for the industrial take-up in 2020 do not suggest a potential slow-down tendency of the market. The industrial development activity also remained largely unaffected by the difficult year we have experienced. I consider that positivity was one of the main factors that helped our sector this year, and I am referring to this on multiple layers. If we look at the year from a chronological point of view, the first positive approach to the pandemic I would consider to be the uninterrupted works on the industrial construction sites, as most developers did not stop or slow-down works on the projects that they have been working on. A second positive aspect I would consider to be the excitement visible in all economic areas after the lockdown period has finalized, around May-June 2020.

People were considering that, slowly, things would start going back to normal (even a new normal) and were exploring back the opportunities considered at the beginning of the last year. Unfortunately, the evolution of the pandemic and the return of the second wave of infections in both Western Europe and Romania would bring uncertainty over the next period and effects over the economy and on the population.

Which are the main challenges that industrial and logistic market will face this year?

One of the main challenges will be to mitigate the risk of a higher vacancy rate in the main cities, as Bucharest, Timisoara and Cluj have also witnessed some speculative development and some of the retailers have moved in owner-occupied facilities. The vacancy in these cities, that have also experienced increased take-up rates in the previous years, is expected to reach values close to 10%. Although not a worrying value, it is higher than the vacancy this sector has experienced in the past years.

Another challenge is to attract the new demand, as the competition has increased and there are multiple projects competing for the new take-up in certain areas. Such challenge will put additional pressure on the commercial conditions, coming with new and interesting advantages for the tenants. As the industry specific events are being postponed due to the pandemic, the investors are looking at new opportunities to market their projects and try to identify the strong points that differentiate their projects from the competition

What about opportunities? Will the pandemic and the new normal create opportunities on the local industrial and logistic market?

I consider the opportunities to be linked to the specifics of what is the new normal. The increase in online commerce has been accelerated by the lockdowns that affected all Europe, and the trend has been visible also in Romania. All the retailers had to shift abruptly to the e-commerce channel as the lockdown has prevented the population to buy from the traditional retail channels.

An advice for the landlords

Maintain your positivity! Our sector has the highest chances to be the least impacted by the current situation.

An advice for the tenants

Maintain your positivity! Be ready to adapt to the new consumption trends and opportunities.

Mitigating risks by building resilient supply chain

Supply chain managers strive to achieve the ideals of fully integrated efficient and effective supply chains, capable of creating and sustaining competitive advantage

By Mihai Escu

To this end they must balance downward cost pressures and the need for efficiency, with effective means to manage the demands of market-driven service requirements and the known risks of routine supply chain failures. Modern commercial supply chains are in fact dynamic networks of interconnected firms and industries. No organization is an island and even the most carefully controlled processes are still only as good as the links and nodes that support them.

In today's uncertain and turbulent markets, supply chain vulnerability has become an issue of significance for many companies.

As supply chains become more complex as a result of global sourcing and the continued trend of 'leaning-down', supply chain risk increases. The challenge to business today is to manage and mitigate that risk by creating more resilient supply chains. The current pandemic has elevated the importance of supply chain risk mitigation, with a major Covid-19 risks perception survey for the World Economic Forum highlighting a protracted disruption to global supply chains as one of the most likely 'fallouts' for the world.

As a result, building greater supply chain resilience will become an increasing area of focus for companies globally.

Companies exploring options to diversifying and regionalizing their manufacturing and supply networks

Now, companies are exploring various ways to build more resilience into their manufacturing and supply networks—even if that resilience leads to extra costs. With massive value at stake, global enterprises are seeking to mitigate risk and secure better access to supplies and markets. They are exploring options for diversifying and regionalizing their manufacturing and supply networks, adding backup production and distribution capacity, and reoptimizing inventory. Companies are also seeking to improve their supply chain flexibility, risk-monitoring capabilities, and capacity to respond rapidly to new shocks.
The trade war between the US and China accelerated shifts in procurement. Trade between the two economies dropped by 16% in 2019. US auto-part imports from China fell by 17% but rose by 10% from Turkey and 24% from Southeast Asia.
The global supply and manufacturing networks that have served multinational enterprises well for decades have required substantial investments, hard-earned experience, and relationships that took years to build.
But they have also been premised on many assumptions of the way the world works that are fast becoming outdated. To thrive and win in the post-Covid-19 global economy and beyond will require building supply chains that are resilient to disruption and flexible enough to capture new sources of competitive advantage.

Desks will no longer be the key element of the office space

The key differentiator in the market will be the ability to turn challenges into opportunities, considered **Cezar Florea**, Head of Project & Development Services.

By Cristina Lupașcu

How did the activity of the PDS department evolve in the last 12 months, in the context of the Pandemic?

Despite COVID situation spanning throughout 2020, we cannot say that our activity has been impacted in a negative way. Looking retrospectively along the last year, we noticed a small number of projects being put on hold or canceled. Even further, for the second half of the year we can say that several new projects showed up, giving us confidence to look positively to 2021 and beyond. In the same time, after a year that has seen a monumental change in how people work, many design trends that were emerging among progressive offices are set to become part of the norm. Flexible workspaces, a design priority on employee wellbeing, and office furniture with a residential aesthetic are among the solutions predicted to inspire employees to engage with the office space as working from home becomes increasingly prevalent.

What changes has the COVID-19 crisis brought to the way office projects are built and office spaces are arranged?

It is a fact that COVID19 has changed the way companies are looking at their real estate portfolios. Working from home turns into a mind shift both from employee and employer perspectives. Even post-COVID era, the office spaces, most probably, won't look like the way we knew them before. Office spaces will lean more on gathering areas, brainstorming and socializing spaces where colleagues can meet and share ideas/thoughts/out of the box thinking. Spatial distancing will force the allocation of larger areas for such collaborative spaces. Office desks will keep their role in an office space yet will not represent anymore the key element of the office space. The employee-centric workspaces will become a key marker for business success, as more corporations than ever seek to optimize staff performance by enhancing the employee experience and offering flexibility in where and how to work.

What are the biggest challenges you see in the next period for the line of business you lead?

Challenges will exist for sure, however, our key differentiator in the market will represent the ability to turn those challenges into opportunities. Most probably, the expansion of the office spaces will not happen at the scale we have seen by the end of 2019, yet the present circumstances will push the Clients to adjust their premises to the new working environment, triggering the need of a new project. These new projects will turn into a great challenge for us by means of properly understanding the needs of the Client, as well as identifying the best possible solutions for our Clients, hence meeting the needs of the present days. Such new projects will represent both for our Project Management division, as well as for Tetris, a great opportunity to prove our capability to deliver services seconds to none. Also, interesting developments in sustainability and wellbeing are making their presence felt in modern offices around the world. Cultivating happiness is an important topic in the modern workplace. Knowing that an employer has a vested interest in its people's wellbeing will have a positive impact on productivity and job satisfaction.

What is the department's biggest win in the last year?

Linked with out of the box thinking mentioned above, I would not necessarily mention the name of a specific Client, as all Clients have anyway their specifics, which would qualify each of them for the above award. I will say that the biggest win of 2020 is the entry in Romania of Tetris D&B services which I can say is a win not just of JLL, but also for the whole fit-out market in Romania. Tetris aims to bring a new vision in this domain, with astonishing solutions, great level of quality, all these under the wing of cost-effectiveness. No doubt that these elements will represent a big win for our Clients.

Flexibility – the new normal for the office market. How will your workplace change with the times?

After the great home working experiment caused by COVID-19, companies of all sizes are now reassessing their stance on working from home. The top management of companies started to ask themselves if this forced work from home exercise will be the new normal, will define the future of working and will reshape the office segment of real estate.

By Alexandru Orzea

Shifting employee attitudes

While some people are eager to return to the office as soon as possible, others have enjoyed working from home, according to a global study of 2,115 people by JLL.

Half of respondents said they liked having no commute with 45 percent enjoying flexible hours and 31 percent benefiting from an enhanced work-life balance. But that's not to say they want it to last forever. At most, people want one or two days of their working week at home.

