RESIDENTIAL MARKET GENOME 2019

SVN ROMANIA

MARKET GENOME

RE

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MACROECONOMICS

ROMANIA: FEELING THE WINDS OF CHANGE

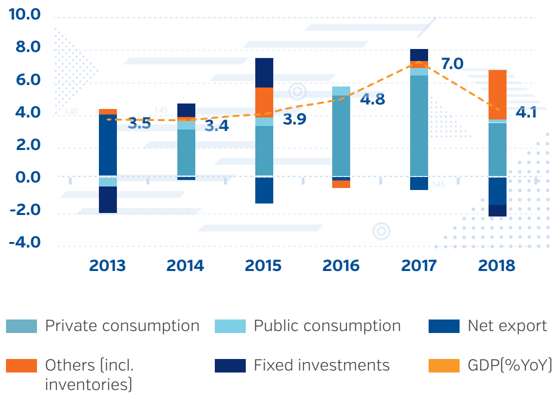
We see the GDP growth decelerating further towards the 3.0% area in 2019, with little to none fiscal space left to stimulate the economy, while monetary easing is unlikely to be on the table at least until the new Board takes over

THE YEAR AHEAD

We expect the current account (C/A) gap and budget deficit to deteriorate further. Investor sentiment has been shaken by changes in the fiscal environment.

These developments have already caught the eye of rating agencies.

DEMAND SIDE FIG. 1



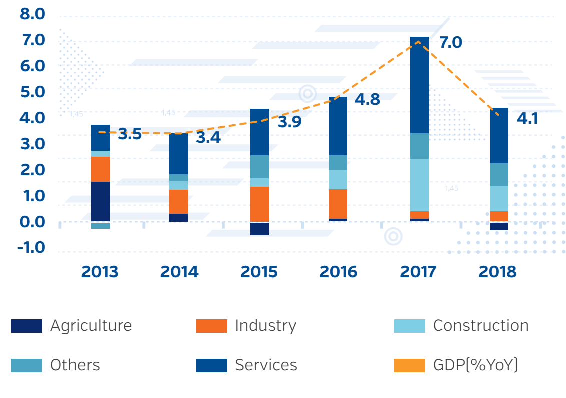
Source: NIS, ING

With four election rounds over the next couple of years, we see limited opportunities for fiscal consolidation or structural reforms.

The appointment of a new NBR Board this year could be an additional source of concern for investors.

The economy was already cooling off and regulatory changes are likely to put private investment plans on hold.

SUPPLY SIDE FIG. 2



Source: NIS, ING

Even if there is some improvement in legislation, the trust between the private sector and government is unlikely to be restored rapidly.

We think that most of the burden from external imbalances will continue to fall on the central bank.

MACRO DIGEST

GDP growth: against the wall

Romania grew 4.1% year-on-year in 2018 with a sharp slowdown in consumer spending.

Consumption added just 3.3 percentage points to growth, down from a 6.2ppt contribution to the 7% growth of 2017.

Inventories added 2.7ppt, investments and net exports subtracted 0.7ppt and 1.8ppt, respectively.

The data points to limitations of the consumption-driven growth model that also left deep scars in the external position, with net exports posting the largest negative contribution to growth since 2007. Unbalanced public spending is also reflected in a negative contribution of 0.7ppt to growth from investments.

With most of the fiscal resources exhausted on the wage envelope and social benefits, there is little room for a fiscal impulse to support investments.

On the supply side, private services made the largest contribution of 1.7ppt, followed by industry with 1.0ppt and agriculture 0.4ppt, while construction had a second consecutive year with a negative contribution, subtracting 0.3ppt from 2018 growth.

Both external and domestic growth drivers seem to point to a slowdown; the growth structure is weak and the fiscal space to prop-up growth is lacking.

The absence of structural reforms in recent years is also likely to exacerbate the downturn. We forecast 2.7% GDP growth in 2019 and 2.1% in 2020, with the economy heavily exposed to a global recession.

Public finances: a ticking bomb

We have argued for a while that there are two outcomes to recent fiscal relaxation: either an overshoot of the excessive deficit procedure (EDP) threshold, or higher taxes as lowering spending is limited by its structure of overweight on wages and social benefits, untouchable, particularly in election years.

As the commitment to the 3.0% of GDP budget deficit cap seems to prevail, the government has introduced sectorial taxes to prop up the budget.

Still, the budget bill envisages very optimistic macro assumptions; 5.5% real GDP growth, a 3.4% rise in employment and a 0.75ppt of GDP increase in tax collection.

The deficit target is -2.76% of GDP, but we see EDP compliance unlikely under a no change policy scenario. Hence, the mid-year budget review could bring additional fiscal changes.

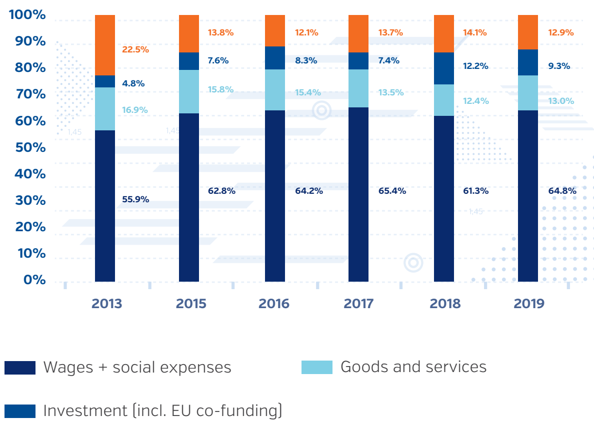
Monetary policy: no easy way out

With the inflation profile shaping up differently to what the National Bank of Romania [NBR] had in mind at the beginning of the year, we anticipate a hawkish performance from the central bank in 2019.

Liquidity management will likely play an even greater role in the NBR's monetary policy framework, particularly following the linking of the new floating rate loans to retail customers to the Quarterly Reference Index [IRCC]. The IRCC is defined as the quarterly average of interbank money market transactions [i.e. plain deposits].

FIG. 3

WEAK STRUCTURE OF EXPANSES

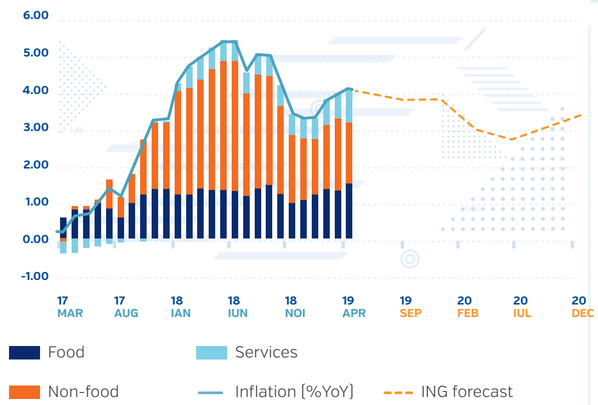


Source: NIS, ING

As most of these transactions are usually short term and the yield curve is traditionally upward sloping, it is not far-fetched to state that we have effectively just seen a round of unwanted [by the NBR] policy easing. As a result, the NBR might explore new alternatives to get tighter control over short-term interest rates. The new Board will begin its mandate in October 2019 and is likely to be even more dovish than the current one, but market

FIG. 4

INFLATION PROFILE STICKY ON THE UPSIDE



Source: NIS, ING

constraints [i.e. EUR/RON] are likely to prevail in policymaking. For now, it appears that the central bank is trying to repeat last year's [relatively unsuccessful] exercise of balancing external competitiveness with achieving its CPI target. Although practice might seem perfect, conventional wisdom gives little chance to the one trying to chase two rabbits at the same time. We forecast the year-end inflation at 3.8%.

Industrial production: as good as it gets

The deteriorating external context, in particular the slower growth seen within the Eurozone, has started to bite into the external demand starting the second part of 2018.

On the internal front investments are still lagging, with most of the fiscal impulse increasing consumption. With the Eurozone's activity seemingly unable to pick-up in 2019, we believe that it would be quite an achievement, if industry were to maintain the 2018 growth pace, though a quasi-stagnation is a more realistic scenario.

Current account (C/A) to widen further

Recent fiscal changes are continuing the objective of the government program to redistribute national income between capital and labor remuneration in favor of the latter. This is likely to keep household demand relatively robust as wage dynamics remains high.

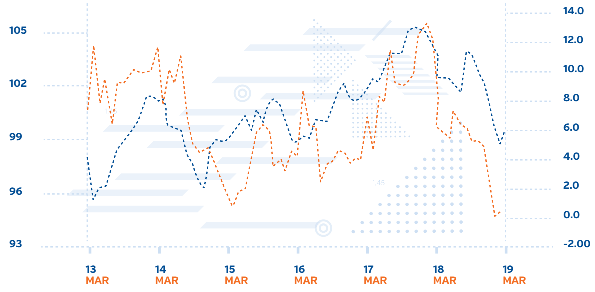
The consumption boost however will likely be accommodated via higher imports and a widening trade balance which has been the main driver of the current account deficit.

A tight labor market and the absence of structural reforms and infrastructure upgrades to enhance competitiveness are weighing in.

Moreover, the NBR also delivers some form of tightening via a real effective exchange rate appreciation.

FIG. 5

ROMANIAN MANUFACTURING TIED TO EXTERNAL DEMAND

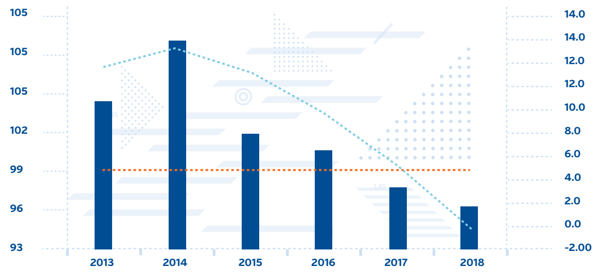


IFO Pan Germany Business Climate
RO - Manufacturing (3-mav, YoY, %, rhs)

Source: NIS, ING

FIG. 6

CURRENT ACCOUNT DETERIORATING



FDI as % of C/A
C/A as % of GDP

Source: NBR, ING

Hence, despite a quite significant slowdown in economic growth, a reversal of the current account deficit widening trend seems unlikely. Election fever over the next couple of years means an increasing probability of a hard landing. We forecast a -5.4% of GDP current account deficit for 2019.

