Budapest Market Overview

Real Estate Highlights

H1 2018

BUDAPEST

OPENED
1 SEPTEMBER 2018

435 OFFICES

58 TERRITORIES
16,120 PEOPLE
*August 2018

United Kingdom

Continental Europe

16 Territories
Austria / Belgium / Cyprus
Czech Republic / France
Germany / Ireland / Italy / Monaco
The Netherlands / Poland / Portugal
Romania / Russia / Spain
Switzerland

Americas

13 Territories
Argentina / Brazil
Canada / Chile / Colombia
Costa Rica / Mexico / Peru
Puerto Rico / The Caribbean (3)
USA

Asia Pacific

14 Territories
Australia / Cambodia
China / Hong Kong
India / Indonesia
Japan / Malaysia
New Zealand / Philippines
Singapore / South Korea
Taiwan / Thailand

Africa

10 Territories
Botswana / Kenya
Malawi / Nigeria / Rwanda
South Africa / Tanzania
Uganda / Zambia
Zimbabwe

Middle East

2 Territories
Kingdom of Saudi Arabia
United Arab Emirates

Contents

Office Market

The robust supply represents an increase of more than

90%

compared to the previous year

OVERVIEW

Budapest's office sector experienced a strong performance in the last months, reflected by a healthy take-up of 253,000 sq m, representing 53% of the entire last year level.

The Vaci Corridor continued to be the most sought after submarket in the first half of 2018.

The vacancy rate stands at 7.6%, a slight upturn from the previous year due to the new supply of 75,000 sq m of class A delivered to the market.

> **“Total office stock in Budapest reached 3.5 mil sq m at the end of the first six months of 2018 for class A & B office buildings.**

SUPPLY

The first half of 2018 saw 75,000 sq m of class A office space delivered: GTC White House and Promenade Gardens both on the Vaci Corridor, and Graphisoft Park in North Buda submarket.

The robust supply represents an increase of more than 90% compared to the previous year (total of 79,000 sq m).

In terms of stock by submarkets, at the end of H1 2018, the Vaci Corridor stays on top with a total modern office stock of approximately 890,000 sq m, followed by Central Pest with almost 590,000 sq m and Non - Central Pest with approximately 420,000 sq m.

> **“Total take-up ion the first half of 2018 reached over 252,000 sq m for class A & B office buildings, a 35% increase compared to the same period in the previous year.**

DEMAND

Total take-up in Budapest reached over 252,000 sq m for class A & B office space. The number of transactions concluded in the first six months were substantially higher compared to the same period of last year, with the average transaction totalling 740 sq m in H1 2018 (710 sq m in 2017).

In terms of locations, the Vaci Corridor registered a significant demand, attracting 36% out of total take up.

New demand was the main driver of the office market, with a robust take up of 114,000 sq m, representing 72% of the previous year's volume. Renewals also had a strong drive with approx. 78,000 sq m, with pre-leases and expansions making up 12%, respectively 10% of total demand.

Key transactions included a 20,400 sq m pre-lease in Univerzum Office Building for Evosoft, the 17,500 sq m renewal of Exxon Mobil in Center Point and 7,700 sq m for a confidential tenant in Skylight City.

RENTS

Rents are showing a continuous steady increase due to the limited supply of class A office space. The market continues to be in favour of the landlord as a result of the decreasing vacancy rate, which might also affect the incentive packages offered by the landlords.

Prime headline rents were reported at around €22/sq m/month.

Service charges have followed the same stable trend, ranging between €3.50-4.50/sq m/month.

VACANCY

The market is experiencing a vacancy of 7.6% for class A and B office buildings.

The highest vacancy rate in Budapest is still recorded in the periphery, standing above 30%. Non-Central Pest has taken over the title of lowest vacancy with 4.8%, with Central Buda following close by with a vacancy rate of 5.2%.

The continuous growth of the market since 2012, when the vacancy rate stood at its peak of 21%, reflects the net absorption which has surpassed the level of new supplies.

