

2014/2015

THE ADVISERS
Pione Property

in association with
**Knight
Frank**

ROMANIA MARKET OVERVIEW

ON THE RISE AGAIN

HIGHLIGHTS

Record demand and pre-leasing volumes put office market in the spotlight again

Revival of the industrial sector, marked by cca. 70% market growth

Highest investment volume since 2007 – €1.2 bn

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INTRODUCTION



Romanian market, on the rise again

The local commercial market continues to show signs of strong improvement, especially the office and the industrial sectors, which performed exceptionally well and recorded double-digit growth in 2014.

As expected, the office market continues to flourish. Bucharest saw again the highest level of take-up on record, and up by 22% year-on-year. In tandem with the continued strong demand and the tightening supply, development activity has considerably increased. Moreover,

pre-leasing activity also recorded a high, triple the volume registered in 2013. The next 24 months will see the completion of several large developments on the Bucharest market, mostly speculative. There are reasons to believe that this expected new supply will be gradually absorbed and will not significantly affect the vacancy rates, as pre-leasing activity will strongly continue beyond the first half of 2015.

The industrial sector, previously more resilient to recession, also experienced a remarkable revival in 2014, with increased demand for industrial space nationwide (up by nearly 70%) and positive investor sentiment reflected in a slight yield compression for prime properties.

More robust occupier fundamentals along with improved quality assets supported the long-awaited revival of the investment market, with

Bucharest becoming an increasingly attractive location in the region. Investor demand registered a high in 2014, resulting in a post-recession record transaction volume of €1.2 bn. Judging by the number of transactions, the office and retail sectors were equally preferred by investors, each attracting seven transactions throughout the year. However, the retail sector generated the largest share of total transaction volumes (cca. 40%). Yields are most likely to further contract for the very best office and industrial assets.

Looking forward we remain confident that steady growth is on the cards for the Romanian property market over the coming years, against the backdrop of the evolution of a new market cycle and its inherent opportunities.

HORATIU FLORESCU
Chairman & CEO
THE ADVISERS/KNIGHT FRANK



European outlook

While there are some lingering doubts about the strength and uneven nature of Europe's economic recovery, both the EU and the Euro area are poised for positive growth in 2015.

Occupier markets are likely to continue to move in line with wider economic trends, with the Nordic

countries and the Baltics currently seeing a significant improvement in occupier sentiment and a most encouraging trend in Ireland and parts of Southern Europe. Regional property markets in the wider Central and Eastern European area are also expected to perform well on the back of limited availability.

European commercial investment volumes totalled €177.6 billion in 2014, up 21% on 2013 and the highest since 2007. Following a period of yield compression in major European cities in 2014, particularly in the office and retail sectors, investors' appetite for

risk has grown as they focus their interest increasingly on secondary opportunities and alternative sectors.

However, the really good news for both occupiers and investors is that rents in most markets remain lower than their pre-recession peaks. This should provide a further boost to activity in 2015, with more occupiers looking to take advantage of good deals, while investors will seek to cash in on better rental growth prospects as the economic outlook continues to improve.

DARREN YATES
Partner, Head of European Research
KNIGHT FRANK

HIGHLIGHTS

Following a moderate economic recovery in the Eurozone and despite the external events that could influence Romania's development, we estimate 2015 economic growth at 2.2%, driven mainly by domestic demand.

ROMANIA 2015 MACRO OUTLOOK — MACROSTABILITY: GOOD, BUT NOT ENOUGH

by Radu Graciu, Chief-Economist, BCR
and Eugen Sinca, Senior Analyst, BCR

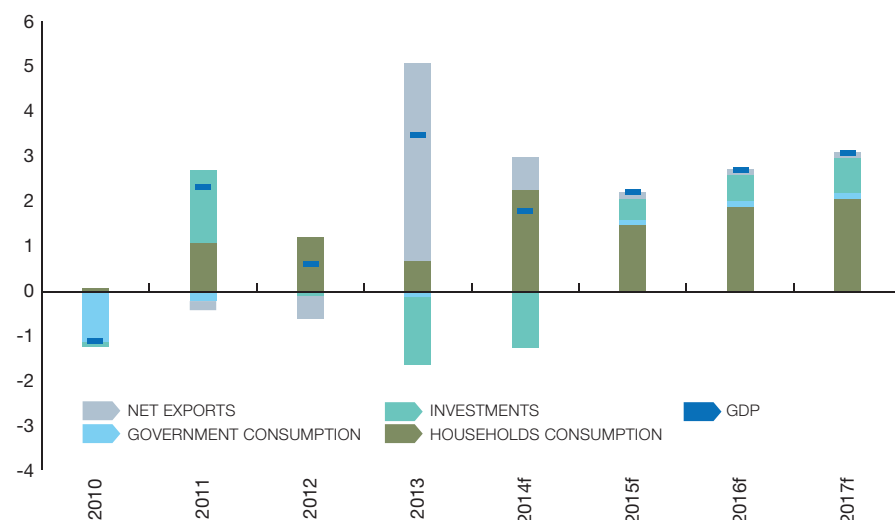
The very low inflation rate, along with a moderate economic recovery in the Eurozone, monetary policy divergence between the FED and the ECB, political tensions between Russia and Ukraine and the outcome of the Greek sovereign debt problem are key external events that could influence Romania's economic development in 2015.

There is potential political volatility ahead related to a possible reconfiguration of the political landscape triggered by the results of the 2014 presidential election and by a rebalancing of power within the two main political parties: the Liberal Party (PNL) and the Social-Democrat Party (PSD). A number of senior Liberal politicians recently suggested they would like to form a new government and a no-confidence vote against the current government cannot be ruled out.

Looking at the next 1–2 years, Romania's major task is to improve its economic growth while preserving the fiscal and balance of payments equilibrium. Finding proper financing for higher economic growth could prove challenging in the current environment, but better absorption of EU funds, stronger lending in the local currency to the private sector and a better allocation of public resources among different projects could solve the puzzle. Real GDP growth rates of close to 2% are definitely not suitable to Romania's goal to enter the single European currency area sometime around 2019. History has shown that, for some countries, fulfilling the nominal Maastricht criteria was not enough for providing a smooth integration into the euro area. Therefore, real convergence criteria such as the GDP/capita gap

FIGURE 1

Contribution to GDP growth by category of expenditure
(pp)



Source: National Institute of Statistics, BCR Research

could provide a measure on how challenging would be the adoption of the euro for a potential candidate.

We estimate 2015 economic growth at 2.2%, driven mainly by domestic demand, while exports are likely to offer lower support compared to 2014. Public investments are again a big unknown for economic growth and we read with skepticism the government's plans in this area, as laid down in the 2015 state budget. The main threat for 2015 economic growth comes from the stretched consolidated budget, which targets a deficit of 1.8% of GDP against a backdrop of the late 2014 social insurance tax being cut by five percentage points and a 5% rise in pensions. Given the low flexibility offered by the already ambitious expense targets, Romania runs the risk that a cut in investments would be the main source of any major expenditure adjustment, with the surprising fall in 2014 investment activity being a precedent. Moreover, given the time required to resume the investment process, when it is mainly EU funded, it is hard to expect overnight results in 2015.

Next to boosting growth and keeping the budget in balance, exceptionally low inflation is likely to be the next challenge in 2015, but this time for the central bank. The end of 2014 brought very low inflation of only 0.8%, significantly below

the lower end of the range targeted by the central bank. This situation was the consequence of a combination of factors, among which the deficit of demand, the imported deflation and the lower oil prices played major parts. Although with fading impact, such developments are likely to continue to weigh on price developments, keeping inflation below 1% during the first half of 2015, which might lead to a year-end figure of close to 1.7%. Surprises cannot be ruled out and we see more downside potential for our forecasts, with the NBR having to limit any further decline in inflation.

Monetary easing is likely to continue in 2015, centered upon fresh reductions in minimum reserves. Ideally, the additional liquidity and lower rates provided by the central bank should have a triple impact: stimulating consumption/investment by rewarding savings less, pushing banks into more aggressive lending and preserving a moderate level of depreciation for the currency in order to prevent deflation.

