Real estate

Neglected real estate markets
Bulgaria and Romania?

05/2014
Commercial real estate markets in Romania and Bulgaria profiting from increasing risk appetite?

Last year, Europe recorded a substantial increase in investments in commercial real estate. According to data from CBRE, a total of EUR 165.6 billion was invested. This represents an increase of about 30% compared to 2012. Since interest rates are still very low, real estate remained extremely attractive as an investment category for institutional investors. There was great demand for commercial real estate in large and liquid markets, a trend to which CEE was also not immune. The biggest markets in the region – Russia and Poland – registered more than 80% of all commercial real estate transactions in 2013. However, there were also gradual signs of a recovery in demand in smaller markets in the region. The Czech Republic, for example, saw a higher level of investment in 2013 while at least individual transactions were concluded in the other smaller CEE markets.

The transaction volume for commercial real estate in Romania and Bulgaria was still low last year. With sales amounting to EUR 229 million, Romania fared much better than Bulgaria (EUR 23 million). However, this situation could change on account of an increasing risk appetite. Investors are starting to rate core properties in core markets as overbought. Slightly more attention should therefore be paid to markets with earnings potential. Increased turnover in Romania’s Commercial real estate in the first quarter of 2014 supports this thesis.

CBRE reported a prime yield of 8.25% for the office sector in Bucharest in the first quarter of 2014. Immobilien Rating GmbH (IRG) estimates the prime yield in Sofia at 9.5%. In view of low yields in Western Europe, this should become increasingly attractive for investors with a hunger for yields. Offices properties excel in competition if they offer advantages such as excellent transport links, energy efficiency, green building certification and low operating costs.

In the Shopping centre sector, competition will intensify in both countries in the next few years. New, modern shopping centres with high entertainment value are coming onto the market. Older centres with an unfavourable location and an unsatisfactory mix of tenants will come under more pressure. With prime yields amounting to a good 9% in Sofia and 8.5% – 9.0% in Bucharest, these new shopping centres offer interesting opportunities for investors.

The economic environment, especially the imminent economic recovery in the euro zone, will have positive impacts on most of the economies in CEE. Bulgaria and Romania will also benefit from this recovery. The difficult political situation in the Ukraine represents an element of uncertainty. However, as long as the conflict does not escalate any further, the sanctions imposed to date by Europe and the USA, as well as the counter-sanctions by Russia will probably have very little effect on economic development in the other CEE states.

CEE is one of our core markets. We finance both commercial real estate developments and investments, and are willing to assist our clients with sound projects in Romania and Bulgaria. In these so-called cross-border transactions, we cooperate closely with colleagues in the respective countries. The UniCredit Group maintains a dense network of subsidiary banks in CEE. Our clients therefore benefit not only from our many years of real estate financing expertise, but also from the know-how of local banks – a concept which has proved its worth to date.

Yours sincerely,
Karla Schestauber
Romania and Bulgaria benefiting from economic recovery in euro zone

**Romania**
Population: 20.1 mn  
Area: 237,500 km²  
Capital: Bucharest  
Currency: Romanian New Leu

**Bulgaria**
Population: 7.2 mn  
Area: 111,002 km²  
Capital: Sofia  
Currency: Bulgarian Lev

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### Romania and Bulgaria on a more stable growth path

Both Romania and Bulgaria registered an increase in GDP in 2013. The pace of growth in Romania (provisionally 3.5%) was much higher than in Bulgaria (0.9%). The Romanian economy profited from special effects such as an extraordinary rise in industrial and agricultural production, which led to higher exports. The country therefore recorded the highest rate of growth among EU member states in Central and Eastern Europe in 2013. Net exports were also the most important growth driver in Bulgaria, but the export rate was much more subdued.

Although fiscal policy in Bulgaria changed to mildly expansionary in 2013, both private consumption and gross fixed investments decreased. The increase in public consumption was unable to cushion these impacts.

The economic recovery in the euro zone will serve as a positive catalyst to both economies in 2014 through a further rise in exports. Domestic demand in particular is also expected to increase as a result of higher investments. Without any other special effects from the supply side, however, the contribution to growth by net exports in Romania will be lower than in 2013. Real economic growth in 2014 is therefore predicted to increase on average by a good 2% in Romania and by around 1.5% in Bulgaria.

