**AWEX BUCHAREST – THE CONSTRUCTION SECTOR IN ROMANIA**

**1. General overview of Romania**

Romania is a sovereign state located in Southeastern Europe. It borders the Black Sea, Bulgaria, Ukraine, Hungary, Serbia and Moldova. It has an area of 238,397 square kilometers. With over 19 million inhabitants, the country is the seventh most populous member state of the European Union. Its capital and largest city, Bucharest, is the sixth-largest city in the EU, with 1,883,425 inhabitants as of 2011.

**Country Statistics**

GDP $204.943 billion (nominal, 2017)

 $467.436 billion (PPP, 2017)

GDP rank 41st (PPP, 2017)

GDP growth 7% (2017)

GDP per capita $23,709.349 (PPP; 2017)

GDP by sector agriculture: 4.2%; industry: 33.2%; services: 64.4 % (2017)

Inflation (CPI) 3.3% (2017)

Unemployment 3.5% (June 2018)

Average gross salary 4,512 RON / 1147 $, monthly (April 2018)

Currency Romanian Leu – exchange rate RON/EUR: 4.5

GDP expansion of 7% in 2017 has made Romania the fastest growing country in the European Union by far. This was due to private consumption and good results from services, manufacturing and agriculture. The main driver of consumption was wage growth stemming from government policies and a tightening labor market. The increased wages will prove to be sustainable given the higher gap between productivity and labor costs in Romania than most countries in the region. Exports held up quite well amid an unexpectedly robust Eurozone economy.

In 2018, GDP growth will slow down to a more sustainable level (around 5%) as a result of reduced fiscal stimulus, monetary policy tightening, accelerating inflation, a higher appetence for saving and a weaker RON, issues that will pressure consumer confidence, not just real wages. Romania will remain among the top performing European economies. Consequently, the outlook for office, retail and industrial spaces remains quite rosy. The major regional cities (Cluj-Napoca, Timisoara, Iasi, Brasov) will contribute with a higher share of GDP over the next years: the good quality of life they offer influences the migratory movement of the population at the expense of the Capital, and the low operating costs combined with their large number of IT&C students could cause large companies to expand in the rest of the country, according to Colliers International Romania Research and Forecast Report 2018.

**2. Construction market: macroeconomic perspectives**

The construction market has matured considerably in recent years and large investors have begun to put more emphasis on innovation and quality. The market contributes 4.6% of gross domestic product (GDP), but experts say the sector's potential is around 8-9%.

In 2017 the market dropped to a historic minimum of the last 10 years, reaching EUR 8.96 billion, a decline of 7.05 percent over the previous year, when the market value amounted to EUR 9.64 billion, according to the Romanian Association of Construction Entrepreneurs (ARACO) data. In this context, there were recorded decreases on almost all levels in the construction sector, except in the residential construction sector, where there was a 69.7 percent increase. A decrease in activity was recorded in maintenance and repair work (-24.6%), civil engineering (-21%), capital repairs (-17.7%) and non-residential construction (-12.6%). The Romanian state invested EUR 5.9 billion last year in constructions, with EUR 0.6 billion below 2016 level.

More than 60,000 companies with more than 150,000 employees are active in field. The largest transactions are made by companies in Bucharest and in cities such as Cluj-Napoca, Timisoara, Brasov and Ploiesti. The market is dominated, in number of companies, by those of very small size, that is to say up to 5 employees. The 54,000 companies in this category are active mainly in the residential sector.

Top five construction companies based on turnover in 2017:

1. STRABAG <http://www.strabag.ro>

2. CON-A <http://cona.ro>

3. BOG 'ART <http://www.bogart.ro>

4. PORR CONSTRUCT <http://www.porr.ro>

5. CONSTRUCTII ERBASU <https://www.erbasu.ro>

The average gross wage earned by a construction worker reached EUR 512/month in 2017, up 6.44 percent compared to 2016. Moreover, the average annual productivity per employee amounted to EUR 23,047, down 7.3 percent.

Growth of private investments in the residential and commercial sector (retail and offices) following a growing demand has continued to support activity in the industry, which is expected to record 2.2% value added growth in 2018. Investments in this area will continue to experience positive momentum in the coming period thanks to Romanians' interest in real estate. Increasing wages and maintaining, in principle, access to credit will boost positive growth in the sector.

