

on *point*



JONES LANG  
LASALLE®

## Sofia City Report World Winning Cities October 2007

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Sofia boasts a number of competitive advantages over other Balkan locations

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Real estate market drivers are strong across all sectors

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Sofia is emerging as a popular nearshoring location





## City *Dashboard*

|                    |  |        |
|--------------------|--|--------|
| Size               | Population (millions)  | 1.25   |
|                    | GDP (EUR billions 2007) <sup>1</sup>                               | 19.4   |
|                    | Unemployment (% in 2007) <sup>1</sup>                              | 3      |
| Growth             | GDP (% pa 2006-2010) <sup>1</sup>                                  | 6      |
|                    | Employment (% pa 2006-2010) <sup>1</sup>                           | 4.1    |
|                    | Finance and Business Services                                      | 12.3   |
|                    | Construction   | 12.0   |
| Access             | Air Passengers (millions, 2006)<br>(Sofia Airport)                 | 2.2    |
| Wealth             | GDP/Capita (EUR, 2007)   |        |
|                    | Sofia <sup>1</sup>   | 16,200 |
| Education & Labour | Students Enrolled on Business Studies ('000s, 2007) <sup>4</sup>   | 51.0   |
|                    | Students Enrolled on Technical Programs ('000s, 2007) <sup>4</sup> | 32.5   |
|                    | Average Wage Rates (in EUR, 2007) <sup>3</sup>                     | 210    |
| Market Size        | Grade A Office Stock ('000s H1 2007)                               | 550    |
|                    | Retail Stock ('000s H1 2007)                                       | 100    |

1. Sofia NUTS3 region, source: BSL Experian

2. Bulgaria, source: BSL Experian

3. Bulgaria, source: EIU

4. Sofia, source: National Statistics Institute

## City *Summary*

### Political and commercial hub of Bulgaria

Sofia is the political, economic, scientific and cultural hub of the Republic of Bulgaria. With 7.7 million inhabitants, Bulgaria is one of the largest countries in the Balkans. Bulgaria, together with Romania, joined the European Union (EU) in January 2007.

Sofia (София), with a population of 1.25 million and some 1.4 million living in the metropolitan area, is the largest city in the country. Key secondary cities with 150 - 300,000 inhabitants include Plovdiv, Varna, Burgas, Ruse, and Stara Zagora. Sofia is located in western Bulgaria in a valley at the foot of the Vitosha Mountains.

### In the heart of the Balkans

Located at the crossroads of trans-European corridors linking Istanbul, Belgrade (and Budapest), Bucharest, Skopje and Thessaloniki, Sofia links multiple regional cities. The city is strategically positioned to serve as the Balkans' headquarters and as a major business hub for the emerging markets of the region. Sofia itself is a large market with rapidly increasing purchasing power.

## Economic *Background*

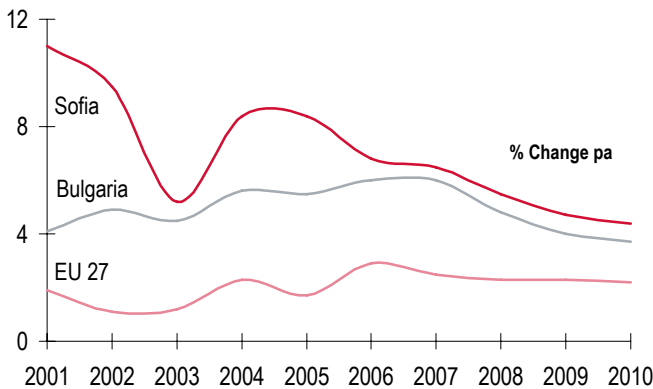
In 2006 Bulgaria's real GDP expanded by 6.1%, the strongest annual growth rate recorded since the beginning of economic transition in the early 1990s. According to Consensus Forecasts, annual GDP growth will reach 5.8% in 2007 and 2008 due to slower wage increases in the public sector, more moderate growth in bank lending and a fading of the current construction boom. Despite an overall positive performance, Bulgaria continues to be one of the poorest countries in Central and Eastern Europe (CEE), and the poorest in the EU.

