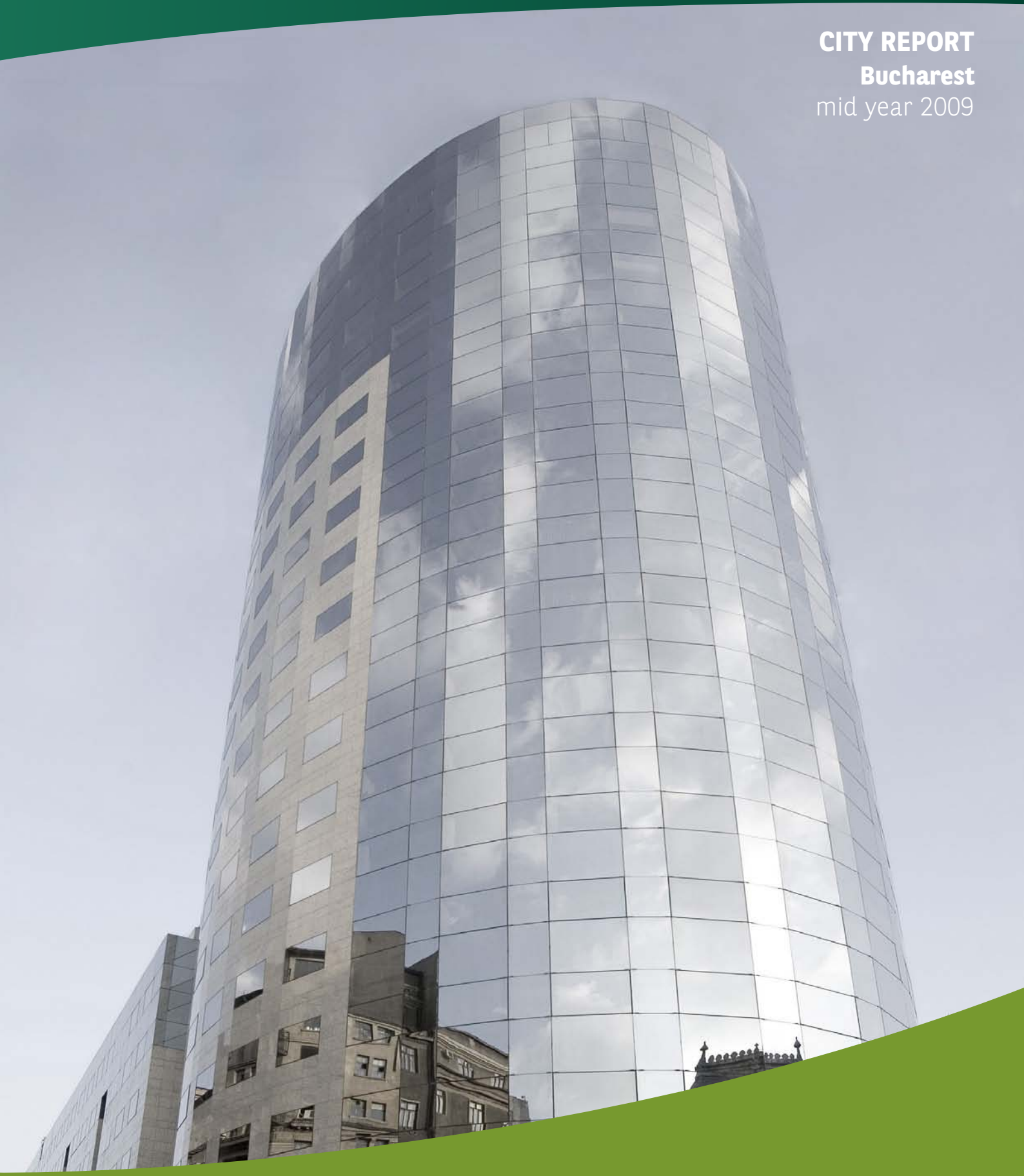
BNP PARIBAS
REAL ESTATE

RESEARCH

CITY REPORT
Bucharest
mid year 2009

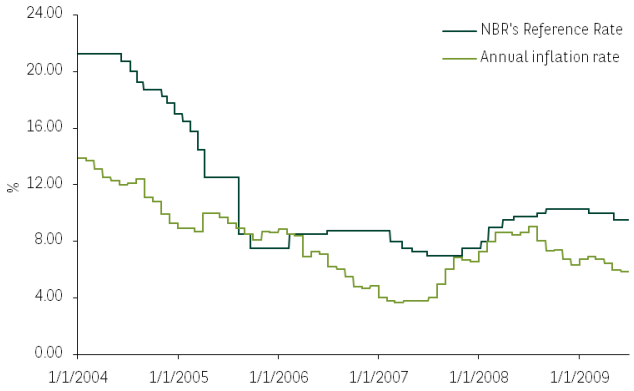


ECONOMIC OVERVIEW

GDP Growth

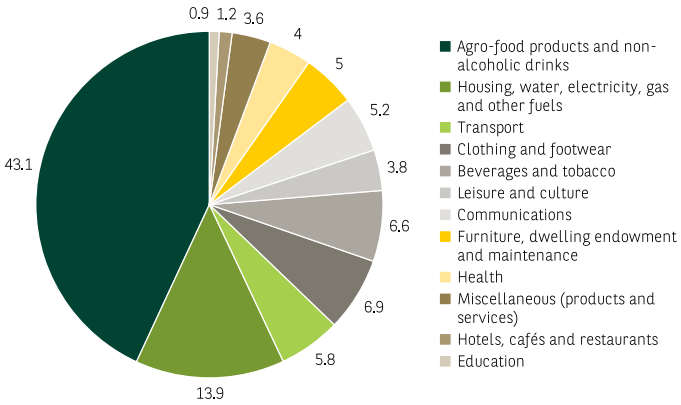
Source: National Institute of Statistics

NBR's monetary policy rate and anual inflation rate



Source: National Institute of Statistics, National Bank of Romania

Structure of household consumption expenditure in Q2 2009



Source: National Institute of Statistics

After the impressive economic growth recorded consecutively in the last years, the GDP dropped with 7.6% in the first half of 2009, reflecting the worsening of the local economic environment in the context of the world economic crisis. According to the National Institute of Statistics (NIS), the biggest negative contribution to the GDP involution were the industry (-2.4%) and services (-2.9%). The sudden economic contraction was worse than initially predicted, reflecting the negative repercussions of the international crisis on the national economy.

According to the Romanian Agency for Foreign Investments, the volume of direct foreign investment decreased by 43% compared with the same period of 2008, totaling 2.89 billion Euro. The equity investments (40.9%) and other types of capital (49.7%) had the most significant contribution, while the reinvested profit brought 9.4%.

The internal economic difficulties, doubled by the decrease of capital inflow, generated a significant depreciation of the RON/Euro exchange rate. Between January-June 2009 the exchange rate varied between 4.02-4.20 RON/Euro, with a peak of 4.31 in the first quarter. Compared to the exchange rate recorded at the end of H1 2008, when the RON/Euro rate was 3.64, this meant a significant depreciation. The residential segment was affected, as the effects of the decrease of prices quoted in Euro was absorbed or even cancelled in some cases by the depreciation of the national currency.

At the end of H1 2009 the total number of unemployed persons reached 548,930 at national level, which represented 6% from the total active population. The medium unemployment rate increased with approximately 2.3 basis points compared to the level registered in June 2008.

