



OFFICE REAL ESTATE MARKET

SOFIA | FIRST HALF 2011

Accelerating success.

Growth in demand and net absorption rates

The contemporary office inventory in Sofia reached a new peak, with another 150,000 sqm added to the stock during the second half of the year

The net absorption in the second half of the year was 60,900 sqm

SUPPLY

The second half of 2010 saw the highest recorded growth in inventory*, as another 150,000 sqm of contemporary office space was added to the Sofia office stock. The majority of the new stock was Class A office premises. On an annual base the contemporary office inventory increased by 256,000 sqm. This means that a fifth of the total office stock is actually completed in 2010. This massive increase is driven by the completion of a few, large projects that were initiated mid-2007, in a more optimistic market.

Among the new additions to the market in this period was Mega Park, European Trade Center – (Building C) and Galaxy Business Center

which all together added 76,000 sqm to the Suburban stock. Serdika Offices (28,000 sqm) and GRAWE Office Building on Blvd. Totleben (5,800 sqm) were the major new additions to the Broad Centre submarket. Perform Business Centre on Pozitano Square increased the stock in CBD (Central Business District) with 15,600 sqm, equivalent to 8 % of the entire inventory in CBD, which hasn't seen new deliveries for a while.

The total inventory of modern office space in Sofia reached 1,318,000 sqm with almost equal split between Class A and B. The pipeline continues to empty as no new major projects were initiated in this part of the year. The total active pipeline fell to the lowest level in years at just below 500,000 sqm. The size of the latent pipeline (comprising office project under construction, but currently frozen) is app. 250,000 sqm.

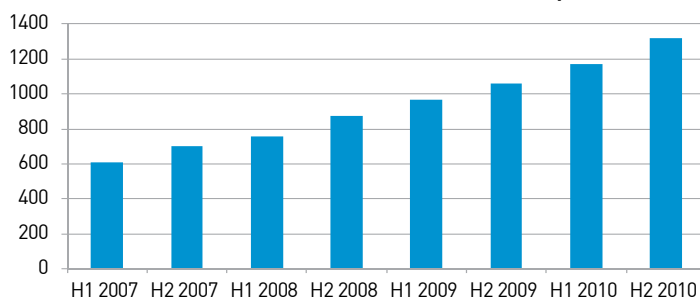
DEMAND

The net absorption in H2 2010 was 60,900 sqm with almost half being a result of preleases in the office buildings that came to the market in this half of the year. The major transactions in the period included the expansion of Hewlett Packard in Kambanite Business Center; Cisco in Crystal Business Center; Alcatel, Samsung and Pfizer in European Trade Center.

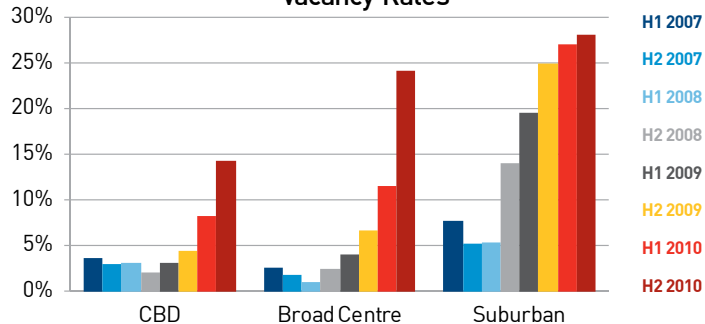
The majority of the demand was driven by relocation needs. Many occupiers took advantage of the attractive rental rate level for high quality office space in communicative locations.

The incremental demand was driven primarily by the outsourcing sector and pharmaceutical companies which are already present on the market. Transactions were mainly closed for premises in the range 500-1,500 sqm, though there were few leases up to 4,000 sqm. The preferred contract length was for 3 years, and when longer, there is a significant difference between the rental levels during the first 1-2 years and the conditions in the remaining lease period. As in previous periods, genuine Class A premises attracted mostly large, international companies with more than 50 employees, while Class B offices are occupied by smaller, local companies with less budget.

