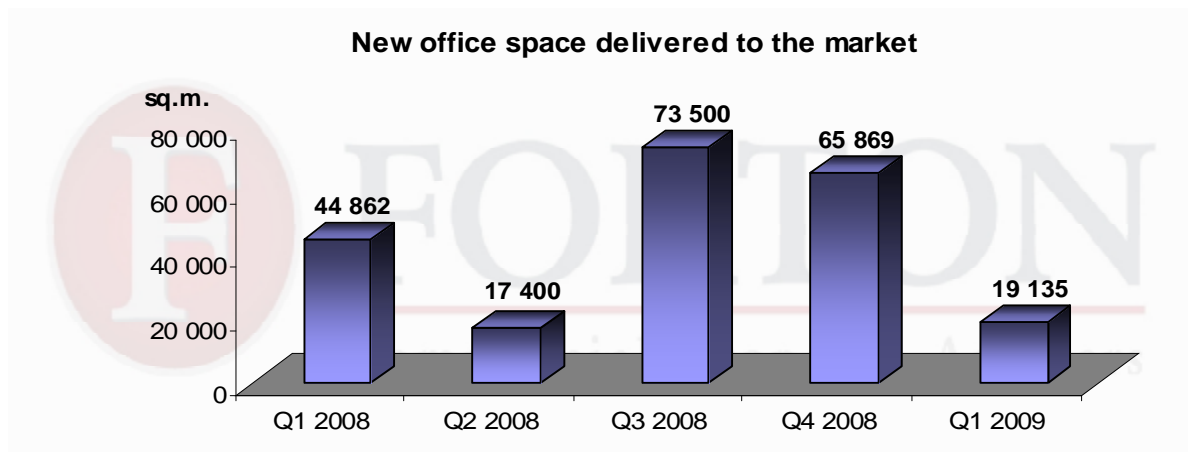


Office Market

- The first quarter of 2009 is characterized by low demand for new office space. The world economic slowdown impacted the Bulgarian office market in Q3 and Q4 2008. Decreasing business confidence and market uncertainty have postponed or halted the office expansion of most companies on the market. Despite this, at the beginning of the year the largest leasing deal on the Bulgarian office market was signed by the Bulgarian Telecommunication Company (BTC). It is a consolidation of BTC operations into a single new office building of 23 000 sq.m. Apart from this deal negotiated in 2008 there were almost no other significant leasing deals on the office markets in Sofia, Varna, Plovdiv and Bourgas.
- Q1 2009 is characterized by a new tendency – companies are optimizing office expenses by renegotiating existing leasing contracts, relocating to smaller or cheaper offices or subleasing parts of the existing office space to third parties. This lead to a reduction of rents in almost all office buildings. Rent free periods, which were rare on the market just a year ago, are now among the standard incentives to attract new tenants. Rent free periods vary from 3 months up to 12 months depending on the project, tenant, term of contract, availability of break options and size of the leased space.
- Approximately 19 135 sq.m. new office space was delivered to the market in the first quarter of 2009. This figure does not include The National Army Complex, which is an owner-occupied mixed-use government complex with a total built-up area of 15 240 sq.m. New office space delivery is more than three times lower in comparison with the previous two quarters. The reasons are that several large office buildings started at the boom of the market were finished in the previous quarters and new developments are delayed in view of uncertain demand and rising vacancy rates in all new office buildings and.



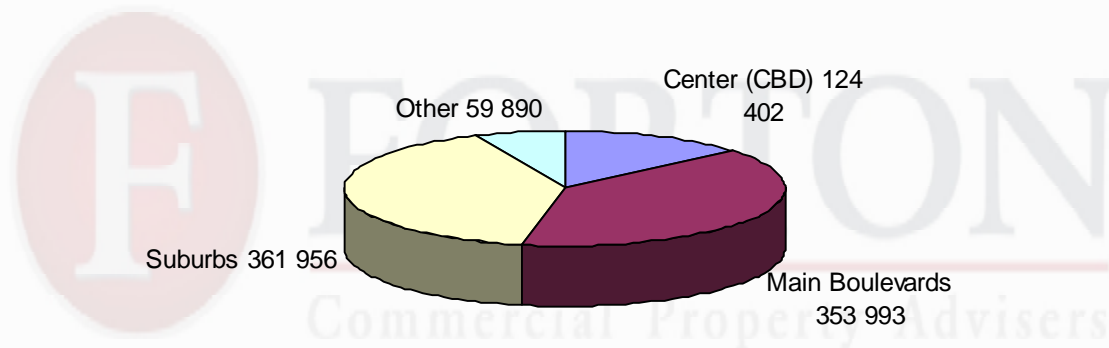
- Only several office buildings were finished in Q1 2009:

