

ROMANIA — R.E.VOLUTION

Romanian Real Estate market syndicated report , developed with the contribution of:
BUCHAREST CITY HALL - BCR - COLLIERS - NOERR - CUSHMAN WAKEFIELD ECHINOX - KPMG - CBRE - JLL

2019 - 2020 Outlook

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urban redevelopment at former Grivita brewery plant

AS BUCHAREST REAL ESTATE MARKET IS RAPIDLY EXPANDING, INVESTORS START TO DEVELOP NEW, SOPHISTICATED PRODUCTS

BY DESPINA PONOMARENCO, BUCHAREST REAL ESTATE CLUB

As Romanian economy continues to grow (Eurostat estimations - 4 % GDP y-o-y for 2018 and 3.8 GDP y-o-y for 2019) new companies enter the local market, fueling real estate developers to project more sophisticated products. London Stock Exchange is one of the most recent foreign companies to enter the local market, with a new shared service center. **"Romania offers London Stock Exchange a highly-skilled workforce, a strong education system and good infrastructure"** - James Nunn, Head of Group Property, LSEG explained.

Examples continue with names such as **Amazon** (which opened this year in Bucharest a new centre, following Iasi) or **Electronic Arts**, the worldwide giant which has in Bucharest its third largest centre, after California and Canada. Built on a communist heritage of excellence

FIRST FOOD HALL & LOFT APARTMENTS ON HISTORIC BUILDINGS. INNOVATIVE BUSINESS PARKS

Under those premises, developers start to design new, sophisticated real estate products to cater for not only an increasing demand, but also for more and more demanding clientele.

Lithuanian-based developer Hanner has started this year works on a historic plot near Basarab overpass: the former Grivita brewery plant. The development will bring a new product on the Romanian residential market: 31 unique lofts to be built on the structure of one of the former historic buildings. In the same development, the company will build a 6,000 sq. m co-work space, targeting Romanian entrepreneurs. Construction works are to be finalized by 2020.

"Romania is a European tech destination and not for back office or call centers, but more serious things - to name a few: Amazon is developing software in Iasi and Alexa in Bucharest, Adobe established here the largest R&D center in EMEA, Oracle is writing code in Bucharest in its largest subsidiary after UK, FIFA games are developed by Electronic Arts in Bucharest etc."

"

Ana Dumitrache, Head of Investment Property, CBRE states.

in science, technical education and mathematics, combined with Romanians' strong language skills, the tech sector is expanding at a fast pace. According to data from the Romanian Association of Business Services Leaders, the outsourcing industry is now hiring 125,000 people, with the potential to reach 300,000 in five years' time.

One United Properties, the most significant high-end residential developer on the local market together with Auchan announced plans to invest 100 million EUR in a multifunctional development at the junction of Floreasca and Mircea Eliade roads, downtown Bucharest. One Floreasca City involves three components, integrated in an open project: the former Ford factory



will be restored and modernized, following to transform in a contemporary retail space and food hall, operated by Auchan Romania, a class A office building – One Tower- and three exclusive blocks of design apartments – One Mircea Eliade. The estimated delivery date is 2020.

“Bucharest is a beautiful city, with a long history and a unique position in Europe between the ‘old’ countries of Western Europe and the new frontier to the East. The historic buildings and industrial heritage of Bucharest are one of its most powerful assets. We have seen Brooklyn explode with developments in old industrial neighborhoods, and Shoreditch in east central London is now one of the most desirable parts of the city in which to live and work. Making something new by reinventing your heritage has driven development in London, New York, Chicago, Berlin and many other successful cities in the last twenty years. Bucharest needs to embrace this process and recognize how powerful it is as an engine of change”, said Ben Adams, Founding Director of London-based Ben Adams Architects, the architecture office that signed Nobu Shoreditch project in UK.

International players such as **Globalworth, Vastint, Skanska, Immofinanz** or **CA Immo** dominate the office sector, delivering high-quality products on the market. Local players have also competitive investments with names such as **Genesis Development, Forte Partners, One United Properties** or **Tiriac Group** just to name a few.

North remains a strategic area for real estate investors, but new hubs are also rapidly developing: Basarab – Center West, Timpuri Noi – Center South and Expozitiei are good examples. According to a BREC analysis, the area of Barbu Vacarescu – Floreasca – Pipera will see further 1 billion EUR investments in office, retail, residential & hotel schemes, together with a public hospital. Central Business District is also one hot spot for investments but due to lack of lands, the number of new projects here is limited.

Local businessman Ion Tiriac is building here Tiriac Tower, a business center with three buildings of 5, 8 and 12 floors. The scheduled delivery date is Q3 2020.

REGIONAL CITIES IN THE SPOTLIGHT

According to advisory firm Colliers, Romania will follow the Polish growth model, with cities outside the capital acting as development engines for their respective regions.

Cluj-Napoca is probably the single biggest direct competitor for Bucharest in terms of attracting employers seeking high complexity services. Timisoara is an interesting proposition both for its location, good language skills as well as a big number of graduates with a technical background. Iasi, on the other hand, offers a good cost for skills ratio and Brasov also has a good mix of skills for employers and a good central location as well.

The potential for office developments is significant in these cities, as deliveries in recent years have not kept up with those in Bucharest.

On the retail sector, as Bucharest gets crowded, developers choose to invest in secondary and tertiary cities. According to CBRE, 80% of the new retail deliveries until the end of 2019 are planned outside the Capital city. Traditional retail sees big competition from the e-commerce sector, with online sales increase of 30% in the first semester. But this increase creates new opportunities for industrial segment with huge demand for quality warehousing.

With an outdated stock and based on the constant increase of the arrivals in the country, the Romanian hotel market expects record new investments in 2019 and 2020 in Bucharest, Brasov, Timisoara.

Under these premises, there is no doubt that the Romanian real estate market will see new qualitative deliveries in 2019-2020, putting on the table some competitive investment products.



REAL ESTATE, A GROWING KEY INVESTMENT AREA IN ROMANIA

Romania has seen very strong economic growth in recent years and presents numerous opportunities to well-prepared investors, as its economy has gained considerably from the benefits of the European Single Market. It has a highly qualified and mobile workforce, fluent in English and other languages, with considerable experience of interaction with foreign investors. Real estate is one of many areas which investors are looking at closely.

The property investment market came close to a volume investment of EUR 1 bln. in 2017 and this figure is expected to be exceeded in 2018. Romanians are particularly keen to buy or rent new apartments and houses, and with rising living standards and a growing corporate sector, this appetite is likely to continue. The main cities are expanding, with many preferring to live in greener areas further away from the city centre, following the pattern which is common in more developed economies. The commercial real estate sector is doing well too, as economic growth fuels a growing need for office space and new retail developments.

Many Israeli investors have been involved in the Romanian real estate market from the early 1990's, and several successful projects have been developed by Israeli firms.

A MATURE MARKET OFFERING STEADY LONG TERM YIELDS

Recently, the market has become more mature, as educated and more sophisticated market players have started doing business in Romania. The real estate sector is increasingly appealing to foreign investors across all sectors: office, retail, industrial, residential and hotels. The expected increased competition on the property market may trigger a slight yield compression in the year to come.

More Romanians are buying, and developments are more realistically located to connect with local infrastructure and to form part of the sustainable growth of cities. Land restitution issues have mostly been settled.

Prime yields in Bucharest are attractive, at 1%-1.5% above those in other CEE countries.

PARTICULARLY STRONG GROWTH IN SECONDARY CITIES

In terms of Romanian cities, while Bucharest remains a major focus for investors, growth in the sector is now fairly evenly spread across the country.

Many regional centres such as Cluj, Iasi and Timisoara have seen particularly strong economic growth, largely based on new industries like IT.

This has been reflected in demand for quality residential accommodation and office space.

About 36% of investment in 2017 was in Bucharest, less than in 2016, an indication of the growing attraction of secondary cities. This trend is expected to continue, as a pattern of workforce migration towards these cities can now be identified. Hence, many real estate investors are now looking at opportunities outside the capital, in particular in the West of the country.

BANKS ARE GENERALLY SUPPORTIVE

Most Romanian banks emphasize the importance of real estate financing in their banking strategy. In KPMG's yearly Property Lending Barometer, we carry out an analysis of the banking sector in terms of the prospects for real estate sector lending in Romania and in Europe. In 2018, in comparison with last year's Barometer, about 40% of the Romanian banks which responded to our survey have increased their focus on the real estate sector significantly whilst the remaining 60% give it the same focus as last year. All banks are open to provide financing to income generating projects, whereas only 40% are open to finance new developments.

In terms of alternative lenders, the banks participating to our survey recognize predominantly private equity and debt funds followed by non-commercial banks as their biggest competitors. Real estate loans are offered almost exclusively in Romanian currency (RON). The average real estate loan size ranges from approx. RON 70 million to RON 90 million. However, banks' preferred loan size is lower, between RON 50 and RON 70 million.

FUTURE OF REAL ESTATE PORTFOLIOS

For the upcoming 12-18 months, Romanian banks see growth for the entire banking sector's real estate loan portfolio. There is a slight difference in their expectations for their own banks: 40% see stability in the current situation, while 60% have projected an increase for the forthcoming period.



