

# Sofia City Report H1 2021

## Sofia

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### Bulgaria during the COVID-19 pandemic

The beginning of 2021 was marked by the stricter restrictive measures in the fight against the spread of COVID-19 in Bulgaria and other EU countries. A sign of moderate optimism is the labor market statistics. The **unemployment rate**, which rose significantly because of the COVID-19 to 6.3% at the end of the first quarter, **fell to 5.2%** in May, after the final opening of all businesses in April. The tendency is for the average annual percentage to reach 5%.

In 2021, the economy is expected to begin its recovery, especially in the second half of the year, with the help of the numerous economic incentives and mass campaigns for COVID-19 vaccination.

The Bulgarian National Bank predicted in June a real **GDP growth rate of 4.1%** in 2021, followed in 2022 by an even higher growth rate of 4.6%.

The International Monetary Fund is slightly more optimistic, projecting a 4.4% GDP growth rate for Bulgaria in 2021.

Moreover, the EU Commission's Summer 2021 Economic Forecast predicts a 4.6% GDP growth rate for Bulgaria this year.

**2,163,959**

total COVID-19 vaccine doses administered, as of August 17<sup>th</sup> 2021

**434,535**

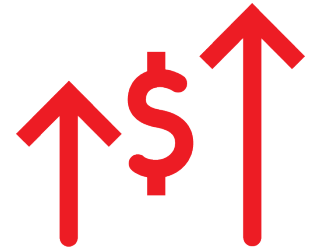
COVID-19 cases reported as of August 17<sup>th</sup> 2021

**182,900**

Total unemployed Q2 2021

Source: National Statistical Institute of Bulgaria, Bulgarian COVID-19 Unified Information Portal

# Economy & Investment



Sofia

## Investment Market

The activity on the Bulgarian real estate market was strongly affected by the COVID-19 crisis, but we saw more resilience from the investment and industrial sectors, which registered both an increase during the last year. For 2021, the forecasts are still positive for the investment property market and for the industrial development sector.

Bulgaria's GDP contracted by 1.8% in Q1 2021 compared to the same period of 2020. It was the fourth consecutive contraction but also the softest since the start of the pandemic. For the entire year, it is forecasted a **GDP growth of 4.1%**. Bulgaria's consumer prices jumped by 2% in April 2021 compared to the previous year, and the inflation pace increased for housing & utilities (2.8% and 0.6%). Net wages in Sofia also increased to **€820.5 /mth.** in May, from **€741 /mth.** in December 2020.

Retail sales in Bulgaria jumped by 23.9% year-on-year in May 2021, marking an increase of 1.4 bps compared to the previous month.

Industrial production in Bulgaria surged by 16.5% year-on-year in May 2021, after a 3.4% drop in February 2021. The increase started in March by 6.4%, the biggest gain in nearly 2 years, due to low base effects from last year, when the coronavirus pandemic hit the economy hard.



Source: National Statistical Institute of Bulgaria, Bulgarian National Bank

Prime office yields stood stable in H1 2021 at 7.50%, while prime shopping center yields increased from 7.25% in H2 2020, to 7.50% in H1 2021. However, during the same period, prime industrial yields compressed from 9,00 % to 8,00%. It is likely that yields will increase in the rest of 2021.

The investment activity in the first half of 2021 was moderate. However, international investors are cautious at the moment because of the health and economic crisis. Some of them postponed their investments, especially in the retail and office segments. Furthermore, up to March 2021, international travels have been limited, which also hindered the negotiation of new deals.

There have been two investment deals during H1 2021. The first one was the sale of Mega Mall, a shopping center in the northern part of Sofia, sold by Real Holding Mega Kit to Maverick GR. The value of the transaction is €18 mil. Although the deal was concluded at the end of 2020, it was announced in Q1 2021.

The second investment deal was the sale of another mall, situated in Stara Zagora. Park Mall Stara Zagora was acquired by Technopolis, a Bulgarian investor, from Unicredit bank, for over 8 million euros.

We might experience a higher investment activity in H2 2021 as there will likely be an increase in the number of distressed assets. Some investors might take advantage of the discounts, especially considering the low interest rates and abundance of liquidity in the financial markets.



