

BULGARIA

Industrial Market Snapshot

Second Quarter | 2017



MARKET INDICATORS

Market Outlook

Prime Rents:	Stable at €4.2/sq.m in Sofia, after solid growth in the last year	▶
Prime Yields:	Expected to slightly decrease due to the shortage of prime space, currently staying at 9.5%	▶
Supply:	Mostly owner-occupied and built-to-suit space, the stock under construction dramatically increased in Sofia during H1 2017	▲
Demand:	Tenant interest is high but the shortage of prime space holds back leasing activity	▲

Prime Industrial Rents – June 2017

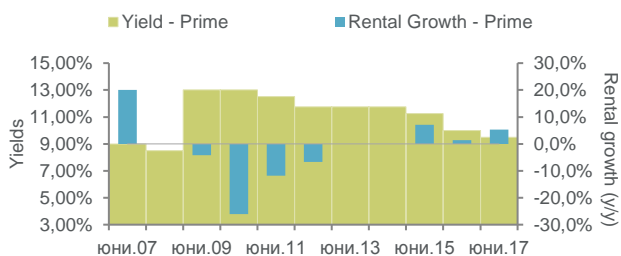
LOGISTICS LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	4.00	48.0	4.98	5.3	2.7

Prime Industrial Yields – June 2017

LOGISTICS LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia	9.50	9.50	10.00	13.00	8.50

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

The Bulgarian industrial property market saw positive development in the second quarter of 2017, underpinned by steady economic growth, rising exports and industrial production. Manufacturing outsourcing, logistics and large retailers remained main sources of demand of new space.

Occupier focus

The first half of 2017 was marked by increasing development activity. With the distribution center of Danish furniture chain JYSK (80,000 sqm TBA) and several smaller projects the industrial pipeline in Sofia reached almost 182,000 sqm as of the middle of the year. Most of these facilities are owner-occupied or built-to-suit while the speculative portion hardly exceeds 12% of the total stock under construction. However, with the stated new phases of large industrial parks speculative development is expected to gain larger share. With 11,800 sq.m completed in the second quarter the total industrial stock in Sofia increased to 913,571 sq.m. All of these deliveries are for owner-occupation, mostly warehousing space. Plovdiv is also attracting development interest, mainly from food processing, textile and auto part manufacturers. Logistics is in expansion mode, as well with the planned new facilities of Kaufland. The German hypermarket chain starts construction of additional 25,000 sq.m to its central warehouse in the Plovdiv's surroundings. Meanwhile, Turkish auto part supplier Teklas obtained €20 million loan from EBRD for the construction of a fourth Bulgarian plant in Kardzhali. On the demand side, Sofia's market witnessed relatively dynamic quarter with almost 9,400 sq.m in leasing volume. The largest contract for the period was signed in Transcapital Logistic Center where a large retail chain enters on 6,360 sq.m. Demand activity is high with inquiries mostly from retailers, logistics and distribution companies. The shortage of new modern facilities for rent maintained the vacancy rate under 2%.

Investment focus

Despite the high investment appetite in the industrial segment, acquisitions are still limited number. Due to the shortage of new projects with long term leases the market was unable to support more meaningful transaction activity.

Outlook

Steady market performance and stable rents will underpin development and investment activity in the next quarters.

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