So, many employees adapted and started embracing the situation, but calendars started to fill out with an overwhelming number of calls, out of which many could have been just an email with an extended CC. The effective time dedicated to individual work started decreasing in the usual 9 to 5 timeframe so many started to observe that even without the commute to the office and back, the time dedicated to working increased and their personal time started to be affected. "Can you see my screen?" and "your mic is on mute" took the place of "hi everyone" and "how are you today?" leaving no social interaction between teammates and colleagues.

Most companies kept saying that productivity has not been affected and that is even growing, but the real determination came out of fear which is not the best argument for the long run. Fear of losing the job and not finding another, fear of missing deadlines, fear of being left out, fear of being misinformed about decisions started growing for everyone. But can creativity, innovation and the power to adapt to this "new normal" be sparked by fear?

More than 6 months after the full lockdown, as the next lockdown seems very close, many are thinking that this way of working might define hybrid working, but still, as studies show, the main reasons employees are not coming to the office is the fear of using public transport and the lack of physical space provided inside their offices to ensure the recommended safe distance to hold back the potential virus spread.

The hub & club concept

So many companies started to explore 'the hub and club' approach as a next step to customizing their workplace that translates into a headquarter/club located in an easily accessible area for the top and middle management of the company where client-facing meetings can take place, in the CBD or central areas and few spaces spread around the city close to the high-density residential areas where most of their employees live.

These clubs or satellite offices grant employees collaboration areas and focus work areas where all the different tasks can be carried out.

This approach also started a new trend called "work from near home", away from the "close attention" of children, providing face to face interaction with colleagues or suppliers and allowing teams to get together to speed up processes for collective or individual tasks solving. The set up for these spaces has a higher percentage of the total area dedicated to collaboration and informal meetings with interaction and ideas exchange at the core of its design.

More than ever, an open conversation between leadership and the organization regarding the necessary space for work needs to happen by carrying out surveys that highlight the needs of everyone involved so that business can be smoothly run and keep a high degree of competitiveness in the market.

Tracking short term productivity during the lockdown caused by the pandemic has been the focus for most of the managers and HR departments, but workforce development and new skill acquirement are at all-time low and physical interaction is a must on the long term. Juniors need to be physically close to seniors to be able to ask questions when they encounter obstacles in their day-to-day job, and this cannot be done with a dozen of daily phone calls and online meetings. According to JLL CEE Workplace solution teams' studies, employees can be segregated according to their presence in the office preference by number of days in order to achieve the correct estimation for a hot-desking approach making the surface estimation easy to be established as a starting point for reshaping the office space. Design, flexibility and engagement encouragement seem to be the keywords that define the workplace future, companies just need to ask the right questions and adapt to this new normality that is unfolding ahead.

Dynamics of Bucharest's residential areas - housing follows infrastructure & commercial real estate

Real estate projects have always followed the infrastructure development. The infrastructure development projects in Bucharest have always led to important private investments.

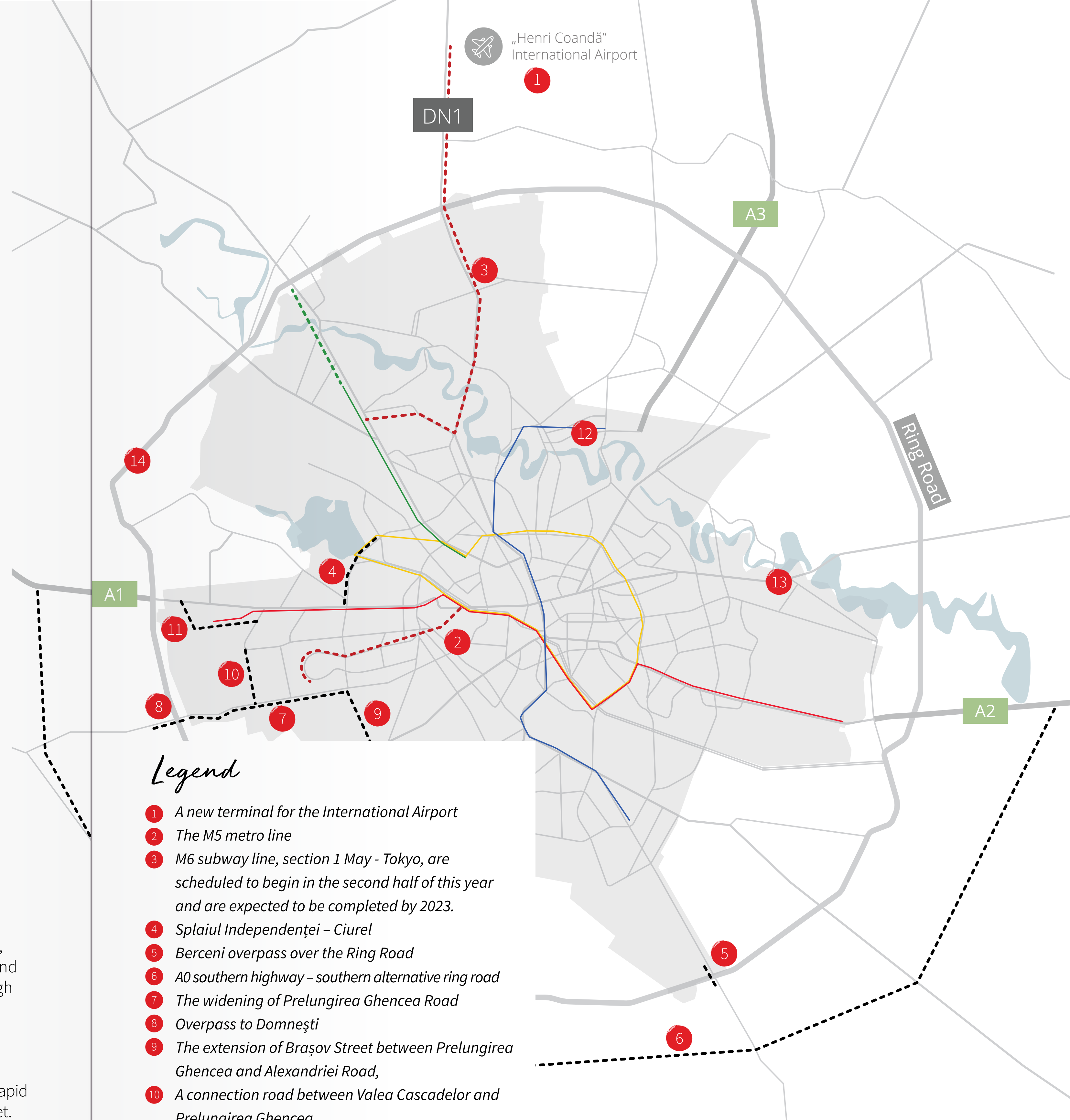
By Flavius Pop

For example, the construction of the Basarab overpass inaugurated in 2011, has attracted major investments in the area, such as Orhideea Towers, The Bridge or Business Garden Bucharest office developments. Large landmark projects have also been completed or started after the enlargement of Buzesti Street, such as The Mark office project developed by S Immo or, more recently, Țiriac Tower office building. The construction of Pipera overpass, in the north part of the city, stimulated the development of the well known Floreasca - Barbu Văcărescu office area. The development of these newly created office hubs generated important investments in residential projects. The massive development of both office and residential segments in Baneasa - Expoziției area was stimulated by the announcement of the new M6 subway line which will connect Bucharest to Otopeni Henri Coandă Airport. The attractiveness of Cotroceni area both for office and residential developments has significantly increased alongside the extension of the M5 metro line which connects the densely populated Drumul Taberei neighborhood to the city center.

The improvement of the city's infrastructure represents a powerful catalyst for generating new commercial opportunities. New projects aiming to solve the heavy traffic's congestion difficulties, through several overpasses and alternative routes, followed by the underground train's expansion to reach distant neighborhoods and establish a faster connection with the airport are already creating a positive impact.

