

Market Trends

- *New supply of retail space in Q1 2009 is down by ca. 20% compared to Q4 2008*
- *The share of regional shopping centres in the country is increasing*

Market Dynamics

Supply	↓
Take-up	→
Vacancy Rates	↗
Rental Rates	→
Prime Yields	↑

RETAIL MARKET OVERVIEW

The widespread decline in capital values notwithstanding, the circumstances are not identical across all segments of the commercial real estate market. With regard to the retail market the underlying factors are somewhat different. Shopping centres are generally viewed as good defensive assets in a sluggish market for several reasons: they have multiple tenants and vacating a single unit by a certain retailer has a lesser impact on the overall revenue; also units in prime shopping centres are easier to re-let, considering the extremely insufficient supply of quality retail space in Bulgaria. Therefore, we expect that the trend of rising retail share in the overall investment turnover observed in 2008 will persist in the coming years.

SHOPPING CENTRES

The current stock of shopping centre space in Bulgaria has increased to ca. 370,000 sq m GLA at the end of Q1 2009 and there is another 90,000 sq m expected by mid-year. Of these ca. 33%, or 105,000 sq m, are located in Sofia, while retail parks represent about 17% of the total figure.

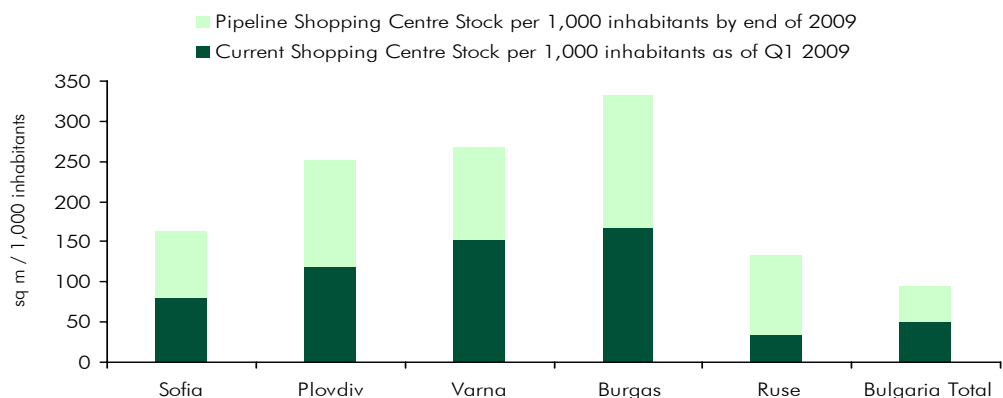
Shopping centres, especially outside of Sofia, developed as extensions of existing hypermarkets or supermarkets. Two shopping centres, Mall Plovdiv and Burgas Plaza*, opened in March, delivering approximately 50,000 GLA to the market. In Sofia, we expect two smaller schemes to open in Q2 2009 – Sofia Outlet Center (15,500 GLA) and a mixed-use complex in Mladost 1 of ca. 10,500 sq m GLA.

The majority of mall schemes in Bulgaria are of small or medium size (less than 40,000 sq m GLA) with a similar tenant mix in each. The first large shopping centre, Carrefour Tsarigradsko Mall (GLA of 66,000 sq m), should open at the end of this year in Sofia.

Types of retail schemes and their share of the total retail stock in Bulgaria differ from those in Western Europe, where we see a higher percentage of specialized centres. In Bulgaria, on the other hand, the retail schemes are mainly traditional with a standard mix of retailers. A tendency towards diversification can already be observed, however: the first Retail Park officially opened in Plovdiv this year, and an Outlet scheme is under construction in Sofia at present, with a tentative opening date in mid-2009.

In terms of shopping centre provision rates Bulgaria has about four times less than the EU average of ca. 200 sq m GLA per 1,000 inhabitants. This figure is higher for Sofia and some of the other cities with population over 100,000 people, where most the shopping centre development is concentrated, however. The highest rates are in the cities of Varna, Burgas, Plovdiv, and Stara Zagora – between 120 and 150 sq m GLA per 1,000 inhabitants. For Sofia the shopping centre density ratio is around 80 sq m GLA per 1,000 people, but it should increase significantly by the end of 2009 – if the entire 2009 shopping mall pipeline in Sofia is completed and delivered on schedule, the total GLA will almost double.

