2013 REAL ESTATE MARKET REVIEW

Accelerating success.

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Dear friends,

In a very similar way to the child on the cover of this report, who is using education as the main source for building his success, I encourage you to take time to study and learn how to adapt to the new age of real estate and business in general.

Finding the book that would teach you everything you need to know might be impossible. However, there are a few acclaimed and highly recommended books on: conducting businesses in crisis (Great by Choice, by Jim Collins), decision making (Thinking, Fast and Slow by Daniel Kahneman) or winning investments (Reminiscences of a Stock Operator, by Edwin LeFevre). I hope you will find them helpful and inspiring.

I also hope that our Market Overview 2013 will find its way on your reading lists as a trusted source of information and intelligence. We have assembled the most relevant snap shots on each market segment in 2012, we made estimations regarding their evolution in 2013 and we offer it to you in order to support your decisions in 2013.

With smaller leasing volumes, rents dropped on average across all segments. Tenants hold the power and they used it against landlords in 2012.

2013 is expected to bring more activity on the development side. While a number of projects will be given the green light to start construction works, a few large developments will be closer to the delivery dates. The demand will strengthen, prices are bottoming out and the overall economic indicators are showing a small but sustainable growth.

In order to take part in a sustainable market recovery, I am looking for your support in bringing professionalism to much higher standards. Education should be the key word in business relationships as well. The extreme pressure to lease, sell or buy might create an open field for personal interests and unethical conduct.

Let's all join the efforts to create a trustworthy environment in real estate business, through an open and transparent communication and honest behavior. Let's be more demanding when it comes to our partners, and let's show them that integrity should be the strongest core value of our market.

I sincerely wish you great success in business and life and along with my colleagues I remain your trusted partner.

ILINCA PAUN

MANAGING DIRECTOR, COLLIERS INTERNATIONAL

SUMMARY RECENT TRENDS

Romania struggled throughout 2012 amidst political turmoil, the international credit crunch and a general election process, while the IMF stand-by agreement remained the sole anchor against economic derailment. Thus, due to the shaky economic environment, the real estate market's dynamics were affected in the first half of the year, all segments registering a reduced activity compared to 2011. Nonetheless, the market quickly adapted to the new conditions and revealed opportunities for all segments. Our real estate market findings were enhanced by our partners in the following two pages. They share their 2012 experience on the real estate market and their expectations for the year that has just started.

On one hand, 2012 was a year of transition, further optimization, fine-tuning and strive for development in Adama Romania while on the other hand it occasioned construction advancement at a strenuous time and in a highly challenging market environment. In the spring of 2012, Adama moved its HQ for the first time in 5 years, relocating to Victoria Park. The change will support integrating the expertise and market know-how of the local management into IMMOFINANZ Group and to realize the necessary synergies. Our goals and vision also aim higher, to introducing a quality standard to the Romanian and SEE markets in terms of residential construction and developer dependability. The fall of 2012 was the starting point for the 2nd phase of construction in two of our best seller projects in Titan, Bucharest – Edenia Titan and Evocasa Optima – located in the green neighbourhood near Titan Park. Both offer modern, functional, yet affordable apartments and benefit from good infrastructure such as excellent transport connections, shopping centers, recreational facilities and service providers nearby. With a total investment of EUR 14.1 million, Adama will bring until the autumn of 2013 another 209 optimal value apartments – 1, 2 and 3 rooms – to the meet the gradually rising demand

Andreas Holler
MEMBER OF THE EXECUTIVE BOARD, ADAMA GROUP

2012 was an exciting year for Skanska in Romania! We established our real estate and construction activities and now have great teams with lots of talent and ambition. We closed our first land transaction and we also managed to secure zoning and a building permit for the first phase of Green Court Bucharest. Our proactive leasing work began generating results. We are certain that our market entry strategy was timely and correct and our belief in the Romanian real estate market is stronger than ever.

Andreas Lindelöf
PRESIDENT AT SKANSKA PROPERTY ROMANIA

Although the general market environment last year was difficult, with many postponing decisions in all areas, we were pleased at Swan Office Park to have continued to attract tenants at similar headline rent levels as in previous years. Swan was the most active building in Pipera in 2012 taking approximately 60% of the new lettings. We have also been able to progress on with the exploration and future implementation of development plans on some of our other sites, in order to extract the future value potential we see over the next years.

David Allen
ADVISOR TO THE CHAYTON CAPITAL PROPERTY FUNDS

Although the uncertainty in Europe and in the Romanian economy and real estate markets continued during 2012, AFI Europe Romania accomplished all of its targets for 2012 as follows: (i) AFI Palace Cotroceni registered sales of EUR 201.5 million in 2012 which represents a 10.8% YOY increase compared to 2011. In addition, in the first 3 quarters of 2012 the shopping mall NOI totaled EUR 19 million, which represent an increase of 10% over the same period in 2011. Averaged footfall totaled 52,000 visitors per day or a yearly total of 19 million visitors; (ii) In September 2012, AFI completed the first office building in AFI park and achieved more than 60% occupancy; (iii) We have commenced the construction of AFI Palace Ploiesti shopping mall in June 2012 and have achieved by the end of 2012 more than 70% occupancy level. In addition, we have signed the financing agreement for the project with Raiffeisen Bank for more than EUR 30 million; (iv) During December 2012 we have commenced the construction of the second office building in AFI Park targeting to complete its construction in Q1 2014.

All these achievements should be attributed to the dedicated and professional team of AFI Europe who were ready to commit and take chances even during these uncertain times.

David Hay
CEO, AFRICA ISRAEL

We completed a 20,000 sqm prelease to DSV which was one of the few and definitely the largest logistics transaction of the year. The contractor, Depenbrock performed well and the project came in on budget. As such, Bucharest west is now 130,000 sqm and is well leased to a small number of multinational tenants so we have continued to add value for our investors during a difficult period.

Starting on site with Floreasca Park was also great news and we are delighted to have leased 24,000 sqm of high quality office space to an industry leader such as Oracle. The development is using new technology for reducing energy consumption which will set new standards for Bucharest.

Robert Neale
PORTLAND TRUST

Colliers International – Romanian Market Real Estate Review for the year ended 31 December 2012

MARKET PROGNOSIS

In terms of business objectives and strategy, we have the ideal platform to expand residential construction and development activities in Romania, at the same time utilizing our existing land reserves.

The 5 years plan – 2013 through to 2017 – entails delivery and sales of 600 apartments / year, in average 100 units / project, with main focus on Bucharest and possibly 2-3 important secondary cities. We are currently analysing detailed facts and figures on several key plots with a view to find the perfect product to answer our market and consumer needs. New project launches in the near future are still early to be discussed, although surprises may yet occur throughout this year.

Starting construction works for the second phases of Edenia Titan and Evocasa Optima definitely proves we are on the right track, especially in these demanding times. Adama will bring valuable residential units to fulfil the market and customers' needs providing apartments with a high value for money. At the same time we will continue to offer our clients the facilities, environment and lifestyle they are accustomed to receive from Adama

Andreas Holler
MEMBER OF THE EXECUTIVE BOARD, ADAMA GROUP

2013 is the year when we will start construction and lease up Green Court Bucharest. We will further invest in prime building rights in great locations. We will also continue to develop our team of great employees. Market activity will not change radically and it is essential to be consistent in both product and delivery.

Andreas Lindelöf
PRESIDENT AT SKANSKA PROPERTY ROMANIA

The general economic uncertainties will continue to hamper both investment and decision making, but at the same time this will give rise to interesting opportunities. The investment decisions that are to be taken should consider the medium to long term prospects rather than short term gains. Investors need to be savvy and patient. For ourselves we have a great pipeline of potential tenants at Swan and believe we will be able to announce in the first quarter the largest new letting of the year.

David Allen
ADVISOR TO THE CHAYTON CAPITAL PROPERTY FUNDS

The limited availability of bank financing will continue and I do not expect to see in 2013 new players entering the market so the main limited source of financing in 2013 will continue to be the Austrian banks (Erste/BCR, Raiffeisen and UniCredit) Due to the above we will continue to see the consolidation of the market so that only the professional and financially strong developers will remain in the market.

For AFI 2013 shall be a busy year with the following: In the retail segment, AFI Europe will complete AFI Palace Ploiesti shopping mall, GLA 29,000 sqm, investment of approximately EUR 40 million and continue with the development of AFI Palace B.Noi shopping mall, GLA 28,000 sqm.

In the office segment, AFI will continue with the development of AFI Park 2, the second office building in our office park located in Cotroceni and adjacent to our existing shopping mall AFI Palace Cotroceni.

In addition to developing financially sustained projects In 2013 AFI will also focus on certifying its projects to LEED Gold green buildings.

David Hay
CEO, AFRICA ISRAEL

No huge changes will take place. The construction market will improve slightly but banking will remain difficult with loan to cost ratios remaining difficult for many developers. On a macro level the sovereign debt debacle is improving with fringe countries being able to borrow at sustainable rates again, the American fiscal cliff has been averted and delayed, China is having a soft landing and the effectively of Basel 3 is being deferred till 2019 -the stock markets are pricing in these issues already.

One would hope for general levels of confidence to increase which will consequently feed in to the consumer market but sadly many countries in the EU are still not showing positive signs in areas of employment and GDP growth. If Romania maintains its low debt and low unemployment levels then it should be included within investors' target countries.

Robert Neale
PORTLAND TRUST

ECONOMIC OVERVIEW

0.2%
real GDP growth

-2.2%
budget balance

4.95%
yoy inflation rate

OVERVIEW

Three different prime-ministers and four different governments succeeded to the office in the last 12 months, scaring investors and sending interest rates and exchange rates to new highs.

Throughout the second half of the year, interest rates for RON-denominated house loans rose from a historical low of 7% to about 9%, despite the Central Bank's efforts to curtail foreign currency mortgages.

Local currency took a dive against the EUR in the second half of 2012, falling about 5% and remaining over 4.5 RON/EUR for most of the period.

Foreign Direct Investments marked a new low at about €1.5 billion during 2012. This, combined with a less than 10% European funds allocation calls for immediate structural reforms.

The political crisis affected the country's Shengen admittance – postponed twice on various allegations – and led to an estrangement with important European institutions and leaders.

MACRO

Yet all hope is not lost, as the Government has undergone a severe budget deficit reduction of approx. 7 pp in the last three years.

Strong macroeconomic indicators put the Finance Ministry in a very comfortable position in 2012, raising €2.25 billion and $2.25 billion from foreign debt markets in the EU and the US in order to beef up the Treasury's reserves.

