

THE MARKET BEYOND TOURISM BULGARIA

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The Bulgarian commercial property market is usually assessed as being small against the backdrop of the markets of former socialist countries such as Poland, Hungary and the Czech Republic. Regardless, preparation for EU accession, which is expected in 2007 or 2008 at the latest, is in full swing in the country.

By George Dutchev



PHOTO: BULGARIA TOURISM

< Shopping in Sofia, Bulgaria.



PHOTO: ALAMY IMAGES

City view, Varna, Bulgaria.

The main developers in Bulgaria continue to be local firms, which have now gained significant experience in project development. But today more and more international companies are also turning their gaze to the local commercial property market in search of a higher yield from their investments. The German ECE Projektmanagement and the Hungarian TriGranit Development Corporation, which have already registered local companies, are among the latest preparing the launch of their projects. Modern malls in the larger cities of the country, such as Sofia, Plovdiv, Varna, Bourgas, Stara Zagora and Rousse, as well as logistics centers / warehouse facilities, are serious niches for new investments.

In line with the Special Purpose Vehicles Act adopted in 2004, the first 10 REITs are now a fact. In June 2005 the Immoeast Immobilien Anlagen AG, a sub-

siary of the Viennese stock listed Immofinanz, which is responsible for Central and Eastern Europe, bought a 20% share of the stock noted Bulgarian real estate company TBI-BAC for €47 million. The company meanwhile operates under the name Prime Property BG REIT. Immoeast's CEO, Dr. Karl Petrikovics, explained this move, claiming that Bulgaria will become the next big 'boom' market, a prediction that many market analysts share. Despite the small volume of the managed funds, they are expected to contribute to greater transparency in the real estate market. These companies have diversified portfolios; some of them focus on the purchase of agricultural land, others are mainly orientated towards commercial property.

Regardless of the existing potential in many cities throughout the country, the capital of Sofia still remains a priority city for the

development of new schemes. With its population of over 1.2 million people and the many foreign companies which constantly create new jobs and therefore need modern offices, the city can to a great extent be regarded as a country in itself. It's a place where the standard of living, the purchasing powers and the hunger for modern commercial buildings are much higher than in other Bulgarian cities. >>



PHOTO: BULGARIA TOURISM

Center of Varna.



Business center Bellissimo, the newest landmark of Sofia.

Sofia

In the spring of 2006 the American developer Tishman International Companies, together with its German partner Lindner AG, will start the development of the Sofia Airport Centre, a logistics, commercial and office complex, occupying a land plot of 140,000 m² and with a built-

up area of 110,000 m². The investment in the complex will amount to €65 million. The construction is expected to continue for three years. Situated 300 meters from the Sofia Airport, Sofia Airport Centre will be the first of its kind and is expected to successfully fill part of the niche with respect to logis-

tics centers, which according to specialists in the country is the next hot spot for investment. The German Lindner Holding developed the Business Park Sofia, the first of its type in Sofia, during the last few years. This business park is being built on 220,000 m² at the edge of Sofia. Next to modern office spaces, it also offers a movie theater complex and shopping facilities as well as a Holiday Inn Hotel. The concept has proven successful, as the renter mix shows, which includes internationally known names like Sony, BMW, Unilever, Kraft and Hewlett-Packard. In close proximity to Business Park Sofia, the Spanish firm Grupo Detea through its subsidiary Comercia intends to develop Commercial Park Sofia. This will be an extension of the business park, and together with Residential Park Sofia will embody the concept of a town within a town. The built-up area of Commercial Park Sofia will be 90,000 m² and commercial premises will occupy 50,000 m². The complex will also include a leisure center, offices and hotels and car parks with approximately 2,500 spaces. It will rely on a catchment area of 300,000 inhabitants.

PHOTO: ANDROMEDA REAL



The land plot for Sofia Airport Centre (110,000 m²).



New buildings near Sofia Airport.



Mall of Sofia, a development of M.O. Sofia.

