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2017 Residential market beat

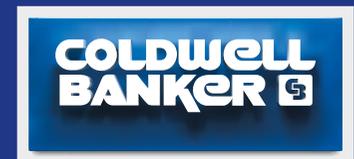


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01
Macroeconomics



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Macroeconomics

In 2016, GDP expanded by 4.8%, the strongest rate of growth seen since 2008 and one of the highest among EU member states. Economic growth was driven by private consumption (contribution +5.0pp), complemented by a positive input from inventory changes. Meanwhile, gross fixed capital formation and net exports had a negative impact on GDP growth. Turning to supply side, services sector was in the driver's seat (+3.8pp), while industry and construction made modest contributions.



Services sector was once again the main growth pillar (+3.8pp), with positive developments being recorded across all branches, particularly in IT&C (+13.8% y/y), Trade, hotels and restaurants and transport (+11.3% y/y) and Professional, scientific, technical and administrative activities (+7.9% y/y).



The robust increase in consumption did not trigger similar dynamics of industrial production.



Industry rose by 1.8% y/y and had only a modest positive impact on 2016 GDP growth (+0.4pp), being solely supported by manufacturing sector (+2.6% y/y), whereas mining activity (-15.8% y/y) and energy (-1.1% y/y) recorded declines.

01

MACROECONOMICS \
BRD-GSG - RESEARCH

RESIDENTIAL
MARKET
OVERVIEW

2017

The advance in manufacturing was mainly attributable to automotive industry, manufacture of furniture, coke and refined petroleum products and non-metallic mineral products. Conversely, industrial sectors that recorded a notable contraction in output were: chemical and pharma, fabricated metal products and wearing apparel. In terms of use, production for long-term consumption increased the most (+9.4% y/y), while production for intermediate consumption (+2.6% y/y) and of capital-goods (+2.3% y/y) posted lower gains.

Construction sector showed an annual growth rate of 1.8% in 2016, adding a meager 0.1pp to GDP growth. The positive evolution was primarily driven by the double-digit growth in Residential buildings (+12.1% y/y), complemented by a modest increase in Non-residential buildings (+1.1% y/y). On the other hand, construction of civil engineering works witnessed a marked contraction (-11.2% y/y), as investment financed from EU funds plunged.

This was owed to the complexity of legislative and administrative procedures required to implement the absorption of EU funds from the new multiannual financial framework 2014-2020, which significantly delayed the onset of large-scale absorption of structural funds.

 BRD

GRUPE SOCIETE GENERALE

Moreover, a negative statistical base effect was at play, given the high volume of spending in 2015, when Romanian authorities attempted to maximize their drawings of EU funds before the end of the previous programming period.

Private consumption rose by 7.3% y/y in 2016, being the biggest contributor to economic growth (+5.0pp). The expansion was fostered by the dynamic increase in household real disposable income, favorable labor market conditions as reflected in the continued rise in employment and easy financing conditions.

However, annual growth in retail sales witnessed a sharp deceleration during the second half of the year. This is mainly related to the wide slackening in sales of food items, due to the dissipation of the first-round effect of the Jun'15 VAT rate change. In the meantime, purchases of non-food items continued to exhibit strong growth, as sales of most categories of goods (household appliances, wearing apparel, furniture) experienced double digit advances. Motor vehicles sales remained on a solid footing as well, primarily underpinned by sales of new units.

Private Consumption looks set to remain the backbone of economic growth, propelled by a new round of fiscal stimulus and wage hikes. Yet, it is least likely to repeat the strong performance (+7.3% y/y) from 2016, judging by the moderating growth pace in retail sales, the smaller magnitude of the fiscal stimulus implemented this year as compared to 2016, the projected increase in inflation and slower growth in employment. On the other hand, curbing investment growth, could act ongoing uncertainties related to external and domestic developments and the shortage of skilled labor force, which might be increasingly making itself felt.

We currently expect a 4.1% GDP growth rate in 2017 and 3.8% in 2018.

Inflation: We expect headline inflation to trend upwards throughout the year heading towards the lower bound of NBR's target interval (2.5%+1%), with both core and non-core prices on the rise, propelled by changes in commodities prices, energy/food base effects, higher imported inflation, strengthening cost pressures from the labor market and growing excess demand. We envisage annual inflation rate to print at 1.5% at end-2017 and 2.7% at end-2018.

Labour market: Employment creation is bound to continue, supported by the domestic demand-driven expansion, but it could lose momentum, amid a further contraction of excess workforce supply and a growing shortage of skilled labor.

With job creation likely to keep on outpacing labor force growth, unemployment rate looks set to further drift lower. We expect it to average 5.5% in 2017 and 5.3% in 2018.

External Sector: Current account evolution shall be dictated by a growing trade deficit (due to dynamic expansion in household consumption and a gradual pick-up in private investment) and a weakening primary income position (rising profits of foreign-owned companies, coupled with high repatriation).

Meanwhile, secondary income balance could benefit from higher remittances from abroad. The potential vulnerabilities created by the growing current account deficits could be diminished if these deficits continue to be financed through relatively stable means (FDI, capital transfers), which could receive a boost from a gradual increase in the absorption of EU transfers in the coming years.

We project current account deficit to widen further to 3.1% this year and 3.6% in 2018, but not to exceed the conventional threshold of sustainability (5% of GDP).

