Property Times
Romania Investment H1 2014
Strong signs of recovery

September 2014

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- Total investment volume in H1 2014 exceeded € 410 million, being with 60% higher when compared with the similar period of 2013. This is the highest investment volume registered since 2008.

- The largest share was represented by the office sector with 52%. Retail sector accounted 10% from H1 2014 investment volume, while transactions regarding industrial properties accounted 4%.

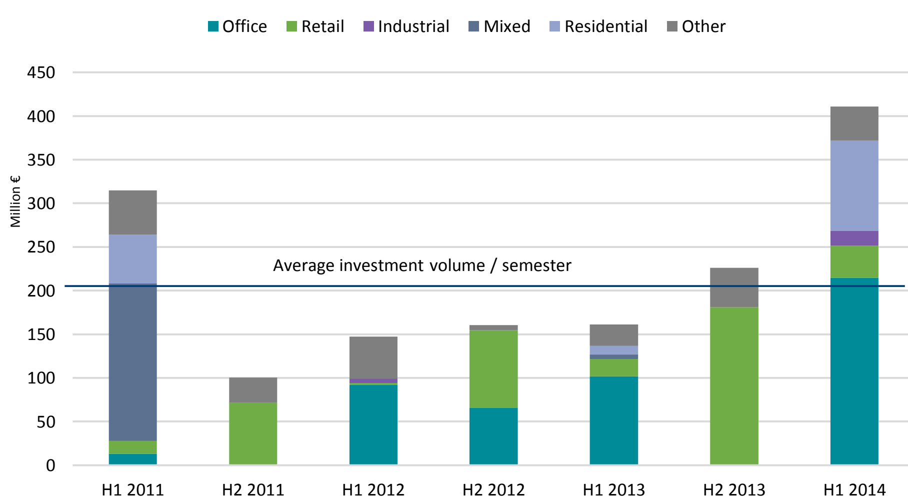
- In H1 2014 there were 17 investment transactions recorded. In terms of transaction size range, this was between € 1.5 million and € 92 million.

- The investment market in H1 2014 was characterized by a compression of the prime yielding level. Prime yields for office and retail are in the range of 8 - 8.25%, while prime industrial properties stand at 10%.

- Investors are more determined to take advantage of the high yielding nature of the current market. While vendors are demonstrating a higher flexibility in price negotiations, buyers are becoming more determined in terms of decision making.

Figure 1

Investment volume by sector H1 2011 – H1 2014



Source: DTZ Research

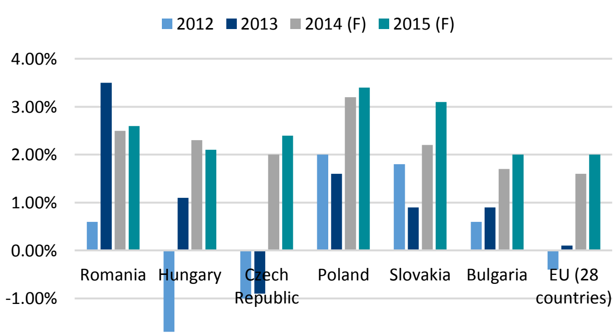
Romania Investment H1 2014

Macroeconomic background

Last year Romanian economy was one of the most performing in the European Union. Annual GDP growth rate was of 3.5%, supported by a robust industrial output and a good agricultural production that led to strong exports. According to the data provided by Eurostat, Romania's GDP grew by 3.8% in Q1 2014 compared with the same period last year. It was the largest annual advance recorded by a member country of the EU. According to the European Commission, Romania's GDP is forecasted to remain strong at 2.5% in 2014 and 2.6% in 2015.

