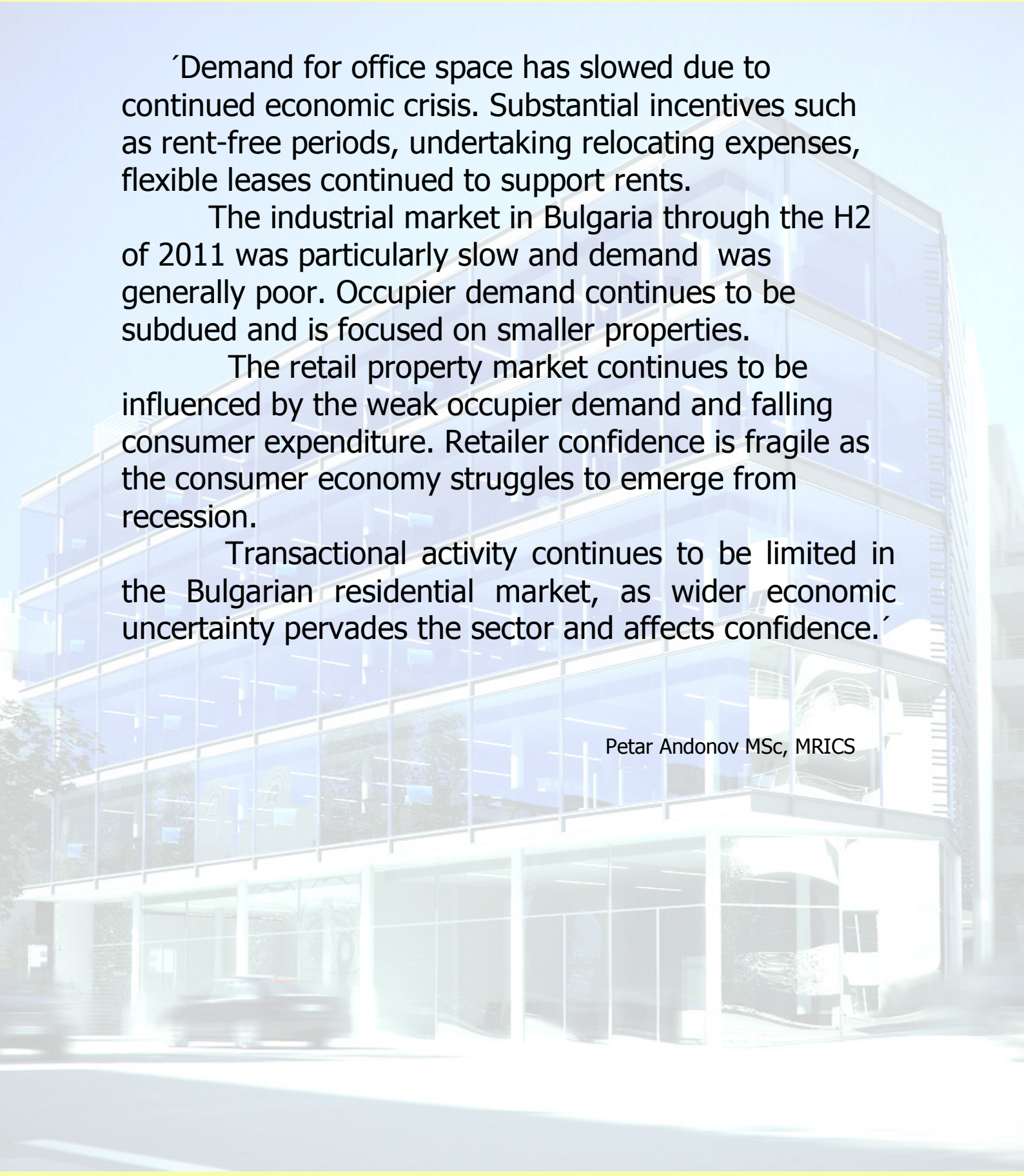
Expert Invest

December / 2011

Bulgarian Property Review



´Demand for office space has slowed due to continued economic crisis. Substantial incentives such as rent-free periods, undertaking relocating expenses, flexible leases continued to support rents.

