



ROMANIA  
REAL ESTATE REVIEW

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MID-YEAR 2011

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# Executive Summary



## RECENT TRENDS

- **Economy:** The economy continues to recover and is benefiting from stronger external demand.
- **Investment:** H1 2011 saw enhanced activity on the investment market, with foreign investors looking more actively at Romanian income producing assets. Three acquisitions were completed, all with small office and retail buildings.
- **Industrial:** New deliveries were modest and demand was similar to the same period of 2010. Vacancy slightly decreased.
- **Offices:** Take up increased in H1 2011, but more importantly, we witnessed a scarce proportion of renegotiations. New deliveries are slowly reducing.
- **Retail:** Food retailers continued their expansion, securing the best locations, with the most advantageous terms. As deliveries stood still and countryside retail schemes reached a certain maturity, rent levels also remained stable.

## MARKET INDICATORS

|                    | 2010* | 2011* |
|--------------------|-------|-------|
| GDP GROWTH         | ↑     | ↑     |
| UNEMPLOYMENT       | ↑     | ↓     |
| WAGES              | ↑     | ↑     |
| INFLATION          | ↑     | ↓     |
| INVESTMENT VOLUMES | ↑     | →     |
| OFFICE RENTS       | →     | →     |
| INDUSTRIAL RENTS   | →     | →     |
| RETAIL RENTS       | ↑     | ↑     |
| YIELDS             | ↓     | ↓     |

## MARKET PROGNOSIS

- **Economy:** The outlook keeps improving. Estimated overall growth of GDP in 2011 is 1.5%. GDP will be driven mainly by net exports, although a moderate recovery in domestic demand is possible.
- **Investment:** In the coming period, we anticipate that joint ventures will see a boost. Apart from classic JVs we are beginning to see discussions on new and interesting structures.
- **Industrial:** Demand for industrial space is expected to increase slightly by the end of the year, and in the long term, domestic demand will be an important driver.
- **Offices:** We expect to see a return to pre-lease transactions, as several projects break ground. Vacancy rates will slightly decrease. New developers are also entering the Bucharest market.
- **Retail:** With seven retail projects restarting construction this year, we may witness harsher competition as developers become more aggressive in luring retailers with attractive conditions.

\* COMPARED TO THE PREVIOUS YEAR

# Economic Overview

## Key Economic Figures (as of Q1 2011)

|              |      |
|--------------|------|
| GDP Growth   | 0.7% |
| Unemployment | 5%   |
| Inflation    | 7.5% |

## SUMMARY

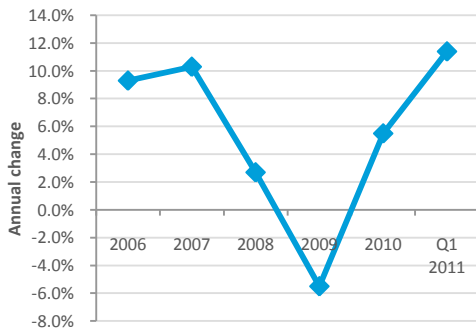
- Romania continues on its path to recovery. In Q1 2011, GDP rose 0.7% qoq, and industrial production expanded to a strong 8.9% in May. Also foreign demand, through exports, played an important role.
- However, services and constructions – on the supply side – and consumption and investment – on the demand side – are still shrinking, signalling weak domestic demand.
- Consumer sentiment is improving in many EU countries, including Romania, for the first time since the financial and economic crisis - despite the uncertainty created by the Greek crisis, according to the GfK Consumer Climate Europe survey.
- Thus, domestic demand is expected to recover more gradually, led by investment. Increased investor confidence, coupled with planned privatisation under the IMF program is expected to bring renewed FDI and banking inflows.
- Unemployment continued to decrease in the first months of 2011, reaching 5% in April. Amendments to the Labour Code is one reason for this.
- Inflation dropped slightly to 7.5% in May, and is expected to remain above 5%, exceeding the central bank's inflation target (3%, +/-1%) in 2011 before gradually returning within the target range in 2012.
- The budget deficit target of 4.4% of GDP looks attainable in 2011. The five-month deficit was 1.2% of GDP, but public expenditure rises seasonally towards year-end. Romania concluded a second, precautionary agreement with the IMF in March 2011 and will probably fulfil all its provisions in 2011.
- Moreover, on 4 July, Fitch upgraded Romania's credit rating to investment grade from BB+ to BBB-. The rating outlook was set to "stable".

## GDP & RETAIL SALES EVOLUTION



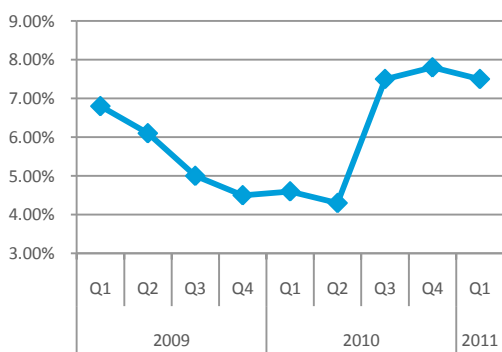
Source: National Institute of Statistics, National Bank of Romania

## INDUSTRIAL PRODUCTION



Source: National Institute of Statistics, National Bank of Romania

## PRICE CONSUMER INDEX



Source: National Institute of Statistics, National Bank of Romania

## PROGNOSIS

- According to the National Commission of Prognosis, growth is expected to reach 1.5% this year, and accelerate to 3.5–4% in 2012.
- The gradually improving economic situation and anticipation of a return to higher incomes are having an effect on willingness to buy.
- Moreover, the ongoing presence of the IMF/EU should limit the potential deterioration of the fiscal accounts in the run up to the next general elections in 2012.
- Progress on key privatisations and improved use of structural funds, as per the precautionary IMF programme, should support Government financing, the balance of payments and overall growth prospects.
- By the end of the year, analysts expect a moderation of foreign demand coupled with a gradual recovery of services and domestic demand. This will be boosted by corporate lending and increased public spending in view of the election year 2012.
- Prior to 2008, rapid economic growth was driven by domestic demand. If the growth model of the Romanian economy does not change following the crisis, the economy cannot grow any faster, as long as consumption and investments are not growing.

