



EASTERN EUROPEAN EMERGING MARKETS

A CASE FOR INVESTMENT IN BULGARIAN REAL ESTATE

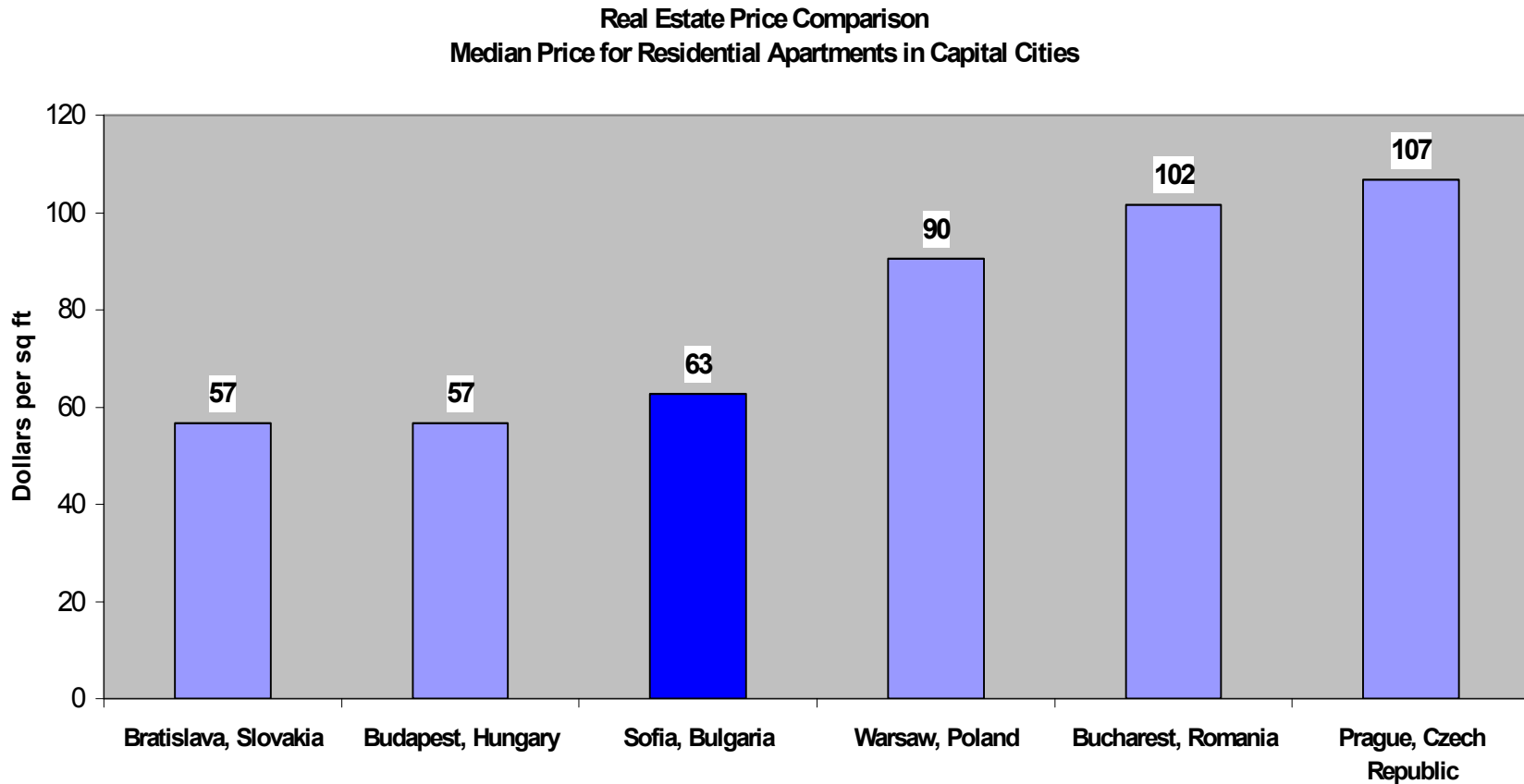
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Investment Opportunity

Comparative Value

Current price levels are still well below other comparable cities.



