

Investor Report

The Belgravia



Launch July 2007



Table of contents

- 3 Investment Profile
- 4 At a glance
- 5 The Belgravia
- 6 Images
- 7 Specification details
- 8 The location
- 9 The Belgravia location map
- 10 The property market
- 11 Real estate in Sofia
- 12 Bulgaria, key facts
- 13 Purchase procedure
- 14 Disclaimer



Investment profile

Located between the prestigious area of Lozenets and Sofia's business district and with stunning views of Vitosha Mountain, The Belgravia sits within one of Sofia's key growth areas. This private complex is in the heart of the University Quarter, and is naturally protected by surrounding parks, sports fields and university buildings.*

In this phase, there will be four residential buildings each with between 23 and 29 premium studios, one-bed and two-bed apartments. The development has three phases of construction, with the second phase launching in July 2007.

Our architecture and construction brief was to develop apartments that have strong appeal within the local market in order to maximise rental return and reselling prospects. Gated communities with leisure and parking facilities have become increasingly popular within the Sofia market, and with limited room for expansion so close to the city centre, demand for such accommodation is high. Accordingly, rental returns from these apartments will have a premium and there will be a dedicated onsite rental and management company available for our clients.

"Bulgarians' understanding of luxury is changing. The once-coveted luxury villas of 10 years ago... are still selling for millions of euros... Even those who commissioned these houses are now migrating to upscale gated communities, the market's rising star, here to feed the demand for luxurious living. There are at least 15 residential gate communities currently in the works in Sofia alone..."

Gated residential properties grow popular in Bulgaria,
Propertywise, March 2007

* As of 27th December 2006 a new law was passed prohibiting any new building in this area, reserving it for sport and recreation facilities only.



At a glance

Product:	Premium apartments within private complex.
Number of units:	98 (4 residential buildings).
Location:	Within the greenbelt of the University Quarter, Sofia.
Development stage:	Phase II (phase I sold out to local market in 3 months).
Entry level:	£32,000
Payment structure:	Off plan - 35% / 30% / 30% / 5%.
Rental market:	Business professionals, university professionals, international under/postgraduates*.
Rental return:	Between 5% and 7%.
Rental occupancy:	High.
Construction starts:	July 2007.
Construction period:	24 months.
Recommended term:	3 to 5 years.
Secondary market:	Local professional, business expats and investors.
Market growth:	Average of 20% per annum (2002-2006).
Long term drivers:	EU accession, increased foreign investment, lowering of interest rates, introduction of mortgages, limited room for expansion.
Short term multipliers:	Increased investment in the University Quarter; infrastructure development, continued growth of Sofia Business District.

* 12% of graduates in the university quarter are international students, who pay up to 11 times the average Bulgarian tuition fees and have a relatively high disposable income.



The Belgravia

The architects of The Belgravia have created a unique and pragmatic concept within this protected area of Sofia. Their brief was to design the perfect environment that met the lifestyle and work demands of local business and university professionals. Creating efficient and modern living spaces within a natural and calm private community, they have achieved an exceptional balance rarely found in such a vibrant and evolving city.

The complex

Accommodation:	55 studios. 19 one-bed apartments. 24 two-bed apartments.
Finishing:	Complete to high specification (see specification details overleaf).
Furnishing:	Additional to purchase price.
Elevators:	Each building has a low-noise elevator.
Additional spaces:	Most studios & apartments have a balcony or private garden.
Communal facilities:	Concierge. 24-hour security. Property management & rental. Maintenance. Key card gate system. Gardening. Cleaning. Gym and sauna. Health & beauty salon. Restaurant. Underground parking. Broadband, cable TV.
Additional facilities:	Access to tennis courts, 50m pool and other sport facilities.

Images





The specification details

Kitchen:	Tiled floor. Complete units, fitted sink, twin taps and wall cupboards with built in lights.
Plumbing:	All piping and central heating included.
Bathroom:	Bath* and taps, toilet, basin and mono block tap mixer sink, complete shower unit, extractor fan and fittings and accessories. Floor and wall tiles.
Communications:	Internet, phone and cable TV access.
Electrical:	Switches and sockets throughout.
Heating:	Centrally heated radiators throughout.
Entrance doors:	Reinforced security doors (quadruple lock).
Doors:	High quality internal complete with door furnishing.
Windows:	High quality double-glazed.
Floors:	Parquet throughout complete with wood edging, except kitchen and bathroom, which will be tiled.
Walls and ceilings:	Smooth plaster and painted.
Lighting:	Spotlights throughout.

