ROMANIA INDUSTRIAL DESTINATIONS 2014

CBRE | RESEARCH | ROMANIA

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NEW PLATFORM
INDUSTRIAL AND WAREHOUSE PROPERTIES

CONTENT

GENERAL OVERVIEW

Country's essentials	
Total population	20,121,641
Average unemployment rate	5.1%
Average net monthly salary in enterprise sector	EUR 395
Modern industrial and warehouse stock	3,261,000 sq m
Average vacancy rate	12%

Source: INS, CBRE

Industrial Real Estate Market in Romania has developed since 1995 when institutional international developers entered the market and established industrial & logistic parks with class A buildings.

In the last 20 years a stock of 3,261 million square meters has been developed, both owner occupied and developer led, within privately-owned industrial parks.

Supply

Currently, there are no speculative developments under construction, only built-to-suit projects are on the construction list.

The general vacancy rate for Romania remains stable however vacancy rates in the regions vary considerably. Bucharest, as it has the biggest stock of industrial space, holds the most available space – over 134,000 sq m (vacancy rate 12%). In pan-Romania vacancy rate varies between 10 – 14%, with a total available space of over 170,000 sq m, but with a tendency for decrease, as take-up volume are up q-o-q.

Demand

The total leasing activity (TLA) in H1 2014 in Romania was of over 230,000 sq m, divided between Bucharest (23%) and pan-Romania (77%). The TLA activity in H1 2014 is up 46% compared to levels registered in H1 2013, and almost tripled compared to H1 2012. Take-up represents 67% of TLA at around 153,000 sq m, with only a couple of large renewals performed in Bucharest, Deva and Timisoara, plus two owner occupied deals.

The most important transactions in H1 2014 were registered in Bucharest (52,000 sq m), the West Region (120,000 sq m) and South part of Romania (57,000 sq m). Taking advantage of the investment opportunities, a series of occupiers have either bought their already occupied facility or new schemes were they will be the single occupier.

Automotive suppliers continue to be interested in locating their production plants in the West part of the country, paying a great deal of attention towards labour force availability. Improvements within the logistic sector are starting to be noticed, taking into account several transactions performed by such occupiers (ex: new lease of Rhenus Logistics).

The demand for modern industrial space is focused on storage and production facilities with a geographical advantage; this implies units with accessibility to Western European and Eastern European countries. Thus, industrial hubs in counties like Cluj, Brasov, Timis or Prahova will continue to be preferred.

The Class A industrial space is preferred by 81% of the occupiers due to the importance of accessing a well developed infrastructure network such as: highway routes, intermodal transportation facilities and harbour connectivity.

The largest transactions recorded in 2014 were: pre-leases and new leases made in the West part of the country, leases and renewals of logistic companies. A significant transaction was the sell & new occupation of former production plant Hanil Electronics in Timis and Bihor County.

GENERAL OVERVIEW

Rents & Yields

Prime headline rent for Bucharest Class A properties registered a slight decreased (5%) to EUR 3.8 / sq m / month. In general class A properties tend to have a lower vacancy rate and thus less pressure to decrease headline and net effective rents. Class B properties, especially outside Bucharest were confronted with less demand and non-stable occupier demand, which is reflected in lower headline rents. Average regional headline rents range between EUR 3.4 – 3.8 sq m/mth, while net effective rents are 8-10% lower. Service charges range between EUR 0.75-1.0/sq m/mth. The rents for an attached office stand at EUR 6.0-8.0/sq m/mth.

In CEE Region, with the notable exception of Budapest, the prime yield has remained stable. Prime headline rents for other CEE Capital cities range between EUR 3.80/sq m/mth (Greater Bucharest) and EUR 4.50/sq m/mth (Greater Budapest).

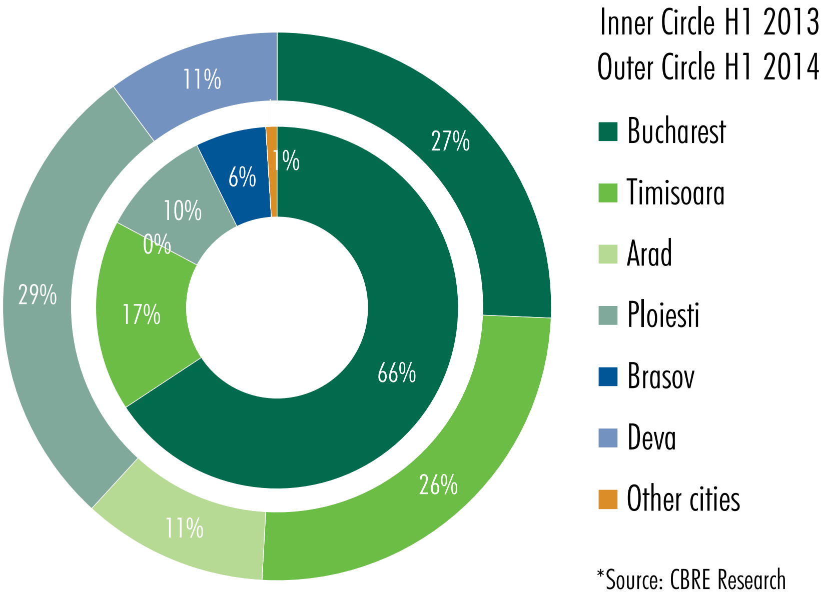
Outlook

A number of important deals started 6 – 8 months ago are expected to be finalised by end of the year, thus take-up volume should see a substantial increase y-o-y.

In Bucharest we expect a series of new leases and relocations from 3PL occupiers, mostly within existing units.

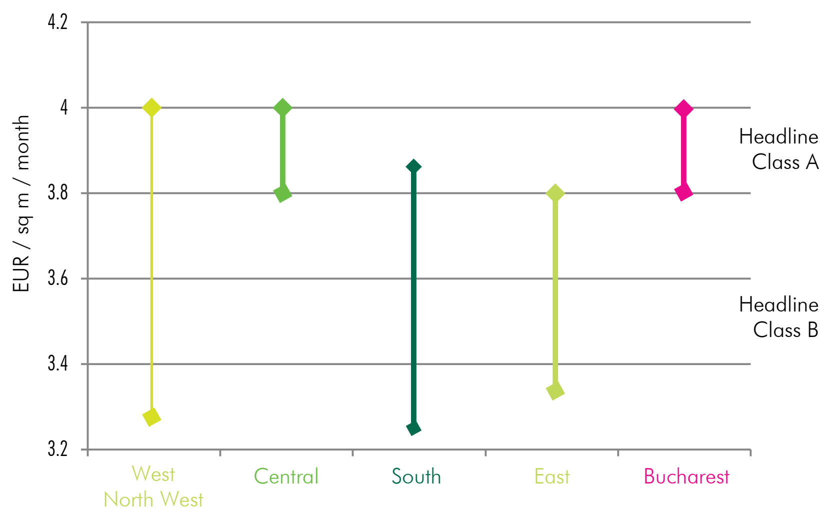
In Pan-Romania demand will consist of new leases and new demands from production occupiers, mainly for built-to-suit facilities.
Number of investment transactions up and other important deals to be signed by end of the year.

