

Sofia



Bulgaria Office Snapshot

H2 2020 & Forecast

knightfrank.com/research

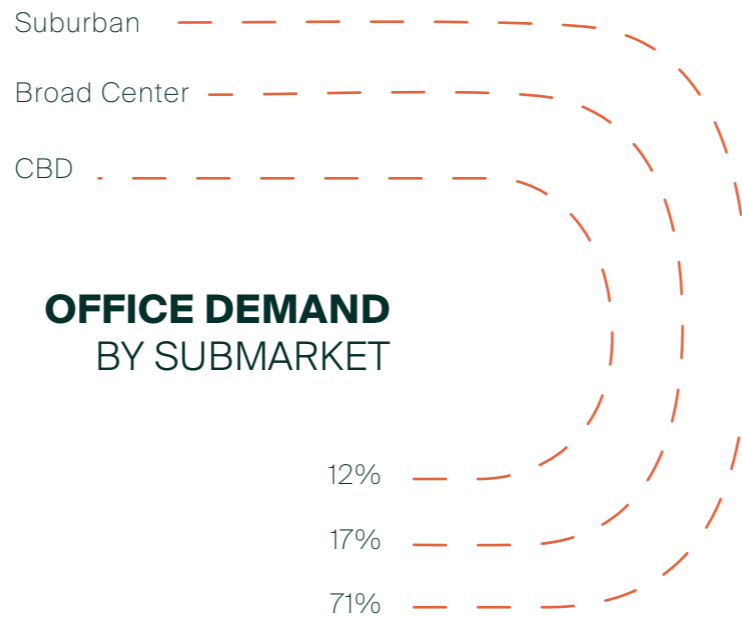


Sofia

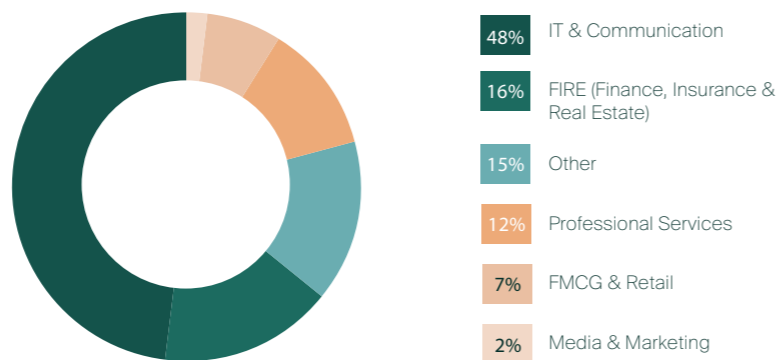
Demand

Although the figure for the surface area contracted is still moderate compared with previous years, an improvement with respect to the first half of 2020 is detected. Many companies put off making long-term decisions and the lower demand input registered in the months of lockdown is inevitably reflected in third and fourth quarters, **with demand barely surpassing the 50,000 sq m mark.**

The take-up figure for Q4 is the highest of the year, although it is still 49% below that of the same period of the previous year. On an annual basis, this translates into some **108,000 sq m in a clearly unusual year**, with a figure **39% lower than that of 2019** and **28% below the average for the last 3 years** (2017-2019).