The EUR/RON exchange rate is likely to fluctuate more than in 2014, due to the external and political risks previously mentioned, but the NBR is expected to keep a close eye on the FX market and to continue to intervene occasionally to tame volatility. We do not expect to see a repeat of 2014 exchange rates

in 2015, as we believe that the NBR is likely use the exchange rate as a tool in fighting deflation. It is therefore expected to favor the current y/y depreciation of the RON. Moreover, the expected rate and MRR cuts should also weigh on the RON. Temporary spikes of volatility might occur depending on local political news as well as on regional geopolitical developments. We expect the NBR to remain in control in order to avoid rapid FX movements.

The current low yield environment for local currency bonds is likely to be preserved in 2015 as long as the global context is supportive. Inflation rate below the NBR's target most of the time in 2015, the international low yield environment as well as the generous liquidity provided by the ECB and the NBR are likely to continue to support the current prices of the Romanian sovereigns, despite the imminent start of rate hikes in the US.



HIGHLIGHTS

With a record take-up volume in 2014, a drop of 5.5% in the availability of Class A office space, a record high in pre-lease activity and improved development activity, Bucharest market outlook stays optimistic in the medium-term.

OFFICE MARKET

Overview

After a strong year with robust tenant activity which maintained pressure on supply, pre-leasing is expected to continue on the office market in the coming 12 months, following a record high volume in 2014, triple the previous year. Bucharest availability fell by 5.5% year-on-year for Class A office space. Optimism is underpinned by increased development activity, mostly speculative as several major projects have already commenced construction, most of them with expected delivery in 2016.

Supply

H2 2014 saw the delivery of five Class A buildings to the Bucharest market, totaling cca. 45,000 sq m, and bringing the total modern stock of Class A and B office space to 2.06 mn sq m.

Overall cca. 140,000 sq m office space were delivered to the market in 2014, a level nearly 20% higher than 2013. New deliveries accounted for cca. 88% of the total new stock, while reconversions only represented cca. 12%. The most important office schemes delivered to the Bucharest market were **AFI Park 2 and 3** (24,400 sq m), **Green Court Phase I** (19,500 sq m) and **Hermes Business Campus Phase I** (18,000 sq m). In terms of submarkets, cca. 37% of the total new supply was delivered in the Center-West area, followed by Calea Floreasca-Barbu Vacarescu area, with cca. 23%.

At a national level, 2014 recorded only the delivery of Phase I of **The Office** project in Cluj-Napoca (19,000 sq m) in Q2 2014.

Demand

Total take-up for 2014 reached a record high of cca. 303,000 sq m for Class A and B office space. This is the highest level of take-up recorded in the last 10 years and it is significantly higher than the previous year's volume of cca. 250,000 sq m.

In terms of transaction type, relocations and new entries accounted for 36% of the total transacted area, while renegotiations and pre-leases each achieved 26% of the market.

Of particular note is the record strong pre-lease activity, which tripled in volume compared with 2013 (cca. 80,000 sq m in 13 transactions). In 2013 this type of transactions only achieved 9% of the total transacted area, with cca. 25,000 sq m. This trend is likely to continue into and beyond the first half of 2015.

The total number of transactions signed on the market in 2014 increased by cca. 30% compared to the previous year, yet the average size remained broadly similar (cca. 1,500 sq m). Still, large transactions over 5,000 sq m dominated market activity in 2014, accounting for cca. 32% of the total gross take-up, which represents a slight decrease compared to the 2013 percentage of over 41%.

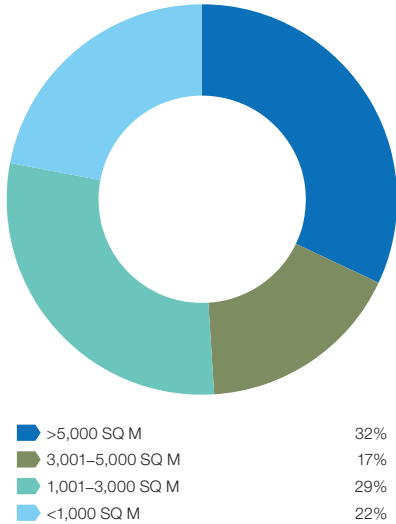
By location, more than 40% of the total number of transactions were registered in Calea Floreasca-Barbu Vacarescu, which saw increased activity among large tenants and captured two large pre-leases, both involving IT&C tenants. As a result, as opposed to 2013, when annual demand was stronger in Dimitrie Pompeiu submarket (28% by area), the preferred business hub of 2014 was Calea Floreasca-Barbu Vacarescu, attracting over 31% of the total demand in terms of area. However, both submarkets have attracted the highest demand in the last five years.

Major transactions included Orange's pre-lease of 13,700 sq m in the first phase of **Green Court**, Vodafone's pre-lease of 16,000 sq m in **Bucharest One**, Renault's renegotiation (20,000 sq m) in **North Gate Business Center** and Telekom's pre-lease of 25,000 sq m in **Globalworth Campus**.

Leasing among IT&C tenants comprised a large share of market activity throughout 2014. Similar to previous years, this sector remained the biggest source of demand with

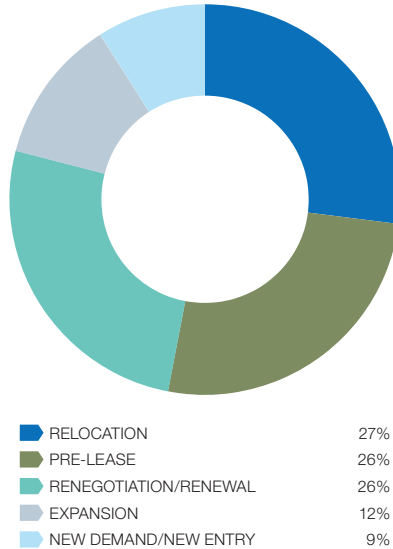


FIGURE 2
Demand by leased area
2014



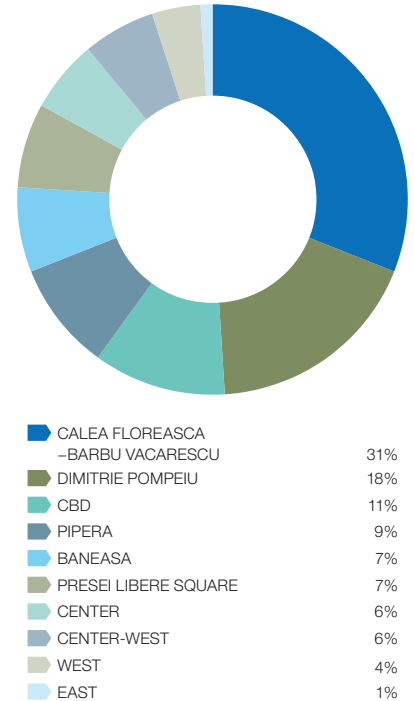
Source: The Advisers/Knight Frank

FIGURE 3
Demand by type of transaction
2014



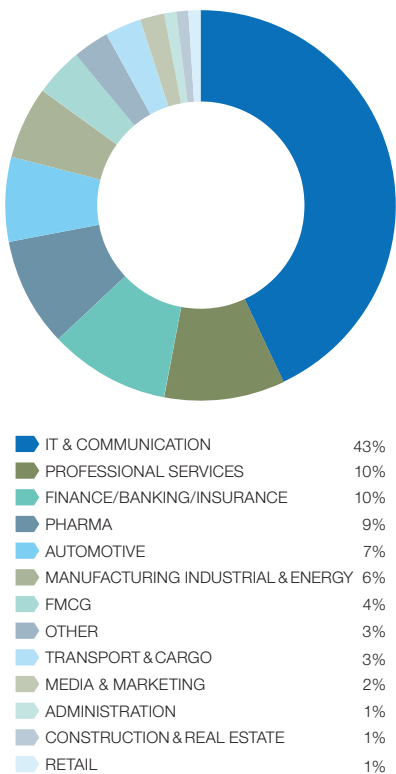
Source: The Advisers/Knight Frank

FIGURE 4
Demand by submarket
2014



Source: The Advisers/Knight Frank

FIGURE 5
Demand by tenant activity sector
2014



Source: The Advisers/Knight Frank



Oregon Park

43% of the total take-up. The finance/banking/insurance sector and professional services continued to help drive the Bucharest take-up, each with 10% of the total, followed closely by the pharmaceutical sector with 9%.