Total Leasing Activity by City H1 2013 & H1 2014



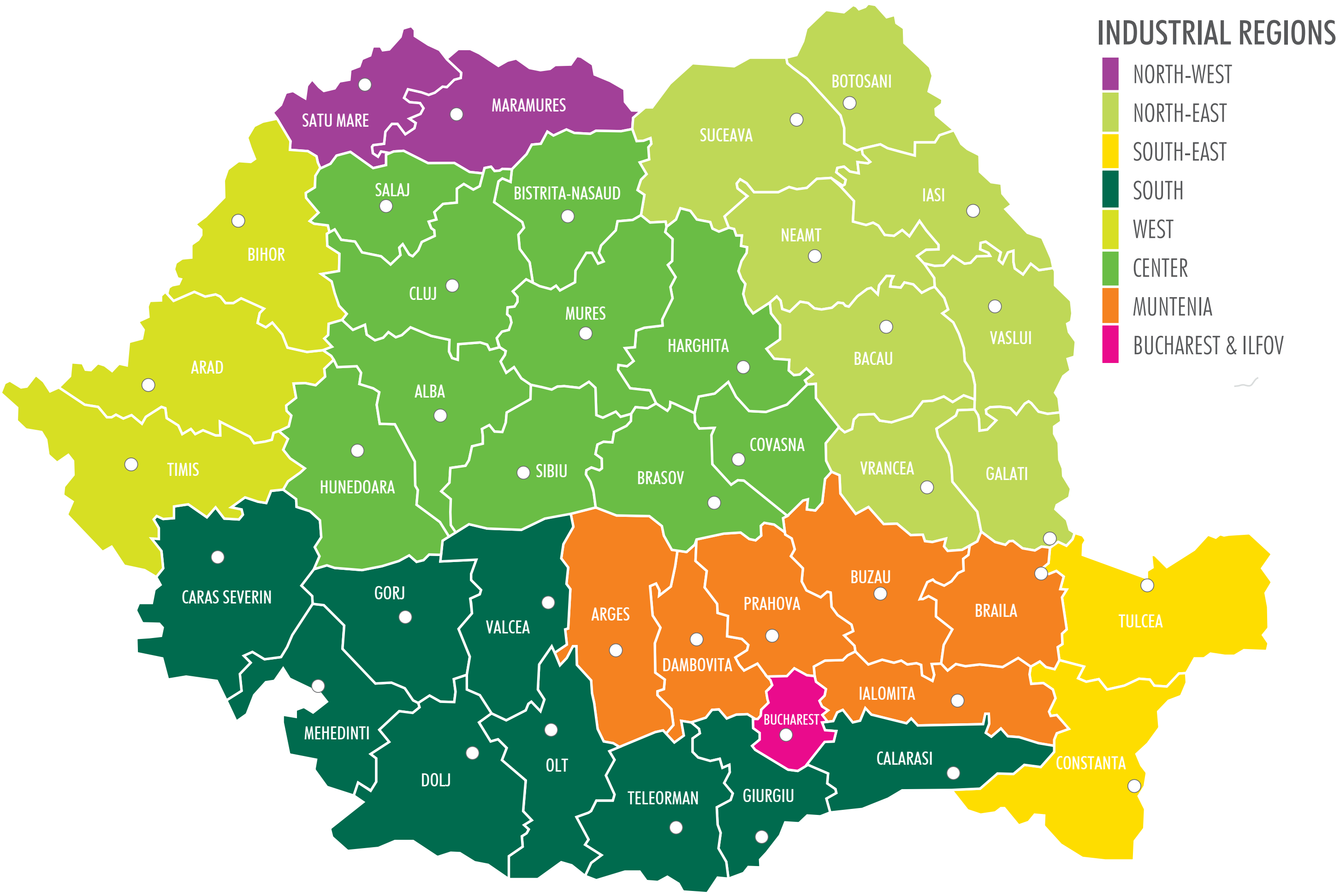
*Source: CBRE Research

Headline Rent by Regions



Country	City	Prime yield		Prime Rent	
		Trend y-o-y	(%)	Trend y-o-y	EUR / sq m / month
Romania	Bucharest	↘	10.00	↘	3.80
Czech Republic	Prague	↘	7.50	→	4.25
Serbia	Belgrade	→	12.00	→	4.50
Slovakia	Bratislava	→	8.50	→	4.25
Hungary	Budapest	→	9.50	→	4.50
Bulgaria	Sofia	→	11.50	→	4.00
Poland	Warsaw	↘	7.10	→	4.00

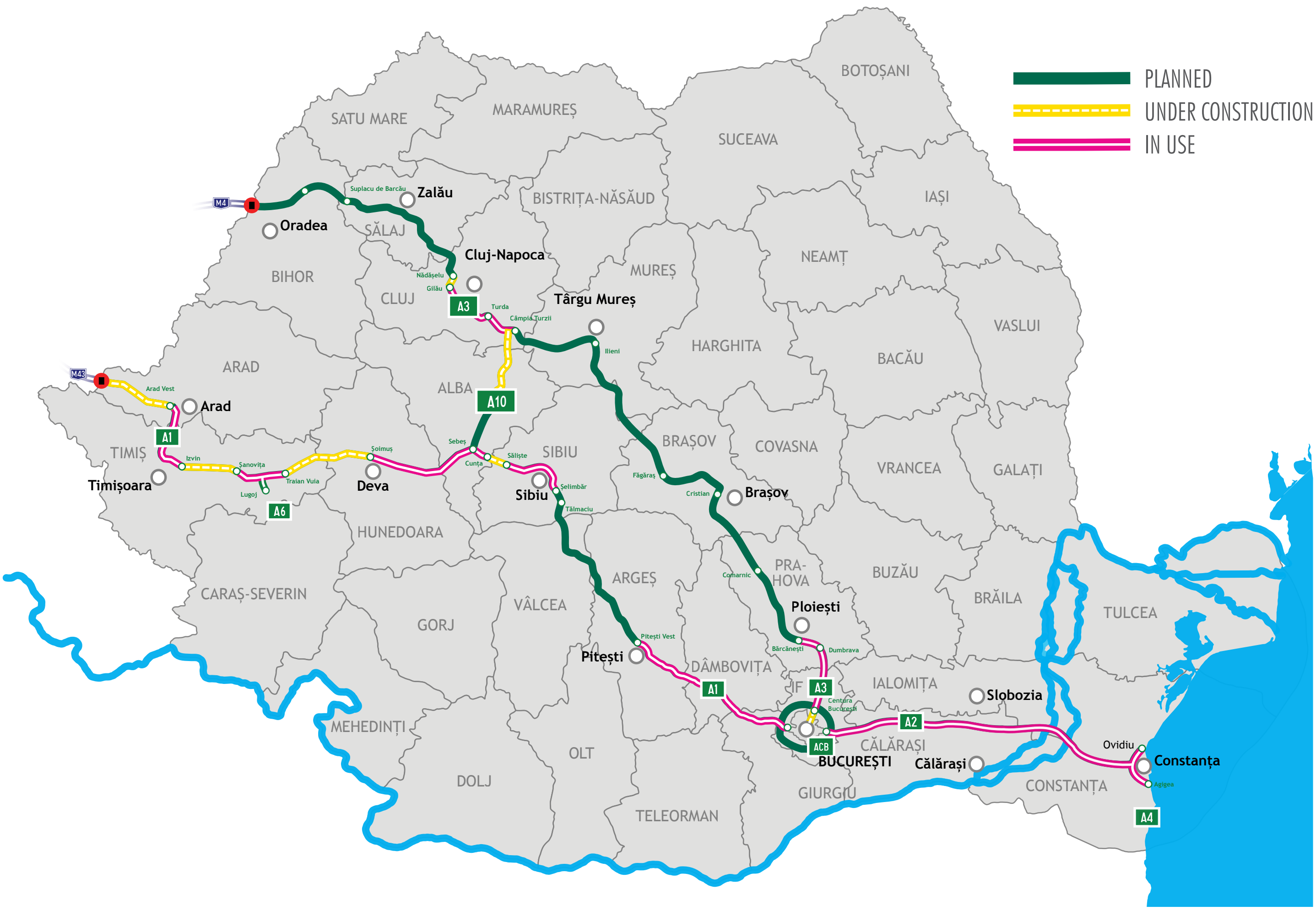
ROMANIA INDUSTRIAL REGIONS



CBRE considers the regional split as above evaluating client's enquiry history and regional infrastructure development .
However the development regions of Romania refer to the eight regional divisions created in Romania in 1998 in order to better coordinate regional development as Romania progressed towards accession to the European Union. The development regions correspond to NUTS II-level divisions in European Union member states. Despite becoming increasingly significant in regional development projects, Romania's development regions do not actually have an administrative status and do not have a legislative or executive council or government. Rather, they serve a function for allocating European Union PHARE funds for regional development, as well as for collection of regional statistics. They also coordinate a range of regional development projects and became members of the Committee of the Regions when Romania joined the EU on January 1, 2007.

Bucharest	Muntenia	Center	West	North-West	North-East	South-East	South
Bucharest	Arges	Brasov	Timis	Satu Mare	Suceava	Constanta	Caras Severin
Ilfov	Dambovita	Sibiu	Arad	Maramures	Botosani	Tulcea	Gorj
	Prahova	Covasna	Bihor		Iasi		Valcea
	Buzau	Hunedoara			Neamt		Mehedinti
	Braila	Alba			Bacau		Dolj
	Ialomita	Cluj			Vaslui		Olt
		Salaj			Vrancea		Teleorman
		Bistrita-Nasaud			Galati		Giurgiu
		Mures					Calarasi
		Harghita					

INFRASTRUCTURE IN ROMANIA



- 200,000 km of Total Road Length
- 15,000 km of Total National Road Length in use
- 634 km Highway Length in use
- 196.2 km Highway Length under construction for A1 Highway (Pitesti – Nadlac) and A10 Highway (Sebes – Turda).
- 882.5 km Highway Length under planning for A3 Highway (Bucuresti – Bors), A6 Highway (Lugoj – Calafat) and A10 Highway (Sebes – Turda).
- 19.8 km North Bucharest ring road under construction and 32 km for South Bucharest ring road under planning
- 2 Pan-European Road Corridors – IV and IX
- 12 International Airports, plus additional 3 National Airports
- 2 Black Sea Ports
- 8 Danube river Ports
- 10,000 km Total Rail Length

BUCHAREST & ILFOV

Bucharest, as the capital city is the most important economic centre in the country, accommodating the headquarters of many international and Romanian corporations as well as the country's authorities. The city offers modern warehouses and industrial business parks, including units of below 800 sq m. The main modern industrial parks are located in the proximity of A1 highway , West part of Bucharest which links the capital to West of Europe.

The projects located on Bucharest's ring road usually include a larger component of higher quality office space and smaller amount of warehouse space. These facilities are designed for companies operating on local market who need a fast and easy access to their clients. Most of the logistic companies operating on the Romanian market have established their distribution hubs in Bucharest as until 2010 around 70% of their volumes were distributed in the region.

Production facilities left Bucharest region in the past 5 years as labour costs grew even during crisis and relocated to cheaper locations in the country.

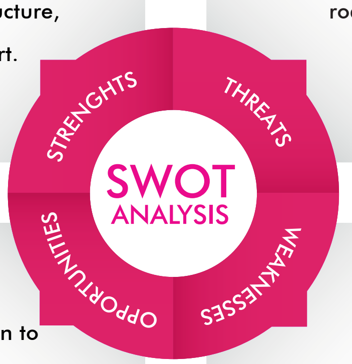
Local essentials	
Population	2,272,163
Average unemployment rate	1.8 %
Average Net Monthly Income	EUR 473
Modern Industrial Stock	1,263,000 sq m
Vacancy Rate (%)	12%

Strengths

- Prime locations, close to the city centre and major clients Class A logistic parks
- High market liquidity
- Well-developed infrastructure, including public transport and proximity to the airport.

Threats

- High prices of land and limited space for new constructions.
- Limited access for trucks and heavy traffic, especially on the exit roads.
- Relatively high labour costs



Opportunities

- Infrastructure developments, especially the completion of the Bucharest ring road which will improve the connection to locations within the city borders.
- Development of small business units (SBU) for tenants with the need for high- quality attached office and small warehouse units (500-1000 sq m); city logistics concept.
- Capital city is often the first stop for foreign investors.

