



HUNGARY

# BUDAPEST OFFICE MARKET

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2018 FULL YEAR



# 2018 MARKET SUMMARY AND OUTLOOK

In 2018 leasing activity was exceptionally strong with an annual net-take up of 385,800 sq m, while total leasing activity reached 535,600 sq m including 144,500 sq m of renewals and owner occupied take up of 5,300 sq m.

Net absorption was 228,000 sq m, which is a significant increase compared to an already strong 2017 when it was 133,000 sq m.

The total market vacancy rate remained at a historically low level of 7.3% at the end of 2018, even though 230,000 sq m new supply came to the market during the year. Speculative vacancy is currently 8.8%, with an A class office vacancy rate of 6.3%, and a B class rate of 15%.

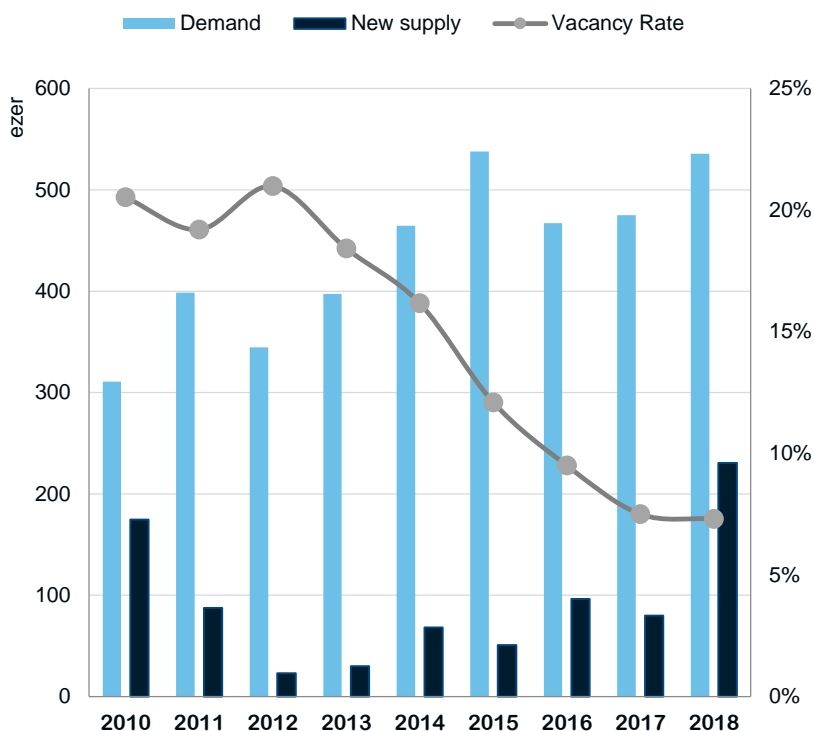
The largest deals during the year were closed by tenants active in the IT, financial and pharmaceutical sectors and by state related occupiers. Among large international tenants, we continue to see the dominance of SSC/BPO related occupiers.

At the end of 2018, the total office stock in Budapest exceeded 3.6 million sq m, out of which 3.0 million sq m is speculative stock. Twelve new office building and one refurbishment was handed over during 2018 with a total area of 230,200 sq m. The amount of new space handed over this year was almost triple the new supply in 2017, demonstrating a strong uptick in development activity.

**TABLE 1:**  
**HANDOVERS IN 2018**

Building name	Size (sq m)	Submarket	Handover (2018)
New Telekom HQ	58,800	Non Central pest	Q4
Mill Park	36,000	Central Pest	Q3
Promenade Gardens	22,500	Váci Corridor	Q2
Hillside Offices	21,920	Central Buda	Q4
White House	21,560	Vávi Corridor	Q2
Váci Greens D	15,650	Váci Corridor	Q1
Tópark Offices	15,000	Periphery (Biatorbágy)	Q4
Graphisoft Park South	13,000	North Buda	Q2
Advance Tower I	11,340	Váci Corridor	Q3
Pasarét Officebuilding	5,870	North Buda	Q4
EcoDome	4,830	Central Buda	Q4
Markó Offices 9	2,630	Central Pest	Q1
Société Budapest	1,120	CBD	Q4
<b>Total:</b>	<b>230,220</b>		

**FIGURE 1:  
SUPPLY, DEMAND AND VACANCY RATE**



## LEASING ACTIVITY

Total leasing activity reached 535,600 sq m, approximately 13% higher than the volume realized in 2017, however net take up showed a much stronger 38% increase which underlines how rapidly the market expanded.

Strong tenant demand is also reflected in the high pre-lease rate, with almost 40% of the speculative pipeline under construction already secured at the end of 2018.

The distribution of the deals was similar to last year, with a minor increase in the share of pre-leases (+3%) and new leases (+10%) in the total leased area (TLA). At the same time, renewals were only 27% of the TLA, down 2% from the same period last year.

The Váci Corridor, Budapest's largest submarket, remained the most sought-after location, both in terms of leasing (36% of the TLA) and development activity, with 44.5% of the pipeline under construction. The South Buda submarket was the second most popular, accounting for 14.3% of the TLA and 22.5% of the current pipeline.

