H1 2013 REAL ESTATE MARKET REVIEW

Accelerating success.

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ECONOMIC OVERVIEW

1.7%
real GDP growth

-1.1%
budget balance

5.37%
yoy inflation rate

The local economy strengthened during the first half of the year as Romania recorded a 1.7% GDP growth in real terms with the most active sector being industry.

As the second Stand-By agreement came to end in June, Romania has received a safety buffer of €520.74 million available for further disbursements.

The Government continued the budget deficit reduction in H1 2013, reaching 1.1% from GDP as of June, in line with the initial estimations.

After hitting a new high in January 2013, the inflation rate entered a decelerating trend for the rest part of the first semester, reaching 5.37% at the end of June 2013. The interest rate is expected to preserve its decreasing trend during the first part of the second semester.

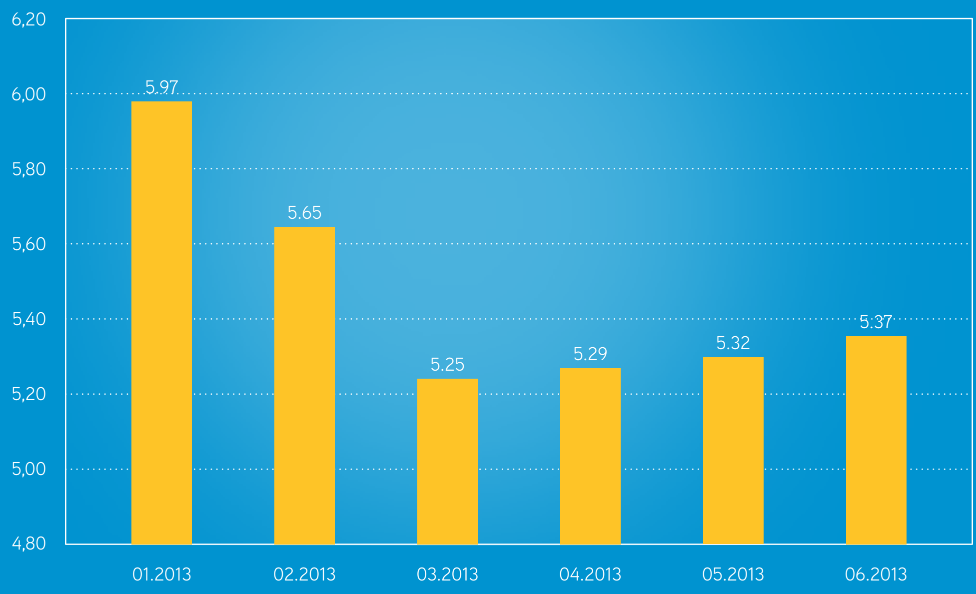
Following Romania's inclusion in JPMorgan's Government Bond Index – Emerging Market, the Finance Ministry raised €1.1 billion and $1.5 billion from foreign debt markets in the EUR and US during the first six months of the year. As foreign investors manifested a higher interest in the Romanian bonds, the 3-year yield to maturity reached a new minimum of 2.75% for EUR and 4.5% for USD.

For the first time after 1990, Romania registered a positive current account balance in H1 2013. This was generated by positive results in both the commercial balance (exports higher than imports) and the portfolio investments (foreigners' interest for our national bonds). Romania registered increases in exports, towards both EU and non-EU countries, relative to imports that remained contained due to a lower internal demand. Minor contributions came from European funds absorptions and foreign direct investments (IFD).

The boost in exports favored the increase in the manufacturing industry, Romania being well positioned to satisfy the growing demand for affordable products. The automotive sector, led by Dacia Renault and Ford, were the main contributors to this increase. While Ford has just started the production for C-Max model, Dacia registered a 20% increase in production.

On the downside, the initial estimated increases in consumption failed to occur due to: the increase in the unemployment rate, the limited number of available jobs on the market and the lack of increases in real wages. Retail sales – the most reliable indicator describing households' consumption – registered a 0.4% contraction in H1 2013, compared to the same period of 2012.

INFLATION RATE EVOLUTION (YOY)



Source: National Institute of Statistics

FORECAST

With a forecasted economic growth of 2.5–3% for the entire year, Romania has real chances to qualify between the top 3 countries in terms of the most rapid growing economies in Europe in 2013.

DeLonghi and Bosch entered the market last year and are expected to start producing by the end of 2013, contributing to the increase in production and exports. Moreover, the good agricultural year (benefiting also of a negative base effect) and a constant evolution of the exports will contribute to the increase in the economic growth.

The main factors taken into account by the National Bank of Romania for the expected reduction in the monetary policy rate, for the second part of the year, are: the inflation rate's forecasted contraction and the poor internal demand.

“Romania has successfully concluded the second of two Stand-by Arrangements with the Fund. The economy has stabilized. Core inflation remains low, and the fiscal and current account balances are sustainable. However, growth is weak and downside risks exist. Structural reforms are critical to realizing Romania’s growth potential and creating jobs, while continued fiscal discipline is essential to anchor macroeconomic stability.”

Nemat Shafik
IMF, Deputy Managing Director and Acting Chair
June 26th 2013

OFFICE MARKET

Bucharest Office Market

1,618,000 sqm
Class A office stock

107,000 sqm
total take-up

19.5%
vacancy rate

SUPPLY

Around 80,000 sqm were delivered in the first six months of 2013. Thus, at the end of June the total Grade A office stock reached 1,618,000 sqm. While the first quarter saw the delivery of one landmark project for Bucharest office market (Sky Tower), the second quarter marked the completion of two small size buildings.

Compared to other Eastern European markets, Bucharest has still room to grow as only 2.3 sqm of Grade A offices is provided per employee in the services sector. Bucharest's stock per employee in the service sector is 2.6 times smaller than Warsaw's.

The building's quality and energy efficiency became one of the landlords' priorities throughout the last years with 13% of the office stock acquiring green certificates. This represents only the start of a long-term trend.

DEMAND

In terms of total take-up, the first six months represent the most active first half-year after 2008 recording 107,000 sqm of transactions. This is translated into a 50% increase compared to H1 2012. Nonetheless, the boost in demand was the direct result of the increase in the share of renegotiations and/or renewals transactions, from 10% in H1, 2012 to 36% in H1, 2013, while the net take-up contracted during the analyzed period.

The transactions closed during the last 6 months were aimed to reduce overall real estate costs. Therefore, occupiers took decisions based on more detailed background information when choosing suitable office space. Despite the rent levels, the metrics that mattered the most were location, access to public transport, level of technical quality, space efficiency, availability of green certificates, level of service charges and parking capacity. Thus, a significant part of the demand (28%) was represented by companies that relocated to other premises qualifying for the same A Grade quality level.

16% of the total demand was generated by companies that tried to upgrade their working spaces, making the transition to A Grade from their existing spaces in B Grade or unconventional spaces. An additional 20% of the total take-up was generated by companies that either increased their surfaces or launched their businesses on Bucharest market.

The prolonged economic uncertainty has clearly made occupiers behave with far more precaution. Consequently, the net take-up, totaling 38,000 sqm, saw a 10% contraction compared to H1, 2012.

Only 5,400 sqm were comprised in pre-leasing transactions in H1 2013, waiting for more pre-leases to be signed in the near future. Most of the projects that qualify for pre-leasing transactions were promoted starting with the fourth quarter of 2012.

