

Budapest Market Overview

2020 - 2021
Inside -Out



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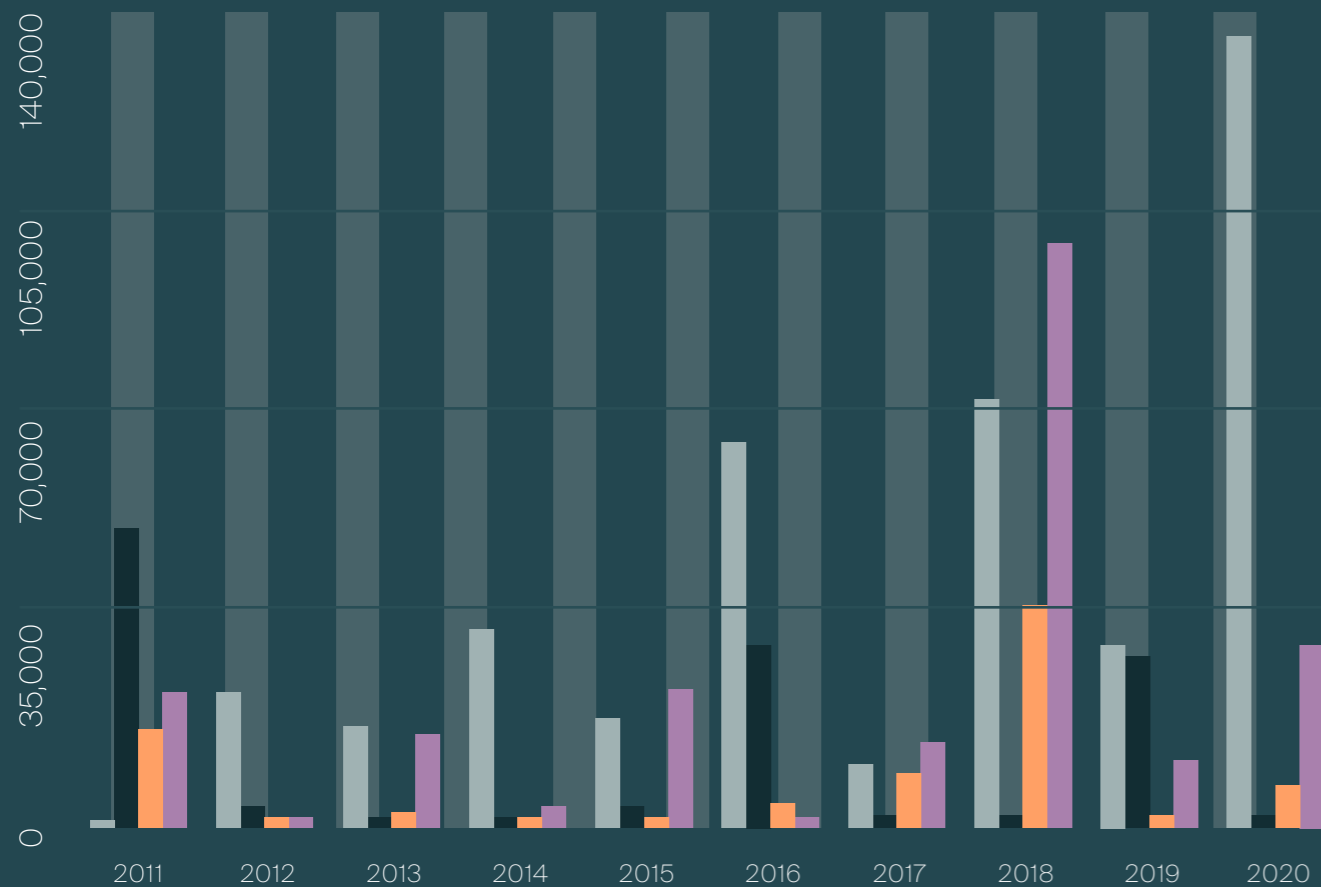
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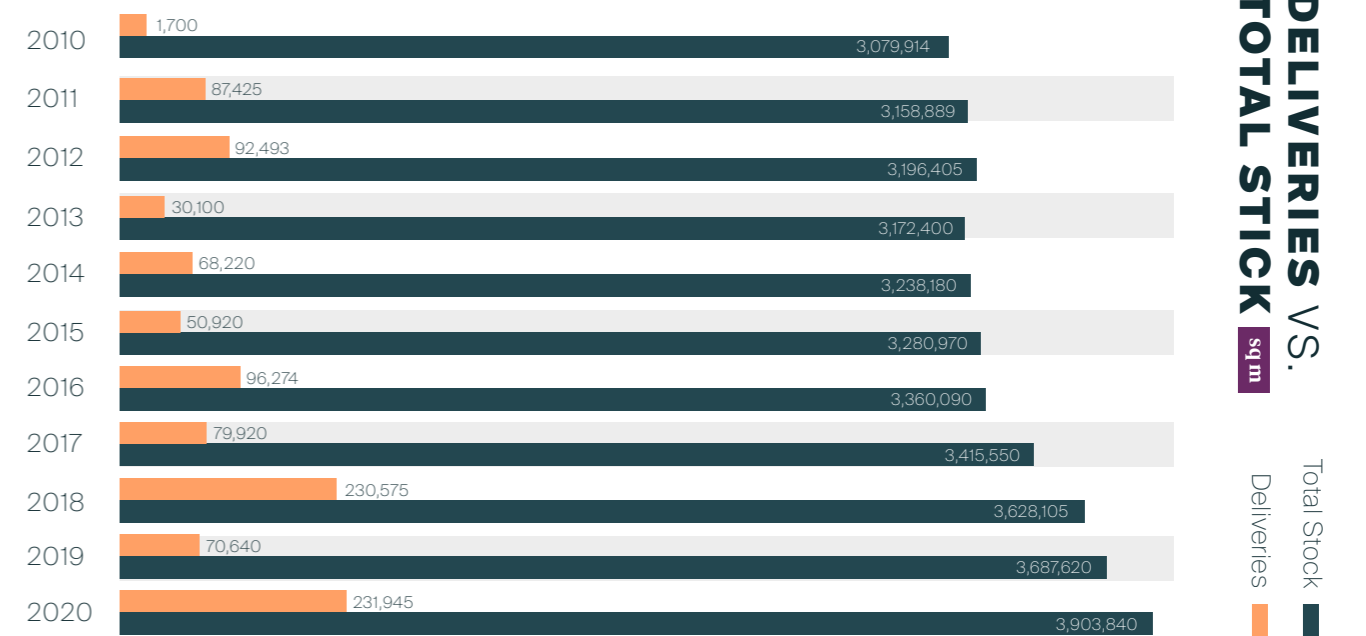
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Office Market



