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Residential Market Overview

Bulgaria, H1 2008

Economic overview

- Steady economic growth. Gross Domestic Product for the first quarter of 2008 is 13,484 million lv. compared to 11,288 million lv. for the same period of 2007, i.e. the increase is at the rate of 19.45%. There is also an increase in the share of services in GDP as it has risen from 49.2% for Q1 2007 to 51.3% for Q1 2008.

- During Q1 of 2008 export amounts to 3 643.3 million Euro, the increase on annual basis being 25.7%, whereas import amounts to 5 428.1 million Euro and its increase is 21.3%.

- High level of inflation - 0.9% for April towards March 2008 and 14.6% on annual basis.

- Unemployment on the decrease - 6.19% towards May 2008 compared to 7.82% towards May 2007.

- Direct foreign investments in the country during Q1 2008 are at the rate of 869,2 million Euro, whereas they are 897,2 million Euro for the same period of 2007.

- An increase in households' incomes – the average monthly salary has gone up by 6,14% during Q1 of 2008, compared to Q4 of 2007 and has reached a value of 484 lv. Meanwhile, the average income per person in the household has risen from 232,38 lv. in April 2007 to 281,12 lv. in the same month of 2008, the increase being to the extent of 20,97%.

- Basic interest rate for the country towards April 2008 is 4,85%. Meanwhile, interest on residential credits of households is 8,63%.

Real Estate Market Overview

- During Q1 of 2008 56 483 real estate transactions have been made in Bulgaria, which is by 0,24% higher than deals, made during the same period of 2007.

- Direct foreign investments in building and real estates during Q1 2008 amount to 447,2 million Euro towards 479,6 million euro for the same period of 2007.

- Average growth of residential real estates prices in Bulgaria during H1 of 2008 is 12%.

- A considerable increase is observed also in relation to rent levels in big cities in the country, the highest one being in Sofia and Veliko Tarnovo.

- Throughout the year two-room-residences are most demanded. However, an increased interest is observed towards the three-room apartments.

- Yields of residential real estates in Bulgaria towards the end of June 2008 is 5,67%, which value is average for Europe. In Sofia yields amount to 5,65% while the highest value is observed in Veliko Tarnovo – 8,6%.

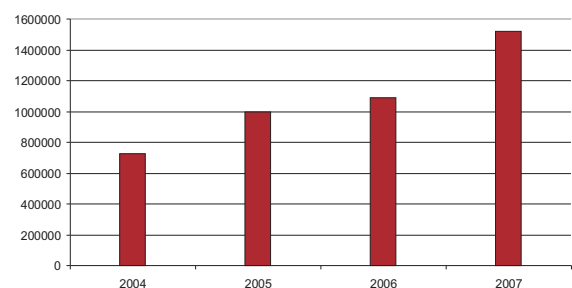
- The trend for increasing construction and demand of residential real estates in suburban areas of big cities remains strong and it is more and more valid for smaller towns due to the lower prices of residences in their outlying areas.

- A considerable part of residential real estates purchases from Bulgarian citizens all around the country are made through mortgages.

Supply

During the first half of 2008 a great amount of newly-built residential areas was added to the available supply on the territory of the country, which is considered a peculiar extension of the trend for constant increase of building activity in residential field which in turn started several years ago. In 2007 18 864 residences are built in Bulgaria with a total area of 1 521 210 sq.m. The biggest number of residences are built in Burgas area – 5 158 (400 859 sq.m), Varna – 3 471 (317 908 sq.m) and Sofia-city – 3 431 (239 507 sq.m).

New-Built dwellings between 2004 - 2007
(sq. m)



Major residential developments completed in H1 2008

Development	City	Residential area (sq. m)	Number of residential units
Loven Park Complex	Sofia	16 000	115
Residential building Sanara Build	Sofia	12 300	80
Residential building in Levski district	Varna	7 808	57
Residential building in Vazrajdane district	Varna	7 697	70

According to the statistics of the National Institute, during the first quarter of 2008 building permits for 2267 new residential real estates are issued (11 473 residences), compared to 2442 buildings (14 101 residences) for the same period of 2007. The biggest number of permits are issued in Burgas area – 394 (2 354 residences), Sofia-city – 311 (1 161 residences) and Varna – 236 (1 326 residences). The fall observed is mainly due to the investment activity decrease in the holiday estates segment.

During the first half of 2008 a number of big residential projects are announced, introducing areas in gated complexes and multifunctional buildings, usually including both commercial and office part. Among the biggest newly announced projects for the period, in Sofia are “The five towers of Sofia” with total built-up area of 525 000 sq.m., providing the construction of around 4 000 residences, “Gardens City” with total built-up area of 600 000 sq.m., 300 000 sq.m. of which are allocated among 2000 apartments and 223 houses, “Lozen Residential Park”, situated in Goren Lozen with total built-up area of 119 000 sq.m, including 190 houses and 125 apartment buildings.

