



Regent's
PROPERTY ADVISORS

Retail Market

First Half | 2010

RETAIL MARKET

SUPPLY

In comparison with last year, 2010 promises to be more dynamic with reference to new openings and completed projects. A total of 384,000 sqm of new retail space is supposed to be added to the market by the end of the year. The cities most targeted by retail investors are Sofia, Varna, Plovdiv, Stara Zagora and Rousse, where the GLA per 1,000 inhabitants is still relatively low (between 100 and 200). But if all scheduled projects get successfully finished, some cities such as Stara Zagora, Rousse and Varna may get oversupplied (GLA above 350) and will have to deal with the moderate retail purchasing power of their residents.

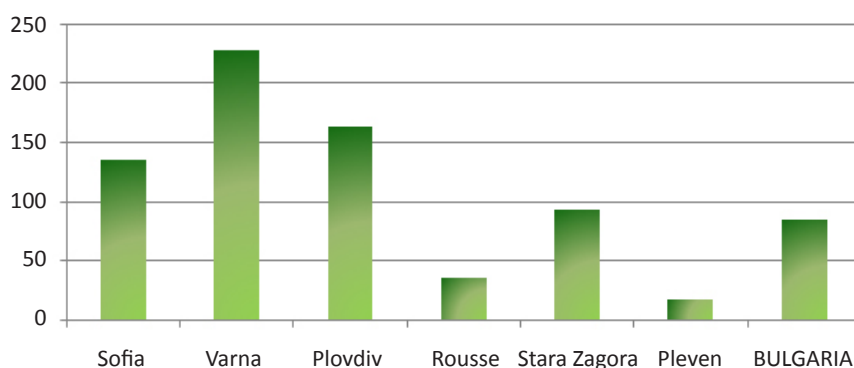
DEMAND

Demand for retail space during the first half of the year continued to decrease and was not that stable as for the previous pe-

riod. The new projects, "Galeria Plovdiv" (45,000 sqm), "Mall Gabrovo" (9,000 sqm), "The Mall" (66,000 sqm), "Serdika center" (50,000 sqm), "Grand Mall Varna" (52,000 sqm), brought not only new brands on the market, but also put additional pressure on retailers, because of the increased competition and the overall decreased consumer spending. Different approaches and incentives were used by landlords in order to attract and retain tenants, among which offering fit-out contributions, reducing rent levels and security deposits, introducing step rents etc. Some brands entered the Bulgarian market for the first time - Inditex Group (Zara, Pull and Bear, Stradivarius, Bershka, and Massimo Dutti), Peek & Cloppenburg, HUMANIC, GAP, Sephora, MAC, Marc O'Polo, Koton, Colin's, Karen Millen, while others continued their expansion (Adidas, Kenvelo, Mango, New Yorker, Starbucks, KFC). Except from west European brands, there was also quite significant interest from some Turkish brands (YKM, LC Waikiki) which will soon start their flagship stores.

- ↳ total of 384,000 sqm of new retail space is supposed to be added to the market by the end of the year.
- ↳ with the opening of new retail centers, there exist the threat of oversupply for Varna, Rousse and Stara Zagora
- ↳ new projects add to the market 222,000 sqm of new retail space
- ↳ developers and landlords both in Sofia and in the country have become more flexible in order to attract key retailers to their schemes;

