



**Romanian Real Estate Agency**


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# Romania Country Overview

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## JOYFUL, WARM AND FLOURISHING



LEVIDIA Ltd. leverages its extensive local knowledge, legal expertise, and influential network to help its customers capitalize on the best investment opportunities in the dynamic emerging Romanian real estate market.

# About Us

## We are grateful for the opportunity to present our business, LEVIDIA:

Through our local network we can provide our clients with secure real estate transactions while establishing business relations built on trust.

LEVIDIA's team consists of several professionals having significant experience with both international and domestic real estate market issues. All of the associates are fluent in English.

LEVIDIA's presence in the market and the uniqueness of the provided services assure "First-mover advantage" in this emerging market and preferential access to the most attractive local investment opportunities.

As a team of young and ambitious professionals, LEVIDIA will build its success on a friendly and sunny attitude while offering the highest quality services.

LEVIDIA believes the main objectives are obtainable/achivable because of the professionalism and skills of the managers, their in-depth knowledge of the target market based on their personal experience and the growing network of professional associates who will work with the company in its target markets.

### Levidia states:

- The British appetite for a place in the sun offering profit prospects will continue to grow
- The overseas investment gives people the potential to withdraw equity in properties
- Property investment fits in with people's growing desire to take control over their own finances

### Levidia predicts:

- The main factor pulling buyers towards Eastern Europe is initial cost
- The natural heritage of Eastern European nations will make them very popular with tourists on a long run
- Property values will grow at a rate of 5 to 10 per cent every year until accession to the EU, followed by an immediate doubling of values on integration day
- The key to price rises in Eastern Europe is more often economic development than EU entry, although the two often go hand in hand

### Levidia recommends: ROMANIA

Romania is a country of considerable potential: rich agricultural lands; diverse energy sources (coal, oil, natural gas, hydro, and nuclear); a substantial industrial base encompassing almost the full range of manufacturing activities; and opportunities for significant development in tourism on the Black Sea and in the Carpathian Mountains.

# About Romania

## Preliminary

The global property boom in Europe it was largely linked with the preparations for entering the euro, when interest rates went right down, kick-starting the French and Spanish markets. Subsequent to this the Eastern European accession countries became beneficiaries of this process moving from very risky places to pretty safe bets, as the property market was boosted by a combination of falling euro-linked interest rates and rising incomes.

The official statistics from the Office of the Deputy Prime Minister (OPDM) show that the figure of 254,000 English overseas homeowners has doubled in 10 years.

## Why Romania?

- Romania's internal demand is likely to keep the telecommunications, energy, banking retail, and construction sectors in need of foreign investments for years to come.
- By strong export-oriented sectors including textiles and leather goods, furniture manufacturing, Information-Technology, and heavy manufacturing (particularly the automotive sector), Romania is set to become as a competitive export base for Western manufacturers.
- Four years of economic growth, disinflation and economic reforms have finally started to pay dividends for Romania. Any country that exhibits such characteristics is likely to attract the attention of investors, particularly as EU membership draws near.

## Stable politics

Since the fall of the Ceaușescu regime in 1989, successive governments have sought to build a functional market economy. Although legal basis for a market economy was largely in place by 1994 the pace of restructuring has been slow. After the 1996 elections, the coalition government attempted to move rapidly and eliminate consumer subsidies, float prices, liberalize exchange rates, and pursue a tight monetary policy. The Romanian Parliament enacted laws permitting foreign entities incorporated in Romania to purchase land and has identified a large number of government enterprises for rapid privatization or restructuring.

In February 1997, Romania embarked on a comprehensive macroeconomic stabilization and structural reform program, but subsequent reform has been a frustrating stop-and-go process. The government's priorities included obtaining renewed IMF lending, tightening fiscal policy, accelerating privatization, and restructuring unprofitable firms. Romania was invited by the European Union in December 1999 to begin accession negotiations.

For the period of 2000-2005 the country has taken decisive steps to reform the judiciary, making it more independent, and to improve media freedoms, property restitution, and the protection of children and minorities. Over the past few years Romania has continued to comply with the criteria necessary for a functioning market economy.

At Present Romania has a coalition government led by the National Liberal Party and the Democratic Party which includes the Hungarian Democratic Union in Romania and the Romanian Humanist Party. The NLP favors neo-liberal policies with low government spending whereas the DP favors a more social democratic approach, implying higher government spending.

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## Booming economy

### FACTS

GDP: EUR 203,455.5 million and increasing  
 Second largest consumer market in Central and Eastern Europe  
 90% of companies expect sales and profits to grow over the next 5 years  
 70% of companies experienced revenue growth in last 3 years  
 20% higher profit margins in Romania compared to surrounding countries

Source: Standard & Poor's

### FIGURES

The Economist Intelligence Unit (EIU) expects Romania to register a 4.5 per cent economic growth rate this year and it is likely that the favorable evolution of investments and exports will speed up economic growth to 5.2 per cent in 2007.

