Deloitte study: inflation, workforce challenges, cyber risks and climate-related regulations will impact the most real estate companies' revenues this year

Revenues of commercial real estate companies (commercial spaces, business centers and offices, logistics premises) will be impacted this year mainly by persisting high inflation, workforce challenges, cyber risk, and climate-related regulations, according to the *Deloitte 2023 Commercial Real Estate Outlook* global study. However, despite some reservations regarding the short-term market developments, 66% of the participants expect improving or stable conditions on the real estate market fundamentals – leasing activity (78%), vacancy levels (71%), rental rates (70%), property prices (65%), transactions (63%), cost of capital (63%) and capital availability (60%).

Office spaces in city centers or suburban areas (36% and 35%, respectively), buildings associated with the digital economy (35%) and properties with logistics functions (34%) are currently considered the most attractive by owners and investors. However, preferences differ depending on the analyzed region: European respondents consider suburban offices to have the highest potential for growth (35% of participants), while Asian companies favor properties associated with the digital economy (43%), and North American players rely on spaces with logistics and storage functions (43%).

"The global real estate is directly connected to economic developments, thus the caution displayed by players on the market is justified given the current uncertain context. There is now a temporary disconnect between the expectations of investors and developers, but I think they will soon harmonize. Access to financing remains a key element in real estate, and we may see several partnerships and alternative sources of financing emerging, such as investment funds or even family offices. In Romania, the real estate market has evolved positively in 2022. According to data published by the National Bank of Romania, the volume of investments on the commercial market increased by 16% in the first nine months of 2022, compared to the same period of the previous year, but most of the transactions were related to properties in Bucharest (55%), with an increasing interest in office spaces. This year, we expect increases in the retail sector as well," said **Alexandra Smedoiu**, *Partner, Deloitte Romania, and Real Estate Industry Leader.*

ESG (environmental, social, governance) related actions are among real estate companies' priorities, but, according to the study, only 12% of them are ready to implement changes in order to align to regulations in force. Moreover, only 7% currently take into consideration ESG data and analytics while deciding on their investment strategy. Most of them plan to start using such data in their decision-making process over the next three years.

The study also shows that the companies' interest to invest in technology is decreasing on the short run, due to

economic uncertainty generated by inflation, labor expenses, and supply chains uncertainty. About 30% of the surveyed companies plan to reduce this type if investments, a percentage that has increased from just 7% last year.

The ***Deloitte 2023 Commercial Real Estate Outlook*** study was conducted among 450 commercial real estate companies with assets of over $100 million each, across three regions: North America, Europe and Asia-Pacific.