



Market Overview

BULGARIA

RESIDENTIAL | SECOND HALF | 2008



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Economic Environment H1 2008

- The inflow of international funds in Bulgaria is still strong in the first half of year, exceeding EUR 1.22 bln in April 2008, where the real estate sector accounts for 38% of all FDI in Q1 2008.
- GDP grew by 7.0% YoY in Q1 2008, amounting to EUR 6.89 bln. Favorable economic data in early 2008 suggests that rapid GDP growth will be sustained in the first half of the year.
- In May the inflation rose to 14% year on year, the reference index HIPC, increased to 13.2% in Q1 2008. 2008 year-end inflation is expected to ease moderately reflecting the normalization of output levels in the agricultural sector and a favourable base effect. However, the inflation outlook in mid-term remains uncertain.
- Unemployment rate continue its decreasing trend and in the first quarter of 2008 was 6.5% at a national level. The average monthly wage amounted to BGN 500 (EUR 256), up with 24.7% on a yearly basis.

Residential Real estate highlights

- As ever, the supply of residential units on the Sofia market continues to increase. The development is focused on the broad center and suburban areas.
- Demand is increasingly driven by budget restrictions, though proximity to traffic arteries and quality of finishes are important factors.
- Average asking sales prices continue to increase in all submarkets in the first half of 2008. Bukston saw a 14% increase, and the prices in emerging neighborhood now exceeds EUR 1,100/m².
- Rental levels are starting to reach a plateau in Lozenetz and Doctor's Garden, while asking rental rates in Ivan Vazov saw a remarkable hike.

SUPPLY

The residential market in Sofia remains dynamic although propensity to calming down is appearing when comparing to the previous period. Supply continues to increase at a steady pace and the total inventory of housing units in the Sofia city area is currently estimated at 530,000 units by the end of June 2008. The estimate is based on the number of construction permit issued in the previous periods, though a number of those will not be executed.

The growth is driven by the broad center and suburban areas, as the opportunities for developments within the city center are limited due to the lack of designated land plots.

The growth in supply of middle and upper middle-class housing units continues to be concentrated in the Southern part of the city but within the boundaries of the Ring Road. Supply of apartment units is high in neighborhoods such as Bukston, Manastirski Livadi, Vitoshka, Krastova Vada, Gotse Delchev and Lozenetz.

Some of the new, larger projects are directed to cities and villages around Sofia due to the availability of larger land plots at lower prices. Project with over 250 units have been started in Novi Han (Novi Han complex) and projects are appearing in Bistritza and Gorna Banya.

In terms of quality, the market remains undersupplied, but some low-quality constructions and single-standing building remain vacant, and as such has a calming effect on the development in asking prices.

DEMAND

The increasing uncertainty on international financial markets has not been without impact on the residential market in Sofia. Combined with tightened and more costly financing opportunities this is expected to have a sobering effect on the market.

Demand, however, remains fuelled by healthy parameters; very low unemployment, increasing purchasing power, high economic growth and a steady increase in the population of Sofia.

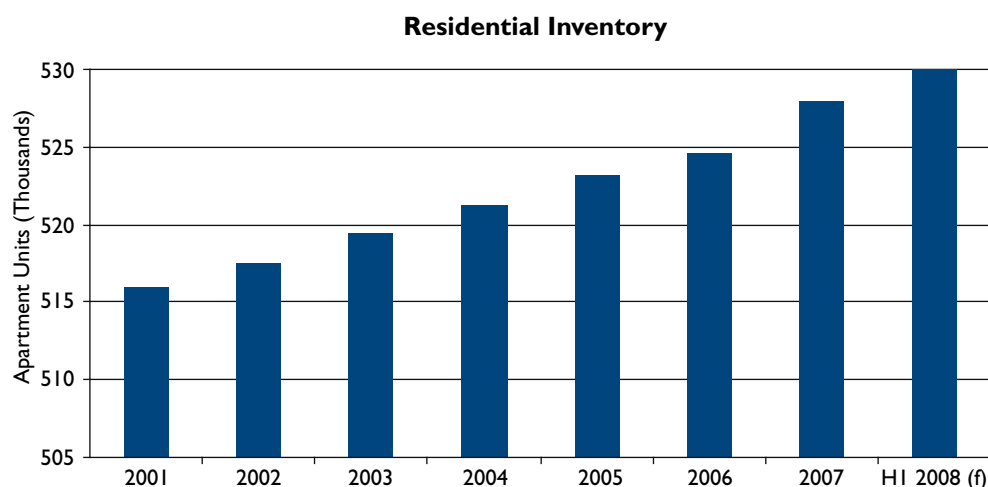
The trend toward more diligent buyers has been strengthened recently. The demand is focused on reliable developers with a good reputation and solid projects. Buyers are now more inclined to buy at later stages of construction, thus mitigating a perceived risk. Developers have become more flexible with payment terms while banks are more restrictive in their mortgage lending policies.