# Office Market

| Key Office Figures  |                          |
|---------------------|--------------------------|
| Total Stock         | 1,430,000m <sup>2</sup>  |
| Take-up             | 90,000m <sup>2</sup>     |
| Vacancy             | 18%                      |
| Prime Headline Rent | € 18/m <sup>2</sup> /pcm |

## SUPPLY

- 2011 saw the completion of three office projects. Thus, the total stock of class A office projects increased by 70,000m<sup>2</sup>, reaching 1,430,000m<sup>2</sup>.
- Two of the buildings and over 90% of the leasable area recently delivered in H1 2011 is located in the outskirts of Bucharest.

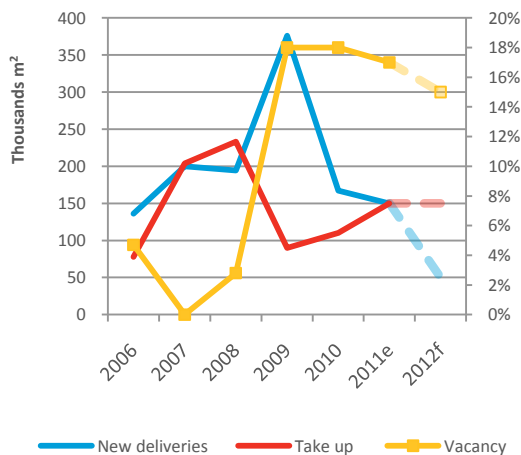
## DEMAND & VACANCY

### PLATINUM BUSINESS & CONVENTION CENTRE



- Take-up of class A office space reached 90,000m<sup>2</sup>. The total occupation of the North Point building, before completion, by PremiQa Med represented one of the largest lease transactions ever recorded on the Romanian office market. Thus, Colliers intermediated the only pre-lease transaction of the last two years.
- Over 90% of the total take-up in the first half of 2011 was represented by new demand. Only a small share of market activity comprised renegotiations and renewals, as tenants are looking to capitalise upon the market situation and secure long-term sustainable premises. It is the first time in the last two years that we have witnessed such a small proportion of renegotiations.
- By the end of 2011, premium properties situated in prime locations with a vacancy higher than 3,000m<sup>2</sup> shall be sparse. Although in the first six months, peripheral buildings attracted more than 60% of take-up, the CBD and semi-central areas will continue to attract a notable proportion of the office demand.

## AVAILABILITY



Source: BRF / Colliers International

- As more than half of the transactions in peripheral areas were pre-leases, there was no pressure for vacancy to decrease.
- Along with the periphery, semi-central areas are still attracting an important part of demand, as tenants take advantage of attractive rents. Also, since no new building was delivered to the market in H1 2011, this area records the lowest level of vacancy.
- Overall, the vacancy rate remained stable in H1 2011, at little over 18%. Considering the high interest in the semi-central areas, vacancy dropped to 12%. In addition, only 20,000m<sup>2</sup> are expected to be delivered in this area. Thus, vacancy will decrease in the following months and may even reach levels of close to 8% for good buildings, near metro stations. In case of a such a vacancy level, rents are expected to enter an upward trend.

## RENTS

- Prime headline rents did not record any significant change compared to the end of 2010.

## PROGNOSIS

- For the remainder of 2011, we expect an additional 63,000m<sup>2</sup> to be delivered to the market (out of which 50% could be postponed until 2012). In both the short and medium-term, the stock of newly delivered buildings is slowly reducing, thus increasing the absorption rate of good, available space.
- For 2012, stock is expected to increase by only 70,000m<sup>2</sup>, out of which 40% is already leased. Thus, the vacancy rate will slightly decrease by the end of the year.
- Moreover, we expect to see by the end of the year a return to pre-lease transactions, as several new projects will break ground. It is also interesting to see that in addition to existing developers in the market, we also have new reputable global investors and developers looking to enter the Romanian market by acquiring attractive development land plots.

Source: Colliers International

| AREA        | RENT (€ / m <sup>2</sup> ) | EVOLUTION |
|-------------|----------------------------|-----------|
| CBD         | 16 - 20                    | stable    |
| Semi-center | 13 - 16                    | stable    |
| Periphery   | 10 - 13                    | stable    |

## Retail Market – Shopping Centers

| Stock (m <sup>2</sup> ) | Romania   | Bucharest | Countryside |
|-------------------------|-----------|-----------|-------------|
| Shopping Centres        | 1,037,000 | 452,000   | 585,000     |
| Retail Parks*           | 1,243,000 | 343,000   | 900,000     |

\*The stock includes any commercial scheme composed of at least two big box retailers that together represent more than 5,000 m<sup>2</sup> of GLA. The stand alone big box units are not included in our calculation.

