



Romanian Constructions 2008

Sector Brief

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FRD Center is the Global Intelligence Alliance Research Partner for Romania and a member of the Global Consulting Network-GCN.

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A. General information

During the last 2-3 years, the building and constructions sector in Romania has registered unprecedented growth. According to Eurostat statistics, in October 2007, Romania reported the biggest growth in annual pace of construction works (39.5%) from the European Union, being followed by Slovenia (9%) and the Netherlands (6.6%). The figures show a month-to-month growing trend too, considering that in September 2007 Romania reported a 37.5% increase in the construction works.

The construction market in Romania exceeded 10.5 billion EUR in 2007, up 55% versus 2006, according to the National Institute of Statistics (INS).

Last year brought the fastest growth of the construction market after 1989. The total value of the construction works rose from 6.8bn EUR in 2006 to 10.5bn EUR in 2007. In real terms, the market grew by 33.6% (according to INS), the biggest of all the EU member states, Eurostat reports.

In addition to the growth in real terms, contributing to the boom in the construction field were the price rises in this field (some 10%, according to INS) and the RON's average appreciation against the EUR in 2007 versus 2006.

According to market specialists, the constructions market is going to advance by around 20-30% in 2008, to around 12-13 billion EUR, without being hindered by the bad weather registered at the start of the year.

According to market players, the growth pace will be similar to that of 2007 owing to real estate investments, particularly in shopping centres, logistic parks, office space and industrial projects. The main growth drivers for the constructions market are structural funds and the favourable conditions generated by 2008 being an electoral year.

Construction materials prices, however, will go up by at least 10-15%, indirectly influenced by rising energy and oil prices. Despite the price hike, it is estimated that consumption will remain high.

In order to respond to the ever increasing demand of construction materials, players make sustained investments in production capacities, distributors and retailers expand networks and importers relocate warehouses due to lack of enough room for increasing volumes. The increasing spending power of the Romanian population – of some 22 million people, out of which over 56% is urban – is putting continuous pressure on the quality of the construction related products as well as on the quantity.

According to the National Institute of Statistics, the percentage of the constructions in the GDP reached 7.4% by the end of September 2007, compared to 5.9% in the similar period of 2006.

According to the same source, during the period January - November 2007, the value of the construction works registered a growth by 34.1% compared to the same period of the previous year. By structure elements, the growths represented: 37.8% for maintenance and current repairs works, 35.6% for capital repairs works and 32.3% for new construction works. In terms of the construction type, the highest growth was registered for non-residential buildings (+37.3%) and for civil engineering (+34.6%).

On the other hand, the construction companies need at least 50,000 new employees in order to complete their projects due in 2008. Many of the construction contractors on the local market began to import workforce on the background of the labour shortage. According to the General Trade Unions Federation "Familia", over 2,000 Turks are already working in the local sector of constructions

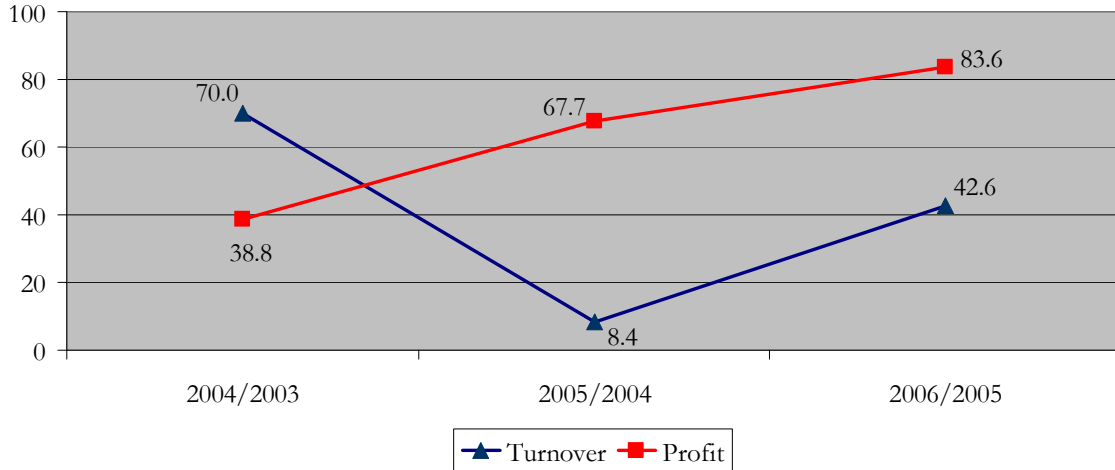
The relaxation of the credit conditions, approved by the National Bank of Romania for 16 local banks, led to their offer differentiation according to the targeted client segment (i.e. Raiffeisen Bank grants 40-year real estate credits).

