THE ADVISERS
Prime Property

2011 ROMANIA MARKET OVERVIEW

Annual review & outlook

HIGHLIGHTS

- Activity in the Bucharest office market improved in 2010, as take-up was recorded at 225,000 sq m, an increase of 125% on 2009. Prime office rents were broadly stable during the second half of the year, after falling slightly in the first six months.
- The high street segment was the most active in the retail market during 2010. Strong demand for retail space in Bucharest has helped prime high street rents to stabilize, though rents in secondary locations remain under downward pressure.
- Vacancy rates in the industrial sector have risen, despite improved demand and limited development completions. Prime industrial rents fell by 10-20% during 2010.
- The Romanian investment market experienced a modest recovery in 2010, with approximately €500 million being invested. However, activity remains constrained by difficult access to finance.

in association with Knight Frank

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North Point, with 28,000 sq m GLA, developed by Sity International. Exclusive project of The Advisers/Knight Frank

1. OFFICE MARKET

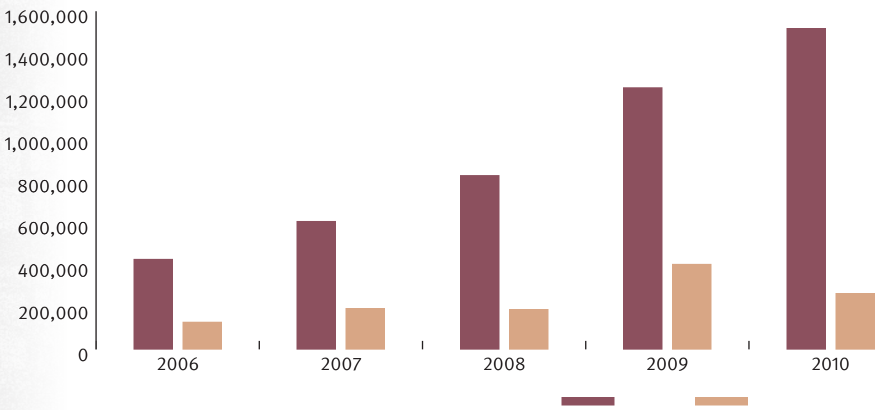
In comparison with the previous year, 2010 was characterized by a resurgence of the office market in Bucharest. While there were fewer deliveries of new office space than in 2009, take-up improved and 2010 brought an increase of 125% in the amount of leased space.

Supply

In 2010, the Bucharest market saw the delivery of over 265,000 sq m of new office space in 24 buildings. This increased the total office stock in the city to almost 1.52 million sq m.

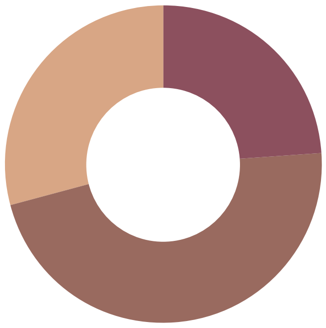
Over 70% of the space delivered was in the central and semi-central areas, while the periphery registered only 29% of the total. Considering that in 2009 the periphery accounted for 45% of all deliveries, this situation reveals an obvious shift in developers' behavior and an increased orientation towards the central and semi-central areas.

Figure 1
Evolution of office stock
sq m

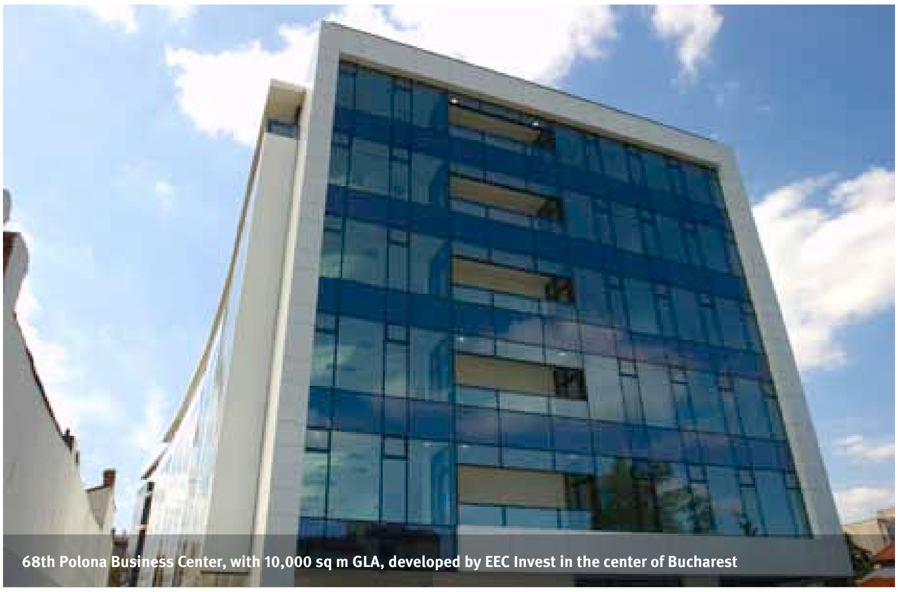


Source: The Advisers/Knight Frank

Figure 2
New office deliveries by location



Source: The Advisers/Knight Frank



68th Polona Business Center, with 10,000 sq m GLA, developed by EEC Invest in the center of Bucharest

