

# Real Estate Investment Market

by Colliers International

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## Overview

In 2005, the investment market continued its exultant evolution: despite the lack of investment grade products, the number of potential buyers grew and the quantity of money looking for product rose even quicker. The yield evolution took an ever steeper decline, ending the year at levels below 8%.

As the country became a common investment destination, its potential has been furthermore acknowledged by the international markets, with several funds now being raised specifically on Romania and funds active here becoming part of other funds' portfolios.

With an acute lack of product and already-let yields at record low levels, developers and investors alike turned to development schemes and forward purchase transactions. 2005 saw the largest number of new – mostly foreign – developers trying to enter the market. Also, several investors have been successful in getting involved in development schemes and thus securing higher development yields, a strategy that is likely to be followed by more of the foreign patrons.

An indicator of both the scarcity of opportunities and Romania's accelerated rhythm of evolution, investors and developers have given equal priority to projects from all areas of real estate development, located in either Bucharest or the secondary cities.

## The office investment market

In line with the development of the office market, 2005 saw the largest number of investment grade transactions to date. The Austrian funds kept their edge, seizing the most important four properties, out of the total ten purchased. The UK and Irish investors followed close behind, focusing on projects of under and close to 10,000 sqm.

Two of Bucharest's landmarks, both 100% leased by Colliers, changed hands in 2005: Portland Trust's Bucharest Business Park was sold to CAImmo, an Austrian investment fund, while Raiffeisen Evolution's Floreasca Tower (also known as Oracle Tower) was sold to another Austrian investor, Uniqa's real estate investment arm for an unprecedented low yield of 7.9%. Smaller buildings have nevertheless attracted interest, location playing a key role in investors' decision. The north was again the preferred destination, a position in or close to the Central

Investment transactions closed in 2005					
Space use	Building	Usable area (sqm)	Main tenants	Investor	Yield (%)
Office	Neocity I, II	7,500	Alpha, Danube Fund, NNDKP	RI Investment Group	11-12%
	Connex-Vodafone portfolio	13,900	Connex-Vodafone	Blue House	WND
	Daniel Danielopol	3,740	Mol, Henkel, Xerox	RI Investment Group	WND
	Cascade	4,400	Aviva, Procredit	Fabian Capital	8-9%
	BCC	13,022	Generali	Generali	8-9%
	BBP	24,500	TNT, Coca Cola, NNDKP	CA Immo	8-9%
	Floreasca Tower	7,400	Oracle	Uniqa	7.9%
Industrial	Geodis Logistics	10,000	Geodis	Morley Fund Management	10-11%
	Mercury Logistics Park	90,000	Delamode, MiniMax	Helios Properties	WND
Retail	City Mall	24,500	Kenvelo, Samsonite, Altex	WND	WND
Office & Industrial	Pipera Center	24,600	Connex-Vodafone	Immofinanz	9-10%

Business District balancing out lower quality or short terms leases in the buildings being bought.

With a limited quantity of grade A deliveries in 2006, the number of potential transactions is far lower than the one in 2005. The class B market is nevertheless picking up pace, with several new developments close to completion in both the established Pipera area, but also in the west of the city, next to the Polytechnic University campus. The class B market will be the star of 2006, continuing the trend started in Q4, 2005, when a portfolio of six back-office buildings were sold to a Greek investor.

Diversity will be key word for 2006 - from the nationality and sizes of funds trying to get involved in the market, to the products that they are willing to tackle. As class A developments get scarcer, even more conservative investment funds will open up to new categories of product: from class B to redevelopments, from secondary cities to built-to-suits. For the opportunity driven, the joint venture schemes will enable them to participate in the riskier – but higher – development yield.

## The retail investment market

In 2005, the retail investment market was hindered by an acute lack of product. There were a few investment grade transactions such as the sale of the now completed City Mall to a group of UK investors, the 50% sale of Bucharest Mall and Plaza Romania within the developer's group and a number of smaller high street transactions.

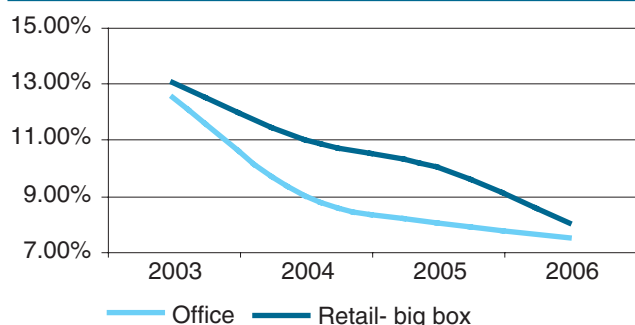
The following years will nevertheless make up for the last: with three shopping centers at the end of 2007, and five already underway for the end of 2008, the Bucharest retail investment market is close to taking its anticipated position as office's second.

In the secondary cities, retail developments are far ahead of the office market. The continued big box's aggressive expansion last year is followed closely by shopping center projects, with most developers tackling several towns at once.

With no finished product and lessons learned in the office market yield compression, most funds are already focusing on partnering up with either local or international developers and co-fund/ forward purchase the shopping centers to come.

The high street market is still a favorite among the small investors. Several transactions took place in the EUR 500.000-1.5 mn range, with yields decreasing in line with market trends to close to 8% for the best high street properties.

Office and retail yields evolution



## The industrial investment market

As in the previous years, the lack of modern industrial product held back the investment activity. There was only one transaction: the sale of Phoenix Logistics to UK Fund Morley. The total stock on the Bucharest market stands at around 200.000 sqm, far-off Warsaw's 1.1 million sqm. But, at a quicker pace than retail, the industrial market is poised to expand aggressively, accumulating over 600,000 sqm within the coming years.

This massive infusion of industrial space will nevertheless be concentrated in three or four large scale projects. As these are developed by companies that also act as investment funds, it is likely that these projects will not be sold on the Romanian market.

The most likely sources for industrial investment transactions will be the developments outside Bucharest, stemming out of Romania's industrial hotspot, western Transylvania.

As with the other market segments, joint venturing or forward-purchasing projects is the option of choice for the majority of the investors. Helios Eastern Europe led the way by buying in 2005 the Mercury Logistics Park, a 100,000 sqm project under development in western Bucharest.

## The residential investment market

The high end market has continued to attract small investors, being hindered last year only by the limited number of deliveries. Yields have stabilized for now at around 10%, but with older deliveries resurging on the market and short term contracts, this investment opportunity finds less and less interested clients.

The middle income residential segment is entering its long expected boom. Despite the over 4,500 apartments announced to be delivered by 2008, the potential of the market is huge, a fact seized by developers and investors alike.

As with office and retail, quality, but most of all, time to market will be the determining factor in the success of a venture. With more than 20 projects under planning, developers are focusing on securing land - an ever scarcer resource that will in turn determine the whole timing of a large scale development.

All types of investors are interested and getting involved in the middle income projects. Small and medium sized investors usually buy apartments off-plan at a discount from the final price to resell after completion.

Also, with lack of product on other segments, investment funds have opened up to the traditionally off limits residential market, trying to identify and get involved in large scale developments with track record developers as early as possible.

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