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MBL

PART OF THE CBRE AFFILIATE NETWORK CBRE

MARKET OVERVIEW

RETAIL SPACE

SOFIA | Q4 2011

Market Highlights

- 2011 proved that the retail developments with high vacancy and decreased rental income are forced to be repositioned, even closed, or in some cases repossessed by the creditors
- The average vacancy rate in Sofia increased to 10% driven by lower occupancy in CCS and TZUM
- During 2011 most active in their expansion throughout the country remained the food retailers, forming more than 50% of the new deliveries of big box retail space
- In a pro-tenant oriented market, anchor tenants could be attracted by turnover-rent-only schemes
- Most of the tenants in shopping centers and on high streets have been able to negotiate rent abatements during 2011
- The Bulgarian property investment market enjoyed significant recovery during 2011 with the largest transactions in the retail segment - Retail Park Plovdiv (€20 million) in Q1 2011 and Mall of Sofia (over €100 million) in Q2 2011

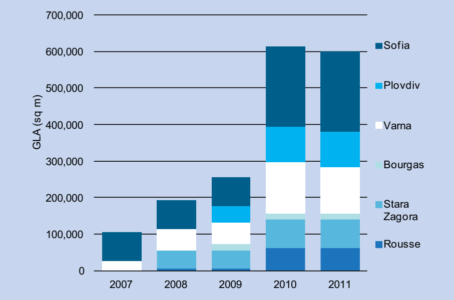
Shopping Centers

After a very dynamic period in terms of supply of modern retail space in 2010 when the total stock doubled, there are no new deliveries but closed and repositioned shopping centers during 2011. The year ended with 606,000 sq m total stock of retail space in Bulgaria, whereas the 9 existing shopping centers in Sofia account for approximately one third - 220,000 sq m GLA.

The supply of retail space, however, is still high due to the vacant units in some shopping centers and the retail developments under construction that are being actively marketed. Retail projects with a total GLA of about 307,000 sq m are currently under construction in Bulgaria, whereas 195,000 sq m will be delivered in Sofia. The provision rate in the country will reach 110 sq m per 1000 people by the end of 2012 compared to the current rate of 81 sq m/1000 population. The rate in Sofia is expected to reach 250 sq m in 2012 and 300 sq m per 1000 residentis in 2013, given the current population. The proposed projects, however, might face difficulties in securing financing as the lending institutions already have poor experience from the consequencies of unrealistic expectations for some existing developments.

Central Mall Veliko Tarnovo is the most recent example of a reposessed property by the lender, following Mall Varna and Markovo Tepe. The increased vacancy rates combined with rent reductions have led to a decrease in the market value of the assets, in cases of highly leveraged projects below the loan amount and developers have significant difficulties in keeping up with the loan repayment schedules.

Existing Retail Space in Major Cities

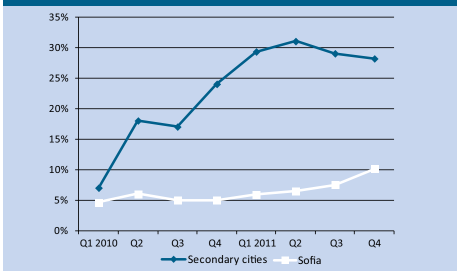


Vacancy

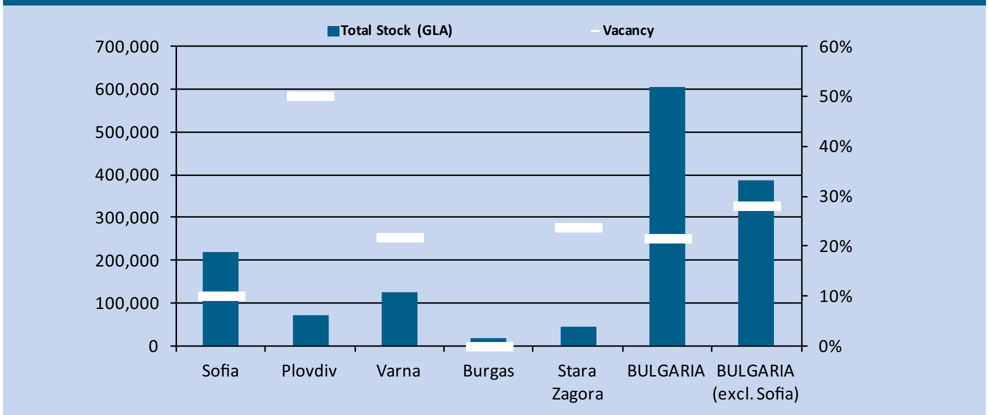
There is an increase in vacancy rates for properties, whose owners were refusing to face the current market conditions and were not able to meet the expectations of both tenants and customers. The average rate in Sofia increased to 10% from 7.5% in Q3 2011, driven by the reduced occupancy in CCS and TZUM.