### A rapidly growing city economy

Sofia's economy expanded rapidly at an impressive 8.5% per annum between 2001 and 2005, making it one of the fastest growing city economies in Europe. The average pace of growth between 2006 and the end of the decade is expected to stay high at 5.6%, considerably higher than the growth rate of the national economy and well above the EU27 average. Sofia's growth has been supported by rising investment, export growth and an expansion in consumption. Sofia, with 16% of Bulgaria's population, generates 31% of national GDP.

### GDP Change

Sofia outperforms the national economy



Source: BSL Experian, EIU, 2007

Bulgaria is aiming to adopt the euro in 2010. However, in spite of the improving economic environment, the European Central Bank is reluctant to let Bulgaria join the ERM-2 exchange rate mechanism. Two years' ERM membership is a euro entry requirement, along with low inflation, low interest rates, debt below 60% of GDP and a budget deficit below 3% of GDP. Bulgaria has relatively high inflation (4.2%), and its current account deficit (17% of GDP) is the second highest in the EU. Nevertheless, Bulgaria could still join ERM-2 if it promises to implement reforms and the EU agrees on how to monitor progress.

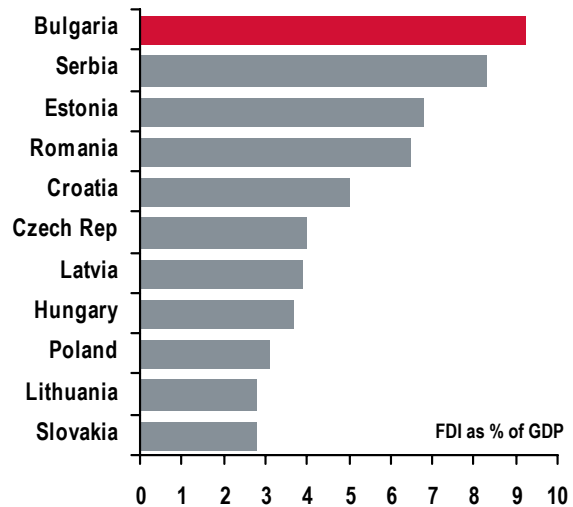
### Economic transformation

Bulgaria experienced a decade-long delay in its transition to a market economy, but is now quickly making up the gap with other economies in the region by proceeding with reforms. According to the World Bank, which is currently implementing the 2007-2009 Country Partnership Strategy with Bulgaria, key areas of focus include raising productivity and employment in order to sustain high private sector-led growth, improving governance and strengthening institutions, strengthening fiscal sustainability, better absorption of EU funds, as well as poverty reduction and social inclusion. The World Bank currently supports Bulgaria with a lending programme of up to US\$300 million per year.

Bulgaria is strongly investing in its secondary sector: in 2006, only 15% of total merchandise imports constituted consumer goods, while almost two thirds were made up of investment goods (26.4%) and raw materials and intermediate goods (36.9%), which have been essential for driving ahead the country's industrial and manufacturing sectors. EU accession has already proven to boost domestic demand, with car sales in Q1 2007 growing by 29% y-o-y. Growth is led by the private sector, which now accounts for 79% of the economy, growing on the back of liberal reforms and gains in competitiveness. In contrast to the period preceding the recession, gains in competitiveness derive from corporate and industrial restructuring and not from subsidies. According to the IMD World Competitiveness Index, Bulgaria scores higher than Poland in terms of the availability of skilled labour.

### FDI as % of GDP

FDI is one of the key contributors to Bulgaria's GDP



Source: EIU, 2007

### EU accession is stimulating FDI growth

Foreign direct investment (FDI) in Bulgaria has seen a dramatic increase since 2000. Underlining overall confidence in the economy, in 2006 FDI into Bulgaria reached a new record of over EUR4.1 billion. Bulgaria is currently attracting 10% of all investment into CEE and around a quarter of investments into the Balkan region, prompting predictions of further investment from multinational players in the retail market. Most of the FDI into Bulgaria comes from companies based in the EU-15 countries (in particular Austria, the Netherlands, Greece, the UK and Germany), which view Bulgaria as an export base for growing markets in the Black Sea Region and the Middle East.

