Romanian Construction and Real Estate Report

by Intellinews ISI Emerging Markets

Construction market overview • Construction news

Real estate market overview • Real estate news

Construction market overview

The value of construction works increased by 6.1% y/y to RON 17,308 mn (EUR 4.78 mn) in the nine months last year (January-September), according to data reported by the National Institute for Statistics (INS). New construction works worth a total of RON 10,016 mn (EUR 2.76 mn) accounted for 57.9% in total value. The repairement works totalled RON 3,039 mn and accounted for 17.6% of total works, while the maintenance works represented 24.5% of total.

For January-September, a number of 32,847 buildings permits has been released for residential buildings. Furthermore, the number of finished dwellings reached 18,186 as of end September. As much as 2,320 dwellings were built from budgetary subsidies, while the number of dwellings financed by population's funds went up by 1,508, in y/y terms. As of end September 2005, 92,240 dwellings were in different stages of construction, while 39% of them were in an advanced completion stage.

For October only, the value of construction works surged by 13.1% y/y, while the value went up by 7.3% y/y for January-October.

Completed dwellings per type of financing

	Q3, 2005	Q2, 2005	Q1, 2005	Q4, 2004	Q3, 2004	Q2, 2004	Q1, 2004	Q4, 2003	Q3, 2003	Q2, 2003	Q1, 2003
Total dwellings (number)	**8,187**	**5,838**	**4,161**	**12,449**	**7,800**	**6,272**	**3,436**	**11,630**	**7,804**	**5,987**	**3,704**
from private funds	6,604	5,421	3,491	10,958	6,161	4,998	2,788	10,155	5,226	4,720	2,809
from budgetary subsidies	1,285	401	634	1,465	1,613	1,267	646	1,477	2,529	1,267	813
Dwellings in urban area	**4,075**	**2,923**	**2,538**	**5,968**	**4,245**	**3,730**	**2,021**	**4,694**	**4,496**	**3,216**	**2,281**
from private funds	2,813	2,506	1,868	4,477	2,606	2,456	1,373	2,808	1,918	1,949	1,386
from budgetary subsidies	1,245	401	634	1,465	1,613	1,267	646	1,814	2,529	1,267	813
Dwellings in rural area	**4,112**	**2,915**	**1,623**	**6,481**	**3,555**	**2,542**	**1,415**	**6,901**	**3,308**	**2,771**	**1,423**
from private funds	3,791	2,915	1,623	6,481	3,555	2,542	1,415	6,901	3,308	2,771	1,423
from budgetary subsidies	0	0	0	0	0	0	0	0	0	0	0

Source: National Institute of Statistics

Volume of new orders in construction

RON mn	Q3, 2005	Q2, 2005	Q1, 2005	Q4, 2004	Q3, 2004	Q2, 2004	Q1, 2004
Total	**5,474**	**3,795**	**2,878**	**4,501**	**4,316**	**3,667**	**2,753**
Residential buildings	710	443	333	485	450	438	309
Non-residential buildings	1,235	997	730	1,210	1,225	919	718
Civil engineering	3,529	2,319	1,815	2,806	2,641	2,310	1,726

Source: National Institute of Statistics

Dwellings under execution as of September 30, 2005

	Total no.	of which: finished and received	in final stage	execution of structures	execution of fundations
Total	**92,240**	**2,639**	**36,564**	**31,387**	**21,650**
from budgetary subsidies	14,230	2,292	4,584	4,451	2,903

Source: National Institute of Statistics

The growth pace registered in H1 – 18% y/y in local currency was far above the 6% registered in 9M. And this might indicate that the projections of market players for an annual growth of 8-10% for 2005 would turn to be realistic.

On the other hand, the local cement market, one of the most important construction materials markets, is seen at posting a growth of 8%, volume terms, last year due to the reconstruction works prompted by floods.

More specifically, the local cement market amounted to an estimated value of EUR 300 mn last year, as mentioned by the representatives of association of cement industry.

The market went up mainly in the second half after in H1 it was noticed a stagnation. The relaunch of the sector was prompted by the floods that hit the country last year and mainly during the summer period. Therefore, during July-September, the cement producers have had hard times meeting the demand.

For 2006, the forecast points to a 3-5% growth, y/y, but if the major infrastructure works will start, then the growth could be of 10%. Also, the construction market is seasonal sensitive so a prediction is difficult to be made.