On the Romanian real estate market, growth rates of 100% and profit margins of 20 - 25% are expected for 2008. The real estate market in Romania is expected to record 4 billion EUR in 2008. According to the real estate experts, most of the transactions in this field will be made on the residential, retail and industrial segments.

B. Dynamics of the players on the Romanian market

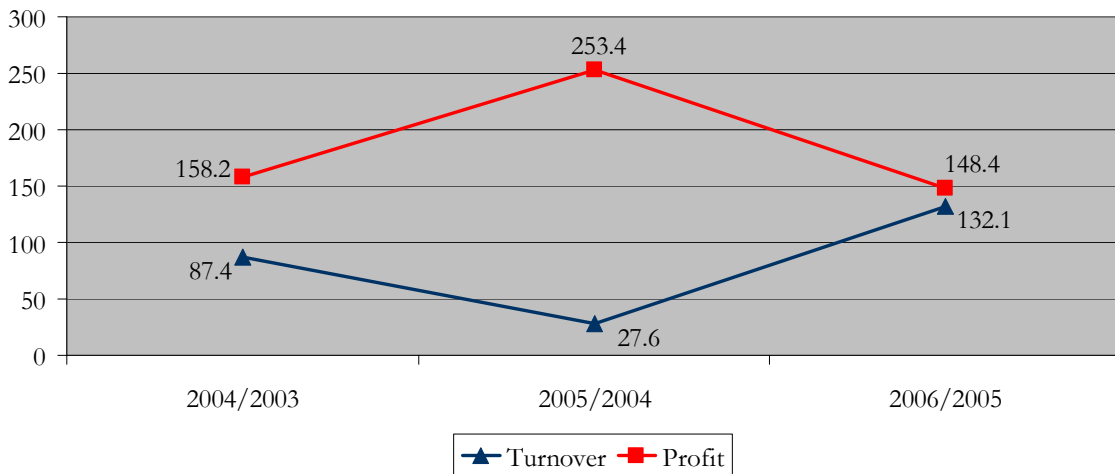
according to official financial data and to FRD Center research

Main five Romanian construction companies*
Dynamics of the TO and profit (y/y growth in %)
2003 - 2006



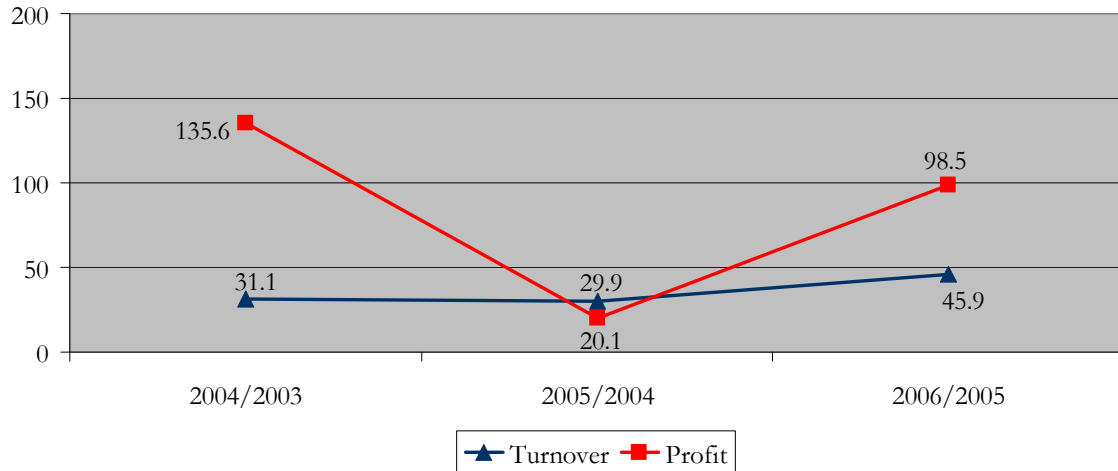
*Comnord, Vega 93, Cominco, Arcom, Impact Developer & Contractor