Source: European Council of Real Estate Professionals & Bulgarian National Statistics Institute

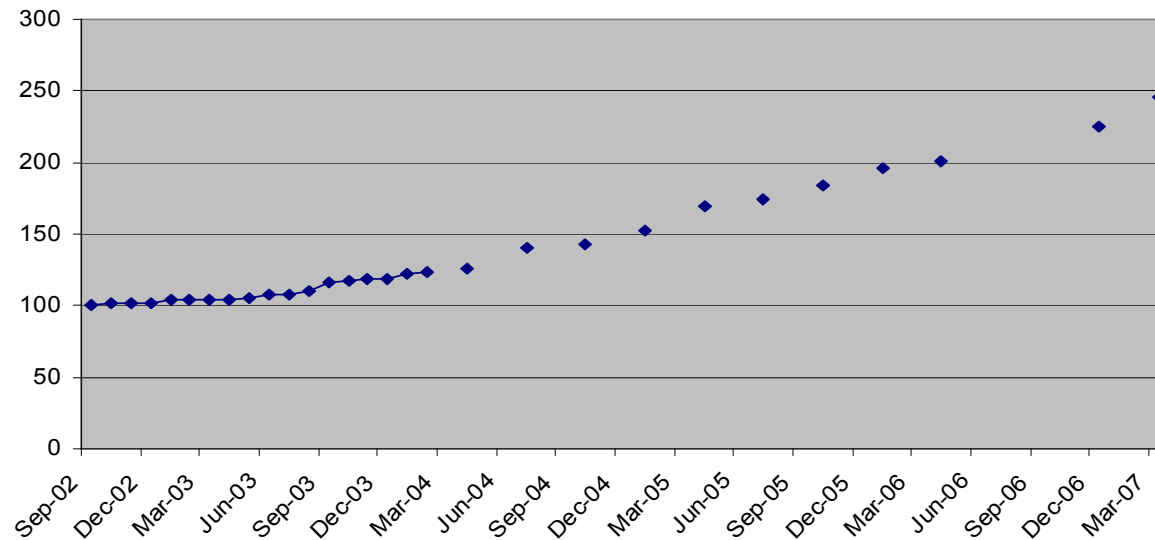
Bulgarian Price Trends

Bulgarian real estate prices continue to trend higher.

⇒ **2006 estimates range from 15% to 22% higher for the year**

⇒ **2007 first quarter is estimated at 9% higher**

Bulgarian National Real Property Association Index



* Sep06 & Jan07 estimates

Sources: Bulgarian National Statistical Institute, Wall Street Journal, Knight Frank, Bulgarian National Real Property Association.

Investment Opportunity

Real Estate as an Alternative to Emerging Market Stocks

Small stock market capitalizations of many emerging markets in Eastern Europe limit opportunities for stock related investments.

Market capitalization	Year Ending 2006	
	Billions of Euros	% of EU 25
Bulgaria	2.9	0.03%
Slovakia	4.4	0.04%
Romania	21.7	0.21%
Hungary	31.6	0.31%
Czech Republic	57.9	0.56%
Poland	112.8	1.10%
European Union (25 countries)	10,287.0	
United States	14,644.0	

- ⇒ **Some attractive emerging markets have few publicly traded, high quality companies in which to invest.**
- ⇒ **Private equity deals can be appealing, but not always accessible.**
- ⇒ **Real estate offers a direct way to participate in a country's growth; if the economy expands, the price of real estate is likely to follow.**

Bullish Factors

Per-Capita Income Trending Higher

Very high growth rates in personal income are likely to translate into increasing demand for real estate.

⇒ **Higher income allows for higher expenditures on goods and services, including real estate and mortgage payments.**

Bulgaria is one of the fastest growing economies in its group and in the EU overall. Granted, these numbers are percentages of relatively small absolute amounts. But, as income rises, an increasing percentage of family income coupled with a higher real Euro amount will be targeted towards housing costs, thus enhancing demand for real estate.

Growth rate of real GDP per capita %										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average
Romania	0.00	9.09	8.33	7.69	7.14	6.67	6.25 f	5.88 f	5.56 f	6.49
Bulgaria	9.09	8.33	0.00	7.69	7.14	6.67	6.25	11.76 f	5.26 f	6.45
Hungary	7.69	4.76	4.55	4.35	4.17	4.00	3.85	3.70 f	1.79 f	4.77
Slovakia	0.00	3.03	5.88	2.78	5.41	5.13	9.76	8.89 f	6.12 f	4.57
Poland	2.86	2.78	0.00	5.41	5.13	2.44	7.14	4.44 f	6.38 f	3.68
Czech Republic	2.33	4.55	2.17	2.13	4.17	6.00	5.66 f	5.36 f	5.08 f	3.56
EU 25 Countries	3.51	1.69	0.56	1.10	1.64	1.08	2.66	2.59 f	2.53 f	1.75
EU 15 Countries	3.55	1.47	0.48	0.48	1.91	0.94	2.33	2.27 f	2.22 f	1.59

(f) Forecast Source: Eurostat

Bullish Factors

Attractive Out-sourcing Destination

Highly educated population, low wage costs and local proximity make Bulgaria primed to become a major out-sourcing location.