7.50%

Shopping Centre



7.50%

Office



8.00%

Industrial

**Table 1: Bulgaria Key Investment Transactions in H1 2021**

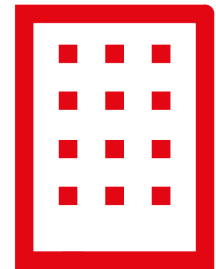
Sector	Property	Market	Est. Price (€ million)	Seller	Buyer
Retail	Mega Mall	Sofia	18	Real Holding Mega Kit	Maverick GR
Retail	Park Mall Stara Zagora	Stara Zagora	8	UniCredit	Technopolis

Source: JLL Research

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# Office Market Commentary



## Sofia

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### Demand

#### Demand picked up in Q2

Total leasing volume for H1 2021 reached almost **70,000 m<sup>2</sup>** after a very strong performance in the second quarter of the year, which brought more than **50 000 m<sup>2</sup>** of new office deals. The market is still dominated by renewals and relocations from older buildings to new projects.

Net take-up amounted to **over 28,500 m<sup>2</sup>**, an upgrowth compared to the first quarter result, which is a positive signal for the increased expansion activities of the occupiers.

During this first half of 2021 the market started its slow recovery and companies' confidence lead to the increase in leased space in Q2 compared to the previous quarter. This result is also powered by few notable deals, which were closed in the second quarter. The recovery signals are supported by tenant's interest in moving from older buildings to newer, with better technical characteristics, when in the process they are keeping or even increasing the leased area. The new approaches for the offices are now shifting to premises with larger open spaces, with more areas for collaboration, "hot desks", training and relaxation areas.

Since during the lockdown and post lockdown period most of the companies in the Services, IT&BPO sectors were active in hiring new employees, their headcount actually increase, and despite the widespread "home office" policy they are expected to retain or even increase the leased areas, which could be another driver for market recovery.

However, the expected returning on mass scale to the offices and subsequent recovery forecast could be undermined by the uncertainty caused by the anticipated new wave of COVID-19, which is related to the Delta variant of the virus, expected to become stronger in September and October.

During H1 2021 the office vacancy rate **increased to 14.5%**, as a result of new deliveries, few of which had a larger percentage of pre-leases.

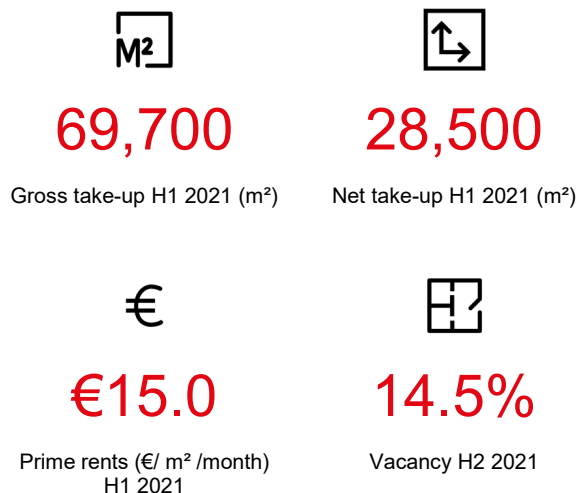
Available sub-leases total approximately **32,000 m<sup>2</sup>**, which represents 1,5% of total office stock. Despite the large supply, there was only one transaction in this market segment for the period. Most occupiers are looking for stability and consistency in their office solutions, which the sub-leased space usually cannot provide.

# Deliveries

## Strong deliveries during the first half of the year

New offices totaling **94,000 m<sup>2</sup>** were delivered in Sofia in H1 2021, which is nearly half of the projected for the year's pipeline. All new delivered buildings are in the class A segment, located on main roads and suburban areas.

Among the major deliveries during H1 2021 were NV Tower, with 31,000 m<sup>2</sup> GLA, Park Lane, with 24,000 m<sup>2</sup> GLA, Balkan Business Center, with 29,000 m<sup>2</sup> GLA and EN Building, with another 10,000 m<sup>2</sup> GLA.



