

# BULGARIA

# Office Market Snapshot

First Quarter | 2019



## MARKET INDICATORS

### Market Outlook

- Prime Rents: Slightly increased in the last quarter, forecasted to remain stable ▶
- Prime Yields: Unchanged at 7.75% at the beginning of 2019 ▶
- Supply: Forecasted to grow significantly in a medium term ▼
- Demand: Remains strong in Sofia, emerges in regional cities thanks to the expansion of IT and BPO business ▶

### Prime Office rents – March 2019

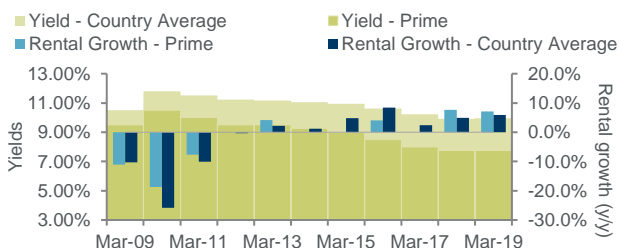
LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	15.00	180	18.9	7.1	3.7
Plovdiv	9.00	108	11.3	12.5	10.4

### Prime Office yields – March 2019

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia	7.75	7.75	7.75	11.00	7.75
Plovdiv*	12.50	12.50	12.50	13.00	12.50

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 office market in Sofia witnessed increasing development activity coupled with a large portion of new completions at the beginning of 2019. The latter resulted in slightly growing vacancy rate, although tenants' activity keeps the last year's pace and economic performance remains strong. Hi-tech and outsourcing industry remain the largest source of demand.

## Occupier focus

The first quarter of 2019 registered 34,014 sqm take-up volume which is in line with the long-term market performance. The period was marked by several large leases in high-standard office buildings alongside the main roads, as well as a series of small-size contracts, mostly in the central Sofia area. Expansions accounted for almost 30% of the total volume, mirroring the strong performance of the IT and BPO sector. The latter remained the most active source of inquiries, with more than a half of the total leasing volume in the period.

The strong market performance in the last years resulted in notable amount of new completions at the beginning of 2019, mostly in the Class A segment. The new deliveries reached 64,000 sqm which is among the strongest quarterly results for the last ten years. Most of the projects opened fully let with Garitage Park - Building A and Gold Line among the examples. Space Tower, an office building on a main road location which is fully occupied by Experian, was also a notable contribution. The tide of new completions resulted in higher net absorption compared to the trend. The volume of 54,200 sqm in the first quarter significantly exceeded the take up but it is not expected to be a long-term tendency.

Unlike the prime end of the market, the Class B segment registered increasing vacancy rate in the first quarter, due to the occupiers' migration to higher class offices. This resulted in slight uplift of the unoccupied space to 9.8% of the total supply. Stable occupiers' activity underpins the asking headline rents in Sofia at 15 €/sq.m in CBD and 14 €/sq.m in non-CBD areas.

## Investment focus

The year began with moderate investment activity for the office segment although the potential for notable acquisitions is still present. Prime yields remained stable at 7.75%.

## Outlook

The increasing development activity remains an influential trend on the Sofia office market with 427,000 sqm currently under construction. Therefore, the vacancy rate is likely to grow further although occupiers' activity remains strong.

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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	1,882,253	185,401	9.8%	34,014	34,014	427,114
<b>Sofia (Overall)</b>	<b>1,882,253</b>	<b>185,401</b>	<b>9.8%</b>	<b>34,014</b>	<b>34,014</b>	<b>427,114</b>

Source: Cushman & Wakefield

## Key Occupier Transactions

	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Expo 2000 Office Park	Sofia	Wolf Theiss	1.310	relocation
MHQ Office Building	Sofia	Panalpina	1.194	newcomer

Source: Cushman & Wakefield

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