

## Market Trends

- *With the exception of big boxes new development completions are suppressed as projects are being extended in time*
- *Occupier demand has been negatively impacted by squeezed consumer spending and sales volumes*
- *Retail rents are experiencing downward pressure across all types and locations*

## Market Dynamics \*

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

\* compared to previous quarter

## ECONOMIC OVERVIEW

Over the course of Q1 2009 the outlook for the Bulgarian economy continued to weaken and the country officially entered a recession with GDP contracting by 3.5% on an annual basis. Industrial output shrank by more than 17.5% q-on-q and almost 20% compared to Q1 2008; it was only partly compensated by a modest rise of ca. 1% in the services sector. Having reached its lowest point in September 2008 (5.8%), the unemployment rate started gradually climbing to 6.3% at the end of 2008 and 7.0% in April 2009. Inflow of Foreign Direct Investments (FDI) also fell sharply (46% down on Q1 2008) reflecting a global decline in investor sentiment, which has become apparent on the property markets in the form of rising yield levels across all segments.

## RETAIL MARKET OVERVIEW

As in most EU countries the economic crisis has led to a number of negative consequences for the Bulgarian retail market. The rising unemployment rate is causing general consumer confidence to dip considerably – in April 2009 it was 7.6 pp down on January level according to NSI data. Retailer demand is also down, affecting particularly high-streets and shopping centres.

## SHOPPING CENTRES

Shopping centre stock in Sofia remains unchanged at ca. 105,000 sq m GLA at the end of Q2 2009. In the rest of Bulgaria it increased slightly compared to the previous quarter to reach 220,000 sq m GLA at the end of H1 2009, with more than 60% of it located in the three largest regional cities – Plovdiv, Varna and Burgas. The only completed mixed-use development this quarter is a 15,600 sq m TBA office / retail building in the town of Yambol, SE Bulgaria; the retail area of the scheme is 5,600 sq m. Thus, the total amount of modern shopping mall space in Bulgaria at the end of H1 2009 is over 325,000 sq m, of which app. 32% is located in Sofia.

The majority of existing shopping malls in Bulgaria are traditional (with a similar tenant mix), and of small or medium size (less than 40,000 sq m GLA). Specialized schemes, such as Retail Parks and Outlet Centres are not well represented in Bulgaria. Clusters of retail warehouses have been in existence in Sofia and other regional cities for a while now, but the first commonly planned and managed retail parks opened only towards the end of 2008 and beginning of 2009. In Sofia, there is a ca. 15,000 sq m GLA development, Sofia Outlet Center, presently under construction, and a large-scale retail park consisting of 10 – 12 big boxes has been announced recently – Retail Park Capital will be developed on 42,000 sq m of land near Sofia Central Station. Also, the first open-air mall in Bulgaria, The Strand, will be developed on a plot of ca. 60,000 sq m in Burgas with a tentative opening date in late 2010.

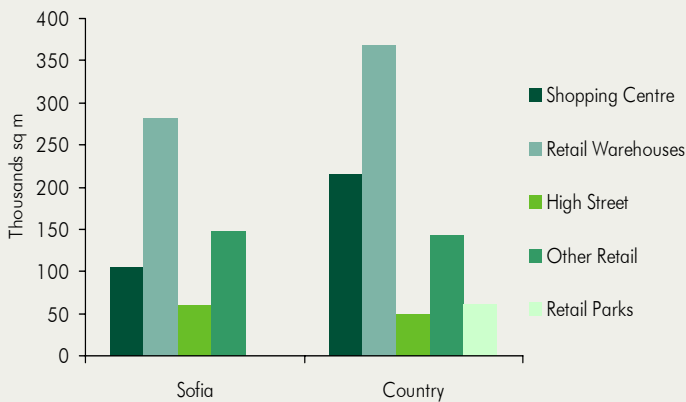
## Key Economic Indicators 2005 – Q1 2009

Macroeconomic Indicator	2005	2006	2007	2008*	Q1 2009*
GDP Growth (%)	6.2	6.3	6.2	6.0	-3.5
Annual Inflation (%)	6.5	6.5	12.5	7.8	4.9
Foreign Direct Investments – FDI (% of GDP)	14.4	24.4	29.4	18.1	1.9
Base Interest Rate (%)	2.04	2.69	3.93	5.12	3.49
Current Account (% of GDP)	-12.4	-18.4	-25.1	-25.3	-3.2
Trade Balance (% of GDP)	-20.2	-22.0	-25.1	-25.7	-3.0
Unemployment Rate (%)	10.7	9.1	6.9	6.3	6.9
Average Monthly Salary (€)	166	184	220	289	296