Total stock offices in Sofia (in '000 sqm)



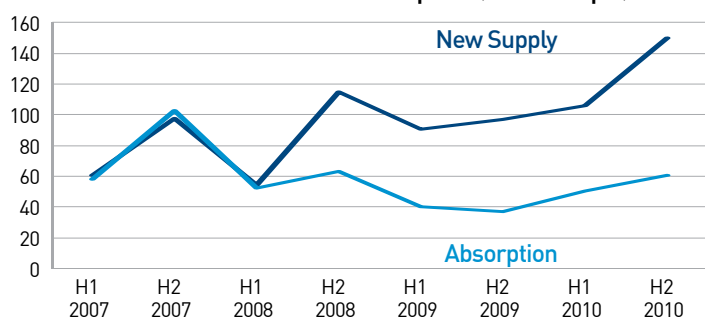
Vacancy Rates



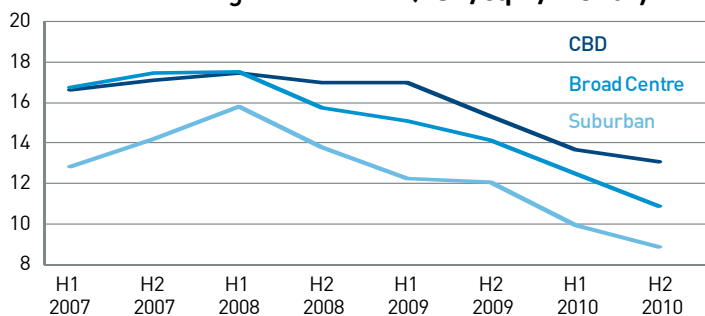
H1 - first half

H2 - second half

Market saturation of office space (in '000 sqm)



Class A Asking Rental levels (EUR/sqm/month)



The overall vacancy on the Sofia office market reached 25,4% of the total existing stock, equivalent to 335,000 sqm office area

Total office occupancy reached close to 1 million square meter by the end of the year

VACANCY

Vacancy** in Sofia grew 89,200 sqm in H2 2010 - significantly more than any previous period. In percentages, the vacancy at the end of the year amounts to 25,4% of total, contemporary stock in Sofia. In Broad Centre the vacancy increased with 37,000 sqm, reaching 66,000 sqm. In Suburban areas the unoccupied space reached 242,000 sqm.

The Central Business District and Broad Centre experienced negative absorption in the period, while large-scale projects entered the market - these two factors significantly push up vacancy. The Suburban part of the office market retain a high level of vacancy, but in fact almost half of the new supply in H2 was absorbed within the same 6-month period. Over the past four years, there has been a distinct change in the concentration of business

premises. In 2006, Suburban office space accounted for 43% of total occupancy on the market. Four years later, the number has reached 63% of overall occupancy which is Suburban.

RENTAL RATES

In H2 2010 the average asking rents*** continued to fall; Class A levels fell with an average of EUR 1/sqm/month compared to the first half of the year, while Class B office space decreased more than EUR 1,5/sqm/month. The reduction was most controlled for Class A space in CBD and most significant for Class B in Suburban area, where average asking rents fell below EUR 7/sqm/month.

FORECAST

- » Inventory is expected to increase by app. 150,000 sqm in H1 2011
- » Overall vacancy will continue to grow, pushing the rental levels further down
- » In order to avoid a steep increase in vacancy levels, projects in CBD and Broad Centre will have to adjust the rental rates
- » Net absorption is expected to increase in 2011, as the economy starts recovering
- » The general positive outlook for businesses in 2011, is likely to lead to expansions of office premises
- » As a significant number of lease contracts expire in 2011, the number of transactions are certain to increase

* The "Supply" section comprise existing Class A and B office buildings, no more than 10 years old and with office areas exceeding 1,000 sqm

** "Vacancy": unoccupied class A and B office space with permission for usage

*** Rental rates are based on average asking rents of vacant premises in existing buildings or in projects close to completion

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