

# Timișoara

Romania's Gateway to the West



**Executive Summary**

**Timisoara: Romania's gateway to the West.**

Timisoara is the economic, political and cultural hub of western Romania. The West Romania region is the second most developed in Romania, after the capital Bucharest, and borders with both Hungary and Serbia.

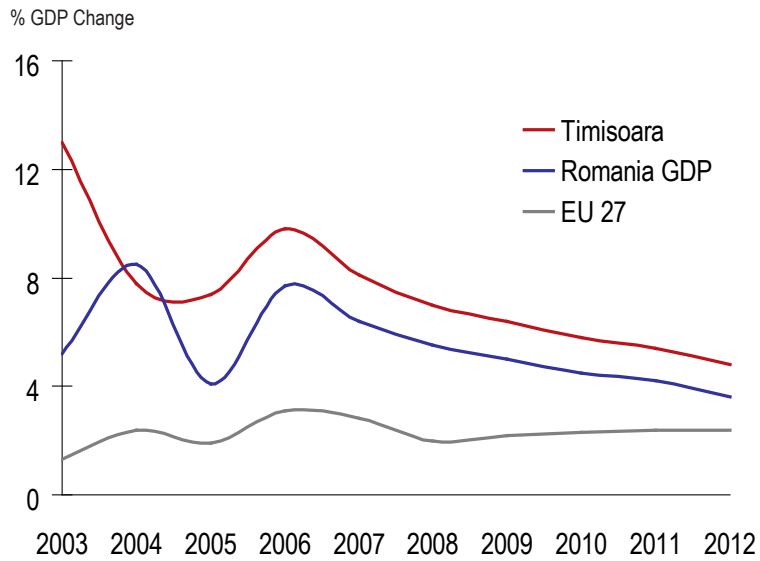
Timisoara is one of the EU's fastest growing cities. GDP growth of 9.2% pa was achieved between 2002 and 2007; over 6% pa growth is projected over the next five years.

Timisoara is moving up the value chain with advanced technologies and ICT sectors quickly expanding as a result of both "nearshoring" and the growth of domestic companies. Good labour skills, the city's economic dynamism and a high number of small and medium sized firms in the Timisoara region continue to attract new waves of investment, whilst the excellent reputation of Timisoara's universities adds to the city's attractiveness.

The city now expects a new wave of FDI, primarily from the financial and business service sectors in search of convenient locations for their back offices and service centres. Timisoara's economy continues to boast considerable potential for nearshoring, but office space shortages constrain not only the real estate market but also the economic development of the city. Jones Lang LaSalle expects the availability of quality office space to play a key role in Timisoara's future position as a service hub. According to our estimates the city could sustain 300,000-400,000 sq m of office space by 2010.

**Economic Growth**

Timisoara consistently outperforms the national economy



Source: Experian BSL, EIU, March 2008

**City Summary**

**Timisoara is the strongest performer among Romania's second tier cities**

Timisoara is the most affluent of Romania's secondary cities and one of the most important business, cultural and scientific centres of Romania - a country of 22 million people and the largest country of the Balkan region. The national economy is of a similar size to those of the Czech Republic and Hungary. Romania, together with Bulgaria, joined the European Union (EU) in January 2007.

**Political and commercial hub of Banat**

Timisoara is the capital of Timiș County (Judetul Timiș) and is located 570 km west of Bucharest, the capital city of Romania. Timisoara is also the capital of the West (Vest) Region - one of Romania's eight development regions. Historically the city was the capital of Banat - a region with its own political ambitions - which is now divided between Serbia, Hungary and Romania. Timisoara also has a strong historic cultural linkage with Austria, as the city strongly developed under the rule of the Hapsburg empire in the 18th and 19th centuries. By virtue of its geographic location, history, infrastructure and labour market, Timisoara has steadily evolved into a key business gateway to South and Eastern Europe.

Timisoara is the wealthiest and the most EU-oriented secondary city of Romania. In terms of population, the city is of similar size to six other secondary cities - Cluj-Napoca, Constanta, Iasi, Brasov, Craiova and Galati; all of them have around 300,000 inhabitants. Some 320,000 inhabitants live in the city itself and 650,000 in Timisoara's agglomeration (Timiș County).

