

Regent's  
PROPERTY ADVISORS



Office Market

First Half | 2011

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For the first five months of 2011 the office property market was driven mainly by the tenants' preferences. They were able to negotiate lower rent levels and even relocation cost coverage. There were some closed large-scale deals but all of them were caused by relocation requests. New Class A office buildings are now being completed and this is increasing the competition amongst landlords. Two property transactions were announced at the beginning of 2011 and several more are expected to happen by the end of the year.

### SUPPLY

The total inventory of modern office space in Sofia reached 1,430,000 sqm with almost equal split between Class A and B. The pipeline continues to empty as no new major projects were initiated in this part of the year, and many projects are postponed for a more distant future. The total active pipeline (currently under construction, with planned delivery in the near future) fell to the lowest level in years at just below 500,000 sqm. The size of the latent pipeline (comprising office

projects under construction, but currently frozen) was around 250,000 sqm at the end of December 2011. New supply of Class A and B office premises in Sofia continues to grow as in previous periods. The overwhelming share of this new supply is attributed to the Serdika Offices complex, located above the Serdika Center shopping mall. The complex provides prime office space on a main city boulevard at the edge of Sofia's CBD.

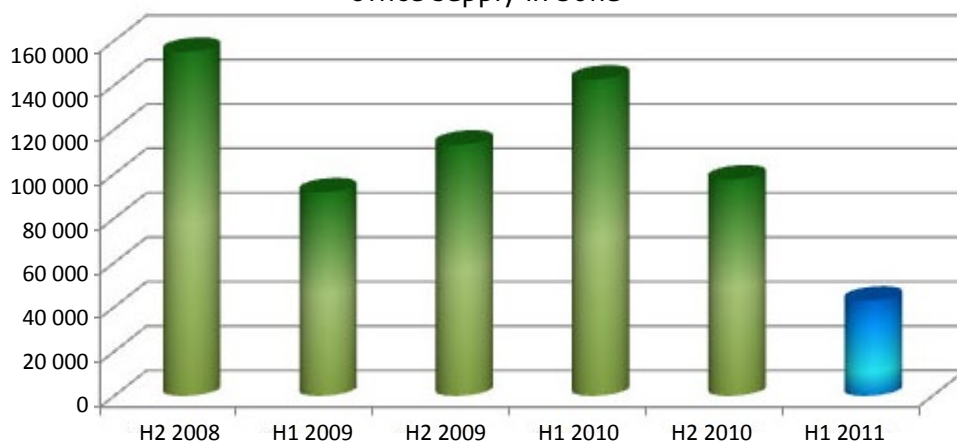
Approximately 135,000 sqm of new offices are scheduled to be delivered by the end of 2011. However some of the projects may be put on hold until 2012 in order to secure enough occupancy before their official opening. Competition between landlords is already intense expecting the delivery of five new Class A office schemes with a total area of 96,000 sqm. Three of these developments will be the first office buildings in operation certified as green sustainable buildings. Despite the obvious oversupply of new office space and the high vacancy rate exceeding 30%, construction works of three new office developments commenced this quarter, adding approximately 20,000 sqm to the pipeline.

### DEMAND

The majority of the demand was driven by relocation needs. Many occupiers took advantage of the attractive rental rate level for high quality office space in communicative locations. The leasing activity is improving although from a low base, driven by the current low office rents and attractiveness of new prime office schemes. The most notable office leasing deals in H1 2011 amount to 7,700 sqm, whilst the total take-up in modern office schemes is close to 10,000 sqm. The majority of leasing deals are relocations.

This fact coupled with the high supply of newly completed office buildings has led to a further rise in vacancy. Three new tenants recently entered Polygraphia Office Center raising the occupancy above 50%. New tenants were also secured in Litex Tower and Megapark. The vacancy rate continued its upward trend rising to 31% at the end of this quarter. Supply significantly outpaces demand for office space which will eventually lead to a further increase in vacancy in the next three quarters.

