

Residential Market Overview

BULGARIA

FIRST HALF | 2010

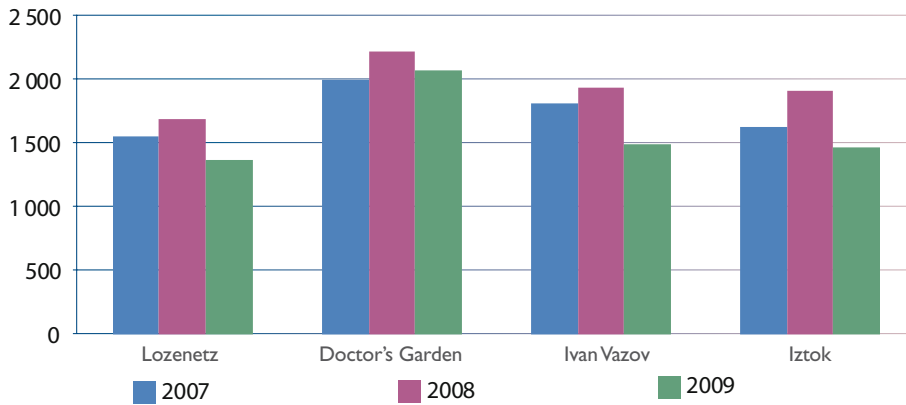
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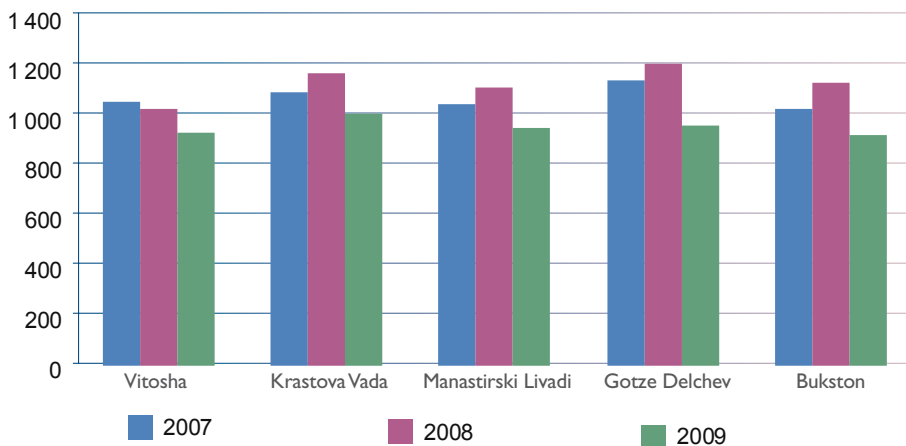
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RESIDENTIAL MARKET - SOFIA

Development in average asking prices in prime locations (EUR/sqm.)



Development in average asking prices in emerging neighbourhoods (EUR/sqm.)



SUPPLY

During the second half of 2009 the supply of new residential units grew at a modest pace. According to data published by the National Statistical Institute, the growth rate was reduced to almost half of what was delivered to the market in 2008; 41% fewer units were added to the market in 2009 compared to 2008.

In general, there was limited supply of high-quality properties on the market. In H2 2009 very few projects entered the construction phase. Usually those projects had previously secured financing but have experienced delays due to administrative obstacles.

Many residential developments continued the construction works, but at a slower speed. Some projects were put on temporary hold, either due to shortages in financing or low demand.

During H2, 2009 the supply of foreclosed properties increased measured by the number of units offered to the market. However, it is still not a significant supply factor on the residential market.

DEMAND

Demand started picking up in August/September after six months in 2009 of almost complete stand still. This was also driven by the increased availability of mortgages, slowly decreasing interest rates as well as falling prices. Cash payment is still a significant method of financing.

Generally buyers have limited budgets and are reluctant to increase them. This led to two main trends. Buyers whose budget would only be sufficient for a one bedroom apartment in 2009 are now looking for a larger two-bedroom apartment. Others, who could not afford to purchase a property before are now actively seeking small one-bedroom apartments. The majority of the demand is focused on properties priced below EUR 1,000/sqm for a fully finished product. Transactions rarely take place before construction is completed or very close to completion.

Overall the market is demand-driven, and buyers are taking advantage of the market conditions by negotiating optimal terms and prices. The private investment market has disappeared during H2, 2009 – demand is now driven almost exclusively by urgent demographic needs.



Activity started in the market in August/September after the virtual stand-still in the first half of the year. Demand is focused on properties priced below EUR 1,000/sqm

The number of units delivered to the market in 2009 was approximately half of the 2008 number

Average asking sales prices across all sub markets fell 20% on average on a year-on-year basis

FINANCING

Mortgages were available in H2, 2009, though with high interest rates – reaching a peak in July 2009 of 10,5% for loans in Bulgarian Leva.

The mortgage financing covered usually 60-70% of the valuation of the property in the second half of 2009. Some flexibility was noticed, allowing the financing to reach up to 80%. This was based predominantly on the quality of the project, the reputation and financial stability of the developer.

Households with incomes above EUR 1,000/month, no consumer credits and stable jobs are most likely to obtain a mortgage. Location, infrastructure and state of completion of the property also play an important role.

SALES PRICES

The average asking sales prices in prime locations and emerging neighbourhoods continued to fall in the last six months of 2009. The year-on-year decrease was close to 20% on average.

There are significant differences between neighbourhoods, with no particular area being resilient to the changed market conditions. Only Doctor's Garden remained above 2007-levels, but it is worth noticing that there were quite few offers with a wide span in prices per square meter.

Some developers were ready to sell at reduced prices - even close to the construction cost of the project. Less financially volatile developers opted for maintaining price levels, but reduced costs by eliminating marketing efforts.



RENTAL RATES

Rental levels in prime locations in Sofia followed the trend of the other sectors of the residential real estate market. On average, rental rates fell 25% on a year-on-year basis, with the neighbourhoods of Ivan Vazov and Iztok being more affected; here, rental rates fell an average of EUR 2/sqm/month through 2009 to an average of just above EUR 5/sqm/month.

The trend is further enforced by the falling number of expatriates – the traditional source of demand – coming to Bulgaria due to the economic downturn.

Forecast

- Only very few projects are expected to enter the pipeline in the first half of 2010
- Demand is expected to pick up driven by genuine, demographic needs, availability of mortgages and reduced prices
- Price levels are expected to start stabilizing in towards the end of the next six-months period, as demand increases
- Full recovery of the market is expected within 12-18 months

ECONOMIC HIGHLIGHTS – SECOND HALF OF 2009

- At the end of 2009, GDP decreased by 5.1% year-on-year in December 2009 amounting to EUR 33 bln.
- During the second half of 2009, unemployment in Bulgaria grew by 1.6%, reaching 8.7% by December. The average monthly salary in Q3, 2009 decreased slightly by 1% (quarter-to-quarter) to BGN 583 (EUR 298)
- The inflation rate in December 2009 grew by 0.3% compared to the previous month while year-on-year inflation was 1.6%.
- Foreign Direct Investments in Bulgaria for the first nine months of 2009 amounted to EUR 2 bln. (6.3% of GDP) compared to EUR 5 bln (14.9% of GDP) for the same period in 2008.

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