



Q1 | 2010

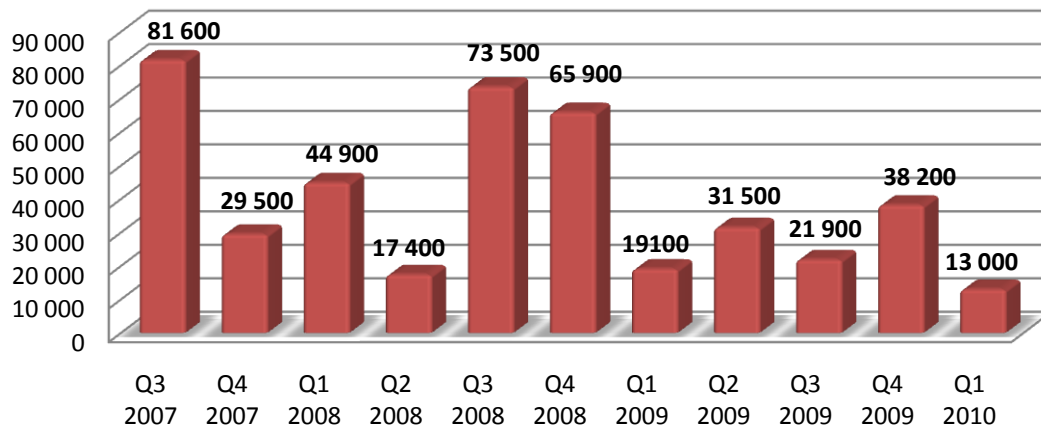
Bulgarian Office Market



Bulgarian Office Market – Q1 2010

- ❖ We are proud to announce that since March 2010 Forton International has been promoted to Alliance Partner of Cushman & Wakefield.
- ❖ The first quarter of 2010 was characterized by insignificant increase in supply of office space, contrary to the large delivery of new offices expected till the end of this year. Although supply is still much higher than demand, the market is now probably close to its lowest price and rent levels. The projected completion of several large-scale developments in Q2 and Q3 2010 motivates landlords to offer attractive rent discounts and incentives such as rent free periods, step rents, free fit-outs and covering relocation costs. This creates 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 internal environment. Among their strong points are the open space design allowing greater flexibility, better natural light quality, improved and more efficient HVAC systems, larger floor areas and floor depths, higher ceiling height allowing the installation of raised floors and last, but not least more dedicated parking spaces. Presently there is a large variety of offers on the market. Tenants, who are willing to enter long term agreements, have strong bargaining leverage to achieve significant discounts.

