Romania Market Review

RESEARCH & FORECAST 2015

Accelerating success.

Colliers International

A Global Company

€1.54B

IN ANNUAL REVENUE

136M

SQUARE METERS
UNDER MANAGEMENT
(1.46B SQUARE FEET)

15,800

PROFESSIONALS WORLDWIDE

EMEA at a Glance

84

OFFICES

2,314

PROFESSIONALS

207

CERTIFIED VALUERS

485

OFFICES

63

COUNTRIES

€57B

IN TRANSACTION VOLUME

10M

SQUARE METRES UNDER MANAGEMENT

€37B

WORTH OF PROPERTIES VALUED ACROSS ALL MAJOR PROPERTY SECTORS

Contents

The Ascent Has Started

by **Ilinca Paun**

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When I started the climb for the Summit of Kilimanjaro two weeks ago - the 5,895m peak called Uhuru (which means freedom in Swahili), I heard the guide whispering: “Pole, pole (slowly, slowly!)....Put one step in front of the other... and let the mountain take you to the top”.

The main lesson from the ascent was how important perseverance is. Ours? Obviously yes, but it is about a different one I want to draw attention to. We could have not reached the summit without the constant, always appropriate, presence and help of our African guides. They knew the mountain like nobody else, every tree and every lava rock. They also knew when to push us and when to let us rest. What information to give us so we take good decisions regarding how to create our own path to the top.

They quickly became role models for me, visualizing how a real estate consultant should think and act in relation to you, our clients. Seeing how they accelerated our performance on the tallest single mountain in the world made me reflect upon what is our promise to you and how we are delivering on it.

Our business results in 2014 and the pipeline of leasing and sales mandates for 2015 shows you do appreciate our value and trust our knowledge. For which I thank you. Your frequent reading of our market reports also proves our extensive research and understanding of patterns and trends is well appreciated. For which I thank you again.

The market is ready for you now. You are now standing at the beginning of another market cycle. It looks like a mountain if you draw it on paper, but opposed to climbing above 4,000 m (where the air pressure is at 30% of the sea level pressure and moving up is painful), climbing the curve of market growth will be like a walk in the park, listening to the music performed by the Gold Dig Band. Of course, in business, the pain starts after reaching the top when prices begin dropping, while on the mountain, it is only after descending a few hundreds of meters when you start smiling again.

How long will this market cycle last? Nobody knows. But the premises for entering a long cycle of at least 10-12 years are better than last time around, considering the cautiousness of the banks and the limited number of speculative developments. Strong demand coming from the business sector indicates further increase in domestic purchasing power, which will drive retail and residential markets all together. Industrial demand is back and we will see big extensions from logistics sector this year.

Having said that, I hope you enjoy reading our 2015 market report and I really hope to make the journey to the top together, with Colliers International as your guide!

Hakuna matata!

Colliers International

is a leader in global real estate services, defined by our spirit of enterprise. Through a culture of service excellence and collaboration, we integrate the resources of real estate specialists worldwide to accelerate the success of our partners. We represent property investors, developers and occupiers in local and global markets. Our expertise spans all property sectors–office, industrial, retail, residential, rural & agribusiness, healthcare & retirement living, hotels & leisure.

Economic Overview

UniCredit Ţiriac Bank

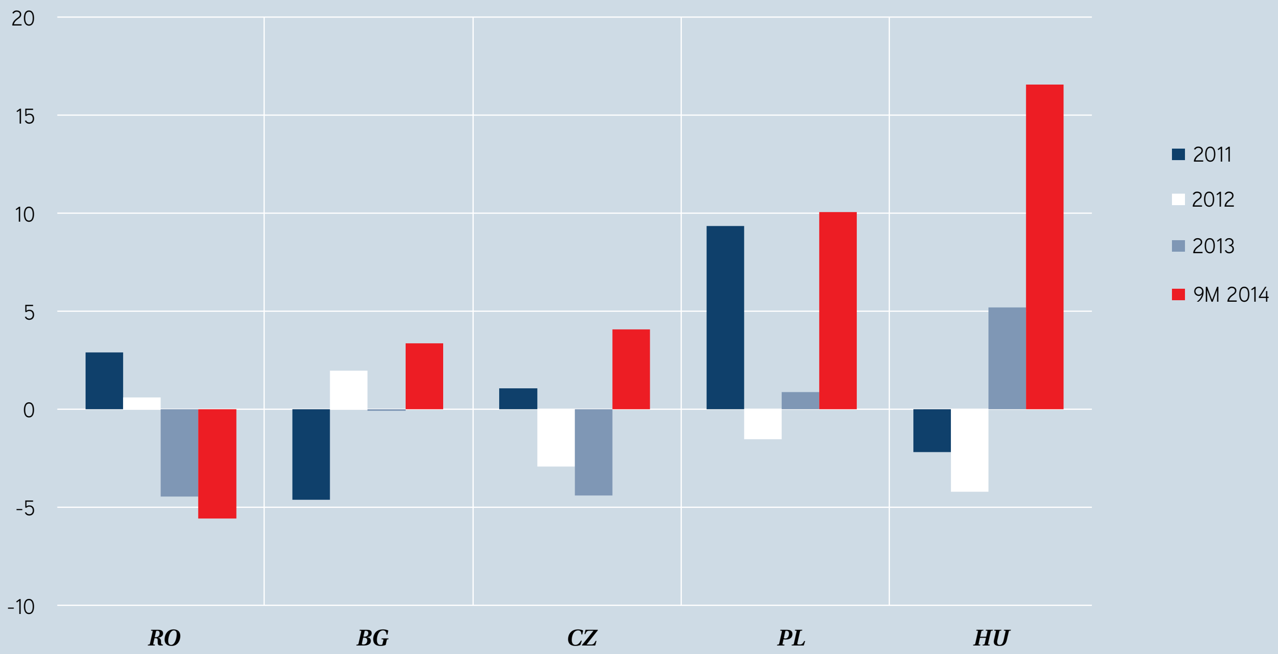
Anca Maria Aron
Economist

During the past 5 years, Romania was focused on correcting the major imbalances that stood out at the beginning of the crisis. The painful efforts led to a budget deficit of only 1.85% of GDP in 2014 (down from -7.2% of GDP in 2009) and a current account deficit of around 0.5% of GDP in 2014 (from -4.5% of GDP in 2009). The Romanian economy expanded by 2.9% in 2014, with consumption as the main growth driver, while investments were likely a drag on economic activity. High frequency data for the last quarter suggests that constructions might have posted the first positive contribution since 4Q13. In 2015, investments should provide a strong support to growth, due on the one hand to the low base and on the other to the fact that this is the last year of EU fund inflows from the 2007-2013 programming period. Private consumption is expected to benefit from the positive real wage dynamic and a strong increase of RON lending, while public consumption will likely weigh on growth, due to Romania's ambitious fiscal commitments. All these will probably keep economic expansion in 2015 below 3% yoy. The sharp decline in oil prices brought the annual inflation down to 0.8% at the end of 2014, also leading to a downward revision of the expectations for 2015 and 2016. We estimate that inflation will stay below the target interval (1.5%-3.5%) in 2015, touching the lower band in December. Consequently, the NBR could continue to cut the key rate to 2% by year-end, accompanied by reductions of minimum reserve requirements – down to 4%-6% for RON and to 8% for FCY (from 10% and 14%, respectively). Romania still has one of the largest credit delinquency overhangs in the CEE region (NPL ratio at 13.93% in December 2014) which limits available funds and increases funding costs. However, banks have already started to clean up their loan portfolios either by fully transferring provisioned non-performing loans into off-balance sheet accounts (RON 7.1bn transferred during May-December), or by portfolio sales. The process is likely to continue at a slower pace in 2015, mainly through sales of non-performing credit portfolios. This will allow banks to focus on new lending, thus providing a positive credit impulse to domestic demand. The banking system remains well capitalized, with a solvency ratio of 17.28% in December. In 2014 EU funds and FDIs covered comfortably the capital outflows like the IMF and EC payments of about € 4.5 bn and the deleveraging in the banking sector of € 2.7 bn, thus ensuring the stability of the EUR/RON. The exchange rate against the euro remained in the 4.40-4.50 interval for most of the year. In light of (i) a balanced current account, (ii) a slowdown in deleveraging, (iii) lower payments to the IMF and the EC than in 2014 and (iv) at least the same volume of inflows from FDI and EU funds as in 2014, we expect the EUR/RON to remain in the above-mentioned interval during 2015.

> In 2015 European markets face increasing risks brought on by the Russia-Ukraine conflict, the Greek debt issues and the rising contrast between the FED and the ECB monetary policies. Romania maintains a strong financial position (low public debt, well capitalized banking sector), the decline in investments being the main challenge to a sustained economic growth.

