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MARKET OVERVIEW

INDUSTRIAL SPACE

SOFIA | Q4 2011

Market Highlights

- The total industrial space stock in Sofia reached 2.142 million sq m in Q4 2011
- 2011 inventory growth is 4.91% - down from the 11.61% growth in 2010 and 18.06% increase in 2009
- Construction starts in 2011 are ca. 44,021 sq m - a 55% decrease from 2010 levels and 80% down, compared to 2009
- New deliveries in Q4 2011 are ca. 9,676 sq m
- Prime rents are stable at €4.00 - 4.30/sq m/month
- The Vacancy rate slightly decreased to 5.52% in Q4 2011 from 5.60% in the previous quarter
- Land market is still weak on the demand side



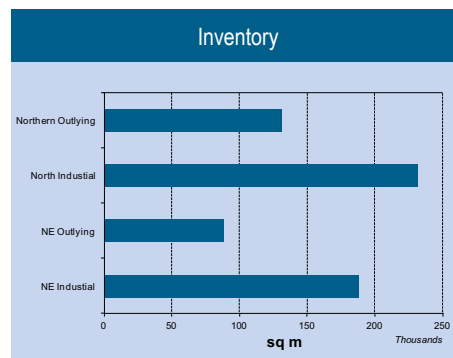
Inventory and Pipeline

The total stock of modern industrial space in Sofia increased with the meager 0.45%, reaching 2.142 million sq m in Q4 2011. The y-o-y growth of the inventory is 4.91% - significantly down from the 11.61% growth in 2010 and 18.06% increase in 2009.

We estimate that the new deliveries are ca. 9,676 sq m as 3pl provider BERS finished the extension of its distribution facility in Kazichene and Evrofruit 2005 finalized its building in Druzhba.

The construction starts in Q4 2011 are 20,938 sq m - with 7 new projects breaking ground. K&M Stil logistic facility in Kazichene accounts for 50% of the new pipeline with its 11,638 sq m total built-up area.

The total construction starts in 2011 are 44,021 sq m. This indicates a 55% drop y-o-y from the 99,137 sq m construction starts in 2010 and 80% drop from the 219,326 sq m construction starts in 2009.



Demand

The end of 2011 witnessed a few major transactions – Bultransport Logistic and Services rented 8,100 sq m in SOMAT warehouse complex in Gorublyane moving out of the premises in Trade Center Europe near Sofia Airport. The rental rates of this deal are 20-25% below the prime rents and it involves cooperation in other fields.

Food retailer T-Market decided to terminate its partnership with 3pl provider BERS and to handle the logistics in-house. T-Market rented more than 7,000 sq m in Elin Pelin

area for central warehouse facility, joining LIDL, Billa, Pennymarket, Kaven Orbiko, Univeg and Technopolis in this particular submarket and firmly established the area as the logistic hub of Sofia.

The Swiss company Reichle & De-Massari purchased the warehouse facility of BodyCar in Hadji Dimitar and absorbed ca. 9,200 sq m. Another new entry – ALC rented ca. 5,000 sq m in Musachevo village. ALC produces auto upholstery.

The net absorption for Q4 2011 is 10,598 sq m. The net absorption for 2011 is 92,683 sq m which represents 45% drop from 170,101 sq m in 2010 and 67% decrease from 2009 net absorption level of 280,000 sq m.

If the economy recovers, we expect that the industrial market will follow up in 12-18 months. If the economic problems persist, the downward slide might continue.

The Baltic Dry Index hovered between 1,750 and 2,200 in Q4 2011. The index slumped to 1,226 in the middle of August, but in September rebounded to 1,927. BDI is an accurate barometer of the international trade, since it shows the demand for ship space.

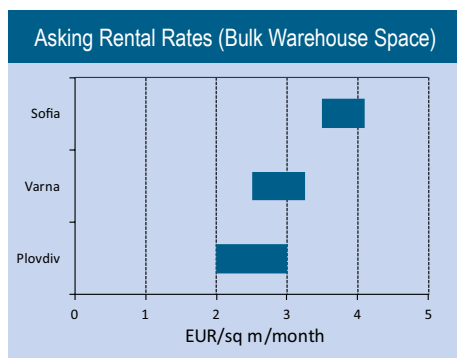
Rental Levels

Prime rental rents remain at levels of €4.00 – € 4.30 / sq m for modern warehouse space. Interestingly the small units of 200-500 sq m maintain slightly higher levels of € 4.30 – € 4.50 / sq m per month, driven by higher demand for smaller premises.

The available prime space in the industrial market is very low and despite the significant economic woes, the rental rates for prime assets remain stable.

However subprime space faces significant price competition from old brownfield properties. The owners of brownfield properties are aggressively discounting the rents and they are asking €1 - €2 per sq m. Tenants, who do not need quality space, take advantage of that. Landlords

of second tier properties have to offer additional on-site services in order to keep their tenants.



Vacancy

We witness a modest decrease of the vacant inventory from 119,260 sq m to 118,338 sq m. The vacancy rate dropped from 5.60% in Q3 2011 to 5.52%.

We believe that there is a lot of shadow vacancy, which is not visible on the market. These are usually owner occupied facilities by distribution companies, 3pl providers and wholesalers, who utilize only 30-50% of their warehouse capacity. They are not able to sublease the space due to building specifics or due to their business model.

However supply of prime space remains very limited and potential tenants with high requirements have to choose from a less than a dozen available buildings.