Timisoara: At the heart of Europe



## Economic Background

### Post: accession expansion

The Romanian economy has been growing strongly over the past seven years, following a recession in the late 1990s. In 2007, national GDP growth reached 5.8%, following an impressive 7.7% growth rate in 2006. Strong consumption and investment is expected to result in an average real GDP growth of around 5-5.5% per year in 2008 and 2009, compared with only 2% per year in the EU27.

Similar to other countries of the region, Romania is currently combating political and economic post-accession turbulence. Results of a fiscal policy relaxation and political disputes are all surfacing now that the major goal of the European Union accession has been achieved. However, some prompt actions have been undertaken and, in order to slow down inflation and Leu (the national currency) depreciation, the National Bank of Romania further increased the reference rate by one percentage point to 9% in February 2008.

### Timiș region is among the fastest growing in Romania.

With GRP/Capita levels currently reaching EUR 13,500, the Timiș region is the second most affluent region in Romania - after Bucharest and ahead of Cluj and Constanta (Experian BSL). In the last five years the regional economy expanded by an impressive 9.2% per year. Timișoara's GDP/Capita levels are 1.5 times higher than the national average, but are still considerably lower than the EU27 average, estimated by the EIU to

be EUR 20,000 in 2008. Timișoara, together with its neighbouring Arad region, creates Romania's second most developed economic cluster after Bucharest.

Although the pace of growth is expected to ease between 2008 and 2012, Experian BSL expects the Timiș region's economy to grow by 6% per year, thereby remaining in the national lead. The Timiș region, already the second largest after Bucharest in terms of contribution to Romania's economy, has consistently grown faster than the national economy and is expected to generate 5% of the national GDP within a decade. Manufacturing and business services remain the largest contributors to regional GDP, while business services and construction sectors are expected to see the fastest employment growth over the next five years.

## Business Environment

### Timișoara: the city of economic revolution

Timișoara became internationally known in 1989, when the Romanian revolution against the Ceaușescu regime started in the city but, perhaps more importantly, over the last two decades the city has been a place of economic revolution. The city has consistently been a preferred destination for foreign firms entering Romania.

Timișoara saw its first inward investment as early as the 1990s when Italian shoe manufacturing SMEs, coming from Montebelluna (the Veneto region), created a strong industrial cluster around Timișoara, Arad and Bihor. Foreign investors have spotted Timișoara's potential

where, after the decline of national manufacturers, they found a skilled and inexpensive workforce as well as an access route to the quickly growing Romanian market. FDI from textiles production, automotive and ICT sectors followed as Timișoara established itself as Romania's prime FDI, offshoring and outsourcing hub.

The automotive components industry is yet another sector which has benefited from a strong surge in the last few years. ContiTech, a subsidiary of German Continental, was among the first of the large FDI companies to enter the region. Continental invested EUR 100 million in a tyre production plant which opened in 2003 creating 1,000 new jobs. In 2004, ContiTech Fluid, another company from the Continental group, opened a EUR 10 million plant producing air conditioning hoses. An engineering centre followed in October 2004, employing some 200 software engineers. Other automotive and industrial companies active in Timiș County include Dräxlmaier, Kromberg & Schubert, Dura, TRW Automotive, Elba and Zoppas. Currently total greenfield and brownfield foreign investment stock in the Timiș region is estimated to stand at over EUR 1 billion.

