



# **Office Building Owners' Sentiment 2020**



# Introduction

## Dear audience,

The purpose of this survey is to measure the pulse of the office market in Sofia and provide an outline of current trends and conditions as seen through the eyes of property developers and owners.

On behalf of MBL I would like to thank all participants for their contribution as we witness a twofold increase in response rate resulting in a very high coverage (c.a. 80%) of modern office space in Sofia.

We have been playing on the commercial real estate field for over a decade, helping our clients acquire and grow new development opportunities, commercialize existing ones and find solutions for challenging assets.

Translated in numbers – over €500M of closed investment and land transactions, over €1B<sup>(1)</sup> of advisory assignments every year and over 25% of all office leasing transactions in the past 5 years.

**Our team is always there for you, do not hesitate to challenge us.**

## Georgi Dimitrov MRICS

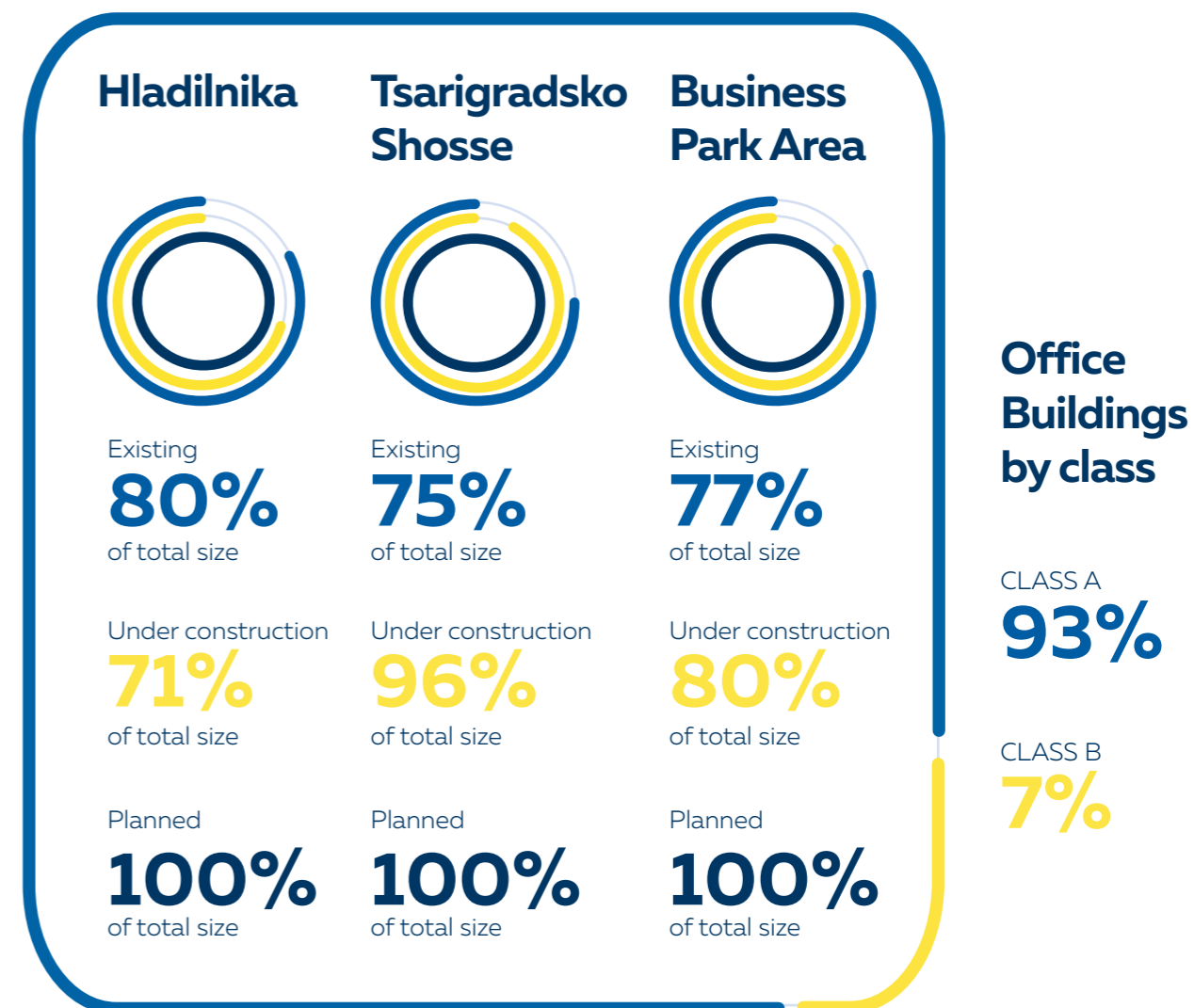
Director  
Advisory Services & Capital Markets



1. Based on asset value

In May 2020 MBL conducted a survey among leading office property developers and investors to get their feedback on current market trends and conditions in Sofia. The sample group includes 85 landlords of modern office buildings<sup>(2)</sup> in the capital city. Approximately 60% of our respondents<sup>(3)</sup> are international investors whereas the majority have more than one property and invest in variety of real estate assets.

