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MARKET OVERVIEW

INDUSTRIAL SPACE

BULGARIA | Q4 2010

Inventory & Pipeline

The total stock of modern industrial space in Sofia increased with 2.03%, reaching 2.04 million m^2 in Q4 2010. We estimate that the new deliveries are ca. 40,583 m^2. The total stock was 1.83 million m^2 at the end of 2009, which led to 11.61% growth of the inventory in 2010. The 2009 growth of the existing inventory was 18.63%.

The construction starts are ca. 42,436 m^2 in Q4 2010. This is 155% increase in the construction starts in comparison to the previous quarter and is due to the ambutious €35 million investment of Sopharma in pharmaceutical factory in Sofia. The modern facility is ca. 20,000 m^2 and is situated on 120,000 m^2 land plot in Ilientsi quarter. Carlsberg broke ground of their logistic center in Mirovyane village. BERS started an extension of their logistic park in Kazichene and Mars Armour commenced construction of new factory for manufacturing of items for personal ballistic protection. The other construction starts are generated by SMEs.

We will monitor closely the construction starts in the following quarters in order to assess whether this rebound in construction activity is a sign of economic recovery. The industrial space market has to rely on export sectors to generate demand for space and to compensate for the plunging consumption.

This quarter 52% of the construction starts are within the Sofia Ring Road, but apart from the Sopharma facility, it is obvious that investors still prefer the zones around Sofia due to the low land prices.

Demand

Demand remains weak and new acquisitions are driven by consolidation rather than market growth. The net absorption for Q4 2010 reached 32,408 m^2, compared to ca. 8,627 m^2 in Q3 2010. The 2010 net absorption is 170,101 m^2. This is a 40% drop in comparison to the net absorption of 280,000 m^2 in 2009.

The Baltic Dry Index was between 2,000 and 3,000. This is a lower level in comparison to Q4 2009. We read this dynamics as a negative sign for the international trade. BDI confirms the bleak economic future and raises concern about the prolonged recession.

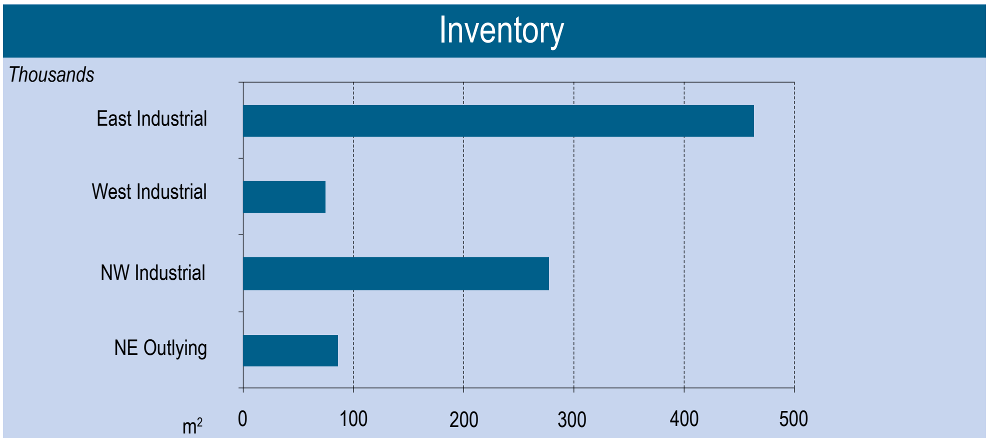
The industrial space market in Sofia is highly correlated with the consumer spending and the construction business. Bulgarian consumers and businesses will have to deleverage in the following years, so Bulgaria needs to restructure its economy and seek export growth through a large base of SMEs. This could bring healthy economic recovery and prosperity.

Rental Rates

Prime rental rents remain at €4.00 – € 4.50/m^2 for modern warehouse space. The small units of 200-500 m^2 maintain levels of € 5.00 – € 5.50 / m^2 per month.

Market Highlights

- The total industrial space stock in Sofia reached 2.04 million m^2 in Q4 2010
- Construction starts in Q4 2010 are 42,463 m^2
- New deliveries in Q4 2010 are ca. 40,583 m^2
- Prime rents are stable
- Vacancy rate in Q4 increased to 5.42% compared to 5.13% in Q3 2010
- Land market is still weak on the demand side



The rental rates decreased from 4.85 – € 5.00 /m² in Q4 2009 to €4.00 – € 4.50/m² at the end of 2010. This is a drop of ca. 20%. We do not expect significant movements of the rental rates in the first quarters of 2011. If the economic woes persist, it is highly probable to see a significant drop in the rental rates for industrial space.

The demand for new space will be driven by market consolidation and companies leaving brownfield facilities. Landlords without leverage will have huge advantage. They have the flexibility to adjust aggressively the rents in order to keep their properties fully occupied. Leveraged players will not be able to compete with such aggressive pricing policies.

Vacancy

We witness an increase of the vacancy rate to 5.42 % in Q4 2010. This is a slight increase in comparison to 5.13% in Q3 2010. We estimate that the vacant space is ca. 110,780 m².

