

BULGARIA

A Cushman & Wakefield | Forton Research Publication

Q1 2015



OVERVIEW

The office market retained its momentum from the end of 2014 supported by strong occupier and investment demand. While there was a limited number of new completions the take-up figures continued to increase, driven mainly by companies of IT and outsourcing sectors. Although most of them are looking also for expansion in other big cities such as Plovdiv, Burgas and Varna, there were not significant leases outside of Sofia for the period.

SUPPLY

The total stock expanded by 18,606 sqm reaching 1.709 million sqm in class A and B towards the end of the first quarter. The increase is based on the completion of two projects and the refurbishment of part of TZUM shopping center converted into office space.

With the restart of City tower (48,900 sqm), a project situated on Macedonia Square, the pipeline mounted up to 179,373 sqm in the first quarter. This trend continued from 2014 based on the strong occupier demand and the increasing confidence in the market.

Despite of these restarts the supply remains weak because of the distant deadline of the most projects. However, this picture will improve in the second half of 2015 when Capital Fort with 43,000 sqm office space is expected to come into operation.

New office projects were started also in Plovdiv as a response to IT and BPO sectors' appetite for expansion to the big cities. The most notable development is Office park Plovdiv – a complex on Svoboda Blvd., consisting of two buildings with total leasable area of 15,400 sqm and completion date in 2016 for the first one.

DEMAND

In confirmation of our forecasts, the take-up continued to grow in the first quarter reaching 25,903 sqm – up 10% compared to the same period in 2014.

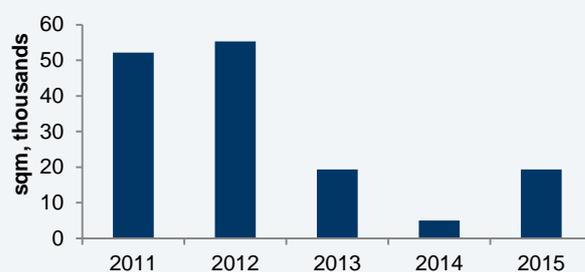
The major players remained IT companies with some of the largest leases recorded for the period such as the relocation of Gameloft on 3,200 sqm in TZUM and the expansion of IBM with 3,600 sqm in Sofia Airport Center.

Due to the lack of quality office space, pre-leasing agreements were also evident – the most notable of them with Scale Focus for 2,500 sqm in Capital Fort.

SOFIA OFFICE MARKET HIGHLIGHTS

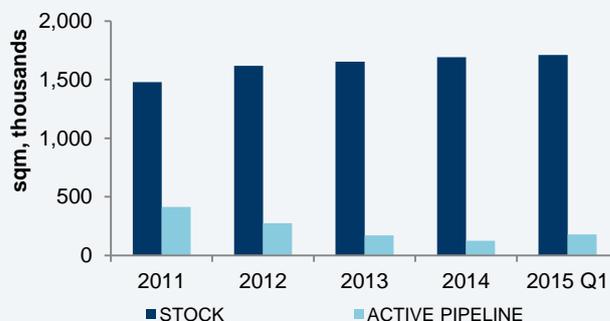
Stock in sqm	1,709,153
Pipeline in sqm	179,373
Prime rent (€/sqm/month)	€12.50

SOFIA OFFICE COMPLETIONS



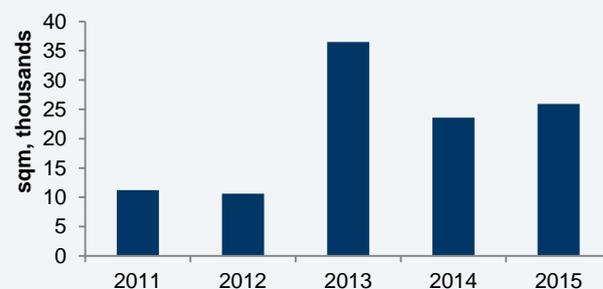
Source: Cushman & Wakefield / Forton. All data as of Q1 of the respective year unless otherwise stated

SOFIA OFFICE STOCK & PIPELINE



Source: Cushman & Wakefield / Forton

SOFIA OFFICE TAKE-UP



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Aside from that, the healthcare sector was also active. The largest leases was this of Neohealth for 1,900 sqm in former headquarters of Allianz Bank.

The office vacancy rate marked a new drop to around 25.6% in the beginning of 2015 against 29.7% for the same period in 2014. The decline was mostly driven by class A office requirements from expanding and relocating multinational firms.

The vacancy level for higher class buildings continued to decrease reaching 24% in the first quarter, while those one for class B stayed above 27%. The reason was relocation to a higher class office buildings followed by insignificant increase of the availability in class B segment. The top 10 office projects vacancy decreased to 3.7 per cent in the first quarter, reflecting the lack of available space in the top tier of the market.

RENTS

The prime headline monthly rents in the class A segment of the market remained in the range EUR 10.50-12.50 /sqm with highest levels in CBD submarket.

A slight increase of the rental prices was seen in non-CBD area as a result of the occupier demand for quality spaces and the concentration of high class projects alongside of the main boulevards. Due to the lack of quality supply this trend is expected to continue over the next quarters with most part of class A rents approaching the upper level of the market segment range.

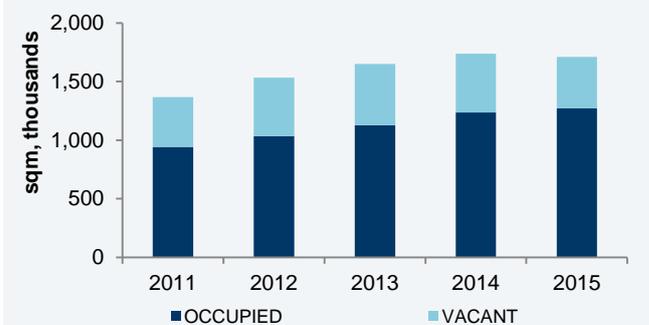
However, with large developments such as restarted City Tower and Millenium Center, adjacent to National Palace of Culture, the pipeline in the CBD almost doubled in the first quarter. Projects under construction totaled 77,000 sqm and with their completion the city center is expected to attract again the attention of the big tenants over the next three years. Rental levels for class B premises are stable in the range of EUR 6-8/sqm.

INVESTMENT FOCUS

The acquisition of small office building on Cherni Vrah Blvd. was the single deal in the segment for the last quarter.

In the first quarter the market was dominated by local investors who were looking mostly for deals with distressed assets with potential for repositioning. International buyers are interested mostly in acquisitions of fully rented income generating office projects class A in Sofia and deals are expected over next quarters.

SOFIA OFFICE VACANCY



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

SOFIA PRIME OFFICE RENTS AND YIELDS



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

TRENDS AND FORECASTS

- Frozen office projects are coming back to the pipeline due to the strong occupier demand
- Vacancy in the class A segment continues to go down, more so in the prime segment
- With a number of projects under construction the CBD area is expected to attract again the attention of big tenants over next three years