





HIGHLIGHTS

- Bucharest office take-up amounted to 111,000 sq m in H1 2012. There was a significant increase in pre-lease activity, which accounted for 45% of total take-up.
- Despite the uncertain economic outlook, major retailers continue to expand their
 operations in Romania, with demand focused on high quality shopping centers
 with good visitor traffic. Rents for prime retail space have remained stable, but the
 owners of secondary centers have needed to offer increased incentives in order to
 attract tenants.
- Leasing activity in the Bucharest industrial market was subdued in H1 2012, with take-up totalling 35,000 sq m. Vacancy rates in this sector increased slightly as a result of the weak demand.
- There was limited investment activity in H1 2012, with transaction volumes reaching approximately €150 million.

Contents

1.	Office Market	3
2.	Retail Market	6
3.	Industrial & Logistics Market	8
4.	Land Market	10
5.	Investment Market	12
6.	Residential Market	14
7.	Property Taxation	16
8.	Legal Issues	18









Supply

New office supply in Bucharest amounted to only 23,000 sq m in H1 2012, 70% less than in the same period of 2011, when 70,000 sq m of office space was delivered to the market. At the end of June, the total modern office stock in Bucharest was approximately 1.66 million sq m, with around 150,000 sq m of new space expected to be delivered during the next 12-18 months.

New deliveries

Only one class A office development was delivered to the market in H1: UniCredit Tiriac Bank's new headquarters on Expozitiei Boulevard, in the center north area of the city. With a leasable area of approximately 15,000 sq m, the new premises will allow the bank to consolidate several operations into one building. In addition to this, a smaller building was completed at the start of the year: Delea Veche 24, with a leasable area of 8,200 sq m.

Buildings under construction

There are a small number of large buildings currently under construction in Bucharest, which are scheduled for delivery either towards the end of the year or in early 2013.

AFI Business Park 1, the first phase of the five which will form AFI Business Park, is due to be delivered in September. The first building will bring approximately 14,000 sq m to the market, while the entire business park will have a total of 70,000 sq m of class A office space.

HI 2012 ROMANIA MARKET OVERVIEW

Review & outlook



Sky Tower, the tallest building in Bucharest, is under construction by Raiffeisen Property International and will be completed in Q1 2013, bringing over 40,000 sq m of office space to the center north area of the city.

In the north of Bucharest, the Belgian Atenor Group is currently developing the first phase (18,000 sq m GLA) of its business park, Hermes Business Campus on Dimitrie Pompeiu Boulevard, while in the west, a new phase of West Gate Park will provide 14,000 sq m of modern office space in 2013.

A few small-sized projects in the CBD such as Aviatorilor 47 OB, Monolit CDG and Averescu OB are currently under construction and due to be delivered in the autumn.

Following several companies' consolidation of their office accommodation, there are a number of high quality spaces currently available in landmark buildings, able to satisfy large requirements. As these buildings benefit from good locations and technical specifications, they will provide strong competition to the new buildings that will be delivered in the coming months.

New projects started this year

Portland Trust, the pioneer of modern office development in Bucharest, began the construction of Floreasca Park, a business park in the established business district of Calea Floreasca/Barbu Vacarescu. The first phase of the project will consist of two buildings with a total of 37,500 sq m GLA of class A office space. This project will be the first truly eco-friendly and energy efficient office park in Bucharest, and is planned to be delivered in Q3 2013.

Green Gate, a large scale office project which will consolidate the center west area's position as a new major business hub, is under development close to the Grand Hotel Marriott on Tudor Vladimirescu Street. This project will provide 30,000 sq m of modern office and retail space, and will be built according to the highest European construction standards. The construction of Green Gate is planned to be completed in Q1 2014.

Demand

As we previously forecasted, 2012 is proving to be a year of increased pre-lease activity and the commencement of new projects.

Despite the economic and political instability, a number of companies have made long term decisions and signed pre-leases for off-plan projects. Almost 45% of the total of 111,000 sq m leased in H1 2012 consisted of pre-leases, split between three buildings.

Floreasca Park was almost 70% pre-leased before construction works started, as Oracle signed a pre-lease for approximately 20,000 sq m, which will see it consolidate its operations in 2013. This was one of the largest transactions concluded by an agent in recent years. The first phase of AFI Business Park was 60% leased before its delivery, in September this year, to IT & communications companies such as Microchip and Endava. Another large pre-lease transaction, of over 20,000 sq m, was for Raiffeisen Bank's future relocation to Sky Tower.

Continuing the trend started two years ago, the most active players in the market remained the IT & communications and banking sectors, which took 35% and 24%, respectively, of the total take-up.

Compared with 2009 and 2010, when a high number of renegotiations were witnessed, the trend which started in 2011 and has continued into 2012 is for an increased number of companies to relocate to newer and better buildings instead of renegotiating terms in their existing locations.

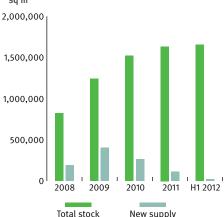
Approximately 73% of office take-up was taken by four business districts: Calea Floreasca/Barbu Vacarescu was the most active area with 43% of take-up, followed by Pipera/Dimitrie Pompeiu (12%), CBD (9%) and Center West (9%).

