HUNGARY

BUDAPEST
OFFICE MARKET

2019 FULL YEAR

2019 MARKET SUMMARY AND OUTLOOK

In 2019, the leasing activity was exceptionally strong with an annual net-take up of 361,980 sq m, while total leasing activity reached 637,120 sq m including 275,140 sq m of renewals.

Net absorption was 128,380 sq m, which is a significant decrease compared to the level of 228,000 sq m reached in 2018.

The total market vacancy rate remained at a historically low level of 5.6% at the end of 2019. Speculative vacancy is currently 6.7%, with an A class office vacancy rate of 4.0%, and a B class rate of 13%.

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

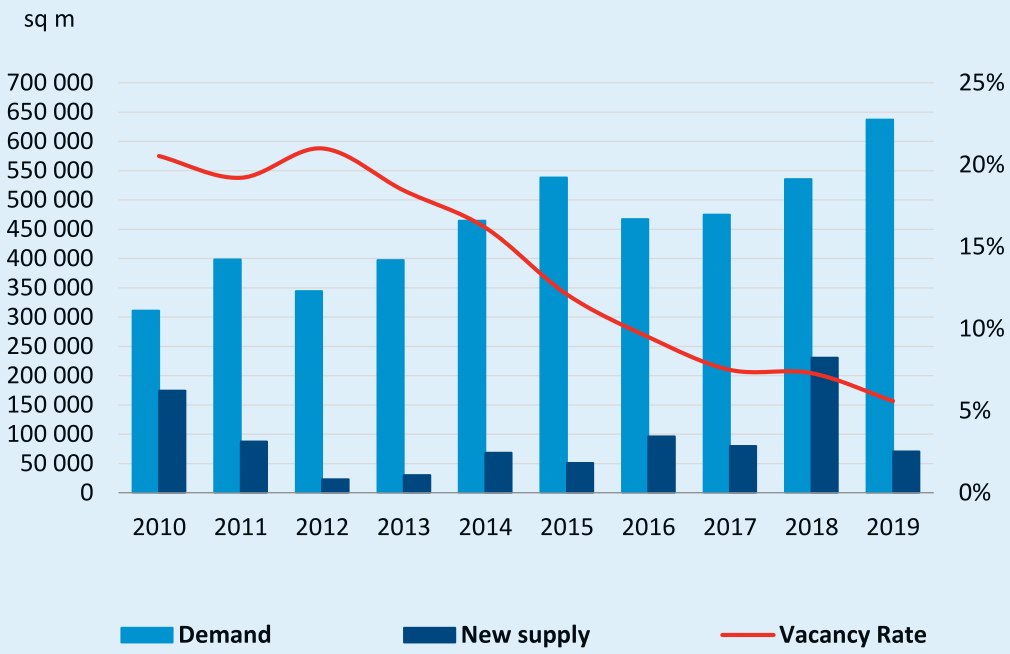
At the end of 2019, the total office stock in Budapest exceeded 3.6 million sq m, out of which 3.0 million sq m is speculative stock. Six new office buildings and two refurbishments were handed over during 2019 with a total area of 70,000 sq m. The amount of new space handed over in 2019 was 140,000 sq m less than it was in 2018.

TABLE 1:
HANDOVERS IN 2019

Building name	Size (sq m)	Submarket	Handover (2019)
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
Hungária Center	6,922	Non Central Pest	Q3
Advance Tower Phase II	7,630	Váci Corridor	Q3
Bartók Udvar II/A	8,230	South Buda	Q4
Balance Hall	15,520	Váci Corridor	Q4
Total:	~70,000		

Sources: Table 1: Colliers International

FIGURE 1:
SUPPLY, DEMAND AND VACANCY RATE



LEASING ACTIVITY

Total leasing activity reached 637,117 sq m, approximately 16% higher than the volume realized in 2018, however net take up showed a 6.8% decrease which underlines the significant proportion of renewal deals from all transactions (43%).

Strong tenant demand is also reflected in the pre-lease rate (20%), with almost 40% of the speculative pipeline under construction already secured at the end of 2019.

The distribution of the deals was different compared to last year, with the 20% share of pre-leases (-2 pps y-o-y), the 29 % share of new leases (-15 pps y-o-y) and the 8% share of expansion deals (-3 pps y-o-y) in the total leased area (TLA). Renewals represented 43% of the TLA, (+16 pps y-o-y).