## Respondents profile

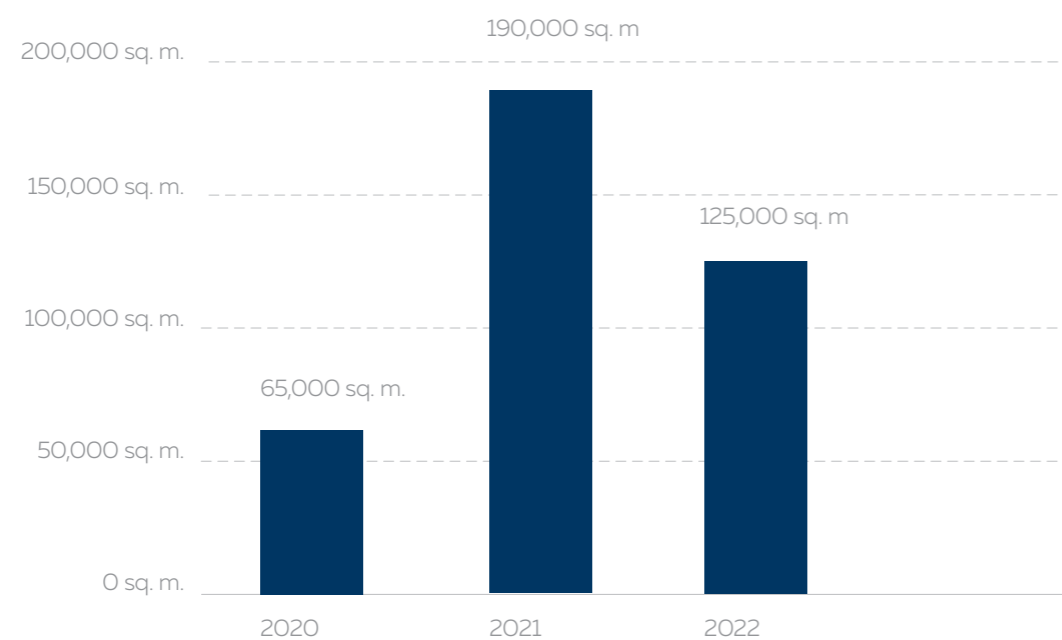


2. Total building size covered accounts for ca. 1,300,000 sq. m. of existing, under construction and planned office space.

3. Based on building area

Up to Q1 2020, the office space market in Sofia has evolved and established as a preferred asset class with strong demand levels (annual net absorption of c.a. 108,000 sq. m.), low vacancy (below 10%), gradually increasing rents and somewhat predictive amount of pre-lease transactions. The combined effect of all these factors have lured investors to start new projects and look for new opportunities.

Currently, the stock of modern office space in Sofia is 2.18 million sq. m. There are around 400,000 sq. m. of office buildings under construction which we expect to be delivered in the following order:



Also, there is 300,000 sq. m. of office space that is planned, without building permit issued yet, whereas our expectations are that there is a strong likelihood that most of these projects will be postponed or reformatted.

The average asking rents are predominantly in the range of €12 - €14 per sq. m for Class A, while rents for Class B vary between €8 and €11 per sq. m. The vacancy rate currently stands at 9.8%.

