



Expert Invest

July / 2010

Bulgarian Property Review

'Demand for offices in Bulgarian major cities continues at reduced levels. Supply has slightly increased over the past six months and it is still higher than demand.

The industrial property market's recession continued in the first half of 2010. There were only a few transactions on the market. The weak prospect of market recovery including rental performance and investor interest urges developers to freeze proposals for new industrial schemes.

The retail market in the first half of 2010 was poor with projects being either delayed or postponed due to economic situation and credit conditions. The weak retailer demand, due to economic downturn, leads to rising vacancies and lack of transactions.

House prices continue to decline but at a slower pace and they are expected to stabilise. There is prospect that residential market will gradually begin to regain some composure at the end of the year.'

Petar Andonov MSc, MRICS

Economy

Bulgarian GDP decreased slightly in the first quarter of 2010 compared to the last quarter of 2009.

Foreign investments in construction industry have slumped dramatically with 40% over the past year.

Inflation fell by 0.2% between April and May this year and fell by 0.9% between May and June.

The last statistical data shows that the Bulgarian economy starts to come out of the recession. Industrial production made growth of 0.2% in May.

The export to European and third countries has increased on monthly base. Foreign trade continues to have a positive effect on overall economic developments.

The Base Interest Rate is 0.18% from the 1 of July.

The mortgage market increased with 8% in May compared to April and revived for the first time over the last two years.

The unemployment rate in April was 9.95% and fell to 9.53% in May 2010. The downward trend appeared for the first time from 2008 and it continues firm under 10%.

The forecasts anticipate slow growth for the Bulgarian economy in the forth quarter of 2010 followed by gradual recovery trough 2011 and 2012.

Office property

The office rents continued to be supported by substantial rent-free incentive package.

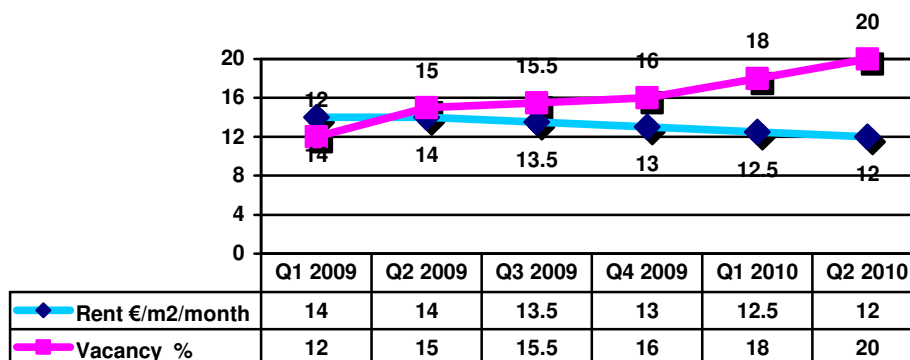
Demand for offices in Bulgarian major cities continues at reduced levels. Supply has slightly increased over the past six months and it is still higher than demand. The overall vacancy rate for the wider is 20%. Prime city centre headline rents in competitive market for new, smaller buildings are in the range of 8-12 € per sq. m. Reducing supply, due to the freezing of some projects, supports rents of upwards of 10 € per sq. m. for the best office space in prime location.

Discounted rents will remain available for buildings which do not meet requirements of Grade A and higher quality Grade B. The rents continued to be supported by substantial rent-free incentive package due to the landlords' competition in the full range of quality and size, especially for tenants offering strong covenants. Incentives were usually combined with a discounted or stepped rental arrangement. There has been no activity on out-of-town business parks.

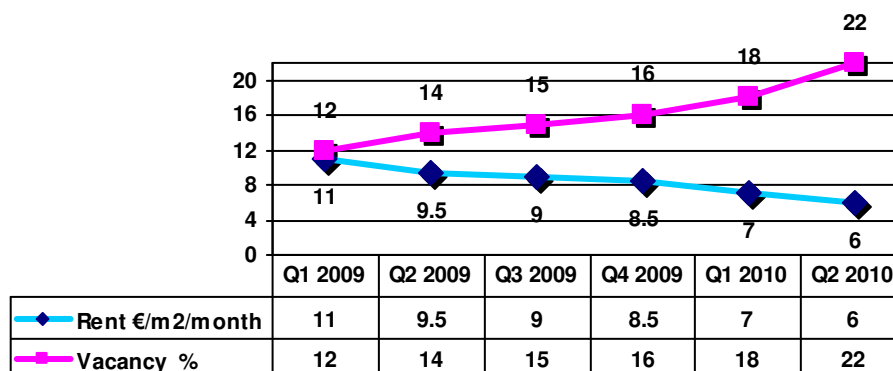
Occupational demand continues to be under normal level for the country, especially for the larger offices. Smaller offices will remain to be the most active in the market, particularly when the landlords offer flexible packages and reduced rents. Prices of offices fell 30% in two years, more than other European countries. The slide in property values may be reaching the bottom at the end of 2010 and capitalisation rates will probably fall in 2011.



