Office Occupier Survey 2018

Growth Dynamics

MBL

Introduction

Dimitar Ivanov
Head of Tenant Representation

Dear Partners,

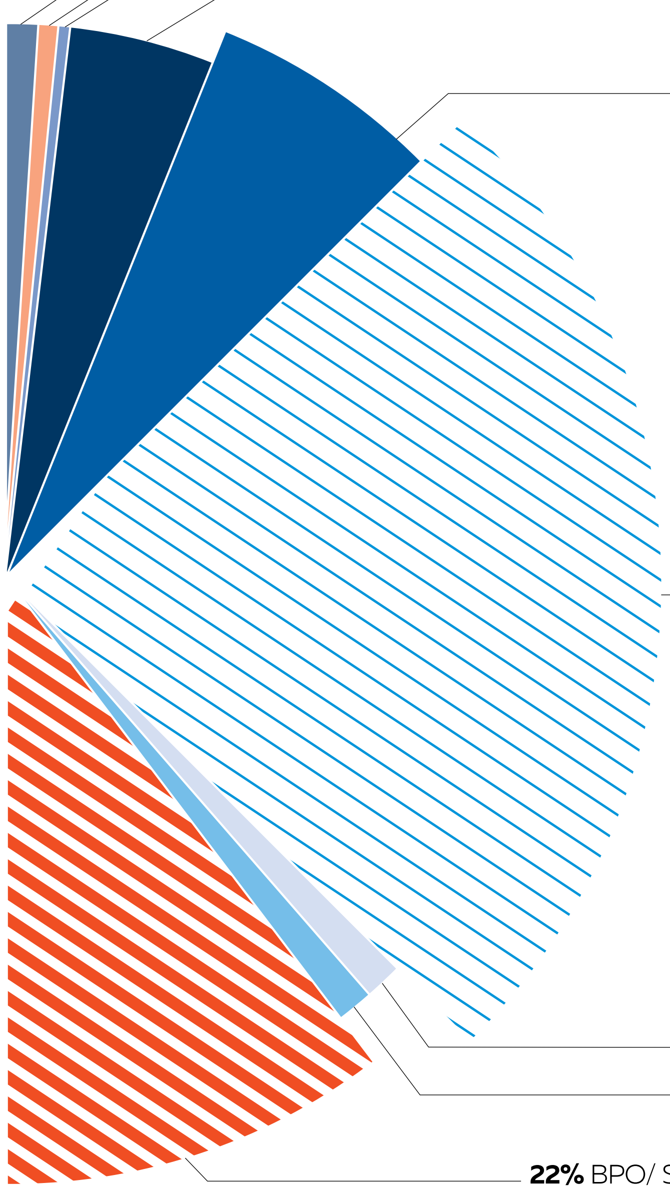
For more than 10 years MBL's mission is to provide diversified services with exceptional quality to your business in any real estate related matter. This challenging task requires substantial dedication and consistency, but most importantly – the constant drive to seek improvement in all of our lines of business.
Asking the right questions and closely monitoring the trends of Sofia's dynamic office space environment led to a significant enhancement of our Consultancy and Brokerage Services and the creation of great synergy with our Project Management and Interior Design teams.
For the last 7 years we have advised on average more than 30,000 sq. m. of office space transactions annually, solidifying our position as a leading commercial real estate service provider in Bulgaria. This year's results will be no different and we will service even higher volume of transactions in all phases of the cycle – transaction advisory, interior design, and build-out project management.
All these achievements wouldn't have been possible without your trust during the years.
For that we thank you!
Our 2018 Office Occupiers' Survey aims to give voice to the occupiers and their perspective on the development of the office space market, the key drivers for relocation, their general level of satisfaction and other interesting topics that shape the reality in this segment.
But most importantly, the purpose of this study is to become a useful guideline in the process of alignment between the demand specifics and Sofia's office market supply.
And as always... if you have any comments, or are interested to understand more about the office space market and our services, please feel free to reach us.

