



# HERTZ

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Newsletter

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## I. REAL ESTATE INVESTMENTS SKYROCKET TO EUR 1.2 BILLION IN 2014



Romania's real estate investment volume reached 1.2 billion in 2014, up from EUR 300 million the previous year, according to data from real estate consulting company DTZ Echinox. "We think that this is only the beginning of a longer period during which the investment market will grow constantly each year," said Razvan Sin, head of capital markets at DTZ Echinox.

While the overall investment volume has quadrupled this year, the market continues to be split between two players – real estate investment funds New Europe Property Investments (NEPI) and Globalworth Real Estate Investments which is controlled by Greek businessman Ioannis Papalekas.

However, starting with 2015, new players could become active on the local market, believes Sin. "The country's economic growth, its political stability and also the difference in yield levels between Romania and western markets have determined new players to look closely at local investment opportunities in 2014. Funds which a few years ago didn't consider Romania a viable market are now active and looking for income-generating properties. This has also been fuelled by the availability of high capital volumes on western markets," he explained.

Potential new investors in 2015 include both existing real estate players that haven't made any recent acquisitions as well newcomers to the local market. They are all interested mostly in office projects and not only prime projects but also secondary ones, he added.

As for why the local market continues to be dominated by only two players, lack of know-how about the local market is the main reason, went on Sin. "It is hard for them (e.n. newcomers) to learn about how the local market works. For example, in the case of office projects, what scares them is the uncertainty about the sustainable rent level given that new projects are being developed. Local players are so active because they not only have the funds but they also have this sort of know-how," he concluded.



Out of the total EUR 1.2 billion, 45 percent was invested in retail projects, 30 percent in office, 15 percent in industrial developments and the remaining 10 percent was represented by land transactions. A staggering 75 percent of the EUR 1.2 billion involved properties located in Bucharest.

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

## II. 7 SIGNS THE RESIDENTIAL MARKET CRISIS IS OVER

Stabilization is the first step in the market recovery process. The start of the New Year is a good time for retrospection in real estate, as in any other area, and a good moment for forecasts. Analysing the past year and the evolution of the residential market, we can clearly distinguish signs of a market comeback in this sector.

### 1. Price stabilization

Following six years of successive price reductions, 2014 was characterized by a clear tendency for price stabilization on the residential market – and this tendency was, in certain circumstances, materialized by an increase in owners' expectations. According to an analysis performed by

Imobiliare.ro, in the fourth quarter of 2014, the average price of apartments up for sale was over the level of average prices recorded in the same period of 2013 in most county capital cities. "The fact that apartment prices are again following an increasing trend is a certainty for all major cities. The prices recorded at the end of 2014 are lower in only eight county capital cities. Therefore, we may say that the bottom line on the residential market was reached in 2014, and in certain cities even in 2013.", says Adrian Erimescu, Imobiliare.ro General Manager.



### 2. Narrowing the gap between offer and demand

Another positive sign of the future evolution of the residential market relates to the fact that the market is reaching toward a balance between offer and demand. A statistical analysis performed by Imobiliare.ro and Analyze Imobiliare shows that in six of the country's largest cities (including Bucharest) there is an extremely interesting trend: a major decrease in the interest of potential buyers for very cheap residential units (under 20,000 euro), which is counterbalanced by a significant increase in the appetite for more expensive properties, having price tags of up to 60,000 euro or over. In Bucharest, for instance, only 1% of the website's visitors were interested in 2014 in properties costing up to 20,000 euro. A similar analysis performed in the fall of 2013 showed a consistent interest of buyers on this low-cost segment, respectively 20% of the total.

### 3. Construction market decline to a halt

The data corroborated by the National Statistics Institute (INS) shows that a number of 28,555 residential units were finalized at national level in the first nine months of the past year, which is an advance of approx. 7.4% (1,962 residential units) as compared to the similar period of 2013. The growth tendency is significant taking into account that after the peak reached in 2008, 2013 was the fifth year recording a decrease in the number of properties delivered at national level.

The statistics concerning the number of building permits issued at national level also indicate a revival of the residential development market. Thus, 43,460 residential unit developments were approved in the first nine months of 2014 at national level, which represents an advance of approx. 13.5% as compared to the similar period of 2013, when a number of only 38,295 residential unit developments were approved. Another important aspect is that 2013 also represented a peak of building permits issued in the past years. In this period, a number of 51,225 residential unit building permits were issued, as compared to 49,835 and respectively 49,206 in 2012 and 2011.

