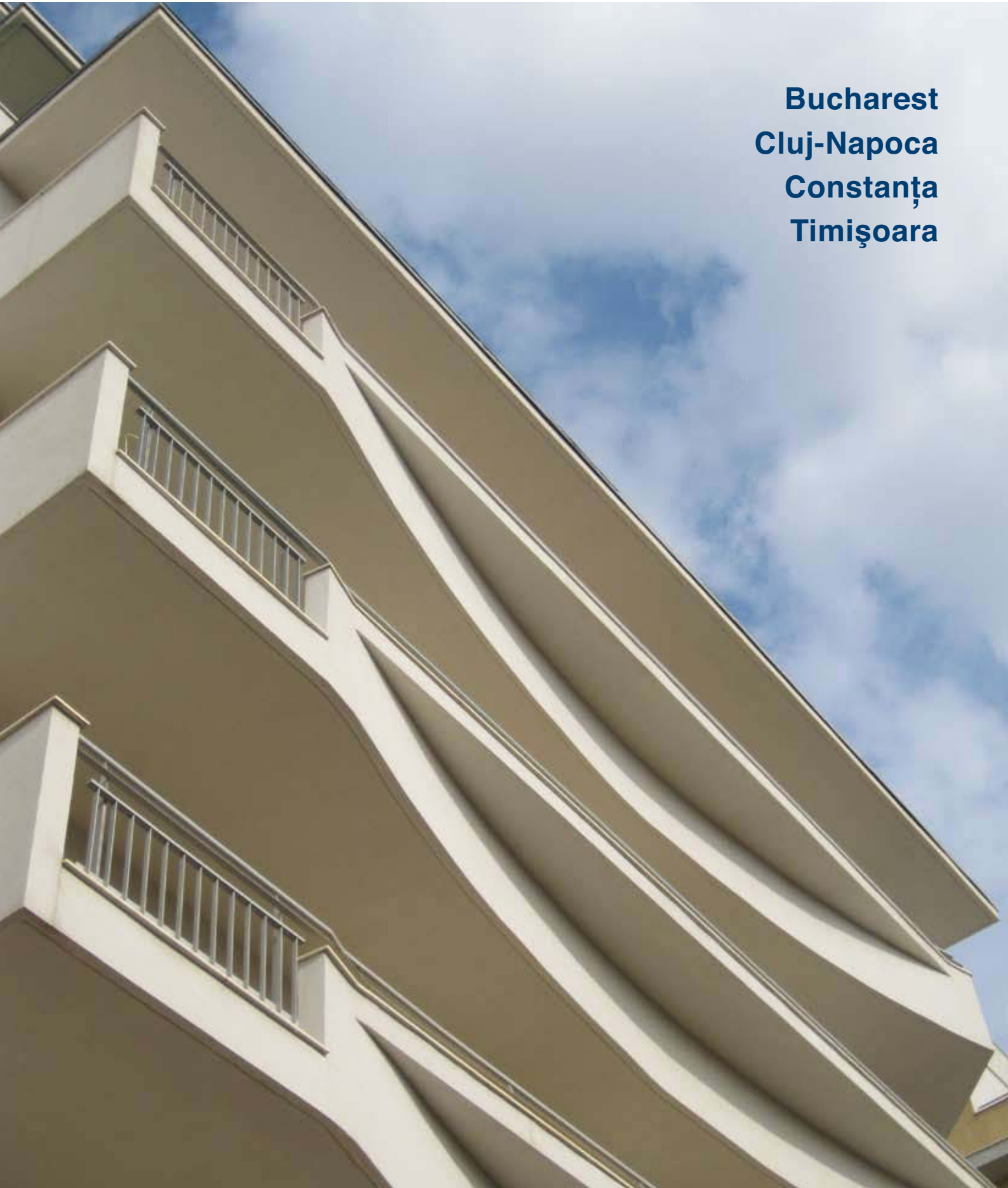


September 2008

reas

Residential Market in Romania

**Bucharest
Cluj-Napoca
Constanța
Timișoara**





**Dr. Władysław
Jan Brzeski**
FRICS
Partner

Economic growth in Romania remains strong and can be expected to exceed 8% in 2008. The strong economy has reduced unemployment and brought visible growth in wages and inflation. On the one hand, these factors have produced more optimism and income growth, enhancing household interest and affordability of housing. On the other hand, they have created inflationary pressures (7.5 - 8% forecast for 2008 depending on source), which coupled with the international liquidity squeeze and credit crunch due to the tight fiscal and monetary policies, have increased the cost of mortgage credit used increasingly by households to finance housing investments.

The country's robust macro-economy continues to attract trans-atlantic capital investors searching for assets and yields, also in residential real estate markets. The international financial turmoil, however, has been changing the nature of these capital investments; reflecting the reappraisal of risks with an accompanying slight increase in required yields. Additionally the structure of the capital inflows has been shifting from debt to more equity, further contributing to the upward edging of required yields. The higher yields have tended to slow down and stabilize the recent rapid growth in real estate prices, although the robust economic prospects continue to hold promise of continued growth in incomes and rents, while in the longer time frame the ebbing out of the international financial turmoil should eventually produce cheaper and easier access to credit.



Joanna Iwanowska
Head of CEE Desk

It is not often that a residential market develops at a pace as fast as the Romanian one. It is even more extraordinary for an advisory company to be able to assist so actively in its development as REAS does.

At the very moment, especially in the middle segment, the offer is rather flat in terms of project-to-project differentiation, very homogeneous, rarely promising individual character and high quality community creation. With deliveries in large cities growing, yet still remaining in the low figure areas, the market is in a visible need of structuring when it comes to product definition, segmentation, pricing, and last but not least a quality infrastructural additive.

Being an objective and experienced observer of the market, and having conducted several dozens of studies in 8 Romanian cities during last 18 months, REAS has gained a thorough insight of the Romanian market. It is vital to say that our ability to compare the undertakings on the Romanian market to those in Poland and Ukraine and placing them in a CEE context is an additional asset of REAS, completing our expertise.

Through our presence on the market, REAS residential Consultants have become renowned opinion makers on Romanian residential issues – hence a natural choice partner for residential investors, developers, and financing institutions.

REAS' CEE Desk is pleased to present our 2008 commentary on the residential market in Romania, including chosen cities we consider of high development potential. It features Bucharest which captures ca. 9% of the total population of Romania, introduces Cluj-Napoca as well as giving an update on Timișoara and Constanța.



