

BULGARIAN RESIDENTIAL MARKET

The residential market in Bulgaria continues to be weak. There are more inquiries from buyers than in 2009, but unlike the boom years of 2007-2008, customers are now more demanding and transactions take longer to close.

Average prices in Bulgaria fell by around 3 percent in the first half of 2010, and about 10% annually, which is a sure sign that the pace of decline is slowing. In Sofia and major regional centers, such as Plovdiv, Varna, Burgas, Ruse, Stara Zagora and Pleven, however, decline in selling prices exceeds 10% annually.

The large available stock remains one of the main problems. Sales of residential units in the early stages of construction has stopped completely in the last two years, despite the significant discounts offered. This, coupled with weakened demand in the past 18 months has a considerable impact on developers and construction activity has contracted with over 30% during the period.

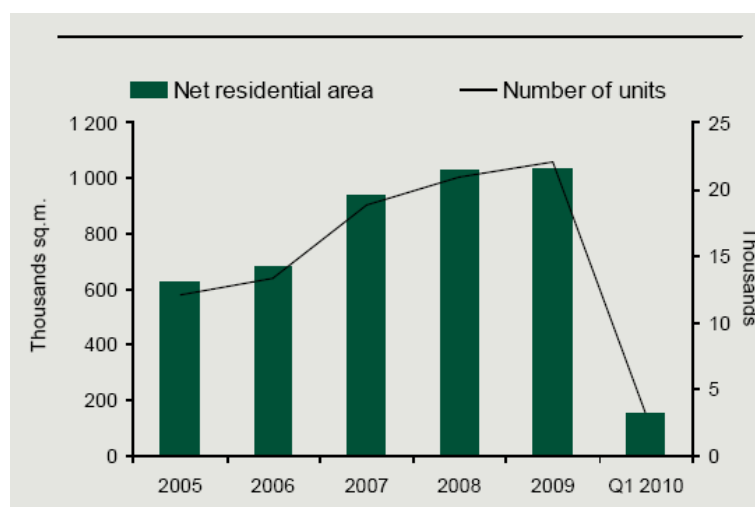
According to the National Statistical Institute (NSI) index of construction output in the second quarter of 2010 fell by ca. 22.5% annually, and building permits issued for residential buildings for the first three months of 2010 are nearly 33% less than the same period of 2009, with most regional cities experiencing an even greater decline.

Another trend observed over the last year is that new residential projects have fewer and smaller units. The most encouraging factor for the market is the better mortgage terms banks are offering, as well as the increase in the size of loans. Whereas a year ago, financial institutions were very conservative, now they are more willing to allocate up to 80% - 90% of the market value of the collateral. During the year, banks have also become more flexible in terms of rescheduling and refinancing of existing loans.

RESIDENTIAL MARKET SUPPLY IN BULGARIA

The drop in construction output is felt particularly in the residential segment. According to preliminary NSI data, new residential buildings completed during the first quarter of 2010 in the country are 19% less than the corresponding period of 2009 and their area is 27.4% less on an annual basis. This is largely due to the fact that developers are not eager to launch new projects due to weak demand and insufficient funding.

COMPLETED NEW RESIDENTIAL UNITS IN BULGARIA (2005-2010)