Older buildings vacated by large tenants have been also able to lease up spaces vacated by departing tenants at stable or increasing rents due to the tightness of the market.

The average tenant size of class A office buildings is larger than in class B office buildings, largely because the class A market remains dominated by multinational companies.



## VACANCY RATE, RENT AND DEVELOPMENT PIPELINE

The market has been in a growing phase since 2012, and has been accelerating rapidly since 2014. The best evidence is the drastic decrease in the vacancy rate - which stood at 21% in 2012 and decreased to 7.5% by the end of 2017. Despite the significant increase in new supply of 2018, the vacancy rate continued to decrease from 7.5% to 7.3% by the end of 2018.

The market remained landlord driven in 2018, with the average headline rent level in prime locations increasing by approximately 5%. This trend is expected to continue at least through 2020 unless there is a major change in the overall economic environment.

Colliers forecasts sustained rental growth for Class A properties across all submarkets except the Periphery, which is increasingly driven by demand from Hungarian SME tenants. Rental growth in the Class B market is expected to be more moderate, driven both by Hungarian firms entering the institutional market and multinational firms seeking lower cost office options.

The total office development pipeline scheduled for completion through the end of 2020 is 307,000 sq m, out of which over 106,000 sq m is expected to be handed over by the end of 2019.

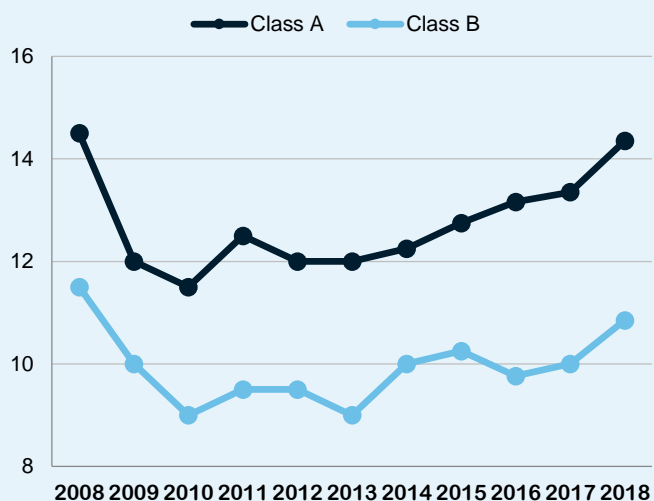
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*Colliers forecasts sustained rental growth for Class A properties until the end of 2020.*

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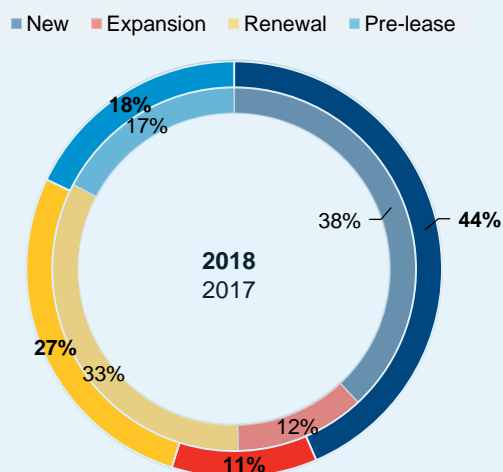
**FIGURE 2: AVERAGE ASKING RENT (EUR/SQ M/MONTH) 2008-2018**

Rents have been increasing in both Class A and Class B office buildings since 2013. The average asking rent of class A buildings is currently above 14 EUR/month, while the average class B rents are just below 11 EUR/month. While rents vary between submarkets and there is significantly greater variance in the Class B market rent levels in the core markets (CBD and Váci Corridor) have increased more than the remaining submarkets.



**FIGURE 3: TYPE OF TRANSACTIONS IN BUDAPEST 2017 VS 2018**

Comparing 2018 to 2017 (excluding owner-occupied deals), we can observe a clear shift in the share of transactions. Previously renewal transactions had a much larger share, while in 2018 we experienced a change in this trend with increasingly higher share of new / pre-lease deals.



**TABLE 2: PROJECTS IN PIPELINE 2019-2020 (OVER 20,000 SQ M)**

The whole speculative office pipeline - including office buildings also under 20,000 sq m - till 2020 accounts to 307,000 sq m, out of which 106,000 sq m office space is expected to be handed over by the end of 2019.

The 17 office buildings that are in the pipeline until the end of 2020 are concentrated mainly on 4 submarkets including Non-central Pest, South Buda, Váci Corridor and Central Pest.

50% of the expected handovers will be on Váci Corridor that is followed by Central Pest with 21% and South Buda submarket with 17%.