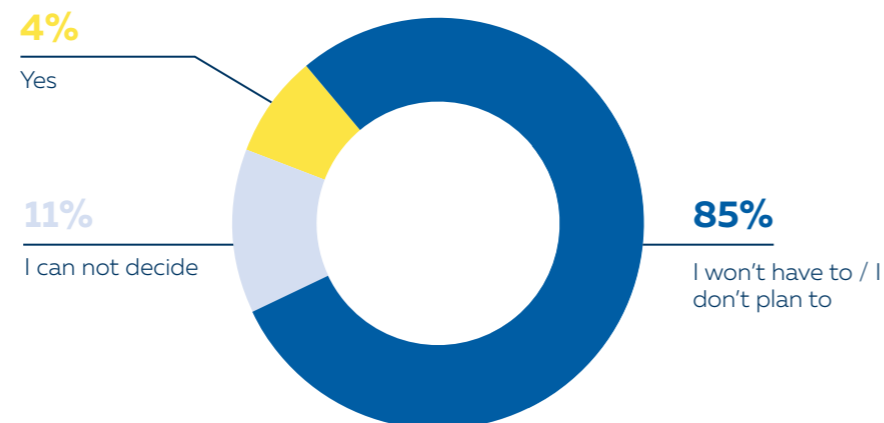


## Owners' Sentiment

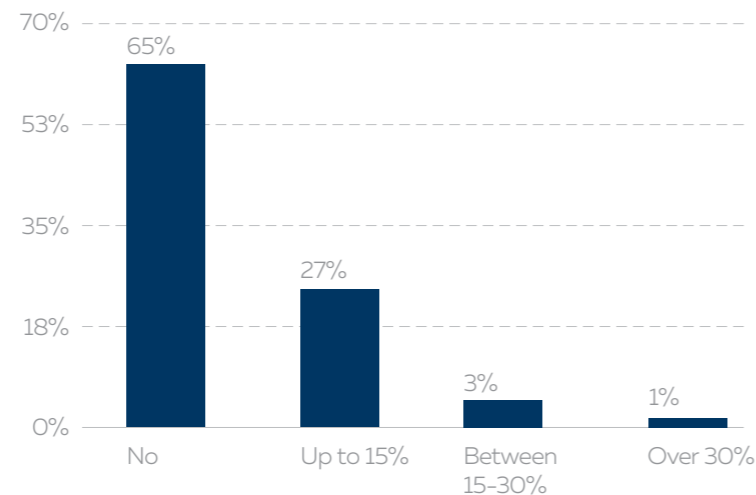
The majority of landlords that participated in our research will not defer principal on loan payments which shows both healthy levels of leverage and sustainable rental income. Only 4% have indicated that they will postpone loan principal payment while 11% are investigating that option.

When asked for rent reductions – 65% of respondents indicate that they do not expect to lower rents while 27% anticipate to lower rents up to 15% and for a temporary period. Only 3% plan to decrease rents by 15% to 30%.

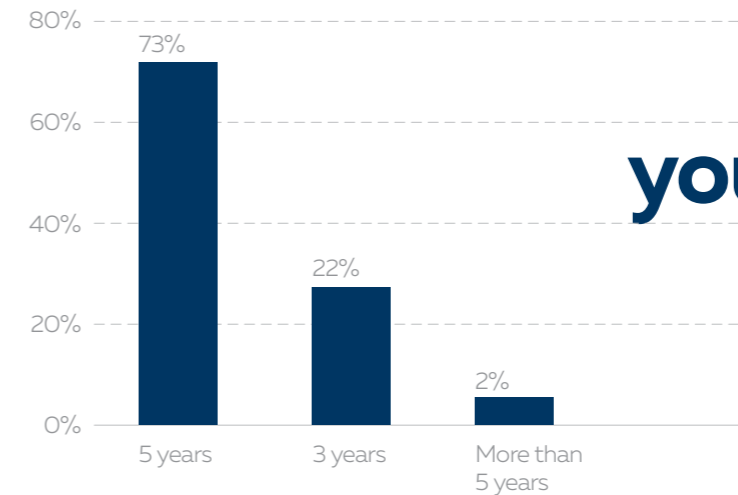
### Would you defer loan principal payments?



### Will you reduce rents?

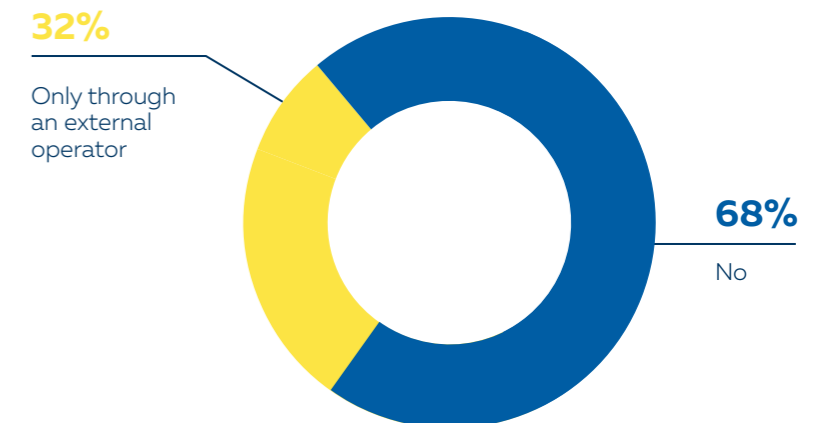


## What will be the shortest lease term in your buildings?



Landlords have indicated that they do not expect significant changes related to lease duration. Most participants have noted that the shortest rental agreement in their buildings will be 5 years while 22% have indicated that they will accept a 3-year agreement. Low vacancy rates could also be the reason for the lack of willingness among respondents to operate their buildings as serviced offices. Investors are only willing to have serviced offices on site if they are rented to an operator who is managing them.

