

Market Trends

- *At present sellers are more willing to compromise on the subject of pricing; the market is gradually shifting towards property fundamentals and will arrive at a balance between buyers' and sellers' expectations by the end of 2009*
- *Rents in office schemes, especially secondary ones, are falling steadily*
- *Demand in retail projects on behalf of local investors is still strong*

Market Dynamics

- Investment Volume ↓
- Prime Yields ↑
- Number of Deals ↓
- Size of Transactions ↓

ECONOMIC OVERVIEW

Bulgarian GDP growth plunged in Q4 2008 and economists' estimates for 2009 range from 0.2% in the most pessimistic scenarios to 2%. The constant inflow of capital over the last few years has created circumstances which allowed the accumulation of a large current account deficit exceeding 25% of the country's GDP in 2008. Industrial output also declined as waning external demand caused exports (ca. 45% of GDP in 2008) to fall significantly.

In contrast to the majority of CEE countries which operate floating exchange rate regimes and have accumulated large amounts of foreign currency-denominated debt, Bulgaria is protected from currency risk. Another positive feature is the lower level of household indebtedness which is half the rate of the average rate in the Eurozone (54% of GDP). Last but not least the inflow of EU funds for infrastructural development will support the country's growth prospects in the long-term and will help with the eventual economic recovery.

The banking sector, which is largely foreign-owned, is under severe pressure to reduce risk as their parent banks face a highly illiquid environment and both developers and investors are confronted with severely restricted debt resources. As a result, many development projects are being delayed or halted, while others are expected to be offered for sale at attractive prices. It is to these distressed sales that the majority of investors are looking forward and the anticipated recovery of the investment market by Q4 2009 is attributed.

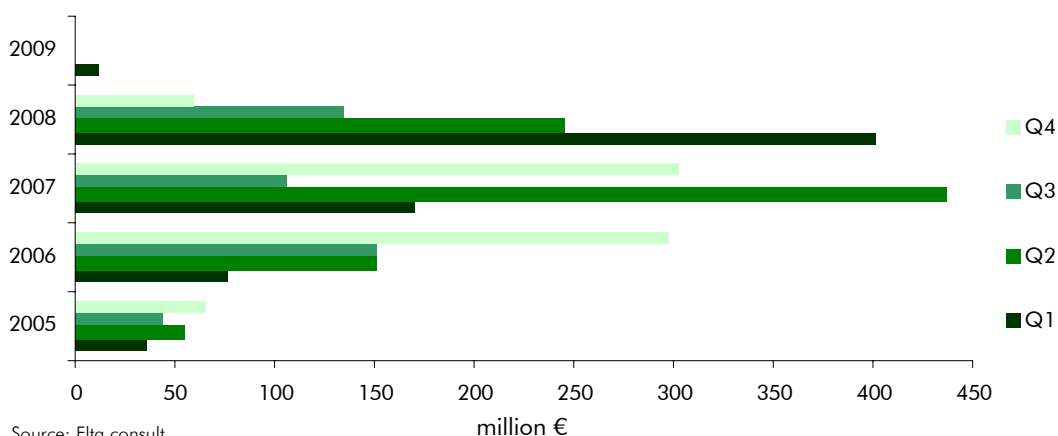
SECTOR BRIEFING

Bulgarian real estate investment market continued to decelerate in Q1 2009 as a result of the increased uncertainty and risk aversion across Europe, and CEE in particular. Investment volume* has plummeted compared to Q1 2008 and is currently below the levels recorded in 2005. The number and average size of transactions has dropped significantly as well. Purchasers have adopted a more cautious approach in anticipation of further repricing and yield decompression. The small number of transactions that actually occur are taking longer to close, and the persistent gap between price expectations of buyers and sellers is creating additional challenges.

Direct investments in the property sector in Bulgaria has been weakening steadily since early 2008. Up to Q3 2008 investment volume was growing on a y-o-y basis – 23% more compared to Q3 2007. In Q4, however, investments shrank by over 300% and the overall 2008 volume was down by ca. 14% in contrast to the record levels of 2007.