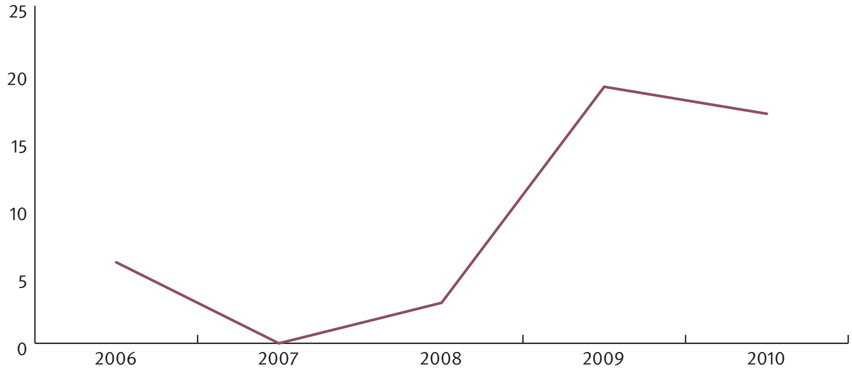
NEW OFFICE SUPPLY IN 2010 WAS CONCENTRATED MAINLY IN CENTRAL AND SEMI-CENTRAL LOCATIONS OF BUCHAREST

Besides the already established business areas, such as Victoriei Square (the main business district), Charles de Gaulle Square and the Free Press Square, a new district is developing in the Center-North part of the city. Starting in 2009 with the completion of Calea Floreasca 169A and continuing through 2010 with Lakeview, Euro Tower and Nusco Tower, the Calea Floreasca-Barbu Vacarescu area has become a major business hub in Bucharest. Due to its vicinity to Victoriei Square and the good accessibility towards both the city center and the two airports, this is one of the most in-demand business areas of the moment.

After the delivery in 2010 of the first two BREEAM certified buildings, Lakeview and Euro Tower, an increasing trend within the market is for properties to become certified as green buildings post construction – or for new developments to seek green certifications from the beginning of the excavation works.

While the first half of 2010 saw the overall vacancy rate remain at a similar level to 2009, at around 19-20%, by the end of the year it had fallen to 17%. The highest vacancy rates are found in the peripheral areas of Bucharest as tenants have relocated to more central and accessible locations.

Figure 3
Office vacancy rate
%

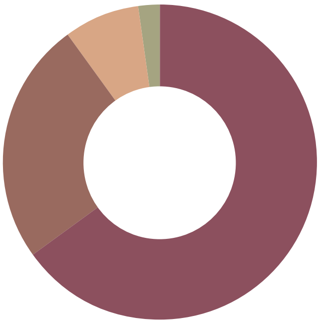


Source: The Advisers/Knight Frank

Bucharest map

OFFICE TAKE-UP IN BUCHAREST AMOUNTED TO 225,000 SQ M IN 2010, UP BY 125% ON THE PREVIOUS YEAR

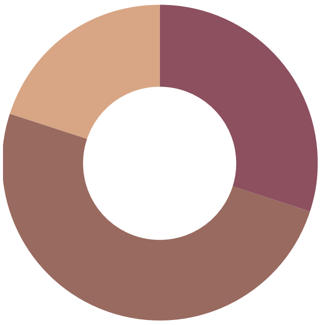
Figure 4
Office take-up by transaction type



- Relocations/expansions
- Renegotiations/renewals
- Pre-leases
- Sub-leases

Source: The Advisers/Knight Frank

Figure 5
Office take-up by location



- Central
- Semi-central
- Peripheral

Source: The Advisers/Knight Frank

Table 1
Office take-up by year

Year	2008	2009	2010
Take-up area (sq m)	230,000	100,000	225,000

Source: The Advisers/Knight Frank

Demand

Transactions closed during 2010 in Bucharest came to a total of approximately 225,000 sq m, reaching a similar level to 2008.

Compared with 2009, this showed an upward trend in the market, bringing a 125% increase in take-up. During the first half of the year, almost 95,000 sq m was leased, while the second half accounted for 130,000 sq m.

The average transaction size increased by 25% in 2010 compared to 2009, from 1,000 to 1,250 sq m.