### Macroeconomic data and forecasts

<table>
<thead>
<tr>
<th></th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (EUR bn)</td>
<td>131.7</td>
<td>142.8</td>
</tr>
<tr>
<td>GDP per capita (EUR)</td>
<td>6,153</td>
<td>6,705</td>
</tr>
<tr>
<td>Real GDP (% chg.)</td>
<td>0.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Inflation (CPI) %</td>
<td>3.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Unemployment rate %</td>
<td>7.0</td>
<td>7.3</td>
</tr>
<tr>
<td>Current account / GDP %</td>
<td>–4.4</td>
<td>–1.1</td>
</tr>
<tr>
<td>FDI / GDP %</td>
<td>1.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Budget balance / GDP (%)</td>
<td>–2.9</td>
<td>–2.8</td>
</tr>
<tr>
<td>Public debt / GDP (%)</td>
<td>37.8</td>
<td>37.5</td>
</tr>
<tr>
<td>Foreign debt / GDP (%)</td>
<td>75.7</td>
<td>67.5</td>
</tr>
</tbody>
</table>

Source: UniCredit Research / e – estimate; f – forecast.
The labour market in Bulgaria is much weaker than in Romania. With an unemployment rate amounting to a good 13% on average in 2014, no rapid improvement is in sight. Another worrying aspect is the extremely high rate of youth unemployment of almost 30%. This development is curbing private consumption. The labour market in Romania has developed much better with a relatively constant unemployment rate of around 7% over the last few years. Private consumption therefore has made a slight contribution towards growth.

**Both countries still rank among the poorest EU member states.**

In 2012, GDP per capita in Bulgaria was only 47.4% and in Romania 52.9% of the level of the EU-27. Converted into euros, GDP per capita amounted to some EUR 5,500 in Bulgaria and EUR 6,700 in Romania. Both countries therefore have enormous catch-up potential.

Since the political decision to reduce electricity prices in August 2013, consumer prices in Bulgaria have dropped compared with the previous year. Following a further reduction in electricity prices, consumer prices fell by 2.6% in February 2014. However, the danger of continuing deflation is low. It is anticipated that prices will rise again on average over the year in 2015 at the latest. Bulgaria follows a currency board arrangement in which the Bulgarian lev is fixed against the euro at an exchange rate of 1.95583. The Bulgarian Central Bank therefore does not have any leeway in monetary policy. The advantage for Euro investors in Bulgaria is that they do not have to consider any exchange rate fluctuations in their decisions.

The Romanian National Bank is pursuing an inflation target of 2.5% (±1%). Although the inflation rate of 1% in March 2014 was at the lower end of the target range, prices are again expected to rise more significantly from April onwards due to the increase in excise duties on fuels.

The Romanian leu lost a good 20% of its value against the euro during the crisis months in 2008. Since then, the exchange rate fluctuations have subsided substantially. Between the start of 2013 and the end of March 2014, the exchange rate between the EUR/ RON moved within a trading range of 4.30 to 4.55.

Both economies can boast very low government debt. In the next two years, public sector debt in Bulgaria is expected to remain under 30% of GDP and in Romania under 40% of GDP.
Romania and Bulgaria forgotten by commercial real estate investors?

Worldwide investments in commercial real estate rose considerably throughout the last year. According to data from CBRE, a sum of EUR 165.6 billion was invested in commercial real estate in Europe last year, i.e. a rise of around 30% compared with 2012.

In particular, there was still great demand for real estate in large liquid markets. This was also the case in Central and Eastern Europe. Russia and Poland – the largest markets in the region – profited most from strong demand. Over the year as a whole, over 80% of all commercial real estate investments were made in these two markets. However, there are now some indications that smaller real estate markets are no longer being neglected. Czech Republic investment volume increased to more than EUR 1 bn in 2013 and at least individual transactions were also concluded in other smaller CEE markets.

Office prime yields
1st quarter 2014

<table>
<thead>
<tr>
<th>Prime yield in %</th>
<th>Chg. on quarter in bp</th>
<th>Chg. on year in bp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frankfurt</td>
<td>4.70</td>
<td>0</td>
</tr>
<tr>
<td>Vienna</td>
<td>4.70</td>
<td>-5</td>
</tr>
<tr>
<td>Milan</td>
<td>6.00</td>
<td>0</td>
</tr>
<tr>
<td>Warsaw</td>
<td>6.00</td>
<td>0</td>
</tr>
<tr>
<td>Bratislava</td>
<td>7.00</td>
<td>-25</td>
</tr>
<tr>
<td>Budapest</td>
<td>7.50</td>
<td>0</td>
</tr>
<tr>
<td>Zagreb</td>
<td>8.30</td>
<td>0</td>
</tr>
<tr>
<td>Bucharest</td>
<td>8.25</td>
<td>0</td>
</tr>
<tr>
<td>Moscow</td>
<td>8.50</td>
<td>0</td>
</tr>
<tr>
<td>Sofia</td>
<td>9.50</td>
<td>0</td>
</tr>
<tr>
<td>Belgrade</td>
<td>9.50</td>
<td>0</td>
</tr>
<tr>
<td>Kyiv</td>
<td>13.50</td>
<td>50</td>
</tr>
</tbody>
</table>

