

MARKETBEAT INDUSTRIAL SNAPSHOT

BULGARIA

A Cushman & Wakefield | Forton Research Publication

Q1 2015



OVERVIEW

The restrained development activity over the last few years left its mark on the industrial and logistics market in the beginning of 2015. Due to the lack of modern speculative space 2015 began

with single leases and record low vacancy rate. The shortage of good quality brownfield property was partly offset by the conversion of big-box retail into industrial space. For larger manufacturers the options remained limited to build-to-suit or site acquisition, further confirmed by the land transactions on record.

SUPPLY

The new distribution center of Gebrueder Weiss in Musachevo was the only notable completion in the broader Sofia market in the first quarter of 2015. The logistic base is built for company's own use and consists of 8,500 sqm prime warehouse space and 1,300 sqm of offices. With this project the total industrial stock in Sofia has barely increased compared to 2014, reaching 835,000 sqm, growth rate of just 1%.

Supply is expected to rise further on this year with the completion of several projects such as the Festo extension in Druzha and the Trisa distribution center, part of Industrial Park Sofia East. The speculative space will scarcely increase with the new warehouse component of Building 1 of Trade Center Europe near the Sofia Airport.

New speculative projects are expected to start over next quarters in response to increasing occupier demand. After the first building of East Ring logistic park was fully let, the developer Glorient Investment BG is to commence a second phase. Also east of Sofia another developer has already obtained building permit for speculative development. In the airport area Tishman International announced a close start of new logistics phase during the year. Outside development activity is concentrated in the industrial zones around Plovdiv.

Over the next quarters supply across the country is expected to increase again with former retail big boxes transformed in industrial space. This trend has already been seen in Vidin with the conversion of Technomarket store in a textile factory.

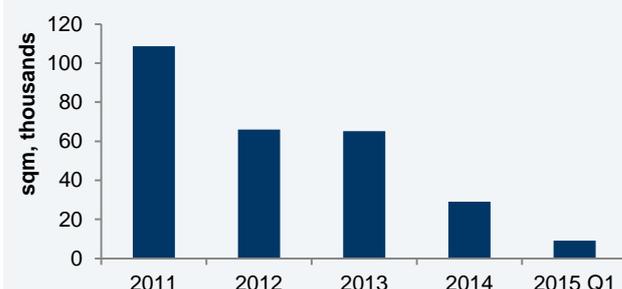
DEMAND

The lease of Euro 07 in East Ring logistic park was the single transaction to be outlined in the beginning of 2015. The distribution company leased the entire first phase of the project with 5,800 sqm warehouse space.

SOFIA INDUSTRIAL MARKET HIGHLIGHTS

Stock in sqm	835,000
Pipeline in sqm	15,700
Prime rent (€/sqm/month)	€3.75

SOFIA INDUSTRIAL SPACE COMPLETIONS



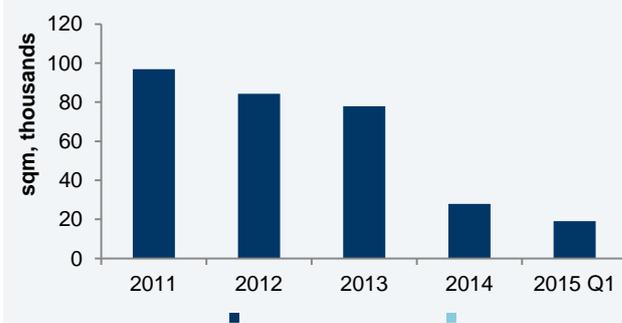
Source: Cushman & Wakefield / Forton.

SOFIA INDUSTRIAL SPACE STOCK & PIPELINE '000 as of Q1



Source: Cushman & Wakefield / Forton. All data as of Q1 of the respective year unless otherwise stated

SOFIA INDUSTRIAL TAKE-UP



Source: Cushman & Wakefield / Forton

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The scarce supply of speculative space restrained the potential for leases. For the same reason the vacancy rate dropped to below 2 per cent, which is the historically lowest level for the market.

In the Sofia area distributors and retailers of FMCG sector continue to look for small to middle size units of warehouse and office space at one location.

Potential tenants for larger lots remained logistics operators who have exhausted the capacity of their own premises and consider enlargement because of new contracts.

Out of Sofia most of the demand is concentrated in the light-industrial and automotive segments. The drivers are big international manufacturers in search of cost efficient ways to grow their operations through outsourcing or offshoring.

Because of the lack of suitable space on the market these occupiers are looking mostly for building sites in well-developed industrial zones or within the city limits. Cities with industrial traditions and human power are in their focus.

Among the notable examples for such interest in the last quarter was the acquisition of 180,000 sqm lot in Maritsa municipality by SMC Industrial Automation. The land is designated for a new plant. Also in Plovdiv the bread producer Simid Agro announced a EUR 18 mln investment in a new factory. Meanwhile in Pleven the French company Malterie Soufflet started a large expansion program by acquiring a 66,000 sqm plot next to its existing factory.

RENTS

Rents for prime logistics projects in Sofia remain stable at EUR 3.75/sqm. This rate also encompasses projects in nearby municipalities such as Elin Pelin and Bozhurishte.

However, the rental prices are expected to increase slightly over the next quarters. The delivery of new quality speculative spaces will be insufficient to balance the market.

INVESTMENT FOCUS

Land for logistics and industrial purposes is expected to be the most traded asset type this year.

Deals for prime investment-grade properties aren't recorded yet, partly because of the limited number of operational developments. However, new sustainable speculative projects are expected to generate investor interest.

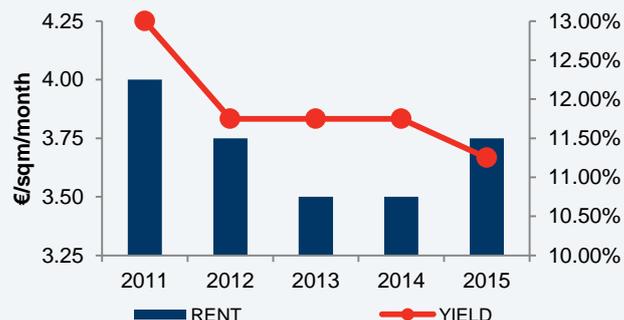
Yield levels remain stable with trend of future decrease due to the rental growth potential.

SOFIA INDUSTRIAL SPACE VACANCY



Source: Cushman & Wakefield / Forton All data as of Q1 of the respective year unless otherwise stated

SOFIA PRIME INDUSTRIAL RENTS AND YIELDS



Source: Cushman & Wakefield / Forton All data as of Q1 of the respective year unless otherwise stated

TRENDS AND FORECASTS

- Because of the scarce supply of modern industrial space the vacancy rate dropped below 2% in the region of Sofia
- Rents are expected to increase slightly over the next quarters
- Land for logistics and industrial purposes remain the most traded asset type