



Office Market | Overview | H2 2008

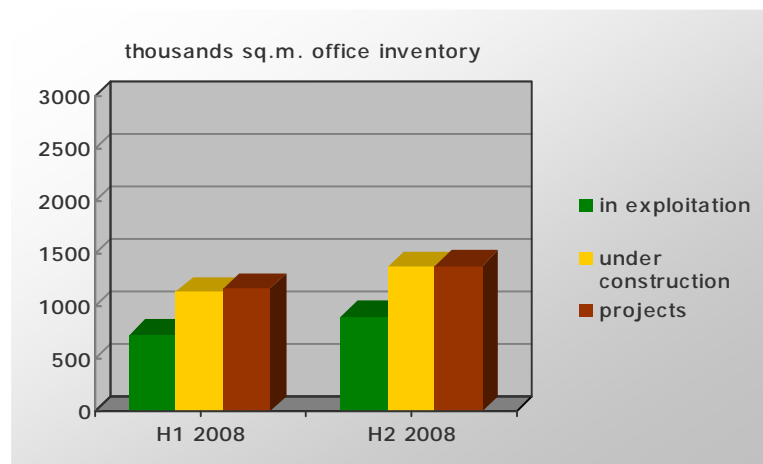
Economic overview

	Q4 2007	Q4 2008
GDP growth	6.9%	3.5%
GDP per capita	1,120 EUR	1,279 EUR
Inflation rate	12.6%	9.3%
Unemployment	6.7%	5.0%
Foreign Direct Investments	5,700 mln EUR*	5,500 mln EUR*

*Jan – Dec

Sources: Ministry of Economy and Energy; National Statistical Institute; Eurostat

The current overview shows the status of the office space market in Sofia during the second half of 2008. The international economic slowdown and its impact on business has affected the office market in the capital. Very few companies expand their businesses and open new offices. As a result the office market can be characterized by several major trends: a lot of projects have either been cancelled or put on hold, vacancy rate has increased due to the increase in office supply and decrease in office demand, rental rates have declined, companies tend to move to smaller and cheaper offices. Offices in exploitation, under construction, and projects, as well as present and future trends and threats to this market have been considered in this overview.



Source: Regent's Research

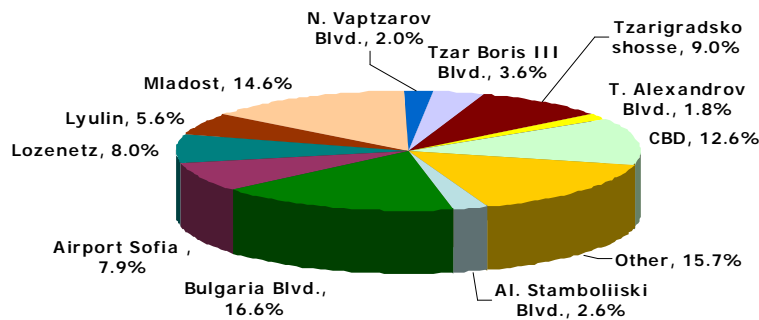


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In exploitation

During the second half of 2008 the total built-up area of offices in exploitation in Sofia continued to grow and have now increased by 170,600 sq.m. or 23% compared to the first half the same year. As a result, the total built-up area in the capital reached 904,000 sq.m. The pie chart below shows the current distribution of offices in exploitation in Sofia in the major locations. It can be seen that the locations with the greatest number of office buildings in exploitation are Bulgaria Blvd., Mladost (including Business Park Sofia), Tzarigradsko shosse and CBD which have become one of the most expensive areas in terms of rental rates. A decrease in office space rental rates in the suburbs has also been observed due to the oversupply and the insufficient demand.

Offices in exploitation - Major Locations in Sofia



Major Locations in Sofia	Rental Rates H2 08 from - to
Alexander Stamboliiski Blvd.	10 - 15 EUR per sq.m.
Bulgaria Blvd.	10 – 17 EUR per sq.m.
Airport Sofia Region	10 - 15 EUR per sq.m.
Lozenetz	10 – 20 EUR per sq.m.
Lyulin	8 – 12 EUR per sq.m.
Mladost	8 - 16 EUR per sq.m.
Nikola Vaptzarov Blvd.	14 - 16 EUR per sq.m.
Todor Alexandrov Blvd.	15 – 20 EUR per sq.m.
Tzarigradsko shosse	12 - 15 EUR per sq.m.
CBD	15 – 30 EUR per sq.m.