Existing shopping center space (GLA/1000 population) - H1 2010



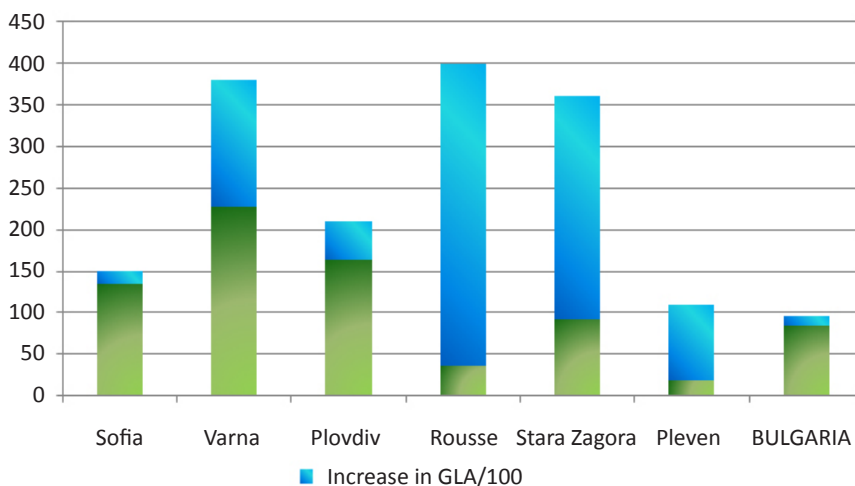
NEW DEVELOPMENTS

During March, the first large outlet centre in Bulgaria – Sofia Outlet Center (15,000 sqm) – opened its doors for customers on Tsarigradsko Shousse Blvd. However, at the moment its outlet concept is significantly different from the equivalent in Western Europe. The prices are quite high and far from the real discounts typical for most large European cities. The large-scale food chains remained most active on the market despite the current economic situation. Billa added 9 new shops and plans on opening 11 more till the end of the year. Kaufland opened 3 new stores in Sevlievo, Vidin and Plovdiv and plans on opening 5 more. Plus opened 2 new stores in Burgas, and one in Panagjurishte and Gotze Delchev. The rebranding of the chain is expected to happen at the end of the year since it was bought by its German competitor LIDL. Penny market opened its first store in Razgrad. Technomarket was more active than Technopolis and managed to open a couple more stores and rebrand several Domo stores. Tempo decided to open their first store in one of the retail parks in the capital – Sredec – with Technopolis and “Yavor” furniture store being its neighbours. IKEA also entered the Bulgarian market and started construction at Sofia Ring Road.

RENT AND VACANCY

The two new malls in the capital managed to open with more than 90% occupancy rate but the same cannot be noticed in the rest of country. The vacancy rate for malls in Plovdiv and Varna is about 14-15% (Excalibur shopping center was closed in Plovdiv). The opposite trend is observed for high street locations when comparing the capital with the country. In Sofia for the first time the vacancy rate entered the double digit zone, reaching 16% for Vitosha Blvd. However, in the country, due to the different lifestyle of the citizens, the retailers were not so eager

Expected shopping center space (GLA/1000 population) - H1 2011



Average rental rates (EUR/sqm/month)			
Location	Sofia	Plovdiv	Varna
Shopping centers and malls	35	19	18
High Street/thoroughfare	66	34	37

to leave their key street-shops and move to the suburban malls. Therefore the vacancy rates were kept in the 3-5% range.

Rent continued to be a critical issue between the landlords and the tenants and followed the same pattern of the vacancy rate. In the shopping centers, rent was reduced with 6% (Sofia) and 17% (in the country). The rent levels for high street shops reached their lowest points, a 30% drop from H1 2009.

MARKET OUTLOOK AND FORECASTS

Compared to the average figures for European shopping centres GLA per 1,000 inhabitants, Bulgaria is swiftly climbing up the ladder from the bottom places. Still, even though the growth is rapid we are not even close to the average for the European Union. Furthermore beneath the average figure, the growth is highly

inhomogeneous, which will leave some Bulgarian cities dealing with problems of high saturation and others with almost no modern retail schemes. And then even cities with good retail centers' absorption will continue to see their high street vacancy rates increasing. On the other hand, this may bring some good opportunities for businesses to open their stores on major boulevards taking advantage of the generous incentives which landlords are currently willing to give.

Foreign direct investments during the first 6 months of the year fell sharply to EUR 385.5 million, compared to H1 of 2009, when FDI were EUR 1.62 billion. Thus the Bulgarian economy is under pressure for restructuring and in search for a new growth driver.

ECONOMIC HIGHLIGHTS FIRST HALF OF 2010

- The GDP for H1 2010 was EUR 15,558 million according to the flash figures of the National Statistical Institute (NSI). This is a decrease of 2.5% year-over-year (YOY), but a significant improvement compared to the 5.0% decrease in 2009. The expected GDP growth for the whole 2010 is 0.7%
- Preliminary figures for foreign direct investment in Bulgaria in the period January – June 2010 are EUR 385.5 million (1% of GDP) compared to EUR 1.62 billion (4.8% of GDP) for the corresponding period of 2009
- The inflation (CPI) in June is 0.9% compared to the previous month, while YOY it is 1.4%. The inflation for the period December 2009 - June 2010 is 1.5%
- The unemployment rate in Bulgaria in June 2010 falls to 9.26%, compared to 9.53% a month earlier. The unemployment YOY increased by 1.97%.
- The average monthly salary in H1 2010 has increased with 3.4% to BGN 640 (EUR 327)

Sources: BNB, NSI and National Employment Agency



REGENT'S PROPERTY ADVISORS AD
116 James Bouchier Blvd.
Sofia 1407, Bulgaria
office@regents.bg
www.regents.bg

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. © 2010 Regent's Property Advisors. All rights reserved. Any unauthorized use or disclosure is prohibited.