Selected main foreign construction companies in Romania*
Dynamics of the TO and profit (y/y growth in %)
2003 - 2006



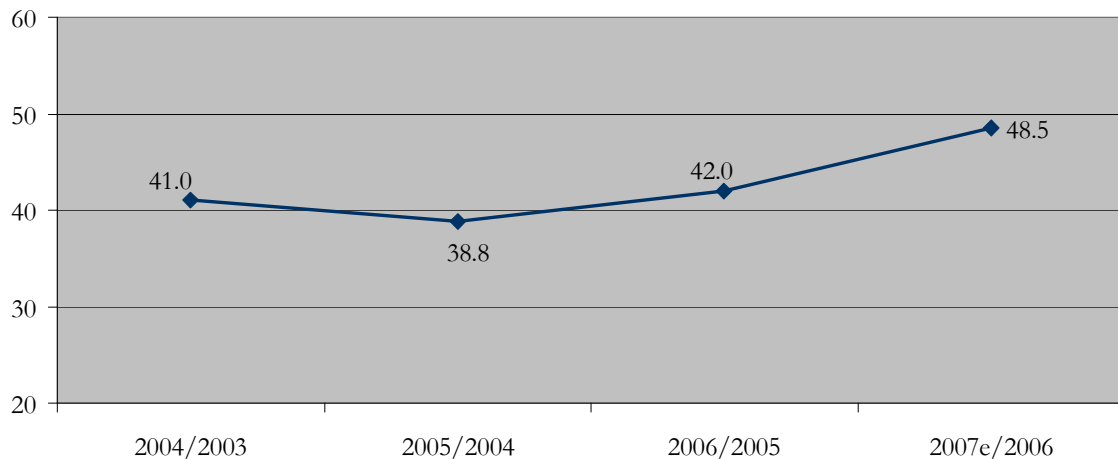
*Summa, Strabag, Baumeister, Herve, Solel Boneh

Selected main producers of construction materials in Romania*
Dynamics of the TO and profit (y/y growth in %)
2003 - 2006



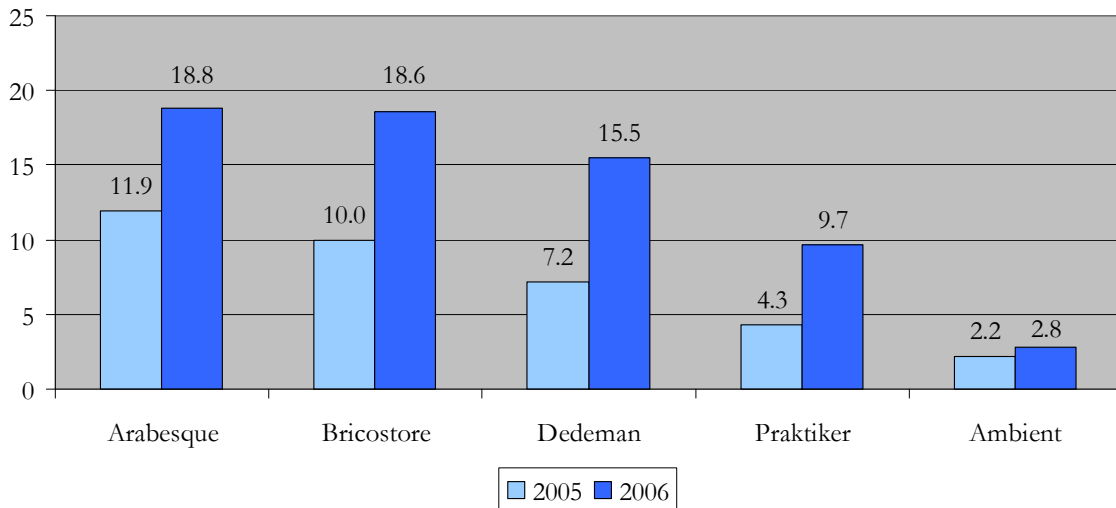
*Lafarge, Holcim, Macon, Arcon, Siceram

Main five retailers of construction materials in Romania*
Dynamics of the TO (y/y growth in %)
2003 - 2007e

