

Modern offices 2019 H1

Handovers

About 32,000 square metres of new office space was distributed across 4 office buildings during the first half of 2019—a marked decrease compared to the first half of 2018. It is predicted that an additional 105,000 square metres of new office space will be completed by the end of 2019—

if this is achieved, the annual pace of development would have significantly decreased compared to 2018.

The biggest local stock increase was registered in the Pest Centre submarket, where the first 2 stages of Corvin Technology and Science Park were handed over (23,750 m² in total).

Developments

A stock increase of considerable measure can be anticipated in the South Buda region (i.e. 53,300 square metres).

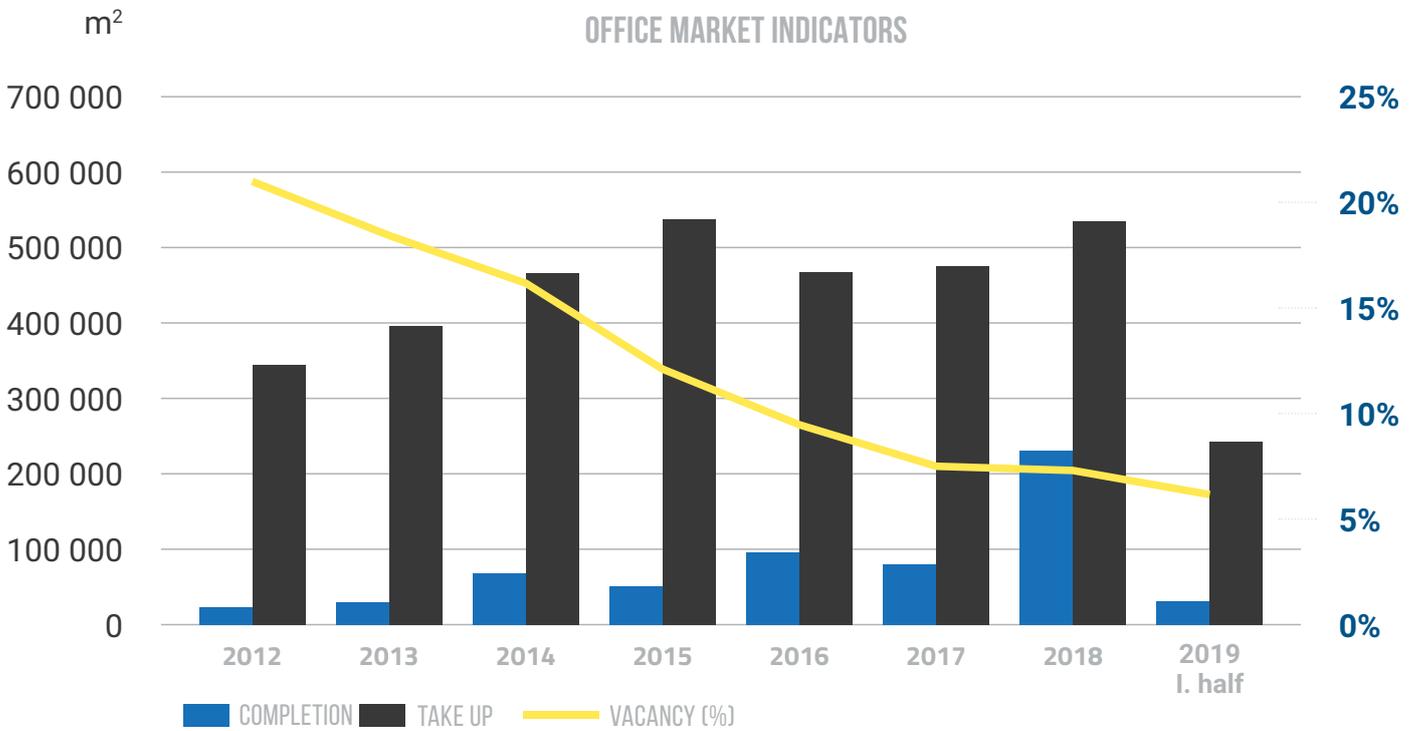
As of 2020, the Váci Street office corridor will continue to play a major role, where 150,000 square meters of new office space are scheduled to be handed over. Once this happens, the stock of modern offices will surpass 1,000,000 square metres in Budapest's office market.

