Colliers INTERNATIONAL

2017

ROMANIA H1

REAL ESTATE KEY TRENDS

Accelerating success.

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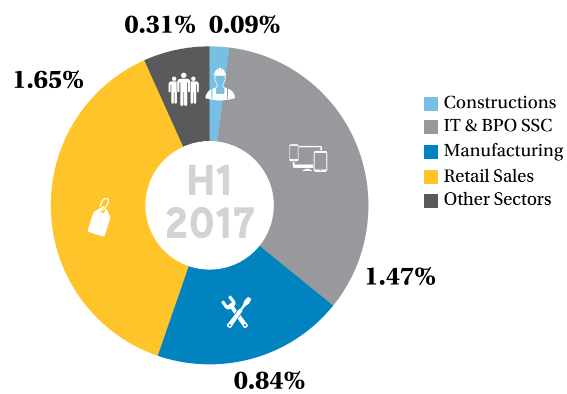
ECONOMIC OVERVIEW

1. STRUCTURAL REBALANCING IN PROGRESS

The Romanian economy is poised to grow by 4.4% yoy during 2017, marking one of the fastest paces of growth in the CEE area. Consumer spending will remain the primary driver of growth, but it is poised to slow down from the 2016 figures as transitory growth catalysts fade away. Consumer spending increased by more than 11% yoy in 2016 following a perfect storm of growth factors: the VAT rate was reduced from 24% to 19% (respectively 9% for food products), net average wages increased by a cumulated 26%, and interest rates have fallen to historic lows. 2017 will remain supported by the Government's fiscal expansion, but the picture for state finances in 2018 is increasingly more complicated. The government's proposed plans for the 2018 budget risk putting in danger the deficit target of 3%, unless it is able to implement a series of revenue-generating policies. The preferred course of action is still unclear, and we expect the policy debate to be front and centre during the second half of the year. Overall, we expect the growth rate of consumer spending to slow towards 6% yoy in late 2017-2018.

In spite of the cyclical slowdown of consumer spending, there are encouraging signs of a substantial shift in

GDP Breakdown by contribution to growth



Data Source: INSSE

the economy. In 2016, IT and BPO / SSC services had the second biggest contribution to GDP growth after consumption, even though they only account for 12% of GDP. The external context is favourable for a growth model based on export-oriented services. International corporations are actively exploring ways to minimize operational costs, while the digitalization of processes allows them to explore alternatives in emerging markets. Countries in the CEE region are particularly well positioned in terms of competitive labor costs, flexible legislation, a similar work culture to the Eurozone and North America and a proven track record. Romania currently has more than 100,000 employees in the BPO/SSC sector and remains one of the most attractive countries in the region for attracting new investments. In spite of the recent wage hikes, Romania still has the highest proportion of programmers with a salary below 20 USD/h (67%), compared with 40% in Poland or 28% in Germany. Also, approximately 75% of Romanians speak a foreign language, compared with the EU average of 66%. Furthermore, the office market indicates a renewed impetus for investments in BPO/SSC and IT companies.

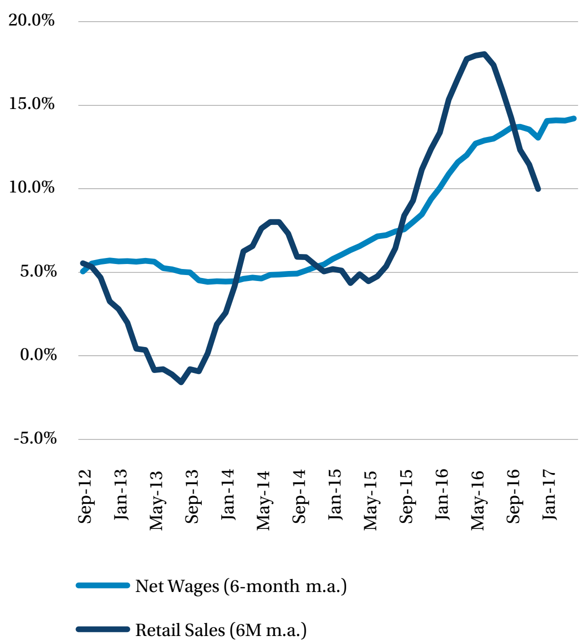
During the first half of 2017, manufacturing activity has benefited from strong growth in the Eurozone area, particularly from Germany. However, Romania is nearing the structural barrier of workforce shortages.