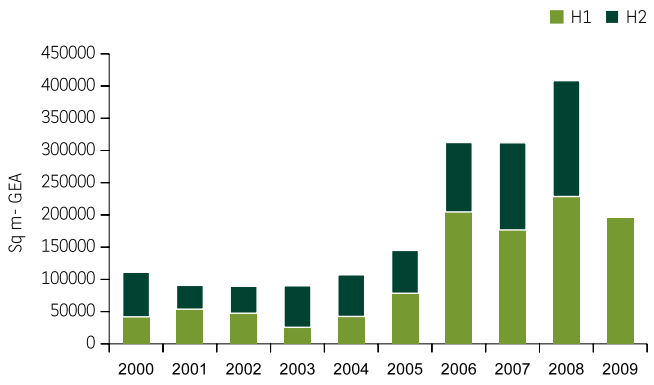
The annual inflation rate had a descending trend during the first 6 months of 2009, reaching 5.86% in June 2009 from the level of 6.71% recorded in January 2009 and 8.61% at the end of June 2008. The National Bank of Romania estimates that the annual inflation rate will be 4.3% at the end of this year.

After successively increasing the monetary policy rate from 7.5% in January 2008 to 10.25% in January 2009, the National Bank of Romania successively decreased it in the first half of the year, until 9.50% in June 2009.

According to the National Institute of Statistics in June 2009 the gross medium salary was 1,887 RON, higher with 1.7% compared with the previous month, while the net medium salary was 1,379 RON, with 23 RON higher than in the previous month. Compared with June last year, the net medium salary income increased with 8.3%.

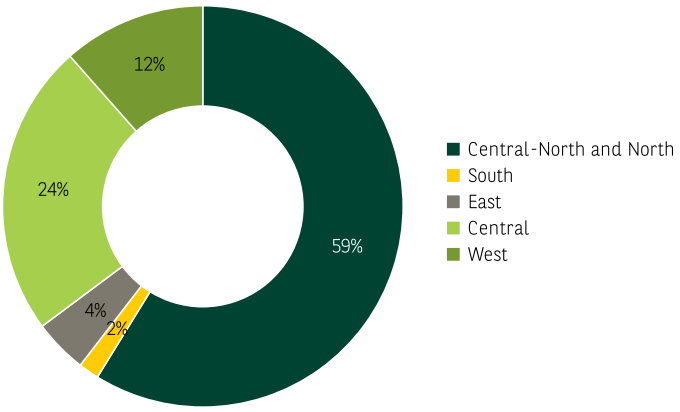
During Q2 2009, the medium monthly income per household was 2,045 RON, significantly growing compared with the same period of 2008, when a level of 1,614 RON was recorded. The salary continued to be the main source of income (52.4%) in the structure of the total revenues, while the social allowance accounted for 21.5%.

Office completions by semester



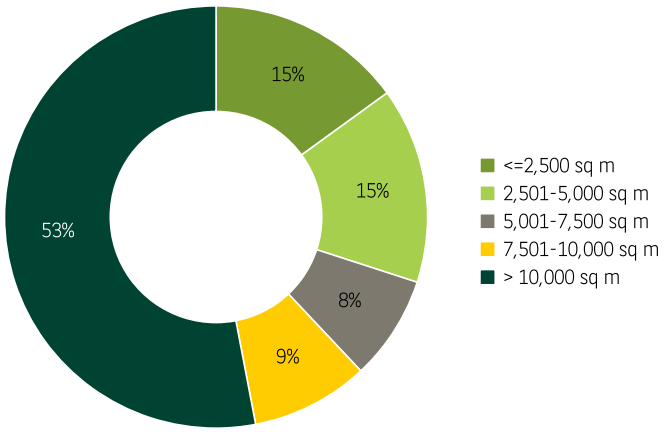
Source: BNP Paribas Real Estate

Existing office stock as at H1 2009 by location



Source: BNP Paribas Real Estate

Office stock by building size



Source: BNP Paribas Real Estate

OFFICE MARKET OVERVIEW

Existing stock

The pessimistic economic outlook and the negative general sentiment of the real estate market have determined the contraction of the office segment. Office market fundamentals have been softening at a rapid pace as the severe contraction in take-up occurred in the circumstances of a significant increase of new completions during H1 2009, affecting the return on the respective investment.

In addition to the negative influences of the crisis, the local market is experiencing a settling process leading to a balance between the financial sustainability of demand influenced by the general economic conditions, on one hand, and the achieved rental level, on the other hand.

Despite the pessimistic outlook on the local and international real estate market, the pattern and timing of new developments commenced during the market boom resulted in a temporary peak of completions, which contributed to the supply growth by adding around 195,000 sq m (Gross External Area) of office spaces during H1 2009. The office area finalized in H1 2009 was 17% smaller compared to the similar period of 2008, due to the delay with several months of projects proposed for delivery in H1 2009. As a result of the significant amount of completions, at the end of H1 2009 the stock of office space in Bucharest reached a total of 2.1 million sq m (GEA).

The structure of the new added stock remained unchanged compared to the similar period of 2008, with class A offices dominating the completions. Class A offices exceeded class B completions, representing 60% of the new added stock in H1 2009. The profile of new added stock reflected the expansion of the market in the northern areas of Bucharest, which counted 58% of completions.

The weak leasing activity (including pre-lease), is directly reflected in the growth of vacancy rate contrasting with previous years when despite significant development activity the vacancy rates remained almost null. At the end of H1 2009 approximately 40% of the office spaces completed during this period was occupied creating a strong tenant market specially for large tenants with high standard requirements.

Additionally, the increasing amount of available space was generated by a growing sub-lease market. Currently it is difficult to assess the size of this submarket, as the existing main tenants prefer to maintain the confidentiality on the retrenchment policy and as a result a large part of the marketing activity for these properties is conducted 'off market'. The tenants' business downsizing that have pre-leased a significant amount of spaces (over 1,000 sq m) on the expectation of a further business expansion generates the offer on this submarket. The available offices for sub-lease in 2009 are mainly represented by small and medium size spaces ranging between 500 and 1,500 sq m, generally located in buildings completed in 2007-2008.

The pre-lease activity recorded in 2008 has induced the increase of available spaces vacated by the tenants which have relocated in brand new buildings completed in H1 2009 or downsized their businesses. Generally this market segment offers spaces in medium quality buildings providing opportunities for tenants which consider an effective cost cutting policy, in the detriment of a good working comfort.

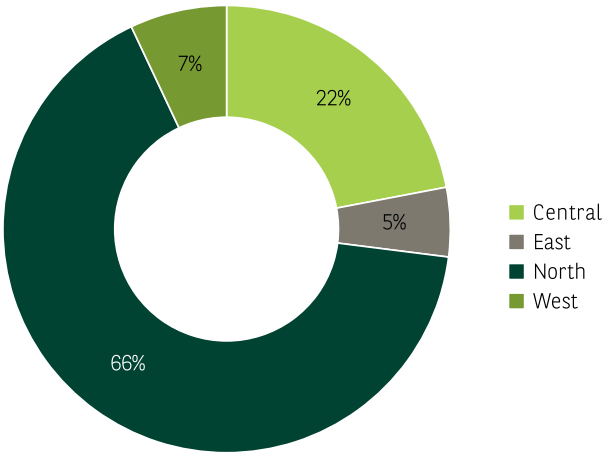
Under the current market conditions, the negotiation process has extended and became more difficult, thus inducing longer marketing periods for the available office developments, generally lasting over 6 months. As a result of increasing void periods , that have been doubled by cost of finance and a significant gap between available offices and leasing activity, new construction activity dropped considerably. Current market conditions discourage developers from undertaking new developments. Virtually no office project was initiated during H1 2009, mainly affecting the supply for 2010-2011.

