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Retail Market Overview

Bulgaria, 2007

Economic Overview

- Stable economic growth. GDP for the period from January to September 2007 amounts to BGN 40 132 million, while the preliminary data shows a total amount of BGN 52 233 million for the whole year which is 6.4% more than in 2006.
- A high level of inflation amounting to 12.5%, while the figure for the preceding year is 6.5%.
- Decreasing unemployment 6.9% compared to 9.1% for 2006.

- A significant increase of mortgages - the value of loans granted by bank institutions for the purchase of residential estates for 2007 amounts to BGN 18.8 million which is 42.59% more compared to 2006.
- Certain increase of the attractiveness of Bulgaria as an international investment destination. The direct foreign investments for the previous year amount to 2 864.3 million Euro, which is 43.94% more compared to 2006.

Real Estate Market Overview

- There are 311 584 property transactions performed in Bulgaria in 2007, which is 4.43% more than the transactions closed in 2006.
- The foreign direct investments in real estates and building activities in Bulgaria in 2007 amount to 2 864.3 million Euro which is 43.94% more compared to 2006 and 282.37% more than the figures for 2005.
- Demand for retails in the big cities overtook supply.
- During the year, the yields in Bulgarian retail sector reached levels between 7.8 and 8.2% - significantly higher compared to yields in the developed markets.

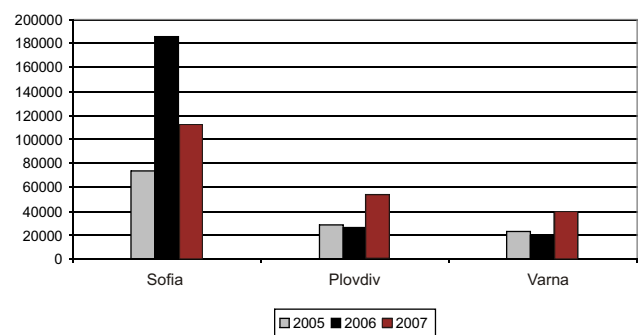
- In 2007, there were more than 512 000 square meters of commercial areas in the pipeline in the capital Sofia; 288 000 square meters in the city of Plovdiv and 229 000 square meters in the city of Varna, expected to be completed in 2008-2009.
- The basic trend observed regarding to the commercial areas in the pipeline in the major Bulgarian cities, as well as to the projects, was their inclusion in much more extensive projects for the construction of multi-functional buildings, including various combinations of shopping centers, office space, residential and hotel areas.

Supply

During 2007 the retail market suffered considerable dynamics mainly originating from the continuously growing demand significantly overtaking supply. Despite the presence of some newly opened malls and smaller shopping centers, the lack of high quality commercial areas was tangible. The opening of the last mentioned gave a chance to many foreign and world famous trade marks to enter Bulgarian market what wasn't possible until now mostly due to the lack of appropriate commercial areas. After the successful start of the first four malls opened in the country in 2006 (City Center Sofia, Mall of Sofia and Sky City Sofia in the capital and Central Mall in the town of Veliko Tarnovo) and the announcement of dozens of projects for the construction of similar shopping centers in the whole country, many of the trade chains are planning now to open their own shops in different Bulgarian towns.

In 2007 Pfohe Mall was the first opened shopping mall in the city of Varna and it is expected the second one Mall Varna to be open in the spring of 2008. There are two other similar projects: Grand Mall Varna and Varna Towers Mall, which construction started last year and which are expected to be open up to the end of 2009.

New retail inventory for the period 2005-2007



Pipeline retails and projects in 2007
(Square meters)

	Pipeline	Projects
Sofia	802 555	512 788
Varna	393 869	287 612
Plovdiv	348 911	229 059

In the city of Plovdiv, there was opened the Trade Center Grand, which has an area of more than 27 000 square meters and the first shopping mall Mall Plovdiv is expected to be open in 2008. Besides it there are two other malls in the city, which are in the pipeline now: Galleria Mall and Central Mall Markovo Tepe and their openings are planned for 2009.

Larger retail developments completed in 2007

Building	Location	Retail Space (square meters)
Citroen Autopark	Sofia, Bojurishte district	18 524
Trade Center Orion	Sofia, Orion area	14 300
Pfohe Mall Varna	Varna, Slivnitsa Blvd.	22 159
Central Plaza Shopping Center	Varna, Nikola Vaptsarov Str.	8 386
Grand Shopping Center	Plovdiv, Capitan Raycho Str.	27 544

There are two bigger pipeline shopping centers in the city of Sofia Carrefour Tzarigradsko Mall of the international hypermarket chain Carrefour and Serdika Center of ECE Projektmanagement Bulgaria and Immorent Bulgaria, both of them due to open in 2009. Besides them, there are a number of other projects for shopping malls and medium and large shopping centers in the whole country.

The situation in the smaller towns is quite similar with the simple difference that the developers prefer to invest their money into smaller shopping centers generally with an area from 5 000 to 10 000 sq.m. because as it is widely known a town of 100 000 inhabitants can support only one big shopping mall. In December 2007 Lovech City Center with total built-up area of 7 075 sq. m and investor Lovech Properties Management was opened. Mall Sandanski and Mall Vidin should also get opened not later than the spring of 2008 and Mall Bansko is due for the summer of the same year. In 2008 and 2009 a great number of similar centers, now being in the pipeline, should open in various towns of the country.

The investor's interest in such shopping centers is due to lots of factors. One of them is related to the high yields rating to 9% for the first opened malls. At the end of 2007, the yields in the retail sector in Bulgaria vary within 7.8 and 8.2%, which values are considerably higher compared to yields in developed markets operating in a high competitive environment and amounting to 4 - 6%.

