



HERTZ

Construction & Project Management

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Newsletter

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I. OFFICE MARKET ANALYSIS 2014



The general condition of the office market significantly improved compared to 2013, with obvious increases recorded in development and leasing activities, and a decreasing tendency of the vacancy rates and yields. The increase in the ratio of pre-leases in the total take-up represents a positive sign for developers and investors, reflecting the confidence of different market players in the local economy and prospects of the local real estate

market. The construction works undertaken by developers are proof of the optimistic expectations regarding the future evolution of the market indicators.

Office development activity had a similar evolution compared to the evolution recorded in 2013, a total area of approximately 100.000 sq m being completed. Among the projects completed in 2014, there are AFI BP 2 and 3 (24.300 sq m), Green Court Bucharest (19.500 sq m), Ethos House (7.750 sq m), Hermes Business Campus (18.000 sq m) and Green Gate (31.000 sq m). Generally, projects completed in 2014 are suitable for tenants that are willing to occupy large areas, as demonstrated by the concluded transactions, including pre-leases.



Relocations are still dominating the local market, as tenants are trying to improve the occupancy conditions, in terms of quality and costs. However, the structure of the lease transactions is not almost exclusively dominated by relocations, the ratio of other types of transactions (new leases, extensions) increasing compared to previous years. The persistence of pre-leases creates the conditions for a further development of this market segment during the next years, especially as their share increased compared to 2013. Additionally, the decrease in the number of re-negotiations and renewals might be interpreted in a similar way in 2014. However, these types of transactions are still considered a viable solution for large tenants.

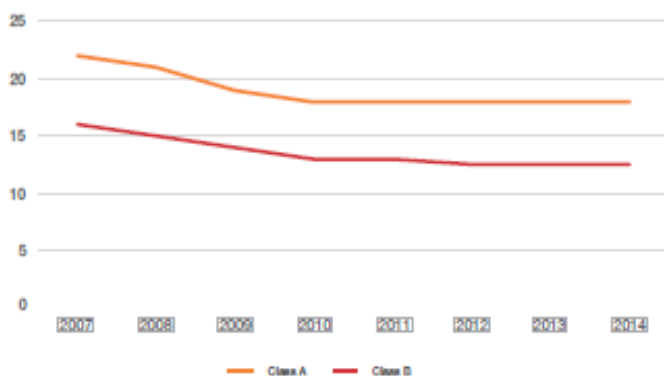
The geographic pattern of transactions shows a clearly concentration of transactions in the northern areas, followed by the western and central areas. Although the initial preference of tenants remained the central areas, excepting large tenants, these tenants will reconsider their office enquiries and change their interest towards other areas due to lack of properties suitable for their requirements.

In 2014, the main demand drivers were companies from the telecommunications/IT services and industry. These companies have leased/pre-leased large surfaces, such as transactions concluded by Orange Romania (13.700 sq m), Vodafone (16.000 sq m) and Telekom Romania (25.000 sq m). In these particular cases, transactions were concluded in the northern part of Bucharest.

Q	Building	Tenant	Area (sq m)	Transaction
1	Bucharest One	Vodafone	16.000	Pre-lease
1	Iride Business Park	Procter&Gamble	6.000	Extension
1	AFI BP 3	Endava	4.500	Pre-lease
2	Green Court Bucharest	Orange Romania	13.700	Pre-lease
2	West Gate	Eriossan Romania	4.000	Extension
2	Floreasca Park	Allianz	3.500	New lease
3	AFI BP 3	Telus	6.000	New lease
3	Hermes Business Campus	Romanian International Bank	3.500	New lease
3	Floreasca Park	Kellogg's	2.500	New lease
4	Globalworth Campus	Telekom Romania	25.000	Pre-lease
4	North Gate	Renault Technologie Roumanie	20.000	Extension
4	West Gate	Eriossan Romania	5.000	Extension

Vacancy rate fluctuated around 14%, but the decreasing tendency is obvious, if the reference level is that recorded at the end of 2013; the vacancy rate stabilized slightly under 14%. Areas of Bucharest recorded different vacancy rates, with low rates in the central areas (under 10%) and rates over 20% in the northern boundaries of Pipera area.

