



**AVALANT**

⟨ PROGRESSIVE REAL ESTATE ⟩

**OFFICE  
MARKET  
INSIGHT**

**Q1 2022**

**Sofia**

**NOTABLE  
TRANSACTION  
Q1 2022**



**TRANSACTION  
MANAGEMENT  
PROJECT**

"We are super happy and thankful for the support of Avalant in completing this important project for us."

*Eva Elger*

Site Director  
Cargill



Avalant was the trusted partner of Cargill for an office advisory & transaction management project in Sofia.

# SOFIA | KEY MARKET TRENDS



## TAKE-UP REACHED APPROX. 28,000 SQ. M IN Q1

A relative decline compared to the last several quarters. Net absorption continues to be lower standing at approx. 3,000 sq. m.

## APPROX. 114,000 SQ. M. OF NEW DELIVERIES ARE EXPECTED IN 2022

23% of the expected new deliveries for the year are pre-leased. 20% are owner occupied.

## NO NEW MAJOR CONSTRUCTION STARTS AND NEW DELIVERIES IN Q1

A few office projects are expected to commence construction in the next couple of quarters.

Sofia at a glance

### Total Speculative Stock

2,05 mln. m<sup>2</sup>

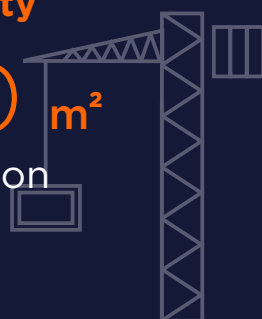
NO New Deliveries In Q1



### Construction Activity

221,700 m<sup>2</sup>

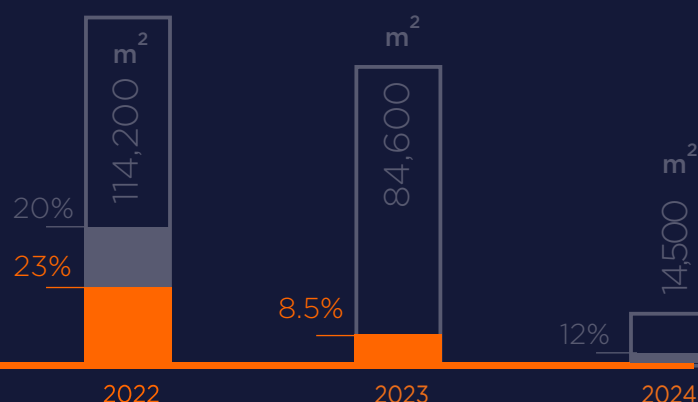
No New Construction starts in Q4



### Expected deliveries

% Pre-lease / Owner Occupied

	Class A	Class B
<b>Speculative Stock</b>	1,25 mln m <sup>2</sup>	0,81 mln m <sup>2</sup>
<b>Vacancy</b>	21,47%	18,03%
<b>Availability</b>	378,828 m <sup>2</sup>	154,308 m <sup>2</sup>
<b>Asking Rents</b>	€ 11-14,5	€ 6 - 11



## SUPPLY

2022 started with no new deliveries and no new construction starts in its first quarter – unprecedented statistic for the last several years.

As a result, Sofia's speculative stock remained unchanged with 2.05 mln sq. m.

However, given the investment plans of a few developers we expect that at least 30,000 sq. m. of class A office space will break ground in the following quarters.

## CONSTRUCTION ACTIVITY

In 2022 approx. 114,200 sq. m. of modern office space is expected to be delivered on the market. Approx. 23% of them are already pre-leased, while 20% is owner occupied.

The pipeline of 2022 represents approx. 47% of the total construction activity in the capital. This high percentage is another sign of the gradual slow-down of the construction activity in Sofia.

Sofia's total construction activity decreased with c.a. 20,000 sq. m during the last quarter to 221,700 sq. m., mainly due to the halt of the construction of one office project.

84,600 sqm are expected to be delivered in 2023 (8.5% pre-leased) and only 14,500 sq. m in 2024 (no pre-leases yet).

## DEMAND

After the relatively strong take-up stats from Q2 (44,700 sq. m), Q3 (39,100 sq. m) and Q4 (39,000 sq. m) the first quarter of the year marked a relative decrease – approx. 28,000 sq. m. of new lease transactions (excluding renewals).

The highest percentage of take-up in the first quarter was monitored in the submarkets Hladilnika with 35% and Tsarigradsko with 29%.

The net absorption volume is still lacking behind – the quarterly net absorption reached merely 3,000 sq. m. There were no noticeable differences in terms of the net absorption stats across submarkets in the last quarter.

The average transaction size for Q1 was in the range 1,200 – 1,400 sq. m. GLA.

Another interesting observation is that approx. 7,000 sq. m. of office areas were acquired by office occupiers, marking the continuation of the trend of increased interest from companies to own their premises.

