



REAL ESTATE MARKET OVERVIEWS

H1 | 2020



FIG. 1: TOTAL SALES TRANSACTIONS VOLUMES (MN EURO)

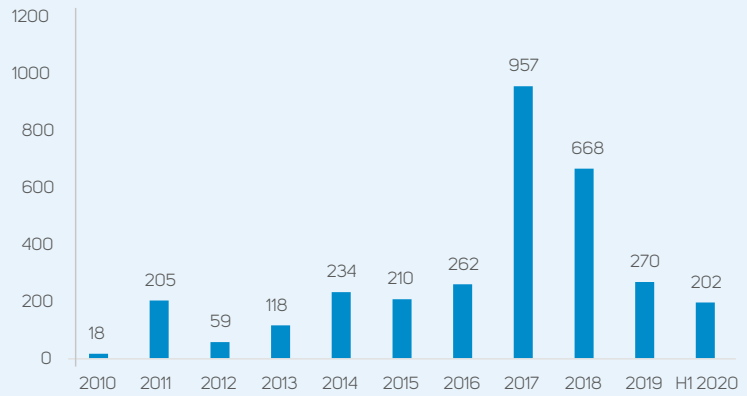


FIG. 2: TOTAL SALES TRANSACTIONS VOLUME BY SECTOR

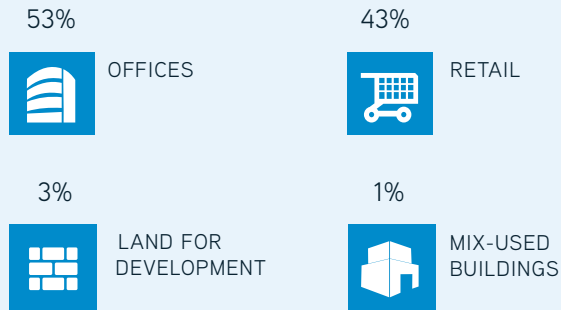


FIG. 3: ORIGIN OF INVESTMENTS (MN EURO)

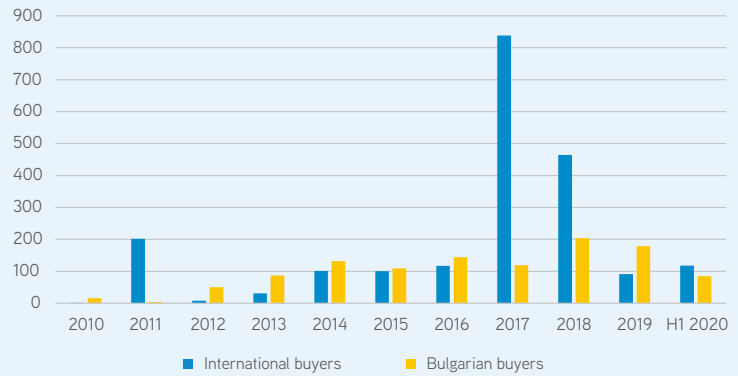
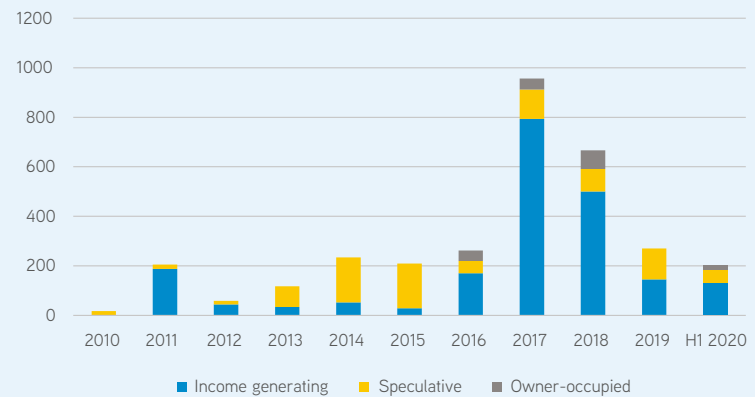


FIG. 4: TRANSACTIONS TYPE (MN EURO)