## Business Environment

EU accession, increasing FDI flows and growing domestic demand have contributed to Bulgaria's continuous economic growth in recent years. In spite of some political challenges, including the need to enforce the agenda on corruption agreed with the EU, the Bulgarian economy is performing smoothly. The adoption of the 'acquis communautaire'<sup>1</sup> and changes made to the country's legislative framework in order to meet EU accession criteria ensure that democratic standards, the rule of law, and freedom of speech are enshrined in national law. The stable social environment, limited external threats, and strong parliamentary majority of the governing coalition contribute to the consistently improving performance. However, the current wave of corruption allegations and the conflict surrounding the (already approved) gold and silver extraction project once more put Bulgaria in the negative spotlight.

<sup>1</sup> The term *acquis communautaire* or *EU acquis*, is used in European Union law to refer to the total body of EU law accumulated thus far.

## Business Environment

*Bulgaria's performance is comparable to that of other CEE countries*

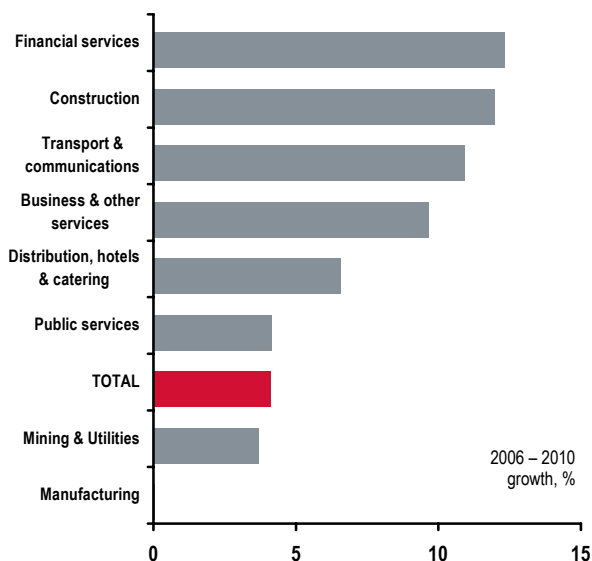
| Country        | Corruption Perception Index            | Business Operation Risk         |
|----------------|--|---------------------------------|
|                | 10 - Least Corrupt<br>1 - Most Corrupt | 1 - Low Risk<br>100 - High Risk |
| Bulgaria       | 4                                      | 35                              |
| Czech Republic | 4.8                                    | 28                              |
| Hungary        | 5.2                                    | 30                              |
| Poland         | 3.7                                    | 31                              |
| Romania        | 3.1                                    | 39                              |
| Slovakia       | 4.7                                    | 31                              |

Sources: Transparency International, EIU, 2007

According to John Beyrle, US ambassador to the country, Bulgaria still has much untapped investment potential. Some of the attractive sectors include manufacturing, tourism, information technologies, energy and real estate. The National Statistical Institute surveys indicate that the business climate in the construction and service sectors in 2007 is at its best since the surveys started in 2002, and that the business climate in retail has improved enormously since EU accession, although the growing competition in that sector poses another challenge.

## Employment Growth

*Financial services and construction are leading the growth*



Source: BSL Experian, 2007

## Bulgaria is among Central European IT leaders

Until 1990 Bulgaria was the only country in CEE to specialise in high technologies and was dubbed “the Silicon Valley of Eastern Europe”. However, its role considerably diminished after the fall of the Eastern Block. Nevertheless, Bulgaria still has many talented and well-educated engineers, despite the brain drain which started in 1990 and accelerated after EU accession. There are about 1,000 IT companies in Bulgaria, most of which are SMEs. The entry of foreign firms is pushing

up demand for programmers. According to the Bulgarian Prime Minister, Sergey Stanishev, the IT sector accounts for 10% of Bulgaria's GDP.

Bulgaria's investments in electronics, engineering and computer sciences have paid off. According to the World Bank, the country ranks 5th globally in science education and 11th in mathematics education. Bulgaria also ranks 15th in AT Kearney's Global Services Location Index, making it the second most attractive offshoring location in the CEE region (outperformed only by the Czech Republic).

The ‘digital divide’ is quickly diminishing. So far, only 9.6% of households have access to the internet at home, compared with an EU average of 42%. However, BMI expects the total size of the IT market to increase from US\$380 million in 2005 to around US\$710 million in 2010, with IT services accounting for around 25%. The current low computer penetration rate, combined with the growing affordability of computers and government initiatives, should see a continuing strong performance of the IT hardware market through the remainder of the decade. Between 2004 and 2006 the number of computers in enterprises grew by 5.2% while the number of Bulgarians who have access to a PC doubled, according to the National Statistical Institute and the government's e-Bulgaria 2006 report.

