



RESIDENTIAL MARKET 2023 GENOME



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20 GENOME
23

MARKET



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MACROECONOMICS

MACROECONOMICS

ROMANIA – AVOIDING RECESSION AMIDST ONGOING REFORMS

The Romanian economy is still facing external headwinds, though Europe is not doing as bad as feared a couple of quarters ago. Hence, Romania is likely to avoid technical recession helped by significant state investments financed from EU money from both Multiannual Financial Framework (MFF) and Recovery and Resilience Plan (RRP), amid risks of domestic administrative bottlenecks.

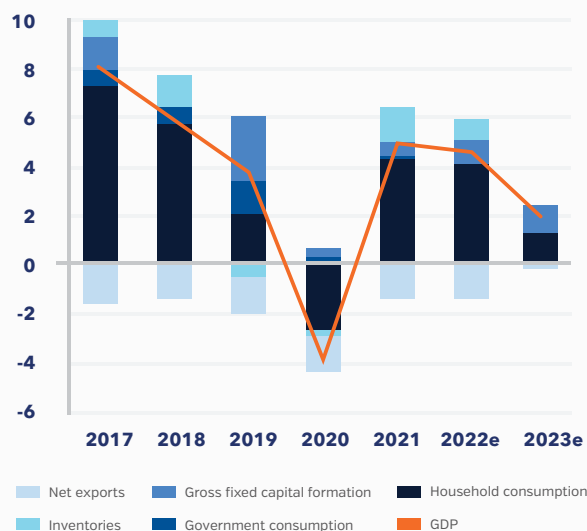
Our baseline scenario is based on ongoing fiscal consolidation in line with targets committed to the EC and the implementation of structural reforms agreed under RRP, which should boost potential growth, correct the external imbalances, improve social inclusion, avoid negative rating actions in a challenging global environment and, assuming policy consistency is proved, lay the foundation for rating upgrades.

Economic growth stood at 5.0% y/y in 1Q22-3Q22. Household consumption was a top driver, with a contribution of 3.7pp to the annual growth rate during the first nine months of 2022, followed by gross fixed capital formation (1.8pp) and government consumption (0.3pp). Net exports contributed negatively to growth [-0.8pp] as imports rose faster than exports.

The growth composition changed throughout 2022, and household consumption lost speed in 3Q22 in

MODERATE SLOWDOWN IN 2023 ECONOMIC GROWTH

Real GDP growth, demand side (contributions, pp)

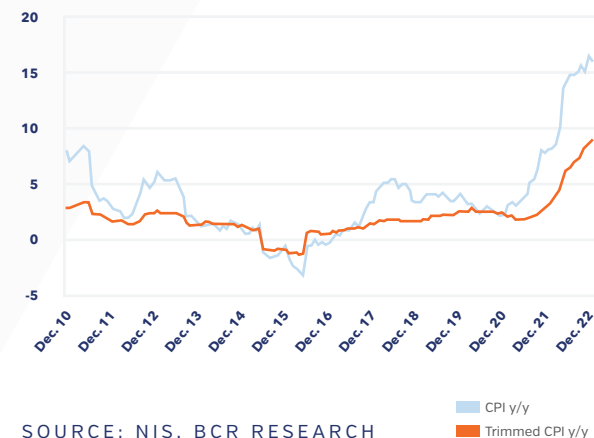


annual terms, while gross fixed capital formation accelerated visibly. The GDP deflator was 15.5% in January-September 2022, with significant pressure on producer prices in industry (40.8%) and agriculture (36.5%).

In 2022, Romania received EU funds worth EUR 10.6bn [3.7% of GDP], including inflows from the MFF and RRP. European money had a key role in

TRIMMED INFLATION POINTS TO SLOW AND LONG DISINFLATION PROCESS

Headline and trimmed inflation rate [%]



SOURCE: NIS, BCR RESEARCH

cushioning the fallout from the war in Ukraine and supporting economic growth.

Real GDP growth is expected at 2.1% in 2023 with a faster growth of investments vs private consumption. 2023 could be a top year in terms of EU funds absorption, with total inflows likely to peak at 4.0-5.0% of GDP.

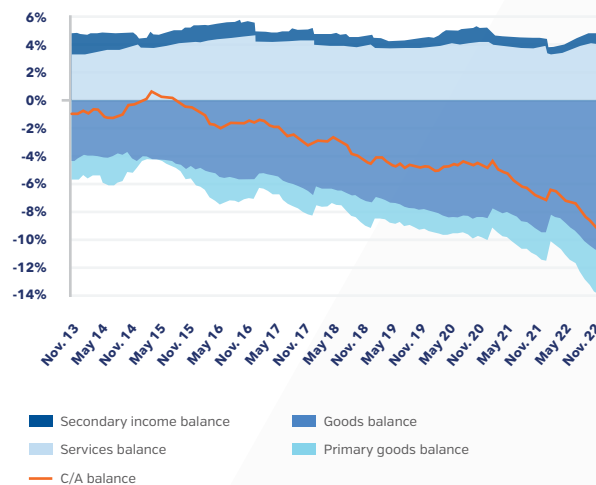
The inflation rate rose to 16.4% y/y in December 2022, the highest in almost 20 years, on higher food and energy prices worldwide. Core inflation jumped to 14.7% y/y in December on strong increases in prices for a wide variety of food items, suggesting that inflationary pressures are broad-based. Food inflation accelerated to 22.1% y/y in December, prices for non-food items increased by 15.0% y/y, while services inflation was 9.8% y/y.

In 2023 inflation could ease to 8.0% y/y in December due to falling prices for energy and agricultural commodities on global markets. The extension of the energy support scheme by the Romanian government for households should also help the disinflation process.

The NBR hiked the key rate by a cumulative 500bp throughout 2022 to 6.75% in front of the skyrocketing inflation rate and positive output gap. The Lombard rate, the relevant monetary policy instrument under tight liquidity management, reached 7.75% at the end of 2022, and the deposit rate was raised to 5.75%. The tightening pace was gradually reduced to 50bp in November from 100bp in July and 75bp at the MPC meetings in August and October. Once the peak in inflation was in sight and peer central banks in the CEE region signaled the end of their interest rate hikes, the NBR slowed down monetary tightening.

EXTERNAL IMBALANCE LIKELY TO NARROW IN 2023

C/A balance by components (% of GDP)

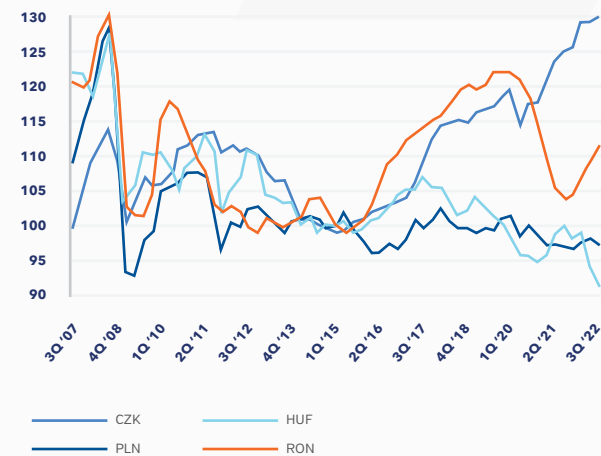


SOURCE: NIS, NBR, BCR RESEARCH

The 3M ROBOR climbed to 8.21% at the end of October, from 3.02% at the beginning of the year on the back of the NBR's monetary tightening and persistent liquidity deficit of the banking sector vs. the central bank. Higher market liquidity beginning with November due to year-end spending by the Ministry of Finance led to a decline of 3M ROBOR towards 7.60% at the end of December.

RON REMAINS OVERVALUED VS PLN & HUF

Unit labor cost adjusted real effective exchange rate



SOURCE: EUROSTAT, BCR RESEARCH

At the beginning of 2023, the NBR increased the key rate by 25bp to 7.00% and dropped the phrase about maintaining "firm control over money market liquidity" from the press release after the MPC meeting in the context of persistent liquidity surplus in the money market. We see the end of the rate hiking cycle at 7.00% and think that NBR rates could remain unchanged until 2024.

MACROECONOMICS

The current account deficit widened to EUR 27.1bn in November 2022 [9.4% of GDP] on a 12-month rolling basis, from EUR 17.5bn in December 2021 [7.3% of GDP]. The trade deficit for goods ballooned amidst a steep rise in import prices for energy products. The price increase accounted for nearly 2/3 of the nominal growth in the trade deficit for goods, while higher volumes explained the remaining 1/3 of the deterioration of the trade deficit. The FDI coverage of the current account gap was 37% in November 2022 vs. 50% in December 2021 against the backdrop of an increase in annualized FDI to EUR 10.0bn in November. 2023 could bring an adjustment of the C/A deficit to 7.9% of GDP on lower import prices for energy and government's prudent fiscal policy.

The cash budget deficit was 5.68% of GDP in 2022 vs. 6.73% of GDP in 2021. Budget revenues advanced by 21.2%, while government expenditures were slower at 17.7%. The ratio between rigid public expenditures [wages + social payments] and cyclical revenues [fiscal revenues + social insurance contributions] improved to 78.8% in 2022 vs. 82.6% in 2021. Fiscal policy is likely to remain prudent in 2023 and we estimate the budget deficit at 4.7% of GDP.

The labor market was rather strong in 2022. The average unemployment rate was 5.5% in January-November 2022, little changed from 5.6% in 2021. The number of employees in the economy reached an all-time high in the second half of the year, boosted by strong hirings in IT services, hotels and restaurants, and professional and technical services. Net



nominal wages increased by 13.6% y/y in November 2022, with a significantly faster growth rate in the private sector [16.5% y/y] vs. the public segment [4.0%]. The annual growth rate of real wages has been negative since 2022 and could remain so in the next quarters, in a sign that elevated inflation bites into household disposable income.

The leu depreciated by 0.2% on average in nominal terms in 2022 vs. 2021, well below the historical norm of almost 2% per year. The NBR Governor repeat-

edly said that the central bank could not afford a weaker leu due to the fast pass-through inflationary effect and the role of a stable currency in anchoring consumer expectations. Our EUR/RON forecast for end-2023 is 5.05.

