



RETAIL REAL ESTATE MARKET

BULGARIA | FIRST HALF 2011

High Streets are expected to make a come-back in 2011

With the opening of four shopping malls in the past six months, the total inventory of contemporary shopping mall space in Bulgaria has increased to 560,000 sqm equal to 74 sqm/1,000 inhabitants

Demand for High Street space in the four largest cities remained stable

Rental levels in shopping malls and across the High Street continued to decrease slowly

SUPPLY

In the second half of 2010, four new shopping centers* opened their doors for visitors. Varna Towers (30,000 sqm GLA), Galeria Stara Zagora (26,000 sqm), Mega Mall Ruse (18,000 sqm) and Mall Ruse (36,000 sqm) added a combined 110,000 sqm to the total stock which reached 560,000 sqm. The full year of 2010 marks the largest annual increase in terms of shopping malls supply with a further 327,000 sqm new stock.

There are two projects in the pipeline for 2011: Mall Markovo Tepe (16,000 sqm) in Plovdiv and Danube Mall (23,300 sqm) in Ruse, which will add another 39,300 sqm to the total inventory. Two very large shopping mall projects are in the pipeline for Sofia; Sofia Ring (70,000 sqm) with the first IKEA in Bulgaria and Paradise Center (75,000 sqm). With these two additional shopping malls, the Southern and Eastern parts of Sofia will be well served, while the Northern and Western areas of the Sofia will continue to be undersupplied.

VACANCY

Shopping malls in Sofia enjoy low levels of vacancy, and apparently have absorbed the massive hike in stock in the spring 2010. As a result of intensive expansion and fall in consumer demand, some retailers are facing dwindling turnovers, and thus are pressed financially. Fundamentally, landlords and tenants are in 'it' together, and must find common solutions to keep the particular shopping mall competitive in the face of consumers, and viable in the face of financing institutions. With no new centers opening in 2011, the existing malls now have a chance to position themselves, and thus strengthen their competitive situation.

The shopping malls that have opened in the second half of 2010 are characterized by a significantly higher vacancy than most existing malls. A few projects in secondary cities are struggling to secure suitable tenants, and have opened with less than half of all retail units operating. This is particularly the case in cities that are already oversupplied with shopping mall space measured relative to the population (Fig. 1). Retailers are being attracted with tenant allowances, step rents and other incentives aimed at enabling occupiers to open new shops under reasonable financial

conditions – expecting the lease contract to turn profitable in the mid- to long-term.

HIGH STREET

There is only insignificant change on the High Street in the four largest Bulgarian cities in the past six months. There is movement among occupiers, but as a whole the level of vacancy and replacements are the same as in previous periods.

The High Street in Sofia registered 10% vacancy, while the replacements have increased slightly from 5% to 8%. The same is the case in Varna where there is small decrease of around 1 percentage point in vacancy level and a slight increase in replacements of 2%-points.

Replacements in Sofia are mainly within the segments of fashion, shoes and HORECA (Hotels, Restaurants, Cafes). The situation regarding replacements in Varna is quite similar. The High Streets in Plovdiv and Burgas are the most stable ones in terms of occupancy. Compared to the two other cities, this is also where the shopping mall activity is the lowest. Burgas has seen no new mall opening since Burgas Plaza in 2009.

BIG-BOXES / RETAIL WAREHOUSES

Discount retailers continued to be the most active within the big-box format. The second half of 2010 is marked by the market entry of the hard discounter, Lidl, with a simultaneous opening of 14 stores. Their acquisition of the Plus chain from German retail giant Tengelmann is approved and the 24 Bulgarian Plus stores are awaiting rebranding. Lidl is part of the Schwartz group, which also operates Kaufland.

Together with Lidl, the most active in terms of opening new stores are Billa (15 new stores), Penny Market (17) and Kaufland (5).

In the second half of 2010 the big box market saw the introduction of the soft cash & carry hypermarket format. Serbian Delta Holding, which acquired Piccadilly in 2008, opened their first 'TEMPO' store in Retail Park Sredetz in Sofia**. Mercator (Slovenia) changed their retail format for Bulgaria into "Megamarket Roda", and by the end of 2010 operates 4 megamarkets – two in Stara Zagora, one in Varna, and one in Sofia.