Figure 2

GDP growth rate in CEE region 2012 – 2015 (F)



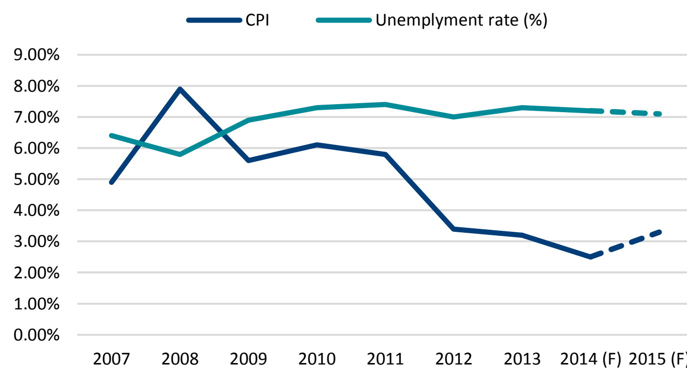
Source: European Commission

General unemployment rate at the end of 2013 was of 7.3%, significantly lower than EU's average unemployment rate (10.8%). At the end of H1 2014, unemployment rate in Romania stood at 7.1% and for the entire year is forecasted to remain in the same range.

Good agricultural production and reducing VAT on bakery products led CPI to 1.6% at the end of 2013, the minimum of the last 24 years. Annual inflation was of 3.2%, complying with central bank's target range for 2013 (1,5 to 3.5%). CPI inflation reached a new historical low of just 0.7% at the end of H1 2014. However, in H2 2014 inflation is set to return to the upper part of the central bank's target band (2.5%±1 pp.) as the increase in the fuel excise rate introduced on 1st of April kicks in.

Figure 2

CPI & Unemployment rate 2007 – 2015 (F)



Source: Eurostat & European Commission

In Q1 2014 the central bank dropped the key interest rate to 3.5% for loans denominated in local currency, which will expectantly create more liquidity in the market. The budget deficit in Romania has been reduced to 2.6% of GDP in 2013, and for 2014 is estimated to be in the range of 2.2%

In the context of strong macroeconomic fundamentals like GDP growth, low unemployment rate, low public debt, stable currency, high returns achievable in a moderate risk environment, competitive taxation system, major institutional investors started to show interest in acquiring property assets in Romania.

Table 1

Romania macroeconomic indicators

Macroeconomic indicators	2013	2014 (F)
GDP growth rate (%)	3.5	2.5%
CPI (%)	3.2	2.5%±1 pp.
Unemployment rate (%)	7.3	7.1
Public debt as % from GDP	38.4	39
Budget deficit (%)	2.6	2.2
Corporate income tax (%)	16	16

Source: Eurostat, European Commission

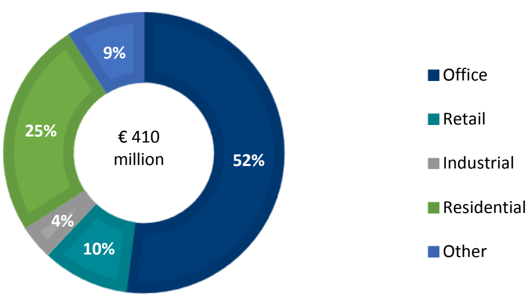
Romania Investment H1 2014

Investment activity

In the first six months of 2014, investors interest towards Romania has increased considerably compared with previous years. Total investment volume recorded in H1 2014 exceeded € 410 million, being with 60% higher when compared with the similar period of 2013. The most dominant segment in H1 2014 was the office sector, accounting for over € 210 million (52% market share).

Figure 4

H1 2014 Investment volume by sector



Source: DTZ Research

The most significant investment office transactions were the buy-back of 78% shareholding in BOB and BOC from RREEF (controlled by Deutsche Bank) and the acquisition of the rest of 50% shareholding in BTC, both performed by Globalworth. Another significant transaction was represented by the transfer of Charles de Gaulle Plaza between Accession Fund and Hanover RE, both companies of GLL Real Estate Partners.

The retail and industrial sectors, although less dominant than office sector, witnessed a few significant transactions. Vitantis Retail Park in East Bucharest was purchased by Revetas, an opportunistic UK fund focusing on restructuring non-performing loans. One of the few industrial transactions on the market was performed by Secure Management purchasing from Phoenix Real Estate Innovations Logistics Park located in Bucharest.

