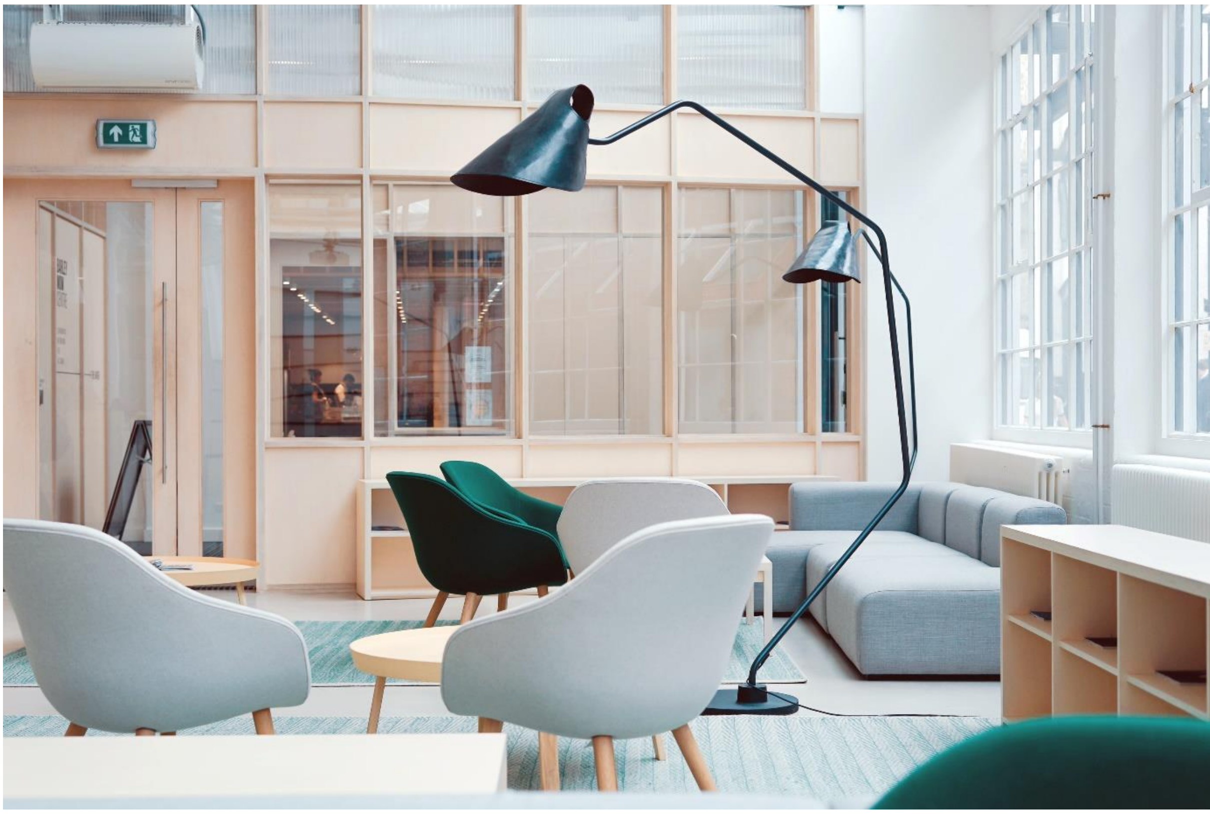
IN ASSOCIATION WITH

OFFICE MARKET

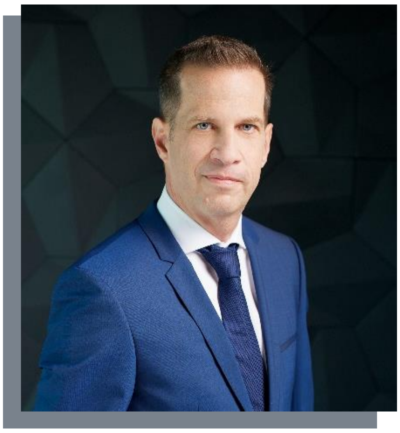
H1 2022

Market Report Budapest



Foreword

By the beginning of 2022 it began to crystalise what the lasting legacy of the pandemic will be in regard to the office market. Home office and accelerated digitalisation completely transformed the way companies and their employees operate, thus lifting of covid restrictions is not the only thing anymore that can bring people back to the offices. The changes arriving with the limitations enabled the market to evolve further by discovering the needs of the end users that were not articulated even by them until now. Hybrid and remote working paved the way for workers to acquire more control, redefine work and thereby demand more overall flexibility not just flexible working. Meanwhile, labour shortage enhanced this phenomenon even more. On the other hand, the power of company culture and a physical environment to demonstrate it - where people can connect - should not be underestimated when it comes to recruiting and fluctuation. To find the balance between the newly raised employee needs and the engagement that employers seek, a sense of forward-thinking is needed on companies', developers' and property managers' side, to create the ideal workplace together. Going to the office cannot any longer be a *have to* but a *want to*. Location and accessibility as always are still key, as long commute (above 30 minutes) is less attractive than ever, but the more easily transformable features that will make the office a desirable destination are the ones in connection with social interaction, productivity and well-being. The increasingly apparent effect of the recent geopolitical conflict further challenges the market. High