SVN ROMANIA

RESIDENTIAL MARKET 20/21 GENOME

Untangling roads ahead

Issued March 2021

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2021

MARKET

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ECONOMIC RECOVERY AMIDST FISCAL CONSTRAINTS

Economic growth delivered a huge positive surprise in 4Q20 coming in at +4.8% q/q and -1.4% y/y. Full-year economic growth was -3.9% in 2020.

The impact of the second pandemic wave in terms of economic growth was almost inexistent due to milder restrictions compared to other countries. The magnitude of the positive surprise delivered by the q/q growth suggests a large one-off GDP driver, possibly the fiscal impulse of 3.3pp of GDP in 4Q20.

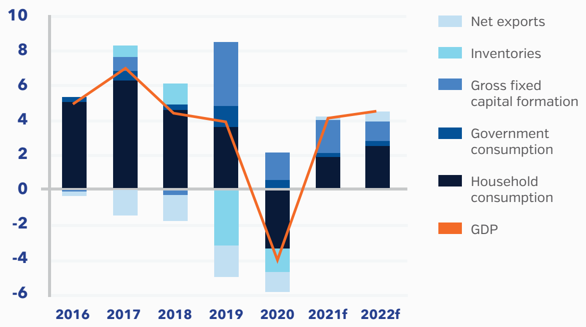
At the same time, we note that the recovery in 3Q20 was significantly smaller than expected and a redistribution of growth from 3Q20 to 4Q20 is not ruled out. Full GDP recovery from the corona crisis might take place by early-2022, sooner than previously expected.

We foresee economic growth at +4.2% in 2021 with key influences from the progress of the vaccination and the orientation of the fiscal policy.

Stronger growth is expected in 2022-2024 at 4.5-5% per year with the help of high inflows of EU funds, including grants for economic recovery.

GROSS FIXED CAPITAL FORMATION TO BE SUPPORTED BY INFLOWS OF EU FUNDS

Real GDP growth – demand side (pp)



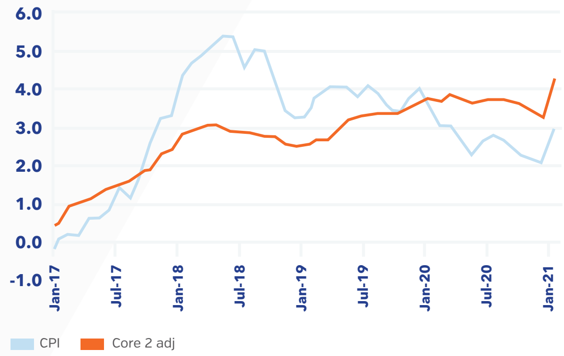
SOURCE: NIS, BCR RESEARCH

The inflation rate stood at 2.1% y/y in December 2020, down from 4.0% y/y in December 2019. Adjusted Core 2 inflation (CPI less administered, volatile food and fuel, tobacco and alcohol prices) remained above headline inflation throughout 2020 and ended the year at 3.3% y/y. Inflation rate delivered a negative surprise and rose to 3% y/y in January from 2.1% in December.

Higher than expected rise in energy prices which jumped by 18.4% m/m in January after the price liberalization stood behind this negative surprise.

INFLATION INSIDE NBR'S TARGET DURING THE NEXT EIGHT QUARTERS

Headline and adjusted core 2 inflation rate (y/y, %)



SOURCE: NIS, BCR RESEARCH

The impact of the electricity price hike on the headline inflation figure was about 0.9pp. Our inflation forecast is 3.1% y/y in December 2021 and 2.7% y/y in December 2022.

We think that inflation will remain inside the NBR's target of 2.5%±1pp for the eight-quarter-ahead monetary policy horizon.

Beginning in March 2020, the NBR took a series of unprecedented monetary easing measures to fight the COVID-19 crisis. A government bond buying program was launched, the key rate was cut in more steps to 1.50% by the end of 2020, the symmetrical corridor of interest rates for the NBR's standing facilities was narrowed to ±50bp from ±100bp and the central bank pledged to provide liquidity to banks via repos. The size of the NBR's ROMGBs buying program is relatively small, standing at RON 5.3bn (0.5% of GDP) at the end of December. This suggests that the NBR is aiming to keep yields in check rather than chase them lower.

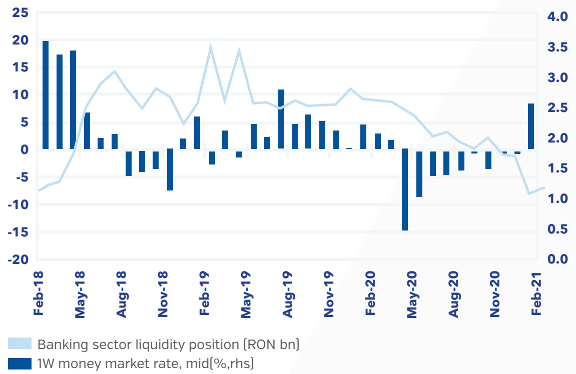
Short-term money market rates fell gradually in 2020, mirroring the NBR's key rate cuts and an improvement in market liquidity once the peak of the COVID-19 crisis was left behind. The 3M ROBOR average was 2.04% in December 2020, down from 3.12% in December 2019.

In January 2021 the NBR cut the key rate by 25bp to 1.25%. The central bank is catching up with its regional CEE peers in terms of adjusting interest rates, opening the way for faster convergence in monetary conditions towards CEE norms.

In February 2021, the NBR carried out the first liquidity-absorbing depo operation in the last 11 months. Central bank attracted deposits worth RON 4.53bn from 14 banks, with one-week maturity at 1.25%.

LIQUIDITY MANAGEMENT IS NBR'S FAVORITE POLICY TOOL

Banking sector liquidity position vs NBR



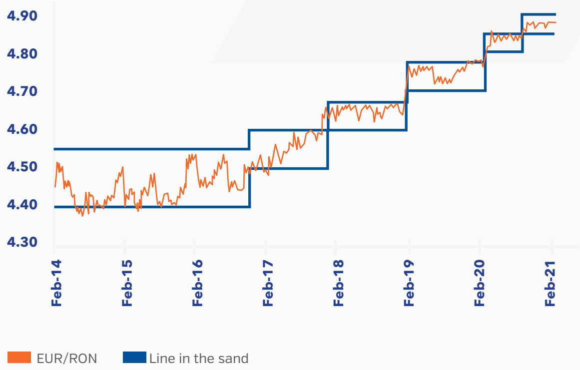
SOURCE: NBR, BCR RESEARCH

NBR's spokesman said the central bank decided to attract deposits given the significant excess liquidity in the market, in order to preserve the stability of the main segment of the financial market. In our view this suggests that liquidity management decisions are triggered by FX pressures.

We foresee the key rate unchanged at 1.25% in 2021-2022. We see room for additional monetary policy accommodation on short term through liquidity management which should guide short-term rates towards the lower end of the interest rate corridor formed by the depo and Lombard rates.

LEU HEAVILY MANAGED BY THE CENTRAL BANK

EUR/RON FX rate



SOURCE: NBR, BCR RESEARCH

This could partially offset a negative fiscal impulse, though with a time lag, provided that the NBR becomes more flexible vs RON weakness. FX RRR could converge faster than RON RRR towards Eurozone levels. Upside inflationary pressures from energy price increase the complexity of the near-term monetary policy framework.

The 12-month rolling current account deficit reached EUR -11bn in 2020 (-5% of GDP) from EUR -10.5bn (-4.7% of GDP) in 2019. The FDI coverage of the current account gap dropped to 17% in 2020 from 49% at the end of 2019. Adjustment of the external shortfall is difficult in the absence of meaningful fiscal consolidation.

MACROECONOMICS

Our current account deficit forecast is -4.6% of GDP in 2021 and -4.1% in 2022 as Romania progresses on its way towards fiscal prudence.

The budget deficit (cash standards) reached -9.8% of GDP in 2020. Rigid public spending represented by public wages plus social expenditures accounted for 94.3% of fiscal revenues and social insurance contributions in 2020, up from 81% in 2019.

Public expenditures increased significantly faster than revenues (+14.8% vs +0.4%), as the government provided additional resources in the economy during the COVID-19 crisis.

At the beginning of 2021, the government presented some budgetary measures for a gradual shift towards neutral fiscal policy in 2021 from the highly expansionary one of previous years. Public wages were frozen at the previous year's level, a cut in the VAT rate for new houses was postponed and the increase in child allowance was capped.

We estimate the budget deficit under local standards at -6.8% of GDP in 2021 and -4.8% in 2022. Fiscal consolidation will be gradual for safeguarding economic recovery and taking advantage of the activation of a general escape clause of the Stability and Growth Pact in the EU.

The average unemployment rate was 4.9% in 2020, up from 3.9% in 2019. The support extended by the government to the labor market and the exit of some workers from the active population explain the moderate increase of the unemployment.

The recovery of the labor market will take time due to structural changes in the private business environment and pressure on public spending, which should limit hiring in the governmental sector. Our average unemployment rate projection is 5.9% in 2021 and 6.1% in 2022.

After a short period of higher volatility in February-March 2020 when the pandemic crisis struck Europe, the Romanian leu was broadly stable between 2Q20 and 4Q20 and traded within a narrow range of 4.82-4.87 most of the time. The NBR reiterated that it sees leu depreciation against the single currency as unnecessary. We estimate the EUR/RON exchange rate at 4.95 in December 2021.

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MACROECONOMIC FORECASTS BCR RESEARCH

REAL ECONOMY	2016	2017	2018	2019	2020F	2021F	2022F
GDP (real change y/y, %)	4.8	7.1	4.4	4.1	-3.9	4.2	4.5
GDP (RON bn)	765.1	857.9	951.7	1058.2	1053.9	1133.3	1218.5
GDP per capita (EUR thou.)	8.6	9.6	10.5	11.5	11.3	12	12.8
Household consumption (real change y/y, %)	8.3	10.1	7.2	6	-5	2.6	3.1
Gross fixed capital formation (real change y/y, %)	-0.2	3.6	-1.2	18.2	5.6	8.2	5.5
Industrial production (real change, y/y, %)	3.1	7.8	3.5	-2.3	-9.2	4	4

EXTERNAL SECTOR	2016	2017	2018	2019	2020F	2021F	2022F
Export of goods (FOB, EUR bn.)	57.4	62.6	67.7	69.0	62.2	67.1	73.9
Imports of goods (CIF, EUR bn.)	67.4	75.6	82.8	86.3	80.6	86.2	93.1
Trade balance goods (FOB-CIF, % of GDP)	-5.9	-6.9	-7.4	-7.7	-8.4	-8.3	-7.9
C/A balance - % of GDP	-1.4	-2.8	-4.4	-4.7	-5	-4.6	-4

PRICES	2016	2017	2018	2019	2020F	2021F	2022F
CPI (y/y, %)	-0.5	3.3	3.3	4.0	2.1	3.1	2.7
CPI (average y/y, %)	-1.5	1.3	4.6	3.8	2.7	2.9	2.5

LABOUR MARKET	2016	2017	2018	2019	2020F	2021F	2022F
Unemployment rate (%)	5.9	4.9	4.2	3.9	4.9	5.9	6.1
Net nominal wages (monthly, RON)	2088	2384	2696	3099	3307	3416	3607
Net wages (nominal change y/y, %)	13.0	14.2	13.1	14.9	6.7	3.3	5.6

PUBLIC SECTOR	2016	2017	2018	2019	2020F	2021F	2022F
Budget deficit (Eurostat, % of GDP)	-2.6	-2.6	-2.9	-4.3	-9.7	-7.8	-5.4
Public debt (Eurostat, % of GDP)	37.3	35.1	34.7	35.2	47	50.1	51.5

INTEREST RATES	2016	2017	2018	2019	2020F	2021F	2022F
Monetary policy rate (end of period, %)	1.75	1.75	2.50	2.50	1.50	1.25	1.25
ROBOR 3M (avg, %)	0.8	1.2	2.8	3.1	2.4	1.5	1.6
10y bond yields (avg, %)	3.3	3.9	4.7	4.5	3.9	2.9	3.1

FX RATES	2016	2017	2018	2019	2020F	2021F	2022F
EUR/RON (end of period)	4.54	4.66	4.66	4.78	4.87	4.95	5.05
USD/RON (end of period)	4.30	3.89	4.07	4.26	3.97	4.06	4.14

MACROECONOMICS

CONTEXT

CONTEXT

The local residential market has started 2021 with the gas pedal pushed to the floor, after registering new delivery peaks in 2020, increases in the number of completed transactions and a general improvement in the accessibility of purchasing a new home, despite the general negative context generated by the COVID-19 pandemic.

