



HERTZ

Construction & Project Management

November 2014 Newsletter

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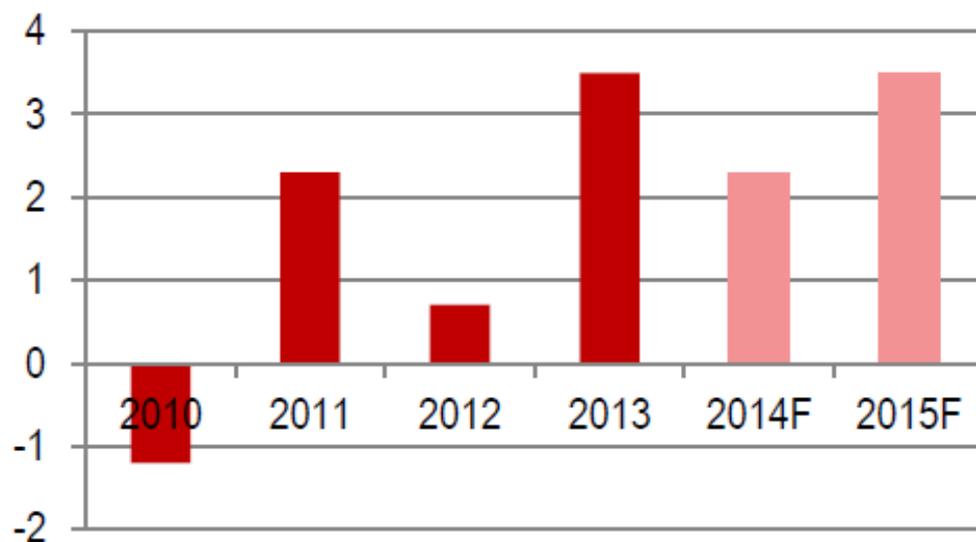
Market Development News

I. Q3 2014 REPORT

GENERAL OVERVIEW

Following a strong 2013, when the country outperformed expectations with a GDP growth of 3.5%, the Romanian economy continued its positive trend in H1 2014 registering a GDP growth of 2.6% compared to the same period in the previous year. However, in Q2 2014, the economy showed signs of slowing down, with the GDP contracting by 1% q-o-q, mainly due to the decrease of public investment and following the sluggish growth trend of the rest of the EU countries.

GDP Growth (%) / Creștere PIB (%)



Source/Sursă: INS & Oxford Economics, October 2014

Romania's GDP is projected to increase in 2014 by 2.3%, according to Oxford Economics (October 2014 forecast). In the first 8 months of the year, growth was driven mainly by the retail sales that increased by 7.6% y-o-y (11.3% in the non-food category) and by the industrial sector. Consequently, in the same period, exports and imports grew by 6.7% and 6.3% respectively when compared to the same eight months in 2013. The construction sector continued to struggle mainly due to a decrease of infrastructure works. However, residential construction as well as commercial construction registered strong growth rates of 34.1% and 7.7% respectively. According to Oxford Economics reports, GDP growth is expected to accelerate in 2015 to 3.5%, with all sectors of the economy having a positive contribution.

The annual average inflation rate (September 2013 – September 2014) was 1.54%. The National Bank of Romania decreased the monetary policy rate twice in the last quarter to 3.0%, in order to encourage the credit market and support economic growth. The exchange rate remained very stable in Q3 2014, varying between 4.38 and 4.44 RON for 1 EUR. Government debt decreased to 38.5% of GDP, the third lowest in the European Union after Estonia and Luxemburg, while the targeted government deficit for 2014 is 2.4% of GDP.

INVESTMENT CLIMATE

The property investment volume recorded in Q3 2014 is estimated at EUR 377 million, while the total volume for the first 9 months of the year is estimated at EUR 809 million, higher than any of the annual figures since 2008. This is a clear sign that Romania is back on the map of international investors. The largest transaction in Q3 2014 was the purchase by Auchan of 12 retail properties which it occupies in several cities across Romania, for a price estimated at EUR 280 million.

