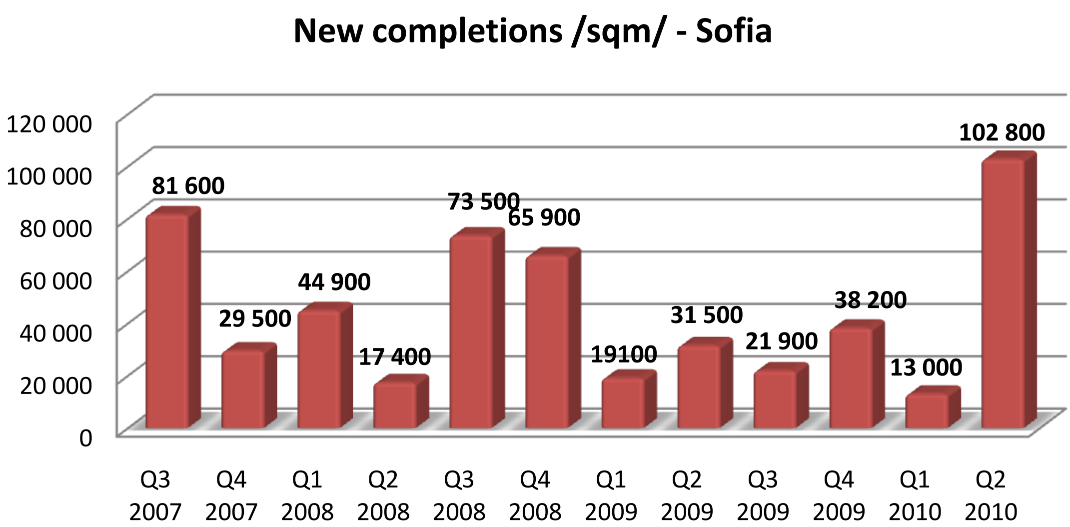
FORTON
Commercial Property Advisers

Q2 | 2010

Bulgarian Office Market

- The second quarter of 2010 was characterized by the highest delivery of newly completed office space on the property market in Sofia. This is due to the completion of the first three buildings (Buildings A, B and E) of the European Trade Center (ETC) adding TBA 43,800 sq.m. to the supply side. Together with The Mall (GLA 66,000 sq.m.) and Carrefour Hypermarket (GLA 15,000 sq.m.), ETC forms the largest commercial property complex available on the market in Sofia. ETC is also the first completed office complex among the several large-scale projects, which were started at the peak of the market in 2006-2007. These projects offer Class A office space and are serious competitors to the stock provided by the earlier office buildings and multifunctional commercial buildings. The pipeline supply remains high. Approximately 200,000 sq.m. new office space is expected to be completed until the end of the year. All of these new projects compete for attracting large companies consolidating their head offices or large companies, which presently occupy Class B and Class C office space. The full absorption of the new developments will take at least two more years and most probably it will happen at the cost of very high vacancy in other Class B and Class C offices with secondary location. High supply of new Class A space has already put strong pressure on rents in buildings with secondary location throughout the city. These market developments have created excellent opportunities for tenants to optimize their office costs or even find better offices for less money. A positive development for all tenants is that new office buildings coming from the pipeline have better technical characteristics and provide better business environment. In this regard "green buildings" with their higher energy efficiency will be the future type of properties attracting both tenants and investors.



Source: Forton International

- Approximately 102,800 sq.m. of new office space were completed in Q2 2010, which is the highest ever quarterly supply of new office space on the market in Sofia. The new quarterly delivery almost equals the total delivery of new office space in 2009. This is due to the completion of the first three buildings of ETC office complex (TBA 43,800 sq.m.) as well as the completion of several smaller office buildings on main boulevards and in the suburban areas of city.

