ELTA consult REAL ESTATE CONSULTANTS

Bulgaria Industrial Market

Q2 2009

Market Trends

- *The industrial property market in Bulgaria still lacks high-quality speculative projects*
- *Rents for warehouse / logistic space have experienced a smaller decline than other property types due to inadequate supply and stable demand*
- *Despite the economic crisis some large logistics projects are being actively developed*

Market Dynamics

	Greater Sofia	Pan Bulgaria
Stock	↑	↑
Vacancy	→	→
Rents	→	→
Yields	↑	↑

ECONOMY OVERVIEW

Over the course of Q1 2009 the outlook for the Bulgarian economy continued to weaken and GDP contracted by 3.5% on an annual basis. Industrial output shrank by more than 17.5% q-on-q and almost 20% compared to Q1 2008; it was only partly compensated by a modest rise of ca. 1% in the services sector. The unemployment rate climbed to 6.9% at the end of March 2009 – up by 1.1 pp on its lowest point six months ago. Inflow of Foreign Direct Investments (FDI) also fell sharply reflecting a global decline in investor sentiment, which has become apparent on the real estate market in the form of rising yield levels across all property segments.

One positive aspect of the financial and economic crisis for Bulgaria is the reduced Trade Balance and Current Account levels which stand at around -3% of GDP compared to -5.2% and -5.8% respectively a year ago. Also, in contrast to other emerging economies, which operate floating exchange rate regimes and have accumulated large amounts of foreign currency-denominated debt, Bulgaria is protected from currency risk.

DEVELOPER LED WAREHOUSING AND LOGISTICS MARKET IN BULGARIA

The supply of modern industrial and logistics space in Bulgaria has increased considerably over the last few years. The majority of new developments, however, have been owner-occupied or build-to-suit. This explains why industrial premises have been relatively less popular among investors: modern, lettable warehouse or logistics space is quite insufficient. Thus, investments in the industrial sector are usually in the form of land or development projects acquisitions.

The low supply of quality warehouse / logistics space is another reason why the industrial sector has been the one least affected by the financial and economic crisis; the impact has been mostly on the supply side, with a number of projects being postponed or halted, and to a lesser degree on demand and rental levels. In contrast to office and retail rents which fell between 10% and 15% over the last year, industrial premises experienced a much smaller decrease in rental level, primarily for older stock. Occupier demand has also remained stable; it comes mainly from food retailers and distribution companies. With the decline in consumption, exports and trade in general, it is expected that demand will gradually weaken, which will put downward pressure on rents and will cause some investors to reconsider their plans for speculative development.

Despite the slowing economy, however, some speculative industrial / logistics projects are being actively developed. For example, at the end of 2008 Universal Properties REIT launched a ca. 34,000 sq m TBA logistics scheme at the southeast entrance of Sofia – Trakia highway and the Ring Road. Another developer, Kamor Auto and Technicon Development, is working on the second phase of its Logistics Park Sofia project – a built-to-suit and speculative scheme in the northeastern part of Sofia, near the village of Krivina.

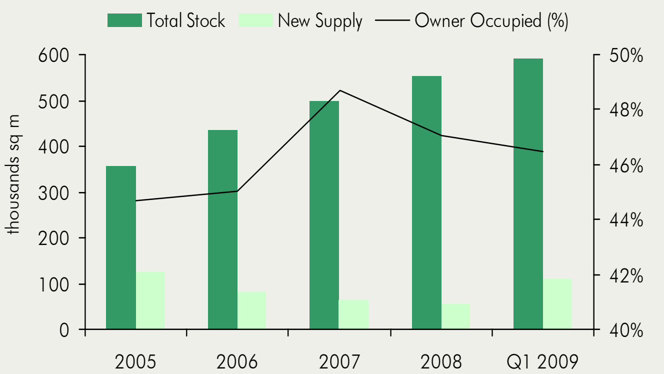
Basic Industrial Market Indicators in Q1 2009

Indicator	Greater Sofia	Pan Bulgaria
Stock* (sq m)	580,000	900,000
Pipeline by 2010 (sq m)	150,000	300,000
Vacancy Rate (%)	5.0 – 7.0	7.0 – 9.0
Prime Rent (€ / sq m / month)	4.0 – 6.0	3.0 – 5.0

