

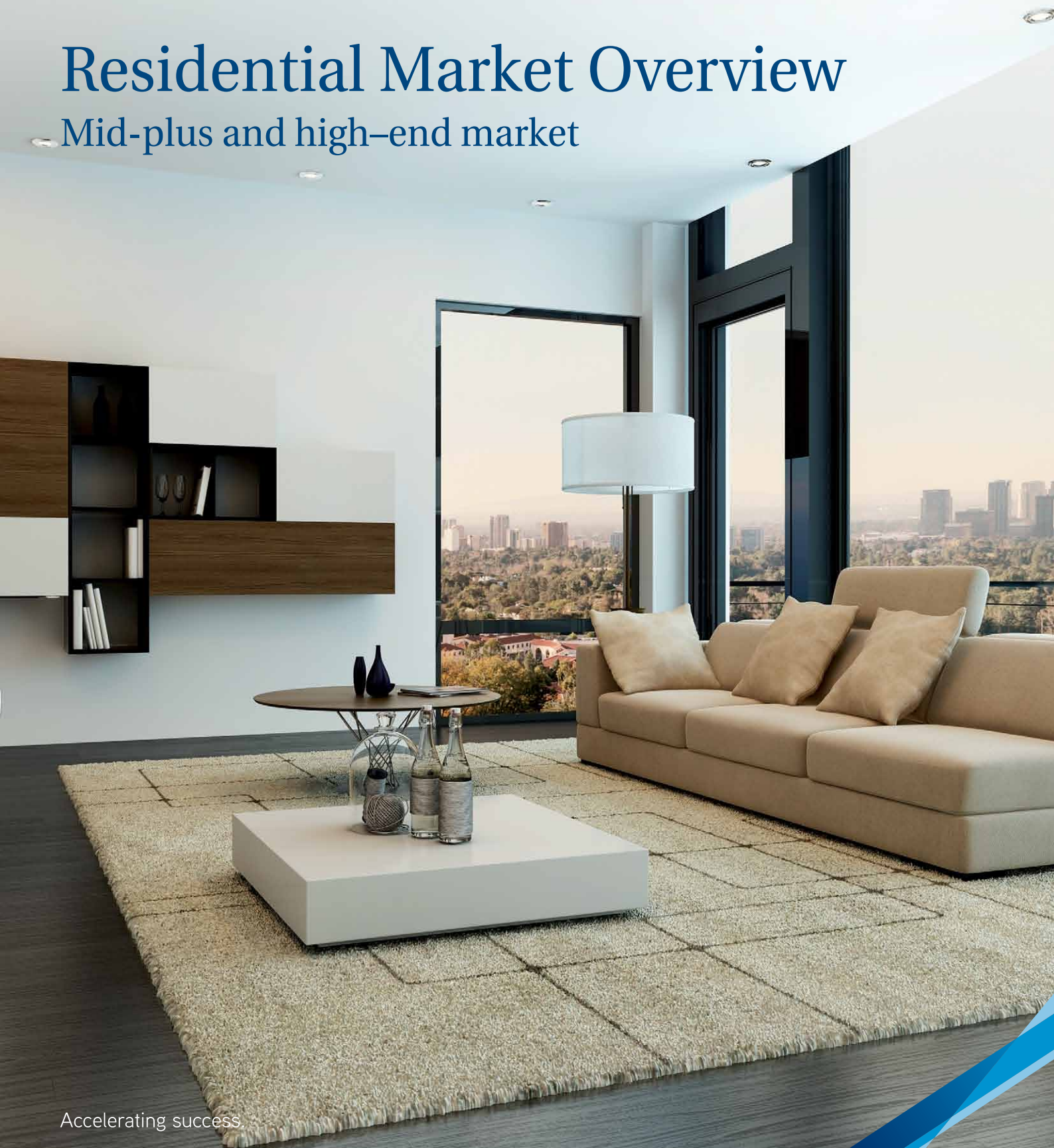
**Research &
Forecast Report**

Bulgaria | Residential Real Estate Market
2014



Residential Market Overview

Mid-plus and high-end market



- In 2014 the mid-plus and high-end residential market in Sofia registered some positive indications:

- Demand remained stable throughout the year, the enquires for house purchase doubled over the same period;

- Acquisitions of residential properties under construction resumed, due to limited supply of high-end residences on the market;

- Investment driven transactions witnessed a 14% growth in the segment;

- Investor interest towards residential compounds development increased.

Supply

In 2014 a few projects were completed in the segment of mid-plus and high-end residential compounds in Sofia accounting for a 4% growth in supply. At the end of the year, the total number of residential units in the segment amounted to 6,550 (apartments/ row or single houses), concentrated in 47 projects in Sofia (located mainly in the Southern neighborhoods and at the foot of Vitosha Mountain).

Vacant residential properties decreased by 2% and at the end of 2014 represented 13% of all units in the segment.

