

Office Market Insight

Q3 2023
Sofia



Notable Transaction

Q3 2023

Occupier Advisory Project:

Avalant was the trusted advisor of TBI Bank in their relocation project to L29 Building in Sofia.



Sofia | Key market trends



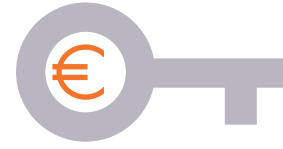
Take-up remains low – 21,630 m²

The decline in the volume of new lease acquisitions continues and is about 60% below the same period last year. Net absorption is increasing to 11,760 sq. m.



Overall vacancy decreases to 18.14%

Due to low but positive net absorption in both class A and B properties.



Average asking rates remain virtually unchanged

Although there is a slight increase in existing class A availability and a slight decrease in properties under construction.

Sofia at a glance

Total speculative stock

2,124 mln. sq.m. —

New Deliveries In Q3: 6,275 m²

Construction activity

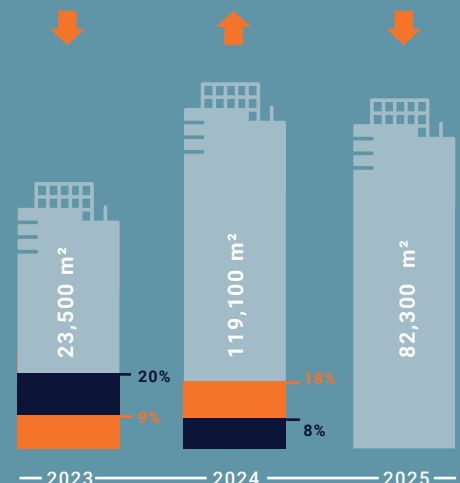
224,889 sq.m. —

New Construction Starts In Q3: 0 m²

Resumed Construction: 0 m²

EXPECTED DELIVERIES

%Owner Occupied % Pre-lease



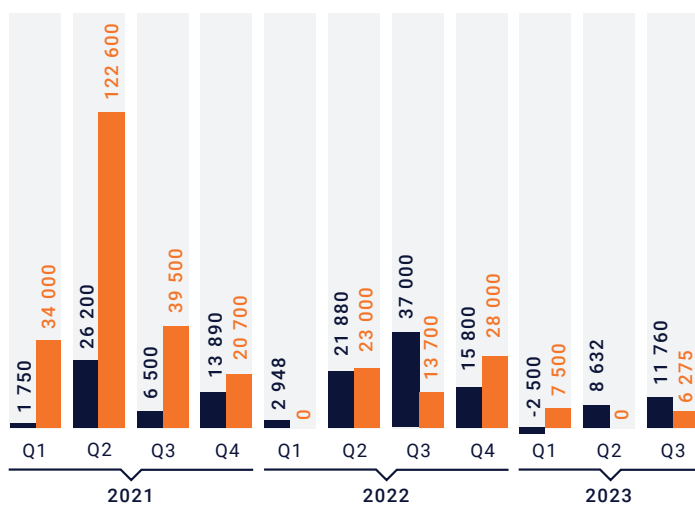
	Class A		Class B	
Speculative Stock	1,303 mln m ²	—	0,821 mln m ²	—
Vacancy Rate	18.8%	↓	17.2%	↓
Vacancy	244,334 m ²		140,862 m ²	
Availability	377,733 m ²	↑	145,474 m ²	—
Asking Rents	€ 11.50 – 16.00	—	€ 7.00 – 12.50	—