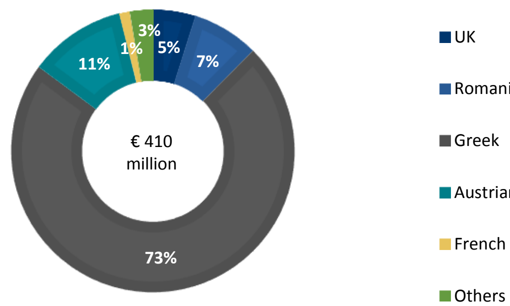
In total in H1 2014 there were 17 transactions concluded, 10 in Bucharest and 7 outside Bucharest. Transaction size ranged between € 1.5 million and € 92 million.

Source of capital

Greek investors were the most active buyers in H1 2014, followed by Austrian and Romanian investors. In light of a limited presence of foreign capital investors on the Romanian market, a number of acquisitions were performed also by domestic investors having a speculative attitude, willing to benefit from the high yielding nature of the current market, generally targeting opportunities and distressed assets.

Figure 5

H1 2014 Source of capital



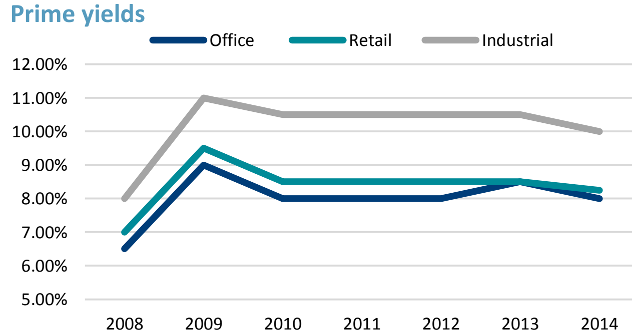
Source: DTZ Research

Yields

The investment market in H1 2014 was characterized by a compression of the prime yielding level. Prime yields for office and retail are in the range of 8 - 8.25%, while prime industrial properties stand at 10%. However, we expect that prime office and retail schemes that currently are subject of negotiation will be transacted at prices corresponding to yields ranging 7.5 - 7.75%.

Figure 6

Prime yields



Source: DTZ Research

Romania Investment H1 2014

Outlook

Although banks continue to be cautious in financing the residential sector, investors that identified a necessity for affordable dwellings and the lack of suitable products on the market are starting new developments, especially in Bucharest.

While office and retail properties continue to be the most sought out investment products, industrial sector is back on investors' radar. It is estimated that 2014 will become, after 2008, a new reference year in terms of total volume of industrial transactions.

The first six months of 2014 proved that Romania is becoming more and more attractive for different types of investors. Whereas vendors are demonstrating a higher flexibility in price negotiations, buyers are becoming more determined in terms of decision making.

Table 2

Prime yields in CEE

Country	Office	Retail	Industrial
Romania	8%	8.25%	10%
Hungary	7.5%	7.25%	9.25%
Czech Republic	6%	6%	7.5%
Poland	6%	5.75%	7.5%

Source: DTZ Research

Considering the significant compression of returns for the Western European markets and the fact that Romania has the most competitive yields in the CEE region, we estimate that starting H2 2014 going forward several transactions that are already under negotiation will be finalized. Overall, investment volume for 2014 is estimated to exceed € 800 million.

