

BULGARIA

Industrial Market Snapshot

First Quarter | 2017



Overview

Bulgaria's economy is in expansion phase, experiencing 3.4 per cent GDP growth in 2016, underpinned by rises in exports and industrial production. Manufacturing outsourcing in general and in automotive industry in particular, continued, being also a strong fundamental for real estate growth. In Sofia, the industrial property market is driven mostly by logistics and retail sectors.

Occupier focus

Although demand for modern logistics space remains high, the property market registered moderate activity in the first quarter of 2017. Due to the lack of availability there are limited leasing opportunities and no large deals were signed during the period. In general, the market is driven mostly by short-term leases, while companies looking for long-term solutions opt for owner occupied schemes. Logistics service tenders of large retail and manufacturing companies are another source of market activity.

On the supply side, 11,390 sq.m new industrial space were delivered in the quarter, most of which owner-occupied. Phase 4 of Logistics Park Universal in the eastern area of Sofia was the sole speculative completion. In the Airport area, a subsidiary of Austrian sanitary products firm Hagleitner Hygiene obtained use permit for an office and logistics centre. As of the first quarter of 2017 almost 76,000 sq.m industrial space are under construction in Sofia, of which 22,000 sq.m speculative. Starts of additional 23,000 sq.m are expected over the next quarters. Development activity across the country is strong with several significant completions at the beginning of 2017. In March, Swiss company Palemontech opened a factory in Montana, in Northwest Bulgaria. Meanwhile, German groups Intrama and Osram Lighting completed their production facilities in Plovdiv. Due to lack of brownfield options, the market is dominated by built-to-suit and owner occupied projects.

Investment focus

The acquisition of 8,800 sq.m warehouse in the east outskirts of Sofia by the Belgian company Il Cosmetics was among the notable transactions on the industrial property market in Q1 2017. Forton acted as sellers' advisor.

Outlook

Economic and development activity are anticipated to maintain the pace of growth in the industrial property market.

MARKET INDICATORS

Market Outlook

Prime Rents:	After growing moderately in the last quarter, prime rents are now stable.	▶
Prime Yields:	Yields remain at 9.5% with prospect for decrease reflecting shortage of prime space and increased investment interest.	▲
Supply:	New speculative schemes are under construction in Sofia.	▶
Demand:	Lack of availability holds back leasing activity, despite steady demand.	▼

Prime Industrial Rents – March 2017

LOGISTICS LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	4.20	48.0	4.85	5.3	1.3

Prime Industrial Yields – March 2017

LOGISTICS LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia	9.50	9.50	10.50	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

