



Expert Invest

July / 2012

Bulgarian Property Review

Demand for office space is still weaken and is unlikely to soar in the foreseeable future due the continued economic crisis.

The industrial market in Bulgaria through the H1 of 2012 was showing very little activity with few transactions and limited development. Weak business growth and fragile economy conspire to undermine the market and limit activity.

The effects of the recession continue to rise vacancies and down pressure rents in the Bulgarian retail property market. Development activity remains weak due to the continuing challenges facing the retail sector.

The problem of supply exceeding demand in residential market has certainly been evident and appears set to continue. Prices of residential property continued to decline at slow pace over the last months.

Transactional activity continues to be limited in the Bulgarian residential market, as wider economic uncertainty pervades the sector and affects confidence.

Petar Andonov MSc, MRICS

Economy

The uncertain economic environment and financial difficulties due to fiscal austerity and the troubled Eurozone continue to contribute to slower growth of the Bulgarian economy.

Bulgarian economic recovery from recession continued to be slow and protracted in H1 2012. Bulgarian GDP grew slightly by 0.5% in the first quarter of 2012 compared to the same quarter of the previous year and kept its level to the fourth quarter of 2011. The forecast for GDP is to reach a growth of 1% in 2012.

In May 2012 the index of construction production kept the level of the previous month and it showed a decrease by 3.0% on annual basis. The decrease of production in construction was mainly due to negative rate in the building construction by 8.2%, while the civil engineering rose by 4.4%.

Monthly inflation in May was - 0.3% and 1.6 % between January and May this year. The annual inflation in May 2012 compared to May 2012 was 2.1%.

The Base Interest Rate of BNB of the 1 of July 2012 was 0.16%.

Non-performing loans increased by 21.4% in March on annual basis and by 9.9% compared to December 2012. The reversion of the trend is likely to happen in 2013.

The unemployment rate was 12.9% in the first quarter of 2012 and continues to remain still very high. It rose by 4.8% compared to the same quarter of 2011.

Retail sales in Bulgaria were 1.8% lower on like for like basis over the 12 months to May 2012 and declined by 0.3 % on a monthly basis. The decrease was the highest in the retail sale of household appliances and - by 1.6%, while at least - in retail trade with food, beverages and tobacco - by 0.1%.

In summary, economic growth remains weak and fragile as the recession continues to cast its shadow over the recovery. Resumption of a normal economic growth rate continues to be postponed to next year.

Office property

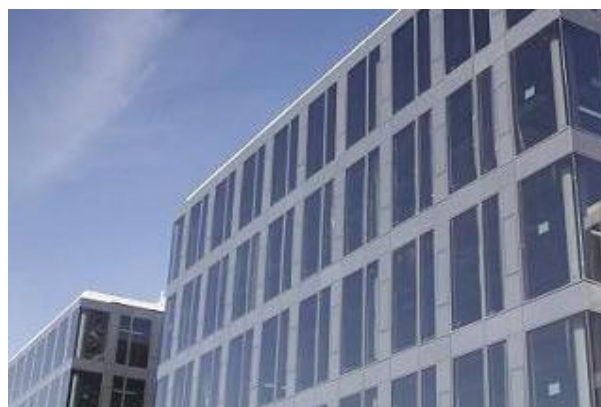
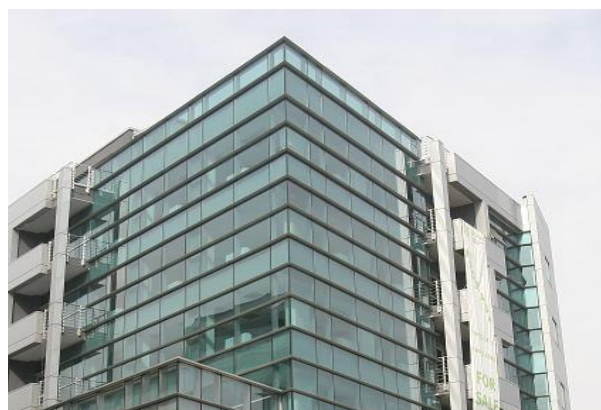
Little market activity, substantial incentives, weak demand due to economic uncertainty, continue to exert downward pressure on rents.

