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Romania's Real Estate market – a practitioner's insight

1. Overview

The Romanian real estate market shows signs of recovery, especially due to the significantly increased number of office projects and of transactions with agricultural lands. Also, the market is safeguarded from the immobility of the residential segment by retailers which are continuously expanding.

Separately, the trend to acquire lands for future developments, as a result of the currently accessible prices which render the acquisitions profitable, is particularly noteworthy. Moreover, banks have started to create their own real estate management vehicles, while various small and medium sized investment funds allocate capitals between euro 20 and 50 million for the acquisition of assets from banks, within enforcement or insolvency proceedings.

The market seems to be undergoing a constant reconfiguration process, as to adapt to the new economic conditions. Notwithstanding, it still has to face a new challenge, *i.e.*, the introduction in the fiscal legislation of progressive property tax on buildings, depending on their destination, which is proposed under a project of a new Fiscal Code.

Accordingly, the property tax on non-residential buildings will be materially higher than the one on residential buildings.

2. Residential

Investments in the residential sector are ongoing. Local investors outnumber the foreign ones, but the volumes they develop are small, them building compounds of reduced dimensions and the capitalization of the investment being rather limited.

Hence, it is fair to say that this sector is for now revolving around the “*First House*” Program (“*Prima Casă*”, in Romanian original language), which is a governmental supported program for the acquisition of houses, the mechanism involving bank crediting and related state guarantees. This program has been of great support for the residential developers, since it encouraged the acquisition of apartments and houses of lower prices.

3. Industrial

As regards the industrial segment, there are no major news, the only remarkable trend being that of the increase of land acquisitions for industrial development in the Western and North-Western areas of the country.

However, in general, despite legislative fluctuations in the field, the set-up of industrial parks has become more and more attractive, offering advantages both from an organizational and functional and fiscal standpoint, with various tax exemptions being available, mostly related to development of the requisite infrastructure. Thus, there are more and more significant companies joining industrial parks, one of the most successful stories being that of the Tetarom Parks located in Cluj-Napoca (the second largest commercial center of Romania, after Bucharest) where sound names like Emerson, Bosch or DeLonghi reside.

4. Agricultural

Agricultural lands are a quite dynamic part of the real estate market, especially since foreign investors interest in this field increased as they may freely acquire agricultural lands since January 1, 2014 (before such date, this type of lands could not be acquired by foreign citizens).

As a matter of practice, though, there was a certain blockage in the first part of 2014, when the market froze due, on one hand, to legal provisions imposing the observance of a preemption right and, on the other hand, to the lack of methodologies for the application of such right. Even as we speak, the procedure is quite slow, its implementation within the administrative local structures facing bureaucratic restrains. Notwithstanding, it is up to lawyers and notaries public to solve the procedural

shortcomings, the investors maintaining an increased interest in acquisitions of agricultural lands.

In any case, an important part of investments is made for land banking purposes, as very few lands are consolidated into large areas, which makes actual agricultural exploitation quite difficult. Thus, in many cases, investors lease the acquired lands to their former owners (which are usually locals, with expertise in working the fields) for exploitation, while the lands ownership is used to acquire financing.

5. Office

Major office projects have been announced for the coming future and a new part of Bucharest seems to have become appealing for investors, which started to move capitals from the Northern part to the Western part of the city, where important infrastructure changes were made. Such turn is also expected to generate an increase in rents, which had abruptly decreased during the peak of the financial crisis.

In any case, investors seem to be more cautious now, tending to ground their development plans on pre-lease agreements to be concluded before starting the construction works.

6. Commercial

Despite the generous number of announcements for new shopping centers (malls) development in the next years, it is deemed rather unlikely for such explosion to become profitable, as there are small chances for the market to absorb in good conditions so many new appearances.

The good news comes from the retail sector however, with supermarkets / hypermarkets or hardware stores aggressively expanding during the last years and still announcing further expansion for the near future.

7. New trends

The real estate market may be also fueled in the future by new ideas, such as:

- investment in university campuses – there are foreign investors which developed such compounds abroad and showed interest in implementing the same type of projects in Romania, the starting point being Bucharest;
- development of adventure parks – there are more and more such type of leisure facilities in Romania, most of them being developed by local investors from own funding, as well as with co-financing from the European Union.

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