Source: Elta consult

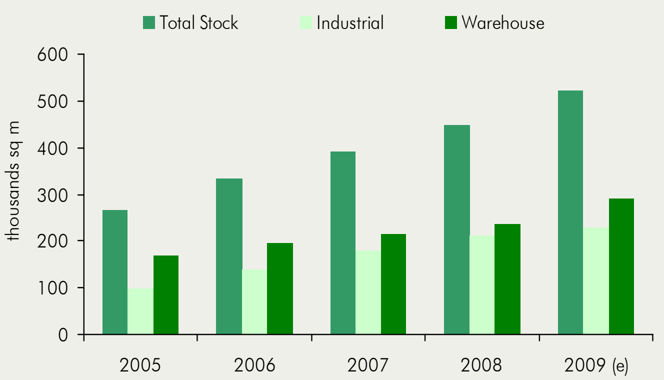
* This report aims at projects over 2,000 sq m and completed after year 2000 only

Total Stock, New Supply and Owner Occupied Space in Sofia



Source: Elta consult

Sofia Total Industrial and Warehouse Stock – 2005 to 2009



Source: Elta consult

Selected Industrial Projects Completed in H1 2009

Project	Investor	Industrial, sq m
Sofia Airport Center, First Phase	Tishman / GE	22,000
Factory for Dry Construction Materials in Kostinbrod	Saint-Gobain Weber	10,000
Autoparts Factory, Rakovski Industrial Zone, Plovdiv	Ixetic	3,900
Technowood Timber Factory in Razlog	Balkanstroy	10,000
Meat Factory in Zhitnitsa village, Plovdiv Region	Delikates 2	5,660

Source: Elta consult

SUBMARKET 1 – GREATER SOFIA AREA

More than 35,000 sq m of modern industrial space were completed since the beginning of 2009 in the Greater Sofia area, of which industrial premises accounted for ca. 12,000 sq m. The largest development completion in Q1 2009 was the first phase (Building 1 and Building 2) of Sofia Airport Center – ca. 20,000 sq m of speculative logistics and supporting office space.

As a result, Sofia's modern industrial stock has reached 550,000 sq m, predominantly concentrated in the eastern (Iskar Industrial Zone, Airport area, Gorubliane and near the villages of Kazichene and Krivina) and north-western (Bozhurishte, Ilientsi, and Kostinbrod) parts of the city. Approximately 46% of the entire stock is owner-occupied, compared to close to 50% at the end of 2007.

As noted earlier, rents for warehouse / logistic space in Sofia has been least hurt by the economic crisis; prime industrial rents currently stand at €4 – €5.5 per sq m per month. This is expected to change, however, with the further contraction of the economy and the resulting decline in trade and occupier demand. Another factor that will contribute to an eventual drop in rental levels is the large pipeline for the next two years – over 200,000 sq m space of which more than 50% has been announced as speculative.

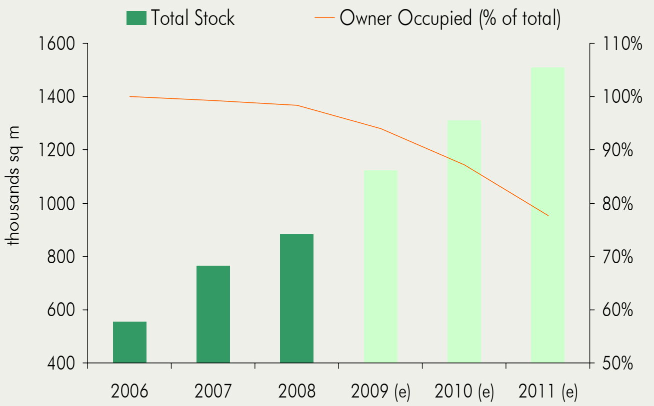
The overall vacancy rate has remained stable – it is ca. 5% - 7%, depending on asset type, with good-quality modern speculative space vacancy being estimated at even lower rates.

Currently, there is no sufficient evidence to corroborate any yield levels, because of the shortage of investment transactions and the lack of transparency on the Bulgarian market in general. It is estimated, however, that industrial yields moved out by another 100 bps in Q1 2009 to 10.5%, thus making for an annual increase of ca. 200 – 250 bps. The consequence is that a large portion of the capital values of industrial and logistic assets, between 10% and 15%, has been lost to the re-pricing of risk.

