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MARKET OVERVIEW
**RETAIL
SPACE**

BULGARIA | Q3 2009

Retail Stock

Shopping Centers

The retail market in Bulgaria remained dynamic during the past quarter. Shopping center developers are now forced to offer tenant incentives, in order to attract the limited number of retailers willing to expand in the country. Approximately 17 projects are under active development and 10 of them are scheduled for delivery in 2010. The existing stock of 271,000 m² was developed in the past four years, while more than 450,000 sq.m. of modern retail space will be completed in 2010. No new shopping centers were opened in Q3. The shopping centers that are operating outside of Sofia are now underperforming and it has become difficult for them to secure new retailers and retain old ones.

The first modern outlet center – Sofia Outlet Center is scheduled to open doors next quarter in the outskirts of Sofia, which will again test the purchasing behavior of the population in this new segment. Many are doubtful about the success of pure outlet centers in the country, as most developers fail in selecting suitable tenants to make these schemes attractive to customers. This is mainly due to the fact that the market is not mature enough and the number of retailers with a fully developed network of stores that can support a secondary market for discounted goods is limited.

Similar to the rest of Central and Eastern Europe, the capital city Sofia has the

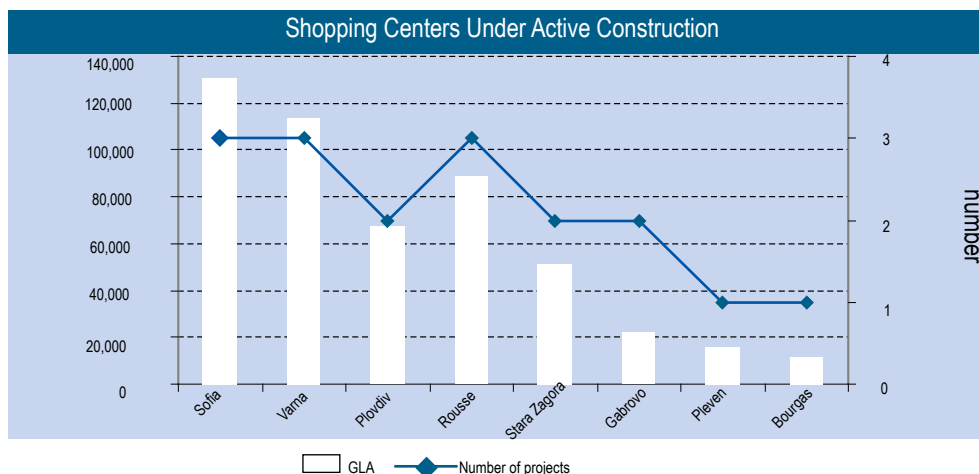
largest catchment area and is the wealthiest city among the other regional cities in the country. Consequently, the national capital is able to support a higher shopping center provision rate which presently is 71 m² GLA/1000 population. This is also the main reason why all major retailers are trying first to secure stores in Sofia and then expand in other major Bulgarian cities. As it appears, Sofia remains the last place in Bulgaria, where retailers feel somewhat secure and generate steady revenues in these difficult times.

The provision rate based on existing shopping center space is highest in Veliko Turnovo – ca. 270 m² GLA/1000 population, followed by Varna, Bourgas and Stara Zagora. These are also the cities where retailers are most displeased with their turnovers. The capital city has one of the lowest provision rates in the country compared to an average of 35 m² GLA/1000 population for the country.

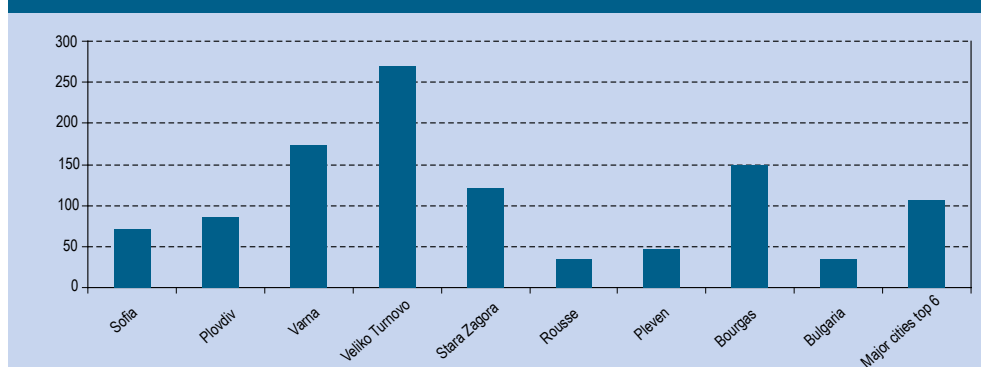
Although the number of planned projects in the country is significant, it is certain that only those with secured financing and strong tenants will open doors. It seems that now both developers and retailers have realized the effects of the limited purchasing power of the population outside of Sofia and the lack of a strong middle class.