DELIVERIES BY SUBMARKET

- Váci Corridor
- Central Pest
- North Buda
- Non Central Pest



DELIVERIES VS. TOTAL STOCK (sq m)

Supply **232,000** sq m

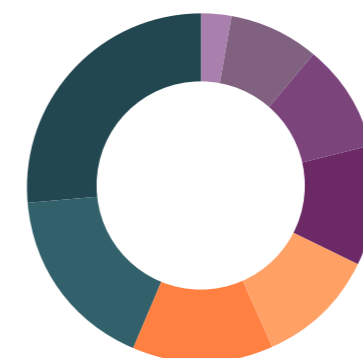
The new supply was **significantly higher than in 2019** and almost reached 232,000 sq m. Four high quality office buildings were handed over in 2020, three of them in the Váci Corridor submarket: Agora Tower (34,500 sq m), Váci Greens F (25,050 sq m), Váci Greens E (22,460 sq m) and Futureal's signature development, Budapest One in the South Buda submarket. **Váci Corridor submarket continues to dominate in terms of new deliveries**, while there was a huge drop in Central and Non-Central Pest.

Stock **3.9 m** /sq m

The total modern **office stock currently adds up to 3,903,840 sq m**, consisting of 3,289,090 sq m of 'A and B' speculative office space, as well as 614,750 sq m owner-occupied space.

In terms of stock by submarkets, at the end of 2020, **Váci Corridor stays on top with a total office stock** of just over 1,000,000 sq m, **followed by Central Pest and Non-Central Pest** on the third place.

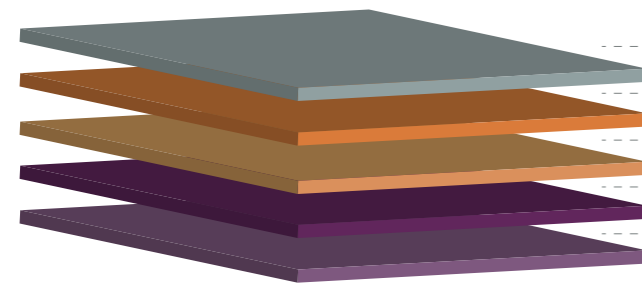
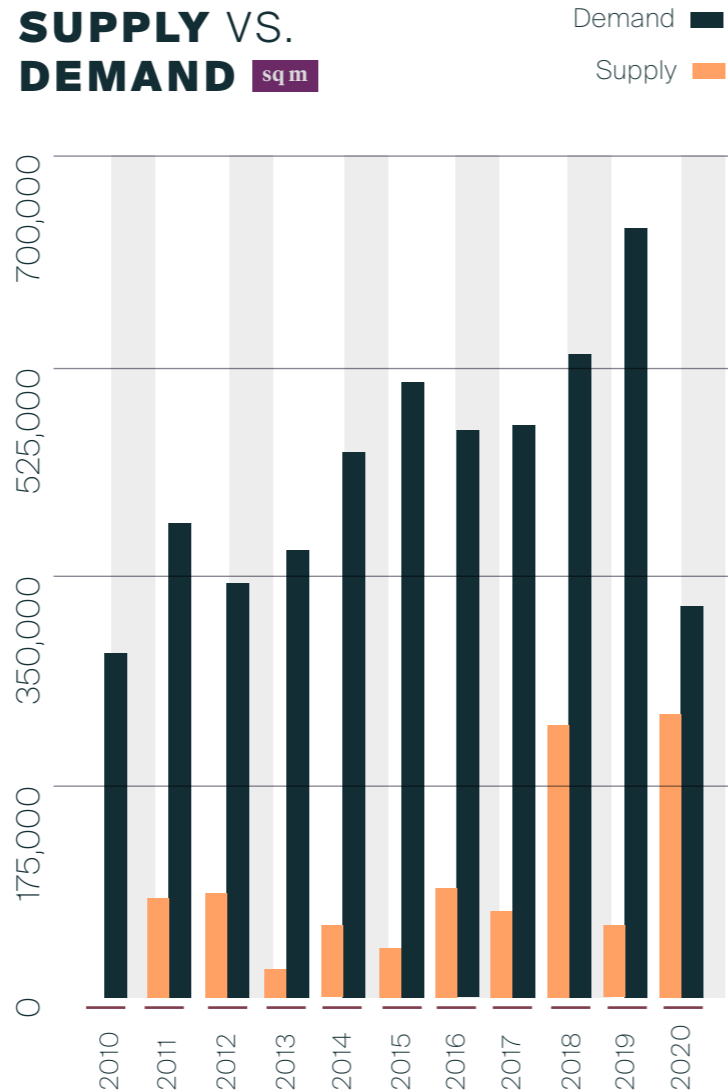
STOCK BY SUBMARKET (CLASS A&B)