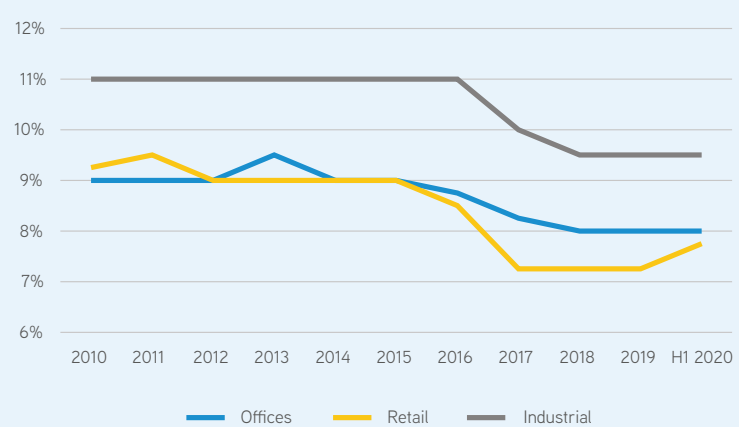
BULGARIA

INVESTMENT MARKET OVERVIEW

HIGHLIGHTS

- In the first half of 2020 the total value of investment transactions was just over 202 mn euros – 21% year-on-year growth. (Fig. 1)
- The largest share of investment volume was due to transactions with office assets – 53%, followed by retail – 43%, development land- 3% and mixed-use buildings – 1%. (Fig. 2)
- The investment market in Bulgaria in the first half of 2020 was dominated by foreign buyers (58%) versus Bulgarian ones (42%). (Fig. 3)
- The share of income generating assets (66%) dominated over those with speculative purpose – 26%, and the remaining 8% were with properties for own use. (Fig. 4)
- Yields* for office and industrial space maintained their levels at 8% and 9.5%, respectively. Retail properties registered a slight increase, thus reaching 7.75%. (Fig. 5)

FIG. 5: YIELDS*



Source: Colliers International

FORECAST

- Local investors are anticipated to dominate the investment market in Bulgaria in the second half of the year.
- Market activity is expected to resume at a higher pace in the autumn, when there will potentially be greater clarity about the development of the coronavirus pandemic, both locally and globally.
- A slight increase in yield levels is forecasted in the short term.
- Bulgaria's admission to ERM II should have a positive impact on the market and strengthen the country's attractiveness to foreign investors.

Definitions:

*Gross initial yield: First years' headline rental income / Purchase price

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FIG. 1: AVERAGE ASKING RENTS FOR CLASS A IN SOFIA (EURO/ SQM/ MONTH)