CBRE discloses a prime yield of 8.25% for the office sector in Bucharest and Sofia offer much higher earnings potentials. The acceleration of real estate investment in Romania in the first quarter of 2014 shows increasing interest on the part of investors.

The country risk which influences the pricing of property loans has greatly improved in both countries. At the beginning of May the 5-year CDS spread Bulgaria was below 130bp and Romania below 160bp. Bulgaria is therefore rated a little bit better than Romania. Both country spreads are e.g. well below that of the new EU member state Croatia.

Commercial Real Estate Investments
(EUR mn)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>Croatia</td>
<td>43</td>
<td>67</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>605</td>
<td>1,015</td>
</tr>
<tr>
<td>Hungary</td>
<td>121</td>
<td>225</td>
</tr>
<tr>
<td>Poland</td>
<td>2,720</td>
<td>2,970</td>
</tr>
<tr>
<td>Romania</td>
<td>185</td>
<td>229</td>
</tr>
<tr>
<td>Russia</td>
<td>3,723</td>
<td>5,201</td>
</tr>
<tr>
<td>Slovakia</td>
<td>16</td>
<td>250</td>
</tr>
<tr>
<td>Ukraine</td>
<td>249</td>
<td>41</td>
</tr>
<tr>
<td>CEE</td>
<td>7,671</td>
<td>10,021</td>
</tr>
</tbody>
</table>

Source: CBRE, IRG

The transaction volume for commercial real estate in Romania and Bulgaria was still low last year. With sales amounting to EUR 229 million, Romania fared far better than Bulgaria with EUR 23 million. Due to their small markets, both countries barely appear on the “radar screen” of investors and developers. However, this could change as risk appetite increases. A number of investors regard core properties in core markets as overbought while prime yields in Bucharest and Sofia offer much higher earnings potentials. The acceleration of real estate investment in Romania in the first quarter of 2014 shows increasing interest on the part of investors.

The country risk which influences the pricing of property loans has greatly improved in both countries. At the beginning of May the 5-year CDS spread Bulgaria was below 130bp and Romania below 160bp. Bulgaria is therefore rated a little bit better than Romania. Both country spreads are e.g. well below that of the new EU member state Croatia.
A great deal of building work was carried out in the capitals of Bulgaria and Romania in the years prior to the crisis. A large number of speculative office projects were started and completed, leading to a substantial increase in the amount of office space in Sofia and Bucharest.

Although the record production figures from previous years have no longer been attained, the stock of office space has almost doubled again since the end of 2008. At the end of 2013, Sofia had a stock of around 1.7 million m² of modern office space while the corresponding figure for Bucharest was just under 2.4 million m².

The high level of building activity in the past should not disguise the fact that both Sofia and Bucharest still lag well behind other Eastern European capitals such as Prague, Warsaw or Budapest in relation to the amount of office space per inhabitant. There is an even wider gap compared with Western European cities and metropolises where even Vienna is only located in the middle bracket. Another characteristic of both office markets is that the quality of the offices only partially complies with Western European standards. Developers using the lower property prices and building costs to build favourable, energy-efficient offices have clear competitive advantages.

New construction of around 100,000 m² is expected in Sofia in 2014 (much higher again compared with the previous year). Approximately 120,000 m² will be completed in Bucharest.
High vacancy rates

High vacancy rates have developed in both capitals in the last few years. At around 27%, the vacancy rate in Sofia is almost twice as high as that in Bucharest (approximately 15%). This figure means that Sofia has one of the highest rates of vacant office space in Europe.

The trend in vacancy rates in Bucharest has been stable for some time now following significant increases, while the production of new office space and new building activity will also probably be broadly balanced this year.

In Sofia, however, the completion of City Tower and Capital Fort, for example, will again substantially increase the stock of office space. Due to the level of building activity, which will increase by a factor of three compared with the previous year, vacancy rates (which actually decreased somewhat recently) will again rise slightly in the Bulgarian capital.

