



KINSTELLAR

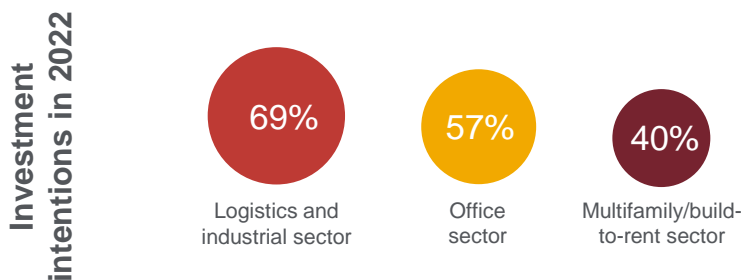
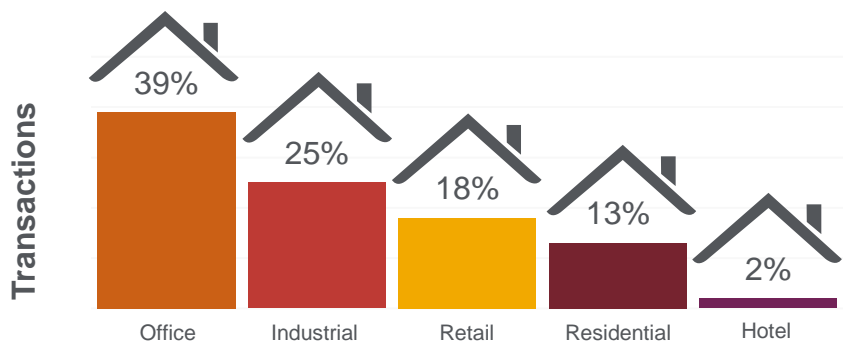
REAL ESTATE & CONSTRUCTION SERVICES IN BULGARIA

Are you planning an investment in real estate in Bulgaria? Careful consideration of associated risks can improve the chances of a timely and profitable deal without facing the challenges of myriad legal, regulatory, and technical issues.

Kinstellar's Sofia office helps you to successfully complete real estate transactions in Bulgaria. Our real estate team is one of the most experienced in the country and has advised on most of the largest deals on the market in the past few years.

GLIMPSE ON REAL ESTATE IN BULGARIA

- Investment in real estate has nearly reached **pre-pandemic levels** in Central and Eastern Europe (CEE).¹
- When it comes to transactions, **office** is still the largest asset class (39%), followed by **industrial** (25%), **retail** (18%), **residential** (13%), and **hotel** (2%).
- Research on investment intentions in 2022 shows that 69% of investors in EMEA will be looking at acquisitions in the **logistics and industrial sector**, 57% in the **office sector**, and 40% in the **multifamily/build-to-rent sector**.²



Logistics & Industrial

In Bulgaria, investment is driven mainly by the rise of **logistics and industrial** (but also of residential spaces)³ due to the growth of e-commerce, increasing purchasing power and availability of bank financing. Near-shoring in CEE, partly driven by disrupted supply chains from economies farther to the east, has also started to bring industrial property investments to Bulgaria – trend likely to continue.



Office space

Office space is expected to recover slowly, especially in the prime segment: the sale of Park Lane Office Center to SAP at the end of 2021 is indicative of that course. Still, for the time being, construction of new office centres remains at a five-year low, despite the fact that yield on investment has been recorded as one of the highest in CEE. Investors remain cautious of the continuing widespread work-from-home regime. It is expected that in the long-run, hybrid routines will prevail and the market for flex offices and co-working spaces will continue to increase. Owners of office properties have already begun including flexible spaces to the list of necessary conveniences in their buildings.



Shopping centres

As **shopping centres** faced several lockdown waves, retail parks are becoming more popular and a few new projects are currently underway. In fact, research has found that if all the projects are realised as planned, the retail park stock countrywide will double in the next two years.⁴

¹ http://colliers.bg/newsletter//e-newsletters/RealEstate_and_Beyond/Issue4/ColliersNewsletter_Issue4.pdf based on data from the first half of 2021

² <https://www.colliers.com/en-bg/research/202201-emea-capital-markets-snapshot-q4-2021>

³ <https://assets.kpmg/content/dam/kpmg/rs/pdf/2021/10/Property-Lending-Barometer-2021.pdf>

⁴ https://cwforton.com/wp-content/uploads/2021/11/BULGARIA_Marketbeat-Retail-Q3-2021.pdf

WHAT TO CONSIDER WHEN MAKING A REAL ESTATE INVESTMENT IN BULGARIA?