Budget is becoming a factor more important than location for many buyers, though the increasing commuting times favors residential projects with good communication.

Buy-to-rent demand is seeing a slow-down as yields are dwindling and the traditional means of financing are diminished.

Generally, the demand for renting high class properties is stable – the expatriates are interested either in furnished apartments or non-furnished houses when they plan to bring their families to the country.

In terms of quality, the market remains undersupplied, but some low-quality constructions and single-standing building remain vacant, and as such has a calming effect on the development in asking prices.



Source: Colliers' research

SALES PRICES

The development in sales prices is a good reflection of the market dynamics. Asking sales prices in Southern neighborhoods such as Gotze Delchev, Bukston, Manastirski Livadi etc. continued to increase at a healthy pace in the first half of 2008. Bukston saw a 14% increase while average asking sales prices in Gotze Delchev grew by 12% in the first six months of the year. These areas are now around or above the EUR 1,200/m² mark.

The traditional neighborhoods, Lozenetz, Doctor's Garden, Iztok and Ivan Vazov also continue seeing increasing average asking sales prices.

The increase of the average asking prices in H1 2008 vs H1 2007 was highest in Lozenetz (51%) with an 18% increase in the last six months. Prices are now above EUR 1,800/m².

On a yearly basis residential units in Doctor's Garden witnessed a 18% increase, 14% of which are in the last half year period. This, however, is partly driven by a small number of properties offered at very high prices.

Interesting is the situation in the Ivan Vazov area, where from a 44% increase compared to H1 2007, only 9% are from this six-month period – clearly a sign of a calmer market.

In Iztok the price increase was 12% for the first half of the year, which is quite similar to the growth measured in the previous period.

RENTAL RATES

Asking rental rates in Sofia continued to increase slightly in the first half of 2008.

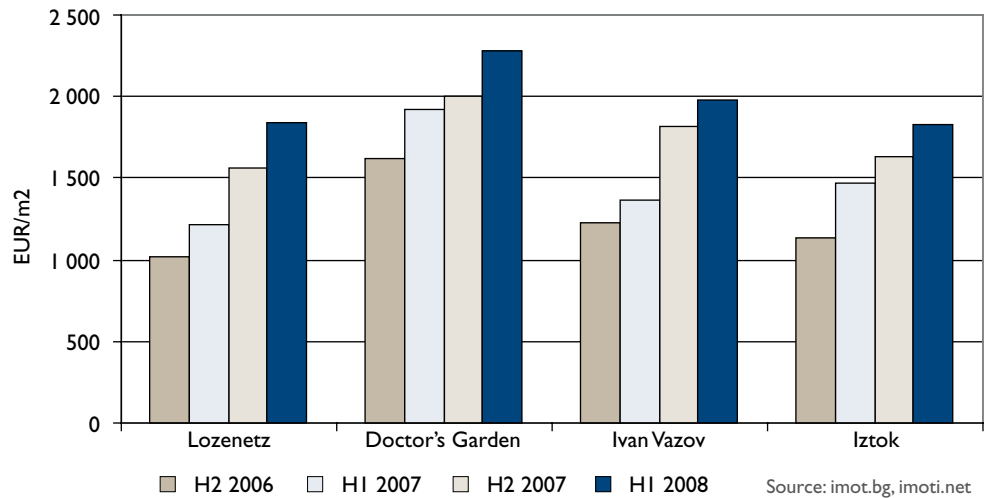
The highest increase was recorded in Ivan Vazov where average asking rent went up by 15% compared to H2 2007 and by 21% on annual basis reaching the levels of Doctor's Garden – almost EUR 8/m². It appears that landlords are trying to recover the significant increase in sales prices in the previous periods.

Iztok keeps its trend for the past few years, by continuing slightly to increase, this time with 6% - reaching EUR 7.5/m².

