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MARKET OVERVIEW

OFFICE SPACE

SOFIA | Q4 2009

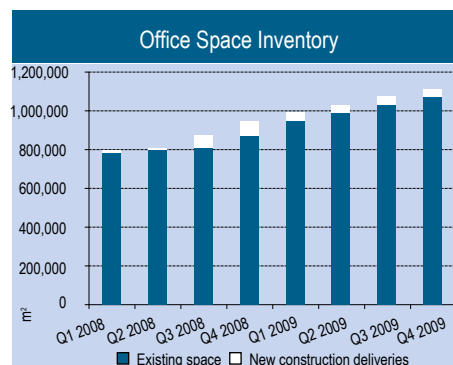
Office Market Highlights

- › Class A and B office space inventory increased with 38,100 m² in Q4 2009, reaching 1,112,700 m² by the end of the year;
- › The total volume of office space under active construction totals 490,000 m²;
- › The asking rents for many properties continued to descend, due to the disproportion between demand and soaring supply;
- › Net absorption of modern office space reached 26,800 m² in Q4 2009, the highest quarterly result of the year. The annual figure of 70,500 m² was the lowest one in the last 5 years;
- › The overall vacancy continued to rise and hit 16.1%. Suburban vacancy reached 20%.



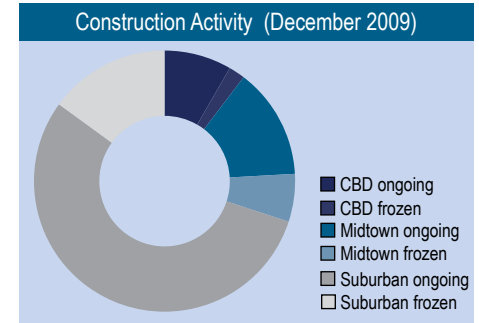
Inventory

The growth of modern office space in Sofia was below the quarterly average for the past two years. The inventory of class A and B properties reached 1,112,700 m² after 38,100 m² of new offices were delivered in the last three months of the year. New construction completions for the entire 2009 reached 165,000 m², which almost equals the figure for 2008. All new deliveries in Q4 were located in suburban areas.



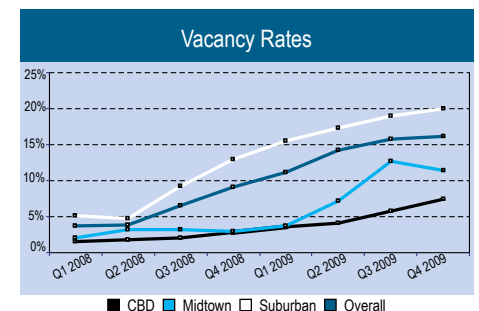
Construction Activity

After the positive signals for expected economic recovery in 2010 the construction works on a couple of frozen developments were resumed. The volume of office space under construction though is gradually decreasing following the decline in new construction starts due to the deteriorating market situation in the past year. At present, approximately 375,000 m² are planned for completion in 2010, while the total volume of office space under active construction is estimated at 490,000 m². Development works on 145,000 m² are currently frozen. More than a quarter of the office space expected for delivery in 2010 is located on Tzarigradsko Shousse Blvd in the vicinity of Mladost 1 area and is planned for completion in the first half of the year. Approximately 76% of the office area expected for delivery in 2010 is in suburban locations.



Vacancy

Vacancy levels continued to increase for a sixth consecutive quarter. By end of 2009 the overall figure for class A and B properties rose to 16.1% or 181,000 m². A decrease was recorded only in the midtown market. However, this resulted after a large chunk of class B space was first vacated in Q3 and listed for rent and

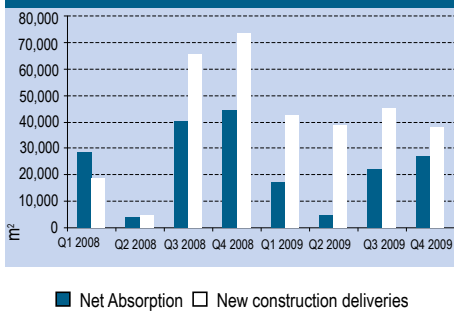


later reoccupied again in Q4 by the same tenant that operates in multiple locations throughout the city.

The overall suburban vacancy reached a new record high of 20%, followed by 11.4% in the midtown and 7.5% in the CBD. New construction completions continue to outpace the demand thus affecting negatively market fundamentals.

The area of Business Park Sofia and the newly developing business district of the capital city between the so called 4th and 7th kilometers on Tzarigradsko Shousse Blvd together account for half of the vacant space in Sofia or approximately 90,000 m².

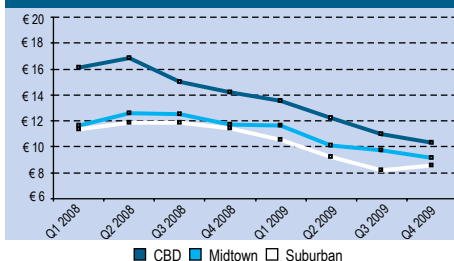
Absorption & Deliveries



Absorption

The demand has clearly picked up in the last three months of the year as more tenants have started to search for office space. Several relatively large transactions were facilitated in the last quarter of the year. The net absorption in Q4 totaled 26,800 m², which is the highest quarterly result in 2009. However, the annual net absorption of modern office space was a mere 70,500 m², which is the lowest result in the past 5 years.

