

## BULGARIA

A Cushman & Wakefield | Forton Research Publication

Q1 2016



### OVERVIEW

After the strong performance in the last year the office market slowed down in the first quarter of 2016. The year began with lower take up but prime rents slightly increased due to the limited supply of prime space. As expected, the new deliveries were insignificant. The IT and BPO companies remain main market driver with focus on the prime buildings and locations. Aimed at reducing costs, most of them are looking at secondary cities for back-up office locations.

### SUPPLY

With just 3,000 sqm new completions the supply in Sofia increased insignificantly, reaching 1,795 million sqm in class A and B in the first quarter. An inventories growth was noted in the central business district with the use permit obtained by San Stefano Plaza project.

In general, the supply of quality office space in Sofia remains limited and the tenants have a short list of buildings to choose between. The high-standard projects enjoy high occupancy rates while other ones hardly meet tenants' requirements for location, easy access, floor space or amenities.

The supply is not expected to improve in the short term, since most of the significant office deliveries are scheduled for the second half of 2017. For now, the pipeline amounts to nearly 144,000 sqm but only 54,000 sqm are to be completed by the end of this year. Almost one third of this stock consists of owner-occupied buildings or projects with small leasable area.

New high-standard office projects are expected in the next quarters in Plovdiv and Burgas.

### DEMAND

In the first quarter the take-up in Sofia amounted to 22,188 sqm, 17 per cent down compared to the same quarter in 2015. The expansion of IBM with 3,700 sqm in Sofia Airport Center and those of Visteon with 1,300 sqm in Capital Fort were among the notable leases.

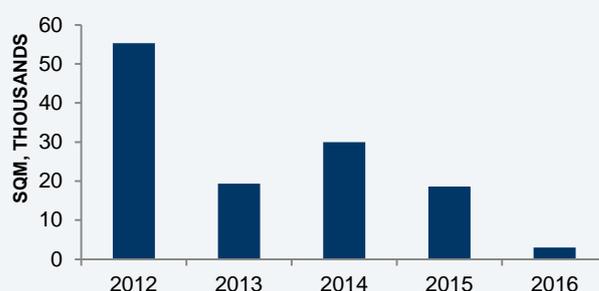
Larger transactions are expected over the next few quarters, since the office market remains driven by IT and BPO companies which consolidate their operations. In the first quarter these leases account for about 70 per cent of the volume in Sofia. The financial and pharma sectors were also active.

The shortage of quality office space supports the pre-leases which remain a notable market trend.

### SOFIA OFFICE MARKET HIGHLIGHTS

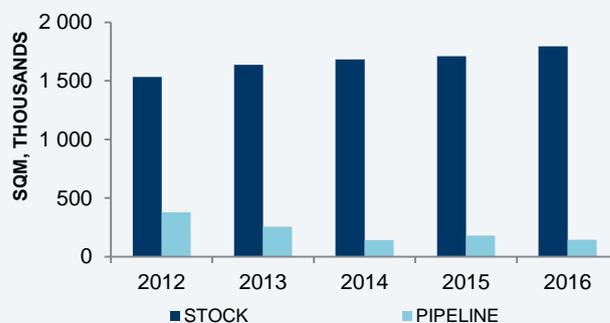
Stock in sqm	1,795,889
Pipeline in sqm	143,713
Prime rent (€/sqm/month)	€13.00

### SOFIA OFFICE COMPLETIONS



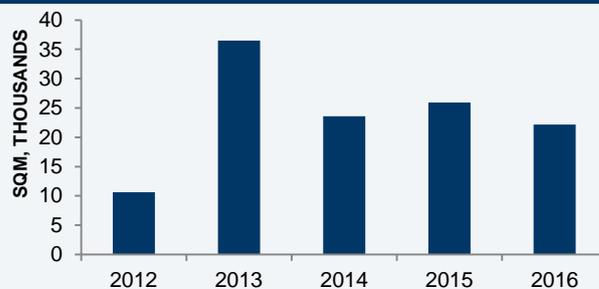
Source: Cushman & Wakefield / Forton. All data as of Q1 of the respective year unless otherwise stated

### SOFIA OFFICE STOCK & PIPELINE



Source: Cushman & Wakefield / Forton

### SOFIA OFFICE TAKE-UP



Source: Cushman & Wakefield / Forton.

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At the beginning of the year two leases for 4,200 sqm in total were signed for the second part of Srebarina Office Center, which is still under construction. For the period the pre-leases account for almost 20 per cent of the take-up volume.

In general, demand becomes increasingly influenced by tenants' desire for cost efficiency. This results in new models for work place optimization, such as Hot Desking and Activity Based Working, which reorganizes the work space to enable the staff to be more productive and collaborative.

Due to the growing competition in Sofia increasing number of outsourcing companies are shifting their focus on the second-tier markets. The rising interest in the big cities, such as Plovdiv, Burgas and Varna encourages the development of new office projects. Leasing activity is also expected to increase outside Sofia in the next quarters.

In Sofia, at the beginning of 2016 vacancy rate for higher class buildings dropped to 22.5 per cent, while those for class B remained 27 per cent. The average level for both classes is 24.6 per cent. The top 10 office projects vacancy is stable at 3.5 per cent, reflecting the lack of available space in the top tier of the market.

### RENTS

Headline rents in Sofia slightly increased alongside the main boulevards. Due to the concentration of prime office stock there, these areas remain the most dynamic part of the leasing market.

In the first quarter the prime rents on the main roads were in the range € 12.00-13.00/sqm, which is 4 per cent up compared to the last months of 2015. The same are the levels in the CBD area, while those for prime projects in the suburbs are stable at € 10.00-10.50/sqm.

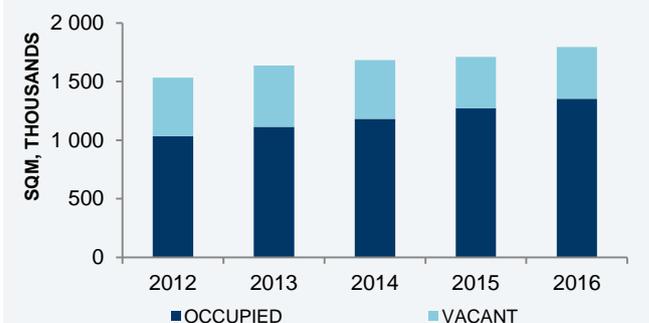
Rental levels for class B premises are stable in the range of € 6-8/sqm.

### INVESTMENT FOCUS

The acquisition of Sofia Airport Center by Revetas Capital was the sole notable transaction on the office market in the first quarter. The project comprises class A office building, logistics component and also has huge development potential.

In general, the office market offers a number of investment opportunities, since there are buildings with high occupancy rate and stable cash flows. However, new acquisitions will be a subject of agreement on the price between investors and vendors.

### SOFIA OFFICE VACANCY



Source: Cushman & Wakefield / Forton

### SOFIA PRIME OFFICE RENTS AND YIELDS



Source: Cushman & Wakefield / Forton.

### TRENDS AND FORECASTS

- Due to the increasing competition in Sofia, IT and BPO sectors shift their focus to the secondary cities
- Prime rents have slightly increased, reflecting the lack of quality office space
- The work space optimization models will become of increasing importance on the office market