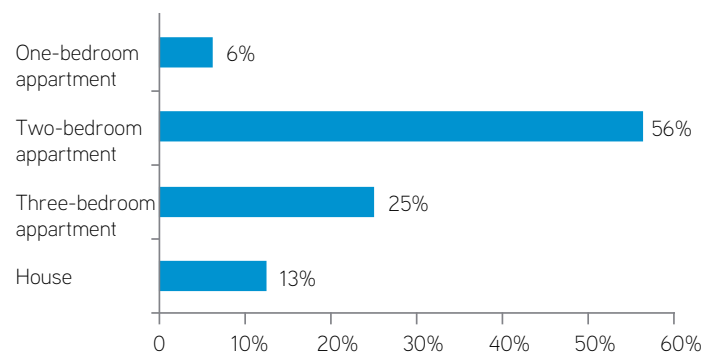
Looking forward, the market is expected to see renewed investor interest and preparation to start new developments in 2015.

Demand

In 2014, demand surpassed supply – a trend, which has been observed over the past 2 years. The shortage of high quality product revived the interest in residential properties under construction. Buyers were looking for secure investments and preferred properties within residential compounds delivered by developers with funding in place and a proven track record. The main criteria which determined demand remained unchanged. Buyers continued to be well informed about the market supply and with clear requirements for the desired property.

A recent Colliers Sentiment Survey conducted at the end of 2014 showed no significant change in the product on demand. Most attractive to customers were residential units with 2 or 3 bedrooms, providing a quality social and living environment and comfort for the whole family. (Graph 1)

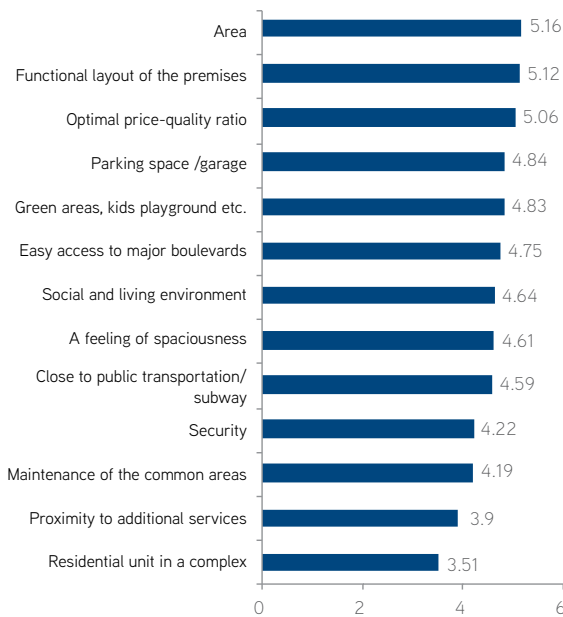
Graph 1. What type of housing do you intend to buy?



Another conclusion from the study is related to drivers of the purchase. One-third of the respondents plan to buy a new home. Top priorities when choosing a property are the city area, functional layout of the premises and optimal price/quality ratio, followed by the parking space/ garage, availability of green areas, kids playgrounds and recreational areas, easy access to major boulevards, quality social and living environment and feeling of spaciousness. (Graph 2)



Graph 2. Which are the most important factors when choosing a new home?



The neighborhoods of Iztok, Lozenets and the areas at the foot of Vitosha Mountain are preferred by the participants in the survey. The data shows that the respondents intending to buy a residential property are people aged 26-55; most active are among 36-45 years old; the majority working as consultants in the IT and trade sectors with families of 2 or 3 people.

In a landscape of continuous decrease in the deposit interest rates, purchasing properties in residential

compounds with investment purposes has gradually increased. Those represented 33% from the total number of transactions of residential units sold by the company, a year-on-year growth of 14%. The number of buyers investing in residential property surged, and product on demand remained high-quality assets ensuring return on investment and long-term value.

Loan volumes rose in parallel with the number of buyers using mortgage lending in the segment. In 2014, 33% of the transactions had bank financing, compared with just 8% in 2013.

Two-bedroom apartments transactions in 2014 accounted for 46% of all. Three-bedroom units, on the other hand, witnessed lower demand and accounted for only 13% of all sales in the segment.

According to Colliers' analysis, enquiries for purchase of a house doubled in 2014 and the number of completed transactions involving houses increased. These facts, together with the expected new supply, could form a growing trend in 2015.

During the reported period, the active buyer in the segment was a 30-55 year-old individual, married or living with a partner, working as a manager or running his own business (the latter, forming 54% of the deals in 2014).

Price

The asking price of the mid-plus and high-end residential units remained stable over the past year, in the range of 800-1,450 euro/ m² including VAT, depending on the location, specific characteristics of the compound and additional services provided. The lack of premium product has resulted in a number of attempts for a speculative price rise in the secondary market.

The average price of mid-plus and high-end residential properties in 2014 was 150,000 euro for a two-bedroom apartment, in the range of 180,000 – 200,000 euro for three bedrooms, and over 250,000 euro - for a house (transaction price with parking space/ garage included) depending on the type, size, facilities and location of the complex.

The gap between the average asking and selling price has gradually diminished, as the market conditions favored either buyers or sellers. The average discount rate of a residential property in 2014 dropped to 9%.

Forecast

- The mid-plus and high-end residential market will remain stable in 2015. Two notable trends are expected to strengthen over the coming months – the purchase of premium properties in residential compounds with investment purposes and the increase in number of transactions with houses.
- Renewed investor activity is expected in terms of new developments and restart of frozen residential projects.
- The limited supply of prime product and the strict requirements of the buyers are the basic prerequisites for the renewal of pre-sales in the segment.

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\$2.1

billion in
annual revenue

135

million square meters
under management

15,800

professionals
and staff

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