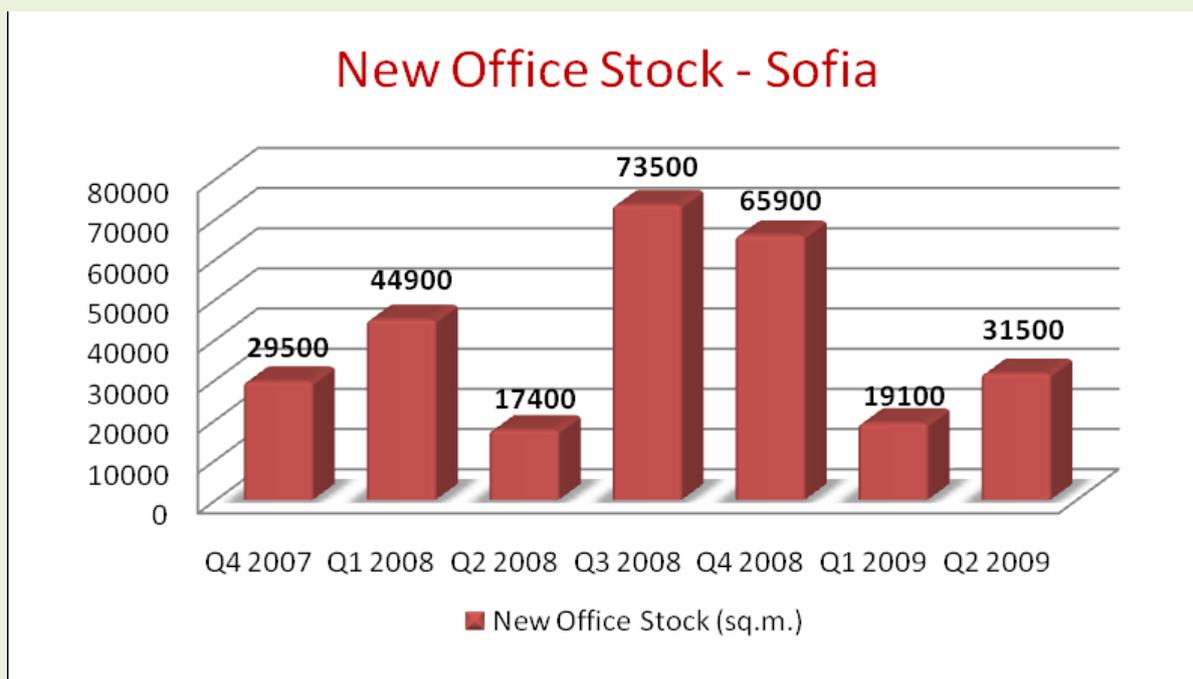


Office Market Overview

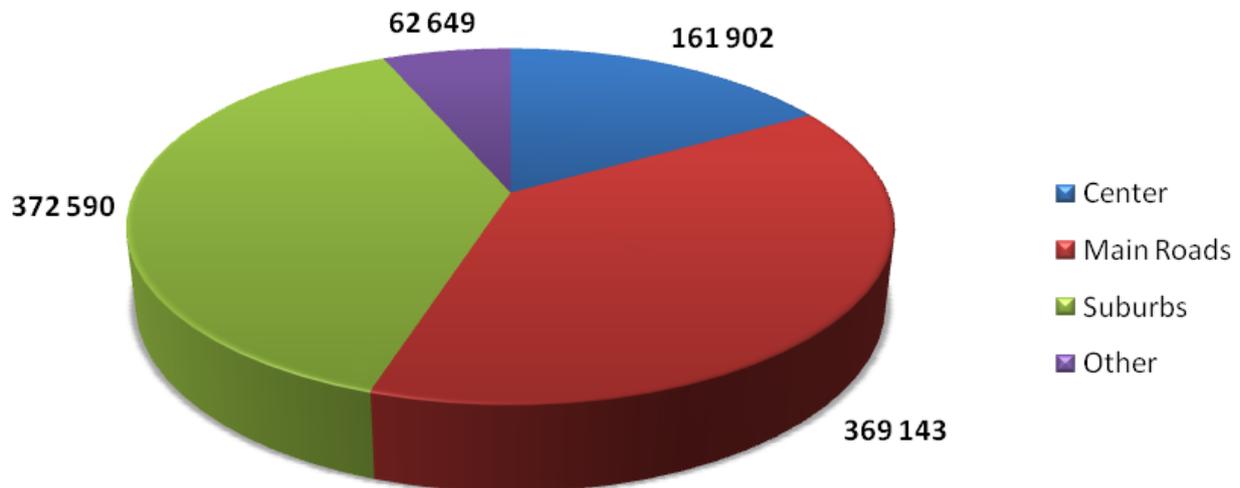
In Q1 of 2009 the Sofia Office market was slowly demandable with increasing vacancy, caused by the decrease in office renting activity. Due to cost-reduction strategies and plans, companies are subletting parts of their offices, while willing to relocate only when there is nothing else left to do. Proprietors are using many means, such as incentives for longer rent-free periods and comfortable contracts, to attract and find potential renters. Furthermore, the market is also being much tensed by the high amount of constructed office space. There are more than 250,000sqm of both Class A and B space that is due to be completed by the end of the year. Only a small amount of the above office space is currently pre-rented. If the current rate of demand would remain, having only half of the above space completed would cause the vacancy level to be twice as much. In 2009, the Investment market also slowed down. Even though gains stopped their movement out, the decrease in the Office rent seems to be permanent. In annual rates, the rent amount decreased by more than 15%, which goes hand in hand with the increase in gains due to the even bigger drop in monetary values.

Stock and New Supply

Current Office reserve in Sofia is more than 1Msqm. Comparing to Q1 of 2009 new supply was increased, but is still somewhat below the 2008 Q4 level. More than half of the office completions were Class A offices, caused by the new industrial centers such as Kampanite Business Center (15,800sqm) and Landmark’s Iztok Tower (9,800sqm). Out of the total stock, Class A offices have increased to about 30%. In Q2 of 2009, more than 50% of the delivered office space was declared to be in non-central location (a.k.a. NCL). 