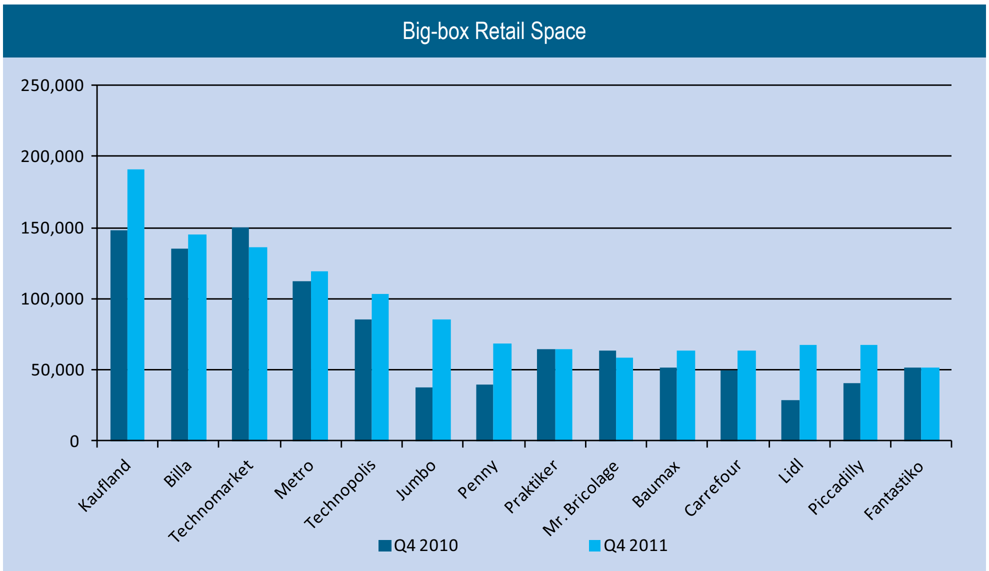
There is some improvement in the leasing activity in the country and the overall vacancy rate in shopping centers in Bulgaria is slightly below 22%.

Vacancy Rates in Sofia and Secondary Cities



Inventory and Vacancy in Shopping Centers





Big-box Retailers

During 2011 most active in their expansion throughout the country remained the food retailers. Lidl, Penny, Kaufland, Billa and Piccadily have opened stores with combined area of more than 140,000 sq m, which is 50% of all new deliveries of big-box stores in 2011. Jumbo have also been rapidly expanding with 3 new locations in the country.
A new trend has been observed – big-box retailers introduced the convenience store format as part of their network development plan. In the last quarter of 2011 Carrefour have opened their second convenience store in Sofia, with a very central location with high pedestrian flow – Slaveikov Square. The "Metro Compact" scheme has one more location as well – after the stores in Dobrich and Haskovo they opened doors in Sliven.
The lower turnover results have forced some of the retailers to close locations in Sofia and the country. 2011 ends with 10 Technomarket stores less than in 2010. Other retailers have managed to shrink into a smaller format in order to fit another partner or tenant into the building. Mr. Bricolage have relocated their store in Stara Zagora and are now occupying a smaller premise.

High Street Retail

The retail space market on the high streets of Sofia has recovered its dynamics during 2011 with a high volume of transactions. However, the well known high streets in the capital are gradually changing their outlook, adjusting to the economic environment, market drivers, competition by shopping centers as well as the changing customer behavior. The high-end stores are losing interest in Vitosha Blvd and focus mainly in the area of Saborna and Lege Streets. The demand for high street locations by mid-end retailers is increasing, whereas Graf Ignatiev Street has become a preferred destination. The market has witnessed various new openings or relocations there. Most aggressive in terms of high street expansion are the food, cafés, services and health and beauty retailers.
The expected construction works on Vitosha Blvd will be a further challenge to the traditionally most popular shopping destination in the center of Sofia, dominated by fashion brands in the past.