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MACROECONOMIC FORECASTS BCR RESEARCH



REAL ECONOMY	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
GDP [real change y/y, %]	2.9	8.2	6.0	3.9	-3.7	5.1	4.7	2.1	4.2
GDP [RON bn]	752.1	851.6	959.1	1063.8	1066.8	1181.9	1416.9	1578.3	1724.4
GDP per capita [EUR thou.]	8.5	9.5	10.6	11.5	11.4	12.5	15.1	16.6	18.0
Household consumption [real change y/y, %]	6.4	11.7	9.4	3.3	-3.9	7.1	6.0	2.0	3.6
Gross fixed capital formation [real change y/y, %]	-2.2	5.5	0.0	12.6	1.1	2.9	4.0	3.5	6.0
Industrial production [real change, y/y, %]	3.1	7.8	3.5	-2.3	-9.2	7.1	-1.5	0.5	2.8

EXTERNAL SECTOR	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Export of goods (FOB, EUR bn.)	57.4	62.6	67.7	69.0	62.2	74.7	94.7	95.7	101.4
Imports of goods (CIF, EUR bn.)	67.4	75.6	82.8	86.3	80.6	98.4	129.4	128.1	136.0
Trade balance goods [FOB-CIF, % of GDP]	-6.0	-7.0	-7.3	-7.7	-8.3	-9.9	-12.1	-10.3	-10.2
C/A balance - % of GDP	-1.6	-3.1	-4.6	-4.9	-4.9	-7.3	-9.5	-7.9	-7.6

PRICES	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
CPI [y/y, %]	-0.5	3.3	3.3	4.0	2.1	8.2	16.4	8.0	5.0
CPI [average y/y, %]	-1.5	1.3	4.6	3.8	2.7	5.1	13.8	11.2	6.2

LABOUR MARKET	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Unemployment rate [%]	7.2	6.1	5.3	4.9	6.0	5.6	5.6	5.8	5.7
Net nominal wages [monthly, RON]	2088	2384	2696	3099	3307	3543	3972	4424	4787
Net wages [nominal change y/y, %]	13.0	14.2	13.1	14.9	6.7	7.1	12.1	11.4	8.2

PUBLIC SECTOR	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Budget deficit [Eurostat, % of GDP]	-2.6	-2.6	-2.8	-4.3	-9.3	-7.1	-6.1	-4.7	-3.2
Public debt [Eurostat, % of GDP]	37.9	35.3	34.5	35.1	46.9	48.9	46.9	46.8	46.0

INTEREST RATES	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Monetary policy rate [end of period, %]	1.75	1.75	2.50	2.50	1.50	1.75	6.75	7.0	5.0
Public debt [Eurostat, % of GDP]	0.8	1.2	2.8	3.1	2.4	1.8	6.2	7.3	6.0
10y bond yields [avg, %]	3.3	3.9	4.7	4.5	3.9	3.8	7.6	7.9	7.0

FX RATES	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
EUR/RON [end of period]	4.54	4.66	4.66	4.78	4.87	4.95	4.95	5.05	5.15
USD/RON [end of period]	4.30	3.89	4.07	4.26	3.97	4.37	4.63	4.51	4.60

SOURCE: NIS, NBR, EUROSTAT, MINISTRY OF FINANCE, ERSTE GROUP RESEARCH, BCR RESEARCH



CONTEXT

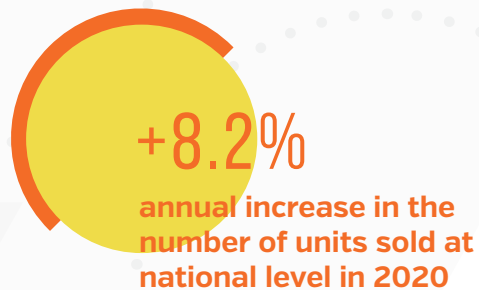
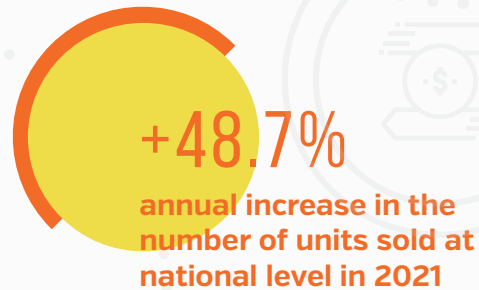
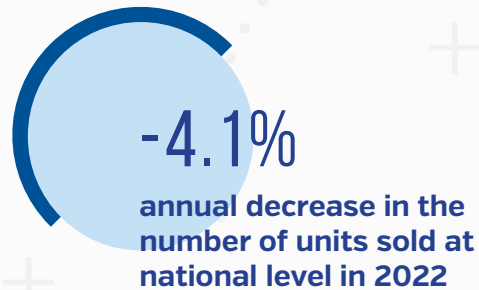
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CONTEXT
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CONTEXT

2022 ended with satisfactory results for the local residential market, especially if we take into account the difficult macroeconomic context, strongly marked by the highest inflation rate in recent years, a skyrocketing increase in bank interest rates and numerous pessimistic estimates regarding the developments of the local economy and of the real estate sector.

Thus, the previous year began with a slight annual decrease in the number of residential units sold at national level, according to the official statistical data published by the Romanian National Agency for Cadastre and Land Registration (ANCPI), but February and March brought about increases in the number of housing transactions, despite the psychological impact of the outbreak of the war in Ukraine.

The following months brought about equally fluctuating evolutions, and the first semester ended with a 3.1% year-over-year increase in the number of homes traded nationally. However, the market has entered a downward trend since June, with almost every month in the second half of 2022 – November being the only exception – delivering weaker sales results compared to the same period in 2021.



2022 ended with a 4.1% annual decrease in the number of homes traded nationally, a result that can be considered satisfactory given the general context and also the basis of reporting: 2021 was a record year, with an annual increase in the number of transactions by approximately 47.8%, 2020 being in its turn a year of increases, more precisely 8.2% compared to 2019.

But not all regional markets registered declines in 2022. The only market that registered a better result and that practically increased the national average, was the Bucharest - Ilfov region, which also accounts for about a third of the housing transactions concluded in Romania every year. Thus, the number of homes sold in Bucharest and its surrounding areas last year was 8.75% higher than the one registered in 2021.

A better result, compared to the national average, was also registered in Brasov, which climbed, for the first time, to the third position of the national top of the largest regional residential markets, both in terms of deliveries of homes as well as sales, according to SVN Romania's calculations. A relatively smaller decrease was also registered in Timis, where the figures for 2022 were about 8.7% lower than the ones for 2021.

SOURCE: SVN ROMANIA BASED ON ANCPI'S DATA

Much more significant decreases in sales were registered in Constanta, Cluj-Napoca and Iasi, of up to approximately 21% for the most developed residential market of Moldova region.

Cluj-Napoca dropped another position in the top of the largest residential markets at national level, the major decrease in the number of housing deliveries, i.e. at approximately half of the peak of 2019, according to SVN's calculations, being a decisive factor.

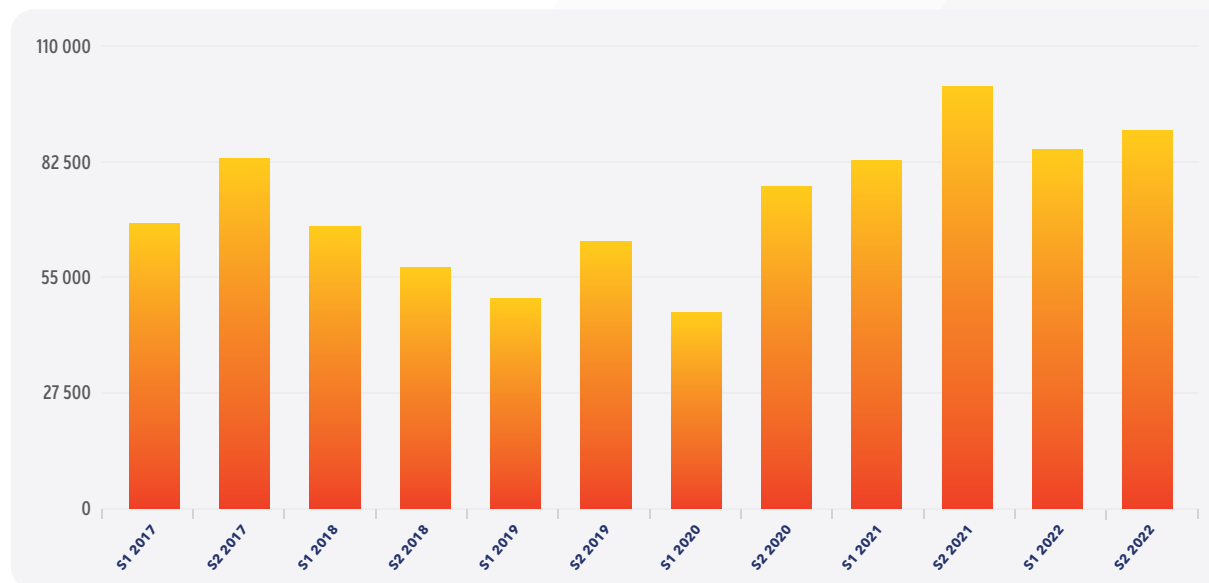
Even though the new residential units market, represented by residential projects delivered over the course of one year, accounts for less than a third of all housing transactions closed at national level, the increase in deliveries can influence the sales results in a given market either positively or negatively, depending on the pre-contracting level.

Thus, 73,332 homes were completed at national level in 2022, thus setting a new record of the last few decades, according to the data of the National Institute of Statistics (INS). Last year's results were 2.6% higher than the ones of 2021, when a new record was also set.

The new record number of homes completed at national level was possible in particular due to the good level of deliveries registered in the Bucharest - Ilfov region, which account for approximately 30% of the national deliveries of houses and apartments every year.

THE FIRST DROPS OF THE LAST YEARS

Number of residential units sold at national level



SOURCE: SVN ROMANIA BASED ON ANCPPI'S DATA

Just as SVN Romania estimated since the beginning of the previous year, the largest number of new homes have been under construction in Bucharest and its surrounding areas, with potential deliveries of about 21,000 units. Statistically, 21,328 homes were delivered in 2022 in Bucharest and Ilfov, about 3% down compared to 2021.

Major increases in deliveries were registered in South - East region (Braila, Constanta, Galati, Tulcea and Vrancea), of 20%, and in North - West (Bihor, Bistrita - Nasaud, Cluj, Maramures, Satu Mare and Salaj), of 14%, according to NIS data.

At the same time, in the West region (Arad, Caras - Severin, Hunedoara and Timis) and in North - East (Bacau, Botosani, Iasi, Neamt, Suceava and Vaslui) were registered decreases, of about 11.3%, respectively 5.1% compared to 2021.

The intense activity of the investors present on the residential segment occurred in a general context in which the degree of absorption during the construction stages remained satisfactory, i.e. over 80%, on average, most of the homes completed in 2022 being pre-contracted as early as 2021 or even 2019.

