



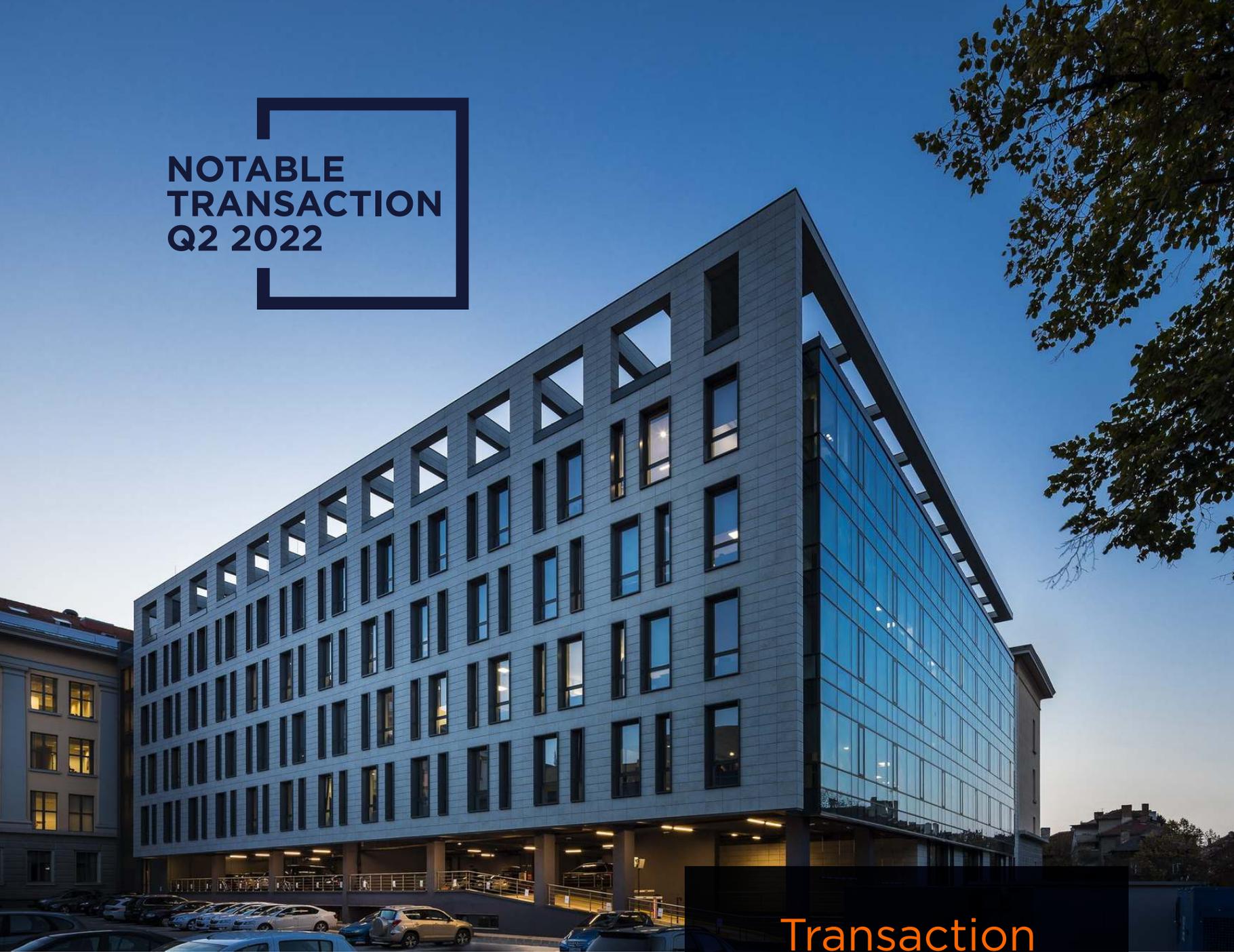
AVALANT

< PROGRESSIVE REAL ESTATE >

OFFICE MARKET INSIGHT

Q2 2022
Sofia

NOTABLE
TRANSACTION
Q2 2022



Transaction
Advisory

3,000 sqm

Avalant was the trusted partner of Payhawk, the first Bulgarian unicorn, in their latest relocation project in Polygraphia.

payhawk

"Payhawk,
Thank you for your trust!"

SOFIA | KEY MARKET TRENDS



Significant increase in demand for office space in Q2 2022 - take-up reached 51,800 sq. m.

