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TRENDS IN OFFICE REAL ESTATE MARKET IN BULGARIA

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Abstract

The purpose of the present paper is to conduct a comparative analysis of the office property market in Bulgaria including other countries in the region in order to estimate its investment attractiveness and maturity. A wide range of indicators are used, incl. size of existing office space, rent levels, yields, investment volumes, as well as a pair of ratios that reveal the amount of investments in the sector as compared to the number of population and GDP of the countries. The results show that the market for office real estate in Bulgaria offers good opportunities for generating high returns for the investors. Yet, it still fails to be a draw for higher investment volumes as compared to other countries in Central Europe with more mature markets.

Introduction

The topicality of the research can be attributed to the dynamic development of the office properties market in Bulgaria. It is seen as the biggest market in terms of number of closed deals, realized projects and amount of invested funds as compared to the other commercial real estate segments in the country. It is true that in the aftermath of the world's financial and economic crisis, investments in commercial real estates in the region have dropped sharply while competition among countries for new investors has reached a peak.

Accordingly, the present research will help define the state of compatibility of office real estate market in Bulgaria and its potential for development (opportunities for future growth). The outcomes of the research could be used to the benefit of potential investors and the state, provided the latter aims to follow a policy of encouraging investments in the sector.

The purpose of the present paper is to examine the development of the office real estate market in Bulgaria and other countries from Central and East Europe after 2007 and use it as a basis to outline major trends in this sector.

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1. Research methodology

In line with the research methodology, the author is required to use conventional indicators for analysis of the property market such as: size of available (already in use) office space/real estate in square meters, monthly rental rates in euro per 1 sq. m of premium office property, level of profitability as a percentage of investments in prime office property, volume of investment in office property in millions of euros, investments in office property per capita (in total for the period under study) and percentage of the annual average volume of investments compared to a particular country's GDP[1].

International comparison of indicators is done for metropolitan office real estate markets (in this case, capital cities) or countries. For the selection of capitals and countries, the specifics of the indicators included in the survey have been taken into consideration.

The size of existing areas of office property, rent levels and rates of return is presented for capital cities as this is the basic territorial unit on which data is gathered by international consulting companies dealing in commercial property. Extrapolation of data in order to obtain aggregate values for the countries is deemed inappropriate because of the significant differences that exist between capital and other cities in the surveyed countries.

Other indicators though, such as volume of investments in office property, investments per capita and percentage of investments in office real estate in relation to GDP, are more reliably calculated for countries. In addition, the peculiarities of collecting baseline data for investments and GDP make it necessary to compare countries rather than cities.

The selection of countries and capital cities, accordingly, is done against the following two criteria:

1. Countries in the region of Central and East Europe, which like Bulgaria used to be former socialist countries, going through a transition period to a free market economy and which are at present EU member states.

2. Availability of primary data on selected countries and capital cities which meet the standard methodology for data collection and in turn allows for analysis of the indicators used by the author to study the market trends in office real estates.

The first criterion allows us to compare markets in terms of maturity whereas the second criterion helps to maintain continuity and reliability of collected data.

On the basis of the above-mentioned criteria we have chosen the following six countries and their capital cities: Bulgaria and its capital Sofia, Rumania and its capital Bucharest, Slovakia and its capital Bratislava, the Czech Republic and its capital Prague, Hungary and its capital Budapest, Poland and its capital city Warsaw.

Sources of primary data using the second criterion have been the leading consulting companies in the area of commercial/ business property Cushman & Wakefield and their local partner Forton. The study undertaken by the author to identify the possible sources of primary data collection showed that these sources provide the most complete and comparable information on markets for office property in the selected countries and capital cities.

The survey encompasses the period following 2007, as the year immediately before the economic recession, and the first half of 2015 for which available data is at hand. The above eight and a half year period is marked by the typical phases of the economic cycle – a hike in investments in office properties, a sharp downturn and recovery. The period is long enough to eliminate one-time investments and allows a sufficiently objective evaluation of key trends in the markets for office real estate under survey (in the surveyed markets for office property).