| City      | Shopping Centre                   | Size (m <sup>2</sup> ) |
|-----------|-----------------------------------|------------------------|
| Bucharest | Baneasa Shopping City (extension) | 20,000                 |
| Constanta | Maritimo Shopping Centre          | 51,000                 |
| Iasi      | Palas Iasi                        | 47,800                 |
| Arad      | Galleria                          | 32,000                 |
| Oradea    | Oradea Shopping City              | 30,000                 |
| Oradea    | Era Shopping Centre               | 23,000                 |

\* The figures are based on the official declarations of the developers

| City                             | Rent level * (€ / m <sup>2</sup> / month) |
|----------------------------------|---|
| Bucharest                        | 60-70                                     |
| Cities over 250,000 inhabitants  | 30-35**                                   |
| Cities under 250,000 inhabitants | 15-20                                     |

\*These represent the highest rent levels that can be achieved in the well performing centers for units of 100 sq m, prime locations

\*\*This level represents a market average; there are big differences between cities based on the existing competition

| City                | Vacancy* |
|---------------------|----------|
| Bucharest           | 8%       |
| Rest of the country | 13%      |

\* Vacancy rate registers high differences between shopping centres in the same cities and between cities as well.

Source: Colliers International

### SUPPLY

- H1 2011 did not bring to the market any new delivery of shopping centres, thus the total stock remain unchanged, at a little over 1,000,000m<sup>2</sup> of GLA .
- However, H2 2011 will alter this as six new retail schemes are planned for delivery by the end of 2011, adding more than 200,000m<sup>2</sup> of GLA to the existing shopping centre stock.
- Based on the actual status of construction works, we estimate that there is a chance that part of the GLA announced for delivery this year will be postponed until 2012.

### DEMAND

- Although still far from the euphoria of 2007-2008, the main retail anchors on the market are very active in seeking new expansion opportunities.
- Even during the crisis period the food segment remained one of the most active, with very little change in performance.
- The retailers previously not located in the top major cities continued to secure locations in the well performing centres. Based on a study performed at the beginning of 2011, we noted that the difference in the sales levels per/m<sup>2</sup> registered in Bucharest in the well performing centres compared with those in the countryside had dropped significantly due to the maturity reached by countryside centres.
- Small cities with low competition are also attractive, especially for large retailers with prices that have adapted to the economic climate, which register good sales in comparison with locations in large cities with high GLA / capita and a large retail offering.

### RENTS

- As a trend, rents remained stable. In poor performing shopping centres, the terms offered by developers were already very low, even turn-over rent only, and full fit-out. In the well performing centres rents kept their level as they are still attractive for retailers and have a very low vacancy. We noticed small decreases in centres that faced new competition from centres under development.

### PROGNOSIS

- Based on the official announcements of the developers, seven retail projects are expected to start construction work in H2 2011. For all these schemes, delivery can be expected within two years, at the earliest. However, delays in the authorising, financing and construction process may be registered, so we estimate that both 2012 and 2013 will be very limited in terms of supply.
- Large retailers will continue to secure locations as this is a good time to obtain advantageous conditions from developers. New international brands are also looking to the market, so we estimate an increase in demand in the near future, especially for locations in the well performing shopping centres.
- As was most probably the case in previous years, developers that need to deliver their projects will be very aggressive with the conditions they offer. These conditions will also have an influence on the already existing centres that find themselves in direct competition with the new deliveries.
- For 2012, rents should remain stable or slightly increase in the well performing shopping centres, while they might have a slow descending trend in the cities where new competition arrives. Still, the evolution of the economic environment and the consumption power of the population will play an important role in the final evolution of rents.

## Retail Market – Retail Parks

### BIG BOX OPENINGS - H1 2011

#### DIY

| Retail Brand | Parent Company | City                  |
|--------------|----------------|-----------------------|
| BauMaxx      | BauMaxx        | Bucuresti             |
| Bricostore   | Bresson        | Drobeta Turnu Severin |
| Dedeman      | Dedeman        | Baia Mare             |
| Dedeman      | Dedeman        | Cluj Napoca           |
| Dedeman      | Dedeman        | Drobeta Turnu Severin |

#### HYPERMARKET

| Retail Brand | Parent Company | City                   |
|--------------|----------------|------------------------|
| Cora         | Delhaize       | Drobeta Turnu Severin  |
| Kaufland     | Lidl & Schwarz | Gheorgheni             |
| Kaufland     | Lidl & Schwarz | Oradea                 |
| Kaufland     | Lidl & Schwarz | Sighisoara             |
| Kaufland     | Lidl & Schwarz | Targu Secuiesc         |
| Kaufland     | Lidl & Schwarz | Vaslui                 |
| Kaufland     | Lidl & Schwarz | Timisoara (Dumbravita) |

#### GALLERY EXTENSION

| Parent Company | City   |
|----------------|--------|
| NEPI           | Braila |

### RETAIL PARK OPENINGS - H2 2011

| Retail Park              | Area (m <sup>2</sup> ) | City      |
|--------------------------|------------------------|-----------|
| Colosseum                | 37,500                 | Bucuresti |
| Electroputere            | 55,000                 | Craiova   |
| Botosani Shopping Center | 18,500                 | Botosani  |

Source: Colliers International

#### SUPPLY

- Since the beginning of 2011, one retail park was delivered in the countryside and another three are currently under construction.
- Several extensions of existing schemes are currently under development or announced to start by the end of the year.
- Similar to the situation in retail parks, the stand alone type expansion is led by food retailers. Those that still consider locations to buy are even more careful than in previous years, trying to choose only highly strategic opportunities.
- After strong interest from a number of developers to build retail parks, it now appears that only the most experienced in this field succeed to secure and develop the main sites.

