

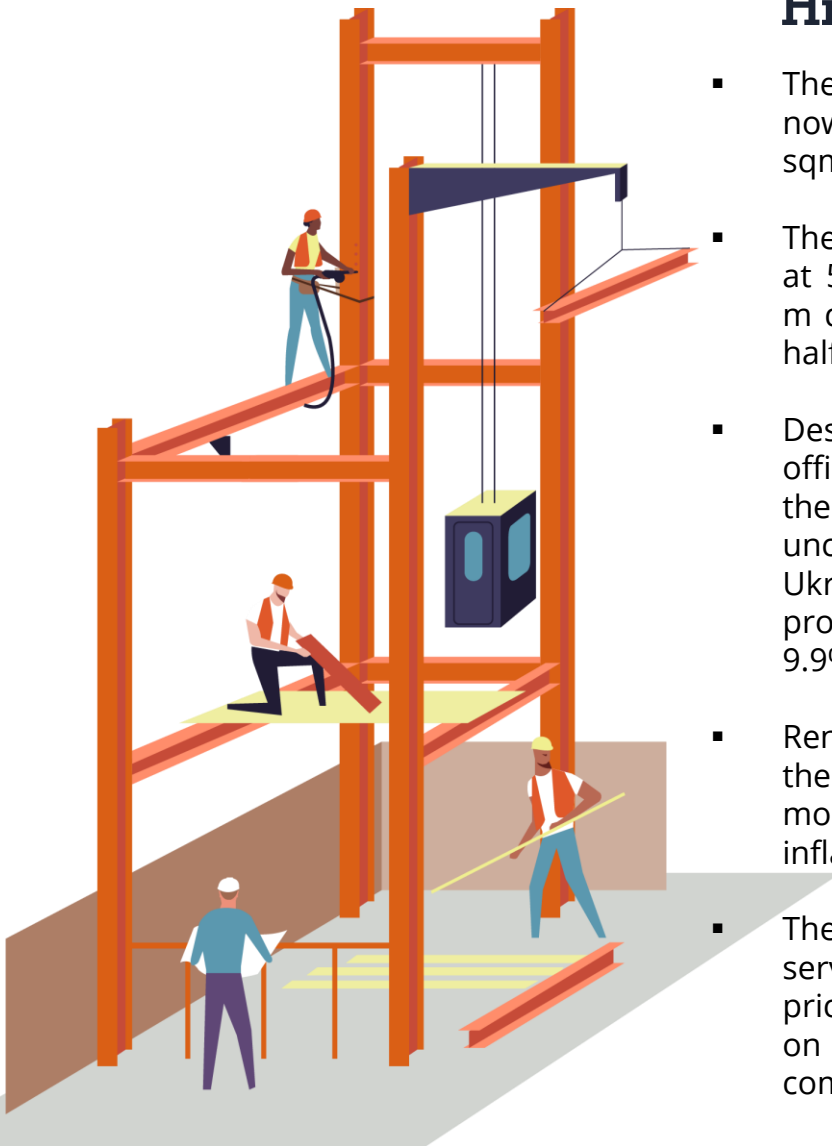
Avisource

H1 2022 Budapest

Office Market Tracker

Highlights

- The Budapest office stock has now passed the symbolic 4 million sqm threshold
- The construction pipeline stands at 560,000 sq m with 190,000 sq m due to complete in the second half of 2022.
- Despite the slowdown in the office market activity caused by the Covid-19 pandemic and the uncertainties of the war in Ukraine, the vacancy rate progression was contained at 9.9%.
- Rental rates remained stable as the softening of the market was more than offset by the price inflation of building material.
- The upcoming sharp increase of service charge levels due to utility prices will put significant pressure on landlord and tenants in the coming months.