The Váci Corridor, Budapest’s largest submarket, remained the most sought-after location, both in terms of leasing (35.6% of the TLA) and development activity, with 41.4% of the pipeline under construction. The Central Pest submarket was the second most popular, accounting for 9.6% of the TLA and 16.8% of the current speculative pipeline.

The office market is also characterised by the trend of relocations. The companies prefer to move from older stock to new one in order to find more modern, cost-effective and tenant-oriented spaces for their employees.

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

The average transaction size of class A office buildings was larger (1,400 sq m) than in class B office buildings (300 sq m), mainly because the class A market is dominated by multinational companies.

Sources: Figure 1: Colliers International

VACANCY RATE, RENT AND DEVELOPMENT PIPELINE

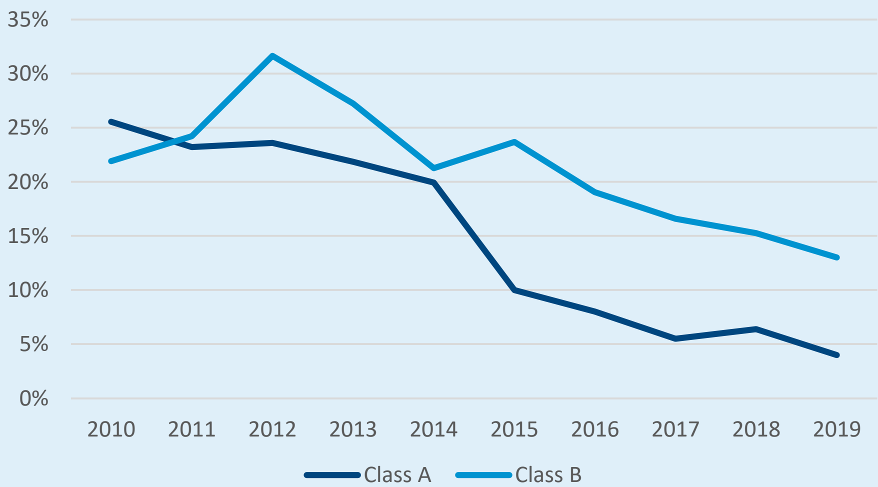
The market has been in a growing phase since 2012, and has been accelerating rapidly since 2014. The best evidence is the drastic decrease in the vacancy rate - which stood at 21% in 2012 and decreased to 5.6% by the end of 2019. Despite the significant increase in new supply in 2018 & 2019, the vacancy rate continued to decrease.

The market remained landlord driven in 2019, with the average headline rent level in prime locations increasing by approximately 5-10%. 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) mainly driven by large SSC/BPO occupiers. Rental growth in the Class B market is expected to be more moderate, driven both by Hungarian SME firms entering the institutional market and multinational firms seeking lower cost office options.

The total office development pipeline scheduled for completion until the end of 2021 is 573,000 sq m, out of which over 229,000 sq m is expected to be handed over by the end of 2020.

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



Sources: Figure 2: Colliers International

FIGURE 3: AVERAGE ASKING RENT (EUR/SQ M/MONTH) 2008-2019

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 15 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 in case of Class A buildings increased more significantly than by other submarkets. In the CBD, the average asking rent level of Class A office buildings can exceed even the 20 EUR/month.