#### DEMAND

- Hypermarkets continue expansion in parallel in both large and medium size cities. However the Bucharest market remains the most contested.
- Food discounters are the most aggressive, being followed by DIY stores. Kaufland and Dedeman were the most aggressive in terms of openings in these two categories.
- Furniture retailers appear to be slowly recovering and have started looking for good locations near food anchors.
- Large cities with limited competition continue to be in sights of developers mainly due to the still unsatisfied potential.

#### RENTS

- Rents remained stable for most of the big box operators in the main cities.
- In smaller cities the developers were open to negotiate the rents according the actual sales level of the tenants.
- Generally due to high land price levels (higher than what we can find in more developed countries), developers and tenants are trying to find together new financial schemes to satisfy both parties.

#### PROGNOSIS

- Due to instability of the economic climate and the high variation of retail sales, it is still difficult for retailers to establish a long-term expansion plan.
- The lack of good available plots might cause an increase in competition between retailers, potentially leading to a slight improvement of the financial conditions for the top locations.
- The transformation of some plots from shopping centres to retail park developments that was expected at the beginning of the year is still expected to continue until 2012.
- The smaller strip mall format anchored by a medium hypermarket or a supermarket could become a trend in the market if land prices within the city limits drop.

## Retail Market – High street

### VACANCY LEVELS

| Area        | Vacancy |
|-------------|---------|
| Centre      | 5%      |
| Semi-centre | 10%     |
| Periphery   | 13%     |

### RENTS

| Area        | Rent level<br>(€ / m <sup>2</sup> / pcm) |
|-------------|--|
| Centre      | 50-75                                    |
| Semi-centre | 20-35                                    |
| Periphery   | 8-25                                     |

Source: Colliers International

### SUPPLY

- Although new supply for high street is uncommon in Bucharest, we note that due to some shops in the Unirea Shopping Centre like H&M, Zara or New Yorker that also have a street frontage and entrance, the Unirea area has become a new high street destination for fashion shopping.
- Available spaces came from small, local tenants that closed their businesses but vacancy remains low especially in central areas.

### DEMAND

- The number of new entries was very limited in terms of m<sup>2</sup>, with the exception of the opening of H&M in the Unirea Shopping Centre.
- In the first six months of 2011 we witnessed growth in the interest from fashion retailers for the Old City Centre where Adidas was among the first to secure a location. The competition from restaurants and coffee shops, coupled with high rents and the fact that there is no fashion anchor, are the key factors that kept fashion retailers from opening new locations in the Old City Centre.
- Food was again the most active segment in H1 2011, followed by betting agencies, pharmacies and banks. Unlike in 2009-2010, there has been an increase in the number of units opened by banks and pharmacies and a decrease in the expansion of casinos.
- Luxury brands are still looking at Calea Victoriei and although we did not see any new names in H1 2011, we may see a couple of new entries in the autumn of 2011 or 2012.

### RENTS

- Rents remained constant in H1 2011, with the exception of the higher vacancy peripheral area where there was a slight decrease of 5-10%.
- Usually, no further discounts were offered for rents renegotiated in 2010, but the discount period has been extended until the end of the year, as landlords are hoping for a recovery at the beginning of 2012.
- A new approach on the market could see more transactions where landlords accept turnover rents still backed by base rent, which is not a common practice for high street leasing contracts.

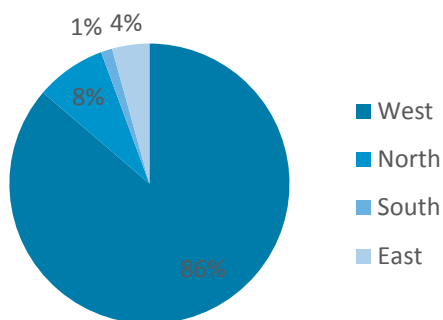
### PROGNOSIS

- The Old City Centre might contribute to the increase of new supply of retail space by building on existing plots and completing the rehabilitation of old streets.
- We estimate that rents will continue to remain stable in H2 2011. They may record a slight decrease in the Old City Centre as in the autumn and winter seasons clubs and bars are not such active players.
- The turnover rent will gain higher importance in high street leasing contracts as international brands are expected to become more active on the market.

# Industrial Market

| Key Industrial Figures |                          |
|------------------------|--------------------------|
| Total Stock            | 917,000 m <sup>2</sup>   |
| Net Take-up            | 31,000 m <sup>2</sup>    |
| Vacancy                | 13%                      |
| Prime Headline Rent    | €4.2 m <sup>2</sup> /pcm |

## TOTAL STOCK BY AREA



Source: Colliers International

## SUPPLY

- H1 2011 brought only 10,000m<sup>2</sup> to the Bucharest industrial and logistic market. Thus, the total stock stabilised at 917,000m<sup>2</sup>.
- With few preleases in discussion, we will see new deliveries only in H1 2012.
- In the countryside, industrial stock increased by another 50,000m<sup>2</sup>. Olympian brought on the market 28,000m<sup>2</sup> in Timisoara and Ploiesti West added 18,000m<sup>2</sup> to the city's stock.
- Furthermore, there are some developers that will begin speculative industrial projects, in the countryside in the following period.