SUBMARKET 2 – PAN BULGARIA

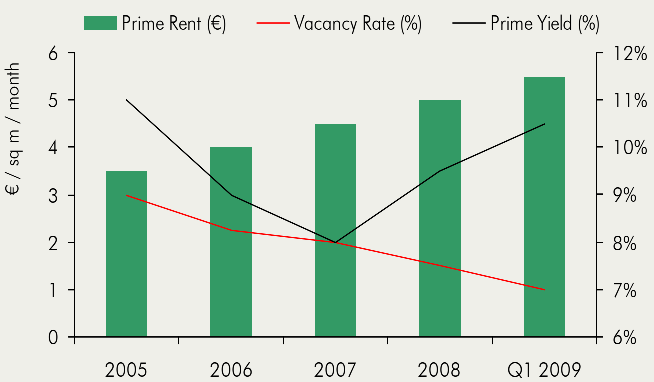
Total modern industrial stock in Bulgaria (excluding the Greater Sofia region) has reached approximately 900,000 sq m at the end of Q1 2009. About a third of it is located in the greater Plovdiv area. Thus, a total of 925,000 sq m, or ca. 63% of the entire existing stock in Bulgaria is concentrated in the largest logistics hub in the country – the area between Sofia and Plovdiv.

Pan Bulgaria Industrial Stock and Owner Occupied Space



Source: Elta consult (e) expected

Sofia Industrial Prime Rent, Yield and Vacancy Rate



Source: Elta consult

Speculative Industrial Projects in Pipeline

Project / Investor	Industrial, sq m	Year Expected
Logistics Park Sofia / Kamor Auto & Technecon Group	28,000	2010
Logistics Universal / Universal Properties REIT	26,000	2009
Industrial Park Sofia East / Paladin Property Development	82,000	2011
Trade Industrial Park (TI Park) Plovdiv / Investra AD	30,000	2010
Ruse Logistics Park / Bulgarian Property Developments (BPD)	22,000	2009

Source: Elta consult

PAN BULGARIA MARKET cont.

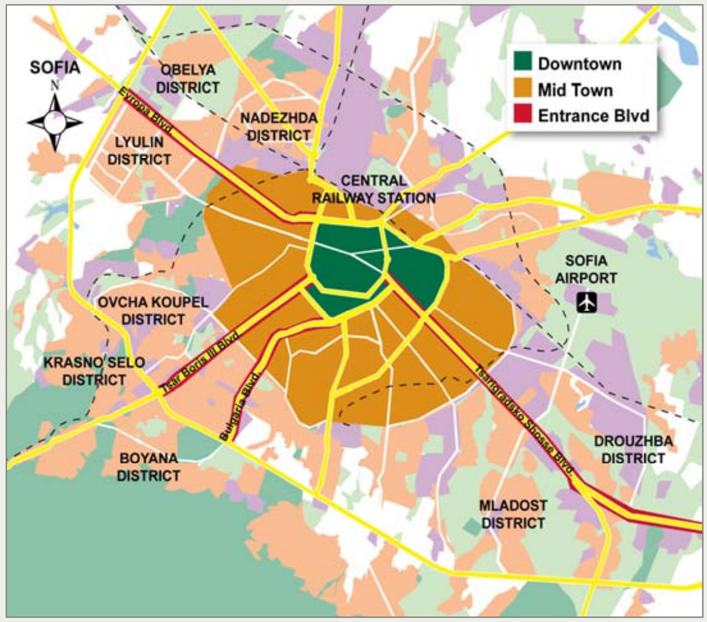
Plovdiv is the largest industrial centre outside of the capital, benefiting from its central location in the country and the fact that 3 of the 5 Pan-European Transport Corridors that cross Bulgaria are in close proximity. There are two large industrial zones in the Plovdiv area: Maritza Industrial Zone to the north west of the city housing over 130,000 sq m of production and warehouse facilities and Rakovski Industrial Zone to the north east of Plovdiv comprising ca. 42,000 sq m of industrial buildings. In addition, there are two speculative schemes under construction in Maritza Industrial Zone which will bring more than 80,000 sq m of logistics space to the market by 2010, and another 40,000 sq m production facilities in pipeline in Rakovski Industrial Zone.