- 26% Váci Corridor
- 17% Central Pest
- 13% Non-Central Pest
- 11% Central Buda
- 11% South Buda
- 10% Central Business District
- 8% North Buda
- 3% Periphery

Demand 333,310 sq m

The total demand resulted at 333,310 sq m in 2020, representing a **52% decrease compared to last year** (637,125 sq m). Leasing activity weakened towards the end of 2020, reflecting the economic restrictions triggered by the Covid-19 pandemic. 449 lease transactions were concluded in 2020, **nearly 40% drop compared to last year**. Out of the total leasing activity, **renewals still represented the largest share (43%)** – increasing even further, followed by new deals/relocations (32%), pre-lease agreements (13%) and expansions (10%). The average deal size amounted to 743 sq m. The **total occupied stock decreased by 5,100 sq m** and net absorption have therefore dipped into negative territory.



DEMAND BY TYPE OF TRANSACTION 2020

- 32% Relocation and new demand
- 43% Renegotiation/Renewal
- 10% Expansion
- 13% Pre-lease
- 2% Owner Occupied

Key transactions included a 14,140 and 8,000 sq m pre-lease both in South Buda submarket and a 7,450 sq m pre-lease in Váci Greens E, while **the largest renewal was concluded for 6,300 sq m in Central Pest**. The largest new transaction was registered in **Budapest One at 4,730 sq m**.

KEY TRANSACTIONS

BUILDING	SUBMARKET	SIZE (SQ M)	TYPE
Budapest One Phase 2	South Buda	14,140	Pre-lease
Budapest One	South Buda	8,000	Pre-lease
Váci Greens E	Váci Corridor	7,450	Pre-lease
Park Átrium	Central Pest	6,300	Renewal
Budapest One	South Buda	4,730	New

Rental fees remained at the same level at 14.50 EUR/ sq m/ month. Average rental fee in new developments was between 15.00 -17.00 EUR/ sq m/ month, whereas average rent in existing buildings stood at a bit lower level of 13.50 EUR/ sq m /month. There were no changes at prime rent either as it remained at 20-25.00 EUR / sq m. Although, headline rents remained at the same level, **fit-out contributions and rent-free periods significantly increased**. This is due to decreasing demand and growing supply.

Rents



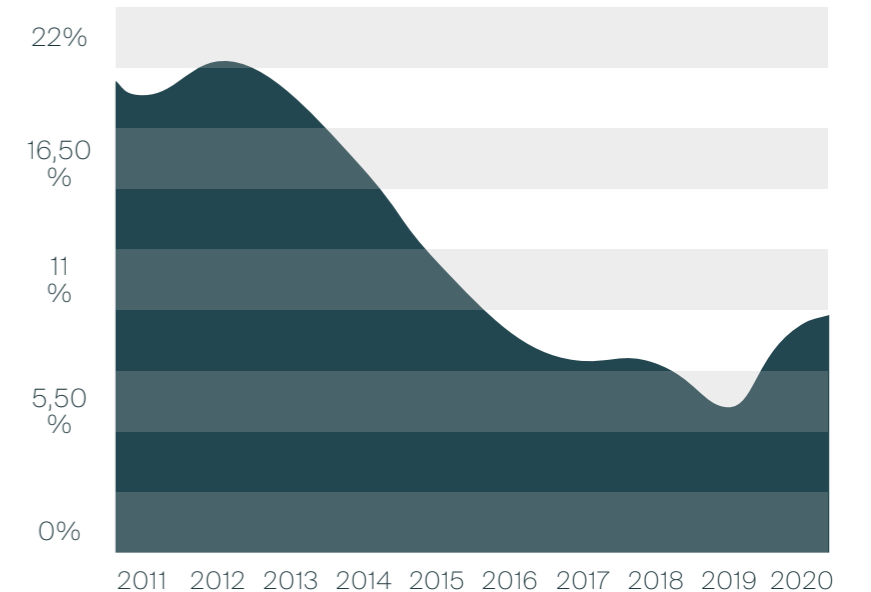
Avg. rent: 14.50 EUR/sq m

Prime rent: 25.00 EUR/sqm

The office vacancy rate has increased to 9.1%, representing a growth of 1.0 p.p. quarter-on-quarter and 3.5 p.p. year-on-year. The lowest vacancy rate of 4.3% was measured in the North Buda submarket, whereas **the Periphery still has the highest vacancy rate of 29.3%**.