Taking into account that usually such a transaction needs between 8 and 12 months to materialize, the discussions did not turn into deals yet.

As expected, the companies in IT & Telecom sector triggered the demand in the analyzed period. This sector built up 30% of the total demand followed by Consumer Goods, Professional Services and Energy & Industrial that made up for 50% of the total demand.

Pipera area without metro access registered an increase in the leasing activity due to the available financial incentives. 4 multinational companies, active in technology and automotive fields and that are hosted in this area, committed to additional terms and 4 more relocated their activities here.

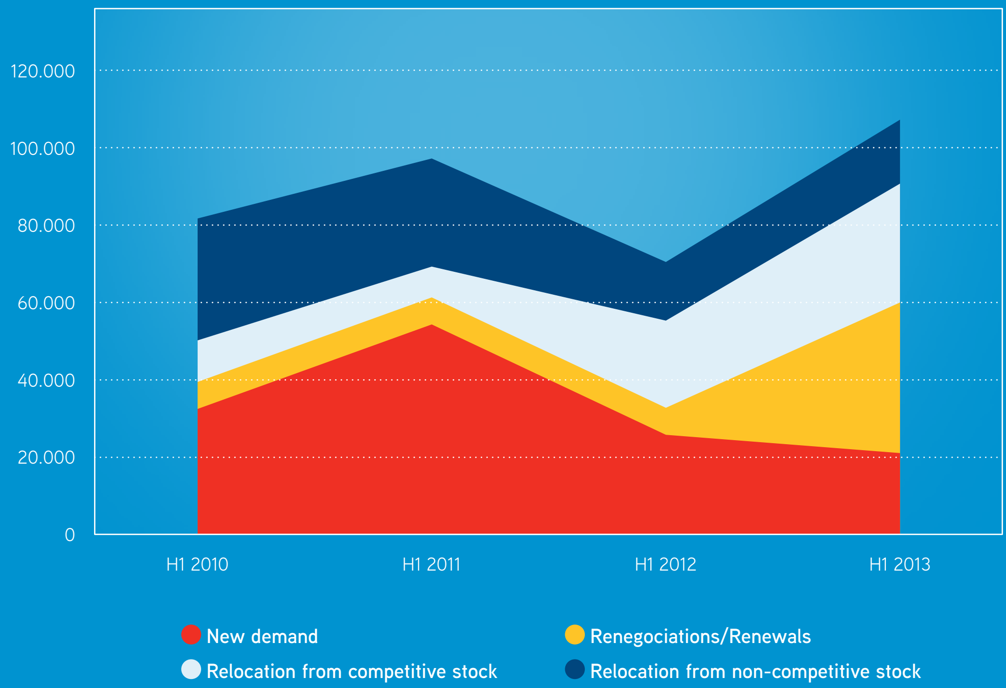
The average vacancy rate as of June 2013 is 19.5%, 100 basis points higher compared to December 2012. While Piata Victoriei remained constant at 21%, Charles de Gaulle contracted down to 5% (from 21%) and Floreasca–Barbu Vacarescu increased up to 24% (from 3%).

RENTS

The average rent levels for the transactions closed during the first half of the year remained stable, compared to Q4 2012 levels. Taking the common market practice of the last years into account we can expect somewhat higher rents for renegotiations/renewals compared to potential new deals in the same building. As the relocation requires an additional €2–3 (on average) cost per leased area, for a 5 years contract, the landlords can achieve a rent increase of €1–1.5 per sqm.

From a tenant perspective, the option for relocating in buildings within the same rent range but with more cost efficient spaces might prove more profitable.

BUCHAREST TOTAL TAKE-UP EVOLUTION BY SOURCE OF DEMAND



FORECAST

Floreasca Park and Hermes BC are scheduled to be the major deliveries of the second half of the year. The stock will increase by 56,000 sqm, upon delivery date.

For the second half of the year we expect significant renegotiations and relocations transactions to be closed, as a direct consequence of the lease agreements closed in 2007–2008.

Furthermore, we expect to see tenants paying much more attention to building's efficiency, utilities consumption and service charges levels when choosing a new location and thereby change the level of competition between landlords.

The renegotiations in case of ongoing contracts might be opportune for both parties. On the one hand the tenant obtains the desired financial ease and on the other hand, the landlord retains the tenant for an additional mandate, after the expiration of the current one.

Taking the limited scheduled deliveries into account, we do not expect significant changes in average rents untill the end of the year.

SHOPPING CENTERS MARKET

Romanian Shopping Centers Market

15,000 sqm
delivered in Uvertura Botosani

7
projects announced to start construction works in H2 2013

almost 0%
change in rents

SUPPLY

Traditional: After struggling in a very crowded market during the last 4 years, Galleria Suceava was forced to accept its defeat. The shopping center closed down its activity at the beginning of July, causing an 11,000 sqm shrink in the total retail stock. Suceava still leads the country in terms of modern centers stock per capita, with an average of 1,040 sqm GLA to 1,000 inhabitants. The next most crowded city in the countryside is Oradea and benefits of 1,000 sqm of modern retail area per 1,000 inhabitants. As a matter of comparison, Warsaw, one of the most developed capital city in the CEE, is at an average of 813 sqm per every 1,000 inhabitants.

The second part of the year is expected to counterbalance the limited deliveries registered in the first six months of the year that brought to the market only 15,000 sqm in Uvertura Botosani. Thus, the second semester has already registered the first delivery through Cora Constanta (17,000 sqm). Both cities are expected to be able to accommodate the new supply.

Specialized: The engines slowed down on the specialized centers market, due to the limited supply of suitable sites within the city limits, available at sustainable prices. Unlike the previous years, in the last period the market did not witness any new delivery or launching of large specialized centers. The smaller formats, anchored by a food player and several little boxes, have been gaining grounds during this period. As the market is favorable for this type of projects, a part of the existing developers changed their focus accordingly. A number of new players are currently prospecting the market in search of opportunities. NEPI delivered in the first half of the year a strip mall in Alexandria close to the existing Kaufland.

DEMAND

Traditional: The retail market's evolution in the first half of the year was characterized by precaution. This tendency was felt on both drivers of the retail market: consumers and retailers.

Compared to the same period of the previous year, the retail sales witnessed a 0.4% decrease in the first half of the year.

The retailers were expanding cautiously in the first semester, opening, closing or relocating their spaces in order to optimize their networks. The new entrants were represented by brands such as: the lingerie retailer, Intimissimi, the cinema operator, Cine Grand, the accessories boutique, Oliver Weber and the fashion store, Patrizia Pepe. After Debenhams' decision to withdraw from the local market, Nine West and La Senza, from Park Bravo's portfolio followed. The Turkish franchisor decided to close down all the locations in Romania.

Specialized: On the specialized segment, the limited activity on the development side is directly connected to the retailers' disinclination to expand. The food discounters were the most active in opening or signing new locations in the last six months.

As most of the main cities are already well covered on the food segment, hypermarkets have slowed down their expansion.

Dedeman was unquestionably the most dynamic DIY operator. They were successful in building up their network in the current market conditions. Large price-oriented fashion and shoes retailers were actively expanding their networks.