For the purposes of the survey, the author assumes that the term *market for office real estate* embraces two principal market segments: the purchase and sale segment and the renting segment. The grounds for this assumption can be seen in the tricky task to categorize office property in either segment, especially in the long-term, making it possible to switch the market segment at the discretion of the investors. Practice shows that most office properties currently in use, but offered for sale often pertain to both market segments. In this way the investors do not lose rental income for the period the office property is on the market.

Review of available literature on the subject shows that comparative studies of office real estate markets in a region are carried out regularly and covered by periodic publications (quarterly and yearly) and separate special reports of world's leading consulting companies on commercial real estate – Cushman & Wakefield, Colliers International, CBRE and JLL. These international publications are complemented by regular reports on the state and perspectives of local markets, prepared by local partners of the aforementioned consulting companies. Reports on the subject are also issued by certain banks among which the Austrian subsidiary of the Italian Bank UniCredit.

2. Comparative analysis of office real estate markets

The first index that will be used to compare the office real estate market in Sofia with other capital cities from the sample is **„Size of existing office space“** (see Table 1).

Table 1

Size of existing office space in some European capitals

(in thousands of sq.m)

Capital cities	2007	2008	2009	2010	2011	2012	2013	2014	2015[2]
Bratislava	1 007	1 161	1 300	1 367	1 450	1 508	1 475	1 538	1 550
Budapest	2 351	н. д.	н. д.	3 080	3 159	3 196	3 172	3 238	3 250
Bucharest	890	1 066	1 486	1 626	1 763	1 874	1 992	2 111	2 156
Warsaw	2 708	2 979	3 248	3 436	3 597	3 859	4 113	4 392	4 521
Prague	2 182	2 511	2 691	2 698	2 800	2 882	2 960	3 036	3 135
Sofia	**673**	**884**	**1 026**	**1 314**	**1 478**	**1 618**	**1 653**	**1 691**	**1 722**

Source: *Cushman & Wakefield LLP, 2015; Forton, 2015;*

As seen from the table, it is clear that at the beginning of the period (2007) there are three markets which stand out from the rest in terms of size – these are the capital cities of Warsaw (Poland), Budapest (Hungary) and Prague (Czech Republic). All of the cities are in Central Europe exhibiting an area of more than 2 mln square metres of office space/property (Cushman & Wakefield LLP, 2015).

With regard to the remaining cities in the survey, office property area is considerably lower – Bratislava (1 mln sq. m), Bucharest (890 thousand sq. m) and Sofia (673 thousand sq. m). For example, Bratislava the population of which is three times smaller than the population of Sofia and five times smaller than Bucharest, is in fact overriding both cities in terms of size of office property up to date (Eurostat, 2015).

In the beginning of the survey period, Sofia was the smallest market of all the capital cities embraced in the sample. In the years before the crisis (2005-2008) however Sofia exhibited some actual growth in investments in this sector, as the period was characterized by a massive construction of new and modern office buildings. It is namely this rapid growth in construction during the surveyed period that fueled market growth in the following years even though sector investments were weaker during the same period. (Forton, 2015).

The year 2008 has witnessed a sudden rise in the size of modern office buildings and office space in Sofia, accounting for 31,3% (see Table 2). This represents the highest growth rate of all the cities and can be solely attributed to the large volume of newly-risen office buildings and office property in use. Still, Sofia remained the smallest market in size as compared to the rest of surveyed office properties. The Bulgarian capital also remains the market with the least amount of office area/properties.

Table 2

Rate of annual growth of existing office space

(given in %)

Capital cities	2008	2009	2010	2011	2012	2013	2014	2015
Bratislava	15,3%	11,9%	5,2%	6,1%	4,0%	-2,2%	4,2%	0,8%
Budapest	н. д.	н. д.	н. д.	2,6%	1,2%	-0,8%	2,1%	0,4%
Bucharest	19,8%	39,4%	9,4%	8,4%	6,3%	6,3%	6,0%	2,1%
Warsaw	10,0%	9,0%	5,8%	4,7%	7,3%	6,6%	6,8%	2,9%
Prague	15,1%	7,2%	0,3%	3,8%	2,9%	2,7%	2,6%	3,3%
Sofia	**31,3%**	**16,2%**	**28,0%**	**12,5%**	**9,5%**	**2,1%**	**2,3%**	**1,9%**