Significant offices completed in H1 2009

Q	Building	Location	GEA (sq m)
1	Floreasca Plaza	North	35,000
1	Galaxy BC	North	22,300
2	Cubic Center	North	27,000
2	Izvor BC	Central	12,000
2	Riverside Tower	West	13,000

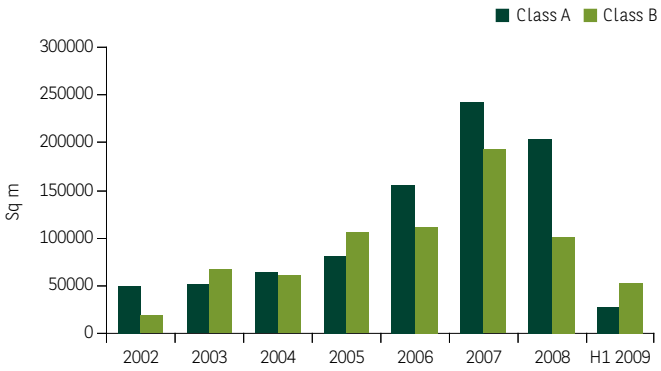
Source: BNP Paribas Real Estate

Take-up by submarket in H1 2009



Source: BNP Paribas Real Estate

Office take-up



Source: BNP Paribas Real Estate

OFFICE MARKET OVERVIEW

Demand and take-up

Compared to the last period of 2008, the characteristics of the demand has known the most substantial change, as it no longer manifests actively, but needs to be created and developed for tenants already present on the market looking to achieve saving costs. During previous years tenants were willing to lease properties that primarily provided a high level of facilities and offered commercial visibility. Currently the main concern of tenants is the reduction of occupation costs, leading to renegotiation, consolidation of the occupied space and, as a final solution, relocation.

The first tenant's option remains the rent renegotiation for the currently occupied spaces, even if the lease has not expired, tenants hoping to obtain discounts as a consequence of the higher vacancy. This trend is reinforced by the existing leases having their expiry date in 2009.

On the positive side of the market situation, the high rate of available offices provides opportunities for tenants looking to improve the quality of their premises at more competitive rental terms. Some tenants consider the alternative of relocating in better quality buildings or in more attractive areas, if they benefit from substantial savings in operational costs and more favorable contractual clauses. In these conditions the pro-active approach of owners and real estate consultants contributes to creating opportunities for tenants who are looking for possible relocation options.

Relocations represented the main driving force of the leasing activity, the active demand coming from small and medium companies operating in business consulting services, IT&C, private medical services, public institutions and utilities providers. In contrast with the previous years when large companies represented the main demand driving forces, at the moment these are the sources of vacant spaces on the sublease market. As a consequence demand comes from tenants currently accommodated in class B offices with low standards of quality, difficult access and far from main transportation hubs.

Another aspect worth mentioning is the recent preference of tenants for securing leases exclusively within completed office premises, in the detriment of pre-leases. Pre-leases are no longer an option in the case of office buildings in early construction phases or with no other signed pre-leasing contracts. Despite the lower level of rents achievable in the completed office developments and high availability of office spaces corroborated with the tenant's caution towards the risk of completion explain tenant's reluctance for pre-leases.

Tenants are generally looking for new office premises provided with modern standard equipments and facilities located in central areas or in the immediate vicinity of the main transport hubs. Although premises located in peripheral locations provide high standard accommodation and provide more substantial discounts compared to other locations, tenants are not willing to rent these premises as the infrastructure and transport facilities have not been improved.

The average size of office enquiries decreased compared to 2007-2008, most of them fluctuating around the lower limit of the 250-500 sq m range. Generally the leasing option for tenants is maximum 3 years as a measure of prudence with respect to the future evolution of the local economy and real estate market.

The office area leased in H1 2009 (around 80,000 sq m GEA) was 60% smaller compared with the level recorded in the similar period of 2008, emphasizing the descending trend initiated in the second half of 2008. As a result, the total vacancy rate increased from 4.5% in Q4 2008 to 11% at the end of H1 2009. For class A buildings the vacancy rate is 7.5%, increasing with 5.5 basis points during H1 2009.

Significant offices transactions in H1 2009

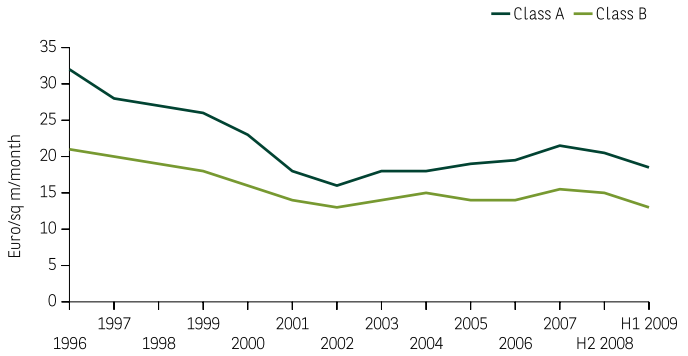
Tenant	Building	Area (sq m)
Xerox	Floreasca Business Park	1,930
Cosmote	Iride Business Park	1,800
Enel	Rams Business Park	1,500
Autoitalia	City Gate	1,300
Citroen	Metropolis Center	1,000
Apa Nova	Izvor Office Building	950

Source: BNP Paribas Real Estate

Office vacancy rates

Source: BNP Paribas Real Estate

Office rents



Source: BNP Paribas Real Estate

OFFICE MARKET OVERVIEW

Demand and take-up (cont.)

The most active submarket was the northern area with approximately 66% of the total take-up, followed by the central submarket (including Victoriei Square area) with around 22%. Around 65% of transactions were oriented towards class B buildings confirming the interest of tenants in securing premises providing low occupational costs.

Rental levels

Currently the office segment is experiencing a tenant market situation with an evident imbalance between demand and supply. Due to the low demand and high availability of choices the potential tenants pressure the landlords to become very flexible, especially regarding rental level and lease period.

In H1 2009 the office market continued the decreasing trend in rents recorded in H2 2008, in the context of an accentuated demand contraction and the increase of available offices offered on the market. Furthermore, the growth of the subletting market pressured landlords to decrease the asking rents to compete with sublease offers that were priced 5% to 10% less than their offers. As a consequence of the above mentioned factors the decrease of asking rent levels with 10-15% was recorded for all types of office buildings and in all areas of the city during H1 2009, with a higher level of reduction for the premises located in the peripheral areas. In addition, the discounts offered by the landlords have become more common lowering the base rents by 10-15% and the net effective rents by 20-25%.

In H1 2009 the average asking rental level for class A offices downtown located varied between 18-20 Euro/sq m/month. For class B properties located in attractive areas rents range between 12-16 Euro/sq m/month, while for class B offices in secondary areas rents ranged between 10-12 Euro/sq m/month. Although modern standard buildings, the highest downward pressure on rents has been recorded by recently completed premises located in decentralized, peripheral areas, served by poor public transport, where the asking rents ranged between 9-11 Euro/sq m/month.

To overcome the downward pressure on rents generated by the potential tenants looking to achieve occupational cost savings, some Landlords have adopted the solution of the stepped rent, in view to protect their rental income over the medium and long term. Stepped rents are considered as the most convenient strategy to encourage leasing activity as it enables tenants to achieve lower occupational costs on short term while protecting the Landlords rental revenue on medium or long term, when the increase of rents is expected.