Major office developments completed in Q1 2009

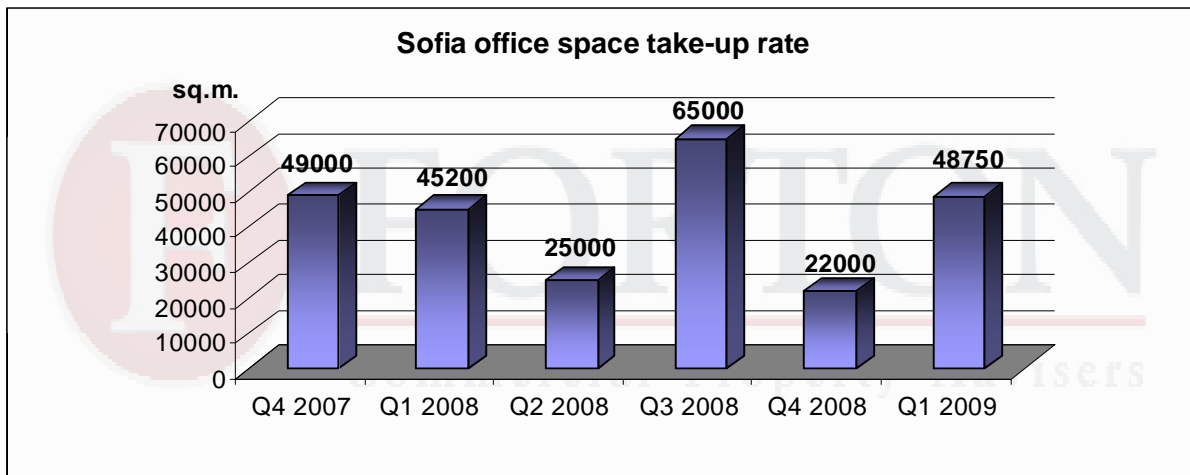
	<i>Office area - sq.m.</i>	<i>Location</i>	<i>Completion</i>
Business Center Tsar Boris III	6 496	Main Boulevard	Mar 2009
Office building on Kniaz Alexander Battenberg str. and Syborna str.	3 100	CBD	Jan 2009

- Sofia office stock reached 902 642 sq.m. in Q1 2009. This figure includes both speculative and owner-occupied buildings. Increase in supply lead to downward pressure on rental levels and higher vacancy rate for most of the new office developments delivered to market since the beginning of 2008.

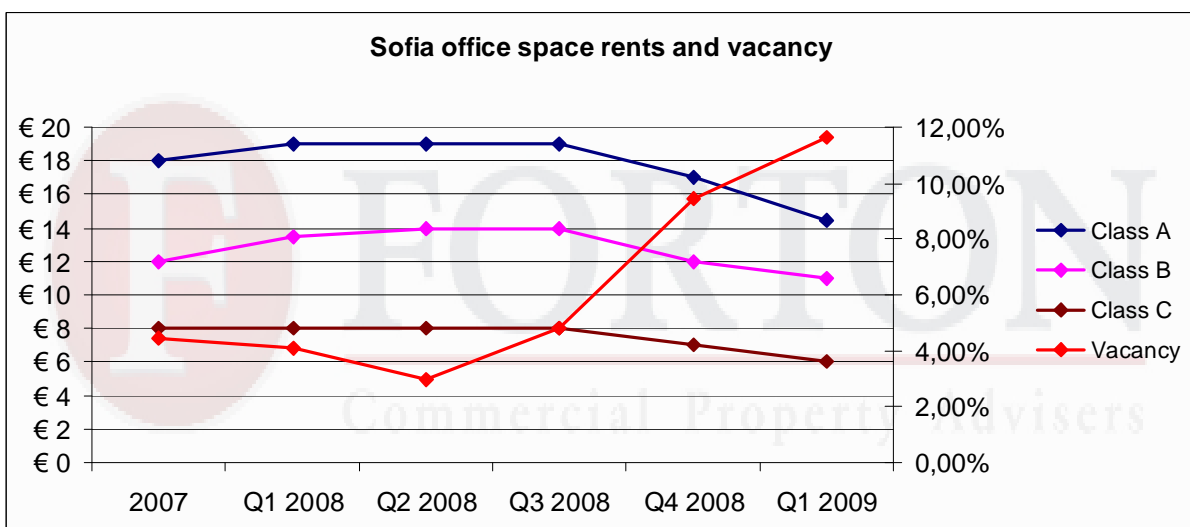
Office space in Sofia by main areas (sq.m.) Q1 2009