At the end of 2013, the prime rents for office space in Sofia were around EUR 12/m² per month. In 2008 rents of up to EUR 20/m² per month were still being paid. Bucharest also saw a decrease in prime rents from EUR 22/m² per month in 2008 to EUR 18/m² per month in 2013.

Although the decline in rents was therefore not quite so dramatic as in the Bulgarian capital, various incentives and benefits such as rent-free periods or high-quality furnishing of the offices still play an important role here for potential tenants. On the whole, no major changes in rents are expected this year.

Green buildings, sustainability and certifications have reached markets in Southeast Europe

During the boom years, the whole of Eastern Europe experienced a run by different developers on real estate markets. A huge number of projects were conjured up out of thin air, but the location and quality of the projects were not always convincing. Successful developments in the still difficult region of Southeast Europe must therefore now focus on these parameters in particular.

Moreover, as is the case elsewhere in Europe, demand for green buildings and certified buildings, is also increasingly continuously in SEE. Many international companies set great store by BREAM, LEED or DGNB (German Sustainable Building Council) certification. Generally speaking global players will not consider a non-certified office building for their company headquarters.

Low operating costs, high energy efficiency, and internationally well-known and comparable certificates are vital in order to attain a decisive leading edge in markets with high vacancy rates and a large amount of available office space. When developing projects in Romania and Bulgaria, special attention should therefore be paid to energy efficiency and sustainability in addition to the indispensable analysis of the demand for office space. These projects should interest not only tenants, but also investors who are again looking for yields as their risk appetite increases.

Rents have stabilised recently

During the international financial and economic crisis, major corrections were made at times in regard to office rents in Bucharest and more so in Sofia.
Prior to the crisis, the market for industrial and logistics properties in Bulgaria and Romania was mainly characterised by speculative projects. The situation has now changed completely. The majority of new buildings are constructed for own use. However, since there is still only moderate demand for built-to-suit areas, only a few logistics projects are being developed at present and the pipeline is barely being filled.

Adequate pre-letting is a precondition for the successful start of a project and subletting of existing areas is also normal. Generally speaking, the limited amount of building activity is leading to a shortage of high-quality space which satisfies modern logistics requirements.

Both in Bulgaria and Romania there is a concentration of warehouse and logistics areas in the metropolitan area around each capital. At the end of 2013, around 1.3 million m² of logistics space were recorded in the region around Sofia and only around 30,000 m² of new space were in the pipeline. Bucharest contained around 1 million m² of warehouse and logistics space at the end of 2013. No significant amount of new space will be added in the Greater Bucharest area this year.

High vacancy rates
In spite of the occasional lack of modern logistics areas, the vacancy rates in Romania are still quite high at around 12%. However, this figure has at least stabilised.

The situation is different in Bulgaria since the broad moratorium on the construction of new areas has now led to a decrease in the vacancy rate to around 3%. Due to a revival in demand, this figure could also remain low during the rest of the year.

Rents largely stable
The average rents for logistics properties in Sofia were largely stable at around EUR 3.5/m²/month at the end of 2013. The rents in Bucharest also changed very little. The average rents there were only slightly higher at EUR 3.75/m²/month. Generally speaking, rents also always depend on the size of the property. Slightly higher rents are often paid for smaller areas than for very large units.

The status quo in many Eastern European countries is still characterised by a large number of old warehouses from the communist era. Such out-of-date premises are now available for a monthly rent of around EUR 2/m²/month or even lower at times. However, the relative price advantage of these areas is being reversed due to the greater demands being made large retailers and they are becoming increasingly difficult to broker. Since modern logistics companies are only interested in state-of-the-art logistics solutions, this opens up potential for high-quality space in the still undersupplied markets in Bulgaria and Romania.
New SC areas sharpening competition

Shopping centres being opened in Sofia in waves – two new mega-malls battling for tenants

At the start of 2014, Bulgaria had an available SC area of around 735,000 m². Most areas (about 85% of all retail space) were located in the capital Sofia with around 1.3 million inhabitants and in cities with more than 200,000 inhabitants (Plovdiv, Varna and Burgas).

Shopping centres are being opened in Sofia in waves. The first wave of modern medium-sized shopping centres with a leaseable area of up to 35,000 m² occurred in 2006. The second wave only followed in 2010 after the end of the first peak of the financial crisis when the SC stock in Sofia more than doubled through large projects such as the Serdika Centre (51,000 m²) and The Mall (66,000 m²). The situation calmed down again in the next two years, and only the Bulgaria Mall (35,000 m²) in 2012 extended the range of shopping facilities in the capital.

