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MARKET OVERVIEW
**RETAIL
SPACE**

BULGARIA | Q4 2010

Retail Stock

Shopping Centers

The fourth quarter of 2010 was the last hope of both retailers and developers, desperately looking for improvement in the market environment and catching up with 2010 sales volumes. Four new shopping centers opened doors in the country with high vacancy levels and a significant number of retailers remained disappointed by the turnovers generated in the short sale season in December.

Along with the decreasing turnovers of retailers, the modern retail stock continued to increase during the past quarter. The retail space stock reached 627,000 m², a 20% increase compared to the previous quarter and 123% increase on an annual basis. The four newly delivered shopping centers are Varna Towers, Galleria Stara Zagora and a couple of malls in Rousse - Mega Mall and Mall Rousse.

Approximately 297,000 m² of retail space was under construction in Bulgaria, indicating a decrease compared to the previous quarter due to the completion of the above-mentioned shopping centers and lack of new construction starts. The total retail space that is in planned/proposed stage was 1,150,000 m², but very probably the majority of these projects will not be completed in the next 2-3 years, due to limited financing and lack of demand.

The existing retail space in Sofia remained

unchanged compared to the previous quarter at 211,000 m², whereas 75,000 m² were under construction and another 540,000 m² are still in the planning stage. Meanwhile, a couple of new malls are scheduled for completion in the next two quarters in Plovdiv and Pleven.

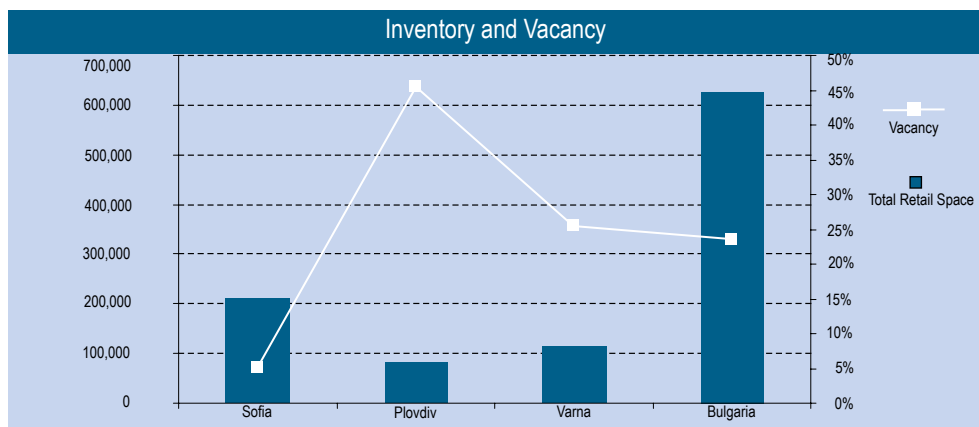
The existing shopping center space per capita increased sharply to 82 m² of GLA/1000 inhabitants. Varna is still the leading city in terms of retail space provision ratio with 406 m² of GLA/1000 inhabitants. The sharpest increase in retail space per capita during this quarter was in Rousse – 326 m², followed by Stara Zagora – 287 m², where new shopping centers opened doors. Sofia is the city with the lowest ratio - 172 m² of GLA per capita, where also the purchasing power of the population is highest.

Vacancy

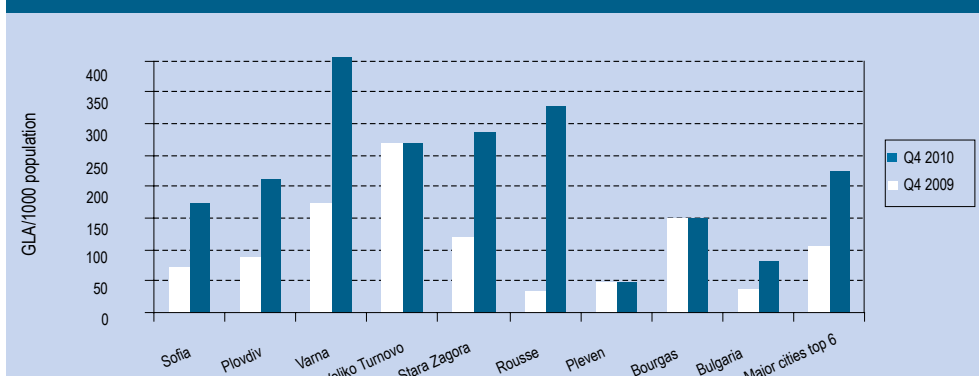
The vacancy levels also increased sharply with the opening of the four new shopping centers in the country, reaching 24% or 147,600 m². Vacancy in Sofia remained approximately the same at 5% or about 10,800 m². The highest increase in vacancy levels was in Rousse, where both shopping centers opened doors with less than 40% occupancy.