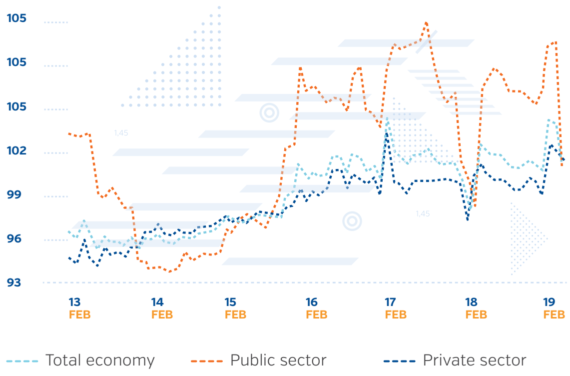
Wages and retail sales: going into extra-time?

The wage-led-growth policy enacted in recent years has boosted consumption and reinforced consumption's importance for the GDP growth.

We expect 2019 to be the fourth consecutive year of double-digits wage increases, with the public sector advances outpacing again the private one.

FIG. 7

IMPRESSIVE WAGE DYNAMICS



Source: NIS, ING

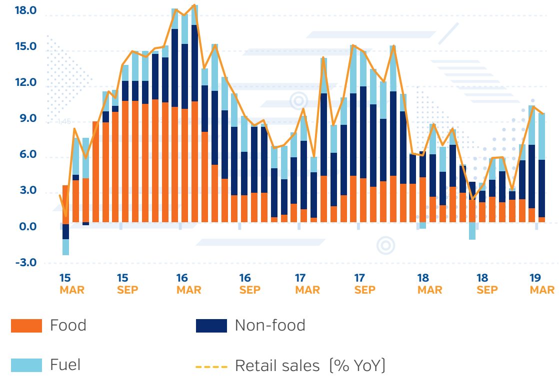
This should continue to boost consumption numbers which will remain the main growth driver in 2019.

Labor market: finding an equilibrium

With unemployment rate at historical lows (4.0% at the end of 2018), the labor market tightness remains elevated going into 2019.

FIG. 8

RETAIL SALES STILL WELL SUPPORTED



Source: NIS, ING

Nevertheless, signs of a new equilibrium are starting to show up, as indicated by the job creation numbers which has peaked in mid-2016 and followed a slowly downward trend afterwards.

Moreover, there are still untapped labor resources as the labor force participation remains one of the lowest in the EU while structural reforms to address this are not a priority for the public policy makers.

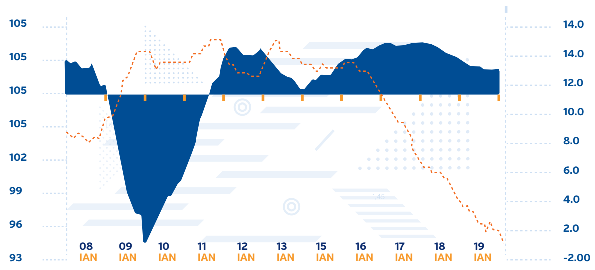
The constructions sector posted a 2.9% contraction in 2018, following another 5.3% contraction in 2017.

The buoyant residential sector entered correction mode last year, contracting 24% after a stellar 70% advance in 2017.

The commercial sector continued to decline at a steady pace and posted a -2.5% contraction, while the civil engineering (which is basically dependent on public investments) advanced 10%.

FIG. 9

JOB CREATION HAS PEAKED IN MID-2016

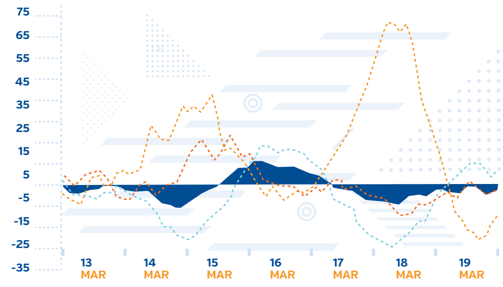


Job creation (th, 12M rolling, lhs)
LFS unemployment(%, SA, rhs)

Source: NIS, ING

FIG. 10

RESIDENTIAL SECTOR COOLING OFF



Construction
Residential
Commercial
Civil Engineering

Source: NIS, ING

The fiscal measures taken in December 2018 aimed at increasing the minimum wage in the construction sector and offering various tax incentives should work their way into the economy this year and at least keep activity rates afloat.

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MAIN ING FORECAST

	1Q18	2Q18	3Q18	4Q18	2018	1Q19F	2Q19F	3Q19F	4Q19F	2019	2020
GDP (YoY %)	4.0	4.1	4.3	4.2	4.2	3.7	2.8	2.4	2.1	2.7	2.1
CPI (YoY %) *	5.0	5.4	5.0	3.2	4.6	3.8	3.2	3.8	3.8	3.6	3.3
Key rate (%)	2.25	2.50	2.50	2.50		2.50	2.50	2.50	2.50		
3M rate (%)	2.08	3.15	3.17	3.02		3.23	3.40	3.50	3.40	3.35	3.00
10Y yield (%)	4.46	5.21	4.77	4.8		4.70	4.90	4.90	4.70		
EUR/RON	4.65	4.66	4.66	4.66		4.75	4.77	4.80	4.85	4.78	4.88
EUR/USD	1.23	1.17	1.16	1.14		1.12	1.10	1.12	1.18	1.13	1.22
USD/RON	3.78	3.99	4.02	4.07		4.24	4.34	4.29	4.11	4.23	4.00
Oil (US$/bbl)	70	79	83	54		65	68	69	72	69	74

* Quarterly data – end of period, annual data - average

CONTEXT

Context

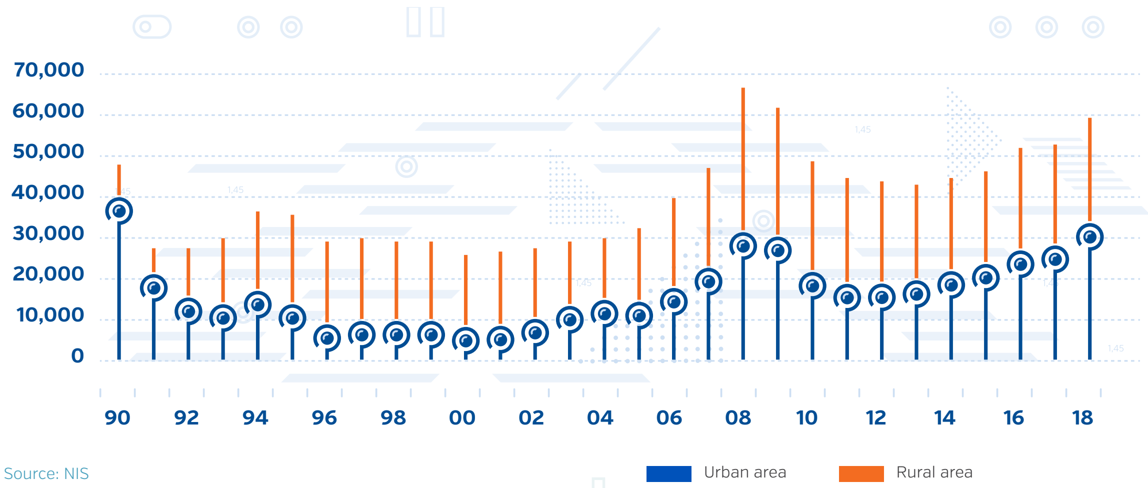
2018 was the first year when the residential market no longer experienced line growth rates after a period of several years in which the main indicators, from deliveries to transaction numbers and prices, had increased at a steady pace.

Thus, 2018 can be take into account a year of contrasts, a year of both positive developments and results that have raised questions concerning the short and medium-term evolution.

Taking into account the number of dwellings completed in Romania, 2018 was the third best post-Revolution year, with nearly 60,000 units in urban areas (almost 60% of the total) and in rural areas, up by about 12% compared to 2017, according to provisional data from the National Institute of Statistics (NIS).

CLOSE TO 2008 PEAK

RESIDENTIAL DELIVERIES IN ROMANIA



Source: NIS

Therefore, 2018 was almost as good as the best years in history for the residential market in Romania, i.e. 2008 and 2009, when approximately 67,000 units and 62,500 units respectively were delivered.

Almost 35,000 dwellings were delivered last year in urban areas, up by nearly 20% compared to 2017, when there was a much lower increase compared to 2016, of only five percent.

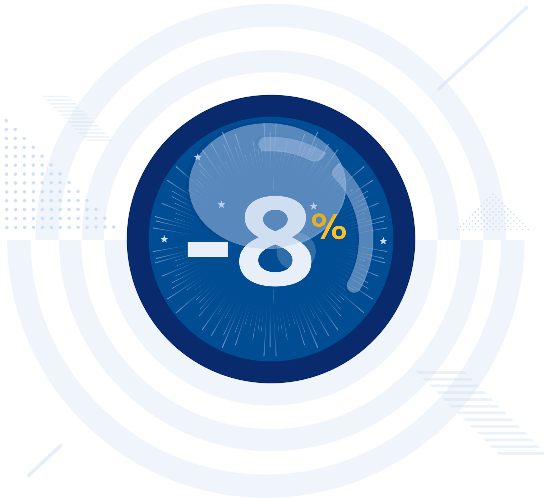
Most of these dwellings were delivered by developers in the seven largest residential markets in Romania: Bucharest, Cluj-Napoca, Timisoara, Constanta, Sibiu, Iasi and Brasov.
SVN Romania data show that over 2,000 units are completed annually in each of these cities and neighboring areas, with Bucharest and Cluj-Napoca being the only markets where developers deliver over 5,000 homes each year.

From the other county-capital cities in Romania, only Oradea has the potential to exceed 1,000 dwellings completed annually in the near future, while Craiova, Targu-Mures, Pitesti and Ploiesti are the only cities where more than 500 homes can be delivered annually at the current delivery rates.

While deliveries kept their upward trend in 2018, against the background of positive developments between 2014 and 2017, the number of domestic transactions fell by almost 8% compared to the previous year.

Monthly negative developments were recorded especially in the second half of 2018, according to data from the National Agency for Cadastre and Land Registration (ANCPI), the only large residential market that did not record a decrease in transactions being Brasov.