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Ori Efraim
Partner KPMG, Head of Real Estate

TAXATION

Corporate income tax

Taxable profits are determined based on a 16% tax rate applied to accounting profits subject to certain specific adjustments as provided by corporate tax law. A special taxation regime (1% or 3% on revenue depending on the number of employees) is applicable on profit of so called microenterprises (companies with annual turnover below EUR 1,000,000). Income derived from the transfer of immovable property located in Romania (including income from the rental or the grant of use of immovable property located in Romania or any other rights related to immovable property located in Romania) is subject to 16% tax. There may be cases where capital gains from the sale of shares in Romanian companies may be taxed in Romania. However, it is important to underline that Romanian tax legislation provides certain participation exemption rules applicable if the seller/transferor holds a minimum shareholding of 10% in the Romanian company for at least 1 year and if there is a double tax treaty in place between Romania and the residence country of the seller/transferor.

Starting 2018, no thin capitalization rules apply to deductibility of interest. These rules have been replaced by limited deductibility on the costs of indebtedness capped at EUR 200,000 plus 10% from a tax EBITDA.

Tax on Dividends

Generally, a 5% tax rate is due on dividend payments made by Romanian entities to non-resident shareholders (individuals or legal entities). However, dividend payments made to EU legal entities, can be tax exempt if the shareholder holds at least 10% of the share capital for at least 1 year from the date of distribution.

Individuals

Income realized by individuals from the transfer of real estate is subject to tax on income (not on gains). Capital gains derived by individuals from the sale of shares is subject to a 10%

personal income tax rate, irrespective of the period for which the shares are held.

VAT

The standard Value Added Tax rate in Romania is 19%. A reduced rate of 5% is applicable, among other things, for sale of dwellings as part of the government's social policy, under certain conditions (e.g. a threshold of RON 450,000 – approximately EUR100.000 for a residence of under 120 m²). As a general rule, supplies of buildings, parts of buildings and land, are VAT exempt without credit, meaning that any input VAT incurred on the relevant expenditure may not be offset against output VAT, but should be borne by the company as an extra cost. Rental of real estate is VAT exempt without credit. However, for both rental and sale, companies may opt to charge VAT by submitting a formal notification to the tax authorities.

In addition, there is an exemption for supplies of new buildings or parts of new buildings or building land which are subject to VAT and for which the taxpayer is entitled to deduct the VAT incurred on the related costs, if certain conditions are met.

The reverse charge mechanism applies to supplies of buildings and any type of land, if taxable either by law or by option.

Local taxes

Real estate tax includes land tax and building tax. Tax on land is calculated by taking into account the area of the land, the status of the locality, the category of use and the neighborhood (special guidelines are issued by each local council where the land is located). The tax on buildings is between 0.2% and 1.3% of the taxable value for non-residential buildings and between 0.08 and 0.2% for residential buildings. (For mixed use, tax is calculated proportionally). The taxable value is generally determined by valuation for tax purposes which has to be carried out every 3 years. (An increased rate of 5% is applied if this valuation has not been carried out).

**Section developed with
the contribution of KPMG Romania.**



Cromwell
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The future we build for

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MAJOR INFRASTRUCTURE PROGRAMS 2019 – 2020

A1 HIGHWAY – CIUREL CONNECTION

PROJECT VALUE: 128 M €

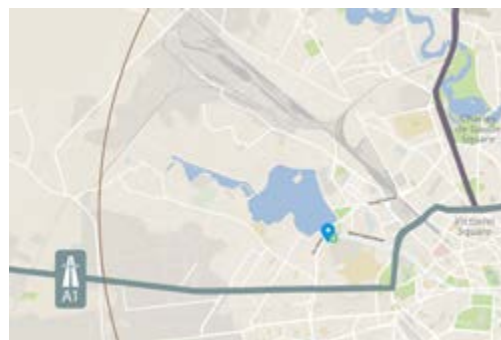
SPENT UNTIL 27TH OF AUGUST 2018: 20%

Penetration of Splaiul Independentei - Bucharest-Pitesti highway (A1) will have a length of 8.3 km, beginning at the intersection of Splaiul Independentei with Sos. Virtuții and ending on A1, at Ciorogarla Bridge.

Delivery term is in strong connection with overdue expropriations (approx. 10%) and relocation of ENEL electrical routes.

The initial project connecting with A1 highway provided for an expropriation corridor that currently includes about 200 buildings that should be demolished. Bucharest City Hall requested the designer to redefine the expropriation corridor with minimal costs. The new route involves the expropriation of only 20 buildings.

City Hall estimates that the new expropriation corridor and compensation amounts will be voted on the General Council earlier next year. The deadline for the project is December 2020.



FABRICA DE GLUCOZA

UPDATED INVESTMENT COSTS: 12.3 M €

DELIVERY TERM: END OF 2019

First stage consists in the demolition of the buildings on the expropriation corridor, followed by infrastructure works:

4-lane extension of 1.8 km of the street, 2 lanes of 3.5m each way.

Construction of sidewalks with a width of 4.5m.

Reconfiguration of the crossroads with Fabrica de Glucoza street and the connection with the upcoming roundabout intersection with A3 Bucharest-Ploiesti highway.





Regarding the infrastructure works at Fabrica de Glucoza, there have been considerable adjustments of the initial project, generated by the fact that during this time there have been build numerous properties in the respective area and many regulations in the sector were changed for: water networks, sewerage, lighting.

The updated cost of the infrastructure program is 12.3 million EUR, with a finalizing term of 15 months, the end of 2019, respectively.



Gabriela Firea
Mayor of Bucharest



DOAMNA GHICA, ANDRONACHE & PETRICANI OVERPASSES

3 major infrastructure projects which stipulate the closing of the median city ring

DOAMNA GHICA:

At Doamna Ghica Boulevard (East-West direction), the passage extends from the intersection with Lacul Tei Bvd and Sos. Petricani to the crossroads with Constanta Street .

On Colentina St. (North-South direction), the passage extends from the intersection with Str. Silvia to Str. Cremenita.

ANDRONACHE:

The project aims to build a passage over the Bucharest - Constanța railway, construction of access roads for people living in the area and return areas under the passage.

The technical offer for the feasibility study has been submitted, with a value of approximately 87,000 € and an assumed 3 months (90 calendar days) from contract date.

The works range from the intersection of Andronache St. with Intrarea Andronache to the crossroads of Eroilor Blvd., Transilvania and Popas St. in Voluntari.

PETRICANI:

In the first stage, Bucharest-Voluntari connection is ensured through a passage either underground or above ground, depending on the solution indicated by the feasibility study. It is ensured the crossing of the Bucharest - Constanța railway and the connection, in the south, between the ramp of the passage, the intersection with Fabrica de Glucoza street and access to A3 highway.

2nd phase provides the fitting in the alignments according to "PUZ - Closing of the Median Ring in the North Area", which will take into account the project for the road enlargement of Fabrica de Glucoza and the completion of the A3 - Bucharest - Ploiesti Highway project.

BIKE TRACKS

NEW BIKE TRACKS ON 4 ROUTES

INVESTMENT VOLUME: 9,33 M €

For Route 1 the design & build contract has been attributed, while for the other 3 routes the procedure for attributing the design & build contracts is to be finalized.

ROUTE 1:

P-ta Victoriei-Bd. Aviatorilor-Bd. Beijing-Str. Nicolae Caramfil-Sos. Pipera -Piata Presei Libere-Sos. Kiseleff-Bd. Constantin Prezan

ROUTE 2:

P-ta Victoriei-Bd. Iancu de Hunedoara-Sos. Stefan cel Mare-Sos. Mihai Bravu

ROUTE 3:

Calea Victoriei-Bd. Regina Elisabeta- Bd. Natiunile Unite -Splaiul Independentei (Pod Grozavesti)

ROUTE 4:

Bd. Libertatii - Piata Constitutiei-Bd. Unirii-Bd. Decebal-Bd. Basarabia-Stadionul National

11 PEDESTRIAN PASSAGES

Bucharest City Hall intends to build pedestrian and bike passages in areas with high traffic in Bucharest

- Fatanta Miorita
- Aurel Vlaicu metro station towards the Office of Driving License on Pipera
- Aurel Vlaicu metro station towards Promenada Mall
- Aurel Vlaicu metro station towards the New Metropolitan Hospital
- Soseaua Alexandriei – Bragadiru
- Liviu Rebreanu Street – ParkLake Mall
- Iuliu Maniu Bvd – Cora hypermarket
- Calea Vacaresti intersection with Pridvorului street
- Soseaua Mihai Bravu at the exit from Bucur Obor passage
- Doamna Ghica – Dimitrie Grozdea intersection

PRELUNGIREA CHENCEA

The project involves the **extension and modernization of the Ghencea Boulevard**, 6 km long, starting from the end of the 41 tram line to the Ring Road.

The new road will have two lanes each way, a tram line in the middle, bicycle tracks, 6 m wide sidewalks, green spaces between the sidewalk and the 3m road.

All intersections with side roads will be refurbished, and those with Braşov, Valea Oltului and Raul Doamnei streets will benefit from traffic lights.

There will also be an intermodal hub (41 tram line, buses and suburban minibuses) and a Park & Ride car park with a capacity of 300 units, which can be expanded to up to 500 in a further development.

For this project, up to now there have been implemented: topographic, geotechnical and traffic studies.