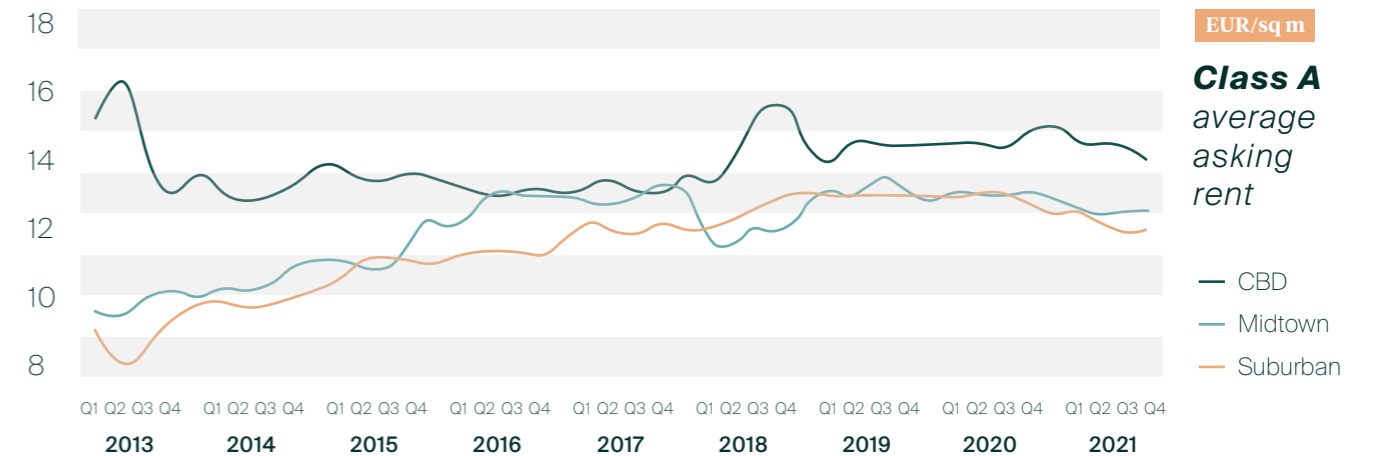


OFFICE DEMAND BY SECTOR

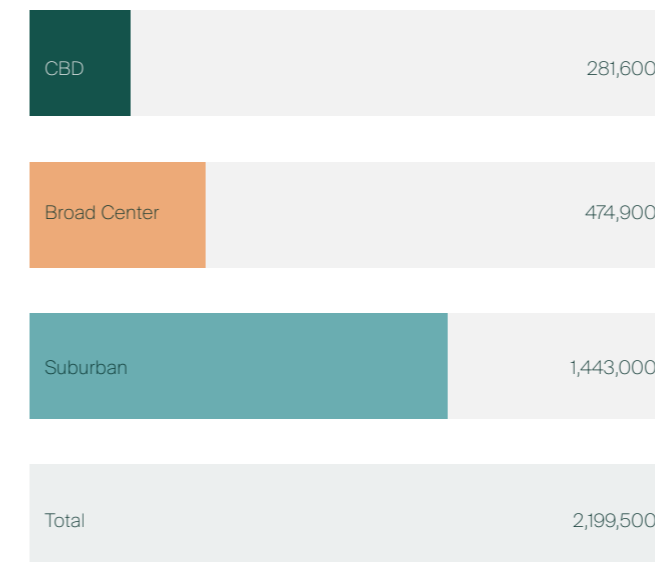


Supply

The new office deliveries in the third and fourth quarters of 2020 **slightly exceeded 40,000 sq m**, driving the total stock to 2.2 mln sq m.



Total Stock by submarkets, Q4 2020



Stock 2.2 mil sq m

The submarket with the highest office stock is **Suburban (1,44 mln sq m)** followed by **CBD and Broad Center with 281k sq m and 475k sq m respectively.**

The vacancy rate in the second half of 2020 **increased with almost 200 bps, reaching 13.75%** across all submarkets. This figure is equivalent to a total of approximately **300,000 sq m available for immediate occupation.** The increase in supply has been due to the completion of several projects under construction and the emergence of a secondary office market, with two different origins: contract renewals with surface reduction and subleases.

Although in the third quarter of the year a significant increase in the space available for sublease was detected, **in the last three months it has hardly grown further.**