The largest transaction registered in 2010 was the 15,000 sq m pre-lease signed by UniCredit Tiriac Bank in the first half of the year for an office building located on Expozitiei Boulevard.

Whereas most of the deals signed in 2008 were new demand, a significant percentage of the transactions closed in 2010 were renegotiations or the renewals of existing contracts (57,000 sq m). Despite the fact that at the beginning of the year a large amount of space contracted prior to the crisis was expected to be subleased, at the end of the year, the subleases accounted for only 4,500 sq m, while relocations together with expansions totaled 145,000 sq m.

The reduced amount of pre-leases – approximately 18,500 sq m – was caused mainly by the difficult economic environment which made most companies uncertain of what the future will bring. Moreover, just as in 2009, during 2010, due to the existing available space on the market, tenants had the power to negotiate with the landlords for better conditions and to relocate without waiting 6-18 months to secure a location.

Due to the more attractive lease terms offered by landlords, tenants relocated mainly to the central and semi-central areas. Consequently, the majority of demand was mainly directed towards these two locations, while only 20% of the take-up occurred in the periphery. This resulted in a large amount of vacant office space in peripheral areas.

The most active sectors were finance/banking/insurance and professional services, followed by pharmaceuticals & healthcare and IT&C.

Nusco Tower, with 20,000 sq m GLA, developed by Nusco Group in Calea Floreasca/Barbu Vacarescu area

Crystal Tower, with 16,200 sq m GLA, developed by Plaza Development in the center of Bucharest. First office building with double skin façade and heliport

Rents

Compared to 2009, the first half of 2010 saw a slight decrease in rents, of around 5% for premises located in the central and semi-central areas and of 15% on the outskirts of Bucharest. However, the last six months did not bring any significant changes and rents were fairly stable. Service charges remained at a similar level to 2009. At the end of 2010, the monthly cost per sq m was between €3.50-5.00, depending on the type of building, area and the services included.

Due to the large amount of space still available on the market, throughout the whole of 2010, landlords continued to attract tenants by offering financial incentives such as rent-free periods (from 2-6 months depending on the length of the lease agreement), free parking spaces or fit-out contributions.

In terms of the lease lengths, the average period remained five years. Nevertheless, given the uncertainty present in the economic environment, tenants are trying to sign contracts with flexible terms.

Table 2
Net effective rents (€ per sq m per month)

Year	Central	Semi-Central	Peripheral
2009	16-18	14-16	10-12
2010	15-17	13-15	9-11

Source: The Advisers/Knight Frank

Forecast

As no new major projects were commenced in the last two years, a limited number of buildings will be delivered to the market in 2011. The amount of new space expected this year is approximately 130,000 sq m, showing a clear decrease compared to 2009 (400,000 sq m) and 2010 (265,000 sq m).

As a novelty, the first building with a double skin façade and heliport, Crystal Tower, with a gross leasable surface of 16,200 sq m, will be delivered in the first half of 2011 in the vicinity of Victoriei Square. Two other large projects will be finished in the far northern part of the city: North Point and Platinum & Convention Business Center, with 28,000 sq m and 38,000 sq m GLA, respectively, both located on National Road 1.

Due to both the environmental protection policies adopted by multinational companies and the cost efficiency which characterizes green buildings, we expect that an increasing number of new projects which are delivered will be certified as green (BREEAM or LEED) buildings.

As far as take-up is concerned, we anticipate that, during 2011, demand will continue the positive trend registered in 2010, bringing the vacancy rate down. The next two years will be good years for pre-leases to be signed on projects due for delivery in 2013.

Keeping in mind that in the first half of the year the office market will remain a tenants' one, rental levels are likely to remain broadly stable until the summer. Given the level of the current demand and the reduced amount of new space expected to be delivered, the balance of the market may shift in the second half of 2011.

Consequently, the market will gradually become a landlords' one, especially for those who will have the financial power to start speculative projects in 2011 and 2012, or for those who are able to secure preleases in order to obtain financing.

Moreover, during the next two years, demand will begin to exceed supply and, as a result, landlords with space available in buildings with good technical specifications and accessibility will be able to choose between tenants. The decrease in the available space available on the market will impact on rental levels. From the second half of 2011, because of the strong demand and lack of high quality space, for the buildings which benefit from good locations, accessibility (especially those close to a metro station) and good technical specifications, rents may increase.

Romana Offices, with 2,300 sq m GLA, developed by Dinu Patriciu Global Services in Piata Romana

2. RETAIL MARKET

Retail market conditions remained challenging during 2010, though most retailers were able to adjust to the changing market. The high street sector has performed well, especially in Bucharest, where international retailers continue to seek space. However, the market remains difficult for shopping centers away from the capital.