Rents

Though demand for space has been picking up, prime rental levels in Bucharest have remained stable at €18/sq m/month.

Service charges remained largely in the range of €3.50–4.50/sq m/month.

Vacancy

By the end of 2014, there had been a noteworthy decrease in the vacancy rate for Class A and B office space, which dropped from 17.4% in Q4 2013 to 15.8%. Furthermore, availability for Class A office space fell significantly to 12.5% from 18% in Q4 2013.

Some of the lowest vacancy rates were recorded throughout 2014 in the established submarkets of West, Dimitrie Pompeiu and Presei Libere Square (each finishing at 5%) and in the Center-West submarket (6%).

The vacancy rate is expected to tighten in the coming months, as demand will probably stay strong and most of the new developed space is anticipated to be delivered in late 2016.

Forecast

Deliveries of cca. 120,000 sq m of office space are expected in 2015, a similar level to 2014. Noteworthy projects include **AFI Park 4 and 5** (32,000 sq m) and **Green Court Phase II** (17,600 sq m).

Moreover, established developers have announced significant projects due for completion in 2016, mainly in the Calea Floreasca-Barbu Vacarescu, Dimitrie Pompeiu and Center-West areas, which will have a positive impact on pre-leasing activity, expected to continue in the coming year. Of particular note, most of this space is under construction speculatively, as schemes such as **Oregon Park** (72,000 sq m) or **Hermes Business Campus Phase II** (22,000 sq m), have already commenced on site. With several projects currently planned, the CBD is also preparing to take on new supply in the following couple of years, the most significant project being **The Landmark** business park (23,000 sq m).

However, given the continued strong levels of demand and the limited existing supply, the new stock arriving on the Bucharest market within the next 24 months is not likely to impact significantly on the overall vacancy rate.

Furthermore, the increased development activity is supported by several ongoing infrastructure projects, particularly in the Center North of Bucharest, among which is the extension of Fabrica de Glucoza Road and a series of roundabouts allowing better vehicular access, and therefore improving the overall traffic movement in the area.

Prime office rents are expected to remain stable throughout the coming months.

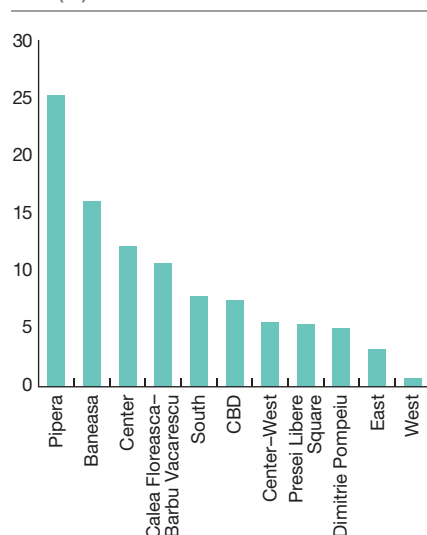
In the rest of the country, Cluj-Napoca remains the most active city in terms of development, with estimated deliveries of cca. 40,000 sq m in 2015. Regional cities are expected to further attract outsourcing demand on the back of improving stock along with attractive underlying fundamentals, as compared to other countries.

TABLE 1
Prime headline rent by submarkets
€/sq m/month

CBD	16–18
Presei Libere Square	14–16
Calea Floreasca-Barbu Vacarescu	14–16
Center-West	13–15
Baneasa	12–14
East	11–13
Dimitrie Pompeiu	11–13
West	11–12
South	10–11
Pipera	8–10

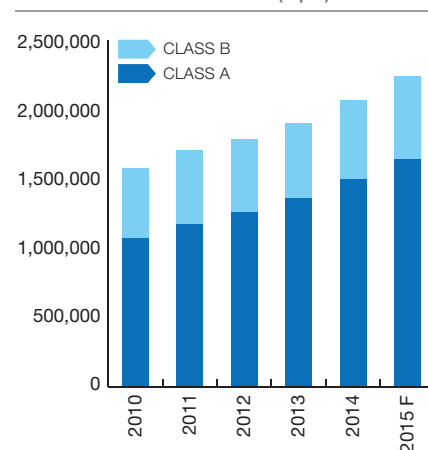
Source: The Advisers/Knight Frank

FIGURE 6
Vacancy rate by submarkets
2014 (%)



Source: The Advisers/Knight Frank

FIGURE 7
Modern office stock
Annual evolution and forecast (sq m)



Source: The Advisers/Knight Frank

LAND MARKET

Overview

With transactions amounting to cca. €110 mn, 2014 saw buoyant activity on the land market. Developers' confidence in the revival of the market became obvious especially during H2 2014, which brought a clear positive trend, with several key transactions closed for office, retail and residential developments alike.

Supply

Following the general trend of previous years, supply in the Romanian land market was further increased, as major banks and insolvency companies have put up for sale substantial land plots as distressed properties.

Demand

In 2014, demand continued to come mainly from office developers, followed closely by retail and residential ones. The most significant deal for office development in 2014 was the acquisition by Portland Trust of a 4 ha land plot from Nusco Group, in a transaction brokered by The Advisers/Knight Frank. Set in the northern part of Bucharest, in the city's most preferred business hub, the land plot is intended for developing the largest office project post-recession (est. GLA 72,000 sq m). In the same area, later in the year, investment fund NEPI took over a conveniently available land plot located near **Promenada Mall**, planning to expand the successful shopping center. The additional space built will accommodate a cinema and a hypermarket.

Retailers continued to be active in the market, with several transactions recorded in the South of the city including those involving Leroy Merlin (4.3 hectare land plot) and Dedeman (4.7 ha land plot).

Other notable transactions of 2014 involved land plots for residential development planned by Opus Land and Impact SA.

Moreover, investors' interest in land plots in Bucharest continues to rise with several major infrastructure developments currently ongoing in the capital city.

Prices

Prices remained at constant levels during 2014 with minimal movement recorded and variations in land values depending mostly on their location. Currently, the most sought-after submarket in the semi-center of the city, Calea Floreasca/Barbu Vacarescu, still generates the highest prices outside the city center, up to €800/sq m.

Forecast

Supply is forecast to remain stable throughout 2015, with office and residential developments attracting the strongest demand on the market, as a result of the growing market confidence and the rebalancing economy, boosting construction in the entire real estate sector. An increasing number of players interested in residential development are currently setting this particular sector on an ascending trend.

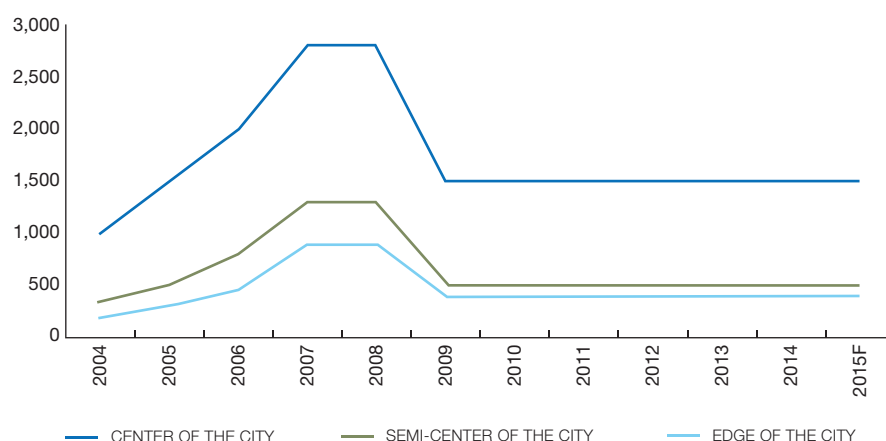
HIGHLIGHTS

2014 was one of the most active periods in recent years on the local land market, with the most notable transaction being a 4 ha land plot acquired by Portland Trust for the largest office development post-recession.



