



Expert Invest

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Bulgarian Property Review

‘Supply for offices in Bulgarian major cities continued to exceed demand over the past six months. This is due to the projects which were started in the period prior to crisis and have not been frozen. The higher supply led to the increase in vacancy rate and fall in rents.

The industrial property market had little activity over the past six months due to the economic downturn and restriction of credit. A few projects were completed in the period because of the fact that they had strong covenants with tenants.

Economic crisis and decline in consumption have generally led to weakening of rents, vacancies highlight in the retail market. New deals were with increased incentives, such as reduced rents for definite periods, turnover rents or break options.

Sales in the Bulgarian residential market were strongly affected by the financial limitations imposed by economic crisis and poor credit. Sales prices continue to decline slightly and have stabilised for properties which are of high quality and in good location. Looking further ahead, the positive expectations for housing market are postponed to the second half of 2011.’

Petar Andonov MSc, MRICS

Economy

Bulgarian GDP grew slightly by 0.7% in the third quarter compared to the second quarter of 2010 and by 0.5% compared to same quarter of previous year.

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

Inflation increased by 0.2% between September and October this year and increased by 0.3% between October and November reaching 2.5%.

The statistical data shows that the Bulgarian economy has grown for two consecutive quarters, which means that it is officially out of a crisis.

The business climate in the country registered an increase of 1.9 points in October, because of improvement in assessments of business situation in retail trade and services.

The export to European and third countries rose by 8.9 percent in the third quarter of 2010 compared to the second. Foreign trade continues to have a positive effect on overall economic developments.

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

The mortgage market increased by 0.5% in the third quarter compared to the second quarter of 2010.

The unemployment rate fell to 9.6% in the third quarter of 2010 but it was still very high.

The forecasts anticipate slow growth for the Bulgarian economy in 2011. The main risks are high unemployment, poor credit, which lead to weak consumption.

Office property

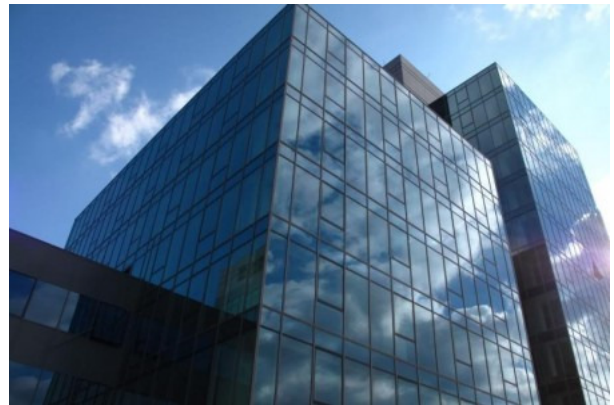
The office rents continued to be supported by substantial rent-free incentive package.

Supply for offices in Bulgarian major cities continued to exceed demand over the past six months. This is due to the projects which were started in the period prior to crisis and have not been frozen. The higher supply led to the increase in vacancy rate and fall in rents. The overall vacancy rate for the wider is 20% - 25%. Prime city headline rents in competitive market for new buildings in Sofia are in the range of 8-12 € per sq. m./month.

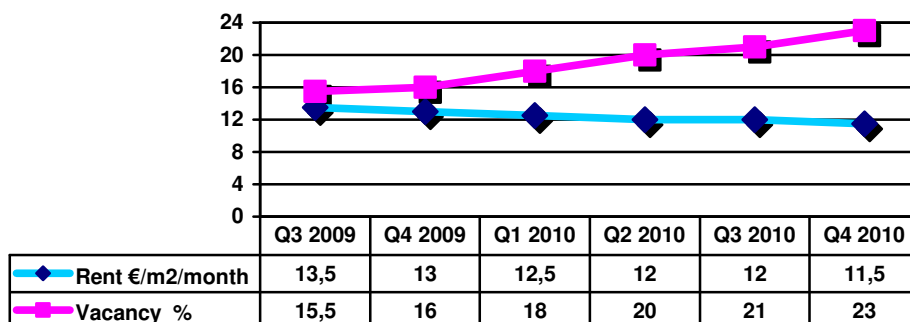
The rents continued to be supported by substantial rent-free incentive package due to the landlords' competition in the full range of quality and size, especially for tenants offering strong covenants. Incentives were usually combined with a discounted or stepped rental arrangement. Discounted rents will remain available for buildings which do not meet requirements of Grade A and higher quality Grade B in good location.

Occupational demand continues to be under normal level for the country due to the economic crisis, especially for the larger offices and offices out of Sofia. Smaller offices with good location, easy access by car and parking will remain to be the most active in the market, particularly when the landlords offer flexible packages and reduced rents.