In the light of this progressive focus, the investors and developers respond swiftly by opening new areas through office and retail projects.

The strong establishments reflected through the office sector's expansion generates the right premises for the rapid development of the residential market. The current ongoing and planned investments managed to redefine various areas of the city into multi-functional districts. This is expected to generate more housing solutions, with a practical approach on the living segment.



Institutional investors are moving their focus to Eastern European residential markets

Andreea Hamza is running the Living Department. We asked her to share with us insight information about the residential market and her perspective about the year ahead.

By Cristina Lupașcu

The effects of pandemic on the residential market represented one of the hottest topics in these days. JLL is looking very carefully at the Romanian residential sector. What is your view about the main changes seen on this market because of COVID-19?

The changes came on several levels, each of the market players being impacted differently.

The buyer's perspective

There is a visible change in buying preferences – given the longer time spent at home, buyers are looking for bigger outdoor spaces (larger terraces or private gardens), compounds with diverse facilities for leisure (from private park, playground, swimming-pool, gym to more sophisticated ideas such as business lounge, daycare / playroom, storage / delivery designated area, etc.). Moreover, the efficiency of the partitioning becomes crucial, while the proximity / easy access to the city center is no longer the main decision factor.
Moreover, there is a change in the decision process – those who were actively looking for dwellings before the pandemic took the decision faster. That's why we have seen record sales during the summer months on most projects which were delivered or close to delivery. Houses and second homes (country-side properties) became more popular in buyers' preferences.

The developers' perspective

The trend of adjusting the product to new buyers' preferences – this move will be more tangible in the next 2-3 years, when the projects currently under planning phase will be available on the market. Moreover, tougher negotiations on general contractor terms as opposed to more flexibility in the price negotiations/ discount promotions / special offer for the end users are to be expected, in a market where financing becomes much more difficult to obtain.

Investors' perspective

Institutional investors are moving their focus to Eastern European countries, Romania being one of the new hottest places to invest in multifamily. "Small investors" (looking to buy packages of 2-10 units for rental and capital gain) are currently looking for distressed opportunities, which have not yet become an easy to find product while "short term rent" investors have frozen their investments looking to new opportunities on other market segments

Government perspective

It is crucial that the State will support the effects of the economic downturn with creative measures meant to support the real estate market. The postponing of the mortgage loans installments payments, the extension of Prima Casa program and, more importantly, the extension of the 5% VAT threshold should be just the beginning of the Government implication in order to support this industry.

What are the main challenges for the residential market in the next year?

I think the main challenge is to keep our minds open and have the capacity to reinvent and adjust ourselves/ our businesses to these new times which are both challenging and interesting, though but also full of opportunities. The change is coming much faster that we could have ever imagined on many levels and it is crucial to keep our focus on chances rather than remain stuck in the difficulties from the past.

Do you think that the pandemic crisis will also create opportunities for the Romanian residential market?

Definitely. It has been proven in the past that problematic times are followed by flourishing periods. For the Romanian residential market, I believe the benefits of this crisis will be reflected at many levels, from better products (adjusted to the buyers' needs) available on the market, to bigger investments in infrastructure works, from more diverse governmental measures helping both buyers and developers, to a higher level of business coming with the institutional investors' market entrance.

In few words, the market will become more mature and will take another step towards its more advanced CEE peers.

Appetite for Living investment continues to grow across the Europe, with investors focusing on sustainable assets. Are there investors that are considering Romania for such investments?

There are several major residential institutional investors who are actively looking at Romania right now. One of the biggest challenges for us during these times is finding the right product for the investment funds as we are witnessing a significant gap between investors' requirements and the availability of the right assets on the local market. We are currently working on creating the products / portfolios which will make Romania a top destination on the residential investment map. Bucharest and its residential market have huge investment potential which will be materialized by the institutional investors, rather sooner than later.

An advice for the developers.

Adjust your products to the market changes. Anticipate buyer's needs and expectations. Secure good land plots for built-to-rent.

An advice for the investors in Living

Multifamily assets proved their resilience during uncertain times all over EMEA and in Romania you will find some of the highest yields in Europe. Developers slowly started to shift from BTS (built-to-sell) to BTR (built-to-rent). The importance of the house, providing both comfort and functionality, was never as highly regarded as today. This is the time to invest in Romania Living market.

How Covid-19 is turning the spotlight on green finance

Green finance for investors and developers is becoming a long-term feature of real estate lending as Europe emerges from its lockdown.

By Maxime Otto

In a post-Covid-19 world where it's far from being business as usual, governments and investors are looking to turn disruption into the opportunity to build a greener future.

The European Commission wants to ensure the region's recovery creates a more sustainable and resilient economy, boosting green investment that integrates climate and environmental risk into the financial system. The commission's Renewed Sustainable Finance Strategy is part of a €1 trillion package to make the European economy greener by 2030. Its focus reflects the range of Environmental, Sustainability and Governance (ESG) considerations gaining traction within real estate investment decision-making.

"Covid-19 may have stalled momentum but institutional investors and listed real estate investors with active boards and shareholders to report are to remain particularly focused on green finance," says JLL head of debt and structured finance, International Capital Markets EMEA, Michael Kavanau, who points to vehicles such as M&G Investments' 2018 debt impact fund. Prior to the Covid-19 outbreak, Commercial Mortgage Backed Securities (CMBS) and bonds were becoming more popular for larger volumes. Europe's first green CMBS loan, River Green Finance, was issued by Goldman Sachs earlier this year, underwriting a €183 million loan secured against a Paris office property. The loan was issued under the International Capital Market Association's Green Loan Principles. "Green certification is often applied to buildings that are classified as core or prime, or those being built or renovated to core," Kavanau says. "To get to a point where there is wider use of green finance, lenders will need more help – from a general accepted standard in identifying underlying assets are truly compliant."

Change driven at a local level

While international investors, such as Singapore's Capitaland, are securing green loans for cross-border portfolios, change is coming from local government efforts. In Germany, the drive to clean up cities by 2030 through more carbon-neutral properties will in turn create more opportunity for lenders to finance green assets, explains Helge Scheunemann, JLL head of research for Germany.

"An increase in the amount of green-certified buildings in German cities is likely," he says, pointing to a rise in the past five years from 5 percent to 10 percent.

Respondents to the quarterly German Real Estate Finance Index (DIFI) survey by JLL and the ZEW-Leibniz Center for European Economic Research said ESG criteria now has between a medium and a strong influence on decisions around financing property, despite margins and loan-to-value ratios not being heavily impacted by a building's level of sustainability.

"Around half of those surveyed are focused on green-certified real estate in grade A-locations," Scheunemann adds. "Long-term ESG considerations are increasingly important priorities in Germany for both borrowers and lenders."

Across Europe, green loans have been made available to borrowers. Derwent London last year became the first UK REIT to take a green revolving facility with a £300 million tranche of a total £450 million loan from HSBC UK, Barclays and NatWest, classified as green. ING and Lloyds Bank have also provided green finance, with the latter's commercial banking arm having refinanced a €600 million facility in 2017 for Unibail-Rodamco (prior to its merger with Westfield).

Canadian investor Ivanhoé Cambridge and Natixis Assurances jointly obtained Europe's first green certification, through the Climate Bond Initiative, a commercial real estate loan for their DUO towers project in Paris from a consortium of French and German banks in 2018.

For major property companies investing in large volumes, green bonds, which can have a positive impact on corporate credit ratings, have been more common. Industrial & logistics specialist Prologis was the first to do so in 2018. Then last year, it raised a further €450 million for its Prologis European Logistics Fund (PELF) via a 10-year green bond issue.

Favorable conditions

Momentum could also come more through incentivization; namely the inclusion of criteria which could work in favor of borrowers and their margins. The loan margin for French property company Gecina's €150 million green loan, signed in 2018, from ING is dependent on ESG performance and measured by its rating on the Global Real Estate Sustainability Benchmark (GRESB). Lloyds Bank also brought green credentials into focus as key performance indicators for Unibail-Rodamco-Westfield.

