

Avisource

H1 2021
Budapest

Office Market Tracker



Highlights

- In the first half of 2021, the total office stock reached 3.95 million sq m with the majority of new supply located in the Buda South sub-market (41,700 sq m across 2 buildings).
- The construction pipeline stands at 370,000 sqm with 87,000 sqm due to complete in the second half of the year.
- Despite higher vacancy at 9.8% and the slowdown in the office market activity caused by the Covid-19 pandemic, rental rates have remained stable to date with only marginal adjustments.



TOTAL
OFFICE STOCK

3.95 m sq m



NEW SUPPLY
H1 2021

44,400 sq m



VACANCY RATE

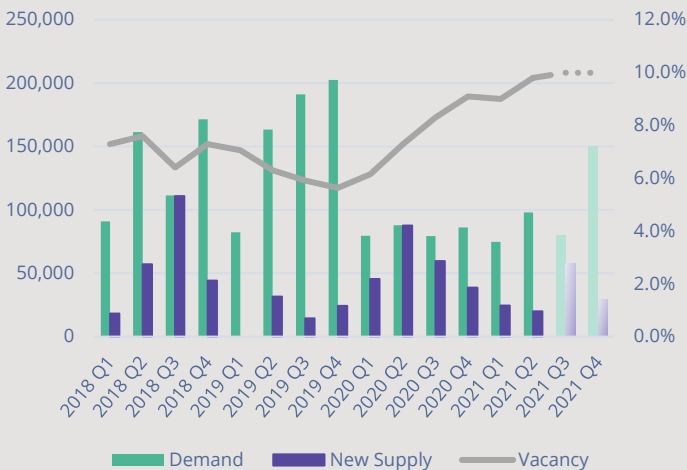
9.8%



UNDER CONSTRUCTION
/ REFURBISHMENT

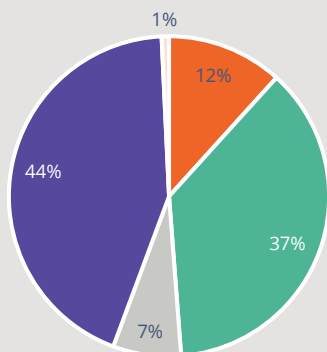
370,000 sq m

New Supply, Demand and Vacancy sq m, %



Source: Avison Young, BRF

Demand Structure H1 2021



Pre-lease New lease Expansion Renewal Owner Occupation

Source: Avison Young, BRF

Prime headline rents (€/sqm/mth)

CBD	23.00 – 24.50
Inner City	14.50 – 17.50
Outer City	12.50 – 15.00



Source: Avison Young

Rents

Despite higher vacancy and a slowdown in the office market activity caused by the Covid-19 pandemic, rental rates have remained stable so far.

Incentives packages will be decisive in securing new lettings in the coming months, especially so in submarkets with the largest pipeline and sublease options.

Office Leasing

During the first semester of 2021, the office market continued to be affected by the Covid-19 pandemic through both the demand and supply sides. On the supply side, some development projects are being delayed as developers seek preleases instead of continuing with fully speculative constructions. This is particularly pronounced in secondary locations. On the demand side, in a time of uncertainty, some companies decided to prolong their existing leases and delay the implementation of any rationalising initiatives, nonetheless the total demand proved very resilient with a total take-up of 172,900 sq m in line with H1 2020 but showing a contraction of roughly 30% compared to H1 in 2018 or 2019.

Renewals accounted for some 43% of the total take-up in H1 2021 vs. 37% for new leases. Pre-lease are now limited to 12% of the total demand while they represented more than 20% back in 2019.

Following the deliveries of some 44,400 sq m in the first half of 2021, in the form of Universzum Evosoft HQ (22,000 sq m), Budapest City (19,700 sq m) and JA4 Loft Office (2,700 sq m), the total office stock has reached 3.95 million sq m.

370,000 sq m are currently under construction or refurbishment with an expected delivery by the end of 2022 including 87,000 sqm due in the second half of 2021. However more than 50% of this pipeline is pre-let or earmarked for owner occupation.

Some large leasing transactions were announced with a pre-lease of 14,450 sq m by IBM in the new Corvin Innovation Campus; the renewal of Magyar Posta for 13,780 sq m in Gateway and the renewal of 11,500 sq m in Globe Thirteen by a State entity. Large new leases were also announced for Huawei in Agora for 7,180 sq m; RTL in Liget Center for 5,000 sq m and Randstad in Green Court Office for 1,370 sq m.

