

Market Trends

- Supply picked up in Q2 2009, and raised the amount of modern office stock to over 1 million sq m
- Prime rents have decreased to ca. €15.5 per sq m per month
- Vacancy rates have risen to over 10% for both Class A and Class B office space in all submarkets

OFFICE MARKET OVERVIEW

The Sofia office market in Q1 2009 was marked by weakened take-up and increased vacancy levels, due to declining leasing activity. Corporate occupiers are driven by cost-cutting strategies, such as subletting, and are willing to consider expansions or relocations only as a last resort. The landlords on the other side are also looking for ways to attract potential tenants by offering bigger incentives – longer rent-free periods and restructured leases.

The large amount of office space under construction is putting further strain on the market. More than 250,000 sq m of Class A and Class B office space is scheduled for completion by the end of this year, of which only a fraction is pre-let. At the current rate of take-up, even if only half of this new office space is added to the market, the vacancy level will double.

The investment market continued to decelerate in 2009. Although yields slowed down their outward movement, the decline in office rents is persistent. On an annual basis prime rents have fallen with more than 15%, which coupled with the increase in yield levels resulted in even larger drop in capital values.

STOCK AND NEW SUPPLY

Modern office stock in Sofia amounts to over 1 million sq m at the end of this quarter. New supply increased in comparison to Q1 2009 but is still below the level of Q4 2008. Class A offices accounted for more than half of all office completions, due to the opening of several large schemes, such as Kambanite Business Center (15,800 sq m office space) and Landmark's Iztok Tower (9,800 sq m). The share of Class A office space increased slightly to ca. 30% of the entire stock.

More than 50% of the newly delivered office space in Q2 2009 is in non-central locations (NCL), and another 43% is along Sofia's Entrance Boulevards (EB). The share of office stock in the Central Business District (CBD) has decreased to ca. 22% of the total, while the one in NCL has increased to 45% at the expense of EB which falls to 33%. Also, similar to previous quarters over 90% of the new supply is speculative; thus, at the end of H1 2009 owner occupied office space in the capital has dropped to ca. 14.3% of the total stock.

Market Dynamics *

Supply	↑
Take-up	↘
Vacancy Rate	↑
Prime Rent	↘
Prime Yield	↗

* compared to previous quarter

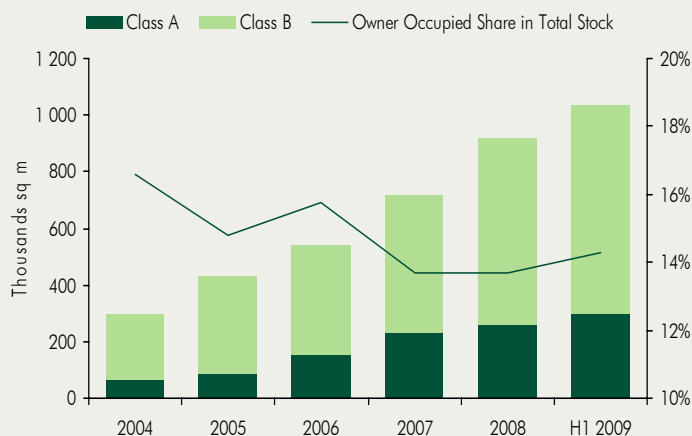
Key Economic Indicators 2005 – Q1 2009

Macroeconomic Indicator	2005	2006	2007	2008*	Q1 2009*
GDP Growth (%)	6.2	6.3	6.2	6.0	-3.5
Annual Inflation (%)	6.5	6.5	12.5	7.8	4.9
Foreign Direct Investments – FDI (€ bln)	3.15	6.16	8.49	6.16	0.65
Foreign Direct Investments – FDI (% of GDP)	14.4	24.4	29.4	18.1	1.9
Base Interest Rate (%)	2.04	2.69	3.93	5.12	3.49
Current Account (% of GDP)	-12.4	-18.4	-25.1	-25.3	-3.2
Trade Balance (% of GDP)	-20.2	-22.0	-25.1	-25.7	-3.0
Unemployment Rate (%)	10.7	9.1	6.9	6.3	6.9
Average Monthly Salary (€)	166	184	220	289	296

Source: NSI, BNB

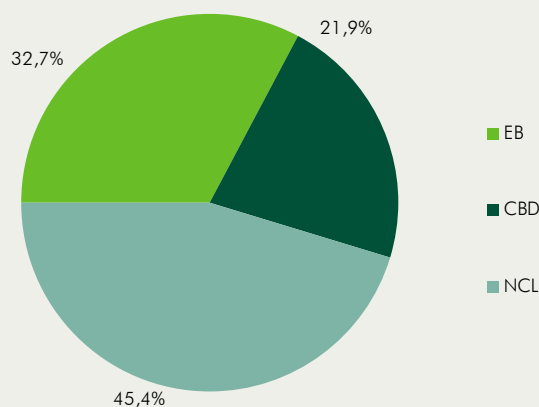
* preliminary data for 2008 and 2009

Sofia Office Stock Class and Type Shares – 2004 to H1 2009



Source: Elta consult

Sofia Total Office Stock by Submarket – H1 2009



Source: Elta consult

Selected Projects Completed in Q2 2009

Name of Project	Office, sq m	TBA Total, sq m
Kambanite Business Centre	15,800	34,000
Landmark Iztok Tower	9,800	13,000
Sharus Office Building	6,800	9,000
Senax Business Center	5,000	7,300
Intradings Business Center	6,500	6,500

