



Market Overview

SOFIA

RESIDENTIAL | FIRST HALF | 2008

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Economic Environment H2 2007

- In 2007 Bulgaria continued the positive trend in economic growth from 2006. For the first half of 2007 GDP increased by 6.4% (on yearly basis) amounting to EUR 12.5 bln.
- Unemployment continued to decrease and in the third quarter of 2007 it was 6.8% of the country's total labor force
- Inflation reached 8.4% year-on-year in December, and is a cause for concern
- The average monthly salary rose by 19.6% on yearly basis, reaching EUR 217 in the third quarter of 2007
- Bulgaria's sustainable economic development was further supported by the EU accession which also increased the investors' confidence. Bulgaria remained one of the most attractive destinations for foreign investment, which stood at EUR 11,5 bln over the past three years, with another EUR 4,7 bln expected in 2008.
- The 10% flat tax rate on personal taxation is expected to increase disposable income, spending and saving and reduce the grey economy – ultimately improving the business environment and increasing corporate growth

Sources: NSI, BNB, National Employment Agency

Residential Real estate highlights

- The supply of residential properties in Sofia continues to increase at a steady pace driven mainly by broad center and suburban developments.
- The increasing demand and the still insufficient supply of high-quality residential properties resulted in continuing increases of sales prices. Ivan Vazov and Lozenetz posted the highest sales price increase among the prime neighborhoods, while Doctor's Garden reached the EUR 2,000/m² mark.
- The average asking sales prices in emerging neighborhoods increased as well in the past six months, reaching levels above 1,000 EUR/m².
- Rental levels in Lozenetz posted an increase of 10% in the second half of 2007.

SUPPLY

The residential market remains one of the most dynamic real estate sectors. Supply continues to increase at a steady pace and the total inventory of housing units in the city of Sofia is currently estimated at 526,400. The new supply comes mainly from the broad center and suburban areas as the opportunities for bigger developments in the city center become ever more limited.

The supply of middle and upper middle-class housing units continues to be concentrated in the southern part of the city and the outskirts where neighborhoods like Vitosha, Bukston, Manastirski Livadi, Vitosha, Krastova Vada and Gotze Delchev are steadily developing. Overall, the supply of quality developments is still insufficient to match the demand.

The construction of compound developments also continues as these properties are experiencing significant demand. However, after several large-scale projects were initiated in recent years (Residential Park Sofia, Complex Tzarigradski, City of Fountains, Residential Complex Bulgaria Blvd. etc.) the projects that broke ground in the second half of the year were smaller in number and size.

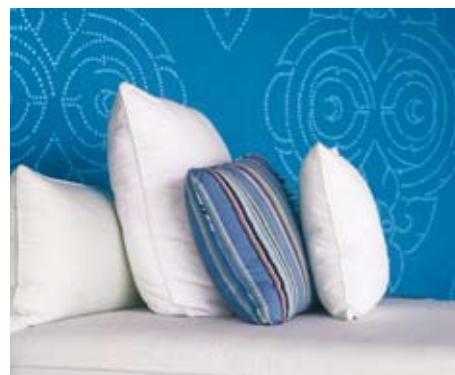
The plans for new, large-scale projects are directed at cities and villages around Sofia due to the availability of bigger and more appropriate land plots. Projects with over 1,000 units are planned for development in Lozen and Bankya.

