



OFFICE OCCUPIER SURVEY 2016

Demand
Dynamics

PART OF THE CBRE AFFILIATE NETWORK



INTRODUCTION

MBL|CBRE has carried out an office market survey among leading office space occupiers in Sofia, Bulgaria focused on showing important trends and tenants' view on the market. The rapid market improvement over the past couple of years has resulted in accelerating demand, diminishing vacancy, increasing occupancy cost, limited availability of human capital which all bring new challenges to corporates contemplating growth and expansion opportunities.

The survey covers 80 companies with a headcount of approximately 15,000 employees, occupying a total of more than 150,000 sq. m from a broad range of sectors spanning IT, BPO, professional services, healthcare, FIRE, FMCG, and manufacturing & engineering (See Figure 1).

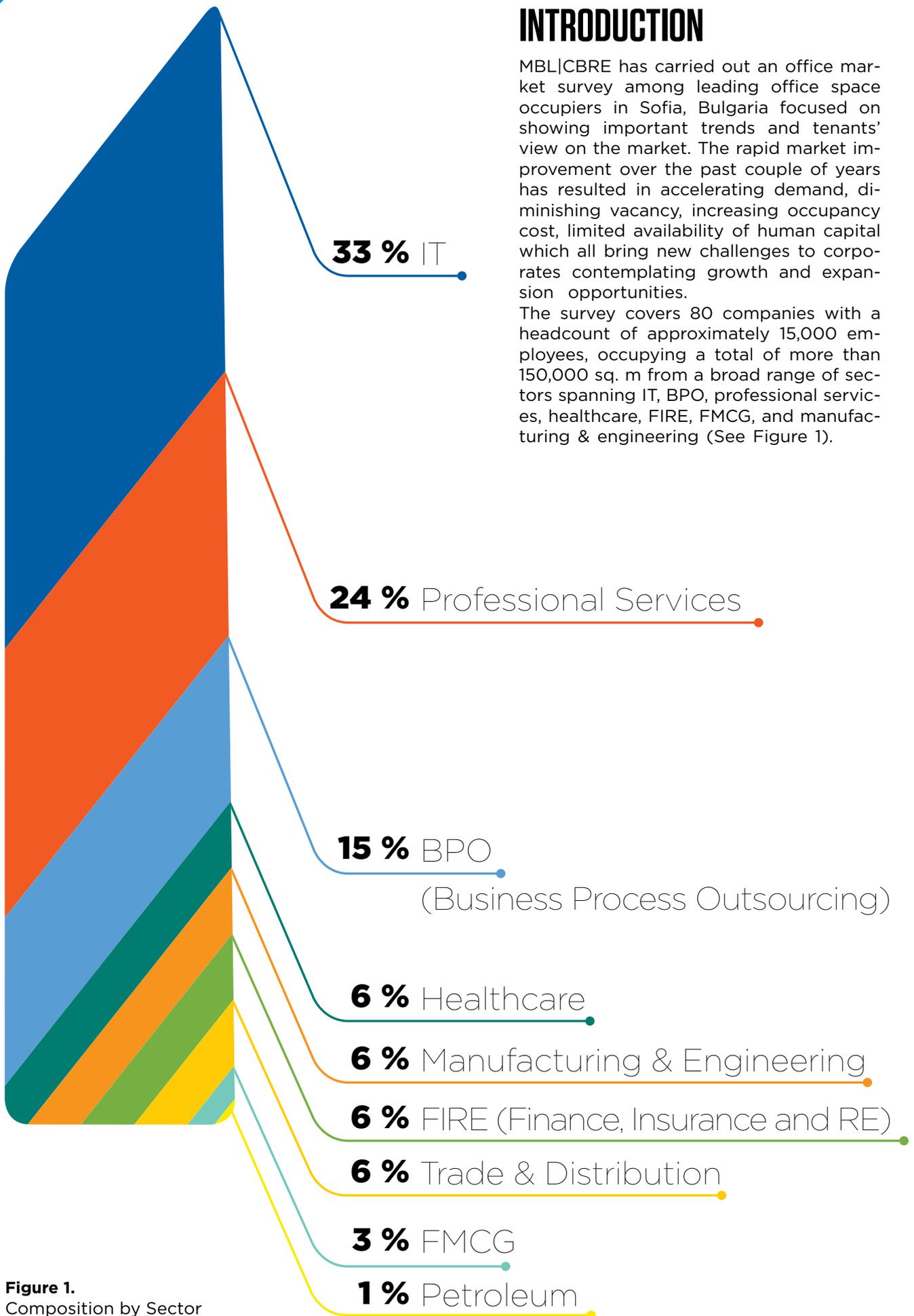


Figure 1.
Composition by Sector

ECONOMIC CONTEXT

2015 nominal GDP marked the highest growth for the last four years increasing by 3.3%, while real GDP growth stood at 3.0%. Net exports during the year turned positive and represented the largest part of GDP growth – EUR 1.0 bn or 72% of the change driven by growing exports and falling oil prices. The country had run a current account deficit for the most part of the last 15 years.

Government debt increase accelerated during the last three years with total new net debt of EUR 3.4 bn added. At the end of 2015 it represented 26.7% of annual GDP.

At the end of 2015 there were 2.22 m employed people in Bulgaria. This represented a decrease by 4.5% for a five year period and a growth of 0.8% as compared to the previous year. Labor force participation in 2015 stood at 62.9%, while unemployment rate was 9.1%. This marked a decrease of unemployment from 11.4% at the end of 2014.