Thus, the first two months of 2021 accounted for major annual increases in the number of transactions completed at national level: +38.5% in January and 1.16% in February respectively, the percentages registered in the main cities being similar, at least in January.

The result is excellent not only in terms of the increase in the percentage, but especially since the first two months of 2020 also had great results, with a 15% year-over-year increase in the number of transactions, according to the data of the National Agency for Cadastre and Land Registration (ANCPI).

+11.6%

increase in the number of transactions registered at national level in 2020

-4.13%

decrease in the number of transactions registered at national level in 2019

-7.78%

decrease in the number of transactions registered at national level in 2018

The number of transactions completed at national level increased even in March 2020, when the Covid-19 pandemic started at national level and the nation-wide State of Emergency was declared, which drastically limited the freedom of movement, and which also led to drastic decreases in the number of transactions during the following two months: -33.8% in April and -27.85% in May.

June brought about a significant recovery, of about 16.5%, while the next three months accounted for modest developments, or a continued decline in large cities, such as Bucharest.

However, the last quarter of 2020 was marked by very good results in terms of the number of completed transactions, with year-over-year increases of more than 40% in two of the three months.

These results led to the recovery of the decreases registered during the spring, and 2020 finally accounted for an 11.6% increase in the number of transactions completed at national level, according to the official statistical data published by the National Agency for Cadastre and Land Registration.

The good results registered at national level were doubled by exceptional results in some of the largest residential markets in Romania, such as Cluj-Napoca, Iasi or Constanta, which registered year-over-year increases of more than 30%, while in other cities, such as Brasov or Bucharest, the number of transactions increased by less than ten percent.

The increase in the number of sold properties was also registered on the background of the major increase in the home deliveries on some regional markets, the most important increase being registered in the Bucharest-Ilfov region, which is also the largest residential market in Romania.

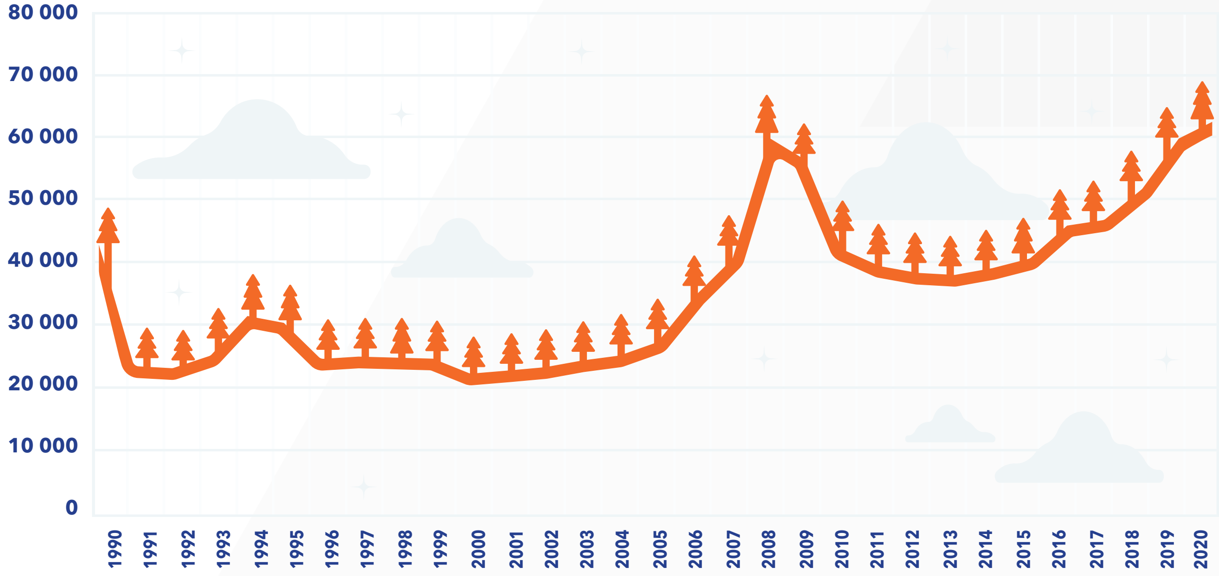
In total, 67,816 residential units were delivered in Romania in 2020, an increase of 304 units compared with the result registered in 2019, thus establishing a new record in the modern history of the residential market, according to official data released by the National Institute of Statistics.

The precedent record was from 2019, when 67.512 units were delivered, slightly higher compared to 67.222 residential units delivered in 2008.

The deliveries in the urban areas, decisively influenced by the results recorded on the largest national residential markets - Bucharest-Ilfov,

ONE RECORD AFTER ANOTHER

Number of homes delivered in Romania between 1990 and 2019



SOURCE: NIS

Cluj-Napoca, Timisoara, Constanta, Brasov, Sibiu, Iasi, Oradea, Pitesti and Craiova - were those that determined the overall increase registered in 2020.

SVN Romania's data show that the general level of absorption registered in 2020 at national level was over 80%, up until the delivery of the projects with degrees of absorption of over 95% of certain regional markets, such as Brasov.

These satisfactory degrees of absorption were obtained due to the fact that most of the units delivered in 2020 were pre-contracted as early as 2019 or even 2018, but also on the fact that the main macroeconomic indicators relevant for the residential market, such as the level of wages, the evolution of the exchange rate or the average interest rates remained at satisfactory levels throughout the previous year.

CONTEXT

Thus, the average net wage registered at national level in January 2021 was RON 3,395, up by 6.5% compared to the same month of 2020, despite the negative macroeconomic context in 2020. At the same time, the national currency depreciated against the Euro by only 1.8% during the four quarters of 2020.

The annual inflation rate fell to 2.1% and prices increased by only a few percent on most of the large regional residential markets in Romania.

At the same time, the interest rates on the mortgage segment reached a new low, given the decrease of the IRC, the benchmark index that interests are based on.

All this made the affordability of buying a new home in Bucharest reach the best level in the modern history of the national residential market, according to the profile index calculated by SVN Romania.

Thus, at the beginning of 2021, a buyer needed almost 100 average national wages - or a period of 8.3 years - to purchase a new one-bedroom apartment in Bucharest (with a net area of 50 square meters).

+80%

average degree of absorption until the delivery of the homes completed in 2020

+6.5%

increase in the average national net wage in 2020

2.1%

annual inflation rate at the end of 2020

The accessibility of purchasing a new home remained thus unchanged in the last five months, in August 2020 being necessary also 100 medium wages for purchasing a new one - bedroom apartment in Bucharest.

In comparison, in March, when the current health crisis started at national level, one needed 102.5 average national wages or a period of 8.5 years to purchase the same type of home.

In January 2019, one needed 105.7 average national wages, or a period of 8.8 years, while in January 2018, one needed 117.5 average national wages, or a period of 9.8 years. Please note that the average wage in Bucharest is about one third higher than the national average wage.

The market peak of 2008 resulted in a much lower accessibility, compared to the current one.

Thus, in January 2008, no less than 393 average national wages or a period of almost 33 years were needed in order to purchase a new one-bedroom apartment in Bucharest.

Basically, the affordability of purchasing a home has improved 4 times during the last 13 years.

A better affordability is practically one of the pillars of the residential market and one of the main explanations for the resilience of this sector after the shock caused by the macroeconomic effects of the COVID-19 pandemic.

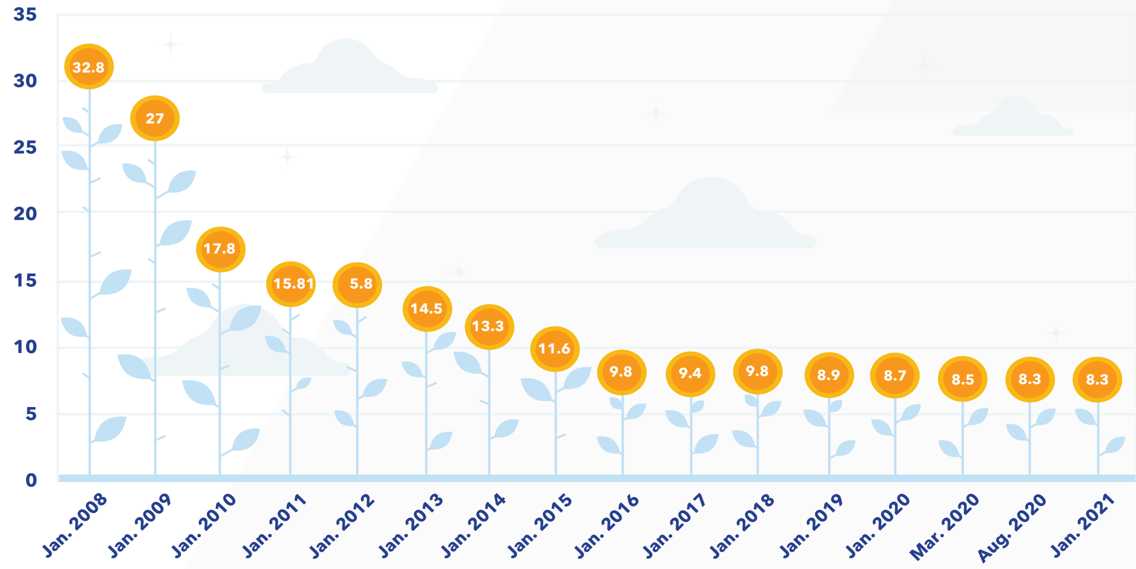
The increase in the number of transactions during the first two months of this year, compared to the first two months of 2020, may be the element that predicts a positive development of the residential sector in 2021.

However, we consider that the current situation is more difficult compared to the one before the COVID-19 pandemic, mainly due to the lower number of pre - contracts, but also due to an increasingly fierce competition between the multitude of developing projects.