Selected Office Developments Completed in Q2 2010

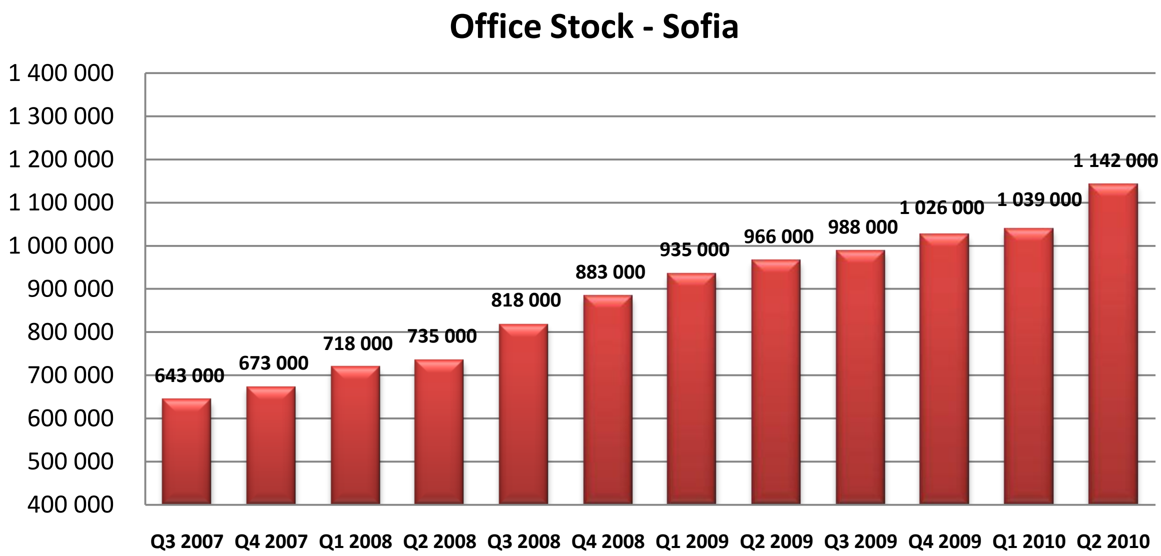
Building Name	Location	Office Space m²
European Trade Center (Buildings A, B & E)	Tsarigradsko Shosse	43,800
Sofia City Business Center	Tsaritsa Yoana Blvd. – Lyulin District	12,300
Arteks Business Center	Tintyava str. – Iztok District	9,000
Crystal Business center	Todor Alexandrov Blvd.	8,000
Noveo Office Center	Tsaritsa Yoana Blvd. – Lyulin District	6,500
GRAWE Office Building	Tsar Boris III Blvd.	4,900
Twins Center (Building 1)	Nikola Gabrovski str. – Studentski Grad District	3,500
Others		14,800

- We expect pipeline supply to remain high in Q3 2010 with approximately 68,000 sq.m. new office space scheduled to be completed. Most of the projects coming out of the pipeline are prime quality office buildings with good technical characteristics. Polygraphia Office Center and Perform Trading Center will significantly contribute to the supply in the CBD. The opening of the first office building at Sofia Airport Center is also expected with high interest as this is the first office building in Bulgaria built by one of the most prominent developers in the world, Tishman International.

Office developments scheduled for completion in Q3 2010

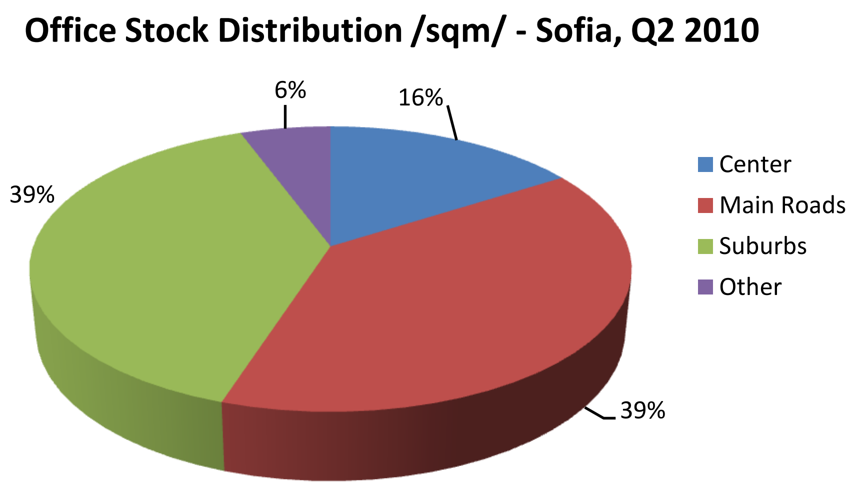
Building Name	Location	Office Space m²
Polygraphia Office Center	CBD/Tsarigradsko Shosse	19,150
Perform Trading Center	Pozitano str. / CBD	27,835
Sofia Airport Center (Building 1)	Hristofor Kolumb Blvd. / Suburb	17,000
Twins Center (Building 2)	Nikola Gabrovski str. / Suburb	4,000

Absorption of space in the new office buildings and the rents they manage to achieve will be indicative for the market development in 2011 and 2012.



