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MARKET OVERVIEW

RETAIL SPACE

BULGARIA | Q2 2011

Retail Stock

Shopping Centers

There are no changes in figures for existing and planned shopping centers both in Sofia and Bulgaria in Q2 2011. Developers have realized that the purchasing power of the population is not limitless while retailers are struggling with low turnovers in the existing malls. Debt finance for large scale real estate projects remains limited, especially when they face high letting risk and a currently saturated market.

Two shopping centers are actively under construction in Sofia. Paradise Center and Bulgaria Mall are both planned for completion in 2012 with a combined GLA of 108,000 m², while a third one – South Ring Mall is planned for delivery in 2013.

The only shopping center under construction in secondary cities is Galeria Burgas by GTC, and should be opened by the end of 2011.

Vacancy

For a second consecutive quarter there is an increase in vacancy rates in shopping centers. The figure for Sofia reached 6.5%, compared to 5.9% in Q1 2011, while vacancy in secondary cities reached 34% – almost 5 basis points on top of Q1.

Even though high street vacancy remains at the same level as the previous quarter,

transactions do take place. Vacancy is mainly due to new stores that become available and reflects the transition period that the Sofia high street is currently facing. At the same time there are hardly any transactions in secondary cities.

As a result of the prolonged economic slowdown, the vacancy levels are expected to further increase with retailers still cautious about their expansion.

Big-box Retailers

With the discouraging level of retail turnovers for the past two years, only the food retailers have been expanding their network, taking advantage of lower sale prices and rental rates. Q2 2011, however, shows some revival in the furniture and DIY segment throughout the country.

Some of the new openings are as follows: Baumax with a store in Pleven, Domko in Sofia and Aiko in Burgas. In the last quarter Aiko started rebranding their network, while Praktis opened a store in Haskovo, which is the 6th in the country.

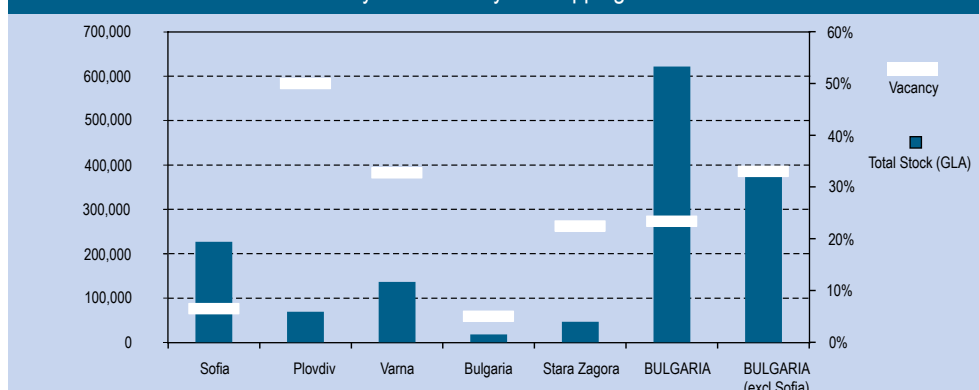
The Bulgarian chain Zora continued to expand its new brand for furniture and home décor “Homey” and has delivered two new showrooms in Sofia and Varna during the last quarter. The retailer plans to open 28 stores by the end of 2012.