Construction news

Heidelberg Cement

The local branch of German Heidelberg Cement reported a 22% growth in its sales for 2005 due to an increasing demand of cement. For this year, the company is optimistic and expects a 6-7% growth in case no major events would take place which might lead to a higher growth. The expected growth is motivated mainly by the expansion of the concrete stations scheduled to take place this year. In absolute terms, the sales of the group on the local market amounted to a cumulated EUR 194 mn – figure which includes the sales of all three divisions of the group, CarpatCement Holding, Carpat Beton and Carpat Agregate. The investments scheduled by HeidelbergCement for this year would stay at EUR 25 mn and will be directed to the upgrade of Fieni plant and for the improvement of environment protection in all three plants the group holds in Romania in Fieni, Deva and Bicaz. Since 1998 when it entered the local profile market, Heidelberg Cement invested roughly EUR 260-270 mn till now.

Holcim Romania

One of the three large players in the local cement market, Holcim Romania, posted a turnover of EUR 166 mn last year, up by 27% y/y. The increase was prompted partly by the investments made by the company in upgrade of production technology and environment protection last year. This year EUR 70 mn are earmarked in order to continue the projects started in 2005. The largest project is under development currently in Câmpulung and refers to the construction of largest gray cement production line in Romania. Holcim decided to revise upwards its investments for 2006-2008 by increasing the allotted amount by 52%. Thus, the funds to be invested till 2008 were up to EUR 160 mn from initially EUR 105 mn.

Elpreco

Elpreco construction materials company logged a net profit of RON 8 mn (EUR 2.21 mn) in January-September, up by 78% y/y. After the first three quarters, the turnover amounted to EUR 17.6 mn (RON 63.7 mn), up by 49% y/y in RON terms. Elpreco merged with Rompreco at the end of last year, while currently, the management of Elpreco intends to ask to empower the company's administrators to draft a project for splitting the company. More in detail, the split refers to the separation of a land which is no longer used in the current business and it is the subject of a lawsuit. No further details were given referring to this subject. The majority shareholder of Elpreco is Broadhurst investment fund.

Hidroconstrucția

Hidroconstrucția, one of the largest construction companies in the local market, reported a turnover of EUR 156 mn for last year, value which is up by 8% versus the initial projections, according to company's representatives. As

Construction materials and other non-metallic products

	units	Nov-05	Oct-05	Sep-05	Aug-05	Jul-05	Jun-05	May-05	Apr-05	Mar-05	Feb-05	Jan-05	Dec-04	Nov-04
Window – glasses	Th. sqm	1350	1406	1236	1054	1584	1923	2038	2219	2130	2027	1579	2730	2701
Glassware	Tones	9558	8890	10302	10914	11298	11082	12334	10990	11490	10524	13118	12322	11859
Refractory bricks	Tones	4756	3406	3665	4865	5664	5576	6327	6352	5642	6077	5201	6785	7867
Finishing materials for walls and ceramic floors	Sqm	118182	120657	117561	1223759	1226665	1181719	1150045	1177629	1219606	1116009	896780	704255	928461
Masonry materials	Th. pcs	14739	18157	18742	20203	18874	20234	17117	14787	12619	9003	8467	10888	16512
Clay tiles, pan tiles and ridges	Th. pcs	2408	2961	2669	2609	2388	2744	2502	2441	1847	1235	1027	1865	3170
Cement	Tones	577832	761123	831328	871881	759370	771131	670613	647543	470536	215181	154702	287421	425748
Lime	Tones	124292	173283	188834	188588	191486	182889	210073	178526	142538	106174	92723	122827	145905
Plaster	Tones	12560	14646	15641	14770	14192	14228	9492	10466	8420	60	25	4470	6529
Reinforced concrete prefabricates	m^3	15261	13869	12813	12609	11011	12367	11455	11624	9466	5239	5922	7385	11192
Simple concrete prefabricates	m^3	23863	25564	27292	29889	30624	26629	27429	22718	2383	1255	1815	19528	22119
Autoclavised celular concrete	m^3	158370	188960	185446	179900	173230	165612	188354	175899	125477	102187	50853	109047	170760
Concretes and mortars	m^3	86717	94054	89809	88686	87555	84115	71254	72593	50866	20867	35731	73409	104461
Asbocimentv plates	Th. sqm	876	1013	1175	1247	964	793	715	963	610	350	243	743	1186
Marble finished plates and ornamental stone	Th. sqm	27	25	28	27	25	24	22	15	22	11	15	18	28
Mineral cotton and isolating products	Tones	423	463	396	399	346	336	321	423	257	287	–	329	602
Thermo-insulated materials	m^3	–	–	–	–	–	–	–	–	–	–	–	333	491

Source: National Institute of Statistics compared to previous year, the advance is by 17.6%. The sales went up especially in the second half of the year prompted by the reconstruction and consolidation works of dams broken by floods.