During 2013 and 2014, many lease contracts are due to expire. Given this, we expect to see an increase in tenants' activity, in terms of relocations as well as the signing of pre-leases.



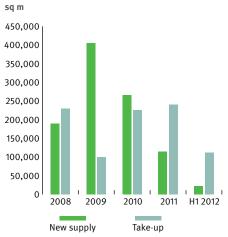


Figure 1 Bucharest office stock and new supply sa m



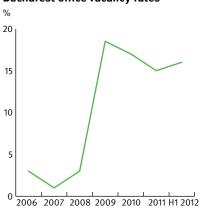
Source: The Advisers/Knight Frank

Figure 2 Bucharest take-up and new supply



Source: The Advisers/Knight Frank

Figure 3 **Bucharest office vacancy rates**



Source: The Advisers/Knight Frank

Rents & vacancy rates

The overall vacancy rate increased to 16% as a result of new deliveries and office space consolidations. The lowest vacancy rate remains in the Calea Floreasca/Barbu Vacarescu business district, while the highest vacancy rate by far is found in the Pipera/ Dimitrie Pompeiu area, at 45%.

Prime headline rents remained at between €16-18.50/sg m/month, while the incentive packages offered by landlords started to decrease.

Business district	Asking rent (€/sq m/month)
CBD	16-18.50
North	14-16
Dimitrie Pompeiu	12-14
Pipera	9-12
Center West	14-16
West	10

Forecast

Taking into account the projects which are currently under construction, approximately 150,000 sq m of office space is expected to be delivered in the next 12-18 months. As 35% of this is already pre-leased, we expect that by the time the new space is delivered, less than 30% of it will be still available.

As the commencement of new construction projects continues to depend upon preleases, it is expected that construction work on many of the schemes announced for 2014 and 2015 will be delayed as not all developers will be able to secure tenants. As a consequence, it remains uncertain how much new space will be delivered in 2014-15.

Demand will continue to be driven by large multinationals, especially IT & communications and banking occupiers, which will further consolidate their local operations.

The overall vacancy rate is likely to decrease, as take-up over the next 12 months is forecasted to be over 200,000 sq m.

In the medium term, rents are expected to remain stable in the CBD and semi-central areas, while the incentives offered by landlords will decrease, especially for buildings with good accessibility, new generation technical specifications and developers with proven track records.



HI 2012 ROMANIA MARKET OVERVIEW Review & outlook



2. RETAIL MARKET

Overview

Retailers such as Mega Image, Lidl and Profi have continued their expansion throughout the country. A new entrant into the Romanian market in H1 2012 was the Subway fast food chain, which opened restaurants in Bucharest, Iasi and Cluj Napoca.

The shoe retailer CCC, which opened its first store in Carrefour Feeria, was another new market entrant and is expected to consolidate its presence in Romania by opening in more locations. Additionally, fashion retailer Oggi signed for its first Romanian store in Palas lasi. Fashion retailers such as Inditex Group and H&M have continued the expansion strategies that they have pursued over the last 18 months by opening outlets in new locations: in June, H&M opened its fifteenth Romanian store in Suceava, while Inditex is set to reach approximately 90 stores in the country by the end of the year.

Supply

Three major retail projects are currently under construction in Bucharest and are scheduled to be delivered to the market by the end of 2012: Cora Alexandriei, Crangasi Shopping Center (Auchan) and InterCora Mihai Bravu. A fourth project, Promenada Mall, is due to be delivered in 2013. There

were no new deliveries in the Bucharest retail market during H1 2012, but the Palas Mall was completed in Iasi, in north-eastern Romania, with 47,500 sq m GLA. Also outside of Bucharest, two further retail schemes, Cora Bacau and Ploiesti Shopping City, are scheduled to open in 2012. However, Armonia Arad shopping center will be converted into a logistics scheme.

Demand

Retail market demand has been driven by the food sector and large fashion retailers looking to expand. Due to the unstable economic and political climate, retailers have become more cautious in following expansion plans throughout the country. As in previous years, hypermarkets and supermarkets have continued to focus demand on the most profitable locations in all Romanian cities.





Rents

Rents have remained stable only for shopping centers that have maintained strong visitor traffic, and landlords have had to become more flexible over tenant incentives in centers with poorer tenant mixes or weaker marketing strategies.

Table 2 Average shopping center rents		
City	Rent (€/sq m/month)	
Bucharest	17-24	
Cities with over 200,000 inhabitants	14-18	
Cities between 150,000 – 200,000 inhabitants Source: The Advisers/Knig	10-14 ght Frank	

Forecast

Most of the retail schemes currently under development are hypermarket-anchored centers. With financing remaining very difficult to obtain, no new shopping malls are planned to be announced in the near future, but big box projects requiring lower investment costs may be announced.

Table 3 Retail projects under construction		
Project	City	
Cora – Soseaua Alexandriei	Bucharest	
Cora	Bacau	
Intercora Mihai Bravu	Bucharest	
Corall	Constanta	
Ploiesti Shopping City	Ploiesti	
AFI Palace Ploiesti	Ploiesti	
Auchan City	Bucharest	
Promenada	Bucharest	
Source: The Advisers/Knight Frank		

High street retail

Food operators were the main driver of demand in H1 2012. Supermarkets have continued to expand aggressively, with Mega Image being most active in terms of both the number of new openings and speed of expansion. As in recent years, banks have also been actively relocating and renegotiating leases.

