

Bulgaria, 2007

Office Market Overview



Economic Overview

- Stable economic growth. GDP for the period from January to September 2007 amounts to BGN 40 132 million, while the preliminary data shows a total amount of BGN 52 233 million for the whole year which is 6.4% more than in 2006.
- A high level of inflation amounting to 12.5%, while the figure for the preceding year is 6.5%.
- Decreasing unemployment 6.9% compared to 9.1% for 2006.

- A significant increase of mortgages - the value of loans granted by bank institutions for the purchase of residential estates for 2007 amounts to BGN 18.8 million which is 42.59% more compared to 2006.
- Certain increase of the attractiveness of Bulgaria as an international investment destination. The direct foreign investments for the previous year amount to 2 864.3 million Euro, which is 43.94% more compared to 2006.

Real Estate Market Overview

- There are 311 584 property transactions performed in Bulgaria in 2007, which is 4.43% more than the transactions closed in 2006.
- The foreign direct investments in real estates and building activities in Bulgaria in 2007 amount to 2 864.3 million Euro which is 43.94% more compared to 2006 and 282.37% more than the figures for 2005.
- Asking sales prices of office space in the capital Sofia increased of 28.90% in 2007 and rental prices increased of 21.79%.

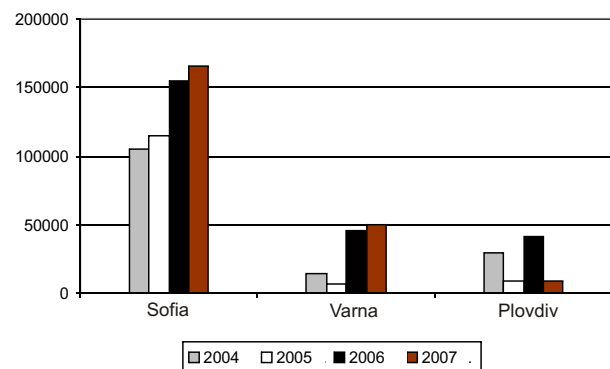
- During 2007, a significant volume of investments was directed for the construction of Class A and B office buildings in the major cities of the country.
- During 2007, there was a withdrawal of office space construction from central city areas to suburban districts in some major Bulgarian cities, which resulted in formation of new business areas.
- There was an increased interest in buying and renting large office space of over 1,000 sq.m in the city of Sofia.

Supply

During the year the office market remains stable. A lot of investments directed to the construction of new office buildings with adequate location and communications could be observed in the major cities of the country and mainly in the capital where there is a considerable demand of office space available. The trend is the office space to be rented out in the process of the building construction. Regarding to the A Class office space in the capital, a considerable and stable growth is observed in the region of Mladost 1, 1A, 2, 3 and 4 residential districts. This particular trend is due to the significant expansion of Business Park - Sofia, which last three buildings completed comprise more than 32% of all of the office stock built in the capital in the last year. Regarding to the pipeline office stock, Sofia is an indisputable leader. For the last year only, there are announced projects for the construction of 932 628 sq.m office space and there are 745 626 sq.m office stock in the pipeline.

The single major office building completed in the city of Varna in the last year is Building 6 of Business Park Varna with total built-up area of 23 555 sq.m. The construction of such projects in the other big cities of the country is still forthcoming but some of them have already been put in the pipeline.

Newly built office space, square meters



Pipeline office space and projects for office building in 2007 (square meters)

	Projects	Pipeline
Sofia	932 628	1 249 213
Varna	270 298	260 715
Plovdiv	205 977	176 391
Burgas	28 012	32 414

There can be observed a formation of new areas of increased investor's interest in the major Bulgarian cities and towns. These include few areas where the greater part of the announced projects are concentrated as well as the new business centers which are in the pipeline. In the city of Varna the newest business areas are the area of Vladislav Varnenchik Boulevard, the territory around Metro Hypermarket, as well as the exit of the city towards Sofia where Business Park Varna was constructed, i.e. there is a trend of withdrawing the office buildings towards the city suburbs and of turning this area into a modern business zone. Some of the reasons for this are the heavy traffic towards the city center and the total lack of parking lots available.

