



Q2 | 2010

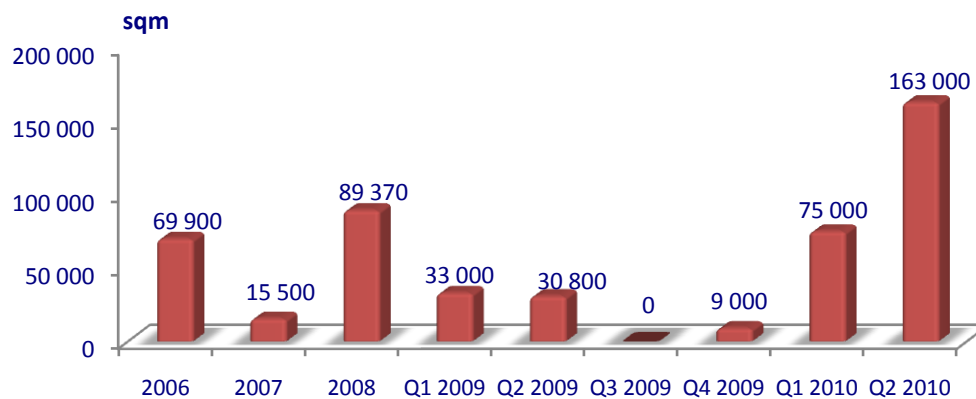
# Bulgarian Retail Market



## Bulgarian Retail Market – Q2 2010

- ❖ The overall tendency in the retail sector in Bulgaria is still negative in the light of the continuing decrease in private consumption although the second quarter was quite dynamic in terms of retail projects development and completion.
- ❖ Q2 2010 recorded the highest supply of new shopping center space in the country so far – 163 000 sq.m. GLA. Three large mall schemes were delivered to the market in the three largest Bulgarian cities: respectively The Mall (66 000 sq.m.) in Sofia, Galleria Plovdiv (45 000 sq.m.) in Plovdiv and Grand Mall (52 000 sq.m.) in Varna.

### Malls & Retail Parks Delivered to the Market (GLA)



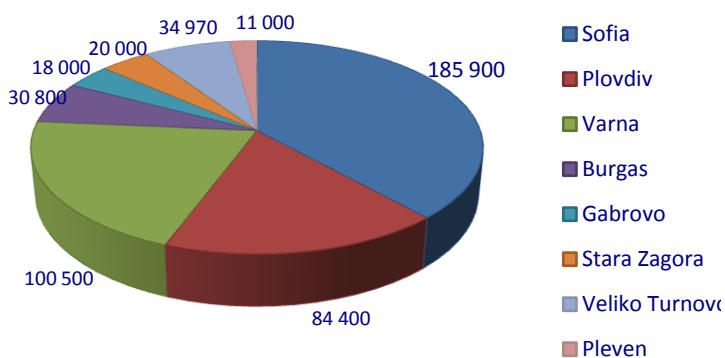
Source: Forton International

- ❖ In April the largest mall scheme in Bulgaria - The Mall, was officially opened for customers, introducing the first Carrefour hypermarket (15 000 sq.m.) in Sofia, large entertainment zone and a strong brand mix (for the first time in Bulgaria brands like Gap, Massimo Dutti, Sephora). This opening somehow affected the footfall in the other large retail schemes in the capital. As a result some of the tenants, mainly local brands and franchisees, required to switch to turnover rents due to the impossibility to sustain their business paying the agreed fixed rental rates.
- ❖ Supply in Plovdiv and Varna also increased by two new shopping malls – Galleria Plovdiv and Grand Mall Varna respectively, both having Carrefour as food anchor. However, these schemes encountered certain difficulties due to the significant shopping center supply (existing and pipeline) in the two cities and the lack of resources of the local brands to open more shops. For these reasons the opening will be done in stages for both malls. The occupancy of Galleria Plovdiv at opening was approx. 30% (including Carrefour).