Lease terms

On the background of the severe contraction of demand the hesitant tenants' attitude and their highly demanding requirements have compel landlords to take a flexible approach in negotiations to avoid potentially lengthy letting voids. The owners' flexibility materialized in more favorable options and rights for the tenants. The owners of older buildings with inferior technical standards or developers of new buildings with low pre-lease rates, located in less attractive areas, proving the highest flexibility.

The common lease length of contracts concluded in H1 2009 was 3 years. However longer leases of 5 years are common for quality offices in prime areas and larger occupiers which benefited from substantial incentives such as up-to 6 months rent-free period. Also additional landlords contribution to the tenants' space fit out has become current practice.

OFFICE MARKET OVERVIEW

Lease terms (cont.)

Service charges for class A offices remained stable compared to H2 2008, fluctuating around 3.5-4.0 Euro/sq m/month up to 4.5 Euro/sq m/month for "triple net leases", while for class B buildings they ranged between 2.5-3.5 Euro/sq m/month. Generally the market context has not affected the rental prices for parking places. In central areas the parking rent was 100-130 Euro/space/month for underground spaces. In secondary areas the rent varied between 90-100 Euro/space/month for underground parking and between 60-80 Euro/space/month for secured parking above ground.

Considering other lease terms, they have not witnessed important changes. Landlords typically require a bank guarantee equivalent to 3 month rent from prospective tenants and/or an advance payment representing 2-3 month rent upon signing date of the lease contracts.

Prognosis for 2009-2010

Contracting demand and increased supply will further deteriorate the office market fundamentals during H2 2009 maintaining the negative market sentiment. Vacancy rate continues to maintain at high levels with upward tendency at least this year. Multiple factors might induce the imbalance between new supply, level of take-up and vacancy rate: tenants vacating their existing premises to relocate in better buildings at more competitive rental prices or in view of their business contraction; the significant amount of new office spaces to be delivered in the near future, with a low level of secured preleases and contraction of demand coming from new comers.

The decrease in demand and the proposed completion in H2 2009 of approximately 270,000 sq m of new offices (GEA) will maintain the downward pressure on the rent levels, but the decrease pace will be lower compared to H2 2008-H1 2009 due to owners' resistance and the reaching of the profitability limit for their investment. Of the total proposed office supply for the second half of 2009, approximately 25% was already pre-leased, a rate of occupancy far below the levels recorded in 2007-2008 when the pre-leased spaces represented 45-60% of the completions.

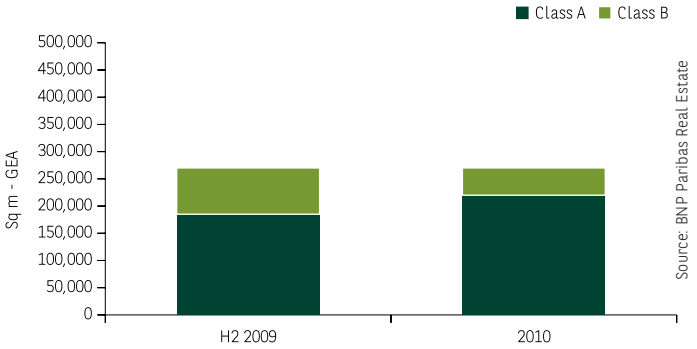
The credit crisis corroborated with the downward trend of take-up and investment activity will discourage developers to start new extensive developments. The supply for 2010-2011 will be negatively influenced as a number of projects are temporarily stopped or witnessing slow construction works progress.

Significant office projects to be completed in H2 2009

Building	Location	GEA (sq m)	Developer
Metropolis Center	Central	12,780	Soravia
Olympia Tower	East	9,511	Bluehouse
Platinum Tower	Central	13,000	Dagesh Group
Art BC	North	15,500	Art Group
Phoenix BC	Central	8,400	Phoenix Intl.

Source: BNP Paribas Real Estate

Proposed office supply for H2 2009-2010



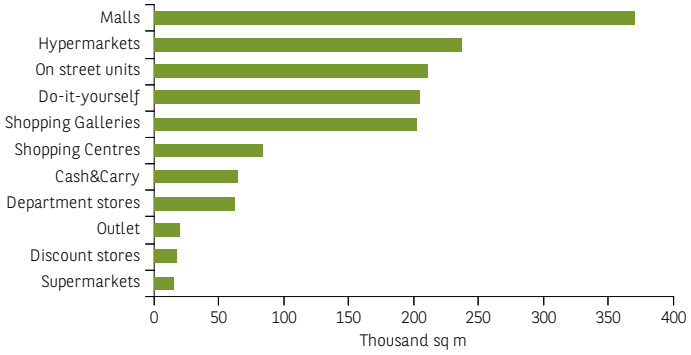
Source: BNP Paribas Real Estate

Evolution of retail trade (% variation compared with the same month of the previous year)

	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09
Eu-27	-1.2	-3.7	-2.4	-1.3	-3.0	-1.7
Romania	-1.5	-8.3	-6.4	-10.1	-11.8	-17.8
Hungary	-2.8	-3.2	-3.6	-4.0	-4.1	-2.2
Bulgaria	-1.9	-6.4	-8.3	-9.3	-10.4	-10.5
Poland	6.0	7.4	3.0	1.2	0.4	0.6
Czech Rep.	2.4	-1.8	-0.1	-1.5	-3.0	-3.0
Lithuania	-15.2	-18.6	-20.9	-19.2	-19.8	19.9
Estonia	-13.1	-21.6	-17.0	-17.8	-18.2	-14.2

Source: EUROSTAT - 115/2009 - 5th August 2009

Existing retail supply by type



Source: BNP Paribas Real Estate

Selected retail schemes delivered in H1 2009

Building	Location	Sellable area (sq m)
Grand Arena Mall	South	50,000
Extension Militari Shopping Center	West	24,000
Dedeman	South	12,500
Extention Plaza Romania Mall	West	6,000
Kaufland	West	5,000

Source: BNP Paribas Real Estate

RETAIL MARKET OVERVIEW

Existing stock

The economic crisis and its side effects had a significant impact on developers, retailers and end-users. The worsening of the business environment for retailers was proved by the obvious decrease of the trade volume in the first semester of 2009 compared with the same period of 2008. The drop fluctuated between -1.5% in January and approximately -18% in June. On a highly price-sensitive market it is the hard discounters that had a positive evolution, contrasting with other retailers that registered sharp contractions, notably the electronics and the home appliance markets.

The rise in supply registered during H1 2009 was a result of the completion of projects initiated before the economic crisis, when the local market was facing a strong imbalance between demand coming from international retailers and the available units. The modern retail stock added approximately 110.000 sq m, reaching a total of 1.060.000 sq m. The largest project finalized in H1 2009 was Grand Arena Mall being also the most significant retail development in southern Bucharest. The development has a rentable area of almost 50.000 sq m from which 8.000 sq m are leased by Carrefour.

The size and structure of the retail stock were significantly influenced by the extension of existing developments such as Militari Shopping Centre, Iris Shopping Centre and Plaza Romania Mall. Beside the above-mentioned schemes, the local retail market witnessed the delivery of smaller developments: Kaufland (5,000 sq m) and the entry on the market of national DIY retailer Dedeman (12,000 sq m). Both stores were opened in the West part of Bucharest.