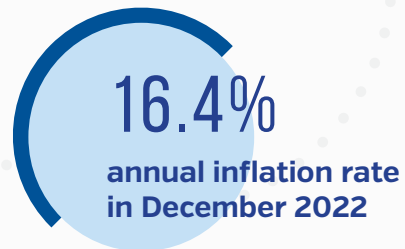
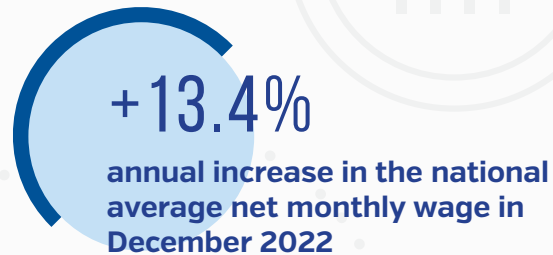
CONTEXT

The record number of deliveries and good affordability levels were possible due to the fact that the affordability of the purchase of a new home reached the best level in the modern history of the real estate market. This was possible due to the increase in the national average net monthly wage at a more rapid pace compared to the Bucharest homes prices increase pace, the RON-EUR exchange rate remaining constant.

Thus, the profile index, calculated by SVN Romania for several years and for over more than a decade now, shows that in 2022 a buyer needed approximately 93.6 national average net monthly wages - or a period of 7.8 years - to buy a new one-bedroom apartment (with a net area of 50 sq.m.) in Bucharest.

Please note that the average wages are usually higher in December, being influenced by the year-end specific bonuses, but also that that average incomes in Bucharest are about a quarter or even a third higher compared to the national average.

The figures registered at the end of the previous year are better than the ones registered at the end of 2021, when one needed a bit over 96 average wages, or a period of 8 years, to buy the same type of new apartment located in Bucharest.



This improvement was achieved due to a year-over-year increase of the national average net monthly wage by 13.4% in December 2022, the increase of the prices of new homes of Bucharest taken into account for the previous year being of about 10.5%.

The relevance of SVN Romania's index is all the more important as approximately half of the homes traded annually in Romania are bought exclusively with own financial resources, without resorting to bank loans.

The highest value of SVN's index in recent years was registered during the summer of the previous year, when approximately 8.8 years (or approximately 105.6 average wages) were needed to buy the same type of home. The value of the index dropped during the second half of 2022, simultaneously with the decrease in the annual price growth ratio.

By comparison, year 2021 began with a level of almost 100 average national wages or a period of 8.3 years for the purchase of the aforementioned type of apartment, while in January 2020, just before the outbreak of the global Covid-19 pandemic, 104 average national wages were needed or a period of about 8.7 years.

SOURCE: NIS, NBR, SVN ROMANIA

The highest value of SVN's index was registered at the beginning of 2008, when no less than 395 national average wages, i.e. the equivalent of no less than 33 years, were needed to buy the same type of new one-bedroom apartment in Bucharest. Today it is practically four times easier to buy a home compared to 2008.

The maintenance of the affordability of the purchase of a new home will be a major factor for the developments of the residential market in 2023, even more so since the level of pre-contracting of new homes registered a major drop during the previous year.

On the other hand, completed and registered housing transactions account for more than two-thirds of all housing transactions, which indicates both the housing need and the potential buyers' interest in purchasing attractive properties.

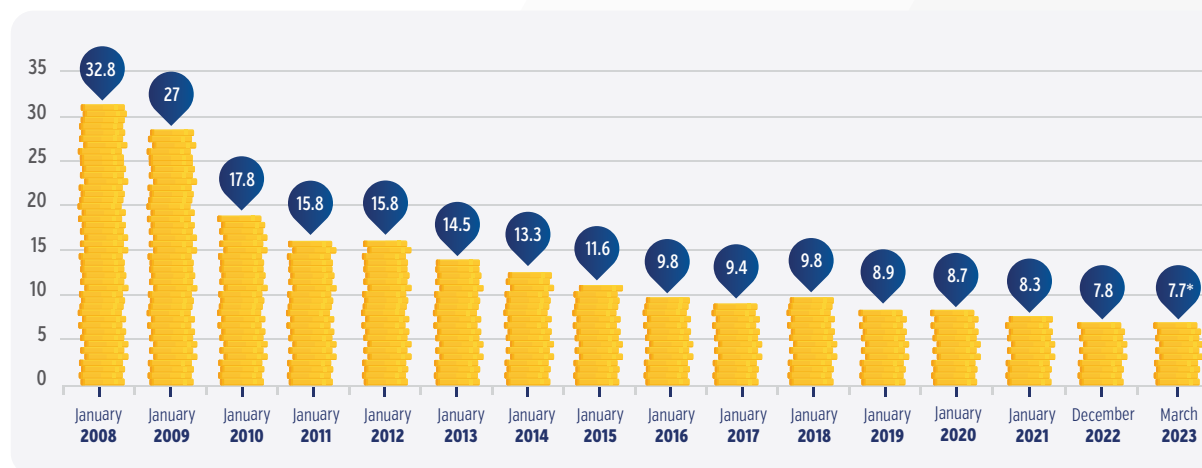
2023 started with a significant drop in the number of houses and apartments sold at national level.

Thus, according to ANCPI's latest data, a 19.7% year-over-year decrease in the number of homes sold at national level was registered in January, while in February the year-over-year decrease was 24.2%.

Cumulatively, there was a year-over-year decrease of 22.3% in the sales figures for the first two months of this year, and 2023 will most likely bring about

EASIER AND EASIER TO PURCHASE A NEW HOME

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



SOURCE: SVN ROMANIA

*SVN forecast

a decrease in the number of sold apartments and houses. But what actually matters is the decrease ratio, given that 2023 comes after a period with a more than 50% increase in the number of sold homes, compared to the pre-pandemic level.

The affordability of the purchase of a new home will most likely improve during the first half of this year, given the slowdown in price growth pace and the stability of the exchange rate.

The results that will be registered on the new units segment will also be influenced by the decrease in the supply on several major regional markets in

Romania, both as a result of the new macroeconomic context and as an effect of a more difficult authorization process.

In this context, the soundness of the business plans and the ability to quickly adapt to the successive changes occurring on the residential market will be more decisive than ever for the ability to obtain satisfactory results.

We hope you will enjoy reading our report regarding the developments of the residential market in Romania and we remain at your disposal for tailored analysis.



BUCHAREST

BUCHAREST

The largest residential market in Romania registered excellent results in 2022 as well, both in terms of housing deliveries and in terms of the number of houses and apartments sold, despite the general difficult context.

Thus, a number of 21,328 homes were completed last year in Bucharest and Ilfov, down by 3% compared to 2021, according to the data of the National Institute of Statistics (INS). So, we were close to registering a new record for the fifth consecutive year, the figures of 2022 being 89% better than the ones of 2018, when the current real estate market growth cycle began.

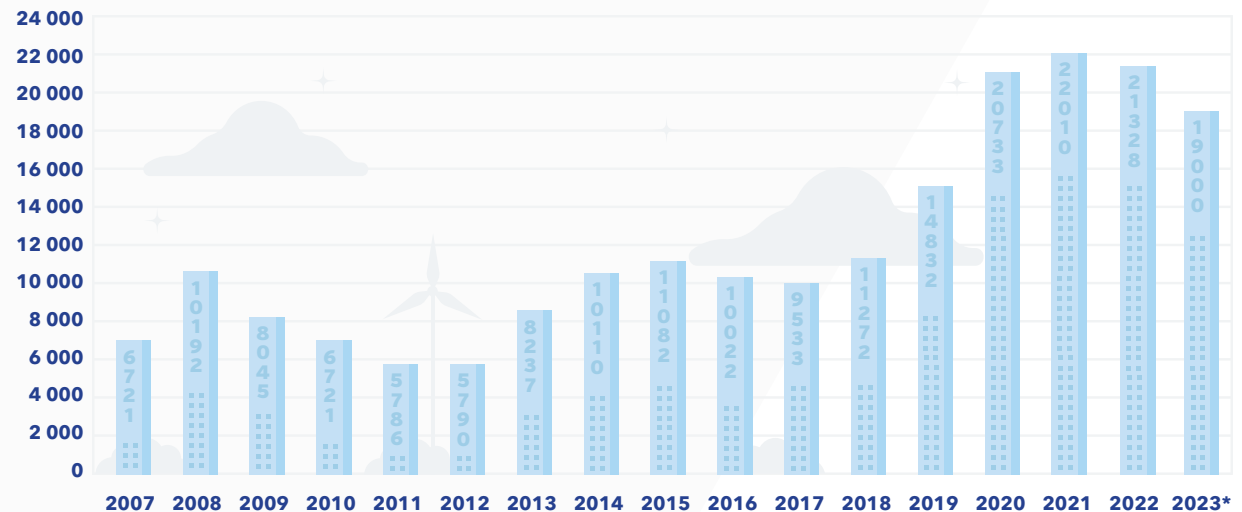
The new excellent result recorded in 2022 was in line with SVN Romania's estimates made at the beginning of the previous year, when we identified more than 27,000 new homes in various phases of construction in the city and its surrounding areas, about 21,000 of them with a potential delivery deadline set for the previous year.

Please also bear in mind that in 2022 we witness the greatest difficulties experienced by the developers on supply chains in recent years, which led to various delays in the potential delivery dates.

Furthermore, the estimates regarding the completion and delivery of some projects can also be significantly influenced by the works acceptance documents preparation speed.

A NEW EXCELLENT YEAR

Residential deliveries in Bucharest and its surroundings



SOURCE: NIS

*FORECAST

This result was also possible as a direct effect of the Covid-19 pandemic, which led to an increase in the demand for new, bigger and better-located housing, which resulted in a more intense activity of the developers active on the residential segment and also in a good level of pre-contracting, as early as 2021 or even 2020, of the units completed last year.

The best level in the affordability of purchasing a new home in the modern history of the local residential market and the lowest mortgage interest rates that were registered in 2021 and the beginning of 2022

were also two major factors that led to the record of completed homes last year.

The psychological impact of the war started in Ukraine, the record inflation rates of the last decades and the significant increase in the interest rates have not, however, result in a drastic decrease in the interest for the residential segment, whether we are talking about buyers, who have set a new record number of transactions concluded in the region, or the activity of developers.

MARKET SEGMENTATION FOR RESIDENTIAL UNITS DUE TO BE DELIVERED IN 2023
in Bucharest and its surroundings

Thus, SVN Romania has identified over 19,000 homes that are currently under construction in Bucharest and its surrounding areas and that could be delivered this year, a level which, if reached, will represent a year-over-year decrease of almost 11%.

However, if this level of deliveries is reached, this can be considered as a satisfactory result, given the new macroeconomic context, which has left its mark in a negative way on the 2022 pre-sales, but also given the difficulties faced in the project authorization process.