inflation, weakening local currency and the emerging energy crisis put pressure on all costs including rents, service charge, fit-out costs and utilities. Rising financing costs could bring a slow-down in developer activity in the mid-term, which could bring a breath of fresh air after the currently expected high pipeline volume to the still moderate post-pandemic demand. Based on current initiatives, regulation and controlling of ESG responsibility of corporations will be taken further by complimenting the currently limited Non-Financial Reporting Directive (NFRD) with a Corporate Sustainability Reporting Directive (CSRD) which if accepted, would be applicable to large and all stock-listed companies to report on their sustainability policies and hence provide more transparent information to investors on this matter. The nowadays often mentioned ESG regulations are in fact embraced by the recent events, higher emphasis on sustainable performance is supported by the disrupted geopolitical environment and energy crisis (environmental), transformed needs of employees (social), and tightening EU regulations (governmental). However, while the market faces many challenges at the moment, the first half of 2022 showed increased activity in terms of handovers, a stronger demand compared to the same period of 2021 and net absorption of H1 2022 exceeded pre-pandemic levels (H1 2019).



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Stock

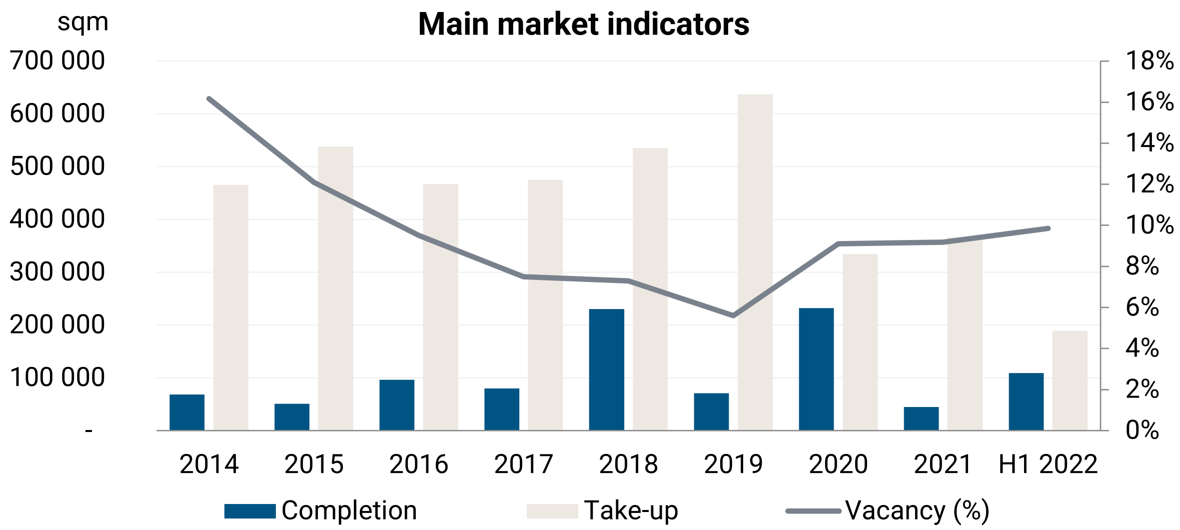
In Q1 2022, the total stock **of the Budapest office market exceeded 4 million sq m.** Currently 17.0% of the total stock is owner-occupied office area, which is expected to increase to 17.8% by the end of the year with the planned handover of MOL Campus and Bosch Campus II. along with many speculative projects.