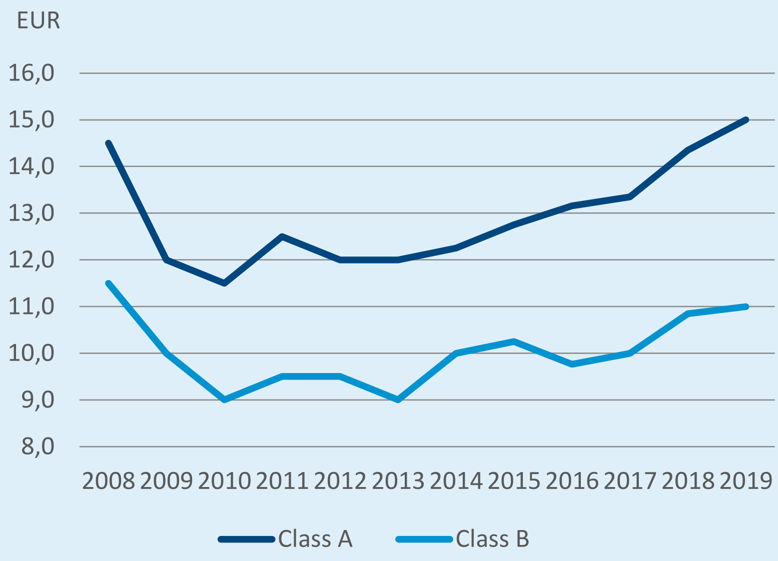


FIGURE 4: TYPE OF TRANSACTIONS IN BUDAPEST

In 2019, we can observe a clear shift in the share of transactions comparing to 2018. Renewal transactions had a 16-ppt higher share, while we experienced a negative shift towards new deals with a 15-ppt decrease. This can be partly attributed to the lack of available existing areas to lease.

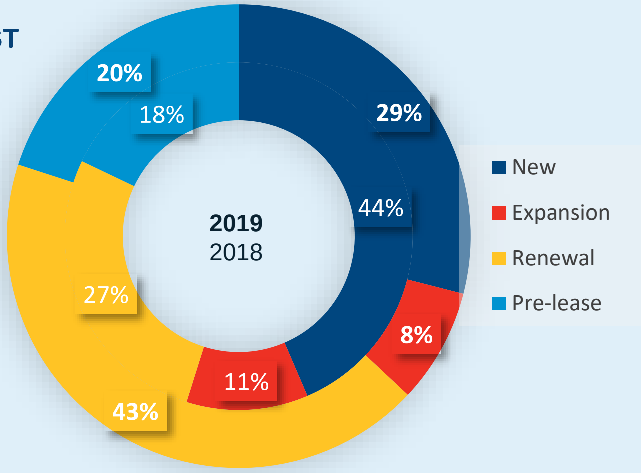


TABLE 2: PROJECTS IN THE SPECULATIVE PIPELINE 2020-2021 (OVER 20,000 SQ M)

The whole speculative office pipeline - including office buildings also under 20,000 sq m - till the end of 2021 accounts for 424,000 sq m, out of which 219,000 sq m office space is expected to be handed over by the end of 2020.

The 22 speculative 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.

41% of the expected handovers will be on Váci Corridor. South Buda is second largest developing submarket after Váci Corridor, with 28% of expected handovers.

Developer	Building name	Expected handover	Size (sq m)	Submarket
Futureal	Budapest One	2020 Q1	27,300	South Buda
Atenor	Arena Business Campus Phase I	2020 Q1	20,700	Non-central Pest
HB Reavis	Agora Tower	2020 Q1	34,500	Váci Corridor
HB Reavis	Agora Hub	2020 Q3	32,600	Váci Corridor
Atenor	Váci Greens F	2020 Q2	22,600	Váci Corridor
Atenor	Váci Greens E	2020 Q3	22,400	Váci Corridor
Codic	Green Court	2021 Q2	21,000	Váci Corridor
GTC	Pillar	2021 Q2	29,000	Váci Corridor
TriGranit	Millenium Gardens	2021 Q3	37,300	Central Pest
Wing	Liberty	2021 Q4	42,000	Non-central Pest

Sources: Figure 3: Colliers International | Figure 4: Colliers International | Table 2: Colliers International

OUTLOOK

> *Well-located new developments in Váci Corridor is expected to exceed a headline rent of EUR 16/sqm /month in 2020.*

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 2020 (229,000 sq m), and assuming that the demand remains similar as during the previous years, the vacancy level will be stabilized until the end of 2020.

We expect that well-located new developments in the most rapidly developing Váci Corridor submarket will see average headline rents exceeding EUR 16 /sq m/month by the end of 2020.

We expect that demand will remain strong in 2020 with BPO/SSC companies accounting a significant share of it. Furthermore, tenant consolidations into single buildings will fuel competition for the limited large blocks of contiguous spaces.

The share of transactions related to shared office / co-working tenants will continue to increase because there is a visible growing request for the flexible office spaces.

We forecast that the pre-lease deals will account even a larger share of the demand due to the strong development pipeline.

Finding 5,000 sq m + units in existing 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 2020, despite the healthy pipeline of new projects due to the already high pre-lease rates. As a result, we expect that new projects will be initiated during 2020 to fulfill the strong tenant interest.

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

DISCLAIMER

COVID-19

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