

Romania Investment, H2 2015

# Industrial sector registers record level while office and retail have good potential



Investment volume  
-42% YoY



Prime office yield  
7.5% QoQ

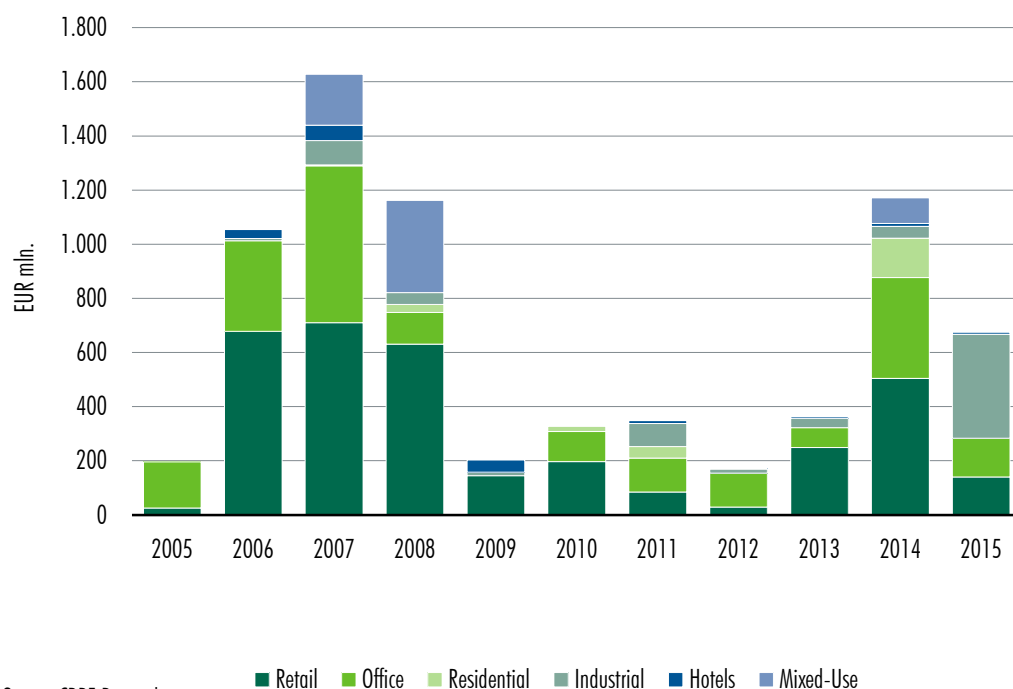


Prime shopping centre yield  
7.25 % QoQ



Prime industrial yield  
8.75 % QoQ

Chart 1: Investment volume per sector 2005 – 2015



Source: CBRE Research

## Key Topics

- The total investment volume for 2015 was of EUR 678 million.
- The industrial sector fuelled by two major investors, registered a record investment figure of EUR 389 million, representing 57% of the total amount.
- Foreign investors continue to dominate the local market, with local capital accounting for less than 3% of the total investment volume.

- Top five investment transactions recorded in 2015 account for 60% of the total investment volume, all of them located in Bucharest.
- Prime yields compressed for all sectors since Q4 2014: office (from 7.75% to 7.5%), shopping centres (from 8% to 7.25%) and industrial (from 9.25% to 8.75%).

## Macroeconomic indicators

The GDP growth registered at the end of 2015 was of approx. 3% according to INS. The positive trend is expected to continue with 4.1% in 2016 and 3.6% in 2017 according to Eurostat.

The low record level of inflation recorded started in 2014 continued in 2015 reaching -1.1% in November from -1.6% in October, while the National Bank of Romania estimation for the end of 2015 is below 0%.

The National Bank of Romania's key interest rate recorded a constant decrease from 3.75% in 2014 to 1.75% at the end of 2015. A slight further decrease is expected during 2016 in line with the European trend.

