Avisource

H2 2021
Budapest

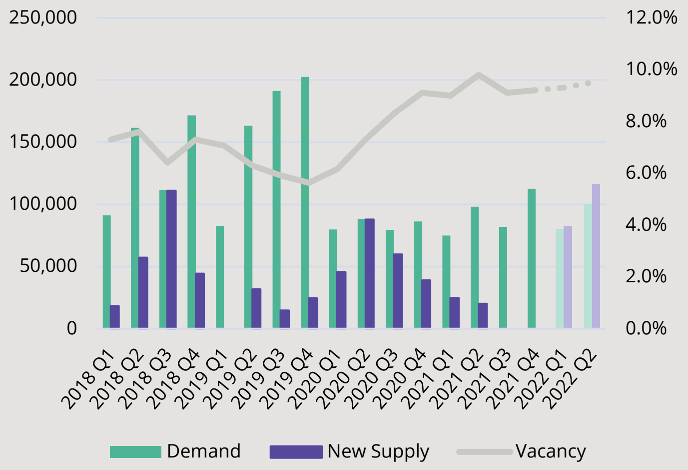
Office Market Tracker

Highlights

- In the second half of 2021, the total office stock remained stable at 3.95 million sq m.
- The construction pipeline stands at 560,000 sq m with 390,000 sq m due to complete in 2022.
- Despite the slowdown in the office market activity caused by the Covid-19 pandemic, the vacancy rate was stable at 9.2% and rental rates remained stable with only marginal adjustments.

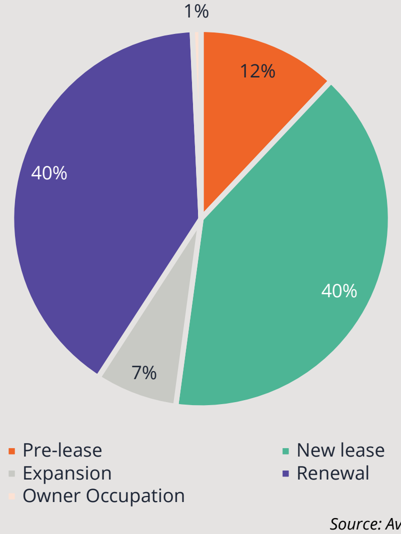
TOTAL OFFICE STOCK	NEW SUPPLY H2 2021	VACANCY RATE	UNDER CONSTRUCTION / REFURBISHMENT
3.95 m sq m	0 sq m	9.2%	390,000 sq m

New Supply, Demand and Vacancy sq m, %



Source: Avison Young, BRF

Demand Structure H2 2021



Source: Avison Young, BRF

Prime headline rents (€/sqm/mth)

CBD	23.00 – 25.00
Inner City	15.00 – 18.00
Outer City	12.50 – 15.00

Source: Avison Young

Office Leasing

During the second semester of 2021, the office market continued to be affected by the Covid-19 pandemic on both the demand and supply sides.

On the supply side, the delivery dates of some projects were delayed as developers sought preleases instead of continuing with fully speculative constructions. This is particularly pronounced in secondary locations. Less than 50,000 sq m were handed over in 2021 in total meaning that the 4 million sq m threshold will only be reached in 2022.

On the demand side in 2021, in a time of uncertainty revolving around Covid-19, a significant chunk of companies decided to prolong their existing leases and delay the implementation of any move or rationalisation initiatives. This was in spite of the growing trends towards home officing revolutionising companies' idea of offices. While some tenants remain firm in their belief that going back to the office is the best option for their operations, others are clearly promoting a "hybrid" approach with a mix of office presence and homeworking.

In the second half of the year, renewals were still significant representing 40% of the total take-up broadly matching new leases, while pre-leases and expansions represented 12% and 7% respectively. Gross total demand stood at 193,780 sq m for the second semester, above the 172,890 sq m registered in H1. BRF registered a total of 297 leases during the second half of the year, with an average size of 653 sq m.

In 2021 Váci Corridor remained the most popular and active submarket with 26% of the occupational activity. The Central Pest sub-market came second (17%), followed by Non-Central Pest (13%), South Buda (12%) and Central Buda (11%).

The largest new lease was signed in BudaPart City office building for a total of 4,300 sq m. Significant lease renewals were announced, such as 5,200 and 4,500 sq m in Office Garden IV and III; 3,800 sq m by S&T in Terra Park C and 2,600 sq m by Samsung in Gateway. While Fressnapf signed a pre-lease of 1,500 sq m in Millennium Gardens. The largest transaction of the semester was by far the extension and expansion of the Directorate General for Public Procurement and Supply (KEF) in the Center Point office building with 16,000 sq m.