The fierce competition between retailers was reflected not only in their network expansion, but also in the strategic acquisitions that were made on the supermarket segment. Mega Image, part of Delhaize Group, acquired 4 supermarkets operated by Prodas Holding, with areas between 400-750 sq m. The difficult market conditions led to the consolidation of the occupied space and even relocation of the activity in other districts or commercial centres.

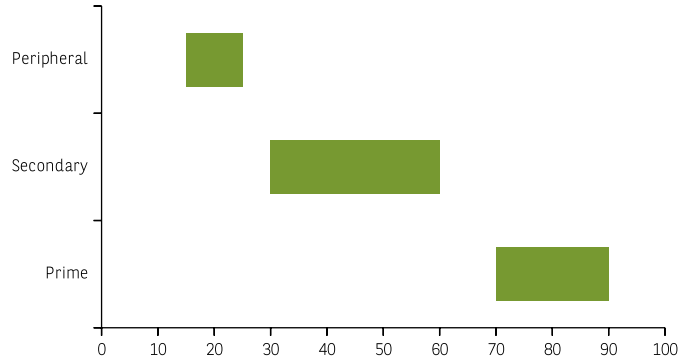
As a consequence, the availability of on-street units and spaces within commercial centres increased, especially as many tenants ceased their commercial activities. On short and medium term the availability of the retail spaces will be influenced by the occupancy policy of the current tenants regarding the secured spaces, as no other retail projects were initiated in this period to increase the retail stock.

Demand and take-up

Despite worsening market conditions, the first semester of 2009 marked the entry on the market and/or extension of a number of international brands such as GAP, C&A, Decathlon and Imaginarium. Also, the local retail market experienced the expansion of other international names. Zara expanded with 1,600 sq m inside Bucharest Mall and another 3,000 sq m in Unirea Shopping Center, where they occupied the former space of Media Galaxy. C&A extended their local network by renting a 3,200 sq m area in Cotroceni Park, while Debenhams rented a 1,000 sq m space in Baneasa Shopping City.

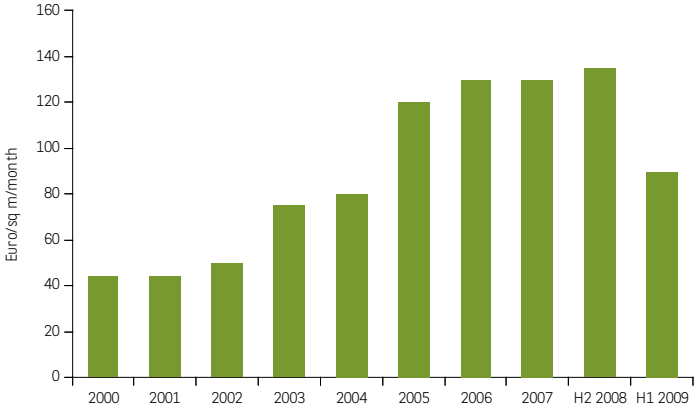
In the context of increasing number and type of available retail spaces in various locations and the obvious contraction of rental levels, demand for on-street units significantly decreased. If during previous years the most active players on the local market were the banks, pharmacies, home appliance stores and game operators, in 2009 the active demand came from coffee shops, fast-food restaurants and general stores that rely on proximity to their clients which are looking for minimizing of the daily shopping costs.

Asking rents by location



Source: BNP Paribas Real Estate

Evolution of prime retail rents



Source: BNP Paribas Real Estate

Selected retail developments proposed for delivery in H2 2009-H1 2010

Building	Location	Sellable area (sq m)
AFI Cotroceni Park	West	75,000
Sun Plaza	South	76,000
Cocor Luxury Store	Center	10,000
Mega Designer Outlet Phase I	West	16,000
Selgros	West	8,000
Dedeman	West	14,000

Source: BNP Paribas Real Estate

RETAIL MARKET OVERVIEW

Rental levels

Following the slow leasing activity induced by the economic difficulties, the beginning of 2009 brought a significant contraction of medium rents for on-street spaces, between 15-35%, depending on location. For prime high street units up to 75 sq m rents reached a maximum of 90 Euro/sq m/month, while for areas over 75 sq m rents recorded levels of approximately 70 Euro/sq m/month. Rents in secondary areas ranged between 30-60 Euro/sq m/month while in peripheral locations rents of between 15-25 Euro/sq m/month were registered.

Commercial centers rents had a downward trend, especially in retail projects with high vacancy. For areas over 100 sq m rents varied between 20-40 Euro/sq m/ month, while for spaces up to 100 sq m they ranged between 60-80 Euro/sq m/month.

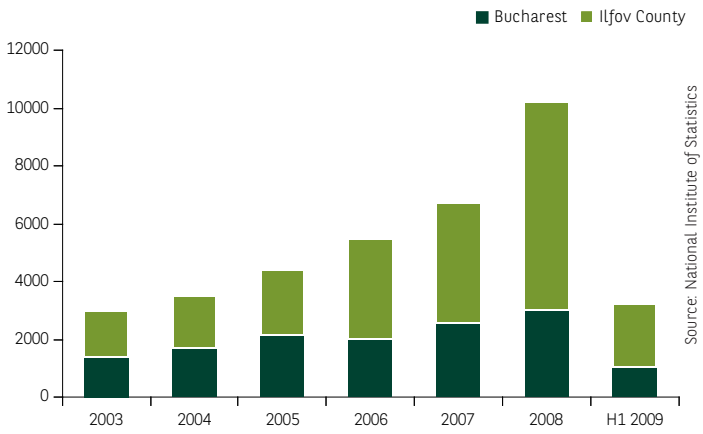
The economic difficulties experienced by tenants created a discrepancy between rents and retail turnover and as a consequence tenants have started to have difficulties in paying rents. Reluctant at the beginning, landlords eventually become more flexible and agreed to renegotiate rents using a rent calculation method based on the tenant's turnover or a 'step rent' system that would release the pressure on rent levels during the next 12-18 months, in a period with low sales.

Trends

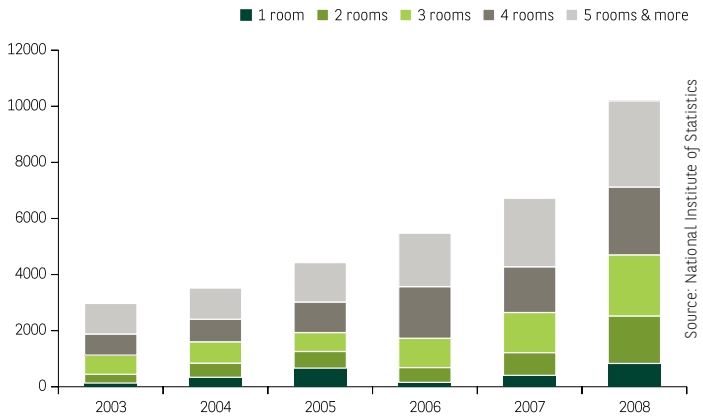
By the end of H1 2010 the retail stock in Bucharest will increase with approximately 200,000 sq m, mainly as a result of completion of AFI Cotroceni Park and Sun Plaza. The proposed supply is significant compared to previous years, being a consequence of the concentration of several deliveries of developments that were successively postponed. In the current market conditions, the delivery of the commercial centers scheduled for 2011-2012 is uncertain, creating a temporary imbalance between demand and supply in the case of the market recovery.

The maintaining of the current market conditions require the reconsideration of the occupancy policy adopted by tenants, as some retail projects were stopped, decreasing purchasing power affect the value of commercial transactions and the rent levels remained high compared to the revenues. The growing caution combined with the resizing of the spaces currently occupied by tenants will maintain the high number of available on-street spaces. The same trend will be registered for the spaces located within commercial centers with low traffic levels.