Yours Sincerely,
Dimitar Ivanov
Head of Tenant Representation

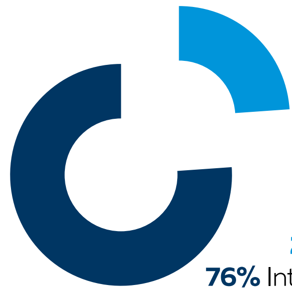
Respondents profile

In the course of 2018 MBL's Office Agency Team interviewed 100 companies with a headcount of approximately 24,000 employees (with 7.5% foreign employees), occupying a total office space of more than 270,000 sq. m. (or approximately 15% of all occupied office space in Sofia). The list consists of companies representing a wide range of sectors including IT, BPO, Professional Services, Healthcare, FIRE, FMCG and Manufacturing & Engineering.

Sectors



Origin of business



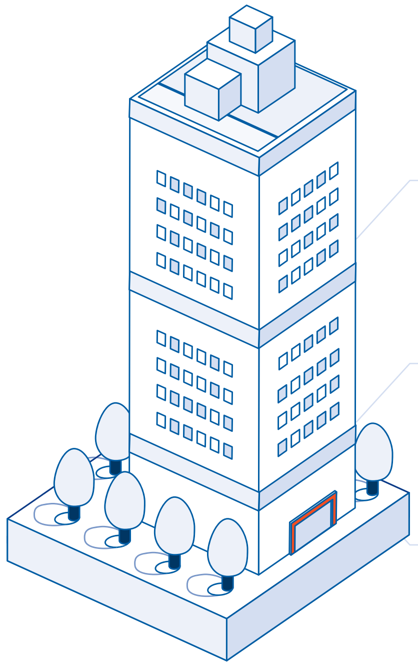
Approximately 52%
of the interviewed occupiers are leasing class A office premises, while 48% - class B.

The average size of the interviewed companies is **approximately 2,700 sq. m.**

76%
of the total poll includes international companies and 24% are local businesses.

Economic conditions and market context

Market highlights



The stock of modern office space is
1.93 mln sq. m.

The space under construction reached
393,000 sq. m.
The vacancy rate decreased slightly and is at **9.1%**

The net absorption in **Q3 2018** was
28,000 sq. m.

The take up was slightly over
55,000 sq. m.

The average asking rental levels are in the range of
€12 – €15 per sq. m.

for Class A with some exceptions, while rents for Class B vary between
€8 – €11 per sq. m.

Economic highlights

3.2%

Bulgaria's nominal Gross Domestic Product (GDP) grew by **3.2% in Q2**.

5.5%

The unemployment rate for Q2 2018 was **5.5%**, down from the 6.4% in Q2 2017, confirming the positive trend from the last 5 years.

0.6%

The Consumer Price Index (CPI) for Q2 2018 compared to Q2 2017 is **0.6%**.

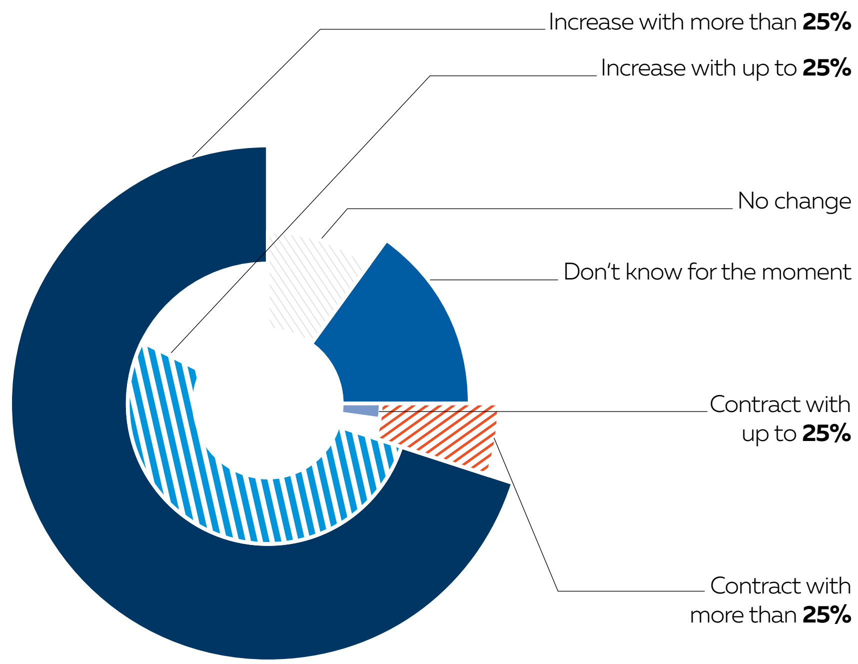
€300 mln.