Inflation escalated during H2 2012 to over 5%, falling in December to 4.95% yoy, with agriculture being the most responsible for the upward shoot.

PROGNOSIS

Growth is expected to pick up in 2013 despite a sluggish economic recovery in the Euro Zone, due to shredding political clouds, improving investor sentiment and easing stress on the financial markets.

Other factors to take into account next year are the increasing household consumption due to increases in salaries of 7.4% in December 2012 and pensions of 4% in January 2013, and a good harvest next autumn.

Institutional investors are likely to turn their eyes more to Romania in 2013, while Romanian bonds will rally in both national and foreign markets.

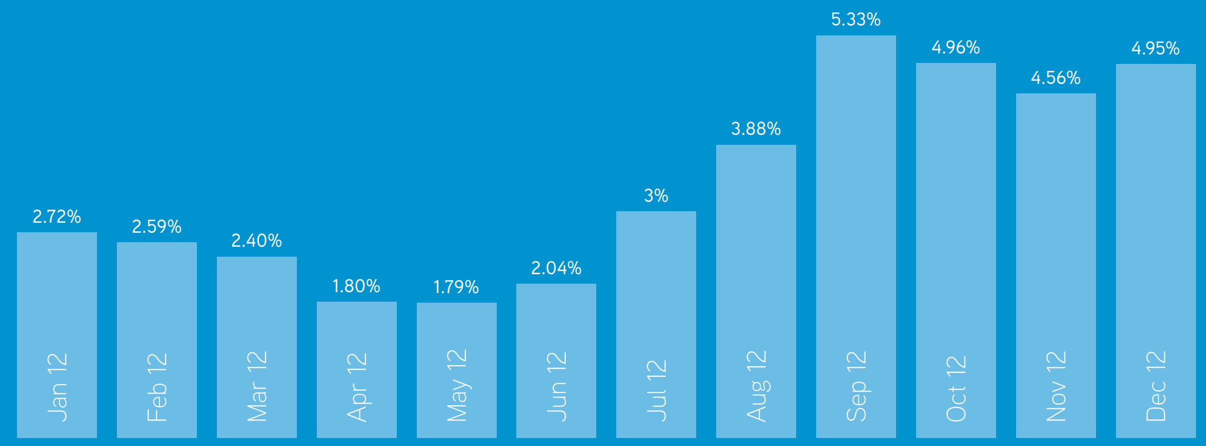
Romania's inclusion in JPMorgan's Government Bonds Index – Emerging Markets will act as a catalyst for further bond sales across the border. Other financial institutions like Barclays are likely to include Romania in their indices as well.

ROMANIAN MAIN ECONOMIC INDICATORS

Indicator	2009	2010	2011	2012E
GDP (€ bln)	118	124	131	131
Real GDP (%)	-7.1	-1.3	2.5	0.2
Trade Balance (€ bln)	-9.7	-9.5	-9.7	-10
Budget Balance (%)	-9	-6.8	-5.5	-2.2

Source: National Institute of Statistics, National Commission of Prognosis

INFLATION RATE EVOLUTION (YOY)



Source: National Institute of Statistics

With (i) a more benign foreign exchange environment under a better perception of foreigners about Romanian assets (bonds in particular), (ii) slow recovery of economic activity in the euro area (starting 2H13), (iii) stabilization or even improvement of the trade balance (new entries as DeLonghi and Bosch), (iv) one normal agricultural year, while (v) the fiscal drag on growth subsides as the budget adjustment softens, we see Romania growing by 1.3% in 2013. Further structural reforms are expected under the IMF umbrella, very much needed to improve growth perspectives and fiscal stability.

Cătălina Molnar
CHIEF ECONOMIST, UNICREDIT TIRIAC BANK

Our main scenario indicates an economic growth of 1.2% y/y in 2013, ±0.5 pps, depending on the evolution of EU funds' absorption and the agricultural production. The annual inflation rate would remain elevated in the first semester of the year, ranging in the 5-6% zone. CPI would decelerate gradually towards 4%. Therefore, interest rates for credits in RON are likely to remain flat in the first half of the year, positioning on a down trend only after the Central Bank starts to loosen the monetary policy by cutting the key rate and/or the mandatory reserve requirements. Although, NBR and the commercial banks are trying to encourage local currency lending, I believe that Euro would remain the main currency for long term financing, especially for mortgage loans.

Melania Hancila
HEAD OF RESEARCH&STRATEGY DEPARTMENT, VOLKSBANK

OFFICE MARKET

Bucharest Office Market

1,540,000 sqm
Class A office stock

170,000 sqm
total take-up

18.5%
vacancy rate (spaces available from landlords)

SUPPLY

With a 4% increase in 2012, Bucharest Class A office stock reached 1,540,000 sqm at the end of the year. Roughly 62,000 sqm of new deliveries were added to the stock, the lowest level since 2004.

Due to limited new supply in large scale projects, in 2012 smaller buildings experienced increased tenant interest. Consequently, 6,000 sqm out of the 11,000 sqm delivered in Aviatorilor Business Plaza, Barbu Vacarescu Offices, Magheru One and Monolit Square were leased by the end of the year.

In terms of larger scale projects, Tower Center International (TCI), Unicredit HQ and AFI Park I became available during 2012. Despite being delivered in 2007, TCI was officially on the market only in 2012, as the ongoing legal disputes were concluded and a new owner bought the building and offered it to the market. Unicredit HQ is a build-to-suit solution fully leased by the bank. AFI Europe delivered the first phase of the office project adjacent to AFI Cotroceni.

DEMAND

The entire take-up registered in 2012 accounted for 170,000 sqm, similar to 2010 levels, but 20% under 2011 volume.

While the number of transactions remained constant in the last two years, the decrease in demand was the result of the reduction in the average transaction size, a 25% contraction (from 1,800 sqm to 1,350 sqm).

In 2012, the demand witnessed the highest share of renegotiations or renewals compared to the last three years. Approximately 30% of the total demand was generated by these contracts. However, the actual share is higher as these deals are usually closed directly between the parties. Another 20% of the entire demand came from expansions or new requirements, while the remaining 50% were from relocations. Half of the relocations were generated by companies that moved from non competitive premises, while the remainder came from Class A buildings.

The net take-up in 2012 was 77,000 sqm and was generated by companies that expanded their occupied spaces, entered the market in 2012 or moved to higher quality buildings. This figure accounts for a considerable downsize of 45% compared to the previous year.

In 2012, the office market confirmed the pre-leasing trend from last year. However, the agreements were signed one year and a half before the projects' completion date, unlike the last two years when these transactions were closed only 3 - 6 months prior delivery date. Tenants with sustainable businesses saw the value in securing quality office spaces in future projects, which provide high technical specifications and accessibility, at competitive terms.

In 2012 the activity mainly relied on IT & Communication companies, as more than 50% of the total take-up demand was generated by this sector.

The companies' need to optimize real estate costs became an even greater driver in 2012 compared to the last three years. Thus, most of the tenants reduced their office areas by sub-leasing parts of their spaces to third parties. As a result, the 18.5% vacancy rate on the market (spaces available directly from landlords) increased with approx. 200 bps, closing the year above the 20% level.

RENTS

Except for the spaces located in Victoriei and Pipera (without metro access), the headline rents remained constant for the entire year. While the premises located in Victoriei registered an average downward correction of 10% to 15%, in Pipera the reductions increased to 30% - 40% compared to 2011 levels.

In terms of net effective rents, we saw significant differences even for buildings located in the same area, depending greatly on the attractiveness of a certain tenant and the size they require.

As some landlords are still constrained in their approach by financing institutions or corporate boards, we have noted some cases of inflexibility in terms of financial packages offered to prospective tenants.

Usually for an efficient office building, the service charge varies between €3.5 and €4.5 per sqm of gross leaseble area. However, the service charge might go up to €5.5 per sqm depending on the technical conditions, specifications, the age of the building and type of taxes included in the service charge.

BUCHAREST OFFICE MARKET EVOLUTION

Indicator	2009	2010	2011	2012
Stock Evolution (sqm)	1,190,000	1,360,000	1,478,000	1,540,000
Total Take-Up (sqm)	90,000	177,000	211,000	170,000
Vacancy Rate (%)	18%	18.5%	16.5%	18.5%

AVERAGE HEADLINE RENTS AND VACANCY RATES BY AREA

FORECAST

144,000 sqm are announced for delivery in 2013. 100,000 sqm out of this new supply is planned for delivery in the Floreasca – Barbu Vacarescu and Dimitrie Pompeiu areas. Floreasca – Barbu Vacarescu has constantly registered one of the lowest vacancy rates in Bucharest over the last three years, thus attracting various developers to undertake new office projects in the upcoming business district. Hermes Business Campus project located in Dimitrie Pompeiu which was postponed during the financial crisis has resumed construction at the end of 2012.

For take-up we estimate a similar volume compared to 2012. The overall vacancy rate on the market is expected to slightly increase, given that 144,000 sqm will reach completion. Approximately 50,000 sqm out of the new supply scheduled for delivery in 2013 is already pre-let. However, while in most areas we expect to see slight decreases in vacancy rates, Barbu Vacarescu – Floreasca will see an increase. At the same time, we expect to see some rent contractions for the existing projects in this area, as both the developers of the premises planned for this year and also those announced for 2014 (an additional 50,000 sqm) are offering flexible financial packages for high quality products.

We expect cost to be the main decision making factor for tenants in 2013 when considering relocation options. Therefore, tenants will be increasingly careful when looking at service charge levels and moving costs. Such costs may motivate tenants to consider renegotiating contracts with their existing landlords. However, increased efficiency and attractive financial packages may overcome such budget challenges and make a strong case for relocation.

TRADITIONAL SHOPPING CENTERS MARKET

We have taken into account shopping malls and also hypermarkets where the gallery represents over 20% of the total project's area.

Romanian Traditional Shopping Centers Market

2,100,000 sqm
traditional shopping centers stock

9
new standalone large food operators opened

10%
decrease in rents

SUPPLY
140,000 sqm of GLA of traditional shopping centers were delivered in 2012. This volume places 2012 approx. 30% below the previous year in terms of deliveries. Thus, at the end of 2012, Romania hosts around 2,100,000 sqm in traditional schemes.