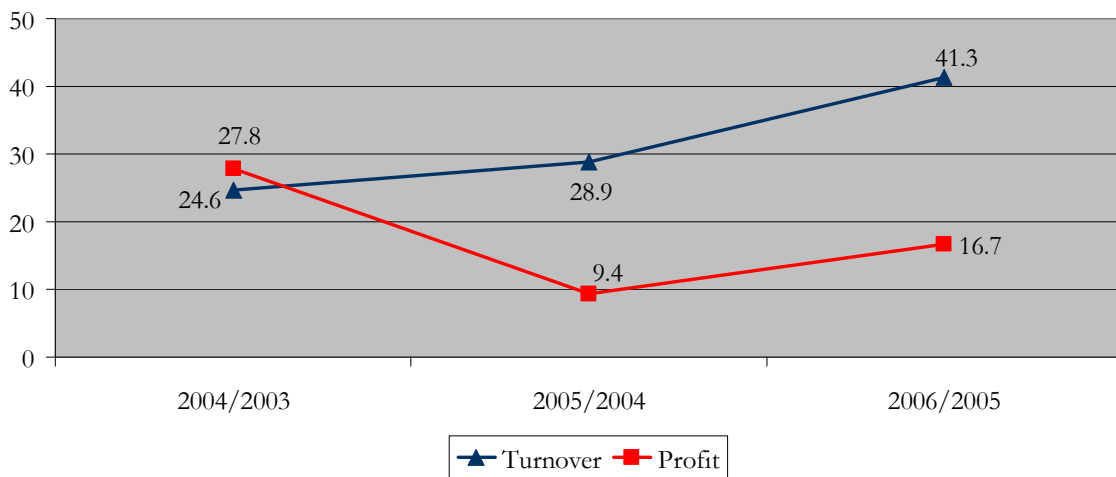


*Arabesque, Praktiker, Ambient, Bricostore, Dedeman

**Profit of five main retailers of construction materials in Romania
2005 - 2006**



**Selected importers of construction materials in Romania*
Dynamics of the TO and profit (y/y growth in %)
2003 - 2006**



*Sawa, Temad, Sipex, Endast, Sirtisa

C. Residential segment

According to the National Institute of Statistics, 52,448 construction authorizations for residential buildings were issued during the period January - November 2007, up 16.7% from the similar period of the previous year. Rises in the number of authorizations were reported in all the development regions, the highest being in Bucharest - Ilfov (1,414 authorizations), the Center region (1,225), Muntenia South (1,186), North - West (1,014) and West region (1,024).

According to the same source, 4,433 construction authorizations for residential buildings were issued in November 2007, up 0.7% from the same month in 2006. Out of them, 57.3% were issued for villages and 42.7% for towns and cities.

According to the sector's trends, the prices of new housing units are expected to increase by 10 - 15% and the prices of old apartments by 10 - 12% (in case the new residential complexes are not delivered in time) in 2008.

The most important residential projects in Southern Bucharest are Asmita Gardens and Jupiter Residence. Fortune Group, a significant developer of commercial properties in United Arab Emirates, will launch two real estate projects in Romania, in the value of several billion EUR. These investments are the biggest business ever developed by an Emirates entrepreneur in Romania. The first project will be a residential and commercial complex located in the Black Sea zone (South-East). The second project, located in Transilvania (Center-West), in the mountains, will be exclusively destined to residential developments focused on a ski resort (in winter) and golf fields (in summer).

The real estate developer Seven Hills, the Romanian branch of Beny Steinmetz Group, will double its investments in Romania during the next two years, after it launched projects in the value of 500 million EUR. The company will develop residential projects and, subsequently, office and commercial ones, in Bucharest and in the main cities of the country. Seven Hills develops West Park Residential project in the Western area of Bucharest, in which the company invested 120 million EUR. With the surface of 130,000 square meters, West Park Residential includes 19 buildings, with a total of 1,400 apartments.

The British group Copper Beech will invest 2.5 billion EUR to develop housing projects with 16,500 units in Bucharest area

D. Commercial segment

The commercial segment in the southern part of Bucharest was boosted by the recent opening of stores like City Mall, Piata de Gros, Selgros Berceni, Metro, Praktiker Vitan and Hornbach Berceni.

Over 20 malls are scheduled to open in 2008 in Romania, seven of them in towns with little over 100,000 inhabitants. The 20 malls will have an overall lettable area of above 800,000 square metres, with total investments developers have announced amounting to some 1.3bn EUR.