**Table 2: Deliveries in H1 2021**

Property	Submarket	Size (m <sup>2</sup> )	Developer
Park Lane	Hladilnika	24,000	Park Lane Srebarna
NV Tower	Broad CBD	31,000	Minstroy Properties
Balkan Business Center	Main Road – Tsarigradsko	29,000	Balkan BC AD
EN Building	Hladilnika	10,000	Art E stroy

**Table 3: Pipeline for 2021 & 2022 (selection)**

Property	Submarket	Size (m <sup>2</sup> )	Developer
Sky Fort	Main road - Tsarigradsko	40,000	Fort Noks
Sinergy Tower	Main road - Tsarigradsko	32,200	BREF REIT
Office X building 1	Hladilnika	24,000	Office X JSC
Office X building 2	Hladilnika	4,000	Office X JSC
Avalon Plaza	Broad CBD	18,500	Avalon Property
I Tower	CBD	9,000	Proger Italy

**Table 4: Key Leasing Transactions in H1 2021**

Property	Occupier	Contract type	Deal size (m <sup>2</sup> )
Sofia Office Center	Chaos Group	Relocation	4,750
NV Tower	Global Foundries	Relocation	3,800
Obsidian Office Center	Enduro Sat	Relocation	2,900
NV Tower	Blank Factor	New entry	1,600

# Pipeline

## A large pipeline for 2021

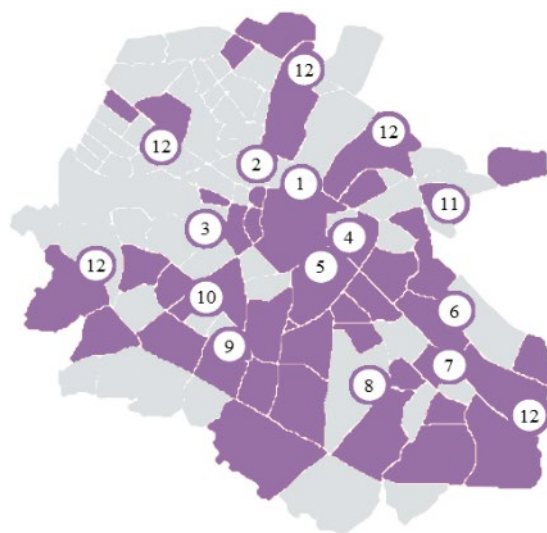
The current modern stock in Sofia increased to **2,45 million m<sup>2</sup>** at the end of H1 2021, out of which 73% is considered class A.

The market is divided into 12 sub-markets, out of which the largest are the Main road, Business Park Sofia, Hladilnika, CBD and Broad CBD.

Around **130,000 m<sup>2</sup>** of office spaces are expected to be completed in the second half of 2021 and additionally **135 000 m<sup>2</sup>** are planned for completion in 2022.

The majority of construction activity is located in Hladilnika and along Tsarigradsko Shosse. An important fact, there were no new major office construction started since the beginning of the year.

Map 1: Sofia Office Sub-markets



Source: JLL Research

Table 5: Sofia Office Sub-markets

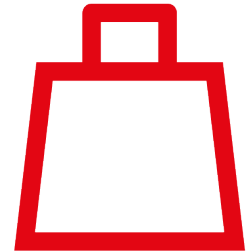
Sub-market	Stock (m <sup>2</sup> )	Average rent (Euro/m <sup>2</sup> /mth)	Vacancy %
1. CBD	468,400	14 – 15	4.0
2. Main road – T. Alexandrov	55,500	12 – 14	8.0
3. Main road – Boris III	25,300	10 – 11	13.0
4. Broad CBD	263,800	12 – 14	20.0
5. Hladilnika	193,000	13 – 14	7.0
6. Main road - Tsarigradsko	476,000	12 – 14	28.0
7. Mladost	64,500	10 – 13	12.0
8. Business Park Sofia	163,800	12 – 14	7.0
9. Ring road	245,100	12 – 13	6.0
10. Main road - Bulgaria	89,800	11 – 12	8.0
11. Sofia Airport	166,800	6 – 10	25.0
12. Suburban	241,000	6 – 10	20.0
<b>TOTAL</b>	<b>2,453,000</b>		<b>14.5</b>

\*The office stock includes buildings Class A&B

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# Retail Market Commentary



## Sofia

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### Demand

#### Moderate activity in terms of new store openings

The retail market is the segment that received the biggest hit during the COVID-19 crisis. Most shops, restaurants and malls were closed in a major part of the first half of 2020. At the end of 2020, total modern retail stock in Bulgaria, including shopping centers, retail parks and outlet centers was approximately **1.1 mill. m<sup>2</sup>**, out of which **542,800 m<sup>2</sup> in Sofia**. No new deliveries were registered in Sofia since the beginning of 2021.

An additional effect is the increased interest in retail parks, which are less affected by lockdowns and offer retailers the opportunity to enter smaller cities. Currently, **only retail parks are being developed**.