Office market indicators (H1 2022)	
Handovers	109,102 sq m
Total stock	4,093,251 sq m
Speculative offices	3,398,771 sqm
Owner occupied offices	694,480 sq m
Take-up	188,761 sq m
Net absorption	77,820 sq m
Vacancy	9.85%

Handovers

During H1 2022, **6 office buildings** were handed over, symbolising a total of **109,102 sq m** of new rentable area. Out of the 6 new buildings **The Pillar (27,500 sq m), Office Garden IV (20,004 sq m), Green Court Office (21,000 sq m) and Paulay 52 (2,748 sq m)** were added to the speculative stock. The owner-occupied stock expanded by the new **OTP HQ (28,000 sq m) and Buda Palota (9,850 sq m)**.

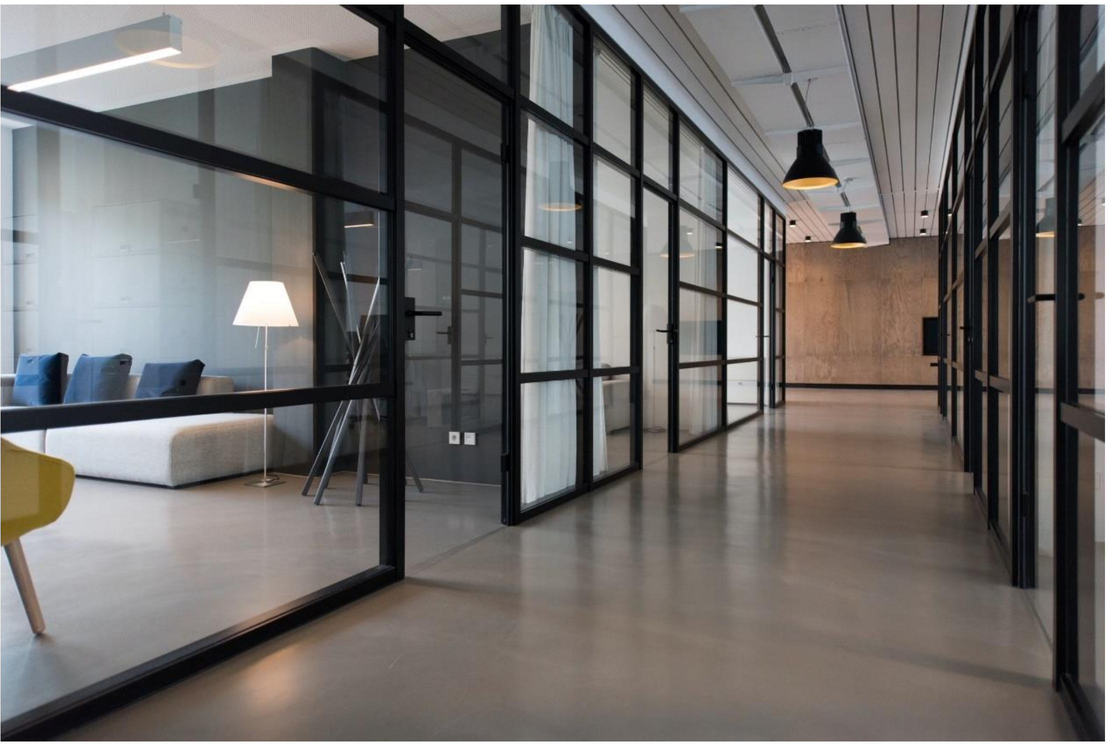
The highest development activity was in Váci Corridor, the stock of the submarket increased by 76,500 sq m (The Pillar, Green Court Office, OTP HQ) which means 7% growth compared to the end of 2021. Office Garden IV was completed in the South Buda submarket, Buda Palota is located in Central Buda, and Paulay 52 is part of the CBD submarket.



