



# OFFICE MARKET

Budapest

2021 **Market Report**



## Summary of 2021

As a result of the restrictions imposed during the pandemic, the office market has undergone a significant transformation in the past two years. Accelerated digitalisation has made it possible to optimize hybrid working, which also became a basic need of employees. Therefore, the re-arrangement after the wave of home-office was not towards the old-normal in every case. As a result, the functional utilization of office space has changed, and their fit-out plans are designed according to a new set of criteria. Cooperative social spaces, phone rooms, meeting rooms and sufficient personal space have become priority. In terms of the common areas in new developments, even greater emphasis has been placed on the integration of functions supporting social and individual well-being, as well as on the implementation of further ESG aspects. Last year, only three official handovers took place, however, several new office buildings were in the finish-line by the end of the year but had to be postponed to 2022 only due to permitting processes. In view of this, and next year's expected development volume, development activity has not diminished, and the pre-leased occupancy of the new office buildings confirms a still healthy demand. The slight decline in average transaction size in the recent period reflects the lack of new, larger companies. Last year's tenant activity was rather characterized by the expansion and moving of existing tenants, however on the bright side, hand backs are still insignificant. While rising costs are expected to bring rent increase in general, the energy efficiency of new developments are likely to balance out against lower rent of older buildings, hence decrease the current rent gap.



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## Stock

In 2021, a total of 8 office buildings were moved to the owner-occupied stock, and the Forum Office Building was removed from the stock examined by the Budapest Research Forum. There is currently a total of 3,955,566 sqm modern office space in Budapest.

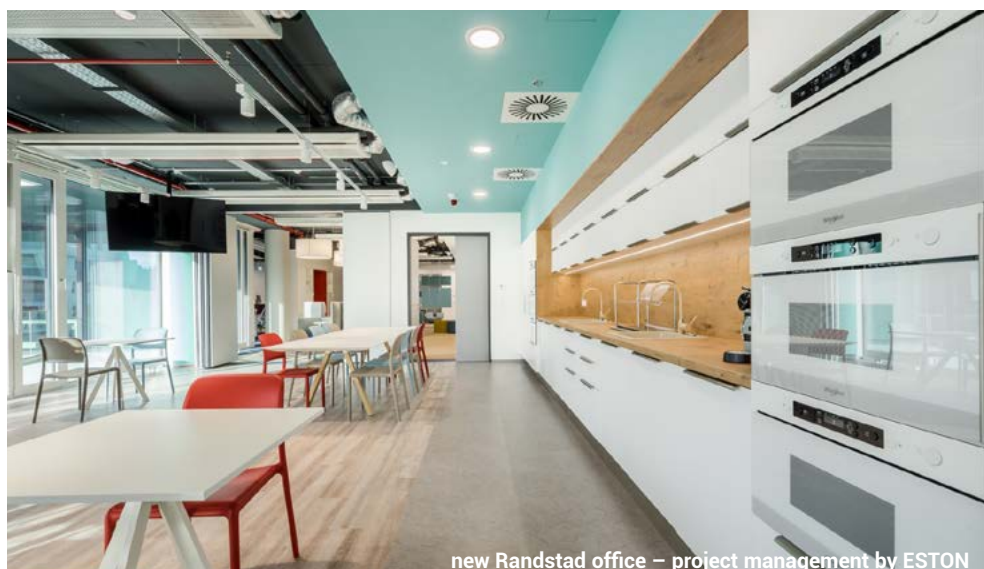


### Office market indicators (2021)

Deliveries	44 455 m <sup>2</sup>
Total stock	3 955 566 m <sup>2</sup>
Speculative offices	3 301 736 m <sup>2</sup>
Owner occupied offices	653 830 m <sup>2</sup>
Take up	366 246 m <sup>2</sup>
Net absorption	14 336 m <sup>2</sup>
Vacancy	9,2%

## Handovers

During 2021, only three office buildings were handed over, meaning a total of 44,455 square meter of new space. The slowdown in development activity can be attributed, among other things, to the continued strong growth in construction costs. Two of the three developments (Universe Office Building and BudaPart City) took place in the South Buda sub-market, thus the stock of this sub-market expanded by 41,755 square meters. The 2,700-square-meter JA4 Loft Offices was delivered on the Non-Central Pest sub-market.



new Randstad office – project management by ESTON

### Planned pipeline for H1 2022

Sub-market	Building	Size (m²)	Pre-leased
South Buda	F99	12 758	11%
Váci Corridor	Green Court Office	21 000	79%
South Buda	Office Garden IV	20 004	76%
Central Pest	Millennium Gardens I	20 000	18%
CBD	Paulay 52	2 725	0%
Váci Corridor	The Pillar	27 500	100%
Central Buda	Major Udvar	7 274	0%
Total		111 261	58%

## Pipeline

Office market supply is expected to expand by around 366,000 sq m in 2022; of which 104,850 sq m is going to be owner-occupied space – and more than half of the speculative developments is occupied under a pre-lease agreement. Development activity is strongest in the South Buda sub-market, with a total of more than 145,000 sq m new office space (7 buildings). On Váci Corridor, more than 100,000 sq m office space is expected to be completed, while the stock of the Non-Central Pest sub-market could increase by 14% in 2022.