Source: *Author's estimates based on data from Cushman & Wakefield LLP, 2015 and Forton, 2015.*

In 2009, a new leader emerged in terms of office real estate growth. This was the city of Bucharest with an annual increase in office space by 39,4%. Sofia came second with 16,2%, which is two times less the growth rate of the previous year. The rest of the European capitals also showed weaker growth rates in the sector on an annual basis. In 2009, the market for office property in Sofia (1,03 mln sq. m) already exceeded the limit of 1 mln sq. m. In 2010, Sofia regained its leadership position with an annual growth rate of 28%. This is nearly three times as much as Bucharest ranking second (9,8%). At the same time, larger and better developed markets in Central Europe exhibited growth rates under 6%.

In 2011 Sofia once again proved to be the fastest growing market in office property (12,5%), ahead of Bucharest (8,4%), which followed in second place. In comparison, larger markets such as Budapest and Prague had shown only a slight growth. In the same year, Sofia (1,48 mln sq. m) overtook Bratislava (1,45 mln sq. m) in market size. The situation remained unchanged until 2012 when Sofia took up the lead again with a growth rate of 9,5%, while the rest of the cities had growth rates similar to the levels of the previous year. In 2012, Sofia had 1,6 mln sq. m of operating office property, compared to 1,5 mln sq. m of office property in Bratislava, 1.9

mln sq. m in Bucharest, 2,9 mln sq. m in Prague, 3,2 mln sq. m in Budapest and 3,9 mln sq. m in Warsaw.

Over the period 2013-1015, the annual growth of the office properties market in Sofia showed a gradual slide to 2,1% (2013), 2,3% (2014) and 1,9% respectively (first half of 2015), which sent the Bulgarian capital half way down the ranking table. The markets in Bucharest, Warsaw and Prague performed stronger with an annual growth of up to 7%. Due to a slower growth, the office property market in Sofia grew slightly with only 100 thousand sq. m. over a three year period: from 1,62 mln sq. m in 2012 to 1,72 mln sq. m during the first half of 2015. Nonetheless, these values were good enough to expand the market in Sofia and make it bigger than that in Bratislava (1,55 mln sq. m) at the end of the period. At the same time, the office market in Bucharest reached 2,16 mln sq. m, which is only 440 thousand sq. m more than the existing office space/property in Sofia, compared to the Romanian capital which is twice bigger than the Bulgarian capital in number of population. (Eurostat, 2015).

Summary of data for the above period shows that Warsaw has the greatest area of office space in physical volume, (+1,8 million square metres), followed by Bucharest (+1,3 mln sq.m) and Sofia with (+1,0 mln sq.m) comes third. The Bulgarian capital managed to outpace the two other big markets in Central Europe – Budapest (+899 thousand sq. m) and Prague (+953 thousand sq. m). In terms of relative growth, Sofia ranks first with an increase of 156%, thanks to its low starting position.

The next key indicator to consider relates to the rental rates of prime office properties of the capital cities under survey. Higher rent levels are indicative of a more developed market, high demand, quality office projects and an upturn in the local economy.

The onset of the period reveals that most of the cities have quite similar rent levels of prime office property – 20-21 euro/sq. m/per month (see Table 3).

Table 3

Rents/Rental rates of prime office space in some European capitals[3]

(euros/ sq.m/month)

Capital cities	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bratislava	20,0	18,0	17,0	17,0	17,0	15,5	15,0	15,0	15,0
Budapest	21,0	22,0	20,0	21,0	21,0	21,0	21,0	21,0	21,0
Bucharest	21,0	21,0	19,5	18,5	18,5	19,0	19,0	19,0	19,0

Warsaw	30,0	29,0	22,0	24,5	26,0	26,5	25,0	25,0	24,8
Prague	20,0	23,0	21,0	21,0	21,0	21,0	20,3	19,5	19,5
Sofia	**16,0**	**17,0**	**13,5**	**12,3**	**12,0**	**12,5**	**12,5**	**12,5**	**12,5**