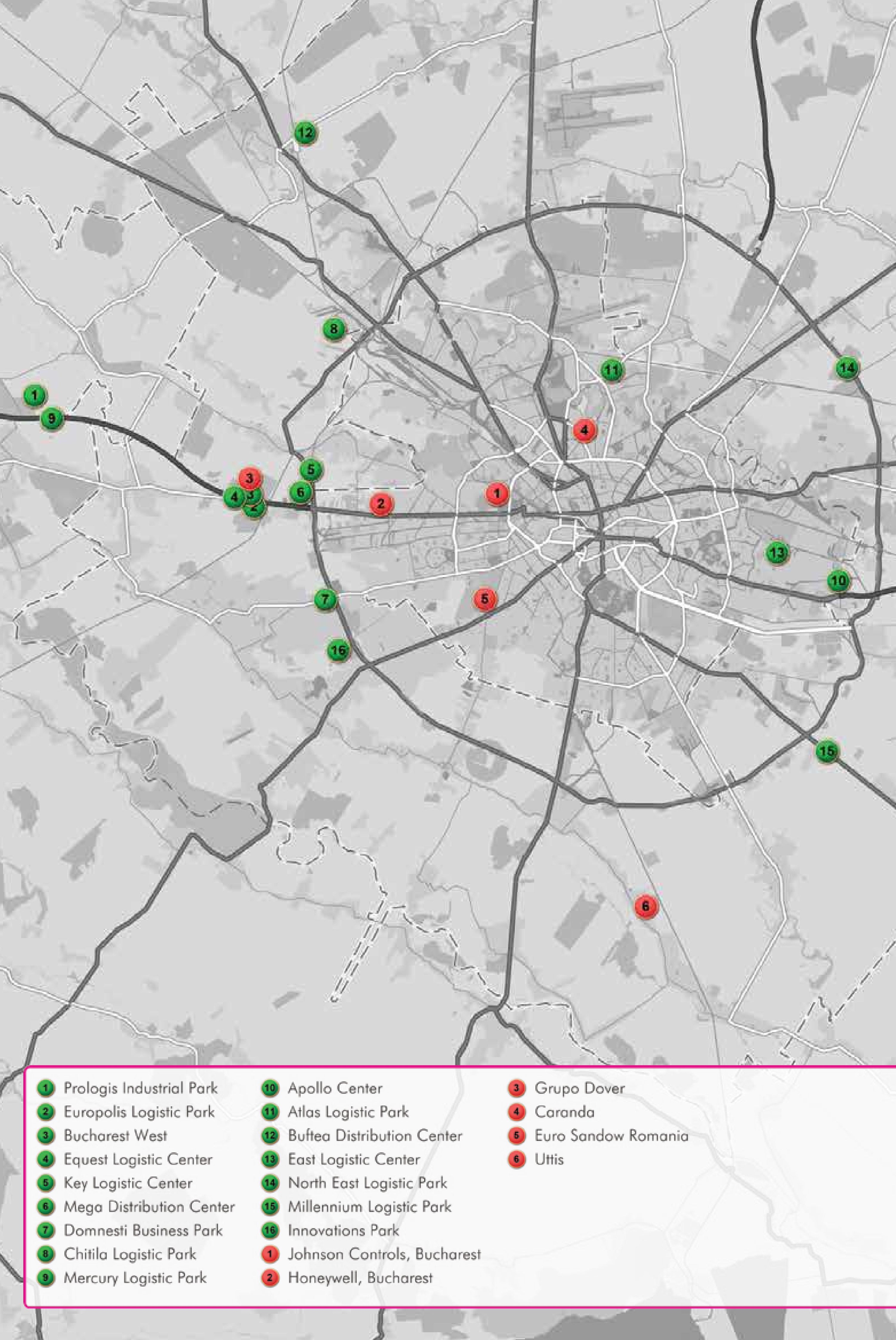
Weaknesses

- Large tenants relocating to city outskirts into locations with lower rents.
- Higher maintenance costs, property tax and perpetual usufruct fees.
- Increasing vacancy rate in the north-eastern part of the city.

Industrial rental levels	
(EUR/ sq m/ mth)	Bucharest/Ilfov
Prime headline rent	3.8- 4.00
Effective rent	3.40- 4.00
Office space rent	6.00 - 9.00
Service charges	0.75- 1.00
Trend	→

Largest recent new buildings in the BUCHAREST/ ILFOV region - since 2009 (developer led & owner occupied)

Occupier	Location	Surface (sq m)	Ocupational type	Year	Function	No. of employees
Europolis Logistic Park	West Bucharest	215,000	Developer led	2009-2014	logistics	-
Bucharest West	West Bucharest	132,000	Developer led	2009-2014	logistics	-
Equest Logistic Center	West Bucharest	56,000	Developer led	2009-2015	logistics	-
KLG Logistic	West Bucharest	21,000	Owned	2010-2014	logistics	-
H. Essers	West Bucharest	35,000	Owned	2013	logistics	-


1 Prologis Industrial Park
2 Europolis Logistic Park
3 Bucharest West
4 Equest Logistic Center
5 Key Logistic Center
6 Mega Distribution Center
7 Domnesti Business Park
8 Chitila Logistic Park
9 Mercury Logistic Park
10 Apollo Center
11 Atlas Logistic Park
12 Buftea Distribution Center
13 East Logistic Center
14 North East Logistic Park
15 Millennium Logistic Park
16 Innovations Park
1 Johnson Controls, Bucharest
2 Honeywell, Bucharest
3 Grupo Dover
4 Caranda
5 Euro Sandow Romania
6 Uttis

MUNTENIA

Muntenia Region, comprising 6 counties, developed around Dacia Renault Plant and the oil & gas industry in Prahova .

Most of the automotive manufacturing facilities, located near Dacia Renault plant in Arges and Dambovita, has developed since 1999 when Renault took over Dacia production facility.

Prahova county attracted mainly companies servicing the oil & gas industry but there are also automotive spare parts producers that established new facilities here.

With a high labour force pool and low salaries Buzau, Braila and Ialomita didn't attract too many foreign investors in the last 10 years, but the region is starting to become interesting due to fast logistics to Constanta port and relative good connections with Romanian existing highway system.

Local essentials	
Population	2,940,941
Average unemployment rate	6.7%
Average Net Monthly Income	EUR 307
Modern Industrial Stock	360,000 sq m
Vacancy Rate (%)	5%

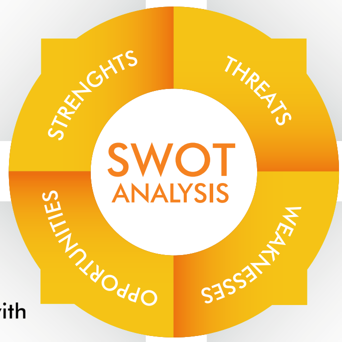
Industrial rental levels	
(EUR/ sq m/ mth)	Muntenia
Prime headline rent	3.20 - 4.00
Effective rent	3.00 - 3.80
Office space rent	6.00- 7.00
Service charges	0.5- 1.00
Trend	↗

Strengths

- Proximity to Bucharest
- Good infrastructure by highway
- Good access to Constanta port
- High skilled labour force
- Interesting region for developers and investors
- Cheaper labour force than in other CEE countries with easy access to important Pan European corridors

Threats

- Large labour pool despite many production facilities
- Higher prices than the rest of the country for serviced industrial land due to proximity to Bucharest



Opportunities

- Good serviced lands for industrial developments
- Available labour force with low wages due to lack of options
- Rent market prices still low as most of the occupiers own their buildings
- Up to 50 % state aid from total investment

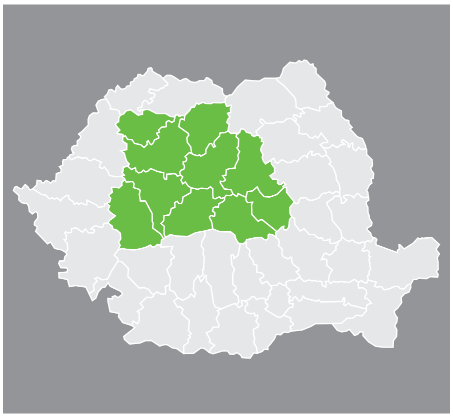
Weaknesses

- Lack of real estate developers in Braila, Buzau and Ialomita
- Only one real estate developer currently constructing on speculative basis with high competition for the units delivered

Largest recent new buildings in the region - since 2011 (developer led & owner occupied)

Occupier	Location	Surface (sq m)	Ocupational type	Year	Function	No. of employees
Ploiesti West Park	Ploiesti	141,000	Developer led	2008-2014	production/logistics	-
Honeywell	Ploiesti	13,000	Owned	2012	production	862
Coficab	Ploiesti	12,000	Owned	2012	production	200
Leoni Wiring System	Pitesti	20,000	Developer led	2013	production	1,465
Lisa Draexlmaier	Pitesti	45,000	Owned	2011	production	3,408

CENTRAL



Central Region of Romania, comprising 10 counties, is one of the most crowded areas with automotive investors. Most of the companies have German origins as the population has a high level of German speakers. Most developed counties are Cluj, Brasov, Sibiu and Alba Iulia.

Cluj is one of the largest industrial hubs in Romania with developments of Robert Bosch, De Longhi, Emerson and Fujikura Automotive. In 2014, in Sebes (Alba county), Mercedes decided to invest 300 million euros in a gearbox assembly facility, the investment being the largest in the Central region.

Least developed counties are Harghita and Covasna, where the population is of Hungarian ethnicity. Most developed sectors are textile and apparel industry and both counties have an unemployment rate higher than 7%, with an average gross salary below EUR 310.

Hunedoara, Alba and Sibiu will benefit of the 4th Pan-European corridor while Cluj and Brasov will be linked through A3 highway.