THE DECREASE IN DOMESTIC TRANSACTIONS REGISTERED IN 2018



Source: National Agency for Cadastre and Land Registration

The fall in transactions in the second half of 2018 can be explained mainly by a general feeling of uncertainty and expectation, amid the rapid rise in interest rates caused by the ROBOR growth; however, the overall economic climate is a positive one.

SVN Romania data show that the average purchase instalment for a new two-room apartment in Bucharest increased by about 30% in 18 months between July 2017 and the end of 2018, while the average national wage increased by almost 20% during the same period.

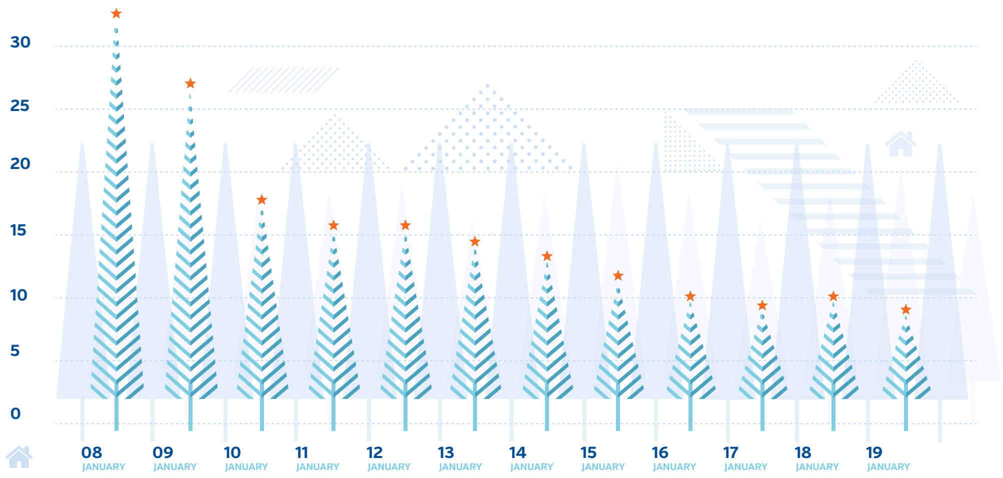
However, 2019 started with the best period in the modern history of the local residential market for the purchase of a new housing, relative to the average wage and the average price per square meter. The necessary number of years for the purchase of a new two-room apartment in Bucharest, with a useful surface of 50 square metres, decreased for the first time to less than nine years, or 105 average wages.

The affordability of new housing, excluding bank financing, improved continuously throughout 2018, which began with a period of 9.8 years needed to buy a new two-room apartment and reached 9.5 years mid-year.

Also, if we take into account the cost of financing, we can notice that the ratio between the average national wage and the average value of a mortgage loan instalment remains in the positive margin, with a ratio of 1.6 - among the best levels over the last 12 years. The last period in which the two values were equal was recorded in 2011, while in 2008 the average instalment was more than 2.5 times higher than the average national wage.

Overall absorption levels remained satisfactory, i.e. over 70% before delivery, in a context where a percentage of purchases, albeit reduced, had been achieved in 2017.

NUMBER OF YEARS NECESSARY TO PURCHASE A TWO-ROOM APARTMENT (50 SQ.M) IN BUCHAREST



Source: SVN Romania

Funding under the Prima Casa program continued to be the main buying option on the mass market segment, with the latest available data indicating that 2018 was the first year in which the available funds did not run out before the end of the year. It should be noted that the low absorption was registered in the first year in which the available funding ceiling was reduced by 20%, up to RON 2 billion, equivalent to approximately 22,000 loans.

The decrease in the number of transactions, especially in the second half of 2018, can thus be explained by a lower appetite for accessing Prima Casa financing, in a general context of increase in interest rates and implicitly of instalments, the mass market being much more sensitive to changes and negative news.

In this context, last year's prices did not keep their growth rate recorded in 2017. Thus, the growth rate halved, on average, to about 3%-5% in full-year terms, compared to the almost 10% increase in 2017.

The decline in the number of transactions, the rise in interest rates and the slowdown in price increases occurred at a time of significant supply growth as a result of the general market enthusiasm of 2016 and 2017.

Our data show that 2019 and 2020 could come with new absolute records of deliveries, with developers working on many projects, whether we are talking about actual construction or touch-ups for projects that will be placed on the market in 2020.

CURRENT INVESTMENTS IN THE RESIDENTIAL MARKET

Source: SVN Romania

All this could make up the list of ingredients for the perfect storm in the near future, but there are still many premises for a positive evolution in 2019. Income is kept at a satisfactory level, the ratio between the average wage and the average instalment is among the best in recent years, and there are still market segments and areas where demand exceeds the existing supply.

However, "Build and you will sell it" will no longer be the operating motto for the local residential market in 2019. Developers will need to come up with thoroughly prepared business plans, to deliver truly good quality products, tailored to the targeted demand segment, and to have a perfectly designed sales strategy, often very flexible to repeating market changes.

2019 may be the year to seal a success story or the year that marks the beginning of the end for poorly designed projects. We hope that our market report will be a valuable tool and we will be happy to provide you with support for detailed studies and analyses.

All the best!


CONCERTE LIVE
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ORA 19:30
RATB
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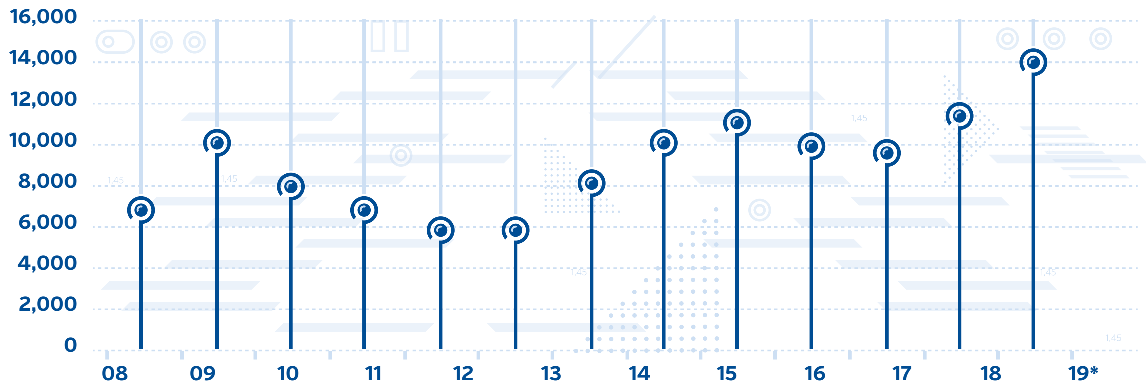
TAXI
ORA 19:30

BUCHAREST

Bucharest

NEW PEAKS - NUMBER OF DWELLINGS DELIVERED IN BUCHAREST AND SURROUNDING AREAS



Source: NIS, SVN Romania

* SVN Romania forecast

SUPPLY:

Investor's enthusiasm following the good results recorded in the previous years, peaked in 2018, when the largest number of new dwellings in the modern history of the local residential market was delivered in Bucharest and the surrounding areas. 11,272 dwellings were delivered last year, up by 18% compared to 2017, according to the provisional data from the National Institute of Statistics.

Increases in deliveries occurred both as a result of completing a high number of projects or phases started in 2016 and 2017 and as a result of delivering projects whose initial deadline was 2017. Thus, almost half of the increase in deliveries in 2018 was due the delayed delivery of units originally scheduled for 2017.

While at the beginning of the previous year work was being done on more than 1,000 units whose initial delivery deadlines were scheduled for 2017, at the moment there are approximately 800 residential project homes not delivered last year that could be delivered this year.

The main reasons why some projects are delivered late are related to the preparation of legal forms for accepting the works, but also to the difficulties faced by the construction labor market.

2019 should bring a new record in terms of housing delivered in Bucharest and its surrounding areas.

SVN Romania data show that at this moment more than 14,000 units are under construction and they could be delivered this year, depending on how the delivery deadlines set by the developers are met.

Some other 6,000 units are currently in different stages of construction and are scheduled for delivery in 2020.

Additionally, over 10,000 new apartments are in different planning stages and will be placed on the market in the next 12 months, depending on the macroeconomic developments and the sales rate of the current units to be delivered.

The overall absorption level of dwellings completed in the Capital city and its surrounding areas was about 70% in 2018 during the execution of the construction works, with sales influenced by the increase in interest rates and the uncertainty among buyers about the near future.

The decrease in the number of transactions and, in particular, the significant increase in supply on certain market sub-segments and strands could lead to a decrease in absorption during development, especially for projects poorly adapted to the targeted market segment and located in areas overcrowded with projects under development.

In the Northern part of the Capital city alone there are currently more than 6,500 units with delivery deadlines set for this year and for 2020, and about 60% of them are located in the Aviatiei - Barbu Vacarescu - Pipera south area.

While in the last few years we have witnessed a significantly lower supply compared to the existing demand for housing in the largest office area in Bucharest, the following period may even bring an oversupply on this sub-segment, considering that some other 7,000 units are in the pipeline in the same area for the 2021-2022 period.

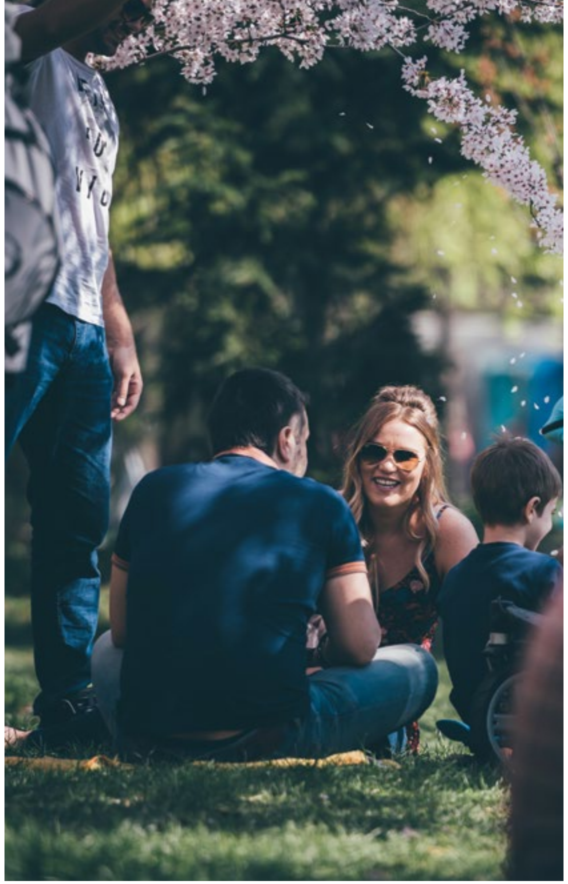
PRIMA CASA LOANS SINCE 2009 - MAIN FINANCING ON MASS MARKET SEGMENT

Source: SVN Romania

The increase in the number of residential projects located near office buildings in the North of the city can best be noticed in the change in the market segmentation of new supply, a change experienced in recent years.