The industrial market in Bulgaria through the H2 of 2011 was particularly slow and demand was generally poor. Occupier demand continues to be subdued and is focused on smaller properties.

The retail property market continues to be influenced by the weak occupier demand and falling consumer expenditure. Retailer confidence is fragile as the consumer economy struggles to emerge from recession.

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

Growth of the Bulgarian economy in H2 2011 was weak and recovery was affected by the economic slowdown and continued uncertainty in Europe.

Bulgarian GDP continues to grow slightly and the growth was 0.3% in the third quarter of 2011 compared to the second quarter of 2011 and 1.6% compared to same quarter of previous year. The forecast for GDP is to reach a growth of 2% in 2011.

In October 2011 the index of construction production was 0.2% above the level of the previous month and it showed a decrease by 9.5% comparing to October 2010. Index of building construction, marked an increase by 0.5% on a monthly basis, while on the annual base decreased by 3.6 %. The uncertain economic environment and financial difficulties continued to be major problems for the construction industry, although in December 2011 there was a reduction of their negative influence.

Monthly inflation in November was 0.3% and 2.7% between January and November this year. The annual inflation in November 2011 compared to November 2010 was 3.1%.

The Base Interest Rate of BNB of the 1 of December was 0.22%.
Non-performing loans increased slowly and was 14.45% in September. The expectation of the trend is going to reverse in the second half of 2012.

The unemployment rate was 10.2% in the third quarter of 2011 and it remains still very high. It rose by 0.7% compared to the same quarter of 2010.

Retail sales in Bulgaria were 5.2% lower on like for like basis over the 12 months to October 2011 and declined by 0.8% on a monthly basis.

Generally speaking, Bulgarian economic recovery from recession is slow and protracted. Economic growth is fragile, unemployment rate continues to be high, business formation has weakened and consumer spending is clearly under pressure. Downside risks from fiscal austerity and the troubled Eurozone will continue to drag on growth moving forwards.

Office property

Substantial incentives such as rent-free periods, undertaking relocating expenses, flexible leases continued to support rents.

There has been little change in the dynamics of the Bulgarian office market since the H1 2011.

Demand for larger office space has slowed and deals are taking longer to conclude due to continued economic crisis. Some of the companies try to renegotiate leases on their existing premises, while others have decided to move. Relocations further reduced the already restricted supply of completed new space.

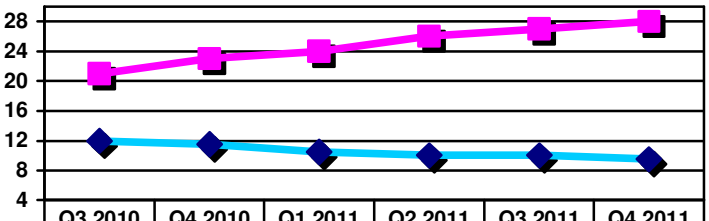
Substantial incentives such as rent-free periods, undertaking relocating expenses, flexible leases continued to support rents, albeit reducing supply at the market will strengthen the landlord's position over time.

Locations in regional cities have struggled with no larger transactions having occurred during the last six months.

It is most likely supply of offices to continue to tighten over the next 12 months. The lack of new construction may not immediately trigger rental growth, but incentives will reduce as lease expiries lead to relocations and new occupiers diminish the supply of prime offices.

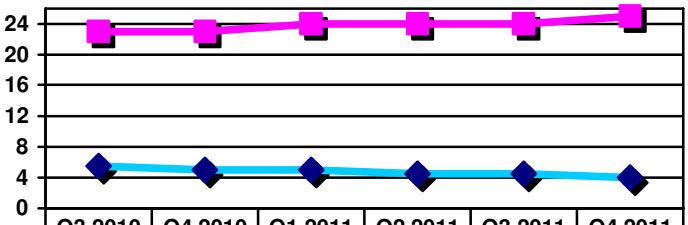
Very little significant speculative development will help the market rebalance, but the lack of new development may lead to shortages of modern office space within the near future.

