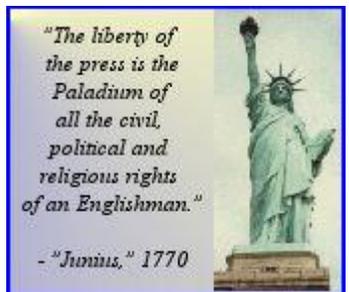


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## Bulgarian and U.S. bankers tap lucrative commercial real estate market; Congress sets up \$57 million BAEF

by Sara Tusek

Recently, the East Tennessee Business Journal learned of an intriguing executive training program in Florida for Bulgarian finance. This program, delivered by the International Leadership Institute in Ponte Vedra Beach, is a TRANSIT-Europe program, funded by the U.S. State Department through the Agency for International Development (AID). The mission of U.S. AID is to, "conduct foreign assistance and humanitarian aid to advance the political and economic interests of the United States."

By making friends through various types of training and other assistance, the U.S. can increase its influence around the globe. TRANSIT-Europe programs, training 3,200 foreign professionals each year, support the creation of functioning market economies in the former socialist states of Eastern Europe and Eurasia, focusing on economic restructuring and private sector investment. Interviews with TRANSIT-Europe program participant Veneta Ilieva, currently manager of the investment department at Rodina Pension Management Company in Sofia, Bulgaria, and with her former boss Michael Hunsberger, managing director of Bulgarian-American Property Management, provide an inside view of commercial real estate development in Bulgaria.

The bloody wars engendered by the breakup of former Yugoslavia dominated the news about the Balkan countries for the past decade. But the intrepid traveler who continues south and east on the Balkan Peninsula meets a pleasant surprise — Bulgaria. Nestled on the shores of the Black Sea, with a sophisticated, relatively-tolerant multiethnic population — mostly Slavic and Turkish, with Orthodox Christian and Muslim adherents. Bulgaria was a neutral party in these conflicts of the past 12 years, having never been part of Yugoslavia, and has emerged from its Soviet-dominated past with a new impetus and potential for growth and development.

The United States tapped into Bulgaria's possibilities in 1992, when an act of Congress established the Bulgaria America Enterprise Fund (BAEF). Set up as a \$57-million private non-profit organization wholly-owned by the United States government, the fund's goal is to promote private enterprise in Bulgaria through an infusion of capital. The fund is mandated through strict guidelines to provide funding only for long-term investments, thus avoiding the waste sometimes associated with investment monies. Equity investments in and loans to private businesses are made by the fund, to encourage entrepreneurship in Bulgaria, using the BAEF-created Bulgarian American Credit Bank. BAEF has fully invested its funds in Bulgaria, and will be operating till 2006.

Ilieva worked for the BAEF-offshoot, Bulgarian-American Property Management, for

several years. In an interview with Hunsberger, he noted that she was one of the first employees in the Mortgage Program, drafting key documents and policies. With her Master's degree in economics from St. Kliment University in Sofia, Ilieva has moved on to her current position as manager of the investment department at a major pension fund. To have two such responsible jobs to one's credit at age 28 is a reflection of the rapid changes accompanying economic transformation in Bulgaria. Ilieva's TRANSIT program ran from Sept. 29-Oct. 13, 2001. This was her second U.S. visit and her English is excellent. Ilieva had the highest praise for her International Leadership Institute/ TRANSIT-Europe program, noting that the opportunities to learn about American pension funds and how they invest their monies in safe and productive ways has given her a great deal of practical information she can take home with her to Bulgaria. When asked about commercial real estate in Bulgaria, she suggested her former boss, Michael Hunsberger, be contacted at Bulgarian-American Property Management.

Bulgarian-American Property Management was created by BAEF to be a major provider for financing of commercial real estate in Bulgaria; investments in real estate accounted for 31 percent of the BAEF fund's activities in 1999. In a recent interview, Hunsberger provided background on Bulgarian-American Property Management, BAEF and up-to-date information about the commercial real estate market in Bulgaria today.

Hunsberger brought his mortgage banking expertise to Bulgaria in 1997, after serving as vice president at First Chicago e-bank in Detroit. With an MBA in finance from Indiana University, he specializes in real estate lending, making him well-qualified to found and lead Bulgarian-American Property Management. Accompanied by his wife and young child, Hunsberger moved to Sofia, where he has devoted the past four years to locating and, if appropriate, funding prime investment opportunities in Bulgarian real estate.

According to Hunsberger, commercial real estate in Sofia — the capital city of Bulgaria with a population of 1.2 million — has developed dramatically in the past decade. Where once businesses struggled to find space in unrenovated former communist ministries, or in adjoining residential apartments knocked together to make a larger space, today there is enough new construction to serve the business growth in Sofia. Costs run from \$100 to \$758 per square meter. Commercial space is available, both in renovated commercial properties and brand-new development. Sofia has two or three main shopping streets, but no malls yet, though sites are available to investors, said Hunsberger.

When asked if foreigners can own property in Bulgaria, Hunsberger explained that this is simple, if one forms a corporation. The corporation can have just one shareholder — the purchaser — to be legally eligible to purchase Bulgarian real estate. Leases can be written into perpetuity, guaranteeing the purchaser that the building he buys or builds is indeed his. Moderate taxes are paid to the municipality of Sofia for standard services.

What about commercial real estate outside of Sofia? Hunsberger notes that population growth in Bulgaria is one of the lowest in Europe, as educated and ambitious young people leave for Germany, the U.S. and other places with more readily-accessible economic opportunity. This exodus from rural areas means property outside of Sofia is extremely inexpensive (compared to the Western European or American real estate markets), making it a good long-term investment as the value of real estate is intrinsic. Whereas some resources can be created almost infinitely, such as manufactured products and financial services, there is a fixed amount of land on earth; thus land will always retain value, regardless of economic circumstance and will eventually pay back its investors, Hunsberger believes.

For those seeking a beautiful vacation home, Hunsberger notes that one could buy a lovely apartment in Sofia for approximately \$35 a square meter, making a 1000-square meter apartment with a view of 8,000-foot Mount Vitosha available for around \$350.00.

The winter ski-resort Aleko, on the slopes of Mount Vitosha, hosts a ski season that lasts from early December until late spring.

Hunsberger is optimistic about Bulgaria's continued economic growth. His activities through Bulgarian-American Property Management have given him insight into the good relations Bulgaria maintains with its major trading partners Yugoslavia, Germany, Italy and Russia. Though many Bulgarians are Muslim, they are not adherents of the Taliban beliefs that have supported the terrorism of bin Laden. Centuries of Bulgarian Christians and Muslims living side-by-side has produced tolerance and lack of fanaticism.

Investment in commercial real estate in Bulgaria has been fostered and funded by the United States government, in an effort to pull this far-eastern piece of Europe on the edge of Central Asia into the orbit of freedom and democracy. A stable economy provides a growing place for political democracy. Each purchase of Bulgarian real estate by an American investor enlarges the commitment of Bulgaria to build friendships and alliances that will aid the United States and, ultimately, the free world.

*Editor's note — For contact information regarding the TRANSIT-Europe program or any of the individuals mentioned in this article, please contact Jayne Andrews, editor, East Tennessee Business Journal, at (865)524-3825.*