Market Highlights

- Approximately 17 retail projects are under active development and 10 of them are scheduled for delivery in 2010;
- The existing stock of 271,000 m² was developed in the past four years, while more than 450,000 sq.m. of modern retail space will be completed in 2010;
- Big-box retailers are still the most active on the market in Bulgaria;
- Demand for modern shopping center space remains low, as most retailers are tight on cash due to decreasing sales and limited debt financing;
- Rental levels for both shopping centers in secondary cities and high street locations have decreased.



Existing Shopping Center space GLA/1000 population



Big-box Retailers

Big-box retailers remain the most active on the Bulgarian retail market. Billa opened three new stores in the past quarter. The German discounter Kaufland also opened stores in several secondary cities, including Gorna Oriahovitsa, Dimitrovgrad, Razgrad and Targovishte. Penny Market is also rapidly expanding throughout the country and opened their main distribution warehouse (28,000 m² TBA) near the city of Elin Pelin. The DIY chain BauMax opened its first store in Sofia on Vladimir Vazov Blvd., next to the electronics retailer Technomarket. The Bulgarian furniture retailer AIKO opened its first store outside of Sofia, in the city of Stara Zagora, next to BauMax. This is also the location where the first store of the Slovenian food retailer Merkator is scheduled to open doors next quarter.

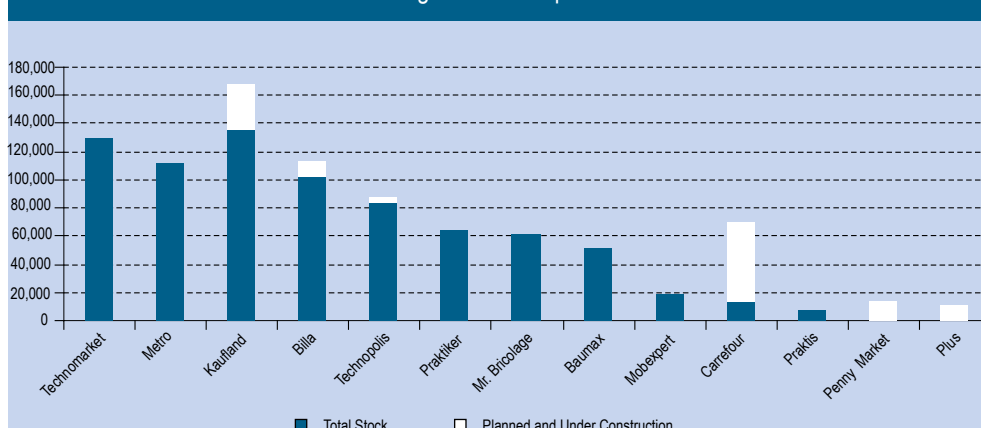
Demand

Retailers' demand for modern shopping

center space remains low, as most retailers are tight on cash, due to decreasing sales and limited debt financing. Guided by the unsatisfactory results of stores located in shopping centers in secondary cities, most retailers are now focusing their attention to Sofia. As there is oversupply in secondary cities such as Varna, Stara Zagora and Plovdiv, retailers have become extremely hesitant when considering long term agreements with developers.

In order to attract and retain tenant's to their schemes, developers have now become more flexible and offer attractive terms to retailers. Step-up rents, rent abatements and payment of only turnover rent for a limited period of time are some of the incentives that developers are using as a marketing tool. Some developers have even decided to make full fit-out contributions, in order to ease the financial burden on retailers that have difficulties. In addition to the pro-tenant terms, retailers are also trying to postpone as long as possible the issuing of security deposits

Big-box Retail Space



*The quoted numbers are projected and may vary. The figures include projects under construction.