Almost double the volume when compared to the first quarter (Q1 - 28,000 sq. m.). The net absorption volume marks a significant increase - 21,880 sq. m. compared to the previous quarter (merely 3,000 sq. m. in Q1).

Approx. 27,000 sq. m. were delivered on the market in Q2 2022

Another 72,700 sq. m. are expected to be delivered by the end of the year from which 26% are already pre-leased.

Increase in the volume of new construction starts compared to the last couple of quarters

33,000 sq. m. of modern office space broke ground this quarter.

Sofia at a glance

Total Speculative Stock

2,08[↑] mln. m²

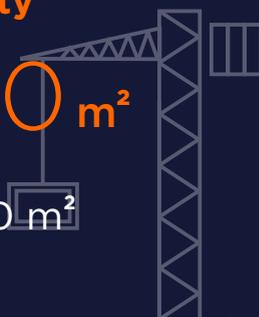
New Deliveries
In Q2 27,000 m²



Construction Activity

250,480 m²

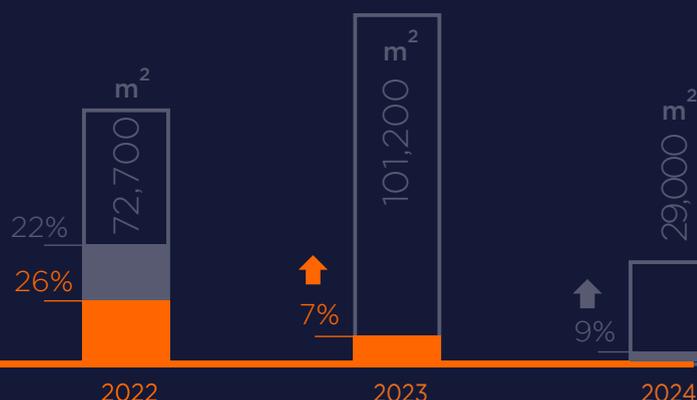
New Construction
starts in Q2 33,000 m²



Expected deliveries

% Pre-lease / Owner Occupied

	Class A	Class B
Speculative Stock	1,27 mln m ² [↑]	0,81 mln m ² [—]
Vacancy	20,11% [—]	17,27% [↓]
Availability	391,856 m ² [↑]	140,676 m ² [↓]
Asking Rents	€ 11,5-15	€ 6 - 11



SUPPLY

Q2 2022 registered approx. 27,000 sq. m. of newly delivered office space. In addition 33,000 sq. m. of modern office space broke ground during the second quarter (after several quarters of inactivity in terms of new construction starts).

Thus, the total speculative stock in Sofia reached 2.08 mln. sq.m.

Approx. 17,000 sq. m. of planned projects are expected to start construction within this year. It is possible that this volume could be higher as a few projects which are in more advanced planning stage could also start in Q4 2022.

CONSTRUCTION ACTIVITY

In the remaining two quarters of 2022, approx. 72,600 sq. m. modern office space is expected to be delivered on the market. Approx. 26% of it is already pre-leased, while 22% are owner occupied.

Sofia's total construction activity stands at 250,480 sq. m. as of Q2 2022 (an increase compared to Q1 2022 - 221,700 sq. m.).

101,200 sq. m. are expected to be delivered in 2023 (7% pre-leased) and approx. 29,999 sq. m. in 2024 (no pre-leases yet).

DEMAND

After the relatively lower take-up in Q1 2022 (28,000 sq. m.), Q2 marks a significant increase - approx. 52,000 sq. m. were leased (*the respective volume does not include lease renewals).

In H1 the highest percentage of take-up was monitored in the submarkets of Tsarigradsko (28%), Hladilnika (21%) and Business Park Sofia (16%).

The net absorption volume for Q2 reached 21,880 sq. m. - a result from the actual relocation of companies, whose lease agreements were signed at the end of the last year.

The average transaction size for Q2 is around 900 sq. m. of gross leasable area.

DEMAND | FORECAST

The first half of 2022 gave further reason for optimism considering the high take-up in this period - 79,600 sq. m. (a continuation of the positive data from H1 2021, when the take-up reached 78,000 sq.m)

One of the potential challenges for office tenants is the fact that in many of the preferred business submarkets the vacancy rate continues to decline, which could logically lead to increased competition between tenants in these particular parts of the city.

