

BULGARIA

A Cushman & Wakefield | Forton Research Publication

Q4 2016



OVERVIEW

A healthy occupier demand kept Sofia's office market buoyant in 2016. The IT and BPO industries remained the biggest source of leasing activity, in line with the expectations.

On the supply side, a limited number of new completions were registered and the shortage of quality space is still a challenge. This imbalance resulted in prevailing share of the releases in 2016, pushing rents up in the prime segment. However, the revival of development activity will partially rebalance the market in the present year.

SUPPLY

With only 22,300 sqm new completions the last quarter of 2016 met the expectations for moderate increase of the office supply in Sofia. Kambanite Green Offices in the South-East part of the city and SPS Tower nearby Bulgaria Blvd. were the notable projects obtaining use permit for the period.

Due to a number of delayed completions, the office stock expanded by only 32,200 sqm in 2016, or just 2 per cent year-on-year. Moreover, the new supply hardly responded the requirements of larger tenants since most of the buildings offer less than 10,000 sqm of GLA. With these deliveries the total stock of Class A and B space in Sofia reached 1,611,403 sqm* at the year-end.

However, the shortage of high standard offices will be partly overcome in 2017 with the scheduled delivery of more than 160,000 sqm new leasable space.

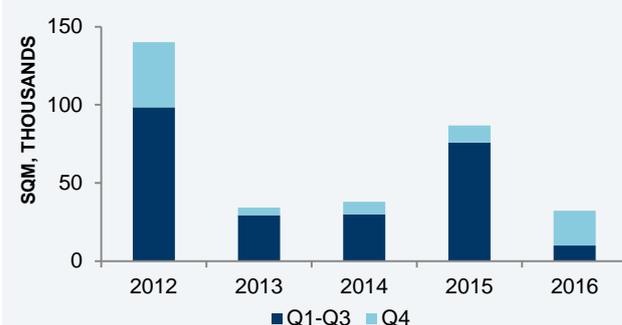
Together with notable projects in the central part of the city, such as City Tower, Millenium center and Polygraphia Office Center – Phase 2, new completions are also expected alongside the large boulevards during the year. Expo 2000 – Phase 4, Grafix Office Building and BSR Offices – Phase 2 among them. The resumption of Ellipse Office Center on Tsarigradsko Shose Blvd. will add 10,700 sqm GLA to this volume. About 50 percent of the expected space has been already pre-let or is currently under negotiation.

* Forton undertook full revision of Sofia class A and B office stock in 2016 in order to update its database. Now, the company monitors vacancy rate and tenant mix changes in office buildings or mixed-use projects with prevailing office space completed after 2002 or refurbished. Our target are buildings with above 2,000 sqm GLA.

SOFIA OFFICE MARKET HIGHLIGHTS

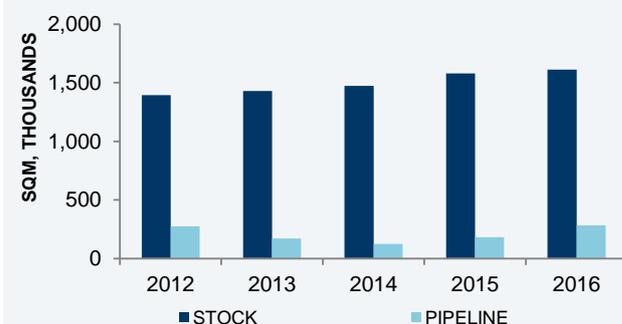
Stock in sqm	1,611,403
Pipeline in sqm	282,704
Prime rent (€/sqm/month)	€13.00

SOFIA OFFICE COMPLETIONS



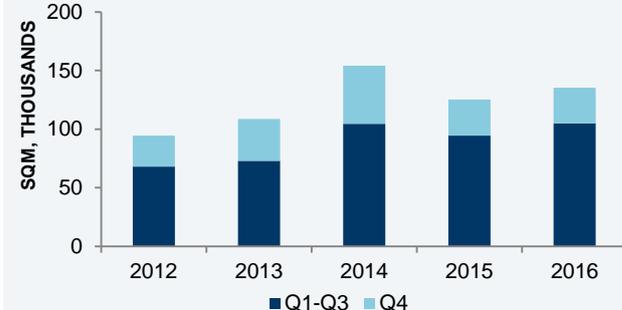
Source: Cushman & Wakefield / Forton.