## DEMAND & VACANCY

- In H1 2011 the transaction volume reached 48,100m<sup>2</sup> which was similar to the corresponding period of 2010. Out of the total market activity, 31,000m<sup>2</sup> comprised new demand.
- In Bucharest, the largest transactions of H1 2011 was by IKEA, who extended its contract in Bucharest West for 10,000m<sup>2</sup> with the help of Colliers International. Following this, Gebrueder Weiss leased approximately 7,000m<sup>2</sup> in Europolis LP.
- Thus, the vacancy rate slightly decreased to 13.2%, the lowest level in the last 18 months, helped by the lack of new buildings.
- New 3PL's (third-party logistics) are looking to enter the Romanian market in order to extend their regional presence.
- Nagel Group bought 25% of Whiteland Logistics, the German logistic provider who is well known for its experience in food logistics.
- Industrial production continued to grow in the first five months by 8.9% and some demand can be seen around the country, especially in Ploiesti, Pitesti, Craiova and western cities. Demand was driven mainly by the automotive and logistic sectors.

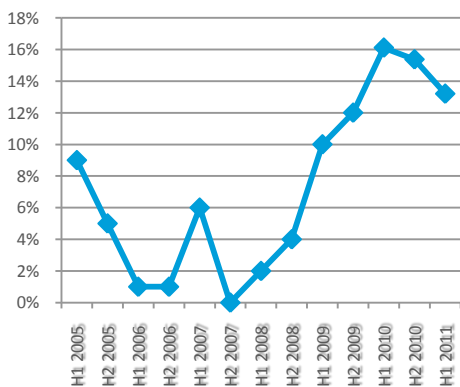
## RENTS

- Bucharest rental levels have remained stable, maintaining the same values for the past 12 months.

## PROGNOSIS

- By the end of 2011 we do not expect any new space deliveries.
- Also, for the following quarter, we anticipate a slightly higher transaction volume, with several deals in final negotiations that could generate over 30,000m<sup>2</sup> in demand.
- Although take-up will increase, Q3 will most likely bring a rise in the vacancy rate with a few large units being vacated in this period.
- Overall, 2011 will prove to be a better year than 2010 for the industrial market, in terms of transactional activity.
- In the medium-term, demand will advance as soon as consumption returns.

## VACANCY RATE EVOLUTION



Source: Colliers International

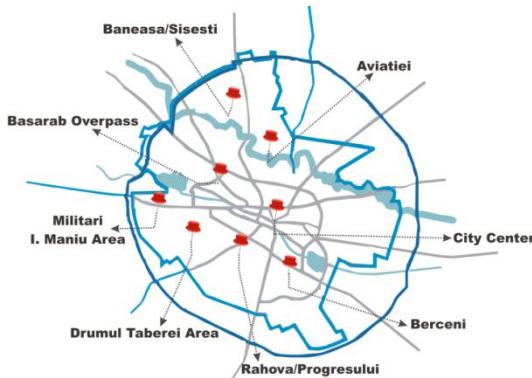
| AREA (m <sup>2</sup> ) | RENT (€ / m <sup>2</sup> ) | FORECAST |
|------------------------|----------------------------|----------|
| < 3,000                | 4 – 4.5                    | Stable   |
| 3,000 – 10,000         | 3.75 – 4.2                 | Stable   |
| >10,000                | 3.5 – 4                    | stable   |

Source: Colliers International

# Land Market

## OVERVIEW

### BUCHAREST ACTIVE AREAS



- Activity on the land market continued the positive trend started in mid 2010 as the appetite for land acquisition grew. This was due both to the improvement of the general economic conditions that brought optimism to the market and its potential, as well as to the (increasingly) attractive prices of properties.
- We estimate that the price trend is very close to stabilisation. In sought after areas prices have reached their minimum. For locations situated at the periphery of the city or those that have poorly developed infrastructure some further decreases are expected.
- Several large transactions were initiated; however, few of those in progress were actually finalized, as most of them are highly dependent on the permitting processes or the closure of litigation.

## SUPPLY

- A larger number of potential buyers compared to previous years has caused new vendors to put their land up for sale.
- Investors with portfolios of land who had little or no pressure to sell in the past few years and were thus reluctant to dispose of their assets at distressed prices, are now confident that better prices can be achieved, at least for the best properties. We are now seeing more of those properties for sale.
- Other vendors, who did not completely give up their development plans in Romania but do not have financing or development capabilities, are interested to sign joint venture agreements with experienced developers or investors and contribute their land with a partner sourcing both financing and equity.
- There were also several factory owners that found the offers made by aggressive big box retailers attractive enough to finally sell their premises located in densely populated neighborhoods and relocate outside the city limits.

## DEMAND

- In Bucharest, demand has diversified, and only certain types of land plots are stirring investors' attention – mostly for retail or office use. The interest for residential plots still remains very low.
- In the countryside, investments were directed almost exclusively towards acquisitions of retail plots. Nevertheless, in the most developed cities– e.g. Timisoara or Cluj-Napoca – there are some investors looking for good office plots.
- Big box retailers and big box developers were by far the most active land buyers in the first half of 2011, just like during 2009 and 2010. Hypermarkets, Do-It-Yourself or discount retailers struggled to fulfill their expansion plans and to cover their targeted cities: those with over 100,000 inhabitants (the larger formats) or over 30-50,000 inhabitants (the smaller formats). Among these retailers, Kaufland and Dedeman were the most aggressive in securing locations, either directly or through developers.
- Office developers proved to be the second most important player on the land market in the first six months of the current year. They are very selective with the properties they choose, which needed to be well located. After the CBD and Floreasca-Barbu Vacarescu areas, the area along the recently opened Basarab Overpass started to catch the eye of potential investors. Office developers are very much preoccupied with the status of the permitting process and want plots with urban plans approved, which will allow them to start construction, and consequently, deliver the project as soon as possible and, more importantly, ahead of the competition.