Please note that the home deliveries of 2023 can be significantly influenced by the investors' change of plans, which can result in delivery delays, as well as by the ability of the public institutions to identify and report all completed new homes in due time.

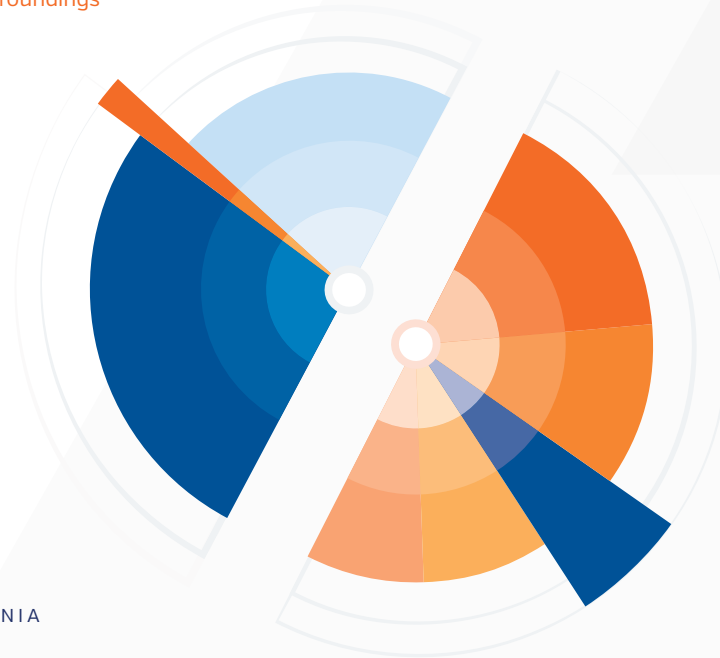
This relatively high number of homes which could be completed this year in the region is also due to the delays in deliveries originally scheduled for 2021 and 2022, but also to more than 10 residential projects of at least 1,000 homes each, which are in various stages of development, in all areas of the Capital and on all segments of the residential market.

In addition to the homes that could be delivered in 2023, an additional number of over 8,000 houses and apartments are already in various phases of development in Bucharest and its surrounding areas,

MIDDLE MARKET
41,3%

PREMIUM
4,4%

MASS MARKET
54,3%



SOURCE: SVN ROMANIA

their delivery deadline being set for 2024 or even 2025, according to SVN Romania's data.

This number is even higher than the one registered at the beginning of the previous year, when only about 6,000 new homes with delivery dates set for 2023 and 2024 were under construction in the region.

The number of more than 8,000 units already under development and likely to be delivered in 2024 and 2025 is also determined by several medium and large projects under construction, with even more

than 1,000 homes each, that will not be delivered this year, but the following ones.

The new macroeconomic context has not had and will not have a major influence on the supply of new homes that could be delivered in 2023 in Bucharest and its surrounding areas.

The mass market segment will also account for the largest ratio of the deliveries scheduled for this year, with a market share of 54.3%, i.e. a slight drop compared to the level of 2021.

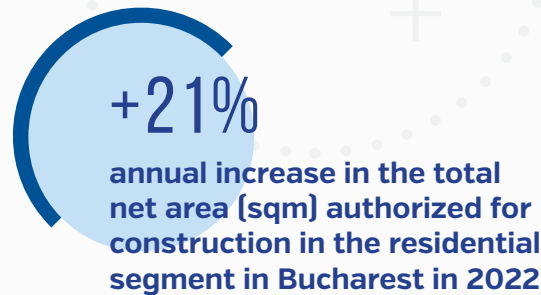
BUCHAREST

The mass market segment usually includes projects located in the large neighborhoods of the city or at the outskirts of the city where the infrastructure is deficient - represented by the low market sub-segment - with prices of up to EUR 1,500 per net square meter, with surfaces similar to those of the old homes and with medium quality finishing works.

It is also worth noting the increase in the number of homes under construction that can be classified under the low-market segment, their number exceeding the threshold of 1,000 units and accounting for about 5.75% of the new units supply. This fact was determined by the opening of new development areas, located in the extreme southern or western part of the city.

The very good price-income ratio - the best in the modern history of the local residential market - the high percentage of transactions carried out without resorting to a bank loan, as well as the effects of the Covid-19 pandemic, such as the desire for bigger homes, have led to the development of an equally high number of residential projects targeting the middle market segment.

Thus, approximately 41.3% of the homes that could be delivered this year in Bucharest and its surrounding areas target the middle market segment, with a slight increase compared to the market share held last year.



On the other hand, the total number of middle market units is about 500 units lower than the number registered in 2022. These units are located in the best areas of the big neighborhoods, in the semi-central areas or in the northern area of the city, offering an easy access to the most important points of interest, whether we are talking about business or commercial centers, parks or educational facilities.

They usually have surfaces similar to or larger than similar homes completed before 1990, good quality finishes and can be part of projects that provide tenants with a wide range of facilities. The prices of the middle market segment homes start on average from EUR 1,500 per net square meter and can reach approximately EUR 2,300 per net square meter for those that can be classified as part of the upper middle market.

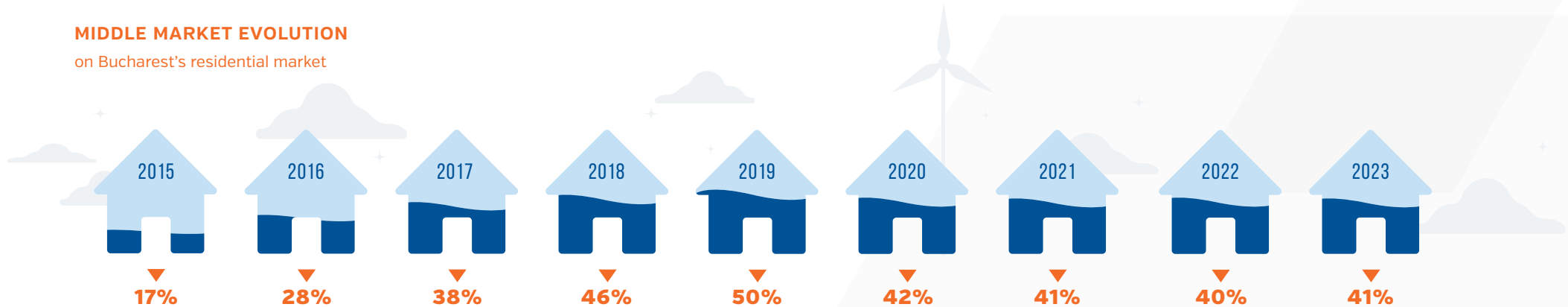
The premium and luxury housing segment will register very good results this year, as over 800 residential units that can be classified as part of this segment could be delivered this year in Bucharest and its surrounding areas.

This result is possible both as a result of some medium-sized projects that will be completed this year and as a result of the delivery of several boutique projects, of less than 50 homes each.

SOURCE: SVN ROMANIA BASED ON INS

MIDDLE MARKET EVOLUTION

on Bucharest's residential market



SOURCE: SVN ROMANIA

The high number of homes of the middle market and premium segments also results in the maintenance of the northern area of the city at the forefront of the top of the city's main residential development areas, which occurred for the first time last year, after years when the western areas registered the highest number of deliveries of new homes in the Capital and surrounding areas.

Thus, about 32.4% of the homes that could be delivered this year in the region are located in the northern part of the city, according to SVN Romania's data, a percentage lower than the one registered in 2021, when about 35% of the new supply was located in this area.

The northern part of the city has become the main pole of residential development in Bucharest as a result of the improvement in the affordability of purchasing a new home, of the favorable context of the bank funding market and of the Covid-19 pandemic.

Just as in 2022, the northern area will account for the largest number of completed homes this year, mainly as a result of the completion of some projects or stages of some large-scale projects, in areas such as the Fabrica de Glucoza, Pipera or Baneasa.

Thousands of units will continue to be completed annually in these areas, and the Petrom City area will join them, given that many land transactions have already been completed and that the investors' interest in these areas is high.

A decrease in the market share has also been recorded in the western areas of the city, which will however continue to hold the second place, with a deliveries share estimated at around 22.1%.

This drop, from around 26% in 2022, will occur mainly as a result of the decrease in the number of residential projects under construction in the extreme western area of the city.

The drops in the deliveries in the northern and western areas were offset by the increases in the eastern and semi-central areas. The eastern area will therefore account for around 17.5% of the potential deliveries of 2023, up by four percent compared to 2022, the Pallady area being the largest residential development basin in the eastern part of the city.

At the same time, the semi-central areas will register the largest growth in terms of potential housing deliveries in 2023, mainly as a result of the completion of some medium and large projects. The semi-central area accounts for about 12.4% of this year's potential deliveries.

The southern area of the city will remain in 2023 at a level similar to that registered last year, which means a market share of around 15.6%. The southern part of the city is attractive and will continue to be attractive for the construction of thousands of new homes, especially as a result of the development of very large projects.

BUCHAREST

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DEMAND AND LOANS

The decrease in the number of transactions concluded at national level in 2022 was not felt in the Bucharest - Ilfov region, which registered a new record number of sold houses and apartments, despite the difficult general macroeconomic context and the uncertainties regarding the developments of the market and of the local economy in general.

Thus, the number of individual residential units traded in Bucharest and its surrounding areas went up by 8.75% in 2022, according to the official statistical data of the National Agency for Cadastre and Land Registration [ANCP].