Bulgarian office market in H1 of 2012 continued to be subdued due to the economic uncertainty. Little market activity is spread across of a range of sizes. Occupiers considering relocation have a range of size, location and quality of property to choose from. Landlords have to be very competitive to secure tenants and lure occupiers away from the option of lease renewal on their existing premises. Occupiers have a lot of options but, dependent on specific requirements in terms of size, floorplate, quality and location, what initially appears to be a wide range of properties rapidly reduces. Some occupiers continue to re-gear their leases at break options and agree lease extensions to avoid incurring relocation costs.

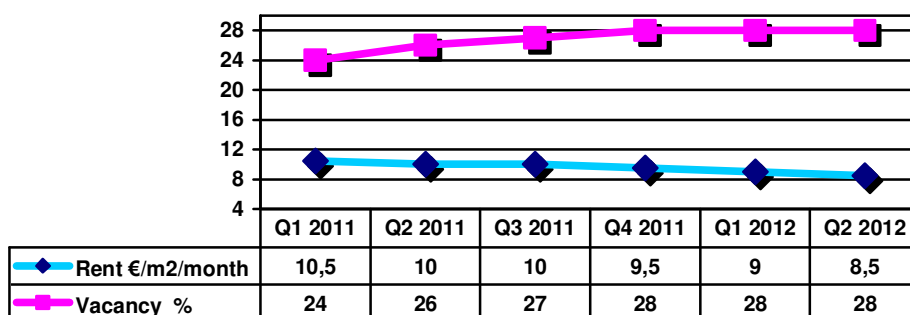
Rents continue to be under downward pressure with increasing incentives. Substantial rent free incentives and flexible leases continue to support rents. No significant new developments have been added to the pipeline.

Demand for office space is still weaken and is unlikely to soar in the foreseeable future due the continued economic crisis.

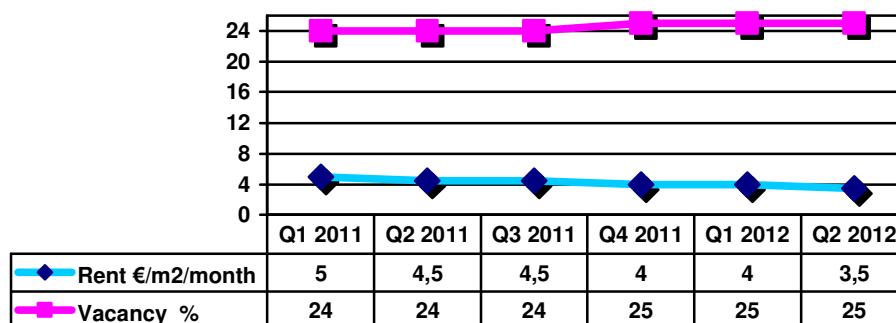
The office market remains hugely variable, depending upon location and competition. In summary, the office market was challenging in H1 of 2012 but provided opportunities to take advantage of mispricing and investor caution.