Shopping Centre Provision Rates in Bulgaria's Major Cities (sq m / 1,000 inhabitants)



Source: Elta consult

Bulgarian Economy Data – 2005 to 2008

Macroeconomic Indicator	2005	2006	2007	2008*
GDP Growth (%)	6.2	6.3	6.2	6.0
Annual Inflation (%)	6.5	6.5	12.5	7.8
FDI (% of GDP)	14.4	24.4	29.4	18.1
Avg. Monthly Salary (€)	166	184	220	280
Final Consumption (€ bln)	19.3	22.0	24.6	28.8
Unemployment Rate (%)	10.7	9.1	6.9	6.3

Source: BNB, NSI

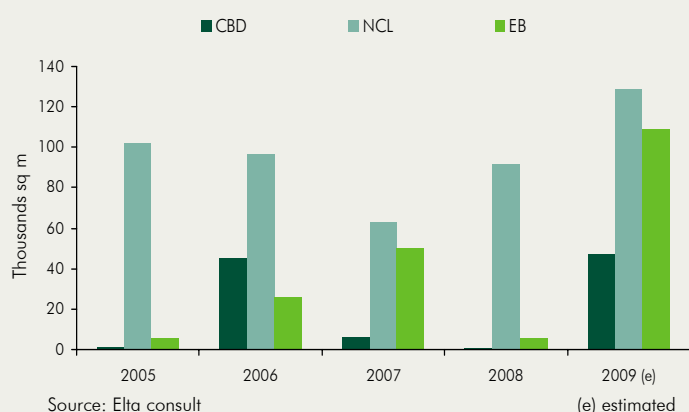
* preliminary data for 2008

New Retail Supply in Bulgaria by Type – 2005 to 2009



Source: Elta consult

New Retail Supply in Sofia by Submarket – 2005 to 2009



Source: Elta consult

(e) estimated

Selected Projects Completed in Bulgaria in Q1 2009

Name of Project	GBA Total (sq m)	GLA Retail (sq m)
Mall Plovdiv	45,000	22,000
Burgas Plaza (Izgreva Mall)*	39,000	27,000
AIKO Stara Zagora	12,000	8,000
Kaufland (Burgas and Kyustendil)	11,560	9,000
Kavarna City Center	12,700	4,200

Source: Elta consult

* Burgas Plaza will open 1 month after the Carrefour hypermarket opens in March.

BIG BOX RETAIL MARKET

Retail warehouses are still the most popular format in Bulgaria at the moment. There are around 286,000 sq m of big boxes in Sofia, and ca. 356,000 sq m in the rest of the country. Big box retailers are the most active market players in the present crisis situation, due to the relatively low development costs of retail warehouse schemes.

The biggest international and local retail chains operating on the Bulgarian market are:

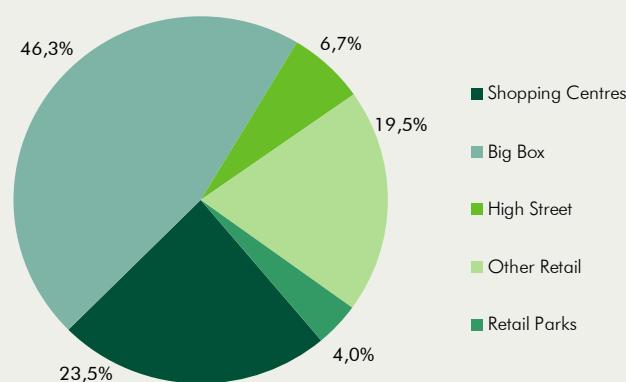
- **Hypermarkets:** Metro Cash & Carry – 11 stores, 2 in Sofia; HIT – 2 stores, both in Sofia; Carrefour entered the market this year in Burgas Plaza shopping centre with ca. 8,500 sq m GLA and is working on its second store in the European Trade Centre project in Sofia.
- **Supermarkets:** Billa – 40 stores, 8 in Sofia (3 more scheduled for 2009); Kaufland – 21 stores, 4 in Sofia (4 more scheduled for 2009); Piccadilly – 20 stores, 4 in Sofia and 8 in Varna (1 more opens in April); Fantastico – 32 stores, 31 in Sofia; Elemag – 5 stores, 3 in Sofia.
- **Electronics:** Technomarket – 38 stores, 10 in Sofia (1 more scheduled for 2009); Technopolis – 20 stores, 2 in Sofia (3 more scheduled for 2009); Zora – 20 stores, 10 in Sofia.
- **Do-It-Yourself (DIY):** Mr. Bricolage – 10 stores, 2 in Sofia; Praktiker – 9 stores, 2 in Sofia; BauMax – 2 stores (2 more under construction in Sofia and Burgas); Praktis – 4 stores (2 in Sofia).
- **Furniture:** Aron – 12 stores, 2 in Sofia; Aiko – 3 stores, 2 in Sofia; Como – 1 store in Sofia; Mobexpert – 1 store in Sofia; Labirint – 1 store in Sofia; Domko – 7 stores, 3 in Sofia (1 more under construction in Sofia); Yavor – 7 stores (1 more under construction in Sofia).

DEMAND

The retail sector has been least hurt by the current crisis, both in terms of demand and rent levels. One of the reasons for this is that supply of modern retail space is still quite limited both in Sofia and in the country. The major effects of the financial and economic crisis are observed in the number of projects that has been halted or canceled altogether, as well as in the decision of certain brands and retail chains to postpone their entering the market, or further expansion, in expectation of better economic conditions.

