



HUNGARY

BUDAPEST OFFICE MARKET

2019 H1



2019 H1 MARKET SUMMARY AND OUTLOOK

In 2019 H1 period, the leasing activity was strong with a total net-take up of 178,900 sq m, while the leasing activity (TLA) reached 243,400 sq m including 64,400 sq m of renewals.

Net absorption reached 72,100 sq m during this period, which is a slight decrease compared to 2018 H1 when it was 79,800 sq m.

The total market vacancy rate reached a record-low level of 6.3% by the end of H1 2019. The speculative vacancy rate is currently 7.6%, with an A class office vacancy rate of 5.0%, and a B class rate of 13.6%.

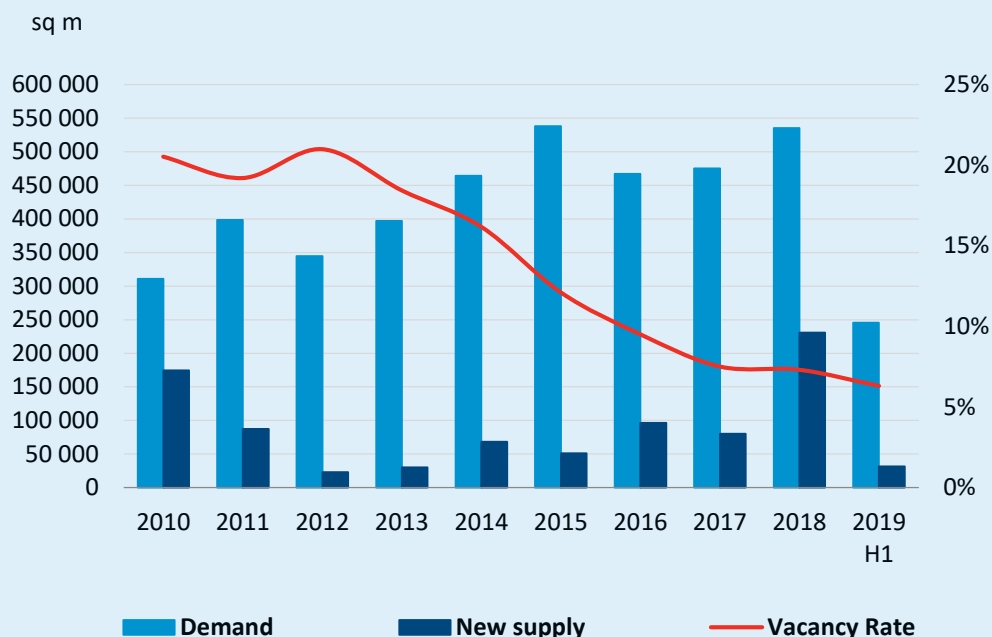
The largest deals during 2019 H1 period were closed by tenants active in IT, financial and pharmaceutical sectors and by state related occupiers. Among large international tenants, we continue to see the dominance of SSC/BPO related occupiers.

At the end of 2019 H1, the total office stock in Budapest exceeded the 3.6 million sq m, out of which 3.0 million sq m is the speculative stock. Three new office buildings and one refurbishment were handed over during the first half of the year with a total area of 31,700 sq m.

TABLE 1:
HANDOVERS IN 2019 H1

Building name	Size (sq m)	Submarket	Handover (2019 H1)
Ferrum	3,380	Non Central Pest	Q2
Molnár19	4,560	Central Pest	Q2
Corvin Technology & Science Park (I)	12,180	Váci Corridor	Q2
Corvin Technology & Science Park (II)	11,570	Central Buda	Q2
Total:	~31,700		

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



LEASING ACTIVITY

The total leasing activity reached 243,400 sq m, approximately 4% lower than the volume realized in 2018 H1, however the net take up showed a 3% increase.

Strong tenant demand is also reflected in the high pre-lease rate. Almost 40% of the speculative pipeline being under construction was already secured by the end of 2018 and even so the pre-lease rate could grow inside of the share of leasing distribution.

The distribution of transactions in the total leasing activity (TLA) was different to last semi-annual year, with an increase of pre-leases (+5 ppt) and with a decrease of the renewals (+5 ppt). At the same time, new transactions showed almost an equal share compared to the same period of last year.

The Váci Corridor, Budapest's largest submarket, remained the most sought-after location, both in terms of leasing (33% of the TLA) and development activity, with 50% of the pipeline under construction. The South Buda submarket was the second most popular, accounting for 20% of the TLA and 24% of the current speculative 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.



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 a record low level of 6.3% by H1 2019.

The market remained landlord driven in 2019 as well, with average headline rent level in prime locations increasing by approximately 5% since last year. 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 speculative office development pipeline scheduled for completion till the end of 2021 is 404,000 sq m, out of which 95,000 sq m is expected to be handed over by the end of 2019.