These are also the main arguments that make us believe that 2021 will bring about a slight decrease in the degrees of absorption during the construction stages on certain regional markets of Romania.

IT'S GETTING EASIER TO BUY A NEW APARTMENT

The number of years required to purchase a new one-bedroom apartment (50 sq.m. net area) in Bucharest



NOTE: the index is calculated taking into account the national net medium wage, the average price per square meters for a one-bedroom apartment located in Bucharest and the medium RON - EUR exchange rate for the period.

SOURCE: SVN ROMANIA

2021 has all the premises for satisfactory results: the residential market is based on much more solid grounds compared to 2008, the accessibility of the purchase of a new home continues to improve and the interest rates charged by financial institutions will continue their downward trend.

However, there will also be residential projects that will not register the results expected by their investors, the main causes for such results being positioning errors, poor business plans, the fierce competition and the lack of specialized sales teams.

We hope you will enjoy reading our report and we remain at your disposal for further market analyses and detailed surveys.

All the best!

Photo by David Pupaza on Unsplash

BUCHAREST

BUCHAREST

The residential market in Bucharest and Ilfov - most of the homes completed annually in Ilfov are in the areas bordering Bucharest – registered some of the best results in the modern history of the sector in 2020, despite the negative estimates made at the beginning of the pandemic of COVID-19.

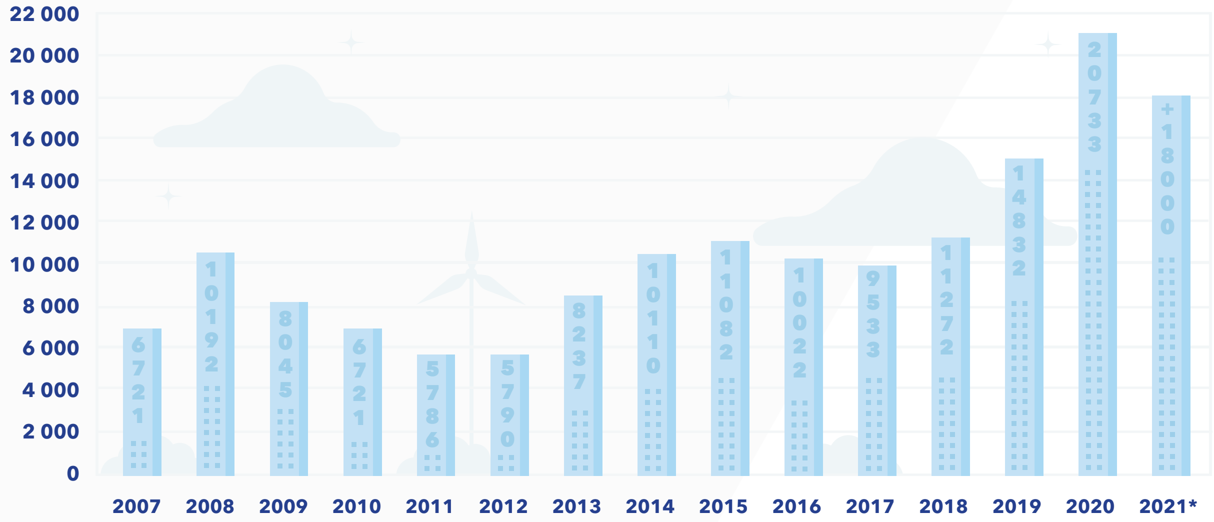
As previously estimated by SVN Romania, 2020 brought the largest number of new homes completed in and around Bucharest, after a record had already been set for the last 30 years in 2019.

Thus, 20.733 homes were delivered last year in Bucharest and its surrounding areas, according to data provided by the National Institute of Statistics [NIS], i.e. an increase of almost 40% compared to the result in 2019 - comparatively, SVN Romania had estimated a level of deliveries of 16,000 - 17,500 units.

The exceptional result registered in 2020 was obtained due to the fact that a significant percentage of the homes completed last year were represented by units for which promissory sale-purchase agreements had already been signed before.

IS A NEW RECORD ABOUT TO BE SET?

Number of homes delivered in Bucharest and the surrounding areas



SOURCE: NIS, SVN ROMANIA

*SVN ROMANIA FORECAST

Equally important, the macroeconomic effects of the COVID-19 pandemic had a relatively limited impact on the potential buyers, and therefore the investors had every reason not to delay the construction works.

The construction sector was one of the stars of the Romanian economy in 2020, with an increase of almost 16% in construction works compared to 2019, while residential construction works increased by almost 18% during the same period of time, according to the statistical data provided by NIS. Romania ranked first in the European Union in terms of the progress of the construction works, with an annual increase of over 11% in December last year.

However, the projects delivered in 2020 were not the only ones that generated the increase in the volume of works registered on the residential segment. Investor's confidence in the residential market remained high throughout the year. SVN Romania identified over 9,000 housing units the construction works of which were in various stages at the middle of last year, with estimated delivery terms in 2021.

Furthermore, the strong recovery of the residential market during the second half of the previous year has prompted investors to start developing a large number of new projects, which is why 2021 has all the prerequisites to reach an equally high home delivery volume. Approximately 20,000 new homes are currently under various construction stages in and around Bucharest and they could be delivered in 2021, according to SVN Romania.

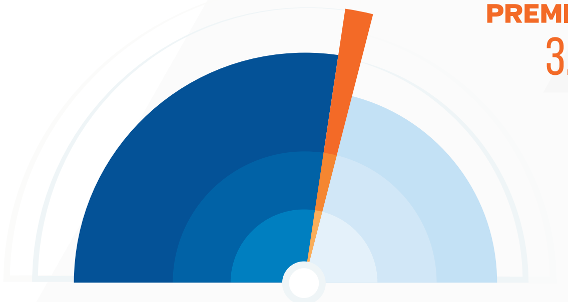
The end result will be influenced by the speed with which developers will prepare the works delivery-acceptance protocols, as well as the current health crisis and possible negative developments compared to those registered in 2020.

Given the usual difficulties during the construction stages and the potential additional difficulties, we estimate that approximately 85% - 90% of these units will be delivered over this year.

In addition to the housing units that could be delivered in 2021, a few thousand more are under various development stages - some incipient - and could be delivered in 2022, if the current construction works pace is maintained. An additional volume of new projects, including over 10,000 homes, are in the planning stage, but their development could be significantly influenced by the suspension of the zonal city plans (PUZ) in five of the six districts of Bucharest.

NO SIGNIFICANT CHANGES IN 2021

Market segmentation for residential units due to be delivered in 2021 in Bucharest and its surroundings



SOURCE: SVN ROMANIA

So far, the Covid-19 pandemic has had a limited effect on the new homes supply structure in and around Bucharest due to the length of the process a project goes through before being placed on the market – starting with the financial planning and up to its design and issuance of all required permits. Thus, most of the homes that will be completed in 2021 in and around Bucharest are part of projects targeting mass-market buyers, according to the segmentation performed by SVN Romania.

This segment is represented by projects located in the city's great neighborhoods, including outskirts of the city, but which benefit from a good general infrastructure, from transport to general points of interest, such as schools, shopping centers or medical facilities.

Thus, 55.2% of the homes that could be delivered in 2021 can be included in the mass market segment. The ratio is practically unchanged compared to 2020, when the mass market segment had a share of 55.5%.

Units in this segment typically have surfaces similar to those completed before 1990 and sale prices that make them a viable alternative for many potential buyers of an old housing unit.

The mass market segment will also hold the majority share in 2021, mainly due to the large-scale projects being developed in the city's large neighborhoods or in the western, southern and eastern areas, which are the usual areas of interest for the buyers active on this segment.

BUCHAREST

The most important change that will occur in 2021 in the structure of the homes supply in and around Bucharest is the significant decrease of the share of the low market segment, which is included in the general mass market category.

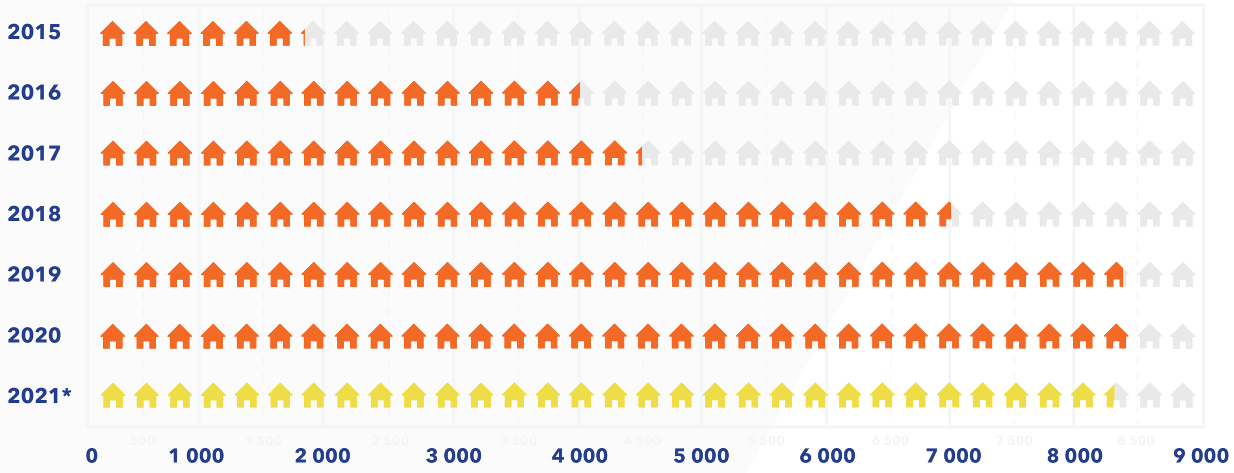
Thus, its share will go down from 21.4% in 2020 to about 9% this year - a percentage that is lower even than the one in 2019, when low market homes accounted for about 12% of the total new supply.

This type of development, with significant increases followed by similar decreases, may be considered normal, if we take into account the fact that the general infrastructure, from roads to commercial units, is usually developed one to two years after the completion of the projects included in this market segment.

The low market segment is usually represented by projects located on the outskirts or outside the administrative area of the city, where the general infrastructure - including the public utility network - is underdeveloped and the roads are often unpaved and located in areas without direct access to the public transport network.

The homes that are part of this this segment have a high degree of absorption, being attractive especially due to the low sale prices, their buyers being usually people who have recently moved to Bucharest.