Nonetheless, there is a positive aspect to the current situation: first of all, it will incite a shift towards property fundamentals, with investors focusing on long-term rental income and

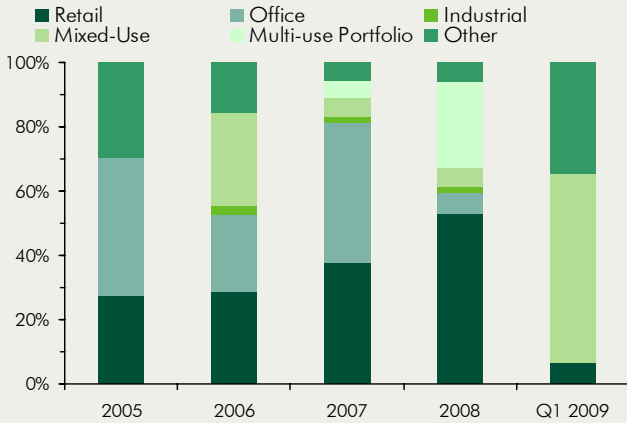
Real Estate Investment Volume in Bulgaria by Quarters – 2005 to Q1 2009



Source: Elta consult

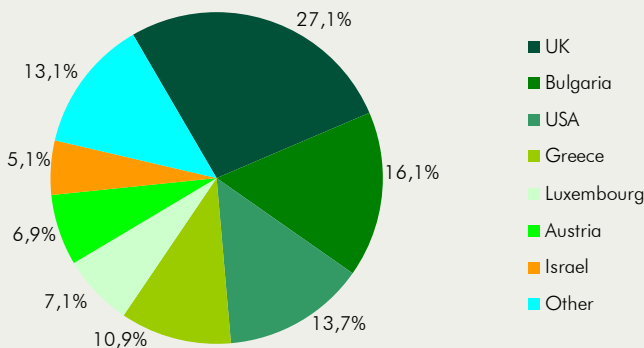
* The figures regarding the Bulgarian property market are tentative due to the lack of transparency on the market. They represent only major transactions (over €1 mln); smaller ones are not subject of our analysis.

Share of Investments by Sector – 2005 to Q1 2009



Source: Elta consult

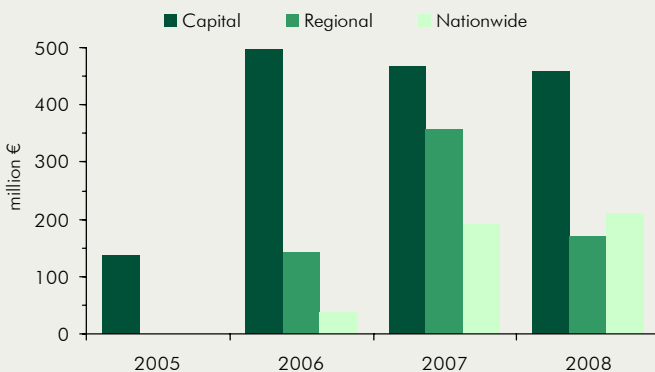
Investment Activity* by Nationality – 2005 to Q1 2009



Source: Elta consult

* Purchasers

Total Investment Volume by Region – 2005 to 2008



Source: Elta consult

good quality buildings in prime locations with multiple strong-covenant tenants; second, it will generate unmatched opportunities for equity-rich investors targeting distressed assets at bargain prices. With the enduring decline in levels and access to debt financing we expect that a number of such forced sales will take place in the second half of the year.

OFFICE

In the course of the last four years office properties have accounted for a large percentage of investment transactions. Their share was largest in 2005 and 2007 (43%), while in 2006 and 2008 it was ca. 24% and 7% respectively. The explanation behind this is that a big percentage of office premises were traded as part of mixed-use assets (29%) in 2006, while in 2008 it was mostly at the expense of retail properties and multi-use portfolios. The latter attracted approximately 26% of the total investment turnover in 2008 largely due to Alfa Developments' acquisition of a 75% stake in Landmark's 23-property portfolio in Q2 2008.

The decrease in the share of offices in the second half of 2008 is symptomatic of the increasing stagnation of the property investment market on the one hand, and the growing attractiveness of retail and mixed-use properties on the other. With the global financial crisis taking its toll on Bulgarian economy and a large amount of office space in pipeline, the sector lost some of its appeal to investors as a result of the weakened occupier demand, the downward pressure on rents and the increased vacancy levels.