PHOTO: M.O. SOFIA

Malls are fashionable

Up to 2005, Vitosha Boulevard, the main high street in the capital of Bulgaria, and the streets around it dominated the retail market in Sofia, excluding the hypermarket chains. The three mall-type complexes, which are currently being built and which will be completed in 2006, are a serious threat to the hegemony of this boulevard.

The construction of the Mall of Sofia, a project being realized by M.O. Sofia, a joint company of the Israeli Aviv Construction and Public Works and Cinema City International (which operates 398 screens in 54 locations and is one of the largest players in Central Europe) is expected to be completed in March 2006. The first state-of-the-art shopping center in the country has a

gross built-up area of 75,000 m² and will include 120 shops, a hypermarket of the established local chain Piccadilly as an anchor tenant, a 12-screen Cineplex, cinema hall IMAX with 500 seats, restaurants and a food court. The shopping and entertainment area (comprising over 22,000 m²) will be located on three above-ground levels and one underground floor. The office areas, occupying 9,200 m², will be situated on five floors. Mall of Sofia will have an underground parking garage with 700 spaces, as well as 18,499 m² of common areas. Over 90% of the commercial areas are pre-let. Aviv Construction & Public Works has already sold its 50% stake in the Mall of Sofia the consortium led by GE Commercial Finance. The consortium, whose investors include

Golub, GE's long-established partner in Central Europe, has acquired its share for approximately €37 mln. M.O. Sofia, which is developing the scheme, intends to build another mall in Sofia, as well as one mall in each of the cities of Plovdiv, Varna and Bourgas. >>

PHOTO: PROPERTY XPRESS MAGAZINE



Tzum, the first large shopping center in Sofia.



Porsche Center (11,000 m²) is situated near Sofia Airport.

PHOTO: ORCHID HOLDINGS

Sofia City Centre Mall

The other mall, which is located in the center of Sofia, and the construction of which is also expected to be completed in the spring of 2006, is Sofia City Centre Mall with a gross built-up area of 45,000 m². This is a scheme of local developer Stroytown, which envisages

developing a complex including five cinema halls with 920 seats, a supermarket, a restaurant, shops, entertainment areas, a casino and a bowling alley.

Sky City

The third mall will be developed by Fantastico – a local chain that runs 28 supermarkets in the

country. Sky City will have a gross built-up area of 26,000 m² and will be located in Geo Milev residential area almost halfway between the center of the city and the airport. There will be 120 retail outlets, including a Fantastico hypermarket and a DIY shop. The initial investment is assessed at €20 mln and it is expected that over 90% of the area will be pre-let by the time of completion in the autumn of 2006.

Office market

Development of the Porsche Center is running parallel with the extension of Business Park Sofia. The Porsche Center is already letting out office space during the construction phase of their project. It is situated in the immediate proximity of Sofia Airport and has a gross built-up area of 11,000 m². In addition to the office areas, there will be a



PHOTO: SKY CITY

Sky City (26,000 m²) with 120 retail outlets, including a Fantastico hypermarket and a DIY shop.



Business Park Varna. Some 4,000 employees will work in Business Park Varna upon its completion in 2009.

PHOTO: BUSINESS PARK VARNA

Porsche showroom on the first floor of the building. The developer of the scheme is Orchid Holdings Bulgaria, which raised funds for the development on the London Stock Exchange (AIM). The Austrian developer Soravia Bauträger, which has several years' experience in the Bulgarian real estate market, has just built its third office building in Sofia, Europark, through its affiliated company Soravia Bulgaria. The building has over 8,000 m² of class-A office space and 100 above-ground and underground parking places. The first office building developed in Sofia by Soravia is let out on a long-term lease to the mobile operator Globul, and the second one was sold in 2005 to the investment fund Landmark Properties.

Varna

The third-largest Bulgarian city, Varna, will soon accommodate a

hi-tech business park. The construction of the mixed-use scheme has already started. Over €50 mln will be invested in the project. Approximately 4,000 employees will work in the business park upon its completion. Business Park Varna is located some seven minutes by car from Varna's city center. It will occupy a total area of 67,000 m². A total of nine office buildings will be constructed with a total built-up area of 120,000 m². The first building of the Business Park will be inaugurated in July 2006, while the whole complex will be finished within four years. The developer is Sistek Holding, an influential group of Bulgarian companies working in the sphere of telecommunications and financial services. The financial partner for the project will be Piraeus Bank.