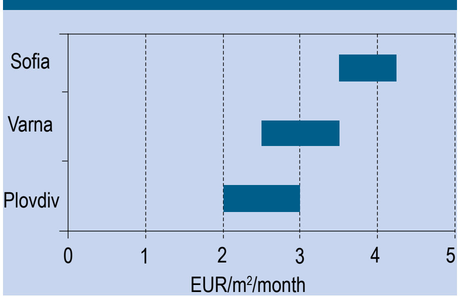
The vacancy rate was 3.60% in Q4 2009. We witnessed an increase in the vacant units, but the industrial space market is quite stable in comparison to the retail and office space segments. This is due to the fact that the majority of the inventory is owner occupied. This brings stability to occupiers, provided that the property is not leveraged. The other side of the coin is that owner occupied industrial properties are quite illiquid. A lot of owners discovered during the crisis that it is very difficult to unlock the capital from their real estate assets. Every business has its unique real estate needs - a facility serving well to one occupier is completely useless to another.

Land prices

We monitor a low activity on the land market generated by the food retailers. They continue their expansion despite the plunging consumer spending in hope to generate enough critical mass, which will help them beat the competition. Other investors are also careful and conservative when bidding for land plots. They factor in their prices the high vacancy rate in the office space market, the troubled shopping malls and the decreasing values of residential real estate.

We expect that 2011 will bring market consensus and the land values are expected to stabilize. Financial institutions could speed up this process through liquidation of troubled real estates. Some financial institutions transfer the overpriced foreclosed properties to offshore SIVs (special investment vehicles). This buys time and keeps the balance sheets in order, but at certain moment this inventory must be cleared and unloaded on the market.

Asking Rental Rates (Bulk Warehouse Space)



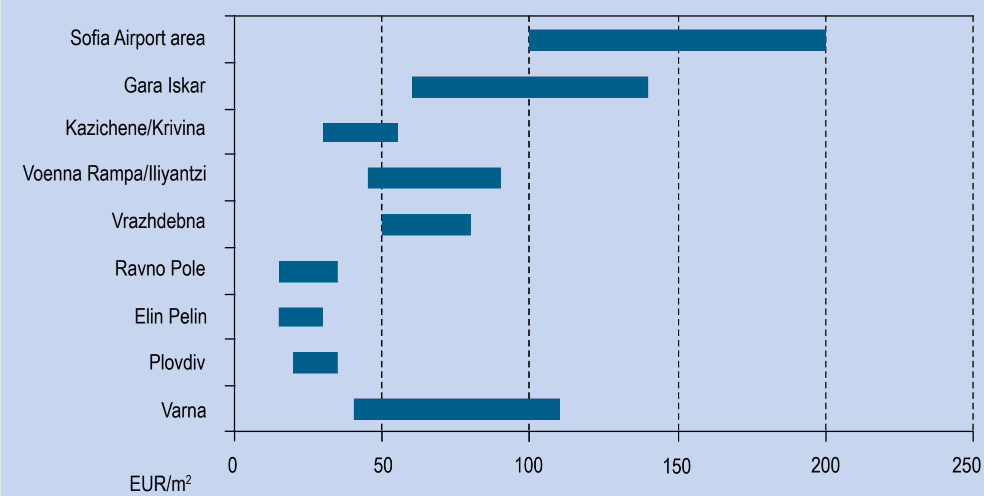
Economic Highlights

- The foreseen economic recovery is slowly taking place. The recession in 2009 (-4.95% real GDP growth) and Q1 2010 (-3.97%) give way to the positive GDP growth rates in Q2 (0.51%) and Q3 2010 (1%). For 2010 the IMF is expecting a real GDP growth in the range 0% -0.4%
- As of November 2010 the year-on-year inflation rate (based on the Consumer Price Index) is 4.6%, while the accumulated inflation since the beginning of 2010 is 4.1%. The 12-month average rate for the period November 2009 – November 2010 is 2.1%
- Based on preliminary data the FDI flows in Bulgaria for the period January – October 2010 amount to €844.9 million (or 2.3% of GDP) compared to €2526.3 million (or 7.2% of GDP) for the same period of 2009, showing a drop of 67%
- The Base Interest Rate for January 2011 is 0.18%, remaining almost unchanged for the last two quarters
- The country average unemployment rate (as given by NEA), has fallen by about 1 percentage point since the beginning of the year and as of October 2010 is 8.92%
- The Baltic Dry Index was between 2,000 and 3,000 during October and November 2010, but slumped below 2000 after mid December 2010

Investment Activity

The investors' sentiment has moderately improved in the end of 2010. The Bulgarian commercial property market witnessed an increased level of investment activity during Q4 2010. There were no investment transactions closed during the year, but buyers and sellers moved closer to price consensus and it is a matter of time to see completed deals during 2011. Prime bid/ask yields for industrial space in Sofia and secondary cities were 11.0% and 12.0% respectively. Compared to 2009 bank financing also showed signs of recovery with interest rates on new business loans going slightly down and volumes going up during 2010. Provided there is a further improvement of the macroeconomic indicators in 2011 and the government conducts a correct fiscal policy, we expect to see an increased investment interest on Bulgarian real estate market.

Price Range for Industrial Zoned Land (Selected Locations)



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