



Danos

INTERNATIONAL PROPERTY
CONSULTANTS & VALUERS

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**BNP PARIBAS
REAL ESTATE**



Bulgarian Property Market H1 2010

1. Economic Overview

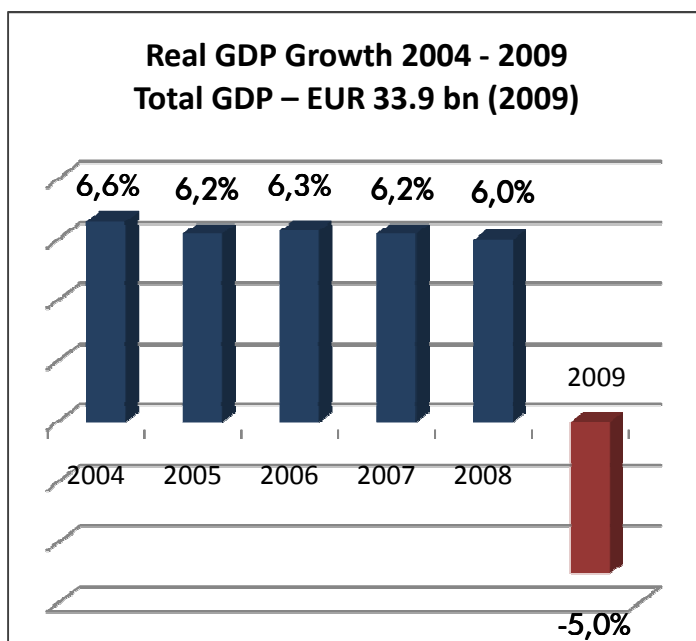
GROSS DOMESTIC PRODUCT (GDP)

By preliminary operative data the gross domestic product (GDP) in the first quarter of 2010 amounted to BGN 14,050.0 million/ EUR 7,183.6 million or EUR 952.0 per capita. The real volume of GDP dropped by 3.6% compared to the first quarter of 2009. The analysis of the GDP quarterly dynamics shows, that there is a slight positive trend on y-o-y basis

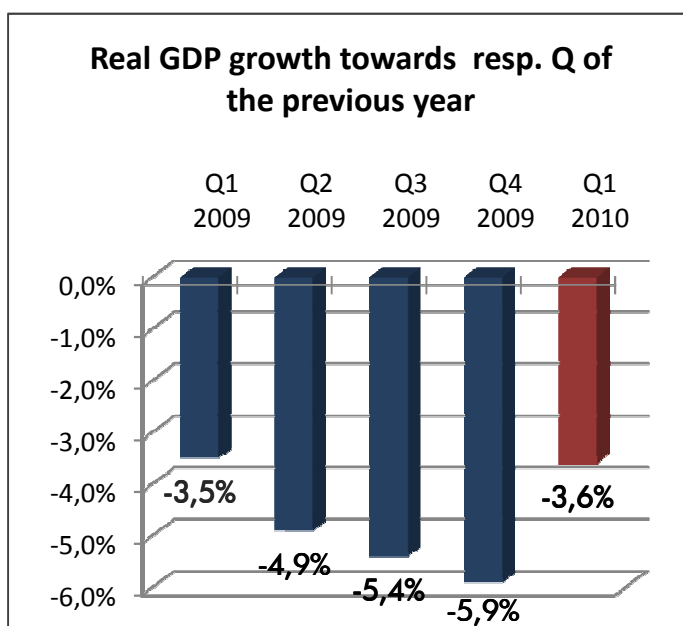
In April 2010 the average interest rate of credits for nonfinancial enterprises in BGN decreased with 0.80 percentage points to the rate of 10.22%, compared to April 2009; the average interest rate of credits in EUR raised with 0.55 percentage points up to 7.96%.

The average interest rate of mortgage loans in EUR in April 2010 towards the same period in 2009 have increased with 0.04 percentage points up to 8.15%. The same indicator for loans in BGN decreased with 0.22 percentage points to 9.41%.

Consumers and businesses are very cautious, projects are frozen, transactions are down by 37,3% during H1 2010 and foreign investment in real estate is down by 59,3%.



Source: National Statistics Institute



Source: National Statistics Institute

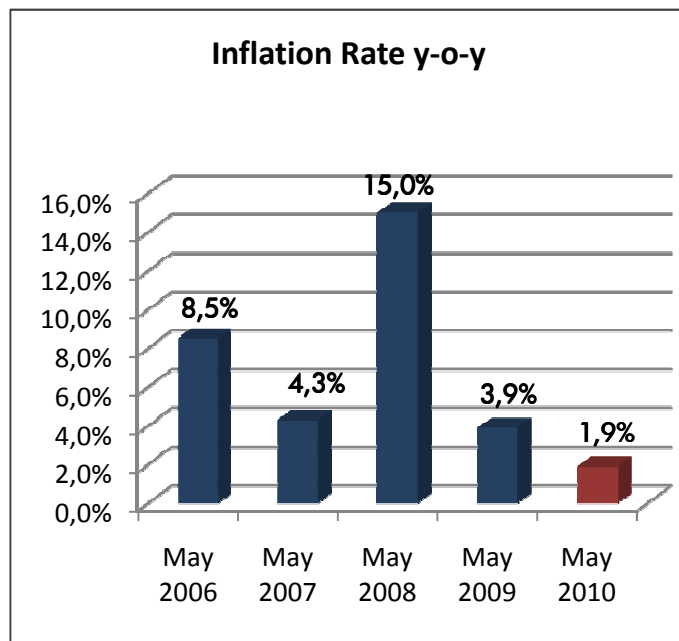
INFLATION

Together with the economic depression, the Bulgarian economy was experiencing high inflation. According to the National Statistical Institute, prior to 2009, the increase in CPI was over 12% for two consecutive years. The economic downturn significantly lowered the inflationary pressure.

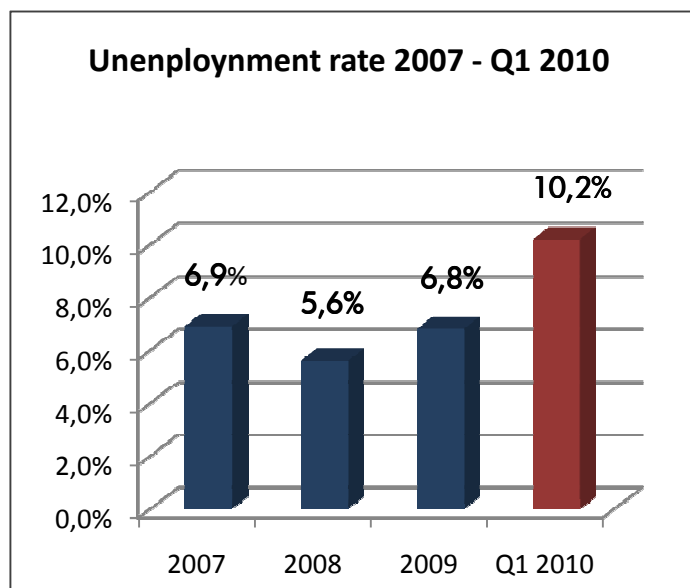
In May 2010 y-o-y inflation was 1.9%. The average personal income in Q1 2010 was BGN 859, a 6% growth on year-on-year basis. However, the average salary decreased by 3.5 % for the same period to BGN 453. The average personal income in Sofia is 35% higher than the country average.