RENTS

Traditional: The average rents on the market were constant in the last six months. For the same center, the new tenants could obtain similar financial conditions compared to Q4, 2012, while most of the existing retailers with contracts reaching maturity could renew the agreements for smaller rents. Usually, discounted rents were obtainable for the poorer spaces and to a very limited extent for the best locations in the centre.

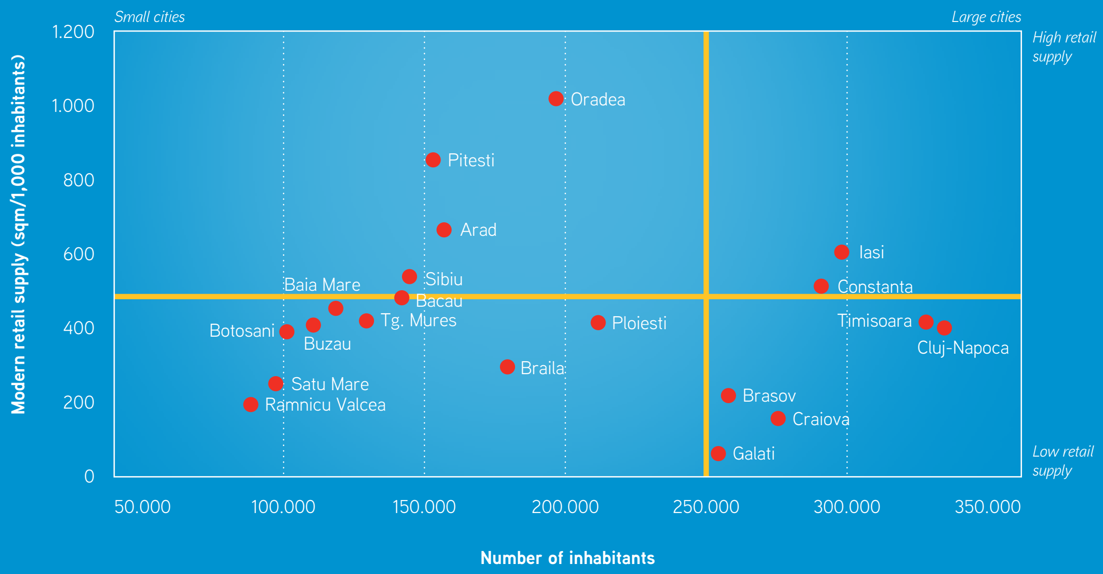
City	Asking Rent (€/sqm/month)*
Bucharest	55–65
Cities with more than 250,000 inhabitants	30–35**
Cities with less than 250,000 inhabitants	15–20

* *Maximum rents obtainable for prime spaces in good performing centers for 100 sqm occupied by good brands.*

** *This represents the market average; there are big differences between the cities depending on the level of competition.*

Specialized: The rents were constant in case of the specialized shopping centers, as the equilibrium line is very thin in between land prices, construction costs and rents. Only a significant drop in land prices, which is unlikely to happen, might generate further rent adjustments.

TOP 20 CITIES BY SIZE VERSUS MODERN RETAIL SUPPLY



FORECAST

Traditional: There are no delays in the deliveries announced for this year: Promenada Mall (Bucharest), Galati Shopping City and AFI Shopping Center (Ploiesti) are all expected to be launched on the market as planned. Altogether, these schemes will add 105,000 sqm to the current traditional retail stock.

Galati is one of the last cities above 250,000 sqm without any modern shopping center, but Galati Shopping City will fill this gap by the end of the year.

Promenada Mall will be delivered in Bucharest in the middle of Floreasca – Barbu Vacarescu business hub. Even though the project will compete to some extent with Baneasa Shopping City, most likely both schemes will find their place in probably the wealthiest catchment area in Romania.

The delivery of AFI Shopping Center will increase the Ploiesti retail supply by 30%, up to the level of 590 sqm per 1,000 inhabitants. Consequently, the market share for all the players on the market might suffer significant reductions.

Eight projects were announced to break ground this year. Galati Shopping City has already started the works on the site and seven more (Victoria City Lifestyle, Mega Mall, Auchan Drumul Taberei, Coresi Brasov, Cora Brasov, Parklake Plaza and Targu Jiu Shopping Center) plan to start during the second part of the year.

Taking into account the existing and the forecasted projects mentioned above, Timisoara is the last large city still undersupplied in terms of modern retail stock. Because Timisoara retail market currently registers the highest average sales per sqm, after Bucharest, most of the existing retailers are willing to open additional locations in the city.

Most of the aggressive expanding retailers are close to reaching their targets in terms of the optimum network size in Romania. Thus, we expect to see them active in optimizing their networks, in covering strategic locations, committing for better opportunities or relocating some of the spaces that do not perform according to their expectations.

Specialized: In terms of large specialized centers, Vulcan Retail Park has high chances to be started on the short term. Initially announced to start the construction works at the beginning of the year, the project was postponed for 2014. Additional activity will be generated by strip mall developments. NEPI has three more projects planned for delivery by the year end, in Sfantu Gheorghe, Sighisoara and Vaslui. Most likely, the activity will pick up on this segment by the year end, as some other investors will start developing.

HIGH STREET RETAIL MARKET

Bucharest High Street Market

1,100 sqm
rented out on Lipscani Street

20%
increase in rents on Lipscani Street

0%
approximate vacancy rate on Lipscani Street

SUPPLY

The number of spaces available on the market was relatively constant over the first six months of the year. Most of the large network retailers completed their restructuring processes and therefore stopped pumping vacant spaces on the market.

In the Old City Center new spaces became available as they were either consolidated, or had their legal issues resolved.

In Drumul Taberei neighborhood, the construction works on the M5 metro line caused a boost in vacant spaces. The works changed the traffic flows in the area and consequently, the spaces located here witnessed severe drops in footfall and sales.

DEMAND

Supermarkets, pharmacies and fashion retailers generated the market activity in the first semester of 2013. Casinos, one of the previous years' drivers, slowed down their expansion process, as they have already covered the most suitable locations and are currently targeting only a few specific additional areas.

The economic downturn favored an increasing propensity towards food consumption. With a current share of 35.6% of the monthly consumption budget spent on food items, this segment was the main driver of the retail market. Consequently, supermarkets continued to grow their networks in the last months. They mainly chose crowded areas such as Militari, Rahova and Giurgiului.

The pharmaceutical sector had a significant contribution to the demand. Taking into account that Bucharest reached the maximum level of operating licenses, they mainly relocated to better locations. They targeted both central and semi central locations, but the major boulevards in Bucharest proved to be the most interesting for them.

Fashion retailers' interest in the high street market improved considerably in the last six months. As previously estimated, Lipscani Str. in the Old City Center has been the most targeted location. 1,100 sqm out of the total stock of 8,600[1] sqm were leased in the area over the last 12 months.

In the first part of the year, three new luxury brands opened their first stores on the Bucharest high street market: Lancel, Porsche Design and Roberto Cavalli. They opened units in the already established Bucharest luxury destinations. Lancel and Porsche Design chose Calea Victoriei, while Roberto Cavalli completed the luxury supply in JW Marriott Hotel's gallery.

At the end of June 2013, the vacancy rate for the central areas varies between close to 0% (on Lipscani Street) and 10% (on Calea Victoriei and Magheru Blvd). Dorobanti has vacancy rates within these limits, at 5%.