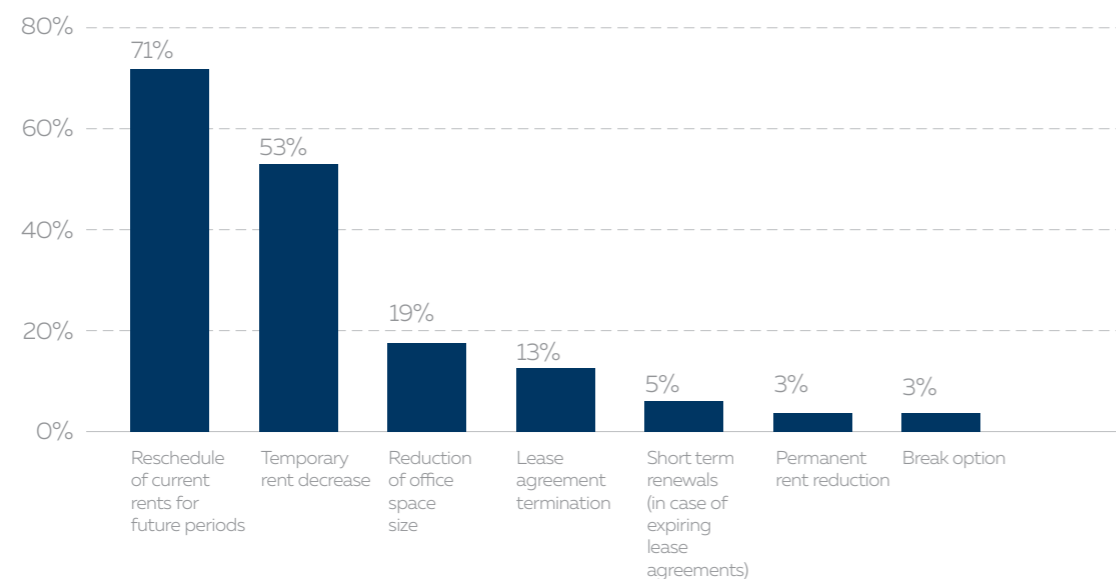
### Will you operate part of the areas as serviced offices?



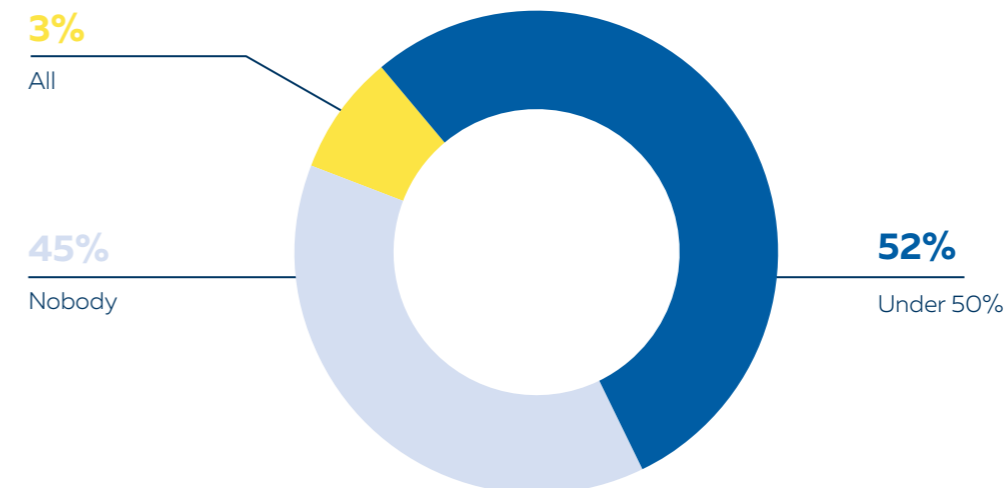
## COVID-19 impact on lease terms

The office space market remained relatively stable during the state of emergency imposed by the Bulgarian government. Based on the responses we gathered from landlords, 3% of tenants based on occupied space requested a permanent rent decrease while 13% asked for lease termination. Decrease of the occupied space was requested by 19% of office occupiers. The most popular requests made by tenants were for the reschedule of current rents for future periods (71%) and for temporary rent decrease (53%).