In 2013/2014, a new wave has spilled onto the market with a total leaseable area of around 220,000 m². Only one shopping centre – but the largest to date – was opened in Sofia last year. With a leaseable area of around 82,000 m² and 150 shops, the Paradise Centre is located in south Sofia and calls itself the “first lifestyle centre” with a spacious leisure and entertainment complex (e.g. event centre, cinema, swimming pool, bowling alley, amusement park on the roof, etc.). After some initial letting problems when it was opened, the Paradise Centre was very well filled by the end of 2013 thanks to incentives and the vacancy rate fell to less than 10%. The well-known tenants include, for example Carrefour, Zara, Marks & Spencer, H&M, New Yorker, Deichmann and Kenvelo.

Outside Sofia, “The Strand” (30,000 m²) and the City Mall (21,000 m²) were opened in Burgas and Stara Zagora respectively last year.

The two other shopping centres currently under construction in Sofia and scheduled to open in 2014 are the Mega Mall Lyulin and the Plaza West Mall. Both shopping centres are situated in the northwest of the city in the district of Lyulin around 5 to 10 minutes by car from one another. They each have a regional character with a medium-size area of 25,000 m². The Plaza West Mall is located directly on the “ring road” and will contain a Carrefour hypermarket occupying around one third of the area of the Mall. Other tenants include a cinema complex, Mango, Subway, etc. The Mega Mall Lyulin is situated around 4 kilometres closer to the city centre and has announced tenants that will include Peek & Cloppenburg, HUMANIC and United Colours of Benetton. The San Stefano Plaza will complete the new openings in Sofia in 2014. However, it cannot be regarded as a traditional shopping centre since it forms part of a multi-functional residential and office complex in the city centre and is mainly dominated by restaurants, cafes and bars.

The situation calmed down again in the next two years, and only the Bulgaria Mall (35,000 m²) in 2012 extended the range of shopping facilities in the capital.

Selection of openings in Bulgaria in 2013

<table>
<thead>
<tr>
<th>Shopping centre</th>
<th>Leasable area in m²</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paradise Mall</td>
<td>~ 81,300</td>
<td>Sofia</td>
</tr>
<tr>
<td>The Strand</td>
<td>~ 30,000</td>
<td>Burgas</td>
</tr>
<tr>
<td>City Mall</td>
<td>~ 21,000</td>
<td>Stara Zagora</td>
</tr>
</tbody>
</table>

Source: IRG; Bulwien; RegioPlan

At the end of 2013, the SC area density in Sofia was around 254 m² per 1,000 inhabitants. This figure will increase to 360 m² per 1,000 inhabitants once the shopping centres referred to above (around 135,000 m²) have been completed at the end of 2014. Compared with Bucharest (417 m² per 1,000 inhabitants), this value is much lower and also less than Vienna at 540 m² per 1,000 inhabitants. However, the biggest problem in Sofia and/or Bulgaria is the very low purchasing power which is 35% less than that in Romania. This was also revealed in 2013 by a survey conducted by CBRE/MBL among 1,200 local and international retailers: whereas 58% of respondents said that they were intending to expand in 2014/2015 and therefore reflect the predominant spirit of optimism, 83% of participants highlighted the low pur-
chasing power as the most serious problem for successful business management. The other factors mentioned were excessive competition (39%), too few qualified workers (38%) and the difficulty in finding a suitable location.

The weak or stagnating demand and the continuous increase in shopping centre space are leading to a strong tenants’ market in Sofia. Incentives (e.g. rent reductions, financial assistance regarding business fixtures and fittings, graduated rents, rent-free periods, etc.) are frequently offered with newly concluded rental agreements in order to be attractive to new retailers. Depending on the size of the business, the rents in shopping centres in Sofia currently range between 7 and EUR 25/m²/month. A stable to a slightly declining trend is expected up until the end of the year due to the large number of new openings. The vacancy rate decreased in the second half of 2013 to 9%–11% due to a large number of new contracts in existing shopping centres. However, the increase in the amount of space in 2014 will again exert more pressure on the shopping centres. The prime yield rose by 0.25% to 9.25% over the course of last year. A stable to slightly increasing trend is expected up until the end of the year.

In the ten largest cities with a population of more than 100,000 outside Sofia, the only new shopping centre coming onto the market is the Panorama Mall in Pleven (17,500 m²) with a Carrefour market as an anchor tenant. Although there are plans for new shopping centre projects in other cities, it is doubtful whether and when they will actually be built.