DEMAND

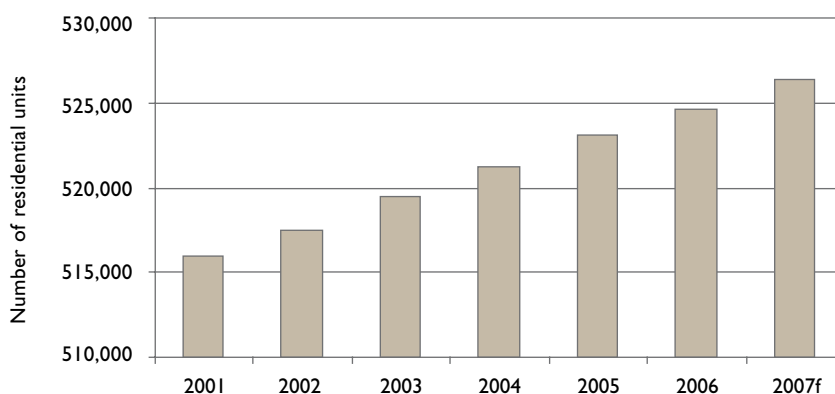
The growing economic stability in Bulgaria and the increasing credit opportunities are reinforcing demand for residential properties. In Sofia demand is boosted also by the increasing number of inhabitants as well as changing family structures.

Buyers are becoming more demanding, looking for quality buildings offered by reliable developers. Apartments in buildings with quality finishes are generally sold in earlier construction stages where prices are relatively lower. Due to increasing traffic intensity across the city, one of the main benefits sought by buyers is good communications, proximity to workplace, schools, shopping facilities and the availability of parking. Property management and other amenities continue to play an important role.

Demand for high-end properties for rent is coming mainly from expatriates who are looking for furnished apartments or for unfurnished houses when they plan to bring their families to the country.



Sofia Residential Inventory



Source: NSI (2001-2006), Colliers (2007 Forecast)

SALES PRICES

Average asking sales prices recorded an increasing demand and the still insufficient supply of high-quality residential properties has resulted in continuous increases of the sales prices, especially in prime locations. The increase of the average asking prices in H2 versus H1 2007 was highest in the Ivan Vazov (33%) and Lozenetz neighborhoods (29%). In Iztok, the price increase was more subtle for the second half of 2007 (11%) but on an annual basis was among the highest (44%) compared to the other prime neighborhoods. In Doctor's Garden, traditionally the most expensive neighborhood, the prices increased only 4% versus H1 2007, but marked a significant increase of 24% on an annual basis hitting the EUR 2,000/m² mark.

The average asking sales prices in the emerging neighborhoods increased as well in the past six months and went above the EUR 1,000/m² mark for all the observed neighborhoods. The most notable increase was observed in Manastirski Livadi (25%) and Bukston (22%).

RENTAL RATES

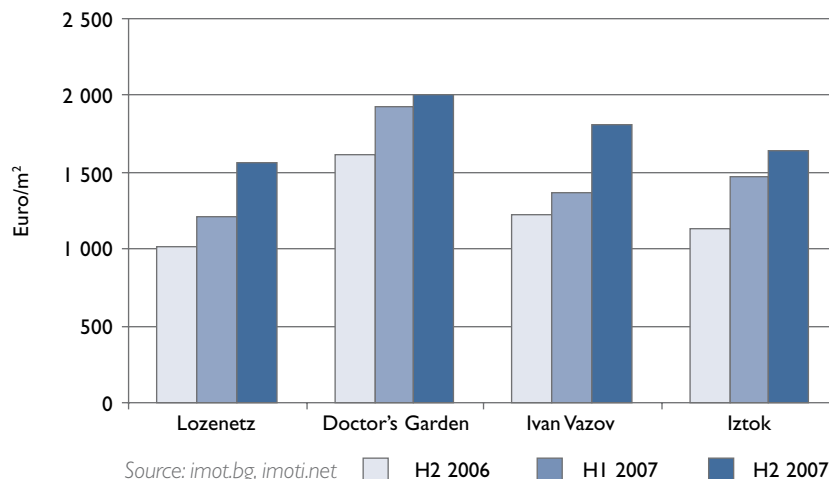
Rental levels in Sofia also posted an increase in the second half of 2007. Among the prime neighborhoods the increase was highest in Lozenetz, where average asking rents went up by 10% compared to H1 2007 and by 14% on an annual basis. Like Lozenetz, Iztok has been displaying a steady upward trend in the past three 6-months periods. Rents here increased by about 4% in H2 versus H1 2007, and by 11% compared to H2 2006.