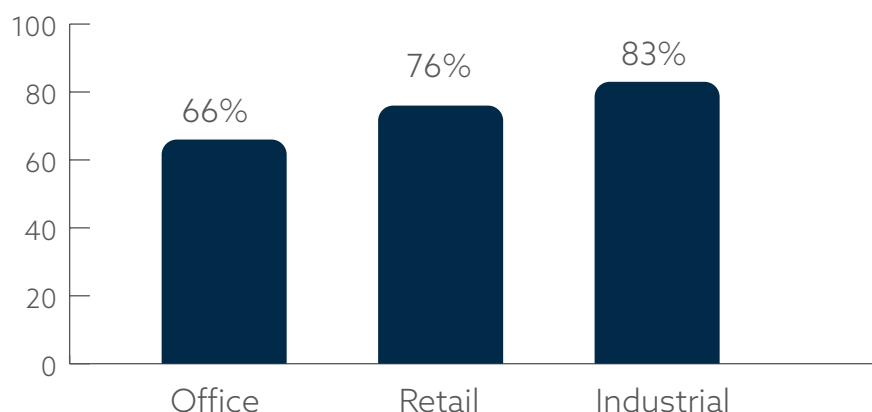
BANKS' APPETITE FOR FINANCING REMAINS HIGH, WHILE NEW, ALTERNATIVE INSTRUMENTS MAKE ROOM ON THE MARKET

As the quality of delivered products on the Romanian real estate market increases, the banks' appetite for financing remains high. According to the KPMG study "Property Lending Barometer 2018" (a survey among 70 banks from 14 European countries) there is a significant focus increase on real estate financing in Bulgaria, Slovenia, Romania, Hungary and Serbia.

Most Romanian banks in the KPMG survey emphasized **the importance of real estate financing in their banking strategy**. In comparison with last year's query, about 40% of respondents have increased their focus on the sector significantly whilst the remaining 60% have maintained their positions. All of the banks are open to provide financing to income generating projects, whereas only 40% are open to finance new developments.

As for alternative lenders, participants at the KPMG survey recognize predominantly private equity and debt funds followed by non-commercial banks as their biggest competitors. A majority (75%) described the level of provisions as adequate, while the remaining quarter considered them as not adequate. The average real estate loan size ranges from 15.5 million EUR to 20 million EUR. The pre-let ratio expectations for projects is around 65% for office, 75% for retail and 80% for the industrial sector.

PRE-LET RATIO EXPECTATION FOR PROJECTS,
KPMG PROPERTY LENDING BAROMETER 2018



For the upcoming 12-18 months, the Romanian banks surveyed by KPMG see growth for the entire banking sector's real estate loan portfolio.

Developers and investors on the Romanian market also use alternative instruments to raise capital such as corporate bonds. Globalworth, Impact, NEPI Rockcastle or One United Properties are a few examples of companies which choose to finance their developments by issuing corporate bonds.

// Corporate bonds are a viable alternative to bank loans today, since conditions have become more competitive for these instruments especially for companies enjoying an investment grade credit rating. The volatility of the interest rates of the bank loans encourages also an increasing number of real estate companies to enter in the bond market since such instrument are mainly paying fixed interest rate thus protecting borrower against unfavorable interest rate movements,

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Maxime Otto, Associate Director, Capital Markets Department, JLL Romania said.

Corporate bond market is at its inception in Romania but is likely that the market will continue to expand as more companies are meeting investors' criteria in terms of financial covenants, according to JLL.



// Liquidity is the main driver that pushes the high rank properties inside main cities in pole position for rising new debt.

The opportunities for financing will still be available in the market as long as the sponsors and the properties are going to continue the increasing trend of improving the quality of their products.

//



INVESTMENT MARKET: HIGH RETURNS ATTRACT NEW INVESTORS TO ROMANIA



The sale of Oregon Park was the biggest transaction of H1 2018

The CEE region continues to be a key target for both international and domestic investors. The CEE region's macro - economic story, encouraging retail performance levels plus very strong office and industrial occupational markets, together with an attractive yield profile provides for a very positive story for investors.

During the first half of 2018, the property investment volume for Romania is estimated at circa 205 million EUR, a value almost half the one registered in the same period of 2017 (481 million EUR). However, there

are several transactions in different stages of negotiations that will most likely be concluded during the remainder of 2018. The number of transactions decreased, however, the average deal size increased, standing at approximately 40 million EUR.

Bucharest accounted for over 78% of the total investment volume, mainly due to a very large office transaction which was closed in Q2. Market volumes were dominated by office transactions (88%), while retail accounted for ca.12%.



The largest transaction registered in first half of 2018 was the acquisition of Oregon Park, a 68,500 sq.m. office park in the Floreasca Barbu Vacarescu sub-market in the north of Bucharest by Lion's Head Investment. This is the first acquisition of the fund created by the joint-venture between South African investment fund Old Mutual Property and AG Capital in Romania, after previous investments in Sofia, Bulgaria.

CA Immo, also made a move and has acquired the first phase of Campus, the business park developed by Skanska in Center West Bucharest for 53 million EUR. Campus 6.1 is an A-class office development, offering 22,000 sqm GLA. The Austrian-based real estate group has a particular interest for this Bucharest sub-market, as it also developing here Orhideea Towers, a prime office project to be delivered this year.

Other notable office transactions in Romania were the acquisitions by Hagag Group of two historic buildings on Calea Victoriei, the main high street of Bucharest for 10 million EUR, which they plan to reconvert into office buildings and the acquisition of Maestro Center in Cluj-Napoca.

The latter is the first office transaction in Cluj-Napoca in the last 5 years which involved an international, institutional buyer. The 6,400 sq m office building was bought by First Property Group for 9.3 million EUR. The largest retail transaction of the year was the acquisition of the Festival Shopping Center project of Primavera Development in Sibiu by NEPI Rockcastle for 21 million EUR. This is the second acquisition of the South African group in Sibiu after they bought an existing asset, Sibiu Shopping City in 2015.

The other retail transaction, closed in Q1 2018, was the acquisition of Magnolia Brasov by a local investor from Miller Developments. The 7,500 sq. m shopping centre, opened in 2006, was sold for 4 million EUR.

Prime office yields are at 7.50%, prime retail yields at 7.00%, while prime industrial yields are at 8.50%. Yields for office and industrial are at the same level as 12 months ago, while retail yields have compressed by 25 bps over the year. There is a very soft downward pressure on yields.

Investment section developed with JLL Romania.



//

With many pension funds, insurance companies and sovereign wealth funds still under allocated, the European real estate market continues to be a crowded and highly competitive market. Consequently, some of this money should spill over into Romania, which still offers significantly better returns than the mature Western or core CEE markets.

This is likely why we see an increasing interest from private equity funds for the Romanian property market. Companies such Cerberus, Morgan Stanley, Revetas, with assets of billions of euro under management, chasing high returns started to see Romania as a good opportunity for investing.

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MAIN HIGHLIGHTS, ROMANIAN INVESTMENT MARKET



Soft downward pressure on yields in Bucharest



Property investment volume, H1, 2018: 205 million EUR, but is expected to exceed 1 billion EUR for the entire year.



Market volumes were dominated by office transactions (88%), while retail accounted for ca. 12%



The profile of investors in Romania has diversified significantly



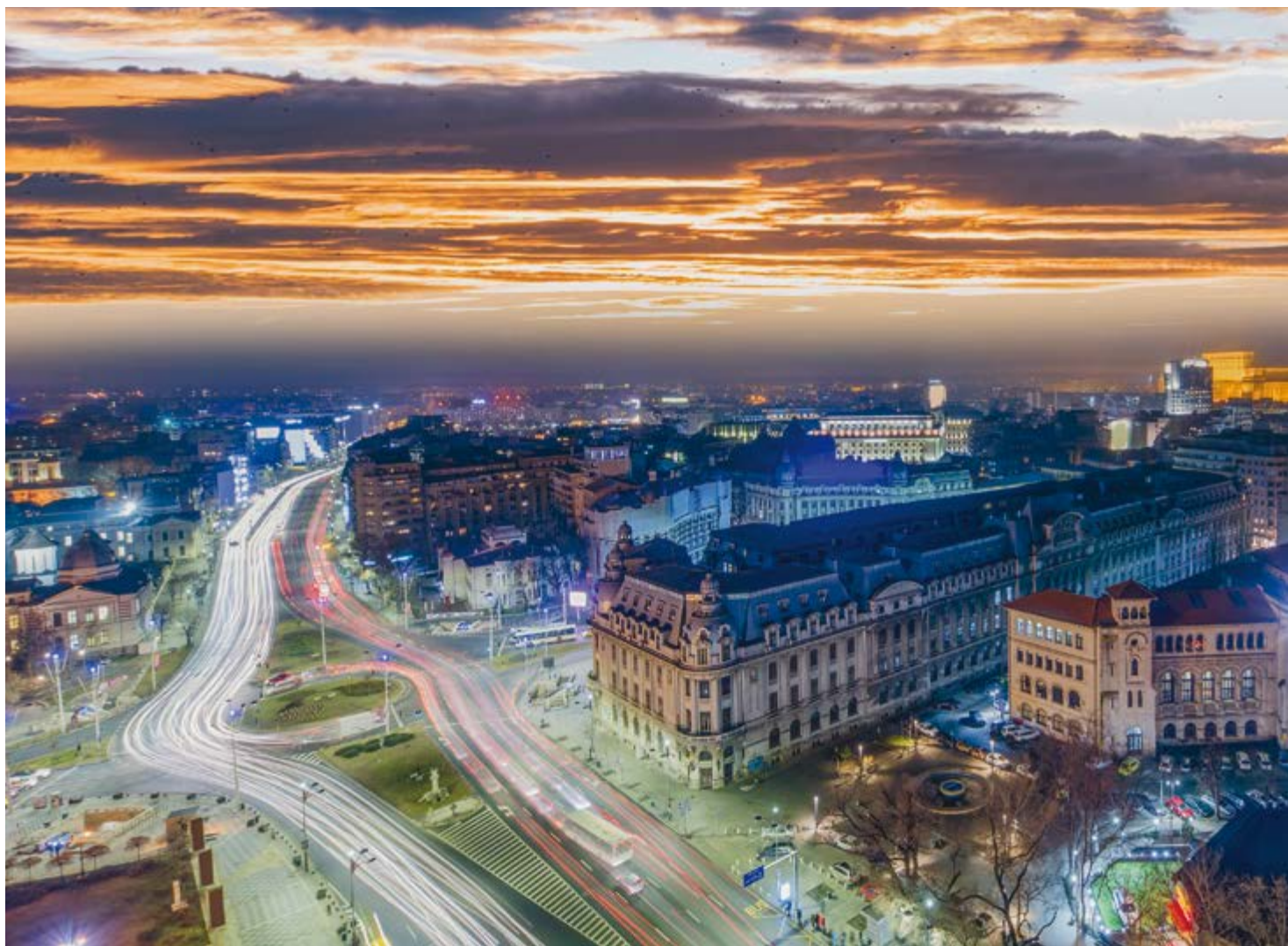
The bank's appetite for real estate investments remains strong, but corporate bonds are a viable alternative to bank loans



