



**Bulgaria, 2008**

**Logistics Market Overview**

## Economic Overview

▪ During the first 9 months of 2008 Bulgaria registers economic growth of 7%, compared to the same period of 2007. GDP amounts to 48 037.4 million leva.

▪ During the period January-October 2008 export of goods and services is 13 241.3 million leva and has risen by 18.9%, compared to the same period of 2007. Import amounts to 20 641.7 million leva and has gone up by 22.7% compared to the same period of 2007.

▪ During the first 9 months of 2008 the share of services continues to dominate in the economy – 60.4% of GDP with a growth of 6.8%. Industrial sector ranks second – 31.2% of GDP, however recording a decrease by 2%. Agricultural sector has 8.4% of GDP, its increase being the most significant – 24%.

▪ Inflation level towards November 2008 is 8% on annual base. The same indicator towards November 2007 is 11.3%.

▪ Unemployment is on the decrease – 5.85% towards November 2008, compared to 6.62% towards November 2007. The decrease on annual base is 0.77%.

▪ Foreign investment activity is on the decrease. Direct foreign investments in the country during the first 9 months of 2008 amount to 4622.4 million leva, compared to 4715.2 million leva for the same period of 2007 which represents a decrease by 1.97%.

▪ An increase in households' incomes – the average income per person of the population has risen from 264.7 leva in October 2007 to 296.2 leva in the same month of 2008, the increase being to the extent of 11.90%.

▪ Basic interest rate in the country towards November 2008 is 5,72% which is 1,46 per cent points more than November 2007. Meanwhile, effective annual per cent on the new credits on mortgage of households is 10,48% which is on annual base 2.49 per cent points more, whereas on credits in Euro – 8.91% or 1.56 per cent points more. Annual per cent of costs for credits on mortgage service towards November 2008 has risen on annual base by 2.4 per cent points up to 11.13% for credits in leva and by 1.53 per cent points up to 9.54% for credits in euro.

▪ At the end of November 2008 the share of bad credits in relation to credits on mortgage for households is 2.19% while in November 2007 it is 2.14%.

▪ During the period January-November 2008 the new credits on mortgage granted are 3 063.69 million leva which is by 0.75% less than the same period of 2007 when credits to the amount of 3 086.89 leva are granted. In November 2008 the amount of credits on mortgage granted is by 30.41% smaller than October 2008 and by 53.66% smaller than November 2007.

## Real Estate Market Overview

▪ During 2008 309 788 sale-trades of real estates were made in Bulgaria, which is by 4.79% lower than 2007 when 325 385 deals were made.

▪ Direct foreign investments in real estates during the first 9 months of 2008 amount to 1190.5 million Euro which represents a decrease by -33.34 %, compared to the same period of 2007, while direct foreign investments in building have fallen by -27.99% and are 405.2 million euro.

▪ In 2008 logistic space rents in the country remain almost unchanged, marking an annual growth of 4.47 %.

▪ In Bulgaria on average, prices of plots for industrial construction go up by 25.50 %.

▪ Modern logistic area supply is still limited. At the end of 2008 logistic centers under real construction are 4.

▪ During the year demand remains high with modern logistic centers more and more preferred as they provide all the necessary conditions for efficient business in spite of the additional fees paid.

▪ The price, companies are willing to pay for logistic area in the bigger cities of the country varies from 4 to 6 euros per sq. m depending on the size of the site.

## Supply

In 2008 logistics market in Bulgaria continues its development although at a lower speed, compared to the other segments on the market and above all, stays behind all neighbour countries. Investment activity in the sector is comparatively low which is due mainly to bad ratio of the indexes volume of investments / return of investments. That is the main reason during the year a small number of new projects for logistic and industrial parks construction to be announced. The larger volume of investments in 2008 are directed to the construction of residential complexes of closed type, office and retail buildings where profitability is higher. Nevertheless, in most cities in the country independent storehouses are being built which satisfy contemporary requirements, standards and management systems ISO, HACCP and others. In supply, however, the highest is still the share of old storehouses. In Sofia the amount of modern logistic space announced for rentals is still several times lower than the demanded one. It must be taken into consideration that a great part of logistic area in the process of building is not launched on the market as it is going to satisfy the needs of certain companies, and not to be made available to tenants.

At the end of 2008 big logistic centers under construction on the territory of the country are only 4 in spite of the fact that all favourable factors for the development of this segment on real estate market have been present during the year, namely steady economic growth, progressive development of all macroeconomic indicators, increase in purchasing capacity of population, retail development, pervasion of

big European chains, trade with neighbour countries, European transport corridors, passing through the country, infrastructure development, airports, ports, railway transport availability, companies offering forwarding and logistic services, etc. In compliance with the impact of those factors, new projects are concentrated around Sofia, Varna and Plovdiv.

The situation changes during the last months of the year when the negative effects of the world financial crisis start giving evidence. In November 2008 industrial sales in Bulgaria fall by 11.5 % while industrial production – by 8,8 %, compared to the same month of 2007.