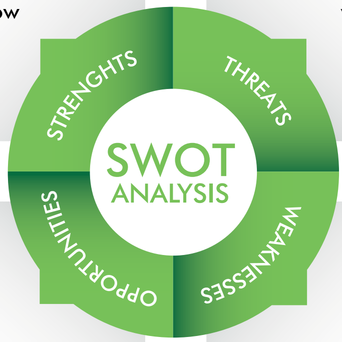
Local essentials	
Population	3,981,085
Average unemployment rate	5.1%
Average Net Monthly Income	EUR 313
Modern Industrial Stock	570,000 sq m
Vacancy Rate (%)	7%

Strengths

- Skilled labour force, German and English speakers.
- Good infrastructure that links the region to western Europe
- Counties with high unemployment rate and low salary
- Interesting region for international developers

Weaknesses

- No international speculative development
- No direct highway to Bucharest nor to western Europe
- Cluj, Sibiu and Brasov crowded with production companies - high competition for labour force



Opportunities

- Good serviced lands for industrial/logistic developments
- Infrastructure under development
- Cheap available labour force in Mures, Harghita, Covasna and Hunedoara
- Up to 50% state aid from total investment

Threats

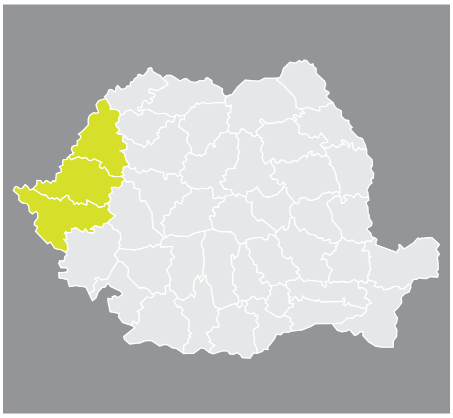
- Main region to develop in the near future due to the large investments in infrastructure so real estate prices will increase
- Unemployment rate will drop due to investors being attracted in the area

Industrial rental levels	
(EUR/ sq m/ mth)	Central
Prime headline rent	3.8- 4.00
Effective rent	3.60- 4.00
Office space rent	6.00- 8.00
Service charges	0.5- 1.00
Trend	↗

Largest recent new buildings in the region - since 2011 (developer led & owner occupied)

Occupier	Location	Surface (sq m)	Ocupational type	Year	Function	No. of employees
Kaufland	Turda (Cluj)	77,000	Owned	2012	Logistic DC	250
Lidl	Iernut (Mures)	44,000	Owned	2011	Logistic DC	200
Robert Bosch	Jucu (Cluj)	38,000	Owned	2014	Production	750
De Longhi	Jucu (Cluj)	47,000	Owned	2012	Production	300
Autoliv	Sfantul Gheorghe (Covasna)	10,000	Owned	2013	Production	600

WEST



West Region is the most crowded area with production facilities and international investors. Even if the region comprises only 3 counties and 1,7 million inhabitants, the development of infrastructure and the proximity to Hungarian border constantly attracted large foreign capital in the region.

Timis is the second largest university centre in Romania and almost considered the second capital city. It was the first county from Western Romania to develop after 1989 and is still considered as first option for the large investments in the West.

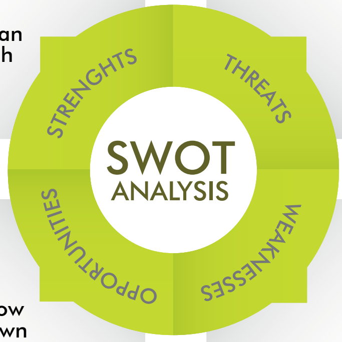
Arad is home for some important manufacturing facilities such as Yazaki Technologies, Takata, Coficab and DB Apparel, some of them benefiting from Free Trade Zone incentives in Curtici.

Bihor is the smallest of the 3 counties with fewer investments than Timis and Arad. Although is located in a well developed region the labour force is still interestingly cheap with an average net income of 270 euro, with a consistent part of the population working in footwear industry.

Local essentials	
Population	1,689,567
Average unemployment rate	3.5%
Average Net Monthly Income	EUR 323
Modern Industrial Stock	882,000 sq m
Vacancy Rate (%)	5%

- Proximity to western Europe
- Good infrastructure by highway
- High skilled labour force
- Interesting location for developers and investors
- Cheaper labour force than in other CEE countries with easy access to important Pan European corridors

- Crowded market for production facilities fighting over labour force
- Higher prices than the rest of the country for serviced industrial land



- Good serviced lands for industrial developments
- Rent market prices still low as most of the occupiers own their buildings
- Up to 35% state aid from total investment

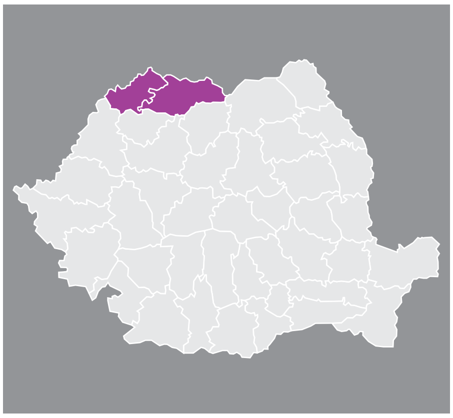
- Labour force travelling abroad for higher incomes
- Expensive labour work and personnel fluctuations due to new comers in the region
- Only one real estate developer currently constructing on speculative basis with high competition for the units delivered

Industrial rental levels	
(EUR/ sq m/ mth)	West
Prime headline rent	3.20 - 4.00
Effective rent	3.00 - 3.80
Office space rent	6.00- 7.00
Service charges	0.5- 1.20
Trend	↗

Largest recent new buildings in the region - since 2011 (developer led & owner occupied)

Occupier	Location	Surface (sq m)	Ocupational type	Year	Function	No. of employees
VGP Timisoara	Timisoara	17,500	Developer led	2011-2014	Logistics	-
Yazaki Technology Components	Arad	15,500	Owned	2010	Production	862
Coficab	Arad	15,000	Owned	2012	Production	381
Delphi Packard	Arad	22,000	Owned	2012	Production	6,300
Olympian Park Timisoara	Timisoara	27,100	Developer led	2009-2014	Logistics	-

NORTH WEST



North Western region, comprising 2 counties, has attracted a lot of furniture production facilities in the last 10 years. Some of the biggest IKEA providers come from this area and most of the companies have Romanian capital.

Satu Mare has a population of 344,500 inhabitants with an unemployment rate of 4.1%. Continental AG and Draxlmaier Group has chosen Satu Mare due to the fast delivery system and 80 km distance to the closest highway in Hungary.

Maramures is headquarter of the largest Europen provider of IKEA – Aramis Invest. TRW Automotive Holdings has established in 2013 a steering wheel leather wrapping plant here and Xindao BV developed their regional logistic hub.

Local essentials	
Population	823,019
Average unemployment rate	4.0 %
Average Net Monthly Income	EUR 271
Modern Industrial Stock	0 sq m
Vacancy Rate (%)	0.0 %

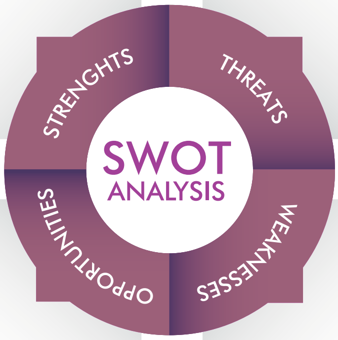
Industrial rental levels	
(EUR/ sq m/ mth)	North-Vest
Prime headline rent	3.8- 4.00
Effective rent	3.60- 4.00
Office space rent	6.00- 8.00
Service charges	0.5- 1.00
Trend	→

Strengths

- Skilled labour force, German, Hungarian and English speakers.
- Good infrastructure that links the region to western Europe in only 80 km

Threats

- No international speculative development
- No direct highway to Bucharest
- No direct flights to main capital cities in Europe
- Low unemployment rate
- People skilled mainly in furniture industry and mining



Opportunities

- Good serviced lands for industrial developments
- Cheap labour force
- Up to 50% state aid from total investment

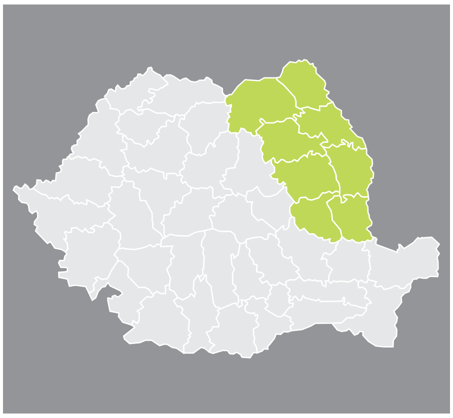
Weaknesses

- Labour force travelling abroad for higher incomes.
- No major logistic companies in the region
- No major real estate developers interested in the area
- No highway planned to link the region to the rest of the country for the next 10 years

Largest recent new buildings in the region - since 2011 (developer led & owner occupied)

Occupier	Location	Surface (sq m)	Ocupational type	Year	Function	No. of employees
Xindao	Baia Mare	17,000	Owned	2013	Logistic DC	136
ZES Zollner	Satu Mare	13,000	Owned	2012-2014	Production	900
Draxlmaier	Satu Mare	54,000	Owned	2011-2014	Production	1,500
Anvis Group	Satu Mare	2,000	Owned	2014	Production	150
TRW Holding	Baia Mare	3,000	Owned	2013	Production	650

NORTH EAST



North Eastern Region, comprising 8 counties, is one of the least developed parts of Romania. The lack of investors is justified by the lack of fast infrastructure connections (highways) to Western Europe, which leads to longer delivery routes. Due to a vast labour pool, high unemployment rates and very low salaries North East Romania attracted a few investors in the past 3 years such as: Delphi Diesel Systems, Lear Corporation, TRW Holding, Continental Automotive with a R&D office, Amazon, Endava.