By 2009, Bucharest is scheduled to host some 10 commercial centers, while the other 5 main cities of over 300,000 inhabitants will all have some 4-5 malls and commercial centers.

Baneasa Shopping City, Sun Plaza and Liberty Center will practically double the inventory of spaces in Bucharest's shopping centres, due to exceed 300,000 square metres by yearend in case the three projects are delivered in due time.

There are at least five shopping centres scheduled for opening in Bucharest in the following years (Cotroceni Park, Dambovita Center, Parklake Plaza, Galleria Bucharest or the mall part of Sema Parc project), all of them large developments, resulting in tight competition.

Another city with a good dynamic in terms of shopping centre development is Constanta, with another two malls, City Park and Trident Plaza, to be added to the current developments. Also in Moldavia, but in Iasi, we may witness the first market "saturation" as the 4th shopping centre of the city, ERA Shopping Park, developed by Omilos of Cyprus, will be delivered. At the same time, this year will see Mivan Irish developer deliver the first shopping centres, with the developer having announced it would invest in a network of 10 shopping centres outside Bucharest, with Oradea as the first city to have a Tiago Mall centre.

This year, the French retailer Carrefour announced that it would open six hypermarkets in 2008 while its competitor, Auchan, announced four new stores.

The Israeli developer Africa Israel will develop Cotroceni Park shopping centre in Bucharest. Africa Israel, which announced that it would develop real estate projects worth 1 billion EUR in the next three years, got financing of 234 million EUR, covering around 80% of Cotroceni Park development. The loan is destined both to the development and the management of the mall over a five-year period.

Sonae Sierra, a Portuguese real estate developer and owner of River Plaza mall in Ramnicu-Valcea, took over 50% of Arena Mall shopping centre in Bacau, in a deal worth 40 – 45 million EUR. Also, the Portuguese announced another two projects in Craiova and Ploiesti, where it will invest almost 300 million EUR.

In 2008, a series of cities, such as Braila, Galati, Buzau, Piatra Neamt or Focsani, will be included on the shopping centre map for the first time. Considering that a series of cities, such as Craiova, Satu Mare, Baia Mare or Ploiesti, will have no mall developed by the end of this year, either, investments in malls will continue in the following years, with a number of malls at least similar to this year's due to be delivered in 2009.

Future malls in Romania

Location	Project/Developer	Estimated surface (sqm)	Completion year
Arad	Mivan	20,000	2008
Bucharest	Cotroceni Park	76,000	2008
Bucharest	Liberty Mall	26,000	2008
Bucharest	Sun Plaza	76,000	2008
Bucharest	Promenada	33,000	2008
Bucharest	Colloseum	160,000	2009
Bucharest	Sema Park	100,000	2009+
Bucharest	Galleria Bucharest	57,000	2009
Bucharest	Esplanada	40,000	2009+
Bucharest	Metropola Center	37,000	2009+
Brasov	Riofisa Center	47,000	2008
Constanta	Trident Mall	32,000	2008
Constanta	Polus Mall	50,000	2008
Craiova	Park Mall	50,000	2008
Craiova	Craiova Mall	120,000	2009
Iasi	Era Shopping Center	27,000	2008
Ploiesti	Mivan	20,000	2008
Targu-Mures	Mivan	20,000	2008

E. Industrial segment

The investment funds and the real estate companies allocated in the last three years over 1.5 billion EUR for the construction of logistic parks located near the big cities in Romania. The analysts estimate that the amounts could exceed 5 – 6 billion EUR by 2013.

Nokia manufacturing plant relocation to Cluj (Central Romania) is one of the most important investments after 1989. In order to ease the Finnish company's settling in, the county council started the construction of an industrial park of 159 hectares, of which Nokia will cover 90 hectares. The park's equipping will cost 33 million EUR, to be provided by the county authorities, and the area will be connected to Cluj-Napoca by a motorway given that 300 trucks are expected to visit the park every day.

The Austrian investment fund Immoeast and the real estate developer European Future Group allocated 300 million EUR for the construction of 8 – 10 logistic parks in Romania in 2008, with a total renting surface of 400,000 – 500,000 square metres. Immoeast will invest, together with the real estate company Eyemaxx, about 40 million EUR for the construction of the industrial park Log Center in Timisoara. Log Center will be located near the airport and will have the built surface of over 60,000 square metres.

