

SAMPLE PAGES

Construction sector in Romania 2016

Market analysis and development forecasts
for 2016-2021

Construction output resumed growth in 2014 (+1.0% year on year) after five consecutive years of decline, and likely surged by a further 10.4% last year. Nevertheless, the 1% rebound in construction activity in 2014 is perceived as a poor performance, and achieved overwhelmingly because of the very low base effect produced after five years of constant decline.

The parliamentary election held in December 2012 was won overwhelmingly by a coalition led by the centre-left Social Democrats. In 2013 and 2014, the Social Democrat-led government prioritised social incentives and populist rhetoric at the expense of capital investments, despite the fact that GDP expanded by 3.5% in 2013 and 3.0% in 2014. The political factor is thought to have been the key impetus behind the negative rate of growth in construction activity in Romania in 2013 and only a marginal rebound in 2014. It is thought that the government has deliberately reduced capital investments in 2013 and 2014, in order to have more financial resources to increase benefits to the population, which were ultimately to help to improve the ruling coalition's standing prior to the crucial presidential election held in November 2014.

However, the presidential election held at the end of 2014 was won by the opposition candidate. The ruling coalition and the Social Democrat Prime Minister, who lost the 2014 presidential campaign, were poised to boost capital investments in 2015, particularly in motorway projects, in order to improve the ruling coalition's standing prior to the parliamentary election scheduled for late 2016 and to absorb as much EU funding as possible allocated to Romania for the 2007-2013 programme period. The right and centre-right electoral force is dominant in Romania, a fact confirmed by the result of the 2014 presidential election, and the current left-wing government was, therefore, constrained to implement more "liberal" incentives, particularly boosting investments in infrastructure projects, and legal changes in order to increase its approval among centre-right electors. Moreover, Romania's anti-corruption drive has deepened strikingly in the last few years, and the positive trend is poised to continue, thus making politicians at all levels more responsible for spending public funds.

Along with the political factors mentioned above, the other key elements which contributed to the 10.4% upsurge in construction output in 2015 are:

- substantial economic growth, with the GDP growth rate rising to 3.8% in 2015 from 3.0% a year earlier and expected to expand further by at least 3% in 2016
- strong real wage growth (8.4% in 2015, following a 6.4% increase in 2014).

Value (RON bn) and real change (% , y-o-y) of construction output in Romania, 2006-2015



e - estimate
p - preliminary

Source: INS, PMR, 2016

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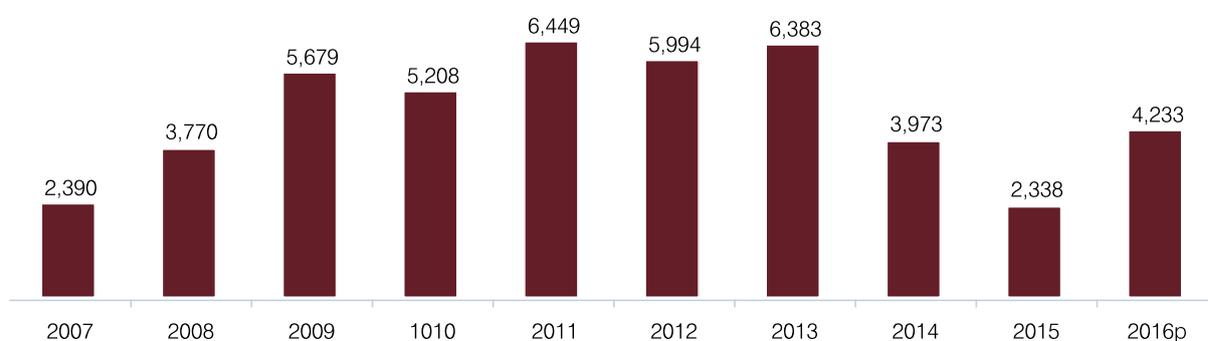
Within the Cohesion Fund scheme in the 2007-2013 programming period, for Romania was allocated €4.3bn to be spent on transport infrastructure, of which €2.26bn to be spent on road projects. According to a detailed plan concluded in 2007, the bulk of the €2.26bn allocation was to be consumed by the development of the country's motorway network and of sections of national road included in Pan-European transport corridors. However, Romania was able to absorb only 63% of the €4.3bn allotment. Among the main reasons behind this low degree of EU funds absorption were complex and time-consuming procedures related to administrative authorizations as well as many litigations submitted by contestants, which have generated significant delays.