Romania



Economy

Romania is the second largest nation in the EU's new accession countries after Poland, and it aspires to become one of the largest residential markets in the CEE region. It is now populated by approximately 21.5 million inhabitants, with an urbanization rate of 55%. However, given the large number of unregistered residents, the population of Romania's urban centres may be estimated at a much higher level than officially reported. Dynamic changes in Romania's economy following its EU accession have contributed to a sudden growth of foreign investments, consumption, and incomes on the labour market. This growth chiefly resulted from a massive outburst of investors' interest and rapid development of local urban markets. These factors have been the main drivers of a rising inflation since mid-2007. The current CPI level of 8.6% (June 2008) is the highest since January 2006.

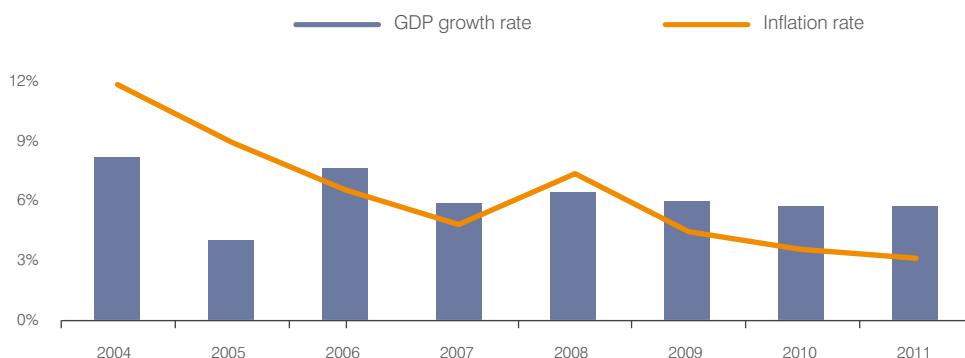
The Romanian economy's performance in recent years indicates a fast and stable growth. The GDP growth rate has never fallen below 4% in the past six years and amounted to 6% at the end of 2007. Forecasts of the National Commission for Prognosis indicate that in the nearest years, stable growth may be expected at a level comparable to that of 2007, while at the same time inflation rates are forecast to fall.

Housing stock

Mainly because of its age, standard, and low maintenance level, the quality of the housing stock is very low throughout Romania. According to statistics its volume is estimated at more than 8,270,000 flats and houses, which translates into 384 units per 1,000 inhabitants. Nearly 55% of Romania's housing stock is located in urban areas, and most of it represents blocks of flats made of prefabricated concrete slabs built in the socialist era.

The historically very high ownership level (97.7% of the stock is owned by individual persons), a consequence of vesting property rights in flat tenants under Communist rule, manifests the predominant preference of Romanians to hold an ownership title.

Inflation and GDP growth rate trend 2002-2007 and prognosis 2008-2011



Source: Romania's National Institute of Statistics, National Prognosis Commission



Romania

ROMANIA	
Area (sq km)	238,391
Population (in thousands, 1 Jan 2008)	21,530
Average net salary (EUR, May 2008)	345
Unemployment rate (% , May 2008)	3.8
Housing stock per 1,000 inhabitants (2007)	384
Completions per 1,000 inhabitants (2007)	2.2

Mortgage market

The mortgage market in Romania has recently gone through a period of high-rate growth, thus becoming one of the most important development factors of the residential market. Despite currently rising interest rates and a visible slowdown of the growth of the outstanding loan volume (52% in the second half of 2007, 16% in the first half of 2008), the housing debt to GDP ratio published by the European Mortgage Federation still indicates a high growth potential. As of the end of 2006 the housing debt to GDP ratio amounted to a mere 2.3% in Romania, while the average of all 27 EU countries was at the level of 49%.

Therefore, experts expect a mortgage boom in the next few years based on the forecast decreasing inflation and interest rates as well as the encouraging economic situation. Although the dynamics of the mortgage market are currently slowing down, its fundamentals based on demography and potential of local demand allow for a positive prediction of its further growth. In this context, it seems worth stating that the current deceleration is rather due to presently growing inflation rates and reference rates of the National Bank and not due to a direct reaction to the worldwide sub-prime crisis.

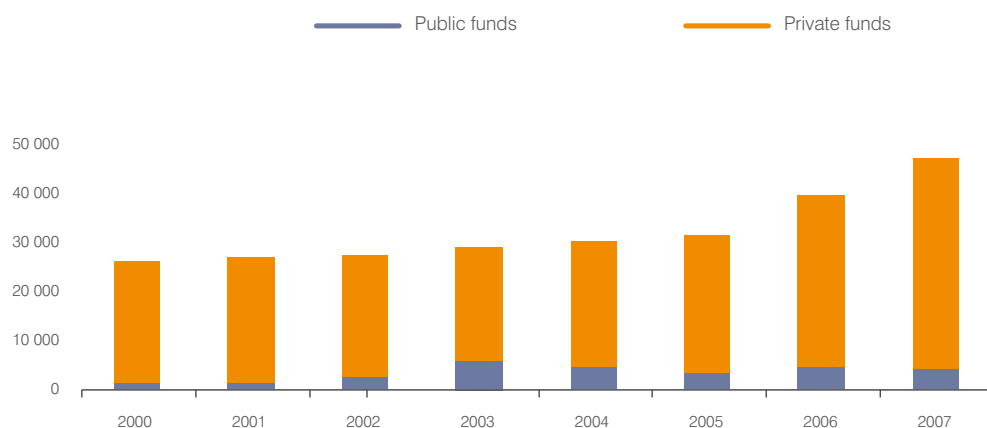
The volume of outstanding mortgage loans nearly doubled from June 2007 to June 2008. Loans are predominantly taken out in foreign currencies (mainly EUR) which account for approximately 90% of all housing loans contracted.

New housing supply

The Romanian residential market is still an emerging sector of the national economy. In recent years it was strongly driven by intensified activities of developers, financial institutions, and foreign funds.

Despite the evident increase in developer activity in recent years, in large cities in particular, its results in terms of number of dwellings delivered for occupancy are still hardly visible on the Romanian market. Although over 47,000 dwellings were delivered in 2007 – of which half were completed in urban areas – the building output of 2.2 units per 1,000 inhabitants was still very modest. However, the vast majority of the new supply is delivered by private individuals and developers. Based on market analyses, developer plans, and number of flats on offer, more dynamic increases in the market supply by developers may be expected in the nearest future, which undoubtedly will bring about yet another boost in the level of competition between developers.

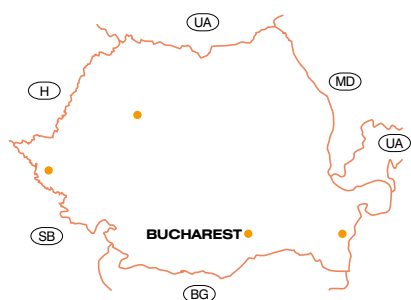
Number of dwellings completed in Romania between 2000-2007 according to the type of investor



Source: Romania's National Institute of Statistics



Bucharest



Romania's capital, Bucharest, is by far its largest city. According to official statistics its population accounts to approximately 2 million, and, thus, represents over 9% of the entire Romanian population. Particularly impressive is the difference in size compared to the country's second-tier cities, as the population of the next largest cities merely exceed 320,000. It is worth noting that the attraction of the city's labour market, as well as its predominant administrative function in the whole country's settlement system, give Bucharest the status of Romania's largest residential market.