Saint Gobain

The local branch of French Saint Gobain construction materials producer will launch a glass production line in September this year, the value of the project being of EUR 100 mn. The production line will have a daily capacity of 600 tones of glass which is directed to the construction market. Thus, 50% of the sales will go to local market while the rest of 50% to foreign market, mainly to Bulgaria, Serbia and Greece.

Through a very wise move made recently, Saint Gobain turned into the leader of gyps cardboard market, outpacing Lafarge. Saint Gobain has become the market leader through the acquisition of BPB, the owner of Rigips Romania gyps cardboard producer. The French group announced that it took over UK's BPB for a total of USD 6.72 bn after a period of four years of placing offers. A potential merger between its divisions, Isover and BPB, would lead to a cost reduction of EUR 100 mn (USD 117 mn) starting 2007.

BPB, the owner of Rigips Romania, acquired back in 1999 the plaster plant from Turda. Later on, local branch of BPB merged with Gypsum Turda under the name of Rigips Romania.

The investments of Saint Gobain in Romania reached EUR 140 mn once it acquired DBW Ploiești insulating material producer. For this acquisition, the French company allotted EUR 40 mn.

Dedeman construction materials retail chain

Dedeman construction materials retail chain which operates a stores chain in the Eastern side of the country, expects a turnover of EUR 70 mn for last year, up by 62% y/y. In 2005, the chain managed to expand by five new stores in Brăila, Iași, Bacău, Vaslui and Onești. The local based company is in competition with large construction materials providers such as Praktiker and Bricostore. This year, the Romanian group will set up a hypermarket in the South of Bucharest. The investment is seen at EUR 5 mn.

The total earmarked investments for this year stay at EUR 11-12 mn.

Real estate market overview

The return on investment in the real estate sector is expected to drop by an average of 10% this year, according to experts of Regatta real estate agency. The annual return on investments registered by investors in real estate sector varied between 15% and 35%, but the trend seems to be on downward path. The decrease in return on investment rate is a sign of a mature market. Due to the increase of development and of operation costs of real estate projects and further to the increase of final prices, the Romanian real estate market starts to gather the characteristics of similar markets in Western and Eastern Europe. Still, according to a British TV channel, Romania ranks the first among 20 most profitable European states from the point of view of forecasted profit in the next ten years coming from real estate transactions.

Due to the fact that Romanian real estate market is considered as having a high potential, foreign investments funds decided to get involved in development of office buildings although they usually buy already finalized projects. Local real estate brokers were quoted by the press saying that the fact that there is low offer of A class office buildings, the rent fee has decreased from an initial value of EUR 18-20 per sqm to a current EUR 16-17 per sqm. The stock of A class office buildings gathers 210,000 sqm, much below the level registered in neighbour countries, while the stock of B class office buildings total 300,000 sqm.

If things seem to develop in a certain way in Bucharest, the development of residential real estate market within the country is somehow chaotic. As much as 90% of constructors are local developers who do not have a long term strategy. The demand exceeds the offer despite the fact that several projects are under development. The low-priced dwellings are the most demanded ones, while a market for high class

Area	Type of residential premises		Rent	Sales	
		Bedrooms	Average monthly rent (EUR)	Built area (sqm)	Price (EUR/built sqm)
Primăverii Dorobanți	Flat in villa or in a new block of flats	2	1,500 - 3,200	100 - 150	1,400 - 2,000
		3	2,000 - 3,700	120 - 200	
Aviatorilor Kiseleff	Independent villa	4	4,000 - 9,000	250 - 400	1,000 - 1,500
		5	4,500 - 9,000	300 - 600	
Herăstrău	Flat in a new blocks of flats	2	1,500 - 2,700	100 -150	1,200 - 2,000
		3	1,500 - 4,500	120 - 220	
	Independent villa	4	3,000 - 5,500	250 - 350	1,000 - 1,300
		5	3,500 - 5,500	300 - 450	
	Residential compound	2-3	1,500 - 3,000	150 - 250	950 - 1,100
		4	2,500 - 3,000	200 - 300	
		5	3,000 - 4,500	250 - 400	
Floreasca, Cotroceni	Flat in a new blocks of flats	2	1,500 - 2,200	100 -150	1,100 - 1,300
		3	2,000 - 3,000	120 - 220	
	Independent villa	4	2,500 - 4,000	250 - 350	800 - 1,300
		5	3,000 - 5,000	300 - 450	
Băneasa Forest, Otopeni	Independent villa	4	2,500 - 4,000	250 - 400	750 - 850
		5	3,000 - 5,000	300 - 600	
	Villa in residential compound	3	1,700 - 2,500	150 - 250	750 - 900
		4	2,500 - 3,500	200 - 350	
		5	3,000 - 5,000	250 - 450	

