BUILDECON

BULGARIA

CONSTRUCTION MARKET REPORT UP TO 2012

TEXT AND TABLES

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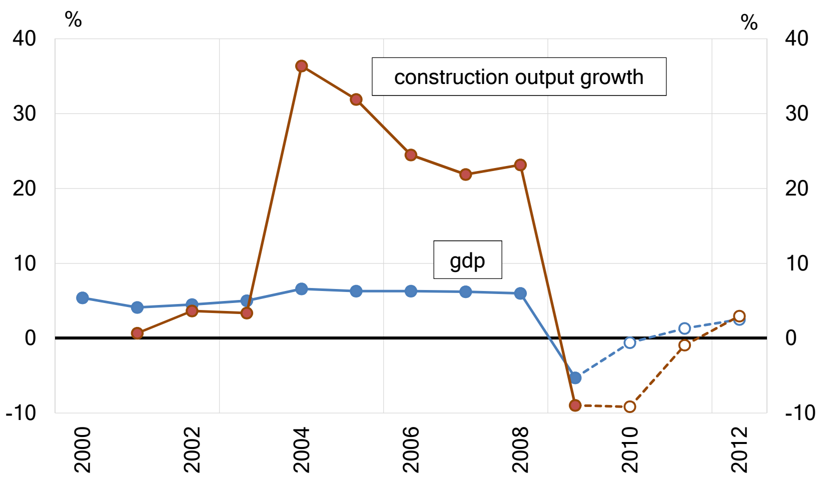
Content

1 SUMMARY

Since 2009 the Bulgarian construction sector has been residing in a new phase, after years of a significant upturn. Construction companies, building material producers, developers and investors recorded considerable losses. The economic downturn in the country resulted from the huge drop in FDI flows and the limited bank financing.

After reaching its peak in 2008, construction output followed the nosedive of GDP and contracted by more than 10% in 2009. This downward trend, however, is predicted to alter by 2012 mainly due to large infrastructural projects.

GDP AND CONSTRUCTION OUTPUT CHANGE



In 2009-2010 it is residential construction that suffered the worst hangover. In 2009 the annual growth rate at constant price dropped by 17.4%. Demand shrank mainly due to the low credit activity of commercial banks, high interest rates and the decrease in wages.

Nevertheless, the boom in residential construction would have been cooled down without the unfavorable turn as well, since demand for residential units that accumulated in the last decade had already been covered in 2005-2008. Lower demand and the reluctance of commercial banks to support investments in the subsector made construction companies very precautious and several of the already started projects were delayed or abandoned. Furthermore, the commencement of new projects slowed down as the sector was not expected to bring such high profits as in the pre-crisis period.

Until 2012 the sector will probably experience slow recovery and strengthening demand as commercial banks are again emphasizing mortgage loans in their credit policy and expanding their coverage. The upward trend of interest rates is already avoided and a certain decrease was registered in H1 2010. However, there is no government program in sight to stimulate and support either construction companies or the demand side. The renovation programs initiated by the government and international organizations in 2007-2008 have been abandoned. In the short run, all renovation initiatives will depend on loans from commercial banks and on the average level of incomes in the country.

The global financial turbulence hammered the non-residential sector too. Due to the large number of office, retail and industrial projects launched before the crisis, 2009 and H1 2010 were marked by many new completions and postponed or frozen projects. Most segments proved to be oversupplied owing to the poor economic conditions. Currently investors have to cope with the unexpected levels of vacancy, low sales and rental rates, topped with a tighter banking policy. Despite the lower demand for new office premises and the surplus in retail spaces in some cities, the industrial and logistical markets turned out to be the most stable due to underestimations and undersupplies of past years.

However, the huge potential for modern business estates makes recovery hopes more realistic from 2012 on. Then, an upswing is anticipated both in the country’s general economic situation and on Bulgaria’s main export markets.

Between 2007 and 2009 Bulgaria managed to utilize only 1.3% out of the total EU funding in civil engineering. Since the present government came into power in July 2009, one of its main goals is to foster the absorption of this funding. So far the best developments are observed within the Operational Programs on Regional Development (OPRD) and Transport (OPT). During 2009 utilized funds within OPRD doubled, while those within OPT improved by half in comparison with the period of 2007-2009.

EU programmes are mostly financing transport infrastructure and environment protection projects stated in the OPRD and OPT, transport and energy developments have the highest shares in civil engeneering in Bulgaria.

The projects of high priority are related to road infrastructure. The Ministry of Regional Development and Public Works of the Republic of Bulgaria undertook the engagement for some of the most crucial road arteries to be put into exploitation until 2013.

For instance, Trakia Highway (linking the Bulgarian capital to the Black Sea coast) is among the most delayed ones. Currently the construction of the remaining 115km is being rushed and the whole highway (443km) is expected to be put into exploitation until summer 2012.

Another quite delayed project of first priority is Ljulin Highway. It should have been finished by end 2009, but only 1/3 had been completed by then. Currently the total 19km connecting Sofia Ring Road with the two international E-79 and E-871 highways are also being constructed. Completion is scheduled for not later than the end of 2010.

The Sofia Metro Extension Project is also an important development, where the construction of the second line has already started. 6.4km will be newly constructed and the whole line is predicted to be put into exploitation in autumn 2012. It will considerably ease the traffic in the capital as 1 000 parking lots are estimated at the key metro stations.

With regards to the energy sector, the Burgas-Alexandroupolis pipeline project is undergoing environmental impact assessment (EIA). The government will make a final decision whether to take part in the oil deliveries from Russia to the Greek Aegean Sea Port Alexandropoulos via the Bulgarian Black Sea Port Bourgas.

Another major energy project with an approximated budget of over EUR 13bln is the Belene Nuclear Power Plant, where an appropriate international strategic investor is wanted.

2 SITUATION OF THE BULGARIAN ECONOMY

2.1 Macroeconomic indicators

The growth rate of above 6% in five consecutive years (2004-08) in Bulgaria was followed by a significant drop of 5% in 2009. The drastic decline of FDI inflow, the key driver of the domestic economy in recent years became the main channel of the global crisis, which hit the country in 2009.

The negative tendency persisted in Q1 2010 as GDP dropped by a further 3.6% in comparison with the same period a year earlier. However, estimations for the annual GDP growth rate for 2010 vary between -0.6 and 1.2%, while forecasts for 2011 and 2012 show modest, but positive values.

MAIN ECONOMIC INDICATORS								
	2005	2006	2007	2008	2009	2010(E)	2011(F)	2012(F)
GDP (BN BGN)	42.7	49.5	56.4	66.8	66.3	65.9	67.6	70.8
GDP (BN EUR)	21.8	25.2	28.8	34.2	31.5	33.7	34.6	36.2
GDP PER CAPITA (EUR)	2 829	3 282	3 773	4 475	4 466	4 439	4 497	4 609
GDP GROWTH (%)	6.2	6.3	6.2	6.0	-5.3	-0.6	1.3	2.5
GDP USE PRIVATE CONSUMPTION (%)	5.5	8.5	5.1	4.5	-6.2	-0.1	1.9	3.1
GDP USE PUBLIC CONSUMPTION (%)	4.1	-2.5	3.4	-1.4	-4.8	-1.5	2.8	5.4
EXPORT (BN EUR)	9.4	12.0	13.5	15.2	11.8	14.4	15.7	16.9
IMPORT (BN EUR)	14.6	18.4	21.8	25.0	16.7	16.8	17.2	18.3
INDUSTRIAL PRODUCTION GROWTH (%)	6.93	6.02	9.61	0.67	-18.26	1.60	4.30	5.40
INFLATION (%)	6.5	6.5	8.4	12.3	2.8	2.9	3.2	3.5
1 USD IN BGN	1.57	1.56	1.43	1.34	1.45	1.60	1.65	1.65
1 EUR IN BGN	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
BUDGET DEFICIT (% OF GDP)	1.9	3.0	0.1	1.8	-3.9	-3.8	-2.7	-0.5
AVERAGE MONTHLY WAGES (EUR)	165.5	184.2	220.2	278.6	302.3	311.3	311.9	321.1

As a result of the slump in foreign and local demand, industrial production growth rate fell by more than 18%. Logically, volumes of export and import flows also diminished, but at a different pace. Shrinkage was more substantial in terms of import, which led to a lower current account deficit in 2009. Since more than 60% of the country's export is directed towards the EU, it is expected that following the gradual improvement of EU economies, export will grow relatively faster than import. Thus, the latter will further suffer from low internal demand.

Similarly to many countries in CEE, Bulgaria also ran into fiscal deficit in 2010. The government elected in July 2009 continued the strict fiscal policy, but experienced an enormous reduction of budget revenues as a result of the general downturn. The 3.9% (of GDP) of fiscal deficit in 2009 required additional measures to be implemented by the government to avoid further expansion of the shortfall. In this regard, in July 2010 the Bulgarian parliament passed the 2010 Revised State Budget Act, the first revision of the Bulgarian state budget law since the domestic economic crisis in 1997. The revised budget was supposed to tackle the unfavorable impacts of the global crisis by optimizing state spending and setting a deficit of -3.8 for 2010. It was also approved that financial authorities would have the right to operate with the fiscal reserve by preserving a minimum level of EUR 2.25bln instead of the previously approved EUR 3.1bln. The recommendations are that fiscal reserves should only be used to cover expenditures on infrastructural projects with a long-term strategic goal. Despite debates, the 20% VAT level remained unchanged. In case of future emergency, the government's plans foresee the attraction of additional funding by issuing government bonds of up to EUR 1bln.

In July 2010 the base interest rate was 0.18%, which decreased by 2.06 percentage points in July 2009 (2.24%) and by 4.88 in July 2008 (5.06%). After peaking in 2009, retail banking interest rates in non-financial corporations and household sectors started to gradually slacken and are expected to follow a downward trend.

CALCULATED RETAIL AND CORPORATE INTEREST RATES ON NEW BUSINESS

	2005	2006	2007	2008	2009	2010(E)	2011(F)	2012(F)
DEPOSIT RATE	3.6	3.8	2.4	3.2	4.4	4.0	3.6	3.4
LOAN RATE	8.9	8.9	8.8	9.5	9.8	9.3	8.5	8.0

2.2 Living conditions

Despite GDP contraction, household incomes gradually increased y-o-y and ran to EUR4 664 in 2009. This increase was due to relatively higher incomes in H1 2009 compared to those in H2 2009. The breakdown of the respective categories shows an increase of labor and the rising role of pensions in the overall indicator performance. On the contrary, real estate transactions accounted for a constantly shrinking share in the structure of household incomes. Weaker activities on the real estate market affected the incomes received by property sales. After reaching 1.6% in 2007, these earnings plunged to 0.1% in 2009 and are most likely to see further lows in the next two years.

STRUCTURE OF THE AVERAGE HOUSEHOLD INCOME EUR [SHARE:%]

	2005	...	2008	2009
LABOUR INCOME	1 373 [44%]		2 303 [52%]	2 435 [52%]
OTHER INCOMES	129 [4%]		223 [5%]	198 [4%]
ENTREPRENEURIAL INCOME	142 [5%]		225 [5%]	222 [5%]
REAL ESTATE INCOME	24 [1%]		39 [1%]	30 [1%]
UNEMPLOYMENT ALLOWANCE	12 [0%]		9 [0%]	26 [1%]
PENSION	698 [22%]		1 028 [23%]	1 288 [28%]
FAMILY ALLOWANCE	24 [1%]		29 [1%]	43 [1%]
OTHER SOCIAL ALLOWANCE	61 [2%]		136 [3%]	84 [2%]
FAMILY ECONOMY	423 [13%]		172 [4%]	145 [3%]
SALE OF REAL ESTATE	18 [1%]		45 [1%]	6 [0%]
OTHER	245 [8%]		231 [5%]	188 [4%]
TOTAL	3 149 [100%]	...	4 442 [100%]	4 664 [100%]

There is a relative stability in the cost structure of households. In 2009 the prevailing part of costs, 86.8%, was consumption-oriented, while taxes accounted for 3.3%. The share of household expenditures for maintenance, including water, electricity and gas supply, reached 18.4% for the same period.

COST STRUCTURE OF HOUSEHOLD EUR [SHARE:%]				
	2005	...	2008	2009
COSTS OF CONSUMPTION	2 179 [87.2%]		3 534 [85.3%]	3 608 [86.8%]
FOOD AND NON-ALCOHOLIC	887 [35.5%]		1 513 [36.5%]	1 536 [37%]
WATER, ELECTRICITY, GAS	380 [15.2%]		562 [13.6%]	610 [14.7%]
TRANSPORT	154 [6.2%]		288 [7%]	252 [6.1%]
RECREATION, CULT., EDU.	99 [4%]		158 [3.8%]	163 [3.9%]
CLOTHES AND SHOES	94 [3.7%]		143 [3.5%]	130 [3.1%]
COMMUNICATION	139 [5.6%]		184 [4.5%]	190 [4.6%]
ALCOHOLIC DRINKS	108 [4.3%]		181 [4.4%]	198 [4.8%]
HEALTH	129 [5.2%]		197 [4.7%]	224 [5.4%]
FURNITURE, RENOVATIONS	90 [3.6%]		154 [3.7%]	155 [3.7%]
OTHER SERVICES	100 [4%]		152 [3.7%]	151 [3.6%]
TAXES	77 [3.1%]		130 [3.1%]	136 [3.3%]
OTHER	241 [9.7%]		477 [11.5%]	412 [9.9%]
TOTAL	2 498 [100%]	...	4 141 [100%]	4 156 [100%]

Despite the trend of convergence between 2006 and 2009, labor incomes in Bulgaria still lag behind those in other EU countries, which calls for measures to foster labor productivity and enhance the added value of the economy. In 2009 the minimum monthly wage approximated EUR120 and between 2000 and 2009 its average yearly nominal growth rate was 14.4%.

The poor economic climate urged companies to cut their labor costs. When in 2008 unemployment rates reached the lowest rates since 1990 (5.7%), the global financial turmoil caused a considerable, 6.9% unemployment growth in 2009 and 10.2% in Q1 2010.

WAGES AND UNEMPLOYMENT								
	2005	2006	2007	2008	2009	2010(E)	2011(F)	2012(F)
AVERAGE MONTHLY WAGES (EUR)	165.5	184.2	220.2	278.6	302.3	311.3	311.9	321.1
UNEMPLOYED ('000 PERS)	334.2	305.7	240.2	199.7	238.0	376.0	346.0	315.0
UNEMPLOYMENT (%)	10.1	9.0	6.9	5.7	6.9	10.1	9.3	8.5

2.3 Global impacts on FDI flows

Inbound FDI was hit most by economic downturn. The volume of attracted FDI reached maximum in 2006-2008, but in 2009 it dropped by more than 50% in comparison with 2008. According to the estimations for 2010, the volume of FDI will further drop, but will expectedly catch up in 2011 and 2012.

