

Real Estate Investors Sentiment Barometer 2023

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Barometer



Cushman & Wakefield Echinox has run the second edition of the Real Estate Investor Sentiment Barometer, looking for insights from the key investors and developers present on the Romanian real estate landscape. The commercial real estate market is evolving under complex conditions and our aim is to find real time opinions regarding the challenges and opportunities that investors and developers are currently facing.

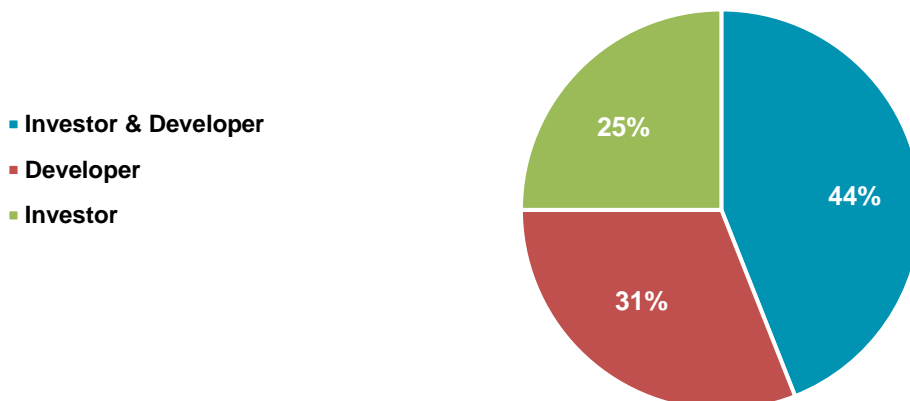
The Cushman & Wakefield Echinox Real Estate Investor Sentiment Barometer, conducted between October 1st – November 1st 2023, is an indicator of the anticipated development of Romania’s real estate market. This report contains compiled figures, results and conclusions from the survey. The results provide a good understanding of the general mood amongst property investors in Romania and their view of the market going forward.

We surveyed the top management of local, regional and global investors with a combined real estate portfolio in Romania exceeding €10 billion. Most respondents identified themselves as both investors and developers.

Source of capital



Investor type breakdown



EXECUTIVE SUMMARY

Key findings

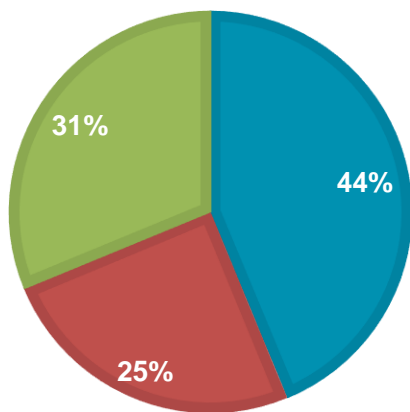
- Investors are optimistic regarding portfolio values
- Bucharest and the secondary markets will benefit the most from the future real estate investments
- Rental levels are on the way up
- Price increases are still a threat
- No significant changes of the expected demand in the coming 12 months
- Macroeconomic uncertainty and consumption contraction, the main factors which may influence demand
- Industrial market is the most attractive for new investments, the office segment expected to see the lowest development activity
- Continued willingness to expand the existing portfolios
- The investment activity is based both on shareholder equity and bank financing
- Interest rates represent the main macroeconomic risk for almost every investor, replacing inflation
- A majority of investors/developers have taken concrete steps to implement the Sustainability/ESG standards and to develop and operate environmentally responsible buildings
- Investing in sustainability and ESG actions becomes a key factor required to attract and retain tenants, as most respondents indicated tenant requests as the number one motivation to invest in sustainable and eco-friendly buildings

PROPERTY VALUES

Investors are optimistic regarding portfolio values

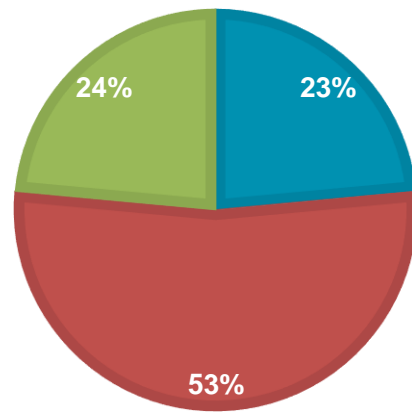
Most investors believe their portfolio values will increase in the next 12 months. They have become more optimistic this year, as 44% of respondents forecast an increase, while 31% see a stagnation and 25% a decline in portfolio values, compared with the last year's edition, when they mostly predicted a stagnation of their real estate properties' values.