Pipeline

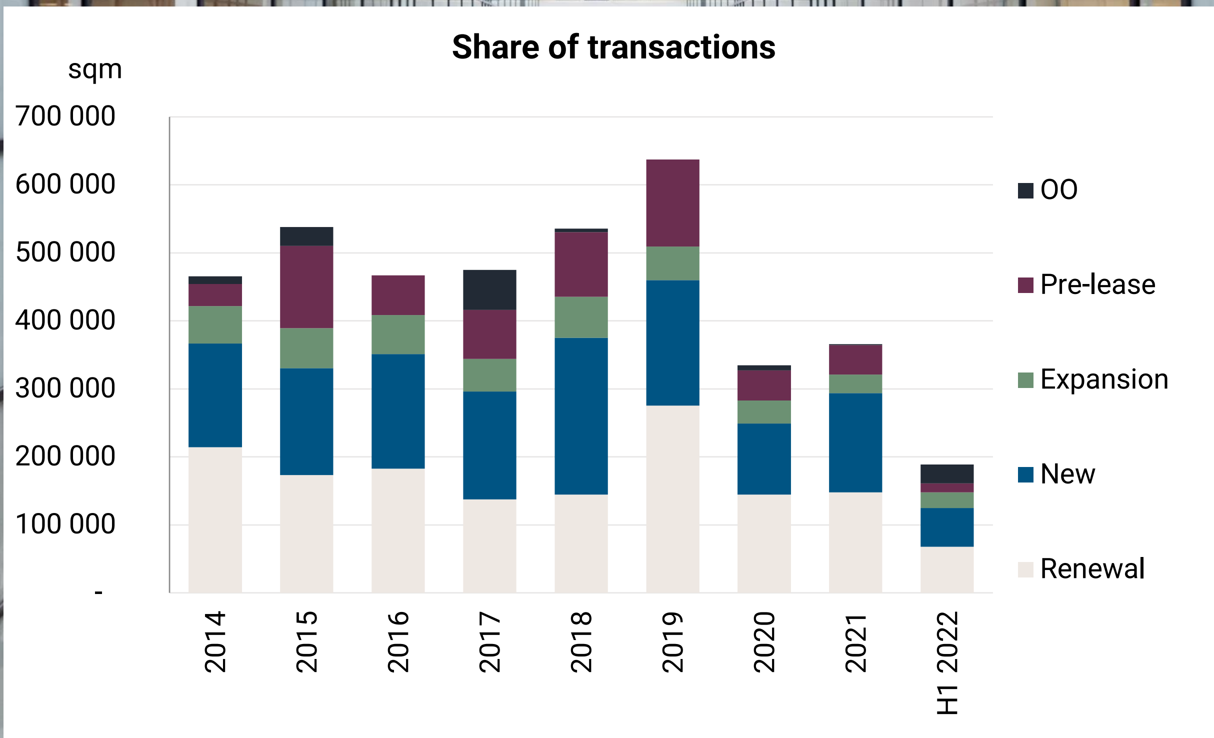
Office market supply is expected to expand by around 196,000 sq m by the end of this year. This includes the 50,000 sq m fully occupied MOL Campus and the 17,000 sq m Bosch Campus II, also fully occupied by the owner. The 8 speculative developments equal a total of 128,724 sq m and are currently 40% pre-leased. Development activity in the second half of 2022 will be the strongest in the South Buda sub-market with a total of 100,709 sq m new office space, of which 50,709 sq m will be speculative stock. In Non Central Pest, more than 40,000 sq m office space is expected to be completed, while the stock of the Váci Corridor submarket is expected to increase by 26,820 sq m and Central Pest's with 20,000 sq m.