4 ha land plot acquired by Portland Trust in Center-North of Bucharest

FIGURE 8
Bucharest land price evolution
€/sq m



Source: The Advisers/Knight Frank

HIGHLIGHTS

Strong investor demand for Romanian property resulted in a record-high transaction volume of €1.2 bn in 2014. This trend is expected to continue in the coming months, on the back of more robust occupier fundamentals.

INVESTMENT MARKET

Overview

With confidence improving in the occupier markets and investor sentiment distinctively positive, investment activity in Romania reached record volumes of €1.2 bn in 2014, surpassing and doubling the previous high of 2010 (€543 mn).

Underpinned by Romania's recent good economic performance, increased international interest was witnessed throughout the year for the best performing sectors: office and retail. Over the first half of the year transaction activity was largely dominated by domestic restructuring deals, whereas H2 saw the completion of a series of major transactions.

Supply

The moderate investment activity recorded over recent years can partly be explained by the limited availability of financing and the relatively tight supply of prime, quality assets, which remain keenly sought-after.

However, more recently, new deliveries of high-quality projects have led to a higher pace of market activity. Established developers, with recognized track records, continue to deliver high-quality projects to the Bucharest market that can be expected to trigger significant investment activity.

Demand

Although the Bucharest office market has been the main focus of investor interest, the largest transactions of 2014 were recorded for retail and industrial assets. Retail purchases accounted for 43% of the total transaction volume, with the **Promenada Mall** acquisition by NEPI for cca. €148 mn and Immochan's purchase of 12 retail properties for an estimated €280 mn. Other notable retail transactions included distressed assets of Equest Balkan Properties, such as **Moldova Mall**, sold for €20 mn and **Vitantis Retail Park**, purchased by

Revetas Capital which also took over the seller's €20 mn debt.

The office sector saw increased investor interest, with seven transactions closed throughout the year 2014. In H2 2014, Globalworth Real Estate Investments continued to expand its portfolio by acquiring three major office projects.

Green Court Phase I, developed by Skanska Group was acquired by Globalworth for an estimated €44 mn, **Nusco Tower** office building was transacted for cca. €46 mn, while **Unicredit HQ** was sold for over €43 mn.

As far as industrial sector is concerned, one major acquisition was completed by P3 which bought **Europolis Logistic Park** (215,000 sq m), one of the largest logistics parks in Romania, previously owned by CA Immo.

Yields

Improved activity in the investment market in 2014 resulted in moderate yield compression, especially in the office sector, where prime yields hardened by 25 bps to 8%. Prime industrial yields also hardened, to 10%.

TABLE 2
Bucharest prime yields 2014
%

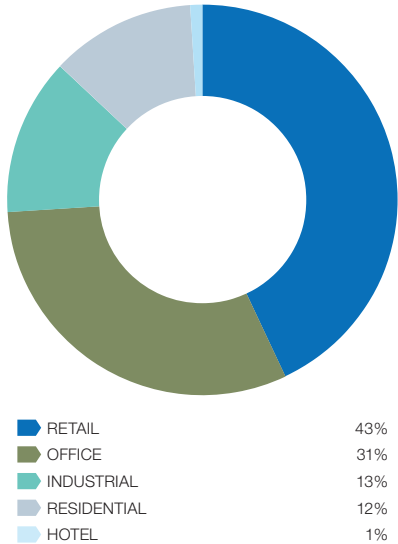
Office	Retail	Industrial
8.00	8.00	10.00
↓	↓	↓

Source: The Advisers/Knight Frank

Forecast

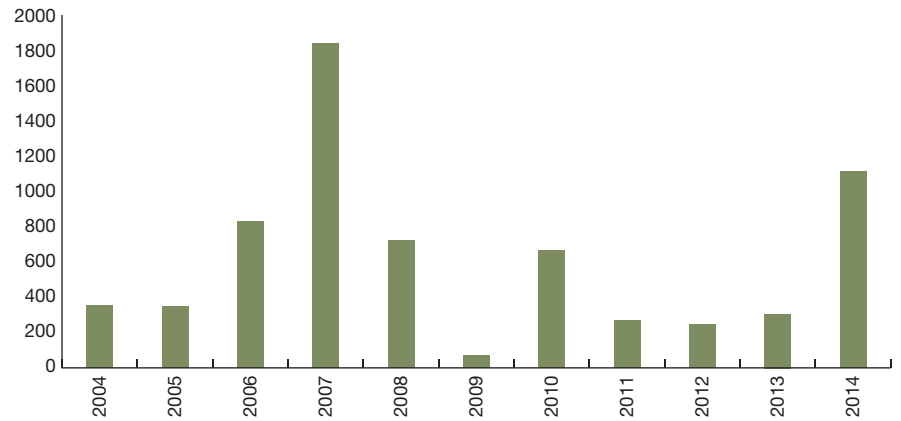
Sustained investor interest is expected in 2015, especially in the office sector. Continuing the trend of previous years, increased investor interest is expected to maintain the pace of investment activity.

FIGURE 9

**Transaction distribution
by property type in 2014**

Source: The Advisers/Knight Frank

FIGURE 10

Romania investment transaction volumes
Annual evolution/€mn

Source: The Advisers/Knight Frank



Promenada Mall, Bucharest

HIGHLIGHTS

The outlook for the retail sector remains positive in view of the expected continued economic improvement. With new retail supply expected to reach a record high of over 200,000 sq m in the coming year, a cautious optimism is anticipated in the market.

RETAIL MARKET SHOPPING CENTRES

Overview

As the economic recovery continues and consumer confidence is back on track, prospects have improved for the Romanian retail sector. Throughout 2014, fashion retailers have maintained their expansion plans, with most of the openings being recorded in the capital city. Even though 2014 saw the Romanian retail stock increasing by only 75,000 sq m, the lowest level of annual completions in recent years, a remarkably high level of new supply has been announced for 2015, of cca. 226,000 sq m.

Jiu (27,000 sq m GLA), both developed by NEPI, as well as **Auchan Drumul Taberei** hypermarket (21,800 sq m GLA), developed by Immochan.

The current retail property stock in Bucharest stands at cca. 920,000 sq m, while the total Romanian retail inventory comprises cca. 2.04 mn sq m.

Demand

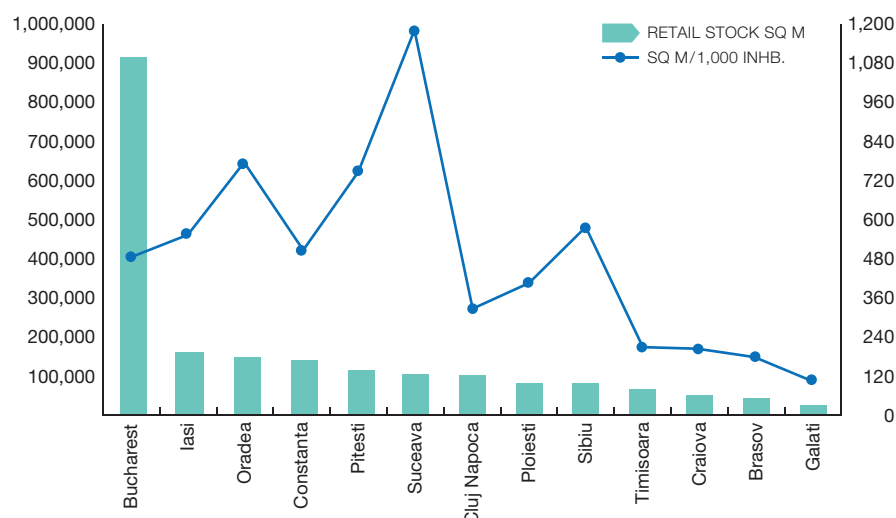
Demand in 2014 came mainly from well-known fashion brands such as H&M which opened eight units of which two were in Bucharest, CCC with six units, Ecco with five units and Takko with four units.