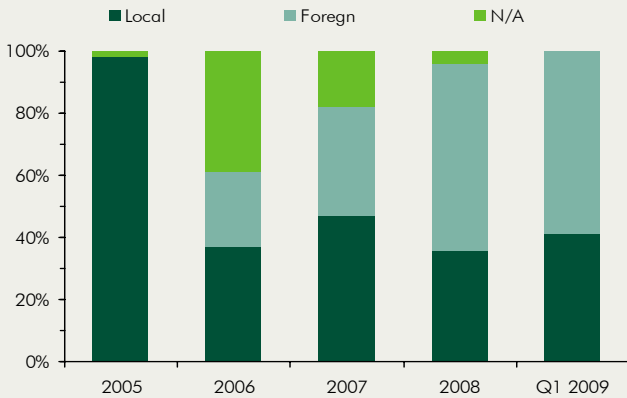
Nevertheless, we expect that prime office buildings let on strong covenants and with longer unexpired terms will eventually regain investors' interest. The largest transaction in Q1 2009 is Plaza Centers' purchase of 51% stake in a mixed-use, 75,000 TBA retail, entertainment and office scheme for €7.14 mln. The project is located in Zapaden Park district, in the western part of Sofia.

RETAIL

Investment in the retail sector, shopping centres in particular, has been steadily growing over the last few years – from ca. 28% in 2005 and 2006 to more than half of the entire volume in 2008. This has been a logical trend in view of the insufficient amount of modern shopping mall space in Bulgaria and the rising purchasing power of the population. Unlike office properties most of which have been located in the capital, retail assets are more evenly distributed on a geographic basis; transactions involving regional retail properties over the four years from 2005 to 2008 account for approximately 50% of the total, while deals with office and mixed-use assets outside the capital area are of significantly smaller percentage – 29% and 14% respectively.

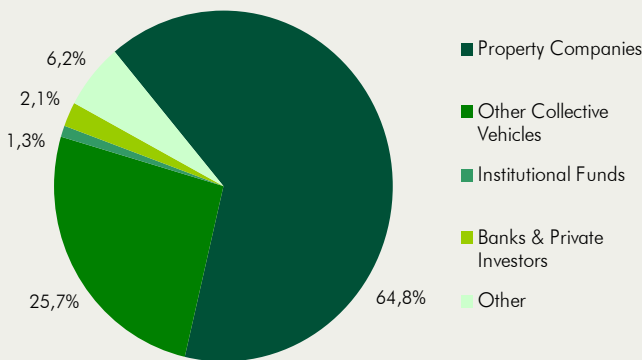
Similar to other segments we expect that under the existing conditions the retail sector will gradually return to market fundamentals and pipeline amounts will be reduced substantially. There is still room for growth in both the

Share of Local vs. Foreign Vendors – 2005 to Q1 2009



Source: Elta consult

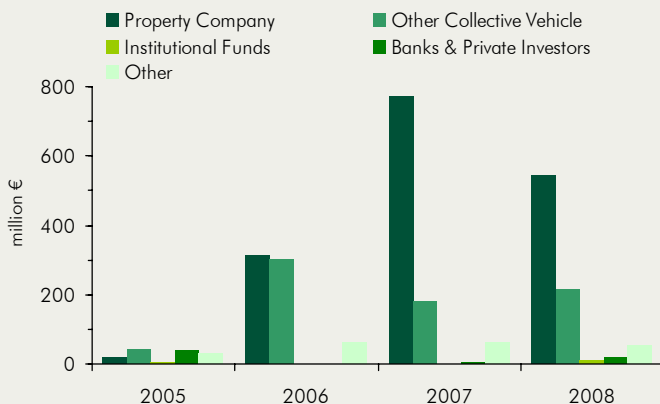
Share of Investors* by Type in 2008



Source: Elta consult

* Purchasers

Investment Volume by Type of Purchasers – 2005 to 2008



Source: Elta consult

capital and regional markets, but the widespread development and expansion of pre-Credit Crunch times is over; retailers have revised down their plans, while most investors are on the lookout for lucrative opportunities involving distressed assets or prime properties at somewhat reduced prices.

INDUSTRIAL

Investment activity in the industrial sector has generally been in the range of 2-3% of the total annual turnover. A number of speculative logistics projects has been announced and developed in recent years, but the overall stock of modern industrial and warehouse space is still quite insufficient. Although the right preconditions for the expansion of the industrial sector are in existence, specifically Bulgaria’s strategic location at the crossroads between Europe and the Middle East and the fact that 5 Pan-European Transport Corridors cross the country, we believe it will remain suspended for now as a result of diminished industrial output, reduced flow of capital investment and weakened demand for the country’s exports which account for close to 45% of Bulgaria’s GDP in 2008.