Supply

New deliveries in 2010 amounted to 157,000 sq m GLA. Compared to 2009, when 230,000 sq m was delivered throughout the country, the total of new deliveries was down by 32%. With the exception of Severin Shopping Center, all the other projects are developments started several years ago, during the boom period, that have been delivered to the market with considerable delays.

2010 was marked by the insolvency of two shopping centers in the Romanian market: Tiago Oradea Mall and City Mall, the latter due to low income from rents and after failing to reach an agreement with the financing bank. Tiago was sold, while City Mall is looking for buyers.

Vacancy rates dropped in well established shopping centers which took the opportunity to consolidate their position on the market. Although numerous retailers closed down shops in major projects, owners of the successful shopping centers managed to replace them and maintain acceptable occupancy rates.

Nonetheless, shopping centers outside of Bucharest face a difficult market. As with the entire market, the challenge for existing and

Emporio Armani store, recently opened in Calea Victoriei (Victoriei Avenue)

Victoria City Center, to be developed by CD Capital Partners in Bucharest. Exclusive assignment of The Advisers/Knight Frank

new developments has not necessarily been attracting international retailers, but finding local retailers strong enough to sustain their existence and complete the tenant mix.

Demand

In Romania, the onset of the crisis at the end of 2008 and the beginning of 2009 took retailers by surprise. Although 2010 also had its surprises, the market settled down as retailers got used to the crisis and started adjusting to the new market conditions.

Overall, Romanian consumers' confidence declined due to the austerity measures taken by the government, the VAT increase and employment uncertainty. Moreover, the increase in prices led to reduced household spending budgets, and consequently a slowdown in consumption.

As a result, the business restructuring and optimization process started in 2009 was mostly finalized by the middle of 2010. The most dramatic changes have been implemented by Romanian retailers. As most of the local retailers have based their previous expansion on financing, their loans have become a burden in the new economic conditions and, consequently, have triggered a high number of store closures, and even insolvencies.

Table 3
Average shopping center rents

City	Rents (€/sq m/month)
Bucharest	17-24
Cities with more than 200,000 inhabitants	14-18
Cities with more than 150,000 inhabitants	10-14

Source: The Advisers/Knight Frank

Flanco, one of the major cases of insolvency, was able to restructure the company, exit insolvency status and was taken over by Asesoft. Also Leonardo, the shoe retailer, has started to register profits from September 2010.

Moreover, other retailers such as the furniture operator Staer (operating 24 stores) and the home-décor retailer Bamboo (operating 22 stores) applied for insolvency in 2010.

In addition to the Romanian brands, 2010 witnessed more cases of insolvencies from local companies that own international franchises. In their pursuit to create a portfolio of international brands, such companies suffered significant decreases in their turnover that led to insolvency. As an example, Fashion Retail Group closed Olsen, Mandarina Duck, Sacoor Brothers, Kanz, Pablosky, Kipling, Forever 18, Bijoux Terner and J. Press.

As consumer activity in 2010 was oriented towards affordable merchandise and basic products, demand for retail space was driven by food operators, discounters and retailers with low prices. Almost all the international food retailers continued their expansion in 2010, with Bucharest being the focus for the supermarket format.

Together with the food segment, fashion was the highlight of 2010 in terms of demand. H&M signed lease agreements, in Bucharest at Bucuresti Mall, Plaza Romania, Baneasa Shopping City, Afi Palace, Unirea Shopping City, and in other major cities in Romania at Unirea Shopping Center Brasov, Iulius Timisoara, Iulius Cluj and Palas Iasi.

Inditex group has continued to secure locations, opening other brands within Unirea Shopping Center Bucharest and signing its first high street location outside the capital city, in Pitesti, with 1,365 sq m.

The German fashion brands continued expansion with transactions such as New Yorker in Unirea Shopping Center in Bucharest, Galleria in Piatra Neamt, Severin Shopping Center in Drobeta, C&A in Polus Center Cluj and Family Center Botosani, Takko in Severin Shopping Center in Drobeta and Afi Palace in Bucharest.

In addition to the fashion retailers, the sports retailer Decathlon signed more locations within the following shopping centers: Grand Arena Berceni in Bucharest and Polus Center in Cluj.

Besides the classic categories of retailers, 2010 witnessed the aggressive expansion of medical clinics, with private operators targeting not only Bucharest, but also the other top five cities from Romania.

Rents

2010 was a particularly tough year for developers and landlords as retailers have become even more demanding in negotiations.

While for existing shopping centers, landlords are able to find a degree of flexibility with their financing bank, the situation is much more difficult for future projects due to be delivered in the next 2-3 years. For these projects, financing is strictly related to the expected income and, as more big retailers ask for turnover rent structures, a balance is to be found.