New Office Supply /sqm/ - Sofia



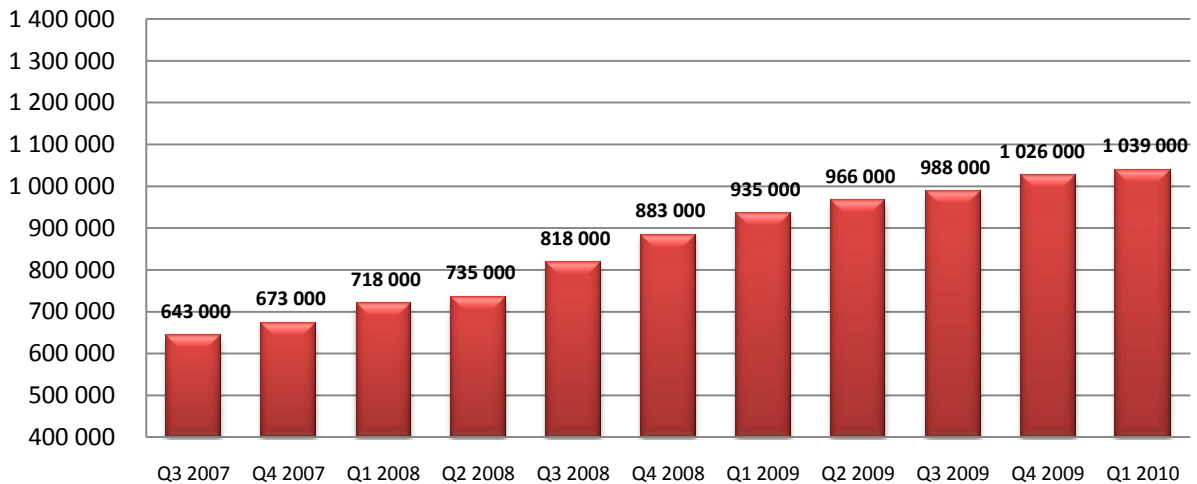
Source: Forton International

- ❖ Only 13,000 sq.m. of new office space were completed in Q1 2010, but we expect significantly higher supply in Q2/Q3 2010 with the planned completion of the European Trade Center (GLA 72,300 sq.m.), Perform Business Center (GLA 17,000 sq.m.), Polygraphia Office Center (GLA 27,500 sq.m.). If all of the projects coming from the pipeline this year meet their planned completion dates, we expect supply to increase by approximately 300,000 sq.m. Sofia office market does not have the capacity to absorb such amount of space this year and investors are already prepared that these new buildings will find their tenants in the next 1-2 years. The new

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buildings coming to the market offer better quality compared to most of the stock. This is why, we expect that many of their future tenants will be large companies and headquarters relocating from their present locations.

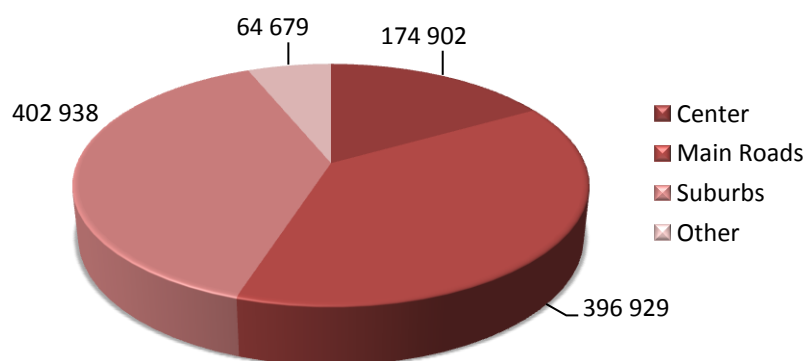
Office Stock - Sofia



Source: Forton International

- ❖ The office stock stands at approximately 1 039 000 sq.m. as at the end of Q1 2010. Increase of office stock has been mild since the crisis hit Bulgaria, but this will change starting from the next quarter with expected delivery of approximately 127,000 sq.m., which is close to the total supply of new office space throughout the whole 2009.

Office Stock Distribution /sqm/ - Sofia, Q1 2010



Source: Forton International

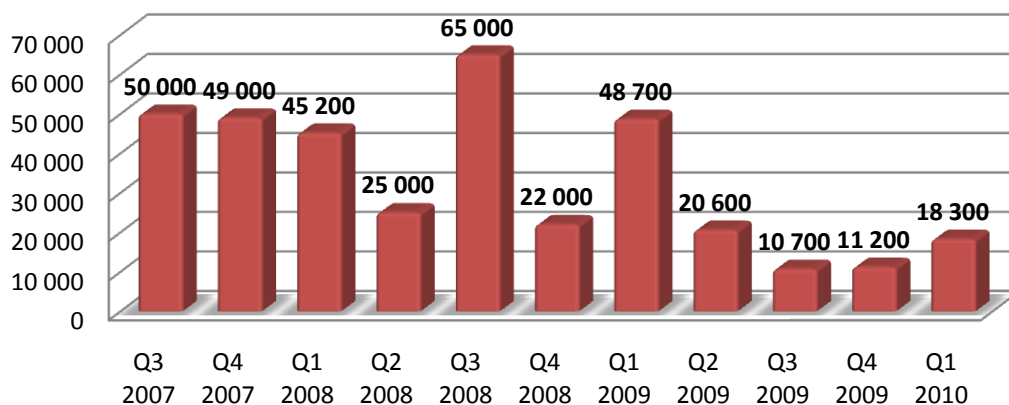
- ❖ The distribution of the office stock remains the same. Approximately 77% of the current stock is located along the main road arteries of the city and in the suburban areas. Supply in the CBD remains unchanged since the last quarter. The next quarter will deliver one of the largest office