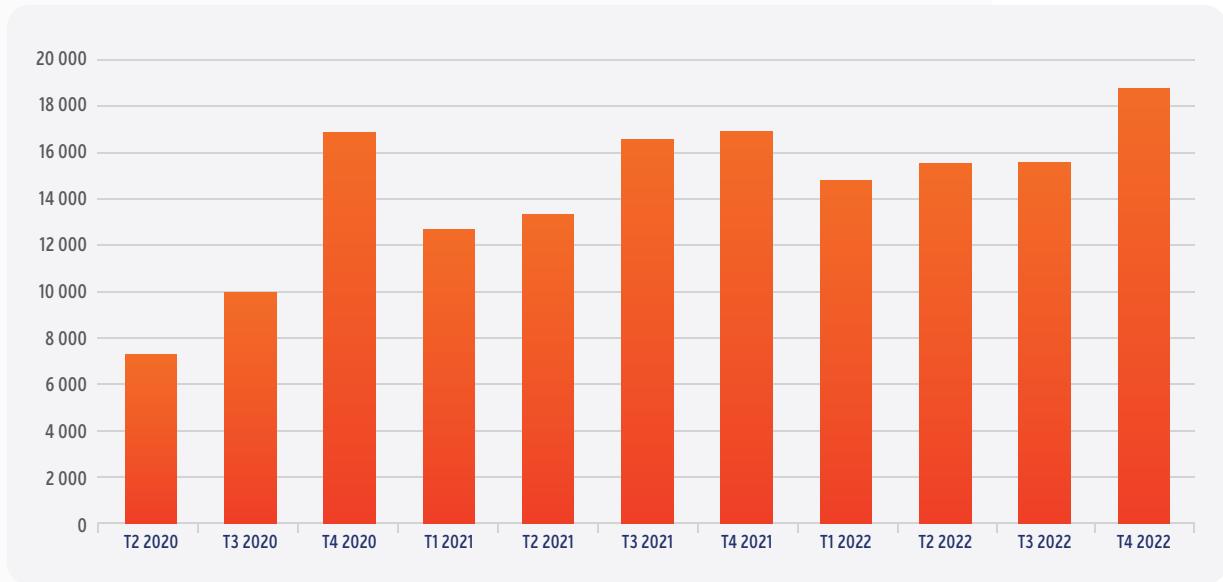
The increase is all the more significant when we consider that its basis of reporting is represented by another record year, 2021, when home sales were up 37% compared to 2020, which in its turn ended with a plus, despite the Covid-19 pandemic.

The ANCP's data show that decreases in the number of transactions with homes located in Bucharest and its surroundings were registered only in three months of last year. Please bear in mind that most of the activity on the residential market in Ilfov is carried out in the Capital's satellite towns.

Thus, in January was registered a very small decrease compared to January 2021, of only 0.4%, while in August the sales dropped by 20.5%, which can be explained by the fact that August is the sum-

NEW SALES RECORDS

Quarterly home transactions closed in Bucharest and Ilfov



SOURCE: SVN ROMANIA BASED ON ANCP

mer holidays month - and the 2022 tourist season was one of the most prolific in recent years - while in December, the home sales dropped by approximately 12.8%.

2023 began in its turn with sales results that can be considered satisfactory, especially if we take into account the general macroeconomic context - in particular the major increase in interest rates as of January 1 - but also the basis of reporting, which is the best year in the modern history of the market.

Thus, the number of houses and apartments sold in January 2023 dropped by 4.4% compared to January 2022, while in February there was a decrease of 28.2% compared to the similar month in 2022. Cumulatively, the two months accounted for a year-over-year drop of 18.9% in the number of sold homes.

In categorizing this result - as well as in analyzing the results that will be registered in 2023 - please take into account the fact that 2023 started with an average trading volume that is more than 50% higher compared to the one of the pre-pandemic period.

The good level of trading registered in 2022 was mainly influenced by the maintenance of the purchase accessibility at an excellent level – the best in the modern history of the market, in a context where more than 50% of transactions carried out in Bucharest and its surrounding areas are carried out without resorting to a bank loan.

Moreover, a significant percentage of the homes delivered last year were already pre-contracted, with the record deliveries having a counterpart in terms of home sales as well.

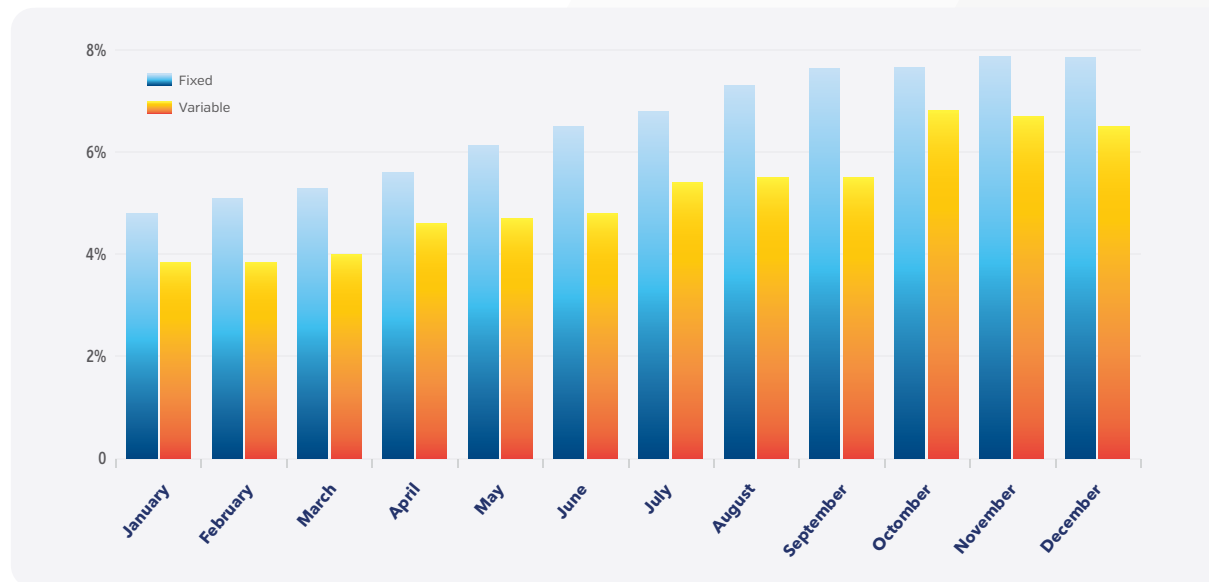
The major drop of the pre-contracting figures for the homes under construction and completed in 2022 has not had a strong impact on the overall sales statistics so far, mainly because the new units segment as a whole accounts for less than a third of the total housing sales, according to SVN Romania's calculations.

Furthermore, the general increase in interest rates registered during the past year, as well as the negative outlook regarding their development in the short term, led more and more buyers to turn to the secondary market, i.e. that of homes already completed and registered.

Thus, the average interest rates of mortgage loans granted in Bucharest reached in 2022 the highest level in the recent history of the market, namely 7.86% on the fixed interest segment and 6.50% on the variable interest segment, according to the calculations

INTEREST RATE EVOLUTION

for mortgage loans granted in Bucharest in 2022



SOURCE: SVN ROMANIA | CREDIT & FINANCIAL SOLUTIONS

of SVN Romania | Credit & Financial Solutions based on data collected from the banking market.

Compared to the interest rates charged at the beginning of the year, the increase is significant, i.e. more than two thirds. Thus, 2022 started with an average interest rate of 4.80% on the fixed interests segment and a 3.85% on the variable interests segment for mortgage loans granted in Bucharest.

The outbreak of the war in Ukraine and the global macroeconomic developments were also strongly felt in the bank financing market, where interest rates continued to rise. Thus, after the first semester

the interests had already registered two percent increases, reaching an average of 6.80% for loans with fixed interest and 5.40% for loans with variable interest, according to the calculations of SVN Romania | Credit & Financial Solutions.

The increase in interest rates was all the more visible if we follow the evolution of the reference index for consumer loans (IRCC), based on which interest rates for new mortgage loans are calculated. It increased almost five times over just one year, from 1.17% at the beginning of 2022 to 5.7% at the beginning of 2023.

BUCHAREST

The increase of the IRCC index, however, had a more limited impact on the loans in progress, mainly as a result of the wage increases.

Thus, a simulation of SVN Romania showed that a creditor who contracted a mortgage loan at the beginning of 2021 registered an increase in the degree of indebtedness of approximately 9%, an increase that cannot be considered as a major risk.

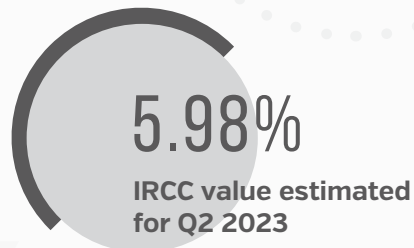
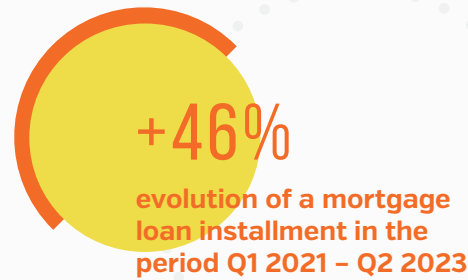
Thus, the loan started with an indebtedness ratio of 39% at the beginning of 2021, when the IRCC had a value of 1.88%.

The decrease of the IRCC during the next following three quarters resulted in the decrease in the paid installment by up to 8%, the degree of indebtedness being also reduced to 34%, value which remained stable during the first two quarters of 2022.

However, the acceleration of the increase of the IRCC index has caused significant increases of both the instalments and the degree of indebtedness in the last few months.

The degree of indebtedness is expected to increase to about 48% of the debtor's income in the second quarter of 2023, for an IRCC index of about 6%.

The interest rates increase has not stopped, however, the local mortgage loans market from registering a new record-results year.



SOURCE: SVN ROMANIA

Thus, mortgage loans with a total value of almost EUR five billion were granted in 2022, up by approximately 15% compared to the results of 2021. Please note, however, that these figures include the refinanced loans, 2022 being a prolific year from this point of view.

These results were recorded in a context in which the accessibility of mortgage loans has registered a major decrease during the previous year, as shown by the profile index calculated by SVN Romania | Credit & Financial Solutions.

Thus, the previous year started with the lowest level of SVN's profile index, the average instalment of a mortgage loan contracted for 25 years for the purchase of a new one-bedroom apartment in Bucharest accounting for only 44% of the national average net wage - please note that the average incomes in Bucharest are about a quarter or even a third higher than the national average.

The continued rise in interest rates made the average installment account for 48% of the national average net wage in the second quarter, 54% at the beginning of the fall and 65.7% at the beginning of 2023, a level that has not been reached since 2015, when the current growth cycle of the local residential market began.

The estimated wage increases and the slowing down of the IRCC index increase pace will make the average installment share register a slight drop in the second quarter of the current year, reaching a level of approximately 63.5% of the national average net wage. It should also be taken into account that the current incomes and purchasing power are much higher than in 2015, which makes the impact of the installment smaller.