However, Europe's lending scene continues to face the challenge of how to determine standards.

"As we come out of the current Covid-19 malaise, more structures and standards will need to emerge to support green finance's growth and appeal," says Kavanau. "Investors seeing that green paper is priced more favorably, for example, could be a significant game-changer."

Research points to investors' growing appetite for companies that are compliant with ESG standards. For example, BNP Paribas' ESG Global Survey 2019, found that about 68% of asset owners and asset managers allocated above 25% of funds towards ESG investments, up from 51% in 2017. More than 90% are targeting similar allocation levels by 2021.

Empirical studies from MSCI analyzed how ESG affects the financial profile of companies over a ten-year period. They suggested that high ESG-rated companies achieve higher profitability and valuations, lower borrowing costs and better risk management.

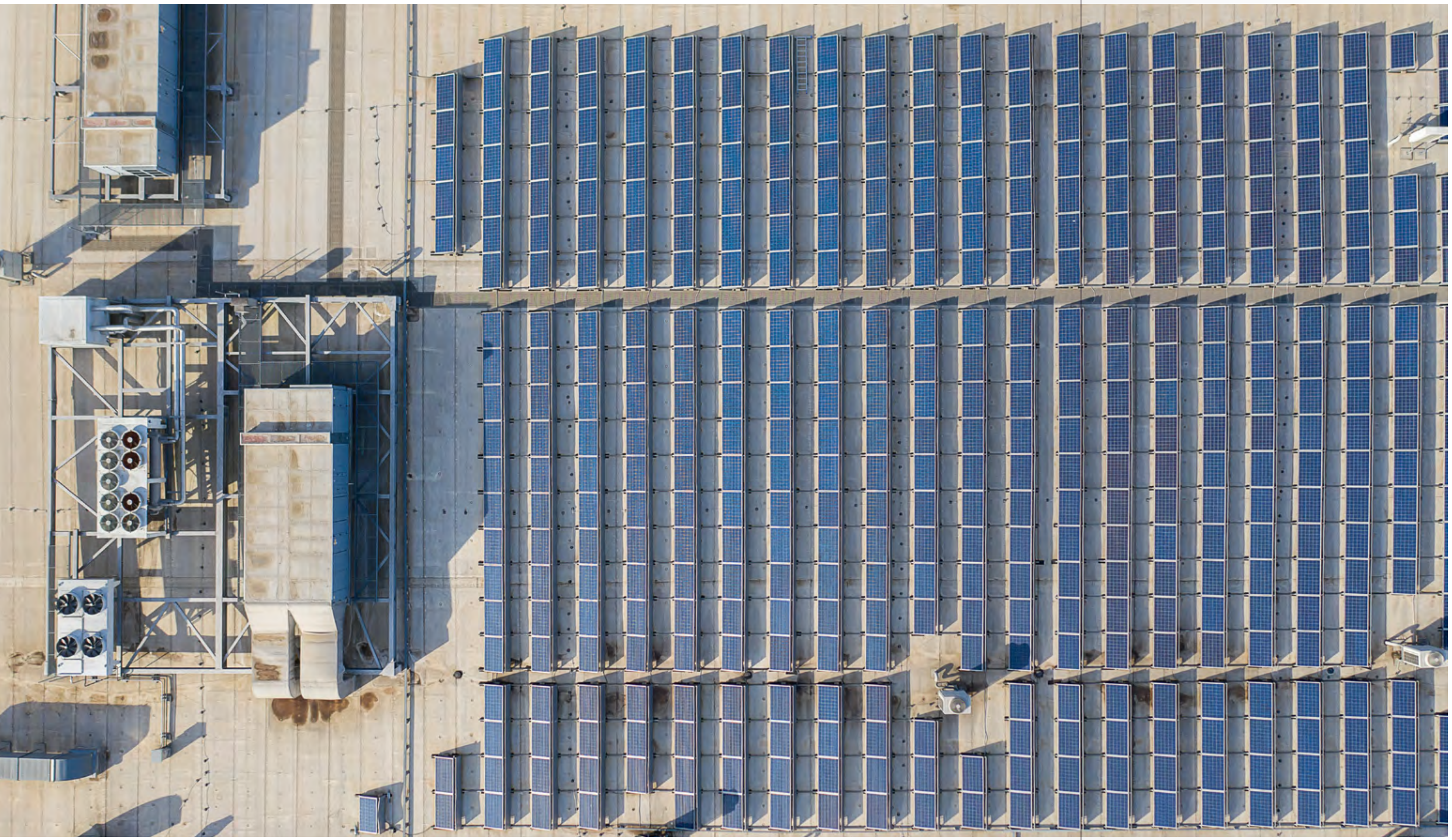
Even if climate change might still be a matter of debate for some politicians, real estate green financing is catching on in all geographies, driven by a rise in ESG investing and sustainability consciousness.

Worldwide, at least $30.7 trillion of funds is held in sustainable or green investments, up 34% from 2016, according to a report by the Global Sustainable Investment Alliance. Within CEE, main players are as well using green bonds in their funding strategy. In July 2020, both NEPI and Globalworth issued, under its respective EMTN program, green Eurobonds for € 500m and € 400m ,respectively. Despite the unprecedent context, these issues were successful since both were nearly two times oversubscribed by a broad range of institutional debt investors across Europe.

In addition to the above, CTP B.V., one of Europe's top 5 logistics property companies and the largest logistics property owner-developer in the region, successfully issued a debut Green bond for EUR 650 m on 1st October 2020. CTP's inaugural Green bonds became the largest debut issuance by a CEE real estate company. The bonds received a strong reception from investors and were several times oversubscribed with a peak order book in excess of EUR 2 Bn.

At a different scale, we are as well witnessing the emergence of "green" housing loans that reward, through discounted borrowing costs, the acquisition of energy efficient buildings offering both higher comfort and lower running costs.

Taking into consideration the current context and increasing appetite for environmentally friendly financing, it is to be expected that such type of funding will continue to grow especially because EU countries must develop a strategy for renovating their building stock to become highly efficient and decarbonized by 2050 but also because investor's awareness regarding sustainability is becoming of higher importance.



Investors look to retrofitting for a low carbon future

Government and city level regulation and greater environmental awareness among occupiers are combining to make green retrofitting an increasing priority for investors. Ambitious new regulations on carbon emissions and a growing focus on sustainability are driving real estate investors to consider future-proofing their assets through retrofitting.

By JLL

Real estate is responsible for around 40 percent of global carbon emissions, according to the World Economic Forum and cities around the world have made pledges to play their part in reduction. As more regulation is implemented, landlords are under increasing scrutiny over their buildings. For investors with inefficient buildings in their portfolios, carrying out modifications now is "a smarter choice than not acting", says Dana Robbins Schneider, managing director of JLL Energy and Sustainability Projects in the U.S.

"Green retrofitting existing buildings, while potentially of higher cost in the short term, creates more resilient, competitive assets in the long term while delivering measurable return on investment," she says. "Not doing so could prove costly – with divestment in the future harder to achieve."

"For investors, cutting real estate carbon emissions before regulation kicks is imperative – but getting to that point requires serious commitment," says Schneider.

Evaluating risk

Undergoing the initial energy performance data study of a building is both time-consuming and potentially expensive. But the risk of an asset becoming obsolete from inaction outweighs the cost, says Schneider. "It's really a small part of the overall budget and if you're able to cut costs and make a building both cheaper to run and a better place for occupants, landlords are more likely to keep tenants while reducing outgoings." While simple measures such as installing LED lighting or upgrading the boiler can offer incremental savings, minor improvements alone won't result in a low or zero carbon building, explains Sonal Jain, JLL UK sustainability director.

Although expensive start-of-the-art innovations are getting cheaper as they become more mainstream, investors still face the risk that buildings undergoing retrofitting in 2019 could be out of date by 2025.