Gross capital formation at current prices did not change in 2015 and represented 21.2% of GDP. Foreign direct investment during the year stood at EUR 580 m which was 1.3% of GDP.

Though anemic, GDP growth experienced recovery during 2014 and 2015. In 2014 the main drivers for growth were household consumption and investments, while in 2015 - net exports. These components are expected to contribute to growth in 2016. European Commission envisages GDP growth for Bulgaria during 2016 and 2017 of respectively 2.0% and 2.4% caused by a fall of absorption of EU funds and a spur of household consumption. Unemployment is expected to further decrease alongside with an increase in employment compensation.

HEADCOUNT DYNAMICS

Against this economic background, we have witnessed a strong increase in headcount across most sectors. Almost 84% of respondents expanded their staff in the past 5 years with majority of them experiencing a growth of more than 25% during this period. To no surprise, the employee rise has been most evident among IT, BPO, Professional Services and FIRE companies.

Looking forward, the outlook remains positive as two thirds of surveyed companies are optimistic about their operations and project further increase in headcount for the next 24-month period. Almost half of them are planning to grow by more than 25%. Again IT, BPO and Professional Services are the three main sectors where most of the new jobs will be added. It is quite likely that some of these positions will be created in secondary cities where local authorities have been putting a lot of efforts lately to attract new business and investments. As evidenced from the responses 14% of surveyed companies are planning to open an office outside of Sofia, while 12% have already done so in the past and continue to grow their teams in the country.