RENTS HAVE STABILIZED IN PRIME HIGH STREET LOCATIONS, BUT CONTINUE TO COME UNDER DOWNWARD PRESSURE IN SECONDARY AREAS

High Street

High street retail was the most active segment of the retail market during 2010, witnessing a strong revival compared to 2009. Vacancies have dropped, as the gap has narrowed between tenants' requests and landlords' expectations.

Victoriei Avenue was one of the busiest areas in terms of new openings with major brands making their way on the local retail market including Emporio Armani, Gucci and Gerard Darel. As a consequence, vacancies have also dropped significantly in this area.

The star of the high street retail sector has undoubtedly been the Old City Center, with increasing foot traffic and, accordingly, rents. Being the only pedestrianized area in town, it has become very attractive for restaurants and cafes although fashion retailers are yet to choose this destination for their next location due to the ongoing infrastructure works.

Demand was driven by convenience stores, goods manufacturers, supermarkets and drug stores. Target locations were residential and heavily populated areas.

A considerable percentage of transactions were relocations as the market offered the opportunity to relocate to a better position at lower or similar rents.

The high street is also becoming increasingly attractive for restaurants and fast food. These operators have shifted their focus from shopping centers to high street seeking greater visibility and higher foot traffic.

Rents have started stabilizing in prime locations and will continue registering slight decreases in secondary and peripheral areas as retailers have become very careful in choosing their next location.

Investment in pubs, cafes and restaurants in the Old City Center has increased

Forecast

Although the highest demand from retailers is concentrated in the capital city, 2011 will witness no openings of shopping centers in Bucharest with the exception of the first phase of Colosseum.

Of all the developments planned to be opened in 2011, an overwhelming majority are retail park concepts that require lower capital investments in comparison with shopping malls. The series of openings in 2011 will start with a retail scheme to be developed by Cora in Drobeta Turnu Severin, followed by Family Center Ramnicu Valcea, and the first phase of Colosseum in Bucharest.

Other notable planned retail projects include Oradea Shopping City, Maritimo Shopping Center in Constanta and Electroputere Shopping Center in Craiova.

Approximately 150,000 sq m of GLA are planned for delivery in Bucharest in 2012-2013, including Victoria City Center and Pallady Shopping Center.

As the vacancy rate in the shopping centers in Bucharest stabilized during 2010, retailers might find it more difficult in the future to identify available space within existing developments for new units.

3. INDUSTRIAL MARKET

The development of the industrial market is closely related to general trends in logistics, production and retail. Given the slight improvement in these areas in 2010, the evolution of the industrial sector was better last year than in 2009. The deals closed throughout 2010 were almost two times the volume of the previous year.

Supply

Bucharest's industrial stock reached almost 940,000 sq m at the end of 2010. As in 2009, developers were cautious and almost only built at the request of tenants. The exceptions were two developers from Bucharest who built 20,000 sq m on a speculative basis, with both projects being located in the south-eastern part of the capital, very close to the ring road.

New deliveries decreased by 40% last year compared with 2009, as a result of the small number of new projects which started development in the preceding years.

Ploiesti West Park, Olympian Park Timisoara, MLP Bucharest SUD and Industrial Park Catalunya are the new projects brought to the market in 2010.

A notable Class A delivery was the 30,000 sq m finalized for Unilever by Alinso Group in Ploiesti West Park.

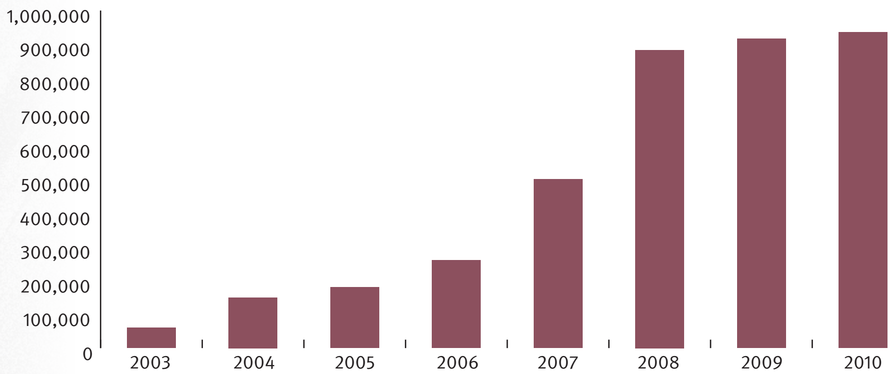
Demand

The industrial market started showing signs of recovery in terms of demand, with approximately 100,000 sq m leased in Bucharest and nearly 55,000 sq m closed in the rest of the country in cities such as Timisoara, Brasov and Ploiesti. These figures were nearly twice the transaction totals in 2009.