Economic Highlights

- Real GDP for H1 has decreased by 4.2% on annual basis. According to latest IMF projections for 2009 the economy is expected to contract by 6.5% year-on-year;
- The National Employment Agency has reported an unemployment rate of 8.03% as of September 2009. It increased by 2.23% since September 2008, when the unemployment fell down to its lowest level;
- The Bulgarian National Bank continues lowering the Base Interest Rate and as of October 1st 2009 it is 1.46%. The decrease is significant in comparison to the 5.77% rate in December 2008;
- Year-on-year inflation is as low as 0.2 % (CPI) in September 2009. There is a deflation of 0.1% for the period January – September 2009, compared to 7.4% inflation for the same period in 2008. The deflation for the last three months has been 0.8%. The International Monetary Fund projects 2.7% inflation for 2009;
- FDI flows in the country could only reach €1,952.4 million for the period January – August 2009. This is a sharp decrease by more than 57% compared to €4,605.3 million, for the same period in 2008.

required by most developers before the opening of a shopping center. This also allows them to meet their current obligations for their existing stores.

According to some retailers from the clothing and apparel segment, the turnover generated by shops in Sofia has dropped by as much as 20% since the beginning of the year. The decrease for units located in secondary cities can reach as high as 50% on an annual basis. Based on statistical data provided by NSI (National Statistical Institute) retail sales for August have decreased by 19.1% on an annual basis, where the highest decrease is in non-food products. The biggest drop in sales is in the auto industry where sales of automobiles have dropped by 49.2% on yearly basis. Only the sales in the food and beverage sector have an annual increase by 2.9%.

Rental Levels

Rental levels for both shopping centers in secondary cities and high street locations have decreased. There is still a wide gap between bid and ask price for high street locations in Sofia and secondary cities, and as a result there are more vacant units on high streets.

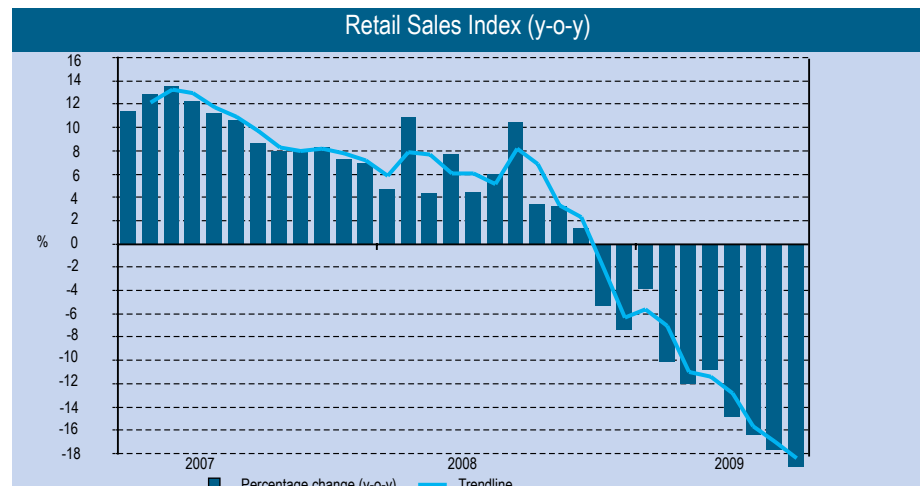
Investment Activity

During Q3 2009 the local investment market remained under the negative influence of the world economic crisis. With bank financing still very risk-averse, there were no transactions for a third consecutive quarter. Sellers still expected that the market would soon play them in and meanwhile the bid-offer gap kept them around 200 bp away from the buyers.

For the same period the property investment turnover in Central & Eastern Europe totaled around €500 million. As a positive sign, turnover in July/August alone reached 96% of total H1 2009 turnover, but remains at a low level. Higher turnover is primarily attributable to Russia and the closing of some long-term

pending transactions in Central Europe. Elsewhere in CEE, activity picked up some, but most markets remained quiet.

Meanwhile, the major Western European markets improved investor sentiment, the revival in activity being driven by UK and Germany. Both reported increases of more than 50% in investment compared to Q2 2009. There were two €1 billion+ deals completed in UK and Spain during Q3 2009, marking the first time deals of this size have been transacted since Lehman's collapse. The upturn in activity suggests that the European market is approaching the bottom of the cycle.



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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.