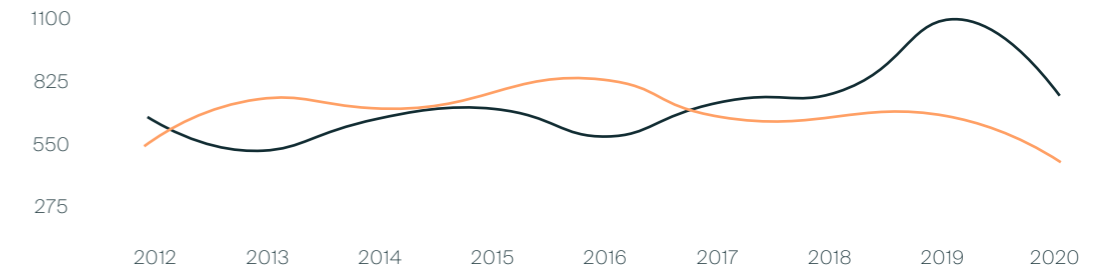
We can see that the COVID-19 pandemic has brought new trends to the Budapest office market, the most significant of which, is **the increasing number of sublease options coming to the market**. Several companies decided to downsize their office space due to home office, adding **approximately 2-3% to the vacancy rate**.

VACANCY RATE





TOTAL DEALS AND AVERAGE DEAL SIZE



Forecast sq m
175,000
 in the next 12 months

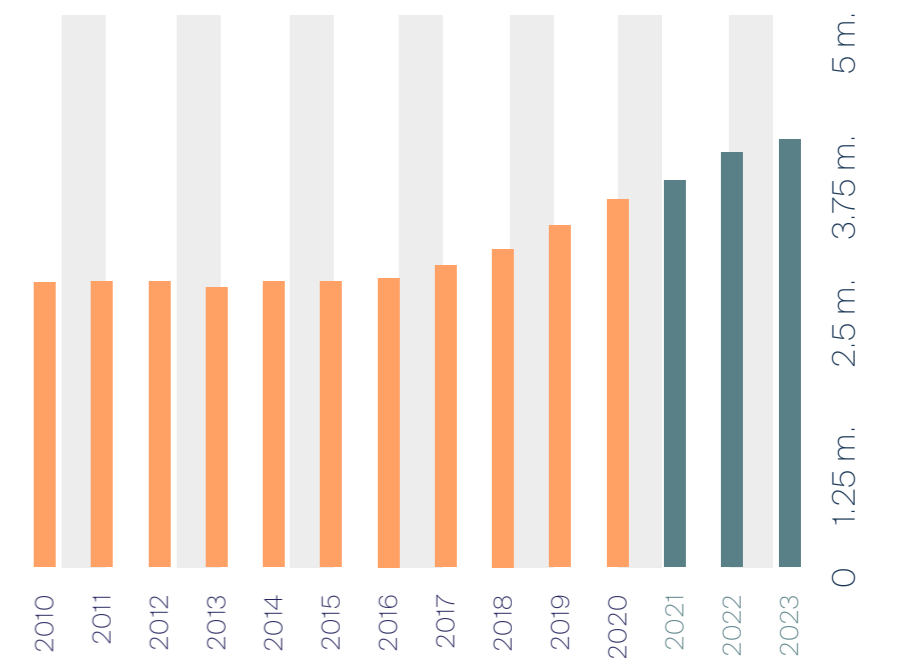
Despite to a strong end in 2019, the Budapest office market is inevitably showing effects reflecting economic restrictions caused by the COVID-19 pandemic in 2020. The total leasing activity decreased, as **we experienced a**

significantly lower number of transactions. We are expecting almost **175,000 sq m stock-increase until the end of 2021**, depending on how the economy will react to the changes triggered by the COVID-19 pandemic.