Source: NSI, BNB

\* preliminary data for 2008 and 2009

## Bulgaria Retail Stock by Type and Location – H1 2009



Source: Elta consult

## New Retail Supply in Bulgaria by Type – 2005 to 2009



Source: Elta consult

## Selected Projects Completed in Bulgaria in Q2 2009

Name of Project	GBA Total (sq m)	GLA Retail (sq m)
KBC Showroom, Malinova Dolina, Sofia	30,800	15,000
Mobbo Furniture Store, Fondovi Zhilishta, Sofia	n/a	n/a
Trade Business Center, Yambol	15,600	5,600
BauMax DIY Store, Burgas	12,500	10,500
Yavor Trade Center, Varna	7,000	4,200
Kaufland Store, Stara Zagora	5,000	3,300
Billa & Technomarket, Sevlievo	3,700	2,500

Source: Elta consult

## BIG BOX RETAIL MARKET

In the current economic situation, retail warehouses appear to be the most resilient retail type. More than 26,000 sq m new space was delivered in 6 schemes across the country. More than 75% is located in regional markets, thus increasing the total to over 375,000 sq m. In Sofia the big box retail space is close to 290,000 sq m. A number of discount retail chains have announced their plans to enter the Bulgarian market, but their plans have been delayed or reconsidered due to the weakened economic outlook.

Food retailers continue their expansion: Kaufland opened 3 new stores with built-up area between 4,000 sq m and 7,200 sq m in H1 2009; another 3 are scheduled for completion by the end of the year. Billa and T-Market also realized several new developments, and have others under construction, though of smaller size. Electronics chains are actively pursuing their expansion plans in Bulgaria's regional markets as well – Technomarket has opened 2 new stores and leased premises in two retail schemes in Plovdiv, while Technopolis is working on 3 projects in Sofia, Razgrad and Veliko Tarnovo with expected completion dates by the end of the year. Furniture retailers have also expanded their networks: Danish company JYSK opened its first store in Sofia in an extension to HIT hypermarket in Mladost district, Mobbo launched 2 stores, AIKO and Domko chains – 1 each, and Yavor completed 1 development and is working on another.

Bulgaria is still waiting on the announced launch campaigns of some leading, international discount chains – Lidl, Penny Market, Plus – which have already completed several stores, but are either working on logistics hubs to support their business, or planning on the nationwide introduction of their brand through 10-12 schemes at the same time, according to their spokesmen.

## ON-STREET RETAIL

The on-street retail market has been seriously affected by the economic crisis with more and more on-street retail units being vacated, and have trouble finding new tenants. This has impacted prime high-street rents, which lost ca. 10% - 15% of their value since the beginning of the year. We expect that rents for shops on major commercial streets will continue to fall in the short to medium term in response to the reduced demand and the increased vacancy rate.

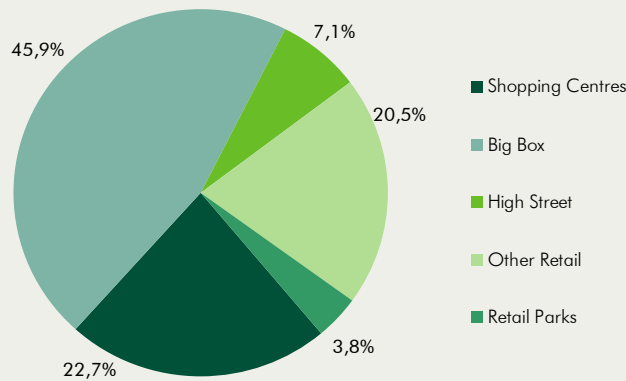
## DEMAND

The retail sector is feeling the impact of the economic crisis in full force. Shopping centre tenants in major cities has started voicing their concerns over rising rents (due to indexation) and falling sales volumes. In some places retailers have even threatened to initiate protest actions in order to demand a re-examination of the malls' rental and marketing policies.

Still demand for retail space is not the same across all types and locations. Prime retail premises, especially in the on-street market, enjoy higher levels of interest on the part of tenants, whereas demand in secondary locations is weaker for all types.

