2020 Full Year

Budapest Office Market

2020 market summary & outlook

In 2020, a significant drop was registered in the occupier's demand since the previous years. Leasing activity slowed down, and the net-take up only reached 182,600 sq m, while total leasing activity was 334,700 sq m that is approximately half of the last year's demand. Net absorption in 2020 was only 63,800 sq m, which is 50% of the 2019 volume.

The total market vacancy rate increased to 9.1% at the end of 2020 as a result of more moderate leasing activity and considerable speculative new supply (226,500 sq m) delivered by the end of 2020. Speculative vacancy rate stands at 10.8%, with A class office vacancy rate of 9.0%, and a B class rate of 15.7%. The increasing supply of sublease spaces on the market results in approximately 2% „hidden vacancy" on top of the above figures.

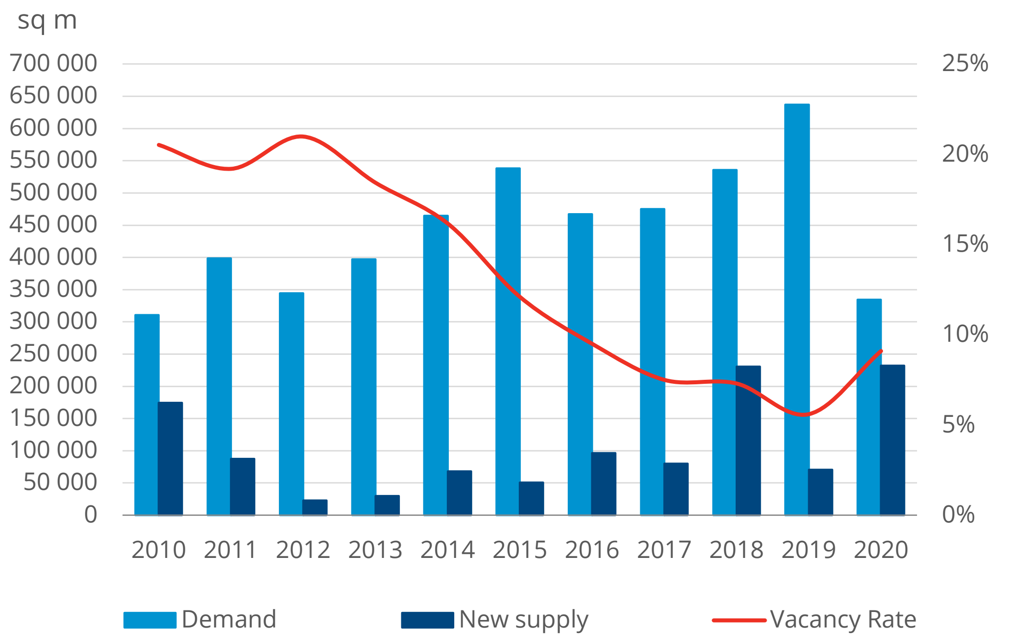
The largest deals during 2020 were closed by tenants active in the media, IT, financial advisory sector and state related occupiers. Among large international tenants, we still see the dominance of SSC/BPO occupiers.
As a result of the economic impacts and uncertainties caused by COVID-19 pandemic, many companies suspended their decisions regarding their expansion or relocation in order to observe the development of the market situation from a safe spot. Furthermore, some companies also decided to potentially reconsider their office space set up and space requirements for the future in light of the current home office trends.

Eleven new speculative office buildings and three refurbishments were handed over during 2020 with a total area of 226,500 sq m which is significantly more compared to the same period (70,500 sq m) in 2019. The total office stock thus exceeded the 3.9 million sq m, out of which 3.29 million sq m is speculative stock.