MIDDLE MARKET RESIDENTIAL UNITS FROM BUCHAREST AND ITS SURROUNDINGS



SOURCE: SVN ROMANIA

*SVN ROMANIA FORECAST

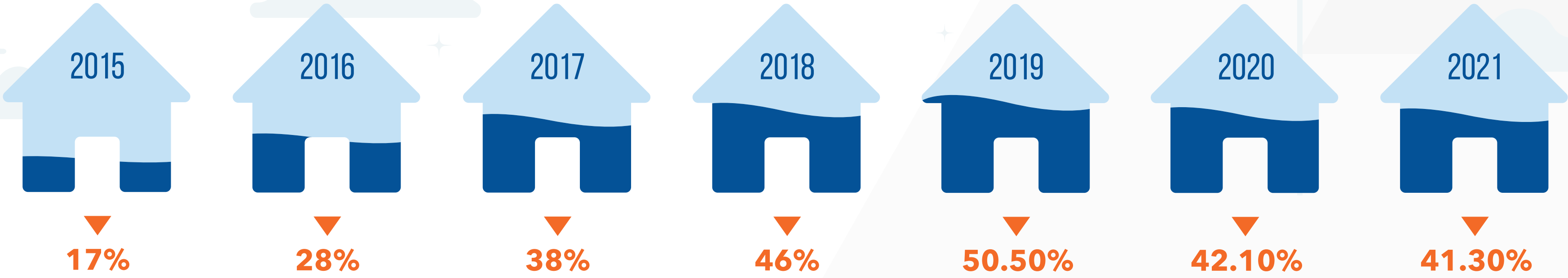
In 2021, the middle market segment will continue to cover a major share of the new supply in and around Bucharest. Thus, approximately 41.3% of the homes that could be delivered this year on the largest residential market in the country can be included in the middle market segment, according to SVN Romania's data. This ratio has registered a slight drop compared to 2020, when the middle market segment had a share of about 42%.

The projects that can be included in the middle market segment are characterized by a good location, in central points of interest of the big neighborhoods of the Capital or in the semi-central and northern areas of the city.

The proximity to a multitude of options for public transport, including the subway network, as well as the proximity to the major office buildings clusters of the city are other differentiating factors for the projects targeting the middle market segment.

The surfaces of these homes are usually similar to or larger than those of the ones completed before 1990 in the same areas and the finishing are of a higher quality. Moreover, these units are most often part of large-scale projects, which also provide access to various facilities, from commercial units and services, to leisure activities.

MIDDLE MARKET SEGMENT EVOLUTION 2017 - 2021



SOURCE: SVN ROMANIA

A total of approximately 8,250 housing units targeting the middle market segment could be delivered by developers in 2021 in and around Bucharest, a number that is slightly lower compared to 2020. Overall, this volume has remained relatively constant over the past four years, i.e. about 7,000 - 8,000 homes, even if the share of the middle market itself varied in the total supply of new homes.

The middle market segment experienced a breathtaking development stating 2018 on the background of the increase in the revenues by more than 35% during the mentioned period at national level. The development of the middle market segment has also resulted in an increase in the number of projects for the upper middle market.

Most of these projects are located in the semi-central or northern areas of the city, such as Floreasca - Barbu Vacarescu - Aviatiei - Expozitiei, have surfaces at least 20% above average and benefit from premium finishing, but cannot be classified as luxury homes.

SVN Romania's data show that approximately 1,500 homes that can be included in the upper middle market segment will be delivered in 2021 in and around Bucharest, down from approximately 2,300 similar units in 2020.

This drop has mainly been determined by the completion of large projects targeting active buyers of this segment, new similar projects being planned for development between 2022 and 2023.

In 2021 the premium and luxury segments will register the best results in the history of the domestic residential market. Thus, more than 700 premium and luxury homes are scheduled for delivery this year in and around Bucharest, more than double compared to the previous year, mainly due to the delivery of two very large projects that will account for over two thirds of the total stock of this year.

In addition, more than 500 premium and luxury units are under construction and are expected to be delivered in 2022, which shows that this segment is going through its best period, on the general background of the increase in the demand for homes with larger surfaces as a result of the Covid-19 pandemic.

This change in the behavior of the potential buyers has also resulted in an increase of over 50% in the number of houses that will be completed in 2021 in and around Bucharest. SVN's data show that over 800 houses part of various residential projects could be delivered by investors by the end of this year, 2021 being thus the best year for this segment.

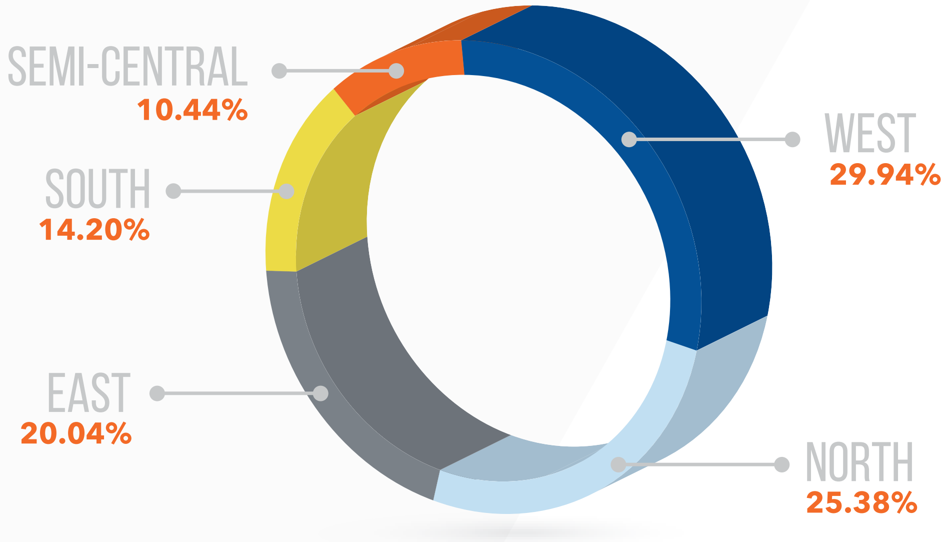
The years to come will also bring about a large number of houses on the residential market in Bucharest and Ilfov, not only as a result of the effects of the current health crisis on the buyers' behavior, but also as a result of the market maturity, which has reached the degree of growth required for the development of projects consisting exclusively of houses.

Some of them will become large-scale projects in the future, and will bring together numerous communities, served by extensive facilities, specific to towns –this already occurred with various projects in the northern area of the Capital.

The western area will remain in 2021 the main residential pole of the city, with a share of almost 30% of the total number of homes to be completed, a ratio similar to that recorded last year.

WEST REMAINS KING

Market segmentation after development area



SOURCE: SVN ROMANIA

The western area - the exit towards the A1 highway and Lujerului area - continues to attract the largest projects, with thousands of units already under various construction stages, while Drumul Taberei and Ghencea will continue to attract new but smaller projects.

The development of the middle market segment registered during the last few years can be noticed from the increase in the share of the northern area in the total new supply put on the market every year by investors. Thus, approximately 25.4% of this year's deliveries will be in the northern part of the city, according to SVN Romania's data, up by 1% compared to 2020.

Also, the semi-central areas of the city will attract about 10.5% of the estimated deliveries of new homes this year, the volume being almost double compared to last year.

As anticipated, the eastern part of Bucharest has become a major residential development pole, especially due to the investments made in the Pallady area.

More than 4,000 homes will be completed in 2021 in the eastern part of the city, which is a record level for this area, which will thus account for 20% of all deliveries.

The southern area will attract about 14% of the supply scheduled for delivery in 2021, the good general infrastructure, from public transport to points of interest, being an asset for this area, just as in the case of the eastern area.

In addition to these development poles, we could witness, on the medium term, the outlining of certain areas of interest for the investors that are active on the residential segment, the urbanistic indicators of the city and the evolution of the Covid-19 pandemic being the decisive factors in terms of the development of new residential poles in the near future.

Taking into account the available land areas but also the plans previously announced by various investors, Bucur Obor and Sisesti areas currently have the highest underexploited potential.

Depending on the development of the current health crisis and the way in which the professional activity will be carried out on the long-term, we could witness more serious changes in the future in terms of the supply and demand currently existing on the domestic residential market.

The inclusion of an ever-increasing number of facilities and even leisure time spending options in the large-scale projects will become a widespread practice in the future, while the areas located close to large business centers will continue to be attractive to potential buyers.

BUCHAREST

BUCHAREST

DEMAND AND PRICES

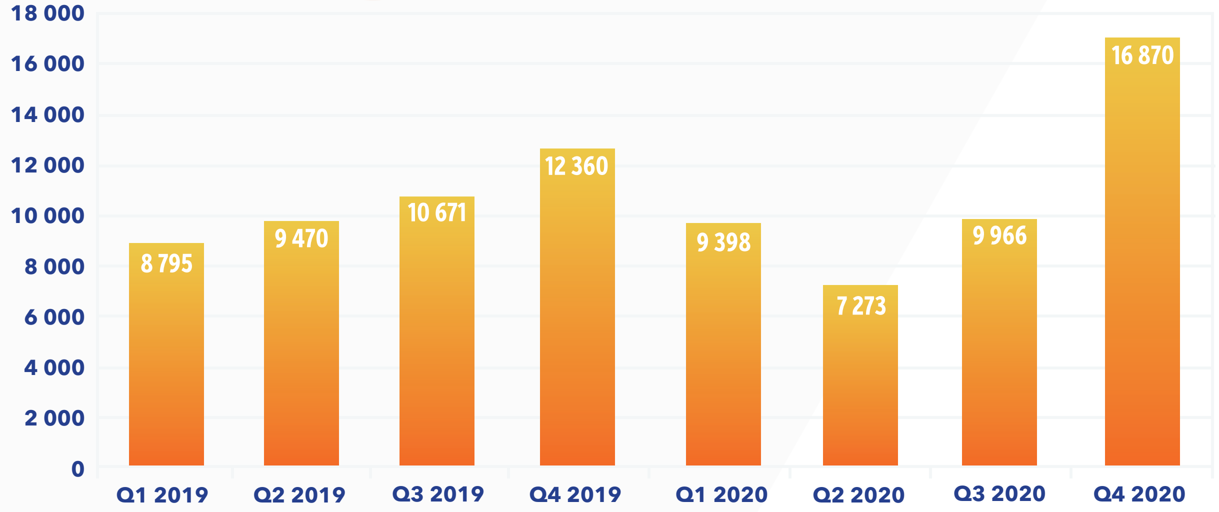
The residential market in and around Bucharest has withstood quite well the shock caused by the Covid-19 pandemic and its macroeconomic effects, as evidenced not only by the record deliveries but also by the stability of the current demand.

Thus, the number of real estate transactions concluded in the region increased by 5.35% in 2020 compared to 2019, according to the calculations of SVN Romania based on the statistics provided by the National Agency for Cadastre and Land Registration (ANCPI).

The result can be considered excellent not only if we take into account the nation-wide State of Emergency period, when severe decreases occurred due to the traffic restrictions for two months, but also if we compare it with the results of previous years: in 2019 we had a 1.76% increase, while in 2018, a year that was considered good, there was a more than 11% decrease, according to ANCPI's statistics.

The increase in the number of transactions registered in 2020 in and around Bucharest was not determined only by the units pre-contracted during the previous years and which were delivered in 2020 in the region.

REAL ESTATE TRANSACTIONS CLOSED IN BUCHAREST AND ILFOV COUNTY



SOURCE: SVN ROMANIA BASED ON ANCPI

Basically, the deliveries of homes registered in and around Bucharest during the first nine months of 2020 increased by 53% compared to the similar period of 2019, while the total number of real estate units sold during the first nine months dropped by almost 8% compared to the similar period of 2019.

The results of the last quarter of 2020, when the market registered a spectacular recovery, led to a return of the total volume of sold real estate units to a positive trend. Each of the last three months of 2020 brought about an annual increase in the number of transactions of more than 32%, with an increase of almost 42% in December.

Therefore, the fourth quarter of 2020 registered the highest number of transactions of the last eight quarters, marking a restoration of the level of confidence of the population, due to the positive results of the COVID-19 pandemic management efforts.