Although in Q1 the transactional activity was mainly focused on the office sector, retail made a comeback in Q3, when it accounted for 85% of the total

Yields / Randamente	Office / Birouri	Shopping Centers / Centre Comerciale	Industrial / Industrial
Q3/T3 2014	8.00%	8.00%	9.75%

investment volume. Besides the large Auchan deal, there were another three transactions involving retail assets: Aurora Buzau shopping centre, Jumbo Pitesti (a retail warehouse solus unit) and the forward purchase of the Carrefour space in Park Lake Plaza, a 68,000 sqm GLA shopping centre under development in Bucharest.

The third quarter of 2014 saw additional evidence that the Romanian property investment market is drawing growing interest both from existing players, as well as from newcomers. All three commercial property centres are witnessing a considerable increase in investor appetite and investment volumes will further increase by year-end.

On the debt side, margins are improving as financing banks are facing downward pressure on margins across CEE and therefore are increasingly positive in Romania, where in relative terms margins remain much higher. Yields have compressed slightly in the last quarter, but no significant further compression is expected until margins would drop considerably as the spread between yields between Romania and more core CEE markets is currently partially offset by the spread in bank margins.



(source: JLL)

II. OUR MOST SIGNIFICANT CURRENT PROJECTS

Primaverii 47-49 Residential Project - Bucharest, Romania



The structure works relating to the latest residential development in one of Bucharest's prime neighbourhoods have reached the 4th floor. The newest addition to Hertz Construction & Project Management's project portfolio is going according to schedule and on budget thanks to our dedicated project team. We are very proud to take part in the development of this project, with its lavish design and amazing location.

Tagor Urban Village - Pipera, Romania



Tagor's second Bucharest project is developing fast and the construction is ready for completion as we speak. The final details are being put into place and all works are going according to schedule.

The project in Pipera will start with 100 units and is set to comprise 600 units by its completion.

Dimri Residential project – Bucharest, Romania



The Israeli investor Dimri is in progress of developing a new project in the South area of Bucharest. The concept is simple, yet modern and focuses on offering clients the best value for their budget. The full project is set to comprise 12 buildings with 11 storeys each. The apartment mix mostly comprised 2-room apartments, in accordance with the market demand.

(for more details, visit: www.hertzmanagement.com)

III. MARKET DEVELOPMENTS

166,000 sqm of office space are currently under construction in Bucharest

Some 195,000 sqm of office space were leased in Bucharest Romania in the first three quarters of this year, take-up representing 80 percent or about 156,000 sqm (up by 25 percent y-o-y), according to data from DTZ Echinox. Relocations within class A & B accounted for 47 percent of the total take-up – 73,000 sqm – while new demand accounted for 53 percent. Overall, the new demand was up by 40 percent in the first nine months of 2014 y-o-y, according to the same source.

“Unlike the previous years when in order to reduce costs tenants were considering downsizing their space, this year most tenants opted for maintaining or expanding the leased surfaces,” said Madalina Cojocaru, of DTZ Echinox.



The pre-lease activity “has demonstrated consistency” and represented 55 percent of the relocation activity and 16 percent of new demand. The most recent example is Deutsche Telekom Group pre-leasing 25,000 sqm in Ioannis Papalekas’ Globalworth Campus office development in northern Bucharest. Given this, “2014 will turn out to be the first year since 2008 to report a consistent pre-lease transaction each quarter,” according to the report.

Eight new office buildings were delivered between Q1 and Q3 which increased Bucharest’s office stock by 4 percent to a total of 2.12 million sqm. This is set to increase to 2.18 million

ssqm by the end of the year. "Approximately 72 percent of 2014's new supply is already under a lease agreement," according to DTZ Echinox representatives.

As result the average vacancy rate for class A & B office space has dropped from 16.7 percent to 14.5 percent during Q1 and Q3 when the vacancy rate dropped in all of the capital's sub-markets.

Some 166,000 sqm of office space are currently under construction and are estimated to be completed over the next two years. "Additionally, more than 500,000 sqm of office space located all over Bucharest is in different stages of planning. However, only projects with a solid pre-lease agreement in place are likely to get financing," reads the real estate agency's report. Out of this, 114,000 sqm are due to be delivered next year and is 25 percent pre-leased.

(source: www.actmedia.eu)



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