TOTAL
OFFICE STOCK

4.1 m sq m



NEW SUPPLY
H1 2022

98,000 sq m



VACANCY RATE

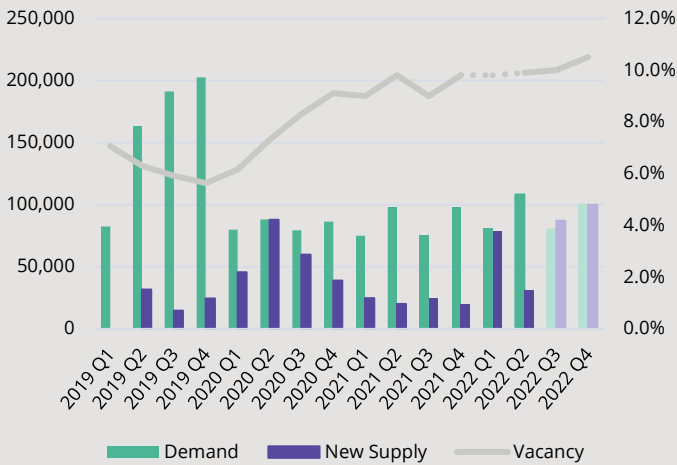
9.9%



UNDER CONSTRUCTION
/ REFURBISHMENT

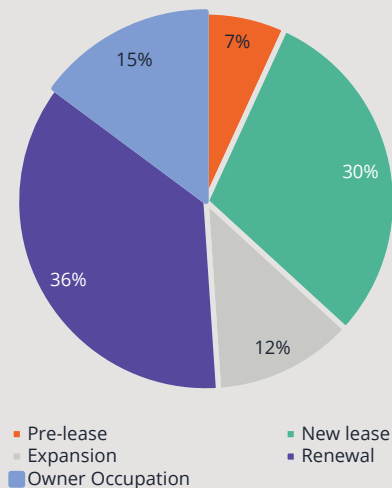
434,000 sq m

New Supply, Demand and Vacancy sq m, %



Source: Avison Young, BRF

Demand Structure H1 2022



Source: Avison Young, BRF

Prime headline rents (€/sqm/mth)

CBD	23.00 – 24.00
Inner City	15.00 – 18.00
Outer City	12.00 – 14.00



Source: Avison Young

Office Leasing

While the beginning of 2022 was active with a goof recovery of the activity and leads, the end of the semester offered a more challenging context with the contradictory talks of high inflationary pressure, increasing interest rates and recession risks.

98,000 sq m were delivered in the first semester, taking the total market size above the 4 million sq m threshold. Two buildings were owner occupier deliveries (OTP Bank and Hungarian Central Bank) while other deliveries included Green Court B (Diageo new HQ), The Pillar (Exxon new HQ) and Office Garden IV. Almost 85% of this new stock was occupied at delivery.

On the demand side, a third of the leasing activity was generated by renewals while new leases and deliveries for owner occupiers accounted for 45% of the transactions.

Gross total demand stood at 188,000 sq m in line with the second semester of 2021. BRF registered a total of 266 leases during the first half of the year, with an average size of 710 sq m.

The Váci Corridor remained the most popular and active submarket with 32% of the occupational activity. The Pest Central sub-market came second (15%), followed by Buda South (14%) and Buda North (12%).

Beside the large owner occupier take-up transactions of OTP Bank (28,000 sq m added to their Váci Corridor campus) and the Hungarian Central Bank (9,850 sqm refurbishment of Buda Palota), the largest leasing transactions were renewals registered in Infopark D (8,410 sqm), Maros BC (6,150 sq m to a public tenant), Szépvölgyi 22 (4,200 sqm) and Residence (4,090 sq m) and new leases in Myhive Haller Gardens (5,420 sq m to a public tenant), Liberty (3,780 sq m to eMAG) and Dorrottya Udvar (3,765 sq m to The Soul Publishing).

The vacancy rate has increased and stands at 9.9% (+70 bps vs end 2021). 190,000 sq m currently under are due for delivery in H2 2022 with an average 63% occupancy secured.

Take-up (sq m)	H1 2022	vs. H1 2021
Gross take up	188,770	172,890
Net absorption	77,820	96,240

Source: BRF, Avison Young

Building	Occupier / Tenant	Area (sq m)
M12-OTP Campus	OTP Bank	28,000
Infopark D	Confidential	8,410
Maros BC	Public	6,150
Myhive Haller Gardens	Public	5,420
Szépvölgyi 22	Confidential	4,200
Residence	Confidential	4,090
Liberty	eMAG	3,780
Dorrottya Udvar	The Soul Publishing	3,765

Source: BRF, Avison Young

Rents and Service Charge

Service charge budgets are currently dramatically rising due to increased energy prices and this will put increasing pressure on rent levels in particular at the lower end of the market as the majority of companies will have problems absorbing the increase of total occupation costs.