TABLE 1: Speculative office building completions in 2020

Building name	Size (sq m)	Submarket	Handover (2020)
BudaPart Gate	18,160	South Buda	Q1
Budapest One Phase I	27,398	South Buda	Q1
Arena Business Campus Phase I	20,400	Non Central Pest	Q2
Váci Greens F	25,052	Váci Corridor	Q2
AGORA Tower	34,500	Váci Corridor	Q2
Kálmán Imre 20	2,300	CBD	Q2
Gizella Loft	8,500	Non Central Pest	Q3
Nordic Light Trio	13,285	Váci Corridor	Q3
AGORA Hub	34,500	Váci Corridor	Q3
Irányi Palace	3,500	CBD	Q3
Alphagon	4,693	South Buda	Q4
Csalogány 43	3,250	Central Buda	Q4
Szervita Square	8,449	CBD	Q4
Váci Greens E	22,462	Váci Corridor	Q4
Total:	226,500		

Sources:: Colliers International



LEASING ACTIVITY

Total leasing activity reached 334,700 sq m, approximately 48% lower than the volume realized in 2019, however net take up showed an even more significant 50% decrease. The proportion of renewal deals from all transactions remained similar to the average level of last years with 43.2%.

The distribution of the deals was different compared to the same period of last year, with 13.2% share of pre-leases (-6.8 pps y-o-y), 31.2% share of new leases (+2.2 pps y-o-y) and 10.1% share of expansion deals (+2.1 pps y-o-y) in the total leased area (TLA). Renewals represented almost half of the TLA. In 2020, only one owner-occupied transaction was recorded. (Market 6.0 office building, 2.2% of total activity).

Similarly, to last year Váci Corridor submarket remained the most sought-after location in terms of leasing activity with 21.4% of the TLA, which was followed by the South Buda submarket as the second most popular, accounting for 19.8% of the TLA.

Many companies moved from older stock to new one in order to find more modern, greener, cost-effective and employee-oriented spaces. As a result, the vacancy rate in older B class speculative buildings vacated by large tenants was increasing more rapidly in 2020 already reaching 15% by Q4. The vacancy rate in this segment further increased by adding older, previously owner-occupied buildings to the stock.

Most tenants remained cautious with their relocation/expansion, plans, therefore, the volume of pre-lease contracts and new type of deals were lower in 2020. Those tenants who have expiring lease contracts are forced to proceed with their current negotiations, therefore, many transactions are still ongoing.

A number of companies are reducing the size or redefining the structure of their leased premises as a result of recent experiences related to home office, which became widespread during the pandemic period. Some tenants have already revised their demand for office space, and many can follow in the upcoming period.

Sources: Colliers International

Vacancy rate, rent and development pipeline

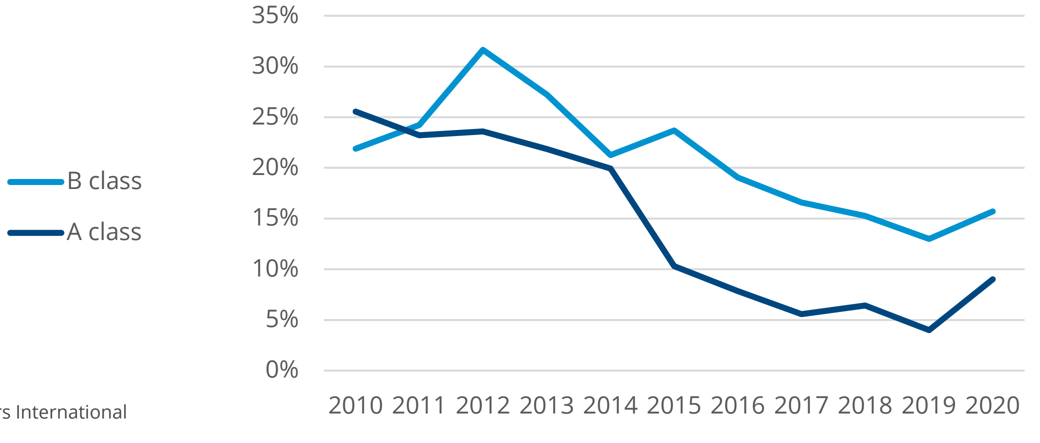
The market was in a growing phase in the period of 2012-2019. The best evidence is the drastic decrease in the vacancy rate - which stood at 21% in 2012 and decreased to 5.6% by the end of 2019. However, this trend reversed at the beginning of 2020. The combination of the pandemic related drop in demand and the number of new projects handed over in 2020, the market vacancy rate increased firmly reaching 9.1% from 5.6% last year.