Poor road infrastructure connections have resulted in an agglomeration of manufacturers in the Western part of the country, which in turn is causing pressures in the labour market. The optimal solution to this problem would be to resolve the infrastructure issues, thus enabling manufacturers to invest further towards the centre of the country and unlock new labour pools. A first step in this direction will be the completion of the highway system in Transylvania, which is expected for 2017-2018.

2. WHERE IS THE REAL ESTATE MARKET?

The real estate market is closely responding to the conditions in the real economy. The renewed interest in BPO, SSC and IT services has become a major driver of demand for office spaces in the major cities of Romania. High headline figures for consumer demand have translated into strong demand for both the retail and industrial sector. However, as we move forward, these two sectors are recording two very different development trends. The retail market is focusing on small-scale developments, aimed mainly at smaller cities or rounding up the client mix of the existing scheme. We believe this development is compatible with the cyclical slowdown of consumer spending and should safeguard investments made in this sector. At the same time, several factors warrant a continued expansion of the industrial sector. Even though consumer spending will slow down from the current growth rates, the shift towards e-commerce will result in additional demand for warehousing capabilities. Furthermore, the prospect of new infrastructure deliveries opens the possibility of adding new manufacturing facilities towards the centre of the country as well as the possibility of turning Romania into a logistics hub for the CEE and SEE regions.

Retail Sales vs. Net Wages



Data Source: INSSE

Industrial
MARKET

1. SUPPLY

Over the first six months of 2017, deliveries of warehouse spaces in the Bucharest area stood at approx. 150,000 sqm, which confirms that building activity in the industrial sector is at an all-time maximum. The new spaces were delivered primarily in the Western part of the city, along the A1 Highway, as well as Northern Bucharest near Mogosoaia. For the remainder of the year, we expect deliveries of approximately 250,000 sqm in Bucharest, along with another 100,000 sqm in the rest of the country. The Northern part of Bucharest will see a renewed impetus for developments as major real estate companies are interested to launch large-scale projects in this area during the upcoming period, with a particularly strong focus on Chitila, Mogosoaia and Stefanestii de Jos. The key factors attracting developers to these areas are the proximity to Bucharest and Ploiesti, access to blue-collar workforce and availability of several access ways to Bucharest city center.

2. DEMAND

The FMCG sector remains the largest driver of demand for warehouse spaces, followed by e-commerce, electro-IT companies, logistics companies and automotive sectors. As the cyclical slowdown of consumer spending starts taking effect, additional demand from FMCG companies will slow down, but we expect the shift towards e-commerce to compensate this trend.

Some of the major deals concluded in the first 6 months of this year are: Network One Distribution (30,000 sqm in CTPark Bucharest West), Carrefour (11,500 sqm in Bucharest, to be delivered by WDP), KLG (9,755 sqm in CTPark Bucharest West), Tibbett Logistics (7,205 sqm in CTPark Bucharest West), Profi (30,000 in Roman city, to be delivered by WDP), Ikea (8,000 sqm in LogIQ Mogosoaia) and Heineken (6,000 sqm in LogIQ Mogosoaia).

3. RENTS

The vacancy rate currently stands at 5% at the country level and is below 2% in Bucharest, making this the all-time record low for Romania. This decline in the vacancy rate is remarkable when taking into account the large volume of new deliveries.

Market rates for logistics remained broadly unchanged in the first half of 2017, ranging between 3.8 EUR/sqm and 4.25 EUR/sqm. We expect rents to edge upwards by the end of the year, as the construction market may struggle to accommodate the deliveries planned for this year. Building costs are consequently set to remain on an upward trend, which may push the starting point for headline rents closer to 4 EUR/sqm.