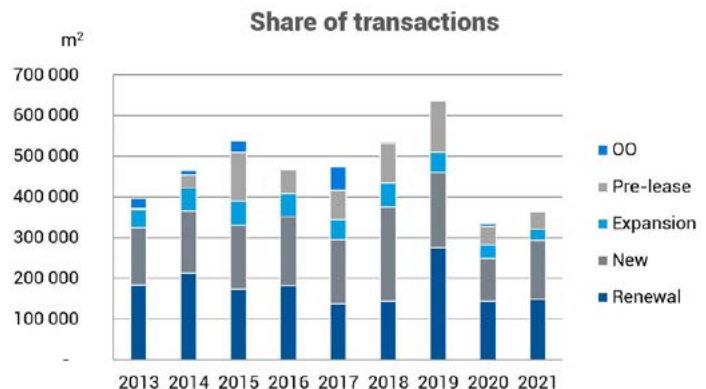




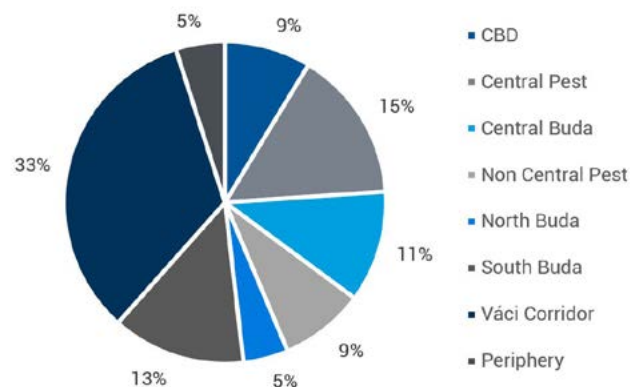
## Demand

After the drastic drop in demand in 2020, the total leasing activity of the Budapest office market showed a 9.3% growth in 2021. Within the total demand, new leases showed the highest increase, growing by 39% compared to the previous year. The total leasing activity in 2021 resulted in 366 thousand sq m of gross take-up. Renewals also increased by 2%, while expansions decreased by 18% and pre-leases dropped by 2%. The share of net demand thus increased by 5 ppts, reaching 59% of the total gross volume which still indicates a healthy structure of the market.

During 2021, 528 office lease agreements were concluded, 4 of which covered an area of more than 10,000 sq m. The largest deal (14,500 sq m) was a pre-lease agreement signed by IBM in Corvin Innovation Campus in the second quarter. The three other agreements over 10,000 sq m were renewals in the Gateway Office Building, Globe 13 and Center Point. The largest new lease was signed by Huawei in Agora Tower for nearly 5,700 sq m. The average size of transactions continues to decline, dropping from 739 sq m to 694 sq m in 2021.



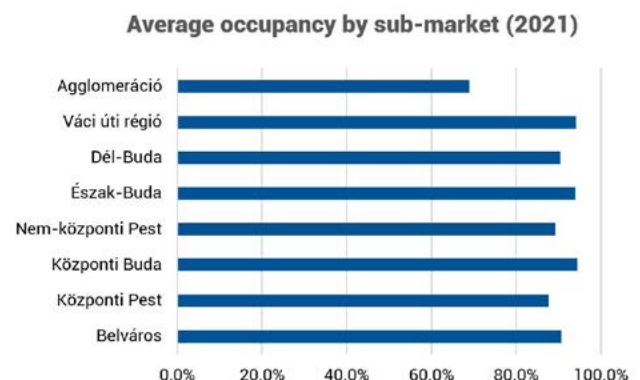
### Split of office demand (2021)