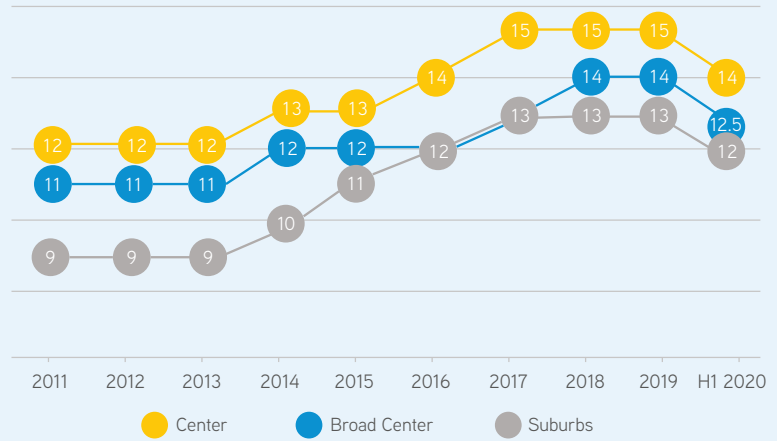


FIG. 2: DEMAND BY SECTORS

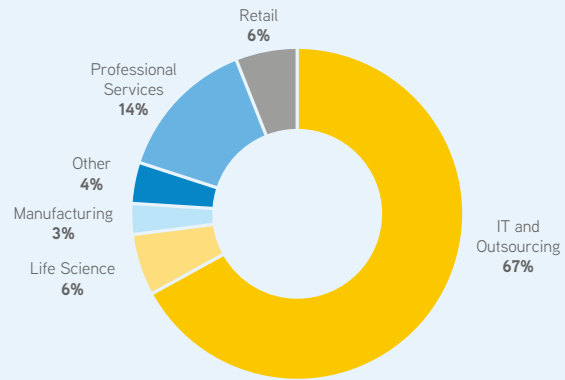
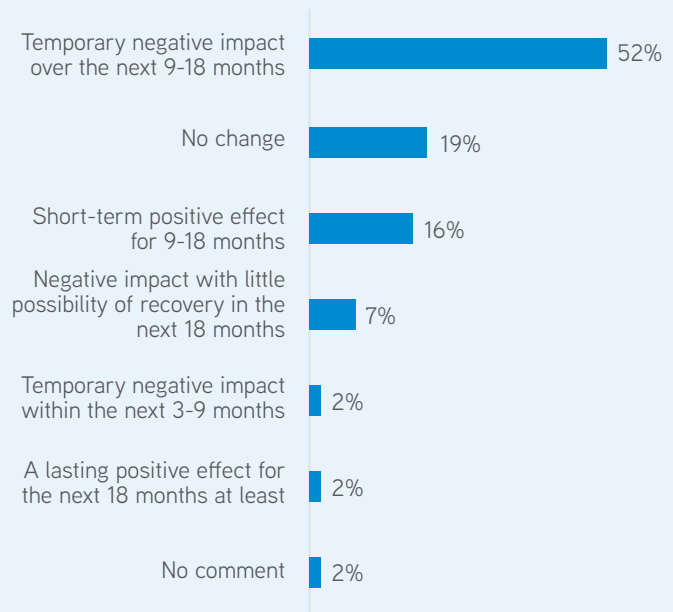


FIG. 3: WHAT ARE THE EXPECTATIONS FOR THE NEXT 9- 18 MONTHS EFFECTS OF THE HEALTH CRISIS ON YOUR BUSINESS?



SOFIA

OFFICE

MARKET OVERVIEW

HIGHLIGHTS

- In the first half of 2020, the supply of modern office space class A, B and C in Sofia increased by 1% and reached 2,315,600 sqm. The recently completed building 3 in Garitage Park had the main share in this growth.
- Vacancy rate retained its level - 11% of the total volume.
- Decrease in demand was registered. Total take-up** i.e. all transactions amounted to 56,500 sqm, which was 15% less than the first six months of 2019.
- Net absorption* of class A, B and C offices in Sofia was 23,100 sqm.
- During the reported period rent renewals had the largest share in all transactions – 42%, followed by relocations (27%), pre-leases (15%), expansions (11%), sub-leases (3%) and new market entries (2%).
- The driver of the market didn't change – the IT & outsourcing sectors accounted for 67% of all registered office transactions, followed by companies from the following sectors - professional services (14%), life sciences (6%), retail (6%), manufacturing (3%) and others (4%).
- Average asking rental rates*** for class A offices in the capital decreased with 8% and altered respectively: CBD - 14 euro per sqm, Broad center -12.5 euro per sqm and Suburbs -12 euro per sqm. (Fig. 1)
- Average asking rent for class B preserved its levels of 10 euro per sqm.

EXTRACT FROM COLLIERS SURVEY AMONGST OCCUPIERS AND OFFICE BUILDING LANDLORDS, CONDUCTED AT THE END OF APRIL

- Half of the surveyed companies expected a negative effect of the coronavirus crisis over the next 9-18 months, mainly because they had clients from sectors that are directly affected.
- 19% believed that there would be no significant change in their business.
- 16% of the companies forecasted a short-term positive effect, based on the impact on the sector in which they operated.