FLOW OF FDI BY KIND OF INVESTMENT MLN EUR								
	2005	2006	2007	2008	2009	2010(E)	2011(F)	2012(F)
TOTAL	3 152.1	6 221.6	9 051.8	6 696.5	3 212.5	827.2	1 437.8	2 175.7
JOINT-STOCK CAPITAL	1 789.3	3 234.1	4 765.2	4 128.0	2 204.2	750.3	984.9	1 360.2
OTHER CAPITAL	954.1	2 030.0	2 739.4	2 751.0	699.8	-235.6	125.6	389.8
REINVESTMENT PROFIT	408.7	957.5	1547.2	-183.5	308.5	312.5	327.3	425.7

As to the FDI structure, the reduction in the overall flow is unevenly distributed among the industries. Construction, transactions with real estates and financial intermediation suffered the worst hangover. Following probable new lows in FDI in 2010, slight increase is predicted in 2011 and 2012. However, it will still remain far from the volumes registered in 2007 and there are several important factors in this regard.

(1) Real estate transactions: Real estate prices in 2007 were considerably lower, so Bulgaria became a new investment target to attract foreign buyers. In 2007 the country joined the EU, which guaranteed a certain level of security for investments in a new but undiscovered market.

(2) Construction: As currently the supply of residential units, office and retail spaces is well above demand, in the next 5 years investments will supposedly turn from residential and non-residential constructions to civil engineering.

(3) Financial intermediation: Above 90% of the assets in the banking sector is already foreign-owned, which excludes new waves of massive investments.

INBOUND FDI (MOST RELEVANT SECTORS) EUR MLN						
	2005	2006	2007	2008	2009	2010(E)
TOTAL	3 152.1	6 221.6	9 051.8	6 696.5	3 212.5	827.2
FINANCIAL INTERMEDIATION	667.3	827.5	2175.1	1633.8	736.6	38.2
REAL ESTATE, RENTING AND BUSINESS ACTIVITIES	533.8	1800.5	2597.9	1984.2	653.2	112.3
MANUFACTURING	868.2	1078.6	1057.9	619	587.1	106.4
TRANSPORT, STORAGE AND COMMUNICATION	-108.7	448.4	255.8	-274.6	300.9	33.4
ELECTRICITY, GAS AND WATER SUPPLY	308.5	352.4	280.1	237.6	257.1	178.7
WHOLESALE AND RETAIL TRADE	576.9	966	1313.1	1343.3	243.7	81.1
CONSTRUCTION	171.6	501	815.1	602.5	195.8	127.7
OTHER	134.6	247.4	556.8	550.7	238	149.4

Investments in fixed capital index dropped by approximately 26.9% in 2009 after two consecutive years of upturn, reaching 20%. Furthermore, the target fields of investments in fixed capital were also subject to alterations. The registered low activity of construction and real estate companies caused a serious decline in investments in both sectors to 9.7% and 10.4% of the total volume in comparison to respectively 13.3% and 12.9% before.

INVESTMENTS IN FIXED CAPITAL %		
ECONOMIC ACTIVITIES	2008	2009
AGRICULTURE, FORESTRY AND FISHING	3.2%	2.8%
INDUSTRIAL PRODUCTION, MINING; WATER SUPPLY, SEWERAGE, WASTE MANAGEMENT	30.9%	29.7%
CONSTRUCTION	13.3%	9.7%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	23.2%	22.1%
PUBLISHING, AUDIOVISUAL AND BROADCASTING ACTIVITIES; TELECOMMUNICATIONS	2.7%	4.8%
FINANCIAL AND INSURANCE SERVICES	2.4%	3.3%
REAL ESTATE ACTIVITIES	12.9%	10.4%
LEGAL, ACCOUNTING, MANAGEMENT, ARCHITECTURE, ADMINISTRATIVE, SUPPORT ACTIVITIES	4.3%	4.5%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES; EDUCATION;HUMAN HEALTH SERVICES	6.1%	11.1%
OTHER SERVICES	1.0%	1.5%

However, the Bulgarian economy remains one of the most attractive for FDI in the region, mainly due to its huge potentials. The low corporate tax rate of 10% and its improving infrastructure will also boost investor thirst.

2.4 Regional data

Bulgaria is divided into six planning regions. Although they are not separate administrative units they are established for a better implementation of regional policy of the government and those of the EU.

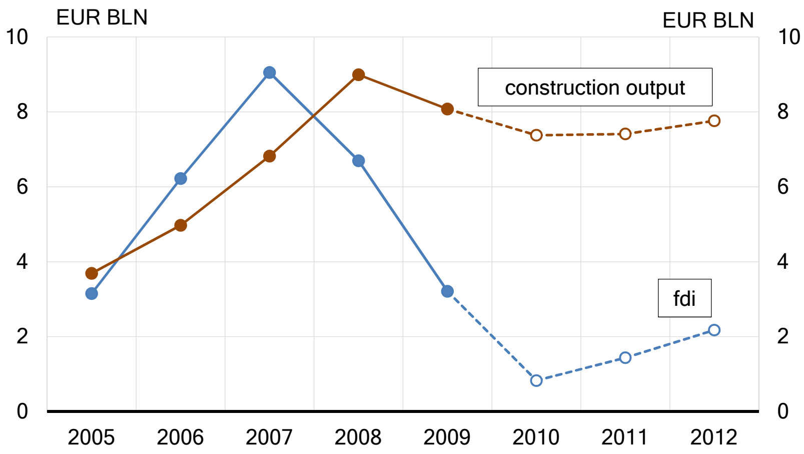
REGIONAL ECONOMIC PERFORMANCE 2009(E)			
REGION	POPULATION	GDP (MLN EUR)	GDP PER CAPITA (EUR)
NORTH-WEST (VIDIN, VRATZA, MONTANA, PLEVEN, LOVECH)	902 537	2 722	3 037
NORTH-CENTRAL (ROUSSE, VELIKO TARNOVO, GABROVO, SILISTRA, RAZGRAD)	914 939	2 832	3 216
NORTH-EAST (VARNA, TARGOVISHTE, SHUMEN, DOBRICH)	988 935	3 917	3 752
SOUTH-WEST (SOFIA CAP., SOFIA, KYUSTENDIL, BLAGOEVGRAD, PERNIK)	2 112 519	15 389	7 369
SOUTH-CENTRAL (PLOVDIV, KARDZHALI, HASKOVO, PAZADZHIK, SMOLYAN)	1 528 220	5 005	3 260
SOUTH-EAST (BOURGAS, STARA ZAGORA, SLIVEN, YAMBOL)	1 116 560	4 011	3 706
TOTAL	7 563 710	33 876	4 466

3 CONSTRUCTION AND BUILDING MATERIAL INDUSTRY

3.1 Performance

After years of remarkable growth rates, an outstanding performance and an initial delay in 2009, the financial turmoil severely hit the construction sector in Bulgaria. Moreover, the EU subsidies for the infrastructure suspended in 2008 could not soften the overall decline in construction works. Thus, following an overall output of EUR 9bln (over BGN 17bln) in 2008, the Bulgarian construction sector entered a new phase of development. In this regard, the huge potential and the restored activities in civil engineering were supposed to compensate for the constant falloff in residential and non-residential sectors, which is not expected to cease in the years to come.

FDI AND CONSTRUCTION PERFORMANCE

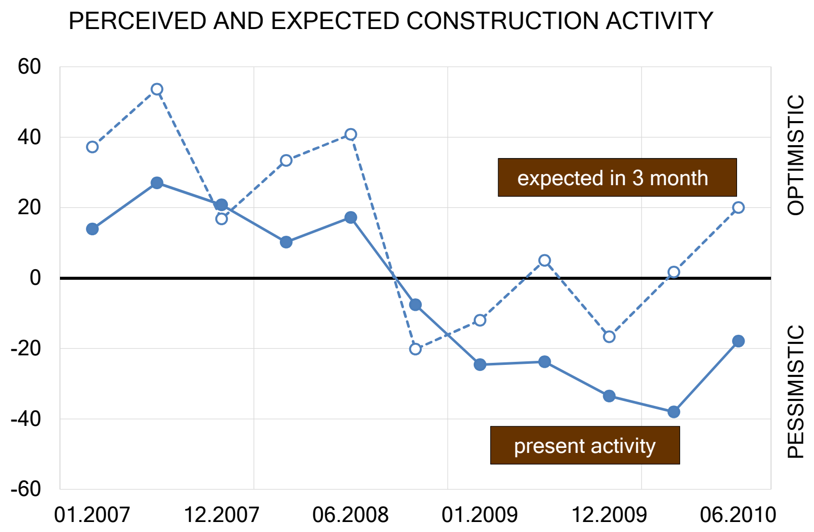


High dependence on easy access to bank financing and the lack of huge amounts of foreign direct investments (like in 2006-2008) proved to be the external reasons affecting the construction sector in 2009. The overall decrease in orders was additionally worsened by the government's will to keep a balanced state budget by the end of 2009 and thus postponing the payment of more than BGN 500mln to construction companies for already completed works.

In 2010 companies were offered schemes for a deduction of 7% of the contract amount in case they intended to receive their money faster.

As a result, from the 5279 companies registered in the Bulgarian Construction Chamber (BCC) in 2008, 1050 failed to renew their registration in 2009. Moreover, in 2010 another 1500 are supposed to drop out. Most of them are firms that accidentally ended up in the sector during the years of the construction boom, whereas others decided to call it quits due to the market meltdown. It could be assumed that others might have moved into the shadow economy or went bankrupt. Thus, crisis effects are expected to augment the levels of the black economy and the do-it-yourself activities in the sector over the years.

Nevertheless, statutory rules require all Bulgarian building companies to register with the BCC in a given construction category, otherwise they are not able to operate on the market. Similarly, foreign companies willing to participate on the market should register as well.



The overall sector's perspective and the entrepreneurs' expectations are revealed best by business surveys in construction conducted by the National Statistical Institute. The results are in the form of balances which represent the difference between the positive and negative answering options.

FACTORS LIMITING THE ACTIVITY OF CONSTRUCTION ENTERPRISES %

	INSUFFICIENT DEMAND	WEATHER	LABOUR SHORTAGE	MATERIAL/EQUIPMENT SHORTAGE	FINANCIAL PROBLEMS	COMPETITION	COSTS OF MATERIALS	ECONOMIC UNCERTAINTY	OTHERS	NO HARDSHIP
01.2008	10.9	31.8	30.8	3.8	27.7	36.6	29	29.3	14.6	4.4
06.2010	36.3	2.8	2.4	3.3	66.7	27.8	8.3	62.2	28.7	0.6

3.2 Construction sector in detail

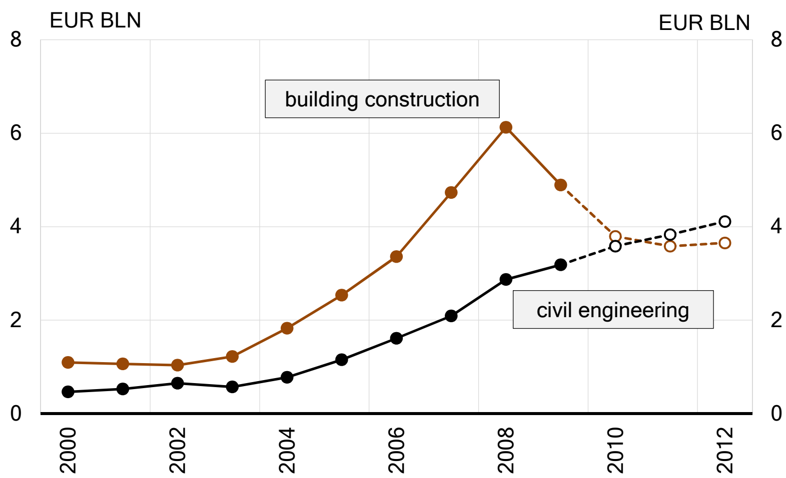
In subsequent years the recession in the residential and non-residential sectors will further determine the sector's breakdown. Unlike the years of outstanding performance in both subsectors, from 2008 on civil engineering has shown a downward trend. By 2012 it is assumed to increase its share to 50% of the total construction output.

PERFORMANCE OF SUBSECTORS MLN BGN [SHARE:%]

DENOMINATION	2006	2007	2008	2009	2010(E)	2011(F)	2012(F)
RESIDENTIAL	3 271 [34%]	4 856 [36%]	5 777 [33%]	4591 [29%]	3 591 [25%]	3 623 [25%]	3 712 [25%]
NON-RESIDENTIAL	3 301 [34%]	4 397 [33%]	6 203 [35%]	4 978 [32%]	3 899 [25%]	3 381 [23%]	3 430 [22%]
CIVIL ENGINEERING	3 153 [32%]	4 086 [31%]	5 612 [32%]	6 232 [39%]	7 009 [49%]	7 493 [52%]	8 040 [53%]
TOTAL	9 725 [100%]	13 339 [100%]	17 592 [100%]	15 801 [100%]	14 428 [100%]	14 497 [100%]	15 182 [100%]

In 2007, the year of Bulgaria's EU accession, building permits issued almost doubled in comparison with 2003. However, in 2009 their number decreased almost two times, and in 2010-2012 it is most likely to reach the levels of 2004 – 5 500/5 700.

SUBSECTOR PERFORMANCE



BUILDING PERMITS NUMBER									
	2006	2007	2008	2009	2009 Q1	2010 Q1	2010(E)	2011(F)	2012(F)
RESIDENTIAL [HOME UNITS]	9 828 [53 049]	11 171 [64 185]	10 157 [49 407]	6 428 [20 166]	1 470 [6 530]	987 [2 789]	3 031 [10 546]	3 005 [10 076]	2 950 [10 020]
ADMINISTRATIVE	433	448	412	305	79	49	171	183	201
OTHER	6 604	6 605	5 680	4 569	978	868	2 985	3 124	3 304
TOTAL	16 865	18 224	16 249	11 302	2 527	1 904	6 187	6 312	6 455

Despite inherent difficulties (management of EU funds, low level of absorption), public procurements play an important role in the times of crisis, particularly when civil engineering projects are expected to attract significant interest. Therefore, many well-established firms (mainly in building construction) are trying to shift their interest to infrastructural projects and start gathering experience in the field.