Despite the higher volume of leased space, the vacancy rate has reached almost 14%, registering a 30% increase compared to the 2009 rate. This is due to the fact that demand is still affected by the difficult economic environment, and tenants are struggling for their daily existence and being forced to reduce activity. Another important factor on the market is the reluctance of the financial institutions to lend to the real estate sector.

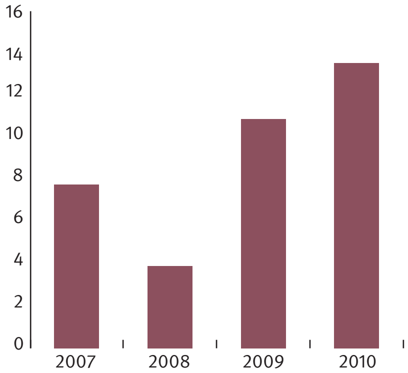
During 2010, demand came mainly from logistics, production and retail companies.

Figure 6
Total industrial stock
sq m



Source: The Advisers/Knight Frank

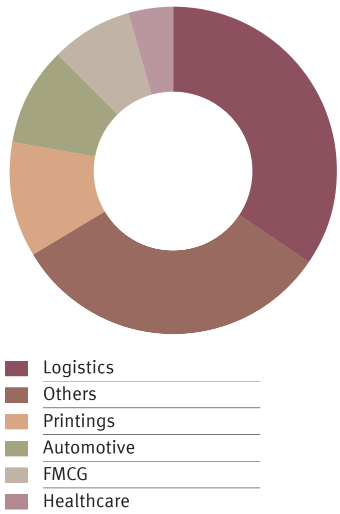
Figure 7
Industrial vacancy rate
%



Source: The Advisers/Knight Frank

DESPITE IMPROVED TAKE-UP LEVELS, INDUSTRIAL VACANCY RATES HAVE RISEN

Figure 8
Industrial take-up by sector
%



Source: The Advisers/Knight Frank

Table 4
Industrial take-up

Size (sq m)	2009	2010
Bucharest	55,000	100,000
Outside Bucharest	30,000	55,000

Source: The Advisers/Knight Frank

The largest Class A transactions in Bucharest were Augsburg (10,000 sq m), Geodis (24,000 sq m) and Adevarul Holding (8,600 sq m). The western part of Bucharest remained in the spotlight, maintaining its position as the most developed area in terms of Class A space.

Rents

Overall, compared with 2009, rents decreased last year by 10-20% due to the rising vacancy rate and the harsh economic climate. Service charge levels remained unchanged, at approximately €0.5-1/sq m/month, depending on the quality of the services and the local property tax.

Table 5
Industrial rental levels

Size (sq m)	€/sq m month
‹ 3k sq m	4.10-4.50
3k-10k sq m	3.70-4.10
› 10k sq m	3.40-3.70

Source: The Advisers/Knight Frank

Forecast

Developers will continue to be cautious, continuing to build only at the request of tenants in 2011. Nonetheless, there are projects which are set to deliver space on speculative basis in 2011, as follows: A1 Business Park (13,000 sq m), Ploiesti West Park (20,000 sq m), Olympian Park Timisoara (28,000 sq m), VGP Park Timisoara (18,000 sq m).

In the short term, both rental and service charge levels are expected to remain in the same range as in 2010. Nonetheless, vacancy rates might increase even more in light of the expected new deliveries, unless the prospects for the local economy improve and a notable pick-up in demand is witnessed.

Bucharest West Logistic Park

4. LAND MARKET

2010 was a year of consolidation for the land market, with positive signs arising after a period of standstill. The transaction volume was not impressive though, as caution still prevailed. The lack of activity registered during 2009 continued, as experienced players in the market planned their next moves.

The availability of prime plots at affordable prices, due to the lack of transactions since the end of 2008, correlated with opportunities in other market segments and caught developers' attention. The most important change registered in the market was the attitude of banks, which seemed more willing to finance real estate projects with good prospects.

Looking at supply, landlords can be divided into two categories. In the first one, we can include landlords who ended up owning plots unintentionally, such as the owners of factories within cities. They were not severely affected by the price slump and can wait for better market conditions. However, during this period, greater pressure has been put on the second category of landlords, which includes specialized developers and investors, who invested heavily, especially during 2003-2008, and had to postpone their projects indefinitely. Most of these investors obtained loans in order to purchase sites, so not only did their plans fail to materialize, but they are also paying high interest rates while obtaining no income in the short to medium term.

The harsh period has made landlords more flexible in terms of selling conditions, accepting not just cash, but also partnerships or percentages of the resulting end products. Landlords are also open to selling parts of plots or to changing the zoning if this is the buyers' requirement. Compared to the boom years, changes have occurred in the types of properties sold. In 2010, land transactions involved more centrally located plots with zoning approvals in place. The plots were smaller and the majority of deals did not exceed €10 million.