Market Highlights

- The shopping center space stock increased with 123% on annual basis reaching 627,000 m²
- Approximately 297,000 m² of retail space is under construction in Bulgaria
- Shopping center space per capita increased sharply to 82 m² of GLA/1000 inhabitants
- The sharpest increase in shopping mall space per capita was in Rousse – 326 m², followed by Stara Zagora – 287 m²
- The vacancy levels increased sharply, reaching 24% or 147,600 m²
- The last quarter of 2010 was more dynamic in terms of new deliveries of big box stores than the rest of the year
- Demand for retail space remains weak both in Sofia and the country



Existing Shopping Center space GLA/1000 population



Big-box Retailers

The last quarter of 2010 was more dynamic in terms of new deliveries of big box stores than the rest of the year. The most active remained the food retailers.

Q4 was marked by the opening of 14 Lidl stores, four of which are in Sofia and more openings are in the pipeline. Further expansion is expected through rebranding of Plus stores, as Lidl acquired their retail network earlier this year, leaving Penny the only direct competitor in this segment.

During the last quarter Billa focused mainly on Sofia with 6 new deliveries. It is noteworthy that the new stores are of a smaller size and are oriented towards customer convenience. Additionally, Billa opened new stores in Varna, Veliko Tarnovo and Dobrich.

Other food retailers with new openings were Kaufland with stores in Botevgrad and Pleven and Piccadilly with stores in

Rousse and Sofia. Carrefour opened its fifth store in Bulgaria in Rousse.

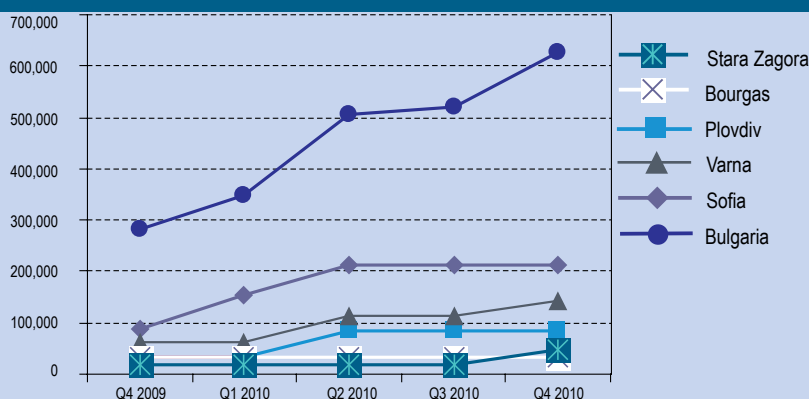
Tempo hypermarket is another retailer that entered the Bulgarian market with an opening in Sofia in December. In the electronics segment only Technopolis had new deliveries in Targovishte and Varna.

Demand

The demand for retail space remains weak both in the country and in Sofia. Although many retailers are optimistic about the improvement of the market in 2011, most of them regard 2010 as unsuccessful due to the decreased turnovers compared to previous years.