"Technological advances mean that modifications such as LED lighting or HVAC controls now meet return on investment expectations," Jain says. "However, for glazing and façade modification, these projects are still considerably expensive and tricky to implement, making it harder for investors to justify."

Jain says that investors should also look beyond implementing energy efficient technologies to how the building is managed.

"Sub metering and close control of BMS, for example, is one way to manage energy use in more detail," she says. "That may require more management and personnel – but could ultimately prove beneficial."

Ongoing commitments

Retrofitting is not a one-off box-ticking exercise; it's a continual process, says Schneider, pointing to ongoing work on New York's Empire State Building after an extensive $550 million retrofit in 2009.

"The work is never complete and while results were evident within three years of the work being carried out, there's always room for improvement via new tools and methods," she says.

Today's green accreditations such as BREEAM and LEED, as well as benchmarking such as GRESB, are helping to ensure that quality retrofitted buildings stand out from the crowd.

Nevertheless, legislation – at city rather than federal level – will have the most significant impact, says Schneider. "It's city level legislation that's giving investors most food for thought." As things stand, a new office development may be more carbon neutral than its retrofitted neighbour. But if embodied carbon is one day considered; the reverse may be true.

"That would make it even harder for a new building to be deemed truly carbon neutral," says Jain. "In the meantime, there's a firm need for investors to take steps to cut current carbon emissions and ensure tenants remain attracted and their buildings don't become obsolete."

Why renewable energy is fueling investor interest

Industrial facility design will need to evolve to address the challenge of companies of today - attracting and retaining good people. Designing and building attractive, productive, healthy and comfortable industrial buildings incorporating similar amenities to those typically expected in office buildings is inevitable and so is automation.

By Valentin Achim

Renewable energy has been the energy source most resilient to Covid-19 lockdown measures. Renewable electricity has been largely unaffected while demand has fallen for other uses of energy.

Although Romania has also been affected by lockdown measures, the interest in investments in this type of energy producing has increased. This situation is mainly due to the prospect of Romania having to close more coal fueled power plants, as they do not meet the environmental requirements of the European Union anymore.

Once lockdown measures were put in place, electricity demand fell while levels of wind and solar PV held steady. The estimation is that total global use of renewable energy will rise by about 1% in 2020 in comparison with 2019. The Romanian authorities are also looking towards measures that would support the green energy production. They have in plan for 2021 the green certificates support scheme that would be available for such investments.
In Q1 2020, the global use of renewable energy was 1.5% higher than in Q1 2019. In addition, wind availability was high in Europe and the United States in Q1 2020.

Renewables are also resilient to lower electricity demand because they are generally dispatched before other electricity sources due to their low operating costs or regulations that give them priority.

The share of renewables in global electricity generation jumped to nearly 28% in Q1 2020 from 26% in Q1 2019. The increase in renewables came mainly at the cost of coal and gas, though those two sources still represent close to 60% of global electricity supply.

The recently growing interest in such energy production will start producing effects starting with H2 2021 in Romania, as for the moment only locations and network capacities are being secured.

We are witnessing a growing interest in geographical areas that were not very sought after in the past. The investors are attempting to stay away from the south-east area of Dobrogea, where the network capacity remaining is quite reduced due to the high share of Wind and Solar production.

Investors are mainly focusing on areas in central-south or south-western Romania, where also the geography is more friendly for such investment types.

Nevertheless, there are only a few locations where large capacities can be introduced in the energy grid with reasonable connection costs, or where network reinforcements are not needed at a large scale.

Renewables almost reach 30% of electricity supply globally

The investors are on a tight schedule to secure good locations and network capacity, being aware that the first ones to secure good locations will most likely also be the first ones to develop projects.

In our estimation for 2020, global renewable energy demand increases by about 1% from 2019 levels, in contrast to all other energy sources. Renewable electricity generation grows by nearly 5% despite the supply chain and construction delays caused by the Covid-19 crisis.

In doing so, renewables almost reach 30% of electricity supply globally, halving the gap with coal (from 10 percentage points in 2019). The output of hydropower remains the largest uncertainty in 2020, as it accounts for almost 60% of all renewable generation globally and is dependent on rainfall and temperature patterns. Solar PV is set to increase the fastest of all renewable energy sources in 2020. However, uncertainty remains over capacity growth in 2020, especially for distributed solar PV applications.

The interest of the investors in Romanian green energy production is currently focusing mainly on Solar PV parks, with Wind power having already a strong presence in the South-East area of Dobrogea.

Given the reluctance of the local network operators and Transelectrica, the national grid operator, towards approving additional production capacity in this area, the wind projects that are currently being planned are relatively reduced in size.

The focus on large projects is being channeled towards Solar power, in areas that allow large capacities to be introduced in the national grid.
A faster or slower recovery would have limited effects on renewable electricity production in 2020, with year-on-year growth expected under most conditions.

However, the impacts on the renewable energy industry could be very large, as the regions most affected by the Covid-19 crisis could see a sharp reduction in construction activity.

The production of renewable electricity largely depends on the availability of natural resources, as weather is the main determinant for hydropower, wind and solar PV, which together account for about 90% of all renewable electricity generation.

What makes a residential development high-end? Tangible *vs.* Emotional *vs.* Experiential

While the definition of luxury might be different for every person, the high-end residential market has some clear traits. We have identified seven distinct qualities revolving around the high-end homes which can be consider a standard in Luxury residential.

By Andreea Hamza

All these qualities finally reflect in the sale or rental price of a property. The seven criteria that we consider when we are talking about Luxury Residential are: prime location, units' sizes & internal partitioning, high construction quality & finishes level, unique design & architectural concept design, amenities, privacy / low density, technology & sustainability.

Prime location is the key factor for high-end properties, the main determinant of the property value

There are several factors which may contribute to a position, excelling to become a Prime location:

- **Transport links** - It is crucial for a central location to have good transport links. Better accessibility ensured by public transportation facilities increase the value of the location to the highest levels.
- **Buying power in the area** - The disposable income of a person living in an area is a vital characteristic; in particular . Prime locations are often located a long distance from lower economic regions; the wealthier the area the higher quality the housing is.
- **Area characteristics** - The area itself is highly important when establishing what defines an area as a prime location. Areas which have well known and established features such as retail and leisure facilities are likely to be more favorable. Neighborhoods which have historical features or unique landscapes are often considered to add to the distinctiveness of an area making it even more of a prime location.

Units sizes and internal partitioning are also determinant features for the high-end look and feel. The size range for high-end units on the Bucharest market can be defined as following:

- 1 bedroom – 70-90 usable sqm
- 2 bedroom – 100 – 150 usable sqm
- 3 bedroom – 160 – 200 usable sqm
- 4 bedroom – 200+ usable sqm

In terms of internal partitioning, the high-end units must meet the following requirements: among others, a generous entrance hall, one guest toilet located close to the entrance, a living area of 35+ sqm which should include a dining distinctive place, a large kitchen (15+ sqm). Each bedroom should have its own bathroom, while the master bedroom should have a master bathroom and a generous dressing. The master bathroom should include both a shower and a bathtub, a double sink and a separate closet and should have the look and feel of a spa bathroom. Moreover, a distinctive area for storage and laundry should be in place in each unit, while an office room and a hobby room are also elements to be fit-in.

Large and wide terraces are another imperative characteristic of the high-end units. These terraces should serve the day living-dining area and preferably the master bedroom space.

High construction quality and finishes level

For high-end homes, quality is just as important as quantity. If the entire property is not constructed and finished with premium materials, it doesn't matter how many rooms it has or how the areas are divided. High-end homes should use only the finest construction materials and opulent finishes, such as:

- ventilated facades
- aluminum exterior joinery with floor to ceiling windows
- centralized ventilation system for heating and cooling
- think wooden floors and wooden decks for terraces
- natural stone for the "wet areas"
- highest quality sanitary objects in line with the latest interior design trends
- top-of-the-line equipment for heating, cooling & electrical appliances
- last generation smart home technology
- sustainable and low-maintenance landscaping for terraces and roof tops
- other amenities such as fireplace, sauna, outdoor kitchen / barbecue area

Construction execution is an essential part, as high-end buyers expect over-the-top attention to all details, alongside some basic Feng Shui elements to be considered.