CONTRACT VALUE OF PUBLIC PROCUREMENTS: MLN [NUMBER]						
CONTRACT PRICE (EXCL. VAT)		2006	2007	2008	2009	H1 2010
ABOVE 2 150 000 BGN	BGN	9 283 [182]	1 667 [233]	2 336 [231]	1 413 [188]	268 [29]
	EUR	0 [0]	25 [5]	27 [5]	188 [11]	20 [2]
200 000 -2 150 000 BGN	BGN	490 [722]	778 [1212]	966 [1495]	636 [970]	108 [190]
	EUR	0.3 [1]	26 [35]	6 [12]	4.8 [6]	2 [1]
BELOW 200 000 BGN	BGN	74 [1124]	113 [1491]	145 [1933]	75 [1127]	14 [192]
	EUR	0 [0]	2.4 [18]	1.6 [11]	0.5 [4]	0 [0]

The cost structure in the industry followed a stable trend in the past few years. The poor economic climate since 2009, though, has put to an end to the constant rise in the prices of building materials and wages. External services retained their share accounting for 41% of the total construction cost. Subsequent years will probably see material prices fall, whereas wages and social security costs are predicted to stabilize.

COST STRUCTURE 2009						
MATERIALS	EXTERNAL SERVICES	DEPRECIATION	WAGES	SOCIAL SECURITY	OTHER	TOTAL
42.3%	41.1%	3.9%	7.1%	1.4%	4.2%	100%

In 2010 wages are anticipated to register a slight decrease compared to 2009, which corresponds the overall labor market trends. However, actual salaries in the sector are higher than reported ones. The shrinkage of the whole sector resulted in lay-offs, but also in reducing the pressure companies experienced from increasing labor costs and shortage of labor force, like in 2007 and 2008.

EMPLOYEES IN CONSTRUCTION INDUSTRY NUMBER						
	2005	2006	2007	2008	2009	2010(E)
PRIVATE SECTOR	151 184	175 414	197 940	235 225	196 025	170 025 [96.6%]
PUBLIC SECTOR	8 630	7 144	5 868	6 175	6 049	5 884 [3,4%]
TOTAL	159 814	182 558	203 808	241 400	202 074	175 909 [100%]
AVERAGE ANNUAL WAGE (BGN)	3 210	3 577	4 249	5 531	6 675	6 560

3.3 Building material industry

In 2009 building material industry in Bulgaria dipped noticeably. According to companies, consumption plunged by more than 30%. While in 2009 building material producers could still benefit from the ongoing projects, 2010 brought a further downslide of more than 20% depending on the material. Consequently, the main challenges ahead of manufacturers (strong competition of domestic and foreign players, steadily increasing transportation and row material costs) were topped with a shrinking demand and a further drop of material prices.

In the next two years these tendencies are forecasted to determine the market. The most favourable projections apply to companies that manufacture materials for the upcoming infrastructural projects.

PRODUCTION OF SOME MAJOR BUILDING MATERIALS					
	2005	2006	2007	2008	2009(E)
CEMENT (TONS)	3 618 221	4 092 692	4 413 346	4 686 705	2 515 845
LIME (TONS)	1 351 955	1 408 505	1 442 740	1 421 800	1 280 247
BRICKS ('000)	284 138	344 108	448 328	478 957	417 342
CERAMIC FLAGS,PLATES (M2)	12 504 097	12 872 200	14 877 394	14 620 697	13 042 765
PANELS OF CEMENT, CONCRETE OR ARTIFICIAL STONE (M3)	114 960	249 632	196 295	178 546	158 785
TUBES OF CEMENT, CONCRETE OR ARTIFICIAL STONE, (TONS)	85 714	77 970	96 460	100 275	94 753
ROLLED IRON METALS (TONS)	1 816 999	2 048 478	1 954 686	1 893 754	1 764 561
TUBES, PIPES AND HOLLOW PROFILES OF STEEL (TONS)	85 331	129 589	153 292	170 958	151 468
PLYWOOD (M3)	45 378	43 133	49 238	48 245	45 489
VENEERED PANELS, BLOCK-, LAMIN-, BATTENBOARD (M3)	8 395	8671	4 880	48 245	42 738
WINDOWS, DOORS , FRAMES, OF WOOD (M2)	379 951	434 029	425 426	401 239	367 925
PREFABRICATED STRUCTURES OF METAL (TONS)	67 878	95 174	112 456	117 247	97 105

3.4 Export-import of building materials

Following the slump in production, export and import of building materials saw a sharp decline as well. However, they vary by each product group. Clients preferred cheaper imports from non-EU member countries like Turkey, in case of cement, for instance.

The Bulgarian export was hampered first by the high exchange rates of the euro against the dollar and then by the impacts of the global recession. For the period until 2010 export to EU countries is predicted to be restored faster than export to other destinations. In the meantime, importing companies should consider consumer price sensitivity as well.

IMPORT IN BULGARIA OF SOME BUILDING MATERIALS '000 TONS [MLN BGN]					
	2005	2006	2007	2008 (E)	2009 (E)
STONE ARTICLES, PLASTER, CEMENT, ASBESTOS	339 [149]	362 [192]	406 [234]	419 [242]	333 [206]
CERAMIC PRODUCTS	488 [193]	674 [219]	869 [292]	958 [309]	629 [205]
GLASS AND GLASSWARE	156 [161]	162 [179]	208 [217]	222 [225]	169 [189]
IRON AND STEEL	1 406 [1 144]	1 846 [1 569]	2 201 [2 097]	2 473 [2 354]	1 680 [1 664]

EXPORT IN BULGARIA OF SOME BUILDING MATERIALS '000 TONS [MLN BGN]					
	2005	2006	2007	2008	2009(E)
STONE ARTICLES, PLASTER, CEMENT, ASBESTOS	79 [33]	103 [45]	145 [56]	182 [63]	142 [57]
CERAMIC PRODUCTS	111 [119]	120 [147]	129 [163]	137 [175]	102 [150]
GLASS AND GLASSWARE	212 [137]	405 [280]	494 [361]	578 [438]	408 [319]
IRON AND STEEL	2 368 [1 493]	2 524 [1 732]	2 468 [1 981]	2 326 [1 938]	1 550 [1 375]

4 RESIDENTIAL CONSTRUCTION

4.1 General Overview

The economic downturn on both international and national levels influenced the investment activity of construction companies, especially in the residential sector. The purchasing power of the population was also hit hard by the recession. The negative effects on the growth rate of the segment became visible for the first time in Q4 2008 but were compensated on annual basis. However, 2009 registered a decline by approximately 17.4% in the production volume at constant price.

The downhill is estimated to see more lows in 2010, reaching levels of above 23%. Moderate recovery of the sub-sector could be forecasted for 2011 and 2012 as the production volume would be stable at around EUR 1.6bln.

4.2 Influencing factors

On the supply side:

(1) Foreign investors became more precautious and restrained from commencing new residential projects in 2009 and in Q1 2010, which will decrease the overall rate of completions in the period of 2011-2012 as well as the rate of home starts.

(2) Most construction companies prefer to postpone the actual offering of a particular share of completed residential units on the market in order not to cause additional downward pressure on selling prices. However, these units will gradually be released on the market between 2011 and 2012, since the direct supply of newly completed buildings will be depleted.

(3) Delay or abandonment of some projects are projected due to scarce funding of the banking sector and lower revenues from previous projects. Largest investment companies have revised their project portfolio in 2009 - Q1 2010 and excluded projects exposed to highest risk.

(4) Quality is rising in order to meet the interests of moderate demand. Individual buyers are more concerned with the location, gas supply and the quality of used building materials.

On the demand side:

(1) Demand is estimated to have hit bottom in H2 2009 and in Q1 2010 owing to the increased unemployment and the overall drop of average incomes in the country. However, as the level of unemployment is predicted to have already reached its highest point, this factor is presumed to fade in 2011-2012.

(2) The restrictive credit policy of commercial banks also caused major constraints on demand in the period of Q4 2008 – Q1 2010. The expected revival of the activity on the residential market will be supported by the slow recovery of the credit activity of commercial banks and the decrease of interest rates on loans. In 2009 only 5-10% of the purchases were financed by loans, compared with 60-65% in 2008. This percentage is expected to be at least doubled in 2010 and tripled in 2011 if the economy remains at the predicted positive growth rate of 1-2%;

(3) The government has not implemented new policies towards residential construction as part of its anti-crisis package. There is no active government program aimed at facilitating the access of the

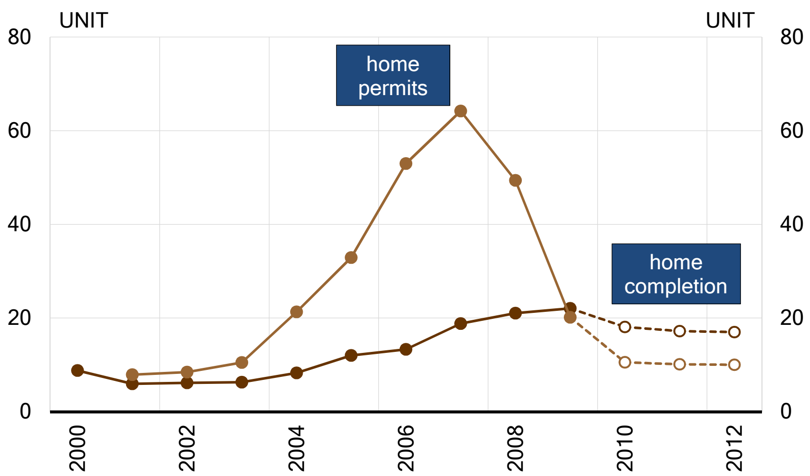
population to loans at lower interest rates. The joint initiatives of the Ministry of Regional Development and Public Works and several international organizations (EBRD, UNDP, EIB) to address the need for reconstruction of old residential buildings were phased out in 2009 due to budget reductions. There is no direct funding ensured by the government to support residential construction. Currently, there are no debates on governmental level for introducing such financial mechanisms which make their eventual implementation in short term (in 2011-2012) highly improbable.

(4) Lower demand resulted in the steady decline of selling prices and rental rates in 2009 as transactions contracted by approximately 35%. Prices and rental rates are anticipated to remain almost unchanged in 2010 and 2011 as preliminary estimations show that the number of transactions will increase slightly.

4.3 Underlying tendencies

Slowdown in the construction sector during 2009 and Q1 2010 was primarily recorded in new investments. Already started projects are not likely to be ceased, but rather postponed and scheduled for completion for 2011-2012. Nearly 40-50% of the housing units are prepaid, so they are guaranteed to be completed. Compared to 2008, in 2009 the number of completed residential buildings stayed on the same level and 2010 is forecasted to see zero growth as well. On the contrary, issued permits have fallen sharply in 2010 (by around 53%) and are projected to see further lows in 2011, reaching the levels of the pre-construction boom of 2003.

HOME COMPLETION AND PERMITS



In 2010, according to construction companies, two- and three-room residential units with floor space of 60-70 sqm will remain most sought for. This makes the prices in the segment by approximately 15-20% higher than those in the segment of above 80 sqm. However, there is an increasing demand for larger residential units as the prices on the market fell more considerably than the average income level during 2009-2010.

HOME COMPLETIONS [ISSUED PERMITS]							
	2006	2007	2008	2009	2010(E)	2011(F)	2012(F)
RESIDENTIAL BUILDINGS	2 074 [9 828]	2 697 [11 171]	2 939 [10 157]	2975 [6 428]	2766 [3 031]	2578 [3 005]	2500 [2950]
RESIDENTIAL UNITS	13 270 [53 049]	18 864 [64 185]	21 041 [49 407]	22 058 [20 166]	18 087 [10 546]	17 241 [10 076]	17 010 [10 020]
FLOOR SPACE ('000 M2)	1 088 [6 653]	1 521 [7 743]	1 645 [6 611]	1 612 [2 719]	1 324 [1 319]	1 267 [1 272]	1 250 [1 190]
AVERAGE M2/UNIT	82.0 [125.4]	80.6 [120.6]	78.2 [133.8]	73.1 [134.9]	73.2 [125.1]	73.5 [126.2]	73.5 [118.8]

In Sofia, the construction process remained stable. Compared to 2009, the number of completions will supposedly register growth in 2010 and 2011, which implies that commenced projects will be completed in time. In Q1 2010 Sofia remained the most attractive destination in terms of started residential buildings. There are no signs of abandoned residential projects in Sofia. Figures for Q1 2010 showed that started residential buildings in Sofia are 87 followed by Burgas and Plovdiv with respectively 76 and 39. Out of the 28 districts in Bulgaria, 6 (Vidin, Kuystendil, Silistra, Smolyan, Targoviste and Yambol) have not yet seen construction of new residential buildings.

RESIDENTIAL BUILDING START Q1 2010							
DISTRICT	NUMBER	DISTRICT	NUMBER	DISTRICT	NUMBER	DISTRICT	NUMBER
SOFIA-CAPITAL	87	HASKOVO	24	SLIVEN	8	MONTANA	3
BURGAS	76	PAZARDJIK	20	GABROVO	7	VIDIN	0
PLOVDIV	39	DOBRICH	15	RUSSE	7	KUYSTENDIL	0
BLAGOEVGRAD	37	PLEVEN	15	VELIKO TARNOVO	5	TARGOVISTE	0
SOFIA	32	PERNIK	14	RAZGRAD	5	SILISTRA	0
STARA ZAGORA	25	KARZHALI	12	SHUMEN	4	SMOLYAN	0
VARNA	24	LOVECH	8	VRATSA	3	YAMBOL	0

HOME COMPLETION AND PERMITS ISSUED IN THE FOUR BIGGEST CITIES [PERMITS]												
	RESIDENTIAL BUILDINGS				RESIDENTIAL UNITS				FLOOR SPACE ('000 M2)			
	2007	2008	2009	2010(E)	2007	2008	2009	2010(E)	2007	2008	2009	2010(E)
BURGAS	511 [2 118]	530 [1 391]	506 [689]	378 [504]	51 58 [15 885]	5 305 [7 989]	5 326 [2 823]	2 708 [2 052]	400 [1 748]	374 [973]	342 [360]	183 [289]
PLOVDIV	190 [902]	270 [1 020]	236 [721]	149 [368]	1 529 [3 645]	1 532 [6 582]	1 389 [2 136]	925 [1 460]	117 [483]	123 [1 004]	103 [276]	87 [168]
SOFIA	265 [1 148]	261 [1 195]	181 [747]	223 [540]	3 431 [5 060]	3 725 [5 745]	3 169 [3 269]	3 456 [1 396]	239 [752]	253 [865]	210 [476]	253 [212]
VARNA	526 [1 521]	622 [1 186]	629 [659]	344 [224]	3 471 [8 487]	4 298 [7 255]	4 389 [3 587]	2 572 [1 116]	317 [1 248]	378 [931]	354 [509]	213 [136]

Although supply will supposedly exceed demand, it will also register a fall in 2010, which is also a prerequisite for the overall shrinkage of residential transactions on the whole territory of the country. Delayed residential projects are mostly situated in holiday resorts like Varna, Burgas and Bansko. as units there are usually not paid on green and investors would not be obliged to pay compensation for the delay.