4. FORECAST

We estimate that, by the end of the year, deliveries will reach the forecasted volume of 500,000 sqm nationwide, as demand for class A warehouse space, coming mainly from FMCG, e-commerce, automotive and logistics companies, is on a rise. The market seems to be interested in developing new locations like: A3 highway, Cluj-Napoca, Timisoara, Sibiu, Pitesti, Brasov, Roman, Rm. Valcea.

Consumer spending, e-commerce and fire permit compliance requirements (to be implemented by the end of this year) are the major factors generating the request for new, high quality warehouse space. The prospect of infrastructure developments is also acting as a catalyst for demand in the industrial and warehousing sector for two reasons: i) manufacturing companies will be able to shift production towards the center of the country in areas where workforce availability is larger and ii) logistics companies can use the new infrastructure in order to develop new transport pathways and logistic schemes.

Pipeline in Bucharest Area

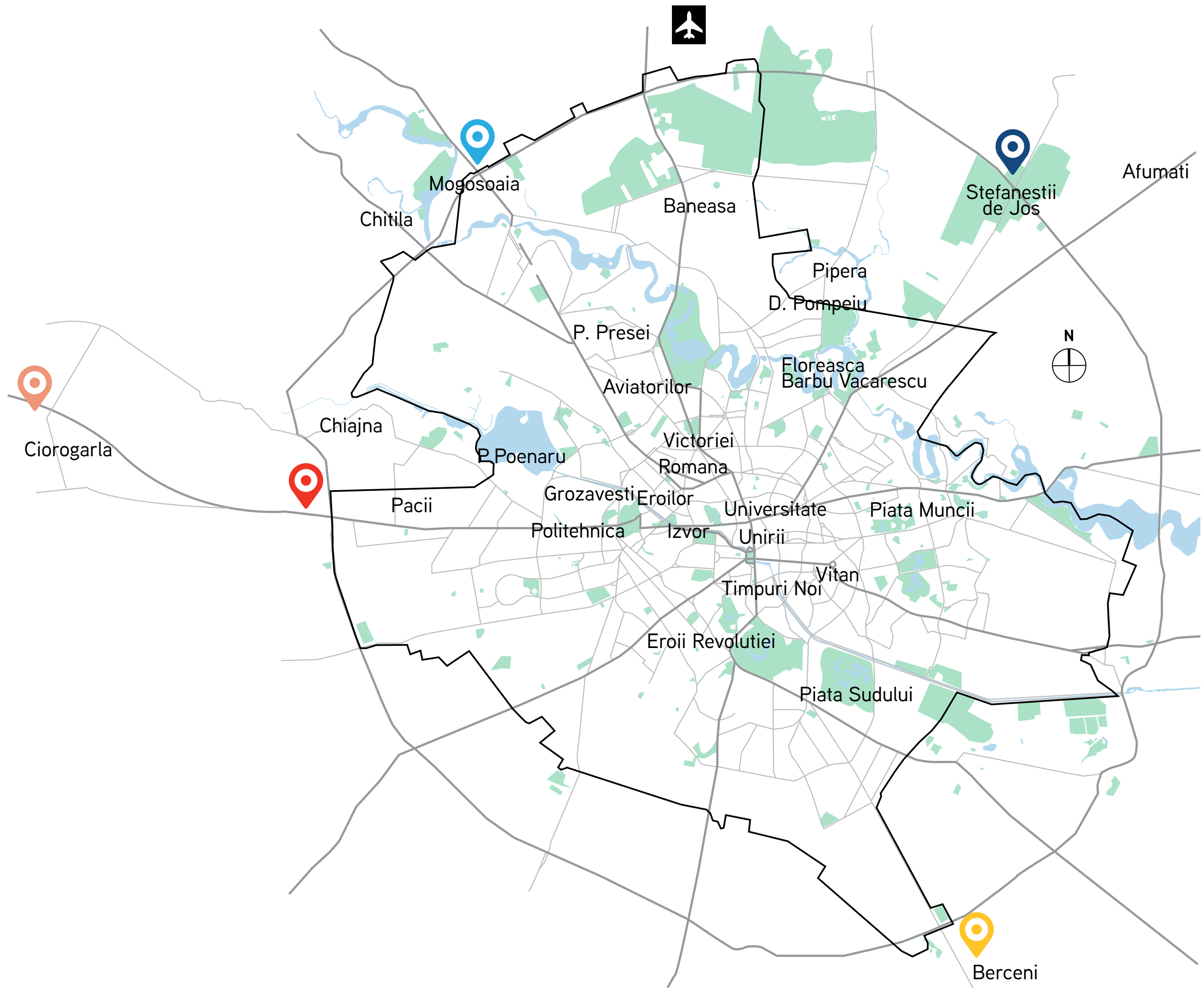
Stefanestii De Jos - 35.000 sqm under construction and other 150.000 requests, the most active location after West part of Bucharst and the future Logistics HUB

