

# PROPERTY TIMES

## Record level of investment

### Romania Investment 2014

March 2015

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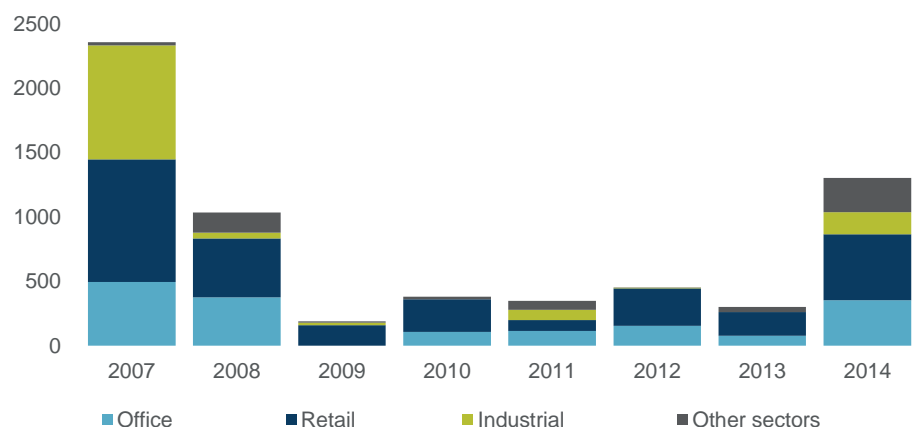
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- Total investment volume in 2014 exceeded € 1.3 billion, being 4.3 times higher y-o-y. Approximately 70% was registered in Bucharest. This is the largest investment volume recorded in Romania since 2008.
- The largest share was represented by the retail sector, with ~ 40%. Office sector accounted 27% from 2014's investment volume, while transactions with industrial properties accounted 13%. After six years of stagnation, industrial prime properties have become again of interest in 2014.
- The most important investment deals have been registered in Q4 and represent 69% from 2014's investment volume. NEPI continued to be the most dynamic investor in acquiring retail properties, while Globalworth was the most active in purchasing office properties.
- The properties sold by banks represent a small share in the total investment volume recorded in 2014. After seven years of dry activity in terms of recovering bad debts, banks continued to show little flexibility in negotiating the sale of collaterals.
- Prime yields have strengthened, clearly showing that Romania is again becoming a desired destination for real estate investments. Prime yields for office are in the range of 7.75 – 8%, prime yields for retail are between 7.5 – 7.75%, while prime industrial properties stand at 9.5 – 9.75%.

Figure 1

#### Investment volume by sector, € m



Source: DTZ Research

# Romania Investment 2014

## Macroeconomic background

Romania's economy registered strong growth in 2014. Compared with 2013, Romania's GDP grew by 2.9% and as in 2013, industrial production had the largest contribution to economic growth (24%). The most remarkable contribution came from information and telecommunication sector, which y-o-y grew by 11%, its contribution to GDP being of 6%. Economic growth is expected to stay above potential, at 3% in 2015 and 2016, powered by domestic demand and also supported by the gradual recovery predicted in the global economy.

Consumer price index has been recording minimum levels during 2014. Annual inflation last year was of 1.4%, slightly below the target set by the central bank (2.5%±1 pp.). CPI is forecasted to remain lower than expected, following the same trend as in the rest of Europe, being influenced by the pricing drop of fuel and food products. Central bank's estimations foresee an average CPI of 2.1% in 2015 and 2.4% in 2016 - slightly higher as inflation is set to accelerate, driven by the recovery of domestic demand.

In order to create more liquidity, during 2014 the central bank dropped the key interest rate from 3.75% to 2.75% for loans denominated in local currency. The budget deficit in Romania has been reduced to 1.85% of GDP in 2014, and for 2015 is estimated to be in the range of 2%.

Retail sales have increased in 2014 by 7% when compared with 2013. This represents the highest increase registered in the last six years. Retail sales outstanding performance was boosted mainly by non-food sales, which overall have increased by 10.6% y-o-y and by food sales, which have increased y-o-y by 7.5%. Retail sales have started to rise since 2012, but an annual rate exceeding 7% has not been reached since 2008, which was the best year for the Romanian economy.