The gated residential complexes in Plovdiv have a slightly smaller area. Those are “Beverly Hills” (61 000 sq.m., allocated among 61 houses and 31 apartments) and “Victoria Gardens” (44 084 sq.m., half of which are residential areas with 270 apartments).

In Varna the biggest project is that of BSR Europe, providing the construction of a big multifunctional complex, situated in the close proximity of Varna airport with total built-up area of 230 000 sq.m., 140 000 sq.m. of which are residential, appointed for the construction of 1500 apartments. The start of the project is planned for autumn 2008 and the final completion – for the end of 2013.

The biggest project, announced during the first half of 2008 is in Burgas. The investor is Foros Development and Retail Park Burgas. The total built-up area of the complex is 800 000 sq.m., 450 000 sq.m of which are residential areas. The complex also provides the construction of sport-fitness centre, trade centre, restaurants and places of entertainment, hotel part, yacht port for 150 yachts, harbour station and business park.

Major residential developments in construction, announced in H1 2008

Development	City	Residential area (sq. m)	Number of residential units	Year of completion
Buysell Residential Complex	Sofia	200 000	436	
Residential Park Sofia	Sofia	194 000	700	2009
Tsarigradski Residential Complex	Sofia	160 000	1 300	2009
Sofia Ski Resort	Sofia	118 000	185	2008
Orchid Hills Varna	Varna	40 545	467	2010
Orchid Gardens	Varna	25 056	107	2010
Varbel Residential Complex	Varna	19 500	180	2009
Kolodruma Residential Complex	Plovdiv	64 264	284	2009
Gerbera Residential Complex	Plovdiv	42 300	327	2013
Maritsa Gardens Residence	Plovdiv	39 600	575	2010
Perl Residential Complex	Burgas	40 000	192	2008

A considerable part of the new projects, included those for smaller residential developments, are situated in the suburban city areas and in some cases in the nearby villages (the village of Lozen near Sofia; the village of Markovo near Plovdiv and others). Some of the main prerequisites for that are the large free building spots available, the lower price of land etc. On the other hand, however, the plots in these areas often suffer a number of problems, connected with unsettled ownership, lack or insufficiency of communications, lack of infrastructure etc. In most cases it becomes necessary for the investors of the sites to invest a great amount of additional funds and build the surrounding infrastructure themselves.

Another main problem real estate market is faced with is overrating building plots on behalf of their owners. In many cases the values announced are not bound with the main factors, influencing the market. The reason very often is that people are uninformed. To a great extent the same applies to the apartments which are offered. The result is a long stay of the properties on the market and impeded sale.

At the same time the higher competition in the field contributes to the higher quality of construction, to the increase of the number of additional services and to the availability of after-sales service.

In Varna, the present supply of apartments is supplemented by the apartments of newly-built holiday complexes in the resort area north and south of the city, which are purchased by Bulgarian citizens for permanent residence.

The trend for recently purchased apartments by foreign citizens (mainly in Sofia) to reappear on the market with capital profit target remains steady.

Demand

During the first half of 2008 demand for residential real estates remains stable. In some manner it is proved by the number of bargains concluded for the first quarter of the year which are 0.24% more than those concluded during the same period of 2007.

One-bedroom apartments are in greatest demand, but the interest to larger, three- and four-room apartments is also growing. Regarding new construction, real estates are demanded to have at least Certificate 14, i.e. to be completed in short term. It is rarely that people buy off-plan residences. The main reasons for that are clients' desire to be sure of building quality, on one hand, and the trend of increasing demand for buying residences through mortgages, on the other hand. A great part of residential property bargains in all cities of the country are made exactly through mortgages. Because of the changing situation, investors should rely less on off-plan sales while planning their projects and provide financing in advance. As a result, a large number of smaller investors, not professionally engaged in this field, will drop out of the market as they won't have an access to bank crediting.

A stronger interest is observed towards the apartments in gated complexes. A constantly growing number of clients get attracted by this type of estates, among which the share of young families with children is especially high. The demand for such apartments in the country by Bulgarian citizens represents between 80 and 90% on average. The interest is due to the various facilities which such complexes provide – parking places, green areas, security etc.

To be in line with supply, mass demand is concentrated in suburban city areas because of the lower prices of residential estates there.

In Sofia there is a constant interest in real estates near Business Park Sofia and as prices go up in all city districts, residence demand in districts, usually considered cheaper, such as Ovcha kupel, will grow.