Vacancy rates

Rate	Submarket
30%	Periphery
8.50%	CBD
8.20%	Vaci Corridor
8%	North Buda
7%	Central Pest
6%	South Buda
5.2%	Central Buda
4.8%	Non Central Pest

Source: Knight Frank

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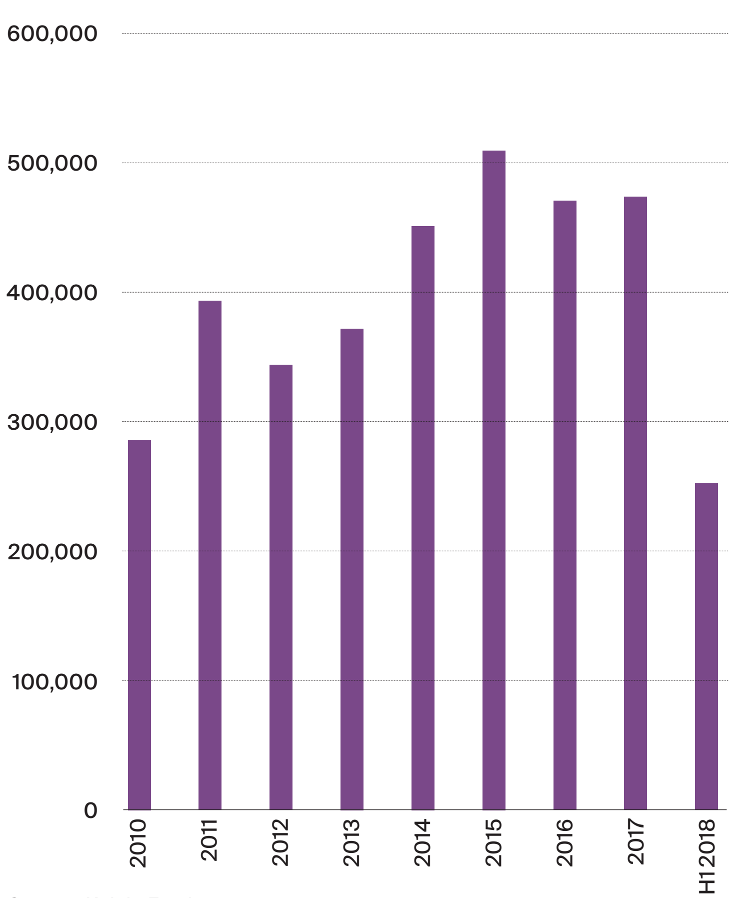


Source: Knight Frank

FORECAST

By the end of the year we are expecting to see another 170,000 sq m of class A offices being delivered. Adding the 75,000 sq m already delivered in the first half of 2018 we reach a total of approx. 245,000 sq m of office space. Although the higher rate of deliveries is focused on the second half of 2018 the year has seen a very positive start in the first half of the year.

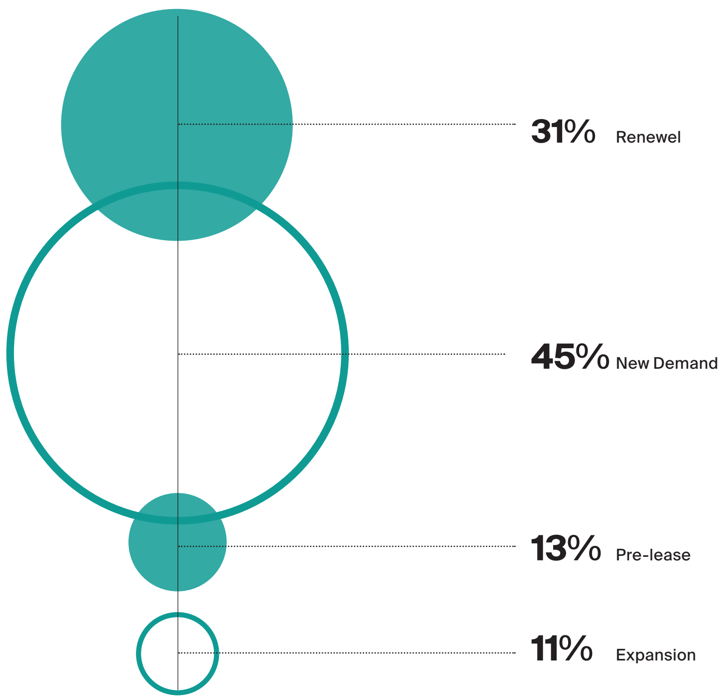
The Vaci Corridor remains the most significant submarket in terms of planned office development, with South Buda following closely in terms of expected future supply.