The new traditional supply was comprised of two large centers (Palas and Ploiesti Shopping City), a smaller one (Cora Bacau) and an extension of an existing development (Era Park Oradea). In addition, 9 more standalone large food formats were launched on the market in 2012. While Cora and Auchan concentrated on Bucharest, opening one standalone unit each, Kaufland focused on secondary tier cities and opened 7 more locations. The stock of standalone hypermarkets therefore equalled 125 units at the end of the year.

In 2012 Brasov became the most active city in terms of projects announced to be delivered in the next 2 years, over 132,300 sqm being planned for development here. While Korona Brasov and Coresi resumed their activity in 2012, after they were on standby for a few years, NEPI and Cora are recent comers on the Brasov market.

The developers seem to have understood that the first to secure the tenants and to open the scheme has the highest chances of becoming the dominant player in the short and medium term.

DEMAND
In 2012 we saw retailers actively expanding in existing traditional shopping centers and also committing to pre-agreements in the projects to be delivered in the next two years.

The main fashion retailers, such as Inditex, H&M, C&A, New Yorker, Takko or Deichmann, recorded fewer openings in 2012 compared to the previous year. This is mainly due to the limited options, rather than a diminished appetite.

Medium fashion retailers (with 50–200 sqm selling area) registered an increase in activity in 2012. After consolidating their position on the market between 2009 and 2011, in 2012 they proceeded to the expansion step.

A number of brands that made their exit between 2008 and 2011 re-entered Romania in 2012 for their second chance on the market. Time Out, Lee Cooper or Celio are only a few of these brands that want to take advantage of the better conditions on the market compared to those available in the pre-crisis period.

At the same time, in 2012 the major franchises upgraded their portfolio and entered the market with new retail brands. Since most of their networks are already present in Bucharest and the largest secondary cities, they found another solution for improving their profitability: approaching well-known locations with new brands.

In the case of the brands that struggle in the current market conditions, we have seen more often the involvement of mother companies in the local business. In some cases these companies took over the existing networks from the franchisees in order to consolidate.

Besides the retailers that re-entered the market, we also saw a few new brands opening stores in Romania. Max Azria, H&M Men, Carpisa, CCC and Oodji were the new entrants in 2012.

RENTS
Generally in 2012, rents faced sliding corrections of around 10% compared to the levels for the contracts closed in 2011. The downward rent correction comes from the developers that still have important vacant areas and also from the contracts that reached maturity in 2012 and early 2013. This is the case with most of the shopping centers that were delivered in 2007 and Q1-Q2 2008. Nevertheless many of the contracts went through several renegotiations over the last 3 years. Consequently, we believe that the developers' revenues were not significantly affected compared to the previous year. As in previous years, in the case of premium locations in best performing centers, the rents remained unchanged.

While rents entered a declining trend starting with 2009, the service charges preserved their values and in some cases they even increased. Thus, the share of the service charges in the retailers' total costs increased yearly. Consequently, in 2012, we saw developers starting to shift their attention towards making these costs more efficient and starting to be open to green certifications.

As we have already seen in Cluj-Napoca, such a certification can facilitate also a decrease in the property tax, having a direct impact on the service charges. In Cluj the City Council voted to provide a reduction to a minimum tax of 0.25% for companies owning buildings with a green certification.

ROMANIAN TRADITIONAL SHOPPING CENTERS STOCK EVOLUTION

Indicator	2009	2010	2011	2012E
Stock (sqm)	1,527,500	1,738,000	1,960,000	2,100,000
Hypermarket units (GLA over 5,000 sqm)*	140	160	180	193

The stock includes: standalone units, hypermarkets in malls and within retail parks.

TRADITIONAL SHOPPING CENTERS PLANNED FOR DELIVERY IN 2013

City	Project	Developer	GLA (Sqm)
Bucharest	Promenada Shopping Center	Raiffeisen Evolution	36,000
Galati	Galati Shopping City	NEPI	30,000
Ploiesti	AFI Ploiesti	Africa Israel	29,000
Constanta	Corral	Romania Hypermarche	27,000
Botosani	Uvertura City Mall	Moldova Universal	15,000
TOTAL			137,000

FORECAST

Four projects with around 107,000 sqm are under construction at the moment. All these projects are very active on the leasing side as well, and are scheduled for delivery this year. 2013 new supply also includes NEPI's project in Galati, provided that they will obtain all the necessary permits in time.

2013 is announced to be the most active year for the Bucharest traditional retail market, after the financial crisis. 5 shopping centers, totalling 209,000 sqm are planned to break ground this year. As 4 of the future projects are fighting over two areas of the city, not very well covered until now – the Eastern and the North-Western part – everyone is waiting to see the first one to break ground.

2012 is estimated to be the second year of positive growth in household consumption, after 2008. According to the most recent information available from National Commission of Prognosis, in 2013 the consumption will increase with an additional 1.9% compared to 2012. Even though a modest improvement, this will generate a positive environment and we expect to see retailers continuing to expand in 2013. Nonetheless, the demand will be driven by the players already established on the market and only to a lower extent by new entrants.

Out of the 460,000 sqm comprised in the shopping centers delivered in 2008, probably around 30% underwent renegotiations by the end of 2012. We estimate that for 5–10% out of these spaces, the renegotiations were not concluded yet either because the developers want to attract better brands or because a compromise solution could not be found. In these cases we expect to see further decreases. The rent reductions will vary greatly from center to center, depending on its occupancy rate and attractiveness on the market. However, this time we also expect to see small rent reductions in the best performing centers.

SPECIALISED SHOPPING CENTERS MARKET

Romanian Specialised Shopping Centers Market

821,000 sqm
stock in specialised shopping centers

6
new standalone DIYs opened

0%
change in rents

SUPPLY
In 2012 we saw another downward correction of the stock of specialized centers, as Arad witnessed the conversion of Armonia into a logistic park. Nevertheless there were also cities that saw new deliveries, totalling around 35,000 sqm.Thus, at the end of the year, Romania was counting a total of 821,000 sqm of specialized shopping centers.

While the first part of 2012 saw only 5,000 sqm of new supply in Brasov strip mall delivered by NEPI, the second half of the year was much more active, developers being pressured to open by December, when the average expenditure per inhabitant increases. 2012 new stock includes one extension in an existing project (Tom Shopping Center) and also two small retail parks (Kaufland Iasi and Mihai Bravu).

The overall market's picture on the specialized segment was completed by the deliveries of DIY standalone units. We counted a number of 6 big boxes that were delivered in 2012 and a total stock of 83 units at the end of 2012.

Dedeman continued their dynamic expansion in 2012 and opened 4 locations. However, the other DIY players had a slower pace in 2012, with Baumax and Hornbach opening one location each, in Cluj-Napoca and Timisoara, respectively.

Three drive-through food units were launched in 2012 in key traffic locations or in the parking of bigger retail schemes (KFC Mihai Bravu and Baneasa and McDonals Pipera).

DEMAND
In 2012 the food retailers remained the most active players on the market, actively seizing the available opportunities. During this period, we saw an increased interest for small and medium formats (500–1,600 sqm). Because of the limited high street locations available on the market, the retailers started to consider greenfield developments as an option for securing their expansion targets.

Even though more cautious, the major food players on the market have been continuously expanding in 2012. After around 2 years of consolidation, Carrefour resumed its expansion process and in 2012 secured two new locations in future projects: Vulcan/Benevo Retail Park in Bucharest and Korona in Brasov.

Auchan made the headlines in 2012. At the beginning of the year, Immochan announced the acquisition of Tractorul site in Brasov, where they plan the development of a mixed use project to be anchored by Auchan on the commercial side. By the year end Auchan also announced the completion of the takeover transaction of Real.

Except for Dedeman, that continued to secure new locations, DIY's were focused on developing their land portfolio and were more passive to the opportunities on the market.

Several developers started to secure plots for strip malls in secondary cities, as they present interesting opportunities for small schemes. They plan to attract discount fashion, home appliance and services retailers in order to create an attractive retail pole next to the existing food anchors in these locations.

RENTS
In 2012, it was very clear that the rent in the specialized shopping centers stabilized. More than usual, the rent levels were directly connected to the project's catchment area, the consumers' purchasing power, as well as existing and future competition.

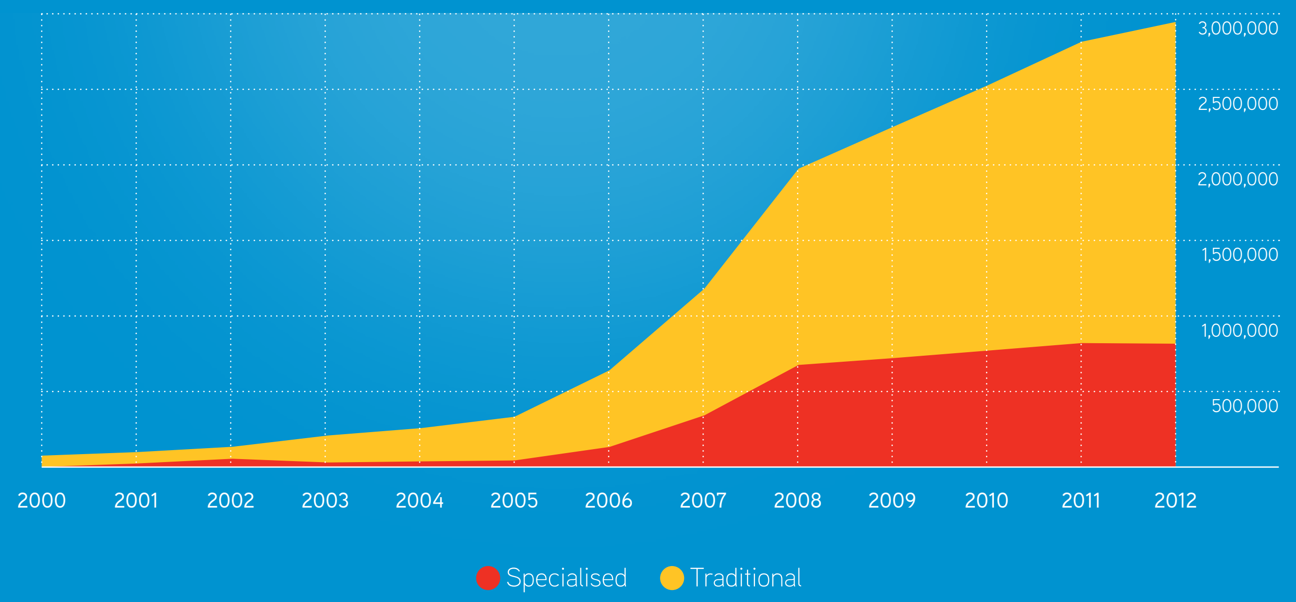
As anchor tenants targeting the low and medium income population need to be extremely attentive to costs, they sometimes prefer retail parks as in most of these cases the service charges are below half the figures of those registered for the traditional schemes.

