CUSHMAN & WAKEFIELD

ROMANIA
Country Snapshots

Third quarter | 2015

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ROMANIA

Economic Snapshot

Third Quarter | 2015

Overview

The economy expanded by 3.7% y/y in Q2, driven by consumer spending, albeit with fixed investment maintaining a solid pace of growth as well. The strong recovery in domestic demand has boosted imports. While exports picked up, it lagged the expansion in imports, leading to negative contribution to growth from net foreign trade.

Strength of the consumer

The consumer sector emerged as the main engine of growth within the Romanian economy in 2014 following a period of subdued growth in 2009-2013. Consumer spending has grown by over 5% y/y throughout 2015 on the back of a significant pick-up in disposable incomes. Indeed, inflation has been negative since June as a result of falling energy prices and a large VAT cut on food (from 24% to 9%). In addition, unemployment fell back after a short-lived increase in late 2014 and early 2015 and is expected to shrink further. Retail sales continued to grow rapidly this year, by 8% y/y in August and 8.5% in July, and consumer confidence climbed rapidly, to the highest level since 2008.

Fiscal stimulus

The government's decision to aggressively ease its fiscal policy is expected to boost growth in the short term. It may however put fiscal sustainability at risk in the longer term, especially if there is no progress in improving the efficiency of the tax collection system.

Outlook

GDP forecasts have been upgraded further following another quarter of robust growth, with GDP now anticipated to expand by 3.5% in both 2015 and 2016. Household spending and investment are expected to remain the main engines of growth. Households will be supported by rising disposable incomes while investment is set to rebound as a result of rising confidence, low interest rates and higher demand for Romanian exports from its key Eurozone trading partners. Business surveys for the industrial sector and construction have indeed seen marked improvements, albeit they remain below the pre-recession levels. Greece's uncertain future in the eurozone and an escalation of the conflict in Ukraine remain the main risks but they have both significantly subsided in recent months. More marked progress in structural reforms is an upside risk.

MARKET INDICATORS

Market Outlook

GDP:	Current robust growth is expected to continue.
Inflation:	Likely to remain negative until mid-2016 on the back of lower energy prices and VAT tax cuts.
Interest rate:	Stable.
Employment:	Gradual improvements likely.

Economic Summary

ECONOMIC INDICATORS	2012	2013	2014	2015E	2016F
GDP Growth	0.6	3.4	2.8	3.5	3.5
Consumer Spending	0.8	1.1	4.9	4.7	4.6
Industrial Production	2.4	7.9	6.1	3.7	4.6
Investment	0.6	-9.2	-3.3	5.8	5.1
Unemployment rate (ILO%)	6.9	7.1	6.8	7.0	6.8
Inflation	3.3	4.0	1.1	-0.4	0.2
RON/EUR (average)	4.45	4.42	4.45	4.45	4.44
RON/USD (average)	3.47	3.33	3.35	4.01	4.16
Interest Rates: 3-month (%)	6.2	5.1	3.5	3.8	4.4
Interest Rates: 10-year (%)	6.1	2.4	1.7	1.7	3.3

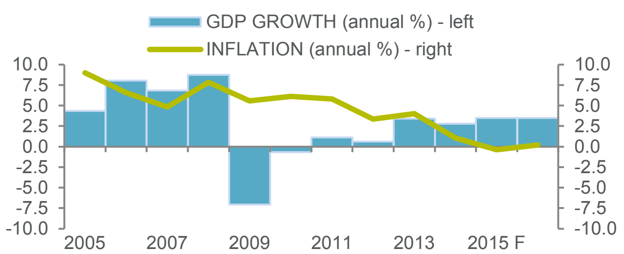
NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast

Source: Oxford Economics Ltd. and Consensus Economics Inc

Economic & Political Breakdown

Population	19.9 million (2014)
GDP	US$199.7 billion (2014)
Public Sector Balance	-1.5% of GDP (2014)
Public Sector Debt	39.8% of GDP (2014)
Current Account Balance	-0.5% of GDP (2014)
Parliament	A coalition of SDP/UNPR and CP/LRP
President	Klaus Johannis
Prime Minister	Victor Ponta
Election Dates	December 2016 (Parliamentary) 2019 (Presidential)

Economic Activity



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ROMANIA

Office Market Snapshot

Third Quarter | 2015

CUSHMAN & WAKEFIELD

Overview

Business confidence in Romania is high and unemployment levels are falling – both positive news for the office market. However, vacancy is high and there is a fair amount of speculative development on the horizon which may dampen investor appetite as rental growth will be limited potentially for the next 12-18 months.

