



Q2 | 2010

Bulgarian Industrial Market



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Industrial space – global overview

- ❖ Logistics is the mainstay of European industry, fundamentally contributing to the efficiency, competitiveness and sustainability of European business.
- ❖ Investors looking for high direct returns are attracted by logistics real estate providing significant income return. Eminent cash flow risk can be avoided by modern flexible logistics space and considerate tenant selection. In addition high vacancies adversely affect logistics occupiers markets which put pressure on rental values. Public debt financing issues in several Southern European markets further affect forecasting uncertainty.
- ❖ According to Aberdeen Asset Management and its Global Property Market Outlook (July 2010) “new space under construction in Europe fell by 50%, to just two million square metres, over the year to spring 2010. The pace of prime rental decline across the key European industrial markets in the first quarter of 2010 showed a slight slowdown, with an average fall of just 1% recorded, versus 6% during 2009 and a total fall of around 11.5% since the peak. Logistics and industrial rents are projected to experience the weakest rental growth of the three main property sectors. Total returns are again projected to be strongest in the UK and the Nordics, and weakest in central and southern Europe”.
- ❖ The World Bank’s “Connecting to Compete 2010, Trade Logistics in the Global Economy, The Logistics Performance Index and Its Indicators”, ranks Bulgaria 63 out of 155 countries with score of 2.83 and 58.8% of the highest performer – Germany – 4.11.

Logistics Performance Index

Rank	LPI rank			LPI score			% of highest performer	Customs		Infrastructure		International shipments		Logistics quality and competence	
	Rank	Lower bound	Upper bound	Score	Lower bound	Upper bound		Rank	Score	Rank	Score	Rank	Score	Rank	Score
Germany	1	4	1	4,11	4,07	4,16	100,00	3	4,00	1	4,34	9	3,66	4	4,14
Singapore	2	4	1	4,09	4,01	4,17	99,20	2	4,02	4	4,22	1	3,86	6	4,12
Sweden	3	10	1	4,08	3,90	4,25	98,80	5	3,88	10	4,03	2	3,83	2	4,22
Hungary	52	86	35	2,99	2,66	3,31	63,80	45	2,83	38	3,08	86	2,78	53	2,87
Greece	54	86	38	2,96	2,67	3,24	99,20	68	2,48	45	2,94	73	2,85	65	2,69
Slovenia	57	82	51	2,87	2,71	3,04	95,70	60	2,59	58	2,65	76	2,84	50	2,90
Romania	59	101	48	2,84	2,58	3,11	62,80	85	2,36	99	2,25	34	3,24	66	2,68
Bulgaria	63	105	47	2,83	2,55	3,12	59,80	65	2,50	94	2,30	52	3,07	55	2,85
Malta	64	114	44	2,82	2,49	3,16	59,10	55	2,65	48	2,89	64	2,91	52	2,89
Macedonia	73	90	56	2,77	2,62	2,93	57,50	61	2,55	68	2,55	79	2,83	60	2,76
Croatia	74	112	51	2,77	2,51	3,03	57,40	57	2,62	87	2,36	62	2,97	87	2,53
Serbia	83	133	50	2,69	2,32	3,05	56,10	108	2,19	95	2,30	18	3,41	84	2,55