### Timișoara attracts higher value services

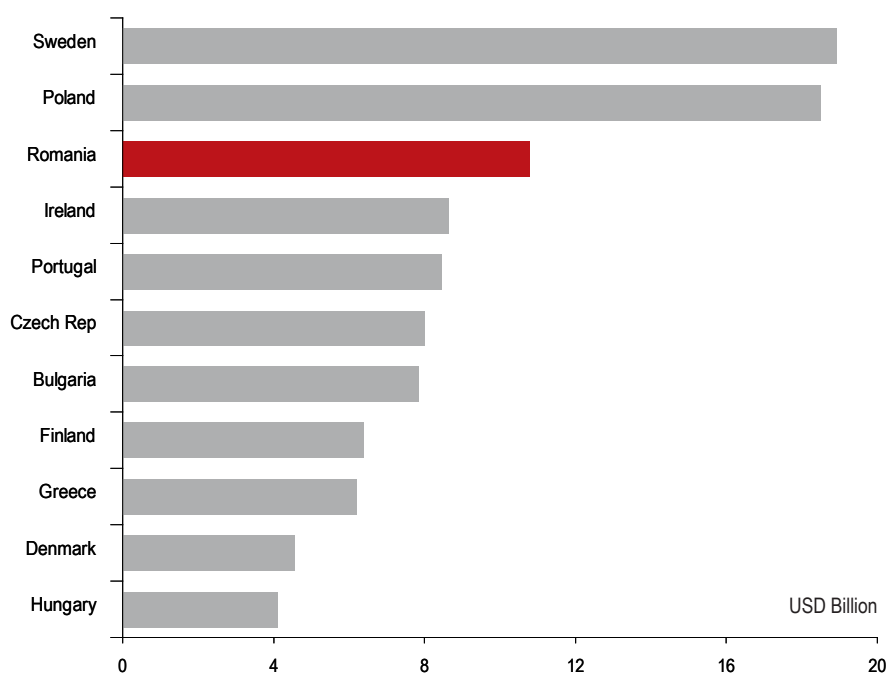
Timișoara had already established its reputation as a computer technologies hub in the 1970s, when the first Romanian computers were developed and mass manufactured in the city. It now features strongly on the software offshoring map with international companies such as Siemens, Alcatel, IBM, Lasting, Saguardo, Caatoosee, QCT, Berg Computers, Infotim, Flextronics (former Solectron), Ciao and OCE all active in the city. New Mind, which opened an office in Timișoara earlier in 2008, is a new media agency using Timișoara as a springboard to sell its software across Europe. With over 500 companies Timișoara's ICT market is the second largest in Romania after Bucharest.

Telecommunications, electrical and optical equipment manufacturers lead the advanced technologies production sector. The latest newcomers include Cmed, a clinical research and technical development company, keen to tap into Timișoara's University of Medicine alumni.

There are some signs that Timișoara will soon see a third wave of corporates coming from financial and business services sectors, such as banking, real estate and healthcare, as the city moves up the BPO value chain. Companies such as KPMG, PWC and P&G are already present in the city. In October 2007 Bosch acquired Business Relations, a 150-employee strong leading Romanian supplier of communication centre services, whose customers operate in the telecommunications, publishing, commerce and public services sectors.

### Foreign Direct Investment in 2007

Romania's investment inflows are amongst the highest in CEE



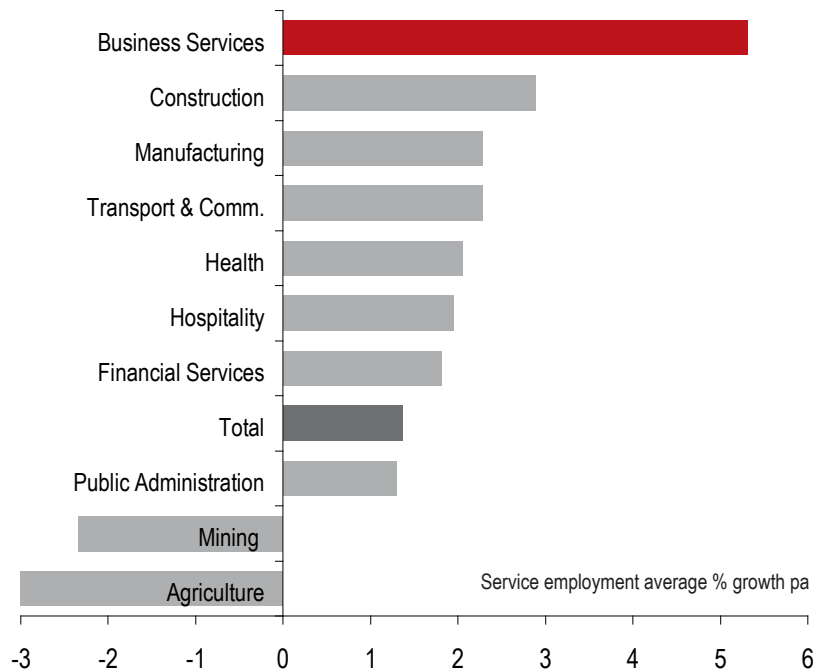
Source: EIU, March 2008

**Timișoara: a five-star city**

Romania's liberal FDI regime creates favourable investment conditions and the multicultural, internationalised and open attitude of Timișoara's administration has been pivotal to the city's success. Proving Timișoara's openness to investment, the city was the first in the country in 2000 to complete the programme 'Let's do business quick and easy', set up by the US Embassy, and obtained a five star rating. The programme monitored such administrative milestones as the elimination of operation permits, a reduction of time and an increase in the transparency of local administration decisions, reduction of time needed to obtain construction permits as well as improved delivery and management of business-appropriate real estate facilities. Timișoara's City Hall was the first in Romania to implement e-governance for its online tax services.

