Expert Invest

July / 2011

Bulgarian Property Review

´Continued supply for offices and high vacancy rate give opportunity to occupiers to take advantage of incentive packages and relocate in Class A office space with good location in CBD. Occupiers turned their attention to smaller new-build office space due to the economic crisis.

The industrial market in H2 of 2011 was chiefly dominated by owner – occupied development schemes. The industrial development pipeline remains limited due to the restriction of credit and perceived take – up concerns.

The retail property market continues with little activities mainly focused within the food and discount sectors. Weak occupier demand and falling consumer expenditure continues to decline rents and rising vacancies.

The residential market continues to be marked with a few transactions due to the financial limitations of the economic crisis. Demand is expected to continue to be weak and it will likely not be changed in the near several years.´

Petar Andonov MSc, MRICS

Economy

Bulgarian economy remains still very weak and recovery is not yet solid.
Bulgarian GDP continues to grow slightly and the growth was 0.6% in the first quarter of 2011 compared to the last quarter of 2010 and 3.4% compared to same quarter of previous year. The forecast for GDP is to reach a growth of 3% in 2011.

Inflation increased by 2.6% between January and May this year. The annual inflation in May 2011 compared to May 2011 was 4.8%.

The business climate in the construction industry registered an increase of 3.7 points in May, because of improvement in assessments of present business situation. Contraction in construction activity continues but at a slow pace.

The Base Interest Rate of BNB as of the 1 of June was 0.22%.
Non-performing loans increased slowly, but the expectation is the trend is going to reverse in the second half of 2011

The unemployment rate was 12% in the first quarter of 2011 and it remains still very high. It rose by 1.8% compared to the same quarter of 2010.

Retail sales in Bulgaria were 5.8% lower on like for like basis over the 12 months to April 2011 and declined by 0.2% on a monthly basis.

Bulgarian economic recovery from recession continued to falter in H1 of 2011. The forecasts anticipate, the growth for the Bulgarian economy resumes in 2011, but high unemployment data and failing of wages to keep pace with price inflation lead to weak consumer spending.

Office property

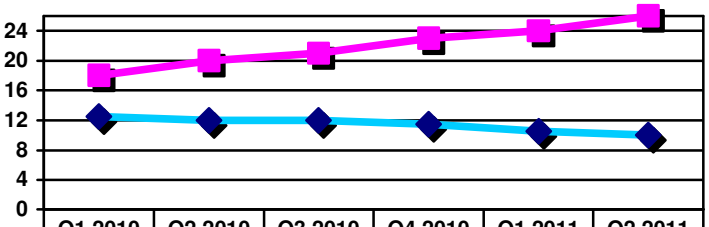
The office rents continue to be under pressure due to the high vacancy rate and active pipeline development in the capital Sofia.

The trend of office market in H1 2011 was mainly dominated by company relocations. Continued supply for offices and high vacancy rate give opportunity to occupiers to take advantage of incentive packages and relocate in Class A office space with good location in CBD. Occupiers turned their attention to smaller new-build office space due to the economic crisis.

In spite of high vacancy rate the active pipeline remains stable in the capital Sofia. Very limited development continues to build in other regional cities. None of developers have yet committed to a speculative site start in this cities. Reducing the supply of office accommodation will help the market rebalance, but the lack of new development may lead to shortages of modern office space within the near future. Prime office rents in Sofia for new buildings are in the range of 8-12 € per sq. m./month, however there is a downward pressure. Incentive packages such as substantial rent-free periods, undertaking relocating expenses, support rents continued to try attracting tenants. It is expected that the incentive levels will stop growing and stabilise at the end of the year.

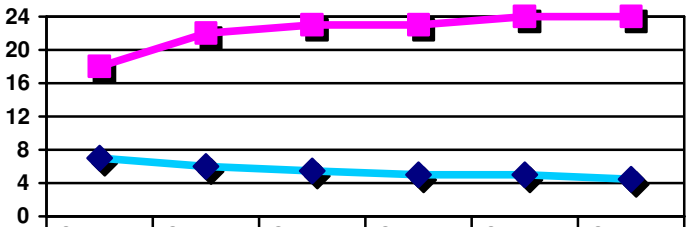
Demand for larger office space in H1 of 2011 was particularly slow due to the very weak economic recovery. However anticipated improvement in demands is expected in the beginning of 2012.