SOFIA OFFICE STOCK & PIPELINE



Source: Cushman & Wakefield / Forton. As of Q4 of the respective year

SOFIA OFFICE TAKE-UP



Source: Cushman & Wakefield / Forton.

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Reflecting the strong tenant interest, total volume under construction rose to 298,000 sqm in the fall of 2016. The included projects are scheduled for completion by 2020.

DEMAND

Annual take-up reached 135,407 sqm in 2016, about 7 per cent over the previous year. Take-up in the fourth quarter amounted to 30,465 sqm, similar to Q4 2015, indicating stable leasing activity.

About 60 per cent of the occupier activity throughout the year came from the IT and BPO industry. Shared service activities remain in dominant position on the office market, together with traditional tenants, such as pharma and financial sectors.

Mirroring the shortage of prime space, the share of preleases is relatively high, accounting for 41 per cent of the total take-up in 2016. In confirmation of this trend, high-standard office buildings such as SPS Tower (8,400 sqm GLA) obtained use permit with almost 80 per cent pre-let space. Epam and Cargill are among the main tenants. Kambanite Green Offices, which was the largest completion in 2016, has been 70 per cent pre-let, as well.

Renegotiations were the second largest group of agreements on the leasing market in 2016 with 22% of the total volume, followed by the expansions. The vacancy rate continued to decrease, dropping down to 10 per cent in the fourth quarter of 2016. The vacancy of the Top 15 office buildings slightly decreased to 2 per cent.

Outside Sofia, Plovdiv and Varna registered moderate volume of office leases, accounting for less than 5 per cent of the market. However, further expansion of IT and BPO companies is expected to underpin the office markets in secondary cities.

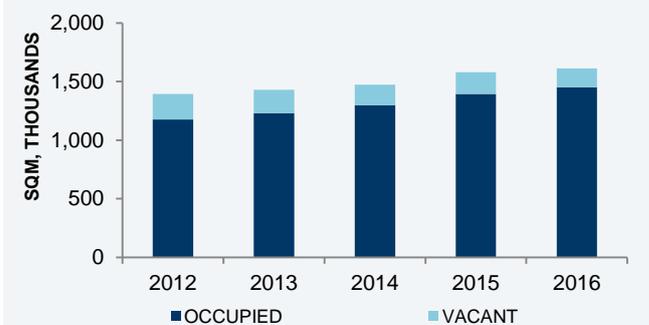
RENTS

The large share of preleases kept prime rents in Sofia stable in 2016. However, the revival of development activity will maintain the offer rates at €13.00-13.50/sqm/month in the middle term. Strong demand supports rates in the range €8.00-10.00/sqm/month for class A properties in Plovdiv.

INVESTMENT FOCUS

Strong economic fundamentals and well performing leasing market provide grounds for large transactions with prime office projects. The investors' focus remains on good quality income-producing assets. Following the decrease of prime yields in 2016, now the rate is stable at 8 per cent.

SOFIA OFFICE VACANCY



Source: Cushman & Wakefield / Forton. As of Q4 of the respective year

SOFIA PRIME OFFICE RENTS AND YIELDS



Source: Cushman & Wakefield / Forton. As of Q4 of the respective year

TRENDS AND FORECASTS

- Volumes of office construction increase underpinned by the strong tenant demand;
- Rents are likely to remain stable over 2017, having already grown;
- Prime yields are stable, following the slight decrease in 2016.