The big boxes started to clearly define the re-

Fig. 1. Shopping mall space (in sqm per 1,000 inhabitants)

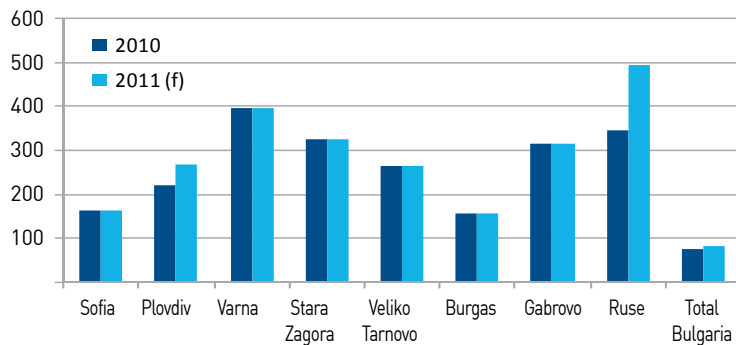
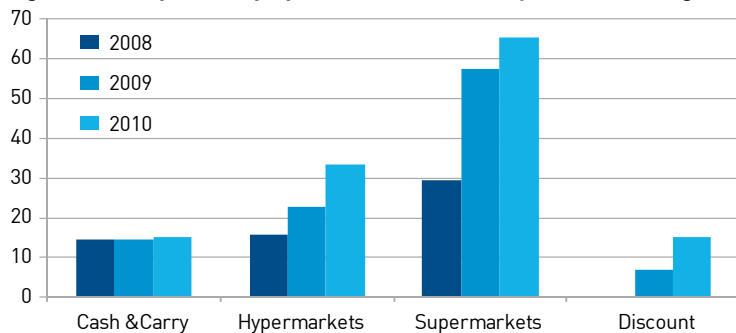


Fig. 2. FMCG Space in sqm per 1,000 inhabitants by formats in Bulgaria



PRIME RENTAL RATES (EUR/SQM/MONTH)				
LOCATION	Sofia	Plovdiv	Bourgas	Varna
Shopping Centers and Malls	37	22	22	22
High Streets	65	35	26	31

Source: Colliers' research

tail market in Sofia. The area at the junction of Botevgradsko Shosse and the Ring Road has already started to shape up as the big box hub of the city. Jumbo opened their 2nd hypermarket in Sofia as part of Black Gold Park, next to which the G Park Sofia project is planning another 50,000 sqm of retail park space. This area is likely to also benefit from a Metro cash & carry hypermarket.

Technomarket, a leader in consumer electronics, has diversified their portfolio by introducing a new format in their larger stores branded @Home. The shop offers household goods, and is present in Sofia, Varna, Burgas and Plovdiv.

Dm in the health & beauty segment opened 11 new stores in the second half of 2010.

Fig. 2 shows the penetration of the various FMCG (Fast Moving Consumer Goods) formats in Bulgaria. The proliferation of the supermarket format in Bulgaria is primarily driven by local chains such as Piccadilly, Fantastico and 345, while the remaining formats are dominated by international chains.

DEMAND

Despite the economic slump, distinct optimism among the retailers is appearing. While 2009 and 2010 saw a negative development in consumption (3,6% and 2,8% respectively), the forecast for 2011 is a modest growth of 1,3% in average annual consumption. The large international players stick to their expansion plans and continue to require space for opening of

shops in 2011. The local and smaller operators however, are more cautious, focusing on optimizing costs.

The market has proved ready to adopt new, innovative concepts developed by local retailers. In the future shoppers are likely to also experience more hybrid concepts (e.g. fashion & art, books & cafe or interior & fashion), many of which will include an entertainment component.

Future demand is expected to come from three main segments; soft cash & carry, convenience stores and lower end fashion retailers. Particularly non-food hypermarkets are expected to expand in the coming periods.

RENTS

High Street space continues to be more accessible with decreasing rents. The average decrease on asking High Street rents is 10% in Sofia and 17% in Plovdiv, Varna and Burgas. Rental levels are clearly affected by the increasing supply of shopping mall space. Due to the soft demand, average rental rates in shopping malls across the submarkets have fallen with 5% in the second half of 2010.***

FORECAST

- » Sofia Ring Mall (70,000 sqm GLA) is expected to start construction in the first half of 2011
- » Discounters will continue to be active
- » The convenience format of the Food and DIY (Do It Yourself) sector is likely to grow
- » Fashion retailers in the lower price segment will enter the market or expand
- » The High Street is expected to make a come-back in the coming period
- » New local retail concepts will be introduced

* Colliers International defines shopping centre/mall as a group of retail and other commercial businesses with a combined size above 10,000 sqm that is planned, developed, owned and managed as a single property. On-site parking is provided.

** A Retail Park is defined as a purpose-built development with at least three units covering 3,000 sqm or more of lettable floorspace, within a secure, park environment with ample free parking.

*** Prime Rent represents the average top open-market rent estimated to be achievable for a new lease of a 100 sqm (net leasable area) unit of the highest quality and specification in the best location, excluding service charges and taxes and not reflecting tenant incentives.

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