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MARKET OVERVIEW
**RETAIL
SPACE**

BULGARIA | Q4 2009

Retail Stock

Shopping Centers

In 2009 the euphoria in shopping center development was replaced by the uncertainty of investors if they will secure debt financing for their projects and the hesitation of retailers to expand outside of Sofia.

The existing stock of shopping centers is 281,000 m² whereas 87,000 m² are located in Sofia. The projects under construction have a total area of 507,000 m², 156,000 m² of those are developed in Sofia. Approximately 1,200,000 m² of shopping center space is still in the planning stage and it is unlikely that all of it will be ever developed. The only new delivery in Q4 2009 is Terra Center in Gabrovo with 10,000 m² of GLA.

Shopping centers in secondary cities are still underperforming and have difficulties to retain their tenants, mainly due to the low turnovers generated by the retailers and the decreasing purchasing power of the population. Therefore owners and managers have already provided different incentives to retailers in order to retain them. Permanent decrease of rental levels or rental abatements and fit-out contributions has also become a common practice.

The provision rate based on existing shopping center space is still highest in Veliko Turnovo – ca. 270 m² GLA/1000 population, followed by Varna, Bourgas

and Stara Zagora. These are also the cities where retailers have been most dissatisfied with their sales. The capital Sofia, where the purchasing power is the highest in the country, has one of the lowest provision rates 71 m² GLA/1000 population. This rate is expected to reach 177 m² GLA/1000 population with the opening of Serdika Center, Carrefour Tsarigradsko Shousse and Sofia Outlet Center in the Spring of 2010. These new shopping centers will test once again the purchasing habits of the population in Sofia and will prove whether the capital remains the only sanctuary for retailers in Bulgaria.

Vacancy

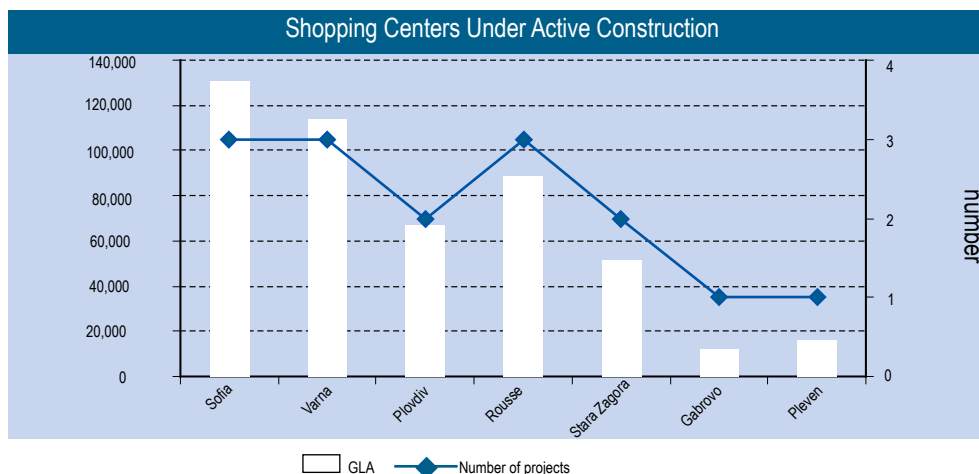
The vacancy rate in shopping centers in Sofia is below 1% and this rate is expected to increase with the opening of Serdika Center (55,000 m²) and Carrefour Tzarigradsko Mall (66,000 m²) in March/April 2010. The vacancy rate for shopping centers located in secondary city is approximately 7% and is expected to further increase in 2010.

Big-box Retailers

Food retailers remain the most active among other big-box retailers in Bulgaria. The German discounter Plus, part of Tengelmann group and Penny market, part of REWE group, opened their first stores in secondary cities in Bulgaria. Penny market opened 26 new units and Plus opened 20 new units. Billa also part of REWE group,

Market Highlights

- The existing stock of shopping centers is 281,000 m² whereas 87,000 m² are located in Sofia;
- The only new delivery in Q4 2009 is Terra Center in Gabrovo with 10,000 m² of GLA;
- The vacancy rate for shopping centers located in secondary city is approximately 7% and is expected to further increase in 2010;
- The market is pro-tenant oriented whereas retailers manage to obtain various incentives, such as fit-out contributions and longer rent-free periods;
- Rental levels for both shopping centers in secondary cities and high street locations have decreased during this past quarter.



Existing Shopping Center space GLA/1000 population



rapidly expands throughout the country, taking advantage of the deteriorating market conditions and increasing vacancy in the secondary cities. At the same time, the furniture retailers have slowed down their expansion and other smaller retailers have decided to downsize and vacate their units. The furniture and electronics segment are the most affected by the economic crisis.

Demand

Although Retailers' demand remains low in the county during this past quarter, most retailers are still optimistic about the market and the majority of them plan to open between one and two stores in 2010. Most retailers are still hesitant to expand outside of Sofia, due to the unsatisfactory sales in secondary cities and the low purchasing power of the population. The second most desired city after Sofia is Varna, followed by Plovdiv, Bourgas and Stara Zagora.