The vacancy rate increased due to negative net absorption and stands now at 9.8% representing roughly 387,000 sq m. In addition, the total amount of office space offered for sublease is estimated at roughly 60,000 sq m.

Take-up (sq m)	H1 2021	vs. H1 2020
Gross	172,890	+ 3%
Net	96,240	+12%

Source: BRF, Avison Young

Building	Tenant	Area (sq m)
Corvin Innovation	IBM	14,450
Gateway	Hungarian Post	13,780
Globe Thirteen	Hungarian State	11,500
Agora	Huawei	7,180
Liget Center	RTL	5,000

Source: BRF, Avison Young

Office Investment

Investment activity was subdued during the first half of 2021. While the total volume of transactions reaching some €590 million is in line with past year levels for H1, the number of deals reduced, and the weight of local capital increased as international investors were absent. Local capital secured more than 80% of the total volume of transactions.

In this context, the majority of the transaction volume is attributed to offices accounting for more than 80% of the total. The most notable transactions were the acquisition of Universzum Offices by GTC. The 2 buildings representing some 44,000 sqm were built-to-suit projects by WING for Ericsson (2017) and Evosoft, a subsidiary of Siemens (2021), are located in the major office hub of Buda South between Infopark and the Danube bank. GTC also acquired the Váci Greens Building D while Building F was acquired by a local investment manager.

One of the rare transactions involving international investors was the acquisition by Fosun Group, through one of their European businesses, of the Váci Corridor BC140 Office Building sold by DWS.

Economic Background

According to the Hungarian Statistical Office, the GDP fell by 5% in 2020 but the recovery is expected at a level above +6% in 2021 (Q1 alone was at +1.9% QoQ).

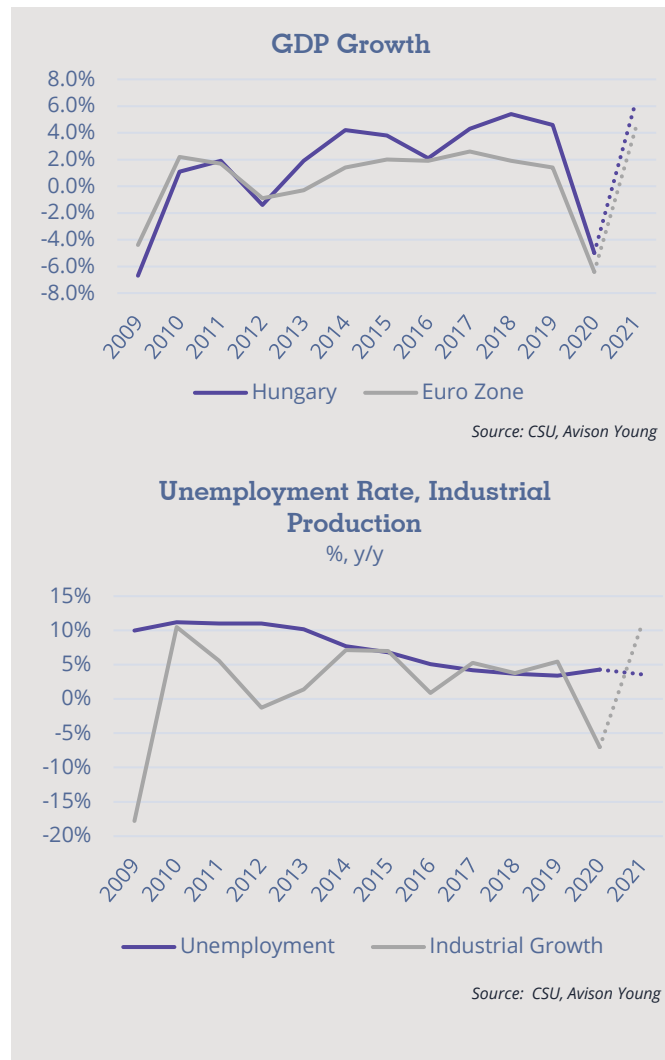
Unemployment is down from 4.8% in the summer of 2020 to a level of 4.1% by the end of H1 2021.

To combat inflation (above +5% YoY in April) due to the strong economic bounce back and general wage growth (+10% YoY), the central bank already went through 3 rate hikes in 2021, taking the benchmark to 1.50% by Q3 2021.



5.25%

Prime Office Yield



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