The local unemployment rate was of 6.8% in October 2015, while the figures for EU 28 and Euro area were 9.3% respectively 10.7% according to Eurostat.

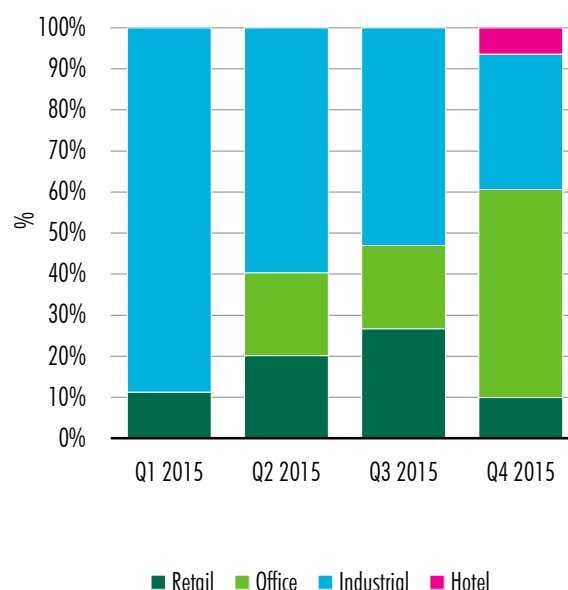
As far as the exchange rate is concerned the local currency during 2015 was rather stable comprising of 4.5 RON for 1 EUR, 4.1 RON for 1 USD and 6 RON for 1 GBP.

## Investment activity

The investment volume in Romania in 2015 decreased by 42% compared to 2014, reaching EUR 678 billion. The difference of the total investment volume recorded between 2015 and 2014 was somehow expected given the particularities of that record year in terms of investor's profile (familiarised with the local market) and two major one-off transactions in 2014. However the 2015 figure registered a 47% increase compared to 2013. As a general idea foreign investors continue to dominate the local market. Some of them are new entries (Logicor, First Property Group, CTP, P3, Lone Star), while other consolidated their businesses (CA IMMO, WDP, Globalworth, Carrefour Property Division, Secure Property Development & Investment).

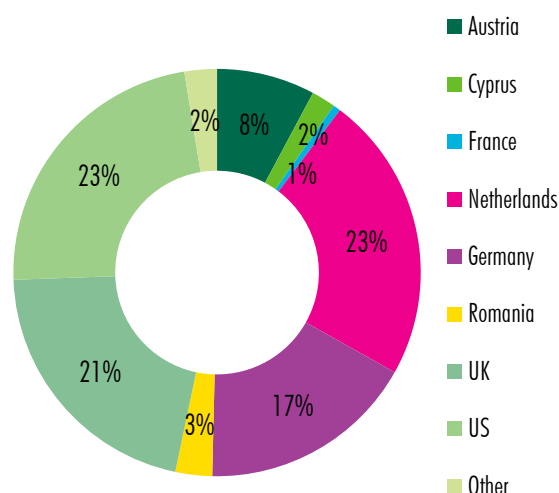
In 2015 the highest level of investment was registered for the industrial sector with a record figure of EUR 389 million. This is due mainly to two major players that have entered the local market and started investing here (P3 Logistic Parks and CTP).

Chart 2 : Investment volume per quarter in 2015



Source: CBRE Research

Chart 3: Investment volume by country of origin in 2015



Source: CBRE Research

Table 1: CEE prime yields Q4 2015

	Retail SC	Office	Industrial
Bucharest	7.25%	7.75%	8.75%
Budapest	7%	7.15%	8.5%
Bratislava	6.5%	6.9%	7.75%
Prague	5.5%	5.75%	6.5%
Warsaw	5.5%	5.75%	6.35%

Source: CBRE Research

**Table 2: Top five investment transactions in 2015**

Asset	Domain	Purchaser	Price (EUR mln.)
Europolis Logistic Park	Industrial	P3 Logistic Parks	118
Floreasca Park	Office	GLL	90
Auchan Titan Shopping Center	Retail	NEPI	86
Bucharest West	Industrial	CTP	70
Green Court Bucharest B	Office	Globalworth	47

Source: CBRE Research, companies

## Yields

Prime yields have compressed during the past 12 months from 8% to 7.25% for shopping centers, from 7.75% to 7.5% for offices and from 9.5% to 8.75% for industrial.