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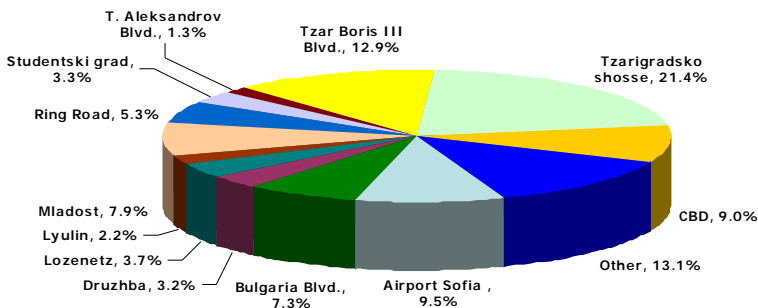
Under Construction

The economic slowdown and restricted bank financing have deeply influenced the office market in Sofia. Therefore, a lot of projects have been put on hold or even cancelled. At present a total of 1,379,900 sq.m. office space is in the pipeline, which makes 21% increase in the offices under construction. Out of these, less than a half, 509,900 sq.m. are expected to be put in exploitation in 2009 and 2010. The biggest projects currently in the pipeline are *Sofia Airport Center* in Sofia Airport region with 100,000 sq.m., *Hermes Park* with 70,000 sq.m. and *Megapark* with 50,000 sq.m. on Tzarigradsko shosse Blvd., *Serdika Center* on Sitnyakovo Blvd. with 35,000 sq.m., *Business Town Sofia (VassileviBros)* with 53,000 sq.m. They will significantly increase the supply of office space in the key locations Tzarigradsko shosse Blvd. and Sofia Airport area.

The supply of office space exceeds the demand and thus a decrease in the rental levels is observed, especially in the suburbs while the supply of office space in CBD remains lower where the rental levels remain almost the same and vacancy rate is relatively low.

Another key factor influencing the office market in Sofia is that the companies tend to hire cheaper offices or smaller ones due to cost cutting and personnel reduction.

Offices in the pipeline - Major Locations in Sofia





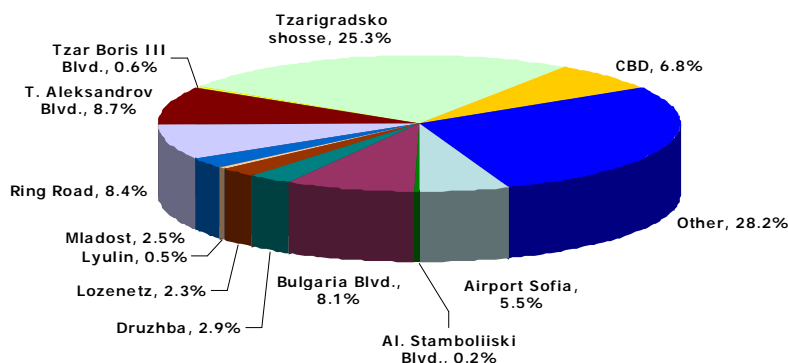
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Projects

The office buildings in project stage in Sofia are 81 with total built-up area of 1,389,500 sq.m., out of which 359,700 sq.m. (26%) have been either cancelled or put on hold. Nevertheless, the number of projects compared to H1 2008 have increased by 19%. There is a tendency towards improvement of office quality. Tzarigradsko shosse Blvd. is becoming one the most attractive location for investments in office buildings in Sofia. Other such locations are Airport Sofia region, Lozenetz, CBD, Tzar Boris III Blvd. and the Ring Road.

The supply of office space will further increase in the next 2 years with significant part of offices being a higher class. This will bring about a change in supply and demand, with supply exceeding demand, because if all the projects under construction and in project stage are completed they will add 2,769,400 sq.m. built-up area to the already available office space in the capital.

Offices in project stage - Major Locations in Sofia



Vacancy Rate

The vacancy rate in CBD is relatively low and is around 5%. It is much lower than in the suburbs due to the insufficient supply of modern office space there and the fact that it is still a desirable location, while in the suburbs it is 15 %. There are whole buildings in the suburbs which have no tenants. Approximately 110,000 sq.m. are expected to be completed in H1 2009 which will bring about further increase in the vacancy rate mainly in the suburbs.



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Offices Outlook

- The supply of office space will further exceed demand especially in the suburbs due to the significant amount of projects under construction.
- The limited demand will continue to put pressure on the rental rates. The rental levels in the suburbs will continue their downward trend. CBD will also face the same downward movement.
- The vacancy rate will continue to grow.
- There is a growing tendency of renting offices, not purchasing them.
- Short-term contracts with more flexible terms will be signed.
- More companies will relocate to smaller and cheaper offices.
- Companies with long-term lease contracts tend to sublet them.



For further information:

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