

BULGARIA

Retail Market Snapshot

Fourth Quarter | 2017



MARKET INDICATORS

Market Outlook

Prime Rents: Slightly increase, reflecting the rising retail sales and tenant activity

Prime Yields: Stable with outlook for further compression

Supply: New openings of shopping centers are scheduled in the main cities in 2018

Demand: Remains strong, Sofia and the main cities are in the tenant's and buyers' focus

Prime Retail Rents - December 2017

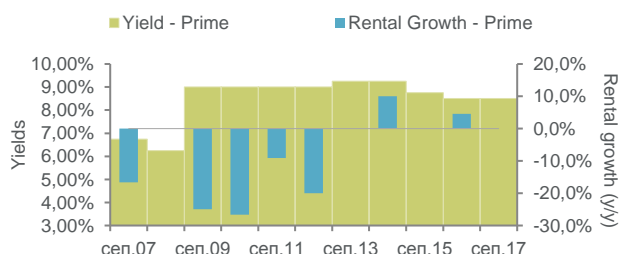
HIGH STREET SHOPS	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia (Vitosha Boulevard)	48.0	576	64.2	4.3	3.7

Prime Retail Yields - December 2017

HIGH STREET SHOPS (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia (Vitosha Boulevard)	8.25	8.50	8.50	9.25	6.00
SHOPPING CENTRES (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Country prime	7.50	7.50	8.00	10.50	7.50

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Improving purchasing power and economic growth gave strong impetus to the Bulgarian retail market in 2017. Rising sales supported the tenants' expansion. Well performing shopping centers and high streets in the big cities remained on the retailers' focus.

Occupier focus

After the years of strong supply increase, the Bulgarian market is now witnessing moderate development activity. With no new deliveries, the competition in 2017 was limited between the existing projects, aiming at improving their tenant mixes. As of the end of the year, about 115,000 sq. m were under construction or in redevelopment, including shopping centers and mixed-use schemes in Sofia, Plovdiv and Varna. With this input the overall supply is projected to reach 813,000 sq. m in the present year. The demand for modern space remained high with fashion and shoes, sport goods and health & beauty among the fast expanding sectors. In the FMCG segment Billa was notably active with new supermarkets in Mall of Sofia and Park Center in the last quarter of 2017. Meanwhile, the Macedonian discount chain KAM market made its Bulgarian debut opening four stores in Sofia. Despite the tenant activity, the average occupancy rate in the Sofia shopping centers remained about 90%, but this figure is expected to slightly improve in the present year. The top performers enjoy 1-2% vacancy. For the time being, prime rents in the shopping centers are stable at €31/sq. m but the recent ownership changes are expected to affect the rental levels, as well. High street headline levels went up to €48/sq. m in the last months of 2017, supported by tenant interest, and are forecasted to steadily increase in the next quarters.

Investment focus

With transactions amounting to €687 million, retail was the leading segment on the investment market in 2017. South-African funds such as NEPI, Prime Kapital and Hyprop are among the active buyers. Currently, development land draws the investors' attention, as well. The recent acquisition of a site for construction of a shopping center in Plovdiv by NEPI exemplified the trend. Prime yields are under pressure.

Outlook

Increasing consumption remains main driver of leasing and development activity on the retail market.

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