Despite the slowing economy, however, some 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. The complex will comprise 3 warehouse buildings with total area of 24,000 sq m, as well as a 2-level 7,500 sq m administrative / retail building with office, retail and storage premises. The project will also include ca. 500 car parking lots and 60 truck parking lots. Another developer, Kamor 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.

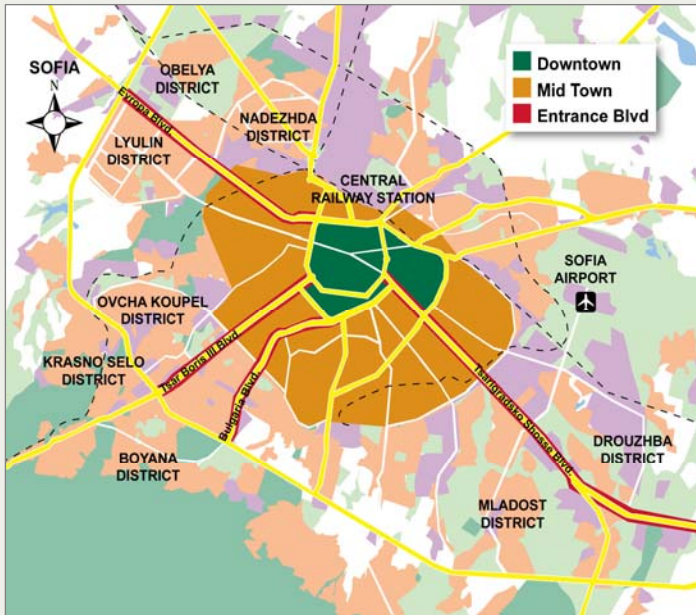
YIELDS

Prime yields in Q1 2009 continued to move out across all commercial property market sectors, rising by ca. 100 bps compared to Q4 2008. Currently shopping centre yields stand at around 9.5%, which is a 250 bps y-o-y increase. Office and industrial yields marked an even higher growth on an annual basis reaching 10% and 11% respectively.

LOCAL VS. INTERNATIONAL INVESTORS

Cross border investors have been much more active than their Bulgarian counterparts. It was not until last year that the share of local property investment volume (purchaser side) increased into the double digits to ca. 38%. This increase was quite significant, however – Bulgarian investors spent 80% more in 2008 in relative terms compared to 2007. The fact that local buyers are increasing their market share shows the impact of the growth of the local investment and development market in recent years. On the other hand foreign seller’s volume has

Sofia Sub Markets Map



Source: Elta consult

been increasing over the years – it went up from between 35% and 40% in 2006 – 2007 to over 60% in 2008.

By type of investors the most active purchasers over the last two years were property companies, including listed and unlisted property companies, private property companies, REIT-type vehicles and developers – 76% and 65% respectively in 2007 and 2008. Their share expanded at the expense of collective vehicles such as open- and closed-ended funds, property funds, and investment funds, whose percentage dropped from 45% of the total in 2006 to ca. 25% in 2008.

MARKET OUTLOOK AND FORECAST

Investment activity in Bulgaria, as in most of Europe, continues to be severely squeezed by the financial crisis, banks' restrictive lending policies in particular. Prime yields decompressed by more than 200 bps over the last half year and repricing has started spreading to prime properties as well. Still there is evidence that equity-rich buyers and opportunity funds will be looking for chances to re-enter the market in 2009 – their focus will be on prime assets, or in some cases on secondary ones but only if they are offered at below-market prices.

Despite the deepening of the economic downturn we expect transaction volume to pick up slowly towards the end of 2009, particularly in the office and retail sector. Aside from distressed assets, prime properties let to multiple tenants of sound financial standing will be purchasers' natural targets. This will not happen, however, until investors believe that capital values have reached bottom level.

With the expected corrections in yield and price levels we believe the market will gradually return to fundamentals such as supply and demand, and the present subnormal environment will improve. As a result investors will direct their attention to the intrinsic qualities of commercial property schemes – their location, market feasibility, and ability to generate returns – rather than pricing alone. The traditional motives behind investing in real estate – the high income generation potential and the relative capital security it provides – will once again re-establish themselves.

For more information regarding the Bulgarian Property Investment Market, please contact:

Research & Valuation | Elta Consult AD

Valeri Leviev
Managing Director
valeri.leviev@eltaconsult.com

Stiliana Hinkova
Capital Markets
stiliana.hinkova@eltaconsult.com

Maxim Jianski
Market Analyst
maxim.jianski@eltaconsult.com

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