Mogosoaia - 40.000 sqm under contruction and 50.000 sqm requests

A1 Km 13 - 100.000 sqm under contruction and other 50.000 sqm requests.

A1 Km 23 - 80.000 sqm under contruction and small requests for this area, only extensions of companies present here-50.000 sqm

Popesti Leordeni - 10.000 sqm under contruction and no big request for this area due to infrastructure



Retail MARKET

1. SUPPLY

Developments in the retail sector have become more nuanced than in previous years. The first six months of the year saw the delivery of approximately 30,000 sqm of modern shopping centers, with another 150,000 sqm to follow by the end of the year. Developers of traditional shopping centers will focus on cities with 100,000-200,000 residents such as Ramnicu Valcea or Sibiu, while retail parks will be the primary focus for smaller cities. During this period, retail schemes in the main cities of Romania such as Bucharest, Cluj Napoca, Timisoara or Iasi will focus primarily on extending the existing space and focus increasingly more on entertainment options. This focus on entertainment will be particularly important in order to maintain the positive evolution of footfall, even as consumers shop online increasingly more. Cinema schemes and food courts have been the main focus thus far, but we expect an increasing demand for retailers providing family-oriented entertainment.

2. DEMAND

The Romanian economy is taking some important steps towards rebalancing. Export oriented services have become the second most important driver of growth, after a sustained annual growth rate above 10% during the past five years. Overall, this shift towards services will warrant a continued rise in consumers' disposable income as well as their spending patterns. This shift towards higher incomes is also evident if we look at the upper-middle segment brands that recently entered the Romanian market: COS, Boggi, Lanidor, Kiehl's or Uterque.

We expect fashion brands to remain very active in 2017 and we believe there is a strong potential for new players to join our market. We expect Polish and Turkish brands to be at the forefront of this trend, encouraged by the good performance of the already established brands from these markets.

3. RENTS

Base rents remained broadly unchanged in the first half of the year, while turnover rents increased on a case by case basis in successful locations.

4. FORECAST

Retail developments are set to gravitate around two trends: retail parks in small cities and a focus on extending existing spaces in the large cities. The primary aim of the former will be to increase the coverage of modern retail schemes, with a strong focus on budget oriented brands. The latter trend is aimed directly towards catering the needs of knowledge workers. In this case, we expect a renewed interest for retail and entertainment schemes in the newly built office areas. The market will subsequently focus towards bringing new brands to Romania, with a strong focus on the upper-middle income segment.