Considering the developments that have already been launched, the construction of office buildings of amounting to approximately 554,000 square metres will be completed by mid-2021—out of which more than 410,000 square metres will be available for tenants, and a further 140,000 square metres will be allocated for property headquarters.

OFFICE MARKET INDICATORS 2019. I. HALF

Deliveries	31 685 m ²
Total stock	3 654 184 m ²
Speculative offices	3 049 612 m ²
Owner occupied offices	604 572 m ²
Take up	243 371 m ²
Net absorption	72 121 m ²
Vacancy	6,3%

OFFICE MARKET INDICATORS



Demand

In the first 6 months of 2019, office space demand (243,000 square metres) was only slightly below the demand for the first 6 months of 2018. The ratio of net demand remains above 70%. Net absorption was 72,000 square metres, which is favourable from the perspective of the market's stability, considering the small supply expansion.

For the first 6 months of 2019, there were only 3 rental agreements for areas larger than 5,000 square metres—2 of which were pre-lease agreements (22,000 square metres in Agora Hub and 5,000 square metres in Balance Hall), and 1 of which was a new contract (15,000 square meters in Infopark G).

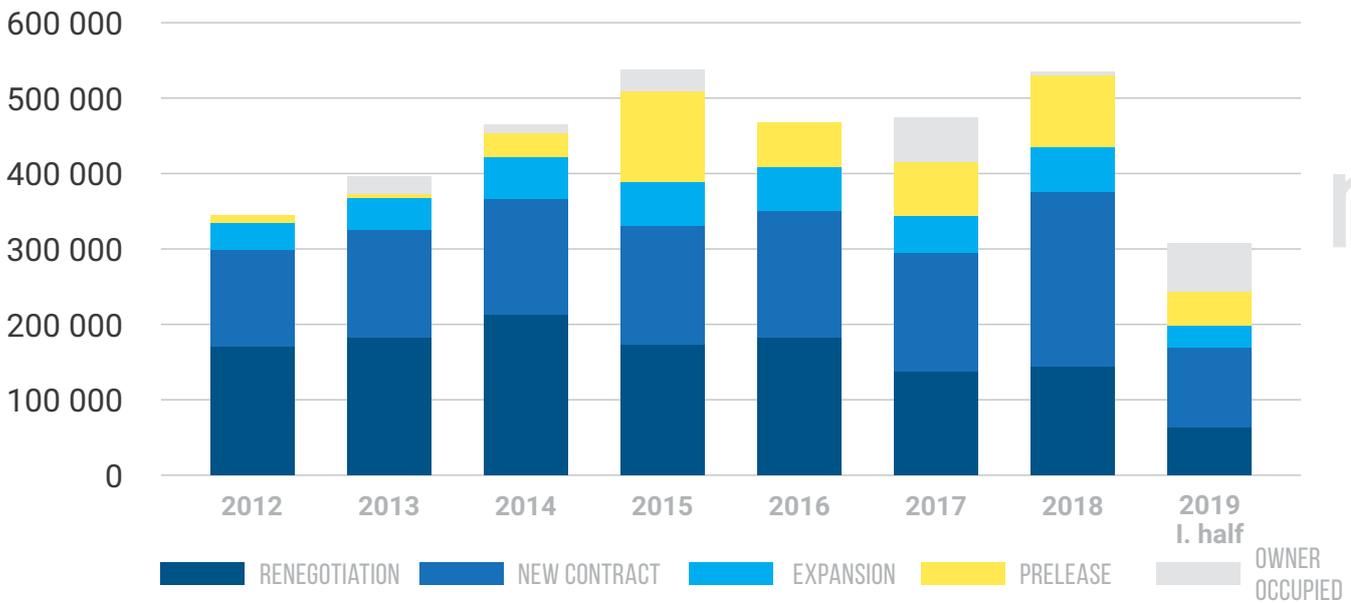
Vacancy

Once again, average market vacancy hit a record low. In mid-2019, 6.3% of the entire stock was vacant. The lowest vacancy rate can be measured in the non-central Pest submarket, where slightly more than 2% of the offices are vacant. Tenants' limited rental options are shown by the fact that, out of the 324 modern offices, only 9 can provide areas in excess of 5,000 square metres.

Given the trends in demand and the balanced pace of developments, vacancy rate will likely remain at the same level until the end of 2019.



