

BULGARIA

Office Market Snapshot

Second Quarter | 2018



MARKET INDICATORS

Market Outlook

- Prime Rents: Standing at €14/sq. m, forecasted to remain stable in a short term ▶
- Prime Yields: Unchanged at 7.75% in the second quarter ▶
- Supply: Expected to significantly increase 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 – June 2018

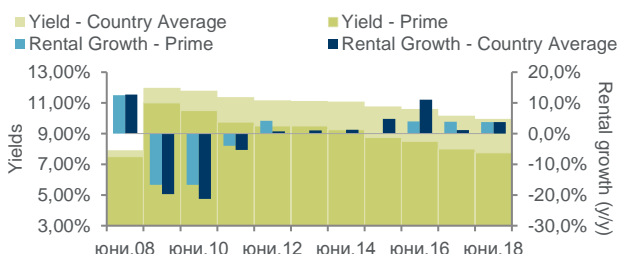
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	14.00	168	18.3	3.7	2.3
Plovdiv	8.00	96	10.4	0.0	7.8

Prime Office yields – June 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

Bulgarian office market demonstrated healthy activity in the second quarter of 2018 in terms of take up and new deliveries. The result was in line with the overall economic growth of 3.6%, decreasing unemployment and moderate inflation. New deliveries of mid-size office buildings underpinned the supply in the prime segment.

Occupier focus

After unprecedentedly high leasing volume in 2017, the Sofia's office market is now back to its normal levels with 66,982 sq. m take up in H1 2018. It should be noted that while this number marks a 30% decrease compared to last year's, it is actually in line with the long-term trend. IT and shared services remained key source of demand, accounting for more than 60% of the total take up. Although most of these companies are interested in Sofia, some are considering regional cities for their second or third country location. In general, the market continues to be driven by expansions and business consolidations with the US technology company Progress entering at 11,000 sq. m in a newly completed office building among the examples. Teva/Actavis has also consolidated its operations on 7,195 sq. m in a Class A office building. With the large office pipeline preleases also hold significant share - about 1/3 of the take up in Q2 2018. Since several large users occupied their new space, net absorption increased to almost 80% of the take up in Q2 2018.

On the supply side, the delivery of three Class A buildings added 37,800 sq. m to the office stock in Sofia in the last three months. Currently, the ongoing construction amounts at 330,000 sq. m. About half of this pipeline is expected in the present year. The improving supply resulted in yet moderate increase in vacancy at 9.6% in Q2 2018. The Class A segment stands at 9%, since most tenants traditionally move to higher class offices. Prime asking rents remain stable in the range €13-15/sq. m.

Investment focus

The second quarter of 2018 was marked by several large office acquisitions in Sofia with total amount exceeding €230 mln. The largest investment was made by the South African fund Lion's Head which acquired Polygraphia Office Center and Megapark. The purchase of Millenium Center by two companies, part of KBC Group, was another notable acquisition. Prime yields remain between 7.5 and 8%.

Outlook

New deliveries will meet occupiers' need for quality office space in the next few quarters, keeping rents and vacancy stable.

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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	1,766,033	169,828	9.6%	30,716	66,982	333,302
Sofia (Overall)	1,766,033	169,828	9.6%	30,716	66,982	333,302

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
BSR Building II	Sofia	dm	2,250	relocation
Kambanite Green Offices	Sofia	Survey Sampling Bulgaria	913	relocation
LimeTree Business Center	Plovdiv	BNP Paribas Personal Finance	1385	relocation
Garitage Office Center	Sofia	Milestone Systems	2,300	prelease

Source: Cushman & Wakefield

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