5.25% Prime Office Yield

Economic Background

While the beginning of the year witnessed a strong economic performance, the strength of the inflationary pressure in Hungary and more generally in Europe have forced central banks into interest rate hikes. Between early January and end of June, the MNB repo rate moved from 2.40% to 7.75% and the GDP growth rate from 8.2% in Q1 2022 to 1.1% in Q2 with a yearly forecast for 2022 now around 4.0% of growth.

Unemployment rate fell further in 2022 and stands now at 3.30% nationwide (below 3.00% in Budapest) with the major economic hubs of the country experiencing staff shortages and significant salary pressure.

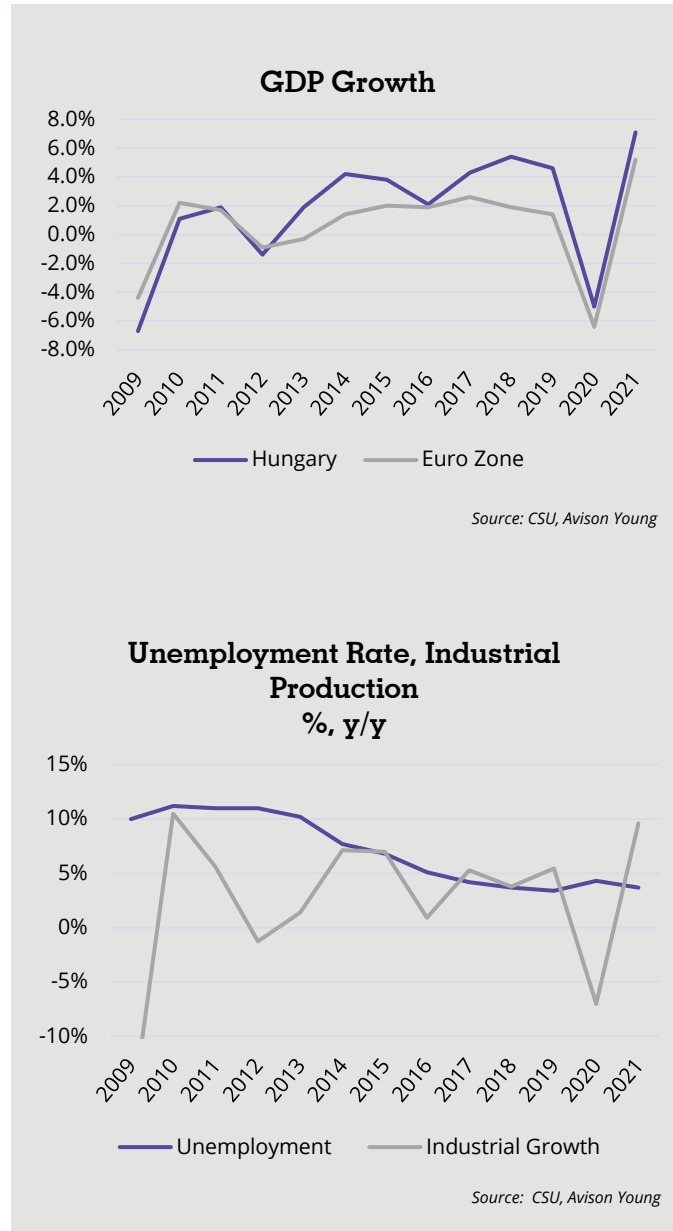
Office Investment

Office investment activity was limited and accounted for some €100 million in the first semester, a sharp decline compared to the usual transaction levels as activity was rather focused on retail and logistic assets.

The most notable transactions were the acquisition of the historic Freedom Palace at Szabadsag Square 14 by Groupama Gan REIM, a new entrant on the market as well as the purchase by Europa Capital and their local partner ConvergenCE of the Akademia Business Center both in prime CBD locations.

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.



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