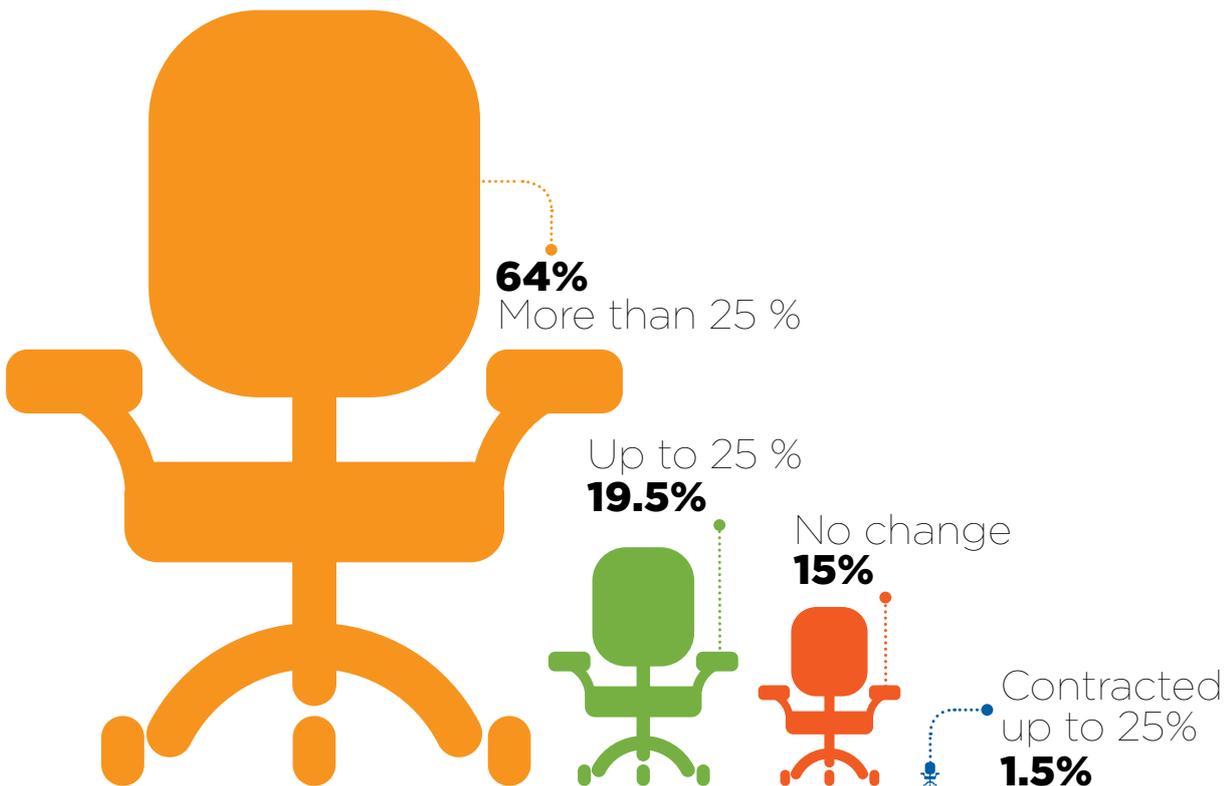


Figure 2. Headcount Change (last 5 years)

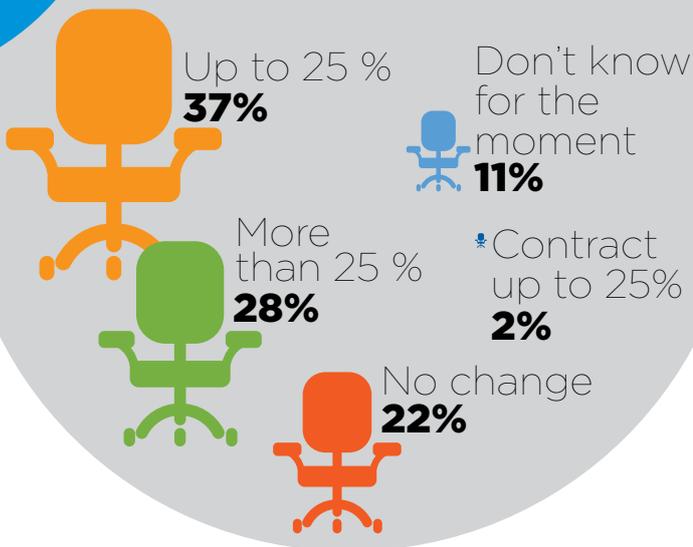


Figure 4. Headcount Growth Projections (next 2 years)

The city of Plovdiv has been recently shaping up as a preferred location for satellite offices. Almost half of the companies planning to set up an office outside of Sofia have Plovdiv as a top target on their list. Interestingly, there are companies contemplating Veliko Tarnovo as a potential location, while no one singled out Burgas for that matter, although we have seen a lot of efforts and positive initiatives by Burgas Municipality in the past year to attract new businesses in the city. Nevertheless, there are still companies who are considering multiple options and are not sure yet which particular one to choose, so some of them might end up selecting the coastal city.