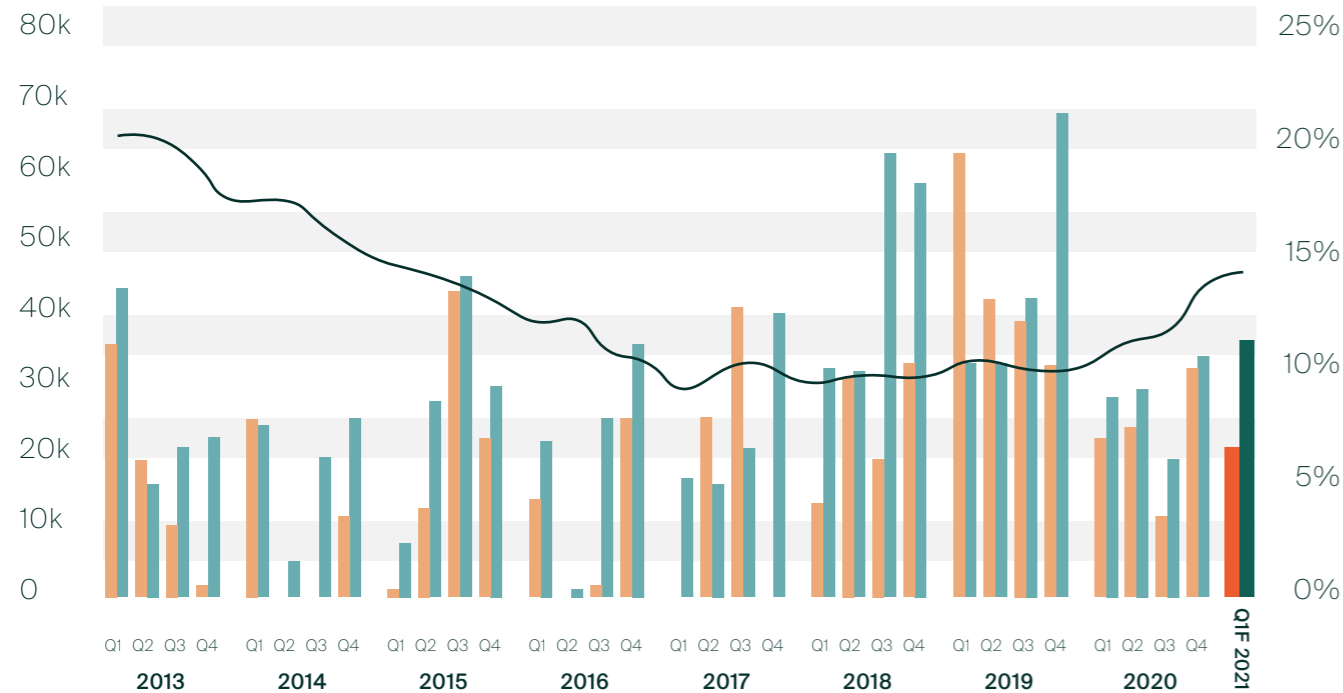


Pipeline

Over 388,000 sq m are currently under construction and **more than 100,000 sq m are expected to be delivered** in the next couple of years. It is expected that ca. **60% of that space will be delivered by the end of 2021**, although some developers might decide to postpone their projects amidst the uncertainty with the Covid-19 pandemic and general remote work trends.

