

# Bulgaria Residential Market | H1 2010

## RESIDENTIAL MARKET OVERVIEW

The residential market in Bulgaria continues to be weak. There are more inquiries from buyers than in 2009, but unlike the boom years of 2007-2008, customers are now more demanding and transactions take longer to close. Average prices in Bulgaria fell by around 3 percent in the first half of 2010, and about 10% annually, which is a sure sign that the pace of decline is slowing. In Sofia and major regional centers, such as Plovdiv, Varna, Burgas, Ruse, Stara Zagora and Pleven, however, decline in selling prices exceeds 10% annually.

The large available stock remains one of the main problems. Sales of residential units in the early stages of construction has stopped completely in the last two years, despite the significant discounts offered. This, coupled with weakened demand in the past 18 months has a considerable impact on developers and construction activity has contracted with over 30% during the period.

According to the National Statistical Institute (NSI) index of construction output in the second quarter of 2010 fell by ca. 22.5% annually, and building permits issued for residential buildings for the first three months of 2010 are nearly 33% less than the same period of 2009, with most regional cities experiencing an even greater decline. Another trend observed over the last year is that new residential projects have fewer and smaller units.

The most encouraging factor for the market is the better mortgage terms banks are offering, as well as the increase in the size of loans. Whereas a year ago, financial institutions were very conservative, now they are more willing to allocate up to 80% - 90% of the market value of the collateral. During the year, banks have also become more flexible in terms of rescheduling and refinancing of existing loans.

### Key Indicators 2006 – 2009

Indicator	2006	2007	2008	2009	H1 2010*
GDP Growth (%)	6.3	6.2	6.0	-5.0	-1.5
Consumer Price Index (%)	6.5	12.5	7.8	0.6	1.0
Base Interest Rate (%)	2.69	3.93	5.12	2.40	0.18
Current Account (% of GDP)	-18.4	-26.8	-24.0	-9.4	-1.8
Trade Balance (% of GDP)	-22.0	-25.1	-25.2	-12.1	-4.0
Foreign Direct Investment (% of GDP)	24.7	31.3	19.6	9.5	1.0
Average Residential Prices (€ / m2)**	462.2	622.2	695.1	512.2	496.6
Unemployment Rate (%)	9.1	6.9	6.3	9.1	9.3
Average Monthly Salary (€)	184	220	279	302	325

Source: NSI, BNB

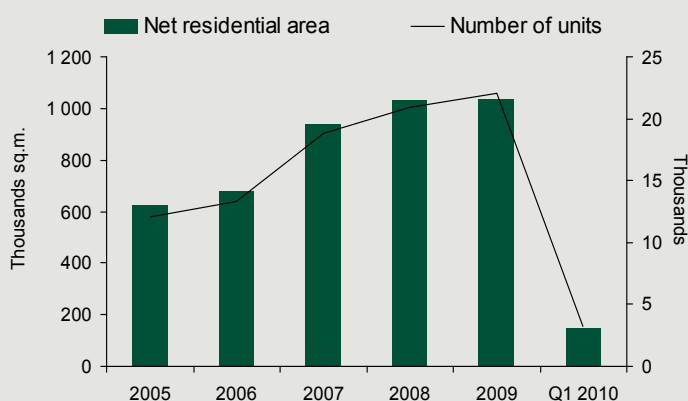
\* or latest available data (preliminary)

\*\* Apartments in regional cities (excluding new construction)

## Market Trends

- *New development starts are still on the decline; some developers, however, are able to renegotiate their existing loans and complete the projects started*
- *On the positive side we have to point out that financial institutions now offer better terms in granting new mortgage loans and renegotiating existing ones*
- *The increased supply of foreclosed homes does not yet have a significant impact on the market because in most cases the value of the collateral is greater than its current market price, and banks are unwilling to sell at a loss*
- *Demand for residential units has shrunk considerably and most buyers active on the market are looking for small (1- and 2-bedroom) apartments in Sofia and other regional cities in the country*
- *The average offer market prices for residential property in Bulgaria continue to fall, but there is a consistent trend (third consecutive quarter) of slowing the pace of decline and gradual stabilization of prices*

## Completed New Residential Units in Bulgaria 2005 - 2010



Source: NSI

## Selected residential projects completed in 2010

Project name	Net residential area (sq m)	Date completed
Residential complex "Hadzhi Dimitar"	11,000	Q3 2010
Casa Grande Vitosha	10,000	Q3 2010
Complex "Cite Jarden"	21,000	Q2 2010
Complex "Sofia House"	5,200	Q1 2010
Casa Riva	3,000	Q1 2010

Source : Elta consult

## Residential complex Casa Viva, Iztok quarter



Source : Elta consult

## SUPPLY

The drop in construction output is felt particularly in the residential segment. According to preliminary NSI data, new residential buildings completed during the first quarter of 2010 in the country are 19% less than the corresponding period of 2009 and their area is 27.4% less on an annual basis. This is largely due to the fact that developers are not eager to launch new projects due to weak demand and insufficient funding.