Figure 3. Headcount Change by Sector (last 5 years)

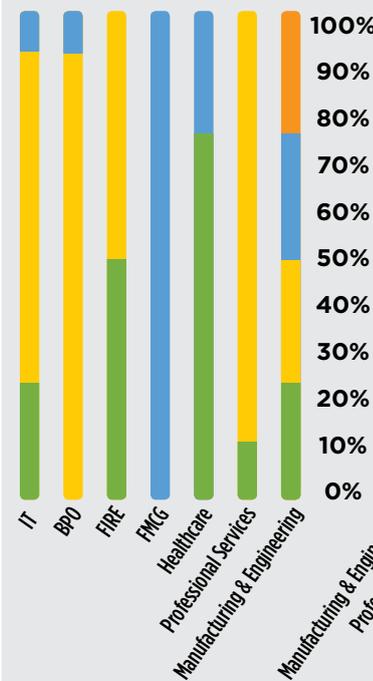


Figure 5. Headcount Growth Projections by Sector (next 2 years)

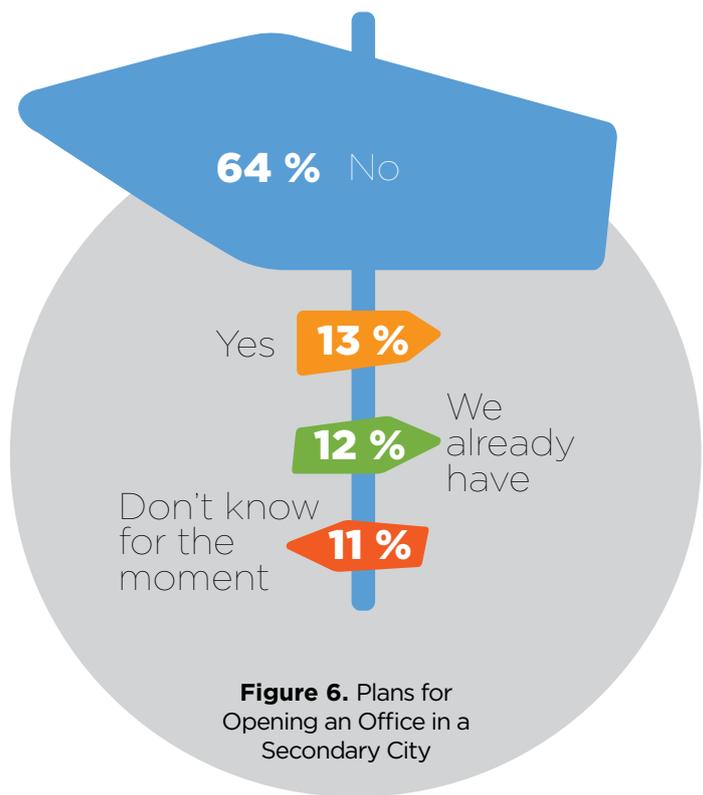
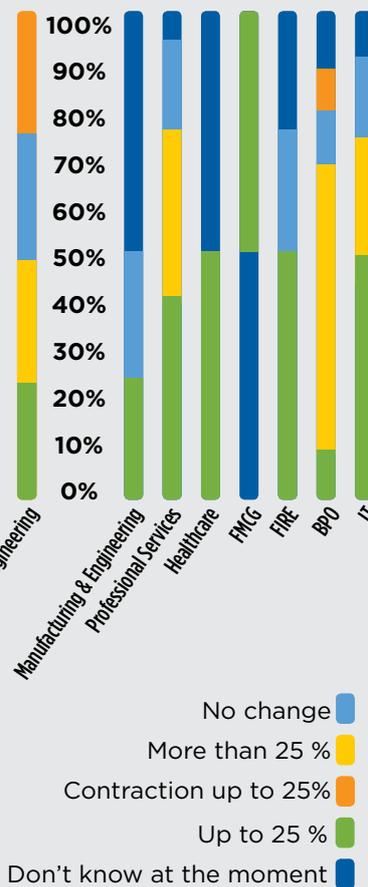


Figure 6. Plans for Opening an Office in a Secondary City



Figure 7. Preferred Secondary City for a New Office

Speaking about exact timing of future office space expansions, 31% of surveyed occupiers have indicated plans or need to increase their footprint in 2016, 23% in 2017, and 13% in 2018. 45% of respondents are not planning to take extra space. However, that doesn't mean all of them are not expecting to increase their headcount as some of them still have enough buffer space within the current offices to accommodate additional workstations.