2014 marked the second year of declining investments in Romania, raising the question whether productivity can keep the pace with the minimum wage hikes (the unit labor cost has been on an upward trend since 2Q 2012). In order to maintain its competitiveness in the long run, Romania should focus especially on infrastructure investments, more so after the 2.1%yoy decline in government investment spending in 2014. The authorities are trying to address this issue by drawing a 2014 – 2030 infrastructure master plan and by streamlining the public procurement system in the construction sector. At the same time, the European Commission recently introduced "An Investment Plan for Europe", which aims to target the structural inabilities of EU members in absorbing funds. Taking into account that 2015 is the last year for absorbing the funds allocated for 2007-2013, the government included 0.25% of GDP for EU co-financing under the 2015 fiscal target of 1.83% of GDP.

The declining path in Romanian investments is contrasting the CEE developments



Indicator	2009	2010	2011	2012	2013	2014	2015 F
GDP Growth	-7.1%	-0.8%	1.1%	0.6%	3.5%	2.9%	2.5%
GDP per capita (EUR)	5,894	6,249	6,601	6,663	7,226	7,586	8,012
Industrial Production Growth (%)	-0.2%	1.1%	0.0%	-2.0%	5.6%	1.2%	1.3%
Household Consumption (%)	-9.0%	1.0%	1.1%	1.7%	0.6%	3.7%	3.54%
Current Account Balance (% in GDP)	-4.5%	-4.6%	-4.6%	-4.5%	-0.8%	-0.5%	0.0%
Net FDI (% in GDP)	2.8%	1.8%	1.3%	1.8%	2.0%	1.6%	1.4%
Budget Deficit (% in GDP) - ESA	-8.9%	-6.6%	-5.5%	-3.0%	-2.2%	-1.6%	-2.1%
Inflation Rate (%)	4.7%	8.0%	3.1%	4.9%	1.6%	0.8%	1.46%
Average Exchange Rate (RON/EUR)	4.24	4.21	4.24	4.46	4.42	4.44	4.42

Data Source: National Institute of Statistics, National Bank of Romania, Ministry of Finance, UniCredit Tiriac Bank forecasts

Bucharest Office Market

Overview

Now at its strongest point in its recovery, the Bucharest office market registered record post-crisis trading volumes, as well as a boost in new quality stock. Net take-up accounted for almost half of the entire activity, indicating a healthy growth of the market.

Supply

2014 closed with a total office stock of 1,775,000 m^2, registering a year on year increase of 7%, which is in line with the last 5 years' average. Approximately 120,000 m^2 of quality leasable spaces were delivered in the established office districts, the majority of the new supply being within a 5 minute walk from the subway.

Most of the new stock was either fully leased upon completion, or managed to obtain below 5% vacancy by the end of the year. This is a clear indicator of tenants' preferences for new spaces and energy efficent offices which are easily reachable by both public and private means of transportation.

Demand

A total volume of 286,000 m^2 was leased in 2014, with 27% accounting for renegotiations and renewals. Ericsson, Renault and Microsoft were the largest players which chose to extend their stay in their current offices. Overall, buildings in Pipera and the West managed to have the highest retention rate, accounting for 48% of all renegotiations.

Around 79,000 m^2 were closed in relocations from competitive stock. Floreasca – Barbu Vacarescu and Dimitrie Pompeiu attracted the largest volumes, mainly due to the newly completed or under construction buildings in the area.

Significant activity throughout 2014 led to the highest yearly net take-up in over 5 years. Close to 128,000 m^2 were leased either to companies expanding their operations or entering the market (62%), or to players relocating from lower quality buildings (38%). For the third consecutive year the IT&C segment took the lead accounting for 47% of the net take-up, followed by Finance, Banking & Insurance.

> In the next few years Romania will be moving up the complexity spectrum in terms of outsourcing processes. The local talent pool has been a main decision factor for evolving from a cost driven approach to a value driven one, Romanians proving to be very resourceful in operating more complex tasks.

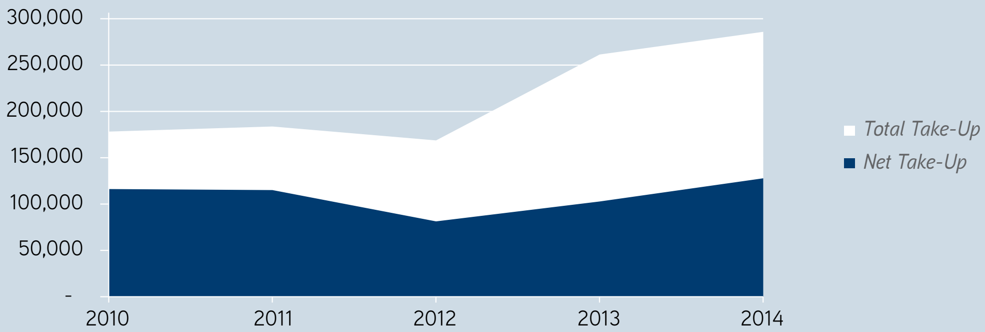
In 2014 pre-completions made a spectacular comeback, being four times larger than the volume of 2013. Out of the 80,000 m^2 pre-leased spaces, 69% were comprised in transactions closed by the three largest telecom operators (Orange, Vodafone and Telekom).

Total vacancy declined to 14.3%, recording the sharpest year on year change (370bp), after the financial crisis. Most areas with metro access boasted single digit vacancy percentages, while districts with poorer public transportation connections registered higher values. Pipera continues to have the largest unocupied surface in the market (over 73,000 m^2), but this too has been compressing slowly over the last few years.

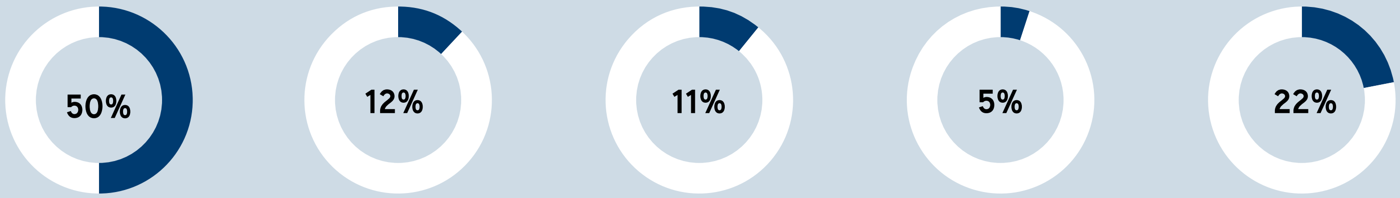
Rents

In 2014 rents in quality buildings saw little to no movement, while products with high vacancy rates showed more flexibility in approaching tenants. On average, hot areas saw headline rents ranging between 14 and 16 €/m^2, while Victoriei area continues to command higher values (16 to 18 €/m^2).

Total vs. Net Take-Up (m²)



2014 Take-Up Structure



IT & Communication

Finance / Banking / Insurance

Professional Services

Consumer Goods

Others

Forecast

Over 160,000 m² of quality office spaces are expected to be delivered in 2015, most of the new projects being completed in Floreasca – Barbu Vacarescu and Centre West. In the following two years, trending office districts will witness, in addition to the announced deliveries, infrastructure works, which will facilitate the access to the areas. This in turn will create a platform for future growth, both in terms of stock and of office occupancy.

Demand is expected to continue on an upward trend, given companies' interest to either enter or expand in Romania. Regional cities will become more competitive for BPOs and SSCs, demand for office spaces spilling over into tertiary cities as well. Close to 20,000 m² of quality offices are expected to be occupied by new entrants to the market, both in Bucharest and in the countryside.

Rapid business growth will be driving some of the main players to move part of their divisions into neighbouring buildings, as their current locations will not be able to accommodate their needs. This will create additional net demand particularly for completed buildings in hot areas which still have vacant space.

Rents are expected to see little movement in 2015. Future projects in the Victoriei area are the only ones which can command higher rents, based on scarcity of new supply, as well as existing outdated stock.

Romania Retail Market

Overview

In 2014, encouraged by the country's economic performance, Romanians felt confident enough to start spending more. With a registered increase of 7% in retail turnover volumes (Nov. 14), 2015 is looking at better prospects and further increase in sales.

Supply

Traditional: Only 49,000 m^2 were delivered on the local shopping center's market in 2014, a mere 40% of the previous year's supply. This was also the lowest level of new stock entering the market after the financial crisis, the total inventory reaching 2.3 mn m^2. The two completed projects consisted of the first modern shopping scheme in Targu Jiu and the retail phase of a mixed use development constructed by Immochan in the western part of Bucharest. Both of Anchor's projects started repositioning exercises in 2014 which included fit out of common areas and tenant upgrades. This was also true for several projects in secondary cities which were attempting reconversions so as to be competitive with third generation centers.

Specialized: DIY networks made the headlines in 2014, as several players chose to either sell or close down their operations in Romania due to poor sales. As part of its strategy to expand into CEE, Leroy Merlin acquired 15 Baumax stores, while most of the OBI vacated boxes were taken over by toys' distributor Jumbo. The Praktiker network was also sold in early 2014 to Search Chemicals. Several developers continued to explore the strip mall format in small and medium cities, but only NEPI opened one such location in Vaslui. The South African company also completed the 25,000 m^2 GLA Vulcan Value Centre in the second half of the year, putting the total specialized stock at 890,000 m^2.