## Telecoms take off with EU accession

The mobile telephony sector has been slower to take off in Bulgaria than in other countries in the region. A major factor holding back Bulgaria's IT development is the delay in implementing liberalisation measures in the telecoms sector despite plans for a number of projects such as the digitalisation of the telecoms networks, cable expansion and better Internet access. Bulgarian Telecommunications Company's (BTC) monopoly in the provision of basic fixed-line services came to an end in January 2005, although some alternative telecoms operators offering links via cable or satellite had already started operations in 2004. BTC is now controlled by AIG Global Investment Group which bought a 65% stake in BTC for EUR1.08 billion in May 2007.

Despite some new obstacles created by the latest legislation adopted in May 2007, which favours BTC by limiting the access of alternative providers to the telecoms network, the market is poised for growth. Wireless operator Globul expects EU membership to lead to the entry of new players, especially in the value added services market. This will lead to increased competition and higher quality services for end-users. BMI believes growth in broadband subscription will be a key driver in Bulgaria's telecoms sector over the next five years. It expects the number of subscribers, currently 250,000, to reach over one million by 2010, with the penetration rate increasing from 3% to 16%.

## Bulgaria sparks an outsourcing migration to the east

One of the biggest advantages of Bulgaria is that it continues to offer high quality technical skills at the lowest operational cost in the EU. The EIU expects moderate wage growth, which is currently at 4.2% per annum, to remain in line with inflation until

the end of the decade. According to UBS's 'Prices and Earnings' survey, hourly wages in Sofia are 25% lower than in Bucharest and less than half of those in Prague; this is in spite of the fact that, according to the city authorities, wages in Sofia are more than 90% higher than the national average. In demand-driven sectors, such as IT, salaries can be up to ten times higher than the average, reaching EUR1,500 - 2,000 at the beginning of 2007. The demand for computer experts is huge as the sector seeks to employ an additional 5,000 people.

Despite growing salaries in the demand-driven sectors, skills continue to outpace earnings considerably. Over the last 5 years, Bulgaria continuously scored among the top 10 in terms of professional certification in the Brainbench Global Skills surveys. Professional attitude, language skills and customer service aptitude match or exceed that of the average peer in Western Europe, where customer service jobs are low paid and unattractive. As costs in Poland, the Czech Republic and Hungary rise, the outsourcing market, especially for software development and call centres, is migrating from CEE and Bulgaria is in the spotlight. Apart from Sofia, Varna and Plovdiv, towns with large graduate pools and well-established reputations for technically skilled graduates, Bulgaria remains one of the last undiscovered nearshoring locations within the EU. However, the market is relatively thin in absolute terms and first-comers will profit the most from its advantages.

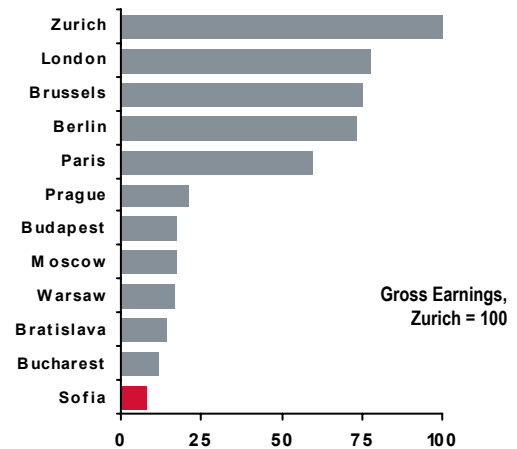
The BPO market in Bulgaria emerged only in 2003, but already Sofia has become an offshoring hub drawing major international firms such as IBM, SAP, Boeing, BMW, General Motors, Siemens, IMRO, Plus Server, and MoneyGram. Most recently:

- In November 2006 Outsource Partners International, dedicated to finance and accounting outsourcing, announced the opening of a European service centre in Sofia. The Sofia operation has a capacity of 125 people delivering services in a number of languages including English, French, German, Italian, Spanish, Portuguese, Dutch, Polish, and Bulgarian.
- In 2006 Microsoft opened its Technical Support Centre in Sofia, employing over 100 specialists.
- In 2006 Hewlett Packard chose Sofia as its European Customer Service Centre. Within two years the project will create over 1000 new jobs for computer and communication specialists.