■ Increase ■ Decrease ■ Unchanged



2023

■ Up ■ Unchanged ■ Decrease

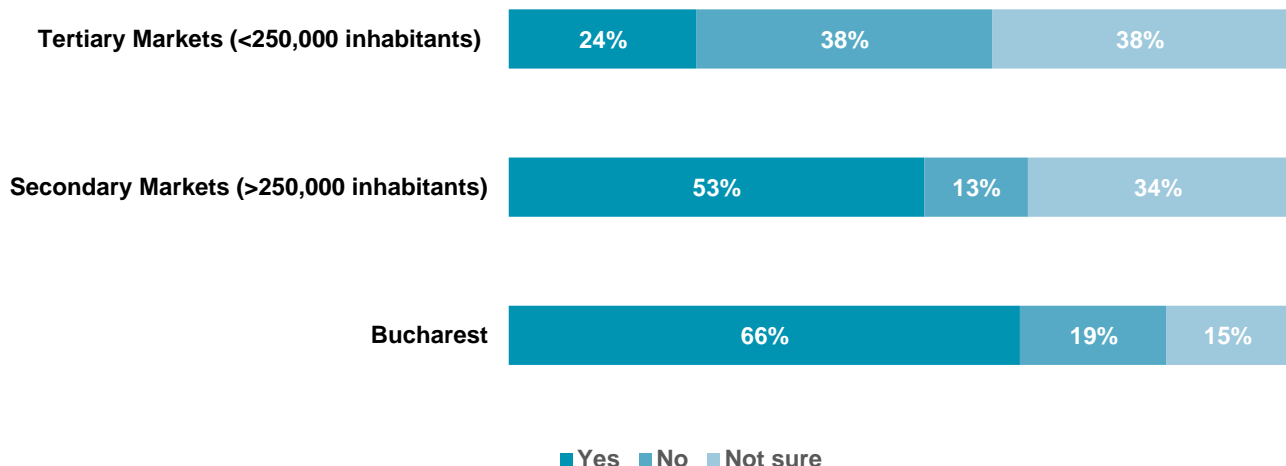


2022

RIGHT TIME TO INVEST NOW

Bucharest and the secondary markets remain in the spotlight

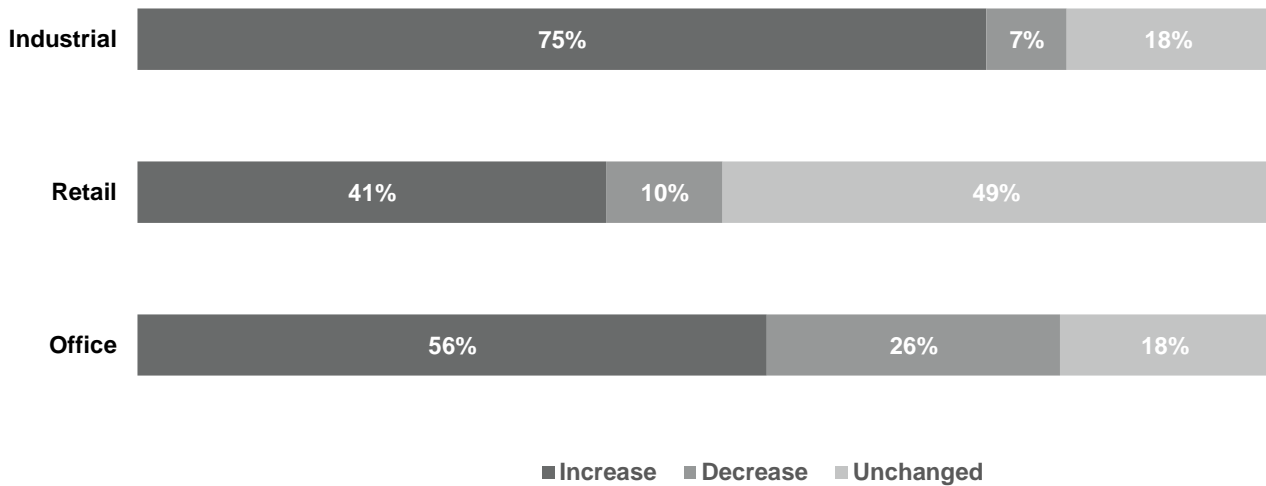
66% (compared with 63% last year) of respondents indicate Bucharest as their main location for new investments, while 24% (20% in 2022) are actively targeting tertiary locations (cities with less than 250,000 inhabitants). Secondary cities are also a very attractive investment destination for 53% of respondents.