In 2010, demand came from end-users, experienced developers and speculators. Hypermarkets, discounters and DIY companies remained the main drivers of demand and targeted plots with good visibility and access in densely populated areas, either in Bucharest or in secondary cities. Cora provided two examples of large acquisitions in Brasov (Hidromecanica site) and Bacau (Imotrust site). Another example comes from Ploiesti where Lufkin acquired a 33 hectare site in order to develop its own production facility, which involves a €100 million investment.

As for experienced developers, they continued to search for sites providing new opportunities. For example, Belrom saw the potential of the retail market in Craiova and acquired a large stake of Electroputere. They paid an estimated €30 million for 12 hectares of the factory site, and plan to build a shopping center on it.

A surprising transaction was concluded by IKEA's real estate arm, Interprime Properties, who acquired the 51,000 sq m site belonging to Timpuri Noi factory. The transaction was closed at €34.6 million and represented the largest land deal of 2010.

During 2010 prices continued decreasing in most areas, reaching similar levels to 2004.

The exception was the Calea Floreasca-Barbu Vacarescu area which has seen a relatively small price reduction since 2008. This area has become an important office hub of the city, where demand has remained high. As a consequence, selling prices in this area are approximately 50% higher compared to 2004.

The office deliveries announced for the next two years are scarce, thus developers see an opportunity in this sector. While most transactions in 2010 involved sites suitable for retail and industrial projects, we expect the type of active buyers to widen in the future, especially for the office sector, as developers are expected to take advantage of market opportunities.

5. INVESTMENT MARKET

Floreasca Business Park, with 35,000 sq m GLA, delivered by Portland Trust in 2009 and sold at the end of 2010 to New Europe Property Investments

After a lethargic 2009, the Romanian investment market showed signs of improvement in 2010 with the closure of several significant transactions. It would be premature to state that investor confidence has returned to 2006/7 levels but this is a positive signal nonetheless.

The majority of deals across the spectrum – office, retail and industrial – involved foreign investors and the total transaction volume is estimated at approximately €500 million. There was a reasonable supply of stock from each sector offered to the market but only a few prime properties transacted, once again proving that quality product retains its value and that bargains are still difficult to find. Additionally, due to difficult access to financing many investors focused on smaller properties. Another anomaly was that many of the transactions were inter-related transactions between groups or joint venture companies and non-cash or debt driven.

No new players came to the market in 2010. Immofinanz, formerly ImmoEast, remained committed to its projects throughout the country. In the spring, it acquired the remaining 10% stake in the West Gate Craiova mall and, soon after, it paid €10 million for 75% of Euromall Galati, in order to see it through to completion. The group also took over Trigranit's debt of approximately €40 million for 85% of Polus Center Constanta. CA Immo bought Europolis' local portfolio as part of a large regional transaction, thereby further committing to its presence in the Romanian market. The closing of the transaction transformed CA Immo into the second largest owner of office space in Bucharest. The deal involved both income generating properties and development land.

New Europe Property Investments was active throughout the year acquiring the Auchan and Bricostore retail property in Pitesti from

Avrig 35 in Q3 followed by a warehouse in Otopeni near the Henri Coanda International Airport in Q4 which includes a vacant land plot for development. The largest office investment transaction took place in Q4 2010, and was NEPI's purchase of Floreasca 169 for approximately €101 million, from AREA Property Partners and Portland Trust.

This was the fourth high quality office project acquired by the group, comprising 36,000 sq m in Bucharest's up and coming business district of Calea Floreasca-Barbu Vacarescu, which is now home to international tenants such as Oracle, Honeywell, HOLCIM, L'Oreal, among others. The reported yield was 8%. NEPI is currently listed on London's AIM and on the Johannesburg stock exchange, and is preparing to list on the Bucharest exchange.

Other notable transactions in 2010 included Arcadom's purchase of half of the shares in Atrium Center Arad from Carpathian, for €35.5 million. Tiago Mall Oradea was the first large property to be publicly auctioned off by a bank in August 2010 and was purchased by Baneasa Investments, the developer behind the successful Baneasa Shopping City in Bucharest.

In the office sector, GTC increased its ownership in City Gate to 59% by paying €9.8 million for Startmart Limited's shares in the property. GTC also announced the €80 million refinancing of the towers it jointly owns with Bluehouse Capital in the northern part of Bucharest. Cefin Real Estate sold the Louis Blanc Offices in Piata Victoriei to a private investor for approximately €6 million, which reflected a yield of approximately 9%.

Buyers are currently looking at the sustainability of rents and occupancy rates more closely than before, hoping to minimize their risks until the market stabilizes.