Prime Office Rents and Vacancy - Sofia



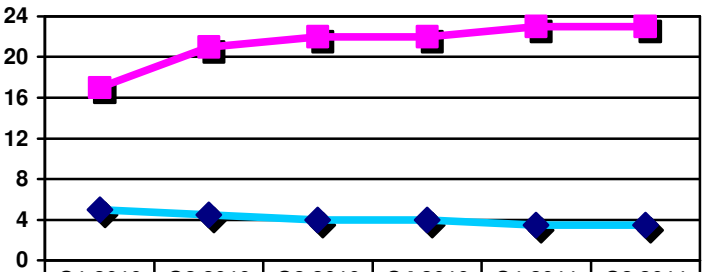
	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Rent €/m2/month	12,5	12	12	11,5	10,5	10
Vacancy %	18	20	21	23	24	26

Prime Office Rents and Vacancy - Varna



	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Rent €/m2/month	7	6	5,5	5	5	4,5
Vacancy %	18	22	23	23	24	24

Prime Office Rents and Vacancy – Plovdiv



	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Rent €/m2/month	5	4,5	4	4	3,5	3,5
Vacancy %	17	21	22	22	23	23

Source: Expert Invest

Industrial property

The industrial market in Bulgaria continues to experience difficult condition over the past six months.

The industrial property market had little activity over the past six moths due to the weak economic recovery. Despite current economic difficulties the expected returning of vacant industrial floorspace through company failures is at low level.

The industrial market in H2 of 2011 was chiefly dominated by owner – occupied development schemes. The industrial development pipeline remains limited due to the restriction of credit and perceived take – up concerns. However there are some projects on site mainly in Sofia region and others are programmed to follow. It is expected that fresh requirements for industrial premises will emerge over the next 12 months due to an increase in exports and improved business.

Occupier demand continues to be subdued and there were few deals in the period on the market mainly in relocation to higher quality logistic space. Lack of new development keeps comparatively low vacancy rate.

Rent levels continued to decrease slightly in comparison with H2 of 2010 and are in the range of 2 – 4 € per sq. m./month in the H1 of 2011. Landlords and tenants were moving toward more flexible leases, typically for 3 years with a rent free period. Incentive packages are stabilised and this witnesses to a future stabilisation in rents.

The industrial market in Bulgaria continues to experience difficult condition, although there have been several transaction during the six months to July of 2011.

Retail Property

The retail market is strongly affected by the ongoing decline in consumer expenditure and any nascent recovery is postponed to 2012.

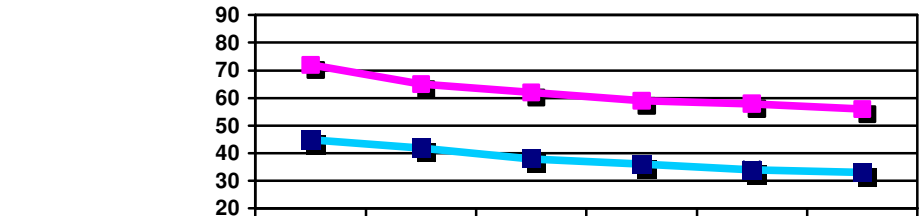
The retail property market continues with little activities mainly focused within the food and discount sectors. Market trends are clearly underpinned by Bulgarian sales data. Falling of disposable income as a result of increased utility bills, lead to a substantial decrease in non food sales.

Weak occupier demand and falling consumer expenditure continues to decline rents and rising vacancies. Vacancies in some traditional town centers are a product of the record supply of shopping centers in 2010. Most of tenants were forced to try to renegotiate rents due to the decline in turnover and many cases they received rent reduction or rent free period. Incentives, such as reduced rents for definite periods, turnover rents or break options, continue to increase in order to attract tenants and decline vacancy rate. Landlords strive for dilution of covenant risk across numerous occupiers in this difficult retailing environment and fragile economic recovery. Some of pipeline projects have been put on hold while others have been frozen until the economic recovery become steadier.

Some development schemes, under construction, go on slowly because of luck of funds and difficulties with leasing.

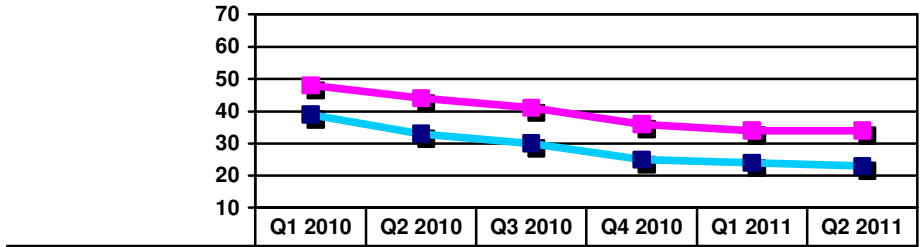
The retail market is strongly affected by the ongoing decline in consumer expenditure. These inauspicious conditions are supported to a greater extent by the austerity measures in the public sector. Any nascent recovery in the Bulgarian retail property market is postponed to 2012.