Demand

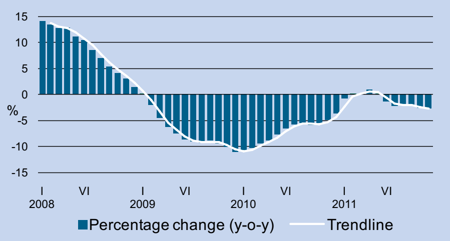
The Retail Sales Index reported by NSI (National Statistical Institute) has been decreasing for almost 3 years (since 2009) and there was only a slight improvement in the beginning of 2011. Thus, the index in the end of 2011 is down to the level registered in 2006, when the modern retail stock in the country was below 100,000 sq m or only 1/6 of current retail stock in Bulgaria.
The retailers that were hoping for increase in turnovers have been disappointed once

Economic Highlights

- The GDP growth rate is positive for a 6th consecutive quarter. In Q3 2011 it marked a 0.1% increase compared to the 2.2% in Q2 2011. The GDP growth rate in Q3 2010 was 0.3%. The IMF forecasts a 1.3% real GDP growth for 2012
- The monthly inflation (based on CPI) in November 2011 is 0.3% while the inflation rate since the beginning of the year is 2.7%. The 12-month average (Nov. 2011 – Nov. 2012) is 3.1% (NSI)
- The FDI flows in Bulgaria are €135.6 million in October 2011 compared to €95.9 million for the same month in 2010. Still, the FDI flows since the beginning of the year (Jan. – Oct. 2011) are €668 million or 40% less compared to the same period in 2010
- The Base Interest Rate in December 2011 remained at 0.22% (BNB)
- The unemployment rate in Sofia is stable at 3.4% as of November 2011 but the country average has further increased to 10% based on National Employment Agency data. The IMF forecasts an unemployment rate just below 10% throughout 2012

again in 2011. However, they are keeping moderate or even optimistic expectations for 2012, based on the results of the “Retailers’ Sentiment” survey, conducted by MBL for a 3rd consecutive year.
The most active retailers in terms of expansion or relocation plans are the food retailers, cafés and restaurants, kids/toys and the DIY segment. The fashion retailers could only be attracted by an extremely good location, where the rental rate will depend on their results through turnover-rent or similar schemes. Therefore, landlords acknowledge that the market is pro-tenant oriented and agree on rent free periods and turnover-rents only in order to secure anchor tenants in their shopping centers.

Retail Sales Index Change
(Seasonally Adjusted)



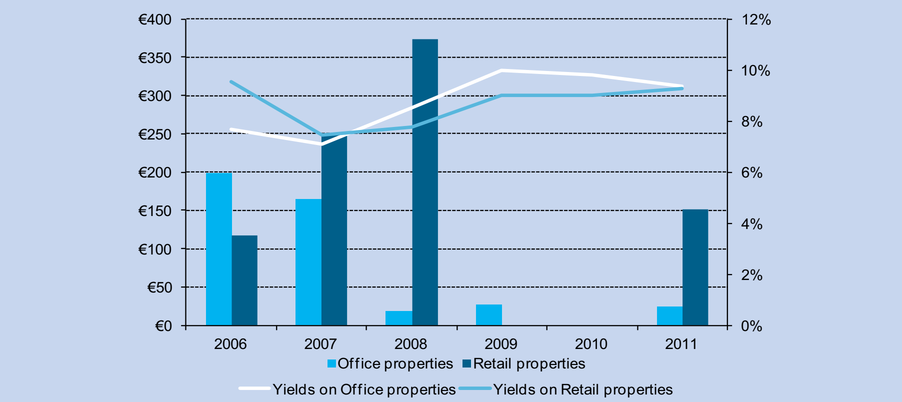
Rental Levels

The insufficient retail sales during 2011 have resulted in lower affordability ratios of most of the tenants, which puts further pressure on the rental rates along with the high vacancy rates. Landlords have recognized that in order to keep the reliable tenants and improve the overall collection rate, they need to reduce the rents to the sustainable levels. Most of the tenants in shopping centers and on high streets have received rent abatements during 2011. The rent reductions start from 5-6% (even in the well performing shopping centers in Sofia) and reach 40-50% for overrented premises in the country. The abatements have been negotiated in the first half of 2011 and average rental rates remained unchanged during Q4 2011.

Investment Activity

The Bulgarian property investment market enjoyed significant recovery during 2011. The total investment volume amounted to over €180 million with activity being mostly retail-led. Among the largest transactions were the acquisitions of Retail Park Plovdiv (€20 million) in Q1 2011 and Mall of Sofia (over €100 million) in Q2 2011. In both acquisitions MBL | CBRE advised Europa Capital, a UK real estate investment management group, on their first investments in Bulgaria.
The overall CEE property investment volume reached €8.7 billion at the end of November 2011, twice the level registered in the same period in 2010. The year’s total is significantly below the peak achieved in 2007 (€14.6 billion); however, it is close to the third strongest achieved in 2008 (€9.5 billion). The strongest performers were again Poland and the Czech Republic which continued to attract risk-averse investments.
Despite the strong performance in 2011, concerns about reduced bank lending in 2012 are likely to affect property investment deal flow in most CEE markets during the year ahead.

Bulgarian Property Investment Market (2006 - 2011)



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