Office supply in Sofia

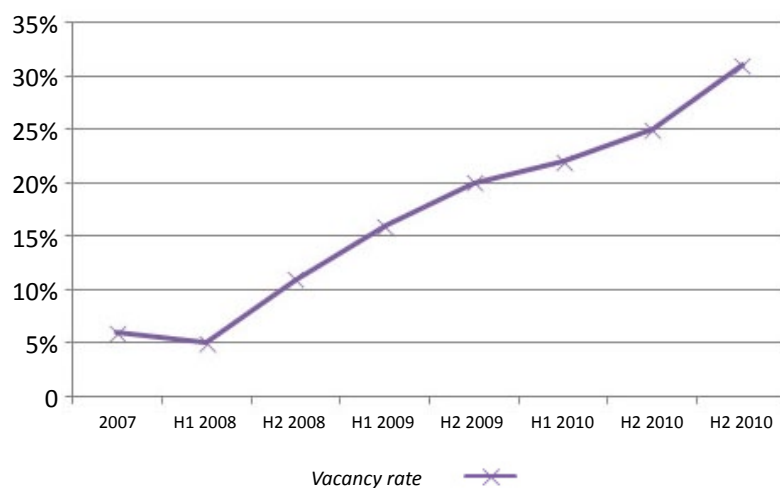
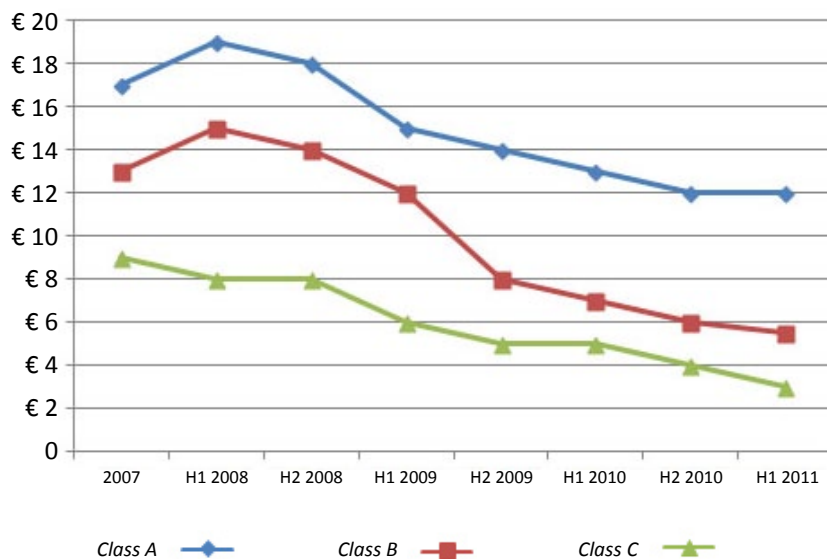


- total stock of office space added during H1 2011 was 42,900 sqm
- Approximately 135,000 sqm of new offices are scheduled to be delivered by the end of 2011.
- Almost all of the large-scale deals are due to relocation major companies.

## OFFICE MARKET H1 2011

### VACANCY RATE

Vacancy in Sofia grew to 31% in H1 2011 - significantly more than any previous period. In percentages, the vacancy at the end of 2010 was about 26% of total contemporary stock in Sofia. Due to the continually improving economic data, the decrease in the occupancy rate has slowed up its pace and another rapid decrease during the rest of 2011 is unlikely. In Broad Centre the vacancy increased with 25,000 sqm. The Central Business District and Broad Centre experienced negative absorption in the period, whilst large-scale projects entered the market - these two factors significantly pushed up vacancy rates. The Suburban part of the office market retained a high level of vacancy, but in fact almost half of the new supply was absorbed. Over the past four years, there has been a distinct change in the concentration of business premises. The suburban occupancy has risen about 50% for the last four years.



Source: Regents' research

### MARKET OUTLOOK AND FORECASTS

The low rent levels are drawing the attention of new occupiers, who want to relocate their business in a prime office space at attractive price. Despite the ongoing crisis, the activity of office demand and supply in major cities is expected to slightly increase this year.

Stir in the office property segment is associated with large projects of some companies that will be completed this year. Along with the increase in demand, the requirements and skills of the companies to choose the appropriate offices will grow as well. The improvement in the macroeconomic indicators of Bulgaria doubled with the constantly increasing interest regarding outsourcing activities will significantly back the revival in the office market during the rest of 2011.

### RENT

In H1 2011 prime office rents fell by 1.5% compared to the previous quarter and by 7% on an annual basis. Office rents in Sofia are much more competitive compared to most of the other EU capitals. According to a recent research, Sofia was ranked 65 out of 68 countries in terms of prime rent levels. These results, together with the notably decelerated rental fall in this quarter, have set a stable rent level outlook for 2011. Future increase in prime rents can be expected in case the economy retains a sustainable growth and there is an upward trend in FDI activity.

## ECONOMIC HIGHLIGHTS FIRST HALF OF 2011

- GDP registered positive growth rates in two consecutive quarters, driven by strong exports expansion. The GDP for H1 2011 registered a positive growth of 3.4% on an annual basis according to the flash estimates of the National Statistical Institute (NSI).
  - By preliminary operative data, the GDP in the first half of 2011 amounted to EUR 8,131 million at current prices and GDP per capita was EUR 1,084
- The inflation (CPI) in May is 3.2% compared to the previous month. The inflation for the period June 2010 - June 2011 is 3.5%
- The unemployment rate in Bulgaria in June 2011 climbs to 9.6% - one of the highest rise on a YOY basis compared to all members of the EU
  - The average monthly salary in H1 2011 has increased with 3.6% to BGN 673 (EUR 344)

Sources: BNB, NSI and National Employment Agency

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