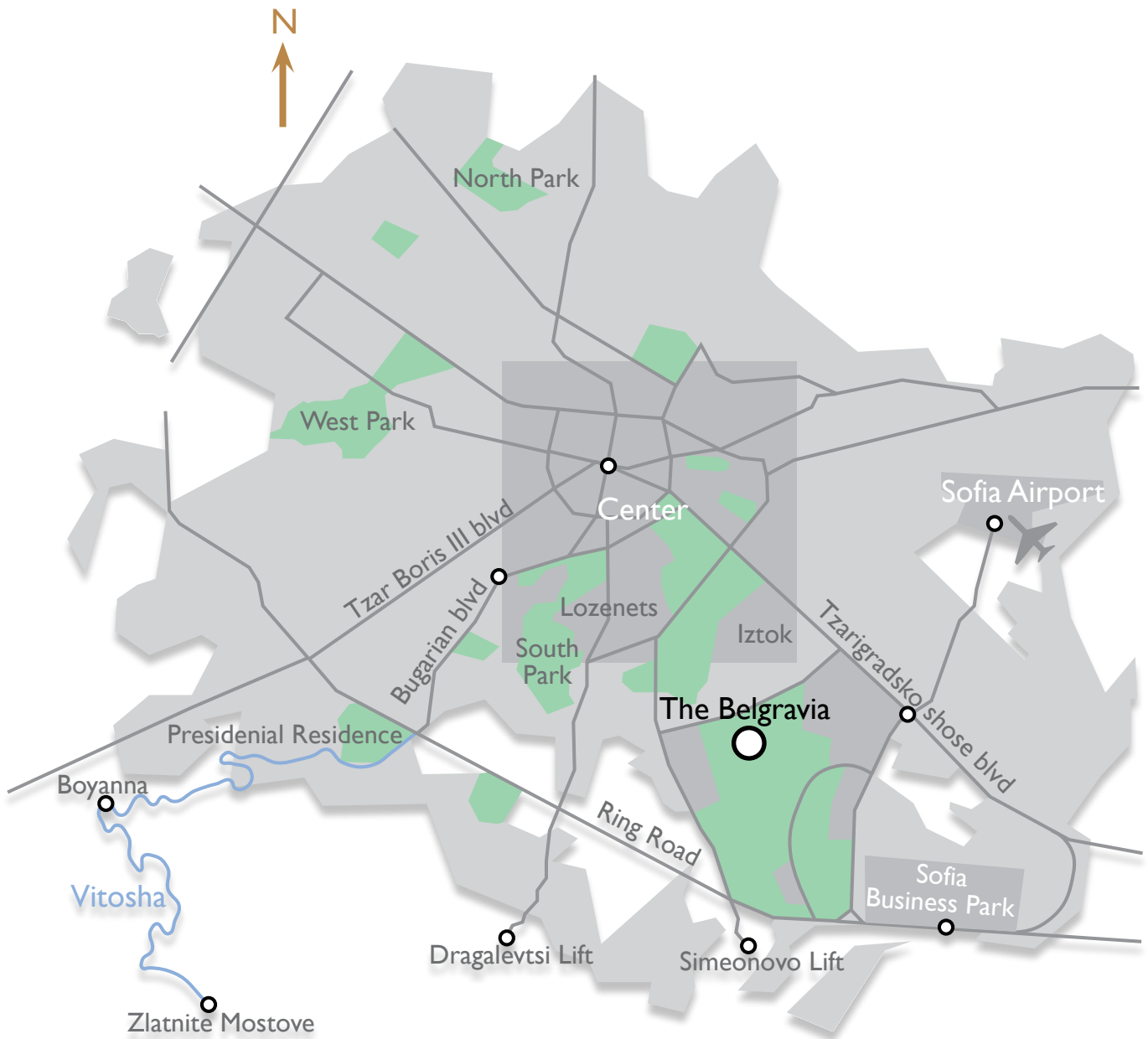
* Some studios do not include baths



The location

- University Quarter, Sofia (greenbelt district).
- One of the fastest growing areas of the city.
- Ten minutes drive to city centre.
- Five minutes drive to the business district.
- Easy access to and from Sofia Highway and Sofia airport.
- Prime residential area for embassy staff.
- Within walking distance of two underground stations.
- Under 2km from Vitosha skiing, next to the National Sports Academy and Winter Palace of Sport.
- Surrounded by parks, playing fields and university buildings.
- Excellent views of Vitosha Mountain.
- Investment from multinationals flooding into the area.
- Comprehensive plans to develop local infrastructure are well underway.

The Belgravia location map



The Bulgarian property market

It is generally forecasted that property values in Bulgaria will continue to increase at a double-digit rate over the next three to five years largely because of mortgage lending potential.

Currently, mortgage loans are 5% of the total credit supply within the local banking sector. The increasing number of mortgage loans continues to stimulate the internal residential market. In developed markets, this rate is usually in the range of 15%.

In addition, there has been increased direct and indirect foreign investment in real estate. Bulgaria remains a country with extremely low real estate and land prices compared with Western European and most Eastern European states. Also, the costs associated with property transactions in Bulgaria are generally much lower than in developed economies. All properties are bought freehold and more than 90% of occupied residential property is owner occupied.

The harmonisation of Bulgarian legislation with that of the European Union means that the actual process of a real estate transaction in Bulgaria is not significantly different now to the procedure that exists in other European countries.