Average Asking Class B Rental Rates



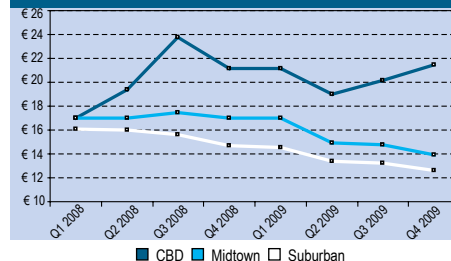
Rental Rates

The disproportion between supply of new offices and take-up has affected rental rates very negatively and they have returned to levels from five years ago. Landlords have been offering low and

attractive rental terms, stepped rents, rent free periods, fit out contributions and other forms of incentives in their quest for tenants. In general, the class A rents decreased slightly further except in the CBD where a handful of landlords continue to have unrealistic expectations driven purely by the lack of many alternatives in downtown locations. Some have even priced class B properties at a prime rent level. Overall, class A rents mainly range between €9 and €13 per square meter. The average suburban asking rent fell down to €12.60/m² compared to €13.95 in the midtown areas, while the average CBD class A rent increased reaching €21.45/m² as a result of the speculative expectations of some landlords who are quoting net rents up to €27. However, a transaction at such levels is a mere fiction in the current market.

Class B rents continued to decline in the central areas of the city, while a 4.4% increase was observed in the average rent level for suburban locations.

Average Asking Class A Rental Rates



This is a result of the recent leasing activity, which is starting to deplete the current available office space offered at low market levels as more tenants are taking advantage of the most favorable current lease terms. The average asking suburban class B rent rose to €8.55, while

Economic Highlights

- In Q3 2009 real GDP has contracted by 5.4%. The year-on-year decrease of real GDP for the nine-month period is 4.7%. Although the trend remains negative it has still not reached the 6.5% projected by IMF;
- Driven by the economic environment, the unemployment in Bulgaria continues to grow, reaching 9.13% as of December 2009 (based on National Employment Agency data). However, the statistics monitor only the people that have been registered as unemployed and the actual figure might be even bigger;
- As of January 1st 2010 the Base Interest Rate is as low as 0.39%, compared to 5.77% in December 2008;

- The National Statistical Institute has announced a year-on-year inflation of 0.6% for December 2009. The FDI flows in the country for the period January – November 2009 are €2,630.3 million. This amount is only 43% of the FDI flows for the same period in 2008. Real estate, financial intermediation and car industry are most affected by the decrease of FDI.



the average CBD and midtown figures stand at €10.35/m² and €9.20 respectively.

Market Outlook

Office market fundamentals will remain under pressure in 2010 despite the positive signals from the past six months for growing demand compared to the first half of 2009. The new office supply, which is estimated to reach 375,000 by year end, will significantly outpace the demand since net absorption of modern office space has never exceeded 160,000 m² per annum. As a result the vacancy will increase and the overall market rate could reach as high as 25%. This will put further pressure on rent levels especially in older buildings and those with inferior location.

Investment activity

With only one transaction, the investment market in Bulgaria remained idle during Q4 2009. Compared to 2008, buyers are very hesitant investing in Bulgaria given the alternative opportunities in Western and Central Europe. The market conditions in Bulgaria are still less attractive for defensive investments, compared to the lower level of rents volatility for prime office space in certain CE markets such as Prague and Bratislava.

The investment market in all CEE countries totalled € 2.5 billion in 2009 in 90 transactions. Approximately €2 billion of this total was traded in H2 2009, a significant increase (+314%) from H1 2009 turnover. Still, investment transactions in 2009 were 75% lower than in 2008. Central Europe, where economies generally have been more stable than in Eastern Europe, accounted for 56% of total 2009 CEE

volumes (37% in 2008). Except for some distressed transactions, the investment market in Eastern Europe remained illiquid.

Prime yields stabilized across CEE in H2 2009. After significant volatility particularly in Q4 2008 and Q1 2009, changes were minimal in almost all CEE markets and segments in H2 2009. Increased investment activity at the end of 2009 showed a certain level of convergence in pricing expectations of buyers and sellers, particularly for prime properties in core CE markets. This suggests that current pricing levels in these markets are at a level at which prime properties will be transacted in 2010. Still, the divide between prime and non-prime properties is likely to persist. Interest for prime properties outside CE is on the rise, providing grounds for optimism about increasing investment volumes in some CEE countries in 2010.

Selected Office Projects Scheduled for Delivery in Q1 2010

Bldg Name	Market	Submarket	Office Area (m ²)
ETC - Bldg A	Suburban	Tzarigradsko Shousse Corridor	23,000
Crystal Business Centre	Suburban	Todor Alexandrov Corridor	5,400
Noveo	Suburban	Lyulin	5,000



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