2019 will mark a premiere on the residential market in Bucharest: it will be the first year in which the middle market segment will hold the majority share of the total housing completed.

50.5% of the dwellings that will be delivered this year in the city and its surrounding areas, or about 7,000 units, are intended for the middle market segment, mostly located in semi-central, North - West and Northern areas. The current percentage tripled compared to the 2015 level, the first year with a real positive evolution of the residential segment since the economic crisis a decade ago.



This spectacular growth occurred in the context of a steady increase in revenue over the last few years - for example, the average national wage has almost doubled over the past nine years, according to official statistics.

The improved affordability of new homes has allowed a growing number of people to purchase a home in a better location with a larger surface and with better quality finishes compared to the houses completed before 1990.

These potential buyers are less sensitive to the rise in short-term interest rates or exchange rate volatility, but they pay particular attention to the general economic and geopolitical climate and can decide to wait before they purchase.

The development of the middle market segment and the residential market overall is also reflected in the scale of the projects under development.

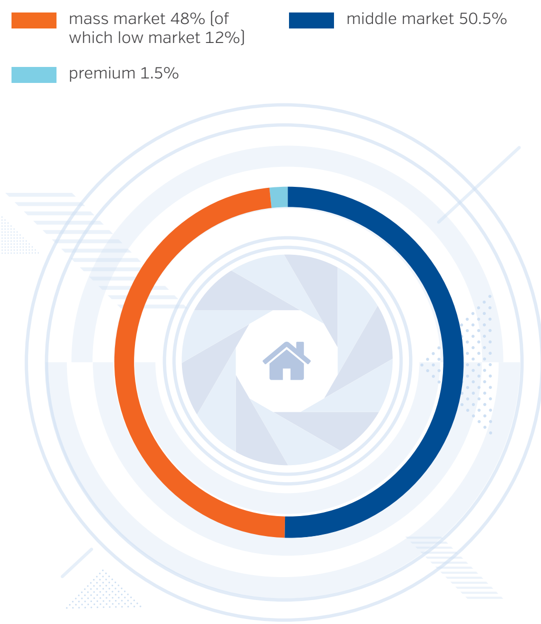
More than ten projects with a thousand apartments each are currently being developed in the Capital city and its surrounding areas.

The mass market segment will take 48% of the units delivered this year, the novelty being the increase in the share of the low market sub-segment, i.e. about 12% of the total supply in 2019, almost double compared to the previous year.

This increase is due to the opening of new development areas, especially in the Southern and Western part of the city, areas with a poor overall infrastructure and lack of public transportation.

The mass market segment remains characterized by housing with surfaces similar to those completed before 1990, located in the major districts of Bucharest and offering good accessibility to the city's points of interest through the public transport network and the metro in the best cases.

THE MIDDLE MARKET SEGMENT TAKES A MAJORITY SHARE



Source: SVN Romania

The maturity of the market can also be noticed in the mass market segment where, in 2019, several large projects will be completed, with over 1,000 units each, and other large projects are being prepared to be launched in 2020.

The success of these projects will be determined not only by the general market climate, in a context where mass market projects are a reliable alternative to acquiring an old house, but also by the ability of investors to deliver competitive products at advantageous prices while also offering as many facilities as possible.

The increase in the number of deliveries is also witnessed on the premium segment, which is going through the most effervescent period of recent years in this respect. More than 600 luxury apartments are currently in different stages of construction and will be placed on the market this year, but also in 2020 and 2021.

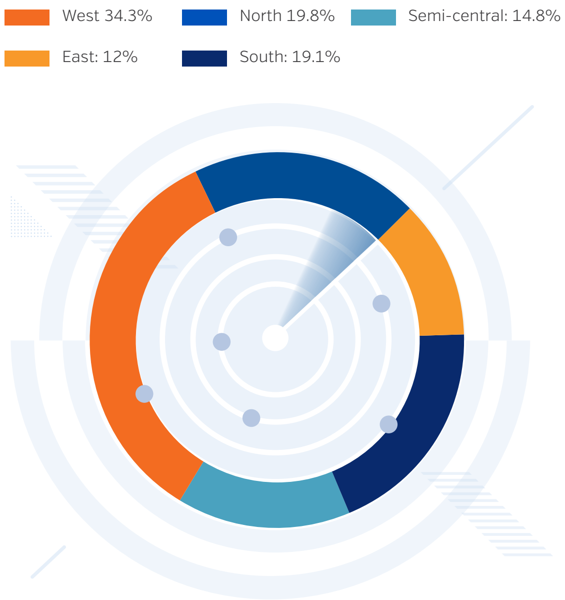
The novelty compared to the previous years, when the market was dominated by small-scale projects with ultra-central location or located in the Northern part of the city, is that there are many premium projects with over 100 units at the moment - this can be a new stage in the evolution of this segment.

The largest residential pole of the Capital city remains the West, strongly dominated by projects targeting the mass market segment, which often include hundreds of units, even over a thousand, as is the case with several projects scheduled to be completed this year.

Thus, approximately 34% of the units to be delivered in 2019 in Bucharest and its surroundings are located in the Western area.

In addition to the extreme West, Splai - Grozavesti area and Lujerului area are two significant poles of residential development, offering extremely easy access to the new office area in the central-western part of Bucharest, but also to the central and Northern areas of the city.

THE WEST REMAINS KING - NEW HOUSING SUPPLY BY LOCATION



Source: SVN Romania

The existence of former industrial sites and large land plots available will make it possible in the future to witness the launch of new projects in the Western area of the city, which will preserve its supremacy.

The North of the city, including the parts adjacent to the largest office area in Bucharest (Aviatiei - Barbu Vacarescu - Floreasca - Pipera) where approximately 19.8% of this year's supply, or about 3,300 units, are located, continues to draw investors' interest.

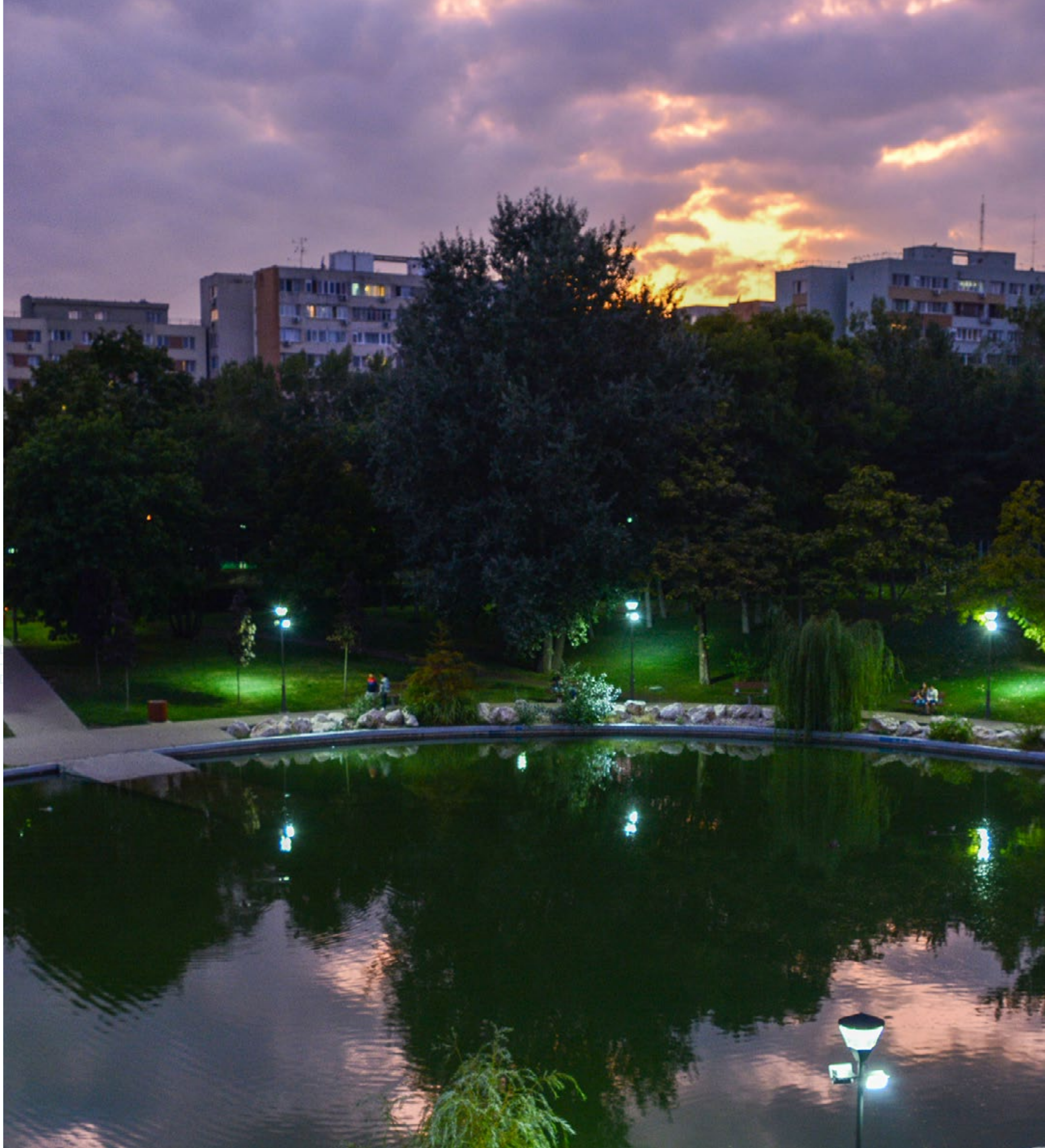
The Southern area of the city should witness a similar number, about 3,200 units completed in 2019, up compared to previous years due to the start of new projects with a few thousand homes whose development should take several years.