FORECAST

- The newly signed contracts will increasingly incorporate step-up rents, maintaining the average revenue for the landlord, as well as clauses allowing tenants greater flexibility as regards termination options.
- Asking rental rates are expected to decline in the short term.
- No changes in completion deadlines or internal space allocations have been registered for the projects under construction. However, the launch of new projects in most cases may be expected to be postponed to 2021. The completion of 97,000 sqm of office space is scheduled for the end of 2020.
- Many companies are in the process of strategic review of their ways of working, expecting each of their employees to work from home (even after overcoming the pandemic) for an average of 1.5 days.
- Due to the anticipated long-term need for social distancing within the office premises, the net area per employee will increase slightly in the cases the density has been high. The efficiency of large open spaces is also being reconsidered, shifting to formation of blocks / clusters, intersected by zones with auxiliary functions.
- There are prerequisites for flex office space to become more popular due to the fact that it can provide the necessary agility for companies to increase or decrease the occupied space, in accordance to their specific needs, at lower costs.
- As an alternative to cost optimization in terms of their office space, companies recognize the opportunity to relocate their business to new locations with untapped potential such as Burgas and Varna.
- In the mid term some business processes, currently outsourced to China and India, are expected to be shifted to Europe. Bulgaria is one of the attractive destinations in Europe with competitive advantages such as EU membership, high quality education and talent skills, low operating costs.

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).

** Total 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.

*** without VAT

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SOFIA

INDUSTRIAL MARKET OVERVIEW

HIGHLIGHTS

- The supply of modern industrial and logistics space in Sofia registered an increase of 3% for the first six months of 2020 and reached 1,096,800 sqm. This growth was a result of the completion of Logistics Park Sofia and two new buildings in East Ring Logistics Park.
- Demand was mainly driven by FMCG wholesalers and retailers and companies from the pharmaceutical, e-commerce and transport and spedition sectors.
- Net absorption was 23,500 sqm, mostly attributable to pre-leases in the newly completed buildings.
- A 1% increase in the vacancy levels set them at 8%.
- The average rental rates for class A modern logistics space, with good location and built infrastructure, retained its level of 5.2 euro per sqm per month. Class B also remained at an average of 2.7 euro per sqm per month.

EXTRACT FROM COLLIERS SURVEYS, CONDUCTED IN APRIL

LOGISTICS OPERATORS

- The logistics sector was affected by coronavirus pandemic to various degrees, depending on the type of companies it served. 74% of the participants shared that the health crisis had somewhat negatively impacted their businesses, as they serviced both sectors that supply essential goods and others, affected by the crisis.
- 9% experienced a positive effect on their activity, and the remaining 17% stated that their operations suffered due to the crisis. (Fig.1)

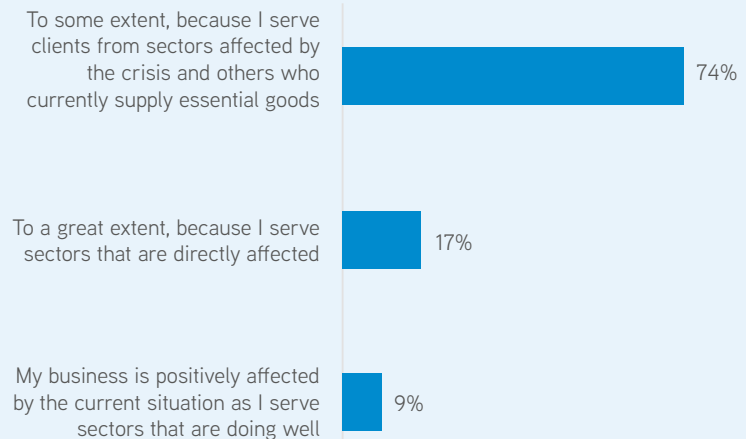
AUTOMOTIVE SECTOR

- The coronavirus pandemic had a negative impact on the automotive industry in Bulgaria. The majority of the manufacturers brought operations to a halt, others continued, but at a lower pace, and the rest shifted their focus to the production of protective equipment.
- The survey results showed that since the beginning of the state of emergency in the country, some companies had taken additional measures to deal with the consequences of the health crisis,

such as employees utilizing paid or unpaid leave and working on shifts.

- In the next 18 months 1/3 of the producers state they would continue their activity as before; 33% are considering various options to increase liquidity - such as renegotiating rents and structuring sale-leaseback transactions.

FIG. 1: TO WHAT EXTENT WAS YOUR BUSINESS NEGATIVELY AFFECTED BY THE HEALTH CRISIS?



