THE ADVISERS
Prime Property

in association with Knight Frank

H1 2013 ROMANIA MARKET OVERVIEW

Review & outlook

HIGHLIGHTS

- The first half of 2013 brought a 12% increase in office leasing activity in Bucharest, compared with the same period of the previous year. New occupation deals (including relocations and new entries to the market) amounted to 55% of the total demand.
- As in the previous four years, demand for retail property has remained primarily driven by food operators and international fashion anchors.
- In H1 2013, land plots for office development continued to be the most sought-after, followed closely by land plots for retail schemes.
- Investors are progressively increasing their activity, encouraged by favorable economic policies, recent market developments and Bucharest prime yields compared to other CEE capitals.

Contents

"Romania has successfully stabilized its economy after being hard hit by the crisis. [...] In the space of three years, Romania reduced its fiscal deficit by more than 6 percent of GDP, and has exited the EU's Excessive Deficit Procedure this year."

Christine Lagarde
Managing Director of the International Monetary Fund (IMF)
July, 2013

1. ROMANIAN ECONOMIC OVERVIEW

Romania is geographically situated in South Eastern Europe. It is the second largest country in Central and Eastern Europe (CEE) and the ninth largest in the European Union (EU) by area, covering 238,391 sq km.

In terms of population, it is the second largest country in the CEE area and the seventh largest in the European Union with approximately 20.1 million inhabitants. Bucharest is the political capital and most populous city (approximately 1.9 million inhabitants) in Romania, as well as the country's principal economic and financial center.

After overcoming the political turmoil of 2012, Romania has concentrated in recent times on attracting investors to products offering better risk/return profiles than neighboring countries in the CEE region.

Although Romania is placed one level below investment grade by rating agencies, its economy has made significant recent improvements, with positive GDP growth, a decreasing debt level and a record low budget deficit. In contrast, economic indicators such as consumption levels and GDP per capita still need to be improved in order to achieve investment grade status.

Romania is expected to record GDP growth of 2% in 2013, according to IMF forecasts, a significant increase compared with the 0.9% annual growth in 2012. The half year GDP growth was reported at 1.8%, driven mainly by agriculture, industrial production and exports.

However, there has been limited growth in domestic consumption, as a result of income levels remaining relatively low. Bucharest's average net salary is slightly below €500/month per employee, while national (individual consumption is 48% of the EU27 average.

Romania has low public debt compared with other countries in the region, and its debt-to-GDP ratio of 38% is well below the EU27 average of approximately 85%. Additionally, the sharp decrease in budget deficit at the end of 2012, below the 3% threshold imposed by the Maastricht treaty, has improved the overall macroeconomic position of the country.

The H1 2013 budget deficit was 1.1% of GDP, in line with the year end target of 2.4% of GDP. H1 2013 brought a record for Romania's balance of payments current account, which showed a surplus of €695 million, as compared with a deficit of €2.781 billion in the first half of 2012. The main driver was the increase in exports, as the trade deficit reduced significantly, reaching just 10% of the H1 2012 level.

The Romanian currency bond was included in Barclays' Emerging Markets Local Currency Bond Index in the first half of 2013, after being included in JP Morgan's Government Bond Index in 2012. This has helped to create an environment conducive to the increased inflow of foreign investment, as well as improving the perception of Romania, which is now part of indices tracking the performance of strong emerging economies.

A positive outlook for Romania is also shown by measures of economic confidence. The Economic Sentiment Indicator (ESI) – a composite indicator published by the European Commission made up of five sector confidence indicators – stood at 96.4 in June 2013, well above the EU27 average of 91.3.

The market's improved current perception of sovereign risk is indicated by the sharp downward trend in Romania's Credit Default Swap (CDS) spread throughout the last 12 months. At the end of the first half of 2013, it was below 200 basis points for an assumed 40% recovery rate, almost half the value registered in July 2012.

Besides the falling CDS, another aspect to boost financing and increase domestic demand has been the decrease in the National Bank of Romania's monetary policy interest rate, from 5.75% at the beginning of the year to the record-low level of 4.5% in August 2013. This disinflationary measure resulted in forecasts for year-end inflation in 2013 being decreased to 3.1%. Meanwhile, the unemployment rate for Romania was 5.4% at the middle of 2013, lower than the EU27 average of 10.9%.

The absorption rate of EU funds increased significantly in 2013, with €735 million entering the country in the first half of the year, more than the entire non-reimbursable funds attracted throughout 2012.

In summary, Romania is increasingly well-positioned from an investment perspective, attracting foreign investments with strong growth rates, a sustainable national debt ratio and improving market perceptions.

ROMANIA IS EXPECTED TO RECORD A GDP GROWTH OF 2.0% IN 2013, ACCORDING TO INTERNATIONAL MONETARY FUND FORECASTS.

Table 1

Indicators	Romania	Poland	Czech Republic	Hungary	Bulgaria
GDP/capita indexed, EU27=100 2012	49%	66%	79%	66%	47%
GDP growth 2012	0.9%	1.8%	-1.5%	-1.4%	1.4%
GDP growth 2013	2.0%f	1.1%f	-0.5%f	0.3%f	1.9%
Public Debt /GDP Ratio 2012	37.8%	55.6%	45.8%	79.2%	18.5%
Budget Deficit (% of GDP) 2012	-2.9%	-3.9%	-4.4%	-1.9%	-0.8%

Source: Eurostat

Table 2
Main economic indicators

H1 2013	Bucharest	Romania
Population (inhabitants)*	1,883,000	20,121,641
Average net salary (€)**	487	364
Average unemployment rate (%)**	2.04	5.42
GDP per capita (€)**	15,604	6,907

Source:
*according to the 2011 census
**official data published by the National Institute of Statistics, The National Commission of Prognosis

2. OFFICE MARKET

Overview

Starting with 2011, office take-up has consistently surpassed new supply levels. In H1 2013, demand was 60% higher than the level of new stock on the Bucharest office market.

Charles de Gaulle Plaza

Supply

A total of 78,000 sq m of new office space was brought to the Bucharest market in the first half of 2013, comprising of 71,000 sq m in the first three months and 7,000 sq m in the second quarter. Most of this space was delivered in the north-center of the city (Sky Tower, Siriului CSDA), but there were also new projects completed in the center (Armand Calinescu Office Building) and the west (West Gate Park H5).

Developers of the new offices are mostly locally based, with the Austrian company Raiffeisen Property International GmbH being the only foreign developer to deliver a new building in H1 2013 (Sky Tower, 57,000 sq m GLA). Through the new stock, a wide range of office buildings has been delivered to the Bucharest market: a tower, two small-sized schemes and the fifth phase of a business park.

The amount of space delivered in H1 2013 was more than three times the total recorded in the same period of 2012. The new supply brought the total modern office stock (class A and B) in Bucharest to around 1.8 million sq m.

Office properties currently under construction in Bucharest are expected to bring more than 180,000 sq m to the market over the next 24 months.

A significant project in the pipeline is Floreasca Park, located in the Barbu Vacarescu–Calea Floreasca office hub, which has 37,500 sq m GLA. This project already features a high occupancy rate of 85%, having benefited from The Advisers/Knight Frank's consultancy, which brought the biggest pre-lease ever signed in the Bucharest market: 25,000 sq m for the IT&C company Oracle.

Following the success of its first phase (70% occupancy at delivery), AFI Europe is currently developing AFI Park II, an 11,000 sq m GLA building set for completion in the first half of 2014.

Vacancy

The overall vacancy rate for class A office buildings in Bucharest remained stable at 19%. Occupancy levels have improved in the Dimitrie Pompeiu and Pipera areas, but vacancy rates increased in Barbu Vacarescu–Calea Floreasca, due to the delivery of new stock. The lowest vacancy rates in the city can currently be found in the Presei Libere Square and Center West areas.

Demand

Office take-up in H1 2013 reached 125,000 sq m, 12% higher than the same period of 2012, when 111,000 sq m were transacted. Take-up was distributed fairly even between the first two quarters of 2013, with no unusual fluctuations in demand. Out of the total absorption, an estimated 75% was represented by transactions in class A buildings, with the remaining area being leased in unconventional office spaces and class B premises.
A total of 80 transactions were closed in the first six months of 2013, in modern office buildings, with an average area of 1,350 sq m, 12.5% higher than the average deal size in H1 2012.