Approximately 12% of all units under construction this year, or about 2,000 units, are located in the Eastern part of the city, which still has high, but poorly used, potential for development.

Although the overall infrastructure is very good, from public transportation to shopping centers or educational institutions, the road infrastructure in the area of the land plots still remains the main drawback of the area.

The semi-central areas should see approximately 2,500 housing units completed, accounting for 14.7% of the total supply this year.

The plots of land available in these areas are numerous and may be of particular interest for the development of projects targeting the upper middle market segment or the premium projects.



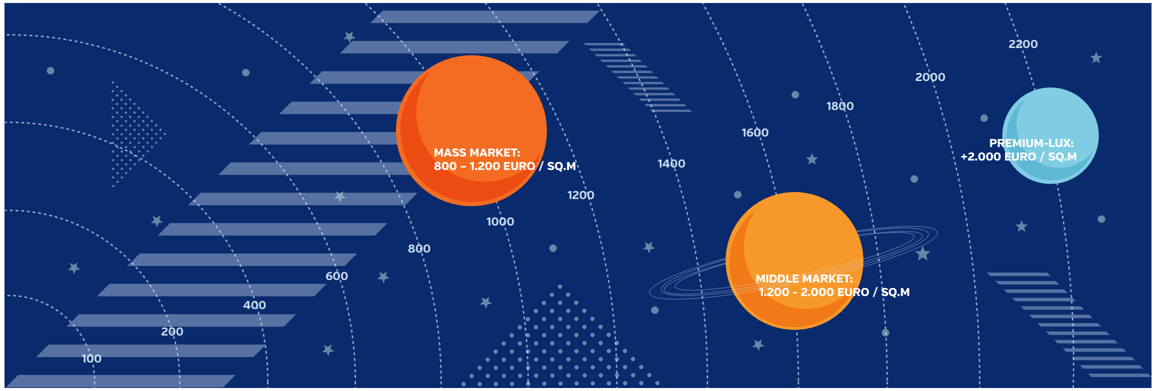
Demand and prices:

Demand recorded the first decline in 2018 since the recovery of the residential market, the number of transactions concluded in Bucharest and Ilfov being approximately 11% lower than in 2017, according to SVN Romania calculations based on ANCPI data.

The first four months of 2019 did not bring significant improvement from this point of view: the number of transactions continued to decrease, with a new low of approximately 7% compared to the same period of 2018. However, data show a steady level (+1.85%) as compared to the first four months of 2017, a year in which positive results were recorded.

The largest percentage of buyers, over 90%, is represented by end users, which is an indicator of the residential market health.

AVERAGE TRADING PRICES ON THE RESIDENTIAL MARKET IN BUCHAREST



Mass market:
800 – 1.200 euro / useful sq.m

Middle market:
1.200 – 2.000 euro / useful sq.m

Premium – luxury:
+ 2.000 euro / useful sq.m

Source: SVN Romania

Investment transactions mainly cover ultra-central and Northern areas or even mass market segments, near university campuses, with investors targeting a maximum annual yield of 7% in Euros.

Prima Casa loans continued to be the primary funding method, although the majority of active buyers in the middle market is eligible for mortgage financing.

Prima Casa financing is, in fact, the main buying method for the mass market segment where family income of buyers is on average between RON 2,700 and RON 5,500 per month.

These buyers were most affected by the rise in interest rates but also by the lowering of the debt ceiling by the Central Bank.

However, the average instalment for a 25-year mortgage loan required for the purchase of a EUR 66,000 home, i.e. EUR 393, was 47% of the EUR 826 average wage at the beginning of the year in Bucharest during the same period.

However, the monthly net income per family of active buyers on the middle market segment is higher, typically ranging from RON 5.500 to RON 14.000.

These potential buyers are not usually under pressure to immediately acquire housing and their savings are also important.

Generally, trading prices range from 800 to 1,200 in the mass market segment, starting at 1,200 on the middle market segment, and depending on location, area and finishes, can even reach EUR 2,000 per useful square metre on the middle upper sub-segment, while luxury houses have prices that exceed this latter level.

Trading prices kept a positive development trend in 2018, too, but they slowed down strongly from almost 10% in 2017 to less than 5% last year.

We estimate that trading prices will remain constant in 2019, and we will see both increases for properly designed projects and price drops for projects which are wrong positioned in the market and which will not achieve the expected results.

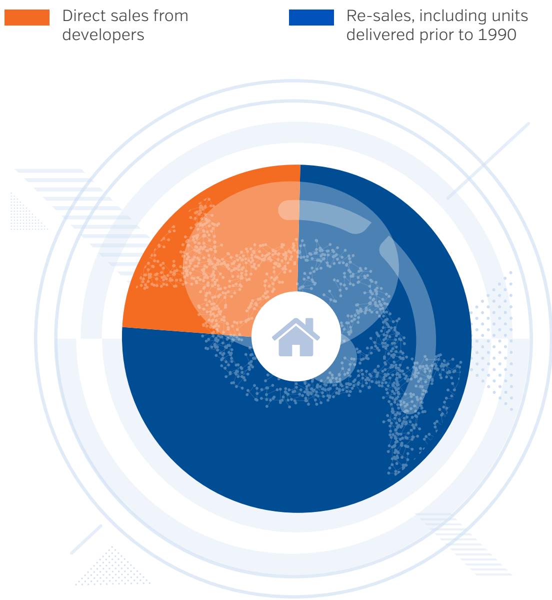
Old house market:

The segment of apartments completed before 2000 continues to be attractive to prospective buyers mainly due to lower prices compared to new homes, due to better location and lack of new supply in specific areas.

Old house transactions continue to retain the majority share of the market, with approximately 40,000 to 45,000 transactions annually in Bucharest and its surrounding areas.

The upward trend of the percentage of new housing transactions will continue in the next period, taking into account both the diversification of the supply and the willingness of potential buyers to pay, on average, up to 25% more for a new home located in the same area as the old one.

MARKET SEGMENTATION BETWEEN DIRECT SALES FROM DEVELOPERS AND RE-SALES



Source: SVN Romania

Older housing listing prices in Bucharest increased on average by around 5% in 2018, compared to approximately 9%-10% in 2017.

Depending on sales expectations, there is a negotiation margin of about 5% between listing and trading prices, which may increase depending on the level of demand in a given area.

We estimate that old dwellings will continue to remain an alternative to potential buyers, albeit at a lower percentage, with trading prices remaining stable over the year.

Trends for 2019:

- The general absorption during the construction period will decrease in the context of higher supply and lower number of transactions. “Build and you will sell” will no longer be the rule on the residential market, and the soundness of business plans will be decisive for achieving the expected results

- Some areas and sub-segments of the residential market, such as Aviatiei - Pipera area, are experiencing a significant increase in competition among the multitude of new projects launched by investors. There are premises for oversupply in the future

- Accelerated revenue growth maintains a positive ratio between the average national wage and the average instalment for a mortgage loan needed in order for a buyer to purchase a new two-room apartment. Thus, well-positioned projects and appropriate sales strategies will continue to yield very good results

- The middle market segment has come to hold for the first time the largest share of new housing supply, with about 51% of the market. We estimate that this percentage will increase in 2020 as well

- Bucur Obor, Expozitiei, Bucurestii Noi - Jiului and Titan - Pallady can become new pools of interest and development on the residential market in Bucharest in the near future. The Western and Northern areas will attract most of the new supply in 2020

- Trading prices are expected to remain constant on average throughout 2019, with both high-performance developers and projects that will need to give discounts due to increased supply and reduced adaptability to existing demand

- Growth of the middle market segment will be seen in the future in the emergence of an increasing number of integrated projects with multiple facilities included. In addition, the number of smart housing projects will increase and green certificates for residential projects are expected to rise.

REGIONAL MARKETS

Regional markets

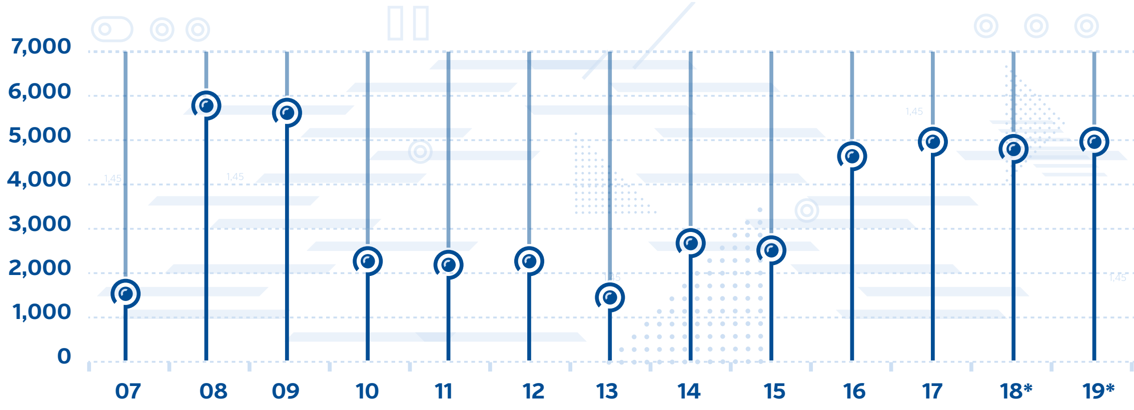
CLUJ – NAPOCA

The second residential market in Romania, according to both delivers and transactions, registered a 2018 with numerous contradictions.

Looking at the existing data at this time, we can consider that 2017 was the peak year for the residential market in Cluj – Napoca in the current growth cycle, the present period being one of stabilization and stagnation after several years of increases.

About 4,800 residential units were delivered last year in the city and its surroundings, according to the data of SVN Romania's local office from Cluj – Napoca, a result similar to the one registered in 2016 and 2017.

REGISTERED PEAK – NUMBER OF DWELLINGS DELIVERED IN CLUJ – NAPOCA AND ITS SURROUNDINGS



Source: NIS, SVN Romania

* SVN Romania forecast

The biggest share of this units are being delivered in Cluj – Napoca, approximately 2,500 – 3,000 dwellings every year, while Floresti still account for the biggest part of the deliveries outside the city.

Approximately 6,500 dwellings are under different construction stages at this moment in the city and its surroundings, the most of them, about 5,000 units, being set for delivery in 2018, if the developers will respect their announced delivery calendar.