Prime Office Rents and Vacancy - Sofia



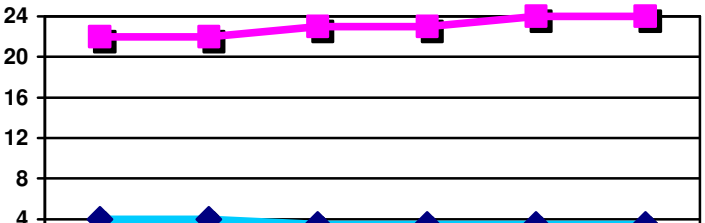
	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Rent €/m2/month	12	11.5	10.5	10	10	9.5
Vacancy %	21	23	24	26	27	28

Prime Office Rents and Vacancy - Varna



	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Rent €/m2/month	5.5	5	5	4.5	4.5	4
Vacancy %	23	23	24	24	24	25

Prime Office Rents and Vacancy – Plovdiv



	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Rent €/m2/month	4	4	3.5	3.5	3.5	3.5
Vacancy %	22	22	23	23	24	24

Source: Expert Invest

Industrial property

The industrial development activity remains limited due to the restriction of credit and perceived take – up concerns.

The industrial market in Bulgaria through the H2 of 2011 was particularly slow and demand was generally poor. It was mainly dominated by owner – occupied development schemes. Occupier demand continues to be subdued and was focused on smaller properties and many enquiries were from start-up businesses or from companies seeking an unsuitable change of use. Requirements for larger units, almost completely absent from the market over the past 6 months due to the continued economic gloom.

The absence of established businesses in the market is due to a lack of confidence in future sales growth and the economy as a whole. Usually companies remain in existing premises and seek to renegotiate existing terms and many were successful in securing rental concessions and rent-free periods. Landlords eager to limit voids were prepared to propose competitive and flexible lease package proved attractive.

Rent levels continued to decrease slightly in comparison with H1 of 2011 and were in the range of 2 – 3.5 € per sq. m./month in the H2 of 2011.

The industrial development activity remains limited due to the restriction of credit and perceived take – up concerns. However there are some noticeable projects on site as new factory of Kings Tobacco in Plovdiv and new warehouse of Zagorka in Stara Zagora.

Retail Property

Due to the continuing challenges facing the retail sector, development activity remains weak.

The retail property market continues to be influenced by the weak occupier demand and falling consumer expenditure. Retailer confidence is fragile as the consumer economy struggles to emerge from recession. Little activity in the market is mainly focused within the food and discount sectors.

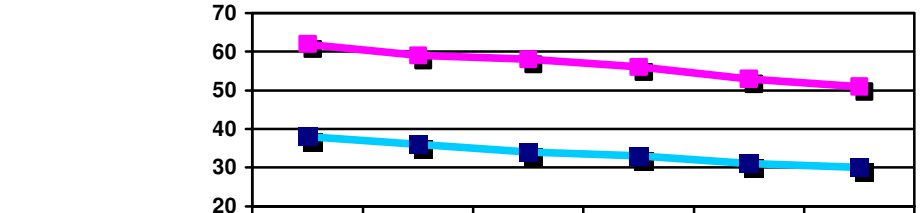
Like–for-like sales were 5.2% lower in October 2011 than in October 2010. Non food sales fell by 6% in comparison with October last year. The biggest decrease, by 10.5% was in sales of household appliances and furniture, as customers focus on value and defer purchase of higher priced items. Many clothing and footwear retailers are suffering larger declines in sales despite offering increased discounts. Within this challenging market context, retailers are inevitably delivering mixed performances. There are disparities between retail sectors and locations. Margins in both food and non food sales have been hit considerably in recent months.

Internet shopping has remained relatively strong, particularly within the electrical and consumer electronics sectors.

Due to the continuing challenges facing the retail sector, development activity remains weak and the only major retail opening in the country over the H2 of 2011 was the first IKEA hypermarket in Sofia. Despite the challenging market conditions there are projects under construction and it is expected some of them will be completed in 2012.