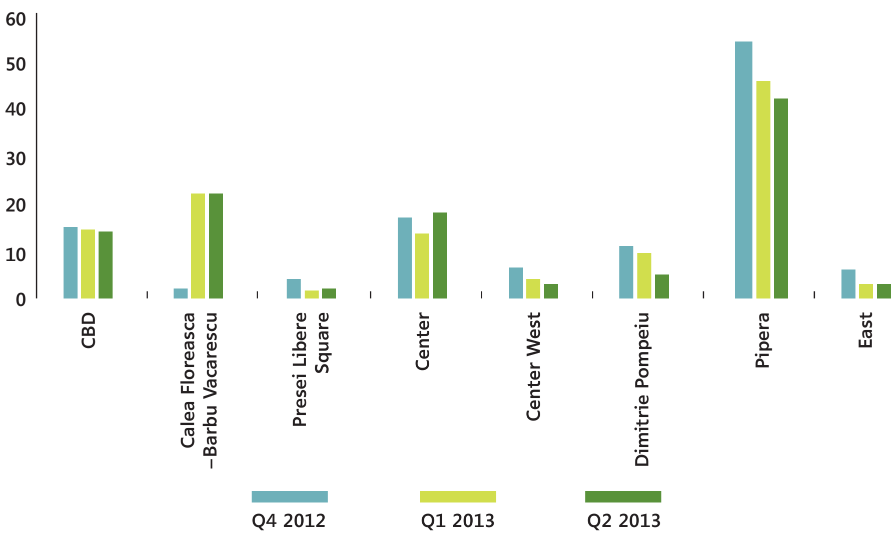
One third of the total take-up in H1 2013 was generated by IT&C companies, followed by Professional Services which accounted for 18% of office leasing activity.

New occupation deals (including relocations and new entries to the market) continued to be the dominant transaction type in the Bucharest office market, representing 55% of total lease transactions closed in the first six months of 2013.

Figure 1
Yearly evolution of total stock and new supply

Source: The Advisers/Knight Frank

Figure 2
Vacancy rates by submarkets H1 2013
%



Source: The Advisers/Knight Frank

Take-up has consistently surpassed new supply levels resulting in a positive performance of the office market. This trend was also observed in the first six months of 2013, and is expected to continue over the rest of the year.

TAKE-UP IN H1 2013 REACHED 125,000 SQ M

Rents

Rents remained broadly stable throughout H1 2013, at the same levels recorded at the end of 2012. However, some slight rental increases were reported for prime office buildings with excellent specifications and very good accessibility.

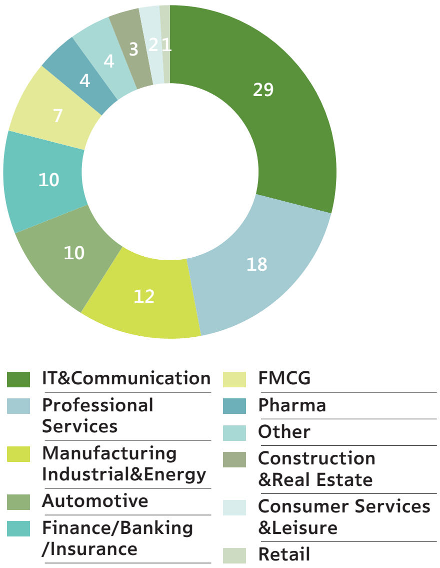
No significant changes have been noted to the incentives received by tenants (including rent-free periods and fit-out allowances). Thus, net effective rents remain €1–3 sq m/month lower than headline rents.

The cost of service charge is also an important consideration for tenants. Currently, the average service charge for class A buildings is between €3.50–4.50/ sq m/month. Service charges in office towers are more expensive due to higher maintenance and cleaning costs.

Figure 3

Demand by tenant activity sector H1 2013

%

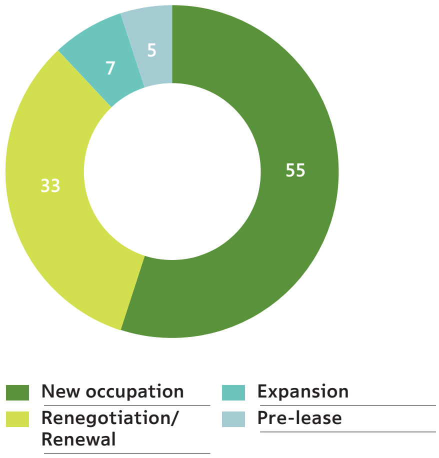


Source: The Advisers/Knight Frank

Figure 4

Demand by type of transaction H1 2013

%



Source: The Advisers/Knight Frank

"Construction progress at Floreasca Park continues on a good track with completion expected as per the contract at the end of October this year. The complex is 85% leased with a few more leases under negotiation. The target is to be fully leased this year.

The energy saving technical innovations and low service charge have been well received by the market which is now demanding much more than just «green branding». There seem to be a few bright spots and new names in the leasing market and still a hunger from existing multinationals to upgrade to better quality buildings at lower opex."

Robert Neale
Managing Director
Portland Trust

Floreasca Park


Green Gate

Forecast

The second half of 2013 is expected to bring approximately 41,500 sq m of new office space, delivered in two projects: Floreasca Park and Averescu Office Building. Thus, the total new supply for 2013 is expected to surpass 120,000 sq m. During 2014 and H1 2015, it is anticipated that an additional 140,000 sq m of office space will be brought to the market across the city, raising the total stock above the 2 million sq m threshold.

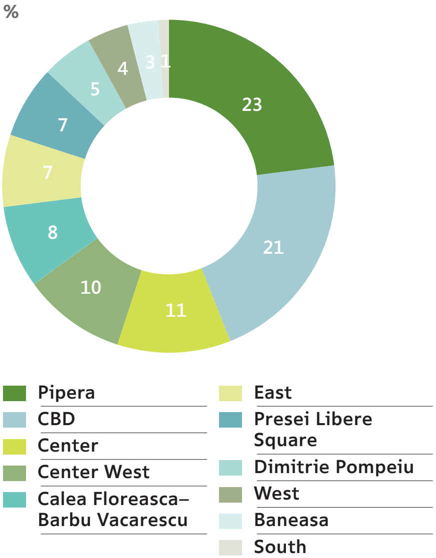
Some of the new supply will come from the conversion of different schemes into office space. A total of 29,500 sq m of this type of space is expected to be delivered to the market in the next nine months.

For the whole of 2013, the total take-up of office space is expected to reach a similar level to the previous year, at around 200,000 sq m of leasable area. Rents are generally expected to maintain the stable trend of the first half of 2013, with slight increases only expected in prime office buildings.

Figure 5

Demand by location H1 2013

%

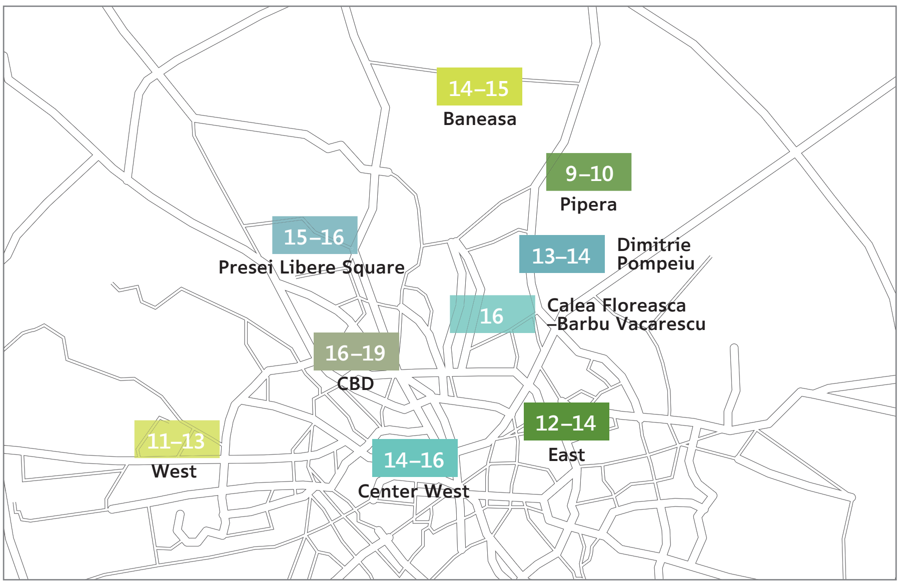


Source: The Advisers/Knight Frank

Map 1

Prime headline rents by district

€/sq m/month



3. RETAIL MARKET

Shopping Centers

Overview

The Romanian retail market performed moderately in H1, as a result of subdued consumption and difficult financing conditions. Nonetheless, the activities of market players have demonstrated confidence in the market's potential, in both the medium and long term.