Floresti and the other surrounding localities remained the main destination for budged homes buyers, all dwellings delivered in this area being included in the low and mass market segments.

The selling prices on this segment start from 700 – 800 Euros for a square meter and could reach 1,000 Euros – please note that all units are delivered with no finishes.

The middle market segment of the local residential market is represented by units delivered within the city, selling prices starting from 1,200 Euros/sq.m.

Under 10% from the new offer is represented by upper middle units while the premium – luxury segment accounts for approximately one percent – one project with less than 50 units.

SVN Romania’s data show that the growth rate of prices in Cluj – Napoca slowed sharply, from almost 15% in 2007 to approximately five percent in 2018, as the number of transactions dropped significantly in the second half of the year.

PRICE INCREASES IN CLUJ - NAPOCA REGISTERED IN 2018, THREE TIME SMALLER COMPARED TO 2017

Source: SVN Romania

We estimate that the selling prices will remain stable thought 2019 and the absorption rates during construction phases will drop in some cases even under 50%.

Thus, the investors will be obliged to realize their business plans more thoroughly, to accept smaller profit margins and in some cases to expect an intensifying competition that might lead to price decreases.

TIMISOARA

Timisoara is the biggest regional residential market in Romania, except for Bucharest and Cluj – Napoca.

Thus, over 3,500 units are being delivered every year in the city and its surroundings, especially in Dumbravita and Giroc which registered fulminant development in the last years, becoming satellite cities with approximately 1,000 units delivered every year, a level similar with the one in the city.

The unemployment rate which dropped to less than 1%, corroborated with the significant development of the private sector in the city, the growth of the office segment and the fact that Timisoara will be in 2021 the European Cultural Capital, which will lead to increasing numbers in tourism, all these represent the ingredients for a favorable climate for the local residential market.

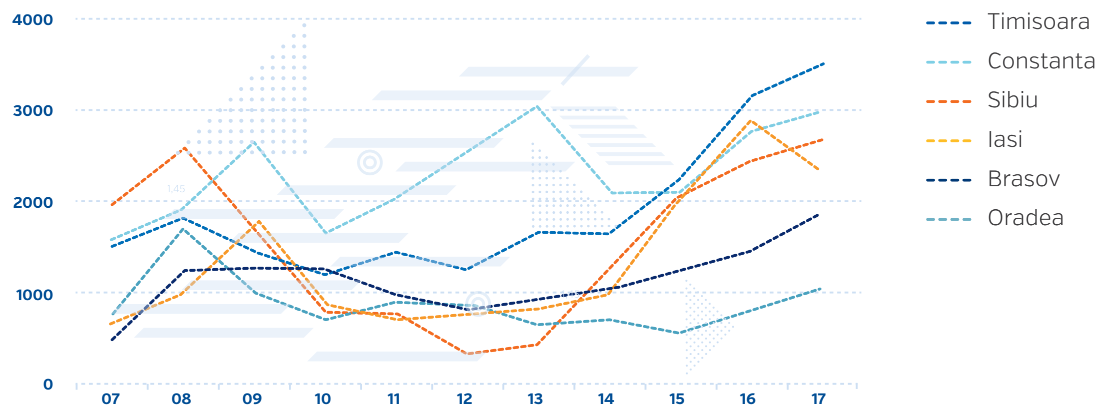
CONSTANTA

Constanta is the fourth regional residential market in Romania, with over 3,000 dwellings delivered every year.

The city registered a significant development in the last years, along with the boom registered by Mamaia in terms of residential projects.

Here, investors deliver every year projects with several hundred units, which have a high investment potential, with a 7% yield in Euros calculated for a period of 80 days renting.

NUMBER OF DWELLINGS DELIVERED IN THE MOST IMPORTANT REGIONAL RESIDENTIAL MARKETS IN ROMANIA *



Source: SVN Romania based on NIS data

* except Bucharest – Ilfov and Cluj - Napoca

SIBIU

Sibiu is the fifth city in Romania where every year are being completed over 3,000 residential new units.
The city registered a significant development starting with 2014 and in the following three years registered a tripling of the residential market.

The development of the local economy, especially on the industrial segment, transformed Sibiu into a magnet for the workforce, low and mass market residential segments registering thus an important development.

NUMBER OF RESIDENTIAL UNITS DELIVERED ANNUALLY IN THE BIGGEST 7 REGIONAL RESIDENTIAL MARKETS IN ROMANIA

Source: SVN Romania based on NIS data

IASI

Iasi and its surrounding areas attracts annually the delivery of approximately 2,500 new apartments and houses.

Considering the growth registered by IT and back office segments, and the fact that Iasi remains an important university center, we estimate that Iasi will continue to register a steady development in the near future, with several vast project already being announced.

BRASOV

Brasov surpassed recently the 2,000 units delivered annually barrier, five year after the threshold of 1,000 units.

This evolution also shows the sustainability of the local residential market, which is based on a local request, although the city has a high investment potential.

ORADEA

Oradea is the first city to cross the 1,000 deliveries threshold since 2008.

The development of the industrial sector and the increase of tourism in the area led to a general increase in revenues, which resulted in a increase in demand for new housing.

We estimate that the regional market in Oradea will remain interesting for investors, along with the continuous development of the city.

GREEN
REAL ESTATE

Green real estate

"GREEN" OBLIGATIONS REGARDING CONSTRUCTIONS

The fight to reduce greenhouse gas emissions and energy dependency requires the application of additional obligations for new constructions.

From this perspective, starting from 31 December 2020, building permits for new constructions in the private sector will be issued only if their energy consumption is close to zero.

Also, with respect to residential and non-residential buildings, new buildings and buildings undergoing major renovation, real estate developers must newly consider obligations to install recharging points for electrical vehicles.

These additional obligations will directly impact the cost of construction and will certainly influence real estate prices.

1. BUILDINGS WITH CLOSE TO ZERO ENERGY CONSUMPTION

At the European Union level, buildings are responsible for about 40 % of final energy consumption and 36 % of greenhouse gas emissions [1].

In terms of energy consumption at the national level, the residential and tertiary sector (office buildings, commercial spaces and other non-residential buildings) together account for 45 % of total energy consumption [2].

Taking into account the expansion trend in this sector, it is obvious that both energy and raw material consumption will increase, which will also lead to an increase in carbon dioxide emissions.

1.1. Applicable legal framework

Directive 2010/31/EU of the European Parliament and of the Council from 19 May 2010 on the energy performance of buildings ("Directive 2010/31/EU").

Law No. 372/2005 on the energy performance of buildings ("Law 372/2005") fully transposes Directive 2010/31/EU into the national legislation, aiming to promote measures for increasing the energy performance of buildings by:

- designing new buildings with low energy consumption;
- thermal rehabilitation of existing buildings; and

[1] https://ec.europa.eu/energy/en/topics/energy-efficiency/buildings
[2] https://ec.europa.eu/energy/sites/ener/files/documents/2014_article4_ro_romania.pdf

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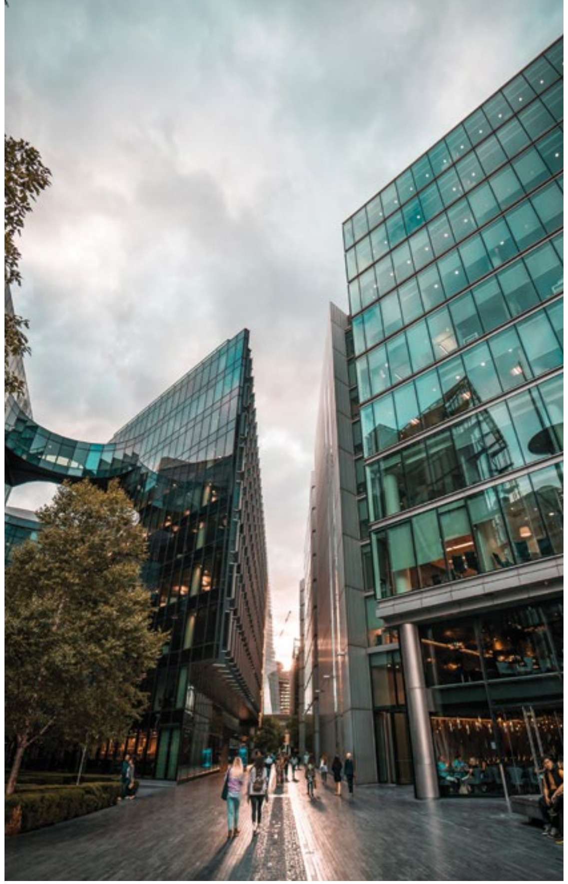
- correctly informing the owners/ managers of the buildings about the energy performance certificate.

1.2. New energy consumption obligations

In line with the new legal obligations regarding energy consumption, the following aspects should be considered:

- new buildings in the private sector, for which construction works are approved based on a building permit issued starting 31 December 2020, will be buildings with almost zero energy consumption;
- new buildings owned/administrated by public administration authorities, for which construction works are approved on the basis of a building permit issued after 31 December 2018, will be buildings with almost zero energy consumption.



Therefore, starting on 31 December 2020, building permits for new buildings in the private sector will no longer be issued unless the buildings have almost zero energy consumption.

A building with almost zero energy consumption is a building that meets all the following conditions:

i. Very high energy performance, with almost zero or very low energy consumption

The “energy performance” of a building means the amount of energy calculated or measured to ensure the energy demand under normal use of the building, which includes the energy used for heating, cooling, ventilation, hot water, lighting and so on.

ii. Energy consumption is at least 10 % covered by energy from renewable sources produced either on-site or nearby

Renewable energy is the energy from non-fossil renewable sources, namely wind, solar, aerothermal, geothermal, hydrothermal, ocean energy, hydropower, biomass, landfill gas, sewerage treatment plant gas and biogas [3].

Unfortunately, the legislator did not expressly define the proximity, leaving this assessment for the authorities and/or investors.

However, we consider de lege ferenda that it is necessary to regulate this aspect in a future amendment to the law.

The level of energy required for buildings of which energy consumption is almost zero is set by technical regulations.

This level is differentiated in areas with renewable energy potential and

is periodically updated/supplemented according to technical progress.

By city planning certificate issued in order to obtain the building permit, it will be necessary for the energy requirements of the buildings to be limited to the specific technical regulations.