Source: Colliers International

FORECAST

- Experienced landlords are expected to offer flexible solutions to tenants who encounter difficulties. The most commonly quoted ones are rent deferrals along with extension of the lease term or renting more space over time. The investors' aim is to ensure a mix of tenants that would stay resilient in the occasion of an extended or deepening health crisis.
- Demand for cold storages and cross-docking space, mostly by food operators, is to be anticipated.
- The city logistics development is expected to thrive - renting warehouses on locations in proximity to residential neighborhoods.
- There is potential for more relocations of business operations from Asia to Europe and establishment of production facilities closer to the company's headquarters - the so-called "nearshoring". In the context of this trend, Bulgaria, with its geostrategic position, favourable tax policy and availability of labor, has a chance to attract more investment.
- Automation is predicted to enter progressively into manufacturing and e-commerce, which will optimize the use of industrial and logistics space.

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SOFIA

RETAIL

MARKET OVERVIEW

HIGHLIGHTS

- Modern shopping center stock* in Sofia maintained its levels from the end of 2019, namely 390,660 sqm.
- The absorbed retail space for the period was just over 9,000 sqm. – 30% decrease compared to the second half of 2019.
- Vacancy levels in shopping centers increased slightly by 1% and reached a total of 7%.
- The coronavirus pandemic had a strong impact on the retail market - 6% of the modern retail space remained temporarily closed after the end of the emergency state. Among the most commonly mentioned reasons by retailers were negotiations with the landlord, recruitment of employees, lack of sufficient merchandise due to disrupted supply chains.
- New brands that opened their first stores in Bulgaria were DeFacto and Kik, both represented directly.
- 2% growth in the available space on the highstreets in Sofia was recorded, thus vacancy reached 10%.
- Increase in the vacant premises was observed on Vitosha blvd. – now 3% of the total supply.
- Rental levels** registered decrease of:
 - 10% for Vitosha blvd - 50 euro per sqm;
 - 8% for shopping centers - 34 euro per sqm.

FIG. 1: HOW DO YOU ESTIMATE YOUR CURRENT REVENUES COMPARED TO THE SAME PERIOD LAST YEAR?

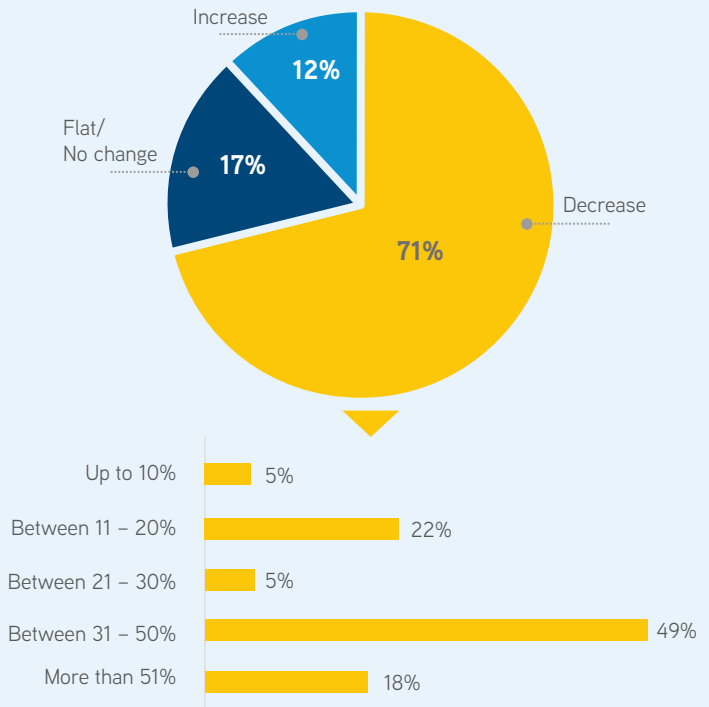
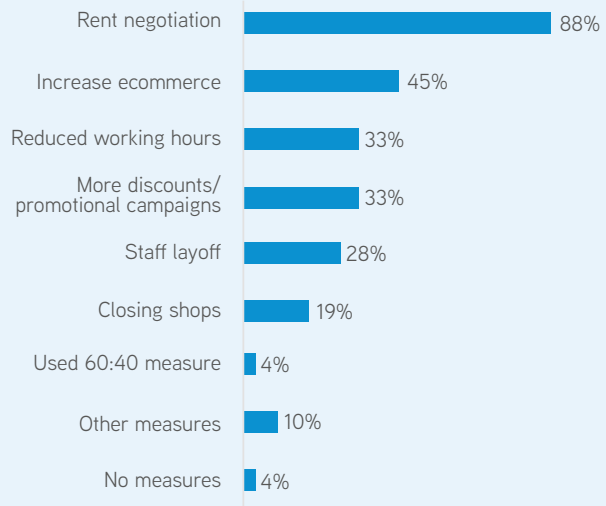