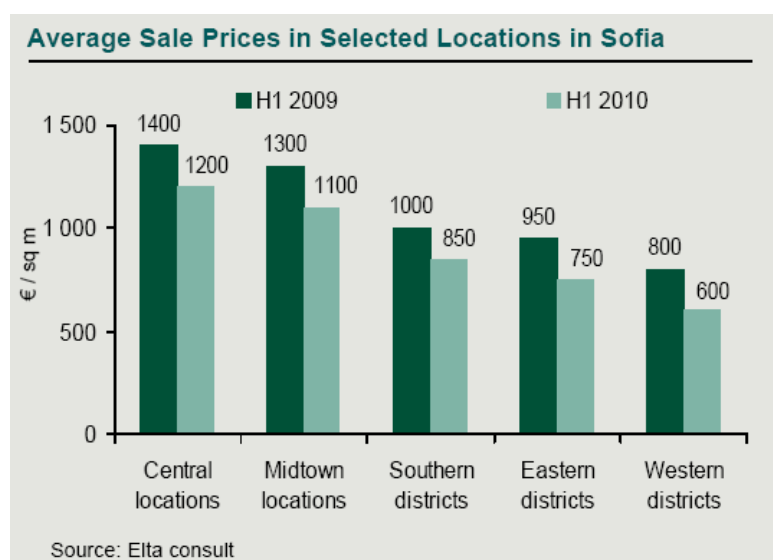
SALES PRICES

Over the first half of 2010, residential prices in the country registered a smaller decline than in the same period of 2009. The drop in offer prices in big cities is even more insignificant because most of the developers are likely to make discounts when there are actual inquiries from buyers rather than bring down prices indefinitely. In Sofia, the largest decline is in offer prices for apartments in residential complexes outside the city center.

The newly developed districts in the southern part of the city also lost some of their appeal due to excessive construction and poor infrastructure. Reduced interest has been registered in certain areas in the center of the city due to existing traffic and parking problems. Drops of offer prices is smallest in prestigious areas in the broad center – Iztok, Lozenets and Ivan Vazov.

Prices are lowest for apartments in the northern and western districts of the capital: units in buildings at “shell-and-core” state can be found at less than € 500 per sq m; for completed apartments – around € 550-600 per sq m. Old monolithic construction in the city center also fell to ca. € 1000-1200 per sq m, but supply of quality real estate there is traditionally low.

At similar levels of € 1000-1100 per sq m apartments are also available in the more prestigious districts of Sofia – Lozenets, Ivan Vazov, Iztok, Izgrev, Geo Milev – but with residential area of 90 sq m, the total amount makes concluding such transactions extremely difficult.



NOTE:

Midtown locations include Iztok, Ivan Vazov & Lozenets districts;

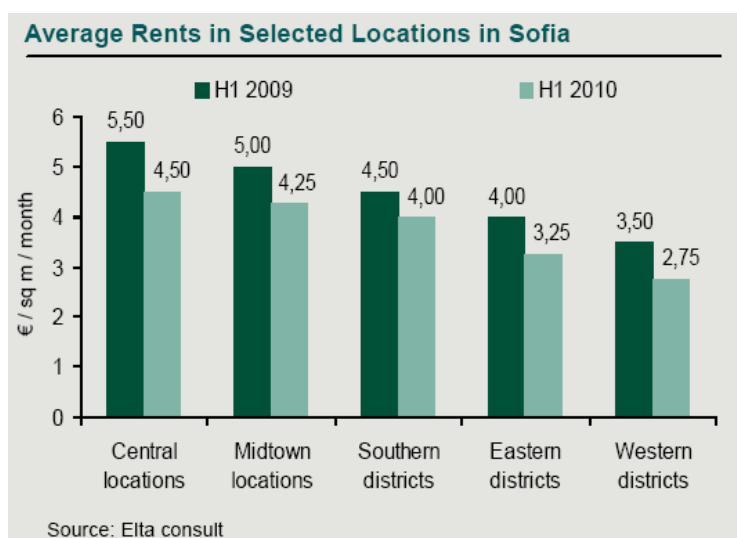
Southern districts include Boyana, Dragalevtsi, Manastirski Livadi, Bakston, Borovo & Vitosha districts;

Eastern districts include Mladost, Druzhba, Darvenitsa & Studentski Grad districts;

Western districts include Lyulin, Obelia, Nadezhda, Krasna Poliana & Zapaden Park districts.

RENT PRICES

Due to high supply (many properties purchased for investment purposes and recently completed came on the market), residential rents in the capital fell by 10% on average during the first half of 2010. Demand for rental apartments is limited primarily to smaller apartments in lower price range. The average asking rental prices in Sofia vary between € 2,5 and € 5,5 per sq m per month, depending on their location. Demand for luxury rentals is most affected – as a consequence of the economic crisis the number of expatriates in Bulgaria, who are the main driver in the segment, decreased and often their budgets allocated by employers are smaller. Moreover, firms specializing in providing comprehensive services for renting furnished apartments, including property management and maintenance, came on the market, which further increased competition.



Source:

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