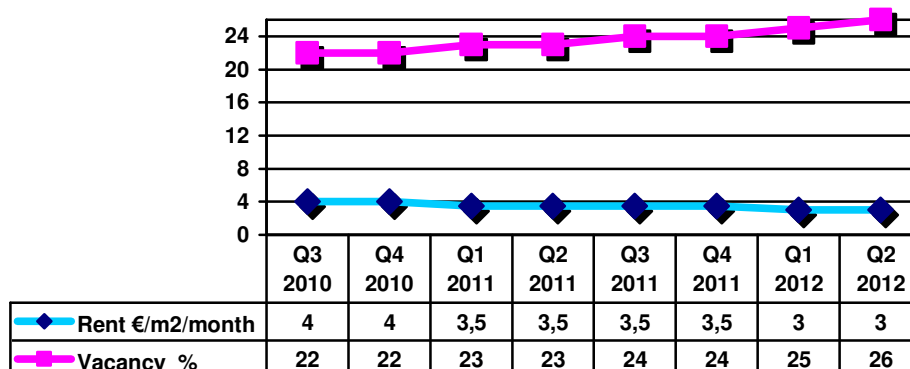
Prime Office Rents and Vacancy - Sofia



Prime Office Rents and Vacancy - Varna



Prime Office Rents and Vacancy – Plovdiv



Source: Expert Invest

Industrial property

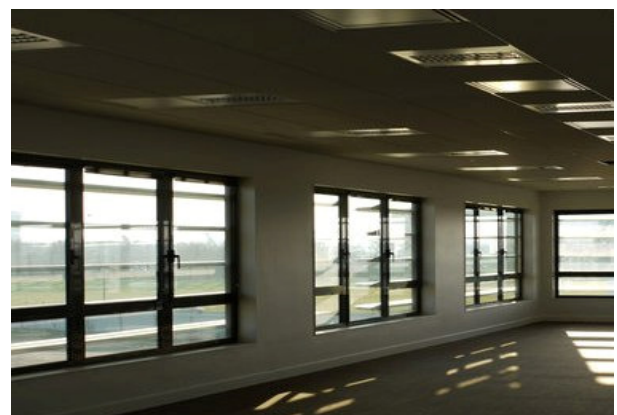
Headline rents on industrial stock continued to decrease slightly and rent – free periods is often negotiated part of any transaction.

The industrial market in Bulgaria through the H1 of 2012 was showing very little activity with few transactions and limited development. Companies in Bulgaria often delayed industrial property decisions in the H1 of 2012. Weak business growth fragile economy and most cases occupational market, corporate instability, Euro zone volatility, scarcity of bank debt conspire to undermine the market and limit activity.

Lease flexibility remains important for occupiers. Headline rents on industrial stock continued to decrease slightly and rent – free periods is often negotiated part of any transaction. There was a decrease in rent levels by 10% and they are in the range of 2 – 3.0 € per sq.m./month. There has not been a noticeable rise in incentive packages over the past six months due to the relatively tight supply.

Vacancy slightly decreased in H1 of 2012 and this might positively influence the industrial property market. Take-up has been driven by companies seeking cheap accommodation on flexible terms for immediate entry, or alternatively companies seeking prime, well-established business locations.

As with the overall market, activity in industrial market remains constrained because of economic concerns and continued restrictions on bank finance. Forecasts are for a gradual development along with economic recovery.



Retail Property

The effects of the recession continue to limit activity, rise vacancies and down pressure rents in the Bulgarian retail property market.

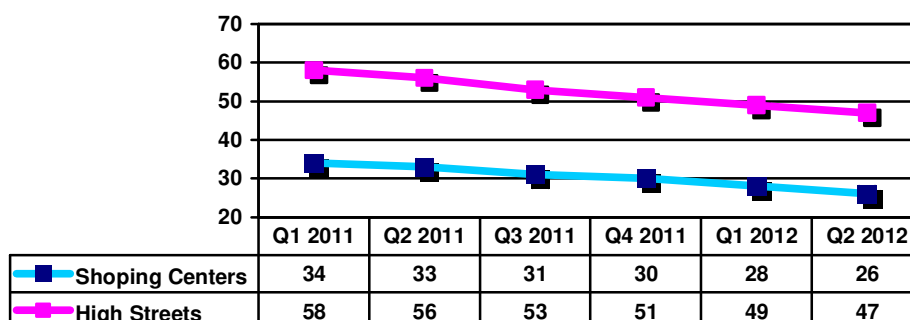
Bulgarian retail property market continues to be subdued due to the low wage grow and high unemployment. The general uncertainty over jobs and income has had negative impact on sales of clothing, footwear and homeware. Looking ahead there appears to be general pressure on inflation due to the subdued retail spending on the reason of the weak outlook for wages and employment. Limited activity in the retail market is maintained mainly by food store operators but some of them put on hold new plans for development in next years. If this becomes a trend it will have implications for the retail sector generally, as the major food store operators continue to be anchor uses in many development schemes. In contrast with food store operators many other retail occupiers have no options to expand turnover by adding new floorspace and are looking towards cost cutting and potential closure of under performing stores. The consequences from the recent recession and gradual weakening of some centres as vacancies rise has caused many difficulties in new development schemes.

Development activity remains weak due to the continuing challenges facing the retail sector, and there was no major retail opening in the country over the H1 of 2012 except Mall Galleria Burgas. Some of projects have been put on hold due to the challenging market conditions but other are under construction and it is expected some of them will to be completed in the next year.