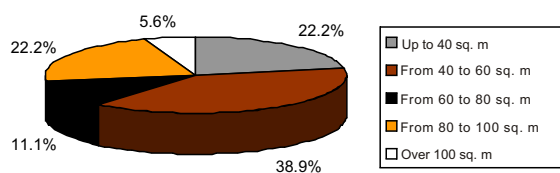
Major office buildings completed in 2007

Building	Location	Office space (square meters)
Business Park Sofia - Building 8	Sofia, Alexander Malinov Blvd.	28 900
Business Park Sofia - Building 6	Sofia, Alexander Malinov Blvd.	13 137
Trade center Labirint	Sofia, Liulin District	11 500
Business Park Sofia - Building 5	Sofia, Alexander Malinov Blvd.	11 065
Hill Tower	Sofia, Lozenetz district	9 100
Business Center NIKRI	Sofia, Bulgaria Blvd.	8 323
Blue Oceanic Center	Sofia, Bulgaria Blvd.	8 000
Business Park Varna - Building 6	Varna, VI. Varnenchik Blvd.	23 555

Demand

During the year, demand for office space remains stable with highest rates in Sofia 5.69% of the total purchase demand and 26.32% of all rental demand. As a result, the levels of office space available of A and B class in the capital amount to 5%. In other big cities of the country, demand for office premises for rent is on average of 9 to 13% of the total demand for real estate renting.

Office space for rent in the major Bulgarian cities by structure of demand



The situation in the capital is quite similar. The major part of newly built office buildings in Sofia are located in the suburban areas of the city while these located in the city center are significantly less in number.

A high concentration of modern office and multi-functional buildings in the pipeline can be observed in Trakia district in the city of Plovdiv.

The major part of office space available in the city of Burgas is still concentrated in the central part of the city as well as its industrial zone.

Major pipeline office buildings in 2007

Building	Location	Office space (square meters)
Sofia Airport Center	next to Sofia Airport	218 000
European Trade Center	Sofia, Tzarigradsko shose Blvd.	90 000
Megapark Sofia	Sofia, Tzarigradsko shose Blvd.	59 600
Grand Mall Varna	Varna, Andrei Saharov Str.	150 000
Business Park Varna - Building 8	Varna, VI. Varnenchik Blvd.	20 695
Varna Towers Mall	Varna, VI. Varnenchik Blvd.	18 638
Central Mall Markovo Tepe	Plovdiv, next to Ruski Blvd.	20 000
Complex Gerbera	Plovdiv, Trakia District	19 000

Regarding to the size of the demanded properties, it should be noted that there is a growing interest in larger office premises in Sofia, usually of over 500 sq. m and even over 1000 sq. m. There is more intensive demand for open space premises. In the rest of the major cities of the country, such as Plovdiv, Varna and Burgas, the greatest demand is registered for offices with an area from 40 to 60 sq. m. However, an actual demand for offices with an area from 200 to 500 sq. m is more frequently observed, including in smaller towns.

Amongst the most active clients on the rental office market during the year are a number of consultant, investment and IT companies, as well as the telecommunication operators.

Some of the basic requirements to the business buildings as to the offices are the availability of parking lots, the communicative and an easily accessible location usually in central areas of the city or on main boulevards, the wire installations, air-conditioning and security systems, etc.

Prices

Sale office prices increased with different rates for the different towns during the year. A more considerable growth was observed in Sofia where the sale values of the properties increased averagely with 28.90%. In the central districts of the city of Varna the average price of the office space increased from 1250 Euro per square meter at the end of 2006 to 1419 Euro at the end of 2007, which is an increase of 13.5%.

The increase of rental levels in the capital for the past one year is 21.79% and dynamics of rental prices for the central city regions is the greatest where the increase is two times higher, namely 46.70%, while the prices in the different residential districts, including the suburban areas mark an average increase of 18.89%. The values of first class office space in the city of Burgas increased with 25% on the average as compared to their levels at the end of 2006.

2008 forecast

- The inventory of the newly built office space of A and B class on the territory of the country and mainly in the capital will continue to rise;
- The major part of office buildings in the pipeline will be located in the suburban areas of the cities;
- Demand will remain stable and mainly in the capital Sofia vacancy rates are not expected to increase significantly in the next twelve months.

Economic parameters of A and B Class office space in December 2007

City	Sales prices Euro per sq. m	Rentals prices Euro per sq. m	Yields %	Duration of lease contracts
Sofia	1000 - 3200	6 - 27	8,0	3 - 5 years
Varna	1000 - 2000	6 - 20	6,5	1 - 2 years
Plovdiv	550 - 1100	5 - 10	10,4	2 - 3 years
Burgas	700 - 1600	6 - 15	9,6	2 - 3 years