

Office Market Insight

Q2 2023
Sofia



Notable Transaction

Avalant was the trusted advisor of Adastra in their relocation project in Energy Tower in Sofia.



Highly professional, customer-tailored services, on every step of the process! Thank you, Avalant team, for another successful office project!

ADA STRA

Emilia Angelova

Head of Finance and Administration

Sofia | Key market trends



Notable drop in take-up – 25,605 m², or a 42% decrease compared to Q1

A steep decline in the volume of new leases, compared to Q1 2023 (43,760 sq. m). On the other hand, the net absorption for Q2 although still relatively low is now positive and stands at 8,632 m².



Overall vacancy decreases to 18.45%

Mostly due to low but positive net absorption in class A properties and the lack of deliveries of new office buildings in Q2.



Average asking rates remain almost unchanged

A slight increase in the asking rates in buildings with very low vacancy combined with a slight decrease in rental levels for properties with more than 30% vacancy.

Sofia at a glance



Total speculative stock

2.119 mln. sq.m.

New Deliveries In Q2: 0 m²

Construction activity

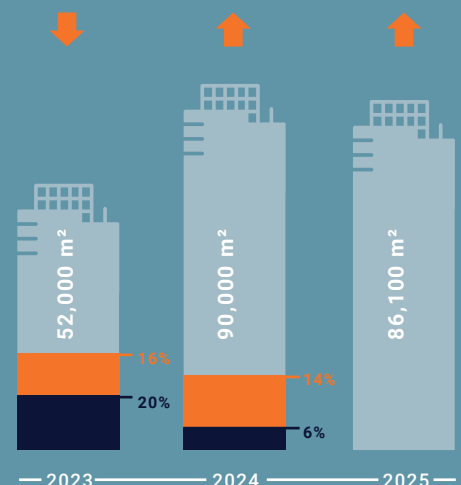
228,000 sq.m.

New Construction Starts In Q2: 7,100 m²

Resumed Construction: 0 m²

EXPECTED DELIVERIES

%Owner Occupied % Pre-lease



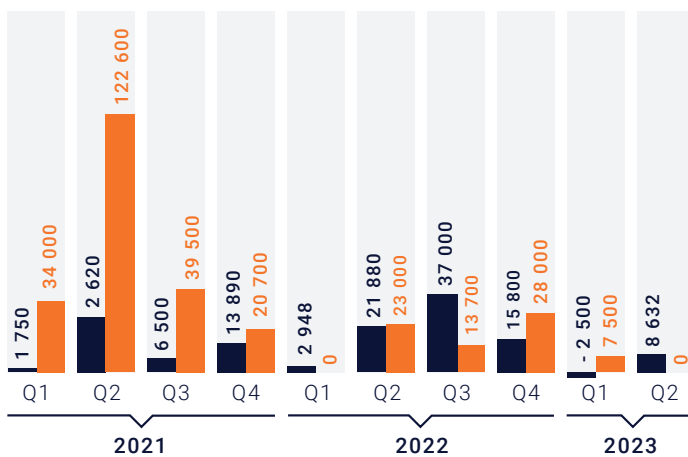
	Class A		Class B	
Speculative Stock	1,297 mln m ²	—	0,822 mln m ²	—
Vacancy Rate	19.10%	↓	17.4%	↓
Vacancy	247,800 m ²		142,800 m ²	
Availability	376,500 m ²	↑	154,500 m ²	—
Asking Rents	€ 11.50 – 16.00	—	€ 7.00 – 12.50	—

Supply

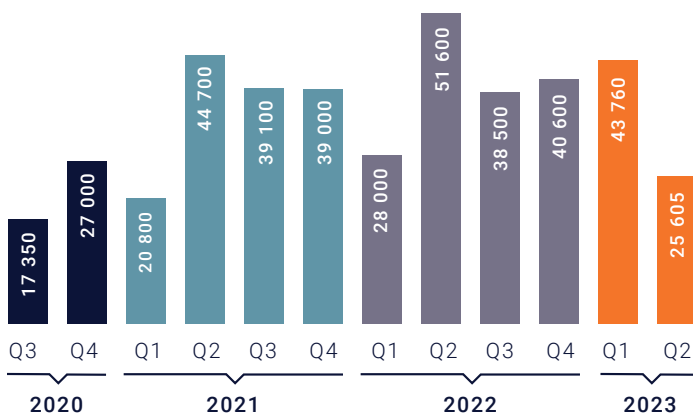
2.119 mln. sq.m.