Developer	Building name	Expected handover	Size (sq m)	Submarket
Futureal	Corvin Technology & Science Park I,II	2019 Q2-Q3	27,400	Central Pest
Futureal	Budapest One	2019 Q4	27,359	South Buda
Atenor	Arena Business Campus Phase I	2020 Q1	20,000	Non-central Pest
HB Reavis	Agora Tower	2020 Q1	34,500	Váci Corridor
HB Reavis	Agora Hub	2020 Q2	32,600	Váci Corridor
Atenor	Váci Greens F	2020 Q2	22,462	Váci Corridor
Atenor	Váci Greens E	2019 Q3	22,585	Váci Corridor
TriGranit	Millenium Gardens	2020 Q4	37,312	Central Pest

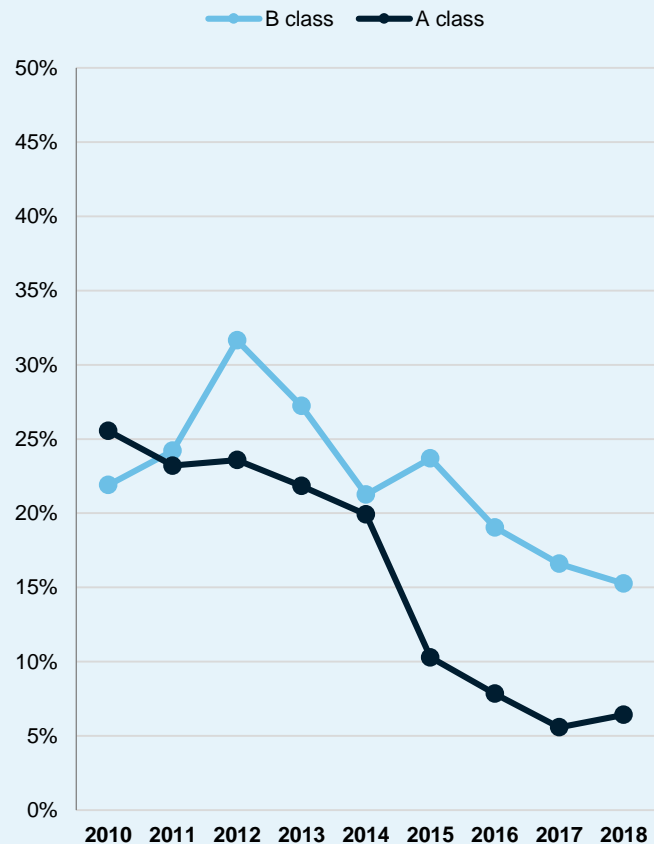
**TABLE 3:**  
**BUDAPEST OFFICE MARKET TRENDS**  
**(YEAR-ON-YEAR CHANGE)**

Type of trend	2016	2017	2018	TREND
Office TLA	-15%	+2%	+13%	▲
Office net take-up	-16%	-2%	+39%	▲
Office vacancy rate	-2.6pps	-2.0pps	-0.2pps	▼
Net absorption	-16%	-14%	+78%	▲

**FIGURE 4: BUDAPEST SPECULATIVE VACANCY RATE (2010-2018)**

As the vacancy rate in some submarkets falls below 5%, prospective tenants have been forced to consider alternative locations. For example, during 2018 year the vacancy rate in Non-Central Pest fell from 6.6% to 3.4%, in North Buda it fell from 8.4% to 5.1% and on the Váci Corridor it fell from 8.6% to 4.3%

However, in other submarkets the vacancy rate increased by more than 5% as major tenants moved to other submarkets. This trend is visible in the Central Buda submarket where the total market vacancy rate jumped from 4.2% to 9.0% in a year, when the former Magyar Telekom HQ became vacant on Krisztina krt. The other example for this is South Buda where the vacancy rate grew from 3.3% to 12.6%, also driven by the relocation of the Magyar Telekom HQ. Due to these relocations and the associated transfer of two buildings totalling 30,545 sq m from the owner-occupied stock to the speculative stock caused a sudden spike in vacancy rates in the above outlined submarkets.



## OUTLOOK FOR 2019

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The market is expected to remain landlord driven through the end of 2019 and likely well into 2020, with strong rental growth in the core CBD, South Buda, Central Buda and Váci Corridor submarkets.

Considering the 106,000 sq m pipeline for 2019, which is only half as much as it was in 2018 and assuming that the demand remains similarly strong as last year, the vacancy level will be under downward pressure throughout 2019.

Rising construction costs have already brought pre-lease rents to parity or even higher than current market rents. This, together with capacity constraints within the construction industry, has limited some of the project to start and will continue to do so in 2019.

As a result, well-located new development outside the CBD will see average headline rents reach EUR 16/sq m/month by the end of 2019.

Tenants will continue to consolidate into single buildings where possible, fuelling competition for the limited large blocks of contiguous space and driving pre-leasing earlier in the development pipeline.

Finding 5,000 sq m + units in quality office buildings in core locations has become increasingly difficult since early 2017. We expect that tenants will face similar challenges throughout 2019 and 2020 despite the healthy pipeline of new projects due to the already high pre-lease rates.



*Well-located new development outside the CBD will see average headline rents reach or exceed EUR 16/ sq m/month in 2019.*



## FOR MORE INFORMATION

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