The Romanian government is determined to tackle the barriers to the implementation of trans-European transport infrastructure projects in the 2014-2020 programming period. An important step towards this goal is the Governmental Emergency Ordinance No. 7/2016 approved in March 2016. The Ordinance is aimed to improve the payment mechanism of amounts awarded under FIDIC contracts, as a result of Dispute Adjudication Board (DAB) decisions, as well as to ease the procedure for the removal of lands from the agricultural and forestry circuit. It also amends the Law no. 50/1991 on construction (the "Construction Law") and Law no. 350/2001 (the "Zoning Law"). It should be mentioned that the scope of the Ordinance is limited to trans-European transport infrastructure projects.

A local zoning plan (PUZ), which is usually a lengthy procedure, is no longer mandatory for the trans-European transport infrastructure projects that will not affect the built-up area of populated settlements. Furthermore, the building permit for this type of projects can issued only based upon preliminary, in principle and/or conditional setup approvals from competent authorities, which have been entrusted to hand out these approvals in up to 10 days. Moreover, the Ordinance is intended to speed up enforcement of DAB decisions awarding monetary relief in disputes related to these projects, with contracting authorities being entrusted to proceed to enforce DAB decisions awarding monetary relief, based on a specific-conditions addendum to the existing public procurement contract.

Romania is poised to continue to improve its absorption capacity for developing funding, given that in the 2014-2020 programming period it is due to have access to €5.1bn of EU funds for the development of its transport infrastructure, which is 19% more than in the previous period.

CNADNR's budget for capital investments in Romania (RON m), 2007-2016



Note: allocation from the state budget.

Source: PMR based on CNADNR, 2016

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Major retail facilities and shopping centres put into operation in Romania, 2012-2015

Project name	City	GLA (m ²)	Investment (€ m)	Developer
2015				
Mega Mall	Bucharest	75,500	110	New Europe Property Investments
Coresti Shopping Resort	Brasov	45,300	n.d.	Immochan
Shopping City, phase 1	Timisoara	14,500	81.2*	New Europe Property Investments
Shopping City (extension)	Deva	10,600	13.9	New Europe Property Investments
Pipera Plaza	Bucharest	10,200	n.d.	Alpha Property Group, InterCora
Shopping City Severin (extension)	Drobeta Turnu Severin	9,700	9.5	New Europe Property Investments
Cora	Targu Mures	7,300	n.d.	Alpha Property Group, InterCora
2014				
Shopping City Targu Jiu	Targu Jiu	27,000	30	New Europe Property Investments
Vulcan Value Center	Bucharest	25,000	47	New Europe Property Investments
Auchan Drumul Taberei	Bucharest	20,000	70	Immochan
2013				
Promenada Mall	Bucharest	35,000	130	Raiffeisen evolution
AFI Palace Ploiesti	Ploiesti	33,000	50	AFI Europe
Galati Shopping City	Galati	27,000	-	New Europe Property Investments
Cora Constanta	Constanta	18,000	-	Cora
Uvertura Mall	Botosani	15,000	-	Moldova Universal
2012				
Palas Mall	Iasi	47,500	260	Iulius Group
Ploiesti Shopping City	Ploiesti	55,000	65	Carrefour Property, New Europe Property Investments
Cora Alexandriei	Bucharest	14,000	47	Cora
Cora	Bacau	13,700	42	Cora
Kaufland	Bucharest	12,500	-	InterCora
Auchan City	Bucharest	7,400	20	Immochan

