

MARKETBEAT INDUSTRIAL SNAPSHOT

BULGARIA

A Cushman & Wakefield | Forton Research Publication

Q4 2016



OVERVIEW

Economic upturn and increasing consumption boosted the Bulgarian industrial property market in 2016. The development activity increased, as well as the leasing volumes, supported by the

completion of large speculative logistic premises in Sofia over the last quarter.

The industrial revival continues across the country as well, underpinned by the automotive and light industry.

SUPPLY

With almost 26,000 sqm newly occupied industrial space in Sofia the last quarter of 2016 registered relatively high tenant activity compared to the previous ones. Total annual leasing volume reached 46,000 sqm*.

The good performance was supported by the completion of significant speculative projects, such as the first phase of Industrial park Sofia East (10,600 sqm GLA) which was fully pre-let to an international logistic company. The first stage of Logistic park Sofia Ring (9,600 sqm GLA) was another significant delivery during the period with large share of pre-committed space.

The stable demand for prime logistic space encouraged some developers to continue with next phases of their projects. With the completion of these developments the speculative stock in Sofia surroundings is expected to increase by 23,000 to 33,000 sqm in 2017.

Outside Sofia, the industrial market remains dominated by land acquisitions, mostly for manufacturing developments. The announced construction of fourth factory of the automotive supplier Teklas in South Bulgaria exemplifies the trend, while the Canadian ALC preferred to lease existing premises in Blagoevgrad for its third plant.

The abovementioned developments illustrate the increasing contribution of automotive sector to the Bulgarian economy. Currently, about 100 auto part suppliers are operating across the country, most of them investing in second or third local factory. The industry's revenues reached €2 billion in 2016.

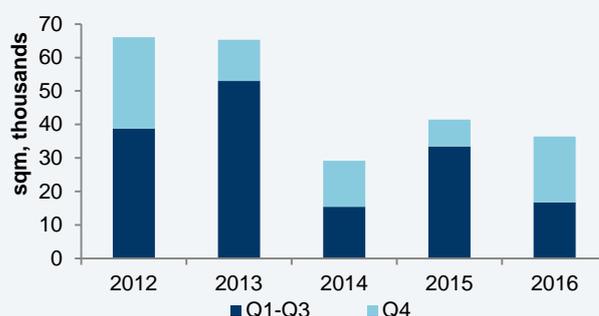
The new ceramic factory of Akgun Seramik and the development of industrial unit for the German textile producer Dr. Bock Industries revived the market in the North-East part of the country. The region is preferred mostly for light industrial investments, because of the available labor force and manufacturing traditions.

**Only leases above 1,000 sqm included*

SOFIA INDUSTRIAL MARKET HIGHLIGHTS

Stock in sqm	900,471
Pipeline in sqm	67,300
Prime rent (€/sqm/month)	€4.20

SOFIA INDUSTRIAL SPACE COMPLETIONS



Source: Cushman & Wakefield / Forton.

SOFIA INDUSTRIAL SPACE STOCK & PIPELINE



Source: Cushman & Wakefield / Forton. All data as of Q2 of the respective year

SOFIA INDUSTRIAL TAKE-UP



Source: Cushman & Wakefield / Forton

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DEMAND

The industrial market in Sofia remains dominated by logistics and distribution companies looking for premises between 3,000 and 10,000 sqm.

Despite the increasing demand for small and medium sized units, the lack of available space held back the tenant activity in the last few quarters. Most of the inquiries are for premises between 500 and 1,500 sqm with short terms contracts. Potential tenants are trading and spedition companies.

Having slightly fallen in the last few years, vacancy is now stabilizing at 2 per cent.

Traditionally, some of the fast growing retail operators are among the main drivers of the logistic market and 2016 wasn't an exception. The largest completion during the period was the second logistic center of the German retail chain Lidl near Yambol, in South-East part of the country. The new premises will comprise 47,000 sqm build-up area and will be served by 121 truck ramps.

German FMCG operator Kaufland is also planning to expand its 75,000 sqm logistic center near Plovdiv. The company will develop three new premises for non-food products, which can be completed a year after the building permit.

Build-to-suit activity is also strong, exemplified in the last quarter of 2016 with the DHL hub near Sofia Airport. The courier and logistic company will lease 5,343 sqm, built to meet its requirements, on a plot of land of Bulgaria Air Maintenance. Forton acted as landlord consultant in the transaction.

RENTS

Rents for prime logistics projects in Sofia remain stable at €4.20/sqm/month. This rate also encompasses projects in nearby municipalities such as Elin Pelin. The Airport area remains the most expensive for logistic operations, exceeding €5/sqm/month.

The prime levels for larger space (over 5,000 sqm) in the city surroundings stay at €3.80/sqm/month. Significant changes are not expected over the next quarters.

INVESTMENT FOCUS

The purchase of SOMAT logistic park with around 40,000 sqm TBA is the largest investment transaction on the Bulgarian industrial property market in 2016. The project was acquired for €23 mln by the owner of the courier company SPEEDY. Despite the single large transactions, the investment volume is subdued with few prime opportunities available the market.

SOFIA INDUSTRIAL SPACE VACANCY



Source: Cushman & Wakefield / Forton All data as of Q4 of the respective year

SOFIA PRIME INDUSTRIAL RENTS AND YIELDS



Source: Cushman & Wakefield / Forton All data as of Q4 of the respective year

TRENDS AND FORECASTS

- Steady demand for logistic space encourages developers to start new speculative projects;
- Increasing demand for small and medium sized units occurs, but the lack of available space held back the tenant activity;
- Yields are forecasted to fall as a result of the shortage of prime space and the increased investment interest.

