

BULGARIA

Office Market Snapshot

Third Quarter | 2017



MARKET INDICATORS

Market Outlook

- Prime Rents: Prime asking rents in Sofia are stable at €13.5/sq. m with prospect for moderate increase ▼
- Prime Yields: Yields remain under pressure, currently at 8 per cent ▲
- Supply: Supply of prime space remains tight with new deliveries with high per cent of pre-let space ▼
- Demand: Driven mainly by the IT and BPO industry expansion appetite ▲

Prime Office rents – September 2017

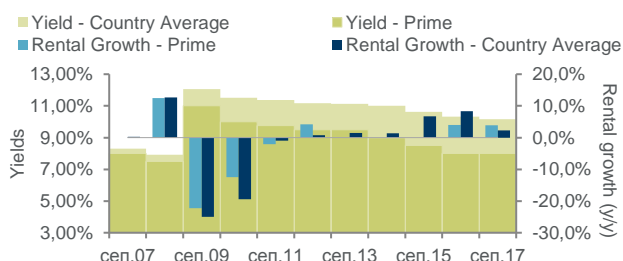
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Sofia	13.50	162	17.9	3.8	1.6
Plovdiv	8.00	96	10.6	0.0	9.9

Prime Office yields – September 2017

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Sofia	8.00	8.00	8.00	11.00	7.50
Plovdiv*	12.75	12.75	13.00	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

Sofia's office market witnessed one more dynamic quarter thanks to the solid economic growth and tenant appetite for expansion. The supply is still lagging behind although the completion of a number of large projects in 2017 will be a step towards re-balancing of the market.

Occupier focus

With office take-up of approximately 131,000 sq. m the nine months of 2017 remain among the strongest on record, comparable only to the pre-crisis 2008. The market is in the expansion phase of the real estate cycle, driven mostly by the growing IT and BPO industry. The leasing volume in the third quarter alone reached 44,131 sq. m with net absorption accounting for about 70% of this number. This is 14% down compared to the same period last year. However, it should be taken into account that one-off prelease of 20,000 sq. m dramatically affected the market volume in Q3 2016. The completion of large office projects shifted the leasing activity to the CBD with a number of tenants from the shared services and financial sector migrating there. In Q3, City Tower obtained use permit, adding 32,000 sq. m to the office supply in the area. The new deliveries for the period totaled at 65,500 sq. m with Expo 2000 – Phase 4 and BSR – Building 2 among the large completions, as well. In 2017, the new supply is expected to reach 124,000 sq. m. Almost 80% of this space has been already let out, mirroring the shortage of ready-to-move-in prime offices. As in the previous quarters, expansions of IT and BPO companies are notable source of activity with about 1/3 of the leases in the Class A segment. Reflecting the strong demand and the shortage of new modern space, prime rents increased in H1 2017, reaching €13.5/sq.m on average. In the third quarter, the levels remained stable but moderate growth is expected in the short term. Vacancy rates vary in the range 9.2-9.6% with no prospects for significant change by the end of 2017. Development activity in Q3 remained high with the start of about 30,000 sq. m offices, scheduled for delivery in 2019. For the time being, more than 305,000 sq. m are under construction, most of this space in suburbs and alongside main roads. In a medium term, these completions are expected to be matched by strong demand for prime space.

Investment focus

In line with the revival of the investment market large office transactions are under negotiation. Prime projects with stable cash flows are drawing investors' attention.

Outlook

Strong demand underpins steady increase of asking rents. New developments will strengthen the supply in medium 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	1,711,033	156,739	9.2%	44,131	131,159	305,559
Sofia (Overall)	1,711,033	156,739	9.2%	44,131	131,159	305,559

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
SPS Tower	Sofia	Cargill	2,465	expansion
BSR Building 2	Sofia	SumUp	1,489	expansion

Source: Cushman & Wakefield

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