Acquisitions/ disposals

- Share vs asset deal
- Sale and leaseback
- Investment structures
- Warranties and Indemnities
- Compliance with ESG principles
- Tax considerations



Leasing

- Lease term/break options
- Fit-out works
- Maintenance and repairs
- Force majeure/COVID clauses
- Indexation mechanisms

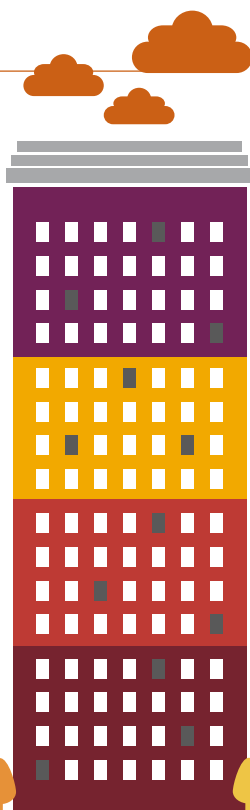


Construction and development

- Payment mechanics
- Allocation of risks and guarantee periods
- Technical / environmental considerations
- ESG compliance

WHO HAVE WE ASSISTED IN THE LAST TWELVE MONTHS?

- ✓ **Park Lane Developments** on the sale of Park Lane Office Center to SAP, the largest office space investment deal in Bulgaria in the last three years.
- ✓ **Allianz** on the lease of a 6,000 m² office space in Park Lane Office Center and consolidation of their operations in Bulgaria—the largest office lease deal in 2021.
- ✓ **CTP**, the largest developer of industrial assets in CEE, on land and building acquisitions, including the acquisition of a logistics park from DSV and a production facility from automotive parts manufacturer Willi Elbe, using an innovative sale and leaseback agreement.
- ✓ **GTC** on land acquisition and expansion of their office development in Sofia.
- ✓ **PEPCO** on the lease and opening of numerous stores across Bulgaria.
- ✓ **Marriott** on their new franchise operations at holiday locations across Bulgaria.
- ✓ **thredUP** on the lease of a warehouse building and office space.



Q&A WITH OUR EXPERTS



Antonia Mavrova
Partner

Head of the Real Estate & Construction services in Sofia and firm-wide head of the Automotive & Industrials sector

T: +359 2 9048 371
E: antonia.mavrova@kinstellar.com

Q: What type of work do you expect to see next year?

A: We expect greenfield investments and consolidation of the operations of blue-chip companies. We are already seeing multinational industrials looking to relocate their operations in our part of the world, instead of keeping production in Asia or Africa. Bulgaria is an attractive destination in this respect, as it ticks many of the boxes for the requirements for an investment decision, including still relatively lower employment costs, a favourable tax regime and government incentives. These factors, coupled with Bulgaria's forthcoming entry to the Eurozone and the on-going negotiations to join the OECD, are expected to bring new investment opportunities. Linked to that, we also expect an increasing demand for the acquisition of logistic and warehouse properties.

The other asset class that has responded particularly well to the pandemic is retail parks, which remain well positioned for investment transactions in the near future. Retail parks in regional cities are now in focus, with an increasing investor appetite from CEE. With 25 parks

already built, and more than 140,000 m2 in the pipeline, Bulgaria remains ripe with potential to host more retail park developments.

Q: What types of organisations are investing in industrial property?

A: Logistics companies, retail chains, trade and courier service providers, and manufacturers of automotive/electronics products, healthcare and robotic assisted systems, and packaging products are the main users and/or developers of industrial property. The expectation is that more of these assets will develop in industrial parks, most of which are located in regions with available labour, in poorer regions where the government provides special investment incentives, or are at important cross-border points. What is more, a national plan to further support the industrial zones of Bulgaria, currently under assessment by the European Commission, is expected to improve their infrastructure, sustainability and digital connectivity and to attract strategic investors.