43% of the delivered office space is along the Entrance Boulevards of Sofia (a.k.a. EB). In the Central Business District (a.k.a. CBD) the share of office stock has decreased to about 22% of the total, while having the non-central locations increased to 45% and the entrance boulevards decreased to 33%. Furthermore, about 90% of the new supply is speculative, just like in past quarters. At the end of Q1 of 2009 occupied office space in the capital has dropped to about 14.3% of the total stock.



Regional Office Stock Distribution in Sofia



Demand

Across all types of offices the demand in Sofia has decreased. While the decrease was mainly in lower classes offices in poor locations in Q1, we can see that demand has also decreased in other classes in better, more prestigious locations as well. The low demand has moved the power to the renter's side, causing proprietors to provide more incentives, such as longer rent-free periods. Such incentives to attract renters has been more visible than before. As in Q1 of 2009 negotiations are taking longer than usual, and the renting activity is at halt. In Q2 there were several rent deals that were completed. Some of these deals were Darko that has rented 1,000sqm in Vassilev Business City at 9€ per sqm per month. Also, Cepter had signed a contract for 550sqm of Class B office space in downtown Sofia at 14€ per sqm per month and Estym, a local company, had rented 1,200sqm near Sofia's CBD, on T. Alexandrov blvd. The price remains unknown. We predict that the office renting market shall increase by the end of this year, when the financial and strategic moves would be agreed on.