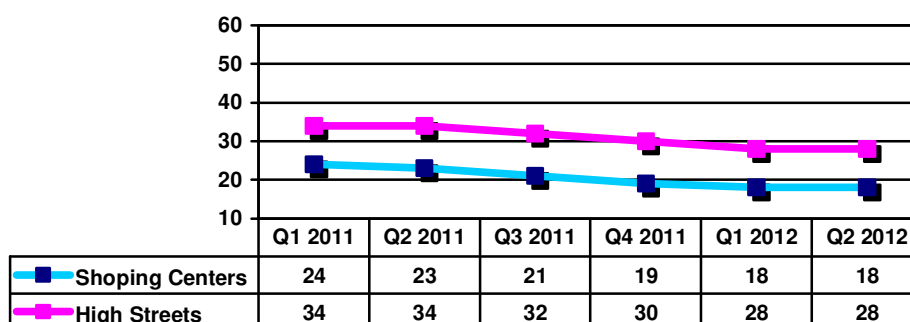
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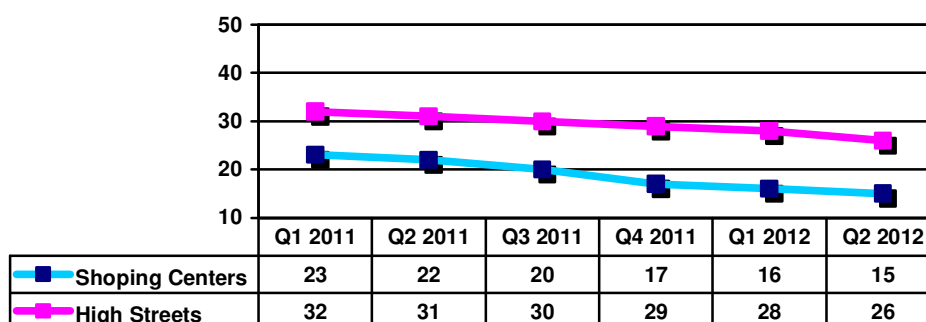
Prime Retail Rents – Sofia, €/m2/month



Prime Retail Rents – Varna, €/m2/month



Prime Retail Rents – Plovdiv, €/m2/month



Source: Expert Invest

Residential Property

The subdued market appears set to continue as buyer sentiment remains understandably cautious and risk averse.

Transactional activity continued to be very limited in the Bulgarian residential market in H1 Of 2012. Prices of residential property continued to decline at slow pace over the last months.

Banks caution and seeking greater security in terms of certainty of income of borrowers lead to the lack of funds for purchase. As a consequence there is downward pressure on prices.

The problem of supply exceeding demand in residential market has certainly been evident and appears set to continue.

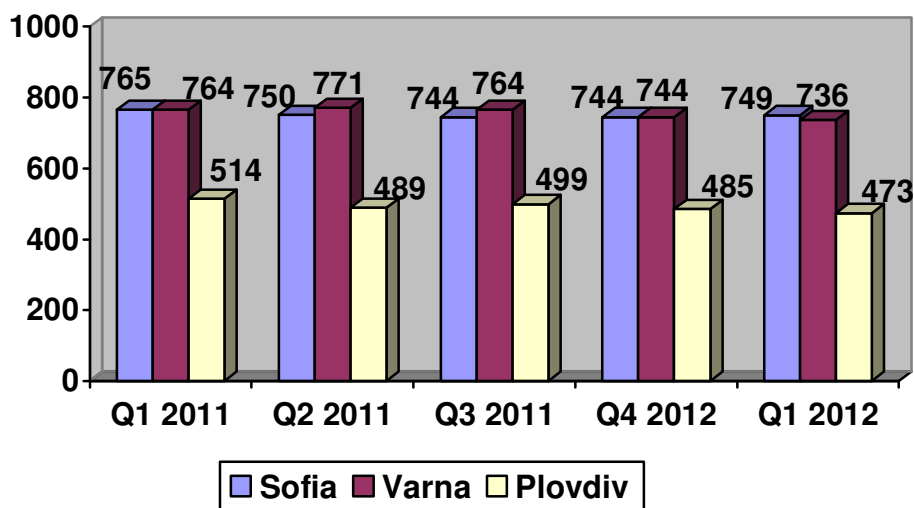
Sellers are concerned that marketing their properties for sale now is unlikely to secure best price. On the whole there is some demand for the property with good quality and location. However, there remains a gap between sellers' expectations and the buyers' requirements to make purchases in the current market. While this gap persists, activity levels will remain relatively subdued.

The outlook for the 2012 appears somewhere between bearish and pessimistic, as the Bulgarian residential property market confronts a multitude of challenges.

This subdued market appears set to continue as buyer sentiment remains understandably cautious and risk averse. In addition there is potential for a significant amount of secondary stock to be released into the market as banks de-leverage and borrowers default.



Residential Property Prices in Bulgaria, €/m2



Source: NSI

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