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buildings in the CBD, Perform Business Center (GLA 17 000 sq.m.), which will increase CBD supply. However the share of office stock located along main road arteries will continue to rise with the completion of ETC, Megapark and Polygraphia Office Center. The main boulevards of the city, Tsarigradsko Shosse and Bulgaria Blvd. still enjoy good interest from prospective tenants as well as locations in proximity to stations of the subway line.

- ❖ Tenants' potential for optimization of costs remains the main driver of demand. First signs of increased tenant activity are visible on the market following the fall at the start of the crisis. The best prospects for any recovery in demand remains concentrated in Sofia, being the office hub of the country and focal point of all international investors. The market relies strongly on foreign companies outsourcing activities to Bulgaria and on IT companies, which has been less affected by the crisis. In this regard the office demand is somehow dependent on the general macroeconomic stability, business incentives and the Government's measures to attract more foreign investors to Bulgaria.
- ❖ The absorption of new office space in Q1 2010 amounts to approximately 18 300 sq.m., which is higher than the previous two quarters. Although tenants' activity is increasing, the recorded absorption is due to a large contribution of an owner-occupied building of DSK Bank (11,500 sq.m.). A higher absorption might be expected in the second half of the year and in 2011 with the expected global economic recovery.

New Office Space Absorption - Sofia



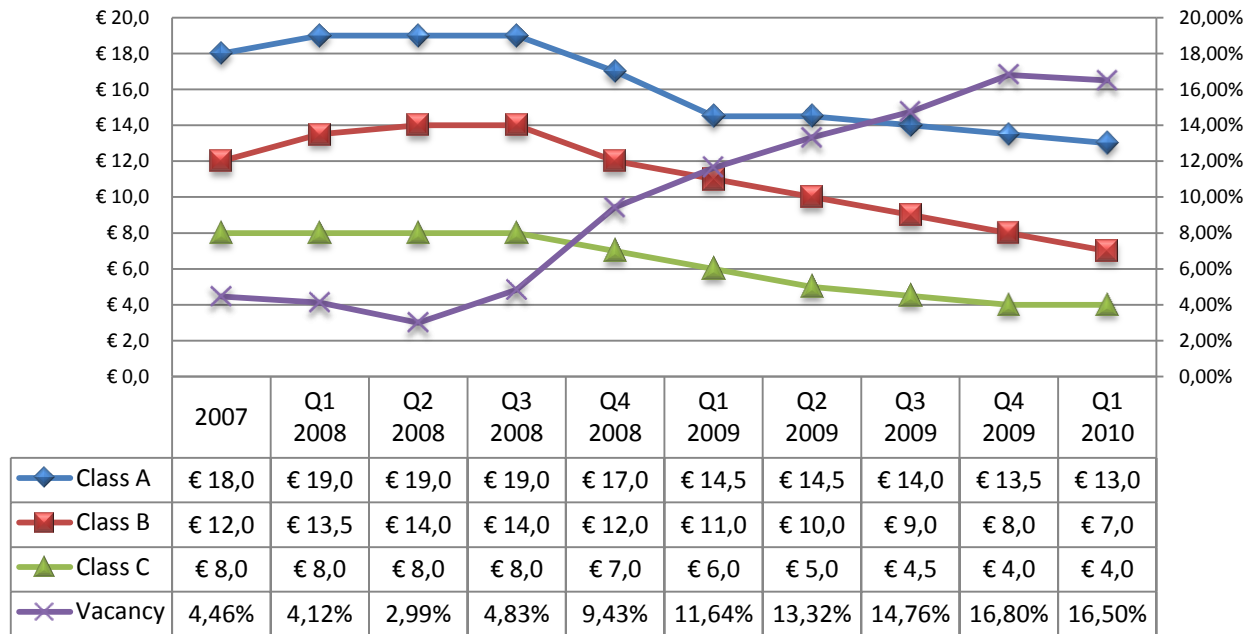
Source: Forton International

- ❖ Office vacancy rate remained almost unchanged since the last quarter standing at 16,50%. The slight decrease is due to several pre-opening lease agreements signed at European Trade Center (ETC). The most notable leasing deal in Q1 2010 amounts to 2 600 sq.m. rented by Callpoint in ETC. Vacancy rate is expected to increase significantly up to 25%-30%, because of

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the coinciding completion of the largest office developments coming from the pipeline. These new office buildings will be gradually absorbed by the market in 2011 and perhaps some portions of them in 2012.

Office Rents & Vacancy - Sofia

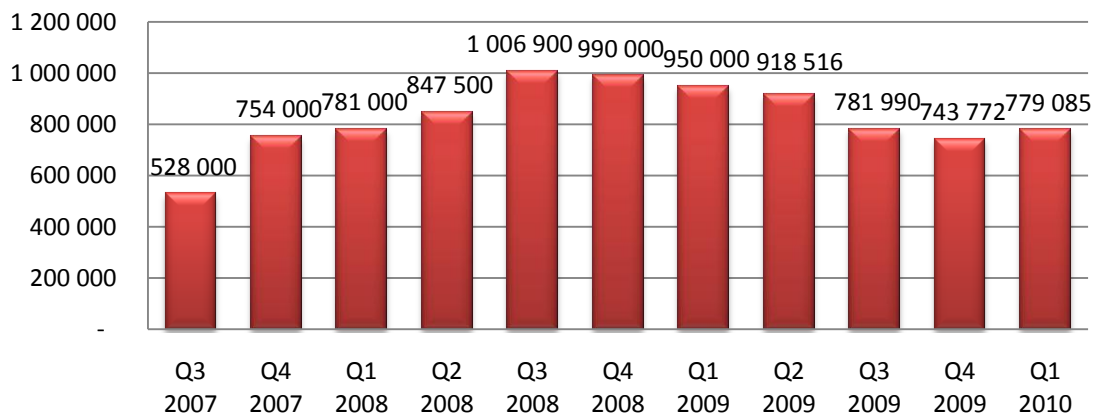


Source: Forton International

- ❖ Prime office rents have further decreased to €13,0 per sq.m. monthly, compared to € 14.50 per sq.m. a year ago. Asking rents for Class B offices have dropped to €7.0 per sq.m., while Class C and residential units converted to offices remained at € 4.0 per sq.m. The market is now close to its lowest rental levels, which makes it attractive for many businesses to enter long-term rental agreements. Office buildings in the CBD continue to be among the best performers on the market.

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Office Space Under Construction

