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Residential Market Overview

Bulgaria, 2007

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.
- Sales prices of residential estates in Bulgaria increased in average of 30% in 2007.
- Sales prices of old buildings (monolithic and prefabricated wall panel buildings) and sales prices of new developments reached close values.

- There is a considerable increase in the volume of building activities as well as in the demand of residential estates in the outskirts of the big cities.
- During 2007, there was greatest demand for one-bedroom apartments.
- There was a considerable increase in the demand of buying residential properties with mortgages in the smaller towns of the country.
- There was a significant increase in the rental levels in the major Bulgarian cities but the greatest increase was in the rental levels of luxurious apartments.

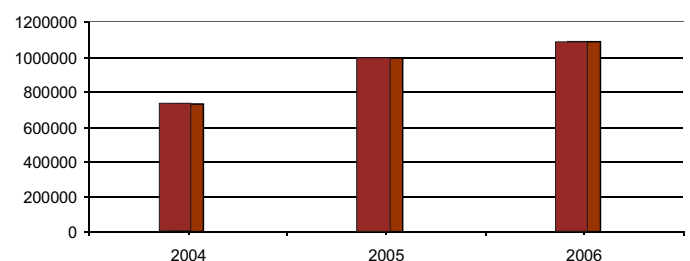
Sales supply

The interest in residential properties remained stable during 2007, although the supply was relatively limited and it could hardly answer the increasing demand. In general, for this particular period, supply of old-built apartments was slightest, especially in the capital and in the central areas of the city of Varna. A certain limitation of supply but regarding to all kinds of residential properties was observed in other Bulgarian towns including Veliko Tarnovo.

At the same time, the construction of a great number of new residential developments continued in all areas of the country. Representative for the year was the increasing supply of properties under construction located in luxurious gated residential developments in the major Bulgarian cities. According to the official statistical data related to the building permits issued in 2007, the greatest supply of residential estates was observed in the region of Burgas, followed by Varna region, Sofia city and Plovdiv region.

The lack of building plots and the high prices of the few building spots available were among the factors with biggest influence on the supply of new residential properties in most of the major Bulgarian cities.

New residential buildings in Bulgaria, sq.m



Major residential developments under construction

Development	Location	Number of residential units
Buysell Residential Complex	Sofia, Vitosha Vets	436 apartments
Residential Park Sofia	Sofia, in front of Business Park Sofia	1000 apartments and houses
Simeonovo River Park	Sofia, Simeonovo district	255 houses
Varbel Residential Complex	Varna, Akchelar area	180 apartments
Viva 4 Residential Complex	Varna, Levski district	121 apartments
Kolodruma Residential Complex	Plovdiv, Asenovgradsko shose Blvd.	284 apartments
Gerbera Residential Building	Plovdiv, Trakia district	327 apartments
Maritza Gardens Residence	Plovdiv	575 apartments
Pearl Residential Complex	Burgas, Zornitza district	192 apartments

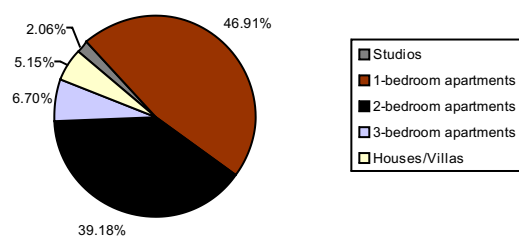
Demand

One basic trend related to demand of residential estates in 2007 was that in most of the towns demand exceeded supply. This trend especially referred to old buildings enjoying great interest during the year. The reasons could be found in the fact that the rooms in the old-built apartments are larger and their number per square surface is bigger while the common parts are several times smaller.

Due to disability of supply to answer increasing demand directed mainly to the central town areas, in many of the big cities the interest turned to the outskirts. In the capital Sofia, the areas of biggest interest were these located around the forthcoming subway route and mainly in Mladost 4 residential district due to its proximity to Business Park Sofia. In the city of Varna the interest was bigger for the districts of Vinitsa, Vazrajane and especially Mladost and Troshevo which ones developed as a commercial area after the construction of a few big shopping centers during last year. In the city of Plovdiv the areas of a relatively new interest were Ostromila, Belomorski and Komatevo districts, which were dominated by the construction of compound developments containing flats and single-family houses, as well as the districts Proslav and Zaharna Fabrika. In the town of Burgas the new regions enjoying increased demand were the districts of Meden Rudnik and Sarafovo. In the smaller towns including the towns of Rouse, Veliko Tarnovo and Balchik, in general, there was no change in the areas of dominating demand.

The greatest demand registered for the previous year was for one-bedroom flats which represented approximately 52.83% of total demand for residential estates and 40.47% of demand for real estates in the whole country. However, in some big Bulgarian cities, such as the capital Sofia and the city of Varna, a greater demand for two-bedroom flats was observed. The most demanded apartments in the major cities of the country were with prices varying from 40 000 to 80 000 Euro.

Demand for residential properties in Sofia for 2007



Besides the price, the particular location of the building, the quality of the construction work and the additional conveniences, such as quick transport connections, closeness to parks, public transport and shopping centers were increasingly important for the buyers. The importance of the perspective outlook of the region had also its special importance. The buyers were increasingly interested in the common parts of the buildings in which they were offered properties in a communal ownership, in the technical state of the buildings, their improvements, gas supply of the area and last but not least in the infrastructure of the housing estate.