One significant transaction signed in 2014 saw the opening of the 16th store of JYSK in **Shopping City Sibiu**, where it occupies a total GLA of 1,300 sq m. Another important source of demand remained established food retailers. Brioche Dorée opened two more units in Bucharest, reaching a total of five shops in the capital city.

Supply

While there were no deliveries in the first six months of 2014, the second half of 2014 saw the completion of three retail projects, totaling just under 75,000 sq m: **Vulcan Value Center** (25,000 sq m GLA) in Bucharest and **Shopping City Targu**

FIGURE 11
Retail stock in various Romanian cities
Stock/1,000 Inhabitants



Source: The Advisers/Knight Frank

Rents

Rents for the leading retail schemes in Bucharest are currently in the range of €60–70/sq m/month, representing a similar level to 2013, while in the rest of the country rents vary between €25–35/sq m/month.

Forecast

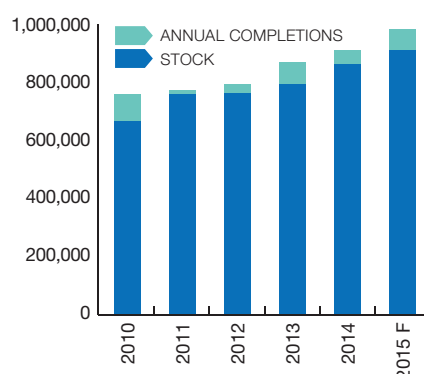
2015 is set to be remarkably active in terms of new supply, with an additional four new retail schemes and three extensions of existing projects expected to be delivered across the country, providing a total retail area of cca. 226,000 sq m. Brasov remains one of the most competitive cities for future shopping center developments, with Immochan announcing the delivery of **Coresi Shopping Center** (45,000 sq m GLA) in Q1 2015.

NEPI continues to be a major player on the retail market as it has scheduled expansions of three shopping centres: **City Park Constanta** (21,000 sq m), **Deva Shopping Center** (10,000 sq m) and **Severin Shopping Center** (10,000 sq m), with investments totalling up to €60 mn. Moreover, 2015

will bring on the market two major schemes developed by NEPI: **Mega Mall** in Bucharest (70,000 sq m GLA) and the first phase of **Timisoara Shopping City** (55,000 sq m).

The Bucharest market will also see the delivery of **Pipera Plaza Shopping Center**, developed by Alpha Property Group, part of Intercora, with a first phase of 7,500 sq m expected in Q2 2015.

FIGURE 12
Bucharest shopping center stock and pipeline



Source: The Advisers/Knight Frank



Auchan – Tricodava, Bucharest

HIGHLIGHTS

Following a steady evolution in 2014, the outlook remains positive for the high street market over the coming months.

HIGH STREET



Overview

The second half of 2014 saw positive trends in the high street market. Demand for retail space in Bucharest slightly improved, with the food sector driving most of the activity on the market.

Supply

No major new high street space was delivered to the market in 2014. With Calea Victoriei having undergone a series of infrastructure improvements, increased interest in prime retail locations in this area is expected throughout the coming months.

Demand

Following the trend of previous years, food retailers continued to be the main drivers of demand. Retailers such as Mega Image, Profi and Carrefour have continued their expansion in high street locations. With its new 1,600 sq m unit opened on Magheru Boulevard in **Eva Center**, Mega Image reached 410 shopping units at the end of 2014. Moreover, the retailer took over the local food chain, Angst, after the latter withdrew from its partnership with Carrefour.

H2 2014 witnessed increased demand from the HORECA segment, mostly restaurants and cafes. Starbucks continued its expansion in Bucharest opening new outlets both in business locations and established high street

areas. The operator opened in Q3 2014 new units in **Novo Park**'s Building and in the Old City Center's Hanul lui Manuc. La Placinte opened two new units in Romana Square and in AFI Park 2, reaching a total of six units in Bucharest by the year's end.

Development of this type of retail has expanded outside traditional areas such as the Old City Center, which has been retailers' preferred destination in recent years.

There has been a moderate increase in activity from banks as well, which have secured several key locations in prime areas. Some examples include Garanti Bank in Victoriei Square and in the Dristor area and Libra Bank on the ground floor of **Magheru One** office project.

Pharmaceutical retailers have gained momentum on the Bucharest high street market, influenced mostly by changing market conditions, with well-known players taking over additional locations.

Rents

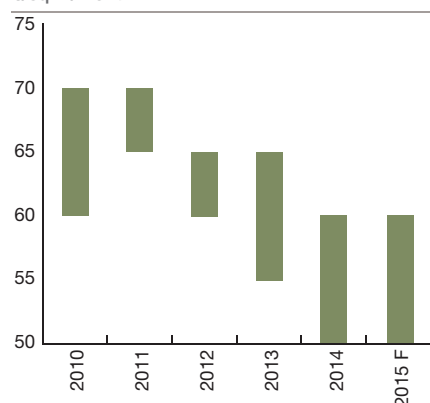
In the second half of the year rents remained fairly stable, continuing the same trend of the first half of 2014.

Forecast

For 2015, we expect an improvement in overall activity, as new retailers will enter the market or existing ones consider resuming their expansion.

FIGURE 13
Bucharest high street prime rents evolution

€/sq m/month



Source: The Advisers/Knight Frank

INDUSTRIAL & LOGISTICS MARKET

Overview

As opposed to the rather scarce activity in recent years, the Romanian industrial sector recorded a revival in 2014, fuelled by significantly increased demand, especially in the regional markets. In addition to the growing leasing level, the strong investment activity of 2014 represents a positive sign of the long-awaited return of confidence to this sector.

Supply

With only 49,500 sq m of new supply delivered on the market in 2014, a similar level to 2013 (54,000 sq m), the total stock of industrial space in Romania reached cca. 1.9 mn sq m.

New developments brought to the market in 2014 were for the most part built-to-suit, such as the 12,000 sq m warehouse for Lear Corporation in Iasi, 7,500 sq m in **VGP Park** in Timisoara and 27,000 sq m in **Ploiesti West Park**

or expansions of owner-occupied premises, such as Otter Logistics (3,000 sq m) in Bucharest.

Bucharest's total industrial stock currently stands at 1 mn sq m, out of which more than 85% is located around the West Ring Road and A1 highway, the main industrial area of the city.

Demand

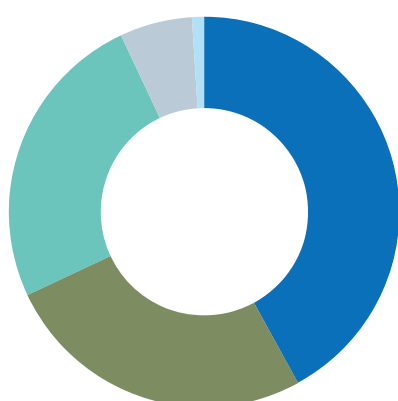
Total industrial take-up across the country in 2014 reached cca. 335,000 sq m, a 68% growth as compared to 2013, out of which 103,000 sq m were transacted in Bucharest, though in a relatively large number of transactions (20).

A total of 38 transactions were recorded in 2014, of which six were for over 20,000 sq m. Demand was largely focused on the western region (Timisoara claimed cca. 33% of the total take-up) and in the key markets of Bucharest and Ploiesti. In general

HIGHLIGHTS

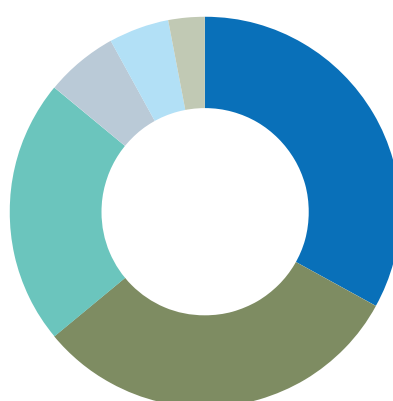
Confidence is clearly improving in the industrial sector, with increasing demand for industrial space nationwide, up by 68% year-on-year.