The market remained mostly landlord driven till the end of 2020, although this trend may turn gradually to tenant-driven depending on the level the vacancy rate and the volume of market demand. We expect that the rent level will stabilize and not grow further at least until the beginning of 2022. Colliers forecasts stable rental level for Class A properties across all submarkets (except the Periphery), with the demand mainly driven by large SSC/BPO occupiers.

The speculative office development pipeline scheduled for completion until Q4 2022 is 327,000 sq m, out of which over 102,000 sq m is expected to be handed over by Q4 2021. Out of this new stock approximately 50% is already pre-leased. In case of those developments, which were at the early stages when the pandemic hit the market, we expect longer delays due to the slowdown of the pre-lease activity and more cautious approach of the banks that will also limit developers in proceeding with the financing and starting the construction phase. Those projects that are already under construction will be finalized, although there might be some delays in delivery dates.

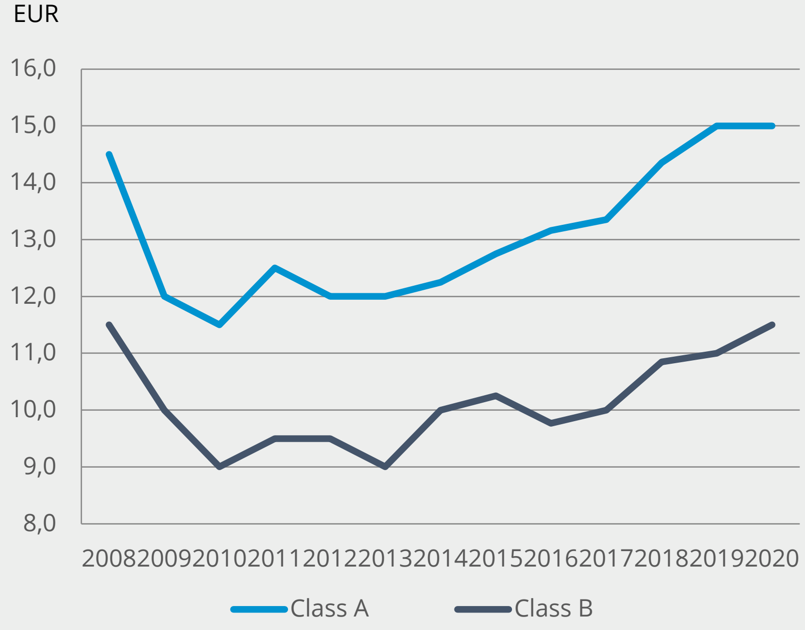
The pandemic induced large-scale remote working, which initiated space optimization by the tenants. As a result, some tenants decided to sublease their newly emerging vacant areas which created a hidden vacancy of approximately 2% over the registered official vacancy. This is in line what we experience in other Central European markets as well.

FIGURE 2: Budapest Speculative Vacancy Rate (2010-2020)