Source: Elta consult

DEMAND

Demand for office space in Sofia has weakened significantly across all types and locations. Although in the first quarter of 2009 this trend was limited to the lower class offices in poor locations, there is considerable evidence that reduced take-up levels are being recorded for better quality buildings in prestigious areas. As negotiation power moves to the tenants' side, the tendency towards growing incentives on the part of landlords, such as longer rent-free periods and rent adjustments, has become even more pronounced.

Similar to Q1 2009 leasing activity is still subdued and transactions are taking longer to finalize. A few deals for office space were recorded in Q2: Darko leased 1,000 sq m in Vassilev Business City at a rate of €9 per sq m per month; Cepter signed an agreement for 550 sq m Class B office space in downtown Sofia at €14 per sq m per month; and local company Estym rented 1,200 sq m in an office building on T. Alexandrov blvd. near Sofia's CBD – no price has been announced. We expect that the leasing market will accelerate towards the end of the year, when the reorganization of existing conditions has completed.

RENTS

Prime office rents in Sofia continued their downward trend, falling by 8.8% since the beginning of the year to ca. €15.5 per sq m per month. Rents in office buildings along major boulevards (EB submarket) are in the range of €12 – €14 per sq m per month for modern class A office space, while for lower quality premises they are between €8 and €11 per sq m per month. It is notable that landlords in EB and NCL sub-locations were quicker to adjust to the present market conditions and correct rental levels, which resulted in increased interest on the part of occupiers looking for low-cost alternatives.

Depending on location, amount of leased space, and lease duration rents in non-central locations (NCL) vary from €7 to €11 per sq m per month. Contrary to market trends, properties along the Sofia Metro (expected to connect western and eastern parts of Sofia in September 2009) exhibit a tendency of rising sale prices, respectively rents.

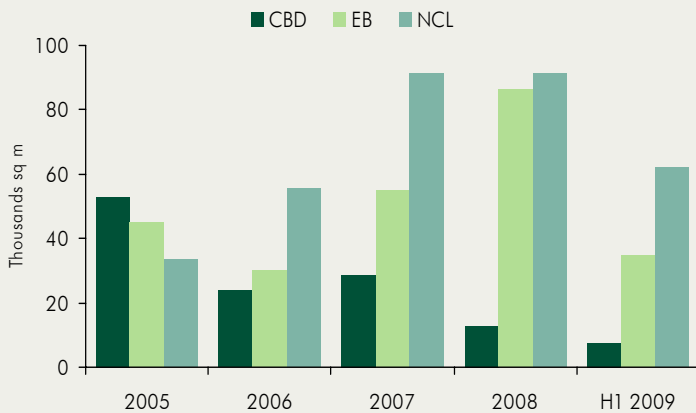
Rents in the Central Business District of Sofia have also dropped, though not to the same extent as in other submarkets. Because of the status associated with it, as well as the limited availability and pipeline of quality office space in CBD, landlords are less willing to compromise.

VACANCY RATES

Vacancy levels have soared in all submarkets, including the CBD which boasts the highest occupancy rate. The gap between Class A and Class B vacancy has also narrowed as a result of companies' cost-cutting strategies, often including relocation to less prestigious, but more affordable buildings and locations.

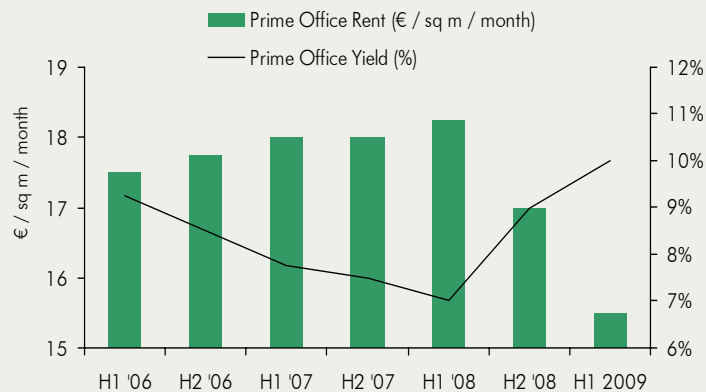
At present vacant office space amounts to 124,000 sq m, which is ca. 12% of the total available stock. The CBD rate is at 10.1%, whereas in NCL it is highest – close to 13%.