Projects to be delivered in 2017

Project	Prima Shopping Center
Developer	Oasis Retail Development
GLA sqm	10,000

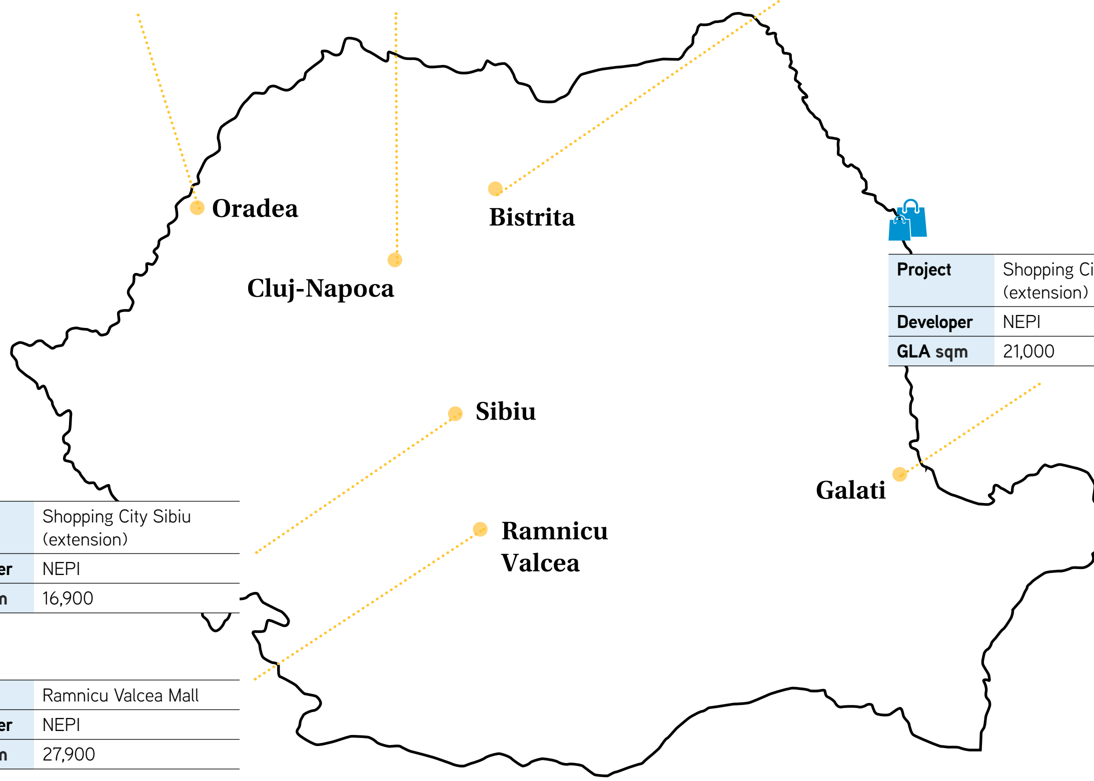
Project	Platinia Shopping Center
Developer	Platinia
GLA sqm	13,000

Project	Bistrita Mall
Developer	Element Development
GLA sqm	15,000

Project	Shopping City Galati (extension)
Developer	NEPI
GLA sqm	21,000

Project	Shopping City Sibiu (extension)
Developer	NEPI
GLA sqm	16,900

Project	Ramnicu Valcea Mall
Developer	NEPI
GLA sqm	27,900



Data Source: Colliers research

Office MARKET

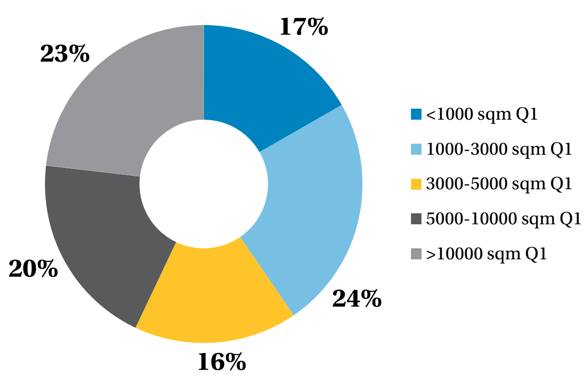
1. SUPPLY

The Bucharest office market received new deliveries of approximately 50,000 sqm during the first semester of 2017. Overall, the total office stock* reached a figure of 2.2 million sqm. The major deliveries from the first half of the year reflect two sides of the evolution of the office market in Bucharest. On one hand, NEPI has launched its Victoriei Office project, a high-end boutique office building in the CBD area with approximately 7,600 sqm of GLA. Leasing interest for this project was quite strong, which shows that the Bucharest office market is maturing and is willing to pay a premium for buildings which offer an exclusive location and amenities. During the same period, Vastint delivered two office buildings from its Timpuri Noi Square project, with a GLA of approximately 30,000 sqm. This project highlights the growing interest from tenants to explore new sub-markets in Bucharest.