Supply

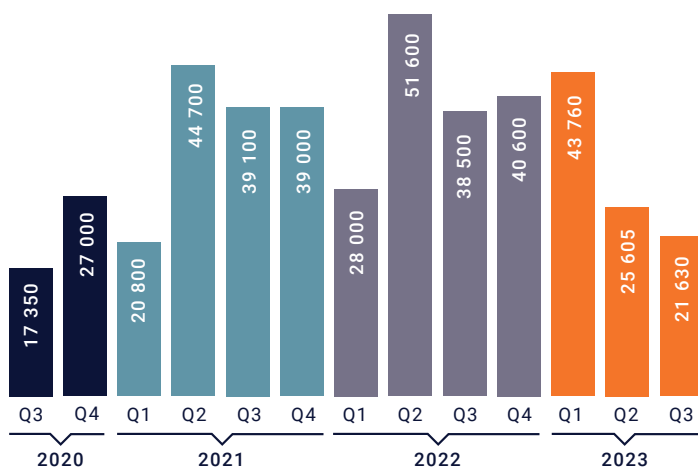
2.124 mln. sq.m.

Sofia's speculative stock remains unchanged at **2,124 mln. m²** following by another relatively slow quarter in terms of new deliveries (6,275 m² in Q3 and **13,800 m²** in total for 2023 so far). The new deliveries include two small-scale office buildings in the area of Central Sofia and Hladilnika. The last quarter of the year is not expected to be different in terms of new deliveries, therefore we can state that 2023 was a year of a significant slowdown in this regard.

NET ABSORPTION VS NEW DELIVERIES sq.m.

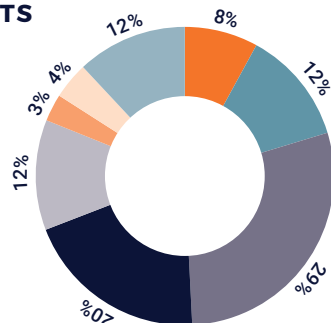


TAKE-UP PROGRESSION sq.m.



TAKE UP BY SUBMARKETS

- CBD
- Broad Center
- Tsarigradsko
- Hladilnika
- Business Park Sofia
- Bulgaria Blvd.
- Lozenetz
- Other



Construction activity

228,000 sq.m.

ACTIVE CONSTRUCTION

Construction activity decreased slightly to **224,889 m²** as there were no construction starts this quarter to compensate for the (low) volume of deliveries. Highest activity continues to be observed in the areas of Tsarigradsko Shosse and Hladilnika accounting for 47% of the construction pipeline.

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

About **9%** of the areas under construction have already been pre-leased and about **8%** will be owner-occupied. Looking at the expected deliveries for each year the pre-lease rates are distributed as follows:

2023 23,500 m² are expected, **20%** of which will be owner-occupied and **9%** are pre-leased.

2024 119,100 m² are expected, **8%** of which will be owner-occupied and **18%** are pre-leased.

2025 82,300 m² are expected, with all areas being marketed.

Two new office construction permits were reported for a total of nearly **25,700 m²**.

Demand

21,630 sq.m.

TRANSACTION ACTIVITY

A moderate growth in the total occupied office space in Sofia was observed in Q3 2023 with an increased net absorption of 11,760 m². More than 80% of the net absorption took place in class A office buildings. The total figure from the beginning of the year stands at 17,860 m².

After the low transaction activity (excluding renewals) in the previous quarter, Q3 marks another negative record with a volume of only 21,630 m². Of these 54% took place in class A office buildings. Although there is not enough visibility on the renewed leases there has definitely been an increase of the volume of renewal compared to that of relocations.

Transaction activity is again dominated by Tsarigradsko Shosse and Hladilnika with 49% of the transactions, followed by the Business Park Area and Broad Center with 12% each.

Construction activity heatmap

	Construction activity	Available space*	Average Asking Rents Class A	Average Asking Rents Class B
1 CBD	40,300 sq. m. ↓	69,860 sq. m. ↓	€ 12.00 – 16.00	€ 9.50 – 12.50
2 BROAD CENTER	18,025 sq. m. ↓	74,560 sq. m. ↓	€ 12.00 – 16.00	€ 7.00 – 12.00
3 TSARIGRADSKO SHOSSE	58,800 sq. m.	129,800 sq. m.	€ 11.00 – 14.50	€ 6.00 – 10.00
4 HLADILNIKA	47,160 sq. m. ↓	69,830 sq. m. ↑	€ 13.00 – 16.00	€ 8.50 – 12.00
5 BUSINESS PARK DISTRICT	2,300 sq. m.	48,930 sq. m. ↓	€ 11.50 – 15.50	€ 7.00 – 12.00
6 BULGARIA BLVD	29,000 sq. m. ↑	43,800 sq. m. ↑	€ 10.00 – 13.00	€ 7.00 – 8.50

* Includes available space under construction that is scheduled for delivery by the end of Q1 2025



Vacancy & availability

523,207 sq.m.

