



HERTZ

Construction & Project Management

December 2014 Newsletter

In this month's issue:

Market Report – Real Estate Investments

Our Most Significant Current Projects

Market Development News



May the New Year greet us with joy and blessings
and may 2015 be filled with hope, health and
accomplishments!

I. MARKET REPORT

REAL ESTATE INVESTMENTS

The total property investment volume in Romania increased to approximately EUR 1 billion in 2014, marking the highest annual level since 2008, according to pundits. Office has been by far the best performing real estate sector but there is good news coming from retail, logistics and industrial and residential as well. Companies active in IT, outsourcing and telecom remained the main players driving up the local office market in 2014, both in Bucharest and on several expanding regional markets. Lower costs than in Western and Central Europe, a versatile labor force and overall improving economic performances are factors that real estate pundits say will continue to fuel this trend throughout 2015.

Office drives up the real estate market



Overall, some 195,000 sqm of office space was leased in Bucharest in the first three quarters of this year, with take-up representing 80 percent, 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 made up 53 percent. Overall, new demand was up by 40 percent in the first nine months of 2014 y-

o-y, according to the same source. 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. CBRE estimates that 71,000 sqm will be delivered in Q4 alone, including projects such as City Offices, HBC Dorobanti, AFI Business Park III, Green Court Bucharest, Ethos House and Bratianu OB. Another 166,000 sqm of office space is currently under construction and is estimated to be completed over the next two years, according to DTZ Echinox.

Office has also been the real estate segment that reported the largest number of transactions this year. In the last quarter, Globalworth Real Estate Investments alone bought two office projects located in northern Bucharest – the first building of Skanska's Green Court Bucharest office project and the nearby Nusco Tower – for EUR 44 million and EUR 46 million respectively.

Only two shopping centers delivered this year

A total of 62,000 sqm of modern shopping space was delivered this year in Romania, marking the lowest annual level since 2005, according to JLL. This came in the form of two projects – the Vulcan Value Centre retail park in south-west Bucharest and Shopping City Targu Jiu – both developed by NEPI. However, several major projects, the largest of which are ParkLake and Mega Mall in Bucharest and Coresi Shopping Resort in Brasov, are presently under construction. Close to 270,000 sqm are scheduled to be delivered in 2015 and 2016, out of which over 160,000 sqm are located in Bucharest, according to JLL.

The most important transaction on this segment this year involved NEPI which bought the 35,000 sqm Promenada mall in Bucharest from its developer Raiffeisen Evolution for EUR 148 million. Raiffeisen Evolution delivered the project in October 2013 following a EUR 130 million investment.

Demand for logistics and industrial space on the rise

The manufacturing industry and retailers have been driving up demand for logistics and industrial space this year both in Bucharest and outside. Given the pick-up in demand and the lack of a new supply developers are expected to invest more in such projects starting 2015. Total leasing activity involving modern industrial and logistics space reached 89,000 sqm in the first semester of 2014, while take-up amounted to 61,000 sqm, according to DTZ Echinox data. Outside Bucharest the take-up was similar to a year ago, but in the capital this increased to 34,000 sqm, up from 20,000 sqm a year ago, according to the same source.

In the third quarter the gross take-up had increased to approximately 98,000, almost three and a half times up on to the same period of last year, according to JLL data. Close to 60 percent of this was net take-up, with the rest relocations, renegotiations and renewals. The increase was triggered by higher retailer sales and a good evolution of the agribusiness sector, according to the same source. The most important transaction involving logistics space this year was closed by Austria's CA Immo, which sold 215,000 sqm of warehouse space and 40 ha of land for development close to the A1 highway in Bucharest to Czech PointPark Properties (P3).



Residential resumes growth

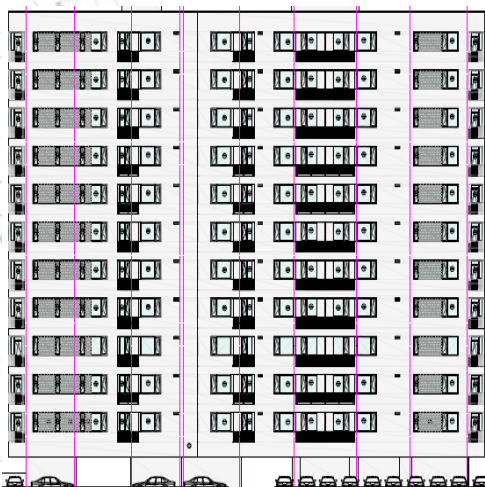
Developers have been talking about the residential market picking up since the beginning of the year. Data from the first three quarters confirms this, at least partially. Some 28,500 new housing units were delivered in the first nine months of this year, up by close to 2,000 units against the same period of the previous year, according to the National Institute of Statistics. Approximately 51 percent of the new dwellings are located in urban areas.

Some of the new residential projects announced this year include a EUR 37 million investment made by Lithuanian real estate developer Hanner into a three-block residential project near Tineretului Park in Bucharest and a EUR 14 million expansion of the Greenfield housing project in northern Bucharest. The high-end residential market has also seen increased interest from developers. Despite such news, average house prices are expected to have fallen again in 2014, albeit minimally, and banks remain reluctant to finance residential projects.

(Source: <http://business-review.eu/>)

II. OUR MOST SIGNIFICANT CURRENT PROJECTS

Tomis Blvd. Residential Project - Constanta, Romania



The site organization works of the latest residential development managed by the Hertz Construction & Development team in Constanta are underway as of December 2014. The project is set to comprise two 11-floor buildings with an apartment mix suitable for all types of clients – 2, 3 and 4-room apartments. The demand for residential units in Constanta has registered a significant increase in the past years and this new project is sure to compete with the most luxurious projects in the seashore city of Constanta.

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 top 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 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 of 11 storeys each. The apartment mix mostly comprised 2-room apartments, in accordance with the market demand.

Student accommodation buildings – Bucharest, Romania



The management and supervision services for the renovation of two new student accommodation buildings in Bucharest, involving an investment of approx. 1 million EUR are continuing, since market demand has increased in the last months of 2014. The buildings have strategic locations, in the vicinity of universities and public transport hubs. The consolidation and renovation of these units will improve the offer of accommodation for students in Bucharest, improving the overall experience of young students in the capital of Romania.

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

III. MARKET DEVELOPMENTS

Over 53% of Romanian managers expect positive economic evolution in 2015

Over 53% of Romanian managers expect in 2015 a positive economic evolution, while 34% see a continuation of the crisis, according to a study made by KeysFin. 13% participants in the study avoided to characterize the 2015 economic evolution, considering that too many unknown data were involved to allow an opinion from the beginning. In the opinion of people interviewed a positive evolution means the thawing of business relations, of state and private investments, an unblocking of money in economy.

As for the main 2015 challenges, most managers (70%) mentioned the fiscal ones (possible increase of taxes). The list of risks includes the world economic evolution remarked by 23% of investors, the evolution of main currencies (27%), financial gridlock (45%) and the political situation (34%). Positive aspects include the low costs of labor force and its high quality, business opportunities mainly in the farming sector and the geostrategic position in the area (EU member state, Black Sea port, cheap transport on the Danube).

The barometer on the investors' perception of Romanian economy was made over 1-31 December 2014, on a sample of 150 businessmen, shareholders, CEOs of companies from various fields of activity, trade, financial services, agriculture, energy, garment industry, IT.

(source: www.actmedia.eu)



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