On the one hand, usually some construction companies and real estate agencies prefer not to bring large quantity of new residential units to the market, in order not to exercise further downward pressure on prices. On the other hand, in case the property is owned by individuals, there are three types of sellers:

(1) Owners have bought the property with speculative investment purposes.

(2) Owners have purchased the property on loan and are now experiencing inability to pay back the installments.

(3) The property is inherited by many owners and the only way to use it is to sell it. Generally this happens to properties in villages and small towns.

RESIDENTIAL SALES TRANSACTIONS IN THE TEN LEADING CITIES						
	2005	2006	2007	2008	2009	2010(E)
SOFIA	33 987	41 586	45 015	40 906	24 086	22 032
PLOVDIV	15 407	18 696	19 417	17 087	10 549	8 867
VARNA	15 455	17 818	18 483	17 797	9 688	8 250
NESSEBAR	5 291	6 953	10 084	8 401	6 461	5 210
PLEVEN	5 634	9 003	10 035	9 667	5 720	4 410
RUSE	6 463	8 270	8 767	8 200	5 548	4 023
BURGAS	7 771	5 703	6 222	7 654	5 469	4 256
YAMBOL	4 897	6 085	7 645	7 077	4 323	2 900
PAZARDJIK	3 966	4 784	6 328	5 664	3 105	2 603
TOP 10 TOGETHER	100 876	120 904	134 003	124 461	76 958	62 551

Volume of transactions stayed the highest in Sofia in 2009, mainly due to the capital city's larger number of housing stock and the internal migration from the rest of the country. The latter touched bottom in 2009 and in the first months of 2010, but is still expected to remain an important factor until 2012.

DEMOLISHED BUILDINGS						
	2005	2006	2007	2008	2009	Q1 2010
DEMOLISHED BUILDINGS	696	438	479	486	307	44
DEMOLISHED UNITS	966	606	660	601	471	52
TOTAL BUILTUP AREA ('000 M2)	55 134	38 329	42 206	39 601	28 654	3 550
SOURCE: NATIONAL STATISTIC INSTITUTE; MUNICIPALITIES - OFFICES OF CHIEF MUNICIPAL ARCHITECTURES						

The number of demolished residential buildings is an important indicator showing the location trends of the construction process in the country. Considering the low number of demolished buildings in 2009 and the predicted even lower number in 2010, construction works in the forecast period are anticipated to take place in the outskirts of big cities.

During the booming period in Bulgaria it was in the interest of construction companies to demolish old residential buildings with low unit number in city centers and to build new multi-unit ones instead. This tendency is presumed to temporarily disappear in the period of 2011-2012 as it is related to higher construction costs which could not be covered by higher prices.

4.4 Size and Technology

Two-room apartments registered a huge decline in 2009 and their share fell down to 33.4% of the total number of the stock. Demand for this segment remains high and has not been as hard hit by the recession as other segments. Newly initiated projects target the construction of new residential complexes in outskirts. They are predominantly one-family houses or residential buildings with up to ten apartments, as demand is projected to gradually shift in this direction.

HOUSING STOCK 2009 '000 HOMES							
	TOTAL	1 ROOM	2 ROOM	3 ROOM	4+ ROOM		USEFUL AREA (M2)
TOWNS	2 418	333	913	762	408		156.76
VILLAGES	1 370	109	350	449	460		85.53
TOTAL	3 788	442	1 264	1 212	868		242.29
NORTH-WESTERN	528	56	159	172	142		34.14
NORTH-CENTRAL	474	43	140	154	135		30.16
NORTH-EASTERN	488	50	161	168	109		30.77
SOUTH-WESTERN	1 037	159	389	317	170		34.68
SOUTH-CENTRAL	703	72	211	227	193		66.02
SOUTH-EASTERN	558	62	202	174	119		46.52
TOTAL	3 788	442	1 264	1 212	868		242.29

The trend in recent years for the gradual growth in the average useful area per home was preserved in 2009, it reached 63.95 in comparison with 63.82 in 2008. In 2010 the indicator is forecasted to exceed 64 and shoot up in 2011-2012. The reason is that construction companies are looking for the diversification of their supply portfolio by expanding the share of residential units with a useful area of above 90 sqm. A more significant increase in the living area per capita will expectedly be registered between 2010 and 2012 since it is also influenced by the population decline in the country, especially in rural areas and small towns.

New residential buildings completed over the last decade in towns outnumbered almost four times those completed in villages. One reason is the massive depopulation process in villages due to immigration

As of 2009 approximately 49.2% of residential units in towns was built from reinforced concrete structure and 47.1% from solid structure, while in villages around 70% was made of solid structure, 26.6% of wood and only 3.4% of reinforced concrete structure. Today reinforced concrete structures are used with almost all newly built residential buildings, which gradually increases their share in the stock.

STRUCTURES OF RESIDENTIAL BUILDINGS NUMBER				
DENOMINATION	2003	...	2009	2010(E)
REINFORCED CONCRETE STRUCTURE	95 359		105 359	107 211
SOLID STRUCTURE (BRICKS)	1 576 653		1 578 176	1 578 021
OTHERS	453 238		452 805	452 789
TOTAL	2 125 250		2 136 340	2 138 021

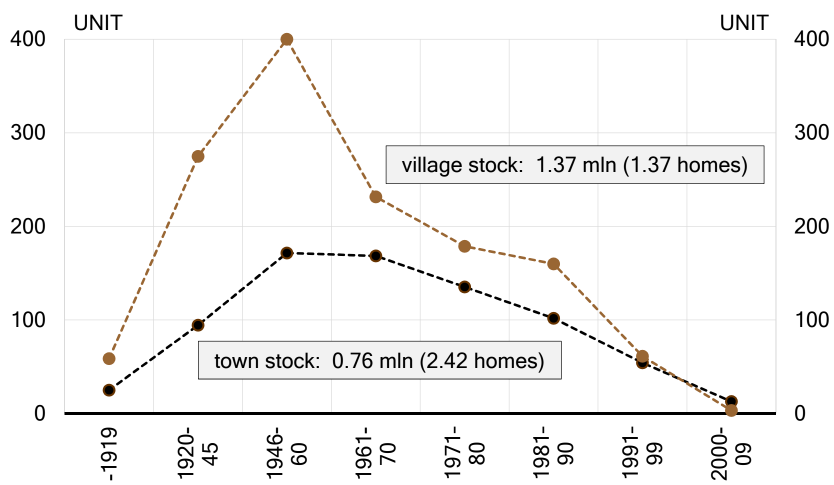
4.5 Renovation

Since there are no common governmental programs for the renovation of the existing stock, most renovation works in the sector are initiated by individuals and generally performed by unregistered companies and private entrepreneurs. Consequently, their revenues and expenditures cannot be measured directly. Due to budget limitations, it is highly improbable that the government will intervene in the renovation of residential buildings in 2011-2012.

At present owners are allowed to renovate parts of the façade belonging to their own apartments. This solution destroys the overall look of blocks and is not as efficient as general renovation. The government is debating several amendments to the Law for Flat Ownership in order to forbid partial renovations. However, there is no efficient mechanism offered yet to ensure the participation of all owners because not all of them can afford general renovations.

In villages low incomes and poor access to reliable credit sources for households are the major obstacles and houses are only partly renovated.

BUILDING STOCK YEAR OF COMPLETION



A considerable number of old houses built before 1960 in villages are in danger of demolition. Most of them are abandoned or not maintained. The issue is not addressed by any government or municipal program because very limited funding is ensured for the restoration and preservation of old houses that make part of the cultural heritage.

CONSTRUCTION PERIODS OF RESIDENTIAL BUILDINGS THOUSAND BUILDING [SHARE:%]									
	TOTAL	-1919	1919-45	1946-60	1961-70	1971-80	1981-90	1991-99	2000-09
TOTAL	2 136.1 [100%]	83.5 [4%]	369.1 [17%]	575.9 [27%]	400.2 [19%]	314 [15%]	261.8 [12%]	115.6 [5%]	16.1 [1%]
IN TOWNS	763.6 [36%]	25 [1%]	94.4 [4%]	171.6 [8%]	168.5 [8%]	135.3 [6%]	101.8 [5%]	54.2 [3%]	12.8 [1%]
IN VILLAGES	1 372.5 [64%]	58.6 [3%]	274.8 [13%]	404.4 [19%]	231.6 [11%]	178.7 [8%]	159.9 [7%]	61.3 [3%]	3.2 [0%]

High jobless rate and slump in wages caused the average income per capita and household to fall drastically in 2009 compared to 2008. This contracted both household expenditures on renovation works and the demand for new homes. Forecasts for 2010 suggest average incomes to register a negative growth rate again but with a smaller margin because the decline in employment seems to end. With a certain time gap, a positive growth of the economy in 2011-2012 will boost incomes. In the forecast period average incomes are not estimated to vary considerably to be a crucial moving power for demand on the residential market.

The amount of average household expenditures spent on deposits has doubled in 2009 due to high interest rates on deposits. Thus, a considerable part of the household budget for saving or investment is attracted by commercial bank to purchase new residential units with a speculative aim, similarly to the period of 2006-2008.

Many individuals who invested in properties and stood losses will constrain themselves from purchasing again, at least in 2011-2012. However, interest rates on deposits have already dropped after their hike in 2008-2009, which will leave a certain space for further investments in 2011-2012, but with lower amounts than four years ago.

4.6 Prices of Residential and Holiday Units

Residential Units

Real estate prices declined significantly during 2009. Downgrade dynamics were stronger in the first half of the year and gradually weakened in Q4 2009 and Q1 2010. However, in H2 2010 and in 2011 the prices are estimated to remain almost unchanged with a further insignificant decrease in some districts till the end of 2010 and a slight increase in 2011-2012. Forecast by the Bulgarian government and IMF shows economic recovery in the country in 2011, which will result in higher household incomes and higher individual demand for homes. Real estate agencies and owners of properties for investment purposes will try to expand their profit by raising the prices. Furthermore, the awakening of the residential market will not be supported by the same large number of completions as in 2007-2008, thus prices will not reach the same levels till 2012. Although average prices in Sofia experienced significant falls, they are also expected to increase more rapidly in the economic upturn due to the lowest unemployment rate and the highest household incomes. The financial inclusion of the population in the capital is also the strongest and it facilitates access to credit.

AVERAGE HOME PRICE IN THE 28 DISTRICTS PRICE PER M2, EUR											
CITY	2008	2009	Q12010	2010(E)	2011(F)	CITY	2008	2009	Q12010	2010(E)	2011(F)
VARNA	1 074	928	834	820	835	RAZGRAD	488	451	389	360	340
SOFIA CITY	1 213	888	796	790	850	SMOLYAN	531	418	380	370	370
BURGAS	868	752	637	605	610	MONTANA	498	417	371	350	330
PLOVDIV	762	587	526	500	510	GABROVO	429	392	370	370	370
RUSE	757	532	483	475	475	YAMBOL	440	392	368	370	380
HASKOVO	504	460	460	450	450	SOFIA DISTRICT	380	316	357	370	440
STARA ZAGORA	682	524	459	440	450	VIDIN	425	337	355	350	360
SHUMEN	488	469	450	450	440	VRATSA	549	421	354	340	330
VELIKO TARNOVO	600	424	438	430	460	SILISTRA	399	331	348	340	340
BLAGOEVGRAD	666	468	436	420	450	LOVECH	452	366	345	340	340
PERNIK	536	455	431	430	450	TARGOVISTE	415	350	344	340	330
PLEVEN	694	506	421	420	420	KURDZHALI	419	340	331	330	350
DOBRICH	480	433	409	400	410	PAZARDJIK	441	361	320	300	300
SLIVEN	529	452	400	390	370	KUYSTENDIL	390	289	277	280	310

Holiday Units

Sale transactions in resorts were also hit by the general decline of demand, which resulted in lower price levels. The decrease of average prices vary from 10% to 25%, but the price gaps between the highest and lowest levels remain almost unchanged as investors are trying to maintain higher prices by improving the quality of properties. Furthermore, real estates in resorts could provide profit to their owners in rental payments, which contract transactions on a seasonal basis.

AVERAGE SALES PRICES IN RESORTS PRICE PER SQM IN EUR 2010(E)								
MONTAIN RESORTS			COASTAL RESORTS					
BOROVETZ	PAMPOROVO	BANKSO	SUNNY BEACH	ST. VLAS	SOZOPOL	POMORIE	GOLDEN SANDS	NESSEBAR
600-1 615	650-1 730	560-2 100	520-2 010	590-2 340	505-2 130	500-2 050	800-1 700	550-1 750

New projects in resorts seem to have ceased at end 2009 and in the beginning of 2010, which will bring stability in market prices at least until 2012. Abandoned projects can mainly be found in resorts with poor public infrastructure and require additional investments; therefore they do not attract buyers.

COMPLETION PHASE OF RESORT CONSTRUCTION SQM			
REGION	COMPLETED IN 2005-03.2010	IN CONSTRUCTION PHASE	IN PROJECT PHASE
NORTHERN BLACK SEA COAST	754 768	1 034 176	1 311 130
SOUTHERN BLACK SEA COAST	1 445 167	980 856	354 697
BANSKO, RAZLOG & DOBRINISTE	721 567	446 137	278 455

4.7 Financing and Ownership

A sign of recovery on the residential market can be the augmented number of loans in Q1 2010. Commercial banks in Bulgaria are becoming more and more flexible in moderating the conditions of mortgage loans to enable their holders to pay installments on a regular basis and avoid further increase of bad loans.

NUMBER OF MORTGAGE LOANS NUMBER												
	Q207	Q307	Q407	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110
TOTAL ('000)	98.6	106.2	113.9	118.7	130.9	137.3	140.7	146.4	147.6	151.1	151.9	153.7
NEW ('000)	8.2	8.3	8.6	6.2	14.6	7.6	4.2	6.6	2.1	4.9	1.5	2.2
AVG AMOUNT (EUR)	33 432	36 210	38 551	44 213	46 430	45 600	44 023	36 151	36 852	30 275	39 027	37 778
INTEREST (% BGN LOAN)	8.40	8.38	7.83	8.32	8.81	9.45	10.23	9.65	10.39	10.48	9.72	9.33
INTEREST (% EUR LOAN)	7.23	7.41	7.51	7.30	7.52	8.00	8.59	9.08	8.51	8.73	8.72	8.70

However, bad mortgage loans rocketed in 2009 and on the onset of 2010. As of March 2010, they accounted for 11.64% of the total volume of mortgage loans, while in Q4 2008 their share was 4.3%. The Bulgarian National Bank forecasts this indicator to keep its upward trend at least till Q3 2010.