While the European market is highly competitive new private equity funds are entering Romania due to the high returns



**DEMAND FOR LAND
REMAINS HIGH
BOTH IN BUCHAREST
AND REGIONAL
CITIES**



The land market in Bucharest continued to attract the interest of real estate developers in 2018, total transactions of approx. 170 million EUR being monitored by Cushman & Wakefield Echinox in the first nine months of the year.

Romanian developers have been the most active, accounting for more than 50% of the total volume. Along with them, investors from Israel (AFI Europe, Hagag), Belgium (Mitiska, Speedwell), Turkey (Opus Land) or Germany (Kaufland, REWE, Lidl) have also been involved in land transactions in Bucharest.

Among the largest transactions in 2018 were: AFI Europe taking over a four hectare plot adjacent to the AFI Palace Cotroceni mall, the sale of the former nine-hectare

Helitube platform in Colentina to the Belgian group Mitiska, the acquisition by One United of a 2.6 ha area on the Lake Floreasca shore or the transaction by which Speedwell bought a land of 4.6 ha in the Jandarmeriei – Baneasa area.

Moreover, both in terms of the traded surface and of its value, the residential sector continues to be the sector that generates the highest land demand. This is due to the unfulfilled need of housing units, sustained in a significant proportion by the “Prima Casa” program, as well as by a reduced VAT (5%) up to the 450,000 RON threshold, and also to economic growth, higher salaries and to banks that are engaged in real estate financing.

The office segment has also been boosted by the appetite of new players in the investment market, both foreign and Romanian, as developers are still motivated to deliver new products on the market, therefore securing new locations for that purpose, both in some established office areas, but also in new ones, such as Tineretului and Pajura – Bucurestii Noi. Developers who have secured land for new office projects include AFI Europe, Portland Trust, Globalworth, or Speedwell.

Segment	Price level
Retail	100-200 € / SQ. M
Office	250-600 € /SQ. M
Residential	150-3.000 € / SQ. M
Mixed-use	250-550 € / SQ. M

In regards to the retail segment, as a result of the transactions signed this year, we can foresee the development of a new retail park in Colentina, the expansion of the AFI Palace Cotroceni shopping center, but also the construction of a new Kaufland hypermarket in northern Bucharest, an area which has not been properly covered by the German retailer yet.

The secondary cities in Romania offer emerging opportunities for the development of modern office buildings, but these opportunities present a higher degree of risk, in comparison to the Bucharest market, but we are talking about a true “blue ocean” for modern office spaces, and that can significantly compensate any particular risk.

Meanwhile, retail developments are becoming more and more prominent

in secondary and tertiary cities, as they are mostly following the steps made by food retailers or they are sustaining them for a better coverage in the country. Opportunities are not necessarily correlated with the ranking of cities according to the number of inhabitants. There are cities with approximately 100,000 inhabitants, from which there are still lacking modern retail schemes, such as Targoviste, Zalau or Resita. In such cases, the uncovered demand makes these cities more appealing than the larger ones, where there is already enough competition, even if the market is not necessarily saturated. We have a few dozens of such cities that will be part of the next waves of expansion of retail developers and retailers. Thus, from the perspective of commercial developments, the land market in Romania still has much to offer on medium and long terms.

LAND PRICES PER AREAS ACCORDING TO DEALS SIGNED IN H1 2018

Area	Land price
Primaverii	3,000 € / SQ. M
Grozavesti-Politehnica	500-600 € /SQ. M
Stefan cel Mare	500-600 € / SQ. M
Baneasa	200-300 € / SQ. M
Colentina, Berceni, Pallady	100-200 € / SQ. M



//

2018 has turned out to be a good year for the land market in Bucharest, with demand coming from all the key sectors of the real estate market.

The more gratifying is the fact that large land plots were transacted in all areas of the city for the development of projects that we hope will contribute to improving the city's overall image, as well as living conditions, working environment and shopping experiences.

In all major cities across the country, there still are redevelopment opportunities in the consecrated areas, as well as new emerging development poles that contribute to the organic growth and expansion of the city. I can point out examples as Iasi, with numerous redevelopment opportunities within the very central areas of the city, and in parallel in the outskirts of Iasi, such as Pacurari and Mirosalva, which are solid areas of growth. Cluj, Constanta, Timisoara, Brasov, Sibiu and many other cities have comparable examples as well.

There are still available significant surfaces of land, mostly former industrial sites, in the very heart of those cities.

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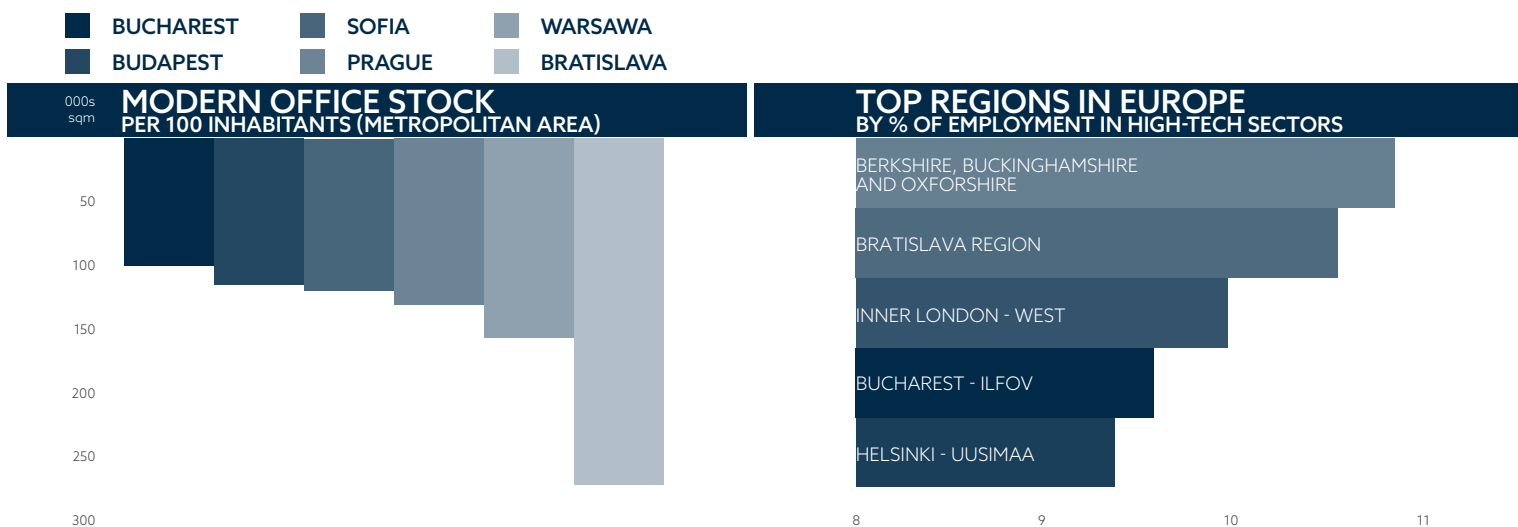


**NEW FOREIGN
COMPANIES ENTER
ROMANIAN MARKET,
REINFORCING THE
POTENTIAL OF
THE LOCAL OFFICE
SECTOR**

The Romanian economy is one of the most interesting propositions in the European Union, offering an attractive risk/reward profile – it has been the most successful convergence story among the larger new EU states – as well as a relative size advantage, being the 7th most populous member state. Throw in low wages, good foreign language skills and a significant number of people with technical/IT background and you get a very attractive office market.

Romania has little over 3 M sqm of modern office spaces in Bucharest and in the major regional hotspots (Cluj-Napoca, Timisoaras, Iasi and Brasov), with the latter accounting for about one fifth of total. Comparing

this with regional peers (even on a per capita basis), this looks quite small and herein lies one of the major paradoxes in the domestic economy: despite having steadily overperformed neighbouring countries in terms of growth, many segments of the market (including office) remain underdeveloped. To put things into perspective, employment in services is expanding at least two times faster than peers. One might say: sure, but this is because of the low base. After years of transitioning to a service-based economy, this is true to a much smaller extent. Moreover, Bucharest is also one of the densest areas in Europe in terms of high-tech experts, on par with London and above almost all regional capitals.