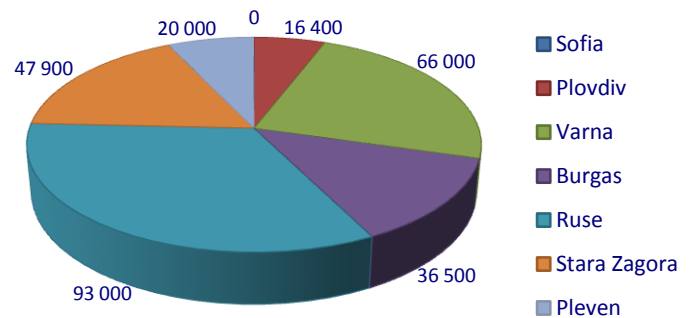
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- ❖ Still, strong international brands enjoy quite satisfactory performance in terms of retail sales. However, in the light of the overall rental decrease trend they are trying to negotiate better conditions to support their expansion. Judging by the good performance of the international brands which recently entered the local retail market, there are proper grounds for more strong retailers to operate successfully in the country.
- ❖ Since the beginning of 2010 Bulgaria's modern shopping center stock significantly increased reaching 485 000 sq.m. as at June 2010. This moved up the country in the European "Shopping Center GLA per capita" statistics, with approx. 63,89 sq.m. retail GLA per 1000 residents. Furthermore a steady supply of pipeline shopping centre space (almost 280 000 sq.m.) is projected to emerge around the country in the next two years.

**Existing shopping center space (June 2010)**



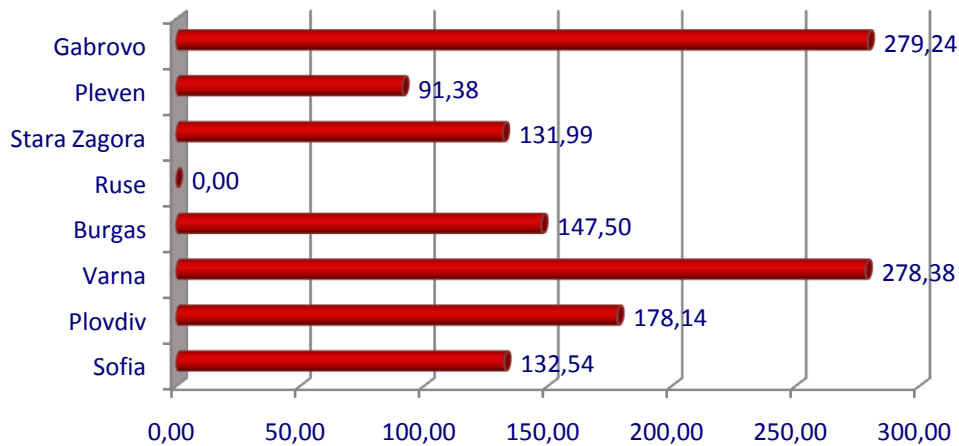
**Pipeline Shopping Center GLA (June 2010)**



- ❖ In terms of GLA per capita by settlements, the leaders in Bulgaria are Varna and Gabrovo (with over 278 sq.m. retail area/1000 residents), the first one due to the large new supply after the opening of Grand Mall Varna (52000 sq.m.) while the second town is rather small by population (65000 residents) and already has two operating shopping centers.

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### Shopping Center GLA per 1000 residents