## What changes to lease agreements did tenants request?

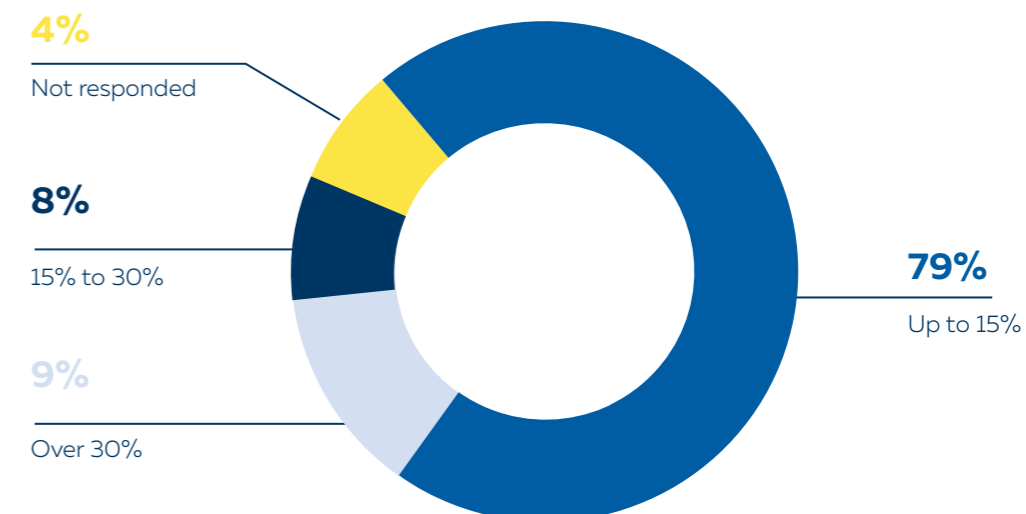


## What proportion of tenants requested a rent reduction?



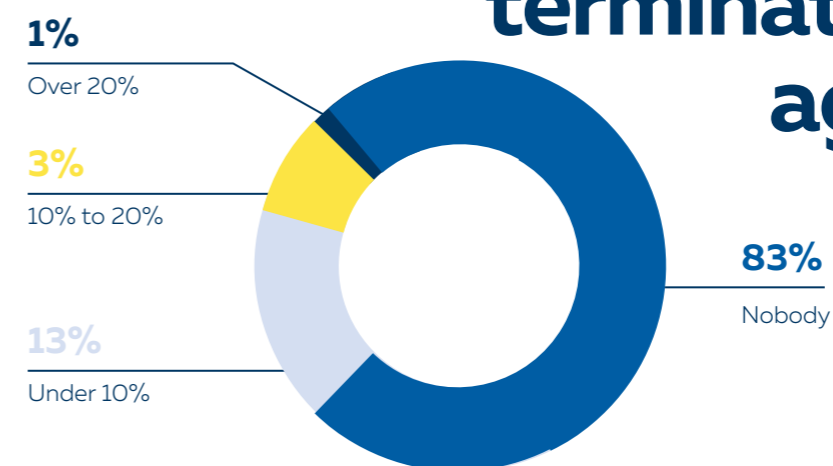
According to landlords, tenants occupying 45% of existing office space did not wish rent decrease. Of those who demanded rent reduction 79% of tenants wanted a discount up to 15%.

## What rent reduction did tenants request?



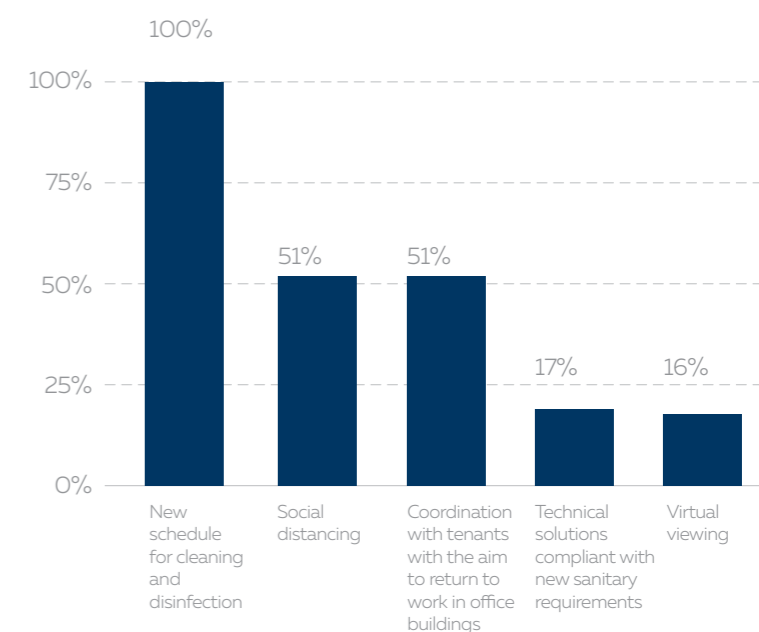
Lease termination was requested by less than 10% of tenants among all participants in the survey.