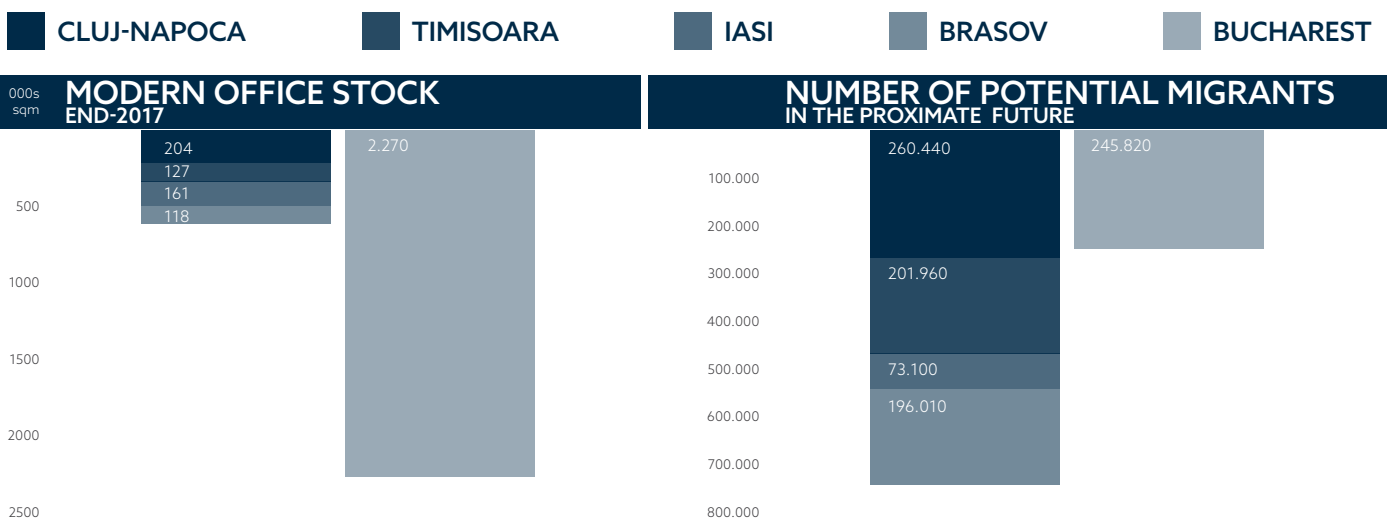


Bucharest offers, in terms of employability, a wide spectrum of qualifications: the country has one of the highest ratios of foreign language speakers in the EU (including offering less frequent foreign languages) as well as people capable of handling the most complex of tasks. All of this at wage costs (for services in the business economy) one third lower than Poland's and half of the Czech Republic's.

The office market is quite diverse, offering both **established areas** (like central locations or Floreasca/Barbu Vacarescu area) and **fast-growing submarkets** (Center West, Piata Presei/Expozitiei). The overall quality of deliveries has increased steadily in the last decade (with more than half of the stock having obtained green certifications, more than the share seen in regional capitals), offering good value for money as well, alongside the labour market. Overall, the Bucharest office market is in full expansion mode and it is set to surpass the 3 mn sqm mark in the next few years.

While Bucharest is already punching above its grade and awaiting the promotion to a bigger league, the regional cities are slowly, but surely, moving into the limelight and look set to deliver robust results over the medium term. We believe that Romania will follow the Polish growth model, with cities outside the capital acting as development engines for their respective regions. This would be in tune with Zipf's law, which, when adapted to demographics, states that in a lot of countries, there is an inversely proportional relationship between the biggest town in terms of population and inferior size brackets.

Interestingly, we are already seeing a change in internal migration patterns, as wages in the large regional cities are no longer a big difference. These offer trendy, culturally rich environments while not suffering from overcrowding like Bucharest. For instance, a decade ago, 41% of people changing their home from one town to another moved to Bucharest; in 2017, this share decreased to 31%. Furthermore, a nation-wide survey published early at the start of 2017 by the World Bank suggested that over 700,000 people could move to one of the major office hubs (Cluj-Napoca, Timisoara, Iasi and Brasov), nearly three times the number moving into Bucharest.



Cluj-Napoca is probably the single biggest direct competitor for Bucharest in terms of attracting employers seeking high complexity services; this is also thanks to the fact that the city is host to what is currently ranked as the best university in the country. Timisoara is an interesting proposition both for its location (near the western boarder of Romania), good language skills as well as a big number of graduates with a technical background; these have drawn in not just the "traditional" office tenants, but also those with a more manufacturing orientation. Iasi, on the other hand, offers a good cost for skills ratio (probably the lowest average wage costs among the four cities) and was crowned Emerging City of the Year in 2018 at the CEE Outsourcing Awards in Poland; interestingly enough, Iasi also has the lowest median average age of inhabitants, highlighting a bright future. Like Timisoara, Brasov also has

a good mix of skills for employers and a good central location as well; after an airport will be finished (authorities are promising sometime in 2020), the city should really take off. The potential for office developments is significant in these cities, as deliveries in recent years have not kept up with those in Bucharest, while the previously mentioned demographic indicators highlight the dynamic environment. Another aspect worth highlighting is that these economies are expanding at a staggering speed, with their GDP per capita growing as much as 3 times faster than Poland's regional cities in a last decade and a half, with the double-digit pace reminiscent of Singapore's in its heyday in the 1980's.

Summing up, the broader Romanian office market's fate is closely intertwined with a strong labour market and as such, should continue delivering solid results going forward.

Office section developed with Colliers International Romania.



Over the past decade, Romania has seen one of the most successful economic convergence stories in the EU.

GDP/capita has increased from 44% of EU average (adjusted to purchasing power standards) to 63% and Romania looks set to overtake Hungary by end-2022 and catch up to Slovakia by end-2028. Governance, economic stability, and the rule of law have improved markedly.

These have translated into a dynamic business backdrop. Close to 100 of the Forbes 500 top companies have an office presence in Romania and new ones are looking to join the market. The country currently has 5 polytechnic universities, 59 domain specific universities, and is capable of training more than 30,000 employees for the BPO/SSC and IT sectors every year. There is also a strong track record for existing companies as well as the widespread distribution of foreign languages. Eurostat indicates that over 74% of Romanians speak a second language, compared with the EU28 average of 66%, and ranking higher than the Czech Republic (68%), Poland (62%), Bulgaria (39%) or Hungary (37%).

And these are only some of the factors that create the perfect context for a successful investment in Romania.



Laurențiu Lazar
Managing Partner & Director Investment Services
Colliers International Romania

RETAIL MARKET: AS BUCHAREST GETS CROWDED, 80% OF THE NEW DELIVERIES WILL BE FOCUSED MAINLY ON SECONDARY AND TERTIARY CITIES

The retail sector is dominated by international companies such as NEPI ROCKCASTLE, Immofinanz, Prime Kapital / MAS REI, AFI Europe or Iulius Group, with other local developers also competing on this segment: Element Development or Oasis Group.

Immofinanz recently acquired the portfolio of S.IMMO in Romania, including Sun Plaza, a dominant shopping center in the south area of Bucharest.

Only 29,700 sq. m were delivered in the first semester of 2018 located in cities such as Bistrita, Focsani, Gheorgheni, Ramnicu Sarat and Vaslui. However, a total of over 300,000 sq.m are planned to be delivered by the end of 2019.



LARGEST RETAIL PROJECTS WITH ESTIMATED DELIVERY DATE BY THE END OF 2019

Project	GLA (SQM)	TYPE
Openville Timisoara	47,000	New opening
AFI Palace Brasov	45,000	New opening
Targoviste Mall	33,000	New opening
Shopping City Targu Mures	32,900	New opening
Shopping City Satu Mare	28,700	New opening
DN1 Balotesti	28,000	New opening
Baia Mare Value Center	22,500	New opening
Electroputere Park Craiova	22,100	Extension
Roman Value Center	19,000	New opening
Zalau Value Center	19,000	New opening
Colosseum Retail Park	16,500	Extension

The Romanian modern retail stock accounts for 3.52 million sq. m, with 41% of the stock represented by retail park sector, while 59% is the shopping center sector. 51% of the modern retail stock is developed during the period 1999-2008. As consumers get more and more demanding, retail owners invest in refurbishments, focusing especially on entertainment and food court.

Sun Plaza completed the largest remodeling process on Bucharest retail market in March 2018. Over 20 000 sq. m of commercial spaces were remodeled out of which 11.000 in a new remodeled area that houses over 40 new launched stores. The expansion works were accompanied by a design refreshment also, creating two new little plazas, refurbishing other two, while the access passage to Piața Sudului

subway station and other spaces in the shopping center were decorated with Peter Kogler's installations, a renowned Austrian artist and one of the computer generated art pioneers.

Out of the 3.52 million sq. m of modern retail stock 32% is located in Bucharest and 38% in 10 regional cities: Constanta, Cluj-Napoca, Iasi, Timisoara, Oradea, Brasov, Ploiesti, Suceava, Craiova and Pitesti. 367,000 sq. m are under construction and planned to be delivered by the end of 2019. 18% is represented by expansions. This method has become a rapidly feasible solution for the shopping center owners with schemes located throughout the country.



RETAIL DENSITY BY CITY

City	RETAIL DENSITY (SQ.M / 1,000 CAPITA)
Constanta	590
Bucharest	552
Cluj-Napoca	484
Timisoara	462
Brasov	450
Iasi	403
Craiova	340
Baia Mare	299

53% of the new supply is represented by the shopping center sector. As Bucharest gets crowded we can see the investors reorienting towards other cities: 80% of the new deliveries will be focused mainly outside Bucharest on secondary and tertiary cities.