### 4. Increase in the number of finalized urban units as compared to rural units



The analyses performed by the INS reveal another interesting phenomenon, namely that for the first time in the last 5 years, the rate of finalized urban residential units exceeded the rate of finalized rural residential units. Therefore, out of the 28,555 residential units delivered until September, 51.4% are located in urban areas. This conversion is

significant since it marks an increase of interest for residential developments from the business environment, which has a higher economic power than end users and usually undertakes larger developments. According to an analysis of the INS data, in the first years following the Revolution, the accelerated tendency for urbanization was maintained and then the rate of finalized urban residential developments dropped dramatically from over 85% in 1990 to under 50% and even under 40%. Since 1993, urban developments have only exceeded rural developments in 2004, 2007 and 2009.

## **5. Revived interest for the development of more expensive properties**

In the years following the economic recession, interest for residential developments did not disappear, but it was reoriented. In Bucharest and other cities, “new generation” investors successfully bet on the development of residential complexes which were especially designed for “First Home” buyers – projects which were usually located on the outskirts of the city, made up of apartments having the same sizes and prices as the old units.

The interest of developers for projects located in better areas, even central areas, was shy in 2013, but clear in 2014. Such projects target buyers who have (significantly) higher income than the “First Home” buyers. Over only a few months, several such projects were officially announced in Bucharest, out of which some offer finalized units to customers.

## **6. Positive evolution of property sales**

Although the data of the National Agency for Cadastre and Real Estate Publicity (ANCP) only show a slight increase of the real estate market transaction activity in general (which includes not only residential units, but also lands, commercial units etc.), respectively an advance of 2.45% over the first 10 months of 2014, the “pulse” of sales sent by the residential market players (developers or agencies) is accelerated. For instance, the representatives of Coldwell Banker Affiliates of Romania announced significant improvement in sales over 2014, exceeding the threshold of 1,000 apartments traded in residential complexes, directly from the developers – a volume that equals an advance of approx. 30% as compared to 2013. “2014 was the best year for the residential market since the beginning of the economic crisis and may be considered the year of stabilization. Prices have continued to stabilize, and developers launched an entire series of projects, the interest shown on the residential market being very high”, says Valentin Ilie, CEO Coldwell Banker Affiliates of Romania.

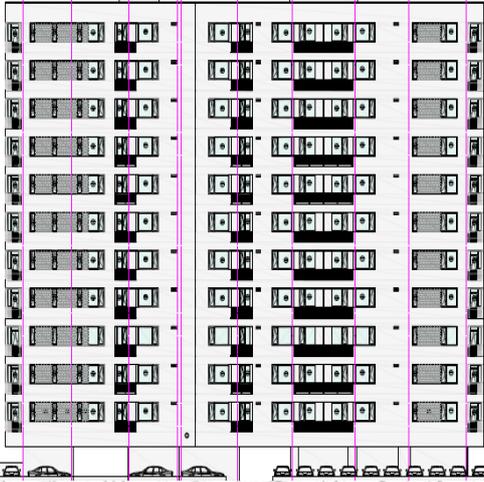
## **7. Revived appetite for investment purchases, including in the luxury segment, and re-sale purchases**

Last year also recorded a clear comeback in the appetite of investors for more expensive, luxury units – considering that interest in smaller unit purchases, such as old apartments, also existed in the past. The interesting fact is that this “newly-awakened” category of purchasers, which is interested in safe-keeping its capital, is no longer considering only leasing options, but also the re-sale of purchased properties.

(Source: <http://imobiliare.ro/>)

### III. 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 finishing works relating to the latest residential development in one of Bucharest's prime neighbourhoods have been initiated. 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



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 provided by Hertz C&PM 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 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.

(For more details, visit: [www.hertzmanagement.com](http://www.hertzmanagement.com))

## IV. MARKET DEVELOPMENT NEWS

### First Home gets EUR 557 mln guarantees in 2015

This year's government-guaranteed mortgage lending First Home program will have a maximum guarantee budget of RON 2.5 billion (EUR 557 million) plus funds left unused last year, the government announced on Wednesday.

"First Home will continue in 2015. For the current year we have set aside a supplementary 2,500 million RON limit on guarantees. Also, the Government bill includes the possibility of using the remaining funds allocated to banks from last year's budget", according to the announcement.

Another bill will be discussed in February to possible amend the First Home program to include homeowner who want to buy bigger homes if they sell their current property.

Banks will be able to grant more than 30,000 loans via the First Home scheme in 2015 according to this budget, according to zfcorporate.ro.

In 2014, Romanians benefited of around 25,000 state guarantees on mortgage loans under the First Home program and received total loans of EUR 900 million.

(Source: [www.business-review.eu](http://www.business-review.eu))



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