That said, we have to emphasize that the effects of the economic slowdown, and the resulting from it diminished purchasing power of the population, are not evenly distributed among the different types of retailers. Putting aside the obvious distinction between prime and secondary property, there are some retailers that will fare better in such environment than others: the food and clothing sectors for example seem less affected at the moment and might even increase their market share in the short run, and “discount” retailers in general are less likely to suffer in an economic downturn. The traditional prime high-street retail premises will also be more enduring in such environment, compared to stores on secondary streets.

Bulgaria Total Retail Stock by Type



Source: Elta consult

Shopping Centre Stock, Prime Rent and Yield in Sofia



Source: Elta consult

Selected Shopping Centre Projects in Pipeline in Bulgaria

Name of Project	GBA Total sq m	GLA Retail sq m	Year Expected
ETC Carrefour, Sofia	126,600	66,000	Q4 2009
Serdika Centre, Sofia	115,000	50,000	Q4 2010
Mega Mall, Sofia	70,000	24,000	Q3 2010
Mall Markovo Tepe, Plovdiv	67,000	13,500	Q1 2010
Galleria Plovdiv	127,000	50,000	Q4 2009
Varna Towers Mall	70,000	26,000	Q4 2009
Grand Mall, Varna	150,000	52,000	Q4 2010
Grand Plaza, Ruse	140,000	37,500	Q4 2010
Mall Ruse	51,300	35,800	Q3 2010

Source: Elta consult

RENTS & VACANCY LEVELS

Rents have remained basically unchanged since the peak of the market in mid-2008, which has been a direct result of the steady demand for retail space in the country. However, there are some indications that tenants, especially in regional shopping centres, are trying to re-negotiate their contracts with landlords in response to weakened consumer spending.

Vacancy rates in most of the country are also stable – they are ca. 3% for shopping centres in Sofia, where supply is still quite insufficient, and up to 6 – 8% in some cities where the stock and immediate pipeline has proven excessive for their respective populations. We anticipate that vacancy levels will expand once most of the projects in pipeline are completed by the end of 2010.

YIELDS & CAPITAL VALUES

Prime yields have decompressed by over 150 bps since Q3 2008; even with the generally stable retail rents the result has been a steady decrease in capital values. In Bulgaria, as in most of Europe, however, this re-pricing has not been consistent across all sectors and classes of property. Secondary property is essentially more vulnerable to weakened occupier demand and falling rental rates; consequently, it is considered a riskier asset by most investors and will be less appealing to potential buyers.

OUTLOOK

The excessive development trend is expected to slow down in 2009, but still there are over 300,000 sq m of shopping centre retail space planned for completion in 2009. Of these only ca. 35% are in Sofia, while around 23% are in regional towns with population of less than 100,000 people. This has been a notable trend in recent years – developers are increasingly turning their attention to smaller and less developed markets, such as Pazardzhik, Gabrovo, Yambol, Kazanlak, and other cities.

Although we do not expect that the entire announced pipeline will be delivered on schedule, there is certainly room for growth throughout the country. In the first quarter of 2009 we have witnessed new retail chains entering Bulgaria's retail market, while most existing ones continue their expansion; others are introducing new brands to the market. Of course, not every development project will be a guaranteed success from now on – performance will be increasingly dependent on good locations, benefiting from strong occupier demand, as well as on the active management of the property and its tenancy features.

Sofia Shopping Centre Map



LEGEND

EXISTING SHOPPING CENTRES

1. Sofia City Centre
2. Mall of Sofia
3. Sky City Mall

SHOPPING CENTRES UNDER CONSTRUCTION

1. ETC Carrefour Mall
2. Sofia Outlet Centre
3. Serdika Centre
4. Mega Mall

SHOPPING CENTRES AT DESIGN STAGE

1. Riofisa Civis Centre
2. Europe Park
3. Millennium Centre
4. Bulgaria Mall
5. DV South Mall
6. Mania Mall
7. Forum Sofia

Source: Elta consult

DEFINITIONS

Shopping Centre Stock – modern shopping centre (SC) space with a Gross Leasable Area (GLA) of more than 5,000 sq m.

SC Size – Small SC (5,000 – 19,999 sq m of GLA); Medium SC (20,000 – 39,999 sq m of GLA); Large SC (40,000 – 79,999 sq m of GLA); Very Large SC (GLA of 80,000 sq m and above); based on ICSC definitions.

Rent – rent negotiated and paid by tenant as a part of the letting, not reflecting the value of any other incentives that they might have negotiated; expressed in Euro per sq m per month.

For more information regarding the Bulgaria Retail Market, please contact:

Research & Valuation | Elta Consult AD

Valeri Leviev
Managing Director
valeri.leviev@eltaconsult.com

Teodora Despotova
Head of Retail Agency
teodora.despotova@eltaconsult.com

Maxim Jianski
Market Analyst
maxim.jianski@eltaconsult.com

13, Dondukov blvd. | 1000 Sofia, Bulgaria
Tel + 359 2 987 7647 | Fax + 359 2 988 2905