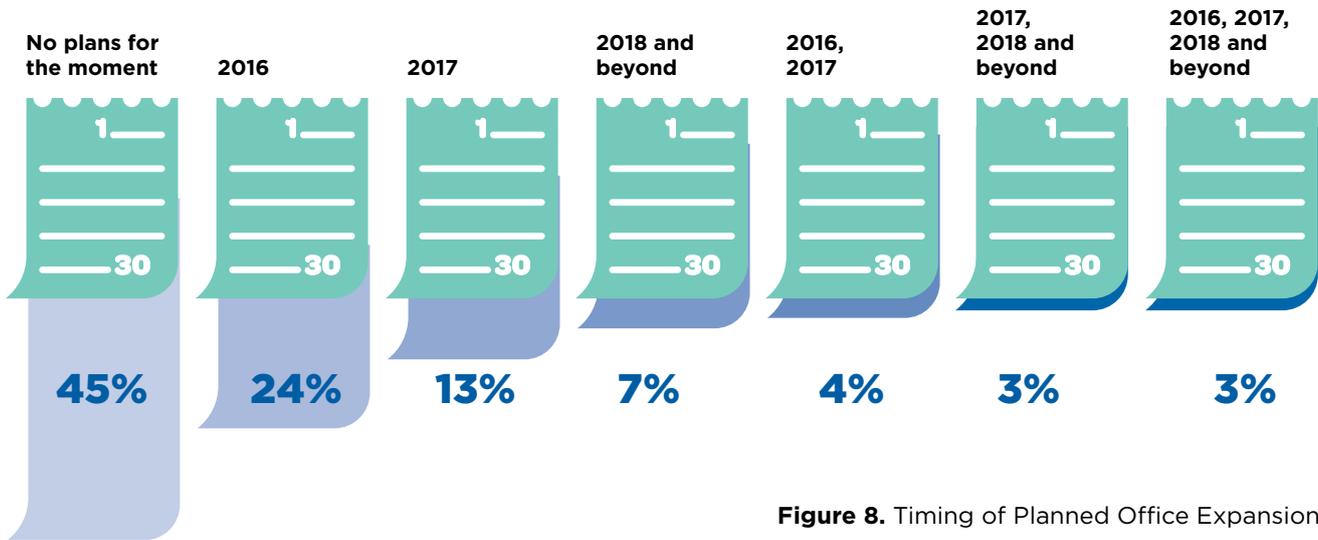


Figure 8. Timing of Planned Office Expansion

MAIN DRIVERS OF WORKPLACE STRATEGY

There are many important factors considered by companies in the decision making process when leasing office space. All of them have different weighting and significance based on the individual requirements and needs. The general highlight remains on expense efficiency as 95% of the surveyed companies consider the cost of rent paramount in their decision making process.

However, due to the increasing competition for quality labor force, factors such as location accessibility & amenities, quality of building's systems and management are of primary concern for companies, as all of these factors scored above 90% in the conducted survey.

Interestingly, 82% of the surveyed companies place significant importance on their flexibility in terms of future expansion or ability to downsize their office space size. This factor demonstrates the features of the early stage of development for the majority of main office occupiers in Sofia (predominantly from the IT & BPO sectors), which is associated with rapid (and sometimes unpredictable in terms of size) growth combined with the possibility to surrender part of their office space in a relatively short notice. The availability of parking spaces whether in the building, or in close vicinity, remains one of the main considerations for occupiers as almost 75% of the surveyed companies recognize the importance of this factor in the decision making process. A similar share of occupiers put high emphasis on the proximity to metro station as the easiest and in many occasions least time consuming mean of transportation in the Capital.

Secondary factors for occupiers remain the proximity to airport and the mix of other occupiers in the same building.

