

BULGARIA

Office Market Snapshot

First Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Slightly increased in the first quarter of 2018 to €14/sq. m, forecasted to remain stable	▼
Prime Yields:	Unchanged at 7.75% in the first quarter, expected to remain stable in a short term	▲
Supply:	The modern stock still cannot meet the demand in Sofia	▼
Demand:	IT and shared services remain dominant tenant group on the market	▲

Prime Office rents – March 2018

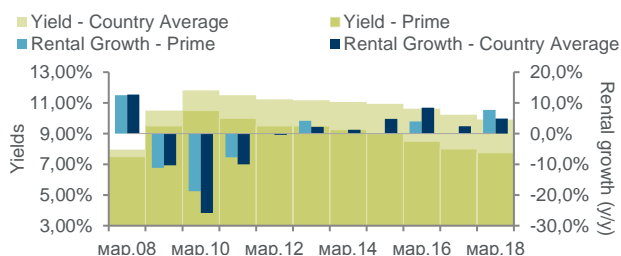
LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	14.00	168	19.5	7.7	2.3
Plovdiv	8.00	96	11.1	0.0	7.8

Prime Office yields – March 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia	7.75	7.75	8.00	11.00	7.50
Plovdiv*	12.50	12.50	12.75	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

Growth continued for Sofia office real estate in the first quarter of 2018, retaining the momentum from the record breaking 2017. Leasing activity remained strong backed by the steady economic growth, rising supply and the expansion of the IT and BPO sector.

Occupier focus

With 36,296 sqm take-up the office market in Sofia registered a repeated quarter of growth. The leasing volume was up 4% compared to the first three months of 2017, driven mostly by the strong performance of the IT and BPO industry. The sector is concentrated in the capital city and plays increasingly important role in the local economy. In the first quarter, it accounted for more than 60% of the total office take-up. The largest transaction for the period was the prelease of 60K in Office Park Central – a project with 6,300 sqm office space in the broad central area. Expansions and preleases remained main driver of market activity, reflecting occupier appetite for growth and limited supply of modern office space. Since the existing office buildings in the prime segment are fully let, a large number of tenants have to lease space currently under construction. As a result, more than 50% of the Class A and B space scheduled for completion in 2018 is already pre-let. Yet the 192,000 sq. m new offices due for delivery in 2018 are expected to help rebalance the market. With the announced start of a new project in Sofia Tech Park the offices under construction increases to 356,000 sq. m, scheduled for delivery by 2021. The modern stock remained 1,728,233 sq. m in the first quarter. As supply still lags behind demand, prime rents went up to €14/sq. m in the beginning of 2018, an increase of 4% compared to the previous quarter. Class A office rents remain in the range €12-14/sq. m, depending on the location. The lack of new completions in combination with the absorption of existing space in Q1 resulted in slight decline of the vacancy rate to 9.2% on average. Due to the tenant migration to higher class offices, the Class A vacant space decreased to 8.8% in the first quarter, while the rate in the Class B segment remained at around 10%. However, with the increasing supply the share of the unoccupied space is expected to rise gradually in the medium term.

Investment focus

While 2017 was dominated by retail property acquisitions, investors are turning their attention to medium- and large-size office projects. The acquisition of two buildings for a total of €9.85 million by the Hungarian developer Wingholding was among the notable transactions in the first quarter.

Outlook

Stable rents and vacancy rate characterize the office market in the current year. Together with Sofia, many tenants are looking at secondary cities for further expansion.

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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	158,770	9.2%	36,296	36,296	355,632
Sofia (Overall)	1,728,233	158,770	9.2%	36,296	36,296	355,632

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Office Park Central	Sofia	60K	6,300	prelease
Benchmark Business Center	Sofia	Regiocom	1,372	expansion
Filto-S Office Building	Sofia	Kaufland Services	2,082	expansion

Source: Cushman & Wakefield

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