In Doctor's Garden, the average rent level remained the same as in H1 2007 – EUR 7.5/m²/month, but increased by 5% compared to H2 2006. In Ivan Vazov the increase for the past six months was 5% and 3% for one year period.

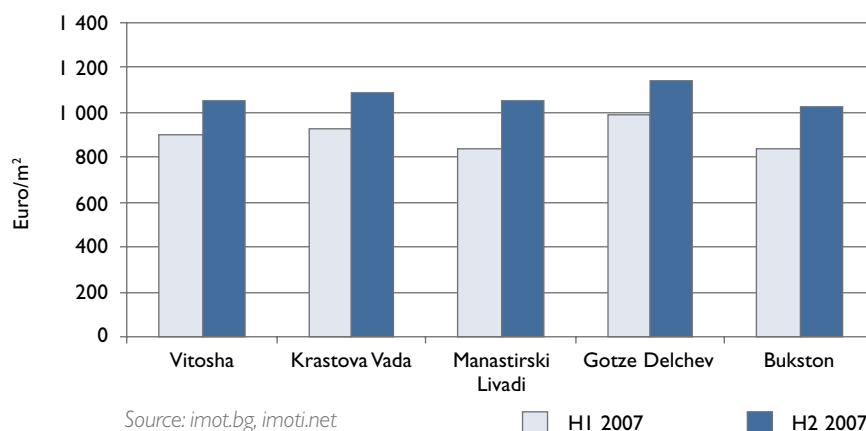
The lowest rents in the monitored areas remain at the levels of EUR 3.5 – 4/m²/month with the highest level about EUR 20 m²/month.

The fact that rents do not keep pace with sales prices along with an only modestly increasing demand puts pressure on the profitability of buy-to-let investments as they come to rely more on capital gains.

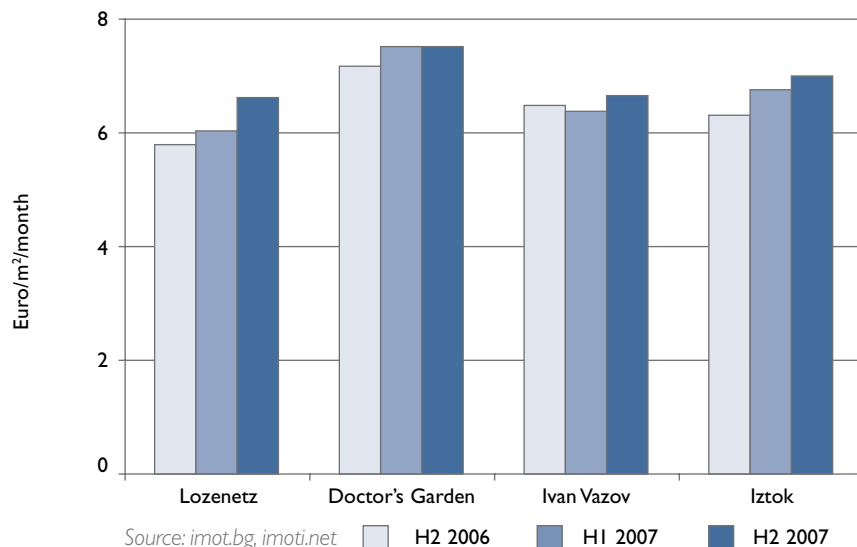
Development in Average Asking Prices



Development in Average Asking Prices in Selected Emerging Neighborhoods



Development in Average Asking Rents in 2007



FORECAST

- The residential inventory will continue to grow in the coming years, as the stable economic situation and the developing market present favorable conditions for real estate developers
- Asking sales prices are likely to continue to increase, but mostly for the high-quality new developments in good locations
- Rental rents are likely to retain their current levels as many newly-built units, bought for investment purposes, are expected to lift the supply
- Demand will continue to increase especially for high-quality properties and compound projects



267 OFFICES IN 57 COUNTRIES ON 6 CONTINENTS

Americas 129

Asia Pacific 53

EMEA 85

62,5 million m2 under management

10,092 Professionals

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