| Area                   | Destination targeted | Price (€/m <sup>2</sup> )* |
|------------------------|----------------------|----------------------------|
| Aviatiei               | Office               | 550 - 1,000                |
| Basarab Overpass       | Office, Residential  | 500 - 1,000                |
| Baneasa - Sisesti      | Residential          | 70 - 200                   |
| Berceni                | Retail               | 400 - 500                  |
| Drumul Taberei         | Retail               | 500 - 700                  |
| Militari - Iuliu Maniu | Retail, residential  | 100 - 400                  |
| Progresului - Rahova   | Retail               | 250 - 500                  |

\*We took into account transaction prices or prices agreed for future transactions.

\*\*Larger price interval is due to differences between properties in the same area: size, visibility (location on the main street or in the second row), access, availability of plots, competition of projects.

Source: Colliers International

## Land Market

- Plots for residential development were less interesting to investors during this period. This was largely due to the existing supply of apartments, low sales on the residential market and, most importantly, the lack of financing for both land acquisition and residential project development. We have noticed, however, increased demand from private individuals who are searching for small plots suited for villas (500-1,000m<sup>2</sup>) in peripheral residential areas (Sisesti, Bucurestii Noi, Baneasa).
- The successive modifications of the Urbanism Law adopted during the last few years have imposed some restrictions in urban development. The development within protected areas is now strictly regulated. Another important regulation restricts the achievable building parameters through new Zonal / Detailed Urbanism Plans (PUZ /PUD).
- Consequently, approval of the Urbanism Plan as a condition precedent to closing a deal has become almost a standard practice on the market. For this reason, the time needed to close a deal has increased on average by six to 12 months. Under these circumstances, many deals initiated last year which were expected to close in H1 2011 will now be completed either in the second half of the year, or prolonged until 2012.

### PRICES

- The price of land during H1 2011 did not register notable changes compared to H2 2010. Thus, due to the slow increase in demand, the market seems to be approaching price stabilisation. Overall, we estimate prices have reached the values recorded in 2004-2005 transactions.
- In the highly targeted areas – e.g. core city centre, Aviatiei-Floreasca-Barbu Vacarescu areas, certain sub-zones within Drumul Taberei, Progresului, Pantelimon, Berceni neighbourhoods etc. – prices have reached their minimum.
- There are, in some areas, high discrepancies between different owners' expectations, determined not only by the characteristics of the properties they sell (visibility, land shape, building parameters etc.), but also by the owners' pressure to sell or their inability/unwillingness to give up peak prices. In Victoriei Square – the heart of the CBD – asking prices range from €1,500 per/m<sup>2</sup> up to €8,000 per/m<sup>2</sup>.
- In the peripheral locations or areas with difficult access and weak infrastructure, prices are still on a downward path. Given the lack of interested buyers, landlords with plots situated in less attractive areas were under pressure to discount prices further, on average by 10% to 30%.

### PROGNOSIS

- H2 2011 is expected to be more intense in terms of transaction activity as several important land transactions (some started in 2010) will close.
- We also expect demand for land to increase, sustained by the local economic outlook that has brought again Romania, and especially Bucharest, to investors' agendas.
- In the context of a very broad and still increasing supply of land available for sale, we estimate prices for land will not register significant evolution in the short and medium-term, rather small adjustments. In some exceptional cases, landowners may come under pressure (from banks or shareholders) to sell "in distress" part of their properties.

## Investment Overview

| Key Investment Figures  |               |
|-------------------------|---------------|
| H1 Investment Turnover  | €68 m         |
| Prime Office Yields     | 7.75%-8.25%   |
| Prime Retail Yields     | 8.75% - 9.25% |
| Prime Industrial Yields | 9.25%-10%     |

- The first half of the year saw enhanced activity on the investment market with foreign investors looking more actively at Romanian income producing assets. This was in the context of the small but nonetheless positive economic growth and the ever increasing competition amongst investors for Polish and the Czech Republic deals.

### TRANSACTIONS

- Despite heightened activity in the market, H1 2011 did not yield many transactions. Three classic acquisitions were completed, all with small office and retail buildings totalling €26 million. The Greek fund Bluehouse dominated this half of the year accounting for two of the three acquisitions:

- Colliers advised the Greek fund Omilos in the sale of Praktiker Craiova, a 9,400m<sup>2</sup> retail box, to Bluehouse for circa €10 million;
- The office building Astoria Centre (4,200m<sup>2</sup>), was purchased by Bluehouse from the Romanian- American businessman Nicholas Abaco for circa €10 million;
- The office building Louis Blanc (1,900m<sup>2</sup>) in Victoriei Square was sold by Cefin to the Romanian businessman Augustin Constantin Oancea for circa €6 million.

- Adding the intragroup deal of Immofinanz - Adama, the total transaction volume for H1 2011 amounted to circa €68.4 million. Immofinanz, who owned 30% of Adama, took over the remaining stake in the residential developer in a €42.4 million transaction.