Occupier focus

Office activity stays strong on the back of a healthy demand across the main business hubs in Romania with take-up in Q3 reached 74,300 sq.m, and while this is 9.6% below the Q2 figure the latter was supported by the two large deals involving Oracle and Genpact. Nonetheless activity is high with 62 deals closing in Q3, 52% accounted for by renewals, 33% by new leases and 15% relocations. Development activity has accelerated lately to over 400,000 sq.m of space under construction in Bucharest – the highest level since 2009. If all schemes go ahead as planned this will see stock rise by 19% by the end of 2016 to 2.6 million sq.m and despite more companies registering an interest in the Bucharest market the vacancy rate is likely to rise which will maintain pressure on rents to fall and current levels are likely to propped up by incentives.

Investment focus

A total of €116 mn was invested in the Romanian office market in Q3 across three deals, all in Bucharest. German-based GLL Real Estate Partners acquired two prime office properties: Victoria Center in the CBD and Floreasca Park in the new business district Barbu Vacarescu. Both properties are fully occupied by international tenants such as Oracle, Basf, A.ON and Kellogg. With yields 125-175 bps higher, there remains a pricing gap in Romania in relation to other CEE Markets, a consequence of the weight of money into Poland and Czech Republic hardening figures in these countries.

Outlook

Improvements are being seen in the office market with the focus remaining on Bucharest and few regional cities. Speculative development activity continues apace providing occupiers with ample choice and thus preventing upward growth for the time being. There is additional stock in planning stages but these schemes are likely to only break ground once a pre-let has been agreed.

MARKET INDICATORS

Market Outlook

Prime Rents:	Prime rents expected to remain stable as the healthy pipeline delivers choice to occupiers.	▶
Prime Yields:	While interest is improving yields hold firm until further transactions complete.	▶
Supply:	Supply is likely to increase given increased construction and amount of speculative space.	◥
Demand:	Demand improves but renewals and relocations, rather than new leases, form the bulk of activity.	◥

Prime Office rents – September 2015

LOCATION	€ SQ.M MTH	€ SQ.M YR	US$ SQ.FT YR	GROWTH % 1YR	GROWTH % 5YR CAGR
Bucharest (Centre)	18.50	222	23.0	-2.6	0.0
Bucharest (Out-of-Town)	11.00	132	13.7	0.0	0.0
Timisoara	12.00	144	14.9	0.0	0.9
Cluj-Napoca	12.50	150	15.6	2.0	n/a
Brasov	10.00	120	12.4	0.0	0.0

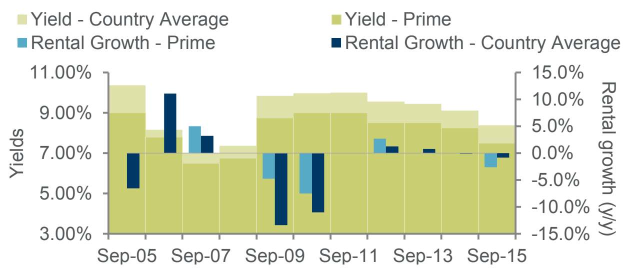
Prime Office yields – September 2015

LOCATION (FIGURES ARE GROSS, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR HIGH	10 YEAR LOW
Bucharest (Centre)	7.50	7.75	8.25	9.00	6.25
Bucharest (Out-of-Town)	8.75	9.00	9.25	11.00	6.50
Timisoara	9.00	9.00	9.25	11.00	7.50
Cluj-Napoca	9.00	9.00	9.25	10.50	9.00
Brasov	9.25	9.25	9.75	11.00	7.50