The openings of Victoria 46 and Madison Perfumery have shown that demand for retail space on Calea Dorobantilor has improved, after a long period of high vacancy rates. It is expected that interest in this area will improve further in the near term.

The retail gallery of the JW Marriott Hotel has continued to attract luxury retailers such as Escada, which has reopened its former store in this location, next to other important brands.

The Old City Center has continued to be the area of Bucharest where demand is strongest. In spite of the high interest, no major fashion anchor has opened any store in this location until now. As in the past, the most significant demand in this area has come from food operators and clubs, making it the most important leisure destination in Bucharest.

Vacancy rates have increased on Calea Victoriei, which has lost some of its most

Retail completions in Romania sq m

300,000
250,000
150,000
100,000
50,000

Source: The Advisers/Knight Frank

important retailers including Victoria 46 and Belstaff. Victoria 46 relocated to a larger store on Calea Dorobantilor, while Belstaff closed because of poor sales.

Similar trends have been observed on Magheru and Balcescu Boulevards, where high vacancy rates are recorded. Retailers have focused demand on other areas of the city with high traffic, easy access and more affordable rents. As a result, rents have decreased in the central areas of Bucharest as retailers' interest in these expensive locations has dropped significantly.



HI 2012 ROMANIA MARKET OVERVIEW

Review & outlook





Supply

The stock of class A warehouses in Bucharest remained unchanged at approximately 950,000 sq m in H1 2012. As a result of developers viewing the market with increased caution, together with a lack of available finance, speculative development projects have disappeared from the market.

There were no new developments completed in H1 2012 and a built-to-suit project of 20,000 sq m is the only new scheme expected to be delivered in Bucharest by the end of the year.

The total class A stock outside Bucharest is around 550-650,000 sq m. Only one speculative project of 10,200 sq m was delivered in the first half of 2012, at VGP Park Timisoara.

Demand

Take-up in the Bucharest market in H1 2012 was 43% lower than in the same period of 2011. Total leasing activity came to about 35,000 sq m, of which 20,000 sq m was a pre-lease contract to the global transport company DSV at Bucharest West Park.

The decrease in take-up was a consequence of both economic and political factors. As a result of weak demand, the vacancy rate edged up to around 14.4%, slightly higher than it was at the end of last year.

Overall, demand for industrial space in Bucharest has come from a variety of sectors, most notably logistics, healthcare, retail and FMCG, while outside of the capital the most active sector was the automotive industry.

Rents

Rents and service charge levels have remained unchanged since the end of 2011.

Leasing conditions are still in favor of tenants, with developers continuing to offer generous incentive packages, especially for long term contracts.





Forecast

We expect to see continuing demand for high quality medium-sized and big-box space outside Bucharest, with the focus remaining on Timisoara, Cluj, Brasov and Ploiesti.

The vacancy rate in Bucharest is anticipated to edge downwards as a number of transactions are expected to be completed by the end of the year. However, as occupiers continue to optimize their leases and reduce their occupied space, rents will remain under downward pressure throughout Romania for the foreseeable future.

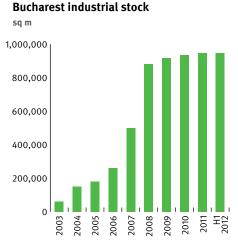
Outside the center and west of the country, demand is expected to move to the Moldova region in cities such as lasi and Bacau.

TAKE-UP IN THE 35,000 SQ M NHI 2012, 43% DOWN ON THE SAME PERIOD OF 2011.

Prime rents and service charge ranges				
Size (sq m)	Rent (€/sq m/month)	Service charge (€/sq m/month)		
<3k sq m	4.00-4.30	0.70 - 0.95		
3k-10k sq m	3.70-4.00	0.70 - 0.95		
>10k sq m	3.40-3.70	0.70 - 0.95		

Figure 6

Bucharest industrial vacancy rates



Source: The Advisers/Knight Frank

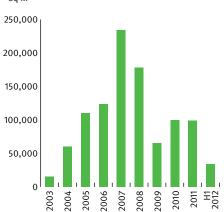
Bucharest industrial take-up

Figure 5

Figure 7

16 12 10 2007 2008 2009 2010 2011 H1 2012 Source: The Advisers/Knight Frank

Figure 8 160,000 140,000 120,000



Source: The Advisers/Knight Frank

Bucharest industrial availability 100,000 80,000 60,000 40,000 20,000

Source: The Advisers/Knight Frank

HI 2012 ROMANIA MARKET OVERVIEW Review & outlook



The Romanian land market was characterized by similar demand drivers in the first half of the year as in 2011; only a limited number of transactions were completed, with deals being deferred as a consequence of economic, political or project development prerequisite factors.

Demand

Retailers were the most active buyers in H1, while demand also came from office developers, residential joint ventures on small central land plots and companies from the healthcare sector.

There has been reduced demand from speculative investors, which suggests that the market is maturing.

Outside of Bucharest, retailers generated slightly increased demand for land in towns where they are not currently trading. Demand was mainly for land plots with good access to main roads. Requirements started at 5,000 sq m and increased up to 40,000 sq m. The most sought-after cities were Galati, Timisoara, Cluj, Constanta, Ploiesti and Iasi.