UNEMPLOYMENT

The unemployment rate of Bulgaria registered a 20-year low reaching 5.6% in 2008. The unemployment rate has grown to 10.2% in Q1 2010.



Source: National Statistics Institute



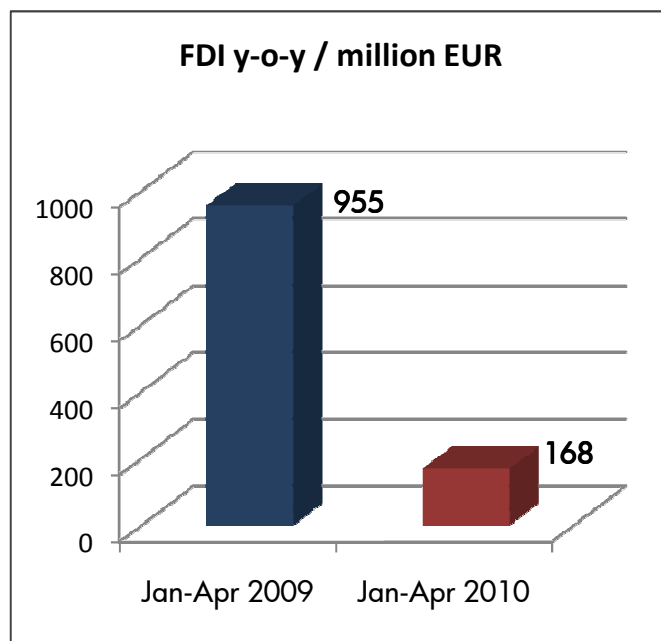
Source: National Statistics Institute

FOREIGN DIRECT INVESTMENTS (FDI)

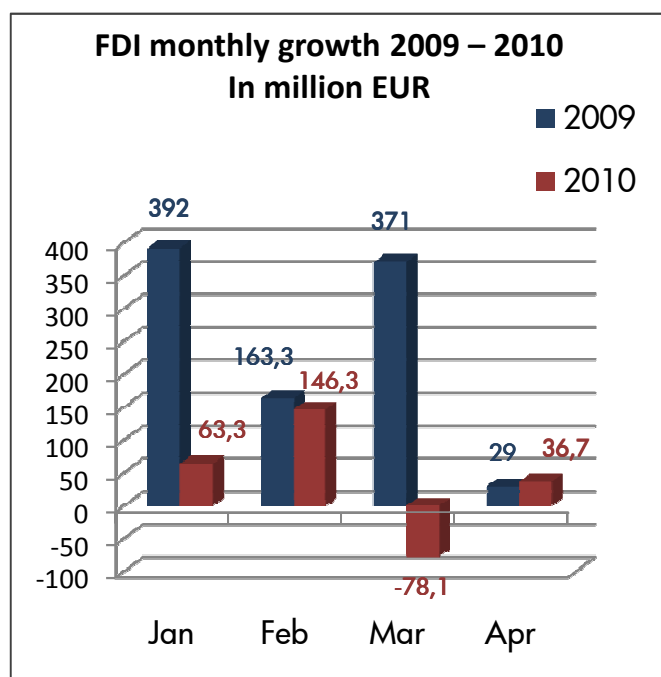
The fast paced economic growth during 2003-2008 was mainly due to the steady FDI inflow. By Q1 2010, the trend has changed – the foreign direct investment had a negative rate of €41.2 million. For a comparison, just a year ago with the net flow was €902 million on positive side. These figures in fact show withdrawal of the investments in the country.

According to preliminary data of the Bulgarian National Bank, the FDI in Bulgaria for January – April 2010 was EUR 168.1 million (0.5% of GDP) compared to EUR 955 million (2.8% of GDP) attracted in January – April 2009.

Until now, there were no bank failures on the Bulgarian market. However, most of the banks that operate on the local market have significantly tightened their lending conditions. The conservative approach has affected the local real estate market, which was previously fuelled by the loose lending approach on behalf of most banks. In April 2010, the base interest rate in Bulgaria was 0.17%, while the yield of 10-year T-bonds was 5.62%.



Source: Bulgarian National Bank



Source: Bulgarian National Bank

2. Market & Corporate News

In H1 2010 the hottest news in the real estate industry came from the retail and logistic segments.

The openings of the two largest shopping centers in Sofia – The Mall and Serdika Center almost tripled the prime shopping mall retail space in the capital.

New retail brands such as Zara, Peek & Cloppenburg and Deichmann opened their first stores in Bulgaria.

The logistic segment also experienced growth with the opening of new logistic centers of Schenker, Billa, Lidl, and Univeg. Some of these new centers also provide new value add services such as rail-to-truck cross docking and temperature controlled 3PL warehousing.