Demand

Worth noticing is the city's excellent economic standing that manifests first and foremost in the very low, and for years, declining official unemployment rate (now at 1.8%), large demand for labour, and high dynamics of salaries, which in net values are over 20% higher than the national average. Despite high housing prices, this fact translates into relatively higher purchasing power and credit worthiness of the capital city's population.

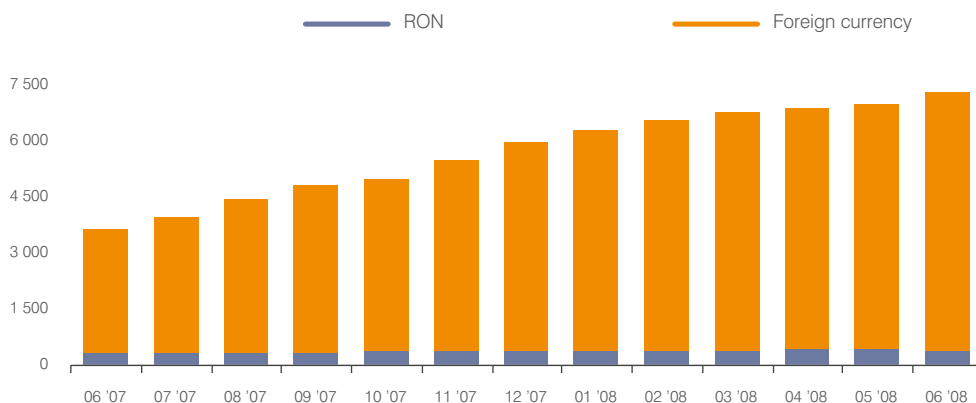
According to data published by the National Bank of Romania, the country's housing loan market is predominated by Bucharest. It accounts for as many as 42% of the total amount of mortgage loans extended in Romania. Despite the decline in the rates of absorption of dwellings in individual projects observed in recent months, which has been confirmed by a slowdown of the month to month dynamics of housing loans, the volume of loans taken out by households to finance their dwelling purchases still increased by 100% during the last twelve months.

The quality of the existing housing stock, which due to its age, building technology, and damages by earthquakes is in a bad technical condition, encourages buyers to look for dwellings in new buildings. Moreover the relatively new housing stock developed after 1990, which now amounts to about 48,000 dwellings, represents a mere 6% of the city's entire housing stock.

On the other hand, the dwelling price to income ratio has reached a level too high for an average buyer over the last two years. That is one reason why the recent months have brought about a definite decline in the dwelling absorption rates. Further contributors of the sales slowdown include a significant growth of the housing offer, a rising inflation that discourages drawing of now quite expensive loans, and a decreasing activity of speculative buyers, including first and foremost foreign investors whose purchases accounted for a large part of the market turnover in 2006 and 2007.

Considering the scale of population inflow to the city and the number of marriages compared to the housing supply dynamics, an increase in the housing need might be expected in the coming years. This can for instance be observed when comparing the number of 8.9 marriages per 1,000 inhabitants to the figure

Volume of individual mortgages outstanding in Bucharest in billions of RON, monthly data June 2007 – June 2008



Source: National Bank of Romania



Bucharest

BUCHAREST	
Area (sq km)	238
Population (in thousands, 1 Jan 2008)	1,944
Average net salary (EUR, May 2008)	462
Unemployment rate (% , May 2008)	1.8
Housing stock per 1,000 inhabitants (2007)	405
Completions per 1,000 inhabitants (2007)	1.3

of only 1.3 completions per 1,000 inhabitants. Room for growth is also evident in the statistical housing deficit, calculated as a difference between the number of the dwelling stock and households, which according to findings of the 2002 national census amounted to 32,000 units.

Supply

Despite substantial developer activity on Bucharest's residential market, the number of dwellings delivered in recent years still does not seem to have grown significantly. In 2007 slightly more than 2,500 flats were commissioned for occupancy within the city's administrative limits. Thus, the number of dwellings delivered yearly has stayed at a very low level; particularly in view of the lacking market supply during the last fifteen years.

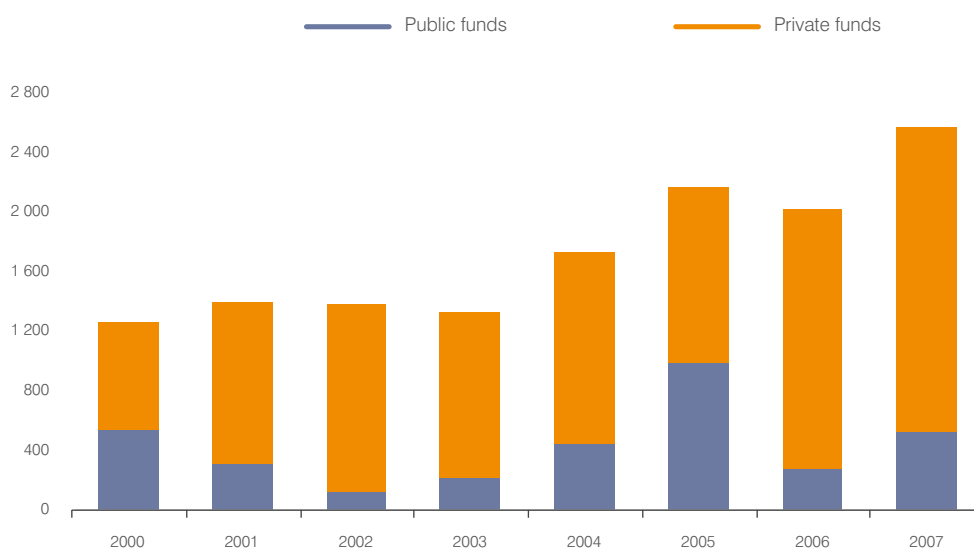
Nevertheless, this situation may change as the current market offering greatly exceeds the building output in previous years. According to developers' declarations and plans and to analyses of residential building progress in Bucharest, it may be expected that the year 2008 is to bring about a substantial increase in the number of flats commissioned for occupancy. In the following years further increases may be expected up to the level of 6,000 – 8,000 units delivered annually, based on the scale and plans of projects now in progress.

Spatial patterns of the residential market's growth have changed significantly over the last year. In previous years the market supply focused mainly in the city's northern part, where projects targeted at higher market segments were developed. Now developers' interest has switched to locations in the western or eastern parts of the city, often made of brownfield sites. These trends do not only translate into the development of Bucharest's new living quarters, but also allow for the emergence of a more precisely defined market segmentation and de facto of new quality segments on the market.