The entire region has an important history in the textile industry and there are a lot of production facilities in lohn system that manufacture under international brands.
Most of the automotive production facilities are in Iasi, as the county is an important university hub that generates skilled labour force in technical field and engineering, economics & finance.

Vaslui and Suceava are the poorest counties in the region with an unemployment rate of 10.8% and 6.25% and a total population of 1,030,569 inhabitants.

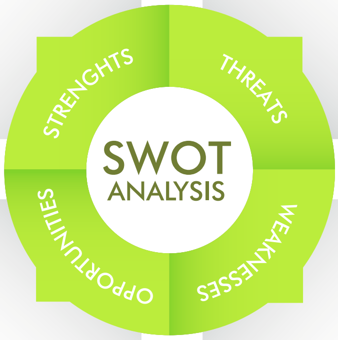
Local essentials	
Population	4,178,694
Average unemployment rate	6.75%
Average Net Monthly Income	EUR 281
Modern Industrial Stock	12,000 sq m
Vacancy Rate (%)	0%

Strengths

- Top Universities in the country
- International Airport connections with Vienna, Roma, Londra, Tel Aviv
- Large labour force pool
- No competition for the labour force
- Wide 2 lanes National Road 2 that connects Bucharest to Iasi

Threats

- No direct highway to Bucharest
- Higher construction costs



Opportunities

- No international speculative industrial development
- Good serviced lands for industrial developments
- Cheap labour force + large labour pool
- Up to 50% state aid from total investment
- Region driven by consumption and services
- Big potential for R&D

Weaknesses

- Labour force travelling abroad for higher incomes
- No major logistic companies in the region
- No highway planned to link the region to the rest of the country for the next 3 years

Industrial rental levels	
(EUR/ sq m/ mth)	North-East
Prime headline rent	3.50- 4.50
Effective rent	3.00- 4.00
Office space rent	6.00- 7.00
Service charges	0.5- 1.00
Trend	↗

Largest recent new buildings in the NORTH EAST region - since 2011 (developer led & owner occupied)

Occupier	Location	Surface (sq m)	Ocupational type	Year	Function	No. of employees
Delphi Diesel Systems	Iasi	36,500	Owned	2011	production	2,071
Lear Corporation	Iasi	12,000	Leased	2013	production	1,500
IG Watteeuw	Iasi	43,000	Owned	2011-2014	production	1,500
TRW Automotive	Roman (Neamt)	4,000	Leased	2013	production	1,160

SOUTH EAST

East Region has only 2 counties, both with direct access to the Black Sea and River Danube.

Tulcea has no new real estate developments and no investors in the manufacturing industry, most of the GDP of the county coming from agriculture and fishing.

Constanta is Romania's main port to the Black Sea and is intended to become the port of entry for South Eastern Europe. Unfortunately it's logistic facilities and multimodal hinterland connections have evolved very slow in the past 25 years, leaving port's activity and volumes at very low rates compared to other major ports in the region.

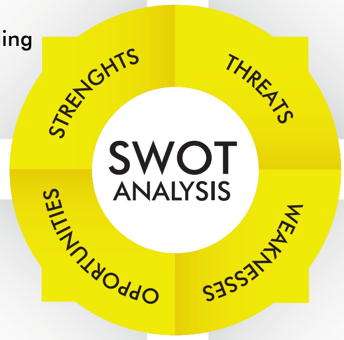
Local essentials	
Population	897,165
Average unemployment rate	4.0%
Average Net Monthly Income	EUR 320
Modern Industrial Stock	0 sq m
Vacancy Rate (%)	0%

Strengths

- Proximity to ports
- No major investors on the market
- Not many competitors for labour force
- Deep sea connections for largest /mammoth carriers
- Efficient container handling
- Direct highway to Bucharest and western Romania

Threats

- No industrial real estate developments
- Expensive labour force
- Important state control of port's activity
- No new logistic facilities
- Weak intermodal connections



Opportunities

- Good serviced lands for industrial developments
- Hinterland" with grow potential
- Up to 50 % state aid from total investment
- Close to international markets

Weaknesses

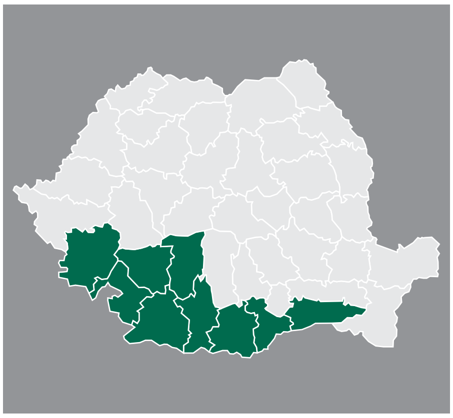
- Difficult deep sea entrance
- No major university centre
- High birocracy

Industrial rental levels	
(EUR/ sq m/ mth)	South-East
Prime headline rent	3.8- 4.00
Effective rent	3.60- 4.00
Office space rent	6.00- 8.00
Service charges	0.5- 1.00
Trend	↘

Largest recent new buildings in the region - since 2011 (developer led & owner occupied)

Occupier	Location	Surface (sq m)	Ocupational type	Year	Function	No. of employees
Black Sea	Constanta	12,000	Owned	2011	Logistic DC	70

SOUTH



South Region, comprising 9 counties, has attracted investors mainly around Craiova due to the Ford plant, the rest of the region more interesting for agriculture.

Mehedinti is producing train wagons and cargo ships for marine industry.

Gorj and Dolj have a long history in the mining industry, but the activity has reduced dramatically in the past 25 years with no other investments to replace it.

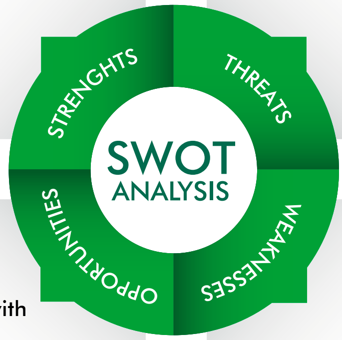
Slatina is the headquarter for the largest Pirelli Tyres plant in Europe, while Calarasi is producing glass for Saint Gobain brand.

Local essentials	
Population	3,339,457
Average unemployment rate	7.5%
Average Net Monthly Income	EUR 303
Modern Industrial Stock	186,000 sq m
Vacancy Rate (%)	15%

Industrial rental levels	
(EUR/ sq m/ mth)	South
Prime headline rent	3.2- 3.70
Effective rent	3.00- 3.50
Office space rent	5.00- 6.00
Service charges	0.5- 1.00
Trend	↗

- **Proximity to Danube ports**
- **Big labour pool with high unemployment rates**
- **Not many competitors for labour force**

- **Labour pool with low or no qualifications**
- **No industrial real estate developments**
- **No good infrastructure and no plans for highway**



- **Good serviced lands for industrial developments**
- **Available labour force with low wages due to lack of options**
- **Rent market prices very low as most of the occupiers own their buildings**
- **Up to 50 % state aid from total investment**

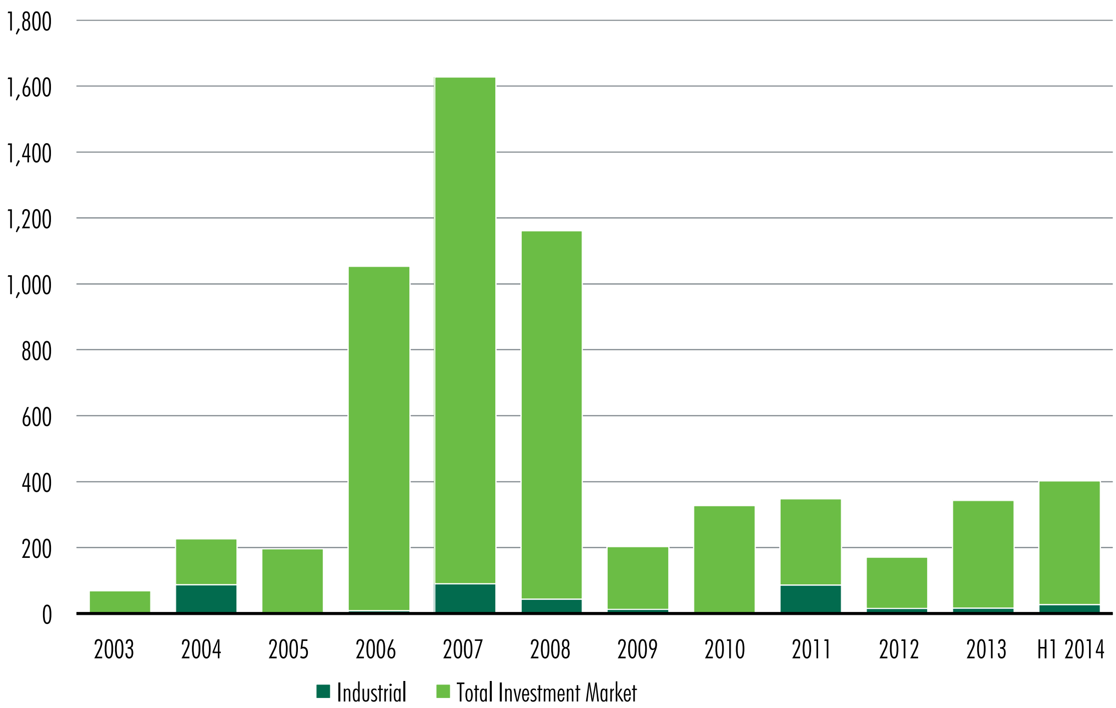
- **No real estate investors interested in the region**
- **No private schools or training facilities**
- **No major university center**

Largest recent new buildings in the region - since 2011 (developer led & owner occupied)						
Occupier	Location	Surface (sq m)	Ocupational type	Year	Function	No. of employees
Pirelli Tyres	Slatina	140,000	Owned	2008-2014	production/logistics	1,700
Faurecia	Craiova	12,000	Owned	2012	production	400
Magna	Craiova	12,000	Owned	2012	production	600
Saint Gobain Glass	Calarasi	40,000	Owned	2007	production	200
Sews	Caransebes	2,000	Owned	2011	production	600

INVESTMENT MARKET

The investment volume in Romania in H1 2014 rose by 222% compared to H1 2013, reaching approx. EUR 402.4 million; the expectation of the total volume for full 2014 is of over EUR 550 million. This represents the highest volume registered since 2008, signalling a revival of interest for capital markets deals.
Industrial segment represents a rather small stake of the overall investment market, at an average of 10% of the annual volume. The biggest industrial deal recorded ever in Romania was for Europolis Logistic Park Bucharest, bought by CA Immo, during a pan-regional, mixed investment deal. The park, with a total surface of 215,000 sq m, located on A1 Highway Bucharest – Pitesti, was acquired for EUR 85.9 million, at a yield of 9.0%. In H1 2014 several important deals were recorded, meaning the completion of the acquisition of Timisoara Airport Park by Globalworth Real-Estate, a logistic park in Timisoara fully leased to Valeo and Continental, plus the transaction of Innovations Park in Bucharest, a 15,500 sq m unit anchored by Nestle, acquired by Secure Property Development & Investment.