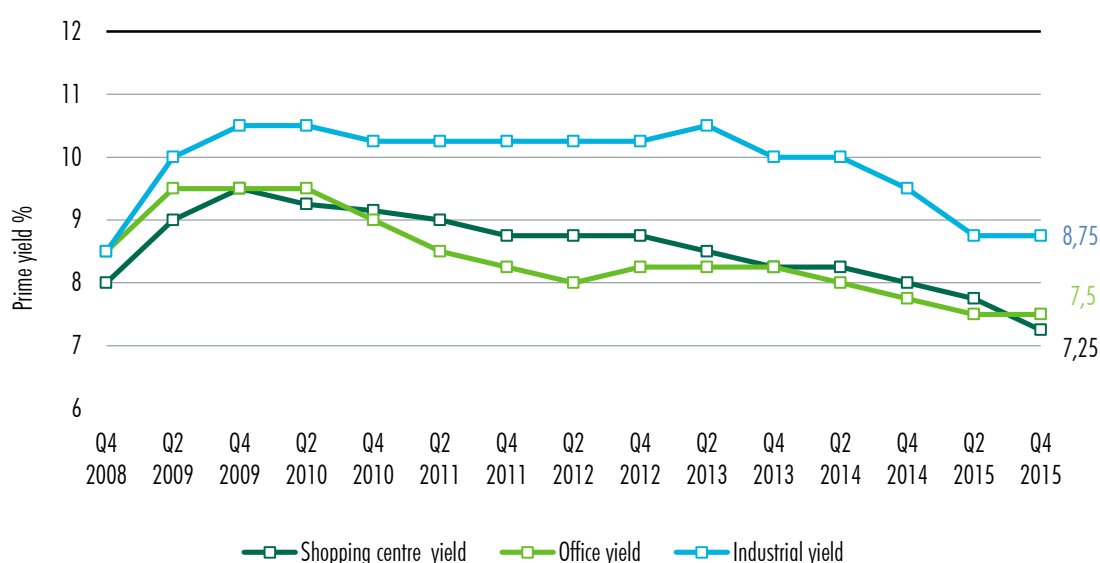
The yield compression will be seen during 2016 also perhaps with a slightly lower margin. It should be taken into account the fact that Romania has not yet reached the levels from Czech Republic, Hungary and Poland yet, but it is on the right track.

## Outlook

Taking into account the investment volumes transacted during the past two years it is likely that 2016 will at least match the results from 2015.

The growth scenario might include transactions with residential properties (none significant in 2015, but consistent in 2014), hotels, but also office and retail assets. The industrial sector will probably slow down as a significant part of the available stock was traded in 2015. The number of foreign investors is higher than two years ago and it is expected that new investors will increasingly target Romania on the back of the strong economic performance and the comparatively attractive pricing.

There are concerns related to both local and external factors: European Parliament and local elections, respectively the impact from the major stock markets, the oil price and the future developments from the Middle East and China.

**Chart 4: Bucharest prime yields Q4 2008 – Q4 2015**


Source: CBRE Research

## Definitions

**Central and Eastern Europe (CEE)** includes the following countries: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia and Ukraine.

**Prime Rent** – 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 the highest quality and specification and in the best location in a market at the survey date. The Prime Rent 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, the quoted figure will be more hypothetical, based on an expert opinion of market conditions.

**Prime Yield** - represents the yield that an investor would receive when acquiring a grade/class A building in a prime location (for offices in the CBD, for example), 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 in the light of market conditions, but the same criteria on building location and specification still apply.

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