Just as in other CEE emerging locations, BPO newcomers generate a large proportion of office demand; employment in business and financial services is expected to grow the fastest, increasing by over 12% by the end of the decade.

### Gross Hourly Earnings Comparison

*Sofia remains the most competitive EU capital*



Source: UBS, Prices and Earnings Survey

## City Politics & Policies

### The Mayor's personal profile

Boiko Borisov is Sofia's Mayor and the leader of the newly established Citizens for European Development of Bulgaria (GERB) party that won the first EU parliamentary elections in Bulgaria in May 2007. The success of GERB, established in December 2006, is attributed to the personal profile of Sofia's mayor. Boiko Borisov, who in 2005 shed his previous position as interior minister to take on the role, is considered by many to be the most powerful politician in Bulgaria. The recent victory gives him and his party the necessary boost for the local elections in autumn 2007, and paves the road for the position of prime minister. He has used his position as mayor as a springboard to further his career, highlighting the transparency of finances and fight against corruption and organised crime as key points of his agenda, but has done relatively little to tackle Sofia's structural problems.

## Infrastructure *Projects*

### Inadequate city infrastructure

Sofia is now feeling the consequences of a long-term underinvestment in its public infrastructure. Public transport needs to be made more efficient and network coverage needs to be improved. The obsolete central heating system and the household waste disposal system also require urgent modernisation. Furthermore, due to the liberal approach favouring car usage, the city has become congested. Although Sofia has a larger road network than Vienna (3,400 km compared with Vienna's 2,800 km), a large proportion of roads remains dilapidated. Booming residential construction on the outskirts of the ever-growing city has not been matched by the development of public transportation, while car ownership increased when import taxes were lifted after EU accession. According to the transport expert at the Sofia-based Centre for Economic Development, Georgy Popchev, there are already 520 cars for every 1,000 residents in Sofia, a ratio the municipal authorities had expected to reach by around 2020.

### EU funds will support the most urgent projects

Sofia municipal authorities plan to pour some EUR800 million, mainly from European funds, into improving infrastructure. EU funds will be the single largest source of resources in support of Bulgaria's development for the coming years as over EUR6 billion will be available from 2007 to 2013. Among the major infrastructure projects developed with EU funds is the EUR135 million construction of a new terminal for Sofia airport; this was co-funded by the European Investment Bank and completed in December 2006. Another such project is the EUR60 million water treatment station in Sofia, to be opened by 2010. The privatisation of Sofia's water supply and sewerage system, which is to take place by the end of 2007, will be supported by the European Bank for Reconstruction and Development.

The modernisation of the Vidin-Sofia railway line, together with the construction of a new bridge over the Danube river in Vidin on the Bulgarian-Romanian border, will further improve Sofia's connectivity, linking the city with the trans-European transport network on the planned route from Dresden (in Germany) to Istanbul.

Despite many planned or ongoing projects, Sofia's infrastructure remains considerably underdeveloped and Sofia's urban development is well behind that of CEE core capitals.

## Real Estate *Dashboard*

### Market Size/Stock

|   |     |
|---|-----|
| Offices Grade A ('000 sq m, H1 2007) <sup>1</sup> | 550 |
| Retail ('000 sq m, H1 2007) <sup>1</sup>          | 100 |
| Number of Five Star Hotels (2007)                 | 6   |

### Market Activity

|  |           |
|--|-----------|
| Estimated Take-up ('000 sq m, 2006 -2010) <sup>1</sup> | 100 - 130 |
| Office Vacancy Grade A (% , H1 2007) <sup>1</sup>      | 5         |

### Benchmark Values

|   |               |
|---|---------------|
| Offices Grade A – Rents (EUR per sq m pm) | 22            |
| Retail – Rents (EUR per sq m pm)          | 30 - 55       |
| Industrial – Rents (EUR per sq m pm)      | 3 – 5.5       |
| Hotels – Room Rates (Five Star, EUR)      | 150 - 190     |
| Residential Prices (EUR per sq m)         | 1,000 – 2,800 |
| Grade A Offices – Benchmark Yields (%)    | 7 - 9         |

<sup>1</sup> Provisional estimates  
Source: Jones Lang LaSalle

## Real *Estate*

Sofia's real estate market activity is expected to grow considerably in forthcoming years with many international companies now planning to enter the Bulgarian market. The increasing interest of regional retailers is translating into a growing retail pipeline. Office premises are being developed in response to the demand generated by newcomers. The logistics market is also taking off, logistics demand drivers having increased after EU accession.

