Bulgaria's rising status is luring new players and creating strong demand for retail

Bulgaria's outlook never looked brighter

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The International Monetary Fund (IMF) has raised its forecast for Bulgaria's 2015 GDP growth to 1.7 percent in the latest edition of its World Economic Outlook (WEO), from the previously projected 1.2 percent from last April. Next year's growth outlook was also revised up to 1.9 percent from 1.5 percent.

Bulgaria's finance ministry also raised its this year's GDP growth forecast to 2 percent from 1.4 percent projected in the spring, citing better-than-expected results from the first half of the year. The country's economy expanded by 2 percent y-o-y in Q1 and 2.2 percent y-o-y in Q2.

The IMF also projects that unemployment will decline to 9.7 percent in 2016 from 10.3 percent in 2015. Bulgaria's unemployment rate fell to 9.2 percent in September from 9.3 percent in August, the state labour agency said.

Foreign direct investment (FDI) into Bulgaria increased 4.8 percent y-o-y to €907.3 million in January-July, preliminary central bank data showed. Among the FDI components, equity investment climbed 7.1 percent y-o-y to €219.1 million in January-July, debt instruments rose 5.2 percent y-o-y to €594.3 million, whereas reinvestment of earnings narrowed 2.5 percent y-o-y to €93.9 million. The central bank advised that the 2014 and 2015 data includes estimates of reinvestment of earnings of banks only, at this stage.

The Netherlands, which is known for attracting company registrations with low taxes, accounted for the largest seven-month net direct investment inflow in Bulgaria of €620.2 million.

All the cited positive macro indicators show that Bulgaria is sustaining its recovery following years of stagnation that dented real estate investment in the country.

European Commission (EC) vice-president Kristalina Georgieva said that Bulgaria presently ranks eighth among the EU countries in terms of absorption of EU

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funds. This is the first time the country is among the top 10 and it is possible to further improve its standing by the end of the year, she added.

Briefly, Bulgaria's rising status as an emerging and rapidly expanding investment destination is obviously luring new players and consequently creating strong demand for retail, office and logistics space.

With a local IT sector growing by 2 percent every year and an export-oriented software market, Bulgaria counts on the IT industry as one of "the fastest-growing of all Bulgaria's industries," according to recent market data sources.

Norway's Telenor, for example, which owns Bulgaria's second largest mobile operator Telenor Bulgaria, is considering the acquisition of a small bank or another financial institution, in a bid to start offering mobile money services, Capital Weekly reported. This will be the first such service to be launched in Bulgaria.

Such a move seems justified since the company's two biggest Bulgarian competitors are both in positions to provide richer product offerings. In July, the largest mobile operator Mobiltel (Mtel, a unit of Telekom Austria) agreed to buy 100 percent of blizoo Bulgaria, a leading local provider of cable-based triple-play services, from Swedish private equity fund EQT V. The third largest mobile operator, Vivacom, is also the former state-owned monopoly and still the largest player in the fixed-line segment.

Telenor entered Bulgaria in 2013, buying the country's second largest wireless operator, then named Globul, as well as the telecom retailer Germanos Bulgaria, for €717 million from Greece's OTE. Telenor Bulgaria's EBITDA edged up 1 percent y-o-y to €60.6 million in H1 2015. The company's revenue rose 1.5 percent y-o-y, and the EBITDA margin declined 0.2 percent y-o-y to 38.6 percent. The company's active customer base narrowed by 6 percent y-o-y to 3.8 million at end-June.

However, it is not all good news. UK retailer Marks & Spencer has recently announced it is pulling out of Bulgaria, Croatia, Montenegro, Serbia, and Slovenia.

M&S has 12 stores (employing 106 people) in these five South-eastern European countries, three of them in Bulgaria.

"The goal is to firmly focus on successful businesses in Romania, Czech Republic, Poland, Slovakia and Hungary," an M&S spokesperson was cited as saying. Adding that new stores will be launched in the Czech Republic and Poland over the next two years.

The closure in the countries affected is set to begin in January next year.

German discount grocery retailer Aldi, however, is considering the Bulgarian market, Capital Weekly reported. The retailer has hired an unnamed international consulting company to prepare a potential entry. The project is at an initial stage and there is no final decision.

In Eastern Europe, Aldi is present only in Hungary, Poland and Slovenia.

Earlier in September, German retailer REWE Group said it will withdraw its discount grocery store brand PENNY Market from Bulgaria.

More than sixty German companies have expressed interest in investing in Bulgaria, which is a serious change in their number compared to previous years. The news was revealed by the Bulgarian Economy Minis-

CLOUD SERVICES FOR THE RETAIL INDUSTRY?