On the other hand, from landlord's perspective in these submarkets this is a positive trend that may allow them to achieve higher rental terms.

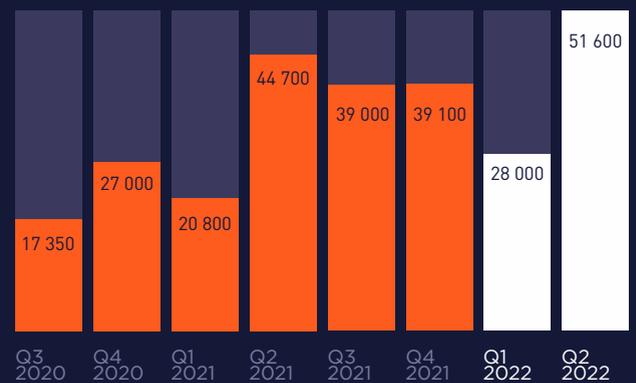
Given the significant volume of expiring contracts during 2022 and the observed increased interest from new entries in the country, the market has the necessary prerequisites to achieve take-up levels similar to last year's strong results (143,600 sqm in 2021).



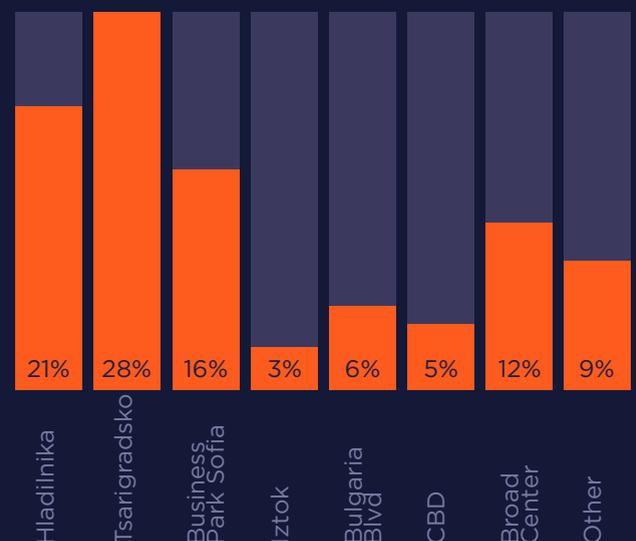
NET ABSORPTION VS. NEW DELIVERIES



TAKE UP Q2 2022 in sqm

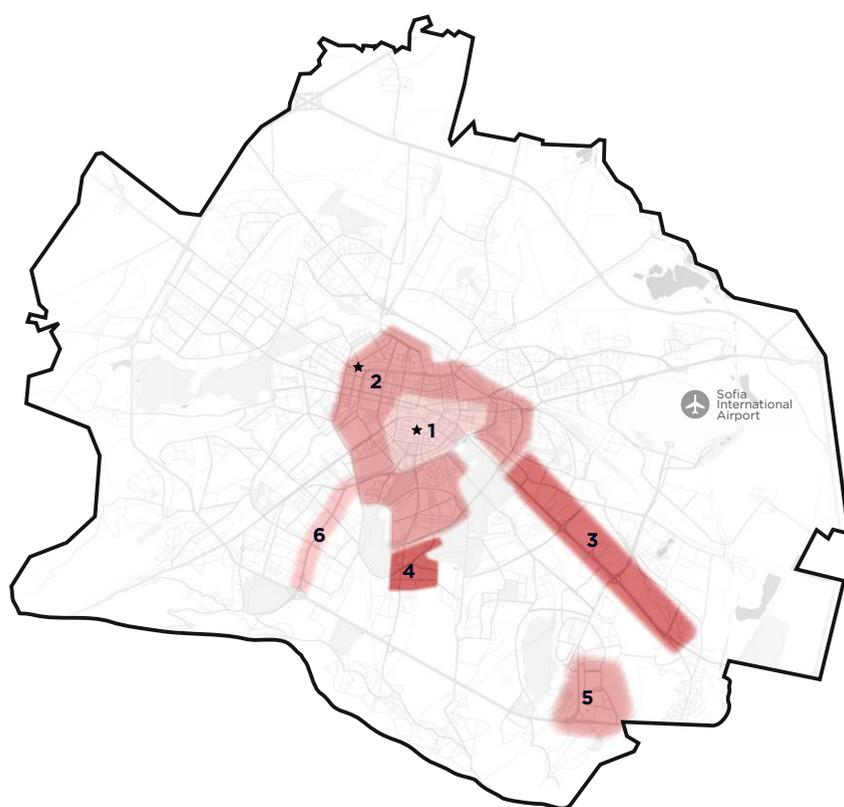


H1 2022 TAKE-UP: SUBMARKETS



CONSTRUCTION ACTIVITY HEATMAP

	Construction Activity	*Available space	Average Asking Rents Class A	Average Asking Rents Class B
1 CBD	32,333 m ² ↑	27,499 m ² ↓	€ 12.00 - 15.00	€ 9.50 - 12.50
2 BROAD CENTER	25,732 m ² ↓	41,482 m ² ↓	€ 12.00 - 14.00	€ 7.00 - 12.00
3 TSARIGRADSKO SHOSSE	61,000 m ² —	183,145 m ² ↑	€ 11.00 - 13.00	€ 6.00 - 10.00
4 HLADILNIKA	56,882 m ² ↑	44,328 m ² ↓	€ 12.00 - 14.50	€ 6.50 - 9.50
5 BUSINESS PARK DISTRICT	4,850 m ² —	28,021 m ² ↓	€ 11.50 - 14.50 ↑	€ 7.00 - 11.00
6 BULGARIA BLVD	16,100 m ² —	37,611 m ² ↓	€ 10.00 - 12.50	€ 7.00 - 8.50



VACANCY & AVAILABILITY

Vacancy in Sofia remained unchanged in Q2 2022 20.11% or 418,600 sq. m.

Class A vacancy stands at 21.94% (a subtle increase compared to Q1 2022), while class B is 17.27% (less than in Q1).

The total office space availability in Sofia slightly increased in Q2 and now stands at 540,133 sq. m. (compared to 522,397 sq. m. in Q1).

RENTAL LEVELS

The gradual increase of class A asking rents in submarkets with below-the-market vacancy rates like CBD, Broad Center, Iztok and Hladilnika persisted as a trend in Q2.

Currently, class A asking rents are between EUR 11.50 - EUR 15.00 per sq. m., with exceptions observed in both directions of this range.

Class B asking rents remain in the range EUR 9.00 - EUR 12.50 per sq. m. in CBD and gradually decrease, reaching EUR 6.00 - EUR 11.00 per sq. m. in the more peripheral areas.

The gap between asking and achievable terms, which throughout 2020 and the first half of 2021 was gradually widening, remained unchanged during the last two quarters. In specific submarkets with low availability and high demand, this gap logically decreased.