ROMANIAN SPECIALISED SHOPPING CENTERS MARKET EVOLUTION

Indicator	2009	2010	2011	2012
Stock (sqm)	722,000	772,000	837,000	821,000
DIY units*	74	88	97	103

**Both standalone units and anchors in large scale developments.*

ROMANIAN RETAIL STOCK EVOLUTION (SQM)



FORECAST

Bucharest remains a hotspot for most of the players, but the land supply suitable for large scale developments is limited and rather expensive. A number of large cities outside Bucharest have also become appealing to the main players. Thus, we expect to see more activity here in the following period. In the case of the cities that are already saturated in terms of modern retail supply, we expect a significant economic growth before seeing any new retail schemes.

The number of land plots still suitable for big retail formats within the cities is limited. We expect this to trigger the development of smaller retail developments, standalone units or strip malls, as well as the interest of the developers for the second generation of retail parks, located at the edge of large cities, as those hosted by the Western countries.

NEPI, the most active developer on the local market, plans the development of Vulcan Retail Park in partnership with Benevo. By the end of 2013, this will add 27,000 sqm gross leasable area to the specialized stock. Besides the traditional shopping center in Galati, NEPI also plans five more strip malls attached to existing Kaufland hypermarkets throughout the country.

Moreover, we expect to see more often the existing food format joined by services and fashion units, depending on their location.

The current rent levels are at minimum limits, under which developing a profitable scheme becomes almost impossible. As rent levels are today quite correctly linked with the turnovers of the retailers, we do not expect to see further decreases.

HIGH STREET RETAIL MARKET

Bucharest High Street Market

10
new buildings in the Old City Center

12%
of the spaces in the Old City Center leased to leisure and entertainment sector

10%
vacancy rate in Magheru and Calea Victoriei

SUPPLY

In 2012 the high street market witnessed a new wave of available spaces, as the contracts signed in 2007–2008 reached maturity. While in 2010–2011 most of the retailers, especially the banks, underwent renegotiations, in 2012 as their contracts reached maturity, they preferred to close down more locations in line with their new optimization strategies. This brought new spaces to the market.

In addition, a number of spaces in the Old City Center became available as they were either refurbished or had their litigations solved. Therefore, more than 10 new buildings in the area were rented out in 2012.

DEMAND

The market dynamics was similar to 2011, with tenants such as supermarkets, casinos, pharmacies and telecom operators remaining the main demand drivers in 2012.

Mega Image in Bucharest, Profi in the countryside and Carrefour Market both in Bucharest and countryside have all actively secured and opened locations in 2012.

Starting with July 2009, Russia significantly changed the law regulating casino's activity in the country. Under the new law, the casinos and slot machines were allowed to operate only in several remote regions of Russia. Thus, Romania along with the countries in the CEE became favourable solutions for relocating the gambling equipments in excess.

Consequently, Manhattan Casino opened in 2012 its first unit in Bucharest. Nonetheless, MaxBet remained the most active casino operator in 2012, opening numerous locations in Bucharest and throughout the country.

The pharmacies' segment saw a new trend in 2012. As the maximum level of operating licences for the major cities had already been reached in the previous years, the players on the market started to acquire existing small networks in order to increase their market share. Thus, BellaDonna acquired Remedio and Sensiblu acquired City Pharma.

In telecom, 2012 was the year of consolidations. Most of the large players took over some of their smaller dealers and closed down locations that were not profitable.

The Old City Center was the hot spot for fashion retailers. By the end of the year we saw most of the major players analyzing the available opportunities. However, except for a large fashion retailer that will be hosted in a newly built space, most of the brands did not commit yet to any of the available old buildings. In order to be accommodated in the spaces available in the area, retailers have to consider changes in their concepts, as the old buildings have both difficult shapes and sizes. On the leisure and entertainment side, the demand remained strong, around 12% of the spaces located in the area being subject to leasing transactions in 2012.

RENTS

In 2012 Magheru and Calea Victoriei commercial arteries continued to register considerable rent compressions, as the vacancy rate in these areas reached 10%, double compared to 2011 level.

Demand for semi-central spaces in high traffic areas, especially those close to markets and metro stations, increased in the last years, therefore maintaining rents at a stable level in these areas in comparison to the slight decrease of the overall rents.

BUCHAREST AVERAGE RENT EVOLUTION BY AREA (€/SQM)

Area	2009	2010	2011	2012
Central	70 – 120	55 – 100	50 – 75	45 – 75
Semi-central	45 – 100	35 – 80	20 – 35	18 – 30
Peripheral	20 – 50	16 – 35	7 – 25	7 – 25

RENT PRICES BY AREA (€/SQM)

FORECAST

Most likely in 2013 the market will register a further increase in the high street available stock. This will be mainly given by the spaces that are under construction in the Old City Center. We estimate that 8,000 – 10,000 sqm will be added to the stock in the next two years in the spaces that are either under construction or under refurbishment.

In 2013, the pharmacies and casinos will still be two of the main players on the market. Even though the number of pharmacies will remain constant, we will see them moving some of their shops to new locations in order to increase their profitability.

2013 will bring the first large fashion brand to the Old City Center and we expect this opening to trigger further expansion of the fashion segment in the area.

Overall, the rents will remain stable in 2013. However, provided that the fashion segment will consolidate their presence in the Old City, we expect to see some decreases in rents. Fashion retailers are usually paying lower rents, but they commit to contracts for longer periods, which makes them an attractive alternative for the landlords in the area.

INDUSTRIAL MARKET

Bucharest Industrial Market

941,000 sqm
Class A industrial stock

55,000 sqm
total take-up

5-10%
decrease in average headline rents

SUPPLY

The industrial market in Romania has two components: the logistic warehouses and the production facilities. While the logistics settled their activities firstly in Bucharest and expanded afterwards in the countryside, the production units chose to go directly to secondary cities.

Bucharest mainly hosts logistic warehousing as the workforce here is too expensive for production units to be feasible. The stock of logistic spaces reached 941,000 sqm at the end of 2012, after the delivery of an additional phase of 19,000 sqm in Bucharest West Logistics Park, a build-to-suit facility for DSV Solution. As in the last four years, in 2012 new development activity in the segment remained limited.

The countryside hosts both logistic and production facilities, with Timisoara and Ploiesti being the most developed on both segments. Even though Arad also had a balanced evolution, it lags behind the previous two cities in terms of stock. Whereas Cluj Napoca, Craiova, Pitesti and Sibiu developed into production centers in the last years, Deva, Bacau (for small requirements) and Turda grew into logistic hubs. Generally, a strong production development favors the growth of the logistics thereafter, a trend that we are already seeing in the above cities. While in 2011 we counted roughly 100,000 sqm in the new logistics projects outside Bucharest, in 2012 we saw no new deliveries, as a large share of the spaces delivered in 2011 are still vacant.

DEMAND

Bucharest saw a total take-up of 55,000 sqm and a net take-up of 44,000. Compared to the previous year, this is translated into a compression of 45% for the total demand and of 16% for the net take-up, Thus, the market hit a new post-crisis historic low for the take-up. For the first time, in 2012 we also saw a significant demand for temporary units. Around 17,000 sqm were subject to leasing transactions for a 3–6 months period.

In 2012 total demand came from relocation (20%), pre-leasing (35%) and expansion (45%) transactions.

In the countryside the demand was channeled to logistic parks, around 25,000 sqm being leased in the major logistic parks outside Bucharest: LogCenter Timisoara (DSV – 2,700 sqm), LogCenter Ploiesti (Profi – 15,000 sqm) and Olympian Timisoara (KLG – 7,500 sqm).

Demand was exclusively driven by existing players. As most of the companies outsourcing the logistic services customarily change their provider every three years, we saw logistics players expanding their warehouses as they won new tenders. Another notable market trend was the relocation to higher quality spaces or better financial terms by those companies with in-house logistics.

After four consecutive years of growth in vacancy, in 2012, Bucharest succeeded in absorbing a part of the available spaces due to the limited new supply registered during this period. Thus, the vacancy rate on the market decreased under the 15% level.

RENTS

The average headline rents vary greatly from city to city and are directly correlated with the occupancy rate and the land prices in each city.

At the end of 2012, after a 5–10% yoy shrink compared to 2011 end, the headline rents for Bucharest logistic spaces varied between €3.5 and €4.15 per sqm, depending on the size and lease term. Moreover, most of the owners were flexible in offering further incentives: mainly rent free months.