Industrial Investment Market 2003 - H1 2014



Major Industrial Investment Deals

The most significant recent investment transactions in the warehouse sector					
Year	City	Project	Buyer	Surface	Yeld
2008	Timisoara and Arad	Incontro	Catalyst Capital	52,400	8.00%
2008	Arad	UTA1 Industrial Park	NBGI SEE Real Estate	39,000	9.25%
2009	Timisoara, Ploiesti, Brasov, Sibiu, Targu Jiu	3 Projects Eyemaxx	Immoeast	N/A	N/A
2011	Bucharest	Europolis Park Bucharest	CA Immo	215,000	9.09%
2012	Cluj Napoca	Nokia Factory	De'Longhi	35,000	N/A
2013	Timisoara	Timisoara Airport Park	Globalworth Real Estate	27,474	N/A
2014	Bucharest	Innovations Park	Secure Property Development & Investment	15,500	11%

MARKET PRACTICE

LEASE TERM

- 3 years in existing buildings; 5 years for newly constructed buildings in established parks
- 7 years for build to suit (BTS) projects

HEADLINE RENT

- Paid monthly in advance; quoted in EUR, paid in RON
- Annual indexation linked to CPI indices (usually EU CPI Index)

EFFECTIVE RENT

- Average rent accounted over entire lease period, including financial incentives provided to tenant by landlord (e.g. rent free periods, fit-out cash contribution)

SERVICE CHARGES

- Paid monthly in advance; quoted in EUR and paid in RON
- Based on ‘open book principle’, reconciled annually

SCOPE OF SERVICES INCLUDED IN SERVICE CHARGES

- Security of park - common areas
- Property taxes
- Property insurance (excl. tenant internal area)
- Property management
- Maintenance and repairs
- Landscaping / site cleaning
- Snow removal
- On-site personnel

LEASE SECURITY

- Bank guarantee (common) or deposit (rare), equal to 3 - 6 months rent + service charges + VAT
- Parent company guarantee (in case the tenant is a newly established local entity or for built to suit projects)

INSURANCE

- Liability insurance, insurance for own installations and owned equipment - covered by tenant
- Building insurance and landlord liability insurance included in service charges

REPAIRS

- Internal - tenant
- Structural and common areas - landlord, recovered via service charges

TENANT INCENTIVES

- Rent-free periods
- Partial or complete fit-out according to tenant’s specifications and the required adaptation works

AGENT FEE – LEASE TRANSACTION

- 12 - 25% of the annual rent plus VAT, subject to lease length.
- Fees are generally paid by the landlords.

SALE AND PURCHASE OF REAL ESTATE

- VAT - 24% of the property purchase price
- 16% profit tax
- Notary, legal and mortgage book fees - 1-2% of the purchase price
- Agency fee - 2-5% of the purchase price

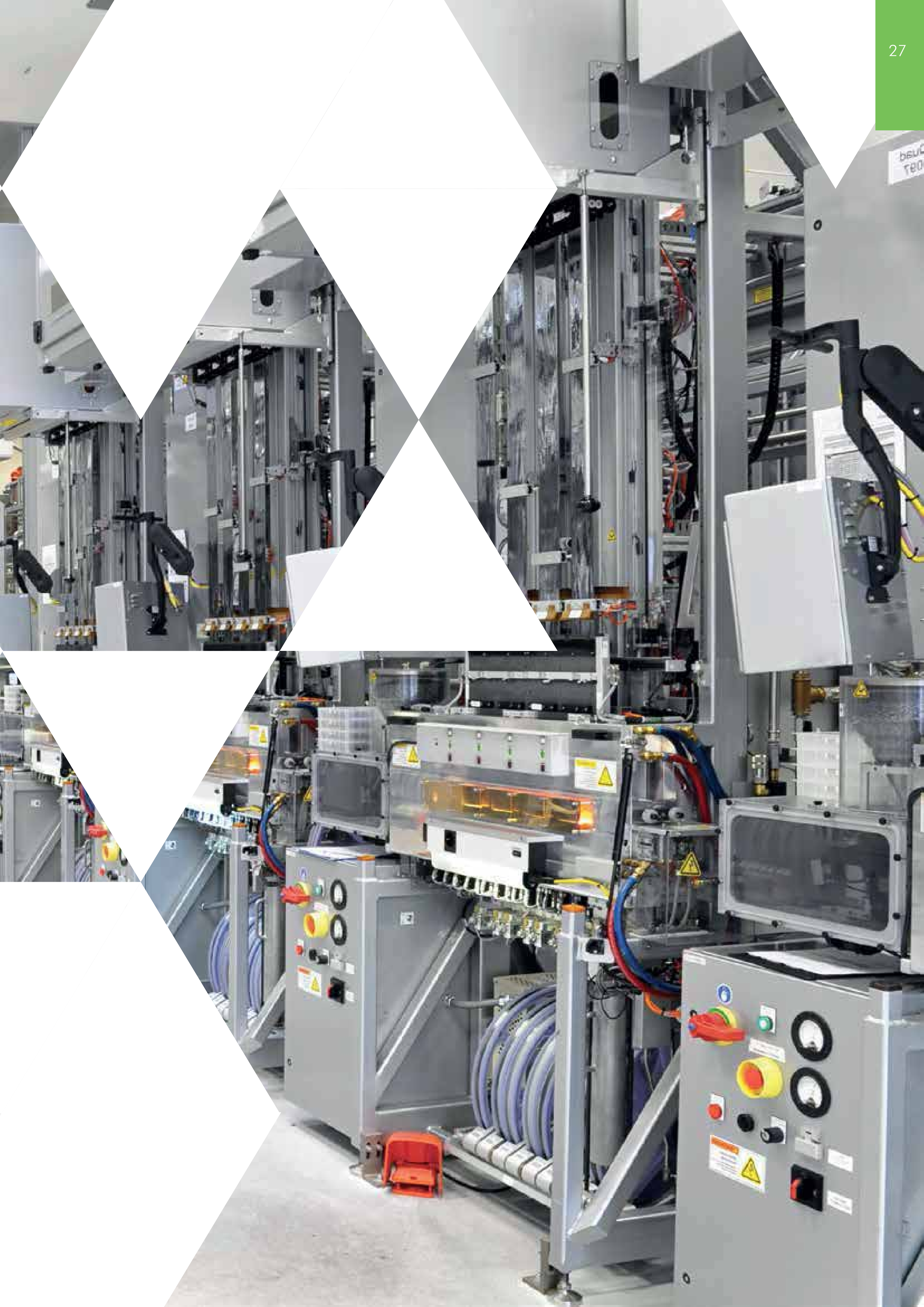
MODERN WAREHOUSE BUILDING STANDARD

- clear internal height of 10 m,
- loading docks with hydraulic dock levellers, generally 1 loading dock per 700 – 1,000 sq m of warehouse space, with a possibility to increase the number of docks according to tenant’s need,
- drive-in doors, generally 1 door per 5,000 sq m of warehouse space,
- floor loading capacity of min. 5t/ sq m,
- dust resistant floor,
- column grid: 12 x 24 m or 12 x 22.5 m,
- smoke vents and sky lights providing 2% natural light,
- lighting in warehouse space min. 200 Lux,
- gas/oil heating or municipal network,
- building depth 60 - 80 m,
- building insulation ensuring min. 8oC temperature with outside temperature of -20oC,
- sprinkler system with ESFR heads,
- fire loading up to 4,000 MJ/sq m,

Office space (usually 5-10% of warehouse space) is offered with the following specification:

- layout based on tenant’s requirement subject to reasonable partitioning,
- heating and ventilation, air-conditioning subject to additional costs,
- lighting according to legal regulations,
- telecommunication system.

Above Standard Tenant Improvements (ASTI) are subject to tenant’s individual requirements and are to be priced in by the landlord.



METHODOLOGY & DEFINITIONS

Industrial space, a term covering the following sub-types: Light Manufacturing and Warehousing (including Logistics). In this publication the focus is on “Industrial – Warehouses (Big Box)”. Modern stock represents “Developer-led logistics space”, consisting of warehousing space in modern, developer-led schemes.

Total leasing activity includes the following types of occupational market activity: pre-construction and pre-completion pre-leases in development pipeline projects; new occupation, expansion, renegotiation, sub-lease, Sale & Leaseback in existing stock. TLA relates to developer-led logistics stock.