In the DIY sector, Dedeman remains by far the largest and most active retailer, and with 29 stores has developed a strong presence in Romania.

One of the most important transactions in Bucharest during the first six months of the year was the sale of the 7.7 ha Vulcan factory to Benevo Capital, for an estimated price of €23 million.

Another transaction in 2012 was the acquisition of the 124 ha Tractorul factory site in Brasov by Auchan, through their real estate division Immochan, with a transaction value around €25-30 million.

Demand was also directed towards smaller sites benefitting from great locations.

Therefore sites with areas of 500-600 sq m situated in exceptional areas of Bucharest caught the attention of buyers and were sold in the first half of 2012. These land plots had approved building permits and the sales prices were approximately €1,500-2,000/sq m.

Major infrastructure projects such as the construction of bridges or the enlargement of the subway network can drive developers'









interest in new areas of a city, whether they wish to build office, retail or industrial projects.

The shift of interest from the west of Bucharest to the Barbu Vacarescu/Calea Floreasca area has continued, principally as a result of the completion of new infrastructure projects over the last two years. Office development in this area was pioneered by developers such as Portland Trust and Raiffeisen Evolution, with the construction of buildings including Floreasca 169A and Oracle Tower. As these developments attracted a number of major tenants, interest has grown and the area has evolved to become an important office hub.

However, one area where an infrastructure development has not boosted demand is the south of Bucharest. Despite the Mihai Bravu bridge project being announced and due for completion in 12 months, demand for land plots in this area remains extremely low and potential buyers are deterred by high land prices.

Supply

Although over the past year the majority of landlords were willing to wait before making a favorable exit, nowadays landlords are more prepared to consider several other options as follows:

- Leasing their land plots for a period of 10-15 years (with demand coming from gas stations and big box developers);
- Showing more flexibility over the sale of land plots by being open to the part-sale of plots and taking care of the necessary approvals for construction on behalf of the buyer;
- Forming joint ventures with buyers in order to off-set the initial cost of the land and ultimately make a profit.

Prices

With price levels remaining at approximately the same levels as seen in 2011, the main factor limiting transactional activity was not pricing but the caution of potential buyers.

A number of transactions were postponed in light of buyers' concerns over the political and economic instability, the weakness of the Romanian leu against the euro and PUZ limitations.

A common requirement, which can threaten the completion of deals if not in place, is the existence of the relevant building permits/approved PUZ, as many companies buying land plots expect to start construction immediately, rather than acquiring land plots and waiting for the market to improve.

Forecast

The well-established areas of Bucharest that have seen the development of office, retail and residential schemes are not all that the city's market has to offer. Other locations with potential to develop as important real estate markets include Bucurestii Noi, to which investors are likely to be attracted due to:

- Opportunities to develop office/retail/ residential projects due to the lack of existing schemes in the area;
- Low average prices, at around €400-500 per sq m;
- Good transport links including a new metro station in the area;
- A low density neighborhood;
- · Several parks and green areas;
- Easy access to the DN1 and the airport.

Nevertheless, central land plots will continue to be the most attractive locations.

Retailers are likely to remain active in the rest of the country away from Bucharest, with a strong possibility that a number of deals that have been under negotiation since late 2011 or early 2012 will be completed.

Prices are expected to remain stable over the remainder of 2012, with supply and demand levels also unchanged. The only exceptions are expected to be land plots (both in Bucharest and elsewhere) in poor locations with under-developed infrastructure. Such locations are expected to see decreases in prices and demand over the rest of the year.

Table 5 Average land prices by location (€ per sq m)					
	Progresului	Timpuri Noi	Barbu Vacarescu/ Calea Floreasca	Lujerului	Bucurestii Noi
2010-2012	500-600	450-500	900-1,100	400-450	400-500
Source: The Advisers/Knight Frank					

H1 2012 ROMANIA MARKET OVERVIEW Review & outlook





The Romanian real estate investment market continued to perform below expectations in H1 2012, with activity remaining weaker than in other countries in the CEE region such as Poland and the Czech Republic.

Investors adopted a very cautious approach to Romanian real estate during the first six months of 2012 due to the lack of available finance and political uncertainties. As a result, investor demand was concentrated on prime buildings in all property sectors. Prices stabilized and are expected to remain constant in the coming months.

Demand

While no new major international investors entered the Romanian market during H1 2012, the small number of buyers to have remained active continued seek well-performing prime assets. However, even these investors are very cautious in the current market, taking longer to make investment decisions and conclude negotiations. The Romanian market





is being monitored by new investors from as far afield as the Middle East, Asia and Russia. The market still offers investment opportunities through the availability of prime modern product in very good locations, often let to strong covenants on long leases. Additionally, higher returns are available compared with some other countries in the CEE region and the solid performance of occupier markets is attractive to investors, with, for example, very good office take-up.

Domestic investors continue to be active, however with a large degree of caution taken by all investors, overall investment volumes amounted to less €150 million in H1 2012. Two investors continued their acquisition sprees: NEPI acquired City Business Center in Timisoara from Ovidiu Sandor while a joint venture between investors Ioannis Papalekas and Dragos Bilteanu concluded the purchase of Tower Center International in Bucharest. Another notable transaction was the sale of Litexco Stirbey Center, also in Bucharest, by a Spanish company to a Cyprus-based investor.