Demand

Traditional: International brands tried to increment their notoriety and their traditional brick and mortar presence through strategic locations in Bucharest and the main regional cities. The novelty of the year was that some retailers considered expanding into smaller cities, either in projects that are operated by professional developers or in department stores with central locations.

CCC was the most active brand, with 12 new openings in 2014, followed by H&M, with 8 and shoe retailer Ecco, with 5. Both Koton and C&A opened 2 stores each. New entries on the market included high-end brands, which opened locations in Baneasa Shopping City (Eden Park, Brooks Brothers, Harmont & Blaine), but also middle class brands, targeting a larger audience (Mohito, Sinsay, Decimas, Cycleband). Other retailers like Noriel Bebe, Animax or CineGrad brought new larger concepts to the market in 2014.

Specialized: Dedeman and Kaufland kept their position as most dynamic retailers on the specialised segment. In addition, with the opening of the two NEPI schemes, several fashion retailers (Takko, Deichmann, Hervis, H&M) expanded to this format.

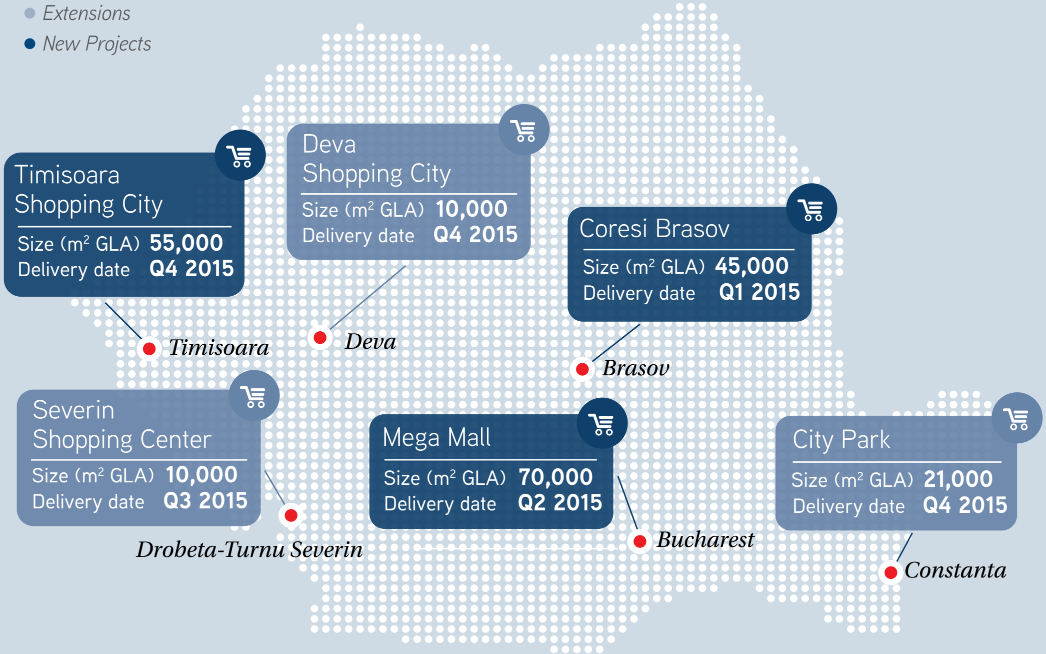
Rents

Traditional: The limited new deliveries as well as good store performances (some retailers reported sales' increase of as much as 20%) kept rents at their 2013 levels. On the other hand, retailers put more pressure on service charge levels, which in larger centers can reach even € 12-14/m^2 (€ 7 – 10/m^2 in smaller ones). This forces effort rates well over 20% for some retailers, making them unprofitable.

Specialized: Similar to the traditional segment, no significant changes were registered in applied rents in specialised schemes.

The opening of the new shopping center in the Eastern part of the city will reshape the retail market in Bucharest. How much of Mega Mall's returns will come from competitors and how much will be subject of the recent increase in consumption and of traction from non-modern retail facilities, remains to be seen.

2015 deliveries



Most active retailers

Retailer	Existing	Opened in 2014
Kenvelo Group	103	16
CCC	19	12
H&M	29	8
Takko	55	8
C&A	27	2

Forecast

Traditional: 2015 will bring over 200,000 m² to the market. 19% of this new stock is represented by extensions, marking older centers' need to become more competitive (Severin Shopping City, CityPark Constanta). In addition, the market will most likely witness other refurbishments, Mercur Craiova already announcing such an exercise for 2015.

Demand is expected to be dominated by existing players. Brands like LCW, Koton, Terranova or LPP, which until last year had been inactive, started expanding as well as increasing their leased surfaces so as to be in line with their new concepts.

We expect to see some brands, which had previously exited the market, make a comeback, reassured by the better economic prospects. The same prospects will continue to attract new players, which have been more reserved until 2014.

New stock entering the market will probably put temporary pressure on rents, but as consumption picks up this will be balanced by increasing sales.

Specialized: Developers announced their intentions to continue to extend their strip mall format networks in secondary cities in 2015. Most likely they will lease the spaces to retailers who are familiar with this concept and who want to reach a wider clientele. Rents are unlikely to register any changes in 2015.

Photo: Tatiana Volgutova / Shutterstock.com

Bucharest Highstreet Market

Overview

In 2014, heightened interest from the entertainment sector impacted the highstreet leasing market. Several new restaurants and cafés were actively looking to expand beyond the Old City Centre, some of them even opening up locations. Additional demand came from supermarkets, casinos and betting agencies.

Leasing Market

The Old City Centre: Difficult permitting in the historical area delayed the opening of the announced fashion tenants in 2014. Both, Turkish retailer Koton, and local shoe shop Cato postponed their operations for 2015. The Carturesti Bookshop will too finalize its location in the area in 2015. The book retailer will take approximately 1,000 m^2 on Lipscani Street in the former Chrissoveloni Bank.

The area did witness one new opening towards the end of the year when Vodafone completed its flagship location.

Marketwide rents experienced barely any change in 2014. However, high pedestrian traffic in certain areas has been driving rents upward for prime properties.

Dorobanti saw a quieter year, as the area stabilized after the Mario Plaza refurbishment. The former mini shopping center was reorganized as individual highstreet units, which were leased out to home decorations, small fashion and designer boutiques. Mega Image also leased 900 m^2 in the center during the second half of the year.

Similar to the Old City Centre, there was little movement in rents.

Calea Victoriei was under construction for most of the year, the artery being reduced to two driving lanes. The pedestrian area was widened and a new bike lane was put in place. Several tenants exited their spaces (Estee Lauder, Vera Sposa or Hugo Boss), but as pedestrian traffic improves the vacated spaces are expected to find new tenants.

> Heading into 2015, it is an ideal time for securing highstreet retail assets, as increasing demand will be exercising inward pressure on yields. Towards the end of the year transactions for prime properties will most likely be closed at 100 – 150 bps lower than in 2014.

Due to increasing vacancy in the area, average rents felt slight downward pressure in 2014, but they are expected to make a comeback once the area stabilizes.

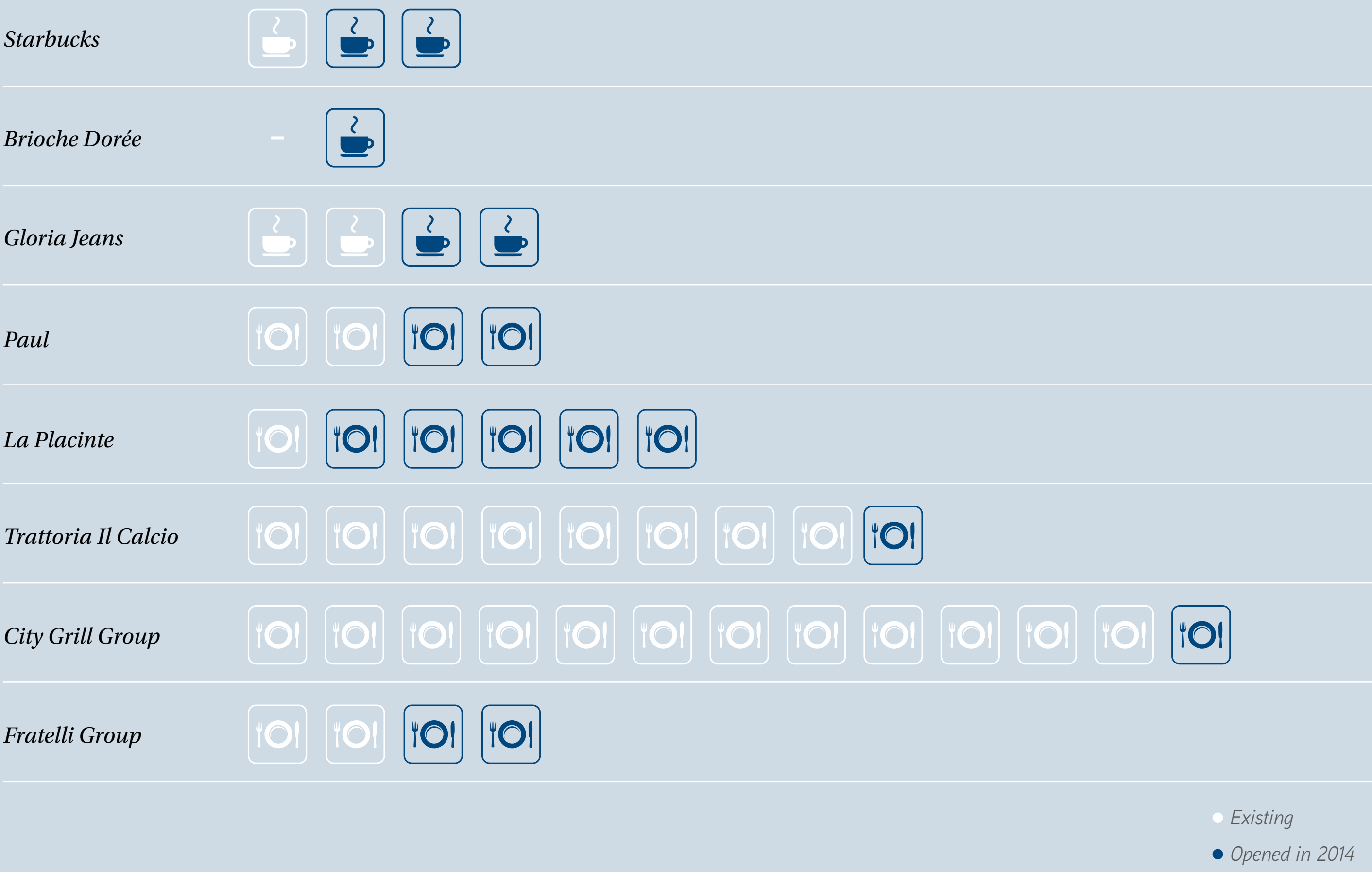
Magheru-Balcescu-Bratianu boulevards saw an upward trend in refurbishment, as several buildings began the process of re-entering the commercial circuit. The Moldavian food chain La Placinte was the most active operator, expanding in 3 locations on these arteries, while Intersport opened one location in the area. Mega Image also opened the gates at the end of the year to an approximately 1,700 m^2 store, occupying the former Eva Store.