Source: World Bank



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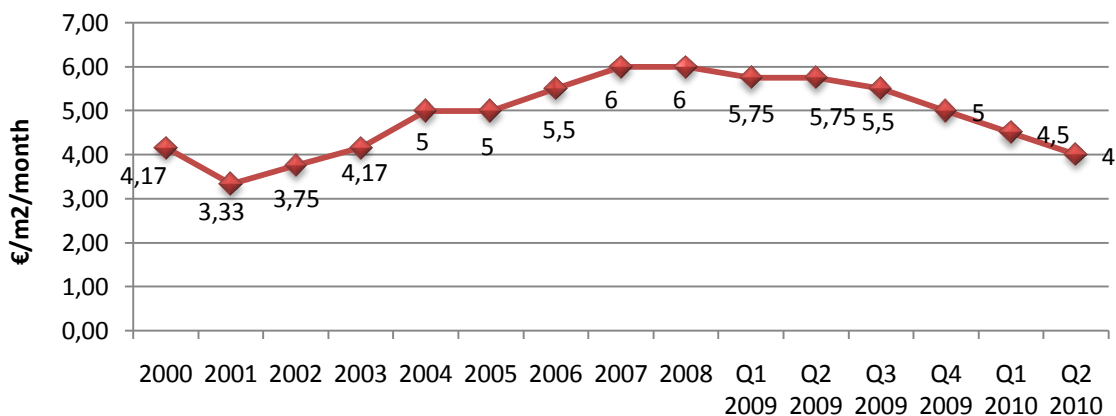
Industrial space in Sofia region

- ❖ The logistics market in Sofia region registered new stock increase totaling 86,405 sq.m. in Q2 2010. Thus, at present modern logistics space supply amounts to 514,750 sq.m., which represents 20,17% increase compared to Q1 2010. Main development schemes delivered to the market include logistics projects of Lidl Bulgaria, Market Service/Billa, Transcapital's building N5 and STAD.
- ❖ Vacancy rate registered a slight increase compared to the previous quarter and is estimated at 8,46%
- ❖ Lidl completed its logistics centre with TBA of 36,000 sq.m. in close vicinity to the village of Ravno Pole. The project also has office and retail area amounting to 6,000 sq.m. and 4,000 sq.m., respectively.
- ❖ The official groundbreaking ceremony of Billa's new logistics base located in Elin Pelin was held on 16 June. The latter accumulates 23 million leva of invested capital and has 11 100 palette places and 51 freight ramps accommodated on an area of 16 600 sq.m. The new own logistics base with 19,605 sq.m. of TBA will provide sufficient space for storage and distribution of Billa's commodities while optimizing costs along the supply-chain management. Billa will use REWE Group software and apply FIFO principle which will significantly reduce issues related to the expiry date of the goods.
- ❖ Transcapital delivered to the market additional 8,000 sq.m. of warehouse space, located on Botevgradsko Shosse Blvd.
- ❖ BulLog has commenced strategic partnership with OMV resulting in demand for high quality office and logistics space. The logistics company leased 2,500 sq.m. logistics and office space in Sofia Airport Centre in May 2010.
- ❖ Another 1250 sq.m. of logistics and office space located in B.03 in Sofia Airport Center will be leased to Cargo Partner, as announced by the management of Tishman International and GE Real Estate Central and Eastern Europe. The leasing period will be 5,5 years
- ❖ EURO 07 leased 1,000 sq.m. of logistics space in Universal Logistics Park located on the junction of Tsarigradsko Shosse Blvd. and the Ring Road.
- ❖ Currently leasing companies tend to contract with clients financial leases for edifices used for production buildings. In view of the continuing economic decline however real estate leases register very low volumes
- ❖ National Company Industrial Zones Plc. has started procedure for amalgamation of four land plots with total area of 191.4 hectares located in the village of Gurmazovo, Bozhurishte Municipality. NCIZ aims at developing a high-tech industrial park and attracting international logistics tenants and operators. The close proximity to the city of Sofia as well as international road E-80, Belgrade – Istanbul serve as prerequisites for the development of the economic potential of Bozhurishte Municipality.