RENTAL LEVELS – OFFICE, RETAIL & INDUSTRIAL

Rental levels on the way up

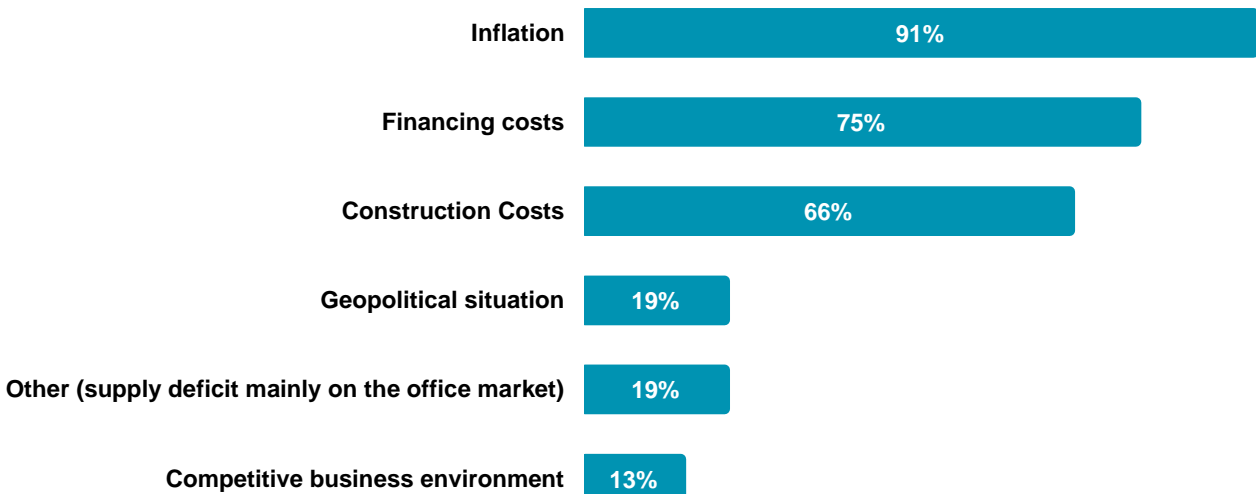
The majority of respondents (75% vs 55% in 2022) predict an upward movement of the industrial rents, while the share of those indicating a rental level growth for office assets remains at 56%. There has also been an increase in terms of the share of respondents indicating a rental growth for retail properties (41% vs 38% in 2022).



MAIN FACTORS WHICH MAY INFLUENCE THE RENTAL LEVELS

Price increases are still a threat

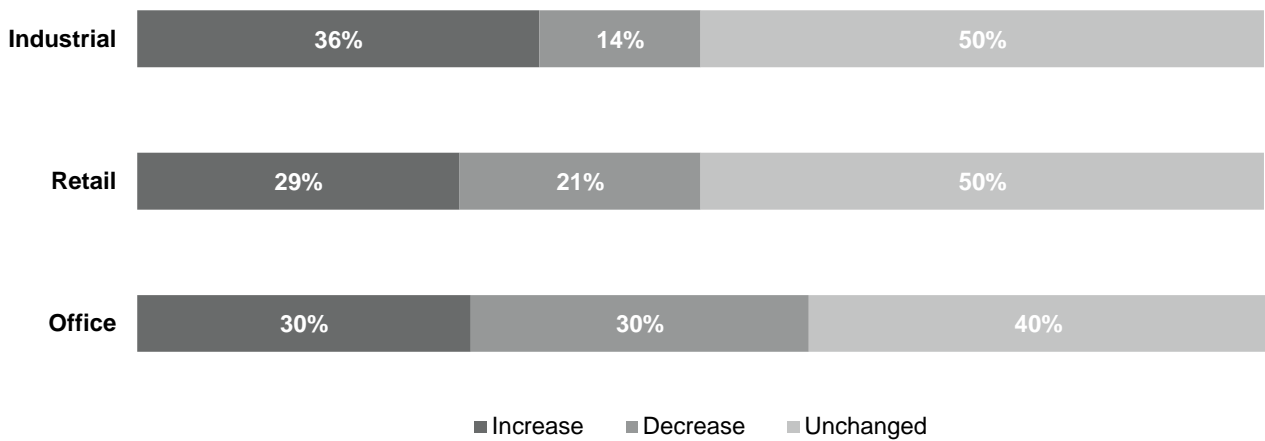
Inflation, financing and construction costs are the main factors which may influence the rental levels across the real estate market according to most respondents. The share of those believing the geopolitical situation will have a major impact over the rental levels decreased compared with last year. At the same time, there has been an increase in the share of respondents concerned about the limited new supply in the office sector in particular (19% compared with 4% in 2022).