### TRANSACTIONS

| Property          | Seller         | Buyer                      | Price (€ mln.) |
|-------------------|----------------|----------------------------|----------------|
| Praktiker Craiova | Omilos         | Bluehouse                  | 10             |
| Astoria Center    | Nicholas Abaco | Bluehouse                  | 10             |
| Louis Blanc       | Cefin          | Augustin Constantin Oancea | 6              |

### INVESTORS

- 2011 brought an encouraging evolution in terms of investors' interest for Romanian real estate with several of the core funds that had left Romania in the wake of the economic crisis starting to look again at the country, specifically at prime Bucharest offices. Although at the moment the funds are still re-adjusting to the realities of the Romanian market, we expect to see core fund transactions in the next 12 months.
- This evolution determined private equity funds to become more aggressive and make improved offers on prime office buildings. However, they were not able to close any transactions and we believe that after the first core fund deals occur, the private equity funds may have to start looking more closely at secondary offices and increase their activity in the retail and industrial segments to achieve their higher return targets.
- Although the office market remained the main focus of foreign investors, we also saw increased interest in the retail segment. Apart from big boxes which have been the preferred target for retail investments in the past year, we are also witnessing the first joint venture discussions for large retail schemes. The industrial market continues quietly, though we are now seeing signs of new interest for the sector and we anticipate that the next six to nine months will also bring the first industrial transactions.

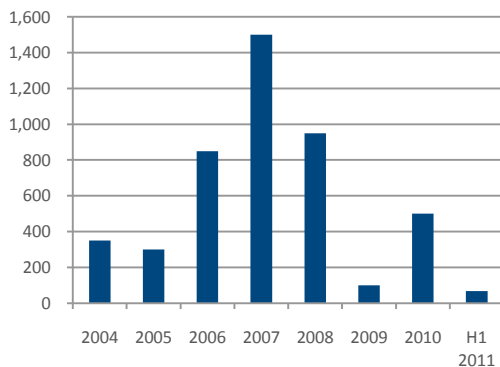
- We anticipate that joint ventures will see a boost in the coming period. Apart from classic JVs we are seeing discussions on new and interesting structures, from developers pairing up with other developers rather than investors (though one developer would effectively have to take a back seat) to developers joining with land owners who do not have the resources or capabilities to build.

### YIELDS

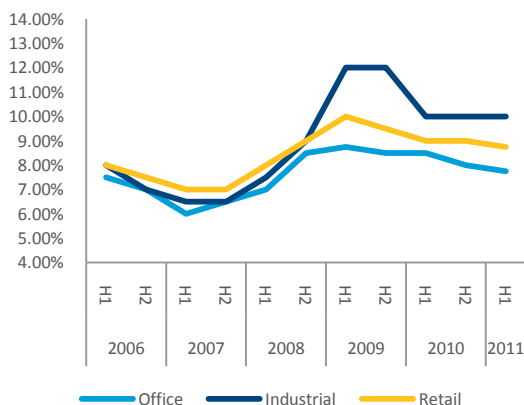
- Although at the time when Colliers closed the Floreasca 169 deal in the winter of 2010 yields of around 8% for prime offices were an exception, they are slowly becoming the norm. This yield compression comes as a result of the improving economic outlook on Romania and the re-entrance of core funds on the market, which have a lower cost of capital and can thus make more competitive offers for selective properties.

- We expect H2 2011 to be wealthier in transactions through the completion of some ongoing discussions. Although it is difficult to predict the extent of the sovereign debt crisis in Southern Europe and its influence on the Romanian real estate market, we expect market conditions and the appetite of foreign investors for Romanian real estate to continue the upward trend noticed since the beginning of the year.

### TRANSACTION VOLUME (mln. €)



### YIELD EVOLUTION



Source: Colliers International

# Residential Market

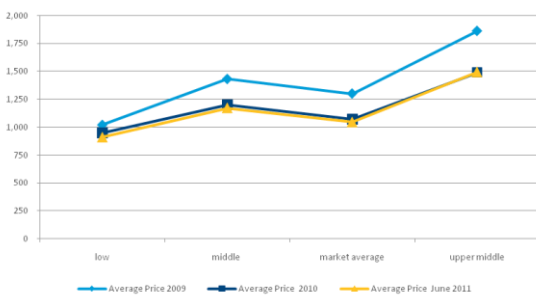
## Key Residential Figures

|                  |                        |
|------------------|------------------------|
| New units' stock | 15,400                 |
| Available units  | 4,000                  |
| Sold Units       | 550                    |
| Average Price    | 1,050 €/m <sup>2</sup> |

•The residential market recorded no significant changes in trends in H1 2011. Prices continued on a downward path, albeit at a much slower pace than in 2010. Both supply and demand for new units remained constant. The first signs of a stabilised economic environment, as well as banks' willingness to finance real estate projects, encouraged developers to be more active on the market.

•Reduced volatility in asking prices (a decrease of less than 10% yoy), backed up by a relatively constant demand over the last three quarters have indicated that the residential market will see no important fluctuations both in terms of selling prices and take-up in the following months.

## PRICE EVOLUTION BY TYPE OF PROJECT



Source: Colliers International

## SUPPLY

•At the end of June 2011, the residential market in Bucharest had a total supply of around 4,000 unsold units available for sale directly from developers in projects, with over 200 apartments. Our analysis takes into consideration developments that are both finished and in the final stages of construction.