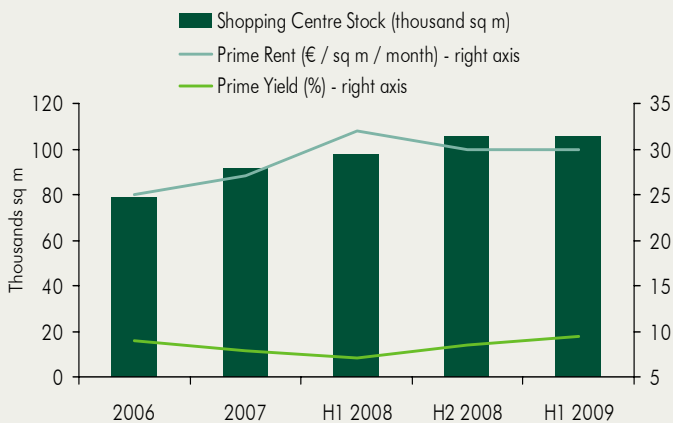
Shopping centre space in most cities also enjoys a relatively healthy demand, because of the limited supply of modern mall schemes both in Sofia and most of the country. Carrefour hypermarket chain has leased 2,400 sq m on the

## Bulgaria Total Retail Stock by Type – Q2 2009



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	136,000	66,000	Q1 2010
Serdika Center, Sofia	120,000	53,000	Q1 2010
Mega Mall, Sofia	70,000	25,000	Q4 2010
Sofia Outlet Center	36,000	15,500	Q4 2009
Galleria Plovdiv	127,000	50,000	Q4 2009
Mall Markovo Tepe, Plovdiv	67,000	11,500	Q2 2010
Varna Towers Mall	70,000	30,000	Q4 2009
Grand Mall, Varna	152,000	52,000	Q2 2010
Grand Plaza, Ruse	140,000	37,500	Q4 2010
Mall Ruse	51,000	35,800	Q2 2010

Source: Elta consult

ground floor of Mall Pleven – a ca. 18,000 sq m GLA scheme scheduled to open in mid 2010. The chain will open stores of its larger format (ca. 10,000 sq m) in some of the biggest mall projects in Sofia, Varna and Ruse next year. Mercator, a newcomer to the Bulgarian market, has signed a preliminary agreement for 2,935 sq m space in Galleria Stara Zagora project due to open in Q2 2010. Yet certain brands and retail chains have decided to halt further expansion for the time being, which may put additional pressure on occupier demand for shopping centre space in the short to medium term.

## RENTS &amp; VACANCY LEVELS

Rents in shopping centres are under considerable pressure on the part of tenants which demand that their leases and rents are re-negotiated due to weakened consumer spending and diminished sales volumes. Rental levels in most shopping centres throughout the country have dropped ca. 10% compared to the beginning of the year. Still, there are some owners that refuse to change lease conditions, pointing out to expenses such as maintenance, advertising and credit repayment. We expect that faced with the possibility of losing tenants (and income) these landlords will eventually be compelled to come to terms with the retailers.

Vacancy rates have climbed throughout the country, especially for unit shops on city streets. Shopping centres are also affected though to a lesser degree. With the large amount of projects in pipeline scheduled for the next years, we anticipate that further escalation is imminent.

## YIELDS &amp; CAPITAL VALUES

Although prime retail yields have slowed their sharp outward movement in Q2 2009, there is not much activity on the investment market in Bulgaria. Most European investors are increasingly focused on their home markets, while the ones planning expansion in CEE are still waiting for the “right time” in expectation of further decline in capital values.

In our opinion, any further re-pricing on the retail market will come from falling rental levels, as a result of the economic decline. 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 AND FORECAST

The pipeline for the next two years is huge, although it is evident that it will be substantially revised down due to deteriorating economic conditions, as well as the tightened restrictions developers face when obtaining credit. In Sofia alone there is over 150,000 sq m of shopping centre space under construction at present, which should be completed on time or with minor delays. The pipeline in the rest of the country is at least double that amount, the largest schemes being developed in the cities of Plovdiv, Varna and Ruse.

In general, retail properties have been impacted to a lesser degree than other commercial segments. However, they are still subject to the same market practices and overall economic conditions. Therefore, we expect that if the crisis persists and the situation deteriorates further, specifically in terms of global trade volumes and unemployment figures, the retail sector will experience additional problems.

## 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.

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