Rents stabilized around the values of the previous year.

Sales Market

As banks moved down on the deposit rate curve, investors (both local and international) sought an alternative placement of their liquidities. The most sought after highstreet products were medium sized spaces (100 – 300 m^2) located in high traffic areas, with premium tenants (banks, pharmacies, or supermarkets). Transaction prices ranged between € 300,000 and € 500,000, while gross yields varied between 9 and 12%.

Main entertainment & food openings of 2014



Forecast

The Bucharest leasing market is expected to pick up in 2015, being driven by the entertainment & food sector. The focus will be on locations both in the Old City Centre, but also in new, non-conventional areas. Supermarkets are likely to slow down their expansion in the capital, while recent M&A in the banking system will bring some movement on the highstreet segment. Casinos and pharmacies will continue to secure strategic locations throughout the city, while fashion anchors will focus on the Old City Centre and the Unirii area.

Highstreet sales are expected to see another strong year in trading volumes, albeit yields will witness downward pressure. In pursue of competitive yields investors will be looking at secondary or tertiary locations to place their liquidities, as prime properties will command higher values.

Romania Industrial Market

Overview

All eyes were on the industrial market in 2014, when investment transactions soared. More than €171 mn were channelled towards such properties, the total volume being surpassed only by that of 2008 (over € 250 mn).

Supply

For the third consecutive year there was no change in the Bucharest industrial stock, 2014 closing with an inventory of 941,000 m^2 of logistic spaces. However, the year brought renewed interest from developers to either commence new projects, or to continue the development of subsequent phases of their larger schemes.

Countryside stock incremented by 20,000 m^2, which were delivered in projects in Timisoara, Oradea and Cluj - Napoca. This was a direct result of increasing demand in the Western cities for industrial premises both for warehousing and production facilities. The cumulative stock in the main industrial hubs in the countryside stood at 687,000 m^2 at the end of the year.

Demand

91,500 m^2 were closed in Bucharest in industrial transactions in 2014, 27,000 m^2 representing of new occupied space. This marked a year on year decrease of 25% in net take-up. Over 39,000 m^2 were the subject of renegotiations and renewals, while 28 % of all market activity was comprised in temporary transactions. The 3 to 6 months contracts were closed by logistics companies which needed short term accommodation for agricultural products.

Vacancy rates in Bucharest dropped to 12.2% in 2014 registering a 150bp change yoy. The increase in temporary leases in 2014 has led to a provisional lower vacancy (under 10%), but once the contracts close (no more than 6 months) the spaces will be available again. Additional vacant areas will be generated by the steel construction company Ruukki, which will be reducing its operations in Romania.

> Going forward into 2015, we welcome the return of the industrial speculative developments and an increase in stock of over 100,000 m^2 in the next two years. Cautiousness still prevails, as almost all players looking to build have already secured, or are on the verge of securing pre-lease contracts for their projects.

Countryside transactions were channelled to industrial parks located mainly in the western part of the country. Continental's 45,000 m^2 pre-lease in Timisoara Airport Park was the largest transaction of the year, while Elster Rometrics leased 7,000 m^2 in the same park.

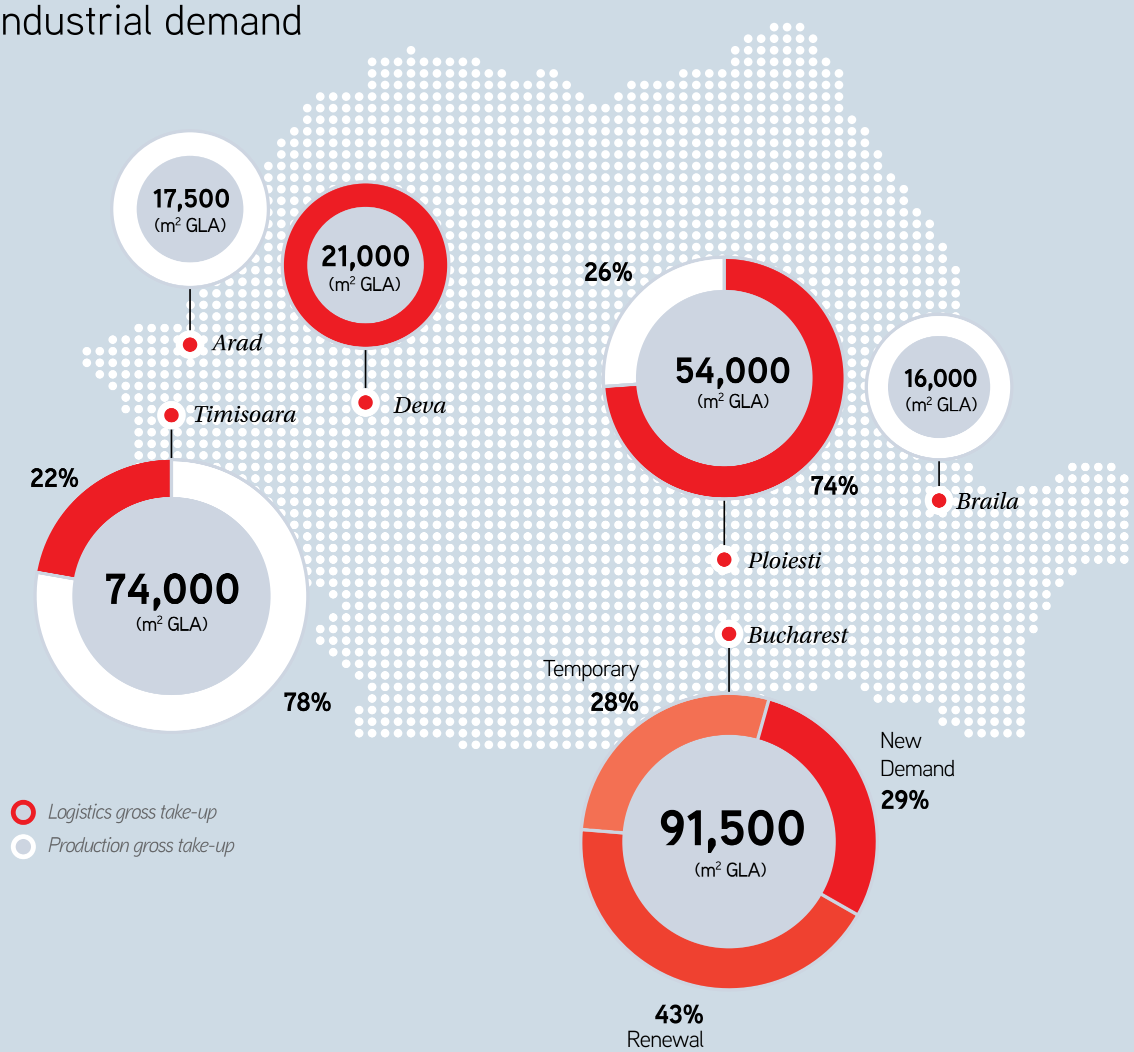
Automotive company Yazaki secured a 16,000 m^2 pre-lease in Braila, marking an increasing interest for investments in this part of the country. Competitive wages, average skilled workforce and high unemployment rates will be the main drivers for production demand in the region.