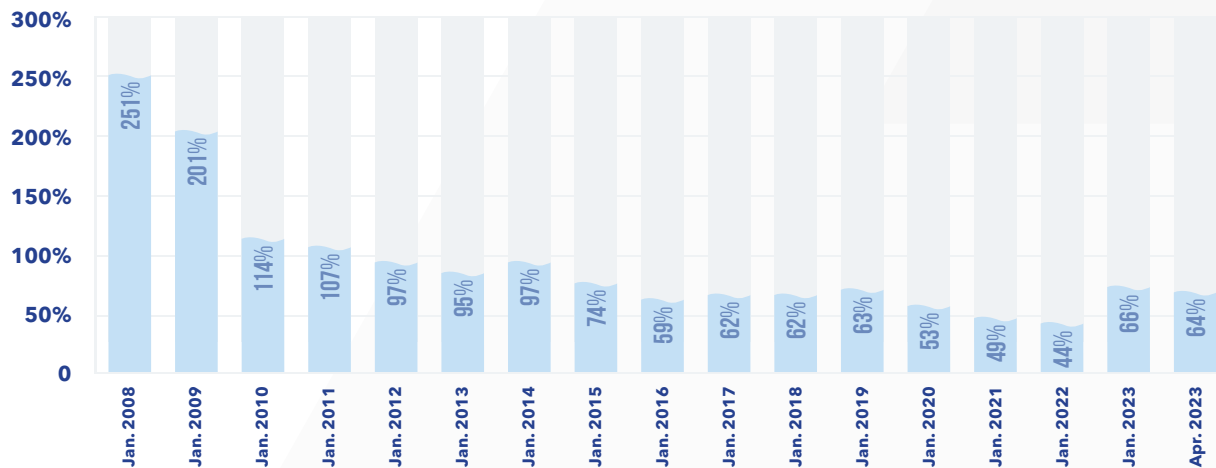
The lowest absolute value of the SVN's mortgage loan affordability index was reached in June 2021, when the average installment for the purchase of a new one-bedroom apartment in Bucharest accounted for 43.6% of the national average monthly wage. Please bear in mind that SVN's index is obtained by taking into account the market conditions for contracting a new loan.

The level that will be registered in Q2 2023, of around 63.5%, is still about four times lower than the one registered during the peak period of the market, before the economic crisis of 2008-2009, when the average installment for the purchase of a new apartment in Bucharest accounted for approximately 251% of the national average net monthly salary.

Given the current market conditions and the most recent estimates made by the Central Bank, we estimate that interest rates will peak around the middle of the year, and the affordability of a new mortgage loan will register a slight improvement in the immediately following period. The ROBOR index, based

BIGGER INSTALMENTS

Instalment / national net wage ratio



SOURCE: SVN ROMANIA

on which interest rates for old mortgage loans are calculated, is already more than 1% below the peak registered at the end of the previous year.

The general macroeconomic developments – in a context where current outlooks and estimates are more positive than those of last summer and autumn – as well as the dynamics on the labor market will be decisive for the development of the demand for new homes this year.

The accessibility of new loans will remain at a problematic level throughout 2023, but it will no longer register involutions as significant as the ones of the last 12 months. Furthermore, the high percentage of purchases with funds exclusively from own resources

and the maintenance of the price-income ratio at a good level can be considered as strong points for the market.

The low level of pre-contracting is going to leave its mark on the statistical results of the residential market, and the general degree of absorption of the homes completed this year in Bucharest and its surrounding areas is going to decrease to around 60% - 65%. The existence of a completed stock could, however, be an advantage in the context of the increase in the number of the secondary market transactions and the difficulties experienced by some developers active in the new residential segment in obtaining the necessary permits.

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OLD REAL ESTATE UNITS MARKET

The old residential units market, which includes homes completed before 1990 in Bucharest, is a sub-segment of the secondary residential market, which accounts for over two-thirds of the housing transactions registered annually in Bucharest and its surrounding areas, according to SVN Romania's calculations.

The old homes segment registered an improvement during 2022, and also a decoupling from the development of the new homes segment, both in terms of the number of transactions and also in terms of price changes.

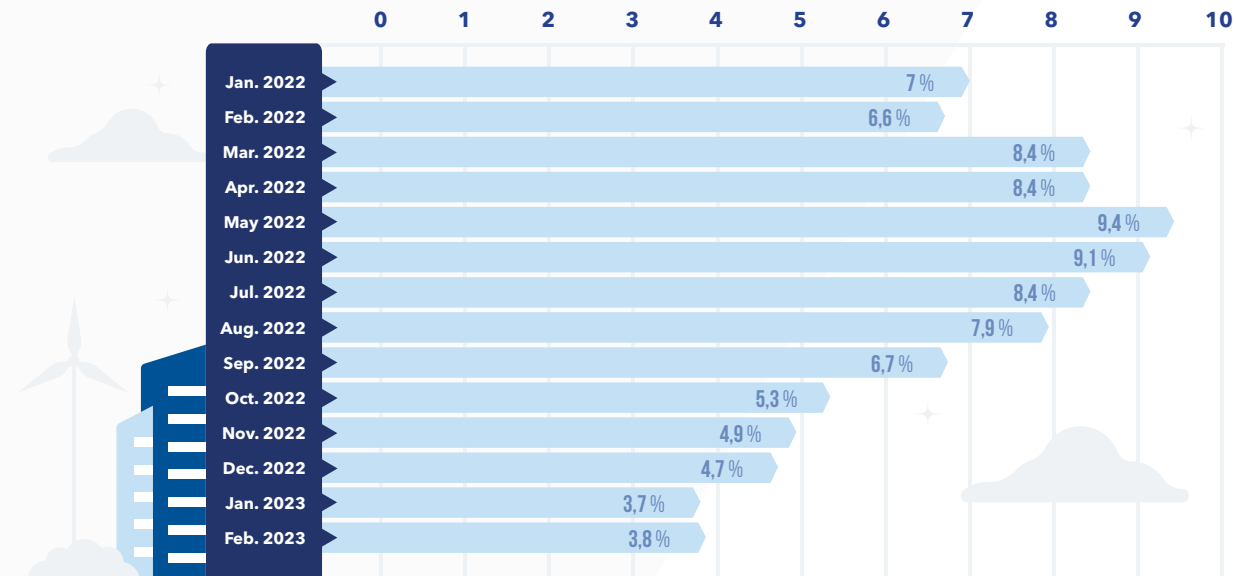
While the prices of new homes increased on average by approximately 10.5% during the previous year, the prices of old homes had registered an annual increase rate of 3.7% at the end of 2022, according to the real estate index calculated by SVN Romania in partnership with Ziarul Financiar.

Please note that both price increase percentages are lower than the inflation rate, which exceeded 16% in December 2022, while the evolution of the RON – EUR exchange rate was better. Moreover, the inflation rate in the Eurozone was 9.2% at the end of the previous year.

2023 began with a further decrease in the annual price growth pace on this segment, down to 3.7% in January and to 3.8% in February. The trend reversed in the middle of the previous year, after the peak annual growth of 9.4% was registered in May.

ANNUAL RESIDENTIAL PRICE INCREASE IN BUCHAREST

for two-bedroom apartments delivered in Bucharest between 1980 - 1990



SOURCE: SVN ROMANIA

Subsequently, every month brought about a slow-down in annual price growth pace for the prices of old apartments in the Capital, the current increase ratio being the lowest of the last 17 months and almost three times lower than the peak reached in the spring of the previous year.

The increase in the interest for homes that are already completed could be a positive factor for the development of the prices of this segment. On the

other hand, the fact that the deliveries of new homes remain at a lower level and degree of absorption could put further pressure on the price evolution of old homes.

Given the current market conditions, we estimate that the annual price increase pace will most likely slow down in the old housing segment in the Capital, with the possibility of moving into the margin of error, but without registering significant involutions.

2023 TRENDS

Stabilization of interests

After a major worsening of the affordability of new mortgage loans during the last year, as a result of the significant increase in interest rates, 2023 is expected to bring a stabilization.

Certain trends in this regard can already be noticed in terms of the evolution of the fixed interest rates, but also of the ROBOR index, which is already more than 1% lower than the peak value registered at the end of 2022

Consistent supply

Even if 2023 is expected to bring about a decrease in the number of new homes completed in Bucharest and its surrounding areas, the expected number will not be extremely low. Moreover, more than 8,000 homes with completion dates set for 2024 and 2025 are already in various stages of construction.

Fewer transactions

The current level of pre-contracting of new homes under construction, but also the fact that absolute peaks of transactions have been recorded recently, will result in a drop in housing sales in 2023 - this



is already being recorded on all regional residential markets. What remains to be seen is the ratio, which will be decisive, on the background of the increase in housing sales at national level by more than 50% during the last three years.

Affordability remains at a very good level

The wage increases and the slowing of the new homes prices increase pace have brought about and will continue to bring about the increase of the affordability of the purchase of a new home. Given the estimates of the National Commission for Strategy and Prognosis, which anticipate an 11.4% increase in the national average net monthly wage for 2023 and a likely stable evolution of the RON-EUR exchange

rate, the affordability will remain at a good level next year as well, given that approximately 50% of the housing transactions in Romania are carried out entirely from own resources.

Pressure on prices

The decrease in the number of transactions will put pressure on the evolution of the sales prices on certain segments of the new housing residential market. On the other hand, the decrease in supply, especially in Bucharest and Cluj-Napoca, could result in a rebalancing of the supply-demand ratio on a medium term. The absorption levels in Bucharest and its surrounding areas in 2023 are expected, nevertheless, to be the lowest of the recent years.

BUCHAREST



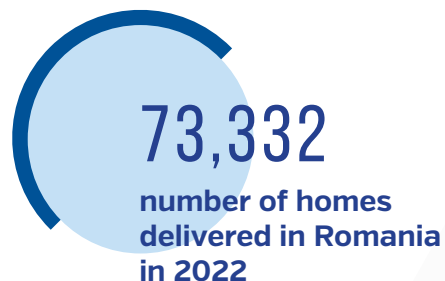
REGIONAL MARKETS

2022 brought the first decreases registered on the main regional residential markets from Romania, defined as cities where over 1,000 residential units are being delivered annually in the city and its immediate surroundings.

Thus, data published by the National Agency for Cadastre and Land Registrations shows that only Bucharest – Ilfov region registered an increase in residential sales during 2022, all other regional markets registering decreases. At the same time, some cities also registered a drop in deliveries, especially as a result of difficult authorization environment.

If in 2021 a premiere was registered with Timisoara becoming the biggest regional residential market, after Bucharest – Ilfov region, the end of 2022 brought another premiere, Brasov becoming the second regional residential market, Cluj – Napoca thus dropping to the fourth position in just two years.

Timișoara was among the regional markets with satisfactory results in 2022, registering a 9% drop in home sales at a county level, but after an over 35% increase registered in 2021.



Over 5,000 new residential units are being delivered every year in the city and its surroundings, Timisoara and Bucharest being the only cities where this level is exceeded.

The best sales results among the most important 10 regional residential markets from Romania, except Bucharest – Ilfov, were registered in **Brasov**: minus almost three percent compared to 2021 – please consider the fact that 2021 closed with an annual increase of 32% in home sales in the region.