The COVID-19 crisis forced the retailers to focus on online sales, but this cannot compensate the loss from the physical stores. The uncertain environment caused by the lockdowns badly affected sales and the expansion plans of many occupiers. H1 2021 registered moderate activity in terms of new stores, with roughly **8,500 m<sup>2</sup>** opening in existing shopping centers in Sofia. In comparison, for 2020 there were 38,600 m<sup>2</sup> of new stores. This is a serious decrease, resulting from the lockdowns and the overall downward economic trend.

The vacancy rate in Sofia increased from 5% by the end of 2019 to about 7.9% by the end of 2020, with H1 2021 vacancy slightly decreasing to 7%. H1 2021 had lower activity in terms of new openings compared to the previous years. Many expansions and new entries are postponed. The health and economic crisis made the retailers more cautious in their expansion plans.

The most active tenants remain FMCG, sporting goods, drugstores and discount chains and some brands rely on new formats and locations. Such example is the sports retailer Decathlon, which added to its network a small shop in the center of Sofia. IKEA will open a second store in Sofia, which will be in a different format from the first, on an area of 1,200 m<sup>2</sup> in the Mall of Sofia.

The main events in the first half of 2021 in Bulgaria include the opening of the first stores in the country of the fashion brand Kendall + Kylie and Beverly Hills polo club. However, the brand with the most aggressive expansion in 2021 is the discount retail chain Pepco, which aims to reach 100 stores by the end of the year and 200 on the long term.



# Pipeline for 2021

## No new deliveries in Sofia

Continuing the same trend as in 2020, no new shopping centers are expected to be delivered in 2021 and even in 2022 in Sofia.

Currently the developers' and retailers' focus is **shifting from shopping centers towards retail parks**. A number of such projects were started in Q4 2020 and are expect to be delivered in 2022. However, all these retail parks are located outside of Sofia.

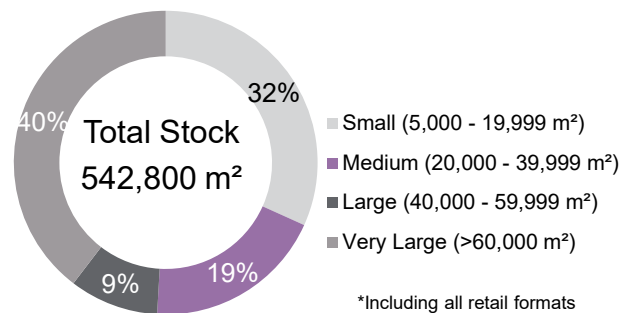
During 2021 the only retail parks to be opened will be Park Sevlievo, with 5,000 m<sup>2</sup> GLA, in Q4 2021, and Yambol Park, in September 2021.

During the period, the construction of another project has started, Retail Park Parvomay.

In the beginning of 2021, the total stock in the retail parks segment amounted to 179,000 m<sup>2</sup>, concentrated mostly in Sofia and Plovdiv. Smaller project are in development phase in regional cities, with GLA of approximately 50,000 m<sup>2</sup> under construction.

The largest shopping centers projects planned for Sofia, totaling **104,750 m<sup>2</sup> GLA**, are currently on hold.

**Figure 1: Retail Projects in Sofia by size**



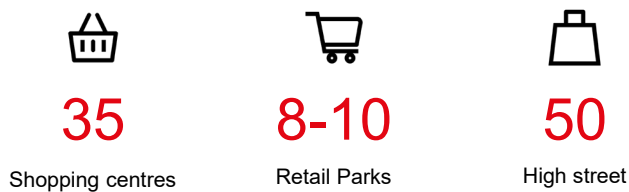
Source: JLL Research

**Figure 2: Deliveries / Pipeline Sofia (m<sup>2</sup>)**  
\*including all retail formats



Source: JLL Research

**Figure 4: Prime rents (€/ m<sup>2</sup>/ month)**



\*Prime rents relate to a well located 100 m<sup>2</sup> unit shop from the fashion and accessories category. The unit is part of leading retail assets in the capital city (for retail parks – 2,000 m<sup>2</sup> units).