EIU estimates that a high investment dynamic will continue as new modern production capacities become operational, major public investment projects are completed and the flow of foreign direct investments rises.

Source: Standard & Poor's

Sovereign	Local Currency			Foreign Currency		
	Long-term rating	Outlook	Short-term rating	Long-term rating	Outlook	Short-term rating
Bulgaria	BBB	Stable	A-3	BBB-	Stable	A-3
Romania	BB+	Positive	B	BB	Positive	B

Source: Standard & Poor's

Private consumption continues to surge, bolstered by strong growth in domestic credit and external borrowing, an overall decline in nominal interest rates in the past year, and the relative strength of the ROL. This reflects the liberalization of the capital account effective 2005, which resulted in increased availability of investment capital as well as strong business confidence filtering through into investment expenditures.

Romania's economy is set to continue high growth according to European Bank for Reconstruction and Development's (EBRD) specialists, who drafted the latest Transition Report for the Central and Eastern European and former Soviet Union countries.

Consumer and mortgage credit has taken off partly because household demand for durables and real estate has increased from previously depressed levels as consumers felt more confident in their ability to service debt, and because the banks offered new products with more flexible terms.

There are various channels through which financial development can contribute to economic growth, including collecting information, thereby improving the allocation of capital; sharing risk; pooling savings; and increasing the efficiency of financial intermediation. Indeed, by easing financing constraints, increased bank lending can contribute to higher levels of investment and consumption, and, ultimately, a higher standard of living.

	GDP (PPP) mil. dollars	GDP (PPP) per capita dollars	GDP (nominal) per capita dollars
European Union	12,329,110	26,900	29,203
Romania	223,162	8,600	5,000
Bulgaria	67,381	8,200	4,900

Statistical Office of the European Communities (Eurostat)

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## The national budget of Romania

The national budget is likely to increase by about 6 billions EURO each year for the interval of time 2005-2009. The national budget, about € 29 billion euros, represents about 31,2% of GDP of RON 322,5 billions (EURO 90,8 billions).

		2005	2006	2007	2008	2009
1.	National Budget	25 Bn EUR	30 Bn EUR*	36 Bn EUR*	45 Bn EUR*	59 Bn EUR*
2.	Percentage of GDP%	29%	31%*	32%*	33%*	34%*

National Bank of Romania \*estimated

## The property market

This northern corner of Balkans has registered some of the highest rates of property growth anywhere in Eastern Europe over the past few years, with annual rises of 30% to 40% in the price of flats and houses and a doubling or tripling of land prices.

Based on CHANNEL 4's January 2006 broadcast of 'The 20 Best Places to Make Money' savvy property investors should be transferring their attention from France and Spain and orienting it to Romania. The program, hosted by foreign property expert Amanda Lamb, identified the former Eastern Bloc country as the top European spot for investment, offering a generous over the next decade.

Almost a half-century of hard-line communism left its impact on the urban housing stock: there is a surplus of poor-quality high-rise apartment blocks that offer little space, aesthetic style or much in the way of western European standards.

Country	Locative / living space (sq meter)/ 1 person
Romania	15
Poland	29
The Netherlands	60
United Kingdom	106

OTP Bank Romania

Official sources, including Romania's Raiffeisen Housing Bank (RBL) are predicting that the country's real estate market will have risen to US\$7.5 billion in 2004, up from US\$6.6 billion in 2003, as the economy improves and mortgage lending gains momentum. The market is expected to reach US\$11 billion in 2007, with transactions increasing by 30% each year.

Country	Mortgage lending / annual GDP
Romania	1,5%
Hungary	9%
EU	40%

OTP Bank Romania

Domestic mortgage introduced in 2002 resulted in the quadrupling of total lending volume. Based on the recently adopted Law no. 34/ 1st of March 2006 the British investors are invited to buy Romanian property based on financial mortgages contracted from Romanian banks. Aside of this, a recent amendment to the Romanian Constitution allows foreign natural and legal persons to own land in Romania shortly after the date of EU accession.

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## Hotspots overflow areas: Bucharest, Brasov and Cluj-Napoca

As the strength of the Romanian economy varies from region to region, GDP and GDP per capita is highest in Bucharest, followed by Cluj-Napoca and Brasov. The following table shows the GDP (2005) per capita of the 3 counties with data supplied by Eurostat.

### Bucharest

**Bucharest** itself is a grandiose place, with wide boulevards, neoclassical public buildings and ornate private villas. Its transformation into the Paris of the East began in the 1860s (it even has its own Arc de Triumf. The most visible of Ceausescu legacies is the gargantuan Palace of the People (now known as the Palatul Parlamentului). Twelve stories high, it has more than 1,000 halls and rooms, as well as its own nuclear bunker.