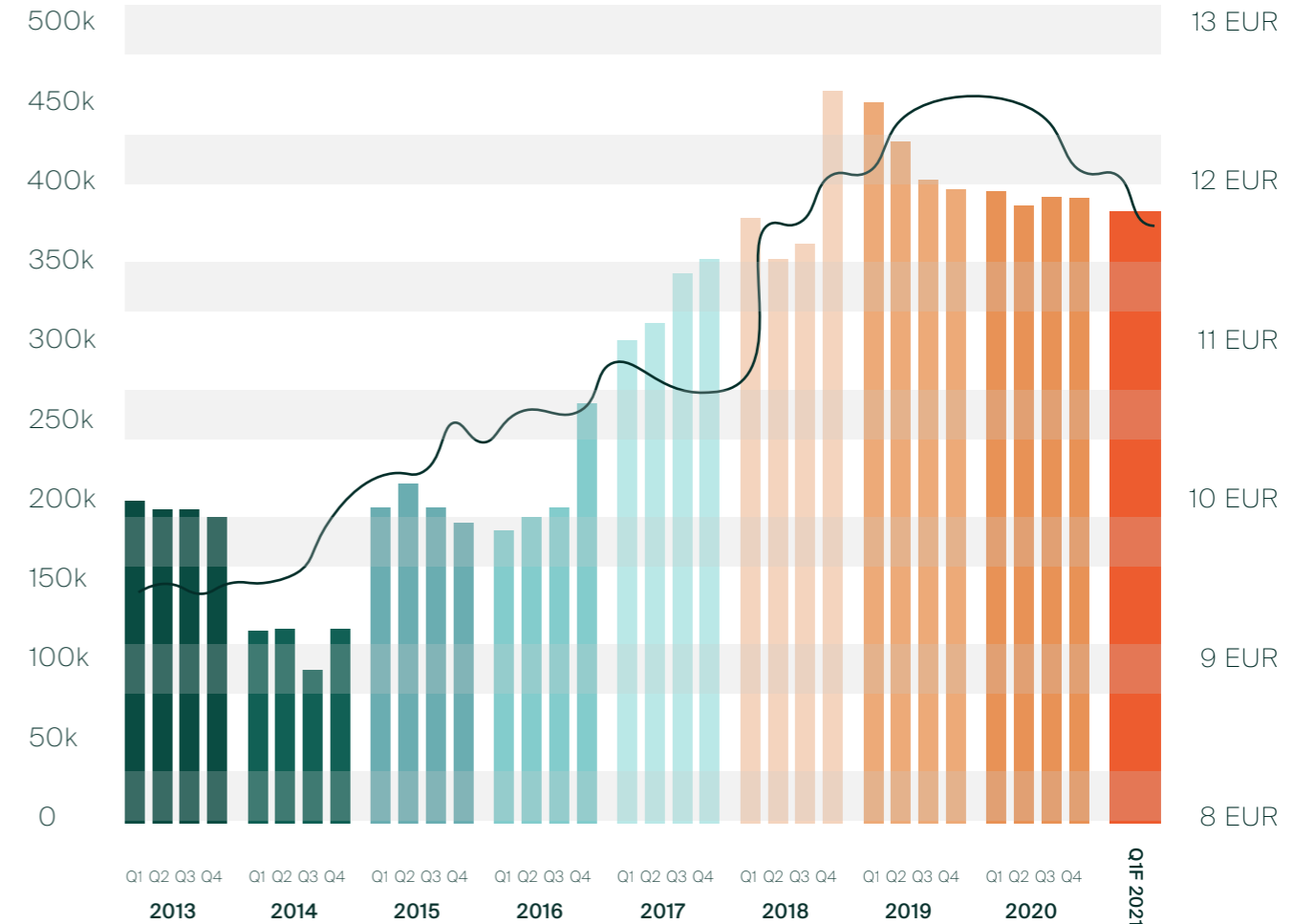
Net absorption and New deliveries (sq m)

- Deliveries
- Demand
- Deliveries Q1 2021 Forecast
- Demand Q1 2021 Forecast
- Vacancy



Office space under construction (sq m) and average Class A asking rent

- Office space under construction (sq m)
- Q1 2021 Forecast
- Class A asking rent



Forecast

The need for new security measures and social distancing in the context of Covid-19 would in principle generate a **greater demand for offices to reduce the density of work environments**. At the same time, should work from home (WFH) become a more widespread and permanent practice, the demand for office space in Sofia could decrease. At the end those two tendencies might balance out, and figures return to pre-Covid times.

Many office occupants in the city have promoted remote work during the pandemic with claims that significant reduction in productivity was not observed. Some of them have policies in place that allow employees to work remotely until the end of 2021. Furthermore, **major IT and BPO companies, the main driver of office demand in Sofia, expect some of their staff to work remotely full-time in the next few years**.

The impact of remote work **could be reduced by a correction in market rental levels**. Lower rents would again drive an increase in demand and a substantial change in the location pattern of the occupants across the city.

Rents sq m/month
14.50 eur
 Prime headline rent

The low demand registered across 2020 and the general increase in supply in all submarkets is reflected in a slight adjustment in prime rent, which contracted by **around 3.3% to stand at 14.50 EUR/sq m/month for prime offices in CBD**. While it is true that current circumstances are pointing to readjustments in rental levels, it is also true that higher quality buildings continue to pre-lease at high rents, as seen by some deals closed in the second half of the year.

For Broad Center and Suburban the figures stand at **12.50 EUR/sq m/month and 12.00 EUR/sq m/month**, respectively.

KNIGHT FRANK Bulgaria

Horatiu Florescu

Chairman & CEO
hf@knightfrank.com

Irina Bachvarova

Research
irina.bachvarova@bg.knightfrank.com

RECENT **MARKET-LEADING RESEARCH PUBLICATIONS:**



Knight Frank Research
Reports are available at
knightfrank.com/research



This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP or Knight Frank Romania SRL for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP and Knight Frank Romania SRL in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP and Knight Frank Romania SRL to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.