Logistics transactions closed mainly in the already established hubs in Ploiesti and Timisoara.

Rents

Headline rents remained constant throughout the year, particularly in projects with high occupancy rates. Developments with high vacancy proved to be more flexible in negotiations. Rents ranged between € 3.5 and € 4.15, depending on the size and lease terms of the contract, while service charge costs varied between € 0.7 and € 1 per m^2.

2014 Industrial demand



Forecast

In the years to come the industrial CEE market will be facing increasing pressure from changing consumer and business behaviours (e-tailing), accessible technologies and improving transportation solutions. As European logistics hubs extend further east and local high tech production clusters develop more, we expect to see Romania taking a more active role in Pan – European distribution chains.

New projects totalling over 100,000 m² are expected to be delivered in the next two years, in cities like Bucharest, Timisoara, Arad and Brasov. Increasing private consumption will be driving distribution and 3PL companies' demand for additional space, while production (particularly automotive) will continue to focus on built-to-suit solutions in areas with good talent pools and competitive terms (wages, grants etc.).

Rents are likely to see no further movement in the year ahead.

Romania Land Market

Overview

2014 marked the most prolific year after the financial crisis, with increased activity across all sectors of the market. The most significant upturn came from the residential segment, which experienced the best year following 2008.

Demand

Transactions were mainly closed by seasoned players, who have enough market knowledge for fast paced investment decisions. New players, although bold, took longer to assess risks, thus missing out on opportunities.

Similar to 2013, retailers accounted for most of the market activity, with Kaufland and Dedeman being the main players. Heightened interest came from retail developers, who secured suitable locations both for large schemes in cities with little competition (Timisoara, Piatra Neamt) and for smaller projects next to food anchors in smaller cities (Targu Mures, Satu Mare, etc).

Virtually all experienced office developers actively considered new projects in 2014, part of them even securing land plots (Portland Trust, Globalworth, NEPI etc.). The established sub-markets attracted the most interest, with Barbu Vacarescu – Floreasca taking a strong lead. Demand for office plots increased in the regional cities as well (Timisoara and Cluj-Napoca), and we expect to see transactions closing in 2015.

2014 was the first post crisis year when large residential land deals were closed in Bucharest. This market segment was dominated by local buyers, who were the first to speculate the supply gap. One such player is Metropolitan Residence, which acquired the Policolor site (13.8 ha). Joint-venture agreements were very popular on the market, especially for smaller plots.

Opportunistic investors found suitable placements for their liquidities as they continued to speculate the aggressive strategies of certain banks and distressed owners. The majority of the investors later decided to develop rather than re-sell the plots of land for profit.

Supply

The stock of land available for sale remained relatively constant due to the fact that new offers compensated for the sold plots. Banks took more flexible negotiation positions, disposing of their plots either in single asset transactions or part of larger NPLs portfolios.

Rigid landowners were eventually determined by eager investors to sell plots located in strategic areas at record prices. Nevertheless, the more liquid owners chose to develop instead of selling.

Transactions & Prices

Retailers and retail developers dominated the market both in terms of size of acquired plots and volume of transactions. NEPI led the way with closed deals totaling around € 50 mn, followed by Dedeman.

For the first time since 2008 the residential market outpaced the office segment both in terms of volumes and number of transactions. Bucharest continued to be the hotspot for office and residential land acquisitions, just the area around Floreasca – Barbu Vacarescu managing to attract €65 mn in land investments in 2014. Prices stabilized as developers moved up the demand curve. Nevertheless, in most transactions prices were circumstantial, and very sensitive to landowners' exit pressures, buyers' strategic interests for particular properties and payment terms.

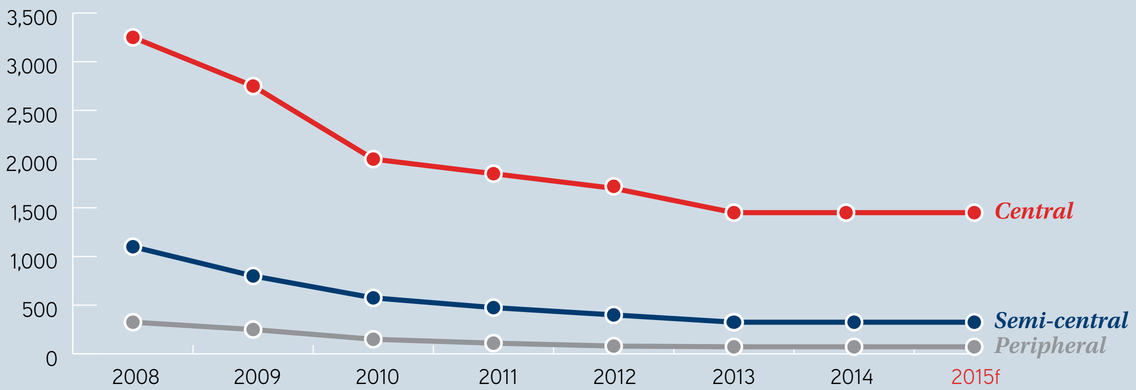
> As a full economic cycle comes to a close, the question is "Will 2015 bring an increase in prices?" Downward pressure on values from distressed supply will most likely render this improbable. Nevertheless, isolated corrections might appear in areas with improving infrastructure.

Relevant Land Transactions In 2014

	Location	Buyer	Size	Price*	Use
1	Bucuresti Aviatiei	NEPI	1.3 ha	est. € 25 mn	Retail & Office
2	Bucuresti Aviatiei	Portland	4 ha	€ 20 mn	Office
3	Timisoara Dermatina	NEPI & Dedeman	~ 22 ha	€ 15-20 mn	Retail
4	Bucuresti Policolor	Metropolitan Residence	13.8 ha	€ 18 mn	Residential
5	Bucuresti D. Pompeiu	Globalworth	3 ha	€ 14.3 mn	Office
6	Piatra Neamt	NEPI	7.4 ha	€ 9.4 mn	Retail
7	Bucuresti B Vacarescu	Impact	2.6 ha	€ 9 mn	Residential

**Prices should not be considered as such, but in relation with the other deal particularities (landowner's and, respectively, buyer's strategies, payment structure, other restrictions for one or both parties of the deal etc.).*

Bucharest Land Prices Evolution (Average €/m^2)



Forecast

Additional liquidity in the EU market, brought on by the recent quantitative easing, as well as expected local economic growth, will extend the optimism well into 2015. The activity is assumed to heighten as new investors reactivate their interest for development in Bucharest and in the regional cities.

Prices will continue to be susceptible to deal particularities, and no generalized upward movement is expected. 2015 will most likely be another prolific year in terms of land acquisitions for both developers and opportunistic investors.

Romania Investment Market

Overview

With a record volume of real estate investment transactions, 2014 generated a wave of enthusiasm and positive talk amongst all market players in Romania. The estimated € 1.2 bn in transactions was 4 times the volume registered in 2013, which was the second largest investment volume in the history of the market, being surpassed only by the peak boom year 2007 (with cca. €1.5 bn). This well warranted optimism across the market is in itself a most welcomed effect of 2014's strong performance and a solid premise for further growth. After a closer scrutiny, however, there are still voices that call for cautioun. NEPI and Globalworth still dominated the market, having closed the most prominent transactions of the year. Moreover, some of 2014's registered deals were related parties' transactions (such as the acquisition by Globalworth of the Founder's portfolio, estimated at €260 mn).

Although the above remains true, the market trends certainly pointed to the right direction. As compared to the previous 3 years, when NEPI and Ioannis Papalekas accounted for cca 65% of the total investment volume, in 2014 the percentage reduced to 45% of the overall market activity. The pool of active investors on the market started to diversify, with some new players having already closed transactions in 2014.

Transactions and Yields

The industrial segment had the most diversified demand structure, with deals being closed by investment funds (Secure Properties, Globalworth), developers (Point Park), as well as companies buying premises for their own use (Kromberg&Schubert). The segment also saw the healthiest growth in 2014, with 5 deals closed, totaling cca €171 mn. A landmark transaction on this segment was the sale by CA Immo, represented by Colliers International, of their industrial assets in Romania and Poland to the logistics developer and investor Point Park, backed by US and Canadian capital. The property comprises 215,000 m^2 of warehousing and 27.5 ha of additional land.