Fiscal Policy and Public Debt: We think that reaching coming years' budget deficit targets is highly challenging, with the balance of risks tilted to the upside. We expect public deficit to reach 3.4% of GDP in 2017 and 2.9% of GDP in 2018, if fiscal administration will succeed in enhancing both tax collection rate and spending efficiency. Under a conservative scenario (no additional fiscal policy change), we expect public debt to rise to 39% of GDP in 2017 and 40.2% of GDP in 2018.





Money market and Monetary policy:

Accumulating risks to inflation trajectory over the medium term, occurring from a network of interlinked inflation boosting factors (strengthening demand-side pressures, the upsurge in government spending, the stark mismatch between wage increases and productivity gains coupled with an increasingly tight labor market, the weakening external position, rising inflation in trading partners) call for a recalibration of monetary policy parameters.



However, NBR might continue to refrain from pulling the trigger on rate hike, until clearer signs that inflation is on an upward path emerge. We see an interest rate hike to take place as early as the last quarter of this year, with a higher likelihood associated to 2018. We earmark that, in case the necessary adjustment of fiscal and income policy stance to a sustainable path is not performed, a stronger response from monetary policy would be required, raising the risk of an upswing in speculative capital inflows.



Forex market: We see risks stemming from both external and domestic developments, being more pronounced in the case of latter ones. Overall, we see limited appreciation potential for RON against the EUR and expect it to stand at 4.52, end-2017 and 4.50, end-2018.

Capital market: After ending 2016 with a modest result of 1.2% y/y, BET experienced a real take-off in the first quarter of 2017 posting 13% ytd growth. When the euphoria of dividends will be over, the stock prices should align to lower levels after the ex-dividend dates, with fundamentals gaining more attention in the second part of the year. When the euphoria of dividends will be over, the stock prices should align to lower levels after the ex-dividend dates, with fundamentals gaining more attention in the second part of the year.

Banking sector: The awaited changes for local lending activity to follow a more consistent upward path were not fulfilled, as non-governmental loans ended higher by 1.2% y/y as of end-Dec'16, while local economy ended 2016 with a GDP increase of 4.8% y/y, given the persistent structural constraints. We revised slightly upwards our non-governmental loans growth estimations for 2017 and 2018, such as: +3.2% y/y (nominal terms) end-Dec'17 (vs. +3.0% y/y, nominal terms, previously), +3.6% y/y end-Dec'18 (vs. +3.5% y/y end-Dec'18, nominal terms, previously). The major driver will remain households (+5.3% y/y in 2017, +4.3% y/y in 2018), while corporations might start to gradually increase their borrowed resources (+0.6% y/y in 2017, +2.4% y/y in 2018).

Our deposits growth from our previous report to approx. +6.7% y/y (nominal terms) for end-Dec'17 (vs. -0.6% y/y, nominal terms, previously), +4.5% y/y (nominal terms) as of end-Dec'18 (vs. -2.1% y/y, previously).

Moreover, capital and liquidity ratios look very good for the local banking sector in comparison with neighboring countries.

BRD-GSG - RESEARCH

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	2012	2013	2014	2015	2016	2017 (f)	2018 (f)	2019 (f)
Real sector								
GDP (real, %)	0.6%	3.5%	3.1%	3.9%	4.8%	4.1%	3.8%	3.6%
Final consumption expenditure (real, %)	1.1%	-0.3%	4.0%	4.9%	6.9%	4.9%	4.0%	3.5%
Gross fixed capital investment (real, %)	0.1%	-5.4%	3.2%	8.3%	-3.3%	3.5%	5.0%	6.0%
Exports (real, %)	1.0%	19.7%	8.0%	5.4%	8.3%	8.5%	8.0%	7.0%
Imports (real, %)	-1.8%	8.8%	8.7%	9.2%	9.8%	9.2%	8.9%	8.0%
CPI (eop, y/y)	5.0%	1.6%	0.8%	-0.9%	-0.5%	1.5%	2.7%	3.0%
ILO unemployment	6.9%	7.1%	6.8%	6.8%	5.9%	5.5%	5.3%	5.0%
Public Finance (ESA 2010)								
Fiscal balance (% of GDP)	-3.7%	-2.1%	-0.8%	-0.8%	-2.8%	-3.4%	-2.9%	-2.4%
Government revenue (% of GDP)	33.6%	33.3%	33.6%	34.9%	33.7%	33.5%	34.0%	34.3%
Government expenditure (% of GDP)	37.2%	35.4%	34.4%	35.7%	36.5%	36.9%	36.9%	36.7%
Public debt (% of GDP)	37.3%	37.8%	39.4%	38.0%	37.7%	39.0%	40.2%	39.5%
External sector								
Current account balance (% of GDP)	-4.8%	-1.1%	-0.7%	-1.2%	-2.4%	-3.1%	-3.6%	-4.0%
Trade balance (% of GDP)	-5.1%	-0.8%	-0.4%	-0.6%	-1.0%	-1.3%	-1.7%	-2.2%
FDI (EUR bln)	2.1	2.7	2.4	3.4	4.1	3.9	4.2	4.5
Secondary income (% of GDP)	2.0%	1.9%	1.1%	1.7%	1.4%	1.6%	1.7%	1.8%
Monetary and financial sector								
Key interest rate (% eop)	5.25%	4.00%	2.75%	1.75%	1.75%	1.75%	2.00%	2.50%
Private sector credit (eop, nominal y/y)	1.3%	-3.3%	-3.3%	3.0%	1.2%	3.2%	3.6%	3.7%
NPLs (% of total loans)*	18.3%	21.9%	20.7%	13.6%	9.5%	8.0%	7.5%	7.0%
Loan-to-deposits	1.2	1.0	0.9	0.85	0.79	0.78	0.77	0.79
Financial markets								
EUR-RON (eop)	4.43	4.48	4.48	4.52	4.54	4.52	4.50	4.52
EUR-RON (avg)	4.46	4.42	4.44	4.445	4.49	4.53	4.51	4.51
EUR-USD (avg)	1.29	1.33	1.33	1.11	1.11	1.08	1.12	1.15
USD - RON (avg)	3.47	3.33	3.35	4.01	4.06	4.21	4.03	3.92
Robor 3M (eop)	6.05%	2.44%	1.70%	1.02%	0.90%	0.95%	1.20%	1.70%
EURIBOR (eop)	0.19%	0.29%	0.08%	-0.13%	-0.32%	-0.30%	-0.20%	-0.05%
Memo items								
GDP (nominal, bln RON)	595.4	637.5	668.1	711.1	761.5	811.3	862.0	914.6
GDP (nominal, bln EUR)	133.5	144.3	150.3	160.0	169.6	179.1	191.1	202.8