Planned pipeline for H2 2022			
Submarket	**Building**	**Size (sq m)**	**Occupancy**
Central Buda	Major Udvar	7,274	58%
South Buda	F99	12,758	11%
Central Pest	Millennium Gardens I.	20,000	82%
Non central Pest	Aréna Business Campus B	15,391	0%
Váci Corridor	H2O I.	26,820	4%
Non Central Pest	BIF Tower	8,530	0%
Non Central Pest	Bosch Campus II.	17,000	Owner-occupied (100%)
South Buda	MOL Campus	50,000	Owner-occupied (100%)
South Buda	Budapest ONE II.	19,418	71%
South Buda	Budapest ONE III.	18,533	79%
Total		**195,724**	**61%**

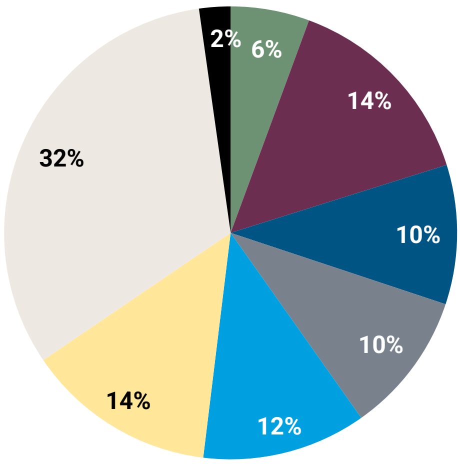


Demand

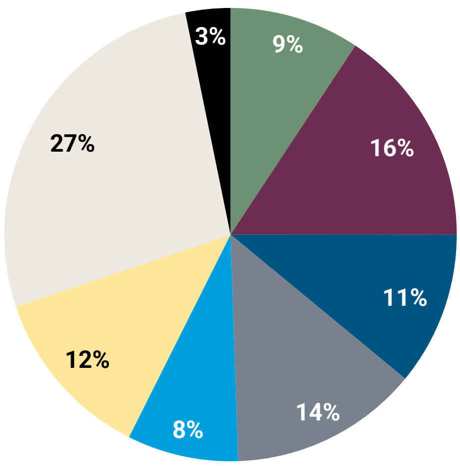
During the first half of 2022, there were **266 lease agreements** concluded, which means **a total gross take-up of 188,761 sq m**. Compared to H1 2021, a **9% increase** can be seen in the total demand, but this years' H1 volume is still 22% below pre-pandemic levels (H1 2019). Renewals took out the largest part (36%) of the total demand, however, the biggest increase could be observed in terms of expansions, of which volume nearly doubled compared to the same period of 2021. New leases also had a significant share (30%) of the total take-up. Within the speculative leasing activity, net-take up and renewals are shared in an approximately 60/40 rate, which has generally been the case in the past 5 years. It is important to note, that a significant owner-occupied transaction (28,000 sq m) was recorded in H1 2022, which takes out almost 15% of the total gross leasing activity alone. While demand overall is strengthening, pre-lease agreements are continuing to take less and less share of the total take-up which shows the uncertainty and lack of trust of tenants towards future developments and future events in general. This trend arrived with the uncertain times of the pandemic and remained due to the following conflicts and uncertain economy.