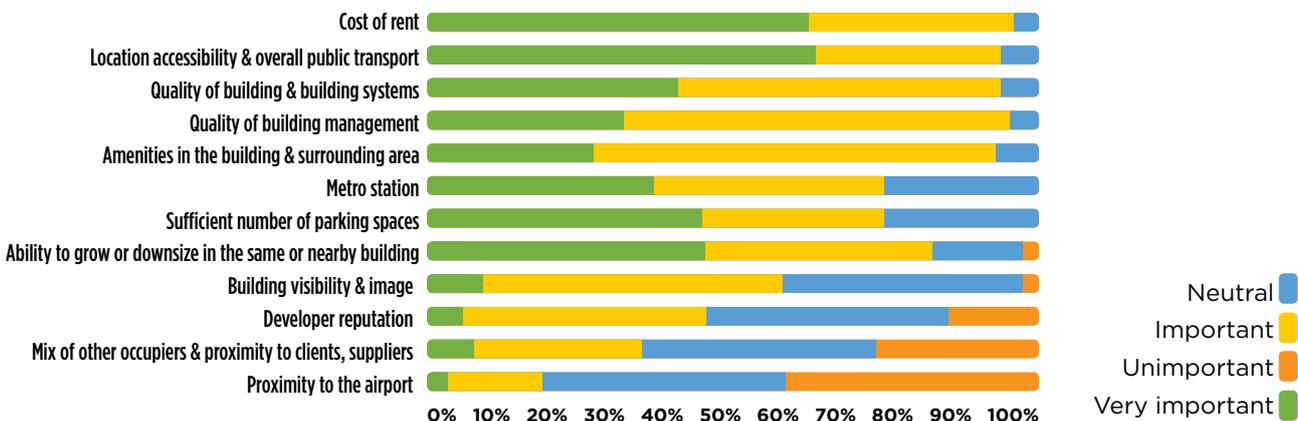


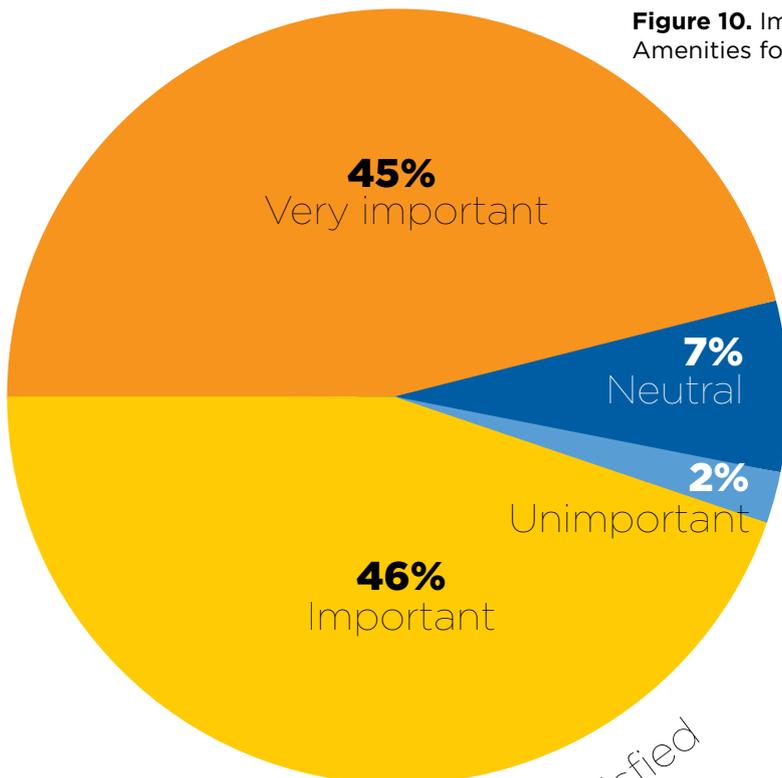
Figure 9. Importance of Common Factors in the Building/Location Selection

THE IMPORTANCE OF BUILDING QUALITY AND LOCATION IN TERMS OF RECRUITING AND RETAINING TALENTS

The current competitive environment in Sofia's labor market necessitates a large set of tools from the companies for recruiting and retaining talents. Aggressive remuneration packages and perks such as additional healthcare, company organized vacations, sport center cards, free catering are just part of the conveniences offered by companies in order to keep their competitive position.