Retail schemes get strong competition from e-commerce, as online sales grew by 30% in the first semester of 2018, as compared with 2017.

However, in spite of this, retail vacancy remains low and the interest of retailers is high.

Traditional e-commerce players such as EMAG or Elefant open physical locations in order to shorten their delivery terms. Also, retailers open online platforms and their physical shops transform into "try and buy concept" – the client can order online, comes into the store for pick-up and can change the product.

LEVELS OF PRIME RENTS

Prime location	100 SQ. M LEASED
Prime shopping center rent	80.00 €
Prime high street rent	55.00 €
Prime retail park rent	8-15 €

Retail section developed with CBRE Romania.



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Why Romania?

Because of an excellent resource which is the workforce – very skilled, with clear attraction to all tech areas and with a high permeability for change.

**A resource which is replenished every year – 97 universities with half a million students
Because it has one of the friendliest business environments in CEE, an income tax of 16%, unique and fixed tax, one of the lowest in the region and not changed since 2005.**

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INDUSTRIAL SECTOR DEVELOPS AT FAST PACE

Blink and you might miss it (or at least be late to the party): the market for modern storage spaces is currently enjoying what is likely its best growth spurt in history.

The modern warehouse stock expanded by some 20% last year, reaching 3.5 mn sqm and it could very well maintain a similar pace this year; these figures don't even take into account the very robust market for self-developed storage spaces, which has become an integral part of the market as the prospective tenants could barely find any surfaces available for them, with vacancies in low single digits nationwide. At the heart of the steady demand for storage spaces has been the sharp recovery of household spending in the last couple of years, with private consumption already up some 24% compared to 2008 levels (in real terms, so adjusted to price variations). Given the severity of the previous recession, it is certainly

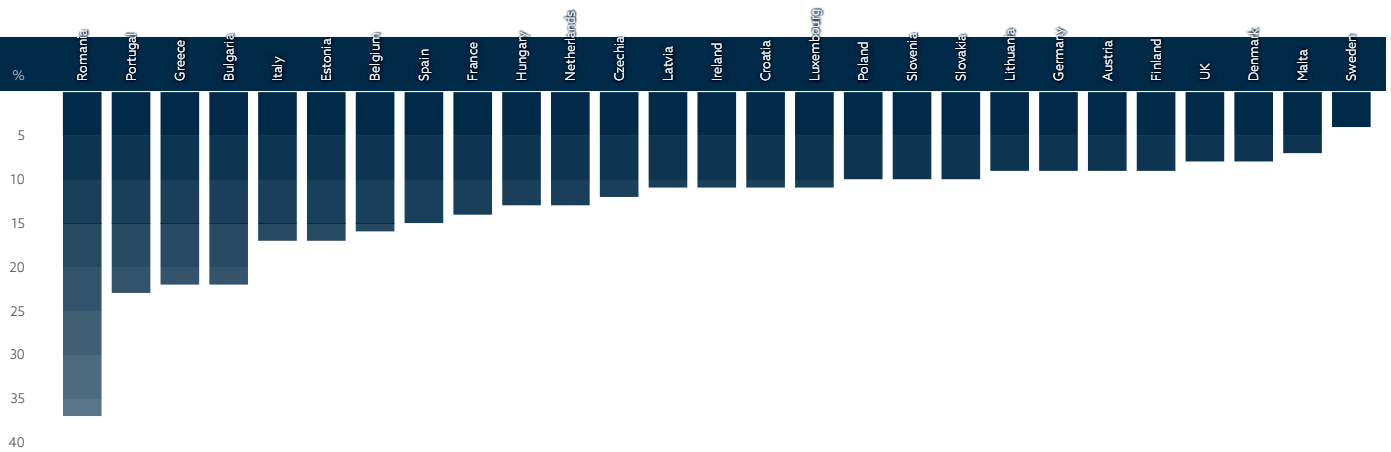
important to question the robustness of the current trends, but we believe that there is a key difference. Today's consumption is much more based on the rise in disposable income (the average wage is some 75% higher in real terms than a decade ago) than on loans (CPI-adjusted consumer loans are almost half of the level seen in 2007-2008).

There are several factors (mostly deriving from the strong consumption growth) that reflect in a strong market for developers:

- 1) increased coverage of brick-and-mortar retail schemes** (from shopping centers to big box to discounters);
- 2) e-commerce growing sharply** (last year, Romania saw online sales growing by over one third, some three times above the European average expansion rate);
- 3) companies seeking better regional coverage in the CEE;**
- 4) favourable trends for manufacturing.**



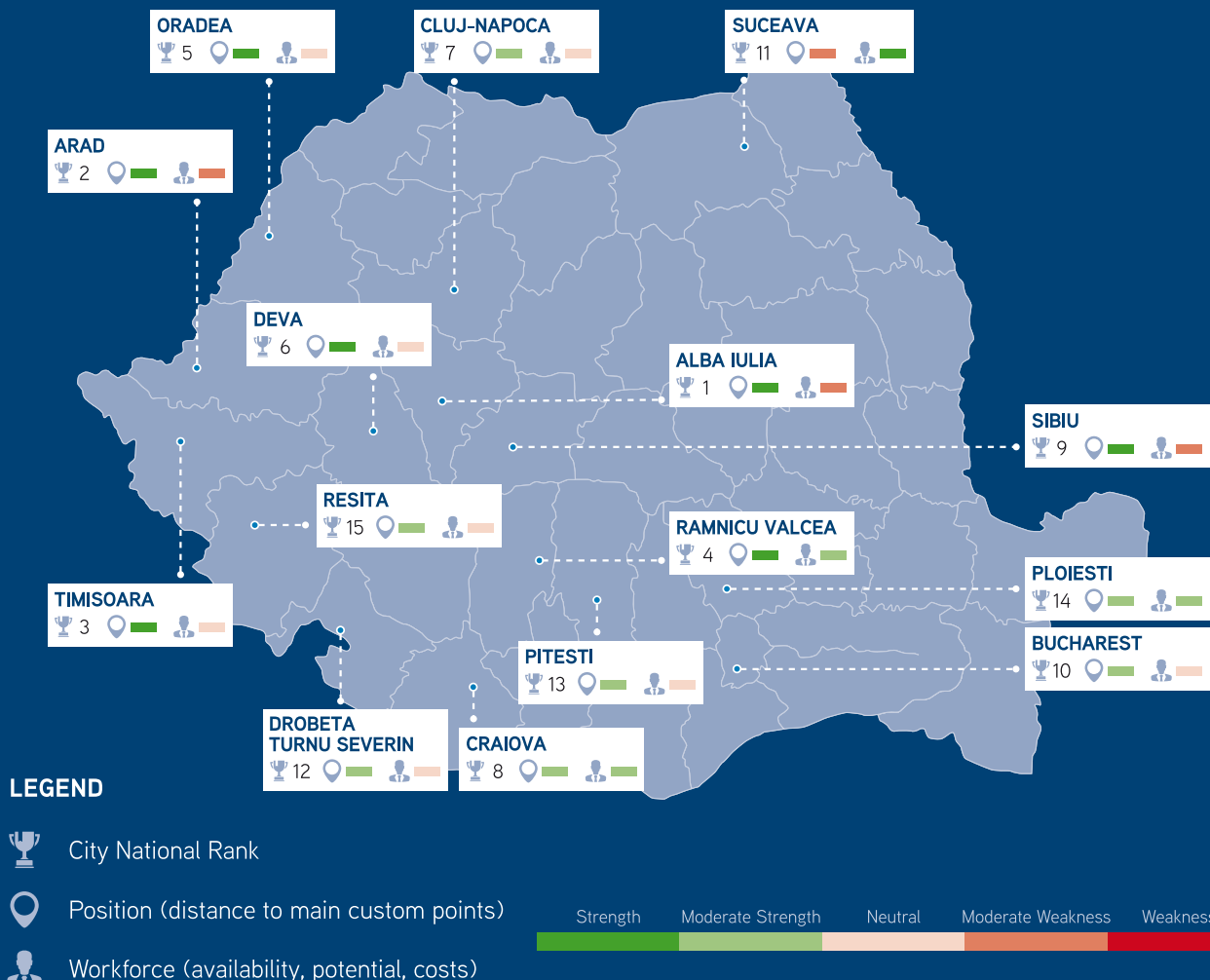
E-COMMERCE SALES (% , 2017/2016)



Currently, half of the total modern warehouse stock is Bucharest based, with the rest mostly gathered around cities in Transylvania (which have good road transport connectivity to Western Europe) or industrial towns (like Ploiesti). The times are changing though, with just one third of deliveries during the first half

of 2018 targeting Bucharest outskirts. Seeing faster growth outside the capital should be expected and this part of the wider trend (also seen in office and retail developments) of business moving towards faster growing and more attractive regions in terms of demographic developments.

ATTRACTIVENESS FOR STORAGE/LOGISTICS ACTIVITIES





Colliers International Romania published in 2018 a ranking of cities for logistics/warehouse activities based on several relevant factors (wage costs, workforce availability, distance to the major customs points, local roads quality and availability of industrial parks – both acting more as proxies of the authorities' openness).

Unsurprisingly, areas in Transylvania scored highly despite a lack of workforce, as the proximity to the western border is seen as more relevant. Alba Iulia, Arad, Timisoara, Ramnicu Valcea and Oradea came out as the top picks. Looking at manufacturing operations, where workforce availability and costs are more relevant, Ploiesti, Ramnicu Valcea, Craiova, Suceava and Oradea were the best performing based on our index.