⇒ **Bulgaria is extremely competitive in wage costs compared with other out-sourcing locations, including Asia.**

Out-Sourcing Costs Comparison

City	Average Hourly Wage	Annual Incomes for Skilled Industrial Workers	Annual Income for Call Center Employees
Sofia, Bulgaria	\$2.10	\$5,800	\$3,700
Bratislava, Slovakia	\$3.80	\$10,100	\$11,800
Bucharest, Romania	\$3.00	\$5,600	\$10,800
Budapest, Hungary	\$4.50	\$8,500	\$17,700
Prague, Czech Republic	\$5.50	\$12,700	\$14,500
Warsaw, Poland	\$4.40	\$8,600	\$10,900
Average	\$4.24	\$9,100	\$13,140
Beijing, China	\$2.00	\$4,800	\$22,400
Delhi, India	\$1.40	\$6,300	\$5,400
Mumbai, India	\$1.60	\$6,400	\$4,900
Shanghai, China	\$2.60	\$6,700	\$20,100
Average	\$1.90	\$6,050	\$13,200

Source: UBS Price & Earnings Report 2006

Attractive Out-sourcing Destination (2)

⇒ **Education levels in Bulgaria are above average in Europe.**

Portion of the Population to have Completed Upper Secondary Education		Year 2006
European Union (25 countries)	69.7%	
Romania	74.2%	
Bulgaria	75.5%	
Hungary	78.1%	
Poland	85.8%	
Slovakia	88.8%	
Czech Republic	90.3%	
Average for Similar Countries	82.1%	

Source: Eurostat

⇒ **Other Key Out-Sourcing Features Compared to Asian Locations**

- No currency exposure for Europe since the Bulgarian currency is pegged to the Euro.
- Lower shipping costs and transportation time.
- Much greater cultural similarity to Europe and the West.
- High degree of fluency in commonly spoken Western languages.

Influx of EU Investment Capital

A significant flow of capital is being made available to Bulgaria from European institutions.

- ⇒ **The funds are designed to improve infrastructure, build government institutions and promote public projects. Thereby, substantially adding to size of the economy and improving the overall conditions in the country.**
- ⇒ **Financial assistance from the EU totaling \$4.4 Billion has been allocated to Bulgaria for the period 2007 through 2009. Based on the most recent GDP figures, this translates into an increase of 5.5% in the economy per year.**
- ⇒ **The World Bank has recently committed over \$222 Million to Bulgaria for projects designed to improve the quality of public services and upgrade infrastructure, especially in ways that improve pan-European trade. Some examples include:**
 - Health and sanitation projects
 - Public administration and law
 - Access to urban housing
 - Municipal governments
 - Improving labor markets
 - Increasing civic engagement
 - Roads and highways

Focus on Capitol City

Strategic factors unique to Sofia, Bulgaria's capitol and main city, are likely to continue to contribute to out-sized demand for real estate in that area.

⇒ **Population migration to Sofia adds to the demand for housing.**

The continued growth in the population of Sofia and the increasing proportion of the national population that is migrating to Sofia are both likely to continue to be major forces in driving the demand for housing.