Supply

Properties targeted by investors need to offer strong covenants on long leases, which are usually found in prime office buildings located in central or semi-central areas of Bucharest and other major Romanian cities, as well as big box units.

Yields

In H1 2012, yields remained at similar levels to those recorded in 2011. Ongoing negotiations for office properties indicate that prime net initial yields are currently between 8.00-8.50%.

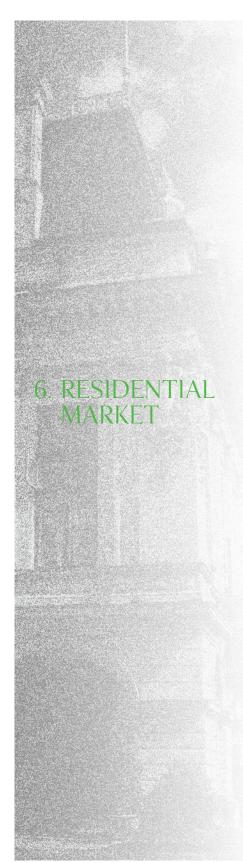
Table 6 Prime yields (%)			
Offices	Retail	Industrial	
8.00-8.50	9.00-9.50	9.50-10.50	
Source: The Advisers/Knight Frank			

Forecast

Several negotiations are currently underway and overall annual investment volumes for 2012 are expected to be similar to 2011's total of €250 million.



H1 2012 ROMANIA MARKET OVERVIEW



The number of new apartment deliveries in Bucharest was similar to the level of take-up in the first half of 2012, and activity was mostly focused on the outskirts.

25% of the existing stock is available for sale immediately and sales per month have started to pick up, especially for projects with prices suitable for government programs. This chapter considers only new developments with more than 100 announced units, located within the capital's city limits or in landmark projects in satellite locations.

Supply

Bucharest's residential market began to diversify in 2005, when the first new largescale residential schemes were announced. Before this, supply was composed of old communist-style apartment blocks and a limited number of small-scale new residential blocks in the most exclusive locations in the city. The residential market grew rapidly as the economy boomed, with more than 100 projects announced in the following three years. However, the financial crisis impacted on the construction of these schemes, with only 70 projects started or delivered to date. The stock in these new residential developments is 24,250 units, with deliveries in H1 2012 being just 850 units in seven projects. Most of the delivered units were in phases of existing compounds, such as Cosmopolis, FeliCity, Militari Residence and NewTown Residence.

Despite four years passing since the financial crisis began to impact on Romanian real estate, the residential market continues to struggle and 25% of the existing supply remains unsold, if we refer to only apartments sold directly by developers. Nevertheless, when estimating the total number of apartments available for sale, one should also consider the second-hand market and units in smaller-scale projects. Consequently, the total supply available for sale in the market is estimated at approximately 8,000-10,000 new apartments.

As a result of the large number of apartments available for sale, developers have started to adopt more creative marketing strategies, introducing different options for purchasers, such as rent-to-buy schemes or move now and

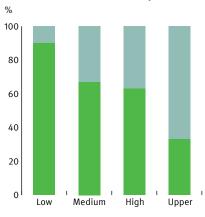
pay in one year programs.

In terms of location, the market is differentiated between central, semi-central and peripheral positioning. The dispersion of projects throughout the urban area, as well as their differing concepts, has led to projects being categorized in the following four groups: low end, medium, high and upper standard.

Almost 70% of the existing supply is located in peripheral areas, in standard schemes. The highest absorption figures are also registered in standard schemes, as the purchasing power of most Romanians remains limited and buyers have become more cost-conscious in recent years. New supply is mainly in peripheral locations, particularly in projects suitable for government programs. Nevertheless, the number of schemes to be delivered is much lower than the levels announced in 2007 and 2008. Some developers who bought sites during the boom period for residential development have tried to sell them for different uses, particularly "big box" developments.

A trend that has been witnessed in the market is for developers to lease apartments, in

Figure 9 **Bucharest residential absorption**



Available apartments

Market absorption to date

Source: The Advisers/Knight Frank





addition to trying to sell them. This option has been pursued by a growing number of developers, as they realize the advantage of generating some income instead of holding on to unoccupied apartments. Furthermore, some projects have been transformed into apart-hotels (e.g. Phoenicia Apartments Splai, Orhideea Health and Spa).

To date, 13 residential projects have been declared insolvent, including four in H1 2012 (Alia Apartments, Brancusi Residence, Ibiza Sol, and Citadela Titan). Of these 13, My Dream Residence was purchased at auction, while another three were declared bankrupt and are expecting buyers. The other nine projects are struggling to find a reorganization solution.

Demand

Demand for new residential property in Bucharest remains fundamentally strong, given the preference of Romanians for property ownership, rather than renting. However, demand has been negatively affected in recent years by decreases in average earnings and the limited availability of financing. On a more positive note, however, demand has been aided by the introduction of two government schemes: Prima Casa ("First Home") and the 5% VAT program.