Source: Eurostat, MinFin, NIS, NBR, forecast: BRD-GSG Research, *based on NBR methodology for NPLs between 2011 and 2013, based on EBA definition for NPLs for the period 2014-2018e.





02
Context



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Context

After 2015 marked the revival of the local residential market, 2016 can be considered the best year in the modern history of this sector, with a record number of transactions concluded and new units under construction.

Some regional markets showed absolute peaks in completed projects and overall high absorption rate of over 90%, all this in a general climate dominated by the uncertainty of the potential effects of the Datio In Solutum Law and by the repeated depletions of the funds intended for financing by the "First Home" government program, the main driver of the domestic residential market.

Nine months after the adoption of the law, the number of Datio In Solutum Law notifications reached, according to the National Bank data, approximately 7,000 at the end of February 2007, a number significantly lower than the most pessimistic estimates, which predicted tens of thousands of notifications as immediate effect, a level that could have created significant distortions market wide.

THE NUMBER OF "PRIMA CASĂ" LOANS SURPASSED A NEW MILESTONE



The initial uncertainties on whether the 'Prima Casă' program should be subject to the Datio In Solutum Law, as well as the initial reaction of the banking institutions, which have tightened the mortgage loans granting terms, led to the rapid depletion of the capital reserved for funding under the government program, the demand thus reaching new peaks.

As immediate effect, the developers which had a stock of completed housing units recorded significant sales, while some of those which were in the early stages of development did not register the same fast sales rate, and the number of 'Prima Casă' funding files exceeded 200,000.

Moreover, the old housing segment continued to be a viable alternative for the buyers, as the location of such units, generally a better one, and the existing infrastructure represent two additional advantages, despite the age of such housing units, of over 30 years in almost all cases.

In this context, the number of real estate transactions increased by approx. 8% during the first ten months of the year, compared to the same period of 2015, according to the latest official data of the National Agency for Cadastre and Land Registration.

The recorded peak demand and the accessibility of a new housing unit purchase resulted in price increases on all regional markets of Romania, ranging from five percent on average in Bucharest, Braşov or Timisoara, to approximately 10% in Cluj-Napoca, where the average price per square meter exceeded, for the first time ever, the one in the Capital.

YEARS NECESSARY FOR PURCHASING A 1 BEDROOM APARTMENT (50 SQM) IN BUCHAREST



The new housing unit purchase accessibility index created by Coldwell Banker Romania and calculated according to the average domestic wage, the average prices per square meter and the RON – EUR exchange rate reached, earlier this year, the lowest value in the modern history of the local residential market, the main factors that led to this situation being the exchange rate stability and the overall wages increase.

Thus, one now needs almost 114 average wages or a period of less than nine and a half years for the purchase of a new one bedroom apartment in Bucharest, compared to 119 wages one year ago or a period of almost 10 years and compared to 395 average wages or a period of almost 33 years as recorded at the peak of the market in early 2008.



02
CONTEXT

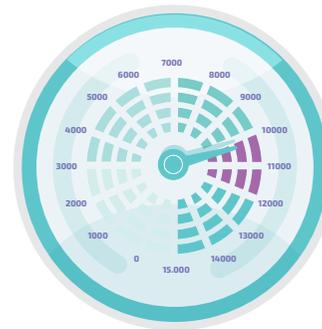
2017

The accessibility of a new housing unit purchase and the high demand determined more and more investors to turn their attention to the residential sector, 2016 marking a significant increase in the number of projects dedicated to the middle market segment - characterized by a good location, larger surfaces compared to the old housing units and upper middle quality finishing - and also the emergence of new poles of development, the development of secondary markets in Romania and the design of mixed projects, including both a residential component and an office and/or retail component.

The Coldwell Banker's data showed that approximately 30,000 new homes were under development in the county capital cities of Romania and in the main secondary cities at the beginning of the previous year, the estimates at the end of the third quarter indicating a level of 28,000 homes that could be delivered by the end 2016.