Sofia's speculative stock remained unchanged at **2.119 mln. m²** as there were no new occupancy permits received in Q2 2023 (**vs 7,500 m²** in Q1 2023). This is due mainly to delays in the final stages of construction for a few smaller office buildings that were scheduled for delivery this quarter. Total stock is expected to remain almost unchanged until the end of the year as a sizable portion of the deliveries are being postponed for next year – c.a. 24,000 m².

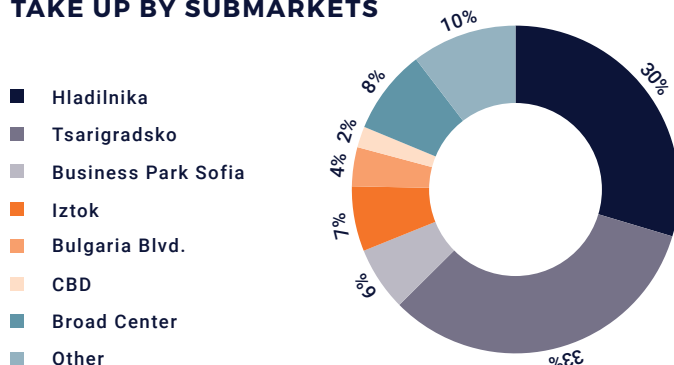
NET ABSORPTION VS NEW DELIVERIES *sq.m.*



TAKE-UP PROGRESSION *sq.m.*



TAKE UP BY SUBMARKETS



Construction activity

228,000 sq.m.

ACTIVE CONSTRUCTION

There is a slight increase in the volume of construction activity with three small office projects of circa 7,100m² commencing construction. With these additions the volume of active construction now stands at **228,000 m²**. Highest activity continues to be observed in the areas of Tsarigradsko Shosse and Hladilnika where almost half of all the construction is taking place.

The volume of frozen projects remain unchanged - **42,000 m²**.

About **9%** of the areas under construction have already been pre-leased and about **7%** will be owner-occupied.

Five new office construction permits were reported, most of which for the previous quarter, for a total of nearly 17,000 m² These include the construction starts mentioned above.

Demand

25,605 sq.m.

TRANSACTION ACTIVITY

A slight growth in the total occupied office space in Sofia was observed in the second quarter of 2023 with a low but positive net absorption of 8,600 sq. m. Almost 80% of these took place in class A office buildings. However, combined with the negative net absorption from the previous quarter the total figure for the first half of the year is only 6,100 sq. m, which is four times lower than the same period in 2022.

The transaction activity (excluding lease renewals) marks its lowest quarter for the past two years – only 25,605 sq. m were signed in Q2 2023. This is a 42% decrease compared to the previous quarter.

A considerable share of office space transactions comes from relocations to newly constructed office buildings – about half of the transaction in this quarter. Thus, one of the main drivers of the lower transactions volume could be the decline in construction activity which in turn leads to fewer technologically and functionally superior buildings to motivate occupiers to relocate.

Tsarigradsko Shosse and Hladilnika lead the way in terms of transaction activity with close to 63% of the take-up concentrated in these submarkets.

Macroeconomic snapshot

2.3%**GDP**
y-o-y change (Q1 2023)**7.5%****INFLATION**
Annual change (June 2023)**4.4%****UNEMPLOYMENT RATE**
(Q1 2023)**€999****GROSS AVERAGE SALARY**
(March 2023)

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



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