Atanas Mihaylov
Managing Associate

Real Estate & Construction services in Sofia

T: +359 2 9048 389
E: atanas.mihaylov@kinstellar.com

Q: Have distressed assets emerged as a consequence of the pandemic?

A: Over the last twelve months there have been only a few NPL portfolios on the market, and we have not seen much activity among the funds typically interested in these assets. However, most banks have repossessed real estate properties and are now willing to dispose of them.

Real estate funds are increasingly interested in these assets: repossessed real estate is particularly attractive

not only because it has already undergone preliminary checks by the banks, but also because a better price may be expected considering that banks are not interested in keeping these assets. Nevertheless, banks are not very flexible and are generally unwilling to accept liability for damages and penalties; the buyer therefore has to make some concessions as to the terms of the agreement.

Q&A WITH OUR EXPERTS



Mladen Minev
Counsel

Real Estate & Construction services in Sofia

T: +359 2 9048 381
E: mladen.minev@kinstellar.com

Q: How is the local real estate sector addressing climate change and environmental risks?

A: It is true that buildings account for 40% of energy consumption and 36% of CO2 emissions in the EU. Investments in the building sector are present in almost all national recovery plans in the EU. Approximately EUR 90 billion is invested annually in the EU for improving building energy efficiency, and the level of renovations of existing buildings is expected to grow. This could create new investment opportunities, subject to an effective burden-sharing model among investors, owners and the state.

At the same time, lenders and international real estate investment management companies have rolled out strategies to better follow ESG principles from the onset of a real estate project. Increasingly we see that ESG red flags (e.g., the existence of environmental policies or renewable energy use, health & safety measures) are pivotal in M&A real estate deals. Devising and implementing a real estate-specific ESG strategy requires substantial efforts in data collection, asset management, and reporting. The good news is that ESG-proof investments open up attractive new avenues for growth.



Simeon Vachev
Associate

Real Estate & Construction services in Sofia

T: +359 2 9048 384
E: simeon.vachev@kinstellar.com

Q: How have leasing contracts changed following the business uncertainties and investment priorities over the past year?

A: Lease agreements have evolved to include flexibility clauses that accommodate business disruptions, price inflation and ESG aspects. We actively advise clients on both sides of the lease relationship and increasingly have to devise various indexation mechanisms to take into account potential external developments that do not depend on any of the parties (e.g., rising energy prices). In addition, more and more tenants now require the inclusion of 'green' clauses that may ask the landlord to provide the option for sustainable practices such as the sourcing of renewable energy or use of environmentally friendly products.

Demand for leasing advice is also determined by the new types of real estate players in Bulgaria. The influx of non-food discount retailers and their good performance has established them as the fastest developing retail asset in the country, together with retail parks. Office space leasing requires fit-out works, especially as developers of commercial centres seek to rent out their premises well before construction is finalised. Another increasingly common type of lease is sale and leaseback by investors already present in our markets, who use it to preserve cash and generate funds for investment in new technologies.



‘EXCELLENT MARKET KNOWLEDGE, good NEGOTIATION SKILLS, FLEXIBLE approach to the problems, good in documentation skills, ability to offer different solutions to the problems, keep the agreed timeframe and deadlines’.

“PROFESSIONAL, FLEXIBLE, solution-oriented”.

Legal 500, 2021

Emerging Europe and Central Asia’s Leading Independent Law Firm

With offices in 11 jurisdictions and over 350 local and international lawyers, we deliver consistent, joined-up legal advice and assistance across diverse regional markets – together with the know-how and experience to champion your interests while minimising exposure to risk.

ALMATY | KAZAKHSTAN

BELGRADE | SERBIA

BRATISLAVA | SLOVAKIA

BUCHAREST | ROMANIA

BUDAPEST | HUNGARY

ISTANBUL | TURKEY

KYIV | UKRAINE

NUR-SULTAN | KAZAKHSTAN

PRAGUE | CZECH REPUBLIC

SOFIA | BULGARIA

TASHKENT | UZBEKISTAN

ZAGREB | CROATIA

KINSTELLAR