Investment in public construction is still insufficient given the overall market potential, mainly hampered by underfunding of local infrastructure. This also constrains a potential surge in commercial construction activities, while residential construction remains positive, partly compensating the reduction in engineering and non-residential work. In the construction materials subsector many companies generate only small profit margins while there is a need to provide high quality products and services in order to expand the business. (Source: Atradius - Market Monitor Construction Romania 2018, 13th February 2018)

The important cut in public spending on infrastructure projects over the last years has severely affected the quality of infrastructure, espe­cially roads and highways, and was coupled with poor absorption of EU funds and questionable public procurement transparency. However, considerable investments are planned through the General Master Plan for Transport, which details strategic interventions in transport infra­structure up until 2030, for a total value of EUR 43.5 billion (with EUR 27.1 billion for road and EUR 10.2 billion for railway projects). In addi­tion, Romania benefits from EUR 9.5 billion from the EU Regional Funds under the 2014‑2020 Large Infrastructure Operational Programme (LIOP), to be invested in transport, environment and energy projects. On 1st January 2018, the national contract model for projects over € 5 million was approved, allowing the government to benefit from the support provided by the EIB.

Infrastructure and residential construction are predicted to drive the revival of the Romanian construction sector in the future, with growth forecast at an annual rate of 2.0% in 2018, 3.8% in 2019 and 5.4% in 2020. However, improved absorption of EU funds, better project selec­tion and management and greater procurement transparency are essential to ensure the sustained expansion of the sector. (Source: European Commission - European Construction Sector Observatory, Country profile Romania, June 2018)

In 2018 we could witness a recovery of the construction sector. First quarter figures show an encouraging trend as interest in home buying is at the highest level in the last three years. In the context of economic growth, the demand for office space, housing and industrial buildings has increased considerably so that the market level could approach the threshold of 30 billion lei (EUR 6.7 billion).
Beyond the evolution of the residential segment, the first months of 2018 show an increase in the volume of civil engineering construction and non-residential construction of 34.3%; respectively 17.0%. This is another sign that the market is accelerating in this segment after relative stagnation over the last 2-3 years. Positive growth is attributed to investor confidence in the economy and increased demand in all segments of the market, from offices to homes. Office buildings and industrial buildings tend to show a positive dynamic, accentuated by the expansion of investments by some of the major players in the market.

**3. The total construction output of the Romanian construction market**

Investor interest in Romania has strengthened thanks to the robust economic growth in 2017. There were some notable entries via transactions: Atterbury Europe, Cerberus Capital Management and China Investment Corporation, with the latter part of a large transnational deal (the biggest private equity real estate deal in Europe). Both recently active investors and those that remained passive in recent years have shown interest in snatching up new assets (CTP, Smartown Investments, Globalworth, GTC, Mitiska).

The total value of land transactions for real estate projects (excluding the industrial segment) increased significantly from 2016, exceeding the EUR 350mn threshold at national level. About two thirds of this value were ascribed to the Capital, where land transactions for residential development represented more than half of the investment volume, while the rest was almost equally split between retail and office.

2018 will be at least as dynamic as the previous year, with many transactions under negotiation. Developers will also head to major regional cities for office and residential developments due to increased interest from tenants/buyers, but also to smaller towns with a population of less than 100,000 inhabitants, which have a shortage of modern retail schemes.

The total volume of investment for 2018 is forecasted to exceed the EUR 1bn threshold and the yield for retail, office and industrial projects could see a 25-50 basis points compression. (Source: Colliers International Romania Research and Forecast Report 2018)

**3.1. Residential constructions**

Residential construction and the housing market suffered following the crisis, with house prices decreasing by 18.7% between 2010 and 2014, but subsequently picking up by 9.0% until 2016. The number of issued residential building permits fell significantly in the aftermath of the crisis but is recovering and has reached 41,603 building permits issued for residential buildings in 2017. 53,301 housing units have been completed, 1,095 more than in 2016.

Moreover, despite having the highest homeownership rate, Romania reports an above average housing cost overburden rate, highlighting housing affordability issues, as well as the highest overcrowding and severe housing deprivation rates in the EU, underscoring poor housing conditions. To address these issues whilst stimulating residential construction, the government introduced several schemes, such as the First Home Programme with a budget of RON 2 billion (EUR 428.8 million) for 2018, which provides state guarantees of up to 50% of the value of the mortgage. Furthermore, the National Housing Agency implements several affordable home programmes, including the Rental Housing Units for Young People and the Mortgage-financed Dwellings Programme. (Source: European Commission - European Construction Sector Observatory, Country profile Romania, June 2018)