## What proportion of tenants requested termination of lease agreements?



The most popular measures to prevent the spread of the disease include new cleaning protocols, social distancing and coordination between tenants and landlords with the goal to safely reopen workspaces. Additional measures include temperature checks, one-way pedestrian traffic, limits to lift usage, increased fresh air capacity, shoe cleaners and installation of fever screening thermal cameras.

## Additional health and safety measures

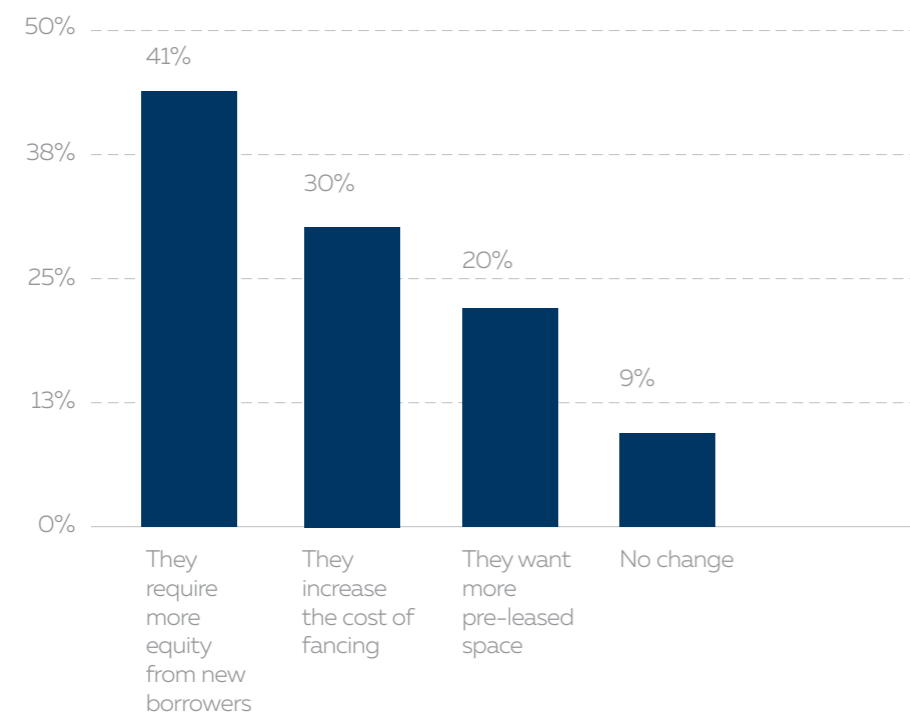


## Buildings under construction and planned office space

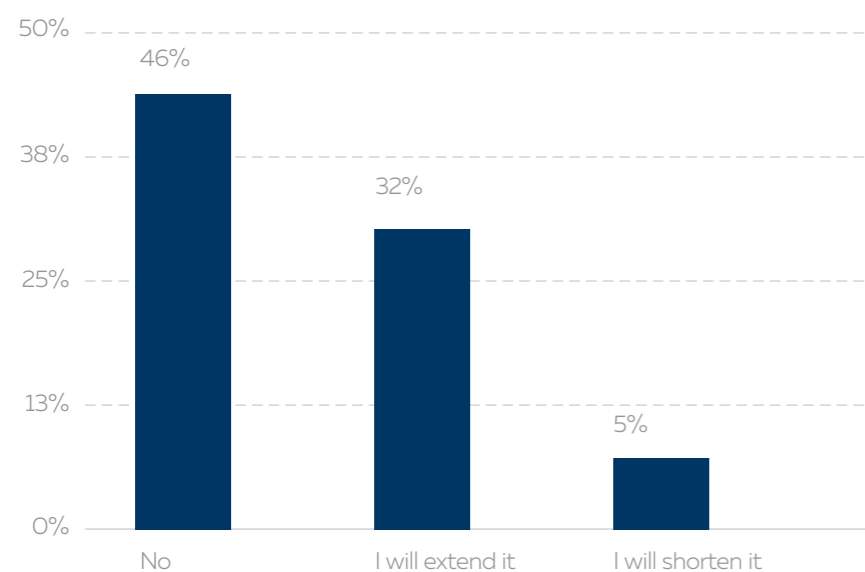
Developers that have secured debt finance at pre-COVID terms feel confident that they will deliver their projects on time and at this stage keep a poker face when asked if they plan additional incentives to secure tenants.