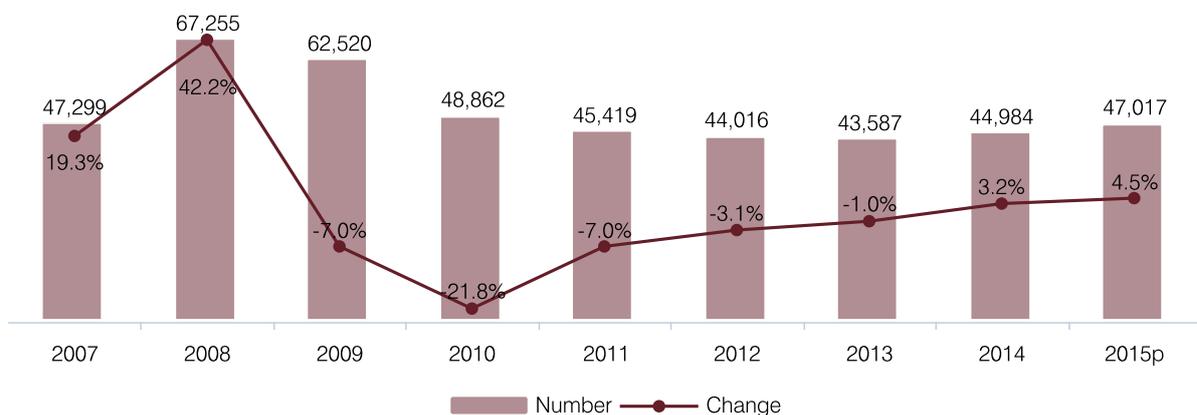
*shopping centre's total cost (GLA – 55,900 m²)

Source: PMR, 2016

During the boom period of the Romanian construction market between 2005 and 2008, Romania saw impressive growth rates in the number of completed homes. This was mostly thanks to the ease of obtaining credit and double-digit real wage growth year-on-year (+14.3% in 2005, +9.0% in 2006, +14.7% in 2007 and +16.5% in 2008). The peak year was 2008, when the number of completed homes increased by 42.2% on the previous year, reaching 67,255 newly built homes.

Starting in 2009 the number of completed homes in Romania began to decrease. The downward trend continued up until 2014. In 2014 housing completion rebounded year on year by 3.2% and preliminary figures suggest a further growth of 4.5% in 2015 - meaning 47,017 homes were completed last year. Still, this figure is most likely to see an upward revision once the final data is published. According to final results for 2013 published by the INS, the total number of newly activated dwellings was 1% less than in 2012, whereas the preliminary release revealed 8.9% contraction. As well, in 2014 the final result reveals a 3.2% upsurge, whereas the preliminary data indicated a 3.2% drop in annual housing completion.

Number of homes completed in Romania and change (% , y-o-y), 2007-2015



Source: INS, 2016

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In the same time, the total number of construction permits issued for residential buildings in Romania rebounded in 2015, after six consecutive years with negative value, increasing by 3.9% y-o-y, reaching 39,300 - the highest number since 2011. Still, this value is 36.1% lower than that reached in the peak year of 2008, when there were 61,531 permits issued for residential construction in the whole country. We expect that in 2016 the number of construction permits issued will continue to rise. The rural residential construction market is largely driven by funds earned by Romanians working in EU countries, mostly in Italy, Spain, and Greece. As GDP growth is expected to accelerate in these countries in 2016 and to gain pace in the coming years, it is probable that the upward trend in the figures for the rural residential construction market in Romania will return, after the positive growth numbers seen in urban areas in the last few years. Given the fact that urban residential projects are typically developed over several years, combined with the fact the Romanian economy is likely to expand annually by more than 3.5% in the near future and including the expectation of economic recovery in the Euro area and mortgage interest rates hovering around record low levels, developers should feel encouraged to increase residential construction activity in the short term.

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