The construction of modern commercial centers contributed not only to the increase of retails taken as a quantity, but it also supported the diversification in the sector. In the last few years the greater part of the commercial areas in the country were situated in small district shops and open markets, while newly completed ones were small shops situated on the ground floors of some residential buildings.

Larger pipeline retail developments in 2007

Обект	Местоположение	РЗП (кв.м)	Завършване (година)
Carrefour Tzarigradsko Mall	Sofia, Tzarigradsko shose	151 000	2009
Serdika Center	Sofia, Sitnyakovo Blvd.	115 000	2009
Sofia Outlet Center	Sofia, Blvd. Tzarigradsko shose	28 000	2009
Mall Varna	Varna, VI. Varnenchik Blvd.	70 000	2008
Varna Towers Mall	Varna, VI. Varnenchik Blvd.	70 400	2009
Grand Mall Varna	Varna, Andrei Saharov Str.	200 000	2009
Galleria Mall	Plovdiv, near Metro Cash and Carry	100 000	2009
Mall Plovdiv	Plovdiv, Otdih i kultura residential district	45 000	2008
Central Mall Markovo Tepe	Plovdiv, Ruski Blvd.	64 000	2009
Landmark Retail Park	Plovdiv, Mendeleev Blvd.	24 365	2008

Gradually, the construction of hypermarkets, mainly owned by foreign chains, has started in the whole country. After 2005, some hypermarkets of the famous chains of Praktiker, Mr. Bricolage, Kaufland, Piccadilly and others were opened in the cities of Varna, Plovdiv and Burgas. The commercial buildings completed in 2007 were mainly small and medium sized shopping centers although there is a continuing trend in the capital to build a significant number of commercial areas on the ground floors of the newly built residential and business buildings. The retail sector is still slightly developed in the city of Burgas due to fact that the greater part of the investments in South-East Bulgaria is directed towards the resorts and vacation construction.

Regarding to the projects for shopping centers announced or put in the pipeline during the last year, there is a trend of constructing larger and more extensive centers where the shopping malls represent just a part of significantly bigger multi-functional buildings, combining commercial, office and residential areas and sometimes, even hotels. It is a common practice to search for a partner who operates in the hotel management for the development of the hotel areas and there are two options available: to attract an affiliate just in the beginning of the project or a subsequent sale of the hotel parts. Regarding to the office areas there is also a sale option but with shopping malls the sale of commercial areas happens exclusively rarely because the developers would always prefer to perform the management personally or to appoint a company specialized in shopping centers management.

Demand

Demand for buying commercial areas constitutes more than 50% of the total demand of business properties in all of the cities. 35% of retails on the average are bought as an investment and the rest 65% are purposed for own business development. The greatest demand is registered for retails intended for the establishment of confection, shoe and food shops, show-rooms, etc., as well as for hairdressers' and beauty parlors. The main requirements to the demanded commercial objects are central location on busy streets with a great stream of people and motor vehicles, easy car access, parking lots available, retails with a large front and shop windows, etc.

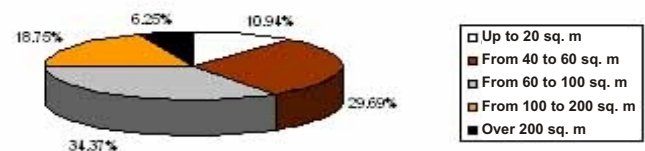
Regarding the size of demanded commercial areas for purchase, the greatest demand is for retails with square surface from 80 to 100 sq. m as well as for very small premises with area of up to 40 sq. m as for commercials larger than 150-200 sq. m. Regarding the commercial areas for rent, the major demand is for premises with square surface of up to 60 sq. m.

Demand for commercial areas for rent comprises averagely of 19% to 25% of the total demand for rental real estates and it considerably exceeds the purchase demand, usually with 8 to 10%.

Structure of demand of retail space for rent by size



Structure of demand of retail space for purchase by size



Prices

Due to the fact that most of the newly built retail properties shall be completed after the beginning of 2009 as to the lack of quality commercial areas both for rent and purchase, prices of the properties in the sector in the last year underwent a considerable growth which highest values were reached in the city of Varna, namely 85.22%, where the average price per square meter for properties located on central boulevards increased from 5 750 Euro to 10 650 Euro for the period December 2006 - December 2007. In the city of Plovdiv, the average increase was 21%, with highest rates for the central city areas - 45.83% and for Trakiya residential district which has been recently developing as a new business zone. In the town of Dobrich the increase was of 19.21%.

Rental prices increased with similar rates. The greatest increase was observed about the central areas of the city of Burgas, namely 57.14%, where the supply of commercial areas has still been very limited. In Sofia, the rental prices growth in the sector was 24.62% on the average, but much more considerable for the central city areas - 42.86%, where the interest is concentrated mainly around Vitosha Boulevard and Graf Ignatiev Street, and just 7.45% for the residential districts.

Average price of retail properties for the end of 2007
(Euro per sq. m)

	Sofia	Plovdiv	Varna	Burgas	Ruse	Veliko Tarnovo	Dobrich
Sale price	3960	3500	3750	2750	1450	1700	900
Rental price	40-180	30-80	20-90	25-55	8-15	10-40	5-10
Shopping centers rental price	30-60	25-40	20-60		10-25	7-28	

2008 forecasts

- The retail inventory will continue to grow in the whole country leading to a more intensive competition and creating preconditions for higher vacancy rates regarding to weak projects with bad location and/or poor concept.
- Due to the big number of shopping mall projects some of the investors will get forced to change their conception in order to become more competitive.
- It is expected that two comparatively unknown types of commercial properties for the Bulgarian market the outlet centers and the retail parks - will be presented on the retail market and will become common.



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