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- ❖ Among the key segment drivers are FMCG and pharmaceutical companies, international brands operators as well as companies from the processing industry and technology sector. The latter two register 20-30% turnover increase. According to Forton's research toward the end of 2010 and the beginning of the next year these companies will seek quality industrial space for rent. Thus, industrial parks currently at design phase may come into existence
- ❖ Currently there are industrial/logistics projects totaling 84,349 sq.m. under construction in Sofia region. Among the largest schemes are projects of Simid Sofia, Maria Kom, Elit Imoti and BNK building N 15
- ❖ Companies from the logistics sector experience significant turnover reduction and in an attempt to remain on the market and optimize costs sublease surplus owner occupied logistics space. 3PL (Third-Party Logistics) operators are becoming increasingly popular in Bulgaria provided companies in the sector concentrate on their prime activities and outsource supplement services. International logistics companies operating in Bulgaria implement logistics planning software, vehicle routing systems, real-time logistics tracking & routing systems, etc.
- ❖ Rent level for prime logistics space is estimated at 4 euro/sq.m. (service charge not included), which represents 20% decrease compared to Q4 2009.
- ❖ Service charge (operational costs) is within the range of 0,5-1,0 euro/sq.m. and subject to negotiation between the interested parties.
- ❖ Typical lease agreements are concluded for a period of 3 to 5 years with up to 3 months rent free.

Prime Logistics Rent - New Stock

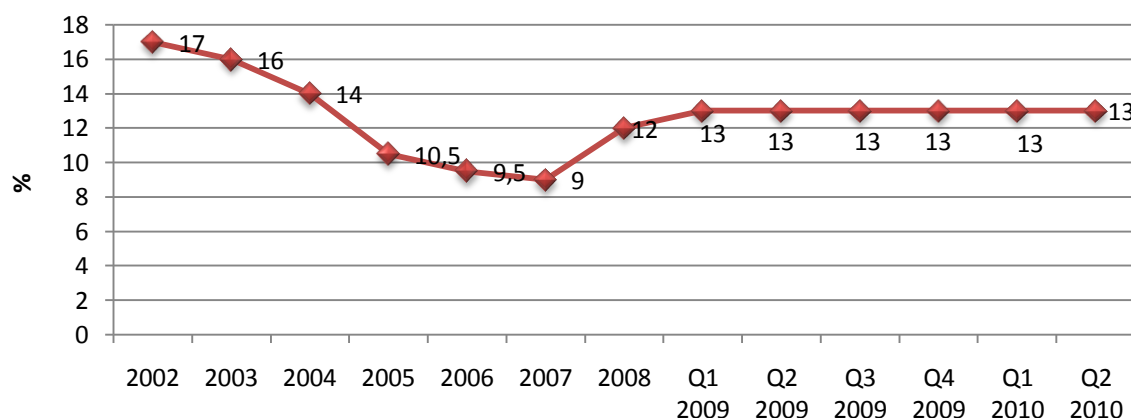


Source: Forton International

- ❖ Prime logistics yield is estimated at 13%. H1 2010 has not witnessed any investment transactions.

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Prime Logistics Yield



Source: Forton International

- ❖ Among the preferred locations for logistics schemes in Sofia and the surrounding areas are Sofia Airport zone, Bozhurishte, Sofia's Ring Road and the territory encompassed by Trakia and Hemus highways as well as the region of Elin Pelin and Kostinbrod.

Largest Logistics Developments under Construction in Sofia

Project	Location	Logistics TBA(m2)	Status	Investor
Industrial Park Sofia - East	Novi Han Village	117 527	On hold	Paladin
Simid bread-making factory	Liulin 2	26 264	U/C	Simid Sofia
Maria Kom administrative and warehouse complex	Vrabnitsa I	13 143	U/C	Maria Kom

Proposed Logistics Projects

Project	Location	Logistics TBA(m2)	Status	Investor
Industrial Park Sofia	Bojurishte district	420 000	Design phase	Danubio Real Estate Management
Sofia East Ring Logistic Park	Novi Han (Trakia)	118 700	Design phase	Glorient Investment BG
East European Financial – Business and High Tech center	Kremikovtzi	100 000	Design phase	Sofia Municipality
Novoclass Business and Logistic complex	Gorublyane	22 254	Design phase	Novoclass and Zagorka



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Industrial space outside Sofia region

