



Q2 | 2011

Bulgarian Retail Market



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SUPPLY

❖ Shopping Center Stock

In contrast to 2010 which was characterized with record supply of new shopping centers, no significant retail schemes have been completed since the beginning of 2011. Presently the market continues to adjust to the situation of situation which occurred in many cities over the last years. The current shopping center stock stands at almost 560 000 sqm GLA.

In Sofia the available retail space on high streets is more ostensive on high streets rather than in shopping centers but still the high occupancy in operating malls is seriously shaken.

❖ Pipeline/ GLA per capita

Pipeline supply remains challenging with over 237 000 sqm of retail space under construction. Assuming successful completion of these projects, the total shopping center stock in the country will increase to nearly 800 000 sqm or 107sqm/1000 residents. However, further delays and cancellations are possible even with some of the projects already under construction. Apart from the competitive development activity in Sofia, the city of Burgas also makes serious progress with two large retail projects currently under construction – Galleria Burgas (37 000 sqm) and The Strand (30 000 sqm).

Currently the retail market is now more tolerant towards retail schemes with a larger entertainment component. This trend becomes even more evident with the new schemes coming to the market.

DEMAND

Retail sales continue to struggle although turnovers have shown improvement from the previous quarter. However, serious decrease was registered on year-on-year basis compared to the same period in 2010. The average fall is approximately 30% on annual basis as the highest decrease was endured by fashion and sport retailers.

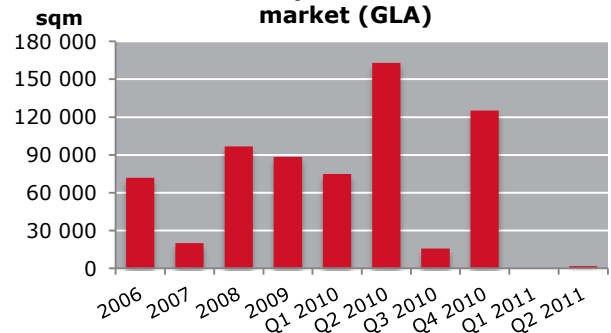
On the tenant side mainly FMCG chains and international retailers remain active, taking advantage of the challenging market environment to negotiate favourable long-term lease conditions.

In general the FMCG retailers are more prone to developing smaller formats (convenience stores) rather than

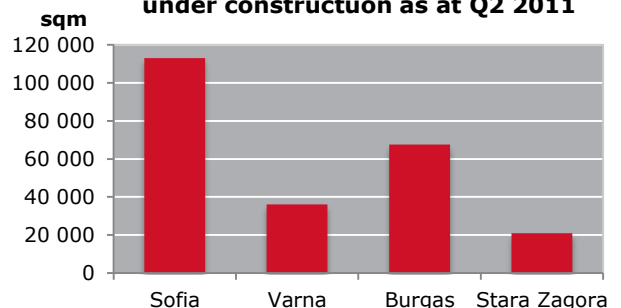
HIGHLIGHTS

STOCK	✓ 559 600 sqm in modern shopping centers
PIPELINE	✓ 237 400 sqm under construction
GLA/CAPITA	✓ 76 sqm/1000 people
RENT LEVELS	✓ €24/sqm prime shopping center rents
TRENDS	<ul style="list-style-type: none"> ✓ Yield expected to remain stable in short term ✓ Further polarisation between Sofia and secondary cities can be expected ✓ Increased transactional activity

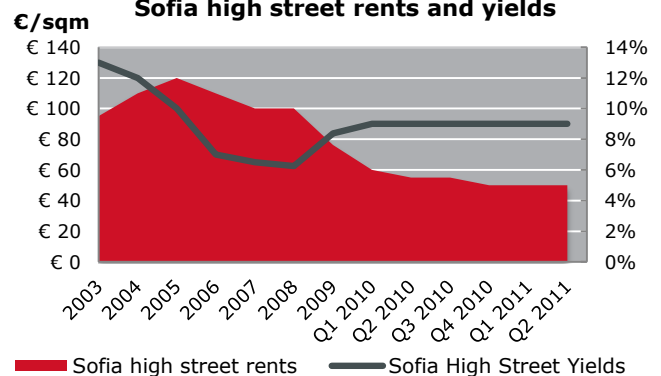
Malls & retail parks delivered to the market (GLA)



Shopping center space under construction as at Q2 2011



Sofia high street rents and yields



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hypermarkets. Good examples for executing such strategy are food chains and discount stores (such as Carrefour, Mercator, Lidl). They are expanding gradually and looking for suitable locations in Sofia and the other large cities.