The smarter districts, such as Primaverii, where Ceausescu and his communist cronies used to live, have spectacular 1920s villas, which go for anything from £ 300,000 to well over £ 1m.

Further out towards the airport in the Herastrau, Baneasa and Pipera districts are their modern equivalents: luxury apartments and villas in gated communities aimed both at the Romanian nouveaux riches and the growing number of western expat managers working. Some of the price tags in these parts are close to £ 1m or more, but you could buy a two-to three-bedroom villa, suitable for letting to an expat family, for £ 200,000-£ 300,000. An alternative would be a more modest apartment in one of the blocks in Bulevardul Unirii, the avenue that leads to Ceausescu's palace, or an off-plan flat in one of the new developments in the west aimed at young Romanian professionals. Prices are about £ 800-£ 2,000 per square meter, and you should earn 8%-15% in rent.

### Cluj-Napoca

Cluj-Napoca is Transylvania's cultural center, a tourist attraction and one of the largest cities of Romania. Currently, the city is the socio-economic center of Transylvania. The stable population of the city is around 330,000 and with over 120,000 students is the largest percentage of student population in Romania.

Five European and nine national road segments meet around Cluj-Napoca and work is ongoing at the Bors-Cluj-Napoca-Brasov motorway, currently the largest road project in Europe. Based on this Cluj-Napoca is likely to become one of the most important road corridors in Europe, linking the Atlantic Ocean with the Black Sea.

The city's economic development as well its industrial activities attracted more than USD 156 mln. worth of foreign investment in the last few years. Growing interest in this area is shown by the acquisition of land for future projects of large international companies. French hypermarket operator Cora, part of Louis Delhaize Group, inaugurated a commercial complex in Cluj in 2005. The EBRD and Phare are financing improvements in Cluj's water system.

### Brasov

Located in the southeastern part of Transylvania, Brasov is a city of historical importance due to its geographic location and historic monuments. In addition, Brasov is an industrial city, this part being developed mostly in the second part of the twentieth century. More than 40% of the population is involved in some form of industrial activity and more than 30% in trade and services.

By car, it is a 170 km journey from Bucuresti Nord to Brasov on the National Highway 1. The road takes you through the Prahova Valley. Along this route are some of the best winter resorts in Romania: Predeal, Busteni, Azuga, Sinaia.

Many retail companies have chosen Brasov and its adjoining areas over the last few years, the most developed being Calea Bucuresti, on the exit to Sacele. Brasov is the second largest city after Bucharest ranked by volume of investment in the residential sector.

The most attractive area for the large chain stores in Brasov is the pedestrian area located in the center of the city. Demand for the best locations exceeds supply, mostly for those located on the ground floor of old houses near Piata Sfatului, the most attractive area for tourists. The demand for leasing and purchase of retail space comes from those banks which are opening new branches and need space between 100 and 300 sqm, and from well-known stores selling household appliances which need surfaces between 200 and 600 sqm. There is demand for space on Republicii Boulevard but the supply is very low in this area, and this demand has spilled over into the adjacent streets.

Most transactions are for the sale of land for the purpose of building residential properties, predominantly in newly developed neighborhoods such as Nova, or communes such as Sacele and Cristian.

## Romania and the EU

After signing an accession treaty on April 25th 2005, Romania's foremost foreign policy goal is to join the EU in January 2007. The main risk to achieving this arises from delays in implementing the *acquis communautaire* (the body of EU law). The accession treaty contains a "safeguard clause" allowing the European Council to decide, based on a Commission recommendation, to postpone accession by one year until January 2008 if there is strong evidence that Romania would be unprepared to meet the requirements of membership by January 2007. A final decision on whether to recommend membership in 2007 or to delay it is expected in May 2006, and the Economist Intelligence Unit attaches a moderate risk to the possibility of delay.



## Romania- not building on the Bulgarian example!

The Romanian real estate market reveals significant distinctions compared to the Bulgarian property market.

The gradual evolution of the Romanian real estate market reflects maturity and lack of artificial property increases generated by external/non-market factors. Amplified deal flow is expected for the next decade while the market's demand and supply is likely to gain balance. The future developments of tourist attractions as well as the increase of rental income based on higher standards of living are the main aspects pointing towards a rewarding investment.

	Romania	Bulgaria
Territory	237, 500 sq. km	110, 910 sq. km
Population	22, 3 million	7, 4 million
GDP per capita	\$ 7,700	\$ 8,200
GDP real growth rate	4,9 %	4,3 %
FDI (2005)	\$ 5, 197 billion	\$ 3, 556 billion
Financial institutions ratings (2006)	BB +	BBB
Average gross monthly salary	EUR 275	EUR 167
Unemployment rate	6,5 %	11, 5 %

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