In general, this trend does not represent high risk for the stability of the whole sector. However, the increase of bad mortgage loans makes commercial banks more precautious and do not allow them to decrease interest rates to the levels of 2007. Above 90% of the assets of commercial banks in Bulgaria are foreign owned, which makes the system more dependent on the economic circumstances of the headquarter countries. Thus, the restriction of credit expansion in 2009 was provoked predominantly by the difficulties experienced in Western Europe. However, commercial banks are trying to strengthen the segment of mortgage loans. In Q1 2010 there was a certain tendency to expand the share of transactions covered by banks. In this respect Q2 2009 seems to be the most restricted with no loans covering above 70% of the price of the purchased property and only 7.2% in the 60-70% margin.

PERCENTAGE OF THE TRANSACTION SALES PRICE COVERED BY THE NEW MORTGAGE LOANS							
	UP TO 40%	40-50%	50-60%	60-70%	70-80%	80-90%	90-100%
Q2 2009	16.30%	38.60%	37.90%	7.20%	0	0	0
Q2 2010	5.40%	16.80%	30.90%	22.30%	24.60%	0	0

The trend of recent months shows that several commercial banks are even willing to cover above 80% of the price. According to the analyses provided by several commercial banks, if the share of bad loans remains 12-13% till the end of 2010, around 5% of new mortgage loans will probably be covering 80-90% of the purchase price.

Another indicator for the recovery of credit activity of commercial banks towards the residential market is the duration of mortgage loans. In May 2010 approximately 12% of the deals was for a period longer than 30 years, which was fully avoided by banks in 2009-Q1 2010. As longer durations are more attractive for eventual buyers, they would make new residential units more accessible and would stimulate demand in 2011-2012.

PERCENTAGE OF THE MORTGAGE LOANS SEPARATED IN ACCORDANCE OF THEIR PERIOD						
	UP TO 10 YEARS	10 TO 15 YEARS	16 TO 20 YEARS	21 TO 25 YEARS	26 TO 30 YEARS	ABOVE 30
Q2 2009	2.85%	22.60%	46.35%	28.20%	0	0
Q2 2010	2.90%	28.40%	37.90%	16.20%	14.60%	12.50%

Although in 2008 some refused to evaluate credit applications for the purchase of homes in old buildings, in 2009 and in Q1 2010 commercial banks in Bulgaria targeted their mortgage loan portfolio to old residential units. However, this tendency will supposedly remain in effect only until end 2010 and with the increase of loans focus will again be placed on new construction between 2011 and 2012.

The expansion of the covered share of the purchase price by mortgage loans and their longer duration are also supported by the decline of average interest rates on new mortgage loans in BGN with approximately 1% in a six-month period. The average interest rate is forecasted to drop below 9% until end 2010, since above 95% of new mortgage loans have duration longer than 10 years. Average interest rates of new mortgages in euro will also decline slightly till the end of the year reaching levels of 8.2-8.5%. At the beginning of 2010 the Bulgarian government addressed commercial banks to decrease interest rates on business loans and mortgage loans. Although the statement had no legislative power, it is considered to have had some influence on the credit policies of commercial banks: interest rates fell in the next few months. Any forecast for the interest rates of mortgage loans should be related to the stability of the banking sector in Central and Western Europe. If the sector remains stable in 2011-2012, interest rates are anticipated to further decline but still stay higher than average rates in the EU.

Buyers still prefer credits in euro. As of May 2010, the proportion of mortgage loans in euro versus those in lev was 94 to 6, compared to the years of the credit boom when this proportion was 80 to 20. In Sofia, where almost 33% of the transactions take place, the proportion is 98 to 2. Undoubtedly, the recovered steady credit expansion will have stimulating impacts on the residential market demand in 2011-2012.

4.8 Public Investments

As a result of the economic downturn and the emerging fiscal disparities in the state budget, public investments in residential construction almost ceased in 2009 and no new projects were initiated. Scarce financial payments available from the state budget are used for the renovation of public residential units.

The government has not declared any intention to finance construction of residential buildings in the short run. Public investments in the sector in recent years have mainly been enforced by extraordinary weather conditions like floods and landslides.

INVESTMENTOR OF NEW RESIDENTIAL HOMES									
	2003	2004	2005	2006	2007	2008	2009	2010(E)	2011(F)
PUBLIC	657	216	61	139	142	135	75	15	10
PRIVATE	5 639	8 051	11 998	13 131	18 722	20 906	21 973	18 072	17 231
TOTAL	6 296	8 267	12 059	13 270	18 864	21 041	22 058	18 087	17 241

According to the government's plan to increase fiscal revenues, some state or municipal properties were sold in 2009. However, state- and municipal-owned residential units are of low value and did not bring considerable amounts to the state or municipal budget but at least the funding for their maintenance will be cut from the expenditure items. If the fiscal disproportions in public finances in 2010-2011 remain on local and national level it could be expected that more state owned residential units will be sold out.

Another important tendency is the increase in the number of residential units owned by legal entities as many of them are situated in the central areas of cities and are used as offices or for administrative purposes.

RESIDENTIAL UNITS OWNERSHIP END OF 2009				
	STATE, MUNICIPALITY	LEGAL ENTITY	NATURAL PERSONS	TOTAL
IN TOWNS	104 841	36 170	2 277 026	2 418 037
IN VILLAGES	14 118	4038	1 352 475	1 370 631
TOTAL	118 959	40 208	3 629 501	3 788 668

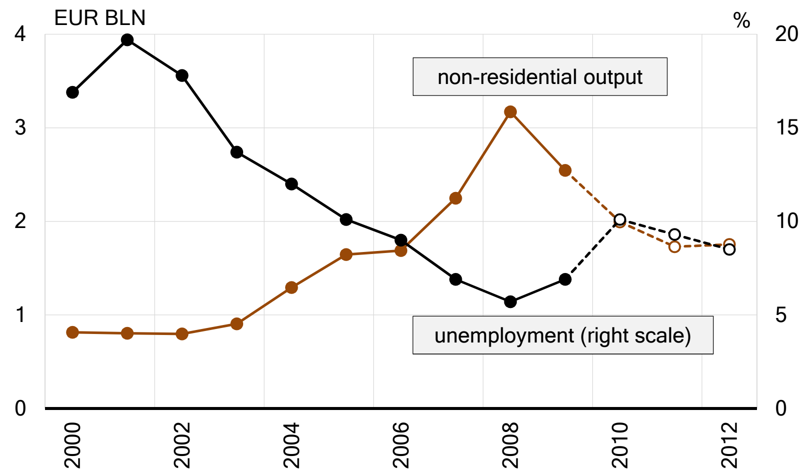
5 NON-RESIDENTIAL CONSTRUCTION

5.1 General Overview

The financial turbulence reached the non-residential sector too. However, the new stock of the current non-residential spaces was delivered to the market in 2009 and 2010 due to launched projects and accumulated effects in 2007 and 2008, when the whole sector experienced an enormous growth. Promising outlooks let investors announce the construction of many large multi-purpose (office, retail and logistical) projects whose completion is scheduled for the next years. Others are likely to be postponed or kept frozen while some have already been officially put on hold.

Nevertheless, since some market segments are still undersupplied, new projects could be realized in subsequent years provided that they are well-conceived with good location and excellent quality of construction works. This requires further application of international best practices along with new building materials and state-of-the-art building technologies.

NON-RESIDENTIAL PERFORMANCE



In general, the first market segments forecasted to register a positive growth in 2011-2012 are the industrial and logistical ones, because demand for current premises remained the most stable during the crisis. On the contrary, investors in hotel, office and shopping developments should consider declining volumes and oversupply in the years to come.

5.2 Hotel, catering, entertainment

Bulgaria has experienced a remarkable half decade of double-digit growth in tourism. The sector generates 15% of the GDP and employees approximately 4% of all employed persons or 140 000 people.

HOTEL CONSTRUCTION PERFORMANCE EUR MLN								
	2005	2006	2007	2008	2009	2010(E)	2011(F)	2012(F)
HOTEL, CATERING	429.7	433.6	500.8	550.4	400.5	292.0	260.9	255.2

In 2009 Bulgaria was visited by more than 7.8mln foreigners, which is an annual 7.7% decline compared to 2008. However, revenues for 2009 reached EUR 2.5bln, which equals the levels of 2008. In this regard, a considerable decease of FDI flow in hotels and restaurants was observed in 2009 (EUR 48.1mln.). The volume corresponds to the levels before 2005 (EUR 52.4mln.) and is far below these in 2006, 2007 and 2008, EUR 103.2mln, EUR 167.6mln and EUR 93.5mln respectively.

These figures explain the investment activity in recent years, which resulted in the construction of many new hotel and entertainment projects all over the country, particularly in sea and mountain resorts. While in 2001 hotels in the country totaled at 666, in 2004 at 1016, in H2 2009 they shot up to 2800 offering 117 500 rooms and 252 000 beds. 40% of all hotels with 66.7% of disposable beds are located on the Black Sea coast. However, statistics do not cover family pansions with less than 15 rooms.

The considerable growth in new hotel construction led to a serious increase of hotel facility supply, which pushed down the average revenue per tourist. Furthermore, some big resorts overdeveloped massively without improving the surrounding infrastructure like electricity supplies and water treatment systems, which will further determine the profile of the average tourist and respectively affect revenues.

Congress tourism facilities have also improved in recent years. In this regard, Sofia, Varna, the Northern Black sea resorts Albena and Golden Sands are especially active. As to conference facilities in Sofia, there are 6 five-star hotels (Grand Hotel Sofia, Hilton Hotel, Holiday Inn, Kempinski-Zografski, Radisson SAS, Sheraton), over 30 four-star hotels, a large number of business hotels and a variety of boutique hotels.

Despite the dynamic hotel development in Sofia, some key international chains are still not present and thus the city lags behind other European capitals. Nevertheless, occupancy rates of 5-star hotels in Sofia continued to go down in 2009 and 2010, mainly due to the falloff in business trips worldwide. However, the market meltdown, combined with lower price levels for plots and buildings, is said to be favorable for international players with long-term interest in Bulgaria. In this regard, as indicated in previous years, some international chains are exploring the market and the Marriott is most advanced to a market entry.

In terms of entertainment facilities, the past several years were particularly interesting for the construction of aqua parks and golf facilities. At present, there more than ten water entertainment centers located in sea resorts. They have proved to be profitable so far despite their long-term investment profile and dependency on weather conditions. There are a few golf courses in operation and at least five are in the pipeline. However, this number is not to be compared with the announcements before. None of the projects has been abandoned yet but investors are revising their plans while waiting for better times.

The subsequent years will be all but easy for the whole sector. The implications of the crisis will challenge not only the projects under construction but the existing ones too. The latter ones already face a worrying decline in bookings. Opportunities, though, do exist due to the unstable situation in the neighboring Greece and the excellent spas in the country.

5.3 Office market

Office space market in Sofia and other big cities continued to move towards a phase of maturity in 2009 and 2010. Factors to determine the office market are on the one hand, the negative economic development and the prevailing supply, on the other, the upward trend of outsourcing and the further establishment of the country as a destination for transferring business processes.

Thus, the total inventory of contemporary office space in Sofia continued to grow in 2009 and in H1 2010 by reaching respectively more than 1 000 000 sqm and 1 170 000 sqm, distributed almost equally between Class A (48%) and Class B (52%) office space.

CLASS A & B OFFICE SPACE INVENTORY SOFIA THOUSAND M2							
	H1 2007	H2 2007	H1 2008	H2 2008	H1 2009	H2 2009	H1 2010
NEWLY COMPLETED PROJECTS	53	98	54	115	91	97	106
ON-GOING PROJECTS	447	590	730	905	864	710	668
TOTAL OFFICE SPACE	606	704	760	872	962	1 002	1 170

Since Sofia's central business district lacks an easy access, sufficient parking lots and modern office facilities, suburbs are preferred by international companies as well as medium-sized and large Bulgarian enterprises. As a result, contemporary office spaces are predominantly located in the suburban area (64%), in the broad center (21%) and most sparsely in the central business district (15%).

Increasing demand before the crisis is the reason why even by the end of H1 2010 nearly 660 000 sqm of office space (the lowest level since 2007) is in the phase of construction in Sofia. If successfully completed, the shrinking stock of projects in the pipeline will considerably increase the competition in locations with already existing modern office spaces. Suburban areas along main boulevards and traffic arteries in Sofia are further considered as most attractive locations.

The new financial conditions and the general market slowdown forced many companies to reconsider their expansion or relocation, which notably reduced demand for office space. The optimization of premises and labor resources has already increased vacancy rates from their average levels at the end of 2008 (9.1%) to more than 20% by June 2010. The negative tendency shows higher vacancy rates for Class A than Class B. As to the location, it reaches 8% in the central business district, 12% in the broad center and almost 30% in the suburban area.

Understandably, this situation increased the flexibility of office space owners. Rent-free periods up to one year, step rents, reimbursement of removal costs, free parking lots are only a few incentives driving most deals signed at levels far below the asking rates. Class A rental rates dropped by 25% compared to the peak at the genesis of 2008. In suburban areas they fell to EUR 9.8/sqm/month, in the broad center to EUR 12.5/sqm/month, while the slightest decrease was registered in the central business district with rental levels shrinking to EUR 13.8/sqm/month.

Varna is the other dynamic market. In this regard, by H1 2010, the total stock of offices increased by 8000 sqm reaching 175000 sqm. The total stock of contemporary office space under construction in the first six months of 2010 amounted to 77300 sqm. with more than 50% of the pipeline expected by the end of the year. This will lead further to a tenant-driven office market with vacancy rise, slump in rental levels and difficulties in matching supply and demand. Thus, vacancy rates rose to 27% by June 2010 compared to 6.1% during the boom in mid-2008.

Other cities with considerable hike in the office market are Plovdiv and Bourgas. However, they follow the overall market trends in Sofia and Varna even faster and not likely to change at least by 2012.

PRIME OFFICE RENTAL RATES 2010 M2 PER MONTH			
SOFIA	PLOVDIV	BOURGAS	VARNA
EUR 12.5	EUR 5.5	EUR 5.5	EUR 6.5

Generally supply is estimated to further exceed demand on the Bulgarian office market. The competition for occupiers will supposedly lead to new flexible schemes that companies could benefit from. However, low overall demand will probably end up in increased vacancies and even more shrinking rental levels. The expansion of outsourcing services is the only safety belt for some first class projects, but will not be enough to generate occupancy for office buildings with poor access and insufficient parking or other related facilities. Consequently, construction of new office spaces is most likely to contract by more than by 40% compared to the late 2007 and 2008 levels.

