

BULGARIA

Retail Market Snapshot

Third Quarter | 2017



MARKET INDICATORS

Market Outlook

- Prime Rents: Steadily increasing in well-performing shopping centres and prime high street locations
- Prime Yields: Under pressure, expected to fall further in a short term
- Supply: New openings are scheduled in Sofia and secondary cities in medium term
- Demand: Strong activity in segments of affordable fashion, sports goods, home improvements and FMCG

Prime Retail Rents - September 2017

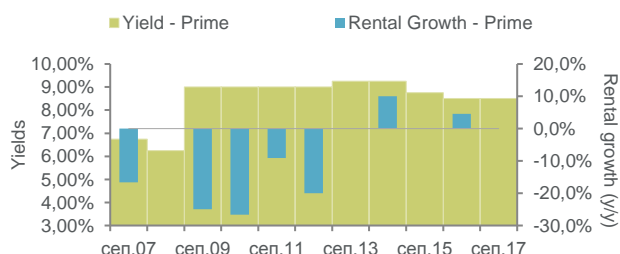
HIGH STREET SHOPS	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia (Vitoshka Boulevard)	46.0	552	60.9	0.0	2.8

Prime Retail Yields - September 2017

HIGH STREET SHOPS (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia (Vitoshka Boulevard)	8.50	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	7.75	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

Strong economic growth and rising sales underpinned healthy demand for modern retail space in Q3 2017. Tenants' focus remains on well performing shopping centers and main streets in Sofia and secondary cities. The positive outlook encourages new developments and investment acquisitions.

Occupier focus

A new shopping center in Varna, the third largest Bulgarian city, is expected to add 40,000 sq. m to the stock in the first half of 2018. The former Galleria Varna will be rebranded as Delta Planet Mall after Serbian Delta Real Estate entered the project in September. The company intends to develop the shopping center together with Sofia-based AP Investment. Galleria Varna was almost finished in 2010 but it never opened because of the stagnant market. With this input and with the planned re-opening of Plaza Plovdiv next year, the total supply of shopping centers space countrywide would reach 813,000 sq. m from the current 738,000 sq.m. Although the summer did not bring many store openings, the demand for modern space remained high. Mobile operators, drugstores, toys stores, sport goods, fashion and shoe brands are actively expanding. In Q3, Shtastlivetsa restaurant and Road House Grill opened in San Stefano Plaza in Sofia while the toy store chain Comsed entered Galleria malls in Burgas and Stara Zagora. The FMCG sector is also expanding and new openings in shopping centers and on stand-alone are expected in the fall of the year. Prime rents in the shopping centers remained stable at €31/sq.m. High street headline levels are €46/sq.m with prospect to steadily increase in the next quarters.

Investment focus

The retail market remains on the investors' focus with acquisitions amounting to €680 million for the nine months of 2017. South-African buyers are main capital source aiming at diversification of their property portfolios in the CEE. The largest transaction is the announced purchase of Paradise Center by NEPI reported to be transacted at yield of 7% which equals to €252.9 million. Prime yields are down to 7-7.5% and expected to decline further.

Outlook

Improving market fundamentals encourage new acquisitions and developments. Prime rents will slightly increase.

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