Prima Casa is a social program first introduced in 2009 encouraging first home mortgage

Figure 10 **Bucharest price evolution**

price growth, EUR

Source: The Advisers/Knight Frank

price growth, RON

acquisition by offering a state guaranteed mortgage, a reduction in down payments to 5% and a very good loan interest rate for new dwellings up to EUR 70,000.

In Romania, old dwellings are VAT exempt, whereas VAT is applicable for newly erected units. The 5% VAT government incentive for new homes was introduced in 2009, granting by law a VAT reduction for properties with a value up to 380,000 RON. Due to exchange rate movements however (RON depreciated by roughly 20% against EUR during the last four years), the established threshold has effectively fallen in EUR terms ever since its endorsement.

Total absorption in the first six months of 2012 was estimated at around 1,000 units. The average number of apartments sold per month is of 2-5 units, varying by the type of project and location. Standard, peripheral projects sold consistently each month, whereas more expensive central schemes witnessed some months without any sales. The behavior of buyers has changed, and the market faces choosier, more sophisticated purchasers. Buyers expect to receive very good value for money as they have plenty of options from which to choose. Clients are more cost-driven than ever, and the monthly costs associated with apartment purchases are also at the forefront of buying decisions.

In 2009, it was widely assumed that the offplan market was dead. After a series of projects went bankrupt and were not continued, causing clients to lose their down payments, few people believed that Romanians would be prepared to purchase apartments off-plan again. However, times have changed and there are now projects on the periphery of Bucharest which are sold off-plan. Nonetheless, these off-plan purchases happen only in very large schemes, with existing phases in place.

Investors are not currently an important driver of demand, largely as a result of lack of financing. However, opportunities may yet emerge that would encourage investors to become more active in the local market.

Prices

In the short history of the Romanian residential market, apartment prices have evolved with

great volatility. Over the last 6-7 years, there have been some years when the market saw annual price increases of 15-20%, as well as other years when prices fell by up to 25%. Average prices are now below the levels recorded in 2005, at the birth of the large-scale residential market in Bucharest. This is a result of both the crisis and the oversupply of apartment units.

The weighted average price of apartments in the subject projects currently stands at €1,000/built sq m. This is the lowest figure registered to date in the Bucharest market, but it might not be the lowest level that prices reach, depending on how the economic situation develops.

Forecast

In the short-to-medium term, the evolution of the residential market is dependent on both developments in the wider economy and the availability of financing. It is expected that moderate falls in prices may be seen as the market is oversupplied. Price corrections are likely to be greatest in central and semi-central areas, particularly for apartments where the 24% VAT rate is applicable.

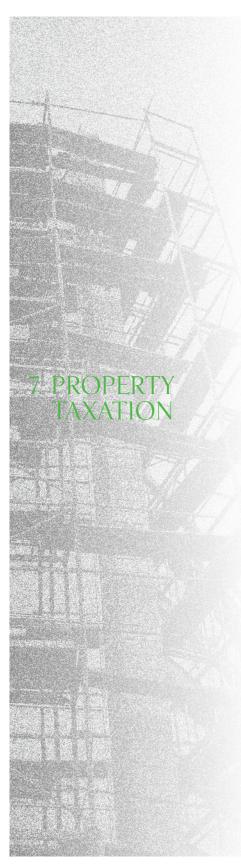
New supply is expected to come mainly in the outskirts of Bucharest, where demand has started to pick up. Most of the announced schemes are suited for 5% VAT and Prima Casa. Developers should however take into account the risk that these government programs may change or disappear, and the implicit negative impact on real demand levels.

Furthermore, developers should try to address local requirements and build projects that are fundamentally correct as the time gap between the planning and completion of a project might bring them in a completely new selling market than the current situation.

Table 7 Asking price by project type				
Project type	% of total stock	Asking price range (€/built sq m)		
Low	47%	700-900		
Medium	23%	900-1,100		
High	27%	1,000-1,400		
Upper	3%	1,500-2,000		
Source: The Advisers/Knight Frank				

HI 2012 ROMANIA MARKET OVERVIEW







By Theodor Artenie, Tax Manager, Peter de Ruiter, Partner and Daniel Anghel, Partner PwC.

Have you ever demolished a building and paid VAT for it?

If you are a property developer who had projects in Romania during the "real estate rush" then the answer is probably yes and the chances are that you will find this article of interest.

Being a real estate developer in Romania nowadays is more complicated and costly than many imagined back in 2007/08 when the Romania was viewed as the "El Dorado" of the real estate business. Not only do developers have to deal with the intricacies of the bureaucratic jungle when seeking approvals and permits for their projects, but they also have to deal with a significant tax burden. This is caused by the misapplication of EU law and by the inefficiency of an outdated and obsolete tax administration system (e.g. a lengthy VAT refund process for the VAT amounts incurred during the investment phase causing high financing costs, tough tax audits aimed at reducing the VAT refundable amount as much as possible and a lengthy and inefficient tax challenge system).

But every once in a while the proverbial "diamond" starts to glimmer in the dust and new opportunities arise for those able to seize them. Ultimately, fortune does favor the bold.

This is the case of unjustified VAT paid to the Romanian budget for buildings acquired and subsequently demolished.