Headline rents are expected to show further growth in certain submarkets due to strong occupier activity.

Despite the fact that a notable amount of new supply is planned for delivery, sentiment is positive in terms of demand.

Prime rents remains stable at 22 EUR/sq m/ month.

Demand by type of transaction
H1 2018



Source: Knight Frank

Prime headline rents
(€/sq m/month)

24
CBD

16–17
Central Buda

15–16
Vaci Corridor

14–15
Central Pest

12–14
South Buda

12–13
North Buda

10–12
Non Central Pest

10
Periphery

Source: Knight Frank

Capital Markets

Prime office yields are showing continuous strength, at 5.5% in the CBD, with investor interest remaining active.

OVERVIEW

Due to an accelerating economy and continued monetary easing, the Hungarian market is recording strong activity in 2018.

Although Hungarian funds were the most active regarding investments, new international investors are appearing and are expected to increase their share on the Hungarian real estate market.

SUPPLY

The level of supply in the first six months of 2018 was significantly higher compared with previous years with more expected to be delivered by the end of the year. Banks have become more willing to provide financing for both development and acquisitions in most of the market sectors and the investment market features a wide range of opportunities for investors, including income producing, value-add or distressed assets.

The industrial and logistics segment has announced several projects to be completed in the following years to cope with the rising demand. It is likely that in the following years we will witness a significant number of transactions in this segment.

Retail assets were the most sought after asset type, followed by prime office projects and industrial assets.

DEMAND

The total investment volume recorded in the first half of 2018 reached €320 million mainly driven by the retail and office sectors, with the industrial and logistics sector lagging behind.

The office sector saw a busy half year with multiple buildings being purchased, the largest transaction in the office sector being the acquisition of Infopark D by WING.

Considering the ongoing transactions which are likely to close by the end of the year, it is expected that the total investment volumes in 2018 will be in the range of €1 billion.

YIELDS

During the first half of 2018, prime yields remained steady.

The retail sector registered a notable transaction volume surpassing that of the office sector.

FORECAST

Foreign investors will continue to be attracted to Budapest due to improved financing conditions, good construction pipeline and strong occupational markets.

The outlook for the second halfoftheear remains positive as a number of transactions are due to be finalised by the end of the year.

Prime yields
2016 (%)

5.75
Retail

6.00
Office

7.75
Industrial

Source: Knight Frank

Project Management

Spaces designed to promote shared activities increase the likelihood of interactions and the data repeatedly demonstrate that more interactions create positive outcomes:

The content of interactions doesn't matter; when interactions occur, regardless of their content, improvement typically follows;

Sometimes circulating, exploring, engaging, and increasing the number of people's collisions is more important than individual productivity or creativity;

For example, a worker finds a better way to do their job but never tells anyone else doing the same job what they have discovered. They have improved their performance but no one else's. If the worker takes time out of their day to tell others about what has been learned, their own productivity drops, but group productivity has increased;

In some cases even a 5% drop in personal productivity can have a positive outcome on group performance.

Campus

Greater than workplace!

Office is not self-contained but very much connects with and spills over into a mix of other uses, turning a work location into a place of choice. It has borrowed themes from other sectors:

01
Office as a tallent hub
A place that attracts young talent, where the sense of belonging and camaraderie is like that experienced in the *education* sector by today's generation of students – tomorrow's workers – on a university campus.