Vacancy (in sq m) represents the total net lettable (or rentable) floor space in existing properties, which is physically vacant and being actively marketed at the survey date. Prime headline rent (in Euro per sq m) represents the top open-market tier of rent that could be expected for a unit of standard size commensurate with demand in each location, of highest quality and specification and in the best location in a market at the survey date. For the purposes of this report, a unit of standard size is assumed to be around 2,000 sq m GLA. Effective rent – an average rent over the whole lease period which includes tenant’s incentives.

Prime yield (in %) calculated as net rent / net price (excl. transaction costs) = cap. rate. A prime yield is derived from the gross rental income (before deducting all non-recoverable expenditure) divided by total purchase costs (excluding price, costs and taxes). The prime yield represents the yield that an investor would receive when acquiring a grade/class A building in a prime location, which is fully let at current market value rents. Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, a hypothetical yield should be quoted, and is not a calculation based on particular transactions, but it is an expert opinion formed having regard to market conditions, but the same criteria on building location and specification still apply.

Investment Volume (in Euro million) CBRE record investment transactions only. For this reason transactions by owner-occupiers are excluded from property investment volumes. Transactions involving owner-occupiers, retailers or corporates buying for the purpose of owner occupation are not seen as investments deals. The only exception to include an owner-occupier deal is where occupiers compete in the investment market to acquire a building which was also available to investors. We also do not include pure land deals (empty sites).

Build-to-suit (BTS) – a non-standard warehouse or industrial scheme designed according to specific tenant’s requirements regarding size, location and building standards. The design is based on the client’s technology process. The projects are usually dedicated for one tenant, newly built or after general refurbishments. BTS projects are more and more popular, especially for production companies. Clients preferring BTS investments over constructing their own buildings, limit the risk by choosing an experienced developer, shorten the time necessary for the development process and reduce the development cost by using the developer’s resources. Lease agreements are more advantageous than the construction of a company’s own facilities, mainly because such projects do not require the involvement of their own capital and provide flexibility for future extension or relocation.

INDUSTRIAL LAND

INVESTMENT LAND

Purchasers of industrial and logistics land are interested in locations close to both existing and planned major motorway junctions in the vicinity of large cities, such as Bucharest, Ploiesti, Timisoara, Arad, Pitesti.

Four factors are crucial for investors while determining the attractiveness of the investment land: its location, investment potential, utilities proximity and capacity , size and title.

The price for industrial land can range between 10 and 25 EUR/sq m in regions where infrastructure is underdeveloped and in regions where highways already exist the price can vary between 20 and 60 EUR/sq m, the most expensive price being recorded in Bucharest. The land offered by the local authorities can be purchased after achieving a percentage of the proposed investment or after the investment was fully accomplished. Industrial developers can offer also plots of land or can purchase new plots for BTS projects.

INDUSTRIAL LAND PRICES

Region	Price range (EUR/sq m)
Bucharest	25 - 60
Muntenia	10 – 30
Center	15 – 40
West	20 – 45
North - West	10 – 25
North - East	10 – 20
South - East	15 – 20
South	10 – 20

DEFINITIONS

• Local Master Plan - Zoning Plan which determines the legal designation of plots in a specific communal area in detail

• Local Planning Guidelines Plan (or Local Zoning Plan) - a set of general zoning guidelines of the local municipality for the whole local district's territory, and determines the contents of the local master plan in this respect

• Decision of Construction Terms - the legal process for transferring a plot to a status in which the construction of a certain building is possible, which an investor can apply for in case similar constructions are erected in the vicinity of the site and a Local Master Plan for the land plot is not existent

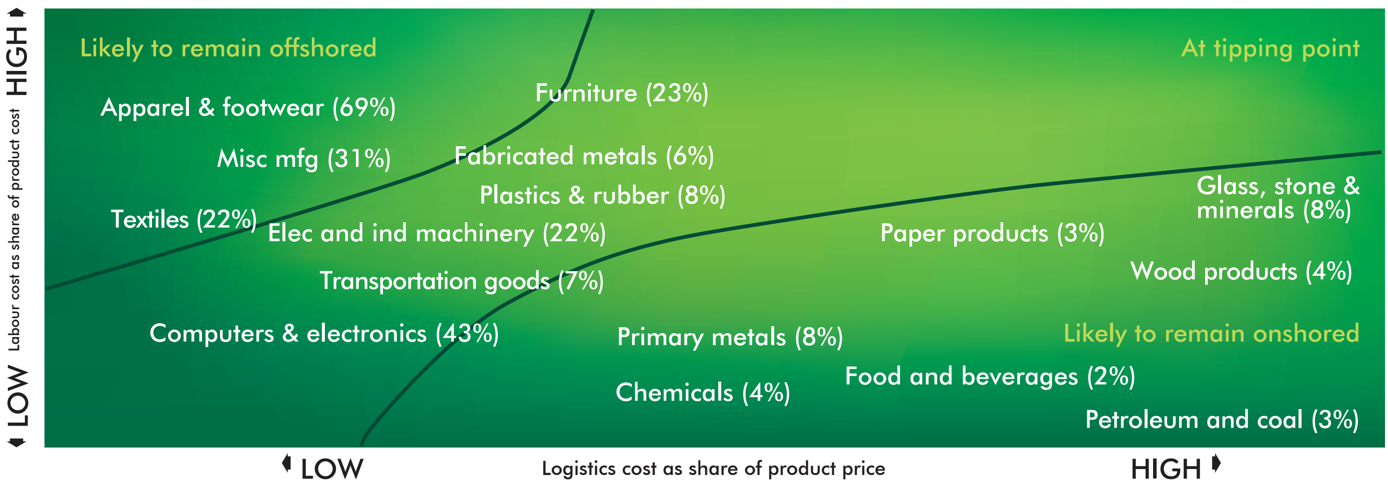
FULLY SERVICED INDUSTRIAL LAND - LAND FULFILLING FOLLOWING CRITERIA:

• Local Master Plan in place allowing for the industrial use of land
• Local Master Plan construction limitations allowing:
  - building height - minimum 15 m
  - green area ratio - maximum 20%
  - the construction could be done on 60% of the total plot of land
• Access to public road
• Good access to major transportation roads in the region
• Utilities - power supply, gas, water supply, sewer system, drainage, telecommunications – in place or in site immediate area
• Stable soil conditions allowing to construction without additional soil / building stabilization
• Sites located outside the city limits within 50 km radius from the city border

LOCATION DRIVERS FOR EUROPEAN MANUFACTURING

Different types of manufacturing activity respond to different stimuli and therefore have varying locational tendencies. There is often a temptation to treat cost differentials as the major component in decisions on location, and certainly these play a prominent role in many cases. The offshoring of production to to China in several industries, or from the USA to Mexico or from Western Europe to CEE, are high-profile examples. However, this is far from the whole story. Even introducing one additional factor, such as the cost of transporting the finished product, shows that for many industries the balance of these decision criteria is not straightforward. It must also be considered that these factors are not static, but are susceptible to changes in relative cost

FIGURE 1: INTERACTION OF LABOUR AND TRANSPORT COSTS FOR SELECTED INDUSTRIES



Numbers in parentheses show the proportion of consumption imported from low-cost countries

Source: Adapted from "US Economy Nears the Tipping Point – Which Industries, How Much, and Why?," Boston Consulting Group, 2013

FIGURE 2: CROSS-BORDER MANUFACTURING PROJECTS (JOBS CREATED), EUROPE, 2012-14

Source: fDi Markets, Financial Times Group 2014 and accessibility which means that even small shifts in the costs of labour and transport for a given location could be significant (See Figure 1).

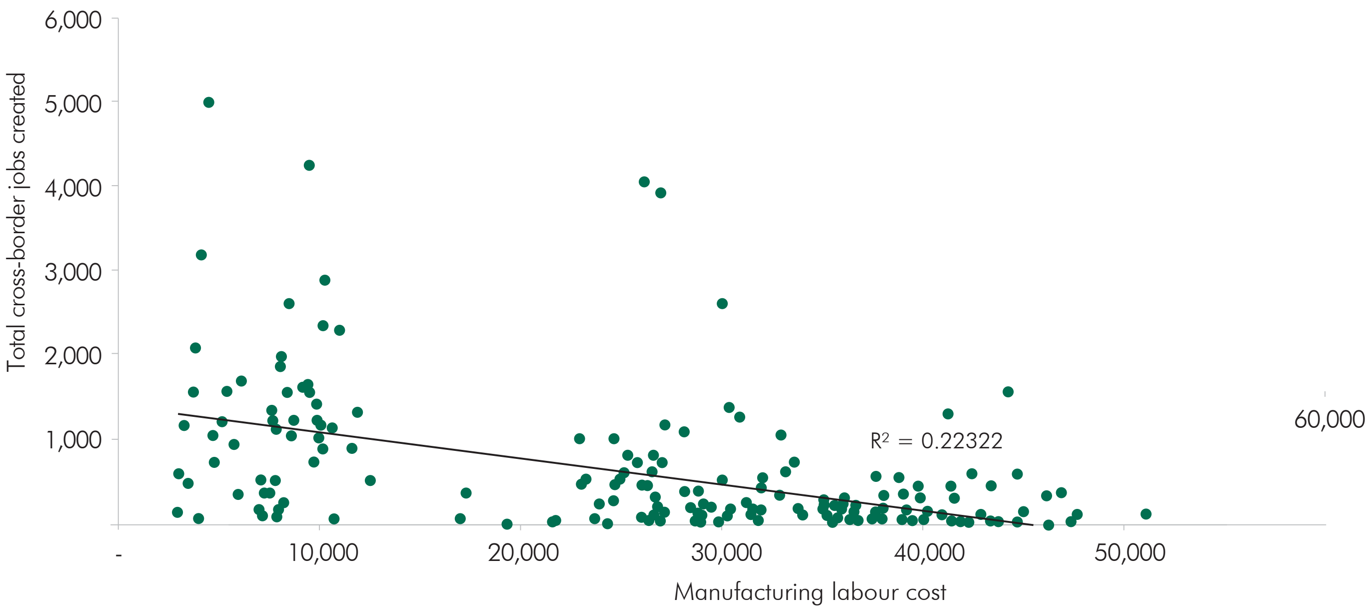
The pattern of recent manufacturing location decisions highlights the range and complexity of the contributing factors (see Figure 2).