Supply

The first half of 2013 saw a modest increase in the Romanian retail stock, with only 22,500 sq m GLA delivered in 2 projects: Uvertura Mall Botosani, with 15,000 sq m GLA, a shopping gallery with 7,500 sq m GLA attached to Corall Bratianu, the new Cora project in Constanta. Thus, the total retail stock in Romania reached approximately 2.7 million sq m, of which nearly one third is concentrated in the capital city.

The first half of the year proved to be a difficult period for several retail schemes in the rest of the country, as three projects developed by BelRom (Electroputere Parc Craiova and the European Retail Parks in Focsani and Bacau) entered insolvency. Armonia Braila shopping center, which was declared bankrupt in 2011, had its legal administrator reduce the asking price by a further 30%, after several unsuccessful attempts to identify a potential buyer. Moreover, the developer of Focsani Plaza was also declared insolvent.

Demand

As in the previous four years, demand for retail property has remained primarily driven by food operators and international fashion anchors. Inditex Group, H&M, Takko and Deichmann continued to expand throughout the country, following the solid performances achieved to date. In regard to new entries on the market, only small retailers have decided to secure locations.

The last 12 months also witnessed the departure of several retailers from the Romanian market: Debenhams, Nine West, La Senza and Springfield, all of which were operated through franchises.

Rents

Well-performing shopping centers were able to maintain or slightly increase their average rents. However, other developments are still trying to stabilize rents by offering incentives and turnover rent structures to their tenants. In Bucharest, a good-performing shopping center features asking rents around 40-50 €/sq m/month for a medium sized shop.

Forecast

Three shopping centers with a total GLA of nearly 100,000 sq m are expected for delivery by the end of the year as seen in Table 3.

Although Bucharest remains appealing for developers and retailers, Promenada Mall, which will open in Q4 2013, will be the first new opening in the city for more than three years. Promenada Mall will deliver approximately 35,000 sq m GLA and will serve as a shopping destination for the Calea Floreasca–Barbu Vacarescu and Pipera office hubs.

Away from the capital city, Ploiesti will welcome the opening of its second new shopping center in less


Coresi Shopping Center

than a year. Anchored by Cora and Cinema City, AFI Palace Ploiesti is expected to open in October and will bring approximately 33,000 sq m of retail space to the market.

In addition, NEPI announced that the Galati Shopping City will be delivered by the end of 2013, whilst a recent agreement on Mega Mall Bucuresti will result in the project's delivery by the end of 2015. In the summer of 2013, NEPI announced the acquisition of 70% of the Mega Mall project, which is situated next to the National Arena, on the former Electroaparataj site. Both of these projects will be anchored by Carrefour.

In addition, NEPI intends to open three strip malls, by the end of the year, in Vaslui, Sfantu Gheorghe and Sighisoara. Although there is a limited development pipeline, a high number of projects have been announced for Brasov. In addition to the extension of the current Carrefour site, developed through a JV between NEPI and Carrefour Property, the city is witnessing competition between Immochan, Cora and Echo Development to establish its next shopping destination.

Table 3
Retail projects to be delivered in Q4 2013

Shopping Center	City	Developer	GLA (sq m)	Food anchor
Promenada Mall	Bucharest	Raiffeisen Evolution	35,000	Billa
AFI Palace	Ploiesti	AFI Europe	33,000	Cora
Galati Shopping City (phase I)	Galati	NEPI	27,000	Carrefour
Total			95,000	

Source: The Advisers/Knight Frank

Developed by Immochan on the former Tractorul site, Coresi Shopping Center will deliver a 16,000 sq m Auchan unit and a 25,000 sq m shopping center. The delivery date has been postponed until the end of 2014. Following the acquisition of the Hidromecanica site in 2010, Cora intends to develop Corall Mall in Brasov, a retail scheme scheduled for completion in the next years. The Polish company Echo Development also postponed the delivery of Korona Mall until 2015, with construction being set to commence in 2014.

Considering the high levels of competition expected in locations such as Brasov, developers will need to concentrate their efforts not only on attracting good tenants to their shopping centers, but also on creating recreational and leisure activities in order to attract more visitors. Shopping centers will increasingly need to offer additional attractions, as on-line retail has started to gather ground and is expected to provide growing competition to traditional shopping.

Other Retail Formats

Overview

The most active retailers in H1 2013 were food retailers, especially discount formats and supermarkets (including proximity stores). Lidl and Kaufland have each inaugurated 6 units so far, reaching a network of 160, respectively 85 stores. Profi, Penny and XXL Mega Discount have also pursued their expansion plans throughout the first six months of 2013.

Supermarkets (incl. proximity) were also extremely active on the market, with nearly 70 units opened in H1 2013. The big box unit previously occupied by Kiabi, in Militari Shopping Center was occupied by specialized retailer Bebe Tei which secured there its second location in Romania.

The most active retailer was Dedeman, with 4 units opened in 2012 and 2 in H1 2013. For the second half of the year, the company plans to open another 2–3 new stores to its existing chain of 33 units.

Hornbach, BauMax and Ambient also inaugurated new units in 2012, but unlike Dedeman, they have put other expansion plans on hold in H1 2013.

The most important entry on the market in H1 2013 was represented by UK based DIY retailer Kingfisher, who acquired the Bricostore chain which comprised 15 units. Also, the Competition Council of Romania has eventually approved the acquisition of Real by French hypermarket chain, Auchan. This will translate into 24 Real stores that will be added to the 11 existing Auchan stores. Another transaction closed in the first half of the year was the acquisition of French supermarket chain, Interex, by business man Sorin Bonciu, owner of Bomax Group. The buyer's intention is to sell or rent further to a food or DIY retailer.

Rents

Rent levels witnessed a stable evolution for most big box segments, ranging between 5 and 9 €/sq m/month. The rent levels depend mainly on the location and size.

Forecast

DIY retailers and small format food operators will continue to pursue their expansion plans, focusing mostly on Bucharest, as well as secondary cities. New retail formats are expected to be launched on the market. In order to consolidate its position on the local market, French retailer Carrefour announced a new store format – Supeco. Officially launched in Spain at the beginning of 2013, Supeco represents a hybrid concept between a discounter and a cash&carry.

"Vigilance, this would be the word that I would use to describe the commercial real estate market of the past 6 months. After the hardships encountered, we are all now much more cautious, looking for risk free projects. Nonetheless, in our everyday life, there are no zero risks ventures for developers, the few that have still remained on the market, nor for retailers. Everyone is taking a risk in line with its job scope, in a shared social-economic context. Particularly, this shared background should bring us closer, in order to transform challenges into opportunities. The very meaning of partnership, built on a strong foundation, the forthright communication, transparency and common perspective, will enable the development of successful projects. I strongly believe in the potential of the Romanian market, I do consider vigilance as a healthy approach, yet I also believe that, aiming to be in the champions' league, requires to have vision, business acumen and the courage to act accordingly."

Tatian Diaconu
Managing Director
Immochan Romania

RENT LEVELS WITNESSED A STABLE EVOLUTION FOR MOST BIG BOX SEGMENTS

High Street

Supply

New stock has scarcely been registered on the High Street market of Bucharest. Supply came mainly from renovation of historical buildings located in the Old City Center that were reintroduced on the market in H1 2013. A minor amount of space was also brought to the market through the delivery of retail units in small office buildings.

Demand

The highest demand was driven by the supermarket chains. Mega Image, Profi and Carrefour Market have all secured new locations throughout the city, even by acquiring local supermarket operators. For instance, in Bucharest, Gulliver was taken over by Mega Image. However, most of the acquired networks were based outside the capital city (e.g. Luca chain in Brasov).

The Old City Center continues to draw a significant part of demand as it is still regarded as the hot spot of Bucharest.

Fashion retailers are expected to make their way progressively into the area, further increasing interest from types of retail other than HORECA or leisure. On Lipscani, fashion retailer H&M is due to open its doors to the public by the end of the year.

On a different note, the luxury market of Bucharest welcomed a Roberto Cavalli flagship store in the Marriott Hotel shopping gallery. Other notable entries on Calea Victoriei include Lancel, and BSB, which decided to relocate here its former unit from Magheru Boulevard.

