



Regent's
PROPERTY ADVISORS

Retail Market

First Half | 2011

Reliable partner in the real estate business

SUPPLY

Opposite to a dynamic 2010, during which 348,000 sqm of retail space were added to the market (The Mall, Serdika Center, Sofia Outlet Center, Galeria Plovdiv, the first half of 2011 brings no entirely completed projects. Nevertheless all major projects are in their final phases and despite the difficulties in the industry, caused by the harsh economic conditions, 116 000 sqm of leasable retail area are expected to be finished by the end of 2012 in Sofia alone (Paradise Center with GLA of 83,000 sqm and Bulgaria Mall with GLA of 33,000 sqm). Another significant project in the capital, Sofia South Ring Mall (GLA of 72,000 sqm) is anticipated to have its first visitors somewhere in 2013. Most of these new retail schemes are located in the southern part of Sofia, which will further position them as more attractive and preferable among the residents of the capital.

In the country, some of the long anticipated projects are now waiting to have their future cleared up: Mall Markovo Tepe in Plovdiv (GLA of 17,000 sqm) and Sun City Center Burgas (GLA of 29,000 sqm)

DEMAND

The large Bulgarian and international retail chains remain very active and are trying to take good positions in the not-yet-filled niche of the convenient stores. At the moment, all major participants are opening or are still negotiating the terms of such stores. The investors define with them as less risky. Their attention for now is towards Sofia and the other major cities.

Regent's research shows that the difference between the prices of the convenient store and the ones in the main supermarket of the same retail chain abroad is about 30% (due to the handiness the neighbourhood store provides, the customers are ready to pay more). In Bulgaria this price difference is very negligible due to the highly fragmented market.

For the first time we are witnessing the initial signs for market saturation. At present, every new contemporary store inevitably affects the sales of the other working stores nearby. The major difference is that until now, every new store was affecting only the small-size independent resellers (family businesses).

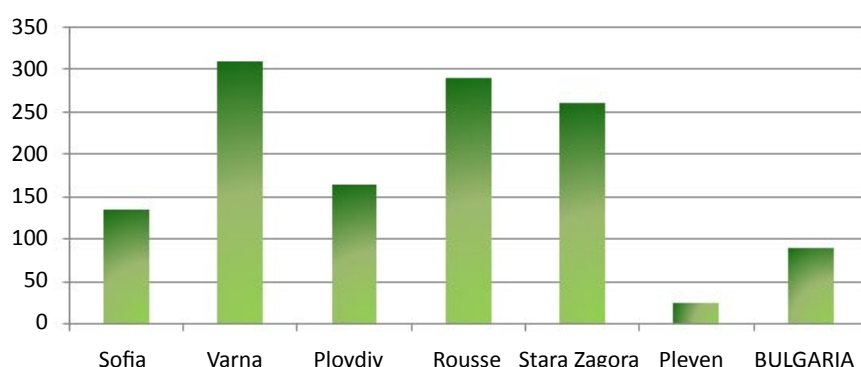
Because it is a real challenge to find a suitable location in the heart of the capital, we are noticing an remarkable shift – large international chains are changing their one-and-only concepts (big-box stores) to small convenient stores on ground levels of residential buildings.

Due to the tightening of the market and in order to minimize their risk, fashion retailers are deciding to open or convert existing stores to multi-brand stores, offering numerous collections under the same roof.

HIGHLIGHTS:

- total stock comprises of 557 500 sqm of modern shopping centers
- 222 000 sqm of retail space are under construction
- GLA in Sofia is about 112 sqm/1000 people
- Yield expected to remain stable in short term

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



RENT AND VACANCY

The rental levels did not experience a significant change over the first half of the year. Even though high-street rents decreased by 15% on a year basis in the capital, they still remain much higher than shopping mall rates, which dropped by 5% since the beginning of the year.

In the other main cities the trend to have a highly visited street area still remains preserved and therefore the landlords there experienced a negligible decline in their incomes.

VACANCY

Vacancy rates in the capital experienced almost no change and remained relatively low due to high-quality projects and good management that was able to find quick replacements for leaving tenants. But that not the case in the country. Some retail schemes, especially those in cities with high density of leasable area, are still almost 50% vacant, but are hoping to reach decent occupancy by the end of 2011.

Due to the fact that no new shopping centers opened in H1 2011, the existing malls had the chance to position themselves well on the market, and outcompete their rivals. The shopping malls that opened in 2010 are experiencing a significantly higher vacancy rate than most existing malls due to their better rental terms, aggressive marketing and the gained momentum at their recent openings.

Active Pipeline			
Shopping center	Location	GLA	Opening
Paradise Center	Sofia	83,000	2012
Bulgaria Mall	Sofia	33,000	2012
South Ring Mall	Sofia	72,000	2013
Galleria Varna	Varna	36,000	under construction
Galleria Burgas	Burgas	37,000	under construction

Retail Market Overview			
Shopping center	Location	GLA	Opening
Serdika Center	Sofia	50,000	H1 2010
Sofia Outlet Center	Sofia	15,000	H1 2010
Mall Gabrovo	Gabrovo	9,000	H1 2010
The Mall	Sofia	66,000	H1 2010
Galeria Plovdiv	Plovdiv	45,000	H1 2010
Grand Mall	Varna	52,000	H1 2010
Varna Towers	Varna	30,000	H2 2010
Galleria Stara Zagora	Stara Zagora	27,000	H2 2010
MegaMall Ruse	Ruse	18,000	H2 2010
Mall Ruse	Ruse	35,000	H2 2010

Average rental rates (EUR/sqm/month)			
Location	Sofia	Plovdiv	Varna
Shopping centers and malls	32	18	15
High Street/thoroughfare	57	26	31

Source: Regent's' research

ECONOMIC HIGHLIGHTS FIRST HALF OF 2011

- GDP registered positive growth rates in two consecutive quarters, driven by strong exports expansion. The GDP for H1 2011 registered a positive growth of 3.4% on an annual basis according to the flash estimates of the National Statistical Institute (NSI).
 - By preliminary operative data, the GDP in the first half of 2011 amounted to EUR 8,131 million at current prices and GDP per capita was EUR 1,084
- The inflation (CPI) in May is 3.2% compared to the previous month. The inflation for the period June 2010 - June 2011 is 3.5%
- The unemployment rate in Bulgaria in June 2011 climbs to 9.6% - one of the highest rise on a YOY basis compared to all members of the EU
 - The average monthly salary in H1 2011 has increased with 3.6% to BGN 673 (EUR 344)

Sources: BNB, NSI and National Employment Agency

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