PHOTO: SORAVIA BULGARIA

Europark, the third office building of Austrian developer Soravia Bauträger.



Location	Project	Bulgaria / Projects 2006 and beyond. Program	Development	Planning
Plovdiv	Capitan Raytcho Shopping Center	Inner city shopping center offices 2,800 m ² , retail 200 shops restaurants 18,400 m ² , parking 4,600 m ²	PT Holding	2006
Sofia	Tzarigradsky Complex	New development retail 140,000 m ² residential 1,300 apartments parking 1,300 cars	Sofia Building Company	2009
Sofia	San Stefano Plaza	Mixed-use development offices, retail 12,000 m ² , residential 130,000 m ² parking 600 cars	San Stefano Property development	2007
Sofia	Boyana Park	New development residential 300 apartments, retail	ImmoFinance, Equest Investments Bulgaria	2008
Sofia	Citroen Commercial Center	New mixed-use development offices 5,600 m ² , retail 4,500 m ² commercial space 10,400 m ²	Automotor Corporation	2006
Sofia	Business Centre Bellissimo	New development offices 17,000 m ²	Andromeda Real	2006
Sofia	Business Hotel	New development business hotel 15,300 m ² 200 rooms, 10 apartments	Valkanov & Milanov	2006
Sofia	Holiday Inn Hotel	New mixed-use development hotel 130 rooms, congress center sports and recreation center, restaurants	Meridian Leisure Hotels	2006
Sofia	Porsche Center	New development office space 11,000 m ² , commercial space parking 54 cars	Orchid Developments	2006
Veliko Tarnovo	Mall of Veliko Tarnovo	Inner-city development 28,000 m ²	Densy M	2006

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BULGARIA IN SHORT

ECONOMIC PROFILE

After record growth of 5.6% in 2004, growth of real GDP accelerated further to 6.2% in the first half of 2005. Growth was again mainly driven by buoyant domestic demand fuelled by higher government expenditures in the run-up to the elections in June, higher real wage increases and continued strong credit growth especially in the first quarter. Gross fixed capital formation expanded most strongly. It is expected that growth will calm down slightly in the second half as additional measures to curb credit growth, which were introduced in April, start to have some effect. Floods during the summer caused some disruptions, particularly in agriculture which showed negative growth, but this is likely to be offset by additional flood-related expenditures in the further course of the year. Imports have again expanded more rapidly than exports, implying a strong negative contribution to growth from the external balance. Consumer price inflation accelerated steadily during the year as a result of rising oil prices and is expected to reach an average 4.5%.¹

¹ European Commission: European Economy, Economic Forecasts Autumn 2005.

OUTLOOK

The pattern of strong economic growth based on high domestic demand is expected to continue into 2006 and 2007. Some signs of overheating have become apparent in 2005 and both the trade and current account deficits have increased considerably, partly also as a result of substantial oil price increases. A certain correction in 2006 may result from a further dampening of credit growth, lower employment growth and a slight moderation in real wage growth, although pressures on wage increases will remain fairly strong. Higher excise duties in 2006 should help to contain private consumption, while a reduction in pension contributions and some adjustments in income taxation will at the same time increase disposable incomes. Therefore, GDP growth is expected to come down only slightly to around 5.5%, which may be insufficient to prevent a further widening of the trade deficit.