Rents

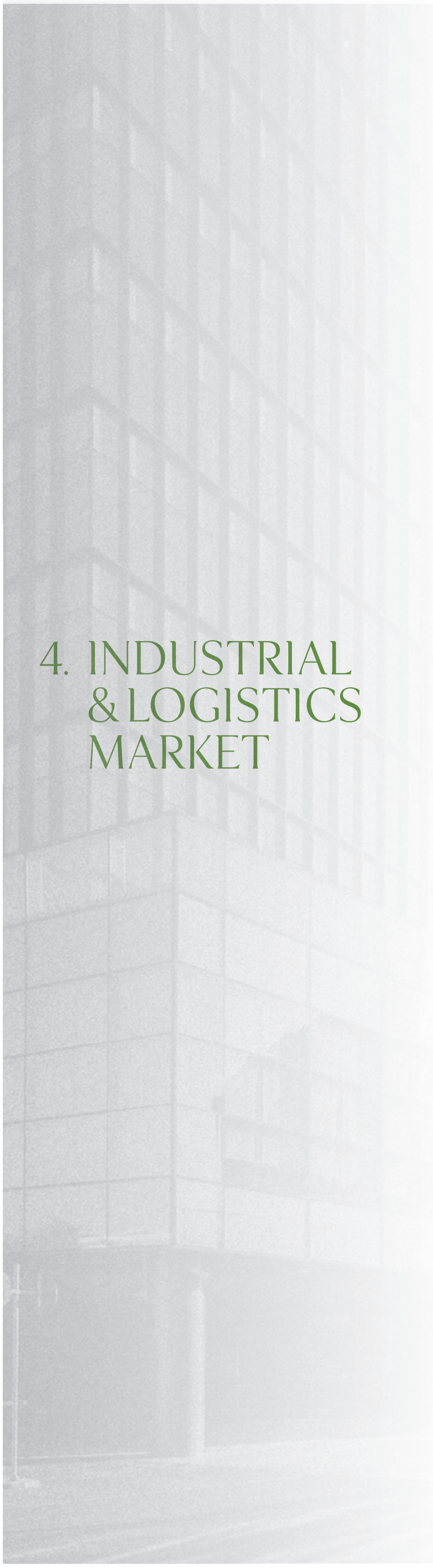
Headline rents have fallen for central avenues of Bucharest, partly due to poor demand and lack of interest from retailers. Nevertheless, areas with high traffic and visibility have maintained a stable trend of rents, or even registered increases as occurred in certain locations of the Old City Center.

Forecast

The second half of 2013 is not expected to bring any major changes compared to the first six months of the year.

The major international brands will pursue their expansion plans, as their financial power enables them to increase market share aggressively during this period.

THE OLD CITY CENTER CONTINUES TO DRAW A SIGNIFICANT PART OF DEMAND



4. INDUSTRIAL & LOGISTICS MARKET

Overview

The first half of 2013 followed the same trend as the previous year, with the industrial market characterized by caution.

Supply

In the absence of speculative developments, there were no new deliveries to the Bucharest market during the first half of 2013, while the rest of the country witnessed only very minor increases to the industrial stock. The lack of new deliveries in the first half of 2013 kept the industrial stock of Bucharest at the same level registered at the end of 2012, approximately 970,000 sq m GLA.

Developers remain willing to start new projects/phases only if they can secure pre-leases or deliver turnkey projects. In general, the priority of owners/developers is to keep their current tenants or to improve the tenant mix within their existing parks.

Demand

In H1 2013, take-up in the Bucharest industrial market reached 65,000 sq m. This level is comparable to the take-up recorded in the whole of 2012, when 62,000 sq m were transacted. Two large transactions accounted for approximately 75% of the take-up in H1, both signed in Europolis Park.

Outside Bucharest, the total take-up in the rest of the country reached approximately 40,000 sq m, with transactions recorded in cities such as Timisoara, Ploiesti, Brasov and Iasi. One of the most important transactions closed in H1 2013 was the lease of 11,000 sq m in Olympian Park Timisoara by an electronics company.

Industrial leasing activity was dominated by companies in the retail sector, followed by the logistics and automotive industry. The vacancy rate in Bucharest fell slightly, reaching 11%, with most occupiers focused on renegotiating and extending contracts in their existing locations. Currently, there are companies actively searching for locations closer to their customers, in order to reduce distribution costs and achieve better time efficiency. In H1 2013, the preferred location for occupiers clearly remained the western part of Bucharest. For properties outside the capital city, the vacancy rate is estimated at approximately 12%.

Rents

Average rents in the Bucharest industrial market are currently in the €3.30–4.20/sq m/month range, depending on the warehouse size and length of the lease. Landlords continue to offer significant incentives in order to make their properties more appealing to tenants. Service charges have remained unchanged, at approximately €0.50–0.95/sq m/month, depending on the quality of services offered and the level of local property taxes.

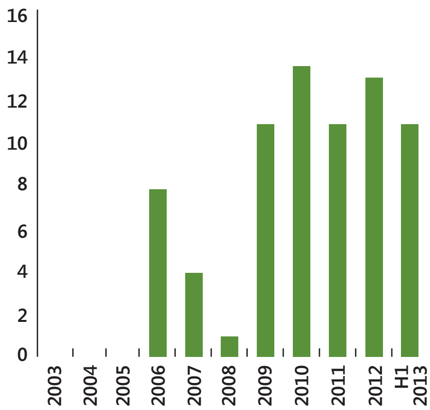
Forecast

Industrial market trends are not expected to change significantly in H2 2013, with leasing activity remaining moderate. Thus, developers will maintain a cautious attitude, not taking the risk of building on a speculative basis. The industrial market should see a revival once the economy rebounds. This may be dependent on both the delivery of significant infrastructure projects and a general increase in consumption. A bright spot for the industrial sector could be the arrival of newcomers to the market, with several schemes planned for development in cities like Turda

Figure 6

Bucharest Vacancy Rate

%

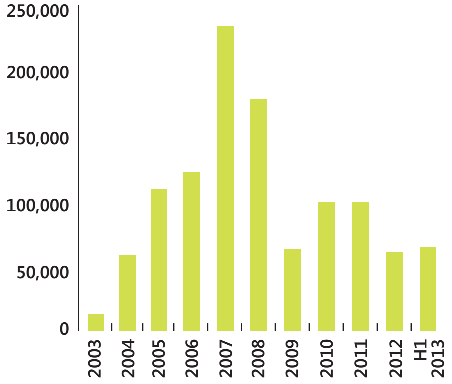


Source: The Advisers/Knight Frank

Figure 7

Bucharest Demand

sq m

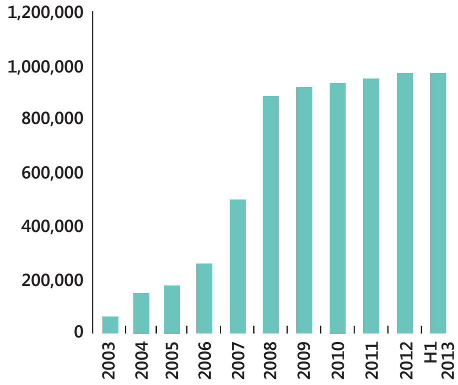


Source: The Advisers/Knight Frank

Figure 8

Bucharest Total Stock

sq m



Source: The Advisers/Knight Frank

(Graells & Llonch) and Timisoara (VGP). It is worth noting that all the major cities that have seen improvements to their infrastructure have become important industrial hubs (e.g. Ploiesti, Timisoara, Cluj and Constanta). In order that new projects are delivered to the industrial sector, it is important that particular attention is given to future infrastructure developments and to incentives for investors, in order to make Romania a more attractive market.

„For quite a while now, the Romanian market for industrial space and warehousing is a mature market, with powerful key players, most of them focused on a certain region or a certain client group.

WDP's approach of the Romanian market started by acquiring landplots in strategic locations throughout Romania, including but not limited to Ploiesti, Pitesti, Constanta, Brasov, Bucharest area etc."