Sources: : Colliers International

FIGURE 3: Average Asking Rent 2008-2020

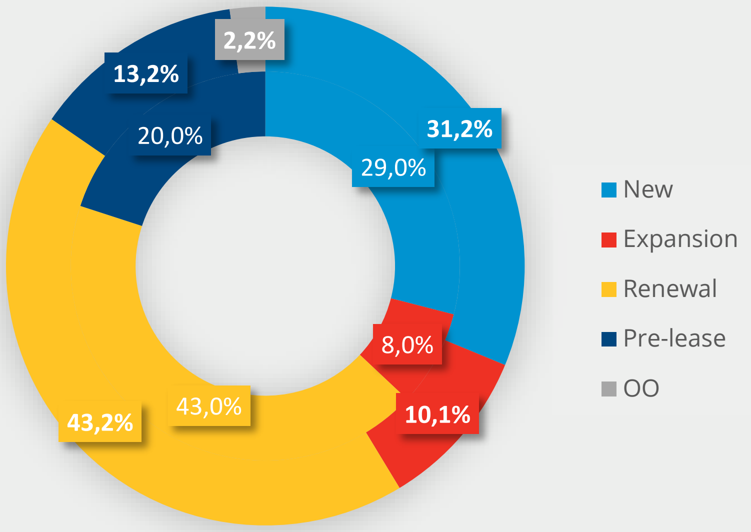


Rents have been increasing in both Class A and Class B office buildings since 2013. The average asking rent of class A buildings is currently 15.0 EUR/sq m/month, while the average class B rents are 11.5 EUR/sq m/month. New developments in key submarkets such as Váci Corridor and South Buda are expected to remain with a headline rent of EUR 16.0/sq m/month in 2020.

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

In the core submarkets (CBD&Váci Corridor) the rent level increased more significantly than in any other submarkets. The average asking rent of Class A office buildings in CBD exceed even the 20.0 EUR/sq m/month, while some landmark buildings hit even the 23-25 EUR/sq m/month.

FIGURE 4: Type of Transactions in Budapest



In 2020, we can observe a clear shift in the share of transactions compared to 2019. Pre-lease transactions experienced a negative shift in the volume of the transactions with a 6.8-ppt decrease. This can be partly attributed to the uncertainty created by the pandemic and the consequent lockdown, furthermore the negative impact on the economy.

Sources: Colliers International

TABLE 2: Projects in the speculative Pipeline 2020-2022 (over 20,000 sq m)

Developer	Building name	Expected handover	Size (sq m)	Submarket
TriGranit	Millenium Gardens Phase I.	2021 Q4	37,000	Central Pest
Wing	Liberty	2022 Q1	42,000	Non-Central Pest
Codic	Green Court	2022 Q1	21,000	Váci Corridor
Optima	The Pillar	2022 Q2	29,000	Váci Corridor
Futureal	Corvin 7	2022 Q2	29,500	Central Pest
Futureal	Budapest One Phase II-III.	2022 Q2	38,000	South Buda
Skanska	H2O Phase I.	2022 Q3	26,000	Váci Corridor

The total speculative office pipeline - including office buildings under 20,000 sq m - till the end of 2022 accounts for 327,000 sq m, out of which 102,000 sq m office space is expected to be handed over by the end of 2021.

The 18 speculative office buildings - being in the pipeline until Q4 2022 - are concentrated mainly on four submarkets: Non-central Pest, South Buda, Váci Corridor and Central Pest.

Until Q4 2022, 32% of the expected handovers (105,000 sq m) will be realized on South Buda submarket such as Budapest One phase II-III (38,000 sq m), BakerStreet phase I. (17,000 sq m), Budapart City (18,100 sq m), Office Garden IV (20,000 sq m). Váci Corridor (75,000 sqm) and Central Pest (75,000 sq m) are the following largest submarket in terms of speculative development pipeline with a share of 23-23% of expected handovers till the end of 2022.

> *Well-located new developments in Váci Corridor & South Buda submarket are expected to remain with an average headline rent around EUR 16.0/sqm /month in 2021.*

Sources: Colliers International

Outlook

Considering the speculative pipeline for 2021 (102,000 sq m), and assuming that the demand remains more modest this year as well, the vacancy level expected to increase further until the end of 2021.

We expect that well-located new developments in the key submarkets such as Váci Corridor and South Buda will see an average headline rents of EUR 16.0 /sq m/month in 2021.