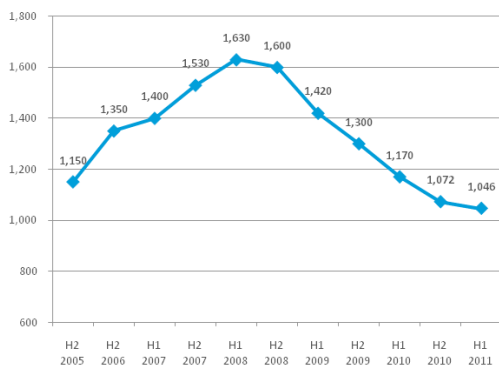
•Unlike the same period of 2010 when more than 2,000 units were added to the stock, H1 2011 saw only 400 new deliveries. The newly delivered apartments represent 30% of what was originally scheduled for H1 2011.

## DEMAND

•In 2011 buyers continued to focus on low class projects encouraged by Prima Casa III and IV. The fourth rendition of the program brought changes both in terms of its target audience (it has extended to owners who wish to acquire better dwellings) and financial risk (the Government has reduced the guarantee to 50% thus sharing the exposure with financial institutions).

•Demand continued to be dominated by end users looking for an apartment, although the first six months saw an increase in interest from investors. Take-up reached 550 units, bringing a decrease of 7% in sales in comparison with the same period of 2010.

## PRICE EVOLUTION



Source: Colliers International

## PRICES

• During the first half of the year, developers further decreased asking prices by 7% from the same period last year. The price per built reached an average of €1,050 per/m<sup>2</sup> (VAT not included) at the end of June, 45% lower than the historical peak reached in H1 2008.

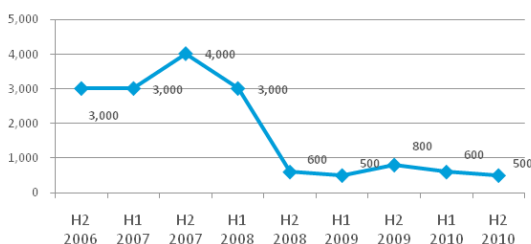
## FORECAST

**SUPPLY** – no new projects will break ground in H2 2011 and stock will register a slight increase as announced apartments will be delivered towards the end of 2011. Nevertheless, most likely, developers considering launching new projects will profit from current market conditions in order to reshape their developments and obtain the necessary permits.

**DEMAND** in H2 2011 will register comparable sales volumes as those witnessed in the first half of the year. The number of transactions will remain stable because of buyers' reluctance which still describes the residential market. First increases on the demand side are expected no sooner than 2012.

**PRICES** will register a delay in re-entering an upward trend, with no noticeable shifts likely to appear in following months. However, slower growth levels are expected due to both changes in financing conditions and sluggish economic recovery.

## SALES



Source: Colliers International

## 512 offices in 61 countries on 6 continents

United States: 125

Canada: 38

Latin America: 18

Asia Pacific: 214

EMEA: 117

- **\$1.5 billion in annual revenue**
- **978.6 million square feet under management**
- **Over 12,500 professionals**

### ROMANIA:

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## COLLIERS RESEARCH

Colliers Research Services Group is recognised as a knowledge leader in the commercial real estate industry, providing clients with valuable market intelligence to support business decisions. Colliers research analysts provide multi-level support across all property types, ranging from data collection to comprehensive market analysis.

Across the CEE-SEE-Russia region of EMEA, Colliers researchers regularly collect and update data on key real estate metrics, set to consistent definitions. This information is constantly managed using databases, enabling staff to readily produce analysis on key regional markets including supply, demand, absorption, pricing and transaction data on capital markets and the office, industrial and retail sector. In most CEE-SEE-Russian markets, the office definitions used are consistent with those set out by the CEE Research Forum – an umbrella group, of which Colliers is a founding member - established to ensure consistent research methodologies are used, bringing greater transparency and reliability to the analysis of real estate markets in the region. Definitions of the key metrics used in our regular reports are highlighted below.

## KEY METRIC DEFINITIONS

- **Prime Headline Capital Value (derived):** This is a calculation of market value derived from the annual prime headline rent divided by the prime (net initial) yield.
- **Prime Net Initial Yield:** The yield an investor is prepared to pay to buy a Grade A building, fully-let to high quality tenants at an open market rental value in a prime location. Lease terms should be commensurate with the market. As a calculation  $\text{Net Initial Yield} = \frac{\text{first years' net income/purchase price (prior to deducting fees and taxes)}}{\text{purchase price}}$
- **Prime Headline Rent:** Represents the top open-market tier of rent that could be expected for a unit of standard size commensurate with demand, of the highest quality and specification in the best location in the market at the survey date. This should reflect the level at which relevant transactions are being completed at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on expert opinion of market conditions, but the same criteria on building size and specification will apply.
- **Prime Net Effective Rent:** Prime Net Effective Rent is the lowest rent payable, based on a calculation of the Prime Headline Rent, less the monetary equivalent of the highest of either the rent-free period or fit-out contribution available at the time of the survey date.
- **Average Headline Rent:** Average Headline Rent represents the average open-market tier of rent that could be expected for a unit of standard size commensurate with demand, based on a blend of Grade A & B space across a range of locations in the market at the survey date.
- **Total Competitive Stock:** Includes the gross leasable floor space in all A and B class buildings.
- **Space Under Active Construction:** Represents the total amount of gross leasable floor space of properties where construction has commenced on a new development or in existing properties where a major refurbishment/renovation is ongoing at the survey date.
- **Space Under Construction – Inactive:** Represents the total amount of gross leasable floor space of properties where construction had started/where a major refurbishment/renovation was ongoing, but activity has since stopped for a period of 3 months or longer.
- **Vacant Space:** The total gross leasable floor space in existing properties that meet the Competitive Stock definition, which is physically vacant and being actively marketed at the survey date. Space should be available for immediate occupation.