Retailers are optimistic about 2011 and are planning an expansion throughout Bulgaria; however, they are considering each location very carefully and require additional incentives, including fit-out contributions, extensive rent free periods

Existing Retail Space in Bulgaria



Economic Highlights

- The foreseen economic recovery is slowly taking place. The recession in 2009 (-4.95% real GDP growth) and Q1 2010 (-3.97%) gave way to the positive GDP growth rates in Q2 (0.51%) and Q3 2010 (1%). For 2010 the IMF is expecting a real GDP growth in the range 0% -0.4%
- As of November 2010 the year-on-year inflation rate (based on the Consumer Price Index) is 4.6%, while the accumulated inflation since the beginning of 2010 is 4.1%. The 12-month average rate for the period November 2009–November 2010 is 2.1%
- Based on preliminary data the FDI flows in Bulgaria for the period January – October 2010 amount to €844.9 million (or 2.3% of GDP) compared to €2526.3 million (or 7.2% of GDP) for the same period of 2009, showing a drop of 67%
- The Base Interest Rate for January 2011 is 0.18%, remaining almost unchanged for the last two quarters
- The country average unemployment rate (as given by NEA), has fallen by about 1 percentage point since the beginning of the year and as of October 2010 is 8.92%

and tenant break options.

The demand is still focused on Sofia and the newly developed shopping centers, whereas the demand for high street location has decreased in the capital city due to low turnovers, unsatisfactory store size and layouts, high rental levels and ongoing construction works for the second Metro diameter.

Despite the fact that many retailers complain about dropping sales, the overall retail sales reported by the NSI (National Statistics Institute) remained stable during the past quarter.

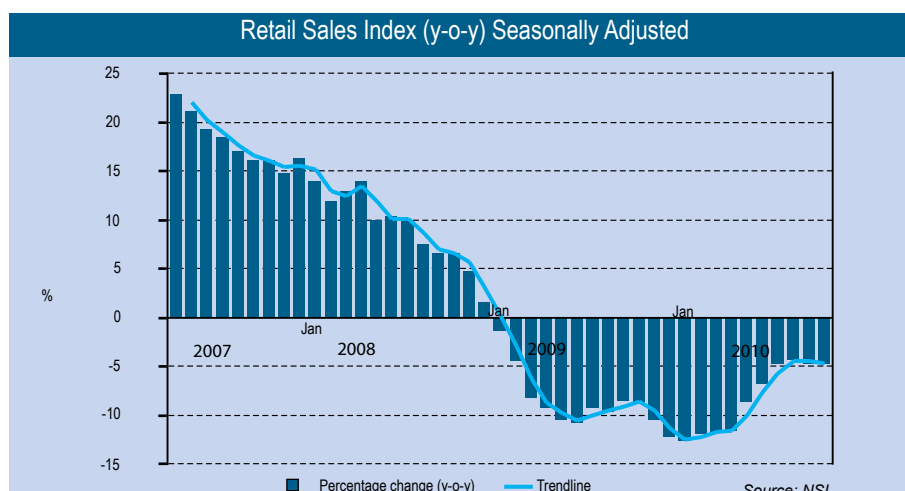
Rental Levels

Rental levels decreased slightly during Q4 2010. Prime rents for shopping centers in Sofia were in the range of €25-€35 per m² whereas the figure for secondary cities was €15-20 per m² depending on the location. Prime high street asking rents in Sofia were €40 and higher. Landlords continued to make substantial discounts in their asking rents, in order to attract tenants and provide additional incentives such as fit-out contributions and rent-free periods. We expect the downward pressure of rental levels to continue in 2011.

Investment Activity

The investor sentiment has moderately improved in the end of 2010. The Bulgarian commercial property market witnessed an increased level of investment activity during Q4 2010. There were no investment transactions closed during the year, but buyers and sellers moved closer to price consensus and it is a matter of time to see completed deals during 2011. Prime bid/ask yields for shopping centers in Sofia and secondary cities were 9.0/9.5% and 10.0/10.5% respectively. Compared to 2009 bank financing also showed signs of recovery with interest rates on new business loans going slightly down and volumes going up during 2010. Provided there is a further improvement of the macroeconomic indicators in 2011 and

the government conducts a correct fiscal policy, we expect to see an increased investment interest on Bulgarian real estate market.



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MBL defines shopping centers as purpose-built retail premises with a GLA larger than 5,000 m², which are centrally managed. City shopping centers are defined with GLA between 15,000 m² and 50,000 m². Regional shopping centers are defined with GLA above 50,000 m². All statistical information is based on information provided and assembled by NSI and MBL.

This research report has been prepared for general information only. The data herein was obtained from various sources; we do not guarantee its accuracy or completeness.