Jeroen Biermans
Managing Partner
WDP Romania

Map 2

Industrial aspects of Romania

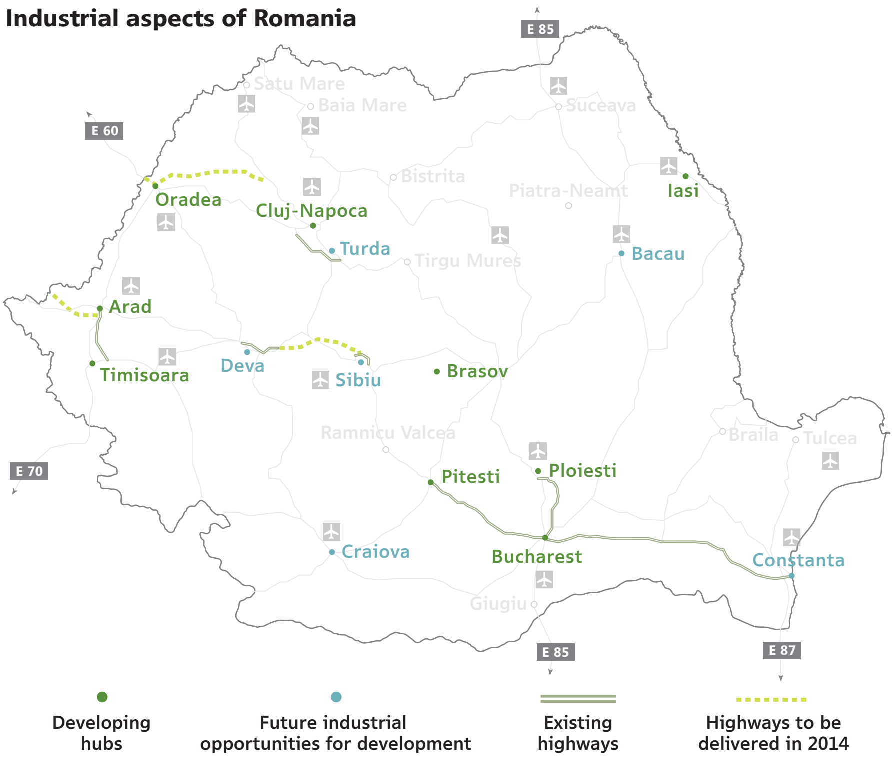


Table 4

Bucharest prime rental and service charge ranges

Size (sq m)	Rent (€/sq m/month)	Service charge (€/sq m/month)
<3k sq m	3.90–4.20	0.50–0.95
3k–10k sq m	3.60–3.90	0.50–0.95
>10k sq m	3.30–3.60	0.50–0.95

Source: The Advisers/Knight Frank

5. LAND MARKET

Overview

Land acquisition activity remained modest in H1 2013, with a limited volume of transactions and caution prevailing in the market.

Supply

As anticipated in previous market reports, land supply in Bucharest increased in the first half of 2013 as a result of banks putting land plots up for sale as distressed properties. Sites with approved zoning, suitable for office, residential or retail development, are currently available for sale. Nonetheless, brownfield properties also provide suitable opportunities for development in Bucharest, and should continue to do so for the next ten years. In order to facilitate transactions and encourage potential buyers, sellers continue to take a flexible approach to negotiations.

Demand

So far in 2013, demand can be described as highly selective, with buyers focusing only on very particular locations, suitable exclusively for their areas of expertise and interest. Currently, the most sought-after land plots are those for office development, followed closely by land plots for retail schemes. As in previous years, there has been medium interest in sites for residential development. Nonetheless, residential developers are looking for land plots that are either suitable for high end developments or for projects with the potential to comply with the conditions of Prima Casa government program.

In the retail sector, Dedeman remains the largest and most active DIY retailer in the country, having acquired a 3.8 ha land plot in Pitesti, for the construction of an approx. 13,000 sq m store. This followed its acquisition of a 3.3 ha land plot in Galati in December 2012. The supermarket chain Mega Image has also adopted an aggressive expansion strategy, and now has a network of 250 units, including its convenience store format, Shop&Go. Aside from the usual factors which influence the sale of a land site, such as building permits, location, price, competition in the area, access to utilities and public transportation, an increasingly important factor is identifying an end user (buyer or tenant).

An important transaction in Bucharest during H1 2013 involved the almost 10,000 sq m Porsche Aviatiei showroom land plot, located in the Calea Floreasca–Barbu Vacarescu office hub, which was sold through Porsche's real estate division. The land plot was bought by the Greek investor, Ioannis Papalekas, who plans to start the construction of an office development.

On a different note, prices for agricultural land and forests are lower in Romania than in any other CEE country. As a result, foreign investors are increasingly attracted to this type of land in Romania, expressing particular interest in areas exceeding 500 ha and featuring a compaction rate exceeding 80%.

Prices

Land prices remained stable during the first half of 2013 throughout Romania, including the capital city.

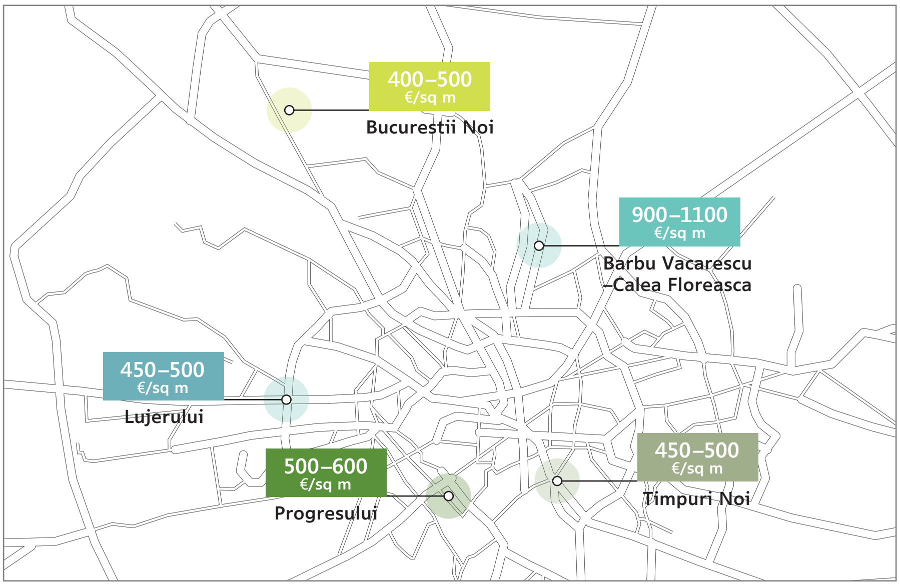
If there are any variations in asking prices, they will purely be a consequence of the seller's subjectivity. In light of the current economic and political climate, developers prefer to

invest in projects with good locations, coordinates and specifications, offering a high level of stability. Such investments are safer and can assure a favorable exit in case of cash necessity.

Forecast

Prices for land plots are expected to remain constant throughout H2 2013 with the exception of those in secondary locations with underdeveloped infrastructure, which are expected to see decreases in prices and demand over the remaining half of the year. As in previous years, the strongest demand for land will be generated by the office sector, followed closely by the retail sector and the residential sector. Central land plots with good urbanism coefficients will continue to be most attractive to developers. No significant changes in prices are expected over the rest of the year.

Map 3
Bucharest Land Prices



"Comparing Prague land market to Bucharest one is not easy as the cities, and respectively the countries are in very different moments of the market evolution. It is closely connected with the saturation or if you want with the maturity of the respective real estate markets. While Prague is saturated, Bucharest has still space for growth. This translates into very limited availability of good land plots in Prague, in general. Those good and empty ones are still kept by owners for future development. Currently the offer is reasonable in Bucharest, even plots that were not available for sale back in 2007–2008 are now on market with significantly reduced prices. Apparently, the crisis played a role here and developers gave up on their plans."

Vladimira Novakova
Managing Director
Green Gate

LAND PRICES REMAINED STABLE IN HI 2013

6. INVESTMENT MARKET

Overview

The first half of 2013 was another slow period for the Romanian real estate investment market. Transaction volumes remained relatively low, despite increased interest from real estate investors that are exploring opportunities in the market, primarily for office developments in Bucharest.

Supply

Institutional investment products are available for sale in all market sectors. Such products offer investors the required criteria of long leases, sustainable rents, solid blue-chip corporate tenants and excellent technical specifications.

For office buildings, Victoriei Square and Calea Floreasca–Barbu Vacarescu remain the most sought-after locations for investors. This is due to their established profiles as important business hubs, backed up by major infrastructure works carried out recently, such as the Basarab and Pipera overpasses.

Aside from Bucharest, significant commercial properties in major cities such as Timisoara, Iasi and Cluj Napoca have started to attract the interest of potential investors.

The sole institutional investment transaction in the market during the first half of 2013 was concluded by NEPI, which acquired The Lakeview office building for a reported price of €61.7 million. NEPI is a core investment fund listed on three stock exchanges: Bucharest, Johannesburg and London AIM.

Another important transaction that occurred in the first half of 2013 was the acquisition of a 50% share in eight small retail parks located throughout Romania by a retail company managed by the Belgium-based investment fund Mitiska Ventures. Developed by InterCora, the properties comprise a total gross leasable area of 32,000 sq m and are all anchored by either Kaufland or Lidl. The transaction was closed at a price of €10 million.

Demand

The well-established NEPI fund and the group managed by businessmen Ioannis Papalekas and Dragos Bilteanu were the leading investors in the first six months of 2013. Moreover, the two businessmen formed a new investment fund, Globalworth Real Estate Investment, and raised €53.6 million through an IPO on the London Stock Exchange secondary market – AIM (Alternative Investment Market). Among the properties included in the Initial Public Offering were Tower Center International, BOB Tower, BOC Tower and Upground Residential.

INVESTMENT VOLUME REACHED €80 MILLION IN H1 2013.