### SC density at the end of 2014 (including openings in 2014) and purchasing power in 2013

<table>
<thead>
<tr>
<th>SC area m² / 1,000 inhabitants</th>
<th>Purchasing power in 2013 in EUR / inhabitant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vienna</td>
<td>540</td>
</tr>
<tr>
<td>Bucharest</td>
<td>417</td>
</tr>
<tr>
<td>Sofia</td>
<td>360</td>
</tr>
</tbody>
</table>

Source: IRG, Bauer Research

In the ten largest cities with a population of more than 100,000 outside Sofia, the only new shopping centre coming onto the market is the Panorama Mall in Pleven (17,500 m²) with a Carrefour market as an anchor tenant. Although there are plans for new shopping centre projects in other cities, it is doubtful whether and when they will actually be built.
Main shopping street in Sofia hoping for new impetus through modernisation

In the last few years, the shopping streets in Sofia have suffered significantly due to the newly opened shopping centres and have lost many tenants to these shopping centres. However, a trend reversal will probably be realistic on the best-known high street in Sofia, i.e. Vitosha Boulevard. The plans by the city to renovate and revamp the street were implemented and finalised at the end of 2013 after several years of planning. The demand for business areas by local and international commercial companies has visibly increased since the start of the reconstruction work in Vitosha Boulevard and reached a prominent climax at the end of 2013 with the opening of an H&M flagship store.

The result: top rents in Vitosha Boulevard remained stable last year, albeit at a low level. Current rents amount to between 30 and EUR 45/m²/month. The vacancy rate is around 8%. It is therefore expected that rents will remain the same in the main shopping streets. However, side shopping streets will come under even greater pressure and will be faced with declining rents.

Seven shopping centres under construction in Romania in 2014 – all in Bucharest or Brasov

At the start of 2014, the amount of SC space in Romania was around 1.6 million m². Half of this space was found in the five most populous cities in Romania, i.e. Bucharest (30%), Cluj Napoca (5%), Timisoara (4%), Iasi (5%) and Constanta (6%).

Four new shopping centres containing a total leasable area of around 107,000 m² were opened in Romania in 2013. The occupancy rate on the official starting date was higher compared with the last few years. In the capital Bucharest the number of shopping centres only increased by one, i.e. the "Promenada Mall". Situated in the north of the city, this shopping centre has a leasable area of around 35,000 m². The other openings involved the AFI Palace in Ploiesti (30,000 m²), the Uverdura Mall in Botosani (15,000 m²) and the Galati Shopping City (27,000 m²).

In 2014, the amount of shopping space is expected to rise by around 56,000 m², i.e. the lowest increase for more than ten years. This includes the Vulkan Value Centre, which is already under construction in southwest Bucharest, with around 25,000 m² of retail space, and the Targu Jiu Shopping Centre with around 27,000 m² of retail space. The AFI Palace, which only opened the previous year in Ploiesti, is also being extended to include an entertainment section with an area of around 4,000 m².

In the next two years, Bucharest and Brasov will be the prime focal points in regard to future shopping centre projects. Brasov is a mid-sized town containing a population of around 250,000 and an available SC area of approximately 70,000 m² at the end of 2013. However, this only involves shopping centres with a local supply function and a maximum area of 22,000 m². With the Coresi Shopping Centre (51,000 m²) already under construction, the Korona Gallery where construction work is scheduled to start in the middle of the year (35,000 m²) and the modernisation and expansion of the Brasov Strip Mall (7,000 m²), the amount of shopping space in Brasov will more than double by 2016 and will catch up with the cities with the highest shopping density per 1,000 inhabitants, e.g. Constanta and Iasi.

The eastern part of Bucharest is faced with tougher competition. Situated just 3 kilometres (5 to 10 minutes by car) from one another, the Mega Mall (around 68,000 m²) and the Park Lake Plaza (around 60,000 m²) are two large projects which are already under construction and are both scheduled to open in 2015/2016. It was also

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In the next two years, Bucharest and Brasov will be the prime focal points in regard to future shopping centre projects. Brasov is a mid-sized town containing a population of around 250,000 and an available SC area of approximately 70,000 m² at the end of 2013. However, this only involves shopping centres with a local supply function and a maximum area of 22,000 m². With the Coresi Shopping Centre (51,000 m²) already under construction, the Korona Gallery where construction work is scheduled to start in the middle of the year (35,000 m²) and the modernisation and expansion of the Brasov Strip Mall (7,000 m²), the amount of shopping space in Brasov will more than double by 2016 and will catch up with the cities with the highest shopping density per 1,000 inhabitants, e.g. Constanta and Iasi.