This will probably be followed by a consolidation of growth at a high level in 2007 with investment growth remaining particularly strong as the catching-up process continues.¹

MAIN FEATURES ¹ bln BGN	Annual percentage change						
	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	0.4	4.9	4.5	5.6	6.0	5.5	5.5
Private consumption	0.8	3.6	6.3	5.4	7.0	5.5	5.0
Public consumption	-2.2	4.1	7.6	3.6	7.5	5.0	5.0
Gross fixed capital formation	7.7	8.5	13.8	12.0	15.0	12.0	12.0
of which : equipment	-	-	-	-	-	-	-
Change in stocks as % of GDP	0.5	1.1	1.8	2.5	3.1	2.8	2.7
Exports (goods and services)	-	7.0	8.0	13.1	9.9	10.4	10.5
Final demand	-	4.9	8.3	9.0	9.0	7.8	7.9
Imports (goods and services)	-	4.9	15.3	14.1	13.3	10.8	10.9
GNI at constant prices (GDP deflator)	0.4	5.6	2.7	7.2	6.0	5.6	5.6
Contrib. to GDP growth : Dom. demand	1.6	4.7	8.2	6.8	9.4	7.6	7.4
Stockbuilding	1.2	-0.6	0.7	0.8	0.2	-0.2	0.1
Foreign balance	-	0.8	-4.9	-1.9	-3.6	-1.9	-2.0
Employment	-1.3	0.4	6.3	3.1	1.8	1.0	0.7
Unemployment (a)	12.8	17.8	13.6	11.9	10.7	9.9	9.4
Compensation of employees/head	-	4.7	1.0	8.4	9.5	9.2	8.7
Unit labor costs	-	0.2	2.7	5.9	5.2	4.6	3.8
Real unit labor costs	-	-3.4	0.4	1.6	1.9	-0.8	-0.9
Savings rate of households (b)	-	-	-	-	-	-	-
GDP deflator	77.2	3.8	2.3	4.2	3.3	5.4	4.7
Private consumption deflator	75.0	4.0	0.5	3.4	4.2	5.0	3.0
Index of consumer prices (e)	-	5.8	2.3	6.1	4.5	5.5	3.5
Trade balance (c)	-4.3	-10.2	-12.5	-14.0	-17.3	-17.7	-16.9
Current account balance (c)	-2.2	-4.7	-9.2	8.5	-12.2	-12.0	-10.8
Net lending(+) or borr.(-) v.-à-v. ROW (c)	-	-	-	-	-	-	-
General government balance (c)(d)	0.4	-0.2	0.6	1.3	1.0	0.0	0.0
General government gross debt (c)	-	54	46.3	38.8	33.9	30.5	27.6

(a) as % of civilian labor force; (b) gross saving divided by gross disposable income; (c) as a percentage of GDP

More info: www.europe.eu.int/comm/economy

FACT SHEET

BULGARIA



STATISTICS

POPULATION (2005)	7,761,049
GDP GROWTH (2005)	5.40 %
CONSUMER SPENDING GROWTH	7.00 %
INFLATION (2005)	6.90 %
UNEMPLOYMENT	9.80 %
EMPLOYMENT (2004)	54.20 %
INTEREST RATES	2.21 %

MOST IMPORTANT CITIES INHABITANTS

SOFIA	1,138,950
PLOVDIV	341,464
VARNA	312,026
BURGAS	189,529
RUSE	158,201

PRIME OFFICE RENT (Q4 2005)

LOCATION	RENT EURO/ SQ.M/YR	GROWTH % (PA COMPOUND)	
		5 YEARS	1 YEAR
SOPHIA	186	-23.46	-11.43

PRIME OFFICE YIELDS (Q4 2005)

LOCATION	YIELD % CURRENT	10 YEAR RECORD	
		HIGH	LOW
SOPHIA	10.00	N/A	10.00

NATIONAL INDICES (2004)

BLN BGN	CURR.	PRICES % GDP
GDP AT CONSTANT PRICES	38.0	100.0
PRIVATE CONSUMPTION	25.9	68.1
PUBLIC CONSUMPTION	7.1	18.7
GROSS FIXED CAPITAL FORMATION	8.0	20.9
OF WHICH : EQUIPMENT	-	-
CHANGE IN STOCKS AS % OF GDP	1.0	2.5
EXPORTS (GOODS AND SERVICES)	22.2	58.4
FINAL DEMAND	64.1	168.6
IMPORTS (GOODS AND SERVICES)	26.1	68.7
GNI AT CONSTANT PRICES (GDP DEFL.)	37.0	97.3

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