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MARKET OVERVIEW

OFFICE SPACE

SOFIA | Q3 2009

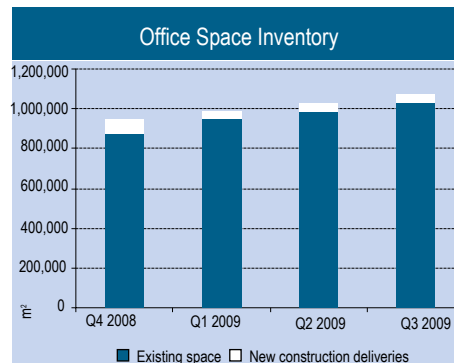
Office Market Highlights

- › Class A and B office space inventory increased with 45,500 m² in Q3 2009, reaching 1,074,500 m² by end of September;
- › Construction works remain active on 530,000 m², while office projects totaling ca. 160,000 m² are frozen;
- › The asking rents for many properties continued to fall, while several landlords are testing the market with unrealistically high terms;
- › Net absorption of modern office space reached 22,000 m² in Q3 2008;
- › The overall vacancy remained on an upward course reaching 15.8%.



Inventory

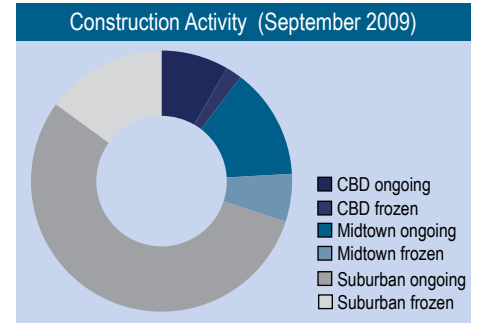
Modern office space in Sofia rose to 1,074,500 m² in Q3 2009 with construction completions amounting to 45,500 m². 27% of the newly delivered space is located in midtown areas and the rest in suburban submarkets. Midtown deliveries were concentrated in Todor Alexandrov Corridor where 3 office buildings were completed between July and September, while the most notable suburban delivery was Alfa Business Center in the vicinity of Business Park Sofia.



Construction Activity

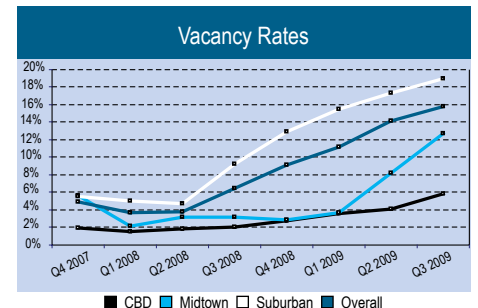
Despite the deteriorating office market fundamentals one notable construction start was recorded in Q3 2009. Icon – a subsidiary of the Greek GEK–Terna Group broke ground on a landmark development City Tower, which is located in the CBD and will deliver 31,500 m² of office space in 2012. Three other major developments (Megapark, ETC, and Serdika Centre) each offering office space in excess of 30,000 m² are nearing completion and will be delivered in 2010. However, only Megapark is a strictly administrative building, while both, ETC and Serdika Centre are shopping malls with offices on top.

At present, approximately 530,000 m² are being developed actively, while 160,000 m² are frozen. According to construction schedule 110,000 m² should be delivered by end of the year. Most of this space is located in suburban areas.



Vacancy

Vacancy rates continued to increase for a fifth consecutive quarter. By end of Q3 2009 the overall figure for class A and B properties reached 15.8% or 169,500 m². New buildings continue to hit the market with very low occupancy or none and as a result vacant space is increasing further. Most of the vacancy is concentrated



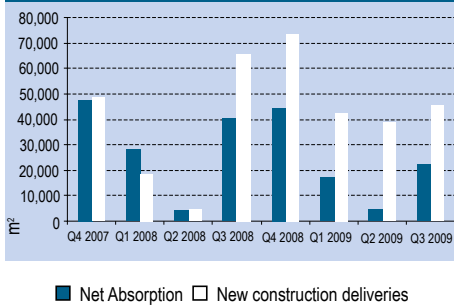
in the vicinity of Business Park Sofia, Tzarigradsko Shousse Corridor, and Bulgaria Blvd Corridor, which account respectively for 25%, 18%, and 13% of the entire modern vacant space in Sofia.

The overall suburban vacancy swell to 19% compared to 17.5% three months ago, followed by 12.7% in midtown area and 5.8% in the CBD.

Absorption

Absorption in Q3 2009 amounted to a net figure of 22,000 m², which represents the highest quarterly result so far this year. Market activity has slightly picked up in the last 3 months and more tenants are actively looking for new office solutions

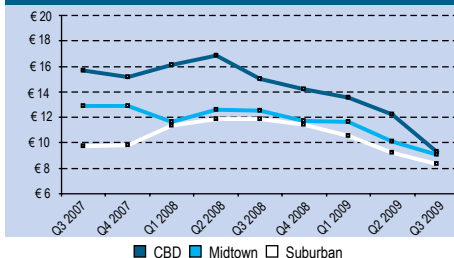
Absorption & Deliveries



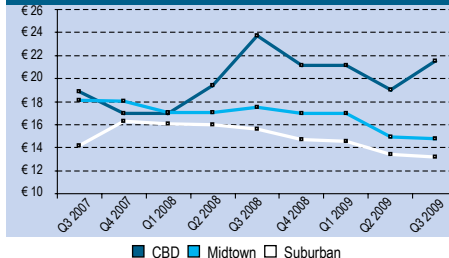
compared to the first half of the year, while others have re-gearred their leases in attempt to optimize resources and cut costs. However, the annual net absorption of modern office space is not expected to go above 90,000 m², which would be the lowest volume on record in the last 5 years.