There is a clear trend towards some of the lower-cost economies of CEE, although these tend to be in the western most parts of those countries where access to the larger Western European markets is easier. As well as labour cost arbitrage, this also reflects the attraction of relatively lax labour regulations, especially with regard to redundancy costs. Much of the CEE has adopted US/UK-style systems, making it easier to reduce surplus labour without incurring high restructuring costs.

However, there is also significant activity elsewhere in Europe including the UK, Spain, Ireland, Belgium and the Netherlands. While Germany looks a little sparse, much of the manufacturing investment is undertaken by German-owned firms and therefore does not appear in this data. This pattern clearly indicates a broader range of factors at play including, but not necessarily confined to: proximity to final markets; land availability; incentives; planning negotiations; labour regulation; severance rules; working time directives and unionisation.

A closer analysis suggests that some projects are migrating to areas of high-cost, or at least medium-cost, labour (See Figure 3), partly because this is only one of the relevant factors, but also because relative cost structures are themselves changing.

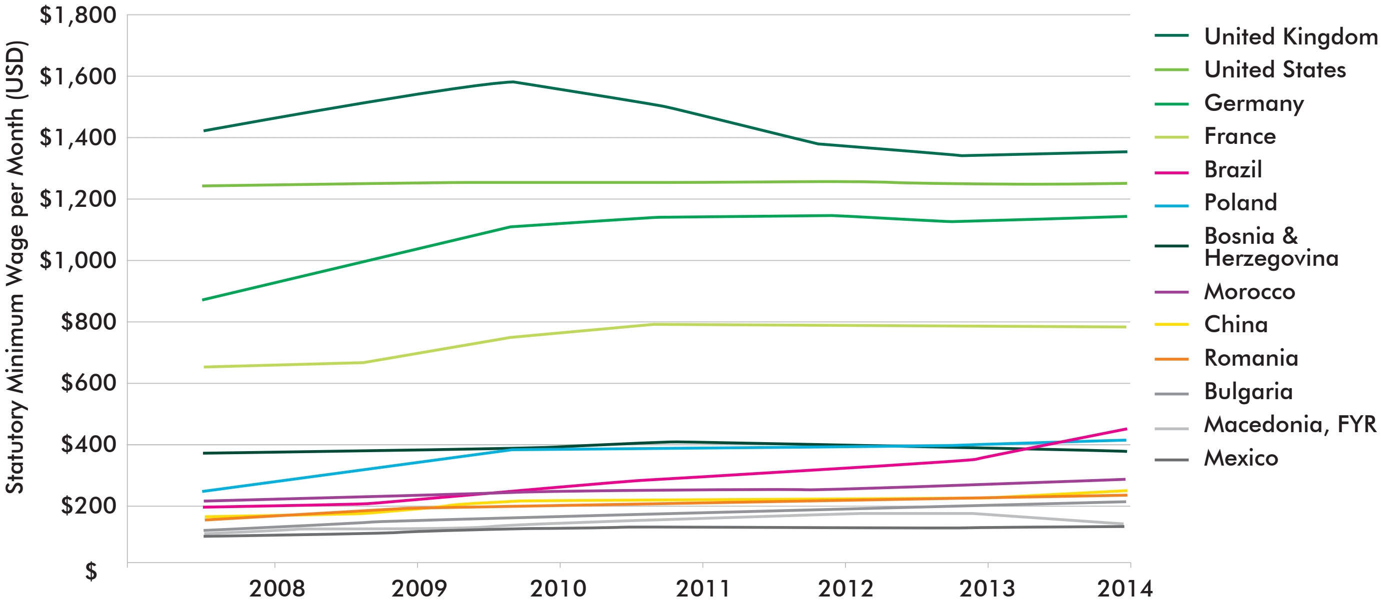
FIGURE 3: IMPACT OF LABOUR COST ON MANUFACTURING LOCATION DECISIONS



Sources: fDi Markets, Financial Times Group & Eurostat.
Note: Figures in € per employee including white collar staff

This is a trend that is apparent at global and regional scales: for instance Romania is now cheaper than China, and Brazil more expensive than Poland – both recent reversals of longstanding positions (See Figure 4).
However, even in its own terms this may be misleading: published figures on minimum wages may differ markedly from what is actually paid. In addition, concerns about product quality, intellectual property integrity and labour relations or working conditions in ostensibly "cheap" locations are becoming more prominent in the minds of customers, and so may act as a deterrent to locating in low labour-cost areas.

FIGURE 4: MINIMUM MANUFACTURING WAGES, 2008-14

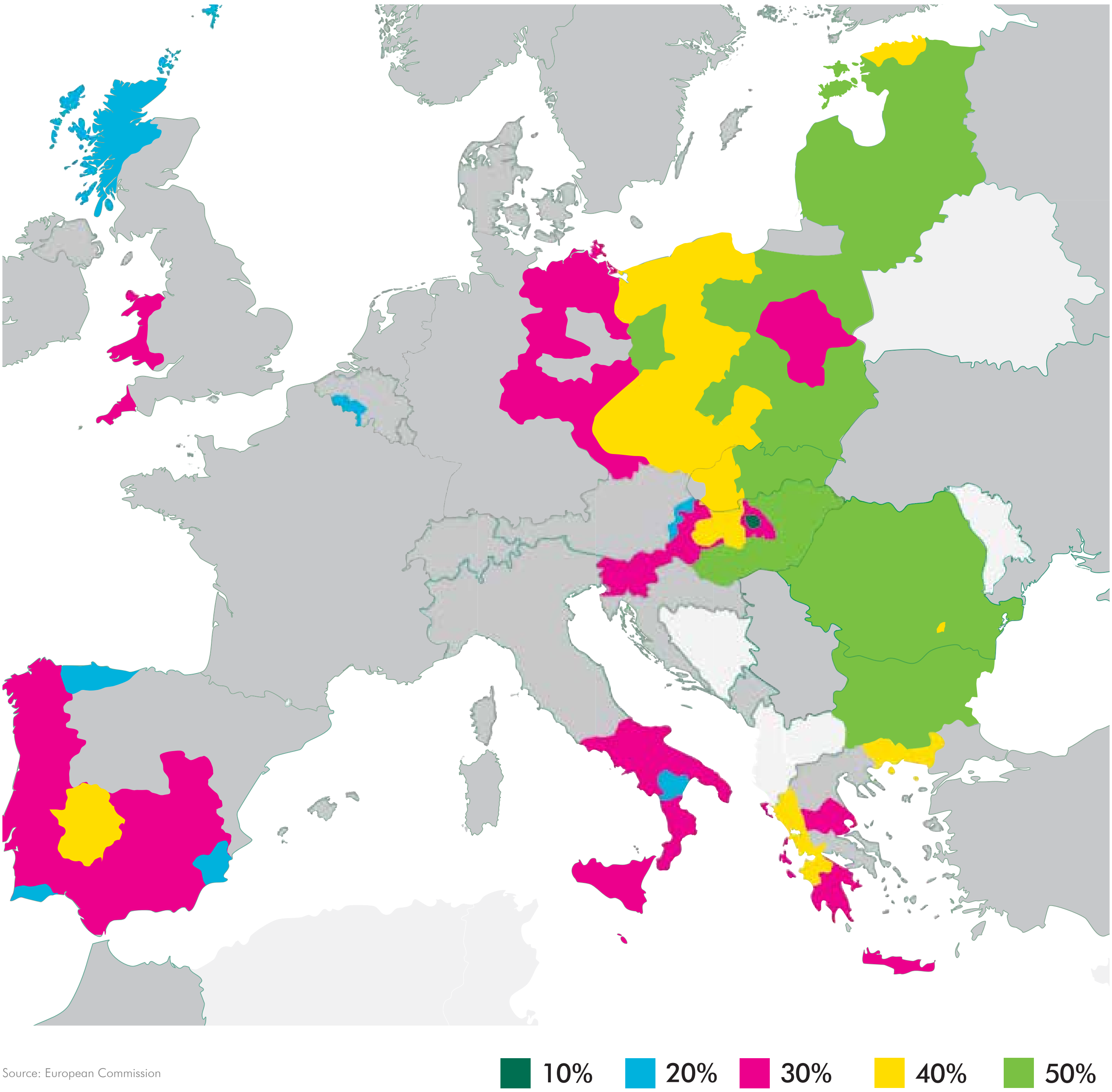


Source: World Bank Doing Business 2014

The reality is that, even for industries where labour represents a high proportion of total costs, chasing low-cost labour can be very expensive, not least because salary levels can change (generally upwards) within the timeframe of a location decision.

One possible response to this is to use investment incentives to offset capital costs and wage inflation. These can be helpful in reducing costs but there are pitfalls. Locations within capital-city regions rarely qualify and, although incentives elsewhere can reach 40-50% total capital investment, these are discretionary maximum levels rather than automatic entitlements (see Figure 5). Equally, levels of economic development are generally far lower outside the capital cities and other major conurbations, and the existence of other factors of production therefore weaker. Countries are in any case becoming more selective in who and what they award cash to, and are looking to prioritise higher value added/skilled jobs. In addition, incentive packages of 2-3 years' duration can easily be overwhelmed by changes in underlying operational costs that become highly significant once the incentive period elapses.

FIGURE 5: FINANCIAL INCENTIVES IN THE EUROPEAN UNION 2013, % CEILING OF FIRST TWO YEARS' SALARY COSTS OR INITIAL CAPITAL INVESTMENT



Source: European Commission

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