## Vacancy, market absorption

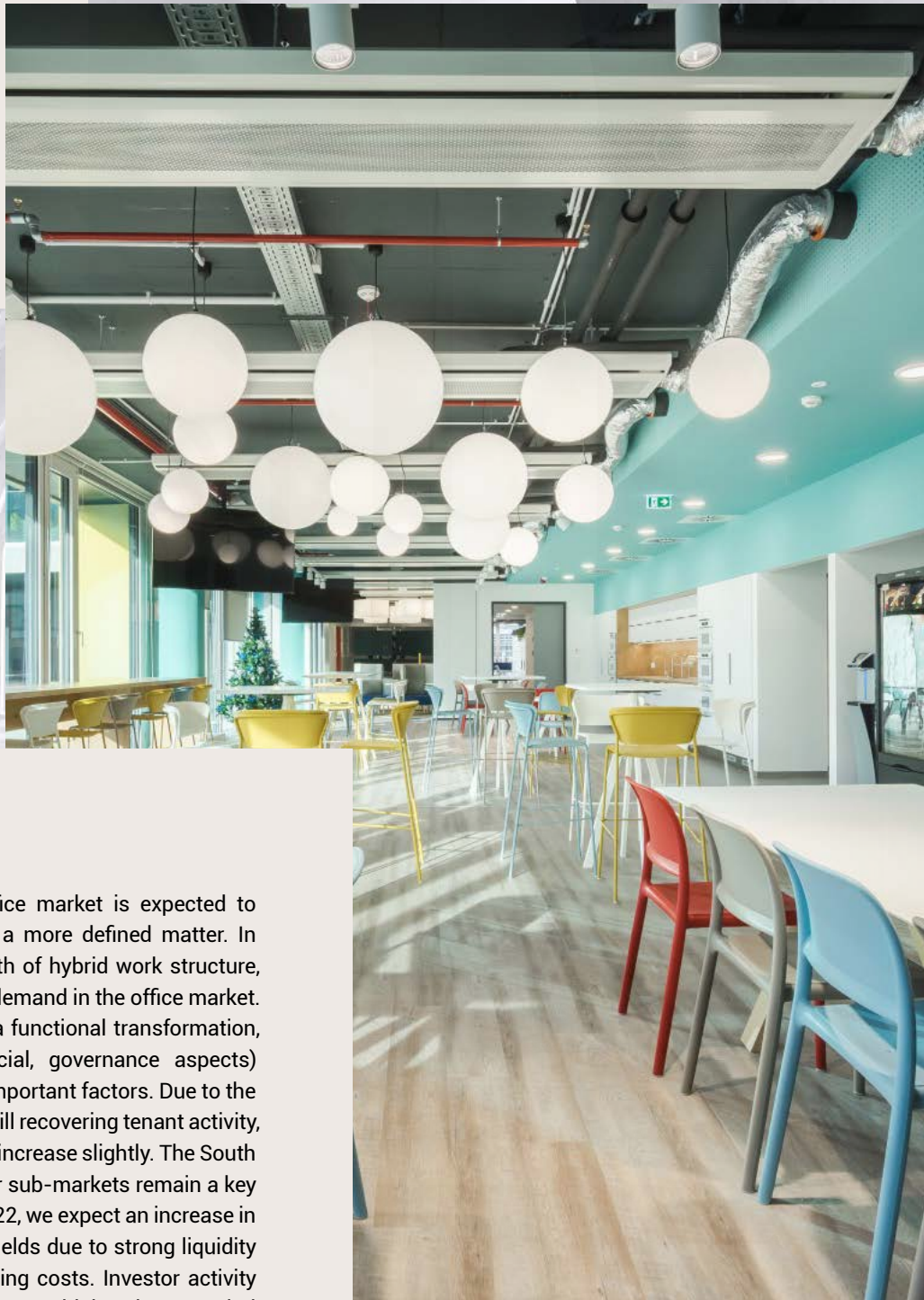
The market absorption decreased to one-fourth of 2020 measures; the total occupied office space increased by 14.3 thousand sq m. The declining tendency can be explained by the still generally present tenant-uncertainty and the postponed handovers and leasing decisions. The vacancy rate, which has been gradually increasing since the beginning of the pandemic, was relatively stable at around 9% in 2021, ending at 9.2% at the end of the year, partly due to low development activity as well. Of the 329 registered speculative office buildings, 124 had no vacant space at the end of 2021.

In December 2021, the lowest vacancy rate was registered in the Central Buda sub-market (5.5%). The highest increase in vacancy rate was measured in the Central Pest sub-market (+2.4 ppts).



## Rents, yields

Rent increase slowed down but continued in 2021. The average rent for prime properties in Budapest ranges between 14.5-17 EUR/sqm. Investors' yield expectations are between 5-6%, and below 5% for core assets.



## Forecast

During the coming period, office market is expected to form into its "new normal" in a more defined matter. In 2022, in parallel with the growth of hybrid work structure, we forecast a slightly growing demand in the office market. Office spaces are undergoing a functional transformation, with ESG (environmental, social, governance aspects) appearing as one of the most important factors. Due to the wave of development and the still recovering tenant activity, the vacancy rate is expected to increase slightly. The South Buda and Váci Corridor corridor sub-markets remain a key investment focus areas. For 2022, we expect an increase in rents and a further decline in yields due to strong liquidity and inflation, mainly due to rising costs. Investor activity is expected to continue growing as high-volume capital continues to seek its place in the market.



