

# BULGARIA

# Office Market Snapshot

Third Quarter | 2018



## MARKET INDICATORS

### Market Outlook

- Prime Rents: Slightly increased in the last quarter, forecasted to remain stable ▶
- Prime Yields: Unchanged at 7.75% in the second half of the year ▶
- 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 – September 2018

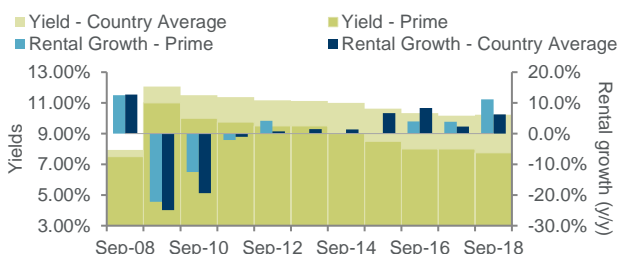
LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	15.00	180	19.5	11.1	3.7
Plovdiv	9.00	108	11.7	12.5	10.4

### Prime Office yields – September 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia	7.75	7.75	8.00	11.00	7.75
Plovdiv*	12.50	12.50	12.75	13.00	9.50

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 recorded one of its best quarters in terms of tenant activity and price dynamics in Q3 2018. These results are mirroring the continuing economic growth and the IT and BPO industries strong performance, in particular. The supply increased at a moderate pace despite the rising volume of new completions expected in the coming years.

## Occupier focus

After peaking up in 2017, the office market in Sofia remained in a good shape with 130,323 sqm take up for the nine months of 2018. Since preleases continued to dominate, net absorption stood modest, reaching 41% from the leasing volume in the period. In the third quarter, the occupiers' activity materialized in several large leases, all in the high-tech sector. The positive trend continues, expected to rank 2018 among the strongest years for the market over the last decade. IT and BPO industry remain a key source of inquiries for office space, accounting for more than 70% of the take up volume in the nine months. Expansions and business consolidations in the sector underpinned the demand for high-standard office space, mostly alongside main roads and in the Business park Sofia cluster. In the Central Business District, the focus remained on the small to medium-size offices. The stable demand for prime office space affected the asking headline rents in Sofia, up 11% y-o-y to 15 €/sq.m in CBD and to 14 €/sq.m in non-CBD areas. The secondary cities also witnessed moderate rental growth, reflecting the higher occupier interest and declining vacancy rates. Despite the significant pipeline, office supply in the capital city increased marginally in Q3 2018. The delivery of three small-size office buildings added only 14,500 sq.m to the Class A and B stock, while larger completions are expected in the coming quarters. Since the new schemes opened largely pre-let, the increase of the supply did not result in vacancy growth. The average rate stood at 9.5%. However, with roughly 600,000 sqm offices under construction or in planning phase, the vacancy in Sofia is expected to increase rapidly in the coming years.

## Investment focus

Prime office buildings remain in the investors' focus with a few notable transactions in the first half of the year and new opportunities ahead. The third quarter was marked by several value-add acquisitions, as well. Prime yields are stable at 7.75%.

## Outlook

The increasing office pipeline in Sofia will push up the vacancy and will put rents under downward pressure in the coming years. Economic activity underpins stable demand for quality space.

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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	1,780,503	169,156	9.5%	63,311	130,323	342,733
<b>Sofia (Overall)</b>	<b>1,780,503</b>	<b>169,156</b>	<b>9.5%</b>	<b>63,311</b>	<b>130,323</b>	<b>342,733</b>

Source: Cushman & Wakefield

## Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
ETC	Sofia	Ingram Micro	7700	Relocation/ Renewal
Space Tower	Sofia	Undisclosed tenant	11,100	Prelease
Alfa Business Center	Sofia	The Coca Cola Company	1440	Expansion

Source: Cushman & Wakefield

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