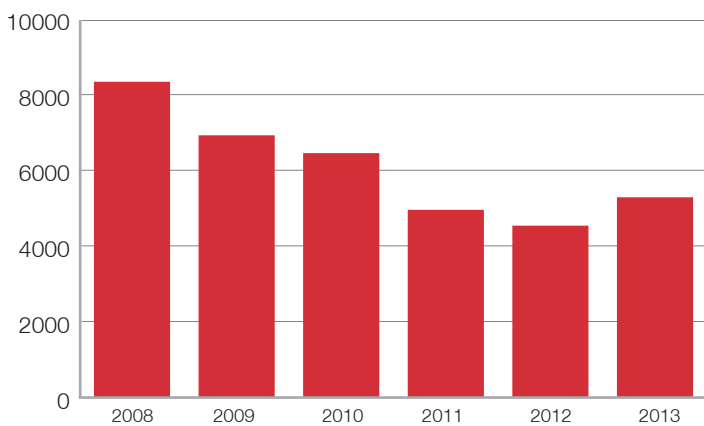


Residential market

After a period when the residential market was characterized by a low development activity and slow absorption rate of residential units, in 2013 the positive evolutions initiated in 2012 became more obvious. During 2013 the number of newly completed residential units in the Bucharest-Ilfov Region increased by 16.5%, reaching 5.275 units. Although in the Bucharest-Ilfov Region (+16.5%) and West Region (+8%) the residential development activity increased, the number of newly completed residential units calculated at the national level decreased in 2013 for the fifth consecutive year.

Number of residential units completed in the Bucharest-Ilfov Region



During 2013 a number of 40.071 residential units has been completed in Romania, by 6% less compared to 2012. The annual decline was generated by the significant decrease in the number of completed units during Q4 2013, when 13.478 units were completed, representing a decrease of 15% compared with the similar period of 2012. At the national level, the most significant decrease in the number of completed residential units was recorded in the North-West Region, where 5.186 units were completed, representing a drop of 23.5% compared with 2012.

In the Bucharest-Ilfov Region the most intense residential development activity was recorded in the peripheral areas of Bucharest, that are situated within the administrative limits of Ilfov County. Thus, the largest number of completed residential units are located in Popesti-Leordeni, Berceni, Bragadiru, Voluntari.

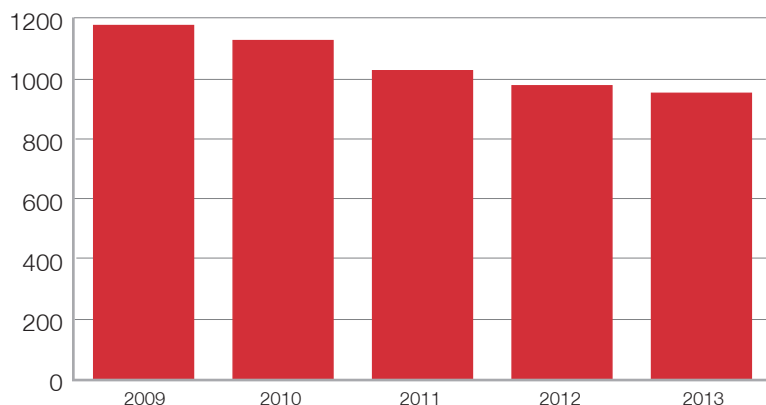
The development activity within these areas has been concentrated almost exclusively on the apartment segment situated within small size residential compounds in terms of total number of apartments and number of levels (maximum GF+6). These residential projects offer mainly 2 and 3 room apartments with usable areas between 50-55 sq m, respectively, 65-70 sq m.

A similar tendency is expected in 2014, when a number of small scale residential developments are proposed for completion in the southern and western areas of Bucharest. The eastern areas of Bucharest (Fundeni-Dobroesti) will record a similar rhythm of expansion compared to Popesti-Leordeni, Bragadiru, this area benefiting of vacant plots and a developed infrastructure.

The characteristics of the properties are adapted to the demand expectations in terms of prices, as a consequence the asking prices should not exceed the maximum limit stipulated by "First time buyer" program. Considering the asking prices, these fluctuate between €600 and €700 per usable sq m for apartments located at a remote distance from the public transportation routes, while the apartments located in Popesti-Leordeni-Berceni area, in the proximity of the metro station, are quoted at €675-€800/sq m. The adaptation of the offer to the characteristics of demand is revealed by the increase of the weight of apartments completed after 2008 (34%) in the total number of properties financed by the "First Time Buyer" program.

According to the statistical data provided by National Credit Guarantee Fund for SMEs, the medium price of apartments financed by the “First Time Buyer” program had a decreasing tendency from €1.025/usable sq m in 2011 to approximately €975/usable sq m. This tendency will maintain considering the weight of the apartments acquired in areas with prices up to €800/sq m and the weight of old apartments. The medium level of a loan guaranteed by the Fund was €37.000 in 2013.

Medium sale prices - “First Time Buyer” (Euro/sq m)



In order to attract potential buyers, developers offer free parking places, storage areas and allow diverse financing/sale plans in order to facilitate the sale of the apartments, such as payment in installments, acquisition of the apartments in shell and core condition. Although some residential compounds are more attractive due to the proximity of public transportation, new residential developments do not benefit of social services (education, health etc) and adequate infrastructure. As a consequence, old apartments are preferred by the largest part of clients in Bucharest.

Residential developments located within Bucharest are dominated by small size projects, addressing to medium-high income customers, these being located in the secondary areas (Bucurestii Noi, Titan, Iancului) or in well established residential areas, such as Aviatorilor, Domenii, Baneasa.

The offer is sustained also by financial institutions that adopted a more aggressive sale strategy of distressed assets. Their number has increased significantly, these properties being promoted on the websites of banks and specialized portals. The properties under special administration have reconsidered the price policy together with the bank in order to become more attractive for the potential clients. Although the price per sq m recorded evident adjustments, the most significant difficulties are encountered by the residential projects with large usable areas located in areas with difficult access.

The residential market is still dependent of the banking finance, thus the sale price is the most important decision factor under the condition of a less liquid demand. The changes in the provisions of the “First Time Buyer” program have negatively influenced the demand for residential units, some potential clients do not meet the requirements of a new regulation that imposes exclusively the finance of acquisitions in local currency.

The “First Time Buyer” program will continue in 2014, demand benefitting of financial support. Even if the economy will record a positive evolution, demand is not expected to record significant changes compared with 2013. The largest weight of acquired properties will be represented by apartments with prices up to €50.000. Residential market will be dominated by small size developments, located in secondary and peripheral areas that offer affordable residential units. Economic uncertainty and weak purchasing power are the main factors that generate the decrease of demand for apartments up to Euro 45.000-50.000.