RENTS

Overall, the rents on the high street market were constant in the last six months compared to the Q4, 2012 levels. At a micro level we could see both upward and downward corrections, depending on the area. Calea Victoriei is the most relevant example of a location that registered further rent compressions. At the moment, the average rent in the area is €40 per sqm, marking a 10% decrease compared to Q4, 2012. On the upside, the City Center leads the top of the highest increases in rents. The spaces on Lipscani Str. that were secured by fashion retailers during the first half of the year were leased at 20% higher rents, compared to 12 months ago.

Large network retailers continued their yearly renegotiations in order to align their rents to the market averages.

1 *Only the spaces on the ground floor were taken into account. In the case of multilevel units, only the ground floor area was included.*

RENTS EVOLUTION IN H1 2013

FORECAST

We expect to witness only slight increases in the supply of available spaces in the next period. These will mainly consist of spaces in the Old City Center, whose legal or structural issues will have been sorted out.

Based on the number of spaces that are in advanced stages of negotiation at the moment, the second half of the year is expected to outpace the take-up registered in the first 6 months.

The fashion and shoe retailers that used to exclusively target shopping centers are now analyzing high street solutions, as well. Because of their longer decision making process, the fashion retailers' interest on the high street market will materialize towards the end of the year, when they will open new units.

Most probably banks and pharmacies will continue to pursue their relocation strategies, in search of better financial conditions. A slowdown in committing to new spaces is expected on the supermarkets' side, as they almost reached their officially announced yearly objectives.

The only forecasted rent appreciations are expected to be registered on Lipscani Street, as the pool of spaces appropriate for fashion retailers is limited.

INDUSTRIAL MARKET

Bucharest Logistics Market

941,000 sqm
Class A industrial stock

25,700 sqm
net take-up

11.7%
vacancy rate

SUPPLY

While the production sector has been actively developing in the last four years, the warehouse and logistics segments remained stagnant, in line with the lopsided evolution of the industrial market in Romania.

Without any new deliveries registered during the first half of the year, as of June 2013, the market consists of 941,000 sqm of warehouse stock in Bucharest and 654,000 sqm additional spaces in the countryside.

The manufacturing segment registered the delivery of a number of production units in the following sectors: automotive (Continental, Rolem TRW Automotive and Hella), electronics (Emerson, Plexus and Emtech) and chemical/wiring production (Prysmian Group and Lufkin). These were either expansions of the existing production facilities or new greenfield projects, which were built as the companies developed their businesses.

DEMAND

In Bucharest, the demand for warehouses was mainly driven by existing distribution companies with in-house logistic services. The projected growth in their market shares required additional spaces.

13% higher compared to the H1 2012 results, the net take-up stood at 25,700 sqm in H1 2013, causing a further adjustment in the vacancy rate, which dropped to 11.7% at the end of June 2013. An additional 60,000 sqm were comprised in the renewal contracts signed by tenants such as Dumagas, Carrefour, E van Wijk, Hilti Romania and DSV Solutions.

The transactions closed in the countryside accounted for 22,000 sqm in total. Out of these, 13,000 sqm built up the net take-up. The transactions were concentrated in Brasov, Ploiesti and Timisoara.

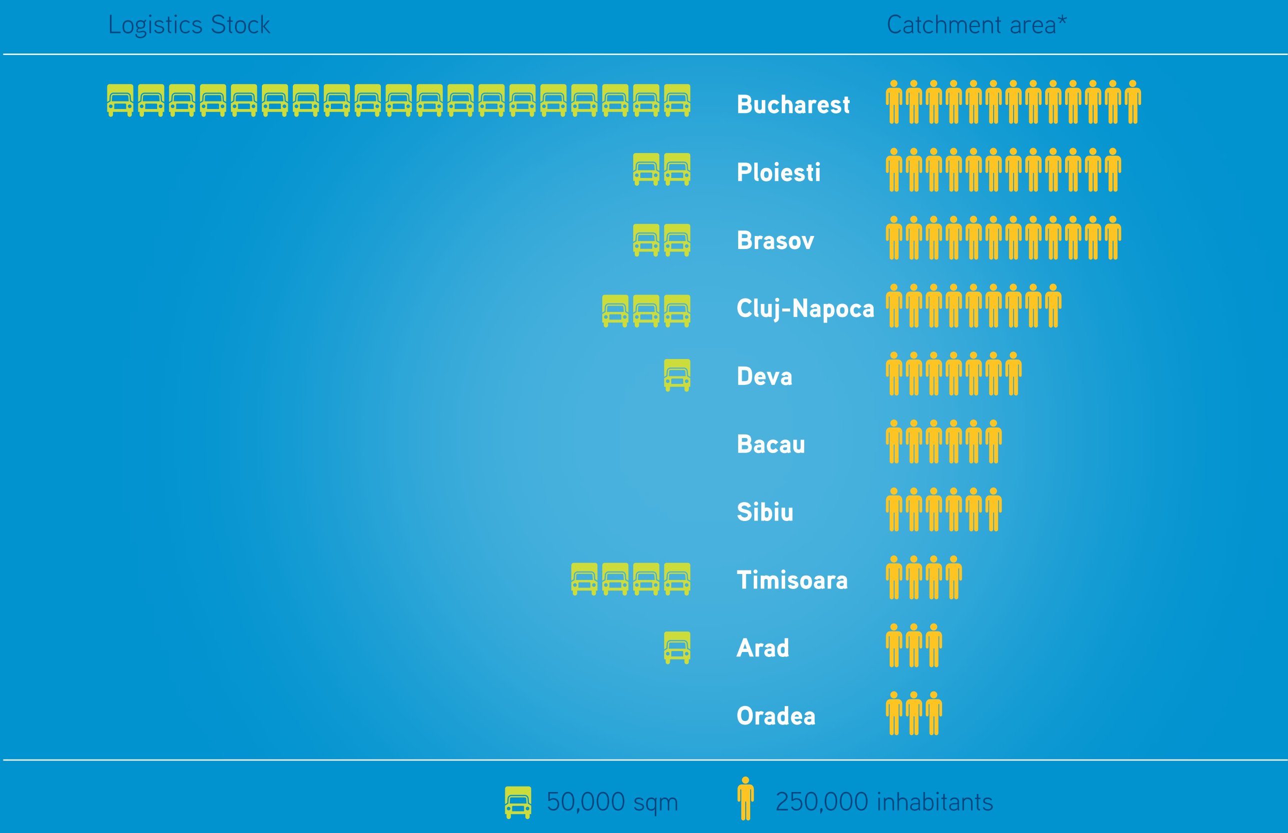
The average vacancy rate in the countryside is 8%, varying between 3% (in Brasov) and 16% (in Ploiesti, Arad), Cluj Napoca and Timisoara being in-between these limits, with 8% and 9% respectively.

Production companies remained on an upper trend in the last period. They were looking mainly for greenfield options in order to establish new facilities or to consolidate the existing ones. The demand was driven by the need for more efficient workflows, logistic processes or better work conditions for employees. Thus, Class A buildings were favored, as they offer good quality spaces and competitive financial conditions. Brownfield options were less attractive due to their poor quality and estimated high refurbishment costs.

RENTS

Due to the already reduced rent levels on the market, there have been no significant changes in the financial conditions during the last six months.

LOGISTICS STOCK IN TOP 10 CITIES



* Catchment area - the inhabitants located within 2h driving time from the city

FORECAST

25,000 sqm are annouced for delivery in Iasi and Turda in the next 6 to 9 months. Upon delivery, Iasi will gain its first Class A project.

