

**Research &
Forecast Report**

Bulgaria | Office Real Estate Market
H1 2015



Office Market Overview

- 24% increase of pre-leases in Sofia in the first half of 2015 compared to 2014
- Net absorption in the capital reached 23,000 m², while the total take-up was 45,900 m²
- Record low vacancy rate in class A projects– less than 4%
- Average rental levels in Sofia remained unchanged
- Plovdiv and Varna are shaping up as preferred office destinations to the BPO and IT sectors

Supply

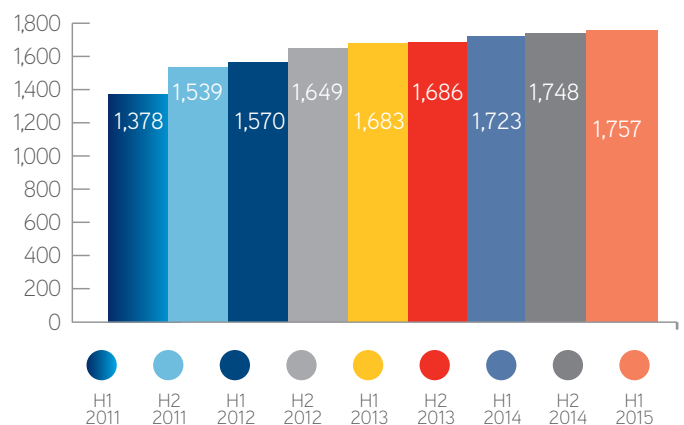
A slight increase in the supply of modern office space class A and B in Sofia was recorded during the first half of 2015. The total stock reached 1,757,530 m².

The Class A office buildings' volume stood at the same level - 21% from the total inventory or 367,860 m². These are only 22 office projects, all situated in the capital.

The number of buildings under construction increased due to the restart of several projects. Colliers internal analysis reveals that by 2017 a large volume of space shall be introduced to the office market in Sofia totalling to 250,000 m², out of which 85,000 m² are expected by the end of 2015.

The shaping up of office destinations continued. The recent opening of the new subway stations meant additional benefits to certain urban districts and further enhanced their reputation of business "hubs".

Graph 1. Total Office Supply in Sofia (in '000 m²)



Demand

High intensity of demand, inclined towards high quality space, was observed during the first half of 2015. Net absorption* of class A and B offices in Sofia was 23,000 m². This indicator marks a decrease compared to the second half of 2014, the explanation being that its calculation did not include pre-leases and relocations from competitive stock, which were the leading transactions at the time. Total take-up** i.e. all leasing transactions on the market for the first half of 2015 was 45,900 m².

47% of all registered deals were relocations, followed by the expansion of companies operating on the Bulgarian market (26%). High growth was seen in the pre-leases (24%).

The primary demand driver remained the international companies in the BPO and IT sectors.

Vacancy

The available office space in Sofia reached 241,700 m² or 14% from the total volume. A decline of 1% was registered for the past six months.

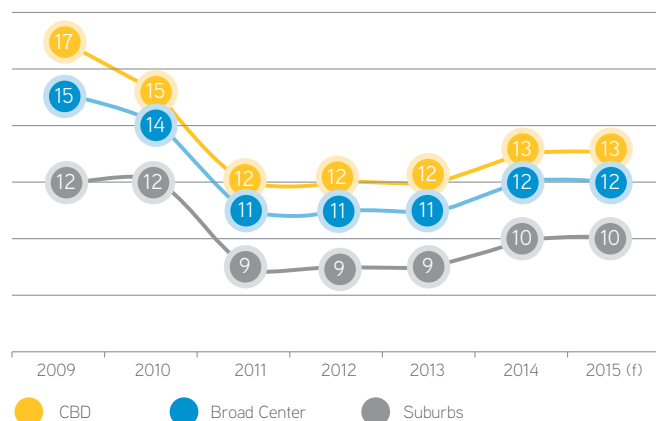
The stable demand resulted into a steady absorption of the vacant class A projects. By the end of the first half of 2015 it stood at historically low levels of 14,300 m² or less than 4% from the total stock.

Rental levels

Average rental levels in the capital remained unchanged for the first six months of 2015 and are expected to stay such by the end of the year. (Graph 2)

Asking rents in class A projects kept the levels of 13 euro per m², while the effective ones were in the range of 10.5 – 12 euro, depending on the location and the specific requirements of the tenants.

Graph 2. Class A asking rental levels (euro/ m²/ month)



Secondary Cities

With Sofia aside, companies were continuously demonstrating interest towards secondary cities. This trend had been visible for more than a year, with the attention directed to Plovdiv, Varna, Burgas and Ruse. The total supply in these cities stood at slightly above 484,000 m². The distribution of that office space among the four cities was: Varna (45%), Plovdiv (34%), Burgas (11%) and Ruse (10%).

Occupier demand in secondary cities, just like in Sofia, was dominated by the BPO and the IT companies. Competitive advantage of these cities is the availability of human capital, well-educated and fluent at foreign languages; the unutilized potential lies in the volume of suitable office space. In response to the increasing demand in the recent months, construction of office buildings in the secondary cities has commenced. About 95,300 m² are under construction, almost 50% of them situated in Plovdiv.

Transactions driven by BPO and IT companies on the office market in the four big cities totalled 19,000 m², with Varna and Plovdiv taking the lead (respectively with 48% and 43%). The available space in the secondary cities is only 7%, concentrated in buildings not equipped to meet the occupiers' criteria. A solution offered in some of the cases was the transformation of retail and industrial space into office. These quick fixes enable the BPO and IT industries to enter the cities, but do not replace their demand for modern and high quality offices.

Average rents in Varna, Plovdiv and Burgas were in the range of 8-10 euro per m², depending on the quality and location of the property. In Ruse the numbers were between 6-8 euro per m².

Forecast

- » Active construction of office buildings in Sofia is expected in the next two years, with the following effect:
 - Market dynamics will increase, especially in the area of pre-leases, which will grow to significant levels in the next 12 months;
 - The large volume of office space expected to be delivered to the market will resume the supply-demand balance in the midterm;
 - Faced with additional stock of high quality projects on the market and a wider variety of possibilities, the occupiers will need to adopt a more thorough and complex approach to the office selection process.
- » The BPO and the IT companies' attention towards the secondary cities will continue, provoking higher level of competition among the locations.

Definitions:

* Net Absorption - Net Absorption refers to the change in occupied stock from one period to the next. It refers only to existing stock (not the development pipeline).

** Gross Take-up - Total Occupational Market Activity is the total floorspace known to have been let or sold as one of the following activity types during the period: Pre-lets, New Occupation/Lease, Expansion, Renewal/Renegotiation, Sub-lease and Sale & Leaseback.

502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia: **199**

EMEA: **108**

\$1.7

billion in
annual revenue

158

million square meters
under management

16,300

professionals
and staff

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As part of the CEE Quality Awards 2015 Colliers won for the fourth time in a row the Industrial agent of the year award. The latest annual survey by the Lipsey Company ranked Colliers International as the third-most recognized commercial real estate firm in the world.

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