Cefin Holding and the UK investment fund Teesland will allocate some 200 million EUR in order to build 5 – 7 industrial parks in the main Romanian cities in 2008. The industrial parks will have surfaces of 6 - 10 hectares.

CTP Invest Romania will invest in the next two years over 100 million EUR in three industrial projects in Bors, Pitesti and Cluj, this representing 13% of the total investments for the next period of the Czech company in the Central and Eastern Europe.

The Spanish company Graells&LLonch announced that it will invest some 350 million EUR in two industrial parks in a disadvantageous area in Romania.

The Austrian transport company Gebrüder Weiss acquired in 2007 a land of 70,000 square meters on the Bucharest - Pitesti highway and intends to invest, in a first stage, about ten million EUR in order to construct an industrial park.

According to the real estate company Colliers, 19% of the future industrial spaces are already pre-rented while the total stock of industrial spaces in Romania could reach about four million square meters in the next five years.

F. Infrastructure segment

According to the National Company of Motorways and National Roads, over 800 km of motorways will be under construction in 2008. Additionally, the works at over 40 ring roads covering 474 km will start in 2008.

The main motorway projects currently under construction are the Transylvania Motorway – Brasov to Bors and the Sun Motorway – Cernavoda to Constanta. The works in the Comarnic - Brasov segment are expected to start in autumn of 2008.

According to the National Company of Motorways and National Roads, the Ministry of Transport will allocate 60 million EUR from the budget for the works at Bucharest - Brasov motorway in 2008. The sum will be allocated for the works at the sections Bucharest - Moara Vlasiei (19.5 km), to be done by Italian Company Pizarotti/Tirena Scavi and Moara Vlasiei - Ploiesti (42 km), to be done by the consortium Spedition UMB, PA&CO International and Euro Construct Trading. The new motorway will become functional at the end of 2011, the total cost being of 2.2 billion EUR.

The main ring roads to be built in 2008 are: Ploiesti - Ploiesti West, the ring road in Constanta, the ring road in Northern Bucharest to link the Sun Motorway (Bucharest - Constanta) and Bucharest - Ploiesti Motorway. The construction works at the ring road of Constanta Municipality and the Cernavoda - Constanta segment will also start in 2008 and they will be finished by 2009 and 2010, respectively.

The Bucharest authorities will invest, in the next two – three years, 1.2 billion EUR for the construction of 14 over and underground road passages. Significant projects are Grozavesti underground passage, Nordului passage (in Baneasa area), passages in Sudului Square and Razoare. The Razoare passage is a complex investment and will be constructed on two levels: one will link Drumul Taberei and Eroilor and the other one will link Trafic Greu area and Basarab passage.

According to the strategy of the Ministry of Transport, over 500 km of express roads will be built during the period 2008 - 2013, the financial effort being estimated at about 1.5 billion EUR. The authorities opted for the variant of express roads because they are cheaper than highways, by some 40%, and have many of their characteristics. The most important express roads will connect Oradea - Arad, Sebes - Turda, Baia Mare - Satu Mare and Craiova - Pitesti and will be finalised by 2010. Also, a 70 km-long express road will be built between Sibiu and Fagaras and will be connected to the Corridor IV (Nadlac – Sibiu - Bucharest) and Bucharest - Brasov highway.

According to ministerial figures, Romania will have 2,139 km of motorway in 2013. The 1,798 km of motorways to be built during the period 2007 - 2013 require investments of 12.8 billion EUR, out of which 1.5 billion EUR from the European Union, 600 million EUR from financial institutions, 6.5 billion EUR from the state budget and 4.2 billion EUR in the motorways leasing system.

Bechtel, the US construction firm behind the Transylvanian highway, has announced that it plans to work on all three sections of the road between Cluj and Bors in 2008. Works on this first section, which stretches 164 kilometres, should be completed by the end of 2010, according to the contract signed with the Romanian authorities. The three sections targeted this year are 3A (Gilau - Mihaesti), 3B (Mihaesti - Suplacu de Barcau), and 3C (Suplacu de Barcau - Bors). Bechtel, which has received 30% of the 442 million euros allocated for 2008 from the Government, has announced it will hire 500 to 1,500 workers this year, which will handle the construction works.