Employment Growth in Timișoara, 2008-2012

Business services are to see the fastest growth



Source: Experian BSL, December 2007



City Business Centre, Timișoara

The regional business infrastructure includes five industrial parks and three business incubators, including Industrial Park Timișoara and Timișoara Software Business Incubator and Technology Transfer Center. The centre offers office space and services to innovative start-ups registered in Timiș County and are active in the field of software development. With a strong show of interest, the incubator is already nearing its maximum capacity of 15 companies.

In 2006, research led by Romanian think-tank Group for Applied Economy ranked Timișoara as the best-positioned city to profit from EU accession. Timișoara has the highest volume of foreign investment coming from EU countries, highest foreign trade with the EU and largest volume of Euro denominated municipal bonds.

## Labour Market

### Excellent price to performance ratio

According to 2006 research conducted at the Academy of Economic Science in Bucharest, the West region ranks second after Bucharest in terms of the potential of its labour markets. Alcatel, a major outsourcing firm in the city, claims that a Microsoft Certified Systems Engineer currently earns only EUR 8,000 per year, including taxes. However, with Siemens and Alcatel already competing for graduates with top technical skills, salaries are now seeing upward pressure. Also the lack of large and good quality office space on offer in Timișoara constrains service market growth.

Timișoara continues to record the lowest levels of unemployment in Romania and in January 2008 unemployment stood at 1.3%, compared to 4.3% at the national level. We expect, however, that with further productivity gains (which have nearly doubled in the last 10 years) and with a good skills base, Timișoara will continue to attract corporate newcomers.

### Technical skills and international vocation

Timiș County is known for its long tradition of research and university teaching. Over 46,000 students are enrolled on courses in nine tertiary educational institutions, of which West University, Polytechnic University and University of Medicine are valued highest for their exceptional quality of alumni. Despite some flaws in the academic infrastructure, Timișoara's universities continue to produce first class graduates with a strong emphasis on technical education (mechanics and electro-technology) and medicine.

In order to improve the academic infrastructure and update curricula, companies such as Siemens and Alcatel have been strongly investing in joint projects. To provide development tools and financing for student training Motorola partnered with Polytechnic University in 1999.

A high proportion of graduates complete their courses in German or English. Many students have international experience thanks to the large number of scholarship awarded to Timișoara's universities. According to a study by the Eastern European Translators Association, 60% of Romanians speak a foreign language (largely English), a proportion much higher than that in most other European countries.

## Business services are to grow fastest

With nearly 40% of its workforce in manufacturing and construction sectors, Timișoara's employment structure remains strongly production-oriented, but service sector employment is growing quickly. Business services and hospitality business - as well as transportation and communication sectors - are expected to experience the fastest growth over the next decade, generating extra demand for office space. Jones Lang LaSalle estimates that by the end of decade the city could support 300,000 to 400,000 sq m of modern office space.

## City Politics and Policies

### Open and entrepreneurial city

Gheorghe Ciuhandu, a Timișoara-born civil engineer, has been the mayor of the city and its region since 1996. Ciuhandu has been re-elected twice - in 2000 and again in 2004 - despite changing political circumstances, and has already secured his party's support for local elections upcoming in 2008.

The mayor's long-term policy of independence from the central government is now paying off. The pro-European stand of the city's administration, its aptness in its use of EU structural funds and advanced financial vehicles aiming to generate infrastructure resources are pivotal to the city's integration into the European Union. The City of Timișoara was among one of the first in Romania to use an external public debt service as the city issued bonds worth EUR 42 million to generate infrastructure development funds.