Cities such as Arad and Oradea are forecasted to develop into logistics hubs, due to their locations in the proximity of the Nadlac border. A stronger production sector will need storage solutions in order to facilitate the export of goods to the European countries.

On the short term, Bucharest will experience a 290 basis points increase in the vacancy rate, as H. Essers will shift to an owner occupied space. By the end of September, the company will vacate approximately 27,000 sqm GLA in ProLogis Park.

Most likely, the rents will remain stable for the next 6 to 12 months. Without significant deliveries in the last 4–5 years, the market absorbed most of the vacant spaces. Taking into account that there are no speculative projects announced for development, further demand will be accommodated mainly by built-to-suit solutions. This will also drive up prices, as a built-to-suit solution is associated with 5–10% higher rent levels, compared to the current averages on the market.

In search of reduced employment costs, the production facilities' focus has shifted towards small cities (between 50,000 and 150,000 inhabitants). Because of the high unemployment rate in most of these cities, the companies acquire higher employee retention rates and have the opportunity to become the main players in these cities.

LAND MARKET

Bucharest Land Market

<€1 mln
average value for most closed transactions

5–10%
decrease in prices

15–25%
land share in the total development costs

The first half of 2013 was characterized by smaller transactional volumes compared to the previous periods. The market faced a reduction in the number of deals closed and also in the average value per transaction, as the buyers were more cautious in terms of buying land plots. Nonetheless, the land market was still interesting for both development purposes and land banking.

SUPPLY

The market continued to be flooded with land plots available for sale from two main sources: banks and liquidators. As the banks broadened their portfolios of assets in default, they became more flexible in terms of pricing and the market witnessed more transactions concluded for this type of properties.

Landlords without a pressing need for liquidity reshaped their land portfolio strategies. As they are not willing to sell the properties in a market governed by opportunistic investors and accept highly discounted prices compared to the acquisition levels, a part of them started to consider seriously the possibility of developing real estate projects on them.

DEMAND

With a reduced expansion rhythm compared to the previous years, the retail segment remained the driver of the market. This year, however, the demand came more from small retailers such as: supermarkets, food discounters and gas stations and less from the large big boxes. From the latter segment, Kaufland and Dedeman were the most, if not the only, truly active players. Regarding the retail developers, they focused on developing the land plots already in their portfolios. Nonetheless, they are still interested in acquiring lands in opportune and undeveloped locations.

As estimated, the office market effervescence tempered in the last months. The high number of projects in pipeline in the well known areas puts pressure on rents. Thus, under the current land prices, the feasibility of new developments in these areas is questionable. However, there are other areas, such as Razoare–Cotroceni and Bucurestii Noi that have all the needed features to develop into office areas, once the announced infrastructure and retail projects are completed. Although some office developers are analyzing these areas, everyone is waiting for the first project to break the ice.

The land for residential use is still the least appealing. Even though the residential market had a good performance during the last years (mainly on the low end segment), there is limited interest for buying residential land plots. Some investors are interested in entering joint ventures for developing residential projects, agreements in which the landlord invests the already owned plot, whereas the equity and the financing are the investor's responsibility.

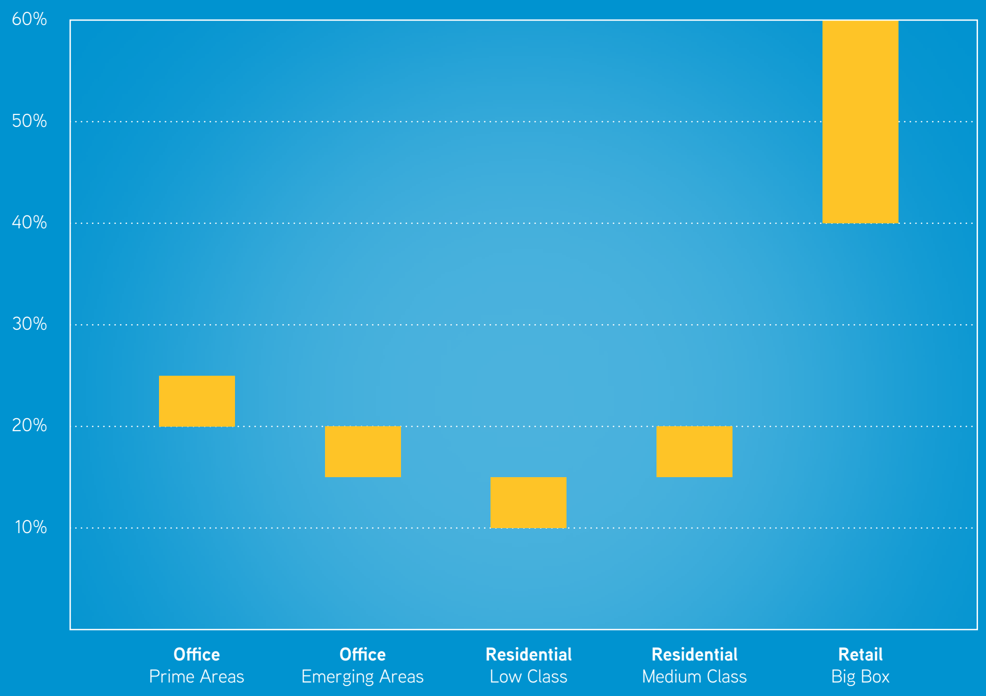
Speculative investors strengthened their position on the market, closing land deals which involved properties at highly discounted prices or small central sites, feasible for various uses, at attractive conditions.

TRANSACTIONS & PRICES

H1 2013 registered a smaller transactional activity compared to the same period of the previous years. There were not only fewer closed deals but also smaller volumes per transaction. None of the deals closed in H1 2013 exceeds the €10 mln ceiling while a big proportion of the transactions were closed for total values of less than €1 mln per transaction.

Overall, the market registered a 5–10% contraction in prices. The high number of land plots with discounted prices pressures the remaining sellers on the market to accept smaller prices as well.

LAND SHARE IN TOTAL DEVELOPMENT COST – BUCHAREST PROJECTS



FORECAST

For the second half of the year we estimate the market activity to be similar to the first part of the year. The retailers will continue to drive the market but they will act mainly on small project concepts: either stand alone small boxes or strip mall schemes. During the following period, we expect to see developers very cautious in their approach.

Further pressure on prices is expected, as the share of speculative investors increased in the last months, while the end users reduced their acquiring appetites.

There is a various supply of available land plots and plenty of opportunities on the market. The challenge is to identify the right type of products that would be attractive for end users (either to buy or lease) in the current market conditions in order to ensure acceptable short to medium term returns.

It is important to note that at the moment, the land cost has a smaller share in the total development costs compared to the boom period. While the construction costs slightly adjusted during the last four years, the land prices were continuously depreciating. If during the boom period, the land used to account for 30–40% in the total development costs, at the moment, this stands at 15–25%. It grows higher in case of high end residential projects or big boxes and decreases in case of the low class residential projects.