RENTS

Prime high street rents have held firm over this quarter. A certain decrease was observed in shopping center rates as a result of both rental concessions and new lease agreements signed at lower rent levels. The estimated average fall is about 9-11% on quarterly basis and approximately 20% compared to the same period last year.

There is some indication that rents are gradually stabilizing around their new lower rates which is positive trend in view of the constant fall observed since the beginning of 2009.

INVESTMENT ACTIVITY AND TRENDS

Still moderate subsequent fall in rents can be expected in some subsectors due to relocation of tenants or lease renewals. No increase in shopping center provision is expected over the entire year.

A relatively new trend on the retail market outside the capital is the gradual relocation of retailers from high streets to shopping malls as rent levels have almost equaled for both locations.

The investment market has improved in terms of completed transactions. Retail transaction volumes for the first quarter exceeded €115 million - a significant improvement on both the previous quarter and the same period in 2010. In June one of the prime shopping malls in Bulgaria (Mall of Sofia - 23 600 sqm retail space and 10 000 sqm office space) was acquired for approx. €105 million.

Prime shopping center yields remain unchanged as confirmed by the latest investment transaction. Despite this, investment interest is tentative and focused on prime schemes (retail parks or shopping malls) with strong recent performance and sustainable rental income.

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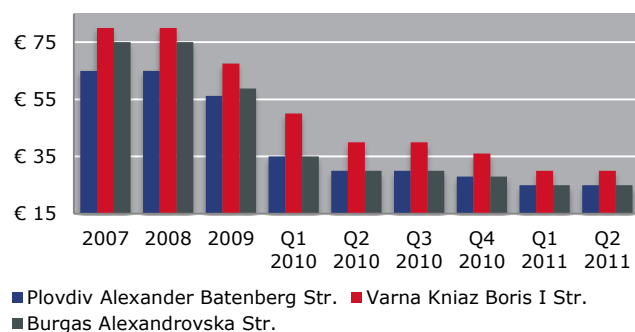
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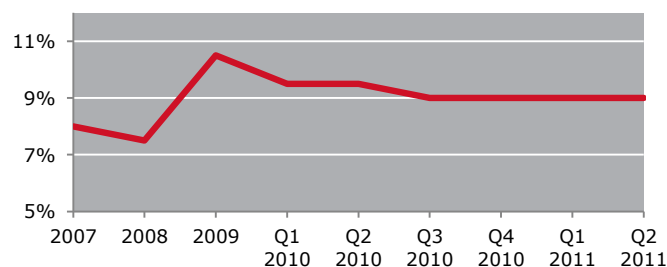
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High street rents: Plovdiv, Varna, Burgas



Sofia shopping center yields



MAJOR PIPELINE SHOPPING CENTERS

Project Name	GLA	Location	Status
Bulgaria Mall	33 000	Sofia	under construction
Mega Mall	24 000	Sofia	on hold
Paradise Center	80 000	Sofia	under construction
South Ring Mall	72 000	Sofia	design phase
Evropa Center	79 000	Sofia	on hold
Galleria Varna	36 000	Varna	under construction
Markovo Tepe Mall	17 500	Plovdiv	on hold
Trimontuim Center	51 000	Plovdiv	design phase/on hold
Sun City Center	29 000	Burgas	on hold
Strand Burgas	30 500	Burgas	under construction
Galleria Burgas	37 000	Burgas	under construction
City Mall Stara Zagora	20 900	Stara Zagora	under construction
Mall Pleven	20 000	Pleven	finished /on hold
Grand Plaza	37 500	Ruse	design phase/on hold
Danube Mall	15 000	Ruse	on hold

SIGNIFICANT Q2 2011 SALE TRANSACTIONS

Project name	City	Submarket	Buyer	Sqm	Price
Mall of Sofia	Sofia	shopping mall	Europa Capital	23600	€ 105 million
Total transaction volume Jan-June 2011:				€150 million	