Sofia Office Supply by Submarket – 2005 to H1 2009



Source: Elta consult

Sofia Prime Office Rents and Yields – 2006 to 2009



Source: Elta consult

Selected Projects in Pipeline for 2009

Name of Project	Office, sq m	Expected Completion
Sofia Airport Center – office building	17,500	Q4 2009
Benchmark Office and Shopping Centre	17,000	Q4 2009
Bulgaria House	10,500	Q4 2009
Stella Park office complex	14,500	Q4 2009
Balkan News Corporation office building	22,000	Q4 2009

Source: Elta consult

PIPELINE

The office pipeline in Sofia has increased considerably due to the large amount of delayed projects. If all the projects were completed on schedule, 2009 supply will beat the record of 2008 when over 200,000 sq m of office space was delivered to the market. This is not likely to happen, however, in the present economic conditions, particularly the restricted availability of financing necessary for completion of the schemes. We expect less than half of the announced 300,000 sq m to be finished in time or within a reasonable delay period.

Around 12% of the projected pipeline is located in the CBD, while more than 50% is along Sofia's Entrance Boulevards (EB). What is also important is that 40% of the pipeline has been announced as class A, reflecting the aspirations of investors and developers to satisfy occupier demand for good quality office space (which was on the rise before the crisis hit in mid-2008).

The largest office projects to be completed by the end of 2009 are BNC office building (22,000 sq m), Sofia Airport Center (office building – 17,500 sq m), BenchMark Center (17,000 sq m), Stella Park office complex (14,500 sq m) and Bulgaria House (10,500 sq m).

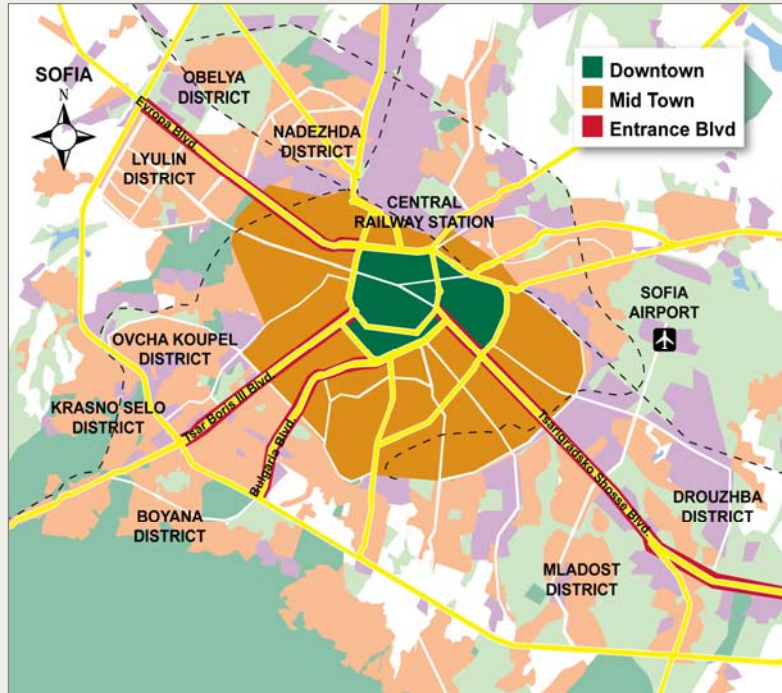
OUTLOOK AND FORECAST

Leasing activity has almost come to a standstill as very few companies are expanding their office space. Corporations and other occupiers are looking for ways to cut costs by staff reductions and / or subletting extra space, which has inflated vacancy levels substantially. This in turn puts further downward pressure on rents in all submarkets.

Furthermore, there is a large pipeline of office space under construction – more than 150,000 sq m over the next year – which will place additional strain on the already difficult rental market. However, we expect that many schemes that are not already under construction, will be deferred in time or halted altogether. Even some that are being actively developed may have trouble securing the financing needed to complete them – along with the usual lending requirements banks have started insisting on a large percentage of the development space being pre-let, up to 50% in some cases, in order to grant credit.

With regards to the overall market situation, we believe that it will improve when the economy starts to recover and major foreign investors return. There is evidence already that the pace of the downturn in key western economies has slowed down in terms of GDP decline and unemployment numbers. Although we do not presume that this recovery will be swift, Bulgarian economy is closely connected to the global and EU ones and any changes for the better will be followed by similar developments in our country. Our confidence in the eventual revitalization of the office market is further supported by the fact that Bulgaria is still an attractive outsourcing destination with a lot to offer in terms of quality commercial property and skilled workforce.

Sofia Sub Markets Map



Source: Elta consult

DEFINITIONS

Floor space areas: Figures relate to gross areas. Availability records all space which is being formally marketed. Take-up records all space which is let and sold for occupation.

Development areas: These include new buildings, redevelopments behind existing facades and buildings undergoing substantial refurbishment to provide high quality accommodation. All figures refer to gross lettable areas.

Prime yield: Represents the yield, which an investor would need to pay now to buy space in a prime location, which is fully let at its current rental value.

Pre-Let: New space leased prior to or during construction.

Rents: An average of the rental values applicable to the highest quality buildings in prime locations is taken to give a top rental value norm figure.

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