In Q2 2011 the food retailers remained

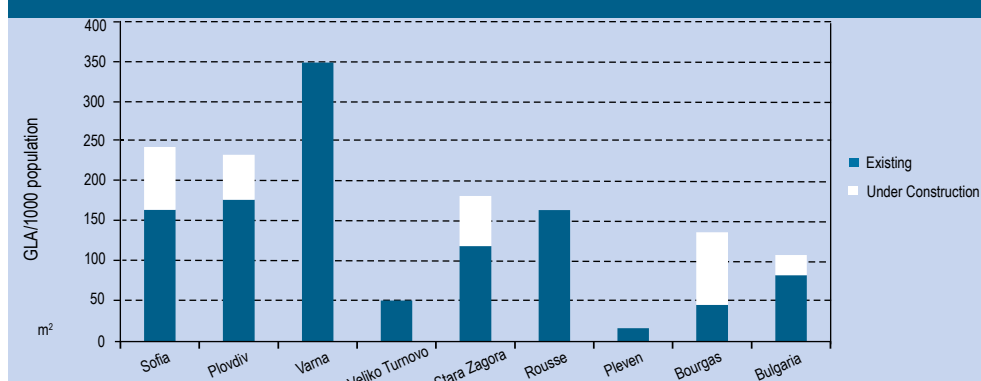
Market Highlights

- Total shopping center stock in Bulgaria remains unchanged at 622,000 m²
- Two shopping centers with a combined GLA of 108,000 m² are under construction in Sofia
- Vacancy rates increased to 6.5% for Sofia and 33% for secondary cities
- Food retailers remain the most active on the market and continue to expand their network
- There is strong pressure on rental rates and we expect a decrease for both shopping centers and high-street locations

Inventory and Vacancy in Shopping Centers



Shopping Center Provision (GLA/1000 Population)



the most active. Lidl opened new stores in Ravda, Sofia, Bourgas and Varna and continued to rebrand the Plus stores in the country. The German discounter has been rapidly increasing the number of stores to 45 as of Q2 2011. The Schwarz group is also expanding the Kaufland brand with one more store in Sofia and a 3rd store in Varna. The German retail chain has strengthened its market share in the seaside capital with a total of 6 units – 3 Lidl and 3 Kaufland stores.

Its major competitor, the Rewe Group, opened a Penny market in Vratza (49th in the country) as well as a 21st Billa in Sofia.

The chart shows that the food retailers have the dominant presence on the big box market in Bulgaria in terms of total area of the units, followed by the electronics retailers. This segment has been rather cautious and in the last quarter only Technomarket had a new delivery.

Demand

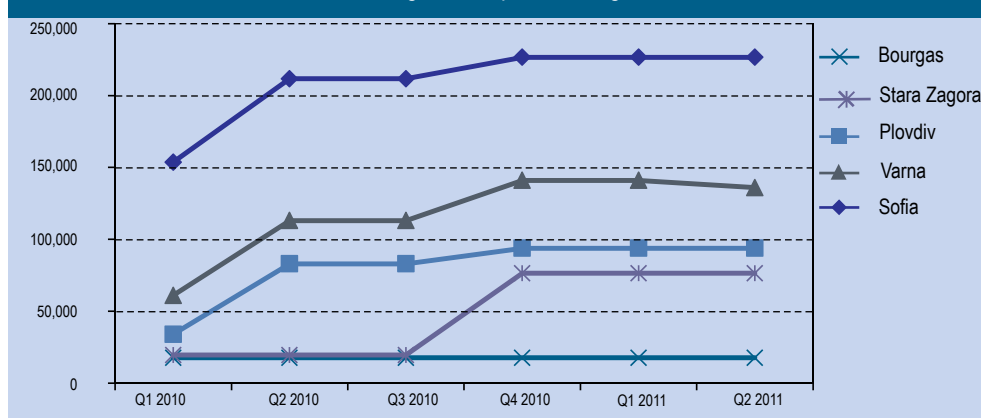
The key focus remains on Sofia. Currently the café and restaurant segment is the most active on the market in Sofia. Also, there are international fashion brands interested in entering the Bulgarian market which indicates new openings by the end of the year.

A great number of major brands started aggressive sales campaign in the end of Q2 2011 which indicates their strategy for fast selling off.

Retail Sales Index reported by NSI (National Statistical Institute) proves relative stability with slight increase by about one percentage point on y-o-y basis.