Table 3

H1 2014 Major investment deals

Property	Sector	City	Purchaser	Vendor	Price (€ million)
BOC & BOB	Office	Bucharest	Globalworth	RREEF	152
Upground Towers	Residential	Bucharest	Globalworth	RREEF	58
Farmexim	Land	Bucharest	Globalworth	RREEF	17.8
Bucharest Tower Center	Office	Bucharest	Globalworth	Romconsulting	58
Innovation Logistics Park	Industrial	Bucharest	Secure Property Development & Investment	Pheonix Real Estate	12.6
Moldova Mall	Retail	Iasi	Private individual	Equest Balkan Properties	Undisclosed
Vitantis Shopping Center	Retail	Bucharest	Revetas Capital	Equest Balkan Properties	Undisclosed
Dermatina	Land	Timisoara	NEPi / Dedeman	Bega Group	Undisclosed

Source: DTZ Research

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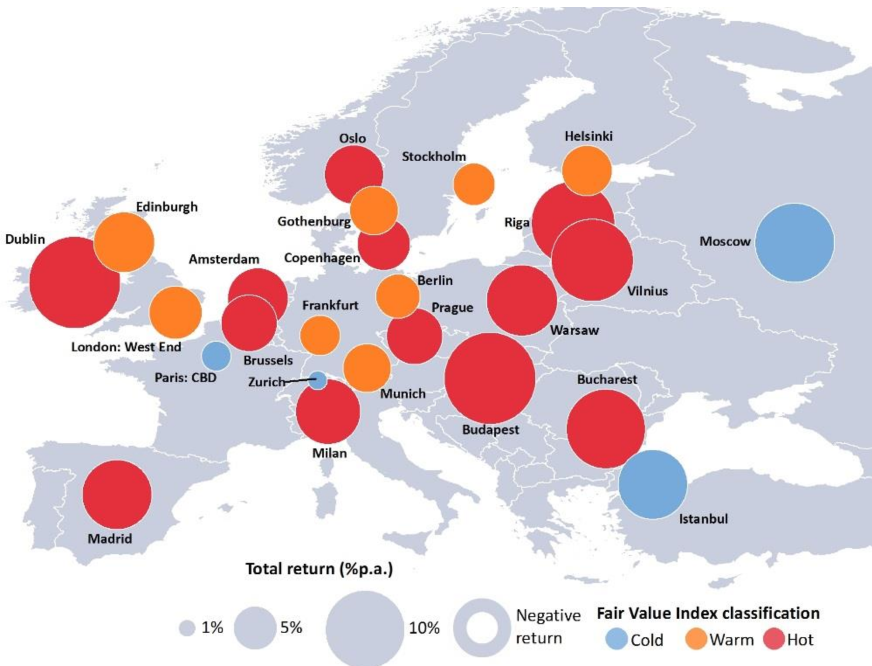
Map 1

European office market Fair Value classifications and five year total return forecasts Q2 2014-Q2 2019 (% p.a.)



Hot markets are those that are more than 5% underpriced; **Warm markets** are fairly priced +/- 5%; while **Cold markets** are more than 5% overpriced.

Having generated a classification for each market, DTZ then calculates the Index score for each region.
The Index score ranges between zero and 100, with 50 indicating a balanced number of Hot and Cold markets. As such, **the higher the Index score, the greater the number of attractive commercial property investment opportunities there are**, and the lower the Index score the fewer attractive investment opportunities that there are.

DTZ Research launched its Fair Value Index™ in 2010, the first ever forward looking commercial property value index. The Fair Value Index is updated on a quarterly basis and offers investors insight into the relative attractiveness of pricing in prime office, retail and industrial property markets around the world.

Definitions

Investment transaction

Commercial transactions refer only to direct property. However, entity level transactions where real estate is substantial proportion of assets are treated as purchases of direct property. Development transactions are included if the purchase of commercial real estate occurs during the development / construction / comprehensive refurbishment phase and when the completion date is known. Transactions that involve more than one purchaser or vendor are classified as Joint Venture with appropriate weighting allocated to the transaction.

Prime yield

Represents the initial yield estimated to be achievable for a notional office property of highest quality and specification in the best location fully let and immediately income producing in a market at the survey date. The yield is derived from the rental income divided by the purchase price.

Property type

DTZ tracks commercial property transactions made primarily in the office, retail, industrial and mixed use sectors. Land sales are not recorded unless the land is purchased in the development phase or is acquired specifically to construct a building or complex of buildings.

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