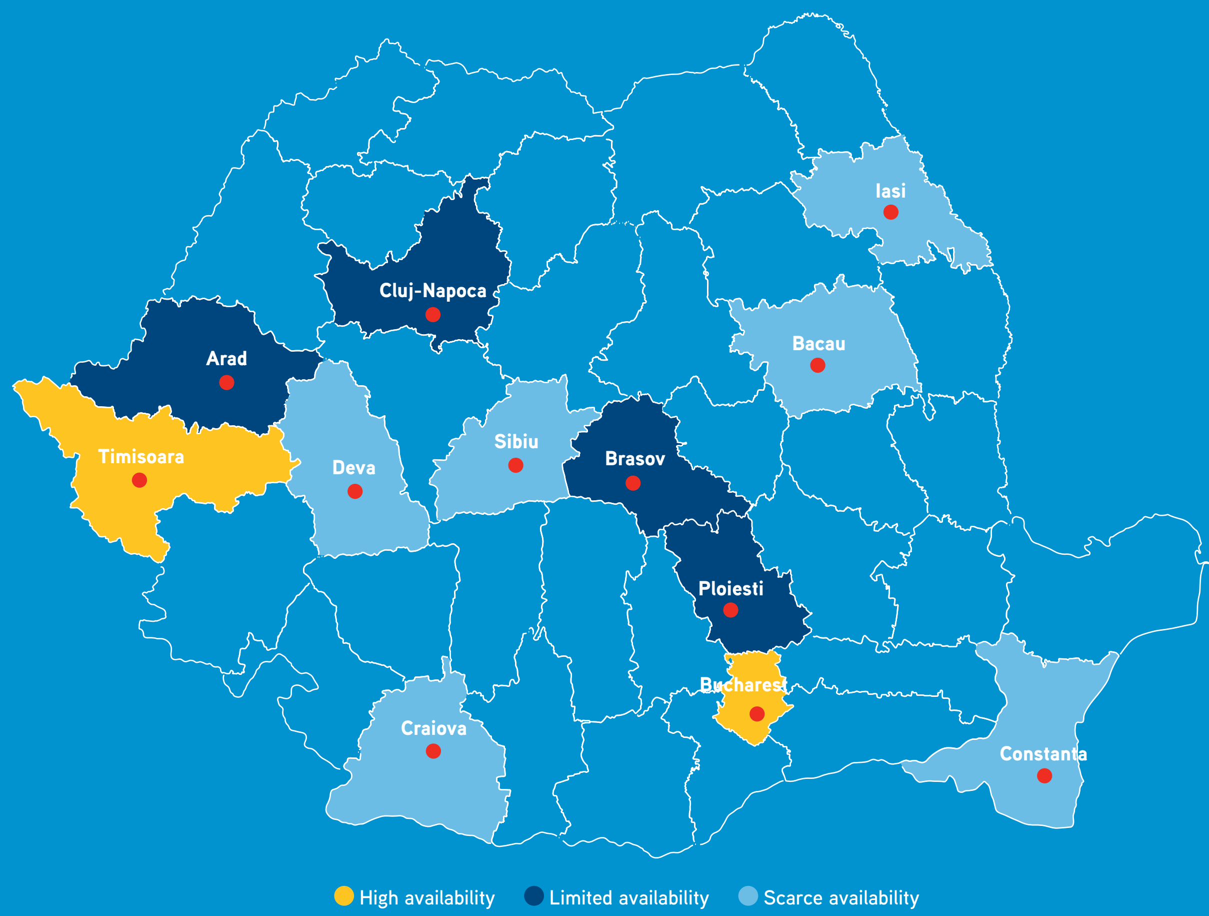
In the case of Arad and Timisoara, better financial terms could be obtained, due to the significant vacancy there.

The additional costs with service charges vary between €0.7 and €1 per sqm.

BUCHAREST INDUSTRIAL MARKET EVOLUTION

Indicator	2009	2010	2011	2012
Stock (sqm)	895,700	907,700	922,000	941,000
Net Take-Up (sqm)	100,000	75,000	52,000	44,000
Vacancy Rate (%)	11.99%	15.37%	15.31%	14.49%

COUNTRYWIDE HIGH QUALITY AVAILABLE SUPPLY



FORECAST

We do not expect to see significant new projects being started in 2013. Except for the owner occupied building developed for H. Essers, there is no project announced for completion in Bucharest in the next year. However, we estimate that several large units in the existing projects could be vacated in 2013, at least 4% - 5% of Bucharest industrial stock becoming available on the market. Depending on tenants' interest, Cluj county may see the completion of 20,000 sqm in the Graells & Llonch project in Turda.

In 2013 the demand will be driven by existing players, as we do not expect new companies to enter the logistic market too soon. However, after a modest 2012, we expect transaction activity to gain momentum in 2013. Some 300,000–400,000 sqm comprised in the contracts signed in 2007–2008 in Bucharest will reach maturity in 2013 and will have to consider whether to renew or to relocate to other projects. Moreover, as the headline rents have become more attractive, we might see an increase in demand from companies that currently lease spaces in lower quality facilities (Class B or unconventional spaces). We expect to see companies increasing the leased area as logistic companies will gain further contracts.

It is our opinion that the headline rents hit the bottom at the end of 2012 and are already correlated with the current market's performance. Thus, we do not expect further negative adjustments. Nonetheless, landlords with high vacancy will remain flexible to rent negotiations.

LAND MARKET

Romanian Land Market

3 deals
over €20 million

2.6 ha
sold in Aviatiei area for office use

5-15%
decrease in negotiated prices

SUPPLY

While the land market remained governed by a huge gap between low demand and the extremely diverse supply, 2012 brought an increase in distressed assets. Those owners in urgent need of liquidity were forced to accept the extra-discounted prices they received from opportunistic investors.

At the same time, banks decided to put up for sale a larger portfolio of land plots with good development potential, being also more realistic in terms of prices.

DEMAND

The demand on the land market in 2012 was triggered by the already known segments. Similar to the previous years, its main drivers were the retailers and the retail developers. However, they were more cautious in 2012. While most of the targeted areas had already been covered, they stayed away from locations with high competition.

Out of the large retailers, only a number of them had the approval for further expansion in 2012. Kaufland and Dedeman became the leaders on their segments not only by turnover, but also in terms of stores opened and plots secured in 2012.

Developers were keener to close transactions with land plots for retail projects. They were interested both in large plots, appropriate for retail parks, and also in small lands, suitable for strip malls, next to existing food anchors. While the large cities with limited competition were mostly targeted for retail parks, the medium cities (50,000–70,000 inhabitants) were attractive for strip malls.

The office sector was a new driver during 2012 and generated much more activity compared to the previous year. The most sought after area was the Aurel Vlaicu metro station hub, in Aviatiei neighborhood of Bucharest, the transactions closed in 2012 in the area totaling approx. 2.6 ha. The interest for the office sector moved to the countryside cities also, the market registering such a transaction in Cluj-Napoca: Modatim's owner, Ovidiu Sandor, in partnership with NEPI, acquired a 1.8 ha plot in Cluj city center.

Towards the year end the interest for residential lands seemed to revive. Thus, we expect an increased appetite for this sector to materialize in 2013.

The market proved to be opportune for speculators in 2012. They mainly targeted smaller land plots in Bucharest, appropriate for residential or office usage, in premium locations (low investment value, low risk).

TRANSACTIONS & PRICES

The total transactional activity was similar to the levels registered during the previous year, both in terms of total volume and number of deals.

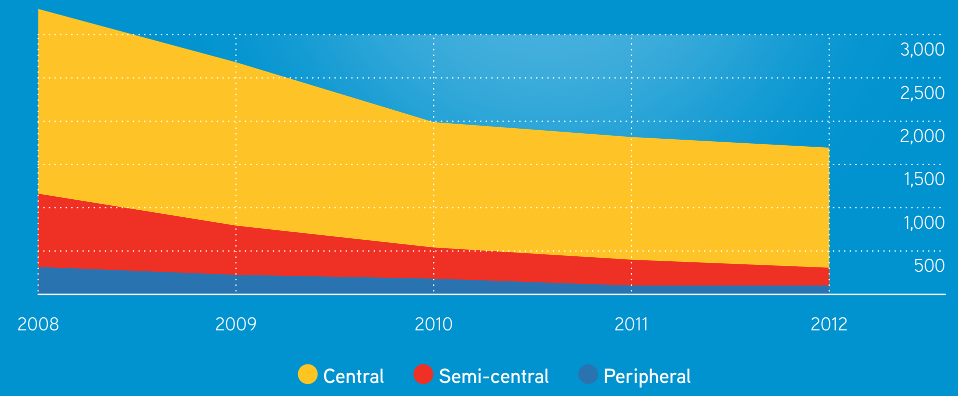
Average transaction value remained low, the biggest three deals being closed in the range of €20–25 mil. each: the acquisitions of the Vulcan platform in Bucharest (8 ha), the former Tractorul factory in Brasov (100 ha) and the Trefo site in Galati (13 ha).

In 2012, the negotiated prices were 5–15% lower compared to those registered during the previous year. However, in most cases the prices registered in closed transactions during 2012 had been negotiated since 2011. Those deals were closed in 2012 as they depended on a number of conditions that had to be fulfilled by the landlords, such as obtaining certain zoning approvals and authorizations.

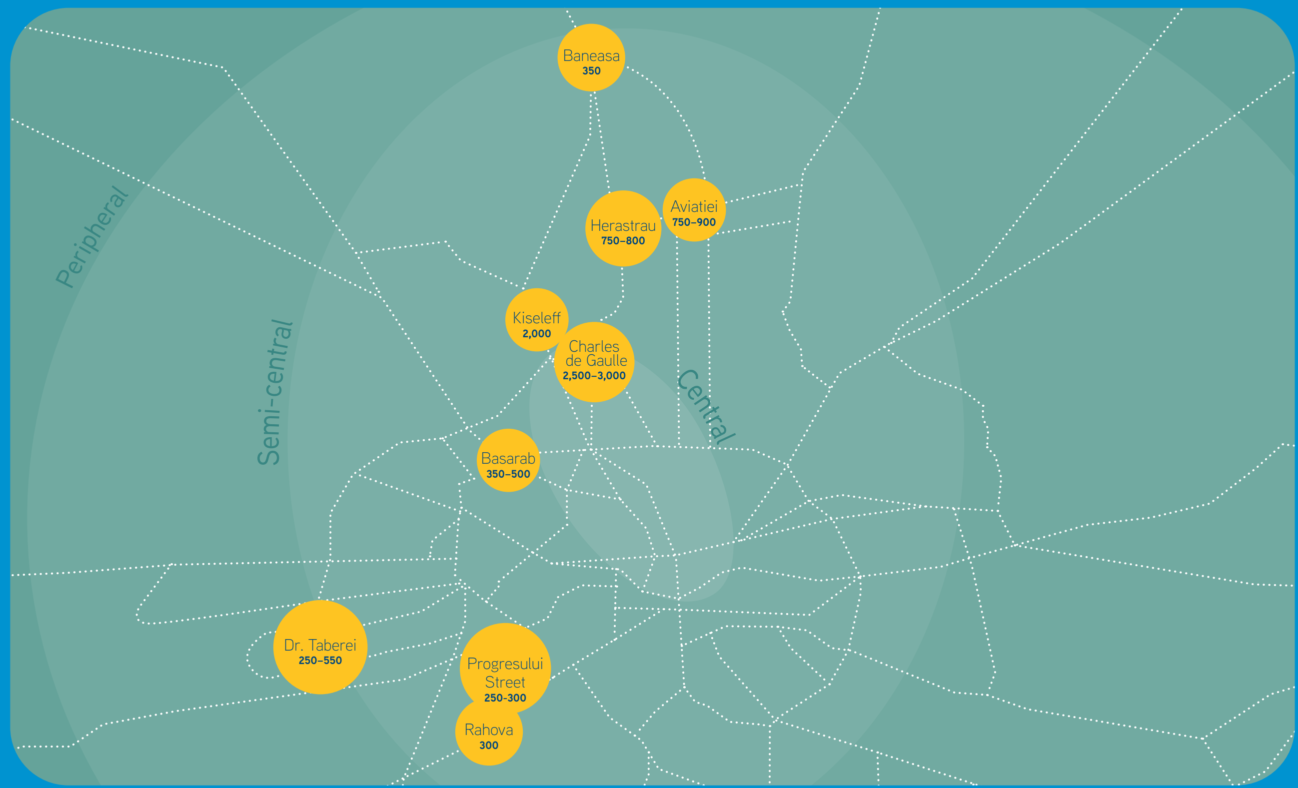
Nowadays the price for a certain property is not influenced so much by the location, as by its development potential and, in many cases, the landlord's pressure to sell. Thus, there were large discrepancies between prices of different land plots located in the same area. For example, the price accepted by a landlord in a distressed position for a residential plot in the second row in the Aviatiei area was 10 times lower than the price paid by an institutional developer for an office plot located on the main boulevard and next to the metro station.