INVESTMENT MARKET

Romanian Investment Market

8.25%
office yield

8.5%
retail yield

10.5%
industrial yield

The investment market has been relatively quiet in the first half of 2013 with few transactions concluded. As a result there continues to be ambiguity around market pricing levels, which in addition to transaction benchmarks are also pressed by bank financing terms on one side, and the yield gap versus other CEE markets on the other. These notwithstanding, we are foreseeing that transactional activity will pick up slowly in the next 6 to 12 months, which in turn can become a catalyst for a tidal change, assuming no major adverse global or European macro influences.

TRANSACTIONAL ACTIVITY

The year started on a positive note, with the acquisition of The Lakeview, a 25,000 sqm Class A office property located in the Barbu Vacarescu–Floreasca submarket, and home to blue-chip tenants including PwC, Colgate Palmolive, Huawei and Philips. The building was bought by NEPI from a joint venture between AIG Lincoln and Dinu Patriciu Global Services, for a reported cash consideration of €62 million.

The remainder of the first semester was however quiet, with no additional transactions being concluded. As most private equity funds that were looking at Romania reached the end of their investment periods in 2012, there were fewer acquisition discussions initiated last year, which also impacted the number of closures in H1 2013. Towards 2012, only few investors were still evaluating the market actively.

NEPI, Zeus Capital and an investment group headed by Mr. Yannis Papalekas were the players who have transacted on the market in the last 12 months. Benefiting from a long market presence, they were able to assess the available options and conclude deals.

In the first half of 2013, a number of new investors started looking at the Romanian market in search for either distressed opportunities or for prime properties at attractive prices.

Moreover, some of the players that were active during the boom period have resumed their acquisition interest for Romania and are analyzing the market. Although this created an increased activity level, these players will need time to get accommodated with the new market conditions before they complete a first acquisition.

Office and retail projects remained the main focus for investors, but industrial assets seem to slowly make their way on investors' target lists as well.

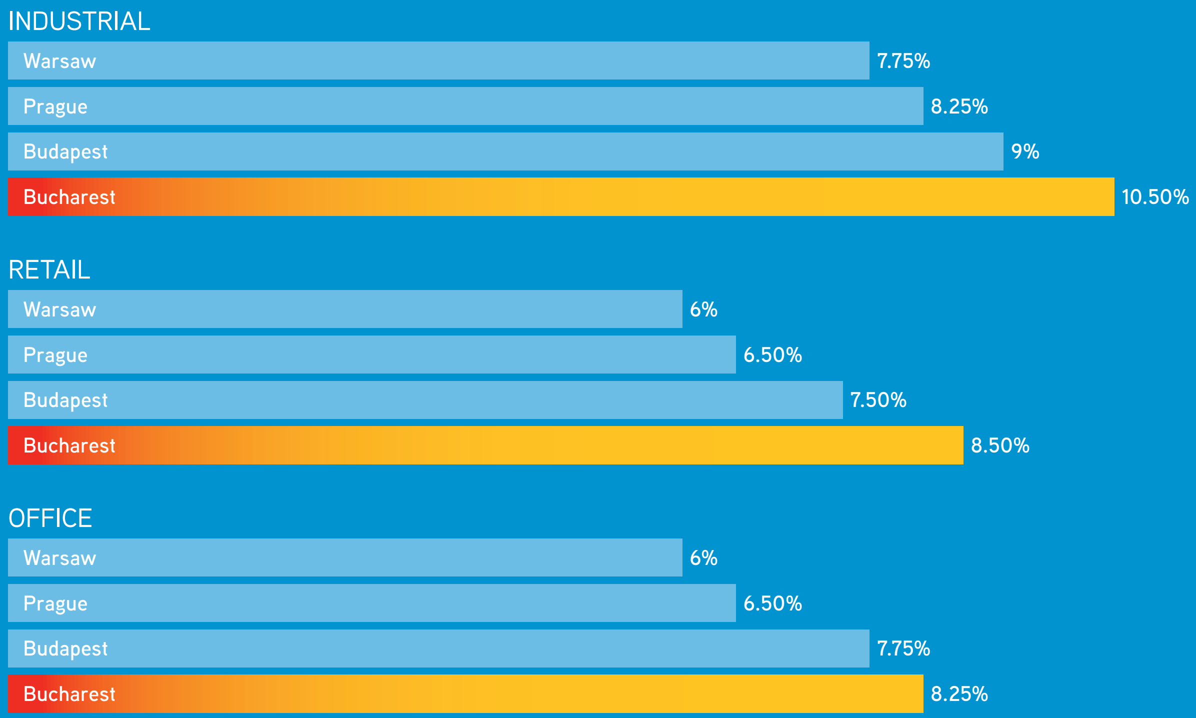
H1 2013 also brought a noticeable change in the attitude of some landlords, who became more interested to exit their positions and move on to new projects.

PRICES

Under the limited available bank lending and in the absence of any alternative sources of financing, the deals closed in the last 18 months were equity driven deals, with an impact on pricing due to the higher cost of capital.

With a positive gap of 200–250 base points in yields compared to more mature markets such as Poland or Czech Republic, Romania should qualify as an attractive investment destination. Nonetheless, the still difficult financing conditions limit the yield advantage temporarily.

PRIME YIELDS IN CEE CAPITALS



FORECAST

The current stages of discussions for a number of projects as well as the liquidity gathered by established players are the main premises for an increase in the transactional volume in the next 12–18 months. The second half of the year will more likely than not show new deals closed, but risks remain that could postpone negotiations.

The currently estimated market yields might register further corrections depending on the conditions offered in the transactions to be closed in the following period.

On the medium and longer term, the current major gap in yields, and the size of the Romanian economy should inevitably lead towards a significant increase in market activity, and early investors will benefit most by enjoying both attractive cash flows and a compression of yields, leading to outsized total returns.

RESIDENTIAL MARKET

Bucharest New Residential Market

2%
increase in the available supply

1,000
units sold

€900/sqm
average price (without VAT)

SUPPLY

The new residential market picked up its activity in the first half of the year, following a more promising second semester of 2012. The market received the delivery of the first phase of Adora Urban Village as well as the start of construction works on City Point project. In addition, several new compounds announced their intentions to break ground over the following period.

Large scale projects, that registered good selling rhythms after 2008, continued their expansion, the total stock in monitored projects increasing by 2% in the first semester of 2013. New supply targets both the lower and middle segments of buyers, as the available number of apartments has been constantly reducing over the last couple of years. Smaller flat surfaces as well as affordable price policies are key factors in the marketability of a residential project.

DEMAND

Over the last six months most projects registered a higher number of visitors compared to the same period of 2012. This resulted in an average increase in sales of 20-25%. Institutional buyers continued to have limited activity on the market, while end users persisted in being the main drivers of the residential purchases.

Low end apartments remained the preferred acquisition products, but an increase in middle flat absorption was noticed. This was mainly powered by projects that went into administration and then returned to the market with new, more affordable price policies.

Prima Casa continued to be the favoured financing tool, the 200 million euro expansion in December 2012 fuelling the acquisition throughout the analyzed period. According to Prima Casa statistics the share of new apartments contracted through the programme has been gradually growing from 2009, reaching 34% in 2013 from 29% at the beginning of the project.

Under looming rumours, in the beginning of the year, that the Programme will end or will be transformed into Noua Casa, which would permit the financing of only newly built units, the absorption rhythm of mortgages increased, from which the entire market benefited.