The areas of Romania that are very rich in prospective workforce (like the north-eastern part of the country) remain untapped by industrial players (including for manufacturing operations) as companies rightfully fear the big delays in transport times; authorities have been promising (but underdelivering) infrastructure improvements, but these are worth keeping an eye on as completing some highways bridging both sides of the Carpathian mountains would unlock huge potential.

It is important to underscore that thanks to state handouts and the highest home ownership ratio in the EU (over 90%),

people do not follow jobs as they do in other countries. Just to put things into perspective, we estimated the dormant number of people unemployed, by looking at jobless rates as well as economic activity rates and employment in agriculture (converting the latter to EU averages). What resulted was that just two counties in north-eastern Romania, Iasi and Suceava, can mobilize nearly one seventh of the total people with employment potential.

Looking a bit into the future, the factors that have decisively accelerated this real estate segment should remain more or less in place.

Provided that Romanian authorities can improve productivity by implementing some structural reforms, recent wage growth should prove sustainable, thereby underpinning private consumption. Meanwhile, as the nationwide coverage of brick-and-mortar stores is subpar in large swaths of Romania compared to neighbouring peers (and, of course, to developed countries), a "retail apocalypse" looks like a quite distant event.

As such, demand for storage spaces can come both from the "traditional" players and e-commerce; potential improvements in infrastructure, which should happen sooner or later thanks to EU funds, will act as a catalyst for further sustainable growth (maybe in parts of Romania overlooked a bit until now).



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From a real estate perspective, specialized buildings and fast access to inner city locations is the name of the game in e-commerce.

As an increasing number of shoppers are moving on-line (incidentally, the more affluent ones, too) deep structural changes will impact the logistic sector. Proximity logistics will become more and more important for a number of retailers that are keen to take advantage of the trend.

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Muler Onofrei
Managing Partner, Element Industrial

The company is developing a portfolio of industrial projects in Romania. The first is ELI PARK 1, to be built in two phases on a 10-hectare plot, on DN 7, in the North outskirts of Bucharest, Chitila area.

Appex Alliance is investing in Barbu Vacarescu Area, in a Courtyard by Marriott unit.



HOTEL MARKET: WITH AN OUTDATED STOCK, ROMANIAN HOTEL MARKET EXPECTS RECORD NEW INVESTMENTS IN 2019 AND 2020

Romania has been in international spotlight for the last few years, especially since the unprecedented economic performance and also with the IT development, making it one of the most attractive spots for IT & outsourcing, as well as for manufacturing or the growing interest for the agribusiness sector. So as a sequel, tourism in Romania has developed significantly: the total number of arrivals in Bucharest, Brasov, Cluj and Prahova have increased by 5.7% in the first four months of 2018, as compared to the similar period in 2017, according to the National Statistics Institute. Most of the tourists came from Israel, Germany, Italy, France and UK, with more than 3 million tourists transiting Romania in the mentioned period.

Other factors influencing this development include an outdated old stock, altogether with tourists` need for contemporary facilities and hotels located in the area where they do business. Bucharest attracts workforce, multinationals` employees need to travel inside the country and there is a strong demand for conference & events facilities, as the economy evolves and companies need amenities to hold their meetings, sales sessions, team buildings and similar events.

"Depending on the jurisdiction, investing into hotels as a viable real estate asset class is nothing new. However, in Europe and particularly coming out of the economic downturn, investors have sought to diversify their capital allocations and hotels have allowed them to do that at more attractive returns than traditional real estate", Christopher Exler, Vice President of JLL Hotels & Hospitality Group commented.

THE SALE OF RADISSON BLU HOTEL FROM BUCHAREST TO REVETAS CAPITAL & CERBERUS CAPITAL, A DEAL ASSISTED BY JLL, WAS ONE OF THE BIGGEST INVESTMENT TRANSACTIONS IN 2017.

In terms of new developments, we are seeing a lot of movement on the market with new investments of international specialized entities as well as local entrepreneurs. Lithuanian investor, **Appex Alliance** announced this spring plans to build four hotels of over 1,000 rooms in Bucharest (Moxy and Courtyard by Marriott are part of those investments). **Niro Group** renovates Grand Hotel du Boulevard and will operate under Corinthia brand, **Mohammad Murad** announced plans to renovate Lido hotel, while **Dogaru family** is working on an Ibis hotel near the city center.





NEW PROJECTS:

BUCHAREST

Ibis Styles, 3-star hotel with a capacity of 96 rooms, was delivered in 2018 in Aviatiei, close to North Metropolitan Hub.

Courtyard by Marriott, 4-star hotel with a capacity of 259 rooms, to be delivered in 2019, in the North Metropolitan Hub.

Corinthia Grand Hotel du Boulevard, 5-star hotel with a capacity of 50 rooms to be delivered in 2019 in the city center.

Moxy, 3-star hotel with a capacity of 120 rooms, to be delivered in 2019, in the city center.

Indigo, 4-star hotel with a capacity of 100 rooms, to be delivered in 2019, in the city center.

Lido by Phoenicia, 4-star hotel with a capacity of 119 rooms, to be delivered in 2019, in the city center.

Ibis Operei, 3-star hotel with a capacity of 160 rooms, to be delivered in 2020, in the city center.

Aviators Park, 3-star hotel with a capacity of 259 rooms, to be delivered in 2020, in Otopeni, close to the international airport.

REGIONAL CITIES

BRASOV: Radisson Blu, 5-star hotel with a capacity of 105 rooms, to be delivered in 2019.

BRASOV: Mercure Hotel & Spa, 4-star hotel with a capacity of 120 rooms, to be delivered in 2019.

ORADEA: Nymphaea Resort Hotel, 4-star hotel with a capacity of 200 rooms, to be delivered in 2019.

TIMISOARA: ISHO Radisson Blu, 5-star hotel with a capacity of 160 rooms, to be delivered in 2020.

With a strong pipeline set for 2019 and 2020 both in Bucharest and regional cities, the stock on the Romanian market will see a major quality improvement.



RESIDENTIAL

AS COMPETITION SHARPENS, QUALITY INCREASES ON UPPER SEGMENTS

The general old, outdated stock of residential developments in Romania, built mainly before the 1990s, that have become inappropriate for living to the young urban, dynamic generation combined with the country's general positive macroeconomics are the main drivers of the residential development. The Capital's city poor public transportation infrastructure drives workforce to buy homes closer to their workspaces.

"We can notice in the last couple of years a bigger involvement of developers in the design stage. Their experiences have probably shown that a project not thoroughly designed has small chances to go well. Also, the increasing competition on the market is probably the single benefit of the intense residential demand", said Adrian Untaru, co-founder of architectural firm ADNBA, the

company which signed the design for one of the most awarded residential projects on the Romanian market.

While the mass-market is dominated by local investors, on the middle-market, upper-premium and luxury segments we can notice more foreign investors, such as Prime Kapital, Hanner, Ospinas, Caba Group, AFI Europe, Hercesa, Shikun & Binui, London Partners or Hagag Group.

WHAT ARE RESI CLIENTS LOOKING FOR

10 years from the start of the crisis we can see that developers' reputation is a top criteria in choosing a quality home. Developers with a good track record of commercial investments (office & retail) pass this test easily. For some of them it was a business strategy to start with commercial real estate and then move on to

residential, as was the case for groups such as Prime Kapital (the company founded by Martin Slabbert and Victor Semionov, known in the market for the development of NEPI is now working on Avalon Estate, a premium development close to Barbu Vacarescu – Pipera), Forte Partners (a local developer which first build a reputation in the office sector with Stefan cel Mare and The Bridge projects and now also develops a residential portfolio with boutique projects on Londra and Calderon streets and Aviatiei Park) or AFI Europe (the group developed shopping centers under AFI brand in Bucharest and Ploiesti and now is building AFI City, a residential compound in Bucurestii Noi). Another important developer on the premium & high-end segments is One United Properties, founded by Victor Capitanu and Andrei Diaconescu. The company has finalized 376 apartments until 2018 and has another 453 units planed for construction.

WHAT'S DRIVING THE MARKET

The market is extremely sensitive to political and economic changes. Aside "First Home/ Prima Casa" governmental program, another state incentive is also influencing the market: the 5% VAT prerogative which applies for apartments under the value of 450,000 RON (approx. 96,000 EUR at an exchange rate of

4.64 RON for 1 EUR). But every individual can benefit just once from this incentive. Romania's National Bank (BNR) has recently issued a series of new norms regarding the lending conditions and introduced maximum indebtedness levels: 40% for loans in local currency and 20% for loans in foreign currencies.

Regional cities such as **Cluj-Napoca**, **Timisoara**, **Constanta** or **Brasov** are also in the fore-front of new homes development. According to the report on Q2 2018 of the biggest residential listing portal, imobiliare.ro, except Bucharest there are five large "regional centers nationwide where the average asking price per apartment net square meter is above 1,000 EUR*: Cluj-Napoca tops the ranking, with an average of 1,510 EUR, followed by Timisoara with 1,170 EUR, Constanta with 1,120 EUR, Craiova with 1,100 EUR and Brasov with 1,040 EUR. With an average of 970 EUR, Iasi continues to be below this psychological threshold"

With new, outstanding projects to be finalized in 2019 and 2020, the Romanian residential sector is set to see some major quality improvements in the near future.