OFFICE SPACE ACTIVELY OFFERED FOR RENT

The volume of office space actively offered for rent is now **523,207 m²** which is a slight (1.5%) decrease compared to Q2 2023. Available space in buildings under construction is about 25% of that figure and total class A available space stands at 377,733 m². The largest share of availability is focused in Tsarigradsko Shosse – c.a. 24%.

The share of vacant areas in Sofia dropped slightly to **18.14%** (compared to 18.45% in Q2 2023) due to the decreasing vacancy in office buildings that were delivered in 2022.

Vacancy levels for class A offices dropped to **18.75%**, while for class B the share of vacant areas is **17.17%**.

The highest share of vacant space continues to be observed on Tsarigradsko Shosse (**129,560 m²**), which is now closer to 29%. The lowest share of vacant space in the city continues to be observed in the submarkets of Iztok & Izgrev, Hladilnika and Business Park Sofia.

Rental levels

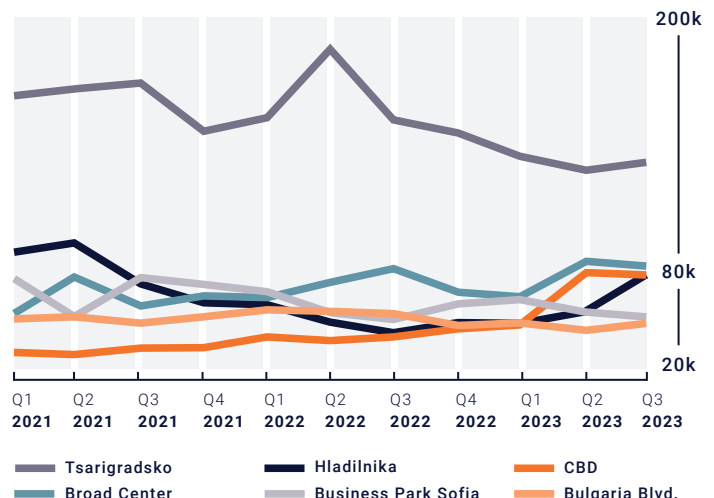
Upward pressure on rental levels in some submarkets persists driven by the decreasing short-term availability for those submarkets and the high inflation rates. However, the overall picture is quite stable with the average asking rents for most submarkets remaining unchanged. The exception to this is the Business Park Area where we monitor a 2% increase in average asking rental levels.

Asking rental levels in the class A segment are between EUR 11.50 and 16.00 per m². For some specific projects (mostly planned and under construction) we see asking rates pushing the levels of EUR 16.00 and reaching as high as EUR 19.00 per m² (CBD). In the class B segment, asking rents are in the range of EUR 7.00-12.00 per m², with some exceptions.

AVERAGE MARKET RENTS DYNAMICS

CBD	Tsarigradsko shosse	Business Park Sofia area	Lozenets and Hladilnika	Collectively for buildings under construction
almost unchanged	almost unchanged	increase by 2%	almost unchanged	decrease by 1%

AVAILABILITY BY SUBMARKETS sq.m.



Macroeconomic snapshot

1.7%

GDP
y-o-y change
(Q3 2023)

10.4%

INFLATION
Average annual change
(September 2023)

4.0%

UNEMPLOYMENT RATE
(Q3 2023)

€1,059

GROSS AVERAGE SALARY
(Q3 2023)

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



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