Evolution of rents - Euro/sq m/month

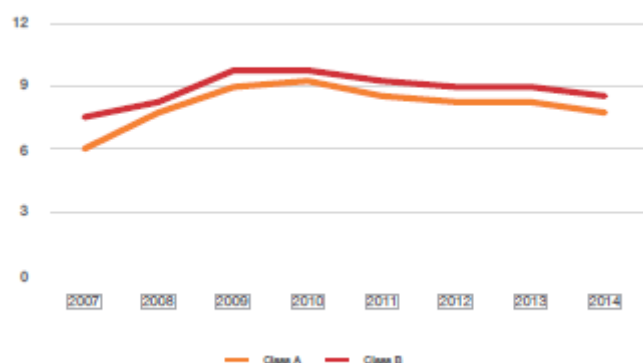


Source: NAI Romania

Average rents remained stable throughout 2014, fluctuating between 16-18 Euro/sq m/month for centrally located class A properties, while the rental level for offices located in secondary and peripheral areas preferred by the tenants varied between 12-15 Euro/sq m/month. As concerns the peripheral areas, rental levels are lower, generally fluctuating between 9-12 Euro/sq m/month.

Obviously the fundamentals of the office market improved and consolidated during 2013-2014. Considering also that the outlooks are more optimistic, yields have a decreasing tendency fluctuating between 7.75-8.00% for class A offices and between 8.50-8.75% for class B properties.

Office yield evolution



Source: NAI Romania

II. OFFICE MARKET TRENDS 2015

Considering the office enquiries recorded in 2013-2014, developers initiated construction works for class A office buildings that benefit from adequate location, including the proximity of important transportation routes, and high quality standards. These developments are located in the northern and western areas of Bucharest, mainly in Pipera area.



Pre-lease transactions will be also concluded in 2015, as the developments that offer large areas are still under construction, while tenants are looking for solutions to meet their technical requirements and generate low construction costs.

Developers have been encouraged by the success of the initial phases of developments and decided to continue the projects that are already pre-leased. During 2015-2016, the completion of 100.000-120.000 sq m of modern offices is expected, including projects such as AFI BP 4 and 5, Green Court 2.

The completion of new buildings and vacant space resulted after the leave of the tenants due to relocations of their activity will generate an increasing tendency of the vacancy rate. The stability or decrease of the vacancy rate would be probable if the number of new comer companies will obviously increase while tenants that have not relocated during previous years decided to extend their occupied space.

(Source: <http://naiglobal.com/>)

III. OUR MOST SIGNIFICANT CURRENT PROJECTS

Sisesti 125 Residential Project - Bucharest, Romania



The structure works relating to the latest residential development undertaken by our team in one of Bucharest's top neighbourhoods, Sisesti, have begun. The Hertz Construction & Project Management team is focused on keeping the project on schedule & on budget. The Sisesti area is one of the newest residential areas in Bucharest, benefiting from a peaceful neighbourhood and proximity to restaurants, supermarkets and public transportation.

Tomis Blvd. Residential Project - Constanta, Romania



The site organization and foundation 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 are close to completion. The most luxurious 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 unique Urban Village concept in Bucharest is completed and has started the sales process as we speak.

The project developed by the company 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, in Ghencea. 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 comprises 2-room apartments, in accordance with the market demand and trends.

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 continue, since market demand has increased. 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.

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

IV. MARKET DEVELOPMENT NEWS

Investments in Romanian economy up 8.5 pct in Q1

Net investments in national economy increased by 8.5 percent in the first quarter compared to the same period last year, to RON 11.93 billion (EUR 2.69 billion), announced on Thursday the National Statistics Institute (INS).

By structure elements, new construction works grew by 16.2 percent, equipment (including transportation facilities) by 3.8 percent and other expenditure by 0.4 percent.

“Against the first quarter of 2014, in Q1 2015 there has been an increase in the share of net investments in new construction works by 2.4 percent. The share of net investments in equipment (including transportation facilities) and other expenses decreased by 2.2 percent, 0.2 percent respectively. The branches that benefited from the higher volume of net investments are in industry, trade and services,” reads INS in a release.

BNR data show that foreign direct investment in the first quarter totaled EUR 885 million, up 55 percent compared to the same period last year.

(Source: www.business-review.eu)



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