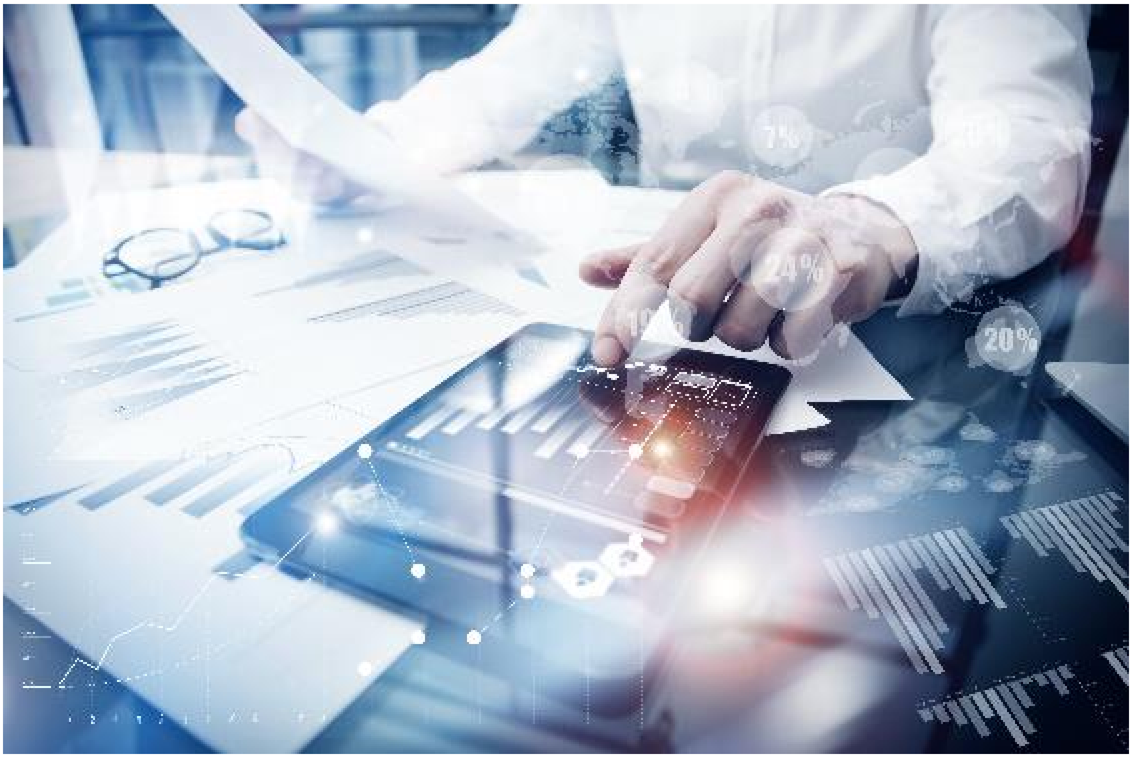
Finding large, contiguous units in existing quality office buildings in core locations has become easier as large amount of new supply came to the market in 2020. Furthermore, there were relocations of significant international tenants, who left behind larger vacant areas, so the choice become wider for tenants even with larger space requirement.

During 2021, we expect increase in the share of the proportion of new leases and pre-leases. Due to the current uncertainty and the potential long-term effects of the pandemic, tenants will require more flexibility from property owners regarding lease agreements, both in terms of incentives, lease length and the size of space leased.

We also expect an increase in interest in hybrid lease models - the space leased for a traditional office will be supplemented with co-working spaces depending on the short-term needs of organizations.

In terms of retaining talents, the trend of providing a positive experience to the employees is further strengthening. In the future, occupiers will tend to aim more and more to turn their office into a space that promotes community cohesion, fosters collaboration, while the employees feel safe. In the light of expanding home office trends, this aspect may become even more important on the long term to sustain the competitive edge of professional office environments compared to other remote working locations.

However, due to the current pandemic situation and the consequent economic hardships, it is expected that the cost optimization and space utilization will be also a key factor at the same time.



For more information

Occupier Services

Miklós Ecsődi
Direktor
+26 70 702 8563
miklos.ecsodi@colliers.com

Office Agency

Ede Gulyás
Director
+36 20 981 0244
ede.gulyas@colliers.com

Research

Tamás Steinfeld
Associate Director
+36 70 286 2505
tamas.steinfeld@colliers.com

Gertrúd Hausenblasz
Associate
+36 70 702 8626
gertrud.hausenblasz@colliers.com

123112 Москва
Пресненская набережная, д. 10
БЦ «Башня на Набережной», блок C, 52 этаж
Тел. +7 495 258 51 51
www.colliers.ru

Accelerating success.