Unique design & architectural concept

The exterior of a high-end home is as important as its interior. Homes that appear distinctive are held in higher regards than the standard units of lower or mid-market developments. Therefore, high-end homes come in unique shapes and styles under renowned architectural and designer names.

The distinctive elements that transform the project into a landmark itself, can be highlighted through the usage of natural elements like rock, wood or green facades strategically illuminated through exterior lighting.

The entrance has a crucial role in creating and defining the identity of the building establishing a desirability for the high-end residential development. The entrance should create the feeling of a boutique hotel reception and be functionable, accessible and safe, providing a good shelter and lighting.

Amenities

Luxury homes blur the lines between private and public life, offering residents a slide of decadent amenities. The features of these high-end homes provide comfort and pleasure ranging from concierge & private security, gym room, swimming pool, spa, business / meeting lounge, cinema room, etc.

Privacy / low density

High-end development also means low density and high privacy. High-end buyers want privacy and security, sometimes to the point of seclusion. It is essential for a high-end property to find the right balance between density and security, meaning that the denser the development is, the higher the security facilities should be put in place.

In addition, a proper intimacy design feature is related to limiting the number of apartments accessed by a single-entry point such as the elevator or staircase. The higher the density of the project, the lower the selling price goes.

Technology and sustainability

High-end buyers want it all when it comes to technology, and the developers that cater to this tech-trend are the ones who have a competitive advantage on this market segment. With a touch of a button on the phone the buyer / tenant can now lock the doors, control the home climate, control lights and alarm system, from any place. These are the built-in features that today's high-end homebuyers are looking for. On the opposite end of the technology spectrum is a growing trend for reclaimed materials.

Sustainability can also be a good selling point on the high-end residential market, and it has recently started to be implemented on the Romanian market by developers who aim to deliver projects at international standards and to innovate.

Meeting fully or partially the above traits convert in the end in the property selling or rental price, which ultimately determines the unit place in the high-end market segment.

Increased vacancy and the main factors leading to it

The vacancy rate serves as an important indicator for the overall health of the real estate market. It reflects market appetite for office space and the desirability of a particular city or location. It provides a hint which areas experience difficulties in attracting tenants.

By Mădălina Marinescu

The volume of future demand for office space is now in doubt because the Covid-19 pandemic. Analysis of the mechanism of vacancy formation is thus important because different underlying contributors of vacancy rates may have different implications for market participants:

Demand

We can anticipate a negative effect on office demand due to the spread of telework and working from home, which results in fewer workers commuting to offices.

On the other hand, the need to secure adequate space for social distancing could be a plus factor for office demand, since organizations will need more floor space per person.

If it is proven that some business functions can be run successfully through remote working, therefore tenants might decide not to house such operations in their office space any longer. Other functions have yet to prove that they can be managed remotely, or even the exact opposite might be proven in the end.

Furthermore, the co-working spaces were affected at the beginning of the pandemic, but in the next period they might be preferred by the companies that are looking for flexibility, in order to not be "stacked" into a long-term lease.

New deliveries

New buildings seem to be preferred by office tenants. They might even be able to negotiate a better deal compared to the period before the medical crisis. More and more tenants are looking for Green certified office buildings, with new state of the art systems that offer comfort and safety to their employees.

For the buildings that are not Class A, if the landlords will invest and bring them to the latest standards, they will remain attractive for the tenants.

Considering the pipeline for 2021, when approximately 300,000 sqm are expected to be delivered to the market, only 45% out of it is pre-leased, meaning that circa 150,000 sqm will become available for lease.

Considering that an end for the Covid-19 pandemic is not foreseeable in the immediate future, combined with a low take-up of office space and new buildings expected to be delivered on the market, we estimate that the vacancy rate will continue to increase.

Sublease / surrender

The pandemic has negatively impacted the operations and revenue of many businesses, big or small. The big driver for sublease / surrender (landlords take back possession of part or full premises earlier than stipulated in the lease agreement) is the cost-saving effort.

The businesses who need to vacate their space early are motivated to minimize rental payments for a space they will no longer be using. The most cost-effective solution lies in getting a replacement tenant to take over the lease as soon as possible.

From surrender / sublease offices can benefit both parties involved: the business who needs to leave the space, and businesses looking for space.

Especially during this period of economic uncertainty, new tenants can save a great deal in costs with subleased / surrendered offices.

In some cases, if the landlords will accept to take back part of those spaces, a significant additional stock will become available in the market.

If a building already has vacant space and several of the existing tenants have the right and decide to sub-lease, the landlord will face a real challenge to rent all the additional space in a short timeframe and his income will suffer.

Unemployment rate

The vacancy rate is also quite sensitive to changes in the unemployment rate. As many businesses slowed down their activity because of the pandemic, the unemployment rate rapidly increased in Romania.

The decrease in the number of employed people will cause an inevitable decline in overall demand for office space.

Over the medium to long term, it seems likely that the role of offices will be redefined as each company is forced to reassess which business functions strictly requires their own office space, and which have more flexible office requirements and see what alternatives could be considered. The future shape of the office market is not yet clear, but what seems certain is that a change is coming, which could be labeled the post-Covid-19 office demand.

How the e-commerce boom during COVID-19 is changing the industrial real estate

During the Covid-19 pandemic, people started to buy essentials online more than ever, forcing producers of all types of goods to scramble for additional warehouse capacity and rethink supply chain strategies in order to respond to this.

By Ionuț Grigoraș

Online sales increased by 28% in 2020, when compared with 2019 according to Retail.ro. The FMCG sector was the most active during this time, followed by the logistics sector, largely fueled by the lockdown imposed in Romania.

This shift has increased both short and long-term demand for the industrial real-estate properties that allow companies to deliver orders faster by being closer to their customer base. The consumption has driven demand for industrial real estate for the last 5 years, and the sudden spike in online activity since the start of the health crisis, in March last year, has slightly accelerated that demand.

The second wave of the Covid-19 pandemic hit Europe and Romania hard towards the end of 2020 year and its economic impact was seen in a drastic reduction of the official GDP growth projections (according to the National Commission for Strategy and Prognosis) from -1.9% in April, to -3.8% in August. The latest prognosis supplied by the World Bank, in October, is even more pessimistic, estimating the country's economic growth for 2020 to -5.7%. This is to be followed by a 4.9% growth rate in 2021. Also, in October, the International Monetary Fund expected Romania's real GDP growth rate to fall to -4.8% in 2020. The EU Commission's Summer 2020 Economic Forecast released in July, estimates for Romania a GDP contraction -6% in 2020, followed by a 4% recovery in 2021.

The sudden increase of e-commerce adoption, particularly for food, fast-moving consumer goods, health and pharmaceutical products, is happening regionally. This is causing a strong take-up of short-term overflow warehousing and lease consolidations in the whole country.

Supply chain in the spotlight

The surge in demand for online goods during the pandemic highlights the need to rethink aspects of the supply chain management. Retailers are seeking to bolster inventories of high-demand products from now on.

Building up the 'buffer stock' to quickly meet demand surges increases the need for industrial space. In order to have timely delivery, e-commerce companies must hold more inventory in locations closer to their customers.

To mitigate the risk of disruption, many occupiers will seek to rely on more than one location in a certain region or more than one company as a supply source, thus making the number of distribution centers and supply chains necessarily higher, in order to cover the needs of all the customers.

Investing in distribution centers closer to parcel hubs and implementing port diversification strategies are ways to ensure that there is minimal disruption the next time a major global crisis happens. Increasing transportation options, so that that there is less reliance on trucks, including inter-modal rail, and more automated facilities, can also reduce impact during major events.