Source: *Cushman & Wakefield LLP, 2015; Forton, 2015.*

There are two exceptions being below or above these values – Warsaw with (30 euros/sq.m/month) and Sofia with (16 euros/sq.m/month.) (Cushman & Wakefield LLP, 2015). These figures show that in 2007 the Bulgarian capital city lagged considerably behind other cities in the survey – on the one hand, the tenants were reluctant to pay the high rentals typical of other European capital cities and on the other, scarcity of quality office space/property acted as a deterrent to rental growth. In 2008 Sofia was one of the cities exhibiting a slight increase (+1 euro/sq.m/month), and the level of 17 euro/sq.m/month proved to be the highest level throughout the period. As a result of the ensuing crisis and withdrawal of investors from the sector, office rental levels in Sofia showed an average low of 12,5 euro/sq.m/month. (Forton, 2015).

After a substantial drop in office rents in Sofia in 2009 there followed two more years of a downward trend and then in 2012 there was a hike in rents of 4,2%. Over the next three years office rental space in Sofia maintained levels of 12,5 euro/sq.m/month until the first half of 2015. Although most of the surveyed cities reported declines (with the exception of Budapest where rental rates remained stable at 21 euro/sq.m/month over the years) Sofia remained last with the lowest rents. Closer to it came Bratislava with rental levels of 15 euro/sq.m/month.

The summary of data for the period shows that the greatest declines in absolute terms were recorded for Warsaw (-5,3 euro/sq.m/month) and Bratislava (-5,0 euro/sq.m/month), with Sofia following at 3,5 euro/sq.m/month. All of the surveyed cities failed to register growth apart from Budapest which kept rental rates stable. In relative terms, the biggest decreases were registered in Bratislava (-25%) and Sofia (-22%). On the basis of collected data we can conclude that the market for office property in Sofia was most affected by global financial and economic crisis in the surveyed region for the period 2008-2010. Its effects on commercial real estate development in Bulgaria can be seen in the outflow of investments, frozen projects, low economic activity and low demand. A logical consequence of these processes is the lowering of rents, which is felt most strongly in the smaller and underdeveloped markets like the market in Bulgaria.

A vital index which shows whether the market can draw investments is the return on investment index in real estate. Normally, the more developed and liquid markets offer lower yields due to the intense competition among investors who invest in real estates. Conversely, risk driven markets feature higher yield levels to compensate for the higher insecurity and lack of liquidity. Return on investment is the main motivation for investors in choosing a location although it does not always prevail. Investors with a riskier profile are those who are generally led by the levels of return and are prepared to invest in real estates in less developed markets.

We can say that for the entire period, Sofia is an unequivocal leader in levels of profitability. (see Table 4).

Table 4

Return on investment in prime office space/property in some European capitals

(in %)

Capital cities	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bratislava	5,8%	7,3%	8,0%	7,3%	7,3%	7,3%	7,3%	7,3%	7,3%
Budapest	6,0%	6,8%	7,8%	7,3%	7,3%	7,3%	7,5%	7,3%	7,3%
Bucharest	6,3%	7,5%	9,0%	9,0%	9,0%	8,5%	8,5%	7,8%	7,8%
Warsaw	5,3%	6,8%	7,0%	6,5%	6,3%	6,3%	6,0%	6,3%	6,0%
Prague	5,0%	6,8%	6,9%	6,5%	6,3%	6,3%	6,3%	6,3%	6,0%
Sofia	**7,5%**	**8,5%**	**11,0%**	**10,0%**	**9,5%**	**9,5%**	**9,5%**	**9,0%**	**8,5%**

Source: *Cushman & Wakefield LLP, 2015; Forton, 2015.*

The difference between the Bulgarian capital and the remaining capital cities is not insignificant. At the beginning of the period, Sofia reported return on investment in prime office space in the amount of 7,5%, which is significantly higher than Bucharest which comes next in the ranking table (6,3%). Other central European capitals reported returns in the range of 5,0%-6,0%. All surveyed cities report a hike in their returns during the three years before 2009, with each of them registering peak values for this index – Sofia (11,0%), Bucharest (9,0%), Bratislava (8,0%), Budapest (7,8%), Warsaw (7,0%), Prague (6,9%). After 2009, there was a gradual downward trend. At the end of the first half of 2015, Sofia was still a leader with 8,5%, followed by Bucharest (7,8%).