FIGURE 14
Demand by tenant activity sector
2014



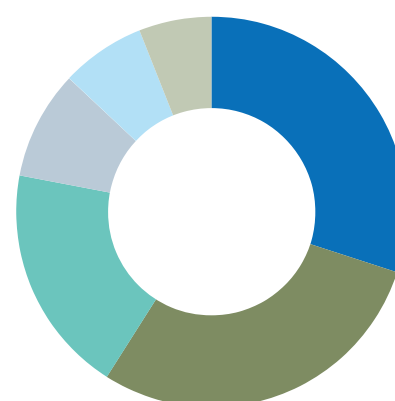
Source: The Advisers/Knight Frank

FIGURE 15
Demand by region
2014



Source: The Advisers/Knight Frank

FIGURE 16
Demand by type of transaction
2014

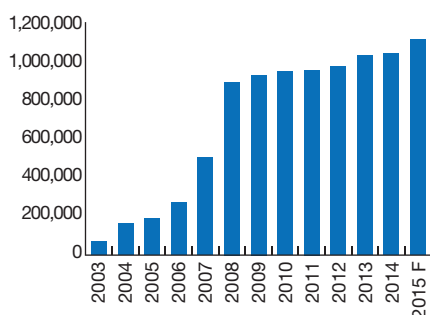


Source: The Advisers/Knight Frank

"We are confident in the evolution of the local market, as it displays increasingly positive metrics. Our Group's decision to enter the Romanian market was marked by the acquisition of the largest industrial park of Bucharest in 2014. Generally we are a long term owner of high-quality industrial properties being able to follow our customers anywhere they go from Madrid to Bucharest with sites being located in key industrial hubs around the whole of Europe, nearby large, developed cities. We expect improved activity in the Romanian industrial and logistics sector, with increased demand which will further encourage the market to grow."

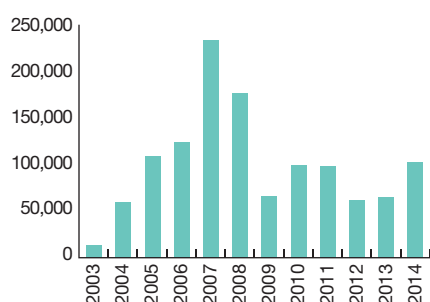
CORA STOLZ
Country Head
P3 ROMANIA

FIGURE 17
Bucharest modern industrial stock
Yearly evolution (sq m)



Source: The Advisers/Knight Frank

FIGURE 18
Bucharest industrial take-up
sq m



Source: The Advisers/Knight Frank

the sources of demand were rather evenly distributed, with pre-leases, renegotiations and relocations registering 30%, 29% and 19% respectively of the overall leasing volume.

In terms of tenant profile, the manufacturing sector was the most active, accounting for 42% of the total demand in 2014. The eastern part of the country appears to be an especially preferred destination for automotive companies, given its attractive offer of existing industrial platforms and the availability of a qualified labor force.

In H2 2014 the leasing market saw the negotiation of a contract by Unilever in Ploiesti for 27,000 sq m of warehouse space and the signing by Yazaki Europe with WDP for a built-to-suit property located in Braila.

Vacancy

As a result of the recent volume of transactions, along with the absence of speculative development, the vacancy rate dropped to 10% in the Bucharest area, representing the lowest recorded vacancy in the last three years and much lower than the high point of 15%, reached in 2013. Improving leasing activity is likely to result in vacancy levels stabilizing or possibly reducing over the coming period.

TABLE 3
General market practice overview

Vacancy	10% Bucharest area	
Yield	10.00% ↓	
Typical contract length	Logistics	3–5 years
	Production	5–7 years
	BTS	7–10 years
Average BTS construction duration	16–40 weeks	
Incentives	Rent-free months depending on the contract length	
Indexation	HICP	

Source: The Advisers/Knight Frank

Rents

Rental levels across the country remained constant throughout 2014, standing between €2.90/sq m/month–€4.20/sq m/month, while service charges range between €0.5/sq m/month–€0.95/sq m/month.

Forecast

Against the backdrop of improving confidence in the Romanian economy, speculative development is anticipated in the industrial sector, with several developers considering the commencement of construction at selected sites in the coming months. Demand for space is expected to further improve, yet asking rents will remain in the same ranges.

Cca. 38,000 sq m of industrial space are currently under development and are set for completion by the end of 2015, in 4 projects: **Industrial & Logistic Park Turda** (3,500 sq m), **Olympian Park Cluj** (11,000 sq m), **VGP Park Timisoara** (7,500 sq m) and the WDP Yazaki unit in Braila (16,000 sq m). P3 is also planning the expansion by an additional 75,000 sq m of the recently acquired **P3 Bucharest Park** (which was the subject of the largest logistics acquisition on the Romanian market), formerly known as Europolis Park Bucharest.

TABLE 4
Prime rental and service charge ranges

Rent €/sq m/ month	Bucharest	Rest of the country
Logistics (<3,000 sq m)	€3.90–€4.20	€3.50–€3.80
Logistics (3,000 –10,000 sq m)	€3.75–€4.00	€3.20–€3.50
Logistics (>10,000 sq m)	€3.30–€3.60	€2.90–€3.20
Manufacturing	€3.50–€4.25	€3.50–€3.75
Service charge	€0.5–€0.95	

Source: The Advisers/Knight Frank

RESIDENTIAL MARKET

SALES*

Supply

The market was moderately active in terms of new supply in 2014, following a reduction in the number of vacant units in completed residential projects and the expansion of well-performing projects.

Noteworthy deliveries to the market included the **City Point Phase I** and **Circului Park Tower** projects, totalling close to 150 units. Having delivered its first phase (45 units) in 2014, **City Point**, located near the Barbu Vacarescu-Calea Floreasca office hub, will finish construction of its second phase in H1 2015. **Circului Park Tower**, a 15-story residential building located near Stefan cel Mare Boulevard, completed construction of its 101 units in H2 2014. A notable construction start in the second half of 2014 belonged to **Gafencu 49**, whose developers announced 110 luxury apartments to be delivered in 2016, near the Nordului area. Approximately 20 small scale projects which started construction in 2014 in the Dorobanti-Primaverii area are expected to end construction throughout 2015.

Two major residential projects are awaiting the start of their construction on the Barbu Vacarescu Boulevard, from Opus Land (developer of **Cosmopolis**) and Impact (developer of **Greenfield**), both land plots having been bought in 2014.

Furthermore, as compared to 2013, the number of approved residential construction authorizations in 2014 increased by 25% in the Bucuresti-Ilfov area (according to the Romanian National Institute of Statistics), indicating a likely increase in construction activity over the next 12–24 months.

Demand

Approximately 3,500 new apartments were sold in 2014 in Bucharest, with an average of 5–6 apartments sold each month in new residential projects. This represents a slight increase

compared to the previous year and a fairly healthy level of demand, considering the marked cautiousness of buyers, following the recession years.

Prices

Prices have remained broadly stable throughout 2014, with average values varying between €650–1,100/built sq m and medium-range projects recording an average of €910/built sq m.

Trends

In the coming years, the Bucharest residential market may be supported by the growth of the office market, which is expected to see the delivery of an increased number of mixed-use projects. The Dimitrie Pompeiu office hub already hosts the **Uppground** mixed-use scheme which accommodates 571 residential units along with its 83,000 sq m leasable office space. Already a popular option in prime city markets around the world, such as London or New York, mixed-use projects are a sign of a more mature real estate market, as they imply higher budgets for development and buyers with more sophisticated lifestyle considerations. With designated access for each use, tall buildings can easily accommodate luxury apartments as well as class A offices. With the economic recovery forecast to continue, Bucharest is likely to see more of the synergy of mixed-use projects, in the years to come.

