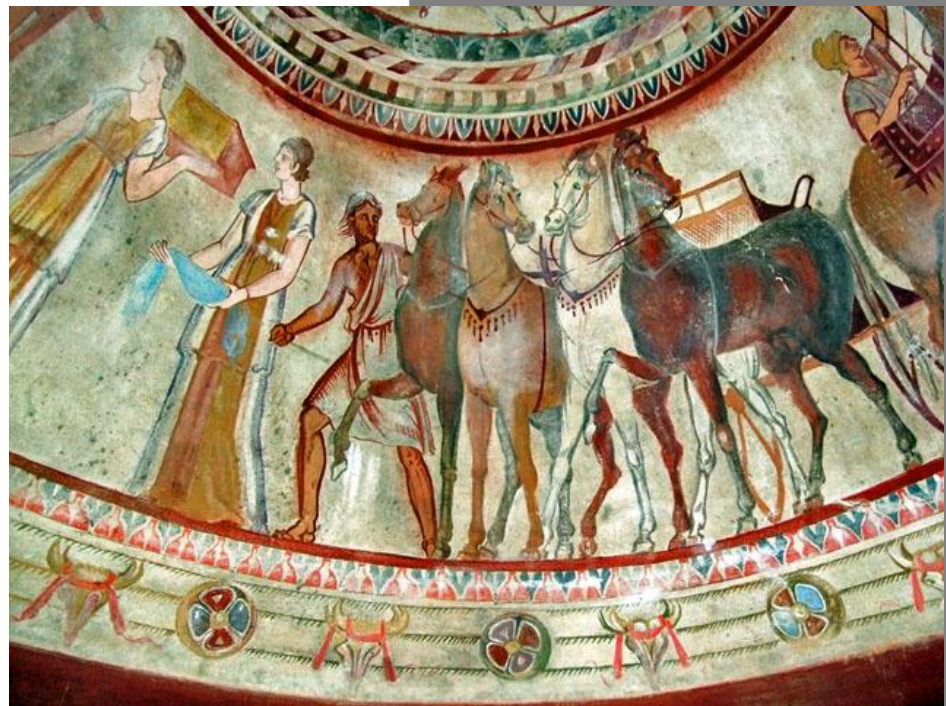


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General Conditions and Outlook for the Real Estate Market in Bulgaria



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Bulgaria's real estate market is booming and the results are expected to be phenomenal as the former planned economy is due to join the EU in 2007 (presuming of-course it meets the remaining criteria).

The Bulgarian real property market is a free, mostly unregulated market, where the mechanisms of supply and demand command the movement of prices. At the same time, it has some specific characteristics, which make it unique,

- lack of sufficient information;
- a reaction lag as compared to the other sectors of the economy;
- non-standardized product;
- lack of mobility of properties, as well as, buyers and sellers;
- limited number of transactions in one's lifetime.

Both supply and demand have grown significantly with demand outpacing supply and therefore leading to higher sales prices. The size of the population, disposable income, availability of mortgage credits and government actions have influenced, and continue to influence the demand for residential properties.

Over the past four to five years, foreign and local construction companies, caterers, industrialists, privateers, investors and speculators all moved in to tap into the near virgin market. Bulgaria does appear as a large construction site, with cranes working round the clock in the capital Sofia, the Black Sea, at mountain resorts and in industrial zones. The hectic building reflects the demand – the 250,000 real estate sales in 2005 were worth more than four billion Euro, with around six billion Euro expected this year.

While property prices have increased substantially on the Black Sea coast and in Sofia, they still remain artificially deflated across the whole of Bulgaria mainly because of the fact that **foreigners cannot legally directly own the land on which their property sits; they have to purchase via a company** and the necessary changes to the Bulgarian Constitution that will remove this requirement may take until 2014 to come through.

The approach to EU membership drove Bulgaria's real estate prices up by up to 80 per cent in 2003 and 2004, but the growth rate last year slowed to 10 per cent on the average. The market growth is closely coupled with the solid, five per cent a year economic growth that Bulgaria has been achieving.

Yet **the market remains attractive and investing in real estate in Bulgaria is certain to make a massive return, better than in Portugal, Spain, Italy, France, Greece or even maybe Cyprus because homes still come cheap, at least by western European standards.** While few Bulgarians can afford to buy a flat even in Communist-style mass-housing complexes, Britons, Irish, Germans, Dutch and Scandinavians are buying vacation homes – be it a seaside villa, an apartment in a hyper-modern complex or a condo in a new building. For comparison, a single apartment in downtown London can buy three to five comfortable condos on Sofia's central park. Even Japanese pensioners have found their way to Bulgaria, settling in houses with gardens on the foothills of Balkan highlands, in the picturesque neighborhood of ancient Greek temples.

Bulgarians themselves observe all that with mixed feelings. Those with plans to buy a home of their own worry that the onslaught would keep pushing the prices up, while others hope that foreigners will spur their local economy.

The steady growth of the Bulgarian economy, however, over the past few years has allowed some portions of Bulgarian society to be able to earn and save more money. In addition, the positive prospects of the economy have encouraged Bulgarians to plan their long-term investments in homes. People are now starting to have positive expectations and perceive the economy as moving steadily in the right direction.



Bulgaria has a strengthening tourist market built on three solid layers. There are the summer sunshine-seekers, who head for the Black Sea coast, then there are the winter sports fanatics who head for the Bulgarian ski resorts and finally there are the culture buffs and business professionals who head to Sofia all year round.

The tourism market brings money directly into Bulgaria and helps the local economy strengthen. And tourists demand accommodation, entertainment and amenities. For a property investor there is the chance to target any one of these tourist markets by purchasing residential property to let out in Sofia, on the coast or in the mountains; or alternatively an investor could seek to diversify by entering the commercial property sector and buying into hotels, retail units or tourism facilities.

As the tourism market continues to grow rental prices for holiday homes will increase and the underlying value of any commercial property shall also likely increase. Furthermore, the country will become better known, more desirable for more people and as a result the numbers of those seeking second homes, holiday homes and retirement properties in Bulgaria will increase creating a broader international market for those investors who would one day like to resell their properties.

As Bulgaria aligns itself for EU accession in 2007 and fights the corruption that the EU have criticized Bulgaria for, investment begins to creep into the business sector which creates a flow of foreign direct investment which in turn buoys up the Bulgarian economy.

Politically the country is stable and economically the country is improving in leaps. More international businesses are establishing a presence in Bulgaria creating more employment opportunities locally which in turn push up the wealth of the local people. As purchasing power slowly increases among the Bulgarian people so these people become the next market a property investor can target. An investor can purchase properties to let out to professional Bulgarians and expatriate employees in Bulgaria now, and as the country's wealth increases so more local people will be able to afford to own their own homes thus creating the second resale market opportunity for an investor who will one day want to release the equity that has built up in his property.



Opinion: It is Pytheas' opinion that the Bulgarian real estate market represents a short term opportunity for investment.

Decisive steps need to be taken by the government to (a) eliminate obstacles of ownership, (b) encourage mortgage lending and (c) incorporate appropriate property planning with respect to the environment and country's heritage.

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