The Foreign Direct Investment (FDI) in Q2 stood at **€300 million**.

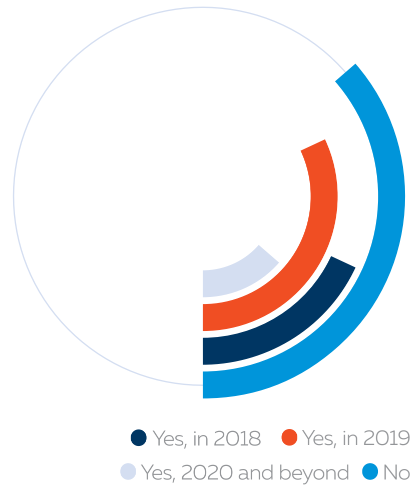
Continuous growth

The future headcount of companies is perhaps the single most important factor for the development of the office space segment in Sofia. The steadily increasing growth coming mainly from the IT & BPO sectors in Sofia increased the overall enthusiasm among developers and investors in the last couple of years. A strong indicator of this trend is the fact **that the alarming 600,000 sq. m. of class A space** (or nearly one third of the total stock on the market) **is currently under construction**, **or planned for development with target delivery within the next 3 years**.
These conditions raise an important question: **Will this strong construction activity correspond with the projected needs of companies?**
When asked about their future headcount needs (within the next 12-24 months), 70% of the respondents answered that they are expecting an increase. And 31% of all interviewed are planning growth of more than 25% during this time period. Only 4% of all surveyed companies shared a more pessimistic view and are preparing for contraction.