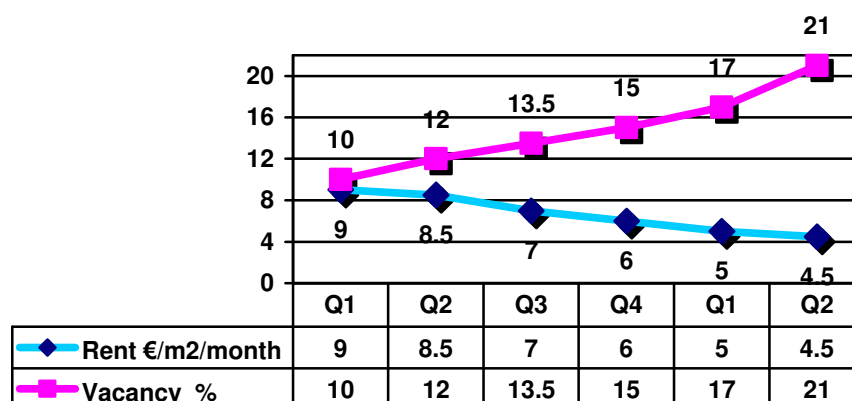
Prime Office Rents and Vacancy - Sofia



Prime Office Rents and Vacancy - Varna



Prime Office Rents and Vacancy – Plovdiv



Source: Expert Invest

Industrial property

Although, the industrial market has been significantly affected by reduced export and economic downturn, rent levels continued to decrease slightly.

The industrial property market's recession continues in the first half of 2010. There were only a few transactions on the market. The weak prospect of market recovery including rental performance and investor interest urges developers to freeze proposals for new industrial schemes.

Occupier demand continues to be weak and there have been few deals in the period on the market only for smaller units. Given the recent economic situation, it is expected that the supply would increase through company failures but it is not found to be a significant factor. Bank funding still remains an issue for occupiers. The restriction of credit has reduced the number of property sales and has depressed the price. It is likely that only small unit schemes will emerge for some time. Potential occupants took a cautious approach and strived to be more cost efficient.

A key investors' requirement is the popularity of units with good access to surrounding trunk road and motorway network. Although, the industrial market has been significantly affected by reduced export and economic downturn, rent levels continued to decrease slightly in the first half of 2010. Generally speaking, the industrial property market in Bulgaria has seen little activity over the past six months.



Retail Property

The retail market in H1 was poor with projects being either delayed or postponed due to economic situation and credit conditions

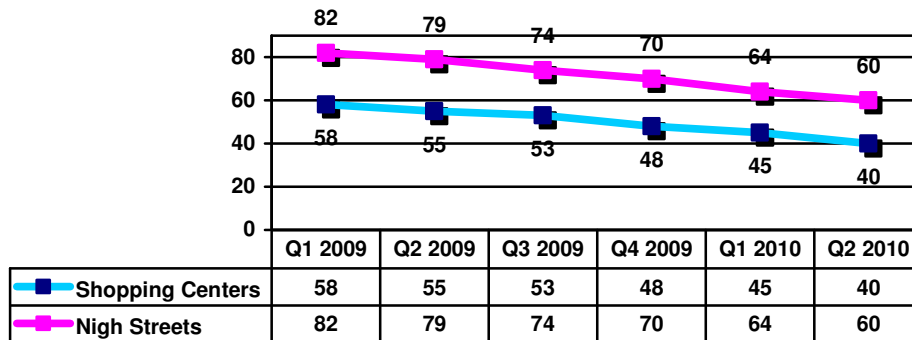
The retail sector recession began before the economic downturn and continues afterwards. The retail market in the first half of 2010 was poor with projects being either delayed or postponed due to economic situation and credit conditions. Despite economic crisis, six shopping centers (Sofia Outlet Center, Serdika Center, Mall Gabrovo, Mall Galeria Plovdiv, The Mall, Grand Mall Varna) with 236 000 sq. m. GLA were delivered to market in the first half of 2010.

Consumer expenditure is very limited and mainly skewed towards food sales. Retail sales have generally been fuelled by retail foodstores and large discount operators. This weak retailer demand, due to economic downturn, leads to rising vacancies and lack of transactions. Vacancies in some traditional town centres are not simply a result of the economic crisis, but are the product of the last years when retailers have been attracted to new development and accommodation which offers larger floorplates. This has generally led to weakening of rents throughout the country and vacancies highlight a lack of demand.