Apart from the abovementioned inducements, a key role for companies plays the building quality and location. Astonishing 91% of the surveyed companies recognize the high importance of the working environment they provide in terms of facility, location and amenities for achieving their short and long term headcount strategy.

Figure 10. Importance of Building Quality, Location and Amenities for Recruiting and Retaining Employees



BUILDING MANAGEMENT SATISFACTION OF THE TENANTS

Since its inception, the office space market in Sofia continues its development influenced by both the perceptions of local and international real estate investors in their effort to correspond to the specifics of the local demand of office space. In this manner, an important consideration for Landlords will always be the feedback which they can receive from their occupiers in terms of the quality and responsiveness of their building management. In our conducted survey nearly 65% of the interviewed companies expressed their satisfaction from the provided property and facility management, with 24% keeping neutrality and 11% expressing their dissatisfaction. Keeping in mind the competitive nature of Sofia's office space market, our expectation is that Landlords will continue to develop further in improving their level of quality of services in order to catch up with the high standards of major occupiers.

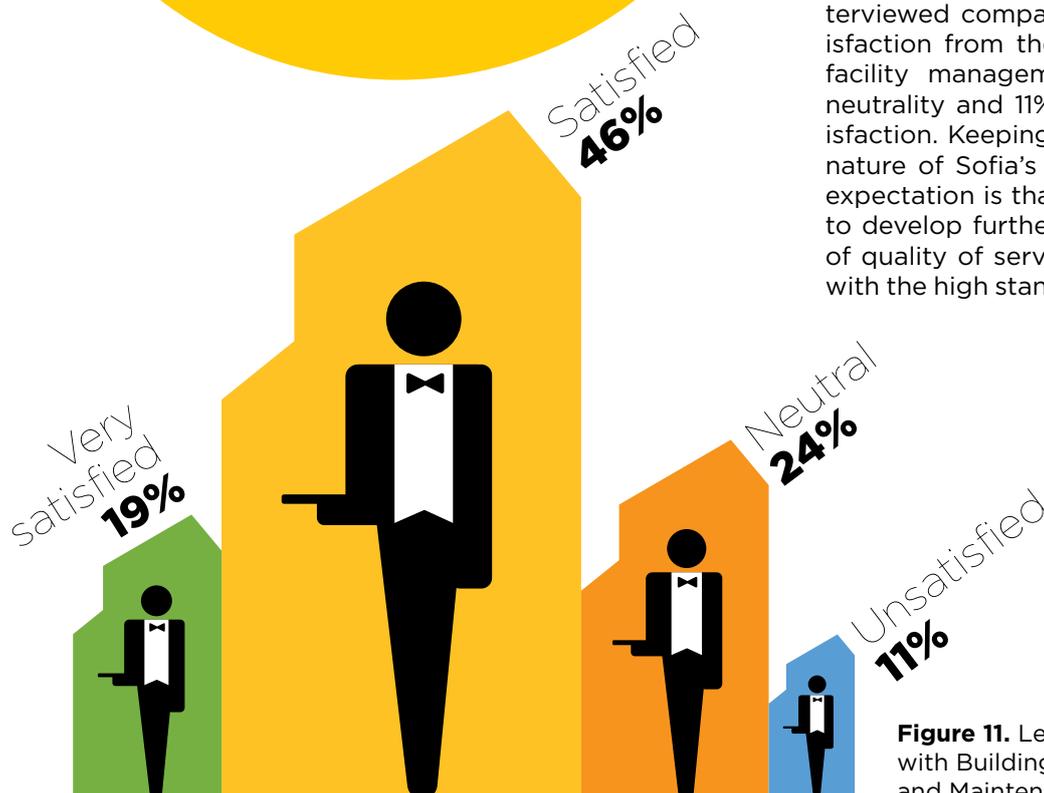


Figure 11. Level of satisfaction with Building Management and Maintenance

SUITABILITY OF SUBMARKETS

The frequently used phrase ‘location, location, location’ by American realtors has a straightforward meaning implying the probably most important factor worldwide for choosing one property against another. It is always interesting to understand how local occupiers grade the main office space submarkets in Sofia. Due to the concentration of newly developed office buildings, its easy access and the presence of reputable local and multinational occupiers, the largest share of occupiers - 67% have placed the area of Tsarigradsko Shosse area as corresponding to their vision of suitability and convenience. However, the precedence of Tsarigradsko Shosse area cannot be deemed significant as the areas of CBD (Central Business District), Business Park & Mladost and Lozenets are trailing behind in the perception of the surveyed companies with not more than 6-7%.

The group of second best locations in the view of occupiers consist of Bulgaria Blvd. Area (40%), Todor Alexandrov Blvd. Area (36%) and Sofia Airport Area (20%).