### Sofia's retail offer is expanding



Sofia's retail landscape is changing rapidly as international retailers are increasingly drawn to the growing, new EU market. The lag in shopping centre development in Sofia can be explained by the

attractiveness of the city's main shopping street, Boulevard Vitosha, which is recording higher retail rents than the high streets of either Budapest, Bucharest or Warsaw. Prime rents on Sofia's high street are reaching EUR180 per month per sq m. Nevertheless, on the back of increasing demand there has been strong growth in shopping centre and retail warehouse sector performance.

The Central Department Store (TZUM) is the oldest department store in the Balkans. It underwent an extensive EUR9 million refurbishment between 1999 and 2000, becoming the first modern large-scale retail development in the city.

Since then Sofia has gained another six shopping centres, three of which were opened in the second half of 2006: the 35,000 sq m Mall of Sofia, the 22,000 sq m Sofia City Center, and the 10,400 sq m Sky City.



New developments are hugely successful, both among the inhabitants of Sofia and retailers. Allegedly Sofia City Center is visited by more than 20,000 shoppers daily and all of Sofia's retail projects

remain fully occupied. Rents remain between EUR30 - 35 but, due to unsatisfied demand, an upward pressure on rents can be expected. Developers have been quick to respond and three other malls are currently under construction in Sofia. In 2007, an additional 100,000 sq m are expected to be added to the existing shopping centre stock in Bulgaria, but the demand for quality space continues to exceed supply.

### A maturing retail market

Retail warehousing and hypermarkets sectors are experiencing a boom. Early entrants to the Sofia market included Metro and Billa, present since 1999, followed by Ramstore and Fantastico amongst many others. They are soon to be followed by Kaufland and Lidl. German discounter Tengelmann has announced that it will open its Plus chain stores in Bulgaria in the first quarter of 2008. The retail market is maturing and first wave retailers, such as Migros Türk, which operates three Ramstore shops in Sofia, is already implementing an exit strategy as the market is no longer suited to its business model. Having sold the outlet it owned in Sofia in 2007, Migros is now considering closing its two other shops which are leased; Kaufland has already expressed an interest in taking them over. DIY retailers include Technomarket, Technopolis, Mr. Bricolage, Praktis and Practiker. Practiker, with two shops in Sofia and ambitious expansion plans, is one of many retailers growing in the Bulgarian market.

International brands are appearing on the Bulgarian market. The Z Outlet, a discount outlet brand belonging to Spanish retailer Zara, has been operating in Sofia and Varna since March 2007. Trend Studio, the company which develops Zara shops in Bulgaria, has already announced the rollout of two other outlets in Sofia.

### Office demand stimulates the market



Total modern office space in Sofia has reached 550,000 sq m, after nearly 120,000 sq m were added in 2006.

Two main office markets are developing in Sofia: the CBD holds 130,000 sq m of modern offices, while the

extended city centre (which includes the districts of Oborishte, Yavorov, Lozenetz, Ivan Vazov, Serdika) holds a further 170,000 sq m. The balance of office space is thus in non-

central locations. Vacancy levels have decreased consistently from 27% in 2002 to around 10% in 2006 and around 5% in 2007. Some flagship projects, such as Business Park Sofia, report 100% occupancy.

Business Park Sofia (BPS) has become the preferred office location in Sofia and many large companies have hurried to pre-let office space. Spread on 220,000 sq m of land with 35 buildings, 300,000 sq m of total built-up area, and 4,000 parking lots, the complex is the first genuine business park in Sofia. BPS also offers warehouse and service facilities. Its construction started in 2001, and the final buildings will be completed by the end of 2008.

