

Which market companies and sectors suffer the most?

During the first half of 2009 the economy of Bulgaria contracted for the first time since 1997 by 3.5% year to year GDP, this figure is expected to reach 5% by the end of 2009. Consequently the decrease of FDI during the first semester of 2009 is more than 50% when compared to the same period of last year. A large part of the FDI for the past year comprised the inflow of capital within the real estate segment.

Virtually any sector has been touched upon by the global economic crisis. Most affected have been the retail automotive segment; raw materials production; production; transport; textile industry; construction. While the banking sector is deemed stable, the banks have severely lowered financing, both to corporate and private entities.

Despite the spillover effects of the global economic crisis, 6 sectors are still growing, namely the food industry; pharmaceuticals; high-tech industry; renewable energy; recycling; road infrastructure.

Emerging sources of capital for distressed property

The holiday homes market in Bulgaria has experienced rapid development during the past 5 years. Opportunistic investors from Russia and the Middle East have been the main players on the holiday homes market in 2009. Starting with the second quarter of 2009, more and more venture capital fund predominantly Israeli and some British, have entered the market to acquire investment product. Some Chinese and Turkish funds have been directed mainly towards the production sector.

Seized Opportunities in today's markets

The Bulgarian real estate market is tenant driven in 2009. Though companies experience liquidity crunch, some landmark transactions took place in 2009, as the developers and landlords are flexible on pricing, so as to attract tenancies /Bulgarian Telecommunications company has signed an office lease for 22,000 sq.m./. 2009 is the year for lease renegotiations /predominantly noted within the retail segment; acquisitions /predominantly noted in the industrial segment/; relocations /offices/. The market is plentiful with opportunities for well thought out new developments as well, as construction value has significantly decreased.

On the investment side, predominantly listed funds and REITs have experienced restructuring. Many of the funds are undergoing delisting. The last landmark transaction was Q1 of the year where a public fund /Bulgarian Property Developments/ was acquired for a third of the price it was worth in 2008.

Strategies for owners and buyers

While there is still a lack of supply of investment product, a number of new developments are to be completed in 2009 /retail & office/. This product presupposes that owners should be very aggressive on pricing, so as to attract tenancies/ buyers.

On the buyers' side, with the right financing in hand, now is the time to acquire own-use property. The Bulgarian market still lacks revenue generating properties that ensure double digit yield levels for the investor.