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

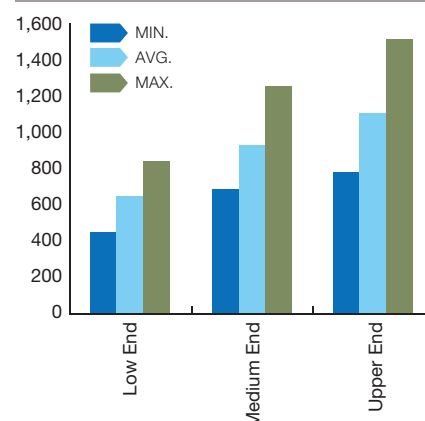
HIGHLIGHTS

In step with the improved economic landscape, the Bucharest residential market registered a steady performance throughout 2014, continuing to rely on Prima Casa program to generate sales, mostly of mainstream units. Nevertheless an increased appetite for upper-end and luxury homes has been recorded, albeit it is still limited, which has opened new opportunities for developers active in the sector.

FIGURE 19

Average prices

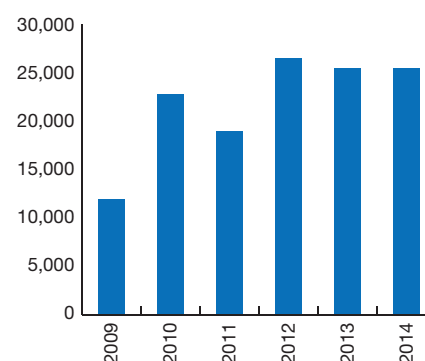
€/usable sq m 1 bedroom apartment



Source: The Advisers/Knight Frank

FIGURE 20

Loan guarantees, Prima Casa 2014



Source: FNGCIMM

“When I arrived in Bucharest twelve years ago, most expats were housed in old villas restored to varying degrees or in the small number of more modern flats scattered throughout the city. Rents were sky high – akin to what one might expect to pay in other emerging market capitals, and generally the offer was low quality housing stock. Currently there is a large variety of options at more appropriate costs, including a number of newly constructed villas with gardens, for example in Pipera. With a wealth of choices, the challenge now remains to have the knowledge of the market and find the right options, geared for expats.”

PERRY ZIZZI
Partner
DENTONS BUCHAREST

CORPORATE LETTINGS

After formerly leasing units mainly as a solution when failing to sell them, developers are now starting to consider projects specifically developed for the rental market. Thus, the corporate letting supply is beginning to expand, with several properties being delivered to the market exclusively for rental purposes.

Primaverii 30 is such a project, located near the Charles de Gaulle Square, and offering 18 apartments mainly for letting, starting Q2 2015. **Alia**, one of the few tower residential projects of Bucharest, has also become popular for leasing lately.

Forecast

As both market sentiment and consumer confidence are recovering, the residential sector is expected to maintain a sustained growth rate over the coming months, in line with the increasing purchasing power of the population and the growing availability of financing in the market.



Primaverii 30

HOTEL MARKET

by Lucian Marinescu, Senior Associate
TrendHospitality

Overview

During the second half of 2014 the positive evolution of hotel activity registered in the first half of the year continued, but at a slower pace. The number of overnights increased by 3.9% compared with the same period of 2013, while a 6.4% increase was recorded in the first half. Overall, 2014 recorded a 4.8% increase in the number of overnights and a 7.7% increase in the numbers of arrivals, indicating a further decrease of the average length of stay to 2.39 nights.

Supply

Limited investments in new projects led to a very slow increase in hotel supply in 2014. The number of hotels in Romania reached 1,456 at the end of 2014, with a total of 185,172 beds, an increase of 1.6% compared with the end of the previous year. A large share of the room inventory is located at the seaside (33%).

27 new hotels opened last year, with two high-profile new openings, namely **Mercure City Center Bucharest****** (114 rooms) and **Privo Hotel Targu Mures****** (46 rooms).

International hotel chains currently account for 7.3% of the total room inventory, a percentage significantly lower than the European average, which is close to 32%. Currently there are 12 hotel groups present in Romania, the largest being Wyndham Hotel Group with 1,875 rooms and 11 hotels in 7 cities and Accor Hotels Group with 1,335 rooms and 7 hotels in 3 cities.

Demand

Although the first half of 2014 ended on a positive note, the second half of the year did not follow a similar pattern despite increases in both arrivals and overnights. The hotel market experienced a slight

dip mainly because of a cold summer which affected summer vacation tourism and because of the presidential elections in November 2014 which kept all economic activities at lower levels for a couple of months.

One positive trend in terms of arrivals was the increase of international tourists: a 6.7% increase compared with the same period of the previous year. Bulgaria, Israel and Portugal were the countries with the highest increases in tourist numbers, while Spain and France registered the largest decreases.

In terms of destination, the highest percentage of overnights was registered in the secondary cities of Romania (county capitals) followed by medical resorts. Compared with the previous year's figures, the highest increase was registered in the Danube Delta (+30%), a unique tourist attraction, while the largest decrease was recorded in seaside locations (-11.7%), due to the rather unfriendly cold summer.

If we take a closer look at the most preferred destinations, specifically the major cities in Romania, we notice a differentiated evolution across the country: while some cities posted double-digit increase in terms of arrivals (Oradea, Ploiesti, Sibiu), other cities saw a negative evolution (Braila, Craiova, Galati, Tulcea).

Investment Transactions

Hotel investment transaction volumes totalled an estimated €30mn in 2014, decreasing by cca. 7% compared with 2013. No portfolio transactions were recorded and the single asset transactions were fuelled mainly by banks and insolvency houses liquidating distressed assets. For example **Diplomat Hotel** in Bucharest and **Rowa Dany Hotel** in Sinaia were both acquired by local investors for

HIGHLIGHTS

While the market registered a positive trend in 2014, with improved supply (27 new hotels) and an increase in international tourist arrivals (6.7% y-o-y), 2015 is expected to witness better activity, particularly encouraged by the government's decision to reduce VAT on tourism (from 24% to 9%).



Mercure Bucharest City Center by Accor

estimated amounts of €4mn and €1.5mn respectively. Currently, around 200 hotel properties are on the market but, despite their low prices, most of them are not attractive for investors due mainly to their locations.

Forecast

2015 raises many questions especially regarding the macro-stability of the region considering the geopolitical events happening to the east of Romania. Nevertheless, the government's decision to decrease VAT on tourism to 9% from 24% will have a positive impact on hotel

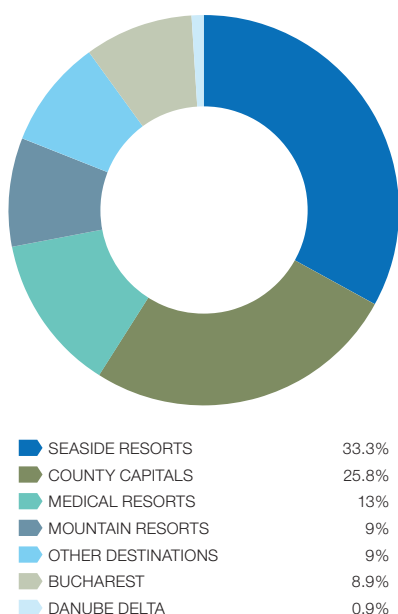
activity especially in relation to leisure segments. For 2015 we expect a 15–20% increase in tourist arrivals, which will also create the conditions for increasing hotel rates and will most probably attract investor interest as a consequence.

A series of important openings are already announced for 2015: **ParkInn**

Bucharest*** (210 rooms), **Best Western Premier Bucharest****** (80 rooms) and **Ramada Plaza Craiova****** (162 rooms).

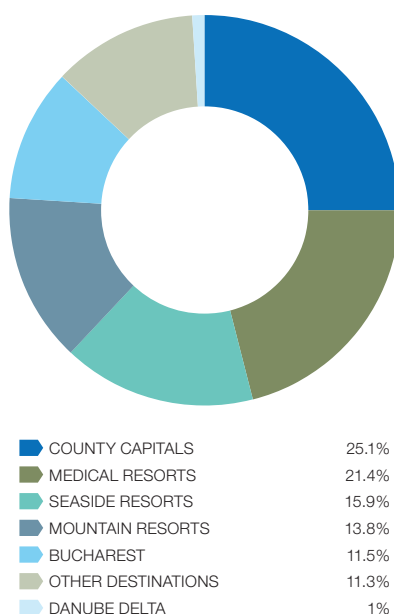
Hotel investment activity is not expected to pick up in the following months, as most hoteliers see the next period more as an opportunity for business consolidation and development and less for sale of properties.