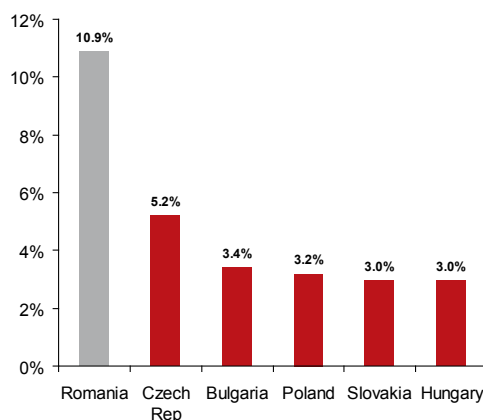
### Multi-national society

As a result of its historical heritage, inter-regional immigration and foreign investors arriving to the region, Timiș County has developed as a multicultural and multi-ethnic region. Apart from the well-established and influential minorities of Hungarians, Serbs and Germans, the city has recently seen an influx of primarily Italian expatriates. The multi-lingual population of Timișoara attracts nearshoring companies requiring back-office operations in European languages other than English, offering much greater potential than other Romanian secondary cities.

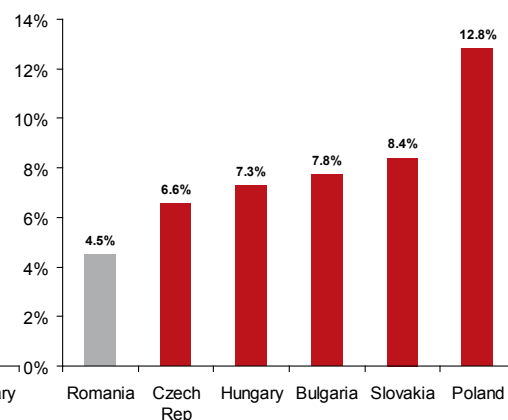
## Labour Market

Romania has the fastest growing wages and lowest unemployment amongst CEE

Compound annual growth in real wages 2003 - 2007 (% pa growth)



Unemployment rates 2007



Source: EIU, March 2008

## Infrastructure Projects

### Redevelopment opportunities

The city's urban form follows its historical development in the form of concentric rings. An internal traffic ring encompasses the historical core known as The Fortress. The second, partially completed ring separates inner 20th century villa districts from the Ceausescu era's housing estates. Extensive development during the communist era now translates into considerable opportunities where large areas of brownfields, such as obsolete railways to the north of the city centre, create development potential in prime locations.