Continuing the trend that started in 2012, increased numbers of new investors are getting acquainted with the Romanian market and performing their market due diligence. Despite the fact that the limited availability of senior debt remains a major investment barrier, new investors are seeking more


Victoriei Square

information about local investment activities, partly in the belief that yield compression may be close to ending in more mature and saturated CEE markets. Currently, most investors' interest is focused towards high-yielding, distressed, mid to small-sized assets.

It is also worth noting that there is growing interest in big box retail properties, as well as mixed-use retail developments with long-term leases in place. However, this trend is still only at an early stage.

Yields

Prime yields remained stable throughout the first half of 2013.

Forecast

Due to the number of negotiations currently underway, mainly for prime office developments, it is expected that transactional activity will intensify by the year-end or during the first half of 2014.

This should help to establish prime yield levels more accurately, which will be a positive sign for newcomers in the market.

Table 5
Prime Yields (%)

Office	Retail	Industrial
8.25–8.75	9.00–9.50	9.50–10.50

Source: The Advisers/Knight Frank

"As a destination of investment Bucharest could be assessed as a worthy option, provided the institutional Class A quality of the product. Our investment in Charles de Gaulle Plaza landmark building has proved its market competitiveness and attractiveness, despite of the general European economic environment in the last years.

Compared to our group's investments in other CEE countries, this particular asset has recently leased as one of the fastest, whilst managing to remain around the prime rent of Bucharest, since its acquisition in 2006. Fully leased, Charles de Gaulle Plaza provides a substantially higher return than office buildings in Paris or London. Such investments are highly appealing for our portfolio, providing attractive distributions to our shareholders. Most recently the investment market is starting to gather pace. Taking into account current and future developments in Bucharest, the medium term picture for investors in Bucharest could be described as positive."

Martin Unglert
Fundmanager Accession Fund
GLL Real Estate Partners GmbH

BUCHAREST PRIME YIELDS ARE ENCOURAGING, COMPARED TO OTHER CEE CAPITALS.

7. RESIDENTIAL MARKET

**This analysis only considers new developments with more than 100 announced units, located within the capital's city limits or in landmark projects in satellite locations.
The research addresses more than 70 active residential projects, both existing schemes and projects under construction.**


City Point

Supply

The residential stock of Bucharest and satellite locations barely changed throughout H1 2013. Only approximately 400 new residential units, in three different projects, were completed in the first half of the year, raising the total stock to around 25,500 units.
Of the total analyzed existing dwellings, nearly 5,000 units are currently available for sale on the market, while another 500 are only available for rent. The large number of apartments on offer in peripheral locations reflects the fact that demand is currently mainly focused on dwellings suitable for government programs. Most of the deliveries in the last 18 months were new phases of existing developments, such as Cosmopolis, Felicity and Militari Residence. However, H1 2013 also saw the start of the construction of the new mega project City Point, developed by Shikun&Binui Real Estate Development (RED) and Red Sea Group. The new compound is located in the center-north of Bucharest, in the vicinity of Barbu Vacarescu–Calea Floreasca office area.

Another trend that continued throughout H1 2013 was that developers leased vacant apartments, rather than holding onto them and only making them available for sale.
This way, developers have reduced the monthly costs of their premises, while keeping properties for an expected capital gain after the rental period.

During the next six months, the residential developer Adama will deliver new phases in the existing Edenia and Evocasa Optima projects. Also in the eastern area of Bucharest, Vitan Residence is opening a new phase, whilst Fundeni Residence (north-east) and Militari Residence (west) are continuing their extension plans. The first two of the 12 buildings planned for Adora Urban Village will also be delivered, on the south-western outskirts of Bucharest.

Demand

Total absorption in the first half of 2013 is estimated at around 1,500 apartments. Depending on their characteristics and location, individual projects were able to sell 5–10 apartments on average each month. Developers who adapted their prices to market realities achieved the most consistent sales, with some registering record sales of 15–20 apartments in their busiest months.

Investor interest in distressed residential projects increased during the last six months, and several transactions for such assets may be closed over the next half of the year. Either finished or uncompleted projects may be taken over by interested parties.

There has been much discussion around the recent changes to the Prima Casa Program, as loans are now granted only in Lei, as opposed to the previous situation when most loans were granted in €. Although Lei financing was already available from banks, it was largely avoided because of the higher interest rates.

State guaranteed loans are sold with a minimum down payment of 5%, which is currently the only advantage of the Prima Casa program, given that similar products are offering standard loans at lower interest rates. However, for such products, the minimum down payment for a standard loan in Lei is 15%, whilst a client seeking a mortgage in € must submit a minimum down payment of 25% of the dwelling's price.

Besides the Prima Casa program, developers are testing the limits with their attempts to find creative solutions to ensure that their projects qualify for the reduced 5% VAT rate. This might not prove to be a safe alternative in the medium-to-long term, but it allows developers to avoid the standard 24% VAT rate.

Prices

There were few price adjustments during H1 2013. The weighted average price of apartments in the analyzed projects currently stands at approximately €900/built sq m.

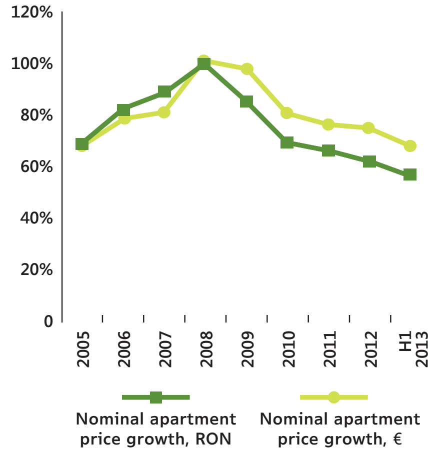
A new phenomenon in the most recent period was that increasing numbers of developers promoted their apartments as being within the VAT exemption regime. The 24% VAT rate applied to the sales of new dwellings is a major barrier to entry in the residential market. However, under existing legal provisions, properties which are not considered new can be sold without charging VAT (apartments finalized as late as the end of 2011 are considered old, starting from 2013). But there is the matter of tag-along VAT costs if the developer chooses the option of not charging VAT.

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. Prices have started to show signs of stabilization as a result of the improved macroeconomic indicators and the availability of financing at lower rates.

In H1 2013, the entire market voiced the opinion that the residential segment would be highly affected by the move that meant Prima Casa mortgages could only be granted in Lei. However, the National Bank decreased its policy interest rate by 125 basis points during recent months, which has had a direct impact in encouraging Lei loans. Moreover, it is our opinion that the matter of solvability of a loan applicant should prevail the idea of a fast evolving residential market.

Figure 9
Evolution of average apartment prices



Source: The Advisers/Knight Frank

Table 6
Asking price by project type

Project Type	% of total new stock	Asking price range (EUR/built sq m)
Low	47%	600–800
Medium	23%	800–1,000
High	27%	1,000–1,200
Upper	3%	1,300–1,500

Source: The Advisers/Knight Frank

"In our opinion the residential segment in Bucharest distinguishes by availability of real demand and provides opportunities for well positioned products. We have identified a gap in the market for modern, well located, and fairly priced apartments and thereof started this year the development of the first phase of City Point residential project, one of the future landmark schemes in the Northern part of the city."

Favi Stelian
Shikun&Binui Real Estate Development (RED)

8. HOTEL MARKET

trendhospitality CONSULTING & MANAGEMENT

By Lucian Marinescu, Senior Associate
Trend Hospitality

Overview

Although a revival in the Romanian hotel market was expected in 2013, it did not transpire in the first six months of the year. The hotel sector saw a positive increase in arrivals and overnights, but the average length of stay and average rates decreased, leading to only a very small increase in overall activity.

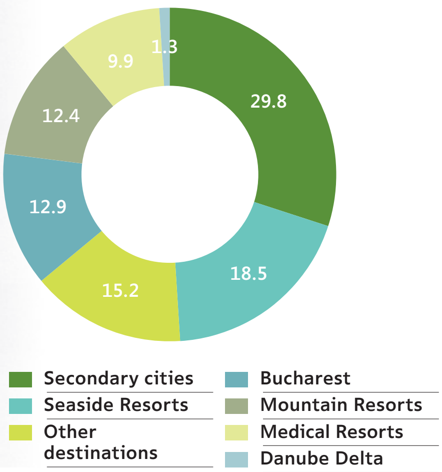
Supply

At the end of June 2013, the total number of hotels in Romania was 1,384, representing a 5.8% increase compared with twelve months earlier. In terms of destinations, the highest percentage increase was registered in the number of hotels in mountain resorts (+19%) while the lowest increase was for hotels at the seaside (+0.4%). Due to the seasonality of activity, few investors are willing to invest on the Romanian seaside.