Land prices

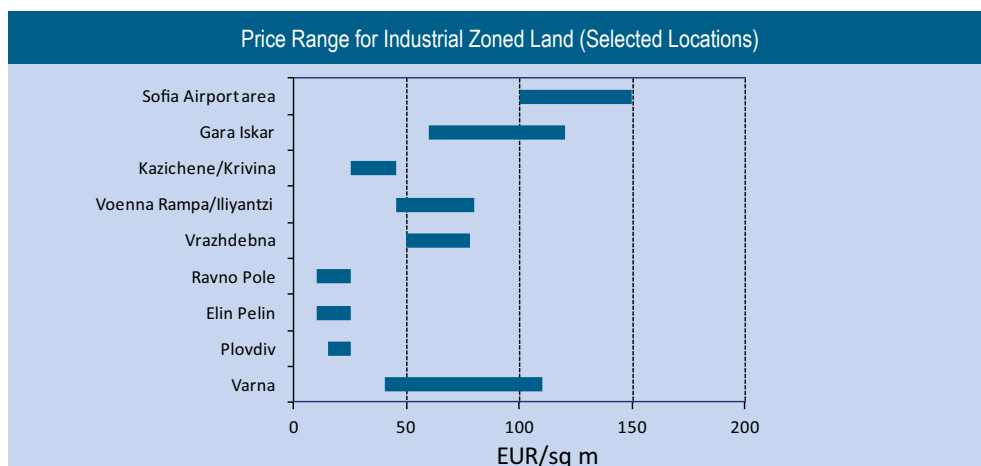
The last quarter brought a new market entry as Gazprom Neft acquired 7 existing

gas stations. The petroleum operator is actively sourcing land plots with building permits for gas stations in the country. The economic crisis led to a decrease of the fuel sales. That fact combined with the big CAPEX required for petroleum retail network and the thin fuel margins put a ceiling on the land price, which petroleum operators are willing to pay.

However despite Gazprom Neft's entry 2011 was not good for the land market. It was another year of stalemate as the gap between ask and bid prices remains wide open.

Residential construction starts have not recovered from the dramatic slow down in 2008 - 2009. The backlog of newly built residential properties has not been cleared yet and foreclosed properties are hitting the market further depressing the residential values. Residential developers do not have spare cash to invest in land and prefer to negotiate compensation deals.

Office developers are very careful and conservative when bidding for land plots. They seriously consider the high vacancy rate in the office space market and the decreasing rental rates. Their focus is on the most liquid office space submarkets in Downtown Sofia. The bid prices per TBA vary between €200 and €300 per sq m for top locations. The asking prices are still at €400 – €500 per sq m of TBA. Outside of Downtown Sofia there is no demand for land plots, since the vacancy rate in the Midtown and Suburban office markets is very high and it will take 2-3 years until the



Economic Highlights

- The GDP growth rate is positive for a 6th consecutive quarter. In Q3 2011 it marked a 0.1% increase compared to the 2.2% in Q2 2011. The GDP growth rate in Q3 2010 was 0.3%. The IMF forecasts a 1.3% real GDP growth for 2012
- The monthly inflation (based on CPI) in November 2011 is 0.3% while the inflation rate since the beginning of the year is 2.7%. The 12-month average (Nov. 2011 – Nov. 2012) is 3.1% (NSI)
- The FDI flows in Bulgaria are €135.6 million in October 2011 compared to €95.9 million for the same month in 2010. Still, the FDI flows since the beginning of the year (Jan. – Oct. 2011) are €668 million or 40% less compared to the same period in 2010
- The Base Interest Rate in December 2011 remained at 0.22% (BNB)
- The unemployment rate in Sofia is stable at 3.4% as of November 2011 but the country average has further increased to 10% based on National Employment Agency data. The IMF forecasts an unemployment rate just below 10% throughout 2012

surplus of space is absorbed.

Financial institutions accumulate distressed assets on their balance sheets and keep artificially high valuations of the repossessed properties in an attempt to preserve their capital and hoping that the market will recover. However it might make more sense to clear the deadweight, accept the losses, take the cash from liquidations and redeploy it to productive investment.

Painful decisions will have to be made in the 2012 – 2014 period, but unless the system is cleansed, the economy can not recover.

Investment activity

The Bulgarian property investment market enjoyed significant recovery during 2011. The total investment volume amounted to over €180 million with activity being mostly retail-led. Among the largest

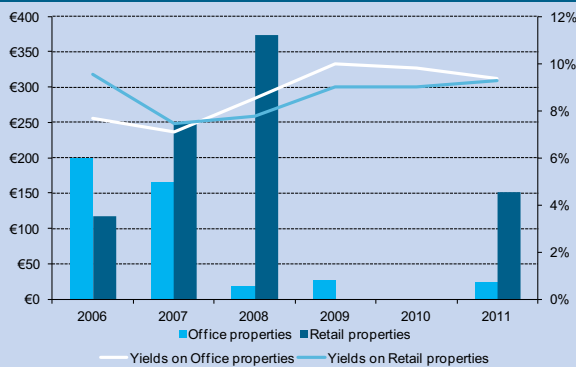
transactions were the acquisitions of Retail Park Plovdiv (€20 million) in Q1 2011 and Mall of Sofia (over €100 million) in Q2 2011. In both acquisitions MBL | CBRE advised Europa Capital, a UK real estate investment management group, on their first investments in Bulgaria.

The overall CEE property investment volume reached €8.7 billion at the end of November 2011, twice the level registered in the same period in 2010. The year's total is significantly below the peak achieved in 2007 (€14.6 billion); however, it is close to the third strongest achieved in 2008 (€9.5 billion). The strongest performers were again Poland and the Czech Republic which continued to attract risk-averse investments.

Despite the strong performance in 2011, concerns about reduced bank lending in 2012 are likely to affect property investment deal flow in most CEE markets during the year ahead.



Bulgarian Property Investment Market (2006 - 2011)



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