The eastern part of Bucharest is faced with tougher competition. Situated just 3 kilometres (5 to 10 minutes by car) from one another, the Mega Mall (around 68,000 m²) and the Park Lake Plaza (around 60,000 m²) are two large projects which are already under construction and are both scheduled to open in 2015/2016. It was also

Four new shopping centres containing a total leasable area of around 107,000 m² were opened in Romania in 2013. The occupancy rate on the official starting date was higher compared with the last few years. In the capital Bucharest the number of shopping centres only increased by one, i.e. the "Promenada Mall". Situated in the north of the city, this shopping centre has a leasable area of around 35,000 m². The other openings involved the AFI Palace in Ploiesti (30,000 m²), the Uverdura Mall in Botosani (15,000 m²) and the Galati Shopping City (27,000 m²).

Selection of openings in Romania in 2013

<table>
<thead>
<tr>
<th>Shopping centre</th>
<th>Leasable area in m²</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promenada Mall</td>
<td>~ 35,000</td>
<td>Bucharest</td>
</tr>
<tr>
<td>AFI Palace</td>
<td>~ 30,000</td>
<td>Ploiesti</td>
</tr>
<tr>
<td>Uverdura Mall</td>
<td>~ 15,000</td>
<td>Botosani</td>
</tr>
<tr>
<td>Galati Shopping City</td>
<td>~ 27,000</td>
<td>Galati</td>
</tr>
</tbody>
</table>

Source:IRG; Bulwin; RegioPlan

Selection of SC projects which are currently under construction or start construction in 2014

<table>
<thead>
<tr>
<th>Shopping centre</th>
<th>Leasable area in m²</th>
<th>Status in 2014</th>
<th>Planned opening</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vulcan Value Centre</td>
<td>~ 25,000</td>
<td>Under construction</td>
<td>2014/15</td>
<td>Bucharest</td>
</tr>
<tr>
<td>Targu Jiu</td>
<td>~ 27,000</td>
<td>Under construction</td>
<td>2014</td>
<td>Targu Jiu</td>
</tr>
<tr>
<td>Mega Mall</td>
<td>~ 68,000</td>
<td>Under construction</td>
<td>2015/16</td>
<td>Bucharest</td>
</tr>
<tr>
<td>Park Lake</td>
<td>~ 67,000</td>
<td>Under construction</td>
<td>2015/16</td>
<td>Bucharest</td>
</tr>
<tr>
<td>Victoria Lifestyle Centre</td>
<td>~ 60,000</td>
<td>Start of construction in 2014</td>
<td>2015</td>
<td>Bucharest</td>
</tr>
<tr>
<td>Coresi Shopping Centre</td>
<td>~ 51,000</td>
<td>Under construction</td>
<td>2015</td>
<td>Brasov</td>
</tr>
<tr>
<td>Korona Gallery</td>
<td>~ 35,000</td>
<td>Start of construction in 2014</td>
<td>2016</td>
<td>Brasov</td>
</tr>
<tr>
<td>Auchan Drumel Taberei</td>
<td>~ 22,000</td>
<td>Start of construction in 2014</td>
<td>2015</td>
<td>Bucharest</td>
</tr>
</tbody>
</table>

Source:IRG; Bulwin; RegioPlan
announced that work on the construction of two other shopping centres will commence in Bucharest in the middle of 2014: the Victoria Lifestyle Centre in the northwest part of the city (around 68,000 m²) and Auchan Drumul Taberei in southwest Bucharest (around 22,000 m²).

Overall, this represents an increase in shopping space of around 250,000 m² to 975,000 m² in 2014, 2015 and 2016. This corresponds to more than one third of the current total amount of shopping space. The SC density per 1,000 inhabitants will therefore increase from 397 m² to 557 m². This is higher than the market in Vienna (540 m²/1,000 inhabitants) which is generally regarded as a saturated retail market.

Bucharest will then have seven shopping centres which have a leasable area of more than 50,000 m² and cover roughly half of the market. Around ten shopping centres are medium-sized centres between 25,000 and 50,000 m² while eight are smaller than 25,000 m².