## DEMAND OUTLOOK

2022 marks a year of expirations of a significant share of the leases signed in the demand driven period of 2017-2019. Taking into considerations also the relatively strong demand stats from 2021, we can expect that Landlords have grounds for reasonable optimism.

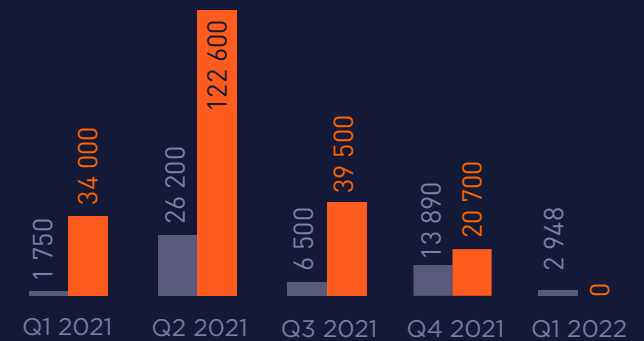
However, the pandemic shifted the perception of a considerable share of occupiers in terms of their future real estate needs.

One of the major trends in the real estate strategies of occupiers that appears to be here to stay is the revised ratio of workstation per employee.

If in pre-pandemic times a significant share of occupiers ruled towards 100% coverage, in current times an increasing number of organizations (mainly from the BPO and IT sectors) are moving towards 50-70% coverage.

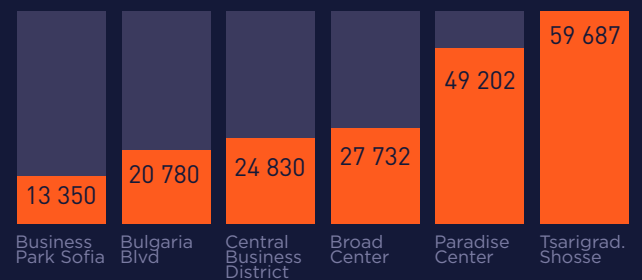
Given the above we can expect that (unlike pre-pandemic times), headcount growth will not always correlate to office space growth.

## NET ABSORPTION VS. NEW DELIVERIES

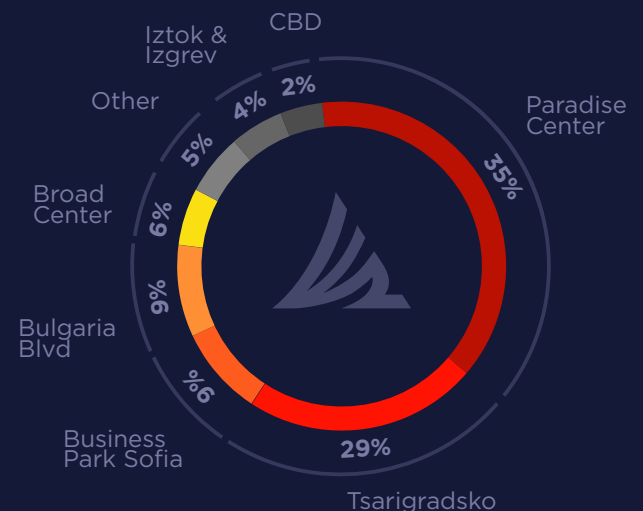


## CONSTRUCTION ACTIVITY DISTRIBUTION

in sqm.