Source: Forton International

- The office stock stands at approximately 1,142,000 sq.m. as at the end of Q2 2010. The increasing supply has deepened the segmentation of the market in terms of rental price/location and rental price/quality of space. This creates a favorable market for tenants. Companies are given the choice of wide variety of offices at different rent levels.

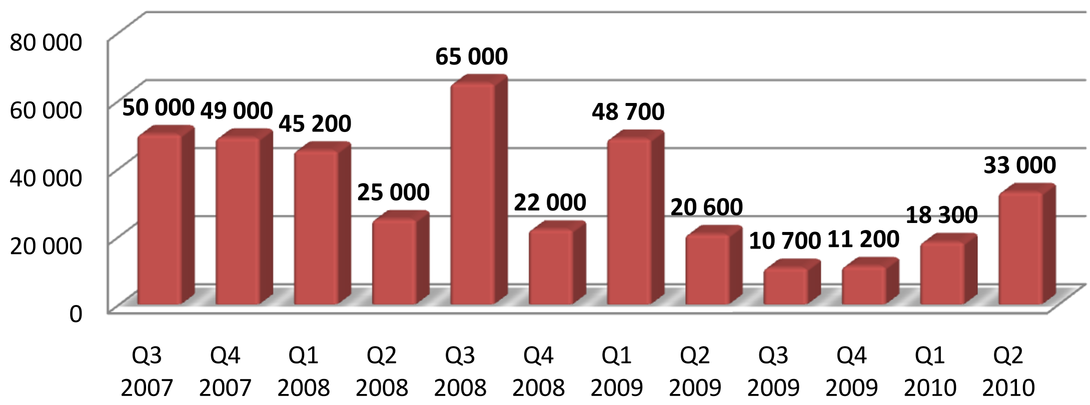


Source: Forton International

- Distribution of the office stock remains the same as in the previous quarter. Approximately 84% of the current stock is located outside the CBD. More and more companies are interested in the proximity of their offices to the subway, which has already proved as the fastest and most convenient transport mean in the city. The extension of the first subway line and the expected opening of the second line in 2012 will positively influence the office developments in proximity to its stations.

- Two large leasing deals happened in Q2 2010 – the relocation and consolidation of the head office of Blizoo (former Evrokom Kabel and CabelTel) with 3,500 sq.m. at Twins Center and CSMS entering 6,000 sq.m. at the ETC. For a consecutive quarter the most active companies looking for office space are from the IT sector, online services and outsourcing companies with activities in Bulgaria. Demand is expected by large corporate entities consolidating their operations and willing to relocate to better location.
- The absorption of new office space in Q2 2010 amounts to approximately 33,000 sq.m., which is a positive sign about the leasing market activity. Our data show that absorption of new space has increased for a fourth consecutive quarter. However it still lags significantly behind the amount of new supply, which has resulted in higher vacancies throughout the city.

