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PART OF THE CBRE AFFILIATE NETWORK CBRE

MARKET OVERVIEW

OFFICE SPACE

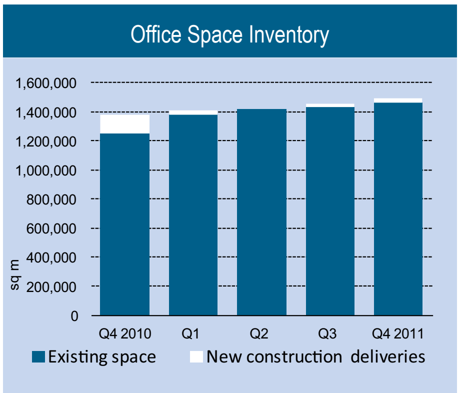
SOFIA | Q4 2011

Market Highlights

- Class A and B inventory increased by 28,300 sq m, reaching 1.46 million sq m in Q4 2011
- 28,300 sq m of new office space was completed in Q4 2011 bringing the total for 2011 to 77,400 sq m. The amount of frozen space decreased by 27,400 sq m for a total of 201,700 sq m by end of the year
- The annual aggregate net absorption for class A and B properties totals 92,300 sq m, compared to 105,200 sq m in 2010
- The asking rental rates maintained relatively stable levels in Q4 2011 with more notable changes only in a couple of locations. However, on an annual basis the change was considerable ranging between 7% - 12% for class A space and 6% - 21% for class B offices.
- The overall market vacancy level for class A and B offices continued to decreased for a third consecutive quarter in Q4 2011 falling down to 22.1% compared to 25.5% in Q1 2011

Inventory

While 2010 was a record year in terms of newly delivered office space to the market with close to 265,500 sq m, 2011 was far less spectacular. A total of 28,300 sq m were completed in the last quarter of 2011 whereas the volume of new construction completions for the year reached 77,400 sq m. The total stock in Sofia amounts to 1.46 million sq m, 46% of which is class A office space. Sopharma and Litex Towers are among the major projects completed in Q4 2011; thus, currently 70% of the existing modern office space in Sofia is located in Suburban areas.

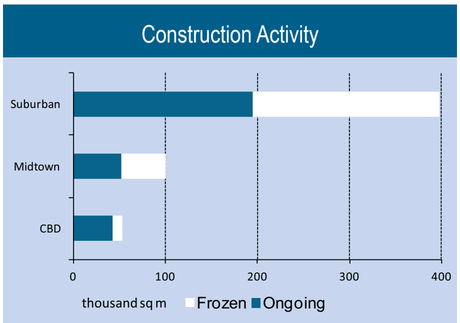


Construction Activity

With the construction sector being stagnant for the past couple of year, the likelihood for a new market boom is nonexistent. Even though there are new deliveries on the market, they are mostly large-scale office projects backed up by sufficient equity.

The class A office space under construction in Sofia currently stands at 207,800 sq m after the completion of 28,300 sq m modern space in Q4. No major changes are observed in regard to the class A office space that has been frozen as only one project is currently under active construction after being initially commenced in 2007 and later postponed.

The construction activity of class B offices is similar – a total of 83,000 sq m are under active construction as an increase is observed in all submarkets. Two projects in the Suburban submarket with a combined office space of 17,800 sq m that have been previously frozen are now under construction.



Vacancy

To no surprise, more than ¼ of the modern office space in Sofia was vacant in Q1 2011 after the record-high 132,000 sq m new deliveries in Q4 2010. After being 25.5% during the first three months of 2011, the vacancy started to decrease gradually and as of Q4 2011 it is 22.1%.

CBD

With a total of 20,870 sq m class A offices currently vacant in the CBD the vacancy rate remained almost unchanged at 25.5% compared to 25.4% in Q3 2011. On the other hand, the vacancy of class B office space increased by 4 bps and currently stands at 12.3%. With the increasing supply of good quality offices in Sofia and the decreasing average rental rates, tenants can obtain both better quality and more favorable terms.

Midtown

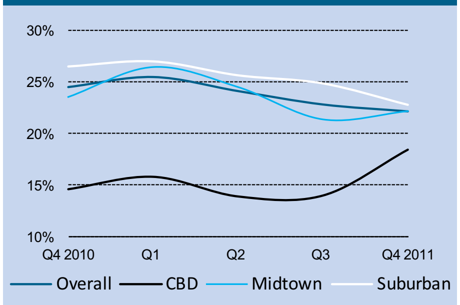
The aggregate vacancy rate for class A and B office space reached 21.1% in Q4 2011, which is a 0.2 bps decrease compared to the previous quarter. Similarly to the CBD, the vacancy for class B office space increased by more than 3 bps to 17.5%. The vacancy for class A space dropped down to 29% after being at 32% in Q3 2011.