The real estate market in Bulgaria is, after ten years of transition from communism to a functioning market economy, just starting to approach the conditions that already exist within more developed countries with respect to the processes and market realisation. As a result it has achieved its status of an emerging and independent new branch of the European economy.

In 1994 The National Real Property Association (NRPA) was set up to protect the investor's private property rights, to create an efficient and equitable real estate market and to establish professional and ethical rules within the real estate profession.

In September 2002, with the support of the American Chamber of Commerce, NRPA introduced an index of real estate and investment activity of the market in Bulgaria. It is the first country in Central and Eastern Europe to establish such an index. This is considered a serious indicator of investment activity and business development.

With increased purchasing power, product and asset price inflation is expected. In Sofia, this is mainly due to strong investment in properties from Bulgarians living abroad, as well as from foreign investors.

In a recent real estate review compiled by Colliers International they state that "in addition to increasing demand from foreign expatriates (and the expected increases in tourism) the next few years also looks set to be revolutionary in terms of demand from wealthier Bulgarians as many banks have now started to offer mortgage financing, and as a result the demand for quality houses and apartments will continue to gradually increase". Most of the recent rise in the Real Estate Market Index was indeed driven by the increase in the cost of luxury apartments by some 5-6%.

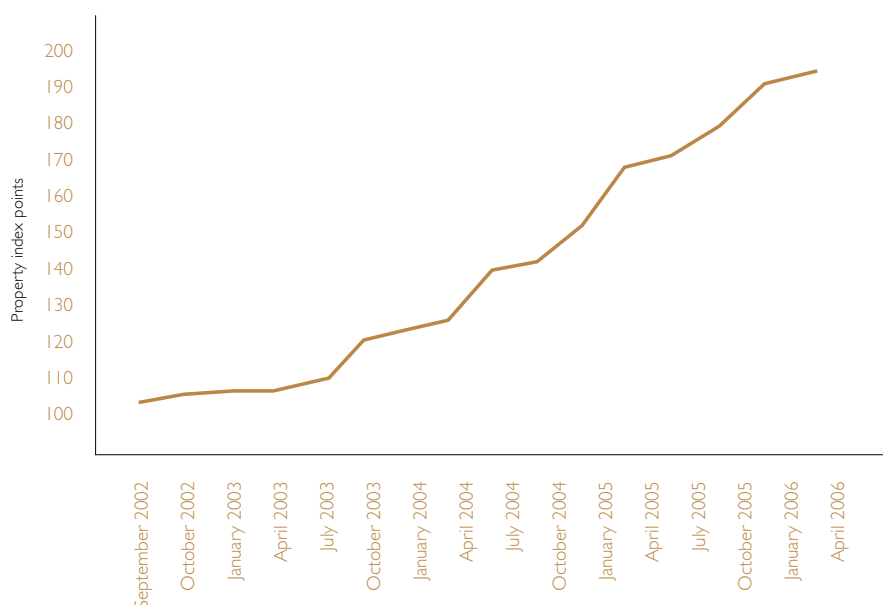
"Over the last several years Bulgaria has made impressive progress towards long-term stability and sustained growth. As a result of sound macroeconomic policies and deep structural reforms, average growth has reached the levels of the eight recent EU entrants (EU8) at close to 5 percent per year..."