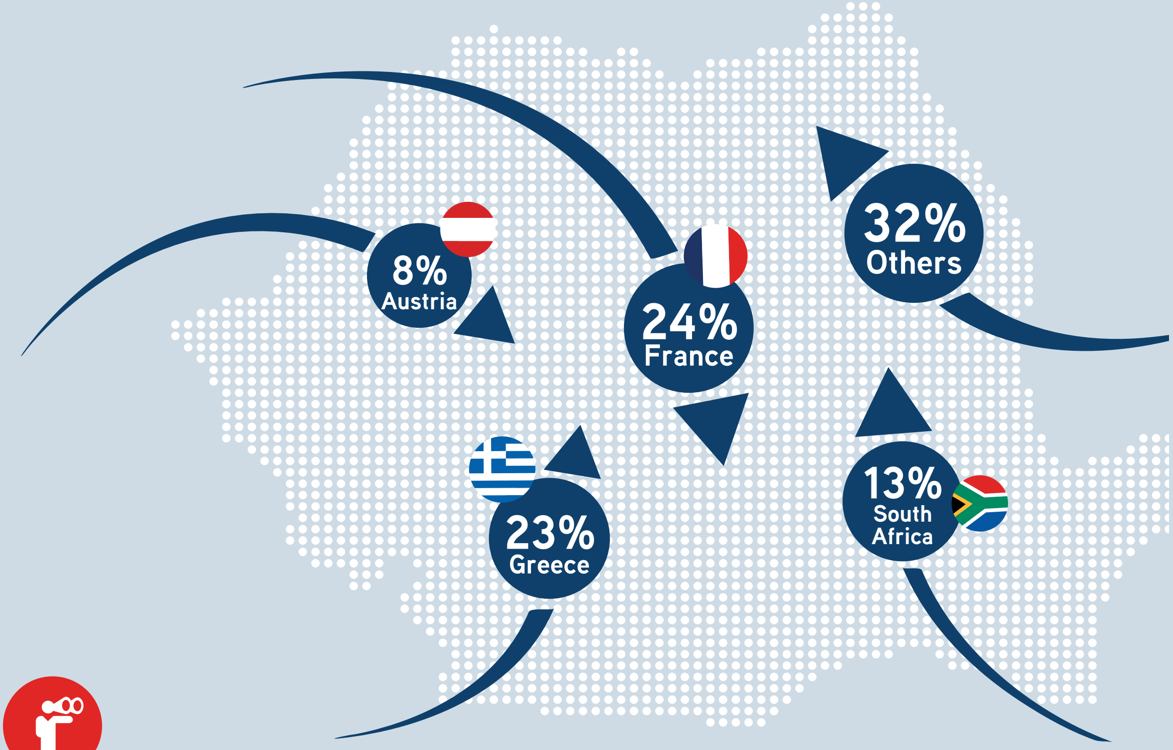
> Investors' appetite for prime properties will drive the local market in 2015, with several office and retail assets expected to switch hands in the following 12 to 18 months. Romania's main competitive advantage resides in the positive yield gaps which can be maximized by core investors with low cost of capital.

Globalworth also completed an industrial transaction through the acquisition of Timisoara Airport Park for cca €35 mn. In Q4 2014, the fund also acquired two landmark office buildings in Bucharest (Green Court A and Nusco Tower), located in the Floreasca-Barbu Vacarescu area as well as the Unicredit Headquarters in Free Press Square, for an estimated €43mn. Another noteworthy transaction of 2014 was the sale of Promenada Shopping Center, a new 36,000 m^2 GLA retail property, that was sold by the developer, Raiffeisen Evolution, to the South African Fund NEPI for €148 mn. Nevertheless, the largest transaction was closed by Immochan, which acquired 12 commercial centers across the country (comprising former Real hypermarkets), in a transaction estimated at over €260mn.

In a series of smaller transactions, a new investor, Secure Properties, confirmed its strong interest for the Romanian market. Thus, the AIM listed company acquired the industrial property Innovations Park, an office building leased entirely by Danone and a residential portfolio of 122 apartments, in 3 deals with a total transaction volume of €21.75 mn. There were also two notable transactions with distressed assets, both part of Equest Balkan Properties' portfolio, namely Moldova Mall in Iasi and Vitantis SC in Bucharest.

The heightened market activity put downward pressure on yields, which, for the first time since 2008, dropped below the 8% mark for both prime office and prime retail projects. Skanska's Green Court and Promenada Mall are two prominent examples of such compressing yields. The industrial segment also benefitted from the increased investor demand, with yields for prime projects dropping below 10%.

2014 Real Estate Flow of Capital in Romania



Forecast

Demand will remain focused on Bucharest office and retail opportunities, with the majority of new players still seeking value add premises rather than prime projects. A growing interest in prime properties was however noticed in 2014 and the trend is expected to accelerate in 2015, being aided by a number of core products that are expected to enter on the market. The industrial segment will also continue to catch up in terms of demand and transaction volumes, with a number of players still looking actively for products.

On a more macro level, the latest developments in the European markets also reinforce the optimistic outlook for real estate investment. Apart from the US and Asian funds, that continue to flood the European market, the recent Quantitative easing measures announced by the European Central bank will bring another layer of liquidity in the market, which can directly or indirectly be channeled to the real estate segment. An expectation of continued low interest rates and generally easier borrowing is already maintaining investors' confidence at high levels. As bank lending was still a major barrier to the investment activity in Romania, this spells good news, as European banks with local presence might further shed their reluctance on the segment, channel more funds to it and improve lending conditions. Further yield compression expectations in Western and Central Europe, coupled with an already alarming lack of products, once again raises hopes that the trickledown effect of this investment bonanza to the Eastern European real estate market will further accelerate. In the absence of any major disruptions from Greece and Ukraine, there seem to be few reasons to shadow the local market's brighter perspectives in 2015.

Bucharest New Residential Market

Overview

Record sales volumes and new stock entering the market characterized the residential segment in 2014. Price variations were close to nil which, coupled with increasing absorption, encouraged developers to seek out new opportunities.

Supply

The residential stock reached over 26,000[1] units at the end of the year marking an 18% yoy increase. This has been the largest addition to the inventory after the financial crisis, indicating on the one hand developers' confidence in the market and on the other hand buyers' trust in future economic growth.

Most of the new deliveries were generated by the existing well performing projects such as Militari Residence, Cosmopolis or Confort Urban. Nevertheless, close to 700 apartments were completed in large scale projects just entering the market (City Point, Timisoara 58, Onix Residence etc.).

Complementary to the stock delivered in large scale projects, smaller developments proliferated in 2014. Developers, usually local players, chose to build 30 – 60 unit projects throughout the city, in areas with good subway access. Berceni and Popesti Leordeni attracted the largest number of such players with semi-central areas coming in a short second. Given the highly competitive prices, most of this stock was usually sold before completion.

Some new projects targeted more affluent purchasers, in contrast with previous years' focus on low income products. Both local and international developers sought to finalize one and two bedroom apartments in semi-central locations, or in the vicinity of popular office districts.

Demand

2014 saw an increase in off-plan sales, a number of developers managing to sell most of the apartments 3 to 6 months before the buildings' completion. Such transactions took place mainly in projects with good track records.

The stellar performance of the residential sector will bring new players to the table in 2015. Supply is expected to diversify further with more middle and upper middle projects entering the market in the year ahead.

The new apartment absorption in monitored projects was 3,750 apartments, the rhythm accelerating in the second half of the year. This marked a 25% increase by comparison with 2013 and a record transaction volume in the post-crisis years.

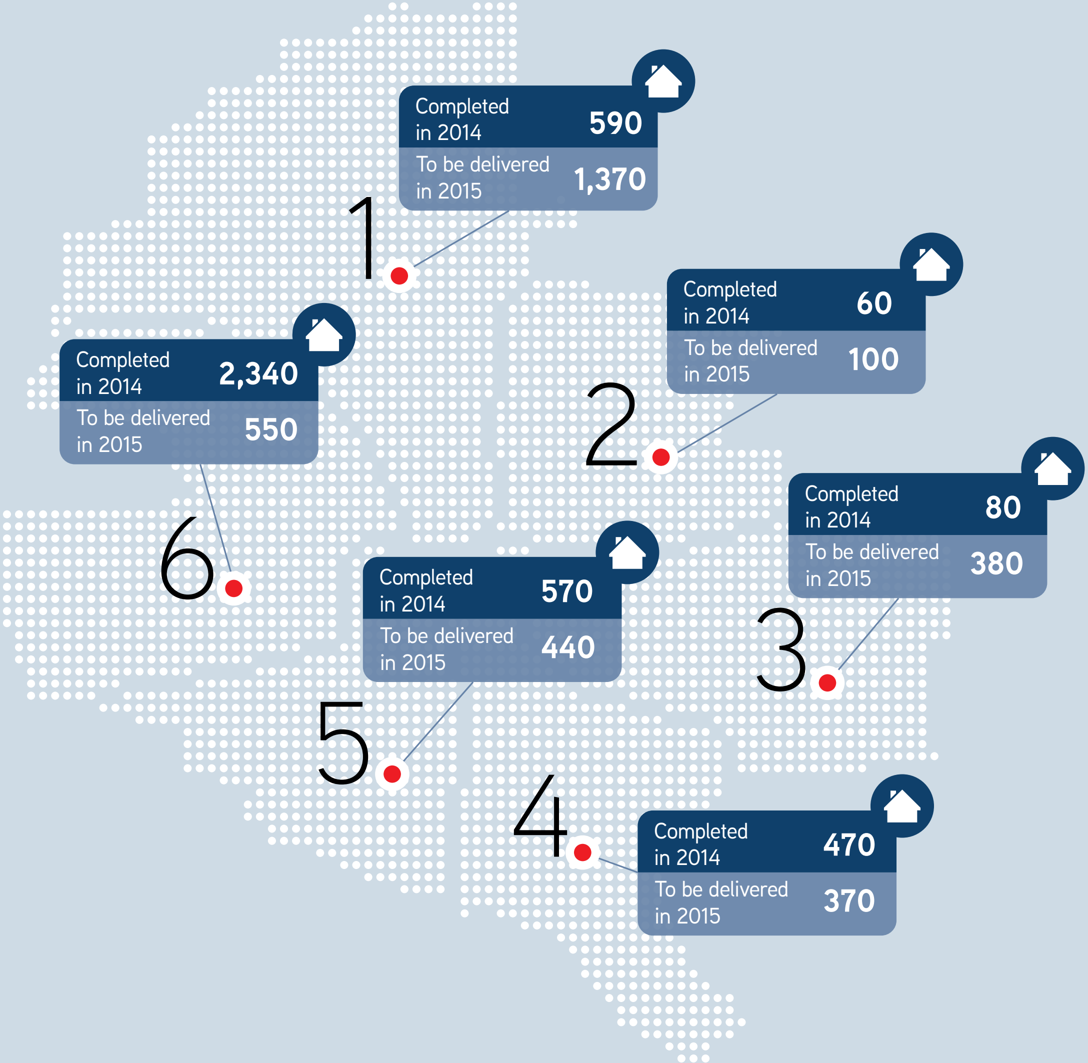
As expected, the low segment attracted the highest share of demand. However, the middle segment witnessed an increasing number of closed deals in 2014, indicating a higher interest for buyers for such products. The average selling rhythm was 5-6 apartments per month per project in the monitored projects. This increases to 10 apartments per month per project in those developments targeting individuals with low income levels.