The structure of newly offered projects shows a tendency to decrease in the offered floor areas and, thus to increase in the share of smaller units in the overall market supply. The nature of this tendency is connected with an adjustment of the supply's qualitative structure to the preferences and capacities of the local demand. For instance, nearly half of the dwellings commissioned for occupancy in 2007 were one and two-bedrooms units, apparently targeted at the demographic-driven demand.

Based on a deficit of land available for development in the city and from the quite high interest of local buyers in out of town dwellings, a relevant suburbanization trend is presently taking place. In 2007, in the entire Ilfov County (an administrative unit that roughly covers the Bucharest Metropolitan Area outside the city limits)

Number of dwellings completed in Bucharest between 2000-2007 according to the type of investor



Source: Romania's National Institute of Statistics



there were over 60% more dwellings delivered than in the city of Bucharest itself. New development projects in Ilfov County focused in Bucharest's immediate suburban zone with definite predominance north of the city locations, such as: Pipera, Voluntari, Buftea, Otopeni, and Corbeanca.

Prices¹

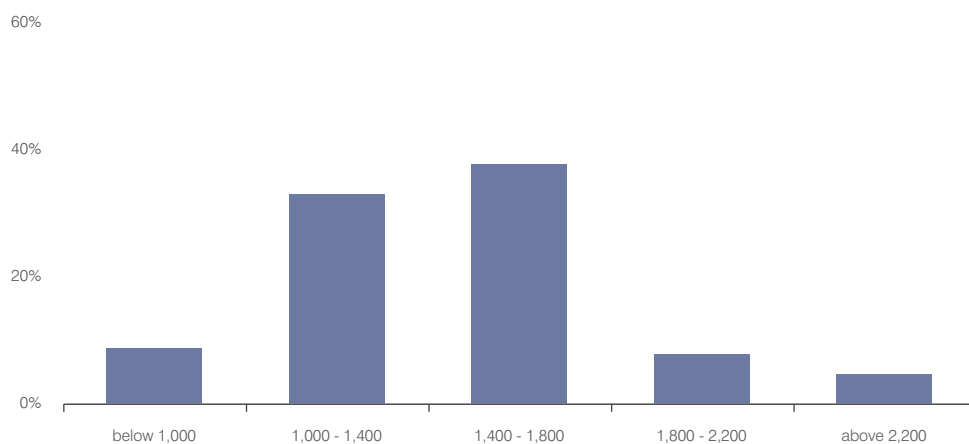
The rapid rise in primary market prices observed in the last two years has been driven by a significant share of new projects in the market's luxury segment that had been growing at the highest rate, mainly owing to speculative demand. Growth dynamics of this market segment are now drastically decreasing, as developers have shifted their interest to middle and upper-middle market segments. Among the most relevant factors of the price stagnation that took place during the last three months are the slowdown of sales of the most expensive dwellings and the fact that more middle segment products are entering the market.

The range of asking prices now offered on the residential market is very wide. However, projects of average prices below EUR 1,000 per square metre are already difficult to find within the city's administrative limits. As can be seen on the following graph, the definite majority of dwellings now on offer are sold at less than EUR 2,200 per square metre. Within this group, the decisively largest group of projects is priced at EUR 1,200 – 1,800 per square metre, depending on the project's class and location, and that is exactly the market segment that is targeted at the middle class clientele. Prices in the luxury segment start from ca. EUR 2,000 per square metre.

Comparing the current price level with historical data clearly shows that prices in each segment were still rising throughout the last twelve months, though not as dynamic as in the previous years. The reduced speed in the overall price growth was mainly due to the declining share of the luxury segment in the residential offering in Bucharest, while the rising share of products in the middle market segment priced above the average kept a steady upward price trend which came to a slowdown in the last three months.

The current increase in the market offering definitely confirms the relevance of the product's attractiveness on this market. In the near future, the growing awareness of local buyers, their specific needs and their increasing quality standard requirements will force developers active on the capital city market to pay more attention to promotion, marketing, and the character of their projects.

¹ All square metre prices in this report refer to net prices (VAT exempt) of a unit's total built area, including not only all walls of the unit but also a portion of the common circulation space.



Source: REAS

Distribution of average asking prices per multi-family offer in Bucharest in July 2008. Price brackets in EUR per square metre.



Cluj-Napoca



The third largest city in Romania, Cluj-Napoca is located in north-western Transylvania and is the centre of the Cluj County. Official statistics put the present population of Cluj-Napoca at approximately 309,000 people, with the local authority estimates pointing to over 500,000 when counting students and non-residents not registered as inhabitants. Interestingly, the city is situated in roughly the same air-line distance from the capital cities of Bucharest, Budapest and Belgrade as well as to Lviv in Ukraine.

Demand

Besides being an important industrial centre, Cluj-Napoca is about to establish itself as a nucleus for high-tech, IT and service provision. Good evidence for this development is the decision of the Finnish mobile phone giant Nokia to choose Cluj-Napoca as the location for their factory and several support facilities. In this matter, the presence of the country's largest university certainly acts as a firm foundation, supplying a large amount of qualified graduates and academic staff.

During recent years, the city's official unemployment rate has gradually fallen. Meanwhile, salaries are progressively increasing with an average monthly salary at an official level of EUR 334 in 2007, i.e. an increase of almost 30% compared to the previous year. The high GDP level, which reached EUR 6,576 per capita and, thus, exceeded the countries average by over 25%, puts the final icing on the cake of the remarkable economic performance of Cluj-Napoca.

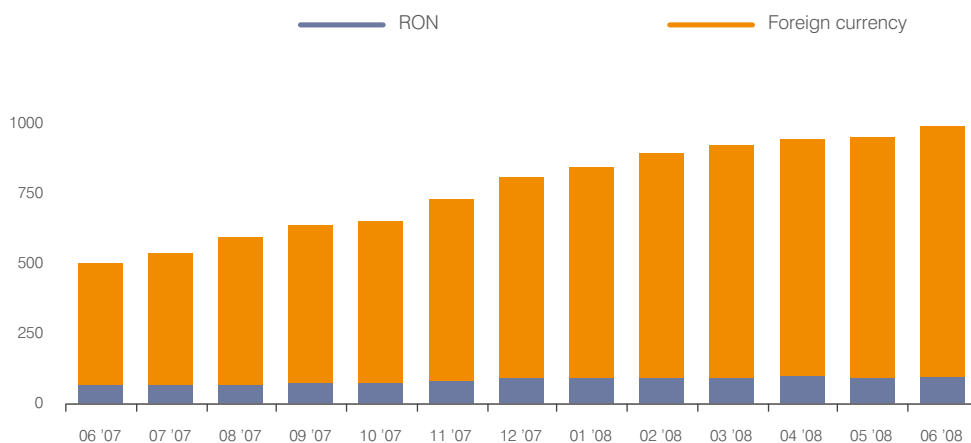
The overall prospect for the city's development looks very promising, too. A significant economic growth predicted within the next few years is deemed to improve living standards as well as the people's expectations regarding their housing needs and housing affordability. The future of the local residential market depends very much on the development of the mortgage industry which is still in a nascent stage locally and nationwide.