OCCUPIER DEMAND – OFFICE, INDUSTRIAL & RETAIL

Stable demand expected in the coming 12 months

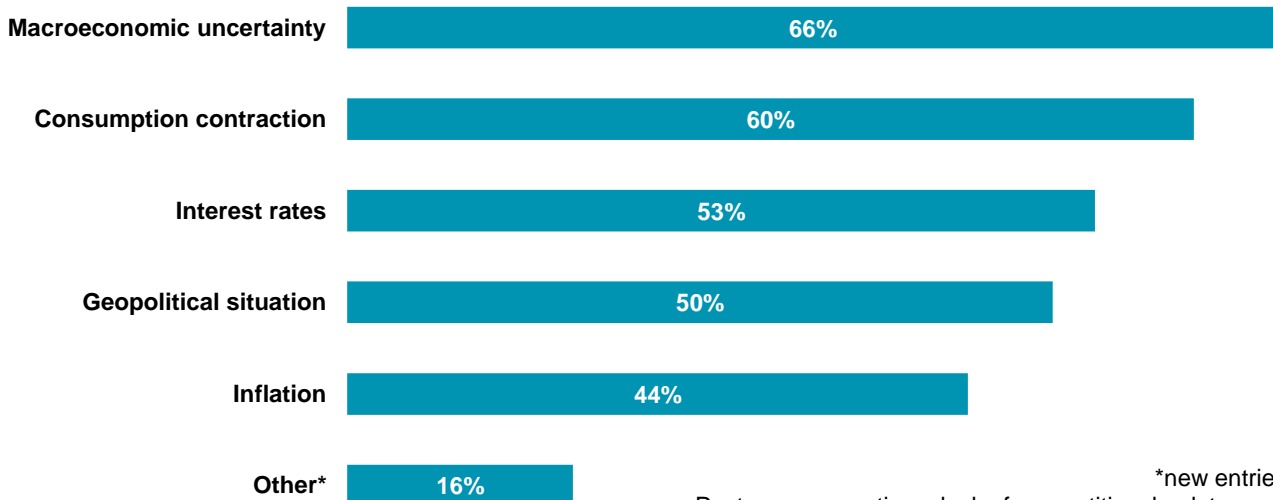
In terms of demand expectations, the situation remains similar compared with the answers received last year. 50% of respondents forecast a stable medium-term demand for all types of spaces, while 30% of the interviewed companies indicated a worsening occupier demand in the office market. However, the share of respondents estimating an increased demand for office spaces is up (30% vs 24% in 2022). There have not been significant changes related to the industrial and retail segments (retail 29% vs 30% in 2022 & industrial 36% compared with 39% in 2022)



MAIN FACTORS WHICH MAY INFLUENCE THE EVOLUTION OF DEMAND

Macroeconomic uncertainty and consumption contraction may be problematic

The top five factors which may influence (in a positive or negative way) the evolution of demand are macroeconomic uncertainty, consumption contraction, interest rates, geopolitical situation and inflation. A number of investors believe that the emergence of new companies on the market and nearshoring trends will have a positive impact on demand. For comparison, in 2022 the top five factors were the overall inflation, geopolitical situation, e-commerce growth, the emergence of new companies on the market and the lifting of pandemic related restrictions.