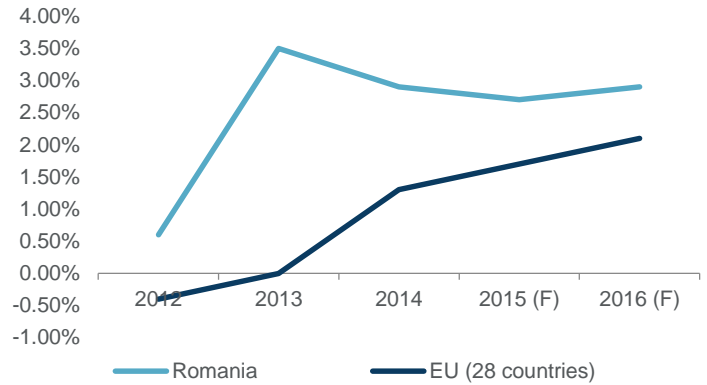
The labour market in Romania has been stable over the last years, with unemployment rates varying around 7%, considerably lower than EU's averages. At the end of December 2014, the unemployment rate in Romania was of 6.4%.

## Investment activity

The total investment volume last year exceeded € 1.3 billion, being 4.3 times higher than the level registered in 2013. This is the largest investment volume recorded since 2008 and the second highest ever recorded in Romania. Approximately 70% was registered in Bucharest.

Figure 2

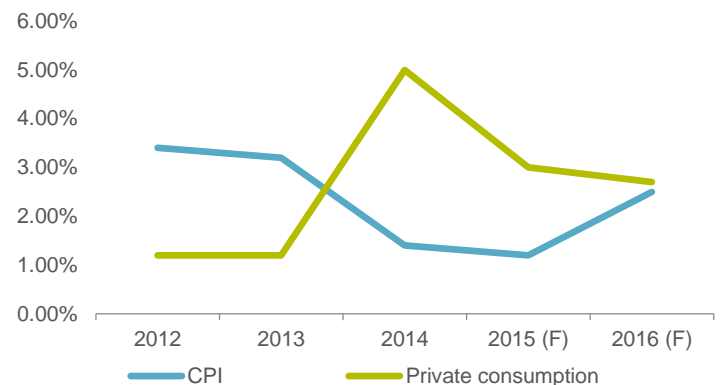
### GDP Growth rate



Source: European Commission

Figure 3

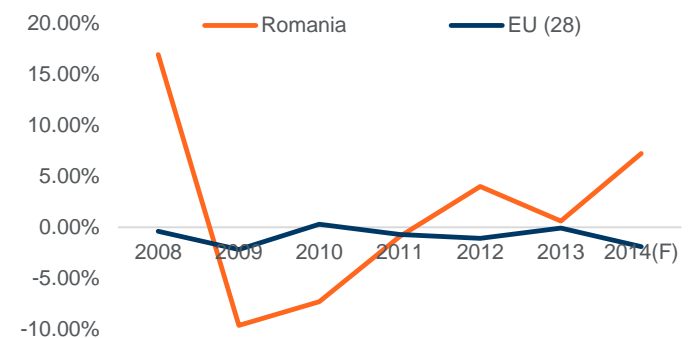
### CPI & Private consumption



Source: European Commission, NBR

Figure 4

### Retail sales evolution



Source: NIS, Eurostat

# Romania Investment 2014

The most dominant segment in 2014 was the retail sector, accounting for over € 510 million, representing ~ 40% of the total investment value. Office sector accounted 27%, while transactions with industrial properties accounted 13% from 2014's investment volume.

The most important deals have been registered in Q4 and represent 69% from 2014's investment volume. NEPI purchased Promenada Mall, transaction value of € 148 million, P3 acquired CA Immo's industrial park Europolis Logistic Park, transaction value estimated to be of € 120 and Globalworth purchased three office buildings, including Skanska's office building Green Court - A, total investment value being of € 133 million.

NEPI was the most active retail investor in 2014. Apart from acquiring Promenada Mall and two other retail properties located in Buzau and Alba Iulia, NEPI also purchased land properties in Piatra Neamt and Timisoara having the purpose of enlarging its retail portfolio with future developments. With a value of ~ € 343 million invested, Globalworth was the most active in acquiring office properties. The investor also purchased two land plots located in the most performing office areas in Bucharest, Barbu Vacarescu - Floreasca and Pipera South.