10.022

UNITS DELIVERED IN BUCHAREST & SURROUNDINGS IN 2016



Units postponed

Source: Coldwell Banker Romania, NIS

The low level of deliveries in the Bucharest - Ilfov area was due to the projects delivery delays, the delays of the preparation of the building registration legal documents, the optimistic delivery terms initially announced by the developers and the difficulties encountered on the constructions labor market.

According to Coldwell Banker Romania's data, the delivery of approximately 1,800 units in medium and large residential projects of more than 100 homes has been postponed for the first part of this year, and thus they don't appear in the official statistics for 2016, this situation being present on other regional markets as well.

According to the National Institute of Statistics, 27,881 homes were completed in cities last year, the region with the highest share of total number of completed residential units being Bucharest - Ilfov, with little over 10,000 delivered new units, compared to Coldwell Banker's estimate that indicated 13,000 units pending completion in the Capital and surrounding areas.

02 CONTEXT

2017

2017 has begun in a generally more favorable climate, as the adoption of a strategy for the 'Prima Casă' program for the next five years will increase the level of predictability, both for investors and for the end consumers.

Based on the market data, we estimate that the funds available for financing by means of the 'Prima Casă' program will be finished long before the end of this year, and the decisions that the authorities will take in this regard will have an impact on the residential market.

At the same time, reverting to down payments of 15% - 20% on the mortgage loans segment offers attractive funding alternative options, while purchases with liquidities will continue to account for a significant share of the total purchases, especially for the upgrade transactions and the transactions on the regional markets of the central and western part of the country, where the dependence on bank funding solutions is lower.

Although the default ratio is currently under 0.5%, the large number of purchases by means of First Home program, especially on the mass market segment, may be a long-term risk for buyers with a high indebtedness rate in the context of a potential increase of the reference interest, the diversification of the offer so as to target various segments of customers may be a viable solution for the developers in this context. The global geopolitical developments and the domestic economy developments will be other factors that can have a medium-term impact on the residential market.

Considering the current macroeconomic conditions and demand, we estimate that the price increasing trend will continue this year, ranging between 5% - 7%, depending on the specificity of each regional market and target segment, on the background of the increase in the development costs, starting with the land prices and up to the cost of the construction materials and labor. At the same time, the absorption rate will remain high, i.e. over 70%, up to the completion of the projects, especially for those with a high degree of adaptability to the existing demand and with a sales and marketing strategy in line with the project target.



We wish you a pleasant reading of the Market Beat study regarding the residential market in Romania in 2017 and we remain at your service for detailed studies and analyses by targeted market segments.







03
Bucharest



AFFILIATES OF ROMANIA

Bucharest

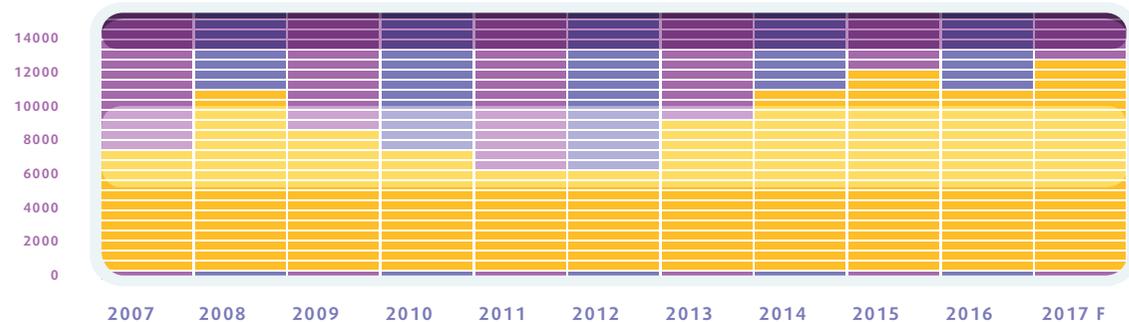
SUPPLY

According to the official data recently published by the National Institute of Statistics, 2016 was below the previous year in terms of new units delivered to the market, a little over 10,000 new homes being completed in the Bucharest - Ilfov region.

Approximately 1,800 units, located in medium and large projects, of over 100 housing units, were delivered late by developers earlier this year or they are to be delivered in the near future, the main reasons being the time required to prepare the works acceptance legal documents, the optimistic deadlines that were initially announced and the adverse weather conditions at the beginning of last year.

According to Coldwell Banker Romania, approximately 12,000 homes are currently under development in Bucharest and the surrounding areas and they could be delivered this year if the developers maintain the construction pace, while the construction works for another 2,000 units will start soon, with delivery deadlines announced for 2018.

DELIVERIES IN BUCHAREST AND SURROUNDINGS



Source: Coldwell Banker Romania, NIS

The absorption rate was maintained during the previous year to over 80% of the units until the delivery of the projects to the market, due to the accessibility of the new housing unit purchases, despite the discontinuities on the funding segment.

Given the high absorption rate of the newly completed homes and the repeated depletion of the First Home funds, which also led, last year, to good results in the sale of the projects with units completed previous to 2016, and given the relatively low stock of new completed and unsold homes that could be purchased

by means of the governmental program, we estimate that the total stock of completed unsold new homes will reach approximately 4,000 units the end of this year, down by 50% compared to the previous year.

The newly completed housing current absorption rate is due to the increase in accessibility of a new housing unit purchase and to a better adaptation of the supply to the existing demand, although there are developers that don't get the expected sales results.