Development pipeline

The growth in online grocery orders is expected to continue, thus making the need for cold storage space to increase in the Romanian and European markets, in order to facilitate this growing demand. For both cold storage and fulfillment centers, the complexities of direct-to-consumer facilities require either new construction or renovations.

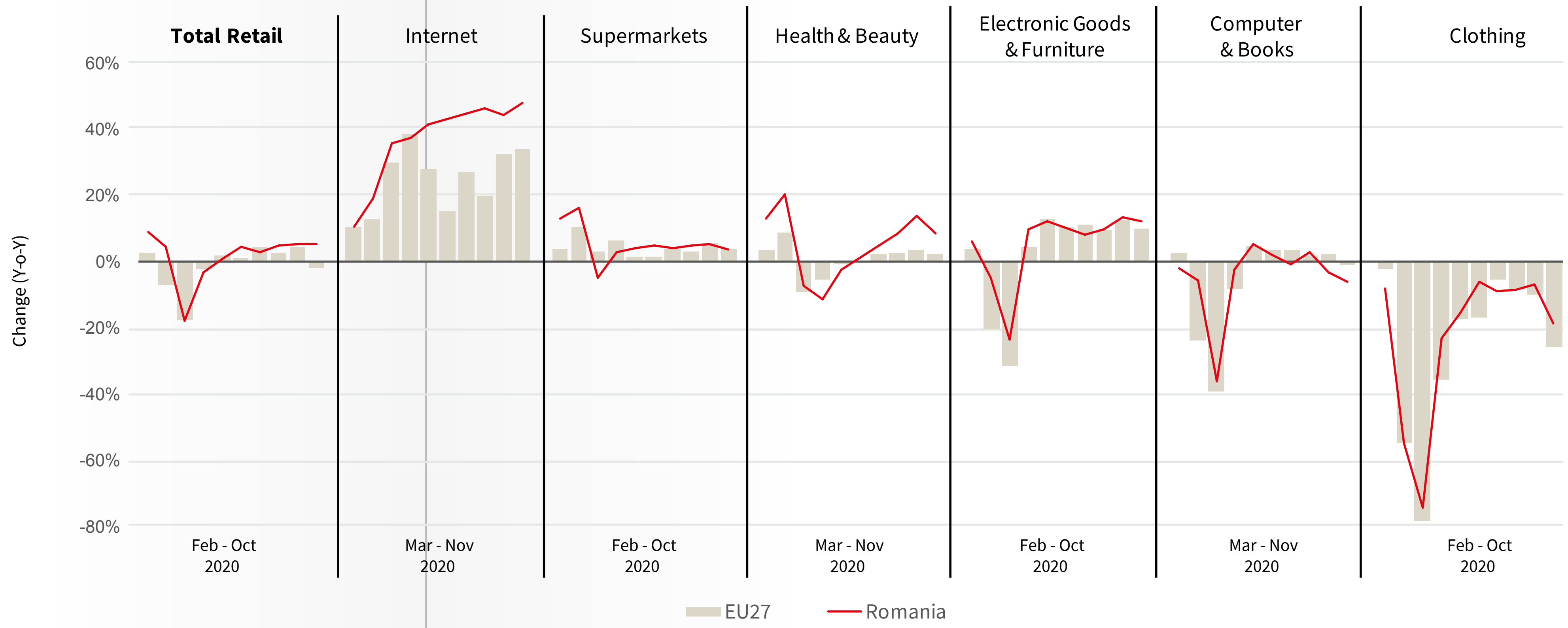
We are seeing increased interest from traditional and even non-traditional developers who want to focus on industrial, as other sectors are suffering due to the current situation.

The industrial sector in Romania has proved to be resilient in the face of the Covid-19 pandemic and most real estate developers carry on with their plans.

Retail in the post-COVID era

The retail sector was extensively hit by the COVID-19 outbreak. Shopping centres in Romania were reopened on June 15th, after being compelled to stay closed for almost three months, starting on March 22nd. There were, however, some exceptions: food stores, pharmacies and laundry services inside shopping centres were allowed to operate during this time.

By Alina Cojocaru



With the unemployment rate having risen affecting households purchasing power and uncertainty with regard to job security, people are more cautious when it comes to what they buy so we will see changes in the shopping basket size.

Leaving the material thought to one side, the situation is not black and white when it comes to changing behaviors. There will be people more risk-adverse who would rather shop online, from the comfort of their homes, order take-away food and so on. Others will miss the overall experience a shopping centre offers and will be eager to go shop. With still a high number of COVID cases and uncertainty around how the threat of the virus will progress, even with several vaccines on the roll, I believe we will still see lower dwell times in centres but higher conversion rates, as people will no longer browse as a leisure pursuitbut shop more purposefully.

Prior to the COVID-19 pandemic there was an increased move towards experiential retail, with significant investment in leisure uses & F&B, putting an emphasis on the customer experience. We now see this being affected and still overshadowed by uncertainty in the short to medium term. Uncertainty related to possible new governmental measures, people's change in behavior amidst concerns over job security, wages being frozen, economic forecasts and inflationary pressures increasing the cost of livingetc. Therefore, consumers spendinghas beenimpacted, and we see this in sales having declined post-pandemic outburst.

Footfall levels & Sales

Footfall levels in shopping centres started to recover progressively, month by month, since July 2020, however towards the year end the figures still show **on average 25-35% lower** compared to pre-COVID levels. **Sales and additional income** (to include turnover rents) also declined by the same amount on average, some shopping centres showing even higher decreases.

Fashion sector was one of the most affected, and this can be seen in the sales graphic below, where we present a comparison at European and Romanian level.

Rental Values

With sales decreasing and rental levels becoming unsustainable for some tenants, many retailers and operators sought a way to arrive at an equitable solution with owners. As there is increasing uncertainty around the sustainability of retail rental levels especially whilst we start to witness the economic impact of the Pandemic, there is a greater focus on the future sustainable levels of rent rather than what is technically secured today by lease contract. Many leases were and some are still in negotiations, tenants having been offered several discounts or other incentives, depending on the sub-sector of activity and how the tenant was affected by restrictions. We have seen some of the more recent leases agreed to be on flexible terms with higher elements of turnover rent instead of base rent.With more flexible leases including at least an element of turnover rent there is also the need for more transparency on sales data disclosed by tenants. Investors want to look at the robustness of the retailers, understand their operating models, get comfort atthe appropriate rental levels. Additionally, the basis of sales levels in a post-Pandemic world iscurrently an unknown factor and should only be based upon pre-Pandemic levels with caution.

In 2021 we expect to see more declines in rental values, with an increased movement towards flexible leases on turnover rent-based rents. Expectations are that we start see some stability in rental income by the second half of 2021, with a muted recovery set for 2022, when we will also expect to see a positive effect of COVID-19 vaccines having been rolled-out.

Future hotspots for retail schemes
On the retail side we have seen resilience shown during this period by the grocery sector with supermarkets and discounters expanding and continuing to open new stand-alone units across the country. With consumer behavior adapting and focusing more on basic needs, the food sector will continue to be resilient.
Bucharest: In Bucharest we saw one retail park delivery of 28,000 sqm GLA in 2019 and only one small extension of ~6,000 sqm GLA in 2020. Short to medium term we will see some extensions of existing schemes (ex. extensions of Colosseum and Promenada Mall), whilst in the long termwe may see at least one more shopping centre development in Bucharest, having in mind discussions around Casa Radio project or the Romexpo project, however the situation is unclear at the moment on when/if these mixed projects will be implemented and the structure of the shopping centre component.