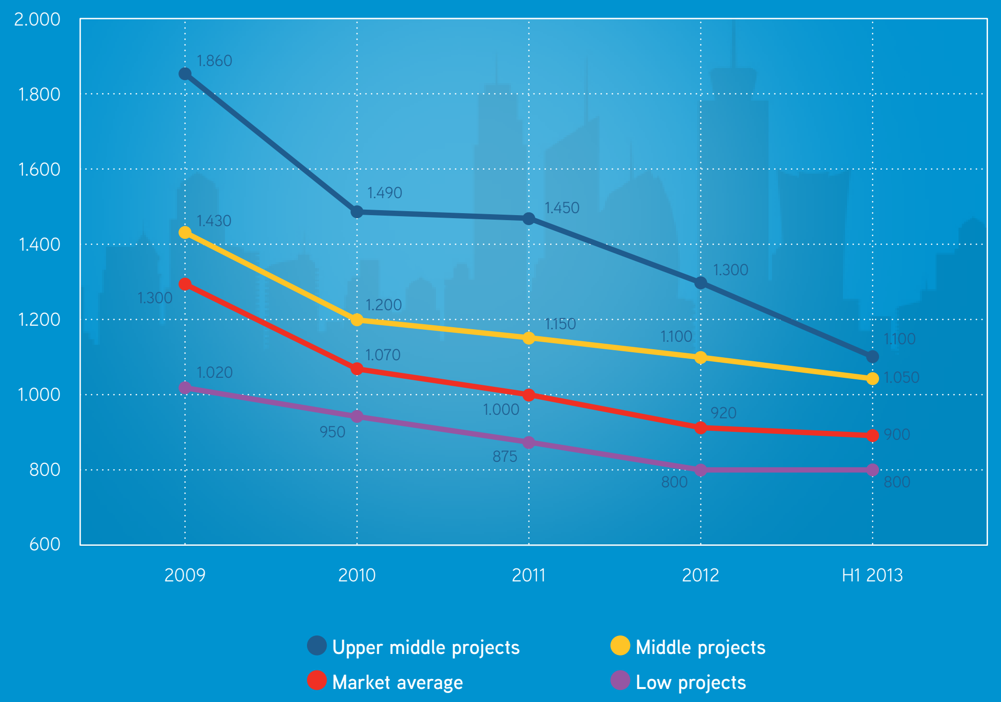
The total number of sold apartments in the analyzed projects was a little over 1,000 units, translating into a selling rhythm of 4 apartments/project/month.

PRICES

Prices continued their downward adjustments, reaching an average of €900/built sqm, in the first half of the year. New entries on the market at lower prices, as well as slight adjustments on the upper middle segment were responsible for the decrease, as most projects conserved their levels in the first six months of the year.

Developers have been noticing an increasing attention from buyers for the total apartment's price, rather than the value per built sqm. Their attention is focused mainly on the Prima Casa threshold or the 5% VAT in the case of the middle level buyers.

BUCHAREST NEW APARTMENTS – PRICES EVOLUTION (EUR/SQM)



**Average prices are calculated per built area of apartment, including usable area, vertical penetrations and terraces and do not include VAT.*

FORECAST

The market will continue to receive deliveries from both existing and future projects. This is due on the one hand, to the higher selling rhythms, and on the other, to the reduced number of deliveries throughout this period. More projects that are adapted to buyers' preferences are expected to enter the market.

On the short term demand will be influenced by the Government's decision to prolong the Prima Casa Programme in lei, but not in euro, in order to limit currency exposure.

Although slightly more expensive, the local currency Prima Casa will most likely continue to be the main financing solution. Nevertheless, banks have been actively promoting financing alternatives which require a 15% down payment for lei contracted loans and a 25% advance for euro mortgages.

We expect to see no significant alterations in prices on the short term. Despite a higher interest from buyers for new residential housing and an increase in actual demand, the market has yet to reach the tipping point where demand outruns supply.

HOTEL MARKET

Under this section we analyze the hotels that qualify according to the international standard as midscale, upscale and luxury hotels. In order to do so we have studied the existing hotels affiliated to international chains, the strong local chains (such as Continental) and a certain part of those non-affiliated. In choosing the non-affiliated hotels, we have taken into account a number of indicators, including: a minimum number of 50 rooms per property, the hotel awareness on the market, the quality of the premises and the services provided.

Bucharest Hotel Market

7,054
rooms stock

60%
average occupancy rate

€78
average room night rate

SUPPLY

Bucharest's hotel stock remained relatively constant during the first six months of the year, the market witnessing both a new launch and a withdrawal. Thus, the Bucharest hotel market supplied 7,054 rooms in 55 hotels, at the end of the first semester.

The new delivery consisted of the Premier Palace Hotel & Spa, an 82 rooms 5* hotel located on Prelungirea Ghencea Blvd.

The exit was caused by Soravia Group's decision to reconvert Starlight Hotel into an office building, as the apart-hotel did not succeed in acquiring a sustainable market share in the last four years.

The changes in the supply in the last six months brought a 200 basis points decrease in the Bucharest hotel stock affiliated to international or strong local chains, reaching a 58% share in the total stock. While the four stars hotels are equally divided between the branded and non-branded units, the five star hotels are almost 100% affiliated. The three stars hotels category, however, represents only 10% from the total supply of middle and upscale units and only 35% of them are managed under a recognized brand. So, Bucharest still has room to grow on this sub-market and we may see an increasing interest in this regard both from brands and developers in the near future. Of course, the supply should be adapted to the specific needs of the main demand generator: the business segment.

DEMAND

The country's better economic and political prospects had a positive influence on the hotel market's dynamics. Consequently, the occupancy rate increased by 5% in H1 2013 (year-over-year), reaching an average of 60% in the first six months of the year. A monthly analysis of vacancy rate's evolution revealed significant increases for February and April compared to the same period of 2012.

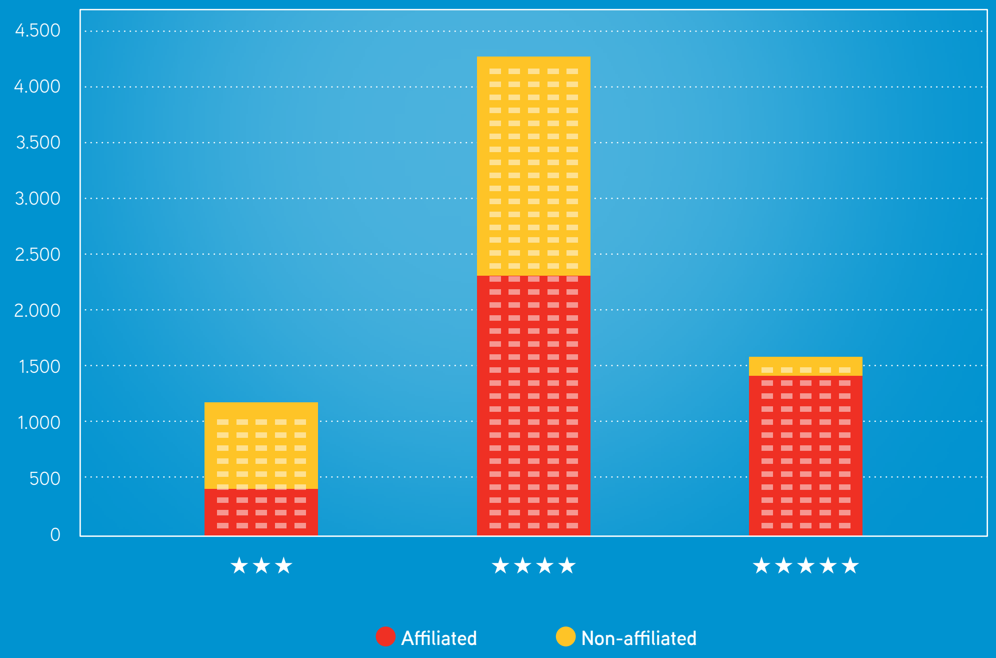
Being mainly a business destination, Bucharest's hotels are filling up with tourists at the beginning of the week and are becoming empty towards the weekend. Consequently, the occupancy rates are 8% above overall average during weekdays and 20% under during weekends.