Given the higher wages and elevated intentions to purchase homes, the housebuilding segment will be one of the main drivers of the recovery of the Romanian construction sector. New office projects will draw demand for residential projects in neighboring areas. It is estimated that the number of new homes completed will exceed 65,000 units. Resi­dential construction is expected to grow at an average rate of 4.9% until 2020. (Source: European Commission - European Construction Sector Observatory, Country profile Romania, June 2018)

**3.2. Non-residential constructions**

The non-residential sector experienced a promising growth in 2016, with 956,000 m2 of retail, logistic and office spaces being completed and delivered, an 88% increase compared to 2015. This rapid pace of development continued during 2017 when there were 28,451 office and industrial premises construction projects with a total value of EUR 36 billion and covering an area of ​​93.3 million square meters (Source: Colliers International Romania Research and Forecast Report 2018).

The ascendant trend is expected to continue in 2018 as it is predicted that demand will rise for new office constructions as current and new players in the market will plan to increase their occupied space by 20-50%. As for the retail real estate segment, no new significant projects were announced in Bucharest for the coming years, yet, given the high level of growth it is expected that investments will continue to grow. Such investments will focus on less populated cities and in the expansion of modern retail space. (Source: European Commission - European Construction Sector Observatory, Country profile Romania, June 2018)

**3.2.1. Offices**

The office market experienced a moderate increase in 2017 in Bucharest, registering new deliveries of 123,000 sqm which led to a total stock of modern office buildings of 2,3 mn sqm. The total take-up for Class A office buildings amounted to 320,000 sqm, as the net take-up exceeded 150,000 sqm. As developers are becoming increasingly cautious, 185,000 sqm of A-class offices will be delivered in 2018, with a gross take-up forecasted around 300,000 sqm, with a net take-up of 135,000 sqm. The magnetism of regional cities will also be supported by a generous pipeline: if the total office stock in the four major regional cities is now 3.5 times lower than that of Bucharest, it will increase in 2018 with 150,000 sqm, which will reduce the gap.

Whereas office buildings constructed in the last period had an average surface of 20,000 sqm, the pipeline for the next period includes projects with an average surface area of over 50,000 sqm. Therefore, the volume of investment in the office market could increase from EUR 160 mn in 2017 to EUR 500 mn in 2018.

**Major offices projects in pipe for the next period**

In Bucharest the top 5 projects are: Globalworth Campus 2 & 3 - 59.000 mp, City Rose Park - 46.000 mp, Expo Business Park - 42.000 mp, Bucharest Business Garden - 41.000 mp and Equilibrum - 40.000 mp.

Timisoara has the biggest pipeline among the major regional cities mostly due to the Openville project, one of the biggest mixed-use schemes in Romania, but also other large projects like ISHO Offices, Bega Business Park or VOX Technology Park.

Cluj-Napoca has been recently crowned by the Milken Institute as the fastest growing in the EU in terms of hi-tech services expansion in recent years. The city has in pipeline for 2018 47,000 sqm, mostly from UBC Riviera and Hexagon project. (Source: Colliers International Romania Research and Forecast Report 2018)

**3.2.2. Industrial deliveries**

The industrial market reached last year a total of 3.5 mn sqm of modern storage spaces nationwide, an acceleration of more than 40% compared to 2016. Leasing transactions for around 500,000 sqm of such spaces were concluded, of which almost 52% were in Bucharest, 14.6% in Timisoara and 12.4% in Pitesti. The largest demand came from logistics segment (47%), followed by retail (17%) and automotive (9%).

The conditions for the development of industrial spaces are still favorable. Colliers International estimates that this year the stock will grow by another 700,000 sqm nationwide and demand will come from logistics, e-commerce and FMCG. The lack of infrastructure development will favor the concentration of spaces in the capital area, where deliveries of almost 400,000 sqm are expected, but the attention will also be directed to the central and western parts of the country that offer swift access to the highways in Hungary.

There is an increasing demand for production and warehousing spaces. Activity on the retail segment will be more subdued, but there is a consistent pipeline of projects coming to the market. Overall, the volume on the investment market is expected to surpass the EUR 1bn mark, a post-2008 maximum. (Source: Colliers International Romania Research and Forecast Report 2018)

**4. Energy efficiency**

Given the poor energy efficiency condition of the building stock, Romania is taking action to stimulate its renovation, focusing particu­larly on residential buildings. The Thermal Rehabilitation Programme, with a budget of EUR 8.8 billion for 2017, covers up to 80% of the costs incurred for thermal rehabilitation interventions of apartment blocks. However, the construction industry is facing considerable pressure, particularly in insulation and thermal rehabilitation, with 50,000 such workers being estimated to be needed by 2020 to satisfy this demand. To this end, both public and private training initiatives were introduced to upskill the workforce.