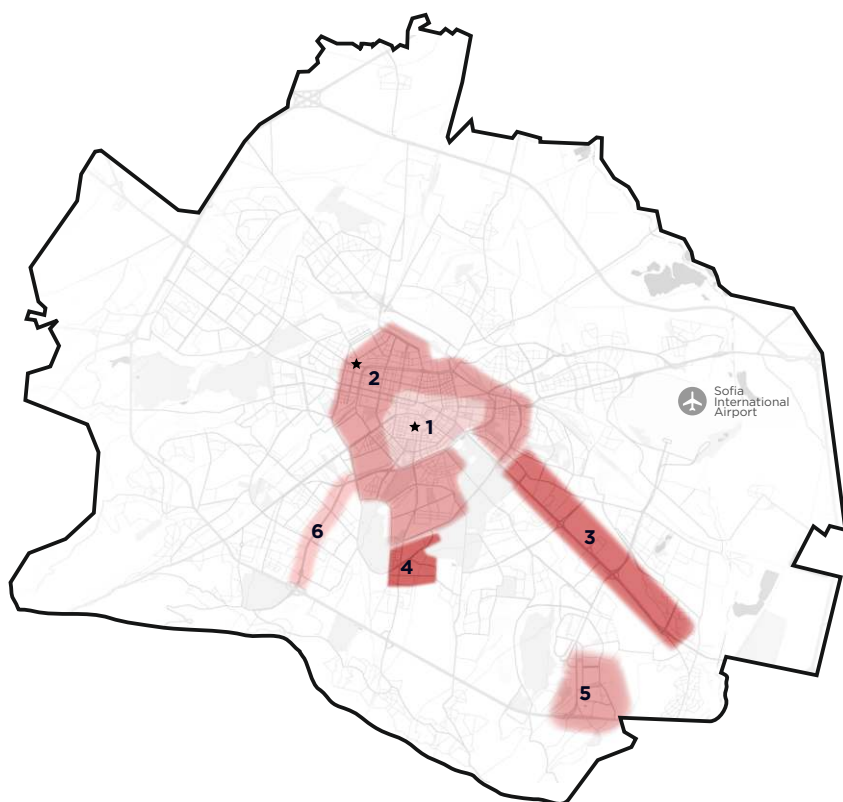
## Q1 2022 TAKE-UP: SUBMARKETS



# CONSTRUCTION ACTIVITY HEATMAP

	Construction Activity	*Available space	Average Asking Rents Class A	Average Asking Rents Class B
1 CBD	27,530 m <sup>2</sup> —	36,511 m <sup>2</sup> ↑	€ 12.00 - 15.00 ↑	€ 9.50 - 12.50
2 BROAD CENTER	26,732 m <sup>2</sup> —	57,500 m <sup>2</sup> ↓	€ 12.00 - 14.00	€ 7.00 - 12.00
3 TSARIGRADSKO SHOSSE	61,000 m <sup>2</sup> —	153,764 m <sup>2</sup> ↑	€ 11.00 - 13.50	€ 6.00 - 10.00
4 HLADILNIKA	46,200 m <sup>2</sup> —	53,744 m <sup>2</sup> ↓	€ 12.00 - 14.50 ↑	€ 6.50 - 9.50
5 BUSINESS PARK DISTRICT	21,100 m <sup>2</sup> —	60,736 m <sup>2</sup> ↓	€ 10 - 14.00	€ 7.00 - 11.00
6 BULGARIA BLVD	16,100 m <sup>2</sup> —	51,135 m <sup>2</sup> ↑	€ 10.00 - 12.50	€ 7.00 - 8.50

*\*Includes available space under construction that will be delivered until the end of Q2 2023.*



## RENTAL LEVELS

Asking rental levels remained relatively unchanged in Q1 with a slight increase in the class A segments in submarkets with lower-than-average vacancy like CBD, Broad Center, Iztok and Hladilnika.

Currently, Class A asking rents remain between EUR 11.00 - EUR 14.50 per sq. m in all submarkets with a few exceptions.

Sofia's Prime Asking Rent currently stands at EUR 14.50 - 15.00 per sq. m.

Class B asking rents remain - EUR 9.00 - 12.50 per sq. m. in the CBD and gradually decrease when moving away from the city center, reaching EUR 6.00 - 11.00 per sq. m. in the Suburban areas.

The gap between asking and achievable terms which since the beginning of the pandemic was gradually increasing is now keeping a relatively unchanged position.

Price segmentation among landlords and class of buildings is expected to continue as currently the market consists of two groups of landlords with diametrically different market positions. On one hand stand the owners of class A properties with high occupancy rates and excellent locations, while on the other side stand a relatively larger group of landlords whose buildings are either in submarkets of high competition, or their building quality is falling behind.

In such scenario the members of the first group will likely aim to capitalize on their advantages through higher rates, while the second group will try to attract tenants with more price flexibility.

## VACANCY & AVAILABILITY

Vacancy in Sofia remained almost unchanged in the last quarter - standing at 20.11% or 413,425 sq. m. (vs 20.38% in Q4 and 20.25% in Q3).

Class A vacancy stands at 21.47%, while class B is 18.03%.

Market availability increased in the last quarter and now stands at 522,397 sq. m. (vs. 507,500 sq. m in Q4).

# SUMMARY

2021 showed strong recovery in transaction activity and overall optimism in the office space market. However net absorption remains low and hence the high vacancy levels which will continue to fuel the competition among landlords.

The submarket segmentation continued to increase with average rent remaining almost unchanged while achievable rental levels within the submarkets notable increased or decreased depending on the submarket availability.

The slowdown in new construction starts throughout the year is a clear sign of the upcoming shortage in supply although this is not likely to be felt in the next 18 months. On the other end of the scales, we have increasing sublease volumes and the hybrid model that most companies are planning to implement which will provide enough room for their short term expansion plans.

## MACROECONOMIC SNAPSHOT

5.10%	10.5%	4.5%	€ 852
<b>GDP</b> y-o-y change (Q3 2021)	<b>Inflation</b> Annual change (March 2022)	<b>National unemployment rate</b> (Q4 2021)	<b>Gross Average Salary</b> (Dec 2021)

\*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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