The vacancy rate has marginally decreased (-6 bps) and stands at 9.2% at year end. 390,000 sq m are currently under construction / refurbishment and due for delivery in 2022 with a average 53% occupancy secured.

Take-up (sq m)	H2 2021	vs. H2 2020
Gross take up	**193,780**	**243,371**
Net absorption	**25,680**	**54,218**

Source: BRF, Avison Young

Building	Tenant	Area (sq m)
Center Point	KEF	16,000
Office Garden IV	Confidential	5,200
Office Garden III	Confidential	4,500
Nordic Light	Schneider Electric	4,500
BudaPart City	Confidential	4,300
Gateway	Samsung	2,600

Source: BRF, Avison Young

Rents

Despite the relative slowdown in the leasing activity caused by the Covid-19 pandemic, rental rates have slightly increased due to the increasing construction costs and inflationary pressure. Incentives packages remain decisive in securing new lettings, especially so in submarkets with the largest pipeline and sublease options.

5.25%

Prime Office Yield

Office Investment

Office investment activity was robust at the year end with €590 million recorded in the first semester and then closing with an additional €1 billion (€1.6 billion in total).

The most notable transactions of the second semester were the acquisition of Infopark buildings B, C, D, I by GTC from WING and the acquisition of BudaPart Gate by S-Immo and Szervita Square (commercial areas) by Union Investment who signed their re-entry into the Hungarian market with this prime asset.

Local capital secured more than 70% of the total volume of transactions during the year. Active in Hungary, local investors are also getting more and more present in the CEE region.

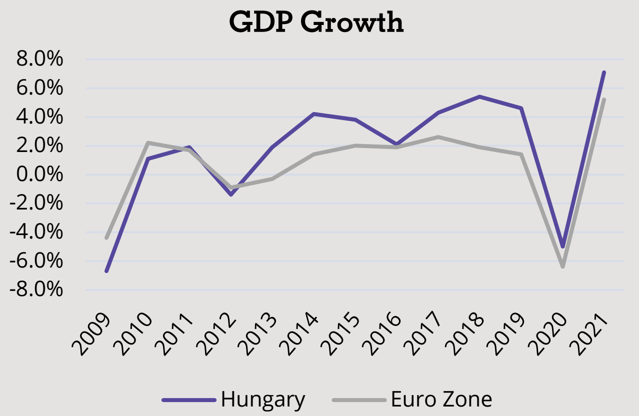
Pricing in the core segment remained stable with premium being paid on super prime products. Re-pricing in the core+, value-add and Grade B categories was more noticeable mainly due to the significantly more conservative approach of financing banks.

Economic Background

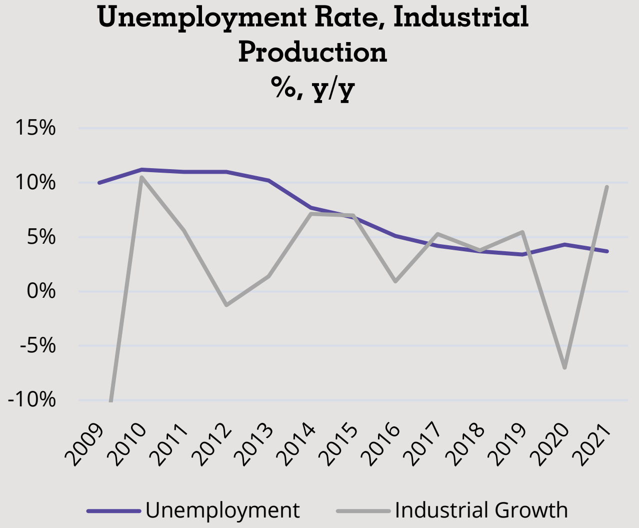
According to the Hungarian Statistical Office, GDP expanded by 7.1% in 2021 (after a recession of -5% in 2020) with a particularly vigorous Q4. The consensus forecast is now for a growth of around 6% in 2022.

The combination of the strong GDP data and the inflationary pressure will encourage the MNB to further tighten its policy which already saw significant rate hikes in 2021 with a repo rate now at 2.90%.

Unemployment rate fell further in 2021 and stands now at 3.70% nationwide with the major economic hubs of the country experiencing staff shortages.



Source: CSU, Avison Young



Source: CSU, Avison Young

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