The supply of new offices will continue to outpace the demand further and vacant space will continue to swell.

Average Asking Class B Rental Rates



Average Asking Class A Rental Rates



Selected Office Deliveries Q3 2009

Bldg Name	Market	Submarket	Office Area (m ²)
Alfa Business Center	Suburban	BPS/SE Business District	10,000
T.Alexandrov Business Centre	Midtown	Todor Alexandrov Corridor	5,950
XS Tower	Suburban	BPS/SE Business District	3,900

Rental Rates

Rental rates remain under pressure as many landlords continued to lower their asking terms attempting to lure tenants.

The average class A quoting net rent for suburban and midtown locations decreased in Q3 2009 with 1.42% and 1.34% reaching €13.20/m² and €14.75/m² respectively. Interestingly, the average prime rent in the CBD rose to €21.50/m² following a speculative hike by landlords, who have set their asking terms at levels between €20/m² and €27/m². However, lease deals with such rents are unlikely especially for mid and big size offices. On the other hand, prime properties in the suburbs are offered for as low as €10/m².

Class B rents recorded a decline in all submarkets and the lowest quoting rent stands at €5/m². The average CBD rent plunged by 24% reaching €9.30/m². In midtown and suburban submarkets the asking figure fell to €9.05/m² and €8.30/m²

Economic Highlights

- Real GDP for H1 has decreased by 4.2% on annual basis. According to latest IMF projections for 2009 the economy is expected to contract by 6.5% year-on-year;
- The National Employment Agency has reported an unemployment rate of 8.03% as of September 2009. It increased by 2.23% since September 2008, when the unemployment fell down to its lowest level;
- The Bulgarian National Bank continues lowering the Base Interest Rate and as of October 1st 2009 it is 1.46%. The decrease is significant in comparison to the 5.77% rate in December 2008;
- Year-on-year inflation is as low as 0.2 % (CPI) in September 2009. There is a deflation of 0.1% for the period January – September 2009, compared to 7.4% inflation for the same period in 2008. The deflation for the last three months has been 0.8%. The International Monetary Fund projects 2.7% inflation for 2009;
- FDI flows in the country could only reach €1,952.4 million for the period January – August 2009. This is a sharp decrease by more than 57% compared to €4,605.3 million, for the same period in 2008.



respectively. In general, asking net rents for class B offices range between €5/m² and €13/m².

Market Outlook

Despite the good signs following the increased tenant activity the office market in Sofia will remain under pressure. The demand remains clearly outpaced by the growing oversupply. The inventory will increase further with extra 110,000 m² scheduled for delivery by year end. These expected deliveries will add more vacant space, which could jump to 225,000 m² or 19% by end of December.

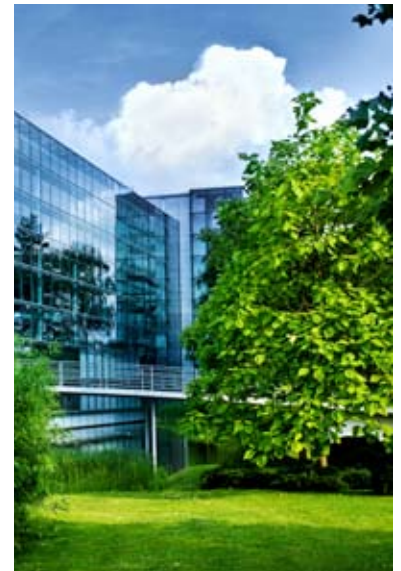
Rental rates for some properties could see further decline, while net absorption in will be higher compared to this quarter. The annual net absorption will be at a 5-year low and will not exceed 90,000 m² this year.

Investment activity

During Q3 2009 the local investment market remained under the negative influence of the world economic crisis. With bank financing still very risk-averse, there were no transactions for a third consecutive quarter. Sellers still expected that the market would soon play them in and meanwhile the bid-offer gap kept them around 200 bp away from the buyers.

For the same period the property investment turnover in Central & Eastern Europe totaled around €500 million. As a positive sign, turnover in July/August alone reached 96% of total H1 2009 turnover, but remains at a low level. Higher turnover is primarily attributable to Russia and the closing of some long-term pending transactions in Central Europe. Elsewhere in CEE, activity picked up some, but most markets remained quiet.

Meanwhile, the major Western European markets improved investor sentiment, the revival in activity being driven by UK and Germany. Both reported increases of more than 50% in investment compared to Q2 2009. There were two €1 billion+ deals completed in UK and Spain during Q3 2009, marking the first time deals of this size have been transacted since Lehman's collapse. The upturn in activity suggests that the European market is approaching the bottom of the cycle.



Selected Office Deliveries Q4 2009

Bldg Name	Market	Submarket	Office Area (m ²)
Benchmark Business Center	Suburban	Tzarigradsko Shousse Corridor	17,000
Crystal Business Centre	Suburban	Bulgaria Blvd Corridor	5,400
Noveo	Suburban	Lyulin	5,000

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