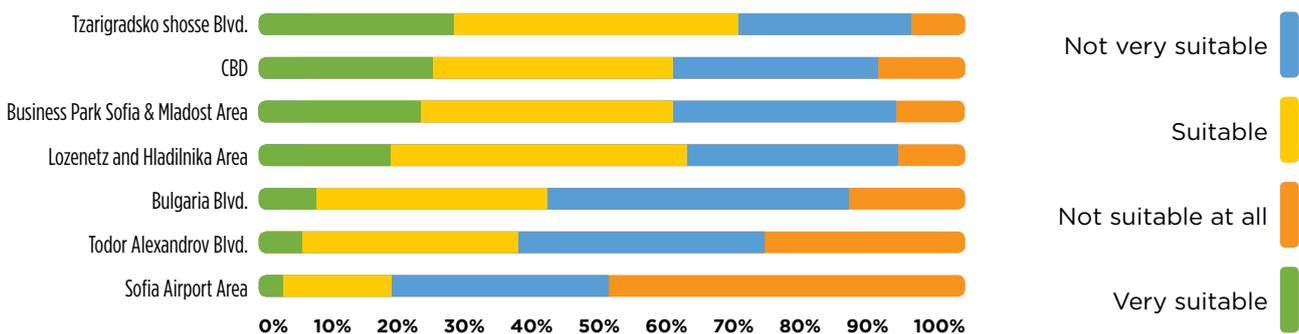


Figure 12. Suitability of Selected Office Submarkets for Occupiers’ Business Needs

CHALLENGING ENVIRONMENT

A large set of macroeconomic and demographic factors influence the operations of companies which transfers indirectly into the real estate decision making process of their management.

The most significant of challenges in the view of surveyed companies is related to the availability and cost of labor in Bulgaria - 58% of them have highlighted this challenge as paramount for their future operations. This once again indicates the strong competition between the employers for recruiting and retaining the most talented share of the labor force pool. Additional factors such as economic uncertainty (24%), tighter regulations (18%), cost escalation (13%) and political instability (13%) remain a significant concerns for occupiers from different industries.

CONCLUSION

The expansion of operations of the major local and international companies and the number of successful new entry occupiers has accelerated the dynamics of the office space demand in the last couple of years, which brought a positive impulse and optimism to developers. However, the environment of great competition between occupiers for recruiting and retaining talents and their ever increasing standards for office space is setting a clear signal to landlords that apart from the financial costs, factors such as quality of building systems and management, flexibility for future expansion or contraction, amenities and adequate parking allocation will increase their weight in the complex decision making process for new location. Existing local and international real estate investors should continue to improve the quality of their product in order to be competitive with projects expected to be delivered in the next few years. Our team believes that understanding the operational specifics, trends and factors which determine the relocation process for occupiers can improve the overall quality of supply both in terms of architectural and engineering perspective for future projects and the following property and facility management.

Our team of professionals would like to express its sincere gratitude to all participants in the Office Space Survey. We highly appreciate your valuable input and we hope that our initiative will further align the expectations of the demand for office space with the ability of Landlords to provide a high quality real estate service to their occupiers.



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