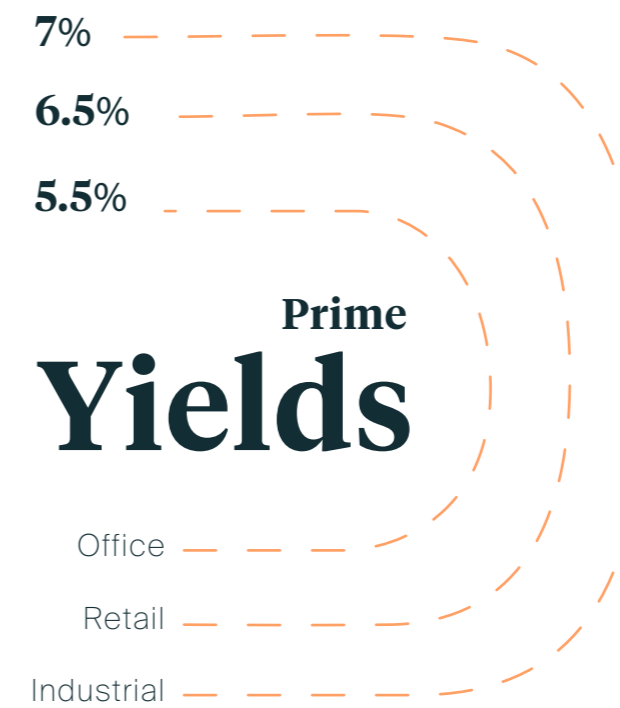
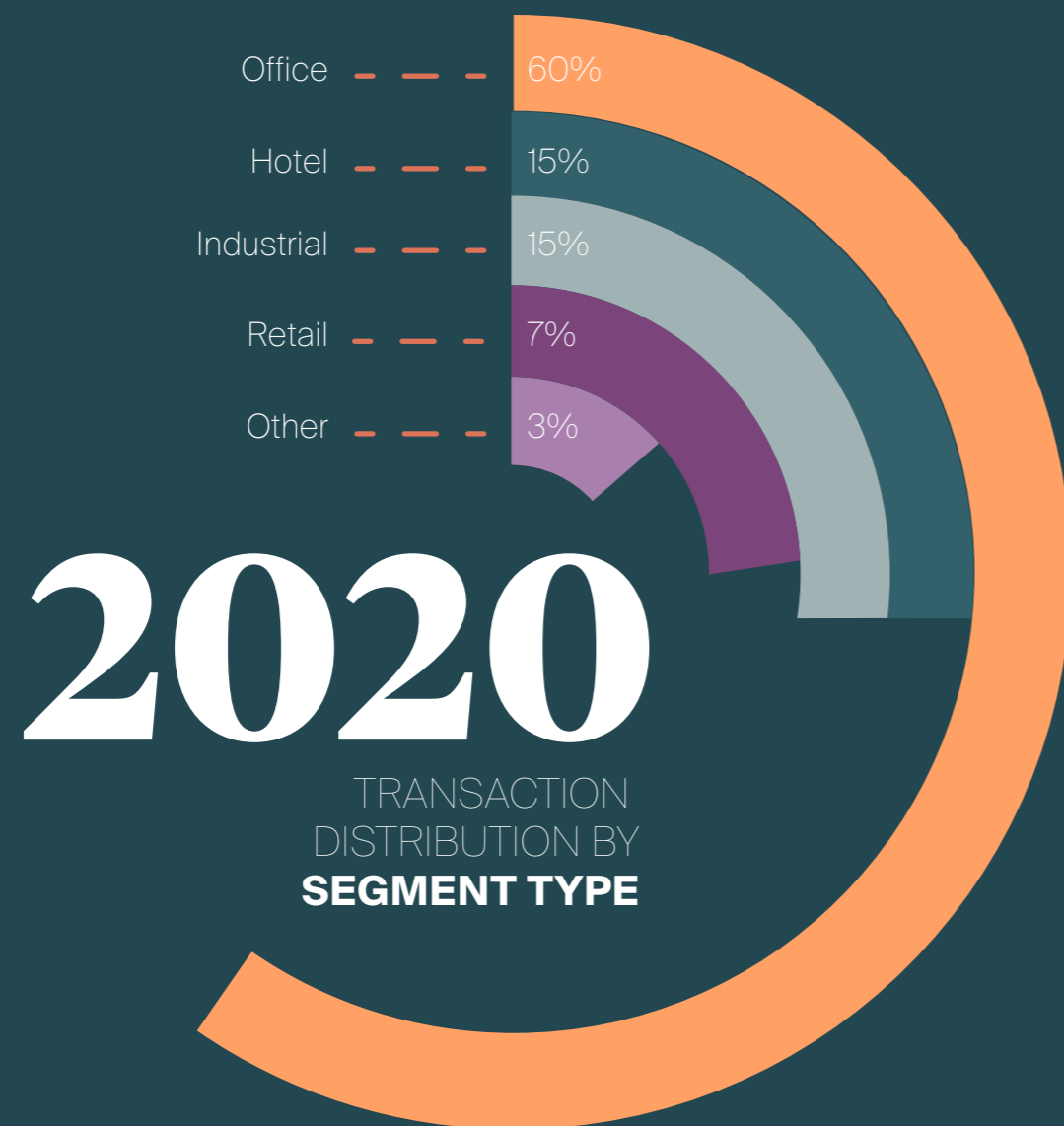
Renegotiations and more flexible landlord-terms are expected as a result of the economic changes prompted by the pandemic. Tenants are keen to introduce risk-minimising measures, which – with an effective strategy and experienced advisor – **might bring early savings.** Several businesses carried out extensive researches to examine the **possibilities of working from home permanently**, which will undoubtedly change the office market further. Despite, the aforementioned recently improving trend, **the Hungarian office market is well positioned for a recovery in office leasing.**

■ Class A+B

MODERN OFFICE STOCK ANNUAL EVOLUTION AND FORECAS.



Capital Markets



Yields downward pressure

With regards to yields, office is expected to be at **5.5% for prime**, industrial will likely end up at **sub-7% and 6.5% at the prime end**, with retail at 6-6.5%, although no assets are seen as being available.

Forecast

The improvement of the investment market is dependent on the arrival of a COVID vaccine. The logistics and office sectors are seen as being **the most favorable positioned for a post-COVID improvement**, however it will mostly depend on how new working trends and habits will change. A large part of acquisitions have now slipped over to the next year, which will boost the volumes in 2021. We expect **logistics and offices to pick up in volume**, however there is uncertainty with regards to retail and hotels.

Transactions

One of the main results of the current restrictions on shops and businesses is that **the industrial sector has overtaken retail** in terms of investment activity, although it suffers from a lack of available assets. Office remains the most popular asset to invest in.