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Cloud is considered to be the next big thing in the IT world. Cloud computing refers to the delivery of applications over the internet. It may reduce operational and IT costs for retailers, reshaping their business in terms of scalability. Using cloud retailers may profit from a limitless amount of processing power and storage capacity especially in peak sale periods. The implementation of these technologies requires proper risk management strategies for ensuring the security and control of data. After the US-EU Safe Harbour set of regulations regarding data transfers from EU to US being invalidated by the European Court of Justice this month, alternative models, like EU model clauses have to be considered in case of EU-US data transfers.

ter Bozhidar Lukarski at the official opening ceremony of the 54th Kaufland store in Bulgaria, which is also the chain's tenth store in Sofia.

Lukarski noted that the expansion of Kaufland's activity in the country is an acknowledgment of the efforts of the Bulgarian government to establish favourable business environment and to lure quality investments. Kaufland has so far invested BGN 1.2 billion in Bulgaria, operates 54 stores and provides employment to 6,000 people, making it one of the largest employers in the country.

Apart from these contributions to the Bulgarian economy, Kaufland also provides the opportunity to 850 Bulgarian producers to sell their products in one of the largest retail chains in the country. This creates preconditions for the establishment and maintenance of competition among Bulgarian enterprises. The German Ambassador to Bulgaria, Detlef Lingemann, said that German investors have long-term perspectives. He also pointed that the economic relations between Bulgaria and Germany are far from having achieved their full capacity.

Following a string of deals with undervalued assets over the past two years, the Bulgarian retail market is currently witnessing a process of concepts for new market positioning, according to Forton. In April this year, the reconstruction of City Centre Sofia started and is expected to be completed in early 2016.

This autumn, a number of contracts with anchor tenants for more than 5,000 sqm in the shopping centre with the mediation of Forton / Cushman & Wakefield as the exclusive leasing agent, will be signed.

"The market for retail space enters a more mature phase that clearly stands out successful projects and those whose concepts are not working. While the first group shopping centres strengthen their positions, the remaining need a comprehensive restructuring to continue to operate in an increasingly competitive market," said Rosen Genev, Manager of Retail in Forton / Cushman & Wakefield.

Overall, the first half of 2015 passed without any new commercial projects being launched, and the total market volume was 763,000 sqm. Rental levels for prime locations in Sofia malls remain stable at €20 per sqm. As to the prime high street Vitosha Blvd, rents are stable at €44 per sqm, according to Forton.

International brands of fashion and shoes in the low and middle price range remained among the most active tenants in the second quarter, the expansion of some of them already oriented to the smaller regional centres, with a population of over 100,000 people. During this period, active expansion was noticed from Polish shoe chain CCC, which opened stores in the Mall of Sofia, as well as Galleria Burgas and Galleria Stara Zagora. In Pleven, Tom Tailor and United Colors of Benetton signed contracts with the Panorama Mall. H&M also continued its expansion in the country.

The retail parks sector also experienced some activity, catalysed by the desire of some large traders to diversify and optimize their network of stores. The most visible of which was Retail Park Varna, where IKEA opened a 2,500 sqm first country centre for orders. Nearby, are already present toy chain Comsed and Decathlon. Also in Varna, Praktiker began construction of a new store next to Technopolis with which both have a common owner.

In H1 2015, the retail market remained unchanged in terms of new supply with the total stock of contemporary retail space in Bulgaria totalling 783,260 sqm, and for Sofia - 418,660 sqm, according to Colliers International. No new projects openings are expected to be launched by the end of the year, Colliers noted.

Retail activity in Bulgaria will be streamlined on repositioning of existing shopping centres (Galeria Plovdiv and City Centre Sofia) and unfreezing projects in development stage (Markovo Tepe Mall and Plaza West).

Colliers, however, assessed key retail projects in Sofia from three different perspectives. "One finding is that anchors occupy approximately half of a shopping mall's gross leasable area, regardless of its size. The second perspective delves into the tenants' type of operations (local, international or franchise) and their ratio in the respective shopping centre."

The retail project with the highest share of international retailers, directly operating on the Bulgarian market, is Sofia Ring Mall (55 percent), followed by Mega Mall (46 percent) and Serdika Centre (42 percent), Colliers explained.

Despite the lack of new major operators, retail market demand will continue to grow due to the large supply, the repositioning of projects, or a change of expansion plans for retailers.

Increased activity and higher attractiveness of the retail park segment is expected as a result to improvements in the functional layouts and environment, as well as a focus on synergy between operators.

The gap between rental levels in prime and non-prime shopping centres will widen further - the prime projects will continue to enjoy increasing rental levels, while the rest will need to introduce a variety of incentives to improve their market positioning, Colliers concluded. ■