FIGURE 2: BUDAPEST SPECULATIVE VACANCY RATE (2010-2019 H1)

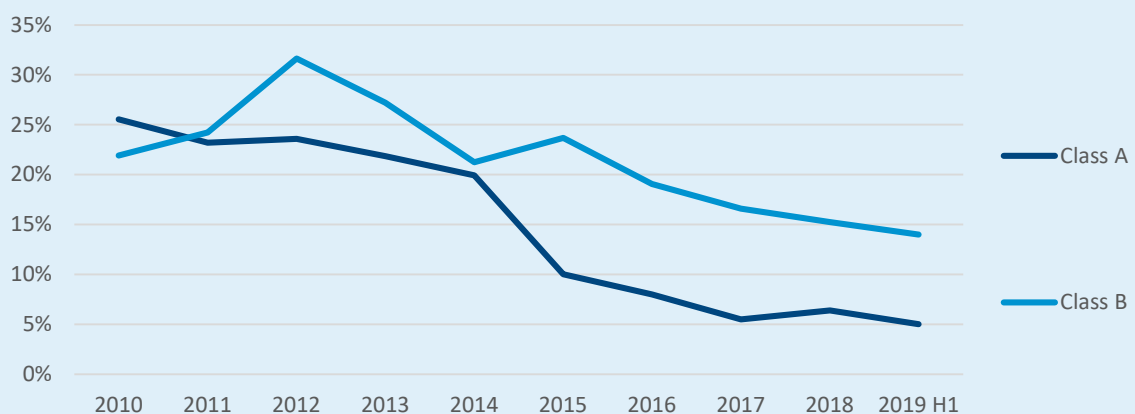


FIGURE 2: AVERAGE ASKING RENT (EUR/SQ M/MONTH) 2008-2019 H1

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 14,5 EUR/month, while the average class B rents are 11 EUR/month.

While rent levels usually vary between submarkets, there is a significantly greater variance in the Class B market rent levels depending on locations.

In the core markets (CBD and Váci Corridor) the rent levels of Class B buildings increased more than on the remaining submarkets.

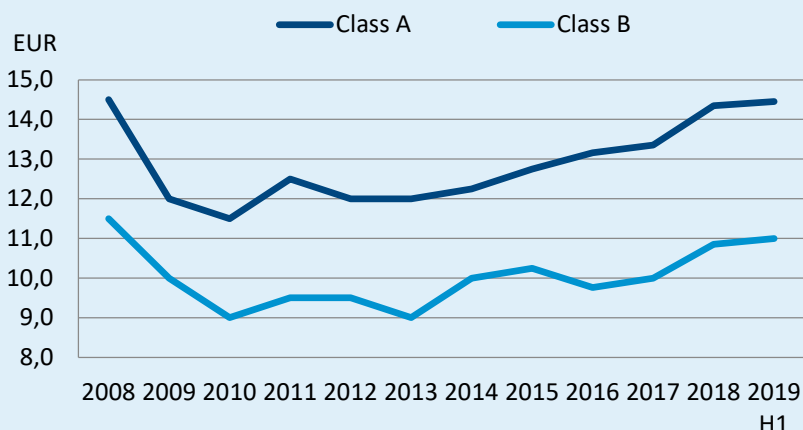


FIGURE 3: TYPE OF TRANSACTIONS IN BUDAPEST 2018 H1 VS 2019 H1

In 2019 H1, we can observe a clear shift in the share of transactions comparing to 2018 H1. Renewal transactions had a 5 ppt lower share, while we experienced a positive shift towards the pre-lease deals with a 5-ppt increase. This shows the emerging dominance of new projects among the tenants, which can be partly attributed to the lack of available existing areas to lease.

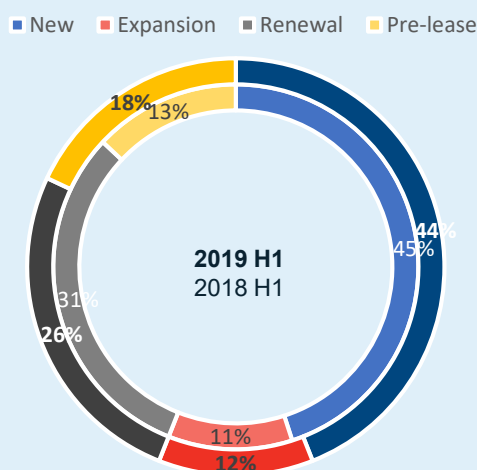


TABLE 2: PROJECTS IN PIPELINE 2019 H2-2021 (OVER 20,000 SQ M)

The whole speculative office pipeline - including office buildings also under 20,000 sq m - till 2021 accounts for 404,000 sq m, out of which 95,000 sq m office space is expected to be handed over by the end of 2019.

The 23 office buildings - being in the pipeline till the end of 2021 - 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 South Buda with 24%.

Developer	Building name	Expected handover	Size (sq m)	Submarket
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	2020 Q3	22,585	Váci Corridor
Codic	Green Court	2020 Q4	21,000	Váci Corridor
GTC	Pillar	2021 Q2	29,000	Váci Corridor
TriGranit	Millenium Gardens	2021 Q3	37,312	Central Pest

OUTLOOK



Well-located new developments outside the CBD will see average headline rents reach or exceed EUR 15/sqm /month in 2019.



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

Considering the pipeline for 2019 (137,000 sq m), which is 100,000 sq m less than it was in 2018 and assuming that the demand remains similarly strong as last year, the vacancy level will remain under downward pressure until the end of 2019.

As a result, well-located new development outside the CBD will see average headline rents reach or exceed EUR 15/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 until the end of 2019 and in 2020 despite the healthy pipeline of new projects due to the already high pre-lease rates.



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



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