Investment volume

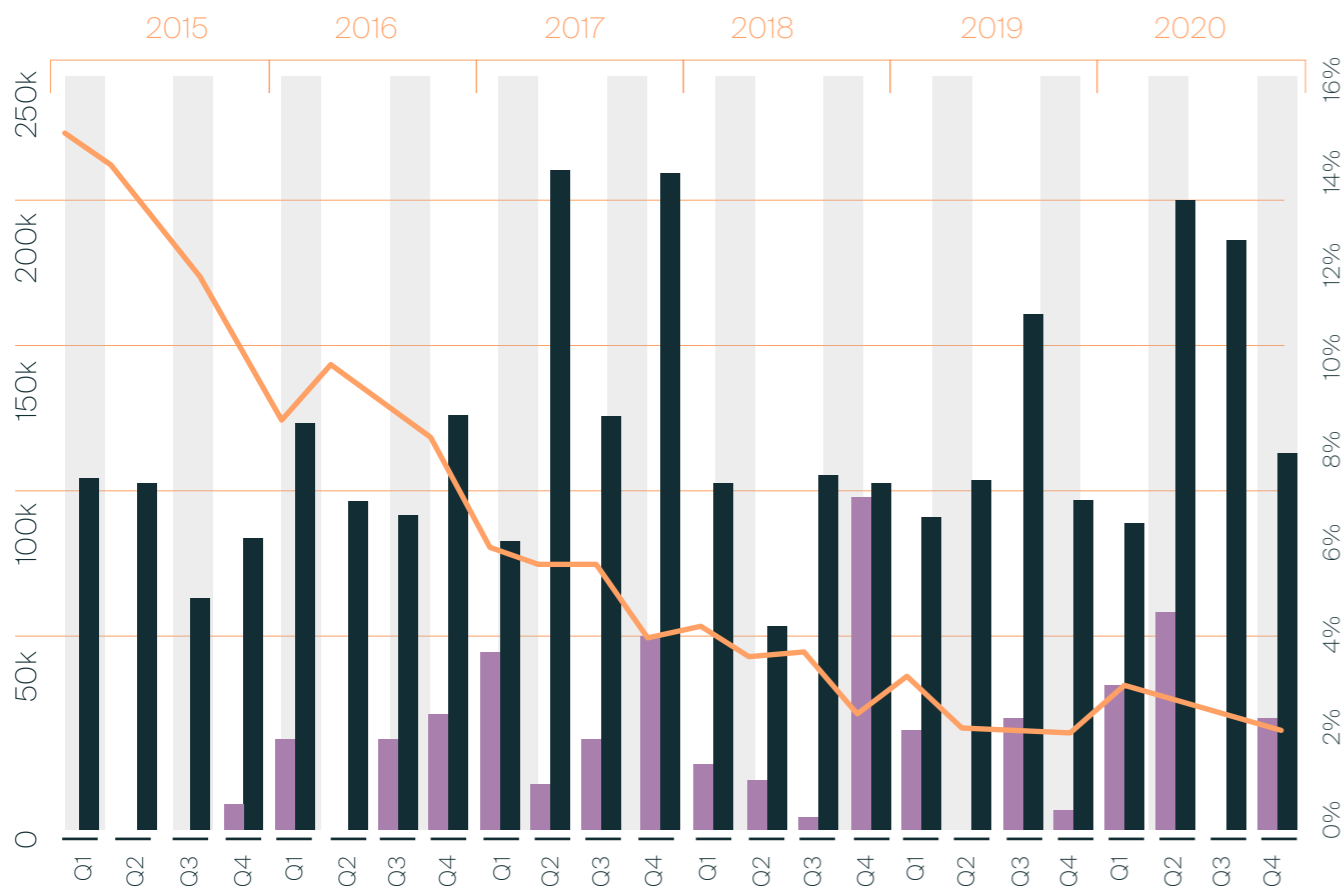
1 billion ^{EUR}

The annual investment volume of the Hungarian property investment market totalled at around EUR 1 billion, representing a **nearly 50% drop compared to 2019**. As in previous year, a significant part of the investment volume was generated by the office segment, which accounted for 60% of the total volume followed by 15% for industrial, 15% for the hotel sector and 7% for retail. We expect about **EUR 680 million in ongoing deals likely to close in the first half of this year**.

Industrial and Logistics Market

Supply
sq m **128,000**

The modern industrial stock stands at 2.374 million sq m in and around the close vicinity of Budapest. The level of deliveries in 2020 was 127,960 sq m, a 50% increase from last year.



BUDAPEST INDUSTRIAL PROPERTY MARKET INDICATORS

■ Completion ■ Total leasing activity (sqm)

SUBMARKET	PROJECT	DEVELOPER	AREA (SQM)
Airport	BUD Cargo City		8,700
West	CTPark West	CTP	31,320
South	Budapest Dock Szabadkikötő	Weinberg	10,000
South	Prologis Harbor DC11	Prologis	13,520
South	CTPark South	CTP	22,840
East	East Gate Business Park	Wing	17,780
West	Inpark Páty	NIPÜF	10,600
East	CTPark Budapest East	CTP	13,200

2020 DELIVERIES

Demand /Total leasing activity

sq m 538,000

Total leasing demand for industrial space amounted to 537,900 sq m in 2020, representing a **29% increase compared to the previous year and second-highest annual volume on record.**