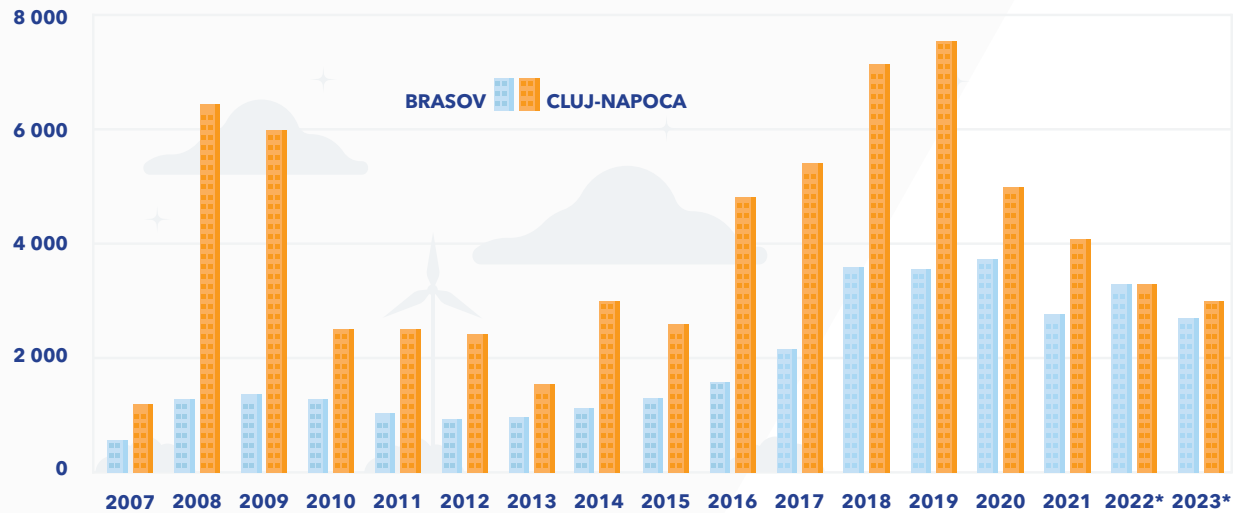
Even so, the result was superior to the one registered in Cluj, which allowed Brasov to climb to the second position among most important regional residential markets – SVN Romania's data also show that Brasov could have registered also a higher number of deliveries.

SVN Romania | Brasov local office shows that 2023 will bring a slight decrease in deliveries, which could translate into 2,700 – 3,000 residential units that could be delivered this year in the region, about 15% less compared with the level estimated for 2022 and lower compared with the 3,500-level registered in recent years.

SOURCE: SVN ROMANIA BASED ON INS

REGIONAL MARKETS

ANNUAL RESIDENTIAL DELIVERIES from town and surroundings



SOURCE: SVN ROMANIA BASED ON INS

*FORECAST

Brasov is also a special case at a national level, considering that home deliveries in the neighbouring localities have a minority share in total deliveries in the region – for comparison, in other cities, such as Timisoara and Sibiu, the neighbouring cities attract the highest share of deliveries.

The most developed localities in the immediate vicinity of Brasov are Tarlungeni and Sanpetru. Usually, homes delivered in Brasov’s neighbouring localities are included on the mass market segment, while those delivered within the city, especially in semi-central areas, target middle market buyers.

At the same time, new homes from ultra-central areas and the road towards Poiana Brasov are included on premium and luxury segments.

SVN’s local office data shows that the average trading price for new homes located within the city is of approximately EUR 1.570 per square meter, a difference of about 10% - 12% being registered between new market and the old segment. The evolution is marginal compared to last autumn, while the annual increase amounted for about seven percent.

Brasov attracted and will continue to attract a series of investment on the touristic residential segment, where the annual yield is about 9%, mostly due to the longer annual exploitation period compared to, for example, projects located on the seaside.

At the same, the maximum yield estimated for classic residential segment could reach approximately 6%, in a context where rents increased by 10% in the last year.

The opening of Brasov Airport, programmed for June, will increase the area’s attractiveness, both from a touristic and also from an economic point of view, in a context where the city is experiencing a significant development in the industrial segment, with a series of significant investments announced.

Cluj-Napoca continues to represent a significant residential market, even if the current delivery vol-

ume is 50% lower compared to 2019 peak, when approximately 7,500 new homes were delivered in the city and its surroundings. The main explanation for this significant decrease is represented by difficulty of the authorization process for new projects.

The data of SVN Romania | Cluj local office show that approximately 3,000 new homes could be delivered in the city and its surroundings this year, a further decrease from the 3,500 level estimated for 2022. In this context, a slight migration of investors to neighbouring areas is being registered, but most of the large investors are waiting for the authorization process to be unlocked.

The significant drop in deliveries registered in the last three years is also one of the main factors that led to a national peak in home prices in Cluj-Napoca, SVN's local office data showing that the current average price for new homes located within the city is of about EUR 2,200 per square meter, semi-finished.

However, the absorption rate forecasted for units due to be delivered in 2023 will remain high, of above 90%, considering the low level of new offer and also the fact that most of these units are already pre-sold.

Constanta will remain in 2023 the most important residential market in the eastern part of the country, even in a context in which the transactional activity in the Mamaia - Navodari area has registered a decrease in the new economic context.

However, the area, where over 12,000 new residential units were delivered in the past decade according to the National Institute for Statistics data, is still in full development, over 3,000 new units being under construction at this moment, according to SVN's data. An additional few thousands other new homes are under construction in projects located within the administrative boundaries of the city.

Sibiu and **Iasi** are the other two areas in Romania where more than 2,000 homes are completed annually in the city and its surroundings.

Both are characterized by a strong development in the areas bordering the city, towns such as Se-



limbar and Cisnădie in Sibiu and Mirosława in Iasi attracting the delivery of hundreds of residential units annually.

The top of the largest residential markets where at least 1,000 homes are delivered annually is closed by **Oradea**, which has been experiencing a significant macroeconomic development for several years, and **Craiova**, which has a very high potential in terms of the ratio between the resident population and the number of homes completed annually - Galati is the only other city with such a pronounced deficit ratio.

Pitești and Alba Iulia - which have registered a spectacular increase in the number of housing deliveries in 2021 - are the only cities where around 1,000 homes are completed every year.

At the opposite pole, Resita has the fewest number of homes delivered in an administrative city of a county in Romania, i.e. only five new houses in 2021, according to the data of the National Institute of Statistics. Alexandria, Giurgiu, Miercurea Ciuc and Slobozia are the other administrative cities of counties of Romania where less than 50 new homes are delivered annually.



LEGAL

20 GENOME

LEGAL

MARKET

23

II. The main real right applicable to land in the private property of the state or administrative-territorial units

According to the provisions of the Administrative Code of the 3rd of July 2019 [“**Administrative Code**”], the assets that are part of the private domain of the state or the administrative-territorial units are in the civil circuit and are subject to the rules provided by the Civil Code, unless otherwise provisioned by law. About these provisions, it could be interpreted that land in the private property of the state or of the administrative-territorial units may be subject to the establishment of any real rights provided for by the Civil Code, including the right of **superficies**.

However, the Administrative Code regulates and directly limits the modalities of exercising the right of private property of the state and administrative-territorial units over land, which can be (i) given in administration, (ii) concession, (iii) rented and (iv) put into use, free of charge. In this regard, the legal provisions on the administration, concession, and rental of public property of the state and of the administrative-territorial units shall apply accordingly.

Also, even in the content of Law 50/1991, it is expressly mentioned **that the right** over the land in the **public or private property** of the state or administrative-territorial units **that gives the holder the possibility to obtain a building permit** is based on a main real right, respectively ownership right, administration right or **concession right**.

Therefore, the real rights corresponding to the public and private property of the state and the administrative-territorial units are: (i) the right of administration, (ii) **the right of concession**, (iii) the right of rental, and (iv) the right of free use, according to art. 297 and art. 362 of the Administrative Code.

In practice, there are frequent situations in which superficies contracts are concluded for lands that are in the private property of the state and the administrative-territorial units.

However, the situation of those contracts, presents the risk of termination on the grounds of absolute nullity, since it infringes the provisions of Art. 362 of the Administrative Code and art. 13 para. (1) of Law 50/1991.

It is considered to be the fault of the authority that concluded such an act for the misclassification of the contract, respectively for the non-observance of the applicable legal procedure of concession (which involves going through the public tender procedure and exceptionally the direct award, in compliance with the related legal provisions). The consequence for the superficiary is the return to the previous factual situation, the restitution of the use of the land to the owner, the removal of the investments made up to that point on the land, with a proportional compensation from the owner of the land, the cessation of the activity, as well as the retention of the possibility of obtaining the expected profit at the time of the conclusion of the contract.

III. The concession contract

a. General aspects

The concession of public or private property of the state or the administrative-territorial units means that contract by which a public authority called the grantor, transmits the right and obligation to exploit an asset to a person, called the concessionaire, for a fixed period and in exchange for a fee, according to art. 303 of the Administrative Code.

The sphere of the assets that can be leased is greater or smaller depending on (i) the property domain to which the land belongs and (ii) the type of interest that the constructions on the land will satisfy.

Thus, **the lands that are in the private** property of the state or of the administrative-territorial units may be concessioned in compliance with the provisions on urbanism and spatial planning documentation, **but the lands that are in the public property** of the state or the administrative-territorial units **can be concessioned only for the realization of constructions that are of public interest and/or public use**, according to art. 13 of Law 50/1991 on the authorization of construction works.

b. Advantages of the concession:

i. Cost

A first advantage of such a contract is the fact that the price of the land is not paid at once by the developer, unlike the hypothesis of the acquisition of the land through a sale contract.

According to Law 50/1991, the minimum limit of the concession price is established, as the case may be, by the decision of the Local Council, the County Council, or the General Council of Bucharest Municipality to ensure **the recovery in 25 years of the sale price of the land, under market conditions**, to which is added the cost of the related infrastructure works.

Therefore, the fee does not apply in respect of the value of the investment or the size of the construction, but to the market value of the land.

ii. The legal status of the land

From the perspective of the analysis of the legal situation and the history of the ownership of the land, it is no longer necessary to go through the extended verification procedure.

This has advantages both from a financial point of view and from the point of view of limiting the risk of possible disputes or claims.

c. Disadvantages of the concession:

i. Duration of the concession right

The duration of the land concession is established by the Local Councils, and the County Council, respectively by the General Council of Bucharest, by reference to the urbanism documentation and the nature of the investment/construction.

For some developers, the limited duration of the concession right is a disadvantage, especially if the targeted investment involves extremely high costs. Thus, **the maximum duration of the right of concession is 49 years**, without being able to be extended, after the expiry of that term.

ii. Completion of the public tendering procedure

The important mention is that the conclusion of a concession contract is a complex and long process in terms of duration.