The Mall / Sofia



Serdika Center

3. Real Estate Market Overview

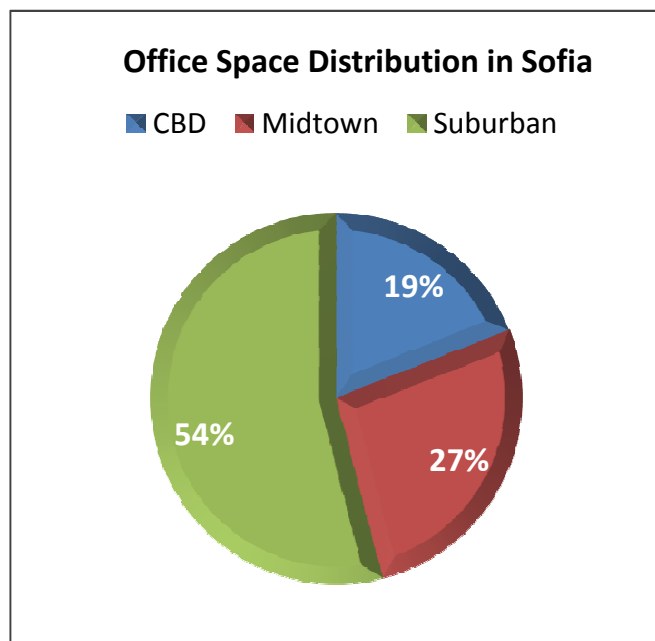
OFFICE MARKET

EXISTING STOCK

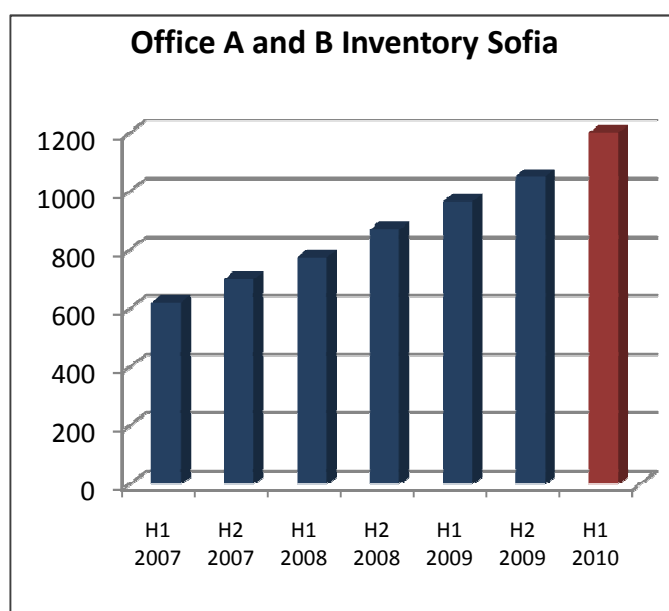
Total stock in Sofia reached 1,200,000 sq m, with 180,000 sq m additions during 2009. The new office space to be delivered into the market for the first semester of 2010 is estimated to be around 160,000 sq m (all time record high for the market). On the development side, the construction of the European Trade Center (ETC) has been completed.

Around 35% of this new stock is located in the major boulevards and 45% of the total office space delivered in H2 2009 is in the Midtown. Still, over 90% of the new supply is speculative, although some owners are trying to release their excess space onto the market, which increases even more the amount of lettable space onto the market.

Of the total office space inventory 19% is situated in the CBD, 36% along the main boulevards and 45% is in the Suburban area.



Source: Danos / BNP Paribas Real Estate



Source: National Statistics Institute

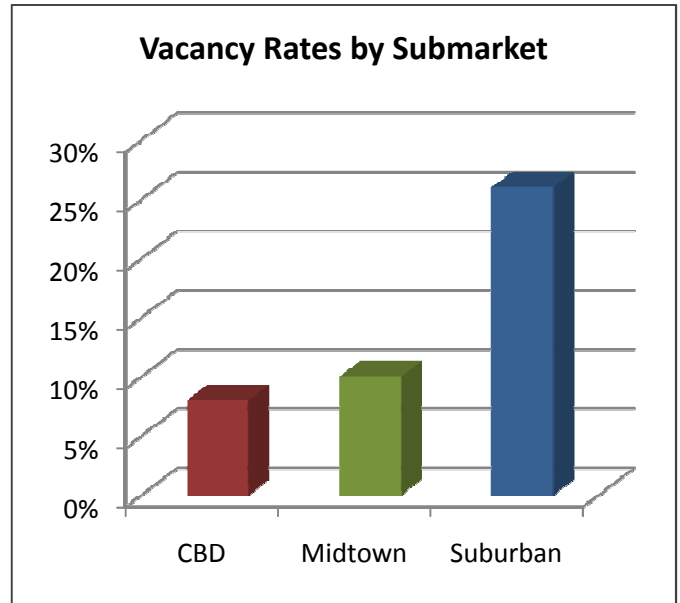
The pipeline remains strong, with few projects attempting to be completed and a few others breaking ground and aiming to be completed by 2011-2012.

DEMAND AND TAKE-UP

The upcoming oversupply of office space in Sofia and the continued weakening of demand places much stress upon owners. The landlords opted for reducing the rental rates up to 50% from previous levels, to retain and secure tenants.

There have not been recorded any major transactions either on the investment or the leasing side. Tenants have started to approach their leasing terms with more diligence, placing much of their attention on the price-to-quality measurement. We are of the opinion that in the course of next year equilibrium will be reached between asking and offer prices and market activity will improve.

The net absorption for the whole of 2009 is estimated at 80,000 sq m, which is a decrease of more than 30% compared with 2008. The current level of pre-let space in buildings under construction is negligible.



Source: Danos / BNP Paribas Real Estate



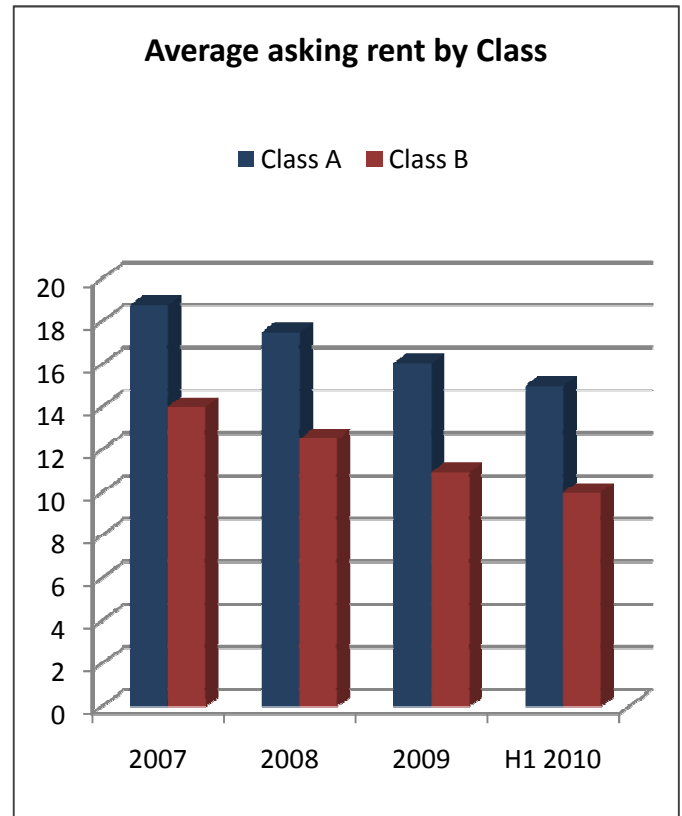
European Trade Center / Sofia

The increasing absorption – new supply gap increased the vacancy rates in all segments. The office segment in Sofia reached about 17% vacancy rate. Class A vacancy rate has inflated to about 14% while lower class offices struggle to attract tenants and have a vacancy rate of nearly 19%. The majority of the vacant space is found in the Suburban areas.