The restoration of potential buyers' confidence was also possible due to the fact that the macroeconomic effects of the current health crisis were relatively limited - with the exception of some directly affected economic sectors, such as transportation, HoReCa or tourism.

At the same time, the increase in the national average wage, the stability of the exchange rate, the relaxation of the crediting conditions by the decrease in the interest rates and the reduction of the trading prices growth pace have resulted in the reversal of the existing market trend.

The new residential segment trading prices have registered a moderate increase over the last 12 months, of only a few percent on average during 2020, according to SVN Romania's data.

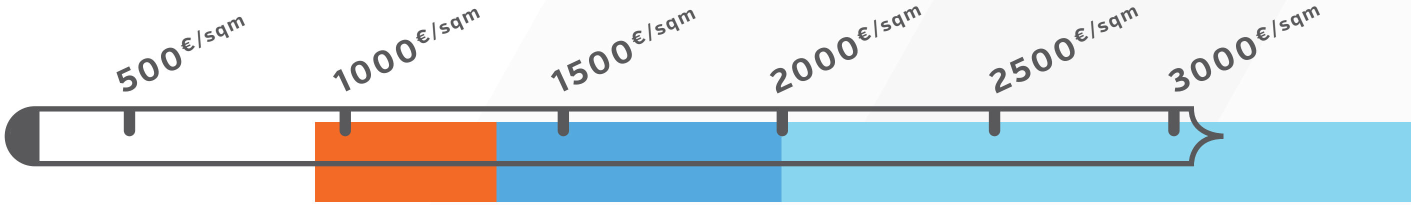
The slowdown of the prices increase trend for the homes in and around Bucharest was one of the main effects of the Covid-19 pandemic, despite the increasing volume of construction works, which also led to the increase of the related costs.

The lowest prices can be found on the low market segment, for homes located outside the city and in areas with poor infrastructure. They generally start at around EUR 750 and go up to EUR 900 per net square meter.

Trading prices on the mass market segment generally range between EUR 900 and EUR 1,300 per net square meter, while prices on the middle market segment range between EUR 1,300 and approximately EUR 2,000 per net square meter for the upper levels of the segment.

At the same time, the prices on the premium and luxury segments start somewhere over EUR 2,000 and can even exceed EUR 4,500 - 5,000 per net square meter for select properties.

AVERAGE TRADING PRICES ON BUCHAREST'S RESIDENTIAL MARKET



MASS MARKET

- 900 - 1 300 €/sqm
- Noua casa
- City outskirts, main neighbourhoods

MIDDLE MARKET

- 1 300 - 2 000 €/sqm
- Mortgage loan
- Main neighbourhoods, semi-central and northern areas

PREMIUM / LUXURY

- +2 000 €/sqm
- Cash
- North, Satul Francez, Primaverii/Capitale

SOURCE: SVN ROMANIA

We anticipate a slight acceleration of the prices growth pace in 2021, up to about 7% on average, mainly due to the construction costs increases, whether we are talking about materials or skilled labor. We believe that the current demand can support this price increase, mainly due to the continuous improvement of the affordability of a new home purchase.

However, we estimate that in 2021 the absorption rate will decrease to 70%-75% during the construction stages, until the completion of the units. This decrease will occur mainly as a result of the intensification of the competition on the market, regardless of the target segment, but also as a result of a weaker adaptability of some projects, in the general context marked by the Covid-19 pandemic, which reduced, on the one hand, the budgets of certain potential buyers, but, on the other hand, changed their behavior.

However, the current foundations of the residential market are much more solid compared to the financial crisis of 2008-2009 and the developments of the last 12 months has proven it. The premises for 2021 are, at this time, much better than those of 2020 at the time of the start of the domestic health crisis and we believe that this year will bring about satisfactory results for most of the players that are active on the market.

BUCHAREST

FINANCING

Being closely correlated with the residential market, the mortgage financing segment registered positive results in 2020 as well, despite the general context and the negative macroeconomic effects caused by the Covid-19 pandemic.

Thus, the total balance of the new mortgage loans increased in 2020 by 6.40%, according to the data of the National Bank of Romania (NBR) aggregated by SVN Romania | Credit & Financial Solutions, the SVN Romania's company specialized in both mortgage and corporate financing. The total balance of the new mortgage loans exceeded three billion Euros in 2020.

But although the economic effects of the current health crisis have not resulted in a decrease in the balance of the new mortgage loans, other indicators have been significantly affected.
For example, the average down payment registered on the mortgage segment at the end of the year was about 20%, but there were times when down payments went up to 35%, in some cases, for a significant percentage of applicants.

Moreover, some applicants became ineligible for a loan due to the macroeconomic effects of the Covid-19 pandemic - especially on economic sectors such as HoReCa, tourism and transportation (air travel). The increase in the requested down payments was also applied to the applications which were already in analysis, which led to an increase in the time required for the settlement of an application.

+6.40%

increase in the balance of new mortgages granted in 2020

-4.83%

average interest on the mortgage segment registered in January 2021

<25%

share of the financing via the Noua Casa (New Home) program in the total new mortgage loans

These restrictions did not significantly affect the number of potential applicants, those who worked in the aforementioned fields being only a minority share of the total potential demand.

Much more significant were the restrictions imposed on those who earn income from sources other than wages, such as freelance activities or dividends, very few financial institutions being willing to finance these categories of potential home buyers.

Furthermore, 2020 ended with a notification sent by NBR in December recommending that the share of revenues resulting from dividends and rents should not exceed 50% of the total revenues of the previous year.

On the other hand, 2020 brought about a significant decrease in the average interest rates on the market, given the decrease of the IRCC (consumer credit index), the benchmark interbank index that interest rates are based on.

Thus, the average interest rate for new mortgage loans in Bucharest was 5.26% in 2020, down from 5.90% in 2019, according to SVN Romania | Credit & Financial Solutions' calculations.

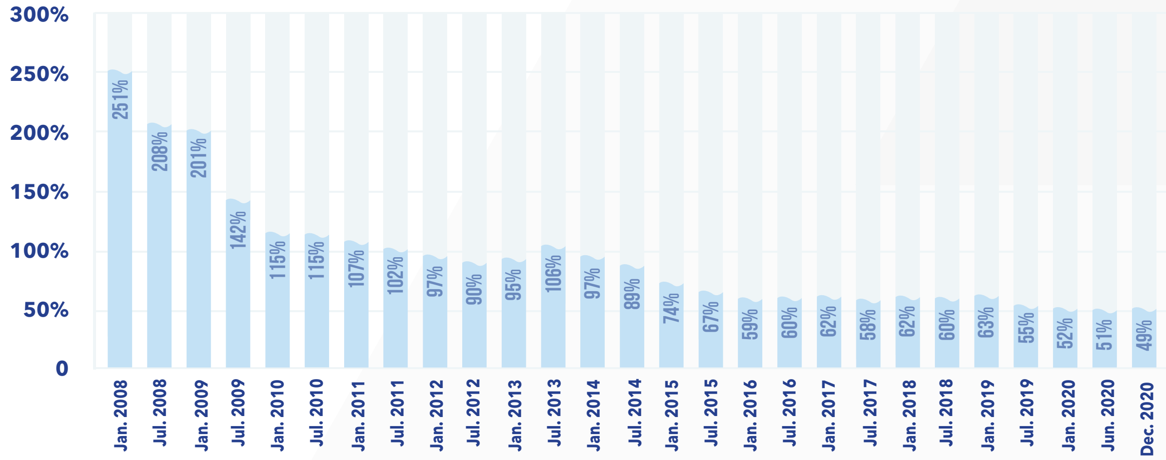
2021 started with a new decrease in the average interest rate charged on the mortgage segment in and around Bucharest, to a level of 4.83%. The IRCC calculated for the first quarter of 2021 has also dropped to an absolute low of 1.88%, which will result in a further decrease in the interest rates during the second half of the year, which will facilitate the purchase of new homes even more.

The interest rates decrease registered in 2020 and the improvement of the affordability of a new home purchase, doubled by a relatively stable RON-EUR exchange rate, have also created a more favorable climate for those who pay a mortgage loan installment. Thus, SVN's calculations show that the average installment for the purchase of a new one-bedroom apartment in Bucharest, with a net area of 50 square meters, has dropped, for the first time ever, to less than 50% of the national average net wage – please note that the average wage in Bucharest is about one third higher than the national average wage.

An average interest rate of 5.26% was taken into account for a 25-year mortgage loan, an average price of EUR 69,750 and a monthly installment of EUR 321, by reference to an average wage of approximately EUR 743 in December 2020.

While the average installment accounted for 49% of the average national net wage in December

RATIO AVERAGE NET NATIONAL MEDIUM WAGE / AVERAGE INSTALLMENT



SOURCE: SVN ROMANIA | CREDIT & FINANCIAL SOLUTIONS

2020, in June it accounted for 51% and at the beginning of 2020 it accounted for 52% of the average net wage. This indicator has continued to improve over the last few years: the average installment accounted for 63% of the average wage in January 2019, 74% in January 2015 and 102% in July 2011, as of which the average wage salary exceeded the average installment.

The highest level was recorded in January 2008, when the installment for the purchase of a new one-bedroom apartment in Bucharest was 2.5 times higher than the average net wage at that time. Basically, a mortgage installment is currently over five times less than the share it accounted for in a buyer's income in 2019.

Standard mortgage loans have thus come to account for the majority loans of the financing market, mainly as a result of the income increases over the last few years, as well as a result of the constant changes to the current Noua Casă (New Home) program. Thus, less than 25% of the total mortgage loans are currently granted via this government program, according to SVN's calculations.

We believe that 2021 will be a year marked by far fewer restrictions and negative changes, and therefore the balance of the mortgage loans will most likely increase again, both as a result of the high level of new deliveries and as a result of the decrease of the adverse impact of the current health crisis management measures.

BUCHAREST

OLD MARKET

SVN Romania's calculations show that the new real estate units segment has for the first time accounted for most of the real estate transactions in and around Bucharest, especially if we consider the old segment as consisting of homes completed before 1990.

The latter has for years been preferred by the potential buyers and will continue to be an attractive option, especially due to the more favorable location in certain situations and especially due to the lower trade prices. Furthermore, old apartments offer the possibility to move in immediately.