Thus, to be able to conclude such a contract, the grantor (the state or the administrative-territorial unit) must take the initiative to conclude a concession contract or accept a proposal made by an interested person, according to Art. 308 of the Administrative Code.

The developer may make in writing a proposal for a concession which, among other things, it will include the firm and serious manifestation of the intention to conclude the concession contract, the object of the concession, the business plan, and its substantiation from an economic, financial, social and environmental point of view.

Further, once the grantor has taken the initiative or accepted a concession proposal, it will start a public tender procedure under which it will award the contract. The successful tender shall be determined by the award criteria specified in the grantor's tender documentation.

Against the tender procedure, there is **a risk of an objection** by any interested person (including a third party to the tender procedure, natural or legal person, but justifying an interest). Such an objection may be lodged **up to the time of the award**.

iii. Obligation to start the works within a fixed and limited time limit

The provisions of Law 50/1991 oblige the developer, within **1 year from the date of conclusion of the concession contract**, (i) to obtain the building permit and (ii) to start the related construction works. Such a deadline can discourage many developers, especially given the economic and financial situation in recent years.

IV. Conclusions

Lands privately owned by the state or administrative-territorial units are of interest to many developers in terms of the possibility of building a project.

The most important aspect is to correctly secure the developer's right to build on such land.

In that regard, we consider that the conclusion of a concession contract shelters the developer from possible risks.

The concession contract also entails certain advantages, such as the staggered payment of the fee [the cost of using the land] and the safety of the legal situation of the land.



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LEGAL





TAXATION

TAXATION OF REAL ESTATE IN ROMANIA

1. DIRECT TAXATION

1.1. Taxation of companies

1.1.1. Dividend tax

The tax rate on income from dividends will increase, from 5% to 8%, starting with dividends distributed after the 1st of January 2023.

1.1.2. Sale of shares

Capital gains from the sale of shares held by legal entities (payers of corporate income tax) are taxed in Romania at 16% (general rule).

The exceptions to the general rule are:

- If the seller holds more than 10% of the participation of another Romanian company for an uninterrupted period of at least one year at the date of sale, the income will not be taxable;
- If the seller is a resident entity of a State with which Romania has concluded a Double Taxation Treaty ["DTT"] which provides for the exemption of this type of income, the provisions of the DTT shall apply.

Micro-enterprises that generate capital gains are taxed at 1% (if they have at least one employee) for the income from the sale of shares (for micro-enterprises, the recorded expenses are not tax deductible).

1.1.3. Rental income

For corporate income tax payers, rental income is considered as taxable income and is included in the calculation of the taxable profit for the period. The profit tax is 16%. Expenses incurred in carrying out the activity are deductible.

For micro-enterprises, rental income is included in the tax base, being taxed at 1%.

1.1.4. Real estate transfer

The profit derived by corporate tax payers from transfers of real estate properties is cumulated with the overall taxable profit for the purpose of determining the profit tax liability.

The taxable profit is calculated as the difference between the sale price and the tax value of the property sold (ie the acquisition cost minus tax depreciation, if any).

Micro-enterprises include income from the sale of real estate on a taxable basis for the period and are taxed at 1%.

1.1.5. Depreciation

The depreciation method used for constructions is the straight line one, applied for their lifetime. In order to identify the lifetime of the buildings used to determine the tax depreciation, it should be noted that it is established by a Government Decision and may differ depending on the type of building.

Land is not considered to be a depreciable asset. Buildings are tax depreciated over a period of 40 to 60 years.

1.1.6. Micro-enterprises - conditions

The microenterprise tax regime has become optional again and, as such, the profit tax regime is, once again, the regular tax applicable to companies. The tax rate for microenterprises is 1%.

Moreover, the 3% tax rate for microenterprises with no employees has been eliminated and therefore, in order to continue to apply this tax regime, microenterprises must employ a full-time worker or multiple part-time employees with whose work hours must add up to the equivalent of a full-time worker].

The new total annual income threshold up to which companies can pay microenterprise tax is reduced down to EUR 500,000

In order to maintain the microenterprise tax regime, the company must obtain income from activities, other than consultancy and/or management, in a proportion of 80%.

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1.2 Taxation of individuals

1.2.1. Sale of shares

Individuals who earn income from the transfer of shares or shares are required to pay 10% tax on the gain.

It should be noted that the income from capital gains obtained by individuals is subject to the payment of the social health insurance contribution at a rate of 10% applied for the tax base which is determined as follows:

- **At the level of 6 minimum gross salaries if the cumulated income from these sources is between 6 and 12 minimum gross salaries;**
- **At the level of 12 minimum gross salaries if the cumulated income from these sources is between 12-24 minimum gross salaries;**
- **At the level of 24 minimum gross salaries if the cumulated income from these sources exceeds 24 minimum gross salaries.**

For 2023, the gross minimum salary is that of RON 3,000 per month.

Non-resident individuals may be exempted from paying capital gains tax in Romania on the basis of the provisions of the Double Taxation Treaty concluded by Romania with the state of residence of the beneficiary of the income.

1.2.2. Income from the transfer of the use of the goods

Starting with the 1st of January 2023 the flat rate of 40% applicable to the gross income has been eliminated, and, therefore, the 10% tax rate will be applied to the tax base representing the entire income obtained from the transfer of the use of goods.

If individuals receive rental income from more than five leases, that income is considered as income from independent activities from the date of the change and is therefore subject to the tax rules applicable to self-employment.

It is important to note that the income from the transfer of the use of goods obtained by individuals is subject to the payment of the social health insurance contributions at a rate of 10% applied for the tax base which is determined as follows:

- **At the level of 6 minimum gross salaries if the cumulated income from these sources is between 6 and 12 minimum gross salaries;**
- **At the level of 12 minimum gross salaries if the cumulated income from these sources is between 12-24 minimum gross salaries;**
- **At the level of 24 minimum gross salaries if the cumulated income from these sources exceeds 24 minimum gross salaries.**

For 2023, the gross minimum salary is that of RON 3,000 per month. Non-resident individuals are subject to rent income tax.

It is important to note the fact that if individuals obtain both income from capital gains and from the transfer of the use of goods, the inclusion in the annual tax limit of 6, 12 or 24 gross minimum salaries shall be accomplished by cumulating these incomes. In other words, if an individual obtains incomes from both categories and their sum surpasses the limits stated by the law, it will owe 10% applicable to the tax base of 6, 12 or 24 gross minimum salaries only once and not for every income source individually.

1.2.3. Real estate transfer

The transfers of real estate from personal patrimony located in Romania by individuals (residents or not) are subject income tax based on the period of ownership:

- **For an ownership period shorter or equal to 3 years the applicable tax rate is 3%;**
- **For an ownership period longer than 3 years the applicable tax rate is 1%.**

It should be noted that if the transfer of real estate is made from the business patrimony of the person, the taxable income is subject to a rate of 10%, similar to the income obtained from independent activities.

2. VALUE ADDED TAX

According to the Romanian tax legislation, the following operations are exempt from VAT:

- **Renting or leasing of real estate.**
- **Sale of land that does not qualify as buildable land (according to a town planning certificate).**
- **Sale of buildings that do not qualify as „new constructions”, at the date of their supply.**

For all the operations provided above, it is possible to opt for VAT taxation, the taxation option being exercised by submitting a notification to this effect to the tax authorities.

For the transfer of buildable land or buildings that are classified as new according to the Romanian legislation on VAT, VAT is charged as follows:

A reduced rate of 5% will be applicable only to the dwellings that do not exceed 120 sqm and the value of RON 600,000. Moreover, in 2023, the 5% quota will also be applicable to home purchases made by individuals, provided that the contract underlying the transaction has been concluded before the 1st of January 2023 and sums in advance have been paid.

It should be noted that in this case individuals can purchase a single dwelling with a 5% VAT rate.



In order for the authorities to verify the proper application of this regime, it has been provided that, as of the 1st of January 2023, the “Register of dwellings purchases with a reduced VAT rate of 5%, starting with the 1st of January 2023” will be organized by all notaries in electronic format, in which all such real estate sales contracts to which the threshold of RON 600,000 is applicable.

The standard VAT rate of 19% is applicable to the sale of land and buildings which are taxable according to the law or by option, and which do not meet the necessary conditions for the application of the reduced VAT rate.

This rate is also applicable in the case of taxable rental or leasing of real estate.

Where both parties to a taxable transaction are registered for VAT purposes in Romania, the reverse charge mechanism is applicable.

Any taxable person registered for VAT purposes in Romania has the right to deduct the value added tax related to his purchases, as long as the goods or services are purchased for the purpose of carrying out taxable operations.

TAXATION

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3. LOCAL TAXES

3.1. Building tax

According to the Romanian Tax Code, the buildings are classified according to their destination and type, and the applicable taxation rate is established by decision of the Local Council or the General Council of the Municipality of Bucharest within the following limits:

- **for residential buildings, which are used strictly for residential purposes, the tax is set between 0.08% and 0.2%, this being applied to the taxable value of the building;**
- **for non-residential buildings, which are used for economic purposes, the tax is set between 0.2% and 1.3%, this being applied to the tax value of the building;**

In the case of mixed-use buildings, which are those used for both residential and non-residential purposes, tax rates are applicable depending on their purpose.

In addition, in the case of non-residential buildings, there is an obligation to carry out an assessment every five years for both individuals and legal entities. The evaluation must be performed by a Romanian independent evaluator, in accordance with a specific evaluation standard.

If this requirement is not met, the building tax rate can be increased to 2% (for individuals) or even 5% (for legal entities).

The building tax is due for the entire fiscal year by the person holding the asset on December 31 of the previous fiscal year, whether or not it is disposed of during the reference year.

The building tax is paid in two equal annual installments, until the 31st of March and the 30th of September, respectively.

As a rule, if the building tax due for the whole year is paid in advance by the 31st of March, the Local Council, respectively the General Council of the Municipality of Bucharest may grant a reduction of up to 10%.

3.2. Land tax

The land tax is established by taking into account the land area, the rank of the locality in which the land is located, the area and the category of land use, according to the classification made by the local council.

The land tax is due for the entire fiscal year by the persons holding that property by the 31st of December of the previous fiscal year, regardless of whether or not it is alienated during the reference year.

Similar to the building tax, the land tax is paid twice a year, in equal installments, until the 31st of March and the 30th of September.

If the tax is paid in advance until the 31st of March, a 10% bonus is applied.



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+5,500

Apartments sold in 2019 – 2022 directly from developers in Romania



+15

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+700 MIL. €

Total home sales in Romania



+8 MIL. €

Turnover in 2022



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