World Bank

"Bankers and other employees in London's financial industry are set to spend 3 billion pounds (\$5.3 billion) of their 2005 bonuses on buying more than 20,000 new homes in the next few months, according to a report published today. Some of the bonuses will be spent on buying real estate overseas in countries such as Bulgaria."

Bloomberg - 2006

Bulgarian property sales 2002 to 2006



Source: The National Real Property Association, Real Estate Market Index

Real estate in Sofia

This vibrant financial and commercial centre is Bulgaria's largest city, home to the Bulgarian National Bank, the Bulgarian Stock Exchange, as well as some of the country's largest commercial banks (such as Bulbank, DSK Bank and the United Bulgarian Bank). The city accommodates nearly a quarter of the entire country's population.

Manufacturing, construction, trade and transport are the primary sectors of the local economy. Increasingly, Sofia is attracting attention as an outsourcing location for Western European and American multinationals. Sofia is also the headquarters for major Bulgarian and international companies operating in Bulgaria and Eastern Europe. Sofia population has doubled over the past 10 years and the unemployment rate in the city is only 3 percent, compared to average European levels at 10 percent.

Sofia is tackling congestion challenges by improving the infrastructure (which includes a major new highway and bypasses) and transport links, including an underground railway network, which is expected to be operational by the end of 2007.

Over the past 18 to 24 months there has been a trend towards property investment in the capital. As a result the real estate market in Sofia has achieved growth of up to 100% during this period. Residential areas close to Sofia's central business district have limited room for expansion as the EU ecological and preservation standards restrict mass development. As a result, these areas are experiencing highest demand, particularly for premium accommodation which is in limited supply. Suburbs are expected to develop, and properties close to the central areas are expected to increase in value.

Newly built properties (particularly gated communities) have become the preferred option compared with the traditional purchase of renovated, older apartments. The first quarter of 2007 has seen an increase in the number of residential developments sold off-plan, expected to be delivered on the market within six to twelve month's time.

Mortgage-financed purchases also gained momentum during the period. One and two bedroom apartments currently register the highest demand.

Property prices are still considered to be in their infancy stages of growth in comparison to other European cities.

"Liam Bailey, Knight Frank's head of residential research, describes Bulgaria as 'one of the big winners' in capital appreciation since the millennium. He says: 'Slowly you'll see its properties and amenities going up-market. It's a place to watch.'"

The Independent, June 2007

"The world trade organisation forecasts that by 2010 Bulgaria will be visited annually by 20 million tourists – the forecasts make Bulgaria one of the world's most promising international tourist destinations. Married to the strong economic growth and political stability described below, Bulgaria continues to be a strong investment prospect..."

Blogspot

Comparison of average property prices in prestigious areas of Sofia, London and Madrid

Prestigious Residential Areas	Sofia		London		Madrid	
	Euro	GBP	Euro	GBP	Euro	GBP
Studio	36,000	30,000	235,000	163,000	170,000	117,000
One bedroom	65,000	45,000	390,000	270,000	220,000	153,000
Two bedrooms	90,000	62,000	790,000	547,000	320,000	222,000
Three bedrooms	130,000	90,000	1,030,000	714,000	780,000	541,000