Summarized data on yields show that all of the surveyed cities reported an increase of this index throughout the period, which can be explained with the growing insecurity felt by investors in said region. The strongest growth was witnessed in Bratislava and Bucharest (in absolute and relative terms). Throughout the period Sofia registered a hike in yields of 1,0 percentage points, as much as Prague. In relative terms, the increase of the Bulgarian capital was negligible (13%), due to the high output value.

A direct indicator of investors' interest is the cost volume of investments in office property (see Table 5).

Table 5

Cost volume of investments in office property for the period 2007-2015

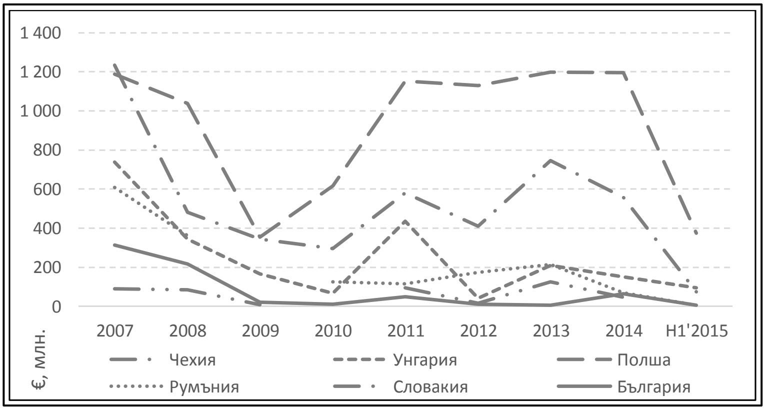
(in million euro)

Countries	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Slovakia	89,1	85,1	8,7	н. д.	95,6	16,5	125,4	46,0	н. д.
Hungary	739,0	343,1	165,5	66,1	435,1	41,0	209,3	152,1	94,0
Rumania	608,7	360,8	н. д.	124,2	115,1	172,8	213,7	68,4	5,0
Poland	1 188,5	1 037,1	354,2	616,6	1 151,8	1 128,8	1 197,4	1 195,2	373,9
Czech Republic	1 233,9	481,0	343,9	294,9	579,9	410,1	746,6	558,3	74,0
Bulgaria	**314,6**	**216,4**	**22,0**	**9,9**	**48,1**	**10,0**	**4,7**	**65,5**	**5,9**
TOTAL	**4 174**	**2 523**	**894**	**1 112**	**2 426**	**1 779**	**2 497**	**2 085**	**553**

Source: *Cushman & Wakefield LLP, 2015; Forton, 2015.*

Data by countries and region overall, show that 2007 was undoubtedly the strongest year in drawing investments to office property. The total volume of investments in all the surveyed countries during the same year was 4,17 billion euro, which is significantly higher than the recorded values for the following peak years - 2008 (2,52 billion euro), 2013 (2,50 billion euro) and 2011 (2,43 billion euro). The years 2009 and 2015 hit record lows as the former was most reflective of the global crisis negative effects, whereas the latter reflects the oversaturation of office property market in most of Central European countries. Following 2011 there has been renewed investment activity in the region and only data for the end of 2015 can prove whether this trend will continue or another slowdown might be witnessed in the coming years.

In terms of investment volumes in 2007, Bulgaria managed to attract 314,6 million euros in investment which so far represents the largest volume for the country over the period surveyed. However if compared to other countries, these volumes are not so high (see Fig.1). Competition is only with Slovakia, the population of which is by some 2 million people less than that of Bulgaria but with twice stronger economy (Eurostat, 2015). Only in 2008, Bulgaria was able to attract more than 100 million euro (216 mln euro) in the office sector, with investments dipping considerably in the years to follow. The only exception to this trend were the years 2011 (48 mln euro) and 2014 (66 mln euro).



Source: *Author's estimates made on the basis of data by Cushman & Wakefield LLP, 2015 and Forton, 2015.*

Fig. 1. Dynamics of the volume of investments in office properties

Summarized data show that the leader in terms of amount of investments drawn to the sector was Poland with 8,2 billion euro, which is double the amount of the Czech Republic, ranking second with 4,7 billion euro. (see Table 6).