Headcount



Do you plan expansion of current office space



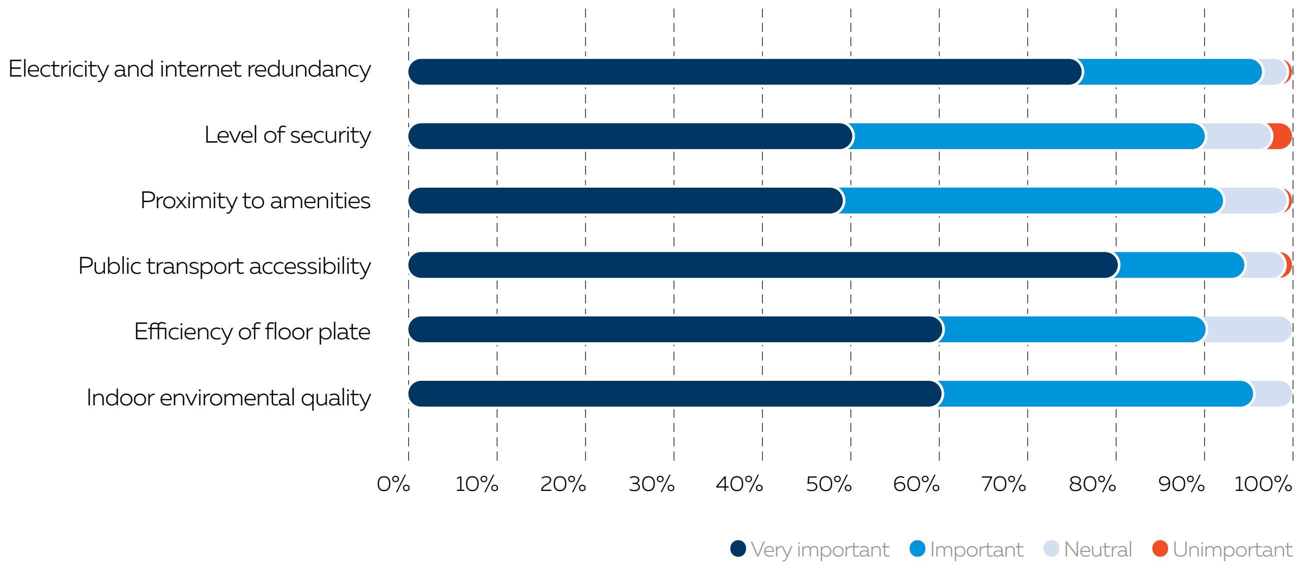
Having this affirmative feedback pointing towards the growth of business activities, our next question focused on how these companies plan to facilitate their growth and whether their current premises have the capacity to accommodate their needs.
More than 61% of the respondents replied that their future growth plans will lead to expansion of their office space in the near future with almost half of all respondents planning to increase their footprint within the next 12 months. This trend corresponds with the strong leasing activity in Sofia and the significant share of preleases that took place in 2018. A good example is the largest office space deal for this year – the consolidation of the multinational BPO leader Concentrix (11,500 sq. m.) in Advance Business Center (a building expected to be delivered in H1 2019). A transaction supported by MBL's Tenant Representation, Project Management and Interior Design teams.
Only 13% of respondents planned their future expansion beyond 2020, while 39% did not have any plans to increase their space.

Building attributes and level of occupier satisfaction

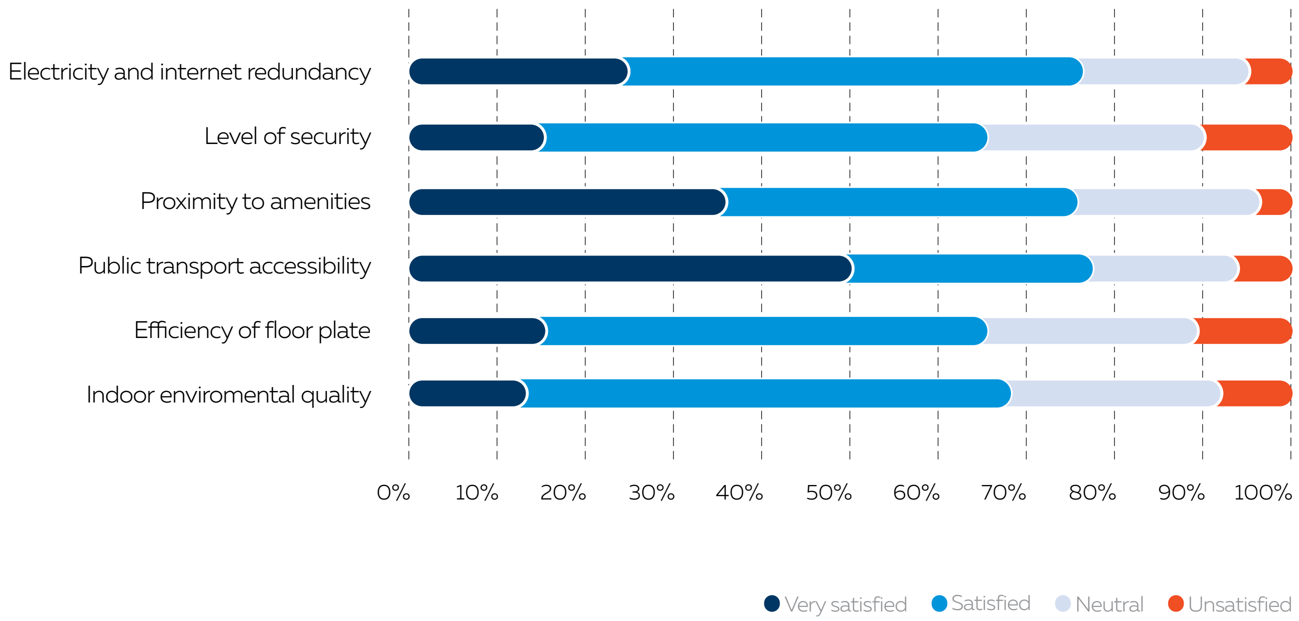
What is the most important building attribute in the decision making process for relocation? Undoubtedly, this is the most frequently asked question among consultants and real estate developers.
The survey's results showed that the answer is hidden in the question and it is the location and most importantly the building's access and public transport connectivity. 79% of all surveyed companies rated this factor as very important slightly surpassing other major attributes including electricity redundancy /internet connectivity (76%) and indoor environment quality and efficiency of the floor plate (61%). These results once again describe the overall profile of the average office space occupier in Sofia and what they value the most – an easily reachable location with excellent public transportation. As the competition for quality workforce between IT and BPO companies continues to grow, one of the most powerful weapons they can have in their arsenal is the short commute time. This trend is clearly visible when comparing two buildings with similar technical specifications and overall quality, but one of them being in a more remote location and in no immediate proximity to metro. The inferior ones in this category are often pressured by the market to use different strategies to compensate (including decrease in rent levels, additional tenant incentives and even organized transportation to the closest public metro station). With the combination of strong construction activity and an absence of proper road infrastructure in some of the business hubs in Sofia, we expect occupiers to become even more sensitive to the location topic and the proximity to a metro station as a key factor in their decision making process.

