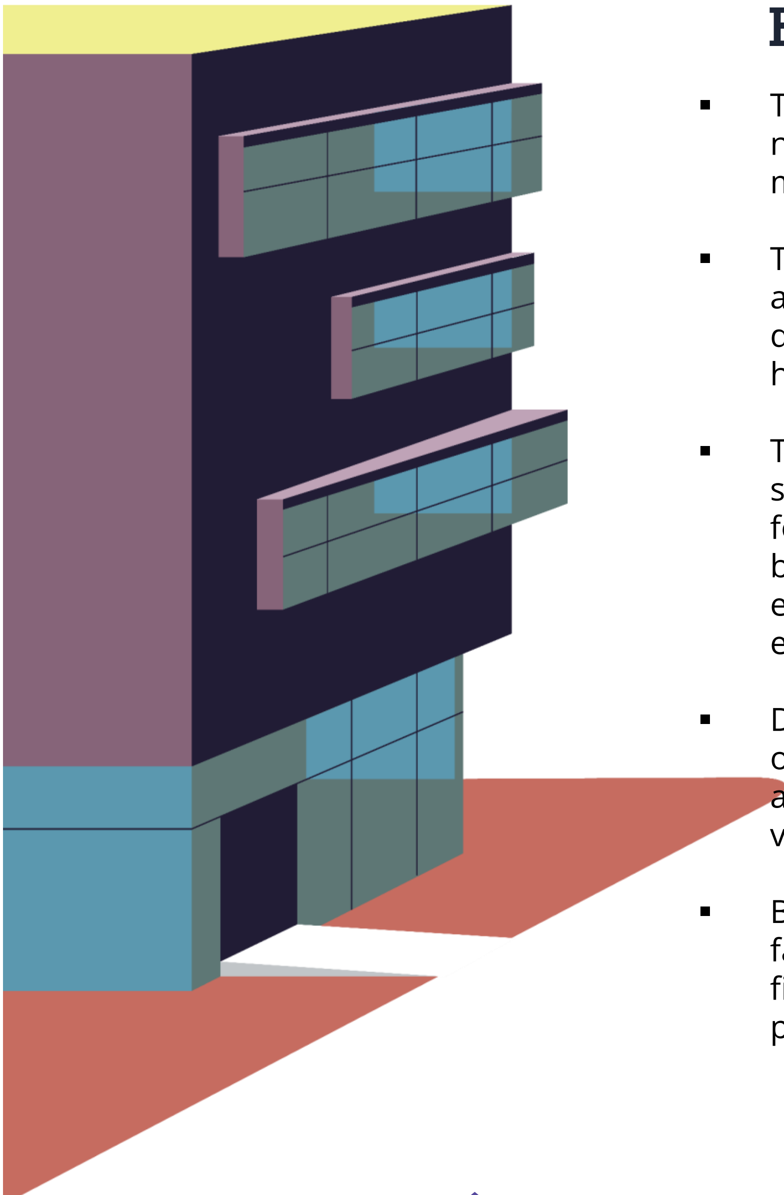
AVISON YOUNG

# Avisource
## H1 2023
## Budapest

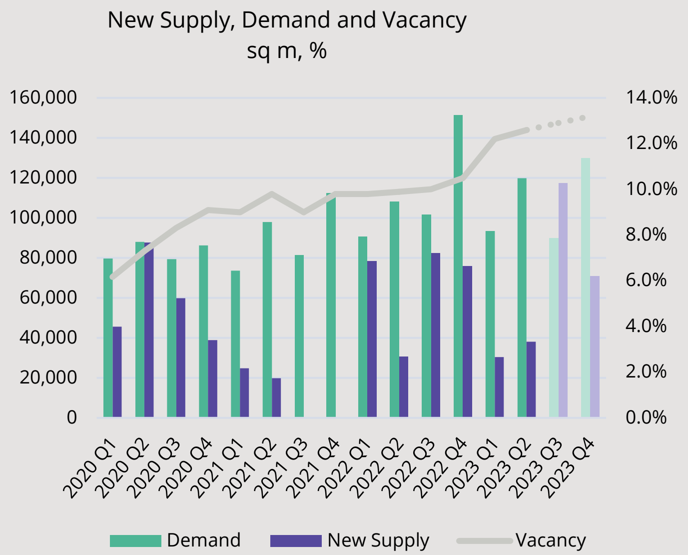
## Office Market Tracker



## Highlights

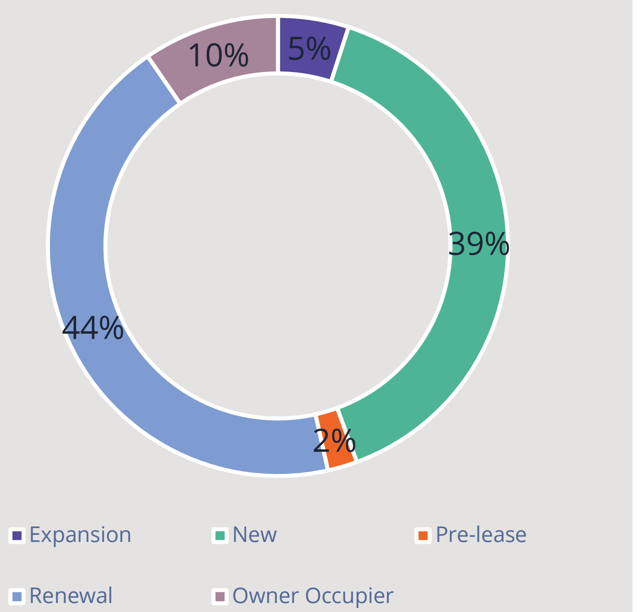
- The Budapest office stock has now passed the milestone of 4.3 million sqm
- The construction pipeline stands at 327,000 sq m with 185,000 sqm due to complete in the second half of 2023.
- Tenants and investors alike are showing an increasing preference for environmentally friendly buildings that promoted energy efficiency and reduced environmental impact.
- Due to the post-pandemic trend of companies downsizing and adopting a hybrid model, the vacancy rate increased to 12.6%.
- Both landlords and tenants still face considerable pressure due to fit-out costs which remain at their peak.

| TOTAL OFFICE STOCK | NEW SUPPLY H1 2023 | VACANCY RATE | UNDER CONSTRUCTION / REFURBISHMENT |
|---|---|---|---|
| **4.35 m sq m** | **68,350 sq m** | **12.6%** | **327,000 sq m** |




*Source: Avison Young, BRF*

## Demand Structure H1 2023




*Source: Avison Young, BRF*

## Prime headline rents (€/sqm/mth)

| | |
|---|---|
| CBD | 22.00 – 23.50 |
| Inner City | 15.00 – 18.50 |
| Outer City | 12.00 – 14.00 |

*Source: Avison Young*

## Office Leasing

Although the start of 2023 showed relatively lower activity, the latter part of the semester witnessed a highly dynamic environment in the Budapest office market. There was a noticeable surge in demand, leading to multiple transactions involving office spaces in excess of 3,000 sq m in size.

Six office buildings were delivered in the first semester, adding up to 68,350 sqm and taking the total market size above the 4.35 million sqm threshold. The deliveries included Corvin Innovation Campus (Phase 1), BIF Tower (Refurbishment), Krausz Palota (Refurbishment), RoseVille, F99 and BudaPart Downtown.

As construction costs are not coming down while the rental market has soften, developers are focusing on completing ongoing projects rather than aggressively launching new ones.

On the demand side, 44% of the leasing activity was generated by renewals (a significant increase over the 32% for the full 2022) while new leases and pre-leases accounted for 42%.
Gross total demand stood at 213,390 sq m in line with the first semester of 2022.

The Váci Corridor remained the most popular and active submarket with 32% of the occupational activity, with Pest Central second (22%). However, in terms of vacancy rate, the sub-markets of Central and North Buda are the most resilient, with vacancy rates of 5% and 7%, helped by a very constrained pipeline. The prime rents in these two sub-markets have also shown a more significant increase due to the limited vacancy and strong demand.

