

BULGARIA

Office Market Snapshot

Fourth Quarter | 2017



MARKET INDICATORS

Market Outlook

Prime Rents:	Although the attempts for increase, prime rents in Sofia remain stable at €13.5/sq. m	▼
Prime Yields:	Yields are expected to slightly decrease, currently at 7.75 per cent	▲
Supply:	About 181,000 sqm are scheduled for completion in 2018 which will strengthen the supply of high-standard office space	▼
Demand:	Tenant inquiries mostly from the IT and BPO industries	▲

Prime Office rents – December 2017

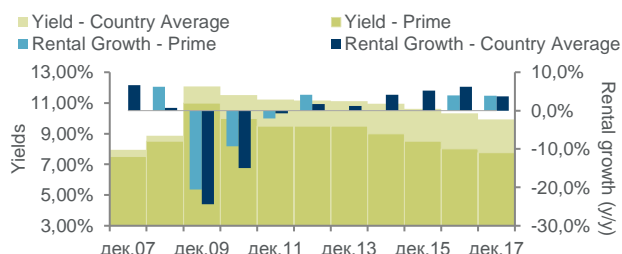
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	13.50	162	18.1	3.8	1.6
Plovdiv	8.00	96	10.7	0.0	7.8

Prime Office yields – December 2017

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia	7.75	8.00	8.00	11.00	7.50
Plovdiv*	12.50	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 Bulgarian office market registered a record breaking year in terms of a leasing activity, supported by strong GDP growth and solid economic fundamentals. Despite the completion of a number of large projects in 2017, the supply of modern stock in Sofia still lags behind the demand.

Occupier focus

The last quarter of 2017 witnessed strong tenant activity and accounted for a large portion of the annual take-up. Due to few transactions, the total rented space in Q4 reached 64,109 sq. m. The annual take-up rose by more than 46% compared to the previous year, totaling 198,348 sq. m – the best result ever. The market remained driven by preleases and expansions, accounting for 61% of the aggregate volume. The large share of those group of deals reflects the business' appetite to grow and improve its working conditions. Due to the strong prelease activity the net absorption stood low, accounting for 45% of the annual take-up. The availability of Class A office space on the main roads and in suburban areas concentrated there the largest part of the leasing activity throughout the year. However, the completion of two large office buildings in CBD drew the attention to this area, as well. The market in 2017 remained dominated by IT companies and shared services centers which continued to expand at a fast pace. Large consolidations in the financial sector were other source of leasing activity. During the whole year, the new completions amounted at 117,000 sq. m with most of the notable projects opening almost fully let. In line with this trend, Polygraphia Office Center was delivered in Q4 with near 100% occupancy rate. The project of BLD Office Park was the most notable completion for the period, adding 10,000 sq. m to the office supply in the central city area. Currently, 291,000 sq. m Class A and B offices are under construction in Sofia, scheduled for delivery by the end of 2020. Development activity is rising in response to the strong demand and is expected to rebalance the market in a medium term. After the slight growth in H1, prime rents in Sofia were stable in the second half of 2017, standing at €13.5 /sq. m. Average vacancy rate remained 9.6% with slight increase in the Class B segment to 10.1%. The rising level mirrors the tenants' migration to higher class offices. In the most preferred buildings alongside main roads and in CBD the occupancy level draws near 100%.

Investment focus

The stable rents and strong performance of prime office projects in Sofia draws the investors' attention. The office segment is forecasted to be main driver of the investment market in 2018. Yields remain under pressure.

Outlook

Office market enjoys high tenant activity, stable rents and low vacancy with prospects to perform strong in the next quarters.

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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	1,728,233	166,332	9.6%	64,109	198,348	290,939
Sofia (Overall)	1,728,233	166,332	9.6%	64,109	198,348	290,939

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
BSR Offices – Phase 2	Sofia	Sutherland	2,978	expansion
ETC	Sofia	Experian	2,570	expansion

Source: Cushman & Wakefield

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