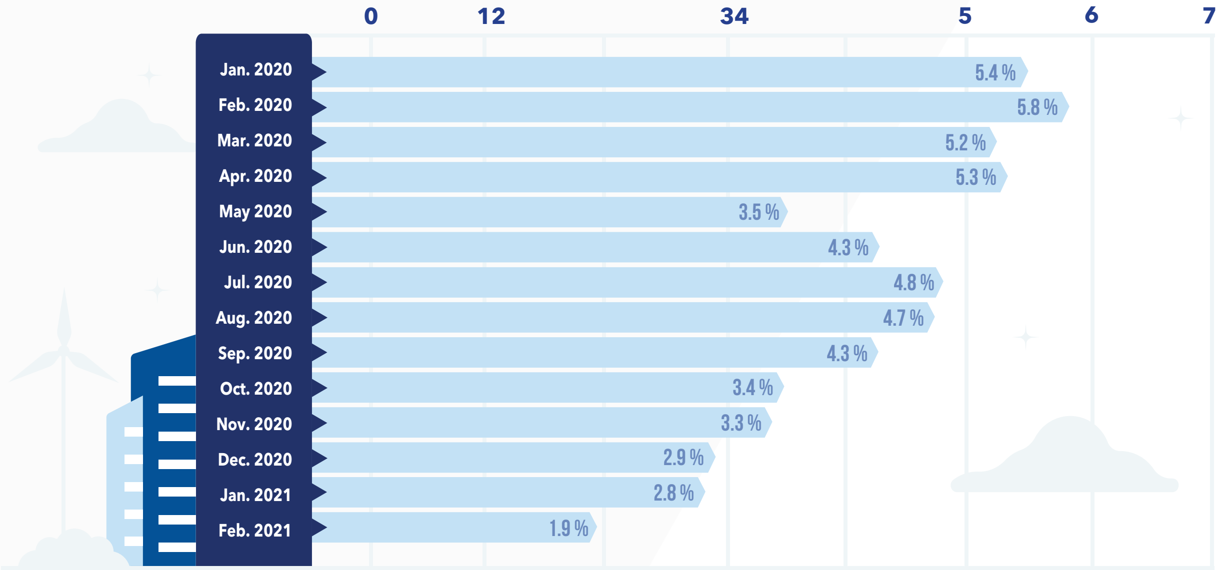
As a rule, a significant percentage of buyers are willing to pay up to 25% - 30% more for a new home located in the same area as an old one, if it meets certain specific requirements.

SVN Romania's data, which are the basis of the real estate index calculated in partnership with Ziarul Financiar, show that the trade prices on the old segment in Bucharest were at the end of 2020 2.9% higher than in December 2019.

The price increase pace halved during the previous year, from 5.4% in January and 5.8% in February to 2.9% at the end of the year.

ANNUAL INCREASE RHYTHM FOR PRICES OF APARTMENTS FROM BUCHAREST*

*two-bedroom apartments delivered between 1980 and 1990



SOURCE: SVN ROMANIA, ZIARUL FINANCIAR

The most significant decrease in the growth rate was registered in May, after the nation-wide State of Emergency was declared, when the annual growth rate dropped to 3.5%, from the 5.2% registered the previous month. The upward trend recovered over the summer, but then dropped again during the last three months of 2020.

Given the current market conditions, the increase in the interest in new homes and the steady income increase, we believe that the new real estate units segment will continue to be the main option for new home buyers.

This will most likely lead, over time, to an intensification of the price development decoupling, the new homes sector generally being in general more advantaged from this point of view.

2021 TRENDS

Higher prices

The local residential market withstood the shock caused by the Covid - 19 pandemic very well and the construction works volume registered significant increases, which led to increased costs, especially for construction materials. We estimate that prices will increase in 2021 by at least 5%, a percentage that can be considered specific to a mature market.

Smaller installments

The drop of IRCC below 2% will result in a further decrease of the interest rates, i.e. lower installments.

SVN's calculations show that the average installment for a new one-bedroom apartment in Bucharest accounts for approximately 50% of the national average wage salary, a percentage that might drop even more in 2021.

More transactions

In our opinion, we have all the prerequisites for the increase in the number of transactions in 2021, compared to 2020, especially during the first nine months of the year. The first two months of 2021 brought about an increase of 24% compared to the similar period of the previous year.

More houses

One of the main effects of the COVID 19 pandemic was the increase in the demand for houses and villas. Thus, in 2021 we will probably witness the delivery of one of the largest volumes of houses and villas on the residential market in and around Bucharest. SVN's estimates show that the number of houses and villas that could be delivered in 2021 in the region will come close to the threshold of 1,000 units.

Bigger surfaces

The increase in the demand for houses was also doubled by a higher demand for bigger apartments. However, 2021 will not bring about significant changes in the supply from this point of view, a longer period of time being necessary to generate profound changes.

Uncertain future

The biggest current threat to the residential market is the suspension of the zonal city plans (PUZ) in five of the six districts of the Capital.

We believe that the short-term effect will be limited, taking into account the volume of homes already under construction or authorized, but we could see a major drop in the supply and a significant increase in prices between 2023 and 2024.

BUCHAREST

REGIONAL MARKETS

Compared to the Bucharest-Ilfov region, the main regional residential markets in the country were affected even less by the Covid-19 pandemic, the increases in deliveries, transactions and even prices being more significant. And 2021 will most likely not bring significant changes.

BRASOV

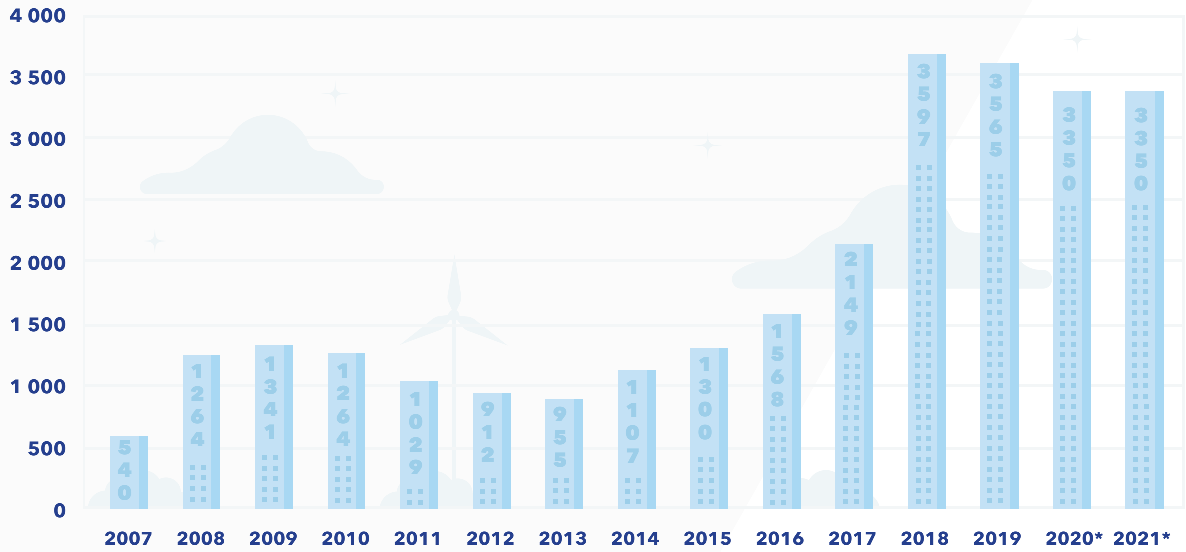
The residential market in Brasov has become one of the most important markets at national level over the last few years. Brasov also has some of the broadest growth prospects in the medium and long term, taking into account the planned infrastructure investments as well as the economic development of the city on the IT&C and industrial segments.

With an annual home delivery level of almost 3,500 units per year in and around the city, Brasov registered in 2020 a significantly better development compared to the estimates made at the start of the current health crisis.

The data of the local office of SVN Romania show that the deliveries of homes inside the city increased by approximately 3% last year.

The main localities neighboring Brasov, such as Ghimbav, Tarlungheni or Sanpetru, have also experienced a significant development, with investors delivering over 600 homes in these localities every year.

NUMBER OF NEW HOMES COMPLETED IN BRASOV AND ITS SURROUNDING AREAS



SOURCE: SVN ROMANIA BASED ON NIS

*ESTIMATION SVN ROMANIA | BRASOV

Brasov is one of the few cities in the country where the number of homes completed annually within the administrative area of the city exceeds by far that of the homes delivered in the neighboring towns - about 80% of the apartments and homes completed annually in and around Brasov being located in the city. However, the homes located in the localities adjacent to the city were one of the main drivers of the increase in the number of transactions in 2020.

Thus, the data of the Agency for Cadastre and Land Registration show that the number of properties sold in the entire county in 2020 increased by 8.5% compared to the previous year, one of the reasons being the increase in the transactions with houses located outside the city, as a direct effect of the Covid-19 pandemic.

SVN Romania | Brasov's data show that 2021 will not bring a significant change in terms of deliveries, about 3,400 units being under construction and expected to be completed this year in and around Brasov. Half of them can be included in the mass market segment, being located in the big neighborhoods of the city or in the surrounding areas.

In general, the average trading price in the surrounding areas is EUR 890 per net square meter, while in the suburbs of the city and in the large neighborhoods the average prices generally range between EUR 1,000 and EUR 1,100 per net square meter.

Approximately 38% of the new homes supply in Brasov this year can be included in the middle market segment, generally characterized by a better location, more generous surfaces and a higher level of finishes. On average, trade prices in this segment are around EUR 1,200 per net square meter.

The premium and luxury segments will attract about 12% of this year's new supply in and around Brasov, according to SVN Romania | Brasov. In general, these homes can be located in ultra-central areas or on Calea Poienii, and their average prices can easily exceed EUR 1,750 per net square meter.

Overall absorption rates remained high throughout 2020, with an average level of around 85% of homes sold before their actual delivery. This satisfactory result was obtained in a context in which the average trade price for the homes located within the administrative area of the city increased by 2.3% in 2020, going up to EUR 1,210 per net square meter.

SOURCE: SVN ROMANIA

The recent increase in the construction materials prices, of over 30% for certain categories, will lead to a more pronounced price increase in 2021, of about five percent. Furthermore, the urban limitations, which require two parking spaces per unit and the preservation of 30% of the land as green area may be additional factors.

Last but not least, the international travel restrictions determined an increase in the domestic tourism in 2020, the average occupancy rate of hotel-like accommodation units being over 70%, the obtained returns being thus above the initial expectations. 2021 is expected to bring about a similar satisfactory degree of occupancy, and the total number of transactions has all the prerequisites for registering new increases.

CONSTANTA

Constanta has become one of the most important regional residential markets in Romania, ranking second or third at national level, depending on the annual number of completed homes - a higher number of homes are completed only in Cluj-Napoca and sometimes in Timisoara, the two cities ranking second alternatively from this point of view.

Approximately 4,000 new housing units are delivered every year in and around Constanta, according to the data of the National Institute of Statistics (NIS).

Most of them are located in the Navodari-Mamaia area, which has registered a considerable development on the residential segment during the last few years.

Thus, the number of homes completed annually in Navodari increased more than five times between 2015 and 2020, to an annual level of over 2,000 housing units.

Moreover, a significant percentage of the homes delivered inside the administrative area of Constanta are located in Mamaia area.

+66%

annual increase in the number of transactions registered in Constanta County in 2020

+38%

share of Navodari area in deliveries of new homes in Constanta area

+12,000

homes completed in the Mamaia area (Navodari and northern Constanta) between 2015 and 2020

The Navodari-Mamaia area has registered a significant development in a general context in which the degrees of absorption before delivery of the completed homes exceeded 95% for several years.

2020 also brought about a high number of transactions, most of the delivered units being already pre-contracted by investors since 2019.

The investor's interest remained high in 2020 as well, given that the international travel restrictions had a positive effect on the local seaside tourism. Thus, the general occupancy rates of the hotel-like accommodation units exceeded 90% as of July, ensuring satisfactory returns for investors.

SVN Romania's calculations show that an occupancy rate of 70% for the entire summer period (May - September) could bring a buyer of a double studio in Mamaia a 10% annual return in euros, according to rental fees charged in 2020, when renting the unit to tourists.