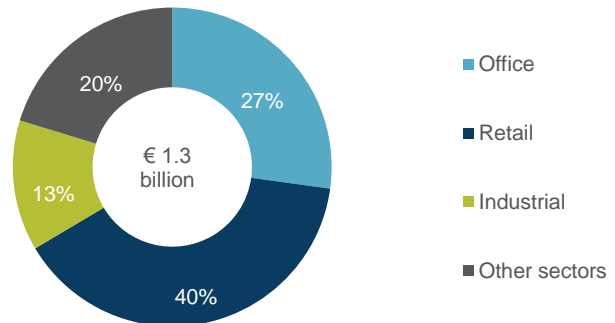
The properties sold by banks represent a small share in the total investment volume recorded in 2014. Banks still hold on balance sheets large portfolios of non-performing loans collateralized by various properties with low degree of liquidity. After seven years of dry activity in terms of recovering bad debts, banks continue to show little flexibility in negotiating the sale of collaterals. In light of the above, last year some banks ended up selling to opportunistic specialized investment funds large bad debt portfolios at significant discounts. Alternatively, some banks handed-over property guaranties towards special purpose vehicles controlled by their own group, having the strategy to improve the performance of distressed assets and to sell in better market conditions.

## Yields

Prime yields have compressed towards year's end by 25 – 50 bps. Thus, prime office properties achieve yields between 7.75 – 8%, prime yields for retail are between 7.5 – 7.75%, while prime industrial properties stand at 9.5 – 9.75%.

Figure 5

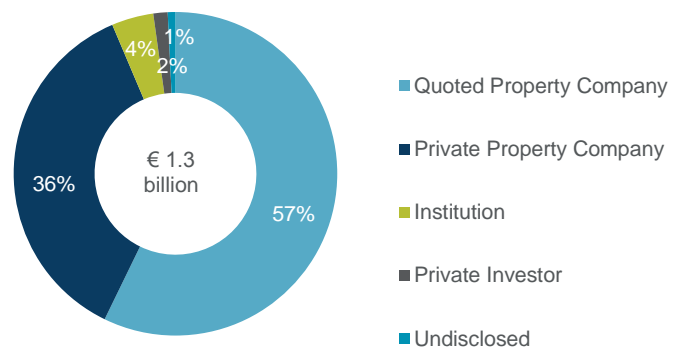
Investment volume by sector



Source: DTZ Research

Figure 6

Investment volume by source of capital



Source: DTZ Research

Figure 7

Prime yields



Source: DTZ Research

# Romania Investment 2014

## Outlook

Total investment value recorded last year proves that Romania is again becoming a desired destination for real estate investments.

Economic growth, political stability and the yield difference between the local market and Western European markets draws the attention of new investors. Institutional funds that in the past were not considering Romania to be a viable investment destination are now active and are looking to acquire income generating products. Thus, local investment market is forecasted to perform going forward, driven also by new investors entering the market. Further yield compression is expected this year.

Retail and office products have continued to be on investors' radar in the recent years, while industrial and logistics segment witnessed no investment activity. 2014 proves that this sector is becoming again attractive. With several prime industrial and logistics products available for sale, we estimate that this particular segment will represent an important share in 2015' total investment value.

Regarding banks' financing policy, despite the fact that financing costs decreased significantly, financial institutions are still reluctant to finance commercial real estate, while funding of residential development is virtually inexistent. Nevertheless more and more developers are preparing residential developments on equity.

Table 4

### 2014 Major investment transactions

City	Property	Sector	Purchaser	Vendor	Price (€ million)
Bucharest	Promenada Mall	Retail	NEPI	Raiffeisen Evolution	148
Bucharest	Europolis Logistic Park	Industrial	P3	CA Immo	120
Bucharest	Green Court I	Office	Globalworth	Skanska	44
Bucharest	Nusco Tower	Office	Globalworth	Nusco Group	46
Bucharest	Unicredit HQ	Office	Globalworth	Bog'Art	43
Timisoara	Timisoara Airport Park	Industrial	Globalworth	Invest4SEE	35
12 regional cities	Commercial galleries	Retail	Immochan	N/A	280

Source: DTZ Research

## 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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