As transactions depended greatly on securing zoning or even construction permits for projects, the timing of closings was random and highly unpredictable in 2012. The local elections in summer generated political changes which modified the calendar of the Bucharest General Council and postponed transactions.

BUCHAREST LAND PRICES EVOLUTION 2008–2012 (€/SQM)



LAND PRICES IN TRANSACTIONS NEGOCIATED IN 2012 (€/SQM)



FORECAST

Most likely, in 2013 the traditional developers will take a more cautious approach in prospecting new properties and will be rather focused on closing the deals in progress. Thus, we expect to see a number of important transactions completed in 2013, especially on the retail segment, as they were in advanced stages at the end of 2012.

The office sector will be appealing in the next year as well. Nonetheless, the potential of this segment is limited to a few targeted areas and a small number of active players. These investors started to look at several other areas than those considered "hot" in 2012. This is the effect of important infrastructure projects approved or even started, that would improve the access to these new areas. Equally important, most investors aim to split their exposure and risks on more sub-markets.

The activity on the land market will be augmented by opportunistic players that will be looking for very good deals.

Prices will register a slight downward correction in 2013, mainly in the overheated areas. Given the announced pipeline of projects in these locations, new entrants will not be able to pay the same prices, as they will have to deliver in a market with a high competition. Plots in peripheral locations, with poor infrastructure, will most likely continue to depreciate, since there are no investors targeting such properties.

INVESTMENT MARKET

Romanian Investment Market

8.25%
office yield

8.75%
retail yield

10.25%
industrial yield

TRANSACTIONS

Investors started 2012 in the "wait and see" mood that defined the investment market in H2 2011. The most notable transaction was NEPI's acquisition in February of City Business Centre in Timisoara, where Colliers International advised the buyer. Despite the good start, the investment market gained further traction only in the second half of the year.

The overall transaction volume amounted to around €153 million, a 70% increase compared to 2011.

The regular investment deals accounted for around €111 million in 3 main transactions: City Business Center, HQ Victoriei and Litexco Stirbey Center. Apart from these, the market also registered the distress takeover of Bucharest Tower Center International by private investors Mr. Papalekas and Mr. Bilteanu.

City Business Center Timisoara was the landmark transaction of 2012. NEPI bought the three existing buildings in the project along with the remaining two future phases from Ovidiu Sandor. The project will have a gross leasable area of approximately 45,000 sqm and the transaction price is estimated at cca. €85–90 million upon completion.

As a new trend on the market in 2012, we saw an increased demand from owner occupiers, which was the case with the Nova Office Building, Litexco and Auchan Pitesti transactions. Both Auchan Pitesti and Nova Office Building (which was acquired by the tenant) are not included in the total investment volume as these are not usually conducted on the open market.

INVESTORS

The private equity funds that had been looking at the Romanian market in the past few years were less active in 2012, as most of them finished their investment period and capital allocation, finishing the year in fundraising mode.

The most active players remained NEPI, private investors Mr. Papalekas and Mr. Bilteanu, as well as the Greece based fund Zeus.

In the second half of the year we saw a number of new opportunistic funds starting to prospect the market. Although no transactions have been closed thus far with these funds, we expect to see more liquidity of distressed assets in 2013 and more creative deal structures to unlock the current rigidity of banks.

PRICES

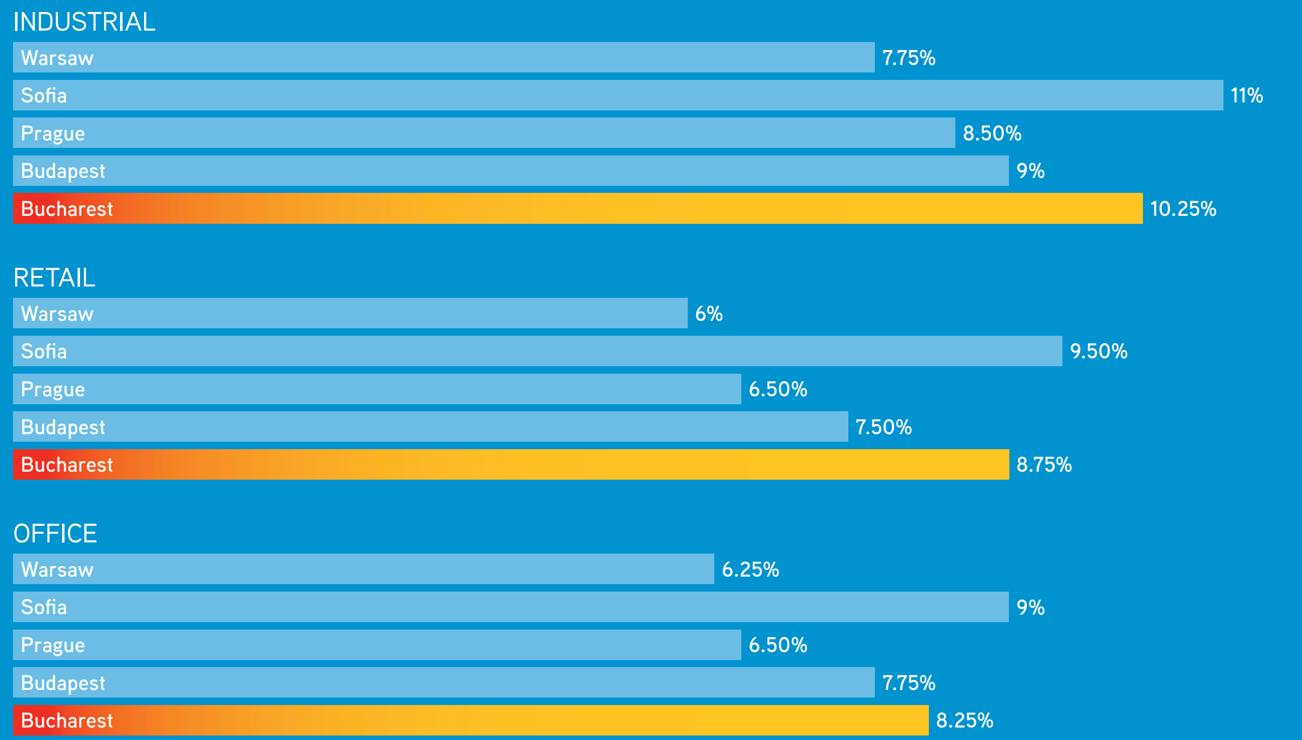
Although there was more pressure on yields in 2012 due to a slight decrease in market conditions and buyer demand, the prime yields did not move significantly. Based on the market activity and bank finance rates, we estimate a yield increase of cca 25 bps.

The industrial sector continues to be seen as the most risky real estate segment, due to weak tenant demand. Thus, very few of even the best industrial properties could attract offers below 10%. For prime retail, the yields are more difficult to estimate due to the complete lack of activity on the prime retail segment, but our assessment places retail yields at cca. 25–75 bps higher than prime office, at 8.50–8.75%.

ROMANIAN INVESTMENT MARKET EVOLUTION

Indicator	2009	2010	2011	2012
Transaction Volume (mil. €)	100	500	90	153
Office Yield (%)	8.5%	8.25%	8%	8.25%
Retail Yield (%)	9.5%	9%	8.75%	8.75%
Industrial Yield (%)	12%	10%	10%	10.25%

PRIME YIELDS IN CEE CAPITALS



FORECAST

On the prime real estate segment, although demand will generally remain subdued due to the continuing yield gap, financing issues and competition from more stable Western real estate markets, we still expect to see 1 to 2 large transactions concluded in 2013.

This year we also expect to see more transactions in the non-core segments of the market – in particular smaller office buildings, distressed retail centers and industrial properties.

These are the segments where interesting opportunities started to appear from distressed owners in the second half of 2012, a trend expected to increase in 2013. The lower overall value of such properties makes them accessible as all equity purchases, which continues to be a necessary approach given the difficult financing markets. We note there is liquidity on the market for acquisitions, both from national and international sources, but it will only be disbursed for very attractive opportunities.

RESIDENTIAL MARKET

Bucharest Residential Market

5,000
units available on the market

2,000
units sold

920 €/sqm
average price (without VAT)

SUPPLY

2012 was off to a bad start with three residential projects entering insolvency process, as the poor sales over the last four years forced banks to consolidate their positions and take charge of the developments they financed. By the end of the first quarter the number of insolvencies reached 13, but following a restructuring process, some managed to re-enter the market.

The supply received additional units throughout 2012, the main contributors being on the one hand the projects that registered demand and continued the development of new units, and on the other hand, projects launched before 2008 that needed to be finalized. The latter too had a better adapted mix and layout to the current market conditions.

Because of the prolonged poor sales period, a growing number of developers turned to the leasing market. With apartment yields of approx. 5% per year, this market segment has been slowly growing over the last few years as owners chose to wait for better selling conditions.

At the end of 2012 the total stock in the analyzed projects had reached 20,000 units, out of which around 75% have been absorbed. Approximately 50% of the remaining units are available in projects launched before 2008, being poorly adapted to the current market conditions.

DEMAND

Similar to previous years demand came from end users, and mainly focused on the low segment of the offer. Out of the total sales more than 67% were represented by such purchases. This is due to the more affordable prices and to the more accessible financing in the form of the Prima Casa Programme, which continued to be the main driver of the market.

The middle and upper middle segments resurrected after undergoing a process of restructuring and reduced prices in an attempt to be more competitive.

As a consequence sales per month increased for a number of developments, reaching a total of approximately 650 units per year in all analyzed projects.

Sale levels were comparable with the previous year, although most developers mentioned a slower start in 2012 primarily because of the national political turmoil. By the end of 2012 close to 2,000 apartments were sold in the analyzed projects.