A city planning certificate issued without observing the provisions for the energy demand of buildings to be limited to the levels provided in the specific technical regulations will be considered.

In this respect, the building permit issued under an incomplete city planning certificate is invalid.

1.3. Consequences of noncompliance with the new energy performance obligations

For new buildings in the private sector or owned/managed by the public administration authorities who do not observe the above-mentioned obligations, namely that do not have almost zero energy consumption, the

[3] Directive 2010/31/UE

reception of the construction works will not be approved, according to the provisions of the Regulation for the reception of construction works.

Without the reception protocol, the respective building cannot be commissioned and cannot be registered in the corresponding Land Book.

Therefore, such constructions shall not be eligible for transfer of possession procedures and shall not be transferred in the civil circuit.

Also, unfinished constructions registered in the corresponding Land Book that do not have a reception protocol at the end of the construction works cannot be subdivided into apartments.

2. INSTALLATION OF ELECTRICAL RECHARGING POINTS

2.1. Applicable legal framework

With respect to the new obligations regarding electrical recharging points, we call attention to the provisions under Directive (EU) 2018/844 of the European Parliament and of the Council of 30 May 2018 amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency ("**Directive 2018/844**").

Directive 2018/844 entered into force on 19 June 2018 and the deadline for transposition into the national legislation is **10 March 2020**.

2.2. Applicability

2.2.1. Non-residential buildings

New non-residential buildings and buildings undergoing major renovations that have more than 10 parking places [4] must have at least one recharging point and ducting infrastructure installed, namely conduits for electric cables, for at least one in every five parking spaces to enable the installation at a later stage of recharging points for electric vehicles where:

- the parking space is located inside the building, and, for major renovations, the renovation measures include the parking space or the electrical infrastructure of the building; or

[4] For each type of construction, namely for the counties and the Bucharest Municipality, there are strict regulations regarding the minimum parking places that must be built by a real estate developer in order to obtain the building permit.

- the parking space is physically adjacent to the building, and, for major renovations, the renovation measures include the parking space or the electrical infrastructure of the car park.

Also, the requests for the installation of a minimum of recharging points for non-residential building that have more than 20 parking spaces shall be determined by the Member States until 1 January 2025.

Therefore, they have time to conduct studies and analyses for the elaboration and implementation of corresponding regulations, adapted according to each Member State.

2.2.2 Residential buildings

New residential buildings and residential buildings undergoing major renovations that have more than 10 parking spaces must have ducting infrastructure installed, namely conduits for electric cables, for every parking space to enable the installation, at a later stage, of recharging points for electric vehicles where:

- the parking space is located inside the building and, for major renovations, the renovation measures include the parking space or the electrical infrastructure of the building; or
- the parking space is physically adjacent to the building, and, for major renovations, the renovation measures include the parking space or the electrical infrastructure of the parking space.

3. THE IMPACT OF "GREEN" OBLIGATIONS ON THE REAL ESTATE MARKET

The implementation of technical solutions regarding:

[i] the performance of buildings with almost zero energy consumption and

[ii]the installation of electrical recharging stations will most likely involve additional costs for investors and real estate developers.

It is expected that these additional costs will be reflected in the final selling price of the buildings, namely the cost of rent [both in the residential and non-residential sectors].

Although needed over the long term, these environmental protection measures will be a challenge to implement.

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LEGISLATION

Legislation

INSOLVENCY OF THE GENERAL CONTRACTOR

Solutions for real estate developers and projects

When an insolvency procedure is initiated against the general contractor of a real estate project it can generate many technical, financial and legal difficulties.

Its impact on the developer's image and the market's view of the project itself cannot be underestimated, given the public uncertainty about the developer's ability to complete the construction works.

1.OBJECTIVE OF THE INSOLVENCY PROCEDURE

The insolvency procedure operates according to Law No. 85/2014 on insolvency prevention and insolvency procedures ["Law 85/2014"], which repealed Law No. 85/2006 on the insolvency procedure ["Law 85/2006"].

Although repealed, Law 85/2006 is still applicable, because Law 85/2014 does not apply to procedures that were already underway when the law entered into force.

According to the applicable legal provisions, the objective of the insolvency procedure is to establish a collective procedure to cover the debtor's debts.

The aim is to grant the debtor, when possible, the chance to rebalance its activity.

Although the intention was to create a balance between the interests of the creditor seeking to recover its receivables as soon as possible and the possibility to save the debtor, in reality the debtor has a certain priority when it comes to saving its business, at the expense of the creditor's right to recover its receivables.

2. THE IMPACT OF THE INSOLVENCY PROCEDURE

From the perspective of the possible impacts of the insolvency procedure against the general contractor of a real estate project, we underline the following:

2.1. With respect to the right of the developer to terminate the construction agreement

According to the applicable legal provisions, agreements that are ongoing are considered to be in force at the date the insolvency procedure was initiated, regardless of whether the insolvency request was submitted by the debtor or the creditor[s].

Also, clauses regarding the termination of ongoing agreements, of limitation from the benefit of the term or the declaration of anticipated chargeability, based on the initiation of the insolvency procedure against the debtor, are qualified as null.

Nevertheless, the developer has the right to request the insolvency practitioner to terminate the construction agreement within the first three months after the initiation of the insolvency procedure based on a written notice.

It is important to remember that the decision regarding the termination or the maintaining of the construction agreement is to be rendered by the insolvency practitioner, who is obliged to answer the applicant within 30 days of receipt of the notice.

If it fails to do so, the right of the insolvency practitioner to request the performance of the agreement is no longer applicable, as the agreement is considered terminated upon the expiry of the 30-day term.

Should the general contractor fail to perform its contractual obligations, the real estate developer has the right during the insolvency procedure to ask the syndic-judge to terminate the construction agreement.

2.2. With respect to the right of the insolvency practitioner to terminate the agreements

The objective of the insolvency practitioner is to maximize the value of the debtor's property.

Therefore, the insolvency practitioner can unilaterally decide (i) to maintain the ongoing agreements or (ii) to terminate such agreements, within a limitation period of three months, as of the initiation of the insolvency procedure.

From this perspective, the right of the insolvency practitioner to unilaterally terminate the debtor's ongoing agreements within the insolvency procedure is an exception from the principle according to which the agreements are binding between its parties.

The insolvency practitioner cannot terminate agreements that have been entirely or substantially performed by the parties.

Therefore, if the insolvency practitioner determines that the maintaining in force of the construction agreement does not comply with the objective of maximizing the value of the debtor's property, the insolvency practitioner can terminate the agreement.

In this case, the real estate developer has the right to submit a claim for damages against the general contractor that will be considered an unsecured receivable.

3. POTENTIAL MEASURES TO LIMIT THE EFFECTS OF AN INSOLVENCY PROCEDURE INITIATED AGAINST THE GENERAL CONTRACTOR

In order to limit the unpleasant effects of an insolvency procedure against the general contractor, we recommend that real estate developers consider the following measures:

3. 1. Obtaining a bank guarantee letter

The obligation of the general contractor to provide the real estate developer a bank guarantee letter is an efficient mechanism to ensure the execution of the general contractor's obligations.

It is a good idea to include the draft of the bank guarantee letter that the general contractor must provide to the real estate developer as an annex to the construction agreement.

3. 2. Retention of amounts from the final invoice or regular retentions from due invoices

Another method to limit the risk caused by the general contractor's insolvency is for the real estate developer to retain a certain percentage from the amount of the regular invoices issued by the general contractor or from the final invoice, depending on the corresponding legal provisions.

3.3. Obtaining contractual guarantees from the parent company

If the general contractor is a member of a group of companies, the real estate developer can request and obtain a contractual guarantee from a different entity in the group for the performance of the subsidiary's obligations under the construction agreement.

However, such precautionary measures are not infallible, because in certain cases the subsidiary's financial problems may be a symptom of the general condition of the entire group.

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3.4. Direct payment of the subcontractors by the real estate developer

The construction works on the project can continue if the construction agreement contains provisions allowing the real estate developer to make direct payment towards the subcontractors if the general contractor cannot do so.

4. CONCLUSIONS

The diligence that the real estate developers demonstrate when choosing their contractual partners, negotiating and signing the construction agreements, and determining the mechanisms for ensuring the observance of the corresponding obligations by the general contractor is a decisive element which may determine the completion of the project and its success in the market.

An insolvency procedure initiated against the general contractor may justifiably lead to mistrust on the part of clients and/or potential clients and negative impacts on the reputation of the real estate developer, the real estate project and even future real estate projects.

Real estate developers may thus find themselves in the unpleasant situation of having to rethink their business strategy and to find remedies that are almost always costly.

Taking precautionary measures prior to signing a construction agreement could limit the negative impacts of a potential insolvency procedure against the general contractor of a real estate project.

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TAXATION

Taxation

FOREWORD

The business environment has always played a particular role in a state's fiscal policy, as this impacts decision-making on starting a business, growing operations or reducing / closing-down the activity.

Romania is an attractive country for investors, the main driving reasons being the low taxation and the high-quality workforce.

On the other hand, one of the problems with the Romanian tax environment remains the administrative command in charge of implementing, overseeing and enforcing the tax legislation.

As regards the construction sector in Romania, this is viewed as a priority sector, of national importance for the Romanian economy within the next 10 years, starting with 1 January 2019. The construction activity has been identified as crucial for the realization of public and private investment projects.

For this purpose, several tax exemptions and reductions have been implemented to ensure workforce in the construction field.

As for the overall picture of Romanian taxation, although the main tax rates did not change, the business environment still craves for a stable and predictable legislative framework, as it makes significant efforts in keeping track of all the legislative amendments adopted as urgency measures.

TAX PROCEDURE AND ADMINISTRATION

VAT refund

The VAT refund is made following the taxpayer's request via their VAT return. Depending on certain risk criteria, a tax audit might be conducted for the settlement of the VAT refund claim (for taxpayers regarded as having a high tax risk), which makes this process excessively a cumbersome.

Claims settlement

The Romanian tax authorities are required to answer to taxpayers' claims within 45 days. In certain cases, the term can be extended up to 6 months.

The legal deadline for issuing binding tax rulings is of 3 months, and of 12 to 18 months in the case of advance pricing agreements.