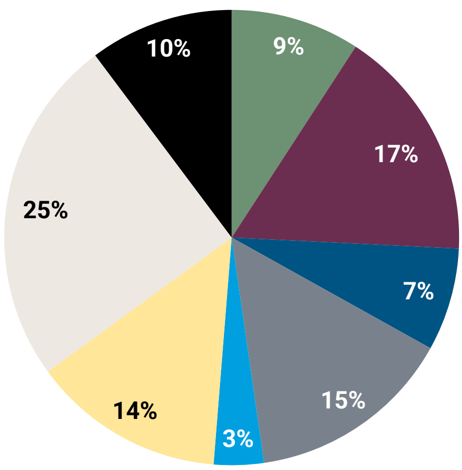
Share of Office Demand (H1 2022)



Share of Office Stock (H1 2022)



Share of Vacant Areas by Sub-markets (H1 2022)

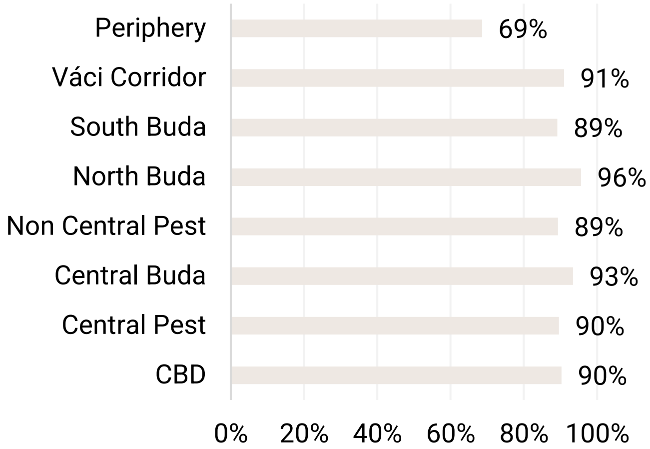


Regarding the submarkets, the highest share of demand was recorded in the Váci corridor, which has been a continuous trend in the past five years in the Budapest office market – same applies to the share of stock. Important to note, that the largest deal, the 28,000 owner-occupied transaction was also in this submarket, however, even without that, most (20%) of the lease agreements were signed in the Váci corridor submarket. Central Pest and South Buda were the second most sought after areas, while the least active submarket was the Periphery, followed by the CBD.

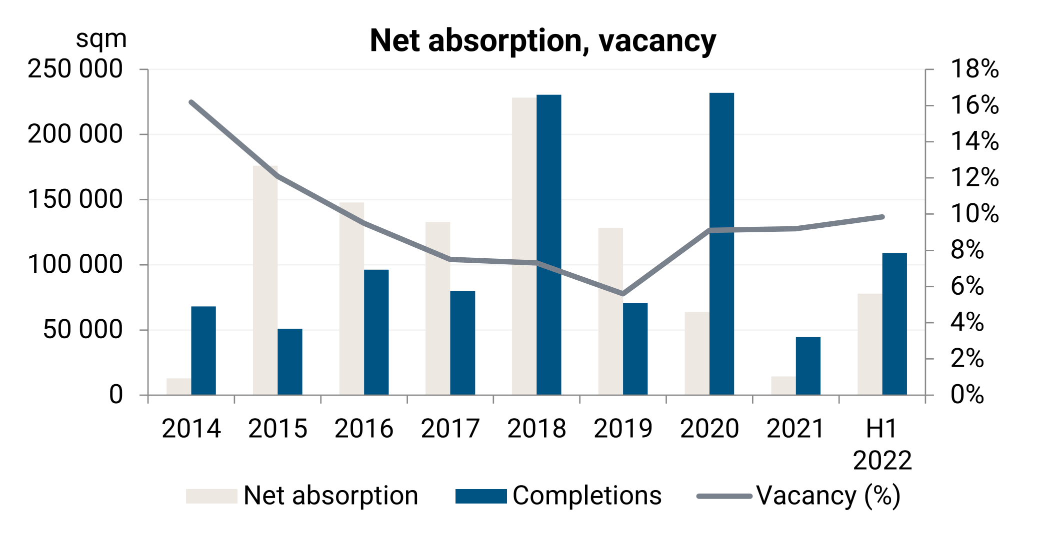
Vacancy, net absorption

As expected, **market vacancy (9.85%) has increased** with the higher-than-average handover volume in H1 2022, however, it still has not reached 10%, due to the parallelly strengthening demand. At the moment, there is 403,350 sq m available space out of the 4,093,250 sq m total stock. The largest share of vacant spaces can be found in the Váci corridor submarket, which is also where most of the supply is located. North Buda registered the smallest volume of available area, while 8% of the stock and 12% of demand. The Periphery while only sharing 3% of the total stock, generated 10% of all vacant areas hence also having the lowest occupancy (69%) within the total market. The highest occupancy at the end of H1 2022 was in North Buda (96%).