As an outlook for 2011, Bucharest's office and industrial markets are expected to offer some opportunities due to the limited number of new deliveries forecast for the next year, and investors are expected to take renewed interest in these segments as vacancies decrease and rents stabilize. It is anticipated that purchasers' expectations of yields will become closer to those of vendors. Yields are likely to remain stable for prime products across all segments and we expect investors' confidence to increase.

68th Polona Business Center

INVESTMENT TRANSACTION VOLUMES IMPROVED IN 2010, BOOSTED BY INCREASED ACTIVITY FROM FOREIGN INVESTORS

PRICEWATERHOUSECOOPERS

TIME TO TAKE A FRESH LOOK AT YOUR GROUP TAX STRUCTURE?

Authors: Brian Arnold, Tax Partner leading the Real Estate tax group at PricewaterhouseCoopers Romania and Alexandra Smedoiu, Manager in the Real Estate team.

6. INVESTMENT PROPERTY ACCOUNTING AND TAX MATTERS

The past few years have brought significant uncertainty in the local real estate market. Real estate development has become an unpredictable business, as owners of projects know all too well. Gone are the days of the bull market and implicit profitable exits in real estate. Nowadays, wherever one turns, whether it's in Bucharest or elsewhere, one can see empty buildings, halted construction in progress or untapped land plots.

Could the market be turning? At the dawn of what will likely be a slow market recovery, what better time is there to take stock of your overall tax position? In particular, we focus here on the use of existing tax losses and credits.

In the past, the common market practice was to set up a separate company for each real estate project developed. This structure allowed benefits in terms of legal liability, as well as cleaner exit options in the event of a sale, including potential tax savings upon exit. However, in the current environment, this structure may not always prove to be the most efficient tax wise, and thus there may be opportunities for restructuring to increase value and save tax costs.

The issue: In Romania, tax consolidation between multiple companies owned by the same shareholder or the same group of shareholders is not possible like in many other jurisdictions around the world. For VAT purposes, although the concept of VAT grouping has been introduced, its practical applicability is hindered by a series of very restrictive conditions.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IN THE CURRENT UNCERTAIN MARKET, IT IS INCREASINGLY IMPORTANT THAT PROPERTY OWNERS CONSIDER THE POTENTIAL TAX BENEFITS OF RESTRUCTURING THEIR BUSINESSES

In this legislative context, investors that have committed large amounts of funds to the development of several real estate projects in Romania may find themselves in a situation where for successful/operational projects they incur material current tax liabilities, whereas for less successful ones or those still under development, there may be large tax losses that cannot be used immediately and may eventually be lost. When looking at the investors' overall tax position, this is certainly less than optimal.

Think of the example of a shareholder that owns two project companies in Romania. One company is profit making and pays taxes, while the other is making a heavy loss. The loss-making company may still have a long time to go until it can fully use the losses against future profits. While tax losses can be carried forward 5 to 7 years (depending on when generated), the quicker they can be used the more valuable they are.

One solution is to merge a profit-making company with a loss-making company, so that in the end profits and losses of the two companies are consolidated in the same legal entity and the overall tax liability reduced accordingly. The same can be achieved for compensating VAT payable against VAT refundable, which may bring about a significant cash flow advantage, given that in practice the process of recovering VAT is a lengthy one at best.

Another potential idea worth considering in the case of companies with expiring tax losses is to use the end of the year to accelerate the recognition of taxable revenues, such as revenues from sale of assets, rental revenues, or other income. In fact, if it looks like tax losses will be expiring before being put to use, this is one of the best moments to implement restructuring measures that otherwise may have been postponed. Sale of assets may also allow for the use of revaluation reserves resulted from past revaluation. Again, any tax impact of the reserves use may be offset against the expiring tax losses.

In the same vein, depending on the overall group shareholding structure, it may be possible to implement a legal restructuring (sale or exchange of shares) to crystallise losses in the market value of some projects or shares in project companies. This way, owners of highly capitalised companies can reduce their taxable base by the decrease in value of the shares they own in projects or other project companies.

Another potential saving may come from the use of tax credits. Tax credits come in several forms, including a credit for taxes paid abroad or for certain sponsorship activities. Tax credits can be claimed at the end of the fiscal year, but only if the company is profit-making - if the company is loss-making such credits cannot be carried forward and are therefore lost forever. Managing tax credits requires some planning, such as deciding which company to use for investing abroad, ensuring that revenue recognition domestically matches the period in which taxes are paid abroad, etc.

In the days of constantly increasing prices, things like managing tax losses and tax credits often were not considered hot topics, since such losses were often only engineered up front on paper and quickly turned around, while credits were easily utilised. In the current day where real economic losses are no longer unheard of, utilisation of such losses for tax purposes and ensuring use of all available tax credits becomes much more important – since failure to do so means real money out of the pockets of the shareholders!

In this context, the time is right to take a fresh look at your overall investment structure to ensure that potential tax benefits are being properly used.

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