Portuguese Mota Engil group, which operates in Romania through Martifer, its energy division and is developing the Romfelt Plaza residential complex as part of a consortium, will participate in the tender for the Ploiesti-Brasov highway, a project appraised at about 1.5 billion euros.

The group that comprises about 90 companies has recently announced it is interested in four tenders to lease and develop four highways in Eastern Europe, with the value of the projects put at approximately 6.3 billion euros. Mota Engil will lead the consortium that will submit a bid to lease and develop the 108-kilometre highway to link Ploiesti and Brasov, along with Brisa, Portugal's biggest highway operator. Mota Engil is present on the domestic real estate market through the Romfelt Plaza residential development, where it serves as one of the general contractors. The over 70 million-euro project is located close to the Fundeni Lake and will comprise 616 flats.

G. Office buildings segment

The segment of the office buildings in Romania is concentrated mainly in Bucharest, with about 60% of the total stock, followed by main cities such as Brasov, Cluj, Constanta and Timisoara.

According to market specialists, the stock of the office spaces in Bucharest was of about 1.2 million square metres at the end of 2007 and is estimated to reach about 2.5 million square metres in the next 3 - 4 years.

Immoeast completed in 2007 the acquisition of two new office buildings - Riverside Tower and Baneasa Airport Tower, following transactions worth around 45 million EUR. In early 2006, the Greek group Iliotomi started the construction works of the Riverside Tower, located next to the Dambovita river. In the case of the Baneasa Airport Tower, the German company Valuroi Grup started to develop the project in 2005 and the constructor was Heberger.

In 2007, the British investment fund Fabian Romanian Property took over the Evo Center One office building, located in the Northern part of Bucharest and developed by Adama, through a sale and leaseback transaction worth 4.9 million EUR and acquired an office project, Cubic Centre, developed in the Pipera area, near Bucharest, for 60 million EUR.

Ana Holding completed in 2007 the construction works of an office building with a surface of 5,100 square metres in Bucharest, following investments worth 5 million EUR. The project was developed by Aedificia.

Dabeko Impex SRL, the representative of the Greek railways in Romania, entered the Romanian real estate market through the construction of two office buildings, with an investment of 2 million EUR. The two office buildings are located in Otopeni (North of Bucharest).

British investment group City Capital has bought the Buzesti Business Center, located close to Bucharest's Victoriei Square, in a transaction estimated at 20 million euros. This is City Capital's third transaction on the local market, after it purchased two office buildings in the Obor area of Bucharest from a firm in the Avrig 35 group (controlled by Alexander Hergan), as well as the building hosting the headquarters of cable company UPC. Both projects were purchased early last year, with the cumulated value of the two companies exceeding 30 million euros.

H. Construction materials market

Market analysts in Romania estimate the domestic consumption of the construction materials at over 6.5 billion EUR in 2007.

The ACC consumption recorded a significant growth in all the country's regions in 2007 and reached about 180 – 200 million EUR, this representing an increase by about 25% compared to the previous year. According to Simcor Group, the ACC demand on the Romanian market is of approx. 1.8 million m³ per year.

According to Macon, a producer of construction materials, the Romanian market of the construction materials is characterized by dynamics and increasing competition and the market growth is influenced by the funds allocation both for infrastructure projects and for local and regional development.

The Romanian trim market will increase in 2008 to 1.1 billion EUR, this representing a growth by 10 – 15% compared to the previous year. At the present, a percentage of about 70 – 75% in the total trim sales in Romania is represented by the PVC trim market, about 20% by aluminium trim and the rest by wood trim.

According to Izotec Group, a producer of thermal-insulating trim, the significant investments in the construction of residential and administrative spaces together with an improved standard of living will lead to an increased demand for thermal-insulating trim in the next years in Romania. According to Izotec data, the local market of thermal-insulating trim exceeded the value of 800 million EUR in 2007 with an increase rate of about 20 - 30% compared to the previous year.

According to Arcon, a producer of bitumen membranes and expanded polystyrene, the programme for the thermal rehabilitation of the old buildings as well as the introduction - starting with the design phase - of the thermal insulation for foundations, flooring, walls and roofs will determine a significant increase in the use of the thermal insulating materials during the next years in Romania. On the domestic market, the company's representatives note an increasing demand for waterproofing systems used during winter, at temperatures between -5 and -25 degrees.