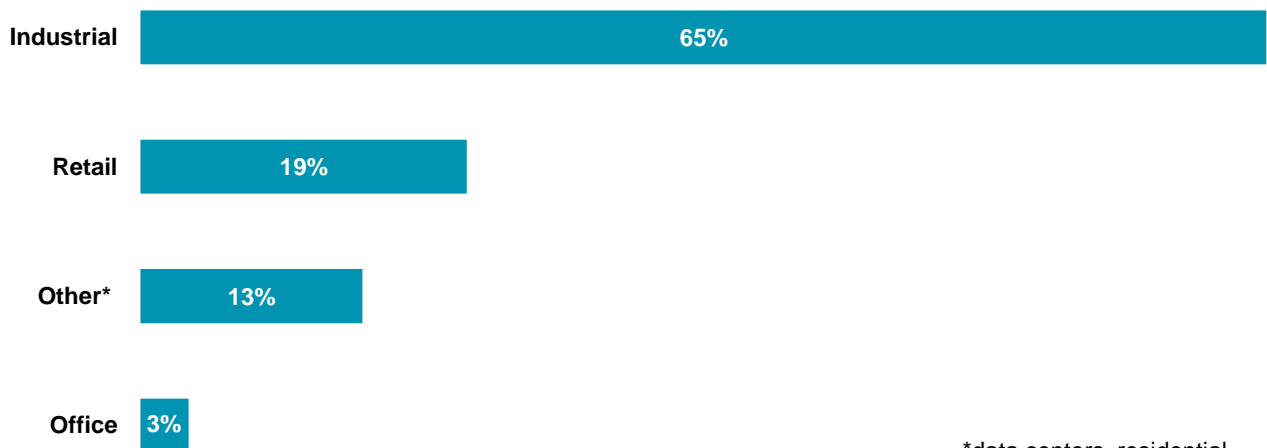


*new entries
Post corona reactions, lack of competition, back to work from the office, nearshoring trends

FURTHER DEVELOPMENT ACTIVITY

The office segment is less and less attractive

Considering the bureaucratic issues in Bucharest and the uncertainty surrounding the authorization / zoning processes pertaining to new projects, only 3% of the responding investors expect more development activity on the office market. A vast majority (65%) foresee more developments on the industrial segment, while 19% expect new retail investments. A special mention also goes to the residential sector and to data centers facilities which are forecasted to see more inflows than the office sector in 2024.

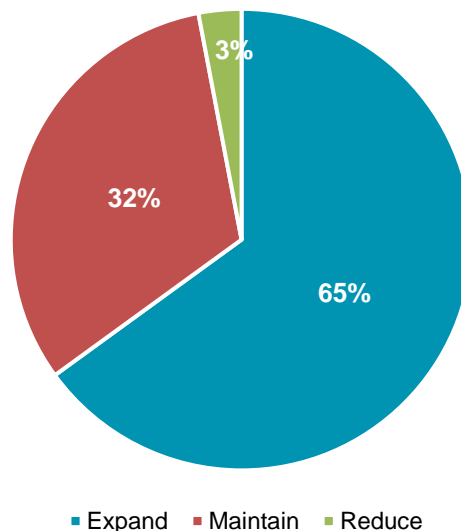


*data centers, residential

FUTURE PLANS

Continued willingness to expand the existing portfolios

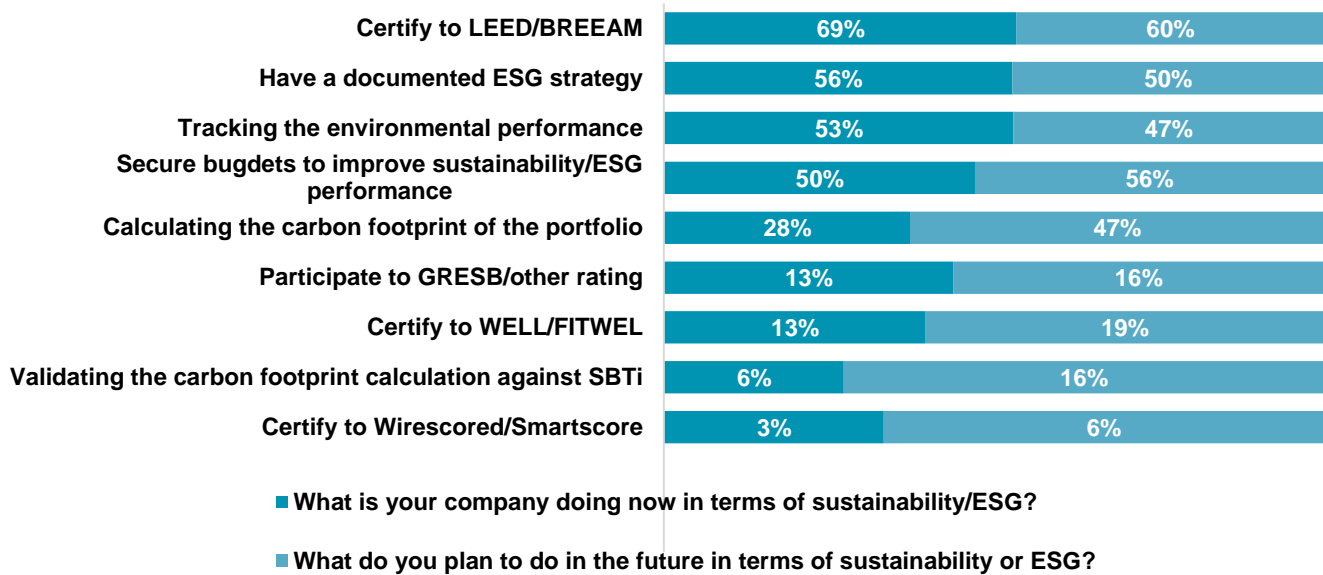
Despite the challenges faced on the market, a clear majority of respondents are still looking to expand their portfolios (65% vs 71% in 2022). Furthermore, 32% of them aim to maintain their current portfolios in the following three years, while 3% indicated expectations of downsizing their activity. No respondent predicted less activity last year.