Residential investors continued to be present in the market throughout 2012 looking more actively to close deals, particularly for distressed assets. Nevertheless, banks were still unwilling to discuss projects at high discounts.

PRICES

The prices continued to adjust in 2012. Consequently, the overall market average registered an 8% drop in prices in the last 12 months, reaching 920 € per built sqm at the end of December 2012. While the developments targeting the low and upper middle income population registered a 10% reduction, those addressing the middle income class saw a contraction of 5%.

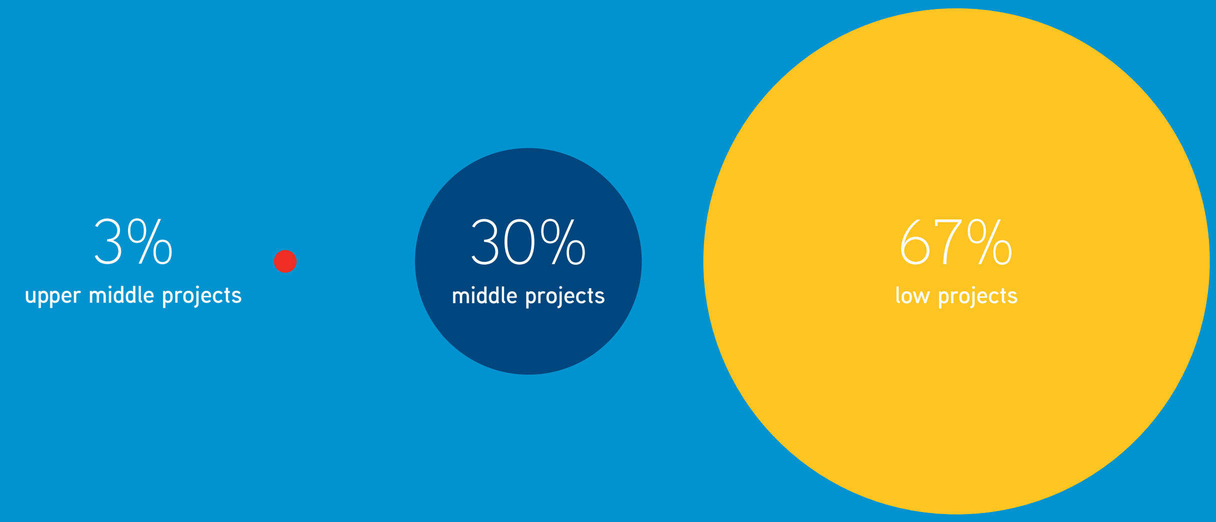
For a number of middle and upper middle projects, banks stopped artificially imposing the minimum selling prices and succeeded in aligning to the current market conditions only last year. Moreover, most of the projects facing insolvency entered the restructuring phases in 2012 and they resumed the selling process by the end of the year, offering discounted prices in order to be more competitive.

The decrease in the average price for low projects came from a number of developments that are located in unattractive areas. Thus, they reduced the prices in order to overcome the location drawback. In several particular cases the drop in prices came as these projects are almost completely sold out, only large units still being available for sale. The prices were decreased in order to make the units more affordable.

BUCHAREST NEW RESIDENTIAL PRICES EVOLUTION (€/BUILT SQM, WITHOUT VAT)

Average Price	2009	2010	2011	2012
Market Price	1,300	1,070	1,000	920
Low Projects	1,020	950	875	800
Middle Projects	1,430	1,200	1,150	1,100
Upper Middle Projects	1,860	1,490	1,450	1,300

2012 BUCHAREST RESIDENTIAL DEMAND BY PROJECT CATEGORY



FORECAST

After 2012 with limited new projects brought to the market, a boost in the supply is announced for 2013. A number of new projects and also subsequent phases in the existing developments are planned to break ground this year. 2013's novelty consists in the increase in the supply targeting the middle income segment: average quality developments in semi-central traditional residential area such as Iancului – Muncii, Tineretului or Aviatiei.

In 2013 demand will be reliant on the available financing conditions. Prima Casa Programme proved to be successful both because it was backed by the Government but also because of the good offered conditions compared to the complementary financing schemes available on the market. Thus, in 2013 the demand will continue to be dependent on Prima Casa Programme or any other similar project. The recent announcements regarding the shift of the existing programme towards new units might generate a slight increase in the demand for this type of apartments. Nonetheless, only a certain part of those who can afford an old unit will qualify for a new unit.

Provided that the new programme is approved and launched during this year, the demand for new units will improve and most likely the prices will remain unchanged.

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

7,050
rooms stock

53%
average occupancy rate

€75
average room night rate

SUPPLY

The limited new hotel supply registered in the last four years is a direct consequence of the restrictive financing conditions brought by the economic downturn. In 2012, the Bucharest hotel stock saw the largest growth compared to the last three years, increasing by 216 rooms – but a small fraction compared to 2008 levels. The new supply is hosted in three midscale hotels: Europa Royale, Hotel Cismigiu and Marshall Garden.

The inventory of the analyzed hotels in Bucharest revealed a stock of 7,050 rooms in 55 good quality schemes. 60% out of this stock is affiliated to international or strong local chains.

DEMAND

In 2012, the 3*, 4* and 5* hotels in Bucharest accommodated approximately 1,200,000 visitors, who spent 1.65 nights on average. The hotel overnights decreased from 1.83 nights in 2009, down to an estimated 1.65 nights in 2012, as business travelling budgets reduced during this period.

The demand was mainly triggered by foreigners, accounting for 56% of the total number of tourists who visited Bucharest during the last years.

After the significant change in the market dynamics in 2009, the demand increased at a small pace in 2010 and 2011. In the last 12 months, the occupancy rate dropped by 100 bps, reaching an average of 53% for 2012.

Beside political and economic causes, the difference in occupancy between 2011 and 2012 is also given by the extra demand generated by the George Enescu festival. The event takes place every two years for a one month period (September) and contributes to an increase in demand on the Meeting, Incentives, Conferences and Events (MICE) sector.

Bucharest's hotel market is mainly driven by weekday demand, created by the globalization of the business environment. In Bucharest, the largest share of the demand in the city is driven by the business sector, accounting for 85–90% of the entire occupancy in our estimation.

RATES

In 2012 the market registered a 4.2% increase in average daily rate (ADR), at the expense of the occupancy rate.

Although occupancy levels increased between 2009 and 2011, showing a slight boost in the demand, the strong competition between the hotels put pressure on the ADR. The luxury hotels preferred to bring down their rates to the levels available in the midscale lodging facilities in order to generate more demand. At the same time, some of the hotels were forced to downgrade their premises to offer even more discounted prices.

The 2012 ADR of €75 per room night varied from period to period. It decreased down to €75 per room night during the months with small occupancy rates (from December to February and July to August) and increased in the more affluent months up to €77 per room night.

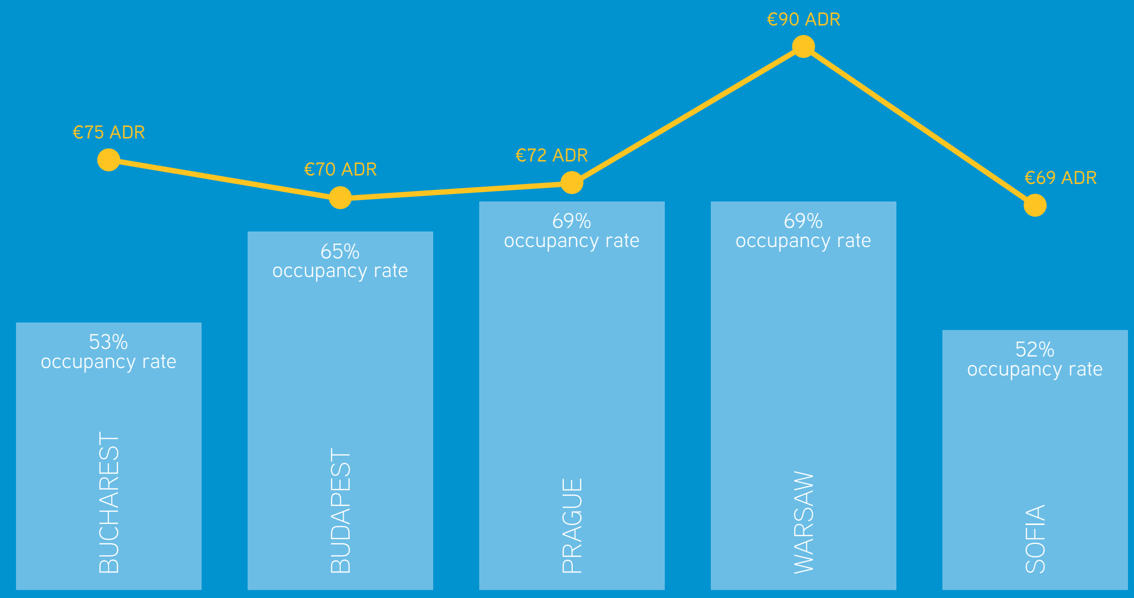
The same trend was available during the week period. The ADR was smaller during weekends (around €67 per room night), when the demand was low and increased from Sunday to Thursday (to €77 per room night).

BUCHAREST HOTEL MARKET EVOLUTION

Indicator	2009	2010	2011	2012
Average Occupancy Rate (%)	43%	51%	54%	53%
Average Daily Rate (€/room night)	85	75	72	75
Revenue per Available Room (€/room night)	40	38	39	40

Source: STR

2012 HOTEL MARKET PERFORMANCE IN CEE CAPITALS



Source: STR

FORECAST

There are no hotels announced for delivery in Bucharest in 2013, but we expect to see commitments for future developments on the accommodation market.

In terms of new entries on the market, we identify two challenges in the following period: the difficulty in securing the ideal location and the challenge of filling the gap between brands' and developers' expectations. The scarce land supply available in central locations and the high prices are the most important detractors for new hotel developments. The gap between developers and brands is related to the assumed risks. While investors are willing to develop hotels mainly under lease agreements with certain brands, the brands are interested only in entering management contracts.

On the medium term, we expect to see new midscale hotels entering the stock, as they represent the best options for corporate demand, providing basic bed facilities at affordable costs. Business visitors usually appreciate the quality of the bed, the shower, the available TV programme and WIFI connection.

The Old City Center area and the well known business hubs are the most appealing locations for future lodging facilities. On the short to medium term, developing areas such as Barbu Vacarescu – Floreasca, along with Dimitrie Pompeiu areas might prove to become very attractive.