Figure 10

Hotels by destination

%



In terms of classification, the Romanian market is dominated by 3 star hotels, due to the large number of such hotels at the seaside, in medical resorts and mountain resorts.

The presence of international hotel chains is still very limited, with only 7.4% of rooms being affiliated to hotel chains. This figure decreased compared with the previous year as, with the exception of two properties (Ramada Cluj and Hampton by Hilton Cluj), all the other new hotels that opened were unaffiliated with chains.

There are 12 hotel groups present in Romania, as per the ranking presented in table no. 7.

Demand

Following the optimism brought by the beginning of the new year, the first two months of 2013 saw increases in the number of arrivals and overnights across Romania. Unfortunately this optimism was not sustained by economic reality, so the following months recorded either decreases or similar levels

Table 7

Hotel Groups present in Romania

	Hotel Groups 2013	Rooms	Hotels
1	Wyndham Hotel Group	1,857	11
2	Accor	1,221	6
3	Hilton Worldwide	728	5
4	Carlson–Rezidor	718	1
5	Best Western	635	9
6	Group de Louvre	632	5
7	IHG	447	2
8	Marriott International	402	1
9	Vienna International	177	1
10	NH Hoteles	161	2
11	Europa Group	90	1
12	K+K Hotels	67	1
	TOTAL	7,135	45

of activity to the corresponding months of 2012, especially regarding the number of overnights.

Overall, the first half of 2013 saw increases in both arrivals (+4.9%) and overnights (+0.9%). However, the average length of stay decreased to 2.13 days, compared with 2.21 in H1 2012.

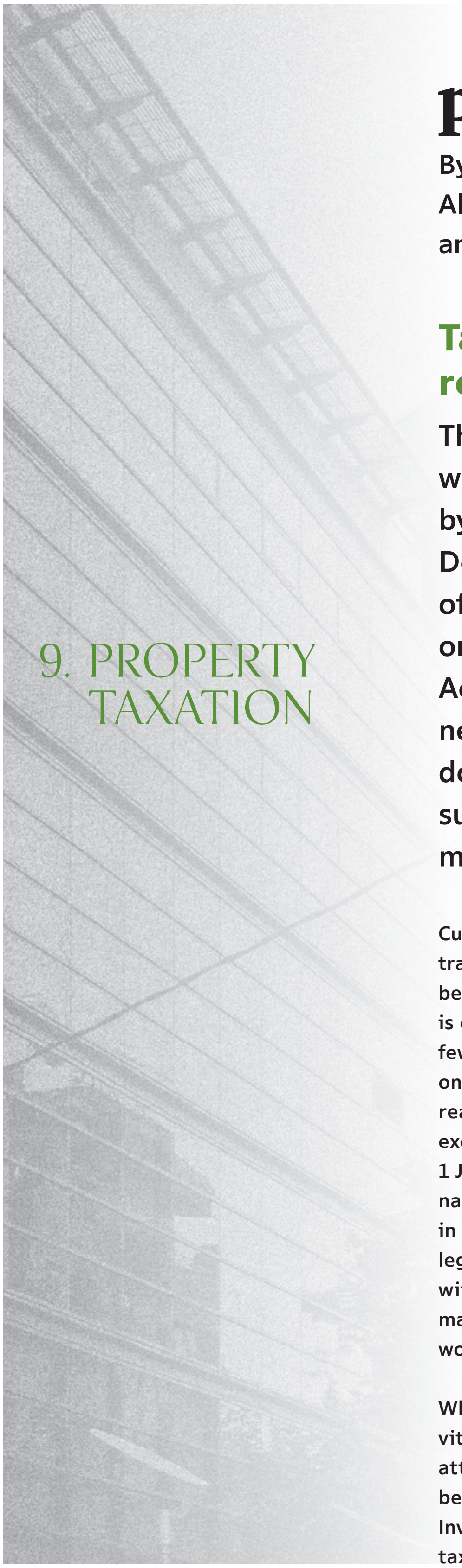
Arrivals of international tourists decreased from 23.2% of total arrivals to 22.6%, while overnights of international tourists increased from 20.7% to 21.1%, indicating an increase of the average length of stay. The main feeder market for Romania is the European Union, with 70.4% of international arrivals and 67.7% of international overnights.

Forecast

Activity in the second half of the year is expected to improve on the first half, but not to be significantly better than the same period of 2012. Seaside hotels are expected to have a very good performance, particularly those located in Mamaia, due to the special reservation programs that have been introduced in recent years, as well as the fact that many hotels have started to offer all-inclusive packages.

Investment activity in the hotel market will remain at a very low level, as investors and lenders have very little appetite for this type of real estate and sellers still have exaggerated price expectations which do not reflect actual market conditions.

THE FIRST HALF OF 2013 SAW INCREASES IN BOTH ARRIVALS AND OVERNIGHTS.



9. PROPERTY TAXATION

By Peter de Ruiter, Partner PwC
Alexandra Smedoiu, CFA PwC
and Diana Rosu, Tax Senior Consultant PwC

Tax considerations for new Romanian real estate investments

The international tax environment continues to draw worldwide attention, in the context of sustained efforts by OECD (Organisation for Economic Cooperation and Development). The OECD recently shifted focus to scrutiny of harmful tax planning techniques and issued a report on Base Erosion and Profit Shifting (BEPS), as well as an Action Plan on BEPS (July 2013). The OECD tries to set new standards on allocating the taxing rights, preventing double non-taxation and tax evasion. In the context of such dynamic tax legislation, the Romanian real-estate market faces in its turn new challenges.

Currently, the principle of free transferability of assets, with the owner being free to dispose of property, is enshrined in the Romanian law, with few exceptions or conditions imposed on non-residents' possibility to acquire real estate property in Romania. Such exceptions will be abolished starting 1 January 2014. As of this date, EU nationals, stateless persons domiciled in an EU member state, as well as legal entities set up in accordance with an EU member state legislation may freely acquire agricultural land, wood and woodland in Romania.

What key tax information may prove vital for these potential investors attracted by a more permissive to be Romanian real estate market? Investors should mainly focus on tax aspects of financing, investment income and the tax outcome of their exit strategies. While financing poses certain difficulties related to interest deductibility limitations and the taxation of investment income may prove challenging due to different tax and accounting standards, the exit strategy is most important to a real estate investment and should be considered up-front.

The rules are that capital gains derived by non-residents from the sale of Romanian – located real estate property or from the sale of shares in a Romanian legal entity, if at least 50% of the value of its fixed assets is derived, either directly or through several legal entities, from Romanian – located real estate property, are taxed in Romania at a flat 16% rate.

Most double tax treaties concluded by Romania allocate the taxing rights to the source state (i.e. the state the property is located in) in case of an asset deal or to the residence state (i.e. the seller's state of residence) in case of a share deal.

Thus, a distinction is made if one intends to leverage international taxing rules. For example, a legal entity resident for tax purposes in the Netherlands or Italy pays 16% Romanian tax if it disposes of a real estate property located in Romania but is exempt from such capital gain tax if it sells shares in a Romanian company holding the said real estate property.

Naturally, a comparison between the OECD member states tax legislation shows that capital gains are taxed in a considerably different manner. This implies some exceptions to the aforementioned rules of the double tax treaties entered into by Romania. The exception is that even in case of a share deal, the right to tax is allocated to Romania. Such is the case for investors in Sweden, France, Austria, Germany, Canada and others.

To this end, one important concept should be considered – the 'fixed assets test'. What does it mean the condition that more than 50% of the value of the assets is derived by real estate located in Romania?