Moreover, renovation and thermal rehabilitation of residential buildings also displays an important market potential, as around two-thirds of the dwellings are older than 35 years and lack effi­cient thermal insulation. This market alone is estimated by the Ministry of Regional Development to be worth EUR 1.5 billion yearly, if backed by proper government support and EU funding. (Source: European Commission - European Construction Sector Observatory, Country profile Romania, June 2018).

As the office market continues to mature, the standards also continue to improve. Developers are increasingly focused on the efficiency and long term sustainability of their buildings, while tenants are also becoming pickier when choosing a location. CSR requirements for domestic foreign-owned companies mean an increased attention to environment friendliness and resource efficiency throughout a building’s whole life cycle, from planning to construction to operation. As such, green certifications have become almost mandatory for a successful high tier real estate project. The developers obtain green certifications, both for BREEAM (Building Research Establishment’s Environmental Assessment Method) and LEED (Leadership in Energy and Environmental Design) standards. (Source: Colliers International Romania Research and Forecast Report 2018)

**Green certifications market**

In Bucharest last year 39 green certifications were obtained by both buildings yet to be delivered and those already in use. This is an increase over 2016’s already record-setting result of 29. Meanwhile, several large office buildings (around the 50,000 sqm GLA) were certified during last year, taking the grand total towards 1.7 million sqm of projects – built or in various stages of execution – with green certifications. This would suggest that the total surface of green certified office buildings is around half of the nationwide total. Basically, every new office building will seek a green certification as this is almost a mandatory requirement for a good positioning on the market. Meanwhile, older office schemes, say, from a decade ago or even older, are also seeking to obtain green certifications for existing/in-use projects in order to remain attractive for tenants. The most certifications (24 or 61% of total) were for office buildings, though the overall share has decreased compared to previous year as developers from other categories of developers are seeking to have a green stamp on their building. The number of retail-certified buildings grew (12 or a share of 31%). A hotel and two mixed-use projects rounded up the grand total.

As real estate projects outside Bucharest have increased in the last years, so too has interest in green certifications in 2017. While Bucharest has nearly 1.7 million sqm in LEED or BREEAM certified buildings, the other regional cities put together neared this level and we would expect that by the end of this year these could surpass the capital. (Source: Colliers International Romania Research and Forecast Report 2018)

**5. Focus on construction materials**

A lot of materials are produced in Romania, however some categories or specific materials are imported.

**5.1. Local production**

There is an important local production of all kinds of construction materials. The main players are the active in the cement sector (Holcim, HeidelbergCement România, Lafarge, CRH Romania), adhesives (Henkel, Den Braven, Baumit), gypsum (Saint-Gobain Construction Products), steel (ArcelorMittal), glass (Saint-Gobain Glass), plastic (Teraplast), pavers (Elis Pavaje), metallic tiles (Bilka Steel, Depaco, Rukki), ceramic tiles ( Sanex), insulation (Arcon), bricks (Wienerberger), etc.

**5.2. Materials Romania imports:**

* construction chemicals,
* thermal installations
* fasteners,
* hydro-insulation materials,
* building machinery,
* construction timber,
* floor, wall and roof tiles, etc.

Countries of origin: Germany, UK, Poland, Italy, Belgium, Greece, etc.

**5.3. Materials Romania needs to import**:

* base materials to meet the growing needs that cannot be covered: iron, mineral wool, bricks, PVC
* high-end finishing materials: wall and floor tiles, parquet floor, etc.
* materials produced with new technologies that reduce the labor force whose cost has increased : larger ceramic plates that are mounted faster, paint that should be passed in a single layer, etc.
* new tools and equipment

**6. Useful links**

Romanian Association of Construction Entrepreneurs – ARACO: <http://www.araco.org>

Patronage of Construction Companies - PSC: <https://www.psc.ro>

Romanian Association for the Promotion of Energy Efficiency – ARPEE: <https://arpee.org.ro>

[Center for the Promotion of Clean and Efficient Energy in Romania](http://www.enero.ro/) – ENERO: <http://www.enero.ro>

Fiche rédigée par : Adina IHORA

Date: 31/08/2018