



Residential Market Overview

Bulgaria, 2010

Economic overview

▪ Over the first nine months of 2009 GDP reaches a nominal value of 48 061.0 million BGN. It has gone down by 4.8%, compared to the same period of 2008.

▪ Export (FOB) for the period January-September 2009 is 8469.7 million euro, falling by 28.9% (3434.6 million euro), compared to the same period of 2008 (11 904.4 million euro). Import (FOB) for the period January-September 2009 is 11 699.4 million euro, going down by 35.6% (6 561.5 million euro), compared to the same period of 2008 (18 160.8 million euro).

▪ According to the National Statistical Institute data, in October 2009 a monthly inflation of 0.1% is registered, compared to the previous month. Annual inflation for October 2009, compared to October 2008, is minus 0.3%. Inflation since the beginning of the year (October 2009, compared to December 2008) is 0.0%. The year before unemployment rate is 1.66 per cent points higher.

▪ According to National Employment Agency data, in October 2009 unemployment level in the country increases by 0.20 per cent points compared to September 2009 and reaches 8.23%. Compared to the same month of the previous year unemployment level is 2.38% higher.

▪ Households incomes are growing up – the average income per capita increases from 302.60 BGN in September 2008 to 315.54 BGN for the same month of 2009 (an increase of 4.28%).

▪ Foreign investment activity is on the decrease. Preliminary data show that direct foreign investments in the country for the period January-September 2009 amount to 2112.1 million euro (6.3% of GDP), compared to 5075.9 million euro (14.9% of GDP) for the period January-September 2008, the decrease being by 58.39%.

▪ In October 2009 the Base Interest Rate in the country is 1.46%. Compared to October 2008 it decreases by 3.92 per cent points. At the same time, the Annual percentage rate of charge on BGN loans for house purchases increases by 0.70 per cent points to 10.19%, on Euro loans – by 0.01 per cent points to 8.34%, and for BGN other loans – by 0.08 per cent points to 12.69%.

▪ At the end of October 2009 the share of bad loans for house purchases is 8.00%, while it is 2.12% in October 2008.

▪ Over the period January – October 2009 the new loans for house purchases are 967.67 million BGN which is 69.98% lower compared to the same period of 2008.

▪ According to Industry Watch data, the purchase ability of average salary in the country, measured in residential area, increases by 55% for the last twelve months, reaching levels typical of 2004.

Residential Market Overview

▪ Over the first half of 2009 a total of 87 459 sales-trades of real estates were made in Bulgaria, which is 35.16% lower compared to the same period of 2008.

▪ Over the period January – September 2009 the proceeds from investments in real estates from foreigners in Bulgaria are 433.4 million Euros, compared to 1081.4 million Euros over January – September 2008, which is 59.92% lower.

▪ Over the first nine months of 2009 there are issued 34% less building permissions compared to the same period of 2008. The permissions for new dwellings are 55.52% less and their total built-up area is 54.76% less.

▪ Over the first nine months of 2009, over the territory of the country are built a total of 1911 residential buildings which is 1.85% less compared to the same period of 2008. The useful area of newly-built developments also decreases by 1.83%. At the same time, the number of newly-built dwellings /with issued usage permissions/ is 6.32% higher.

▪ Over the year, two- and three-room dwellings with an area around 60-70 sq.m are most demanded. The price forms as the most important criterion when taking a buying decision.

▪ According to Foros National Real Estate data, in 2009 offer sale prices in the country decreased on average by 15.75%, while rental values decrease by 18.67%. The major part of sales, however, is made on levels 20% lower compared to the offer ones.

▪ For the reason of limited bank crediting, barely 5 to 10% of dwelling purchases are financed by loans compared to 60-65% one year earlier.