It should be noted, however, that as banks are becoming more flexible, many projects that were stopped in 2009 received fresh funding and can be expected to be completed soon. Also, developers and investors have become more open to various discounts and payment schemes in order to attract potential customers.

Although the amount of bad credits continues to rise, the supply of foreclosed mortgages offered banks and bailiffs does not yet significantly affect the market and prices, in particular. This is due to the fact that most of these properties were mortgaged 2-3 years ago when prices were still high and the value of collateral is often greater than the current market price.

## DEMAND

In comparison to 2009 the housing market experiences a noticeable movement in the beginning of 2010, especially in Sofia and the larger cities. The number of transactions increases as a result of more advantageous offers and the growth in lending. Demand is focused mainly on smaller residential units because of their lower final price.

Interest in luxury real estate still exists, but to a lesser extent. The economic crisis has had a major impact on people from all walks of life and potential buyers often postpone such purchases for better times.

Unlike two years ago, buyers are much more reluctant to buy unfinished apartments, and in most cases banks also avoid crediting such purchases. On the Sofia market the usual sales are at levels below € 50,000 for a 2-bedroom and € 90,000 for 3-bedroom apartments.

There is a sizable drop in demand for investment purposes. Since residential rental prices fell by ca. 15% -20% over the last year and a half investors now are attracted mainly by significantly undervalued properties in order to maximize the return on their investments.

Demand for single-family houses is also quite limited – customers focus predominantly on offers of up to € 200,000 – € 220,000. More expensive, luxury properties have a significantly longer selling period due to the reduced number of buyers.

The holiday property market is undergoing serious turmoil - excessive construction and poor infrastructure put additional pressure on selling prices. Depending on location and quality, however, prices vary considerably. There is still some interest, mostly on the part of citizens from the former Soviet Union, but currently supply substantially exceeds demand for such properties.

## SALE PRICES

Over the first half of 2010, residential prices in the country registered a smaller decline than in the same period of 2009. The drop in offer prices in big cities is even more insignificant because most of the developers are likely to make discounts when there are actual inquiries from buyers rather than bring down prices indefinitely.

In Sofia, the largest decline is in offer prices for apartments in residential complexes outside the city center. The newly developed districts in the southern part of the city also lost some of their appeal due to excessive construction and poor infrastructure. Reduced interest has been registered in certain areas in the center of the city due to existing traffic and parking problems. Drops of offer prices is smallest in prestigious areas in the broad center – Iztok, Lozenets and Ivan Vazov.

Prices are lowest for apartments in the northern and western districts of the capital: units in buildings at “shell-and-core” state can be found at less than € 500 per sq m; for completed apartments – around € 550-600 per sq m. Old monolithic construction in the city center also fell to ca. € 1000-1200 per sq m, but supply of quality real estate there is traditionally low. At similar levels of € 1000-1100 per sq m apartments are also available in the more prestigious districts of Sofia – Lozenets, Ivan Vazov, Iztok, Izgrev, Geo Milev – but with residential area of 90 sq m, the total amount makes concluding such transactions extremely difficult.

## RENTS

Due to high supply (many properties purchased for investment purposes and recently completed came on the market), residential rents in the capital fell by 10% on average during the first half of 2010. Demand for rental apartments is limited primarily to smaller apartments in lower price range. The average asking rental prices in Sofia vary between € 2,5 and € 5,5 per sq m per month, depending on their location.

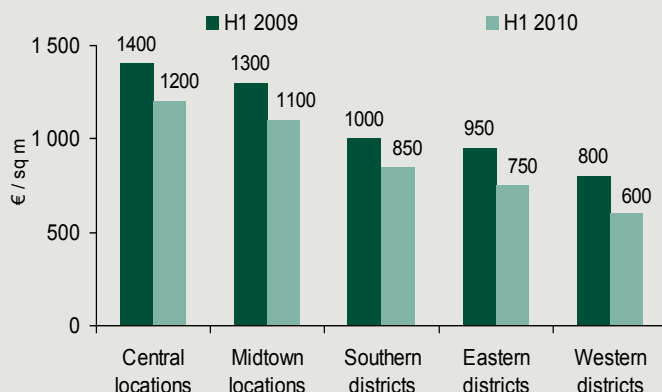
Demand for luxury rentals is most affected – as a consequence of the economic crisis the number of expatriates in Bulgaria, who are the main driver in the segment, decreased and often their budgets allocate by employers are smaller. Moreover, firms specializing in providing comprehensive services for renting furnished apartments, including property management and maintenance, came on the market, which further increased competition.

## MARKET OUTLOOK AND FORECAST

By mid-2010 a certain stabilization or at least a slowing of the decline in residential prices has been registered in major cities throughout the country. The terms of mortgage lending also improved during the first half of the year; this plays a key role towards increasing the number of transactions and their conclusion.