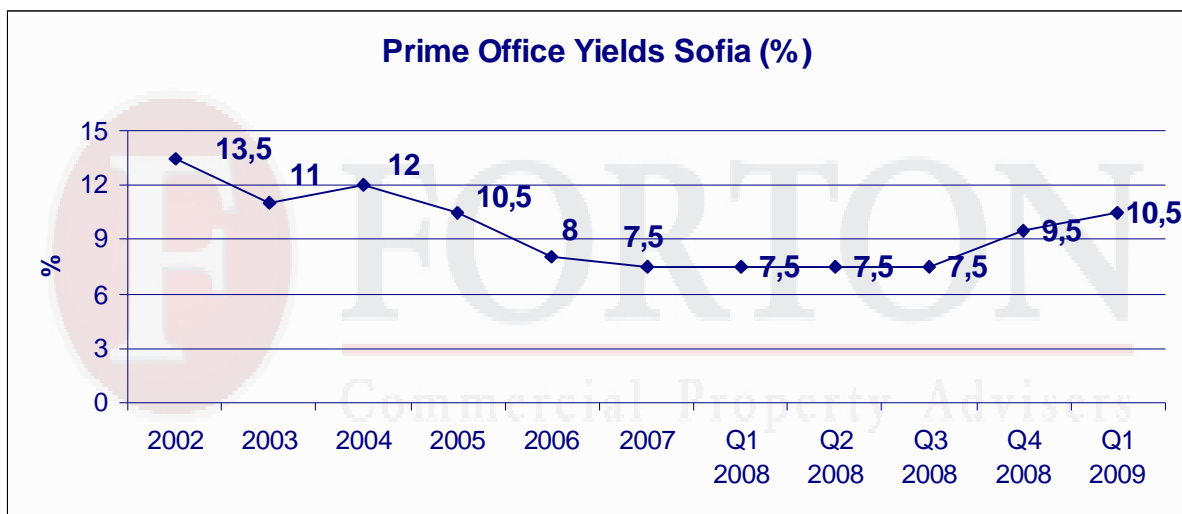
- The quarterly take-up rate of new office space in Q1 2009 is 48 750 sq.m., which includes both leased space and owner occupied space.



- Vacancy rates continue to increase. The average vacancy rate in Sofia for Q1 2009 is 11,64%. The offices in the central business district still have close to full occupancy while some new office developments outside the CBD face difficulties in attracting new tenants. We expect average vacancy rates to remain at around 12% in Q2 2009.
- Current market conditions put strong pressure on rent levels. Rents have gone down further since Q3 2008. In Q1 2009, class A office space is leased at EUR 13-16.50 per sq.m. per month. Still, there are rates reaching EUR 28 per sq.m. for prime office space in the CBD, but these rents were negotiated in 2007 and the beginning of 2008 when demand was strong and choice of quality space limited. Rent levels of class B office space are more flexible as the vacancy rates in this type of buildings have increased. Currently, class B space is leased at EUR 10-12 per sq.m. per month, service charge excluded. Central location is essential to achieving higher rent for such buildings. Class C space is rented at EUR 6 per sq.m. per month.



- At the end of Q1 2009 approximately 900 000 sq.m. office space is under construction. Most of it is scheduled to be delivered by the end of 2011 or the beginning of 2012. In view of the economic crisis it is difficult to be exact in predicting which projects will be put on hold or delivered to the market at a smaller scale.
- Office space yields have continued to increase throughout Q1 2009. Average prime office yields for Sofia have reached 10,5%. Increasing vacancy rates as well as higher market risk are among the main drivers of the increase. In view of the current market situation vacant properties are valued by investors using a potential yield in the range 16%-18% for annual capitalization of future cash flow.



- A new office building was opened in Business park Varna thus increasing the GLA of the park from 30 000 to approximately 46 000 sq.m. The office market in Varna expects several large office buildings in the center of the city to be finished in 2009-2010.

Largest office developments in Sofia under construction

Building	Location	Office Space (m ²)	TBA (m ²)	Status
Sofia Airport Center	Next to Airport Sofia	100 000	165 000	Under Construction
Alfa Complex	Ring road near BPS	72 960	152 000	Under Construction
Vassilev Business City	Kamenodelska Str.	53 346	75 000	Under Construction
Carrefour Hermes Park	Tsarigradsko Shousse Blvd.	50 000	128 000	Under Construction
Soravia Megapark	Tsarigradsko Shousse Blvd., near Sofia Press	48 000	70 000	Under Construction
Multifunctional Complex	Dragan Tsankov Blvd.	46 300	100 000	Under Construction
Serdika Center Mall	Sitniakovo Blvd.	35 000	180 000	Under Construction
Evropa Park Sofia	Totleben Blvd.	110 000	380 000	On Hold

Selected office developments completed in Q1 2009

Building Name	Location	Office Space m ²
National Army Complex (owner occupied)	CBD	33 800
Business Center Tsar Boris III	Main Boulevard	6 496
Office building on Kniaz Alexander Battenberg str.	CBD	3 100

Prime office rents in major cities in Bulgaria

City	Rent Levels (€/m ² /month)
Sofia	14-17
Plovdiv	4-7
Varna	10-12
Burgas	5-9

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