In most of the cities in Bulgaria, the main purpose of buying residential estate was to use it as a basic dwelling (approximately 60%). A considerable number of transactions were made for the aim of making investment, about 40%, 30% of which for future lease and 10% for resale. Only in the town of Veliko Tarnovo, 90% of demand was aimed for own use and only 10% for investment. The clients buying residential estates for further lease looked for returns within 10 to 15 years.

Another trend, typical for the whole country was the increased demand for buying residential estates by mortgage despite the restrictions of Bulgarian National Bank and the subsequent raise of the interest rates on behalf of certain banks. Such increase of mortgage demand was also observed in the smaller towns of the country.

Demand for residential estates in Sofia was bigger for the east and south districts, including Buxton, Borovo, Manastirski Livadi, Lagera, Krasno Selo, Vitosha, Lozenets, Dianabad and Studentski grad; in the city of Varna Levski, Wide Center, Lyatno Kino Trakia, Mladost, Briz and Tsveten District; in the town of Bourgas Center, Slaveikov, Izgrev, Vuzrajane and Lazur.

The usual time for demanding and purchasing a property was within 1 to 2 months, while this time for the smaller towns where the offers were less in number, was shorter. In the major cities like Sofia, for example, this period could be extended to 3 to 4 months. The duration of the purchase process from the moment of registering interest to the final closing of the deal depended also on the seriousness of the interest and the payment ability of the buyer. The number of property viewings was bound to available supply and these viewings were usually between 4 and 8, for the city of Sofia they were 10 to 15.

Prices

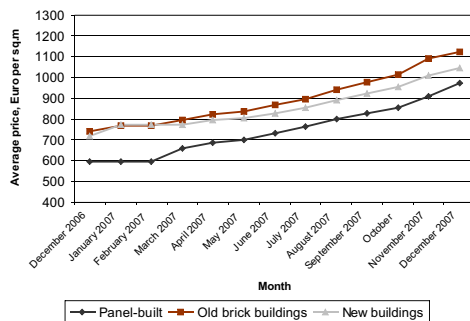
Asking sales prices of residential estates in Bulgaria in 2007 increased in average of 30%. The greatest average increase was registered in Sofia 53.81%, followed by the city of Varna 38.88%, Rouse 30.61%, Plovdiv 29.47%, Veliko Tarnovo 22.53%, Burgas 22.43%, Balchik 21.91% and Dobrich 16.68%. Despite the high rates, the increase was fluent and comparatively evenly distributed per months. During summer months a greater dynamics of sales prices was observed only in the city of Varna.

Another trend related to price dynamics was the greater growth rate of sales prices of panel-built residential estates in some of the major cities of the country, such as Sofia, Varna, Rouse and Veliko Tarnovo, which resulted, together with the increased demand, in reaching values close to these of monolithic old buildings and new residential developments. Despite the greater price rate in the capital, there was reached a higher average price per square meter regarding to the new-built developments in the city of Varna 1188 Euro compared to 1043 Euro in Sofia.

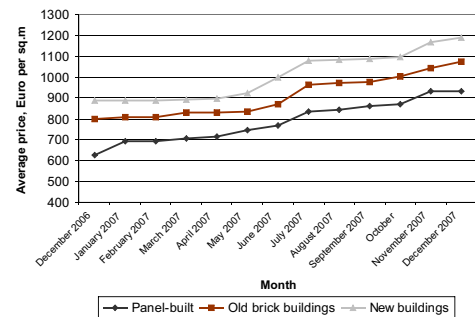
Increase of sale prices of residential estates in major Bulgarian towns for the period from December 2006 to December 2007, per cents

	Panel-built	Old brick buildings	New developments
Sofia	63.81%	51.93%	45.68%
Plovdiv	22.84%	32.62%	32.94%
Varna	48.71%	33.99%	33.94%
Burgas	28.80%	27.66%	10.82%
Russe	39.52%	29.49%	22.83%
Veliko Tarnovo	29.50%	16.50%	21.60%
Dobrich	33.32%	6.71%	10.00%
Balchik	22.22%	7.14%	36.36%

Sofia residential price change through 2007, per month



Varna residential price change through 2007, per month



Rentals Market Overview

During last year, the rentals market also registered a growing development. Luxurious residential estates in the city of Varna reached the greatest increase in the country - 22.13%. Prices of unfurnished flats in the cities of Sofia and Varna registered higher growth rate than prices of furnished flats.

Increase of rental prices of residential estates in major Bulgarian towns for the period from December 2006 to December 2007, per cents

	Обзаведени	Необзаведени
София	18.36%	19.35%
Варна	16.99%	18.97%
Бургас	17.92%	3.53%

Tenants gave preference to apartments in new buildings with renewed furniture and good interior, park opportunities, disbursement document for the full value of the property, etc. The greatest demand was for one-bedroom furnished apartments. The major factor influencing demand in smaller towns of the country wasn't the apartment location but the lower rental price.

The average duration of the lease contracts for residential estates was usually one year, while the interest in villas was predominantly seasonal. The time for demanding and renting an apartment varied from 1 week to a month and the number of property viewings was from 4 to 8.

Forecasts for 2008

- The inventory of residential estates in the country will continue to grow;
- The demand for residential properties will remain stable;
- The trend of increasing interest in properties located in city suburb areas will keep strengthening;
- Due to the higher requirements of buyers, the construction quality will continue improving;
- The average sales price increase of residential estates in the major cities of the country is expected to be within 10-15%.



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