Population Trends			
	1999	2006	% Change
Sofia Metro Area	1,326,377	1,608,406	21%
Bulgaria	8,230,371	7,718,750	-6%
% in Sofia	16%	21%	29%

Source: Eurostat

Focus on the Capitol City (2)

⇒ **The higher level of overall activity in Sofia is likely to lower the risk of a major downturn in real estate prices during an economic slowdown, as well as increase the potential returns in the long term.**

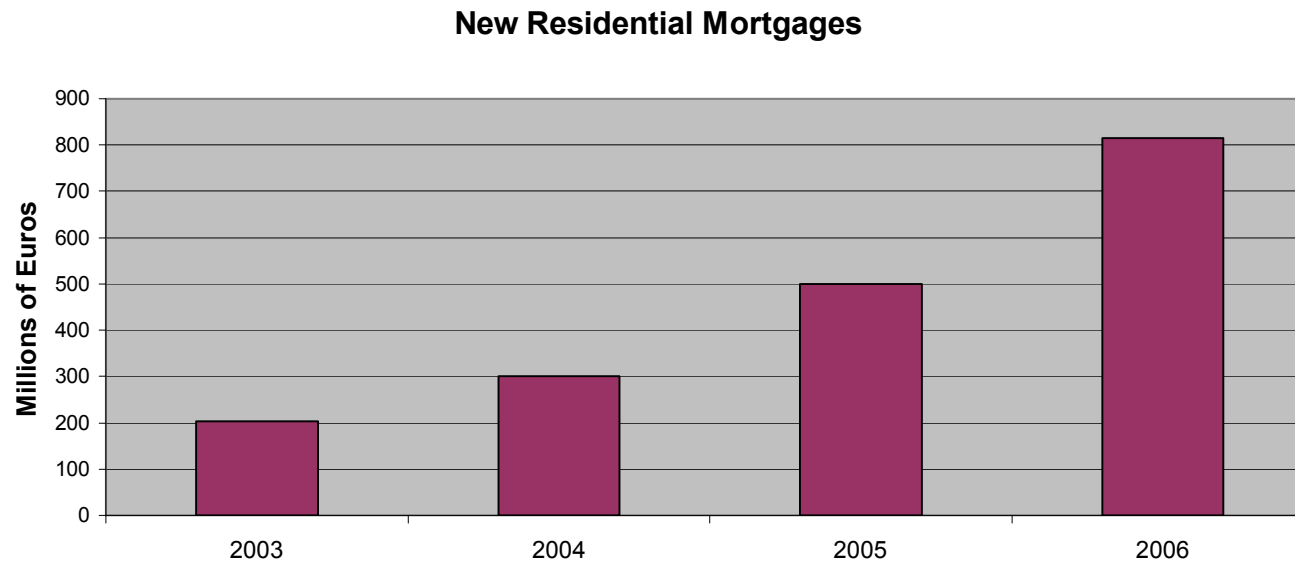
Sofia is the center of Bulgaria's economic, political and cultural life. It is the capital of Bulgaria and the home of the central government and related agencies. Sofia is also:

- Home to 16 major universities, the Bulgarian Academy of Sciences, the National Library and most national institutions.
- The manufacturing sector of the economy, which is significant, is represented by over 800 large plants.
- Home to the Bulgarian National Bank, the Bulgarian Stock Exchange, and most of the country's largest commercial banks.
- Local headquarters for most major Bulgarian and international companies. It is especially attractive to nearby non-EU countries that prefer a nearby venue within the European Union.

Mortgage Lending Growth

Mortgage lending for residential housing and apartment purchases has been steadily increasing.

- ⇒ Bank mortgages only became readily available to the public at the beginning of the decade.
- ⇒ Continued growth of mortgage lending will add demand to the real estate market.



Sources: Bulgarian National Bank, Sofia Echo

Bullish Factors

Business and Industrial Growth

Economic growth has grown faster in Bulgaria than in the European Union as a whole.

⇒ **GDP per person as measured using PPP (purchasing power parity) has shown substantial gains each year. This implies continuing growth in demand for goods and services, including housing.**

Gross Domestic Product Growth adjusted for purchasing power parity

	2000	2001	2002	2003	2004	2005	2006(f)	2007(f)	2008(f)
EU 25 Countries GDP Annual Change	6.9%	3.5%	3.4%	1.4%	4.1%	3.5%	4.7%	4.9%	4.3%
Bulgaria GDP Annual Change	8.2%	11.3%	3.4%	11.5%	7.4%	8.2%	11.4%	10.2%	11.3%

(f) Forecast

Source: Eurostat

Bullish Factors

Increasing Foreign Investment

Foreign investment has been steadily increasing as Bulgaria modernizes and becomes more integrated into the international community.