SUSTAINABILITY / ESG ACTIONS

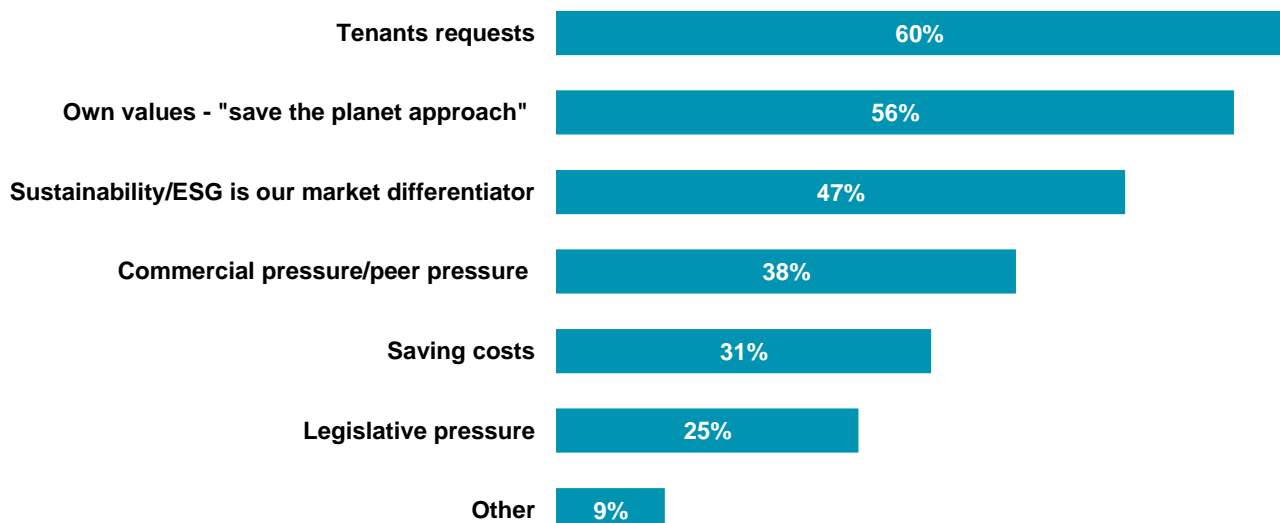
Investors/developers keen to invest in Sustainability/ESG

A majority of investors/developers have taken concrete steps to implement the Sustainability/ESG standards and to develop and operate environmentally responsible buildings. Moreover, their future plans include more actions, such as certifying their portfolios, having a documented ESG strategy, secure budgets to improve sustainability/ESG performance.