The area around Airport Sofia and Iskar Railway station remains the most developed logistic destination in Sofia. However, the regions east of the capital - around Krivina and Kazichene near Elin Pelin prove to be perspective.

In Varna it is the west Industrial Zone where Logistic Park Varna is in the process of building, but the regions around Topoli village and Slanchevo village become more and more attractive mainly because of lower price levels there.

Logistic space, provided for renting in the parks under construction is as follows: 22 000 sq.m in Sofia Airport Center, 24 000 sq.m in Logistic Park Sofia and 55000 sq.m in Logistic Park Varna whose first two buildings were completed in 2008. The logistic area in Freshlogic Billa logistic center is designed for the needs of the holding but will provide services to outside renters, as well.

Logistics parks and centers in projects and under construction during 2008

Development	Location	Investor	Total built-up area (sq.m)	Stage
Sofia Airport Center	Sofia	Tishman International	165 000	Under construction
Fresh Logic Logistic Center	Plovdiv	Bella Bulgaria	20 000	Under construction
Logistic Park Varna	Varna	Varna Logistics	85 000	Under construction
Logistic center in Krivina	Sofia	Bulgarian Property Developments	11 522	Project
Industrial Park Sofia	Sofia	Industrial Park Sofia	1 296 000	Project
Industrial Park Sofia East	Sofia	Park Industria - Sofia Iztok	134 290	Project
Industrial Park Plovdiv	Plovdiv	Immo Industry Group	80 000	Project
T-Park Plovdiv	Plovdiv	Investra	47 754	Project
Logistic Park Russe	Russe	Bulgarian Property Developments	26 000	Project
Logistic Park Sofia	Sofia	Technikon and Kamor Development	44 200	Under construction
Logistica Universal	Sofia	Universal	38 000	Project
T-Park Burgas	Burgas	Investra	42 210	Project
T-Park Stara Zagora	Stara Zagora	Investra	20 240	Project

During the spring of 2009 the construction of two logistic parks should start in the capital – Industrial Park Sofia and Logistica Universal. Among new investments in the segment the largest in scale is the project for Industrial Park Sofia providing for over 411 000 sq.m logistic space.

The Bulgaria investment company Investra has an ambitious project for the construction of retail-

industrial parks in 8 cities on the territory of the country – Sofia, Plovdiv, Varna, Burgas, Stara Zagora, Russe, Pleven and Blagoevgrad.

Apart from the projects, announced in 2008 there were investment intentions for the construction of several industrial parks and logistic centers in Pleven, Russe, Lyaskovetz and others, whose building, however, hasn't started yet.

## Demand

In 2008 demands remains steady and is still above available supply level. Modern logistic space is more and more required among major requirements being: height ( 10-12 m), loading platform availability, hydraulic included, cabover van access, rotary current, ventilation, air conditioning, heating, spacious parking lot for free manoeuvring of trucks, non stop security service, efficient space distribution, office part availability, etc.

In the capital big storehouse area over 1000 sq.m, ready for exploitation is most demanded. In Varna the most attractive space is usually between 300 and 600 sq.m., in Burgas - 200 to 400 sq.m.

With regard to price, tenants are willing to pay, in Sofia and Varna the values are between 4 and 6 euro per sq.m, depending on the size of storehouses. In Burgas logistic area as expensive as 2.5-3 euro per sq.m is on demand. Above those levels, some clients abandon new

prefer to rent old ones and repair them at their expense and modern storehouses and but at a considerably lower rent.

Among main renters of logistic space are different Bulgarian and foreign companies in production and trade field, big retail chains settling in the country, etc. Foreign companies, coming into a particular country for the first time, usually look for storehouse space to rent during the first 2 or 3 years and later invest in the construction of own logistic base.

In relation to space demand in logistic parks in the process of building, there are two groups of clients. Most potential renters prefer already completed area or such going to be completed soon, but there are also clients who would rather rent "Greenfield" which makes them more flexible in choosing square surface and gives them the opportunity to pose additional functional requirements, as well.

## Prices

As a result of low supply and surpassing demand, prices of logistic space in the country keep high levels and are among the highest in Europe which is an obstacle to segment development. In Sofia rental values reach levels of 10 euro per sq.m.

In 2008 the average level of logistics rents in the country remains unchanged, recording an increase of 4.47 % on annual base.

Average logistics rental prices in Bulgaria at the end of 2008 (Euro/sq.m)

Town	In warehouses	In logistic centers
Sofia	2.50 - 6.00	6.00 - 10.00
Varna	3.00 - 6.00	5.00
Burgas	2.50 - 5.00	
Plovdiv	2.00 - 5.00	
Stara Zagora	1.00 - 3.00	
Russe	1.00 - 3.00	

## H1 2009 Forecasts

- A smaller number of new projects for logistic and industrial parks will be announced, compared to 2008.
- As a result of the negative effects of the world financial crisis, the reduction in the volume of industrial production, industrial sales and trade, as well as of the foreseen drop of import and export, logistic space needs will get smaller.
- A significant change in rental levels is not expected.



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