⇒ **Foreign Direct Investment (FDI) has been on the rise.**

Foreign Direct Investment	2003	2004	2005	2006
Million of Dollars Invested	2,097	3,461	3,869	5,172

Source: InvestBulgaria Agency 2007

Increasing Foreign Investment (2)

⇒ **Many International firms are present in Bulgaria.**

For example, as of the January 2007, 267 companies are listed as member of the U.S. Chamber of Commerce in Bulgaria. The following is sample from that list:

- 3M AG - High-Tech, Telecom
- Abbott Laboratories S.A. - Pharmaceutical and Medical
- ADIS Ltd. - Construction and Real Estate
- AES Corporation - Industrial Equipment and Energy
- Avendi Ltd. - Food and Beverages
- AVON Cosmetics Bulgaria Ltd. - Consumer Goods
- BAE Systems International Ltd. - Defense
- Baxter AG - Pharmaceutical and Medical
- Bayer Bulgaria EOOD - Pharmaceutical and Medical
- CallCenterBulgaria - Services
- Century 21 - Construction and Real Estate
- Cisco Systems - High-Tech, Telecom, and Office Equipment
- Citibank N.A. - Financial and Insurance
- Coca-Cola - Food and Beverages
- Colgate-Palmolive Adria - Consumer Goods
- Colliers International - Construction and Real Estate
- Eli Lilly and Company - Pharmaceutical and Medical
- Ernst & Young Bulgaria - Law and Consultancy
- European Bank for Reconstruction and Development
- General Electric International - Industrial Equipment and Energy
- GlaxoSmithKline - Pharmaceutical and Medical
- Goodyear Dunlop Tires Romania - Consumer Goods
- Grey Worldwide - Marketing and Advertising
- Hewlett-Packard - High-Tech, Telecom, Office Equipment
- Honeywell - Industrial Equipment and Energy
- IBM - High-Tech, Telecom, and Office Equipment
- ING Bank - Financial and Insurance
- Johnson & Johnson - Pharmaceutical and Medical
- KPMG Bulgaria - Law and Consultancy
- Kraft Food- Food and Beverages
- Maersk Ltd. - Services
- Magnetic Head Technologies - Industrial Equipment and Energy
- Marsh EOOD - Financial and Insurance
- McDonald - Food and Beverages
- Merck Sharp & Dohme IDEA Inc. - Pharmaceutical and Medical
- Moody International Ltd. - Financial and Insurance
- Motorola - High-Tech, Telecom, and Office Equipment
- National Distributers - Consumer Goods
- NATO Defense College Anciens - Defense
- Oracle - High-Tech, Telecom, and Office Equipment
- Outsource Partners International - Outsourcing, IT Services
- Pfizer Luxembourg SARL - Pharmaceutical and Medical
- Philip Morris Bulgaria - Consumer Goods
- Pratt & Whitney - Defense
- PricewaterhouseCoopers - Law and Consultancy
- Procter & Gamble Bulgaria - Consumer Goods
- Rockwell/Intelpack - Industrial Equipment and Energy
- Scandinavia Motors Ltd. - Automobile
- Schering - Plough - Pharmaceutical and Medical
- Sheraton Sofia Hotel Balkan - Travel and Tourism
- Siemens EOOD - High-Tech, Telecom, and Office Equipment
- Tishman Management Ltd. - Construction and Real Estate
- VISA International Service Association - Financial and Insurance
- Westinghouse Energy Systems - Industrial Equipment & Energy
- Wrigley - Food and Beverages
- Xerox - High-Tech, Telecom, and Office Equipment

Source: US Chamber of Commerce 2007

Stable Political Environment

A Parliamentary style government has led Bulgaria with a steady commitment to democratic principals uninterrupted since the fall of Communism in 1991.

- ⇒ **The government of Bulgaria has been committed to democracy and has governed the country well since the parliamentary republic was established in July of 1991.**

- ⇒ **The following compare three independent, well-known measures of a country's commitment to democratic principals, each ranking 150 nations of the world.**

Freedom House is an independent, non-governmental organization, located in the United States. Presently, it is probably the best-known measure for democracy. Their ranking is based on an average of various indices measuring political freedom and civil liberties; based on a scale of one to seven, one being the highest.

Freedom House Democracy Index 2006	Selected country ranking
Slovakia	1.96
Hungary	2.00
Poland	2.14
Czech Republic	2.25
Bulgaria	2.93
Romania	3.39
Russia	5.75

Stable Political Environment (2)

World Audit is an international, non-profit company, in England. Their World Audit report takes into account the state of public corruption, current practice in human rights, political rights, free speech, and the overall state of the rule of law. They compile this information into a “world democracy table.”