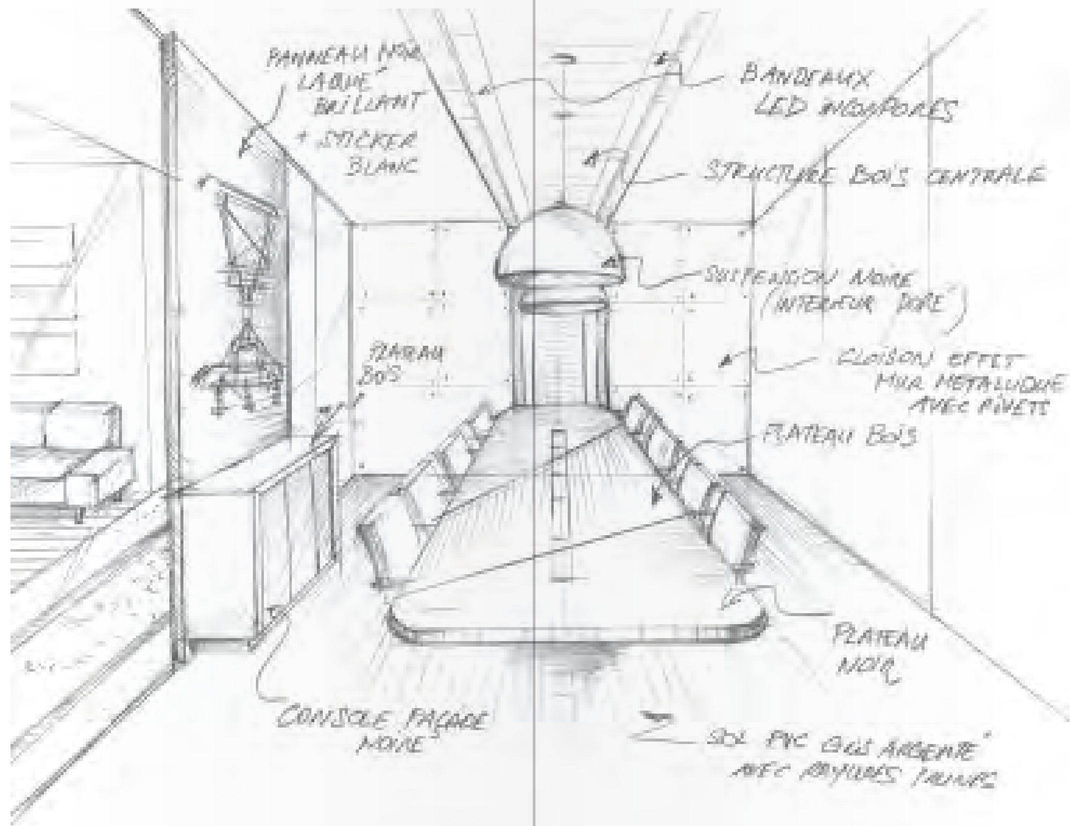
Outside of Bucharest: Outside of Bucharest, during 2019 and 2020 we saw four deliveries of shopping centres with GLA between 40,000-47,000 sqm GLA in cities of 135,000-300,000 inhabitants (Timişoara, Sibiu, Târgu Mureş, Braşov) and 33,000 sqm GLA in Târgovişte.
The other completions represented either extensions of existing schemes or deliveries of smaller schemes, the majority under 20,000 sqm GLA. For 2021 and 2022 there are announced for delivery retail parks in particular, with areas of 5,000 – 20,000. On the retail park front we see also new developers such as the Polish Scallier, which announced their interest to develop 6 facilities with a total leasable area of 40,000 sqm by 2022. The only two larger shopping centres in plan (of around 55,000 sqm GLA) were announced by NEPI Rockcastle and Prime Kapital in Craiova and Piteşti.

On top of what was announced already, we should see some retail schemes developed in undersupplied cities in terms of retail, and where the catchment area & purchasing power will be enough to support the new development.
Our expectations are more for small developments of under 20,000 sqm GLA and less for medium schemes of 20,000-39,999 sqm. Given the structural changes the retail sector is facing with online sale penetration increasing,developers will be more cautious when targeting their new investments in brick & mortar.

Out of the main active developers in the retail market currently we mention NEPI Rockcastle, Prime Kapital together with MAS Real Estate, Mitiska, Afi Europe, Iulius& Atterbury Europe, Ceetrus.

According to JLL, Retail Warehouses (Parks) have a positive outlook, also in terms of investmentshould they prove to have asset management potential as well. Low rental levels areappealing but redevelopment/ re-use potential is a key driver, and retail warehousing is easier to re-convert than a purpose-built shopping centre. Last mile logistics use gives inner city retail park locations increased attractiveness and we may see this develop further in Romania in top tier cities.

TURNKEY DESIGN AND BUILD, the way to make a Client's life easy



Although Design and Build is far from being a new concept on the real estate market, Romanian or worldwide, it is thought to be the easiest way to develop a project with as few hassles as possible for the Client.

By Laura Vîrzob

The traditional approach for construction projects consists of the appointment of a designer on one side, and the appointment of a contractor on the other side. The design–build procurement route changes the traditional way of delivering the projects. It answers the Client's wishes for a single point of responsibility in the attempt to reduce risks and overall costs, as well as optimize delivery timeframes. It is now commonly used in many countries and forms of contracts are widely available. Design and Build is mainly about getting all execution stages of a project under a single contract, with a single point representative. This project delivery method offers several advantages compared with traditional approaches: a single point of responsibility, a single point of contact, invoices from one single provider or firm commitment to a price and a deadline. Last but not least, a turnkey delivery eases a Client's life during warranty period, when a single point of contact is essential for getting a swift and efficient resolution to the problem.

In the end, one entity is held accountable for cost, schedule and performance, the contractor being solely responsible and wholly accountable to the Client.
The project's owner benefits, as if something turns out to be wrong within the project, one single entity is responsible for fixing the problem, rather than a separate designer and contractor each blaming the other.
This single point responsibility, which distinguishes this form of procurement from the others, provide a clear line of redress if technological and contractual difficulties arise.

Relying on a single point of responsibility is massively minimizing risks to the project's owner. A major second benefit is the possibility to reduce the time span of a project by overlapping its main 2 phases: design and construction. This eventually leads to a reduced cost for Clients developing a project, be it office fit-out, residential or hotel development. It has been shown that a Design and Build developed project may lead to up to 20% financial saving and 30% time saving and arguably, time is more precious than money.

The Turnkey Design and Build approach for developing projects covers every stage of the project: consultancy, programming, interior design concept, workspace, space-planning, costing, technical design development, contracting with all subcontractors, administrative procedures, coordination and receipt of works. One entity, one contract, one unified flow of work from initial concept through completion.
The process starts with understanding the Client's requirements and needs, continues with conceptual design and preliminary drawings preparation, approval of brief and costs, ensuring compliance with local rules and regulations, performing any administrative processes requested by the local authorities, developing the technical design, and concludes with the execution and delivery process to the Client.

For tertiary and industrial transfers alike, the process may include the analyses of our customers' requirements and help them to plan their new premises by implementing all the move management processes. In order to ensure a successful transfer, is very important to communicate with the employees and be advised throughout the project.
Although there are several varieties of design and build contracts and different categories of design and build organizations, the design and build form of contract is primarily structured in the interest of the Client.

Design & Build services are being provided by JLL via its fully owned subsidiary named Tetris.
Tetris Design & Build is present in 19 countries, spread on 3 continents, providing state-of-the-art projects to our Clients. Romania has joined this year the select group of countries which are able to deliver such turnkey projects. Tetris in Romania aims to be provider of choice for any occupier in the Real Estate market. Our market differentiators will be ethics and top quality of provided services, next to commitment on costs and deadlines, all these under insurances and warranties umbrella that Tetris can present to its Clients. Presently, Tetris Romania is working on several projects that we are confident will bring full satisfaction to our Clients.

Thus, the future of design and build is promising and as a method of procurement is here to stay provided that, the design and build organizations acknowledge the challenges which lay ahead as a nature of design and build, continue to meet the ever demanding Client's requirements in a satisfactory manner and respond positively to changes in order to be able to provide the kind of services which the construction industry and the Client of the future will demand, and to remain in business in this competitive market for the year 2020 and beyond.

JLL Achieve Ambitions

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