Occupancy by Sub-markets (H1 2022)

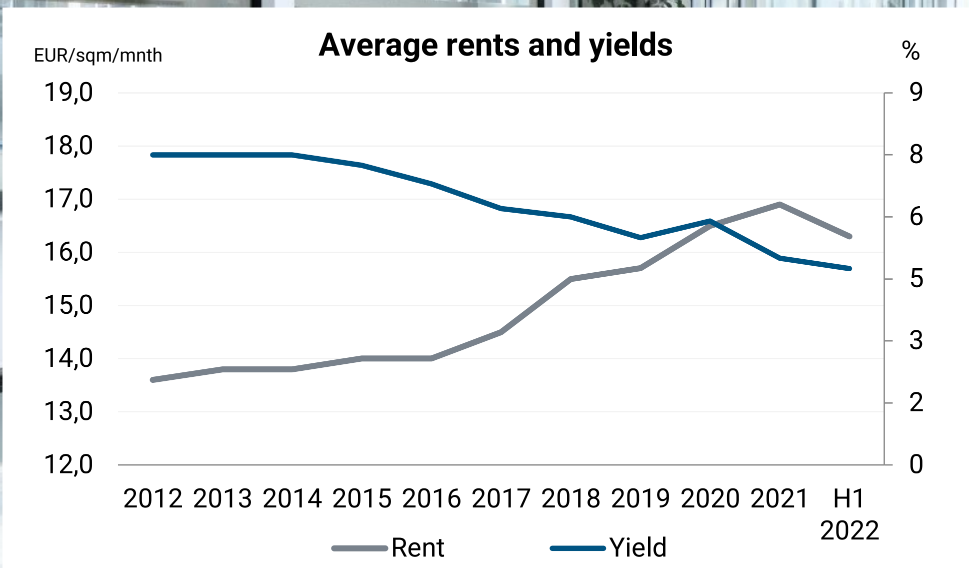


Both the first and second quarter's net absorption was strong, making the total volume of the first half of 2022 exceed pre-pandemic levels (H1 2019). During the first six months of 2022, the volume of occupied office spaces increased by 77,823 sq m, which is 89,108 sq m more than in H1 2021 and 5,703 more than in H1 2019.



Rents, yields

Based on the asking rents for the available office spaces, rent increase stopped in 2021, and in the first half of 2022 even a slight decrease can be observed. While the prime rent (30.00 EUR/sq m/month) increases with the arrivals of all the new modern A category offices, older or less well-located properties began to bring the average down. The average fee for prime properties in Budapest is around 16.30 EUR/sq m /month. Prime yield for offices are below 5% and expected to remain so in terms of prime and core assets. Demand on the buyer side for softer pricing already emerged due to economic conditions and financing costs, however recent deals still represent a strong vendors' market.



Forecast

Stock is expected to further increase by around 5%, including 2 large owner-occupied projects. Simultaneously, the vacancy rate is expected to grow, but with the handover of the already partly pre-leased new buildings net absorption is projected to stay in positive territory. Based on historical data, demand is usually strongest in the second half of the year, moderate but further improvement throughout the year can be foreseen on this side as well. Due to the rising costs and new developments, prime rents are expected to stay around 30.00 EUR, however, due to the long-lasting effects of the pandemic, lower quality or less well-located buildings might be forced to slightly decrease their asking rent, hence the average rent level is at best expected to stagnate in 2022. In the long term, a slight yield shift can be expected, but the pricing of prime and core products should remain strong.

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