03

BUCHAREST / SUPPLY

RESIDENTIAL MARKET OVERVIEW

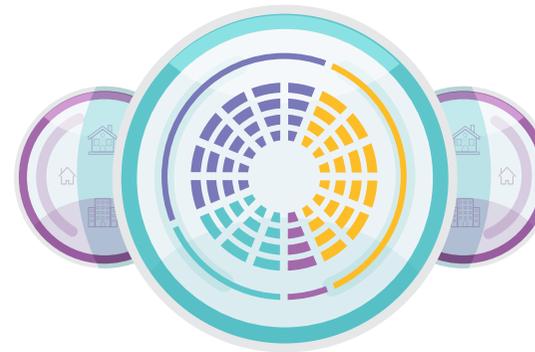
2017

Thus, the highest share of housing units that are supposed to be completed this year in Bucharest and the surrounding areas targets the mass market segment, i.e. 59.5% or more than 7,200 units, up by about six percent compared to the previous year.

The main purchase method on the mass market segment consists of the funding by means of the First Home program, their share accounting for approximately 75% of the total number of transactions. The projects in this segment deliver on the market an affordable housing stock in terms of prices, ranging between 700 and 950 Euros per useful square meter, the price being the main differentiating factor, followed closely by their location.

Typically, the mass market projects are located in areas located on the outskirts of the important districts of Bucharest which benefit from relatively good connections to the public transport network and general infrastructure, represented by schools, shopping centers and leisure facilities.

BUCHAREST RESIDENTIAL MARKET SEGMENTS



- Premium
- Mass market
- Low market
- Middle market

Source: Coldwell Banker Romania, NIS

The surfaces of the mass market housing units are similar to those of the old housing units completed before 1990, and the finishing and facilities provided by developers are most often the startup options for each category of features.

Note that approximately one third of the mass market units, or approximately 18.2% of the total supply to be made available by developers on the

market in Bucharest and the surrounding areas in 2017, consists of homes of the low market segment represented by projects built in undesirable locations, with poor general and road infrastructure, with surfaces smaller than those of similar old housing and lower quality finishing and lower overall quality.





The share of the low market units in the new supply on the market has increased this year from approximately 12.5% in 2016, but it is almost half compared to 2014, when approximately 35% of the supply made available on the market by developers targeted this segment.



Approximately 4,500 units that are to be completed this year on the residential market in Bucharest and the surrounding areas, or 37% of the supply can be classified as middle market units, 2017 confirming from this point of view the revival of the segment.



The increase in the number of units intended for the middle class occurred due to the constant increase in the income of the potential buyers and in the demand for new homes with a better location, within the important districts of Bucharest, in semi-central areas, within the middle ring of the city or near the most important office buildings areas such as Barbu Văcărescu – Floreasca or Politehnica – Grozăvești.



Furthermore, the middle market segment also includes projects that already include thousands of completed units representing integrated concepts and where real communities have already formed.

The surfaces of the housing units of the middle market segment are usually larger than the surfaces of similar housing units located in buildings completed before 1990, and the offered finishing is of a quality higher than that of the units of the mass market segment.

Compared to previous year, the premium segment has a lower share of the total units in progress, i.e. approximately 3.5% or 500 housing units. They are located almost entirely in Dorobanți - Primăverii – Nordului and Floreasca areas, being part of small projects with no more than 20 units, or part of larger projects of about 100 homes, the delivery of large premium projects being a novelty on the local market of the recent years.

The highest percentage of units that are to be completed this year in Bucharest and the surrounding areas, i.e. 28.8%, is located in the western part of the city, the northern and southern areas having each

approximately 23% of the supply that will be placed on the market by the developers.

The three areas are the main areas of interest of the developers, being already perceived by the consumers as effervescent areas in terms of new residential developments, while the eastern part of the city, which has a very high potential for development on the medium term due to the large areas of available land and good general infrastructure, will include about 12% of deliveries scheduled for this year.

Moreover, approximately 1,600 new apartments will be delivered this year in the semi-central areas of Bucharest, accounting for almost 13% of the total supply, the small number of big lands remaining the main challenge for investors.



DEMAND AND PRICES

Given the high absorption rate of the new supply, from the very early stages of construction even, and the discontinuities in the allocation of the First Home funds, which had as positive effect higher sales rate for the projects with a stock of completed unsold units, the number of transactions with new housing units located in Bucharest and the surrounding areas in 2016 exceeded the threshold of 10,000 for the second consecutive year.

Furthermore, last year the local residential market recorded a clear upward trend in the potential buyers' interest to purchase a new home, although the transactions with apartments completed prior to 1990 continue to account for most of the total transactions concluded in Bucharest.

The largest percentage of transactions with new units, i.e. over 90%, is held by end buyers who purchase a home exclusively for housing purposes, a factor that has a positive contribution to the decrease in the residential market overheating risk, especially if we take into account that between 2007 and 2008 over 80% of the buyers were investors who acquired units only to resell them quickly afterwards with a significant profit margin.

PRIMA CASA SHARE IN TRANSACTION CLOSED ON MASS MARKET SEGMENT



■ Prima Casă transactions
■ Other types of transactions Source: Coldwell Banker Romania

At the same time, the minimum interest charged on the banking market, both in terms of loans and deposits, determined more and more small investors to make purchases on the residential market so as to subsequently rent them, the annual yields in Euro ranging between 5% and 7%, with a maximum of 9% depending on many factors, yields that are clearly higher than the current interests offered by banks.