Late comers already feel the impact of increased equity requirements, along with additional risk reducing measures being imposed by financing banks. At the same time they are also more prone to offering additional tenant incentives.

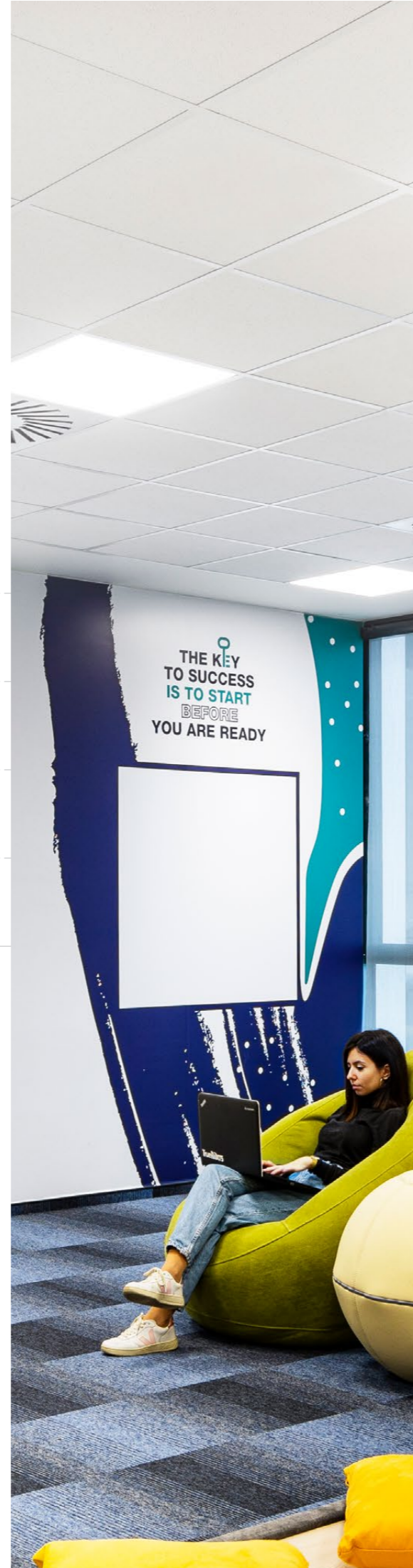
## Did banks change their terms?



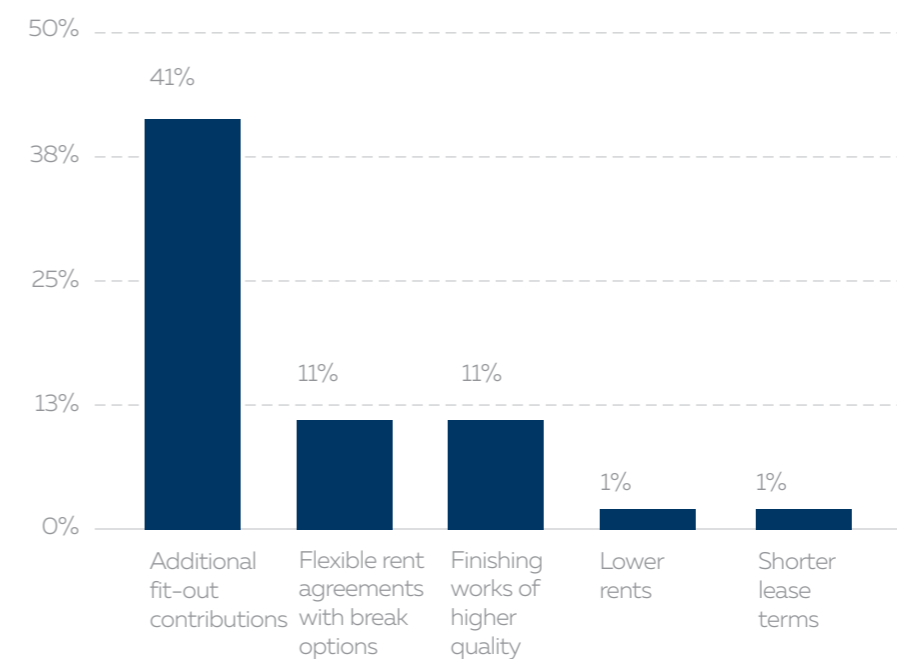
## Will you change the deadline for project completion?



Developers indicated that they are willing to offer a set of incentive options to attract prospective tenants. The majority of respondents are willing to provide additional fit-out contributions for future occupiers. Also, they plan to deliver finishing works of higher quality in their buildings and offer tenants flexible rental agreements with break options. Only a mere 1% of developers are willing to lower rents and another 1% will accept to sign shorter rental agreements.