It has been a long standing practice of developers in Romania to acquire plots of land throughout the country with derelict buildings on them in order to develop new residential, office or retail projects. It goes without saying that in order to make room for the new the old had to be disposed of, and

more often than not this meant that the old structures had to be demolished entirely.

The Romanian legislation in force at that time (and now for that matter) required developers who demolished buildings to repay to the Romanian state budget the input VAT incurred on the acquisition of those buildings on grounds that since the assets in question ceased to exist they would no longer be used for VAT taxable activities and as a result the input VAT deduction right for the related input VAT was forfeit.

Depending on the purchase price of the building(s), developers computed the value of the non-deductible input VAT and repaid it to the state budget thus adding to their project cost base and reducing (in some cases considerably) their profitability.

For obvious reasons this practice was also encouraged by the Romanian tax authorities (RTA) who issued all sorts of points of view to support it.

What everyone seemed to ignore was that this legal requirement was (and still is) against the provisions of the EU VAT Directive which by all accounts should override national legislation. The Directive is quite clear in stating that no VAT adjustment needs to be made for the destruction of assets which is duly proved and confirmed.

Having looked at the EU practice in the matter, we found that Romania's case was not







unique and that the Bulgarian tax authorities had a similar approach. Not only that, but it appears that they also have a case pending with the ECJ for which the opinion of the Advocate General was issued recently - case C-234/11 TETS Haskovo AD.

This opinion, as you will see below, confirms the fact that no VAT should be paid by companies who demolish buildings to make room for new real estate projects.

TETS Haskovo AD, a company incorporated under Bulgarian law increased its capital in the form of a non-cash contribution. That contribution included three buildings for energy production, namely a cooling tower, a chimney and another building, which were further demolished. The demolition was part of a plan to reconstruct and modernize a thermal power station on the respective plot of land.

As you might expect, the Bulgarian tax authorities considered that the deduction of the initial VAT related to the acquisition of the buildings must be partially adjusted due to the fact that they were demolished.

After undergoing due process, the national court referred several questions to the ECJ for a preliminary ruling. One of these questions was intended to clarify how the

expression "destruction of property" should be interpreted in accordance with the EU VAT Directive and whether the reasons for destruction are or not important for the purpose of the VAT adjustment

According to the opinion of Advocate General in the above mentioned case, the VAT Directive must be interpreted as meaning that the destruction of capital goods with the aim of creating new, more modern goods with the same purpose, does not lead to adjustment of the deduction of input tax where destruction constitutes use for the purposes of taxed transactions.

In addition, the Advocate General stated that a national provision which provides for the adjustment of deductions in the case of the destruction of capital goods, irrespective of whether it is made for the purposes of taxed transactions, is incompatible with the provisions of the VAT Directive.

At this stage, based on the signals we have received from the EU Commission, it seems that the final judgment of the court in this case will be in line with the opinion of the Advocate General.

Of course you will ask how this ruling will impact Romanian developers who, at some

point in time, found themselves in a similar situation (i.e. they had to pay VAT as a result of demolishing buildings). The answer is simple: A favorable ruling from the ECJ will create a precedent which will need to be considered in all similar situations and by all Member States.

As it turns out, Romania does find itself in a similar situation because at this moment, we also have a pending case with the ECJ (C-257/11 Gran Via Moinesti v ANAF) which we hope will clarify once and for all that in the light of the EU VAT Directive, the demolition of buildings which were purchased together with a plot of land, with a view to developing a new real-estate project, does not trigger the need to repay any VAT to the Romanian state budget.

A favorable ruling in either case will create a new and quite significant opportunity for all Romanian real estate developers who at some point in time were required to repay to the Romanian state budget the input VAT deducted for the acquisition of buildings which were subsequently demolished to give room to new real estate projects.

It will then be possible for Romanian property developers to go back as far back as five years to reclaim from the Romanian state budget any VAT which was repaid in breach of EU VAT provisions. To be well prepared, developers should contact their tax advisors, assess their own position vis-a-vis a favorable ruling in the above cases and start preparing for a potential claim to recover overpaid VAT.

Having said this, we all need to be on the lookout for the decisions of the ECJ in these cases and seize the opportunity they may create for us.



BIRIŞ-GORAN

By Victor Constantinescu, Head of Real Estate Department, Biriş Goran SCPA

Waiting for Godot:

Some Legal Strategies for Commercial Real Estate Owners in Romania to Prepare for a Market Comeback

Owners of commercial real estate in Romania can be forgiven for thinking that they are taking part in Samuel Beckett's classic play, Waiting for Godot: owners are like the play's protagonists, Vladimir and Estragon, as they wait in vain for the almost mythical Godot (in our case, the return of the market) to arrive. They talk, eat and even ponder suicide in an effort to keep "the terrible silence at bay."

In Romania, however, most commentators point out that, unlike Godot, the market comeback will show up. And in our experience, an owner can take concrete steps to prepare for, and even encourage, its arrival.

Specifically, there are a number of actions from a legal perspective that can greatly improve an owner's ability to sell a property quickly and at a good price when the market returns — or even in this market. The purpose of this article is to share some of our experiences in representing institutional fund and high-net-worth owners of commercial real estate in Romania. Being proactive and taking these steps may require some extra costs, but they pale in comparison to what discounts a potential buyer will ask for because these issues have not been remedied.