Statute of limitation

The statute of limitation for tax liabilities is of 5 years, starting with 1 July of the year following that to which the tax liability relates.

Interest and late payment penalties

Interest and penalties apply for each day of delay in settling outstanding tax liabilities (interest: 0.02%/day; late payment penalties 0.01%/day; non-compliance penalties: 0.08% per day).

1. INVESTING IN ROMANIA

1.1 Micro-company income tax

Tax regime applicable to newly established companies and companies not exceeding EUR 1 million in turnover during a fiscal year;

Tax rates: (i) 3% or (ii) 1% of the income if the company has at least one full-time employee (or more part-time employees whose working time fractions add up to a full-time employee);

Tax deduction of expenses is not permitted.

1.2. Profit tax

Tax regime applicable to companies (i) exceeding EUR 1 million in turnover during a fiscal year or (ii) opting to apply for said tax regime, provided they have a share capital of at least lei 45,000 and at least 2 full-time employees;

Tax rate: 16% of the taxable income;

Taxable profit: accounting profit minus non-taxable income and tax deductions plus non-deductible expenses.

1.3. Dividend payments

5% withholding tax;
or
0% withholding tax if the conditions set forth in the Council Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States apply;
or
the more favorable tax rate based on the double tax treaty.

1.4 Interest/royalty payments

16% withholding tax;
or

0% withholding tax, if the conditions set forth in the COUNCIL DIRECTIVE 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States apply;
or
the more favourable tax rate based on the double tax treaty.

1.5. Value added tax

VAT is applicable to supplies of goods and services if the turnover exceeds lei 300,000, or if the taxpayer opts for applying VAT before the turnover is exceeded.

1.6. Salary costs

Minimum gross wage per country: lei 2,080 per month [5].

Minimum gross wage per country for employees with a higher education: lei 2,350 per month [6]. Minimum gross wage per country for the construction sector: lei 3,000 per month[7]

1.7. Deduction of interest expenses

The excess borrowing costs represent the positive difference between interest expenses (and economically equivalent expenses) and interest income (and economically equivalent income) and are:

- Fully deductible up to EUR 1 million;
- Partially deductible up to 30% of EBITDA (reduced with non-taxable income) for amounts exceeding EUR 1 million;
- If the adjusted EBITDA is negative or nil, the excess borrowing costs over

TAX LIABILITIES	LIABILITY OF THE			
	EMPLOYER	EMPLOYEE	EMPLOYER IN CONSTRUCTION SECTOR [1]	EMPLOYEE IN CONSTRUCTION SECTOR [2]
SOCIAL SECURITY CONTRIBUTION	0%/4%/8% [3] OF THE GROSS WAGE	25% OF THE GROSS WAGE	0%	21.25% OF THE GROSS WAGE
HEALTH INSURANCE	0%	10% OF THE GROSS WAGE	0%	0%
WORK INSURANCE CONTRIBUTION	2.25% OF THE GROSS WAGE	0%	0.3375% OF THE GROSS WAGE [4]	0%
INCOME TAX	0%	10% OF THE TAXABLE INCOME	0%	0%

[1] Conditions for the application of tax relief: (i) employers performs activities in the construction field or related activities ac-cording to the NACE codes expressly mentioned in the law; (ii) turnover from construction activities is at least 80% of the total turnover, calculated from the previous month, including the month in which the tax incentives are applied; (iii) the salaries of the employees to whom the incentives apply - range from 3,000 lei to 30,000 lei; (iv) the provisions of the Common Order of the Ministry of Finance, Ministry of Work and Social Justice and Ministry of Health no 611/138/127/2019 for approving the instructions for filling in the 112 tax form are complied with

EUR 1 million are non-deductible and can be carried forward indefinitely.

2.DOING BUSINESS IN ROMANIA

2.1. Value added tax ("VAT") applicable to sale of real estate

Sale of real estate can be: (i) taxable via regular taxation, (ii) taxable via reverse charge or (iii) VAT exempt without credit, with an option to apply VAT.

2.1.1. Sale of real estate under the regular VAT regime.

The sale of new buildings (or part thereof) and building land performed by a taxable person is always subject to VAT. A new building is a building which is:

- Unfinished/under construction;
- Sold by 31 December of the year following the year when the building is first occupied;
- transformed, if the cost of the transformation is at least 50% of the value of the building after transformation.

APPLICABLE VAT RATE

Reduced 5% rate - applicable to the sale of real estate and the land on which it is built as part of the social policy (e.g. homes for the elderly, homes for orphans, recovery centers, properties having a maximum 120 square meters and a price of maximum lei 450,000 exclusive of VAT).

The reduced VAT rate is applicable under certain conditions.

Standard VAT rate - applicable to the sale of other taxable land and buildings.

2.1.2 Sales of real estate subject to reverse charge

If both the seller and the buyer are registered for VAT purposes, the latter will account for the VAT (the buyer will register both the output and the input VAT).

If the buyer has full deduction right, the reverse charge mechanism will not impact their cash resources.

2.1.3 Sale of real estate VAT exempt without credit, with an option to apply VAT

The sale of old buildings and non-building land is VAT exempt without credit, the seller being able to opt for applying VAT, in most cases, by submitting a notification to the tax authorities.

[2] Applicable starting with January 2019
[3] For special working conditions
[4] To be applied in accordance with the provisions in the state aid sector, after the approval of the aid scheme (at the date of publishing this report the aid scheme is not yet approved)
[5] Values applicable starting with 1 January 2019, according to Government Decision no 937/2018 for establishing the minimum gross wage per country guaranteed for payment
[6] Idem 5
[7] Idem 5

If the seller did not opt for taxation, it may incur costs with non-deductible VAT (from the retroactive adjustment of the input VAT credit claimed in relation to the construction/acquisition of said real estate).

Therefore, the option to apply VAT on the sale of real estate must be carefully considered.

2.1.4 Sale of multiple real estate assets (land + buildings)

The VAT treatment applicable to the item with the higher value will dictate the VAT treatment of the entire transaction.

If the values are equal, the transaction will be subject to VAT according to the rules applicable to the real estate asset with the largest surface.

If the land and the buildings are not a single real estate unit, each asset will be analyzed individually to determine the applicable VAT treatment.

2.2 Rental and leasing of real estate and similar services

The rental, leasing, concession, granting of rights over real estate is VAT exempted without credit.

The taxable person performing said services may choose to opt for applying VAT, by submitting a notification (similar to the case of the sale of real estate).
If no VAT is applied, in this case also, a cost with non-deductible VAT may be generated for the taxable person in question from the retroactive adjustment of the input VAT credit claimed in relation to the building/acquisition of said real estate.

2.3 Transfer pricing

Transactions between related parties must be performed at arm's length (e.g. sale of real estate, rental of spaces etc).

A company is considered related to another company if it holds, directly or indirectly, 25% of the share capital of the other company or if it holds control over said company. The concept of related parties also applies to individuals.

Lack of documentation to prove compliance with the arm's length principle (e.g. transfer pricing file, evaluation report for the sale of the real estate etc.) may result in negative tax consequences over the taxpayer concerned as the tax authorities can assess (i) the positive adjustment of the taxable base for profit tax or micro-company tax by increasing the income obtained from related parties and/or by reducing the expenses incurred from related parties, as the case may be; (ii) adjustment of the taxable base for VAT related to the real estate transaction; (iii) by applying fines for non-compliance with the transfer pricing obligations.

2.4 Property taxes

Persons who own a building/land located in Romania as at 31 December of the previous year are required to pay an annual tax for these.

Exception from the obligations to pay property tax:

- Buildings in industrial parks, science and technology parks, and those used by business incubators under certain conditions;
- Buildings used for providing social services by non-governmental organizations and social enterprises as providers of social services under certain conditions;
- Buildings used by non-profit organizations used exclusively for non-lucrative activities under certain conditions.

The tax on land is computed based on the surface of the land, the rank of the locality where the land is located, the area and purpose for which the land is used.

SITUATION	TAX RATE	COMMENTS
RESIDENTIAL BUILDING	0.08%-0.2% TO THE TAXABLE BASE [8]	THE TAXABLE BASE DIFFERS DEPENDING ON THE NATURE OF THE OWNER (INDIVIDUAL OR LEGAL ENTITY).
NON-RESIDENTIAL BUILD-ING	0.2-1.3% TO THE TAXABLE BASE [9]	BUILDINGS USED FOR AGRICULTURAL ACTIVITIES ARE TAXED AT A RATE OF 0.4%.
MIXED PURPOSED BUILD-ING	N/A	THE SUM OF TAX CALCULATED FOR THE AREA USED FOR RESIDENTIAL PURPOSES AND THE TAX COMPUTED FOR THE SURFACE USED FOR NON-RESIDENTIAL PURPOSES.

[8] If the owner is a legal entity and it has not updated the value of the building within the last 3 years prior to the reference year, the property tax rate will be of 5%.
[9] Idem 8

3 EXIT

Romanian taxation of income obtained by shareholders from Romanian entities

	SHAREHOLDERS - INDIVIDUALS		SHAREHOLDERS - LEGAL ENTITIES		
CAPITAL GAINS	ROMANIAN	FOREIGN	ROMANIAN		FOREIGN
			PROFIT TAX	MICRO-COMPANY TAX	
	10%	0% [10] 10%	0% [11] 16%	1% [12] 3%	0% [13] 16% [14]
LIQUIDATION PROCEEDS	10%	0% [15] 10%	0% [16] 16%	1% [17] 3%	0% [18] 16% [19]

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[10] Subject to the conditions of the applicable double tax treaty
[11] Subject to a minimum 10% holding of the share capital for an uninterrupted period of one year
[12] Subject to the condition regarding the minimum number of employees
[13] Subject to a minimum 10% holding of the share capital for an uninterrupted period of one year or subject to the conditions of the double tax treaty
[14] If conditions under point 13 are not fulfilled or no double tax treaty applies or the double tax treaty applicable grants the taxation right to Romania [i.e. if the value of the real estate of the Romanian company whose shares are sold is at least 50% of the value of the assets]
[15] Subject to the conditions of the applicable double tax treaty
[16] Subject to the conditions of a minimum 10% holding of the share capital for an uninterrupted period of one year
[17] Idem 12
[18] Subject to the conditions of the applicable double tax treaty
[19] If no double tax treaty applies or the double tax treaty applicable grants the taxation right to Romania

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