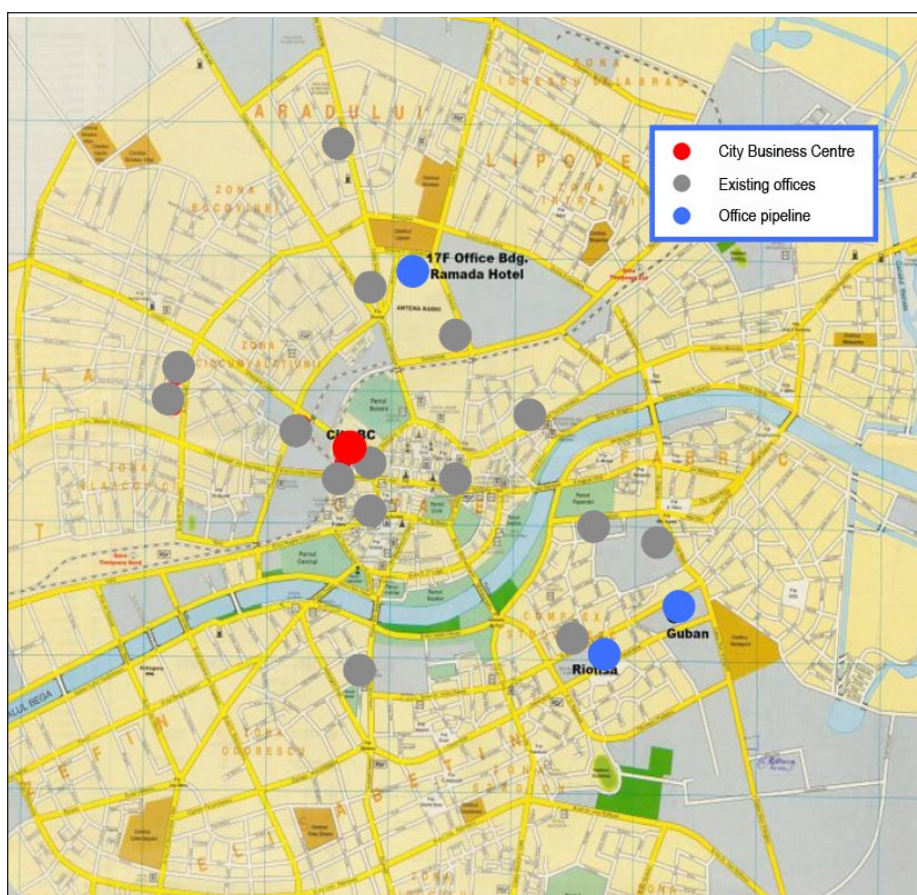
### Further infrastructure investment

Timisoara boasts a developed road and transport infrastructure, with connectivity improvements underway. The Timisoara road by-pass is to be completed in 2008, and the Road Rehabilitation Programme - financed by the Japanese Bank for International Cooperation - will facilitate its completion. The city's public transportation will see considerable improvement with a new fleet of Skoda Electric trolleybuses, an investment worth EUR 20 million. In 2007, Timisoara City Hall earmarked considerable funds to build over 4,000 new parking spaces in the western part of the city.

The section of the Pan European Corridor nr.4 between Szeged and Timisoara, which links Vienna and Bratislava with the Balkans, has been given special priority. Works on the Arad-Timisoara and Timisoara-Lugoj sections of the Pan European Corridor n.4 in western Romania should be completed by 2009. The Arad-Timisoara project is estimated to cost EUR 270 million and is financed by the EIB and the Romanian Government.

The city will also be linked to the water corridor (Pan European corridor nr. 7) connecting the North Sea and the Black Sea through the Rhine and Danube rivers. Works have already started at Bega Canal, which spans over 44 km from Timisoara to the Danube along the border with Serbia. EUR 2.7 million of public funds are designated for the canal's reactivation.

In 2007, the city undertook a pioneering project to introduce carbon credit trade. The EBRD is to lend Colterm SA Timisoara, a heating company owned by the city, EUR 15 million which it will invest in energy efficient generation of both heat and electricity - a move that will reduce harmful greenhouse gas emissions. These reductions will help produce up to EUR 4 million worth of carbon credits, which will be sold on to the EBRD for the account of the Netherlands. The revenue generated will enable Colterm to co-finance the investment. It is the first project in Romania to directly link financing with carbon credits.



Timisoara's office market

### Timisoara's airport is second busiest in the country

Timisoara has one of the busiest and most technically advanced airports in Romania with 750,000 passengers recorded in 2006 (an over 100% increase on 2005) and an estimated 870,000 passengers in 2007. The country has seen the surge in passenger traffic after its EU accession. The airport already has a landing strip that can accommodate planes as large as the airbus, as well as a newly modernised international terminal. Timisoara's airport is a major hub for Carpatair airlines, providing air connections to 10 domestic and 20 European destinations.

Further expansion is on the design boards with an 'Airport City' project to include construction of railway and bus terminals, new parking facilities and construction of a new business park. The project will accommodate office buildings, industrial halls, logistics and cargo space and an apron for cargo aircraft. Scheduled for 2006–2015, and with a total value of about EUR 386 million, the airport's development programme offers considerable investment opportunities and will help to establish Timisoara as a major regional logistics hub.

## Real Estate

### Office supply will drive demand

Despite growing office demand generated primarily by the business services sector, the modern office market remains at an early stage of development, with only a few speculative buildings offering moderate or good standard office space. Most available office space comes in the form of sub-lets from large owner-occupiers, such as Petrom or Asirom, or refurbished old buildings, as in the case of the 3,725 sq m Infotim Business Center.

The existing office buildings provide a rentable area of 50,000 sq m, of which a significant share has been built or refurbished since 2005. Timisoara's business district has developed in the western part of the city centre, in the vicinity of the affluent residential areas, but away from the university campus and dense residential areas in the south. Office buildings located in this area include Aquatim, EtaU2, Alcatel, the new headquarters of the tax authorities, and City Business Centre (CBC).

CBC urban business park is the first large-scale, master-planned office project being developed in Timisoara. Upon completion the development will total 32,000 sq m of leasable office space, 5,000 sq m of service and 5,000 sq m of ground floor retail space in five buildings.