Suburban

Quite expectedly the vacancy in suburban areas for both class A and B office space decreased and the overall for the submarket is 22.7% compared to 24.8% during Q3. The 2.1 bps change is due to the absorption of approx. 10,000 sq m class A, bringing the suburban vacancy to 27.1% after being 30.8% in Q3 2011.

The class B vacancy experienced a minor down shift of 1 bps and is currently 18.6% as 94,000 sq m remain unoccupied.

Vacancy Rates

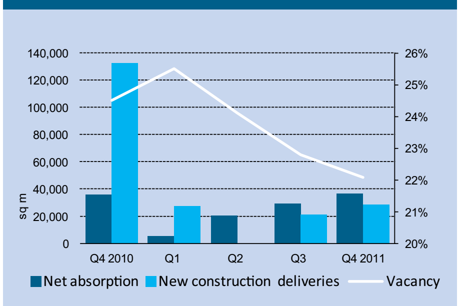


Demand

For a third consecutive quarter the cumulative net absorption exceeds the new deliveries. The demand remains primarily driven by relocations of companies looking for higher quality office space at favorable rent levels.

The aggregate net absorption for class A and B office space reached 36,800 sq m in Q4 2011 compared to 35,700 sq m in Q4 2010. Despite the low net absorption figure recorded during the first three months of 2011 (5,500 sq m), the total for the year reached 92,300 sq m compared to 105,200 sq m in 2010.

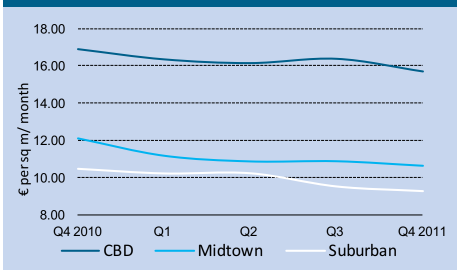
Absorption & Deliveries



Rents

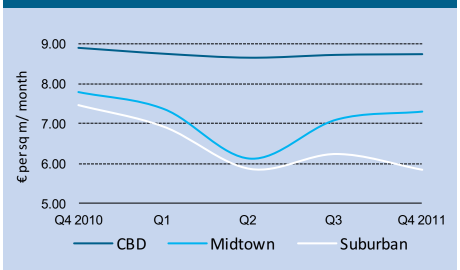
The asking rents remained relatively stable for the last three months of the year. Significant change was observed mainly for class A offices in the CBD and for class B offices in suburban areas. The asking levels range widely from €6/ sq m to €25/ sq m depending on location. However, rents in the higher end of the range are unlikely to be achieved in the current market. Nevertheless, a couple of landlords in the CBD remain unrealistically optimistic about their prospects despite sustaining high vacancy for a long time. The average asking rent in the CBD fell down to €15.70/ sq m while in the Midtown and suburban submarkets the change was less notable as average figures fell only marginally to €10.60/ sq m and €9.30/ sq m respectively.

Average Asking Class A Rental Rates



Asking rents for class B offices are in the €4.00/ sq m - €12.00/ sq m range. The average figure in the CBD was €8.75/ sq m remaining at the level from Q3 2011, followed by a minor increase to €7.30/ sq m in Midtown submarkets and a considerable decline to €5.85/ sq m in suburban locations.

Average Asking Class B Rental Rates



Market outlook

In 2011 the total volume of new construction deliveries reached 77,400 sq m which represent a 71% decline compared to the 265,500 sq m completed in 2010. We expect the volume of newly constructed office space in 2012 to amount up to 180,000 sq m based on current construction schedules.

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)

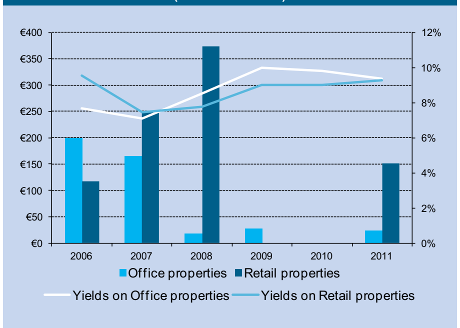
- The FDI flows in Bulgaria are €135.6 million in October 2011 compared to €95.9 million for the same month in 2010. Still, the FDI flows since the beginning of the year (Jan. – Oct. 2011) are €668 million or 40% less compared to the same period in 2010

- 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

Rental rates will stay more or less stable. However, the vacancy level is expected to increase over the next couple of quarters.

Bulgarian Property Investment Market (2006 - 2011)



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.

Selected Lease Transactions Q4 2011

Tenant	Building	Size (sq m)
Teximbank	Vesmard Business Tower	4,600
Generali	Twins Center	2,300
C3	ETC	1,350

Selected Scheduled Deliveries Q1 2012

Building	Market	Submarket	Office space (sq m)
Vertigo	Suburban	Bulgaria Blvd. Corridor	17,000
Sofia One	Suburban	Geo Milev	13,000
Alpha Bank	Suburban	Tsarigradsko Shosse Corridor	10,000
TAO	Midtown	Todor Alexandrov Blvd. Corridor	7,300

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