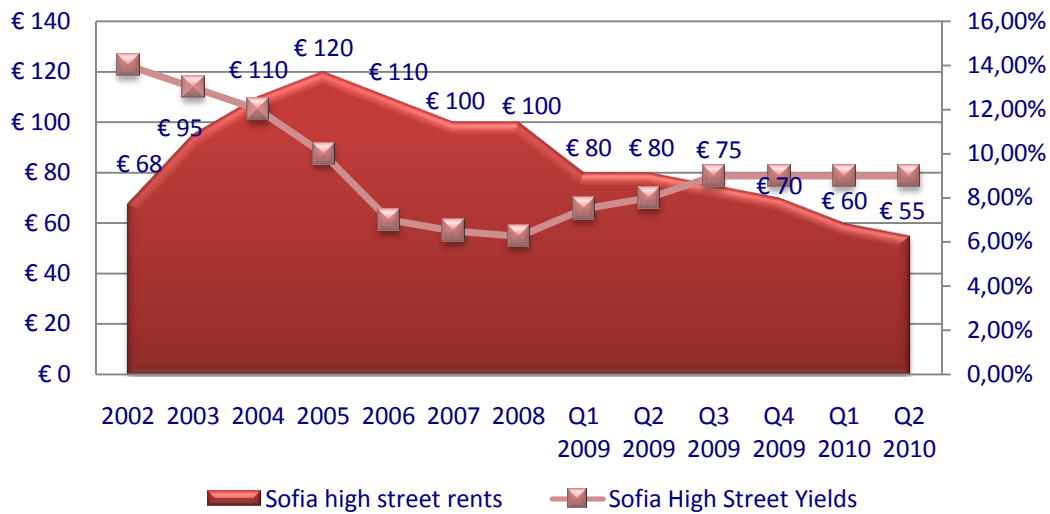


Source: Forton International

- ❖ Following the trend of the entire 2009 in Q2 2010 both shopping centers and high streets recorded further downward movement in rent levels. The difficult leasing process of many pipeline schemes has additionally exacerbated the rental pressure in the retail segment. Many schemes which were initially proposed to be completed by mid 2010 are now experiencing delays until 2011/2012, in effort to attract occupancy. The consecutive rental downturn positioned prime shopping center rates at about € 30/sq.m. per month which represents over 14% decrease compared to the previous quarter.
- ❖ Prime high street rents in Sofia reached their lowest levels since 2002. The annual decrease in rent levels (toward Q2 2009) is estimated at over 30% for the capital and approx. 43-50% for the other large cities. Overall, this continuing trend is very much a result of the growing vacancy on high streets and the fact that vacant units are now being offered at significantly lower rents.

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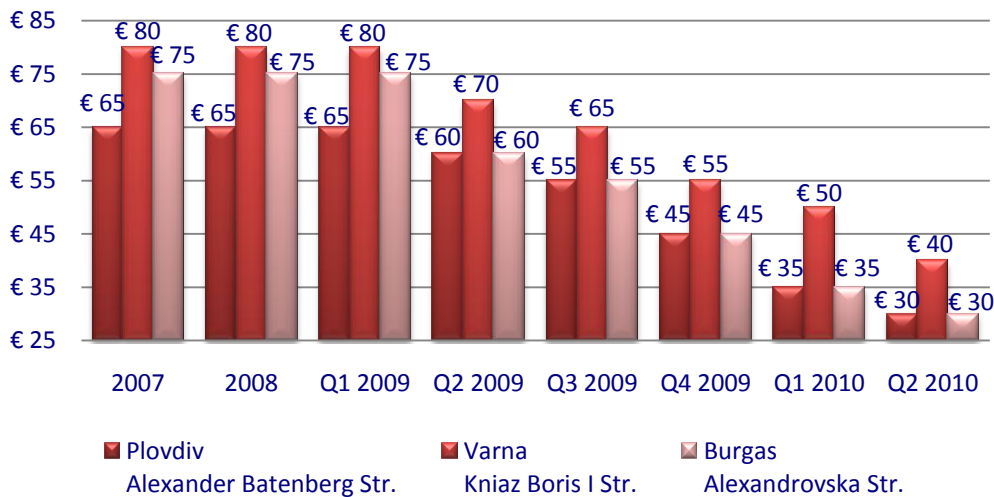
## Sofia High Street Rents and Yields



Source: Forton International

- ❖ The rent levels on high streets in the country have totally collapsed over last several quarters recording annual drop of approx. 50% toward the figures in Q2 2009.