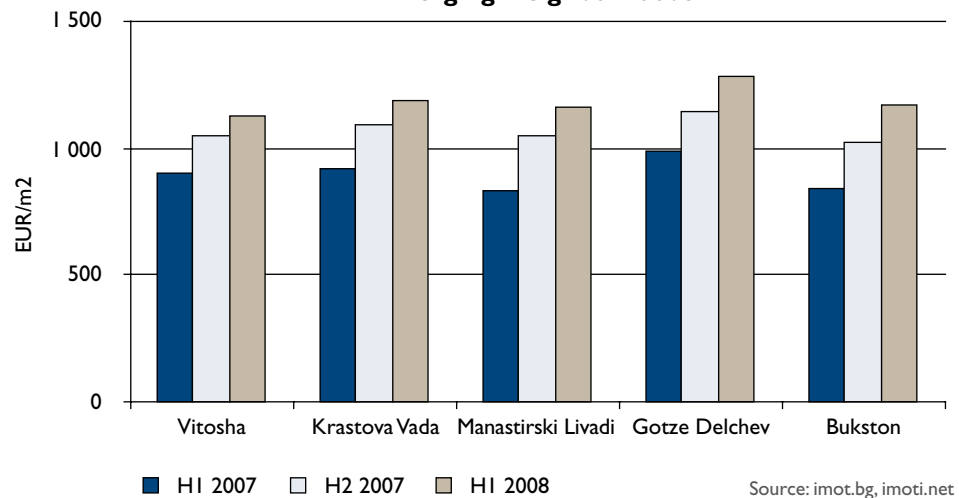
Doctor's Garden and Lozenetz saw a plateauing of rental prices keeping the average asking rents of EUR 7.7 and 6.6 Euro/m² respectively for the past six months.

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

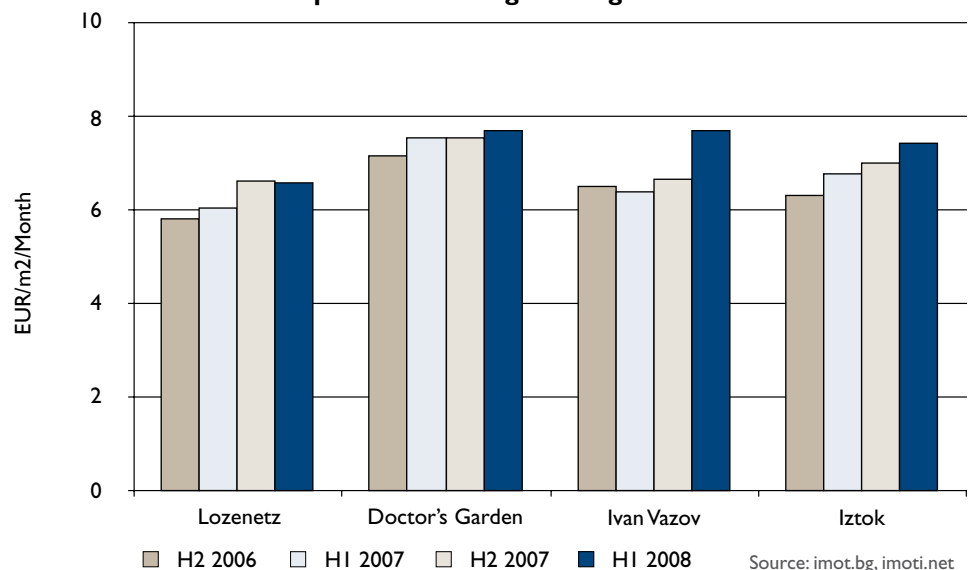
Development in Average Asking Prices in the Prime Locations



Development in Average Asking Prices in Selected Emerging Neighborhoods



Development in Average Asking Rents in H1 2008



FORECAST

- The residential inventory of quality projects with good concepts is expected to increase in the coming years as demand for this type of projects remains healthy.
- The demand for middle and high-end projects is expected to remain resilient, though transactions are expected to happen at a slower pace and mortgage lending opportunities diminish.
- A number of sub-standard projects, not meeting market demands, are expected to disappear due to lack of financing.
- Asking sales prices of quality projects with good layouts, location and finishes are expected to increase though at a moderate pace.
- Rental rents are likely to retain their current levels as demand is stable.



293 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

Americas 136
Asia Pacific 62
EMEA 95

80.6 million m2 under management

11,000 Professionals

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