The first building, comprising 7,800 sq m, was completed in September 2007 and was the first to offer genuine Class A office space in the city and is now fully rented. Encouraged by CBC's success, developers are planning other large commercial projects. Ion Tiriac, one of the wealthiest businessmen in Romania, is planning to build a mixed-use complex, offering retail, hotel and office space. Tiriac Imobiliare will complete the project in partnership with Riofisa by 2010, but the office component is to be delivered later. Plaza Centers, a very experienced developer in emerging markets, is planning to build a 30,000 sq m mixed use project including retail and leisure, as well as residential and office space.

#### Rents stabilising

Office rents in Timișoara are currently in the range of EUR12 to 15 sq m/month (excluding VAT) for city centre projects and EUR10 to 12 sq m/month for non central locations. CBC, Timișoara's only Class A office development, achieves prime rents in the region of EUR 14 to 17 sq m/month. Average rents have seen 5-10% growth over the last year, but are now expected to remain at their current level.

Rents are collected on a monthly basis. Service charges stand at EUR 2.50 sq/month, but only recently completed office buildings offer service charges collection. The market practice still applied to older, refurbished project is to divide metered utility costs proportionally between tenants and to include all other service costs in the rent.

#### Demand to grow

The occupancy level is close to 100%, and some office space has been pre-let in newly constructed buildings. The second phase of CBC has been completely let at the pre-completion stage. Prospective tenants' preferred strategy is to search for pre-lets close to the completion date or rent speculatively delivered space. There is a lack of larger offices on offer as the typical office building is only about 2,000 sq m.

Alcatel, which employs mainly ICT graduates, considers Timișoara to be its prime location in Europe, and currently occupies offices in several buildings in the city centre. Alcatel's total office space requirement is currently estimated to be in the region of 22,000 sq m and will grow in the future. Siemens, Timișoara's second largest offshoring firm is estimated to need up to 15,000 sq m of quality offices. Multi-national occupiers prefer to consolidate their operations into one key strategic office location, and this favours the more recent office projects which can accommodate such requirements.

Tapping into the city's attractive business environment, most of the major foreign companies present in Romania have representative offices in Timișoara. However, partially due to the lack of large, good quality office units, Timișoara's growth has been constrained. The Timișoara office market has significant potential to expand, and so far its economic potential hasn't been matched by high quality business space. We expect that the city will now see a new wave of FDI, primarily from financial services, ICT and consultancy companies searching for a convenient location for their back offices and service centres. There are a number of foreign companies which have or are planning to set-up their back office operations in Timișoara, but the availability of office space will play a key role in their business location decisions. Jones Lang LaSalle estimates that the city could sustain 300,000-400,000 sq m of office space by 2010. Considerable latent demand and the lack of available quality space create exceptional development opportunities.

#### Retail offer widens

The retail market in Timișoara develops dynamically and is characterised by growing spending per capita and an increasing level of competitiveness. Opened in 2005, the 83,000 sq m Lulius Mall is the major modern retail destination in Timișoara and one of the largest shopping centres in Romania. Brands such as Mango, Bata, Apple, Nokia, KFC and The Body Shop are among 210+ tenants of the centre. Other popular retail destinations include Kapa, Euro1 and Terra, all in refurbished industrial structures. Current retail provision focuses on the northern part of the city. Bega, the only major development located within the city centre, offers low quality retail space.

Real and Kaufland are two major supermarkets, while there are several supermarkets, discount and DIY stores, such as Billa, Profi and Praktiker. New and quality retail space will eventually be added in a mixed use project developed by Tiriac Imobiliare and Riofisa, as well as in the planned Plaza Centers scheme. Timișoara's retail pipeline also includes a few hypermarket-anchored schemes

#### Logistics yet to take off

The logistics and industrial market in Timișoara remains at the very early stage of development, but the market boasts considerable potential due to its strategic location at the junction of two Pan European Corridors and a dynamic airport, as well as expanding production and retail sectors. Major logistics and industrial space include some owner-occupier projects with speculative components and two public-private partnership projects, as well as the forthcoming airport development:

Technological and Industrial Park Timișoara (PITT) has 10.7 ha of industrial space on offer available primarily to SMEs.

- The Freidorf Industrial Park offers over 47 ha of land to FDI companies from production and related service sectors.
- Planned development of the airport will add 50-60 ha of industrial development land.
- Logistics and industrial rents reach EUR 3.5-5 sq m/ month (excluding VAT), but availability of quality speculative stock is limited.



*Real value in a changing world*

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