Source: DTZ Echinox, Residential market overview, 2005 dwellings does no exist yet. From the residential investments point of view, Cluj, Brașov, Sibiu and Iași cities are the most developed ones. Still, it is expected that the regional real estate market to enter a mature stage when the small local developers will disappear and international players will step in.

As it is known that except Bucharest, most of foreign investments in the real estate sector were directed to Transylvania region and mainly in Cluj, we will detail a bit on the real estate market of this city.

Cluj

Office buildings market: there are five class A office buildings and one under construction currently. The monthly rent is in the range of EUR 12 and EUR 15 per sqm.

Retail: Cora and Iulius Group are the largest hypermarket investors, the allotted by them exceeding EUR 75 mn.

Residential: largest residential project is developed by Immofinance and is worth EUR 25 mn.

Industrial: private investors on this segment started to appear last year when the lands of former industrial platforms were sold.

Residential projects under development/ finalised, Bucharest

Area	Capacity	Delivery Date
North	2-4 rooms	December 2005
Primăverii	3-4 rooms	September 2006
North	3-4 rooms	February 2006
North	3-4 roms	September 2005
Downtown	4 rooms	August 2006
Aviatorilor	4-6 rooms	September 2005
Dorobanți	2-3 rooms	October 2005
Dorobanți	3-4 rooms	September 2005
Kiseleff	3-4 rooms	April 2006
Aviatorilor	3-4 rooms	December 2005
Floreasca	2-4 rooms	December 2005
Downtown	1-3 rooms	Summer 2006
Dorobanți	4 rooms	November 2005

Source: DTZ Echinox, Residential market overview, 2005

Real estate news

UK's Equest Balkan Properties real estate investment fund has acquired an office building located in Domenii area, Bucharest, for which it paid EUR 4.75 mn. One month ago, the UK's fund announced investments of EUR 100 mn mainly directed to acquisition of projects of office buildings and commercial spaces on the local market. The first acquisitions of the fund in Romania are to be made in Bucharest and Iași. Equest is also active on the Bulgarian profile market. Besides Romania and Bulgaria, the fund eyes as well the markets from Albania, Bosnia & Hertzegovina, Croatia, Macedonia, Serbia & Montenegro and Turkey, which means actually the entire SEE region.

GTC Romania, one of largest players on the office buildings market in Bucharest, looks for contracting a loan which will be directed to the development of its first residential project. The said project is seen at roughly EUR 25 mn, according to Shimon Galon, CEO, GTC Romania. Last summer, the company announced development of several projects whose total value would reach EUR 200 mn. One of them is a residential complex formed by roughly 200 flats in North area of Bucharest. Another project eyes the construction of 600 flats in the same are of the city. The company's entry on the residential segment is a change in its strategy after it enjoyed a real success on the office buildings segment so far. GTC is the developer of Europe House which sold it for USD 30 mn back in 2003 to Austrian Europolis fund. Currently, the company is close to finalise the works at America House office building located in Piața Victoriei area. The investments are in the range of EUR 40-50 mn.

Imofinance group increases its capital by EUR 8 mn to EUR 13 mn, move which will allow transforming Imocredit company into a mortgage bank. This is to be done by the end of this year, according to Iosif Pop, head of Imofinance. As part of group's strategy, Imofinance eyes the real estate bond market. The most recent project of the company is the development of a residential complex near Cluj, whose investment reaches EUR 25 mn. The construction works will start this year. Imofinance group was set up two years ago and includes three companies: Imofinance SRL, which assures the management of the group; Imocredit, which is the mortgage company (soon to be turned into a mortgage bank), and Imoinvest, which invests in real estate projects.

Impact real estate developer intends to shape up a new residential project worth a total of EUR 420 mn near Băneasa Forest. The project, called *Cardinal Towers Development*, might be developed on 100ha and will include dwellings and spaces for educational activities for 5,000 families, but also office buildings and commercial spaces. There will be actually five functional buildings called Cardinal Towers. The works will last six years. The financing will come from local market sources but also from partnership with foreign financial institutions.

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