**Table 6: Schemes announced in Sofia (>10,000 m<sup>2</sup>), currently on hold**

Property	Format	Developer	Size (m <sup>2</sup> )
Plaza West Mall	New Project	NBG Pangaea	37,750
Sofia Square	New Project	Garanti Koza	35,000
Grand Kanyon	New Project	Garanti Koza	32,000



# Industrial Commentary



Sofia

## Demand

### Demand remained strong during H1 2021

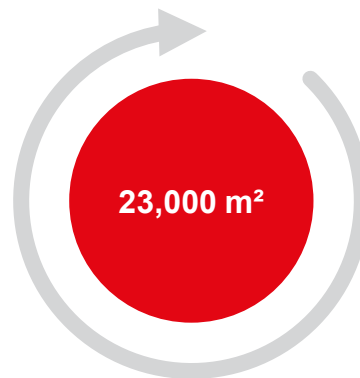
The logistics and industrial sector will remain stable in 2021. This is one of the most resilient sectors during the crisis, although the pandemic has disrupted supply chains for some time. In the long run, due to the strong development of e-commerce, the demand for urban logistics areas will continue to rise.

The logistics segment is growing globally, and the Bulgarian market is following the same trend, but the scale is smaller compared to other CEE countries.

**Gross take-up** reached almost **31,000 m<sup>2</sup>** in H1 2021, out of which net take-up accounted for about **23,000 m<sup>2</sup>**.

The COVID-19 crisis and the lockdowns of many physical shops encouraged online trade and thus increased the demand for warehouses from e-commerce companies. Their main interest is for premises of 1,000-5,000 m<sup>2</sup> within Sofia city boundaries.

**Figure 3: Demand in H1 2021 in Bulgaria**  
Net take-up (m<sup>2</sup>)



Source: JLL Research

**Table 7: Key Transactions in H1 2021 (selection)**

Tenant	Property	Size (m <sup>2</sup> )	Deal Type	Sector
Confidential	Botevgradsko logistic	2,200	New lease	Confidential

Source: JLL Research

# Deliveries & Pipeline

## Strong deliveries expected for 2021

The Sofia industrial property market ended 2020 with a significant supply increase, due to some large deliveries of production and logistics spaces, total industrial stock reaching almost 1.5 million m<sup>2</sup>.

However, development activity in H1 2021 was rather weak, and only about **17,900 m<sup>2</sup>** were delivered during the period.

Another **300,000 m<sup>2</sup>** are under construction, out of which only approximately 31% are for rent, the rest being owner-occupier.

The logistics market registered significant activity. There is a trend for logistics operators, distribution and courier companies to expand in the bases where they already operate.

The expansion of Lidl's logistic center in the village of Ravno Pole with 4,000 m<sup>2</sup>, and the new DHL terminal in the Sofia Airport area, with 12 300 m<sup>2</sup>, which is expected to be completed in Q4 2021, are among the remarkable projects launched at the beginning of the period. Moreover, at the end of H1 2021, the logistics company Transpress laid the groundwork for a new project at its new logistics center in Bozhurishte Industrial Park, with an area of 8,000 m<sup>2</sup>.

During the first half of 2021 the demand for logistics areas is driven by e-commerce and courier services. There is also an increased demand for warehouse space from pharmaceutical companies and distributors of medical supplies.

The rental market remains less developed at the expense of investments in properties for own use. As an example, the Bulgarian company Metrica, (part of the international group of French postal operator La Poste), opened in May a new logistics center for complex warehousing and comprehensive e-commerce services, with an area of 1,900 m<sup>2</sup>, in Industrial zone Sofia – Bozhurishte.

In September 2021, Melexis Bulgaria will add a new 15,000 m<sup>2</sup> to its existing capacity in Gorublyane region.

Fresh&Food Logistics started in June 2021 the construction of a new warehouse for own use in Sofia, with 10,000 m<sup>2</sup>. Its completion is expected in Q1 2022.

**Table 8: Key Completions in H1 2021 (Selection)**

Project	Location	Size (m <sup>2</sup> )	Developer
Production facility	Sofia	10,900	n/a
RGS Logistics Park	Bozhurishte	7,000	RGS Invest

**Table 9: Pipeline for 2021 – 2022 (Selection)**

Project	Location	Size (m <sup>2</sup> )	Type
CTPark Beta	Sofia – East	100,000	CTP
Logistic Park	Sofia - Bozhurishte	35,000	Local investor
Sofia East Industrial Park	Elin - Pelin	33,000	Confidential
BTS Logistic Center	Sofia - Bozhurishte	32,000	Cordeel Group Ltd
BPD West	Sofia - Bozhurishte	13,000	BPD Ltd.
DT Logistic Park	Sofia - Bozhurishte	12,700	Dreams Trans EOOD