The high degrees of absorption and the high levels of deliveries resulted in a 38% increase in the number of properties sold in Constanta County in 2020, according to ANCPI's data, Constanta thus registering the second highest growth rate at national level.

2021 will bring about, for the first time ever, a major increase in the number of homes that will be completed in Constanta, except for the northern part of the city. This significant change will occur due to the fact that the city has experienced a significant economic development over the last few years, which has also resulted in a demand for new homes located in medium and large projects.

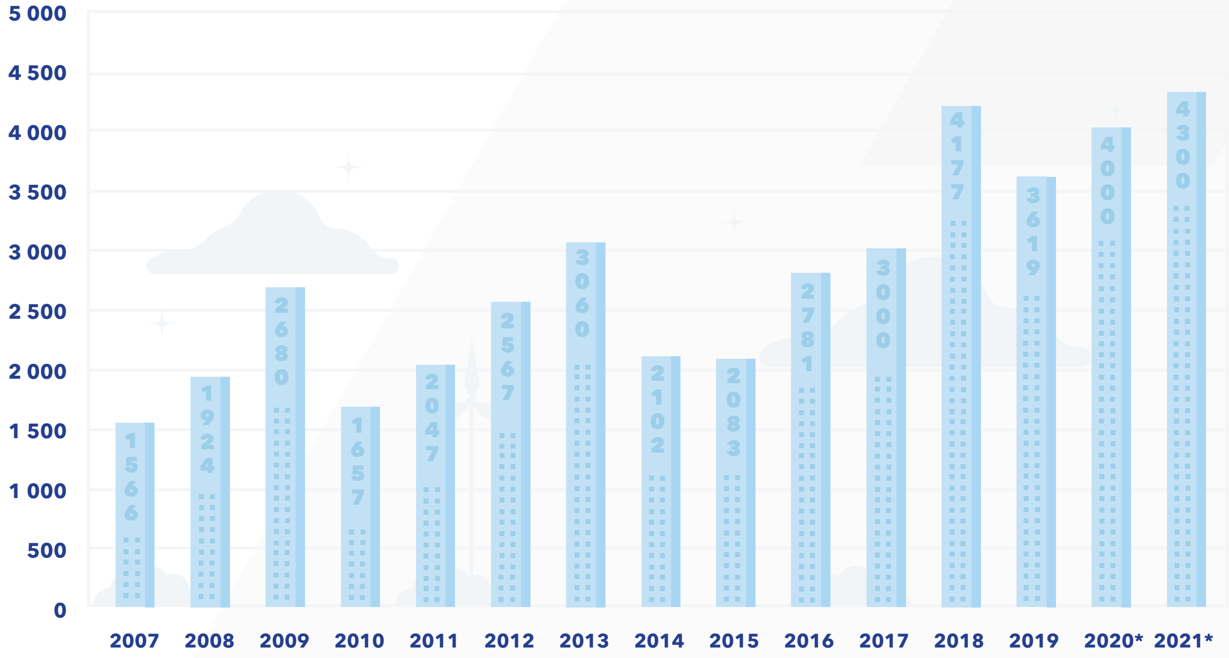
SVN Romania's data show that about 2,000 homes could be delivered in Constanta this year, about 700 of them being located in the northern - Mamaia area, while the rest are located in other areas of the city.

Most of these units target the middle market segment, being part of large projects, with hundreds of units and a large number of facilities, which will change the perception of housing at local level.

In addition to all these, over 2,500 more homes are under construction in the Navodari-Mamaia area and could be delivered by the end of 2021 if the developers maintain their current construction pace.

Reaching this level would set a new delivery record for Mamaia, which could thus be compared with other significant residential markets in Romania, such as Iasi or Oradea. Moreover, SVN Romania's data show that 1,500 more apartments, with an estimated delivery term in 2022, are already in various stages of development in Mamaia.

NUMBER OF NEW HOMES COMPLETED IN AND AROUND CONSTANTA



SOURCE: SVN ROMANIA

*SVN ROMANIA FORECAST

Several large projects will be finished in Mamaia as well this year and the years to come. They will offer multiple facilities - such as swimming pools, fitness centers or commercial units - and will offer integrated management services, ingredients that will prove to be increasingly necessary for the registration of satisfactory results in the context of a fiercer competition.

We estimate that the degrees of absorption will remain at satisfactory levels in 2021, but the significant increase in supply and the macroeconomic effects of the current health crisis will leave their toll on the results, the soundness of the concepts and business plans being decisive.

REGIONAL MARKETS

CLUJ-NAPOCA

The largest regional market in Romania, after the Bucharest-Ilfov region, registered satisfactory results in 2020. Over 7,000 - 7,500 new homes are delivered annually in and around Cluj-Napoca, the absorption levels remaining high in 2020, due to large number of promissory sale-purchase agreements executed the years before.

The data of the National Agency for Cadastre and Land registration show that the number of real estate transactions increased in 2020 by almost 30% compared to 2019, Cluj-Napoca and the neighboring localities attracting over 80% of total transactions completed at county level, according to SVN's calculations.

The largest share of these units, over 65%, is represented by housing located within the administrative boundaries of the city.

They usually target the middle market segment and have trading prices starting from EUR 1,200 per semi-finished square meter, which can go up to EUR 2,000 for homes that can be included in the upper middle market sub-segment.

Floresti, a locality that can be considered as the largest suburb of Romania, with over 20,000 homes delivered over the last 13 years, and Apahida and Baciu as well, already attract the delivery of over 3,000 apartments and houses every year.

These are usually preferred by buyers with lower budgets, the prices on the mass market segment - usually characterized by the location of the unit outside the city – ranging between EUR 800 and EUR 1,100 - 1,200 per semi-finished square meter, according to the local office of SVN Romania | Cluj.

The data of the local SVN office show that approximately 60% of the transactions concluded in Cluj-Napoca are paid with equity, a much higher percentage compared to the one registered on other regional residential markets of Romania. Investment transactions also account for a greater share of the total number of transactions, compared to other regional markets in the country.

TIMISOARA

The largest residential market in the western part of the country registers a yearly volume of 3,500-4,000 delivered homes. The most important feature is that the projects located within the administrative boundaries of the city account for a minority share of the total number of delivered homes.

Thus, each of the neighboring localities Giroc and Dumbravita attract a volume of deliveries similar to the one inside the city, i.e. over 1,000 housing units.

However, the development of the middle market segment attracted the development of more and more projects inside the city, and this trend will be accentuated over the next period of time. The degrees of absorption remained at a satisfactory level over 2020, given that the number of properties sold in the county increased by over 23% compared to the previous year.

SIBIU

Over the last few years, Sibiu has emerged as one of the largest regional residential markets in Romania in terms of the number of homes completed annually. Approximately 3,000 homes are delivered in and around Sibiu every year, Selimbar and Cisnadie being the neighboring localities that attract most deliveries.

The rapid growth of Sibiu on the residential segment was possible due to the economic development of the region, especially in the automotive and industrial segment - in this context, the degree of absorption remained at a satisfactory level.

IASI

The most important residential market in the east of the country has reached a level of maturity, the deliveries of new units remaining stable over the last few years at about 2,500 homes in and around the city. Almost three quarters of them are located inside the administrative area of the city, Miroslava and Valea Lupului being the most developed localities near Iasi.

The following years will bring about the development of more and more larger projects, with a high number of units and various facilities. Just like other regional markets in Romania, Iasi has withstood well the shock caused by the Covid-19 pandemic, the number of transactions concluded last year increasing by 42.37% - the highest level of all large cities in the country.

ORADEA

The residential market with the fastest development pace in Romania registered positive results in 2020 as well. Home deliveries in Oradea have practically tripled over the last few years, to an average level of about 2,000 units.

Approximately 80% of the homes delivered annually in and around Oradea are located inside the administrative area of the city, where the average trading prices reach approximately EUR 1,300 per net square meter, with a parking space included. At the same time, the average prices of the new homes completed in the surrounding areas range between EUR 900 and EUR 1,000.

CRAIOVA

Craiova, the most important city in the southwest of Romania, is also one of the largest regional residential markets. Almost 1,200 new homes were delivered last year in and around the city, according to NIS's data, compared to 938 in 2019 and only 585 new homes in 2018 – the official statistics for 2020 have not been published yet.

Taking into account both the economic development of the city over the last few years and the large population of the city, Craiova has a high potential for long-term development.

PITESTI

2019 marked the entry of Pitesti on the list of the largest regional residential markets in Romania, which deliver over 1,000 new units annually - a level that is also estimated for 2020. NIS's data show that approximately 1,300 - 1,400 homes are delivered annually in and around this city.

Photo by Scott Graham on Unsplash

LEGAL

THE STAY OF COORDINATING ZONAL URBAN PLANS. THE IMPACT ON THE REAL ESTATE MARKET IN BUCHAREST

On 26.02.2021 the Bucharest General Municipal Council adopted five decisions (together referred to as the "**Stay Decisions**") to stay the decisions through which the Coordinating Zonal Urban Plans for District 2, District 3, District 4, District 5 and District 6 Bucharest were approved (together referred to as the "**Coordinating ZUPs**").

The Stay Decisions came into place in the context of heated and controversial debates regarding the legality of the approval decisions of said Coordinating ZUPs, related to protecting green areas whose existence and surface are apparently threatened by the Coordinating ZUPs applicability.

I. I. Legal grounds for the stay of the Coordinating ZUPs

Following the issuing of the Stay decisions, there were opinions according to which the stay of the Coordinating ZUPs would not be legally possible, invoking the applicability of the provisions of the Law for administrative contentious no. 554/2004 ("**Law 554/2004**") which only allows the revoking of an administrative act, and not its stay, under the condition that it has not yet entered the civil circuit.

We believe the measure to stay the Coordinating ZUPs was issued according to Law no. 24/2000 in regard to provisions of legal technique for the elaboration of normative acts ("**Law 24/2000**") and not according to Law no. 554/2004.

According to article 58 paragraph (1) of Law 24/2000 "***Following the coming into force of a normative act,*** *during its existence various legislative events may occur, such as: the modification, addition, abolition, republishing, stay of the act or other similar events*".

The conditions for the stay of a normative act are listed in art. 66 paragraph (1) of Law 24/2000, namely:

i. the existence of a special situation;

ii. the stay is to be issued through another normative act of the same or greater place in the legal hierarchy;

iii. indicating the date from which the act in question is stayed;

iv. the determined duration of the stay measure.

In accordance with the aforementioned provisions, the stay measure can be issued as an exception, respectively only in the case of a special situation, this condition being mandatory.