The situation in the CBD continues to be somewhat more stable. There is noted some demand for non-prime office, which is also primarily focused upon small premises.

RENTAL LEVELS

In 2009 the market has already stagnated with very few deals. The increasing supply and financial crisis had a double impact on the real estate market as a whole and particularly in the office sector. A lot of companies started contracting their staff and rented premises, trying to exit their already high cost lease agreements. This brought huge pressure on the rental levels. At the same time investors have put on hold their planned activities, many of them already in negative territory and lacking funding.



Source: Danos / BNP Paribas Real Estate

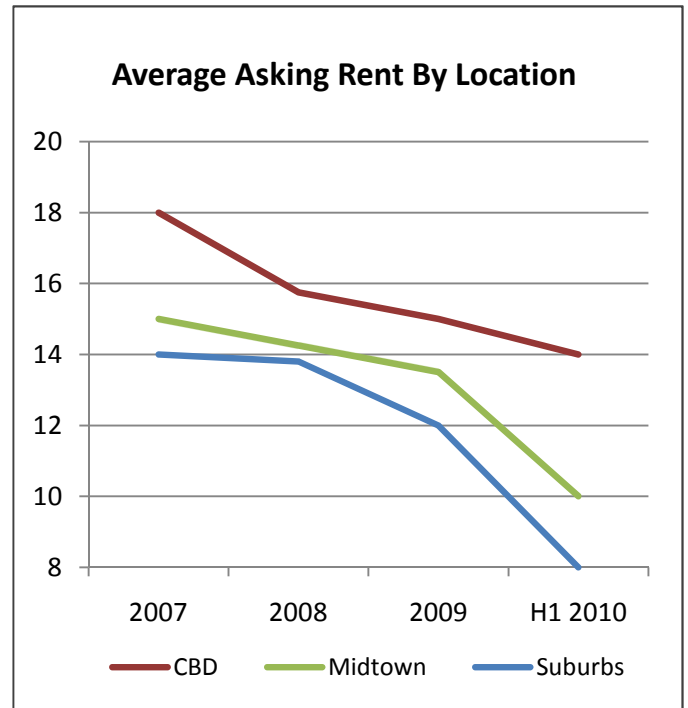
The Class A offices generally had asking rental prices of EUR 9-15 per sq m per month, depending on location, whilst Class B reached down to EUR 7-10 per sq m.

The CBD overall commanded about EUR 13-15 per sq m per month, and the Midtown about EUR 10-12.

LEASE TERMS

The typical lease term is for 3-5 years. Rent free allowances, stepped rents, covering fit-out and move-in costs are some of the incentives offered by the landlords to attract new tenants. Service charges are generally between EUR 1.5-2 per sq m per month.

Parking often remains an issue either due to its insufficiency, or pricing which detracts the majority.



Source: Danos / BNP Paribas Real Estate

INVESTMENT MARKET

Among the very few sellers succeeding to dispose some of their assets in 2009 were EuroHold with their Auto Union's office building, Equest (Hotel Serdika) and BTC (multiple properties around the country). Among the funds that have expressed their interest in the Bulgarian market are Europa Capital and the Greek fund Bluehouse Capital, as well as some other private equity funds.

Defaulting developers are already seeing their unfinished projects put on sale with asking prices below their costs. Nevertheless, these projects have not reached the support level yet.

Initial Yields for office space shifted from around 7% in 2007 to 11% (bidding) in 2009, at this moment the few active investors are looking for yields of about 9%-12%, depending on the location and situation of the property.



Business Center City Tower / Investor GEK
Terna Group

LOGISTICS MARKET

EXISTING STOCK

The total stock of contemporary logistics and industrial space in the four major cities of Bulgaria (Sofia, Plovdiv, Varna and Burgas) is estimated at approximately 3,000,000 sq m. The number includes new-built and refurbished owner occupied and speculative premises of industrial use. Sofia accounts for about 50% of the share.

The most attractive market areas for logistics and industrial development are on the municipal territories of Elin Pelin, Bozhurishte, Rakovski, and Maritsa. All of the zones benefit from excellent road infrastructure and proximity to qualified work force.

In H1 2010 the logistics and industrial market slowed down due to the development financing constraints. The major developments under construction are mostly related to the FMCG segment.



BILLA Logistics Center

That includes the logistics facilities of Billa 20,000 sq m, Lidl 46,000 sq m, Univeg 8,000 sq m, Transkapital 8,000 sq m. The only sizable development in the manufacturing segment is the production facility of Dhollandia 10,000 sq m located in Elin Pelin municipality.

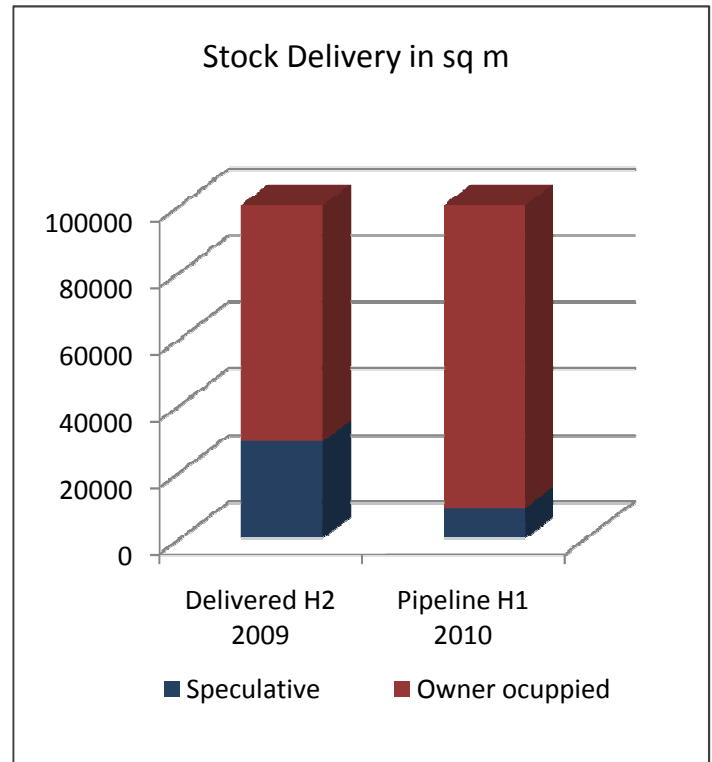
The graph on the right shows that in its largest part, the market in 2010 is driven by owner occupied developments.

DEMAND AND TAKE-UP

During H2 2009 and H1 2010 the demand for contemporary logistics and industrial space slowed down. The vacancy rate in Sofia went up to 7% from about 4% in 2008.

The companies whose businesses are related to the construction industry suffered the most.