NOTE: * 5 year record

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



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ROMANIA

Retail Market Snapshot

Third Quarter | 2015

Overview

The economy remained on a solid growth track in Q3 and it was driven by the gradual improvement in the domestic demand, led by the private consumption, and by export, mostly to the EU. Retail sales rose 8.5% year-on-year in July and 8.0% year-on-year in August, fuelled mainly by increase of food sales, which was determined especially by the reduction of VAT for all food products from 24% to 9%, while non-food sales grew only at marginal level.

Occupier focus

Regionally dominant shopping centres record high demand from the number of international retailers, although ongoing expansion activities in Romania are restrained by the low availability of prime stock and few major schemes under construction.

Strong development activity was seen in H1 2015 when 117,000 sq.m of new shopping centre space was delivered onto the market. In Q3, almost 17,000 sq.m of retail space across 1 new and 2 extension projects was opened. This included 10,600 sq.m extension of the 19,500 sq.m Shopping City in Deva, 1,200 sq.m extension of the 29,000 sq.m City Park Constanta, which expects further addition of 19,000 sq.m of new space in 2016.

Investment focus

Primary shopping centre locations in the main Romanian cities were the key target of investors' activities, while secondary market did not see any significant investment movement in Q3 2015. Retail investment volumes totaled €90 million as there were 2 single deals undertaken. Main deal included the 44,730 sq.m Auchan Titan shopping centre which was purchased by NEPI from Aberdeen Asset Management company for €86 million, at 9.2% yield.

Outlook

The outlook for the retail market remains positive as the purchasing power of households is strongly supported by the robust private consumption, growing wages, low inflation, falling interest rate and improving labour market. While positive economic prospects will be beneficial mostly for the prime retail segments, limited capital value growth is expected for the secondary markets.

MARKET INDICATORS

Market Outlook

Prime Rents:	High demand and tight supply will maintain upward pressure on prime rents.
Prime Yields:	Further compression expected for all retail segments.
Supply:	Prime occupational and investment supply expected to grow further.
Demand:	Strong demand; mainly driven by expanding international retailers.

Prime Retail Rents – September 2015

HIGH STREET SHOPS	€ SQ.M MTH	€ SQ.M YR	US$ SQ.FT YR	GROWTH % 1YR	5YR CAGR
Bucharest (Magheru Boulevard)	45.0	540	56.0	-10.0	-7.1
Bucharest (Calea Victoriei)	40.0	480	49.8	-11.1	-7.8
Brasov	40.0	480	49.8	0.0	5.9
Timisoara	37.0	444	46.0	5.7	1.1
Cluj Napoca	37.0	444	46.0	0.0	1.1

Prime Retail Yields – September 2015

HIGH STREET SHOPS (FIGURES ARE GROSS, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR HIGH	LOW
Bucharest (Magheru Boulevard)	9.00	9.00	9.25	9.25	7.50
Bucharest (Calea Victoriei)	9.00	9.00	9.25	12.00	7.50
Brasov	9.25	9.25	9.50	12.00	8.00
Timisoara	9.25	9.25	9.50	12.00	8.00
Cluj Napoca	9.25	9.25	9.50	12.00	8.00
SHOPPING CENTRES (FIGURES ARE GROSS, %)	**CURRENT Q**	**LAST Q**	**LAST Y**	**10 YEAR HIGH**	**LOW**
Country prime	7.75	7.75	8.25	9.00	6.25

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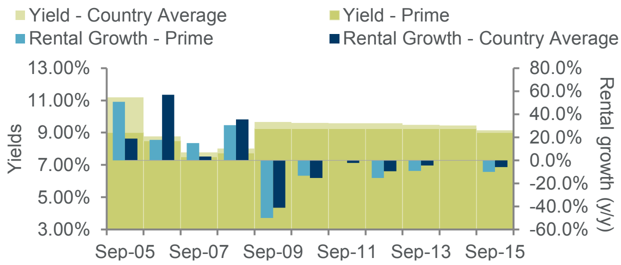
Recent performance