The mood on the retail market in Bucharest is (still) regarded as good. Due to the slight increase in the amount of shopping space in the last two years, the existing shopping centres have continued to perform well. The demand by international and local retailers for suitable rental areas again provided new positive momentum during 2013. Examples here include the new arrival of La Martina (Argentinian clothing), Crabtree & Evelyn (American household goods), MIM (French fashion), Jumbo, Tschibo, Kazar, BSB Fashion and H&M in the shopping centres in Bucharest.

As a result of this development, rents in easy-to-reach shopping centres offering good functionality and a balanced branch and tenant mix proved to be stable with a slight upward trend up to the end of the year. However, the shopping mall in B locations and/or with an investment backlog were affected by fierce competition and came increasingly under pressure in regard to rents.
Depending on the size of the businesses, the band of monthly rents in the shopping centres in Bucharest extends from 10 to EUR 65/m²/month. The vacancy rate ranges between 5% and 15%, and is stable to slightly declining. The prime yields in the SC sector in Bucharest dropped by 0.5% compared with the previous year and amounted to around 8.5%–9.0% at the end of 2013. No further change is anticipated in the course of 2014.

“High street culture” only developing slowly in Bucharest

Compared with Sofia and its “Vitosha Boulevard”, Bucharest still does not have a highly pronounced “high street culture”. Last year, however, shopping streets such as Calea Victoriei, Magheru Boulevard and Calea Dorobantilor were enhanced by new tenants predominantly from the fashion, jewellery and drugstore segments (The Place Concept Store, PNK Casual, Roberto Bravo Jewellery, Porsche Design, Antony Morato, BSB Flagship Store, Sabion Galleries Jewellery, etc.).

The wait for a fashion flagship store in the old quarter of Bucharest, which is characterised by restaurants, cafés and bars, is over. Shortly after the Swedish clothing giant H&M opened its first shop in Lipscani Street in Bucharest city centre in autumn 2013, its Turkish competitor Koton leased retail space in a store with an area of 1,200 m² on the opposite side of the street. Upmarket luxury brands such as Escada, Louis Vuitton, Valentino, Cavalli, Rolex, etc. prefer to settle in the vicinity of 5-star hotels and are concentrated in the Marriott Shopping Gallery. The last prominent newcomer here was D&G.

The rent in the shopping streets is around EUR 40 to EUR 65/m²/month. Due to the rather weak demand to date, the shortage of modern retail areas and the aggressive target prices of international retail companies, the top rents have fallen slightly compared with the previous year. Around 15%–20% of retail shops in the shopping streets are vacant. The prime yield at the end of 2013 was 9.0%–9.5%.
Contacts:

UniCredit Bank Austria

Real Estate
Anton Höller
Tel: + 43 (0)50505-55980
anton.hoeller@unicreditgroup.at

Werner Zimmel
Tel: + 43 (0)50505-62600
werner.zimmel@unicreditgroup.at

Real Estate CEE
Lukasz Motyl
(International clients)
Tel: + 43 (0)50505-55142
lukasz.motyl@unicreditgroup.at

UniCredit Tiriac Bank SA

Real Estate Finance
Gabriela Dragulin
Tel: + 40 (0)21 200 1783
gabriela.dragulin@unicredit.ro

UniCredit Bulbank AD

Real Estate
Ana-Maria Barakova
Tel: +359 2 9269 224
ana-maria.barakova@unicreditgroup.bg

Contacts:

UniCredit Bank Austria

Real Estate
Anton Höller
Tel: + 43 (0)50505-55980
anton.hoeller@unicreditgroup.at

Werner Zimmel
Tel: + 43 (0)50505-62600
werner.zimmel@unicreditgroup.at

Real Estate CEE
Lukasz Motyl
(International clients)
Tel: + 43 (0)50505-55142
lukasz.motyl@unicreditgroup.at

UniCredit Tiriac Bank SA

Real Estate Finance
Gabriela Dragulin
Tel: + 40 (0)21 200 1783
gabriela.dragulin@unicredit.ro

UniCredit Bulbank AD

Real Estate
Ana-Maria Barakova
Tel: +359 2 9269 224
ana-maria.barakova@unicreditgroup.bg

Authors:

UniCredit Bank Austria

Real Estate Research
Karla Schestauber
Tel: + 43 (0)50505-54784
karla.schestauber@unicreditgroup.at

Immobilien Rating GmbH (IRG)

Market Research
Alexander Stögbauer
Tel: + 43 (0)50601-51904
alexander.stoegbauer@immobilienrating.at

Helmut Schneider
Tel: + 43 (0)50601-51863
helmut.schneider@immobilienrating.at