In Varna, stable demand of real estates for permanent living is concentrated mostly in Troshevo, Mladost and Vazrajidane quarters, where several modern shopping centres are under construction, two of which already open. In the central part of the city big apartments for living are in demand, as well as small ones with investment target, usually renting. Another typical trend of the city is the extension of the zones of interest by attaching resort and villa areas, situated north and south of Varna, to the traditional quarters. The availability of parking place or garage is becoming a crucial factor for purchase.

In Burgas there is an increased demand for apartments – old construction – after basic repair works and with good communication (Ideal center and Lazur), as well as cheaper residences, mainly in Meden rudnik district.

In Veliko Tarnovo, because of the lower prices, a strong demand is observed in the districts Zone B, Buzludja and Kolio Ficheto. There is also an actual demand in district Cholakovci where there has been no interest up to now, due to the long distance from the city. Situation is quite similar in Russe – the demand is concentrated mostly in the outlying districts of the city.

During the period, the average time for searching and buying a residence is between one and three months. The main target is permanent living (about 65%) and approximately 35% of the deals are concluded with investment intentions. Before getting down to purchase, especially important for the people from this second group is to investigate the market well, asking specialists for advice so that they could obtain a good refund in middle terms.

Prices

During the first half of 2008 prices of residential real estates do not undergo considerable changes except in some parts of the country where some dynamics is observed. The average growth of sale values in the sector in the country is at the rate of 12%. The highest increase has been registered in Rouse – 24,3%, where in some parts of the city prices of residential real estates get closer to those in Sofia and Varna.

Price increase of residential real estates in Bulgaria during H1 2008

	Old brick buildings	Panel buildings	New developments	On average
Sofia	10,83%	8,04%	8,32%	9,06%
Plovdiv	14,94%	32,90%	10,31%	19,38%
Varna	8,65%	6,33%	5,91%	6,96%
Burgas	9,70%	5,96%	2,25%	5,97%
Ruse	23,22%	24,02%	25,67%	24,30%
Veliko Tarnovo	15,92%	6,68%	15,17%	12,59%
Dobrich	6,15%	5,28%	3,27%	4,90%

Rental Market Overview

Rental market proves upward development, but dynamics in rent levels is lower compared to previous period. The increase is the highest in the capital. Apartment rents there have gone up by average 18,09% and house ones – by 16,1%. Traditionally, prestigious areas like Oborishte, Lozenetz, Iztok and Ivan Vazov keep higher rent levels due to the fact that it is where big, luxuriously renovated and furnished residences are offered.

In some cities, seeking high profitability of purchased residential real estates, landlords gradually increase rent prices and at a certain time they reach values which considerably differ from market ones and impede rental process.

During the first half of 2008 a significant increase in residential estate supply is registered in most Bulgarian cities. Among the growing number of offers, there are already such of good quality, containing the conditions, required by renters, such as apartments in new or well-maintained buildings in central city areas or convenient quarters.

As far as demand is concerned, in bigger cities there is a stronger interest in apartments in luxurious new buildings, excellently furnished.

There is a growing interest in Sofia towards “Mladost” quarter due to its strategic location; excellent communications which soon will be expanded by an

Rental price increase of apartments in Bulgaria during H1 2008

	Furnished	Unfurnished	Luxurious	On average
Sofia	19,27%	22,36%	15,31	18,98%
Varna	3,03%	2,78%	1,00%	2,27%
Burgas	5,00%	6,25%	6,25%	5,83%
Ruse	3,98%	1,43%	3,57%	2,99%
Veliko Tarnovo	18,95%	16,67%	12,48%	16,03%

underground; new construction; the presence of a number of big chains of stores, offices etc., offering opportunities for living, work and entertainment. Another trend in the capital is the increased demand for houses and villas – mainly in Dragalevci, Simeonovo and Boyana quarters – by foreign citizens, diplomats and officers of big Bulgarian and international companies. The main requirements are connected with a big yard available, year-round access, over 3 bedrooms and a living room. Both furnished and unfurnished houses are in demand.

In Varna the demand for apartment rents is concentrated mainly in Gratska mahala quarter, around Sport Palace, Economic University, Regional Hospital, Chaika quarter, Summer and Winter Trakiya Cinema.

In Burgas there is an interest in the city centre and Lazur quarter and an increased demand for furnished and unfurnished residences in the Thermal Power Station complexes (Slaveikov, Izgrev and Zornica), especially in the new residential blocks.



H2 2008 Forecasts

- The amount of residences on offer for sale in some parts of the country will come much closer to real solvent demand;
 - Real estate demand in the segment will remain steady with interest growing stronger towards complexes of closed and semi-closed type, offering more additional services;
 - Mass demand will still be directed towards city outlying areas because of lower property prices there;
 - The increase in prices of residential real estates will be similar to the one witnessed during the last half a year. i.e. between 8 and 15%.

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