FIG. 2: WHAT COUNTERMEASURES HAVE YOU TAKEN DUE TO THE HEALTH CRISIS?



EXTRACT FROM COLLIERS SURVEY AMONG RETAILERS AND LANDLORDS, CONDUCTED AT THE END OF JUNE

- 71% of retailers registered revenue decline due to COVID-19. Nearly half of the respondents, who reported decrease, indicated that it was in the range of 30% to 50%.
- The share of participants with stable levels of revenue was 17%, while the rest reported year-on-year sales growth up to 20%. This was largely due to the opening of more locations and the boost in e-commerce. An example of that group were retailers positioned in the low-priced segment and discount chains. (Fig. 1)
- The most frequently cited measure in response to the health crisis was rent revision (88%), followed by a stronger focus over online sales (45%). Other actions, taken by the participants in the survey, included reduced working hours, more advertising campaigns, staff layoffs and optimization of the number of stores. (Fig. 2)
- Most of the tenants, similar to landlords, expected positive development and recovery by the end of the year, provided there was no new wave of coronavirus – a factor affecting their expansion planning.

FORECAST

- Some retailers are expected to continue optimizing the number of their locations, which will lead to tenant mix shifts in shopping malls and on highstreets.
- The growth of e-commerce will accelerate as more retailers will focus on it.
- Interest in retail parks will increase retailers' demand; they are currently a preferred alternative for opening new stores.
- Rental levels** for prime locations in shopping malls and on highstreets are expected to decline in the short-term.

Definitions:

* The overview covers shopping centres above 10,000 sqm.

** Prime rent - the average top open-market rent estimated to be achievable for a new lease of a 100 sqm (net internal area) unit of the highest quality and specification in the best location, excluding service charges and taxes and not reflecting tenant incentives.

*** A Retail Park is defined as a purpose-built development with at least three units covering 2,000 sqm or more of lettable floorspace, with centralized management and a car park environment with ample free parking.

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RetailMAP
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FIG. 1: NUMBER OF RESIDENTIAL UNITS IN THE MID-PLUS AND HIGH-END MARKET