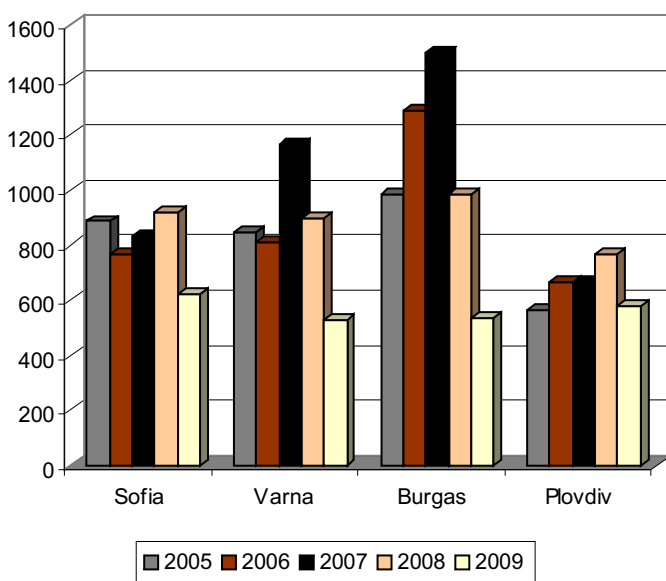
▪ Although supply exceeds demand, it also registers a fall. According to Foros research, in major towns of the country the number of offers for home sales in 2009 decreases by 32% on annual base.

▪ The major group of buyers on the residential market in the country is Bulgarians. Over 2009 the share of the native buyers exceeds 92%. The other 8% are mostly Russians and citizens of the former Russian republics.

Supply

2009 is characterized by lowering the investment and building activities over the territory of the whole country originated from the running economic processes in global scale. As a consequence of this, there is issued a significantly lower number of residential projects in the country compared to the previous year. This information is confirmed by the National Statistical Institute data about the issued building permissions. According this data, over the first nine months of 2009 are issued building permissions for construction of 5 085 residential developments (34% less compared to the same period of 2008) for 16 245 dwellings (-55.52%), with total built-up area of 2 206 849 sq. m (-54.76%). The issued building permissions in Sofia are for 624 residential buildings, in Varna for 531, in Burgas – 534, and in Plovdiv – 578. For comparison, over the first nine months of 2008 the values for the same cities are respectively 917, 896, 984 and 767. Construction of a big part of developments with issued building permissions is not expected to start over the next few months.

Issued building permissions for new residential developments over the period 2005-2009*



*The presented data is about the first nine months of each year

At the same time, a part of developments, planned for putting into exploitation over the year are not finished, mainly for the reason of lack of crediting as well for the lag of the sales volumes. According to Bulgarian National Statistical Institute data, over the first nine months of the year are finished a total of 1911 residential buildings, which is 1.85% less compared to the same period of 2008.

Major residential developments, completed over 2009

Development	City	Residential area (sq.m)	Number of residential units
Kseniya Residence	Sofia	85 000	355
NIKMI Complex on Bulgaria Blvd.	Sofia	80 692	N/A
Silver City	Sofia	32 884	195
Royal City	Plovdiv	35 000	268
Spartacus	Varna	17 300	170
Diplomatic Hill	Varna	16 000	120
Ecothermal	Burgas	15 000	160

The built dwellings, however, register an increase of 6.32% (a total of 14 999). In Sofia, the newly-built residential developments are 95 (a total of 1642 dwellings), in Varna – 448 (3 045 dwellings), in Plovdiv – 130 (897 dwellings), and in Burgas – 369 (4 261 dwellings). According to Foros data, the biggest part of newly-built residential space in Sofia is located in the following residential districts: Manastirski livadi – west (11.78%), Mladost-4 (10.34%), Ovcha Kupel (9.93%) and Vitosha (9.86%); in Varna these are the residential districts of Briz (15.03%), Vladislavovo (13.93%) and Levski (11.81%); and in Burgas – Meden Rudnik (33.62%) and Slaveikov (31.33%).

The negative effects of the world financial crisis related in their major part with limiting of loan resources, the worsening macroeconomic situation and other, led to impossibility for many of the projects in the pipeline to be finished. A part of them are now temporarily “frozen”, but others – finally canceled. This is why the number of the dwellings which are actually being constructed at this stage could not be fixed.

The decrease of both investments and construction volumes is leading to reduction of the number of the properties for sale, which will balance, from its part, supply and demand.

Some major projects from 2009 are:

Multifunctional complex Universul in Sofia. The complex will comprise four residential buildings situated over a two-storey trade center and a detached office building. Its total built-up area will be 87 000 sq.m.

Residential complex Hill City in Varna. The development will include a total of 200 apartments. There are foreseen an open-air swimming-pool, recreation area, a kindergarten, a hypermarket, some shops, a SPA center, some medical cabinets, a shooting ground and office space. Its total built-up area will be 43 187 sq. m.

Residential complex located on Dimitar Dimov Str. in Bourgas. It will include residential, office and retail space as its total built-up area will be 16 687 sq.m. The completion of the construction works is planned for November 2011.

