

HUNGARY

Office Market Snapshot

Fourth Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Looking ahead there is a strong likelihood rents to continue to harden in most submarkets	►
Prime Yields:	Prime yields are likely to strengthen as interest from regional and local funds continues to chase product.	▲
Supply:	With only 126,000 sq m to be delivered in 2019, vacancy will continue to fall.	►
Demand:	Investor and occupier demand are anticipated to remain healthy in 2019.	►

Prime Office rents – December 2018

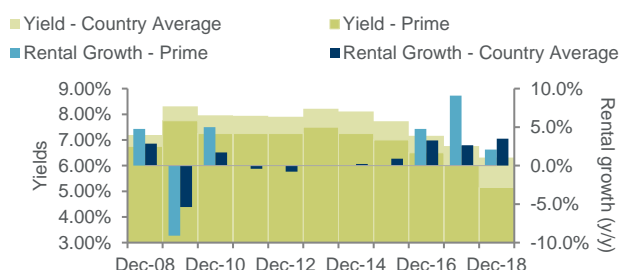
LOCATION	€ SQ.M MTH	€ SQ.M YR	US\$ SQ.FT YR	GROWTH %	
				1YR	5YR CAGR
Budapest (CBD)	24.50	294	31.1	2.1	3.1
Budapest (Central Buda)	16.50	198	21.0	3.1	1.9
Budapest (Váci Corridor)	15.50	186	19.7	1.6	1.7
Budapest (Periphery)	10.50	126	13.3	5.0	1.0

Prime Office yields – December 2018

LOCATION	CURRENT	LAST	LAST	10 YEAR	
(FIGURES ARE GROSS, %)	Q	Q	Y	HIGH	LOW
Budapest (CBD)	5.15	5.25	6.00	7.75	5.15
Budapest (Central Buda)	6.15	6.20	6.50	8.00	6.15
Budapest (Váci Corridor)	6.25	6.25	6.50	8.50	6.25
Budapest (Periphery)	8.25	8.25	8.50	9.50	8.25

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Early data suggests that Hungary's economy continued to grow by 4.9% in 2018. The GKI business sentiment index rose steadily in the fourth quarter, albeit the labour market remained very tight, primarily in the construction sector.

The Budapest office market has seen strong performance in 2018. Tenants committed to nearly 530,000 sq m of office space, reflecting a strong 13% gain on 2017's performance. Total net absorption was 228,000 sq m and as a result, vacancy rate is down to an all-time record low of 7.3% by the year-end.

Occupier focus

In Q4 2018, occupier demand reached around 171,500 sq m of total leasing activity in Budapest. Net take-up represented a share of 75% of the demand and renewals accounted for a share of 25%. The Váci Corridor continued to dominate the figures enjoying the highest share of take-up with 66,000 sq m of office space transacted.

Six new developments were delivered in the last quarter of 2018. Completions extended to 230,000 sq m in 2018, the highest level since the GFC, demonstrating developers' trust in the Budapest office market.

Headline rents increased further this quarter in all submarkets, with tenant incentives continuing to shorten, which in turn is increasing net effective rents. The market is still Landlord favourable.

Investment focus

The last quarter of 2018 saw a number of significant investment transactions conclude bringing the year-end total to in excess of €820 million in the office sector - one of the best performances recorded.

Several landmark office buildings were acquired with the local real estate funds being the most active. The largest deal was Futureal's sale of Corvin Office schemes to OTP Real Estate Fund. Yields hardened over the quarter, standing at 5.15% for prime office schemes.

Outlook

The outlook for the office market is positive with 126,000 sq m of new office space is in the pipeline for 2019. Whilst 44% of this amount are linked to pre-leases; speculative development shows improvement from last year. Labour shortages and rapidly increasing construction costs, however, are putting pressure on the development market.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Budapest (CBD)	369 297	15 451	4.2%	22 755	64 742	8 449
Budapest (Central Pest)	622 157	40 724	6.5%	16 433	62 806	64 712
Budapest (Central Buda)	432 628	38 884	9.0%	13 135	43 156	9 850
Budapest (Non-Central Pest)	480 052	16 384	3.4%	6 350	34 743	116 922
Budapest (North Buda)	355 140	17 186	5.1%	25 792	48 107	0
Budapest (South Buda)	378 396	47 544	12.6%	19 657	76 801	125 519
Budapest (Váci Corridor)	877 637	37 908	4.3%	65 679	192 897	153 983
Budapest (Periphery)	132 798	50 419	38.0%	1 685	12 310	0
Budapest (Overall)	3 628 105	264 499	7.3%	171 487	535 562	479 435

Source: Cushman & Wakefield, BRF

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ. M)	TRANSACTION TYPE
Agora Tower	Váci Corridor	Raiffeisen Bank	19 300	pre-lease
Szervita Square	CBD	Regus	8 449	pre-lease
GTC White House	Váci Corridor	Confidential	6 100	new
Váci Greens F	Váci Corridor	Confidential	5 400	new
Bartók Udvar 2	South Buda	Public sector	3 400	pre-lease
Budapest One	South Buda	Confidential	2 400	pre-lease
Capital Square	Váci Corridor	SSC/BPO sector	3 200	renewal
Budapest One	South Buda	Serviced office	1 500	pre-lease

Source: Cushman & Wakefield, BRF

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Corvin offices	Central Pest	Futureal/OTP RE Fund	n/a	€255.00
Science Park	Central Buda	Heitman/Goldman Sachs	n/a	€54.00
Ecodome	Central Buda	Redwood Holding/HU investor group	n/a	€16.75

Source: Cushman & Wakefield, Real Capital Analytics

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Orsolya Hegedűs MRICS

Head of Research & Consultancy
Deák Ferenc u. 5., Budapest, 1052, Hungary
Tel: +36 (06) 1 484 1357
orsolya.hegedus@cushwake.com
cushmanwakefield.com