

BULGARIA

# Office Market Snapshot

First Quarter | 2017



## Overview

Sofia's office market registered a remarkable quarter with significant growth in take-up and increasing development activity. The strong performance is underpinned by solid economic fundamentals - 3.4 per cent GDP growth in 2016 and decreasing unemployment rate, as well as by stable occupier demand for prime offices.

## Occupier focus

Office take-up in the first quarter of 2017 amounted to 31,667 sq.m, surpassing by 43 per cent the volume in the same quarter a year earlier. IT and BPO companies remained main actors on the leasing market, taking part in more than 60 per cent of the deals. Healthy demand in combination with shortage of prime office space supported the high share of the preleases, which accounted for 29 per cent of the total leasing volume. Expansions were a marked trend with Cargill in SPS Tower and Regiocom in Benchmark Business Center among the notable deals in the quarter. Leasing activity was concentrated in the class A segment, reflecting employers' attitude to attract and retain staff with superior working environment. On the supply side, new completions in Sofia during the quarter were limited to one office building with a main road location. The new Collider Activity Center (5,150 sq.m GLA) opened with mix of owner occupied and speculative space, the latter almost fully pre-let. Although about 150,000 sq.m new offices are scheduled for delivery in 2017 the shortage of prime space remains an issue. Since most of the openings are expected in the second half of the year, preleases will remain strong. Development activity is forecast to remain elevated with about 300,000 sq.m office space under construction. Building 15 of Business Park Sofia with 20,800 sq.m GLA was among the notable projects started in Q1 2017. The high leasing activity keeps the average vacancy on the Sofia market at 9.6 per cent.

## Investment focus

Strong market performance encourages large investment transactions with focus on the prime projects. The most notable transaction in Q1 was the acquisition of Kambanite Business Center in Sofia by a group of European investors according to the vendor Zeus Capital Partners.

## Outlook

Strong demand and shortage of prime space keep preleases hot. New completions will rebalance the market.

## MARKET INDICATORS

### Market Outlook

Prime Rents:	Growth of development rebalanced the market maintaining prime rents in Sofia at €13-13.5/sqm/month.	▶
Prime Yields:	Yields were stable at 8 per cent but the prospects are for further decreases.	▲
Supply:	Slight increase in the medium term as a result of the strong development activity.	▼
Demand:	Strong, largely driven by the IT and BPO sectors.	▶

### Prime Office rents – March 2017

LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	13.00	156	15.8	0.0	1.6
Plovdiv	8.00	96		0.0	9.9

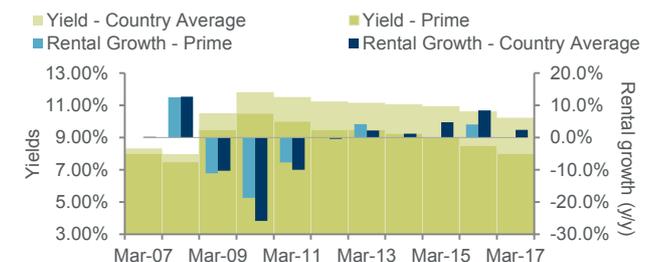
### Prime Office yields – March 2017

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	13.00	13.00	13.00	8.25

NOTE: \*9 yr record

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



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