The difference between the second and the third in rank, in this case Hungary (2,2 billion euro) is nearly double, despite the fact the both countries are almost similar in size of population unlike their economies – the economy of the Czech Republic is 1,5 times bigger than that of Hungary (Eurostat, 2015).

Table 6

Total volume of investments in office properties for the period 2007-2015

Countries	Total *(in mln euro)*	Relative share *(%)*
Slovakia	466,4	2,6%
Hungary	2 245,1	12,4%
Rumania	1 668,6	9,2%
Poland	8 243,5	45,7%
Czech Republic	4 722,6	26,2%
Bulgaria	**697,1**	**3,9%**

Source: *Author's estamates based on data from Cushman & Wakefield LLP, 2015 & Forton, 2015.*

Despite its large population, Romania (1,67 billion euro) lags behind other Central European countries in investment volumes due to its slow economic development. As for Bulgaria with a total amount of investments of 697 mln euro made in office property, it occupies a place after Romania in the ranking table. The last is Slovakia which registered only 466 mln euro of investments. By its reported volume of investment, Bulgaria accounts for only 3,9% in total investments in office property of the countries concerned.

The following two indices give valuable information of the amount of investments in office property attracted in Bulgaria as compared to other countries: *„Investments in office property per capita"* and *„Percentage of investments in office property in GDP"*[4] (see Table. 7).

Table 7

Randomly selected indices of investments in office property in some European countries

Countries	Investments per capita *(in euro)*	Percentage of investments in office property in GDP *(in %)*
Slovakia	86	0,08%
Hungary	228	0,27%
Romania	84	0,14%

Poland	217	0,25%
The Czech Republic	448	0,37%
Bulgaria	**97**	**0,21%**

Source: *Author's estmates based on data from Cushman & Wakefield, Forton, Eurostat.*

Thanks to these ratios, the countries from the survey can be compared more objectively since they take into account the differences in size of individual markets. According to the first indicator, the volume of investments in office property is compared to the population of the country, while with the second one – comparison is made according to the size of its economy.

Not only do the three biggest countries in Central Europe attract the highest investment volumes but they also generate the highest concentration of investments per capita. The Czech Republic stands out as the undisputed leader with 448 euro/person. Of the remaining three countries, Bulgaria with (97 euro/person) has the highest index value, beating Slovakia (86 euro/person) and Romania (84 euro/person). Taking into account the size of population of these countries, Bulgaria clocks a higher relative amount of investments compared to her direct competitors.

The value of annual average volume of investments in office property to GDP of the surveyed countries gives an almost similar picture to that of the previous indicator. Arguably, the leading position of the three largest Central European countries is indicative of the strongly felt economic effect of investments in the sector, despite the fact that these are the top three countries in terms of GDP in the region. Bulgaria follows with a slight difference (0,21%), ending ahead of Romania (0,14%) and Slovakia (0,08%). The difference in values between Bulgaria and the leading countries in this index is not so high due to the low level of GDP of the country.

The general conclusion about the above indicators is that Bulgaria has used more fully its potential to attract investments as compared to Romania and Slovakia. At the same time, the three biggest Central European countries stand out significantly in absolute and relative values of the indicators which testifies to a more mature stage of development of their markets.

One of the main advantages of the office real estate market in Bulgaria lies in its potential for development. Among evidence supporting this argument is the sudden decline in the level of vacancies. During 2009-2010 their share accounts for 20-24%, and currently it is below 15% (Economy.bg, 2015). These values do not apply to prime office space where there are almost/practically no vacancies. In addition, growing demand for office space can be attributed to the expansionary trend (in terms of number of employees and size of revenue) in the IT and outsourcing sectors in Bulgaria. Reviews of the Bulgarian Outsourcing Association show that in 2014 alone, the number of people employed in the outsourcing industry in the country rose between 3 and 5 thousand, reaching a record high of almost 20-25 thousand people (Economy.bg, 2014a). Studies of the Bulgarian Association of Software Companies (BASCOM) did show that those employed in the IT sector reached nearly 17 000 by the end of 2014, with an annual increase between 6 and 10% (Elena Kirilova, 2014).