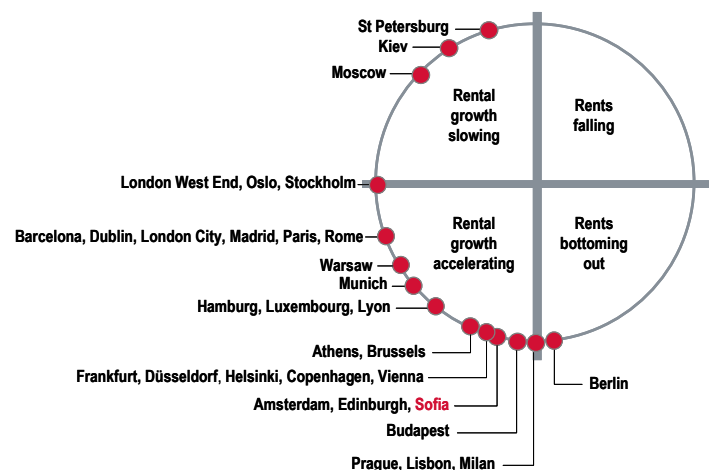
Source: [www.businesspark-sofia.com](http://www.businesspark-sofia.com)

The small volume of available office space turns Sofia's office market balance in favour of the landlords, but the growing pipeline in non-central locations should create a better demand-supply balance. Nevertheless, limited availability of office space in the city centre combined with growing demand is expected to result in some rental increases in central locations. Average asking rents remain in the region of EUR15 per sq m per month, while prime rents reach up to EUR22 per sq m per month. We believe that, by the end of the decade, demand will have prompted the construction of at least 500 – 600,000 sq m of office space (i.e. 110 – 130,000 sq m per year), reflecting the growth of employment in business services and financial services. Office sector growth is driven by Bulgaria's accession to the EU, the improving business climate, high profit and investment return rates, as well as zero capital gains tax.

Expected changes in planning regulations may result in a radical change in Sofia's cityscape and the emergence of skyscrapers; an ambitious plan to build two 300m towers has already won the support of Sofia's municipal council.

### ShortTerm Rental Cycle Q2 2007

Sofia's office rents are expected to grow driven by unsatisfied demand



Source: Jones Lang LaSalle

### A logistics hub is developing in the south of Sofia

Bulgaria and Sofia boast great potential to develop as the main logistics hub of South-Eastern Europe. Three European logistics corridors cross in Sofia, linking the city with Bucharest, Istanbul, Thessaloniki, Tirana and Belgrade, and five out of ten trans-European corridors cross Bulgaria. Modern logistics stock in the city is now in the region of 700,000 sq m; approximately half of it is located in the southern part of the city in the vicinity of Sofia airport, profiting from direct access to rail, road and air freight routes. Locations along Sofia's ring road offer additional opportunities for industrial and logistics developers. Most of the existing stock remains owner-occupied and new-build is predominantly constructed on a build-to-suit basis. Rental prices range from EUR3 - 5.5 per sq m supported by steadily growing logistics and industrial demand, mainly from third party providers and non-food retailers. Further integration with European markets, as well as the implementation of EU standards and regulations concerning industries such as the food industry, is expected to boost demand for quality warehouse space from grocery retailers.

### Trans-European Logistic Corridors

*Five out of ten trans-European corridors cross Bulgaria*



### Hotels



Bulgaria is one of the fastest growing holiday destinations in Europe, having become a popular alternative to traditional European outbound markets. In 2005 nearly 5 million foreign tourists visited Bulgaria.

However, the Chairman of the Bulgarian Hotel and Restaurant Association estimates that 6 million visitors are lost each year due to the inefficient transport network and sub-standard accommodation, as the hotel sector remains relatively underdeveloped. The hotels market is developing primarily on the Black Sea coast in several popular leisure destinations, such as Burgas and Varna, rather than in Sofia.

