

# BULGARIA

# Office Market Snapshot

Second Quarter | 2019



## MARKET INDICATORS

### Market Outlook

- Prime Rents: Forecasted to remain stable in a short term ▶
- Prime Yields: Stable at 7.5% in the first half of 2019 ▶
- Supply: Forecasted to grow significantly in a medium term ▼
- Demand: Remains strong in Sofia, emerges in regional cities ▶

### Prime Office rents – June 2019

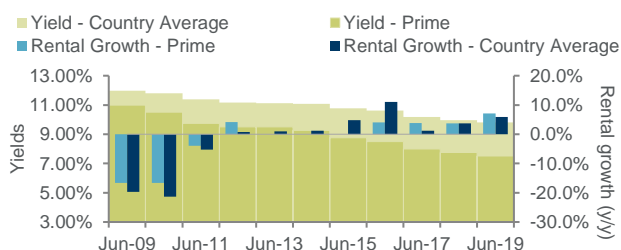
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	15.00	180	20.2	7.1	3.7
Plovdiv	9.00	108	12.1	12.5	10.4

### Prime Office yields – June 2019

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

Sofia's office market witnessed strong performance in the first half of 2019 with supply and demand remaining relatively balanced. Economic growth underpinned both occupier and development activity which resulted in stable rents and absorption rate. In line with the recent years, the leasing market was dominated by tech and outsourcing industry.

## Occupier focus

The total take-up in Sofia (leases signed during the period) reached 66,783 sqm in the first half of 2019, approximately at the five-year average. The market was driven mostly by preleases but the second quarter was also marked by several large renegotiations in the Class A segment. IT and BPO companies remain main source of inquiries, aiming at expanding or consolidating their business. Main road locations are preferred, along with the area around Business Park Sofia where a number of large office projects are under construction or have been recently completed. Outside Sofia, Plovdiv and Varna are in the occupiers' focus offering attractive conditions for opening of second or third location.

The delivery of two mid-size and a few smaller projects added 43,000 sqm to the office stock in Sofia in Q2. Since the beginning of the year, almost 107,000 sqm offices Class A and B have been completed ranking the period among the most active historically. The office pipeline remains strong with more than 404,000 sqm under construction and significant amount of space in planning phase. Main roads and suburbs with good transport access account for more than 90% of the ongoing office developments in the capital city. The increasing supply continues to gradually push up vacancies with rate reaching 9.9% on average in the second quarter. Traditionally, the share of unoccupied space is higher for Class B office buildings, since tenants migrate to better locations and working environment. Class A vacancy remains below 9%.

Asking headline rents in Sofia are stable at 15 €/sqm in CBD and 14 €/sqm in non-CBD areas. Rates are forecast to remain unchanged in a short term.

## Investment focus

After compression in the last two years, prime office yield stays at 7.5-8% in the first half of 2019. High-standard buildings with stable cash flows, as well as value-add properties are on the investors' radar.

## Outlook

Increasing development will improve the availability of investment grade product and growth of the liquidity is anticipated in mid-to-long turn.

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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	1,925,253	190,804	9.9%	32,769	66,783	404,380
<b>Sofia (Overall)</b>	<b>1,925,253</b>	<b>190,804</b>	<b>9.9%</b>	<b>32,769</b>	<b>66,783</b>	<b>404,380</b>

Source: Cushman & Wakefield

## Key Occupier Transactions

	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Kamenitsa Office Park	Plovdiv	Reward Getaway	1,530	prelease
Synergy Tower	Sofia	Robert Bosch	2,750	prelease

Source: Cushman & Wakefield

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