Prime Retail Rents – Sofia, €/m2/month



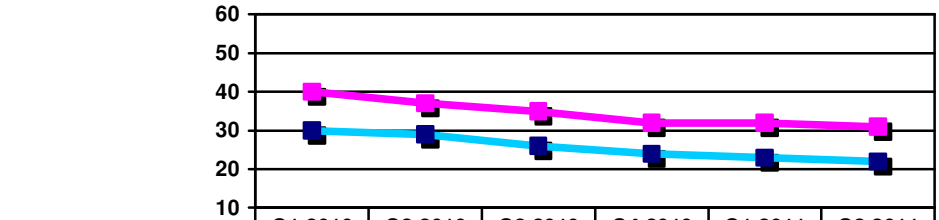
	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Shoping Centers	45	42	38	36	34	33
High Streets	72	65	62	59	58	56

Prime Retail Rents – Varna, €/m2/month



	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Shoping Centers	39	33	30	25	24	23
High Streets	48	44	41	36	34	34

Prime Retail Rents – Plovdiv, €/m2/month



	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Shoping Centers	30	29	26	24	23	22
High Streets	40	37	35	32	32	31

Source: Expert Invest

Residential Property

Given the lack of development over the last few years, prospects for residential market may be beginning to improve.

Bulgarian residential market continues to be marked with a few transactions due to the financial limitations of the economic crisis. Demand is very limited to high net worth individuals. Demand in vacation properties is also very limited to few foreign buyers mainly from Russia. Buyers remain selective and in many cases there is a significant difference between the price expectation of vendors and potential purchasers.

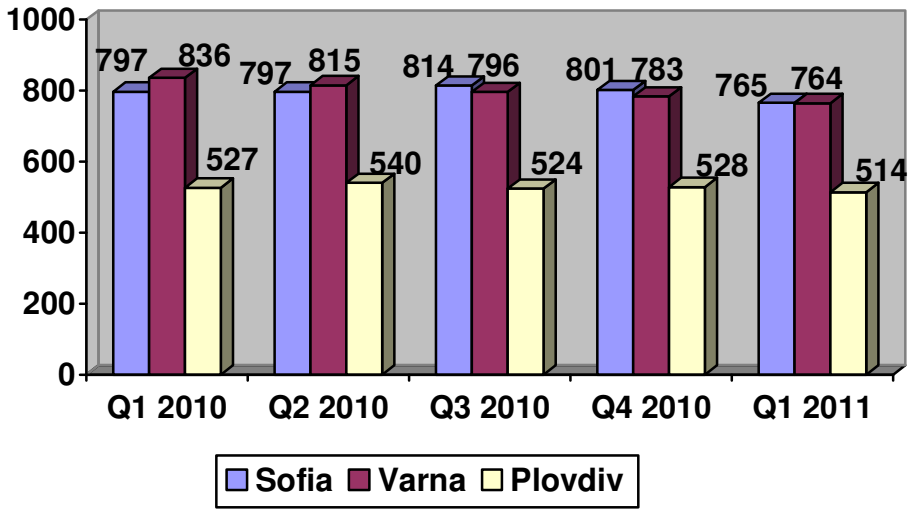
The availability of bank credit remains tight. Banks are cautious and seek greater security both in terms of location and quality of property, and certainty of income of borrower.

There is a gap between the prices that developers are seeking and what the market is willing to pay. Properties with lower quality and in bad location are proving difficulties to sell in the absence of a pool of potential buyers. Developers are generally left with no option but to keep reducing prices until a buyer is tempted.

Demand is expected to continue to be weak and it will likely not be changed in the near several years. Given the lack of development over the last few years, prospects for residential market may be beginning to improve.

Prices of residential property continued to decline slightly and may reach the bottom. The positive signal is weak increasing of sales in Sofia.

Residential Property Prices in Bulgaria, €/m2



Source: NSI

Contact
Petar Andonov MSc, MRICS
Expert Invest
6, Bulgaria Blvd, Plovdiv, Bulgaria
www.expertinvest-bg.com