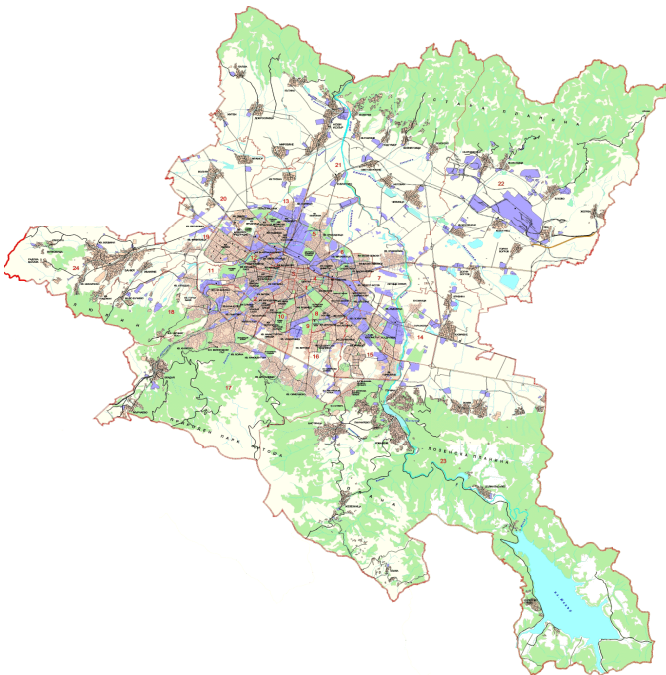
Sofia's market is developing on the back of corporates' demand; weekday occupancy in particular has been increasing strongly due to the acceleration of business activity accompanying EU accession. Five star hotels in Sofia include the Hilton, Kempinski, Sheraton, Radisson, Grand and Anel Hotel. Other types of luxury tourist accommodation, such as Maxi Park Hotel & Spa, are developing on the outskirts of the city, profiting from proximity to the mountains, skiing infrastructure and mineral water spas.

### The residential market is booming

EU membership has given an extra boost to the already rapidly growing residential market in Sofia. The city has experienced property price appreciation reaching 15-20% in 2006 as foreigners have increasingly been attracted by the quality to value proposition. Local agencies indicate that residential investors can expect a 6.5% rental yield, as the demand from both migrating Bulgarians and a growing community of expats is increasing. Currently, monthly rents for one-bedroom apartments exceed EUR200. In response to quickly growing demand, a number of prime residential projects such as Mount View and Residential Park Sofia are now under construction. Southern districts, enjoying proximity to both the city centre and the Vitosha Natural Park, remain the most popular among buyers. In 2006 over 500,000 new units were added to the stock, resulting in a slowdown in price growth.

## Sofia's Urban Form

Valley location makes southern districts popular residential locations



Source: Sofia Municipality

The new residential complex, Mount View, is expected to provide a 20% annual return according to its investor, London Sofia Property. 34 out of 128 apartments have already been sold off-plan in this project due to be completed in June 2008. The prices for studio apartments start at EUR111,000 while one bedroom apartments start at EUR125,500. Mount View is located right next to the Maxi complex in the Vitosha district, less than 10 minutes by car or tram from Sofia's city centre and close to Sofia Business Park, the Vitosha ski slopes, as well as transport links to the city centre and the international airport. The investment will exceed EUR20 million.

Source: [www.mountviews Sofia.com](http://www.mountviews Sofia.com)

## The investment market is taking off

Nearly one third of foreign capital entering Bulgaria in 2006 was directed to the real estate sector. While the market is best known for its residential properties, commercial markets have a considerable price advantage over CEE core markets, reflecting Sofia's relative immaturity and limited size. Prime office yields are still well over 7% and prime retail yields remain around 8%, compared to sub-6% levels in Prague, Budapest and Warsaw.

2006 saw some of the largest investment transactions to date. Aviv Construction, project developer of the Mall of Sofia, sold the centre for approximately EUR90 million to the American GE Real estate and Quinlan Private. City Center Sofia was purchased by Equest Balkan Properties, a British investment company focused primarily on Southern Europe, for EUR95 million in March 2006 at pre-opening stage. In June 2007 Ramstore Bulgaria, the subsidiary of Migros Türk, reached an agreement to sell its supermarket in Sofia for EUR8.5 million.

## Final *Observations*

Although the development of the real estate markets in Sofia continues to lag when compared to that of CEE peers, the city boasts considerable potential and competitive advantages over other Balkan locations. Strategically located on the crossroads of multiple transport corridors and within the EU, Sofia, alongside Bucharest, now embraces new opportunities to grow into one of the leading business hubs of the Southern and Eastern European region. Real estate market drivers are strong across all sectors.

The prolific combination of IT and services skills and low operational costs gives Sofia a competitive edge when it comes to nearshoring and business and finance services sectors are booming. Although this advantage will diminish over time, Bulgaria, with its history of science and computing skills, has the potential to turn into an important knowledge hub. Infrastructure improvements, as well as a competitive business environment, will be instrumental in Sofia's success.

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