Starting from 2004 the level of in-migration to Cluj-Napoca and the improving balance of a natural increase in the city, strengthened the demand for housing. This trend is expected to continue to grow following the scale of investments in the city, with new companies locating their headquarters in the city and offering attractive employment conditions for people living in the region.

In particular the today's 25-30 year old generation, which makes up the major group to form new households, creates a substantial buyer group. After 10 years of a quite stable number of marriages ranging between 1,900-2,200, a gradual growth trend could be observed during the last 4 years – rising up to 2,500.

Besides economic and demographic demand drivers, the critical situation of the housing stock, both in quantity and quality, greatly impacts the demand for new homes. Given the current scale of residential construction, the backlog need for housing will require many years to be satisfied.

Volume of individual mortgages outstanding in Cluj County in billions of RON, monthly data June 2007 – June 2008



Source: National Bank of Romania



CLUJ-NAPOCA	
Area (sq km)	180
Population (in thousands, 1 Jan 2008)	309.3
Average net salary (EUR, May 2008)	372
Unemployment rate (% , May 2008)	3.2
Housing stock per 1,000 inhabitants (2007)	386
Completions per 1,000 inhabitants (2007)	3.6

Supply

After over a decade of continuing stagnation in the production of housing, Cluj-Napoca's residential market was to experience the beginning of a construction boom period from 2003 onwards. The total output was brought to a level of 900 to 1,200 residential units per annum, compared to some 200 units in earlier years. Privately funded residential development activities played an integral role in this development, being responsible for the vast majority of the local construction.

The market in Cluj-Napoca features both multi- and single-family developments. The former commonly consist of low-rise four-storied buildings, though starting from 2007 developers offered a considerable number of units in taller buildings of more than 10 floors too. Single-family projects are dominated by semi-detached, or row houses typically located within small schemes of up to 20 units. Nevertheless, single-family developments of more than 100 units also exist in the metropolitan area offer.

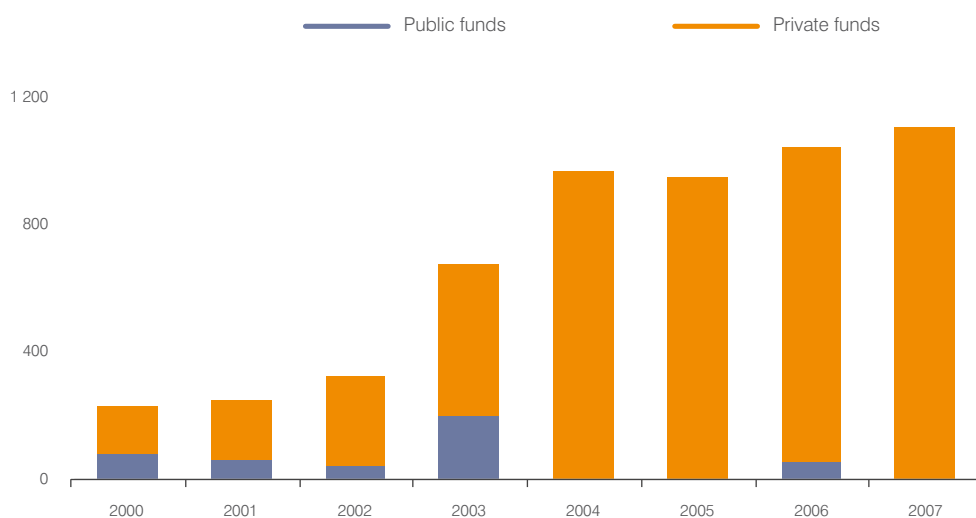
The large number of projects in the pipeline and the positive trend observed during the last 5 years allow for predicting further growth in the number of completions. Taking into consideration the actual number of completions scheduled for delivery and common delays in such projects, the number of completions within the next two years is expected to reach up to 2,500 dwellings per annum.

REAS market monitoring shows that some 15,000 units have been announced to be developed in Cluj-Napoca within the next few years. Almost 12,000 residential units are planned to be delivered in two large-scale projects alone. As a result, the market will become more competitive and therefore will require more intense and sophisticated marketing and sales strategies.

It is noteworthy that the projects announced to be delivered within the next 2 years are addressed almost exclusively to customers of the middle- and upper-middle market segments when it comes to pricing. Yet, in terms of quality and standard, these developments demonstrate characteristics typical rather for popular market segments.

The distribution of prices shows that the multi-family offer concentrates below the level of EUR 1,000 per built square metre, while there are only a few units priced above EUR 1,400 per square metre. On the other hand, only a small number of dwellings below EUR 800 per square metre can be found within the city itself – they are being developed rather in the metropolitan area, such as in the municipality of Floresti. Compared to Bucharest, the residential market of Cluj-Napoca shows only initial signs of market segmentation.

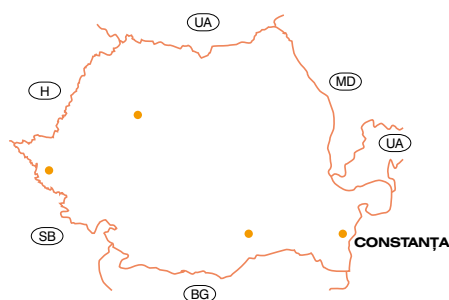
Number of dwellings completed in Cluj-Napoca between 2000-2007 according to the type of investor



Source: NSI



Constanța



Compared to other Romanian cities, Constanța is very unique in terms of its residential market's structure and growth patterns. Located in the south-east section of Romania's Black Sea coast, the city's key development drivers are tourism, and shipyards and oil refineries. Populated by over 300,000, Constanța is one of the country's largest cities, one of its largest ports, and its largest resort with attractive holiday sites and beaches located in Constanța County's northern part, such as the popular resort of Mamaia.

Demand

There are two demand sources specific to the city's primary residential market. Firstly, the city has its own significant local demand potential. Secondly, because of its attractive location, especially with respect to sites north of the city itself, the Constanța market is additionally driven by demand for so called holiday homes and by investors hoping for income from intensifying tourist traffic in the presently poorly developed overnight accommodation infrastructure.