Demand for retail space in the secondary cities remains relatively weak. The high street there remains leading retail point. However, there are shopping centers like

Existing Retail Space in Bulgaria



Economic Highlights

➤ The GDP growth rate is positive for a fourth consecutive quarter at 1.5% as of Q1 2011, based on preliminary data by NSI. The IMF forecasts a 2.8–3% (y-o-y) GDP growth for 2011

➤ The inflation rate since the beginning of 2011 is 1.7% (based on CPI) while the y-o-y inflation (June 2010 – June 2011) is 4.8%, based on NSI data. The 12-month average inflation is 4.3%. The IMF forecasts an inflation rate of 5.3% for 2011

➤ Bulgarian National Bank has reported negative FDI flows in Bulgaria for the period January - May 2011 (€26.9 million based on preliminary data) as a result of the net payments on intercompany credits. The FDI flows for the same period in 2010 were €384 million, or 1.1% of GDP

➤ The Base Interest Rate was rather stable at 0.19% during Q1 2011, increasing to 0.22% in the second quarter and falling again to 0.17% as of July 2011. (BNB)

➤ The average unemployment rate in Bulgaria is gradually decreasing since the beginning of 2011. As of May 2011 it is 8.87%, down from 9.78% in January 2011. The IMF projects a further drop to 8% throughout 2011

Mall Ruse who somehow managed to attract new tenants.

Rental Levels

The underlying trend for downward pressure on rental levels and pro-tenant leasing terms remains. Shopping centers are becoming increasingly flexible in terms of tenant incentives such as rent-free periods, fit-out works, store size etc. On the other hand, high street rents are gradually reaching levels that make them attractive for retailers.

Investment Activity

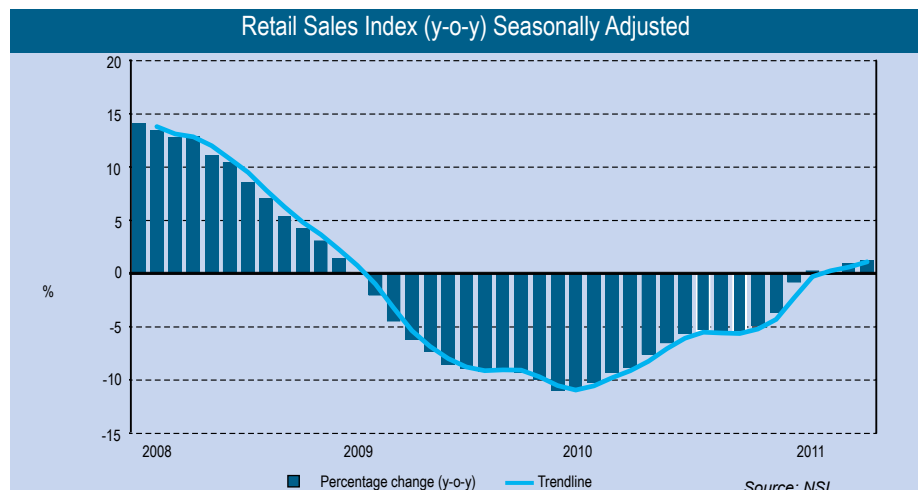
The commercial property market in Bulgaria enjoyed further improvement during Q2 2011. With investment activity being mostly retail-led, the trading volumes reached €120 million in the second quarter and €160 million year-to-date. The sharp increase in transaction size during Q2 was due to the acquisition of Mall of Sofia by Europa Capital. The deal size was in excess of €100 million, making it the largest retail investment transaction in Bulgaria since 2008. Additionally, it was Europa Capital's second retail investment deal in Bulgaria after the €20-million acquisition of Retail Park Plovdiv in Q1 this year. In

both transactions MBL | CBRE were the preferred advisor.

The prime yields changed little in Bulgaria over the last quarter. Prime yields in the retail segment remained in range of 9.30-9.50%.

In Central and Eastern Europe (CEE), the overall trading volume reached €4.4 billion by the end of May 2011, representing an increase of 180% compared to the same period last year. The investment activity continued to rise across CEE markets, the focus still being primarily on Poland, the Czech Republic and Russia. Among the major CEE transactions were the sales of the Ritz Carlton Hotel and White Square

BC in Moscow as well as the VGP portfolio in the Czech Republic. Further increase in CEE property investment volume is likely till the end of 2011, although the availability of quality product across the region may stand in the way of stronger growth.



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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.