Annual completion of housing units



Annual completions by number of rooms in Bucharest-Ilfov region



Annual completions by number of floors in Bucharest-Ilfov region

Location	Year	GF	GF+1	GF+2	GF+3	GF+4	GF+5 or more
Ilfov County	2006	377	2,775	216	62	24	0
	2007	424	2,917	681	101	28	0
	2008	353	4,329	1,045	157	147	1,140
Bucharest	2006	132	461	463	223	507	235
	2007	48	619	311	641	221	730
	2008	60	592	354	408	621	986

Source: National Institute of Statistics

RESIDENTIAL MARKET OVERVIEW

Existing stock

During the first half of this year the residential segment was profoundly affected by the economic crisis and the downward trends initiated at the end of 2008 became more evident. The diminished activity of speculative investment funds, the limited access of medium and upper-medium class to bank financing and the significant decrease in the number of newly launched projects were the specific factors that influenced the market in H1 2009. Also, looking to give a boost to the residential segment, public authorities implemented some fiscal measures favorable to clients and also indirectly to developers, who started using alternative selling strategies.

In the context of a difficult market, only a limited number of small projects were launched during H1 2009, generally by developers who did not depend on bank financing to complete the construction works. They were encouraged by the low construction costs and the potentially high demand that should manifest after the economic recovery. Still, the high number of residential projects launched in the booming previous years represented the source of the significant increase in residential supply.

According to the National Institute of Statistics (INS), in the first half of 2009 the number of residential units finalized in Bucharest-Ilfov was 3,201 units. While in Bucharest the number of finalized units increased from 834 in H1 2008 to 1,041 in H1 2009, in Ilfov County the residential units decreased with 13%, reaching 2,160 units.

The new residential stock was generated mainly by developers who offered for sale the unsold apartments or the ones for which the selling process could not completed. The second significant source of supply was represented by the speculative investors and the individuals who did not have the financial capacity to pay for the properties after the signing of the pre-sale contract.

In the first part of the year developers continued to offer and diversify the incentives for attracting potential clients, but the sales volume maintained the downward trend. New facilities included the possibility of purchasing the residential units through installments paid directly to the developer or the renting option for a 2-5-year period, with an ulterior buying option. These facilities were the developers' answer to the worsening of the financing conditions.

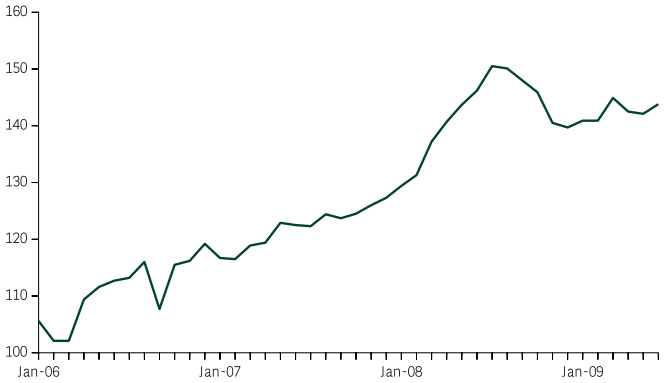
Also on the same note were the governmental initiatives for supporting the residential sector, such as the "First Time Buyer" Program and the reduction of VAT. The "First House" Program was in the implementation stage and did not produce effects during H1 2009, but neither did applying a 5% VAT for the acquisition of houses with prices of less than 380,000 RON and usable area smaller than 120 sq m.

This measure did not have the expected effect because the supply did not match neither the restrictive conditions imposed by the law nor the characteristics of the demand. Also, many of the apartments that fitted this category were pre-contracted prior to the enforcement of the respective emergency ordinance, thus reducing the available supply.

Demand

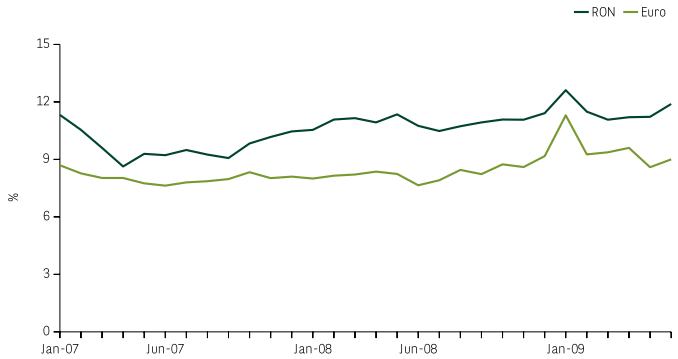
The very low rhythm of sales recorded in H1 2009 highly contrasts with the optimistic market from the last 2 years, proving a significant contraction of the effective demand. The strict financing conditions imposed by banks, clients' uncertainty regarding their future incomes and the general perception on the evolution of prices led to a cautious approach to buying new houses.

Cost element evolution in constructions (2005=100)



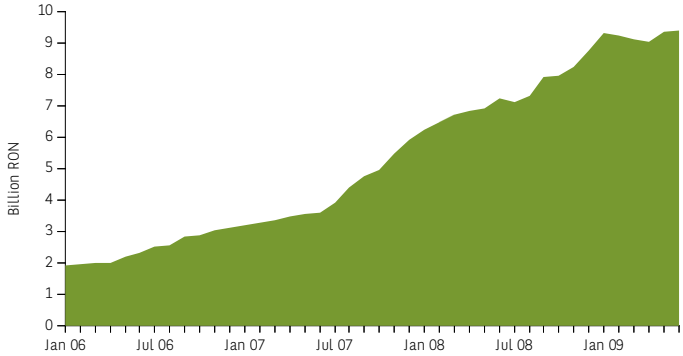
Source: National Institute of Statistics

Average interest rate on new loans granted for real estate purchase



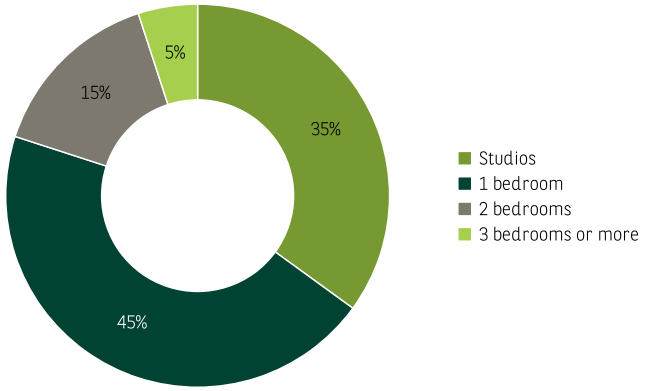
Source: National Bank of Romania

Loans granted for real estate purchase in Bucharest-Ilfov region



Source: National Bank of Romania

Demand structure on apartment submarket



Source: BNP Paribas Real Estate

BNP PARIBAS REAL ESTATE

RESIDENTIAL MARKET OVERVIEW

Demand (cont.)

A significant negative effect on the sales rhythm was induced by the RON/Euro depreciation. During January-June 2009 the exchange rate varied between 4.02-4.20 RON/Euro, with a peak of 4.31 RON/Euro in the first quarter. Compared to the end of H1 2008, when the RON/Euro exchange rate was 3.64, the depreciation was significant. Therefore, the decrease of prices quoted in Euro was tempered or even cancelled in some cases by the depreciation of the national currency.