The second part of analyzing the building attributes and their importance was to understand how satisfied Occupiers are in their current location.
This side by side comparison between what companies prefer and how they actually evaluate their buildings, led to very interesting findings. 78% of respondents expressed their content with the public transport access to their buildings with 50% of all interviewed giving the highest grade of satisfaction. This result further reinforces a trend monitored by our team that most companies are more likely to remain in their current submarket when planning relocation even if it does not necessarily offers the best choice of quality alternatives on the market.
However, such alignment of preferences and evaluation is not present in other very important attributes – namely, the indoor environmental quality, the level of security, and the floor plate efficiency. Interestingly, approximately **1/3 of all respondents cannot state that they are satisfied with the overall quality of these components**. This feedback might be perceived as a future concern for Landlords of buildings with inferior technical specifications. With the strong wave of modern office developments in the near future, it can be expected that older buildings will be most vulnerable.
The lack of floor plate efficiency is a common challenge in a significant number of buildings in Sofia and this can be witnessed as 35% of respondents cannot express their content with that attribute in their office. This feedback can serve as guideline to developers to focus on designing floor plates with more efficient shapes, smaller cores, adequate column grids and adopting tenant-friendly measurement standards.

Building attributes importance



Building attributes satisfaction

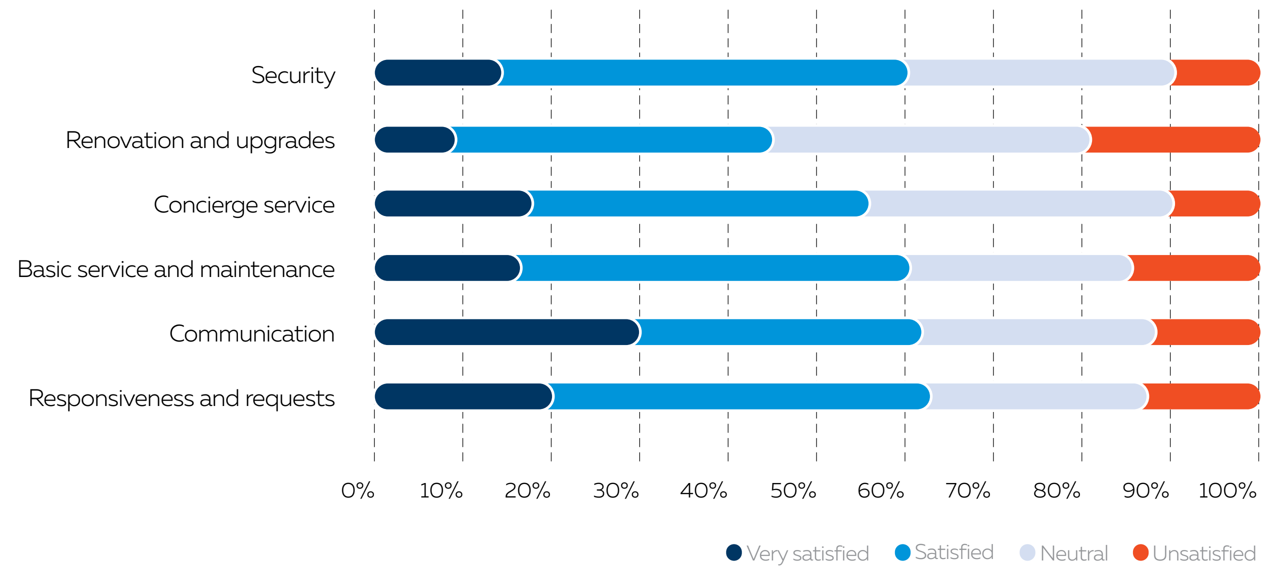


Building management satisfaction

Our experience in communicating on constant basis with occupiers is that building management plays a crucial role in the long term relations with Landlords and the level of quality of property management services can influence the company's real estate strategy in either direction.

When asked how they evaluate the different aspects of the building management services in their buildings, we received a rather bipolar feedback. **One example is that while more than 60% of companies are satisfied with the communication and responsiveness to issues of their landlords, 54% are neutral or unsatisfied with the quality, timeliness and frequency of casual renovations and upgrades in the building.** This once again highlights the need for future improvement of the overall quality of property and facility management services. This topic was previously pointed out in our 2016 Survey where more than 1/3 of all respondents could not express their satisfaction with the building management service.

Building management satisfaction



Workplace configurations and space optimization policies

There is one constantly raised question among real estate specialists, architects and interior designers worldwide: **Which is the most productive, efficient and comfortable workplace configuration for an office occupier?** There are strong advocates both in favor and against open space plan as a work environment that boosts collaboration and interaction between employees.

But what is the reality in our market?

When asked to describe their current workplace format almost 74% of respondents stated that they either use open plan for all employees, or combine it with a small portion of designated premises for the key management staff. Only 18% of the companies are supporting a configuration with enclosed areas. As our market is shaped by global IT and BPO companies with long term plans for future development in Bulgaria, we do not expect these findings to change significantly in the foreseeable future, as well.

Another rising global trend, which we compared with our office space demand, was how flexible the work environment of employees can be – can they work from home, share their desks, or sit randomly in different areas depending on their preferences. Almost 42% of all companies support working from home, both as a space optimization tool, or as a policy providing more flexibility to their employees. Hot desking and desk sharing are still with relatively low popularity among companies in Sofia with respectively 18% and 17%. A solid 37% of surveyed employers have not considered any of the above mentioned policies.