Most likely, demand will grow an estimated 5% compared to 2012. The increase will depend to a certain extent on the George Enescu Festival to be held in 2013.

We do not expect to see hotels in a position to significantly increase the room rates for the next year. Consequently, we estimate a constant ADR, with a possible uptrend for upscale and luxury segment, taking into account their current small rates.

TAXATION ASPECTS

Alex Milcev

TAX PARTNER, TAXATION SERVICES

Presented here some key aspects that should be considered by individuals or companies investing in Romanian real estate properties, either directly or via a Romanian entity.

Ernst & Young provides a range of services including assurance, advisory, tax advisory and compliance, and transaction advisory.

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TAXATION OF RENTAL AND DISPOSAL OF ASSETS

RENTAL ACTIVITIES

Rental income is subject to a flat 16% tax that is applicable to both companies and individuals but with certain differences in the computation of the tax base.

Specifically, in the case of Romanian companies, apart from other tax deductible expenses, the tax base is decreased by the fiscal depreciation of the building (except for land which may not be depreciated). The reserves from the revaluation of fixed assets, including land, performed after 1 January 2004 will be gradually recognised as taxable income proportionally with the recognition of tax depreciation of these assets or at once at the time of their disposal. This rule concerns the revaluation reserves that are deducted from profits for tax purposes through depreciation or through expenses with alienation of assets. In effect, this change eliminates the tax revaluation of assets which was available for several years.

It should be noted that Romanian companies which apply the IFRS rules (such as banks) are guided by different rules in respect of reserves related to fixed assets.

With regards to the rental income obtained by individuals, the tax base is determined by deducting a 25% expense quota from the gross income, which in effect reduces the tax rate to 12%. Alternatively, individuals have the option to determine the annual net income based on the single entry bookkeeping. In the latter case the 16% income tax is applied to the gross income reduced by actual deductible expenses

The individuals earning income from more than 5 lease contracts at the fiscal year end have the obligation to register starting with the following fiscal year and consider the tax rules applicable for income from independent activities (normally taxed at 16% on actual numbers).

Income tax is also due from individuals earning income from renting out rooms from their own houses for tourism purposes. The taxable base and the taxation method depend on the number of rooms rented out. Lease of agricultural land by individuals has a separate set of rules.

In the case of income derived from the lease of agricultural goods from personal patrimony, the income payer has the obligation to withhold, pay and report the income tax due. Still, the individuals may opt, at the moment the agreement/legal relationship is concluded, to determine the net income based on the single entry bookkeeping. In the latter case the 16% income tax is applied to the gross income reduced by actual deductible expenses.

DISPOSAL OF THE REAL ESTATE

Capital gains obtained by Romanian companies from disposal of Romanian real estate properties are subject to a 16% profits. The taxable gain is determined as the difference between the selling price and the fiscal value of the fixed assets sold. In the case of depreciable fixed assets (buildings), the deductible fiscal value is defined as the entry value/ increased revaluated accounting value less fiscal depreciation.

Distribution of net profits is further taxed with a 16% dividend tax. However, there are situations when the tax can be reduced below 16% and even to nil (e.g. via tax treaties, EU Parent-Subsidiary Directive).

As an alternative, the shareholders of a Romanian company can opt to sell the shares of the company rather than selling the company's property. In this case, they are liable to the 16% income tax applied to the capital gain obtained through the company sale. In certain situations, based on the provisions of the tax treaties, sale of shares held in Romanian companies may be exempt from tax in Romania.

In the case of capital gains obtained by individual investors from disposal of real estate property, the tax depends on the period of time the property was owned for. Namely, the tax for real estate properties sold within 3 years of acquisition stands at 3% of the transaction value for transactions up to RON 200,000, while for transactions exceeding RON 200,000, the due tax is RON 6,000 plus 2% of the amount which exceeds RON 200,000.

Sales of properties held for more than 3 years, are taxed at 2% of the transaction value for transactions under RON 200,000, while for transactions exceeding RON 200,000 the due tax is RON 4,000 plus 1% of the amount exceeding RON 200,000.

Although not expressly provided by the law as in the case of rental income, the individuals performing sales of real estate as a business should also register and the income earned should be considered as income from independent activities and taxed accordingly.

VAT ASPECTS

Rental of real estate property is normally VAT exempt. However, any taxable person performing rental activities may opt to charge a 24% VAT on such transactions (such option allows deduction of VAT on related costs).

As a rule, the sale of old buildings/parts of buildings and the underlying land, as well as of any other type of land is VAT exempt without deduction right unless the taxable person performing such transactions opts to tax the sale with 24% VAT. This exemption is not applicable to sale by a taxable person of a new building or land on which buildings can be erected. It should be noted, that in the case of building and land registered under one single cadastral number, the VAT treatment in the case of sale of immovable property depends on which of the two, land or building have the greater value or alternatively, in the case of same value, which of the two have the bigger surface (the unfolded build surface of the building is the one to be taken into consideration).

A 5% VAT tax rate is applicable for the sale of social housing (including related land) under certain conditions (i.e., houses of maximum 120 square meters and not exceeding RON 380,000 in value - net of VAT).

Individuals trading in real estate as a business are to be treated as taxable persons. Thus, when performing taxable operations (e.g. sale of new buildings) the individuals are liable to register for VAT purposes if the volume of their transactions exceeds RON 220,000.

LOCAL TAXES

Owners of buildings are liable to pay an annual building tax to the local authorities. For companies, such building taxes range between 0.25% and 1.5% of the taxable base, which is the book value of the building. If the building has not been revaluated in the past 3 years, the above rate will be between 5% and 10% and between 30% and 40% if the building has not been revaluated in the past 5 years.

There are different rules for establishing the taxable base for local tax purposes in the case of credit institutions applying IFRS rules and as accounting policy for the recognition of fixed assets the (inflated) cost model. In such case, the taxable base for local tax purposes is to be established based on an evaluation report.

For individuals, the tax rate is 0.1% and is applied to the value of the building, which is calculated based on minimum established values provided by law. Increased local taxes are applicable for individuals owing more than one building.

With regards to the tax on land, both companies and individuals owning land are liable to pay a tax which is established as a fixed amount per square meter, depending on the location of the land.

LEGAL ISSUES

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On 27 July 2012, Law No. 133/2012 approving Emergency Government Ordinance No. 64/2010 entered into effect and amended Cadastre and Land Registration Law No. 7/1996 and Construction Law No. 50/1991. The new enactment has brought a set of significant changes to Law No. 7/1996, mainly intended to simplify the property registration procedures.

Out of the amendments implemented by Law No. 133/2012, probably the most significant one is that the National Agency for Cadastre and Land Registration has been granted the initiative to start cadastral works for all properties (both public and private) which have not been surveyed yet, with a view to securing a free of charge registration of all real estates throughout the country with the integrated cadastre and land book system. This implies, as detailed below, correction of potential errors occurred for properties already surveyed and registered with the land book. Funding of this process should be ensured from the state budget, financial sources of the administrative-territorial units, or international financing sources.

It is also worthwhile mentioning that the organization of the systematic cadastral works is based on an improved procedure, which involves supplementary stages of the registration with the land book, such as: (i) the person authorized to perform the cadastral works has been granted the prerogative to integrate all technical and legal information collected from the local cadastre and land registration office, public authorities and institutions or other individuals or legal entities; (ii) the cadastral works provider updates the information collected on-site with the existing registered information; and (iii) notaries public may issue certificates necessary for the registration of the holders (in Romanian, posesori) as owners of a certain immovable asset.

Another significant amendment is that the law allows the public authorities and the cadastral works provider involved in the systematic cadastral and land book registration works to offset land areas, and to rectify clerical errors and errors on location of the immovable assets for which the ownership titles were issued according to the restitution laws, subject to the owners' written approval. The offset and, respectively, the rectification, may occur with the owner's prior consent, granted in authentic form, taking in consideration the de facto situation and based on the land division plan (in Romanian plan parcelar) as amended by the cadastral works provider. Moreover, the person authorized to perform the cadastral works may rectify the layout of the immovable assets without the owner's consent, given that such action is meant to accurately record the on-site reality.

Another legal novelty is the registration of the holder of an immovable asset as owner of the same, based on the certification procedure carried out by the notary public, at the request of the local cadastre and land registration office.

In case the holder's right is challenged in court or if the notary public refuses to issue the certificate, the de facto possession shall be registered with the land book in favour of the holder (the challenge of the holder's rights shall also be noted with the land book). In such case, the ownership right may be conclusively registered with the land book subsequent to the fulfilment of one of the following conditions: (i) ex officio, upon the expiry of a 5-year term following the registration with the land book of the de facto possession, unless no dispute challenging the land book registration was noted with the land book; or (ii) upon request, based on an ownership deed, on the certificate issued by the notary public or pursuant to a final and binding court decision.

If, during the cadastral works performed ex officio, the owners or other holders of an immovable asset cannot be identified, the ownership right shall be temporarily registered in favour of the administrative-territorial unit. The owners'/holders' rights may be registered with the land book thereafter, upon their express request.

The registration with the land book shall be performed ex officio after the completion of the cadastral works for each cadastral sector and after the expiry of the term for the settlement of the rectification requests related to the cadastral documents, if any.

For the immovable assets registered with the land book further to the completion of the systematic cadastral works, the ownership right shall be attested by the land book excerpt. Furthermore, the demarcation of a real estate from another shall be attested only by a cadastral plan excerpt.

Law No. 133/2012 sets forth that the NatiOnal Electronic Register of Street Nomenclature is the sole reference system at the national level, the use of which is mandatory for public authorities and notaries public. The street nomenclature for each commune/city should be approved by the local council. The novelty in this respect is that any change in the administrative address shall be registered with the relevant land book.

Supplementations have been brought by Law No. 133/2012 with respect to the access to the information registered with the electronic land book system. The integrated cadastral and land book system data base may be consulted by any interested person, using the identification data of the immovable asset. Furthermore, the applications for registration and/or information may also be filed electronically, being registered and processed with full legal effects.

Another concern of Law No. 133/2012 was the amendment of Article 23 of the Construction Law, in the sense that the land plots included in the intra murros area (in Romanian intravilan) on which the performance of construction works is envisaged, shall be definitively removed from the agricultural use by means of the building permit (and not by means of the endorsement issued by the Directorate for Agriculture and Rural Development), thus simplifying the procedure of removing the intra murros land plot from the agricultural use. If the owner wishes to remove only part of the owned land from the agricultural use, the building permit will be accompanied by the technical cadastral documentation.

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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