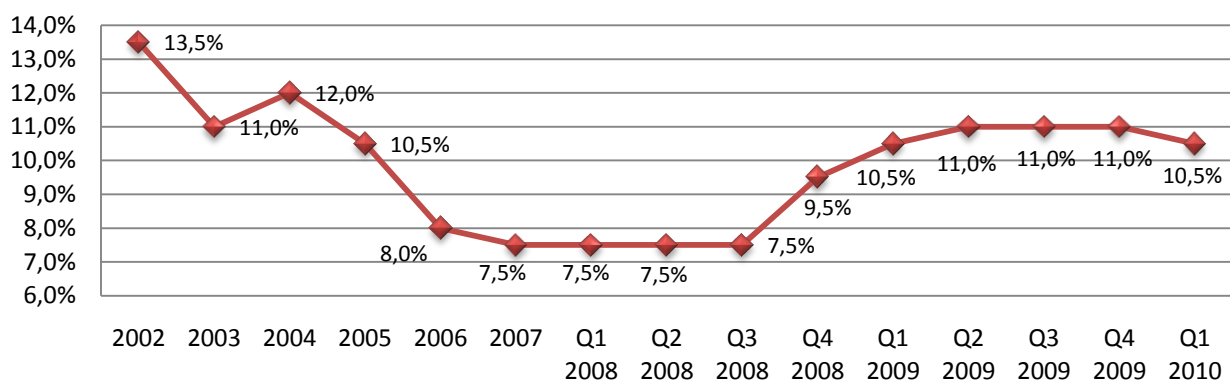


Source: Forton International

- ❖ As of Q1 2010, approximately 779,000 sq.m. office space is under construction, which represents 35,000 sq.m. net increase compared to the previous quarter. Construction works on two new office buildings started in January and February – respectively Capital Fort (44,300 sq.m.) and Bulgaria Air Tower (33,000 sq.m.). Pipeline supply remains very high compared to the absorption capacity of the market. This is why we expect that some of the projects may be stopped temporary or delivered on phases at a smaller scale.
- ❖ The investment market in Q1 2010 is more optimistic compared to 2009. The gap between buyers' and sellers' expectations is gradually closing. Although buyers are still conservative and cautious, they are no longer testing the market with excessively high yields. We expect that the number of active buyers on the market will increase in the next three quarters. 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.
- ❖ Among the more notable deals in Q1 2010 is the sale of a Vivacom/BTC office building in Geo Milev district with a total built-up area of 5 360 sq.m. According to the publicly disclosed message the achieved sale price is 2,75 million Euro. Vivacom will lease-back approximately 20% of the building for equipment housing purposes at approximately €5.0 per sq.m. net monthly rent. The building was renovated several years ago meeting most of the criteria for Class B office space. Unlike most of the rest Vivacom former and current assets, this property includes also dedicated outdoor parking area for approximately 50 cars.

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Prime Office Yields - Sofia



Source: Forton International

- ❖ Prime office yields in Sofia are estimated to be around 10.50%. A slight decrease is observed for the first time since the crisis hit Bulgaria. Most of the investment interest is concentrated on prime fully-occupied buildings and sale & leaseback schemes.

Largest Office Developments Under Construction in Sofia

Building	Location	Office TBA(m ²)	Current Status
Sofia Airport Center	Next to Airport Sofia	17 000 83 000	Finishing works On hold (remaining phases)
European Trade Center	Tsarigradsko Shousse Blvd.	72 282	Under Construction
Business Town Sofia	Kamenodelska Str.	53 346	Under Construction
Soravia Megapark	Tsarigradsko Shousse Blvd.,	48 000	Under Construction
Sofarma Office Buildings	Dragan Tsankov Blvd.	33 000	Under Construction
Litex Complex	Dragan Tsankov Blvd.	12 000	Under Construction
Serdika Center Mall	Sitniakovo Blvd.	35 000	Under Construction
Millenium Center	Vitosha blvd. and Bulgaria blvd.	35 000	Under Construction
Macedonia Tower	Macedonia Sq.	31 843	Under Construction
Perform Trading Center	Pozitano Sq.	17 000	Under Construction
Polygraphia Office Center	Tsarigradsko Shousse blvd.	27 500	Under Construction
Evropa Park Sofia	Tottleben Blvd.	n/a	On Hold / Stopped
Sofia 1 Business Complex	Shipchenski Prohod Blvd.	63 000	Design Phase/Site preparation
Alfa Complex	Ring road near BPS	62 000	On Hold

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Selected Office Developments Completed in Q1 2010

Building Name	Location	Office Space m ²
DSK Bank Mixed-Use Building	CBD Nikola Gabrovski str.	11 500 1 560

Average Prime Office Rents

City	Rent Levels (€/m ² /month)		
	Q1/2010	Q4/2009	Q1 2009
Sofia	€ 13.0	€ 13.5	€ 16.0
Plovdiv	€ 6.0	€ 6.5	€ 8.0
Varna	€ 7.0	€ 8.0	€ 11.0
Burgas	€ 6.0	€ 6.5	€ 10.0

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