In the first half of 2015 an increase of 40% in demand for rent office space was recorded as compared to the previous year (Мариета Иванова, 2015). During the same period of 2014 reported annual growth in the same sector accounted for 27% (Economy.bg, 2014b), exhibiting an upward trend. Breakdown of demand by tenants shows that 60% come from the sectors of IT and outsourcing activities (Marieta Ivanova, 2015). Future prospects for development of these two industries are upbeat. Thus for example, A.T. Kearney, a prestigious consulting firm described Bulgaria as the most attractive location for outsourcing of business processes in 2014 in Europe and the only European destination in the world top 10. (Paul A. Laudicina, Erik R. Peterson, Johan Gott, 2014). Moreover, the IT sector is seen as one of the most stable sectors in Bulgaria, exhibiting a two-digit annual growth in all the discussed indicators.

Hopefully, alongside economic upheaval and expected higher growth rates, other sectors might be actively involved in the provision of office property. Companies that are involved can be seen as new entrants on the market whereas old ones are likely to relocate to modern office property that can better meet their needs.

Conclusion

The present paper has focused on the development of the office real estate market in Bulgaria and other countries in Central and East Europe. Two basic indicators of the office property market have been studied – the rental segment and the purchase and sale of office property.

In summary of the above we can draw the following conclusions:

– The city with the highest growth rates in office property for the period 2007 - 2015 (6 m) is Sofia. The Bulgarian capital city represents a relatively small market, which by size of available office property outpaces only Bratislava which is smaller in population.

– In the sample survey of capital cities, the office real estate market in Sofia exhibits some of the lowest rental levels, i.e. owners of office property get lower rental rates than players in other competitive markets.

– Despite low office rents in Sofia, yields are soaring since costs of acquisition and construction of office buildings in Bulgaria are considerably lower than those in other sampled countries. Therefore, higher yields are among the main strengths of Sofia in the competition race for investors. This is also a distinctive feature of less developed markets with high risk levels.

– Purchase and sale activities in the sector are a direct reflection of the volume of investments in office properties. In terms of value, attracted investments in Bulgaria correspond to the size of the local market.

– Comparisons of countries in terms of investments per capita and share/percentage of GDP pointed to the leading role of the three biggest Central European countries. At the same time, these indicators positioned Bulgaria immediately before Romania and Slovakia in relative amount of capital invested in office property and realized purchases and sales in the sector.

– Fast developing sectors such as IT and outsourcing are seen as a powerful driver in the ever growing demand for prime office space in Bulgaria over the last few years.

– The state/government can encourage investments in office property directly or indirectly. Its direct involvement is through the introduction of certain incentives (tax relief, shorter procedures, and provision of infrastructure to ensure accessibility to the property, assistance in consolidating plots and large-scale investments in the country). Its indirect involvement can be seen in the creation of a favourable ecnomic environment within which business units can operate successfully and thus stimulate the office real estate market.

The present study aims to prove that similar studies can be conducted for other segments of the commercial property – industrial property, retail property, hotels, etc. Using survey data, investors can get more insight into the commercial property market in Bulgaria, and the state will have more valuable information about what action should be taken to attract more investment in the sector of office real estate.

End Notes

1 Some of the sources use the index ‘Share of Gross Capital Formation in GDP’ (The World Bank, 2016). Said index is seen as equivalent to the indicator measuring the share of investments in GDP, used by the author of the present paper. Defining investments as gross capital formation is adopted by the System of National Accounting Standards (System of National Accounts - SNA, 2008). This methodology is used by the United Nations Organization, the International Monetary

Fund, the Organization for Economic Cooperation and Development, the World Bank and EU (United Nations, 2009).

2 Data for 2015 is presented in tables 1 to 5 for the first six months.

3 Use of the index „Rental of prime office space“ in relation to the unit of measurement „euro/ sq, m/ month“ is associated with estimates of rentals of office space worldwide (Cushman & Wakefield, 2014) which shows the price in euro per sq. m office space for rent per month.

4 The index „Share of investments in office property in GDP“ is formed by the ratio of the average volume of office investments for the period under study (2007-H1’2015) by countries in terms of the annual GDP (last update of data for 2013), calculated using the method of current prices.

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