Source: JLL Research

# Rents & vacancy

## No significant changes in market rents

### Rents

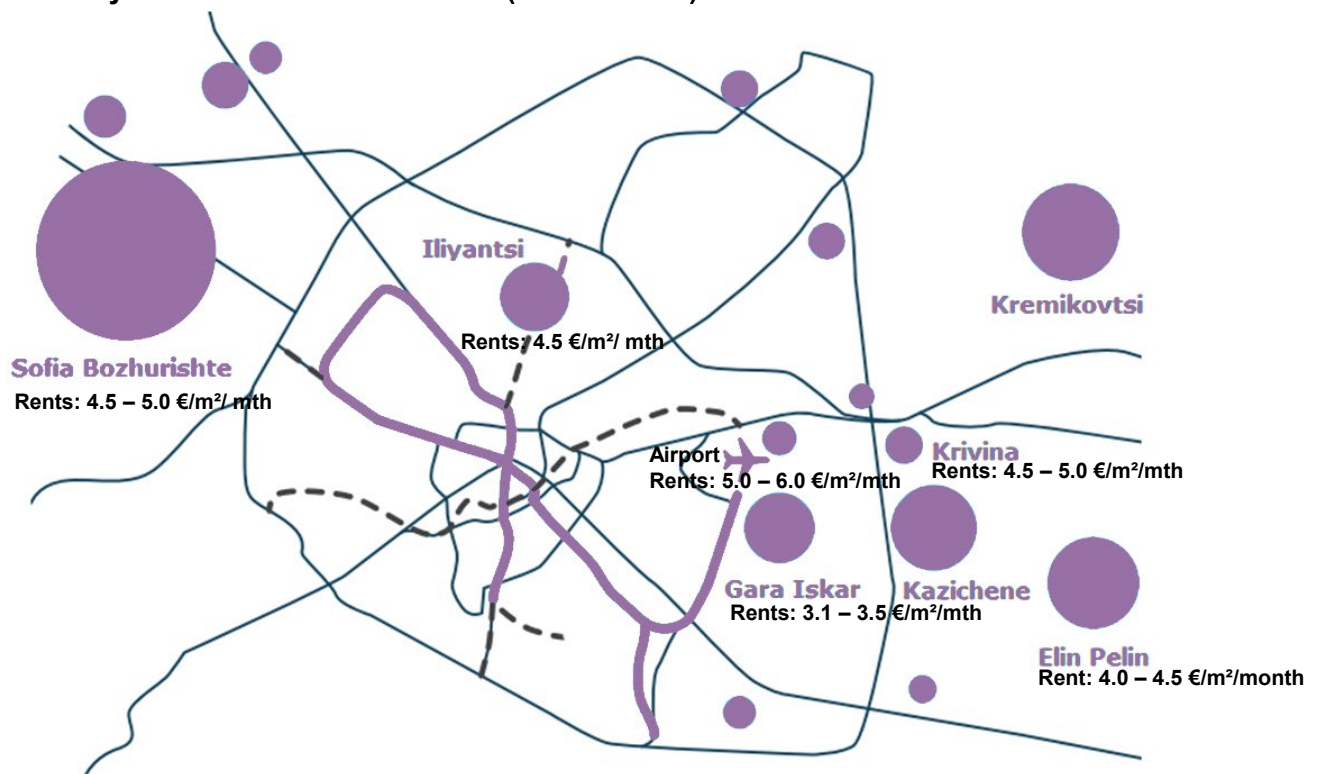
Prime industrial rental levels in Sofia remained stable during H1 2021, between **€4.2 - €4.4** per m<sup>2</sup> per month. The most popular area is still Sofia Airport, where vacancy rate is very low and asking rents are generally higher. At the outskirts, newly-built modern warehouses are offered at slightly lower rents, ranging between €4 and €4.50 per m<sup>2</sup>. In the northern and western parts of Sofia, properties are also becoming more attractive and are available between €3 and €4 per m<sup>2</sup>. Rental levels between €3.8 and €4.00 are achievable for areas over 10,000 m<sup>2</sup>.

No significant changes in rents were recorded throughout H1 2021.

### Vacancy

Vacancy in industrial projects is around **3.7%** in Sofia and is projected to remain at this level or slightly higher during 2021, as most of the new projects open with a high percentage of pre-let space. However, the pipeline is also significant.

**Map 2: Rents by main sub-markets in Sofia (€/ m<sup>2</sup>/ month)**



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