

MARKETBEAT

ROMANIA INVESTMENT H1 2018

New South-African Capital Still Flowing In

Macroeconomic background

Romania recorded a 4.0% GDP growth during Q1 2018, with industrial production and local consumption having the largest contribution to this increase. After two consecutive years of double-digit growth, retail sales remain on a positive trend.

The National Institute of Statistics has reported a 6.5% retail sales growth during the first six months of 2018, compared to the same period of last year. Unemployment is quite low, reaching 4.5% in June 2018, whereas the average net income is still on continuous rise - 12.3% increase in May 2018 when compared to May 2017.

Table 1

Romania Macroeconomic Indicators

	2018 (y/y)	Directional outlook
GDP Growth rate (%)	4	↗
GDP per capita (€)	10,000	↗
Gov. debt as a % of GDP	35	→
Budget deficit (%)	2.9	→
Monetary policy rate (%)	2.5	↗
CPI (%)	3.6	→
Construction works y/y (%)	0.4	→
Retail sales y/y (%)	6.4	→
BIM unemployment rate (%)	4.6	↓
Average exchange rate (1 € to RON)	4.65	→

Source: National Bank of Romania, INSSE, Eurostat

Investment activity

In H1 2018, the total volume invested in commercial property in Romania reached € 386 million, compared to € 530 million during H1 2017. Several transactions were prolonged and are due to be closed in the second half of the year, with total investment volume expected to remain stable, at app. € 1 billion. Bucharest attracted 93% from the total investment volume, with Cluj-Napoca and Brasov covering the remaining 7%.

The most active segment was the Office sector, with an estimated transactions value of app. € 256 million, representing 66% of the total investment value. The Retail segment attracted 29% of the capital, while the activity in the Hospitality (3%) and Industrial (1%) segments was weak.

The largest transaction in terms of value was concluded by Lion's Head Investments, a joint-venture between South-Africa based Old Mutual and AG Capital, which acquired Oregon Park, a 70,000 sq. m GLA (when completed) business park located in the Floreasca – Barbu Vacarescu area, with tenants such as Oracle, Deloitte, Medicover and Euler Hermes. This sets a new record for the local market, being the largest office transaction, and is the first deal concluded in Romania by Old Mutual, strengthening the footprint of South-African investors in the local real estate market.

On the other hand, CA Immo has acquired Campus 6.1 office building from Skanska for € 53 million, the first transaction concluded by CA Immo in Romania after almost 10 years.

In terms of retail, the most relevant transaction was the acquisition of Militari Shopping retail park in Bucharest for €95 million by another group of South-African investors - Prime Kapital and MAS Real Estate.

Prime Yields

Compared to other investment destinations in the CEE region, Romania still has the most attractive yields. On average, prime yields in Bucharest are higher by between 100 - 275 basis points for office, 100 – 250 basis points (for retail) and 125 – 300 basis points (for industrial) compared to the other main markets.

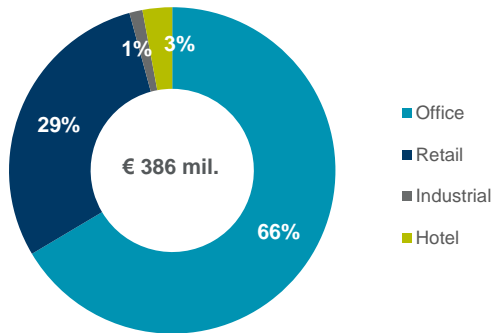
Table 2

Prime yields in CEE end of H1 2018 (%)

City	Office	Retail	Industrial
Bucharest	7.25	6.75	8.75
Warsaw	5	5	6.75
Prague	4.5	4.25	5.75
Bratislava	6.25	5.25	6.5
Budapest	5.5	5.75	7.5

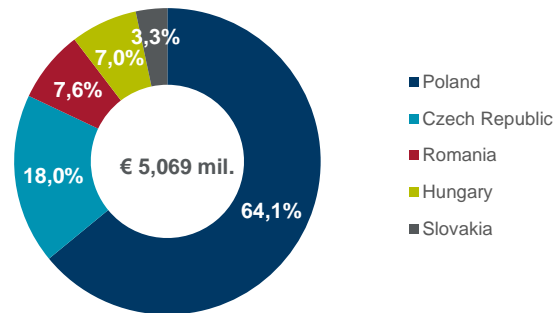
Source: C&W Echinox

Figure 1
Investment volume by sector in Romania in H1 2018



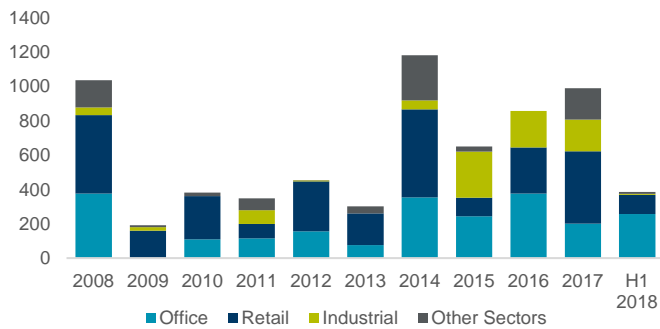
Source: C&W Echinox

Figure 2
Investment volume in the CEE in H1 2018



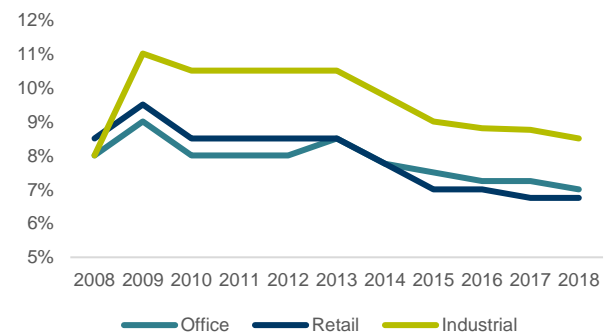
Source: C&W Echinox

Figure 3
Investment volume by sector (€ M)



Source: C&W Echinox

Figure 4
Prime yields evolution



Source: C&W Echinox

Table 3
Major investment transactions H1 2018

City	Sector	Property	Purchaser	Vendor	Price (€ million)
Bucharest	Office	Oregon Park	Lion's Head Investment	Portland Trust - ARES	N/A
Bucharest	Retail	Militari Shopping Center	MAS Real Estate – Prime Kapital	Atrium European Real Estate	95
Bucharest	Office	Campus 6.1	CA Immo	Skanska	53
Bucharest	Office	Lascar 31 Business Center	ForeVest Capital Partners	UTI Group	24*
Bucharest	Hospitality	Mercure Unirii	Orbis Group	Private investors	11.3
Cluj-Napoca	Office	Maestro Business Center	First Property Group	Omniconstruct	9
Brasov	Retail	Praktiker Brasov	Mitiska-REIM	Ballymore Group	N/A

Source: C&W Echinox *estimated

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