2. DEMAND

The Bucharest office market recorded leasing transactions of approximately 170,000 sqm during the first semester of the year, indicating that demand remains very strong. Net take-up during the same period stood at approximately 86,000 sqm. The BPO/SSC and IT sectors remain the main drivers of demand, as new investments enter the local market. Some of the market new entries from this period include notably VoxPro, Fitbit and Markant. Looking at the distribution of demand, Floreasca-Barbu Vacarescu remained the most active submarket with over 45,000 sqm leased, followed by Piata Victoriei and the Center West Area.

Transactions by deal size



3. RENTS

Rent levels remained broadly unchanged during the first half of the year, confirming the stability of the market. New projects with outstanding features were able to obtain higher commercial terms, indicating the market is maturing. This dynamic is also highlighted by the substantial variation in the vacancy rate across different sub-markets. The aggregate vacancy rate for Bucharest currently stands at 12%. In specific areas, due to a decreasing vacancy and renewed interest, we may experience a transition towards a landlord's market (e.g Floreasca-Barbu Vacarescu); thus, rents in those areas can go up in the short term. Cities like Cluj, Iasi and Timisoara have seen increases in the effective rent, as demand outpaced deliveries and the last remaining spaces of good projects were "auctioned" between 2-3 tenants at once.

4. FORECAST

Following a series of delays generated by workforce shortages in the construction sector and permitting delays, some of the buildings initially planned for 2017 were pushed back into 2018. We expect new deliveries of 90,000 sqm for the second half of the year, amounting to a full-year figure of 140,000 sqm. Construction activity is set to accelerate in 2018, when over 300,000 sqm of office spaces are expected to reach the market. We start seeing two types of landlords in the market, the "Fast Forward Landlords", that develop fast, lease aggressively and roll many projects , and the " Value Keepers", that develop mainly to hold, therefore they take the time to lease at higher rents. The market is proving that both strategies work, as the patient landlords, with the competition fully leased, start meeting their target rents. Over the longer term, there is certainly a strong impetus for office developments, particularly as new sub-markets start taking shape such as the Center West Area and Bulevardul Expozitiei.

A strong economy coupled with substantial investments in export-oriented services translate into an exceptionally strong demand for office spaces. During the current year, we estimate a total gross take-up of 400,000 sqm and a net take-up of 175,000 sqm. Provided there are no significant changes in the fiscal framework, we expect this positive momentum to be carried over into 2018. In this context, we expect labor force supply to be the main drag on growth for the IT and BPO&SSC sectors.