The high financing cost restricted drastically the number of clients eligible for mortgage loans, reflecting in the total volume of credit granted for residential acquisitions. According to the National Bank of Romania, at the end of H1 2009 the annual average interest rate for mortgage loans was 11.89% for loans granted in RON and 9% for loans in Euro. Compared with the same period of the last year the increase of the interest levels was significant, with a peak recorded in January this year.

Currently the residential market is favorable to buyers, considering the price decreases and the developers' flexibility. Potential clients are almost exclusively interested in residential units in advanced construction stages. Off-plan projects faced the buyers' lack of interest, due to delays in the delivery of some announced developments and the high media exposure of disagreements between developers and end users regarding the quality of finishes, additional costs, etc.

The new conditions on the residential market led to major changes in the demand structure compared with 2008. Currently on the new housing segment demand mainly comes from young population (between 30-40) with monthly incomes of over 2,500 Euro per household, necessary for obtaining mortgage loans.

Still, compared with previous years, the number of buyers paying the entire price from personal savings grew. The same was the case of individuals who paid a more consistent advance to avoid higher monthly installments. Furthermore, transactions were realized almost exclusively by clients who already owned a house and wanted to improve their living standard.

Also, families with monthly incomes over 1,000-1,500 Euro/month that were not eligible for a loan, but were able to pay a minimum monthly rent of 400-600 Euro or an installment directly to the developers, can be the source of the future effective demand on the residential segment.

Although the other market segments experienced a strong contraction due to the worsening economic conditions, the luxury residential rentals maintained a similar general status-quo compared with 2008.

Demand was almost exclusively generated by the tenants' relocation due to reasons unrelated to the occupied property or the relationship with the landlords. The main such motivations were the downsizing of tenants' budgets, the slow development of infrastructure in the northern peripheral area that did not confirm tenants' expectations in terms of vicinities and accessibility, and also the relocation of multinational companies on the office segment, that generated relocations on the residential market.

Although in this period companies apply cost cutting policies, the budgets allocated to foreign employees coming to Romania sustain the renting activity on this segment, especially as there were corrections of medium asking rents in almost all the areas of the city. Generally, the rental budgets on the luxury segment ranged between 4,000 Euro/month for apartments and 5,000 Euro/month for villas considering accommodation for top management. For middle management tenants budgets varied between 2,000-3,000 Euro/month.

Average asking sale prices (euro/sq m)

Location	Apartments	Villas
Pipera	1,100-1,600	1,000-2,000
Domenii	1,500-2,500	2,000-3,000
Herastrau	2,000-3,000	2,000-3,000
Floreasca	1,500-2,500	1,700-2,500
Aviatorilor	2,000-3,000	2,200-3,500

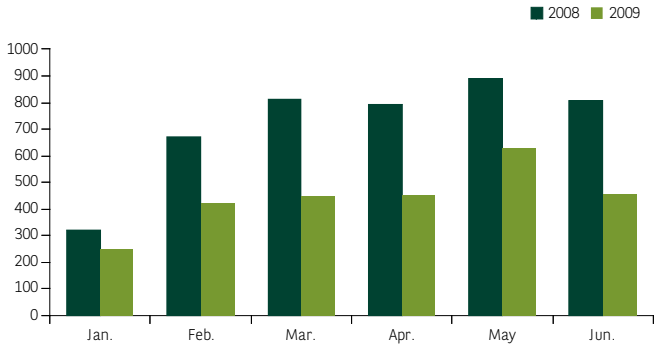
Source: BNP Paribas Real Estate

Average asking monthly rents (euro)

Location	Apartments	Villas
Primaverii	2,000-4,000	5,500-8,500
Dorobanti	1,500-3,500	3,000-5,000
Herastrau	1,500-4,000	3,000-6,000
Floreasca	1,500-2,500	3,000-5,500
Aviatorilor	1,500-3,500	3,000-7,000

Source: BNP Paribas Real Estate

Construction permits issued for residential units in Bucuresti-Ilfov region - H1 2009



Source: National Institute of Statistics

Selected residential projects proposed for delivery in H2 2009-H1 2010

Project	Location	Units
Romfelt Plaza	East	616
Asmita Gardens	South	758
Rasarit de Soare	East	988
InCity Residence	East	502

Source: BNP Paribas Real Estate

RESIDENTIAL MARKET OVERVIEW

Sale prices and rents

In H1 2009 the sale prices experienced an obvious general downward trend, also reflected in the listing prices, not only dissimulated in various bonuses offered for different periods of time.

Developers' flexibility concerning price policies materialized in personalized offers according to each client's payment capacity and locative status. Consequently, the price decrease was doubled by several facilities such as the renting of finalized apartments with buying option after a certain period or alternative payment methods to temporarily avoid bank financing.

Generally, the sale prices for apartments targeting the medium and upper-medium segment varied between 1,100 – 1,500 Euro/sq m, with a lower level for apartments located in peripheral areas. A higher price level of 1,500-1,700 Euro/sq m was requested for projects located in secondary areas, as they benefited from several competitive advantages compared with the ones quoting prices lower than 1,500 sq m.

Price policies were not unitary, some developers/investors maintaining the same price levels or just slightly decreasing them with maximum 10% compared with the end of 2008. Even in the context of a very slow selling rhythm, for projects initially launched with attractive price-quality ratios or located in consecrated residential areas, developers opted for maintaining a stable price policy. Additionally, the constant price level was determined by several other factors: the contracts signed with banks for the project financing, the low competition between projects located in central and secondary areas, potential pressure from clients that already purchased properties at a higher price within the same complex.

In the case of some projects the price decrease was also caused by the competition between developers and the investors that offered for sale the apartments purchased off-plan during 2007-2008. Still, as the market doesn't allow the obtaining of the expected profit margins, investors prefer to rent the apartments until a future market recovery

Trends

In the following months no significant changes in the market conditions are expected. Even if some measures are taken for stimulating and supporting the demand, the effects of these actions will not be immediately felt on the market. The most important factors that directly influence the residential segment are the income-expense ratio per household reflected in the financial capacity for the acquisition of durable consumer goods such as real estate property; the structure of household expenses, the RON/Euro exchange rate; the fiscal policy and not the least the psychological factor (uncertainty) regarding the stability of future long term incomes.

Demand will not register a new increase, as there are significant discrepancies between the purchasing power of the population and the asking prices, doubled by a major difference in the expectations of clients and developers. Private investors and other players on the residential segment that generated the demand for new houses in 2006 and 2007, now whish to sale their portfolios, creating the premises for the development of the secondary market. Consequently, it is estimated that the total number of units offered for sale and renting on the secondary market will partly compensate for the number of houses that are no longer completed by developers.

The effects of the economic and real estate crisis reflected in the low number of construction permits issued in the first half of 2009 (2,645), which represents a 38.5% drop compared with the permits issued in the same period of 2008. Considering the residential usable area approved in H1 2009, the decrease is more evident compared with 2008, when the approved usable area was 60% lower.