## High Street Rents: Plovdiv, Varna, Burgas



Source: Forton International

- ❖ In general demand for retail space remains subdued as only very prime locations in the capital have low vacancy rates. Vacancy rates have sharply risen in both shopping centers and along the high streets in secondary towns. Some international retailers (Inditex, New Yorker, Deichman) have expressed serious interest towards prime units on high streets it is all a matter of stores conditions



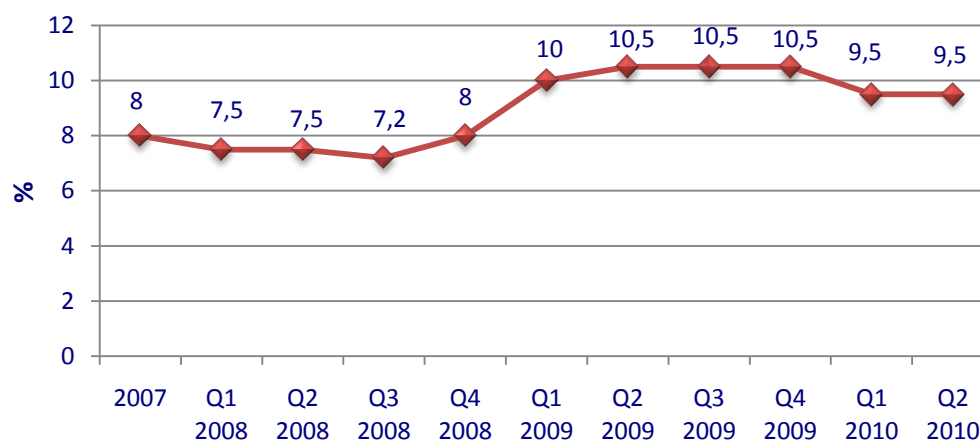
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for those who have the financial backup to expand. However the limited and in many cases unsuitable high street supply additionally hinders these expansion opportunities.

- ❖ Considering the current market situation, prime rents could come under further downward pressure across all retail sub-sectors, although shopping centers in secondary cities/towns are likely to experience stronger decline.
- ❖ Construction works of the first retail park with lease concept in Sofia – Black Gold (one investor and several big-box tenants) are well in progress and in August the first store in the park (Jumbo) is scheduled to open. Among the other tenants in Black Gold are Sprider, Lidl, Eurohold whose stores are also expected to start construction very soon.
- ❖ The renewed development activity in the capital is also fortified by New Century Holdings which obtained construction permit for the first stage of a mega complex near Lyulin district in the western part of Sofia. This stage will include a construction hypermarket (15 000 sq.m.), mall scheme (107 000 sq.m.) and a servicing parking lot (28 000 sq.m.).
- ❖ Meanwhile in May the largest big-box retailers in Bulgaria (METRO, BILLA, Carrefour, Kaufland, Hit, Lidl, Praktiker, Mr. Bricolage and Baumax) established an association for modern trade with the purpose of protecting their common interests and regardless of the strong competition between them.
- ❖ In line with the intensive shopping centers development another retail event held the focus on the capital. The furniture giant IKEA officially marked the start of construction of its first hypermarket in Bulgaria (located in the south-eastern part of the city, on the Ring Road). It will occupy a retail area of approx. 30 000 sq.m. and the opening has been scheduled for the second half of 2011.
- ❖ The subdued investment activity in the retail segment persists although negotiations for certain pipeline schemes are underway. Values of retail developments are not expected to undergo any significant changes in the short term and the major investors' interest is limited only to the best stock.
- ❖ Prime high street and shopping center yields have remained unchanged over the quarter.

# Bulgarian Retail Market – Q2 2010

## Sofia Shopping Center Yields



Source: Forton International

- ❖ In light of the lack of recent comparable market evidence in the country, the indicated rates are very much estimations of prime initial yield levels at which certain transactions may be completed considering the current retail market situation.

### Major Retailers in Bulgaria as at Q2 2010\*

<b>Hypermarkets</b>	Metro (11); HIT (2); Carrefour (3)
<b>Food Retailers</b>	Billa (71); Kaufland (31); Maxima (T Market) (30); Piccadilly (27); Plus (24); Penny Market (39); Mercator (1); CBA (196); Elemag (5)
<b>Electronics</b>	Technomarket (60); Technopolis (25)
<b>DIY Stores</b>	Mr Bricolage (10); Praktiker (9); Baumax (4); Praktis (4)

\*The number in brackets shows the number of currently operating stores.