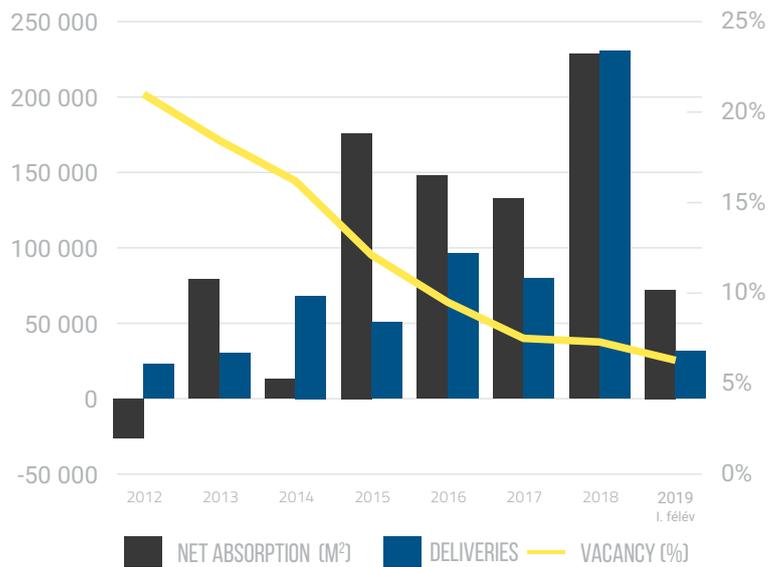
DISTRIBUTION OF TRANSACTIONS



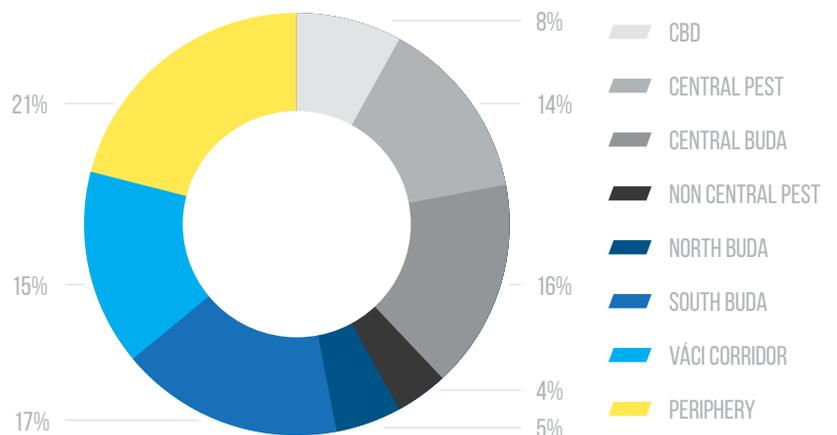
m²



NET ABSORPTION, DEVELOPMENTS, VACANCY



SPLIT OF VACANT AREA BY LOCATION 2019. I. HALF





Rental fees, yields

Office rental fees continued to rise in Budapest's office market. As a result of decreasing vacancy rates and increasing implementation costs, rental fees are proposed to increase until the end of 2019. This sector can be mainly characterised by lessor activity. The rental fee for Category 'A' properties is higher than 15 EUR/m²; whereas the average fee in the Budapest office market is between 12.5-14 EUR/m².

The yield level of office transactions continued to decrease in the first 6 months of 2019; in mid-2019, it was about 5.5-5.8%; and in prime locations, premium products were sold with a yield of less than 5%.

Submarket	Building	Size (m ²)
Központi Buda	Buda Palota	9 850
Központi Buda	Csalogány 43	3 250
Nem-központi Pest	Gizella Loft	8 500
Nem-központi Pest	Hungária Center	6 922
Dél-Buda	Bartók Udvar II/A	8 000
Dél-Buda	BudaPart Gate	18 160
Dél-Buda	Budapest One	27 359
Váci út	Advance Tower Phase II	7 631
Váci út	Balance Hall	15 520
Központi Buda total		13 100
Nem-központi Pest total		15 422
Dél-Buda total		53 519
Váci út total		23 151
2019. planned total		105

Forecast

In 2019, the development volume (which was moderate compared to that of 2018) did not allow for a significant increase in the vacancy rate. Developments continue to focus on the South Buda and Váci Street submarkets; Additionally, developers' activity is strengthening in the Könyves Kálmán Ringroad region.

Considering rising rental fees and strong demand, yields will likely continue to decrease with time. Property investors will remain positive when it comes to strong liquidity. The awaited major handovers for larger-volume transactions will likely be completed as well.