Current workplace format

50% Offices for selected people and open plan for the rest

25% Open plan for all

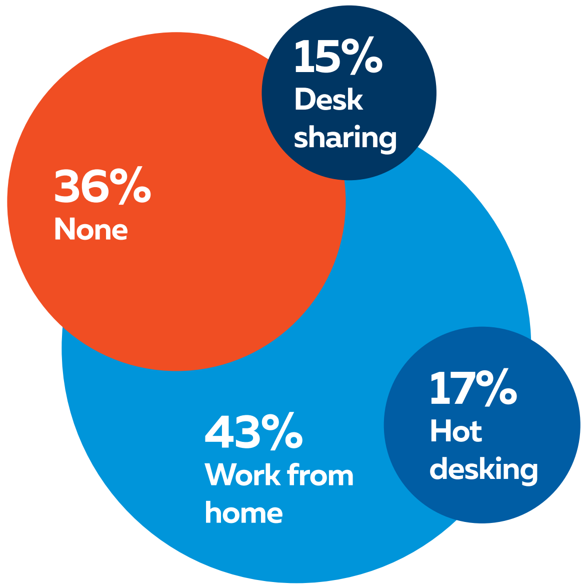
18% Enclosed offfices for most people

2% Activity based working

1% Hot desking in open space

4% Other

Space optimization



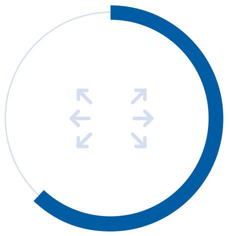
Major highlights conclusion

70%

of Occupiers are planning to increase their headcount.

44%

of them expecting an increase higher than 25%



61%

of the respondents plan expansion in the near future with almost half of all respondents planning to increase their footprint within the next 12 months.

Public transport accessibility is the most important factor in the relocation process of companies with

79%

respondents identifying its upmost importance

Approximately 1/3

of all occupiers cannot state that they are pleased with the overall quality and efficiency of the floor plate in their buildings

60%

of the companies are satisfied with the communication and responsiveness of their Landlords, but

54%

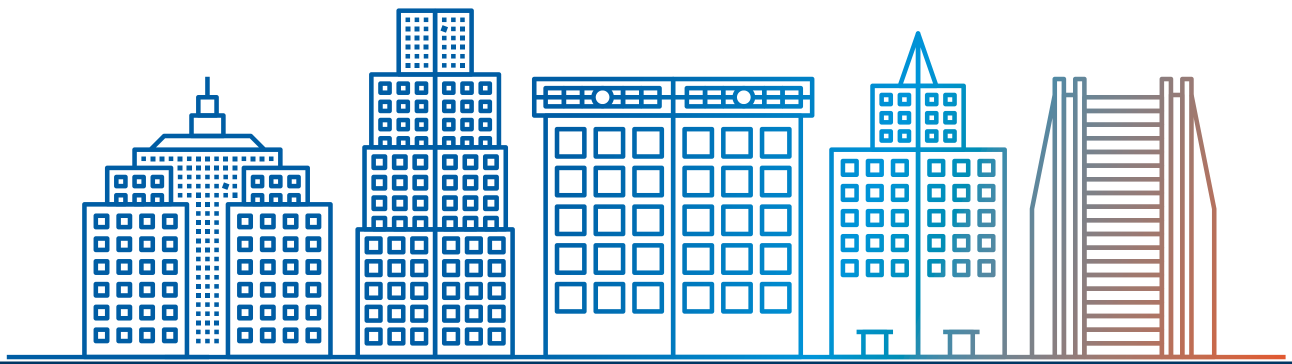
cannot express satisfaction with the quality, timeliness and frequency of casual renovations and upgrades in the building

74%

of the respondents stated that their preferences are for a workplace with a dominating open plan work environment

Almost 42%

of all companies support the work from home policy. Hot desking and desk sharing are still with relatively low popularity among occupiers in Sofia with respectively **18%** and **17%**



MBL offers a full scope of services to property developers, owners and occupiers

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.

RETAIL SPACE

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

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.

CAPITAL MARKETS

Investment Sales & Acquisitions

Investment Sales & Acquisitions Advisor 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.

DESIGN AND PROJECT MANAGEMENT

Every organization has a story and an identity. In order to design an interior that suits you, we believe it's important to really get to know your organization. The end result is an appealing and creative design that your organization can identify with.

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.

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