The most common form of financing for buyers remains the First Home program, which can cover, according to Coldwell Banker Romania's estimates, over 70% of purchases on the mass market segment, depending on the project, while on the middle market segment, approximately 25% - 30% of the transactions are made through a transaction of this type.

For the mass market customer, the price and the location are key decision factors, the selling price being often the decisive factor on the low market segment, while aspects such as the surface of the housing unit, the partitioning, the finishing and the facilities remain in the background, the housing need being crucial.

03

BUCHAREST / DEMAND AND PRICES

RESIDENTIAL MARKET OVERVIEW

2017

The large majority of the mass market buyers are at their first home purchase, being young persons, aged between 20 and 35, with an average family income ranging between RON 2,500 and 5,000 monthly, who have entry level or medium level positions in areas such as outsourcing, retail, FMCG or medical services.

The constant increase in revenues, especially in sectors such as IT - where the average monthly income reached more than RON 6,000 - banking or research & development, has resulted in a growing demand on the middle market segment. The buyers of homes in this category are at a professional development level and earn a stable and satisfactory income. Thus, the daily needs remain in the background, while the option to purchase a new home in a good location and high degree of comfort has become attractive.

The buyers of homes on the middle market segment usually have a monthly family income ranging between RON 5,000 and 12,000 and have been living in rented homes for a long time, although they had the possibility to purchase a home or already own a home and want to move to a newer one in a better location and a greater number of rooms and a larger useful area.



The relatively low stock of premium housing units to be placed on the residential market in Bucharest this year will result in a satisfactory absorption rate, on a segment where buyers have a household income of more than 4,000 Euros per month.

The average trading prices on the mass market segment range between 800 - 1,000 Euros per useful square meter, on the middle market segment they range between 1,200 to 1,400 Euros per useful square meter, while prices on the premium segment exceed 2,000 Euros per square meter.

Depending on the segment, we expect trading prices to increase on average this year by about 7% due to the increase in the development costs and the existence of a solvent demand, consisting almost entirely of end buyers.



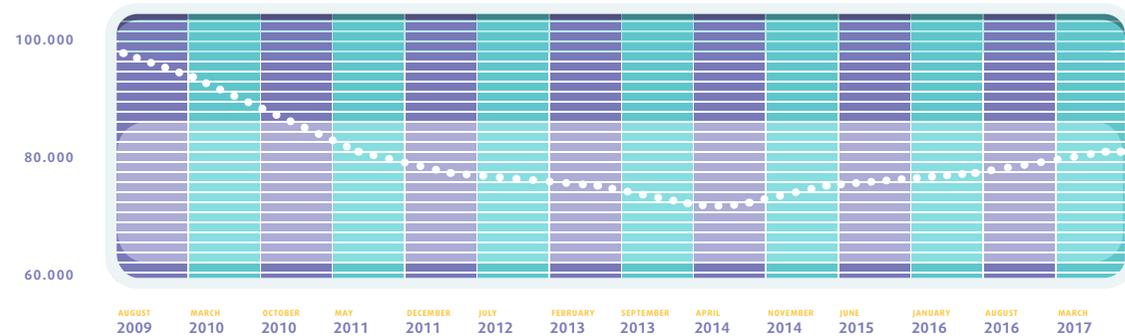
OLD APARTMENTS MARKET

The segment of apartments completed before 1990 continued to be a viable option for potential buyers of homes in 2016, taking into account the relatively low stock of new completed apartments, suitable for funding by means of the First Home program, and the advantages that old apartments continue to have, the most important being the better location in conjunction with a lower selling price compared to a new apartment located in a similar area.

2016 was the first year after the economic crisis when there was a clear increase in the interest for new homes located in residential projects, to the detriment of the apartments completed before 1990, a trend that will increase this year, too, in the context of the differentiation of the guarantee ceiling when purchasing a home by means of the 'Prima Casă' program.

Given the current conditions on the residential market, we estimate that the potential buyers are willing to pay up to 25% more for an apartment in a new residential project, compared to the possibility of purchasing an old apartment in the same area.

HOUSING PRICE INDEX FOR TWO BEDROOM APARTMENTS IN BUCHAREST BUILT BETWEEN 1980-1990



Source: Price index calculated by Ziarul Financiar and Coldwell Banker Romania

The main reasons for such a decision are more comfort, offered by the generous surfaces and the high-quality finishing, and the fact that the purchased home will not already be older than 30 years.

The listing prices of old 2 bedroom apartments in Bucharest, completed between 1980 - 1990, increased over the previous year by 3.14% according to real estate index calculated by Coldwell Banker Romania in partnership with the Ziarul Financiar. Depending on the initial expectations of the sellers, there is an average difference of 5 percent between the listing prices and the trading prices.

An increase by 2.5% of the listing prices was recorded during the first quarter of 2017, specific to year start periods, when many owners put their homes up for sale. Given the current market conditions, we expect no significant changes during the following six months, as the old apartment segment will register an evolution similar to that of new apartments, although at a slower growth rate.