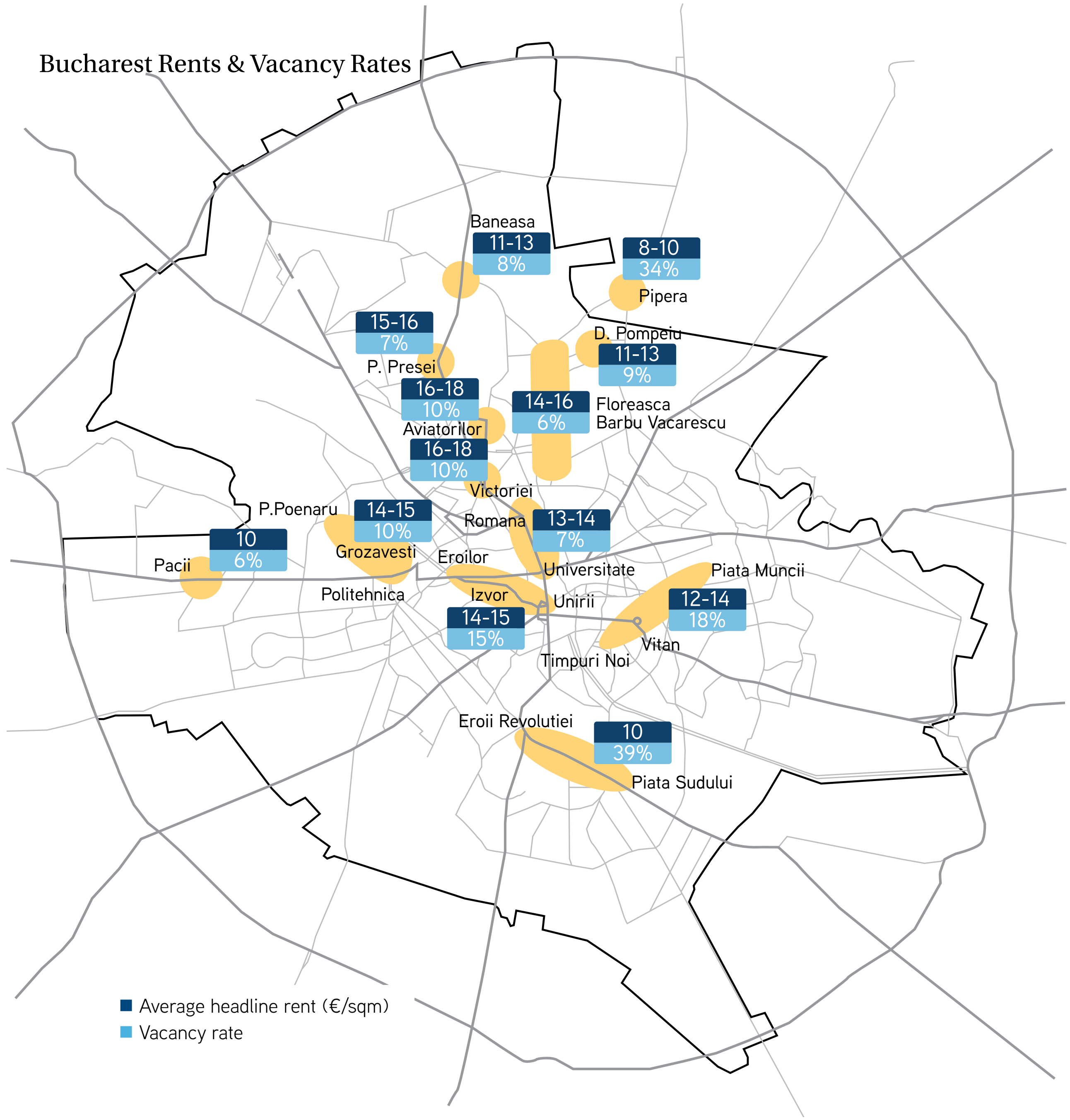
Over the longer term, the large supply pipeline will give tenants the upper hand.

Over the long term, there is still considerable potential for new office areas to develop in Bucharest. Some of the estabilished office ares are edging very close to their maximum potential due to infrastructure limits. In this context, developers are set to focus predominantly on new office areas such as Center West and Expozitiei/Piata Presei.

** The total office stock includes private-owned office buildings of Class A and B with a GLA larger than 5,000 sqm*

New players on the office market

Bucharest Rents & Vacancy Rates



Investment
MARKET

Prime yields

	Bucharest	Warsaw	Budapest	Prague
Office	7.50%	5.25%	6.00%	4.85%
Retail	7.00%	5.00%	5.90%	5.00%
Industrial	8.75%	6.50%	8.00%	6.25%