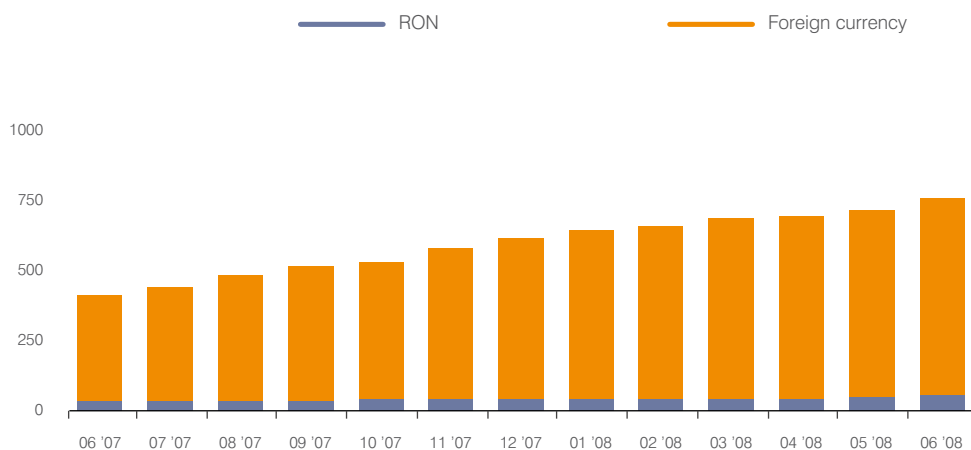
A growing potential of the local demand is evidenced by a high increase rate of the monthly salary. In 2007 the average net monthly salary amounted to EUR 331 and had nominally grown by 27% from the previous year. At the same time the most current data indicates that this growth can hold its pace, thus increasing the residents' purchasing power even further. The exceptionally low unemployment rate now amounts to 2.2%, although it is worth remembering that because of its tourist nature the range of the seasonal fluctuation is wider than in other large Romanian cities.

The population's purchasing power is supported with a fast growing mortgage market, and the total amount of housing loans contracted by households in Constanța County had grown by 84% in June 2008 compared to June 2007. As in the whole country, the loans in Constanța are also drawn predominantly in foreign currencies, mainly in EUR.

The quality of the housing stock and its volume per 1,000 population (384 units) are relatively low compared to Romania's other big cities and are additional factors for the residential demand.

Official statistics from the last few years indicate a significant increase in tourist traffic in Constanța. It has increased by nearly 25% over the last 5-6 years. Over 926,000 tourists visited Constanța in 2007, mainly Romanians, while the number of accommodations available to tourists merely exceeds 121,000 beds, indicating the significance of holiday homes. In view of such tourism development conditions, the very high growth rate of the holiday home market is not surprising at all.

Volume of individual mortgages outstanding in Constanța County in billions of RON, monthly data June 2007 – June 2008



Source: National Bank of Romania



CONSTANȚA

Area (sq km)	125
Population (in thousands, 1 Jan 2008)	303.7
Average net salary (EUR, May 2008)	338
Unemployment rate (% , May 2008)	2.2
Housing stock per 1,000 inhabitants (2007)	384
Completions per 1,000 inhabitants (2007)	2.2

Supply

In 2007 the number of dwellings delivered in Constanța reached a level of 659; thus surpassing the 2006 building output by 30% and was by far the highest result in the last decade. In the same period in the entire Constanța County, over 2,441 units were delivered, i.e. 14% more than a year ago. Flats and holiday homes represent a major share in the growing residential market in Constanța County.

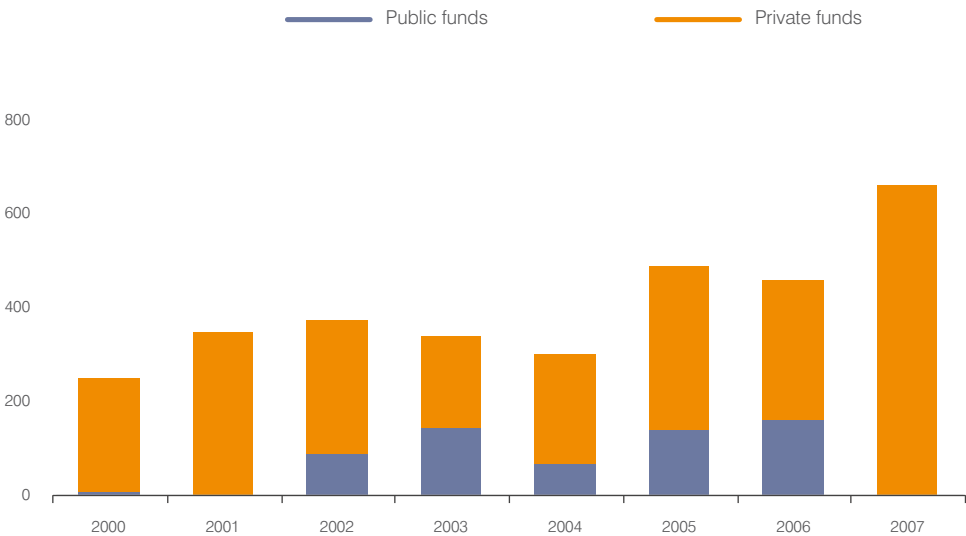
Based on a monitoring of new projects entering the market in 2007 and in subsequent years, it may be expected that the supply level will continue to rise at a similarly high rate in the nearest future, both in the city itself and in its adjacent areas. High interest in land for development in Constanța has caused a significant rise in its value, while its availability is relatively limited because of the urban fabric's character and structure. This is connected with the city's quite dense development, the location of a shipyard in its south, and limited availability of land in its north. Development sites, where most of the developer projects are currently concentrated, are first and foremost located in the city's central-eastern part and the northern Faleza district.

The residential market in Constanța and its immediate surroundings is to a large extent determined by the tourist market. The increasing number of projects now on offer are targeted at buyers of holiday flats and houses. These investments are located in more prestigious parts of the city, such as Mamaia or Faleza Nord, where visibly fewer projects are directed at local clients.

Because of the market's dual specifics, it should be distinguished into two segments: relatively cheaper flats located within the city's administrative limits and targeted at local buyers, and more expensive flats and houses in prestigious locations which are directed at the segment of holiday home buyers. Offerings for the former segment are priced at EUR 1,000 up to 1,600 per square metre. Prices of holiday homes located in tourist-wise attractive locations typically start from approximately EUR 1,600 to over 2,200 per square metre. The largest group of products offered on Constanța's primary residential market is priced at EUR 1,200 – 1,400 per square metre.