## Will you offer additional incentives for new tenants?



## Summary

Overall results indicate that there is a level of comfort among experienced developers with healthy level of debt finance and sustainable office buildings. Short term expectations based on the size and timing of the new deliveries – we expect a downwards pressure on rents and increase in vacancy rates, also combined with slower leasing activity that we witness.

Currently we would refrain from any definitive conclusions on the long term impact on office space usage. The majority of modern office space occupiers in Sofia are international companies and to a large extent they are dependent on global health and safety regulations that are currently being revised and rewritten.





## Office Space

MBL's Occupier Representation Services are designed to provide value added real estate services that meet tenants' changing needs. Armed with unmatched industry knowledge, we take a unique approach to each tenant's requirement in order to meet business goals and financial objectives.



## Capital Markets Investment Sales & Acquisitions

Investment Sales & Acquisitions Advisory to developers, investors, property owners and occupiers, banks and other financial institutions. We provide our clients with strategic advice and execution in the acquisition and disposal of office, retail, hotel & leisure, industrial and residential properties, as well as debt and equity sourcing, due diligence and deal structuring.



## Retail Space

Our scope of services varies according to the size, industry and operation of every retailer we work with – from big-box retailers to small store operators and kiosks; food, electronics, home décor, fashion and luxury goods as well as restaurants, cafés, entertainment and leisure.



## Project Management

Through the project management service we coordinate the project from inception to completion and ensure its objectives are achieved and requirements are met. The team acts as a focal point and ensures prompt and diligent management of design, schedule and budget. We handle tendering and procurement, oversee execution and design compliance, prepare and conduct the final handover while keeping the client always informed and in charge of all final decisions.



## Land & Industrial Space

Whether you are a corporate client with changing space needs, a private owner in a local market, an institutional investor with a multimarket presence – or something in between – MBL's Industrial team stands ready to be your real estate advisor.



## Advisory Services & Valuations

Through our research and assignments we examine and analyze the dynamics on the office, retail, industrial, hotel and residential markets, providing the full picture to our clients and helping them in their decision making process. Our advisory services include feasibility studies, highest and best use analysis, due diligence and development advisory. The valuation services we provide can be used for debt financing, loan monitoring, acquisitions/ disposals, quarterly and annual financial reports, shareholder and tax reporting.



## Architecture and Interior Design

Architects have a key role in the development process. MBL's team is ultimately responsible not only for the project's image, but for its efficiency, ergonomics, and future financial performance. MBL Architects pay attention to every small detail in the work process by interlacing multifunctional design, high quality materials and installations and a strong individuality. Our extensive market knowledge and cross-functional teams allow us to deliver contemporary and efficient office, residential, hospitality, and industrial Building Design.



## Property Management

Our services have been designed to cover all aspects of the ongoing process – management set-up, property administration, financial management and reporting, facility and asset management, redevelopment strategies and property image enhancement.



Commercial  
Real Estate Solutions

#### **MBL**

**1 Kuzman Shapkarev Str.**

**Sofia 1000, Bulgaria**

**T: +359 2 9888 650**

**T: +359 2 9888 651**

**E: [office@mbl.bg](mailto:office@mbl.bg)**

**[www.mbl.bg](http://www.mbl.bg)**

#### **GEORGI DIMITROV**

**Director**

**Advisory Services & Capital Markets**

**T: +359 2 9888 650**

**M: +359 886 292 081**

**[gdimitrov@mbl.bg](mailto:gdimitrov@mbl.bg)**

#### **NIKOLAY NEOV**

**Director**

**Office Agency**

**T: +359 2 9888 650**

**M: +359 886 292 685**

**[nneov@mbl.bg](mailto:nneov@mbl.bg)**

#### **MIROSLAV GALABOV**

**Head Property Management**

**T: +359 2 9888 650**

**M: +359 887 705 186**

**[mgalabov@mbl.bg](mailto:mgalabov@mbl.bg)**

#### **ROSEN GRIGOROV**

**Head Consulting  
and Valuations**

**T: +359 2 9888 650**

**M: +359 888 222 419**

**[rgrigorov@mbl.bg](mailto:rgrigorov@mbl.bg)**

#### **SVETOZAR FILIPOV**

**Head**

**Design & Project Management**

**T: +359 2 9888 650**

**M: +359 889 297 360**

**[sfilipov@mbl.bg](mailto:sfilipov@mbl.bg)**

#### **GEORGI DJIBOV**

**Head Land & Industrial Agency**

**T: +359 2 9888 650**

**M: +359 888 664 395**

**[gdjibov@mbl.bg](mailto:gdjibov@mbl.bg)**