02
Office as a destination
Not just in the sense of its location in an urban setting but offering staff, partners and visitors alike a welcoming space for co-creation and partnership. Such is the Crick Institute.A place for encounter that borrows its aesthetics and functionality from the *hospitality* sector.

03
Office as a brand
Borrowing from the *retail* sector, where it is all about communicating and enhancing the brand. As employees are measured by their sense of initiative and the quality of the output they produce, it becomes increasingly important to display this.

04
Office as an event
This is about the experience of work and maximising its potential as it spills into life as part of a 14 hour day cycle. It borrows its themes from the *media* sector and brings together local businesses, large or small, and communities around shared experiences, that become the talk of town

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The essence of *workplace as an experience* is where all the elements of work – the physical, the virtual and the behavioural – are carefully orchestrated to inspire employees.

"

Engaging people with their work, connecting them to the business vision and creating a great workplace experience.

Technology companies rewrite the rules of the real estate market

Dr. Gábor Gömöri
Head of Real Estate & Construction
Deloitte

According to Deloitte's analysis in the future less office space will be needed, shopping centres must become event-driven and the market of commercial real estate must be ready for the spread of blockchain as well. The traditional players of the sector must also get used to the fact that technology companies are going to rewrite the rules in this segment as well.

Technological development, digitization and automatisation bring a significant change on the commercial real estate market, real estate developers and commercial centres have to get ready for comprehensive changes. By an innovative data analysis, the experts from Deloitte made it possible for us to have a glimpse into the future of real estate market, thus helping the affected to get ready.

HOW WILL WE WORK?

The digital revolution brings significant changes into the world of work. Current jobs, just as the demand for manpower and the way work is done are going to change. The demand for workers with low qualifications and lack of digital knowledge (especially workmen, unskilled workers) shall drop. Intellectual jobs will increasingly become data-driven and most of the time will be carried out from a distance, which is going to affect the demand for office space, their perspectives and infrastructure.

Due to telecommuting the area of office spaces is expected to shrink, though from time to time people would have to come into the offices. Most likely the offices will be located in urban areas, in modernised or new high-tech buildings, that are extremely suitable and efficient for teamwork. The highly developed public transportation and self-driving cars are going to reduce the time to get to work and it will not require large parking spaces.

HOW WILL WE SHOP?

Demand for commercial real estate might be reduced due to the constant push of online shopping and due to the development of 3d printing. "Just-in-time" logistics is more and more popular; delivery by drones is becoming faster and safer. The so-called "luxury shopping streets" like DEak Ferenc street or Vaci street are probably going to survive in their current form thanks to their "see and be seen" function, though smaller shops that are not located in centres are going to increasingly feel the pressure.

Shopping centres have to become event-oriented in order to meet the demands of the shoppers and to be able to offer a new kind of experience beyond simple shopping. The changes that will affect the operation and the profitability of the shopping centres and the effect of these on the rent that is proportionate with the turnover shall be discussed in a future article.

WHO IS GOING TO PROFIT FROM REAL ESTATE IN THE FUTURE?

For now the profit of real estate investors originates mainly from renting and sales. In the future there shall be a new important factor: data collected on the users. The classic rent may also drop, however taking into consideration the value of the collected data, the final amount collected from real estate assets may be larger. Nevertheless, overall the shift of prices may be moderate, due to the fact that digitisation increases productivity and efficiency, which taking into consideration the current market situation, it might lead to excessive offer.

In respect of the real estate market participants, the more transparent market and the automatic, more direct negotiations between the property owners and their lessee, the role of the realtors might decrease or change. In general it can be said the real estate transactions are going to be based on technologies like block chains and the smart-contracts, thus the need for a third party intermediary is going to diminish.

The winners of these changes could be the governments, that find the way to profit from the benefits of development due to the new tax models (e.g. digital or "robot tax"). The so acquired additional income is going to be needed for the financing of the increasing social costs that might appear because of the increased unemployment. In financing, the banks of the future are going to have a competitor in the form of crowd-funding platforms and the FinTech companies that will result in the fact that banks will have fewer benefits from the value-chain.