Bulgaria key facts

- Highly skilled, multilingual workforce at Europe's most competitive wages.
- GDP 6.5 per cent (2006 Est).
- Stable and predictable business and political environment, economic stability and strong growth.
- Parliamentary democracy.
- EU Membership has given access to markets of over 500 million consumers.
- Already a full member of NATO.
- The lowest operational costs and tax rates in a European market economy.
- Industrial goods traded duty free between Bulgaria and the EU, EFTA, CEFTA and Turkey.
- Flat corporate income tax rate of 15% (expected to decrease further) and free movement of capital.
- No restrictions on after-tax repatriation of profits.
- VAT exemption on equipment imports for investment projects over 5 million Euros.
- Annual depreciation of 30% for machinery & equipment, 50% for new equipment used in entirely new investment or expansion and 50% for software and hardware.
- 55 treaties for avoidance of double taxation and 52 agreements on mutual protection and promotion of foreign investment.
- Excellent climate, natural scenery, food and hospitality.
- Three-hour flight time from UK airports; increasing number of low-cost airlines flying to Bulgaria.



Purchase procedure

Payment structure for The Belgravia, Sofia is as follows:

- 1,500 Euros on reservation - This fee is refundable within 7 days.
- 35% on Exchange of contracts within 21 days (less reservation fees).
- 30% on block completion, expected July 2008.
- 35% on final completion, expected July 2009.
- Mortgages available up to 85% LTV.

Outline of purchase procedure

1. If you wish to reserve an apartment, complete and print off the 'Reservation Form' (included with the specification details) and fax to MHK International on +44 (0)7092 316 310, specifying which apartment number(s) you are interested in.
2. Once we receive your completed reservation form, we will ensure that the number and type of apartment(s) you have requested are reserved in your name. Apartments will be reserved on a first-come first-served basis and will be provisionally reserved for 48 hours.
3. During this period you will be referred to a solicitor who will guide you through the process.
4. We will also provide you with the details of our Client Bank Account and will request a deposit of 1,500 Euros reservation fee per apartment (NON-REFUNDABLE after 7 days).
5. Once your reservation funds have been acknowledged, you will be required to sign a Power of Attorney (POA) agreement with a Notary solicitor.
6. Upon signing the POA agreement, your solicitor will prepare the 'Contract of Sale', which will include all the precise terms of the sale.
7. You will receive a copy of the 'Contract of Sale' to review before the solicitor signs on your behalf.
8. An arrangement for the first 35% deposit, less the reservation fee needs to be made within the 21-day period of reservation into the designated Client Account to exchange contracts.
9. Once you have paid the 35% deposit, you will receive a copy of the signed 'Contract of Sale'.
10. You will then be required to make a further payment of 30% at the second stage (around July 2008).
11. Upon completion of internal construction, you will be required to pay the remaining 30%.
12. The remaining 5% will be payable upon total completion and notary transfer.
13. Alternatively, as each apartment comes with re-assignable contracts you have the option to resell the property anytime after exchange.
14. Mortgage finance up to 85% LTV can be obtained from our associate financial institutions and finance agreements will be in accordance with the institutions' prevailing policies, terms and conditions.



Disclaimer

Information provided by MHK International Ltd and related information is based on current market conditions and expectations.

MHK International Ltd is not responsible for future changes in the market or market conditions and mortgage applications are subject to individual status.

Whilst MHK believes the information to be accurate, the information should not be relied upon by any potential purchaser in making a decision to purchase property. Intending purchasers should instead satisfy themselves by physical inspection of the property (or site) in question or otherwise as to the accuracy of the information including wherever possible requesting advice from a solicitor (to check the plans and specifications before exchanging contracts) and other professional advisers.

Consequently, no information presented in these particulars and/or displayed on the MHK International Ltd web site (or any linked site) constitutes or forms part of a contract or a binding legal obligation on the part of MHK International Ltd.

Any areas, measurements or distances are approximate only. The text, photographs and plans are for guidance only and are not necessarily comprehensive.

A purchaser will enter into any Contract of Sale with Translog Joint-Stock Co, Bulgaria.

For new built properties, purchasers must satisfy themselves by inspection or otherwise.

All 'off-plan' particulars are prepared from preliminary plans and specifications before the completion of each property and are intended only as a guide.