5.4 Commercial space

After being the most dynamic commercial real estate segment in 2008, retail remained active even in 2009 and in H1 2010. Retail chains continued their expansion throughout the country, some shopping mall projects launched in the construction boom were completed, others were put on hold, high streets registered record levels of vacancy while the retail business as a whole was challenged by reduced consumer spending and difficulties in tight bank financing imposed by the worsened financial situation since late 2008-early 2009. As a result, only a few new projects were announced since investors concentrated on the already launched projects.

COMMERCIAL CONSTRUCTION PERFORMANCE EUR MLN								
	2005	2006	2007	2008	2009	2010(E)	2011(F)	2012(F)
COMMERCIAL BUILDINGS	448.4	464.7	760.7	1490.1	1208.5	1 000.2	936.7	907.8

Shopping Centers & Malls

2010 is said to be a decisive turning point for the Bulgarian retail market with more than ten new shopping malls scheduled for completion throughout the year. Delivery of nearly 350 000 sqm. of new retail space is anticipated to bring significant changes on the retail market causing increased competition and significant pressure on retailers.

In this respect, H1 2010 was marked by considerable activity in finishing large retail projects as Serdika Center (50 000 sqm. GLA) and The Mall (66 000 sqm. GLA) in Sofia and the Grand Mall in Varna (52 000 sqm. GLA), Galeria Plovdiv (45 000 sqm. GLA) and Mall Gabrovo (9 000 sqm. GLA). Thus, as of June 2010 the total inventory of contemporary shopping malls space in Bulgaria reached 450 000 sqm. With the opening of other 5 projects in Plovdiv, Varna, Rousse and Stara Zagora by the end of 2010 it is anticipated to reach 570 000 sqm. On the one hand, these levels are still below the EU average if shopping centre space per capita is considered, on the other hand, the purchasing power of Bulgarian costumers should also be taken into account as the lowest in the EU.

Despite high occupancy in Sofia (over 90%), shopping centers outside the capital continue to underperform and are not able to retain retailers. Falloff in revenues forced tenants of malls in Varna and even in Sofia to go on strike aiming at renegotiating rental levels contracted before. As a follow-up, rental rates decreased significantly nationwide with the exception of Sofia, where rental levels dropped by almost 5%.

PRIME SHOPPING CENTER RENTAL RATES 2010 [2009] M2 PER MONTH			
SOFIA	VARNA	PLOVDIV	BOURGAS
EUR 39 [41]	EUR 23 [35]	EUR 23 [39]	EUR 21 [37]

Other shopping formats envisaged to take advantage of the crisis are retail parks and outlet centers. After the first retail park was opened in Plovdiv in 2008, this shopping format is expected to be also developed in the country due to its lower construction costs compared to shopping malls. The general meltdown slowed down such projects but there are still projects under active construction in Sofia including Retail Park Vazov and Retail Park Sredets which are projected to be fully completed in 2011 and 2012. The first outlet center (Sofia Outlet Center, 15 000 sqm. GLA) was opened in Sofia in early 2010 and similar types of shopping units were announced in Sofia and other big cities, though most of them are with insignificant chances for construction.

Retail chains

Retail chains underwent rapid development. As it was before the crisis, most active players were FMCG retailers. In this regard, Billa, Kaufland and Piccadilly expanded nationwide while in 2009 Carrefour, Penny Market, Plus and Mercator, entered the country and the former quickly gained national coverage while the latter aims at 3% market share by 2012 with a few outlets in the country. The crisis fostered the general upward trend of retailers and particularly discount ones. METRO Cash and Carry started entering smaller cities by launching a more compact format of its stores while Lidl postponed its market entry, though stepped on the Bulgarian market by acquiring the Plus chain.

Consumer electronic chains like Technopolis and Technomarket continued penetrating new areas across the country. However, despite declining sale volumes, space for expanding still exists particularly for the DIY segment, at least according to plans of Bauhaus, which envisages a market entry in subsequent years.

Furniture trade will receive an important impetus in the next years with the opening of the first IKEA store in Sofia which broke ground in 2010 and is scheduled to be completed in H2 2011.

RETAIL CHAIN DEVELOPMENTS JUNE 2010			
NAME (MARKET ENTRY)	STORES | IN SOFIA | ELSEWHERE	NAME (MARKET ENTRY)	STORES | IN SOFIA | ELSEWHERE
PICCADILLY (1994)	27 | 8 | 19	T-MARKET (2005)	29 | 16 | 13
METRO CASH AND CARRY (1999)	11 | 2 | 9	KAUFLAND (2006)	31 | 5 | 26
TECHNOMARKET (1999)	53 | 10 | 43	BAUMAX (2008)	4 | 1 | 3
BILLA (2000)	74 | 13 | 61	CARREFOUR (2009)	4 | 1 | 3
MR. BRICOLAGE (2000)	10 | 2 | 8	PENNY MARKET (2009)	39 | 3 | 36
TECHNOPOLIS (2001)	25 | 3 | 22	PLUS (2009)	24 | 1 | 23
PRAKTIKER (2004)	9 | 2 | 7		

High Streets

Before the crisis and the current supply of contemporary shopping spaces, high streets were desirable retail locations with very low levels of vacancy. The total net amount of high street retail inventory in Sofia (38 000 sqm.), Plovdiv (24 000 sqm.), Varna (16 000 sqm.) and Bourgas 11 000 sqm.) amounted to almost 90 000 sqm. However, the opening of new shopping centers and low consumer demand made many retail premises in downtowns vacant with no clear signs of speed recovery. For instance, vacancies of main locations in Sofia at the levels of less than 1.5% in 2009 reached 18% by June 2010. This development was expected because of the shortage of supply, missing parking lots and multiple ownership of properties in downtowns. The new shopping mall facilities also created appropriate conditions for some international brands to enter the market.

PRIME HIGH STREETER RENTAL RATES I 2010 [2009] M2 PER MONTH			
SOFIA	VARNA	PLOVDIV	BOURGAS
EUR 72 [100]	EUR 37 [60]	EUR 42 [60]	EUR 30 [50]

The retail segment will further see significant structural changes, with new formats such as retail parks and outlets as well as more flexible schemes in terms of the asking rents. Discount retailer will continue to expand in bigger and medium-sized towns and are likely to take advantage of the significant supply on high streets and to enter cities' downtowns with convenience stores. The absorption levels of newly completed retail space will face big discrepancies - while in Sofia no considerable difficulties are anticipated, a surplus of space in Varna, Plovdiv, Stara Zagora and Ruse is expected in the next two years. Therefore, we expect further decline in the segment of at least 10% by 2012.

5.5 Industrial and logistical developments

The industrial and logistics market proved to be the least impacted segment on real estate market. This resulted from both factors that will further determine the demand – Bulgaria's location on five of the Pan-European transport corridors and the fact that the market is still undersupplied – occupancy levels exceed 90%. The moderate growth was due to build-to-suit projects while speculative projects experienced delays and some were put on hold since 2009. Thus, by the first half of 2010 the total inventory of the industrial and logistics market in the four large cities Sofia, Black Sea Varna and Bourgas, and Plovdiv) reached 3 000 000 sqm.

Sofia

By the end of June 2010, the total inventory of contemporary speculative, owner-occupied and build-to-suit industrial and logistics space in Sofia and the region around the city is estimated at 1 470 000 sqm. (1 440 000 sqm. by the end of 2009 and 1 280 000 sqm by the end of 2008). This includes warehouses (49%), manufacturing (24%) and flex buildings (27%). However, since very few new projects were launched in 2009 and 2010, the pipeline slowly empties.

New feature of the market is the subleasing of owner-occuped space to partners and suppliers since companies optimize costs by reducing the inventory. This space, though, often remains vacant due to the continuing economic decline.

If location is considered, more than a third of the total inventory in Sofia is in the Eastern parts of the city and the belonging suburbs that are close to the Sofia international airport (Druzhba, Gara Iskar, Vrazhdebna, Gorublyane, Kazichene and Krivina). Besides, the area between Elin Pelin, Novi Han and Ravno Pole established as a new industrial zone as a follow-up to construction of logistics centres of retail chains as Penny Market, Lidl and BILLA. To the West the main areas are Bozhurishte and Kostinbrod mainly because of their proximity to the border with Serbia. Of importance for all the locations is the convenient access to railroad, road and/or air transportation.

INDUSTRIAL AND LOGISTICAL DEVELOPMENTS SOFIA					
	2008	2009	2010(E)	2011(F)	2012(F)
TOTAL INVENTORY (M2)	1 280 000	1 440 000	1 500 000	1 515 000	1 535 000
PRIME RENTS (EUR/M2/MONTH)	5.5	4.8	4.6	4.5	4.7
SECONDARY RENTS (EUR/M2/MONTH)	4.0	3.3	2.9	2.8	3.0

Plovdiv

Plovdiv, the second most developed industrial market, has been a very attractive destination because of its strategic location suitable for nationwide distribution and its traditional role as manufacturing hubs for food, textiles and electronic industries.

Today the inventory of owner-occupied and speculative industrial space is more than 900000 sqm located in the industrial zones in and around the city - South and North Industrial Zones, Rakovski, Maritza, Parvomai and Kuklen where the percentage of build-to-suit and owner-occupied buildings is relatively high. Existing old spaces and low demand for new inventory in the current economic situation are not forecasted to lead to the construction of new projects in the following years.

INDUSTRIAL AND LOGISTICAL DEVELOPMENTS PLOVDIV					
	2008	2009	2010(E)	2011(F)	2012(F)
TOTAL INVENTORY (M2)	790 000	890 000	910 000	913 000	921 000
PRIME RENTS (EUR/M2/MONTH)	5.0	4.0	3.7	3.6	3.9
SECONDARY RENTS (EUR/M2/MONTH)	3.0	3.0	2.5	2.4	2.7

Varna and Bourgas

The industrial and logistical segment in the Black Sea harbor cities of Varna and Bourgas registered a slight growth in 2009 and 2010 and considerable decline of the projects in the pipeline. By the end of H1 2010 the total inventory of contemporary industrial space in Varna exceeded 405 000 sqm (390 000 sqm. by the end of 2009 and 370 000 sqm. by June 2009), while in Bourgas the total stock reached 220 000 sqm. (205 000 sqm. by the end of 2009 and 190 000 sqm. by June 2009).

The ongoing development of the distribution centers of retail chains could not compensate for the low demand in both cities caused by reduced foreign trade and the economic downturn.

INDUSTRIAL AND LOGISTICAL DEVELOPMENTS VARNA					
	2008	2009	2010(E)	2011(F)	2012(F)
TOTAL INVENTORY (M2)	790 000	890 000	910 000	913 000	921 000
PRIME RENTS (EUR/M2/MONTH)	5	4	3.7	3.6	3.9
SECONDARY RENTS (EUR/M2/MONTH)	3	3	2.5	2.4	2.7
INDUSTRIAL AND LOGISTICAL DEVELOPMENTS BOURGAS					
	2008	2009	2010(E)	2011(F)	2012(F)
TOTAL INVENTORY (M2)	168 000	205 000	225 000	230 000	233 000
PRIME RENTS (EUR/M2/MONTH)	5	4	3.6	3.5	3.7
SECONDARY RENTS (EUR/M2/MONTH)	3	2.5	2.2	2	2.2

The industrial and logistical market, affected considerably both by low export-import volumes and plunged consumption in 2009 and 2010, were driven mainly by the market entry of discount retailers and the expansion of FMCG distributors and pharmaceutical companies. The total stock of modern spaces is forecasted to moderately grow (4% in 2010, 1% in 2011 and 1.2% in 2012). The demand will be determined mainly by cost-effective industrial spaces with considerable price flexibility.

Poor demand and slowly increasing vacancy of speculative logistical and industrial space along with subleasing offerings will continue to put a downward pressure on primary and secondary rental rates. They are expected to stabilize in late 2011 and slightly grow in 2012.

The cities of Ruse and Vidin on the Danube neighboring with Romania are expected to attract investors when crisis implications are over and particularly when the construction of the second bridge over the Danube by Vidin is completed.

5.6 Public non-residential construction

With regards to volume, construction of education and health care and sports buildings is not to be compared with other construction activities in the non-residential sector. However it plays an important role due to its social significance.

Schools, nursery schools, crèches as well as hospitals and clinics have been undergoing extensive repair works in recent years. One of the main purposes is decreasing energy costs by applying energy efficient solutions. Therefore, despite huge budget cuts, a further emphasis is anticipated to be placed on the renovation of existing facilities rather than on building new ones.

The main obstacle to the development of sports facilities is the fact that they are state owned. Despite the demand of Bulgarian sports clubs for concession rights of these facilities for a 30-40-year-period, concession procedures proved to be cumbersome and time-consuming. On the contrary, most local authorities empowered to deal with stadiums and sports halls do not have the sufficient financial capacity to manage and improve them. For this reason, few sport facilities have undergone contemporary modernization and a very small number of new ones appeared due to the large-scale investments needed.

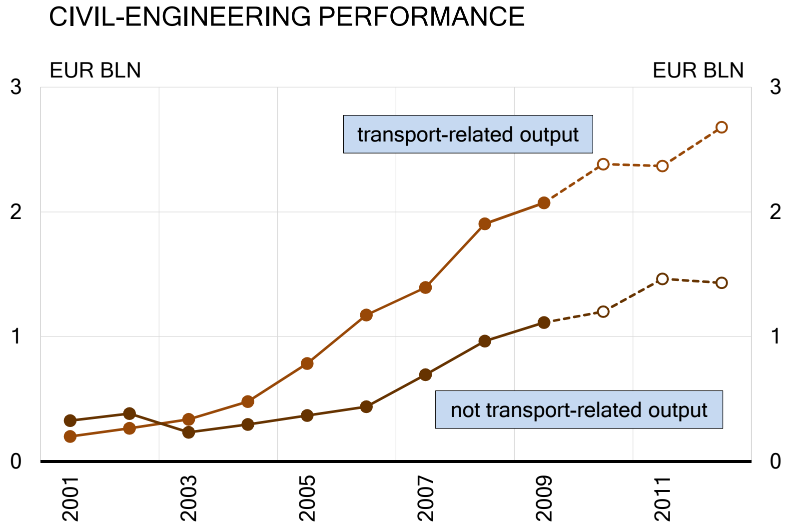
5.7 New construction versus renovation

In 2000-2004 renovation accounted for approximately 30% of the total volume in non-residential construction. The subsequent construction boom enormously fostered new construction and thus reduced the share of renovation. Nevertheless, the latter is expected to gradually gain importance since the overall new construction is on the downtrend and existing premises and facilities will need appropriate maintenance and renovation in the next years.