FIGURE 21
Arrivals by destination
2014



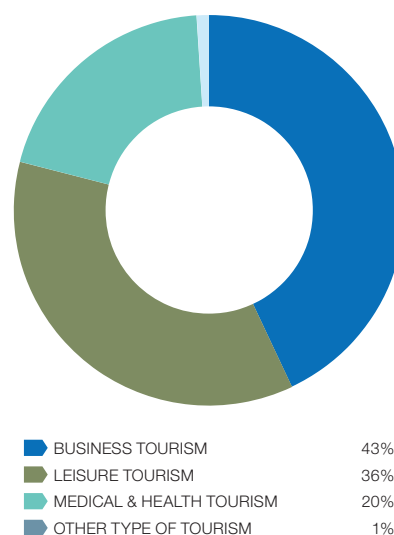
Source: TrendHospitality

FIGURE 22
Overnights by destination
2014



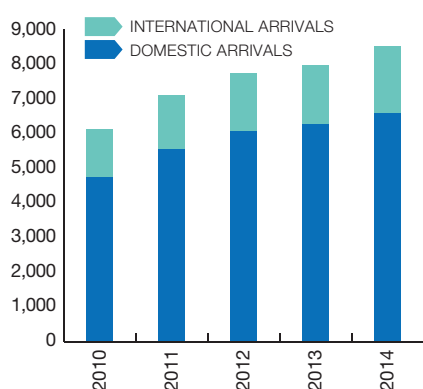
Source: TrendHospitality

FIGURE 23
Guest segmentation
2014



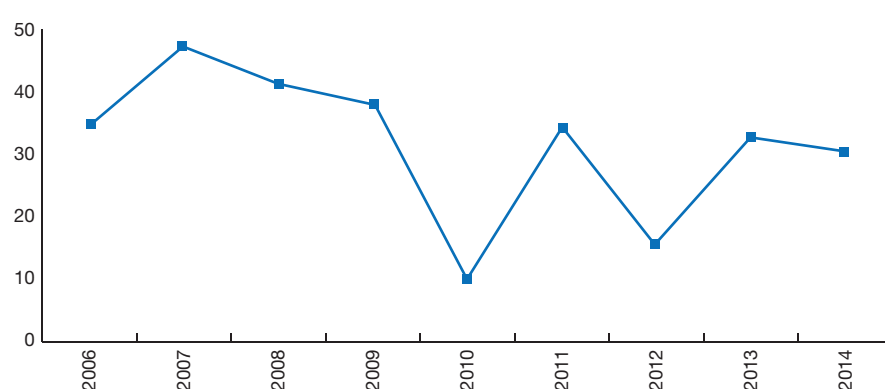
Source: TrendHospitality

FIGURE 24
Evolution of domestic and international arrivals



Source: TrendHospitality

FIGURE 25
Evolution of hotel investment volume
€ mn



Source: TrendHospitality

PROPERTY TAXATION — A NEW ERA BEGINS?

By Alexandra Smedoiu, CFA, Senior Manager
PwC Romania

“May this year be better than the previous” – says a popular new year greeting. Should this be the case when it comes to property taxation?

2015 started off with good news regarding the abolition of the construction tax (colloquially referred to as the “pole tax”) for fit-out works. The application of the construction tax in 2014 had significantly affected landlords and tenants alike, discouraging investments in the refurbishment and modernisation of properties.

What will 2016 bring us in terms of property taxation: a change of strategy, to say the least?

As we know it and apply it today, the level of the property tax is a function of the type of owner (legal entity or individual) and certain intrinsic characteristics of the property. There are significant discrepancies between the levels of tax applied to the same building for different types of owners.

A proposal to amend and modernise the Romanian Fiscal Code launched by the Romanian tax authorities in early 2015 brings about the wind of change. Property tax is to be applied consistently depending on the use of the building, be it for residential or commercial purposes.

In a nutshell, a property intended for commercial use (e.g. office, retail, industrial) should trigger from 2016 onwards the same level of tax irrespective of the status of its owner(s). The tax will be ad valorem, determined as a percentage of the property value, the proposed percentage being between 0.2% and 1.3%. The percentages are slightly lower than the building tax rates applicable today to legal entities (0.25% to 1.5%).

At the same time, the requirement to revalue the property at least once every three years remains applicable, allowing the tax authorities to apply a tax quota to an updated (market) value of the

property and to reap the benefits of the potential upside of the real estate market. However, the increased tax rate for buildings kept at historical cost (not revalued) is capped at 10%, as opposed to maximum 40% at present.

Where the usage is mixed (commercial and residential), the property tax will be determined on a pro-rata basis, while when the usage cannot be determined precisely, the commercial activity criterion would prevail.

In the case of residential property, do not think in terms of fixed amounts per square meter, but instead think about an ad valorem quota of between 0.08% and 0.2% applied to a tax base determined in accordance with certain coefficients (as opposed to 0.1% currently). It is also worth mentioning that certain tax exemptions may be available for dwellings in case of certain fit-outs that improve the quality of the building.

While it is difficult to estimate the amount of saving that the new property tax rules will yield to taxpayers, we can certainly salute the end of discrimination between legal entities and individuals that carry out similar commercial activities with real estate. We can only hope that such changes will indeed be enacted starting January 1st, 2016.

With the possible amendment of the Romanian Fiscal Code, property tax might be applied consistently depending on the use of the building, be it for residential or commercial purposes.

LEASE AGREEMENTS — WRITS OF EXECUTION

Landlords faced by tenants defaulting on the payment of rent may start directly, on the basis of the lease agreements, the enforcement proceedings against such tenants, provided that the lease agreements observe certain formal requirements.

by Simona Chirica, Ph.D., Partner
and Madalina Mitan, Senior Associate
Schoenherr & Associates SCA

What are the options for a landlord faced by tenants defaulting on the payment of rent?

In practice, it is quite usual for landlords to chase their tenants to recover the rent due. There are cases when landlords fail to cash in their receivables, as tenants become insolvent and do not hold enough resources/assets to cover all creditors' receivables.

In order to avoid such a situation, the landlords may start directly the enforcement proceedings against their tenants, on the basis of lease agreements. However, the enforcement of lease agreements is possible provided that said agreements are concluded (i) in notarization form or (ii) under private signature and registered with the competent fiscal authority where the landlord is registered as tax payer.

Under the Romanian Civil Code, lease agreements observing the above formal requirements are considered writs of execution, entitling the landlords to begin enforcement proceedings against tenants in default, without the need to prior obtain a judicial order to this end.

Therefore, landlords have two alternatives for having writs of execution against their tenants: (i) to conclude the lease agreements in notarized form or (ii) to conclude the lease agreements under private signature and to observe the registration formalities.

The costs for the authentication of a lease agreement may be rather high, depending on the amount of the rent and the other amounts paid on the basis of said agreement (e.g. guarantee deposit).

A cheaper alternative to the authentication of the lease agreement is the registration of the lease agreement concluded under private signature with the competent fiscal authority where

the landlord is registered as tax payer. The registration procedure implies the submission by the landlord with the fiscal authority of the following documents:

A standardized form for the registration of the lease agreement with the registry of the lease agreements kept by the fiscal authority – original and copy; and the lease agreement – original and copy.

There is no legal term during which the landlords - legal persons must register the lease agreements.

Considering the benefits of the lease agreements – writs of execution, it is strongly recommended for landlords to conclude their lease agreements with observance of the formal requirements mentioned above. In the end, it is solely the option of the landlords to decide on which of the two alternatives is to be implemented.

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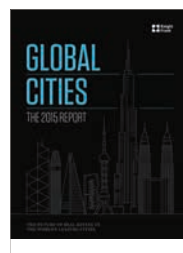
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