



INDUSTRIAL REAL ESTATE MARKET

BULGARIA | FIRST HALF 2011

3PLs continue to define the development in demand on the market

The total stock of contemporary, speculative logistics and industrial space in Sofia grew by 19,000 sqm in the second half of the year and now amounts to 441,200 sqm

Net absorption increased slightly in H2 2010, but most transactions were driven by relocation and consolidation rather than expansion

Lidl opened its own distribution facility of 36,000 sqm in Ravno Pole near Sofia

SUPPLY

The supply of speculative industrial and logistics real estate in Sofia grew moderately in the second half of 2010.

CAPITAL

The total inventory of speculative logistics and industrial space in the capital, Sofia is 441,200 sqm by the end of 2010. Included in the figure are all speculative projects as well as premises offered for rent by third-party logistics providers (3PL).

Though some owner-occupied spaces, becoming vacant due to decreased activity, have been offered for rent, this doesn't seriously impact the genuine market. These premises are often in a poor condition, and thus don't constitute a real alternative or competition to the established, contemporary logistics facilities.

The newly completed projects for the last six months include T-Logistics Center (5,000 sqm), Building 15 of Trade Center Europa (6,000 sqm) and Bodycar (7,500 sqm). Half of the latter project is speculative.

The pipeline remains stable driven by few, new projects that enter the pipeline. The schemes that are under construction are bERS (7,400 sqm), Administrative Logistics Complex in Obelgia (13,000 sqm) and Univeg (8,000 sqm).

There are several key zones in Sofia with clusters of speculative and 3PL projects. The largest is the Airport area which represents 17% of the total stock, followed by Gorublyane (14%), along Botevgradsko Shousse (12%) and Kazichene (7%). Naturally, the key logistics and industrial areas in Sofia are situated close to major roads and highways.

OUTSIDE THE CAPITAL

The supply of good-quality, speculative projects outside Sofia is limited. For example, Plovdiv has numerous build-to-suit and owner-occupied projects, but despite the attractive, geographic position, developers have yet to endeavour with larger, speculative projects. The speculative market in Varna is the most developed after Sofia. There are few projects with specifications on an international level as Logistics Park Varna (9,600 sqm) and Alpha Logistics (6,600 sqm) and a couple of smaller buildings which can't fully satisfy the existing demand in terms of quality. In the pipeline in Varna is building A06 of Logistics Park Varna which will add 10,000 sqm of new stock to the market.

Despite the strategic location on the Danube and the close proximity to the Romanian capital, Bucharest, Rousse still hasn't developed into a logistics hub. An area less than 1 km from the Danube Bridge, at the exit towards Silistra, has been designated as a modern industrial zone in Rousse. Logistics Park Rousse (13,850 sqm) is planned within the zone, providing easy access and contemporary specifications.

Major players on the logistics market for the second, consecutive year are the large, international food chains. FMCG retailers (Fast Moving Consumer Goods) increasingly prefer to build their own central distribution facilities rather than applying the model of decentralized distribution incorporating potential sales areas for storage. This model provides cost saving because as goods are delivered directly to the central distribution facility and from here distributed to the super/hypermarkets. Typically, this is a practice which is a global standard for

Map of industrial clusters



AVERAGE ASKING RENTAL RATES FOR CONTEMPORARY LOGISTICS SPACE (EUR/SQM/MONTH)				
Market	Sofia	Plovdiv	Varna	Rousse
Prime Rents	4.5	3.5	3.8	3.5
Secondary Rents	2.8	2	2	2

Map of FMCG central distribution facility



the FMCG retailer, and thus is implemented across all markets.

The area around Elin Pelin is preferred for establishing central distribution facilities because of its proximity to the two highways in Bulgaria. In Elin Pelin, the central logistics facilities of Penny Market, Billa and Lidl (which opened in the second half of 2010) are established. CBA has established their own 5,790 sqm distribution facility near Veliko Tarnovo. Only Kaufland preferred to build its central distribution facility in Plovdiv. With a size of 67,000 sqm, this is the largest in the country. Carrefour has chosen to outsource the distribution for their hypermarkets to a third-party logistics provider.

DEMAND

Outsourcing of logistics services continues to define the development in demand on the market. More and more companies are inclined to outsource part of their activities to be able to focus on their core business. As a re-

sult there is slight increase in the 3PL activity. Companies, which choose to outsource activities, are often from the food, health & beauty, consumer electronics and automotive sector. Active on the market are also the international companies from the beverage sector. The main reasons for their demand are contract expiration or consolidation of their office and warehouse space or cost optimization or renegotiation of the current contract conditions. The average size logistics inquiry in Sofia remains 1,000 sqm warehouse spaces which is the typical size of a lease contract.

VACANCY

The vacancy level increased slightly for the past six months compared to the previous reporting period. Relocations from older projects to contemporary ones explain why there is almost no change in terms of vacancy levels, although the projects that have entered the stock are completely unoccupied with the exception of Building 15 of Trade Center Europa

which is partly preleased.

Usually it takes time for the new projects to adapt on the market and to adjust their offers after that they start to be absorbed by the market.

The net absorption on the logistics market for speculative space was 19,000 sqm in the last six months of 2010. The majority of the net take-up happened in ZMM, Universal, BLCS, Sofia Airport Center and Trade Center Europa.

RENTAL LEVELS

Overall, the rental levels decreased slightly compared to the previous reporting period. The prime asking rents in Sofia decreased with a moderate 4% while logistics premises in Plovdiv saw an average reduction of 8% in the asking rental rates.

Varna keeps the prime rental levels as the market is still slightly undersupplied.

FORECAST

- » The prices are expected to stabilize in the coming six months
- » Univeg will be completed in Q1 2011 and will add 8,000 sqm to the contemporary stock
- » Logistics Park Varna building A06 also is expected to be completed in Q1 2011
- » Logistics Park Rousse will also open doors in the Q1 2011
- » No major boost in the activity on the logistics market is expected in the coming six months

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