### Existing Shopping Centers:

Shopping Malls	Ownership	GLA	Location	Completion
Mall of Sofia	GE Commercial Finance Real Estate; Quinlan Private	21 500	Sofia	2006
City Center Sofia	Heitman European Property Partners III	22 000	Sofia	2006
Sky City	Fantastiko	10 400	Sofia	2006
Central Mall	European Convergence Property Company PLC	16 000	Veliko Turnovo	2006

## Bulgarian Retail Market – Q2 2010

Pfohe Mall	Luke REIT	15 500	Varna	2007
Mall Varna	Miller Developments	33 000	Varna	2008
Park Mall Stara Zagora	Alexandra Group	20 000	Stara Zagora	2008
Mall Plovdiv	GE Commercial Finance Real Estate; Quinlan Private	22 000	Plovdiv	2009
Central Mall Pleven	Niya	11 000	Pleven	2009
Burgas Plaza	Gort Holdings; MRP Group, Carrefour	30 800	Burgas	2009
Terra Center	Terrachim 97 AD	9 000	Gabrovo	2009
Sofia Outlet Center	Arnok Immobilien	15 000	Sofia	Q1 2010
Serdika Center Mall	Sparkassen Immobilien and ECE Projektmanagement	51 000	Sofia	Q1 2010
Mall Gabrovo	Mall Gabrovo Ltd	9 000	Gabrovo	Q1 2010
The Mall (Carrefour Mall)	Assos Capital Carrefour Bulgaria	66 000	Sofia	Q2 2010
Grand Mall	Orchid Developments	52 000	Varna	Q2 2010
Galeria Plovdiv	ECDC, Sienit	45 000	Plovdiv	Q2 2010

\*The table includes modern shopping center supply with retail GLA > 9000 sq.m.

### Shopping Malls under Construction:

Shopping Center	Investor	GLA	Location	Scheduled for opening
Bulgaria Mall	Salamanca Capital, MRP Group	33 000	Sofia	on hold
Mega Mall	Real 4 You	24 000	Sofia	on hold
DV South Mall	Kondor - 4	20 000	Sofia	on hold
Varna Towers	Densy Stroy	30 000	Varna	Q3 2010
Galleria Varna	GTC (Globe Trade Centre)	36 000	Varna	Q2 2011
Markovo Tepe Mall	Melina	16 400	Plovdiv	Q3 2010
Sun City Centre	Sun City	29 000	Burgas	on hold
Strand	ZBS	30 500	Burgas	design phase - with constr. permit
Galleria Burgas	GTC (Globe Trade Centre)	36 500	Burgas	Q3 2011

## Bulgarian Retail Market – Q2 2010

Galleria Stara Zagora	GTC (Globe Trade Centre)	27 000	Stara Zagora	Q3 2010
City Mall Stara Zagora	Carrefour	20 900	Stara Zagora	2011
Mall Pleven	Aladin Ltd	20 000	Pleven	Q1 2011
Grand Plaza	Prista Oil	37 500	Ruse	2012
Mall Ruse	Ocif and Cinema City	35 500	Ruse	Q4 2010
Mega Mall Ruse	Megachim, ECDC	20 000	Ruse	Q3 2010
Danube Mall	Marmeg	15 000	Ruse	on hold

### Existing Retail Parks:

Retail Park	Investor	GLA	Location	Completion
Retail Park Plovdiv	Landmark Property	17 400	Plovdiv	2008
Retail Park Veliko Turnovo	CBA	18 970	Veliko Turnovo	2008

### Pipeline Retail Parks:

Retail Park	Investor	GLA	Location	Completion
Black Gold	BCD EOOD	30 000	Sofia	2010-2011
Retail Park Sredec	Multiple investors	42 000	Plovdiv	2011
Retail Park Vazov	Glorient Investment BG	25 000	Sofia	2011

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