The overall vacancy rate has increased and stands at 12.6% (+130 bps vs end 2022). 185,000 sq m are currently under construction and due for delivery in H2 2023 with an average 60% occupancy secured as of the end of June 2023.

| Take-up (sq m) | H1 2023 | vs. H1 2022 |
|---|---|---|
| Gross take up | **213,390** | **198,715** |
| Net take up | **99,250** | **92,794** |

*Source: BRF, Avison Young*

| Building | Occupier / Tenant | Area (sq m) |
|---|---|---|
| Millenium Tower | WizzAir | 8,100 |
| Rumbach Center | BKK | 7,000 |
| Hungária Office Park | Lightware | 7,000 |
| Promenade Gardens | Celanese | 5,400 |
| H2Offices | Albemarle | 5,000 |
| Corvin Offices | IWG | 4,500 |
| IT Campus | ISB | 4,000 |
| N97 | Medical Clinic | 3,600 |

*Source: BRF, Avison Young*

## Rents and Service Charge

Service charge costs have stabilised and have been relatively easily absorbed by the market so far. Some of the new developments can now offer service charge costs 50% below those of buildings using "standard" equipment (gas furnace or district heating). Price adjustments have now also impacted the CBD where prime rents come down from the peak of 25.00 €/sqm/mth.

**6.25%**

**Prime Office Yield**

## Economic Background

While Inflation finally started to come down in June with the lowest monthly reading since September 2021, the yearly rate remains above 20%. Single digit inflation is expected by Nov 2023. Economic activity has slowed in all sectors in the first half of the year, but the technical recession might end during the summer on the back of strong agricultural output.
While domestic demand remains weak (high inflation, tight credit conditions), exports are performing well, and the trade balance has been in surplus (decrease of imported energy costs). GDP growth is expected at +0.5% in 2023 and +2.8% in 2024 after a performance of +4.6% in 2022.
In this context the National Bank was able to normalise its rate policy with 2 rate cuts of 100 bps in May and July with the effective rate standing at 15% at end of July.

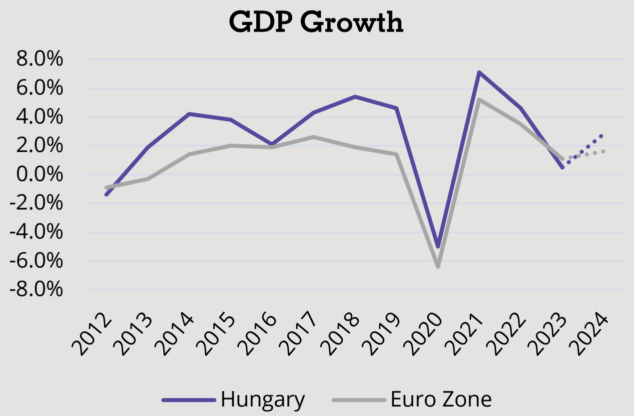
## Office Investment

Since 2022 Q3, transactions have stalled and less than €140 million were registered in H1 2023 with less than €60 million in the office segment.

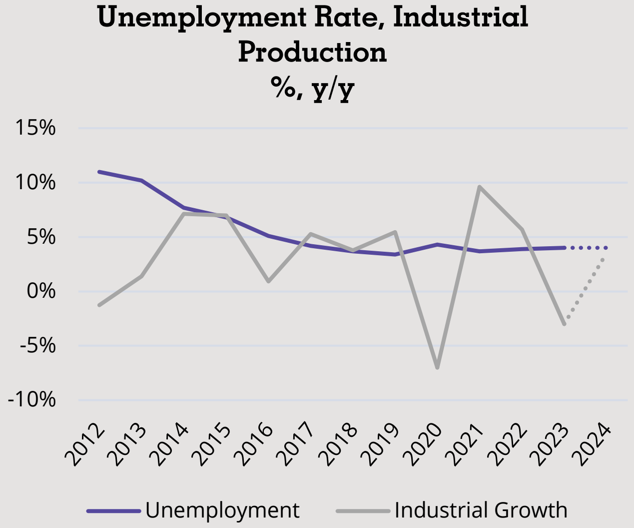
The main transaction was the acquisition by FLE of the Vizivaros Office Center from CA Immo. The other transactions included smaller assets such as Hattyúház acquired by Indotek and N97 acquired by a private hospital operator for conversion.

Pricing in the core segment has soften even if the repricing is limited compared to the core+, value-add and Grade B categories. As debt finance become scarer and pricier, the failure rate of transactions has dramatically increase and full equity deals are the only safe option for sellers.

Beyond the credit conditions, the fundamental factor contributing to the decline in the number and volume of transactions is the ongoing process of price discovery in the new market context. The on-going discussions indicate that the situation is improving, and that buyers and sellers are currently closing the price gap. We should therefore experience an increased activity in the second semester.




*Source: CSU, Avison Young*




*Source: CSU, Avison Young*

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