Supply decreases as regarding to the secondary residential market in the country. The offers for home sales from property owners in major cities decrease on average by 32% on annual basis. Thoroughly, the properties for sale on the market are offered from former clients which have earlier bought apartments for the purpose of investment and which now need cash.

Other type of property sellers are owners which have financed their home purchase with a mortgage loan as regarding to the particular property for sale or to another property. The reason for the sale is inability to redeem the monthly installments on the loan.

Third group of sellers are home owners with inherited properties, particularly when the property is

owned by more than one inheritor. The major part of these sellers which are not forced to sell now, await for signs of market growth, before they decide to sell. I. e. the basic motives for home sales in 2009 are:

- cash necessity;
- necessity of funds for satisfaction of mortgage;
- necessity of arranging property relationships;
- smaller home sale and additional payment for a larger one;

• larger home sale on the purpose of buying a smaller one with a better location.

In the new circumstances of higher competition and lower demand, some of the investors and building companies of the developments in the pipeline began to offer bonus schemes such as free basement, free parking lot, free garage and other.

Demand

The demand for residential over 2009 is significantly below the levels from the last few years. The reasons are related with the world financial crisis, the lack of bank crediting, the worsening economic situation, the increasing unemployment, the insecurity for population incomes and, most of all, the obscure market situation.

The most demanded properties for sale are one- and two-room dwellings with square surface of about 60-70 sq.m. Both new (but with an issued permission for usage) and old apartments are being demanded. The new ones are usually preferred for their longer exploitation terms, and the older ones – for their lower prices and better correlation between clear residential area and price. The sum which buyers in major cities (Sofia, Varna, Burgas, Stara Zagora) are ready to pay for these properties is up to 50 000 Euros.

The most important factor which influence the purchase decision is the property price. Additional negotiation, usually between 10 and 30% from the offer price, is being searched in almost 100% of the deals. The big supply, which exceeds demand a few times, is a good precondition for this. As a result, buyers have a bigger choice of dwellings for sale compared to previous periods. The last one has influence over the average number of property inspections as well as over the time for searching a property and signing a deal, which are both increasing. Thus, over the period, the time for searching and purchasing a property is now 2 to 6 months, compared to 1 to 2 months a year earlier, and the number of property inspections which are being done,

from 4 to 8 at the beginning of 2008, are now more than 10.

An important factor influencing the purchase decision are both construction type and stage of completion. There is almost missing a demand for dwellings in early stage of construction as these properties emerge as high-risky.

Other possible stimuli are the following: payment in installments, additional extras included in the property price such as finishing works, built-in pieces of furniture, electric appliances. A most frequent request is that the seller assumes all transaction costs.

Along the Black sea coast is observed one comparatively new trend of demand for houses for whole-year living, in villages located 15-30km away from the cities of Varna and Burgas.

Over 2009, the Bulgarian citizen is the major buyer on the residential real estate market. In contrast to the last few years when its share in the purchases of residential real estates in the country is 70-80% from the total number of concluded deals, now this share is of about 92%. The other 8% cover mainly Russians and citizens from the former Russian republics. By contrast with the previous few years, the demanded dwellings are almost entirely purposed for habitation of their owners and not for investment.

The funds for purchasing a dwelling are in their major part buyers' own, frequently received from a sale of inherited properties.

Prices and Yields

Real estate prices over 2009 are known by an unusual downgrade dynamics. This dynamics is higher over the first half of the year while in the last few months the decrease slows up significantly, coinciding with the Foros' prognosis given earlier.

The statistics of Foros shows that over 2009 average offer prices of residential real estates decrease with 15.75% on annual basis. The most significant is the decrease of old brick buildings' prices – 16.84%, followed by the price fall of old panel-built dwelling – 15.15%. The lowest price decrease is this of new buildings – 15.11%.

Regarding territory, the most significant price decrease is registered in Kiustendil– 30.77% and in Vidin - 30.76%, and least – in Kardzhali – 2.05% and in Dobrich – 6.28%. The average price fall in Sofia /-24.11%/ and in Varna /-12.65%/, which both are the cities with the highest price dynamics over the last few years, is due to the fact that possibilities for construction in Varna are considerably low, because of the smaller number of available building sites, as the supply volumes are low too.