TRENDS 2017

- the existence of a medium-term strategy regarding the 'Prima Casă' program will provide more predictability to both investors and potential buyers. However, given the current demand, we estimate that the available funds for 2017 will be depleted before the end of the year, with the likelihood of new discontinuities;
- the supply for the middle market segment will continue to increase and diversify, the residential projects located in the office buildings areas such as Barbu Văcărescu - Floreasca and Politehnica - Grozăvești are to be the most attractive given the existing demand of the persons working in buildings nearby;
- the residential market will continue to remain attractive for the small investors who can achieve annual yields in euro of 5% - 7% by renting the purchased housing units. We estimate that the investment transactions will eventually account for no more than 10% of the market share this year;
- the absorption rate of the homes that will be completed will remain high at over 75% on average, until the completion of the projects.



However, there will also be developers that will not achieve the expected results in the context of wrong business plans and marketing and sales strategies not adapted to the targeted demand;

- the western and southern areas will continue to attract most of the investments under development, considering the demand on the mass market segment, while the number of residential projects in the northern part of the city will continue to grow.

The potential of the eastern area will remain low in 2017, while Expozitiei - Sisești and Timpuri Noi areas have all the strong points to be the future development poles of the city;

- as the local residential market grows, there will be potential for the development of large houses projects and of mixed projects with office and retail components with housing units.







04

Regional markets



AFFILIATES OF ROMANIA



Regional markets

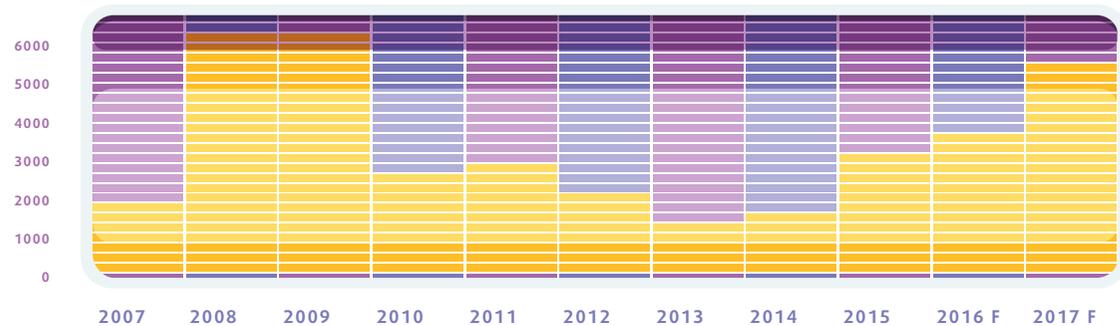
CLUJ - NAPOCA

Considered the second residential market in Romania, based on the number of completed units and concluded transactions, the residential market of Cluj-Napoca also became the most expensive local residential market during the second half of 2016, as the average prices per square meter exceeded the ceiling of EUR 1,200.

Cluj - Napoca thus outran Bucharest for the first time ever in terms of trading prices on the background of a relatively low stock of new completed homes, a high and creditworthy demand, resulting from the significant economic development of the recent years, especially in areas such as IT&C, outsourcing and industry, and in the context of a lower dependence on bank financing, compared to other regional markets in Romania.

Coldwell Banker's data show that approximately 1,600 homes were completed in 2016 in Cluj-Napoca, compared to 1,252 in 2015, according to the National Institute of Statistics, while about 1,000 units were delivered in Floresti, similar to the previous year.

UNITS DELIVERED IN CLUJ - NAPOCA AND FLOREȘTI



Source: Coldwell Banker Romania, NIS

Furthermore, the delivery of other approximately 1,100 houses, initially announced to take place in 2016, was postponed for this year, the main reason being the paperwork, from the drafting of the works acceptance documents up to the public utility networks connection difficulties.

About 2,000 new homes are in development at this time in the city, to which approximately 1,200 more units of Floresti will be added, according to Coldwell Banker Romania's data, in addition to the houses the delivery of which was postponed for 2017.

The annual absorption rate of the newly completed homes of Cluj-Napoca and its surrounding areas is about 90%, while the average income exceeded EUR 550 at the end of last year, according to the NIS data, being surpassed only by the incomes of Bucharest and Ilfov.

Furthermore, Cluj - Napoca remains a residential market with a high growth potential, given that it represents a large national university pole, with more than 80,000 students annually, and has a growing population in the nearby towns.

About 80% of all residential projects that are being developed in Cluj-Napoca can be included in the middle market segment, about 15% of the new supply can be classified as middle-high, while the rest of 5% target premium houses buyers. Meanwhile, Florești has lately been the preferred destination for investors, which developed low market residential projects, 2016 also marking the emergence of the first projects that can be classified as mass market.

Compared to 2016, the Sopor area of Cluj-Napoca will record a major development this year, as about 400 new apartments are currently being developed in the area. The opening of Gheorgheni Sports Facility, the largest recreational pole for families in the city, is one of the factors that drive the demand in the area, the supply belonging mainly to the middle market segment.

Moreover, the area of former industrial platform Iris has registered a significant growth in 2016, as mostly mass market projects were developed here. A potential future residential development pole in Cluj-Napoca could be Parcul Feroviarilor area, given the rehabilitation of the park and the development of a new shopping center in the area.

RESIDENTIAL MARKET SEGMENTATION IN CLUJ - NAPOCA AND SURROUNDINGS



Source: Coldwell Banker Romania

The average prices of homes in Cluj-Napoca increased by several percent last year segment on the new homes segment, while the increase on the old homes segment was + 15% during the last 12 months, according to Coldwell Banker Romania's data.

Given the current demand and the high degree of absorption of the newly completed homes of Cluj-Napoca and the surrounding areas, we expect

trading prices to slow down their upward trend significantly in 2017, while we also have conditions that usually result in stabilization on certain sub-segments of the market.