RATES

The Bucharest hotel market's occupancy rate increased in the first half of the year at the expense of the average daily rate (ADR). Before registering any significant increase in ADRs, the market has to prove a sustainable growth in occupancy. Thus, the ADR of €78 per room night in H1 2013 was only 1% higher compared to H1 2012 and 4% compared to the average for the entire year of 2012.

The ADR was 4% higher than the average, from Sunday to Thursday, and 12% smaller, from Friday to Saturday.

BUCHAREST SUPPLY COMPOSITION BY STANDARD AND BRAND AFFILIATION



FORECAST

Bucharest is an attractive destination for large international operators. There are 5 to 6 new hotel projects with more than 550 rooms announced to be developed in Bucharest on the medium term. Hilton, Rezidor, Intercontinental, Marriott and Louvre are all announcing new hotels for the local market.

Nonetheless, we estimate that only a part of these hotels will reach completion in the next 2 – 3 years. Moreover, a number of the old structures in the Old City Center attracted investor's attention in the last months and we expect to see them reconverted on medium term.

Starting with the second part of the year, two new regulations will most likely influence the local accommodation market. The politicians' monthly accommodation budgets will be reduced to RON 4,000, after a 50% cut. This will cause a slight downward correction in the occupancy rate as a part of these budgets will be spent for renting cheaper accommodation solutions such as private apartments. In order for Bucharest hotels to adapt to the reduced budgets, a decrease in rates is mandatory. The second regulation stipulates that flat high taxes will be applied for accommodation facilities and restaurants, thus affecting startups and small hotel business.

DEFINITIONS AND ASSUMPTIONS

DEFINITIONS

Average Daily Rate (ADR) – is given by the hotel rooms' total revenue, divided by the total number of rooms sold during a year.

Factory Outlet Center – is a consistently designed, planned and managed scheme, with separate store units, where manufacturers and retailers sell merchandise at discounted prices that may be surplus stock, prior-season or slow selling.

Headline Rent – is also known as contractual rent and reflects the level at which relevant transactions are being completed during a certain period. If there are no relevant transactions during the survey period, the quoted figure will be hypothetical, based on expert opinion of market conditions. The figure excludes service charges, taxes, and tenant incentives.

Net Take-up – is the sum of all total occupational market activity categories which lead to a net increase in demand for space. This would only include the following activity types: pre-lease, new occupation and expansion.

Occupancy Rate – is given by the total hotel rooms sold, divided by total number of rooms available in the hotel, multiplied by 100.

Owner – Occupier Deal – is an inter-party deal where the transaction is not conducted on the open market and often for a 'non-market price'.

Prime Net Initial Yield – the yield an investor is prepared to pay to buy a Grade A building, fully-let to high quality tenants at an open market rental value, in a prime location. Lease terms should be commensurate with the market. As a calculation, net initial yield = first years' net income/purchase price (prior to deducting fees and taxes).

Private equity real estate fund – is a collective investment scheme, which pools capital from investors – either wealthy individuals and/or institutional investors – and generally targets assets and/or markets with a potential to add value.

Regular Investment Deal – is an open-market transaction, conducted by two individual entities on an arms-length basis, for a property which is currently let, or immediately available for letting.

Retail Park – also known as a power center is a consistently designed, planned and managed scheme, that mainly comprises medium and large-scale specialist retailers such as: big boxes or power stores.

Revenue per Available Room (RevPar) – is calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate. It may also be calculated by dividing a hotel's total guestroom revenue by the room count and the number of days in the period being measured.

Specialized Shopping Center – includes specific purpose-built retail schemes—or shopping centers—that are typically open-air with GLA larger than 5,000 sqm and could be further classified by size. This category includes the following sub-categories: retail parks, factory outlet centers and theme-oriented centers. Specialized schemes in Romania are represented either through retail parks or factory outlet centers.

Theme-Oriented Center – is a consistently designed, planned and managed scheme that can either be leisure-based or non-leisure-based. This scheme includes some retail units and typically concentrates on a narrow, but deep selection of merchandise within a specific retail category. A leisure-based center is usually anchored by a multiplex cinema and includes restaurants and bars with any combination of bowling, health and fitness and other leisure-concept uses. A non-leisure-based center concentrates on a niche market for fashion/apparel or home furnishings or can target specific customers such as passengers at airports.

Total Take-up – is the total floor space known to have been leased during the survey period through one of the following activity types: pre-lease, new occupation, renewal/renegotiation, expansion and sub-lease.

Traditional Shopping Center – is an all-purpose scheme that could be either enclosed or open-air and classified by size. There are two types of small traditional centers: comparison-based and convenience-based. Comparison based centers include retailers typically selling fashion apparel and shoes, home furnishings, electronics, general merchandise, toys, luxury goods, gifts and other discretionary goods. Comparison-based centers are often part of larger retail areas, most likely found in city centers and not anchored. Convenience-based centers include retailers that sell essential goods (those items consumers buy on a regular basis) and are typically anchored by a grocery store (supermarket or hypermarket). Additional stores usually found in convenience-based centers include chemists (drugstores); convenience stores; and retailers selling household goods, basic apparel, flowers and pet supplies.

Vacant Space – is the total gross leasable floor space in the analyzed existing properties, which is physically vacant and being actively marketed at the survey date. Space should be available for immediate occupation.

ASSUMPTIONS

High Street Retail – we have taken into account the supply available in Bucharest.

Hotel – we have analyzed the hotels that qualify in line with the international standard as midscale, upscale and luxury hotels. In order to do so we have studied the existing hotels affiliated to international chains, the strong local chains (such as Continental) and a certain part of those non-affiliated. In choosing the non-affiliated hotels, we have taken into account a number of indicators, including: a minimum number of 50 rooms per property, the hotel awareness on the market, the quality of the premises and the services provided. The entire analysis refers to these hotels.

Industrial – we have analyzed the Class A industrial projects in Bucharest and the main cities in the countryside. We took into account both the logistic and the production facilities.

Investment – we have taken into account the office, industrial and retail transactions above €4 million closed on the Romanian market.

Land – we have taken into account the available supply of land plots in Bucharest and the countryside.

Office – we have taken into account the buildings located in Bucharest, which offer at least 3,000 sqm of Gross Leasable Area and comply with the conditions for a good quality development, no matter their location.

Residential – we have analyzed the projects located in Bucharest and having more than 100 units in the phases available on the market.

Specialised Shopping Centers – we have considered all Romanian specialized schemes having total gross leasable areas higher than 5,000 sqm.

Traditional Shopping Centers – we have considered all Romanian traditional schemes having commercial galleries larger than 5,000 sqm.

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