

BULGARIA

Office Market Snapshot

Second Quarter | 2017



MARKET INDICATORS

Market Outlook

- Prime Rents: Prime asking rents in Sofia increased to €13.5/sq. m as supply was tight ▼
- Prime Yields: Yields remain under pressure, currently at 8 per cent ▲
- Supply: Visible increase is expected in the medium term but for now the shortage of prime space is an issue ▼
- Demand: Strong, largely driven by the IT and BPO sectors ▲

Prime Office rents – June 2017

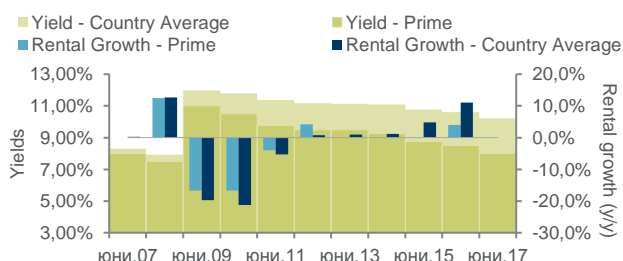
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	13.50	162	16.2	4.0	8.0
Plovdiv	8.00	96	10.0	0.0	9.9

Prime Office yields – June 2017

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia	8.00	8.00	8.50	11.00	7.50
Plovdiv*	12.75	12.75	13.00	13.00	8.75

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 office real estate market has seen another active quarter with increase in take-up, stable rents and high development appetite. Office jobs growth supported demand of prime office space. IT and BPO companies remain the major source of demand in Sofia and the secondary cities.

Occupier focus

Office space take-up in Sofia recorded more than 60 per cent y-o-y increase in the second quarter of 2017, reaching 53,971 sq. m. The leasing volume for the half-year totaled 85,638 sq. m which is 55% growth compared to the same period in 2016. The market is driven mainly by expanding IT and BPO companies which generated about 70% of the demand in the Class A market segment. The financial and pharmaceutical sectors are also active, aiming mostly at consolidating their office space. Mirroring these processes, the second quarter was marked by several notable leases. The largest one, for 10,800 sq. m, was signed by the software developer Telerik, part of Progress Corporation. The company will be the largest tenant in Grafix Business Centre, a Class A office building under construction on a main road location. Cushman & Wakefield Forton acted as leasing agent.

However, the shortage of prime office space is still apparent and preleases account for 30 to 40% of the volume. Relocations are also marked trend, resulting in slight improvement of the occupancy in the prime segment. In general, the vacancy rate slightly decreased in the second quarter, reaching 9.3 per cent. However, further decline is not expected since the strong development activity is forecasted to increase the availability. The second quarter was marked by one notable completion in the CBD area with the use permit of Millennium Center. The building with 23,200 sq. m office GLA opened more than 50% pre-let. Prime rents moved 4% up to €13.50/sq. m/month as occupiers faced limited availability and appreciated new and highly specified space. Development activity remains elevated with almost 360,000 sq. m under construction as of the middle of the year.

Investment focus

While large transactions are expected, the market is dominated by mid-scale redevelopment opportunities. Such examples are the acquisitions of a historic building of Unicredit Bulbank and of the former Telephone Palace, which will be converted in multifunctional building.

Outlook

After a significant increase in take-up in H1 2017 positive economic expectations bode well for the office market over the next quarters. The trend should encourage transaction activity.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Sofia	1,645,533	152,335	9.3%	53,971	85,638	359,719
Sofia (Overall)	1,645,533	152,335	9.3%	53,971	85,638	359,719

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Grafix Business Center	Sofia	Telerik/Progress	10,800	prelease
Benchmark Business Center	Sofia	EGT Interactive	1,714	relocation

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Unicredit Office Building	Sofia	Unicredit Bulbank/Black Sea Property REIT	N/A	10.5
Telephone Palace	Sofia	NG Property	N/A	17.3

Source: Cushman & Wakefield, Real Capital Analytics

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