According to market sources, the value of the Romanian market of insulation systems with cellulose will exceed 2 million EUR in the next two years, taking into account the fact that at the present the market is in an incipient stage.

According to Depal Invest, a producer of apparent flexible bricks and stones with a mosaic look, the demand for these products on the Romanian market is increasing.

According to market sources, the development of the real estate market has led to a growth of the formwork market to around 40 million EUR in 2007, this representing an increase by about 30% compared to the previous year. The growing trend will continue during the next years and will be stimulated also by the infrastructure works. At the present the Romanian market of thermal-insulating formworks has the value of about 6 million EUR.

The significant investments in the real estate projects in Cluj county lead to an increase by 60% in the sales of the construction materials in the first nine months of 2007 compared to the similar period of 2006. The ACC sector was the driver of the sales in the Western region of the country, especially in Cluj county.

New investments in production capacities of construction materials

- Arcon invested in 2007 around 3.5 million EUR in order to install a new production line of bitumen membranes and to increase the production capacities of expanded polystyrene. Following the investments, the production capacity of bitumen membranes reached around 20 million square meters per year and the production capacity of the expanded polystyrene increased by 50% to around 6,500 tonnes per year.
- Siceram started in 2007 the investments in the plant of ceramic roofing tiles, estimated at about 14 million EUR. The company estimates an increase of its market share to 7%, compared to 2% at the present, after the investment finalising.
- Izotec Group started the construction works of its second production facility of thermal-insulating PVC trim, with investments worth around 1.7 million EUR. After the finalising of the construction works, the company's production capacity will double to around 700 units a day.
- Macon invested 5 million EUR in 2007, in order to develop the production capacities, to modernise and automate the equipment. The main investments were operated in the ACC and prefabricated product sectors. For 2007, the company estimated an increase of its market share on the Romanian ACC market, from 14% to 15%, as a result of the investments in the production activity.
- Simcor Group operated investments worth 6 million EUR in 2007, in order to buy an automatic line for ACC packaging, to install new equipment at the lime factory, to increase the production capacities etc.
- The Israeli producer of floor heating systems Ideal Heat will build until 2009 a plant in Romania, located most probably near Galati, with investment of several million EUR.

I. DIY sector

At the present, five international DIY networks are active on the Romanian market: Praktiker, Bricostore, BauMax, Mr Bricolage and Hornbach. Other important players on this market are Dedeman and Ambient Romanian. All have announced future expansion.

Despite the real estate problems DIY retailers have encountered in their expansion, 2008 is set to be the year that registers the strongest growth rate for international chains since they entered the domestic market. According to estimates, overall investments will revolve around 200m euros this year, whilst around 2,000 new jobs will be created.

The leader of the Romanian DIY market is Praktiker with 20 units, followed by Bricostore with eight stores. BauMax, Mr Bricolage and Hornbach entered the domestic market during the period 2006 - 2007.

The growth of over 50 – 60% registered by Praktiker and Bricostore occurs on the background of the networks' expansion and intense development of the constructions sector. The expansion rate of Praktiker Romania is of four - five units a year. The Austrian company BauMax, which entered the market in 2006, will witness the fastest expansion, having scheduled 5 new stores per year, until 2010.

Bricostore, the second biggest DIY store network domestically, generated 180m-EUR sales in 2007, up 30% year-on-year, after it opened a new store in Pitesti, and exceeded initial estimates by 10m EUR. Last year, the company, which currently operates 8 stores (4 in Bucharest), forecast sales worth 170m EUR by late 2007. In 2008, the French company announced the strongest growth rate since it entered the Romanian market, and plans to open 4 stores with overall investments worth around 24m EUR. The network will open stores in Arad, Braila, Focsani, and Suceava and will target locations close to other large stores, such as hypermarkets.

In 2008, the DIY networks in Romania will have the highest growth pace, with the opening of 18 new stores. In Bucharest, three new DIY stores are expected to open in 2008.

Arad and Timisoara (Western Romania), Suceava (North-East), Bacau (East), Ploiesti (60 km North of Bucharest) and Deva (Center) are some of retailers' priorities in 2008.

The growth number of DIY stores in 2008 will significantly increase the share of this segment on the market of construction materials distribution, estimated at 30% in 2007.