Most of the active tenants are coming from the FMCG and 3PL industries. During H2 2009 and H1 2010 some of these companies took advantage and relocated their facilities.



Source: Danos / BNP Paribas Real Estate



Schenker Logistics Center / Sofia

Examples of such cases are Timeline and National Distributors. In Sofia alone, the rental take-up of modern warehouse space in H1 2010 is about 8,000 sq m.

RENTAL LEVELS

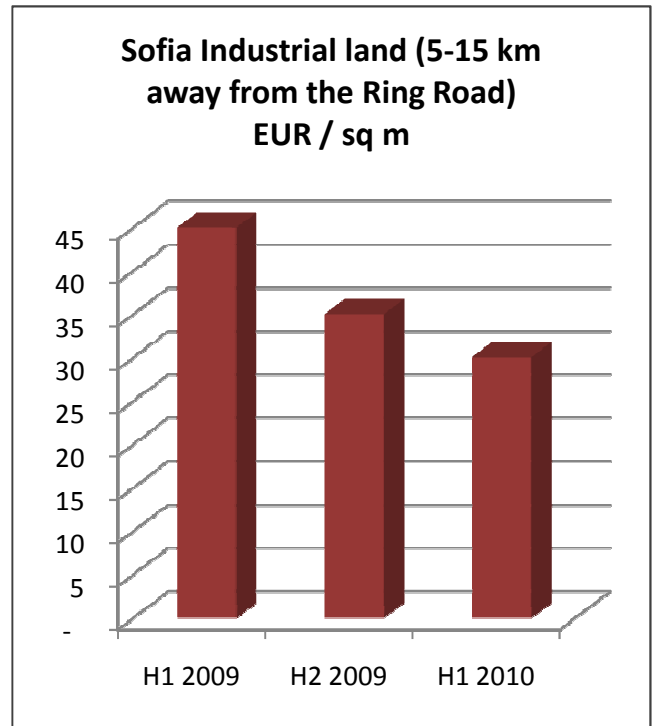
In H2 2009 the rental rates contracted for second consecutive semester. For the first time, the prime rents in Sofia dropped below EUR 5/sq m.

In H1 2010 the rents are stabilizing at the late 2009 levels.

LEASE TERMS

The typical lease term for prime warehouse space is 5 years. However, due to the contraction of storage volumes, some of the owner occupied space is currently leased out to other users for period of 2-3 years.

Service charges are ranging from EUR 0.4 to EUR 1/sq m. In most cases, tenants are not charged additionally for parking in front of the loading docks.



Source: Danos / BNP Paribas Real Estate

INVESTMENT MARKET

The logistics and industrial segment lacks investment transactions. Currently, the entry yield levels for prime income generating properties that the buyers are expecting are around 12%.

FORECAST FOR 2010

The market is expected to remain stable during 2010. A slight increase in the rental levels may appear in H2 2010 in case the little available supply is fully occupied.

The demand for industrial land acquisition is poor. The sale prices of large plots around Sofia (5 - 15 km away from the ring road) are around EUR 25 – 35 /sq m.



Universal Logistics Park / Sofia



Transkapital Logistics Park / Sofia

RETAIL MARKET

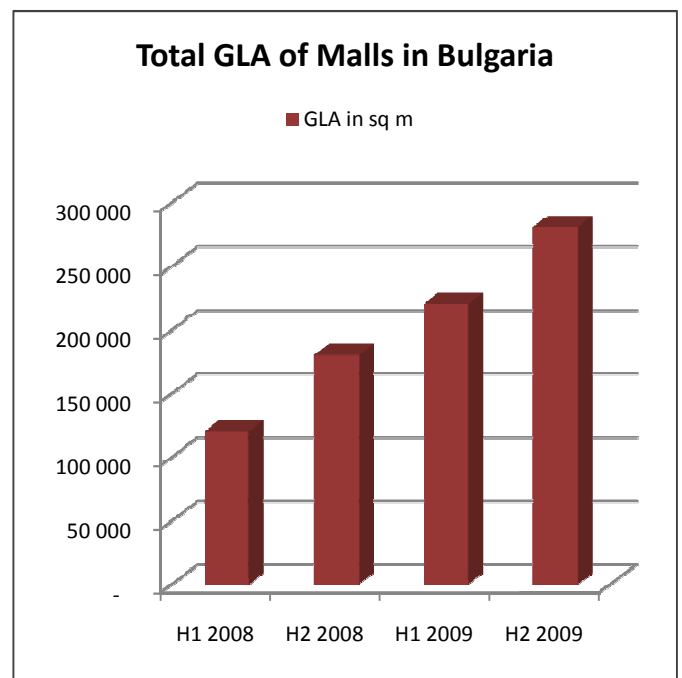
EXISTING STOCK

H2 2009 witnessed a reduction of the issued permits for retail projects, due to market uncertainty, worsened retail market conditions and most of all due to reduced debt financing.

Currently retail operators are more favoured than developers, in terms of project financing, due to the perceived low risk.

The existing stock of shopping centers is 281,000 sq m of which 87,000 sq m in Sofia. Under construction are additional 697,000 sq m, of which 173,000 sq m in Sofia, including the newly opened Sofia Outlet Center and Serdika Center .

In Q4 2009 Terra Center in Gabrovo with a TBA of 10,000 sq m was delivered to the market. Shopping Malls – Serdika Center opened in March and Carrefour Tsarigradsko Mall is expected to open in April 2010.



Source: Danos / BNP Paribas Real Estate



Mall Gabrovo

Food retailers remain the most active among other big-box retailers in Bulgaria.

The German discounter Plus, part of Tengelmann group and Penny market, part of REWE group, opened their stores in secondary cities throughout Bulgaria.

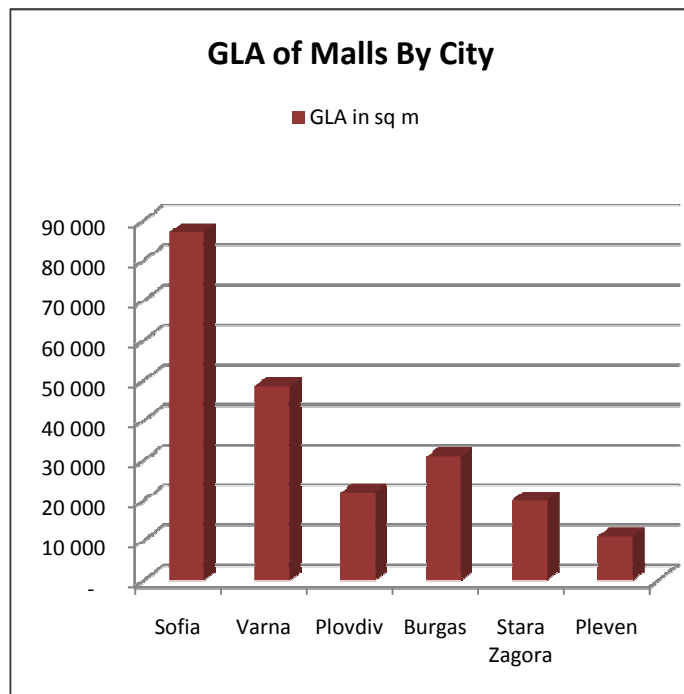
Penny market opened 26 new units and Plus opened 21 new units. Lidl is expected to enter the market in H2 2010.