BRAȘOV

With approximately 1,500 units completed in 2016 in the city and about 400 more in the neighboring towns, the residential market of Brașov and the surrounding areas became one of the most important ones nationwide. The absorption rate of the houses completed in 2016 at local level is almost 95%, according to Coldwell Banker Romania's data, approximately 100 completed houses being currently available for sale.

About 65% of the supply placed on the market by developers target the mass market segment, 35% target the middle market segment, while the rest are homes that are part of premium and luxury residential projects. Similar to other local regional markets, 2016 marked the consolidation of the middle market segment, where the demand is mainly oriented towards apartments in the central areas of Brașov or houses near the city, with two bedrooms, the acquisition budgets ranging between EUR 70,000 and 90,000.

About 2,100 homes will be delivered this year in Brașov and the surrounding areas, up by 10.5% compared to the previous year, about 1,650 housing units being currently in different stages of development in Brașov alone.

UNITS DELIVERED IN BRAȘOV



Source: Coldwell Banker Romania, NIS

The areas located in the immediate vicinity of the city also registered a significant growth on the residential segment, i.e. Sânpetru, where 80% of the new offer consists of apartments and the rest of villas, Cristian, where the offer consists of houses and duplexes, Săcele where the new offer consists of single-family houses and duplex villas, Ghimbav, where 40% of the supply consists of apartments or Stupini and Harman, where mostly single family homes and duplex villas are being built.

The average trading prices increased by about 4% last year, to about EUR 925 per square meter, and for 2017 we expect an increase of five percent, up to EUR 971 per square meter, given the high absorption from the construction stage.

Moreover, the investment transactions segment can offer annual average yields of 6% - 7% in Euros, given the lease demand coming from the business environment - especially industry, IT and the car industry.

SIBIU

Sibiu is the third residential market in terms of size of Romania, according to Coldwell Banker Romania, the rapid development of this sector being due to the constant creditworthy demand, especially from people working in sectors such as car parts manufacturing, retail or industry.

About 2,900 residential units were completed last year in Sibiu and the surrounding areas, a similar number of new homes being currently in various stages of development and scheduled to be delivered on the market in 2017, if the developers meet the announced construction completion deadlines.

The Western - Turnișor is the most important local development pole, and, together with Calea Șurii Mici, accounts for over 1,000 homes completed in 2016, while another approximately 2,000 homes are under development at this time, according to Coldwell Banker Romania's data.

TIMIȘOARA

The greatest real estate market in the Western part of the country is going through a period of great effervescence, as various projects are currently in various stages of development, especially on the office and commercial spaces segments.

The residential segment has also registered a significant increase, Coldwell Banker's data showing that approximately 1,000 units are currently in various stages of development, the novelty of this year being the mixed projects, which will include a housing component as well as a commercial or office one.

CONSTANȚA

This sea-side city is the greatest real estate market in southern Romania, except for Bucharest-Ilfov region, with over 15,000 homes completed during the last nine years, according to the data of the National Institute of Statistics.

Approximately 1,800 residential units were delivered last year in the region, while about 1,400 new homes are currently being built in Constanta and the surrounding areas, according to Coldwell Banker Romania's data, the newly developed houses annual absorption rate being estimated at 80%.

The tourism potential of the area resulted in a large number of investments in residential projects consisting of holiday apartments, especially in the Northern part of the city. On average, trading prices range between EUR 660 and EUR 900 per useful square meter.





PITEȘTI

The local residential market registered a rapid development in 2016, mainly due to the legislative blockage clearance in terms of authorizations, which could result in a doubling of the number of officially completed residential units.

Coldwell Banker Romania's data show that approximately 450 new homes (about 350 apartments and 100 houses) were delivered last year in Pitești and the surrounding areas, the most important ones being Bradu and Bascov.

This year could bring about a doubling of the completion ratio at local level, the absorption ratio during the construction phase being about 70%, the rest up to 100% being sold almost entirely within a time frame of three months, the demand coming mainly from the car, car parts production and retail industry.

The average trading prices on the mass market segment range between EUR 800 and EUR 900 per useful square meter and between EUR 1,000 and EUR 1,100 per useful square meter on the middle market segment.

PLOIEȘTI

With about 150-200 units completed annually, Ploiesti is a small residential market. One of the most important development areas is represented by the Western part, where several six stories apartment buildings were completed last year, with an average selling price of approx. EUR 800 per useful square meter. Depending on the construction pace undertaken by the developers, we estimate that over 250 houses could be delivered this year.

CRAIOVA

The largest residential market in the South-Western part of Romania registers about 300 deliveries annually on the residential segment, the degree of absorption being estimated at over 70% during the construction phase. The average prices per square meter range between EUR 850 and EUR 1,100.

IAȘI

The largest residential market in the Eastern part of Romania registers 1,000 deliveries annually, the general absorption rate being over 70%, similar to other large regional markets.

The average sales prices range between EUR 800 and EUR 900 per square meter on the mass market segment, while the prices on the middle market segment range between EUR 1,000 and EUR 1,200 per square meter.



Coldwell Banker Key Figures

3.000
Offices

45
Countries

230
bln. \$ in
sales volume
US only

88.000
brokers

+2.000

New units sold in
Romania in 2016

+20

Residential projects
in portfolio

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