Rents

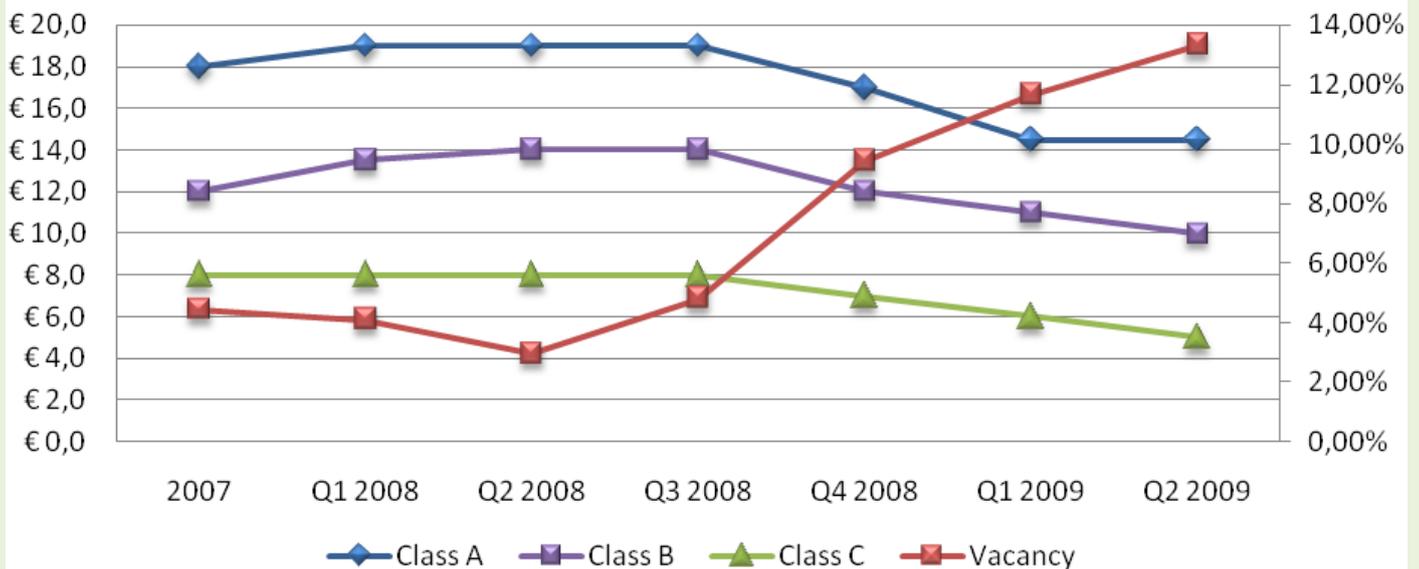
Rentals of prime offices in Sofia had continued to decline, dropping 8.8% from year's start to about 15.5€ per sqm per month. In major boulevards (EB) office rent rates are 12€-14€ per sqm per month for Class A office space, while for lower classes spaces the rates are 8€-11€ per sqm per month. One can notice that proprietors with space in EB and NCL had adjusted faster to the current market conditions, which had caused a greater interest and demand for their spaces within renters looking to reduce renting costs.

Rent rates in NCL, depending on amount, location and duration, vary between 7€-11€ per sqm per month. As opposed to the market trend, office spaces along the Sofia Metro, which is scheduled to connect the western and Eastern of Sofia by September of 2009, seem to have an increase in renting prices. Rents in CBD have decreased as well, though less than in other areas. Due to the prestigious, the limited amount of space available and the quality space in CBD proprietors are less willing to negotiate and lower prices.

Vacancy Rates

Levels of vacancy have increased in all areas and sections, including the CBD area that has the highest occupancy rate. The usual gap between Class A and B has decreased due to cost-reduction strategies and plans. These plans have sometimes caused companies to relocate to different office spaces in other locations and lower prices. Current vacant space is 124,000sqm, which is about 12% of the total office stock. The NCL vacant rate is the highest at about 13%, while the CBD rate is 10.1%.

Office Rents & Vacancy - Sofia



Pipeline

Due to many delayed projects, the Sofia office pipeline had highly increased. If all of the current 2009 projects would end on time, 2009 would have beaten 2008 record high of more than 200,000sqm of office space was completed. Due to the current economic state and the strict financing availability, these projects are not predicted to be finished as scheduled. Out of the announced 300,000sqm which was scheduled for 2009, we predict only about 150,000sqm of office space completed on time, or close to the original scheduled completion.