The largest Slovenian company, Mercator, opened its first hypermarket in Stara Zagora.

Billa continues the trend from the previous half year period and opened 22 new stores in the last six months, making it the largest food retailer with 65 stores (12 in Sofia).

Kaufland opened 4 new stores outside the capital. The consumer electronics segment was also active compared to the first half of 2009.

Technomarket opened 2 new stores; Technopolis – 3 stores and Zara – 2 stores. The first Baumax store opened in Sofia in the summer and there are now 4 Baumax outlets in Bulgaria.



Source: Danos / BNP Paribas Real Estate



Grand Mall / Varna

DEMAND AND TAKE-UP

We are witnessing decreasing demand for shopping malls on the retailers' part, as there is also an existing vacancy in this sector.

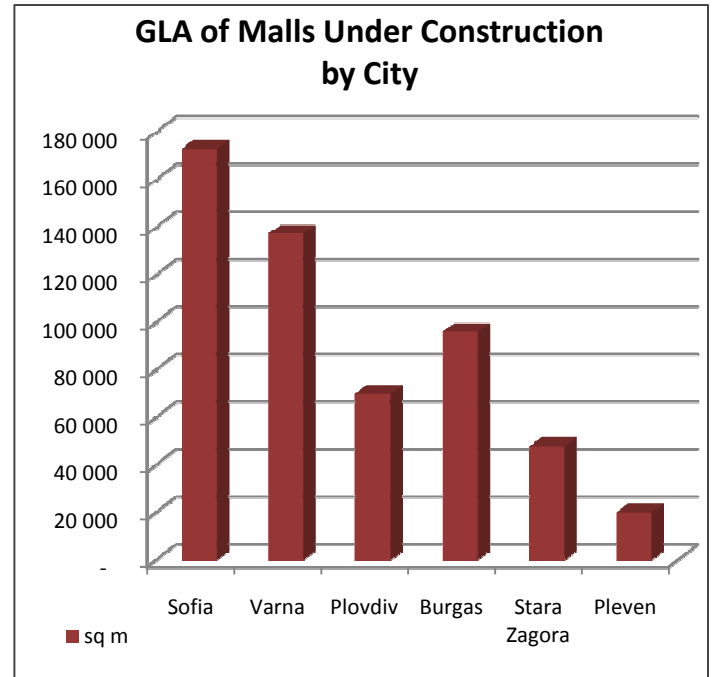
Shopping centers in secondary cities are still underperforming, facing many difficulties to retain their current tenants.

Therefore owners and managers are already providing different incentives. Permanent decrease of rental levels or free rent periods and fit-out contributions has now become a common practice.

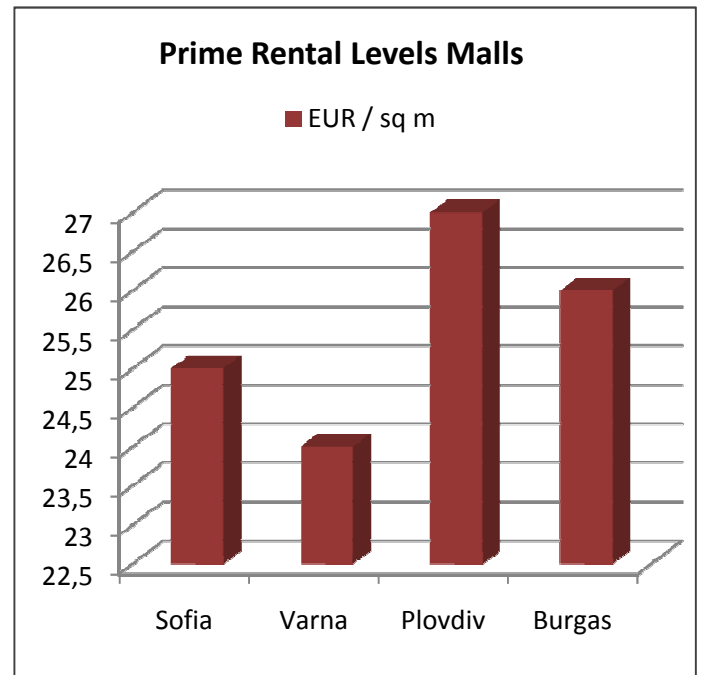
Big Box Retail has been the most dynamic segment in 2009. The food industry has been experiencing growth by 3% and we are witnessing severe competition amongst the supermarket retailers. All of the major discounters have been expanding aggressively during 2009 and H1 2010.

RENTAL LEVELS

In H2 2009, High Street space became more accessible with lower rentals and more incentives from the landlord side, compared to previous years. It is expected that retailers will take the advantage of the situation in 2010, thus increasing demand.



Source: Danos / BNP Paribas Real Estate



Source: Danos / BNP Paribas Real Estate

Average rental levels for shopping malls are EUR 25 per sq m per month, reaching EUR 50-70 for high-street retail and going down to EUR 5-7 for big-box retail.

VACANCY

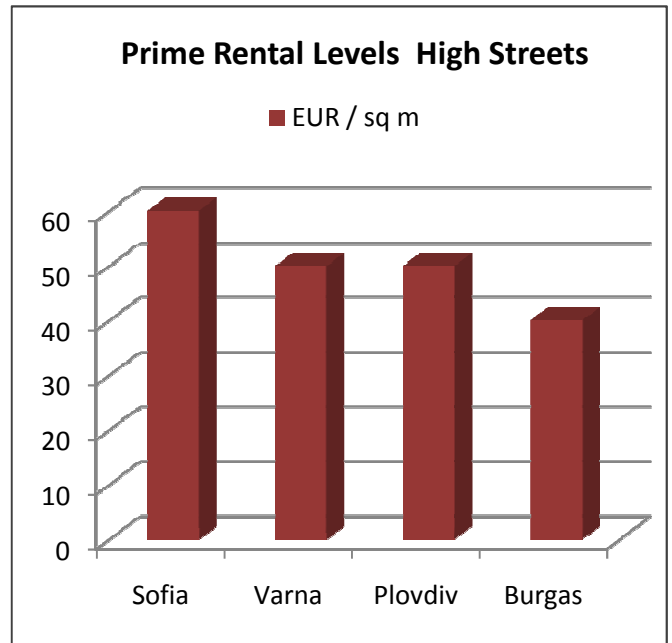
High-street retail was also affected due to the current economic situation. The overall vacancy level in existing shopping malls remains unchanged compared to the previous 6-month period.