It is important to mention that the designated changes are calculated on offer prices' basis. The real one is bigger, in fact, as nearly all deals are concluded after an additional price negotiation which is usually of about 10 to 30%.

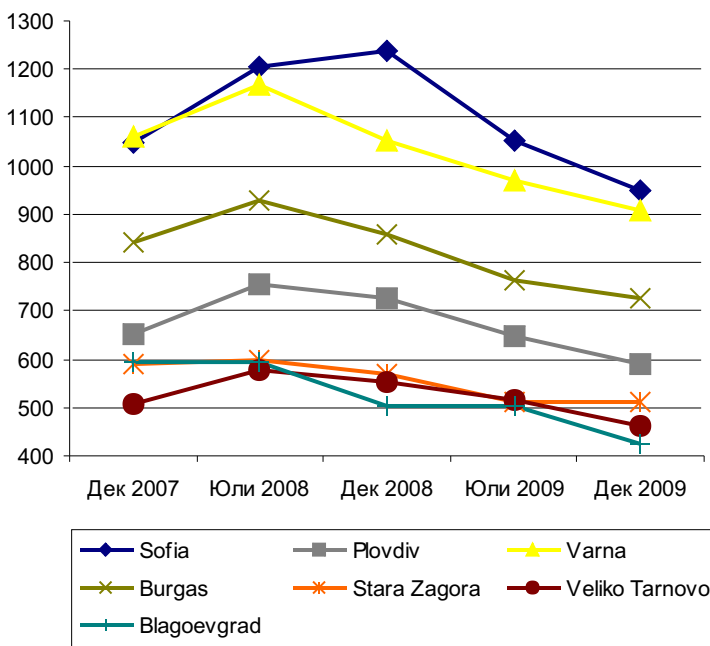
Price change of residential properties in some Bulgarian towns over the period December 2008 - December 2009

	Old brick buildings	Panel buildings	New developments	On Average	Average price in December 2009 Euros/sq.m
Sofia	-23.53%	-28.50%	-20.29%	-24.11%	948
Plovdiv	-22.83%	-21.91%	-19.85%	-21.53%	588
Varna	-13.06%	-12.26%	-12.64%	-12.65%	907
Burgas	-19.67%	-6.55%	-16.51%	-14.24%	727
Stara Zagora	-9.49%	-11.02%	-14.54%	-11.68%	510
Veliko Tarnovo	-22.44%	-18.98%	-7.28%	-16.23%	460
Blagoevgrad	-12.86%	-13.57%	-19.41%	-15.28%	424

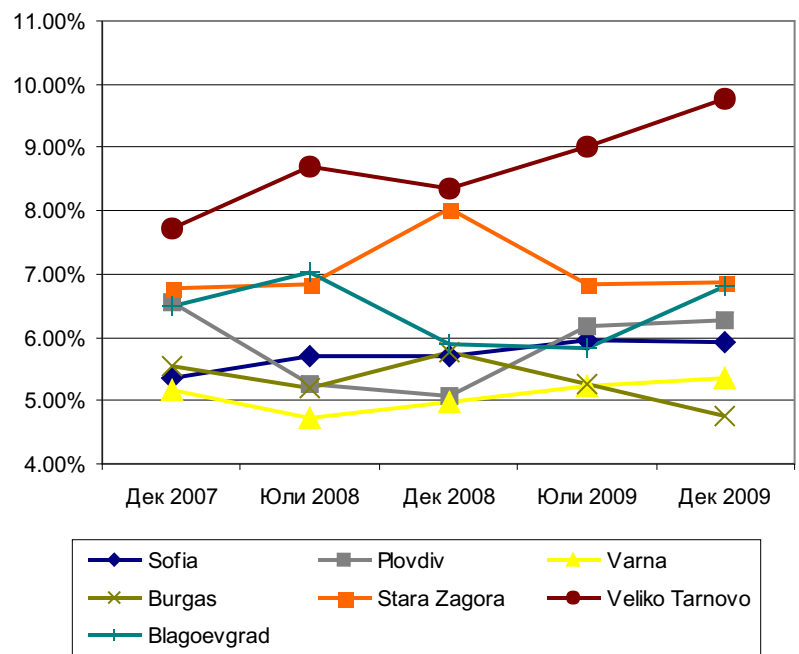
The average yields of residential real estates are also decreasing. Towards December 2009 the average yield of dwellings in the country is 5.98% as it is decreasing by 0.36 per cent points compared to December 2008.

