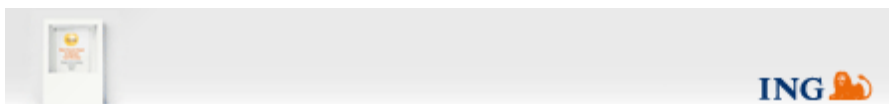




10,000 BRANCHES IN 21

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Feature

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Riding Bulgaria's property market

In May 2004 MM Consult Ltd completed an advisory assignment for structuring u2m in project financing for its client BBG & Co, says Alexander Pazderski, vice president of corporate finance and business intelligence for the company. The financing is being provided by a Bulgarian bank and will be utilised for the construction of a 194,000-square-foot mixed-use prime-location complex in Sofia. The complex consists of four buildings. Each of the buildings comprises class-A apartments, luxury shops and offices. The loan is secured with future income from sales of apartments and offices in the new complex, future rental income from existing properties owned by the client, and first-rank mortgage over other real estates. The complex will become operational in the beginning of 2006.

Pazderski likes to point to his company's prowess with the capital markets when explaining how this deal came to market. But he is also quick to acknowledge policy and structural developments in the Bulgarian economy as well. On a sector level, the Bulgarian property market is currently experiencing unprecedented growth, he says. "The Bulgarian Real Estate Market Index increased 23.8 points in February 2004 compared to September 2002. In 2003, real-estate prices' average growth rate reached 12%. We assume that this trend will gradually slow down, while a trend of moderate increase in real-estate prices will be sustained until 2007, the tentative year for Bulgaria's accession to the EU."

The problem is that asset securitisation in Bulgaria is still perceived more as a method of granting security over debts incurred, rather than a financial engineering tool, Pazderski says. Bank regulation and practice in Bulgaria provide for lending based on external security – ie, the project and the cashflows generated from the project are typically not considered to be sufficient security by the banks, and they require the creation of security rights (first-rank mortgage) over long-term assets, namely real estate, not included in the project.

The first act dealing with the concept of securitisation in Bulgaria was the Mortgage Bonds Act, adopted in 1999, he explains. In late 2003 the Bulgarian parliament adopted the Special Purpose Vehicles (SPV) Act, thus starting a new stage in the development of the ABS market in Bulgaria. According to the act, two types of SPVs can be established – companies specialised in securitisation of receivables, and companies specialised in securitisation of real estate, similar to the real-estate investment trusts in the US.

"Notwithstanding the characteristics of local banking practice and – until recently – lack of specific regulation in terms of loan securitisation, since 2002 MM Consult has been instrumental in designing innovative Bulgarian loan-financing schemes, which incorporate a mix of security instruments, including specific pledges over future receivables," Pazderski says.

-Erika Morphy

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