Tenants requests the main motivation to invest in sustainability or ESG

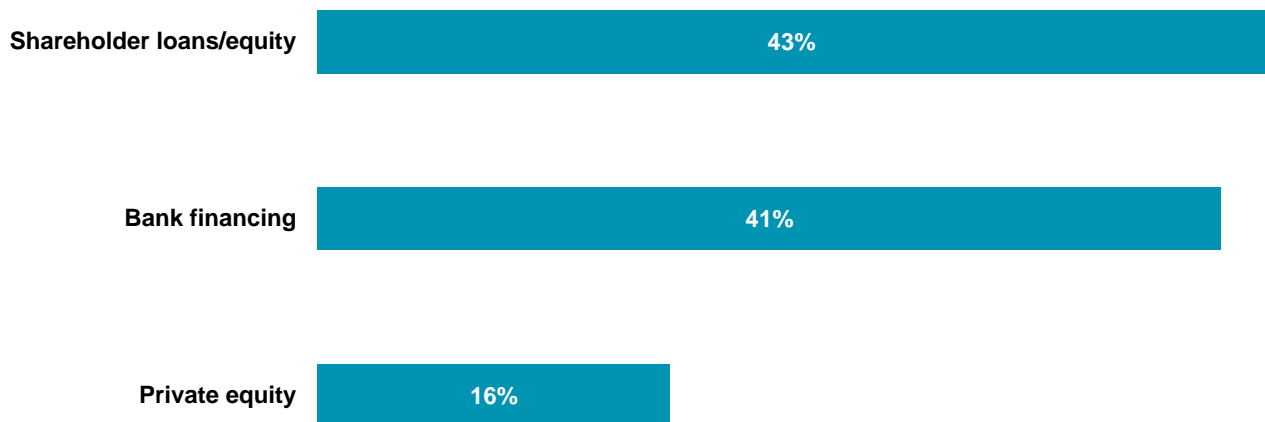
Investing in sustainability and ESG actions has become a key factor to attract and retain tenants, as most respondents indicated tenant requests as their main motivation to invest in sustainable and eco-friendly buildings. Investors are also driven by their own values (56%), while 47% believe that investing in sustainability/ESG is a market differentiator.



TYPE OF FINANCING SOURCE

The investment activity is based on both equity and bank financing

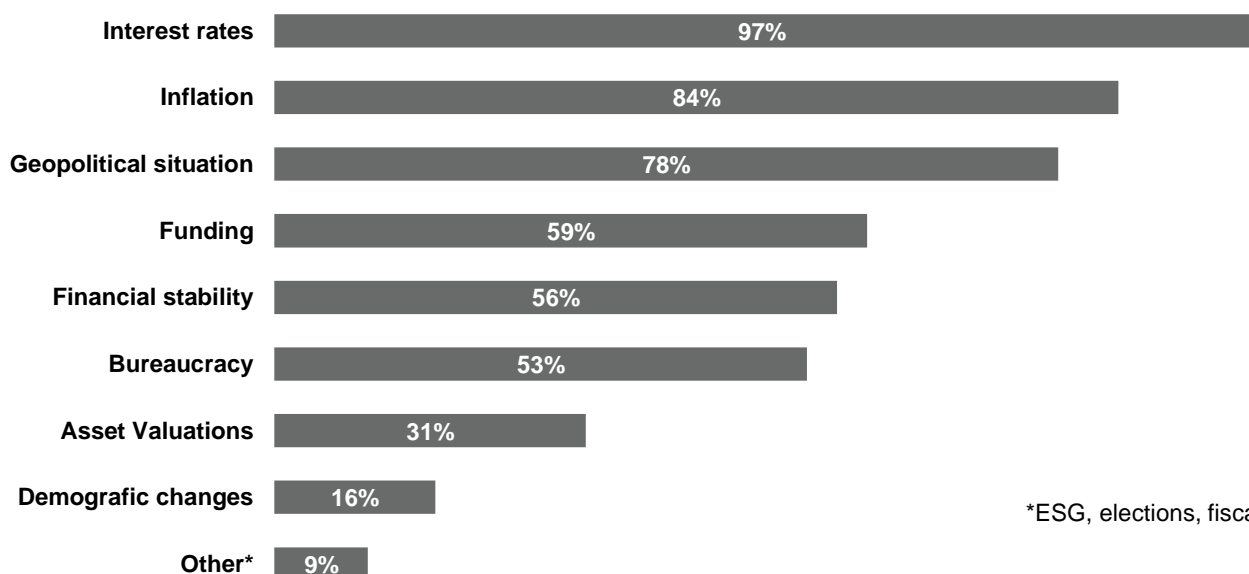
Shareholder loans/equity are the main source of financing for 43% of the investors active in Romania, while 41% of interviewees claim that the required capital for further investments comes from bank loans despite the current high financing costs.