About 12% of the scheduled pipeline is in the CBD, where more than 50% is around EB. Another important fact is that about 40% of the pipeline has been declared to be Class A space. This shows us the desires of investors and developers to supply the need of renters to find and occupy high quality office space. Bear in mind that this growing need for high quality office space has been increasing before the current financial crisis has emerged in mid 2008. Some of the largest office projects that are scheduled to be completed in 2009 are the BNC office building (22,000sqm), Sofia airport center (office space – 17,500sqm), BenchMark center (17,000sqm), Stella park office complex (14,500sqm) and Bulgaria House (10,500sqm).

| Largest Office Developments Under Construction in Sofia | Location | Office TBA(m2) | Status |
|--|--|-----------------------|--------------------|
| Building | | | |
| Sofia Airport Center | Next to Airport Sofia | 100 000 | Under Construction |
| Alfa Complex | Ring road near BPS | 62 000 | Under Construction |
| Business Town Sofia | Kamenodelska Str. | 53 346 | Under Construction |
| Carrefour Hermes Park | Tsarigradsko Shousse Blvd. | 50 000 | Under Construction |
| Soravia Megapark | Tsarigradsko Shousse Blvd., near Sofia Press | 48 000 | Under Construction |
| Sofarma Office Buildings | Dragan Tsankov Blvd. | 33 000 | Under Construction |
| Litex Complex | Dragan Tsankov Blvd. | 12 000 | Under Construction |
| Serdika Center Mall | Sitniakovo Blvd. | 35 000 | Under Construction |
| Millenium Center | Vitosha blvd. and Bulgaria blvd. | 35 000 | Under Construction |
| Perform Trading Center | Pozitano Sq. | 27 835 | Under Construction |
| Polygraphia Office Center | Tsarigradsko Shousse blvd. | 27 500 | Under Construction |
| Benchmark Business Center | Tsarigradsko Shousse blvd. | 15 400 | Under Construction |
| Evropa Park Sofia | Tottleben Blvd. | n/a | On Hold / Stopped |

| Selected Office Developments Completed in Q2 2009 | Location | Office Space m² |
|--|-----------------|-----------------------------------|
| Building Name | | |
| Bulgaria House | Main Rad | 12 650 |
| Alfa Business Center | Suburbs | 7 826 |
| Ivel Business Center | Center | 3 700 |

| Prime Office Rents in Major Cities in Bulgaria | Rent Levels (€/m²/month) |
|---|--|
| Sofia | €14,50 – €15,00 |
| Plovdiv | €5,00 - €7,00 |
| Varna | €10,00 |
| Burgas | €5,00 - €8,00 |



Outlook & Forecast

Due to the current financial crisis, very few companies are looking to expand and increase their office space, thus the renting activity has almost halted. Furthermore, companies are looking to reduce costs and are doing so by reducing their headcount, or subletting unneeded office space. This increases the vacancy level. The increasing vacancy level puts much pressure on proprietors in all markets and areas. Another difficult burden on the already problematic rental market is the already under construction office space – more than 150,000sqm over the next year. We believe that plans that were not already started will be delayed or canceled. We also foresee that some of the already under construction projects may be delayed due to certain constraints by banks, such as pre-letting up to 50% of the projected space which may cause some financing issues. Regarding the overall market situation, we believe that the market will recover and improve once economy will begin to boost as well. The improving economy will attract foreign investors. In terms of GDP and unemployment rates, there are already some evidences that in certain markets the decrease has been slowing. Though we believe that the uprising will not be fast, the Bulgarian economy goes hand in hand with the Global and EU economies if and when they would begin to improve. We believe that the Bulgarian market will revitalize, having Bulgaria a preferred outsourcing destination in terms of experiences workforce and quality properties.



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