

BULGARIA

Industrial Market Snapshot

Fourth Quarter | 2017



MARKET INDICATORS

Market Outlook

Prime Rents:	Stable at €4.5 euro/sq.m for medium sized units	▶
Prime Yields:	Slightly decreased to 9.00% in Q4, remain under downward pressure	▶
Supply:	Strong development activity but mostly owner-occupied and built-to-suit schemes	▲
Demand:	Tenant interest mostly in the logistics, including 3PL and distribution segments	▲

Prime Industrial Rents – December 2017

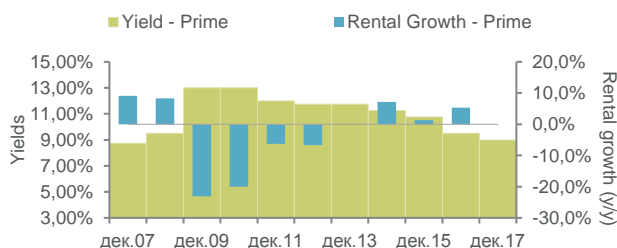
LOGISTICS LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	4.00	48.0	5.35	0.0	2.7

Prime Industrial Yields – December 2017

LOGISTICS LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia	9.00	9.25	9.50	13.00	8.50

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 industrial market stayed on a positive path in 2017, witnessing increasing demand for logistic and production space. Stable to high rents and shortage of high quality supply remained the main driver of the development activity throughout the year.

Occupier focus

Built-to-suit projects and owner-occupied space accounted for the largest part of the deliveries across the country in the last year. Sofia remained the main speculative market but the shortage of new completions in this segment limited the annual leasing volume to 20,600 sq. m. The expansion of TNT with 1,070 sq. m near Sofia Airport was among the notable leases in Q4. Retail and logistics sectors were key source of inquiries over the year, reflecting the increasing consumption and the e-commerce growth. However, the new phases of large logistics projects around Sofia are expected to add about 50,000 sq. m to the speculative stock which will meet the tenant demand for quality space in the next quarters. Currently, the overall industrial space under construction in Sofia accounts for more than 220,000 sq. m. The new completions in Q4 2017 slightly exceeded 17,000 sq. m with the enlargement of Lufthansa Technik's maintenance hub near Sofia Airport among the notable projects. The lack of speculative completions and the exhausted capacity of the modern stock pushed the vacancy down to below 1% in the last two quarters. Head rents remained stable at €4.5/sq. m for middle size premises and €4/sq. m for larger units. Outside the capital, the completions of new space for auto part suppliers and light industry remained the main source of development activity. The last quarter of 2017 witnessed the opening of the third Bulgarian factory of Yazaki near Maritsa Highway. Other companies such as Viking, Malteries Soufflet and Ideal Standard announced enlargements of their facilities across the country.

Investment focus

Due to the shortage of investment product, the industrial property market still witnesses occasional transactions. The acquisition of the TNT and DHL occupied facilities in Sofia were among the very few deals in Q4 2017.

Outlook

The development activity is strong, while the leasing market struggles with lack of quality supply. Along with the main industrial hubs, regional cities are also gathering momentum.

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