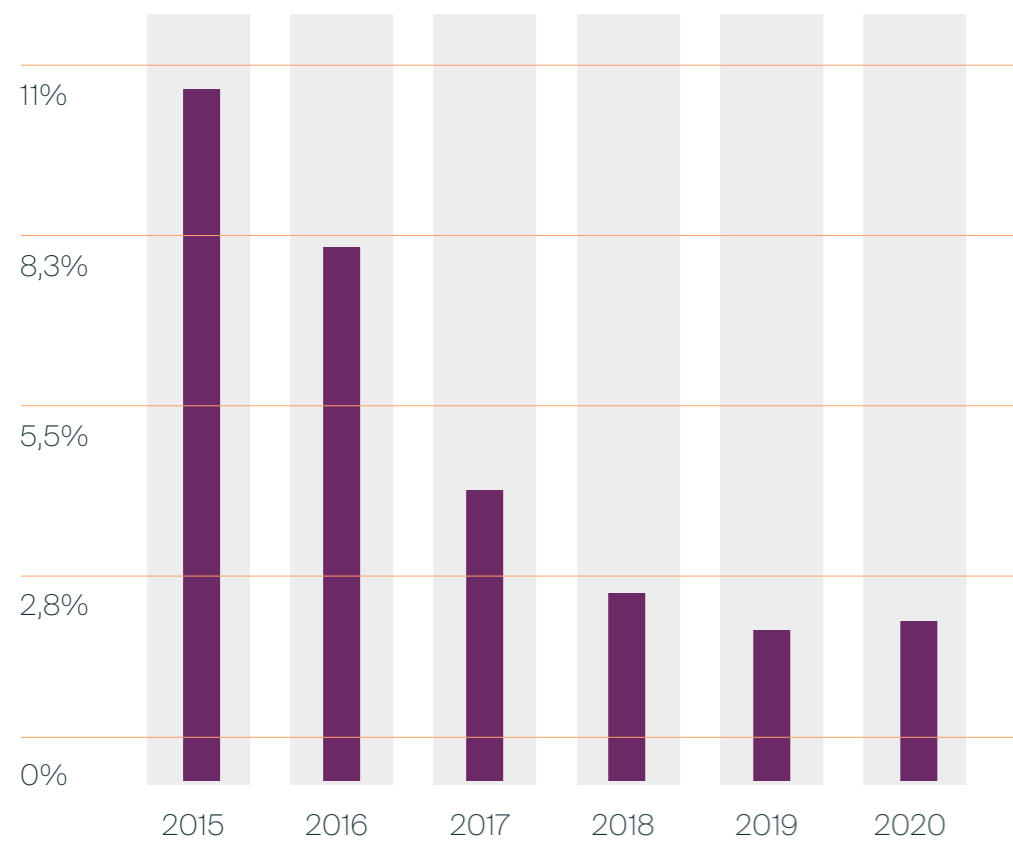
In terms of type of transactions, lease renewals accounted for the highest ratio, followed by lease renewals. The largest transaction – and second largest new lease ever recorded on the local market – was **Lenovo's pre-lease in CTPark Budapest East for 35,700 sq m BTS space.**

SUBMARKET	PROJECT	SIZE (SQ M)	TYPE
South	Batta Park	28,585	Renewal
South	CTPark Budapest South	28,470	Pre-lease
South	Prologis Park Budapest - Sziget	24,800	Renewal
South	Prologis Park Budapest - Sziget	20,800	Expansion
East	CTPark Budapest East	35,700	Pre-lease
East	CTPark Budapest East	23,370	New lease

2% Vacancy

The vacancy rate at the end of the year stood at 2.0%, an increase of 0.1pp compared to last year. At the end of the year, a **total of 48,000 sqm logistics stock stood vacant** and there was only one existing building with more than 5,000 sqm of available warehouse space. **Net absorption amounted to 121,590 sq m in 2020.**

VACANCY RATE



Rents 4.60

EUR/sqm/month

The rent level remains at a stable 4.60 EUR/ sq m/ month, however this could soon go higher as we see **an increasing number of leases getting renegotiated at often higher rates.** Increasing competition on the development market could put further pressure on prices, although this could be delayed due to the uncertain market conditions caused by the COVID-19 pandemic.



2021 Workplace Trends: Predictions for the year ahead

Flexible working

"The future of work will be flexible – there's no one-size-fits-all model for businesses or employees. Autonomy and variety will drive business performance."

Many of the trends will continue to shape our world of work, but the pandemic has also accelerated several others. Here are our predictions for 2021 workplace trends – both accelerated and new.

Working from home will continue

It's safe to say that Covid-19 has accelerated the adoption of flexible working. Several lockdowns have forced many companies to work from home – even those that were reluctant to work anywhere but the office. We believe working from home, as well as other types of flexible working, such as staggered hours and working closer to home, will continue to form a part of our working lives in 2021.

While this partly comes down to our ongoing efforts to contain the pandemic, it's also a consequence of our newfound focus on flexibility as a whole. We're beginning to see the extent to which different people, roles and tasks require different parameters for optimal performance.

To boost employee productivity, engagement and happiness, our world of work will feature a strategic blend of different environments, places, working hours and even agile working setups – such as sit-stand desks, active sitting chairs and even exercise balls.

Office space will continue to be crucial

Undeniably, despite our newfound acceptance of remote working, there is a growing need for businesses to provide office space for their employees to develop their skills, collaborate and learn from one another.

The 'death of the office' narrative that murmured through 2020 wasn't silenced by academic rhetoric, it was silenced by people sincerely missing their office environments – and everything that came with them.

Businesses still want a central hub. In fact, only 8% of employees want to work from home five days a week, and 53% of UK businesses surveyed by Knight Frank said they wanted their offices to feature more collaboration space. So, while the demand for flexibility continues, social capital remains critical.

Health and wellbeing

For most forward-thinking companies, health and wellbeing were firmly embedded into corporate agendas, but Covid-19 has catalysed efforts across the board.

Covid-secure workplaces will prevail

As the first lockdown was lifted, flexible office space providers went to great lengths to create Covid-secure workplaces in order to comply with government guidelines and lower health risks.

They enhanced their cleaning regimes, increased airflow, added hand sanitizer stations throughout all spaces, displayed safety signage, organised one-way systems and redesigned furniture layouts to enable social distancing.

For all workplaces, this safety-first approach will prevail in 2021 and beyond as we continue to mitigate the dangers of Covid-19.



Active commuting will rise

In the months we were encouraged to return to our workplaces, active commuting became a popular way to both avoid public transport and break up a sedentary working day.

It's likely this trend will continue, and as a result, employers will look for offices fit for a cycling commute, which neighbour cycleways and feature showers and secure bike racks.