- ❖ Logistics Park Varna signed a new lease contract with ACT Logistics for area totaling 1,000 sq.m.
- ❖ Municipality of Pernik has designated 350 dka of land plots for the development of ecological and high-tech production facilities area. The new industrial zone will offer attractive rents, easier transfer of construction and ownership rights and enhanced administrative services
- ❖ Florimont completed its industrial building in Pleven delivering 7,000 sq.m. of industrial space to the market
- ❖ Knauf Bulgaria finished its project with TBA of 60,000 sq.m. in Stara Zagora. The new plant is situated on a plot area of 120,000 sq.m. and will produce plasterboards.
- ❖ Industrial schemes under construction outside Sofia are represented mainly by projects located in the second and third largest cities - Plovdiv and Varna.
- ❖ TI Park Plovdiv envisages nearly 33,500 sqm of logistics space. On completion the project will be suitable for commercial, logistics and after sales operations and services.
- ❖ Maritsa Logistics Park in the village of Radinovo, Plovdiv encompasses four stages of construction delivering 36,400 sq.m. of logistics and administrative buildings.
- ❖ Logistic Park Varna is currently under construction. Upon completion, it will deliver a total of 60,000 sq.m. of modern commercial and warehouse space.
- ❖ Logistics Park Ruse, warehousing and light industrial facility, will provide 22,000 sq.m. of prime logistics space upon completion in Q4 2010. Logistics Park Ruse will consist of two buildings and will provide flexible warehouse units from 1,385 sq.m. up to 13,850 sq.m. with additional office space to meet the tenants' needs. Modern energy efficient and sustainable design based on best international practice will be applied.

EU 2020 Strategy

- ❖ Bulgaria, albeit a small country, has strategic position and potential for transforming into logistics hub on the Balkan Peninsula. Our country is integral part of the European logistics market and will be directly affected by the Future EU 2020 Strategy. The Alliance for European Logistics represented by AIR FRANCE KLM Cargo, BASF, Carrefour, CEVA Logistics, Deutsche Post DHL, IVECO, Michelin and SAP proposes TEN RECOMMENDATIONS FOR ENSURING A SUSTAINABLE AND INTEGRATED EUROPEAN TRANSPORT POLICY FOR THE NEXT DECADE to the European Commission Public Consultation on the abovementioned strategy including:
 - I. The creation of a more integrated longer-term strategy for logistics, based on realistic scenarios for 2020 and recognising that logistics is the backbone of European competitiveness.



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2. Closer coordination between industry and the European Commission on key strategic decisions enabled by:
 - the creation of a high-level EU stakeholders' group for logistics with a broad-based industry representation and
 - the creation of a logistics think-tank in the European Parliament, in which the major issues in logistics can be discussed in depth across party and committee lines
3. Enhanced coordination between the services of the Commission to implement an integrated cross-modal transport policy, taking into account the entire value chain of transport and logistics services, with all actors involved.
4. Prior and complete impact and risk assessment based on sound market and industry understanding and reliable data.
5. Completion of the internal market for all modes of transport
6. Unburden business from administrative and operational bottlenecks including customs and security measures
7. A more “balanced approach” to reduce the environmental footprint of transport i.e. introducing gradually technological progress (e.g. cleaner vehicles), operational measures (e.g. eco-driving), infrastructure improvements (e.g. rail freight dedicated framework, intermodal hubs and efficient traffic management systems) and, only if required, economic instruments;
8. Financial incentives to reduce energy consumption e.g. investment in fleet renewal, ITS devices, electric, natural gas and hybrid trucks, education and training, consulting services and sustainable real estate solutions.
9. Investment in key European intermodal corridors completed by a network of intermodal platforms.
10. Securing global and fair trade

Forton International has launched web site dedicated to the industrial space in Bulgaria available at: <http://www.industrialspace.bg>. The ambitious project aims at delivering up-to-date information with regard to industrial and logistics projects divided in three groups - completed, under construction and at design phase. The web site provides full scope of services offered by Forton International as well as projects leased by our company, market analyses and updates.

FORTON International
55 Alexander Stamboliyski Blvd.
1301 Sofia, Bulgaria
T: +359 2 805 90 11
F: +359 2 805 90 91
W: www.forton.bg

Capital Markets & Consultancy
Plamen Bachev
E: pbachev@forton.bg