Significant industrial transactions in H1 2009

Company	Project	Area (sq m)
Omega Transport	ProLogis Park	6,700
Geodis Calberson	ProLogis Park	8,400
Fresenius	Nord Est Logistics Park	3,500
O.R.B.I.T.	Bucharest West	6,600

Source: BNP Paribas Real Estate

Asking industrial rents

Location	Building type	Euro/sq m/month
North/West	New	4.0-5.0
North/West	Old	2.5-3.5
South	New	3.5-4.5
South	Old	2.5-3.5
East	New	3.5-4.5
East	Old	2.5-3.5

Source: BNP Paribas Real Estate

Average asking prices for land in Bucharest in H1 2009

District	Location	Euro/sq m/month
Unirii	Central	1,200-2,200
Herastrau-Nordului	North	1,500-2,500
Militari	West	400-900
Berceni	South	150-500
Pantelimon	East	450-750

Source: BNP Paribas Real Estate

Average asking prices for land outside Bucharest in H1 2009

Area	Use	Location	Euro/sq m/ month
Otopeni	Residential	North	75-250
Pipera	Residential	North	150-450
Highway A1	Industrial	West	15-50
Popesti Leordeni	Residential	South	75-200
Pantelimon	Residential	East	75-200

Source: BNP Paribas Real Estate

INDUSTRIAL MARKET OVERVIEW

In H1 2009 the industrial segment was marked by the contraction of the leasing activity and low rhythm of completions. The majority of new modern facilities were medium-sized, with the logistic activities as main destination. Except the built-to-suit premises, the available supply consisted of small and medium-sized areas, up to 5,000 sq m. The total modern stock reached 710,000 sq m at the end of H1 2009, which represents an increase of almost 60,000 sq m compared with Q4 2008.

Demand was mainly generated by logistics operators for schemes located in the West, but the infrastructure projects proposed for the north- eastern part of the city also attracted tenants' interest for this area. The slight increase of the modern stock corroborated with the downsizing of the tenants' activity inside the previously pre-leased spaces led to an increased supply, including within modern schemes.

The rent level remained stable during H1 2009, as the contraction of the demand came on a market characterized by a limited number of speculative spaces, where the adjustment of supply can be realized quicker compared with the other market segments. For quality warehouses located in North and North-West, rents remained between 4.0-5.0 Euro/sq m /month, while in other areas they fluctuated between 3.5-4.5 Euro/sq m / month. In the first half of 2009 the cold storage facilities recorded rents around 8 Euro/sq m/month. The service charges fluctuated around 0.5 EUR/sq m/month.

LAND MARKET OVERVIEW

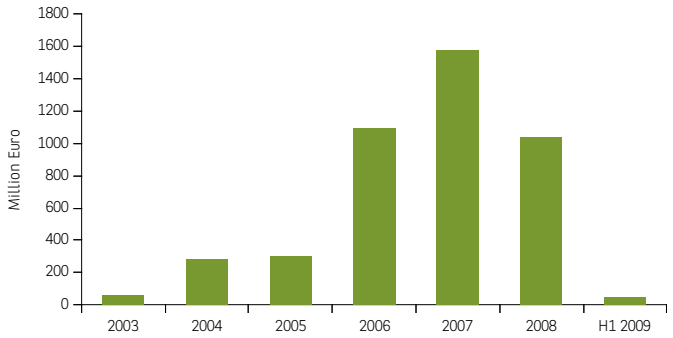
The worsening economic crisis reflecting in the decline of all real estate segments led to the strong contraction of the land market. Despite the obvious price decline and growing supply, the number of land transactions decreased significantly, major deals being virtually non-existent. The supply had a balanced geographical dispersion, with differences regarding the size, urban planning, infrastructure and available utilities. Although developers faced many difficulties, the supply was not significantly completed by distressed properties, especially considering that the marketing for this type of assets is less evident and finance institutions avoided creating such situations.

The active demand targeted exclusively the plots with high development potential, located in good areas and resulting from the granted urban planning. Potential buyers focused on small and medium-sized areas that do not imply major risks and financial efforts. The demand came from equity opportunistic investors who tried to take advantage of a low liquidity market.

Even in the context of diminishing asking prices there are still major discrepancies in price expectations between buyers and sellers. Except the landlords who are experiencing financial difficulties, the other owners are not willing to lower the price below a certain level. Both sellers and buyers had a cautious approach that severely limited the number of transactions. In the first half of the year the downward pressure on prices continued, the asking prices dropping with approximately 20-40% compared with the second semester of 2008. The contraction did not manifest homogeneously in all areas of the city, recording significant fluctuations according to location and the development potential of the plot.

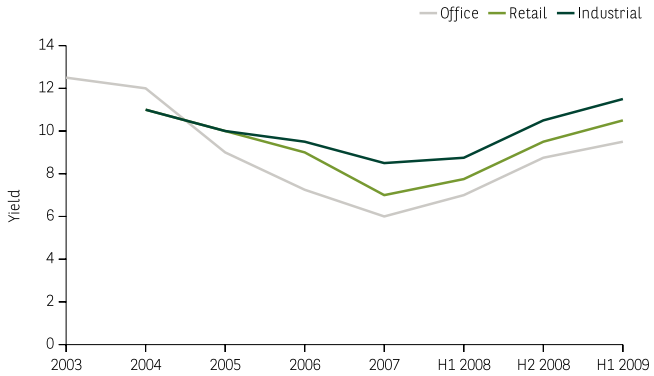
INVESTMENT MARKET OVERVIEW

Investment transactions evolution - Romania



Source: BNP Paribas Real Estate

Yields by market segments



Source: BNP Paribas Real Estate

The effects of the global financial and economic turmoil and the strong fall in domestic economic activity forced investors to act with extreme cautious on the Romanian investment market. Bucharest investment market experienced a weak semester with no transactions concluded by the end of Q2 2009, as the market recorded a mismatch between the quality of available investment products, landlord's expectations and the investment strategy of the opportunistic funds. In addition, the difficulties in agreeing the price was fuelled by the lack of transactions and transparency on the market.

Available supply did not record encouraging signs as owners of yielding properties which benefiting from a high level of occupancy were not willing to dispose the properties under the worsening market conditions. However, landlords who encountered financing difficulties considered joint-venture partnerships or the sale of the projects. Although landlords faced many difficulties, the supply was not significantly extended by distressed properties as initially anticipated, especially considering that the marketing for this type of assets was conducted "off market" and financial institutions avoided to start foreclosure procedures.

Although limited in number and financial capabilities opportunistic equity investors remained the most active market players during H12009 exclusively dominating the demand. Investors' interest was mainly focused on office properties perceived as lower risk compared to other segments, while retail projects were the second most required properties. Opportunistic funds were mainly looking for foreclosures or distressed properties, leasing strong covenants and being located in the most desirable shopping and business areas.

The yield correction was noticeable in the first semester as a consequence of the economic crisis. The softening market fundamentals corroborated with the general lack of trust on the investment market generated on upward pressure on yields. Prime office yields significantly increased during H1 2009 and reached almost 9.5% from a level of 8.50% recorded at the beginning of the year. Shopping centers and industrial properties experienced a similar evolution, the asking yields on these 2 segments increasing by 1.0-1.5 basis points, ranging between 10-11% and, respectively, between 11-12% at the end of H1 2009.

However, at the end of the first semester, yields witnessed a stabilizing tendency, doubled by a lower pace of rental decrease on all commercial segments of the real estate market. Initially the investors had an inflexible negotiation attitude trying to speculate the lack of liquidity on the market. Eventually they became aware that an upward pressure on yields was no longer a proper business strategy for acquiring prime properties as landlords were not willing to sale the properties below price expectations.

Despite the negative market sentiment, investors were still willing to acquire properties in Romania expecting a market recovery on medium term. However they adopted a cautious optimistic attitude toward the future evolution of the local real estate market as a number of factors maintained a certain degree of incertitude and risk: the escalation of vacancy rates, decrease in the rental levels and falling lease activity.

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