6 CIVIL ENGINEERING

6.1 Absorption of EU funds

The Government's Annual Report 2009 on the absorption of EU funds in Bulgaria shows rather low figures for 2007-2009; only 1.3% out of the total financing was utilized. Moreover, there exists a significant discrepancy between the EUR 1.4bln allocated to Bulgaria under the Operational Programs and the actual payments received (EUR 72mln). There is a possibility that many of the already far prolonged pre-accession ISPA funds will not be utilized. Until the end of 2009 key infrastructural projects under the Operational Program for Transport (OPT) and environmental projects under the Operational Program for Environment (OPE) stayed at a low level of absorption and project readiness, which remained a major problem during the last years.



Since July 2009 one of the main goals of the newly elected government has been to foster the absorption of EU funds. Even though that goal seems to be followed, during the first months of 2010 the actually received grants within the infrastructural programs still lag significantly behind the funding contracted. However, the proportion is improving.

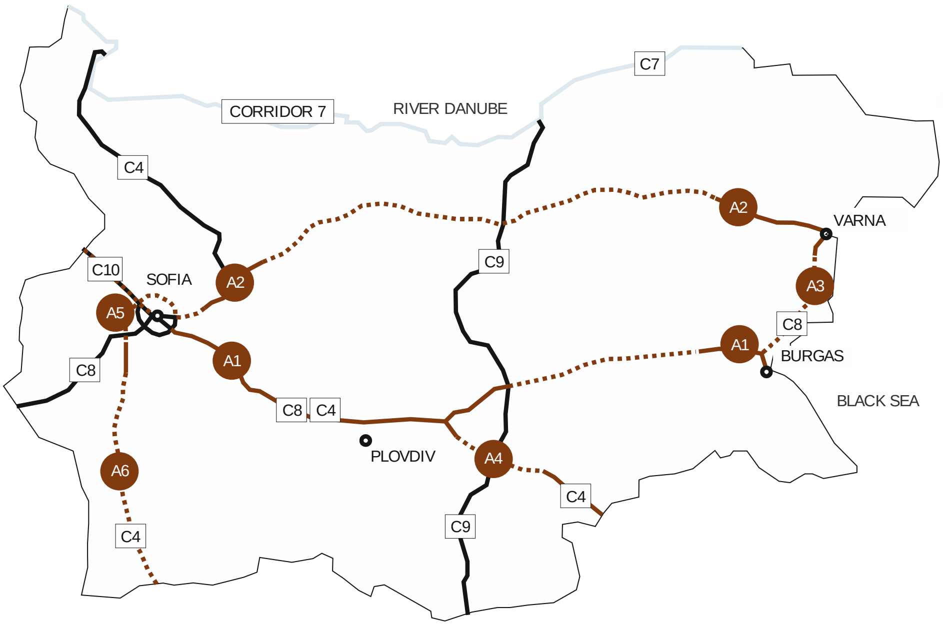
OPT: During the first 2 years after the EU accession of Bulgaria only 12% of the total funds was contracted, which had gone up to 29% by the first 4 months of 2010. Also, actual payments to final beneficiaries have increased from 2.2% to 3% in 2010.

21.7% out of the total funds within OPE was contracted until 2009. The numbers rose to 28.5% until end April, 2010. The utilized funds of the program have amplified from 2.71% to 3.6%.

The highest percentage of contracted and received funding was namely within the Operational Program on Regional Development (OPRD). The resources contracted rose from 29.7% at end 2009 to 38.6% at end April, 2010. On the other hand, actually absorbed sources have grown from 1.94% to 4.1%, which makes prospects for sustainable results and greater benefits to the society much more positive than in the first years of EU membership.

6.2 Motorways

The cross road location of Bulgaria and the five of the tenth European Transport Corridors passing through its territory gives the country key cross-border and continental advantages. Due to poor conditions and the underdeveloped infrastructure, transport development remains a main issue of the sector and also of national interest.



The link between the capital and one of the most important Black sea ports, Bourgas via Trakia highway (A1) is of high economic and social importance. The total length of the highway is 443km, out of which 328km are currently used. The construction of the remaining 115km will be financed through OPT. The construction of Lot II, the stretch from Nova Zagora to Stara Zagora started at the beginning of May 2010. The tender for its construction was awarded to Magistrali Trace consortium, led by companies from the Trace Group (one of the leading road-building companies in Bulgaria). The contract was signed on April 23, 2010 at the lowest bidding price of BGN 137.9mln offered for the 31.8km segment of the motorway. Each kilometre of the motorway would cost around EUR 2.2mln. The section is scheduled for completion by summer 2012. The executor had also had to prove that the price offered is final and the stretch will be constructed without any additional costs or any time lags behind the contracted 24 months. Following a governmental decision, the managing body of OPT (the Bulgarian Ministry of Transport, Information Technology and Communications) has granted a non-recourse financial aid for the construction of Trakia motorway until the EC finally approves the project. This decision allows an immediate start of works after the tender is closed. Those expenses will be covered partially by the leased under concession railway stations - Sofia, Plovdiv, Varna, Bourgas and the Poduyane residence district. The two sections of the motorway that remain unfinished are separated in two lots, Lot III (from Nova Zagora to Yambol) and Lot IV (connecting Yambol with Karnobat), with a respective length of 35.7km and 47.7km. The tenders for Lot III and IV proceeded almost in parallel and the contracts had been signed by June, 2010. Construction works are planned to start not later than fall 2010.

The second alternative trace from Sofia to another very important Black sea port, Varna, is Hemus highway (A2). The highway itself holds strategic importance because it runs through a few main cities in the north part of Bulgaria. Regardless of its national importance and priority, it is not part of the European transport network, this is why its construction will not be financed by any EU program. So far two sections of the motorway are constructed, from Sofia to Yablanitsa and from Shumen to Varna. The overall length of the motorway is 423km and the part not yet constructed reaches approximately 240km. Only one stretch, the 8.5km long Sofia-Yana junction (the beginning of Hemus highway) will be financed by the EU OPT funds. Thus, the remaining 231.5km are planned to be developed in public-private partnership for the indicative sum of EUR 1.5bln at current price.

According to governmental estimations, the construction of Cherno More motorway (A3) will begin in 2013 earliest. It is planned to link Varna and Burgas (both are Black Sea ending points of Hemus and Trakia motorways) and will pass along the Bulgarian Black Sea Coast. It is part of the Pan-European corridor VIII and is to be 103km long once finished. The government works on including the stretch, which is a Hemus motorway Lot 6 in the European budget framework for 2013 – 2020. An indicative price of the project and its technical characteristics are to be planned and financed within the next OPT period after 2013.

Another key infrastructural project of regional importance is the section between Bulgaria and Turkey. Maritsa (A4) motorway will be connecting Trakia highway with Turkey at Kapitan Andreevo border. 50.2km of the highway are used at the moment and another 67km will be newly constructed. They were split in four tenders instead of the initial plan for building it as one single segment. Construction works are scheduled to be finished by summer 2013 latest at the price of nearly EUR 209mln. It will be financed under the OPT, including a national co-financing.

Ljulin highway (A5), the new 19.086km long motorway will link the Sofia Ring Road and the two international E79 and E871 highways at Daskalovo Junction. The International road E79 connects Sofia with Greece and makes part of the European Transport Corridor IV. On the other hand, E871 is the main motorway section between Sofia and the Former Yugoslav Republic of Macedonia (FYROM) and is also part of the EU Corridor VIII. Latest developments regarding Ljulin highway are mostly related to its funding. Since the beginning of the construction works in 2007 it turns to be the most expensive Bulgarian highway with an estimated cost of EUR 7.5mln perkm, which is expected to get even higher till the highway is fully constructed. Its total estimated price will be EUR 148.5mln, which includes national co-financing of EUR 37.2mln. Although it is planned to be put into exploitation until the end of 2010, the construction company has so far built only 7km of the highway. Besides, only 8% of the bridges and just 1 tunnel out of the 3 have been started. These delays may generate sanctions from Brussels since Lyulin construction is financed under the European ISPA program (EUR 111.3mln.). Such a negative development could force the government to finance the highway construction nationally. Still, there exists an option for the positive scenario to happen, since the building Turkish consortium Mapa Cengiz assured the government that the highway would be finished by 21 December, 2010.

Another highway to be constructed is the stretch of the European Corridor IV to connect Budapest with Sofia ring-road and splitting in two branches – to Greece via Kulata border and to Istanbul. Struma motorway (A6) is 150km long and the route is extremely hard because it runs through Kresna Gorge. In addition, it falls under the Natura 2000 Program and the construction of the highway threatens to eliminate many rare species in the area. Only 18km of the highway are currently in use. The construction of the rest 132km is expected to begin and be fully completed after the end of the current 2007-2013 EU programming period. The indicative value of the project is EUR 250mln, 80% of which is financed by the Cohesion Fund, while the rest 20% needs a national co-financing.

MOTORWAY CONSTRUCTIONS IN PROGRESS			
	LINK	UNDONE OF [TOTAL]	FINANCED BY
TRAKIA HIGHWAY (A1)	SOFIA-BUGRAS	115KM [443KM]	OPT 2007-13
HEMUS HIGHWAY (A2)	SOFIA - VARNA	240KM [423KM]	PPP
CHERNO MORE MOTORWAY (A3)	VARNA - BURGAS	103KM [103KM]	OPT 2013-20
MARITSA HIGHWAY (A4)	A1-TURKEY BORDER	67KM [117KM]	OPT 2007-13
LJULIN HIGHWAY (A5)	SOFIA RING-DASKALOVO	12KM [19KM]	ISPA
STRUMA MOTORWAY (A6)	DASKALOVO-GREEK BORDER	132KM [150KM]	OPT 2007-13

6.3 Roads: new and reconstruction

The largest-scale projects of the National Road Infrastructure Agency (NRIA) are financed within the OPT (supplemented by national co-financing). One of them is the project for the rehabilitation of the 8km existing pave and the construction of the 24km long road from Kardzhali to Podkova. It is part of the Pan-European Transport Corridor IX. The project is estimated at EUR 32mln and planned for completion in spring 2013. Another important project includes the modernization of the existing 31.5km long two-lane stretch to connect Vratsa and Botevgrad on the route of E-79 and the Trans-European Network. Its tentative cost is EUR 85mln with a deadline for completion in fall 2013. Another project also included in the EU 2007-2013 period is the construction of the 20.5km first class road with a new projection. It will link Dimovo with Ruzhentsi via Bela on the route of E-79 and corridor IV. Its tentative cost is EUR 32mln and the tender procedure is forthcoming. The overall budget for projects on OPT in 2009 – 2013 is estimated at EUR 990mln.

With regards to the reconstruction and modernization of road infrastructure within the OPRD, NRIA has split the activities into two stages. 14 out of the total 24 road sections with a total length of 302km fall within the first stage. The projects are at the point of coordination with the responsible authorities. The 302km stretch will be reconstructed till spring 2012 for a tentative amount of EUR 108mln. The second stage of the schedule includes 25 road sections with a total length of 358km. They are planned to be finished by summer 2012 on EUR 142.5mln. In April 2010, 15 contracts between NRIA and construction companies for the total amount of EUR 133 were signed. The overall cost for OPRD projects between 2009 and 2013 is projected to reach EUR 225mln.

TYPE OF ROADS KM								
	2005	2006	2007	2008(P)	2009	2010(E)	2011(F)	2012(F)
TOTAL ROADS	19 288	19 373	19 425	19 435	19 441	19 513	19 566	19 619
MOTORWAYS	331	394	418	418	418	475	514	552
CATEGORY I ROADS	2 969	2 969	2 975	2 975	2 975	2 990	3 005	3 019
CATEGORY II ROADS	4 012	4 021	4 021	4 029	4 033	4 033	4 033	4 033
CATEGORY III ROADS	11 976	11 989	12 011	12 013	12 015	12 015	12 015	12 015
TOTAL ROADS	19 288	19 373	19 425	19 435	19 441	19 513	19 566	19 619
TOTAL PAVED	18 994	19 081	19 135	19 156	19 162	19 264	19 317	19 370
BITUMINIZED	18 729	18 825	18 886	18 870	18 923	18 995	19 048	19 101
OTHER	265	256	249	286	239	239	239	239
UNPAVED	294	292	290	279	279	279	279	279

6.4 Railways / Sofia subway

The biggest railway project financed by OPT is the electrification and reconstruction of the Plovdiv – Svilengrad – Turkish border railroads. The stretch of about 150km linking Asia to Europe is part of the European Transport Corridors IV and IX. The overall budget of the project is EUR 340mln, shared among the European Investment Bank (loaning EUR 150mln), the ISPA Programme (EUR 153mln) and the national co-financing of EUR 37mln. After the project is implemented, there will be a potential for additional 18 trains per day reaching a speed of 160 - 200km/per hour. For the ISPA funding to be withdrawn, the construction part of the project needs to be finished till the end of 2010. Afterwards, the phase of putting the line into exploitation should be done not later than May 2011.

RILWAY TRANSPORT								
	2005	2006	2007	2008	2009	2010(E)	2011(F)	2012(F)
RAILWAY LINES LENGTH (KM)	4 154			…	4 150		…	4 156
UNDERGROUND TRANSPORT								
ROUTE LENGTH (KM)	10	10	10	10	18	18	18	31
RAILCARS (NUMBER)	48	60	72	72	81	81	81	131
PASSENGERS CARRIED ('000)	25 181	25 367	22 953	23 800	180 000	195 000	200 000	550 000

Other developments relate to the Sofia Metro Extension Project and are financed under the OPT along with national and local co-financing. The second subway line of 6.4km (7 stations) will link the north-west Nadezhda district with the central district of Lozenetz. The subway will pass by some key central points like Central Railway Station, St. Nedelya Square and the National Palace of Culture. For the busiest stations there are planned parking lots to be constructed underground and to provide parking places as follows: 150 at the Central Railway Station; 650 at St. Sofia Square and 620 more at the last stop in Lozenets district (James Bourchier station). The total project price reaches EUR 247mln, funded by the OPT (EUR 157mln), Sofia Municipality (EUR 62mln) and the state (EUR 28mln). Construction started at the end of 2009. The overall second line is separated into two parts constructed respectively by the Turkish Dogus Insaat ve Ticaret and the Bulgarian consortium Metrotrace.

Deadline for the operation to start is fall 2012. The line is projected to provide underground transport with additional 340000 passengers and will serve more than 25% of the total passenger flow. 550000 passengers per day will be able to use public transport reaching 80km per hour in the central part of the city. The two subway lines may shorten the total traveling time of Sofia citizens by 110000 per day; will cut emission, noise and will raise safety and decrease accidents by approximately 18%.