INVESTMENT MARKET

The activity on the office space investment market during the first half of the year is gradually recovering from the effects of Covid-19. However, both investors and banks remain cautious in their strategies and are closely following the latest macroeconomic trends in Bulgaria and the region.

There were a few notable transactions in the observed period, all of which were registered in Sofia. The largest transaction was the sale-purchase of RichHill Office Center for approx. €36.5 mil to the company from the betting sector EGT. The international YNV Holding through their real estate company - Everty, investing mainly in the office and hospitality sectors, has acquired a 7,000 m² office building in Sofia from the Hungarian investor WING Holding.

There is a noticeable trend of office occupiers showing interest in owning their real estate. On the other hand, foreign investors are still cautious to expand their presence in Bulgaria due to geopolitical concerns, rise in construction costs and lack of income generating properties or portfolios that spike their interest. It could be expected that the investment activity by the end of 2022 will be dominated by local investors looking for value-add investments.

PRIME OFFICE YIELD 7.50%

NOTABLE TRANSACTIONS INVESTMENT MARKET | H1

Property	Price (€ million)	Seller	Buyer
RichHill Office Center	36.5 (*estimated)	SPS Invest Telelink	EGT
Prizma Office Center	Not disclosed	WING Holding	Everty
Enikom M Office Center	9-12 (*estimated)	Enikom M	Pragmatic Play

MACROECONOMIC SNAPSHOT

4.5%

GDP
y-o-y change
(Q1 2022)

13.4%

Inflation
Annual change
(May 2022)

4.9%

National unemployment rate
(March 2022)

€ 928

Gross Average Salary
(March 2022)

*Data was derived from the sources of National Statistics Institute (NSI) and Bulgaria Labor Agency

The Information contained in the present document has been obtained from a variety of sources, including projections and estimations, deemed reliable. While we do not doubt its accuracy, we make no guarantees, warranties or representation about it.

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