BUCHAREST NEW HOMES MARKET

SEGMENT	LOCATION	" PRICE LEVEL (built sqm + VAT)"	DETAILS
MASS-MARKET	South & South outskirts (Metalurgiei, Berceni, Popesti-Leordeni), West & West outskirts (Prelungirea Ghencea & Bragadiru)	800-1,000 EUR	This is the segment of the most affordable residential units, where is the biggest pressure on the smallest price, with a lower level of quality. The demand is in strong connection with the governmental program First Home (Prima Casa), which offers the lowest bank rates on the market.
MIDDLE-MARKET	Semi-central areas (IE: Vacaresti, Pantelimon-lancului, Dristor) and North outskirts (Chitila, Mogosoaia, Otopeni, Padurea Baneasa, Stefanesti)	1,000-1,500 EUR	Families with medium incomes, in search of good locations and amenities (parks, playgrounds, private schools and health centers).
UPPER-PREMIUM	Central areas (IE: Tineretului, Cotroceni, 1 Mai) & locations near the office hubs (Barbu Vacarescu - Pipera, Basarab, Expozitiei, Timpuri Noi)	1,500-2,200 EUR	Families with over the medium incomes, willing to pay extra for a location closer to the office and a higher quality of living - from the overall architectural concept of the condominium and facilities to the quality of construction materials & design.
LUXURY	Ultra-central areas (IE: Unirii, Universitate, Romana, Victoriei) and North-central locations (Aviatorilor, Kiseleff, Herastrau, Dorobanti, Floreasca)	2,200-3,000 EUR	Successful entrepreneurs & top managers look for a home to identify with their social status. Best locations in Bucharest, large surfaces, contemporary architecture creating landmark properties, privacy and security best describe the demands of this segment of the market.

After three years with continuous price increases, the market has seen the first signs of stagnation in August and September 2018. Experts expect some prices' corrections for 2019.

*The price takes into consideration new and old stock.

THE LEGAL EYE



INVESTORS' APPETITE IS IN PLACE FOR BOTH SHEER REAL ESTATE PRODUCTS AS WELL AS FOR EITHER ESTABLISHING OR MOVING THEIR BUSINESS HERE

The current significant increase of activity on all segments of the Romanian real estate investment market indicates a growing appetite for investing in Romania, and we are confident that this trend will continue. Investors' appetite is in place for both sheer real estate products as well as for either establishing or moving their business here (be it production, shared services centres, logistics etc.).

For this second type of investments, the Romanian Government seems to continue its undertaking to finance viable projects for both Greenfield and Brownfield investments based on state aid schemes valid for the period 2014-2020. Thus, the scheme based on the Government Decision no. 807/2014 – as subsequently amended – finances the investments in assets, whereas the scheme introduced by Government Decision no. 332/2014 finances the salary costs for projects focusing more on the creation of workplaces rather than on investments in assets. Investors may benefit from similar conditions as in the past: a refund of up to 50% of the assets costs, depending on the investment country's region or a refund of the salary costs for a period of two consecutive years.

The main eligibility criteria which have to be fulfilled by companies in order to benefit from these non-refundable funds are:

- minimum value of the investment of EUR 3 million for the scheme financing the assets.
- the creation of a minimum number of 10 workplaces for the scheme financing the salary costs.

The average total volume of the annual budget for the assets scheme is approximately EUR 145 million, whereas the salary costs scheme has an average annual budget of approximately EUR 100 million.

The option of using non-refundable state funds as an important financing tool should be taken into consideration by any potential investor who is either seeking to enter the Romanian market or to extend/diversify its existing business.

Greenfield projects are always a challenge for all parties involved in the process starting with the investor who must get acquainted and adapt to a completely new environment (involving legal, tax, financial, business and economic issues), and finishing with all other players involved such as consultants, lawyers, real estate developers etc.

For such complex projects we have structured below the main milestones of a Greenfield project to be observed by investors and consultants alike:

STRUCTURING OF THE GREENFIELD PROJECT

STRUCTURING PHASE	IMPLEMENTATION PHASE	DEVELOPMENT PHASE
<p>Investment idea</p> <p>Country selection process: geographical reference, political and economic stability, infrastructure, state investment incentives, legal assessment of the potential risk</p> <p>Business plan</p> <p>Investment decision / Corporate approvals</p>	<p>Preliminary discussions with official authorities: kick-off meetings, infrastructure development and implementation, local support from utility providers</p> <p>SPV incorporation: set-up procedure</p> <p>Selection of premises: one or several options, lease or purchase agreement, legal and technical Due Dilligence, securing documentation</p> <p>Project financing: equity (parent company funds vs. debt (bank/ financial institutions financing. State aid funds etc.)</p> <p>Internal production planning: (no) ordering of installation & machinery / production equipment before state aid approval, if applicable</p>	<p>Permitting phase: building permit procedure (including zoning permits) & environmental impact assessment</p> <p>Selection of General Contractor Agreement & further agreements</p> <p>Opening of a working point at the new location / moving of the headquarters at the new location</p> <p>Labour aspects – selection of personnel</p> <p>Operating contracts – eg. utilities suppliers</p> <p>Operating permits & licences</p> <p>Start of business</p>



The fundamental pillars of the Romanian economy are solid and still show strong potential.

There were substantial changes in sectors such as health, technology and agriculture, supported by the elimination of taxes, a drop in VAT and – in general – by a GDP growth of 7% in 2017 (the highest in the EU). 2018 brought a wage and pensions increase, thus also an increase in consumption. The costs for doing business in Romania still remain low – an average hourly labour cost of 6,3 EUR is still well below the EU 28 average of 26,8 EUR/h. Furthermore, state aid of approx. 900 million EUR will be granted for applications placed until end of 2020, and there are tax exemptions in place for reinvested profits.

Also, research and development (R&D) incentives are in place. However, one should also be aware of existing downsides before deciding to invest in Romania. A poor infrastructure, frequent changes in legislation and weak public administration sometimes strongly affect the business stability and balance sheets. Each company must decide how much weight these elements throw into the balance.

Nonetheless, Romania clearly remains competitive in the CEE region on various aspects.



Roxana Dudau
Associated Partner
Head of Real Estate & Construction Department, Noerr



**THE NOTARY'S VIEW:
WHEN CHOOSING
TO INVEST IN REAL
ESTATE, THE SAME
QUESTION ARISES
IN THE FOREIGN
INVESTOR'S MIND:

HOW MUCH WILL IT
COST ME?**

The answer to this question comes after a quick introduction on how the system works in Romania.

Firstly, private property is guaranteed in the Romanian Constitution. According to article 44, 2nd paragraph, **Private property shall be equally guaranteed and protected by the law, irrespective of its owner.** The same paragraph shows also the limitations regarding the foreign citizens or entities who acquire land in Romania. For EU members, details on this matter can be found in Law no. 312/2005.

Land and immovable assets in general, can be bought and sold via Sale Purchase Agreements (SPA) that need to be signed in authentic form. The law sanctions private agreements between parties that lack authentic form by deeming them void (null). This is to protect parties considering the effects such a contract can have over their patrimonies if they do not receive proper guidance from a professional.

In Romania, such a professional, with exclusive competence in authentic SPAs regarding real estate is the Public Notary.

As a law expert with public authority, the Notary makes sure both parties have understood the transaction they are entering and ensures they are equally protected. For his expertise, the notary will charge a fee, that is customary paid by the buyer. All fees are set and calculated in RON and are subject to VAT.

Roughly (and for a buying price above 600,001 RON, approx. 128,500 EUR) this fee amounts to 0,44% of the buying price. If the market value depicted in the official appraisal of assets made available by the Notaries Chamber is higher than the parties' price, the latter will be considered for the fee. The notaries fees are approved by order of the Minister of Justice and current ones are contained in Order no. 46/C issued on January 6th, 2011.

Any notary in the country can authenticate a SPA regarding real estate property located anywhere in Romania. This procedure is not limited to properties in the region where Notary's office is established.

Following the authentication of the SPA, it is the Notary's legal obligation to register this deed in the competent Land Book Registry. At the moment, this renders the deed opposable to third parties, thus ensuring its effects are known. In the future, after all immovables in Romania will have been registered in the Land Book, this formality together with the notarial deed, will consecrate the ownership title. Registration formality is subject to a tax that goes to the State budget.

The Land Book tax is 0.5% of the buying price (or market value) for companies or 0,15% for individuals and no VAT applies.

Also, if the buyer is considering financing for the transaction, then additional costs will ensue for the mortgage contract securing the loan, also closed in authentic form as by the law. Notary's fee for this procedure (consistently reduced than the SPA's) is approximately 0.07% of the loan's value (for loans above 500,000 RON, approx. 107,250 EUR). The Mortgage Agreement also needs to be registered with the Land Book Office, which adds another 0.1% in taxes for this operation.

Costs mentioned above are direct costs related to acquiring real estate. There can be some incidental costs as well, usually prior to the transaction closing, for example: obtaining an urban planning certificate or cadaster plans, individual appraisal of the land made by an authorized ANEVAR expert, due diligence, land book excerpts etc.

Let's take a property valued at 3 million EUR and see what buying costs are implied for a company. And with a Mortgage for a 2 million EUR loan.

SPA	COST RON	ESTIMATED COST €
Notary's fee without VAT	59,000 RON	12,660 €
Land Book tax	70,000 RON	15,021 €

MORTGAGE	COST RON	ESTIMATED COST €
Notary's fee without VAT	6,200 RON	1,330 €
Land Book tax	9,500 RON	2,038 €



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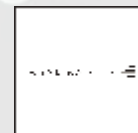
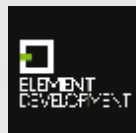
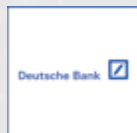
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