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ROMANIA

Industrial Market Snapshot

Third Quarter | 2015

Overview

An improving economic backdrop is supporting a better performance of the industrial sector. New requirements are registering interest and against a lack of suitable schemes rents rose slightly in Q3 for the first time in 18 months. Investor appetite is also rising but quality is key. Economic growth of 3.8% was based largely on the increase in retail sales and with international retailers and logistics operators reporting upward activity volumes and this is positive for logistics demand.

Occupier focus

Industrial take-up accounted for around 110,000 sq.m in Q3 and is by far the most active quarter of the year so far. With choice still limited for occupiers, development is focused on build-to-suit projects however, speculative construction is increasing and this may see vacancy rise although active requirements should be able to absorb the space without impacting negatively on rents. LOG.IQ Bucharest is the first major speculative project to break ground in Bucharest in the recent past with the 40,000 sq.m 1st phase being announced for delivery in Q4 2015 / Q1 2016. Elsewhere across the country, development activity is slowly increasing, however still almost exclusively linked to space already committed to via pre-lease agreements. WDP (Belgium) and CTP (Czech) were the most active developers in Q3 and signed a number of BTS agreements to expand their network of industrial parks at a national level.

Investment focus

CTP Invest remains an active player on the buy-side and in Q3 acquired three schemes including two large logistics parks in Bucharest (ProLogis Park Bucharest and Bucharest West) and one in Deva (Deva Logistic Park) with a total built area of over 258,000 sq.m. Including these three deals total capital flowing into the Romanian industrial market so far in 2015 has exceeded €170 mn and puts the industrial sector ahead of retail and offices in terms of trading volumes. Consequently, yields have sharpened in Bucharest and key regional.

Outlook

The outlook is relatively positive for the industrial sector with positive rental growth pushing through as more demand meets limited amounts of supply. This in turn is seeing developers assess previously shelved schemes to see how viable they are. Investors will also monitor the market for opportunities.

MARKET INDICATORS

Market Outlook

Prime Rents:	The lack of available space for occupiers is seeing rents creep up for quality schemes.
Prime Yields:	Prime yields will come under downward pressure but quality remains key.
Supply:	Improving levels of speculative construction although BTS remains a key element of the market.
Demand:	On the back of improving economic conditions demand is expected to gather momentum.

Prime Industrial Rents – September 2015

LOGISTICS LOCATION	€ SQ.M MTH	€ SQ.M YR	US$ SQ.FT YR	GROWTH % 1YR	GROWTH % 5YR CAGR
Bucharest	3.25	39.0	4.04	1.6	-4.1
Brasov	3.25	39.0	4.04	1.6	-4.1
Timisoara	3.25	39.0	4.04	1.6	-4.1
Constanta	3.25	39.0	4.04	1.6	-4.1

Prime Industrial Yields – September 2015

LOGISTICS LOCATION (FIGURES ARE GROSS, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR HIGH	10 YEAR LOW
Bucharest	9.25	9.50	9.75	11.00	7.50
Brasov	9.25	9.50	10.00	12.00	7.75
Timisoara	9.25	9.50	10.00	12.00	7.75
Constanta	10.25	10.25	10.50	12.00	7.75

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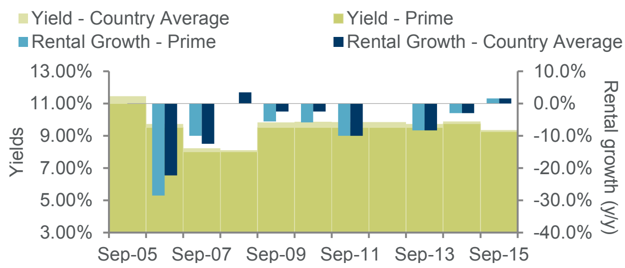

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