In terms of preferred location, shopping centers in Bulgaria remain as the preferred way for expansion for retailers, followed closely by the high streets of the major cities. Still, most retailers remain cautious and select units only on prime locations on the high streets or in shopping centers with excellent location and strong anchor tenants. At the same time, retailers still show limited interest to outlet centers and retail parks and mainly big box retailers are interested in this type of format.

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Fashion retailers report a decrease of sales between 15-20% in Sofia and between 20% and 50% in secondary cities. Based on statistical data provided by NSI (National Statistical Institute) sales for October 2009 have decreased by 17.3% on a yearly basis, where the highest decrease is in non-food products such

Big-box Retail Space



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

Economic Highlights

➤ In Q3 2009 real GDP has contracted by 5.4%. The year-on-year decrease of real GDP for the nine-month period is 4.7%. Although the trend remains negative it has still not reached the 6.5% projected by IMF;

➤ Driven by the economic environment, the unemployment in Bulgaria continues to grow, reaching 9.13% as of December 2009 (based on National Employment Agency data). However, the statistics monitor only the people that have been registered as unemployed and the actual figure might be even bigger;

➤ As of January 1st 2010 the Base Interest Rate is as low as 0.39%, compared to 5.77% in December 2008;

➤ The National Statistical Institute has announced a year-on-year inflation of 0.6% for December 2009. The FDI flows in the country for the period January – November 2009 are €2,630.3 million. This amount is only 43% of the FDI flows for the same period in 2008. Real estate, financial intermediation and car industry are most affected by the decrease of FDI.

as electronics, furniture and other home appliances. Retail sales have decreased by 8.8%, whereas wholesale sales have dropped by 16.2%. The biggest drop in sales is in the auto industry - 45.7% on annual basis.

Rental Levels

Rental levels for both shopping centers in secondary cities and high street locations have decreased during this past quarter. We expect further downward compression on rental levels in Sofia with the opening of new shopping centers in Sofia and secondary cities in Bulgaria.

Investment Activity

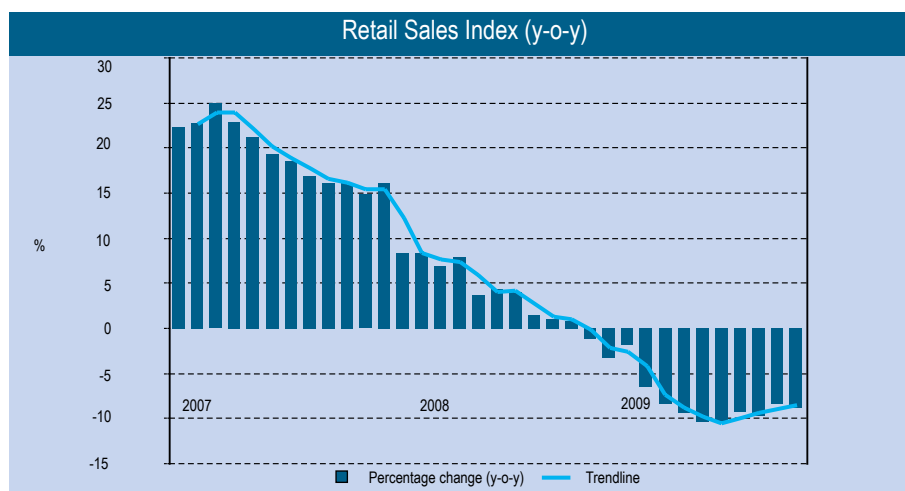
With only one transaction, the investment market in Bulgaria remained idle during Q4 2009. Compared to 2008, buyers are very hesitant investing in Bulgaria given the alternative opportunities in Western and Central Europe.

The investment market in all CEE countries totaled € 2.5 billion in 2009 in 90 transactions. Approximately €2 billion of this total was traded in H2 2009, a significant increase (+314%) from H1 2009 turnover. Still, investment transactions in 2009 were 75% lower than in 2008. Central

Europe, where economies generally have been more stable than in Eastern Europe, accounted for 56% of total 2009 CEE volumes (37% in 2008). Except for some distressed transactions, the investment market in Eastern Europe remained illiquid.

Prime yields stabilized across CEE in H2 2009. After significant volatility particularly in Q4 2008 and Q1 2009, changes were minimal in almost all CEE markets and segments in H2 2009. Increased investment activity at the end of 2009 showed a certain level of convergence in pricing expectations of buyers and sellers, particularly for prime properties in core CE markets. This suggests that current pricing levels in these markets are at a

level at which prime properties will be transacted in 2010. Still, the divide between prime and non-prime properties is likely to persist. Interest for prime properties outside CE is on the rise, providing grounds for optimism about increasing investment volumes in some CEE countries in 2010.



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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.