The vacancy rate in shopping centers in Sofia was below 1% in Q1 2009 but this rate is increased a bit with the opening of Serdika Center (55,000 sq m) and Carrefour (66,000 sq m).

The vacancy rate for shopping centers located in secondary cities is approximately 7% and is expected to increase in 2010.

LEASE TERMS

Typical lease terms for shopping centre tenants are 5 years, and we are expecting to witness new ways of incentivizing such as rent free periods. Service charges range from EUR 1 to EUR 2.5/sq m.



Source: Danos / BNP Paribas Real Estate



The Mall / Sofia

INVESTMENT MARKET

There have been no investment transactions during H2 2009, but based on market research and enquiries that we have conducted, the buyers' expected initial yield is about 11%.

FORECAST FOR 2010

In 2010 we expect to see new formats emerging, such as retail parks and outlets in the city suburbs.



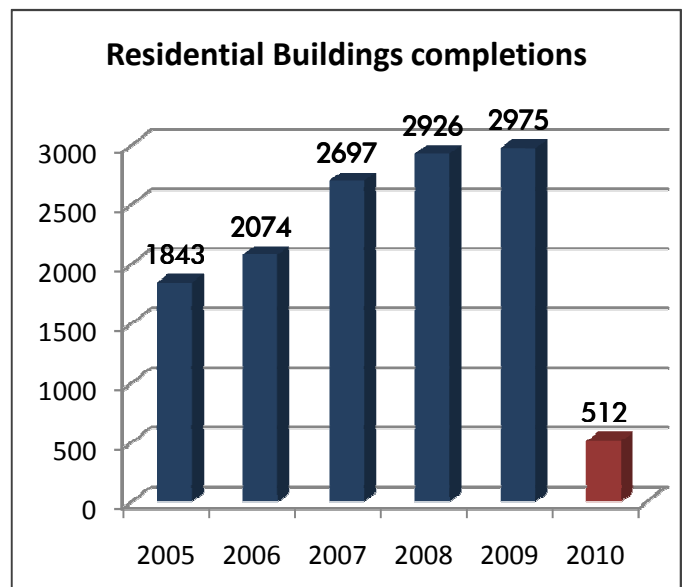
Mall Markovo Tepe / Plovdiv / In the pipeline for H2 2010

RESIDENTIAL MARKET

EXISTING STOCK

According to the National Statistic Institute 512 residential projects were finished in Q1 2010, with a 19% less than the same period of 2009. The number of the new-build dwellings in this volume is decreasing by 26,9% reaching 3201.

The biggest number of the new dwellings offered to the market is in Burgas region – 94 buildings with 677 dwellings within, followed by the region of Varna - 86 building / 643 dwellings, Sofia Region - 51 buildings / 67 dwellings .



Source: National Statistics Institute

The total net usable area of the new built dwellings in Q1 2010 is 240 000 sq m, with 28.2% less than the Q1 of 2009. The living area decreases as well with 30.7% down to 152 000 sq m.

The average usable area of a new-built dwelling decreases from 76.5 sq m. in Q1 2009 down to 75.1 sq m in Q1 2010.

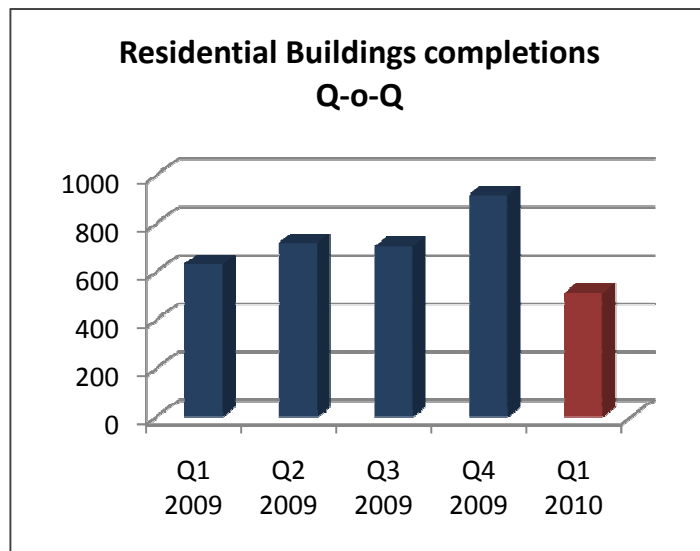
According to the NSI the total stock of net Usable residential area at the end of 2009 was 242 290 599 sq m.

In Q1 2010 to the residential market were offered new 243 205 sq m of net usable area and the total available stock reached 242 533 804.

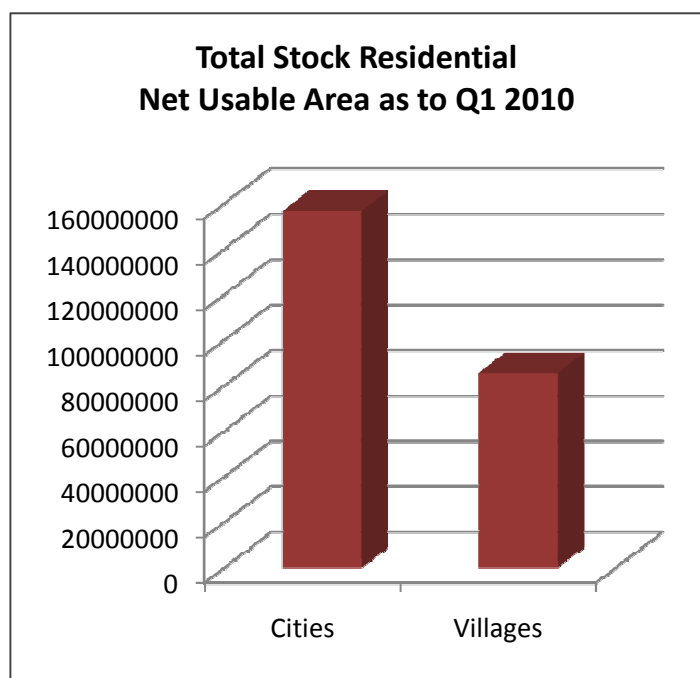
In Sofia Region were completed 31 432 sq m residential premises, which is 12,9% of the total completions in Q1 2010.