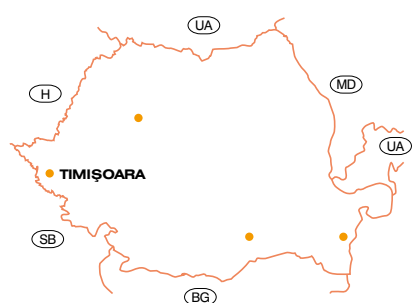
It may be expected that because of its unique location, the Constanța market, besides its internal needs, will continue to satisfy also the needs of the holiday home buyers. Growing mobility of the population along with its increasing purchasing power and rapidly developing holiday patterns imply large growth prospects in terms of investments in both rental dwellings and second homes alike. It should be remembered however that this market segment is particularly sensitive to possible changes in the economy and the residential market's condition.

Number of dwellings completed in Constanța between 2000-2007 according to the type of investor





Timișoara



One of Romania's largest cities, Timișoara plays also the role of a leading urban centre in the country's western region. The city's location close to the Hungarian and Serbian borders adds to its relevance as an important economic centre. Populated by 312,500, the city aspires to being, along with nearby Arad, one of the most important second-tier cities and Western Romania's predominant economic centre.

Demand

The city's high economic potential manifests in the best economic indicators in the whole region. In 2007 GDP per capita in Timiș County reached a level of EUR 7,784, i.e. second in the country only to Bucharest and Ilfov County, and nearly 25% higher than one year ago.

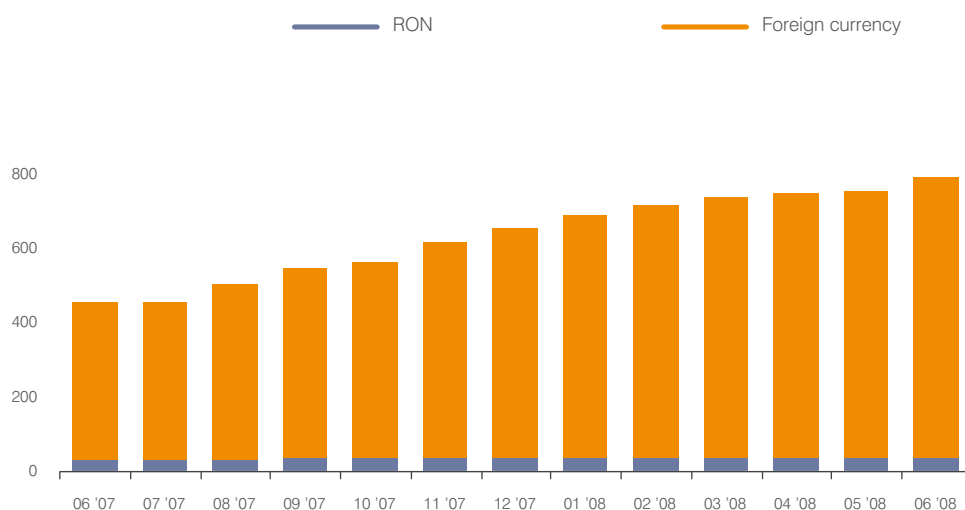
The low unemployment rate, now amounting to only 1.3%, and fast nominal increase in salaries at 20% over the last year, and one of the highest direct foreign investment indicators among Romania's second tier cities, are the main drivers of the city's fast development. In Timișoara the average net monthly salary amounted to about EUR 289 in 2007, while in May 2008 it had risen to EUR 338. Timișoara is a strong university city, providing an educated workforce and a growing number of potential new housing buyers each year.

Growing purchasing power of the city's population clearly translates into its demand potential. The volume of housing loans given to households in Timiș County grew by 74% from June 2007 till June 2008. The growth rate in mortgages of private individuals proves the population's large housing needs.

The number of households has been increasing in recent years due to a positive migration balance and quite high ratio of marriages. With the supply still limited at a consistently low level throughout the last fifteen years, it also contributes to a high accumulation of housing needs in the city.

Compared to Romania's other cities, the amount of housing stock is relatively high in Timișoara. The overall number of 128,462 units, i.e. 411 units per 1,000 inhabitants in 2007, is by far higher than in any other city in Romania, including Bucharest. What is interesting, this indicates a housing deficit relatively smaller than in other cities. On the other hand the existing housing stock's still relatively low quality and advanced age contribute to strong demand for new dwellings.

Volume of individual mortgages outstanding in Timiș County in billions of RON, monthly data June 2007 – June 2008



Source: National Bank of Romania



TIMIȘOARA	
Area (sq km)	130
Population (in thousands, 1 Jan 2008)	312.4
Average net salary (EUR, May 2008)	338
Unemployment rate (% , May 2008)	1.3
Housing stock per 1,000 inhabitants (2007)	411
Completions per 1,000 inhabitants (2007)	2.0

Supply

Like in other developing Romanian cities, a significant increase in the number of dwellings commissioned for occupancy in Timișoara has also been recorded for the first time in at least fifteen years. This is proof of increasing developer activity in the city over the last two years. The 90% increase in the number of delivered dwellings seems very high, however the rise from 338 in 2006 to slightly over 600 units in 2007 was the result of the completion of only a few not very large residential projects. It may be expected upon consideration of the estimated absorption rates and the local market potential that the current supply is much below the potential demand.

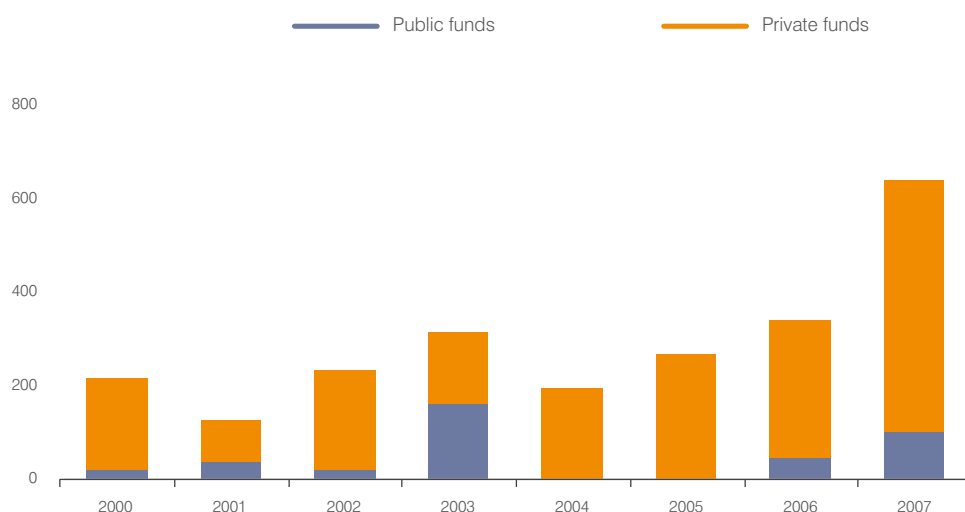
There is still a relatively limited number of active residential projects. So far the market has been predominated by small local developers or often even private individuals implementing projects of a few or a few dozen units. The current changes in the market indicate sizeable interest of larger developers, which will translate into supply to the market of projects consisting of hundreds of units, and some projects of such scale are already planned or being advanced by developers.