Sofia - New Office Space Absorption /sqm/

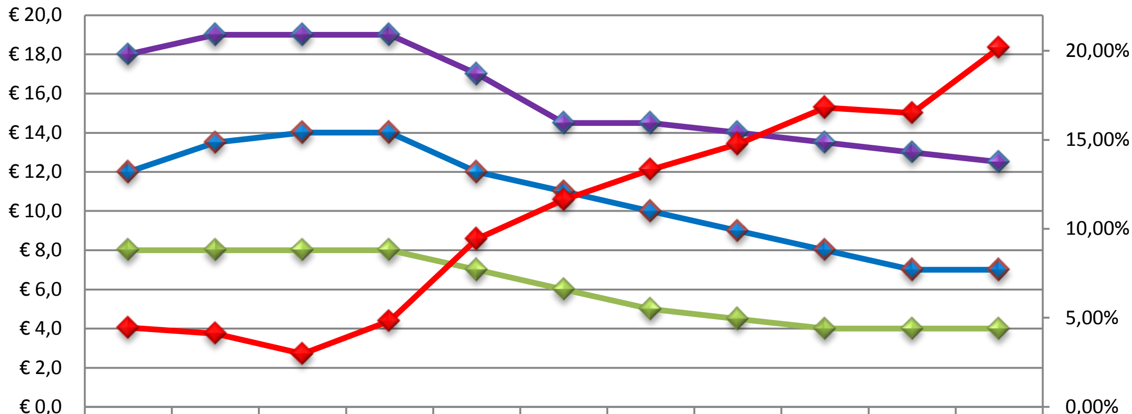


Source: Forton International

- Office vacancy rate has increased to 20,16% in this quarter, which is due to the high supply coming from the pipeline. All of the newly completed buildings struggle to find tenants. Some of the more attractive projects managed to secure occupancy of 50%-60% of their space, but many others are almost fully vacant, burdening their developers with the operation and maintenance costs. This is why landlords offer great discounts and all sorts of incentives, including extensive rent free periods, which comes only as a benefit for the tenants. Vacancy rate is expected to increase until the end of the year up to 25%-30% with the expected high delivery of new space. Some developers deliberately delay the finishing works on their projects until they manage to secure tenants, thus avoiding high operational and maintenance costs of a finished empty building.
- Prime office rents continue to decrease and as at the end of Q2 2010 stand at € 12.50 per sq.m. net monthly rent. Average rents for Class B and Class C space remained the same at € 7.00 per sq.m. and € 4.00 respectively. The new large office projects put strong pressure on rental levels and generally offer better quality at the same rent level as the older stock. However the market is now close to its lowest rental levels, which makes it attractive for many businesses to enter long-term rental agreements. CBD

remains the most attractive location for most of the companies. Large office buildings on the main road arteries and in the suburban areas are more attractive to call centers, IT companies and outsourcing companies.

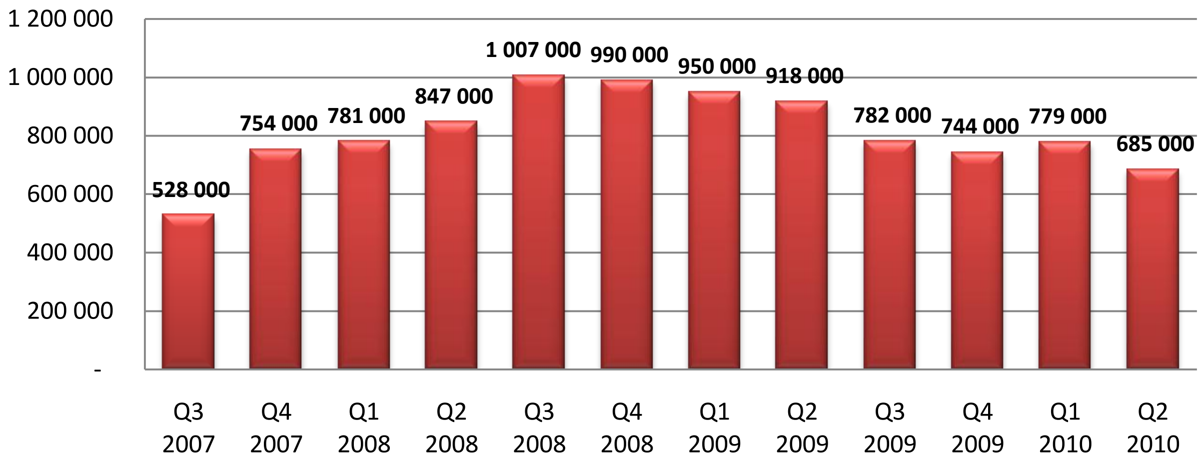
Office Rents & Vacancy - Sofia



	2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Class A	€ 18,0	€ 19,0	€ 19,0	€ 19,0	€ 17,0	€ 14,5	€ 14,5	€ 14,0	€ 13,5	€ 13,0	€ 12,5
Class B	€ 12,0	€ 13,5	€ 14,0	€ 14,0	€ 12,0	€ 11,0	€ 10,0	€ 9,0	€ 8,0	€ 7,0	€ 7,0
Class C	€ 8,0	€ 8,0	€ 8,0	€ 8,0	€ 7,0	€ 6,0	€ 5,0	€ 4,5	€ 4,0	€ 4,0	€ 4,0
Vacancy	4,46%	4,12%	2,99%	4,83%	9,43%	11,64%	13,32%	14,76%	16,80%	16,50%	20,16%