The total residential area in Sofia market to the moment is round 37 160 000 sq m and it is more than 15% of the net usable residential area in Bulgaria.

A total number of 987 constructional permits for residential projects were issued in Q1 2010.



Source: National Statistics Institute



Source: National Statistics Institute

The constructional works on 462 of them have already started, comprising of 210 705 sq m TBA and 1 652 number of dwellings.

The decrease in the number of the permits issued is at the rate of 26.5%, and the decrease of the number of the dwellings foreseen is 28.9%, with drop of the TBA with 30.1%. Most of the permits were issued in Sofia City - 135, Burgas - 126, Sofia District - 101 and Plovdiv - 92.

The largest volume of residential built-up area is in the pipeline in Burgas – 513 projects, Plovdiv - 365, Blagoevgrad - 356, Sofia City- 349 and Varna - 279.

DEMAND AND TAKE-UP

The residential developments are no longer selling by themselves. Demand continues to be very low and potential customers are hard to choose the best value property, since there is huge oversupply, though most of it does not respond to clients' requirements for location, accessibility, quality and layout. Other factors hindering the market, like the poor construction quality or the inadequate infrastructure, unfortunately remain unchanged.



Delta Hill / Residential Project Kladnica Village / Sofia Region

Small units command a 2%-3% premium over the average dwelling price per sq m. The market for 1-bedroom apartments is the most competitive and the prices are slightly below the average. Larger apartments are also offered at a 1%-2% premium.

Among the largest residential transactions on the market was the acquisition of several luxurious apartments in Sofia by the property management fund Cleves.

SALE PRICES

Prices have not stabilized yet, although according to our opinion they will soon reach equilibrium.

The price market index of the residential properties for Q1 2010 compared to Q4 2009 is 97.7%, with average reduction of the market prices of the residential real estates of 2.3% (according to the NSI).

The same indicator year-on-year shows an average decrease of the prices at the rate of 17,8%, but according to the market experts the drop is actually bigger and in some regions and types of property reaches 20%.



ESTE Building/ Residential Project Sofia

The developers continue to be very flexible and to be ready to sell at reduced prices - close to the construction cost of the project. Less financially adaptable developers preserved the sale prices, trying to compensate the less competitiveness by reducing some of the costs.

RENTAL LEVELS

The decrease trend of the residential rents on year-on-year basis is continuing, reaching in some locations 25%.

Some of the overpriced locations were affected at most. The rents are at the moment between 3 – 4 EUR per sq m, reaching for the prime residential locations up to 6 EUR.

FORECAST FOR 2010

There will be significant less completion compared to just two years ago .

Demand is expected to pick up due to genuine, demographic needs, availability of mortgages and reduced prices, which will lead to a stabilizing price levels.



Tsarigradski Complex / Residential Project
Sofia / Completed H1 2010

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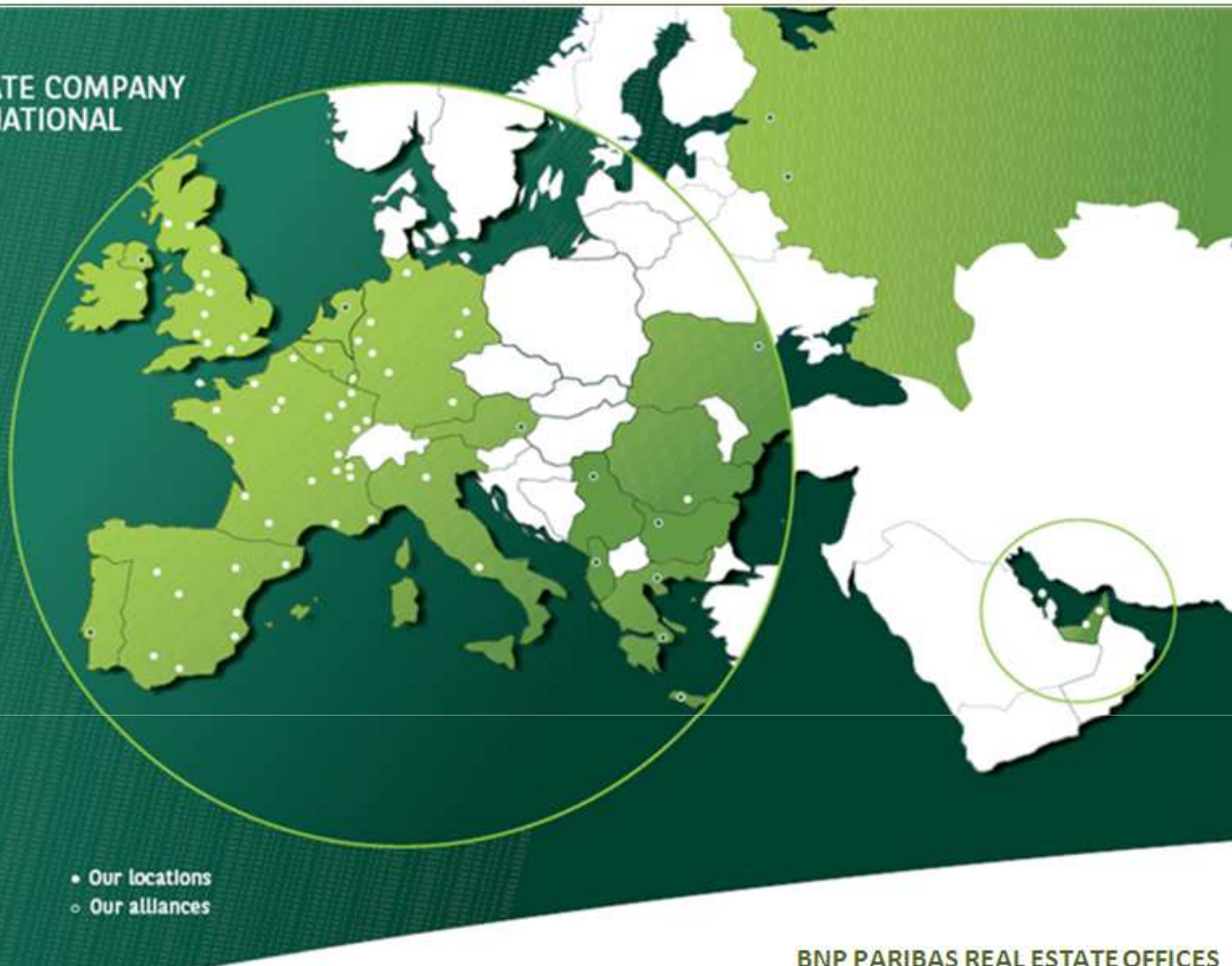
Canary Islands



Cyprus



- Our locations
- Our alliances



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