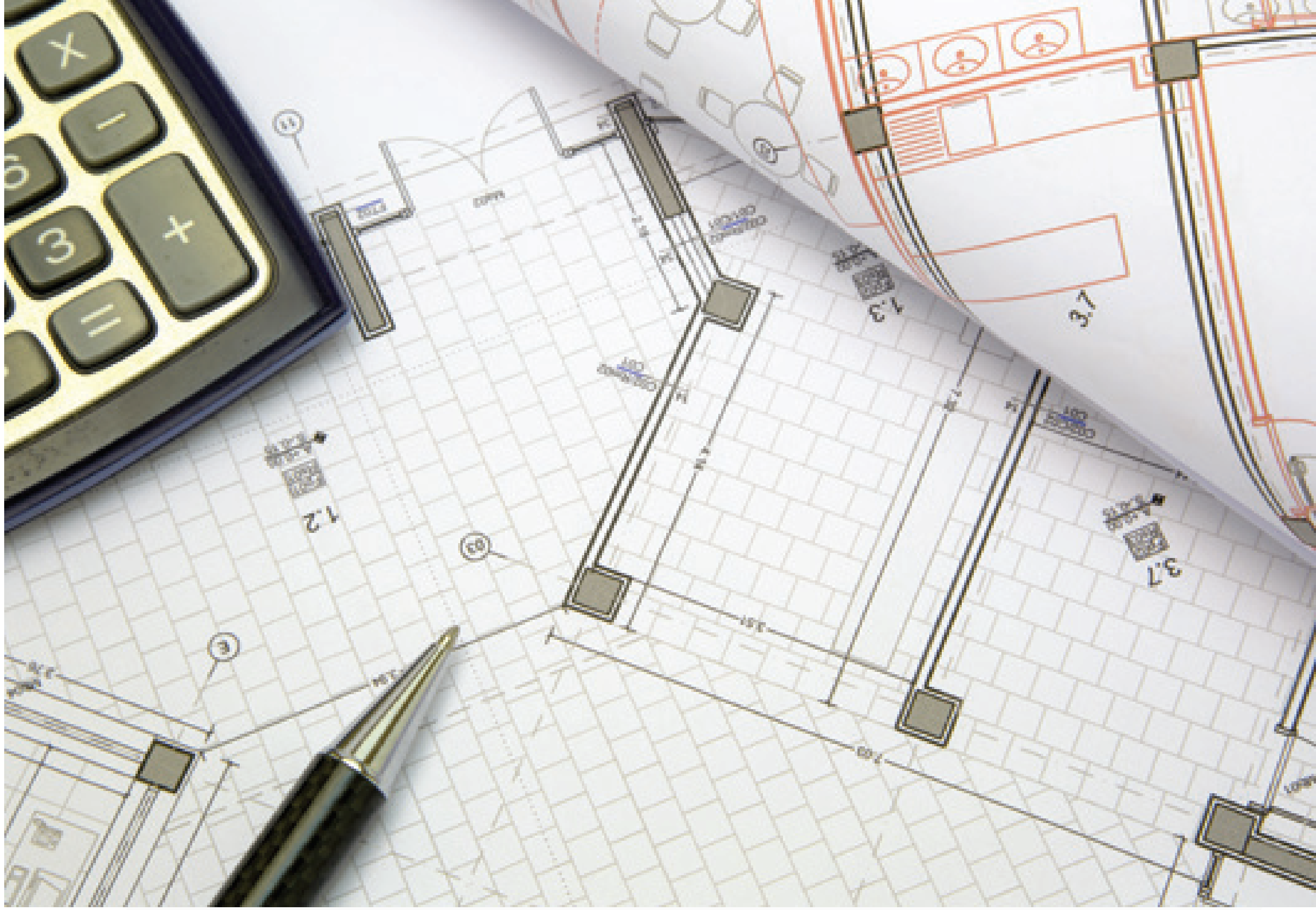
II. II. The duration of the measure to stay the Coordinating UZPs. The measures that need to be undertaken by the authorities during the stay period.

The applicability of the Coordinating ZUPs will be stayed for a period of 12 months starting from the date the Stay Decisions come into force.

According to the Stay Decisions, during the period immediately following the stay measure, the following measures will be undertaken by the General Mayor of Bucharest, respectively by the relevant directions in the specialty structures:

- **The analysis of inconsistencies between the Coordinating ZUPs and the legal provision applicable in regard to urbanism** at the level of the Regulated Territorial Unit ("**RTU**");
- **The publishing of the identified inconsistencies by the RTUs –** 90 days following the coming into force of the Suspension Decisions;
- **The organization of public debates with the purpose of identifying optimal solutions for urban regulations –** upon the expiry of the 90-day deadline following the coming into force of the Stay Decisions.

The manner in which the Stay Decisions were written indicate that the General Mayor of Bucharest, with the Directions from the relevant specialty structures have 90 days at their disposal in order to:



- **identify and analyze the inconsistencies between the Coordinating ZUPs and the legal provision applicable in regard to urbanism;**
- **communicate these to the RTUs;**
- **organize public debates in order to identify optimal solutions.**

Despite this, no deadlines are mentioned for implementing these urban solutions.

Needless to say, the Bucharest General Urban Plan ("GUP") which is in force at the moment is the one that was elaborated in year 2000.

Despite its validity being much exceeded (the legal term being 10 years) and the fact that it contains provisions that obviously no longer reflect the current reality, the authorities do not appear to rush to finalize the new GUP of Bucharest.

In this context, the 90-day deadline for identifying, analyzing and debating these supposed inconsistencies is quite optimistic.

However, we cannot be this optimistic with respect to the effective identification of these solutions and their implementation. Due to this, we cannot exclude the situation of extending the stay measure of the Coordinating ZUPs after the 12 months term has expired.

In this sense, the provisions of article 66 paragraph (3) of Law 24/2000 allow for the extension of the stay measure, coming into force following the date of its expiry.

Therefore, should the authorities not identify the solutions during the 12 months deadline, we should not expect an immediate return to the applicability of the Coordinating ZUPs, the authorities having the possibility to extend the stay.

III. The effects of the Stay Decisions

i. The building permits issued before the issuing of the Stay Decisions and those in process of being issued

According to the Stay Decision, the following acts are available and can be used:

- *City Planning Certificates issued before the issuing of the Stay Decision, respectively issued based on the former ZUPs;*
- *Building/Demolition permits in process of being issued at the date of the Stay Decisions, for which the city planning certificates had already been issued based on the former ZUPs.*

Therefore, the real estate projects for which the city planning certificate had been issued prior to 26.02.2021 will be able to obtain the building permit according to the Coordinating ZUP.

Furthermore, regarding the real estate projects for which the issuing of the building permit is being solved on 26.02.2021, will also be able to build according to that building permit (issued according to the Coordinating ZUP).

ii. The building permits issued during the measure to stay the Coordinating ZUPs

During the stay of the Coordinating ZUPs, the city planning certificates and building/demolition permits must abide by the provisions of the former documentation prior to the Suspension Decisions.

IV. The legality presumption of administrative acts

The legality presumption is the very foundation of the rationale of legal power that administrative acts hold, as administrative acts of authority, which imply their execution, as well as the theory of the administrative legal system.

In this context, there is the presumption that administrative acts have been issued in accordance with all the formal and substantial conditions required by law.

Indeed, this presumption is not absolute, but relative, the administrative acts being subject to the main legality control by Courts of Law.

The moment that an act produces effects is when it comes into force, it being revokable only in accordance with the legal conditions.

V. The impact of the stay of Coordinating ZUPs on the real estate market

The trust of investors in the presumption of legality of administrative acts is gravely affected. In this sense, we expect a reconsideration and even withdrawal of real estate investments on a medium and long term in the Bucharest area.

Furthermore, even the segment of real estate financing will be damaged by these decisions.

Moreover, even final clients may suffer if they concluded reservation agreements regarding properties that would be developed and for which the necessary urbanism documents had not been submitted at the coming into force date of the Stay Decisions.

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TAXATION

THE CURRENT VAT IMPLICATION ON THE RESIDENTIAL MARKET

Romanian real estate knew its ups and downs in the last decade. With the new reality caused by this pandemic and the increase in the number of people working from home, the request for larger apartments boomed in the period when the emergency state was stopped.

From the taxation point of view, part of social policy, the supply of new apartments to individuals is subject to 5% VAT if the surface is lower than 120 sqm and the value is below 450,000 RON. It is worth mentioning that the value also includes the value of the parking place/storage places if sold together with the apartment.

In order to benefit from this reduced rate (5%), there were developers who looked for alternatives: the separation between the sale of apartment and sale of parking places, sale of apartment and rental of parking place, the lower value declared in the sales contract and difference paid in cash, etc.

The limitation that a person can only acquire 1 apartment with the reduced rate was cancelled. Therefore, currently, there is no limitation on the number of apartments that an individual could

Thus, it could be concluded that such measure also supports the individuals who envisage acquiring smaller apartments for rental purposes (therefore, no social component).

The provision was introduced starting 1.1.2016. As mentioned above, acknowledging the alternatives used in practice, the legislator issued a letter informing the notaries (authenticating the documents for such transactions) about the applicable VAT rules.

In order to present the impact of one of the alternatives, let’s take the following case: an apartment in value of 90,000 EUR and a parking place of 10,000 EUR sold together. As the threshold is exceeded, the entire value of 100,000 EUR should be subject to a standard VAT rate of

However, there were cases when the apartment was sold by applying the 5% rate (4,500 EUR) and the parking place as a separate transaction subject to 19% (1,900 EUR). Thus, by using this mechanism instead of paying 119,000 EUR (out of which 19,000 EUR for VAT) for the transaction, the individual only paid 106,400 EUR (out of which only 6,400 EUR for VAT).

As the clients are individuals (no possibility to deduct the paid VAT), the price difference could be one argument to decide for one apartment. Thus, by using these mechanisms, fair competition in this market is not assured.

If sold to taxable persons (VAT registered), such transaction would be subject to reverse charge, therefore no VAT is added to the sales price. There were cases when apartments were acquired by VAT payers for the purpose of being used as a private house for the shareholder.

In this respect, if no use for taxable activity, an analysis of the adjustment of the VAT deduction should be made (although the deduction was accounted for through the reverse charge mechanism).

Last year, rumors appeared that the legislator intends to increase the above threshold to 140,000 EUR but keep the surface. By doing this, the developers had no reason to use the alternative previously mentioned.

As an effect of these rumors, there were cases that transactions were postponed in order to be able to benefit from the new threshold and thus, from the reduced rate. This was ratified in November 2020.

However, in the last days of 2020, the application of this measure was postponed until 1.1.2022.

In order to understand the reasoning for such delayed application, the legislator made reference to a negative budgetary impact of 0.2bn RON. We are of the opinion that impact was purely computed consider the decrease of the VAT rate, but apparently did not consider any positive impact that could have been triggered by the non-use of the alternatives described above.

If we look at the other Member States, there is a very limited number of States who use reduced VAT rates for the acquisition of apartments. There are way more states who apply a reduced rate on renovation/maintenance works.

From the developers' perspective, as the construction costs are generally subject to a 19% VAT rate, there is a financial disadvantage as the collected VAT does not fully cover the deductible VAT incurred during the development phases.

Nevertheless, as developers are entitled to request the refund of input VAT even during the construction phase, we consider that such disadvantages can be managed.

In this respect, for a proper result of the VAT refund audit, I recommend that documents received from suppliers are thoroughly checked and work procedures are established and respected.

Kindly note that this material was been prepared for general guidance only and it does not constitute professional advice.

MOORE

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Romania

+3,500
New apartments sold in 2019 and 2020 directly from developers

+15
Residential projects in portfolio

+700 MIL. €
Transaction volume in Romania

+12.3 MLD. $
Transaction volume US only

+200
Offices worldwide

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