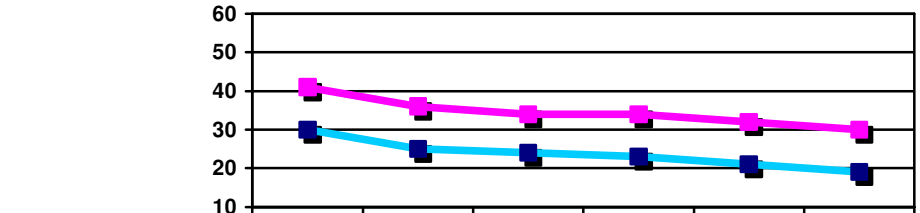
The retail market confidence continues to be fragile as the consumer economy struggles to emerge from recession.

Prime Retail Rents – Sofia, €/m2/month



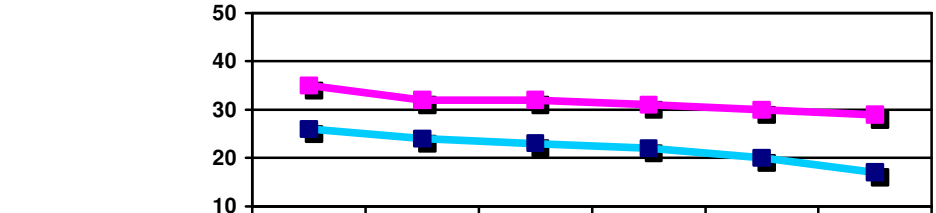
	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Shoping Centers	38	36	34	33	31	30
High Streets	62	59	58	56	53	51

Prime Retail Rents – Varna, €/m2/month



	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Shoping Centers	30	25	24	23	21	19
High Streets	41	36	34	34	32	30

Prime Retail Rents – Plovdiv, €/m2/month



	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Shoping Centers	26	24	23	22	20	17
High Streets	35	32	32	31	30	29

Source: Expert Invest

Residential Property

Prices of residential property continued to decline at slow peace in H2 of 2011 especially for properties with lower quality and in bad location.

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

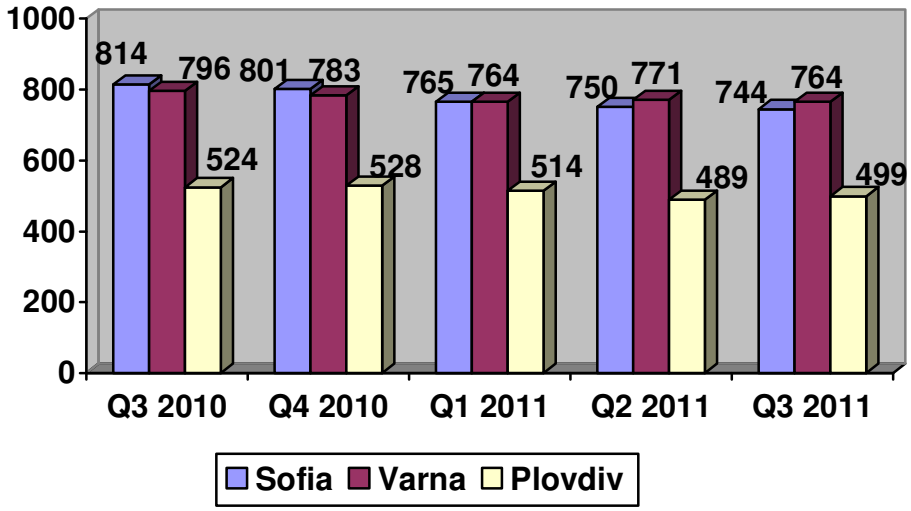
Demand is very limited and the market was dominated mainly by buyers looking for own homes and seeking for the best balance between price and quality of the property. They remain very selective and in many cases there is a significant obstacle between the buyers' and sellers' expectations. As a consequence, the marketing process can be lengthy with many transactions taking well over six months to complete. In reality there continues to be a very finite number of potential buyers for any opportunity.

Banks are cautious and seek greater security in terms of certainty of income of borrowers. The availability of funds for purchase is at best limited.

Prices of residential property continued to decline at slow peace in H2 of 2011 especially for properties with lower quality and in bad location. Demand was chiefly focused on smaller cheaper homes priced up to 50,000 €.

Prospects for the 2012 are uncertain since a fragile economic background. Anticipated performance over the next year is unlikely to be better than the past.

Residential Property Prices in Bulgaria, €/m2



Source: NSI

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