Source: Forton International

Office Space Under Construction /sqm/

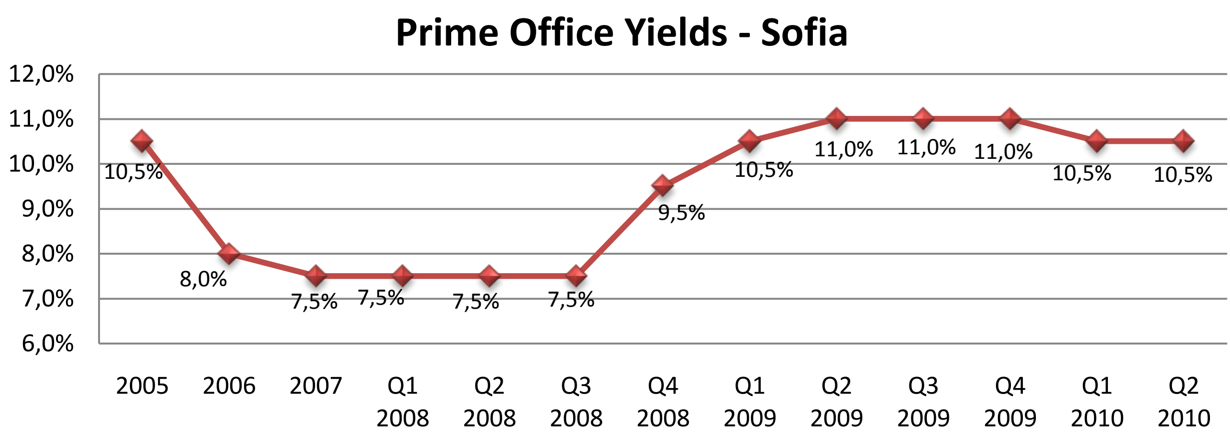


Source: Forton International

- Office space under construction fell to 685,000 sq.m. Construction works of two new projects were started in the first quarter of the year - Capital Fort (44,300 sq.m.) and Bulgaria Air Tower (33,000 sq.m.).

Immorent started construction works on the only new office project started in the second quarter of the year. The building is located at Todor Alexandrov Blvd. and is scheduled to be completed by the end of 2012 or in 2013. The building will offer approximately 10,000 sq.m. of office space. The new office developments face fierce competition for securing tenants by the already completed buildings.

- The investment market gradually becomes more optimistic compared to 2009. Nevertheless buyers are still conservative and very cautious. Demand is focused only on fully occupied buildings preferably with long term tenants. In view of the high supply coming from the pipeline, investors avoid buildings without secured tenants. Compression of yields on the leading western markets motivates more and more investors to look again towards markets in Eastern Europe, but this time going only for high quality assets with good investment characteristics.



Source: Forton International

- The prime office yield remains unchanged since the last quarter. It is estimated to be around 10.50% based on investors bidding. Fully occupied buildings at prime location may achieve lower yield, but such properties are rare on the market – presently there are not any Class A office buildings with prime location and full occupancy offered for sale. The main issue with most of the buildings offered for sale is either the lack of tenants or short lease periods to tenants break option, which creates high risk of rising vacancy and falling income. In many cases current rents are being renegotiated downwards or expected to drop. Investors calculate all these risks as a result of which asking yields remain high.

Bulgarian Office Market – Q2 2010

Largest Office Developments Under Construction in Sofia

Building	Location	Office TBA(m²)	Current Status	Planned Completion
Sofia Airport Center	Next to Airport Sofia	17 000	Finishing works	Q3 2010
Sofia Airport Center	Next to Airport Sofia	83 000	On hold (remaining phases)	Q4 2012
Business Town Sofia	Kamenodelska Str.	53 346	Under Construction	To be confirmed
Soravia Megapark	Tsarigradsko Shousse Blvd.,	48 000	Under Construction	Q4 2010
Sofarma Office Buildings	Dragan Tsankov Blvd.	32 000	Under Construction	2011
Litex Tower	Dragan Tsankov Blvd.	14 000	Under Construction	Q1 2011
Serdika Center Offices	Sitniakovo Blvd.	35 000	Under Construction	Q4 2010
Millenium Center	Vitosha blvd. and Bulgaria blvd.	35 000	Under Construction	2012
Macedonia Tower	Macedonia Sq.	31 843	Under Construction	2012
Perform Trading Center	Pozitano Sq.	17 000	Under Construction	Q3 2010
Polygraphia Office Center	Tsarigradsko Shousse blvd.	19 150	Under Construction	Q3 2010
Evropa Park Sofia	Tottleben Blvd.	n/a	On Hold / Stopped	n/a
Sofia 1 Business Complex	Shipchenski Prohod Blvd.	63 000	Design Phase/Site preparation	n/a
Alfa Complex	Ring road near BPS	62 000	On Hold	n/a

Average Prime Office Rents

City	Rent Levels (€/m²/month)		
	Q2/2010	Q1/2010	Q2 2009
Sofia	**€ 12.5**	€ 13.0	€ 15.0
Plovdiv	**€ 5.5**	€ 6.0	€ 7.0
Varna	**€ 6.5**	€ 7.0	€ 10.0
Burgas	**€ 5.5**	€ 6.0	€ 8.0

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