The yields are higher for the residential properties in Veliko Tarnovo – 9.78%, followed by Stara Zagora – 6.87%. In Sofia, it is 5.91%, in Plovdiv – 6.27%, in Varna – 5.35% and in Bourgas – 4.77%.

Average residential prices in some Bulgarian towns over the period December 2007 - December 2009



Average residential yields in some Bulgarian towns over the period December 2007 - December 2009



Rentals Market Overview

The volume change in offered properties for rent over 2009, compared to the previous year, is very individual for the different towns of the country. There is increase in some areas, and decrease in others. It mostly depends on the building intensity in the different residential areas over the last few months and years. It also depends on the number of dwellings bought on the purpose of investment. Sofia is one of the cities with a supply increase, which is due mostly to the above-mentioned factors. In Varna, however, is observed an decrease of 22.86%. In Burgas, there is not almost any change in the number of offers for rent (-0.25%). In correspondence with demand, there are mainly offered furnished apartments since these properties are being realized on the market more easily and reach better rental levels.

In Sofia, the supply is biggest in the center as well as in Lozenets, Manastirski livadi and Studentski grad districts, and least – in Geo Milev and Slatina districts. The number of new-built apartments prevail over the old ones, but there are a lot of old apartments on the rental market too.

The most demanded properties over the period are one- and two-room dwellings from the lower class of about 60-70 sq.m. These properties, however, are the most scarce in supply. In Sofia and in Varna, the upper price border is up to 200-350 Euros per month, and in the smaller towns – 100-150 Euros per month.

The average number of property inspections that are being done when taking the decision to rent an apartment is between 4 and 8, and the time for making the final decision varies between 1 day and 1 month. The main tenant requirement is the attractive rent price. Other requirements such as good location, available parking lots, new buildings and others are common too.

Regarding to the demand of high-grade dwellings /with monthly rent of about 1000-1200 Euros/, a significant increase is observed. Main group of tenants here are foreigners – directors, managers of foreign companies with affiliates in Bulgaria, as well as Bulgarians with own proper small or middle-class business.



Change of apartment rents in some Bulgarian towns over the period December 2008 - December 2009

	Furnished	Unfurnished	Luxury	On average
Sofia	-22.46%	-25.47%	-21.11%	-23.01%
Varna	-8.53%	-1.50%	-10.42%	-6.82%
Burgas	-33.53%	-28.93%	-27.54%	-30.00%
Stara Zagora	-34.38%	-18.60%	-20.00%	-24.33%
Veliko Tarnovo	2.54%	-9.09%	-2.18%	-2.91%
Blagoevgrad	-7.14%	0.00%	0.00%	-2.38%

Most demanded apartments in Sofia are located in the center of the city, in Studentski grad district as well as in the South districts around the business centers. There is an interest towards apartments in the gated residential complexes in the outskirts of the capital, too. These complexes attract tenants with the additional services and extras included in. A serious minus is, however, the bad infrastructure of the areas around Okolovrastno shose Blvd. where the major part of gated residential complexes are located.

The tenants in Varna are oriented towards districts with properties with lower rent levels such as Broad center, Briz, Chayka, Summer Cinema Trakiya and in the outskirt areas.

Regarding to rental prices, like the sales trend, rental levels decrease. In major cities, this fall is highest for the furnished apartments. The average decrease of rental prices for the country is of 18.67%. It is higher in Dobrich – 39.83%, in Burgas – 30.00% and in Stara Zagora – 24.33%; but it is lower in Blagoevgrad – 2.38%, Veliko Tarnovo – 2.91% and Varna – 6.82% (three of them university towns).

H1 2010 Forecasts

- Because of the unstable economic situation in the country, over the first half of the year, changes in the investment climate and attitude are not expected. At the end of the third quarter a movement in the construction market is expected as well as new residential projects to emerge.

- Due to the weak activity in the construction sector as well as the decreasing supply from the secondary market, the number of offered residential properties for sale will continue to decrease, and this will balance supply and demand in a short-term period.

- The number of concluded deals over H1 2010 will decrease by 10-13% compared to H1 2009.

- The decrease rate of sales and rentals prices will further slow down.

- Up to the end of H1 2010 sales prices of residential properties in some areas of the country will decrease by 10%.

- Residential properties will be the least affected by the crisis real estate segment, but its development remains in direct correlation from the loan market condition.

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