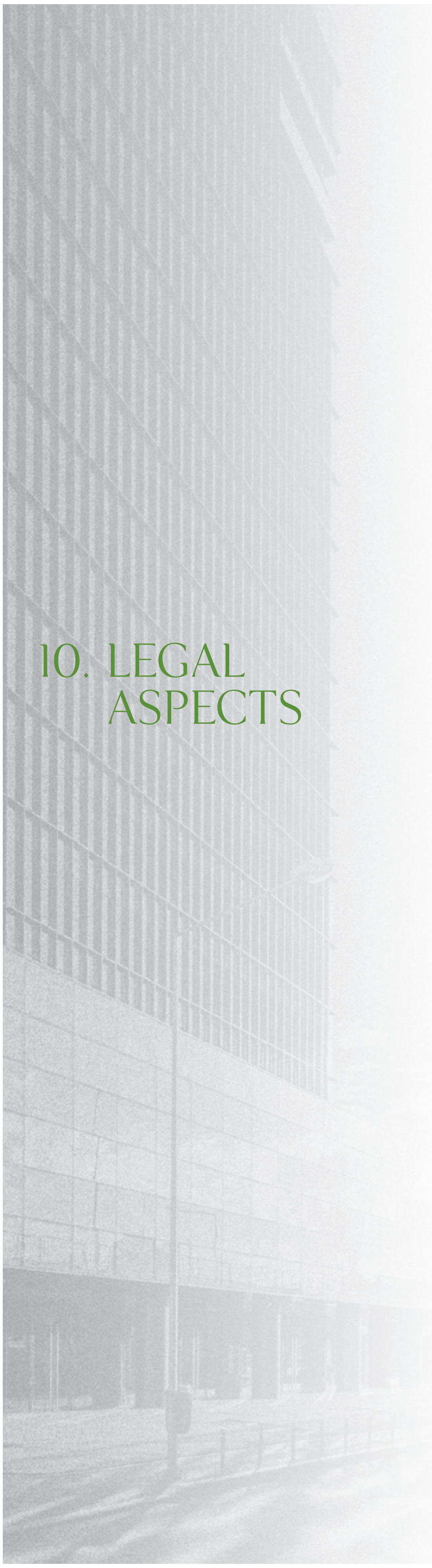
The Romanian tax legislation defines this 50% asset test based on the book value of fixed assets, including land, in line with the accounting requirements in force.

The OECD Model Tax Convention provides similar rules. However, according to the OECD, the 50% test is computed by comparing the value of such real estate property to the value of all assets held by the company. This is an important distinction, as it means that the value of the real estate is compared

to the value of total assets (which includes, for instance, receivables, cash etc.). Therefore, the investor may be better off by applying the OECD principle over the local rule (assuming a double tax treaty allows this).

Another aspect relates to indirect ownership of real estate located in Romania. As per the wording of the Romanian tax legislation, even an indirect transfer of shares may be taxable in Romania (i.e. when shares of the shareholder in a Romanian limited liability company which owns real estate are sold). It is thus unclear at which entity the 50% test is applied, i.e. at the level of the Romanian limited liability company which owns the real estate or at the level of the shareholder whose shares are sold? Such particularities are not explicitly provided for in the Romanian law. Therefore, further analysis is required based on the specific case of the investor and the double tax treaty.

The key takeaway is that a careful analysis should be performed prior to deciding on the appropriate investment structure so that future tax costs do not outweigh or significantly diminish the investment outcome. The OECD approach should be considered whenever a foreign investor is concerned. Also, in case of EU investors, further recourse can be made to certain European legislation and cases at the European Court of Justice.



10. LEGAL ASPECTS

schonherr

By Simona Chirica, Partner and Madalina Mitan
Senior Associate – Schoenherr & Associates SCA

Guarantees under lease agreements

In relation to the matter of lease agreements, whether they refer to office, retail, or industrial markets, lessors usually demand the lessees to present guarantees that will ensure the full and proper fulfilment of the obligations under the lease agreements. Such guarantees are commonly presented as bank letters of guarantee and surety bonds.
The following article has the purpose of offering a brief outline over the notion and conditions for obtaining and enforcing bank letters of guarantee, as well as to present their potential advantages and disadvantages.

Bank letters of guarantee

A bank letter of guarantee is a commitment in writing undertaken by a bank (issuer/guarantor) in favour of a person (beneficiary), to pay the said person an amount of money if another person (applicant), at the request of whom the bank letter of guarantee is issued, has failed to comply with an obligation undertaken in an agreement (the main agreement), or has not complied with it according to the conditions established therein.

A bank letter of guarantee is a separate obligation, independent from the main agreement for the guaranteeing of which it was issued. Consequently, the existence of the obligation to guarantee does not depend upon the validity of the guaranteed obligation.

In order for such an independent guarantee to exist, it is necessary to have at least three parties with different legal relationships, as follows:

The first relationship is concluded between the creditor and the debtor of the guaranteed obligation and reflects the primary obligation. The second relationship, on the basis of which the applicant requests the bank to issue a bank letter of guarantee, is a pre-existing one between the debtor as applicant and the bank as guarantor/issuer. The third relationship is concluded between the guarantor/issuer and the beneficiary so that the bank may enforce the issued bank letter of guarantee at the beneficiary's request.

It should be noted that the bank letter of guarantee is valid for the entire period of time and amount of money stipulated in the main agreement. Thus, it will still be valid for the period of time mentioned in the main agreement, even if the applicant is no longer able to fulfil its obligations e.g. due to insolvency or removal from the Trade Registry.

Payment demand

Should the applicant fail to comply with its obligations stipulated in the main agreement, a number of steps must be performed. Thus, should the parties not stipulate otherwise, according to the ICC Uniform Rules for Demand Guarantees 758 ("ICC Rules"), although the beneficiary must indicate the issuer the fact that the applicant did not fulfil its obligation and therefore is justified to demand the payment of the guarantee, this does not imply that the issuer must verify the grounds indicated by the beneficiary. After verifying whether the demand complies with the main agreement and/or with the ICC Rules, as the case may be, the issuer must proceed to payment.

However, the issuer can deny the beneficiary the payment in cases of fraud or abuse. Abuse occurs when the beneficiary requests a payment before the established date. Nevertheless, the latter has the option to accept the payment even though the payment demand is abusive. In this case, if the applicant were to incur any damages, this problem would be settled directly between the beneficiary and the applicant.Moreover, fraud means the deliberate attitude of the beneficiary to request the payment of the guarantee without any reason. However, the issuer is not obliged to investigate whether a demand is a fraud or not: this aspect must specifically result from the beneficiary's actions. It should be noted that the most common fraud cases are those where the beneficiary demands payment of the guarantee although the guaranteed obligation was fully performed by the debtor or another guarantor. Also, we note that the fraud affecting the main agreement does not influence in any way the independent guarantee.

The parties of the bank letter of guarantee can expressly stipulate that, in case of flaws (i.e. abuse of fraud), the beneficiary has two alternatives: (i) to request the applicant to remedy the flaws; or (ii) to enforce the bank letter of guarantee.

In other cases, the parties may insert in a bank letter of guarantee provisions that specify that the beneficiary must firstly request the applicant to remedy the flaws and, should he fail to comply with this request, to further proceed to enforce the bank letter of guarantee.

In such case the beneficiary must observe, in good faith, the provisions of the main agreement, otherwise being liable to pay the applicant damages or penalties for breach of provisions of the main agreement.

If the applicant initiates bankruptcy proceedings, the beneficiary will have the right to request to enforce the bank letter of guarantee, since the applicant is clearly no longer able to fulfil its obligations.

Finally, we note that if the applicant deals with insolvency proceedings and the bank letter of guarantee is enforced, but this amount of money does not cover the entire loss and damages suffered by the beneficiary, the latter could sign up for the statement of affairs of the applicant with the amount of money that was not recovered after the enforcement of the bank letter of guarantee. However, the beneficiary is only an unsecured creditor and therefore the secured creditors and other creditors that are classified as preferential creditors will have priority to recovering their debts, thus implying a risk that the beneficiary may not, in the end, be able to receive the rest of his debt.

Advantages

There are many advantages when choosing a bank letter of guarantee, of which we note that (i) it transfers the payment obligation for noncompliance undertaken in an agreement from the beneficiary to the issuer; (ii) it reduces commercial risks, because the payment is overtaken by the bank in its capacity as guarantor; (iii) it reflects a further insurance of good faith regarding the fulfilment of the obligations to the beneficiary; and (iv) by submitting a bank letter of guarantee the applicant proves its solvability towards the beneficiary.

Additionally, in relation to the enforcement of the bank letter of guarantee, the beneficiary must only demand the payment of the guarantee and to present the obligations of the main agreement that were not complied with, the issuer not being obliged to make further investigations in this regard.

Disadvantages

There are also a number of disadvantages related to bank letters of guarantee, such as: (i) the bank charges imposed for issuing a bank letter of guarantee; and (ii) in order to obtain a bank letter of guarantee, the applicant must hold the value of the bank letter of guarantee in a cash collateral account during the entire validity period of the bank letter of guarantee, or, alternatively, it must have enough credit to cover its value.

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USA
Canada
Caribbean

Australasia
Australia
New Zealand

Europe
UK
Austria
Belgium
Czech Republic
France
Germany
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
Switzerland
The Netherlands
Ukraine

Africa
Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

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China
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The Advisers, in association with Knight Frank, provides high standard consultancy services on all market sectors presented in this report: office, retail, industrial, land and investment. The Bucharest residential market overview has been performed by the Research team in collaboration with the Valuation & Advisory team.

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

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