"the changes will benefit especially those technological companies that today are not considered as defining players of the real estate market. The current technological giants and dedicated start-ups are going to find their way into the real estate sector, there is going to be more and more attractive as it produces more and more data. These companies shall create data-driven business models, which are going to produce value for the leases while user data is collected. With the comprehensive experience gained from the digital business models combined with the support of the high tech environment, these technology companies are going to conquer the building and operations sector, gaining large shares from the real estate value-chain, if the current real estate market players will not be able to discover and "mine" the treasure hidden in the world of big data." – declares **dr. Gabor Gomori** team leader of the real estate department of Erdos es Tarsai Deloitte Legal law firm.

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Technological development, digitization and automatisation bring a significant change on the commercial real estate market, real estate developers and commercial centres have to get ready for comprehensive changes.

schonherr

Significant changes in Hungarian real estate law in the first half of 2018

Hungary amended and adopted many new acts and decrees in 2017 and in the first half of 2018 which significantly affected various areas from townscape assessment to energetic requirements of buildings. Below, we summarize the most important novelties:

Dr. Hetényi Kinga
Managing Partner Budapest
Dr. Menczelesz Adrián
Ügyvédjelölt
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AFFECTED AREA OF REAL ESTATE LAW	SUMMARY
TOWNSCAPE ASSESSMENT REGARDING TO ADVERTISEMENTS AND SIGNAGES	Pursuant to Governmental Decree no. 104/2017. (IV.28.), new advertisements and advertising display devices may be placed only on certain public spaces and are banned from private spaces visible from public spaces. Advertisements affixed before 28 May 2017 may remain until 31 December 2020. In the event of a violation of these rules, the competent authority may impose a fine up to EUR 9,600. Company and shop signages and logos which are placed on a building for the purpose of orientation are exceptions. Further rules may be set forth in local townscape decrees which the local municipalities were required to adopt by end of 2017. In such decrees, the local municipalities are entitled to make the signages subject to notification procedure. Moreover, they may set forth additional rules covering the design and affixing of the signages in detail. Because of this, a company must seek information about the local rules in every case before the installation of the signage on the façade of the building.
LAND REGISTRY AND PROCEDURE	The amendment to Act no. CXLI of 1997 on Land Registry was required because of the introduction of the new Act on Administrative Procedure. Despite the general trend towards digitalization, the amendment still requires submissions to the land registry to be made on paper. This means that the e-land registry will not be adopted in Hungary soon. The amendment also simplifies the administrative procedure regarding new investments: no site plan is needed to be submitted if the entire area of the land plot will be withdrawn from agricultural cultivation.
CONSTRUCTION PERMITTING PROCEDURES	Some legislative changes occurred in the construction sector also. Contrary to the land registry, the amendment to Governmental Decree no. 312/2012. (XI. 8.) makes clear that written application forms may not be used in construction permitting procedures. Only digital application forms submitted through the designated digital platform (in Hungarian: ÉTDR) will be accepted. The amendment also emphasises that the confirmation of the payment of the procedural fee must be attached to the application form in every procedure; otherwise the procedure will be terminated by the competent authority.
ENERGY PERFORMANCE REQUIREMENTS FOR BUILDINGS	The reform of the rules on energy performance requirements for buildings also continued. The next station of the reform was in 1 January 2018, when the amendment to Ministerial Decree no. 7/2006. (V. 24.) became effective. Pursuant to the amendment, the building design must achieve the so-called cost optimisation requirement level. Without such qualification the competent authority may not issue the occupancy permit. Because of this, the new buildings and the buildings affected by new construction procedures must comply with a cost optimisation requirement level or must qualify as a nearly zero-energy building. For the sake of compliance, an annex to the ministerial decree provides the specific requirements for main structures of buildings.

In the above, we tried to summarise the most important changes to Hungary real estate law in the first half of 2018. These modifications will have wider implications in the Hungarian real estate sector in the future years.

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