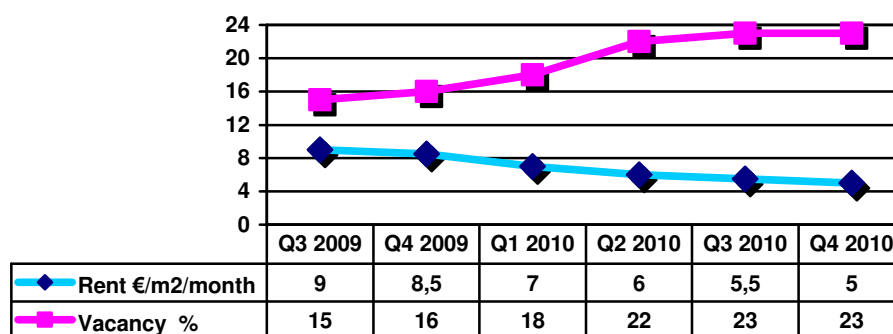
Prices of offices fell 35% in two years, more than other European countries and the slide in property values might have been reached the bottom at the end of 2010.



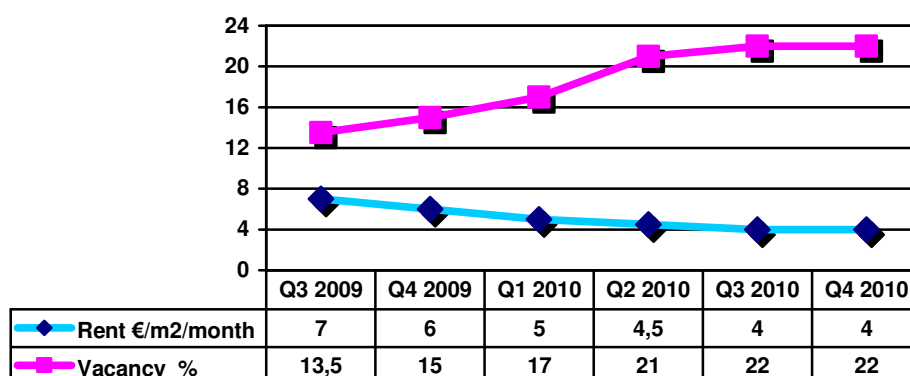
Prime Office Rents and Vacancy - Sofia



Prime Office Rents and Vacancy - Varna



Prime Office Rents and Vacancy – Plovdiv



Source: Expert Invest

Industrial property

The industrial property market in Bulgaria continued to have little activity over the past six months.

The industrial property market's recession continued in the second half of 2010. The weak prospect of market recovery including rental performance and investor interest urges developers to freeze proposals for new industrial schemes. A few projects were completed in the period because of the fact that they had strong covenants with tenants. Nevertheless, relatively few options exist for companies seeking modern, well configured space.

Occupier demand continues to be weak and there have been few deals in the period on the market only for smaller units. Occupiers were pushing landlords for improved terms and lower rents. There was a slight fall in rental levels and an increase in incentive packages, as landlords offered increasingly competitive deals to secure income.

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 the economic downturn, rent levels continued to decrease slightly in the range of 2 – 4 € per sq. m./month in the second half of 2010. Generally speaking, the industrial property market in Bulgaria continued to have little activity over the past six months.



Retail Property

This weak retailer demand, due to economic downturn, leads to rising vacancies and weakening of rents.

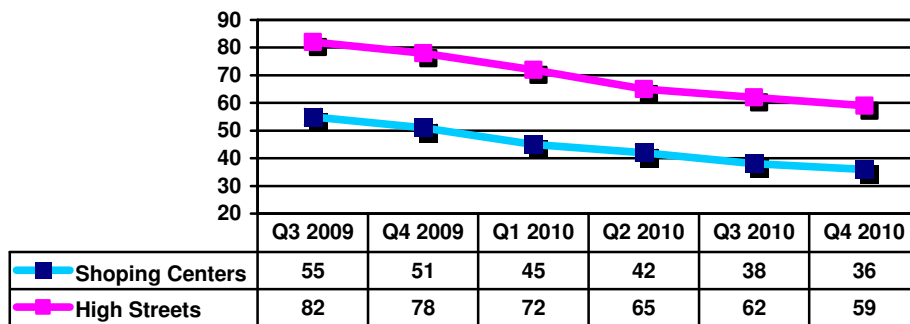
The retail sector recession continues despite some indications of economic recovery. The retail market in the second half of 2010 was poor with projects being either delayed or postponed due to economic situation and credit conditions. Despite economic crisis, three shopping centers (Varna Towers, Galleria Stara Zagora, Mega Mall Ruse) with 77 000 sq. m. GLA were delivered to market in the second half of 2010.

Data from the third quarter show a new decline in consumer expenditure which is very limited and mainly skewed towards food sales. Retail sales have generally been fuelled by retail foodstores and large discount operators such as Kufland, Lidl and Carrefour. This weak retailer demand, due to economic downturn, leads to rising vacancies and lack of transactions. Vacancies in some traditional town centres are a product of the last years when retailers have been attracted to new development and accommodation which offers larger floorplates. Economic downturn and decline in consumption have generally led to weakening of rents, vacancies highlight and a lack of demand throughout the country.