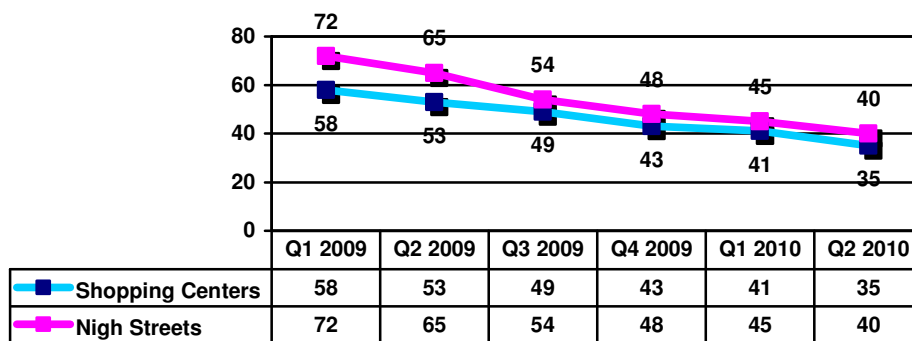
Most of tenants renegotiated rents trying to limit effects of the crisis and they received either rent reductions or rent free periods. New deals were with increased incentives, such as reduced rents for definite periods, turnover rents or break options.



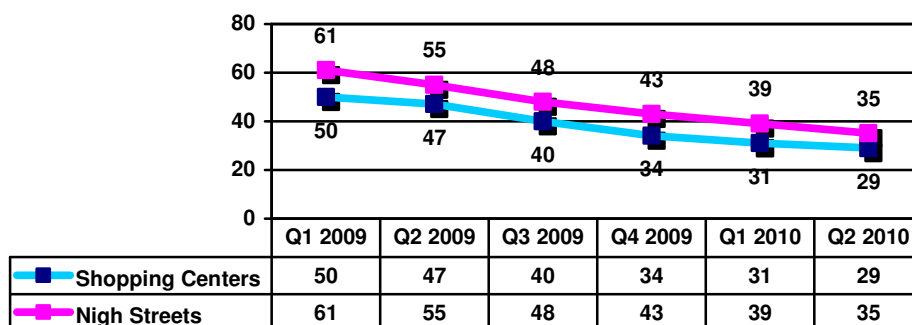
Retail Rents – Sofia, €/m2/month



Retail Rents – Varna, €/m2/month



Retail Rents – Plovdiv, €/m2/month



Source: Expert Invest

Residential Property

House prices continue to decline but at a slower pace and they are expected to stabilise at the end of the year.

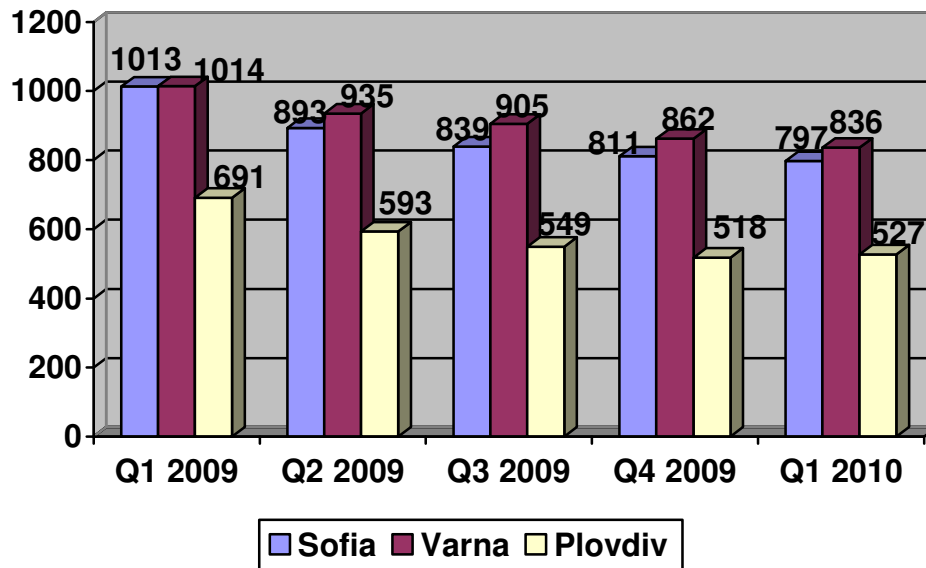
The slowdown of the Bulgarian residential market continued in H1. Sales of flats were strongly affected by the financial limitations imposed by economic crisis. Now banks offer mortgages of only up to 60% - 70% of the value of the property. Falls in newly agreed sales took place across the country but the pace of decline stabilised. Sales prices continue to decline slightly and only in some boroughs in Sofia and Varna have stabilised.

Some of the projects were temporally frozen while some of new projects have been postponed to the indefinite future either due to the lack of funding or low demand. The weak demand was mainly focused in small apartments, usually one or two-bedroom, in good location, with completed construction, within 60 000 €. Given the current situation of the weak demand the developers are forced to increase incentives. Rents deteriorated slightly but it is expected confidence in negative outlook to be changed.

However, looking further ahead, the positive expectations need for some caution. There will be significant challenges for the economy and the housing market due to the prospect of very large cuts in public spending. Although, the generally grim of news over the past six months, there is prospect that residential market will gradually begin to regain some composure at the end of the year.



Residential Property Prices in Bulgaria, €/m2



Source: NSI

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