Prices

Prices saw little to no movement in most projects, those looking to liquidate their inventory applying some downward corrections. Low income developments closed deals at around 750 €/built m^2 while middle products found buyers in the 1,100 – 1,200 €/built m^2 margin.

[1] In projects with over 100 units that are currently selling apartments

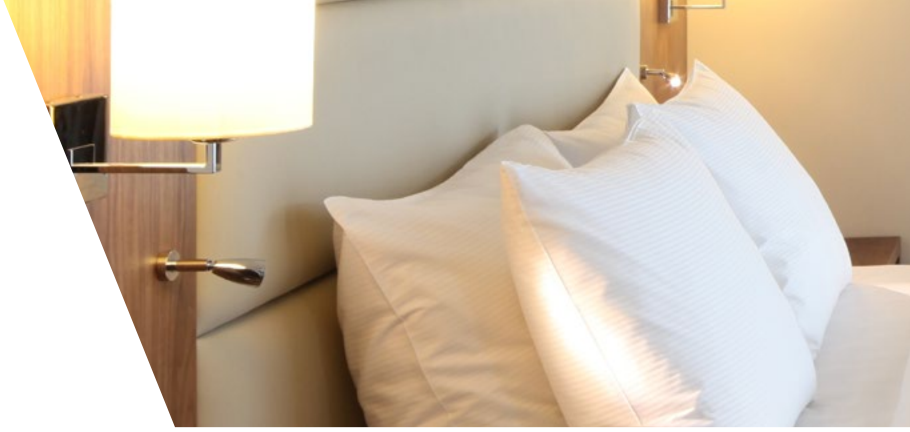
Bucharest New Deliveries



Forecast

New additions are expected to be added to the stock both in existing projects and in future developments. More than 3,300 units will enter the market in the following 12 months, part of them being already sold. Taking into account that the Prima Casa Programme will continue in 2015, the heightened demand is expected to continue into 2015. Buyers will most likely favour one and two bedroom units to the detriment of studios.

Given the new stock entering the market, price changes are unlikely in the next 6 months. The residential market seems to have found the perfect balance between offer and demand.



Bucharest Hotel Market

Under this section we analyze the hotels that qualify according to the international standard as midscale, upscale and luxury hotels. In order to do so we have studied the existing hotels affiliated to international chains, the strong local chains (such as Continental) and a certain part of those non-affiliated. In choosing the non-affiliated hotels, we have taken into account a number of indicators, including: a minimum number of 50 rooms per property, the hotel awareness on the market, the quality of the premises and the services provided.

Overview

Bucharest hotel market saw an increase in activity in 2014 in terms of both supply and demand. The launch of the Mercure City Center hotel generated a boost in stock. At the same time, the market booked more profitable business in 2014 compared to 2013.

Supply

Accor increased its presence on the Bucharest lodging market after launching the Mercure Bucharest City Center hotel (114 rooms) in November 2014. Branded as a midscale hotel, it targets the business sector, mainly through bed and breakfast services. The Accor chain also operates three other brands on the local market: two upscale (Novotel and Pullman) and one midscale (Ibis).

Following this delivery, the share of the chain-affiliated hotels in Bucharest's total lodging, has increased to 40%. There is still room for additional international brands in Bucharest if we are to take into account the average affiliation rate of 60-65% in other capital cities in the region (such as Warsaw or Budapest).

Rates & occupancy

Demand has been on the upward trend in the last two years. The recovery in occupancy in 2014 alone was strong, with a 500 bps yoy increase compared to the previous year. By contrast, the ADR was still on the downward trend. Nonetheless, the ADR decrease in 2014 stood at only 1% yoy, (from €73.5 to €72.54).

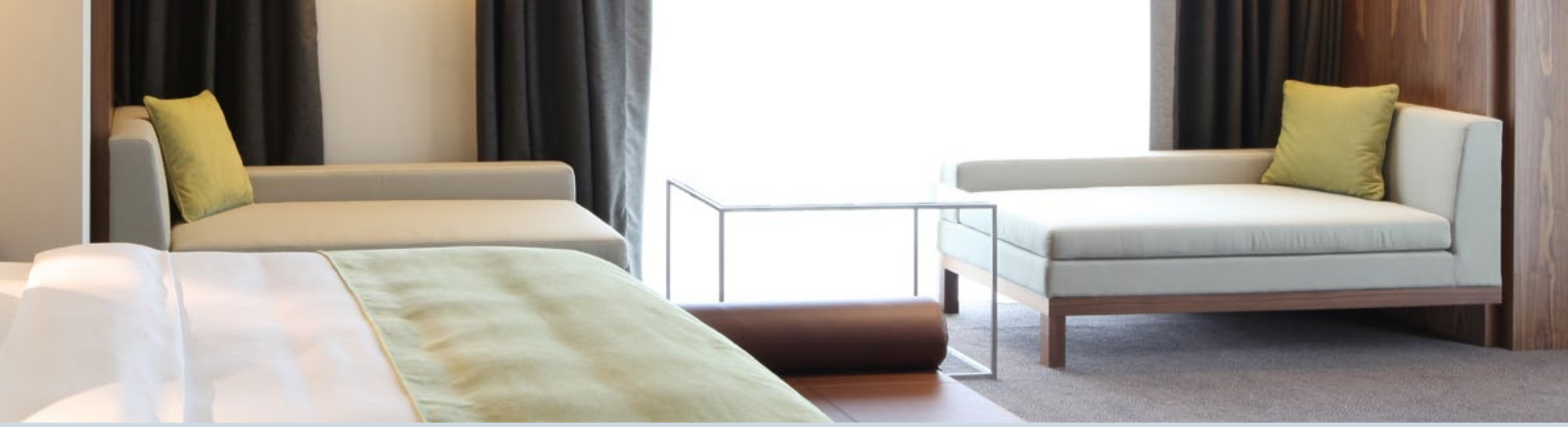
Occupancy levels increased across all star categories during the year, registering an average of 63% for the entire year of 2014. The market is almost back at its pre-recession peak (reached during 2008) in terms of demand, but it remains significantly behind in terms of revenues.

Overall, the hotel market booked more profitable business in 2014 compared to 2013. The marketwide RevPar[1] (defined as the multiplier between occupancy rate and ADR), averaged €45.65 in 2014, 8% above the 2013 level.

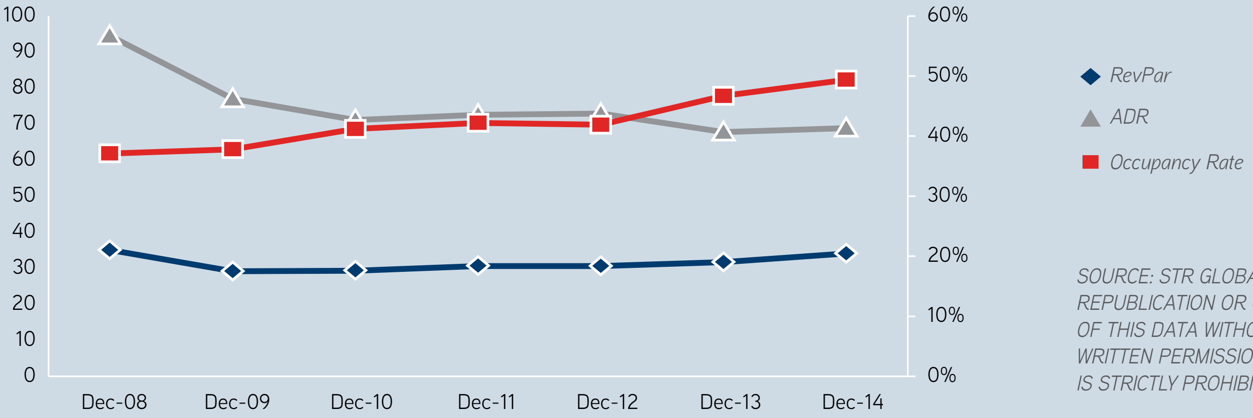
As usual, the demand on the Bucharest hotel market was mainly driven by the business segment. In 2014, the capital city became a more sought-after leisure destination, which materialized in a higher share of the demand generated by the leisure segment. Consequently, for the entire year of 2014, the market recorded a 20% share coming from the leisure sector.