1. Revisit Due Diligence Issues

Now is as good a time as any to blow the dust off of your due diligence reports. More often than not, when properties were acquired in the heyday of Romanian real estate, only deal-breaking issues were considered. Other legal admonitions that certain documents in the title chain were missing or other issues required further investigation were dismissed as simply not worth either the fees incurred exploring the issue or angering the seller.

Purchasers nowadays are far more rigorous in their acquisitions, and they will use any gap in due diligence to negotiate a price down or walk away.

Revisit the reports and see what can be done about addressing any issues. This may take the form of simple steps: asking your lawyer or notary to consider obtaining missing documents from archives or notaries. Or it could involve obtaining proper clarifications from authorities, or ordering a new cadastral survey. Having a complete and up-to-date file can only expedite matters when a purchaser appears.

2. Consider Obtaining Title Insurance

This is related to the point about revisiting due diligence. Title insurance is an often overlooked tool that can greatly enhance a property's attractiveness to either a lender or purchaser. And the costs are not what they





once were. A title insurer will also review the property's title, and if it grants insurance, this will go a long way to reassuring a potential purchaser that everything is in order.

3. Consider Restructuring Alternatives

If this is a possibility, now is a good time to have a discussion with your internal team, valuation and tax advisors about what can be done to extract as much accounting value as possible out of your assets. For retail parks, for instance, it is possible that a valuer will assign greater values to property if they are stand-alone from a cadastral and technical perspective, e.g., the portion of a mall having an anchor tenant separated from the remainder of a mall. Dividing properties between performing and non-performing assets may give grounds for a valuer to assign greater value to individual pieces, rather than considering the entire property as a whole.

Another example is companies holding multiple real estate assets under a single company. Conducting a spin-off of the assets and placing them into separate companies can make more sense for a possible sale.

These operations could take several months to perform, so the sooner you consider the matter, the better.

4. Monitor Your Tenants and Pursue Vigorously Your Enforcement Rights

The economic crisis is not going away anytime soon, and thus property owners need to be vigilant (particularly owners in the retail sector with dozens of tenants). Conduct regular searches on the Romanian court database to see if a company is embroiled in litigation or has filed for insolvency. Look out for warning signs, such as consistently falling behind on payments, etc. And most importantly, make sure that bank letters of guarantee have not expired.

If this happens, pursue your enforcement rights promptly. Send required notices right away asking a client to remedy a situation. Enforce bank letters of guarantee. If there is an insolvency proceeding, take steps immediately by speaking to your lawyer and the trustee in bankruptcy to have the contract cancelled and the lease space evacuated immediately.

Indeed, it is a careful balancing act: preserving client rapport and goodwill versus protecting your legal position. But you will be surprised to see how many times a landlord has not considered the legal ramifications by not acting in time, and finds itself instead

with expired bank letters, or worse yet, in a tenant insolvency where the space continues to be blocked for months.

5. Revisit Your Contracts: Consider Impact of New Civil Code and Revisit Dispute Resolution Clauses

The landlord-friendly "take-it-or-leave-it" standard contracts are a thing of the past, and the crisis has spawned a tenant's market with far more flexible provisions. A potential purchaser of the property is aware of this, but there are steps that a landlord can take to improve its contracts.

The first is to ensure compliance with the New Romanian Civil Code that entered into force in October 2011. A discussion of the new Code's impact on real estate transactions could fill the pages of this entire report, but it suffices to say that there are important changes: unilateral termination rights require specific language, the concept of hardship has been introduced, etc. Important entire new sections have appeared, such as managing the goods of others (of importance to facility managers, etc.) and fiducia (a kind of trust). These should not be overlooked — a potential purchaser will pounce on non-enforceable clauses.

The second is to consider your enforcement mechanisms carefully. Ensure that cure and notice periods make sense in today's market. Also consider having Romanian courts as your standard forum for disputes — allowing you to take quick action for debt collection — rather than arbitration.

All in all, a number of clients have considered it time to create a new standard template for their future needs. We think this is a good idea.

The above are just some tips to consider. It may sound self-serving, but having a discussion with your lawyer and other advisors may be worthwhile. The costs involved may pale in comparison to the savings or additional price achieved with a potential purchaser – thus ensuring that the wait for Godot was worthwhile.





Americas

USA Canada Caribbean

Australasia

Australia New Zealand

Europe

UK
Austria
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco

Poland Portugal Romania

Russia Spain Switzerland The Netherlands

Ukraine

Africa

Botswana Kenya Malawi Nigeria South Africa Tanzania Uganda Zambia Zimbabwe

Asia

Cambodia China Hong Kong India Indonesia Macau Malaysia Singapore South Korea Thailand

The Gulf

Bahrain UAE Romania

Horatiu Florescu President & CEO

+40 21 380 85 85 – General +40 21 380 85 35 – Fax horatiu.florescu@theadvisers.ro

The Advisers, in association with Knight Frank, provides high standard consultancy and representation services to developers, investors, owners and tenants, within the entire array of real estate projects, in all market sectors, at both strategic and commercial levels.

Sharing resources within the Knight Frank network, our team offers to its clients international knowledge and expertise, tailored to the specific local needs.

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank Reports are also available at www.knightfrank.com

© Knight Frank LLP 2012

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank LLP for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.

Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.