Most of the residential projects, planned and active alike, are located in the city's northern (Aradului Vest and Aradului Est) and southern (Girocului) parts. Residential development in these districts is driven by the availability of land zoned for housing development in the respective planning documents, including the General Urban Plan of Timișoara (PUG).

In the next two years a considerable increase may be expected in the supply of dwellings, and according to REAS estimates, approximately 1,500 units will be commissioned for occupancy in the next 2 years. Despite the high-rate increases in the supply, projects now targeted at the middle and upper-middle segment clientele still do not meet the respective standards, as these are interpreted by REAS.

The market offering in Timișoara varies much price-wise, depending on product and developer types. The current pricing levels allow for identification of the following two clearly distinct market segments: cheaper dwellings priced at EUR 800 – 1,200 per square metre, and more expensive products offered at EUR 1,500 – 1,800 per square metre. The definite majority of the primary market's offering is priced at rates starting from EUR 800 per square metre. Thus, the largest share of the residential projects now offered is priced in the lowest bracket and is offered mainly by smaller local developers and private individuals.

Number of dwellings completed in Timișoara between 2000-2007 according to the type of investor



Our Partner:



Our Clients include:

CDI
 CDP Real Estate Europe
 Chayton Capital LLP
 Citi Property Investors
 Clairmont Global
 Credit Suisse
 Dom Development
 EKO-PARK
 Europa Capital
 FADESA
 GE Real Estate
 Globe Trade Centre
 Griffin Advisors
 Heitman International
 Heron Property
 HOCHTIEF Project Development
 ING Real Estate
 J.W. Construction
 KPMG Advisory
 Lehman Brothers Real Estate Partners
 Magnus Group
 Orco Property Group
 Pirelli Real Estate
 Prokom Investments
 ROBYG Development
 Salamanca Capital Poland
 TK Development
 TriGranit Development Corporation
 Vattenfall
 The World Bank

REAS residential advisors are expert consultants in planning and development of housing projects in the region of Central and Eastern Europe.

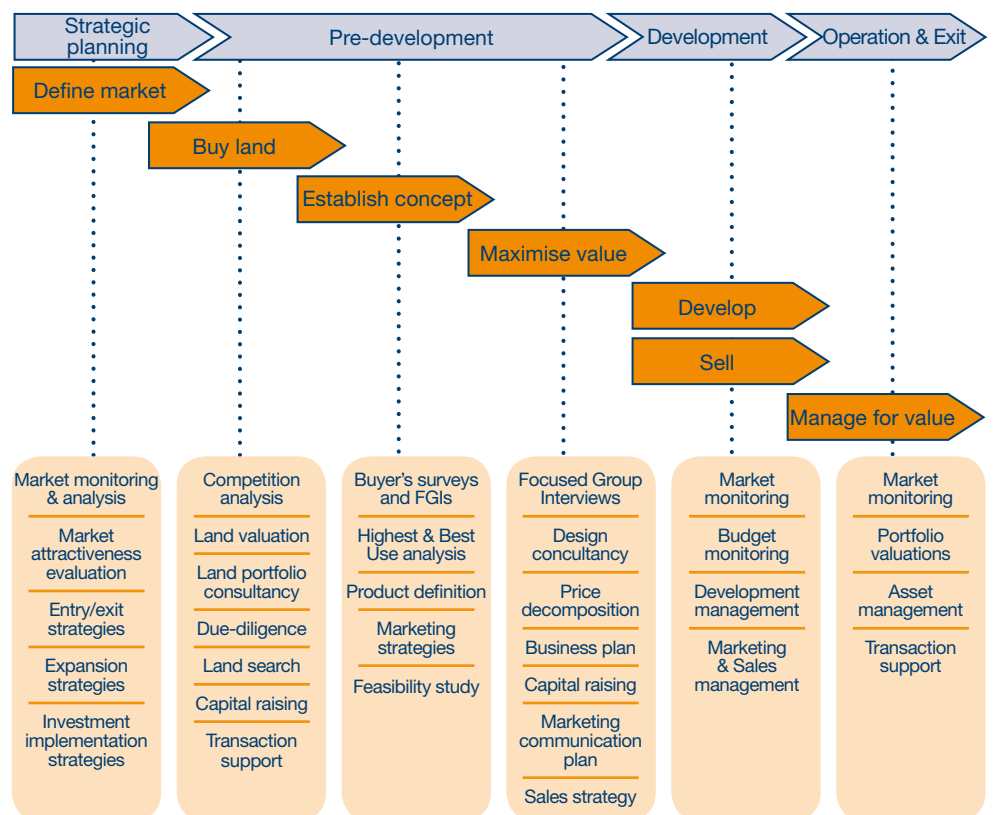
Offering a range of services from market research through location analysis, product and price advisory, design consultancy to feasibility studies and marketing strategies, REAS effectively supports its clients at every stage of a housing project.

Working with leading local, regional and international Clients, from the beginning, REAS has set the standard for investment services and is an invaluable source of comprehensive information concerning the residential market in Poland and CEE region.

REAS Partners, as advisors to the World Bank and the Government of Poland, have played an active role in Polish housing sector reforms in the early 1990's. Since 1997, REAS has been advising developers, investment funds, banks, local governments and other institutions active on the Polish housing market. Since 2007, we have also been providing a full range of consulting services in Romania and other Central European countries.

REAS is a strategic partner of Jones Lang LaSalle, a global leader in providing advisory services on the commercial real estate market.

REAS services:





Kazimierz Kirejczyk

President of the Board, Partner
Head of Research & Knowledge Management
kazimierz.kirejczyk@reas.pl



Paweł Sztejter

Partner
Head of Advisory
pawel.sztejter@reas.pl



Grzegorz Żochowski

Partner
Head of Capital Markets
grzegorz.zochowski@reas.pl



Joanna Iwanowska

Head of CEE Desk
joanna.iwanowska@reas.pl



Paulina Starzyńska

Marketing & Communications Manager
paulina.starzynska@reas.pl



REAS Sp. z o.o.

ul. Bukowińska 22b
02-703 Warszawa

tel. +48 22 380 21 00
fax +48 22 380 21 01

www.reas.ro
www.reas.pl

The information presented in this publication should not be construed as professional advice or services. You should consult REAS Sp. z o.o. or other professional advisors familiar with your particular factual situation for advice concerning specific tax or other matters before making any decision. While reasonable efforts have been made to present accurate information, errors can occur. REAS Sp. z o.o. assumes no liability or responsibility for any errors or omissions in this publication.

Except where noted otherwise, all publication contents are Copyright © 2008 by REAS Sp. z o.o. All rights reserved.