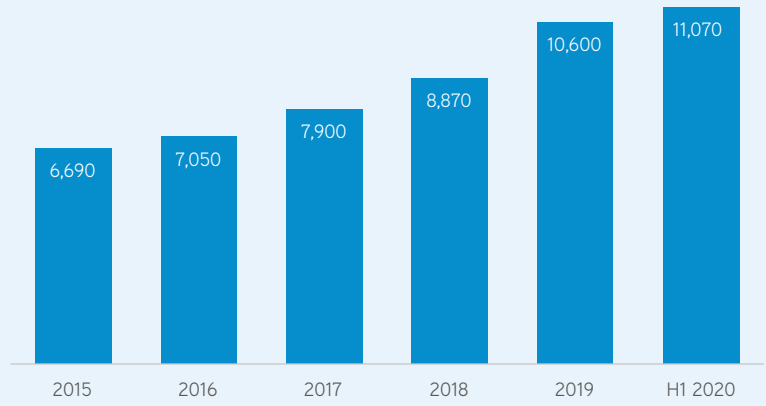


FIG. 2: PURPOSE OF PURCHASING A HOME

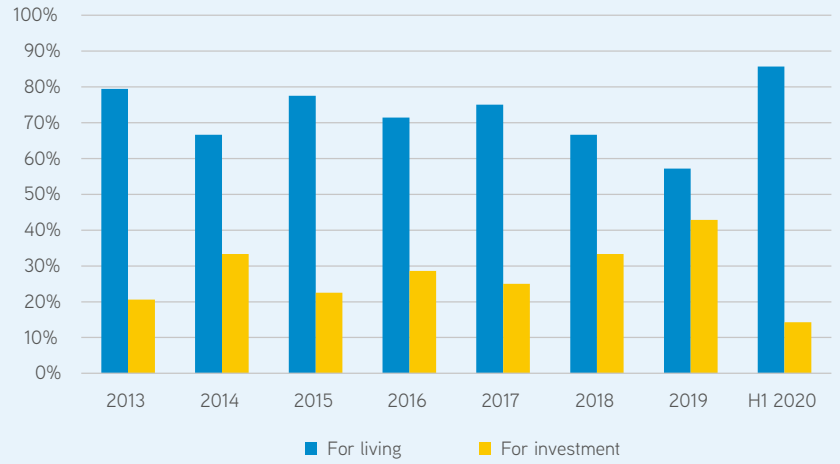
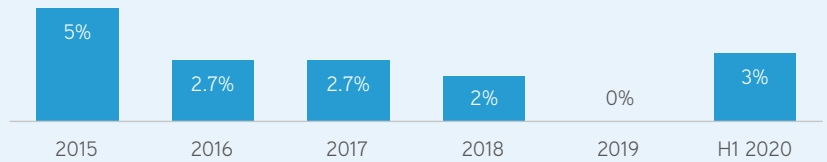


FIG. 3: AVERAGE DISCOUNT RATE



SOFIA

RESIDENTIAL MARKET OVERVIEW

SUPPLY

- The mid-plus and high-end residential market registered 4% growth of the completed projects. Thus, the total supply in the segment marginally exceeded 11,000 (apartments / row or single houses), mainly concentrated in the southern neighborhoods and the foothills of Vitosha. (Fig.1)
- 4% decrease in the supply of residential units under construction was recorded compared to the second half of 2019, resulting into a total stock of 3,800.
- Vacancy rates continued to decline steadily and fell from 5% to 4% in the first half of 2020.

DEMAND

- The coronavirus pandemic triggered a change in the mid-plus and high-end segment, shifting it to buyer's market. Demand drivers for the period remained the same - the need for a larger residential property or a real estate investment appetite.
- On the buyers' radar were residential units in an advanced stage of construction or completed with Act 16. The strongest interest was registered in the following types of properties - apartments with 2 or 3 bedrooms, apartments on the ground floor with courtyards and villas near Sofia.
- Banks slowed down the provision of mortgage loans, increasing their selectivity towards borrowers, their profile, loan-to-value ratio and collateral.
- Some buyers preferred to monitor the development of the coronavirus pandemic before making a residential property purchase. This had a positive impact on the rental market toward increased demand by both Bulgarian and foreign citizens
- During the reported period transactions with properties, purchased for investment purposes, were 15% of all, which was a significant decrease compared to 2019, when their share was about 40% (Fig.2)



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PRICE

Average sales and rental price remained stable:

Average sales price** for:

- two-bedroom apartment: 145,000 – 180,000 euro
- three-bedroom apartment: 210,000 – 250,000 euro
- row house: 250,000 – 420,000 euro
- single house: above 450,000 euro.

Average rental price*** for:

- Two-bedroom apartment: 950-1,200 euro
- Three-bedroom apartment: 1,300 – 1,600 euro
- House: above 2,000 euro.

The difference between asking and purchase price varied depending on whether the property was ready for use or under construction. The average discount was 3% in the first half of 2020. (Fig. 3)

FORECAST

- Supply is expected to shrink. It is likely that some sellers postpone the sale of their properties until the containment of the pandemic.
- Projects that are scheduled to start construction in 2020 could potentially be delayed or suspended until next year. This will reduce supply in the short term and keep prices at their current level.
- Buyers of properties under construction are likely to benefit from more flexible payment schemes. Entrepreneurs, who fail to achieve the planned sales volume, before receiving Permit to Use, could apply discounts in prices between 5% - 10%.
- Private individuals, who seek to sell faster, are expected to reduce their offering prices in order to increase the attractiveness of their properties.

Definitions:

* The report covers mid-plus and high-end residential market in Sofia

** Including VAT and a parking lot

*** Including VAT

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