New upper-middle international operators are expected to enter the Bucharest hotel market attracted by the growing potential of both the business and leisure segments.

[1]Revenue per Available Room (RevPar) – is calculated by multiplying a hotel's average daily room rate (ADR) with its occupancy rate. It may also be calculated by dividing a hotel's total guestroom revenue by the room count and the number of days in the period being measured.



Occupancy Rate, ADR and RevPar Evolution - December Values (€)



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Forecast

Bucharest is attractive for a number of international brands. Hence, the city will face higher movement, especially on the upper-middle segment. Two significant reconversions are already announced for the following 24 months. The former Centre Ville aparthotel will be changed into Park Inn Hotel, which will be operated by Rezidor Group together with the already present Radisson hotel. Howard Johnson will be changed into the luxury Sheraton hotel, operated by the Starwood & Resorts group.

Romania's inclusion in the Lonely Planet's Top 10 most attractive holiday destinations for 2015 indicates that Bucharest will consolidate its position as a city break destination, especially during summers. The country may become even more attractive after the implementation of the 9% VAT for all touristic services in a hotel starting with January 2015. Currently the VAT is 24%, except for the accommodation services that are already at 9%.

Even though we forecast a continuous increase in the demand generated by the leisure segment, all the brands announced to increase their presence on the local market are mainly addressing the business segment.

The strengthening of the accommodation industry in Romania will trigger the flow of foreign capital in the country for both developments and acquisitions. Following the improvement in confidence in the economy, more global mergers & acquisitions are expected in the hospitality industry. We have already seen such a transaction concluded by Orbis last year: the acquisition of 38 existing hotels and four more future projects in the main CEE capital cities (Bucharest included) from Accor Group. In addition, we expect higher interest for small scale transactions with individual properties, as it was the case with City Plaza hotel in Cluj Napoca, a 5-star scheme was sold in December 2014 for € 10 mn.

Taxation Aspects

Daniel Pana
Senior Manager, Tax

Local Tax on Buildings

2015

Company	• 1.5%[1] p.a. on average of the gross book value of the building
Individual	• 0.1% p.a. of the value of the building, which is calculated based on the minimum established value provided by law

2016 Possible Changes

- Similar tax rates for buildings, irrespective of the owner (individual or company), but in relation to their destination
- Booking of the revaluations will no longer be required, but revaluations should be made to avoid higher tax rates

Concerns

- Tenants' improvements in the leased spaces should be included in the taxable basis as long as they represent more than 25% of the building value depdending on the nature of the improvement

Opportunities

- Cost segregation (seek to exclude certain items from the taxable basis)
- There are two methods for registering revaluations (re-compute or eliminate depreciation)

Tax on Constructions

2015

- 1% of the gross book value, applicable to all constructions (others than buildings, which are subject to tax on buildings)

2016 Possible Changes

- Possible further reductions

Concerns

- Buildings located in industrial parks, which are exempt from local tax on buildings, started to be subject to tax on constructions starting with January, 2014

Opportunities

- Cost segregation (seek to exclude certain items from the taxable basis)
- There are two methods for registering revaluations (re-compute or eliminate depreciation)

[1] *The local tax can vary between 0.25% and 1.8%, with higher tax rates for buildings that have not been revaluated during the last 3/5 years.*

Tax On Profit/Income from Real Estate Activities

2015

	Rental Activities	Disposal of Real Estate
Company	• 16% applied to the taxable base	• 16% of net profits
Individual[2]	• 12% applied to the rental income • 5.5% of the rental is to be paid as health care contribution	• 1-3% of the sale price

2016 Possible Changes

- No expected changes

Concerns

-

Opportunities

- The shareholders of a Romanian company can opt to sell the shares of the company rather than selling the company's property. Such a transaction may not be taxable in Romania under certain conditions

VAT Aspects

2015

- 24% standard rate
- 5% for new residential units with usable areas smaller than 120 sqm and prices of less than RON 380,000 (approx. € 85,000)
- 9% for hospitality services

2016 Possible Changes

- Possible reduction of the VAT standard rate down to 20%
- Introduction of reverse charge mechanism

Concerns

-

Opportunities

- Select the best VAT treatment for a certain transaction (VAT taxable vs. VAT exempt vs. TOGC) based on specifics

[2] *Individuals earning income from less than 5 lease contracts at the end of the fiscal year.*

[3] *TOGC – transfer of a business as a going concern.*

Legal Aspects

PELIFILIP

Bogdan Creteanu
Associate

We are presenting below short considerations in relation to the major legislation amendments approved by the Romanian authorities in 2014 and with implication to the real estate industry, a forecast from a business lawyer perspective of 2015.

2015 the Year of Accumulating Interest in Real Estate

Even though 2015 does not seem to bring any major updates or changes from the legislative perspective, the same cannot be sustained from the business perspective of the real estate industry. It seems to us that 2015 is a year of accumulating interest in real estate.

Lawyers getting busy is one of the main indicators showing a market heating up. It starts with performing due diligences – and we do a lot of these nowadays – and continues with assisting creditors or debtors with financing projects, working alongside developers during the actual developments and it gets done by helping with exits or acquisitions of institutional products, as the case may be. Even if moving in slow motion we see that we are down that path and 2015 will most likely confirm our expectations.

Nonetheless, the large number of distressed assets still available on the market will not allow an increase of the prices, the best opportunities still being available on land, office and commercial centers markets.

Major Legislation Amendments of 2014

On 1 January 2014 expired the 7-year term from Romania's adherence to the European Union, during which nationals and legal persons having the nationality of the Member States of the EU were not allowed to directly acquire the ownership right over the agricultural (including forestry) land in Romania.

Considering that the above mentioned term could not be further extended and in order not to lose control over one of Romania's most valuable assets – its agricultural and forestry land, the Romanian Parliament approved on 12 March 2014 the Law no. 17/2014 on regulatory measures for the sale and purchase of agricultural land located outside the built-in area. Although the law applies both to Romanian and EU citizens and legal persons, is most likely that the State shall exercise his step-in right in cases of foreign buyers.

Therefore, the law establishes a special pre-emption right for any sale of agricultural land located outside the built-in area (agricultural land located inside the built-in area or the land transfered through a different legal transaction, e.g. land swap, donation, contribution to share capital etc., are excluded from the applicability thereof), in favour of co-owners, the land lessees (Romanian: arendas), the neighbour landlords and the Romanian State.

The pre-emption right is design as a delay mechanism of the transfer of the ownership right over the targeted land and allows the Romanian State acting through the Agency of State Domains and, in certain circumstances, the Ministry of Defence, to stop any relevant sale by stepping in by means of its special created department. Furthermore, failure to observe the pre-emption procedure set under the Law triggers the absolute nullity of the relevant contract.

Another legislation amendment with significant implications over the real estate industry is the new land book regulation approved by Order no. 700/2014 issued by ANCPI. The ANCPI regulation details and clarifies certain procedures related to the drafting of cadastral documentation as well as land book registrations, aiming, among other, to correlate the land book working procedures with the novelties brought by the New Civil Code in 2011 and other recent legal enactments. Furthermore, the ANCPI Regulation reduces the terms for land book registration and cadastral procedures in order to facilitate such procedures.

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63,000m²

OFFICE SPACE LEASED IN BUCHAREST IN 2014

€250mn.

INVESTMENT DEALS SIGNED IN 2014

New landlord representation mandates

PREMIUM PLAZA | PREMIUM POINT | POLONA 68 BUSINESS CENTER

FASHION HOUSE OUTLET CENTRE | MERCUR CRAIOVA | WINMARKT PLOIESTI | TIMISOARA PLAZA

4 NEW PROPERTY MANAGEMENT MANDATES IN 2014

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(2014 NPS evaluation)

“Good understanding of client requirements and willingness to do the extra bit to meet them.

“Professionalism and accuracy, great follow up sense of responsibility, always focused on closing the deals.

“Accurate and rich market knowledge, available and solution oriented team.

485 offices in 63 countries on 6 continents

United States: **146**
Canada: **44**
Latin America: **25**
Asia Pacific: **186**
EMEA: **84**

€1.54
billion in annual revenue

136
million square meters under management

15,800
professionals and staff

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ABSL

In 2015 Colliers International is the Real Estate Strategic Partner of The Association of Business Service Leaders, supporting the long term development of the business service sector in Romania.

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