MACROECONOMIC RISKS vs ROMANIAN REAL ESTATE MARKET

Interest rates represent the main macroeconomic risk for almost every investor

Interest rates were almost unanimously (97%) indicated as the main macroeconomic risk which may impact the Romanian real estate market, a market which will also be influenced by inflation (84% of responses) and by the geopolitical situation (78%). For comparison, inflation was considered the main threat in the previous edition of this barometer.

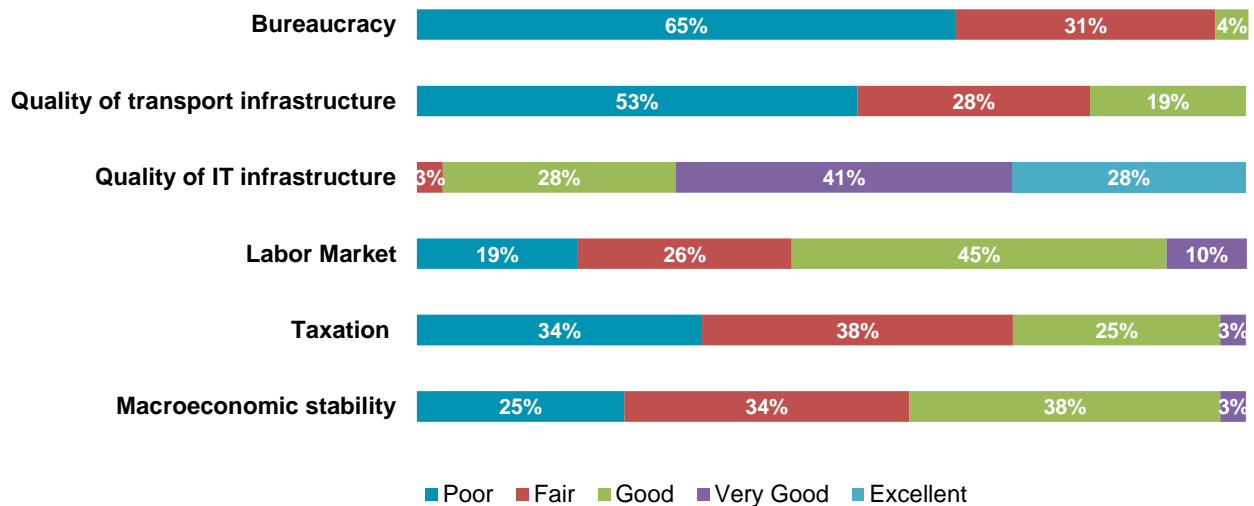


*ESG, elections, fiscal changes

MARKET CONDITIONS IN ROMANIA

Bureaucracy, quality of transport infrastructure and taxation, the least appreciated

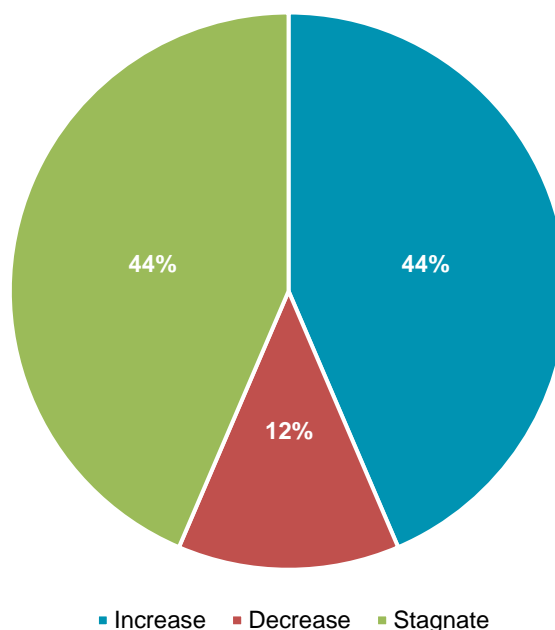
The share of investors who indicated bureaucracy and the quality of transport infrastructure as the main negative market conditions increased this year to 65% from 40% in 2022 and to 53% vs 36% last year respectively. Moreover, macroeconomic stability, taxation and labor market are other concerns underlined by real estate investors. The most appreciated market condition in Romania is the quality of the IT infrastructure.



ROMANIA'S ECONOMY EVOLUTION

Investors positive on GDP growth

The investors are relatively positive when it comes to the Romanian economy and its future evolution, with 44% of participants expecting the GDP to increase (45% in 2022), 44% predicting a stagnation (38% in 2022) and 12% a decrease (17% last year).



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