Businesses will try to prevent remote working loneliness

For some, remote working came with a sense of loneliness and isolation – our innate need for social interaction was barely being met. But for others, it was a dream come true.

Ultimately, 2021 wellbeing strategies will come down to personal choice, flexibility, and an additional integrity in remote environments. What's important is that the conversation continues.

The office experience

Though dull, drab and cubicle-clad offices have been a thing of the past for some time, we're likely to see an increased focus on the office experience in 2021.

Quality and collaboration will centre stage

The office won't be what it's always been. Workplace strategies will feature a flight to quality, a focus on design and an emphasis on collaboration – especially as we try to rebuild our depleted levels of social capital. The office will be a destination that provides experience, connection and choice – with insta-worthy cafés, curated meet-ups that instil a sense of community and belonging, biophilic office design that boosts wellbeing, agile working strategies that encourage mobility and technology that streamlines workflows.



The demand for flexible office space will grow

A focus on the office experience is also likely to boost the demand for flexible office space – which has already witnessed a surge (as monthly rolling contracts acted as a tonic for uncertainty amid lockdowns).

Sustainable commutes will trend

We've already witnessed the rise of active commuting – and in particular – cycling to work, but 2021 is likely to see the sustainability trend reach new heights.

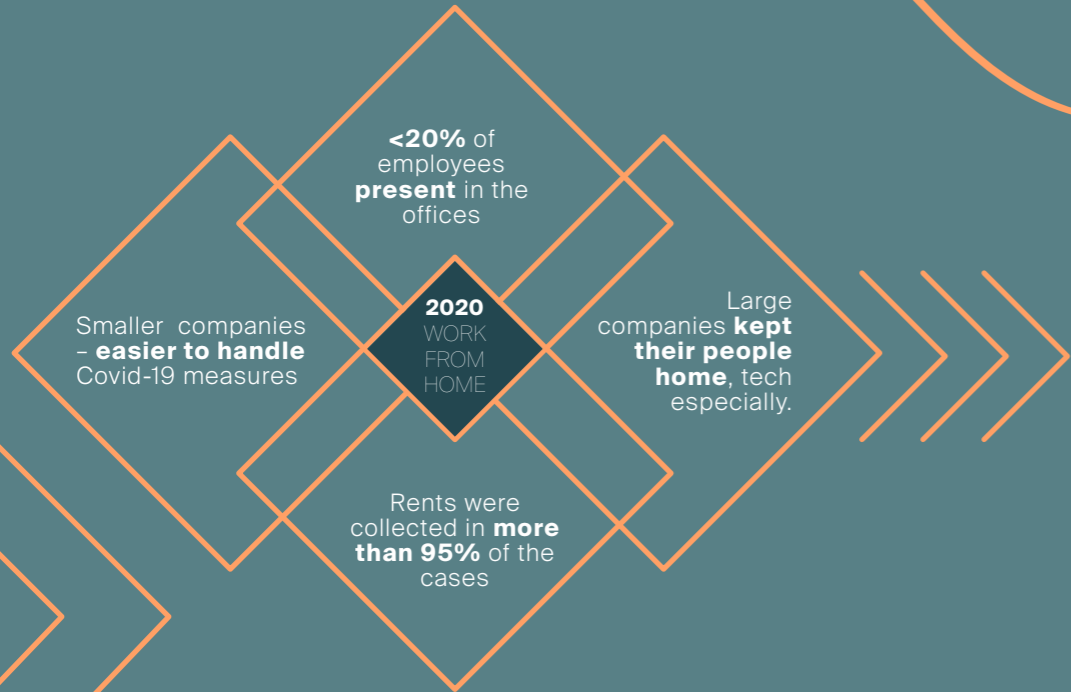
Green, sustainable offices will win the war for talent

There is a growing recognition that younger generations of talent are seeking out businesses that increasingly align with their moral values across environmental, social and governance initiatives. These include efforts to reduce corporate carbon footprints, improve employee wellbeing, and ensure diversity and inclusion.

As businesses continue to view real estate as a strategic device and an investment, choosing to base their teams in green, sustainable offices is a clear way to demonstrate a commitment to the cause (for both employees, clients and competitors).

We're experts in finding you the perfect office space at the best price. Ask us to start your search today – it won't cost you a penny.

WORKPLACE RADICAL CHANGE



2021 & BEYOND HYBRID/ FLEXIBLE WORK

HEPA FILTERS

Capturing up to 99.995% of microscopic contaminants.

VEHICLE LICENSE PLATE RECOGNITION

Avoiding direct contact with any surface (access cards, buttons etc.)

- ◇ Smarter controlled elevators;
- ◇ Larger revolving door at the main entrances.

ULTRAVIOLET GERMICIDAL IRRADIATION

UVGI lamps in the air handling units and elevators as extra barrier for viruses & bacteria.

NO
RECYCLED
AIR



100%
fresh air
intake

NEW BUILDINGS.

Improved Standards

BREEAM

- I. Good
- II. Very good
- III. Excellent
- IV. Outstanding

LEED

- I. Silver
- II. Gold
- III. Platinum

WELL



GREEN
CERTIFICATIONS

HOW THE MARKET SHAPES POST PANDEMIC?

Net impact in size is uncertain

Safe distances between offices, total amount of space/person could rise

Collaborative face to face work still necessary

Organisational culture

2021 & BEYOND HYBRID/ FLEXIBLE WORK

Office demand to pick up in 2021

Employees will start going back to the office as of Q2 2021, up to 70-80% in Q4 2021

Occupiers to reduce their size by 10-20%

Lower office attendance





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