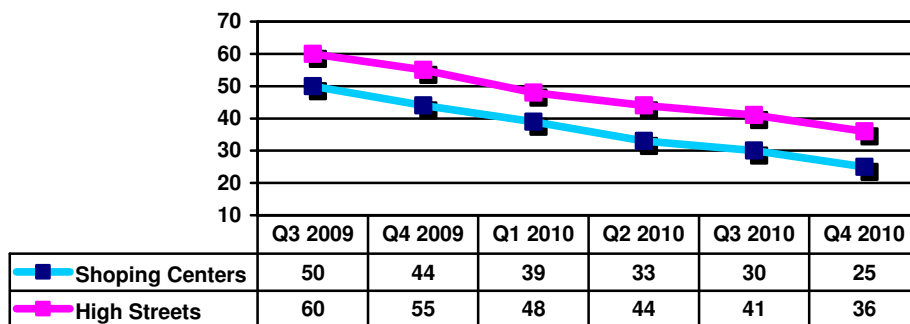
Most of tenants renegotiated rents trying to limit effects of decline in turnover and they received either rent reductions or rent free periods. New deals were with increased incentives, such as reduced rents for definite periods, turnover rents or break options.



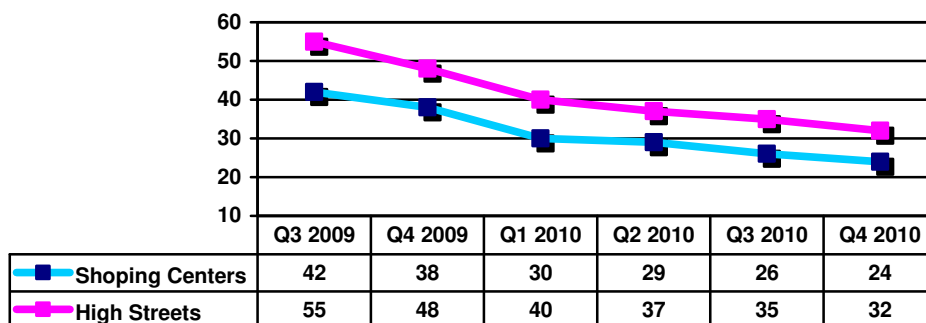
Prime Retail Rents – Sofia, €/m²/month



Prime Retail Rents – Varna, €/m²/month



Prime Retail Rents – Plovdiv, €/m²/month



Source: Expert Invest

Residential Property

House prices continue to decline slightly and have stabilised for properties which are of very high quality and in good location.

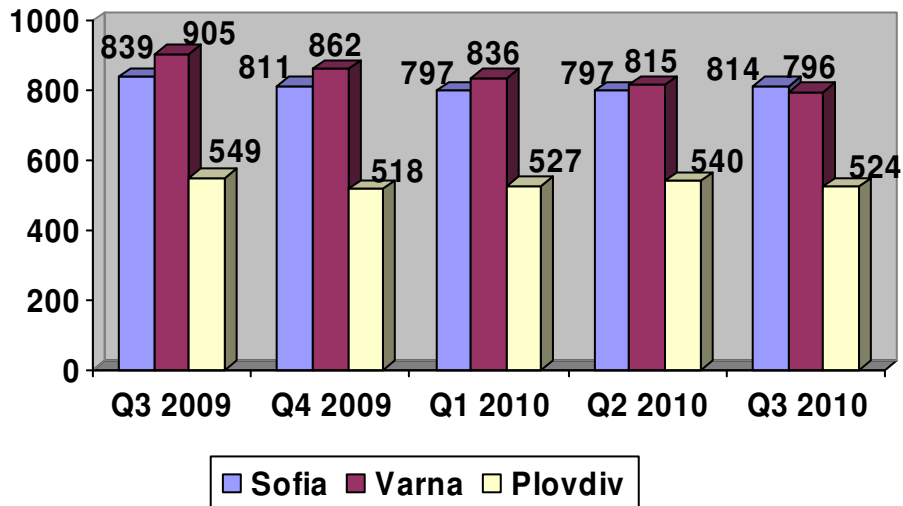
The slowdown of the Bulgarian residential market continued in H2 of 2010. Sales of flats were strongly affected by the financial limitations imposed by economic crisis and poor credit. Bank's interest rate for loans over ten years for house purchases continues to be high -10%. Sales prices continue to decline slightly and have stabilised for properties which are of very high quality and in good location.

Low demand urges developers to freeze some of the projects to the indefinite future. The demand was mainly focused in small apartments, usually one or two-bedroom, in good location, with completed construction, within 60 000 €. In the current situation of the weak demand the developers are forced to increase incentives such as deferred payment, fitting out etc. Rents continue to decline slightly but it is expected confidence in negative outlook to be changed in the 2011.

Looking further ahead, the positive expectations for housing market are postponed to the second half of 2011. Despite some signs of recovery of economy, there will be significant challenges for the market due to the high unemployment, decline in consumption and cuts in public spending. Nevertheless, there is prospect that residential market will gradually begin to regain some composure in 2011.



Residential Property Prices in Bulgaria, €/m²



Source: NSI

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