World Audit Democracy Ranking 2007	Selected country ranking
United States	15
Hungary	23
Czech Republic	24
Slovakia	27
Poland	30
Bulgaria	37
Romania	57
Russia	124

The Economist Intelligence Unit is part of the Economist magazine of Britain. Their Democracy Index is based on five categories: electoral process and pluralism, civil liberties, the functioning of government, political participation, and political culture.

Economist Intelligence Unit Democracy Index 2006	Selected country ranking
United States	17
Czech Republic	18
Hungary	38
Slovakia	41
Poland	46
Bulgaria	49
Romania	50
Russia	102

Socially Cohesive

Bulgarian life is notably cohesive, lacking in any strife or tendency towards disruptions from social unrest.

⇒ **Bulgaria ranks high in quality of life and gender relations.**

The Human Development Index (HDI) is a standard means of measuring well being; it is a comparative measure of life expectancy, literacy, education, and standard of living; Bulgaria ranks 54th out of 177 countries.

Another index, the Gender-related Development Index (GDI,) measures equality between the sexes. Bulgaria ranks 8th out of 136 countries.

Source: Human Development Report 2004

⇒ **Bulgaria's population is very homogenous, reducing the likelihood of friction between differing groups.**

Ethic Groups		Religions	
Bulgarian	83.9%	Bulgarian Orthodox	82.6%
Turkish	9.4%	Muslim	12.2%
Roma	4.7%	Roman Catholic	0.6%
Other	2.0%	Protestant	0.5%

Source: US Dept of State 2001

Crime and Corruption Factor

Bulgaria continues its serious efforts to stem corruption, but it remains an on-going problem.

- ⇒ **There is no significant conventional crime problem; annual numbers in most all categories have been decreasing.**
- ⇒ **Corruption is still an issue with some government officials; most cases tend to involve improper privatizations.**
- ⇒ **Larger strides have been made at cleaning up the issue of small bribes encountered in dealing with some lower level public servants.**
- ⇒ **Overall, the public is far less tolerant of corruption than ever before and should continue to press for change.**

Pro-Active Taxation Policies

Internal tax policies of Bulgaria are progressive and intended to promote growth. The treatment of capital gains and profits earned by foreigners in Bulgaria is fair and straightforward.

- ⇒ **Bulgarian corporate tax rates are very pro-growth at only 10%.**
- ⇒ **VAT exemptions are available for most real estate dealings.**
- ⇒ **The United States is among 61 countries with a treaty avoiding double taxation.**
- ⇒ **Foreigners are legally able to own property and land either directly or through a wholly owned local company.**

Reliable Title and Property Rights

The judicial system has taken property rights and clear title seriously by recently establishing a new official property records department.

- ⇒ **All real estate transactions must follow a set procedure within the courts to establish clear title before any deal can be completed. The outcome of this process is considered final in most all cases.**
- ⇒ **Since a large portion of the current real estate dealings involve newly constructed buildings, a large part of any title risk is greatly reduced.**
- ⇒ **The World Bank “Doing Business 2007” report ranks Bulgaria 33rd out of 175 countries in “Protecting Investors” and 65th in “Property Registration” procedures.**

Professional Relationships

Global Quest has an established vetting procedure to measure the reliability and quality of work of any builders or construction companies before engaging in any business dealings.

- ⇒ **All company's and builder's references are checked.**
- ⇒ **Independent references are also sought through local channels and checked in addition to those offered by a company or builder.**
- ⇒ **All previously completed projects are thoroughly examined with the assistance of experts in construction.**
- ⇒ **Government records are checked for legal history and proper licenses.**
- ⇒ **In general, the relatively small community of Sofia tends to accentuate the value of a clean record and a quality reputation.**

Limited Currency Exposure

The local Bulgarian currency is pegged to the Euro, limiting currency risk to that of the U.S. Dollar versus the Euro exchange rate.

- ⇒ **Bulgarian currency was pegged to the Deutsche Mark on July 5, 1999, and later the Euro, at just under 2 Bulgarian Lev to 1 Euro-currency (1.95583 BGN = 1 EUR.)**
- ⇒ **Most large transactions in Bulgaria, including real estate dealings, are done in Euros.**
- ⇒ **Investors bearish on the Dollar and/or interested in diversification in currencies will benefit by holding real estate effectively priced in Euros**