

BULGARIA

Office Market Snapshot

Third Quarter | 2019



MARKET INDICATORS

Market Outlook

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

Prime Office rents – September 2019

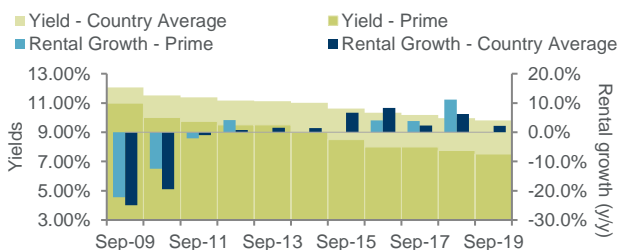
LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	15.00	180	18.9	0.0	3.7
Plovdiv	9.00	108	11.3	0.0	10.4

Prime Office yields – September 2019

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

The Bulgarian economy keeps expanding at a steady pace with GDP forecasted to grow by 3.5% in 2019. The strong business activity, coupled with low unemployment rate and moderate inflation, underpins the demand of office space. IT and outsourcing industries remain key market driver in both capital and secondary cities.

Occupier focus

With 41,900 sqm let out in the third quarter, the Sofia office market remains in line with the long-term trend. Total leasing activity for the nine-month period reached 108,600 sqm, which also gravitates around the five-year average. IT and BPO are the fastest growing sector with 52% share of the total take up volume, while pharma and financial companies lag behind. As in the previous quarters, expansions and relocations take the lion's share of the leasing market. Lack of space for further expansion and willing for consolidation are the main driver for office change. Since many companies contract their offices in construction phase, preleases remain significant part of the market with 21% of the total volume for the nine-month period. The completion of three mid-scale office buildings added roughly 38,000 sq.m to the Class A stock in Sofia in the third quarter. With this contribution the new supply for the nine months reached 145,000 sq.m and the modern office space in the capital city surpassed 1,963,000 sq.m. Despite the rapid supply increase, the market is still capable of absorbing the new deliveries. The office pipeline remains solid with 383,000 sq.m under construction and significant amount of space in planning phase. Vacancy rate slightly decreased to 9.1% in the third quarter of 2019 with higher levels in the suburban areas, while the modern office stock in the city center remains almost fully occupied. Asking headline rents are stable at 15 €/sq.m in the CBD and 13-14 €/sq.m for prime main road locations.

Together with Sofia, the secondary cities become increasingly attractive for expansions, especially for IT and Business Process Outsourcing companies. The software company Fadata in Burgas, KBC Group in Varna and Sutherland in Plovdiv illustrated the trend in the third quarter. With the completion of modern office buildings, the occupiers' interest in the regional cities is expected to increase.

Investment focus

Small value-added acquisitions dominate the office market in 2019. The increasing pipeline of high-standard buildings will favor investment activity in the prime segment.

Outlook

Sofia office market will keep good supply-demand balance with stable rents and moderate vacancy in the short term.

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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	1,963,116	178,720	9.1%	41,938	108,600	383,000
Sofia (Overall)	1,963,116	178,720	9.1%	41,938	108,600	383,000

Source: Cushman & Wakefield

Key Occupier Transactions

	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Mall Varna Offices	Varna	KBC Group	2,250	Expansion

Source: Cushman & Wakefield

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