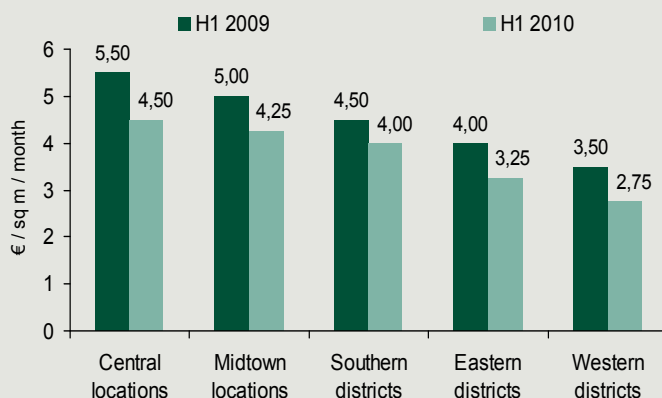
According to the National Statistical Institute the average residential market prices in the country have fallen by 31% over the past two years. In Sofia, the decline over the same period is nearly 37% to ca. € 800 per sq m. Although some concerns were voiced that the growth of bad credits in the country and as a consequence the rise in properties put up for sale by banks will lead to an even greater decline of residential prices, this scenario seems unlikely at the moment.

### Average Sale Prices in Selected Locations in Sofia



Source: Elta consult

### Average Rents in Selected Locations in Sofia



Source: Elta consult

#### Note:

**Midtown locations** include Iztok, Ivan Vazov & Lozenets districts;

**Southern districts** include Boyana, Dragalevtsi, Manastirski Livadi, Bakston, Borovo & Vitosha districts;

**Eastern districts** include Mladost, Druzhba, Darvenitsa & Studentski Grad districts;

**Western districts** include Lyulin, Obelia, Nadezhda, Krasna Poliana & Zapaden Park districts.

### Residential complex Botanica, Dragalevtsi district



Source: Elta consult



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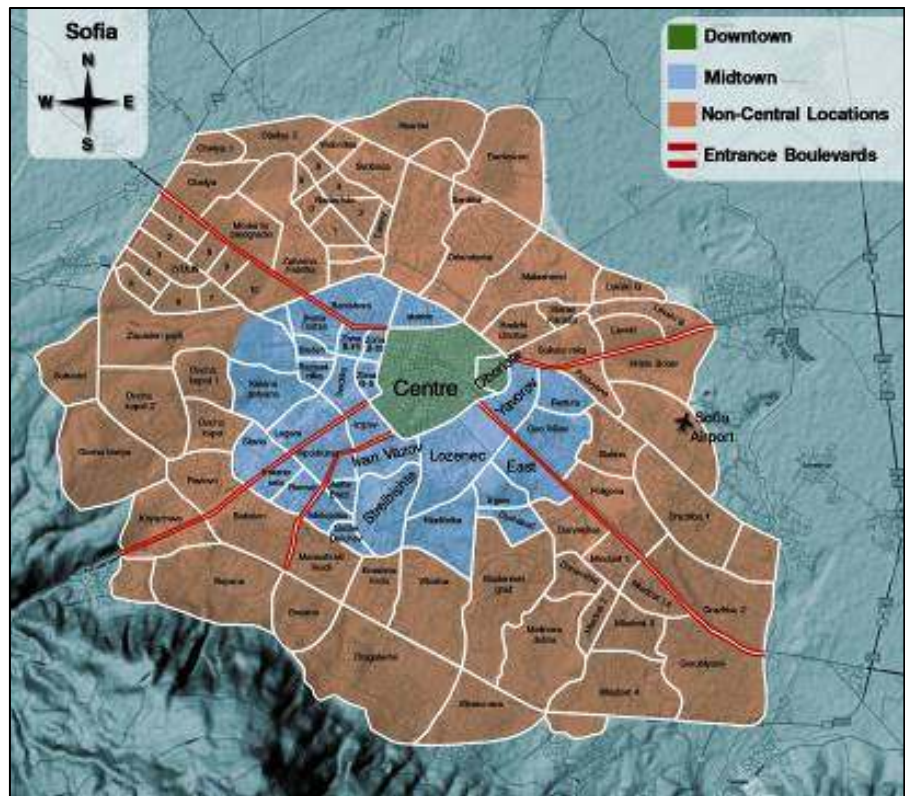
Towards the end of the year we expect that the stabilization of prices in major cities will become more pronounced and over the next 1-2 years we might see a gradual increase in average prices. However, this trend will not be omnipresent, and projects with good architecture, providing better quality of life will be more successful.

## NOTES

**Areas:** Figures quoted relate to Gross External Area (GEA).

**Pre-sales:** Sale of residential units before the start or in the early stages of construction.

### Sofia Sub Markets Map



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