6.5 Bridges, airports, sea ports

The most significant water transportation projects are related to the road/rail Danube Bridge II connecting Vidin with Calafat. The total length of the bridge will be 1.971m with four road lanes and one railway track. Although the bridge is part of the Pan-European Transport Network as a cross point of Corridor IV and Corridor VII and is set as first priority, its construction is delayed with over 1.5 years. Its indicative total value is EUR 236mln, with most of the amount granted by the ISPA program of the EU and the European Investment Bank along with national co-financing. The rest will be loaned externally. As of June 2010 the Spanish FCC Construccion, stated 35% of the infrastructural construction and 50% of the bridge equipment finished. In this regard, the Bulgarian and Romanian Prime Ministers agreed on a deadline for its construction by December 2011.

6.6 Energy

MAJOR ENERGY PROJECTS

BELENE NPP POWER PLANT	SOUTH STREAM GAS PIPELINE	BURGAS - ALEXANDROUPOLIS OIL PIPELINE	NABUCCO GAS PIPELINE
IN A PHASE OF SEARCH FOR STRATEGIC PARTNER INVESTORS: 51% NATIONAL 49% EXTERNAL INVESTOR VALUE EUR 7 BLN	IN A PRELIMINARY PHASE INVESTORS: GAZPROM (RUSSIA) ENI (ITALY) VALUE EUR 10 BLN	IN A PHASE OF NEGOTIATIONS INVESTORS: RUSSIA (51%) BULGARIA (24.5%) GREECE (24.5%) VALUE 830 MLN	INVESTORS BULGARIAN ENERGY HOLDING (16.6%) BOTAS (TURKEY) (16.6%) TRANSGAZ S.A. (ROMANIA) (16.6%) MOL NATURAL GAS TRANSMISSION PLC (HUNGARY) (16.6%) OMV GAS GMBH (AUSTRIA) (16.6%) RWE (GERMANY). (16.6%) VALUE: EUR 8 BLN

With regard to energy efficiency, the Executive Energy Efficiency Agency (EEA) within the Ministry of Economy, Energy and Tourism is providing support and financing programs and projects of industrial bodies, regional administrations, local authorities and operators. It supports the implementation of the National Energy Efficiency Program 2015 through the Bulgarian Energy Efficiency Fund. It is combining a capacity of a lending institution, a credit guarantee facility and a consulting company.

The most disputable energy projects are the constructions of the Belene Nuclear Power Plant and the Bourgas-Alexandroupolis oil pipeline. These two are of first priority as Bulgaria has a key cross-road location, giving the country a chance to become the Balkan's energy distribution center. Because of the high energy dependence of the country, it is essential for the government to obtain energy liberalization and supply diversification.

The Burgas - Alexandroupolis pipeline would transport Russian and Caspian crude oil from the Bulgarian Black Sea port of Burgas to the Greek Aegean port of Alexandroupolis. Recent developments regard environmental issues related to its realization. The final decision of the government will be taken after the official EIA (Environmental Impact Assessment) of the pipeline in the region of Burgas is ready. However, a positive assessment is rather unlikely as the region is part of the Natura 2000 sites. The estimated price of the project is EUR 830mln. Under an inter-governmental agreement signed in 2007, Russia holds 51% in the project company, while Greece and Bulgaria hold 24.5% each.

Another debatable energy project is the Belene Nuclear Power Plant, being in the phase of a search for an international strategic investor. So far there was an interest declared by the Russian Rosatom, but negotiations were suspended. It was stated that the desired strategic partner would be a European or American investor. The tentative cost of EUR 13bln is not planned to be state-financed. Besides, there still persists the unresolved issue on the return of such an enormous investment.

ENERGY DEPENDENCE								
	2005	2006	2007	2008	2009	2010(E)	2015(F)	2020(F)
ENERGY IMPORT DEPENDANCE (%)	47.3	46.0	51.8	52.5	51,0	49,5	51,5	45,8

6.7 Environmental Protection

One of the major environmental challenges for the largest cities is waste management. Finding permanent solution to the problem has been postponed by several governments and municipal administrations. Currently most of the existing daily waste storage depots are with almost depleted capacities. It is the case also with the one in Sofia, which imposed the daily waste to be transported for more than a hundred kilometers to a depot situated close to Plovdiv.

A new waste processing plant was opened in December 2009 in Plovdiv on EUR 21mln (EUR 5mln by the municipality, and the rest by the national budget). The annual processing capacity of the plant is 125mln tons of waste. However, the efficiency of the implemented waste processing technology is put under serious consideration as it envisages considerable direct human participation.

Another plant with similar annual capacity is planned to be built near Varna until the end of 2010. However, the implemented processing technology is more innovative, which raises its construction costs to EUR 27mln. The initial completion date was August 1, 2010 but it is delayed due to unexpected difficulties with the construction.

In mid-June 2010 the Municipality of Sofia issued a tender for the waste processing plant. The selected proposal is a joint project between the Bulgarian Stanilov and the German Heilit on EUR 105mln. The project will be financed predominately through the OPE. The initial completion date in the proposal is 2012, but the actual signing of the contract between the consortium and the municipality is delayed due to the submission of three appeal procedures. However, all were rejected at the end of July 2010 by the Bulgarian Commission on Protection of Competition. 9 companies had applied, but 7 were excluded for two reasons: not having an annual turnover of EUR 100mln in the past three years and not presenting enough proof for their expertise in the field.

7 FORECAST TABLES

MAJOR DEMOGRAPHIC AND ECONOMIC INDICATORS

PERFORMANCE OF THE BUILDING INDUSTRY

RESIDENTIAL CONSTRUCTION

NON-RESIDENTIAL BUILDING CONSTRUCTION

CIVIL ENGINEERING

GDP

COUNTRY: BULGARIA							TABLE 1
MAJOR DEMOGRAPHIC AND ECONOMIC INDICATORS							
	FACT				FORECASTS		
	2006	2007	2008	2009	2010	2011	2012
POPULATION (‘000)	7 679	7 640	7 607	7 564	7 518	7 474	7 430
NUMBER OF HOUSEHOLDS (‘000)	2 844	2 830	2 817	2 801	2 784	2 768	2 752
UNEMPLOYED (‘000)	305.7	240.2	199.7	238.0	376.0	346.0	315.0
UNEMPLOYMENT (%)	9.0	6.9	5.7	6.9	10.1	9.3	8.5
GDP GROWTH (%)	6.3	6.2	6.0	-5.3	-0.6	1.3	2.5
CONSUMER PRICE INDEX (%)	7.3	8.4	12.3	2.8	2.9	3.2	3.5
CONSTRUCTION PRICE INDEX (%)	8.3	12.5	7.1	-1.3	0.5	1.4	1.7
DEPOSIT RATE (%, P.A.)	3.8	2.4	3.2	4.4	4.0	3.6	3.4
LOAN RATE (%, P.A.)	8.9	8.8	9.4	9.8	9.3	8.4	8.0
1 USD IN BGN (YEARLY AVG)	1.60	1.40	1.30	1.40	1.60	1.65	1.70
1 EUR IN BGN (YEARLY AVG)	1.96	1.96	1.96	1.96	1.96	1.96	1.96

COUNTRY: BULGARIA

TABLE 2

PERFORMANCE OF THE BUILDING INDUSTRY

		VALUE MLN BGN	VALUE MLN EUR	% CHANGE AT CONSTANT BGN						
				FACT				FORECAST		
		2009	2009	2006	2007	2008	2009	2010	2011	2012
RESIDENTIAL	NEW	4156	2124.9	77.4	31.2	14.8	-17.3	-25.5	1.1	0.6
	RENOVATION	435	222.4	13.0	16.1	2.5	-18.1	-6.2	1.9	0.8
	TOTAL	4591	2347.3	66.2	29.4	13.5	-17.4	-23.7	1.2	0.6
NON-RESIDENTIAL	NEW	4189	2142.0	-5.7	30.7	39.8	-15.6	-23.5	-16.1	0.1
	RENOVATION	789	403.3	5.3	-4.9	11.7	-28.2	-8.7	-1.2	5.2
	TOTAL	4978	2545.3	-2.9	20.9	33.7	-17.9	-21.1	-13.4	1.1
BUILDING CONSTRUCTION	NEW	8345	4266.9	25.7	31.1	25.9	-16.5	-24.5	-7.6	0.4
	RENOVATION	1224	625.7	5.8	0.6	8.6	-24.8	-7.9	-0.3	3.3
	TOTAL	9569	4892.6	21.2	25.1	23.1	-17.6	-22.4	-6.5	0.9
CIVIL ENGINEERING	NEW	5364	2742.6	33.2	14.3	22.4	9.8	11.0	3.1	2.7
	RENOVATION	868	443.8	22.8	21.6	31.0	8.3	12.2	15.8	16.7
	TOTAL	6232	3186.4	31.8	15.2	23.5	9.6	11.1	4.9	4.9
TOTAL CONSTRUCTION OUTPUT		15801	8079.0	24.5	21.9	23.2	-9.0	-9.2	-0.9	2.9
BLACK ECONOMY, DIY (EST)		2756	1409.3	-1.6	-14.0	-9.4	8.2	23.6	2.0	-3.0
				VOLUME MLN TONS						
CEMENT PRODUCTION				4093	4413	4687	2515	2315	2468	2729
CEMENT CONSUMPTION				3718	4252	4820	3047	2800	2870	2900

1 EUR (2009) = 1.96 BGN

COUNTRY: BULGARIA								TABLE 3
RESIDENTIAL CONSTRUCTION								
		'000 UNITS						
		FACT				FORECAST		
		2006	2007	2008	2009	2010	2011	2012
HOME COMPLETION BY TYPE OF LOCATION	ONE-FAMILY HOUSE	2.30	2.90	3.00	3.06	2.20	1.90	1.90
	MULTI-UNITS	11.00	15.90	18.00	19.00	15.89	15.30	15.10
	TOTAL	13.30	18.80	21.00	22.06	18.09	17.20	17.00
HOME COMPLETION BY ROOM NUMBER	ONE-ROOM	1.50	2.10	2.51	2.50	1.80	1.50	1.50
	TWO-ROOM	5.30	8.20	9.27	9.90	8.19	7.90	7.80
	THREE-ROOM AND BIGGER	6.50	8.50	9.26	9.66	8.10	7.80	7.70
	TOTAL	13.30	18.80	21.04	22.06	18.09	17.20	17.00
HOUSING PERMITS		53.00	64.20	49.41	20.16	10.55	10.12	10.02
HOUSING STARTS		49.40	59.10	39.70	15.20	9.30	9.10	9.00
RESIDENTIAL STOCK		3.73	3.74	3.76	3.79	3.80	3.82	3.83
HOME OWNERSHIP RATE (%)		95.30	95.20	95.00	95.00	95.00	94.90	94.80

COUNTRY: BULGARIA										TABLE 4
NON-RESIDENTIAL BUILDING CONSTRUCTION										
	VALUE MLN BGN	VALUE MLN EUR	% CHANGE AT CONSTANT BGN							
			FACT				FORECAST			
	2009	2009	2006	2007	2008	2009	2010	2011	2012	
HOTELS, CATERING	400	204.8	-4.4	4.8	4.2	-25.5	-26.6	-10.7	-2.5	
OFFICEBUILDING	1417	724.6	-3.0	35.4	49.8	-15.9	-28.1	-22.0	-6.1	
COMMERCIAL	1209	617.9	-1.9	48.5	85.7	-17.0	-16.7	-6.4	-3.4	
TRANSPORT BUILDINGS	396	202.2	-1.9	7.9	4.0	-11.6	-29.0	-36.2	44.4	
INDUSTRIAL	782	399.6	-3.0	33.2	43.0	-26.3	-25.2	-16.5	5.1	
EDUCATION	268	137.1	-0.2	3.6	-8.3	-16.3	-6.1	-1.8	1.5	
HEALTH	271	138.4	-4.3	-3.0	-8.2	-8.0	-1.2	-2.0	1.6	
AGRICULTURE	161	82.1	-4.3	-5.6	-3.9	-1.6	0.1	1.8	4.0	
OTHERS (CULTURE, SPORT, CHURCH, ETC.)	75	38.6	-4.5	-0.2	0.5	-21.1	-19.2	1.4	11.7	
TOTAL	4978	2545.3	-2.9	20.9	33.7	-17.9	-21.1	-13.4	1.1	

1 EUR (2009) = 1.96 BGN

COUNTRY: BULGARIA									TABLE 5
CIVIL ENGINEERING									
	VALUE MLN BGN	VALUE MLN EUR	% CHANGE IN CONSTANS BGN						
			FACT				FORECAST		
	2009	2009	2006	2007	2008	2009	2010	2011	2012
ROAD CONSTRUCTION	2003	1024.2	38.0	-2.2	50.7	4.6	19.0	-14.6	23.8
RAILWAY CONSTRUCTION	382	195.3	76.9	-0.3	-4.6	4.8	13.8	13.1	-5.4
AIRPORT CONSTRUCTION	676	345.6	38.2	13.4	2.9	14.5	-1.2	6.5	-1.4
BRIDGES. TUNNELS	626	320.2	14.9	17.9	7.1	6.6	17.5	12.0	2.4
HARBORS	368	188.0	89.1	16.1	6.8	16.2	4.2	11.6	1.8
ENERGY	1260	644.3	21.9	22.9	33.4	16.2	17.6	17.9	8.6
PUBLIC UTILITIES	396	202.3	19.5	26.8	15.2	1.4	12.2	22.6	4.5
OTHERS (TELECOM, ETC.)	521	266.6	-21.2	138.7	15.1	19.3	-24.2	22.7	-60.9
TOTAL	6232	3186.4	31.8	15.2	23.5	9.6	11.1	4.9	4.9

1 EUR (2009) = 1.96 BGN

COUNTRY: BULGARIA										TABLE 6
GDP										
	VALUE BLN BGN	VALUE BLN EUR	% CHANGE IN CONSTANT BGN							
			FACT				FORECAST			
	2009	2009	2006	2007	2008	2009	2010	2011	2012	
PRIVATE CONSUMPTION	49.0	25.05	8.5	5.1	4.5	-6.2	-0.1	1.9	3.1	
PUBLIC CONSUMPTION	5.1	2.61	-2.5	3.4	-1.4	-4.8	-1.5	2.8	5.4	
GROSS DOMESTIC FIXED CAPITAL FORMATION	16.4	8.39	14.7	21.7	20.4	-26.9	-2.3	3.7	5.7	
EXPORT	33.1	16.92	28.5	23	21.6	-23.3	5.2	6.7	9.7	
IMPORT	38.2	19.53	28.6	29.4	24.1	-28.9	2.1	5.8	8.2	
GDP	66.3	33.90	6.3	6.2	6	-5.3	-0.6	1.3	2.5	

1 EUR (2009) = 1.96 BGN