Source: Colliers Research

1. TRANSACTIONS

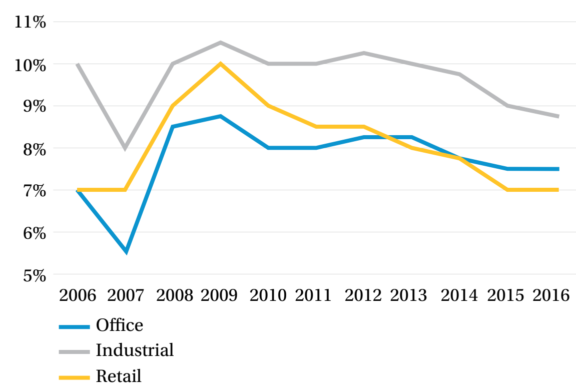
The first half of the year was marked by significant transactions on all segments of the investment market, with transactions totaling approximately EUR 400 million. On the industrial segment, the highlight for the first six months of 2017 was the acquisition of the Dacia Pitesti deposit by Globalworth from Elgan, a transaction amounting to EUR 42.5 million. In this case as well, the ongoing diversification of Globalworth towards the industrial sector is bound to improve liquidity in the market as well as give confidence in the prospects of industrial properties in Romania. On the commercial segment, the transaction between the Iulius Group and Atterbury Group is one of the most interesting and positive developments in recent years for this sub-segment of the investment market. On the office segment, we are seeing a strong interest from new investors, thus helping improve liquidity and deepening the market structure.

Looking at the broader investment market, several trends are standing out for 2017: 1) individual transactions are larger than they were in 2016, 2) the pool of investors is deepening in three ways: local players are becoming more active, existing players are diversifying their portfolios either geographically or cross-segment, and new international investors are keen to build partnership with local developers.

2. PRICES

Yields in the first half of 2017 have remained broadly unchanged from the previous year, but we believe a yield compression is likely to occur in the upcoming 6-12 months. Compared to the broader CEE market, Romanian assets are offering great value for money. In spite of risks on the fiscal side, the macro picture for Romania is still overwhelmingly positive, which feeds into a very solid demand pipeline on the leasing market both for office and industrial assets. Market liquidity is slowly improving and we believe it will continue to do so, especially as some very interesting office assets are expected to come to the market later in the year.

Historical Yields



Data Source: Colliers research

3. FORECAST

The prospects for 2017 are very encouraging. The average transaction value has doubled compared with the same period of 2016, which indicates that liquidity is deep enough to encourage larger assets to enter the market. These improvements are also highlighted by the broader aspect of the market, as large deals are present on all segments: office, industrial and retail. Overall, this positive dynamic coupled with a solid deal pipeline should result in a total investment volume in excess of EUR 1 billion, thus marking the best post-crisis year for the investment market.

4. FINANCING CONDITIONS

Financing conditions remain very accommodative. The banking system currently has more than RON 3 billion in excess liquidity, which is keeping ROBOR rate significantly below the NBR's reference of 1.75%. Furthermore, a gradual inflation dynamic means the central bank is unlikely to tighten its monetary policy before the end of the year.

Financial sources used in recent transactions have been very diverse: from 100% equity or a mix of capital and bank debt to more sophisticated refinancing in capital markets through corporate bond issues. Globalworth is a benchmark example, after having issued EUR 550 million in corporate bonds. We believe this marks a very positive development for the market as it indicates that CEE real estate assets represent an attractive proposition for the investment community and shows that liquidity in the international markets is still abundant.

Property	Seller	Buyer	Price (EUR)
Iulius Group (50% of shares)	Iulius Group	Atterbury Europe	
Dacia Warehouse Pitesti	Elgan Automotive	Globalworth	42,500,000
Art Business Center 7	Art Group	Hili Properties	30,000,000
Felicia Shopping Center Iasi	CBRE Global Investors	CPI Property Group	30,000,000
Retail Parks Portfolio	Alpha Property (Intercora)	Mitiska	
Polona Business Center	EEC Invest Imobiliare	Smartown Investments	17,000,000
Olympian Park East Bucharest	AGI-RRE Hera	Helios Pheonix	
Pipera Plaza (50% of shares)	Alpha Property (Intercora)	Mitiska	
Miercurea Sibiului Logistics Park	BelRom	Jos Deslee BVBA	8,500,000

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$2.6

billion in annual revenue

2

billion square feet under management

15,000

professionals and staff

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