There is very little speculative industrial and logistics space available on the Pan Bulgaria market at present, and most of it comes from the First Phase of Logistics Park Varna, which will result in ca. 45,000 logistic / warehouse space addition to the market when completed in 2010. Some large developments, are expected to increase the share of speculative industrial space outside of Sofia to around 25% by 2011. They are usually located near the big cities along the 5 Pan-European Transport Corridors that cross the country – Industrial Park Aksakovo South in Varna (65,000 sq m), Logistics Park Maritsa in Plovdiv (36,000 sq m), Ruse Logistics Park (22,000 sq m), Trade Industrial Park in Pleven (21,000 sq m), Liaskovets Logistics Centre near Veliko Tarnovo (15,000 sq m), Logistics Center in Stara Zagora (11,000 sq m), and others.

MARKET OUTLOOK AND FORECAST

Although it is anticipated that investors in Central and Eastern Europe will avoid speculative developments for the time being, due to banks' financing restrictions and the general market instability, we believe the situation in Bulgaria is different for several reasons. First of all, the Bulgarian industrial market has been underdeveloped compared to other countries – supply of speculative space is still quite insufficient. Second, land prices, especially around Sofia, have been extremely high and have only now started to decrease as a result of diminished demand. And last but not least, the logistics industry is set to benefit in the long term from the inflow of EU funds for infrastructural development and any possible actions the government might employ in that direction in order to stimulate the economy. This is especially valid for Bulgaria where the poor condition of the road and railway networks has been an additional deterrent to investors.

Sofia Sub Markets Map



DEFINITIONS

Stock – warehousing space in modern, Class-A, developer-led schemes, completed after year 2000 and with size over 2,000 sq m;

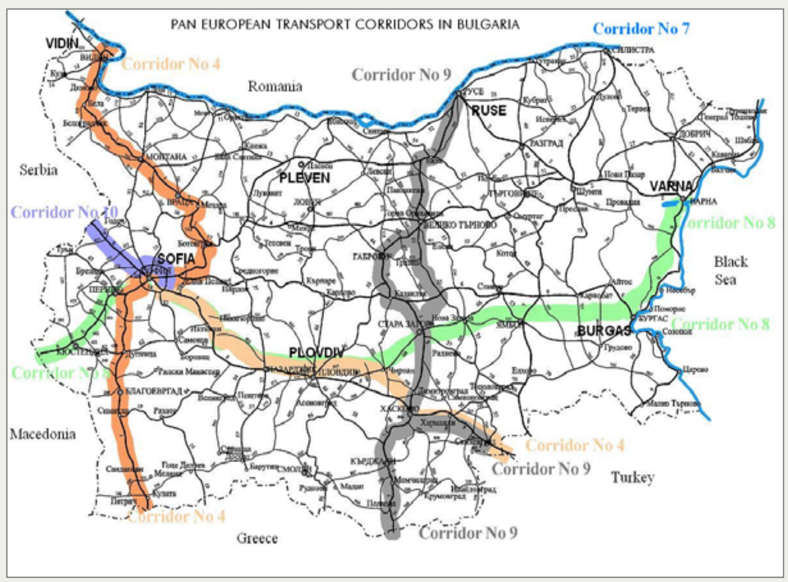
Vacancy Rate – a ratio of vacant warehouse space to total stock;

Take Up – net warehouse space that has been leased in a given period (not including temporary deals, which are less than 1 year);

Net Absorption – change in occupancy rate from one period to another;

Under Construction – developer-led industrial / warehouse space currently being developed.

Pan-European Transport Corridors in Bulgaria



For more information regarding the Bulgarian Industrial Market, please contact:

Research & Valuation I Elta Consult AD

Valeri Leviev	Olga Stoichkova	Maxim Jianski
Managing Director	Head of Industrial Agency	Market Analyst
valeri.leviev@eltaconsult.com	olga.stoichkova@eltaconsult.com	maxim.jianski@eltaconsult.com

13, Dondukov blvd. I 1000 Sofia, Bulgaria
Tel + 359 2 987 7647 I Fax + 359 2 988 2905